Media Release:

Sinyi Realty Inc. Outlook Revised To Stable From Negative On Continued Deleveraging; 'twA/twA-1' Ratings Affirmed

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Overview

- Sinyi operates the largest network of existing home brokerage in Taiwan and is also involved in real estate development, sales agent services for property developers, and existing commercial property brokerage.
- We expect Sinyi to further deleverage through cash flow generated from Taiwan's brokerage business and sales from its property development projects in Taiwan and China over the next two years.
- We believe the company will be prudent on its development business by confining the scale of investment to cash inflows from property sales over the next two years to prevent a further debt hike.
- On March 25, 2021, we revised our outlook on the long-term issuer credit rating on Sinyi Realty Inc. to stable from negative. At the same time, we affirmed our 'twA/twA-1' issuer credit ratings on the company.

Rating Action Rationale

Rising cash inflow from property development to help Sinyi deleverage. We forecast net cash inflow from **Sinyi Realty Inc.'s** property development business to increase as two of its development projects enter the latter stage of their development cycle. Construction of Shanshui Jiating, Sinyi's high-end residential property development project in Wuxi of Jiangsu Province, is likely to be completed in the first half of 2021. This along with a more effective marketing strategy could speed up its sales progress over the next two years. We forecast the project's sell-through rate could reach 60% by the end of 2022.

Meanwhile, Jiahe, Sinyi's residential property development project in Banqiao of New Taipei City, has achieved a sell-through rate of 87% as of February 2021. The project could contribute significant cash inflow once settlement process commences, likely in mid-2022. We project these two projects to contribute new Taiwan dollar (NT$) 2.5 billion-NT$3.0 billion and NT$4.1 billion-NT$5.1 billion of cash inflow in 2021 and 2022, respectively.

A relatively strong brokerage market supports Sinyi's capacity to deleverage. We believe excessive liquidity and strong domestic demand for primary residences support a relatively high transaction volume for residential properties over the next one to two years. We also believe the market tightening policies recently introduced by the Taiwan government will mainly deter speculation in the housing market. We expect transaction volume for Sinyi's brokerage service to remain relatively high, albeit lower than the level in 2020, because of still-strong demand for self-use properties.

Meanwhile, the government's loose monetary policy could continue to motivate potential home buyers to take advantage of the unprecedented low borrowing cost. Accordingly, we believe Sinyi could continue to generate robust operating cash flow from its brokerage business, which adds to the company's capacity to deleverage. However, more severe tightening measures by the Taiwan government than under our current expectation could bring downside risk to our base case and narrow the company's rating buffer.

Prudency on future land acquisitions could sustain Sinyi's ratio of debt to EBITDA below 2.5x. We expect Sinyi to take a prudent approach in growing its property development business without aggressive land acquisitions. We believe the company will confine its spending to land acquisitions and construction largely within the expected cash inflows from sales of existing projects. We also expect the company to even out cash outflows related to the property development business without concentrating the investments in a single year.

The high risks associated with China's property development market, stemming from intense competition from larger developers, high land costs, government-imposed caps on selling prices, and significant policy interventions, are likely to prevent Sinyi from acquiring large pieces of land in China over the next one to two years. The scarce land resource in Sinyi's focused area in Taiwan, particularly in Taipei City, could also slow the pace on future land acquisition. These factors support our view that Sinyi can sustain its improved ratio of debt to EBITDA at below 2.5x over the next two years under our base case.

Outlook

The stable outlook reflects our view that Sinyi could maintain its improved ratio of debt to EBITDA at below 2.5x over the next two years, underpinned by relatively strong revenue contributed by its residential estate brokerage business and increasing cash inflow from its property development projects. In our view, Sinyi's brokerage business in Taiwan could remain relatively strong on the back of the ultra-low interest rates and people's strong home buying demand for primary residences. The stable outlook also reflects our view that the company will control the pace of its land acquisitions to prevent a further debt hike.

Downward scenario

We may lower the rating on Sinyi if:

- The company's the ratio of debt to EBITDA remains above 2.5x on a sustainable basis. An aggressive growth strategy in property development indicated by continuous large net working capital outflow related to land acquisitions and property construction could lead to such weakening,
- The company's EBITDA margin drops consistently below 15%. Heavy losses on property development projects or a severe downturn in Taiwan's housing market, possibly due to a more stringent policy environment and interest rate hike, could lead to such deterioration, or

- 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.

