

**CMBI Credit Commentary****Fixed Income Daily Market Update 固定收益部市场日报****The Asset Asian G3 Bond Benchmark Review 2023**

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- *Light flows this morning. New AVIILC'27 widened 5bps, Asian IG space was stable. Non-SOE developers were wewak, VNKREs dropped 1.5-2pts, LNGFORs down 0.1-0.5pt and FTLNHD/FUTLAN were unchanged to 1pt lower.*
- *XIAOMI: Better-than-expected 1H24 results ; Buy on XIAOMI CB. See comments below.*
- *KAISAG: Thoughts on and summary of the restructuring plan. See comments below.*

**❖ Trading desk comments 交易台市场观点**

Active flows in Asian market on Wednesday. In Asian IG space, new issue AVIILC'27 widened 5bps from RO. Chinese IGs were weak under better selling flows, CNOOC/SINOCH/SINOPE were 2-4bps wider. China AMCs were stable with two way flows, HRINTHS/GRWALLs were unchanged while CCAMCLs widened 2-4bps. In Industrial, WESCHI'26 further retreated 0.2pt. ZHOSHK'28 was under better selling flows and widened 10bps. China real estate remained mixed, VNKREs dropped 1.5-2pts. LNGFORs/FUTLAN/FTLNHD also down 1-2pts. SOE developers were firm, CHIOLIs/YUEXIUs were unchanged to 0.2pt higher. In HK space, CKINFs rose 0.2-0.6pts. NWDEVLS/NWSZFs were unchanged to 1pt lower. SHUIONs moved -1.5 to +0.3pt. In India space, Adani complex were rebounded up to 0.6pt, UPLLINs were 0.1pt lower. In Indonesia commodity, INDYIJs and MEDCIJs were unchanged to 0.1pt lower.

LGFV sector was firm with active flows. We saw solid demand on both USD and CNH LGFVs. High-quality GZINFUs/ZHHFGRs were unchanged to 0.2pt higher. In SOE Perp space, CHPWCN Perps/HUADIA Perp rose 0.1pt.

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## ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
RILIN 10 1/2 08/06/46	166.0	2.4	VNKRLE 3.975 11/09/27	58.7	-2.0
SHFLIN Float 09/29/26	100.1	1.3	FUTLAN 4.45 07/13/25	79.7	-2.0
HDFCB Float 06/22/26	101.4	1.1	VNKRLE 3 1/2 11/12/29	51.7	-1.9
FANGYA 5.45 02/05/27	100.3	1.0	LNGFOR 4 1/2 01/16/28	75.9	-1.8
PERTIJ 4.7 07/30/49	88.9	0.9	LNGFOR 3.85 01/13/32	62.3	-1.7

## ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (+0.42%), Dow (0.14%) and Nasdaq (0.57%) rallied higher on Wednesday post the publication of dovish Jul'24 FOMC minute. UST yields continued to retreat yesterday, 2/5/10/30 yield reached 3.92%/3.64%/3.79%/4.06%.

## ❖ Desk analyst comments 分析员市场观点

## ➤ XIAOMI: Better-than-expected 1H24 results ; Buy on XIAOMI CB

RMB mn	1H23	1H24	yoy change
Revenue	126,832	164,395	29.6%
-Smartphones	71,580	92,996	29.9%
-IoT and lifestyle products	39,088	47,134	20.6%
-Internet services	14,472	16,314	12.7%
-Smart EV	-	6,395	-
-Others	1,692	1,556	-8.0%
Gross profit	25,753	35,224	36.8%
SG&A and research expense	-19,527	-24,743	26.7%
EBITDA	8,193	13,288	62.2%
Profit for the period	7,882	9,243	17.3%
Capital expenditure	6,397	3,767	-41.1%
Gross margin	20.3%	21.4%	-
-Smartphones	12.3%	13.5%	-
-IoT and lifestyle products	16.8%	19.8%	-
-Internet services	73.2%	76.3%	-
-Smart EV	-	15.4%	-
EBITDA margin	6.5%	8.1%	-
Net profit margin	6.2%	5.6%	-

	Mar'24	Jun'24	Change
Cash and bank balances	39,389	44,148	12.1%
-Restricted bank balances	4,492	4,812	7.1%
Short-term bank deposits and investment	62,633	58,495	-6.6%
ST debts	5,034	8,944	77.7%
LT debts	22,672	21,038	-7.2%
Total debts	27,706	29,981	8.2%
Net debts (Total debt - unrestricted cash - ST inv)	-69,823	-67,849	-2.8%
Cash/ST debts	6.9x	4.4x	-

Source: Company fillings.

