CMB INTERNATIONAL 招銀国际

Fixed Income
Credit Commentary

2 Mar 2023

# CMBI Credit Commentary

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

- *Markets were active while skewed to sell this morning. Asian IG space opened 1-3bps tight then widened 1-3bps. Benchmark names like TENCNT also widened c2bps till noon. SOE Perp and AT1 down c0.25/0.5pt. LGFV sector was overall stable.*

- ***YLLGSP**: Resilient FY22 results and business model; maintain Buy on YLLGSP'24 and '26. See below.*

- ***China Economy** – PMI beat expectations as economy continues to recover. CMBI forecasts China's GDP growth may reach 5.4% in 2023 and 4.9% in 2024. See below.*


**Glenn Ko, CFA** 高志和
(852) 3657 6235
glennko@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


### ❖ Trading desk comments 交易台市场观点

Yesterday, Asia IG space had a busy day with focus on new issue front. KBANK 28s were priced at T+125, and was traded actively to close 10bps tighter at T+115. Secondary flows were relatively quiet in the morning while activities came back alive post lunch, after China announced a stronger-than-expected Feb manufacturing PMI, marking highest print since 2012. Chinese financials outperformed, as we saw buyers on T2s/leasing papers. BCHINA/CCB curves were 4-8bps tighter. BOCAVI papers were unchanged to 5bps tighter into close. China SOEs/TMTs were also firm. BABA 31s/TENCNT 30s papers were tightened 3-5bps to T+133/ T+156 area, respectively. BBB names like LENOVO 32s/MEITUA 30s tightened 2bps. Elsewhere, we saw better buying on KHFC/EIBKOR/KDB versus better selling on POHANG/HYUELE. POHANG 28s printed at T+128, 4bps wider than last close. In IG properties, LNGFORs widened ~10bps. China HY property space was roughly stable. COGARDs opened 1-2pts lower on the back of the developer's announcement that Chairman Yeung Kwok Keung resigned, but then recovered 0.5-1pt. CSCHCNs were marked 1-2pts lower. the other hand, DALWAN 25-26s moved 1.5-2.5pts higher. YLLGSP/ CHINSC 23s/24s were up 0.5-1pt. CENCHI 23s were marked 1.5pts higher. On Industrials, WESCHI/CHIOIL were up 0.25pt. In Macau gaming space, MGMCHIs/WYNMACs were bid up 0.5-1pt. India space ADANIG 24s bounced another 2.5pts to 85 level, after falling 5pts to 80 level last week. VEDLNs gained 1.5-3pts across the curve following VRL announced that it was in advance stages of tying up syndicate loans and bilateral facilities. VRL also stated that it was "fully confident" of meeting its upcoming maturities in the quarter ending Jun'23 with the fundraising plans. In Indonesian space, LMRTSP/LPKRIJ pairs were indicated another 0.5-1pt lower.

In the LGFV/Perp/Asia AT1 space, market sentiment was very risk-on after a lackluster Feb. Flows were dominated by switching demand and skewed to better buying. On new issue front, activities were very active in new USD2bn




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

HSBC 8 Perp. This AT1 closed at intra-day high 101.1 level despite a few rounds of institutional profit taking in Asia and Europe, thanks to the relentless demand from regional PBs that digested piles after piles of loose papers. On the other hand, new NANYAN 7.35 Perp with USD300mn issue size performed softly. New NANYAN AT1 was initially traded down to 99.5 but subsequent buying from PB and Chinese NBRM drove the bond back up to a touch below par. Away from primary side, SOE Perps and Asia AT1s were largely stable, but Non-SOE Perps met better selling again. HK FFL perps like NANFUN/CKPH/REGH Perps lowered another 1-2pts on FM selling, despite some short covering flows and AM buying. Elsewhere, LGFVs enjoyed a round of lifting in the early morning led by the high-yielding/high-beta names like GXFING/TLINVT. The likes of HNYUZI/ SIDEVE followed the theme and edged 0.25-0.75pt higher. Shandong names were mixed. SHUGRP/QDHTCO 24s were quoted 0.25pt higher. JNUCGC 26 was traded down 1pt at 88/89 level, retracing from a squeezy level and back to 6%+ area.

