17 May 2022

CMBI Credit Commentary

Fixed Income Daily Market Update 固定收益部市场日报

- *We saw mixed flows in COGARD (better buying in 22/23/24 and selling in long end) this morning. AMC space hit down with ORIEAS widened 15-20bps while SOE names fluctuate within 1-2bps but skewed to better selling in some higher beta names.*

- ***CSCHCN:** announced that the completion of new shares issued to Shenzhen SASAC's wholly-owned subsidiary. We expect the ownership of SZDCDG to resume CSC's access to funding channels. We maintain Buy on CSCHCNs. See below.*

- ***ZHLGHD:** announced the result of its exchange offer and consent solicitation. 90.47%/83.66% of outstanding ZHLGHD 8.5%'22 / ZHLGHD 9.5%'22 are validly tendered and requisite consents to carve out cross-default trigger are also obtained. See below.*

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❖ Trading desk comments 交易台市场观点

Yesterday, Chinese HY property space rebounded, following the central bank's reduction in mortgage for first-time homebuyers and regulator's support of CRMW usage. COGARD traded up 2-4pts alongside with its equity gains. CIFIHG also rose 1-2pts, and KWGPRO/CHINCE up around 1pt. We still saw better seller in Macau gaming sector after tax reduction and travelling limit news, SJMHOL down around 1pt.

Chinese IG market was generally quiet. In TMT sector, benchmark names like MEITUA/TENCNT/XIAOMI widened 2-4bps. In financial sector, AT1 names were skewed to better buying. The recently issued CCB'25 tightened 1-2bps.

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➢ Yesterday's Top Movers

Top Performers	Price	Change
COGARD 7 1/4 04/08/26	**66.2**	**5.4**
COGARD 8 01/27/24	**75.0**	**5.4**
CITLTD 4.6 04/14/35	**100.1**	**3.9**
COGARD 4.2 02/06/26	**62.8**	**3.5**
COGARD 6 1/2 04/08/24	**71.7**	**3.4**

Top Underperformers	Price	Change
STCITY 5 01/15/29	**62.4**	**-2.5**
RONXIN 8.1 06/09/23	**16.6**	**-1.9**
WYNMAC 5 1/8 12/15/29	**73.2**	**-1.9**
MGMCHI 4 3/4 02/01/27	**80.3**	**-1.9**
WYNMAC 5 1/8 12/15/29	**73.2**	**-1.8**

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stocks closed mixed yesterday, as investors continued to worry the twin impact of surging inflation and aggressive central bank rate hikes. The S&P (-0.39%), Nasdaq (-1.20%), and Dow (+0.08%) closed mixed. China's "Zero Covid" policy has already threatened recession in the world's second largest economy. Official data from Beijing revealed an 11.1% slump in April retail sales as well as a near 3% pullback in industrial output. Treasury yield curve moved downwards, with the 2/5/10/30 yield reaching 2.58/2.83/2.88/3.09% respectively.

❖ Desk analyst comments 分析员市场观点

➢ China South City: Completion of SZCDG's equity injection

China South City (CSC) announced that the completion of new shares issued to SEZ Construction and Development Investment Holding Ltd. (SEZCDIH) on 16 May'22. Recalled that SEZCDIH is a wholly owned subsidiary of SZCDG, a SZ LGFV which in turn is wholly-owned by Shenzhen SASAC. Upon the completion of new shares issue, SZCDG becomes the largest shareholder of CSC and owns 29.28% of the enlarged capital of CSC. CSC has received the subscription consideration of HKD1.9bn (cUSD240mn) from SEZCDIH. The cash proceeds from stakes sale has strengthened CSC's financial flexibility. We also expect the ownership of SZDCDG to resume its access to funding channels, especially the drawdown of onshore operating loans and onshore bond markets. CSCHCN'22s and 23s are trading at mid-high 90, offering YTM of high teens to low-20. We expect the bonds to be par-pull, and consider these good low-beta and carry plays. We maintain Buy on CSCHCNs.

Further to our comments in the daily on 19 and 4 Apr'22, we understand that the regulatory approvals required for China South City (CSC)'s stakes sale to SZCDG has been secured. The stakes sale to SZCDG experienced a short delay from the original target completion date of end of Apr'22 as documentary procedures are affected by the recent pandemic outbreak and lock-down. That said, this had been proceeded smoothly, in our view, taking cues from the sales of logistic asset sales (RMB1.7bn) to Shenzhen International Holdings in early Apr'22, and 2 strategic cooperation agreements with SZ SOE/LGFV signed in Feb'22.

➢ ZHLGHD: Results of exchange offer and consent solicitation

Zhongliang announced the result of its exchange offer for ZHLGHD 8.5%'22 and 9.5%'22 due 19 May'22 and 29 Jul'22 as well as consent solicitation for ZHLGHD 12%'23.

90.47% (USD262.2mn) of outstanding ZHLGHD 8.5%'22 and 83.66% (USD367.7mn) of outstanding ZHLGHD 9.5%'22 are validly tendered while minimum acceptance amount requirement (90%) is waived for ZHLGHD 9.5%'22. Company will proceed to issue USD201.4mn and USD428.4mn new notes due Apr'23 and Dec'23 respectively. The split of new ZHLGHD 8.75% Apr'23 and ZHLGHD 9.75% Dec'23 is 32/68, which is close to company's indication of 30/70 in exchange offer. As mentioned in our Zhongliang: Q&As on the exchange and consent solicitation, the split will ensure a meaningful portion of new bonds to mature ahead of ZHLGHD 12%'23 due 17 Apr'23, and the size of new bonds maturing in Apr'23 will be large enough for any trading liquidity. In addition, we understand from the company that it will not pay the remaining hold-outs.

