

Credit Opinion

22 May 2017

CIFI Holdings (Group) Co. Ltd.

Hong Kong

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

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Key Indicators

CIFI Holdings (Group) Co. Ltd. [1]	2016	2015	2014
Total Assets (RMB billion)	88.5	67.5	43.5
Total Assets (USD billion) [2]	12.8	10.4	7.1
Net Assets (RMB billion)	17.3	15.3	11.6
Net Assets (USD billion) [2]	2.5	2.4	1.9
Total Revenue (RMB billion)	22.2	18.2	16.2
Total Revenue (USD billion) [2]	3.2	2.8	2.6
Net Profit (RMB billion)	3.2	2.5	2.0
Net Profit (USD billion) [2]	0.5	0.4	0.3
Gross Margin (%)	25.4	22.7	25.9
Return on Equity (%)	19.4	18.4	19.3
Total Capitalization Ratio (%)	63.0	61.1	56.8
Net Gearing Ratio (%)	50.4	59.2	66.6
Total Debt / EBITDA (x)	6.8	6.2	3.8
EBITDA / Interest (x)	2.0	2.2	2.7

[1] Consolidated financial statements in accordance with International Financial Reporting Standards audited by Deloitte

[2] 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

- Stable sales growth of property development in core markets
- Quality land bank and project reserves

- Strong financial management
- Heightened debt level due to land acquisition
- Increasing exchange of funds with joint venture partners

Rating Rationale

The A₉+ rating of CIFI Holdings (Group) Co. Ltd. (“CIFI” or “the Company”) is underpinned by the Company’s (1) good performance in terms of growing contracted sales; (2) strong branding and quality land bank in core markets; (3) improvement of geographic and product diversification; (4) moderate credit metrics supported by increasing revenue generation and relatively flexible financial policy; and (5) good funding capability and strong liquidity buffer. The rating also takes into consideration of (1) the volatile business nature of China’s property market; (2) the Company’s heightened debt level due to land acquisitions; and (3) increasing receivables and payables due to joint venture corporation.

Rating Outlook

The stable outlook on CIFI’ rating reflects its strong sales growth on property development and investment as well as its disciplined financial management. We expect that the Company will maintain its competitive strength as one of the leading property developers in China.

What could upgrade the rating?

The rating could be upgraded if the Company (1) maintains steady growth in contracted sales and sustains stable gross profit margins; (2) develops larger scale of land bank; or (3) improves its credit metrics, such as debt leverage and debt level.

What could downgrade the rating?

The rating could be downgraded if (1) the Company’s credit metrics are worse than anticipated; (2) the Company becomes aggressive in its land acquisitions which leads to increasing debt level; or (3) the liquidity weakens.

Corporate Profile

CIFI was founded in Shanghai in 2000. In November 2012, CIFI was listed on the Main Board of The Stock Exchange of Hong Kong (Stock Code: 0884). Mr. LIN Zhong is the controlling shareholder of the Company. As of 31 December 2016, Mr. Lin Zhong indirectly held 51.02% interest in the Company.

CIFI is engaged in property development, investment, and management in Mainland China. The Company has a property portfolio mainly in tier-one and tier-two cities in Pan Bohai Rim, Yangtze River Delta, Central Western China and South China Region.

As of 31 December 2016, CIFI reported consolidated total assets and total equity of RMB 88.5 billion and RMB 17.3 billion, respectively. In 2016, CIFI generated total revenue and net profit of RMB 22.2 billion and RMB 3.2 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

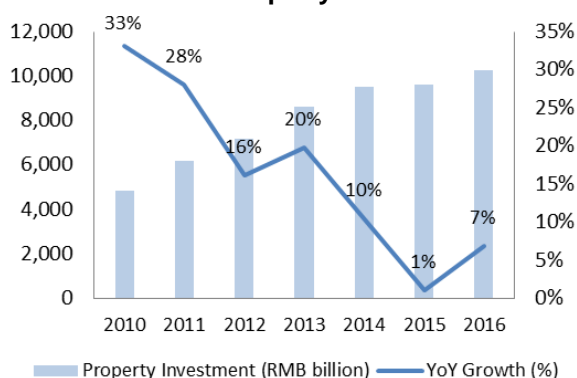
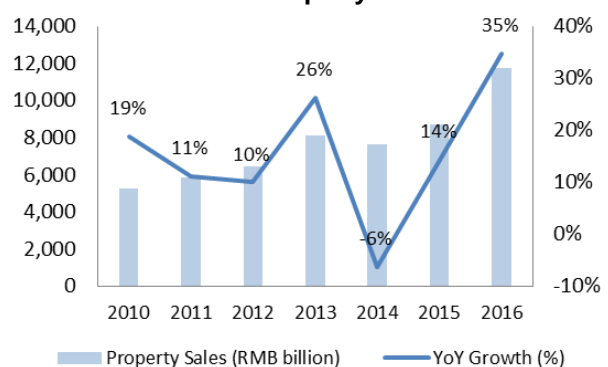


