

CMBI Credit Commentary

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

- *Market was modestly weaker amid mixed two ways this morning. In LGFV/SOE spaces, low-4% names was slightly better selling/ switched out, whilst those between high-4% to 5% with sufficient yield buffer were still supported amid overall higher rates outlook. Flows were active on 24-26 LGFVs and 24-25 callable SOEs.*
- *HPDLF: Maintain buy on HPDLFs; the CBs are attractive lower-beta and short-tenor plays. See below.*
- *Macau gaming: Today is the deadline for submitting bid for gaming concessions in Macau and the date for resumption of passenger ferry services between Shenzhen and Macau. That said, the sector's bonds will continue to be range-bounded without strong convictions at current levels. We closed trading buy on SJMHOLs. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, IG space had another quiet session but sentiment was holding up well as investors awaited for CPI release. T2s were skewed to slightly better buying on front-end. AMC was rather muted, HRINTHs were unchanged to 0.25pt higher. AT1s cash prices were traded slightly lower, mostly due to UST movements. TMT space was mixed, JD widened 2-5bps. IG property kept stable, CHIOLI curve was unchanged to 10bps tighter. China HY opened quiet while industrials broadly fell 6pts, on the back of chatters that CBIRC and SASAC requested institutions under supervision to report their financial exposure to Fosun. FOSUNs once plunged 7-9pts and closed at 5-8pts lower at EOD, as some HFs came in to cover shorts on the short-end. FOSUN 24-27s were traded at mid-40s level. Among ex-property HYs, EHICAR down 1.5pts. PEAKRN 5.35% Perp also down 5pts. Gaming sector kept the recent upbeat trend, with MPEL 25-27s notably climbed 3-5pts. WYNMAC closed another 1.5-2.5pts higher after Wynn Macau's tender submission for the concession contract. MGMCHIs/STCITYs/SANLTDs all ended up 1.5pts amid positive sentiment. Property sector still hanged well, with street axe bidding up COGARD 25-31s by 1-2pts. ROADKG received buying interest on 25-26s after the company bought back 24s. GRNLGR 22-23s curve had PB buying and jumped 4-8pts. GRNLGR'22 was traded back to 91 level after Friday's one-way selling. Ex-China HY was broadly firm. Indian/Indonesian HYs were unchanged to 0.5-1pt higher.

LGFV/ SOE Perp spaces were fairly muted day in the spaces as investors awaited Monday's CPI print, which could have big implications on not only next week's FOMC decision but also the rates path going into year end. Demand remained carry driven - offshore investors focused on very short-dated papers around 4%, whilst cross-border flows continued to look for selective LGFVs at ~5% or more. Meanwhile on some of the names, structured flows had been buying. Notably CQNANA 4.66%'24 had a short-

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squeeze in the street as the bond bounced back to beyond where flows were one-way selling before August. In general, LGFV 23-24s kept to be chased by yield-hunters. Low-tier names showed consistent demand, LZINVE'22 still stalled at low-90s handle amid cautious thin flows. In SOE Perp space, there were better buying flows on short-to-call papers. HAOHUA 3.35% Perp/SINOCH 3% Perp were also sought-after.

➤ **Last trading day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
APLNJ 5.95 06/02/24	50.6	7.8	FOSUNI 6.85 07/02/24	56.4	-8.6
MPEL 5 5/8 07/17/27	74.9	5.3	FOSUNI 6 3/4 07/02/23	69.1	-7.4
MPEL 4 7/8 06/06/25	79.2	4.7	FOSUNI 5.95 10/19/25	46.5	-6.3
FTLNHD 6.8 08/05/23	73.7	3.8	FOSUNI 5 05/18/26	44.7	-5.8
GRNLGR 5 3/4 09/26/22	90.9	3.5	FOSUNI 5.95 01/29/23	85.1	-5.5

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock markets slumped on Tuesday and wrote off previous rebounds. The S&P (-4.32%), Dow (-3.94%) and Nasdaq (-5.54%) recorded the largest drop since Jun'20 with all sectors fell, as the U.S. CPI in Aug'22 was published as +8.3% yoy, higher than markets' expectation of ~8.0%. The unexpected CPI data ruins markets' hope that the Fed will cease the step of hike after Sep'22 FOMC meeting. The U.S. treasury yields moved higher and the curves bear flattened with 2/5/10/30 yield reaching 3.75%/3.58%/3.42%/3.51%, respectively.

❖ **Desk analyst comments 分析员市场观点**

➤ **HPDLF: Repayment track records count**

Buy on HPDLFs; the CBs are attractive lower-beta and short-tenor plays

Table 1: Summary of outstanding offshore bonds

	O/s amt (USD mn)	Offer price	YTM	Maturity
HPDLF 8 01/06/23 CBs	250	86.9	57.0%	6/1/2023
HPDLF 6.8 12/28/23	237.5	69.3	39.4%	28/12/2023
HPDLF 7 05/18/24	300	61.0	41.5%	18/5/2024

We maintain buy on HPDLFs in view of its adequate liquidity profile, high asset quality, large offshore investment portfolio and manageable debt maturity profile. In particular, we consider HPDLF 8%'23, the CBs due 6 Jan'23, attractive low-beta and short-tenor plays.

