招銀国际
CMB INTERNATIONAL

27 Aug 2021

CMBI Credit Commentary - REDSUN

REDSUN: Looking for opportunities in the kinked credit curve

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Prefer short-dated HONGSL'22 and REDSUN'24 and '25 to capitalize on the kink of yield curve

Shorter-dated REDSUNs have been performing resiliently over the past 3 months, valuation of them are not too appealing. Indeed, for the REDSUN/HONGSL complex, we prefer REDSUN'24 and '25 in view of the kink of REDSUN curve. At 91.1 and 89.0, REDSUN'24 and '25 are trading at YTM of 11.2% and 11.3%, respectively. REDSUN'24 and '25 as these bonds are about 10pts lower than REDSUN'23 in terms of cash prices, and offer yield pick-up of c200bps for 1-2 year extension in maturity.

30% growth in revenue for FY21 guided

In 1H21, Redsun's revenue increased 34.7% to RMB13bn but core net profit increased only 3.5% to RMB904.9mn, reflected mainly the lower contribution of share of profits of JVs and associates. We believe that lower contribution from share of profit of JVs and associates was more of a timing issue resulting from the project delivery schedule. Redsun guided the revenue growth of 30% to cRMB27bn in FY21. In 7M21, Redsun achieved contract sales of RMB56.0bn (up 37.3% yoy). In view of its saleable resources of RMB155bn, Redsun can achieve its full-year target with a sell-through rate of 60% (the rate was 65% in 1H21).

Land acquisition under commercial/residential linkage to support margin over the medium term

Its gross margin and core net profit lowered to 21.1% and 7.0% in 1H21 from 25.3% and 9.1% in 1H20, reflected the margin pressure on the Chinese property sector. We note that Redsun's margin in 1H21 improved from that in 2H20 and expect the margin to stabilize at low 20% over the coming 1-2 years. As M&A and commercial/residential linkage have accounted for a larger portion (c1/3) of its land acquisitions, and revenue from these saleable resources will be recognized in the coming 2-3 years, we should expect to see its gross margin to rebound to mid-20% over the medium term.

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Disciplined expansion to be fully in compliance with "3 red-line"

Redsun maintains at the green camp under "3 red-line" with net gearing, adj. lab/asset and cash (excl. restricted cash but incl. pledged deposit)/ST debts at 58.7%, 69.4% and 1.4x in Jun'21, compared with 56.8%, 69.4% and 1.4x in Dec'20, respectively. We understand that the company budgets its land acquisitions and cash flow in order to be in compliance with "3 red-line". Therefore, we expect the company to remain in the green camp. Redsun budgets a breakeven free cash flow in FY21. We estimate its net gearing ratio to further decline to low 50% by FYE21.

Lengthened maturity profile and diversifying funding channels

Redsun took advantage of the more favourable market condition earlier this year to issue 3-year bonds (USD210mn) in May'21 and its first 4-year bonds (USD350mn) in Jan'21. These had notable shored up its liquidity and lengthened its debt maturity. For the rest of 2021, the only maturing offshore bonds are USD100mn due Oct'21. The company has gradually secured the access to the offshore loan markets. The size of the 3-year loan facilities (to be full repaid by early 2023) have gradually increased from USD70mn to USD90mn. We understand that the company continues to explore offshore banking relationship to further diversify its funding channels and lengthen its maturity profile.

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