Credit Opinion 5 June 2018

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]	2017	2016	2015
Total Assets (RMB billion)	151.8	88.5	67.5
Total Assets (USD billion) [2]	23.2	12.8	10.4
Net Assets (RMB billion)	34.3	17.3	15.3
Net Assets (USD billion) [2]	5.2	2.5	2.4
Total Revenue (RMB billion)	31.8	22.2	18.2
Total Revenue (USD billion) [2]	4.9	3.2	2.8
Net Profits (RMB billion)	6.1	3.2	2.5
Net Profits (USD billion) [2]	0.9	0.5	0.4
Gross Margin (%)	27.1	25.4	22.7
Return on Equity (%)	23.9	19.4	18.4
Total Debt / Total Capital (%)	62.7	63.0	61.1
Net Debt / Total Equity (%)	70.0	50.4	59.2
Total Debt / EBITDA (x)	6.2	6.8	6.2
EBITDA / Interest (x)	3.6	2.0	2.2

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

[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 growth as supported by abundant saleable resources
- Quality land bank with improving geographic diversification
- Moderate credit metrics with stable gross profit margin but heightened debt level
- Strong liquidity profile and good funding capability

Rating Rationale

The A_g+ rating of CIFI Holdings (Group) Co. Ltd. ("CIFI" or the "Company") is underpinned by the Company's (1) strong contracted sales execution from core markets across mainland China; (2) sufficient and quality land bank with improving geographic diversification; (3) improved revenue growth and stable gross profit margin; (4) good funding capability with diversified channels; and (5) strong liquidity management. However, the rating is also constrained by (1) China's property market slowdown and tightening funding environment; (2) the Company's heightened debt level as a result of accelerated land bank acquisitions; and (3) the Company's increasing reliance on joint-venture property development projects to contribute to its sale growth.

Rating Outlook

The stable outlook on CIFI's rating reflects its strong sales growth on property development and investment in compliance with its business strategy focusing on Yangtze River Delta Region. We believe 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) demonstrates a track record of sustainable contracted sales and improves geographical diversification; (2) decreases its reliance on growing contracted sales from joint venture and associate companies; and (3) improves its credit metrics including debt leverage.

What could downgrade the rating?

The rating could be downgraded if the Company's (1) credit metrics worsens than anticipated; (2) aggressive land acquisitions leading to significant increase in debt; or (3) liquidity position severely weakens.

Corporate Profile

Founded in 2000, CIFI was listed on the Main Board of the Stock Exchange of Hong Kong (Stock Code: 0884) in November 2012. The Company develops residential and commercial properties mainly in first-tier and second-tier cities across the Yangtze River Delta, and gradually expands to the Pan Bohai Rim, the Central Western Region and the South China Region.

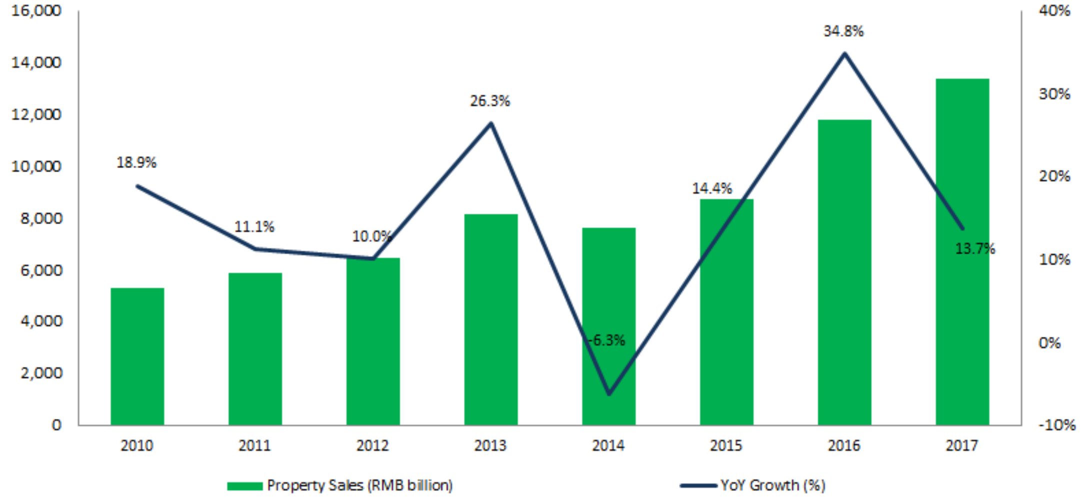
Detailed Rating Considerations

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.

