CMB International April 2021 Credit Compendium

Manoeuvring Along Volatility

CMB International ("CMBI") would like to thank our clients for ongoing support. Amid recent credit events that dent investors' confidence, we reckon high-yielding front-end bonds will be cushioned to performance. We prefer (1) China property – select developers with high YTM and decent fundamentals to counter repricing risk; (2) selective industrial companies recovering from COVID disruption; (3) rotational play in short-end credits with high carry post credit events sell-off.

Our top 3 tactical trade ideas:

- Buy YUZHOU 2022-2023 at 8%-10.5%
- Buy JIAYUA 2022-2023 at 10.5%-12.8%
- Buy CHIGRA 2022 at 17%

Overweight		
China Grand Auto	CHIGRA	22s at 17%
Dafa Properties	DAFAPG	21s–22s at 12%-15%
Dexin China	DEXICN	22s at 9%-10.6%
Fosun International	FOSUNI	27s at 5.1%
Jiayuan International	JIAYUA	22s-23s at 10.5%-12.8%
Kaisa Group	KAISAG	22s-23s at 7.1%-8.5%
Sinic Holdings	SINHLD	21s-22s at 9.5%-10.5%
Tsinghua Tongfang	TSIGTF	22s at 9%
Yuzhou Group	YUZHOU	22s-23s at 8%-10.5%
Zhongliang Holdings	ZHLGHD	22s at 10%
Zhenro Properties	ZHPHRK	21s-26s at 5%-8.5%
Neutral		
21Vianet Group	VNET	21s at 5%
Car Inc	CARINC	22s at 7.2%
Central China	CENCHI	21s-25s at 6.4%-11%
China Aoyuan	CAPG	22s-27s at 5.5%-7.7%
China Hongqiao	HONGQI	22s-23s at 5.8%-6.5%
E-House China	EHOUSE	22s-23s at 7.3%-9.7%
Greenland Holdings	GRNLGR	22s-23s at 10%-13%
Jingrui Holdings	JINGRU	21s-23s at 14%-15%
Languang Development	LGUANG	22s at 23%
Modern Land China	MOLAND	22s-23s at 8.7%-12%
Risesun Real Estate	RISSUN	21s-22s at 13%-15%
Ronshine China Holdings	RONXIN	22s-25s at 7%-9.5%
Underweight		
Yestar Healthcare	YESTAR	21s at ~47 cash price

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Onshore Credit Condition has remained steady, despite local SOE defaults

We believe Chinese policymakers are allowing corporate and weak SOE defaults in an orderly manner. The Government is gradually removing implicit guarantee, at a time when economic growth is gaining ground and it is normalizing monetary policy.

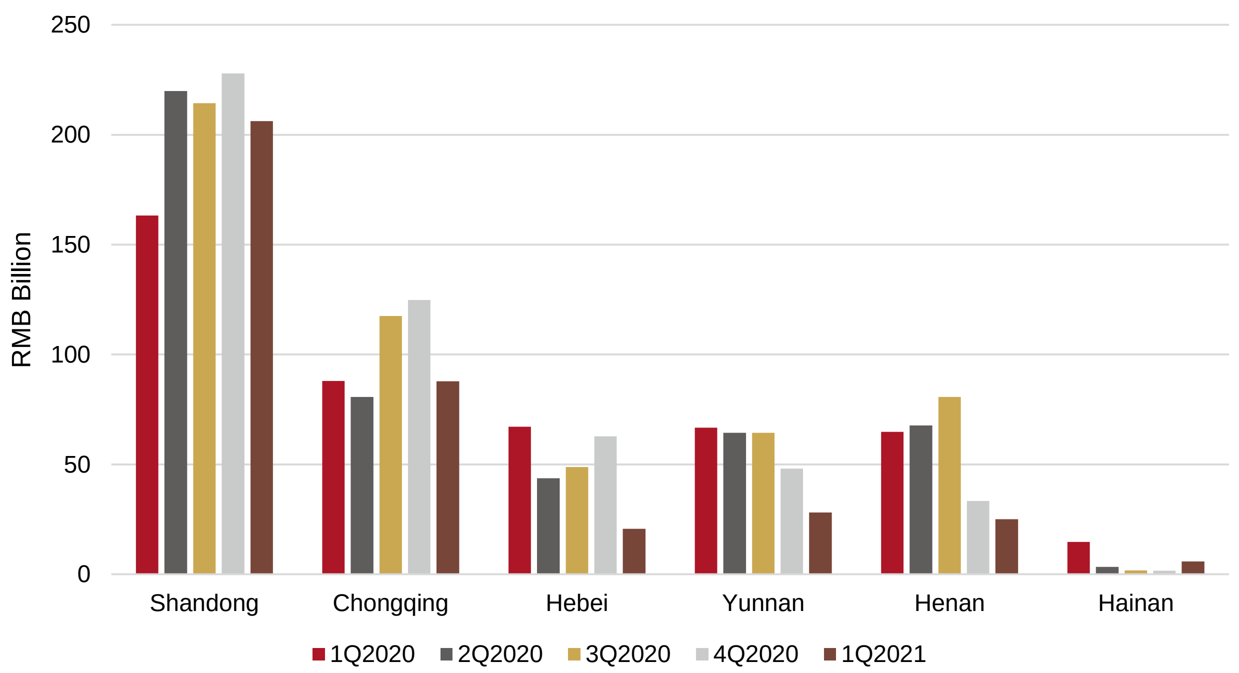
China Fortune Land's default in February 2021, and an ongoing restructuring headline of Huarong have heightened volatility of Chinese USD bond market. This induces offshore investors to look for parameters to reprice credit risk in a new paradigm of government support.

The onshore bond market is increasingly accustomed to this market-based approach, with onshore investors notably shying away from provinces that posted recent defaults. (Fig 1) However, holistically this has not caused systemic risk to the onshore market, investors still see the various local SOEs defaults on a standalone case-by-case basis. Onshore corporate bond issuance was up 7.8% yoy in 1Q2021.

This was after Henan and Chongqing provinces experiencing local SOE defaults – Yongcheng Coal and Electricity Holding in November 2020 and Chongqing Energy Investment Group in March 2021. Moreover, since 4Q2020, Hebei and Yunnan provinces have also seen local SOEs under stress. These 4 provinces, in aggregate, account for 6% of the entire Chinese corporate bond issuance in 2020. (Fig 2) After these events, regulators have stated "zero tolerance" towards misconduct but seem unlikely to bail out companies in financial distress.

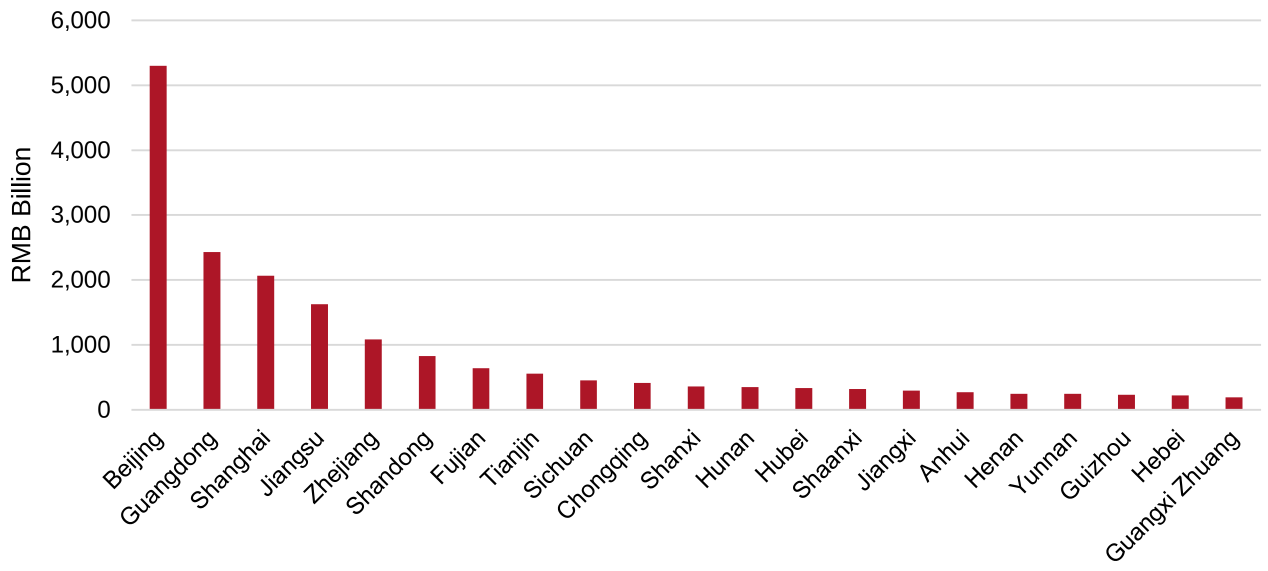
With that, we expect onshore investors will trek along the new normal of selective SOE defaults, and that it would not trigger systemic risk in the financial system. This is because credit bonds only account for 1.5% - 5% of major banks' assets with provisions prepared.

Figure 1: Quarterly Onshore Corporate Bond Issuance by Province



Source: Wind, CMBI

Figure 2: 2020 Onshore Corporate Bond Issuance by Province

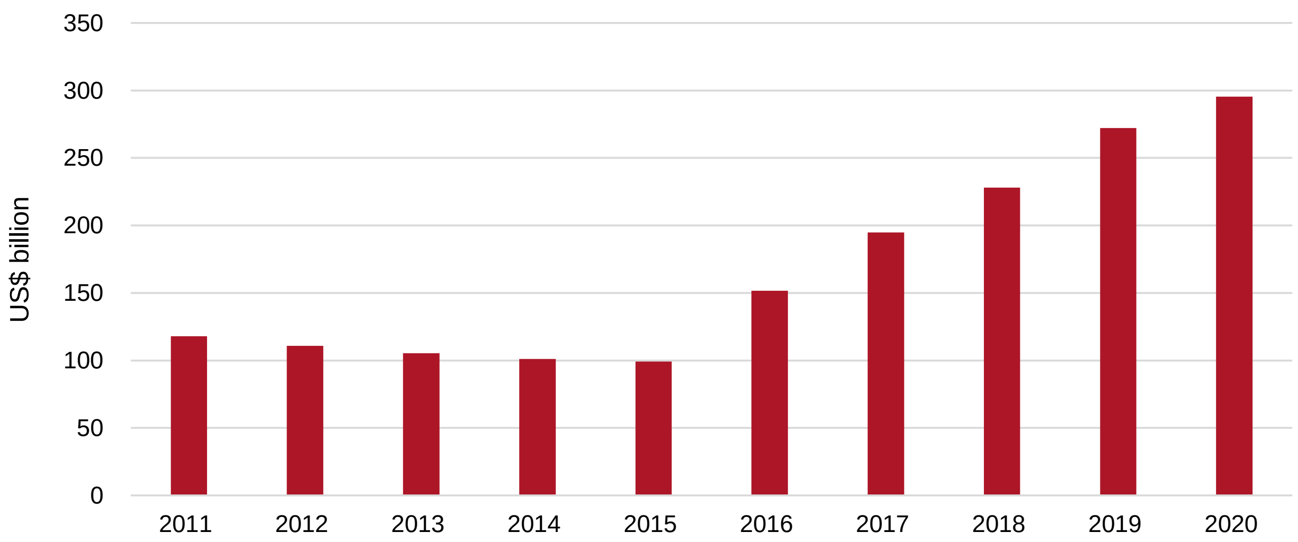


Source: Wind, CMBI

We think the upcoming launch of Southbound Bond Connect will create incremental demand for offshore Chinese bonds, because Bond Connect is designed to introduce a wider range of domestic investors for overseas bonds in a more convenient and effective way than current QDII framework.

Current domestic Chinese entities' investment in overseas bonds was mainly from domestic banks which purchased overseas foreign currency bonds using proprietary FX. Investment in overseas bonds through QDII was less significant. As of end-2020, excluding FX reserve assets, China had USD295.5 billion holdings in foreign bonds, representing 33% of all its investment in foreign securities (Fig 3).

Figure 3: Outstanding Value of China's Foreign Bond Holdings



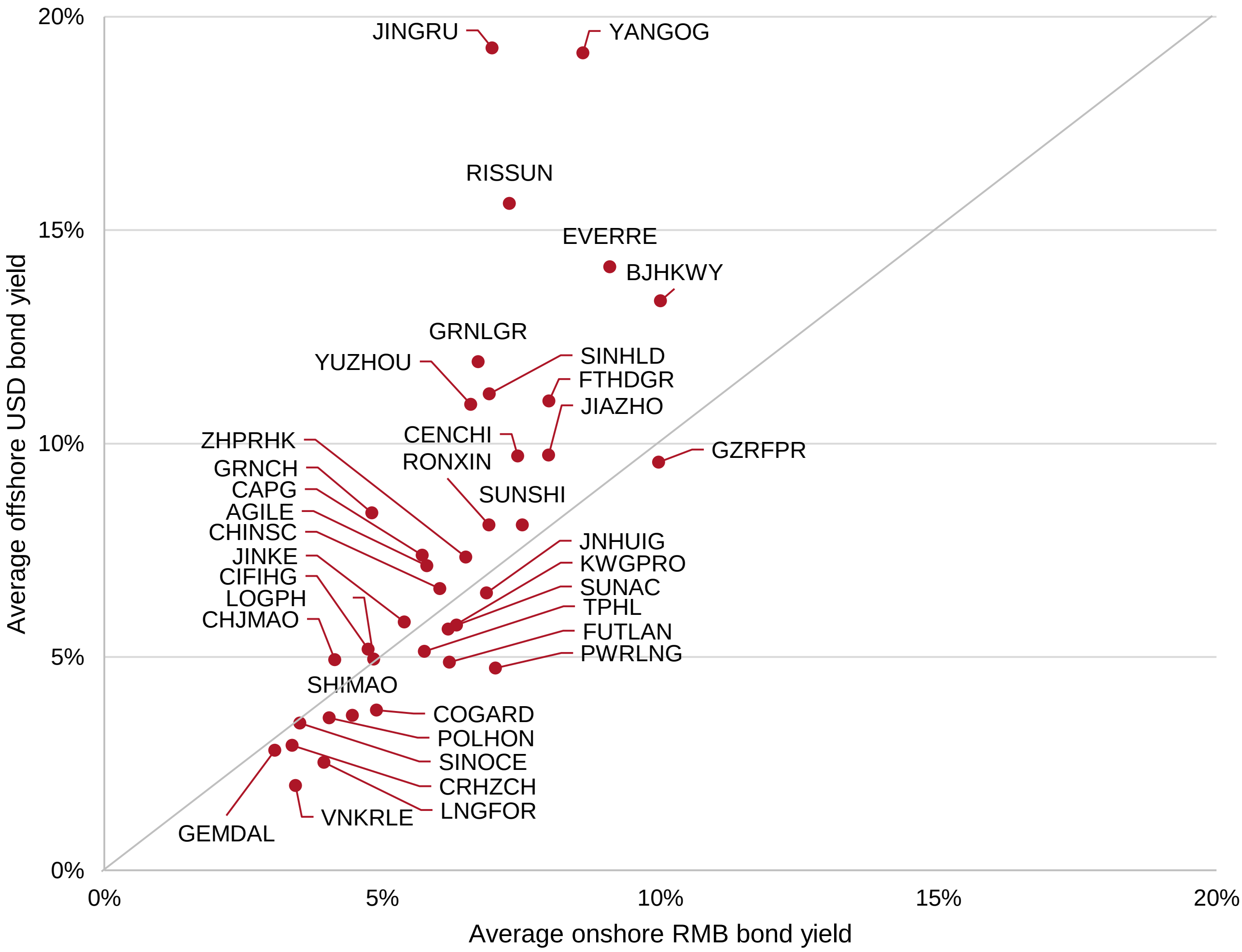
Source: SAFE, CMBI

We also take reference from Stock Connect with Shanghai and Shenzhen since 2014 and 2016, they have given Mainland and International investors direct access to each other's market from their home market. This has injected strong momentum to Hong Kong stock market and significantly increased cross-border public equity investment.

