

CMBI Credit Commentary

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

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- *Markets were overall calm this morning and waiting for tonight's NFP data, at the time of U.S. 2yr yields exceeded 3.5%. CIFIHG's down 0.5-2pts despite got liquidity supports. KWGPRO'22s rallied 4pts to 32/33 level and KWGPRO'23 jumped 8pts to 24.5 level post exchange offer announcement.*
- **CENCHI:** Relationship with Henan government, not 1H22 results, should be the focus. We maintain buy on CENCHIs despite smaller upside. Current valuations of CENCHIs priced in liability management exercise, in our view. See below for comments.
- *Macau's Gaming Inspection and Coordination Bureau published that Macau's gaming revenue slumped 50.7% yoy to MOP2.2bn(cUSD271mn) in Aug'22 and dropped 53.4% yoy to MOP28.9bn(cUSD3.6bn) in 8M22.*

❖ Trading desk comments 交易平台市场观点

Yesterday, China IG space was quiet and hanged firm despite macro selling off for consecutive days overnight. TMT sector was mixed. MEITUA widened 6bps. BIDU/TENCNT tightened 2-4bps. In financials space, T2s continued to be 3-5bps tighter offsetting the climb in rates, with wider names like BOCO HK 31s tightened 12bps. AT1s opened marginally stronger in the morning but edged down 0.5-1pt in the afternoon. AMCs were roughly stable with HRINTHs cash prices marked unchanged to 0.5pt higher. IG property names emerged more buying flows on front-end papers. VNKRL/ SINOCE up 0.5pt. Among other sectors, HAIDIL up 3pts. China HY traded soft as property benchmarks were unchanged to 1pt weaker, while Macau gaming space underperformed. COGARD/ CIFIHG down 0.5-2pts. Elsewhere, GRNLGR notably up 1.5-5.5pts across the curve. GRNLHK was still traded at low-60s level after yesterday's fall. CENCHI down 0.5-2.5pts. In industrials, oil names ANTOIL/ HILOHO curves were up 1-1.5pt. Gaming sector has dropped 0.25-0.5pt last week due to market correction on Covid, as Macau recorded gaming revenue for 8M22 to drop 50.7% YoY to MOP2.189bn. MPEL/ SANLTD/ WYNMAC further down 1.5-3.5pts across the curve as news spread. Ex-China HY was mixed. AZUPOEs hanged firm at high-60s level as investors calmed down. VEDLN however, traded ~1.5pts weaker. Indonesian conglomerate LPKRIJ 25/26 down 3-5.5pts.

In LGFV/SOE Perp space, the macro risk off sentiment did **not** bother the predominantly Chinese investor base. Flows were skewed to slightly better selling in spaces, as rates crept higher with 2y lingering around 3.5%. After a slightly careful tone at open, Chinese RM (mainly onshore) resumed

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deployment in NC2-3y SOE Perps at mid-4% or above, and LGFVs and NC4-5y SOE Perps at high-4%/ 5% or above. As such, price retracement was barely seen apart from in several previously very rich (low-4% or below) AT1s. Benchmark AT1s like BCHINA 3.6/ICBCAS 3.2 emerged selling in the street, but quickly found support again at close to mid-4% making them ~0.25pts weaker on the day. SOE perps remained largely absolute yield driven at high-4%. Overall, home demand in the spaces continued to be robust and while non-Chinese RM seized the window to offload some risks, the bonds that came out were very well bid and absorbed. Elsewhere, LZINVE '22 rebounded by ~2pts to 92/93-handle as selling halted amid improving onshore sentiment, whilst on the other end Chinese PB continued to chase after the bond here.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
GRNLGR 6 3/4 06/25/23	45.7	6.2	ZENENT 12 1/2 09/13/23	56.9	-5.7
GRNLGR 5.6 11/13/22	79.5	6.0	LPKRIJ 6 3/4 10/31/26	68.7	-5.4
MSFLCZ 3.15 03/10/24	94.4	3.9	KWGPRO 6 09/15/22	29.2	-3.6
GRNLGR 5.9 02/12/23	70.1	3.8	WYNMAC 5 5/8 08/26/28	68.1	-3.4
HAIDIL 2.15 01/14/26	81.2	2.9	LMRTSP 7 1/2 02/09/26	71.2	-3.2

