CMBI Credit Commentary - REDPRO

REDPRO: ’22s bonds are attractive carry

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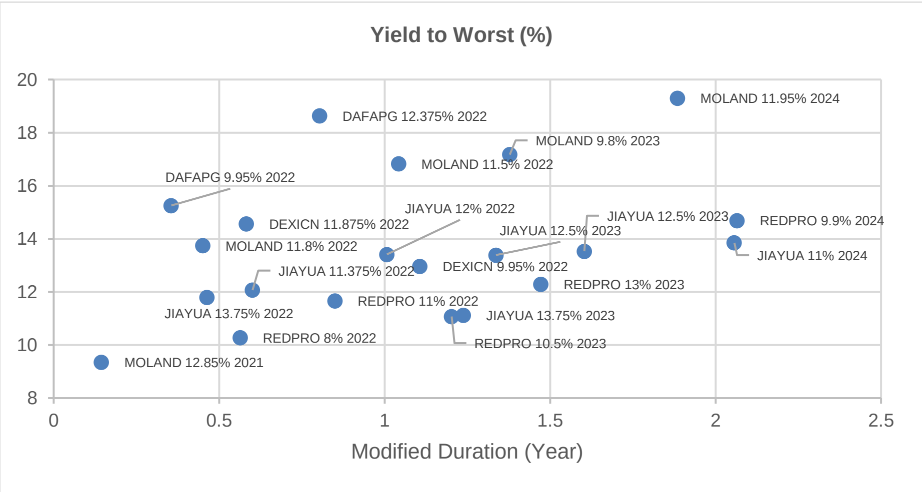
Redco delivers solid interim results, highlighting strong P&L helped by NCI, steady B/S and resilient debts profile. We believe Redco’s full year target is achievable backed by its optimized land bank structure and sufficient resources. Amid market volatility, REDPROs out-performed many of its similarly rated peers. **After outperformance for the past few months, we consider the valuation of REDPROs largely fair though we still like REDPRO ‘22s at 10%-12% as a low-beta, short-dated carry play in view of its diversified funding channel and adequate liquidity.**



Higher NCI due to consolidation of Nanchang and Ningbo projects. In 1H21, Redco reported robust revenue of RMB9.1bn (+36% yoy) with improved gross margin of 25% (+2ppts). EBITDA rose 59% to RMB1.3bn. Net income grew 78% to RMB1.3bn but the increase was mostly contributed by NCI (RMB779mn). That said, we understand the high NCI was due to the consolidation of projects partner with local government/other developers. These projects include 1) Nanchang project (20% of revenue) with 30% GPM and only 16% equity portion; 2) Ningbo project (18% of the revenue) with 35% GPM and only 31% equity portion. With these two projects booked, Redco’s gross margin increased 2ppts vs. 2020 but NCI ramped up. Despite of the one-off booking effect in 1H, we expect Redco’s full year NCI as of total profits and gross margin to gradually normalize in 2021E. Company guided to report RMB18bn revenue and above 20% gross margin in 2021E.

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Steady balance sheet and debt profile. In 1H21, Redco showed higher total debts of RMB23bn (2020: RMB20bn), and higher net debts of 7.6bn (2020: 6.3bn) due to free cash outflow of RMB1.2bn in 1H21. With that, credit metrics under "3-red-line" remained largely unchanged as unrestricted cash/ST debts of 1.3x (2020:1.4x), net gearing of 51% (2020: 49%), and adj. lia-to-asset of 78% (2020: 78%). Redco expects to be full compliance with "3-red-line" by 2022. MI as of total equity edged up 3ppts to 50% in 1H21, driven by higher NCI. Average interest expense edged down 20bps to 9.5%.

Stable debts profile and manageable refinancing. Redco's debt profile features slightly higher usage of non-bank borrowings (12% vs. 8% in 2020), as of 1H21, due to active land bank replenishment in 1H21. Onshore bank loans as of total debts slightly decreased to 46% from 49%.

Redco's ST debts (deducting Aug'21 notes repayment) should be RMB6.6bn, flat to that of 2020.Redco will have USD175mn syndicated loan due in Mar'21 and USD320mn senior notes due in Apr'21, in the next 12 months. We expect the company to repay the upcoming maturities through offshore cash (guided USD150mn) and cross-border cash pooling, should the capital markets remain bearish on developers.

Achievable full year sales target backed by sufficient land reserve. Redco reported robust pre-sales in 1H21 of 23.5bn (+81% yoy) with attributable ratio of 52% (flat yoy). With RMB40bn-45bn expected resources in 2H21, we see its RMB50bn target (+22% yoy) is on track, on a 59-66% expected sell-through (1H21: 70%). In 1H21, Redco has added 16 projects for 2.6mn sqm at 3.8k per sqm with attributable costs of RMB5.2bn (52% of annual budget), optimizing its land reserve in GBA & YRD (combined 33% of total landbank). Redco has ramped up its total unsold land bank to RMB19.3bn, translating into 3.8x of its 2021 sales target.

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