

CMBI Credit Commentary

ZHLGHD – Prepared for the upcoming maturities

ZHLGHDs moved sharply lower during past 2 weeks on concerns of its near-term refinancing need and rumours on the departure of CFO. We believe the recent price movement, especially that of ZHLGHD 11.5%'21 and ZHLGHD 8.875%'21, is unjustifiable as the company has prepared for repayments through internal resources and the CFO departure rumours are simply not true. We believe that ZHLGHD 11.5%'21 and 8.875%'21 will be money good and are good short-dated carry plays.

In Jul'21, Zhongliang bought back a total of USD27mn in principal amount of its outstanding USD bonds/notes, out of these, USD17mn was the buy-back of ZHLGHD 11.5%'21, reflecting the company's focus to deal with near-term maturity. Zhongliang posted contract sales of RMB95bn vs its full-year sales target of RMB180bn. The company is on track to achieve the target. We understand that cash collection rate in 1H21 was over 80% despite signs of slowing down starting from May'21. The cash collection from pre-sales should offer adequate coverage for the repayments of ZHLGHD 11.5%'21 and ZHLGHD 8.875%'21. We expect Zhongliang's 1H21 results to be largely stable, gross margin to maintain at about 20% and remain in the yellow camp under "3 red-line".

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