

## CMBI Credit Commentary

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

- *Asian IG benchmarks tightened 1-3bps. CCAMCL/ORIEAS tightened 5-10bps. BNKEA/NANYAN T2 tightened 7-10bps. Developers remained firm, NWDEVLs were unchanged to 0.8pt higher. FUTLAN/FTLNHD/LNGFORs rose 1.5-2.5pts.*
- *NWDEVL: Signals of continued support from CTF. Further early redemption expected. See below for comments.*
- *China Policy: Policy shift to revive property and stock markets. See below for comments from CMBI economic research.*

#### ❖ Trading desk comments 交易平台市场观点

Yesterday, the market focus was on NWD's FY24 results and managerial changes last evening. See comments below. NWDEVL Perps/27-31s closed 1.4-2.7pts higher. NWSZF 28/29 were up 0.3-0.4pt. The new KOREAT 28s tightened 5bps from RO. HYUELEs/LGENSOs closed unchanged to 2bps wider. In Chinese IGs, HAOHUA 28-30s tightened 5-7bps. MEITUA 28s/29s/30s were 2-4bps tighter. WB 30s tightened 5bps. ZHOSHK 26/28 tightened 7-10bps. In financials, BNKEA 34s tightened 15bps and NANYAN 34s tightened 7bps. FRESHK '28 was 0.2pt higher (12bps tighter). In Chinese AMCs, CCAMCL/ORIEAS 29-30s were 4-5bps tighter. HRINTH 26-30s were 0.2-0.4pt higher (6-11bps tighter). In insurance, AIA 35/54 were 3-5bps tighter. CATLIF 34/39 were 4-6bps tighter. NSINTW '34 tightened 3bps. In AT1s, the new ACAFP 6.7 Perp was 0.1pt lower from last close. HSBC 6.95 Perp/BNP 7.375 Perp were up 0.1-0.2pt. In Chinese properties, the flows were one-way buying following China's Politburo that vowed to stop property market decline and boost stock markets. VNKRLE 25-29s jumped 4.9-12.2pts, closed 8.9-14.1pts higher WTD. FUTLAN/FTLNHD 25-26s rallied 4.1-4.5pts, FTLNHD '24 rose 1.1pts. LNGFOR 27-32s moved 3.2-3.7pts higher. CHJMAO 26/29 increased 1.0-2.3pts. CHIOLIs/CRHZCHs were 0.4-1.2pts higher. COGOs/YUEXIUs were up 0.2-0.4pt. Outside properties, WESCHI '26 was 2.6pts higher. FOSUNI 25-27s gained another 0.4-1.1pts, closed 0.7-1.7pts higher WTD. On the other hand, EHICAR 26/27 declined 0.3-0.6pt. HONGQIs closed unchanged. Moody's revised China Hongqiao's outlook to stable from negative and affirmed Ba3 rating. In Macau gaming, MPEL/STCITY/WYNNMAC 27-29s were 0.4-0.9pt higher. In Indonesia, MDLNIJ '27 was 0.6pt lower. Elsewhere, GLPSPs/GLPCHIs were 0.8-2.6pts higher.

In LGFVs, TZSOAI priced a 3-yr SBLC USD bond at par to yield 4.45%. SDECDI '26 was 0.4pt higher. CPDEV 25/26/Perp were up 0.2pt. HZCONI/YOSOAO 25s were up 0.1pt. MINMET/CWAHK 26s were 0.2-0.3pt higher.

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## ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
VNKRLE 3 1/2 11/12/29	59.5	12.2	MUFG 4.286 07/26/38	95.8	-0.8
VNKRLE 3.975 11/09/27	62.8	10.8	EHICAR 7 09/21/26	68.3	-0.7
VNKRLE 3.15 05/12/25	89.0	4.9	SUNHUN 2 7/8 01/21/30	92.3	-0.6
FUTLAN 4.45 07/13/25	84.3	4.5	MITHCC 4.6 02/02/26	99.0	-0.6
FTLNHD 4 5/8 10/15/25	77.3	4.3	MDLNIJ 5 04/30/27	33.2	-0.6

## ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (+0.40%), Dow (+0.62%) and Nasdaq (+0.60%) rallied higher on Thursday. US 2Q24 GDP rose 3.0% qoq, in line with the expectation. The latest US initial jobless claim was +218k, lower than the expectation of +224k. PBOC cut RRR by 50bps and seven-day reverse repo rate by 20bps to 1.5%. UST yields edged higher yesterday, 2/5/10/30 yield reached 3.60%/3.55%/3.79%/4.12%.