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock indexes rebounded slightly after consecutive falls on Thursday. The S&P (+0.30%), Dow (+0.46%) and Nasdaq (+0.02%) showed different range of increase as Nasdaq was dragged by chip companies which were newly banned by the U.S. government to export advanced chip to China. The number of Americans filing new claims for unemployment benefits fell 5k to 232k, the lowest level within two months, which may spur the Fed to continue raising interest rate to cool the labor market down. The U.S. treasury yields edged higher yesterday and the curves bear steepened with 2/5/10/30 yield reaching 3.51%/3.39%/3.26%/3.37%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ CENCHI: Relationship with Henan government, not 1H22 results, should be the focus

Maintain buy on CENCHIs despite smaller upside

CENCHIs rebounded, along with the market, 14-23pts off the lows in mid Jul'22. That said, CENCHIs are still 6-13pts lower than the levels post signing the framework agreement with Henan Tongsheng Zhiye Co., Ltd (HTSZY) on the share transfer in early Jun'22. Over the past 3 months, we saw the 2 positive developments: 1) HTSZY's completion of acquiring 29% stakes from Chairman Wu to become the 2nd largest shareholder of CENCHI despite the market skepticism on the deal and "noise" in Henan; and 2) the full repayment of CENCHI 6.875%'22 (issue size of USD500mn) in full on 8 Aug'22. These demonstrated the firm commitment from the chairman and HTSZY to provide financial support in a very challenging operating and funding environment. As per CENCHI, HTSZY will complete the DD for CBs issue of HKD708mn by mid- to late-Sep'22. If the CBs will successfully be issued and fully converted, HTSZY will become CENCHI's largest shareholder, and CENCHI could be a consolidated entity of HTSZY. While liability management exercise is possible if business and funding environment do not improve, we believe that the current valuation of CENCHIs (mid-30s-to low-50s) have priced in the possibility of a liability exercise, taking cues of the valuations of peers such as CSCHCNs (mid-40s-to low-60s). Recalled that China South City recently extended maturities for 20 months and revised coupon rate to 9%. Hence, we maintain buy on CENCHIs despite the upside will be smaller after the sharp rebound since mid Jul'22. We expect the progress in CBs issue, asset monetization and collection of government receivables to the near-term catalysts.

First ever net loss reported, driven partly by non-operating losses

In 1H22, CENCHI's revenue declined 64% yoy to RMB7.3bn while recorded operating losses of RMB770mn in 1H22, compared with an operating profit of RMB2.1bn in 1H21. It turned to a net loss of RMB5.9bn in 1H22 from a net profit of RMB1.0bn in 1H21, reflected the industry downturn, partly triggered by COVID-19, as well as the non-operating losses (inventory write-down, valuation losses of investment properties, impairment losses on receivables and FX losses) totaled RMB4.1bn. This is the first net loss reported since its IPO in 2008. Its gross margin shrank to 7.6% in 1H22 from 17.9% in 1H21 (vs 14.7% in 2H21), respectively. The lacklustre 1H22 results were largely expected subsequent to the profit warning on 15 Aug'22.

CENCHI has unrecognized sales of RMB71.7bn (incl sales of JCE) as at Jun'22. The gross margin of these unrecognized sales is 11%. Hence, we should see some pick-ups in recognized sales and profit margin going forward. In 7M22, its contract sales were RMB16.2bn, down 51% yoy. It completed c40% of its FY22 sales target of RMB40bn. To achieve the sales target, its sell-through rate will have to increase to 51% in 2H22 from 43% in 1H22. The sales target appears a bit challenging.

