CMB INTERNATIONAL

Fixed Income
Credit Commentary

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CMBI Credit Commentary – TPHL

TPHL: Curve fairly priced

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Times China reported a set of mixed interim results, featuring stable income statement, mixed balance sheet and balanced cash flow. Times was conservative in land investment in 1H21, and reported lower debts and better liquidity, but higher payables and external guarantees balance. We expect company's high gross margin (33% in 1H21) to normalize in the full year result. Times lagged to its peer in pre-sales run-rate but we take comfort from its historically 2H loaded sales and sufficient sale-able resources. We also note that the company's MI as of total equity has increased to 52.5% (2020: 47.7%), which may hinder Times' financial transparency. **We view the TPHL curve is fairly priced and initiate our MW call with yield between 4.9% and 7.1%.**

Stable income statement with revenue booking dragged by COVID-19 outbreak in May and June. Times reported revenue of RMB13.6bn (-8.6% yoy) and high gross margin of 33.3% (2020: 28.8%), partly attribute to the lower revenue booking in 1H21 resulting from the outbreak of COVID-19 and delayed construction in Guangzhou in May and June. Management guided full year booking target to be RMB42bn (+10% yoy) in FY21, backed by contract liabilities of RMB37bn.

We expect gross margin to normalize in full year result. We view the recent-high GPM as one-off event. Times realized 81% of revenue from property development with GPM of 22% (2020: 22%) and 18% of revenue from highly profitable urban redevelopments with GPM of 83% (2020: 71%). We expect full year revenue recognition to normalize to 28%-30% with higher revenue booking from normal project development sector.

Table 1: Times gross profit margin breakdown

Times GPM breakdown	FY2018	FY2019	FY2020	1H21
Property development	30,779	39,080	32,673	11,006
As % of total revenue	*90%*	*92%*	*85%*	*81%*
GPM	*28%*	*29%*	*22%*	*22%*
Urban redevelopment	2,776	2,168	5,453	2,407
As % of total revenue	*8%*	*5%*	*14%*	*18%*
GPM	*65%*	*50%*	*71%*	*83%*
Total Revenue	**34,375**	**42,434**	**38,576**	**13,638**
GPM	***31%***	***29%***	***29%***	***33%***

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Higher net debts with higher external guarantee and payables. Times reported lower total debts of RMB54.9bn (2020: RMB61.5bn), and lower cash level of RMB26.8bn (2020:RMB38bn) & higher external guarantee of RMB8.9bn (2020:6.6bn). Note the payables increased RMB11bn vs. 2020, which management explained is mainly composed of increase in dividends, tax, and investment in JV projects. With net debt up by ~RMB7bn, net gearing slightly rose to 69% (2020: 66%). Commercial paper balance was guided to be RMB1bn as of 1H21.

Better liquidity and optimized debt profile. Company improved its debt profile as ST debts/total debts reduced to 20%. As a result, liquidity improved as cash/ST debts grew to 2.3x and unrestricted cash/ST debts to 1.9x. We are comfortable with Times' refinancing profile.

Balanced cash flow guided in 1H21 and 2021E. Times generated positive free cash flow of RMB150mn in 1H21. Company revised its guidance on 2021E cash flow with higher construction costs (from RMB14.4bn to RMB17.4bn) and lower investment budget (from RMB22.8bn to RMB19.8bn).

Table 2: Times cash flow guidance

Direct Cash Flow (RMB bn)	FY2020	1H21	2021E (old)	2021E (new)
Cash inflow from Sales (Attri.)	46.8	22.9	52.7	52.7
Total Cash Inflow	**46.8**	**22.9**	**52.7**	**52.7**
Land premium (Attri.)	18.9	6.7	22.8	19.8
Construction capex (Attri.)	13.2	8.8	14.4	17.4
Tax	4.7	3.2	5.7	5.7
Finance Cost	4.7	2.0	4.7	4.7
S,G&A, div and others	5.1	2.0	5.0	5.0
Total Outflow	**46.6**	**22.7**	**52.6**	**52.7**
Net Cash flow	0.2	0.2	0.0	0.0

Confident to achieve sales target. Times recorded pre-sales of RMB45.4bn in 1H21 (+39.3% yoy, 41% of annual sales target). With the 44 issuers sales performance in 1H21 we listed out in our previous *notes*, Times was in line with industry peers in terms of sales growth (+39% vs. ~33% of industry average) and the run-rate is on track with a target completion rate of 41% (vs. ~48% of industry average). Times's contracted sales were often 2H loaded historically. With sufficient sale-able resources of RMB115bn (indicating 56% targeted sell-through, vs 1H2021 sell through 50%), we believe Times can achieve its sales target RMB110bn.

Lower attributable sales and land investment may hinder Times' financial transparency. Times guided lower attributable ratio of 60% (2020: 62%; 2019: 74%) and improved cash collection ratio of 80% in 1H21 (2020: 75%). On the investment front, Times has acquired 7 land parcels and converted 4 URPs into land bank, added a total of ~2.25mn sqm of land bank with actual investment costs of RMB RMB6.7bn. We note the company reported higher MI (+4.3bn vs. 2020), which reflected Times is getting involved in more collaborative projects (i.e. only 35% attributable for the new land acquired in 1H21). Although we see this as an industry trend, we believe the higher usage of JV may hinder Times' financial transparency.

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