THE OIC GROUP

HKG GROUP 6

Monthly Report

February 2025

绿城房产
GREENTOWN

OIC Research Group | Analyst Group Report

Director: Harry Yeung **Analysts**: Scott Chan, Paul Fang, Carmen Li, Brian Chiang, and Joe Liu February 2025

Greentown China issued $500 million in bonds, marking the first U.S. dollar bond issuance by a major Chinese property developer in two years

Issuance Summary

Pricing Date	February 13, 2025
Issuance Size	8.4500% US$500 mn
Issue Price	100.0000
Maturity	02/24/2028

Issuance Regulations

- The bond offering is under the Reg S. A Regulation S debt transaction involves the **concurrent offering of various segments of a single debt security both within the United States and internationally**, in transactions that are not mandated to comply with the registration regulations of the Securities Act of 1933.

Bond Info/Structure

	Data as of 14/03/2025
	8.4500% 02/24/2028 Corp
Current Yield	8.240
Z-Spread	367.9
I-Spread	374.9
G-Spread	350.3
Convexity	0.082
DV01	263
ASW	372.8
OAS	325.1

Bond Comparable Analysis

	Data as of 17/03/2025
	8.4500% 02/24/2028 Corp
Yield	7.46 vs 5.37 (Avg.)
Z-Spread	364 bps vs 405 bps (Avg.)

Issuer

绿城房产 GREENTOWN

Greentown China Holdings Limited

Over the course of 29 years of growth, the company has consistently followed a **"quality-first"** development strategy. It has expanded its presence in the real estate industry by establishing three key divisions: **asset-heavy, asset-light, and "Greentown+"**. The asset-heavy division primarily concentrates on real estate development, emphasizing the creation of distinctive real estate ventures such as town projects and urban renewal initiatives alongside its core development operations.

Founded Year	1995
HQ	Hangzhou, China
Sector	Real Estate
Market Cap	USD $4056.19 mn
FY24 Revenue	USD $19,931.64 mn
FY24 EBITDA	USD $1,496.64 mn

Company Financials

	Data as of 30/06/2024, in USD millions
Total Debt	20,473.50
Enterprise Value	24,623.23
EV to EBITDA	16.45
EBITDA	1,496.64
Net Income	779.89
Cash from Operations	2,756.37
Total Debt to EBITDA	13.68
Total Capital	35597.45
Total debt to total equity	136.68
Total Debt to Total Capital	0.58
Earnings per share	0.31
Capital Expenditure	-123.21
Free Cash Flow	2,633.14

Source: Bloomberg, Bloomberg Intelligence, Bloomberg Law

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Issuance Purposes

- **Use of Proceeds**: At a total size of **US$500 million**, Greentown China's issuance proceeds are primarily intended for **refinancing existing offshore indebtedness**, notably through a **Concurrent Offer to Purchase** of its outstanding notes due 2025.
- **Refinancing Debt**: The **Concurrent Offer to Purchase**, launched on **February 13, 2025**, was structured to repurchase a principal amount up to the aggregate of the newly issued Notes (US$500 million), plus an additional **US$100 million**, subject to the company's discretion. Following the tender, Greentown repurchased **US$312.2 million** of the 4.70% Notes and **US$139.7 million** of the 5.65% Notes, totaling **US$451.9 million** in debt repurchase. These notes were subsequently **canceled on February 25, 2025**, reducing Greentown's near-term debt obligations and optimizing its maturity profile.
- **Liability Management and Capital Structure Optimization**: Greentown China intends to utilize this refinancing to **enhance its balance sheet strength** by **reducing near-term refinancing risks**, **smoothing out debt maturity profiles**, and **preserving liquidity for strategic operational needs**. The transaction reflects the company's broader effort to improve capital structure resilience amid a volatile market environment.

Notes Refinanced	Principal Outstanding	Amount Repurchased	Remaining Outstanding
GRNCH 4.700% 29Apr2025 Corp	US$ 446.5 mn	US$ 312.2 mn	US$ 134.3 mn
GRNCH 5.650% 13Jul 2025 Corp	US$ 294.5 mn	US$139.7 mn	US$ 154.8 mn