## ❖ Desk analyst comments 分析员市场观点

➤ **NWDEVL: Signals of continued support from CTF. Further early redemption expected****NWDEVL 5.25 Perp remains our top pick within NWDEVLs**

As we wrote on [2 Sep'24](#), we are not too concerned the weak FY24 results as these were mainly driven by non-recurring and non-cash items and part of these losses were disclosed last Oct when NWD was selling its stakes in NWS to CTF. On the other hand, we see the progresses in debt reduction and NCD, as well as signal of CTF's support to continue. After the "black-out" period of FY24, we expect NWD to conduct another round of early redemption through tenders offer and/or repurchases. These should continue to support the performance of NWDEVLs. Within the NWDEVL complex, NWDEVL 5.25 Perp remains our top pick in view of its more balanced risk-return profile, i.e. lower cash price, and highest coupon reset and step-up after the first call date.

**Table 1: NWDEVL's USD bonds**

Security Name	ISIN	Amt Out (USD mn)	Ask Price	YTM/YTC (Ask)	Next call Date	Coupon reset	Coupon Step-up
NWDEVL 5 ¼ PERP	XS2132986741	999	85.6	16.7	22/3/2026	5yrUST+7.889%	300bps
NWDEVL 6.15 PERP	XS2435611327	345	96.8	13.7	16/3/2025	3yrUST+6.201%	300bps
NWDEVL 4 ½ PERP	XS2348062899	1,144	66.2	17.7	10/3/2028	5yrUST+5.858%	300bps
NWDEVL 6 ¼ PERP	XS1960476387	1,300	56.1	11.1	7/3/2025	-	-
NWDEVL 4.8 PERP	XS2268392599	700	46.7	10.3	28/10/2024	-	-
NWDEVL 4 ¾ 01/23/27	XS1549621586	458	90.0	9.7	-	-	-
NWDEVL 5 ½ 06/16/27	XS2488074662	172	90.5	9.9	16/3/2027	-	-
NWDEVL 8 ¾ 02/08/28	XS2873948702	400	95.1	10.4	8/1/2028	-	-
NWDEVL 4 ½ 07/18/29	XS2028401086	718	77.0	10.3	-	-	-
NWDEVL 4 ½ 05/19/30	XS2175969125	443	75.9	10.2	-	-	-
NWDEVL 3 ¾ 01/14/31	XS2282055081	76	69.2	10.6	-	-	-

Source: Bloomberg.

6,756

**Key takeaways from FY24 results**

The weak FY24 results were largely expected after the profit warning issued on 30 Aug'24. To us, more importance takeaways from the FY24 results are:

- Adrian Cheng resigned from the CEO and replaced by current COO Ma Siu Cheung. Adrian Cheng becomes the non-executive director and non-executive vice-chairman of NWD;
- In Sep'24, NWD entered into a disposal agreement with AC Group Limited, wholly-owned by Adrian Cheng, to transfer the entire issued capital of a group of companies mainly relate to the management of properties under the "K11" brand and related business at HKD209mn. NWD remains the owners of the K11 properties;
- NWD is in discussion with CTF to dispose of all its equity interests held in Kai Tak Sports Park Limited (KTSPL) to CTFE. KTSPL is 75% owned by NWD and 25% owned by NWS. In 2018, KTSPL was awarded the contract for the design, construction and operation of the Kai Tak Sports Park in Hong Kong. The potential disposal is still subject to negotiation of the key terms including the amount of consideration and obtaining the regulatory approvals;
- NWD reiterated it had no plan to conduct rights issue

### **CTF's control and support to continue**

Despite no rights issue plan, our takes for the above is NWD is firmly under the control of CTF, i.e. the Cheng family and the family will continue to provide support to NWD. The change of CEO has demonstrated that CTF remains in close monitoring on the development and performance of NWD, and take charges on the appointment of the key management personnel of NWD. The potential disposal of KTSPL to CTF further demonstrates its willingness and ability to support NWD. Meanwhile, Henry Cheng remains the Chairman of NWD and other family members remain as executive director (Sonia Cheng) and non-executive directors (Adrian Cheng, Cheng Chi Heng, Cheng Chi Ming, and Cheng Kar Shing).

### **Notable progress in refinancing and NCD, more early redemption expected**

NWD has completed debt maturities arrangement of over HKD21bn in Jul-Sep'24, i.e. HKD5bn in Sep'24, and it has just signed an unsecured loan of HKD1bn. The average cost secured was HIBOR+1.1%-1.2%. NWD is also increasing the use of onshore commercial property loans with an outstanding amount of totaled RMB5.8bn and tenors of 10-15 years. The average cost is 3.1%. Recalled that NWD issued USD bonds of USD400mn in Jul'24 and repurchased USD bonds and perp totaled USD154.5mn via tender offers in Aug'24.

