招银国际 CMB INTERNATIONAL

Fixed Income
Credit Commentary

30 Aug 2023

CMBI Credit Commentary

Hopson: Businesses have been largely as usual

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吴蒨瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

HPDLFs offer good value; maintain buy

Offered at 82.1 and 70.0, HPDLF'23 and '24 are trading at YTM of 73.7% and 65.7%, respectively. We continue to see Hopson a survivor for the sector and consider the current valuations of HPDLFs offer attractive risk-return profile. We maintain buy on HPDLFs in view of its solid operating performance in a very challenging environment, manageable debt maturities and adequate liquidity profile, supported by its offshore financial investments and high quality investment properties (IPs). As repeatedly discussed before, we are impressed with Hopson's proven track records in full repayments in tough funding environment. Recalled that it repaid, rather than refinanced, CBs of RMB1.8bn in Feb'10, straight bonds of USD350mn in Sep'12, USD300mn in Jan'18, HKD720mn in Jul'22 and CBs of USD250mn in Jan'23 in a challenging market environment.

	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
HPDLF 6.8 12/28/23	237.5	12/28/2023	6.80%	82.1	73.7%
HPDLF 7 05/18/24	300	5/18/2024	7.00%	70.0	65.7%

Source: Bloomberg.

"Surprisingly" solid 1H23 results

HKD mn (except otherwise stated)	1H22	1H23	% change
Contract sales (RMB mn)	16,860.0	16,062.0	-4.7%
Revenue	13,170.4	15,079.9	14.5%
Property sales	*9,282.3*	*11,320.2*	22.0%
Recurring income	*5,707.7*	*3,682.3*	*-35.5%*
Investment income	*-1,819.6*	*77.3*	-104.3%
Gross profit	3,064.4	5,377.2	75.5%
Profit before tax	8,683.1	6,187.8	-28.7%
Attributable net core profit	559.0	1,581.0	182.8%
Recognized GFA (mn sqm)	473.0	543.3	14.8%
Recognized ASP/sqm (RMB)	14,511.0	18,479.0	27.3%
Gross margin	23.3%	35.7%	
Net core profit margin	4.2%	10.5%	

Source: Company fillings.

Hopson reported a solid set of 1H23 results. Its attributable net core profit increased 182.8% to HKD1.6bn while gross margin and net core profit rebounded to 35.7% and 11.2% in 1H23. The strong results reflected higher GFA delivered, higher recognized ASP and reversal of investment losses in 1H22. The profit margin of Hopson has always been at the high end of the sector, reflecting its low cost and high quality land bank secured gradually over the years. As at Jun'23, 74% of its GFA was in T1 cities. Taking cues from the higher ASP of contract sales YTD, we expect Hopson's margin to maintain at the high end of the sector.

In 7M23, its contracted ASP was RMB34,622/sqm compared with recognized ASP of RMB18,479/sqm. As per our previous discussions with Hopson, it expects its gross margin for property developments to be 25-30% over the coming 1-2 years.

In 7M23, Hopson achieved total contract sales of RMB17.1bn (including decoration contract sales), declined 9% yoy. The decline is much more moderate compared with an average decline of 26% for the 35 developers under our radar. The more resilience operating performance was attributable to Hopson's focus on T1 cities. In 1H23, 86% of its contract sales were from T1 cities. Hopson is confident to achieve FY23 sales target of cRMB37bn (HKD40bn). Based on its saleable resources of RMB80bn (including projects in Beijing, Guangzhou and Shanghai) in 2H23, Hopson will complete the full year target as long as the sell-through rate in 2H23 hit 30%. The sell-through rate for previous year was 50-60%.

Net debt reduction with manageable debt maturity profile

HKD mn	Jun'22	Dec'22	Jun'23
Cash	28,262.0	18,394.2	18,996.7
Cash in escrow			
ST debts	31,835.7	26,002.5	30,063.6
LT debts	73,856.0	72,194.1	62,842.6
Total debts	105,691.7	98,196.5	92,906.2
Net debts	77,429.7	79,802.3	73,909.5
Net gearing	68.3%	81.1%	74.5%
Cash/ST debts	0.9x	0.7x	0.6x
Adj. liab/assets	60.0%	61.2%	59.9%

Source: Company fillings.

Hopson maintained a largely stable credit profile. In 1H23, its net debts reduced 7.4% to HKD73.9bn (cRMB69bn) in 1H23. We expect further net debt reduction in view of the company's guidance of positive free cash of cRMB9bn in 2H23. Subsequent to the repayment in Jul-Aug'23, its ST debts due before Jun'24 was RMB23.1bn equivalent. Hopson expects to roll over RMB12.6bn of these and extend their maturities by 1-2 years on the back of supportive onshore refinancing policies. The remaining ST debts to be repaid will be cRMB10.5bn, including USD bonds of USD237.5mn due Dec'23 and USD300mn due May'24 and offshore loans. As per Hopson, about 20-30% of its cash on hand is restricted in the escrow account on a rolling basis. That implied its unrestricted cash to be cRMB12-14bn (USD1.6-1.9bn) available for uses such as offshore debt repayments as at Jun'23. We believe that the repayment requirements of RMB10.5bn should be well covered by its unrestricted cash on hand and positive free cash flow over in 2H23 and 1H24. Furthermore, it had IPs of cRMB80bn, and loans against these IPs were cRMB26bn, equivalent to LTV of c33%. Hopson mentioned that it did not have an immediate plan to obtain additional secured financing through its IPs. That said, we believe that its high quality IP portfolio will offer an alternative source of liquidity if needed. We estimate the headroom of additional secured financing against its IPs to be RMB22-30bn if Hopson raises the LTV to the industry norm of 60-70%.

Offshore investment portfolio offers will be another source of liquidity

The book value of its financial assets was HKD5.7bn (cUSD730mn), out of these, HKD1.2bn (cUSD150mn) were booked under current financial assets which were mainly HK-listed equities. The non-current financial assets were mainly pre-IPO and PE investments. We believe that the declining financial assets partly reflected Hopson's divestments given the market volatility, and partly reflected the lower market value of its investments. Hopson also owns has 9.1% stakes in Ping An Healthcare of cUSD250mn booked under investments in JVs. Based on the public disclosures (for listed investments of >5% of outstanding shares), the market value of Hopson's listed investments in

HKEX is cHKD3.3bn (cUSD420mn), including the stakes in Ping An Healthcare. We estimate that the value of its financial investments and listed investments in Ping An Healthcare to be cHKD7.8bn (cUSD1bn or RMB7.3bn). Even after deducting for margin loans of HKD882.9bn, these offshore investments represent a significant offshore liquidity source.

CMB International Global Markets Limited

Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

CMB International Global Markets Limited("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.
Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures