CMB INTERNATIONAL

28 Jul 2021

CMBI Credit Commentary – SUNSHI

Yango's relative slower sales to be mitigated by vigilant land investment; we are neutral on SUNSHIs

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

Wilson Lu 路伟同
(852) 3761 8918
wilsonlu@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

1H21 sales growth (+13% yoy) is lagging to peers due to lower sell-through rate (60%-65% vs. ~ 70% industry average), but the run-rate (46%) is satisfactory; cash collection and attributable ratio maintained stable as 2020; land investment remained vigilant; company looks to keep net gearing ratio below 100% and remain as yellow developer in interim result; confident to achieve profits guarantee to Taikang in 2021; active in repurchase onshore and offshore bonds;

We revisited Yango Group's 1H21 operational performance and previewed its interim results. We think Yango Group is on track to achieve its annual sales target of RMB220bn (2020A: RMB218bn) with run-rate of 46%, although sales growth (+13% yoy) is lagging to peers. Its investment strategy stays conservative as attributable land investment below 30% of the annual budget. We think the recent land acquisition in Zhejiang is supportive to its land bank and margin. Yango expects to remain in yellow camp under the "3 red lines" in interim result. **We expect Yango's credit profile to remain stable in 2021. However, due to the recent weak sentiment on China property bonds (especially single B names), we are neutral on the SUNSHI curve (10-15%).**

Relatively slower sales growth accompanied by vigilant investment spending. Recent land acquisition is good supplement. Yango's 1H21 sales growth (+13% yoy) is lagging to peers (+50% yoy for top 50 developers by CRIC) due to lower sell-through rate (60%-65% vs. ~70% industry average), but the run-rate (46%) is satisfactory for its annual sales target of RMB220bn. We estimated that the sale-able resources in the second half would be over RMB220bn (requires sell-through of 53% to hit the target).

On the investment front, Yango spent RMB13.3bn for GFA of 4.4mm sqm at RMB5.2k per sqm. The actual land investment is only 23% of its land investment upper limit or 27% of the lower limit, or 26% of its cash collection. On 22 Jul'21, Yango announced its unit has acquired 7 land parcels (GFA of 856.5k sqm; avg. land cost at RMB7.2k per sqm) in Yongkang City, Zhejiang with RMB6.1bn through an M&A loan from a trust company with costs of 8%-9%. We think the acquisition is a good supplement to its land reserve to maintain its operational size, under the centralized land supply system.

CMBI Fixed Income
fis@cmbi.com.hk

Yango Group expects slightly drop in total borrowings, while keeping net gearing below 100% and remain as a yellow developer. Yango's gross margin sharply dropped 6.5ppts to 20.1% in 2020, but we expect the company's profitability to remain stable in 1H21. Company guided 2021FY profits to meet the profits guarantee with Taikang (2020A: 5.2bn; 2021 profit guarantee: 5.6bn), which is in line with our expectation.

Yango was active in bonds buy-back onshore and offshore, following the wave of bonds repurchase by developers. Yango repurchased USD10mn of SUNSHI '24 bonds and RMB227mn of onshore bonds in July amid the volatile markets. **In the rest 2021, Yango has ~RMB4.3bn maturities onshore.** Management guided that they will to use internal cash flow and new issuance for the bond repayment.

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.