

## CMBI Credit Commentary

### HAOHUA/CNBG/SYNNVX: Leverage plays on central SOEs

#### Executive summary

##### Initiate buy on HAOHUAs, prefer 3 ¾'24 and 4 ¾'25 ....

We consider the ChemChina complex leverage plays on Chinese SOEs. As an indirectly wholly owned SOE, ChemChina is an integral part of Sinochem Group and is strategic important to the food security of China. We initiate buy on HAOHUAs to take advantage of 21-84bps yield pick-up over bonds of other Chinese central SOEs in the oil and petrochemical sector. We prefer shorter-dated HAOHUA 3 ¾'24 and 4 ¾'25 within the HAOHUA curve instead of the belly part of the curve, given our expectation of gradual normalization of the inverted yield curve.

##### .... and CNBG'24, Perp and SYNNVX'25 as leverage plays on ChemChina

We also initiate buy on CNBG'24, CNBG Perp as leverage plays on ChemChina. At 98.3, CNBG'24 and the CNBG 3.1 Perp (callable 07/12/24) are trading at YTM of 6% and YTC of 5.9%, respectively. The coupon of CNBG 3.1 Perp will be reset to 10.3% (i.e. 3yUST+263.4bps and step-up by 300bps). China National Bluestar (CNBG) has track records of calling its perps on the first call date in Jun'23, in Nov'21, and Dec'18. We expect the perp to be called on the first call date at Jul'24 in view of its smooth access to low-cost onshore funding. At the same time, we initiate buy on SYNNVX 4.892 04/25/25 as another leverage play on ChemChina. At 97.8, SYNNVX 4.892 04/25/25 is trading at a YTM of 6.5%, and offering 60bps pick-up over HAOHUA 4 ¾ 03/14/25 and 90bps over SYNGEN 5 04/19/26.

#### Sanction risk priced in

We believe that the current valuation of the ChemChina complex has already priced in sanction risk. We take comfort that ChemChina and its subsidiaries had tapped the markets and raised a total of cUSD3.2bn since the US government added ChemChina to a list of 31 Chinese companies as "Communist Chinese military companies" in Aug'20. Recalled that HAOHUA issued 4-year, 5-year, 10-year and 30-year bonds totaled cUSD2.3bn in Sep'20, CNBG issued perp of USD400mn in Jul'21 and Syngenta Group issued USD bond of USD500mn in Oct'22.

**Table 1: Summary of our picks**

Bond	Ask px	YTM/YTC (Ask, %)	o/s amt (USDmn)	Rating (M/S/F)
CNBG 3.1 PERP	98.3	5.9	400	Baa3/-/BBB
CNBG 3 ¾ 07/16/24	98.4	6.0	700	-/BBB/A-
HAOHUA 3 ¾ 06/19/24	98.7	5.9	1,100	Baa2/-/A
HAOHUA 4 ¾ 03/14/25	98.7	5.9	800	-/A-/A
SYNNVX 4.892 04/25/25	97.8	6.5	676.74	Baa3/BBB/BBB+

Source: Bloomberg.

