CMB INTERNATIONAL 招银国际

Fixed Income
Credit Commentary

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CMBI Credit Commentary – MOLAND

MOLAND: 22s bonds are good carry play

Modern Land reported stable interim result, featuring inline P&L and improved liquidity. With decent operational results in 1H21, we view Modern Land as a decent single B property name with resilient financial performance, diversified land acquisition methods, and evenly distributed maturity profile. We estimate that the company will have sufficient internal resources (cash and sales proceeds) for the upcoming maturity in Nov’21. **We view Modern Land’s front end curve as attractive carry play and initiate our OW call on MOLAND ’22 with YTW between 21%-27%, compared to REDPRO ’22 (YTW of 11%), DEXICN ’22 (YTW of 12%-14%), DAFAPG ’22 (YTW of 27%).**

Stable interim financial result with resilient P&L and improved balance sheet. In 1H21, Modern Land’s revenue grew 9.6% yoy to RMB9.5bn and gross margins normalized to 23% (vs. 2020: 24%). We expect the company to recognize revenue of RMB19bn (+21% yoy) for FY21 on the back of contract liabilities of RMB26.6bn (+27% yoy) as of 1H21. EBITDA slightly declined 9% to RMB1.5bn. On balance sheet side, total debts rose to RMB28.7bn (2020: RMB24.6bn), and net debts grew to RMB11.3bn (2020: 10.5bn). Cash / ST debts improved to 1.9x (2020: 1.4x). Net gearing ratio reduced to 93% (2020: 96%).

Higher trade payable balance reflected growth in pre-sales and ramp up in construction. We note that Modern Land’s trades and notes payable grew to RMB7bn in 1H21 (2020: RMB4.2bn) with the amount due within one year rose to RMB5.5bn (2020: RMB2.1bn). Company shared its commercial paper balance was less than RMB500mn as of 1H21. We are not particularly concerned on its trade payables increase, which primarily reflected its sales growth and ramp up of construction during the period.

We expect less active land investment activities in 2H’21, after its inline operational results in 6M’21 and active land replenishment. In 6M21, Modern Land recorded contracted sales of RMB21.6bn (+51.8% yoy, locking 46% of annual target) with ASP of RMB10.4k per sqm (flat yoy). Attributable ratio, consolidated ratio and cash collection ratio were 54%, 70%, and 88%, respectively. Management is confident in achieving full-year sales target of RMB47bn with saleable resources of RMB33.6bn in 2H21 (indicating 74% sell-through rate in 2H’21 vs. 1H’21 sell-through rate of 75%-80%).

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Company acquired 20 land parcels for saleable resources of RMB33.9bn with attributable expenditure of RMB5.3bn (~40% of 1H21 cash collection) and attributable ratio of 52%. Note that Modern Land's annual land investment budget is set at RMB50bn in terms of saleable resources (81% completed as of 8M21). We expect lower land investment pressure for the company in 2H21. Post this active land replenishment, Modern Land has unsold land bank of ~RMB96.2bn (2x of 2021 sales target) and land bank locked through industrial cooperation of ~RMB100bn to be converted into land bank in 2-3 years. Please refer to the below table for a detailed analysis of Modern Land's land investment in 2021.

Table 1. Modern Land's land acquisition

Modern Land's land acquisition	6M'21	8M'21
Number of land parcels	20	23
Through industrial cooperation	*12*	*12*
Total GFA (mn sqm)	3.6	3.9
Total saleable resources (RMB bn)	33.9	40.6
% of annual budget	*67.9%*	*81.3%*
Total land investment (RMB bn)	10.2	13.1
Attri. land investment (RMB bn)	5.3	6.5
Attri. land investment / cash collection	*39.8%*	*na*
Est.ASP (RMB/sqm)	10,564	11,838
Cost/ASP	*32.1%*	*34.0%*

Modern Land improved its debt profile, featuring less reliance on ST debts and a balanced debts maturity profile. Modern Land's short-term debts/total debts ratio was 32.5% as of 1H21, improved from 40.0% as at FY20 and 51.1% as at FY19. Trust loan as of total debts also shrunk to 13% (2020: 19%). Company increased onshore bank borrowings in 1H21 to 49% from 43% in 2021as of total debts. We like Modern Land's improved debt profile and evenly distributed USD bonds maturity schedule, which provide the company with more flexibility to muddle through recent difficult capital markets environment. We expect the company to use internal resources (cash of ~RMB17.4bn) to repay the USD300mn bonds (o/s USD250mn) maturing in Oct'21.

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