

CMBI Credit Commentary

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

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- *Two way flows on Chinese IG/LGFV/AT1 and markets showed positive sentiment towards Chinese HY this morning. HRINTHs bounced 0.5-4pts and offset yesterday's drop due to short cover.*
- *INDYIJs still offer decent risk-return profile, we maintain buy on INDYIJs. See below.*
- *PBOC proposed to stabilize credit growth and guarantee real estate developers' reasonable financing demand during a meeting with Chinese financial institutions on Monday, after it lowered one-year and five-year LPR by 5bps and 15bps respectively.*

❖ Trading desk comments 交易台市场观点

Yesterday, China IG space performed mixed after risk-off overnight US session, while investors stayed less active ahead of Jackson Hole this Friday. Financials space was actually holding firm closing unchanged to 2bps tighter, despite AMC underperformed. HRINTHs encountered sell-off and closed another 1.5-4.5pts lower across the curve after rating review. GRWALL/CCAMCL/ ORIEAS curves were 5-20bps wider in sympathy amid light flow. AM tried to de-risk in AMC space, whilst prop desks were keen to cover shorts. AT1 slightly weaker on street/RM profit taking. CCAMCL/NANYAN perp down 0.5-1.5pts from HRINTH spillover. POSABK had some cash raising sellers. TMT names traded unchanged to 5bps wider. XIAOMI widened post weak Q2 results. IG property firmed up 1-2pts on back of 15bps cut on LPR 5 Yrs. China HY continued its winning streak post the expected rate cut. Benchmarks generally ended up another 3-4pts as street continued to search for papers along with PB adding FUTLAN/GEMDAL. Among CBIC-backed club names, COGARD up 1.5-3pts. CIFIHG jumped up 3.5-5pts. CIFIHG due-2023 notes were traded at low-70s level, while rest of its notes were still traded in the high-20s to mid-40s. SINOCE 3.8%'25/FUTLAN 6.15%'23 up 5.5-6.5pts. Distressed names ZHPRHK/SUNAC saw some demand from retail accounts. In Ex-China HY space, VEDLN 24-26s down 1-1.5pts.

LGFV/SOE Perp spaces were steady despite the weaker macro sentiment into this week. Generally, high yielding stuffs had more fans amid volatile rates environment. SOE perps was stable. Low-beta short-dated notes saw continued buying flow throughout the session. HAOHUA widened 3bps though. LGFV space was broadly unchanged and buying interest still skewed to 22s/23s papers. New CHADEC'25 with juicy coupon was actively traded 35-40c above RO (~5.6% yield), supported by onshore trading accounts. Buyers first targeted around 99.5 level on this bond at the beginning but were

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

CMBI Fixed Income
fis@cmbi.com.hk

soon willing to pay at par for it. Well-demanded CHADEC'25 was eventually indicated at 100.5 on offer side, marking the recent best record for new issue. Other benchmark curves were marked largely unchanged. Flow wise, ZHANLO'25/ LZINVE'22 was trading up to 99.5 and 95.5 level respectively. JZCITY down 4.5pts. Overall, the spaces were skewed to better buying while investors sidelined ahead of Jackson Hole symposium, as UST 10 Yr yield was pushed above 3%.

➤ Last trading day's Top Movers

Top Performers	Price	Change
FUTLAN 6.15 04/15/23	73.1	6.7
WESCHI 4.95 07/08/26	71.4	5.6
SINOCE 3.8 04/26/25	59.0	5.6
CIFIHG 6.45 11/07/24	46.6	5.5
CIFIHG 6 07/16/25	42.9	5.4

Top Underperformers	Price	Change
SHXREG 13 01/17/23	17.1	-5.6
JZCITY 5 1/2 PERP	82.4	-4.4
HRINTH 5 1/2 04/27/47	65.9	-4.4
HRINTH 3 7/8 11/13/29	69.3	-4.4
HRINTH 3 5/8 09/30/30	66.7	-4.4

