

CMBI Credit Commentary

First take from Corporate Day: Central China - Weak contracted sales year-to-date

We remain Neutral on CENCHI curve. (22s-25s at 9% -12%)

CENCHI curve moved 2pt – 5pt lower in past 2 months, outperformed other Chinese developers. We continue to maintain Neutral on CENCHI curve, given its lackluster contracted sale and some execution risk in expansion out of Henan. This looks to start a credit deterioration trajectory, albeit gradually. Having said that, we think CENCHI's staggered bullet maturity in next 1 year can also prevent its curve from material widening. (RMB1.5bn puttable in Jul '21, USD400mn due in Nov '21 and USD500mn due in Aug '22)

Weak contracted sales in 1H2021

CENCHI recorded slow contracted sales growth (+5% yoy to RMB 31bn) in 1H21 and completed 39% of its annual target, ranking lower than its peers. The company still maintain its RMB 80bn full-year contracted sales target and rely on more new launches in 2H21 to catch up. Nonetheless, CENCHI's sell-through rate was low at 50%-60% in 1H2021. With a total of RMB 110bn saleable resources for full year, we have reservation over its prospective contracted sales performance.

1H2021 interim results on track with its FY2021 guidance

CENCHI guides it will deliver a revenue growth of 20%yoy at 1H2021, similar to its FY2021 full year target. This is backed by its high unbooked revenue (contract liabilities: RMB 63bn as of end-2020) The company expects gross margin to be similar to FY20's 19.9%. CENCHI has made some progress in expansion out of Henan, it has signed a MOU to acquire 65% stake in a real estate project company in Xi'an, with a consideration of RMB800mn – RMB 1bn, target to be funded by cash and equity. This acquisition seeks to boost CENCHI's contracted sales by RMB 4bn- RMB 5bn in 2H2021.

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Expect to stay in the yellow camp under “3 red-line”

As at Dec'20, Central China's net gearing, adj. liab-to-asset and cash/ST debts ratios were 13.6%, 85.5% and 148.2%, respectively. We expect Central China to remain in yellow camp this year.

Await offshore bond issuance window to refinance maturity

Currently CENCHI has USD 100mn offshore cash and it targets a window to issue USD bond to refinance USD400mn bond due in Nov '21' (USD 670mn NDRC quota).

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