## ❖ Last Trading Day's Top Movers

| Top Performers | Price | Change |
|---|---|---|
| VEDLN 9 1/4 04/23/26 | **68.2** | **3.0** |
| VEDLN 6 1/8 08/09/24 | **68.3** | **2.6** |
| ADANIG 4 3/8 09/08/24 | **84.6** | **2.5** |
| LIFUNG 5 1/4 PERP | **60.7** | **2.0** |
| VEDLN 8.95 03/11/25 | **69.7** | **1.7** |

| Top Underperformers | Price | Change |
|---|---|---|
| LMRTSP 7 1/4 06/19/24 | **69.1** | **-2.2** |
| REGH 6 1/2 PERP | **62.0** | **-2.0** |
| CSCHCN 9 10/09/24 | **85.5** | **-1.9** |
| COGARD 7 1/4 04/08/26 | **67.3** | **-1.5** |
| NANFUN 5 PERP | **75.0** | **-1.5** |

## ❖ Marco News Recap 宏观新闻回顾

**Macro –** U.S. stock markets remained weak on Wednesday. S&P (-0.47%), Dow (+0.02%) and Nasdaq (-0.66%) were dragged by tech and real estate sector. The U.S. ISM PMI of Feb'23 is 47.7, increasing from previous 47.4 while lower than forecast of 48.0. The U.S. treasury yields slightly edged up yesterday, 2/5/10/30 yields reached 4.89%/4.27%/4.01%/3.97%, respectively.

## ❖ Desk analyst comments 分析员市场观点

### ➢ YLLGSP: Resilient FY22 results and business model; maintain Buy

**Maintain Buy on YLLGSP'24 and '26**

Yanlord's operating performance remains resilient in a very challenging operating environment. The company has been prudently managing its operations, focusing on the penetration into 20-plus T1/2 cities in YRD and GBA where economic fundamental has been solid and population inflow has been positive. Its operating scale, profitability and leverage have therefore been stable. We consider Yanlord one of the survivors of the sector with an 'normalizing" funding access. YLLSPs were 5-8pts higher YTD. We maintain Buy on YLLGSP'24 and '26 and consider these are low-beta and decent carry plays. That said, we turned Neutral on YLLSP'23 as bonds maturing in less than 2 months' time are already offered above par.

| | YTM(offer) | Offer price | Maturity | O/S (USD mn) |
|---|---|---|---|---|
| YLLGSP 6.75 04/23/23 | 5.7% | 100.1 | 23 Apr'23 | 350 |
| YLLGSP 6.8 02/27/24 | 9.0% | 98.0 | 27 Feb'24 | 400 |
| YLLGSP 5 ⅛ 05/20/26 | 9.6% | 87.8 | 20 May'26 | 500 |

*Source: Bloomberg.*

**Resilient FY22 in a very challenging market environment**

In FY22, Yanlord's revenue declined 17.6% to RMB28.7bn while PBT declined 29.8% to RMB5.4bn, reflected the lower GFA delivered and loss resulting from the withdrawal of SZ Bantian project. The lower GFA delivered (1.7mn sqm including JVs and associates In FY22, down 16.3%) more than offset the higher recognized ASP (RMB36.3k/sqm In FY22 vs 30.8k/sqm in FY21). As per the company, its net core profit was RMB2.1bn in FY22, down 14% yoy, largely in line with the revenue decline. Yanlord has been able to maintain a higher-than-average margin level. In FY22, its gross margin increased to 27.0% from 25.6% but lowered from 35.6% in 1H22. The high margin in 1H22 was attributable to the deliveries of 3 higb-margin projects in T1/2 cities (Shenzhen, Nanjing and Suzhou). Over the medium term, Yanlord expects its gross margin to maintain at 25-30%.

