CMB INTERNATIONAL 招銀国际

Fixed Income
Credit Commentary

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CMB International Takeaways from Corporate Day

More Clarity Amid Volatility

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Last week, we successfully hosted our inaugural Corporate Day for our credit clients with a great turnout and lots of insightful takeaways. In addition to online group meetings with 16 issuers, we presented 3 keynote speeches; our chief economist, Professor DING Anhua, on Chinese monetary policies; CRIC expert on Chinese property "3 Red Lines" and centralized land auctions; and our structured product team on "Scientific Global Asset Allocation". We also invited David Yin, Moody's Vice President and primary analyst on Huarong to share the rating agency's views on potential impact of failure to file financial statement, potential restructuring of Huarong, and ensuing impact on other AMCs. Following our interviews with management and the recent market movement, we update our views and recommendations of the bonds below.

Issuer	April 2021	July 2021	Valuation
CENCHI	Neutral	Neutral	21s - 25s at 8% -12.5%
CSCHCN	N/A	OW	21s - 22s at 13% - 25%
DAFAPG	OW	OW	22s at 18%
EHOUSE	Neutral	OW	22s at 7.5%
FRESHK	N/A	Neutral	23s - 25s at 2.3 - 2.9%
GRNLHK	N/A	OW	22s at 16.6%
HONGQI	Neutral	OW	24s at 5.3%
JIAYUA	OW	OW	22s - 24s at 10.3% - 13.2%
KAISAG	OW	OW	23 - 24s at 10% - 11%
PWRLNG	N/A	Neutral	21s - 26s at 4.2% - 5.7%
REDSUN	N/A	Neutral	22s - 25s at 7% - 9.7%
SINHLD	OW	OW	21s at 20%
YUZHOU	OW	OW	23s at 11.9% - 12.7%
ZHPRHK	OW	OW	22s - 23s at 5.5% - 7%

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Keynote speech 1: China Monetary Policy's Outlook and Deleveraging Goal

Professor Ding gave an overview on how onshore market has evolved since default of Yongmei. He pointed out that overall credit environment has tightened. In addition, rating agencies now hold cautious stance and are more prone to take negative rating actions, with downgrade-to-upgrade ratio at 9 to 1. Negative rating actions seems to continue to out-number positive rating actions.

Under backdrop of a softer market, issuance of government bonds and special bonds of local governments in 1H21 was only 30% of their full-year budget. For 2H21, there could be acceleration of new issuance from government but Professor Ding expects the total issuance might fall short of the full-year budget of RMB3.6tn.

Professor Ding believes that overall default risk of SOEs/LGFVs would be contained as the government has been handling them in a prudent manner, and some local governments and SASACs have already set up stabilization funds to manage the default risk.

LGFVs remained safer plays within the onshore credit bond universe, although there had been more credit differentiation which is good for a healthy development of the onshore bond market in the long-term. Investors should focus on the willingness and ability of local governments/shareholders to provide support. Hence, there are signs of flight-to-quality, with credit spread of Guizhou, Tianjin and Yunnan widening even though operating performances of many of the SOEs/LGFVs have been recovering from pandemic trough.

Keynote Speech 2: China Property: Tightening of Policies and Industry Trend

During our expert call on Chinese property, Mr. LIN Bo, General Manager of E-house (China) Analytics Center, provided updates on developers' operating performance and regulatory environment. In a nutshell, their operating trends are resilient as reflected by pre-sales growth of 36% compared to that in FY19 (FY20 figures were distorted by the pandemic) and an average of c40% sales target completion rate. That said, CRIC expects the regulatory environment to remain tight in the near-term. We summarize his discussions below.

Industry Trends

- 5M21 GFA sold and presales increased 20% and 36% compared with 5M19 (5M20 figures were significant hit by pandemic, not good basis for comparisons). 90% of developers with publicly communicated FY21 sales targets achieved a run-rate of >40% in terms of target completion.
- Sales growth varies (compared with the same period in 2019). Higher-tier cities, such as Beijing, Guangzhou, Nanjing and Xiamen outperformed while Zhengzhou, Nanning and Kunming underperformed. CRIC expects residential GFA sold to decline by 5% yoy while pre-sales amount to be flat in FY21.
- Land sales and new starts slowed down due to tightened control on financing and new land auction policies. That said, CRIC expects total investments (land acquisitions and construction) in the sector to increase c10% in FY21, supported by construction.

“3 Red Lines” and “2 Red Lines”

"3 Red Lines" Definition

Cash/ST debts	Net Gearings	Adj. Lia-to-Asset
>1.0x	<100%	<70%

Developers	Camp	Debt Growth Limit
Meet 3 ratios	Green	15%
Meet 2 ratios	Yellow	10%
Meet 1 ratio	Orange	5%
Meet 0 ratio	Red	0%

"2 Red Lines" Definition

	Real Estate Loan / Total Loan Limit	Mortgage Loan/Total Loan Limit
1st Tier Bank	40.0%	32.5%
2nd Tier Bank	27.5%	20.0%
3rd Tier Bank	22.5%	17.5%
4th Tier Bank	17.5%	12.5%
5th Tier Bank	12.5%	7.5%

- Regarding “3 Red Lines” on developers’ leverage and “2 Red Lines” on Chinese banks’ property-related exposure, the financing for property sector in 1H21 had decreased 27% yoy as developers are mindful to bring down their leverage and banks are prudent in granting property-related loans.

- Out of 99 large developers tracked by CRIC, number of property developers in green camp increased from 22 in FYE19 to 35 in FYE20 while the number in red camp decreased from 23 to 11 over the same period.

- Mr. Lin believes that commercial bills could be included in calculating the threshold ratios of “3 Red Lines”. He reckons commercial bills can be an additional component to one of the existing “3 Red Lines”.

- Mr. Lin envisages that “3 Red Lines” thresholds could be a criterion for land auctions. Developers who fail to meet the thresholds could be barred from further land auctions.

- Regarding “2 Red Lines” on banks’ exposure to the property sector, there was high pressure on banks (those approaching or exceeding the red lines) to reduce or contain property-related loans. Therefore, loan approval process for developers and home buyers had lengthened and funding costs had been trending higher.

- Tighter funding access will accelerate market consolidation which will benefit larger developers with more diversified funding channels.