While details of Bond Connect are yet to be finalized (i.e. eligible domestic entities and eligible bond investment universe), we believe it will inject impetus to offshore USD bond market, especially given the fact that trading liquidity of offshore bonds is better than onshore.

This can potentially tighten credit spread of lower-rated offshore issuers, thanks to onshore-offshore yield difference. Below we highlight potential arbitrage opportunities among Chinese property credits. (Fig 4)

Figure 4: Onshore-offshore Yield Difference



Source: Bloomberg, Wind, CMBI

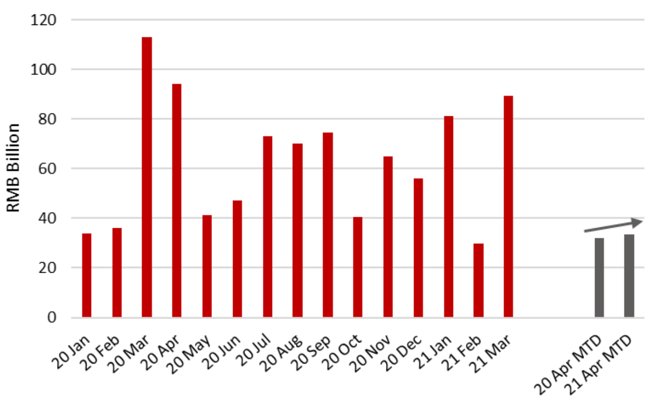
Despite China Fortune Land's high-profile default in the start of 2021, we remain selectively overweight on China Property, especially short-dated non-benchmark credit with adequate liquidity and decent land bank lifespan. This is because we assess these developers have reasonably sufficient resources on hand (i.e. cash and land resources) to operate in an unfavorable industry environment. **We think Kaisa, Jiayuan, Dexin, Sinic and Zhongliang will offer good risk-reward (yield ranges from 7% to 13% over one to two years in tenor)**, in delivering acceptable operating performance, under a forced deleveraging scenario.

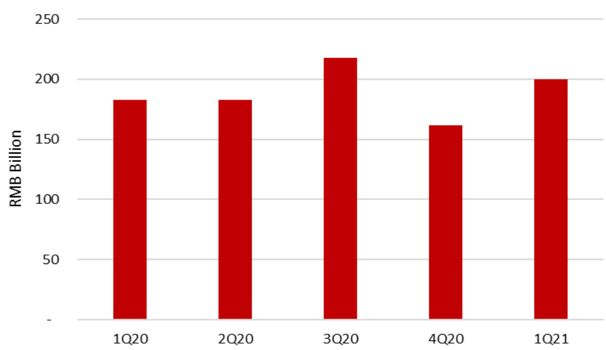
Tight policy stances to property developers are here to stay, as the Chinese government seeks to prevent asset bubbles amid strong economic growth. In 2021, the regulator laid out an additional "two red line" policy to better control bank loans which flow into the property market. The new rule capped total property and mortgage loans at no more than 12.5%-40% and 7.5%-32.5%, respectively, of a given bank's total outstanding RMB loans. The exact ratio differs according to the given bank's classification (policy banks, large banks, joint-stock banks, etc.).

In our view, strong rebound in the Chinese economy since 2H2020 has prompted regulator to restrict fund flow to physical property market for fear of fueling asset bubbles. If the two red-line guidance on banks are strictly implemented, this will add extra difficulty to developers' operation by limiting home buyers' demand. So far developers have tried to mitigate the impact by pre-emptively accelerating their presales before a potentially softer 2H2021 due to tighter mortgage condition. In 1Q2021, NBS data showed national residential property sale grew by +96% yoy, from low base of 2020, and +51% from 1Q2019.

Year-to-date onshore bond financing channels have remained steady and open for property developers, despite an announcement of land supply concentration raising concern on developers' profitability erosion. 2021 year-to-date property sector's onshore bond issuance increased by 8.8% yoy (Fig 5). However, given a trend of rising defaults onshore, we think there will be increasing onshore bond price volatility that might occasionally affect investor sentiment. For example, after China Fortune Land's default in 1Q2021, some onshore asset managers examined their positions and reduced their real estate exposure to prepare for potential fund redemption. This has caused property bonds to trade down without specific news. The increasing onshore and offshore bond markets fluctuation will demand better liquidity management for property developers.

Figure 5: Chinese Property onshore Issuance





Source: Wind, CMBI

Name	Issuer	Net Gearings*	Assets Liabilities Ratio	Unrestricted Cash / ST debts (x)	Total Debt FY19	Total Debt FY20	Debt Growth (%)	Three Red Lines (FY19)
China SCE Group	CHINSC	60%	69%	1.3	42.1	46.6	11%	Yellow
Logan Group	LOGPH	61%	70%	1.8	69.7	80.2	15%	Yellow
Jiayuan International	JIAYUA	60%	68%	1.3	17.4	21.8	25%	Yellow
Powerlong Real Estate	PWRLNG	76%	70%	1.2	55.3	66.6	20%	Yellow
Radiance Group	JNHUIG	75%	69%	1.1	49.1	53.8	10%	Yellow
Redsun Properties	REDSUN	46%	69%	1.1	29.5	32.3	9%	Yellow
Ronshine China	RONXIN	83%	70%	1.1	63.2	71.9	14%	Yellow
Shimao Group	SHIMAO	50%	68%	1.7	126.6	145.1	15%	Yellow
Agile Group	AGILE	62%	72%	1.1	96.7	97.8	1%	Orange
Central China Real Estate	CENCHI	14%	86%	1.5	31.5	31.3	-1%	Yellow
China Aoyuan	CAPG	83%	79%	1.0	95.8	114.9	20%	Yellow
CIFI Group	CIFIHG	64%	73%	2.7	103.7	104.7	1%	Yellow
Country Garden	COGARD	56%	81%	1.7	370.7	326.5	-12%	Yellow
Dafa Properties	DAFAPG	61%	69%	0.8	9.1	12.6	39%	Yellow
Dexin China	DEXICN	75%	74%	1.7	14.8	25.7	73%	Yellow
Fantasia	FTHDGR	79%	72%	1.4	38.2	46.9	23%	Yellow
Greentown China	GRNCH	64%	72%	1.8	93.9	117.3	25%	Yellow
Jingrui	JINGRU	69%	80%	1.2	19.1	21.4	12%	Yellow
Kaisa Group	KAISAG	96%	70%	1.7	117.2	122.8	5%	Orange
KWG Group	KWGPRO	65%	75%	1.6	85.6	77.9	-9%	Yellow
Modern Land China	MOLAND	95%	82%	1.1	18.5	24.6	33%	Yellow
Redco Group	REDPRO	49%	78%	1.4	16.8	20.1	20%	Yellow
Seazen Group	FUTLAN	52%	76%	1.9	87.8	104.6	19%	Yellow
Sunac China	SUNAC	96%	79%	1.1	322.3	303.4	-6%	Red
Times China	TPHL	66%	78%	1.8	54.5	64.8	19%	Yellow
Yuzhou Group	YUZHOU	86%	78%	1.7	53.3	61.5	15%	Yellow
Zhongliang Holdings	ZHLGHD	66%	80%	1.1	40.2	54.1	35%	Orange
Zhenro Properties	ZHPRHK	65%	77%	1.8	60.1	68.7	14%	Yellow
Sichuan Languang	LGUANG	98%	74%	1.0	61.6	73.0	19%	Yellow
Sinic Holdings	SINHLD	64%	73%	1.0	26.6	29.7	12%	Yellow
China Evergrande Group	EVERRE	153%	83%	0.5	799.9	716.5	-10%	Red
Guangzhou R&F	GZRFPR	131%	77%	0.4	197.1	159.7	-19%	Red

*Perpetual bond adjusted

Source: Company disclosure, CMBI

As of end-2020, we draw comfort from improved liquidity condition for most developers. Of the 32 developers we track, most of them satisfied (unrestricted cash/short-term debt) the liquidity metric (table above). Except for Evergrande and Guangzhou R&F that significantly fall short of the 1x liquidity requirement, they respond by actively expediting their contracted sales and asset disposal to boost cash on hand. In addition, Dafa, Sinic and Languang, also fall short or are marginally compliant with such a liquidity requirement. We are not concerned about their liquidity situation for various reason below: (i) Sinic's bullet debts in bond market are small (23% of its total debt); (ii) A material portion of Dafa's offshore cash is pledged for onshore borrowing, hence artificially lower Dafa's free cash/short-term debt ratio; (iii) Languang's liquidity position also improved following its recent sale and settlement of Languang Justbon and Dikang Pharmaceutical subsidiaries. With that, we think the above 32 developers have adequate liquidity to cover their short-term maturities.

Three-red-line policy should control developer's debt growth. From recently announced FY2020 results, most developers made improvement under the 3-red-lines guidance. Positive surprises include: a) China SCE, Redsun and Jinhui Properties that climbed up to green from yellow; b) Sunac leaped to yellow from red; and c) Kaisa also turned yellow from orange. As a result, this 3-red-lines policy is less restrictive than it was firstly announced. 7 developers in the green camp can grow its debt in 2021 by <15%, compared to 20 developers in the yellow cohort that can grow its debt by <10%

Finally, we attempt to see developers' balance sheet transparency with (a) minority interest, (b) external guarantee measure and (c) contract liabilities.

The surprising decline of Yuzhou's revenue and EBITDA triggered market concerns on developers' balance sheet transparency. Specifically, practices such as the use of JV and associates in projects developments and off-balance-sheet debts clouded investors credit assessment based on audited consolidated financials. Here we highlight a few metrics in two tables below for investors' reference.

(a) Among the 32 developers we track, CAPG's minority interests accounted for 66% of total equity, followed by RONXIN (65%), DEXICN (65%), ZHLGHD (64%), LGUANG (60%) that had very high MI of their total equities. We believe a gradual increase in MI is an industry trend, under 3-red-line regulation and centralized land supply system. Developers with lower leverage and better cash reserve will likely take the lead in land auction, and later invite smaller developers as JV partners for project management.

(b) KWGPRO reported external guarantee amounting to 36% of total debts, followed by ZHLGHD (27%), CENCHI (26%), SINHLD (24%), GRNCH (23%) and COGARD (20%).

(c) 12 developers' contract liabilities do not cover its 2020 reported revenue. EVERRE (0.4x coverage), AGILE (0.5x), GZRFPR (0.6x), LOGPH (0.6x), TPHL (0.6x), PWRLNG (0.6x) reported the lowest contract liabilities coverage of revenue. This might be because 1) a large portion of their prior contracted sales are under JV level; 2) low cash collection ratio by 2020 from the year-end sales (Nov to Dec).