Exhibit 2. China's Property Sales



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. Strong sales growth of property development in core markets

Headquartered in Shanghai, CIFI's property business has expanded into Pan Bohai Rim, Yangtze River Delta, Central Western and South China Region. The Company has established its products portfolio in 14 cities across Mainland China. In 2016, the contracted sales and contracted GFA of the Company amounted to RMB 53.0 billion and 2.9 million sqm, increasing by 75.5% and 41.8% YoY, respectively. The attributable contracted sales recorded approximately RMB 29.2 billion in 2016 as compared to RMB 20.1 billion in 2015. The strong sales growth of the Company was mainly due to increasing supply of saleable resources in tier-one and tier-two cities. CIFI was on the list of top 20 property developers in terms of contracted sales value in 2016.

In 2016, the contracted average selling price increased by 23.7% to RMB 18,175 per sqm from RMB 14,692 per sqm in 2015. Over 98% of the Company's contracted sales in 2016 were generated from tier-one and higher tier-two cities. The Company achieved above 95% of cash collection from its contracted sales in 2016. The 2017 contracted sales target of the Company is RMB 65 billion, and we expect that CIFI will achieve rapid growth in property sales with sufficient saleable resources valued at RMB 110 billion in 2017.

3. Higher degree of geographical diversification and well-established products portfolio

CIFI mainly focus on developing high quality properties in tier-one and tier-two cities, covering residential properties, office properties and commercial complexes. Since 2015, CIFI has enhanced its brand name by developing high-end residential "Park Mansion" projects in the property market of Shanghai, Suzhou, Hefei and Nanjing. The Company continues to improve its geographic diversification and product spectrum. In 2016, CIFI expanded its property projects by entering into the markets of Ningbo, Foshan, Sanya and Jinan. The product structure of the Company will further improve to focus on upgraders' residential products and premium high-end projects. In 2017, the Company's long term goal is to reach the portfolio of entry-level, mid-range mass market, mid-to-high end upgraders and premium high-end with the proportion of 10%, 40%, 30% and 20%, respectively.

Exhibit 3. Contracted Sales by Type of Project in 2014-2016

Type	Contracted Sales (RMB billion)			Contracted Sales Area (million sqm)		
	2016	2015	2014	2016	2015	2014
Residential	44.7	27.2	18.0	2.6	1.9	1.6
Office/Commercial	8.3	3.0	3.2	0.3	0.1	0.2
Total	53.0	30.2	21.2	2.9	2.1	1.7

Source: Company data, CCXAP research

In 2016, CIFI launched the pre-sale of 19 new projects. In terms of product structure, contracted sales generated from residential projects and office projects contributed to approximately 84.3% and 15.7% of the Company's total contracted sales, respectively. The strategy of the Company is to maintain

around 85% of total contracted sales generated from residential property and 15% of total contracted sales from commercial projects.

Exhibit 4. Contracted Sales by Region in 2014-2016

Region	Contracted Sales (RMB billion)			Contracted Sales Area (million sqm)		
	2016	2015	2014	2016	2015	2014
Yangtze River Delta	35.9	21.7	13.7	1.8	1.3	1.0
Pan Bohai Rim	13.0	6.3	5.2	0.7	0.5	0.4
Central Western	4.1	2.2	2.3	0.4	0.3	0.3
Total	53.0	30.2	21.2	2.9	2.1	1.7

Source: Company data, CCXAP research

Exhibit 5. Contracted Sales by City in 2014-2016

City	% of Value			% of Area		
	2016	2015	2014	2016	2015	2014
Shanghai	19.2	27.8	32.6	13.7	13.6	21.8
Suzhou	16.6	17.5	12.3	15.2	21.6	16.3
Beijing	16.5	11.6	11.4	11.0	9.7	5.6
Hefei	13.6	6.2	4.8	17.6	7.3	7.0
Hangzhou	9.7	13.2	11.3	8.9	11.1	7.5
Nanjing	7.5	4.6	-	3.5	3.8	-
Tianjin	5.4	7.1	10.2	6.5	10.0	12.3
Wuhan	3.6	2.0	1.4	5.3	3.5	2.2
Changsha	3.2	4.2	4.6	7.2	7.2	7.3
Shenyang	1.9	1.2	0.6	3.8	2.2	0.9
Chongqing	1.0	1.3	4.9	2.4	2.4	8.8
Langfang	0.8	0.9	2.4	1.7	2.1	4.1
Zhenjiang	0.7	1.3	1.8	2.3	3.3	3.2
Jiaying	0.5	1.1	1.7	0.8	2.3	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data, CCXAP research