Centralized Land Auctions

- Transacted land GFA in 6M21 declined by 13% yoy, under concentrated land auctions and tighter funding environment. However, average land costs increased by c30%, led by sales of higher quality land.

- Within 22 cities implementing centralized land auction, Guangzhou is the most active and completed 62% of its land sales target of 2021. This followed by Tianjin, Wuhan and Suzhou. Xiamen and Shenzhen, on the other hand, only sold 10% of their planned land sales in the first round of these land auctions.
- There is also more differentiation on land markets in different regions/cities as developers are prioritizing their resources. For those with solid housing demand and sustained population growth such as Chongqing,

Hangzhou, Hefei, Xiamen, Wuxi and Chengdu, their land auctions remain hot as reflected by higher premium over base price.

- For those with slower economic and population growth such as Changchun, Tianjin and Qinghai, centralized land auction response was more lukewarm (as reflected by premium over base price and ratio of failed auctions).

- Collection of land sales proceeds in 7 cities/provinces (Shanghai and Qingdao, Hebei, Inner Mongolia, Zhejiang, Anhui and Yunnan) will be transferred to tax authorities starting from 1 Jul'21. Tax authorities will collect land sales proceeds on behalf of these local governments, to improve transparency of non-tax income of local governments and better control their leverage. Nonetheless, this trial policy will not affect local governments' income.

- Among developers in the USD bonds universe, Yuexiu, China SCE, Greentown, Redco and Dexin are more active in replenishing land bank, with new saleable resources acquired in 1H21 to contract sales in FY20 ratio (on a gross basis) ranging from 68% to 116%.

- Developers will increasingly turn to M&A and urban redevelopment to replenish land bank.

Keynote Speech 3: Structured Products and Scientific Global Asset Allocation

Alec Yin, Head of Structured Products at CMBI Fixed Income Team and Dr. YANG Zhao, Executive Director at CMBI Fixed Income Team, introduced CMBI's capability on structured products and highlighted scientific global asset allocation.

As introduced by Dr. Yang, scientific investments, also known as quantitative investments, are rules-based investment vehicles that can deliver diversified high quality investment exposures to clients. In global and regional markets, this type of investment vehicles has been actively used alongside traditional bond investments to achieve a yield enhancement, ranging from 2% to 6% annually.

CMBI fixed income team possesses solid experiences in sourcing underlying fixed income assets in secondary markets and primary market issuances, as well as unique strengths in ABS assets issued by China Merchants Bank and China Merchants Group. Combining with the research team's deep experiences in analyzing bonds, the combined 'Fixed Income Plus' investment product is strongly positioned in the market, providing many tailor-made solutions based on client preferences.

Key Takeaways from Online Group Meetings

Regarding online group meetings with issuers, 16 issuers joined our Corporate Day, 11 of them are Chinese property developers and the other include Hongqiao, Ehouse, leasing companies (Lionbridge, Far East Horizon and CMB Financial Leasing).

China Properties

Regarding Chinese properties, they are on track to complete their sales target, and reported year-on-year contracted sales to a varying degree. Dafa, which is an outperformer of the sector, achieved 95% yoy contracted sales growth and a run-rate of 72% of sales target completion.

2021 China Developer Contracted Sales (RMB mn)

Company	CN Name	Ticker	Jun'21 MoM Growth	Jun'21 YoY Growth	Jun'21 YTD Sales	Jun'21 YTD Sales Growth	Target Contract Sales	Target Filled
Jingrui Holdings	景瑞控股	JINGRU	18%	56%	18,735	144%	31,000	60%
Greentown	绿城中国	GRNCH	31%	32%	135,800	101%	310,000	44%
Dafa Properties	大发地产	DAFAPG	9%	57%	25,809	95%	36,000	72%
Shui On Land	瑞安房地产	SHUION	na	na	12,115	95%	-	-
Redco Properties	力高集团	REDPRO	15%	na	23,510	81%	-	-
Kaisa	佳兆业	KAISAG	-16%	10%	63,854	77%	130,000	49%
CIFI Holdings	旭辉集团	CIFIHG	-3%	4%	136,150	69%	265,000	51%
Powerlong	宝龙地产	PWLNGR	12%	2%	53,039	68%	105,000	51%
Dexin China	德信中国	DEXICN	18%	11%	43,030	67%	80,000	54%
Sunac China	融创中国	SUNAC	11%	45%	320,760	64%	640,000	50%
Fantasia	花样年	FTHDGR	4%	4%	28,117	61%	60,000	47%
Gemdale	金地集团	GEMDAL	19%	1%	162,830	60%	291,192	56%
Logan Property (attributable)	龙光地产	LOGPH	-14%	10%	73,620	59%	144,700	51%
Redsun	弘阳地产	REDSUN	-26%	-13%	49,155	56%	99,500	49%
China Overseas Grand Oceans	中海宏洋	COGO	14%	9%	43,287	55%	-	-
KWG Property	合景泰富	KWGPRO	-9%	28%	56,176	53%	124,000	45%
Modern Land	当代置业	MOLAND	9%	21%	21,562	52%	47,000	46%
Radiance	金辉控股	JINHUIG	3%	0%	55,770	49%	100,000	56%
China Resources Land	华润置地	CRHZCH	55%	22%	164,890	49%	315,000	52%
China SCE	中骏集团	CHINSC	19%	4%	59,051	47%	120,000	49%
Zhenro Properties	正荣地产	ZHPRHK	-10%	-13%	82,299	47%	150,000	54%
Greenland Hong Kong	绿地香港	GRNLHK	36%	69%	18,811	42%	60,000	31%
Zhongliang	中梁控股	ZHLGHD	40%	-22%	95,000	40%	180,000	53%
Poly Real Estate	保利地产	POLYRE	31%	13%	313,000	39%	-	-
Times Property	时代中国	TPHL	-10%	2%	45,379	39%	110,000	41%
Shimao	世茂集团	SHIMAO	7%	3%	152,790	38%	330,000	46%
Ronshine China	融信中国	RONXIN	6%	-24%	82,966	37%	160,000	52%
Agile	雅居乐	AGILE	43%	-3%	75,330	37%	150,000	50%
Sinic Holdings	新力控股	SINHLD	0%	10%	58,620	35%	125,000	47%
China Aoyuan	中国奥园	CAPG	30%	-15%	67,580	33%	150,000	45%
Longfor	龙湖集团	LNGFOR	4%	7%	142,630	28%	310,000	46%
Guangzhou R&F	富力地产	GZRFPR	3%	-13%	65,060	27%	150,000	43%
Risesun Development	荣盛发展	RISSUN	32%	-1%	61,193	27%	130,000	47%
China Jinmao	中国金茂	CHJMAO	-14%	-47%	130,150	27%	250,000	52%
Yuexiu Property	越秀地产	YUEXIU	-19%	-44%	47,383	26%	112,200	42%
Sino-Ocean	远洋集团	SINOCE	11%	14%	52,300	25%	150,000	35%
Jinke	金科股份	JINKE	-12%	-26%	102,140	23%	250,000	41%
Yuzhou Properties	禹洲地产	YUZHOU	6%	-9%	52,712	23%	110,000	48%
Greenland Holding	绿地控股	GRNGR	32%	2%	164,080	22%	-	-
Future Land	新城控股	FUTLAN/FTLNHD	-5%	-12%	117,663	21%	260,000	45%
China Overseas Land	中国海外发展	COLI	51%	-10%	207,206	20%	-	-
Country Garden (Attributable)	碧桂园	COGARD	-7%	-13%	303,090	14%	624,000	49%
Yango Group	阳光城	SUNSHI	16%	-26%	101,303	13%	220,000	46%
China Vanke	万科	VNKRLE	17%	-8%	354,430	11%	790,000	45%
Central China Real Estate	建业地产	CENCHI	26%	18%	31,053	3%	80,000	39%
Evergrande	恒大集团	EVERRE	12%	-6%	356,780	2%	750,000	48%

