Yango Group Co., Ltd.

Surveillance Report

Summary	
Issuer Rating	BB
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
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Applicable Criteria
General Corporate Rating Criteria (16 July 2018)

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BB' global scale Long-term Issuer and Issuance Credit Rating of Yango Group Co., Ltd.; Issuer Rating Outlook is Stable

Summary

The Issuer Rating reflects Yango Group Co., Ltd's ("Yango" or "the company") leading market position and brand recognition in the Chinese property market which is underpinned by its sizable and diversified land bank portfolio. The rating also considers the company's improvement in both financial and operating profiles, track record of strategy execution, disciplined use of financial leverage and steady project delivery. However, Yango's rating is constrained by its lower-than-peer profitability.

The Stable Outlook reflects our expectation that Yango will maintain its business scale in the next 12 to 18 months when it converts its sizeable landbank into sales and revenues as planned, acquire new land in a measured manner, prudently reduce its financial leverage and gradually improve its operating efficiency.

Rating Rationale

Sizable and Diversified Land Bank Supports Moderate Contracted Sales Growth: Yango had a sizable and diversified land bank portfolio with a total GFA of 42.52 million square meters across dozens of cities in China at end-2020, of which almost half was located in Pearl River Delta (PRD), Yangtze River Delta (YRD) and Greater Fujian Area with present resilient property market dynamics.

Yango altered its operating strategies following its contracted sales reaching the RMB200 billion benchmark in 2019. The company shifted its focus from rapid scale expansion to seeking a balance between financial profile improvement and sustaining operation scale and profit margins. Yango's total contracted sales reached RMB218 billion (attributable amount of RMB139.6 billion) in 2020, representing a steady growth of 3.3%. Yango's contracted sales growth has slowed down compared with 30-88% achieved in 2016-2019. However, its contracted sales remain sizable and evenly distributed geographically across China. According to CRIC Information Center, Yango was ranked 18th in terms of contracted sales in 2020. Also, YRD, Greater Fujian Area and PRD contributed 35%, 17% and 8% of Yango's total contracted sales in 2020, respectively. Yango aims to achieve contracted sales of over RMB220 billion and maintain positive year-on-year growth in 2021, which indicates the company plans to sustain its moderate contracted sales growth in the next 12 to 18 months.

Yango's total land bank on hand at end-2020 was sufficient to support its contracted sales for the next 2 to 3 years. In view of Yango's diversified land bank portfolio, we expect that Yango would selectively and cautiously expand its current land bank portfolio by targeting metropolitan area around the strategic tier 1 and 2 cities located in the five regions in the next 12 to 18 months.

Operating Efficiency Provides Buffer to Liquidity: Yango applies a set of benchmarks such as net margin, internal rate of return (IRR), and cash collection rate for each project when assessing potential land acquisition offering to optimize project utility and ensure positive cash inflow of every project is within a time frame of 12 to 16 months.

The company focuses on cash management as a part of its endeavour to improve financial profile. Yango posted a cash collection rate of 80.2% for 2020, marking three consecutive years of achieving a collection rate above 80% since 2018. This not only helps complement the company's enlarging operating cash pool for project development and land acquisition, but also allows the company to control its financial leverage. Yango's cash received from sales decreased to RMB81.6 billion in 2020 from RMB83.3 billion in 2019, but the company had a net operating cash inflow of RMB21.4 billion in 2020 (2019: RMB15.4 billion).

Continuous Leverage Improvement Provides Support to Credit Profile: Yango started to decelerate its expansion pace in late 2018 to control and lower its financial leverage. The company has set a higher priority of financial leverage reduction over scale expansion. Yango has reduced the total expenditure on land acquisition and enhanced its operating process to shorten its cash collection cycle. The company spent RMB40.2 billion (on an attributable basis) on new land acquisition in 2020, down from RMB49.2 billion in 2019. The management adopts a demand-driven land acquisition strategy, whereby they will spend 35-50% of Yango's cash collected from contracted sales on land acquisitions, depending on market demand.

Yango's reported total interest-bearing debt dropped by 5.6% to RMB106.0 billion at end-2020, compared with RMB112.3 billion and RMB112.6 billion at end-2019 and end-2018, respectively. As Yango's equity base continued to grow, its financial leverage as measured by a debt/capitalization ratio decreased to 70.3% at end-2020, compared with 77.8% and 73.1% at end-2018 and end-2019, respectively. Also, Yango's net gearing ratio (net debt/total equity) dropped to 94.9% at end-2020, compared with 132% and 182% at end-2019 and end-2018, respectively. The company does not expect a material increase in total debt in 2021. We expect that Yango would replenish its land bank in a measured manner and its financial leverage would gradually decrease in the next 12 to 18 months.

Access to Broadening Array of Financing Channels: Yango's liquidity improved in 2020, as demonstrated by its cash to short-term debt ratio improving to 1.53x at end-2020, from 1.25x and 0.79x at end-2019 and end-2018, respectively. It was mainly driven by the consistent cash collection ratio of 80% from contracted sales, a decrease in reported total debt amount and consistent short-term debt to total debt ratio of 30%. It has also diversified its funding channels since 2019 with different products such as CMBS, ABN, and REITs.

