

INVESTMENT SOLUTIONS & PRODUCTS

Research

Research Alert

Investment horizon: 12 months, 30/10/2017

Fixed income

Golden Wheel Tiandi Holdings: CS fundamental credit view – Stable

- Moody's: B2/Stable; S&P: B/Negative; Fitch: B/Stable.
- Golden Wheel Tiandi (1232.HK) is a small real estate company with projects linked to metro stations/transportation hubs in Jiangsu and Hunan provinces.
- Volatile earnings as a result of its small operating scale and geographic concentration, partly offset by its stable recurrent income and prudent financial management.
- Improved profitability and lower leverage in H1 2017 on stronger sales performance.
- We initiate coverage on the company with a BUY recommendation on GWTH 8.25% 2019.

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Ownership and credit outlook

Founded in 1994 and listed in Hong Kong in 2013 (1232.HK), Golden Wheel Tiandi (GWTH) is a Nanjing-based property development and investment company. Chairman Mr. Wong Yam Yin, an Indonesian-Chinese, held 34.64% of the company as of end-June 2017. Three Indonesian individual investors together held another 16.35% stake of the company as of the date.

S&P revised GWTH's rating outlook to negative in January 2017, citing uncertainty over the company's sales prospects owing to its decreasing saleable resources. The rating agency also stated its concern over GWTH's refinancing risk as short-term debt accounted for 63% of the total debt. However, the company's selling resources increased in H1 2017 and short-

term debt/total debt also fell to 37%. We believe S&P will likely revise its rating outlook to stable, which will be in line with that of the other two rating agencies.

Business profile

GWTH is an integrated commercial and residential property developer, owner, and operator in Jiangsu and Hunan provinces. Its projects are mostly connected or in close proximity to metro stations or other transportation hubs. It had a land bank of 1.13 m sqm as of end-June 2017, including 861,000 sqm of development land bank and an investment property portfolio of 269,000 sqm. Retail and office accounted for 28% of the company's development land bank. Development land bank breakdown: Zhuzhou (40%), Changsha (19%), Nanjing (17%), and Wuxi and Yangzhou (each 12%). Average land cost for uncompleted projects was around CNY 3,677 per

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sqm in H1 2017, equivalent to 25% of the average selling price (ASP) in H1 2017. GWTH had ten projects in five cities under different paces of construction.

Contracted sales reached CNY 1.5 bn in 9M 2017 with an ASP of around CNY 10,000. The company achieved 79% of its full-year sales target. Based on the current land bank, GWTH targets to achieve contracted sales of CNY 1.8 bn in 2017 (+14.5%), CNY 2.9 bn in 2018, and CNY 2.6 bn in 2019. To support continued sales growth, GWTH increased its land acquisition in H1 2017.

GWTH owns seven shopping malls and retail shops with gross floor area (GFA) of 201,000 sqm in operation and 68,000 sqm under development. As these properties are close to metro stations or other transportation hubs, the occupancy rate has been maintained over 90%. Investment properties' breakdown based on location: Nanjing (54%), Zhuzhou (21%), Yangzhou (15%), and Changsha and Wuxi (5% each).

The company also manages and sub-leases 12 metro stations in four cities (Nanjing, Suzhou, Wuxi and Changsha) with over 300 tenants. The owners of these metro station stores are all state-owned enterprises with contract life normally ranging between 10 and 15 years. The occupancy rate of these shops has been maintained above 95%. Management targets to achieve gross margin of 50% in 3–4 years and recurrent income of CNY 100 m per year with the existing contracts.

GWTH acquired a 3-star hotel in Hong Kong in 2017 and has three hotels under construction. Total hotel rooms should reach 280 by end-2017, 442 by end-2019, and 674 by end-2020. The company targets operating income from hotel operation to reach CNY 112 m by end-2021.

As per GWTH's three-year plan (2018–2020), management aims to achieve an average annual development revenue and contracted sales of over CNY 2 bn with gross margin between 35% and 40%. It also aims to achieve 15%–20% gross margin and over 95% occupancy rate for its property leasing business. For its hotel businesses, management targets to achieve a total revenue of CNY 100 m.

