

Green Transaction Evaluation

Zhenro Properties Group Ltd.’s US\$620 Million Green Bonds And RMB130 Million Green Loan

April 1, 2022

Zhenro Properties Group Ltd. (Zhenro) is a property developer in China, with revenues of US\$5.8 billion in the 12 months to June 30, 2021. The company was founded in 1998, listed in Hong Kong, and is headquartered in Shanghai. It primarily engages in the development of residential, commercial, and mixed-used properties. Zhenro also provides property management services to its developed commercial properties.

On Jan. 8, 2021, Zhenro issued US\$400 million in senior notes with a coupon rate of 6.63%, maturing on Jan. 7, 2026. On April 16, 2021, the company issued another US\$220 million in senior notes with a coupon rate of 5.98%, maturing on April 13, 2022. Zhenro used the net proceeds from these issuances exclusively to fund eligible green projects, in accordance with the Green Bond Framework (GBF) published in August 2020.

Zhenro used the net proceeds raised from these two green bonds to refinance existing green building projects in Shanghai, Tianjin, Nanjing, Suzhou, Xi’an, and Changsha. All projects are expected to receive a minimum certification of two stars under China Green Building Evaluation Label (GBEL) standard upon completion.

In addition, Zhenro issued a Chinese renminbi (RMB) 130 million loan on June 25, 2021, with an interest rate of 4.19%, maturing on May 24, 2022. Although the company labelled this transaction as a green loan, the loan document is a general loan agreement with proceeds dedicated for debt repayment and general corporate purposes only.

In this transaction evaluation, we assess these three transactions (two green bonds and one loan) together under a single evaluation because the issuer allocated all proceeds from these transactions solely to similar green assets, namely new construction green buildings.

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Environmental benefit score



Governance and reporting opinion



Transaction Evaluation



A higher score indicates greater environmental benefit

Project Description

Zhenro used the net proceeds from the two green bond issuances and the loan to refinance seven existing building development projects in Shanghai, Tianjin, Nanjing, Suzhou, Xi'an, and Changsha in China. The details of the seven green building projects are as follows:

- Shanghai Jinshan Yushou Mansion (North) Project 5#, a commercial building development in Shanghai, with total green building areas of 26,000 square meters and a green building certification of two stars under GBEL standard.
- Shanghai Hongqiao Zhenro Mansion Commercial Building (A-3A-1 Parcel 1&2# Building), a commercial building development in Shanghai with a green building certification of two stars under GBEL standard.
- Tianjin Jinmen Zhenro Mansion (Nanzhan Keji Shangwu District Parcel 1-4), a residential building development in Tianjin with a green building certification of two stars under GBEL standard.
- Nanjing Zhenro Binjiang Pinnacle and Zhenro Center, a mixed-used development in Nanjing with a green building certification of two stars under GBEL standard.
- Xi'an Pinnacle (Eastern District and School), a mixed-used development in Xi'an, with total green building areas of 20,514 square meters and an expected green building certification of two stars under GBEL standard.
- Changsha Meixi Pinnacle, a mixed-used development in Changsha, with total green building areas of 214,400 square meters and a green building certification of two stars under GBEL standard.
- Suzhou Changshu Ziyu Huating, a residential development in Suzhou with a green building certification of two stars under GBEL standard.

At this stage, S&P Global Ratings is unable to provide an opinion on the resilience of the projects/assets to extreme weather and climate change as part of this Green Transaction Evaluation.

Summary of environmental benefit score

Location	Environmental sector	Environmental project type	KPI(s)	Benefit ranking	Hierarchy score and tier	Benefit score	Use of proceeds (mil. USD)
China	Green Buildings	New Build: Residential	Carbon Intensity Water use	86	Score: 90 Tier: 3	89	521
China	Green Buildings	New Build: Commercial	Carbon Intensity Water use	99	Score: 90 Tier: 3	93	120
Weighted average benefit score and total use of proceeds						90	641

Note: To disaggregate the score breakdown, please refer to "Analytical Approach: Sustainable Financing Opinions," published Aug. 25, 2021.

