Fixed Income
Credit Commentary

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Asia Credit Outlook 2024

Value hunting in a shrinking space

Executive Summary

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A roller-coaster ride in 2023

In 2023, Asia credit market started brightly on the expectations of "policy pivot" of the US Fed and strong recovery of China after re-opening. However, the strong start quickly reversed starting from Feb'23 given the rate hikes continued and recovery of China was well below expectation. Nonetheless, the Asia ex-JP credits staged a late comeback from Nov'23 after active rate cuts by the US FED in 2024 increasingly became the market consensus and China launched package measures to stabilize her economy. Overall, ACIG and ACHY returned 7.5% and 1.1% in 2023, reversed from the negative return of 10.5% and 19.9% in 2022, respectively.

Expectation of 150bps FFR cuts and "normalized" yield curve

CMBI economic research expects the US economy to come between a soft landing and a mild recession. The nominal and real GDP growth in the US will slow from 6.2% and 2.3% in 2023 to 3.1% and 0.8% (market consensus at 3.6% and 1%) in 2024, respectively. Hence, the US FED would start to cut FED Fund Rate (FFR) as early as May'24 and the full year rate cuts could reach 150bps (market consensus at 90-100bps) in 2024. CMBI economic research also expects the 10-year UST yield to lower from 4.5% at end-2023 to 3.9% (market consensus 3.74%) by the end of 2024. At the time of writing, 10-yr UST is already at 3.88% compared with our expectation of 3.9% by end of 2024. The yield curve should then be normalized, reversed the inverted sloping trend.

More favourable fund flow and technical to support the performance in 2024

With the "policy pivot" of the US FED, we expect more favourable fund flow environment to EMs and Asia ex JP given the weaker USD and more room for China to launch her stimulus packages with alleviated concerns on further RMB depreciation and the resulting capital outflow. Additionally, we expect to see the net redemptions in Asia ex JP USD universe to continue, comparing gross issuance of cUSD120bn in 2023 with scheduled maturities of cUSD240bn in 2024 and cUSD230bn in 2025. Our belief is reinforced by the recent trend of repurchases and tender offers funded with lower-cost onshore funding alternatives. These should support the positive technical of our universe despite credit spread in our space is at the tighter end of the spectrum. Meanwhile, we continue to see opportunities of credit spread compression for laggards of sectors with stable or improving credit stories such as those in Macau gaming and TMT.

Themes and picks

We envisage that 2024 will be a year for Asia ex JP credits to start with fund inflow to chase value plays in a shrinking "investable" space. The market will continue to be momentum driven with thin trading liquidity. As a result, market volatility could remain high, especially longer-end UST rates appear to overshoot from our year-end target. Hence, we recommend investors to add duration cautiously. We prefer to focus on belly part of the curve (5-7 years) as the inverted yield curve should gradually be "normalized". We also prefer to add duration through corporate perps with high coupon step-up and bank capital papers. While overall valuation of Asia ex-JP is not cheap, we see spread compression opportunities in various sectors with improving fundamentals. Under these backdrops, our themes for 2024 will center on: -

Theme	Picks	
➢ **Duration and yield pick-up trades.**		
▪ Corp perps with high coupon step-up	LEEMAN 5.5 Perp NWDEVL 6.15 Perp NWDEVL 5.25 Perp NWDEVL 4.125 Perp PCORPM 5.95 Perp	SMCGL 6.5 Perp SMCPM 5.5 Perp
▪ Capital papers (AT1 and T2) of banks	BBLTB 5 Perp BCHINA 3.6 Perp DBSSP 3.3 Perp ICBCAS 3.58 Perp KBANK 5.275 Perp RCBPM 6.5 Perp SHINFN 2.875 Perp	ANZ 2.95 07/22/30 KBANK 3.343 10/02/31 SHINFN 3.34 02/05/30 WSTP 2.894 02/04/30
▪ Leasing companies' majority-owned by state-owned banks or laggards	FRESHK 2 ⅝ 03/03/24 FRESHK 3 ⅜ 02/18/25 CDBFLC 2 ⅞ 09/28/30	BCLMHK Float 09/05/24 BCLMHK Float 12/10/24 BCLMHK Float 03/02/25
➢ **China SOEs** ▪ Short-term bonds with high yields ▪ Selectively add duration, prefer belly part (5-7 years) of the curve	CNBG 3.1 Perp CNBG 3.375 07/16/24 SYNNVX 4.892 04/25/25	HAOHUA 3.875 06/19/29 HAOHUA 3 09/22/30
➢ **Consumption plays with improving or solid credit stories** ▪ Macau gaming, car rental and TMT	MPELs SJMHOLs STCITYs/STDCTYs EHICAR 7.75 11/14/24 EHICAR 7 09/21/26	MEITUA 0 04/27/27(CB) MEITUA 0 04/27/28(CB) MEITUA 3.05 10/28/30 WB 3.375 07/08/30 XIAOMI 3.375 04/29/30 XIAOMI 0 12/17/27(CB) TENCNT 2.39 06/03/30
➢ **Beneficiaries of supportive government policies** ▪ LGFVs from higher tier cities with stronger access to onshore funding ▪ Chinese AMCs with demonstrated government support	CCUDIHs CPDEVs GSHIAVs GXFINGs GZINFU	CCAMCL 4.4 Perp GRWALL 3.95 Perp HRINTH 4.25 Perp HRINTH 4.5 05/29/29 HRINTH 4.25 11/07/27

	KMRLGPs ZHHFGRs	HRINTH 4.75 04/27/27
➢ **Survivors in Chinese properties** ▪ SOEs ▪ non-SOE survivors trading at distressed valuations ➢ T1/2 cities positioning ➢ Ownership of high quality investment properties providing recurring rental income and access to alternative funding channels such as CMBS, CBICL-guaranteed bonds, operating loans, etc. ➢ Manageable near-term maturities, especially offshore bond maturities	CHJMAOs CSCHCNs DALWANs FUTLANs/FTLNHDs HPDLFs LNGFORs YLLGSPs	
➢ **Laggards in South East Asia space** ▪ Turned more neutral on commodity names in general ▪ Value in selected Indian renewables	ADANIG 4 ⅜ 09/08/24 INCLEN 4 ½ 04/18/27 MEDCIJ 8.96 04/27/29	

Summary of recommendation

Corporate Perps	Maintain Buy	LEEMAN 5.5 Perp NWDEVL 6.15 Perp NWDEVL 5.25 Perp NWDEVL 4.125 Perp
	Initiate Buy	PCORPM 5.95 Perp SMCGL 6.5 Perp SMCPM 5.5 Perp
	Chg. to Neutral	ROADKG 7.75 Perp UPLLIN 5.25 Perp
Bank AT1	Maintain Buy	BCHINA 3.6 Perp DBSSP 3.3 Perp ICBCAS 3.58 Perp KBANK 5.275 Perp
	Initiate Buy	BBLTB 5 Perp RCBPM 6.5 Perp SHINFN 2.875 Perp
Bank T2	Maintain Buy	ANZ 2.95 07/22/30 KBANK 3.343 10/02/31 SHINFN 3.34 02/05/30 WSTP 2.894 02/04/30
Chinese Leasing	Maintain Buy	FRESHK 2 ⅝ 03/03/24 FRESHK 3 ⅜ 02/18/25 BCLMHK Float 09/05/24 BCLMHK Float 12/10/24 BCLMHK Float 03/02/25 CDBFLC 2 ⅞ 09/28/30
China SOE	Maintain Buy	CNBG 3.1 Perp CNBG 3.375 07/16/24 HAOHUA 3 09/22/30 HAOHUA 3.875 06/19/29 SYNNVX 4.892 04/25/25
Macau Gaming	Maintain Buy	MPELs SJMHOLs STCITYs/STDCTYs
Car rental	Maintain Buy	EHICAR 7.75 11/14/24 EHICAR 7 09/21/26
Chinese TMT	Maintain Buy	MEITUA 0 04/27/27 (CB) MEITUA 0 04/27/28 (CB) WB 3.375 07/08/30 XIAOMI 3.375 04/29/30 XIAOMI 0 12/17/27 (CB)
	Initiate Buy	MEITUA 3.05 10/28/30 TENCNT 2.39 06/03/30
	Chg. to Neutral	PDD 0 12/01/25 (CB) XIAOMI 2.875 07/14/31
LGFV	Maintain Buy	CPDEVs
	Initiate Buy	CCUDIHs GSHIAVs GXFING GZINFUs KMRLGPs ZHHFGRs
Chinese AMC	Maintain Buy	CCAMCL 4.4 Perp

		GRWALL 3.95 Perp HRINTH 4.25 Perp HRINTH 4.5 05/29/29 HRINTH 4.25 11/07/27 HRINTH 4.75 04/27/27
Chinese Properties	Maintain Buy	CHJMAOs CSCHCNs DALWANs FUTLANs/FTLNHDs HPDLFs LNGFORs YLLGSPs
	Chg. to Neutral	VNKRLEs
SEA Renewables and Commodities	Initiate Buy	ADANIG 4 ⅜ 09/08/24 INCLEN 4 ½ 04/18/27 MEDCIJ 8.96 04/27/29
	Chg. to Neutral	INDYIJ 8.25 10/22/25 SAKAEI 4.45 05/05/24 VEDLN 13.875 01/21/24 VEDLN 8.95 03/11/25

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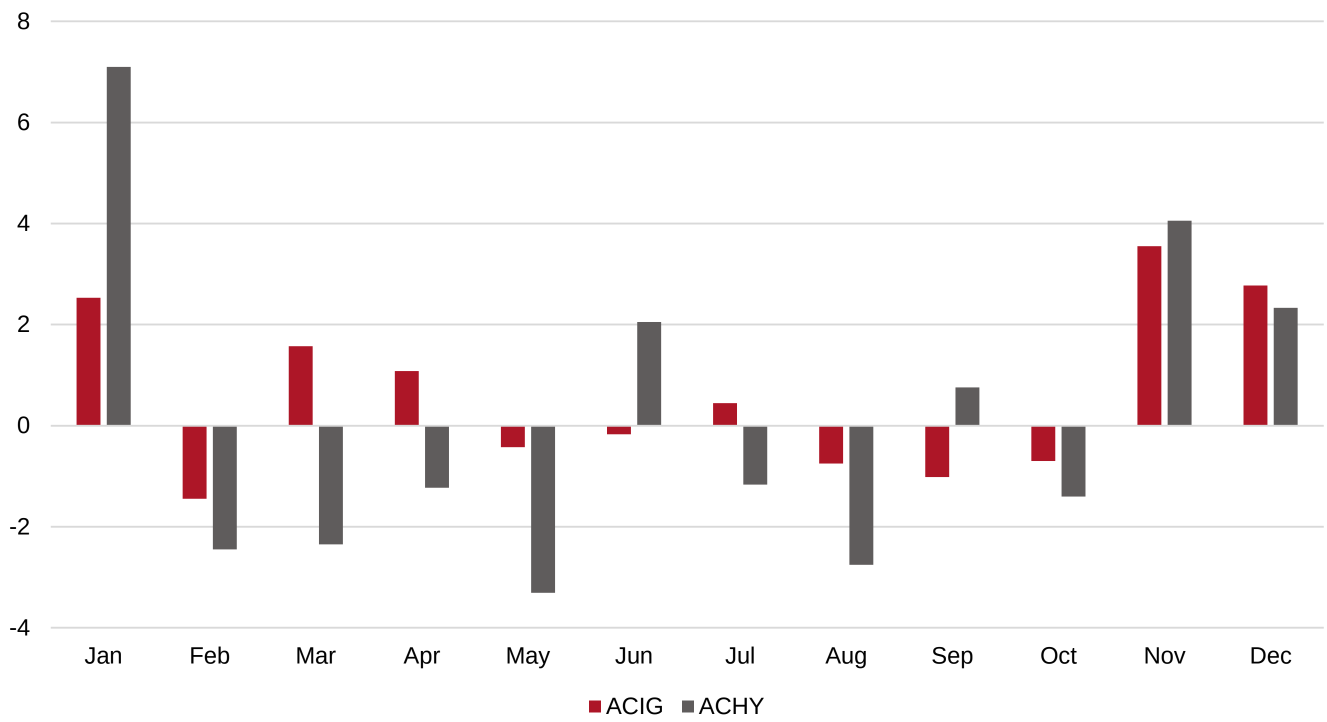
A recap of 2023

Year-end rally overshadowed the volatility throughout 2023

In 2023, Asia credit market started brightly on the expectations of "policy pivot" of the US Fed and strong recovery of China post COVID lockdown. However, the strong start quickly reversed starting from Feb'23 when the US FED continued the rate hikes. In 2023, US FED raised the FFR 4 times, totaled 1% to end the year at 5.33%. Meanwhile, the recovery of Chinese economy and policy support, especially on the property sector fell well short of market expectation. The market re-rating was also exacerbated by the further deterioration of property sales starting from 2Q23 and negative headlines on even once-perceived strongest names in the sector such as COGARD, DALWAN and Vanke.

Nonetheless, the Asia ex-JP credits staged a late comeback starting from Nov'23 after the active rate cuts by the US FED increasingly became a market consensus and China launched package measures to stabilize her economy. Overall, ACIG and ACHY returned 7.5% and 1.1% in 2023, reversed from the negative return of 10.5% and 19.9% in 2022, respectively.

Chart 1: ACHY and ACIG total returns in 2023 (%)



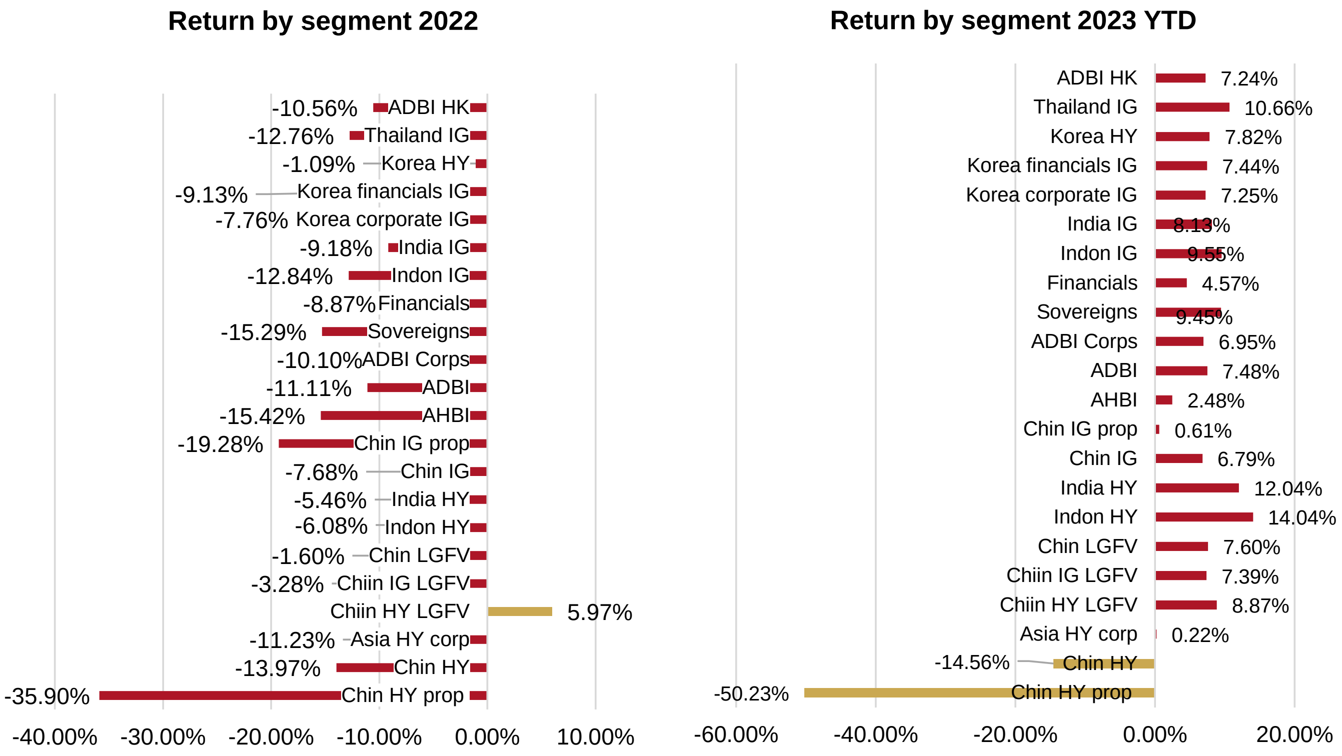
Source: Bloomberg.

