

CMBI Credit Commentary**We suggest to stay front-end of CENCHI's curve****CENCHI 6.875 '22 (YTM~7.75%), 7.25 '23 (YTM~9.25%)**

CENCHI proposed spin-off and separate listing of Central China Management Company (CCMC) has a credit negative impact to CENCHI, in our view. The spin-off will lower CENCHI's EBITDA by 18%% without any debt deduction.

CCMC will no longer be a subsidiary of CENCHI, but its sister company post spin-off. CCMC will unlikely remain a subsidiary guarantor of CENCHI USD bonds, given its OC language is quite loose. CCMC accounted for 3%/18%/32%/1% of revenue/EBITDA/net profit/total assets of CENCHI in 2020.

The OC states that CENCHI may elect to have any Restricted subsidiary not provide a Subsidiary Guarantee, provided that consolidated assets of such Restricted subsidiary is less than 25% of CENCHI's total assets.

Yet, in view of relative valuation compared with Single B cohorts, we maintain Neutral on CENCHI curve, with a preference of its front-end CENCHI 6.875 '22 (YTM~7.75%), 7.25 '23 (YTM~9.25%).

CENCHI's high cash balance (total cash/ST debt:1.9x at end-2020) and high sold but unrecognized revenue should cushion its front-end bond downside. But its Henan concentration and high reliance on USD bond financing (65% of its total debt at end-2020) will pressure its long-end bond performance – CENCHI 7.9 '23 (YTM~9.5%), 7.75 '24 (YTM~11.25%).

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Central China - Maturity Schedule

Notes:

USDRMB exchange rate assumed to be: 6.50

CENCHI

<i>in millions</i>	2020/12/30 RMB	2020/12/30 USD	Coupon	Maturity	Note
Free Cash	22,619	3,480		N/A	
Total Liquidity	22,619	3,480			
CENCHI 6.875% 2020	2,509	386	6.875%	2020/10/23	Matured
CENCHI 8.75% 2021	1,950	300	8.750%	2021/01/23	Matured
CENCHI 6.875% 2021	1,950	300	6.875%	2021/02/10	Matured
CENCHI 6.5% 2021	2,600	400	6.500%	2021/03/05	Matured
16建业01	1,500	231	7.200%	2021/04/12	Matured
19建业次	57	9	0.000%	2021/04/26	Matured
CENCHI 6.75% 2021	2,600	400	6.750%	2021/11/08	
Total Bond Maturity before 2021/12/31	13,166	2,026			
CENCHI 6.875% 2022	2,600	400	6.875%	2022/08/08	
19建业02	1,500	231	7.500%	2022/07/23	
CENCHI 7.25% 2023	1,950	300	7.250%	2023/04/24	
CENCHI 7.65% 2023	2,600	400	7.650%	2023/08/27	
CENCHI 7.9% 2023	1,300	200	7.900%	2023/11/07	
CENCHI 7.75% 2024	1,950	300	7.750%	2024/05/24	
CENCHI 7.25% 2024	1,300	200	7.250%	2024/07/16	
CENCHI 7.25% 2024	1,950	300	7.250%	2024/08/13	
CENCHI 7.5% 2025	1,690	260	7.500%	2025/07/14	
2022 onward Total Bond Maturity	16,840	2,591			

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