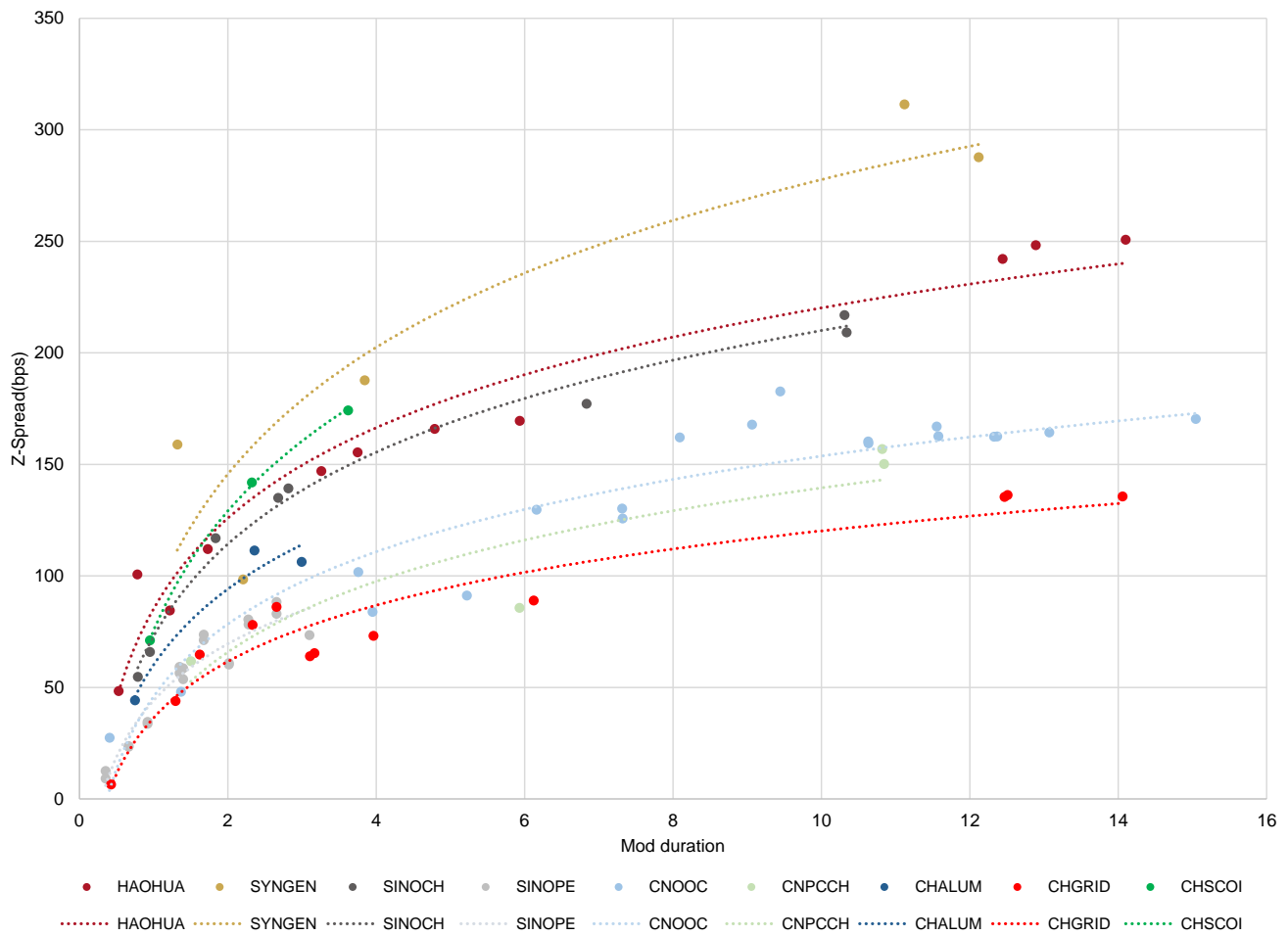
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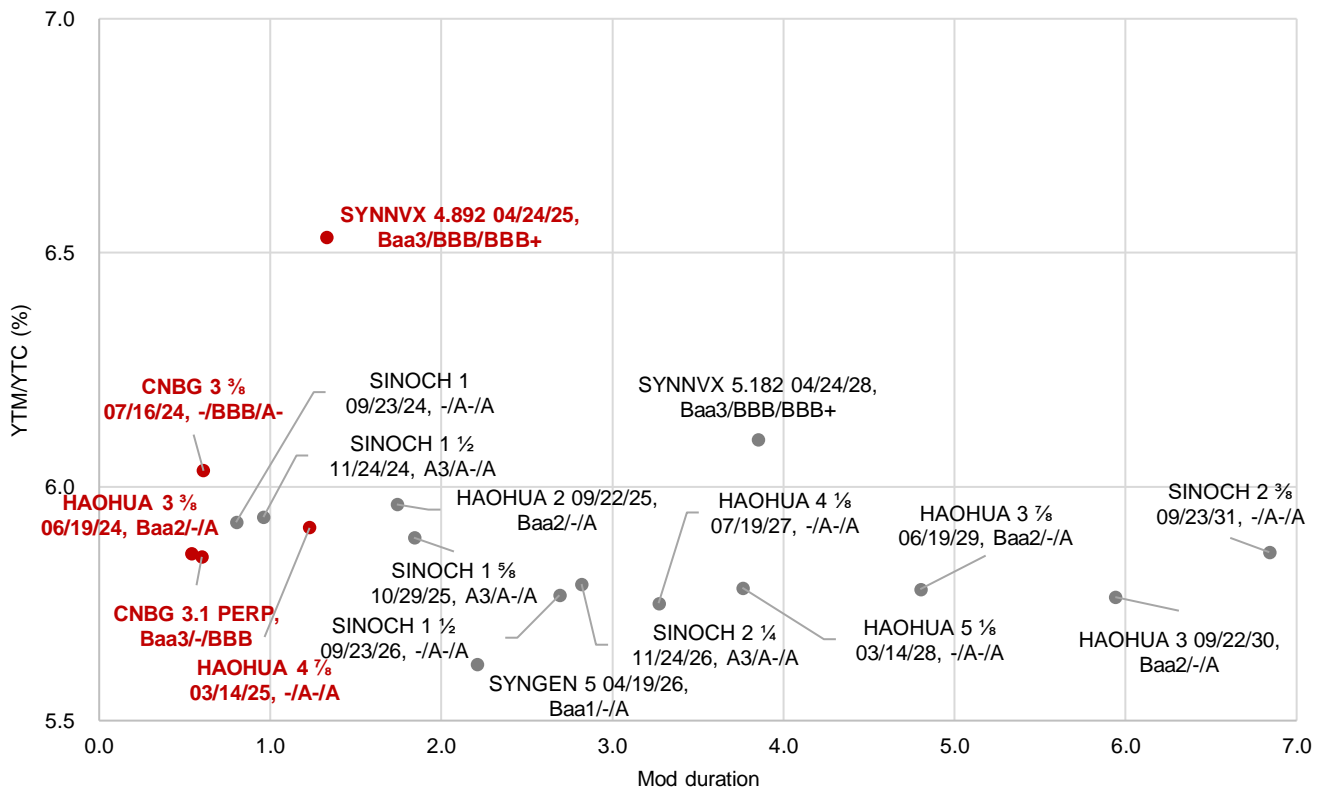
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Chart 1: Z-spread of more frequently traded SOE bonds (excl. financial and real estate)



