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CMBI Credit Commentary

Yanlord: Positive FCF generation continues in a challenging operating environment

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YLLGSP'26 remains a good carry play despite lower conviction

We consider Yanlord one of the few survivors of the Chinese property sector given its positive free cash flow (FCF) generation for a notable net debt reduction under a challenging operating performance. We take additional comfort with the financial flexibility offered by its IPs and its manageable debt maturity profile. The refinancing pressure of Yanlord has considerably alleviated through various funding activities. Yanlord has only 1 outstanding offshore bond, i.e YLLGSP 5.125 05/20/26 due May'26 with an o/s amount of USD500mn. YLLGSP 5.125 05/20/26 continues to perform well, up c6pts since the interim results and c2pts YTD. At 96.9, YLLGSP 5.125 05/20/26 is trading at YTM of 7.8%. The bond remains a good carry play despite the conviction level is lower. We maintain buy on YLLGSP 5.125 05/20/26.

Table 1: YLLGSP's o/s bond

	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
YLLGSP 5 1/8 05/20/26	500	5/20/2026	5.13%	96.9	7.80%

Source: Bloomberg.

Weaker FY24 results due to write-down and impairment losses

Table 2: Yanlord's financials

RMB mn	2022	2023	2024	% change
Revenue	28,712.3	43,395.4	36,396.7	-16.1%
-Property sales	*24,723.1*	*38,138.2*	*31,243.0*	-18.1%
-Non property sales	*3,989.2*	*5,257.2*	*5,153.7*	-2.0%
Gross profit	7,751.8	8,287.1	3,431.6	-58.6%
Adj gross profit	7,761.3	9,739.6	6,801.2	-30.2%
Profit before tax	5,448.6	3,053.2	-687.4	N/A
Adj PBT (excl write-down, valuation and impairment losses)	27,045.6	39,756.5	34,604.2	-13.0%
Recognized GFA, incl JVs and associates (mn sqm)	1.7	1.5	1.5	5.0%
Recognized ASP/sqm (RMB), excl car parks	38,455.0	42,833.0	29,821.0	-30.4%
Gross margin	27.0%	19.1%	9.4%	
Adj Gross margin	27.0%	22.4%	18.7%	

Source: Company fillings.

The weaker FY24 results were driven by lower ASP and significant write-down in inventory and impairment losses on receivable from JVs. Excluding the impact on COGS resulting from inventory write-down, the gross margin of Yanlord will 18.7% in FY24 vs 22.4% in FY23. Indeed, the adj gross margin in 2H24% was 21.0%, rebounded from 16.8% in 1H24. Furthermore, if we exclude the non-cash valuation and impairment losses, Yanlord's PBT dropped 13% to RMB34.6bn. We see signs of stabilization in the Chinese property sector in terms of lower inventory months an stabilized ASP, especially in higher tier cities, we believe that the pressure for further significant write-down and impairment should be moderating.

Cautious tone remains

In FY24, Yanlord's contract sales dropped 31.4% to RMB22.2bn, driven by 25.3% and 8.0% declines in GFA pre-sold and ASP, respectively. The company believes that the supportive policies are positive to the sector but voiced out a cautious tone when being asked for the land acquisition plan. It mentioned "safety' remain the number priority, it would only consider to acquire land after seeing significant progress in destocking. Its land reserve is equivalent to saleable resources of cRMB80bn, sufficient for 3 years' development without land acquisition Yanlord once again did not set a sales target for the coming year. In FY25, it will have saleable resources of RMB45-50bn, including existing sales resources of RMB25bn. Assuming a sell-through rate of 40% (we believe that sell-through rate is c40% in FY24), it could achieve contact sales of cRMB20bn in FY25.

Net debt continues to decline with a manageable debt maturity profile

Table 3: Yanlord's financials and ratios

RMB bn	Dec'22	Dec'23	Dec'24
Cash	20,716.1	13,022.5	10,242.8
Cash in escrow	8,500.0	4,900.0	3,000.0
ST debts	16,688.2	12,660.7	7,415.3
LT debts	29,243.6	20,974.2	19,207.4
Total debts	45,931.8	33,634.9	26,622.7
Net debts	25,215.7	20,612.4	16,379.9
Net gearing	55.6%	47.1%	41.8%
Cash/ST debts	1.2x	1.0x	1.4x
Adj. liab/assets	66.0%	64.0%	63.2%

Source: Company fillings.

Yanlord's net debts reduced 35% over the past 2 years. The company continues to generate positive FCF in a challenging operating environment given its high cash collection rate from property sales and very cautious approach in land replenishment. Hence, its key credit ratios continues to improve with a net gearing ratio of 41.8% as of Dec'24. Additionally, its solid recurring income of RMB5.2bn covered 3.3x of its gross interest expenses in FY24. Subsequent to the repayment of YLLGSP 6.8 02/27/24 in Feb'24 and refinancing offshore syndicated loans of USD300mn in FY24, the near-term refinancing pressure had been considerably relieved. In Dec'24, cash/ST debt ratio increased to 1.4x from 1.0x in Dec'23.

We expect Yanlord to continue to generate positive FCF in FY25. Furthermore, the LTV of its IPs and hotels in China and Singapore totaled cRMB39bn (incl RMB11.8bn in Singapore) was only c33%. Yanlord's only o/s USD bonds, YLLGSP 5 1/8 05/20/26 (o/s amt of USD500m), will mature in May'26. Given the positive FCF, cash on hand and headroom for secured borrowings against its IPs and hotels, Yanlord's debt maturity profile is manageable.

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