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CCXAP

CCXAP affirms Yango Group Co., Ltd.'s long-term credit rating at BB_g, with stable outlook.

Hong Kong, 27 May 2021 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Yango Group Co., Ltd. ("Yango" or the "Company") at BB_g. The rating outlook is stable.

The BB_g long-term rating of Yango is underpinned by the Company's (1) resilient contracted sales with good sales execution; (2) diversified land bank with disciplined land acquisitions; and (3) good liquidity position and funding capability. However, the rating is also constrained by the Company's (1) large exposure to joint-venture partnership; (2) weak profitability and EBIT interest coverage; and (3) high but improving debt leverage.

Corporate Profile

Established in 1991, Yango is a Chinese property developer with business coverage of property development, business management, hotel development and construction. The Company mainly develops residential properties in Greater Fujian region, Yangtze River Delta region and other strategic cities in central and western region. The Company has been listed on the Shenzhen Stock Exchange since 1996 (Stock Code: 000671.SZ).

As of 15 April 2021, Fujian Yango Group Co., Ltd., and persons acting in the concert were the major shareholders, while Taikang Insurance Group Inc. ("Taikang Insurance") became the second-largest shareholder, holding 43.53% and 13.41% of the Company's shares, respectively.

Rating Rationale

Credit Strengths

Resilient contracted sales with good sales execution. Starting its business in Fujian Province, Yango demonstrates a strong position in its home-market, which has been ranked as the top property developer in Fuzhou in terms of sales volume since 2012. Amid the outbreak of COVID-19 pandemic, Yango demonstrated resilient contracted sales as evidenced by a rebound in 2020H2, thanks to its good sales execution. Its contracted sales increased by 3.3% year-over-year ("YoY") to RMB218.0 billion in 2020, as compared to a YoY decrease of 16.8% in 2020Q1 amid the pandemic. Yango's ranking dropped from 13th among Chinese property developers in 2019 to 19th in 2020 by total contracted sales, according to the statistic of CRIC.

Yango aims to achieve total contracted sales of at least RMB220 billion in 2021. In the first four months of 2021, the Company achieved total contracted sales of RMB64.1 billion, increasing by 42.4% YoY or equivalent to about 29.1% of its annual target. Overall, given its disciplined development strategy, we expect that the Company will have a moderate YoY growth of 5%-10% in contracted sales over the next 12-18 months.

Diversified land bank with disciplined land acquisitions. As of 31 December 2020, Yango had a total land bank of 42.5 million sqm with expected saleable resources of RMB562.7 billion,

which would be sufficient to meet its development needs for the next 2 years. As Yango focused on higher-tier cities with solid housing demands and economic prospects, about 76% of its land bank, in terms of saleable resources, was in higher-tier cities. Around 36% of its saleable resources were in strategic cities, such as Changsha, Chongqing and Kunming, followed by Pearl River Delta (28%), Yangtze River Delta (17%), Greater Fujian (13%) and Beijing, Tianjin & Hebei region (6%).

Yango has adopted a disciplined land acquisition strategy since 2017 so as to control the growth of its debt burden. In 2020, the Company acquired land bank of 11.1 million sqm, in terms of capacity area, of which attributable land bank was about 7.3 million sqm. The land cost attributable to the Company amounted to RMB40.2 billion, equivalent to around 29% of its attributable contracted sales. We expect Yango will invest around 35%-45% of its contracted sales on land replenishment over the next 12-18 months, under the expectation of moderate contracted sales growth and adherence of disciplined debt management.

Good liquidity position and funding capability. As of 31 December 2020, Yango held cash and cash equivalents of RMB49.8 billion (including restricted cash of RMB9.3 billion), which was sufficient to cover its short-term debt of RMB38.2 billion. Its cash to short-term debt ratio was around 1.3x at end-2020. Yango has good access to the onshore and offshore capital market. In 2020, Yango raised approximately RMB16.7 billion on the onshore market, and USD1.4 billion on the offshore market, which were mainly used for refinancing. Underpinned by the Company's good liquidity position and potential financial support from Taikang Insurance, we expect that its refinancing pressure will be manageable over the next 12-18 months.

On 15 April 2021, Yango announced the proposed spin-off and separated listing of Yango Intelligent Life Service Group Co., Ltd. ("Yango Intelligent"), which mainly participated in the property management business. The listing of Yango Intelligent, if succeed, could help improve the Company's funding capability. Yet, we will keep monitoring the listing process of Yango Intelligent and assess the impact of the spin-off.

Credit Challenges

Large exposure to joint-venture projects. Yango used joint-venture projects to support its contracted sales growth with a smaller amount of up-front investment. In 2020, the contracted sales attributable to Yango amounted to RMB139.6 billion, equivalent to around 64% of its total contracted sales. As of 31 December 2020, the Company reported external guarantees, mainly to the joint ventures and associates, of around RMB16.9 billion. A high reliance on joint-venture projects could suggest a lower transparency of Yango's financial statement, given the limited information disclosure of joint-venture projects and large exposure of contingent liabilities.

Weakened profitability albeit increase in revenue. The revenue of Yango surged by 34.6% YoY to RMB82.2 billion in 2020, mainly driven by an increase in properties delivered to the customers. However, Yango's profitability dropped due to the squeezed margin amid the tightened regulations in the property market. Its adjusted gross profit margin was 19.3% and net profit margin was 6.7% in 2020, lower than that of 25.7% and 7.1% in 2019, respectively. Thanks to the increase in revenue and lower financing cost, Yango's EBIT interest coverage

ratio improved slightly to 1.3x in 2020 from 1.2x in 2019, but was still relatively weak. We expect that Yango will maintain a robust revenue growth over the next 12-18 months, underpinned by its solid track record of contracted sales growth in the past few years. In our view, Yango's profitability will remain under pressure and its gross profit margin will retain at around 20%.

Modest but improving debt leverage and structure. The Company has proactively managed its debt profile since 2017, as evidenced by a stable debt burden and an improvement in leverage and debt structure. As of 31 December 2020, the Company's adjusted total debt (including perpetual debt) was RMB115.7 billion, reducing by RMB4.7 billion over the previous 12 months. Its net gearing ratio declined to 119.2% at end-2020 from 170.8% at end-2019 given a lower debt burden and increase in cash reserves. Yango also reduced its exposure to non-bank loans. As of 31 December 2020, the Company's non-bank loans accounted for about 19% of its total debt, as compared to 23% at end-2019, and its weighted average financing cost reduced by 28bp to 7.42%. Overall, we expect that the Company will adhere to its active debt profile management policy and its leverage will continue to improve over the next 12-18 months.

Rating Outlook

The stable outlook on Yango's rating reflects our expectation that the Company will continue to benefit from its strong market position, and its debt leverage will be improved by proactive debt management. We also expect that Taikang Insurance's investment will enhance Yango's funding capability and provide additional liquidity buffer.

What could upgrade the rating?

The rating could be upgraded if the Company's (1) contracted sales surges with satisfactory cash collection; (2) profitability increases such as net profit margin above 10% on a sustained basis; or (3) credit metrics improve, such as net gearing ratio below 100% and EBIT interest coverage above 1.5x, on a sustained basis.

What could downgrade the rating?

The rating could be downgraded if the Company's (1) operating scale shrinks with weakened cash collection; (2) debt leverage boosts alongside the resumption of aggressive land acquisitions; or (3) liquidity profile deteriorates and funding capability weakens.

Regulatory Methodology

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

Regulatory Disclosures

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