

CMBI Credit Commentary

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

- *Markets were overall stable this morning. Asian IG opened 5-20bps tighter then decrease to 2-5bps tighter. TMT sector continues to rise and Korean AA rating names also narrowed 3-5bps. AT1/SOE perps were quiet, LGFV new issue SHLTIG'26 edged up c0.25pt.*
- **HONGQI:** *FY22 results hurt by higher material costs but diverse funding channel supports repayment ability. HONGQI'23 was unchanged and HONGQI'24 down c1pt since results released on last Friday. See below.*
- **COGARD:** *Weak FY22 results as expected, concerns on refinancing plan remains. COGARDs rallied 0.75 to 5pts yesterday and 0.5 to 4pts this morning. See below.*

❖ Trading desk comments 交易台市场观点

New KOMRMR 28s opened 10bps tighter but then retraced all the intra-day tightening back to unchanged (T+185) into close. New AIA 33s were indicated 3bps wider. China TMTs were traded another 3-8bps tighter. We saw more active two-way flows in BABA/TENCNT/LENOVO. In SOEs, HAOHUA curve edged 2-5bps tighter. In financials, HRINTH curve was traded (10-50bps tighter) 1.5-3.5pts higher post the company announced earnings. GRWALL/CCAMCL were also under better buying. In T2 space, China banks grinded 1-5bps tighter. We saw BCHINA/ICBCAS/CINDBK were better-bid with the support from RMs. SG space were under better buying as well. Leasing and China security houses were traded 2-5bps wider. In Chinese properties, SINOCEs performed mixed, as its 24-26s were marked 3-6.5pts lower and fluctuated between mid-50s to high-60s. Whilst SINOCE 29s/30s were marked 7ps higher at mid-40s. COGARDs were traded 1.5-4.5pts higher across the curve. ROADKGs were up 1.5-2.5pts. GRNLGR 24s were marked 4.75pts higher. Away from properties, Macau gaming names such as MPELs/SANLTDs were up 0.5-1.5pts. Industrial names FOSUNIs/WESCHIs were bid up 0.5-1pt. In India space, VEDLNs moved 0.5-1.5pts lower. Indonesian names LMRTSPs/MEDCIJs were marked 0.75-1.75pts higher.

In the Asia AT1/Perp/LGFV spaces, the recent risk-on sentiment carried forward into Thursday. In AT1s, HSBC 8 Perp gained 2.5pts to close around 97.75 amid regional RMs/PBs buying, in light of the recovery in European AT1s in general. HK bank beta names performed strongly. BNKEA 5.825 Perp/NANYAN 6.5 Perp were traded 0.5-1.5pts higher. Other Chinese AT1s low-beta names broadly closed unchanged to 0.25-0.5pt higher. Thai/Korean AT1s were up around 0.5pt. In SOE Perps, CTIH 6.4 Perp was traded another 0.375pt higher to close around 102.5, on the back of RM buying. The rest of the SOE perp space was marked 0.125-0.25pts higher amid

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two-way flows among Chinese AMs, whilst we also saw profit takers selling into deployment flows. In LGFVs, flows were two-way skewed to small better selling in the front end papers, although sentiment remained afloat.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
SINOCE 4 3/4 01/14/30	44.4	7.0	SINOCE 3.8 04/26/25	44.6	-6.5
COGARD 3 1/8 10/22/25	56.8	4.7	SINOCE 6.876 PERP	33.7	-4.7
GRNLGR 6 3/4 06/25/24	50.8	4.7	SINOCE 6 07/30/24	68.7	-4.6
COGARD 5 5/8 12/15/26	56.1	4.6	SINOCE 3 1/4 05/05/26	52.8	-3.7
COGARD 5.4 05/27/25	63.1	4.5	SINOCE 2.7 01/13/25	55.4	-3.0

