

Rating Announcement

2 July 2019

China Overseas Land & Investment Ltd.

Hong Kong

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

Primary Analyst:	
Peter Chong	peter_chong@ccxap.com

Analyst:	
Na Yu	na_yu@ccxap.com
Brenda Lao	brenda_lao@ccxap.com

Director of Credit Ratings:	
Guo Zhang	guo_zhang@ccxap.com

Tel.:	+852-28607120
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China Chengxin (Asia Pacific) Credit Ratings announces that the AA_g rating of China Overseas Land & Investment Ltd. is unaffected by its 2018FY results

Hong Kong, 12 June 2019 -- China Chengxin (Asia Pacific) Credit Ratings announces that the AA_g rating of China Overseas Land & Investment Ltd. (“China Overseas” or “the Company”) is unaffected by its 2018FY results. China Overseas’ rating reflects its strong market position in China’s residential property market, strong profitability and diversified financing channels. The rating also reflects its strong shareholder background with support from its parent company, China State Construction Engineering Corporation (CSCEC).

Rating Rationale

The AA_g rating is underpinned by the Company’s (1) strong market position in China’s property market; (2) sufficient land reserves with diversified geographical distribution; (3) strong profitability; (4) solid credit profile and liquidity position; (5) good access to onshore and offshore capital market; and (6) strong shareholder background. However, the rating is constrained by (1) the slowdown of China’s property market slowdown and tightening funding environment.

China Overseas maintaining its strong market position with a strong contracted sales growth and widespread geographical distribution in 2018

The Company has a strong market position, with most of its property development projects located in China’s first- and second-tier cities. The Company also has certain exposure to the third- and fourth-tier cities through China Overseas Grand Oceans Group Limited (“COGO”), an associate

company. The Company is ranked the 7th largest property developer in China in 2018 based on its contracted sales, with projects located in 64 cities in China. In 2018, the Company demonstrated contracted sales of HKD 301.2 billion and contracted gross floor area (“GFA”) of 15.9 million sqm, representing annual increase of 29.8% and 10.2%, respectively. Its average selling prices increased by 17.8% to HKD 18,905/sqm in 2018. In terms of geographical regions, the contracted sales in Hua Bei, Hua Dong, Northern, Hua Nan, Western regions and Hong Kong & Macau accounted for 28.1%, 20.2%, 18.7%, 17.5%, 12.8% and 2.7% correspondently. In 2018, the Company maintained a high cash collection ratio of 90.5% with sales proceeds amounted to HKD 272.6 billion. Moreover, in response to the growing property market in China, the Company increased its contracted sale target by 16.2% YoY to HKD 350 billion in 2019. We believe that the Company’s target is relatively conservative because, according to CRIC’s research, the overall target growth rate in contracted sales of Chinese property developers in 2019 is about 20%.

China Overseas’ land acquisition strategies more conservative, with sufficient and geographically diversified land reserves to support its ongoing development

In 2018, the Company acquired 63 pieces of land in 28 cities in mainland China and Hong Kong, adding a total GFA of 17.6 million sqm to its land reserve, with total land premium amounted to HKD 144.3 billion. The Company’s land premium/contracted sales ratio in 2018 was 0.48, much lower than 0.62 in 2017, showing that its land acquisition strategies became more conservative in 2018. As of end-2018, the Company had a total land reserve of 91.4 million sqm, which was enough to meet its development need for the next 4 to 5 years. The land reserves of the Company (excluding COGO) were 70.1 million sqm, and they were geographically diversified, with Hua Bei, Northern, Western, Hua Nan, Hua Dong regions and Hong Kong & Macau accounted for 26.3%, 21.4%, 20.6%, 20.1%, 11.2% and 0.4% of its land reserves, respectively. Furthermore, COGO had a total land reserve of 21.3 million sqm, distributed in 22 cities such as Shantou, Yinchuan and Jiujiang.

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 1.7 billion sqm, annual increase of 1.3%, while the sales amount was RMB 15,000 billion, annual increase of 12.2%, representing a decrease in growth rate by 6.4 and 1.5 percentage points respectively. The slowdown in property sales growth caused Chinese property developers to change their land acquisition strategy to be more conservative, and the land transaction premium rate declined. In 2018, according to the statistics of China Index Academy, the average residential land premium rate in 300 cities in China was 15%, which was 19 percentage points lower than that of 2017. Moreover, under a tightening financing environment in onshore capital market, the financing cost of Chinese property developers has increased, giving additional financial pressure to property companies with aggressive developing strategy. In 2018, the weighted average borrowing cost of the Company was 4.3%, slightly higher than that in 2017.

The profitability of China Overseas increasing with higher gross profit margin

In 2018, the Company reported a revenue of HKD 171.5 billion, 97.4% of which were derived from property development business, and net profit of HKD 46.7 billion, representing annual increase of 3.3% and 10.8% respectively. The adjusted gross profit margin increased to 38.8% while the return of equity slightly decreased to 16.5% in 2018. We expect that the company will maintain strong profitability given its industry-leading product premium and effective cost control management.

China Overseas having solid credit profile, despite heightening debt level to support fast expansion

With its rapidly growing business, the total debt of China Overseas increased by 12% to HKD 207.9 billion while its total debt/EBITDA ratio remained stable at 2.9x level in 2018. Nevertheless, due to significant increase in net debt and total interest, the Company's adjusted gearing ratio increased from 29.8% to 36.5% and EBITDA interest coverage ratio decreased from 8.4x to 7.6x in 2018. The Company also demonstrated a solid liquidity position. At end-2018, the Company had cash and cash equivalents of HKD 100.6 billion, which was nearly 2.5 times of its short-term debt of HKD 40.9 billion. The liquidity position is enhanced by its unused banking facilities of HKD 21.65 billion. We believe that the Company's liquidity profile is adequate as its solvency ratios remain at a favorable level.

China Overseas possessing smooth financing channels to onshore and offshore capital market

As a listed company, China Overseas has diversified financing channels. In 2018, the Company issued two senior notes with a maturity period of five-year and ten-year each for a total amount of USD 1.5 billion. It also issued a six-year corporate bond with a face value of RMB 3.5 billion at a coupon rate of 4.0%, which has been a record-low interest rate for onshore corporate bonds issued by a Chinese property developer since 2017. In 2018, the weighted average borrowing cost of the Company was 4.3%, the lowest level of financing cost as compared with its peers. However, at end-2018, the Company's non-renminbi denominated indebtedness accounted for 50.1%. With high exposure to foreign currency, the Company may face certain risks from currency fluctuation.

Rating Outlook

The stable outlook on China Overseas' rating reflects its strong market position and diversified geographic distribution in China's residential property market. We also believe that the Company will be able to maintain its strong profitability and solid credit profile.

Corporate Profile

Established in 1979, the Company is a leading Chinese property developer with a geographic coverage of over 55 cities nationwide, and gradually expanding its coverage to Hong Kong, Macau and London. It principally engages in property development, investment, management and other property-related operations. The Company was listed on the main board of the Hong Kong Stock Exchange (Stock Code: 0688.HK, "COLI") in August 1992. Since 2007, it has been included in the Hang Seng Index Constituent Stocks. As of 31 December 2018, the Company was a subsidiary of China Sate Construction Engineering Corporation ("CSCEC"), a state-owned enterprise under the State Council of China, which indirectly held 55.99% of the Company's shares.

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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 805-808, Jardine House, 1 Connaught Place, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656