Upward scenario

The probability for an upgrade is remote over the next one to two years. However, we may raise the rating if Sinyi:

- The company continues to grow its brand equity, business scale and market leadership in the pre-owned house brokerage business, resulting in material and sustainable growth in its profitability. Meanwhile, the company would also have to limit its exposure to the riskier property development business and maintain a conservative financial policy in order to sustain the ratio of debt to EBITDA below 1.5x on a consistent basis.

Our Base Case Scenario

We expect Sinyi's revenue to register 9%-13% growth in 2021 and 2022 for revenue recognition from its property development projects. However, EBITDA is likely to decline in 2021 and 2022 due to the Wuxi project's lower profit margin and a lower contribution from its brokerage business. Our assumptions are:

- Taiwan's real GDP will grow 4.2% in 2021 and 2.7% in 2022. The reshoring effect and relatively strong GDP growth could support real home buying demand in Taiwan.
- Transaction volume in Taiwan's residential property market to decline moderately over the next two years, primarily due to the government measures targeted to cool down speculation. These measures could substantially reduce speculative transactions and subsequently ease upward pressure on housing price.
- We forecast China's residential sales will be roughly flat in 2021. We anticipate average selling prices will drop by up to 5%, but this will be largely offset by growth in gross floor area.
- Sinyi's number of transactions to decline by 4%-6% in 2021 and 3%-5% in 2022, reflecting a reduction in transactions related to speculation.
- Commission rate to remain stable over the next two years, given the company's solid market position.
- Property development revenue recognition of NT$2.6 billion-NT$3.6 billion in 2021 and NT$ 4.2 billion-NT$5.2 in 2022. We expect Sinyi to start recognizing revenue from the Shanshui Jiating project in 2021 and the Jiahe project in 2022.
- The company's gross profit margin to decline to 27%-30% in 2021 and 2022 from 35% in 2020. The margin decline primarily reflects the expected significant contribution from Shanshui Jiating that carries a lower margin.
- Working capital outflow of NT$1.5 billion-NT$2.5 billion in 2021 and NT$2.1 billion-NT$3.1 billion. This includes NT$0.8 billion-NT$1.2 billion and NT$1.8 billion and NT$2.2 billion of land acquisition in 2021 and 2022, respectively.
- Working capital inflow from sales of property development projects at NT$2.5 billion-NT$3.5 billion in 2021 and NT$4.1 billion-NT$5.1 billion 2022.
- Capital expenditure (capex) of NT$100 million-NT$150 million annually in 2021 and 2022.
- Cash dividend payout of about 80% of net income in 2021 and 70% in 2022.

Based on these assumptions, we arrive at the following credit measures:

– EBITDA margin of 16%-18% in 2021 and 2022.
– Ratio of debt to EBITDA of 2.2x-2.6x in 2021 and 1.6x-2.0x in 2022.
– Ratio of discretionary cash flow to debt of 12%-22% in 2021 and 41%-51% in 2022.

Liquidity

The short-term rating on Sinyi is 'twA-1'. We believe Sinyi has exceptional liquidity to meet its needs over the next 24 months up to the end of 2022. The ratio of liquidity sources to liquidity uses will be 4.2x-4.6x in 2021 and 4.8x-5.2x in 2022. Sinyi's liquidity sources will still exceed liquidity uses even with EBITDA dropping 50%. We believe Sinyi can absorb low probability high impact event without refinancing, underpinned by its high cash balance and limited short-term debt. We also believe that Sinyi has good banking relationships, indicated by low interest rates on its debts. None of Sinyi's debt carry any financial covenants.

Principal liquidity sources

- Cash and short-term investments: NT$7.2 billion as of the end of 2020.
- Funds from operations: NT$1.8billion-NT$2.1 billion annually in 2021 and 2022.
- Net working capital inflow mainly from property projects: NT$0.4 billion-NT$0.8 billion in 2021 and NT$1.1 billion-NT$1.5 billion in 2022.

Principal liquidity uses

- Debt repayment of NT$0.7 billion-NT$1.8 billion in 2021 and NT$0.8 billion-NT$1.2 billion in 2022.
- Capex (including capitalized interest): NT$200 million-NT$250 million annually in 2021 and 2022.
- Cash dividend: NT$1.25 billion in 2021 and NT$0.8 billion-NT$1 billion in 2022.

Ratings Score Snapshot

Issuer Credit Rating: twA/Stable/twA-1
Note: The descriptors below are on a global scale.

Business Risk: Fair

- Country risk: Intermediate risk
- Industry risk: Intermediate risk
- Competitive position: Fair

Financial Risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: twa-
Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch)
- Financial policy: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twa

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- 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
- 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: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Action

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.