In terms of regional breakdown, contracted sales from the Yangtze River Delta, the Pan Bohai Rim and the Central Western Region accounted for 67.7%, 24.6%, and 7.7% of the Company's total contracted sales in 2016, respectively. The Company remained its leading position in the property market in Yangtze River Delta, ranked top 10 in its headquarter Shanghai in 2016. CIFI will keep expanding its property business with the focus on tier-one and large tier-two cities within the core metropolitan areas.

4. High quality land bank with focused strategy

As of 31 December 2016, CIFI had a total land bank of 17.5 million sqm and an attributable GFA of 10.5 million sqm, which mainly located in tier-one and core tier-two cities in Central and Western China, Pan Bohai Rim and Yangtze River Delta. In 2016, the Company added 36 new sites of 6.5 million sqm to its land bank, emphasizing on tier-two cities with great potential for higher margin, such as Wuhan, Hangzhou, Tianjin, Ningbo, Foshan and Changsha. The average land acquisition cost in 2016 was approximately RMB 3,700 per sqm.

Exhibit 6. Land Bank in 2014-2016

	2016	2015	2014
Number of newly acquired projects	36	25	10
Newly acquired land bank (million sqm)	6.5	4.4	1.3
Total land bank (million sqm)	17.5	12.5	9.6
Total attributable land bank (million sqm)	10.5	8.5	7.4

Source: Company data, CCXAP research

Exhibit 7. Land Bank by City as of 31 December 2016

City	Completed properties	Properties under development	Total Land Bank (sqm)	% of Total Land Bank
Chongqing	700,671	1,079,481	1,780,152	10.2
Suzhou	235,579	1,313,487	1,549,066	8.8
Changsha	382,567	1,060,578	1,443,145	8.2
Hangzhou	91,493	1,202,515	1,294,008	7.4
Shanghai	490,961	620,900	1,111,861	6.3
Hefei	104,814	874,484	979,298	5.6
Shenyang	143,780	733,450	877,230	5.0
Foshan		820,941	820,941	4.7
Wuhan		770,010	770,010	4.4
Tianjin	190,786	560,960	751,746	4.3
Beijing	55,033	612,660	667,693	3.8
Yixing		485,665	485,665	2.8
Nanjing	62,271	202,400	264,671	1.5
Jinan		218,820	218,820	1.2
Jiaxing	164,250		164,250	0.9
Zhenjiang	17,116	146,400	163,516	0.9
Guangzhou		143,600	143,600	0.8
Ningbo		72,686	72,686	0.4
Langfang	43,611		43,611	0.2
Sanya		18,772	18,772	0.1
Carpark	1,795,588	2,103,556	3,899,144	22.3
Other	3,701		3,701	0.0
Total	4,482,221	13,041,365	17,523,586	100.0

Source: Company data, CCXAP research

In 2016, apart from government public auctions and tenders, CIFI increasingly adopted private land acquisitions of existing land bank from other property developers or land owners. The advantage of private land acquisitions is that the transaction costs and tax expenses would be lower. The Company also utilized joint venture strategies to develop new projects by cooperating with renowned property development companies, such as Henderson Land, Beijing Capital Land and Greenland etc. In addition, CIFI has implemented management project co-investment scheme in land acquisitions since 2015. The advantage of co-investment scheme is to align the common interests of key management teams with shareholders, while other employees can also choose to co-invest. However, potential risks may exist by violating the interests of public shareholders of the Company.

In January and February 2017, CIFI newly acquired 11 sites in 8 cities with GFA of 1.4 million sqm, among which 9 projects were residential properties in Beijing, Tianjin, Changsha, Wuxi, Chongqing, Zhengzhou, Hefei and Hong Kong. In January 2017, the Company acquired a premium residential property located in Hong Kong, the costs of land amounted to approximately HKD 1.6 billion with HKD 60,222 per sq.ft.

5. Stable profit margin and moderate credit metrics, but heightened debt level due to land acquisitions

CIFI achieved total revenue of RMB 22.2 billion in 2016, as compared to RMB 18.2 billion in 2015 and RMB 16.2 billion in 2014, with a CAGR of total revenue of 17.2%. The Company generated over 90% of its revenue from the sale of properties, with a smaller portion from rental income, project management and property management fee income.