Chinese HY property sector dragged the overall performance

According to IBOXX, the Chinese HY properties posted a negative return of -50.2% in 2023, on top of the negative return of 35.9% in 2022. On the other hand, Chinese IG properties, comprised mainly of SOEs, posted a return of 0.6% in 2023, reversed the negative return of 19.3% in 2022.

On the other hand, all the other major sectors posted a positive return. These reflected the split recovery path between China and other countries, as well as within China. As we have been arguing, the recovery of large-ticket consumptions or commitments such as properties, the performance has so far been disappointing. However, for the small-ticket and frequent consumptions such as F&B, travelling, Macau gaming and car rental, the recovery has been resilient. The stronger performance of non-Chinese properties also reflected issuers have stronger access to onshore funding channels. We noted a host of Indonesian issuers including some "distressed" players such as Agung Podomoro and Gajah Tunggal made use of onshore funding to redeem their offshore bonds. Chinese LGFVs and financials such as banks and AMCs had been net redeemers for offshore bonds given their improving access to lower-cost onshore funding. The net redemptions, tender offers and repurchases are amongst the drivers for the stronger performance of sectors outside Chinese properties. See below for more discussions.

Chart 2: Segment return 2023 vs 2022



Source: Bloomberg.

Net redemptions in 2 successive years ….

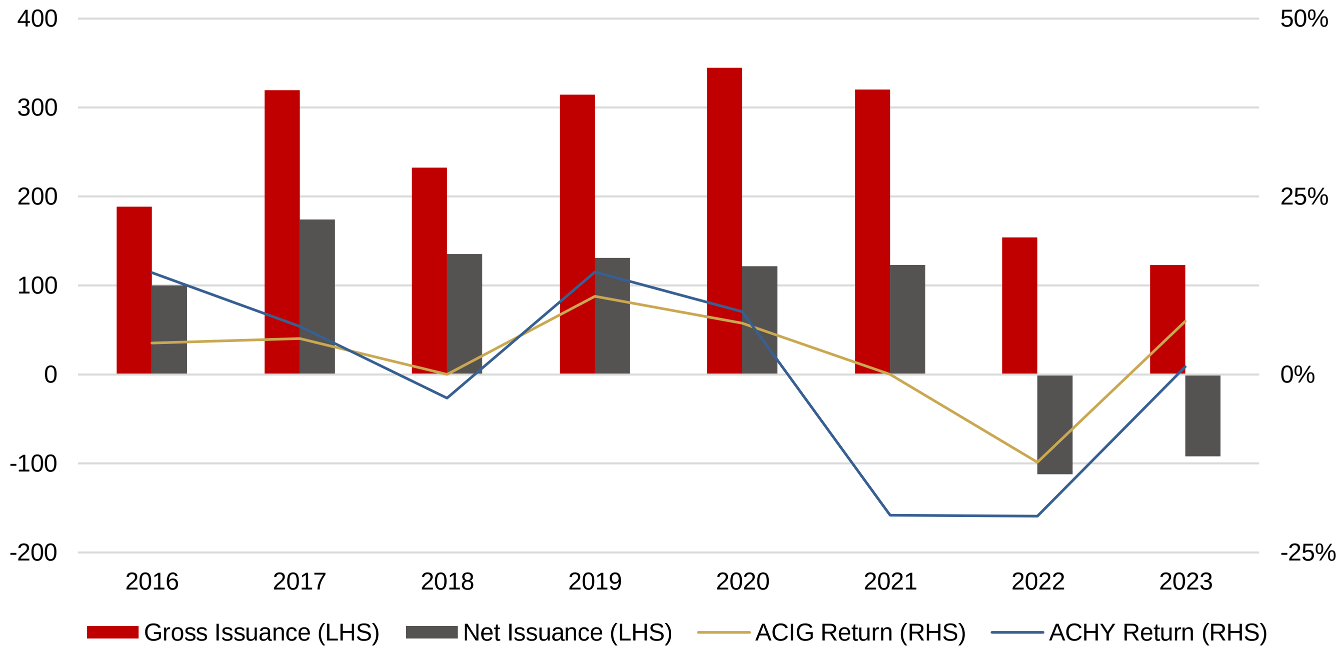
The gross issuance of Asia ex JP in 2023 dropped another 20% to USD123bn on top of the 52% decline in 2022. The gross issuance amount was the lowest since 2014. The lower issuance was attributable to the weak market sentiment, especially on China, the resulting fund outflow, the more issuer-friendly onshore funding channels, dwindling overseas M&A opportunities given the current geopolitical backdrop, etc. In 2023, the gross issuance of China fell another 42.9% to USD41.2bn, on top of the drop of 59.3% in 2022. The share of gross issuance from China had declined from 66.8% in 2019 to 33.6% in 2023.

Indeed, China is not the only country experienced successive drops in gross issuance. In India, the gross issuance of USD bonds dropped 23.2% to USD5.1bn in 2023. Compared with that of USD21.3bn in 2021, the gross issuance of India dropped 75.8% over the past 2 years. In Indonesia, the gross issuance fell in the past 3 years. In 2023, the gross issuance of Indonesia fell 41.8% to USD6.2bn. Compared with that of USD18.0bn in 2020, gross issuance of Indonesia dropped 65.7% over the past 3 years.

On the brighter side, Korea, Hong Kong, Malaysia, Mongolia and Macau recorded higher issuance in the USD bonds in 2023. During the year, the gross issuance of Korea increased 50.6% to USD42.2bn. Korea took over China to be the largest issuer of USD bonds. Nonetheless, the increases in gross issuance from Korea, Hong Kong, Malaysia, Mongolia and Macau were far too low to bridge the shortfall from the significant issuance drop in issuance from major issuers such as China, India and Indonesia.

On a net basis, Asia ex JP experienced another year of net redemptions in 2023. After deducting maturities, amortization, tender offers, repurchases and calls from gross issuance, the net redemptions in 2023 were USD92bn. Over the past 2 years, our space has shrunk 10% to cUSD1.5tn. From a few investors' perspective, Chinese HY properties turned "un-investable". If we take this into consideration, we could argue that our "investable" universe had effectively shrunk 15% over the past years.

Chart 3: Asian ex JP issuance (USD bn) and performance

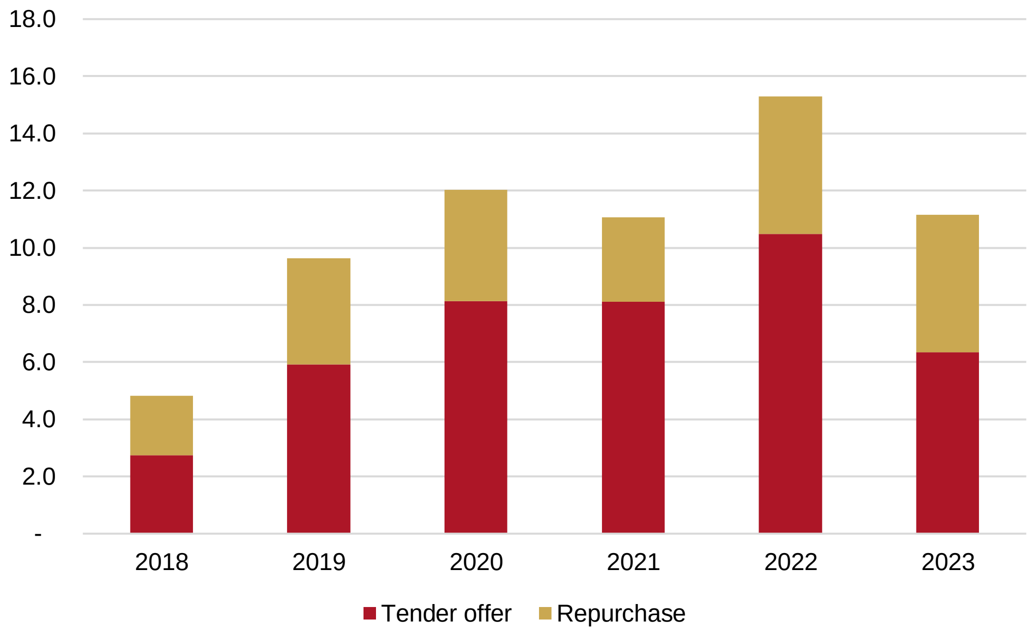


Source: Bloomberg.

… tender offers and repurchases remain active

In 2023, the total amount tender offer and repurchases was USD11.1bn in principal amount. Over the past 3 years, the size of tender offers and repurchases maintained above USD11bn compared with cUSD12bn in 2020 despite gross issuance having decreased to USD123bn in 2023 from USD345bn in 2020. This partly reflected that the increasing availability of lower-cost onshore funding in countries such as China and Indonesia allow issuers to early redeem their offshore bond and perps at discounts. The most notable example is Huarong which issued onshore bonds of RMB20bn (cUSD2.8bn) at a coupon rate of 3.1% in mid Aug'23. Over the 2 months ended mid Nov'23, Huarong announced the repurchases of its offshore bonds totaling cUSD1.6bn equivalent in principal amount. We estimate that the repurchase prices are in the range of low-70 to mid-80. As discussed before, even some "distressed" Indonesia issuers such as Agung Podomoro and Gajah Tunggal are able to access lower-cost onshore funding to redeem the more expensive offshore bonds.

Chart 4: Asian ex JP tender offer and repurchases (USD bn)



Source: Bloomberg.

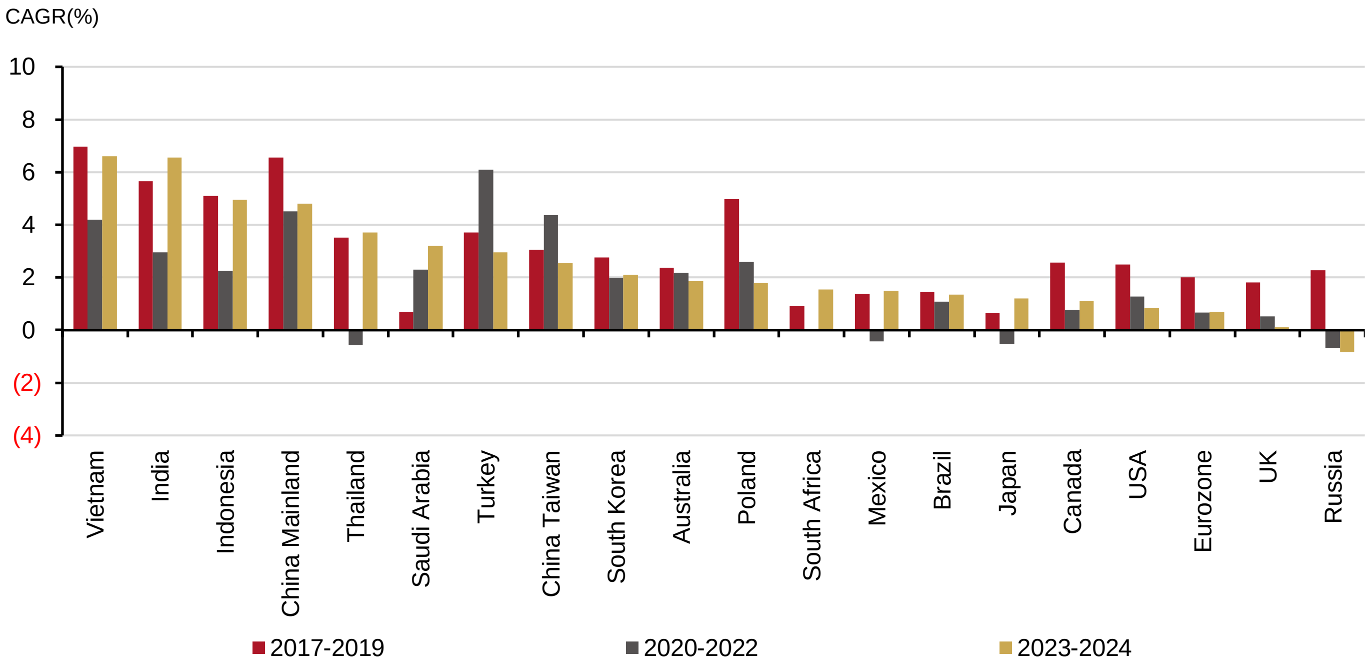
Looking ahead - will 2024 be different?

The backdrop

Easing credit environment with the expectation of 150bps cut in FFR….

CMBI economic research expects the US economy to come between a soft landing and a mild recession. The nominal and real GDP growth in the US will slow from 6.2% and 2.3% in 2023 to 3.1% and 0.8% (market consensus at 3.6% and 1%) in 2024, respectively. The FED could start to cut FFR as early as May'24 and the full year rate cuts could reach 150bps (market consensus at 90-100bps) in 2024. CMBI economic research also expects the 10-year UST yield to lower from 4.5% at end-2023 to 3.9% (market consensus 3.74) by the end of 2024. The yield curve should then be "normalized", and trend of inverted yield curve should be reversed.

Chart 5: Worldwide GDP growth rate



Source: Bloomberg.

…. leading to a weaker USD….

With the gap of economic growth and interest rate between the US and EU narrowing and potential easing of the Russia-Ukraine conflict, CMBI economic research expect the USD index to weaken 5% from 103 at the end of 2023 to 97.8% at the end of 2024. The weaker USD should also be more favourable for fund flow environment for EMs and Asia ex-JP.

…. and more room for China to step up macro policy support

The FED's "policy pivot" should offer more room for China to launch her stimulus packages as the concerns on RMB depreciation and capital outflow will be alleviated given the weaker USD and lower interest rate differential between the US and China. CMBI economic research expects China's GDP to grow at 4.8% in 2024, compared with 5.3% in 2023, supported by the step-up in the macro policy support.

CMBI economic research expects the PBOC to maintain easing monetary policy with additional cuts in RRR, deposit rates and LPRs and guide banks to further expand credit supply, as well as to provide liquidity support for debt-ridden local governments and urban village renovation projects. In addition, the cabinet may increase its broad fiscal deficit (including general fiscal deficit and local government special bond quota) from 6.8% of GDP in 2023 to 7% of GDP in 2024. The provincial governments will be allowed to issue additional special refinancing bonds to replace some of the hidden debts.