Xiaomi reported a better-than-expected 1H24 results. In 1H24, its revenue increased 29.6% yoy to RMB164.4bn, mainly boosted by revenue increase of smartphone and new segment smart EV. In 2Q24, Xiaomi's smartphone shipment increased 28.1% yoy to 42.2mn units, the shipment growth rate was lower than 33.7% yoy in 1Q24 but higher than 2Q24 global smartphone shipment growth of 11.9% yoy. On the other hand, Xiaomi smart EV went to market at the end of Mar'24 and delivered 27.3k units in 2Q24, the company guided to deliver 120k units smart EV in 2024, higher than the previous goal of 100k units. In 1H24, Xiaomi's gross margin improved to 21.4% from 20.3% in 1H23. By segment, the gross margin of smartphone, IoT and lifestyle products and internet services increased to 13.5%, 19.8% and 76.3% from 12.3%, 16.8% and 73.2% in 1H23, respectively. Besides, the gross margin of smart EV was 15.4%, better than the guidance of 5-10% when the product was launched. In 1H24, Xiaomi's EBITDA rose 62.2% yoy to RMB13.3bn, driven by improved gross margin and contained SG&A and research expense increase. We expect Xiaomi's FY24 EBITDA to reach cRMB29bn, increased 55.7% compared with RMB18.9bn in FY23.

Xiaomi's credit profiles remained solid. As of Jun'24, Xiaomi had net cash (total debts - unrestricted cash – ST deposits and investments) of RMB67.8bn, slightly lower than net cash of RMB69.8bn as of Mar'24. We expect Xiaomi to maintain its net cash position over the medium term and its incremental expenses and capex of smart EV to be covered by operating cash inflows and cash on hand. We turned our recommendation on XIAOMI'30/31 to neutral from buy and instead change our recommendation on XIAOMI'27 (CB) from neutral to buy after recent price retracement that the CB price dropped c1.2pts since mid-May'24.

Security Name	ISIN	Amt Out (USD mn)	Maturity/Next put date	Ask Price	YTM	YTP	Rating (M/S/F)
XIAOMI 0 12/17/27	XS2269112863	855	12/17/2025	93.4	-	5.4	Baa2/-/-
<b>XIAOMI 3 % 04/29/30</b>	<b>US98422HAA41</b>	<b>600</b>	<b>04/29/2030</b>	<b>91.8</b>	<b>5.1</b>	<b>-</b>	<b>Baa2/BBB-/BBB</b>
<b>XIAOMI 2 % 07/14/31</b>	<b>US98422HAC07</b>	<b>800</b>	<b>07/14/2031</b>	<b>87.1</b>	<b>5.1</b>	<b>-</b>	<b>Baa2/BBB-/BBB</b>
XIAOMI 4.1 07/14/51	US98422HAE62	400	07/14/2051	76.6	5.8	-	Baa2/BBB-/BBB

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Source: Bloomberg.

### ➤ KAISAG: Thoughts on and summary of the restructuring plan

Kaisa has entered into RSA with offshore AHG holding more than 34% of the In-Scope Debt in principal amount. The restructuring plan is to be implemented through inter-conditional schemes of arrangements to be effectuated at Kaisa Scheme and Rui Jing Scheme. The consent fee of USD1 in the form of new Tranche A bonds will be given to scheme creditor accede to the RSA by 12 Sep'24 and vote in favor of the scheme at the scheme meeting. The longstop date is 31 Mar'25. Separately, the hearing of the winding-up petition of Kaisa has been further adjourned to 9 Sep'24.