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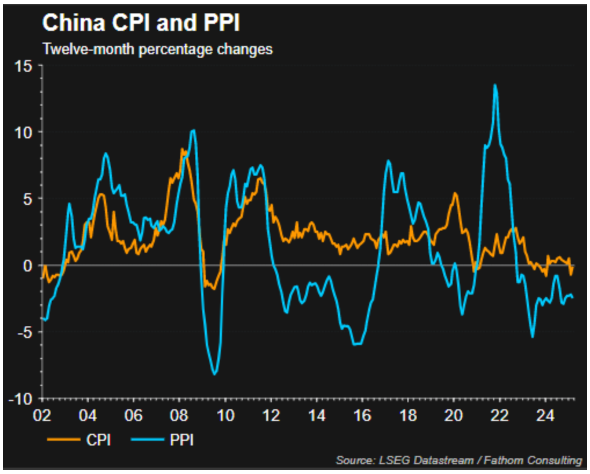
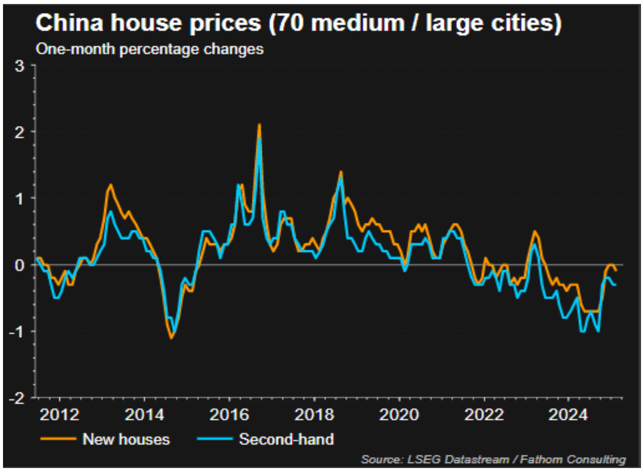
Macro Analysis

- China's deflationary pressures have persisted, with the Consumer Price Index (CPI) lingering below zero since **mid-2023**, dipping to **-0.7% in February 2025**, while the Producer Price Index (PPI) has declined for over two years, hitting **-2.2%**. Despite a **stimulus package in September 2024**, deflationary trends remain entrenched. **Beijing is expected to reignite a new series of stimulus packages** and adopt a more proactive approach to save the economy amid **tariff uncertainty from the Trump administration**.





- Two Sessions are held as scheduled in Beijing this month, outlining a comprehensive set of fiscal and monetary policies aimed at addressing economic challenges and positioning the country for future growth (target at 5% GDP growth in 2025)

Fiscal Policies (Expanding Deficit & Increased Government Borrowing)

As stated in the Government Work Report, the fiscal policy is set to be **more proactive** in 2025, with following details:
Fiscal Deficit Ratio: Increased to around 4% of GDP, up from 3% in 2024
Public Expenditure: RMB 29.7 trillion (US$4.07 trillion), an increase of RMB 1.2 trillion from 2024
Bond Issuance:

- Ultra-long-term Special Treasury Bonds: RMB 1.3 trillion (US$178 billion) for equipment renewal, consumer trade-ins and investment in strategic sectors
- Special Government Bonds: RMB 500 billion (US$68 billion) for state-owned bank capital recapitalization
- **Local Government Special-purpose Bonds**: RMB 4.4 trillion (US$603 billion) for infrastructure project investment and **land/unsold property unit acquisition**

Monetary Policy (Timely Rate Cut Could Be Expected)

Monetary policy is expected to be **moderately loose**, with the PBOC likely **cutting policy rates by 20-40 basis points** and reducing the reserve requirement ratio by 50-100 basis points

Implication on property market (Government Purchase & Reducing Mortgage Rate):

- China's macro environment is bound to recover with the **slightly stronger-than-expected policy package and the more proactive attitude of the authority**, despite the hovering tariff uncertainty after Trump taking office and the lasting weak domestic demand in the past two years
- A large fraction of the RMB 4.4 trillion local government special-purpose bonds is expected to be **used to acquire land, purchase unsold property unit, and invest in urban renewal projects, which is likely to improve the balance sheet of property developers by reducing their piled inventory and create new pipelines**
- The **policy rate cut could lower mortgage rate through lowering LPR, encouraging house purchase together with potential reduction in downpayment percentage**