Source: Company disclosure, CMBI

Developers' 1H21 results will generally be stable with decent year-on-year growth in revenue. In particular, Yuzhou, which surprised the market with its disappointing FY20 results, would deliver 1H21 results in-line with its previous guidance. We expect its 1H21 results to improve notably year-on-year, over its re-stated 1H20 results. We view the 1H20 results restatement as non-event given it was non-cash, full-year FY20 results will not be changed materially because of this 1H20's restatements.

In terms of financial profile, developers are more cautious on land acquisitions in view of more challenging capital market condition and new policies on land auction. Many of them under-spent in land acquisitions compared with their full-year budget run-rate in 1H21. For developers that we met with, 7 out of 10 (excluding CSCHCN) spent less than 50% of their cash collections, and 7 out of 10 spent less than 50% of their annual spending budget. For China South City, the company collected RMB12.7bn from property sales and RMB2.2bn from recurring income, while spent RMB3.2bn* in land investment (25% of the cash collection and 211% of investment budget) in fiscal year ended in Mar'21.

Developers Land Investment vs. Cash Collection & Budget (excluding China South City of which FYE in Mar)

in RMB bn	Contracted Sales	Est. Cash Collection	Est. Land Investment (attri.)	%	Land Budget	%
CENCHI	31.1	na	na	na	17	na
DAFAPG	25.8	10.4	4.8	46%	7.6	63%
GRNLHK	18.8	18.3	13.7	75%	28	49%
JIAYUA	19.1	12.5	5.0	40%	10.5	48%
KAISAG	63.9	30.0	13*	43%	44	30%
PWRLNG	53.0	23.3	9.0	39%	23.2	39%
REDSUN	49.1	21.6	10.0	46%	25.1	40%
SINHLD	58.6	22.4	5.1	23%	20	26%
YUZHOU	52.7	22.1	2.2	10%	23.6	9%
ZHPRHK	82.3	32 - 35	17.6	50% - 55%	31.5	56%

Source: Company, CMBI

They expect their key credit metrics, especially "3 Red Lines" (net gearing<=100%, adj. liab/asset<=70% and cash/ST debts>=100%) to remain relatively stable. Dafa, Jiayuan, Powerlong and Redsun expect to stay in the green camp under "3 Red Lines" while Zhenro targets to achieve green by 1H22. The other developers expect to stay in yellow.

Company	Cash/ST debts	Net Gearings	Adj. Lia-to-Asset	1H21E	2020A	Status
CENCHI	√	√	x	Yellow	Yellow	Unchanged
CSCHCN	x	√	√	Yellow	Yellow	Unchanged
DAFAPG	√	√	√	Green	Green	Unchanged
GRNLHK	√	√	x	Yellow	Yellow	Unchanged
JIAYUA	√	√	√	Green	Green	Unchanged
KAISAG	√	√	x	Yellow	Yellow	Unchanged
PWRLNG	√	√	√	Green	Green	Unchanged
REDSUN	√	√	√	Green	Green	Unchanged
SINHLD	√	√	x	Yellow	Yellow	Unchanged
YUZHOU	√	√	x	Yellow	Yellow	Unchanged

Source: Company, CMBI

On the flip side, developers saw lower cash collection in 1H21, the trend was more obvious in higher-tier cities and Greater Bay Area, and starting from May.

Developers also expect margin pressure to continue given centralized land auctions causing higher land costs and continual price restrictions in higher-tier cities. China South City, Jiayuan, Powerlong and Redsun are amongst the exceptions given their different business models and sources of new land/project acquisitions.

In terms of funding, a few of them with near-term maturities discussed their alternative funding plans if access to capital markets continue to be difficult. Dafa, Greenland HK and Powerlong had pre-fund the upcoming maturities while China South City, Sinic and Zhenro will repay near-term maturities with internal resources. Developers such as China South City, Kaisa, Redsun and Yuzhou mentioned about plans to buy back their bonds.

* Including HKD1.5bn deposit for the bid of Hefei residential land. The deposit was returned in May'21 after CSC pulled out from the bid.

China Industrials

Regarding non-property Chinese companies, they are progressing well in post-Covid era and in general reviving their 1H21's revenue to 1H19's level. Ehouse expects its 1H21's revenue to largely rebound to 1H19's level, but net profit will see erosion from higher finance expense and amortization charge, compared to 1H19. The property brokerage agency experienced some delay in cash collection from certain developers, amid tight funding condition among Chinese developers. However, overall operating cash flow impact was modest, per Ehouse. On the contrary Hongqiao, a leading Aluminum producer in China, has benefited from industry-wide aluminum ASP rally (partly caused by supply-disruption). It issued a positive profit alert with its net profit grew by >200% in 1H2021.