Issuer	MI / Equity FY19	MI / Equity 1H20	MI / Equity FY20	Guarantee to JV & Asso (RMB bn)	Guarantees / Total Debts
AGILE	11%	14%	16%	10.4	11%
CAPG	59%	64%	66%	8.0	7%
CENCHI	23%	27%	22%	8.3	27%
CHINSC	42%	38%	46%	6.3	14%
CIFIHG	49%	50%	53%	13.8	13%
COGARD	30%	33%	32%	64.6	20%
DAFAPG	39%	52%	58%	1.9	15%
DEXICN	53%	58%	65%	3.2	12%
EVERRE*	59%	59%	58%	16.5	2%
FTHDGR	32%	34%	40%	2.5	5%
FUTLAN	57%	56%	56%	13.6	13%
GRNCH*	29%	27%	38%	27.4	23%
GZRFPR	3%	3%	3%	10.8	7%
JIAYUA	17%	17%	22%	NA	NA
JINGRU	42%	44%	45%	0.9	4%
JNHUIG	21%	NA	40%	5.5	10%
KAISAG	54%	54%	59%	NA	NA
KWGPRO	6%	15%	19%	32.9	42%
LGUANG	51%	55%	60%	3.2	4%
LOGPH*	20%	28%	30%	9.0	11%
MOLAND	28%	30%	39%	1.0	4%
PWRLNG	16%	19%	29%	1.4	2%
REDPRO	46%	51%	47%	NA	NA
REDSUN	23%	30%	45%	3.9	12%
RONXIN	60%	61%	65%	3.4	5%
SHIMAO*	39%	39%	42%	9.9	7%
SINHLD	45%	48%	48%	7.1	24%
SUNAC	25%	27%	29%	42.7	14%
TPHL	47%	48%	48%	6.6	10%
YUZHOU	20%	26%	28%	6.6	11%
ZHLGHD	58%	65%	64%	12.2	23%
ZHPRHK	43%	45%	44%	4.8	7%

*Guarantee to JV & Asso balance as of 1H20, rest of the developers guarantee data as of end-2020

Source: Company disclosure, CMBI

Issuer	Lank Bank (mm sqm)	Lank Bank / Contracted GFA (x)	Contract Liabilities / Revenue (x)	Contract Liabilities (RMB bn)	Unbooked Revenue (Guidance, RMB bn)	Contract Liabilities / Unbooked Revenue
AGILE	53.0	5.2	0.5	36.3	38	96%
CAPG	57.2	4.4	1.0	69.0	196	35%
CENCHI	54.1	3.7	1.5	63.3	74	86%
CHINSC	37.7	5.1	1.4	46.0	53	87%
CIFIHG	56.5	3.7	1.0	74.6	130	57%
COGARD	275.2	4.1	1.5	695.6	785	89%
DAFAPG	4.5	2.9	0.8	7.1	30	24%
DEXICN	16.3	5.2	2.1	32.3	80	40%
EVERRE	231.0	2.9	0.4	185.7	500	37%
FTHDGR	11.5	3.4	0.8	17.3	40	43%
FUTLAN	142.9	6.1	1.4	202.2	378	53%
GRNCH	50.8	6.2	1.7	112.8	138	82%
GZRFPR	64.3	5.6	0.6	48.0	100	48%
JIAYUA	17.7	6.5	1.0	18.1	35	52%
JINGRU	5.0	4.3	0.9	11.6	18	66%
JNHUIG	30.7	4.4	2.0	69.1	89	78%
KAISAG	28.8	4.7	0.9	49.7	80	62%
KWGPRO	25.0	4.1	0.5	15.6	73	21%
LGUANG	26.4	2.2	1.8	79.0	86	92%
LOGPH	72.0	9.7	0.6	42.5	120	35%
MOLAND	14.8	3.6	1.3	20.9	60	35%
PWRLNG	36.5	6.9	0.6	22.8	36	63%
REDPRO	23.4	4.9	2.2	26.8	40	67%
REDSUN	20.1	3.4	1.5	29.4	37	79%
RONXIN	14.6	2.0	1.3	65.1	85	77%
SHIMAO	81.8	5.6	0.8	106.1	180	59%
SINHLD	15.2	4.5	0.9	25.6	60	43%
SUNAC	257.7	6.3	1.2	273.8	950	29%
TPHL	21.6	3.2	0.6	24.2	102	24%
YUZHOU	23.1	3.7	2.2	22.8	150	15%
ZHLGHD	65.1	4.8	1.8	120.9	250	48%
ZHPRHK	28.5	3.2	1.7	60.9	100	61%

Source: Company disclosure, CRIC, CMBI

Overweight		
Issuer	**Rating**	**Comments**
CHIGRA	B1neg/-/B+sta	- Robust China auto sales data from various auto OEMs is positive to CHIGRA's operating performance - Low put ratio of 15% in Jan 2021 and successful 2+1 corporate bond issuance in Mar 2021 show CHIGRA's good onshore market access, which will help its refinancing work. CHIGRA has also executed a good refinancing plan in 2020, living up to most its previous guidance in 2020 - We estimate CHIGRA managed to mildly deleverage in 2020, thanks to improved inventory management - **We are OW CHIGRA 22s at 17%**
DAFAPG	B2sta/-/-	- We believe withdrawal of S&P's rating also removes its rating overhang, at the same time, we assess its Moody's rating will remain solid. DAFAPG has manageable liquidity profile, and will have modest debt growth as a yellow developer, we view **DAFAPG's front-end curve is a good carry play at 12%-15%** - Recorded decent pre-sales growth, together with active land replenishment in 2020. Contracted sales up 44% to RMB30.3bn, with GFA sold up 32% to 2mm sqm and ASP up 9% to 14.8k per sqm. Unsold land bank (~4.5mm sqm, or RMB67.5bn in value) covers 2 years of development. Reported strong P&L with topline growth but normalized margin - Revenue at 9.2bn (+44% yoy) but margin normalized to 20.9% (-2ppts), reported EBITDA at 1.2bn (+13.1%) - Debt structure further enhanced as non-standard borrowings reduced to ~16% of total debts
DEXICN	B2sta/Bsta/-	- We like DEXICN's resilient credit profile supported by its quality and adequate land reserve in Zhejiang. We note its balance sheet transparency remains a problem albeit gradually improving. **We are OW with DEXICN 22s of 9%-10.6% as attractive carry play** - Robust 2020 operating results with good costs efficiency. Minority interest rose due to recognition of projects with low attributable ratios. Satisfactory 2020 financial results, featuring strong P&L growth, lower net gearing, and improved liquidity. Adequate contract liabilities to cover 2021 booking target. Enhanced capital structure with less reliance on non-bank borrowings - Quality land bank and abundant sale-able resources ensure decent sell-through and cash collection ratio in the future. Existing land bank covers 3yrs of future development, which eased its land investment needs
FOSUNI	Ba3sta/BBneg/-	- Fosun's consolidated debt grew in tandem with NAV of its portfolio, with net debt balance remaining largely stable with LTV ratio of 33%-37%. **We are OW FOSUNI 27s of 5.1% given its large scale investment portfolio and strong funding channels** - Following an acquisitive approach, Fosun made more investment than divestment in previous 5 years, with mixed performance on its asset recycling. However, we expect company's guidance to balance investment and divestment amount starting from 2020 will contain its future rise in leverage - Dividend income from investees is unable to cover annual interest and operating expense. However, diverse funding channels including increased use of equity funding are able to support its credit profile. The company has also signaled its intention to contain debt load at investment holding level

JIAYUA	B2pos/Bsta/Bpos	- We like JIAYUA's improving credit profile, driven by active debt management and assets injection. **We view its curve (10%-13%) offers attractive risk-reward, compared with REDPRO (8%-12%)** - Delivered strong set of 2020 full year result, with robust P&L, improved B/S & debt structure, and lower leverage. Eased near term refinancing pressure - Shandong project injection further strengthened credit metrics. Quality and adequate saleable resources empowers 2021 sales growth and profitability - Upgrade is likely as the company met most of the upgrade triggers of Moody's and Fitch
KAISAG	B1sta/Bsta/Bsta	- **We like KAISAG 22s-23s bonds at 7.1% – 8.5% for its good profitability** (28-30% GPM of locked-in revenue vs. 20%-23% of B-rated peers), **diversified land acquisition channels** (auction, M&A, URP), **and prominent URP conversion pipelines** (4.2mm or 200bn to be converted in 1-2yrs). Potential to regain access to onshore corporate bonds market will further support its curve - Met guidance on strong P&L and improved B/S. Net gearing below 100% is a positive surprise. The company turned yellow from orange - Good 2021 guidance - 1) sales target of 130bn with 191bn sale-able resources (68% sell-through), 75% in tier 1-2 cities; 2) reduce funding costs by 100bps; 3) expected recognized revenue 65-70bn (GPM 25-30% vs 28.8% in 2020); 4) Keep working JV & asso projects with other developer (further decline in attri. ratio but faster cash cycle)
SINHLD	B2sta/Bsta/B+sta	- We like SINHLD's bonds for its stable credit profile, improving capital structure and efforts in investor communication. **We are OW on SINHLD 21s & 22s at 9.5%-10.5%** - Reported resilient 2020FY result with steady P&L, improved balance sheet and better debt structure. Liquidity weakened as unrestricted cash/ST debts fell to 1x, but we draw comfort from its small bullet debt balance (23% of its total debt) - Prudent land bank acquisition (40-50% of cash collection) paves way for leverage stability - Reported monthly attributable pre-sales will provide more transparent information disclosure - Stable credit outlook offers attractive carry and short in duration.
TSIGTF	-/-/-	- Borrowing from CNNC to replenish Tongfang's working capital - We believe it is highly likely that CSRC will approve private equity placement, given limited detriment to minority shareholders - We believe Tongfang will see gradual operational improvement and deleveraging under tight control of CNNC in 2021-2022 - **We are OW TSIGTF 22s at 9%**
YUZHOU	B1neg/-/B+sta	- We view YUZHOU's disappointing 2020 results have kitchen sinking elements recently. We see YUZHOU as a recovering story thanks to its adequate contract liabilities of RMB 22.8bn to support its 2021 revenue booking target of RMB 27bn, and gradual improvement in gross margin. In addition, we take comfort in the developer's ample liquidity and manageable refinancing need. **We like YUZHOU 22s-23s at 8%-10.5%**, as its technical selling pressure eased. - YUZHOU has obtained Banks' waiver on its syndicated loan covenant breach. We think a recovering interim result in Aug 2021 will help the firm to restore investors' confidence - It is still unclear if Moody's will further downgrade YUZHOU, given its numbers have breached the downgrade triggers. Nevertheless, we view such risks have been largely priced in at its current valuation

ZHLGHD	B1pos/B+sta/B+sta	- We believe ZHLGHD credit profile is improving given its moderate growth pace and strengthening credit metrics. **We OW ZHLGHD 22s at 10% yield** - Increasing exposure to T2 cities from T3 cities and diversified land bank provide more stability. Financing avenues also expand by issuing ABS and offshore bank loan with lower funding cost. Potential catalysts include rating upgrade and longer tenor bond issuance - High minority interest portion and alternative financing remain a major concern
ZHPHRK	B1sta/-/B+sta	- We like ZHPRHK's stable fundamental and clean balance sheet. **We are OW on ZHPRHK curve at 5%-8.5%** - We believe the company's efforts in reducing off-balance sheet debts has helped it stand out among B1/B+ rated issuers under the recent market concern on developer's balance sheet transparency - Reported resilient operational result with improved B/S and debt structure and stable P&L. Remained as yellow developer - Achievable 2021 sales target with higher attributable value and prudent investment budget - We assess there is positive rating momentum to its Fitch rating

Neutral

Issuer	Rating	Comments
CAPG	B1sta/B+sta/BBsta	- **We initiate our MW on CAPG. With the current valuation, we prefer CAPG curve at 7%-8.5% than TPHL curve at 4.8%-7.3% and KWGPRO curve at 4.1%-7.3%** - Sizable minority interest remained a major concern, which led to the recent bonds sell-off. However, we note that rising minority interest is a market trend - CAPG grew its contracted sales with decent cash collection. However, its leverage also spiked up due to aggressive new land acquisitions with lower attributable ratio. Management guided a more prudent land budget in 2021 - We think CAPG's deleveraging target is achievable, backed by its rich saleable resources / faster URP pipeline
CARINC	Caa1pos/B-sta/-	- We believe MBK, the new shareholder of CAR Inc., will improve CAR Inc.'s capital market access - We expect CAR Inc. to restore some of its previous financing channels in 2021, which will drive positive rating action from Moody's. S&P has also lifted its rating to B-/Stable from CCC+/Positive following its successful issuance of USD 250 million CARINC 9.75 2024 - Recovering operation in 2H2020 should continue to improve in 2021. **We are MW CARINC 22s at 7.2%**
CENCHI	Ba3sta/B+sta/BB-sta	- **We are MW on CENCHI curve at 6.4% -11% and deem company akin to a high single B credit** - We believe downside can be tempered by its high unrecognized sales, sufficient cash balance and long land bank lifespan. March contracted sales also strengthened despite lagging performance in first two months - Concentration in Henan Province, high reliance on USD bonds and transition to lower tier cities might lead to a gradual credit profile deterioration

EHOUSE	-/BB-neg/-	- **We are neutral EHOUSE 22s-23s at 7.3%-9.7%** - Ehouse reported higher Gross Debt-to-EBITDA of 6.9x at end-2020, vs 5.6x at Jun-2020, and 3.3x at end-2019 - Should the company's profitability does not meaningfully recover to pre-COVID level in 2021, we assess there might be negative rating pressure.
HONGQI	Ba3sta/B+sta/BB-sta	- Strong aluminum price trend has helped lower its repayment from its sizable onshore bond maturity - Repayment pressure from maturity wall of onshore bonds alleviated with equity-like funding, supported by asset allocation to commodity proxy - Good 2020 result with modest revenue growth, margin improvement and strong EBITDA growth. **In view of valuation we are Neutral HONGQI 22s-23s at 5.8%-6.5%**
GRNLGR	Ba2sta/-/BB-sta	- **We are MW GRNLGR 22s-23s of 10% -13%, and regard it as rotation play. Suggest buying post credit events sell-off** - Greenland has strong near-term liquidity and has managed to mildly lower its gross debt balance by end-2020, from RMB 293 billion in 2019 - We think 3-red-line policy will control Greenland's debt growth given the company just reached orange camp in 1H2021
JINGRU	B2sta/Bsta/-	- Jingrui's credit profile is likely to be stable for the next 6-12 months thanks to its quality landbank and high cash collection ratio. 90% of its saleable resources are in T1 and T2 cities. Company stayed in yellow camp with moderate leverage and adequate cash - Jingrui is expanding its footprint to T3 cities due to severe competition and price cap in T1 cities, which might pose additional risks for the company to enter unfamiliar market - Upside is limited by Jingrui's small size and lower margin. Contracted sales have remained around RMB 25bn since FY18. **We are Neutral JINGRU 21s-23s at 14%-15%**
LGUANG	B1sta/B+sta/-	- We believe the successful settlement of Languang Justbon has removed the near term liquidity concern, while the credit rating may under pressure due to sluggish 2020 numbers. **We are Neutral on LGUANG 8.85 22s at 23%.** We suggest investor to closely track Languang's sales and investment performance, which is the key credit driver - We expect the reported 2020 financials are short of S&P' estimates, which is negative to Languang's credit rating (current B+ with stable outlook) - Near term refinancing is manageable. Languang expects to receive RMB 5.4bn from disposing its subsidiaries by May 2021, in the run-up to its lumpy maturity (~RMB 9bn) in 3Q2021. They also issued an RMB1bn MTN in March to replenish liquidity
MOLAND	B2sta/-/Bsta	- **We are MW on MOLAND curve at 8.7%-12%.** We view the company as a slightly improving credit story with active liabilities management and unique land acquisition channel - Announced in-line full year result, featuring revenue of RMB15.7bn (+8.2% yoy), EBITDA of RMB25bn (flat yoy), normalized gross margin of 24% (-1.5ppts), improved liquidity (Cash/ST debts: 1.4x), and higher net gearing of 95% (+12ppts) - The company stepped into the yellow camp under the "three-red-line" guidance, from the orange camp - Shorter-than-peer land bank lifespan to be supplemented by the sale-able resources locked by industry collaboration channel, which also brings in better costs efficiency

