Credit Opinion 8th December 2017

Fantasia Holdings Group Co., Limited

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

Fantasia Holdings Group Co., Limited [1]	2017H1 [2]	2016	2015	2014
Total Assets (RMB billion)	51.0	49.8	44.6	41.3
Total Assets (USD billion) [3]	7.5	7.2	6.9	6.7
Net Assets (RMB billion)	14.0	13.1	12.2	11.4
Net Assets (USD billion) [3]	2.1	1.9	1.9	1.9
Total Revenue (RMB billion)	9.2	10.9	8.2	7.3
Total Revenue (USD billion) [3]	1.4	1.6	1.3	1.2
Net Profits (RMB billion)	0.9	1.1	1.4	1.4
Net Profits (USD billion) [3]	0.1	0.2	0.2	0.2
Gross Margin (%)	34.3	32.3	30.9	38.4
Return on Equity (%)	6.8	8.4	11.9	14.3
Total Debt / Total Capital (%)	61.5	62.8	55.4	59.0
Net Debt / Total Equity (%)	89.7	83.8	87.6	100.4
Total debt / EBITDA (x)	6.2	6.2	4.5	5.3
EBITDA / Interest (x)	1.4	2.0	2.4	2.3

[1] Consolidated financial statements in accordance with Hong Kong Financial Reporting Standards audited by Deloitte.

[2] 2017H1 figures denote for the 12 months ended 30 June 2017 from announced unaudited results.

[3] Exchange rates for 2014 (1 USD = 6.1190 CNY), 2015 (1 USD = 6.4936 CNY), 2016 (1 USD = 6.9370 CNY), and 2017H1 (1 USD = 6.7744 CNY) announced by PBOC

Source: Company data, CCXAP research

Rating Drivers

- Mild growth in contracted sales with stable increase in land bank under prudent land policy
- Sound growth in property-related services segments with steady increase in platform coverage area
- Decreasing revenue from property development with falling profitability
- Stable debt leverage but weakening debt structure
- Modest liquidity position

Rating Rationale

The A_g rating of Fantasia Holdings Group Co., Limited ("Fantasia" or the "Company") is supported by the Company's (1) increasing revenue from property-related services segments; (2) prudent land bank policy with low land costs; and (3) stable credit metrics and good funding capability. However, the rating is also constrained by the Company's (1) decreasing revenue from property development activities; (2) weakening liquidity position due to an increase in short-term debt.

Rating Outlook

The stable outlook reflects our expectation that Fantasia will strengthen its focus on developing residential properties while continue to increase share in the property-related services segments.

What could upgrade the rating?

The rating could be upgraded if the Company (1) further grows contracted sales; (2) records substantial growth in revenue and profit generated from property-related services segments; and (3) improves its credit metrics.

What could downgrade the rating?

The rating could be downgraded if the Company's (1) revenue and profitability continue to drop; (2) debt leverage increases and interest coverage decreases; or (3) liquidity profile further deteriorates.

Corporate Profile

Fantasia was founded in 1996 and listed on the Hong Kong Stock Exchange (Stock Code: 1777.HK) in 2009. Ms. Zeng Jie Baby is the founder and the ultimate controlling shareholder of the Company.

As of 30 June 2017, Fantasia reported total assets and total equity of RMB 51.0 billion and RMB 14.0 billion, respectively. For the six months ended 30 June 2017, Fantasia generated total revenue and net profit of RMB 3.6 billion and RMB 0.2 billion, respectively.

Detailed Rating Considerations

1. Slight increase in contracted sales with slow destocking of inventories in lower tier cities

For the six months ended 30 June 2017, the Company achieved contracted sales of RMB 5,053.0 million, which represented a YoY increase of 5.0%. Total GFA sold amounted to 641.4 thousand sqm, which showed a YoY increase of 43.1%. The average selling price decreased from RMB 10,731 per sqm in 2016H1 to RMB 7,878 per sqm in 2017H1. The decrease in selling price was mainly due to change in composition of sales areas from higher tier cities to lower tier cities. In 2017H1, most of the sales were made in lower tier cities such as Wuhan and Guilin where the real estate price was relatively low in comparison with Shenzhen where more sales made were made in 2016.