In our view, the structure of the offshore restructuring plan of Kaisa is similar to the Aoyuan's plan. Both Kaisa and Aoyuan offer two inter-conditional schemes that USD bondholders can claim against both schemes, while the holders of private placement notes, perps and other loans are only entitled to claim against the Kaisa scheme with a lower recovery ratio. The restructuring plan of Kaisa is relatively straight forward, only offering new notes and MCBs as restructuring considerations without different options. In addition, Kaisa's plan introduces a mechanism to reward Kaisa's management with additional shares if the company redeems the new notes upon maturity of each of the tranche. This could somewhat motivate the senior management and support a better prospect for business recovery.

### **In-Scope Debt**

In-Scope Debt of the offshore restructuring include all the USD bonds and perps, private placement notes, loans and ABS, totaled USD12.9bn in principal amount plus 50% accrued and unpaid interest as of 31 Dec'23. All the In-Scope Debt are entitled to claim against Kaisa Scheme.

Among the In-Scope Debt, debt claims against Rui Jing and other subsidiary guarantors (Rui Jing In-Scope Debt) are also entitled to claim against Rui Jing Scheme, totaled USD11.7bn in principal amount plus 50% accrued and unpaid interest as of 31 Dec'23. Therefore, the USD bondholders can claim against both **Kaisa** Scheme and Rui Jing Scheme. However, the USD perp holder can only claim against Kaisa Scheme as it is not guaranteed by the subsidiary guarantors.

### **Allocation of restructuring consideration**

For each of the scheme, 50% of the restructuring consideration will be in the form of new bonds, and the remaining 50% in the form of MCBs. The new bonds and MCBs will be allocated to creditors under Kaisa Scheme and Rui Jing Scheme are the same. The allocation of the restructuring considerations will be based on the ratio of the recovery rate between the Kaisa Scheme and the Rui Jing Scheme, i.e. 48% for the Kaisa Scheme, and 52% for the Rui Jing Scheme. The recovery rate was estimated based on the liquidation analysis as of 31 Dec'22. The final allocation is subject to change, as the liquidation analysis will be updated based on the financials as at 30 Jun'24.

Scheme Creditors participate in both schemes will receive restructuring considerations equal to 100% of their entitlements. To illustrate, if the claims are against Kaisa Scheme only, the recovery is capped at 48%, according to the existing liquidation analysis, of the outstanding amount in which 50% are new notes and 50% are MCBs.

### **Restructuring consideration – new bonds and MCBs**

The new bonds will be in six tranches, with maturities of 4-9 years from 31 Dec'23. The extended maturities will be Dec'27- Dec'32. Kaisa could elect to pay PIK interest during first 5 years from 31 Dec'23, provided that no more than 20% of the MCBs have been redeemed and Kaisa has to pay minimum cash interest of 0.35%-2.25% during 2025-28. Kaisa also reserves a right to extend the maturity of Tranche A by 1 year to 28 Dec'28 with an extension fee of 1% in the form PIK, and coupon rate of Tranche A will step up by 0.5%.

Regarding the MCBs, each of the eight tranches will become voluntarily convertible to Kaisa's shares (HKSE: 1638) since the voluntary conversion window commencement date, and each tranche will be mandatorily convertible at maturity. MCBs do not carry interest. Kaisa may elect to repurchase the MCBs in 2025, 2026, 2027 at 25c, 35c, 50c, respectively. The share price of Kaisa was HKD0.11 at close yesterday, compared with the conversion price of HKD4.75.

The new bonds and MCBs carry the same cash sweep provision. It includes 75% of net cash proceeds from 18 onshore IP sales, 75% of net cash proceeds from 35 urban renewal projects, and 100% of net cash proceeds from 4 offshore assets sales. The 4 offshore assets are (i) 30/F of the Center in Central, (ii) all of shares in Kaisa Capital Investment (HKSE: 936) held by Mighty Capital and any other member of the Group, (iii) 2.2bn shares in Kaisa Health (HKSE: 876) held by Kaisa and (iv) private funds held by Kaisa and/or any other member of the Group to be agreed between Kaisa and AHG.