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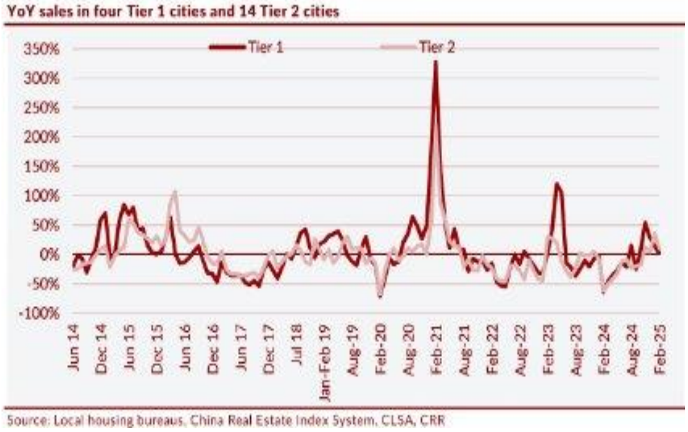
Industry Analysis

- February continued to see **sales improvements in the Tier-1/2/3 city home sales GFA** with **YoY growth at 2.1%/10.6%/-7%**, compared to **January's 14.3%/35.9%/22.6%**. It is suggested that **top property markets have stabilized for now** thanks to **easing measures enacted since Sep 2024** and the **undersupply of new projects in top-tier city**, but we believe they are vulnerable to potential increasing supply from secondary markets if sentiment does not improve. Meanwhile, **non-core markets need local government help** to lower inventory and increase demand.

For-sale property inventory (six-month moving average)

Source: CLSA, local housing bureaus, China Real Estate Index System, CRR

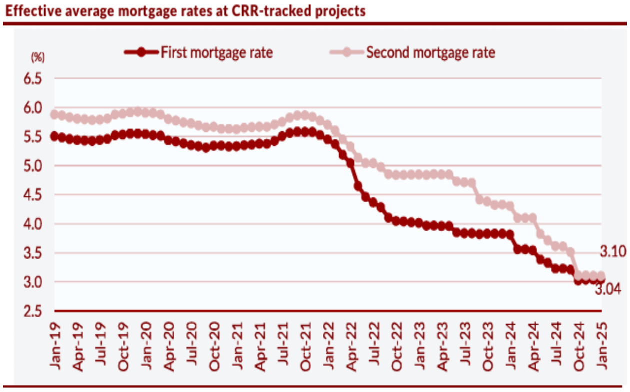
YoY sales in four Tier 1 cities and 14 Tier 2 cities



Source: Local housing bureaus, China Real Estate Index System, CLSA, CRR

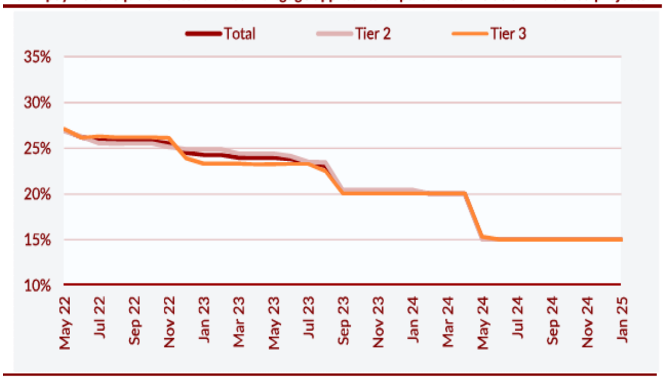
- Recent data shows that **for-sale property inventory** across **Tier-1, Tier-2, and Tier-3 cities** has **declined slightly from its peak in mid-2024**, mainly due to a series of **easing measures introduced since April 2024**. Tier-1 cities have seen the most noticeable inventory reduction, while Tier-2 and Tier-3 cities also experienced some improvements, although **inventory levels remain elevated compared to pre-pandemic years**. Meanwhile, **year-on-year sales growth rates** have shown signs of **mild recovery in early 2025**, but the rebound remains limited and sales momentum is still weak compared to historical norms. Although the market appears to have **stabilized for now, demand recovery remains fragile**, particularly in **non-core cities**. Without stronger policy support or a meaningful improvement in buyer sentiment, the property market remains vulnerable to renewed pressure, especially if **secondary market supply** continues to rise.

Effective average mortgage rates at CRR-tracked projects



Source: CLSA, CRR. Note: The current five-year loan prime rate is 3.60% (changed in Oct 24).

Down payment requirements for first mortgage applicants of partner banks at CRR-tracked projects



Source: CLSA, CRR

- **Mortgage rate keeps going down** as **PBOC cut the rate in September 2024** and the further adjustment by the **commercial banks to mortgage rate calculation rules benchmarked to Loan Prime Rate**.

- The **PBOC eased property market restrictions on 17 May 2024**, lowering the **minimum down payment to a historical low of 15% on first homes**, aiming to encourage **long-hesitant potential first-home-buyers**.

