Credit Opinion 22 May 2017

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]	**2016**	**2015** [2]	**2014**
Total assets (RMB billion)	119.2	107.5	78.7
Total assets (USD billion) [3]	17.2	16.6	12.9
Net assets (RMB billion)	27.6	25.7	21.4
Net assets (USD billion) [3]	4.0	4.0	3.5
Total revenue (RMB billion)	20.3	16.0	10.1
Total revenue (USD billion) [3]	2.9	2.5	1.6
Net profits (RMB billion)	2.9	3.0	2.3
Net profits (USD billion) [3]	0.4	0.5	0.4
Gross Margin (%)	13.7	13.0	24.9
Return on Equity (%)	10.8	12.3	12.0
Total debt / Total capital (%)	74.3	77.4	77.5
Net debt / Total equity (%)	207.5	231.1	233.6
Total debt / EBITDA (x)	13.1	13.5	15.2
EBITDA / Interest (x)	1.4	1.3	1.4

[1] Consolidated financial statements in accordance with International Financial Reporting Standards audited by PricewaterhouseCoopers Zhong Tian LLP

[2] The financial information for the year ended 31 December 2015 is restated.

[3] Exchange rates for 2014 (1 USD = 6.1190 CNY), 2015 (1 USD = 6.4936 CNY), and 2016 (1 USD = 6.9370 CNY) announced by PBOC

Source: Company data, CCXAP research

Rating Drivers

- Sufficient and quality land bank for future development

- Sustainable revenue growth but weakened profit margin
- Increased debt burden due to the expansion of development
- Diversified funding channels and lowered borrowing cost
- Strong support from controlling shareholder

Rating Rationale

The AA_g- rating of Beijing Capital Land Ltd. ("BCL" or the "Company") is underpinned by the Company's (1) growing contracted sales from five core cities and Australia; (2) sufficient and quality land bank in first and second-tier cities, mainly Beijing, Shanghai, and Tianjin; (3) diversified funding channels and lowered borrowing costs; and (4) strong support from its parent company. The rating also takes into consideration of (1) fluctuations in China's real estate market; (2) decreasing profit margins due to the Company's destocking in lower-tier cities; and (3) increasing debt burden due to the Company's land replenishment in higher-tier cities.

Rating Outlook

The stable outlook on BCL's rating reflects its good operational performance in core markets and efficient financial management. 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) achieves growing contracted sales and improving profit margins; (2) expands outlets business and attracts higher volume of customers; or (3) improves its credit metrics.

What could downgrade the rating?

The rating could be downgraded if (1) the operating environment in China deteriorates significantly; (2) the Company's credit metrics are worse than anticipated; or (3) the Company becomes aggressive in debt-funded expansion.

Corporate Profile

BCL was incorporated in China in 2002, and listed on the Hong Kong Stock Exchange (Stock Code: 2868.HK) in 2003. The controlling shareholder of BCL is Beijing Capital Group Co., Ltd. ("Capital Group"), a state-owned enterprise in Beijing. As of 31 December 2016, Capital Group directly held 54.5% of the Company's shares.

BCL focuses on real estate development and investment, commercial real estate operations, property consulting services, and investment holdings. BCL has entered into the property markets in 22 cities in China as well as Australia. In 2014, BCL established its geographic focus in five core Chinese cities, namely Beijing, Shanghai, Tianjin, Chengdu, and Chongqing.

As of 31 December 2016, BCL reported consolidated total assets of RMB 119.2 billion and net assets of RMB 27.6 billion. In 2016, BCL generated total revenue and net profits of RMB 20.4 billion and RMB 2.9 billion, respectively.

Detailed Rating Considerations

1. Regulatory measures to remain tight

As one of the pillar sectors supporting the economic growth, China's real estate sector has undergone robust development since the sector reform in 1998. That said, the sector has also experienced several mini cycles in recent years, mainly driven by policy adjustments and monetary policies. In 2016, the real estate sector witnessed rapid growth as measured by sales and average selling prices, especially in major cities.

Property investment has improved. China's property investment amounted to RMB 10.3 trillion in 2016, which increased by 6.9% YoY versus 1.0% in 2015. In the first quarter of 2017, the amount of property investment grew by 9.1% YoY to RMB 1.9 trillion.