❖ Marco News Recap 宏观新闻回顾

Macro – U.S. stock markets got another rebound yesterday, S&P (+0.57%), Dow (+0.43%) and Nasdaq (+0.73%) continued to be boosted by tech names like AMD or AMZN. U.S latest weekly initial jobless claim is +198k, higher than expectation of +196k. The U.S. treasury yields were divergent yesterday with short-term yield rose while long-term yield slightly down, the 2/5/10/30 yields reached 4.10%/3.66%/3.55%/3.74%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ HONGQI: FY22 results hurt by higher material costs but diverse funding channels support repayment ability

Hongqiao's FY22 results were in line with profit warnings. The cost of raw material, bauxite and alumina, increased significantly in FY22 driving up the overall cost of sales. Gross profit fell by c40% yoy to RMB18.2bn, GP margin down to 13.8% from 26.6% in FY21 despite increase in unit sale price of aluminum products. Finance cost with RMB600mn reduction due to repayment of offshore USD bond and onshore MTNs, the total interest bearing debt at cRMB60bn at Dec'22, down 2% from Dec'21. Operating cash flow fell in FY22, partly due to the increase in raw material inventory level to 2 months from 15 days to create a buffer facing the tight raw material market supply. The cash balance dropped to RMB27.4bn at Dec'22 from RMB49.2bn at Dec'21, however, the company said it is satisfied with the current level. It estimated the cash level at RMB7-8bn is sufficient for their daily operation.

On the other hand, one of the five rating downgrade triggers of Moody's is adjusted debt/EBITDA remains >3x. Per our discussion with Moody's, the FY22 numbers are still below the trigger based on the results announcement, yet they are waiting for the full annual report to perform analysis especially on the cash flow. Meanwhile, S&P could change its positive outlook back to stable if "FFO/debt trends towards 45% over a sustained period". We have also discussed with S&P that they will refresh their forward looking views after discussing with the company especially on their raw material cost and inventory level expectation in coming 1-2 years. It would not lead to an immediate change in outlook back to stable solely because the ratio fell below 45% for FY22. It is currently rated at Ba2/Stable (Moody's) and BB-/Positive (S&P).

In terms of CAPEX, it has completed the 1st phase of Yunnan project of 1mt electrolytic aluminum production capacity shift in FY22. The FY23 CAPEX is budgeted at similar level as FY22 at cRMB9bn, this already included the cost of production capacity shift to Yunnan, Honghe project and other PPE purchase and recurring maintenance.

For debt issuing plan, it is waiting for the NDRC approval on USD500mn offshore bond and loan for refinancing. We see its diverse funding channels, both onshore and offshore, allows it to refinance and meet the near term maturity as supported by its strong market position as one of the world's largest aluminum producers and record of robust operating cash inflow across the year. During 1Q23, it raised RMB2bn c1-year bills and proposed to offer up to RMB20bn 7-year bonds to repay debts; it also raised RMB300mn via 2-year MTNs to fund raw material purchase. It currently has 2 USD bonds outstanding with the nearest maturity in May'23 amounting to cRMB1.38bn (USD200mn). It is able to repay the due'23 with its existing cash, in our view.

List of outstanding offshore USD bonds:

	Ask Price	YTM (Ask)	Amount o/s
HONGQI 7.375 05/02/2023	100.1	6.1%	USD200mn
HONGQI 6.25 06/08/2024	96.1	9.8%	USD500mn

Source: Bloomberg.

➤ **COGARD: Weak FY22 results as expected, concerns on refinancing remain**

Country garden released weak FY22 results as expected given the sluggish property sales and profit warning issued on 13 Mar'23. Its FY22 revenue was down 17.7% yoy to RMB430.37bn and gross profit down 64.6% yoy to RMB32.9bn, representing 7.6% gross profit margin, dropped from 17.7% in FY21. The company made cRMB23bn asset impairment provision including cRMB15bn on construction in process and cRMB8bn on sold properties, the adjusted FY22 gross profit margin is 13.4% if excluding the impairment provision. In 2022, Country garden's attributable contracted sales was RMB357.47bn and GFA is c44.5mn sqm, fell 35.9% and 33.0% yoy respectively. The contracted ASP was cRMB8,033, down from RMB8,402 in FY22. Its contracted ASP had declined in four consecutive years. We expect its gross profit margin to continue under pressure in view of contracted ASP of RMB7356 in 2M23.

