

CMBI Credit Commentary

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

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- *Market sidelined as rates edged further higher with 2yr touching 3.5% overnight. SOE perps/ AT1s remained largely absolute yield driven at high-4% and LGFV north of 5% still well demanded. T2 papers tightened in credit spreads, offsetting the climb in rates. Sentiment remained on the cautious side ahead of NFP tonight.*
- ***Chinese properties:** A quiet and back-loaded reporting season. For non state-owned developers, China SCE, Country Garden, Hopson, Longfor and Yanlord were among outperformers in terms of 1H22 operating results. There remains some developers failed to released 1H22. See below.*
- ***China Economy:** China's PMI remained weak in August as housing market continued to plunge and Covid-19 virus cases rebounded in some regions. Maintaining the GDP forecast for 2022 at 3.5% and lower the forecast for 2023 from 6.6% to 6%. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, China IG space remained strong to end the active month, with spreads broadly tightened around 3bps. TMT sector still closed a constructive tone amid light flows. BABA/BIDU/JD tightened 2-4bps. In financials, AMCs performed mixed after previously trading firmer. HRINTHs cash prices were traded up 0.5-1pt whilst CCAMCL edged down ~0.25pt. T2/ Leasing names tightened 2-3bps on the short-end. AT1s remained rather well bid if not squeeze, with offers at low-4% very well absorbed. IG property were marginally higher but were then traded two-way skewed to better selling into the afternoon. SINOCE extended yesterday's rally to jump 3-8pts across the curve, and were indicated at high-30s to mid-40s level at EOD. China HY was firmer with benchmarks outperformed, while mid-cap names lacked further support after recent run up. High quality "survivor" names saw street lifting. COGARDs climbed another 3.5-4.5pts post results call and CIFIHGs also up 2-3pts on share placement news. Elsewhere, GRNLHK down 17pts, but GRNLGRs were largely stable. Elsewhere, industrials were stable whilst gaming sector underperformed with MGMCHI/ WYNMAC down 1-2pts across the curve. WYNMAC '27 down ~4.5pts. In Ex-China HY, Indian renewables opened slightly higher buoyed by AZUPOE upbeat price action overnight. AZUPOEs up 6.5 -7.5pts after having plunged ~25pts.

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

CMBI Fixed Income
fis@cmbi.com.hk

In LGFV space, LZINVE '22 stabilized at 91-handle in the afternoon among RM sellers versus PB buyers, whilst FM kept more cautious. Technical-driven volatility shall continue on this name, as we still have CNY800mn of LZINVE and CNY2.6bn of LANCNS onshore maturities ahead. Rest of LGFV space were mixed amid overall two-way flows led by 5%-6% 25s/26s papers. GSHIAV still appealed to non-Chinese investors. Among other weaker names, YNPOWE '22 naturally felt weaker but the bond hanged in ~high-98/low-99 as buying from Chinese RM/ structured flows emerged again. Likewise CQNANA 26s finally saw buying interest as soon as offer was pulled to 7%+. For LGFVs, skepticism grew over the so-called 'LGFV faith' among offshore investors after this last-minute settlement of the onshore PPN payment of LZINVE. SHGUOH 4% '23 leaked to 97-handle but was then supported by yield hunters (again 6% for a 23s) and short covering, and were only traded back to ~98 level. SOE perps retraced a bit from the low-4% rich levels as supply emerged from RM/ structured unwinding flows, but remained generally afloat whilst buyers set their eyes on laggard papers at high-4% to 5%+.

➤ Last trading day's Top Movers

Top Performers	Price	Change
SINOCE 6 07/30/24	40.1	8.1
AZUPOE 5.65 12/24/24	60.3	7.2
COGARD 5 5/8 12/15/26	40.9	7.1
CHJMAO 3.2 04/09/26	75.6	5.6
SINOCE 3.8 04/26/25	62.1	5.0

Top Underperformers	Price	Change
GRNLHK 10.21 PERP	80.0	-17.0
MDLNIJ 3 06/30/25	41.9	-4.6
WYNMAC 5 1/2 10/01/27	72.0	-4.3
APLNIJ 5.95 06/02/24	42.5	-2.5
HILOHO 9 3/4 11/18/24	45.3	-1.9