**Contract sales target of RMB45-50bn in FY23 vs RMB68.1bn achieved in FY22**

In FY22, Yanlord's contract sales were RMB68.1bn (consolidation and attributable ratio of 59%), up 14.3%. It is one of the only 2 out of 38 developers under our radar reported contract sales growth in FY22, despite its sales fell short of the target of RMB75bn. The resilient operating performance reflected its focus on higher tier cities with strong economic fundamental. In FY23, it plans for saleable resources of RMB80bn and sets contract sales target at RMB45-50bn (attributable ratio of 50%). This represents 26.6-33.9% yoy decline in contract sales and a sell-through rate of 56-63% (vs our estimate of c57% in FY22) in FY23. We consider the sales target conservative in view of the historical sell-through rate, economic recovery of China and larger room for further policy relaxation in T1/2 cities.

**Largely stable financial profile with refinancing plan in place**

Yanlord's net debts increased 16.4% to RMB25.2bn in FY22. Nonetheless, its financial profile is largely stable with net gearing, cash/ST debts and adj. liab/asset ratios were 55.6%, 1.2x and 66.0% as at Dec'22, compared with 49.4%, 2.3x and 66.5% as at Dec'21 and 58.4%, 1.8x and 67.7% as at Jun'22, respectively. Yanlord will continue the gradual transformation to a more asset-light model but we expect the company to be more active in land acquisitions this year. That said, we estimate its net gearing ratio to moderately decline from the current level by FYE23. As per the company, out of its total cash on hand of RMB20.7bn as at Dec'22, RMB8.5bn was in escrow account, and cRMB2.5bn (cUSD370mn) was at parent company level. The cash at parent company should be sufficient to cover the repayment of YLLGSP 6.75 04/23/23. The o/s amount of the bonds should cUSD330mn after the buy-back of USD20mn.

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- **China Economy – PMI beat expectations as economy continues to recover**

China's PMI further rebounded as output, new orders and business sentiment all continue to improve. The economy remained good on its way to recover. Exports order index also rebounded probably because overseas demand and inflation was more resilient than expected and domestic supply chain further improved. However, we continue to expect China's exports of goods may drop by 3.5% in 2023 after rising 7% in 2022 due to overseas recession risk and disinflation trend. Imports volume may continue to improve, but a disinflation may restrain the growth of imports growth. China's imports of goods are expected to rise 0.5% in 2023 after growing 1.1% in 2022. China's reflation is moderate as ex-factory prices continued to mildly rise. China's GDP growth may reach 5.4% in 2023 and 4.9% in 2024 compared to 3% in 2022. The PBOC seems more cautious in RRR & LPR cuts in near term due to strong new credit and better-than-expected recovery in housing sales in 1Q23. But we cannot rule out their possibility in 2H23 as China's growth rate slows and overseas recession risk increases. China's credit policy should remain accommodative as the 2Y CAGR of GDP remains below potential growth and the reflation is moderate.

**PMI further rebounded in February amid the resumption of factory production and business activities after CNY break.** PMI in manufacturing saw one of the highest monthly improvements in decades as it rose from 50.1% in January to 52.6% in February. The indexes in furniture, metal product and electrical equipment increased to above 60% in February, indicating strong recovery momentum in those sectors. Meanwhile, PMI in construction climbed from 56.4% in January to 60.2% in February, reflecting a faster-than-expected recovery in construction activity. For service sector, PMI rose to 55.6% in February from 54.0% in January as the indexes in road transportation, air transportation, postal service, catering & accommodation and leasing & business activities all rose to the expansionary territory.

**New order and business sentiment continued to improve.** New order index in manufacturing, construction and service respectively rose from 50.9%, 57.4% and 51.6% in January to 54.1%, 62.1% and 54.7% in February. Business expectations improved in manufacturing and service sectors, yet declined in construction sector. Business sentiment indexes in agricultural processing, textile, general equipment, special equipment and autos increased to above 60% in February, indicating bullish expectations in those sectors.

**Exports and imports indexes improved as overseas economy was better than expected and supply chain further improved.** Exports order index and imports index respectively climbed from 46.1% and 46.7% in January to 52.4% and 51.3% in February, marking the first time for the two indexes to rebound to above 50% since June 2021. The exports may improve in near term, yet should remain weak in 1H23. We expect the exports to drop 3.5% in 2023 after rising 7% in 2022 due to overseas demand slowdown and disinflation process. The imports should improve as domestic demand gradually rebounds after the reopening. However, the disinflation may restrain imports value growth this year. We expect imports to rise 0.5% in 2023 after growing 1.1% in 2022.

