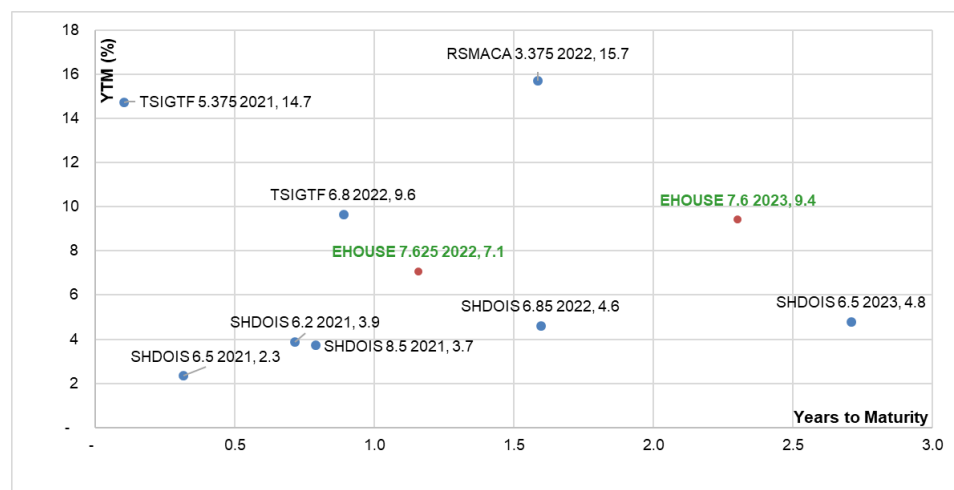


**CMBI Credit Commentary**
**EHOUSE – Diversification play in Chinese High-Yield**
**EHOUSE '22 100.875/100.375, EHOUSE '23 96/96.5**

We view Ehouse as a diversification alternative from heavy technical of Chinese property developers, thanks to its service-fee business model and its balance sheet with a small net cash position.

Ehouse '23 (96.625/9.3% YTM) is our tactical buy idea, in the run-up to its repayment of Ehouse '21 on 28th Feb 2021. We see likelihood of fund deployment to a longer-tenor with 250 bps step up on 1-year extension over Ehouse '22(100.875/6.8% YTM), given steepness of its curve.


**FY2020 results preview**

Ehouse operation has recovered in 2H2020, and achieved a flat revenue/EBITDA yoy compared to 2H2019. Nonetheless, due to missing sales period amid COVID in 1Q2020, Ehouse recorded a 15%-25% yoy decline in revenue for 2020 full year. EBITDA likely fell by 30%-40% to RMB 1.0 billion – RMB 1.1 billion. Net profit has declined by a bigger magnitude of 50%-60%, per our understanding. On the bright side, positive operating cash inflow continued, up modestly from RMB 833 million in 1H2020.

**Polly Ng 吴宝玲**  
 (852) 3657 6234  
 pollyng@cmbi.com.hk

**Wilson Lu 路伟同**  
 (852) 3761 8918  
 wilsonlu@cmbi.com.hk

**CMBI Fixed Income**  
 fis@cmbi.com.hk

## High cash balance and funding from Alibaba can potentially help Ehouse weather property industry tightening.

Ehouse's tendency to keep a high cash balance alongside its debt funding, provides some buffer for the company to roll out new business initiatives, amid increasing competition and tighter industry condition.

We estimate Ehouse has cash and short-term investment balance of >RMB 10 billion by end-2020, compared to its total debt balance of RMB 8.5 billion. Ehouse holds a small net cash balance, especially post its consolidation of Leju (with cash balance of RMB1.8 billion as of June 2020 and no debt). Ehouse also beefed up its liquidity position after an issuance of HKD 1 billion CB to Alibaba as well as HKD 828 million share issuance to Alibaba in November 2020. Nevertheless, this Alibaba-related cash infusion will be spent on investment to its JV with Alibaba over next 2-3 years.

## Management guides its customers' concentration will improve, but sales for its shareholders will remain bread and butter for Ehouse.

Ehouse derives bulk of its sales from its 3 major shareholders - Evergrande, Country Garden and Vanke. Ehouse's long relationship with these developers offers some visibility of future sales. Related-party transaction accounts for 33%, 36% and 43% of total sales in 2018, 2019 and 1H2020. The company also has signed and unsold reserve projects of 282m sqm, 288m sqm and 288m sqm during the same period.

Having said that, management expects its sales from Evergrande will decrease gradually, from 18% in 2019 and 23.9% in 1H2020.

## Rotation of China HY Risk

We see an increase in demand for non-property risk among Chinese High yield participants following CHFOTN's liquidity issues to start the year. Chinese banks and fund managers are growing cautious on the sector following CHFOTN's sell-off and China's government's tougher stance on the sector's overall leverage. There is a significant scarcity to non-property HY assets in offshore USD markets given the sector's weighting in overall outstanding issuances. Given similarly rated BEDUUS 7.45 22 (104.875/3.9%), BTSD 5.625 24(105/2.2%) and FOSUNI 6.75 23(106.25/3.9%) are all yielding at significant premium to comparable property HY bonds, Ehouse '23 represents a trading opportunity to diversify without sacrificing yield among Chinese industrial picks.

### **Risk Factor:** Margin erosion from competition

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

[fis@cmbi.com.hk](mailto:fis@cmbi.com.hk)

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value

of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

#### Disclosure:

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

#### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

#### For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

#### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.