

CMBI Credit Commentary – COGARD

Prudently navigating through the storm

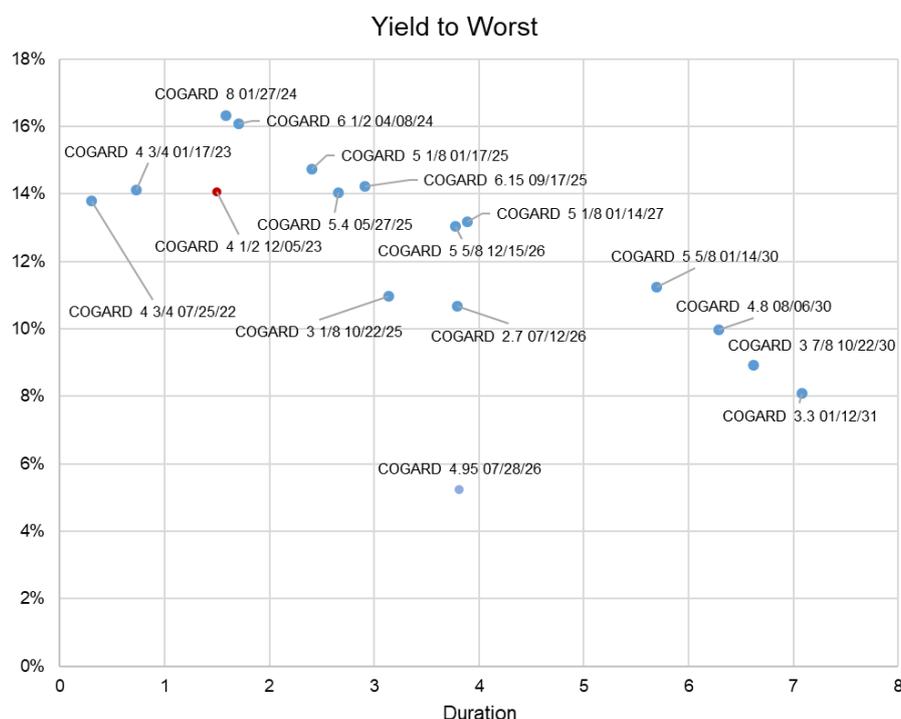
Maintain BUY on COGARs, prefer COGARD 4.5%'23 (CB) as a short-dated pick

COGARs rebounded 17-40pts from the troughs during the sell-off in mid-Mar'22. That said, COGARs remain 4-20 lower than the levels at the beginning of the year. While the market may continue the price discovery process, we believe the current valuations of COGARs offer decent value for longer-term investors, factoring in our belief that COGARD will be a "survivor" of the sector. We prefer the front-end and belly part of the curve, which offers a YTW of mid-to-high teens. For shorter-dated bonds, we prefer COGARD 4.5%'23, the CB which, offered at 88, is trading at a YTM at 14%. We consider the CB a good short-term play with a lower cash price.

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Weaker FY21 results, prudent tone on outlook

In FY21, COGARD's revenue increased 13% to RMB523.1bn while core net profit attributable to shareholders declined 17% to RMB26.9bn. These reflected the lower margin under the backdrop of market destocking and weakened demand started 2H21. As a result, COGARD's gross and net core profit margin dropped 4.1% pct pts and 2.1 pct pts to 17.7% and 5.1%, respectively. In FY21, its attributable contract sales declined 2% to RMB558bn with ASP lowered 1% to RMB8,402/sqm. We take comfort with its high cash collection of 90%.

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COGARD sounded out a prudent tone during the analyst briefing. It did not announce an explicit sales target for FY22. That said, the company will have saleable resources of RMB650bn for FY22 before further land acquisitions/M&As, and it expects the sell-through rate to be over 70%. These imply sales of RMB455bn before further land acquisitions/M&As. COGARD also expects margin pressure to continue as destocking pressure remains. For 2M22, COGARD's contract sales and ASP declined 20% and 14% yoy to RMB69.1bn and RMB7,596/sqm, respectively. As per the company, the cash collection rate remains at above 90%.

