CMBI Credit Commentary

Seazen - Too much downside priced in

Prefer longer-dated FUTLANs/FTLNHDs

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FUTLANs and FTLNHDs rebounded 6-9pts this week but still 16-20pts lower than the levels before the collateral damage resulting from COGARD. Seazen (Seazen Group, 1030 HK and Seazen Holdings, 601155 CH) has much more manageable offshore maturities than their peers like COGARD. To illustrate, the total o/s USD bonds of the Seazen complex is USD1.8bn, compared with USD10.8bn of CORARD (including 2 HKD CBs), and is even smaller than that of smaller developers such as Road King which has o/s USD bonds of USD1.9bn and 3 perps of USD900mn, as well as Shui On Land which has o/s USD bonds of USD1.9bn. Seazen's next offshore maturity will be the 364-day FTLNHD 7.95 05/20/24 of USD100mn which was "issued' to refinance another 364-day paper due in Jun'23. Additionally, Seazen's maturing investment properties (IPs) have been providing the much needed financial flexibility in the tight credit environment. At cash prices of 20-50, we believe the bonds priced in too much default risk and consider the bonds offer attractive risk-return profile. We prefer longer-dated, lower cash price FUTLANs/FTLNHDs.

	O/S (USD mn)	Maturity	Coupon	Offer price	YTM (%)
FUTLAN 6 08/12/24	250.0	8/12/2024	6%	50.3	98.8%
FUTLAN 4.45 07/13/25	300.0	7/13/2025	4.45%	30.5	85%
FTLNHD 7.95 05/20/24	100.00	5/20/2024	7.95%	23.62	374%
FTLNHD 4.8 12/15/24	450.00	12/15/2024	4.8%	37.02	105%
FTLNHD 4 5/8 10/15/25	300.00	10/15/2025	4.625%	28.32	80%
FTLNHD 4 1/2 05/02/26	404.00	5/2/2026	4.5%	26.09	68%

Source: Bloomberg.

Weaker 1H23 results, mitigated by the growth of recurring income

RMB mn	1H22	1H23	% change
Contract sales	65,160.0	42,401.0	-34.9%
Revenue	43,351.6	42,532.8	-1.9%
Property sales	*37,735.7*	*36,342.5*	-3.7%
Rental income	*2,453.9*	*2,609.2*	6.3%
Other recurring income	*3,162.0*	*3,581.1*	13.3%
Gross profit	8,655.4	7,415.9	-14.3%
Profit before tax	4,753.5	3,753.9	-21.0%
Attributable net core profit	1,746.0	1,565.0	-10.4%
Recognized GFA (mn sqm)	4.6	4.0	-14.0%
Recognized ASP/sqm	8,204.6	9,183.3	11.9%
Gross margin	20.0%	17.4%	
Net core profit margin	4.0%	3.7%	

Source: Company fillings.

Seazen's operating performance further weakened in 1H23, reflected continued downturn of property sales. Nonetheless, we see some hoh improvement of its operating results with gross margin recovered from 10.0% in 2H22 to 17.4% in 1H23, and its attributable net core profit of RMB1.6bn in 1H23, reversed from the losses of RMB1.6bn in 2H22. We take additional comfort from the growing contribution of recurring rental income and management fee. In 1H23, Seazen average same-store sales and customer traffic increased 11% and 17% yoy, respectively. This drove rental income and management fee to increase 10.2% yoy to RMB6.2bn and the gross margin of its rental portfolio was c70%. in 1H23. As per the previous discussions with Seazen, it expects the rental income and management fee to increase to RMB11bn with 20 new Wuyue Plazas to be opened in FY23 (146 in operations as Jun'23 compared with 140 in Dec'22). The growing contribution from asset light and recurring income will also help protect its profit margin.

In 7M23, its total contract sales were RMB48.4bn, down 36% yoy compared with an average of 26% yoy decline for 35 developers under our radar. Seazen does not provide sales target for FY23 and continues to tone down the growth and operating scale. The full saleable resources for FY23 is cRMB180bn. Assuming a sell-through rate of 50% (compared with 55-70% over the past few years), Seazen will be able to achieve gross contract sales of RMB90bn in FY23 (RMB116.0bn in FY22).

Continued access to funding and maturing IPs offer financial flexibility

RMB mn	**Jun'22**	**Dec'22**	**Jun'23**
Cash	45,607.4	32,453.3	29,011.8
Restricted cash including cash in escrow	*6,888.4*	*10,017.9*	*8,283.4*
ST debts	32,308.6	35,663.1	25,615.8
LT debts	61,039.5	44,474.1	48,557.9
Total debts	93,348.1	80,137.3	74,173.8
Net debts	47,740.7	47,684.0	45,161.9
Net gearing	48.6%	51.3%	48.5%
Cash/ST debts	1.4x	0.9x	1.1x
Adj. liab/assets	69.2%	68.9%	67.5%

Source: Company fillings.

Seazen continued the de-leveraging trend in 1H23 with net debt reductions, thanks to the positive free cash generation. It also managed to lower its funding cost to 6.35% at at Jun'23 from 6.45% as at Dec'22. YTD, it repaid offshore bonds of USD550mn USD bonds, including USD350mn due 5 Aug'23. Seazen is one of the very few non-state owned developers maintaining access to various funding channels. In May'23 it "issued" 364-day FTLNHD 7.95 05/20/24 of USD100mn with to refinance another 364-day paper due Jun'23. In Jun'23, it issued 2-yr and 3-yr onshore bonds of RMB700mn and RMB400mn at coupon rates of 6.3% and 4.5%, respectively. In Jul'23, it raised RMB850mn through the issuance of 3-yr CBICL-guaranteed bonds in Jul'23. This is the 3rd CBICL-guaranteed bonds of Seazen which has raised RMB3.85bn CBICL-guaranteed bonds through collateralized IPs since Sep'22. We continue to view its liquidity adequate, supported by its unrestricted cash on hand, manageable near-term maturities, headroom for additional secured financing against its maturing IPs. As at Jun'23, its borrowings against IPs are cRMB26bn (vs book value of IPs of RMB114bn). Assuming a LTV of 60%, the company can have a headroom of over RMB40bn for additional operating loans, CBICL-guaranteed MTN, CMBS, etc. Its refinancing risk is manageable.

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