

CMBI Credit Commentary - SUNSHI

SUNSHI: Equity swap with Vanke is credit positive, but looming maturities remains a concern

SUNSHI curve slid 5-10 pts in the past month over news on onshore sell-off. As per Yango, the sizable onshore low prints (RMB120mn traded at 80 or 28% YTM for 17Yango MTN004) was due to a bank clearing property position amid weakened trading liquidity/sentiment on private-owned developers, following sector's policy headwind. **We think Yango's proposed transaction with Vanke on its equity swap of property management subsidiary with Vanke's Onewo is credit positive. We are also comfortable with Yango's fundamental development in 1H21, as mentioned in our previous [notes](#). While Yango Group is active in onshore/offshore bonds buyback (totaled RMB1.7bn and USD10mn repurchased) this year amid market volatilities, we are concerned of the company's onshore/offshore bond maturities in the next 12 months, totaling ~RMB13bn by 1H22. Considering the challenging credit market, we remain our neutral view on SUNSHI curve, despite of the recent sell-off, and will continue to monitor Yango's onshore refinancing progress/onshore funding environment, as well as the progress of IPO of Onewo.**

Yango Group announced equity swap by exchanging 100% of its shares in Yango Intelligent Life Service Group (阳光智博生活服务集团) for 4.8% of Onewo (万物云, formally named as Vanke Service Development); post the transaction, Yango Group is eligible to further invest in Vanke Services at fair prices and increase its shareholding to more than 5%. Concurrently, Yango Intelligent Life Service Group suspended its listing plan in HKEX.

We think Yango's proposed equity swap transaction with Vanke is credit positive. Yango's stakes in Onewo (万物云, Vanke's property management subsidiary) will be an alternative source of liquidity. We understand Onewo is working on IPO and pre-IPO funding. Yango's stakes in Onewo will benefit from the latter's larger critical mass, and resulting better multiple/valuation. The equity swap could also open up opportunities for more co-operation with Vanke in terms of branding endorsement and diversified business development.

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Table 1. Estimation of valuation of Onewo and Yango Intelligent Services

in RMB mn	2020 Earnings	Est. 2021 Earnings	Est. P/E	Est. Valuation
a. Onewo (万物云)	1,720	2,408	40x-45x	96bn - 108bn
b. Yango Intelligent Services (阳光智博)	173	345	8x-12x	2.8bn - 4.1bn
c. Onewo (Pro-forma post Equity Swap)	1,893	2,753	40x-45x	110bn - 124bn
d. Yango's share of Onewo (4.8% of c)				5.3bn - 5.9bn
e. Valuation Gain in Yango's Stake (d-b)				1.8bn - 2.5bn

Yango Intelligent Life Service, Yango Group's property management services arm, has 30.4mn sqm GFA under management and 67mn sqm contracted GFA. Onewo (万物云, unlisted), Vanke's property management subsidiary, is the largest property service management firm in China with GFA under management of 566mn sqm and recognized revenue of RMB18bn (+27.4% yoy) in 2020. Compared with CG Services (463mn sqm GFA, ~198.8bn in market cap), Onewo has larger GFA under management and revenue in 2020. As per the above table, we estimated the valuation of Yango Intelligent Life Service to be RMB2.8-4.1bn, assuming FY21 profit of RMB340mn (100% growth yoy, according to management guidance) and P/E ratio in the range of 8-12x. We also estimated that Onewo's valuation could be RMB96bn-108bn, assuming 40% growth in profits in 2021 and est. PE of 40x-45x. We then estimated the valuation of Yango's stake in Onewo should be RMB5.3bn – 5.9bn, compared with RMB2.8-4.1bn if Yango pursues IPO of Yango Intelligent Service independently. **Regardless of the actual valuation of Onewo, Yango should benefit from the transaction from an alternative funding perspective. We think Onewo's potential IPO could provide an additional liquidity option for Yango Group to support its refinancing.**

However, looming maturities before 1H21 and weak credit market sentiment could challenge Yango's refinancing, despite of company's active bonds buy-back. Yango Group is active in bonds buy-back in onshore and offshore corporate bonds for RMB227mn and USD10mn, and has issued 3 corporate bonds and two ABSs for RMB3.1bn in 2021. However, we note Yango's onshore/offshore maturities of RMB5.3bn/RMB8.1bn/RMB2.7bn maturities in 2021/1H2022/2H22. We believe the company will continue to engage secondary market management, but the refinancing prospects should be challenging under sluggish onshore/offshore funding sentiment (especially on private-owned property developers).

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