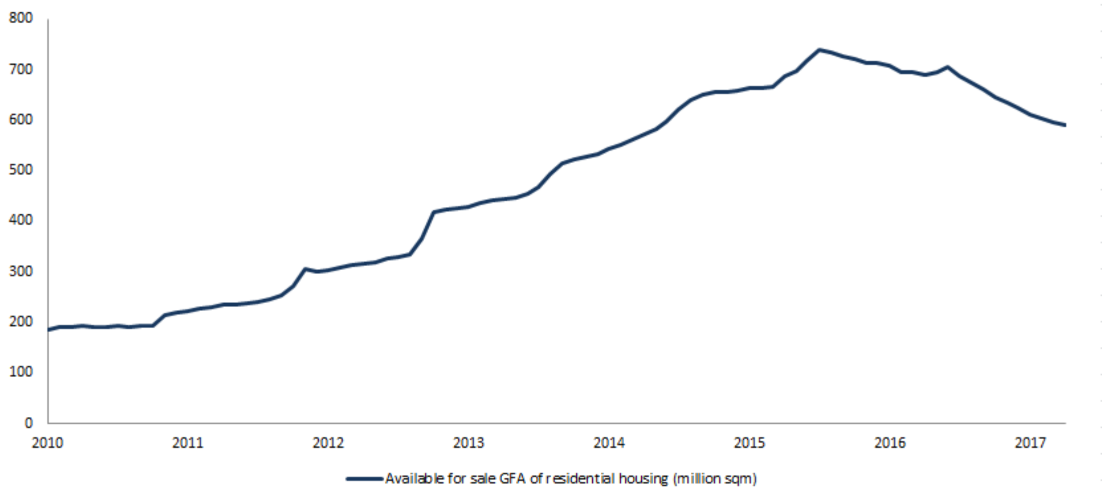
Exhibit 1. China's Property Contracted Sales in 2010-2017 (RMB billion)



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)



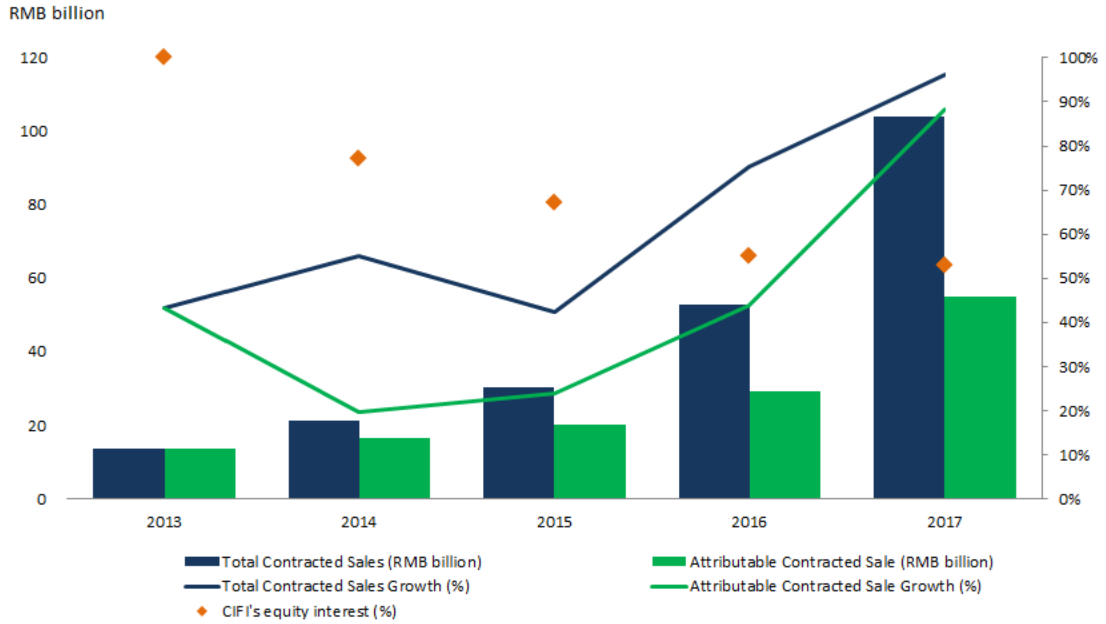
Source: National Bureau of Statistics of China, CCXAP research

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 contracted sales growth as supported by abundant saleable resources, but lower equity interest in cooperation projects

CIFI consistently executed its business strategy by focusing development in its core markets, including Yangtze River Delta, Pan Bohai Rim and Central Western during the year. In 2017, the Company also expanded its business into South China Region, including the city of Foshan and Sanya.

