

## CMBI Credit Commentary

### HK corps: Perps offer better value than seniors

#### Executive Summary

HK corps have performed well since Nov'22, in line with the sharp rebound of the market. Like peers in other spaces, the conviction of HK corps is lower at current valuation. Nonetheless, we still see value in selected HK perps of which coupon will be reset and/or step-up upon the first call dates and issuers can access various funding channels. We believe that these issuers will be strongly incentivized and have the ability to call their perps to avoid significant increase in interest expenses. These perps offer not only good carry but also decent yield pick-up over their respective senior papers. Our picks are **NWDEVL 6.15 Perp**, **NWDEVL 4.125 Perp**, **NWSZF 5.75 Perp**, **ROADKG 7.75 Perp** and **LEEMAN 5.5 Perp**.

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**Table 1: Summary of our picks**

	NWDEVL 6.15 Perp	NWDEVL 4.125 Perp	NWSZF 5.75 Perp	ROADKG 7.75 Perp	LEEMAN 5.5 Perp
Credit rating (M/S/F)	-	-	-	Ba3	-
YTC (%)	8.8	9.1	7.9	31.9	9.4
Ask px	96.0	81.4	98.3	70.1	95.0
Year to call	2.1	5.3	1.0	1.8	1.3
First call date	03/16/25	03/10/28	01/31/24	11/18/24	05/29/24
Outstanding (USD mn)	500	1,200	1,019.1	300	240.6

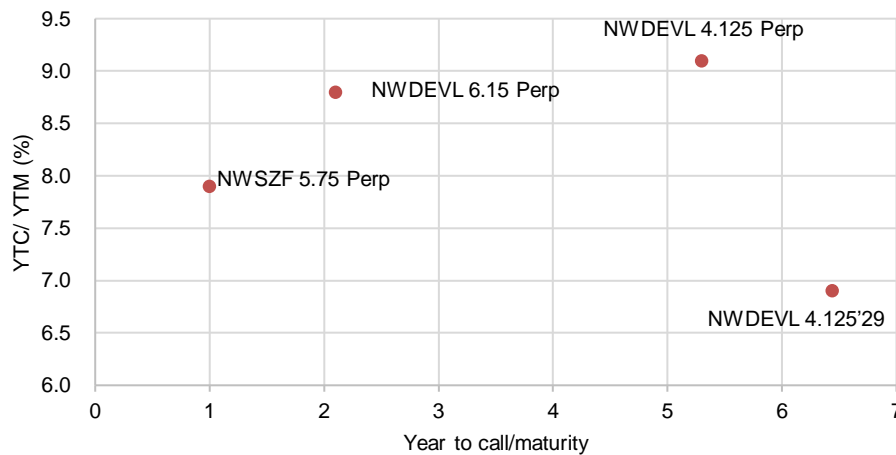
Source: Bloomberg

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## NWDEVL 6.15 Perp, NWDEVL 4.125 Perp and NWSZF 5.75 Perp

Strong incentive to call the perps with coupon reset and step-up and yield pick-up

Chart 1: Our picks of NWDEVL and NWSZF



Source: Bloomberg

We believe that the chance of NWDEVL and NWSZF to call NWDEVL 6.15 Perp, NWDEVL 4.125 Perp and NWSZF 5.75 Perp is high given the coupon to be reset and step-up (see Table 2). In our opinion, its recent tender offer and non-core asset disposals have demonstrated group's ability to actively manage its liquidity and liability in times of challenging environment.

Additionally, we consider NWDEVL 4.125 Perp a good yield pick-up trade over NWDEVL'29. The perp's coupon will be reset to 5yUST+5.858% from 4.125% in Jun'28 (3 months after the first call date). Based on the current UST rate, the reset coupon will be c9.8% on the first call date in Mar'28. At 79.7, NWDEVL 4.125 Perp is trading at YTC of 9.1%. The perp offers a yield pick-up of 2.2% while trading at 5.3pts lower in cash price and potentially short tenor than NWDEVL'29. The call date of the perp is 13 months ahead of the maturity of NWDEVL'29.

