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Private Property Developers' Refinancing Pressure Expected to Ease

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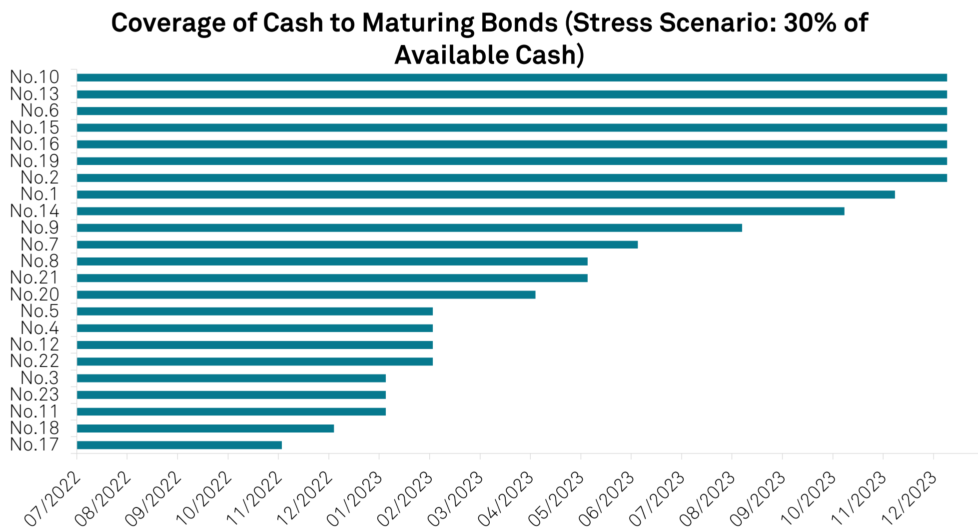
A series of financing policies for POEs and real estate developers have been announced in recent weeks. In the past few days, the National Association of Financial Market Institutional Investors ("NAFMII") announced that with the support and guidance of the People's Bank of China ("PBOC"), it would continue to promote and expand the tools available to support bond financing for POEs, including private real estate developers. In addition, the PBOC and China Banking and Insurance Regulatory Commission ("CBIRC") are reportedly planning measures to help developers extend outstanding loans and trust financings, obtain guarantees and conduct new bond issuances.

In our view, these policies aim to provide financial support for the healthy development of the real estate industry and ensure the reasonable financing needs of developers are met, all while maintaining the stance of "no speculation in real estate". We expect residential property sales to maintain an "L-shape" trend. While sales are unlikely to rebound, as long as access to refinancing channels remains open, players should be able to pass through the current downturn. With residential property sales at their current lows, we expect these measures to help allocate financial resources in a way that allows breathing space in the industry, with an eventual soft landing.

We expect the measures to effectively ease refinancing pressure on private real estate developers and help restore market confidence. In our view, the latest raft of measures should be sufficient enough to ease pressure on private developers. We selected 23 representative private developers for analysis and found total maturities from open-market financing (including onshore and offshore bonds and ABS products) due from November 2022 to December 2023 was about 220 billion RMB. The abovementioned support to come from NAFMII should be enough to cover these maturities (see Table 1).

NAFMII's support package is worth 250 billion RMB. How this package is delivered (in terms of timeliness and allocation) will be crucial. In our analysis of the abovementioned 23 developers, we assume that available cash accounts for 30% of total cash balance under a stress scenario. Under such conditions, many private developers would not have been able to meet their debt obligations by the end of 2023 if refinancing channels had remained sealed off. With the new policy measures in place, we expect private developers' liquidity pressure to ease significantly.

Chart 1



Note: Cash as of June 2022.Bonds calculated as of July 2022. Bond maturity amount refers to total value upon maturity of onshore, offshore bonds and ABS issued by sampled property developers and their related entities. Comparable exchange rates used to calculate offshore bond values. Bank borrowings, alternative financing and other type of debt financing are not included.
Source:Wind, S&P Global (China) Ratings.

It should be stressed that we do not view such support as unlimited and unstandardized. The measures shall be rolled out in a market-oriented, legal, open and transparent way, focusing on those developers which, despite facing temporary liquidity shortage, have healthy governance structures, are focused on their primary business, well-qualified and have sound overall financial health. We would expect the following three types of developers are likely to be viewed more positively by investors in the future:

- Well-established developers with a good track record of maintaining a stable, cautious development strategy. Current cash in hand is sufficient to cover future maturities.
- Developers with good debt structures that have low short-term bond maturity pressure, with most obligations longer in term.
- Developers with low dependence on open-market financing. Such companies mainly source financing through bank loans, with better liquidity buffer in place .

Table 1

Company Name	Bond Maturities in the Next Year (RMB, 100 million)
Vanke	428
Country Garden	350
Gemdale	252
Longfor Group	151
Sino-Ocean Group Holding	151
Forte Land	128
Seazen Group	107
Hangzhou Binjiang Real Estate Group	82
Guangdong Pearl River	75

Xinhu Zhongbao	68
Midea Real Estate	67
LVGEM	57
Radiance	51
Shui On Land	34
Pomegranate Real Estate	33
Hopson	33
Road King	27
Yanlord Land	24
Dahua	18
Greattown	15
Guangxi Ronghe	9
Shenzhen Heungkong	1
Sundy Land	0

Note: Data refers to bonds maturing from November 2022 to December 2023, based on information gathered for the sampled companies and related entities. Data includes onshore and offshore bonds and ABS products. Offshore values calculated based on comparable exchange rates.

Source: Wind, S&P Global (China) Ratings.

This report does not constitute a rating action.