

CHINA  
DEVELOPMENT  
FINANCIAL

# CENCHI 6.25% 05/02/20

## (CENCHI)

### High Yield Debt (SGD)

Marc Tan / 65 6202 1195 / [marc.tan@kgi.com](mailto:marc.tan@kgi.com)

**Company Background:** Central China Real Estate is a leading residential property developer in Henan with 26 years of operating history. The group is listed on the Hong Kong stock Exchange with a market cap of 1.25bn USD and has presence in Henan's 18 prefecture-level cities and 70 county-level cities. Capitaland is a significant shareholder of the company with 24.1% in equity stake and has representations on CENCHI's board of directors, audit committee and investment committees for land acquisitions.

#### Credit Considerations:

**Strong growth continues, alongside market share expansion.** For 1H18, revenue declined 5.7% YoY to 4.78bn RMB as property sales (-9.5% YoY) slowed, driven by a 22.9% YoY decline in sold area to 679,243 sqm, but contracted sales momentum remained strong with contracted sales growing 82.4% YoY to 25.33bn RMB while contracted GFA sold grew 52.3% YoY to 3,447,000 sqm, driven by higher ASP which grew by 19.8% YoY to 7,348/sqm across regions. In terms of contracted sales amount, the group's market share in Henan increased to 8.3% from 5.6%.

Figure 1: Geographical Breakdown of Contracted Sales for 1H18

City	Contracted sales amount (RMB million)			Contracted GFA ('000 sq.m.)		
	1H2018	1H2017	Change	1H2018	1H2017	Change
Zhengzhou	7,598	2,966	156%	642	277	132%
Kaifeng	306	190	61%	36	21	71%
Luoyang	1,575	1,555	1%	184	210	-12%
Pingdingshan	508	344	48%	99	70	41%
Anyang	1,153	762	51%	209	181	15%
Hebi	125	467	-73%	21	105	-80%
Xinxiang	1,137	854	33%	174	145	20%
Jiaozuo	873	445	96%	150	86	74%
Puyang	1,283	309	315%	190	68	179%
Xuchang	1,595	955	67%	218	146	49%
Luohe	572	440	30%	81	91	-11%
Sanmenxia	718	557	29%	116	99	17%
Shangqiu	819	1,485	-45%	120	273	-56%
Zhoukou	2,865	721	297%	469	170	176%
Zhumadian	2,329	983	137%	474	200	137%
Nanyang	1,013	567	79%	120	69	74%
Xinyang	196	239	-18%	43	44	-2%
Jiyuan	664	45	1,376%	101	8	1,163%
Total	25,329	13,884	82%	3,447	2,263	52%

Source: Company Data, KGI Research

**Higher leverage levels but cash/short-term debt remains strong.** Due to the net issuance of USD 400mn senior notes, the group's net gearing ratio rose to 71.3% from 50.8% at the end of FY17 while net debt/EBITDA rose to 4.9x from 1.5x and 2.2x in FY17 and FY16. Similarly, debt servicing ability weakened with EBITDA/interest coverage at 1.8x compared to 2.9x as at FY17.

**On track to hit sales target for FY18 but we prefer CENCHI's shorter dated credit due to its rising leverage but strong cash/short-term debt.** The group remains highly dependent on property demand in China, with 90% of 1H18 coming from property sales. For FY18, management has targetted contracted sales of 45bn RMB and a GFA target of 6.5 million sqm, which we believe to be achievable given that group's sell-through rate of 46% and total sealable resources of 44.5bn RMB. Moreover, CENCHI has achieved 61% of its contracted sales target and 57% of its GFA target.

For short-term debt holders, liquidity remains ample with cash/short-term debt (including restricted cash) at 255% as compared to 303% in FY17.

Figure 1: Contracted Sales Target for 2018.



Source: Company Data, KGI Research

**Credit Recommendations:** Management has guided positive cash flows for 2018 which will increase the cash position excluding restricted cash to 13.7bn RMB, after accounting for capital expenditures and the redemption of its USD200 Senior Notes.

As such, we expect the group's cash/short-term debt to remain strong above 200% but given the group's weakening debt metrics and declining sell-through rate of 46% (2017:79%, 2016:62%), we prefer CENCHI's short-dated notes over its longer dated notes (USD), especially if demand for Chinese property demand continues to weaken and refinancing risk increases.

For investors with **high-risk appetite**, we recommend an exposure to CENCHI's 6.875% 10/23/20. This bond is non-investment grade and not part of our defensive portfolio. Currently, CENCHI'2020 is rated BB-(Fitch) and is currently trading at 100.013 with a YTW of 6%.

**Subordination Risk** - The 2020 is a senior unsecured note the debt was issued out of CENCHI's Holding Company while the majority of the group's claims are at its operating subsidiaries. As a result, recovery value for bondholders could be lower in a bankruptcy scenario.

## Financials

FYE 31 December

<b>INCOME STATEMENT (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>1H18</b>
Revenue	9,495.0	13,879.2	4,770.6
Operating Profit	1,294.9	1,910.2	749.2
EBITDA	2,071.0	2,856.0	1,443.0
Interest Expense	1,084.6	1,083.6	916.1
Profit Before Tax	1,027.5	1,940.1	1,078.7
Net Profit	404.1	899.3	574.3
<b>BALANCE SHEET and CASH FLOW (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>1H18</b>
Cash and Bank Deposits	9,776.3	11,283.9	12,566.8
Net Debt	4,573.7	4,300.3	7,097.2
Shareholders Equity	6,997.3	8,473.6	9,948.9
Total Assets	44,325.8	62,527.2	76,812.9
CFO	2,957.9	7,046.5	(1,051.1)
Capex (PPE)	(354.3)	(998.3)	(426.3)
Acquisition of subsidiaries	(1,829.0)	(624.3)	(561.7)
Advances to JV	(472.1)	(2,650.8)	(1,186.9)
Free Cash Flow (Acquisition Adjusted)	709.9	5,307.8	(2,044.2)
<b>KEY RATIOS</b>	<b>2016A</b>	<b>2017A</b>	<b>1H18</b>
EBITDA Margin (%)	21.8	20.6	30.2
Net Margin (%)	4.3	6.5	12.0
Net Debt to EBITDA (x)	2.2	1.5	4.9
Net Debt to Equity (x)	0.65	0.51	0.71
Net Debt to Total Assets (x)	0.1	0.1	0.1
EBITDA to Interest (x)	2.4	2.9	1.8

Source: Company Data, KGI Research

**KGI's Ratings**

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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