Fixed Income
Credit Commentary

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CMBI Credit Commentary - GZRFPR

GZRFPR – More remedies needed

Guangzhou R&F delivered interim results featuring tight liquidity, deteriorated gross margin and barely improved "3-red-line" metrics. R&F was slow in making significant progress in asset disposal in 1H21, albeit the good quality of its investment properties portfolio. While we believe the refinancing profile could be manageable in 2021, more remedies are needed for the company to address lumpy maturity wall in 1H22. **We expect the company to monetize assets, and push pre-sales and cash collection to support its cash flow. We also believe the negotiation of debt to equity swap (RMB5bn) with Guangzhou City Construction Investment is the key to watch in the following months. Post the result, GZRFPRs down 3-4 pts. We believe the downside risks have been largely priced in the current valuation at YTM 20-26%, we remain neutral on GZRFPRs until more visibility on its refinancing/material assets disposal appears.**

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Interim result at a glance. Guangzhou R&F reported revenue of 39.5bn (+18% yoy), driven by property development revenue of RMB35.9bn (+17% yoy) and hotel operation revenue of 2.5bn (+79% yoy). Meanwhile, GPM further declined to 22% (2020:24%, 1H20:30%) due to inventory destocking initiatives. EBITDA is estimated to be RMB10.3bn (-25% yoy). Net profits declined 19% to RMB3bn. R&F announced interim dividends of RMB375mn, representing 13% of dividends payout ratio (1H20 interim dividends payout ratio: 36%).

Total debts was cut RMB11.7bn to RMB148.5bn (inclu. interest bearing borrowings from JVs), but total cash halved 11.1bn. As a result, net debts slightly down 588mn. ST/total debts slightly improved to 0.38x (2020: 0.4x). Net gearing remained high at 129% (2020: 131%). Adj. liabilities/assets ratio marginally lowered to 75% (2020: 77%).

Liquidity is the focus. In interim, Guangzhou R&F's liquidity further tightened with cash/ST debts lower to 0.5x (2020: 0.6x), and unrestricted cash lower to 0.25x (2020: 0.4x) due to repayment of sizable onshore & offshore bonds in 1H21, as per table 1. Under unfavorable funding conditions, R&F resold ~RMB6.2bn onshore bonds and newly issued ~RMB6.5bn equivalent offshore bonds, as per table 2. Having that said, R&F's liquidity situation remained tight and free cash balance fell short of market expectation. Guangzhou R&F's reported RMB12.8bn unrestricted cash is insufficient to cover up to ~RMB14.7bn public maturities due by 1H22 (as per table 3). With the management's optimistic guidance of RMB29bn projected cash flow in 21FY, we believe more remedies are needed to address the lumpy maturity wall in 1H22, especially onshore.

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Table 1: Guangzhou R&F's bonds repayment & resale in 1H21

Bonds due in 1H21	Maturity date	Put date	Total size (RMB bn)	Repayment (RMB bn)	Resold (RMB bn)
18 富力 10	2023/1/3	2021/01/03	7.0	2.8	4.3
GZRFPR 8.750 01/10/2021	2021/1/10		2.6	2.6	
16 富力 01	2021/1/11		6.0	6.0	
16 富力 03	2021/1/22		3.6	3.6	
GZRFPR 7.000 04/25/2021	2021/4/25		6.0	6.0	
16 富力 05	2023/4/7	2021/04/07	1.0	0.0	1.0
19 富力 01	2023/5/9	2021/05/09	1.6	1.6	0.0
16 富力 06	2022/5/16	2021/05/16	1.3	0.3	1.0
Total			**29.1**	**22.9**	**6.2**

Table 2: Guangzhou R&F's new issuance in 1H21

Bonds issued in 1H21	Maturity date	Put date	Total size (RMB bn)
GZRFPR 11.75 08/02/2023	08/02/202		4.4
GZRFPR 11.625 09/03/2024	09/03/202		2.1
Total			**6.5**

Table 3: Guangzhou R&F's maturity schedule by 1H22

Bonds due by 1H22 (Incl. put)	Maturity date	Put date	Total size (RMB bn)
16 富力 11	2022/10/19	2021/10/19	1.7
GZRFPR 8.875 09/27/2021	2021/9/27		3.1
GZRFPR 5.750 01/13/2022	2022/1/13		5.5
16 富力 04	2022/4/7		2.0
20 富力地产 PPN001	2024/4/23	2022/04/23	1.0
19 富力 02	2024/5/9	2022/05/09	0.4
16 富力 06	2022/5/16	2021/05/16	1.0
Total			**14.7**

Rating implications post sluggish results. Guangzhou R&F is rated B stable/B1 negative/B+ stable by S&P/Moody's/Fitch. Once again, R&F's tight liquidity and weaker EBIT interest coverage ratio could weigh on the company's credit ratings. We assessed Guangzhou R&F's EBIT interest coverage ratio should be 1.3x on LTM basis, breached Moody's requirement of 2.0x.

What to watch in 2H21? While we believe R&F has sufficient internal resources to tackle its remaining two maturities (totaling RMB3bn) in 2021, we believe the next few months could be crucial for the company to monetize its assets and seek for alternative financing. We listed out few points for watch in the next few months, as R&F's potential liquidity sources.

Pre-sales and cash collection. In 6M21, Guangzhou R&F recorded contracted sales of RMB65bn (+18% yoy) with cash collection of RMB42bn (including those from pre-sales of last year). We view the cash collection from its presales the major source to shore up liquidity, albeit it may be challenging for the company to fully complete sales target of RMB150bn, under policy on curbing discount sales and slowdown in land acquisitions since last year. We expect R&F to complete 85%-90% of the sales target and achieve 80%-85% cash collection, depending on the physical market. With that, we assess R&F could generate RMB14bn-16bn free cash flow in 2021FY.

Subsidiary level of capital introduction from Guangzhou City Construction Investment Group (广州城投). In Dec'20, Guangzhou R&F obtained RMB5bn one-year loan from Guangzhou CCIG by pledging 5 subsidiary project companies at LTV of 50%. Per management, the loan could be converted into equity, but the details could subject to the negotiation between related parties. With the negotiation progress drag on, it is still unclear if the capital could be successfully introduced into the firm, taking consideration of the long haul Evergrande saga.

More asset disposals. Guangzhou R&F is assets rich, with 55.5mn sqm land bank (91% attributable), 58 URP projects with potential sale-able area of 37mn sqm, and sizable hotel and investment properties portfolio. Guided by the management, company has disposed 3 assets for RMB1.2bn in 1H21. More assets, including block size of offices, shopping malls, and JV stakes, are in pipeline for monetization. We view the management's more proactive assets sale plan, despite relative slow in the 1H, could bring more visibility in refinancing.

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