

CMBI Credit Commentary

Seazen: Refinancing risk remains manageable

Maintain buy on FUTLAN/FTLNHDs

Table 1: Summary of Seazen's o/s bonds

Security name	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
FUTLAN 4.45 07/13/25	300.0	7/13/2025	4.45%	97.6	14%
FTLNHD 4 5/8 10/15/25	300.0	10/15/2025	4.625%	95.1	15%
FTLNHD 4 1/2 05/02/26	404.0	5/2/2026	4.5%	91.7	13%

Source: Bloomberg.

Despite the recent correction resulting from the US tariff, FUTLAN/FTLNHDs were still 1-4pts higher YTD. At current valuations, FUTLAN/FTLNHDs, in our view, continue to offer good risk-return profile given its manageable debt maturity profile. We estimate that the headroom for additional secured financing from its IPs of cUSD1.8-2bn, compared with its total o/s USD bonds of cUSD1bn. This should offer a good financial flexibility for Seazen's refinancing requirements over the coming 1-2 years. Hence, we maintain buy on FUTLAN/FTLNHDs.

Resilient FY24 results with growing contribution from IPs and lower SG&A

Table 2: Seazen's operating profiles

RMB mn	2022	2023	2024	% change
Contract sales	116,049.0	75,983.0	40,171.0	-47.1%
Revenue	116,540.6	119,463.5	89,226.5	-25.3%
Property sales	104,882.7	107,336.4	76,041.0	-29.2%
Rental income	5,087.6	5,697.5	6,556.2	15.1%
Other recurring income	6,570.4	6,429.7	6,629.4	3.1%
Gross profit	15,938.8	16,168.0	14,984.4	-7.3%
Profit before tax	3,694.5	5,019.7	4,193.9	-16.4%
Attributable net core profit	185.4	157.7	632.2	300.9%
Recognized GFA (mn sqm)	13.2	13.0	9.9	-24.2%
Recognized ASP/sqm	7,947.4	8,254.9	7,716.5	-6.5%
Overall gross margin	13.7%	13.5%	16.8%	
Rental gross margin	72.6%	69.9%	70.2%	
Net core profit margin	0.2%	0.1%	0.7%	

Source: Company fillings.

Despite the lower recognized property sales, Seazen's FY24 results demonstrated its resilience with rebound in attributable net core profit and overall gross margin. The higher attributable net core profit reflected the growing contributions from its higher margin IP portfolio and a significant decline in SG&A, despite the sharply lower contribution from JVs and associates. The occupancy rate of its IPs further increased to 98.0% in FY24 from 96.5% in FY23 and the segment gross margin increased to 70.2% from 69.6% over the same period, driven by the higher retail sales (+9% yoy) and passenger flow (+8% yoy). Its aggregated commercial income from IPs increased 13.1% to RMB12.8bn in FY24 and grew at a CAGR of 25.8% over the past 5 years. The aggregated commercial income of RMB12.8bn covered 2.7x of its gross interest expenses in FY24. Seazen's unrecognized sales as at FYE24 were RMB79.4bn (vs RMB174.2bn as at FYE23). The growing contribution from IPs will continue to mitigate the lower property sales and margin pressure.

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Seazen will have saleable resources of RMB55bn in FY25. Assuming a sell-through rate of 50% and an attributable ratio of 65%, we estimate its gross and attributable contract sales to be cRMB28bn and cRMB18bn, respectively. In 1Q25, its gross contract sales were RMB5.1bn, down 57.3% yoy. Its aggregated commercial income was RMB3.5bn, up 13.5% yoy.

Headroom of cUSD3bn for additional loans against IPs

Table 3: Seazen's financials

RMB mn	2022	2023	2024
Cash	32,453.3	19,499.9	10,618.3
<i>Restricted cash including cash in escrow</i>	<i>10,017.9</i>	<i>6,274.9</i>	<i>3,703.7</i>
ST debts	35,663.1	24,755.7	16,071.4
LT debts	44,474.1	39,717.7	42,892.0
Total debts	80,137.3	64,473.4	58,963.4
Net debts	47,684.0	44,973.5	48,345.1
Net gearing	51.3%	49.7%	55.7%
Cash/ST debts	0.9x	0.8x	0.7x
Adj. liab/assets	68.9%	66.6%	65.8%

Source: Company fillings.

We estimate a small negative FCF in FY25, such that its key coverage ratios will be largely stable. On refinancing, we continue to believe that Seazen's high quality (i.e. high occupancy rate) IPs will offer the company a good flexibility in repaying or rolling over maturing debts. During FY24, Seazen repaid USD bonds totalled USD800mn and raised onshore CBICL guaranteed bonds totalled RMB2.9bn (cUSD400mn) at coupon rates of 3.2-3.5%. As per Seazen, the total secured debts against its IPs were over RMB40bn as at FYE24. It still has 36 unpledged malls; 26 in operations and 10 under construction. We estimate the valuation of these unpledged IPs to be RMB25-30bn, i.e. USD3.5-4bn. Assuming it can raise secured financing (CBICL-guaranteed bonds, operating loans, etc.) on its unpledged IPs at a LTV of 50%, the headroom for additional secured financing from its unpledged IPs would be cRMB13-15bn or USD1.8-2bn, compared with its o/s unsecured public bonds totalled cUSD1.2bn; USD1bn offshore and cUSD153mn equivalent onshore.

Related party transactions with S-Enjoy Service should not be a major concern

We are not too concerned on the impact of S-Enjoy Service's delay in publication of FY24 results. S-Enjoy Service is 68.9% owned by the controlling shareholder of Seazen. While what related party transactions of S-Enjoy Service were under investigations remain unclear, we believe that risk of impairment losses for Seazen should be low. A quick check on the FY24 financial statements of Seazen Holdings (601155 CH), as at FYE24, Seazen had borrowings of RMB194mn from S-Enjoy Service (0.3% of Seazen's total debts). The account payable due to S-Enjoy Service was RMB831.4mn (0.9% of Seazen's total account payables). In FY24, the related party transactions with S-Enjoy Service totalled only RMB346.7mn (0.6% of Seazen's revenue).

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