Table 2: Coupon and step-up of our picks

	Next call date	Issue spread (bps)	Coupon	Reset spread (bps)	Coupon Step-up (bps)
NWDEVL 6.15 PERP	3/16/2025	320.1	6.150%	620.1	300
NWDEVL 4.125 PERP	3/10/2028	285.8	4.125%	585.8	300
NWSZF 5.75 PERP	1/31/2024	320.5	5.750%	820.5	500

Source: Bloomberg

**Chart 2: Yield pick-up of NWDEVL 4.125 Perps (YTC) over NWDEVL 4.125'29 (YTM)**

Source: Bloomberg.

### **Realized over HKD5.3bn via non-core asset disposals YTD FY22-23**

NWDEVL disposed of HKD13.9bn non-core assets in FY21-22 and as at Jun'22, it has completed investment properties of HKD169bn. In Jul'22, the company guided to dispose of non-core assets (car park space, loss-making hotels and non-controlling projects) of HKD9-10bn in the coming 1-2 years.

Since Jul'22, NWDEVL had realized over HKD7bn via disposals of four assets in Hong Kong. The assets sold including 50% interests in a commercial property in Cheung Sha Wan at HKD3.1bn in Sep'22, Penta Hotel at HKD2bn and shops in Sai Ying Pun at HKD200mn in Dec'22, shops in Sai Wan at HKD70mn in Jan'23, and also commercial building KOHO in Kwun Tong at HKD1.7bn in Feb'23. Meanwhile, the company says they have no plan to sell any of the K11 brand properties including K11 Atelier King's Road in Hong Kong Quarry Bay. We see it is on track on the monetization from non-core assets.

### **Active liability management exercise help reducing its debt level**

The company completed two rounds of tender offer in 2022. In Jun'22, it redeemed USD129.4mn of its NWDEVL 4.375 11/30/22 at 100.5. Another round happened in Dec'22. It redeemed USD109.4mn in total of its NWDEVL 4.5 05/19/30 and NWDEVL 3.75 01/14/31 at 81.4 and 76.5 respectively. We view that the company is actively managing its liability structure and take advantages of the market fluctuation to reduce the debt level.

The debt leverage ratios slightly deteriorated at Jun'22 when compared to Jun'21. Net debt/EBITDA deteriorated to 9.7x from 9.1x. The cash/short term debt also dropped to 1.2x from 1.6x mainly due to higher short-term debt. Nonetheless, we expect the company will be able to fulfill the repayment obligations given the cash level of HKD57.7bn at Jun'22, proceeds from ongoing non-core asset disposal, record of operating cash inflow generation, as well as diversified funding channels offshore and onshore.

**Table 3: NWDEVL tender offers since 2022**

Date	Bond	Tender price	Accepted amt (USDmn)
Dec'22	NWDEVL 4.5 05/19/30	81.4	37.2
Dec'22	NWDEVL 3.75 01/14/31	76.5	72.2
Jun'22	NWDEVL 4.375 11/30/22	100.5	129.4

Source: Bloomberg.

**Table 4: Five-year financial summary**

HKD mn	Jun'22	Jun'21	Jun'20	Jun'19	Jun'18
Revenue	68,212.7	68,233.2	59,007.8	76,763.3	60,668.7
EBITDA	14,538.2	13,316.1	15,730.7	27,656.2	13,894.0
Cash and cash equivalents	57,715.6	61,615.0	67,291.2	63,723.1	63,388.4
Short-term debts	51,554.8	39,827.4	57,829.0	41,776.0	20,629.1
Long-term debts	147,556.2	143,003.1	140,547.3	114,558.6	120,123.6
Total debts	199,111.0	182,860.5	198,376.3	156,334.6	140,752.7
Total debt/EBITDA (x)	13.7	13.7	12.6	5.7	10.1
Net debt/EBITDA (x)	9.7	9.1	8.3	3.3	5.6
Cash/short-term debt (x)	1.2	1.6	1.2	1.5	3.1
EBITDA/interest coverage (x)	3.0	2.5	2.2	4.6	2.7

Note: Debt includes lease liabilities. Source: Bloomberg, Company's filings, CMBI Research.

