

CMBI Credit Commentary - FTHDGR

Fantasia: Eyes on asset and stake sales

Buy on FTHDGR'21s and neutral on FTHDGR'22s, '23s and '24s

Except for FTHDGR 7.375%'21 due Oct'21, FTHDGRs traded 20-30 pts lower over the past 3 months in view of Fantasia's heavy refinancing requirements. We believe that the company can handle the refinancing/repayments of USD bonds maturing within FY21 with cash on hand, as well as proceeds from asset and stake sales. Hence, we have buy recommendations on FTHDGR'21s. Over the longer-term, the access to capital market, important for its on-going refinancing requirements, remains challenging for Fantasia in view of the price levels in secondary market. That said, we believe that the current levels for longer-dated FTHDGRs have priced in significant downside resulting from the potential tender offer and exchange. We have neutral recommendations on FTHDGR'22s, '23s and '24s pending on more clarity on Fantasia's asset-liability management plan.

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Weakened 1H21 results driven by the lower recognized margin...

In 1H21, Fantasia reported that revenue increased 1.5% to RMB11.0bn while recurring operating profit + share of profit of associates decreased 39.4% to RMB1.4bn, reflected the significant decline in gross margin to 20.8% in 1H21 from 33.6% in 1H20. This was attributable to the larger proportion of sales from projects in Guilin and Chengdu with lower ASP. We estimate that the recognized ASP in 1H21 was cRMB8.6k/sqm, compared with RMB9.0k/sqm in 1H20. Nonetheless, we take comfort that its gross margin had recovered from 17.9% in 2H20, and its contracted ASP was considerably higher than the recognized ASP in 1H21. In 7M21, Fantasia's contract sales and contracted ASP increased 49.0% and 20.4% yoy to RMB33.2bn and RMB16,166/sqm. The company guided that the gross margin to remain above 20% for FY21.

....URPs conversion to support sales momentum and margin recovery

Fantasia has a total of 50 URPs projects in GBA, including 27 in Shenzhen. As per Fantasia, the total saleable resources are RMB467.1bn. It converted saleable resources of RMB5.8bn and RMB6.4bn into its land bank in FY19 and FY20, respectively. Fantasia targets to convert 3 URPs (2 in Shenzhen and 1 in Huizhou) into its land bank with total saleable resources of RMB7.9bn in FY21 and another 3 URPs (all in Shenzhen) with total saleable resources of RMB21.4bn in FY22. These URPs will generally be available for pre-sales 6-12 months after conversion.

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Taking cues from its sales target of RMB60bn in FY21 and higher gross margin (SZ: 50% and other GBA: 40%) of URPs, the speedier URPs conversion will support its sales momentum and margin rebound. We believe that the monetization of URPs could be an alternative funding source going forward.

Largely stable financial profile....

Fantasia's net debts increased 7% to RMB20.4bn with largely stable key credit ratios. Its net gearing, adj. lab/asset and unrestricted cash/ST debts ratios were 76.8%, 72.4% and 1.4x in Jun'21 compared with 77.3%, 72.0% and 1.4x in Dec'20, respectively. Fantasia revised down its full-year cash collection, as well as budgets for land acquisitions and construction, such that the free cash flow will be about breakeven. We believe that the net cash outflow to acquire property management operations from the RMB1.26bn transaction with Greenland to be limited and estimate that its net gearing to maintain at mid-70% by FYE21.

...refinancing of FTHDGR'21s hinged on asset and stake sales

The major concern on Fantasia remains its heavy refinancing requirements under the challenging capital market environment. Fantasia will have onshore and offshore bond maturities/redemption of cUSD1.0bn, including cUSD762mn USD bonds due before FYE21. It also had cUSD150mn trust loans to be repaid before FYE21. Fantasia is exploring onshore bonds to refinance the cRMB950mn onshore bond due Dec'21. Regarding the offshore maturities within FY21, Fantasia plans to repay them with cash on hand (unrestricted cash of RMB27.2bn, cUSD4.2bn as at Jun'21) and proceeds of USD400-500mn from asset sales. As per Fantasia, it is in advanced discussions to introduce a financial investor for its Qingdao project. It expects to complete the sale of project stake by Sep'21. The net proceeds from this sale will be cUSD260mn (cRMB1.7bn). Additionally, Fantasia is in the advanced stage of disposal of a piece of factory land to the local government of Fengtai district in Beijing for social housing developments. It expects to receive net proceeds of USD200mn by Nov'21 for the land sale.

Possibility of tender offer and exchange for the longer-dated FTHDGRs

Fantasia will have onshore and offshore bonds of USD1.9bn in FY22 and USD1.6bn in FY23 maturing or subject to redemption. During the analyst briefing for 1H21 results, Fantasia discussed the thoughts of asset-liability management which includes tender-offer and exchange for the longer-dated bonds. While no detail on the plan was given, the current valuations of longer-dated FTHDGRs, in our view, priced in a significant downside and a rather unfriendly-type of asset liability management. Indeed, we believe that the tender offer and exchange, if any, could be more than friendly than the current prices are suggesting. In our view, Fantasia would like to avoid the rating downgrade and the risk that the asset liability management exercise being considered as a distressed exchange given an on-going access to capital market remains very important for its future developments. Recalled that Fantasia tender-offered FTHDGR 7.375%'21 in May and Jun'21 to buy back a total of USD287.8mn at par. Since mid-May'21, the company bought back and cancelled a total of USD52.1mn offshore bonds (FTHDGR'23s and '10.875%'24). The controlling shareholders also bought back a total of USD17.4mn of USD bonds (FTHDGR'21s, 9.875%'23 and 10.875%'24) over the same period.

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