

CMBI Credit Commentary

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

- *IG and AT1 space were muted this morning with price barely moved. GZRFPR price moved +/-0.5pt after company announced the well-expected consent solicitations to extend maturity of 10 USD bonds. We will follow up with more details on GZRPR's consent after clarification with the advisors.*
- **Macau gaming:** *The regulatory risk is dwindling but the key drivers for the sector are quarantine policy and visa approval in mainland China. The conviction of the Macau gaming bonds is not strong despite valuation is not demanding, in our view. SJMHOL further traded down this morning amid surge in COVID cases over weekend. See below.*
- **FOSUNI:** *announced tender offer for FOSUNI 5.5% '23 and FOSUNI 3.3% '22 notes at par. FOSUNI curve generally up 2-4pts this morning. See below.*

❖ Trading desk comments 交易台市场观点

Last Friday, Chinese IG space remained weak amid UST sold off sentiment continued. In LGFV space, we saw some sellers in front end high dollar price papers. In financials space, we saw some buyers looking for front end bonds. Longer-end beta TMTs/SOEs were rather muted and closed the day flat or slightly wider. INDOIS'27s and 32s held at ~+99 level, after widening 20-30bps for the week.

Chinese HY space extended its weak tone last Friday, as higher-cash price names were largely declining. In industrials, FOSUNI continued to trade down 1-1.5pts amid retail selling, after 10pts losing in the week. HONGQI also saw some sellers but mostly 22/24 names for now. Benchmark HY properties were generally down ~1pt. COGARD lost another 1-2pts on the day, despite its tender offer to purchase bond due 22s at par. CIFIHG down 0.5-1pt. On the flip side, RONXIN/SHIMAO up 0.5-1.5pts on the belly. GRNLGR also up 1.5-2.5pts on the front end. Macau gaming sector marked 1-3pts lower on rating news with some selling flows on SJMHOL.

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➤ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
GRNLGR 5.9 02/12/23	42.9	2.4	FOSUNI 6.85 07/02/24	77.6	-9.8
HPDLF 6.8 12/28/23	80.0	2.2	FOSUNI 5 05/18/26	65.8	-8.4
GRNLGR 5 3/4 09/26/22	60.1	1.8	FOSUNI 5.95 10/19/25	72.4	-7.8
LGUANG 10.4 03/09/23	9.9	1.2	FOSUNI 6 3/4 07/02/23	84.4	-7.3
GRNLGR 6 3/4 09/26/23	35.3	1.2	FOSUNI 5.95 01/29/23	88.0	-7.2

❖ Macro News Recap 交易平台市场观点

Macro –U.S. stock markets closed out their worst week in two years on last Friday, adjusting to the slower growth prospects for the U.S economy. The S&P (+0.22%), Nasdaq (+1.43%), and Dow (-0.13%) ended mixed. In Europe, the inflation rate was at a record high 8.1% last month. Market was gauging the SNB and BOE's hawkish stances. UST yield pulled back as investors retrench into the risk-free bonds amid the ongoing sell-off in stocks. Treasury curve resumed bear-flattening, with the 2/5/10/30 yield retreating to 3.17/3.34/3.25/3.30% respectively.

❖ Desk analyst comments 交易平台市场观点

➤ Macau gaming: Q&A after the final draft of gaming law amendment bill

Time to buy Macau gaming bonds?

Hmmm...The conviction is not strong. Despite the more clarity on the regulatory environment, we consider the key drivers for the bond performance to be the COVID quarantine policy and visa approval for mainland travelers of which the clarity is still low. The recently relaxed quarantine period to 10+7 (from 14+7) remains a big challenge for Macau gaming sector as the average stay of Macau tourist is only 1.6 days. The new cases over the weekend after relaxation are the first reported cases in 8 months. This could complicate the path for further relaxation. To us, buying Macau gaming bonds is equivalent to buying an idea that the quarantine policy and mainland travelers will be resolved in the coming months. If so, our preference for the sector will be those offer deeper value. Our order of preference is SJMHOL>STCITY> WYNMAC>MPEL.

How likely is a near-term default?

	SJM (FY21)	Melco (FY21)	Studio City (LTM)	Sands (FY 21)	Wynn (LTM)	MGM (FY21)
Gross Profit*	707	1,157	64	1,857	-447	658
Liquidity**	987	3,303	956	2,071	2,208	688
Total liquidity source	1,695	4,460	1,020	3,928	1,762	1,346
Cash burn***	2,171-2,234	3,640	774	3,599-3,699	1,815-1,835	1,842-1,857
Liquidity (Number of month)	9.1 - 9.4	14.7	15.8	12.7 - 13.1	11.5 - 11.6	8.7 - 8.8

*Gross Profit = Revenue - Gaming tax

**Liquidity = Cash + Undrawn facilities

***Cash burn includes Opex, ST debts, interest expense, capex and minimum capital requirement

The gaming operators will have adequate liquidity for coming 9-16 months based on the FY21 or LTM cash flow. The liquidity profile of SJM was notably improved subsequent to securing HKD19bn new loans. The share

placement of Studio City to raise USD300mn in Feb'22 and the liquidity support of USD500mn from Wynn's parent have also demonstrated the ability and willingness of their shareholders to provide support. Additionally, the gaming operators do not have much repayment pressure in the near-term. Amongst the outstanding USD bonds of the sector, the first maturity will be in MGMCHI'24 (o/s USD750mn) due May'24. We continue to believe that the near-term default risk of the sector is low.

What are the major changes of the final draft of the amendment bill?

