

CMBI Credit Commentary

China South City (CSC): Equity injection from SZ LGFV at Xi'an project

CSCHCNs offer very attractive RV

CSCHCNs rebounded 13-25pts since the end of Oct'22, alongside the market rally. We consider CSC one of the survivors of the sector in view of state-ownership and SZ LGFV's demonstrated willingness and ability to provide financial and other supports. The equity injection at Xi'an China South City, in our view, is another financial support to be provided by SZCDG to CSC. At 60ish and YTM of 30%+ to 50%+, the valuations of CSCHCNs, in our view, are very attractive, compared with the YTM of 5-6% of LGFVs of other higher tier cities. Even if we assume a "harsh" discount rate of 20%, CSCHCNs should be trading at high 80s.

Equity injection is another financial to be support provided by SZCDG, in our view

SZCDG, CSC's largest shareholder, announced the plan to subscribe new shares of Xi'an China South City for RMB5bn. Subsequent to the completion of share subscription, SZCDG's holding in Xi'an China South City will be 69.35% while CSC's ownership will reduce to 30.65% from 100%. SZCDG will have a put option to sell the stakes in Xi'an China South City back to CSC in from the 54th month the transaction completed if events such as sales and profit margin fall short of targets happen. Despite the equity injection will be at Xi'an China South City level, the uses of proceeds include RMB2.86bn for the repayment of related party loans. This means that CSC will be able to upstream cash of RMB2.86bn to holdco level upon the completion of equity injection. CSC expects the equity injection to be completed by next March.

Sale of 50% interests in property management operations to be completed by Mar'23

In Jul'22, SZCDG entered into an equity transfer with CSC to acquire CSC's 50% stakes in its property management operations for HKD1.46bn (USD185mn). CSC received 60% of the sale proceeds. It expects to receive the remaining 40% sale proceeds and complete the transaction by next March.

As discussed, SZCDG has demonstrated its willingness and ability to provide CSC support. In Oct'22, SZCDG provides CSC 3-year entrusted loans of RMB200mn through China Merchant Bank, SZ branch for offshore USD bond amortization/redemption. The loans are secured with CSC's storage assets in Chongqing. The NAV of the collaterals is RMB147mn as at 31 Mar'22. Recalled that CSC set up specified offshore accounts for early redemption of the consented bonds with the proceeds from new onshore loans against its specified

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assets in Hefei and Chongqing. The interest rate for the 3-year entrusted loans is 4.35%, equivalent to the 12-month lending rate in China and is well below CSC's weighted average funding costs of over 8.5%. The loans will be amortizing with an instalment of RMB2mn every 6 months starting from 21 Mar'23, i.e. RMB190mn out of the RMB200mn entrusted loans will be paid on final maturity.

Prior to that, CSC signed 2 strategic cooperation agreements with SZ SOE/LGFV in Feb'22. CSC also sold its logistic assets in Hefei and Zhengzhou to Shenzhen International Holdings, A SZ SOE, for RMB1.7bn in early Apr'22. Additionally, SZCDG provides keepwell for the consented bonds after the offshore debt restructuring in Jul'22.

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