On refinancing plan, Ehouse has high cash balance of approximately RMB8bn (in which RMB 3.2bn in offshore), and is posed to receive HKD2.5bn from Alibaba, after its share issuance plan approved by minority shareholders. Ehouse has sufficient cash to cover its USD300mn due in Apr'22, should USD bond market volatility lingers. Likewise, Hongqiao is prepared to pay down a sizable puttable bond of RMB 7.8bn in Oct 2021, with its strong operating cash inflow, should onshore investors decide to put back bond.

China Leasing

Regarding Chinese Leasing companies, bank-backed and SOE leasing companies see a mild improvement in asset quality and slight reduction in Non-performing asset (NPA) ratio in 1H21. This was slightly offset by a modest decline in net interest margin (NIM), due to higher wholesale funding cost in 2021. SOE leasing companies continue to tap equity funding to boost their capitalization ratio, i.e. CMB Financial Leasing awaits CBIRC's approval on an equity injection from China Merchants Bank to double its registered capital in 2021; Far East Horizon plans on its subsidiary Horizon Construction's IPO in 2021, which will also moderately lift its risk-adjusted capitalization ratio (from 5.5% at end-2020).

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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-5bn in 2H2021.

Expect to stay in the yellow camp under ""3 Red Lines"

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 eyes on a market window to refinance USD400mn bond due in Nov '21' (USD 670mn NDRC quota).

First take from Corporate Day: China Hongqiao Group - Solid turnaround

We suggest to OW HONGQI '24 (YTM ~5.4%)

HONGQI curve has greatly outperformed in Chinese HY Bond market in 2021 year-to-date. Still we think its outperformance will continue, given its sustainably lower leverage, free cash flow operation and a longer aluminum price upcycle.

Industry leader benefiting from higher aluminum price

Hongqiao recently announced a positive profit alert, expecting its net profit in 1H2021 to increase by >200% yoy, thanks to a significant increase in aluminum price. This implies its net profit increased to >RMB8.4bn in 1H2021, from RMB2.8bn in 1H2020.

China Aluminum price currently stays at RMB18,790/ton, up from RMB15,265/ton at end-2020. Management expects full year aluminum price to remain above RMB18,000/ton, given limited supply addition under environmental regulation. In 2021, Shandong government requires any aluminum production upgrade to come with reduced supply capacity.

Sustainably lower leverage

Alongside strong operating cash flow, Hongqiao has paid down RMB18.5bn onshore bonds in 2021 year-to-date, partly refinanced by RMB5.5bn new debt. We estimate Hongqiao's total debt will significantly lower to RMB57bn by end-2021, from RMB75bn at end-2020, translating to <2x Gross Debt-to-EBITDA by end-2021, and 2.6x based on mid-cycle EBITDA.

Refinancing is no longer an area of concern

For rest of 2021, Hongqiao just has a total of RMB5.5bn onshore bond due and RMB7.8bn puttable bond in Oct 2021. Management is prepared to redeem puttable bonds if a large step-up is required by investors vs existing coupon of 4%. But we expect a good number of investors will extend, taking cue from Hongqiao's recent RMB1bn onshore bond issuance at 4.9% -5.6%. Management will pursue ESG certification, as its production relocation plan to Yunnan will see 1/3 of its energy source from hydro in the medium term. We expect to see its green bond issuance for rest of 2021.

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

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 Lines”

CSC is in the yellow camp under the “3 Red Lines”. 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.

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.

First take from Corporate Day: Dafa - An outperformer in pre-sales

Maintain Buy on DAFAPGs

DAFAPGs moved 2-3 pts lower over past 3 months and have been performing more resiliently compared to peers such as ZHLGHDs and SINHLDs. Despite near-term volatility and concerns on refinancing of maturing USD bonds, we maintain buy on DAFAPGs in view of its adequate liquidity. We believe that Dafa is well-positioned to benefit from the “re-opening” of the capital markets given its improving credit story.

72% sales target achieved in 1H21

In 6M21, Dafa reported contract sales of RMB25.8bn (attributable ratio of 45%), up 130% yoy. This represents 72% of its contract sales target of RMB36bn. Cash collection rate was 90% (60% for same year sales), i.e. RMB10.5bn. Dafa is the best performer in terms of target completion. The gross margin of 1H21 contract sales is largely in line with its historical level (20-22%). We expect Dafa to revise up its contract sales target when the company announces 1H21 results. We also expect the company to remain disciplined in maintaining land premium payment at 50% of cash collection even if it revises its budget for land acquisitions.

Green camp under “3 Red Lines”

Dafa was in green camp under “3 Red Lines” with net gearing, adj. liab-to-asset and cash/ST debts ratios at 61%, 69% and 143%, respectively. Dafa is confident to remain in green camp based on its figures in 1H21.

Applying NDRC quota for USD refinancing

As per Dafa, funding is ready for its repayment of o/s USD200mn bonds maturing on 11 Jul’21. The next major maturities will be the 364-day USD280mn due Jan’22 and USD360mn due Jul’22. Dafa is applying for NDRC quota to refinance maturing USD bonds. It is also exploring other alternatives such as bank loans to broaden its funding channels. Regarding onshore funding, it repaid RMB780mn trust loans in 1H21, hence trust loans maturing in FY21 reduced to below RMB1bn. Dafa mentioned that its onshore funding costs on trust and construction loans did not change materially in 1H21. Taking cues from its expectation of cash/ST debts ratios to remain above 100%, the guidance of positive free cash flow for FY21 and continued access to onshore trust and construction loans, we believe that Dafa should have adequate liquidity even if issuing new bonds could remain challenging in the near-term.

First take from Corporate Day: Ehouse China - 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 unfavorable. 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 operating 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.

First take from Corporate Day: Far East Horizon - Fairly-valued NBFI

FRESHK is a prudently managed leading leasing company in China, and sees steady operation in 1H2021. But at current valuation - FRESHK 3.375 ’25 (Z~230bp), 125bp pick-up over BOCAVI ’25 (Z~107bp), we view it’s fairly valued.