As for regional breakdown, the Company has presence in major region across China, and its core markets are Pearl River Delta and Chengdu-Chongqing Economic Zone where 24.9% and 29.8% of contracted sales for LTM 2017H1 were derived respectively. Its strategy is to tap business opportunities in lower tier cities where housing prices have shown large momentum of increase from relatively low levels compared with tier 1 cities. In its core market Pearl River Delta, 35.9% of contracted sales made in 2017H1 were derived from cities including Guilin and Huizhou in the area. It also made 27.9% of sales in Wuhan, 12.2% in Suzhou and 10.9% in Chengdu, and they were respectively the core sales market for the Company in Central China, Yangtze River Delta and Chengdu-Chongqing Economic Zone. In 2017H1, equity GFA for newly commenced projects amounted to 488.5 thousand sqm, which was 2.5 times of that in 2016H1, and 1.5 times of that in 2016H2, indicating that the Company has accelerated development of new projects. We expect the Company to steadily increase its capital investment in the future.

As for product spectrum, Fantasia is mainly engaged in the construction of high-end or upscale residence and is strengthening its position as premium residence provider. For the half year ended 30 June 2017, 57.2% of contracted sales were from boutique upscale residence, 20.1% up from that as of 30 June 2016. For construction under development, 39.1% of the total GFA was planned to be boutique upscale residence, while 32.3% is for mid-to-high end residence, and 28.6% was for urban complex projects. Due to its market position as premium residence provider, construction cycle would be longer for Fantasia which would exert further stress on its capital usage and working capital turnover rate.

We have noticed mild destocking of inventories. As of 2017H1, there were 4.4 million completed properties for sale, decreased by 21.4% compared with that of 5.6 million as of 2016 year end. Of the completed properties, 14.2% of them were in tier 1 cities, 54.7% in tier 2 cities and 31.0% in tier 3 and lower tier cities. There was no noticeable change in regional distribution of inventories compared with 2016 year end. Inventory to contracted sales ratio after annualization for the six months ended 30 June 2017 was 43.4% while for 2016, it was 45.8%. The destocking was due to increase in spillover demand from tier 1 cities to lower tier satellite cities after tightened purchase restrictions.

The Company has a contracted sales target of RMB 15.0 billion for 2017 whole year which indicates a 25% increase from 2016 actual sales performance, and the planned sales GFA is 1.7 million sqm. As of 30 November 2017, it has achieved 88.6% of the sales target. The Company is expected to be under pressure of meeting this year’s sales target.

Exhibit 1. Contracted sales in 2012-2017H1

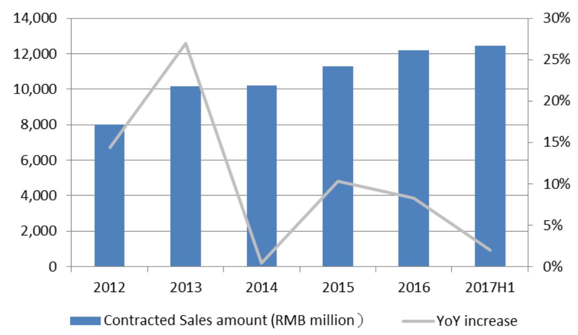
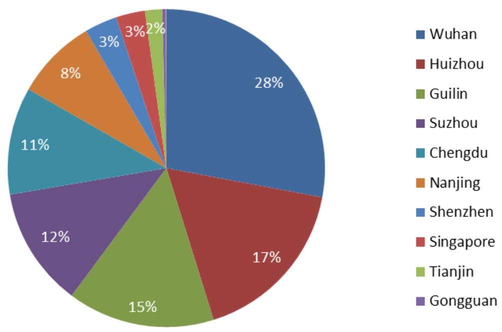


