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CMBI Credit Commentary – YANLORD

Initiating coverage with buy recommendations on YLLGSPs

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Buy on YLLGSPs

YLLGSPs are still 5-17 pts lower than the levels prior to the release of resilient FY21 results despite the rebound over the past few days. At YTM of 11.5-13.1% and with more data points after FY21 results, we believe that YLLGSPs offer good value in view of the company's relatively low leverage and manageable maturity profile. Hence, we recommend Buy on YLLGSPs.

	YTM (offer)	Offer price	Maturity	O/S (USD mn)
YLLGSP 6.75%'23	13.1%	93.75	23 Apr'23	350
YLLGSP 6.8%'24	12.5%	90.5	27 Feb'24	400
YLLGSP 6.75%'26	11.5%	79.5	20 May'26	500

Resilient FY21 results despite lower margin

Yanlord's more resilient operating performance, in our view, can be attributable to its consistent strategy of focusing on penetration into 20-plus T1/2 cities in YRD and GBA where Yanlord has established track record, instead of growing operating scale through nationwide expansion. In FY21, Yanlord posted revenue and recurring EBIT (incl. share of profit from JVs and associates) of RMB34.8bn and RMB9.5bn, up 45.6% and 39%, respectively. The growth was driven by 140% and 9.2% increases in gross GFA delivered and recognized ASP, respectively. However, its gross margin fell 10.8 pct pts to 25.6%, reflected the lower margin trend and more stringent price caps on higher tier cities where Yanlord has been focusing on. Yanlord guided a stable gross margin of 25% over the coming 1-2 years. Its margin, albeit notably lower, remains at the higher end of the sector.

Contract sales target of RMB75bn in FY22

In FY21, Yanlord reported contract sales of RMB59.6bn (on a gross basis, attributable ratio at 54%), equivalent to c85% of its FY21 target of RMB70bn. The miss was mainly attributable to the delay in project launches from Dec'21 to Jan'22. Indeed, the belated launches of these projects were the key drivers for the contract sales growth of 87.7% yoy to RMB9.8bn in Jan'22. Yanlord set the sales target for FY22 at RMB75bn on saleable resources of RMB120bn. This implies a sell-through rate 62.5%, compared with c72% achieved in FY21. In the 2M22, Yanlord reported contract sales of RMB10.89bn, up 40.1% yoy.

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Continue to deleverage after the acquisition of UEL….

Yanlord has been prudent in managing its financial profile. Its total debts and net debts continue to decline since completing the acquisition of 100% stakes in UEL in early FY20. Its total debts and net debts had decreased 7% and 33% to RMB43.1bn and RMB21.3bn as at Dec'21 from Dec'19, respectively. It has been in the green camp under the 3-red lines with net gearing, cash/ST debts and adj. liab/asset ratios at 48.5%, 2.4x and 66.5% as at Dec'21, compared with 80.0%, 1.0x and 66.2% as at Dec'19, respectively. We estimate its net gearing ratio will be largely stable even if it doubles the size of land premium payment in FY22 from that cRMB10 in FY21.

As at Dec'21, Yanlord provided guarantees of RMB1.7bn to attributable JV debts of cRMB12bn. The MI/total equity ratio is relatively low at 22%. This should partly mitigate the concerns on the transparency of its financial statements.

.... which owns a high quality IP portfolio in Singapore

Through the acquisitions of UEL, Yanlord owns a high quality IP portfolio in Singapore, comprising of UE Bizhub Tower, Park Avenue Rochester & Rochester Mall, etc. The book value of these Singaporean assets was cRMB11bn and the market value is cRMB15bn (cUSD2.3bn). Its outstanding amount of SGD loans as at Dec'21 was RMB5.7bn equivalent. We believe that the unencumbered value of its Singaporean assets should be cRMB9.3bn (cUSD1.2bn vs its total o/s offshore bonds of cUSD1.25bn).

Sufficient liquidity with a manageable maturity profile

Yanlord has a simple capital structure. As per Yanlord, it does not have outstanding wealth management product onshore. Because of its more granular onshore asset base, it does not have any onshore public bonds while it has onshore private placements of RMB1.5bn due Jul'24. Currently, it also has two CMBS: 1) RMB1.6bn puttable in Apr'23 (secured by Sanya hotel); and 2) RMB1.2bn puttable in Aug'24 (secured by Tianjin mall).

Regarding offshore financing, Yanlord has a manageable maturity profile. It does not have offshore bond maturity in FY22. Its offshore loan maturities are cRMB4.7bn. These should be sufficiently covered by cash on hand of RMB21.8bn and offshore undrawn committed loan facilities of cRMB1.2bn (USD190mn). As per Yanlord, only RMB3.8bn of its cash on hand were in the escrow account for project completion.

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