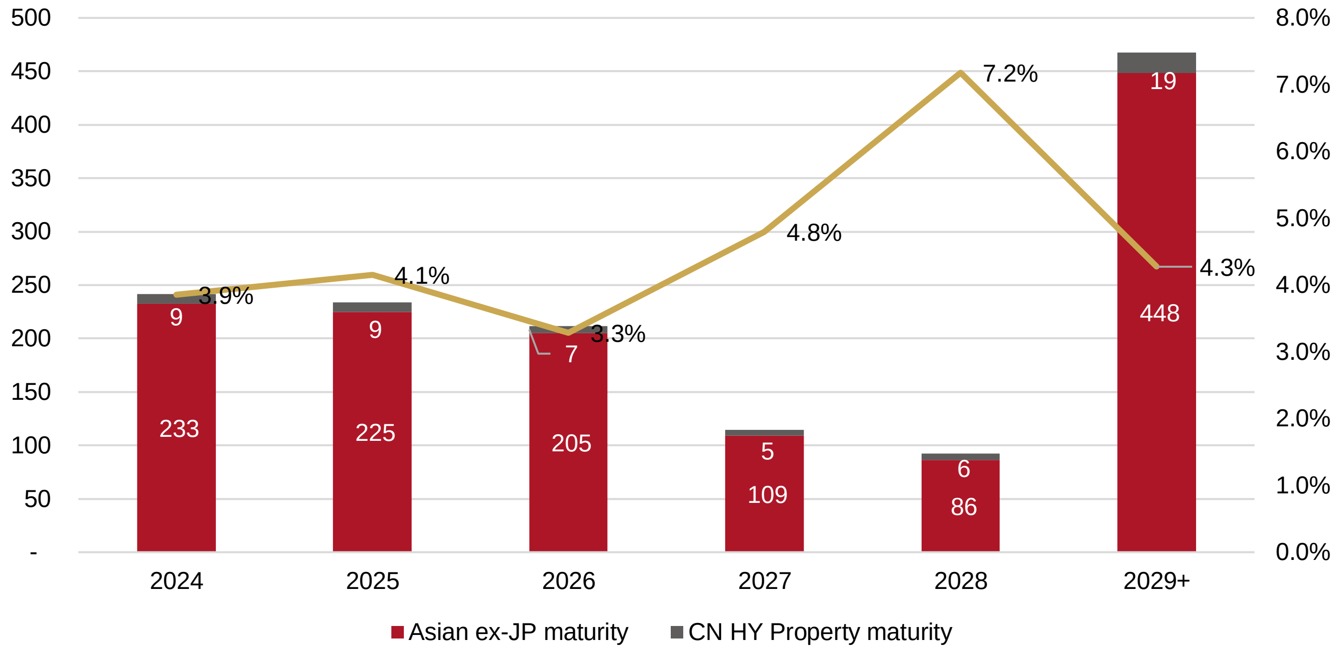
We view the recent round of high-profile discussions and potential support policies, especially those on the property sector, positively. That said, we are skeptical of the implementation and timetable of these supportive policies. On the other hand, we believe that the concerns on these supportive policies would bring additional risk on the asset quality of banks and financial institutions are mitigated as the key policy objectives of these support measures are to stabilize the confidence of home buyers, ensure timely deliveries of projects and prevent systemic risk in the financial sector, instead of bailing out individual developers.

Gross issuance to pick up but net redemption likely to continue

We expect the gross issuance in Asia USD bond universe to pick up in 2024, thanks to the easing rate environment, our expectation of more favourable fund flow to EMs and Asia ex-JP in anticipation of a weaker USD, a stronger recovery of Chinese economy with more supportive regulatory and policy environment. We should see pick-up in issuance from sectors demonstrated more resilient recovery and normalizing funding access. These include Macau gaming, TMT and other smaller-ticket consumption plays such as car rental.

That said, in view of the maturity profile, and continued onshore and funding access we expect the net redemption trend to continue. We are not too concerned on increase in gross issuance (indeed, not even the increase in net issuance) will adversely affect the performance of Asia ex-JP USD universe. We have been arguing, the causality of demand and supply should not be confused. As shown in Chart 3, the Asia ex JP USD bond market performed well between 2016-2020 with the trend of growing gross issuance and large net issuance. The market performed poorly since 2020 even gross issuance declined and net issuance turned to negative. These reinforced our belief that an increase in supply will only be absorbed if market sentiment is strong enough.

Chart 6: Asian ex-JP maturity and China HY property maturity (USD bn)



Source: Bloomberg.

The implications to the 3 pillars: Fundamental, Valuation and Technical

Fundamental: The "blackest" swans were out

We envisage that the US economy will be slowing with moderating inflation and stable to slightly lower commodity prices. The underlying economies in Asia ex JP will benefit from an easing credit environment, as well as more supportive regulatory and operating environment in China. These should provide a more stable operating environment for Asia ex JP credits in various sectors such as TMT, Macau gaming, commodities and consumption.

We expect the split recovery path between property and non-property sectors in China to continue. The recovery of smaller-ticket consumptions such as F&B and travelling remains resilient. The path of recovery for Chinese properties, on the other hand, will be long as confidence of home buyers can only be restored after the economic outlook has improved and expectation of declining property price has reversed. There could be more negative headlines and defaults in Chinese property sector, especially further restructuring of the restructured bonds.

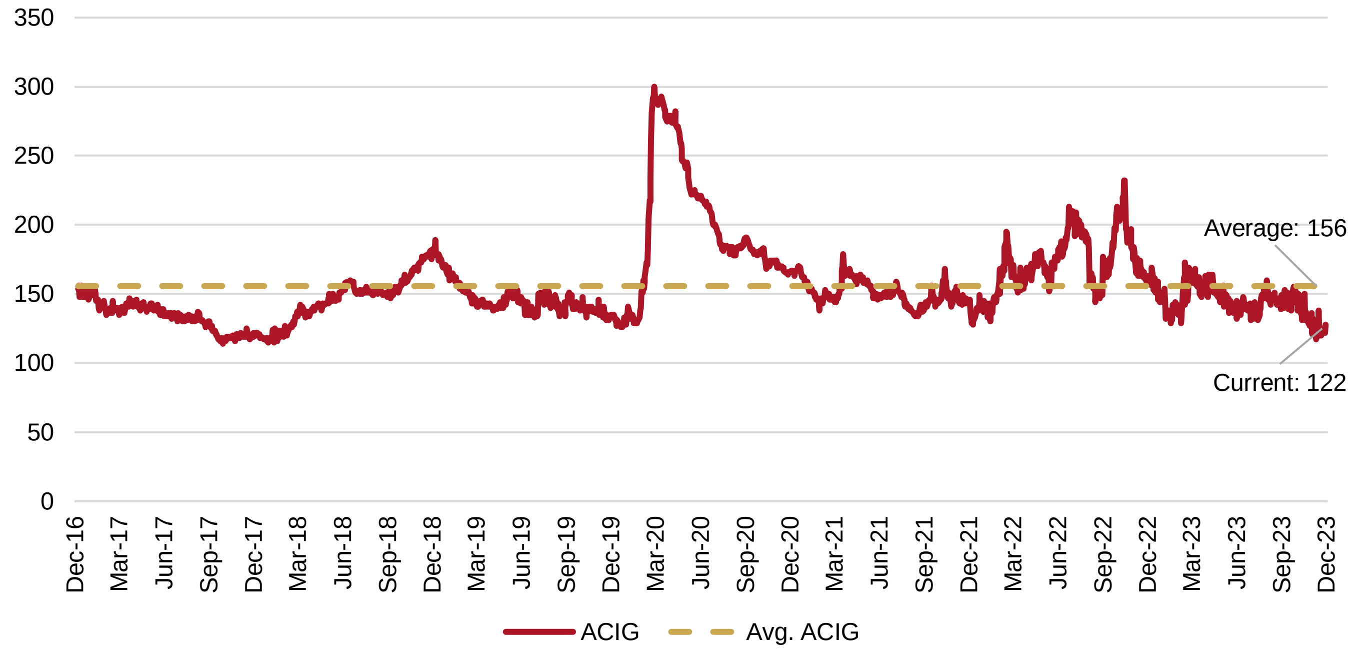
Nonetheless, we believe that the incremental impact of negative news from the Chinese property sector to the overall market sentiment has been diminishing after some of the more, if not the most, feared events such as the default of COGARD and Sino Ocean happened. The market is already differentiating Chinese HY properties with the rest of the market. Additionally, the weighting of Chinese properties in various bond indices and clients' portfolio have reduced substantially. As noticed in Chart 2, the non-Chinese HY properties performed well in 2023.

We believe that the latest round of policy support will help resume funding access for selected developers which remain current and speed up the in-market consolidation of the sector. The support will also help prevent the debacle of the property sector from spilling over to financial institutions and LGFVs.

Indeed, the Chinese government has demonstrated strong support to the financial sectors, as demonstrated by the sizeable bond repurchases of Huarong and the incorporation of Huarong into the CITIC Group.

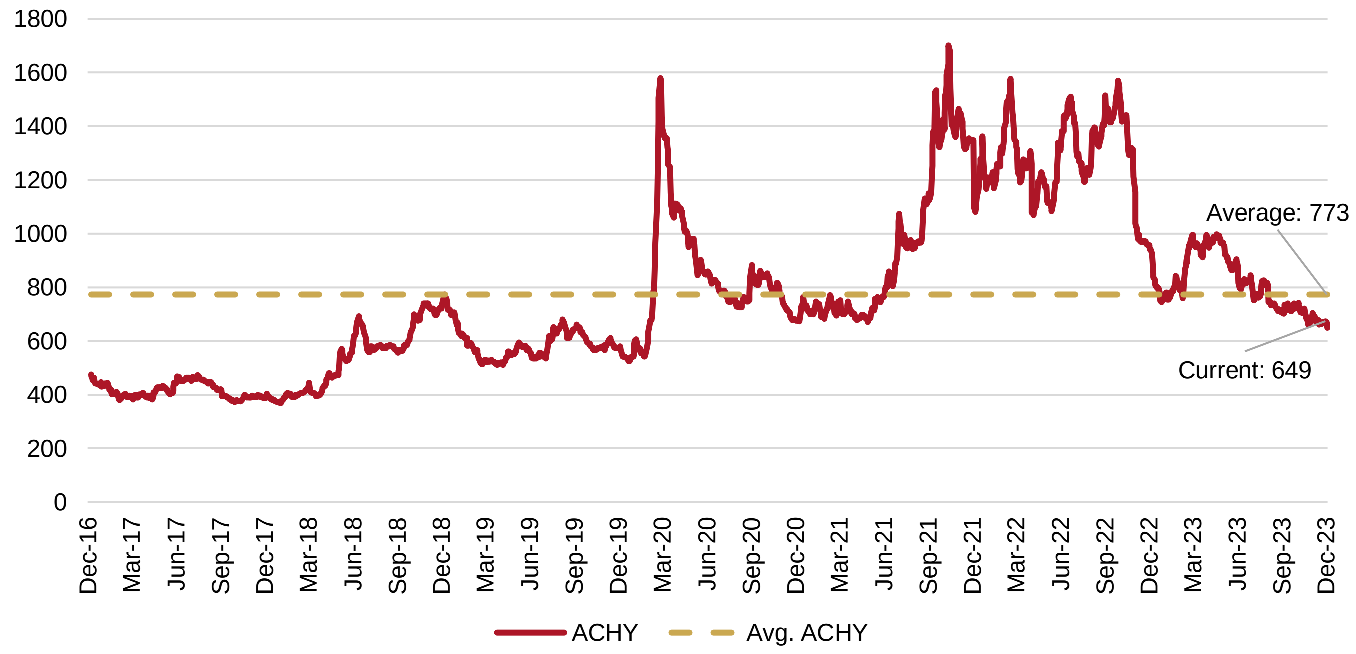
Valuation: Not cheap on spread terms but alpha opportunities in various segments

Chart 7: Govt OAS movement of ACIG



Source: Bloomberg.

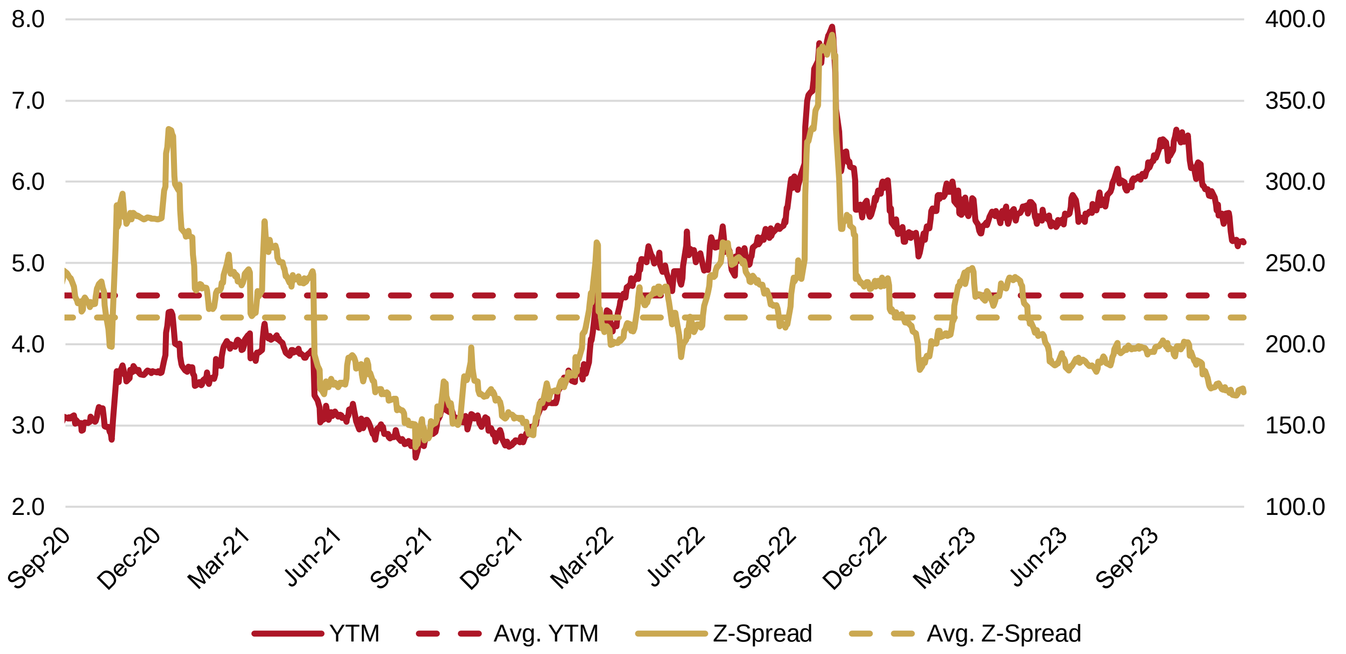
Chart 8: Govt OAS movement of ACHY



Source: Bloomberg.

In IG, the credit spread of Asia ex JP USD credits are at the tighter end of the spectrum. However, Asia ex JP USD credits are at the higher end of the spectrum in term of yield, reflecting the higher UST rates. To illustrate, as shown in Chart 9, HAOHUA 3 09/22/30 is trading at a Z-spread of 170bps versus the average Z-spread of 216bps since the bond issued in Sep'20. However, HAOHUA 3 09/22/30 is trading at YTM of 5.2%, 60bps above the average of 4.6% over the same period.

Chart 9: YTM and Z-Spread of HAOHUA'30

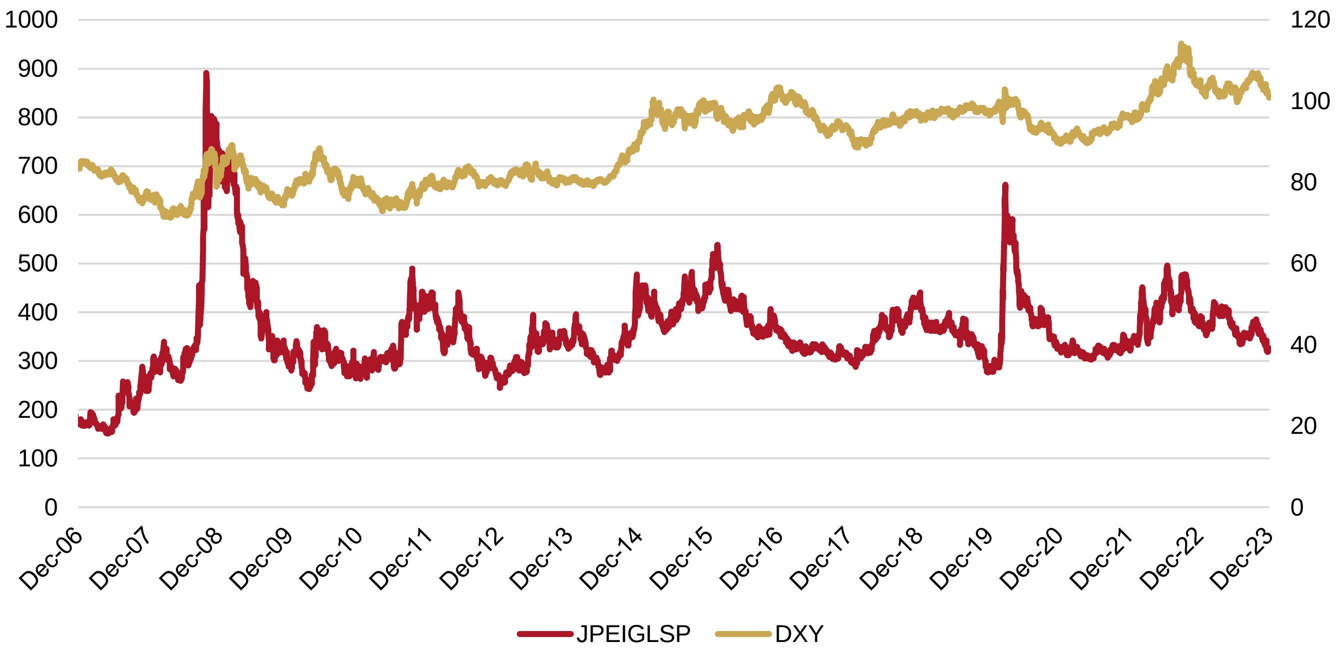


On HY, the overall credit spread is not cheap, and the market has differentiated Chinese HYs and non-Chinese HYs. Non-Chinese HY such as Indonesia and Indian HYs performed well in 2023 and the overall conviction level is lower, especially for the commodity names as we expect commodity prices to be flat or slightly lower from current levels. For Chinese HYs, we expect investors' appetite to remain lukewarm despite the better relative value.