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock indexes closed lower in three consecutive days. The S&P (-1.10%), Dow (-0.96%) and Nasdaq (-1.12%) fell yesterday amid markets' worries about hawkish interest hike. New York Fed President said he expects interest rates to continue higher to subdue inflation, which may need the interest rate reaches 3.5%. The U.S. treasury yields increased slightly yesterday and the curves were inverted with 2/5/10/30 yield reaching 3.46%/3.27%/3.11%/3.23%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ Chinese properties: A quiet and back-loaded reporting season

We saw off the 1H22 reporting season which was quiet and back-loaded as many of the developers released their interim results until very late Aug'22 without hosting investors' call/analyst briefing. Indeed, Aoyuan, Evergrande, Jingrui Kaisa, Modern Land, Shimao, Sinic, etc. failed to publish 1H22 results before end of Aug'22.

For developers announced 1H22 results, many of their operating results are "better-than-our fear" as a result of our managed-down expectation after a slew of profit warning. We saw considerably lower margin and significant profit decline, however, the deterioration of financial is contained. Admittedly, the 1H22 results are largely backward looking, and developers are more or less forced to reduce debts as credits were pulled out from the sector. The sales trend over the next few months, in our view, and signs of strong policy support for developers to resume access to funding are real litmus tests to monitor.

Nonetheless, based on 1H22, we consider developers such as China SCE, Country Garden, Hopson, Longfor and Yanlord were outperformers among non state-owned developers. We believe that their operations have more resilience against downturn, and they have a larger breathing room to manage their offshore maturities.

➤ China Economy – Growth remained weak and may slowly rise ahead

China's PMI remained weak in August as housing market continued to plunge and Covid-19 virus cases rebounded in some regions. By sector, property, construction materials, chemical products and business service saw noticeable contraction, while railway transport service, hotel, catering, telecom service and internet service remained in expansion thanks to seasonal increase of demand during the summer holiday. We expect China's economy may mildly rise from September with a slow resumption in 4Q22-2H23. Housing sales may slowly improve especially in tier one and tier two cities as China will maintain easing liquidity and credit policy with possible further mild cut in loan prime rates in 4Q22. Household consumption is expected to mildly rebound as employment, income and confidence slowly improve. We maintain our GDP forecast for 2022 at 3.5% and lower the forecast for 2023 from 6.6% to 6%.

PMI remained weak as housing market continued to plunge and Covid-19 virus cases rebounded in some regions. PMI in manufacturing rose from 49% in July to 49.4% in August, thanks to strong exports and slow recovery in consumption of goods. But the index remained below 50%, indicating total factory activities remained weak. Meanwhile, PMI in construction sharply decreased from 59.2% to 56.5% as property development investment further declined and the shrinkage of land income restrained local governments' capacity to further expand infrastructure investment. PMI in service also declined from 52.8% in July to 51.9% in August, as the resurgence of Covid-19 virus hurt population mobility and service business. By sector, food and beverage rose to above 55% as it was close to the boom season. Railway transport, hotel, catering, telecom service and internet were also in the expansionary range as related demand seasonally increased in the summer holiday. But construction materials, chemical products, textile, property, and leasing & business service were very weak as property market and small business remained in stressed condition.

Demand improved in manufacturing and construction, yet declined in service sector. New order index in manufacturing and construction respectively rose from 48.5% and 51.1% in July to 49.2% and 53.4% in August. But that in service sector declined from 49.5% to 49.2%, as service business is more sensitive to the rebound of Covid-19 virus cases. Business expectation mildly improved in manufacturing and construction but deteriorated in the service sector.

Material cost & ex-factory price saw less declines. Material cost index in manufacturing, construction and service respectively rose from 40.4%, 45% and 49.2% in July to 44.3%, 53.4% and 49.4% in August. Ex-factory price index in the above three sectors climbed from 40.1%, 50.2% and 46.9% in July to 44.5%, 51.4% and 46.9% in August.

Unemployment pressure remained high as employment index was still below 50%. Employment indexes in manufacturing, construction and service reached 48.9%, 47.7% and 46.7% in August, slightly up from 48.6%, 47.7% and 46.6% in July.

