

19 March 2021

CMBI Credit Commentary**CARINC: The worst is over now, we see bond price tilting to upside, albeit gradually****CARINC '22 99.5 9.5%**

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 will drive positive rating action from S&P, from its current CCC+/Positive outlook.

Thus, we deem CAR Inc. as a turnaround story and might further tighten from current 9.5% level after financing conduits resume. Current level of CARINC 22' shows stronger credit improvement momentum compared to other industrial credits such as EHOUSE 22' 7.4% and EHICAR 22' 11%, in our view.

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.

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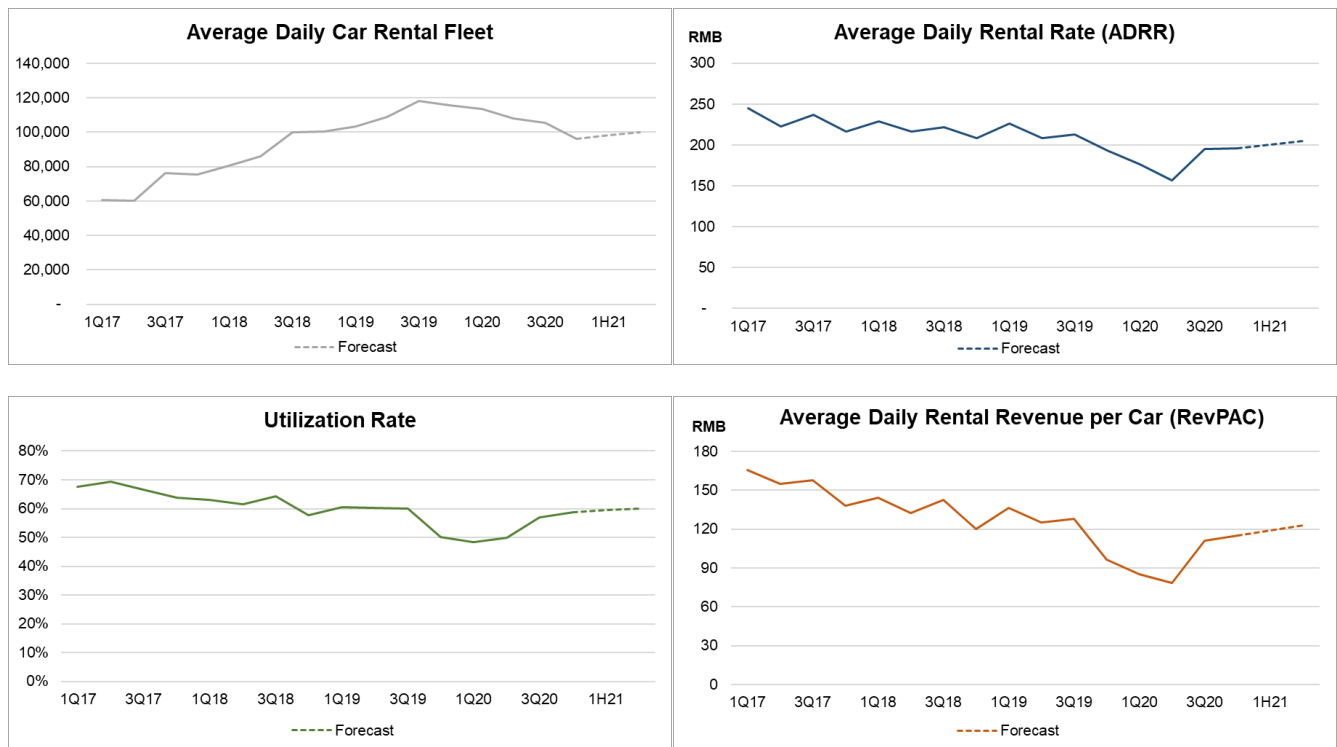
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Operating performance should continue to improve in 2021

We estimate CAR Inc's RevPAC of RMB 120 in 2021, recovering to pre-COVID level in 2019, versus 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.

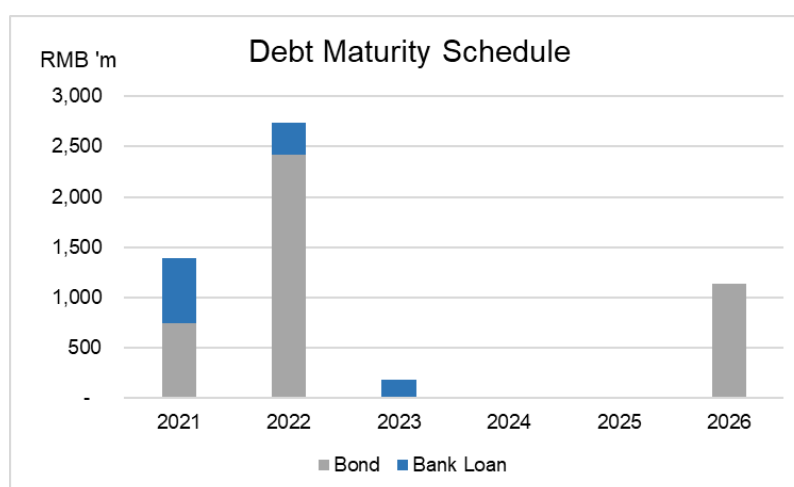
MBK Partners has USD 22 billion capital under management according to its website. It successfully took private of CAR Inc. on 4 March 2020, with a voluntary general offer worth of HKD 8.5 billion. (~USD1.1 billion). MBK also subscribed to USD 175 million 5-year Convertible Bond issued by CAR Inc. on 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., Ctrip.com and several other private equity funds like Baring and Redstone.

Appendix

CARINC - Maturity Schedule				
<i>in millions</i>	2020/12/31 RMB	Coupon	Maturity	Note
Free Cash	2,192			
Loans and Other Borrowings	1,537			
Total Corporate Bonds	5,120			
CARINC 6% 2021	1,950	6.00%	2021-02-11	Repaid
CARINC 6.5% 2021	750	6.50%	2021-04-04	
CARINC 8.88% 2022	2,420	8.88%	2022-05-10	
Total Debt	6,657			

Source: Annual Reports



Source: Annual Reports

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