## ROADKG 7.75 Perp

Table 5: Bond list of Road King

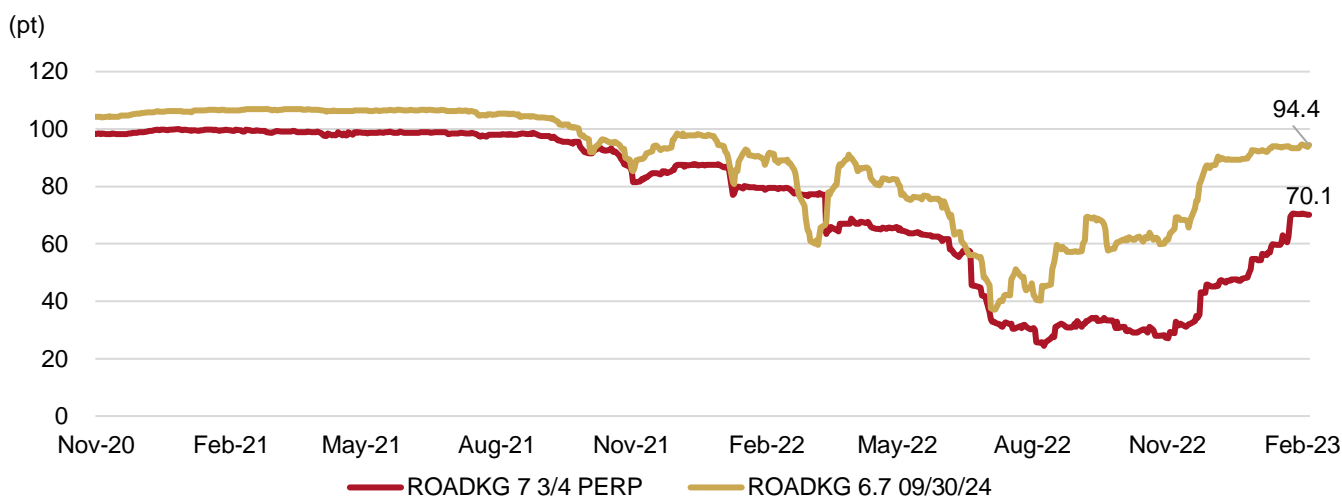
Name	ISIN	O/s amount (USD mn)	YTC/YTM	Price	Next call date
ROADKG 7.75 PERP	XS2079096884	300	31.9%	70.1	11/18/2024
ROADKG 6.7 09/30/24	XS2057076387	422.5	10.5%	94.4	2/24/2023
ROADKG 7.95 PERP	XS1567389728	300	11.5%	69.3	8/17/2023
ROADKG 5.125 07/26/26	XS2356173406	500	12.7%	79.4	7/26/2024
ROADKG 5.2 01/12/26	XS2281039771	500	13.0%	81.7	1/12/2024
ROADKG 5.9 03/05/25	XS2127855711	252	11.7%	89.7	3/5/2023
ROADKG 7 PERP	XS1635996603	300	11.3%	62.0	6/23/2023
ROADKG 6 09/04/25	XS2223762209	338.9	11.6%	87.9	9/4/2023
Total		2,913.4			

Source: Bloomberg.

Chart 3: Yield pick-up of ROADKG 7.75 PERP (YTC) over ROADKG 6.7 09/30/24 (YTM)



Source: Bloomberg.

**Chart 4: Price movement of ROADKG 7.75 PERP over ROADKG 6.7 09/30/24**

Source: Bloomberg.

ROADKG 7.75 Perp move c40pts higher since Nov'22. That said, ROADKG is still trading at a YTC of 31.9% and offer yield pick up of 21.4% over ROADKG 6.7 09/30/24. We note Road King is yet to call its 2 outstanding fixed-for-life perps (ROADKG 7.95 Perp with first call date on 17 Feb'22 and ROADKG 7 Perp with first call date on 23 Jun'22). That said, ROADKG 7.75 Perp is different. Its coupon will be reset to 5yr UST+6.003% on 18 Nov'24, first call date of the bonds. Based on the current UST rate, the reset coupon will be c10%. Road King will have a strong incentive to call or buy back ROADKG 7.75 Perp, in our view. We take additional comfort that Road King's more resilient operating performance, adequate liquidity profile and manageable bond maturities.

