

CMBI Credit Commentary

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

- *News of ease on escrow accounts for developers triggered a wave of short-covering of HY developers. SUNAC/COGARD/LOPGH/KWGPRO were outperformers up >10pt yesterday. See below for more.*
- *CSCHCN: announced consent solicitation for CSCHCN 11.5% Feb'22 & CSCHCN 10.875% Jun'22 to extend maturity to Aug'22 and Oct'22, respectively. Validly accepted consent holders will receive 0.5pt/0.15pt consent fee before/after early bird date.*
- *YUZHOU: announced 82% of its two bonds due in January'21 are validly tendered for exchange offer and requisite consents of the remaining YUZHOUs had also been obtained. The company intends to relaunch exchange offer with the same terms for hold-outs. See below for more.*

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❖ Trading desk comments 交易台市场观点

Yesterday, China HY property sector remained relatively stable in the morning session. In the afternoon, sentiment turned around to better buying post news of potential loosening restriction to access pre-sale fund held in escrow accounts for developers. Names such as SUNAC/COGARD/LOPGH/KWGPRO up more than 10pts while PWRLNG/CIFIHG rose 7-10pts. Other property names like SINOCE/TPHL/CHINSC advanced 4-7pts and GRNLGR/ROADKG/HPDLF up 2-4pts for the day. In industrial space, WESCHI/HONGQI saw two ways and traded unchanged.

IG market opened weak with sentiment skewed to better selling due to U.S. Treasury sell-off on Tuesday. Benchmark spread widened 5-10bps in the morning. After the headline of escrow account regulation release in the afternoon, IG property names like LNGFOR/VNKRLE saw large demands and closed 4-7pts up. AMC sector remained soft and had widened 25-35bps since the start of the year. In addition, '31 SFHOLD notes spread widened to T+174bps in the early session but closed back to T+168bps level.

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➤ **Yesterday's Top Movers**

| Top Performers | Price | Change | Top Underperformers | Price | Change |
|----------------------|-------|--------|-----------------------|-------|--------|
| SUNAC 5.95 04/26/24 | 63.3 | 23.8 | JIAYUA 11 02/17/24 | 48.1 | -3.1 |
| SUNAC 7 1/2 02/01/24 | 62.9 | 22.7 | REDSUN 9.7 04/16/23 | 24.0 | -2.4 |
| SUNAC 6 1/2 07/09/23 | 62.1 | 22.1 | FTHDGR 7.95 07/05/22 | 18.6 | -1.9 |
| SUNAC 6.8 10/20/24 | 59.6 | 19.6 | CSCHCN 7 1/4 11/20/22 | 68.7 | -1.7 |
| SUNAC 6.65 08/03/24 | 59.3 | 19.5 | CAPG 8 1/2 01/23/22 | 15.9 | -1.7 |

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock indexes gave up early gains and turned lower last night. The S&P slid (-1%), Nasdaq (-1.1%), Dow (-1%). In addition, oil prices continued to rise, extending a rally driven by the potential for supply disruptions in Russia and the Middle East. Brent crude prices gained 1.1% to USD 88.44. U.S. Treasury yield curve shifted downward slightly yesterday. The yield on the benchmark 10Y Treasury note slipped to 1.83%. The 1/5/30Y yields down to 0.57/1.62/2.14% respectively.

➤ **Desk analyst comments 分析员市场观点**

➤ **China Properties: Ease on the escrow account and LPR cuts**

According to Reuters, MOHURD is drafting nationwide rules for developers' easier access to pre-sale funds. As we point out in our previous comments, normalization of a reasonable level of restricted cash and mortgage approval process are keys to the liquidity of the Chinese property developers.

Earlier this morning, PBOC cut 1-yr and 5-yr LPR by 10bps and 5bps to 3.7% and 4.6%, respectively. The cuts are in line with our expectation subsequent to MLF and reverse repo rate cut on 17 Jan'22. Put all things into perspective, we see a loosening credit environment aiming to improve the liquidity of developers, and home sales through lower mortgage rates. Chinese property bonds rebounded sharply despite some moderations towards the end of this morning session. Outperformers include CHINSC, COGARD, SUNAC, SHIMAO and TPHL.