Expecting status quo from tie-up of Sinochem/ChemChina

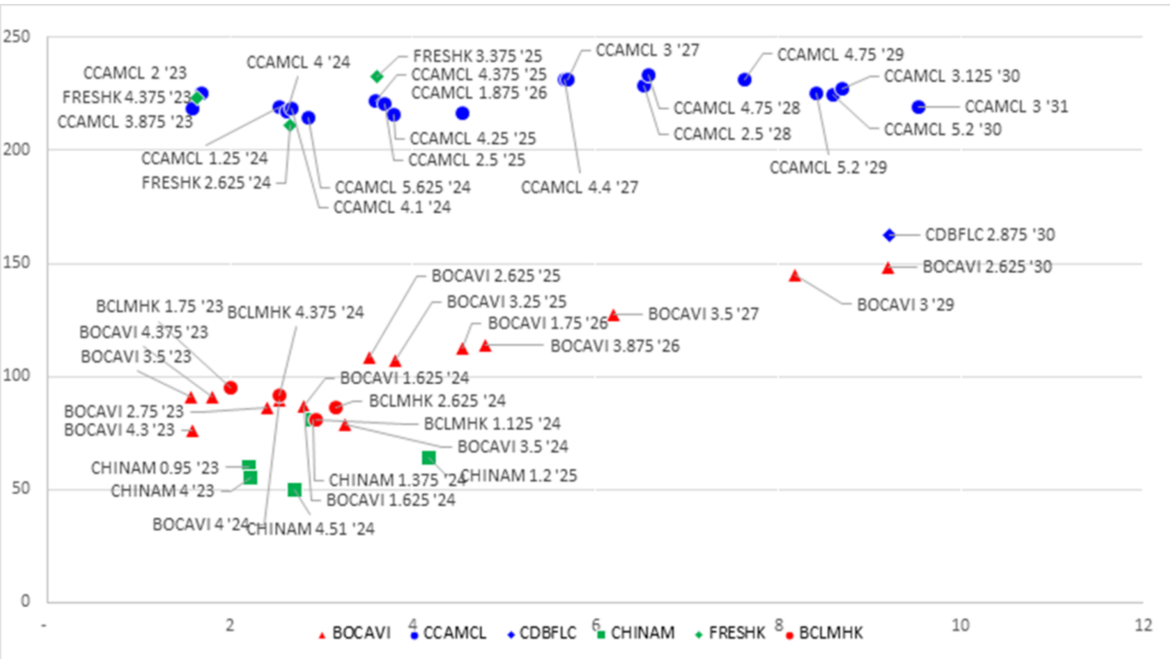
Sinochem(A-/Dev) and ChemChina (BBB/Pos)’s tie-up to form a NewCo will become the only chemical company under Central SASAC, this is going to be credit positive to Far East Horizon’s parent. Nonetheless, given S&P’s rating on FRESHK is a bottom-up approach, adding +1 notch uplift from parent Sinochem Group’s support. **We expect NewCo’s formation will have no impact to FRESHK’s current BBB- rating.** Currently Sinochem Group is the largest shareholder of Far East Horizon, with 23.13% stake. And FRESHK uses Sinochem Group’s offshore bond issuance quota. FRESHK expects status quo to remain.

Steady 1H2021 results outlook

Management guides its leasing asset to grow by single digit in 2021, vs 15% total assets growth in 2020. NPA formation will ease after covid in 2020, which will support net profit growth. (2020: Net profit +4% yoy) This will likely offset a slight decline in Net Interest Margin (NIM) in 2021 driven by higher onshore funding cost.

Horizon Construction IPO expects to modestly boost FRESHK’s capitalization ratio

S&P’s estimated FRESHK’s risk-adjusted capitalization (RAC) ratio exceeded 5.5% at end-2020, thanks to its strong profit retention. We expect its subsidiary – Horizon Construction IPO, targeting within 2021, will modestly increase its equity base, and capitalization ratio. Horizon Construction represents 5% of FRESHK’s total asset. This should lift FRESHK’s RAC ratio further away from 5% (one of S&P’s downgrade trigger), but insufficient to reach 10% RAC’s upgrade trigger.



First take from Corporate Day: Greenland Hong Kong – Just one USD bond & one perp outstanding after July 2021

We initiate an OW on GRNLHK 9.625 'Jun22 (YTM: 15.6%)

This is given it will become the only outstanding USD bond/bullet debt of Greenland HK, after its repayment of GRNLHK 6 '21 on 17 July, 2021. GRNLHK has relatively low leverage of 53% net debt/equity ratio, gross debt/revenue of 0.75x with gross debt of RMB25.5bn, as of end-2020. This provides good support and visibility to its only 1 remaining USD bond due in 2022.

Not call USP Perp on 26 July, 2021

Management shared they will not call its upcoming Perp of USD 120m on 26 July, 2021 (1st call date) to preserve its NDRC quota for offshore financing, in case USD bond market volatility persist for long. This is given secondary market yield is at double-digit level, vs its Perp will be T5+9.5% after call date (~500bp step-up post call date).

1H2021 contracted sales lagged but not land investment

In Jan-May 2021, Greenland HK achieved contracted sales RMB13.7bn (+34%yoy) but only lock in 23% of annual sales target (RMB60bn). Still management maintains its RMB 60bn annual sales target, expects 1H2021 to reach 1/3 of target and 2H2021 to catch up. This is backed by its RMB 80bn saleable resources and some of its newly acquired projects in YRD in 1H2021 that will put to launch within the year. In 5M2021, Greenland HK acquired 10 projects for RMB13.8bn, out of cash collection of RMB 18.3bn during the same period. (Same year cash collection rate ~90%) Full year land acquisition budget is RMB 24bn but management stated they can adjust according to market condition.

Ready funding for USD 300m bond due on Jul 2021

Management stated they have prepared funding for USD 300m bond due on 17 July, 2021. This is partly pre-funded by USD150m 364D note issued last month. Currently 90% of its total debt is bank loan & other borrowings. It has limited trust financing, and remaining low USD bond obligations. GRNLHK will explore mortgage receivables as asset backed financing to widen its increasingly narrowing financing channels.