In view of the relatively tight credit spread, we believe that the driver of the general performance of Asia ex JP credit will hinge more on UST movements than credit spread. There could still be room for credit spread tightening, depending on fund flow, which we will discuss below on our rationale for our more favourable expectation for 2024. On alpha opportunities, we continue to see credit spread compression for laggards of sectors with stable or improving credit stories such as those in Macau gaming and TMT.

Technical: more favourable fund flow expected and net redemption to continue

Chart 10: JPEIGLSP index (LHS) and US Dollar index (RHS)



Source: Bloomberg.

We expect to see a supportive technical environment in 2024, driven mainly by expected FFR cuts and resulting weaker USD. Historically, a weaker USD will be more favourable to fund flows to EMs including Asia ex JP.

Additionally, we expect to see the net redemptions in Asia ex JP USD universe to continue. As discussed before, our universe has shrunk 10% to USD1.5tn over the past 2 years because of net redemptions. From a few investors' perspective, Chinese HY properties turned "un-investable". If we take this into consideration, we could argue that our "investable" universe had effectively shrunk 15% over the past years.

Taking cues from maturities of cUSD240bn in 2024 and cUSD230bn in 2025, we could experience further net redemptions in the coming years unless the gross issuance amount will be doubled from the level of cUSD120bn in 2023. While we expect gross insurance in 2024 to pick up from the low of 2023 given the lower interest rate environment and potentially more favourable fund flow to EMs and Asia ex JP, we believe that the chance of gross issuance to increase significantly to offset the maturities in the coming years to be very low as major issuing countries in our space appears to increasingly rely on onshore capital markets. Our belief is reinforced by the recent trend of repurchases and tender offers funded with lower-cost funding alternatives.

Themes and picks

We envisage that 2024 will be a year for Asia ex JP credits to start with fund inflow to chase value in a shrinking "investable" space despite valuation not being too appealing. The market will continue to be momentum driven with thin trading liquidity. As a result, market volatility could remain high, especially longer-end UST rates appear to overshoot from our year-end target. Hence, we recommend investors to add duration cautiously. We prefer to focus on belly part of the curve (5-7 years) as the inverted yield curve should gradually be "normalized". We also prefer to add duration through corporate perps with high coupon step-up and bank capital papers. While overall valuation of Asia ex-JP is not cheap, we see spread compression opportunities in various sectors with improving fundamentals.

Under these backdrops, our themes for 2024 will center on: -

Theme	Picks	
➢ **Duration and yield pick-up trades.**		
▪ Corp perps with high coupon step-up	LEEMAN 5.5 Perp NWDEVL 6.15 Perp NWDEVL 5.25 Perp NWDEVL 4.125 Perp PCORPM 5.95 Perp	SMCGL 6.5 Perp SMCPM 5.5 Perp
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▪ Leasing companies' majority-owned by state-owned banks or laggards	FRESHK 2 ⅝ 03/03/24 FRESHK 3 ⅜ 02/18/25 CDBFLC 2 ⅞ 09/28/30	BCLMHK Float 09/05/24 BCLMHK Float 12/10/24 BCLMHK Float 03/02/25
➢ **China SOEs** ▪ Short-term bonds with high yields ▪ Selectively add duration, prefer belly part (5-7 years) of the curve	CNBG 3.1 Perp CNBG 3.375 07/16/24 SYNNVX 4.892 04/25/25	HAOHUA 3.875 06/19/29 HAOHUA 3 09/22/30
➢ **Consumption plays with improving or solid credit stories** ▪ Macau gaming, car rental and TMT	MPELs SJMHOLs STCITYs/STDCTYs EHICAR 7.75 11/14/24 EHICAR 7 09/21/26	MEITUA 0 04/27/27(CB) MEITUA 0 04/27/28(CB) MEITUA 3.05 10/28/30 WB 3.375 07/08/30 XIAOMI 3.375 04/29/30 XIAOMI 0 12/17/27(CB) TENCNT 2.39 06/03/30
➢ **Beneficiaries of supportive government policies** ▪ LGFVs from higher tier cities with stronger access to onshore funding ▪ Chinese AMCs with demonstrated government support	CCUDIHs CPDEVs GSHIAVs GXFINGs GZINFU	CCAMCL 4.4 Perp GRWALL 3.95 Perp HRINTH 4.25 Perp HRINTH 4.5 05/29/29 HRINTH 4.25 11/07/27

	KMRLGPs ZHHFGRs	HRINTH 4.75 04/27/27
➢ **Survivors in Chinese properties** ▪ SOEs ▪ non-SOE survivors trading at distressed valuations ➢ T1/2 cities positioning ➢ Ownership of high quality investment properties providing recurring rental income and access to alternative funding channels such as CMBS, CBICL-guaranteed bonds, operating loans, etc. ➢ Manageable near-term maturities, especially offshore bond maturities	CHJMAOs CSCHCNs DALWANs FUTLANs/FTLNHDs HPDLFs LNGFORs YLLGSPs	
➢ **Laggards in South East Asia space** ▪ Turned more neutral on commodity names in general ▪ Value in selected Indian renewables	ADANIG 4 ⅜ 09/08/24 INCLEN 4 ½ 04/18/27 MEDCIJ 8.96 04/27/29	

Appendix 1: Corporate Perps – stick with perps with high coupon step-up

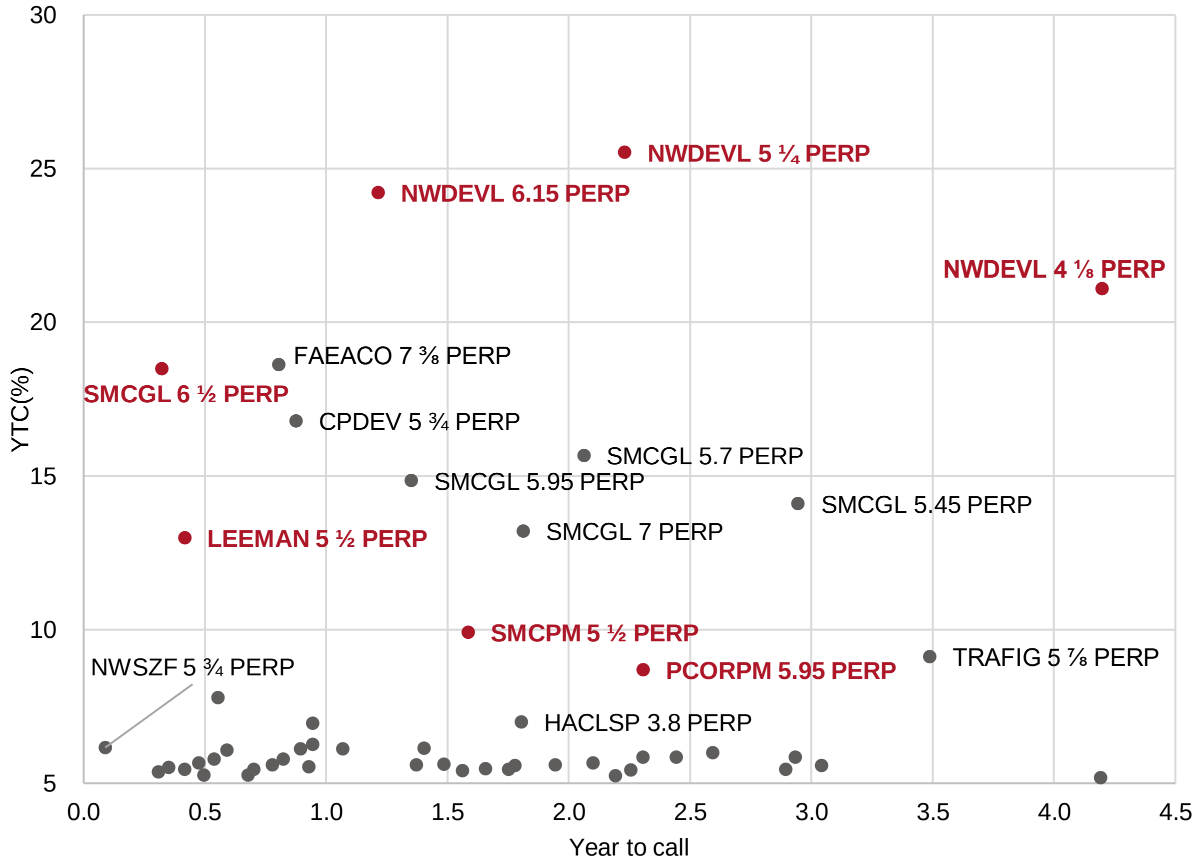
We prefer perps with a high coupon step-up as issuers are more incentivized to early redeem or buy back their perps on or before call dates. Recalled that PCORPM 4.6 Perp was called on its first call date in Jul'23, ahead of the coupon reset and step-up of 250bps. NWS Holdings also announced to redeem NWSZF 5.75 Perp on the first call date in Jan'24. In this space, our picks are **LEEMAN 5.5 Perp, NWDEVL 6.15 Perp, NWDEVL 5.25 Perp, NWDEVL 4.125 Perp, PCORPM 5.95 Perp, SMCGL 6.5 Perp,** and **SMCPM 5.5 Perp.**

Table 1: Summary of our picks

	Recommendation	YTC (ask, %)	Ask price	First call date	Year to call	Amt o/s (USD mn)	Coupon reset	Coupon step-up
LEEMAN 5.5 Perp	Maintain Buy	13.53	96.9	5/29/2024	0.4	213	5yrUST+8.280%	500bps
NWDEVL 6.15 Perp	Maintain Buy	24.34	82.0	3/16/2025	1.3	500	3yrUST+6.201%	300bps
NWDEVL 5.25 Perp	Maintain Buy	25.52	67.2	3/22/2026	2.3	1,000	5yrUST+7.889%	300bps
NWDEVL 4.125 Perp	Maintain Buy	20.17	54.9	3/10/2028	4.3	1,200	5yrUST+5.858%	300bps
PCORPM 5.95 Perp	Initiate Buy	8.44	94.9	4/19/2026	2.4	550	5yrUST+7.574%	250bps
ROADKG 7.75 Perp	Chg. to Neutral	276.9	23.8	11/18/2024	0.9	300	5yrUST+6.003%	-
SMCGL 6.5 Perp	Initiate Buy	19.77	96.0	4/25/2024	0.3	783	5yrUST+6.608%	250bps
SMCPM 5.5 Perp	Initiate Buy	9.38	94.4	7/29/2025	1.5	500	5yrUST+10.237%	500bps
UPLLIN 5.25 Perp	Chg. to Neutral	30.58	76.9	2/27/2025	1.2	400	5yUST+3.865%	-

Source: Bloomberg.

Chart 11: YTC of Asia ex JP corporate perps



Source: Bloomberg.

NWDEVL complex: NWDEVL 6.15 Perp, NWDEVL 5.25 Perp and NWDEVL 4.125 Perp

We continue to believe that the perps of NWD with coupon reset and high step-up (NWDEVL 6.15 Perp, NWDEVL 5.25 Perp and NWDEVL 4.125 Perp) will be early redeemed or bought back on or before call dates, given high coupon step-up of 300bps and NWD's ability to access lower-cost funding.

In Dec'23, NWD completed the tender offers for all of its 5 bonds and 2 perps with high coupon step-up after completion of the sale of NWS stakes to CTF. We were surprised that NWDEVL 5.25 Perp was left out from the tender offers. The final acceptance amount is USD610.283mn, slightly higher than the maximum acceptance amount of USD600mn per announcement of the tender offers.

The accepted amount for the 2 perps, NWDEVL 4.125 Perp and NWDEVL 6.15 Perp, is relatively small. Out of the tendered amount of USD653.2mn for the 2 perps, NWD only accepted USD101.7mn. This, in our view, reflects NWD's preference to use proceeds from the sales of NWS stakes to cut debts instead of to reduce the equity base without the pressure of notably increase in cash coupon prior to the first call dates of the perps.

That said, we believe that NWD will explore lower-cost alternatives to early redeem its perps with coupon reset and step-up (NWDEVL 6.15 Perp, NWDEVL 5.25 Perp and NWDEVL 4.125 Perp) when the call dates (16 Mar'25, 22 Mar'26 and 10 Mar'28) are approaching. NWD has redeemed bonds and perps totaled cUSD910mn in principal amount (incl. NWDEVL 4.75 12/05/23 of USD310mn) in Dec'23. Recalled that the net proceeds from the sales of NWS stakes are cUSD2.8bn received. We see room for NWD to perform on-market repurchases of its bonds and perps in an opportunistic manner.

On the other hand, NWDEVL has two other perps, NWDEVL 4.8 Perp and NWDEVL 6.25 Perp. They are trading at 44.5 and 51.4, respectively. The coupon of these 2 perps will only be reset without step-up upon first call dates and therefore the chance of calling these perps on first call dates is lower.

San Miguel Group complex: PCORPM 5.95 Perp, SMCGL 6.5 Perp and SMCPM 5.5 Perp

PCORPM 5.95 Perp

At 94.9, PCORPM 5.95 Perp is trading at YTC of 8.4%. We expect PCORPM 5.95 Perp to be called on the first call date, considering the coupon will be reset to 5yr UST+7.574% (equivalent to 11.6% based on current UST with step up of 250bps) from 5.95% on its first call date in Apr'26. Recalled that Petron called PCORPM 4.6 Perp and PCORPM 7.5 Perp on their first call dates in Jul'23 and Jun'18, respectively. We take additional comfort that PCORPM 5.95 Perp is Petron's only outstanding USD issue. Its offshore refinancing pressure is manageable.

In 9M23, Petron's revenue decreased 7% to PHP587.3bn (cUSD10.5bn) compared with 9M22, due to lower refined product prices despite its sales volume increasing 16% yoy to 93.6mn barrels. That said, the cost per liter declined 18% yoy to USD82/bbl. The EBITDA margin increased to 6.0% from 3.8% and hence EBITDA increased 47% to PHP35.2bn (cUSD635mn) over the same period.

On the other hand, Petron's cash level was down to PHP28.6bn (cUSD517mn) in Sep'23, from PHP37.2bn (cUSD671mn) in Dec'22, due to the redemption of USD500mn perps during 2023. The net debt of PHP226bn (cUSD4.1bn) in Sep'23 was similar to the level in Dec'22 of PHP221bn (cUSD4bn). Thanks to higher margin, Petron's credit improved with net debt/EBITDA lowered to 4.8x in 9M23 from 7.5x at Dec'22.

