

CMBI Credit Commentary - GZRFPR

GZRFPR – Capital commitment is even more positive

Announced last night, Guangzhou R&F and its major shareholders will form a 51/49 JV with major shareholders' total capital commitment of up to RMB10.4bn. **We consider this even more credit positive than the HKD8bn (RMB6.6bn) shareholders' financing announced on 20 Sep'21 for greater capital support and improvement in credit metrics. In addition, the shareholders capital commitment reinforces our belief on GZRF's near-term repayment ability. We reiterate our OW call on GZRFPR 5.75 22 at 91. Please refer to our report: [Evergrande – How far can the spill-over reach, published on 24 Sep'21.](#)**

- The size of shareholders' financing increased RMB2.9bn to RMB10.4bn from RMB6.5bn. The size of capital commitment exceeded the maximum consideration of RMB10bn from the sales of property management operations by major shareholders to Country Garden Services. As per management, the major shareholders have already provided shareholders' financing of RMB5.38bn, including the repayment of GZRFPR 8.875%'21 (issue size USD200mn) due 27 Sep'21, as well as buy-back of USD12mn and USD13mn of GZRFPR 9.125%'22 and GZRFPR 5.875%'23, respectively;
- The shareholders' financing is finalized to be in the form of capital injection in JV instead of shareholders' loans with a finite maturity. The capital injection will large GZRF's equity base and help bring down its leverage. As per the company, its net gearing ratio improved to 103% on a pro-forma basis (based on figures as at 31 Aug'21) vs 129% as at Jun'21.
- The shareholder's capital support will increase GZRFPR's balance of minority interests (1H21: RMB2.6bn, or 3% of total equity) to RMB13bn (pro forma: 13% of total equity). Having said that, this is still significantly lower than the industry peers.

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