Fixed Income
Credit Commentary

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CMBI Credit Commentary

Longfor: How Longfor is different?

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LNGFORs offer good risk and return profile

LNGFORs dropped 20pts over the past 3 weeks, due mainly to the collateral damage of the sharp downturn of COGARDs. As we discussed in our comments on 15 Aug'23, Longfor is facing a very different situation than what COGARD is. We have been arguing that survivors of the sectors will be those 1) with manageable near-term maturities, especially offshore maturities; 2) a matured portfolio of investment properties (IPs) such that the unencumbered value of IPs can be monetized or collateralized to obtain operating loans, CMBS or issue CBICL-guaranteed bonds. The IPs will be an alternative source of liquidity prior to a meaningful sales recovery; and 3) major positioning in higher tier cities to benefit from more speedy sales recovery. We consider Longfor a survivor of the sector. Its next USD bond maturity will be in Apr'27, 3 year and 8 months from now, and Longfor is in good progress in early prepayment of offshore syndicated loans due FY24. Its matured investment portfolio offers a headroom of RMB50bn as alternative liquidity sources. Additionally, it is the only non state-owned developers under our radar with yoy contract sales growth in 7M23. 95% of its sales in 1H23 were from T1/2 cities. At current valuation, we consider LNGFORs offer good risk and return profile and maintain buy on LNGFORs.

	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
LNGFOR 3 3/8 04/13/27	250	4/13/2027	3.38%	57.385	20.57%
LNGFOR 4 1/2 01/16/28	500	1/16/2028	4.50%	56.619	19.69%
LNGFOR 3.95 09/16/29	850	9/16/2029	3.95%	51.206	17.23%
LNGFOR 3.85 01/13/32	400	1/13/2032	3.85%	46.438	15.45%

Source: Bloomberg.

Debt prepayment instead of maturity extension

RMB mn	Dec'22	Jun'23
Cash	72,095.4	71,293.9
Cash in escrow	*18,000.0*	*24,000.0*
ST debts	22,117.9	38,554.2
LT debts	200,753.6	183,237.7
Net debts	138,395.3	136,943.4
Net gearing	59.4%	58.2%
Cash/ST debts	3.3x	1.8x
Adj. liab/assets	64.8%	61.9%

Source: Company fillings.

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Longfor recently secured 5-year bullet of HKD3.2bn for the prepayment of the HKD15.3bn bullet due Jan'24. We understand that Longfor has already prepaid HKD7.2bn (including the drawdown of HKD3.2bn) of these offshore loans. It targets to prepay the remaining HKD8.1bn by end of 2023. Its next USD bond maturity will be in Apr'27 and its only onshore bond maturity in FY23 will be the remaining cRMB119mn of LNGHDV 3.3 11/06/23 (issue size RMB2bn). As per Longfor, c1/3 of its cash on hand as at Jun'23 was in escrow accounts. Excluding the cash in escrow, its unrestricted cash should cover 1.2x of its ST debts. On a pro-forma basis, taking in account of Longfor's attributable net debts at JV levels, its look-through net gearing ratio would lower to 45% from 58.2% in Jun'23. This reflected the net cash position of its JVs in aggregate. Longfor continues to be one of the few non state-owned developers with continued access to offshore loan market and maintain in the green camp under "3 red lines".

Matured IP portfolio offers a sizeable source of alternative liquidity….

Currently, Longfor,has loans against IPs of cRMB40bn. As per the company, it estimates that the secured loans against its IPs could be RMB90mn, i.e. a headroom of RMB50bn for operating loans, CMBs and CBICL guaranteed bonds. Longfor will have onshore bond maturities and redemptions of up to RMB14.2bn for FY24. Its IPs offer sizable source of alternative liquidity to cover its refinancing requirements.

…. and mitigates the impact of lower recognized property sales and margin pressure

RMB mn	1H22	1H23	% change
Revenue	94,804.6	62,044.4	-34.56%
Property sales	*83,767.4*	*49,869.4*	-40.47%
Non property sales	*13,333.6*	*14,797.2*	10.98%
Gross profit	20, 146.8	13,899.9	-31.01%
Profit before tax	15,927.3	12,374.7	-22.31%
Recognized GFA (mn sqm)	6.0	3.8	-35.95%
Recognized ASP/sqm	14,001	13,014	-7.05%
Gross margin	21.25%	22.40%	

Source: Company fillings.

While the gross margin of property development lowered to 14.3%, Longfor's overall gross margin improved to 22.4% in 1H23 from 21.3% in 1H22 (21.1% in 2H22), reflected the growing contribution from property management and investments. The gross margin of property management and investments is 30%+ and 70%+. Longfor expects gross margin of property development to rebound after destocking. It targets to achieve gross margin of 20% from property development, as well as maintain gross margin of property management and investments at 30%+ and 70%+.

Sales growth in a very challenging market

In 7M23, Longfor reported attributable contract sales of RMB73.24bn, up 7% yoy. The company is 1 of the 7 developers amongst 35 developers under our radar reported yoy sales growth in 7M23. More importantly, Longfor is the only non state-owned developer under our radar to report yoy sales growth. We take additional comfort that the cash collection rate remains high, over 100% in 1H23 including collections from sales in last year. We believe that the resilient operating performance reflected its major positioning in higher tier cities. In 1H23, 13%, 46% and 36% of its contract sales were generated from T1, leading T2 and other T2 cities, respectively. The sell-through rate of brand new projects in 1H23 is 70%. In 2H23, Longfor will have saleable resources of cRMB220bn, 15%, 44% and 34% in T1, leading T2 and other T2 cities, respectively. Longfor is confident on achieving contract sales of RMB200bn and cash collection of RMB160bn in FY23. This should support positive free cash flow generation for further debt reduction.

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