Credit Opinion 25 May 2018

Beijing Capital Land Ltd.

Hong Kong

Category:	Corporate Rating
Rating Type:	Solicited Rating
Industry:	Property Development
Long-term Credit Rating:	AA_g-
Rating Outlook:	Stable

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Key Indicators

Beijing Capital Land Ltd. [1]	2017	2016	2015
Total Assets (RMB billion)	141.4	119.5	107.5
Total Assets (USD billion) [2]	21.6	17.2	16.6
Net Assets (RMB billion)	31.9	27.6	25.7
Net Assets (USD billion) [2]	4.9	4.0	4.0
Total Revenue (RMB billion)	21.3	20.3	16.0
Total Revenue (USD billion) [2]	3.3	2.9	2.5
Net Profits (RMB billion)	2.8	2.9	3.0
Net Profits (USD billion) [2]	0.4	0.4	0.5
Gross Margin (%)	26.7	12.7	12.3
Return on Equity (%)	9.4	10.8	12.7
Total Debt / Total Capital (%)	79.7	78.8	77.4
Net Debt / Total Equity (%)	287.1	272.5	231.1
Total Debt / EBITDA (x)	13.2	13.9	13.5
EBITDA / Interest (x)	1.8	1.4	1.3

[1] Consolidated financial statements in accordance with PRC GAAP audited by PricewaterhouseCoopers Zhong Tian LLP. The financial information for the year ended 31 December 2015 and 2016 is restated.

[2] Exchange rates for 2015 (1 USD = 6.4936 CNY), 2016 (1 USD = 6.9370 CNY), 2017 (1 USD = 6.5342 CNY) announced by PBOC

Source: Company data, CCXAP research

Rating Drivers

- Strong contracted sales and improved profit margin
- Quality land bank in its core markets
- Stable growth in outlets business with extended return period exerts certain pressure on capital expenditure
- Diversified funding channels but financial leverage remains relatively high
- Strong support from parent company

Rating Rationale

The AA_g- rating of Beijing Capital Land Ltd. ("BCL" or the "Company") is underpinned by the Company's (1) increasing contracted sales from its core markets in China as well as Australia; (2) quality land bank mainly in Beijing-Tianjin-Hebei and Yangtze River Delta; (3) steady revenue growth driven by its primary land development business and improved overall gross margin; (4) diversified funding channels; and (5) strong support from its parent company. However, the rating is also constrained by (1) slowdown in China's property market; (2) accelerating expansion in outlets business gives certain capital expenditure pressure to the Company; and (3) moderate credit metrics in terms of debt leverage.

Rating Outlook

The stable outlook on BCL's rating reflects its good operational performance in core markets. We believe that the Company will maintain its competitive strength as a state-owned enterprise.

What could upgrade the rating?

The rating could be upgraded if the Company (1) demonstrates a track record of sustainable contracted sales and improving profitability; (2) growing outlets business with remarkable increase in recurring rental income; and (3) notably improves in its credit metrics including debt leverage and liquidity.

What could downgrade the rating?

The rating could be downgraded if the Company's (1) significant deterioration in profitability; (2) aggressive land acquisition activities leads to material increase in debt and leverage level; or (3) liquidity position becomes severely impaired.

Corporate Profile

Incorporated in mainland China in 2002, BCL is a developer in China's residential property industry, focusing on three core metropolitan areas (Beijing-Tianjin-Hebei, Yangtze River Delta and Guangdong-Hong Kong-Macau Greater Bay Area) and Australia. The Company was listed on the Hong Kong Stock Exchange (Stock Code: 2868.HK) in 2003. BCL was the major property development platform of its parent, Beijing Capital Group Co., Ltd. ("Capital Group"), which is a state-owned enterprise directly under the supervision of the State-owned Assets Supervision and Administration Commission of the Beijing Municipality ("Beijing SASAC").

