

CMBI Credit Commentary

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

- *The markets were overall quiet this morning. LGFV buyers' minimum yield hurdles are approaching 4.9%-5.0% for 24s, 5.0%-5.15% for 25s and 5.25% for 26s after the treasury yield increased. Transportation infrastructure names showed more resilient against the yield move.*
- **Macau Gaming:** *Meaningful policy relaxations to double visitation. Buy Macau gaming sector and our order of preference, factoring in risk and return profile, is SJMHOL>STDCTY>STCITY >MPEL> WYNMAC. Macau gaming bonds were 4-6pts higher this morning. See below.*
- **TPHL:** *Times China failed to pay USD13.95mn interest of TPHL 6.2 03/22/26 (o/s USD450mn) that was due on 22 Sep, the company plans to remit funds within 30-day grace period. TPHLs down 0.125-0.5pt this morning.*

❖ Trading desk comments 交易台市场观点

Last Friday, IG space was rather silent amid limited flows. In financials space, spread products remained strong but AT1s underperformed amid continued selling with rates trending higher. AT1s were down 0.25-0.5pt in street as UST futures continued to drop despite lack of cash UST on Japan holiday. ICBCAS 3.2% Perp led the selloff as support naturally disappeared at earlier levels after shorts were covered. There was some sizeable unwinding selling on these used-to-be <5% bank papers. T2s were still squeezed, with BCHINA 5%'24 was the first benchmark T2 to be quoted at T+50 spread level this year. TMTs held firm as BIDU/TENCNT tightened 3-8bps under small buying. IG property was slightly better selling with VNKRLs/YUEXIU cash prices dipping 0.1-0.25pt. China HY was weak, weighed down by soft sentiment from property. Despite CIFI denied the rumor on private bond extension, COGARDs/CIFIHG closed 0.5-1pt lower. Elsewhere, AGILEs fell 3.5-6.5pts on uncertainty of its RMB1.5bn onshore private bond redemption, though selling volume was relatively light. CENCHIs/FTLNHDs/ROADKGs were also down 1-2pts. CSCHCN'24/GRNLGR'22 were up 1.5-2.5pts. Industrial space was broadly unchanged to 0.5pt lower. Gaming sector was broadly down 0.5-1.5pts. Away from China, Indonesia HYs performed weak on longer-duration bonds and the space was down 0.5-1pt. PLNIJs/PERTIJs were notably traded down 1-2pts. India HY also opened weaker with street trying to push benchmarks lower. Indian renewables like VEDLNs/GRNKENS/RPVINs were generally 0.25-1pt lower, though not any further material client selling from there.

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吴蒨莹
(852) 3900 0801
cyrenang@cmbi.com.hk

CMBI Fixed Income
fis@cmbi.com.hk

In LGFV/SOE Perp spaces, flow was light as market participants were busy on making travel plans post the new 0+3 quarantine policy in HK. In contrast to the joy from holiday plans, market sentiment was regrettably still rather weak today. As UST futures implied rates drifted further higher in the morning, SOE Perp/AT1s remained better sold as the latter finally caught up with the former's WTD correction, falling in general another 0.375-0.5pts to break the 5% line where a little bit of marginal buying would emerge. These papers were no longer resilient as soon as shorts were being covered. Selling in both SOE Perps/AT1s was largely from Chinese RM, many of which were unwinding/ offloading <5% stuff on back of rising leverage/ repo/ funding costs. In LGFVs, 25s-27s papers were better-sold by prop desks as they were being repriced on screen towards low-5%. QDJZWD'25 had some selling from onshore and prop desks, after a headline of onshore commercial acceptance bills overdue. The coastal LGFV name explained that it was due to a system error, and that Qingdao Jiaozhou Bay Development had indeed remitted sufficient funds and settled before maturity. Elsewhere, LZINVE'22 gapped up 1-1.5pts to close at ~94/95.5 area possibly as a result of a short squeeze. We saw small buying from short coverers and PB here, but later on we received more selling interests from trading accounts as some 96-handle offers were being blasted away. CNSHAN 4.1%'25 drifted down 0.5pt to be traded at 98/99 level.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CSCHCN 9 10/09/24	48.4	2.3	AGILE 5 1/2 05/17/26	30.5	-5.0
GRNLGR 5 3/4 09/26/22	95.4	1.8	AGILE 5 1/2 04/21/25	32.5	-4.8
LZINVE 4.15 11/15/22	94.8	1.5	AGILE 6.05 10/13/25	31.8	-4.4
CHINSC 7 3/8 04/09/24	26.3	1.4	AGILE 5 3/4 01/02/25	35.2	-3.2
CNOOC 4 7/8 04/30/44	90.8	1.3	LSEAGN 10 3/4 10/21/22	76.9	-2.5

