

Research Update

# Sinyi Realty Inc. Ratings Affirmed At 'twA/twA-1'; Outlook Negative

March 20, 2020

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Sinyi Realty Inc.** The outlook on the long-term rating is negative. The ratings on Sinyi reflect the company's good brand name, leading share of the brokerage market for existing homes in Taiwan, and strong operating efficiency. These strengths are partly offset by its high-risk residential property development business, and the resulting high volatility in the company's profitability and cash flow.

## Outlook

The negative outlook reflects significant downside risk that Sinyi will face a shortfall in cash flow generation that can be used to lower debt, against our baseline assumption that Sinyi's ratio of debt to EBITDA will improve to close 2x in 2021 through gradual debt reduction.

In our base case, we expect Sinyi to lower its debt through proceeds from the presale of its Wuxi residential project in 2020-2021, based on our view that house-buying activity in China will recover gradually as the COVID-19 outbreak is brought under control, and that the company will take a very conservative approach toward future land acquisition. However, further worsening of the pandemic could erode economic growth and consumer purchasing power and confidence in Taiwan and China, leading to a slide in home-purchasing demand and intense competition. This could result in a substantial weaker brokerage performance and lower cash inflow from the presale of new projects over the next few quarters than our base case suggests.

## Downward scenario

We may lower the rating if we believe the ratio of debt to EBITDA is unlikely to improve to materially below 2.5x over the next one to two years. An aggressive growth strategy in property development indicated by an accelerated pace of land acquisition could lead to such weakening. We may also lower the rating if the EBITDA contribution from Sinyi's property development business increases to over 30% of the company's consolidated EBITDA on a weighted average basis through the development cycle, which indicates a material increase in Sinyi's business risk. Finally, we may lower our rating on Sinyi if the company's EBITDA margin drops consistently below 15%, possibly due to a material drop in house prices in China, or a

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severe downturn in Taiwan's housing market, possibly due to a prolonged coronavirus outbreak.

### Upward scenario

We may revise the outlook to stable if we see a clear downward trend in Sinyi's debt level, such that the company's ratio of debt to EBITDA approaches 2x. A deceleration in land acquisition and a more prudent approach to property development business such as a capital-light model could lead to such improvement. A higher margin on Sinyi's property development projects in China than we previously expected with high sell-through rates could also bring such improvement, possibly driven by a recovery in China's housing market.

## Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry - February 03, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Business And Consumer Services Industry - November 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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## Ratings List

### Ratings Affirmed

#### Sinyi Realty Inc.

Issuer	Credit Rating
Sinyi Realty Inc.	twA/Negative/twA-1

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