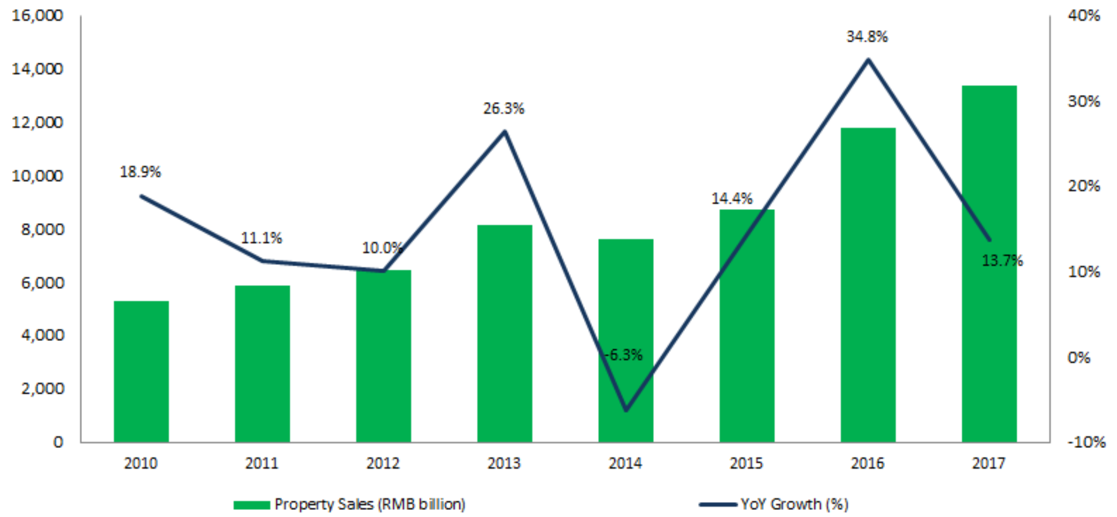
Detailed Rating Considerations

1. Market growth slowed down with tightening regulatory environment

The growth of China's property market remains steady as supported by the rigid demand from urbanization and strong purchasing power. To prevent overheating property prices and mitigate the risk of market failure, the regulatory measures have been tightening since 2016Q3. By end-2017, the regulatory measures such as purchase restrictions, sell restrictions, mortgage limitation and price limitation have been implemented in more than 150 cities, which included higher-tier cities and some of lower-tier cities.

As a result of tightening regulation, the growth of property market has slowed down and housing price has entered into mini correction. The property investment increased 7.0% YoY to RMB 11.0 trillion in 2017 from RMB 10.3 trillion in 2016. The growth in property sales has narrowed, reported a YoY increase of 13.7% to RMB 13.4 trillion in 2017, as compared to a YoY increase of 34.8% in 2016. The growth of average housing prices in first-tier and second-tier cities has been calmed down. In 2017, the average prices increased 0.5% YoY in first-tier cities, 4.3% YoY in second-tier cities and 7.1% YoY in lower-tier cities.

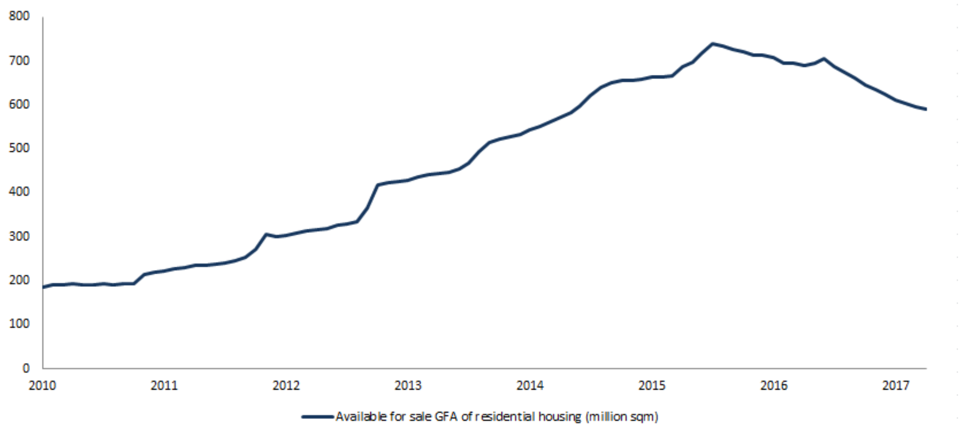
Exhibit 1. China's Property Contracted Sales in 2010-2017 (RMB billion)