Note: SYNGEN includes SYNGEN and SYNNVXs.  
Source: Bloomberg.

Chart 2: YTM/YTC of Sinochem Holdings outstanding bonds



Source: Bloomberg.

Table 2: List of ChemChina outstanding bonds

Bond	Ask px	YTM/YTC (Ask, %)	Amt o/s (USDmn)	Rating (M/S/F)	Guarantor
CNBG 3.1 PERP	98.3	5.9	400	Baa3/-/BBB	China National Bluestar Group Co
CNBG 3 3/4% 07/16/24	98.4	6.0	700	-/BBB/A-	China National Bluestar Group Co
HAOHUA 3 3/4% 06/19/24	98.7	5.9	1,100	Baa2/-/A	China National Chemical Corp
HAOHUA 4 7/8% 03/14/25	98.7	5.9	800	-/A-/A	China National Chemical Corp
HAOHUA 2 09/22/25	93.3	6.0	600	Baa2/-/A	China National Chemical Corp
HAOHUA 4 1/8% 07/19/27	94.7	5.8	1,000	-/A-/A	China National Chemical Corp
HAOHUA 5 1/8% 03/14/28	97.5	5.8	1,750	-/A-/A	China National Chemical Corp
HAOHUA 3 7/8% 06/19/29	91.0	5.8	900	Baa2/-/A	China National Chemical Corp
HAOHUA 3 09/22/30	84.6	5.8	1,000	Baa2/-/A	China National Chemical Corp
HAOHUA 5 1/2% 03/14/48	88.0	6.5	100	-/A-/A	China National Chemical Corp
HAOHUA 4 3/4% 06/19/49	77.5	6.6	200	Baa2/-/A	China National Chemical Corp
HAOHUA 3.7 09/22/50	64.1	6.6	200	Baa2/-/A	China National Chemical Corp
SYNGEN 5 04/19/26	98.6	5.6	500	Baa1/-/A	Syngenta Group Co
SYNNVX 4.892 04/24/25	97.8	6.5	677	Baa3/BBB/BBB+	Syngenta AG
SYNNVX 5.182 04/24/28	96.5	6.1	336	Baa3/BBB/BBB+	Syngenta AG
SYNNVX 4.375 03/28/42	71.2	7.2	20	Baa3/BBB/BBB+	Syngenta AG
SYNNVX 5.676 04/24/48	85.4	6.9	153	Baa3/BBB/BBB+	Syngenta AG

Source: Bloomberg.

## HAOHUA/CNBG/SYNNVX: Leverage plays on central SOEs

### Initiate buy on HAOHUAs, prefer 3 ¾'24 and 4 ⅞'25 as “curve normalization’ plays

We consider ChemChina complex leverage plays on Chinese SOEs. As an indirectly wholly owned SOE, ChemChina is an integral part of Sinochem Group and is strategic important to the food security of China. We initiate buy on HAOHUA to take advantage of 21-84bps yield pick-up over bonds of other Chinese central SOEs in the oil and petrochemical sector. Because of our expectation of gradual normalization of the yield curve, we prefer shorter-dated HAOHUA 3 ¾'24 and 4 ⅞'25 within the HAOHUA curve more than the belly part of curve. At 98.7, HAOHUA 3 3/8 06/19/24 and HAOHUA 4 ⅞ 03/14/25 both are trading at YTM of 5.9%, offering yield pick-up of 21-39bps and 26-37bps, respectively, over bonds of other Chinese central SOEs in the oil and petrochemical sector.

