CMB INTERNATIONAL

Fixed Income
Credit Commentary

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CMBI Credit Commentary

China South City: Near-term refinancing plan in place

CSCHCN 21s at 17%; CSCHCN 02/22 at 19%

Short-dated CSCHCNs are good short-tenor plays: CSCHCNs moved 1-9pts lower across the curve on the concerns of near-term refinancing risk and weak market sentiment. While the near-term volatility of CSCHCNs could remain high and bonds could continue to be traded below fair value (YTM of low teens, in our view), ***we believe that CSCHCNs, especially CSCHCN'21s, 11.5%'22 and 10.875%'22, offer good value and carry.*** We understand that the refinancing plan for maturing onshore bonds/MTNs and offshore USD bonds are already in place, as such, its near-term refinancing risk is well-managed. As per CSC's discussion in analyst briefing yesterday, it was considering some of its USD bonds buyback.

Better FY21 results with solid margin: In FY21 (ended Mar'21), CSC achieved contract sales of HKD16.1bn (vs the target of HKD16bn), up 19.5%yoy. The company maintain contract sales target at HKD16bn for FY22. Its revenue and core net profit in FY21 increased 14.4% and 21.4% to HKD11.3bn and HKD1.9bn, respectively. Thanks to the strict control of SG&A expenses and low land costs, CSC's profit margin remains to be at the high end of the sector with gross and core net profit margin at 43.7% (45.7% in FY20) and 16.7% (15.7% in FY20), respectively.

Near-term refinancing not a major concern: CSC is in the yellow camp under the "3-red lines". As at Mar'21, CSC's net gearing and (liab-contract liab)/(asset-contract liab) ratios were at 67.6% (vs 67.2% at FYE20) and 60.4% (vs 64.4%), while cash to ST debts ratio was at 57.7% (69.2% in FY20), respectively. We estimate CSC's net gearing ratio to decline to low-60% by FYE22. We understand that the overwhelming majority of RMB1.4bn onshore bonds due Aug'22 will not be put in Aug'21, and the holders of onshore MTNs of RMB600mn due Apr'22 has waived the put after the FYE21. Given the weak capital market condition, CSC turned to onshore loan markets for the refinancing of the USD bonds of USD532.7mn (equivalent to HKD4.1bn or RMB3.4bn) due Aug and Sep'21. It has secured 15-year operating loans of RMB2.1bn which is available for drawdown. It also secured 1-3-yr working capital loans in Jun'21. As per CSC, the onshore loan proceeds can be remitted offshore through its cash pool of RMB10bn with no extra cost. Additionally, it had cash on hand of HKD9.4bn as at Mar'21, out of it, cRMB7bn was unrestricted. These, coupled with our estimation of positive free cash flow of cRMB2bn in FY22, should provide CSC adequate liquidity to cover bond maturities over the next 12 months, including USD626.5mn offshore

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bonds due 1H22, even if CSC fails to access onshore and offshore bond markets in the near-term.

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