Source: National Bureau of Statistics of China, CCXAP research

As a result of destocking policy in lower-tier cities, the property inventory level reduced to a healthy level. By end-2017, available for sale residential housing GFA amounted to 589.2 million sqm, decreasing by 15.3% YoY as compared with that of end-2016.

Exhibit 2. China's available for sale residential housing GFA in 2010-2017 (million sqm)



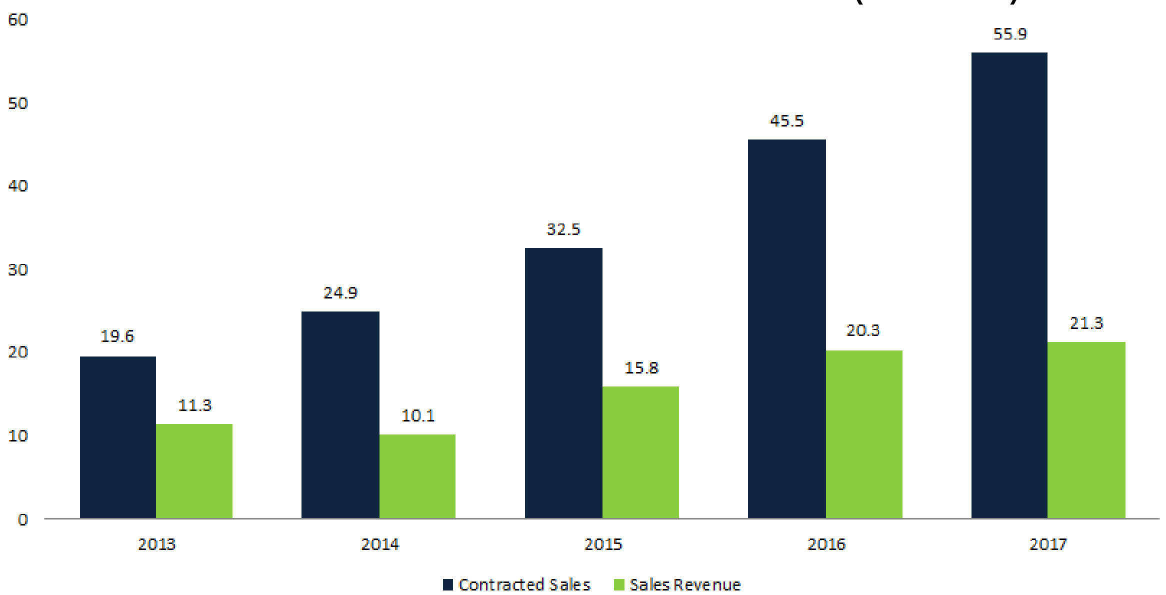
Source: National Bureau of Statistics of China, CCXAP research

Moreover, under a tightening financing environment in onshore capital market, the financing cost of Chinese property developers will increase. With intense market competition, the property sector will continue to consolidate. The developers with large operating scale and strong financing capability will be resilient in the market correction.