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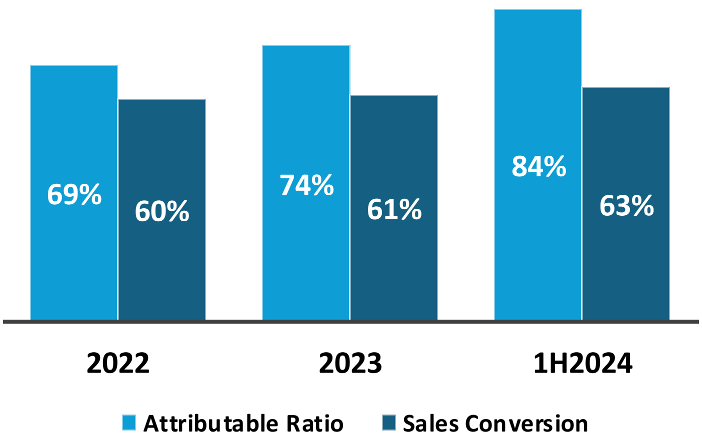
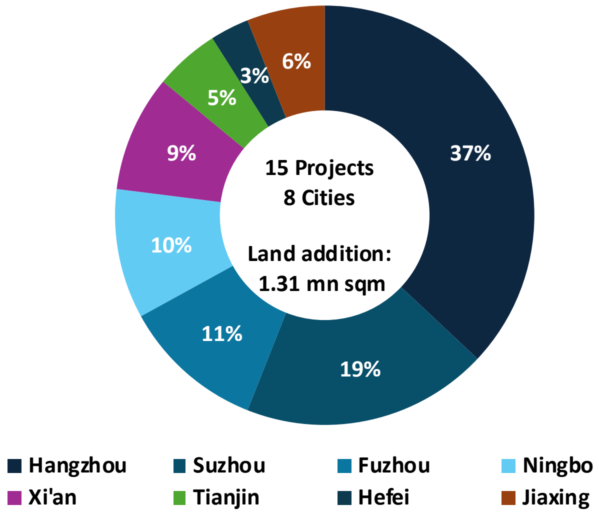
Revenue Overview: Enhanced Property Development Sales conversion and resilience through diversification





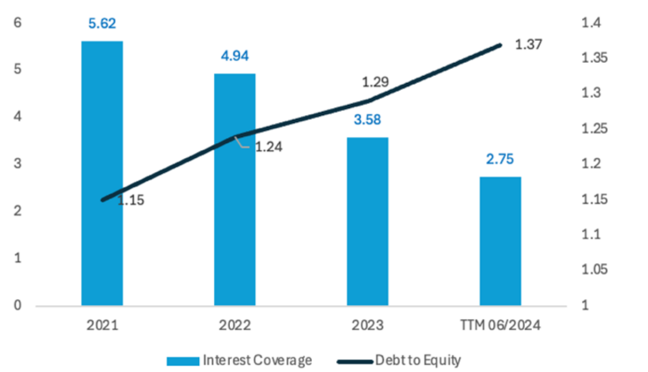
Rising attributable ratios, stronger project ownership:

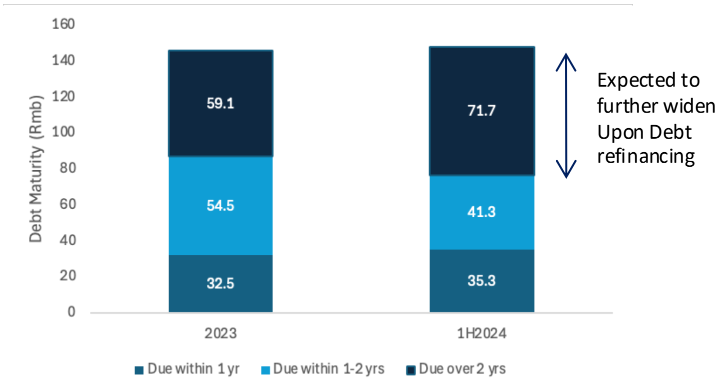
- Greentown has experienced a robust first half performance, as seen through maintaining a healthy sales conversion at 63% (newly added saleable value), attaining their "**two harvests one year**" ambition.
- They have also increased attributable ratio to 84% for their new properties in the first half (% of total contracted sales area attributed to Greentown), strengthening their **sales ownership over new property sales** and enhancing liquidity

Diversified property base

- Greentown's recorded **15** new projects spread across **8** different cities, providing greater diversification of Revenue streams under its Property Development business, creating more **stable cash flows for debt amortization**

Company Credit Overview: Cyclical trends have worsened credit ratios, however Greentown demonstrates effective management of their maturity structure





Higher leverage and coverage amidst China's property downturn

- Despite Greentown's rising Debt to Equity and Interest Coverage, it can be primarily attributed to a weak secular trends as China's new home prices in 70 cities have not only maintained consecutive monthly price drops since 2023, but have also widened to **averaging around –5% MoM since August 2024**
- This is effectively reduced Gross/Net profit margins for property developers, hence **reducing operating cash flows** hence worsening leverage/coverage ratios for Greentown.