As for consent solicitation for ZHLGHD 12%'23, Zhongliang also obtained requisite consents to carve out cross-default trigger for the exchanged notes.

Please see more details in Zhongliang: Exchange and consent solicitation and Zhongliang: Q&As on the exchange and consent solicitation.

➢ **China Economy – The worst is over, but takes time for resumption**

China's economy sharply contracted in April amid the epidemic and lockdowns in Shanghai and some other cities. As the epidemic condition gradually improved and the macro policy further eased, the worst time for the economy has been over. But it takes some time for resumption under the Covid-zero policy, insufficient policy easing and weak confidence may continue to restrain supply chain and aggregate demand. We expect that economic activities may start to recover from mid-May with a gradual resumption in 2H22-2023.

- A severe contraction amid the epidemic and lockdowns. After the lockdown in Shanghai, local governments became more aggressive in executing the Covid-zero policy. We notice the national freight traffic flow index dropped by 26.6% YoY in April after rising 2.7% YoY in 1Q22. The lockdowns in one city after another caused a severe contraction of China economy. The value added industrial output (VAIO) and service output declined 2.9% YoY and 6.1% YoY in April after rising 6.5% YoY and 2.5% YoY in 1Q22. Yangtze River Delta region and Northeast region with the most severe epidemics and lockdowns saw their VAIO respectively down 14.1% YoY and 16.9% YoY in April. With long supply chain and important production bases in Shanghai, the auto industry was hit the hardest as its output dropped by 31.8% YoY in April.

- Household consumption hit severely by the lockdowns. The epidemic and lockdowns hurt employment, income, confidence and outdoor activities. Household consumption especially for consumer discretionary contracted sharply. In April, retail sales dropped by 11.1% YoY with the catering operation income down 22.7% YoY. For Yangtze River Delta region and Northeast region, retail sales of the above designated size enterprises respectively declined over 30% roiled by the epidemic and lockdowns. By items, retail sales of garments, cosmetics, furniture, communication equipment and auto respectively dropped 22.8%, 22.3%, 14%, 21.8% and 31.6%. Only a few staples like food, beverage and medicine maintained positive YoY growth rates at 10%, 6% and 7.9%.

- Property & land market further deteriorated. Gross floor area (GFA) sold for commodity buildings further dropped 39% YoY in April after declining 13.8% YoY in 1Q22. GFA started for buildings and land area purchased respectively plummeted 44.2% YoY and 57.3% YoY in April, compared to the YoY declines of 17.5% and 41.8% in 1Q22. Average sales price for commodity buildings dropped 12.6% YoY in April after declining 10.4% YoY in 1Q22. Total funding source for property development investment dropped 35.6% YoY in April after decreasing 19.6% YoY in 1Q22. Property development investment dropped 10.1% YoY in April after rising 0.7% YoY in 1Q22.

- Mining, some infrastructure & health service investments remained strong. Total urban fixed asset investment (FAI) rose 2.3% YoY in April, down from the YoY growth of 9.3% in 1Q22. The YoY growth of FAI in manufacturing sharply decelerated from 15.6% in 1Q22 to 6.4% in April. FAI in other sectors also sharply slowed in April due to the lockdowns and confidence shock. But FAI in mining, water conservancy management and health & social welfare services remained strong, with YoY growth rates at 18.2%, 18% and 30.9% in April, compared to the YoY increases of 19%, 10% and 24.9% in 1Q22.

- The worst time has been over, but takes some time for resumption. We believe the worst time for China's economy has been over as the epidemic condition has gradually improved and the policymakers further eased the macro policy. But it takes some time for resumption owing to three reasons. First, China will maintain its Covid-zero policy at least in the short term, which will continue to restrain supply chain and consumption demand. Second, the Fed's monetary tightening will restrain the room of China's monetary policy as the PBOC seems quite cautious in the policy rate cut. Third, property market has experienced a hard landing and both consumer and business confidence have been very weak. We expect economic activities to recover from mid-May with a gradual resumption in 2H22-2023.

  Please see CMBI research team's full report here.

➢ Offshore Asia New Issues (Priced)

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
No Offshore Asia New Issues Priced Today					

➢ Offshore Asia New Issues (Pipeline)

Issuer	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Shandong Gold Group	USD	-	-	-	-/-/-

➢ Market conditions and color

- Regarding onshore primary issuances, there were 36 credit bonds issued yesterday with an amount of RMB52bn. As for Month-to-date, 289 credit bonds were issued with a total amount of RMB319bn raised, representing a 18.4% yoy decrease.

- **[AVIILC]** AVIC International Leasing announces USD3.5bn guaranteed MTN, perpetual capital securities programme

- **[COGARD]** Country Garden confirms reports it will issue RMB500mn tranche of domestic bonds, though planning still in early stage

- **[CSCHCN]** China South City noteholder Chuang's China sells USD8mn of 11.5% 2022 senior notes for USD7.78mn

- **[LNGFOR]** Longfor unit to issue six-year notes to raise up to RMB500mn this week
- **[MIDEAZ]** Midea Real Estate plans to issue up to RMB1bn corporate bonds
- **[SUNAC]** Sunac downgraded to Ca/C due to weak recovery prospects for bondholders following its interest payment default; outlook negative - Moody's

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