RISSUN	Ba3sta/BB-sta/BB-sta	- We see potential downside rating pressure due to slower sell-through/cash collection ratio and weakened profitability. On the flip side, we acknowledge the company's large operational size, high attributable land bank (better balance sheet transparency), efforts in improving debt profile and credit metrics under 3-red-line guidance (expected to be yellow category by 2020FY). **We are Neutral on RISSUN curve at 13%-15%** - Management guidance on 2020FY: net gearing to improve to ~71% by 2020E, thanks to its budgeted land acquisition in 2020 (i.e. Investment/cash collection to be 33%). The cash/ST debt coverage is guided to improve to 1.2x
RONXIN	B1sta/B+neg/BB-neg	- After two rating agencies (S&P and Fitch) adjusted Ronshine's credit outlook to negative, we believe all the negatives have been reflected in the curve. We view RONXIN as a strong recovering candidate. **We OW RONXIN 22s-23s at 7%-9% for carry but MW 24s-25s at 9%-9.5%** - Good 2021 guidance: 1) abundant saleable ensures good pre-sales; 2) recovery in revenue booking and gross margin; 3) more budgeted land investment leading to eye-catching cash flow; 4) controlled debt growth fueled by 3-red-line guidance; 5) replacing USD bonds with domestic bonds
VNET	B2sta/Bsta/B+neg	- Sufficient cash to fund share purchase from Tuspark given ample free cash and recent CB fundraising - Change of Control Clause unlikely to be triggered as likelihood of a S&P rating downgrade is low, - Strong 2020 result with strong revenue and EBITDA growth, further ramp up from newly built IDC centers expected to contribute to VNET's EBITDA in 2021 - **Yet in view of valuation we MW VNET 21s at 5%**

Underweight

Issuer	Rating	Comments
YESTAR	Caa1neg/-/-	- We see Yestar's distressed exchange as a highly likely scenario - Mounting acquisition consideration payments and lackluster operating cash flow generation contributes to Yestar's weak liquidity - In an optimistic scenario, our recovery value analysis shows FV of Yestar at 39 - **Hence we UW Yestar at cash price 47**

Contents

Tactical RV trade opportunity between CAPG, TPHL and KWGPRO curve

MW CAPG 22s-27s at 5.5%-7.7%

On April 8 2021, CAPG curve sunk 2-3pts due to market concerns on its balance sheet transparency. The drastic sell-off was also a result of its mixed 2020 financial results, with higher net gearing and minority interest. Having that said, we draw comfort from CAPG's ample sellable resources and its acceleration in URP conversion, which lower its investment needs and support its future deleveraging trend. Its contract liabilities, after recent cash collection in 1Q2021, has increased to cover its 2021's full-year revenue booking target. **The current spread between CAPG and KWGPRO / TPHL has widen to 150-250bps. We see this sell-off as a tactical RV trade opportunity, and prefer the belly of the CAPG curve (i.e. CAPG 23-25s) over the KWGPRO / TPHL curve.**

Sizable minority interest remained as a major concern, but increasing minority interest is a market trend. Aoyuan reported a higher minority interest as percentage of total equity of 66% (+7ppts yoy). Management explained such change is due to 1) introduction of third party into the URPs; 2) consolidation of Aoyuan Beauty Valley (equity interest of only 29.3%); 3) higher cooperation in property development projects. We acknowledged its MI/equity ratio is higher than peers, but we think a rise in MI ratio is an industry trend.

Peer Developers' MI / Equity

CAPG	2019	2020	Change
MI	21,967	35,700	
Equity	36,997	54,253	
MI/Equity	59%	66%	+7%

KWGPRO	2019	2020	Change
MI	2,448	10,382	
Equity	38,243	53,917	
MI/Equity	6%	19%	+13%

TPHL	2019	2020	Change
MI	16,617	17,106	
Equity	35,704	35,883	
MI/Equity	47%	48%	+1%

KAISAG	2019	2020	Change
MI	29,990	46,386	
Equity	55,707	78,719	
MI/Equity	54%	59%	+5%

PRWLNG	2019	2020	Change
MI	6,247	15,061	
Equity	38,907	51,801	
MI/Equity	16%	29%	+13%

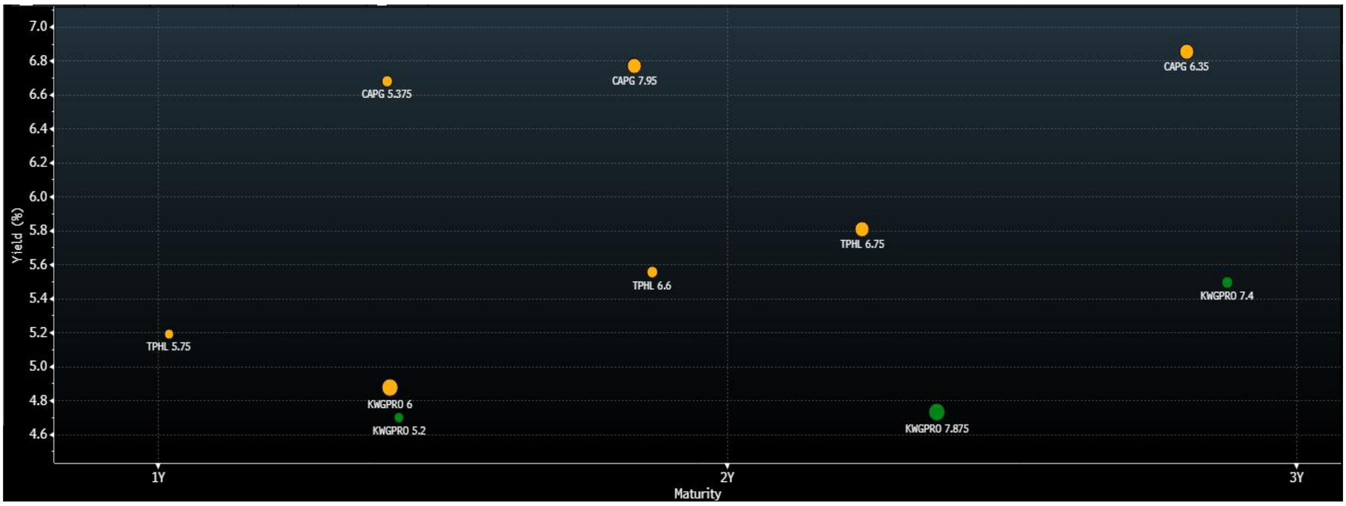
LOGPH	2019	2020	Change
MI	8,800	18,268	
Equity	42,994	60,672	
MI/Equity	20%	30%	+10%

Source: Company disclosure, CMBI

2020 results recap: CAPG grew its contracted sales with decent cash collection. However, its leverage also spiked up due to aggressive new land acquisitions with lower attributable ratio. Management guided a more prudent land budget in 2021. Aoyuan achieved good contracted sales of RMB133bn (+13% yoy) with 85% cash collection and attributable ratio of ~71%. The company spent 52bn in attributable land investment (6.7bn unpaid) on acquiring 20mm sqm GFA (59% attributable). This indicates a cost/ASP ratio of ~33% for a total 243bn sale-able resources. In particular, Aoyuan had taken advantage of its strength in URP and converted 38.2bn into sale-able resources (~16% of total land acquired in 2021). We note the attributable ratio of newly acquired land was lower than that of its existing land bank (~70%). Furthermore, the aggressive land investment has led to a free cash outflow of ~RMB30bn. Net gearing grew to 83% from 75%, due to a rise in total debt. In our view, given its ample land resources, Aoyuan is likely to cut its land investment budget to meet the three-red-line regulation by 2022 (also guided by the company). At the same time, management guided its land acquisition will not exceed 25% of contracted sales.

We think CAPG's deleveraging target is achievable, backed by its rich saleable resources / URP pipeline. Aoyuan guides to cut debts by at least 5% annually, underpinned by 1) sizable unrecognized revenue; 2) abundant saleable resources, which allows company to contain its land acquisition spending to less than 25% of contracted sales; 3) URP will increase saleable resources and profitability. According to our communication with management, its unrecognized revenue as of 2020 amounted to be RMB196bn (RMB40bn in JCE level), while the contract liabilities was RMB69bn. Uncollected pre-sales was guided to be ~RMB70bn by 2020, in which ~RMB30bn of cash has been collected in 1Q21. With that, we estimate the company has enough sold but unbooked revenue, to meet its 2021 revenue target (25% yoy growth to RMB85bn).

Faster URP conversion will add to its saleable resources, mitigating investment pressure under centralized land supply system and support its profitability. By 2020, the company has a land bank with estimated salable value of RMB621bn, sufficient to support development of ~4yrs. In addition, it targets to convert RMB160bn saleable resources from URP in 3yrs (RMB40bn in 2021). Aoyuan's acceleration in URP conversion, in our view, will help the company to defend its profitability among B+/BB- rated peers, and mitigate investment pressure from competition with other developers in public auction, under the centralized land supply system. Management guided the gross margin from URP is 35-40%, compared to its current unrecognized revenue's gross margin of 26-28%.



Source: Bloomberg, CMBI

CENCHI: Short term downside tempered by high cash balance and unrecognized sales

MW CENCHI 21s-25s at 6.4%-11%

Central China reported better than expected FY2020 result with revenue increased 40.8% yoy to RMB 43.4bn and EBITDA grew 12.9% to RMB 5.3bn. In addition, heavy asset contracted sales in March strengthened to RMB 8.4bn (28% yoy) despite lagging performance in first two months. CENCHI curve up 3-5pt after the announcement. Having said that, Central China's concentration in Henan Province, high reliance on USD bond financing and transition to lower tier cities will lead to a gradual credit profile deterioration, in our view. We remained neutral with current valuation of 6.4%-11% along the curve and deem company akin to a high single B credit.

Exposure to lower tier cities and high completed properties held for sales shall hinder profitability upside. In FY20, Central China achieved RMB 68.3bn heavy asset contracted sales (-4.8% yoy and 85% of target). Gross profit margin decreased to 19.9% in FY20 from 26.0% in FY19 and EBITDA margin also down to 12.2% from 15.2%. We believe the profitability will remain low due to company's transition to lower tier cities (tier 3-4 cities account for 56% contracted sales in FY20 and management guided 60% in FY21) and discount selling price of its growing completed properties held for sales (45.8% yoy growth to RMB 6.59bn in FY20).

High contracted sales growth target and "Going out of Henan" pose uncertainty. Management guides RMB 80bn heavy asset contracted sales in FY21 (+17.1% yoy), which requires 73.6% sell-through rate (66.2% in FY20) based on RMB 108.7bn saleable resources. The company also lay out a more detailed plan to expand to 8 provinces around Henan and guided to achieve 30% contracted sales outside Henan in FY23. With its current 99% land bank in Henan, we will stay cautious on Central China's execution ability outside Henan.

However, we believe Central China's near term downside will be tempered by its high RMB 73.6bn unrecognized contracted sales (translating to 1.7x year of booked revenue) and high cash balance of RMB 29.3bn. Land bank also stood high at 54 mm sqm with 74.5% attributable ratio, which can cover 4-5 years of development.

Overall leverage stays moderate thanks to Central China's prudent financial policy but weak banking relationship remains a crucial risk. Total debt size and cash balance remain at similar level (Debt: RMB 31.3bn, Cash: RMB 29.3bn) with short term debt increased to RMB 15.3bn (RMB 12.5bn in FY19). Net gearing stayed at low level of 13.6% in FY20. The company only hit one line (Liability-to-asset ratio excluding advance receipts stood at 85.5%) out of the three red lines. We also appreciate company lowered its guarantees to associates and JV to RMB 8.3bn from RMB 10.0bn in FY19. However, capital structure weakened with 18% bank loan portion (23% in FY19) and 65% offshore bond portion (57% in FY19). The company stated in earning call that they are applying for a RMB 2.5bn onshore bond and aim to lower its offshore bond exposure to 60%.

DEXICN: Quality landbank supports business operation; attributable ratio remains low but gradually improving

OW DEXICN 22s at 9%-10.6%

Dexin China (B2 stable/B stable by Moody's/S&P) reported satisfactory annual result, featuring robust operational stats, strong P&L, more balanced debt structure, while weaker-than-average attributable ratio, and higher minority interests. The company is a yellow developer as of 2020. In general, we view that Dexin is an improving credit thanks to its efforts in improving equity portion of its resources, and easing of the non-bank borrowings. We also like Dexin's abundant sale-able resources and higher quality land bank with good costs efficiency than its peers. **Compared with REDPRO, SINHLD, we are comfortable with DEXICN curve trading at 9.3% - 10.6%, and view it as a good carry play.**

Robust operational results with adequate and quality land bank in Zhejiang. Attributable ratio remained weak but gradually improving. In 2020, Dexin delivered RMB63.5bn contracted sales (+41% yoy) with ~34% attributable (2019: 31%), and ~47% consolidated. ASP stood at 20.4k per sqm (2019: 18.3k per sqm). Dexin has met its annual budget for the year (RMB60bn). The company spent ~RMB16.3bn (~60% of cash collection) on acquiring 40 land parcels for 5.4mm sqm (~44% attributable). In 2021, the company targets RMB80bn in 2021 with sale-able resources of RMB130bn with geographic layout in Hangzhou (30%) and Zhejiang ex-Hangzhou (30%), indicating a sell-through ratio of ~60% (2020:~70%). We are comfortable with such sales target due to 1) Dexin's high quality land bank and established brand name in Zhejiang; 2) actual sell-through ratio was higher than 70% in 2020. As of 2020, Dexin owns unsold land bank of 11mm sqm (covers ~3yr of development) with attributable ratio / consolidated ratio of 40% / 50%. For 1Q'2021, Dexin recorded contracted sales of RMB19bn (+252%yoy, +123% vs. 1Q'2019) with GFA sold of 894k sqm. ASP slightly grew to 21.3k per sqm.