First take from Corporate Day: Jiayuan – Improving credit story continues

First take from the Corporate Day: Jiayuan – Improving credit story continues
JIAYUA curve moved 0.5-2.5pts lower over past 2 months and have been outperforming benchmark or other single B names such as ZHLGHD/SINHLD/FTHDGR. Despite the weak sentiment of Chinese HY bond market and property industry headwinds, we maintain buy on JIAYUAs thanks to its credit improvement and quality assets injection story. We expect Jiayuan to remain a green developer under the "3 Red Lines" at its interim results, and maintain a good liquidity position while actively manage its liabilities.

Expect to remain a green developer with further improvement in credit metrics

Jiayuan guided to recognize revenue of RMB9bn (indicating 5% yoy growth) with GPM of 30%+ while the full year booking target of RMB19bn. As of 2020, Jiayuan's net gearing, adj. liab-to-asset and cash/ST debts ratios were 60%, 67% and 1.3x. Jiayuan guided to stay at green camp under the "3 Red Lines" with the net gearing ratio lowering to 50%-55%. Trust loans as a % of total borrowings ratio will lower to 15% (2020: 25%) while the ST debts / total debts remained at 30%. Given the reduction of trust loans, management expects avg. funding cost to lower by 50-100bps at interim result.

Shandong project acquisition is credit positive

On 30 Jun, 2021, Jiayuan International announced the completion of acquisition of assets in Shandong province by 1) issuing new stock of HKD2.77bn; 2) issuing convertible bonds (CBs) of HKD3.42bn; and 3) cash payment of HKD1.05bn, all to the chairman. The 5-yr subordinated CBs will be zero- coupon, no investor's put, no back-loaded yield and no cash redemption. The major shareholder will convert all the CBs into shares within 5 years, subject to free float of no less than 25%. Hence, the CBs are effectively shares, and will be recognized as equity by auditors. We note that the Shandong assets (3 in Qingdao including a urban redevelopment project and 1 in Weihai) are highly profitable (GPM guided at 37%) with 1.62mn sqm GFA and RMB30bn in assets size (NAV HKD7.57bn). While the organic contracted sales of Jiayuan recorded RMB16.5bn (+41% yoy, or 41% target completion) in 1H, the newly acquired assets will contribute total of RMB6.5bn presales in 2021, supporting its contracted sales growth.

Manageable refinancing prospects

Over the coming 18 months, the total redemption requirements will be USD250mn to USD580mn, subject to the put ratio of the USD327mn puttable bonds in Oct'21 (due in Feb'23). Maturities include USD145mn due in Mar'22, USD100mn in May'22 and USD200mn in Oct'22. Regarding the USD327mn puttable bonds in Oct'21 (put price of 102.8 vs. CBBT mid-price of 102.4 as of Jul 8), the company mentioned that investors with notional position of ~USD100mn has tentatively indicated the intention of not putting the bonds. We view this maturity profile is manageable given the company's offshore cash of ~USD230mm and ability to maintain liquidity ratio similar to 2020 (cash/ST debts ~1.3x). Under an unfavorable market condition, we believe that Jiayuan should have adequate internal resources to meet the redemption requirements.

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 Lines" 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 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 USD130-140mn more on the repurchase.

First take from Corporate Day: Moody's explaining on Huarong rating - Await government support gesture

Gradual but not drastic restructuring

We continue to believe Huarong's restructuring approach will be gradual and not drastic to offshore bondholders, as offshore market access is important to all 4 AMCs. Moody's also view rumored subsidiaries disposal of Huarong as credit positive, as this can replenish liquidity and improve capital adequacy ratio. The rating agency also cited Central Government's action plan on Huarong will have rating implication to other AMCs, considering their A3 ratings incorporate +5 to +6 notches of uplift, compared to most SOEs' uplift of +3 to +4 notches. Yet rating impact to other SOE financial institutions will be mild. **Technically, we continue to see good risk-reward on HRINTH 04/27/22 at 83, alongside its subsidiary disposal progress.**

Not a technical default, even if audited results delay after 31 Aug, 2021

Moody's will not treat Huarong's audited results delay, even after 31, Aug 2021 (60-days grace period), as a technical default.

It is only when >25% of bondholders of its any USD bonds request trustee to take action and accelerate a USD bond, then that USD bond will become due and payable. Moody's definition of default only includes principal repayment with haircut, but not an agreed upon extension and profiling of debt.

However, in a hypothetical scenario of its USD bond acceleration and discussion of extension, Moody's can take downward rating actions in view of its tight liquidity.

Moody's sees asset disposal from Huarong as credit positive

This can immediately replenish Huarong's liquidity with cash proceeds, and improve Huarong's weak capital position (Moody's capital adequacy ratio: total tangible common equity/total tangible assets was 6.7% as of Jun, 2020). In an event when these asset disposals are dragged on, Moody's will discern any further Chinese government's support gesture to evaluate its rating on Huarong.

Timeline/next step of Moody's potential rating action

Ideally upon Huarong's release of FY2020 results, Moody's can take rating action base on FY2020 and other actions announced by Chinese Government. Current B2 BCA has some buffer for mild deterioration in asset quality. But if there's a significant impairment loss in FY2020 and there's no forthcoming capital replenishment, the standalone B2 BCA can be further downgraded.

There will be implication to Moody's rating on other AMCs

What future actions Chinese government take on Huarong AMC will have implication to the support level Moody's apply to all other AMCs, given they currently receive +5 to +6 notch of uplift, compared to +3 to +4 notch of other SOE financial institutions. But only mild impact to other SOE financial institutions, as current uplift of government support to other SOEs financial institutions is capped at +4 notch. So far Moody's has not changed its assumption of very high government support (+7 notch uplift) on Huarong. This is based on a) its ownership structure; b) it is directly controlled by Ministry of Finance (57% stake), and c) its dominance in domestic distressed AMCs industry. This compares to +5 notch uplift applies to Cinda, +6 notch uplift to Great Wall and Orient.

Moody's expects Huarong can rely on its internal resources to repay its bullet maturities in the near-term.

This is given its cash balance and large amount of financial investment, in addition to various licensed financial institution subsidiaries reported to be up for disposal (Total shareholders' equity of these subsidiaries: RMB 67.5bn, approximately 1/3 of Huarong consolidated assets)

This compares to USD 1.55bn offshore bonds due for rest of 2021, in addition to USD 500m perp callable on Sep 2021. In 2022, offshore maturity includes USD2.5bn bond, and USD2.2bn Perp.