Not many. As we wrote in the daily on 16 Jun'22, the skeleton of the final draft of the gaming law amendment bill is largely the same as the first draft in Jan'22. If there are any subtle changes from the first draft more noteworthy, we would highlight that concessionaires need to maintain their net asset value of at least MOP5bn throughout the concession period, in addition to cash capital requirements of MOP5bn (Article 17). Another more noteworthy change is on levies for public good. These were changed to 5% from not exceeding 5% while Macau CE can waive or lower the levies if concessionaires can contribute to attract more overseas tourists (Article 22). These imply that the total gaming tax and levies could reach 40% (35% gaming tax+5% levies) from the current level of 38-39%. The regulatory uncertainties regarding concession renewal is dwindling.

What are key timelines for gaming license renewal?

The Legislative Assembly will have the second and final read of the bill before 26 Jun'22 (end of current gaming concessions). In addition, media reported the existing 6 concessionaires would sign contracts to extend their licenses on 23 Jun'22 for c6 months to the end of Dec'22. We understand that concessionaires paid MOP47mn for the short-term extension. Separately, the second read of the bill on "Regime for the exploitation of games of chance" to regulate the junkets and satellite casinos should be before mid-Aug'22. After this, the Macau government can start the tender application for new concessions. The tender process should finish by Nov'22.

How satellite casinos will be handled?

Under the amendment bill, concessionaires will be given a 3-year grace period for the operations of satellite casinos. The bill on "Regime for the exploitation of games of chance", in our view, will speed up the phasing out satellite casinos well ahead of the proposed 3-year grace period.

On paper, SJM will be affected most by earlier-than-expected phasing out of satellite casinos. There are 18 satellite casinos in Macau, 14 of them are operated under SJM, 3 of them are under Galaxy and one under Melco. In 1Q22 and FY21, satellite casinos contributed 58% and 63% of SJM's total gross gaming revenue, respectively. So far, Dragon Group and Emperor, altogether operating 4 satellite casinos under SJM, have indicated that they might cease operations after Jun'22 facing the tightening regulatory environment. Galaxy, on the other hand, confirmed that 2 out of 3 of its satellite casino ceased operations on 15 Jun'22. That said, we are not too concerned on the phasing-out of satellite casinos in the near-term. SJM has recently paid USD2.7mn to take over the operations of the satellite casino at Grand Emperor Hotel from 27 Jun'22 to 31 Dec'22. This reflects concessionaires can cherry-pick to continue the operations of better-located/run satellite casinos. More important, gross gaming revenue of Macau in 2021 is only 30% and 24% of that in 2019 and at the peak of 2013, respectively. The sector is facing over-capacity and the near-term impact of phasing out satellite casinos is manageable.

➤ FOSUNI: Tender offer of FOSUNI 5.5% '23 and FOSUNI 3.3% '22 notes at par

Fosun International announced to repurchase FOSUNI 5.5 2023 notes (O/S USD 379.762mn, puttable on 17 Aug'22), and FOSUNI 3.3 2022 notes (O/S EUR 384.2mn, due 9 Oct'22) at par, up to USD 200mn maximum acceptance amount in aggregate. Source of fund is the company's cash on hand.

This tender offer acceptance priority is to first purchase the 2023 Notes validly tendered, up to the aggregate maximum acceptance amount of USD 200mn. Only if the 2023 Notes valid tender is less than USD 200mn, the issuer will accept for tender of the 2022 Notes.

Expiration deadline: 4 July, 2022, 4pm (London Time)

➤ **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Xi'an Weiyang Urban Construction Group (SBLC by Bank of Xi'an)	USD96.5	3	4.6	4.6	-/-

➤ **Offshore Asia New Issues (Pipeline)**

Issuer/Guarantor	Currency	Size (mn)	Tenor	FPG/IPG	Issue Rating (M/S/F)
Linyi City Development International	USD	-	-	-	-/-

➤ **Market conditions and color**

- Regarding onshore primary issues, there were 88 credit bonds issued yesterday with an amount of RMB172bn.
- Indonesia's financial ministry imposes new export duty tariffs on palm oil products
- **[CHALUM]** Aluminum Corporation of China proposes to offer RMB500mn two-year MTNs on 21 Jun
- **[FRESHK]** Far East Horizon raised RMB1bn via an offering of two-year MTNs at 3.28%
- **[GZRFPR]** Guangzhou R&F announced the consent solicitations to extend its 10 outstanding USD bonds for 3-4 years. If GZRF fails to secure the consent, it will turn to a scheme to extend maturity of up to 6 years. The consent fee is 0.5 per 100. 8 Jul'22 is the consent deadline.
- **[JINGRU]** Jingrui Holdings announced that it has not made interest payment with respect to its 12%, 12.5% and 14.5% senior notes
- **[LOGPH]** Logan Group's subsidiary Shenzhen Logan Holdings proposed a 15-month extension for its RMB774mn due 23 Jun ABS with weaker payment terms than earlier domestic note extensions
- **[SHARAO]** Shangrao City Construction Investment Development has raised RMB2bn via an offering of three-year MTNs at a coupon rate of 3.95%
- **[SHDCOM]** Shandong Commercial Group raises RMB300mn via offering 150-day super short-term bills on 15 Jun at a coupon rate of 5.8%
- **[SHDOIS]** Shandong Iron and Steel Group has proposed to offer RMB1bn 2+N-year MTNs
- **[SINOCE]** Sino-Ocean to secure a new loan to refinance its July loan maturity

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