招銀国际
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CMBI Credit Commentary - KAISAG

KAISAG: Upside surprises

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Buy KAISAGs; prefer KAISAG 8.65%'22 and KAISAG 10.875% perps

KAISAGs moved 3-5 pts higher post the positive 1H21 results. That said, KAISAGs (except KAISAG'21) remain 4-11 pts below the levels 3 months ago under after huge market volatility and risk-off. We believe that the market will increasingly differentiate credits based on their fundamental and correlation amongst higher beta credits will be decline. Hence, we expect the beaten-down bonds from issuers with improving credit story such as Kaisa to outperform. Within the curve, we prefer KAISAG 8.65%'22 (Offer: 98.875, YTM: 10% due Jul'21) and KAISAG 10.875% perps (Offer at 88, YTC 18% callable Sep'23, coupon reset to 3-yr UST+15.718% if not called).

Upside surprise 1: Core net profit up 29% yoy

Kaisa posted stronger than expected 1H21 results with revenue up 35% to RMB30.1. The recognized sales growth outpaced the CAGR of 15% of contract sales over the past 3 years. More impressively, the core net profit grew 29% to RMB3.9bn under the backdrop of increase in non-controlling interests and deemed deconsolidations in the past few years. These somehow reflect its focus on deliveries. We note Kaisa 's 1H21 capex on construction was RMB22bn and it revised up the budgeted capex on construction in FY21 while cut its land acquisitions budget. Gross and net core profit margin in 1H21 narrowed to 30.9% and 13.1% from 33.8% and 13.7% in 1H20, respectively. That said, its profit margin remains at the high-end of the sector. Kaisa guided a FY21 revenue of RMB65bn and gross margin of 25-30%.

Upside surprise 2: URPs conversion exceeded target

In 1H21 Kaisa converted 3 URPs (all in GBA) with a total salable resources of RMB73bn (Kaisa's 7M21 contract sales were RMB74.0bn, up 62.3% yoy and equivalent to 57% full-year target). In terms of GFA, the URP conversions were equivalent to 1/3 of new land bank obtained on an attributable basis. These exceeded its target of 1H21 conversion of URP saleable resources of RMB66bn, and full year conversion of RMB64bn in FY20. URPs, with a general gross margin of 35-40%, contributed to about 1/3 of its contract sales and recognized sales in 1H21. The faster than expected conversion will support Kaisa's sales momentum as well as its profit margin.

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Upside surprise 3: Moved to green camp earlier than expected

Kaisa managed to move to the green camp earlier than our expectation. In Jun'21, its net gearing, adj. liab/asset and cash (excl. restricted)/ST debts ratios were 94.1%, 69.6% and 1.6x, compared with 96.7%, 69.7% and 1.7x in Dec'20, respectively. Even if we exclude the short-term fixed deposits from its cash balance, its cash/ST debt ratio was 1.5x. We believe that the improvement was, to some extent, helped by deemed deconsolidations of subsidiaries (URPs). That said, we see the potential of further monetization of URPs, especially for those projects that will take longer for conversion. We also notice that the attributable net debt at JVs and associates level was stable at RMB17bn in Jun'21 (vs RMB16bn in Dec'20), equivalent to c20% % total net debts. Kaisa is one of the larger issuers in the USD bond markets, the continued access to the offshore capital market is crucial for its on-going refinancing requirements. The improving credit story will help Kaisa to better position for the re-access of capital markets as we expect that the market will increasingly differentiate credits based on their fundamental.

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