

## CMBI Credit Commentary

### DALWAN: Another reality check

#### How DWCM 1H23 results compared with those of other developers?

Subsequent to the withdrawal from property developments in 2020, Dalian Wanda Commercial Management (DWCM) is more of a commercial property investor with growing recurring rental income from its expanding IP portfolio. In 1H23, recurring income from investment property leasing and management accounted for 91% of DWCM's revenue. Hence, its operating performance has been more resilient than that of developers. In 1H23, DWCM reported largely stable interim results with higher revenue, gross profit and EBITDA. Its gross and EBITDA margin in 1H23 were 65% and 55%, compared favourably with 63% and 53% in 1H22 and 62% and 52% in FY22, respectively.

#### Concerns of affiliation risk?

There are concerns on affiliation risk resulting from Dalian Wanda Group and whether we should assess the credit profile of DWCM on a standalone basis. We do not have much information as to the credit profiles of Dalian Wanda Group and affiliates of DWCM but we believe that ultimate controlling shareholder WANG Jianlin as well as Dalian Wanda Group have a strong incentive to keep DWCM as a ring-fenced operation even if the IPO of Zhuhai Wanda may not be completed soon.

Based on the feedback from CSRC on the IPO of Zhuhai Wanda in Jun'23, the regulator's major concerns are whether the IPO proceeds from Zhuhai Wanda will be used to "fund" the property developments of Dalian Wanda Group, related transactions of between Zhuhai Wanda and Dalian Wanda Group, the risk related to redemption of pre-IPO investments. Ring-fenced Zhuhai Wanda and DWCM will be the keys to persuade CSRC to approve the IPO, as well as to lure any anchor investors for the IPO. On 5 Sep'23, media reported that Dalian Wanda has conducted IPO pricing roadshow in Hong Kong and two overseas investors has indicated that they could become cornerstone investors depending on valuation. We believe that CSRC does not have much incentive to block or delay the IPO of Zhuhai Wanda. The uncertainties of the IPO, in our view, is less on regulatory approvals but more on the sentiment of stock markets and the listing valuation.

In the case of the IPO is not going through soon, we would argue that the "ring-fenced" operations of DWCM and Zhuhai Wanda are instrumental in persuading pre-IPO investors to waive or amend the put of pre-IPO investments of cRMB46bn (incl guaranteed IRR). Hence, we consider the affiliation risk is contained and we should assess DWCM credit profile more on a standalone basis.

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## Near-term bond maturities manageable?

USD mn	Maturity	Put	Earlier of maturity or put
2023	4.1	-	4.1
2024	857.6	411.6	1,269.2
2025	813.0	205.8	607.2
2026	605.8	-	400.0

Source: Bloomberg.

YTD, DWCM repaid offshore USD bonds of USD960mn (incl USD400mn in Jul'23) and repaid or redeemed onshore bonds of RMB14.7bn (incl put of onshore bonds of cRMB3.8bn last week). For the rest of 2023, the only offshore and onshore bond maturity or redemption is onshore bond DALWAN 6.6%'23 with remaining o/s amount of RMB30mn. We estimate that the coupon payments for the rest of 2023 is cRMB200mn. The next major bond maturities will be USD600mn (RMB4.3bn) in Jan'24. The total outstanding USD bonds of DWCM is USD1.4bn, and is smaller than that of smaller developers such as Road King which has o/s USD bonds of USD1.9bn and 3 perps of USD900mn, as well as Shui On Land which has o/s USD bonds of USD1.9bn. Its bond maturity profile, especially the offshore bond maturity profile, is manageable.

## How about the pre-IPO investments?

We expect DWCM to be able to waive or amend the put of pre-IPO investments. The pre-IPO investors and DWCM are in the same boat. The waiver or amendment of put option is in the interests of the pre-IPO investors and DWCM/Zhuhai Wanda as DWCM will not have to rush for the IPO at the expense of valuation. The keys to persuade pre-IPO investors for waiving or amending the put option, in our view, are: 1) DWCM and Zhuhai Wanda are ring-fenced operations, continue to generate large recurring income from property leasing and management; and 2) both are them remain solvent and continue to honour payment obligations.

## How is the financial profile of DWCM?

RMB mn	Dec'22	Jun'23
Cash	21,711.5	16,015.4
Cash (excl restricted cash)	19,631.9	14,691.7
Financial assets held for trading	28,480.4	43,413.9
Current wealth management products	20,500.0	22,900.0
ST debts	73,813.6	74,554.8
<i>incl ST payables, mainly pre-IPO redemption</i>	43,941.3	45,589.4
ST debt excl ST payables	29,872.3	28,965.3
LT debts	118,008.5	126,308.9
Total debts	191,822.1	200,863.6
Net debts	170,110.6	184,848.3
Net gearing	57.3%	60.9%
Cash/ST debts	0.3x	0.2x
Cash/ST debts excl ST payables and financial assets held for trading	0.7x	0.6x
Adj. liab/assets	49.9%	50.2%

Source: Company fillings.

DWCM has a largely stable financial profile. While its cash on hand reduced and net debt increased, we take comfort from the cRMB15bn and RMB2.4bn increase in financial assets held for trading and current wealth management products during Jun'23. Assuming these financial assets and wealth management products would only be "monetized" at 40% of their book values for conservative sake, DWCM's pro-forma cash/ST debts ratio will be 1.5x. Furthermore, as per our previous discussions with DWCM, the LTV of its IP (BV cRMB459bn) was c22%. There will be a headroom of additional secured financing of over RMB100bn (cUSD14bn) against its IPs if the LTV increases to 50%. These should support an adequate liquidity profile of DWCM.

### Our view on DALWANs?

Our base case is that the operations of DWCM and Zhuhai Wanda are ring-fenced, as such a major part of the pre-IPO put will be waived or delayed if the IPO cannot be completed by FYE23. Hence, DWCM's near-term repayment pressure is manageable. DALWANs will continue to be high beta plays in view of the headline risk and "higher" cash prices. That said, at current valuations, even after the rebound of 15-25pts over the past 4 weeks, the risk and return profiles of DALWANs remain favourable. We have buy recommendations on DALWANs.

	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
DALWAN 7 1/4 01/29/24	600	1/29/2024	7.25%	67.7	136.0%
DALWAN 11 01/20/25	400	1/20/2025	11.00%	47.8	81.3%
DALWAN 11 02/13/26	400	2/13/2026	11.00%	43.4	56.8%

Source: Bloomberg.

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