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets continuously went downward on last Friday. The S&P (-1.72%), Dow (-1.62%) and Nasdaq (-1.80%) closed with c5% falls in last week and S&P, Dow down to the lowest level in 2022 amid the hawkish hike forecast. The USD index reached 113, the highest level in around 20 years while GBP slumped 4% and its exchange rate to USD down to 1.085 after the new government published tax cut plan. The 2yr U.S. treasury yield kept ascending and the yields curves were inverted that 2/5/10/30 yield reaching 4.20%/3.96%/3.69%/3.61%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ Macau gaming: Meaningful policy relaxations to double visitation

Buy Macau gaming, prefer SJMHOL, STDCTY/STCITY, MPEL and WYNMAC

Over the weekend, the Macau government announced that the agreement with the Chinese government to resume package tours for mainland Chinese to visit Macau, and the electronic visa issuance. We expect these changes to help turning most of the gaming operators into positive EBITDA by 1H23 and reverse the trend of cash burnt. As we repeatedly discussed, the key drivers for Macau gaming bonds are the visa policy of mainland China and Macau's quarantine policy. We consider these relaxations significant positive catalysts for the Macau gaming bonds to perform. Hence, we recommend buy on the sector. Our order of preference, factoring in risk and return profile, is SJMHOL>STDCTY>STCITY >MPEL> WYNMAC. Macau gaming bonds were 4-6pts higher this morning.

What are the relaxations?

Macau has suspended package tour from mainland China since early 2020. Currently, individual travelers from mainland China under the Individual Visit Scheme (IVS) needs to make appointments in advance and apply the Macau visa in person over the counter. The approval period is one week. Subsequent to the changes, Macau will resume the package tours from mainland China with priorities given to residents from Guangdong, Zhejiang, Jiangsu, Fujian and Shanghai where, altogether account for c60% of visitations in Macau. Regarding the resumption of e-visa, mainland Chinese can walk in and use automated kiosks to obtain instant visa approval. The Macau government expects the new policies to be implemented by end of Oct'22 or by early Nov'22. Additionally, the government expects the daily visitation from mainland China to double to 40,000. In 2021, mainland Chinese accounted for 91.4% of the tourist visitation in Macau. Before the pandemics, mainland Chinese accounted for 70.9% of tourist visitation in Macau. Even Macau is yet to relax quarantine policy (7+3) for travelers from HK, Taiwan and overseas, this round of relaxations targeting on travelers from mainland China will significantly boost the visitation in Macau.

Trend of cash burnt to be reversed

We expect most of the gaming operators to reverse the trend of cash burnt and turn positive EBITDA by 1H23. In our ballpark estimates, 60-70% increase in visitation from the current low level and the commensurate increase in gaming revenue will allow most of the gaming operators to turn into positive EBITDA. This will also have a knock-on positive impact on the funding environment for operators in refinancing and funding. The near-term default risk of Macau gaming sector has always been low, in our view.