### Initiate buy on CNBG'24 and CNBG Perp as leverage plays on ChemChina

We also initiate buy on CNBG'24, CNBG Perp as leverage plays on ChemChina. At 98.3, CNBG'24 and the CNBG 3.1 Perp (callable 07/12/24) are trading at YTM of 6% and YTC of 5.9%, respectively. The coupon of CNBG 3.1 Perp will be reset to 10.3% (i.e. 3yUST+263.4bps and step-up by 300bps). CNBG has track records of calling its perps. It called three offshore perps on their first call dates, i.e. CNBG 3.875 Perp on 15 Jun'23, CNBG 6.25 Perp on 7 Nov'21, and CNBG 4.375 Perp on 17 Dec'18. We expect the perp to be called on the first call date at Jul'24 in view of its smooth access to low-cost onshore funding.

CNBG, 84% owned by ChemChina and 16% owned by Sinochem HK, is ultimately 100% owned by Sinochem Holdings. See Chart 3. CNBG is engaged in the production of chemical products, including silicon upstream and downstream products, methionine, water treatment solutions, and polyethylene and petrochemical products. In 9M23, CNBG's revenue and total assets were 12.1% and 10.9% of ChemChina's total revenue and total assets, respectively.

### Initiate buy on SYNNVX 4.892 04/25/25 as another leverage play on ChemChina

At the same time, we initiate buy on SYNNVX 4.892 04/25/25 as another leverage play on ChemChina. At 97.8, SYNNVX 4.892 04/25/25 is trading at a YTM of 6.5%, and offering 60bps pick-up over HAOHUA 4 ⅞ 03/14/25 and 90bps over SYNGEN 5 04/19/26. We view the SYNNVXs attractive from a risk-reward perspective compared with bonds of ChemChina and Syngenta Group.

SYNNVXs are issued by Syngenta AG, which is 100% owned by Syngenta Group and ChemChina, and ultimately by Sinochem Holdings. Syngenta AG contributed 60% of revenue and 40% of total assets of Syngenta Group in FY22, and is an integral part of Syngenta Group.

The concerns of Syngenta AG's sensitivity to weather condition is partly mitigated by its world leading position in crop protection and seeds. These enable Syngenta AG to have good and independent funding access. Furthermore, we expect strong parental support from ChemChina and Syngenta Group given the strategic importance of Syngenta Group and Syngenta AG to the agrochemical sector of China.

### Sanction risk priced in

We believe that the yield pick-up of ChemChina complex already priced in sanction risk. We take comfort that ChemChina and its subsidiaries had tapped the markets and raised a total of cUSD3.2bn since the US government added ChemChina to a list of 31 Chinese companies as “Communist Chinese military companies” in Aug'20. Recalled that HAOHUA issued 4-year, 5-year, 10-year and 30-year bonds totaled cUSD2.3bn in Sep'20, CNBG issued perp of USD400mn in Jul'21 and Syngenta Group issued USD bond of USD500mn in Oct'22.