### **Management incentive plan**

There is a management incentive plan in the restructuring such that Kaisa may elect to issue up to 3 1/3% ordinary shares of Kaisa and distribute to the Kaisa management personnel after a tranche of new bonds has been fully redeemed. Assuming all the six tranches are fully redeemed, the shareholding of the Chairman post-vesting will be increased to 35.6% from 15.6%.

**Table 1: Summary of key terms of restructuring**

<b>New bonds</b>	<b>Principal amt (USDmn)</b>	<b>Maturity</b>	<b>Cash interest</b>	<b>PIK interest (if elected)</b>
Tranche A	400	28 Dec'27	5.00%	6.00%
Tranche B	600	28 Dec'28	5.25%	6.25%
Tranche C	1,000	28 Dec'29	5.50%	6.50%
Tranche D	1,200	28 Dec'30	5.75%	6.75%
Tranche E	1,800	28 Dec'31	6.00%	7.00%
Tranche F	Note 1	28 Dec'32	6.25%	7.25%

  

<b>MCBs</b>	<b>Principal amt (USDmn)</b>	<b>Maturity</b>	<b>Voluntary conversion window open</b>	<b>Conversion px (HKD/share)</b>
Tranche A	300	31 Dec'25	31 Dec'25	4.75
Tranche B	400	31 Dec'26	30 Jun'26	4.75
Tranche C	500	31 Dec'27	30 Jun'27	4.75
Tranche D	800	31 Dec'28	31 Dec'27	4.05
Tranche E	800	31 Dec'29	31 Dec'28	4.05
Tranche F	1,000	31 Dec'30	31 Dec'29	4.05
Tranche G	1,000	31 Dec'31	31 Dec'30	4.05

Tranche H      Note 2      31 Dec'32      31 Dec'31      4.05

*Note 1: 50% \* [(Rui Jing Scheme Creditor's Entitlements \* Rui Jing Scheme Recovery Rate Ratio) + (Kaisa Scheme Creditor's Entitlements \* Kaisa Scheme Recovery Rate Ratio)] - the aggregate principal amounts of New Notes Tranches A through E*

*Note 2: 50% \* [(Rui Jing Scheme Creditor's Entitlements \* Rui Jing Scheme Recovery Rate Ratio) + (Kaisa Scheme Creditor's Entitlements \* Kaisa Scheme Recovery Rate Ratio)] - the aggregate principal amounts of MCBs Tranches A through G*

Source: Company filling.

### ➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
UETD Construction&Development State-Owned Capital Investment Operation Group	100	3yr	7.5%	7.5%	-/-/-

### ➤ 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 146 credit bonds issued yesterday with an amount of RMB152bn. As for month-to-date, 1,391 credit bonds were issued with a total amount of RMB1,377bn raised, representing a 24.7% yoy increase
- [ADTIN]** Media reported that Adani Energy Solutions is expected to spend up to USD1.9bn capex in FY25, more than three times than its FY24 capex
- [DALWAN]** Media reported that Dalian Wanda Commercial Group is selling its Hangzhou Gongshu Wanda Plaza for cRMB1.5bn
- [GEELY]** Geely 1H24 revenue rose 47% yoy to RMB107.3bn and operating profit rose 34.5% yoy to RMB7.7bn
- [MONMIN]** Moody's affirmed Mongolian Mining's B3 ratings and maintained stable rating outlook
- [SINOCE]** Media reported that Sino-Ocean RSA got less than 30% creditor support on average across four classes as of early this week
- [VNRKLE]** China Vanke unit plans to sell Beijing Wanjin Property Development for RMB2bn
- [YUZHOU]** Yuzhou Group extended long stop date of RSA extended to 28 Feb'25

- [ZHHFGR] Zhuhai Huafa Properties scheduled put option exercise for RMB1.1bn notes on 22-28 Aug'24

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