Cash Burnt Table	SJM		Melco		Studio City		Sands		Wynn		MGM	
	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	(LTM to Jun'22)	
Gross Profit (Revenue - Gaming Tax)	625.5	441.0	28.5	1449.0	628.2	567.2						
Liquidity (Cash + Undrawn facilities)	2082.7	2794.3	956.0	2806.0	1819.6	1961.7						
Liquidity source	2708.2	3235.4	984.5	4255.0	2447.8	2528.9						
OPEX	720.7	502.9	292.6	2371.0	1129.6	926.8						
ST Debt	29.1	0.1	0.0	0.0	0.0	0.0						
Interest expense	101.4	351.1	116.8	373.0	301.1	185.3						
Capex (expansion+maintenance)	255-318	850	450	290-390	60-80	90-105						
Minimum capital commitment (MOP5bn)	618.4	618.4		618.4	618.4	618.4						
Share repurchases		35.0										
Cash burn	1725-1788	2357.6	859.4	3652-3752	2109-2129	1821-1836						
Liquidity (number of month)	18.2-18.8	16.5	13.7	13.6-14	13.8-13.9	16.5-16.7						

Next focus on license renewal

As per media report, the 7 accepted applicants have made oral presentations to Macau gaming tender committee over the last weekend. The preliminary decision on the new casino concessions will be announced in Nov'22. Our base case is the 6 incumbents will have their licenses renewed, partly because of the very tight timetable, and partly because the renewal will have the lowest impact, economically and politically, to Macau. We do not believe that the operators with US investors are more exposed to the license renewal risk under the current geo-political environment. We indeed see the strong incentive for the Chinese government in vying the support from the US business sector which is an influential political bloc. We also believe that investors are, to some extent, protected from the licence renewal risk given the special put option at par in case the gaming licenses of existing operators are not renewed.

Click [here](#) for full report

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Yancheng Oriental Capital Company Limited	USD230	3yr	7.0%	7.0%	-/-/-
Jinan Shizhong Finance Investment Group	USD80	364d	6.0%	6.0%	-/-/-
Liuzhou Dongcheng Investment Development Group Co., Ltd.	USD22.7	3yr	7.5%	7.5%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ Market conditions and color

- Regarding onshore primary issuances, there were 94 credit bonds issued on last Friday with an amount of RMB96bn. As for Month-to-date, 1134 credit bonds were issued with a total amount of RMB1156bn raised, representing a 3.2% yoy decrease
- **[CAPG]** China Aoyuan announced to pay 10% interest of its RMB1.82bn 21Aoyuan 6.8% from Jul'21 to Jul'22 on 10 Oct
- **[EVERRE]** China Evergrande's Hong Kong headquarters (bought by the company for HKD12.5bn in 2015) up for sale. The deadline for submitting a bid is 31 Oct'22
- **[GEMDAL]** Gemdale's unit has bought RMB155.7mn onshore bonds in secondary market to stable prices. The company plans to invest up to RMB1bn to repurchase bonds as disclosed
- **[GRNLGR]** S&P affirmed the long-term issuer rating of Greenland HK at B- and placed negative outlook
- **[INDYIJ]** Indika Energy set JV with Foxconn to manufacture electric vehicles and batteries
- **[JIAYUA]** Jiayuan further extended the deadline of exchange offer for its 6 offshore bonds to 5 Oct'22 from 23 Sep
- **[KWGPRO]** KWG Group's unit failed to resale up to RMB1.8bn (cUSD253.2mn) 20Hejing04 bonds then canceled them
- **[MOLAND]** Modern Land announced the majority consenting creditors have consented to further extend the longstop date related to the scheme of arrangement and the RSA to 7 Oct
- **[TPHL]** Times China failed to pay USD13.95mn interest of its USD450mn 6.2% bond that was due on 22 Sep, the company plans to remit funds within 30-day grace period

- **[YANGOG]** Media reported that an ad hoc group of Yango Group's offshore bondholder has appointed Moelis/Linklaters as financial/legal advisors for restructuring talks

CMB International Global Markets Limited
Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

Disclaimer:

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the

analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.