

CMBI Credit Commentary

DALWAN: Summary of our recent Q&As with clients

Over the past few days, we have numerous meaningful discussions on Dalian Wanda Commercial Management (DALWAN). We summarize the Q&As below for the reference of our clients:-

How were DALWAN FY22 results? What are the keys to be highlighted?

DALWAN just posted its FY22 this morning. Operating performance was resilient. In FY22, its revenue increased 4.7% to RMB49.3bn, c92% of this was leasing and commercial property management income. Operating income was flat at RMB36.7bn. While no detailed operating statistics provided, we believe that the revenue growth was supported by the addition of new leasable area but this was offset by the impact of COVID lockdown. Another noteworthy area is the substantial increase in non-current liabilities due within 1-year to RMB68.8bn in FYE22 from RMB17.0bn in FYE21. The increase was attributable to the reclassification of potential redemption of pre-IPO investments (estimated to be RMB45bn) should Zhuhai Wanda IPO not going through by the end of FY23. Adjusted for this, its net debt increased 15% to RMB124.6bn. Its net debt/equity, adj. liab/assets and cash/ST debts in FYE22 were 42%, 50% and 0.8x, compared with 38%, 51% and 2.4x in FYE21 and 40%, 50% and 1.2x in 9M22, respectively.

What is the latest for the syndicated loan with early repayment clause?

As per DALWAN, Dalian Wanda Group, the parent company, managed to obtain the waiver for early repayment of the syndicated loans of USD1.3bn resulting from the failure to complete the Zhuhai Wanda IPO by 8 May'23. DALWAN pointed out that the early repayment was waived not amended to extend the prepayment date to Nov'23 as per media reported. Additionally, as disclosed in its FY22 results, DALWAN did not provide guarantee for its parent and ultimate shareholders.

What causes the delay in Zhuhai Wanda IPO?

As we discussed, in our comments: [The facts, the noise and the uncertainties on 18 Apr'23](#), the IPO of Zhuhai Wanda is the major overhang DALWAN and bondholders are facing. We heard different stories and conspiracies of the delay but our thoughts remain the same: CSRC does not have much incentive to block/delay the IPO of Zhuhai Wanda to nullify the impact of a more supportive regulatory environment should the company meet the regulatory requirements for spinning off Zhuhai Wanda for listing.

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CSRC received the application of Zhuhai Wanda on 20 Apr'23, and is supposed to provide DALWAN the official feedback by 20 May'23. Additionally, the filing of IPO application in HKEX expired on 25 Apr'23, we expect DALWAN to file a new application with updated FY22 results. To us, the uncertainties in relation to the IPO is less on regulatory approvals but more on the sentiment of stock markets and valuation of the IPO.

What could be the outcome if the IPO not going through by FYE23?

The worst outcome will be a full redemption of pre-IPO investments of RMB38bn. We estimated the redemption amount to cRMB45bn factoring into the guaranteed IRR of 8% p.a. We believe that additional borrowings against its investment properties (IPs) is a potential source of liquidity for the redemption, if needed. Based on DALWAN's FY22 results, c75% of its IPs with a BV of RMB457.6bn were pledged for loans but loan drawn against these IPs should be only cRMB100bn. Assuming DALWAN fully utilizing its IPs and increasing LTV to 50%, the headroom for raising additional debts against its IPs is RMB128.8bn (2.9x of the estimated redemption amount). Additionally, it had cash on hand of RMB21.7bn as at Dec'22. As an asset-light company, we expect the proportion of cash in escrow account to be much lower than that of a traditional property developer.

A more likely scenario is to waive or amend the put option of pre-IPO investors. We do expect at least some of the pre-IPO investors to be open to the waiver or amendment of the put option. We believe that pre-IPO investors and DALWAN are in the same boat. In our view, the pre-IPO investors will have to choose between: 1) pushing DALWAN for full redemption. If so, DALWAN may rush for the IPO at the expense of valuation; or 2) giving DALWAN more time especially DALWAN generates growing and recurring rental and property management income of over RMB40bn p.a.

Indeed, we believe that it is in the interests of the pre-IPO investors to openly discuss the possibility of waiving or amending the put option. This signals to the market that DALWAN would not be under liquidity pressure to rush for the IPO at the expense of valuation.

What is our latest view on DALWANs?

We consider the price actions on DALWANs over the 2 weeks overdone even if the IPO cannot be completed by FYE23. We maintain Buy on DALWANs.

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