Diversified property base

- Despite worsening fundamentals, Greentown's liability management has been effective as it has eased its debt maturity structure by widening its debt due over 2 years. This is expected to further widen upon their recent offshore debt issuance and **instill confidence amongst debt-holders given lower maturity wall risks**

Source: HKEX News, Trading Economics

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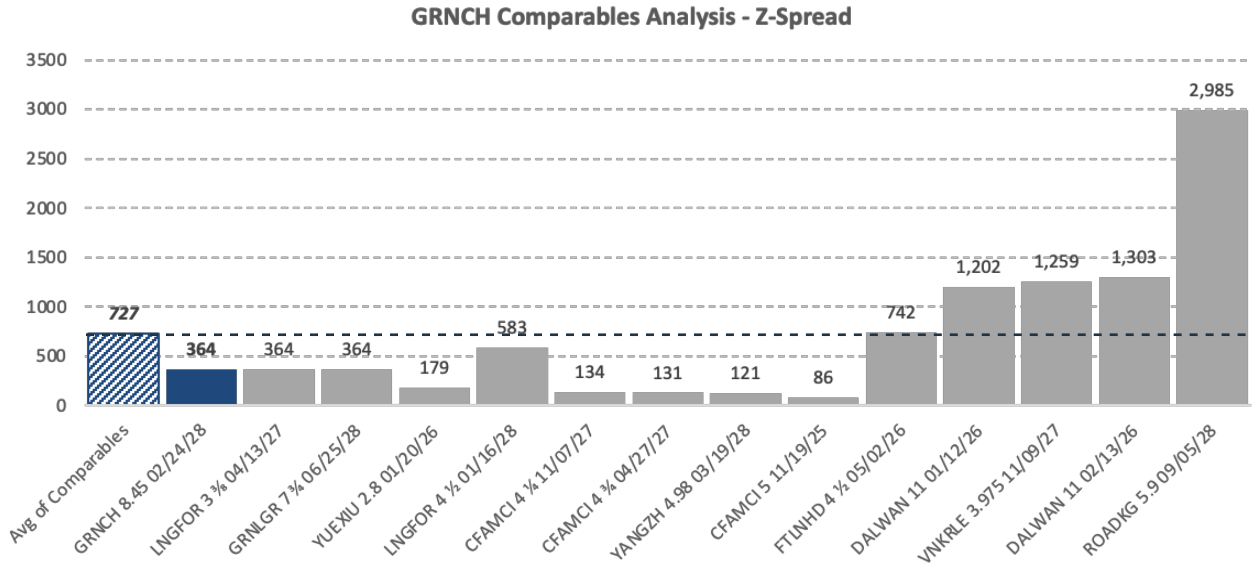
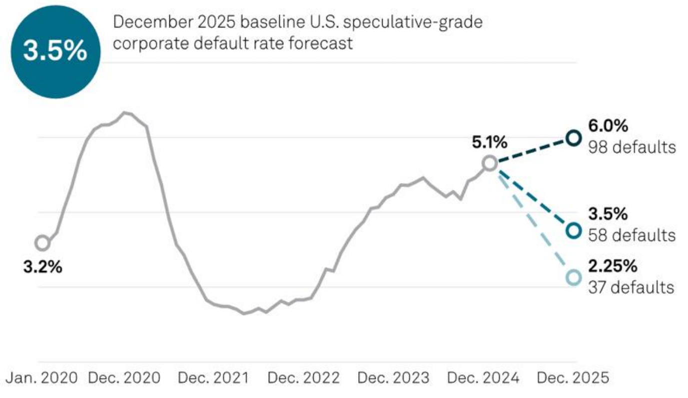
Bond Comparable Analysis – Cont.