Dexin's 2020 financial results were satisfactory, featuring strong P&L growth, lower net gearing and leverage, and improved liquidity. The company reported revenue of RMB15.7bn (+65% yoy) with normalized margin of 25% (2019: 32%; 1H20: 26%), and reported EBITDA of 2.7bn (+44%). We view its profitability is slightly better than the B rated developers, but trending down to 20%-23%, as the company's major land acquisition is through public auction (75% in 2020 new land investment). Liquidity remained stable as cash/ST debts rose to 1.4x (unrestricted cash/ST debts: 1.3x). Net gearing remained at 75%, but minority interest soared to RMB10.8bn (65% of total equity, 2020 MI: 5.7bn or 53% of total equity). Management explained the increase of MI was due to 1) capital injection from non-controlling interests (~RMB3.5bn); 2) acquisition of subsidiaries (~RMB1.5bn). The company reported RMB32.3bn contract liabilities by 2020 (coves 2x of 2020 recognized sales) with ~RMB80bn unrecognized revenue. It plans to deliver revenue of RMB20bn (+27% yoy) with gross margin of ~23%.

Enhanced capital structure with less reliance on non-bank borrowings. We deem Dexin's capital structure is improving as it reduced non-standard borrowings to ~20% in 2020 from 32% in 2019, while short term debts as portion of total debt remained at 40%. The company looks to further cut non-standard borrowings to 10-15% in the mid to long term, which is credit positive, in our view, as the current non-bank borrowing costs are high (i.e. ~11%).

MOLAND: Stable financials showed resilience in credit profile

MW MOLAND 22s-23s at 8.7%-12%

Modern Land China (MOLAND, B2/B by Moody's/Fitch) announced stable full year result, featuring revenue of RMB15.7bn (+8.2% yoy), EBITDA of RMB25bn (flat yoy), normalized gross margin of 24% (-1.5ppts), improved liquidity (Cash/ST debts: 1.4x), and higher net gearing of 95% (+12ppts). The company stepped into the yellow camp under the "three-red-line" guidance, from the orange camp. The set of results is within our expectation, and we view the company as a slightly improving credit story with active liabilities management and unique land acquisition channel. **We see the MOLAND 22s-23s (8.7-12% YTM) as a carry play.**

Resilient 2020 operational and financial result: In 2020, Modern Land recorded contracted sales of RMB42.2bn (+16.6% yoy) with attributable ratio of 60% (flat vs 2019) and cash collection of 71% (2019: 76%). ASP remained at RMB10.4k per sqm (2019: RMB10.7k). Sell-through ratio maintained stable at 70% (2019: 70%). The company spent RMB12bn for sale-able resources of ~RMB43bn (21 projects, 4.6mm sqm), through public auction (47%) and industrial cooperation model (53%).

2020FY result showed growth in topline (+8.7% yoy to RMB15.7n) and normalized gross margins at 24% (2019: 25.5%). EBITDA remained flat at 2.5bn. On balance sheet side, total debts rose to RMB18.5bn (2019: RMB15.9bn), while liquidity improved as cash / ST debts improved to 1.4x (2019: 1.2x). Debt maturity profile improved as ST debts / total debts reduced to 39%, but the debt structure slightly weakened, as more trust loans are utilized (19% of total debts vs. 15% in 2019).

Company guided contracted sales of RMB47bn (+12% yoy) with RMB67bn saleable resources (sell-through: 70%). The recognized GFA is guided to be 3mm sqm (~RMB30bn in top line) in 2021, indicating ~100% growth in top line in 2021. Gross margin is expected to remain stable.

Shorter-than-peer land bank lifespan to be supplemented by the sale-able resources locked by industry collaboration channel. By the end of 2020, company's total land bank value amounted to RMB170bn (including 86bn sold but unrecognized). As such, the unsold land bank covers ~2x of 2020's pre-sales. We view such land span shorter than the market peers. Having said that, the company has ~RMB100bn resources locked and to be confirmed land use right in 1-2 years through its industry collaboration model. We believe such land acquisition model alleviates the firm's investment pressure, under the centralized land supply mechanism. In addition, industrial cooperation model allows Modern Land to provide better costs efficiency by cooperating with industrial companies. This is evidenced by its relatively low cost/ASP of 27% for industrial cooperation (public auction: ~35%).

RONXIN: Change of auditor created opportunity to buy

OW on the RONXIN 22s-23s at 7%-9%; MW on RONXIN 24s-25s at 9%-9.5%

We view Ronshine as a recovering story with profitability to gradually pick up in 2021 and 2022. Although Ronshine's minority interests stay elevated and relative short land bank lifespan requires further land replenishment, we view the company has good liquidity and manageable refinancing profile in 2021. In addition, guidance on 2021's positive cash flow is positive to its deleveraging prospects. **With the bonds buy-back as a near term catalyst, we are OW on RONXIN 22s-23s at 7-9%, and MW on RONXIN 24s-25s at 9%-9.5%.**

Good operational results with resilient sell-through and cash collection ratio. Land bank replenishment is needed to support long-term sales target. Ronshine reported good contracted sales of RMB 155bn (+10% yoy) with sell-through ratio of 71% (2019: 70%) and cash collection ratio of 80% (2019: 80%). ASP stood at RMB 21k per sqm. Company spent ~30bn for land acquisition (~57% of cash collection). Management guided the gross margin of new projects acquired ranges from 15%-25% (2020 reported gross margin: 11%). As of 2020, Ronshine's land bank lifespan is 2 years, implying a need for more active land bank replenishment to maintain its sizable contracted sales.

Profitability fell most in 2H20 but is expected to gradually recover in 2021 onward. Ronshine's gross margin further shrunk to 8.4% in 2H20 (1H20: 15.3%, 2020FY: 11%). The plunge of profitability in 2020 was mainly due to recognition of low margin projects in Shanghai and Hangzhou which were acquired in 2016-2018. Management guided total unrecognized revenue amounted to RMB 85bn on consolidated basis, in which ~30% are low margin projects (GPM <10%). We believe Ronshine's gross margin will gradually recover in 2021 and 2022, although still shy of industry peers.

However, minority interests remain high. Ronshine's minority interests increased to RMB 33bn as of 2020 (+32% yoy). MI/equity rose to 65% from 60% and remain high among industry peers. We expect the minority interests of Ronshine will stay elevated, given the low attributable ratio of its new land acquired in 2020 (48%).

Guidance of disciplined land investment is credit positive for its short tenor bonds. USD bonds buy-back provided catalyst. Despite its sluggish 2020 annual results, management provided good guidance for 2021, which includes 1) disciplined land investment budget (42% of cash collection), which will lead to a free cash inflow of ~RMB5bn; 2) 20% growth in recognized revenue (~RMB 58bn), backed by contract liabilities of EMB65bn; 3) reduce outstanding USD bonds exposure, replaced by onshore financing (onshore bonds and development loans), signalling a more frequent USD bonds buy-back actions. We view its disciplined land acquisition guidance as positive to its credit profile, yet created uncertainties for long term developments.

Change of auditor created opportunity to buy. On April 14, Rongxin (Fujian) Investment Group Co, the onshore property arm of Ronshine, changed its auditor from Pan-China Certified Public Accountants LLP (天健会计师事务所), who had been auditing the company's accounts since 2015, to Zhongxingcai Guanghua Certified Public Accountants LLP (中兴财光华会计师事务所). Management said the change was made based on cost savings and stated that PwC, its external auditor, remains unchanged. Management stressed that there was no disagreement with its previous auditor. RONXIN 22s and 23s dropped 2pt following the event. We view its bonds were over-sold, and such events actually created buying opportunity for its 22s and 23s bonds. We draw comfort from Ronshine's adequate liquidity (unrestricted cash/ST debts >1.0x), manageable refinancing profile (USD710mm maturity offshore, RMB1bn maturity and RMB6bn putable in 2021), and proven bank support. We view Ronshine's contracted sales target of RMB160bn and cash collection target of RMB60bn in 2021 (sell-through/cash collection ratio are 70%/80%) will further support the company's liquidity.

ZHLGHD: Credit metrics improvement amid moderate growth

OW ZHLGHD 22s at 10%

Zhongliang Holdings' FY20 announced result shows modest growth with ameliorated capital structure. We believe company is an improving credit with its diversified land bank, expanding financing avenues and conservative sales target in FY21. We prefer ZHLGHD 9.5% 2022 with 10% yield and catalysts include rating upgrade and longer tenor bond issuance.

Zhongliang achieved moderate growth in FY20 with slightly lower margin, 1Q21 presales is also on track. Company recorded RMB 168.8bn contracted sales (+10.7% yoy) in FY20, RMB 65.9bn revenue (+16.4% yoy) and RMB 8.9bn EBITDA (+2.1% yoy). Gross profit margin fell to 21.0% from 23.3% in FY19 and EBITDA margin also decreased to 13.4% from 15.3%, which are in line with industry trends. The company expected its gross margin to stay largely the same at 20% level. 1Q21 contracted sales reached RMB 48bn (+156.7% yoy growth), achieving 26.7% of its full year target.

We draw comfort from Zhongliang's (1) high sold but unrecognized sales, (2) increasing focus in T2 cities and (3) diversified lank bank. As of end-FY20, Zhongliang's contract liability stood at RMB 120.1bn which can support close to 2-year revenue recognition. Zhongliang's gradual switch to T2 cities (46% out of total contracted sales in FY20 from 35% in FY19) reduces its exposure in lower tier cities with higher demand volatility. T2, T3 and T4 cities account for 31.5%, 50.5% and 18.0% of its landbank by end-2020. Geographically, Zhongliang also has a diversified land bank with 42% in Yangtze River Delta, 35% in Midwest China, 11% in Western Taiwan Straits, 9% in Pan-Bohai Rim and 3% in Peral River Delta. This has provided better stability for the company. Current land bank size is sufficient for 2-3 years of development.

We believe Zhongliang will further improve its capital structure amid slower development pace. The company lowered its land acquisition to contracted sales ratio to 42.1% from 50.1% in FY19 and guided to maintain around 40% in FY21. Zhongliang also targeted a conservative contracted sales growth of 6.6% in FY21. These targets shall ease its funding need and provide room to further reduce its alternative financing proportion (28% in FY20 and 39% in FY19). In FY20, Zhongliang also expanded its financing conduits by issuing ABS and offshore bank loan and achieved material funding cost reduction to 8.5% from 9.4% in FY19. As for compliance with three red lines, the company improved to yellow camp at the end of FY20 with 66.2% net gearing, 79.9% liability-to-asset ratio (excluding advance receipts) and 1.1x free cash to short term debt coverage.

An update from Moody's is likely should Zhongliang's credit metrics continue to improve. On March 29th, Moody's changed Zhongliang's outlook to positive from stable. Moody's could upgrade Zhongliang from B1 to Ba3 if the company's adjusted EBIT interest coverage (2.8x in FY20) rises above 3.0x and revenue/adjusted debt (99% in FY20) exceeds 80% on a continued basis. If Zhongliang is able to continue its current trend to recognize contract liability, moderate debt growth and lower its funding costs, Zhongliang shall reach the EBIT interest coverage upgrade trigger by 1H2021 interim result.

However, Zhongliang has high minority interest that reduces its transparency. In FY20, the company's MI accounts for 63.9% of its total equity, up from 58.2% in FY19, which is comparable with CAPG (66%) and KAISAG (59%). In addition, concentrated land supply may increase companies' incentive to form JV and further increase Zhongliang's MI portion, which might affect investors' confidence in this company.

ZHPRHK: Stable financial results support its credit rating; Transparant balance sheet stands out among peers

OW on ZHPRHK curve at 5%-8.5%

ZHPRHK (B1 stable/B+ stable by Moody's/Fitch) reported in-line 2020 results, featuring stable income statement, improved balance sheet, reduced off balance sheet debts and better debt structure. The company remained in yellow camp under the 3-red-line guidance and targets to turn green by 1H22. **We believe the company's efforts in reducing off-balance sheet debts has helped them to stand out among B1/B+ rated issuers under the recent market concern on developer's balance sheet transparency. We are comfortable with ZHPRHK's stable fundamental development and believe the positive rating momentum could be the next catalyst to support the curve. We are OW on ZHPRHK curve at 5%-8.5%.**

Resilient operational result – Zhenro achieved presales of 141.9bn (+9% yoy), GFA sold 8.9mm sqm (+6% yoy), ASP of 15.9k per sqm (+2% yoy). Attributable ratio remained at 55%. Sell-through was 60%. Cash collection remained at 75%. Unrecognized revenue was guided to be 100-140bn with GPM of 20-22%. Landbank life span covers ~2.5years of development.

Improved B/S and debt structure – reported lower net gearing of 71% (vs. 79% in 1H20 and 84% in 2019 considering perp as debts), more sufficient liquidity as cash/ST debts of 2.2x (2019: 1.8x), and better capital structure (ST debts/total debts of 26%, lowered from 30% in 2019). ZHPRHK also reduced its reliance on trust loan to 6% (vs. 20% in 2019), which is a healthy level, in our view. NCI/equity maintained stable (42% vs. 41% in 2019).

Company reported external guarantee to JV & associates of 4.8bn (~7% of its total debts), and CFO guided the JV & associates companies are in net cash position. **We view the company's stable size of minority interests and low off balance sheet debts are desirable attributes for bond investors, in view of recent market concerns.**

Stable P/L – reported revenue of 36.1bn (+11%, in line with expectation), lower margin of 19% (-0.9ppts, guided as 20%), reported EBITDA of 4.7bn (+6.7% yoy), profits of 3.6bn (+15% yoy). **Remained as yellow developer**. The company reported assets liabilities (exclude advanced receipts) ratio of 76% as of 2020. It guided to improve the ratio to below 70% by 1H2022. Guarantee to JV & aso declined to 2.6bn (vs. 4.8bn in 2019).