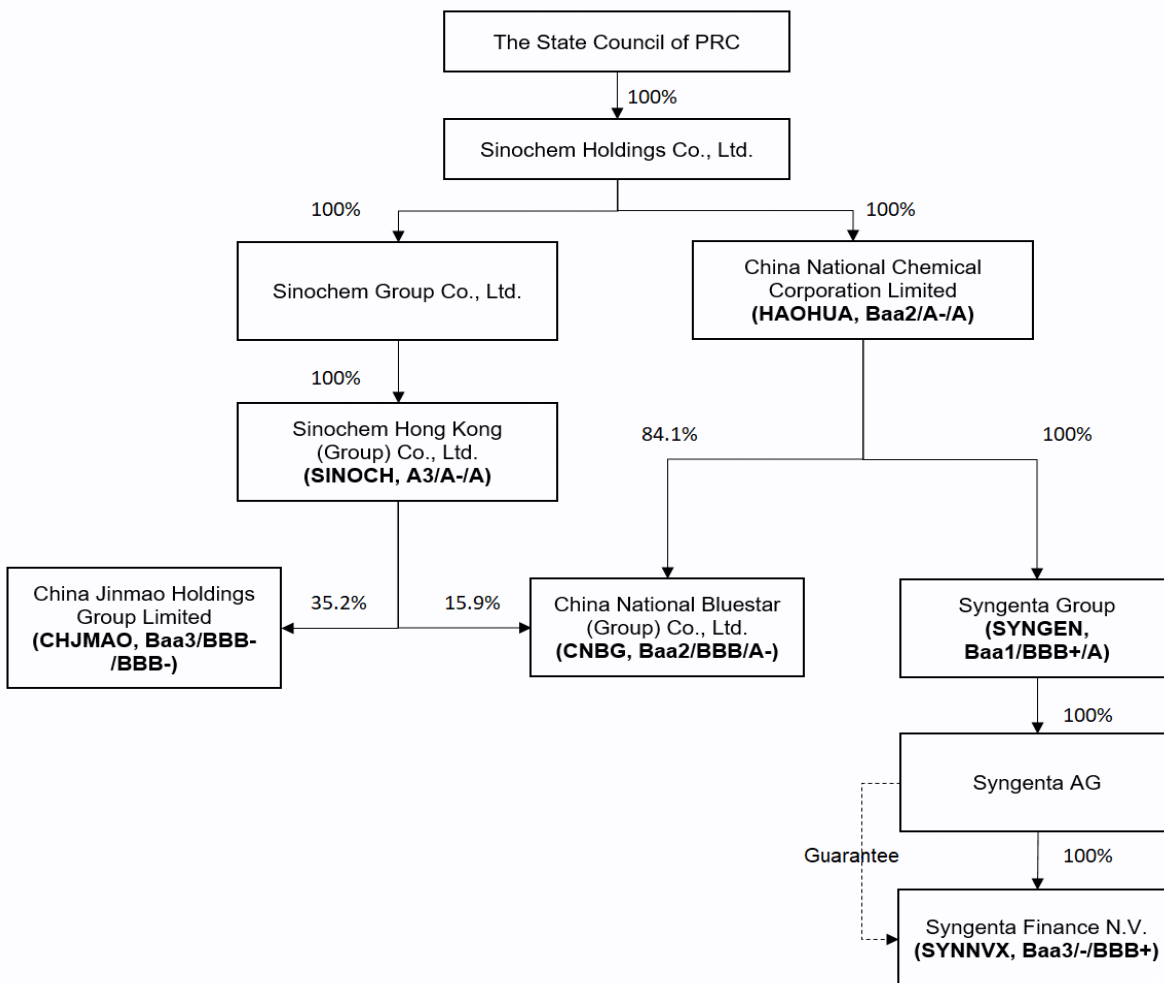
## A deeper dive into ChemChina Group

### Indirectly but wholly state-owned, and an integral part of Sinochem Holdings

In Jun'20, the central government (Central Comprehensively Deepening Reforms Commission) proposed a 3-year action plan on SOEs reform. The plan aimed at improving efficiency and enhancing competitiveness of SOEs through business combination, equity structure change, etc. ChemChina and Sinochem Group were merged in Sep'21 under Sinochem Holdings, which in turn, is 100% owned by central's SASAC. At the same time, ChemChina transferred four refining subsidiaries based in Shandong to an associate of Sinochem Holdings in Oct'22 to realize synergies and improve efficiency. ChemChina would also be more focus on agrochemical and chemical businesses.

Both ChemChina and Sinochem Group are integral to Sinochem Holdings with different strategic focuses. ChemChina focuses on agricultural inputs from crop protection to distribution and chemical businesses. Sinochem Group, on the other hand, more on the oil refining, real estate (China Jinmao) as well as financial sectors. In FY22, ChemChina accounted for 41% of the total revenue and 52% of total assets of Sinochem Holdings, according to our estimates.

Chart 3: Organizational chart



Source: CMBI Research.

**Table 3: FY22 Contribution of ChemChina to Sinochem Holdings**

RMBmn	Revenue	%	Net profit	%	Total Assets	%
ChemChina	489,057.5	41.2%	8,094.7	30.3%	900,630.0	52.3%
Sinochem Group	698,271.0	58.8%	18,583.0	69.7%	821,139.0	47.7%
Sinochem Holdings total	1,187,328.5	100.0%	26,677.7	100.0%	1,721,769.0	100.0%

*Note: Sinochem Holdings total is estimated by adding up ChemChina and Sinochem Group.  
Source: Company filling, CMBI Research.*

**Table 4: ChemChina revenue mix**

RMBmn	FY20	%	FY21	%	FY22	%
Materials science	53,599.2	12.7%	65,241.7	13.2%	68,634.3	14.0%
Industrial finance	-	0.0%	867.4	0.2%	1,135.8	0.2%
Environmental science	-	0.0%	1,257.9	0.3%	1,623.8	0.3%
Equipment	11,793.4	2.8%	11,290.2	2.3%	12,025.7	2.5%
Life science	152,597.3	36.1%	195,935.3	39.7%	238,856.6	48.8%
Refining and petrochemical	144,963.4	34.3%	160,223.9	32.4%	99,338.1	20.3%
Rubber tire	47,251.5	11.2%	55,246.0	11.2%	63,839.6	13.1%
Others	12,590.9	3.0%	3,760.4	0.8%	3,603.6	0.7%
Total revenue	422,795.8	100.0%	493,822.7	100.0%	489,057.5	100.0%

*Source: Company filling, CMBI Research.*

### Strategic importance to the food security of China

The acquisition of Syngenta AG in May'17 enhanced ChemChina's strategic role in food security of China, by providing more vigorous seeds, advanced crop protection and nutrition solution to the farmers. The acquisition has diversified ChemChina geographically from China. In 9M23, Syngenta Group's revenue and total assets were 47.3% and 64.4% of ChemChina's total revenue and total assets, respectively.

