Fixed Income
Credit Commentary

3 March 2021

CMBI Credit Commentary

Central China – Bond price may stay subdued for now

CENCHI 7.65% Aug'23 96 (9.5%)   CENCHI 7.25% Jul'24 90.75 (10.5%)

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We think recent sell-off of CENCHI bonds was driven by its sluggish contracted sales in 2M2021 (-37% yoy), against decent growth of other peers. Fundamentally, we deem Central China is more akin to a high single B credit, given its concentration in Henan Province and high reliance on USD bond financing. In addition, we think its transition to lower-tier cities will set off a gradual credit profile deterioration.

Having said that, Central China's high sold but unrecognized revenue and high cash balance should cushion its downside, we see value in CENCHI 23s and 24s when its YTM exceeds above 10%.

Central China recorded heavy asset contracted sales of RMB 2.6 bn in 2M2021 (-37% yoy according to third party agent) due to lower carry-over contracted sales from FY20 and limited project launch in the start of year. In view of Central China's 100% concentration in Henan Province and Henan is not a net population inflow area, we expect sale growth of the company will slow down in the following years.

Central China achieved contracted sales of RMB 102.6 bn in FY20, representing a 1.5% yoy growth. Heavy asset contracted sales decreased to RMB 68.3 bn in FY20 from RMB 71.8 bn in FY19. Company guided 20%-30% revenue growth in FY20 with similar gross margin as 1H20 (22%-25%).

Due to restrictive policy in Zhengzhou, Central China gradually switched its focus to tier 3-4 cities such as Luoyang and Zhoukou, which might hurt its profitability. Sell-through rate also lowered to c.60% in FY19 and FY20 from c.70% in FY18.

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Central China's high usage of JV model increased its external guarantees to related parties. The amount stood at RMB 9.0 bn as of 1H20, representing 25% of its total debt. Regarding capital structure, Central China relies heavily on offshore bond markets. Company has RMB 20 bn offshore USD bonds outstanding (~60% of its total debt).

In Nov 2020, Central China announced separate listing of its high margin project management business. It is worth to note that company will not raise new proceeds from the listing. Instead, the listing will be conducted by way of a distribution in specie via a special interim dividend. We estimate the spin-off will lower company's EBITDA by 10%-15% without debt size deduction. This will likely be credit negative in our view.

Nonetheless, near-term credit profile of Central China remains stable thanks to its high unrecognized revenue (~RMB 90 bn at end-FY20) and its high cash balance of RMB 31.8 bn (RMB 25.6 bn free cash) with 1.6x cash to ST Debt ratio. As of June 2020, Central China only hit one line (Liability-to-asset ratio excluding advance receipts) out of the three red lines.

Central China - Maturity Schedule

Notes:

USDRMB exchange rate assumed to be: 6.50

CENCHI

in millions	2020/06/30 RMB	2020/06/30 USD	Coupon	Maturity	Note
Free Cash	25,555	3,932		N/A	
Total Liquidity	**25,555**	**3,932**			
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	
16建业01	1,500	231	7.200%	2021/04/12	
19建业次	57	9	0.000%	2021/04/26	
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	1,950	300	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	**16,190**	**2,491**			

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