Petron took advantage of the market fluctuation to early redeem its perps in 2023. It launched tender offer and redeemed USD22.5mn of the PCORPM 4.6 Perp in Jan'23 at USD92.7. Petron then completed the full redemption of the remaining principal amount of USD477.5mn on 19 Jul'23, the first call date of the perp. The coupon for this perp would have been reset to 5yrUST+4.77% (equivalent to 8.8% based on Jul 23's UST) from 4.6% if the perp was not called. The redemption of PCORPM 4.6 Perp was funded with the issuance of preference shares of PHP13.9bn (cUSD250mn) on 5 Jul'23. The distribution rates (6.71% p.a. for Series 4A, 6.80% p.a. for Series 4B, and 7.09% p.a. for Series 4C) on the preferred shares are lower than that of the perp after reset.

SMCGL 6.5 Perp

San Miguel Global Power (SMCGL) is the power subsidiary of San Miguel Corp (SMC, See organization chart next page). SMCGL is one of the largest power companies in the Philippines, and its portfolio includes natural gas, coal, and renewable energy. It is also engaged in the distribution and retail electricity services.

In 9M23, despite the offtake volume of 17,237GWh was 19% lower than that of 9M22, SMGGL's EBITDA increased to PHP31.6bn (cUSD571mn), from PHP8.1bn (cUSD147mn) in 9M22, and the EBITDA margin also increased to 25.3% from 4.9% over the same period, thanks to the lower coal costs.

As of Sep'23, the net debt (incl. perp) was PHP553.2bn (cUSD10bn), similar to the level in Dec'22 of PHP544.1bn (cUSD9.8bn). The net debt (incl. perp)/EBITDA was then down to 13.1x in 9M23 from 24.8x in Dec'22. The net gearing (incl. perp) also dropped to 158.5% in 9M23 from 215.6% in Dec'22. As of Sep'23, SMCGL had cash on hand of PHP28.3bn (cUSD511mn). The cash to short-term debt ratio remained low at 0.3x.

SMCGL has 5 outstanding USD issues; all are perps with first call dates from Apr'24 to Dec'26. The issue with earliest first call date is SMCGL 6.5 Perp, callable on 25 Apr'24 with an outstanding amount of USD783mn. The coupon of SMCGL 6.5 Perp will be reset to 5yrUST+6.608% after a coupon step-up of 250bps, i.e. 10.6% based on the current UST if the perp is not called on the first call date. At 96.0, SMCGL 6.5 Perp is trading at YTC of 19.8%.

We view the likelihood of the perp being called to be high, supported by SMCGL's track records of calling its perps on the first call dates. For instance, SMCGL 7.5 Perp of USD300mn was called on 7 Nov'19, refinanced by an issuance of USD500mn SMCGL 6.5 Perp on 25 Apr'29; SMCGL 6.75 Perp of USD300mn was also called on 26 Feb'21, refinanced by an issuance of USD350mn SMCGL 7 Perp on 15 Dec'20. SMCGL conducted tender offer on its five outstanding perps in Oct'22 and early redeemed USD123.9mn in total, funded with its available liquidity. The cash level dropped to PHP22.7bn (cUSD410mn) in Dec'22, from PHP38.2bn (cUSD689mn) in Jun'22.

In Oct'23, its parent company SMC mentioned the plan to redeem SMCGL 6.5 Perp on the first call date on 25 Apr'24. SMC has track records of providing support to the refinancing requirements of SMCGL. In Mar'23, SMC helped SMCGL to repay the maturing term loan of USD700mn through subscribing SMCGL's redeemable perpetual securities of USD500mn.

Additionally, SMCGL has good access to bank facilities. In Nov'23, it secured a USD50mn 3-year term loan to refinance the existing 3-year term loan. It has also obtained loans of PHP40bn (cUSD719mn) in Oct'23 for CAPEX and debt repayments.

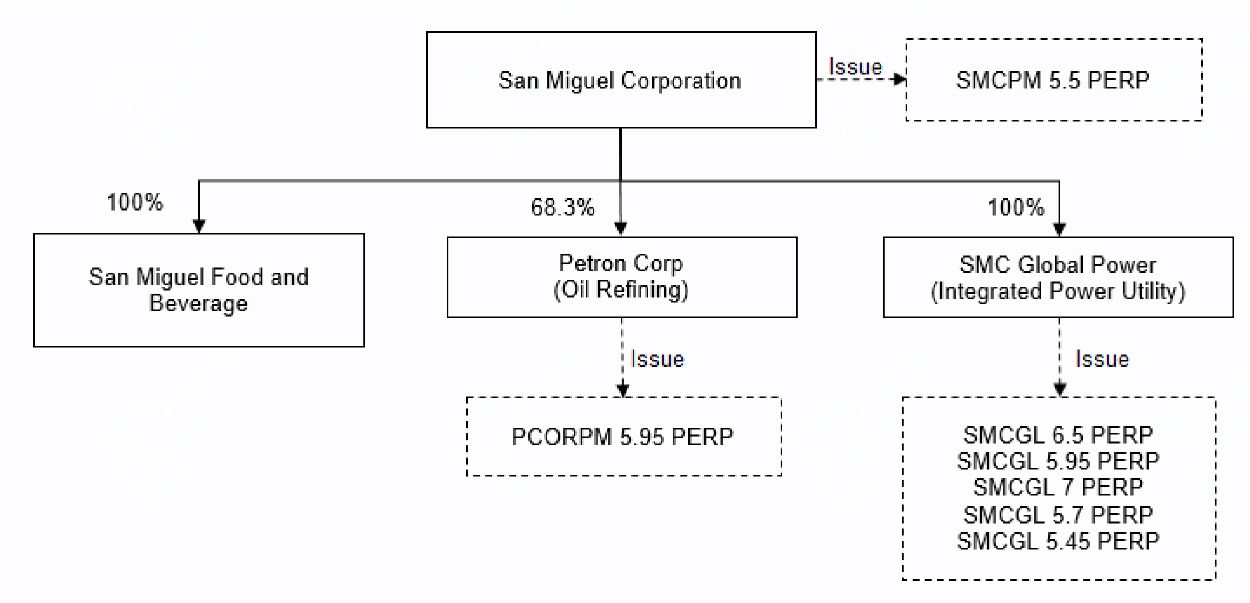
SMCPM 5.5 Perp

SMCPM 5.5 Perp, callable on 29 Jul'25, is the only outstanding USD issue at SMC level with an outstanding amount of USD500mn. At 94.4, SMCPM 5.5 Perp is trading at YTC of 9.4%. The coupon will be reset to 5yrUST+10.237%, i.e. 14.1% based on the current UST with a step-up of 500bps, from 5.5% if it is not called on its first call date.

We view SMC's incentive to call the perp to be high, due to the 500bps coupon step-up after the first call date. We also believe that SMC will be able to refinance the perp through its good access to different funding channels including bank financing, as well as onshore and offshore bond issues. SMC is actively managing its debt profile. It is in discussions with various banks for loans of USD2bn to refinance debts maturing in 2024. On the other hand, it has issued preferred shares of PHP13bn (cUSD229mn) on 23 Aug'23. The coupon rate of the preferred shares is 8.375% p.a.

SMC has consolidated cash in hand of PHP265.3bn (cUSD4.8bn) as of Sep'23, compared with PHP318.2bn (cUSD5.7bn) as of Dec'22. Taking cues on the cash on hand at holdco level of PHP137.3bn (cUSD2.5bn) as of Dec'22, we estimated that the cash on hand at holdco level to be cPHP115bn (cUSD2.1bn) as of Sep'23. The large amount of cash on hand offers SMC a strong financial flexibility to early redeem its perp.

Chart 12: SMC organization chart and outstanding USD bonds



Source: CMBI Research

LEEMAN 5.5 Perp

At 96.9, LEEMAN 5.5 Perp is trading at a YTC of 13.5%. We expect Lee & Man to call the perp on the first call date in view of the high coupon step-up. If the perp will not be called, its coupon will be reset to 5yr UST+8.28% (equivalent to 12.1% based on current UST with step-up of 500bps) from 5.5% starting from the first call date on 29 May'24.

In view of the high coupon step-up, we believe the incentive for Lee & Man to call the perp is high. The company completed the tender offer of the perp in Dec'22 to early redeem USD59.2mn of the perps at 86. It also repurchased USD0.5mn and USD23.8mn of the perp in Jun'23 and Oct'23, respectively in the open market. The outstanding amount of the perp is reduced to USD213mn.

As of Jun'23, Lee & Man had cash on hand of HKD2.2bn (cUSD285.7mn), compared with the bank borrowings due within a year of HKD8.0bn (cUSD1.0bn). The near-term repayment pressure is relatively high. That said, we take comfort on its refinancing ability that it entered into 5-year loan agreements of HKD4.75bn with a consortium of banks in Jan'23 to refinance HKD4bn loans dues.

Turned neutral on ROADKG 7.75 Perp and UPLLIN 5.25 Perp

The operating performance and liquidity of Road King and UPL had deteriorated. This could limit their ability to refinance on their respective first call date. Furthermore, the coupon of ROADKG 7.75 Perp and UPLLIN 5.25 Perp will only be reset upon the first call dates without a high step-up. With the expectation of falling UST rates, the reset rate would be moving lower, Road King and UPL could be less incentivized to call their perps by the call dates. Hence, we changed our recommendations on these 2 perps to neutral from buy.

ROADKG 7.75 Perp

ROADKG 7.75 Perp is the only perp of Road King with coupon reset. The coupon reset on the first call date on 18 Nov'24 is 5yr UST+6.003%, i.e. 9.9% based on current UST. On top of the ROADKG 7.75 Perp of USD300mn, it will have USD bond of USD358.8mn maturing in Sep'24. On 30 Jun'23, Road King reported bank and cash in hand of HKD7.1bn (cUSD915.7mn).

Recalled that Road King agreed to sell 100% stake in Road King (China) Infrastructure, which holds 40-49% of four expressways in Hebei, Hunan, Shanxi and Anhui, at RMB4.4bn (cUSD609.8mn) in Nov'23. Following the disposal, Road King's toll business will include interests in Indonesia expressway portfolio with four toll road projects, and residual interests in Hebei Tangjin Expressway. The attributable cash dividend to be upstreamed to Road King should be cUSD338mn after repayment of project loans. Road King plans to utilize 80-90% of proceeds, estimated to be HKD2.1-2.4bn (cUSD272.6-306.7mn), to reduce debts.

While the sentiment of property market remains weak in Dec'23, the loss of recurring cash flow from stable toll road operations will add further challenges to its revenue resilient after the disposal. We expect Road King to be less incentivized to call ROADKG 7.75 Perp under the weakening financial performance and refinancing pressure in 2024.

UPLLIN 5.25 Perp

UPL reported weaker operating performance in 1HFY24 (Apr-Sep'23) as product prices were adversely affected by the oversupply of agrochemical products and destocking of distributors. It revised FY24 (Apr'23-Mar'24) revenue growth guidance to flat from 1-5%, and EBITDA growth guidance to 0-5% from 3-7%. As of Sep'23, UPL had INR33.2bn (cUSD399mn) cash and cash equivalent, reduced from INR61.4bn (cUSD739mn) in Mar'23 due to enlarged negative operating cash flow of INR97bn (cUSD1.2bn) in 1HFY24. The cash to short-term debt ratio dropped to 0.3x from 2.0x, and the percentage of short-term debts to total debts increased to 32.1% from 11.6% over the same period. In Nov'23, Moody's revised UPL's outlook to negative from stable on the strain on the company's credit profile.

These could limit UPL's financial flexibility to call the perp despite the board of UPL approved the proposal to raise INR42bn (cUSD504mn) via right issue in Dec'23. On the other hand, UPLLIN 5.25 Perp (outstanding amount of USD400mn) will be callable on 27 Feb'25. The coupon of the perp will be reset to 5yUST+3.865% from 5.25%, i.e. 7.7% based on current UST. With the falling interest rate expectation, the reset rate could be lower, making UPL less incentivized to call the perp.

Appendix 2: Bank's Capital Papers – Opportunities in AT1 and T2

Asian AT1

We believe that the return predictability of AT1s is subject to 1) likelihood of loss absorption; 2) likelihood of cancellation of non-cumulative distribution; and 3) likelihood of being called, especially on the first call dates. While AT1s in Europe offer better YTC, we would argue that Asian AT1s offer more predictable return because of their lower likelihood of loss absorption, higher certainty of being called on the first call dates and scheduled distributions.

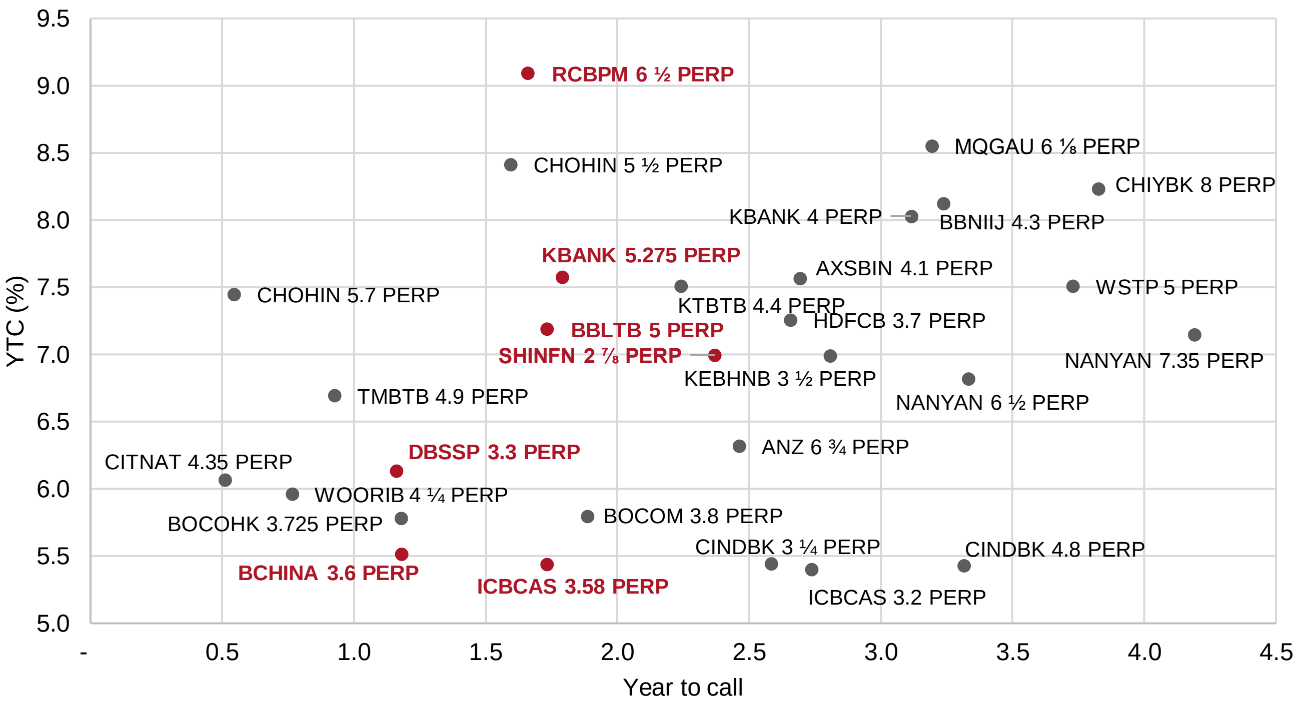
We classified the Asian AT1s into three buckets: (i) China; (ii) developed markets including Hong Kong, Singapore, South Korea and Australia; and (iii) developing markets including Indonesia, the Philippines, India and Thailand. Our picks for each bucket are **BCHINA 3.6 Perp** and **ICBCAS 3.58 Perp** in China; **DBSSP 3.3 Perp** and **SHINFN 2.875 Perp** in Asia DMs; as well as **BBLTB 5 Perp, KBANK 5.275 Perp** and **RCBPM 6.5 Perp** in Asia EMs.

