

CMBI Credit Commentary

Chinese AMCs: Another reality check

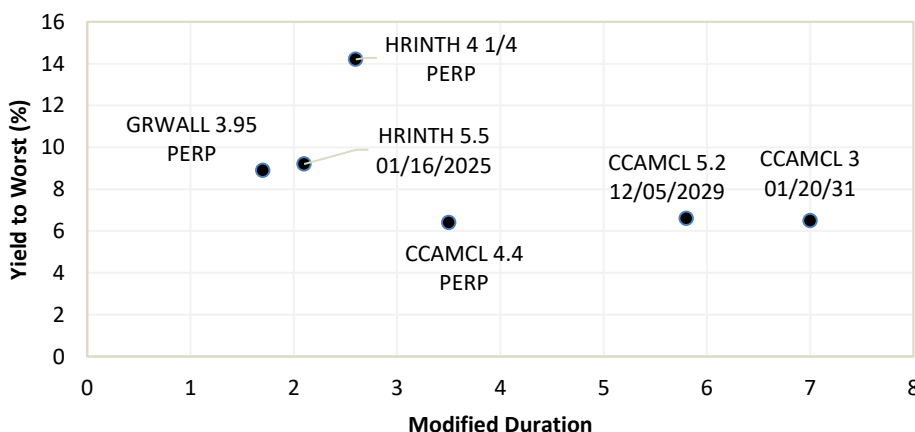
HRINTHs and CCAMCLs remain to be our preference

Chinese AMC papers have rebounded off the lows in early Jul'22 after the collateral damage of Great Wall's delay in publication of FY21 results. Nonetheless, the AMC benchmark papers are still 4-14pts below the levels in late Jun'22. We still see value in the sector given the proven government support and the sector's increasing strategic importance of the sector under the backdrop of the slowing Chinese economy, rising defaults and NPLs. Within the space, we prefer listed AMCs, i.e. Huarong and Cinda in view of the higher data transparency, and will continue to stay with shorter-tenor papers in a rising rate environment.

For better yield plays, we like HRINTHs and Huarong's improving credit story with better liquidity and access to funding channels after the 'bail-out' by the government last year. Our picks within the HRINTH curve are **HRINTH 4.25% perps** and **HRINTH 5.5%'25** for lower cash price and better valuations.

For lower beta plays with stronger fundamentals, we prefer CCAMCLs and our picks are **CCAMCL 5.2%'29**, **CCAMCL 3%'31** and **CCAMCL 4.4% perps**. For GRWALLs, we see trading value in the curve and our pick is **GRWALL 3.95% perps** as a short-tenor play.

Compared with [our recommendations in Jul'22](#), we replace CCAMCL 3.25%'27 with CCAMCL 5.2%'29 with higher YTW after the former's underperformance within the curve. For GRWALLs, we took away GRWALL 4.25%'25 as it looks less attractive compared with GRWALL 3.95 perps.



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Summary of CMBI picks on Chinese AMC sector

	Ranking	Offer price	YTW	YTC	T-spread	Modified duration	Next call date
HRINTH 4 1/4 PERP	Subordinated	75.0	14.2%	13.7%	990.4	2.6	30/9/2025
HRINTH 5.5 01/16/2025	Sr Unsecured	91.8	9.2%	N/A	518.1	2.1	N/A
CCAMCL 5.2 12/05/2029	Sr Unsecured	91.6	6.6%	N/A	312.8	5.8	N/A
CCAMCL 3 01/20/31	Sr Unsecured	77.4	6.5%	6.5%	301.9	7	20/10/2030
CCAMCL 4.4 PERP	Jr Subordinated	92.4	6.4%	6.3%	260.8	3.5	3/11/2026
GRWALL 3.95 PERP	Sr Unsecured	90.8	8.9%	8.4%	462.7	1.7	31/7/2024

Among national AMC, only Great Wall incurred net loss in FY21....

Great Wall managed to publish its 2021 audited results before the end of grace period (i.e. 29 Aug). Among Chinese AMC peers, Great Wall is the only national AMC reported net loss in FY21. The RMB8.6bn loss for FY21 were mainly due to fair value loss of RMB4.9bn on financial assets and credit impairment loss of RMB14bn. See appendix 1 for peer comparisons for Chinese national AMCs.

.... negative rating actions expected for Great Wall

Moody's and S&P placed Great Wall on watch for rating downgrade in Jul'22 due to the delay in publishing 2021 annual results. Moody's downgraded Great Wall from A3 to Baa1 on 2 Sep'22 with a negative outlook due to its large losses in 2021. S&P rated Great Wall on par with Cinda at A- but we expect rating pressure of a notch in view of Great Wall's weakening credit profile.

Key performance indicators 1H22

RMBmn	Cinda	Huarong
	1H22	1H22
Total Income	41,258	14,742
Assets Impairment losses	5,877	17,364
Net Profit attributable to Equity holders	4,508	-18,866
Net Profit	4,980	-18,609
Equity attributable to Equity holders	188,494	57,798
Total Equity	207,874	66,123
Total Assets	1,541,265	978,315
ROAE	5.75%	-64.4%
ROAA	0.64%	-2.9%
Capital adequacy ratio	18.00%	12.72%
Leverage ratio	6.1x	13.0x
Gross distressed debt asset	140,145	284,597
Impaired distressed debt assets to gross distressed asset	7.6%	34.1%
Impaired distressed debt asset coverage	152.5%	36.3%

Orient and Great Wall do not publish interim report.

