CMB INTERNATIONAL

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CMBI Credit Commentary - ZHLGHD

ZHLGHD: 1H21 Result in line with expectation

We believe that ZHLGHD 11.5%'21 and ZHLGHD 8.875%'21 will be money good as company has prepared for repayments through internal resources (please see our commentary published on 28 July '21) and repurchased a total of USD86mn in principal amount of its outstanding USD bonds since July (ZHLGHD 11.5%'21: 76mn, ZHLGHD 8.5%'22: 6mn, ZHLGHD 9.5%'22: 4mn). We remain neutral on its long end bonds due to current volatile offshore bond markets that hindered its refinancing channels.

1H21 result is stable and in line with our expectation

Zhongliang reported stable 1H21 results with revenue increased 38.5% to RMB32.9bn and core net profit attributable to owners of the parent up 15.2% to RMB1.5bn. Gross margin slightly lowered to 20.8% (vs 22.6% in 1H20 and 21.0% in FY20). Management expects gross margin to maintain at 20% level based on current unbooked sales margin level. We believe future revenue growth is visible given its sufficient consolidated unbooked revenue (RMB160bn) and contract liability (RMB 129bn). Total debts slightly increased 1% to RMB54.7bn from RMB54.2bn in FY20 with bank loan portion decreased to 49.7% from 53.1% and offshore bonds portion increased to 19.1% from 16.4%. MI/total equity ratio further increased to 66.5% from 63.9% in FY20, we expect the ratio to remain high because of more cooperation under centralized supply policy.

Land replenishment remains aggressive in 1H21

Zhongliang spent RMB 16.9bn in land acquisitions in 1H21 (38% of its cash collection), and guided to spend another RMB 24.3bn in 2H21 (51% of expected cash collection). The replenishment plan is aggressive given its refinancing requirements, in our view. However, management indicated that company will adjust the amount to meet policy cap of 40% land acquisition to attributable contracted sales ratio. Company might also lower it if weak market sentiment prolongs.

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Concern on debt profile remains

Zhongliang's non-bank borrowings portion stays high at 30.3% of its total debts (FY20: 29.8%) and we understand from management that RMB4bn trust loans will mature within 2021, pending refinancing from project loans. Guarantees to its JV and associates also amounted to RMB14.5bn (FY20: RMB12.2bn), which is unlikely to decline as centralized land supply policy results in more cooperation with other developers.

Zhongliang is expected to remain in yellow camp under "3 red-lines"

We saw improvement in all three ratios under "3 red-lines" in 1H21. Net gearing decreased to 56.6% from 66.2% in FY20, driven by higher cash balance and larger total equity. Unrestricted cash/ST debts increased to 1.21x from 1.09x while adj. asset to liabilities ratio slightly lower to 79.3% from 79.9% in FY20. Management targets to gradually lower adj. asset to liabilities ratio to 70% target by increasing total equity within the next two years.

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