Exhibit 2. Contracted sales by city in 2017H1



Source: Company data, CCXAP research

2. Prudent land bank replenishment policy with most projects obtained under framework agreement, which delivers low land cost yet reveals uncertainty

Fantasia maintained its prudent strategy in land bank acquisition in 2017H1. As of 30 June 2017, it held total land bank of approximately 15,949.6 thousand sqm across China in 13 cities. In terms of regional breakdown, the Company mainly held land bank in Pearl River Delta and Chengdu-Chongqing economic zone, which takes up 44.1% and 35.8% of the total land bank, respectively. These two regions made up about 79.9% of the Company's total land bank. The rest of land bank was located in Central China, Yangtze River area and Beijing-Tianjin Metropolitan Area, with a respective share of 9.2%, 6.0% and 5.0%. Among total land bank, 25.3% was located in tier 1 cities, 52.9% in tier 2 cities while 21.8% in other lower tier cities. The Company has a relatively strong presence in Shenzhen, Chengdu, and Guilin, which it believes are markets of large potential and the ability to generate high margin. Yet, for some lower tier cities, although profit margin is high due to low land cost, they also possess the risk of low turnover rate with pile-up of unsold properties.

The Company mainly acquires land bank through framework agreements, which usually involve city renewal projects. As of 30 June 2017, 55.5% of the Company's land bank was acquired through framework agreements. It allowed the Company to obtain land at low cost which gave the Company relatively high safety margin and pricing flexibility. However, projects obtained under framework agreements usually has higher execution risk which brings uncertainty to future costs to be incurred and longer turnover cycle which leads to more capital to be occupied for a longer time.

Exhibit 3. Land bank in 2014-2017H1

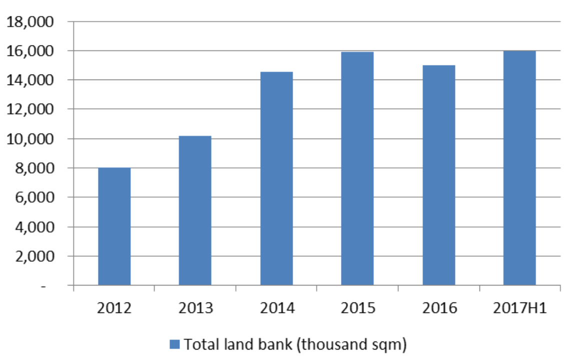
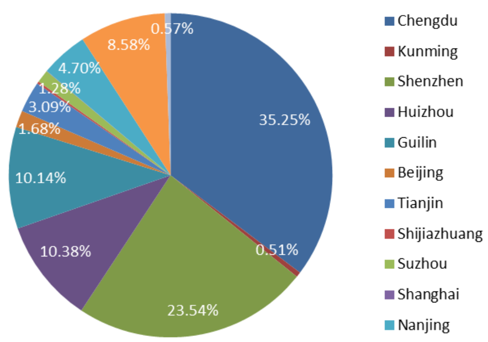


