CMBI Credit Commentary - EHICAR

EHICAR: Diversification play with resilient operating performance

We initiate OW on EHICAR '24, thanks to its improving operational strength in Chinese car rental industry, and we expect its refinancing story to continue. The company has issued USD 450mn notes due 2024 to prefund its '22 USD notes (now with USD252mn outstanding). EHICAR '24 was up 3.5pt since its debut on 10 May, 2021 vs CARINC '24 up 5pt since its issuance on 31 Mar, 2021. We have an OW on EHICAR 7.75 '24 notes at 103.85 (YTM~6.4%) as a low-beta diversification play thanks to its resilient operating performance. In short, we OW both EHICAR '24 and CARINC '24 with a slight preference of CARINC '24 (106, YTM~7%) at current valuation.

eHi reported a good 1H21 results. Revenue and EBITDA grew 6% yoy and 32% yoy to RMB3,034mn and RMB 881mn respectively. Compared to pre-COVID 1H19, 1H21's revenue and EBITDA have also exceeded 1H19's level by 12% and 32%, despite a smaller car fleet thanks to better unit economics.

Thanks to booming demand for domestic travel, eHi achieved a higher RevPAC of RMB157 in 1H21 (vs. RMB131 in FY20 and RMB132 in FY19). In particular, average daily rental rate (ADRR) rose to RMB 215, from RMB192 in FY20, while its car rental fleet utilization rate improved to 72.9%, from 68.4% in FY20.

We attribute eHi's good operational performance to its focused operation. The company covers 85% high speed railway stations and 70% airports in China with its 7,300 direct service network. eHi has a record of nimbly managing its car fleet to ensure stable utilization rate over 70% for past 2.5 years except for Covid disruption in 1H20. Its operational track record fared better than its key competitor - CAR Inc., see table below.

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Operational performance	2019	2020	1H2021
eHi Car			
Average available fleet size	66,788	63,840	58,565
RevPAC (RMB)	**132**	**147**	**157**
Fleet utilization rate (%)	74.6%	68.4%	72.9%
Average daily rental rate (RMB)	177.1	192	215
Revenue (RMB'mn)	5,722	6,171	3,017
EBITDA (RMB'mn)	1,660	1,594	881
EBIT (RMB'mn)	641	373	263
EBITDA margin(%)	*29%*	*26%*	*29%*
EBIT margin(%)	*11%*	*6%*	*9%*

Operational performance	2019	2020	1H2021
CAR Inc			
Average available fleet size	111,636	105,769	89,756
RevPAC (RMB)	**121**	**97**	**120**
Fleet utilization rate (%)	57.5%	53.3%	62.8%
Average daily rental rate (RMB)	210	181	191
Revenue (RMB'mn)	7,691	6,124	2,522
EBITDA (RMB'mn)	3,353	1,907	1,083
EBIT (RMB'mn)	1,202	-376	228
EBITDA margin(%)	*44%*	*31%*	*43%*
EBIT margin(%)	*16%*	*-6%*	*9%*

eHI's refinancing need is manageable over next 2 years.

As of 30 Jun, 2021, eHi had RMB1.85bn unrestricted cash, with cash/short-term debt ratio of 1.23x. Over next 24 months, we estimate eHi's repayment requirements include (a) syndicated loans of RMB632mn (in which remaining offshore syndicated loan of RMB100mn was already repaid in July 21, rest of syndicated loan is onshore with staggered monthly small sum repayment) and (b) USD notes of RMB1,619mn (USD252mn) due on Aug 2022. eHi's current cash on hand is earmarked for the '22 USD bond repayment. The company's new car capex will be low as well in 2H21 as it has already added 4,848 units of car in 1H21 to a total car fleet of 72,859 units, reaching its 7% fleet addition target in 2021.

We believe eHi can potentially take advantage of current offshore bond market access to further lengthen its debt maturity profile. Aside from that, eHi also has a track record of successfully refinancing its previous syndicated loans. Its new onshore syndicated loan of RMB750mn (amortizing over 3 years, at onshore Loan Prime Rate+0.35%) obtained from Shanghai Pudong Development Bank/Huaxia Bank in April 2021 carries lower finance cost than its previous offshore syndicated loan.

Leverage ratio	2019	2020	1H2021
eHi Car			
Total Interest-bearing debt	5,794	5,234	7,342
Total debt, adj (S&P)	8,783	6,692	8,821
Cash	320	793	1,852
Net Debt, adj (S&P)	8,464	5,900	6,969
Net Debt-to-EBITDA (x)	**5.1**	**3.7**	**3.8**
EBIT-to-Interest coverage(x)	**1.2**	**0.7**	**1.1**

Leverage ratio	2019	2020	1H2021
CAR Inc			
Total Interest-bearing debt	14,880	6,661	6,181
Cash	5,883	2,192	2,151
Net Debt, adj (S&P)	8,997	4,469	4,030
Net Debt-to-EBITDA (x)	**2.7**	**2.3**	**2.0**
EBIT-to-Interest coverage(x)	**1.5**	**-0.5**	**1.0**

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