Transaction Evaluation Summary

Environmental benefit

Score **90/100**

The excellent environmental benefit score reflects the high environmental benefits brought by the financed green building projects in China. Specifically, this score reflects the green buildings' contribution to the systemic decarbonization of the economy, particularly given the high carbon intensity of buildings in China relative to other countries.

Use of proceeds

Commitments score **Limited** Satisfactory Strong Advanced

Zhenro does not commit to utilize the net proceeds of the green finance exclusively to finance eligible green assets (green buildings) in its green loan terms and conditions, in contrast to a clear commitment in the two bonds' offering circulars.

Process for project evaluation and selection

Commitments score **Limited** Satisfactory Strong Advanced

The green bonds' offering circulars clearly communicate the process that Zhenro's Green Bond Committee relies on for project selection and evaluation. However, Zhenro does not outline the process for identifying and managing potential environmental and social risks associated with these financed green projects.

The loan documentation does not mention a specific process governing the evaluation and selection of eligible projects.

Management of proceeds

For green bonds, Zhenro committed to deposit the issuances' net proceeds into a general account. The company maintains a green bond register to monitor the use of proceeds. Pending allocation, Zhenro manages the unallocated proceeds as per its liquidity guidelines.

However, Zhenro does not specify how the company would track proceeds raised from its green loan transaction.

Reporting

Disclosure score **Limited** Satisfactory Strong Advanced

Zhenro does not commit to annually disclose the allocation of proceeds and the associated environmental impact indicators on its corporate website for its green loan, as opposed to the green bonds.

Transaction Evaluation Assessment

Environmental benefit

The environmental benefit score provides a relative ranking of the environmental benefits of projects financed by a given financial transaction. The score is a weighted average of the project's benefit ranking based on project type and location, and the project's placement within our environmental contribution hierarchy.

Score 90/100

The excellent environmental benefit score of 90 reflects Zhenro's allocation of the bonds' net proceeds to new green buildings in China. In 2019, the United Nations (U.N.) Environment Program reported that building and construction account for close to 40% of global carbon emissions, with three quarters from operational emissions and the balance from materials and construction processes. We view the financing of new green buildings as contributing to significant decarbonization and consistent with a green economy. As such, they rank highly in our environmental contribution hierarchy. In addition, the projects' environment benefit score reflects the high impact from avoided carbon emissions, given the extremely high carbon intensity of China's building sector. In 2020, coal accounted for 64% of electricity generation in China, as per the Energy International Agency (EIA).

The seven projects are new developments and are designed to achieve high energy efficiency. Given high carbon intensity of local electricity generation, energy saving solutions can contribute to significantly reduce carbon emissions and offer long-term environmental benefits, compared to nongreen buildings. Additional examples of technologies Zhenro uses to reduce its construction's energy intensity include LED lighting systems and green insulation.

Use of proceeds

Our commitment opinion focuses on the commitments and clarity on how the proceeds are used. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

Commitments score

Limited

Satisfactory

Strong

Advanced

We consider Zhenro's overall use-of-proceeds commitments to be limited compared with the standard market practice for sustainable debt because the issuer does not commit to allocate proceeds from its green loan transaction exclusively to eligible green assets. In addition, the green loan agreement does not disclose information on the types and environmental objectives for the financed green projects.

For the two green bonds, Zhenro has allocated and invested all issuances' net proceeds entirely to refinance green building projects meeting eligibility criteria specified under its GBF, which the bonds offering circulars reference. The issuer views green buildings, including new construction, acquisition, and renovation of existing buildings (with a minimum of 30% energy saving target) as supporting its commitment to transit to a low-carbon climate resilient growth with a lower environmental impact.

The net proceeds allocation was consistent with the company's maximum lookback period of 36 months for refinanced projects.

Process for project evaluation and selection

Our commitment opinion focuses on the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

Commitments score

Limited

Satisfactory

Strong

Advanced

Green Transaction Evaluation

We consider Zhenro's overall process for project evaluation and its selection commitments to be limited compared with the standard market practice for sustainable debt.

