

CMBI Credit Commentary

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

- *Markets were quiet this morning. Asian IG space was stable. LGFVs were under better buying. AT1s were active with two-way flows. DALWANs/NWDEVLs were unchanged to 0.6pt higher.*
- **Chinese AMCs:** *Spread compression to continue. See comments below.*
- **LNGFOR:** *Longfor repaid RMB1bn Dec'24 puttable LNGHDV 3.7'36 onshore bonds. LNGFORs were unchanged this morning.*

❖ Trading desk comments 交易台市场观点

Last Friday, KR space remained under better selling amid political uncertainties. HLINSUs/DAESECs/NACFs/SHNHANs were 2-3bps wider. HYUELEs/LGENSOs also widened 2-4bps. In JP, RAKUTN 27s/29s/Perps closed unchanged to 0.1pt higher. The insurance hybrids such as MYLIFE 54s/FUKOKU Perp were up 0.1-0.2pt. In Chinese IGs, BABAs/TENCNTs/HAOHUAs were unchanged to 2bps wider. In financials, HRINTH 29s were 2-4bps wider. The bank T2s were under better buying. ANZNZs/NANYANs/WSTPs/UOBSPs were 1-3bps tighter. In EU AT1s, ACAFP 6.7/BNP 7.375/SOCGEN 8.5 Perps were 0.2-0.5pt higher. In Chinese properties, DALWAN 25-26s were up 0.3-0.5pt, closed 0.5-0.7pt higher WoW. FTLNHD 26s/FUTLAN 25s were up 0.2-0.3pt. In stated-owned names, CHIOLIs were up 0.3pt, while YUEXIUs were down 0.5pt. Outside properties, EHICAR 27s were up 0.4pt. See our comments on [6 Dec '24](#). In Indonesia, MDLNIJ 25s declined 0.5pt. MEDCIJ 26-29s closed unchanged to 0.1pt higher. Medco Energi announced to issue IDR2.5tn (cUSD157mn) onshore bonds for refinancing its IDR bonds and the partial buyback of USD bonds. In India, Adani complex bonds were down 0.1-0.3pt.

In LGFVs, the flows were light two-way. QDPDHG priced a USD216mn 3-yr bond at par to yield 6.9%. LIANYU 25s/GZINFU 26s/CDCOMM 27s were up 0.2-0.3pt. There were mixed flows on CNH papers such as CQXUHC 26s/HNXHCI 25s. In SOE perps, HUANEN 5.3/SPICPT 3.45 Perps were down 0.1pt.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CITLTD 4.85 04/25/46	93.2	1.1	MDLNIJ 5 06/30/25	39.4	-0.5
CITLTD 4.6 04/14/35	96.1	1.0	YUEXIU 3.8 01/20/31	86.0	-0.5
CCAMCL 5 02/08/48	89.3	0.8	GRNLGR 8 1/4 01/22/31	16.5	-0.4
CHGRID 4.85 05/07/44	102.2	0.6	SDECDI 2.4 06/03/26	94.6	-0.4
TAISEM 4 1/2 04/22/52	97.6	0.5	RILIN 3 3/4 01/12/62	72.4	-0.4

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.25%), Dow (-0.28%) and Nasdaq (+0.81%) were mixed on last Friday. US Nov'24 NFP was +227k, higher than the expectation of +202k. China Nov'24 CPI/PPI was +0.2%/-2.5% yoy, compared to the expectation of -0.5%/-2.8% yoy. UST yield retreated on Friday, 2/5/10/30 yield reached 4.10%/4.03%/4.15%/4.34%.

❖ Desk Analyst Comments 分析员市场观点

➤ Chinese AMCs: Spread compression to continue

We saw a notable spread compression among the AMC bonds in 2024, and expect the compression to continue, driven by recent stimulus packages, on-going government support, as well as strong capitalization and operating support CIC and CITIC could bring. While the conviction levels are lower, HRINTHs continue to be our top picks in the Chinese AMC universe for their better risk-return profiles. Within the HRINTH curve, we continue to prefer HRINTH 4.25 Perp a good short-tenor carry play in view of the high certainty of call on the first call date. We also like HRINTH 3.875 11/13/29, HRINTH 3.375 02/24/30 and HRINTH 3.625 09/30/30.

Outside HRINTH, we like CCAMCL 4.4 Perp of which, we believe that the certainty of call on the first call date is also high. We are neutral to GRWALL 7.15 Perp. At 103.9, GRWALL 7.15 Perp is trading at YTC of 5.5% with the first call date in Jul'27. We consider GRWALL 7.15 Perp fairly priced and prefer HRINTH 4.25 Perp and CCAMCL 4.4 Perp more for their more balanced risk-return profiles.