Syngenta AG develops and produces herbicides, insecticides, fungicides, biological controls and seed treatments to protect plant growth. To streamline the operations, ChemChina and Sinochem Group consolidated their agricultural assets into a new holding company Syngenta Group in 2019, which is wholly owned by ChemChina. The newly formed group specializes in crop protection, seeds, fertilizers, agrochemical and distribution, comprised of Syngenta AG, Israeli crop protection company ADAMA, China National Seed Group, etc.

After the consolidation of Syngenta Group and other agricultural assets, ChemChina has become the world's largest agrochemical and third largest seed producers. It is also the industry leader in crop protection in China. Major crop categories under its coverage are staple foods such as corn, rice, wheat, oil-bearing crops and vegetables. Meanwhile, its nutrition sales also cover 95% of arable land in China.

The fall of Yongcheng Coal and Electricity and Tsinghua Unigroup in 2020 signaled that not all the SOEs are shield from default risk. Nonetheless, we believe that SOEs such as ChemChina with a clear "strategic mandate" will continue to enjoy the strong support from the central government via Sinochem Holdings in time of need.

**Table 5: Revenue mix of Syngenta Group**

RMBmn	FY20	%	FY21	%	FY22	%
Crop protection	107,486	67.7%	118,900	65.4%	147,195	65.5%
Seed products	20,952	13.2%	24,431	13.4%	29,246	13.0%
Crop nutrient products	20,598	13.0%	21,480	11.8%	21,377	9.5%
Modern agricultural services	4,948	3.1%	11,059	6.1%	20,241	9.0%
Seed product royalty	1,863	1.2%	1,922	1.1%	2,228	1.0%
Other income	2,628	1.7%	3,412	1.9%	3,743	1.7%
Other service income	304	0.2%	547	0.3%	815	0.4%
Total revenue	158,779	100.0%	181,751	100.0%	224,845	100.0%

Source: Company filling, CMBI Research.

**Table 6: Capacity of Syngenta AG**

Business	Product type	Item (ton)	2020	2021	2022
Crop Protection	Herbicide	Production	623,971	754,483	867,071
		Capacity	1,008,000	1,210,000	1,349,500
		Utilization rate	57.8%	62.4%	64.3%
	Fungicide	Production	189,420	242,285	259,699
		Capacity	325,000	396,000	404,700
		Utilization rate	58.3%	61.2%	64.2%
	Insecticide	Production	149,754	173,885	236,219
		Capacity	266,000	354,000	388,600
		Utilization rate	56.3%	49.1%	60.8%
	Seed coating	Production	25,789	27,328	28,800
		Capacity	32,000	35,000	25,900
		Utilization rate	80.6%	78.1%	80.2%
Seeds	Corn&Soybean	Production	471,209	501,291	517,377
		Capacity	513,000	539,800	556,400
		Utilization rate	91.9%	92.9%	93.0%
	Other field crops	Production	61,466	172,722	252,915
		Capacity	96,100	197,600	254,700
		Utilization rate	64.0%	87.4%	99.3%
	Vegetables	Production	12,551	15,154	14,295
		Capacity	14,500	15,900	14,900
		Utilization rate	86.6%	95.3%	95.9%
	Flowers	Production	4,116	4,385	5,775
		Capacity	6,000	6,000	6,000
		Utilization rate	68.6%	73.1%	96.3%
Crop Nutrition	Basic fertilizer	Production	346,102	340,533	345,264
		Capacity	300,000	300,000	300,000
		Utilization rate	115.4%	113.5%	115.1%
	Compound fertilizer	Production	980,848	888,599	1,111,249
		Capacity	1,700,000	1,590,000	1,790,000
		Utilization rate	57.7%	55.9%	62.1%
	Specialty fertilizer	Production	81,172	88,956	89,208
		Capacity	105,000	105,000	105,000
		Utilization rate	77.3%	84.7%	85.0%
	Feeding Calcium	Production	342,151	321,100	336,683
		Capacity	300,000	300,000	300,000
		Utilization rate	114.1%	107.0%	112.2%

Source: Company filling, CMBI Research.

### **IPO of Syngenta Group will enhance funding access and transparency**

Syngenta Group's application of IPO on Shanghai Stock Exchange was approved in Jun'23. Syngenta plans to raise RMB65bn (cUSD9bn) to fund its research and development, upgrade its agricultural platform and support global acquisitions, and 30% of the net proceeds to be used to retire existing debts. As per media, the IPO may be completed by the end of 2024 and this will enhance ChemChina and Syngenta funding access, as well as data transparency.

