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CMBI Credit Commentary - DEXICN

DEXICN: Debts funded expansion to slow down in 2H

Dexin reported mixed set of interim results, highlighting robust growth of revenue, improved debts profile, but higher reported debts and further growth of MI. Taking cues from its quality land bank in YRD, Dexin recorded strong contract sales growth with good sell-through and cash collections. The company also increased the attributable ratio of its 1H21 presales and land bank newly acquired. Dexin was active in land investments in 1H21 funded by debts, but we expect it to slow down in capital expenditure to meet the regulatory requirements. **Despite the higher MI reported in 1H and active debt funded expansion, we credit to Dexin's sufficient land bank in high tier cities, increasing attributable ratio, improvement in debt profile, and believe regulatory requirement will curb its land investment in 2H. We maintain our OW on DEXICN, and view DEXICN 22s at 14%-15% are attractive carry play.**

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Strong P&L growth albeit margin compressed. Dexin reported revenue of RMB13.bn (+69% yoy), EBITDA of RMB2.2bn (+31%) and net income of RMB1.4bn (+3% yoy). GPM normalized to 22% (2020: 25%). Company guided to book RMB20-23bn in 2021FY with GPM stabilized at 22%. NCI as of total profits increased to 54% (1H2020: 48%).

Robust pre-sales with improved attributable ratio. Dexin delivered contract sales of RMB43bn (+67% yoy) with higher attributable ratio of 41% (2020: 31%) and consolidated ratio of 52% (2020: 50%). The company has maintained good sell through ratio and cash collection ratio (80% and 85%, respectively) as a result of strong market position in high tier cities in Yangtze River Delta area. We expect the company to achieve full year sales target of RMB80bn.

Active land replenishment in 1H21 pushed total debts higher, but "3-red-line" metrics remain stable. With strong contract sales and cash collection, Dexin was proactive in land acquisition and purchased 27 land parcels for attributable saleable GFA of 3.4mm sqm (50% attributable) with RMB13.5bn attributable costs (unpaid premium: RMB6.1bn). Dexin increased M&A as land acquisition channel, taking account of 59% of the GFA acquired and 64% of the attributable land expenditure. We estimated

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the average land cost to be RMB7.9k per sqm, equivalent to 37% of the ASP in 1H21's presales (RMB21k per sqm). With the sizable unpaid land premium of RMB6.1bn, we expect Dexin to slow down in land investments in 2H21, to meet the regulatory guidance that limits developers' land investment below 40% of pre-sales. As of 1H21, Dexin has unsold land bank of 14mn sqm (attributable ratio of 45%), translating into saleable resources of about RMB294bn, which is sufficient for at least 3 years of developments.

Following the land replenishment activities, Dexin's total debts increased to RMB32.4bn (+37%). We estimate Dexin will maintain similar debts level in 2021E, and fund the unpaid land premium through sales collection in 2H21. "3-red-line" metrics remain stable, as cash/ST debts reported 1.4x (2020: 1.4x), net gearing reported 72% (2020: 75%), and adj. lia-to-ast ratio reported 74% (2020: 74%).

Good market position in high tier cities helped Dexin's bank borrowings. Dexin increased bank loans to 63% as of total debts (2020: 56%), thanks to higher development loans incurred by active land acquisition in 1H. As a result, Dexin further eased its reliance on non-bank borrowings to 20% from 28% in 2020. With that, Dexin's average funding costs lowered to 8.1% from 8.9%.

Dexin's MI further increased to 70%, high among sector peers. Dexin reported higher MI of 70% as of total equity, from 65% in 2020. The rising MI stems from historically low attributable ratio of Dexin's projects. Despite the fact that more reliance on MI lowers Dexin's financial transparency, we understand that the majority of its JV partners are property developers, instead of financial investors. With the higher attributable ratio of its newly acquired land bank, we expect the MI to decrease gradually.

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