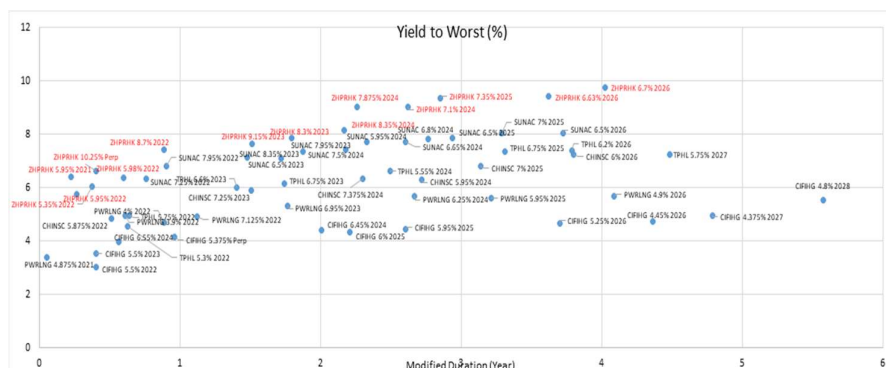


## CMBI Credit Commentary

### ZHENRO – Better entry opportunities as more differentiation expected

#### Prefer longer-end ZHPRHKs

We like the credit story of Zhenro, with improving key credit measures, higher level of transparency and continued access to various funding channels. Over the past 2-3 months, shorter-dated ZHPRHKs has performed relatively stable (down 1-3 pts) while longer-dated ZHPRHKs lowered 5-7pts. Taking cues of Zhenro's manageable near-term maturities and unrestricted cash (excl. also pledged deposit) to short-term debts ratios of 1.7x, we consider Zhenro to be one of the developers better positioned to ride through the near-term challenge resulting from the volatile market environment. Hence, we believe that the corrections of ZHPRHKs, especially those of the long-end of curve, offer better entry opportunities. Longer-ended ZHPRHKs ('24s, '25, '26s) are trading at 150-250bps behind other developers with more diversified funding channels. We expect ZHPRHKs to out-perform those peers on the expectation that the performance of Chinese property bonds will be more differentiated based on the operating fundamentals and access to various funding channels as the Everre saga drags on.



#### Solid 1H21 results

Zhenro reported a solid set of 1H21 results with revenue and core net profit attributable to owners of the parent increased 10.1% and 31.7% to RMB16.0bn and RMB1.2bn, respectively. Gross margin was largely stable at 19.1% in 1H21 (vs 20.3% in 1H20 and 19.1% in FY20) while core net profit margin increased to 7.5% in 1H21 from 6.3% in 1H20. We expect its gross margin to be largely stable. Contract liabilities increased 31.3% to RMB79.9bn in 1H21. The company expects a significant yoy increase in recognized sales in 2H21.

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### **Confident to achieve full year contract sales target of RMB150bn**

In 7M21, Zhenro's total contract sales increased 36.6% yoy to RMB94.3bn, driven by 25.2% and 7.8% increase in GFA sold and ASP, respectively. The 7M21 sales were equivalent to 62.9% of its full-year sales target. Based on its sell-through rate of over 60% in 1H21, full year saleable resources of RMB250bn, Zhenro is confident in achieving full-year target of RMB150bn.

### **Target to be in green camp under the "3 red-line" by FYE21**

Net debt increased 10.1% to RMB27.0bn, partly reflected the higher consolidation ratio over the past couple years. We notice that the attributable ratio of land acquired in 1H21 was in mid-40%, in response to the policy on centralized land auction, as such MI increased 52.8% to RMB25.4bn, equivalent to 54.0% of its total equity. Nonetheless, we take comfort that the attributable net debts at JVs and associates were only cRMB700mn, equivalent to c2.6% of its net debts as at Jun'21. Additionally, its net gearing and adj. liabilities to asset and cash (incl. restricted cash)/ST debts improved to 57.4% and 72.4% in Jun'21 from 64.9% and 76.6% in Dec'20, respectively, while cash to short-term ratio maintaining at 2.2x. It maintains in the yellow camp under the "3 red-line" and expects to move up to the green camp by FYE21.

### **Access to various funding channels continues**

Zhenro issued onshore bonds of RMB1.32bn in Jul'21 to refinance the onshore bonds of RMB2bn maturing in Sep'21. While the funding cost increased from 4.5% maturing to 6.3%, we take comfort that Zhenro's ability to continue to access onshore bond markets at a reasonable cost. As mentioned by the company, it will repay the USD bonds of USD200mn due Nov'21. Zhenro has total offshore bonds/perps of USD1.1bn (cRMB7.3bn) maturing or puttable in FY22, and it also has onshore bonds of RMB350mn puttable in Sep'21 and RMB1bn puttable in Sep'22. The pressure of bonds/perps redemption is manageable given its total cash and unrestricted cash on hand of RMB44.4bn and RMB35.0bn, i.e. cash/ST debts and unrestricted cash/ST debts ratios of 2.2x and 1.7x, respectively.

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