CMB INTERNATIONAL 招銀国际

Fixed Income
Credit Commentary

6 Sep 2021

CMBI Credit Commentary - EHOUSE

EHOUSE – Lower to Neutral given its remaining Evergrande exposure

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Ehouse has provided more clarity of its Evergrande exposure post its 1H21 interim results. EHOUSE '22 has recovered 1-2pt to 96/97 and EHOUSE '23 rebounded 5pt to 89.5/90.5 since our last note on 26 Aug 2021, both yielding around ~14% currently. In view of recovered bond prices, and Ehouse's large remaining exposure in Evergrande, we revise our recommendation of EHOUSE '22 to Neutral, from OW. We are now Neutral on both EHOUSE '22 and '23 USD notes.

Evergrande exposure, although halved, will remain an overhang to Ehouse

Ehouse still has RMB2bn remaining account receivables from Evergrande, after booking RMB1.9bn related impairment loss in 1H21. These total RMB3.9bn receivables were already submitted to court for centralized claim. We believe that the prospect of full recovery will be low, and there is a high likelihood of further impairment for 2H21, and this will constrain its bond yield from significant tightening.

Ehouse will continue to sell Evergrande's apartments, albeit in a smaller scale, for cash payment or its properties as consideration for rest of 2021. Evergrande remains Ehouse's largest customer, accounting for 8% of sales (c. RMB500mn) in 1H21. This followed by Vanke (6.9% of sales), Country Garden, Seazen Group and R&F, and the latter 3 in aggregate account for less than 9% of Ehouse's revenue.

Set aside Evergrande's impairment impact, Ehouse's 1H21 result was still lackluster

Ehouse reported a weak interim result. Although revenue was up strongly +120%yoy to RMB6.3bn thanks to consolidating Leju's business since Nov '20, Ehouse posted a net loss of RMB1.6bn in 1H21 (vs 1H20 Net Profit: RMB 105mn). This was due to the aforementioned loss allowance RMB1.9bn on expected credit loss on receivable, from its largest customer Evergrande.

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Excluding Leju's consolidation and Evergrande's impairment impact, we estimate Ehouse's organic revenue was RMB4.3 bn, and recurring EBITDA of RMB650mn, still falling short of its 1H2019's level (representing 99% and 75% of 1H19's sales/EBITDA respectively).

Having said that, we think Ehouse '22 will be money good

We estimate Ehouse's accessible cash (including liquid financial investment) is RMB3.6bn, covering 0.87x of its short-term debt.

Our assessible cash calculation is based on its RMB6,697mn cash as of 30 Jun, 2021, plus 50% of its financial investment in liquid stocks. Deducting (1) cash held at Leju (56% owned and seperately listed): RMB2,050mn, (2) Cash reserved for Fangyou partners RMB500mn, and (3) HKD1.5bn for Alibaba's JV subscription, if the revised deal with Alibaba JV completes.

	RMB'mn
Reported Cash	**6,697**
Add:	
Financial investment	714
Less:	
Held by 56% owned Leju	-2,025
Cash used for Fangyou business partners	-500
For Alibaba's JV share subscription	-1,250
Assessible cash	**3,636**

Among Ehouse's short-term debt of RMB4.1bn as of 30 Jun, 2021, about RMB2.2bn in bank borrowing in which RMB1.1bn was pledged by its investment property. We believe this short-term bank loan has high likelihood of being roll-over. We estimate Ehouse will have sufficient free cash for '22 USD notes (USD 300mn) repayment in April 2022, judging from our free cash calculation, and Ehouse's operating cash flow outflow pace of RMB 500mn in 1H21.

The revised Alibaba deal with no cash injection

Revised deal with Alibaba will only increase cooperation at JV level, but Alibaba will no longer raise its stake of Ehouse to 22%, from~8% currently. This revised deal has no cash injection for Ehouse's share subscription from Alibaba. Instead, Ehouse will sell its Leju's stake and EH International (a subsidiary company operating Fangyou brokerage business post restructuring) in return for JV shares with Alibaba. Moreover, Ehouse will subscribe to this JV with Alibaba with HKD1.5bn payable in full by Ehouse at the subcription completion. Post completion, Ehouse will own 70% of this JV, rest 30% owned by Alibaba; compared to Ehouse's 15% shareholding in the JV.

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