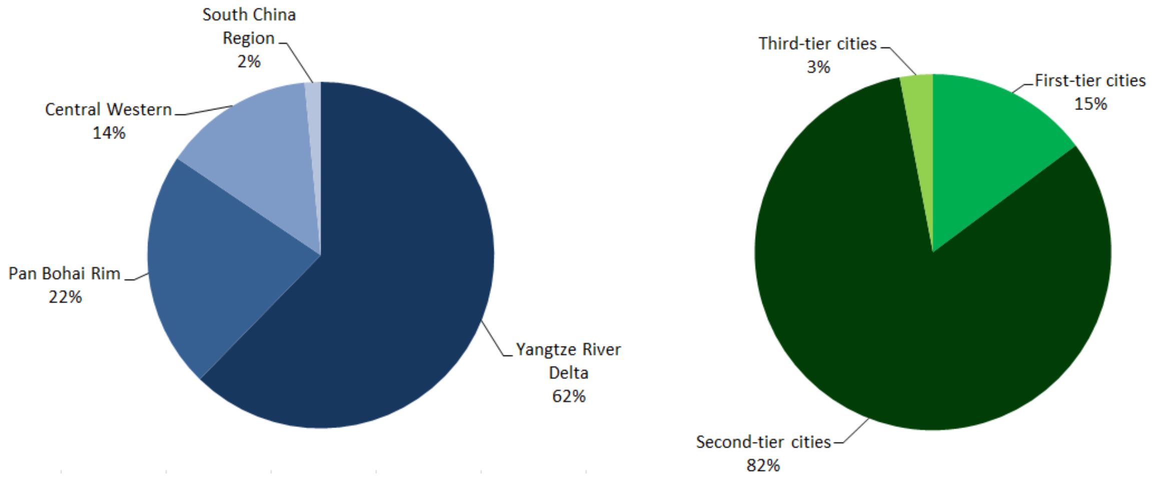
Exhibit 3. CIFI's Total Contracted Sales and Attributable Contracted Sales in 2013 - 2017



Source: Company data, CCXAP research

The Company demonstrated a strong contracted sales growth. In 2017, the Company's total contracted sales reached RMB 104.0 billion with attributable contracted sales of RMB 55.0 billion (including sales of joint venture and associated companies), which grew by 96.2% and 88.4% YoY respectively. The total contracted sales area was 6.3 million sqm, up 115.7% YoY. Such growth rate in total contracted sales, ranked the Company on the list of top 15 Chinese property developers in terms of contracted sales value in 2017. The notable result was mainly come from its strong sales growth in second-tier cities with quality saleable resources and improved project dispersion. In 2017, the contracted sales of second-tier cities accounted for 82.2% while it was 62.3% in 2016. The average contracted selling price decreased to RMB 16,530 per sqm in 2017 from RMB 18,175 per sqm in 2016. It was mainly attributable to the Company's remarkable sales increase in second-tiers cities, where had lower average selling prices.

Exhibit 4. CIFI's Total Contracted Sales by Regions and Cities in 2017



Source: Company data, CCXAP research

The Company had a more diversified property portfolio in 2017. The contracted sales were contributed by over 130 projects in 28 cities across mainland China in 2017, as compared with 44 projects in 14 cities in 2016. As for geographical breakdown, the Company's contracted sales in Yangtze River Delta, Pan Bohai Rim, Central Western and South China Region was RMB 64.8 billion, RMB 23.1 billion, RMB 14.6 billion and RMB 1.6 billion, which accounted for 62.3%, 22.2%, 14.0% and 1.5% of total contracted sales, respectively.

The Company registered a rapid asset turnover and good operating efficiency driven by its focusing business strategy on residential products for upgrader and first-time purchasers, particularly in first-tier and second-tier cities, where had robust demand in residential property products. Among its contracted sales in 2017, the product for upgraders' residential, first-time purchasers residential and office/commercial accounted for 54%, 37% and 9% respectively, as compared with that of 51%, 33% and 16% in 2016. With focusing on high turnover residential products, the Company maintained a relatively high collection ratio of over 85% from contracted sales.

