

CMBI Credit Commentary

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

- *Markets rebounded post previous days' down and flows skewed to better buying this morning. Asian IG space tightened 5-10bps and we saw buyers on low-beta names like CICCHK. HRINTH curve rallied 1-2pts higher and Chinese AT1s were also sought after.*
- **SJMHOL:** *Turned around. SJMHOLs up 0.25pt this morning. See below.*
- **China Policy:** *Surprisingly modest LPR cut indicates Policymakers' dilemma. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

UST widened 5-8bps across the curve yesterday. Asia ex-JP IG space opened 5-20bps wider with heavy selling flows across sectors. Despite sentiment slightly improved in the afternoon with short covering flows, Chinese SOE/TMT benchmarks such as HAOHUA/TENCNT/BABA papers still closed 5-15bps wider. The high beta TMTs such as LENOVO/XIAOMI 30s widened 15-20bps. In financials, AMC space was fragile. HRINTH curve was traded another 1-2pts lower. CCAMCL/ORIEAS curves widened 10-20bps. Chinese AT1s such as ICBCAS 3.58 Perp/BOCOM 3.8 Perp were down 0.125-0.25pt. Whist European AT1s HSBC/SOGEN/NDASS perps were better demanded by Prop desks/HFs. In Korea space, the front-end of KOEWPWs/KORELEs were better bid. Chinese properties remained soft, despite LNGFORs recovered 2-3.5pts on short covering. CSCHCNs were marked down another 2-4pts to close between high-40s to low-50s. VNKRLEs declined 0.5-1.5pts. FUTLANs/FTLNHDs/ ROADKGs were 0.75-1.75pts lower. In industrials, AACTECs were marked down 0.75-2.25pts. FOSUNI/WESCHI 26s/27s edged 0.5pt lower. Macau gaming names SANLTDs/STCITYs/WYNMACs moved 0.5-1pt lower. In Indian space, VEDLN 24s were down 1pt. Indonesian SOEs PERTIJs/PLNIJs were marked 1-1.5pts lower. Elsewhere, GLPCHI 24s/26s were traded 3-3.5pts lower.

In the LGFV/Perp spaces, sentiment remained extremely fragile. HK Corp space performed softly with heavy selling from AMs/PBs in absence of meaningful bid side support. LASUDE '26 closed 4.25pts lower. FRESHK '25 was traded 6.25pts lower to close at high-80s while rest of FRESHKs were down 1-2.5pts across the curve. ZHONAN 25s/26s declined 0.5-1.5pts. HK Corp perps such as NWDEVL 6.25 Perp/BNKEA 5.825 Perp were traded 2.75-3.25pts lower. CPDEV 5.75 Perp dropped 3pts, while CPDEV 25s/26s were down 1pt. HYSAN/CKINF perps lowered 1pt. Elsewhere, SOE Perps such as CHPWCN/HUADIA perps edged 0.125-0.25pt lower with rates creeping up again. LGFVs were marked unchanged to 0.5pt lower thanks to dip buying from onshore Chinese RMs. Chongqing names such as CQLGSTs/CQNANAs were quoted down 0.125-0.25pt. KMRLGP '24 was marked 0.25pt lower. Moody's downgraded Kunming Rail Transit to Ba1 with negative outlook.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
LNGFOR 3 3/8 04/13/27	59.2	3.6	FRESHK 3 3/8 02/18/25	85.8	-6.3
LNGFOR 4 1/2 01/16/28	57.6	2.7	LASUDE 5 07/28/26	64.1	-4.3
LNGFOR 3.85 01/13/32	47.2	2.5	CSCHCN 9 07/20/24	44.1	-4.0
LNGFOR 3.95 09/16/29	52.1	2.2	GLPCHI 2.95 03/29/26	50.8	-3.6
ROADKG 7 3/4 PERP	19.2	1.1	PINGRE 2 3/4 07/29/24	83.4	-3.5

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.69%), Dow (-0.11%) and Nasdaq (+1.56%) were mixed and S&P, Nasdaq rebounded by the lead of tech sector. According to NY Fed's survey in Jul, US workers' wage expectation rose to record high as USD67.4k per year. US treasury yields rallied higher yesterday and 10-year treasury yield increased to the highest level since 2008, 2/5/10/30 yield reached at 4.97%/4.46%/4.34%/4.45%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ **SJMHOLs: Turned around**