2. Strong growth in contracted sale from its core markets and improved overall gross margin

In 2017, BCL continued its business strategy by focusing on its core markets including Beijing, Tianjin, Shanghai, Shenzhen, Chongqing, Chengdu and Australia, and accelerating its de-stocking progress in non-core markets, aiming to achieve quality growth. The Company showed a strong sales execution and overachieve the whole year sale targets in 2017. The Company registered total contracted sales of RMB 55.8 billion, up 22.7% from last year. The total contracted sales area was 2.4 million sqm, slightly increasing by 6.0% YoY. The Company successfully maintained a high collection ratio of approximately 84% from its sales.

Exhibit 3. BCL's Contracted Sales and Sales Revenue in 2013-2017 (RMB billion)



Source: Company data, CCXAP research

The improved contracted sales mainly came from the higher average selling price, which was attributable to recent strategic reposition from lower-tier cities to higher-tier cities and fast-growing sales in high-end projects. The average selling price rose from RMB 20,098 per sqm in 2016 to RMB 23,273 per sqm in 2017, with an increase of 15.8%. Particularly, the increase of average selling prices in Beijing, Chongqing and Australia were notable, reported as 33.9%, 39.0% and 32.0% respectively. The Company successfully established a number of high-end property projects such as “Tian Yue” and “Tian Xi” with remarkable average selling prices as RMB 80,000 per sqm and RMB 180,000 per sqm respectively, which help increase the average selling price and profit margin of its projects.

As for geographical breakdown, BCL’s six core cities and Australia took up most of the contracted sales as recorded RMB 50.2 billion in 2017, accounting for nearly 90% of total contracted sales. Beijing contributed of RMB 22.6 billion, accounting for 40.4% of total contracted sales, with a YoY increase of 30.9%. Comparatively, contracted sales in Tianjin, Shanghai, Chongqing, Chengdu and Australia achieved RMB 10.6 billion, RMB 4.2 billion, RMB 1.8 billion, RMB 3.7 billion and RMB 7.2 billion, accounting for 19.0%, 7.6%, 3.3%, 6.6% and 12.9% of total contracted sales, respectively.

Exhibit 4. Contracted Sales by regions in 2017

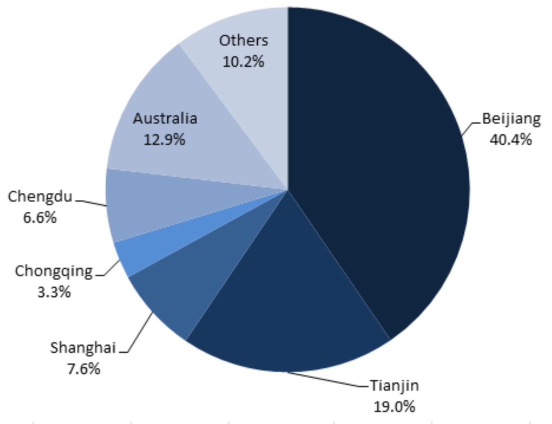
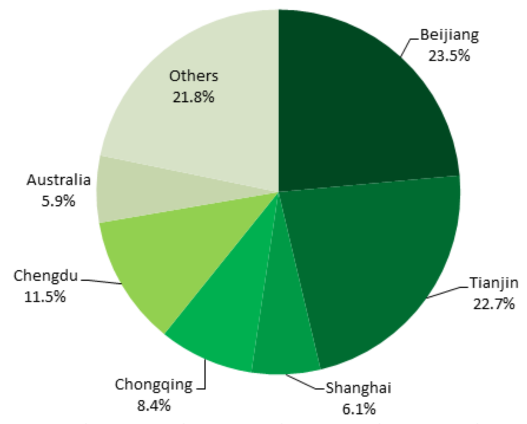


Exhibit 5. Contracted GFA by regions in 2017



Source: Company data, CCXAP research

BCL’s revenue registered a steady growth with increasing importance from primary land development business. In 2017, the Company reported total revenue of RMB 21.3 billion, increasing by 4.6% YoY. The revenue from property sales remains a vital component to the Company, reported as RMB 17.9 billion in 2017, which accounted for 83.8% of total revenue. The revenue growth mainly came from its fast-growing primary land development projects in Beijing-Tianjin-Hebei area, which contributed revenue of RMB 2.9 billion in 2017, increasing by nearly 10 times comparing with that in 2016. The Company also demonstrated a higher profit margin due to successful strategic reposition and increased portion of high-end property projects. The Company’s gross profit margin was 26.7% in 2017, increasing by 14 percent points from 12.7% in 2016.