Hopson has proven track records in full repayments even in a challenging operating environment and an unfavourable capital market. It repaid, rather than refinanced, CBs of RMB1.8bn in Feb'10, straight bonds of USD350mn and USD300mn in Sep'12 and Jan'18 in a challenging market environment. In Jun and Jul'22, it repaid 2 offshore bonds totalled cUSD1.1bn. HPDLFs rebounded 5-10pts since the recent lows in early-mid Aug'22. That said, offered at 87.1, 69.3 and 61.0, HPDLF 8%'23 (CBs), 6.8%'23 and 7%'24 are trading at YTM of 57.0%, 39.4% and 41.5%, respectively. We consider Hopson a survivor for the sector and believe that the current valuations of HPDLFs offer attractive risk-return profile.

Weaker but relatively resilient 1H22 results

Excluding investment losses and fair value gain of investment properties, Hopson's recurring revenue increased 35.4% to HKD15.0bn but recurring gross profit and EBIT lowered 4.6% and 12.1% to HKD4.9bn and HKD3.2bn, respectively. These reflected the lower profit margin of recognized property sales because of higher land costs and lower contribution from property management resulting from the impact of COVID-19. Its adj. gross and EBIT margin narrowed to 32.6% and 21.6% in 1H22 from 46.2% and 33.3%, respectively. Hopson expects its gross margin for property sales to be 25-30% over the coming 1-2 years. Hopson's 1H22 results, albeit weakened, were relatively resilient compared with those of its peers.

Hopson maintains the FY22 contract sales target at RMB40bn (cHKD45bn). In 8M22, its contract sales were RMB20.9bn, completed c52% of the full year target. Despite the 23.2% yoy decline in property pre-sales for the 8M22, its sales decline is relatively modest. For the 35 developers under our radar, the average yoy decline in contract sales for 8M22 was 48%.

Offshore investment portfolio offers an alternative liquidity source

Table 2: Summary of investment portfolio

HKD mn	2H20	1H21	2H21	1H22
Investment income	5,194.1	5,007.1	-7,971.8	-1,819.6
Current financial assets	22,020.7	27,120.2	6,133.8	2,634.0
Non-current financial assets	6,143.2	5,770.8	6,389.6	5,319.3
Financial assets	28,163.9	32,891.0	12,523.4	7,953.3
Margin loan	9,163.8	10,170.2	3,391.7	1,454.1
Estimated LTV	32.5%	30.9%	27.1%	18.3%
Investments in JVs	11,480.0	12,071.9	8,874.9	8,776.3

Hopson booked investment losses (on revenue line) of HKD1.8bn in 1H22 and HKD8.0bn in 2H21. Over the 12-month to Jun'22, the investment loss totalled HKD9.8bn. That said, Hopson reported investment gain of HKD13.9bn for the 18-month to Jun'21.

The book value of its financial assets was HKD8.0bn, out of these, HKD2.6bn were booked under current financial assets which were mainly HK-listed equities. The non-current financial assets were mainly pre-IPO and PE investments. As per our discussions with Hopson, it had divested part of investments facing market volatilities in 2H21 and 1H22, reflected in the commensurate decline in margin loan. The positions in non-current financial assets were largely stable.

Based on public disclosure (for listed investments of >5% of outstanding shares), the market value of Hopson's listed investments in HKEX is c HKD4.6bn, including the 9.1% stakes in Ping An Healthcare of cHKD2.4bn booked under investments in JVs. We estimate that the value of its financial investments and listed investments in Ping An Healthcare to be over HKD10bn. Even excluding margin loans of HKD1.5bn, these offshore investments represent good alternative liquidity sources.

Debt reduction continues with demonstrated repayment records

Table 3: Key financial figures

HKD mn	Dec'20	Jun'21	Dec'21	Jun'22
Cash on hand	29,650.1	42,855.0	36,312.3	28,262.0
Current financial investments	22,020.7	27,120.2	6,133.8	2,634.0
ST debts	27,084.8	37,825.6	31,979.4	31,835.7
Net debts	87,766.0	83,503.7	83,042.5	77,429.7
Net gearing	89.7%	76.0%	73.5%	68.3%
Adj. liab/asset	64.4%	63.2%	63.2%	60.0%
Unrestricted cash/ST debts	1.0x	1.1x	0.9x	0.8x
Cash/ST debts	1.1x	1.1x	1.1x	0.9x
(Cash+current financial investments)/ST debts	1.9x	1.8x	1.3x	1.0x
3 Red Lines	Green	Green	Green	Yellow

