

CMBI Credit Commentary

DALWAN: First takes on the settlement of pre-IPO investments

What we know?

Dalian Wanda Commercial Management (DWCM) signed a new investment agreement with pre-IPO investors of Zhuhai Wanda Commercial Management (ZWCM) to reinvest the proceeds from the redemption of pre-IPO investments in ZWCM. We estimate that the put for pre-IPO investment would be cRMB46bn. The development is in line with our expectation that DWCM can avoid the sizeable cash flow for the redemption of pre-IPO investments. Nonetheless, DWCM's shareholding in ZWCM will be diluted to 40% from 78.81%. As per DWCM, there is no more put on the pre-investments based on the IPO timing of ZWCM. Indeed, DWCM will even have a net cash inflow based on the new investment agreement. We believe that DWCM is able to bring in new pre-IPO investors and the new investments are more than offset the pre-IPO investors chosen to withdraw. As we discussed, majority of its pre-IPO investors should not be under liquidity pressure to put the pre-IPO. COGARD and Country Garden Services which invested a total of RMB6.4bn, c17% of the pre-IPO investments, could be the exceptions.

What we don't know?

There remains a few details we need to portray the full picture of the new pre-IPO investments and the resulting impact. For example, the size of net cash inflow from the new investment agreement and whether there will be any early debt repayment clauses resulting the loss of majority control of ZWCM, as well as any change in operating and financing strategies of ZWCM after the ownership changes.

What are the mitigations of unknown?

Nonetheless, our concerns on whether there will be early repayment triggered by the loss of majority control over ZWCM is mitigated by the fact that ZWCM is an asset-light company. ZWCM is more of a mall operators and managing the malls owned and entrusted by DWCM. Diluting the shareholding in ZWCM will have limited impact on the asset base of DWCM. The income generating asset base of DWCM should be consider as the ultimate source of repayment.

In terms of cash flow, ZWCM paid dividend equivalent to c89% of its net profit. While the diluted shareholding will reduce DWCM's recurring dividend income from ZWCM, we expect ZWCM to maintain the current high dividend payout ratio as the high dividend payout will be in the interests of all shareholders. We also believe that the net cash inflow from the new agreement will somehow compensate for the loss of future dividend income. Furthermore, DWCM remains to be the largest shareholder of ZWCM, we do not expect the operating and financial strategies to be significantly changed.

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What is our view on DALWANs?

Our first takes of the new investment agreement are that this is a big relief of DWCM's near-term liquidity profile by removing the overhang of up to cRMB46bn redemption before FYE23. This is also a key step to unwind the intertwinements. As discussed in [DALWAN - Q&As on the consent solicitation dated 22 Nov'22](#), we believe that DWCM is locked in a "circular" situation in which the approval of the IPO of ZWCM, the amendments of the put of pre-IPO investments, the issuance of onshore bonds.... are dependent upon each other. The maturity extension of DALWAN 7.25 01/29/24 and the resolution of pre-IPO investments are keys to resume the push for IPO of ZWCM and the access to funding channels.

We continue to believe that DWCM is in a better position to weather through the current tight liquidity situation than many residential developers. DWCM is a mall operator instead of a residential developer. It has strong and recurring cash flows even the sale recovery of residential properties remains lackluster. DWCM's LTM (ended Sep'23) revenue was cRMB51.7bn (cUSD7.2bn). Majority of this was recurring rental and management income and gross margin was 63%. DWCM's offshore maturity is also way more manageable than many residential property developers. Its total o/s USD bonds is USD1.4bn, with maturities evenly distributed from 2024 to 2026. We have buy recommendations on DALWANs. DALWAN'26 rose 5.75pts while DALWAN'24/25 increased 0.3pt post the news.

Security name	Amt O/s (USDmn)	Ask price	YTM (ask, %)	Rating (M/S/F)
DALWAN 7.25 01/29/24	600	63.04	441.8	Ca/-/C
DALWAN 11 01/20/25	400	40.55	121.9	Ca/-/C
DALWAN 11 02/13/26	400	40.82	65.9	Ca/-/C

Sources: Bloomberg.

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