First take from Corporate Day: Powerlong - Business as usual

PWRLNGs fairly valued

PWRLNGs only moved 0.5-2.5pts lower over the past 2 months amid the market sell-off, reflecting its sufficient liquidity profile and improving credit story. At current valuations, we considered PWRLNGs fairly priced.

Integrated developments to maintain gross margin above 30%

Powerlong expects its gross margin in FY21 to be 1-2 pt lower than the high level of 36.1% in FY20. That said, the company is confident that its focus on developments of integrated commercial and residential projects will help protect gross margin above 30%. Given its established track record in the developments of integrated projects, Powerlong is in a good position in securing good quality projects at reasonable costs from local governments. As per the company, 60-70% of its attributable land premium payments are on acquiring integrated projects, and gross margin of 30% or above is one of its investment criteria for committing into new projects.

Expect to stay in the green camp under "3 Red Lines"

As at Dec'20, Powerlong's net gearing, adj. liab-to-asset and cash/ST debts ratios were 75.6%, 69.9% and 135.4%, respectively. Powerlong expects these metrics to stay in the green camp as at Jun'21.

Refinancing risk is not a major concern

Powerlong has prefunded the USD200mn bonds maturing in Sep'21 through the issuance of USD200mn in May'21 (re-offer yield at 5.1%). It has onshore bonds of RMB3bn puttable at par in Nov'21. Powerlong is starting to communicate with investors on their intention. Nonetheless, we are not too concerned on its near-term refinancing risk in view of its sufficient liquidity (cash/ST debts>100%), the upgrade of its onshore rating to AAA. Its access to the USD bond markets should remain smooth taking a cue from the relatively resilient performance of its USD bonds.

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 Lines" 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 1mn 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 Lines" 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 expects to stay in green camp under the "3 Red Lines" 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.

First take from Corporate Day: Sinic's fundamental is on-track but refinancing remains a concern

Sinic expects stable debts level for the interim; sales remain resilient despite May & June sales slowed down; looks to repay USD bonds with internal sources; refinancing could be challenging if sluggish market environment not improve; we maintain OW on SINHLD '21s

Sinic's pre-sales are on-track, while investments remain vigilant. Sinic delivered RMB58.8bn gross contracted sales (+35% yoy, 47% of target completed) in 1H21. We estimated the sales from heavy assets business (property development) to be RMB40bn. Company guided 40-45% of the property pre-sales would be consolidated to the firm. The attributable contracted sales was RMB27bn (+28% yoy), while cash collection ratio is guided to be 80%.

For 1H21, Sinic purchased new lands with attributable GFA of ~1mn sqm at attributable costs of RMB3.1bn, translating into saleable resources of RMB9.4bn. Sinic remains vigilant in new land acquisitions to maintain reasonable profitability in 1H21, as total land investments in 1H21 accounted only 23% of Sinic's estimated cash collection or 26% of full year land budget.

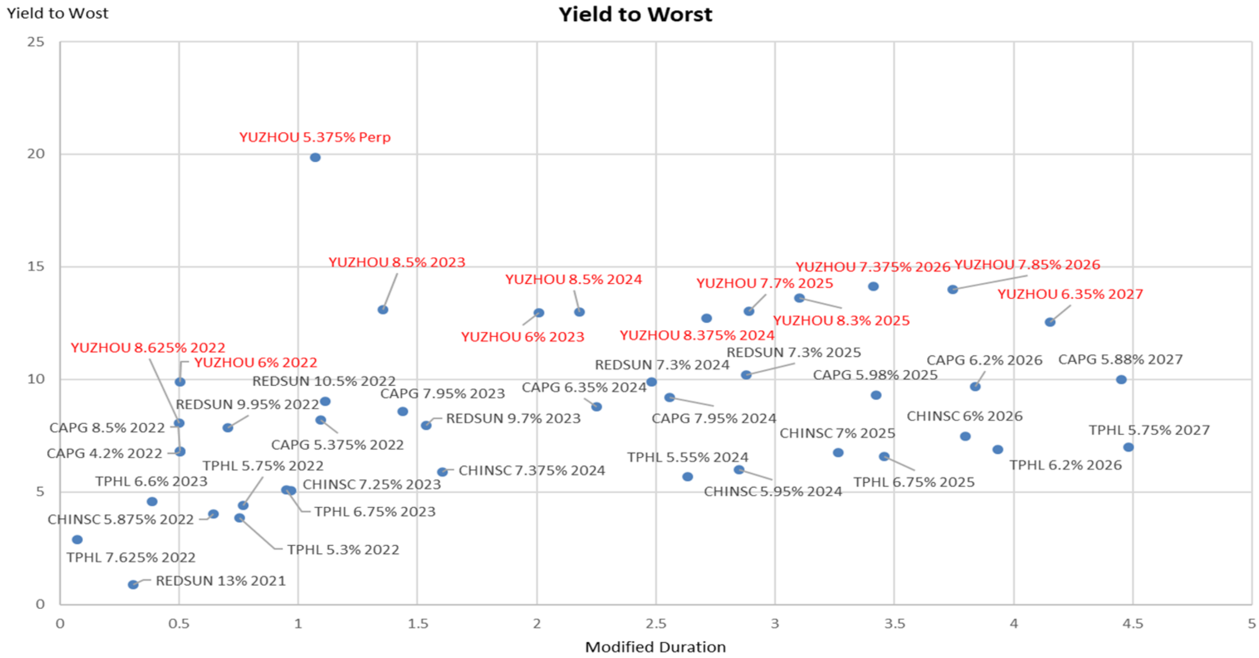
Expects stable interim result and stay in yellow camp under "3 Red Lines" policy. Sinic guided to remain stable growth in revenue (~RMB28bn as of 2020, 1H20 undisclosed), flat debt level (~RMB30bn as of 2020), and stable GPM (23%-24% as of 2020) in 1H21. Sinic reported net gearing, cash/ST debts, and adj. lia-to-assets ratio of 64%, 1.2x, and 73% as of 2020, and expects to remain in yellow camp in the interim result.

