

CMBI Credit Commentary

Lai Sun Development New Issuance - We see FV at 4.85%

Lai Sun Development Company Limited (LASUDE, 488.HK) intends to issue 5yr USD senior unsecured bond with IPG of 5.1%. The bond will be issued by Lai Sun MTN Limited and guaranteed by Lai Sun Development. We see fair value of the new issue at 4.85%, extrapolating from yield difference between FAEACO'21 and FAEACO'23. For diversification play in current volatile Chinese property space, we prefer newly issued CSIPRO'25 (YTM 5.25%) given it is 1 year shorter in tenor and higher yield.

Lai Sun Development is a HK focus property developer with expansion into media and catering businesses. For year-ended 31 July 2020, it derives 57% of revenue from property sales and investment, while the rest from restaurant, hotel operation, cinema and entertainment. These non-property segment are lower-margin and more volatile, as evidenced by negative EBITDA of HKD 97mn in FY20 and low EBITDA margin of 13% in FY19. Lai Sun Development's net gearing ratio 45% vs CSI Properties 59%. Lai Sun's asset scale is bigger than CSI Properties, but due to its non-property business exposure, its EBITDA/Interest coverage is on the weak side. (FY19: Reported EBITDA/Gross Interest expense 0.9x). On the other hand, CSI Properties is a more focused HK based property developer with most revenue generated from property sale and rental income. CSI Properties generated HKD 656mn and HKD 2.3bn EBITDA in FY21 and FY20 that cover 2.3x and 6.3x of interest expense.

Lai Sun Development reported total debt of HKD 23bn (74% bank loans and 24% guaranteed notes) as of 31 Jan 2021. Most of its HKD 36.7bn investment properties are pledged for bank loans. CSI Properties had HKD 13.5bn total debt (75% bank loan, 14% guaranteed notes and 11% perpetual) as of 31 Mar 2021.

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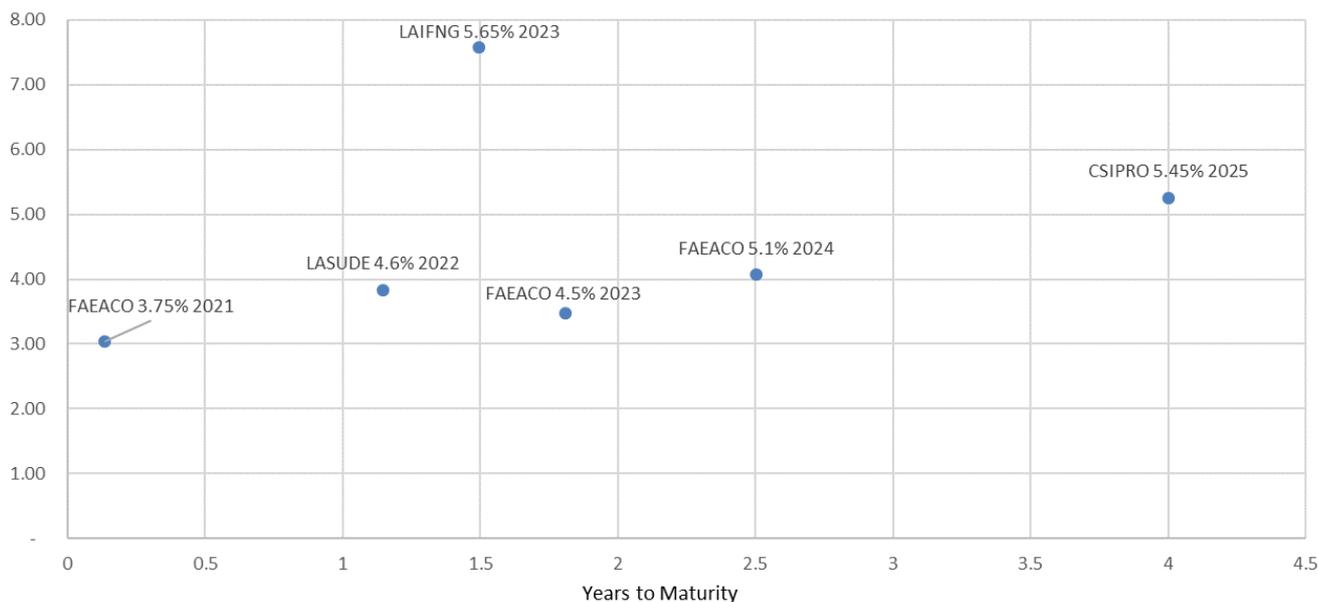
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Yield to Maturity (%)



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