Achievable 2021 sales target with higher attributable value and prudent investment budget. The company set 2021 sales target at 150bn backed by sale-able resources of 250-270bn, indicating sell-through ratio of 55-60%. It looks to increase attributable ratio to 60%, thanks to higher attributable ratio of the recent land bank acquisition (70% attributable ratio and 80% consolidated ratio for the land acquired in 2020). Management also guided the recognized revenue for 2021 will be RMB40bn, backed by the contract liabilities of RMB60bn at end-of 2020.

We assess there is positive rating momentum to its Fitch rating. The company met Fitch's rating upgrade trigger - Adj. debt/net inventory is estimated at 38%/35% in 2019/2020 (vs. upgrade trigger of 45%).

VNET: 21Vianet has sufficient cash to repurchase share from Tuspark, but capex need remains

MW VNET 21s at 5%

We maintain Neutral on VNET '21 at 5% in view of tight valuation and expects bond price normalizing to par approaching its due-date. The outstanding USD bond VNET '21 is its next bullet maturity, which will highly likely be refinance/repaid. This protects VNET '21 bond price from major volatility.

21Vianet (VNET) announced signing of definitive agreement to repurchase US260mm (~RMB 1.7bn) class B shares from Tuspark on 24 March. The agreement also states Tuspark has agreed to sell additional VNET shares to an affiliated company of Sheng Chen, founder of VNET, at the same share price. If the additional share transfer is consummated, Tuspark will retain a small shareholding of <5% in VNET.

We assess VNET has sufficient liquidity to fund this share purchase (RMB ~1.7bn) given it has RMB 2.7bn free cash at end-2020 and it raised RMB 3.9bn via CB in Jan 2021. Also additional share purchase from Tuspark will be conducted by an affiliated company of Sheng Chen, not from VNET. This will limit VNET's future liquidity need on share repurchase, and remove overhang from its current debt-laden controlling shareholder – Tuspark.

According to USD bond OC, its Change of Control Clause will be triggered, if (i) Tuspark ceases to be its controlling shareholder, and (ii) there is an ensuing rating downgrade. **We think CoC is unlikely to be triggered as likelihood of a S&P rating downgrade is low**, given the rating agency reckon VNET's convertible bond issuance will ease its liquidity strain on 21 Jan 2021.

2020 results

VNET announced 2020 full year revenue of RMB 4,829mn (+27% yoy) and adjusted EBITDA of RMB 1,319mn (+26% yoy). For 4Q2020, VNET achieved revenue of RMB 1,348mm (+29% yoy) that slightly exceeded its prior guidance. EBITDA recorded RMB 383mn (+49% yoy), which is low-end of guided range.

In 2020, utilization rate fell to 61.6%, from 66.0% in 2019 given large number of newly built cabinets but retail MRR improved to RMB 8,976 (+2.6% yoy). Total number of cabinets increased to 53,553 (+17,262 yoy). Improving retail MRR shows good demand for VNET's IDC service amid pandemic but aggressive expanding plan still pose some execution risk to the company.

In 4Q20, VNET acquired data center in Beijing together with a new public cloud customer. The company has accumulated wholesale MOU to 180 MW, from 140 MW in 3Q20. It has also raised additional RMB 353 mn bank borrowing in 4Q2020. (End-2020 capital structure: bank loan: RMB 921mn; USD bond: RMB 1,944mn; CB: RMB 1,400mn; Lease Liability: 2,190mn; Preferred share RMB 1,050 mn)

2021 outlook and guidance

For 2021, management guides revenue in the range of RMB 6.1bn - 6.3bn and EBITDA to be RMB 1.68bn - RMB1.78 bn, indicating revenue growth of 26%yoy and EBITDA growth of 15%-21%yoy.

Specifically, for 1Q2021 management expects revenue will be in the range of RMB1,375mn – RMB 1,395mn, EBITDA in the range of RMB395mn - RMB 415mn, showing a growth of > 26% yoy, and > 53% yoy respectively. Capex will be RMB5bn - RMB6bn for 25,000 cabinets addition in 2021. In which VNET has revealed 22,000 cabinets the company has targeted.

We expect further ramp up from newly built IDC centers will contribute to VNETˇs EBITDA in 2021. Larger share of wholesale projects will also provide higher degree of revenue/cash flow visibility relative to retail projects.

CARINC: The worst is over now, we see bond price tilting to upside, albeit gradually

MW CARINC 22s at 7.2%

We believe MBK, the new shareholder of CAR Inc., will improve CAR Inc.'s capital market access.

We view the dust from Luckin Coffee saga is finally settled, given MBK's full ownership of CAR Inc, and CAR Inc's recovering operation in 2H2020.

We expect CAR Inc. to restore some of its previous financing channels in 2021, which has driven S&P to raise its rating to B-/Stable, from its CCC+/Positive previously after its successful issuance of USD250m 3 year-bond. We expect Moody's positive rating action will follow.

We deem CAR Inc. as a turnaround story and has tightened to 7.2% level after its financing conduits resume. We are MW CARINC 22 at 7.2%, although it shows stronger credit improvement momentum compared to other industrial credits.

FY2020 results

FY2020 revenue fell -20.4% yoy to RMB 6.1bn, EBITDA down by -43% yoy to RMB 1.9bn. But the company's operating performance has stabilized from COVID's trough. 2H2020's revenue decline narrow to -14.8% yoy to RMB 3.4bn (+22%HoH) and recorded EBITDA of RMB1.1 billion, -31% yoy (+33%HoH) mostly due its reduced fleet size (-22% yoy).

Its key operating metric, on the other hand, stabilized – utilization rate recovered to 59% in 2020Q4, compared with 53.3% in FY2020 and 57.5% in 2019. ADRR rose to RMB 196 in 2020Q4, versus RMB181 in FY2020 and RMB 210 in FY2019.

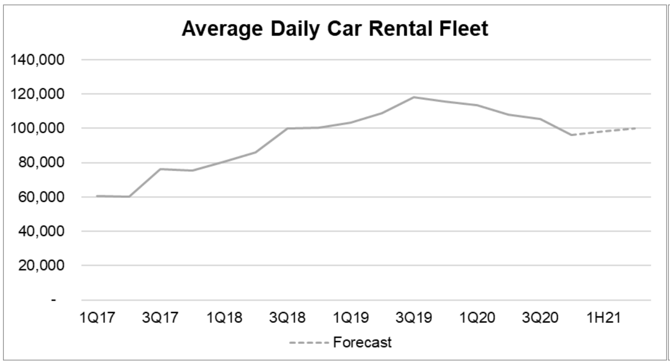
During 2020, CAR Inc. repaid RMB 8bn of debt, via a combination of operating cash flow, cash balance on hand, car disposal proceeds. As a result, its leverage (Debt-to-EBITDA) lowered to 3.4x by end-2020, from 4.4x in 2019.

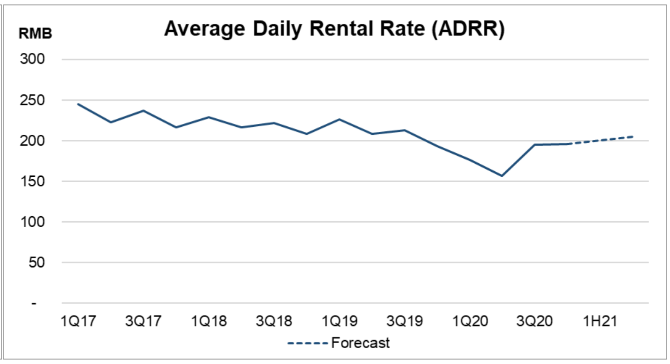
Operating performance should continue to improve in 2021

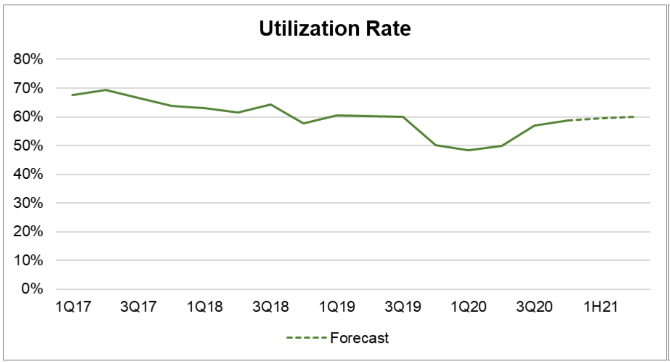
We estimate CAR Inc's RevPAC of RMB 120 in 2021, recovering to pre-COVID level in 2019, vesus RMB 96 in 2020, following vaccine's roll-out. CAR Inc has already balanced fleet utilization improvement and raised ADRR sequentially in 2H2020. CAR Inc's total fleet size has reduced to 109,688 units, from 148,894 units in 2019. For 2021, management guides new car addition of 40,000 units, alongside disposal of 30,000 units to renew its car fleet.

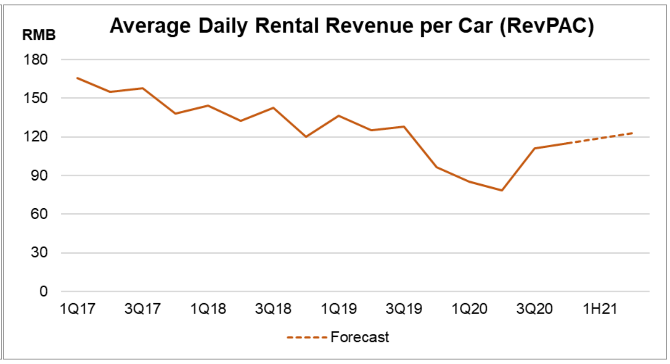
With that, we forecast CAR Inc. will generate EBITDA of around RMB 2.5 bn in 2021, which should cover its net car addition capex of RMB 1 bn – RMB 2 bn. This compares with its EBITDA of RMB3.1 bn in 2018 and RMB 3.4 bn in 2019. CAR Inc's rolling Debt-to-EBITDA will become even lower to 2.2x, after its upcoming dim sum bond repayment in April 2021.

CAR's repaired balance sheet and more prudent expansion pace should allow it to better manage its capital structure and liquidity.









Source: CMBI, Annual Reports

MBK's full control on CAR Inc., alongside its stake in eHi Car with a consortium, has shown its strong commitment in Chinese car rental industry.

MBK Partners has USD 22 billion capital under management according to its website. It successfully took private of CAR Inc. on 4 March 2020, with a voluntary general offer worth of HKD 8.5 billion. (~USD1.1 billion). MBK also subscribed to USD 175 million 5-year Convertible Bond issued by CAR Inc. on 15 Jan 2021 to help it refinancing its bullet maturities in 1H2021.

In 2019, MBK also took part in the privatization of eHi Car, with a consortium of eHi chairman Ray Zhang, Enterprise Holdings Inc., Ctirp.com and several other private equity funds like Baring and Redstone.

CHIGRA: Buy CHIGRA ahead of its 1Q2021

OW CHIGRA 22s at 17%

We see CHIGRA as an improving fundamental credit, with a refinancing story. Recovering China auto sales in 2021 will likely help its sales and margin. We also see likelihood of its successful refinancing of onshore bonds in Apr – Sep 21 to tighten its USD bond spread. Overall we view CHIGRA '22 ~YTM 17% offers good risk-reward, even without closing of Shenergy's stake acquisition.

Robust China auto sales data from various auto OEMs is positive to CHIGRA's operating performance. For first two months of 2021, key auto OEMs we track show an average sales volume growth of 65% yoy, recovering to 84% of 2019 pre-covid level. We expect this bolds well for CHIGRA's 2021Q1 performance.

For its puttable bonds in Jan 2021, CHIGRA achieved a low put ratio of 15%. Of the recent RMB 1.4 billion puttable bonds, only RMB 208 million was put back to the company and CHIGRA managed to resell RMB 100 million to other investors, according to its 18 Feb announcement.

With that, we continue to view CHIGRA has good onshore market access, which will help its refinancing work in April – September 2021. CHIGRA will face RMB 3.87 billion bullet maturities (Onshore bonds of RMB3.3 billion and USD bond of USD 88 million) for the rest of 2021. The company has successfully issued 2+1 RMB 1bn at 7.45% on 31st March 2021.

We estimate CHIGRA managed to mildly deleverage in 2020, thanks to improved inventory management. We estimate the company's operating cash flow for 2020 to be marginally lower than 2019's RMB 7 billion. The company reported cash balance of RMB19.7 billion as of 3Q2020.

CHIGRA has executed a good refinancing plan in 2020, living up to most its previous guidance in 2020.

During 2020, CHIGRA did not call back its CHGRAU 5.625% perp on 30 Oct, but the company smoothly refinanced/extended its other bullet maturities. In particular, CHIGRA upsized its syndicated loan to RMB 1.9 billion led by HSBC/Hang Seng Bank/Bank of Shanghai in Dec 2020. This syndicated loan has a term of 18 months post drawdown, according to its 16 Dec announcement. This will be longer-dated than **CHIGRA '22.**

Evergrande's stake sale of Xinjiang Guanghui to Shenergy is pending Shanghai SASAC's approval.
Per our communication with CHIGRA's management, an approval from Shanghai SASAC is the next hurdle to proceed Evergrande's 40.964% stake sale of Xinjiang Guanghui to Shenergy.
Risk factor: continual share price weakness that hurts Guanghui's share pledge financing; China Grand Auto has announced share repurchase plan of RMB 200m – RMB 300m for employee incentive plan.

