Rating Announcement 2 July 2019

China Vanke Co., Ltd.

Hong Kong

Category:	Corporate rating
Rating type:	Unsolicited rating
Industry:	Property Development
Long-term Credit Rating:	AA_g
Rating Outlook:	Stable

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China Chengxin (Asia Pacific) Credit Ratings announces that the AA_g rating of China Vanke Co., Ltd. is unaffected by its 2018FY results

Hong Kong, 12 June 2019 -- China Chengxin (Asia Pacific) Credit Ratings announces that the [ ] rating of China Vanke Co., Ltd. ("Vanke" or the "Company") is unaffected by its 2018FY results, outlook Stable. Vanke's rating reflects its leading market position supported by the steady growth in contracted sales and widespread geographical distribution, together with increasing profitability and diversified financing channels.

Rating Rationale

The AA_g rating is underpinned by the Company's (1) leading market position with a steady growth in contracted sales and widespread geographical distribution; (2) abundant land reserves to support its business developments; (3) increased profitability with higher gross profit margin; and (4) good access to onshore and offshore capital markets. However, the rating is also constrained by (1) China's property market slowdown and tightening financing environment.

Vanke maintaining a leading market position with a steady growth in contracted sales and widespread geographical distribution

In 2018, Vanke realized contracted sales area of 40.4 million sqm and contracted sales amount of RMB 606.95 billion, representing annual growth of 12.3% and 14.5%, respectively. Vanke's business covers China's four major geographic regions, namely southern region, Shanghai region, northern region and central & western region. These regions accounted for 23.6%, 29.8%, 24.0% and 21.5% of total contracted sales amount, respectively. The Company's share in commodity housing market in

China has risen to 4.05% and its projects are located in 83 cities in China, showing widespread geographic distribution. In 2018, according to CRIC's research, the Company ranked 2nd among the largest property developers in China; it also ranked first in 24 cities in terms of contracted sales. Housing products accounted for 84.9% of total products sold by the Company, with medium and small residential housing under 144 sqm for mainstream customers accounting for 91.4% of total housing products.

Vanke maintaining conservative land acquisition strategies, with abundant land reserves to support its ongoing developments

In 2018, Vanke acquired 227 new projects with a planned GFA (Gross Floor Area) of 46.8 million sqm and planned GFA attributable to the Company was 24.9 million sqm with land premium of RMB 135.1 billion, showing that its land acquisition strategies were relatively prudent as compared with its contracted sales of RMB 607.0 billion. 82.6% of the new projects were acquired through cooperation and, in terms of GFA, 72.1% of the new projects were located in first and second tier cities. As of 31 December 2018, the total land reserves of Vanke were approximately 153.0 million sqm, which could meet its development needs for the next 3 to 4 years.

Vanke demonstrating a sustainable developing model, strengthening its business profile by creating synergy effect with property development business

In addition to property development business, the Company diversified its business into property services, rental housing services, commercial development and operations services, and logistic and warehousing services. For property services, the Company achieved revenue of RMB 9.8 billion in 2018, representing annual increase of 36.1%. In 2018, Vanke Service (Hong Kong) Co., Limited, a subsidiary of the Company, purchased 4.9% shares in Cushman & Wakefield, a leading global real estate services firm, making it the fourth largest strategic shareholder of Cushman & Wakefield. This strategic cooperation would become an important link for the Company to establish connections with the international markets. For rental housing services, the Company's long-term rental housing business covered 35 major cities and aggregately had more than 60,000 units in operation. The Company mainly operated its rental housing business through youth apartment ("Port Apartments"), which provided long-term rental solutions to customers at different stages of life. For commercial development and operations services, the Company managed more than 210 commercial projects with GFA of over 13 million sqm at end-2018. SZITIC Commercial Property Group Holdings Co., Limited, the Company's commercial property development and operation platform, completed the acquisition of CapitaLand Ltd's 20 shopping malls in China, further improving its commercial layout. For logistic and warehousing services, the Company's VX Logistic Properties entered 42 cities and acquired 124 projects, with the GFA of leasable properties amounting to about 9.71 million sqm. In 2018, the Company became the largest shareholder of the Global Logistic Properties Limited ("GLP"), a global leading modern logistic facilities service provider. After the consortium acquisition, the Company's feeder fund owned approximately 21.4% shares in GLP. Despite the development of rental housing as well as logistics and warehousing services exerting capital expenditure pressure in the short-term, the sustainable development model of Vanke could strengthen its business profile with stabilized cash flow and increasing recurring income.