Table 2: Summary of our AT1 picks

	Ask price	YTC (ask, %)	First call date	Yr to call	Coupon reset	Amt o/s (USD mn)	Loss absorption	Bond rating
BBLTB 5 Perp	96.4	7.24	09/23/2025	1.8	5yrUST+4.729%	750	Mechanical	Ba1
BCHINA 3.6 Perp	97.7	5.63	03/04/2025	1.3	5yrUST+2.449%	2,820	Mechanical	Ba1/BB+/BB+
DBSSP 3.3 Perp	96.6	6.46	02/27/2025	1.2	5yrUST+1.915%	1,000	Discretionary	Baa1/-/BBB+
ICBCAS 3.58 Perp	96.8	5.57	09/23/2025	1.7	5yrUST+3.300%	2,900	Discretionary	Ba1
KBANK 5.275 Perp	96.1	7.68	10/14/2025	1.9	5yrUST+4.940%	500	Mechanical	Ba2
RCBPM 6.5 Perp	95.9	9.24	08/27/2025	1.7	5yrUST+6.236%	300	Discretionary	B1
SHINFN 2.875 Perp	91.2	6.97	05/12/2026	2.3	5yrUST+2.064%	500	Discretionary	Baa3

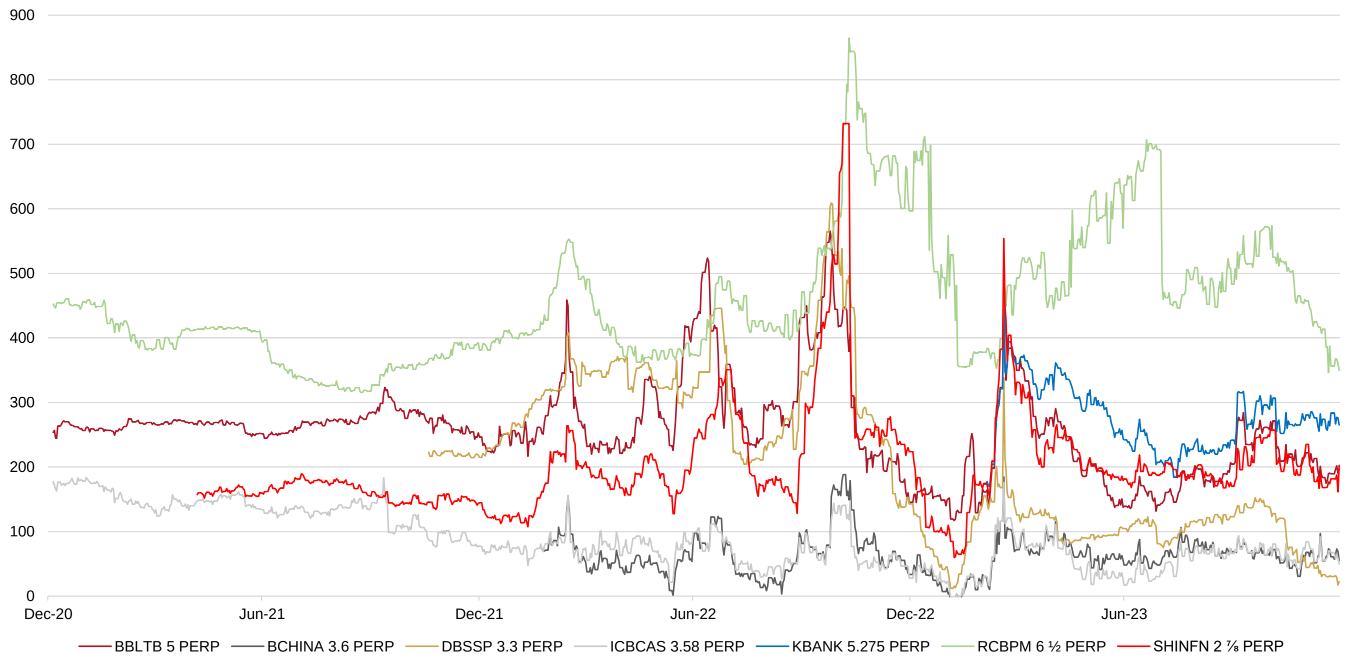
Source: Bloomberg.

Chart 13: YTC of Asian AT1



Source: Bloomberg.

Chart 14: Yield pick-up of selected AT1s over their senior unsecured bonds



Source: Bloomberg.

Chinese AT1: Pick BCHINA 3.6 Perp and ICBCAS 3.58 Perp

Within Chinese AT1 universe, we pick **BCHINA 3.6 Perp** (callable Mar'25) and **ICBCAS 3.58 Perp** (callable Sep'25) in view of their low likelihood of loss absorption or distribution cancellation, higher likelihood of being called on the first call date, and better trading liquidity. These AT1s also offer yield pick-up (50-55bps) over their senior bonds. At 97.7 and 96.8, BCHINA 3.6 Perp and ICBCAS 3.58 Perp are both trading at YTC of 5.6%.

There is no precedent on the principal of the AT1s of China G-SIBs being written down or converted into equity. There is also no precedent for Chinese G-SIBs to cancel the distribution, and all of the Chinese AT1s were called on their respective first call dates. Besides, based on more solid fundamental of China G-SIBs and their ample capital buffers, we see the probability of these banks become non-viable is remote.

We also believe that the incentive for Chinese banks to replenish its capital offshore to dwindle, facing the weak offshore market sentiment and sustained slowing down in outbound investments of Chinese corporations over the coming 1-2 years.

Asian DMs: Buy DBSSP 3.3 Perp and SHINFN 2.875 Perp

In Nov'22, South Korea's Heungkuk Life Insurance decided to exercise the call on the perp after the negative market reaction on the initial announcement on the non-call. In addition, we note the guidance of Australian Prudential Regulation Authority (APRA) on "uneconomic calls" on capital instruments in Nov'22. That said, we still believe that Asian DM AT1s, especially those issued by major banks, offer more predictable return, partly because of these banks' comfortable capital adequacy levels even at the trough of last economic cycle around 2008. We view that the chance they become non-viable is remote over the medium term.

Recalled that we recommended SHINFN 5.875 Perp and UOBSP 3.875 Perp in view of high certainty of call in our commentary dated 11 Apr'22, these two AT1s were called on their first call date in Aug'23 and Oct'23 respectively. In this space, we stick with our recommendations on **DBSSP 3.3 Perp** (callable Feb'25) and initiate buy on **SHINFN 2.875 Perp** (callable May'26) in view of more balanced risk and return profile. They also offer yield pick-up (22-203bps) over their respective senior bonds. At 96.6 and 91.2, DBSSP 3.3 Perp and SHINFN 2.875 Perp are trading at YTC of 6.5% and 7.0%, respectively.

Asian EMs: BBLTB 5 Perp, KBANK 5.275 Perp and RCBPM 6.5 Perp

Thai banks were severely affected and recorded net loss during the Asia financial crisis in 1998-2000. Since then, major Thai banks, except TMBTB, are profitable throughout the economic cycles. In view of their high net interest margin and stable NPL ratios in recent years, we believe that the probability for them to become non-viable and hence the loss absorption for AT1 to be remote over the medium term. We prefer AT1s issued by Thai banks for their sufficient capital buffers, as well as no loss absorption history in USD or THB denominated AT1. At 96.1, **KBANK 5.275 Perp** (callable Oct'25**)** is trading at a YTC of 7.7%. And it offers yield pick-up (273-386bps) over its senior bonds. **BBLTB 5 Perp** (callable Sep'25) is trading at YTC of 7.2% at 96.4, offering yield pick-up (240-358bps) over its senior bonds.

We also initiate buy on **RCBPM 6.5 Perp** (callable Aug'25) with the highest YTC among its Asian EM peers. At 95.9, RCBPM 6.5 Perp is trading at a YTC of 9.2%. We also saw RCB's improving capital adequacy, offering sufficient capital buffer above the loss absorption trigger ratio of 7.25%. As of Sep'23, RCB's CET1 ratio was increased to 14.4%, from 12.3% as at Dec'22.

Table 3: Capital adequacy and profitability ratios of our AT1 picks as at Sep'23

		Ratios as of Sep'23				Regulatory requirement		
Issuer	**Region**	**CET1 Ratio (%)**	**Tier 1 Ratio (%)**	**Total Capital Ratio (%)**	**ROE/ ROAE (%)**	**CET1 Ratio (%)**	**Tier 1 Ratio (%)**	**Total Capital Ratio (%)**
BBLTB	TH	15.40	16.20	19.60	8.47	8.00	9.50	12.00
BCHINA	CN	11.41	13.64	17.30	10.37	9.00	10.00	12.00
DBSSP	SG	14.10	14.80	15.90	18.60	9.00	10.50	12.50
ICBCAS	CN	13.39	14.83	18.79	10.56	9.00	10.00	12.00
KBANK	TH	16.67	17.65	19.62	8.63	8.00	9.50	12.00
RCBPM	PH	14.37	16.27	17.10	9.80	8.50	10.00	12.50
SHINFN	KR	14.64	15.73	18.19	10.73	10.50	12.00	14.00

Source: Companies' fillings.

Asian T2

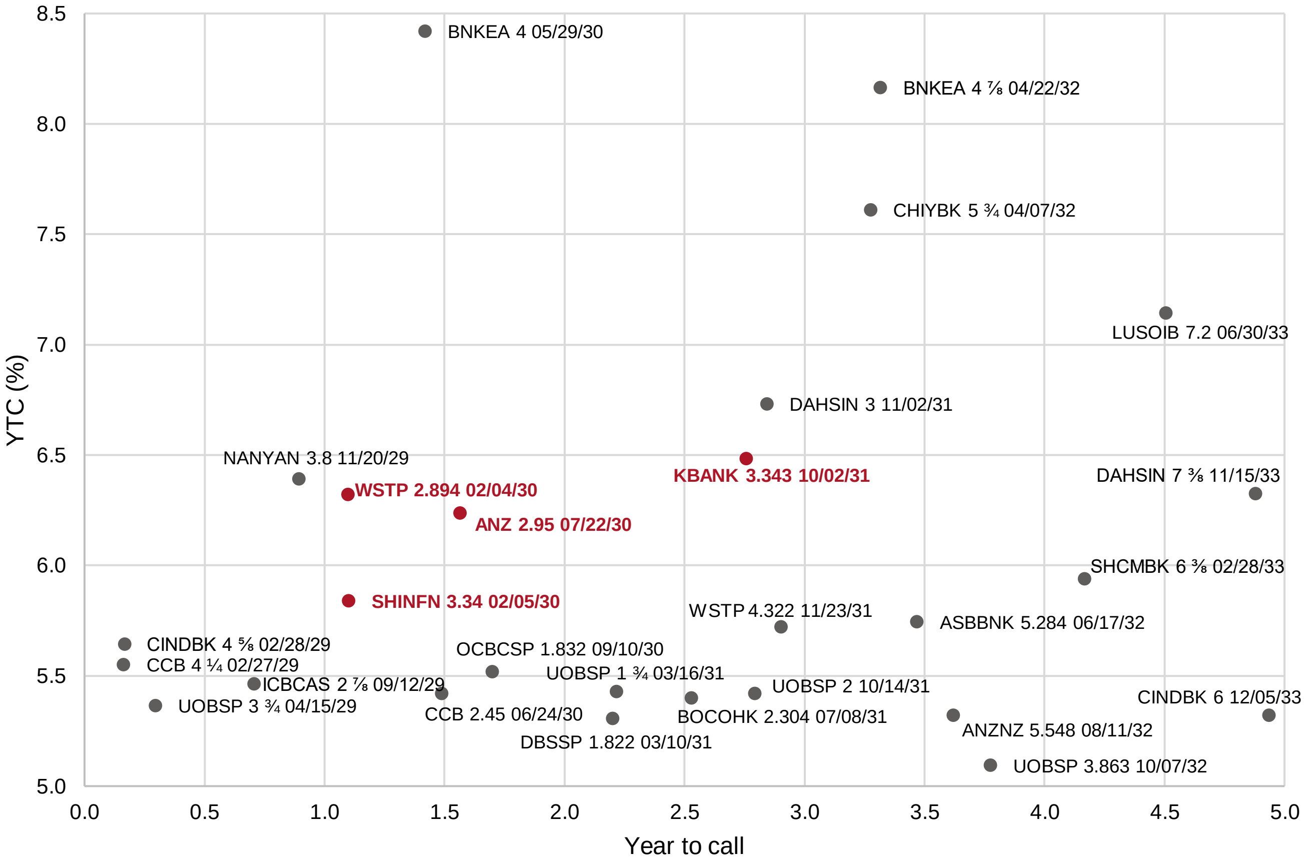
Within the Asian T2s space, we prefer **ANZ 2.95 07/22/30, KBANK 3.343 10/02/31, SHINFN 3.34 02/05/30, WSTP 2.894 02/04/30** for their decent risk-return profiles. We believe the likelihood of non-viability event is low and the return predictability of these T2s are high given the issuers' solid capital adequacy, stable dividend policy, and track records of calling their T2s on the first call dates. Kasikornbank is the only bank without track record of calling T2 as KBANK 3.343'31 is its first T2 issuance which will be callable in Oct'26.

Table 4: Summary of our T2 picks

	Ask price	YTC (%, ask)	First call date	Year to call	Amt o/s (USD	Spread multiple over senior/AT1 (%)	Bond rating
ANZ 2.95 07/22/30	95.2	6.26	07/22/25	2.3	1250	1.55	Baa1/BBB+/A-
KBANK 3.343 10/02/31	92.3	6.45	10/02/26	3.5	800	-1.03	Ba1/-/BB+
SHINFN 3.34 02/05/30	97.4	5.82	02/05/25	1.8	500	0.87	Baa1/BBB/-
WSTP 2.894 02/04/30	96.4	6.34	02/04/25	1.8	1500	1.58	Baa1/BBB+/A-

Source: Bloomberg.

Chart 15: YTC of Asian T2s



Source: Bloomberg.

Table 5: Capital adequacy and profitability ratios of our T2 picks as at Sep'23

Issuer	Region	CET1 Ratio (%)	Tier 1 Ratio (%)	Total Capital Ratio (%)	ROE/ ROAE (%)
ANZ	AU	13.20	15.20	21.00	11.70
KBANK	TH	16.67	17.65	19.62	8.63
SHINFN	KR	14.64	15.73	18.19	10.73
WSTP	AU	12.38	14.59	20.45	10.09

Source: Companies' filing.

In addition, the return predictability of Asian bank papers has been higher, compared with that of its EU peers in view of Asian banks' track records of call on the first call dates and distributions. Non-calls in Asia were "rare". Indeed, we would argue that the return predictability of bank T2s would be even higher than that of AT1s given its higher seniority in the capital structure.

We consider Asian T2s lower beta and yield pick-up trades over their seniors and global peers. In times of volatility when bonds and capital papers of European peers were hit by the woes of SVB and CS, the spillover effect to Asian banks was limited as expected, as the interest rate hikes by Asian central banks are in comparatively milder paces. Asian T2s have been performing resiliently with largely muted price actions.

