

## CMBI Credit Commentary

### Seazen: IPs continue to matter

#### Maintain buy on FUTLAN/FTLNHDs

	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
FUTLAN 4.45 07/13/25	300	7/13/2025	4.45%	81.9	30%
FTLNHD 4.8 12/15/24	450	12/15/2024	4.8%	92.14	35%
FTLNHD 4 5/8 10/15/25	300	10/15/2025	4.625%	75.06	33%
FTLNHD 4 1/2 05/02/26	400	5/2/2026	4.5%	66.55	32%

Source: Bloomberg.

YTD, FUTLAN/FTLNHDs moved 38-51pts higher and have been among the best performers in Asia ex JP USD bond universe. At current valuations, FUTLAN/FTLNHDs still offer good risk-return profile given its more resilience operating performance and ability to access to various funding channels through collateralization of its maturing IPs. We estimate that the headroom for additional secured financing from its IPs of up to cUSD3bn, compared with its total o/s USD bonds of cUSD1.5bn. We believe that its offshore USD bond maturities are manageable, and therefore maintain buy on FUTLAN/FTLNHDs.

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#### Growing contributions from IPs mitigated weak property sales

RMB mn	1H22	1H23	1H24	% yoy change 1H24 vs. 1H23
Contract sales	65,160.0	42,401.0	23,554.0	-44.4%
Revenue	43,351.6	42,532.8	34,003.3	-20.1%
Property sales	37,735.7	36,342.5	27,550.0	-24.2%
Rental income	2,453.9	2,609.2	3,181.1	21.9%
Other recurring income	3,162.0	3,581.1	3,272.3	-8.6%
Gross profit	8,655.4	7,415.9	6,826.9	-7.9%
Profit before tax	4,753.5	3,753.9	2,334.5	-37.8%
Attributable net core profit	1,746.0	1,565.0	1,050.0	-32.9%
Recognized GFA (mn sqm)	4.6	4.0	3.2	-19.5%
Recognized ASP/sqm	8,204.6	9,183.3	8,645.1	-5.9%
Overall gross margin	20.0%	17.4%	20.1%	
Rental gross margin	72.2%	69.6%	72.2%	
Net core profit margin	4.0%	3.7%	3.1%	

Source: Company fillings.

Seazen posted weaker 1H24 results, in line with its profit warning announced on 19 Aug'24. As per our discussions with Seazen, it expects FY24 contract sales to be RMB50bn (vs cRMB76bn in FY23) and gross margin for property developments to remain at c10%. The silver linings are its maturing IPs with higher occupancy rate and improving gross margin. The occupancy rate for its IP portfolio increased to 97.2% as of Jun'24 from 95.2% as of Jun'23 and 96.5% as of Dec'23. The rental gross margin increased to 72.2% in 1H24 from 69.6% in 1H24 and 69.9% in FY23. The higher rental and other recurring income helps offset the impact of weaker property sales and protect Seazen's overall profitability. We expect Seazen to continue its resilience against industry downturn, thanks to the growing contributions from its maturing IPs.

## Headroom of cUSD3bn for additional loans against IPs

RMB mn	Jun'22	Dec'22	Jun'23	Dec'23	Jun'24
Cash	45,607.4	32,453.3	29,011.8	19,499.9	16,199.1
Restricted cash including cash in escrow	6,888.4	10,017.9	8,283.4	6,274.9	4,161.2
ST debts	32,308.6	35,663.1	25,615.8	24,755.7	19,610.0
LT debts	61,039.5	44,474.1	48,557.9	39,717.7	43,522.4
Total debts	93,348.1	80,137.3	74,173.8	64,473.4	63,132.4
Net debts	47,740.7	47,684.0	45,161.9	44,973.5	46,933.3
Net gearing	48.6%	51.3%	48.5%	49.7%	52.5%
Cash/ST debts	1.4x	0.9x	1.1x	0.8x	0.8x
Adj. liab/assets	69.2%	68.9%	67.5%	66.6%	66.2%

Source: Company fillings.

As we repeatedly discussed, a high quality (i.e. high occupancy rate) IP portfolio is the key to access funding channels and survive facing the extended market downturn. In Jun'24, Seazen raised onshore CBICL guaranteed bonds totaled RMB1.36bn at coupon rates of 3.2-3.4%, compared with 4.48% of the CBICL-guaranteed bond of RMB850mn issued in Dec'23. YTD, Seazen repaid offshore bonds totaled USD350mn, including USD250mn on 12 Aug'24. The next offshore maturity will be FTLNHD 4.8 12/15/24 (o/s USD450mn) due Dec'24. As per Seazen, the total secured loans against its IPs was cRMB37bn, equivalent to c39% of secured IPs as of Jun'24. It has 35 unpledged malls in operations, valued at cRMB30bn. It also has 15 mails under construction, valued at cRMB11bn. Assuming it can raise secured financing (CBICL-guaranteed bonds, operating loans, etc.) on its IP portfolio of RMB121.9bn at a LTV of 50%, the total secured financing from its IPs would be cRMB61bn. Hence, the headroom for additional secured financing will be RMB24bn, i.e. cUSD3bn. These should offer considerable financial flexibility for Seazen's near-term refinancing requirements.

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