

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.*

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

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

❖ 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.

CMBI Fixed Income
fis@cmbi.com.hk

➤ 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

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

Additional information on recommended securities is available upon request.

Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

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 CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.