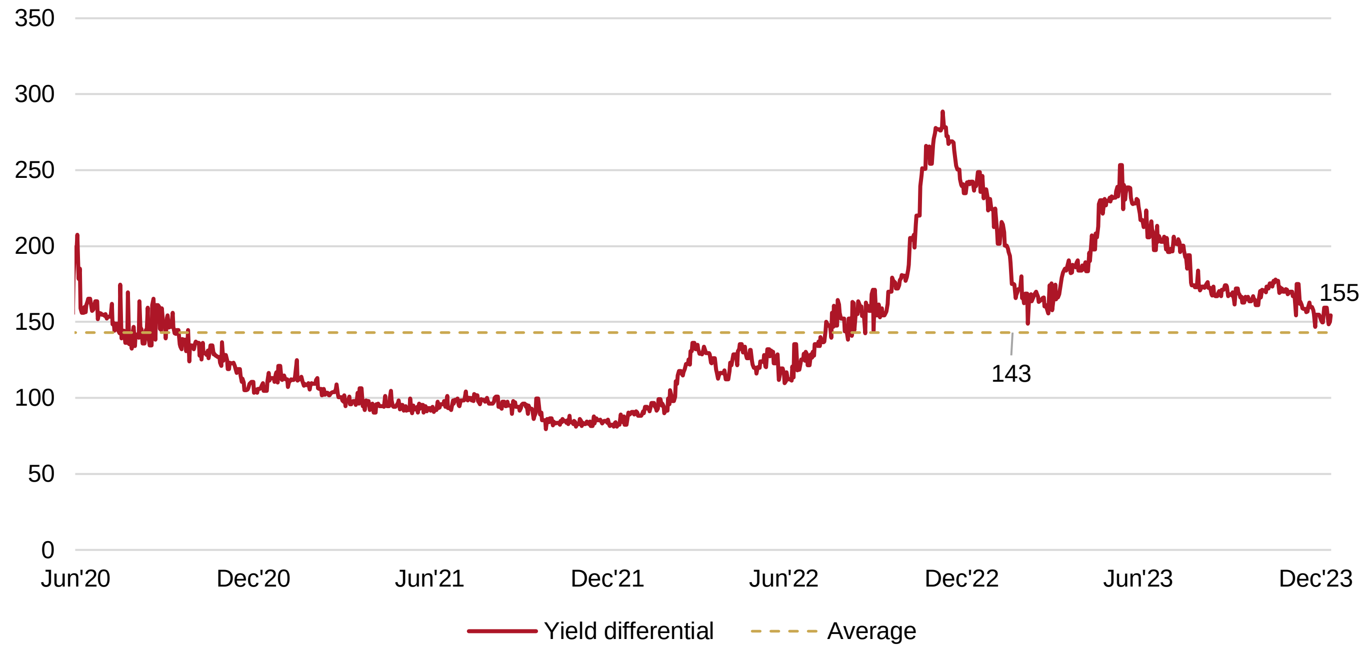
The volatility of Asian T2s was also lower than that of EU peers (similarly rated G-SIBs) post the Credit Sussie's fully written down its AT1 regardless the incident created turbulence in the global subordinated debt markets. We view Asian T2s lower beta plays.

Table 6: Z-Spread volatility of selected EU and Asian T2s from 1 Mar'23 to 28 Apr'23

Region	Bond	Price range	Max (bps)	Min (bps)	STD (bps)
Asia	ANZ 2.95 07/22/30	91.3-93.6	249.8	197.7	17.9
	KBANK 3.343 02/10/31	88.0-90.5	352.0	258.7	28.1
	SHINFN 3.34 05/02/30	94.5-96.3	168.9	122.9	12.8
	WSTP 2.894 02/04/30	92.8-94.6	252.7	175.0	20.1
Europe	BACR 4.375 09/11/24	96.2-97.9	289.4	65.3	54.3
	BNP 4.25 10/15/24	97.7-98.8	206.6	34.9	41.1
	DB 4.296 05/24/28	92.3-100.0	8,097.1	-452.1	1,777.7
	HSBC 4.25 03/14/24	96.5-98.7	357.4	14.3	76.7

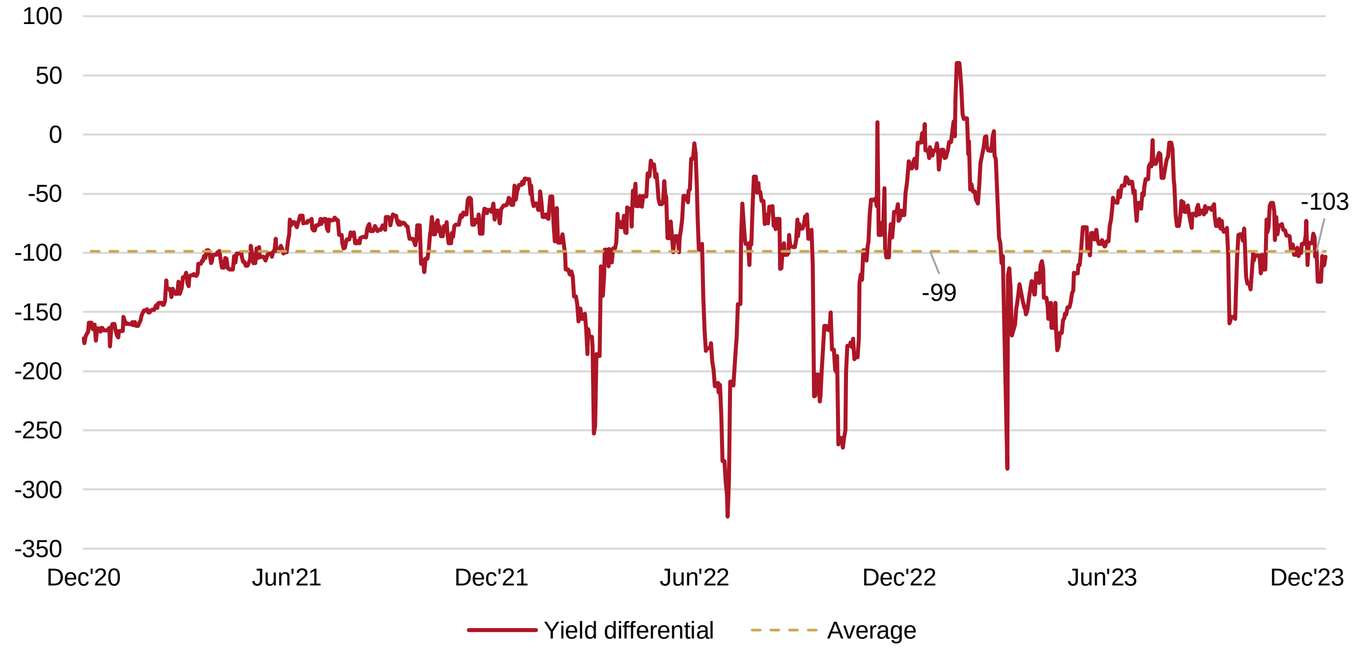
Source: Bloomberg.

Chart 16: Spread of ANZ 2.95 07/22/30 over its seniors (bps)



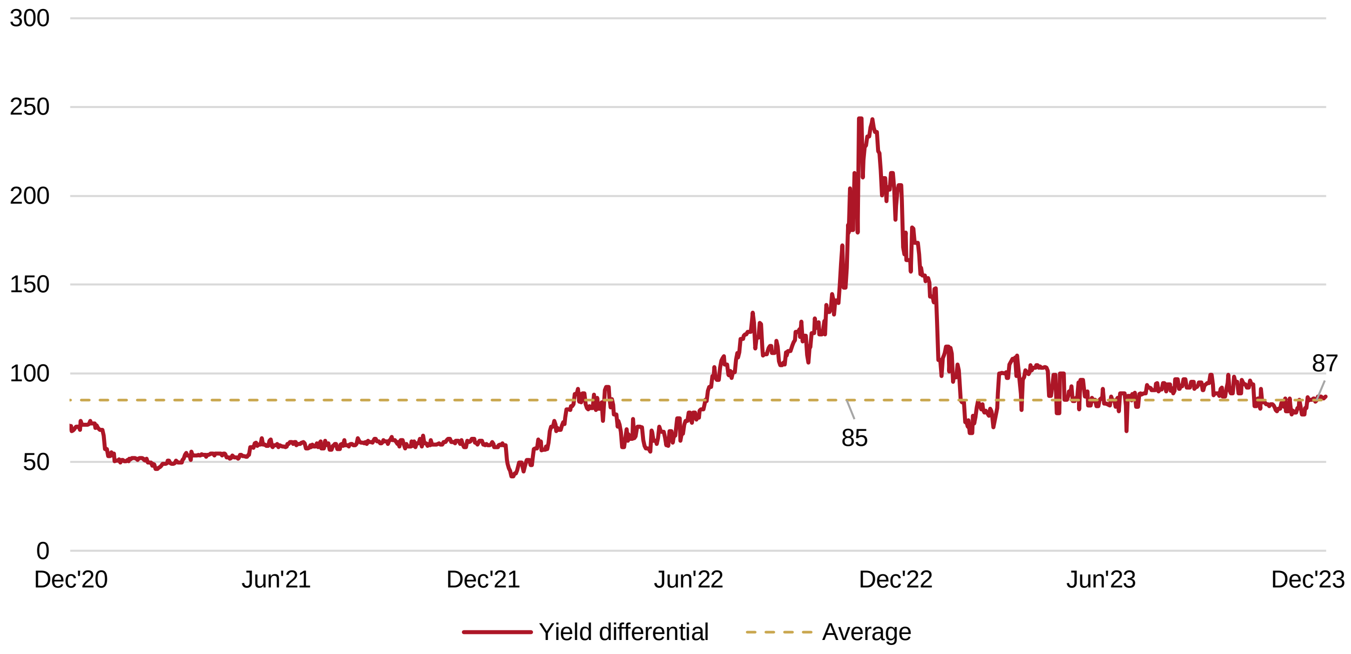
Source: Bloomberg.

Chart 17: Spread of KBANK 3.343 10/02/31 over its AT1 (bps)



Note: Kasikornbank does not have outstanding senior unsecured bond. Source: Bloomberg.

Chart 18: Spread of SHINFN 3.34 02/05/30 over its seniors (bps)



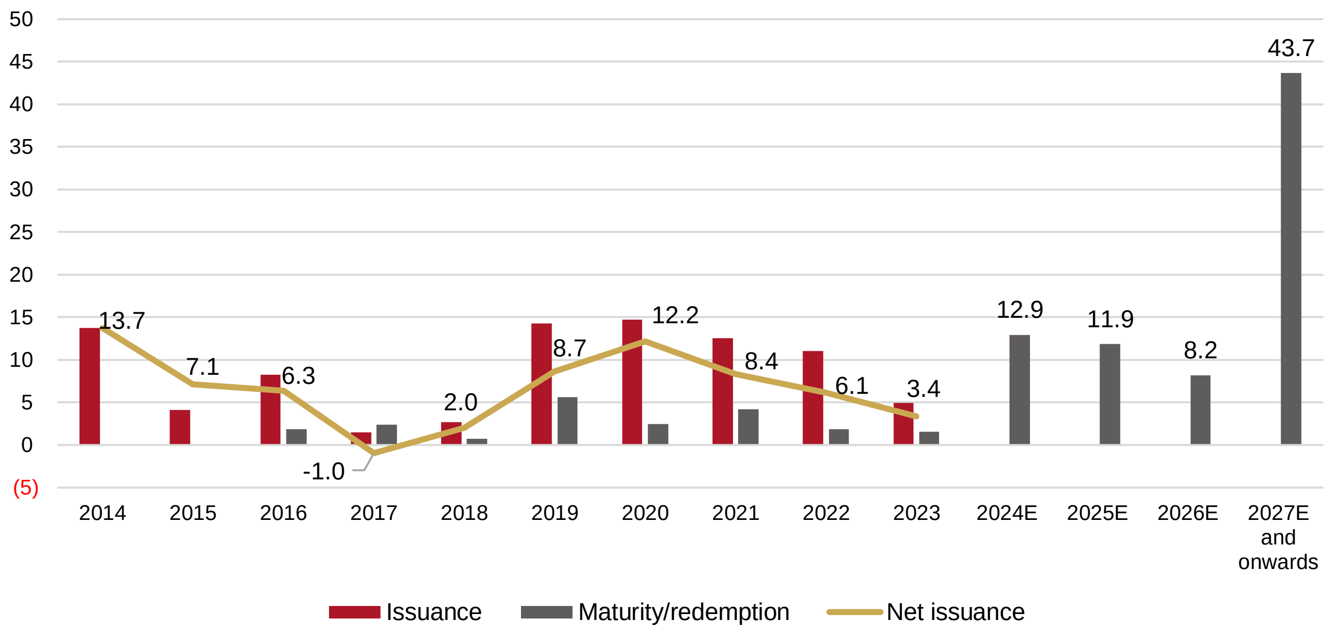
Source: Bloomberg.

Chart 19: Spread of WSTP 2.894 02/04/30 over its seniors (bps)

Source: Bloomberg.

In the Asia ex JP USD T2 space, the major issuing countries are Australia and China which altogether accounted for 61% of the total issuance in 2023. We expect the gross issuance to reverse the declining trend since 2021 in view of the higher potential redemption over the coming 2-3 years.

Chart 20: APAC ex JP USD T2 issuance and redemption (USD bn)



Note: 2024 and onwards are estimated based on the first call date or the maturity date of the outstanding T2s, whichever is earlier.
Source: Bloomberg.

Appendix 3: Chinese Leasing – Fundamentals recovering from the pandemic

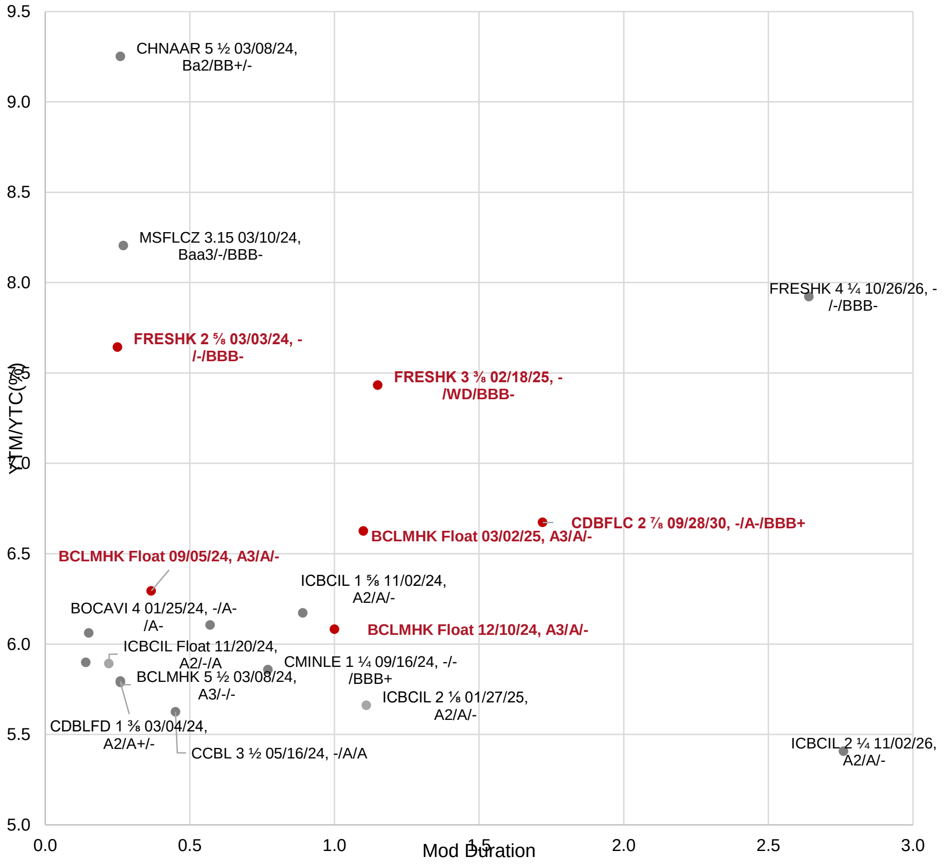
In Chinese leasing space, we prefer bonds of financial leasing companies offering yield pick-up over bonds of their bank parents and bonds of commercial leasing companies offering attractive risk-return profiles. For financial leasing companies, our picks are **BCLMHK Float 09/05/24, BCLMHK Float 12/10/24**, and **BCLMHK Float 03/02/25** as short-dated and low beta plays. We also consider **CDBFLC 2 ⅞ 09/28/30** (Tier 2 bond, callable 09/28/25) a yield pick-up play over its own senior unsecured bonds and its parent's senior bonds. For commercial leasing companies, our picks are **FRESHKs**.

