CMBI Credit Commentary

First take from Corporate Day: China South City (CSC) - Manageable refinancing plan

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Short-dated CSCHCNs are good short-tenor plays

As we discussed on our comments on 30 Jun'21, we believe that CSCHCNs, especially CSCHCN'21s, 11.5%'22 and 10.875%'22, offer good value and carry subsequent to recent sell-off. We expect the performance of CSCHCNs to be supported by its refinancing plan in place and bond buyback plan.

More bond buyback as planned

	2 Jul'21	8 Jul'21
CSCHCN 6 3/4 09/13/21	5.8	3
CSCHCN 11 1/2 02/12/22	2	
CSCHCN 10 7/8 06/26/22	2	2
Subtotal	**9.8**	**5**

CSC mentioned again in our Corporate Day about its plan to buy back offshore bonds, focusing on maturing bonds instead of lower cash price bonds. Subsequent to the announcement of buying back a total of USD9.8mn offshore bonds on 2 Jul'21, it announced this morning that it had bought back another USD5mn offshore bonds.

1QFY22 contracted sales on track

The contracted sales in 1QFY22 (ended Mar'21) is cHKD4bn with cash collections of HKD3.5bn. The sales momentum is in line with those of the past few quarters and the sales target completion rate is c25% in 1QFY22. CSC expects to maintain gross margin of over 40%, thanks to the low land costs.

Yellow camp under "3 red-line"

CSC is in the yellow camp under the "3 red-line". As at Mar'21, CSC's net gearing, adj. liab/asset ratios were at 67.6% (vs 67.2% at FY20) and 60.4% (vs 64.4%), while cash to ST debts ratio was at 57.7% (69.2% in FY20), respectively. We estimate CSC's net gearing ratio to decline to low-60% by FY22. We expect CSC to stay in yellow camp by FY22.

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Manageable refinancing risk

As discussed in our previous comments, an overwhelming majority of the RMB1.4bn onshore bonds due Aug'22 will not be put in Aug'21. In view of the upcoming refinancing requirements and adequate residential land bank replenished previously, CSC pulled out from the bidding of the Hefei residential project, and received in May'21 the return of RMB1.5bn deposit it paid last year. Recalled that CSC issued 364-day papers of USD200mn last August for the Hefei residential project. The deposit returned is earmarked for the repayment of the 364-day maturing in Aug'21. Additionally, CSC has secured additional long-term (10-15 years) operating loans and working capital loans (1-3 years) totaled RMB2.7bn after Mar'21. The operating loan and working capital facilities available for drawdown as at Jun'21 was RMB3.6bn and RMB900mn, respectively. As per CSC, it would use part of these onshore facilities to repay the USD323.9mn offshore bonds due Sep'21. The remittance can be completed in days' time through its cash pool of RMB10bn with no extra cost. CSC had cash on hand of HKD9.4bn as at Mar'21 (i.e. before RMB1.5bn deposit returned in May'21), out of it, cRMB6bn was unrestricted. These, coupled with our estimation of positive free cash flow of cRMB2bn in FY22, should provide CSC adequate liquidity to cover bond maturities over the next 12 months, including USD626.5mn offshore bonds due 1H22.

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