In 1H23, SJM's revenue, gross gaming revenue and Adj. EBITDA increased 126.7%, 124.3% and 139.2% yoy to HKD9.36bn, HKD9.84bn and HKD461mn, respectively. The recovery momentum remains strong. Its Adj. EBITDA in 2Q23 increased to HKD430mn from HKD31mn in 1Q23. By properties, the Adj. LBITDA of GLP significantly narrowed to negative HKD62mn in 2Q23 from negative HKD230mn in 1Q23. As per SJM, GLP turned positive Adj. EBITDA starting from Jun'23 and the performance was even stronger in 3Q23 so far.

The Adj EBITDA of SJM's other self-promoted casinos in 2Q23 was HKD329mn, close to the pre-pandemic level of HKD335mn in 2Q19. SJM's self-promoted casinos have been capturing the market share of satellite casinos closed. SJM closed 5 satellite casinos in Dec'22. As at Jun'23, it has 9 satellite casinos. In 1H23, SJM managed to reduce c20% staff absorbed from the satellite casinos and redeployed the remaining to other non-gaming functions. The excess costs from satellite casinos were largely stable in 1H23. With the ramping up of GLP and other self-promoted casinos, the staff absorbed from satellite casinos will be able to fully "digested".

Table 1: Macau gaming operators' financials

HKD mn	Gross Gaming Revenue			Adj EBITDA		
	1H19	1H22	1H23	1H19	1H22	1H23
MGMCHI	10,159	2,753	9,602	3,077	-337	3,160
MPEL	19,512	4,922	10,734	6,319	87	3,235
SANLTD	28,150	4,459	16,964	12,756	-942	7,371
SJMHOL	20,786	4,387	9,841	2,078	-1,176	461
STCITY/STDCTY	5,579	860	2,835	1,309	-524	300
WYNMAC	16,340	2,219	8,272	5,061	-873	2,764

Source: Company Filings.

Table 2: Macau gaming operators' financials by quarter

HKD mn	Gross Gaming Revenue			Adj EBITDA		
	1Q23	2Q23	QoQ change	1Q23	2Q23	QoQ change
MGMCHI	-	-	-	-	-	-
MPEL	4,702	6,032	28%	1,342	1,892	41%
SANLTD	-	-	-	-	-	-
SJMHOL	4,183	5,658	35%	31	430	1287%
STCITY/STDCTY	1,152	1,684	46%	71	228	220%
WYNMAC	3,509	4,775	36%	1,223	1,541	26%

Source: Company Filings.

In 1H23, Macau tourism market showed a significant recovery from pandemic that there were 11.65mn visitors arrived Macau, jumped 236% yoy from 3.47mn visitors in 1H22 and were 57.4% of the 1H19 level. Along with the recovery of Macau tourism market, the gaming sector also sharply improved with gross gaming revenue rebounded 263% to MOP96.8bn in 7M23. As of 21 Aug, all operators' Adj. EBITDA turned to positive on the back of GGR rebound and those released quarter figures, we can see the pace of recovery has been accelerating.

As discussed before, we saw split recovery paths of different sectors in China: the slowing recovery pace of large-ticket, durable consumptions but solid recovery for small-ticket and frequent consumptions like gaming, F&B and car rental. Despite the current valuation is less attractive, we still like the Macau gaming bonds given the sector's improving credit stories, contained capex and undemanding valuation. The potential positive rating actions will support the performance of Macau gaming bonds. We continue to prefer MPEL, SJM and STCITY/STDCTY for better risk-return profiles. We also see WYNMACs yield pick-up plays over the bonds of its US parents.

Table 3: USD bonds profiles of operators

	Ask YTM (%)	Mod Duration	Ask price
MGMCHI	7.27-8.57	0.69-3.06	88.82-98.66
MPEL	8.34-9.33	1.65-5.00	81.52-94.34
SANLTD	6.83-7.21	1.82-6.63	79.41-96.95
SJMHOL	10.58-10.73	2.20-3.76	79.69-87.25
STCITY/STDCTY	9.02-11.57	1.72-4.40	74.61-94.09
WYNMAC	7.37-9.07	1.03-5.07	81.38-97.38

Source: Bloomberg.