Exhibit 8. Revenue by different segments in 2014-2016

	Revenue (RMB billion)			% of Revenue		
	2016	2015	2014	2016	2015	2014
Sales of properties	20.7	17.0	15.7	93.2	93.5	96.8
Rental income	0.06	0.04	0.04	0.3	0.2	0.3
Property management income	0.3	0.3	0.2	1.2	1.9	1.2
Project management and other property related services income	1.2	0.8	0.3	5.3	4.4	1.8
Total	22.2	18.2	16.2	100.0	100.0	100.0

Source: Company data, CCXAP research

Given its capability of cost control and sales execution, CIFI achieved gross margins of 25.4% in 2016, as compared to 22.7% in 2015 and 25.9% in 2014, mainly due to higher profitability for products delivered, defensive land costs and product premium achieved. We believe that CIFI will continue to achieve rapid growth in development revenue related to its strong contracted sales.

CIFI also presented moderate debt leverage and good interest coverage. As of 31 December 2016, the Company's total debt grew to RMB 29.4 billion, as compared to RMB 24.0 billion at 2015 year-end. The debt-to-capital ratio slightly increased to 63.0% at 2016 year-end, as compared to 61.1% in 2015. The net gearing ratio reduced to 50.4% in 2016 from 59.2% in 2015. The total debt to EBITDA ratio was 6.8x, 6.2x and 3.8x in 2016, 2015, and 2014, respectively. The EBITDA interest coverage ratio, as measure by EBITDA / (interest expense + capitalized interest), was 2.0x, 2.2x, and 2.7x over the same period, respectively. After taking into account of the profits from joint venture projects, the EBITDA interest coverage was adjusted to 2.5x in 2016. The total debt level increased in 2016 due to land acquisitions, and we will continue to monitor the debt level and leverage of the Company.

In addition, CIFI continued to seek cooperation with a wide range of joint venture partners for land acquisitions and property developments. In 2016, the amounts due from and due to joint ventures and associates increased by 78% and 109% YoY, respectively. The receivables and payables with joint venture partners grew materially, which may affect the credit quality of the Company.

6. Flexible financial policy with good funding capability

CIFI has demonstrated flexible channels of both onshore and offshore debt capital markets. The Company also maintains a good relationship with domestic and foreign banks.

CIFI improved its debt structure and lowered its funding costs in 2016. Average borrowing cost was reduced from 7.2% in 2015 to 5.5% in 2016. The proportion of unsecured indebtedness rose from 60.5% in 2015 to 75.9% in 2016. The proportion of US dollar/HK dollar denominated indebtedness in overall indebtedness amounted to 44.0% as compared to 43.8% in 2015. The proportion of unhedged indebtedness decreased from 43.8% in 2015 to 20.9% in 2016.

The Company also issued 5-year US dollar bonds of a principal amount of USD 285 million at a coupon rate of 5.50% in December. In addition, the Company signed an unsecured USD 600 million US dollar/Hong Kong dollar club loan at an interest rate of LIBOR/HIBOR + 4% per annum with 3-year maturity in March 2016, primarily used for early redemption of the 12.25% coupon US Dollar Bonds in 2018. The new financing in both domestic and international market helps enhance the Company's financial position and lower its borrowing cost.

In 2016, CIFI Group Co., Ltd. ("CIFI China"), the Company's wholly-owned subsidiary in Mainland China, issued two tranches of domestic private corporate bonds with an aggregate issuance amount of RMB 6 billion. In January 2016, CIFI China issued the First Tranche of Private Domestic Bonds of RMB 2.0 billion at coupon rate of 4.99%, with maturity of 2 years. In September 2016, CIFI China issued Second Tranche of Private Domestic Bonds of RMB 3.5 billion and RMB 500 million at coupon rates of 4.30% and 5.50% respectively, both with maturities of 5 years.

7. Strong liquidity buffer

CIFI is in the situation of strong liquidity management which helps the Company remain resilient to unfavorable market conditions. CIFI generated operating cash flow of approximately RMB 4.0 billion during 2016, and cash-on-hand level remained high at RMB 20.7 billion by the end of 2016, showing the Company's capability to serve its short-term indebtedness and strong liquidity buffer.

In addition, we notice that CIFI had approximately attributable RMB 5.9 billion unpaid committed land considerations as of 31 December 2016, showing the Company's liquidity management remained strong. We will pay attention to future capital expenditures on land acquisitions of the Company.

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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