Hopson continues the deleveraging trend since 1H21 with net debt lowered 6.8% to HKD77.4bn in 1H22. Its net gearing and adj. liab/assets ratios further improved to 68.3% and 60.0% in Jun'22 while cash/ST debts ratio weakened moderately to 0.9x given the lower cash on hand. Hopson was in yellow camp (down from green) under the 3 Red Lines. Nonetheless, we take comfort from its financial investments and manageable offshore debt maturities. Factoring into the current financial investments, its cash and current financial/ST debts is 1.0x. After the repayment of offshore bonds of HKD720mn in Jul'22, Hopson has 3 outstanding offshore bonds totalled USD787.5mn (see Table 1). The next offshore maturity will be the CBs of USD250mn due Jan'23. We believe that Hopson will have adequate liquidity to cover its near-term maturities. Additionally, Hopson has been gradually opening up the access to onshore CMBS since 2018 through collateralization of its high quality investment properties since 2018. As at Jun'22, its investment property portfolio was valued at cHKD85bn with 95% of GFA in T1 cities and LTM rental income of HKD4.2bn. Its o/s CMBS was HKD13.3bn. Assuming a LTV of 50%, headroom for additional CMBS will be cHKD29bn (cUSD3.7bn). We take additional comfort from Hopson's proven track-records in full repayments even in challenging times.

Click [here](#) for full report.

➤ **Macau gaming: Deadline for submission of tender for gaming concession**

The deadline for submission of tender for gaming concession in Macau is today (14 Sep'22). Wynn submitted the tender yesterday. We expect all 6 operators will submit the tenders by today. Operators such as SJM and Sands China have secured shareholders' financial support recently. For example, SJM announced the shareholder's support of HKD5bn (HKD3bn rights issue and HKD2bn, 6-year loans from STDM) to pre-fund the additional cash capital required for the tender process of new casino concession. Sands China, on the other hand, obtained shareholders' loans of USD1bn due 2028. These demonstrated the long-term commitment of operators in Macau.

Separately, the passenger ferry services between Shenzhen and Macau is resumed today. This should be a small positive to the Macau gaming sector. Nonetheless, the key drivers for the sector remain to be the policy for travel visa approval in China and COVID-19 quarantine policy in Macau. As we have repeatedly discussed, without significant relaxation of the current quarantine policy and the tightened policy for travel visa approval in China, the Macau gaming bonds will continue to be range-bounded. The bonds are now trading closer to the high-end of the recent range. Hence, the conviction of sector is not strong and close our trading buy on SJMHOLs, and wait for a better entry point. Our preference for the sector in case of significant relaxation of these policies will be those offer deeper value: SJMHOLs, STDCTY/STCITYs, WYNMACs and MPELs. [See our previous comments.](#)

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Jiantou International (Hong Kong) Co., Limited	USD74	3yr	6.4%	6.4%	-/-/-

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

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Jinko Power Technology Co., Ltd. (SBLC by CMB Shanghai Branch)	USD	-	-	-	-/-/-
Tianjin Rail Transit Urban Development Co., Ltd	USD	-	-	-	-/-/-

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 39 credit bonds issued yesterday with an amount of RMB38bn. As for Month-to-date, 434 credit bonds were issued with a total amount of RMB484bn raised, representing a 10.5% yoy decrease
- **[ADROIJ]** Adaro Energy plans to invest USD1.1bn for an aluminum smelter project funded by internal funds and bank loans
- **[BUMIJJ]** Bumi Resources completed conversion of MCBs into 3.8bn shares at IDR80 apiece, its current listed shares are 143.8bn
- **[BYANIJJ]** Bayan Resources's 1H22 revenue increases 96% yoy to USD2bn and net profit up 181% yoy to USD1bn
- **[FOSUNI]** Media reported that CBIRC and SASAC directed institutions under their supervision to check financial exposures to Fosun. Beijing SASAC said its request for enterprises under its jurisdiction to submit a report about their cooperation with Fosun is just regular information collection work
- **[FTLNHD]** Seazen Holdings raised RMB1bn(cUSD144.4mn) three years MTN with 3.28% coupon rate to repay debts
- **[FWDGRP]** FWD Group refiles for HK IPO on 13 Sep'22. It may raise around USD1bn as early as 1Q23
- **[KWGPRO]** KWG Group obtained sufficient USD bondholder support for its exchange offer and consent solicitation in relation to its senior notes due 2022-2027, the company will issue new USD795mn 6% and USD636.5mn 7.875% due 2024 notes
- **[POLYRE]** Poly Development's subsidiary agreed to inject RMB365mn into a project company of Joy City Property for development of Chongqing residential land plot, representing 49% of equity interest

- **[SUNAC]** Sunac obtained consent to waive the 11 Sep put of its RMB1.3bn 6.48% due 2023 private bonds and to amortize the redemption through 11 Sep'24
- **[THSCPA]** Tus-Holdings terminates consent solicitations for its 7.95%, 6.95% guaranteed bonds (o/s USD902.5mn totaled) due 2024, the original proposals were related to extension of first/second mandatory redemption date, etc
- **[YCINTL]** Yincheng International completed the exchange offer for YCINTL 12.5 09/20/22 (o/s USD108.8mn) and issued USD115.3mn new notes
- **[ZENENT]** Zensun Enterprises fully repaid outstanding 12.5% USD36.4mn senior notes matured on 13 Sep'22
- **[ZHPRHK]** The holders of 20Zhengrong03 (o/s RMB1bn) have exercised RMB868.7mn put option and the company will cancel those sold back bonds

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