

Green Evaluation

Zhenro Properties' US\$550 Million Green Bonds

Transaction Overview

On Sept. 11, 2020, Zhenro Properties Group Ltd. issued US\$350 million in senior notes with a coupon of 7.35%, maturing on Feb. 5, 2025. The company followed that with another issuance of US\$200 million in senior notes with a coupon of 5.95% on Nov. 20, 2020, maturing on Nov. 18, 2021. These are Zhenro's first and second green bond issuances since the company entered the offshore bond market in 2018.

Zhenro intends to use the proceeds from the issuances to refinance existing debt from eligible green projects, in accordance with its Green Bond Framework (GBF). In particular, the company plans to use the proceeds to refinance its debt from five green building projects in China's Nanjing, Xi'an, Changsha, and Suzhou cities. These projects comprise both residential and commercial developments with a minimum certification of two stars under China Green Building Evaluation Label (GBEL) standard.

In our opinion, this transaction is aligned with the Green Bond Principles 2018 (GBP).

Entity: Zhenro Properties Group Ltd.
Subsector: Real Estate
Location (HQ): Shanghai, People's Republic of China
Financing value: US\$550 million
Amount evaluated: 100%
Evaluation date: April 1, 2021
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Green Evaluation Overview

Transaction's transparency

- Use of proceeds reporting
- Reporting comprehensiveness

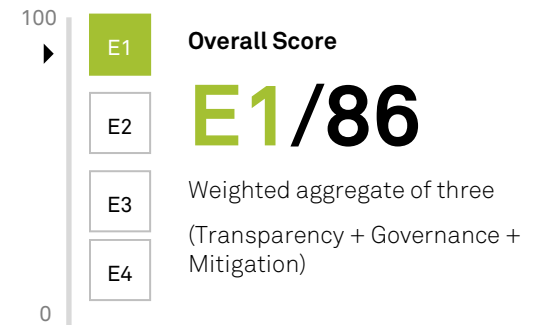
Transaction's governance

- Management of proceeds
- Impact assessment structure

Mitigation

Sector	→ Net benefit ranking	→ Hierarchy adjustments	
Green Building	Commercial: new build Residential: new build	Carbon	78
			81
			90

Adaptation NA



Project description

Zhenro has issued US\$550 million in bonds to refinance debt related to five eligible green building projects in China. The company plans to use 91% of proceeds to refinance three existing mixed commercial and residential development projects in Nanjing, Xi'an, and Changsha. The remaining funds will be used to refinance residential projects in Changsha and Suzhou.

The use of proceeds aligns with the company's GBF, which stipulates eligible green building projects should have received--or be expected to receive--one of the specific green building labels listed in the framework. Four of the five financed projects achieved a certification level of two stars under the China Green Evaluation Label, and the commercial property project in Nanjing attained the highest certification level of three stars.

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

Scoring summary

This transaction achieved an overall score of 86 out of 100, equivalent to an E1 on our scale for Green Evaluation of E1 (highest) to E4 (lowest).

We score the transaction based on a weighted average of the projects' Transparency (78), Governance (81) and Mitigation (90) scores. The excellent Mitigation score factors the meaningful environmental benefits from Zhenro's green building projects, which help offset the relatively higher carbon intensity of the building sector in China. The Transparency and Governance scores are strong, given the company's commitment to track and publicly disclose allocation, and its formal process to monitor and manage the green project portfolio.

In our opinion, this transaction aligns with the Green Bond Principles 2018 (GBP).

Rationale

The excellent Mitigation score (90) reflects the high environmental benefits brought by the financed green building projects. We rank the green buildings in the second tier of our carbon hierarchy because of their substantial contribution to the systematic decarbonization of the economy. In addition, the projects' net environmental benefit ranking reflects the high impact from avoided carbon emissions, due to the extremely high carbon intensity of China's power grid and hence building sector.

The strong Transparency score (78) mirrors Zhenro's commitment to publicly disclose the management of proceeds and the environmental

impacts of financed projects through a set of advanced indicators on an annual basis until full proceeds are allocated.

The very strong Governance score (81) reflects the structure of the transaction, with an internal Green Bond Register to earmark and track allocation of funds to eligible projects only. Zhenro has also formed a Green Bond Committee with representatives from internal business units to review and monitor eligible green projects on an annual basis.

