

CMBI Credit Commentary

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

- *New FOSUNI'28 rose 0.3pt this morning. TENCNTs were weak before tonight's 3Q24 results. Short-term IGs were well bid. LGFVs were actively traded.*
- ***SJMHOL:** Stronger 3Q24 results; prefer MPEL and STCITY/STDCTY more on valuation. SJMHOLs were unchanged this morning. See below comments.*
- ***UPLLIN:** Stick with 50% yoy EBITDA growth guidance in FY25. Maintain neutral on UPLLIN 5.25 Perp. UPLLIN 5.25 Perp rose 1.2pts this morning. See below comments.*

❖ Trading desk comments 交易台市场观点

Yesterday, UST yield widened 8-13bps, while Asia IG space was firm. In KR, LGSENSOs/KOROILs were 1-3bps tighter. DAESECs tightened 3-5bps. In Chinese IGs, CHEVBK priced a USD300mn 3-yr floating-rate bond at SOFR+59. In Chinese BBB, ZHOSHK 26-28s were 1-2bps tighter. See our comments on [12 Nov '24](#). MEITUA 28-30s tightened 2-3bps. WB 30s tightened 5bps. In financials, FRESHK 25-28s were unchanged to 3bps tighter. CCAMCL/ORIEAS 25-27s were also 1-2bps tighter. In T2s, BNKEA/DAHSIN T2s were 2-3bps tighter. The belly of MQGAU/ANZ T2s were unchanged to 2bps tighter. In EU AT1s, the flows were skewed to better buying from Asian PBs/Prop desks. BACR 8/INTNED 7.25 Perps were 0.1-0.2pt higher, BNP 8/HSBC 6.875 Perps were 0.2pt lower. In insurance hybrids, ZURNVX '55/NIPLIF '54/FUKOKU 6.8 Perp were down 0.1-0.4pt in light of higher UST rates. In HK, NANFUN/NWDEVL/LIFUNG FFL Perp were down 0.4-0.8pt. In Chinese properties, DALWAN 24-26s rebounded 1.4-3.6pts after the decline of 0.9-2.5pts on Mon. FTLNHD/FUTLAN 24-26s were 0.4-0.9pt higher. SHUION 25-26s were up 0.3-0.4pt. ROADKG Perps, however, declined another 0.5-1.5pts. Outside properties, FOSUNI priced the USD300mn 3.5NC2 bond at par to yield 8.5% and conducts a partial tender offer for FOSUNI 5.95 10/19/25. FOSUNI 25-28s closed unchanged to 0.3pt higher. WESCHI '26 was up another 0.6pt following the Ethiopian govt's relaxation on cement price control. In Macau gaming, SANLTDs/WYNMACs were down 0.2-0.5pt. SJMHOLs were unchanged post better 9M24 results. See comments below. In India, UPLLIN 28/30/Perp rebounded 1.1-1.7pts after declining 0.6-1.1pts on Mon. See our comments below on its 2Q25 results. Meanwhile GLPSP Perps lowered 0.5-0.8pt.

The flows were balanced two-way across the USD and CNH LGFVs, where RMs continued to deploy cash whilst HF's took profit. GZGETH'27/WUXIND '26 were up 0.2-0.3pt. SHGUOH '26/HKIQCL '25 were 0.1-0.3pt lower. In SOE perps, HUADIA 3.375/CHPWCN 3.08 Perps were down 0.1pt.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
DALWAN 11 01/20/25	87.6	3.6	HAOHUA 4 3/4 06/19/49	90.6	-2.0
DALWAN 11 02/13/26	77.0	3.2	HAOHUA 3.7 09/22/50	76.0	-1.7
UPLIN 5 1/4 PERP	80.2	1.7	SINOPC 4 1/4 04/24/43	89.4	-1.6
UPLIN 4 5/8 06/16/30	86.4	1.7	ROADKG 7 PERP	13.6	-1.5
DALWAN 7 1/4 12/29/24	95.1	1.4	CHGRID 4 05/04/47	87.3	-1.4

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.29%), Dow (-0.86%) and Nasdaq (-0.09%) retreated on Tuesday. UST yields rallied higher yesterday, 2/5/10/30 yield reached 4.34%/4.32%/4.43%/4.58%.