➤ China Policy – Surprisingly modest LPR cut indicates Policymakers' dilemma

China trimmed its one-year loan prime rate (LPR) by 10 basis points from 3.55% to 3.45% while kept its five-year LPR on hold at 4.2% yesterday. The unchanged 5-year LPR was unexpected, particularly following a surprise cut on the medium term lending facility (MLF) rate last week. The mixed signals sent by the central bank shows the dilemma the policymakers currently facing: the market expected the government in policy support to address the worrying slump of property market, while the alarmingly narrowing interest margin of banking system and the mounting pressure on RMB exchange rate limited the interest rate policy space. Looking forward, we expect further decrease in deposit rates and RRR to create additional room for LPR cut when US dollar is not so strong. Meanwhile, more cities including tier-1 cities may further loosen property policy with continuous declines in down-payment ratios and mortgage rates for first-home and second-home buyers.

LPR cut disappointed the market. LPRs are basically linked with the MLF rates. As the PBOC lowered one-year MLF rate by 15bps last week, investors expected the LPRs to drop by the same magnitude yesterday.

However, the central bank disappointed the market by lowering one-year LPR by only 10bps and keeping five-year LPR unchanged. By severing the linkage between LPR and MLF, the authority made the policy rate system more complex and the policy signal more ambiguous. In the long run, the central bank faces the problem of cultivating a clear and reliable policy rate.

One obstacle for LPR cut is banks' NIM pressure. The average NIM of commercial banks dropped from 2.2% in 4Q19 to 1.74% in 1H23. According to the prudential rule set by the Self-discipline Institution for Market Rate Pricing, banks should maintain their NIMs at above 1.8%. In 1H23, average NIMs of large banks, joint-stock banks, city banks and rural banks respectively reached 1.68%, 1.82%, 1.63% and 1.87%. To protect banks' NIM, the central bank is very cautious to lower LPRs and does not allow households to refinance their mortgage loans. However, the weak economy especially the worrying housing market needs additional policy support. To create additional room for LPR cut, the central bank may guide banks to further reduce deposit rates.

Another factor is RMB exchange rate pressure. The US-Sino interest rate spreads reached its highest for over a decade as renminbi depreciated sharply against US dollar. The weak Chinese economy amid fragile confidence compared to the still-hot US economy with bullish sentiment is like the Song of Ice and Fire. We expect the Fed will at least maintain its current policy rate until 1Q24, if not raising one last time in November possibly, depending on the 3Q23 inflation data. It would be an art of tightrope walking for the PBOC to balance its domestic policy support and foreign exchange rate pressure. To prioritize the target of supporting domestic economy, the central bank has to tolerate renminbi exchange rate fluctuations and may further tighten capital control.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Shandong Commercial Group	130	3yr	8%	8%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Hangzhou Shangcheng District Urban Development	USD	200	3yr	6.25%	-/-/BBB-

➤ News and market color

- Regarding onshore primary issuances, there were 97 credit bonds issued yesterday with an amount of RMB75bn. As for Month-to-date, 1,334 credit bonds were issued with a total amount of RMB1,105bn raised, representing a 2.4% yoy increase
- **[CENCHI]** Central China Real Estate expected to record loss of up to RMB1.5bn for 1H23
- **[CHINSC]** China SCE Group expected to turn to loss in 1H23

- **[CHIWIN]** Fitch affirmed Concord New Energy at BB- and revised outlook to positive
- **[COGARD]** Media reported that there are disagreements over COGARD's maturity extension for 16biyuan05 notes
- **[KAISAG]** Kaisa Prosperity expected to turn to loss for 1H23
- **[OCTOWN]** Overseas Chinese Town (Asia) expected 1H23 loss to widen to RMB210-270mn from RMB61.6mn loss in 1H22
- **[RISSUN]** RiseSun shareholders approve proposals on guarantees to Risesun Construction Engineering for up to CNY 600m funding
- **[SUNAC]** Sunac China expected up to USD2.2bn loss in 1H23 amid real estate downturn

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