

CMBI Credit Commentary

First take from Corporate Day: Redsun - Fairly valued

We think REDSUNs (22s to 25s at 7.9% to 10.2%) are fairly priced. For the past 2 months, REDSUNs 24s-25s slid 5-6 pts amid general market sell-off, while the 22s-23s were more resilient (down 1-2 pts). The company delivered stable operational results in 1H21 and expects to remain in green camp under the “3-red-line” in interim results. Company is considering bonds repurchase with some cash parked offshore, as the current REDSUN 24s and 25s have decent yield pickup over the 23s (over 200bps).

Good pre-sales and prudent land investment in 1H21

Redsun recorded pre-sales of RMB49.1bn (+55% yoy, 49% of target completed) in 1H21 with attributable ratio of 50% (2020: 50%). Cash collection ratio was similar to 2020's level (~88%). We give credit to its higher-than-peer cash collection to Redsun's good geographic distribution of pre-sales (majority in Jiangsu, Zhejiang & GBA) and good relationship with commercial banks (avg. mortgage approval process of ~1.5months vs. 2-3 months for other developers), per management. On land investment front, Redsun spent RMB10bn in land investment for 20 land parcels with GFA of 1mm sqm in 1H2021 (39% of full year budget), translating into RMB50bn saleable resources. The newly added resources have attributable ratio of 45-50%, and 40% will be consolidated to the firm. Redsun stated it will remain vigilant in new land acquisition to maintain reasonable profitability in 1H21. Of the 10 land parcels acquired in 1H21, 9 was through primary land auction and one was from M&A. Its unsold land bank as of 2020 was RMB180bn as per management, which only covers 1.8x of its 2021 target pre-sales. We believe the company will accelerate its land investment in 2H21 to ramp up land reserve to maintain its current operational size.

Redsun expects to stay in green camp under “3-red-line” in interim result

Redsun expects to deliver RMB13bn in revenue (indicating +35% yoy) with GPM of 20%-22% (2020: 22%) in interim results. The company

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expects to stay in green camp under the “3-red-line” regulation with cash level similar to 2020 level and ~5% growth in total debts. We note that Redsun’s MI as % of total equity has increased from 23% to 45% in 2020 due to higher recognition of revenue from coordinated projects. We will monitor the MI as % of total equity and external guarantee in the interim result.

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