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CMBI Credit Commentary - JIAYUA

JIAYUA: Solid results met expectations

Jiayuan reported solid interim results, in line with our previous expectations. Company improved its balance sheet and maintained good profitability, thanks to asset injections funded by equity and equity-like CBs. Jiayuan remained in green camp under "3-red-line" policy, and replaced good size of nonstandard borrowings with bank loans. **With JIAYUAs trading at 13.5% to 14.5%, we maintain our OW recommendation, credit to its continuous improving story, lower beta performance, active debts management, potential equity or equity related financing, and upside pressure of its credit ratings.**

Wilson Lu 路伟同
(852) 3761 8918
wilsonlu@cmbi.com.hk

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

All-round improvement in interim results. Jiayuan delivered revenue of RMB9.4bn (+9% vs. 1H20 before restatement). Gross margin normalized to 32% (2020: 32%; 1H20: 37%). EBITDA slightly declined 6% to RMB2.7bn. Profits rose 35% thanks to gains from non-cash items. NCI as of total profits is 10%.

On its balance sheet, Jiayuan further improved "3-red-line" metrics with net gearing of 41% (2020: 60%), adj. lia-to-asset of 62% (2020: 67%) and cash/ST debts ratios of 1.5x (2020: 1.5x), albeit total debts grew RMB1.5bn to RMB22.9bn. Debt profile notably improved as non-standard borrowings lowered to 13% (2020: 23%) and bank borrowings portion rose to 43% (2020: 33%). Contract liabilities increased 9% to RMB20.7bn, which covers 1.1x of its full year revenue target.

Operational wise, Jiayuan achieved RMB19.1bn pre-sales (+64% yoy, 47% completion rate), with 81% attributable and 80% cash collection rate. Company spent RMB6bn in land acquisition for 7 projects, adding 1.1mn sqm GFA at average land cost of RMB5.2k per sqm (40% of 1H21 presale's ASP). Management guided to use 40% of sales collection for land acquisitions for 2021FY.

Sufficient and cheap land bank driven by asset injection. On 30 Jun, 2021, the Shandong asset injection from the controlling shareholder was completed. The Shandong assets are 3 projects in Qingdao including an urban redevelopment project and 1 in Weihai. The total GFA of these projects is 1.62mn sqm and asset size is RMB30bn (NAV RMB6.8bn). As per the company, the Shandong assets (3 in Qingdao including an urban redevelopment project and 1 in Weihai) will have a GPM of 37%.

CMBI Fixed Income
fis@cmbi.com.hk

As of 1H21, Jiayuan owns 15.6mn sqm unsold land bank with saleable value of RMB210bn and an attributable ratio of 83%, covering 5x of 2021's pre-sales target. Average land costs were RMB2.5k per sqm, translating into 19% of the ASP sold 1H21 (~RMB13k per sqm).

Active debt management. In 2021, Jiayuan engaged in active debt management and improved its maturity profile. Company tendered USD117mn bonds puttable in 2021, USD12mn bonds due in 2022, and USD80mn bonds due in 2023. It also repurchased USD5mn 23s and USD3mn 24s bonds through secondary market.

On the issuance side, Jiayuan issued USD300mn notes due in 2023 and USD130mn notes due in 2024 and USD. In addition, Jiayuan issued USD100mn CBs which will mature in 3.5 years and puttable in 2.5 years. In our view, the CBs issuance is credit positive and the CBs are equity-like because: 1) CBs is structured to make conversion into equity; 2) we expect to see more equity and equity-related financing after the lock-up period, since more dilution is needed for the chairman to fully convert his CBs. The CBs and potential equity financing will notably enlarge Jiayuan's equity base.

Potential positive credit rating action. Taking cue from further improved credit metrics, lower reliance on nonbank borrowings, and successful offshore debts management, we access Jiayuan's credit ratings (B stable/B2 stable/B stable positive by S&P/Moody's/Fitch) has improved to be within the thresholds of the upside credit rating scenarios indicated by rating agencies. We expect Jiayuan's adj. debt/EBITDA to below 3.5x (S&P's requires below 4.0x for upgrade) and revenue/EBIT to above 80% (Moody's requires to above 70% for upgrade), as of 1H21. Having that said, the credit rating actions are still subject to company's negotiation with rating agencies, under bearish market sentiment especially on developers.

Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

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