The Company continued to utilize joint venture strategies to develop new projects by cooperating with renowned property development companies, such as Henderson Land, Beijing Capital Land and Green Land which help to relieve capital pressure on land acquisition expenditure. However, by increasing the proportion of cooperation projects, the Company's attributable contracted sales to total contracted sales was relatively low compared to the industry average of around 70%. The ratio lowered to 52.9% in 2017, as compared with 55.1% in 2016 and 67.2% in 2015, which showed CIFI's sales growth highly dependent on that of joint venture partners and associate companies.

In 2018, the Company is targeted to achieve RMB 140 billion of contracted sales, with a YoY increase of 35% from that of 2017. Owing to its sufficient saleable resources valued over RMB 250 billion and improving project diversification, we anticipate that the Company's contracted sales target is likely to be achieved. The accumulated contracted sales in the first quarter of 2018 were RMB 27.1 billion, up 16.6% QoQ from that in 2016Q1.

3. Quality land bank mainly in second-tier cities with improving geographical diversification

CIFI accelerated its land acquisitions through M&A and public auction with disciplined investment principles. The management of the Company continued its land acquisition strategy by timing its purchases opportunistically in down market and focusing on the market of second-tier and quality third-tier cities. In 2017, the Company acquired 78 projects in over 40 cities in mainland China and Hong Kong with aggregated total GFA (including Hong Kong projects) of 13.2 million sqm and attributable GFA of 5.9 million sqm. The total cost of newly acquired lands parcels was RMB 108.3 billion and attributable land cost of RMB 42.2 billion.

Exhibit 5. CIFI's Land Bank in 2016 and 2017

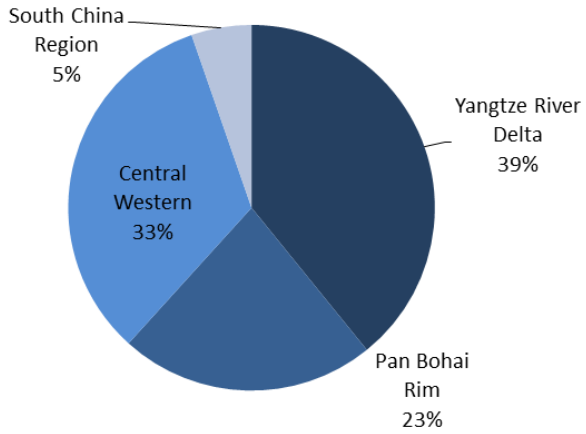
	2017	2016
Number of newly acquired projects	78	36
Newly acquired total land bank (million sqm)	13.2	6.5
Total land bank (million sqm)	31.0	17.5
Total attributable land bank (million sqm)	16.0	10.5

Source: Company data, CCXAP research

In 2017, the Company firstly entered 18 new cities including Hong Kong, Qingdao, Jinan, Linyi, Jiashan, Chengdu, Zhengzhou, Pinghu, and Xiamen. The Company acquired lands mainly located in second-tier cities and first-tier cities, which accounted for 76% and 17% of newly acquired land bank in 2017, in terms of attributable cost of land. As for geographical breakdown, the newly acquired land parcels mostly came from Yangtze River Delta, which accounted for 38% of total attributable land costs. The new land parcels in Pan Bohai, Rim Central Western and South China Region accounted for 24%, 28% and 10%, respectively. As for product mix, upgraders' residential, first-time purchasers residential and office/commercial accounted for 52%, 43% and 5%, respectively. The Company had balanced land acquisition channels with 58% from public auctions and 42% from private M&As.

The average cost of the newly acquired lands was approximately RMB 8,000 per sqm (excluding Hong Kong projects), as compared to approximately RMB 3,700 per sqm in 2016. The heightened land cost may exert pressure on the sales execution and profitability of these projects.

Exhibit 6. CIFI's Land Bank by regions as of 31 December 2017



Source: Company data, CCXAP research

The Company's land reservations were considered as high quality given their favorable locations. As of 31 December 2017, the Company had total land bank with aggregated GFA of 31.0 million sqm, of which 16.0 million sqm was attributable to its equity interest. The average cost of CIFI's total land bank (excluding Hong Kong) was approximately RMB 6,750 per sqm. As for geographic breakdown, the land bank (excluding carpark) in Yangtze River Delta, Pan Bohai, Rim Central Western as well as South China Region and Hong Kong, accounted for 39%, 23%, 33% and 5% respectively.