Cinda further solidifies its leading position in the AMC industry

Cinda generated a net profit of RMB4.5bn for the 1H22, despite 84.8% hoh increase in assets impairment losses. The issuance of RMB12bn perpetual bonds in Feb'22 also helped Cinda build a larger capital buffer, boosted its CAR to 18% at 30 Jun'22. The company continues to focus on its core acquisition-operation distressed debt assets business, the acquisition scale increased by 18.6% hoh in 1H22. The disposal scale remained stable.

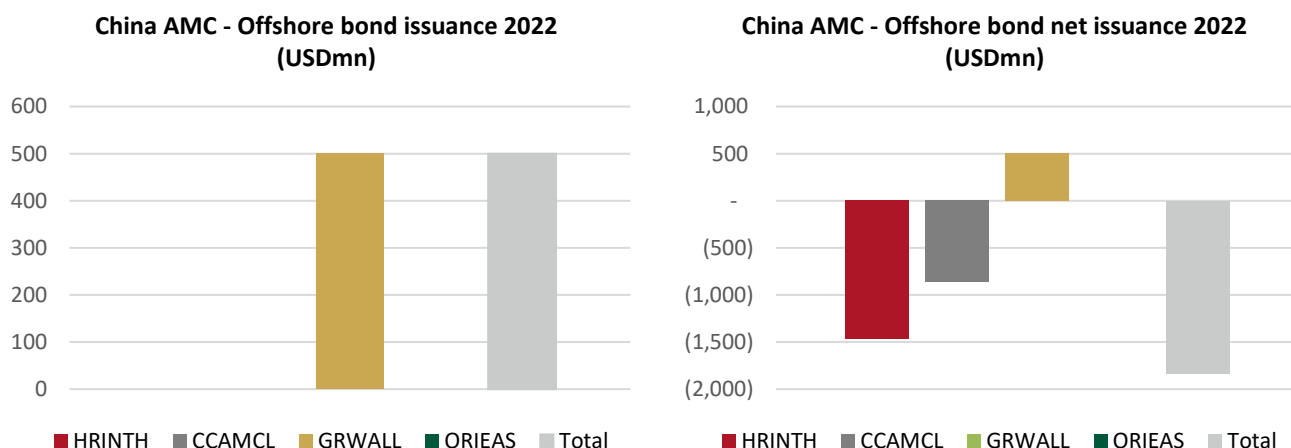
Meanwhile, with a healthier balance sheet than its peers, Cinda is able to take part in government-directed effort in acquiring unfinished projects from developers in stress, such as Kaisa's Guangzhou Nansha project, to ensure the delivery for more than 4,000 flats.

Huarong continues to optimize its balance sheet via asset disposals

Huarong, on the other hand, posted a net loss of RMB18.9bn for 1H22, mainly due to unrealized fair value loss of RMB8.8bn on financial assets and credit impairment loss of RMB17.4bn. Following the trend in the sector, the company is optimizing its asset structure by non-core asset disposals: the company completed the disposal of Huarong Consumer Finance, Huarong International Trust, Huarong Securities, Huarong Futures and Huarong Xiangjiang Bank during 2022, realizing cRMB30.5bn.

Its total assets downsized to RMB978bn at Jun'22, 37.6% decrease from Dec'21, achieved its target level at below RMB1,000bn. The reported CAR was 12.72% at 30 Jun'22, compared with the regulatory requirement 12.5%. The asset disposals with risk-weighted assets offloaded and its plan to issue RMB30bn tier II capital bonds should further improve its CAR and liquidity.

Net redemption trend prevails in offshore market



The sector has been showing net redemption trend since 2019. As of Sep'22, only Great Wall raised USD500mn senior unsecured debts offshore. Notable onshore issuances in 2022 include Cinda's RMB12bn undated bonds at 4.33% in Feb'22 to replenish its AT1 capital, and Huarong issued cRMB20bn undated bonds at 4.34% in Jun'22. Huarong is also planning to issue RMB30bn tier II capital bond. With

the interest rate hikes offshore coupled with the recent fluctuation in RMB, we expect the sector continues to opt for raising fund in the onshore capital markets.

Appendix 1

Credit Ratings	Cinda	Huarong	Orient	Great Wall
Moody's	A3	Baa2	A3	Baa1
Outlook	Stable	Negative	Stable	Negative
BCA	ba2	b3	ba3	b1
S&P	A-	BBB	BBB+	A-
Outlook	Negative	Negative	Negative	CreditWatch Neg.
Fitch	A	BBB+	A	A
Outlook	Stable	Stable	Stable	Stable
RMB mn	2021	2021	2021	2021
Total Income	97,731	93,067	106,882	22,739
Assets Impairment losses	11,723	17,616	12,827	14,088
Net Profit attributable to Equity holders	12,062	378	7,237	-8,562
Net Profit	13,000	1,986	8,467	-8,221
Equity attributable to Equity holders	178,801	59,344	114,514	56,335
Total Equity	201,775	103,984	157,450	64,665
Total Assets	1,564,279	1,568,422	1,205,793	642,876
ROAE	7.15%	1.7%	6.43%	-15.3%
ROAA	0.84%	0.2%	0.72%	-1.3%
Capital adequacy ratio	16.18%%	12.95%	N/A	N/A
Leverage ratio	6.4x	14.2x	N/A	N/A
Gross distressed debt asset	148,933	310,886	124,621	120,491
Impaired distressed debt assets to gross distressed asset ratio	4.7%	17.6%	N/A	N/A
Impaired distressed debt asset coverage	202.1%	47.1%	N/A	N/A

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