CMBI Credit Commentary

Yanlord: Resilient FY22 results and business model; maintain Buy

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Maintain Buy on YLLGSP'24 and '26

Yanlord's operating performance remains resilient in a very challenging operating environment. The company has been prudently managing its operations, focusing on the penetration into 20-plus T1/2 cities in YRD and GBA where economic fundamental has been solid and population inflow has been positive. Its operating scale, profitability and leverage have therefore been stable. We consider Yanlord one of the survivors of the sector with an 'normalizing" funding access. YLLSPs were 5-8pts higher YTD. We maintain Buy on YLLGSP'24 and '26 and consider these are low-beta and decent carry plays. That said, we turned Neutral on YLLSP'23 as bonds maturing in less than 2 months' time are already offered above par.

	YTM(offer)	Offer price	Maturity	O/S (USD mn)
YLLGSP 6.75 04/23/23	5.7%	100.1	23 Apr'23	350
YLLGSP 6.8 02/27/24	9.0%	98.0	27 Feb'24	400
YLLGSP 5 ⅛ 05/20/26	9.6%	87.8	20 May'26	500

Source: Bloomberg.

Resilient FY22 in a very challenging market environment

In FY22, Yanlord's revenue declined 17.6% to RMB28.7bn while PBT declined 29.8% to RMB5.4bn, reflected the lower GFA delivered and loss resulting from the withdrawal of SZ Bantian project. The lower GFA delivered (1.7mn sqm including JVs and associates In FY22, down 16.3%) more than offset the higher recognized ASP (RMB36.3k/sqm In FY22 vs 30.8k/sqm in FY21). As per the company, its net core profit was RMB2.1bn in FY22, down 14% yoy, largely in line with the revenue decline. Yanlord has been able to maintain a higher-than-average margin level. In FY22, its gross margin increased to 27.0% from 25.6% but lowered from 35.6% in 1H22. The high margin in 1H22 was attributable to the deliveries of 3 high-margin projects in T1/2 cities (Shenzhen, Nanjing and Suzhou). Over the medium term, Yanlord expects its gross margin to maintain at 25-30%.

Contract sales target of RMB45-50bn in FY23 vs RMB68.1bn achieved in FY22

In FY22, Yanlord's contract sales were RMB68.1bn (consolidation and attributable ratio of 59%), up 14.3%. It is one of the only 2 out of 38 developers under our radar reported contract sales growth in FY22, despite its sales fell short of the target of RMB75bn. The resilient operating performance reflected its focus on higher tier cities with strong economic fundamental. In FY23, it plans for saleable resources of RMB80bn and sets contract sales target at RMB45-50bn (attributable ratio of 50%). This represents 26.6-33.9% yoy decline in contract sales and a sell-through rate of 56-63% (vs our estimate of c57% in FY22) in FY23. We consider the sales target conservative in view of the historical sell-through rate, economic recovery of China and larger room for further policy relaxation in T1/2 cities.

Largely stable financial profile with refinancing plan in place

Yanlord's net debts increased 16.4% to RMB25.2bn in FY22. Nonetheless, its financial profile is largely stable with net gearing, cash/ST debts and adj. liab/asset ratios were 55.6%, 1.2x and 66.0% as at Dec'22, compared with 49.4%, 2.3x and 66.5% as at Dec'21 and 58.4%, 1.8x and 67.7% as at Jun'22, respectively. Yanlord will continue the gradual transformation to a more asset-light model but we expect the company to be more active in land acquisitions this year. That said, we estimate its net gearing ratio to moderately decline from the current level by FYE23. As per the company, out of its total cash on hand of RMB20.7bn as at Dec'22, RMB8.5bn was in escrow account, and cRMB2.5bn (cUSD370mn) was at parent company level. The cash at parent company should be sufficient to cover the repayment of YLLGSP 6.75 04/23/23. The o/s amount of the bonds should cUSD330mn after the buy-back of USD20mn.

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