The issuer does not communicate the internal process to identify and assess potential environmental and social risks associated with the eligible green projects. In addition, Zhenro's green loan transaction document does not communicate its internal process to ensure selected projects meet project eligibility criteria.

Zhenro's GBF and the bond's offering circulars describe the process to select and evaluate eligible projects. The issuer has formed a Green Bond Committee, with representatives from treasury, controlling, legal, engineering, design, operations, investor relations, and relevant business units. The committee is responsible for ensuring the alignment of selected projects with eligible criteria specified under the company's GBF. The seven projects' characteristics meet Zhenro's undertaking to select eligible green assets, including green buildings with a design consistency with obtaining a minimum certification level of two stars under GBEL or equivalent upon project completion.

The committee approves the inclusion of pre-selected eligible green projects for financing. It also monitors Zhenro's green project portfolio on an annual basis to ensure all financed projects comply with the eligibility criteria. The committee is responsible for replacing projects that no longer comply with eligible criteria. Zhenro also commits to engage an independent auditor or accredited verifier to review the alignment of eligible projects with the eligibility criteria stated under its GBF.

Management of proceeds

Our opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

The issuer did not commit to track net proceeds raised under its green loan transaction, nor disclose details on management of unallocated proceeds of the loan.

For green bond issuances, Zhenro commits to maintain a "Virtual Green Bond Register" to track the use of proceeds from all green instrument issuances, with the amount of proceeds allocated to each eligible green project and the unallocated proceeds. The company deposits the funds in its general account. Zhenro commits to periodically adjusting the balance of the net proceeds to match the allocation to eligible projects during the life of the debt instrument. Zhenro manages unallocated proceeds as per its liquidity guidelines, for instance, in cash or cash equivalents, or in other short-term liquid marketable instruments.

Reporting

Our opinion focuses on how clearly the financing documentation describes the issuer's level of disclosure and reporting practices. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

Disclosure score

Limited

Satisfactory

Strong

Advanced

We consider Zhenro's reporting practices to be limited compared with the standard market practice for sustainable debt. The company does not commit to report on allocation and impact reporting annually for its green loan.

For green bond issuances, Zhenro commits to reporting on proceeds' allocation and invested projects' impact annually on its corporate website, at least until full allocation of proceeds. The allocation report contains information on the amount allocated to eligible projects and the balance of unallocated net proceeds. The impact reporting discloses the environmental impact of the financed projects via a set of advanced environmental indicators including targeted energy savings, and energy performance in the case of green buildings. The issuer does not intend to seek assurance from external auditors on allocation or impact reporting and does not disclose the impact indicators' underlying methodology and assumptions.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), set up by the U.N. in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed under to map it to the relevant SDGs.

Zhenro's transactions' allocation intends to contribute to the following SDGs:

Use of proceeds	SDGs
Green Buildings	
	11. Sustainable cities and communities*



*The eligible project categories link to these SDGs in the ICMA mapping.

Carbon Contribution Hierarchy

	Project
Tier 2: Systematic decarbonization	Green energy: Wind power Green energy: Solar power Green energy: Small hydro Green energy: Large hydro (excluding tropical areas) Energy efficiency: Energy management and control
Tier 3: Significant decarbonization of key sectors through low-carbon solutions	Green transport without fossil fuel combustion Green buildings – new build
Tier 4: Decarbonization by alleviating emissions in intensive industries	Energy efficient projects (industrial efficiencies and energy star products) Green transport with fossil fuel combustion Green buildings refurbishment
Tier 8: Decarbonization technologies with significant environmental hazards	Nuclear power Green energy: Large hydro in tropical areas
Tier 9: Improvement of fossil fuel-based activities' environmental efficiency and impact	Fossil fuel power plants: Coal to natural gas Fossil fuel power plants: Cleaner fuel production Fossil fuel power plants: Cleaner use of coal

Green Transaction Evaluation

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