Improved profitability and lower leverage in H1 2017

GWTH reported revenue and EBITDA growth of 7.1x and 5.3x YoY, respectively, in H1 2017, mainly due to weaker performance a year earlier. Gross margin for property sales improved to 38% (32.1% in 2016), while that for property leasing increased to 75% (72%). Net profit rose 173% YoY on lower revaluation gain for its investment properties and higher tax payment. Total debt increased by 23% in H1 2017 on increased land and hotel acquisitions with net debt/equity increasing to 51% (26% in 2016). However, stronger contracted sales lowered total debt/EBITDA to 3.8x (12.2x) and strengthened EBITDA/interest to 3.5x (1.1x). Refinancing risk also reduced with short-term debt falling to 37% (63%) and cash covered being 105% of short-term debt (100%). GWTH has maintained its net debt/equity below 50% over the past few years, despite volatile revenue and earnings.

GWTH's leasing businesses have been providing stable and rising recurrent income to the company, which helps smooth out performance of its volatile property development businesses. Rental income covered around 60% of the gross interest expense in H1 2017 and 69% in 2016.

Average funding cost increased to 8.05% in H1 2017 from 7.91% at the end of 2016 as GWTH booked the cost of bond repurchase as interest expense. At the end of September, GWTH repurchased USD 42 m of its 9.5% 12/2017 Eurobond and CNY 183 m of its 10.8% 12/2017 dim sum bond. We believe GWTH's leverage will remain stable in 2017 with average funding cost dropping below 8% once the two high-cost offshore bonds mature.

Our view

We have a Stable fundamental credit view on Golden Wheel Tiandi despite its high project concentration risk and small operating scale, owing to the company's track record of prudent financial management and stable recurrent income. We initiated coverage on GWTH with a BUY recommendation on its 8.25% 2019 Eurobond (XS1511593110). The bond closed at 102.625 to yield 6.82%.

Golden Wheel Tiandi Holdings: Selected financial data

(in CNY m)	12/31/2015	12/31/2016	6/30/2016	6/30/2017
Revenue	230	941	129	1,051
Gross profit	110	360	67	431
EBITDA	-98	233	73	461
Net profit	13	265	100	274
Short-term debt	1,533	1,791	842	1,290
Long-term debt	1,497	1,034	1,635	2,189
Total debts	3,031	2,826	2,477	3,478
Cash and deposits	1,400	1,796	870	1,350
Net debts	1,631	1,030	1,607	2,128
Total equity	3,689	3,929	3,789	4,151
Total assets	8,493	10,039	8,641	10,837
Contracted sales	923	2,359	1,497	851
Land bank ('000 sqm)	952	837	878	1,100
Gross margin	48.10%	38.30%	51.90%	41.00%
EBITDA margin	-42.60%	24.70%	56.90%	43.90%
Net margin	5.70%	28.20%	78.00%	26.10%
EBITDA/interest coverage	(0.56x)	1.10x	0.63x	3.48x
Total debt/EBITDA	(31.0x)	12.15x	16.9x	3.8x
Net debt/EBITDA	(16.7x)	4.43x	11.0x	2.3x
Total debt/equity	82%	72%	65%	84%
Net debt/equity	44%	26%	42%	51%
Contracted sales/total debt	30%	83%	60%	24%
Total debt / total capital	58%	57%	46%	55%
Cash/short-term debt	91%	100%	103%	105%
Cash/total debt	46%	64%	35%	39%
Average funding cost	n/a	7.91%	n/a	8.05%

Source: Company data, Credit Suisse

(30/10/2017)

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Rating	Overall	MiFID Services*	Allocation over 12 months**
BUY	38.29 %	85.56 %	727

Rating	Overall	MiFID Services*	Allocation over 12 months**
HOLD	48.36 %	81.12 %	923
SELL	11.16 %	83.64 %	214
RESTRICTED	2.19 %	76.19 %	31

*Proportion of recommendations per rating category where MiFID services were provided to the issuer over previous 12 months.

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