Property sales experienced a huge expansion. China's property sales recorded RMB 11.8 trillion in 2016 increasing by 34.8% YoY, as compared to the growth of 14.4% YoY in 2015. The gross floor area (GFA) sold recorded 1.6 billion sqm in 2016, increasing by 22.5% YoY, as compared to the growth of 6.5% YoY in 2015. The contracted sales continued to grow in the first quarter of 2017 by 25.1% and 19.5%, respectively.

Property prices reached a record high. As of November 2016, the average selling price in the primary markets of 100 major cities recorded RMB 12,938 per sqm, rising 0.88% MoM or 18.71% YoY. In terms of regional breakdown, the average selling prices of tier-one, tier-two and tier-three cities were RMB 40,441 per sqm, RMB 11,697 per sqm and RMB 7,359 per sqm, growing by 20.6%, 17.0% and 8.8% YoY, respectively.

Inventory level reduced as a result of destocking process. As of 31 December 2016, the properties available for sale recorded 695.4 million sqm, decreasing by 3.2% YoY. If divided by the total GFA sold in 2016, the inventory is expected to take about five months to sell out. However, the inventory destocking risks are still high in lower tier cities.

Exhibit 1. China's Property Investment

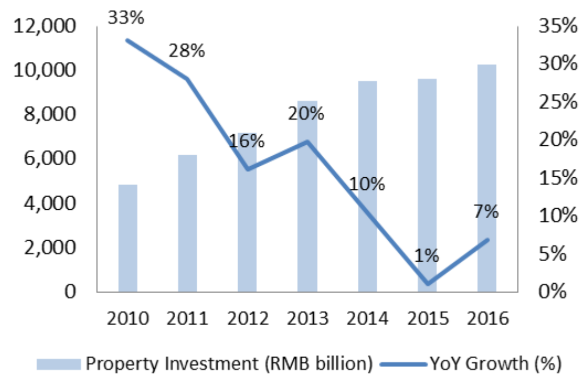
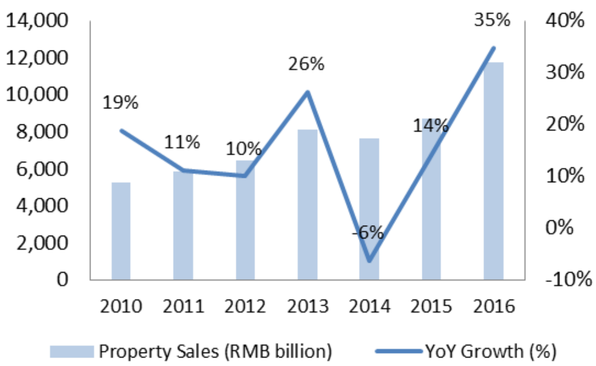


Exhibit 2. China's Property Sales



Source: National Bureau of Statistics of China, CCXAP research

To control the property prices in higher tier cities and to prevent systematic risk, the policymakers have announced a series of tightening regulatory measures since August 2016. As of March 2017, the purchase restrictions have been implemented in 34 cities. The regulatory measures in these tier-one and tier-two cities are expected to remain tight in 2017.

Looking ahead for China's real estate sector, we believe that the overall demand will remain resilient, while tightening regulation may lead to some corrections in tier-one and tier-two cities. In addition, as market competition intensifies, the consolidation of China's real estate industry will continue. The largest companies will have advantages in land acquisitions, financing capability, marketing and pricing power.

2. Growing property sales in core markets

In 2014, BCL established its new strategic five-year plan. As part of this plan, the Company focuses on property development projects in five core cities of China (Beijing, Shanghai, Tianjin, Chengdu, and Chongqing) and Australia. In 2016, the contracted sales of these markets together accounted for 95% of the Company's total contracted sales, representing a YoY increase of 8 percentage points.