Country garden discussed about the debt refinancing and issuing plans for maturities in FY23. We note the progress of COGARD in accessing various funding channels over the past few months, however, COGARD remains to have a hectic year in refinancing activities. While the only offshore bond maturities will be the CB (COGARD 4.5 12/05/23) of cUSD380mn, it has offshore loans maturities/amortization of USD1.3bn (cUSD100mn in 1H23 and USD1.2bn in 2H23) for the rest of the year. It also had onshore bond maturities/puts totaled USD3.4bn equivalent. The total bond maturities/puts, as well as offshore loan maturities/amortization for the rest of 2023 will be cUSD5.1bn. On top of these, COGARD will have to pay coupon of all outstanding onshore and offshore bonds totaled cUSD720mn. Hence, there remains a lot of work to be done on the refinancing requirements in 2023.

As per COGARD, it plans to issue cRMB20bn onshore secured bonds and it still has plenty available assets for pledge including cRMB14bn properties, cRMB25bn hotel, cRMB21bn venture capital equity and cRMB400bn developing inventories. It could also repay them by c10% of monthly sales if there is no access to refinancing. We believe that the key for COGARD, like that for many other peers, is a significant recovery of contract sales. The prospect of sales recovery for COGARD could be more challenging in view of its larger exposure in lower tier cities.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Northern Star	600	10yr	6.125%	T+270	Baa3/BBB-/BBB-

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

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ **News and market color**

- Regarding onshore primary issuances, there were 81 credit bonds issued yesterday with an amount of RMB60bn. As for Month-to-date, 2,392 credit bonds were issued with a total amount of RMB2,233bn raised, representing a 26.7% yoy increase
- China official manufacturing PMI of Mar'23 is 51.9, down from 52.6 in Feb'23
- **[ADEIN]** Media reported that Adani is in private bond placement talks with US investors including BlackRock, Pimco
- **[AGILE]** Agile FY22 revenue drops 26% to RMB54bn and cash equivalents decreases to RMB8.46bn from RMB22.8bn
- **[BABA]** Media reported that Alibaba logistics arm working with banks on potential HK IPO
- **[CHINSC]** China SCE Group repurchases USD206.5mn of CHINSC 7.25 04/19/23 in open market; its FY22 revenue down 29% to RMB26.7bn
- **[HONGQI]** China Hongqiao unit issued RMB300mn two-year MTNs to fund raw material procurement
- **[JD]** Media reported that JD plans to list property, industrial subsidiaries in HK
- **[JINGRU]** Jingrui Holdings FY22 revenue down 42% to RMB7.91bn; its co-chairman Chen Xinge resigns; Yan Hao to serve as board chairman, CEO
- **[KWGPRO]** KWG Group expects RMB9.6-9.85bn loss for FY22
- **[LPKRIJ]** Media reported that Lippo Karawaci targets IDR4.9tn (cUSD317mn) presales for 2023, up from IDR 4.76tn last year
- **[MEITUA]** Moody's affirmed Meituan's Baa3 and revised outlook to stable
- **[POLHON]** Poly Property Group proposes to offer up to RMB2bn corporate bonds to repay debts
- **[REDSUN]** Redsun FY22 revenue down 25% to RMB20bn and got RMB3.9bn loss
- **[SINOCE]** Media reported that Sino-Ocean is requested by staff to pay outstanding RMB200mn wealth management product originally payable since 1H22
- **[VNRLE]** Vanke FY22 revenue increases 11% to RMB503.8bn and profit down 1.4% to RMB37.6bn
- **[YXREIT]** S&P affirmed Yuexiu REIT BBB- rating and placed negative outlook

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