- **Z-Spread:** Also known as ***Zero-volatility Spread***, is defined as the constant spread that, when added onto the yield curve of ***risk-free sovereign debt*** (i.e. US Treasuries), makes the **Present Value** of a bond's cash flows **equal to its current market price.**
- **How is it useful?** The Zero-volatility Spread provides a holistic perspective, taking into consideration the shape of the yield curve, **applying a spread across all maturities on top of the yield curve** rather than a singular maturity.



Spread Analysis

- **Z-Spread:** Lower than the peer group average, while this may indicate decreased credit risk being priced into spreads, noteworthy is the upwards skew in spread-terms from the deeply-distressed levels shown from ***RKP Overseas Finance***'s issuance (***ROADKG 5.9 09/05/28***), driving the peer group average Z-Spread to 727 bps.
- **How is it useful?** Looking at the bigger picture, the ***ICE BofA US High Yield Index Option-Adjusted Spread*** stands at 323 bps, a slight pick-up from the lows seen at the start of the year. While the index OAS remains tight relative to the historical average, S&P Global retains its rosy outlook for the asset class with a base case default rate of 3.5%
- **Greentown China Holdings Default Risk**: The Bloomberg Default Risk model generates a 1-year default probability of 0.6035%, a historical analysis indicates that the 1-year default probability has soared from its May 2024 low of approximately 0.14%.
- **For the investor**: Despite the historically tight high-yield spreads, Greentown China's debt issuance remains attractive due to the appeal of "***all-in yields***", which still stand at approximately 8.24%. Macro factors provide an optimistic backdrop with the Chinese policy drive aligned with remediating a slump in the property sector.



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Upside Catalysts

State-backing leads to low default risk:

- Greentown China Holdings is a subsidiary of China Communications Construction Group (CCCG), a Chinese State-Owned Enterprise, and Greentown shares the same credit line with its parent company.

Takeaways: Considering its state-owned nature, **Greentown may receive financial consolidation**, or even rescue, in case of insolvency, from CCCG.

Land bank concentrated in home price-resilient areas:

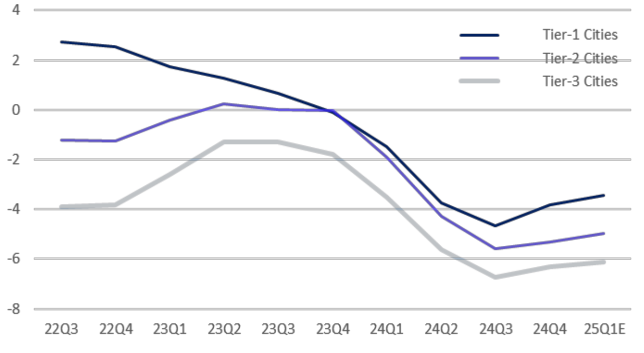
- Around 45% of Greentown's land bank holdings are located in Zhejiang and Jiangsu, which consist of a substantial middle-class/affluent Chinese population.
- A large number of high-tier cities are also located in Zhejiang and Jiangsu (e.g. Hangzhou, Suzhou, Ningbo, Wuxi etc.). From Bloomberg's China property data, **high-tier cities' home prices are more resilient than lower-tier cities'**, likely due to the accumulation and inflow of wealth amid economic uncertainty in China.

Takeaways : Regional housing price resilience in Zhejiang and Jiangsu shall provide support for Greentown's profitability.

(12/19/24)

Greentown China's Land Bank Composition

China's residential real estate price by city tier



Leading E.S.G. Indicators:

- Greentown China is rated positively in terms of E.S.G. development. The company has received an **above-average/leading** E.S.G. scoring from S&P and Bloomberg.

Takeaways: Better operational resilience against environmental/social risks would result in potential credit rating upgrades. Greentown China's E.S.G. positioning also broadens the bonds' investor base by attracting sustainability-mandated investors.

Downside Catalysts

Margin squeeze:

- Greentown's profit margins have been on decline. By the latest data, its **EBITDA margin stands at 5.9%,** which is below the 8%+ coupon rate Greentown is offering at this time.

Takeaways: Greentown may be unable to withstand such a high lending rate in the long term, and rising interest expenses/average interest cost may further squeeze its profit/cash flow margins.

Premium brand positioning prevents it from receiving further state support:

- The Chinese government's 300 billion CNY program aimed at refinancing local government-backed property developers to acquire unsold home inventory is unlikely to benefit Greentown. The program's **target for affordable housing acquisition may not match with Greentown's focus on luxury real estate development**.

Takeaways: With limited policy support, Greentown selling price, home sales and margins face undergo further downward pressure.