

## CMBI Credit Commentary - JIAYUA

### Jiayuan: Opening up a new and lower cost funding channel

Yesterday, Jiayuan announced the placement of USD100mn CBs which will mature in 3.5 years and puttable in 2.5 years. The coupon rate is 7% (gross yield to put 9.8% including the put premium). The conversion price of HKD3.5 is only a premium of 6.06% over the close as at 21 Jul'21. **We believe that the CBs issue is credit positive because: 1) the high likelihood of the CBs being converted into equity in view of the low conversion premium with a high parity of 92.6; and 2) the issue opened a new funding channel with lower funding cost even taking into account of back-loaded yield.**

Subsequent to Shandong asset injections, Jiayuan chairman owns 74.93% of Jiayuan (vs. the cap of 75% to maintain a minimum free float of 25% from public shareholders). **The high parity CBs, in our view, is structured to make conversion into equity likely.** The CBs, if converted, will dilute the ownership of the chairman to 71.9%, and pave the way for him to convert the CBs of HKD3.4bn he received as a part of the considerations for the Shandong asset injection. The CBs owned by the chairman is equivalent to c16% of Jiayuan's equity base as of Dec'20. **Since more dilution is needed for chairman to fully convert his CBs, we should expect to see more equity and equity-related financing after the lock-up period (90-day after the CBs placement).** Please see our ["First Take from the Corporate Day: Jiayuan – Improving credit story continues"](#) dated on 8 Jul'21 for more detailed discussions. The CB conversions and more potential equity financing will notably enlarge Jiayuan's equity base.

Over the past 2-3 weeks, JIAYUAs were flat to 1pt lower and have been holding up well facing the market volatility, somewhat supported by bonds buy-back. On 20 Jul'21, Jiayuan bought back USD5mn JIAYUA 12.5%'23 and USD3mn JIAYUA 11%'24. Indeed, JIAYUAs have been notable outperformers YTD, thanks to the improving credit story, progress in refinancing, broadening of investor base and funding channels, as well as the growing equity base through primarily equity-funded asset injections. The CB placement yesterday reinforced our view that the improving credit story will continue. We continue to believe the JIAYUAs will outperform market, driven by the expectation of further equity-related financing, CB conversion and other positive actions. **JIAYUAs, in our view, are good low-beta plays with an improving credit story and a good carry (YTM/YTP of 10-14%). Within the curve, we like JIAYUA 12.5%'23 most, the bonds offers a small pick over shorter-tenor JIAYUAs and the trading liquidity is better.**

**Glenn Ko, CFA 高志和**  
(852) 3657 6235  
glennko@cmbi.com.hk

**Polly Ng 吴宝玲**  
(852) 3657 6234  
pollyng@cmbi.com.hk

**Wilson Lu 路伟同**  
(852) 3761 8918  
wilsonlu@cmbi.com.hk

**James Wen 温展俊**  
(852) 3757 6291  
jameswen@cmbi.com.hk

**CMBI Fixed Income**  
fis@cmbi.com.hk

*CMB International Securities Limited*

*Fixed Income Department*

Tel: 852 3761 8867/ 852 3657 6291

[fis@cmbi.com.hk](mailto:fis@cmbi.com.hk)

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