❖ Desk Analyst Comments 分析员市场观点

➤ SJMHOL: Stronger 3Q24 results; prefer MPEL and STCITY/STDCTY more on valuation

3Q24, USD mn	MGM	MLCO UW	Sands China	SJM Holdings	Studio City	Wynn Macau
Revenue	923	1,175	1,770	955	175	872
- % yoy change	14%	16%	-1%	28%	27%	6%
- % vs 3Q19 change	25%	-18%	-16%	-9%	10%	-19%
Gross Profit	-	435	-	-	114	-
- % yoy change	-	3%	-	-	32%	-
- % vs 3Q19 change	-	-17%	-	-	-10%	-
Adj. EBITDA	253	303	585	132	68	263
- % yoy change	5%	15%	-7%	83%	21%	3%
- % vs 3Q19 change	28%	-22%	-23%	9%	-25%	-13%
Adj. EBITDA Margin	27%	26%	33%	14%	39%	30%
9M24, USD mn	MGM	MLCO UW	Sands China	SJM Holdings	Studio City	Wynn Macau
Revenue	2,989	3,447	5,336	2,713	486	2,756
- % yoy change	38%	29%	14%	40%	60%	26%
- % vs 9M19 change	37%	-20%	-19%	-16%	6%	-21%
Gross Profit	-	1,257	-	-	317	-
- % yoy change	-	25%	-	-	82%	-
- % vs 9M19 change	-	-21%	-	-	-11%	-
Adj. EBITDA	883	870.2	1,756	353	189	883
- % yoy change	37%	17%	12%	170%	100%	34%
- % vs 9M19 change	50%	-27%	-26%	-9%	-27%	-7%
Adj. EBITDA Margin	30%	25%	33%	13%	39%	32%
As of Sep'24						
Cash	563	1,121	-	482	113	1,340
ST Debt	-	53	-	-	34	-
LT Debt	-	7,210	-	-	2,145	-
Total Debt	2,900	7,263	-	3,402	2,179	6,410
Net Debt/ LTM EBITDA	2.0x	5.3x	-	6.6x	8.0x	4.3x
Cash/ST Debt	-	21.2x	-	-	3.3x	-

Note: Adj. property EBITDA for Sands China.

Source: Company fillings.

SJM reported a stronger set of 3Q24 results, driven by the ramp-up of Grand Lisboa Palace (GLP) and ongoing recovery of tourist arrivals in Macau. In 3Q24, SJM's GGR increased 30.8% yoy to HKD7.5bn, the growth rate was higher than the sector's GGR growth rate of 13.9%, reflecting the gaining of market share. SJM's GGR market share increased to 13.9% in 3Q24 from 12.4% in 1Q24 due to GLP's ramp-up. We expect SJM's market share to reach c14% by FYE24. In 3Q24, SJM's adj. EBITDA rose 83% yoy to HKD1.0bn and its adj. EBITDA margin expanded notably to 13.8% from 9.6% in 3Q23.

SJM's credit profile and liquidity continued to improve given the stronger operating performance and improving operating cash flow. As of Sep'24, it had cash on hand of HKD3.8bn (cUSD482mn vs cUSD316mn in Jun'24) and undrawn facilities of HKD4.1bn (cUSD520mn). SJM's total debts were flat at HKD26.7bn (cUSD3.4bn) compared to HKD27.0bn in Jun'24. In 3Q24, its net debt/Adj. LTM EBITDA ratio improved to 6.6x from 7.8x in Jun'24. Taking cues from its adj. LTM EBITDA of cHKD3.5bn as well as cash on hand and committed facilities, we believe that SJM should have more than adequate liquidity to fund its committed capex which we estimate to be cHKD1.8bn p.a. after additional 20% investment trigger was hit last year.

Among 6 Macau gaming operators (including Studio City) with outstanding USD bonds, only Sands China reported a weaker 3Q24 results as its operations was disrupted by renovation of Londoner Macau. We expect the operating performance of Macao gaming operators to continue to benefit from the recoveries of tourist arrivals and GGR. These will, in turn, support their access to funding channels and financial flexibility.

While we still consider SJMHOLs good carry plays, we consider MPEL and STCITY/STDCTY to be our top picks in the sector after SJMHOLs' outperformance YTD, as well as over the past 3 months. We also like MGMCHI and WYNMAC'29 which offer 40-100bps and c90bps yield pick-up over bonds of their US parents, respectively. We are neutral on SANLTDs.

	Ask YTM (%)	Mod Duration	Ask price	YTD price movement
MGMCHI	5.8-6.7	0.6-3.8	97.4-102.4	1-2pt
MPEL	5.8-7.2	0.6-4.2	93.1-102.5	1.4-1.8pt
SANLTD	5.1-5.6	0.7-5.8	87.0-100.0	1-3.3pt
SJMHOL	5.9-6.7	1.2-2.9	94.7-98.4	2.8-3.4pt
STCITY/STDCTY	6.0-7.4	0.6-3.6	91.6-100.9	0.5-3.1pt
WYNMAC	3.8-6.6	1.1-4.3	93.5-102.6	1.6-2.2pt

Source: Bloomberg.

➤ **UPLIN: Stick with 50% yoy EBITDA growth guidance in FY25. Maintain neutral on UPLIN 5.25 Perp**

In 1HFY25, UPL's revenue was up by 5% to INR201.6bn, mainly attributable to higher revenue from North America and Europe. The 16% increase in sales volume was offset by 10% decrease in price, due to the continuous pricing pressure in post patent space resulting from oversupply in China. Its EBITDA dropped 14% and EBITDA margin therefore narrowed to 13.5% in 1HFY25. As of Sep'24, UPL had cash and bank balances (incl. liquid investments) of INR43.1bn, compared with ST debt of INR101.8bn and guided capex of INR11bn in 2HFY25. The net debt/LTM EBITDA was 6.3x, increased from 4.8x at Mar'24 per our calculation.