China Grand Automotive (CHIGRA, 600297.SS)						
in millions, unless otherwise stated		**2020/12/31 RMB**	**Rate (%)**	**Maturity**	**Puttable Date**	**Note**
Loans and Other Borrowings		**45,349**				
Onshore Corporate Bonds						
012002830.IB	20广汇汽车SCP001	500	7.1	2021-05-11		
012003594.IB	20广汇汽车SCP002	400	7.1	2021-07-17		issued 2020-10-20
143363.SH	18广汇G1	700	7.3	2021-08-08		
101801090.IB	18广汇汽车MTN002	434	7.3	2021-09-19	2020-09-21	
143817.SH	18广汇G2	164	7.3	2021-09-20	2020-09-21	
155080.SH	18汽车G3	500	7.2	2021-12-20	2020-12-21	
101900154.IB	19广汇汽车MTN001	192	7.2	2022-01-28	2021-01-28	
155144.SH	19汽车01	1,000	7.5	2022-01-29	2021-01-29	
155710.SH	19汽车02	1,000	7.1	2022-09-25	2021-09-27	
163261.SH	20汽车G1	945	7.5	2023-03-27	2022-03-27	
175303.SH	20广汇G2	550	7	2023-10-30		issued 2020-10-30
163663.SH	20汽车01	1,000	7.4	2023-11-26	2022-11-26	issued 2020-11-24
175922.SH	21汽车01	1,000	7.45	2024-03-30	2023-03-30	issued 2021-03-29
110072.SH	广汇转债	3,370	0.2	2026-08-18		issued 2021-08-18
Total Onshore Corporate Bonds		**11,755**				
Offshore Corporate Bond						
g19102501.SG	广汇汽车 8.885% N20210725	569	8.885	2021-07-25		
9VFB.SG	广汇汽车 8.625%	1,734	8.625	2022-04-08		
Total Offshore Corporate Bonds		**2,303**				
Perpetuals						
Perpetuals	CHGRAU 5.625% Perp	2,600				
Total Debt Including Perpetuals		**62,007**				
Less: Unrestricted Cash (Estimated)		-9,833				
Net Debt		**52,174**				
Liquidity:						
Cash and Cash Equivalent		19,666				Cash as of 30 Sep 2020
Less: Restricted Cash (Estimated)		-9,833				
Unrestricted Cash		**9,833**				

HONGQI: Bond price will stabilize at par, on good 2020 results and equity placement

MW HONGQI 22s-23s at 5.8%-6.5%

Strong aluminium price trend and Hongqiao's commitment to raise equity-like funding has helped it lower its repayment risk from its sizable onshore bond maturity. We think Hongqi '22 and Hongqi '23 will stabilize at current price level of 99 and 98 handle, as Hongqi lower its gross debt balance following its series of onshore bond repayment.

We expect asset allocation to commodity proxy to continue support its share price, which gives room for the company to raise further equity funding, potentially. This widens Hongqi's financing channels, just when it continues to repay its future onshore bonds of RMB 12bn due for rest of 2021 (or RMB 19.7bn incl puttable bond) The company has already paid down RMB 12bn in 2021 YTD. Overall we think Hongqi's bond price will be supported close to par, given the aforementioned factors.

Yet in view of tighter valuation, we turned Neutral of HONGQI 22s-23s at 5.8%-6.5% from our OW call on 25 Nov 2020.

Aluminium price rose to RMB 16,970/ton on 10 Mar 2021, from RMB15,265/ton at end-2020, and RMB13,870/ton at end-3Q2020.

Hongqiao's management has shown strong willingness to pay. The company raised RMB5.5 billion from equity-like funding during Nov 2020 – Mar 2021. Its chairman Zhang Bo's stake lowered to 66.6% after series of placement, from 70.9%. In addition, there is a USD200m 3-year term loan in syndication, per Debtwire.

- 24 Nov 2020: Share placement at HKD 6.3 per share,
- 7 Jan 2021: Convertible bond of USD 300m 5.25%, due 2026
- 10 Mar 2021: Share placement at HKD 9.72 per share

As a result, repayment pressure from maturity wall of onshore bonds has alleviated, in our view. Hongqi has already paid down RMB 12bn in 2021 year-to-date. We assess the company has future onshore bonds of RMB 12bn due for rest of 2021, or RMB 19.7bn including puttable bond. This should be more manageable, with Hongqi's own operating cash flow. The company generated RMB 12.5bn free cash flow in 2020, and RMB 11.3bn in 2019.

2020 Full-year results recap

Hongqi reported annual result of FY20 on 5 March, company's revenue increased 2.3% to RMB 86.2 billion, mainly driven by slightly higher ASP of RMB12,501/tons (ex. VAT) with stable volume. Company's EBITDA also grew 12.8% to RMB 22.3 billion with margin improved to 25.9% from 23.5% in FY19. Hongqiao's operating cash flow increased to RMB 17.8 billion while capex also up RMB 5.3 billion. Cash stood at RMB 45.5 billion as of FY20 year end with lower debt of RMB 74.8 billion. Total Debt-to-EBITDA edged down to 3.4x from 4.0x in FY19.

EHOUSE: Higher gross debt will weigh on its rating

MW EHOUSE 22s-23s at 7.3%-9.7%

We close our tactical Buy call on EHOUSE '23 after its FY2020 results showing higher gross leverage which will likely pressure its rating (BB-/Neg by S&P). We are neutral EHOUSE 22s-23s at 7.3%-9.7%.

The company reported higher Debt-to-EBITDA of 6.9x at end-2020, vs 5.6x at Jun-2020, and 3.3x at end-2019. This is because Ehouse increased its borrowing to RMB 8.5bn at end-2020, from RMB 5.3 bn at end-2019, taking into account of its early prefunding for Feb'21 USD bond and CB issued to Alibaba in Nov 2020 (RMB 1bn). In the meantime, its EBITDA detracted by -22% in 2020 due to COVID.

At today's 2020 results presentation, management revealed its inclination **to maintain a gross debt balance of RMB 7 billion** (including RMB 3 billion onshore borrowing, USD 600m offshore borrowing). **This will translate into 4.3x 2021 Debt-to-EBITDA**, assuming Ehouse's business performance will recover to pre-COVID level in 2021. This will be **higher than S&P downgrade trigger of Debt-to-EBITDA 4.0x.**

2020 results recap

For 2020, Ehouse reported revenue declined -11% yoy to RMB 8,052mn, from RMB 9,095mn in 2019.

By segment, i) primary real estate agency revenue fell -30% yoy to RMB 3,204mn (2020 New property sold GFA: 32.9mn vs 2019: 43.3mn; 2020 commission rate: 0.79% vs 2019: 0.86%) ii) Fangyou – real estate brokerage network revenue fell -23% yoy to RMB 2,707mn (2020: 78,661units sold vs 105,433 sold in 2019; commission rate remained stable 2.53% vs 2019's 2.57% with 87.7% distribution rate to Fangyou's franchisee.)

Management ascribed its agency business weakness to COVID. On the other hand, iii) its consulting business was steady generating RMB 987mn revenue; and iv) newly acquired Leju – digital marketing business, contributed RMB1,129mn revenue.

We think weakness in Ehouse's agency business will prompt rating agency to reassess its future EBITDA forecast, which will add pressure to its rating, in addition to Ehouse's publicly guided higher gross debt level in the future.

Having said that, Ehouse still maintained a high cash balance of >RMB 8 billion, which should support EHOUSE '22 valuations, which is its next bullet maturity.

FOSUNI: Initiate OW for its large investment portfolio & diverse funding channels

OW FOSUNI 27s at 5.1%

Fosun has a decent investment track record to enhance its net asset value (NAV), and diverse financing channels to raise fund for operational needs. Given its clearly stated target to balance investment with divestment amount, we expect its future rise in leverage will be moderate and credit profile to remain stable.

Company description

Fosun is a diversified conglomerate with businesses covering pharmaceuticals, financial services, real estate, retailing, steel and mining. In recent years, the company has expanded its investment and gradually switched to an investment holding strategy, it manages a sizable portfolio consisting of RMB273billion of listed and unlisted investments as of end-2020, according to S&P.

Of its significant portfolio, operational business remains pharmaceuticals, real estate and retailing in China, which are operated under Fosun Pharma, Forte Land and Shanghai Yuyuan. These operating companies account for >30% of its portfolio NAV, as of end-2020.

Assessing Fosun's leverage

RMB 'billion (as of year-end)	2017	2018	2019	2020
Fosun's Portfolio NAV, S&P	237,100	219,500	238,700	273,000
yoy		*-7%*	*9%*	*14%*
Gross Consolidated Debt	150,375	186,140	208,287	229,802
yoy		*24%*	*12%*	*10%*
Loan To Value (LTV) Ratio, S&P	35.0%	35.5%	37.3%	33%-35%
Implied net debt amount at Investment Holding Co. level	82,985	77,923	89,035	92,820

Beneath rising NAV of Fosun's portfolio, the company's consolidated debt also grew in tandem in 2018-2020. During the same period, its net debt balance at investment holding company level remained largely stable, as reflected in its LTV ratio of 33%-37%, according to S&P assessment.

This shows Fosun's previous rise in consolidated leverage was partly ascribed to its operating subsidiaries/investees' level. Risk of Fosun's overly aggressive investment was somewhat put in check, by rating agency's LTV measure, in our view.

Decent investment track record

To assess Fosun's investment track record, the company has shown a steadily rising NAV in 2018-2020. Its decline in NAV in 2017-2018 was due to overall Chinese stock market weakness in 2018, when CSI300 Index fell by 25%, from 4,030 to 3,010 in that year.

Having said that, given only around 40% of its portfolio was publicly listed, we acknowledge the limitation and opacity of Fosun's financial information to assess its investment track record. The company's NAV is not an audited financial data in its annual reports, instead from management account assessed by valuer.

We aim to conduct analysis based on its consolidated financials (656.HK), its Chinese operating entity - Shanghai Fosun Hi-tech's public disclosure.

Selective successful asset recycling example

(i) **Gland Pharma**

Fosun's acquisition of Gland Pharma in Oct 2017 at a consideration of USD1.09 billion for 74% stake has achieved great investment return. Gland Pharma was successfully listed in India Stock Exchange in Nov 2020, and currently has a market cap of USD5.5 billion, representing a return of 273%, of which INR29.05 billion (approximately RMB2.61 billion/USD400 million) are realized through Fosun's sale of equity shares in the IPO. Fosun, via its subsidiary Fosun Pharma, now still retains 58% share in Gland Pharma which now represents 13% of its portfolio NAV on our estimate.

(ii) **Tsingtao Brewery**

Fosun, via its subsidiary and asset management co, acquired a 17.99% stake in Tsingtao Brewery from Asahi Group Holdings Ltd at a consideration of HKD6.6billion in Mar 2018. Tsingtao Brewery, publicly listed in Hong Kong, currently has a market cap of HKD123.5 billion. This financial investment through Fosun's subsidiaries achieved an unrealized return of 235% in three years.

Selective Investment that cast doubts

(i) Baihe Jiayuan Network Group

Fosun's RMB4 billion acquired Baihe Jiayuan Network Group's 69.18% stake from its Chairman Guo Guangchang in Jul 2018. From the company's disclosure in 2018 and 2019 interim results, Baihe Jiayuan is yet to make a profit following the acquisition despite a revenue of RMB3.4 billion in 2018. The company incurred a loss of RMB82 million in 2018 and ultimately delisted from the NEEQ in 2019.

(ii) Cirque du soleil

Fosun, TPG and Cirque du Soleil signed an investment agreement in Apr 2015 in which Fosun (20% stake) and TPG (60% stake) jointly acquired the majority stake in Cirque du Soleil for USD1.5 billion from founder Guy Laliberte. Hit by COVID-19, the company filed for bankruptcy protection in Jun 2020. Under a court-supervised restructuring, Cirque du Soleil reached an agreement with creditors to cancel existing debts of the company, in which creditors will acquire substantially all of the entertainment company's assets while Fosun had to write off its 20% stake in the company.

Fosun has a track record of investment exceeding divestment in 2016 - 2020

In past five years, Fosun was acquisitive, the company made more investment than its divestment. The company's divestment only matched its investment amount in 2017 and 2020. Table 1 record Fosun's key acquisitions in 2017-2020. It seems to show mixed performance and might take some time to await exit and crystalize these investment value.

In addition, dividend income from its investees will continue to fall short of its annual interest and operating expense. This is because majority of its investees are unlisted and in growth stage. S&P estimated Fosun received dividend and interest income of RMB 4.6 billion in 2019 and 2020 at its investment holding company level, compared to its annual interest and operating expense of RMB7.4 billion in 2019 and RMB 7.7 billion in 2020.

Having said that, since 2020 management has been guiding to balance its investment with divestment amount. We expect this will contain its future rise in leverage.