Key strengths and weaknesses

The excellent Mitigation score reflects the fact that the proceeds will be entirely used to refinance new green buildings in China. Those projects are under construction and are designed to achieve high energy efficiency. In our view, the building sector in the country has an extremely high carbon intensity, largely reflecting that of the power grid mix, which coal dominates. As a result, any energy saving solution contributes to significantly reduced carbon emissions and long-term environmental benefits compared to nongreen buildings. These solutions include LED lighting systems, efficient water heating systems, and green insulation. We rank transaction benefits from the new green building developments as high, in the second tier of the carbon hierarchy, since the technologies employed comply with a low-carbon economy.

Zhenro is committed to measuring and reporting the environmental benefits of the financed projects publicly on its website. This supports our strong assessment on its Transparency. The impact reporting aims to disclose several advanced environmental indicators including avoided carbon emissions, targeted energy savings, and energy performance for the green buildings at the project.

The issuer also intends to make a public disclosure on the use of proceeds, including the amount allocated to eligible projects and the balance of unallocated net proceeds. This information will be provided annually until all the net proceeds have been fully allocated. However, the Transparency score is limited by a lack of disclosure on temporary investments of unallocated proceeds before they are allocated to eligible projects. There is also no disclosure on the methodology used in impact evaluation.

Zhenro's GBF and bonds' Offering Circular describe procedures to oversee eligible projects and the allocation of proceeds. This contributes to the very strong Governance score. The issuer has established a Green Bond Committee, which is responsible for evaluating the alignment of selected projects with eligible criteria, as well as the allocation of proceeds to those projects. The committee also monitors Zhenro's green project portfolio on an ongoing basis to ensure all financed projects comply with the eligibility criteria

throughout the project life cycle. Projects that no longer comply with eligible criteria or are divested are replaced.

According to green building selection standards in Zhenro's GBF, eligible assets must meet a minimum certification level of two stars under GBEL or equivalent. GBEL is a green building certificate program administered by the Ministry of Housing and Urban-Rural Development of the People's Republic of China (MOHURD) to grade eligible green projects into one (lowest) to three (highest) stars. All five projects selected under the US\$550 million transaction have obtained a minimum two-star certification under GBEL, which supports the very strong governance score.

Zhenro commits to engage accredited verifiers to review if green bond allocations are aligned with its GBF criteria. On Jan. 27, 2021, the company obtained a post-issuance certificate issued by Hong Kong Quality Assurance Associate on its US\$350 million green bond. The certificate provides an independent verification of the alignment of financed projects with eligibility criteria for green projects, and implementation of sustainable development goals and related governance mechanisms at the post-issuance stage.

However, there is no legal segregation, or separate account to track net proceeds. We view this as a weakness in the framework.

Second opinion on Green Bond Principle alignment

Based on our Transparency score of 78 and Governance score of 81, and the fact that 100% of proceeds have or will be allocated to green projects, we expect these bonds to meet the basics of the four pillars of the voluntary GBP. That is because the issuer has committed to:

- Allocating the full amount of the net proceeds of bonds to eligible green projects as defined by the issuer;
- Using clear green criteria (as defined by the issuer) to select projects for funding;
- Managing and tracking proceeds (potentially using subaccounts); and
- Committing to regular reporting of environmental impact and use of proceeds.

A Green Evaluation is a point in time assessment and is not monitored.

Sector-Level Scores

Sector	Location	Technology	Use of proceeds (mil. US\$)	Use of proceeds treatment	Net benefit ranking
Green Building	China	New Build: Residential	364	Estimated	86
Green Building	China	New Build: Commercial	186	Estimated	99
			550		