➤ Macro News Recap 宏观新闻回顾

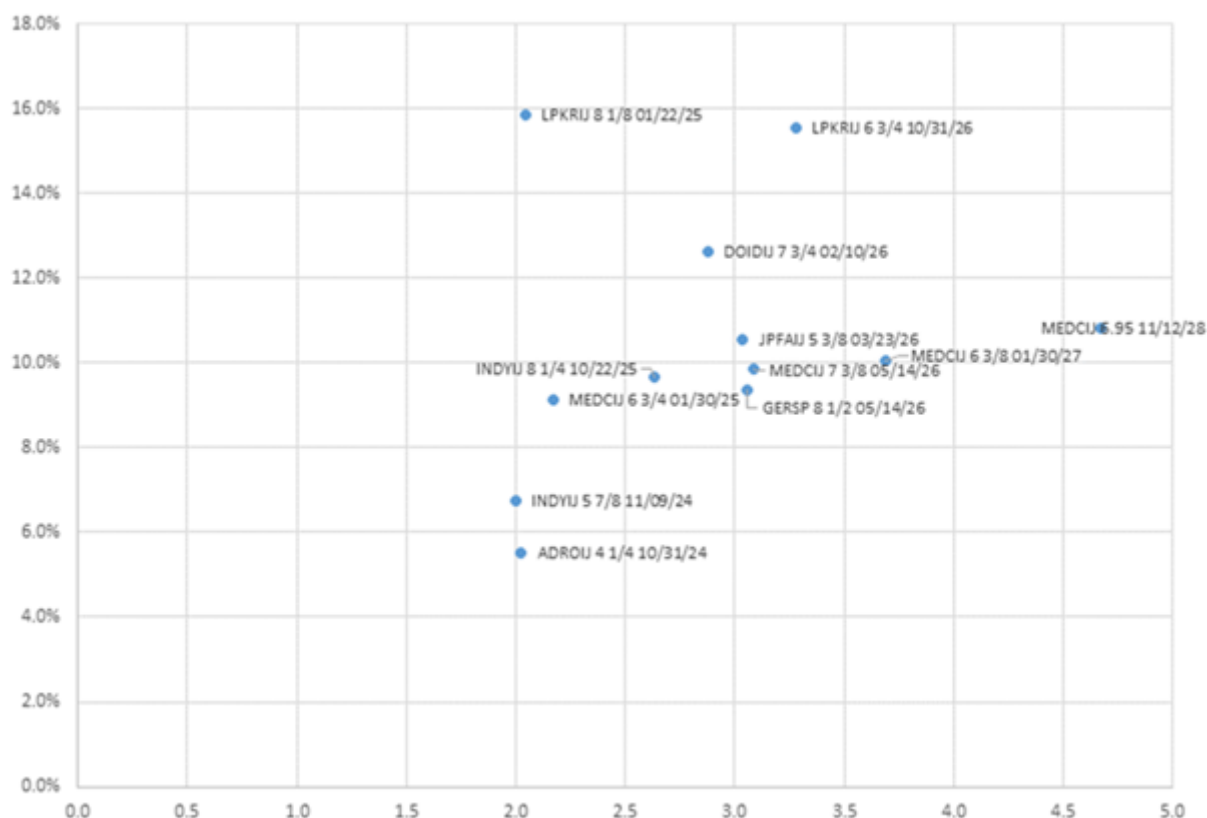
Macro – U.S. stock indexes slumped on Monday. The S&P (-2.14%), Dow (-1.91%) and Nasdaq (-2.55%) lowered amid the worry that markets expects the Fed may take a sharp interest rate hike in Sep'22. PBOC published a meeting minute that said to guarantee the reasonable financing demand of real estate developers and enhance financial support for platform economy. The U.S. treasury yields kept rallying as the curve bear flattened with 2/5/10/30 yield reaching 3.32%/3.17%/3.03%/3.24%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ INDYIJs: Still offer decent risk-return profile

Buy INDYIJs, prefer INDYIJ'25

Offered at 98.7 and 96.7, INDYIJ 5.875% '24 and INDYIJ 8.25% are trading at YTW of 6.7% and 9.7%, respectively. INDYIJs continue to offer decent risk-return profile amongst Indonesia non-distressed HYs. Indika's credit profile has improved considerably over the past 18 months on the back of substantial increase in ASP of thermal coal and disposals of MBSS and Petrosea. Its disciplined diversification strategies and financial policy should help protect its credit profile against coal price volatility. We maintain buy on INDYIJs. Between '24 and '25, we prefer '25 for 270bps yield pick-up for c1-year maturity extension.



Strong 1H22 results.....

In 1H22, Indika's revenue and EBITDA increased 66.5% and 149.6% to USD1.9bn and 624.2mn, respectively. EBITDA margin, as a result, widened to 32% in 1H22 from 28% in FY21. The strong results were mainly driven by the significant increase in Kideco's ASP to USD81.5/ton in 1H22 from USD48.6/ton in 1H21. This more than offset the 5.9% yoy decline in sales volume to 17mn tons. We estimate its FY22 EBITDA to be cUSD1bn assuming Kideco's ASP to be USD65/ton (vs. Indika's budgeted ASP of USD52.5/ton and ASP of USD81.5/ton in 1H22). To illustrate, ASP of USD65/ton in FY22 implies that the ASP in 2H22 would decline 40% HOH to USD48.5/ton and sales volume in 2H22 would be flat compared with that in 1H21. We consider the ASP assumption conservative taking cues from the current thermal coal price (XW1) of USD425/ton, compared with USD386/ton in 2Q22 and USD151.75/ton in FY21.

..... impact of conversion into IUPK contained

We expect the coal concession of Kideco to be converted into IUPK from CCOW by Mar'23 given its track record of timely fulfilment of tax obligations and DMO. The impact of higher royalty rate (increase from 14% to 14%-28% depending on coal price) will be offset by lower profit tax rate (to be lowered from 45% to 22%). As per Indika, the new tax and regulatory regime will lower its operating cash flow by 10% based on the pro-forma figures of FY21.