Asset monetization and funding access with the assistance of HTSZY are keys to liquidity

	Jun'21	Dec'21	Jun'22
Net gearing	99.2%	98.8%	319.1%
Adj liab/assets	87.2%	86.4%	92.9%
Cash/ST debts	190.5%	143.6%	58.4%
Unrestricted cash/ST debts	125.7%	86.1%	25.1%
MI/equity	24.0%	26.7%	45.6%

CENCHI's credit and liquidity profile weakened notably, reflected the smaller equity base after the net losses in 1H22 and negative free cash flow. We expect some improvement in its credit and liquidity profile in 2H22, supported by the CB issues and collection of government receivables of RMB1-2bn in 2H22. CENCHI expects to generate cRMB2-3bn from asset monetization through the sales of management rights of commercial properties and stakes in culture and tourism projects. The sales of project sales could also help deconsolidate debts. That said, time table of asset monetization remains fluid. CENCHI guided a positive free cash flow in 2H22 and increase in unrestricted cash to cRMB4.7bn by Dec'22 from cRMB2.8bn in Jun'22. We believe that a more notable improvement for CENCHI's liquidity profile to come after HTSZY becoming the largest shareholder of CENCHI. This should notably improve CENCHI's funding access with an even more active involvement of HTSZY. Recalled that HTSZY is wholly-owned by Henan Railway (HNRail, rated A2 by Moody's). HNRail, in turn, is wholly-owned by Henan government and is the sole entity in Henan designated by the Henan government to invest in railways and is responsible for the investment, construction and operation management of railways in Henan.

Click [here](#) for full report.

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Jincheng State-Owned Capital Investment Operation Co., Ltd.	USD200	3yr	-	6.9%	-/-/-

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

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Zhenjiang Transportation Industry Group Co., Ltd.	USD	-	3yr	5.2%	-/-/-

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 99 credit bonds issued yesterday with an amount of RMB147bn. As for Month-to-date, 99 credit bonds were issued with a total amount of RMB147bn raised, representing a 75.6% yoy increase
- Macau's Gaming Inspection and Coordination Bureau said that Macau's gaming revenue slumped 50.7% yoy to MOP2.2bn(cUSD271mn) in Aug'22 and dropped 53.4% yoy to MOP28.9bn(cUSD3.6bn) in 8M22
- According to China Index Academy data, the top 100 Chinese properties' land acquisition amount decreased 53.3% yoy to RMB882bn in 8M22
- [AGILE]** Agile announced to sell two Shandong projects to Road King for RMB650mn(cUSD98.6mn) to boost cash flow
- [AZUPOE]** Fitch has placed the ratings on Azure Power Energy/Solar Energy's USD bonds on Rating Watch Negative
- [BUMIJ]** Bumi Resources disclosed its 1H22 results that revenue up 129% yoy to USD968.7mn and profit after tax up 293% to USD194.6mn
- [CIFIHG]** CIFI said that it is in talks with state-owned banks over a RMB50bn liquidity support; The company is also in negotiation to get USD600mn offshore syndicated loan
- [GRWALL]** Moody's downgraded Great Wall AMC from A3 to Baa1 reflecting weakened profitability, capital position and asset quality, outlook negative
- [INDYIJ]** Indika said that it does not plan to make further investments in coal sector and commits to diversify its business to EV and renewable energy
- [JYGMHD]** JY Grandmark Holdings agreed to sell 50% of the equity interest in Zengcheng residential land to Gemdale Group for around RMB291.3mn

- **[KWGPRO]** KWG Group announced an exchange offer of its three USD bonds(o/s USD1.6bn) due 2022/23 and consent solicitation for six due 2024-27 USD bonds(o/s USD2.46bn) to waive cross default events with three due 2022/23 bonds
- **[MIDEAP]** Midea Real Estate Holdings issued 4-year 4.8% RMB1bn MTN, being the first non-stated owned property developer fully covered by CRMW
- **[RISSUN]** The company's controlling shareholder Rise Sun sold 1.14% stake and still hold 62.24% of its stake
- **[SINOCE]** Sino-Ocean said on call yesterday that it will not call its USD600mn 4.9% Perp at 21 Sep'22; The company plans to issue interbank notes guaranteed by SOE China Bond Insurance
- **[SKYFAM]** Skyfame Realty received a written order from Bermuda Court that unless JPLs are appointed to the company, it cannot dispose its assets or issue/allot stocks except with the JPLs' leave
- **[YUEXIU]** Yuexiu Property signed an HKD1.45bn(cUSD185mn) three-year loan facility agreement

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