Fixed Income
Credit Commentary

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CMBI Credit Commentary

CARINC – Raise to OW on improving credit metric, post 1H2021 results

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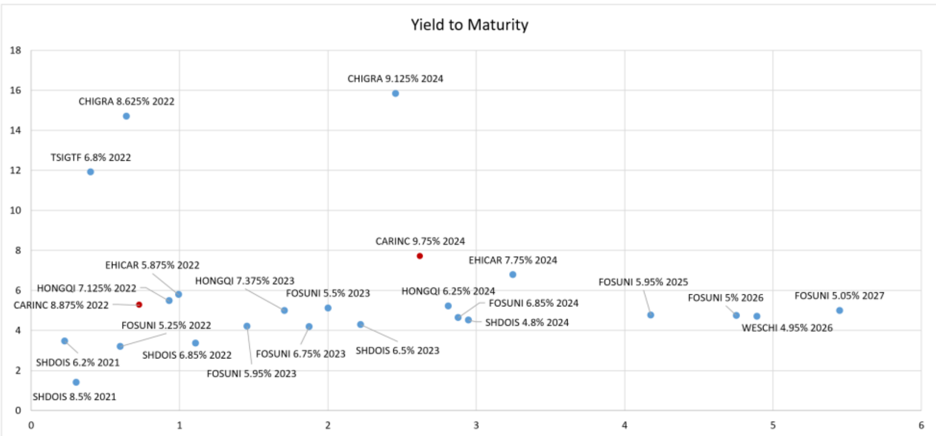
Car Inc. reported in-line 1H2021 results. Car Rental Revenue of RMB 2.0bn, +11% yoy, and Adj. EBITDA of RMB1,083mn, +33%yoy. Despite lower total revenue -6% yoy due to fewer used car disposal, it achieved operating cash flow inflow of RMB 743mn and Net Debt further fell to RMB3,367mn, from RMB4,469mn at Dec-20. Net Debt/EBITDA ratio lowered to 1.5x, from 2.2x at Dec-20. EBIT/Interest coverage also recovered to 0.8x in 1H2021. *Please see our note on 19 Mar, 21*

We raise CARINC to OW from Neutral, as its operational improvement is on-track to bring a rating upgrade to B by 2022, from its current B- rating, through sustainable credit metric improvement. In our view, CARINC '24 (104.725, YTM 7.71%) offers 100bp pick-up from EHICAR '24 (102.975, YTM 6.71%) while both companies position for industry recovery. We also consider CARINC'24 a lower beta and diversification play as volatility of similarly-rated Chinese property bonds remain high.



Probable rating upgrade in 2022

We estimate that CAR Inc. will generate RMB1.2bn EBITDA in 2H2021, and will reach 1x EBIT/Interest coverage ratio for full year 2021. This will bring CAR Inc. closer to S&P's "aggressive" leverage measure of EBIT/Interest coverage >1.1x, from "highly leveraged" currently. It will enhance the rating agency's likelihood of positive outlook revision in early 2022.

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Recall S&P's upgrade trigger as "We may raise the rating if we believe the recovery in CAR's credit metrics is sustainable. We will also assess the financial sponsor's financial policy toward CAR after MBK takes control in July."

Manageable refinancing risk

Management expects its cash balance to exceed RMB3bn by end-2021 (vs 30 Jun, 21: RMB2.1bn). This will help CAR Inc. to repay its CARINC '22 bond of USD370mn (~RMB 2.4bn). This is because for 2H2021, CAR Inc. targets used car disposal of RMB1.14bn vs. new car purchase of RMB1.3bn. The company has also newly obtained approved credit facility of RMB 600mn, which is sufficient to cover its maturing short-term debt in 2H2021.

CAR Inc. has USD75mn NDRC quota expiring by end-2021 and additional USD 500mn quota expiring by July 2022.

Financial Policy will remain prudent post MBK's full control

Car Inc. maintained its Net Debt-to-EBITDA ratio at 2.6x, 2.2x and 1.5x in 2019, 2020, and mid-2021, respectively, well within the covenanted level of 4x. With a total fleet size of 105,584 as of mid-2021, management targets 20k new cars procurement in 2022, with a budget capex of RMB2-3bn. This will be largely funded by its operating cash flow, while its used-car disposal proceed will likely remain low due to phrasing-out of its Borgward's car (c. 40% of its car fleet and lowered its average used car sale ASP to RMB50,196 in 1H2021, from RMB61,617 in 1H2020). We project CAR Inc. to keep its gross debt at a stable level (RMB5bn-6bn in 2022, vs RMB5.5bn at mid-2021)

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