



# CPDEV 3.875% 01/30/21

## (CPDEV)

### Short-Term Carry (USD)

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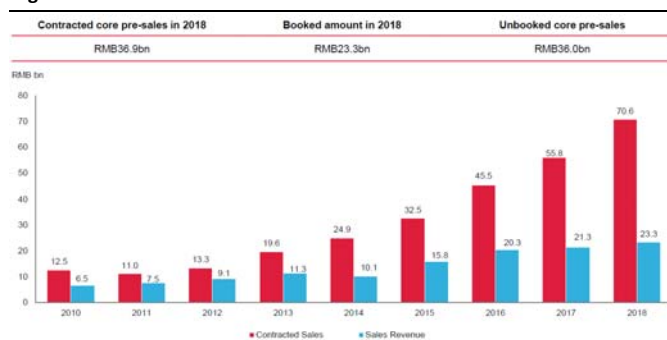
**Company Background:** Central Plaza Development is a wholly-owned subsidiary of Beijing Capital Land (BCL), a residential property developer listed on the Hong Kong Stock Exchange with a market capitalization of 1.1 billion USD. The company is based in 5 major cities in China (Beijing, Shanghai, Tianjin, Chongqing and Chengdu) and is owned by Beijing Capital Group (54.47%), a large state-owned enterprise group in China and GIC Private Limited (4.02%), the sovereign wealth fund of Singapore.

#### Credit Considerations:

**Record high contracted sales but profitability dragged lower by operating expenses.** During the year, total contracted sales rose 26.5% YoY to a new record high of 70.6bn RMB alongside total contracted sales area, which rose 27.6% YoY to 3.063 million sqm, driven by strong sales growth in Beijing (+73.7%) which contributed to 55.5% of total contracted sales.

Despite higher operating revenue (+9%), operating profits declined 18% YoY to RMB 3.16 bn as higher surcharges (+72.1%) and administrative expenses (+43.8%) dragged profitability lower.

**Figure 1: Contracted Sales and Sales Revenue**

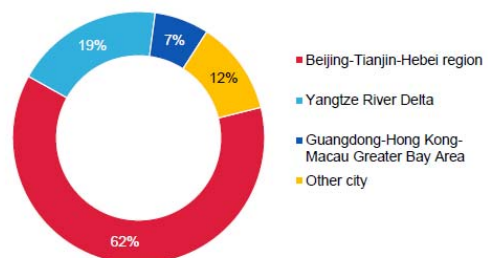


Source: Company Data, KGI Research

**Weak balance sheet mitigated by plans to deleverage and quality land bank.** The group's balance sheet continues to weaken with net debt to equity rising to 1.73x from 1.42x in FY17 but cash/short-term debt increased to 96% from 82%. While the group's debt ratios are weak, we believe this is mitigated by its quality land bank with GFA of 12.6m sqm and saleable resources estimated at 300bn RMB concentrated in Tier 1 cities (Beijing, Tianjin and Shanghai).

With average land cost at RMB 12,000/sqm and current contracted sales of RMB 23,000/sqm, management has targeted contracted sales to continue growing at a CAGR of 25.6% with gross margins above 25% and net gearing to decline from 168.6% to below 120% for the next 3 years. In the event of an A-share IPO or equity financing, management expects net gearing to fall even further, within 90%.

**Figure 2: Geographic breakdown of land bank**



Source: Company Data, KGI Research

**High dependence on property development.** While the group has diversified its revenue base with investment properties which include outlet stores, dependence on property development remains high with contribution to 2018 pretax profits at 66% (2017:55%). In our view, the company needs to start delivering on its deleveraging targets as sentiment around Chinese property markets worsen. Liquidity concerns however, remain low with RMB 170bn in undrawn facility.

**Credit Recommendations:** While the bond is rated BBB by Fitch, we note that these ratings were given two-notch uplift due to the strong linkage with the State-Owned Assets Supervision and Administration Commission (SASAC) of Beijing's municipal government.

Fundamentally, we believe investors are pricing in an implicit government support even though the firm's balance sheet and profitability continues to weaken, given that z-spreads are trading at ~200bps as compared to its peers of similar market caps. (CENCHI'21 +450bps, CSCHCN'21 +1000bps).

Therefore, we recommend investors with higher risk appetites who are looking for short-term carry to take an exposure in CPDEV'21, which is currently trading at 99.4 with a YTW of 4.2% and a duration of 1.7. **This bond is not part of our defensive portfolio recommendation.**

## Financials

FYE 31 December

<b>INCOME STATEMENT (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>
Revenue	20,349.4	21,292.0	23,257.1
Operating Profit	3,815.1	3,835.4	3,160.0
Adjusted EBITDA	1,182.6	3,543.0	2,500.8
Interest Expense	913.2	1,327.5	2,570.9
Profit Before Tax	3,938.5	3,839.3	3,160.0
Net Profit	2,864.0	2,796.8	2,417.1
<b>BALANCE SHEET and CASH FLOW (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>
Cash	17,926.1	21,038.2	22,526.6
Net Debt	40,262.7	45,416.5	66,023.2
Shareholders Equity	27,550.7	31,931.5	38,200.7
Total Assets	119,459.6	141,421.2	169,716.8
CFO	53.5	4,453.8	(6,094.7)
Capex (PPE)	(1,347.8)	(2,488.0)	(2,112.0)
Other Investments	(3,051.8)	(9,214.2)	(12,312.0)
Cash From Financing	818.8	4,733.9	21,544.2
Net Cash Increase	(1,645.4)	1,491.1	3,698.4
<b>KEY RATIOS</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>
EBITDA Margin (%)	5.8	16.6	10.8
Net Margin (%)	14.1	13.1	10.4
Total Liabilities/Total Assets (%)	77.0	77.0	77.0
Net Debt to Equity (x)	1.46	1.42	1.73
Current Ratio (x)	1.97	1.69	2.16
EBITDA to Interest (x)	1.3	2.7	1.0

Source: Company Data, KGI Research

**KGI's Ratings**

<b>Rating</b>	<b>Definition</b>
	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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