Exhibit 6. BCL's Revenue by segments in 2016 & 2017

	2017		2016	
(RMB billion)	Revenue	% of total Revenue	Revenue	% of total Revenue
Sales of Properties	17.9	83.8	19.6	96.3
Primary Land Development	2.9	13.6	0.3	1.3
Rental Income from Investment properties	0.4	1.7	0.3	1.5
Consulting services	0.0	0.1	0.0	0.1
Other operations	0.2	0.7	0.2	0.8
Total	21.3	100.0	20.3	100.0

Source: Company data, CCXAP research

In 2018, the Company stepped up its selling target and announced a three-year plan aiming to achieve total contracted sales of RMB 75 - 80 billion by 2018, RMB 100 billion by 2019 and RMB 140 billion by 2020. The Company was expected to have saleable resources with an aggregated value of RMB 112 billion, of which RMB 40 billion came from its property inventory at end-2017. In addition, in order to support the increased sales target, BCL worked to improve the capabilities of its in-house sales team and centralize its marketing resources in the year. The in-house sales team achieved total contracted of RMB 17.2 billion in 2017. With sufficient projects available for sales and strong sales execution in past, the sales target in 2018 is likely to be achieved. However, the significant increase in future sale target may impose investment risk and execution risk in the coming years.

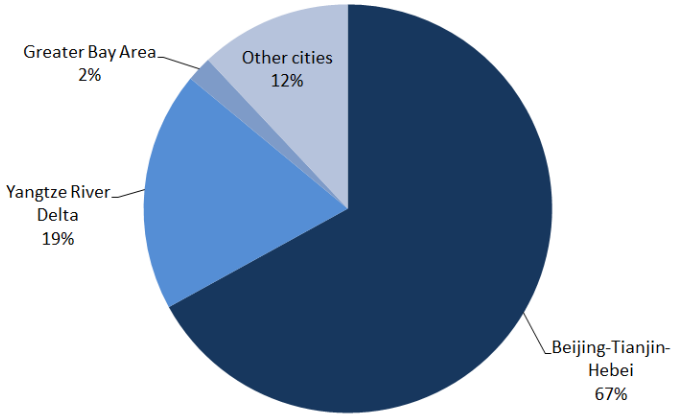
3. Sustains quality land bank in its core markets

BCL adopted relatively aggressive land acquisition strategy to support the rapid growing business. During 2017, the Company stepped up its land reservation replenishment in its three core metropolitan areas and Australia. The Company acquired 19 property development projects with a total GFA of 3.2 million sqm, increasing by 92.2% YoY as compared with same period last year. The cost of the newly acquired land parcels was RMB 36.8 billion. As for geographical breakdown, the newly acquired land parcels mostly came from Beijing-Tianjin-Hebei area, which accounted for 75.8% in terms of GFA. The land parcels in Yangtze River Delta, Greater Bay Area, and Australia accounted for 8.7%, 2.1%, and 6.3%, respectively.

In 2017, the Company firstly entered to Shenzhen by acquiring a project in Longhua with a total investment of RMB 1.85 billion and a total GFA of 68,000 sqm, representing its strategic expansion in Guangdong-Hong Kong-Macau Greater Bay Area. Meanwhile, the Company also firstly entered to Hanzhou by acquiring a project in Yuhang with a total investment of RMB 2.4 billion and a total GFA of 195,000 sqm.

