

CMBI Credit Commentary

First take from Corporate Day: Ehouse - Short-dated sweet spot

OW EHOUSE '22 as diversification play with 7.5% yield; Neutral '23

Although Ehouse's business is highly correlated with Chinese Developers, the company has high level of cash (RMB8.1bn as of end-2020) to cushion operational headwind, if any. Ehouse stated they will repay its USD300mn bond by cash in Apr'22 if offshore bond market remains unfavourable. Currently the company keeps approximately RMB3.2bn cash offshore (50% of total cash). We recommend a Buy on Ehouse '22 (YTM~7.5%) for 200bp-250bp pick up compared to other industrial credits (HONGQI~5.4%, WESCHI~4.8% etc)

1H2021 revenue recovered but earnings lagged

Ehouse shared its 1H2021's revenue largely rebounded to 1H2019's level, but net profit saw erosion from higher finance expense and amortization charge, compared to 1H2019. Total debt had lowered to RMB7.3bn by mid-2021, from RMB8.5bn at end-2020, following its repayment of EHOUSE '21 notes. Ehouse saw some delay in Evergrande's commercial bills settlement in recent 1 month, but overall impact to operating cash flow was manageable. Ehouse achieved positive cash flow of RMB588mn for the first time in 2020, versus an outflow of RMB607mn in 2019.

The company's top 4 customers remain Evergrande, Country Garden, Vanke and R&F, contributing 30%-40% of sales. In which Evergrande represented 20% of sales and 30% of account receivables.

Ehouse expects to complete stake sale to Alibaba in August 2021

Post completion of share issuance to Alibaba, Alibaba will become Ehouse's 2nd largest shareholder with 22.57% stake, from its current 8.32% stake. The transaction is still subject to 75% majority vote by minority shareholders and a Whitewash waiver to avoid triggering a general offer. Ehouse will receive HKD2.5bn cash from this series of share issuance after completion, and seek to roll-out business initiative with Alibaba in 2H2021.

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