



Moody's: Chinese property developers' strong offshore bond issuance will continue amid high refinancing needs

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Hong Kong, May 02, 2018 -- Moody's Investors Service says that offshore bond issuance by Chinese property developers will stay strong for the rest of the year, given high refinancing needs.

"Moody's-rated developers will have around USD17.2 billion of offshore bonds and USD43.1 billion of onshore bonds maturing or puttable over the next 12 months, driving high levels of refinancing needs for the rest of 2018," says Franco Leung, a Moody's Senior Vice President.

"The strong offshore issuance so far has also been driven in part by the tighter onshore credit environment; in this situation, developers have turned offshore to fund their growth and refinance some of their onshore debt," adds Celine Yang, a Moody's Assistant Vice President.

Moody's conclusions are contained in its latest monthly report, "China Property Focus: Sales growth is slowing amid tight onshore credit".

The developers rated by Moody's issued \$25.1 billion of offshore bonds from January through April, which was more than double the \$10.5 billion issued during the same period in 2017, according to Bloomberg.

Moody's expects that contracted sales growth for rated developers for all of 2018 will slow from the high level of growth seen in 2017, due to the tightening in mortgage financing.

The report notes that year-on-year national contracted sales growth -- on a sales value basis -- fell to 11.4% for Q1 2018 from 20.2% for Q1 2017 because of lower sales volumes, as measured by gross floor area. At the same time, property prices in March were largely flat versus February in Tier 1 cities and up slightly in Tier 2 and lower-tier cities.

Inventory levels have risen slightly but remain lower than the peaks seen in March 2015. In terms of specifics, inventory levels in Tier 1 cities rose in March from February and were largely flat in Moody's sample Tier 2 and lower-tier cities. The levels will remain low enough to support stable property prices.

Land prices have declined alongside lower land sales in high-tier cities. The average land price per square meter fell in March, as did the ratio for land price to average selling price. The declines reflected the developers' increased purchases of land in lower-tier cities.

Meanwhile, Moody's took five positive rating actions between 29 March and 30 April, reflecting its expectations that leverage and liquidity for the upgraded developers will improve, while their operating performance will remain strong.

The report may also be found through Moody's topic page "China's trade-off: Deleveraging and stability", available at <http://www.moodys.com/chinarebalancing>. This page provides a centralized source for Moody's research related to key credit issues in China as the country's macroeconomic story continues to unfold.

Recent Moody's publications relating to China's trade-off include:

- o Banks -- China: Asset quality and margin improvement will support profitability in 2018
- o Telecom Equipment: US bans Chinese telecom equipment maker ZTE from buying US components, a credit positive for its rivals
- o Banks: China cuts banks' required reserve ratio, a credit positive

- o Property -- China : Scale and financial strength are key to navigating tougher business conditions
- o Property -- China: Projected 2018 financials suggest rated developers' credit quality will diverge more
- o Securities Companies -- China: Operating risk remains high in stock pledged lending business, despite more regulations
- o Structured finance -- China: Securitization is growing as a funding source for the economy
- o Trade -- China: Tech most exposed to US tariffs; supply chains to amplify effect on other sectors
- o Automotive -- China: Lower import tariffs and foreign ownership relaxation to have mixed impact
- o Trade -- US and China: Rising uncertainty will magnify credit effects of weaker trade relations

Subscribers can read the full report at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1122047

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