That said, the actual impact of the ease on escrow account will depend on the extent of relaxation, if any, and uses of cash released. We notice Yantai's 3-5 pct pts cut in pre-sales proceeds being restricted for AAA and AA-rated developers. Taking a cue from the relaxation in Yantai, we believe that any ease will be cautious and gradual. The cash released may be prioritized for payments such as salary of construction workers. The benefit of the ease could be skewed towards stronger and larger developers. We also believe that the ease could be localized, i.e. different cities/regions would have different policies on relaxation. We had discussions with a number of developers this morning and last evening, they see the normalization of mortgage approval process but the proportion of cash being restricted remains high.

For the sake of discussions, we believe that larger developers and developers with stronger contract sales in FY21 and smaller maturities in FY22 will benefit most from the ease on escrow account. These include Country Garden, CIFI, Dafa, Seazen, Shimao and Sunac.

| Issuer | FY21 Contract Sales (RMB mn) | FY21 YoY Sales Growth | FY21 Target Filled | FY21 Contract Sales to FY22 Maturing Debts (x) |
|---------------|------------------------------|-----------------------|--------------------|--|
| POLYRE | 534,928 | 6.4% | N/A | 72 |
| COGARD | 558,000 | (2.2%) | 89.4% | 68 |
| CHJMAO | 235,603 | 2.0% | 94.2% | 44 |
| VNKRLE | 627,770 | (10.8%) | 79.5% | 40 |
| CIFIHG | 247,250 | 7.0% | 93.3% | 30 |
| SUNAC | 597,360 | 3.8% | 93.3% | 28 |
| LNGFOR | 291,890 | 7.9% | 94.2% | 23 |
| ZHLGHD | 171,800 | 1.8% | 95.4% | 23 |
| SINHL | 81,488 | (28.3%) | 65.2% | 22 |
| DEXICN | 73,980 | 16.4% | 92.5% | 21 |
| CHINSC | 104,531 | 2.9% | 87.1% | 21 |
| JINKE | 187,760 | (15.5%) | 75.1% | 20 |
| GRNLGR | 290,320 | (19.0%) | N/A | 20 |
| CENCHI | 60,106 | (12.0%) | 75.1% | 19 |
| TPHL | 95,590 | (4.8%) | 86.9% | 18 |
| ZHPRHK | 145,643 | 2.6% | 97.1% | 16 |
| FUTLAN/FTLNHD | 233,774 | (6.8%) | 89.9% | 16 |
| GRNCH | 265,800 | 22.3% | 85.7% | 15 |
| SINOCE | 136,260 | 4.0% | 90.8% | 14 |
| REDSUN/HONGSL | 87,223 | 0.8% | 87.7% | 14 |
| SHIMAO | 269,100 | (10.4%) | 81.5% | 13 |
| JIAYUA | 36,053 | 16.9% | 89.0% | 13 |
| CRHZCH | 315,720 | 11.0% | 100.2% | 12 |
| JNHUIG | 94,720 | (2.6%) | 94.7% | 12 |
| MOLAND | 36,050 | (14.6%) | 76.7% | 11 |
| DAFAPG | 37,563 | 23.9% | 104.3% | 11 |
| SUNSHI | 183,722 | (15.7%) | 83.5% | 10 |
| RISSUN | 134,558 | 5.9% | 103.5% | 10 |
| CAPG | 121,030 | (9.0%) | 80.7% | 10 |
| REDPRO | 47,011 | 14.7% | N/A | 10 |
| CSCHCN* | 73,550 | (25.2%) | 75.4% | 9 |
| YUEXIU | 115,151 | 20.2% | 102.6% | 9 |
| AGILE | 139,020 | 0.6% | 92.7% | 9 |
| YUZHOU | 106,397 | 1.4% | 96.7% | 9 |
| RONXIN | 155,520 | 0.2% | 97.2% | 9 |
| PWRLNG | 101,227 | 24.1% | 96.4% | 9 |
| KWGPRO | 103,836 | (4.7%) | 83.7% | 8 |
| LOGPH | 140,180 | 16.1% | 96.9% | 8 |
| EVERRE/TIANHL | 426,670 | (41.0%) | 56.9% | 7 |
| JINGRU | 27,011 | 5.9% | 87.1% | 6 |
| GZRFPR | 120,190 | (13.4%) | 80.1% | 4 |
| KAISAG | 97,600 | (8.7%) | 75.1% | 4 |

