

HONG KONG, 10 September 2019. Pengyuan International has assigned its first-time global scale long-term issuer credit rating (LTICR) of 'BBB+' to China Vanke Co., Ltd. (Vanke). The outlook is stable.

Vanke is one of the leading property developers in China. Property development contributed 95% of the Company's revenue, followed by 4% from property management and the rest from other businesses such as logistics and warehousing services in the first half of 2019. Vanke's rating reflects its superior market position in Chinese property development industry, nationwide high-quality land bank, low leverage and strong profitability. On the other hand, Vanke's rating is constrained by market cyclicity, policy uncertainties as well as a relatively high business concentration risk.

The stable outlook for Vanke reflects Pengyuan International's expectation that the Company will continue to grow its contracted sales and maintain its leading market position in China.

KEY RATING RATIONALES

Credit Strengths

Vanke has long been one of the top three players in the Chinese property development sector and we expect its leading market position to be maintained. Established over 30 years ago, Vanke was the third largest property developer in China in terms of contracted sales in 2018. Thanks to its leading market position and large scale, Vanke has better operating efficiencies and higher market recognition compared to other Chinese property players, which enabled it to outperform throughout the property cycles in China. Its contracted sales growth slowed to 10% in the first half of 2019 from 15% in 2018 and 46% in 2017, but still outpaced the Chinese property market growth. We estimate Vanke's market share in contracted sales expanded to 4.7% in the first half of 2019 from 3.1% in 2016 and expect the Company to maintain its current market share in the coming two years despite slower contracted sales growth.

We believe the Company has a nationwide quality land bank with an optimal land bank life. Vanke has a nationwide land bank across China, which is sufficient to support around three years of sales as of June 2019. The company had attributable gross floor area (GFA) 96 million square meters (sqm) of land bank across 29 provinces or autonomous regions, by our estimates. As of the end of 2018, 16% of its land bank was located in Guangdong province, followed by 11% in Jiangsu province and 7% in Zhejiang province. We estimate that tier-1 and 2 cities accounted for 73% of its attributable land bank. The high-quality land bank supports Vanke's project pipeline. We expect Vanke to maintain an optimal land bank life of around three years in 2019 and 2020.

We assess Vanke's leverage to be manageable based on its strong cash collection and conservative land acquisition strategy. We estimate Vanke had a high cash collection ratio of 90% in the first half of 2019, which is expected to be maintained in the next two years. In addition, Vanke's land premium has dropped with the attributable land acquisition cost decreasing by 2% year-on-year to RMB70 billion in the first half of 2019. As a result, its attributable land premium to contracted sales ratio decreased to 29% in the first half of 2019 from 33% in the first half of 2018, reflecting a more conservative strategy. Thanks to its lower land acquisition, we expect Vanke's gross debt to total capitalization ratio to be maintained around 54% in 2019 and net debt to adjusted inventory to slightly improve to 27% in 2019 from 31% in 2018.

Strong profitability with stable cash flow driven by strong contracted sales and

execution. Vanke has stronger profitability and more stable cash flow than its peers. In 2018, the Company achieved EBITDA margin of 26%, compared to the sector's average of 20%, and its ROIC reached 22%, much higher than the sector's average of 4%. We expect Vanke's strong profitability and stable cash flow to sustain, driven by the its large unrecognized contracted sales and outstanding execution capability.

Credit Weaknesses

Market cyclicalities and policy risks might influence the Company's profitability and financing negatively. We anticipate the Chinese government will continue its tight control on property and crack down on unregulated financing. As one of the largest property developers in China, Vanke is exposed to market cyclicalities and policy or regulatory risks. Policy uncertainties related to property regulations among different cities remain the key concern for Vanke.

We estimate Vanke's business concentration risk is relatively high. Being one of the property leaders in China, 95% of Vanke's revenue came from property development in the first half of 2019, while other businesses, such as property services and rental housing, also have relatively high correlation to the property development market. Although Vanke has started diversifying its business beyond residential property, we believe the transition would take time and property development will remain the company's core business in the next three years.

RATING OUTLOOK

We would consider downgrading Vanke's issuer credit rating if its credit profile deteriorates substantially, which could be caused by 1) a substantial increase in leverage for a prolonged period; 2) a material decline in EBITDA margin with little prospects of recovery; 3) a marked deterioration of operating profile.

We would consider upgrading the Company's issuer credit rating if its credit profile improves substantially, which could be caused by 1) substantial decrease in leverage on a sustained basis; 2) substantial improvement of operating profile.

Note: ratings mentioned above are unsolicited.

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Date of Relevant Rating Committee: 30 August 2019

Additional information is available on www.pyrating.com

Related Criteria

[General Corporate Rating Criteria \(15 March 2019\)](#)

[Industry Credit Guidelines Chinese Homebuilders and Property Developers \(31 August 2019\)](#)

[Corporate Financial Adjustments and Ratio Definitions \(7 May 2019\)](#)

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