7 Jul 2021

CMBI Credit Commentary

First take from Corporate Day: Yuzhou - Back on track

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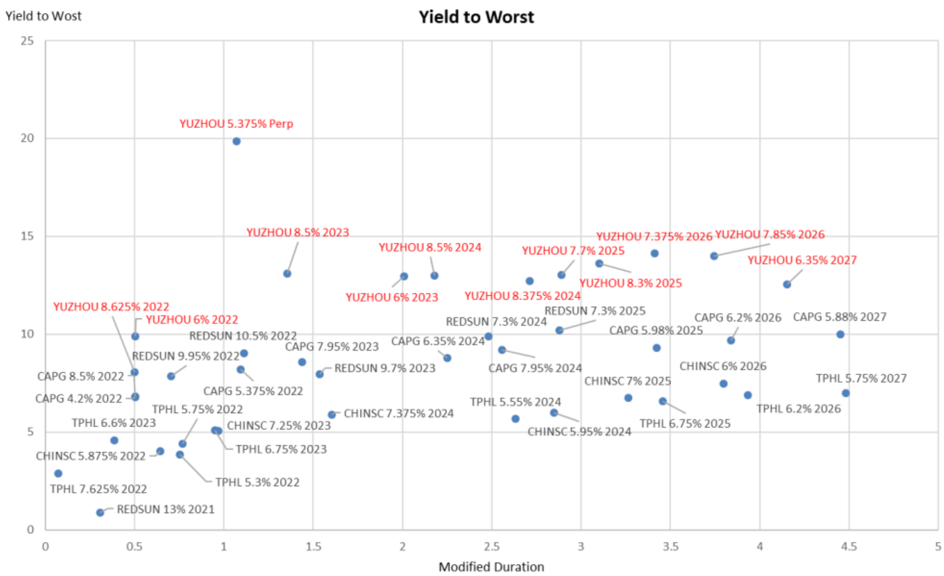
One-off event over-penalized

YUZHOUs underperformed low-BB and high-B peers starting from Mar'21 on the back of the downside surprises of FY20 results. We believe that the major drivers for the lacklustre FY20 results are one-off, and YUZHOUs have been over-penalized. At current levels, YUZHOUs are offering 200-300bps over its peers on a relative value basis. Within the curve, we like YUZHOU 8.5%'23 most given the higher visibility of its funding and land replenishment strategy over the coming 1-2 year, as well as 300bps+ yield pick-up over shorter-date papers.



1H21 results in line with previous guidance

As per Yuzhou, the project deliveries and revenue recognition in 1H21 would be largely in line with previous guidance, i.e. RMB27bn in FY21 (RMB12bn in 1H21 and RMB15bn in 2H21). The company expects 1H20 results to be materially restated as a major part of its 1H20 revenue would be moved to 2H20. Nonetheless, the restatement of 1H20 results will have no impact on the FY20 results. Assuming Yuzhou recognizes revenue of RMB27bn as planned, its revenue would recover substantially from RMB10.4bn in FY20, and be equivalent to 16% increase from the level of FY19. We continue to believe that the FY20 results were adversely affected by one-off factors in the likes of the tightened accounting policies on revenue recognition and the pandemic.

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On track to achieve full-year sales target

In 6M21, Yuzhou's contract sales increased 23% yoy to RMB52.7mn (attributable ratio of c60%) and cash collection rate (same-year sales) was c70%. It achieved c48% of its sales target (RMB110bn) which appears to be achievable. Yuzhou expects its recognized gross margin to be about 20% in 1H21, and 17-18% in FY21, reflecting the lower gross margin for projects to be recognized in 2H21, affected by higher fair value re-measurements and higher capitalized interests. Its gross margin will be in the range of 15-20% (18-23%, excluding non-cash fair value re-measurements) over the coming 1-2 years. Yuzhou's gross margin will recover from the exceptionally low level of 4.6% in FY20, but will remain below 26.2% in FY19, reflecting the pressure on margin on the Chinese property sector.

Refinancing risk is manageable as land acquisition is more prudent

Yuzhou expects that there would not be material changes in the net debt level in Jun'21, compared with that in Dec'20. Subsequent to the refinancing of offshore bonds of USD672mn, re-sales of onshore of RMB2bn and early repayment of syndicated loans of USD300mn, Yuzhou's next major maturities will be onshore bonds totaled RMB3bn due Aug and Sep'21, as well as offshore bonds totaled USD592mn due Jan'22. While Yuzhou is waiting for new issue window, it has been cautious in land acquisitions to conserve liquidity. In 6M21, it acquired 4 land parcels for an attributable land premium of only RMB2.1bn, compared with its FY21 budgeted land payments of RMB23.6bn. Given the more cautious tone on land acquisitions, good sales momentum and internal resources (cash on hand of RMB30bn), we believe that Yuzhou's near-term refinancing risk is manageable.

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