

## CMBI Credit Commentary

### First take from Corporate Day: Kaisa Group - More deleveraging and bonds buy back

**Locking 49% of FY sales target; land acquisitions in line with budget; guided high 20% in GPM and more deleveraging; expecting to buy back bonds on the back of volatile market; we expect 23s (12%) and 24s (13.3%) to outperform.**

**Robust 1H sales (RMB63.8bn, +77% yoy) met the run rate of the full year sales target.** Kaisa recorded RMB63.8bn in pre-sales for 1H21 (+77% vs. 1H20; +84% vs. 1H19), with full year sales target completion ratio of 49% (RMB130bn). Contracted GFA was up 80% to 3.8mm sqm while the ASP slid 4% to RMB16.8k per sqm. We are comfortable with its full year sales target, which is backed by remaining saleable resources of RMB130bn.

**Interim result guidance: GPM to remain at high 20% thanks to the contribution from URP (GPM 35%-40%) to be booked. Deleveraging trend to continue while “3-red-line” metrics to remain at the 2020 levels.**

**Cash collection ratio slid due to tighter bank quota following the industry trend;** Management guided ~70% in cash collection in 1H21 (~80% in 2020) due to tighter bank mortgage quota and extended approval process. This is in line with our understanding as the market is trending tighter for mortgage loans under bank's two red line policy. We think the company's cash collection should be supported by its quality saleable resources, which are 70% located in the Greater Bay Area and Yangtze River Delta.

**Prudent land acquisition strategy in line with budget; cautious in primary land auction due to greater competition from SOE developers. URP conversion pace in line.** With the full year land acquisition budget of RMB44bn (inclu. Beijing projects acquisition of RMB13bn), Kaisa acquired 12 land parcels (GFA 1.5mm sqm) in 1H21 at attributable expenditure of RMB13bn. With URP conversion of GFA 1mm sqm in the 1H21, Kaisa further guided to convert 1mm sqm more of land

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bank in the 2H21. Instead of competing with active SOE bidders in the primary market, Kaisa mentioned to optimizing operating efficiency and URP conversion.

**Active bonds buy-back expected to continue under volatile market.** Kaisa management guided to continue bonds buy-back under volatile market with a focus on its 2024s (~USD2.4bn outstanding as of Jul'21). Kaisa expects they will spend USD130-140mm more on the repurchase.

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