Exhibit 4. Land bank by region



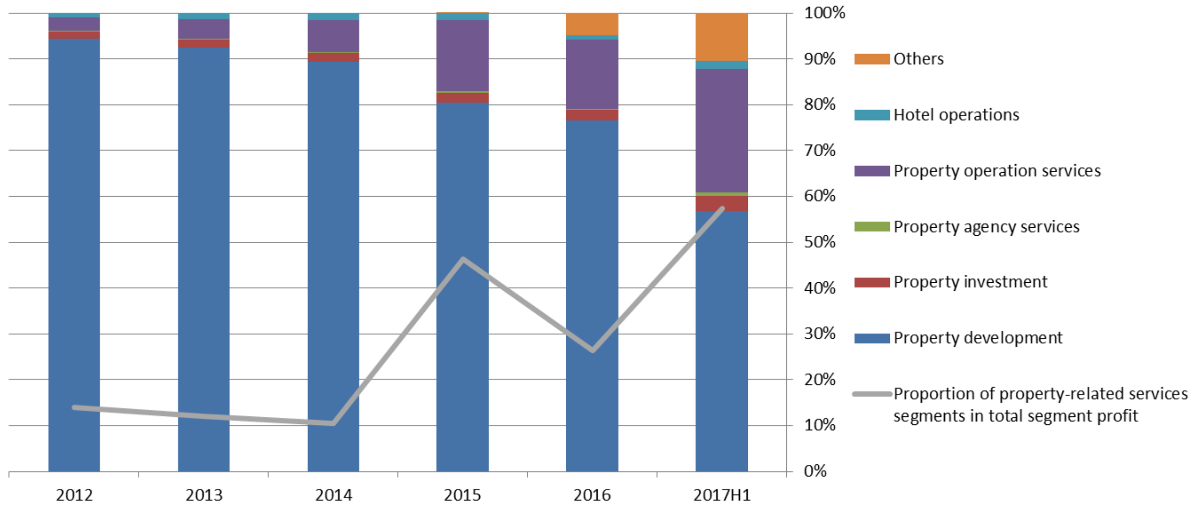
Source: Company data, CCXAP research

The Company added land bank of approximately 708.6 thousand sqm in 2017H1, 47.8% of which was acquired through framework agreement. The new land parcels are mainly located in Nanjing, Shenzhen and Wuhan. Average unit price for lands with land-use right granted was RMB 2,721 per sqm, which increased from RMB 1,681 per sqm in 2016. From late 2016, apart from developing its asset-light business, the Company would gradually shift its focus to the traditional asset heavy business of property development. Together with a noticeable increase in equity GFA for newly commenced projects, the Company has expanded its efforts in land bidding. We expect the Company would further follow its prudent land policy. CCXAP will continue to monitor the Company's future land bank acquisition.

3. Property-related services segments taking up larger shares with increasing revenue

Fantasia's revenue was generated from five major segments, namely, property development, property operation services, property investment, hotel operations and property agency services, which contributed to 56.9%, 26.9%, 3.2%, 1.8%, and 0.7% of the total revenue in 2017H1, respectively. Given the Company's "asset-light and heavy" strategy, the Company intends to grow businesses by non-capital intensive business model as compared with the developing property development segment, the share of revenue from property services segment has been on the rise since 2014. In 2017H1, property-related services segments constituted 57.5% of total segment profit.

Exhibit 5. Revenue breakdown by segment & Proportion of property-related services segments in total segment profit



Source: Company data, CCXAP research

The largest part of property-related services segments was property operation services. In 2017H1, the Company recorded property management revenue of RMB 978.5 million with a YoY increase of 42.0%. The expansion was mainly contributed by Colour Life, with total amount of its platform coverage area increased to 848.9 billion sqm as of 30 June 2017. It contributed profit of RMB 210.9 million with profit margin of 21.6%. As starting from 2017, Colour Life largely reduced its reliance on M&A to expand, and instead, promoted its online platform with collaboration or alliance with peers. The online platform has shown track record of sound growth, which contributed approximately RMB 52.0 million of Colour Life's half year revenue in 2017H1. From November 2017, Wanxiangmei Property Management Co., Ltd. ("Wanxiangmei"; formerly Wanda Property Management Co., Ltd.)

would be consolidated with Color Life, which we expect would boost property management revenue from Colour Life. Therefore, we expect the property-related services segments to display steady and sound growth in the future. Diversified revenue streams would help to lower the Company's exposure to cyclical changes of real estate markets, which would give the Company stable revenue and cash flow.

