招银国际 CMB INTERNATIONAL

8 April 2021

CMBI Credit Commentary

ZHPRHK: Stable financial result support its credit rating

FV of ZHPRHK 22N to be 5.7%-5.8%

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ZHPRHK (B1 stable/B+ stable by Moody's/Fitch) announced a new 363-day deal today with the IPG of 6.2% and size guidance of USD200mm-250mm. Zhenro reported in-line 2020 results, featuring stable income statement, improved balance sheet, reduced off balance sheet debts and better debt structure. The company remained in yellow camp under the 3-red-line guidance and targets to turn green by 1H22. **We believe the company's efforts in reducing off-balance sheet debts has helped them to stand out among B1/B+ rated issuers under the recent market concern on developer's balance sheet transparency. We are comfortable with ZHPRHK's stable fundamental development and believe the positive rating momentum could be the next catalyst to support the curve. We view the FV for the new 363 deal to be 5.7%-5.8%, compared with ZHPRHK 8.7 22s (5.8%).**

Resilient operational result – Zhenro achieved presales of 141.9bn (+9% yoy), GFA sold 8.9mm sqm (+6% yoy), ASP of 15.9k per sqm (+2% yoy). Attributable ratio remained at 55%. Sell-through was 60%. Cash collection remained at 75%. Unrecognized revenue was guided to be 100-140bn with GPM of 20-22%. Landbank life span covers ~2.5years of development. **Improved B/S and debt structure** – reported lower net gearing of 71% (vs. 79% in 1H20 and 84% in 2019 considering perp as debts), more sufficient liquidity as cash/ST debts of 2.2x (2019: 1.8x), and better capital structure (ST debts/total debts of 26%, lowered from 30% in 2019). ZHPRHK also reduced its reliance on trust loan to 6% (vs. 20% in 2019), which is a healthy level, in our view. NCI/equity maintained stable (42% vs. 41% in 2019). **Stable P/L** – reported revenue of 36.1bn (+11%, in line with expectation), lower margin of 19% (-0.9ppts, guided as 20%), reported EBITDA of 4.7bn (+6.7% yoy), profits of 3.6bn (+15% yoy). **Remained as yellow developer**. The company reported assets liabilities (exclude advanced receipts) ratio of 76% as of 2020. It guided to improve the ratio to below 70% by 1H2022. Guarantee to JV & aso declined to 2.6bn (vs. 4.8bn in 2019).

Achievable 2021 sales target with higher attributable value and prudent investment budget. The company set 2021 sales target at 150bn backed by sale-able resources of 250-270bn, indicating sell-through ratio of 55-60%. It looks to increase attributable ratio to 60%, thanks to higher attributable ratio of the recent land bank acquisition (70% attributable ratio and 80% consolidated ratio for the land acquired in 2020). Management also guided the recognized revenue for 2021 will be RMB40bn, backed by the contract liabilities of RMB60bn at end-of 2020.

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We assess there is positive rating momentum to its Fitch rating. The company met Fitch's rating upgrade trigger - Adj. debt/net inventory is estimated at 38%/35% in 2019/2020 (vs. upgrade trigger of 45%).

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