Besides, NWD is actively pursuing NCD (non-core assets disposal) to enhance its liquidity. It has completed NCD of HKD7.7bn in FY24, incl. D Park of HKD4.02bn and Qianhai project of RMB1.4bn. The NCD target in FY25 is HKD13bn and the cash proceeds of NCD in Jul'24-Sep'24 was HKD3.8bn, 29% of the FY25 target.

### **The weak FY24 results as expected**

In FY24, NWD reported 34% decrease in revenue to HKD35.8bn from HKD54.6bn in FY23 due to fewer projects were delivered in both Hong Kong and mainland China. The major contributors of property development were residential projects Mount Pavilia and The Masterpiece, grade-A office in Lai Chi Kok, as well as Hangzhou River Opus, Guangzhou Park Paradise and Shenyang New World Garden in the mainland China, while there were deliveries of The Pavilia Farm I & II in Hong Kong in FY23.

The revenue from property investment showed mild increase of 4% yoy in FY24 compared to FY23. The occupancy rates of K11 Musea and K11 Art Mall were solid at 97% and 99% respectively. Besides, hotel operations showed 27% yoy increase in revenue in FY24 from FY23 with the continued recovery tourism in both Hong Kong and mainland China. As at Jun'24, NWD has a total of 17 hotel operations in Hong Kong, mainland China and SEA.

The gross profit decreased 22% yoy to HKD12.8bn, and the core operating profit decreased by 18% yoy to HKD6.9bn in FY24. Finance costs increased by 20% yoy to HKD5.5bn with average interest rate at 5%, while the G&A expenses decreased by 17% yoy with optimization of corporate function and restructuring of business units. NWD booked an one-off and non-cash loss from disposal of NWS of HKD8.3bn as well as non-cash impairment and revaluation losses totaled HKD9.2bn. Its capex was HKD14.8bn in FY24, down 23% yoy. NWD guided the capex of no more than HKD15bn in FY25.

As of Jun'24, NWD had unrestricted cash and bank balances of HKD27.4bn. The net debt (incl. perp) was HKD169.8bn, dropped by 11% compared to Jun'23. However, the net debt (incl. perp) to equity increased further to 90% at Jun'24 from 83.7% at Jun'23 with lower equity. It had HKD18.3bn undrawn lines from banks as of Jun'24.

### Pipelines in FY25 onwards

As of Jun'24, NWD has a total of 2,039 residential units available for sale, projects expected to be booked in FY25 and FY26 include The Pavilia Farm III, Mount Pavilia, The Knightsbridge and Uptown East totaled HKD11.2bn for the coming two financial years. In Jul'24, NWD launched the pre-sale of The Pavilia Forest and recorded contract sales of HKD2.3bn with 25% of the total 1,305 units sold. In 2025, the residential properties will be launched including Wong Chung Hang Phase 5 and State Theatre in North Point. NWD is making continuous progress on farmland monetization through strategic cooperation with the Chinese SOEs.

On investment properties, NWD expects to have a total of 34 K11 projects across 12 major cities in the mainland China, the next opening will be The PARK by K11 Select in Ningbo which will be opened tomorrow (28 Sep'24), and K11 ECOAST in Shenzhen to be opened from end-2024. 11 SKIES in Hong Kong is also one of the a key pipelines of NWD.

**Table 2: Financial Summary of NWDEVL**

HKDmn	FY23	FY24	Change
Contract sales in Hong Kong	8,859	1,509	-83.0%
Contract sales in Mainland China (RMBmn)	15,126	12,484	-17.5%
Revenue	54,566	35,782	-34.4%
-Property development	27,308	16,125	-41.0%
-Property investment	4,996	5,197	4.0%
-Construction	17,286	9,389	-45.7%
-Hotel operations	1,091	1,381	26.6%
-Others	3,885	3,690	-5.0%
Gross profit	16,445	12,849	-21.9%
Core operating profit	8,396	6,898	-17.8%
Profit/(loss) before tax from continuing operations	6,530	(4,748)	-172.7%
Profit/(loss) from discontinued operations	2,229	(7,315)	-428.2%
Net profit/(loss) for the year	3,501	(17,126)	-589.2%
Attributable profit/(loss) to the shareholders of the company	548	(19,683)	-3691.8%
Capital expenditure	19,221	14,800	-23.0%
Gross margin	30.1%	35.9%	-
Net profit margin	6.4%	-47.9%	-
	<b>Jun'23</b>	<b>Jun'24</b>	<b>Change</b>
Cash and bank balances	53,264	27,400	-48.6%
ST debts	53,339	42,813	-19.7%
LT debts	142,237	118,139	-16.9%
Total debts	195,576	160,952	-17.7%
Perpetual capital securities	47,439	36,281	-23.5%
Total debts (incl. perps)	243,015	197,233	-18.8%
Net debts	142,312	133,553	-6.2%
Net debts (incl. perps)	189,751	169,833	-10.5%
Net gearing	51.9%	59.4%	-
Net gearing (incl. perps)	83.7%	90.0%	-
Cash/ ST debts	1.0x	0.6x	-
Undrawn facilities from banks	39,000	18,300	-53.1%