In terms of funding source of its reported debt portfolio, Yango reduced its exposure to non-traditional banking products, which typically carry higher funding costs, to 20.3% of the total portfolio at end-2020, compared with 24.9% and 52.5% at end-2019 and end-2018, respectively. Currency mix also diversified with 87.5% of its debt in local currency at end-2020, compared with 91.4% at end-2019. As onshore funding tools are usually subject to regulatory approval which could take time to happen, a healthy level of offshore funding source helps ensure contingent source of liquidity in time of stress. We believe all these would provide Yango with a healthier debt profile and buffer to liquidity. We expect Yango to continue maintaining a balanced debt profile in the next 12 to 18 months.

Rating Based on Yango's Standalone Credit Profile with Unlikely Support from Fujian Yango Group: Fujian Yango Group Co., Ltd. ("Fujian Yango" or "the Group"; "BB-"/Stable) holds 33.6% shares (or 43.5% including the shares held by Fujian Kangtian Industry Group Co., Ltd. acting in concert with Fujian Yango) and is the largest shareholder of Yango. Fujian

Yango is a group company with businesses in real estate development, non-ferrous metal trading, environmental equipment manufacturing and educational services. Yango is the Group's major subsidiary and its real estate development platform.

In the cooperation agreement with Taikang Life Insurance Co., Ltd ("Taikang Life") and Taikang Pension and Insurance Co., Ltd (Taikang Pension") signed in September 2020, Fujian Yango agrees to compensate the difference to Yango if Yango fails to meet the earning growth commitment each year in 2020-2029. The compensation amount is the difference between the pre-set earning growth or net profit amount and the actual net profit achieved by the company. Other than the terms stated in this cooperation agreement, Fujian Yango's financial capability to support Yango is unlikely in view of its weak credit profile with high financial leverage and tight liquidity position. And as a listed company, Yango has a separate board of directors and senior management, and it operates independently.

Fujian Yango has been receiving dividend payments from Yango every year but both the absolute dollar and percentage are insignificant when compared to its net profit. Moreover, Fujian Yango has 4 seats (out of a total of 12 seats) on Yango's Board of Directors ("BOD") in addition to Mr. Lin Tengjiao, who is the ultimate owner of both Fujian Yango and Yango. All related party transactions must be approved by BOD.

Therefore, our rating on Yango is assigned solely based on the assessment of Yango's standalone credit profile and we have not factored in any support from Fujian Yango.

Rating Sensitivities

We would consider downgrading Yango's rating if it were to (1) aggressively replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 80% or a decrease in its EBITDA interest coverage to below 2.0x consistently, and/or (2) its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

We would consider upgrading Yango's rating if it were to (1) considerably increase its operating scale, and (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 4.0x consistently.

Company Profile

Yango is a Chinese property developer that focuses on mass residential property development in China. It was established in Fuzhou in 1995 and is now ultimately owned and controlled by Mr. Lin Tengjiao and Ms. Wujie. The company has been listed on the Shenzhen Stock Exchange (000671.SZ) since 2002.

Fujian Yango Group Co., Ltd, which is also ultimately owned and controlled by Mr. Lin Tengjiao and Ms. Wujie, collectively holds 33.6% shares of Yango through direct holdings and its wholly-owned asset management company.

Taikang Life and Taikang Pension became the second largest shareholder of Yango through acquiring 554.7 million shares of Yango from Shanghai Jiawen Investment Management Co., Ltd. ("Jiawen"). At end-2020, Taikang Life and Taikang Pension collectively held 13.4% stake of Yango.

Yango's Shareholding Structure (at end-2020)

Shareholder	Percentage
Fujian Yango Group Co., Ltd	18.58%
Dongfang Xinlong Asset Management Co., Ltd (wholly owned by Fujian Yango Group Co., Ltd)	15.00%
Taikang Life Insurance Co., Ltd and Taikang Pension and Insurance Co., Ltd	13.41%
Fujian Kangtian Industry Group Co., Ltd	9.95%
Ms. Wu Jie	0.03%
Public	43.03%
Total	**100.0%**

Source: Yango

Key Financial Assumptions

- Contracted sales amount: RMB220-254 billion for 2021-2023
- Contracted average selling price: c. 7% growth per annum for 2021-2023
- Total revenue: RMB95-122 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	47.57%	2.26x	67.21%	0.18x

Source: Yango's 2019-2020 annual reports, Lianhe Global's adjustments and forecasts

Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any rating action on Yango's rating would result in a similar rating action on its USD notes:

- USD300 million 9.25% senior unsecured notes due 2023 affirmed at 'BB'
- USD300 million 10.25% senior unsecured notes due 2022 affirmed at 'BB'
- USD382 million 7.50% senior unsecured notes due 2024 affirmed at 'BB'

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