招银国际 CMB INTERNATIONAL

Fixed Income
Credit Commentary

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First take from the Corporate Day: Jiayuan – Improving credit story continues

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Maintain Buy on JIAYUAs

JIAYUA curve moved 0.5-2.5pts lower over past 2 months and have been outperforming benchmark or other single B names such as ZHLGHD/SINHLD/FTHDGR. Despite the weak sentiment of Chinese HY bond market and property industry headwinds, we maintain buy on JIAYUAs thanks to its credit improvement and quality assets injection story. We expect Jiayuan to remain a green developer under the “3-red-line” at its interim results, and maintain a good liquidity position while actively manage its liabilities.

Expect to remain a green developer with further improvement in credit metrics

Jiayuan guided to recognize revenue of RMB9bn (indicating 5% yoy growth) with GPM of 30%+ while the full year booking target of RMB19bn. As of 2020, Jiayuan’s net gearing, adj. lia-to-asset and cash/ST debts ratios were 60%, 67% and 1.3x. Jiayuan guided to stay at green camp under the “3-red-line” with the net gearing ratio lowering to 50%-55%. Trust loans as a % of total borrowings ratio will lower to 15% (2020: 25%) while the ST debts / total debts remained at 30%. Given the reduction of trust loans, management expects avg. funding cost to lower by 50-100bps at interim result.

Shandong project acquisition is credit positive

On 30 Jun, 2021, Jiayuan International announced the completion of acquisition of assets in Shandong province by 1) issuing new stock of HKD2.77bn; 2) issuing convertible bonds (CBs) of HKD3.42bn; and 3) cash payment of HKD1.05bn, all to the chairman. The 5-yr subordinated CBs will be zero- coupon, no investor’s put, no back-loaded yield and no cash redemption. The major shareholder will convert all the CBs into shares within 5 years, subject to free float of no less than 25%. Hence, the CBs are effectively shares, and will be recognized as equity by auditors. We note that the Shandong assets (3 in Qingdao including a urban redevelopment project and 1 in Weihai) are highly profitable (GPM guided at 37%) with 1.62mn sqm GFA and RMB30bn in assets size (NAV HKD7.57bn). While the organic contracted sales of Jiayuan recorded RMB16.5bn (+41% yoy, or 41% target completion) in

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1H, the newly acquired assets will contribute total of RMB6.5bn presales in 2021, supporting its contracted sales growth.

Manageable refinancing prospects

Over the coming 18 months, the total redemption requirements will be USD250mn to USD580mn, subject to the put ratio of the USD327mn puttable bonds in Oct'21 (due in Feb'23). Maturities include USD145mn due in Mar'22, USD100mn in May'22 and USD200mn in Oct' 22. Regarding the USD327mn puttable bonds in Oct'21 (put price of 102.8 vs. CBBT mid-price of 102.4 as of Jul 8), the company mentioned that investors with notional position of ~USD100mn has tentatively indicated the intention of not putting the bonds. We view this maturity profile is manageable given the company's offshore cash of ~USD230mm and ability to maintain liquidity ratio similar to 2020 (cash/ST debts ~1.3x). Under an unfavorable market condition, we believe that Jiayuan should have adequate internal resources to meet the redemption requirements.

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