

## CMBI Credit Commentary

### COGARD: Our reflections after COGARD's

#### COGARD's "another" profit warning" and reflections

Last night, COAGRD issued a 4-page [press release](#) on profit warning and its reflections. Compared with the press release on 31 Jul'23, the profit warning last night was more specific with an expected net loss ranging from RMB45-55bn. COGARD also mentioned the self-rescue measures including the cumulative financial support of HKD6.6bn from controlling shareholder. Additionally, COGARD mentioned commitments including ensuring delivery, reflections such as excessive investments in lower tier cities, insufficient deleveraging, etc. and consideration of adopting various debt management measures.

We acknowledge that COGARD is amongst one of the developers which have done a lot so far in honouring repayments. As we discussed in [our daily on 26 Jul'23](#), we believe that COGARD has refinanced most of the offshore loan maturities and redemption due FY23. That said, the road ahead remains bumpy as its refinancing pressure remains high.

#### Focus on facts rather than noise

There are lots of news/rumours/noise/unclear moves recently such as cancellation of share placements, missed coupon payments, talks on onshore restructuring, controlling shareholder's donation of Country Garden Services (CGS), "preponed" dividend payments of CGS.... We don't want to pretend that we have more insights than our astute clients on those news/rumours/noise/unclear moves. Instead, we have been overloading and sharing the following facts and figures with clients to substantiate our view: COGARD is facing a significant refinancing pressure which has been exacerbated by the weak sales in lower cities and its lack of a high quality portfolio of investment properties as an alternative source of liquidity.

Name	Outstanding amount (USD mn)	Maturity	Next Put date
COGARD 5.65 09/02/23	546.0	9/2/2023	-
CGREGC 4.33 09/14/25	200.7	9/14/2025	9/14/2023
CGREGC 4.38 09/24/25	279.7	9/24/2025	9/24/2023
GLCONS 4 1/2 10/21/23	68.8	10/21/2023	-
CGREGC 4.15 11/03/25	248.7	11/3/2025	11/3/2023
CGREGC 4.98 11/20/23	138.8	11/20/2023	-
COGARD 4 1/2 12/05/23	382.2	12/5/2023	-
CGREGC 4.88 12/13/24	111.9	12/13/2024	12/13/2023
CGREGC 4 12/13/24	28.0	12/13/2024	12/13/2023
CGREGC 6.3 12/17/25	139.9	12/17/2025	12/17/2023
COGARD 8 01/27/24	1,000.0	1/27/2024	-
COGARD 4.95 07/28/26	496.8	7/28/2026	1/28/2024
Total	3641.5		

Source: Bloomberg.

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From now till the end of Jan'24, COGARD will have to deal with public onshore and offshore bonds maturities/redemptions totaled up to cUSD3.7bn equivalent, including Panda bonds of RMB5.83bn (cUSD810mn) due 2 Sep'23 and CBs of HKD3bn (cUSD384mn) due 5 Dec'23, 53 days ahead of the maturity of COGARD 8 01/27/24. It has another CBs of HKD3.9bn (USD500mn) puttable on 28 Jan'24, 1 day after the maturity of COGARD 8 01/27/24.

In Jun and Jul'23, COAGRD's attributable contract sales were only RMB16bn (cUSD2.2bn) and RMB12.1bn (cUSD1.7bn), respectively. The weak contract sales partly reflected its larger exposure in lower tier cities. This has made the refinancing pressure even more acute.

#### Will liability exercises, if any, be maturity extension for nearest maturities or holistic?

Name	Outstanding amount (USD mn)	Maturity	Next Put date
COGARD 8 01/27/24	1,000.0	1/27/2024	-
COGARD 6 1/2 04/08/24	550.0	4/8/2024	-
COGARD 4.95 07/28/26	496.8	7/28/2026	1/28/2024
COGARD 5 1/8 01/17/25	750.0	1/17/2025	-
COGARD 5.4 05/27/25	544.0	5/27/2025	-
COGARD 6.15 09/17/25	500.0	9/17/2025	-
COGARD 3 1/8 10/22/25	1,000.0	10/22/2025	-
COGARD 4.2 02/06/26	500.0	2/6/2026	-
COGARD 7 1/4 04/08/26	1,345.0	4/8/2026	-
COGARD 2.7 07/12/26	700.0	7/12/2026	-
COGARD 5 5/8 12/15/26	323.7	12/15/2026	-
Total	7709.5		

Source: Bloomberg.

Holistic! We believe that the liquidity pressure of COGARD will not be notably improved in the near-term, given our expectation of weak sales in lower tier cities to continue and its lumpy debt maturity profile over the next few years. Taking cues from COAGRD's public USD bond maturities, it will have 2 USD bonds maturing and 1 CB puttable totaled USD2.1bn in 2024. It will also have 4 USD bonds totaled cUSD2.8bn maturing in 2025 and another 4 USD bonds totaled cUSD2.9bn maturing in 2026. Hence, we believe that a holistic restructuring with maturity extension of 3 years or longer makes more sense.

#### Any spillover and systemic risk?

To us, the "blackest" swan for the Chinese property sector is the default of Evergrande in 4Q21 in terms of scale, the significant increase in cash stranded in escrow accounts, the suspension of construction work and deliveries, the "unpreparedness" market, etc. We would argue that the market has much better prepared for the worst regarding COAGRD in view of the current valuation of COGARDs. The collateral damage to other developers have also somewhat done given the recent weak performance of the bonds of survivors such as LNGFORs and YLLGSPs.

There are concerns on systemic risk and further weakening of property sales. We would also argue that the regulators and home buyers have also much better prepared. The government measures such as relaxation of home purchase restrictions, mortgage lending and measures to ensure timely project deliveries would help prevent default of developers to trigger systemic risk in the financial sector and stabilize the confidence of home buyers. Indeed, we believe that home buyers have been turning to state-owned and strongest developers. 1H23, only 7 out of 35 developers under radars achieved yoy contract sales growth, 6 of them state-owned, the only non state-owned developers with yoy contract sales growth is Longfor. [See our daily on 10 Jul'23.](#)

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