Gradual diversification from coal operations and stepping-up ESG initiatives

Indika has been gradually diversifying its businesses. It completed the divestments of its 2 coal services subsidiaries: 51% stakes in MBSS for USD 41mn in Oct'21 and 69.8% stakes in Petrosea for USD 147mn in Jul'22. The divestments have reduced Indika's reliance on the cyclical coal operations and allowed it to reallocate resources to fund its solar, plantation (biomass co-firing and carbon credit potential) and gold mine operations. Indika targets to install 500MW solar panel over the next 5 years, through its 51% owned EMITS JV with an

Indian solar developer – Fourth Partner Energy. It also targets to achieve annual output of biomass/wood pellets 650-700k ton and carbon offset of 550-600k ton. Its Awakmas gold mine will commence production in 2025. Indika targets to generate 50% of its revenue from non-coal businesses and to achieve net-zero emission by 2025. Nonetheless, we believe that these non-coal operations will take time to ramp up the scale and profitability. Over the coming 2-3 years, coal operations (Kideco and MUTU) will continue to be the key cash flow contributors for Indika. In 1H22, coal operations contributed 90% and 98% of its continued operations' revenue and gross profit, respectively.

Credit profile to remain solid over the coming 2-3 years

While Indika's total debts and net debts in Jun'22 were largely stable compared with those in Dec'21, its key coverage ratios such as debt/EBITDA, net debt/EBITDA and EBITDA/int strengthened notably to 1.2x, 0.4x and 12.6x in 1H22 from 1.7x, 0.7x and 8.5x in FY21, respectively, thanks to the significant increase in EBITDA. We expect the strong free cash generation driven mainly by substantially higher thermal coal price and asset disposal (Petrosea) to lead to debt reduction in the coming 1-2 years. Over the coming 3-4 years, we expect Indika's debt/EBITDA, net debt/EBITDA and EBITDA/int to maintain at 1.2-2.2x, 0.4-0.8x and 6.6-10.8x, assuming ASP of thermal coal to moderate notably from USD81.5/ton in 1H22 to USD50-60/ton. We understand that Indika's financial policy is to maintain debt/EBITDA not exceeding 2.75x throughout cycles.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Chengdu Jianjiang Investment Group Co., Ltd.	USD93	3yr	5.3%	5.3%	-/-/-

➤ 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 79 credit bonds issued yesterday with an amount of RMB71bn. As for Month-to-date, 1150 credit bonds were issued with a total amount of RMB1147bn raised, representing a 14.3% yoy decrease
- REDD reported that Hangzhou is going to establish a bail-out fund which will be led by local SOE-Hangzhou Real Estate Development Group with the funding of RMB2bn(cUSD293mn) in first round. Hangzhou local developer Dexin China may benefit from it
- [AGILE]** Agile announced that it has repurchased USD39.57mn of AGILE 4.85 08/31/22
- [BJEHF]** Beijing Enterprises Water expects a profit drop from RMB2bn to RMB600mn in 1H22 due to disposal loss, decreasing 70% yoy

- **[CAPG]** China Aoyuan is seeking a one-year principal and accrued interest extension for its RMB1.5bn (cUSD220mn) 6.6% bond, which is due 2023 and puttable 5 Sep'22
- **[CHJMAO]** Jinmao signs new framework agreement for loans from its indirect non wholly owned subsidiary Xingqian Real Estate to itself and Ping An Real estate, the maximum daily balance of the loans to Ping An will be RMB821mn
- **[FTLNHD]** S&P downgraded Seazen's long-term issuer credit ratings from BB+ to BB and gave it negative outlook
- **[HYDOO]** Youngo expected to get a RMB700-950mn loss for 1H22 while it got RMB161mn profit in 1H21
- **[JIAYUA]** Media reported that Jiayuan has mandated advisors on launching an exchange offer for its six outstanding offshore bond tranches and due 29 Oct private placement notes, of which the total outstanding amount are USD1.39bn. Each of tranches would be fully swapped at par into new notes that mature 2.25 years after the due date of original date, and no cash coupon will be paid on the exchange notes until 1H24
- **[KWGPRO]** KWG announced a profit warning that the profit of 1H22 is RMB450-500mn, decreasing 82%-84% yoy. KWG unit bondholders exercise put options on KWGPRO 5.6 08/25/23 about RMB1.79bn, the outstanding balance is RMB3.2mn. The company will resell up to RMB1.79bn sold back bonds from 25 Aug'22 to 22 Sep'22
- **[PWRLNG]** Powerlong unit bondholders exercise put options on PWRLNG 6.5 08/27/23 about RMB952mn, the outstanding balance is RMB48mn
- **[RPVIN]** ReNew Power reported its 1Q23 revenue up 49% yoy at USD312.6mn, adjusted EBITDA up 50% yoy at USD252mn and cash flow to equity up 104% yoy at USD182mn
- **[SHNSUN]** Shinsun expects to turn to loss about RMB500-700mn in 1H22 while it got RMB973mn in 1H21
- **[SKYFAM]** Skyfame warnings that it turns to loss for 1H22 about RMB150-170mn due to weak property sales, its 1H22 profit was RMB198mn

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

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