**China had mild reflation pressure as ex-factory prices and material costs moderately increased.** Ex-factory price indexes in manufacturing, construction and service rose from 48.7%, 52.8% and 47.5% in January to 51.2%, 53.6% and 50.4 in February. Meanwhile, material cost pressure remained low as the cost index in manufacturing mildly increased while that in service sector declined. The ex-factory price index in steel product, general equipment and special equipment rose to above 60%, showing noticeable reflation pressure in those sectors.

**Employment condition continued to improve yet remained weak in service sector.** Employment indexes in manufacturing, construction and service rose from 47.7%, 53.1% and 45.5% in January to 50.2%, 58.6% and 48.7% in February. The employment condition remained weak in service sector as the index was still below 50%. We expect the employment indexes to continue to improve, supporting a recovery of consumption this year.

**China economy is on the way to recover with some fluctuations in the recovery pace.** The PMI in February indicates China economy is well on its way to recover as output, demand and sentiment continues to improve. Due to low base and recovery after the reopening, China's GDP growth is expected to rebound from 3% in 2022 to 5.4% in 2023 and 4.9% in 2024. The YoY growth rates may see some fluctuations with the peak at 2Q23 due to changes in base effect and recovery pace. The central bank seems more cautious on further RRR & LPR cuts in near term due to strong new credit and better-than-expected recovery in housing sales in 1Q23. However, we cannot rule out its possibility in 2H23 as China's recovery pace slows and overseas recession risk increases. China's credit policy should remain accommodative as the 2Y CAGR of GDP remains below potential growth and the reflation is still moderate.

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### ➢ Offshore Asia New Issues (Priced)

| Issuer/Guarantor | Size (USD mn) | Tenor | Coupon | Yield | Issue Rating (M/S/F) |
|---|---|---|---|---|---|
| No Offshore Asia New Issues Priced Today | | | | | |

### ➢ Offshore Asia New Issues (Pipeline)

| Issuer/Guarantor | Currency | Size (USD mn) | Tenor | Pricing | Issue Rating |
|---|---|---|---|---|---|
| China Taiping Insurance Holding | USD | - | PNC5 | 6.75% | -/-/BBB+ |
| HSBC | USD | - | 6NC5/11NC10/ | T+210/245/245 | A3/A-/A+ |
| Norinchukin Bank | USD | - | 5yr | T+140-145 | A1/A/- |
| Sumitomo Corp | USD | - | 5yr | T+160 | Baa1/BBB+/- |

### ➢ News and market color

- Regarding onshore primary issuances, there were 84 credit bonds issued yesterday with an amount of RMB66bn. As for Month-to-date, 84 credit bonds were issued with a total amount of RMB66bn raised, representing a 23.5% yoy increase

- Macau gaming revenue for Feb'23 rose 33.1% yoy to MOP10.32bn (cUSD1.28bn), total gaming revenue for 2M23 is MOP21.9bn (Cusd2.71bn), up 55.3% yoy

- **[ADEIN]** Adani Group denies press rumors that it secured USD3bn from undisclosed sovereign wealth fund

- **[ADINCO]** S&P affirmed Adani International Container Terminal BBB- issue rating and stable outlook

- **[DALWAN]** Media reported that Dalian Wanda Commercial expects to get CSRC approval for Zhuhai HK IPO as soon as Mar'23

- **[GWFOOD]** Wens Foodstuff repurchased and cancelled USD12.53mn of GWFOOD 3.258 10/29/30, o/s amount is USD136.1mn

- **[LENOVO]** Legend Holdings expects FY22 net profit not higher than RMB1.2bn, drop c80% yoy from RMB5.76bn in FY21

- **[LMRTSP]** LMIRT has made refinancing SGD loans due in next 12 months its priority; CEO said banks are reluctant to lend after downgrades

- **[MPEL]** Melco 4Q22 revenue down 30% oy to USD337.1mn and EBITDA is USD6.8mn loss, jumped from USD94mn gain in 4Q21

- **[VNKRLE]** China Vanke plans to raise around USD500mn via share placement for debt repayment, working capital

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

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