CMBI Credit Commentary - RISSUN

RISSUN: Buy RISSUN 8.95%'22 at 60

RISSUNs (Ba3 negative, B+ stable, BB- stable by Moody's/S&P/Fitch) underperformed China HY market since Apr'21 over the rumors of delayed payment of commercial paper, and spillover effect from China Fortune Land's high profile default.

At 60, RISSUN 8.95%'22 (due Jan'22) are trading at YTM of 192%. We view the bonds were oversold and offer an attractive risk-reward profile, taking cues from Risesun's better-than-expected operating performance and its priority on cash flow over scale. We believe that Risesun has adequate liquidity to cover the repayment of RISSUN 8.95% 22, even in our sensitized case. We take additional comfort that Risesun's unpledged stakes in its HK-listed property management subsidiary Roiserv (2146.HK) could be an alternative funding source if needed. Risesun's 62.6% stakes in Roiserv is valued at HKD2.1bn (USD270mn) based on the last close. Between RISSUN 8.95%'22 and 8%'22 (due Apr'22, YTM 163%), we prefer 8.95%'22 to take advantage of the inverted credit curve. We remain neutral on RISSUN 8%'22 until there is more visibility of its refinancing plan.

Lower margin as expected due to geographical expansion. In 1H'21, Risesun reported revenue of RMB34.2bn (+31% yoy), EBITDA of RMB6.8bn (+8% yoy) and attributable profit of 2.5bn (-14% yoy). Gross margin normalized to 26% (-3ppts vs. 2020FY), in line with our expectation. With active land replenishment outside of Hebei area in recent years, we believe the gross margin could further decline in 2021 and after. Such margin erosion reflected the management's effort to balance sell-through and profitability. We do not view such margin decline too negatively, as the sector's margins trend lower.

Improved balance sheet with lower debts and non-bank borrowings. Risesun reported total debts/net debts of RMB67.9bn/RMB38.7bn (-7%/-7% vs. 2020YE) in 1H'21. Trust loans and asset management loans lowered from 17.6%/6.6% of its total debts to 13.8%/6.3%, totaling 20.1% in 1H'21. The company further improved credit metrics under "3 red lines" guidance and reported net gearing, Cash/ST debts and Adj. liab/asset ratios of 66.5%, 1.2x, 71%, respectively (2020: 80.2%, 1.2x, 73.8%). Such positive developments reflected management's efforts in optimizing debt profile and reduce potential liquidity risk.

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Intact operating results; focus on sell-through and cash collection. 1H pre-sales was RMB59.9bn (+24.3% yoy, 46% of target completion) with ASP of RMB11.6k per sqm. The attributable and cash collection ratio was 90% and 85%, respectively. Its sell-through rate averaged 55%; 50% in Pan-Beijing area and 60%-70% in YRD. Risesun spent RMB12.3bn (27% of cash collection) in land investments for 28 land parcels. As of 1H'21, it owns unsold land bank valued at ~RMB28bn (covering 2.2x of pre-sales). We think that vigilant investment strategy could offer more flexibility to the company in term of liquidity management, despite it could be at the expense of its operating scale in following years.

Sensitivity analysis on 2H'21 cash flow. We did sensitivity analysis of Risesun's cash flow projection. We arrive at liquidity buffer of RMB11.6bn/3.6bn for repayment of RISSUN 8.95% Jan'22 (o/s USD292mn, or RMB1.9bn) under our base/sensitized cases. We applied 40%/60% discount factor for base/sensitized cases, assuming only part of the liquidity sources could be used for repayment. Under both scenarios, we assume that Risesun will have to rely on internal resources to repay its Jan'22 maturity. In our sensitized case, we applied more stringent assumptions, including only 50% of its liquidity source would be available to repay debts, FY sales will decline 4% yoy despite 1H'21 sales grew 24% yoy, and cash collection will compress to only 70% in 2H'21 despite 1H'21 cash collection was over 80%.

Risesun's liquidity analysis	RMB bn	Base case	Sensitized case	Notes
Liquidity sources				
Unrestricted cash as of 1H'21		26.3	26.3	Mgmt guided 19bn free for use
Contracted sales 2H'21		63.0	58.0	62bn/80.9bn for 1H21/8M21; 2H21 saleable resources 12.4bn; indicated sell-through 51%/47% (1H21: 55%)
Cash colletion ratio		*75%*	*70%*	1H'21 82%; assume to compress due to tighter funding
Cash recepits		47.3	40.6	
Land premium		12.6	11.6	Unpaid land premium 1.2bn from 1H'21; no new land acquired in Jul-Aug; assume land premium/sales 20%
Construction		19.0	20.9	1H21: 20.5; Mgmt. guidance 19bn for 2H'21
SG&A		3.5	3.5	1H'21 3.5bn
Tax		4.4	4.4	1H'21 6.1bn; 21FYE 10.5bn
Interests		3.6	3.6	Assume total debts / interest rate remain similar
Dividends & others		1.5	1.5	Mgmt. guidance 1.5bn
Free cash flow 2H'21 (conso. basis)		**2.7**	**-4.9**	
Total liquidity sources		**29.0**	**21.4**	
Discount factor		*40%*	*50%*	Assume only part of liquidity could be used for repayment
Liquidity sources after discount		**17.4**	**10.7**	
Liquidity usage by 2021	**Maturities**			
Bank loans	2.4	0.4	0.6	Assumed majority bank loans could be rolled over
Assets management loans	0.7	0.2	0.3	
Trust loans	2.5	1.5	2.0	Assumed lower trust loan balance due to lower new land investment
Commercial paper	3.0	2.0	2.5	Assumed lower CP balance due to tighter regulation; 1H'21 balance 7.9bn
RISSUN 9% Jul'21	1.7	1.7	1.7	Repaid in Jul'21
Total liquidity usage	**10.3**	**5.8**	**7.1**	
Liquidity buffer		**11.6**	**3.6**	**Liquidity can cover the Jan'22 maturity**

Stakes in Roiserv (2146.HK) could be alternative funding source. Roiserv, Risesun's property management subsidiary, listed in HKEX in Jan'2021. Risesun owns a 62.6% stakes in Roiserv. We understand that these offshore stakes, worth HKD2.1bn (USD270mn), are unencumbered and could be an alternative funding source for meeting offshore maturities, if needed.

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