Refinancing remains a concern under vulnerable market environment. SINHLDs slid 5-13 pts in the past 6 months, due to general weak market sentiment on China HY properties and varied market rumors/headlines on the company. With the cash collection of ~RMB22bn in 1H21, cash on hand of 17.5bn as of 2020, cash/ST debts of over 1x in 1H21 and prudent land investments in 1H21, we think Sinic has enough resources to repay the SINHLD 21s (USD250mn outstanding). However, we note that the SINHLD 06/22 is trading below 90, and believe refinancing of the 22s remains a concern, should the challenging market sentiment continues.

First take from Corporate Day: Yuzhou - Back on track

One-off event over-penalized

YUZHOUs underperformed low-BB and high-B peers starting from Mar'21 on the back of the downside surprises of FY20 results. We believe that the major drivers for the lacklustre FY20 results are one-off, and YUZHOUs have been over-penalized. At current levels, YUZHOUs are offering 200-300bps over its peers on a relative value basis. Within the curve, **we like YUZHOU 8.5%'23 most given the higher visibility of its funding and land replenishment strategy over the coming 1-2 year, as well as 300bps+ yield pick-up over shorter-date papers.**



1H21 results in line with previous guidance

As per Yuzhou, the project deliveries and revenue recognition in 1H21 would be largely in line with previous guidance, i.e. RMB27bn in FY21 (RMB12bn in 1H21 and RMB15bn in 2H21). The company expects 1H20 results to be materially restated as a major part of its 1H20 revenue would be moved to 2H20. Nonetheless, the restatement of 1H20 results will have no impact on the FY20 results**. Assuming Yuzhou recognizes revenue of RMB27bn as planned, its revenue would recover substantially from RMB10.4bn in FY20, and be equivalent to 16% increase from the level of FY19.** We continue to believe that the FY20 results were adversely affected by one-off factors in the likes of the tightened accounting policies on revenue recognition and the pandemic.

On track to achieve full-year sales target

In 6M21, Yuzhou's contract sales increased 23% yoy to RMB52.7mn (attributable ratio of c60%) and cash collection rate (same-year sales) was c70%. It achieved c48% of its sales target (RMB110bn) which appears to be achievable. Yuzhou expects its recognized gross margin to be about 20% in 1H21, and 17-18% in FY21, reflecting the lower gross margin for projects to be recognized in 2H21, affected by higher fair value re-measurements and higher capitalized interests. Its gross margin will be in the range of 15-20% (18-23%, excluding non-cash fair value re-measurements) over the coming 1-2 years. Yuzhou's gross margin will recover from the exceptionally low level of 4.6% in FY20, but will remain below 26.2% in FY19, reflecting the pressure on margin on the Chinese property sector.

Refinancing risk is manageable as land acquisition is more prudent

Yuzhou expects that there would not be material changes in the net debt level in Jun'21, compared with that in Dec'20. Subsequent to the refinancing of offshore bonds of USD672mn, re-sales of onshore of RMB2bn and early repayment of syndicated loans of USD300mn, **Yuzhou's next major maturities will be onshore bonds totaled RMB3bn due Aug and Sep'21, as well as offshore bonds totaled USD592mn due Jan'22.** While Yuzhou is waiting for new issue window, it has been cautious in land acquisitions to conserve liquidity. In 6M21, it acquired 4 land parcels for an attributable land premium of only RMB2.1bn, compared with its FY21 budgeted land payments of RMB23.6bn. Given the more cautious tone on land acquisitions, good sales momentum and internal resources (cash on hand of RMB30bn), we believe that Yuzhou's near-term refinancing risk is manageable.

First take from Corporate Day: Zhenro - Front-end bonds are good carry play

We like ZHPRHKs front-end bonds (22s – 23s at 5%-7%)

ZHPRHK curve moved 1-4pts lower in the past 2 months due to weak market sentiment with the front-end bonds being more resilient. With the continued stable fundamental performance in 1H21 and prudent debt management, we think Zhenro's front-end bonds (22s – 23s at 5% - 7%) offers good carry as defensive play amid volatile market for its prudent financial management and transparent financial statement.

On track 1H21 operational result

Zhenro reported RMB82.3bn pre-sales in 1H21 (+47% yoy) and completed 54% of its annual target (RMB150bn). The company also made progress in improving the attributable ratio of pre-sales to 56%-57% in 1H21 from 55% in 2020 and targets to improve to 60% for full year 2021. Nonetheless, Zhenro's cash collection ratio slid to 70%-75% in 1H21 from 80% in 2020 due to tighter bank quota in Jun'21. On land acquisition front, Zhenro spent attributable land costs of RMB17.6bn (~50% of cash collection) for 22 land parcels with GFA of 2.17sqm mm. We note that the average land cost (~RMB15k per sqm) for these land acquisitions are higher than that of last year (~RMB6.6k per sqm). This is due to 96% of the new investment are located in tier 1 & 2 cities (i.e. 2 parcels in Hangzhou, 4 parcels in Guangzhou, and 3 parcels in Xiamen,). Company explained the ASP for the new projects is estimated at RMB30k per sqm (2x of the avg. land cost).

Zhenro guides a stable interim results and targets to meet "3 Red Lines" no later than 1H2022

As per Zhenro, the company expects to recognize revenue growth of +7-10% yoy (indicating ~RMB15.5bn to RMB16bn in revenue), similar GPM level as 2020 (~19%), cash / ST debts of 2.0x, total debts growth of 5%-8% (guidance), and net gearing ratio of 60%. In 2020, Zhenro reported net gearing, adj. lia-to-asset and cash/ST debts ratios of 65%, 76% and 2.2x. The company has made progress in lowering its adj. lia-to-asset ratio to 70% by end-2021 and lower than 70% by 1H22.

2021 maturities covered by new prints

For the rest of 2021, we estimate total repayment need of Zhenro is ~USD610mm (incl. onshore & offshore). Maturities include USD430mm offshore bonds, RMB1.1bn onshore bonds and USD38mm syndicated loan amortization in 2H21. We are comfortable with Zhenro's refinancing prospects given its repayment needs have been covered by new prints in 2021 (i.e. printed USD1.41bn and CNH1.3bn offshore bonds while repaid USD550mm and CNH1bn in 2021YTD).

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