BCL's strategic focus helps ensure growing property sales. The Company recorded contracted sales of RMB 45.5 billion in 2016, RMB 32.5 billion in 2015 and RMB 24.9 billion in 2014. The contracted sales area was 2.3 million sqm in 2016, 2.8 million sqm in 2015 and 2.5 million sqm in 2014. The increase in sales mainly resulted from the increase in average selling price, which rose from RMB 11,664 per sqm in 2015 to RMB 20,099 per sqm in 2016.

As for regional breakdown, most of the Company's contracted sales were generated from its core markets. In 2016, the contracted sales from Beijing, Tianjin, Shanghai, Chongqing, and Chengdu were RMB 17.3 billion, RMB 11.3 billion, RMB 5.2 billion, RMB 1.0 billion, and RMB 2.4 billion, accounting for 37.9%, 24.9%, 11.5%, 2.3% and 5.3% of total contracted sales, respectively. The Company also had six joint-venture projects in Sydney and Brisbane, generating contracted sales of RMB 5.9 billion or 12.9% of total.

Exhibit 3. Contracted Sales by City in 2015 and 2016

City	**Contracted Sales Revenue** (RMB bn)		**Contracted Sales Revenue** (RMB bn)		**Average Selling Price** (RMB per sqm)	
	2016		**2015**		**2016**	**2015**
Beijing	17.3	37.9%	9.8	30.0%	29,842	13,852
Tianjin	11.3	24.9%	7.0	21.6%	17,382	8,990
Shanghai	5.2	11.5%	4.1	12.6%	25,610	23,197
Chongqing	1.0	2.3%	1.6	4.9%	6,496	6,865
Chengdu	2.4	5.3%	0.8	2.3%	10,480	7,703
Australia	5.9	12.9%	5.1	15.7%	38,493	28,825
Others	2.4	5.3%	4.2	13.0%	8,360	6,783
Total	**45.5**	**100%**	**32.5**	**100%**	**20,099**	**11,664**

Source: Company data, CCXAP research

The Company manages its project construction in line with its sales progress. The Company launched the construction of 2.5 million sqm of properties in 2016, and has completed the construction of 3.4 million sqm of properties, which was relatively higher compared to its sales area.

BCL's target is to achieve contracted sales of RMB 50 billion in 2017. In the first four months of 2017, the Company recorded aggregate contracted sales of RMB 14.7 billion, covering 29.4% of the full year target. We will pay close attention to the Company's accomplishment of its sales target.

3. Outlets business generates recurring income, but weighs on the Company's capital expenditures

Under its integrated residential and outlets business model, BCL has expanded its outlets business into 13 cities. The outlets are now at the earlier stage of development, making marginal contributions to the Company's revenue. We expect the Company will generate recurring rental income in the future, which will help improve operating cash flow and liquidity position.

BCL operates the outlets through its subsidiary, Beijing Capital Juda Limited ("Capital Juda"), which is the integrated commercial property operating platform of the Company. As of 31 December 2016, Fangshan, Wanning, Huzhou, and Kunshan outlets have been launched into operation. In 2016, annual sales of these four outlets increased by 17% YoY to RMB 2.4 billion, and annual customer volume increased by 22% YoY to 19.0 million.

As of 31 December 2016, Capital Juda had nine outlets under construction in Jinan, Zhengzhou, Xi'an, Hefei, Hangzhou, Wuhan, Chongqing, Changsha and Nanchang. Rental income from there outlets will further increase after the completion of these projects. However, given the extended return period of commercial properties, investments in outlets may exert pressure on the Company's capital expenditures.

4. Sufficient and quality land bank for future development

BCL holds a sufficient and quality land bank to achieve sustainable development. As of 31 December 2016, the Company had land bank with a total GFA of 11.1 million sqm, of which 8.2 million sqm was attributable to the Company's equity interests. Among the total land bank GFA, 79% was for property development projects and 21% was for property investment projects and other projects.

Given its strategic focus on five core cities, BCL increased its acquisition of land plots in target cities in the past two years. In 2016, the Company added total GFA of 1.7 million sqm to its land bank for an aggregate amount of RMB 18.1 billion. Among these new land acquisitions in 2016, Beijing, Tianjin, Shanghai, Chongqing, Chengdu, and Australia accounted for 70.6% in terms of GFA. Among the Company's land bank as of 31 December 2016, five core cities and Australia accounted for 56.1% of total GFA.