China's economy is in a slow resumption cycle in 2H22-1H23. China's economy slowed in July and August due to the confidence shock in the housing market and resurgence of Covid-19 cases in some regions. The growth may mildly pick up from September with a slow resumption in 4Q22-1H23. China will maintain easing liquidity and credit policy to stabilize housing market. If housing sales remain weak in September, it is likely to see further mild cut of loan prime rates in 4Q22. We expect housing sales may slowly improve in future especially in tier one and tier two cities. Household consumption may mildly rebound as employment, income and confidence slowly improve. We maintain our GDP forecast for 2022 at 3.5% and lower the forecast for 2023 from 6.6% to 6%.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
CNGR Advanced Material Co., Ltd.	USD140mn	3yr	5.7%	5.7%	-/-/-
Chongqing Fuling District New Urban Area Development (Group) Co., Ltd.	USD84mn	3yr	6.0%	6.0%	-/-/-
Zhenjiang Cultural Tourism Industry Group Co., Ltd.	USD57.5mn	3yr	5.2%	5.2%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Jincheng State-Owned Capital Investment Operation Co., Ltd.	USD	-	3yr	7.0%	-/-/-

➤ Market conditions and color

- Regarding onshore primary issuances, there were 59 credit bonds issued yesterday with an amount of RMB42bn. As for Month-to-date, 1807 credit bonds were issued with a total amount of RMB1781bn raised, representing a 8.1% yoy decrease
- [ABMMIJ]** AMB Investama disclosed 1H22 results that revenue up 51.8% yoy to USD652.2mn and profit up 128.3% to USD140.9mn; The company launched a consent solicitation (with a cash consent fee of USD7 per 1000) for its USD200mn senior notes to facilitate the acquisition (cUSD420mn) of a 30% equity interest in Golden Energy Mines
- [AZUPOE]** Azure Power said on its call yesterday that the whistleblower complaint was unrelated to projects that are part of the restricted group for its two USD bonds; The company still did not provide clear timeline for disclosing its FY21-22 results
- [CAPG]** China Aoyuan delays the publication of its 1H22 results and its share will continue to be suspend trading
- [CIFIHG]** CIFI announced to placing 305mn shares at HKD2.08 per share for HKD628mn totally, the funds will be used to repay debts
- [COGARD]** Country Garden plans to issue no more than RMB1.6bn (cUSD237mn) bonds which are guaranteed by SOE CBICL in September
- [GRNLHK]** Greenland Hong Kong published 1H22 results that revenue down 62.7% yoy to RMB5bn and profit down 99.2% yoy to RMB11.5mn
- [JIYAYUA]** Jiayuan disclosed its 1H22 results that revenue down 21.4% yoy to RMB7.4bn and net profit down 75.3% yoy to RMB536mn
- [JINGRU]** Jingrui announced that it will suspend payment due for its USD senior notes, the total o/s amount of its USD bonds is USD1.08bn

- **[KWGPRO]** Media reported that KWG Group has engaged JPM and CNCB as advisors for a solution of its offshore bonds. KWG's looming offshore maturities include USD650mn 6% due 15 Sep and USD250mn 5.2% due 21 Sep bonds
- **[MOLAND]** Modern Land announced to delay the publication of its FY21 and 1H22 results with no concrete timetable
- **[RDHGCL]** Moody's downgraded Radiance corporate family rating from B1 to B2 and its senior unsecured rating from B2 to B3, Moody's also gave radiance the negative outlook
- **[REDPRO]** Redco disclosed its 1H22 results that revenue up 9.2% yoy to RMB9.97bn and net profit down 85.9% yoy to RMB185mn
- **[RONXIN]** Ronshine disclosed its 1H22 results that revenue down 34.4% yoy to RMB14.3bn and got a loss of RMB4.6bn, turning from a profit of RMB1bn in 1H21
- **[SHIMAO]** Shimao agreed to sell its two Beijing lands to China Resources Land for cRMB3.3bn(cUSD480mn)
- **[SINOCE]** Sino-Ocean disclosed 1H22 results that revenue up 14% yoy to RMB23.4bn and loss was RMB1.1bn, the profit in 1H21 was RMB1bn
- **[SUNAC]** Sunac postponed to disclose FY21 and 1H22 results, the timeline is unknown
- **[SUNCHN]** Sunshine 100 delays the publication of FY21 and 1H22 results
- **[YCINTL]** Yincheng International announced an exchange offer for the USD110mn YCINTL 12.5 09/20/22 bond

CMB International Securities Limited
Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

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