The Company's land bank is considered to be of good quality, given its strong land acquisition capability as supported by its strong market position in Beijing-Tianjin-Hebei area. As of 31 December 2017, the Company had a total land bank with GFA of 11.5 million sqm, of which 8.9 million was attributable to its equity interest. As for geographic breakdown, the land bank in Beijing-Tianjin-Hebei, Yangtze River Delta, Greater Bay Area, other regions accounted for 67%, 19%, 2% and 12% respectively, in terms of the value of land banks. As for portfolio breakdown, 82% of the total land bank was for property development and 18% was for investment properties and other uses. However, there is a certain land gap in future driven by its higher three-year sales target.

Exhibit 7. Land bank by regions as of 31 December 2017 (in terms of the value of land bank)



Source: Company data, CCXAP research

Moreover, given its stated-owned background, the Company takes advantages in the acquisition of quality primary land and industrial property development projects in Beijing-Tianjin-Hebei region. Recently, the Company won bids for the Beishicao Shanty Town Redevelopment Project and Dongxiaokoi Shantytown Redevelopment Project with a site area of 60.8 and 60.0 hectares respectively. By March 2018, the Company had 7 primary land projects under development with a total site area of 6.1 million sqm and GFA of nearly 5.0 million sqm.

Besides that, BCL is currently encouraged by the government and its parent company to vigorously develop culture and creative industry business focusing on upgrading and redeveloping Beijing's old industrial and commercial property projects, such as the Beijing IC Park and Beijing Qingyuan Road Project. As these are policy-backed projects, the Company may obtain certain financial support and strengthen its business position in the region in terms of project acquisition.

We believe that BCL would continue to benefit from its focusing business strategy in first and second-tier cities where have strong premium housing demand and growing residential income, however, the increasing land costs and accelerating land acquisition activities may give certain pressure on the Company's capital investment. Such pressure may be partially relieved if the primary land bank can convert to secondary land use, given its competitive advantage in the development of primary land project.

4. Outlet business continues to expand, creating synergy with its online and offline platforms

BCL continued to expand its outlets business via its subsidiary, namely Beijing Capital Grand Limited ("Capital Grand"). Capital Grand had deployed outlets projects in 14 cities across the nation, and targeted to achieve the goal of "Twenty Cities in Five years". At the year end of 2017, BCL had 6 projects in operation that located in Beijing, Kunshan, Huzhou, Nanchang, Hangzhou and Wanning. The Company remains No.1 nationwide in terms of scale of outlets. In addition, the Company successfully established its self-operated e-commerce platform to create a synergy with its online and offline channels, currently embracing nearly 120,000 registered users with about RMB 12 million online sales per day. In 2017, sales turnover of the opened outlets increased by 35% YoY to RMB 3.2 billion and foot traffic grew by 34% YoY to more than 25.4 million per year. It is expected that another four outlets in Hefei, Zhengzhou, Wuhan and Jinan would be opened in 2018. As of 31 December 2017, the Company had 4 projects in construction and planned to develop another 7 projects in future.

The outlets business provided the Company with steady rental incomes yet the revenue and profit contribution remained marginal. In 2017, BCL's revenue from outlets business grew by 15.2% YoY to RMB 224.0 million, which accounted for 1.1% of total revenue. The operating profit from outlets business was decreased by 15.9% YoY to RMB 113.3 million, which was attributable to the decline in the fair value gain on investment properties. BCL's outlets business is expected to generate recurring rental income from investment properties, but the capital-intensive nature of commercial property business required huge initial investments and extended return period that may give additional capital expenditure pressure to the Company. As such, Capital Grand is currently looking for other creative financing products including REITs, which may help relief capital pressure partially.

5. Diversified funding channels and lowered borrowing cost but financial leverage remains relatively high

The Company has diversified funding channels through equity financing and debt issuances in both onshore and offshore capital market as a listed company in Hong Kong. The Company has maintained a good relationship with reputable domestic banks as supported by its state-owned background. The Company also keeps effort on pushing forward on A-share IPO and exploring others financing sources including the securitization of final payment from home buyers, commercial mortgage-backed securities (CMBS) and REITs.