*First Three Quarters ended 31 December 2021

Source: Company disclosure, China Index Academy, CRIC, CMBI

➤ YUZHOU: Exchange offer and consent done, relaunch the exchange offer for the hold-outs

Yuzhou announced exchange offer result for its two bonds due in January'21 with 82% of outstanding bonds are validly tendered (78.1% for YUZHOU 6% 2022 and 87.4% for YUZHOU 8.625% 2022) and requisite consents of the remaining YUZHOUs had also been obtained. Yuzhou waived the Minimum Acceptance Amount (i.e. 90% in principal amount) and will issue USD453.4mn New Notes due Jan'23. As per our discussions with Yuzhou, many holders including those outside Asia have expressed their willingness to exchange but were not able to submit their instructions in time. Thus, the company will relaunch exchange offer with the same terms on or around 26 Jan'22.

We mentioned in our [18 Jan Daily Market Update](#) that validly tendered bond holders can get a total of 6pts upfront cash, and potentially another 10.53pt when the sales of its property management subsidiary completes by mid-2022 (RMB 1.06bn), and potential interest coupon of 3-4.3pt before end-of grace period. On the contrary, holders opting to hold out will keep the bonds due Jan'22 with no change in key terms such as

maturity. The removal of cross default clauses through a concurrent consent solicitation somewhat showed that Yuzhou would not pay the holdout on maturity dates of these 2 bonds.

For key terms of exchange offer, please refer to our previous note.

<https://www.cmbi.com/article/6261.html?lang=en>

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

| Issuer | Size (mn) | Tenor | Coupon | Yield | Issue Rating (M/S/F) |
|--|-----------|-------|--------|-------|----------------------|
| Henan Railway Investment Co Ltd | USD 400 | 3 | 2.2% | 2.2% | A2/-/- |
| Quzhou Communications Investment Group Co | USD 200 | 3 | 2.5% | 2.5% | -/-/BBB- |
| China Water Affairs Group Ltd | USD 150 | 4.25 | 4.85% | - | Ba1/BB+/- |
| Huzhou Moganshan High-tech Group Co., Ltd. | USD 210 | 3 | 3.4% | 3.4% | -/-/- |

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

| Issuer | Currency | Size (mn) | Tenor | IPG | Issue Rating (M/S/F) |
|--|----------|-----------|-------|-----|----------------------|
| Zhengzhou Airport Xin Gang Investment Group Co Ltd | USD | - | - | - | -/-/BBB |
| Hanwha Life Insurance Co Ltd | USD | - | 10 | - | Baa1/A/- |

➤ **Onshore China conditions and color**

- Regarding onshore primary issuances, there were 86 credit bonds issued yesterday with an amount of RMB120bn. As for Month-to-date, 1179 credit bonds were issued with a total amount of RMB1274bn raised, representing a 28.2% yoy increase
- **[CAPG]** not to make repayments of remaining principal and interests of the January 2022 Notes on the respective maturity dates
- **[CIFIHG]** repurchases RMB20mn of 6.7% senior notes due Apr'22

- **[GRNCH]** to issue 3-yr USD bonds backed by SBLC from China Zheshang Bank. IPT is 2.4%. The SBLC issue could be a route for more bankable issuers to tap the market.
- **[TSINGH]** Hong Kong winding up proceedings against Tsinghua Unigroup bond issuing entity adjourned to 14 Mar'22

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