CMBI Credit Commentary – CIFIHG

An outperformer despite weaker FY21 results

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Maintain Buy on CIFIHGs, Hold CIFIHG perps

CIFIHGs moved 7-13pts higher since our comments titled "CIFIHG: Ping An Bank casted a vote of confidence" on 10 Mar'22. That said, CIFIHGs remain 6-10pts lower than the levels at the beginning of Mar'22, partly reflected the vulnerability of higher cash price bonds to EM fund outflow. We remain impressed with CIFI's ability to access various funding channels (equity, onshore bonds, onshore loans and USD bonds) in a very challenging market environment. As we wrote before, Ping An Bank's strategic cooperation agreement to offer CIFI M&A loans is a confidence vote on the survival of CIFI. At current valuations, CIFIHGs still offer good value for longer-term investors. We have Buy recommendations on CIFIHGs and prefer '24s and '25s for a more balanced risk-return profile. At the same time, we have a Hold recommendation on CIFIHG perps as we believe that calling of the perps (callable starting 24 Aug'22) is not the company's priority in near term.

Weaker FY21 results and flat attributable sales in FY22 targeted

In FY21, CIFI's revenue increased 50.5% to RMB107.8bn, driven by 37% increase in GFA delivered. Its net core profit attributable to owners declined 9.2% to RMB7.3bn, reflected the lower gross margin (19.3% in FY21 vs 21.7% in FY20) and 66% decline in share of profit of JCE and associates to RMB713.8mn. CIFI guides a stable profit margin over the coming 1-2 years.

CIFI targets flat attributable contract sales in FY22, i.e. cRMB120bn. The attributable ratio for its contract sales in FY21 was c50%, and it expects the ratio is roughly the same in FY22. CIFI targets to raise the attributable ratio to 70%. Factoring into the attributable ratio for the gross saleable resources acquired in FY21 was only 13.1%, i.e. RMB26.9bn, we expect that CIFI can only raise the sales attributable ratio gradually over the medium term. CIFI has turned its focus to attributable instead of gross sales. It also targets to achieve an income growth of 30-40% p.a. from its asset-light businesses (property management, construction, etc.) to enhance core net profit growth and ROE.

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From yellow to green camp under 3 Red Lines

CIFI managed to improve its key credit ratios, thanks mainly to the enlarged equity base (higher retained earnings and NCI). Assuming perps as debts, its net gearing, cash/ST debts and adj. liab/asset ratios were 65.9%, 2.6x and 69.7% as at Dec'21, compared with 71.4%, 2.7x and 72.5% as at Dec'20, respectively. CIFI moved to green from yellow under 3 Red lines. The company reiterated its discipline in fulfilling 3 Red Lines going forward. Regarding the concerns on NCI, 91% (in terms of NCI value) of its JVs are partnering with solid strategic and long-term investors such as China Merchants Shekou, Henderson Land, Hongkong Land, GIC and Jinmao. Only less than 5% of these projects are JVs with distressed developers. There are adequate cash at the project levels to complete the developments.

Land replenishment to remain disciplined despite more M&A loans are likely

In addition to the strategic cooperation agreement with Ping An Bank for provision of RMB5bn (cUSD770mn) M&A loans. This agreement reflects Ping An Bank's view that CIFI is a survivor of the sector. CIFI is in discussions with other banks on strategic agreements on additional M&A loans of RMB15-25bn. These loans, for land acquisitions through M&As, will be carved out from 3 Red Lines estimates and the funding cost will be benchmarked with PBOC rate. The M&A loans will offer CIFI a competitive edge for land replenishment. CIFI reiterated its targets to deleverage and lower financing costs. We expect the company to remain disciplined (40% of attributable cash collection) in land acquisitions.

Continued access to various funding channels

CIFI has been able to access various funding channels even in a very challenging environment. In addition, CIFI completed rights issue to raise cUSD215mn in Dec'21. It re-tapped CIFIHG 4.45%'26 to raise USD150mn in Jan'22. On 11 Mar'22, CIFI issued onshore 2+2 MTNs of RMB1bn for a coupon rate of 4.75%.

Manageable maturity profile

CIFI has been managing its ST debts/total debts at a low level (15.6% as at Dec'21 and 17.9% as at Dec'20). In FY22, the only remaining offshore public bonds are the dim sum bonds with o/s amount of cRMB1.5bn (cUSD230mn) due Apr'22. CIFI does not have any onshore bonds maturing or puttable in FY22. We do not expect CIFI to call the perps (callable starting 24 Aug'22) at current market condition. As at Dec'21, CIFI had cash on hand of RMB46.7bn compared with its ST debts of RMB17.8bn. We understand that cash in escrow accounts was RMB16.7bn.

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