Fixed Income
Credit Commentary

16 Aug 2023

CMBI Credit Commentary

Yanlord: Continue to navigating through the storm well

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吴蒨瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

YLLGSPs offer good risk and return profile

YLLGSPs were 3-15pts lower over the past 2 weeks, due mainly to the collateral damage of sharp price movements of COGARDs. We continue to view Yanlord as a "survivor" in view of its resilient operating performance and manageable debt maturities. We believe that YLLGSPs offer good risk and return profile and maintain Buy on YLLGSP'24 and '26.

	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
YLLGSP 6.8 02/27/24	376	2/27/2024	6.8%	92.478	22.7%
YLLGSP 5 1/8 05/20/26	500	5/20/2026	5.125%	56.988	28.7%

Source: Bloomberg.

Weaker property sales mitigated by growing recurring income

	1H22	1H23	% change
Revenue	11,338.9	14,805.8	30.6%
Property sales	*9,430.5*	*12,284.1*	30.3%
Non property sales	*1,908.4*	*2,521.6*	32.1%
Gross profit	4,033.1	4,159.1	3.1%
Profit before tax	3,192.7	2,255.9	-29.3%
Recognized GFA (sqm)	629,694	808,616	28.4%
Recognized ASP	49,856	26,373	-47.1%
Gross margin	35.6%	28.1%	

Source: Company fillings.

In 1H23, Yanlord reported 30.6% and 3.1% increase in revenue and gross profit, respectively but 29.3% decline in profit before tax. The increase in recognized GFA sold was more than offset by lower ASP as sales in 1H22 were skewed by the deliveries of 3 high-margin projects in T1/2 cities (Shenzhen, Nanjing and Suzhou). Nonetheless, the impact of lower recognized property sales was mitigated by the growth of recurring income resulting from higher property management income as well as higher occupancy rates of its investment properties (IPs) and hotels.

With the change of geographic mix of property deliveries, its gross margin lowered from 35.8% in 1H22 to 28.1% in 1H23, but rebounded from 21.4% in 2H22. Its profit margin remains on the high side of the sector. While there could be further margin pressure, Yanlord guided the gross margin for its property sales to maintain at c20%. We also take some comfort that the growing contribution from higher-margin recurring income from investment properties and property management. Yanlord continues to report a much more resilient operating performance than most of the peers under our radar.

CMBI Fixed Income
fis@cmbi.com.hk

Contract sales target of RMB45-50bn remains unchanged

In 7M23, Yanlord's total contract sales were RMB22.96bn, down 37.7% yoy and c51% of the low end of its sales target of RMB45-50bn. The sales momentum has slowed down since Jun'23 along with the general market. We take comfort from its higher than peer margin level and high cash collection rate. In 1H23, its cash collection rate was 98%. Yanlord maintains the full year sales target at RMB45-50bn. It has saleable resources of RMB38bn for 2H23 before new starts. Over the past 2 years, 2H contributed 52-54% of Yanlord's full year contract sales.

Stable credit profile and manageable debt maturities

	Jun'22	Dec'22	Jun'23
Cash	21478.58	20716.06	19513.50
Cash in escrow	*4300*	*8500*	*7000*
ST debts	11,997.8	16,688.2	17,824.6
LT debts	35,420.8	29,243.6	23,308.9
Net debts	25,940.0	25,215.7	21,620.0
Net gearing	58.4%	55.6%	46.9%
Cash/ST debts	1.8x	1.2x	1.1x
Adj. liab/assets	67.7%	66.0%	64.2%

Source: Company fillings.

In 1H23, Yanlord cut net debts (including shareholder's loan at NCI level) 14.3% to RMB21.6bn. It continues to be in green camp under "3 red lines". We expect its credit profile to remain stable in view of the company's guidance of positive free cash flow in 2H23. Yanlord has quite a bit of progress in refinancing and accessing to funding channels. In Apr'23, Yanlord rolled over the CMBS for Sanya hotel, the funding cost is 4.2%. In May'23, Yanlord obtained a 5-year unsecured loan of HKD500mn from CMBWL. We understand the funding cost is cHIBOR+4% and the loan will be repaid in bullet without amortization. It repaid the USD80mn on 11 Aug'23.

In the near term, the major refinancing requirements will be o/s SGD loans of cSGD460mn due Nov'23 and May'24, o/s USD syndicated loan of USD600mn due Feb'24, and o/s USD bonds of USD372mn due Feb'24. The SGD loans will likely be rolled over with its IPs in Singapore as collaterals. The book value of its IPs in Singapore is cRMB10.5bn, and loans against these IPs are cRMB2.9bn, including the remaining cRMB160mn UEL acquisition loan. The LTV is only c28%. We see the unencumbered value of its Singapore IPs a potential source of offshore liquidity if needed. Additionally, we understand that the company is in good progress in arranging new loans for refinancing the USD loans. Yanlord had cash on hand of RMB19.5bn in Jun'23. As per the company, cRMB7bn of its cash was in escrow accounts, and the remaining RMB12.5bn (cUSD1.7bn) was unrestricted. In view of its unrestricted cash on hand, positive free cash flow and access to funding channels, we consider its near-term debt maturity profile manageable.

CMB International Global Markets Limited

Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

Disclaimer:

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.