

## CMBI Credit Commentary

### Fixed Income Daily Market Update 固定收益部市场日报

- *Some pullback this morning after recent rally. CIFIHG/COGARD down 1-2pt, SINOCE down 2-3pt. While low cash price GRNLGR/FTLNLD/CENCHI/CHINSC stabilized, up 0.5-1pt. TENCNT widened 10bp post soft result.*
- *YLLGSP: Initiate Buy at YTM of 11.5-13.1% in view of its relatively low leverage and manageable maturity profile See below.*
- *XIAOMI: Initiate Hold at XIAOMI '30 Z+255, as solid 2021 result tempered by its high spending appetite. See below.*

#### ❖ Trading desk comments 交易台市场观点

Yesterday, Chinese HY space strongly rebounded with positive market sentiment. ROADKG saw strong market buying post its financial result release, with its longer-end up 7-9pts. We also saw better buying in higher quality names, FUTLAN/FTLNHD traded up 2-4pts and COGARD/CIFIHG/SHUION rose around 2pts. SUNAC curve declined 3-4pts after media reported that company seeks to extend its onshore bond maturity. The industrial sector saw continued recovery with FOSUNI rose 3pts and HONGQI/BTDSF/CHIOL up 2-3pts. Macau gaming sector continued its rebounding trend with SJMHOL up around 1pt.

In Chinese IG space, TMT names like XIAOMI/MEITUA continued to tighten 10-20bps. In SOE sector, benchmark names tightened 5-10bps. We also saw recovery in financial space, and AT1 names was traded firm

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➤ **Yesterday's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
ZHLGHD 12 04/17/23	41.5	16.4	SUNAC 7 1/4 06/14/22	29.1	-4.6
LSEAGN 10 3/4 10/21/22	59.2	13.7	SUNAC 7 1/2 02/01/24	21.4	-4.5
ROADKG 5.9 03/05/25	72.4	13.6	YUZHOU 8 5/8 01/23/22	9.5	-4.5
ROADKG 6 09/04/25	72.1	12.9	SUNAC 6.65 08/03/24	21.1	-4.5
ROADKG 5 1/8 07/26/26	68.7	12.4	SUNAC 6.8 10/20/24	21.3	-4.3

➤ **Macro News Recap 宏观新闻回顾**

**Macro** – U.S. stock market ended lower Wednesday, amid record high oil prices and bond market sell-off. Oil prices tested its recent high again, as investors awaited news of fresh sanctions on Russia, alongside one of the biggest bond market sell-offs on record. The S&P (-1.23%), Dow (-1.29%), Nasdaq (-1.32%) closed lower. The extended fighting, as well as President Biden's talk of new sanctions on Russian crude exports, lifted oil prices back over the \$115 mark in overnight trading, with gains capped by a firmer U.S. dollar. Treasury yield curve slightly pulled back from recent high, with 1/5/10/30Yr yield reaching 1.52%/2.34%/2.32%/2.52%.

➤ **Desk analyst comments 分析员市场观点**

➤ **Yanlord: Initiating coverage with buy recommendations on YLLGSPs**

**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.

### **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.

<https://www.cmbi.com/article/6521.html?lang=en>

➤ **XIAOMI: Solid FY2021 result, tempered by its high spending appetite; Initiate Hold**

We prefer **LENOVO '30 at Z+237**, compared to **XIAOMI '31 at Z+255**, given LENOVO's more disciplined investment track record and its gradual deleveraging trend. We recommend Hold on XIAOMI at current valuation.

**Solid operating performance in 2021...**

Reported FY2021 revenue of RMB 328bn and EBITDA of RMB 22.4bn, up 34% and 105% yoy. This was driven by its good smartphone shipment growth of 30% yoy in 2021, outperforming 5.7% global shipment growth during the period. Xiaomi maintained its global market share (14.1%) at No. 3 under tight chip supply. In 4Q21, Xiaomi resumed revenue growth to 21.4%yoy, from 8%yoy in 3Q21 despite chip shortage disruption.

**... strength among all 3 segments**

By segment, a) smartphone (64% of revenue) was a key performance driver, its sales rose 37%yoy to RMB 208.9bn and gross profit more than double to RMB 24.8bn, thanks to sales of more premium smartphone under chip shortage. b) IoT and lifestyle products (26% of revenue) grew 26% yoy to RMB 85bn and gross profit grew 29% yoy to RMB 11.1bn. c) Internet services (9% of revenue) also grew 19%yoy to RMB 28.2bn with gross profit of RMB 20.9bn.

**Coupled with high capex and investment spending...**

In 2021, Xiaomi remains in a high investment stage that it recorded capex of RMB7.2bn on top of RMB 13.1bn addition in long-term investments (i.e. ordinary shares and preferred shares in various companies in hardware supply chain and internet service), increasing its ending balance of long-term investments to RMB 50.5bn. As of Dec'21, Xiaomi's total debt increased to RMB26.2bn (from RMB 17.6bn as of Dec'20), representing Gross Debt/EBITDA of 1.2x (vs. 2020: 1.6x), but it still maintained a large net cash position thanks to its RMB 58.9bn total cash balance, and RMB31.7bn short-term investment.

See our full note <https://www.cmbi.com/article/6523.html?lang=en>

➤ **Offshore Asia New Issues (Priced)**

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Hangzhou Water Group	300	3	2.9	2.9	Baa1/-/BBB+
Shanghai Fosun High Technology	150	3	3	3	-/-/-
PTT Global Chemical PCL	1000	10	4.4	4.474	Baa2/BBB/-
PTT Global Chemical PCL	300	30	5.2	5.238	Baa2/BBB/-

➤ **Offshore Asia New Issues (Pipeline)**

Issuer	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Zhuzhou City Construction	USD	-	3	4.8	Baa3/-/BBB-
Gansu Provincial	USD	-	-	-	-/BBB+/BBB+

➤ **Onshore China conditions and color**

- Regarding onshore primary issuances, there were 73 credit bonds issued yesterday with an amount of RMB77bn. As for Month-to-date, 1438 credit bonds were issued with a total amount of RMB1457bn raised, representing a 19.2% yoy decrease.
- **[EVERRE]** its bondholders may take legal action as lenders to property services unit claim over USD 2bn cash
- **[FUTLAN]** Seazen Holdings shareholders approve proposals regarding up to RMB 3.8bn private placement, up to RMB 15bn loans from Seazen Group
- **[JINKE]** shareholders (Tao Hongxia and its acting-in-concert party Chongqing Hongtao Culture Media) sells 1.4% stake via open market
- **[SUNAC]** ratings was withdrawn at company's request, according to S&P
- **[SUNSHI]** announces event of default on 7.875% guaranteed senior notes due 2024; applies to HKEX for notes trading suspension
- **[WB]** SEC adds Weibo to the Holding Foreign Companies Accountable Act (HFCAA) watchlist

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