As of 31 December 2017, the Company's average borrowing cost was 5.07%, decreasing by 0.18 percentage points comparing with that at end-2016. During the year, BCL issued two tranches of 3-year senior notes with an aggregated principle amount of USD 500 million and coupon rates of 3.875% and 3.7%. In January 2018, BCL issued a USD bonds with a coupon rate of 3.875%.

Besides that, during 2017 the Company has firstly issued CMBS, with a principle amount of RMB1.1 billion at a coupon rate of 4.83% and final payment backed securities with a principal amount of up to RMB1.2 billion. The Company also has a debt financing plan on the Beijing Financial Assets Exchange (CFAE) with a principal amount of up to RMB 2.0 billion.

As of 31 December 2017, the Company had a credit line of RMB 64.5 billion from domestic banks, of which RMB 41.7 billion was unused. In January 2018, Agriculture Bank of China has provided RMB 200 billion special credit lines to 4 property developers owned by the Beijing Municipal Government for rental housing development on collectively-owned lands, which is believed that will give additional enhancement to the Company's financing sources.

With fast expansion during the past few years, the Company maintained high debt leverage. As of 31 December 2017, The Company's adjusted total debt amounted to RMB 78.8 billion, increasing by RMB 11.3 billion as compared with that of end-2016. The Company debt leverage has slightly increased. Total capitalization ratio of total debt over total capital slightly increased from 78.8% at end-2016 to 79.7% at end-2017. Net gearing ratio of net debt over total equity also increased from 272.5% to 287.1%. Nevertheless, the improved business profile help strengthen BCL's interest coverage. The Company's adjusted EBITDA interest coverage ratio increased from 1.4x in 2016 to 1.8x in 2017.

BCL's liquidity decreased but remained adequate. Owing to an increase in short-term debt to RMB 26.2 billion from RMB 16.9 billion over the year, the percentage of short-term debt relative to adjusted total debt increased from 25.0% at end-2016 to 33.3% at end-2017. Nevertheless, the Company's cash on hand of RMB 21.0 billion, together with its cash proceeds from contracted sales, will enable BCL to meet its short-term debt. The ratio of cash to short-term debt was 80.2% at end-2017.

6. Strong support from the parent company

BCL's rating also reflects the strong support from its parent company. We expect the Capital Group will provide funding to BCL in a distress situation as BCL is economically and strategically important to the Capital Group. BCL contributed around 40% to 50% to Capital Group's revenue. Capital Group is a large state-owned enterprise and is wholly owned by the Beijing Municipality. Capital Group primarily engaged in four business segments including environmental protection, infrastructure, real estate development and financial services. The parental supports in the past were not limited to loan guarantee, capital injection and asset injection, which helped strengthen the overall credit profile of BCL. As of 31 December 2017, Capital Group guaranteed RMB 6.7 billion of BCL's debt, with an increase from RMB 5 billion at end-2016. Moreover, as the primary property development and industrial property redevelopment platform of Capita Group, BCL continues to benefit from the synergy effect with Capital Group's abundant business resources.

Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

Rating Symbol	Definition
AAAg	Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal.
AAg+ **AAg** **AAg-**	Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low.
Ag+ **Ag** **Ag-**	Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer.
BBBg+ **BBBg** **BBBg-**	Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement.
BBg+ **BBg** **BBg-**	Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk.
Bg+ **Bg** **Bg-**	Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk.
CCCg	Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk.
CCg	Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found.
Cg	Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default.
Dg	Unable to meet financial commitments. Default is confirmed.

B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

Positive	Indicates a rating with an ascending trend
Negative	Indicates a rating with a descending trend
Stable	Indicates the rating is likely to be stable

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