The total land bank is expected to be sufficient for the Company's future development for three years. We expected CIFI will further enlarge its land bank given the land acquisitions in the first quarter of 2018 and a number of urban and shantytown transformation projects cooperating with the government, which provided approximately 21.0 million sqm of land bank to the Company.

4. Moderate credit metrics with stable gross profit margin but heightened debt level

The Company had a strong revenue growth and improved profitability. In 2017, CIFI's total revenue grew by 43.2% YoY to RMB 31.8 billion, which was mainly come from recognized sales of properties, accounting for 95.2% of total revenue. Comparatively, the rental income remained marginal, which was RMB 94.4 million in 2017, up by 51.7% YoY. The net profit was RMB 6.1 billion, increasing by 94.3% YoY. The Company's gross profit margin improved to 27.1% in 2017 from 25.4% in 2016, resulting from increased numbers of higher gross profit margin projects delivered in the year. We believe that the gross profit margin is expected to remain at above 25% over the next 12-18 months as the profit margin of its sales projects in 2016 and 2017 remained relatively high, which will be gradually recognized as revenue in the coming fiscal years.

In 2017, CIFI stepped up its debt-funded land acquisitions which led to heighten its debt level. The Company's adjusted total debt (including perpetual bonds) amounted to RMB 51.1 billion as of 31 December 2017, increased by RMB 21.7 billion as compared with that at end-2016. The adjusted total capitalization ratio was 62.7% in 2017, as compared to 63.0% in 2016. The adjusted net gearing ratio was 70.0% in 2017, as compared to 50.4% in 2016.

In terms of its debt structure, the ratio of short-term debts to total debt was 23.1% as compared with 15.2% at end-2017. The proportion of renminbi denominated indebtedness accounted for 59.8% while US dollar/HK dollar denominated indebtedness accounted for 40.2%. The foreign exchange risk was deemed to be manageable as 73% of non-renminbi indebtedness was hedged. However, the proportion of unsecured indebtedness decreased to 52.4% in 2017 from 75.9% in 2016, which may show weakening funding capability in unfavorable market conditions.

The Company performed a relatively stronger profitability to service its debts. CIFI's ratio of total debt to EBITDA was 6.2x in 2017, slightly decreased form 6.8x in 2016. The ratio of net debt to EBITDA was 2.6x in 2017 while it was 2.0x in 2016. If including the profits from joint venture and associate companies, the adjusted ratio of total debt to EBITDA and adjusted net debt to EBITDA would be 5.3x and 2.2x, respectively

5. Strong liquidity profile and good funding capability

CIFI's liquidity profile remained strong but showed a weakening trend due to the increase of the Company's short-term debt financing. Strong liquidity management help CIFI remain resilient to unfavorable market conditions. The Company's cash on hand was reported of RMB 29.8 billion with restricted amount of RMB 5.2 billion, that fully covered its short-term debt of RMB 11.8 billion at end-2017. With increasing portion of short-term debt financing, the ratio of cash to short-term debt decreased to 2.5x at end- 2017. The ratio was 4.6x at end-2016 and 5.3x at end-2015. As of 31 December 2017, the Company had bank facilities of RMB 151.0 billion from domestic banks with unutilized amount of RMB 134.5 billion.

The Company had approximately RMB 11.2 billion of attributable unpaid commitment for land acquisitions, which is reflected as off-balance-sheet items. We will keep close monitor on the company's ability to fulfill these commitments and the change of its liquidity position.

Moreover, CIFI demonstrated good funding capability through various financing channels with both equity and debt financing. The Company's debt financing included onshore bank loans, corporate bonds, offshore bank loans, corporate bonds and senior notes. In 2017, the Company issued a 5-year USD 285 million bond with coupon rate of 5.5%. The Company also issued two tranches of perpetual bond with aggregated amount of USD 600 million and coupon rate of 5.375% in the year. Even in a tightening financing environment, the Company's average borrowing cost further decreased to 5.2% in 2017 from 5.5% in 2016.

Besides that, the Company also successfully introduced Ping An Life Insurance Co., Ltd. ("Ping An Life") as a strategic shareholder in July 2017, which help strengthen its capital structure and business profile. The Company issued 545 million new shares at HKD 3.50 per share to Ping An Life and 135 million new shares at HKD 3.82 per share to Ding Chang Limited through top-up placement, which raised approximately HKD 2.4 billion of capital in total.

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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