CMB INTERNATIONAL 招銀国际

Fixed Income
Credit Commentary

4 Apr 2023

CMBI Credit Commentary

Seazen: Maturing IP portfolio is a key differentiator

Buy FUTLANs/FTLNHDs and prefer longer-dated papers

Despite the weakened FY22 results, we consider one of the few non-state owned survivors (click here for our Asia Credit outlook 2023 – After Dawn) as its maturing investment properties (IPs) have been providing a strong financial flexibility throughout the tight credit environment. We see plenty of room for further re-rating of FUTLANs/FTLNHDs with YTM of over 20% as refinancing risk relieved, funding cost and operations are "normalizing". The longer-dated FUTLANs/FTLNHDs corrected 4-10pts since mid-Feb'23, we believe that the current valuations offer better entry opportunities. We prefer longer-dated FUTLANs/FTLNHDs for more upside.

			Ask price if fair YTM is:-	
	Offer YTM	Ask price	10%	12%
FUTLAN 6.15 04/15/23	44.8%	99.0	99.9	99.8
FUTLAN 6 08/12/24	27.7%	76.8	95.0	92.7
FUTLAN 4.45 07/13/25	23.9%	67.4	89.0	85.4
FTLNHD 7.95 06/01/23	28.4%	96.9	99.7	99.3
FTLNHD 6.8 08/05/23	23.4%	94.8	98.9	98.3
FTLNHD 4.8 12/15/24	20.9%	77.9	92.1	89.2
FTLNHD 4 5/8 10/15/25	20.1%	70.5	88.3	84.3
FTLNHD 4 1/2 05/02/26	19.8%	66.1	85.8	81.2

Weakened FY22; turning focus on asset light and rental income

Seazen posted significantly weakened FY22 results with revenue and attributable core net profit down 31% and 97% to RMB116.5bn and RMB184.5mn in FY22, respectively. Its overall gross margin lowered to 13.7% in FY22 from 16.7% in FY21. The silver lining is the growing contribution of recurring rental income and management fee, which increased c17% to cRMB9bn. The gross margin of rental income and management fee was 72.6%. As per Seazen, its unrecognized sales as at FYE22 was RMB262.2bn. It expects the gross margin of property development to be stable. It expects rental income and management fee to increase to RMB11bn with 20 new Wuyue Plazas to be opened in FY23 (140 in operations in FYE22). The average same-store sales and customer traffic increased 3% and 4% yoy, respectively in 1Q23. The growing contribution from asset light and recurring income will help protect its profit margin.

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RMB180bn of saleable resources in FY23

Seazen does not provide sales target for FY23 and continues to tone down the growth and operating scale. Nonetheless, the saleable resources for FY23 will be RMB180bn, including cRMB100bn carried forward from FY22. Assuming a sell-through rate of 50% (compared with 55-70% over the past few years), Seazen will be able to achieve gross contract sales of RMB90bn in FY23 (RMB116.0bn in FY22). In 2M23, its gross contract sales were RMB13.6bn compared with RMB19.1bn over the same period of last year.

Debt deduction with positive FCF

	2020	2021	2022
Total debts (RMB mn)	105,306.6	104,839.2	80,137.3
Net debts (RMB bn)	41,938.4	49,185.8	47,684.0
Net gearing	51.5%	50.5%	51.3%
Adj. liab/asset	76.2%	71.9%	68.9%
Cash/ST debts	202.9%	145.8%	91.0%

During FY22, Seazen cut its total debts and net debts by RMB24.7bn and RMB1.5bn to RMB80.1bn and RMB47.7bn, respectively while managed to marginally lower its funding cost to 6.45% in FY22 from 6.69% in FY21. The debt reduction was due mainly to significantly lower land premium payment of cRMB2.3bn in FY22 (vs. RMB50.0bn in FY21). As per Seazen, it will cap its land acquisitions at RMB20bn. Its current o/s land premium payment is RMB1.7bn.

Headroom of over RMB40bn for financing against its IPs

Seazen is one of the few non-state owned developers maintaining access to various funding channels. In FY22, it raised equity of cUSD450mn and onshore MTNs totalled RMB4bn, including RMB1bn in Sep'22 and RMB2bn in Dec'22 with CBICL guarantee. Additionally, its A-share entity issued USD100mn 1-year green notes in Jun'22. Looking ahead, Seazen has maturity/redemption obligations of cRMB13bn (including ABS/CMBS of RMB4.6bn) in public markets in FY23. It repaid RMB1.2bn YTD and expects RMB4.6bn ABS/CMBS to be refinanced through another operating loans or ABS/CMBS. The company secured onshore MTN quota of RMB15bn in Nov'22. It had also announced A-share placement plan to raise no more than RMB8bn for project construction. Furthermore, the borrowings against these IPs are cRMB26bn (vs book value of IPs of RMB113.2bn. Assuming a LTV of 60%, the company can have a headroom of over RMB40bn for operating loans, CBICL-guaranteed MTN, CMBS, etc. Its refinancing risk is manageable.

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