Table 1: Our Chinese AMCs picks

Security name	ISIN	Amt o/s (USDmn)	First call date	Coupon reset	Step-up (bps)	Px	YTC/YTM (%)
CCAMCL 4.4 Perp	XS2397254579	1,700	3 Nov'26	5yr UST+3.232%	-	98.2	5.5
HRINTH 4.25 Perp	XS2235973943	250	30 Sep'25	5yr UST+6.979%	300	98.6	6.0
HRINTH 3.875 11/13/29	XS2076078786	200	-			92.4	5.7
HRINTH 3.375 02/24/30	XS2122990810	271	-			89.8	5.7
HRINTH 3.625 09/30/30	XS2235973869	139	-			89.9	5.7

Source: Bloomberg.

Table 2: YTM/YTC of Chinese AMCs bonds and perps

	Ask YTM/YTC (%)	Mod Duration	Ask px
CCAMCL	5.0-6.0	0.2-12.8	88.4-102.2
GRWALL	5.0-5.6	0.4-5.1	85.7-104.2

HRINTH	5.5-6.0	0.1-12.8	87.1-100.2
ORIEAS	5.2-5.3	0.9-5.3	87.5-101.9

Source: Bloomberg.

Consolidation of the three AMCs under CIC shows government support to continue

In Sep'24, media reported that China Investment Corporation (CIC) started the due diligence process on Cinda and Orient. The due diligence on Great Wall was completed in Aug'24. MOF currently owns majority stakes in these three AMCs, and MOF may transfer its stakes to CIC which is wholly-owned by MoF. On the other hand, CITIC Group replaced the MOF as the largest shareholder of China CITIC FAMC (Huarong) since Nov'22.

As we have been arguing, we view the AMC sector a very strategically important constituent in maintaining the stability of the Chinese financial system. Hence, we take a top-down, instead of bottom-up, view on the sector. We are not concerned that the potential share transfer to CIC from MOF will weaken the government support and linkage, taking cues from the ownership transfer of Huarong to CITIC Group. Even after the shareholding changes, all big 4 Chinese AMCs will still be firmly in the grip of MOF.

Indeed, we believe that the transfer of ownership to CIC reveals the Chinese government's determination to improve the financials, capitalization, as well as operating performance and management on a more commercial basis, as in the case of Huarong. To us, the potential shareholding changes reinforce our view that the government views all big 4 from a top-down approach and the government support to them will continue.

Huarong turns focus to higher quality equity investments

In 1H24, Huarong reversed to PBT of RMB4.8bn from LBT of RMB4.9bn with the fair value gain on distressed debts and other financial assets, as well as higher contributions from its associates and joint ventures. Huarong has been disposing non-core assets to enhance its financial flexibility in refinancing as well as to redirect its focus to its distressed asset management.

In 2024, the focus of Huarong turned to acquisitions of higher quality equity stakes, from bonds and perps repurchase, by recycling the proceeds from the assets disposal, such as 5.01% in CITIC Ltd. In Nov'24, Huarong announced a RMB50bn investment plan (in CITIC Limited, Bank of China, CEB Bank and a trust). We believe that these will provide Huarong stable and recurring earnings and cash flow. In our view, the higher quality equity investments, focus in distressed asset management business and along with close tie with CITIC Group will continue to support Huarong's credit profile.

Great Wall successfully raised USD500mn to refinance despite low capital adequacy

We are yet to see any regulatory actions towards Great Wall on the breach of minimum regulatory requirement on the capital adequacy since Dec'22. The latest CET1 ratio disclosed by Great Wall was 9.81% at Jun'22, we believe the CET1 ratio as at Dec'22 should fall below the regulatory requirement of 9% based on the sizeable loss incurred in FY22 of RMB45bn. In our view, the potential transfer of ownership to CIC from MOF will help address the capital shortfall issue of Great Wall.

Despite the low capital adequacy ratio coupled with failure to publish its financial reports on time, Great Wall successfully issued GRWALL 7.15 Perp of USD300mn to refinance GRWALL 3.95 Perp of USD400mn on the first call date in Jul'24. As we have been arguing, we are not too concerned about Great Wall's repayment ability given the demonstrated support from the Chinese government to the AMC sector. We also take comfort that the AMCs remain accessible to various funding channels.

Non-call risk on perps remains low for Chinese AMCs

We like the AMC perps in view of the high certainty of call, as well as their yield pick-up over the senior bonds. At 98.8, HRINTH 4.25 Perp was traded at YTC of 5.8%, offer 19bps yield pick-up over HRINTH 5 11/19/25. CCAMCL 4.4 Perp was traded at YTC of 5.3% at 98.4. All the perps issued by the AMC were called on their respective first call dates. The most recent call was performed by Great Wall in Jul'24 on GRWALL 3.95 Perp.

We believe that the likelihood for the three outstanding perps being called on the first call dates remains high including CCAMCL 4.4 Perp, the only perp without high coupon step-up in case of non-call. The coupon of CCAMCL 4.4 Perp will be reset to a c7.3% based on current UST which is expensive from Cinda' perspective given its access to lower cost funding alternatives.