In FY22, Road King recorded RMB41.7bn property sales from mainland China in 2022, representing 5% yoy increase. Its sales performance outperformed most of the Chinese property peers. For 38 developers under our radar, the average contract sales dropped 47% in FY22.

The next offshore USD bond maturity will be ROADKG 6.7 09/30/24 in Sep'24. On 1 Feb'23, it redeemed ROADKG 7.875 02/01/23 (o/s USD343mn). In addition, it has repurchased a total of USD224.5mn in principal amount of USD bonds since Mar'22, reflecting its adequate liquidity.

**Table 6: ROADKG debt redemption record**

Date	Bonds	Amount (USDmn)	Event
1 Feb'23	ROADKG 7.875 02/01/23	358	Full redemption
31 Oct'22	ROADKG 6 09/04/25	31	Open market repurchase
14 Oct'22	ROADKG 6.7 09/30/24	31	Open market repurchase
14 Oct'22	ROADKG 5.9 03/05/25	15	Open market repurchase
13 Oct'22	ROADKG 5.9 03/05/25	33	Open market repurchase
13 Oct'22	ROADKG 6 09/04/25	46	Open market repurchase
9 Sep'22	ROADKG 6.7 09/30/24	26.5	Open market repurchase
17 Aug'22	ROADKG 7.875 02/01/23	22	Open market repurchase
22 Mar'22	ROADKG 7.875 02/01/23	20	Open market repurchase
		582.5	

Source: Bloomberg.

**Table 7: ROADKG debt maturity profile**

Maturity	Amount (USDmn)
2023	-
2024	422.5
2025	590.9
2026	1,000.0
2027 and after	900.0
	2,913.4

Source: Bloomberg and CMBI Research.

## LEEMAN 5.5 Perp

### Incentive to call is high, reflected by tender offer in Dec'22

We expect Lee & Man to call the perp on 29 May'24, the first call date, in view of the high coupon step-up of 500bps of the perp, Lee & Man's manageable USD refinancing pressure as the perp is its only outstanding USD issue and its ability to access alternative funding channels. At 93.9, LEEMAN 5.5 Perp is trading at YTC of 9.4%. We consider LEEMAN 5.5 Perp a short-tenor carry play.

The coupon of LEEMAN 5.5 Perp will be reset to 5yr UST+8.28% from 5.5% after the first call date on 29 May'24. Based on the current UST rate, the reset coupon will be c12.2%. We believe that Lee & Man has a strong incentive to call the perp to reduce funding costs, as reflected by its tender offer in early Dec'22 to early redeem USD59.2mn of the perps at 86. Additionally, it signed HKD4.75bn 5-year term loan facility agreement for refinancing and general funding, demonstrating its ability to access to other funding channels.

### Available credit lines enable Lee & Man to refinance at the first call date

On 13 Feb'23, Lee & Man issued profit warning that it expects its FY22 net profit to drop c60% due to a decrease in profit margin. The profit warning is not a surprise to us given the net profit drop of c57% in 1H22, adversely affected by higher pulp price.

The company's capex were in the range of HKD3.3-3.5bn in FY19-21. It covered the investments on the new pulp production lines at its plants in Jiangxi and Chongqing, which are expected to start operation in 2023. Lee & Man is also working on the plant construction in Cambodia. The active expansion to increase the pulp supply is to reduce the raw material cost in the long run, yet it will continue to consume internally generated cash flow in short-term.

Nonetheless, we view the incentive for Lee & Man to call the perps remains high due to substantial coupon step-up if it is not called on the first call date. The outstanding amount of the perp is USD240.6mn (cHKD1.89bn), with its latest reported cash level at HKD1.8bn at Jun'22, and the mentioned HKD4.75bn term loan. We see is sufficient to refinance this sole outstanding USD perp in May'24 and USD510mn (cHKD4.0bn) due Apr'24 bank loans.

**Table 8: LEEMAN tender offers since 2022**

Date	Bond	Tender price	Accepted amount (USD mn)
Dec'22	LEEMAN 5.5 Perp	86.0	59.4

Source: Bloomberg.

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