Carbon

Green Evaluation Process

78
Transparency

81
Governance

90
Mitigation

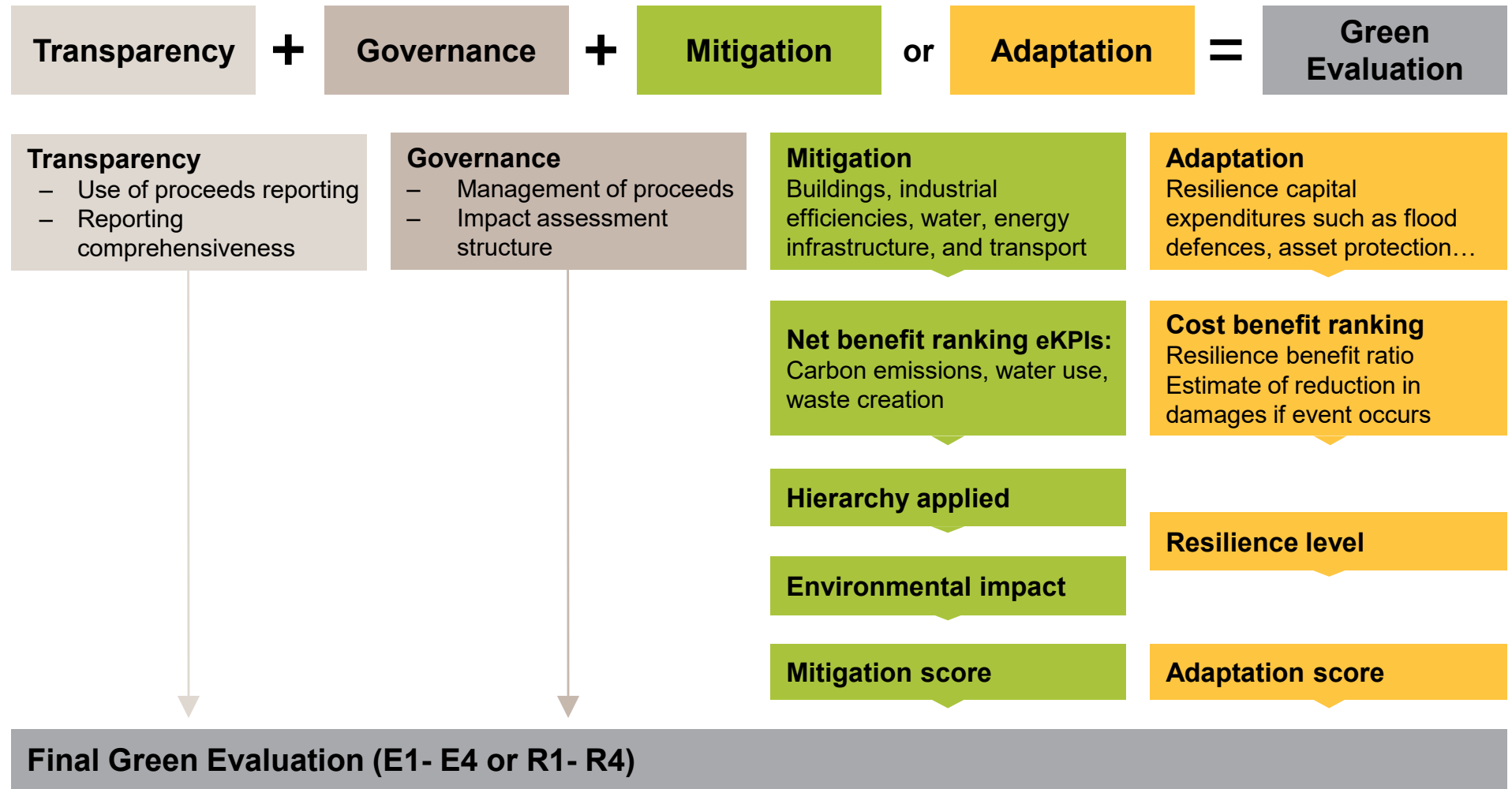
Weighted aggregate of three:
(Transparency + Governance + Mitigation)

E1/86
Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	→ Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. US\$)
	<p>Extremely high</p> <p>China</p>				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings – new build		91			
Unspecified					
Energy-efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Fossil fuel-based cogeneration					
Unspecified					
			Systemic decarbonization		
			Significant decarbonization in sectors already aligned with a green economy	90	550
			Alleviating emissions of existing carbon-intensive industries		
			Decarbonization technologies with significant environmental hazards		
			Improvement of fossil-fueled activities' environmental efficiency		

Increasing decarbonization impact

Our Green Evaluation Approach



eKPI--Environmental Key Performance Indicator.

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