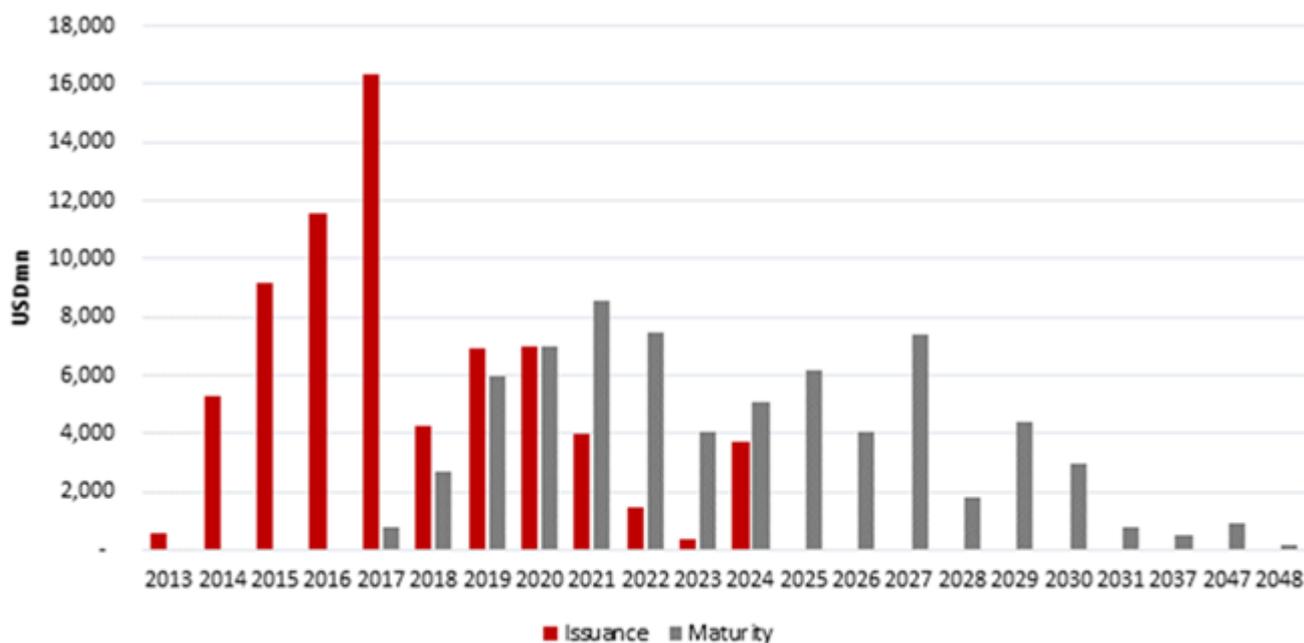
Our confidence in the perps being called on the first call dates is also predicated on Huarong's calls on HRINTH 2.875 Perp in Sep'21 and HRINTH 4.5 Perp in Jan'22 totaled USD2bn when Huarong was in the mid of financial distress and recapitalization. It also announced the call of HRINTH 4 Perp on 29 Sep'22 ahead of its first call date on 7 Nov'22.

Offshore net redemption trend will likely continue in 2025

The sector has experienced net redemption trend offshore since 2021. YTD, the offshore net redemption in the sector is USD1.4bn. The net issuance of Orient was USD200mn, while the net redemption of Cinda and Great Wall were both USD100mn. For Huarong, it redeemed two bonds totaled USD1.4bn at maturity without tapping offshore markets. We understand that Huarong has been refinancing its offshore bonds via onshore funding channels, and its last offshore issuance was back in Sep'20. We also saw the same net redemption trend onshore in 2024. The net redemption for Orient was RMB1.7bn and Huarong retired RMB6bn bonds.

In 2025, USD6.2bn of bonds and perps will be up for redemptions. Given AMCs' good access to low-cost onshore funding, we believe that AMCs could fund a considerable part of these via onshore funding channels. Recalled that Orient issued 3-year onshore bonds at a coupon rate of only 2.46% in May'24. Hence, the net redemption will likely continue.

Chart 1: Chinese AMCs offshore USD bonds maturities



Note: The first call date of the perps is treated as "maturity" in the chart.
 Source: Bloomberg, CMBI Research.

➤ Offshore Asia New Issues (Priced)

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

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
ANZ Banking Group	USD	-	2/5yr	T+50/75	Aa2/AA-/AA-
ANZ Banking Group	USD	-	2/5yr	SOFR Equiv	Aa2/AA-/AA-

➤ News and market color

- Regarding onshore primary issuances, there were 94 credit bonds issued last Friday with an amount of RMB109bn. As for Month-to-date, 463 credit bonds were issued with a total amount of RMB443bn raised, representing a 59.1% yoy increase
- **[BTSDf]** Moody's affirmed Health and Happiness's Ba3 rating and changed outlook negative from stable
- **[LNGFOR]** Longfor repaid RMB1bn Dec'24 puttable LNGHDV 3.7'36 onshore bonds
- **[POLYRE]** Poly Development raised RMB5bn via onshore MTN with coupon of 2.3%
- **[SOFTBK]** Media reported that SoftBank is finalizing a deal to buy stake in Japan's digital payment firm PayPay for USD250mn

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