Table 1: 2017-2020 Fosun's key acquisitions

No.	Acquisition Date	Company Acquired	Industry	Buyer	Stake acquired (%)	Consideration (RMB mn)	Source
	2017						
1	Mar	Breas Medical Holdings AB	Medical Device	Fosun Medical Holdings AB	80.0%	585	Annual Report
2	Jun	Paris Reality Fund S.A.	Real Estate	Fosun Property Europe Holdings (Lux) S.a.r.l.	71.7%	488	Annual Report
3	Oct	Gland Pharma Limited	Drug Manufacturer	Fosun Pharma including Fosun Pharma Industrial Pte. Ltd	74.0%	7,203	Annual Report
4	Nov	Shenzhen Hengsheng Hospital	Hospital	Shanghai Fosun Hospital Investment (Group) Co., Ltd.	60.0%	909	Annual Report
	2018						
5	Jan	St Hubert	Food	Fosun International and Beijing Sanyuan Foods Co Ltd	98.1%	4,939	OC
6	Apr	Jeanne Lanvin SAS	Fashion	Fosun Industrial Holdings Limited	65.6%	851	Annual Report
7	Jul	Baihe Jiayuan Network Group Co., Ltd.	Internet Information	Fosun International Limited	69.2%	4,000	Annual Report
8	Aug	Suzhou Pine Crane Restaurant Culture Co., Ltd., Suzhou Pine Crane Restaurant Management Co., Ltd.	Restaurants	Shanghai Yuyuan Tourist Mart Co., Ltd.	100.0%	1,629	Annual Report
9	Aug	Ningbo Xingxin Real Estate Development Co., Ltd.	Real Estate	Shanghai Yuyuan Tourist Mart Co., Ltd.	60.0%	756	Annual Report
	2019						
10	Jan	La Positiva Seguros y Reaseguros	Insurance	Longrun Portugal, SGPS, S.A.,	51.0%	727	Annual Report
11	Jan	International Gemological Institute	Jewelry Certification	Shanghai Yuyuan Tourist Mart Co., Ltd.	80.0%	751	Annual Report
12	Jan	Shanghai Xingjue Investment Management Co., Ltd	Real Estate	Shanghai Yuyuan Tourist Mart Co., Ltd.	100.0%	2,032	Annual Report
13	Dec	Shanghai Xingqi Investment Management Co., Ltd	Real Estate	Shanghai Yuyuan Tourist Mart Co., Ltd.	100.0%	1,778	Annual Report
14	Dec	Tom Tailor Holding SE	Fashion	Fosun International Limited	49.9%	310	Annual Report
	2020						
15	Apr	Chronograph Production Co Ltd	Watches	Shanghai Yuyuan Tourist Mart Co., Ltd.	55.0%	71	Annual Report
16	Apr	Tianjin Seagull Watch Group	Watches	Shanghai Yuyuan Tourist Mart Co., Ltd.	65.0%	522	Annual Report
17	Oct	Chengjiang Yibang Investment Co., Ltd.	Real Estate	Shanghai Yuyuan Tourist Mart Co., Ltd.	100.0%	1,184	Annual Report
18	Oct	Jinhui Liquor Co.,Ltd.	Spirits	Shanghai Yuyuan Tourist Mart Co., Ltd.	38.0%	3,396	Annual Report
19	Oct	DJULA.SAS	Jewelry	Shanghai Yuyuan Tourist Mart Co., Ltd.	55.4%	209	Annual Report

Source: Annual Reports, CMBI

Diverse financing channels and increasing use of equity fund-raising

Despite Fosun's dividend income falling short of its annual operating and interest expense, supporting its credit profile is Fosun's diverse funding channels. Fosun has also increased its use of equity financing recently. Its Fosun Pharma subsidiary has proposed A-share private placement of no more than RMB4.98 billion for Innovative drug and API projects on Nov 2020, pending CSRC approval.

Its capital structure comprises 51% bank loan, 23% onshore bonds, 14% offshore bonds, 2% private bonds, 2% short-term notes and 7% other borrowings, as of Jun 2020. The company has managed to collectively increase its bank loan, onshore bonds and offshore bonds amount, while reducing its private bonds in 2017-1H2020 (Chart 1). Fosun's onshore bank credit line has also increased with various banks during the period, per Shanghai Fosun Hi-Tech OC. (Table 2)

Since 2020, Fosun's management has clearly stated its intention to contain its debt load at investment holding company. Instead it will raise debt at operating subsidiaries for strategic investment, and conduct investment in public securities via its capital management arm. Since then, two notable acquisitions were Jinhui Wine and Tuopai Shede Spirits conducted by its key operating subsidiary - Shanghai Yuyuan.

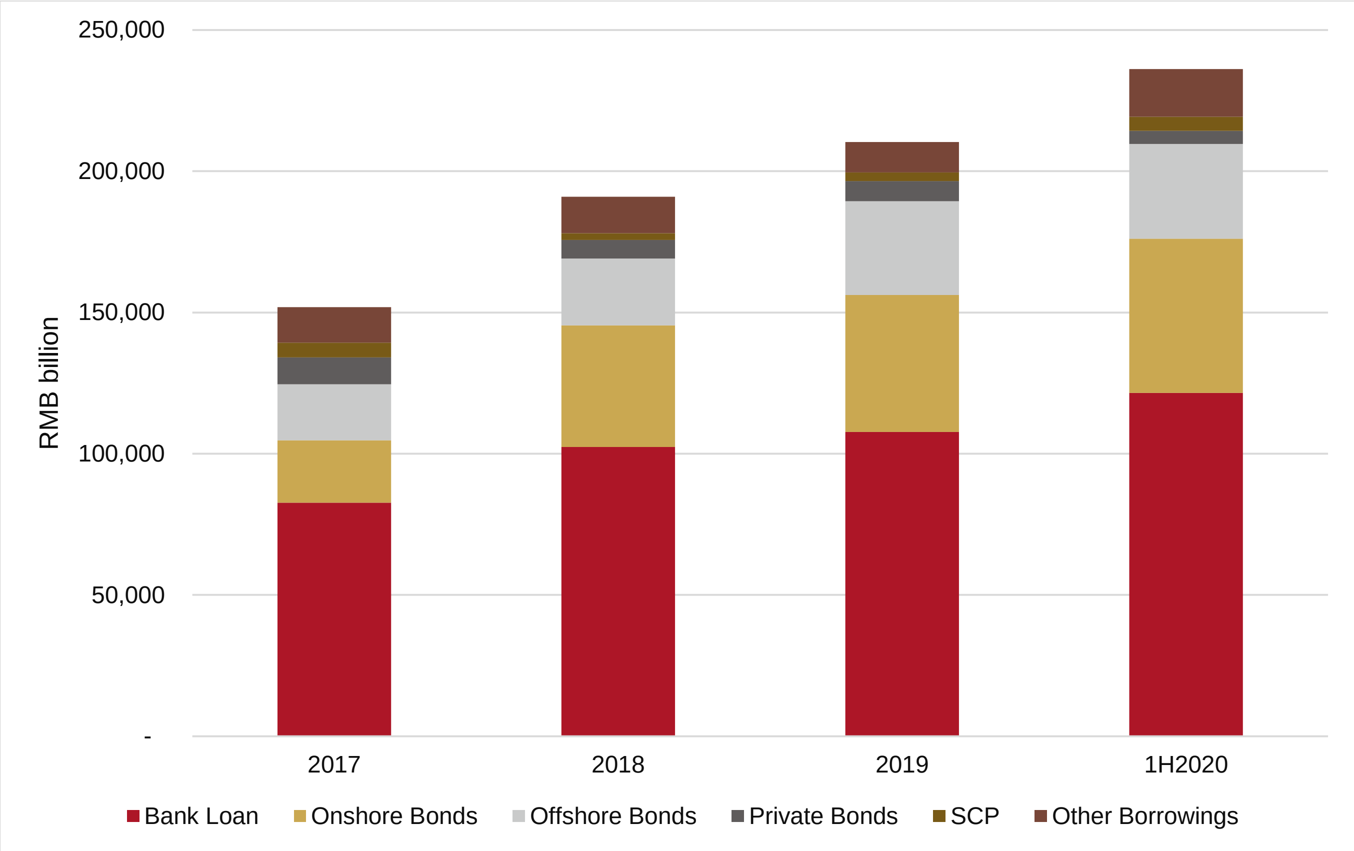
In addition, we believe, based on management's post-results NDR, that Fosun will continue to lengthen its debt maturity while balancing its financing cost. We think this is achievable as there is sizable unencumbered assets at operating subsidiaries level. Restricted asset at Fosun Hi-Tech was only RMB5.3 billion vs its investment property value worth of RMB 25 billion and there is no share pledge on these various investees. Reported Finance cost was 4.4%, 5.0%, 6.0% and 5.3% in 2017-2020 respectively.

Table 2: Fosun Hi-Tech Bank Line

(RMB'm)	(RMB'm)	3Q2018	Mix	3Q2020	Mix	2018-2020 Change	Change
Other Banks	其它银行	38,411	65.0%	46,737	61.0%	8,326	21.7%
China Minsheng Bank	民生银行	4,011	6.8%	4,754	6.2%	743	18.5%
Shanghai Pudong Development Bank	浦发银行	3,008	5.1%	4,547	5.9%	1,539	51.2%
Agricultural Bank of China	农业银行	2,927	5.0%	4,631	6.0%	1,704	58.2%
ICBC	工商银行	2,440	4.1%	2,945	3.8%	505	20.7%
CITIC Bank	中信银行	2,306	3.9%	3,341	4.4%	1,035	44.9%
Bank of Shanghai	上海银行	1,840	3.1%	1,156	1.5%	-684	-37.2%
China Construction Bank	建设银行	1,365	2.3%	3,588	4.7%	2,223	162.9%
Bank of Communications	交通银行	1,000	1.7%	673	0.9%	-327	-32.7%
Postal Savings Bank of China	邮储银行	956	1.6%	2,578	3.4%	1,622	169.6%
Bank of China	中国银行	800	1.4%	1,663	2.2%	863	107.9%
Total	**合计**	**59,064**	**100.0%**	**76,613**	**100.0%**	**17,549**	**29.7%**

Source: Annual Reports, CMBI

Chart 1: Fosun Consolidated Debt Breakdown



Source: Annual Reports, CMBI

Description of Key Operating Entities

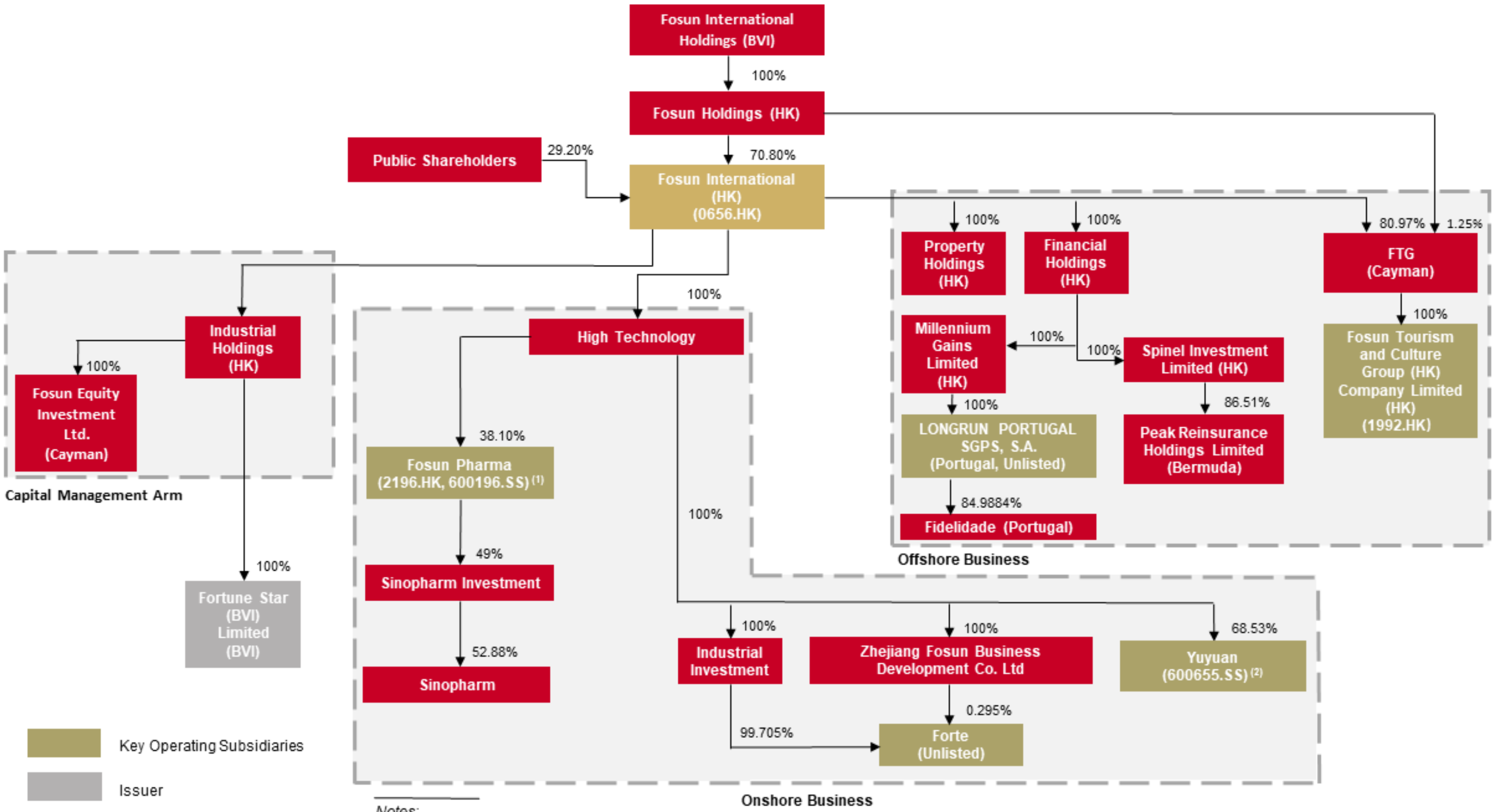
Fosun High Technology is the key entity holding Fosun's onshore businesses. It holds several key operating entities onshore, including:

a) 68.53% stake in Shanghai Yuyuan Tourist Mart Co., Ltd. (600655.CH), which mainly operates in the jewelry retailing business and is expanding into catering business. It also acts as a real estate developer for Forte Land, which is wholly-owned by Fosun High Tech.
b) Forte Land (unlisted) has a land bank reserve GFA of 12 million sqm that can approximately cover 5 years of development. It also achieved a contracted sale of RMB28.4 billion in 2019.
c) 49% stake in Fosun Pharma (2196.HK / 600196.CH), which mainly engages in pharmaceutical manufacturing. Fosun Pharma's portfolio consists of both innovative and generic drugs, but is primarily focused on generic drugs comprising of around 50% of its pipeline. Fosun Pharma also holds a 25.9% effective stake in Sinopharm which operates in the pharmaceutical distribution sector.

In terms of offshore businesses, Fosun International wholly owns several operating entities, including:

a) Fosun Tourism and Culture Group (1992.HK), which runs a long-established French resort operator Club Med that has 66 resorts and generated RMB13.2 billion in business volume in 2019.
b) Wholly-owned LONGRUN Portugal SGPS (unlisted), an investment holding company which owns Fidelidade, an insurance company operating in the Portuguese market.

Chart 2: Fosun International Organization Chart



Notes:

(1) High Technology's equity interest in Fosun Pharma increased to 38.34% as of May 31, 2020 due to secondary market purchase.

(2) High Technology and its wholly-owned subsdiaries held a 68.53% equity interest in Yuyuan in total; the remaining 31.47% shares are held by public shareholders.

Source: Fosun OC, CMBI

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