

CMBI Credit Commentary

EHOUSE – Profit - warning

Ehouse issued a profit warning last night expected to record a net loss of RMB1.5bn -1.7bn for 1H21 (vs 1H20: Net Profit of RMB105mn), driven by an impairment loss of RMB1.9bn –RMB2.1bn on trade receivables from certain developer customers whose credit quality has worsened.

We deem this is receivables from Evergrande, which has been a key overhang on EHOUSE bond price, given Evergrande contributes to 20% of Ehouse's revenue and 30% of Ehouse's total trade receivables. **To our best understanding, this scale of impairment in 1H2021 (RMB1.9bn-RMB2.1bn) should capture a large part of bad debt from outstanding receivables from Evergrande (c. RMB 3bn),** and this scale is smaller than S&P's estimate of RMB3.5bn –RMB 4bn in its downgrade note on 9 Aug, 2021.

We believe Ehouse's operation can withstand this non-cash write-off and the loss of Evergrande business, thanks to its high cash balance of RMB8bn as of FYE20. We expect Evergrande's news flow impact to Ehouse's bond price to gradually diminish, as Ehouse's rid of Evergrande this customer and continue its business operation. **We deem S&P's B+/Stable outlook, post its recent downgrade, as a good reflection of Ehouse's current credit quality.**

Technically, we see Ehouse's bond price movement to trend similar to CARINC in 2020 when CARINC downsized its car fleet and revenue scale post Luckin's Coffee saga. **Ehouse '22 should still see good support thanks to its high cash buffer. We maintain our OW EHOUSE '22 at 95 (YTM~16.5%) and Neutral '23 at 85 (YTM~ 18%) given flatness of its curve.** More to follow after its interim results release on 31 Aug, 2021.

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