4. Decreased revenue with mildly decreased profitability from rising finance costs, while still having stable credit metrics

Fantasia reported declining revenue with marginally thinning profitability. For the half year ended 30 June 2017, Fantasia recorded total revenue of RMB 3,637.3 million, while for the half year ended 30 June 2016, its revenue was RMB 5,362.1 million, representing a YoY decrease of 32.2%. The decrease was mainly attributable to reduced revenue from property development, which was RMB 2,068.8 million, showing a YoY decline of 52.3% compared with RMB 4,334.9 million for the same period in 2016. GFA of newly completed projects for the six months ended 30 June 2017 was 363.1 thousand sqm, showing a YoY decrease of 12.7%, contributing to the decreased revenue as fewer contracted sales could be recognized as revenue in the period. Besides that, newly completed projects in 2017H1 were mainly located in Wuhan, whereas in 2016H1 they were mostly in Suzhou where average selling price was almost twice of that in Wuhan, which also affected recognition of sales revenue.

The Company's gross profit margin in general increased from 32.3% in 2016 to 34.3% for LTM 2017H1. Increase in gross profit margin was mainly driven by higher portion of property-related services segments in total revenue, for example, gross profit margin of Colour Life for LTM 2017H1 was 44.3%. As property-related services generally had higher gross profit margin and in 2017H1, therefore, gross profit margin for the company as a whole increased. Segment profit margin from property development dropped from 26.3% in 2016H1 to 22.1% in 2017H1, showing slightly reduced profitability from property development segment. However, decrease in profitability is a general industry trend, and the Company still had a reasonable gross profit margin.

The Company's ROE for LTM 2017H1 was 6.8%, showing a decrease of 1.6 percentage points. The decrease was mainly due to rising finance expenses. In 2017H1, Fantasia reported net profit of RMB 156.4 million, which showed a YoY decrease of 52.7% compared with that in 2016H1.

Fantasia has stable credit metrics but weakening debt structure. The Company reported interest-bearing debt of RMB 22,399.0 million at 2017-mid including bank borrowings, senior notes & bonds and assets backed securities issues, representing a marginal increase from RMB 22,134.3 million at 2016-end. However, short-term debt/total debt rose to 31.2% compared with that of 11.6% at 2016 year end, indicating a weakening debt structure. Rise of short-term debt was mainly because the Company has refinanced some long-term bonds with short-term bonds of lower interest rates. Besides, with the tightening of domestic credit market, the Company issued a number of USD denominated bonds in the offshore market in 2016. As of 2017H1, USD denominated debt made up 47.1% of all outstanding debt, which could impose large exchange risk on the Company. The total debt/adjusted EBITDA for LTM 2017H1 remained at 6.2x. Adjusted EBITDA/interest for LTM 2017H1 decreased to 1.4x while it was 2.0x in 2016. Debt capitalization ratio was 61.5% for 2017H1, which was similar to the rate of 62.8% as of 2016 year end. Judging from increasing sizes of newly commenced projects and the Company's operation model, we expect the Company to steadily increase its capital investment in the future. As it has issued a bunch of USD denominated bonds in 2016, we expect a stable leverage ratio in the future, with an increasing portion of short-term debts.

5. Weakening liquidity position with sound funding capacity

The Company's liquidity buffer narrowed compared with 2016 year end. Its cash reserve decreased from RMB 11,134.3 million at 2016 year end to RMB 9,815.5 million as of 30 June 2017. Due to an increase in its short-term debt from RMB 2,565.9 million to RMB 6,987.3 million from 2016 year end to 2017H1. The cash/short-term debt ratio was 1.4x at mid-2017, while it was 4.3x at 2016 year end, showing a shrinking liquidity buffer, yet the Company still had enough cash reserve to cover its short-term debt.

Fantasia has sound funding capacity. The Company has good access to offshore capital market and has displayed a sound ability to raise fund from the market. On 7 June 2017, it early redeemed the long-term USD 300.0 million offshore bond issued in 2014 which had a coupon rate of 10.625% and refinanced the existing indebtedness with issuance of a total of US$650.0 million senior notes carrying a weighted average coupon rate of 6.630%, and the Company now has an aggregate weighted average interest rate of 7.4%. However, it is also noticed that due to the short-term nature of the debt, further refinancing of the current debt might still be subject to uncertainty, which would exert further pressure on its liquidity position. CCXAP will keep monitoring the Fantasia's liquidity position and refinancing capacity.

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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