Property market slowing down and tightening regulatory environment causing uncertainties to the Company's contracted sales and challenge to its capital management

In 2018, the area of commodity housing sold in China was 1.72 billion sqm, a YoY increase of 1.3%, while the sales amount was RMB 15,000 billion, a YoY increase of 12.2%, representing a decrease in growth rate by 6.4 and 1.5 percentage points from 2017, respectively. The slowdown in property sales growth caused Chinese property developers to make their land acquisition strategies more conservative, and the land transaction premium rate declined. Moreover, under a tightening financing environment in onshore capital market, the financing cost of Chinese property developers has increased, giving rise to additional financial pressure to property companies with aggressive developing strategy.

The profitability of Vanke increasing with higher gross profit margin

In 2018, Vanke reported total revenue of RMB 297.1 billion, 95.6% of which were derived from property development business, and net income of RMB 49.3 billion, increasing 25.2% and 32.4% YoY, respectively. Given a batch of projects with relatively good sales due for settlement, the Company demonstrated higher profitability. In 2018, the gross profit margin was 37.0% and the return of equity was 23.3%, an increase of 4.7 and 1.9 percentage points as compared with 2017. Although the tightening regulations might exert pressure on the profitability of the Company, we expect that Vanke will maintain high profitability given its relatively low period costs ratio and sizeable sold but unrecognized area at end-2018, with a contract amount of RMB 530.7 billion, which could be gradually recognized as revenue within 2-3 years.

Vanke maintaining robust credit profile, despite heightening debt level to support fast expansion

With the expanding operating scale, Vanke's total debt increased from RMB 202.1 billion to RMB 278.4 billion at end-2018 while its total debt/EBITDA ratio remained stable at 3.0x level. Nevertheless, due to significant increase in net debt and total interest, the Company's net gearing ratio increased from 15.0% to 38.2% and EBITDA interest coverage ratio decreased from 8.1x to 6.5x in 2018. As for short term liquidity, the Company contained cash and cash equivalents amounting to RMB 188.4 billion, an 8.2% increase from 2017. However, because the short-term debt of the Company increased by 49.7%, its cash/short-term debt ratio decreased from 2.4x to 1.7x in 2018, showing that its short-term debt paying ability weakened. But we still believe that the Company's liquidity profile was adequate as the solvency ratios still remained at favorable level.

Vanke possessing smooth financing channels to onshore and offshore capital markets

As an A shares and H shares listed company, Vanke has diversified financing channels. In 2018, the Company issued four tranches of RMB corporate bonds with aggregate amount of RMB 8.5 billion at the coupon rate between 4.03% and 4.60%. Also, the Company issued three tranches of 5 years USD notes with aggregate amount of USD 2,251 million at a coupon rate between 3.88% and 4.35%. In April 2019, the Company completed placement of 262,991,000 new H shares with aggregate net proceeds of approximately HKD 7.78 billion. In addition, the Company had a relatively large amount of debt denominated in foreign currency, which accounted for 30.3% of total debt. The Company entered foreign exchange forward contracts and cross currency swap contracts to mitigate currency risks, so we believe that the Company's currency risk is manageable.

Rating Outlook

The stable outlook on Vanke' rating reflects its leading market position with steady growth in contracted sales and broad geographic coverage. We believe that the Company will maintain high profitability given its relatively low period costs ratio and sizeable sold but unrecognized areas.

Corporate Profile

Founded in 1984, China Vanke Co., Ltd. is one of the largest property developers in China by contracted sales. It was listed on the Shenzhen Stock Exchange (SZSE, Stock Code: 000002.SZ) in 1991 and on the Hong Kong Stock Exchange (HKSE, Stock Code: 2202.HK) in 2014. The Company specializes in providing high quality residential properties to first-time buyers and upgraders, with a geographic coverage spanning 83 cities. As of 31 December 2018, Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission was the major shareholder of the Company, holding 29.38% of Vanke's shares through its subsidiary, Shenzhen Metro Group Co., Ltd.

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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