

CMBI Credit Commentary

HRINTH: Will Huarong do another round of bond repurchase?

HRINTHs remain our top picks in Chinese AMC space

China CITIC Financial Asset Management (Huarong) announced the transfer of its 60% stakes in China Huarong Financial Leasing (Financial Leasing) to CITIC Group for a consideration of cRMB12bn (cUSD1.7bn). The share transfer will boost Huarong's liquidity and is in line with the Huarong's strategy to re-focus on distressed asset management. While the conviction levels of HRINTHs are lower after a good run since 2H23, HRINTHs, especially HRINTH 4.25 Perp, remain to be our top picks in the sector. We see the likelihood that Huarong could use part of the share transfer proceeds to buy back its longer-dated and lower cash price bonds. Within the Chinese AMC space, we also like GRWALL 3.95 Perp and CCAMCL 4.4 Perp.

Share transfer in line with Huarong's strategic focus

Under the share transfer agreement, Huarong will sell 60% out of its 79.92% stakes in Financial Leasing to CITIC Group for cRMB12bn. The share transfer will be subject to the internal approval of CITIC Group, MOF, EGM of Huarong, etc. Financial Leasing should be the 6th out of 8 non-core assets divested by Huarong over the few 2 years. The sale proceeds will boost Huarong's financial flexibility in refinancing and the one-off gain (cRMB6.4bn) will also help improve the equity base of Huarong at the company level (though the impact at consolidated level should be more muted). The share transfer should help re-direct its focus on expanding distressed asset management. On a pro-forma basis, Huarong's consolidated liab/asset would remain at 95% after deconsolidation of Financing Leasing. We believe that Huarong could further divest its remaining 19.92% stakes in Financing Leasing. Based on the current valuation, the remaining stakes are worth cRMB4bn, representing a source of alternative liquidity.

The close tie with CITIC Group demonstrated once again

The share transfer once again demonstrates that Huarong is an integral part of CITIC Group and the ability of CITIC Group to strengthen Huarong's liquidity and operating profile. Recalled that Huarong acquired 5.01% stakes in CITIC Ltd. (267 HK) for HKD13.6bn from CITIC Group. See our comment titled: [HRINTH: What are behind the name change?](#)

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

Cyrena Ng, CPA 吴蒨莹
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

Will Huarong resume bond repurchases?

During Sep-Nov'23, Huarong announced bond repurchases totaled USD1.5bn, focusing on the longer-date and lower cash price bonds. The estimated non-recurring gain from these repurchases is cUSD350mn. We believe that the repurchases were funded with onshore bonds of RMB20bn issued in Aug'23 at a coupon rate of 3.1%. With the proceeds of cUSD1.7bn to be received from transferring the shares of Financial Leasing and another onshore bonds issue in Dec'23 (RMB6.4bn at 3.3%), we believe that Huarong has a strong financial flexibility in considering further repurchases of its long-dated and lower cash price offshore bonds, as well as preparing for the redemption of HRINTH 4.25 Perp which is callable on 30 Sep'25 at par. The repurchases of lower cash price bonds could help cut Huarong's net debts, funding costs and strengthen its equity base.

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3657 6235/ 852 3900 0801

fis@cmbi.com.hk

CMB International Global Markets Limited ("CMBGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

Disclaimer:

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.