*Note: Net debts is calculated by total debts minus unrestricted cash and bank balances.*

*Source: Company fillings.*

### ➤ China Policy: Policy shift to revive property and stock markets

The Political Bureau of the Central Committee of the Communist Party of China (The Politburo) held an unprecedented meeting yesterday (26 Sep) for the first time to acknowledge the challenges in the economy and vow to stop property market decline and boost stock market. The primary takeaway in the meeting is a shift of policy approach from previous small and piecemeal measures to aggressive and proactive stimulus. By committing to a clear policy objective, greater policy flexibility and stronger stimulus can be deployed in the future. The monetary loosening policies have already unveiled to the public this week. The Politburo said to ensure necessary fiscal expenditures and enhance support to low-income households, indicating moderate fiscal loosening ahead. We believe the macro policy shift may support a rally of Chinese stocks similar to the economy reopening after November 2022 as both were key policy shifts. To revive and reflate economy, however, additional policies are still needed including large-scale fiscal transfer to households, effective reduction in excessive capacity and market-oriented reforms.

**Clear objective to boost property and stock markets.** For the first time, the Politburo meeting clearly called for “promoting the stabilization of the real estate market after halting its decline” and “boosting stock market”. The continued slump of property market is at the core of current economic challenges as it hurts economic growth, financial stability, fiscal prudence, household wealth and business confidence. The announced credit stimulus policies including cuts in LPRs, existing mortgage rates and down-payment ratio for second houses should help boost resale house sales especially in higher-tier cities. But over supply and high inventory are likely to last for another few quarters as housing prices may have additional room to decline. The continued decline of stock market reflects weak confidence about economic outlook and also hurts business and consumer confidence. The policymakers try to stabilize the property market and revive stock market as they believe boosting asset markets might be the first step to restore confidence and growth momentum. By committing to a clear policy objective, greater policy flexibility and stronger stimulus can be deployed in the future.

**Stronger monetary loosening and moderate fiscal stimulus ahead.** The Politburo said to implement strong interest rate cut as the PBOC promised to lower LPRs & deposit rates by 20-25bps and existing mortgage rates by 50bps on average. The central bank also planned to cut RRR by 0.5ppt with possible additional cut of 0.25-0.5ppt within this year. All these measures point to stronger liquidity and credit stimulus in future. The politburo said to “ensure necessary fiscal expenditures” and “enhance support to the poor”, indicating moderate fiscal stimulus ahead. Fiscal revenue has been far below expectations this year, however, we do not expect large-scale fiscal stimulus towards consumption.

**Important policy shift paving the way for a rally in Chinese stocks and RMB FX rates.** China has seen an important shift of its macro policies especially monetary policy from previous small and piecemeal measures to aggressive and proactive stimulus. The policy shift should support a rally in Chinese stocks and RMB FX rates with similar impact like the economy reopening in November 2022. To revive and reflate economy, however, additional policies are needed including large-scale fiscal transfer to households, effective reduction in excessive capacity and market-oriented reforms.

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### ➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Taizhou State-owned Assets	90	3yr	4.45%	4.45%	-/-/-

## Investment Group

## ➤ 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 125 credit bonds issued yesterday with an amount of RMB63bn. As for month-to-date, 1,661 credit bonds were issued with a total amount of RMB1,483bn raised, representing a 4% yoy decrease
- **[CHINSC]** China SCE Group unlikely to settle principal, accrued unpaid interests on USD450mn CHINSC 5.95 09/29/24
- **[COGARD]** Country Garden secured approval from bondholders to postpone payments on nine CNY bonds by six months
- **[HONGQI]** Moody's affirmed China Hongqiao Ba3 rating and changed the rating outlook to stable from negative
- **[LSEAGN]** Landsea Green Management proposes to sell up to around 9% of shares of Landsea Homes Corp

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