CCXAP affirms CIFI Holdings (Group) Co. Ltd.'s long-term credit rating at BBB_g-, with stable outlook

Hong Kong, 21 October 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BBB_g- long-term credit rating of CIFI Holdings (Group) Co. Ltd. ("CIFI" or the "Company"), with stable outlook. CIFI's rating reflects the Company's (1) high quality land bank with diversified methods of land acquisition; and (2) adequate liquidity profile. However, the rating is also constrained by the Company's (1) pressured contracted sales growth driven by the COVID-19 outbreak; and (2) large but reducing exposure to cooperation projects.

Corporate Profile

Incorporated in the Cayman Island in May 2011, CIFI is one of the leading Chinese integrated property developers in China. The Company was listed on the main board of the Hong Kong Stock Exchange (Stock Code: 0884.HK) in November 2012. The Company has a strong presence in China's major commercial districts covering the Yangtze River Delta, Pan Bohai Rim, Central Western Region and South China Region. As of 30 June 2020, the Company had business operation in over 80 cities with total land bank of gross floor area ("GFA") of 52.7 million sqm and attributable land bank of GFA 27.7 million sqm.

Rating Rationale

Credit Strengths

High quality land bank with diversified methods of land acquisition. The quality of CIFI's newly acquired land bank in 2020H1 is considered high, with over 90% of the new land bank by saleable value located in first-tier and second-tier cities as well as strong third-tier cities. With a robust demand for properties and a continuous population growth in these cities, it could help CIFI achieve its contracted sales growth target and maintain a satisfactory profit margin.

CIFI adopted a disciplined land-bank expansion in the first half of 2020, acquiring a total land bank of GFA of approximately 4.7 million, with an average land cost of RMB7,758 per sqm. In terms of attributable land premium, it stood at RMB24.4 billion in 2020H1, as compared with RMB26.6 billon in 2019H1. Besides, CIFI adopted a more diversified approach on land acquisition to lower its land cost. The Company acquired nine land parcels in 2020H1, with zero premium, by using multiple channels (other than public auction market), such as mergers and acquisitions, and urban renewal development. These land parcels are expected to contribute over RMB18.7 billion of saleable resources to the Company.

The Company's vast land bank is sufficient for its development in the next 2-3 years, with total GFA of 52.7 million sqm and attributable GFA of 27.7 million sqm as of 30 June 2020. The Company has a diversified geographic distribution of its land bank, with 18% in Southeast region, 13% in Northeast and Northern China region, 13% in Jiangsu region, and 13% in Central region in terms of GFA. CIFI's land bank spreads over 80 cities in different regions and there is no single city that is dominant in its total land bank. The diverse land bank could help minimize its exposure to regulation risk and downturn risk in regional real estate market.

Business diversification with synergies among segments. CIFI had a more diversified business profile in 2020H1. It generated a total revenue of RMB23.0 billion, increasing from RMB20.1 billion in 2019H1. During the period, sales of properties accounted for 84.2% of its total revenue. Property management (0.9%) and other related services (14.8%) showed an increased significance. Property services segments with higher profit margin could enhance CIFI's overall profitability, which could partially offset the effect of a lowering profit margin in China's property sales market. Besides, Ever Sunshine Lifestyle Services Group Limited ("Ever Sunshine") is primarily engaged in property management services. Ever Sunshine can better promote its business with CIFI's reputation while CIFI could have a lower cost of property management. This could facilitate the synergy effect between the brands of CIFI and Ever Sunshine. We expect that the Company will continue to diversify its business in the near future by promoting the idea of the establishment of a real-estate ecological platform in 2020.

Adequate liquidity profile underpinned by cash adequacy. CIFI has maintained adequate liquidity. It had a total cash of RMB59.3 billion at mid-2020, increased from RMB57.6 billion at end-2019. The Company maintained the ratio of cash to short-term debt above 2.0x consistently over the past five years, and recorded 2.4x at mid-2020. In addition, the Company's financing cost remained relatively low. Its weighted average cost of indebtedness was 5.6% at of 30 June 2020, declining from 6.0% as of 31 December 2019. We expect the Company to maintain a stable liquidity position as underpinned by (1) its past ability in retaining good liquidity; and (2) our expectation of a faster cash replenishment from the Company's accelerated contracted sales growth in 2020H2.

Credit Challenges

Contracted sales growth pressured by the COVID-19 outbreak. During the outbreak, property sales and construction was slowed down as the Chinese government executed a series of epidemic prevention measures nationwide. In 2020H1, CIFI's contracted sales dropped by 8.7% year-over-year ("YoY") to RMB80.7 billion, showing a slower recovery as compared to its peers. The Company's contracted sales gradually recovered in July and August, with total contracted sales of RMB47.6 billion during the period, representing a YoY growth of 68.1%. For the first nine months of 2020, CIFI recorded total contracted sales of RMB154.4 billion, about 67% of its annual target. We expect that the Company is likely to reach its full-year sales target of RMB230 billion for 2020, considering the Company's (1) strong sales execution ability; and (2) sufficient saleable resources of over RMB280 billion in 2020H2.

Moderate debt leverage with improvement. CIFI had a large amount of debt (including perpetual capital securities) totaled RMB105.3 billion as of 30 June 2020, increasing from RMB103.7 billion at end-2019. Among its indebtedness, approximately 39% was onshore bank loans, followed by offshore senior notes (28%), offshore bank loans (19%) and onshore corporate bonds (14%). The Company also completed a share placement to no less than 6 independent investors in June 2020, with net proceeds of approximately HKD1.2 billion. Its net gearing ratio lowered from 78.9% at end-2019 to 72.4% at mid-2020. The growth in debt was mostly in line with its growth in contacted sales. The ratio of contracted sales to total debt stood at 1.9x in 2019, and slightly dropped to 1.8x for the last twelve months ended 30 June 2020. Amid the tightened policy control in China's property market such as the debt growth limits on property developers, we expect that the Company will maintain a stable leverage level over the next 12-18 months.

Moreover, CIFI's exposure to foreign currency was material with 44.3% of its debt denominated in either USD or HKD as of 30 June 2020, as compared with 39.5% as of 31 December 2019. The Company has entered into currency forward contracts to partially hedge its foreign currency exposure. In 2020H1, the Company reported a net exchange loss of RMB254.7 million (calculated by total exchange loss minus gains on currency hedging instruments) as affected by the depreciation of RMB in the year.

Large but reducing exposure to cooperation projects. CIFI has been using cooperation projects to boost its contracted sales and land bank, being subject to a material joint-venture exposure. It had a low percentage of attributable contracted sales of below 60% over the past three years. The large cooperation project exposure reduced its financial transparency as financial disclosure under joint ventures and associates is usually less comprehensive and lacks a unified standard. Meanwhile, CIFI continued to increase its shareholding in new projects, with a higher percentage of attributable land bank (by GFA) of 72.3% in 2020H1. Although there is still a material exposure to cooperation projects, we expect that the risk could be further mitigated by CIFI's cooperating with other reputable developers such as Henderson Land and Hongkong Land Company Limited.

Rating Outlook

The stable outlook on CIFI's rating reflects our expectation that the Company's contracted sales will gradually recover in the second half of 2020 under continuous recovery of China's property market. We also expect that the Company will have a stable debt profile over the next 12-18 months, underpinned by its proactive management on debt leverage.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Real Estate Development Industry (December 2019).

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