Fixed Income
Credit Commentary

29 March 2021

CMBI Credit Commentary

EHOUSE: Higher gross debt will weigh on its rating

EHOUSE '23 95/96 10.2%/9.6%

We close our tactical Buy call on EHOUSE '23 after its FY2020 results showing higher gross leverage which will likely pressure its rating (BB-/Neg by S&P). We think EHOUSE '23 will under-perform in near-term, with YTM finding its bottom closer to 11%.

The company reported higher Debt-to-EBITDA of 6.9x at end-2020, vs 5.6x at Jun-2020, and 3.3x at end-2019. This is because Ehouse increased its borrowing to RMB 8.5bn at end-2020, from RMB 5.3 bn at end-2019, taking into account of its early prefunding for Feb'21 USD bond and CB issued to Alibaba in Nov 2020 (RMB 1bn). In the meantime, its EBITDA detracted by -22% in 2020 due to COVID.

At today's 2020 results presentation, management revealed its inclination **to maintain a gross debt balance of RMB 7 billion** (including RMB 3 billion onshore borrowing, USD 600m offshore borrowing). **This will translate into 4.3x 2021 Debt-to-EBITDA**, assuming Ehouse's business performance will recover to pre-COVID level in 2021. This will be **higher than S&P downgrade trigger of Debt-to-EBITDA 4.0x.**

2020 results recap

For 2020, Ehouse reported revenue declined -11% yoy to RMB 8,052mn, from RMB 9,095mn in 2019.

By segment, i) primary real estate agency revenue fell -30% yoy to RMB 3,204mn (2020 New property sold GFA: 32.9mn vs 2019: 43.3mn; 2020 commission rate: 0.79% vs 2019: 0.86%) ii) Fangyou – real estate brokerage network revenue fell -23% yoy to RMB 2,707mn (2020: 78,661units sold vs 105,433 sold in 2019; commission rate remained stable 2.53% vs 2019's 2.57% with 87.7% distribution rate to Fangyou's franchisee.)

Management ascribed its agency business weakness to COVID. On the other hand, iii) its consulting business was steady generating RMB 987mn

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revenue; and iv) newly acquired Leju – digital marketing business, contributed RMB1,129mn revenue.

We think weakness in Ehouse's agency business will prompt rating agency to reassess its future EBITDA forecast, which will add pressure to its rating, in addition to Ehouse's publicly guided higher gross debt level in the future.

Having said that, Ehouse still maintained a high cash balance of >RMB 8 billion, which should support EHOUSE '22 valuations, which is its next bullet maturity.

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