30 Aug 2022

CMBI Credit Commentary

Yanlord: Ability to navigate through deep downturn demonstrated once again

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

Maintain Buy on YLLGSPs

YLLGSPs have been performing resiliently since we initiate buy on YLLGSPs in Mar'22 despite the price volatility. At current valuations, YLLSPs are still trading at decent YTM of 10.2% -13.9% even after 8-12pts rebound since mid Jul'22. Yanlord's stronger 1H22 results and manageable maturities reinforced our belief on its repayment ability. We also take additional comfort that its ownership of unencumbered assets of over RMB8bn (USD1.2bn) in Singapore. Hence, we maintain buy on YLLGSPs.

	YTM(offer)	Offer price	Maturity	O/S (USD mn)
YLLGSP 6.75%'23	10.2%	97.9	23 Apr'23	350
YLLGSP 6.8%'24	13.5%	91.3	27 Feb'24	400
YLLGSP 6.75%'26	13.9%	75.2	20 May'26	500

Stronger 1H22 results demonstrated resilience against downturn

Yanlord has once again demonstrated its ability to navigate through deep downturn as in 2007/08 with resilient operating performance. Over the years, Yanlord has been focusing on penetrating into 20-plus T1/2 cities in YRD and GBA where economic fundamental has been solid and population inflow has been positive, instead of the pursuit of operating scale through nationwide expansion. Its operating scale and profitability have therefore been stable while leverage and debt levels have been controlled at relatively low levels.

In 1H22, Yanlord's revenue declined 14% to RMB11.3bn while operating profit and profit before tax increased 27.8% and 21.6% to RMB3.1bn and RMB3.2bn, respectively. The lower GFA delivered (182.9k sqm In 1H22 vs 433.1k in 1H21) was more than offset by the higher recognized ASP, excluding car parks (RMB50,036./sqm In 1H22 vs RMB25,624/sqm in 1H21). Gross and EBIT margin therefore increased to 35.6% and 27.8% in 1H22 from 26.7% and 18.7% in 1H21, respectively. The stronger 1H22 results were mainly attributable to the deliveries of 3 projects in T1/2 cities with higher ASP and profit margin: Yanlord Four Seasons New Gardens

CMBI Fixed Income
fis@cmbi.com.hk

in Shenzhen, Riverbay Century Gardens (Phase I) in Nanjing and Smriti Curtilage in Suzhou, contributed 43.1%, 15.5% and 13.2% of Yanlord's revenue in 1H22, respectively. Over the near to medium term, Yanlord expects its gross margin to maintain at 25.30%.

YoY growth in contract sales, FY22 sales target maintained at RMB75bn

Yanlord is one of the few developers achieved yoy contract sales growth under the very challenging operating environment in 1H22. Its gross contract sales (excluding project management) in 6M22 grew 9.5% yoy to RMB31.4bn. The attributable ratio of its contract sales was at 42% in 1H22 compared with 54% in FY21. Yanlord maintains FY22 sales target of RMB75bn unchanged and expect the attributable ratio to be c55% for FY22. Recalled that Yanlord had saleable resources of RMB120bn for FY22. This implies a sell-through rate of 62.5%, compared with c72% achieved in FY21.

Increase in net debts but remain in green camp under 3-red lines

As a result of the negative free cash flow, Yanlord's net debts increased 21.8% to RMB25.6bn in 1H22. Nonetheless, it remains in the green camp under the 3-red lines. As at Jun'22, its net gearing, cash/ST debts and adj. liab/asset ratios were 58%, 1.8x and 67.7%, compared with 48.5%, 2.4x and 66.5% as at Dec'21, respectively. We estimate its net gearing ratio to decline to below 50% based on FY22 contract sales of RMB75bn and a cash collection rate of 80% in 2H22. As at Jun'22, Yanlord provided guarantees of RMB2.5bn to attributable JV debts of cRMB12.2bn. The MI/total equity ratio is relatively low at 22.4%. This should partly mitigate the concerns on the transparency of its financial statements.

Unencumbered IP portfolio in Singapore offers USD bondholders additional comfort

Yanlord owns a high quality IP portfolio in Singapore, comprising of UE Bizhub Tower, Park Avenue Rochester & Rochester Mall, etc. after completion the acquisition of UEL in early 2020. The book value of these Singaporean assets was cRMB11bn and the market value is cRMB13bn (cUSD1.9bn). As at Jun'22, its total outstanding SGD loans was RMB5.3bn, and cRMB1.6bn was the outstanding amount for the acquisition of UEL. We believe that the unencumbered value of Yanlord's Singaporean assets should be over RMB8bn (cUSD1.2bn vs its total o/s offshore bonds of cUSD1.25bn).

Simple capital structure and manageable maturity profile

As per Yanlord, it does not have outstanding wealth management product onshore. The only onshore bond outstanding is the private placements of RMB1.5bn due Jul'24 for its Suzhou project. Yanlord is the first non state-owned developer to secure CMBS this year. In Jun'22, it raised RMB1.2bn from CMBS puttable in Jun'25 (secured by Tianjin office). Additionally, it has another 2 outstanding CMBS: 1) RMB1.6bn puttable in Apr'23 (secured by Sanya hotel); and 2) RMB1.2bn puttable in Aug'24 (secured by Tianjin mall).

Regarding offshore funding, it does not have offshore bond maturity for the rest of 2022. Its ST offshore maturities totalled RMB5.4bn, including USD350mn (cRMB2.4bn) offshore bonds due Apr'23. These should be sufficiently covered by its cash on hand of RMB21.5bn and offshore undrawn committed loan facilities of cRMB2bn (cUSD290mn). As per Yanlord, only RMB4.3bn of its cash on hand of RMB21.5bn in Jun'22 were in the escrow account for project completion. Yanlord has a manageable maturity profile.

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

CMB International Securities Limited ("CMBIS") 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

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

Disclaimer

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.