UPL sticks with the FY25 guidance on revenue growth of 4-8% yoy, EBITDA growth of 50% yoy, as well as reduction of total debts by USD300-400mn with free cash flow. UPL achieved 43-45% of the revenue target and 33% of the EBITDA target in 1HFY25. The run-rate of 1HFY25 EBITDA versus full year target appears to be low compared with that of the past 3 years ranging from 38-57% in 1H.

That said, we expect the EBITDA in 2HFY25 to increase and catch up with the FY25 target of INR82.7bn, in the absence of special rebate of cINR33.1bn incurred in 2HFY24 and lower inventory cost. Recalled that UPL's

profitability in FY24 was dragged by high cost inventory and special rebates of USD392mn (cINR33.1bn) offered to large distributors and customers. As of Sep'24, only 2-3% of the inventories were bought at higher costs and the remaining are fresh inventories bought at lower costs. Additionally, UPL demonstrated tighter inventory management that the inventory days dropped to 117 days at Sep'24 from 135 days in Sep'23, compared with the average inventory day of 123 days in past twelve quarters. UPL also expects the EBITDA margin to recover to 21% in 2HFY25 from 13.5% in 1HFY25, driven by strong volume growth in North America and Europe where the profit margins are higher.

As discussed before, the monetization and Advanta, UPL's 86.7%-owned seeds business, and the rights issue of USD400mn would shore up UPL's liquidity and lessen its refinancing pressure. We understand that UPL is in the process of filing the red herring prospectus for Advanta and believe UPL may continue to look for a more favorable window to get Advanta listed with higher valuation. Nonetheless, given the deteriorated profitability of Advanta (EBITDA margin dropped to 24.2% in 1HFY25 from 29.5% in 1HFY24), the timing for IPO of Advanta could still be highly uncertain.

We are neutral on UPLLINs. The coupon of UPLLIN 5.25 Perp will be reset on the first call date in Feb'25 to 5yUST+3.865% from 5.25% with no coupon step-up, and callable anytime thereafter with minimum 10 days' notice. Our base case is UPLLIN 5.25 Perp will not be called on the first call date, as we did not factor in the monetization of Advanta or rights issue into our base case scenario. Indeed, UPL considers the perp one of the cheaper "debts" in its capital structure, compared with the average cost of borrowing of 7% in 2QFY25. UPL is currently on rating under review for downgrade by Moody's, which already downgraded UPL by one notch to Ba2 in Aug'24 on rising refinancing risk.

Table 1: UPL's 1H25 financial highlights

INRbn	1H24	1H25	Change
Revenue	191.3	201.6	5%
-Latin America	80.0	77.0	-4%
-Europe	25.2	27.9	11%
-India	34.4	34.4	-
-North America	13.8	18.0	30%
-Rest of the world	37.9	44.3	17%
Contribution profit	81.6	77.6	-5%
Contribution margin	42.6%	38.5%	-410bps
EBITDA	31.7	27.2	-14%
EBITDA margin	16.6%	13.5%	-310bps

INRbn	Mar'24	Sep'24	Change
Cash and bank balances	62.6	43.1	-31%
Total debts	327.4	362.0	11%
Net debts	264.7	318.9	20%
Net debt/LTM EBITDA	4.8x	6.3x	-
Net working capital days	121	123	-
-Inventory days	117	117	-
-Receivable days	135	133	-
-Payable days	131	127	-

Note: Debts include lease liabilities and USD perps.

Source: Company filling, CMBI Research.

Table 2: Bond profiles of UPLLIN

	Ask px	YTC/YTM (ask, %)	Amt o/s (USDmn)	Issue rating (M/S/F)	First call date	Coupon reset
UPLLIN 5.25 Perp	79.4	56.00	400	B1/B+/-	02/27/2025	5yUST+3.865%
UPLLIN 4.5 03/08/28	90.6	7.77	300	Ba2/BB/BB	-	-
UPLLIN 4.625 06/16/30	85.8	7.98	500	Ba2/BB/BB	-	-
Total			1,200			

Source: Bloomberg.

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
China Everbright Bank HK Branch	300	3yr	5.22%	SOFR+59	-/-/BBB+
Fosun International	300	3.5NC2	8.5%	8.5%	-/BB-/
Westpac Banking Corp	750/1500	2yr/11NC10	4.6%/5.618%	T+28/120	Aa2/AA-/
Westpac Banking Corp	750	2yr	5.08%	SOFR+46	Aa2/AA-/

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
PRC Ministry of Finance	USD	-	3/5yr	T+25/30	-/-/-

➤ News and market color

- Regarding onshore primary issuances, there were 93 credit bonds issued yesterday with an amount of RMB93bn. As for month-to-date, 574 credit bonds were issued with a total amount of RMB563bn raised, representing a 8.9% yoy increase
- Henan government plans to issue RMB31.8bn refinance special bonds to swap hidden debts
- [FOSUNI] Media reported that Fosun International plans to use non-core asset sale proceeds to redeem due-2025s remaining after tender offer; starts refinance talks for due-2025 loan

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