We believe that the strong demand for housing in first-tier and second-tier cities will allow the Company to benefit from strong sales growth and premium property prices, but high land costs in these cities may exert pressure on the Company's capital investment.

5. Sustainable revenue growth but falling profit margin

BCL generates 96.3% of its total revenue from property development. The Company recorded total revenue of RMB 20.3 billion in 2016, RMB 16.0 billion in 2015, and RMB 10.1 billion in 2014. The Company had not yet recognized the sales proceed from customers of properties under development, and the advances from customers amounted to RMB 15.9 billion. Revenue recognized from these properties will support the Company's revenue growth in the future.

BCL's adjusted gross profit margin was 13.7%, 13.0%, and 24.9% in 2016, 2015 and 2014, respectively. The deterioration in profitability resulted from the Company's decision to speed up destocking in lower-tier and non-core cities. The Company had not finished the settlement of the projects in core cities acquired after 2014. When BCL recognizes the revenue of these higher-profit projects, its profitability may recover to an acceptable level.

BCL recorded an increase in inventories due to its active land acquisitions. As of 31 December 2016, the Company held inventories of RMB 64.5 billion, increasing by 11.0% YoY. Given the Company's strategic focus in five core cities, BCLs sales execution pressure was manageable. We will continue to monitor the Company's inventory level and destocking progress.

6. Increased debt burden due to business expansion

BCL's business expansion requires a larger amount of debt borrowings. As of 31 December 2016, the Company's reported total debt amounted to RMB 58.2 billion, increasing by RMB 3.9 billion YoY, as compared to the YoY increase of RMB 20.2 billion in 2015. The adjusted debt to EBITDA ratio was calculated as 13.1x in 2016, as compared to 13.5x in 2015 and 15.2x in 2014. The adjusted interest coverage ratio, which was measured by EBITDA over interest expenses and capitalized interest, was 1.4x in 2016, as compared to 1.3x in 2015 and 1.4x in 2014.

BCL's short-term portion of debt increased from the previous year. Among its debt portfolio as of 31 December 2016, the Company reported 29.0% of short-term debt and 71.0% of long-term debt, as compared to 18.1% of short-term debt and 81.9% of long-term debt at end-2015.

7. Diversified funding channels and lowered borrowing cost

BCL has diversified funding channels. As a listed company on the Hong Kong Stock Exchange, the Company has raised funds through equity financing, bond issuance, and bank loans in both onshore and offshore capital markets. In 2016, BCL issued six private placement corporate bonds in the domestic market with a total principle of RMB 10 billion.

BCL's liquidity position weakened due to the increase in short-term debt. As of 31 December 2016, the Company held cash reserves of RMB 17.9 billion, declining from the RMB 20.1 billion in 2015, but still could cover its short-term debt of RMB 16.9 billion. The Company's cash to short-term debt ratio was 1.1x in 2016, as compared to 2.1x in 2015.

8. Strong support from the parent company

BCL's rating also reflects the strong support from its parent company. Capital Group is a large state-owned enterprise directly under the supervision of the State-owned Assets Supervision and Administration Commission of the Beijing Municipality ("Beijing SASAC"). In 2015, Capital Group's revenue grew by 30% YoY to RMB 31.0 billion. As of 31 December 2015, Capital Group's total assets reached RMB 223.2 billion.

As the primary property development platform of Capital Group, BCL benefits from the synergy effect with Capital Group's business to acquire high quality projects in core areas at reasonable costs. Given the capital strength of Capital Group, BCL can also gain strong support from the parent company in terms of business expansion and capital injection.

In August 2015, BCL entered into the domestic share subscription agreement with Capital Group. According to the agreement, BCL issued new domestic shares to Capital Group, raising gross proceeds of RMB 3.08 billion. Upon the completion of subscription, Capital Group increased its direct stake in BCL from 32.0% to 54.5%. In June 2016, BCL announced that it would acquire four property projects from Capital Group for a total consideration of RMB 4.2 billion. The asset injection was in line with Capital Group's strategy to position BCL as its core property platform. We believe that the support from the controlling shareholder helps strengthen the overall credit profile of BCL.

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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