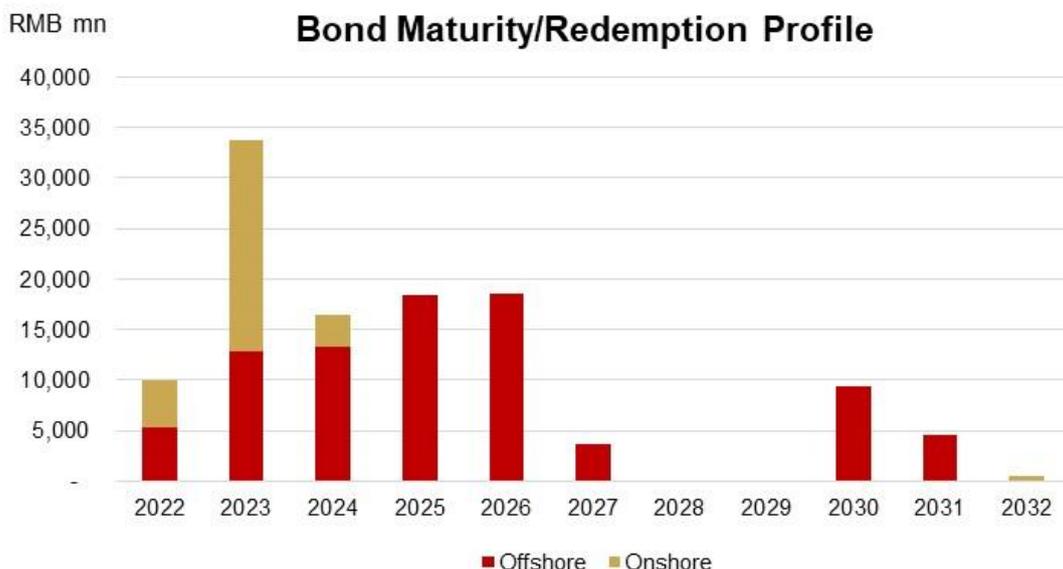
Target to move to green camp by 1H23 under 3 Red Lines

During Dec'21, COAGRD's total debts and net debts lowered 2.6% and 4.3% to RMB318.6bn and RMB137.3bn, respectively. Its net gearing, adj liab/assets and cash/ST debts improved to 45.7%, 84.6% and 2.3x from 55.8%, 87.3% and 1.9x in Dec'20, respectively. COGARD remains in the yellow camp under 3 Red Lines. COGARD will continue to deleverage, especially offshore, and targets to move to green camp by 1H23.

Continue to access funding channels in a challenging market condition

COGARD has a manageable debt maturity profile. The only offshore bond maturity in FY22 will be the o/s USD693.4mn bonds due Jul'22. Its onshore redemption requirements will be RMB2bn puttable in Sep'22 and another RMB2bn puttable in Nov'22. Both were issued under GZ Giant Leap (Tengyue), COGARD's another onshore issuing platform. We take comfort with its cash/ST debts ratio of 1.9x as at Dec'21 even excluding restricted cash on hand. We also take comfort with its ability to access different funding channels even in a challenging market environment. In Dec'21, it raised RMB1bn from the issuance of 2+2 onshore bond at coupon rate of 6.3%. In Jan'22, it issued 4.5NP2 CBs of HKD3.9bn at coupon rate of 4.95%, respectively. On 1 Mar'22, it obtained onshore MTN quota for issuance of up to RMB5bn.

Additionally, COGARD entered into strategic cooperation agreements with China Merchants Bank and Agriculture Bank of China for provisions of M&A loans of RMB15bn and RMB20bn, respectively. COGARD expects land acquisition opportunities, especially through M&A opportunities to acquire stakes from JV partners. Nonetheless, it targets to control the size of land bank to 2.5 years' developments, scaling down from the current size of about 3 years' development.



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