### **Net bond redemption with good access to onshore bank facilities**

YTD, the onshore net redemption for ChemChina is RMB32.5bn. It repaid offshore bond HAOHUA 4.625 03/14/23 of USD1.3bn in Mar'23. We note the net redemption trend for CNBG; the onshore net redemption is RMB5.3bn YTD. CNBG also redeemed offshore CNBG 3.875 Perp of USD800mn on its first call date in Jun'23. There is no offshore issuance for both ChemChina and CNBG this year. We expect the net redemption trend to continue, under the backdrop of cheaper onshore bank financing and less friendly overseas M&A environments.

According to our estimates, ChemChina's bank borrowings increased from 63% of the total debts at Dec'22 to 74% at Sep'23. CNBG's bank borrowings also increased substantially from 53% of the total debts at Dec'22 to 68% at Sep'23. The bank borrowings were used for onshore and offshore bond repayments, led to the net redemption trend both onshore and offshore in 2023.

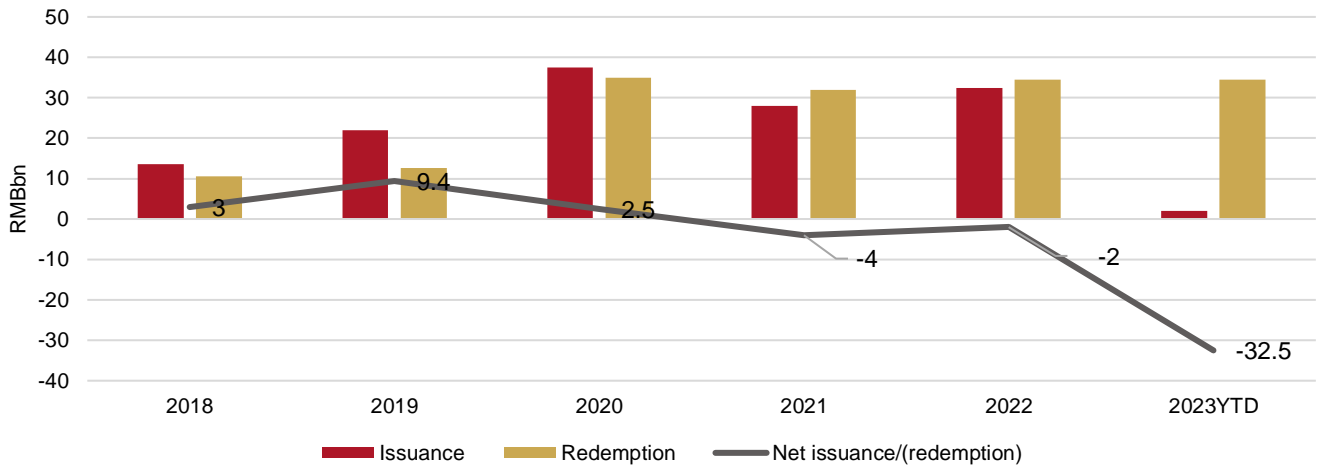
ChemChina, as central SOE, has a strong banking relationship with EXIM Bank, CCB, ICBC, ABC, BOCOM and Industrial Bank. As at Dec'22, ChemChina has available bank lines of RMB614.9bn, of which RMB352.7bn were undrawn. On the other hand, major banks supporting CNBG with banking facilities provided by EXIM Bank, CDB, ICBC, CCB, BOC, ABC, and PSBC. These banks contributed c40% of CNBG's total available lines as at Dec'22. In FY22, the short-term bank borrowing rate was 2.5-3.0% while long-term bank borrowing rate was 2.7-3.5%. As at Mar'23, CNBG had banking facilities of RMB69.5bn, of which RMB44.4bn were undrawn.

Apart from onshore banking facilities, ChemChina and CNBG are also able to refinance via onshore bonds and commercial papers. For instance, the coupons of super-short commercial papers issued by CNBG in 2023 averaged 2.3%, and that of the only issue of ChemChina was 2.2%. The funding costs are lower than their weighted average costs of bond financing, i.e. ChemChina: onshore 3.4%, offshore 4.0%; CNBG: onshore 2.6%, offshore 3.3%.

The average tenors of onshore financing were in a range of 0.5-2 years for both ChemChina and CNBG in past few years. We are not too concerned of the increasing usage of short-term funding, as we believe that both ChemChina and CNBG are taking advantages of the lower-cost of shorter-dated funding options for refinancing.

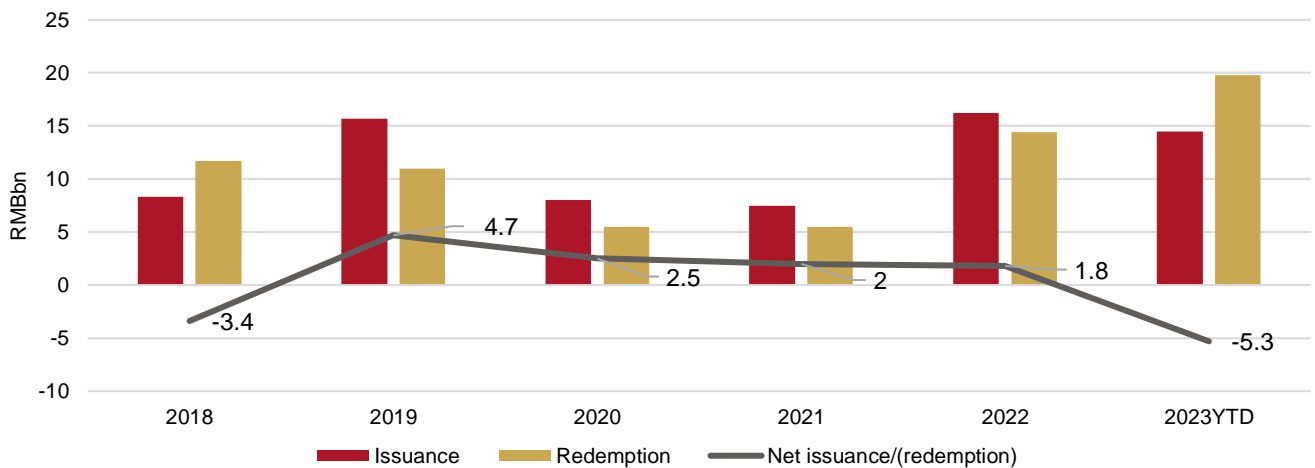


Chart 4: ChemChina onshore net redemption in 2023YTD



Source: Wind.

Chart 5: CNBG onshore net redemption in 2023YTD



Source: Wind.

Table 7: Weighted average cost of ChemChina's onshore financing

	MTN	Corporate bond	Commercial paper	Super-short commercial paper	Average tenor (years)	Weighted average cost
2019	3.72%	-	-	2.92%	1.58	3.25%
2020	3.33%	-	-	1.95%	2.09	2.54%
2021	2.97%	-	-	2.62%	0.65	2.67%
2022	-	-	-	2.04%	0.34	2.04%
10M23	-	-	-	2.21%	0.48	2.21%

Source: Wind, CMBI Research

Table 8: Weighted average cost of CNBG's onshore financing

	MTN	Corporate bond	Commercial paper	Super-short commercial paper	Average tenor (years)	Weighted average cost
2019	2.76%	4.03%	-	3.23%	2.03	3.12%
2020	3.04%	-	-	2.04%	1.93	2.60%
2021	3.19%	-	-	2.64%	0.43	3.19%
2022	2.67%	2.91%	2.09%	2.01%	1.23	2.23%
10M23	3.45%	3.28%	-	2.31%	1.07	2.81%

Source: Wind, CMBI Research

## Appendix 1: Key financials

	ChemChina		CNBG		Syngenta Group		Syngenta AG	
	FY22	9M23	FY22	9M23	FY22	9M23	FY22	1H23
	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	USDmn	USDmn
Revenue	489,058	361,434	68,948	44,025	224,845	170,829	19,963	10,121
Gross profit	115,018	74,101	16,283	5,010	73,168	47,782	8,323	4,055
EBITDA	69,464	40,292	12,975	2,932	37,960	24,364	4,626	2,903
Credit impairment loss/(reversal)	3,868	-34	1,466	13	1,503	(461)	-	-
Asset impairment loss	6,178	2,464	2,162	597	2,533	2,234	249	38
Profit/(loss) attributable to the parent	5,241	(8,032)	1,204	(2,348)	7,864	1,279	1,909	1,349
Gross profit margin	24%	21%	23.6%	11.4%	32.5%	28.0%	41.7%	40.1%
EBITDA margin	13.9%	11.1%	18.8%	6.7%	16.9%	14.3%	23.2%	28.7%
Debt/EBITDA	6.9x	6.5x	3.9x	13.6x	4.0x	7.1x	2.2x	2.5x
EBITDA/Interest coverage	3.9x	2.2x	7.1x	1.9x	5.7x	3.2x	8.8x	6.4x
Cash and cash equivalent	72,664	66,786	10,848	10,333	25,665	33,032	1,408	1,447
Total assets	900,630	939,767	109,699	102,745	573,102	605,530	30,440	34,202
Short-term debts	140,487	156,861	20,324	15,228	46,148	102,435	2,688	6,774
Long-term debts	326,738	364,109	30,836	37,796	106,640	129,726	7,490	7,719
Total debts (incl. perps)	467,225	520,970	51,332	58,707	152,787	232,161	10,178	14,493
Net debts	394,561	454,184	40,485	48,374	127,123	199,129	8,770	13,046
Cash/short-term debt	0.5x	0.4x	0.6x	0.7x	0.6x	0.3x	0.5x	0.2x
Net gearing	364.3%	1,215.2%	135.4%	169.0%	47.2%	83.7%	126.7%	158.9%

Source: Company filling, CMBI Research.

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