Table 7: Summary of our picks

Bond	Ask price	YTM/C (Ask, %)	Z-spread	Amt o/s (USD mn)	Rating (M/S/F)
FRESHK 2 ⅝ 03/03/24	98.7	7.49	84.1	450	-/BBB-/-
FRESHK 3 ⅜ 02/18/25	95.4	7.30	304.8	300	-/BBB-/-
BCLMHK Float 09/05/24	100.4	6.37	38.2	400	A3/-/A
BCLMHK Float 12/10/24	100.7	6.43	66.9	600	A3/-/A
BCLMHK Float 03/02/25	100.0	6.51	110.7	500	A3/-/A
CDBFLC 2 ⅞ 09/28/30	93.6	6.48	198.8	700	-/BBB+/A-

Source: Bloomberg.

Chart 21: YTM/YTC of actively traded China Leasing (M/S/F)



Source: Bloomberg.

Prefer BCLMHK Float 24-25s and CDBFLC 2 ⅞ 09/28/30 in financial leasing universe

Strong implied support from parent banks given the cross default or acceleration clauses

All Chinese financial leasing companies with outstanding USD bonds are consolidating entities of their bank parents. Hence, the financial leasing subsidiaries' default or acceleration of payments will trigger the cross default of acceleration of payments of their respective parents. The threshold of cross or acceleration default is low at USD25-50mn. We expect the support such as credit lines from parents to be forthcoming in view of the strong financial positions of parents, cross default and acceleration clauses and majority shareholdings.

Table 8: Cross default clauses to shareholders

Ticker	Shareholder	Shareholding	Shareholder's cross default	Cross default with shareholder	Cross default threshold (USD mn)
BCLMHK	Bank of Communication	100%	Y	the Issuer or any of its subsidiaries	25
CCBL	China Construction Bank	100%	Y	the Bank or any of its subsidiaries	25
CDBALF	China Development Bank	64.4%	Y	the Bank or any of its subsidiaries	50
CMINLE	China Merchants Bank	100%	Y	the Bank, any relevant branch or any of the bank's subsidiaries	25
MSFLCZ	Minsheng Bank	55.0%	Y	the Bank or any of its subsidiaries	25
ICBCIL	ICBC	100%	Y	the Issuer or any of the Bank's subsidiaries	30

Source: Bloomberg, CMBI Research.

Within the financial leasing space, we view **BCLMHK Float 09/05/24**, **BCLMHK Float 12/10/24**, and **BCLMHK Float 03/02/25** as lower beta plays under the uncertain interest rate environment. They are trading at YTM of 6.4-6.5% with cash prices close to par. BCLMHK Float 24-25s also offer yield pick-up of 79-94bps over the senior bonds of BOCOM with similar tenor (see Chart 22).

Regarding the yield pick-up opportunities over bonds of their parent banks, we consider the pick-up of the 150bps for **CDBFLC 2 ⅞ 09/28/30** (Tier 2 bond, callable 09/28/25) over its parent CDB's senior bond SDBC 1 10/27/25 most attractive. At 93.6, CDBFLC 2 ⅞ 09/28/30 is trading at YTC of 6.5%.

Table 9: Comparison of selected financial leasing companies

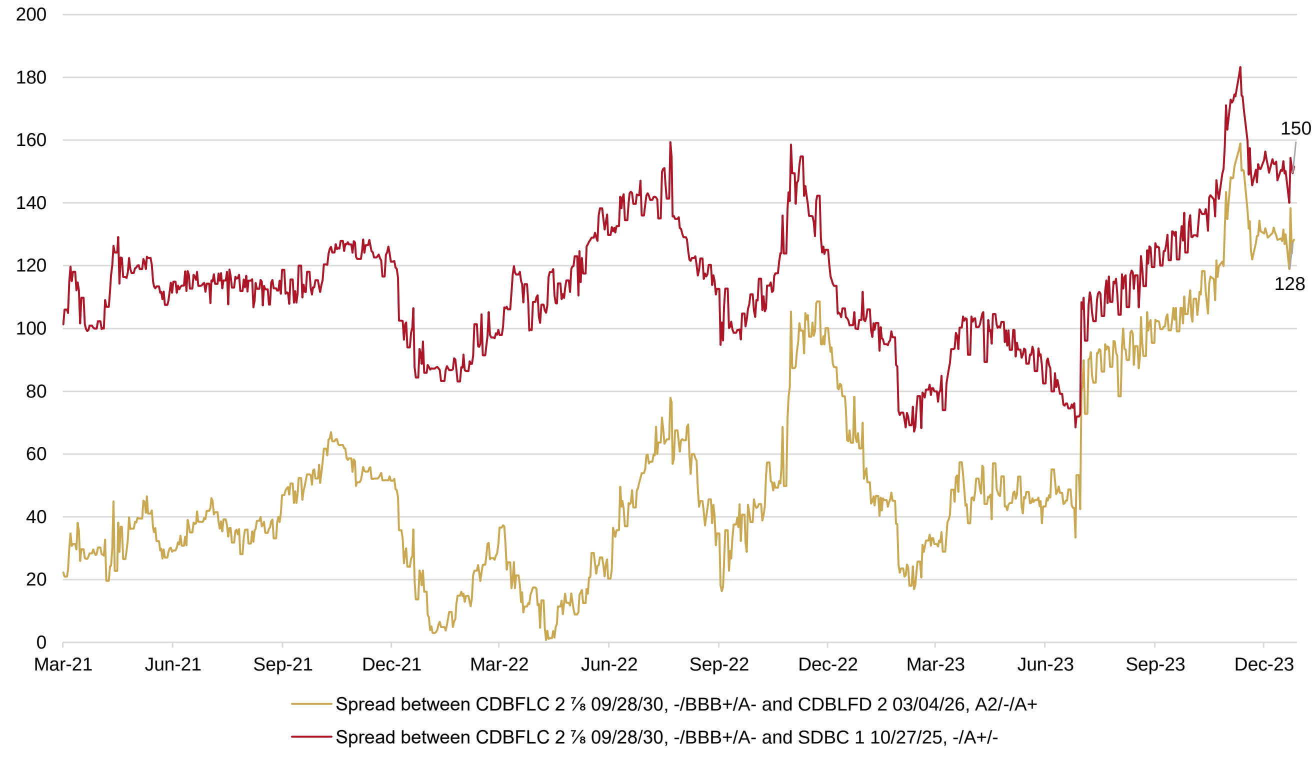
Period	Ticker	Rating (M/S/F)	ROA	NPL	Total capital adequacy ratio (>10.5%)	Concentration of single client financing (<30%)
1H23	BCLMHK	A2/A-/A	0.98%	1.08%	11.68%	11.65%
FY22	CCBL	A2/A/A	0.62%	2.49%	18.45%	11.80%
1H23	CDBALF	A1/A/A+	1.09%	0.78%	12.33%	12.96%
1H23	CMINLE	A3/BBB+/-	1.02%	0.27%	11.94%	10.45%
FY22	MSFLCZ	Baa3/BBB-/-	0.59%	1.70%	11.37%	10.47%
FY22	ICBCIL	A1/A/A	0.07%	1.49%	13.09%	11.33%

Source: Company fillings.

Chart 22: Spread between BCLMHKs and senior unsecured notes of BOCOM

Source: Bloomberg.

Chart 23: Spread between CDBFLC 2 ⅞ 09/28/30 and senior unsecured notes of CDB leasing and CDB



Source: Bloomberg.

Buy FRESHK 2 ⅝ 03/03/24 and FRESHK 3 ⅜ 02/18/25 in commercial leasing universe

Compared with other Chinese commercial leasing peers, Far East Horizon (FEH) has more diversified operations and better profitability. FRESHKs offer more attractive risk-return profiles than those of peers such as BOCAVIs, CHNAARs and PINIFL.

More diversified operations and better profitability

FEH's revenue and profit have steadily increased since FY19 despite the pandemic. In 1H23, FEH's revenue rose 3.6% yoy to RMB18.4bn and the attributable profit increased by 8.2% to RMB3.1bn, its revenue was generated from diversified sources across nine different industries. Compared with BOCAVI and CHNAAR which focus on aircraft leasing, FEH had demonstrated a more stable profitability trend over the past few years. Its exposure to more cyclical sectors such as construction, aviation and shipping is lower, reflected by its more stable ROA and ROE than peers.

Table 10: Comparison of major commercial leasing players

	Company	Total revenue (RMB mn)	Total assets (RMB mn)	ROA	ROE	NPL ratio	Net debt/ EBITDA	Gearing ratio	Assets at risk to net assets (<8x)
FY20	BOCAVI	14,994	172,046	2.16%	10.68%	-	12.26x	71.33%	-
	CHNAAR	2,934	39,046	1.44%	12.34%	-	11.94x	80.10%	-
	FRESHK	29,042	299,927	1.80%	14.24%	1.10%	18.28x	84.91%	5.34x
	PINIFL	19,423	277,961	1.44%	9.77%	1.24%	30.93x	85.21%	6.41x
FY21	BOCAVI	15,936	174,317	2.35%	10.65%	-	10.84x	70.38%	-
	CHNAAR	2,680	40,904	1.09%	9.20%	-	12.41x	80.90%	-
	FRESHK	33,644	335,880	1.96%	14.57%	1.06%	19.82x	84.20%	5.19x
	PINIFL	19,989	273,954	1.56%	10.11%	1.21%	26.90x	83.88%	5.84x
FY22	BOCAVI	16,841	161,118	0.09%	0.38%	-	8.84x	68.86%	-
	CHNAAR	3,726	49,426	0.14%	1.20%	-	10.26x	81.50%	-
	FRESHK	36,586	346,995	1.93%	14.13%	1.05%	17.84x	84.89%	4.66x
	PINIFL	19,541	258,384	1.37%	8.34%	1.17%	29.14x	83.14%	5.63x
1H23	BOCAVI	7,745	167,301	1.14%	4.89%	-	11.16x	69.21%	-
	CHNAAR	2,145	58,256	0.68%	6.43%	-	10.12x	83.00%	-
	FRESHK	18,362	361,363	1.97%	13.27%	1.05%	20.13x	84.38%	4.24x
	PINIFL	9,722	251,871	1.20%	7.02%	1.19%	27.87x	83.90%	5.88x

Note: CHNAAR in HKD mn. Assets at risk is total assets minus cash and bank balances and government bonds
Source: Company fillings, CMBI Research

Access to different funding channels despite increasing reliance on short-term funding

FEH, like its peers, experienced net redemption in onshore and offshore bond markets. Additionally, FEH, as other leasing peers do, relies on short-term funding and around half of FEH's total debts are due within a year since FY19. Its weighted average tenor of onshore bonds also shortened to 1.1 years in 2023 from 2.1 years in FY19 due to increasing issuance of super-short commercial papers (SCP), of which the funding cost is lower. Besides, the weighted average funding costs of onshore bonds decreased to 4.03% in 2023 from 4.95% in FY19. We believe that these changes reflected the fact that FEH turned to a shorter tenor market to manage the higher funding costs.

In the onshore bond market, FEH experienced net redemption of RMB35.4bn, RMB12.1bn and RMB10.9bn in FY21, FY22 and FY23, respectively. FEH has not tapped the offshore bond market since Oct'21 but has redeemed cUSD1bn offshore bonds since then. FEH also repurchased USD50mn of FRESHK 2.625 03/03/24 in Sep'23 to reduce offshore debts. Currently, FEH has 3 straight USD bonds totaled USD1.1bn due Mar'24-Oct'26, 2 CBs including USD250mn CB due Jun’26 and puttable in Jun’24 at 106.15 and USD300mn CB due Jul’25 (put expired in Jul’23). Both CBs are trading above par.

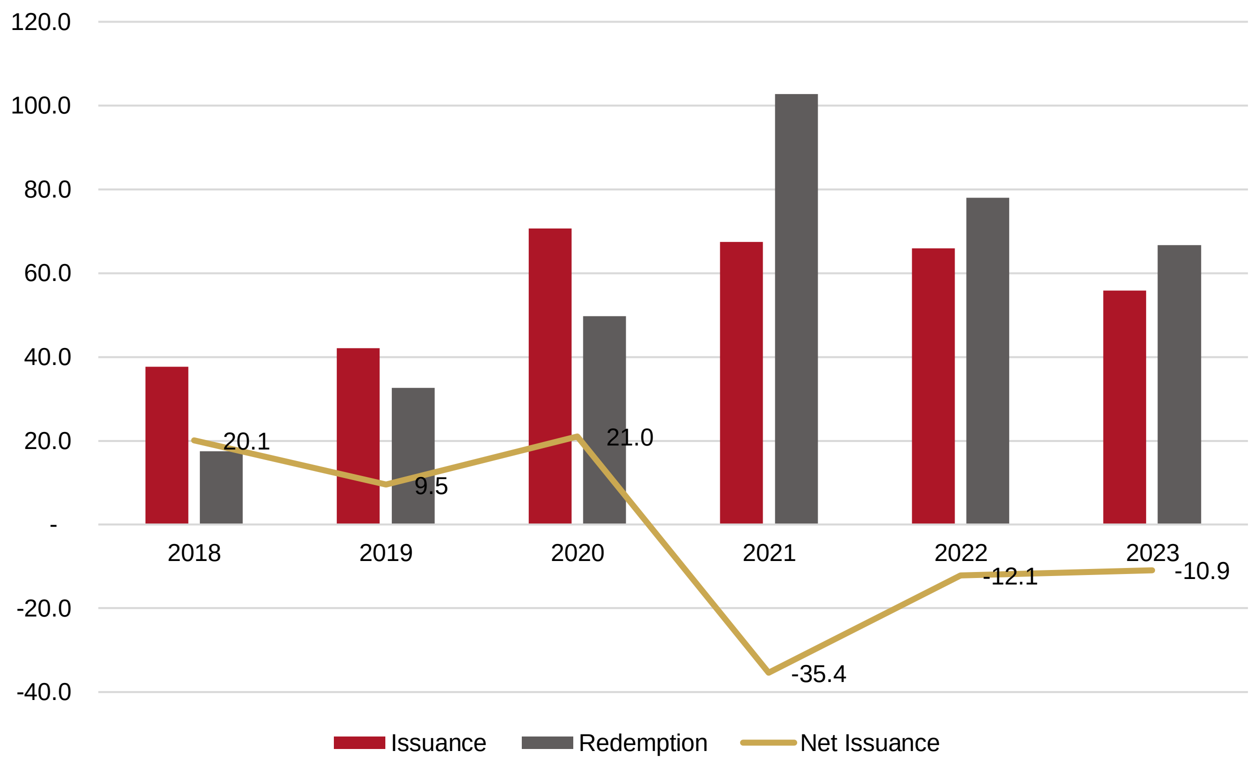
We expect FEH to refinance its short-term debts in various funding channels, and to lower its average financing cost by raising short-term financing in 2024. We take comfort from its adequate credit lines with undrawn bank lines of RMB220bn (cUSD30bn) as of Jun’23. We take additional comfort that FEH has a positive net liquidity gap of RMB32.7bn as of Jun’23, and its assets at risk divided by net assets was 4.24x in Jun’23, well below the regulatory maximum of 8x.

Table 11: Weighted average cost and tenor of FEH’s onshore bond issuance

	MTN	Corporate bond	Commercial paper	Super-short commercial paper	Weighted average tenor (years)	Weighted average cost
2019	3.88%	3.98%	-	2.57%	2.1	4.95%
2020	3.35%	3.47%	-	1.85%	2.3	4.63%
2021	4.09%	3.65%	-	3.14%	1.4	4.41%
2022	3.76%	3.63%	-	2.39%	1.9	4.06%
2023	4.97%	4.51%	4.35%	3.39%	1.1	4.03%

Source: Wind, CMBI Research

Chart 24: FEH’s onshore bonds (incl. ABS/ABN) financing (RMB bn)



Source: Wind.

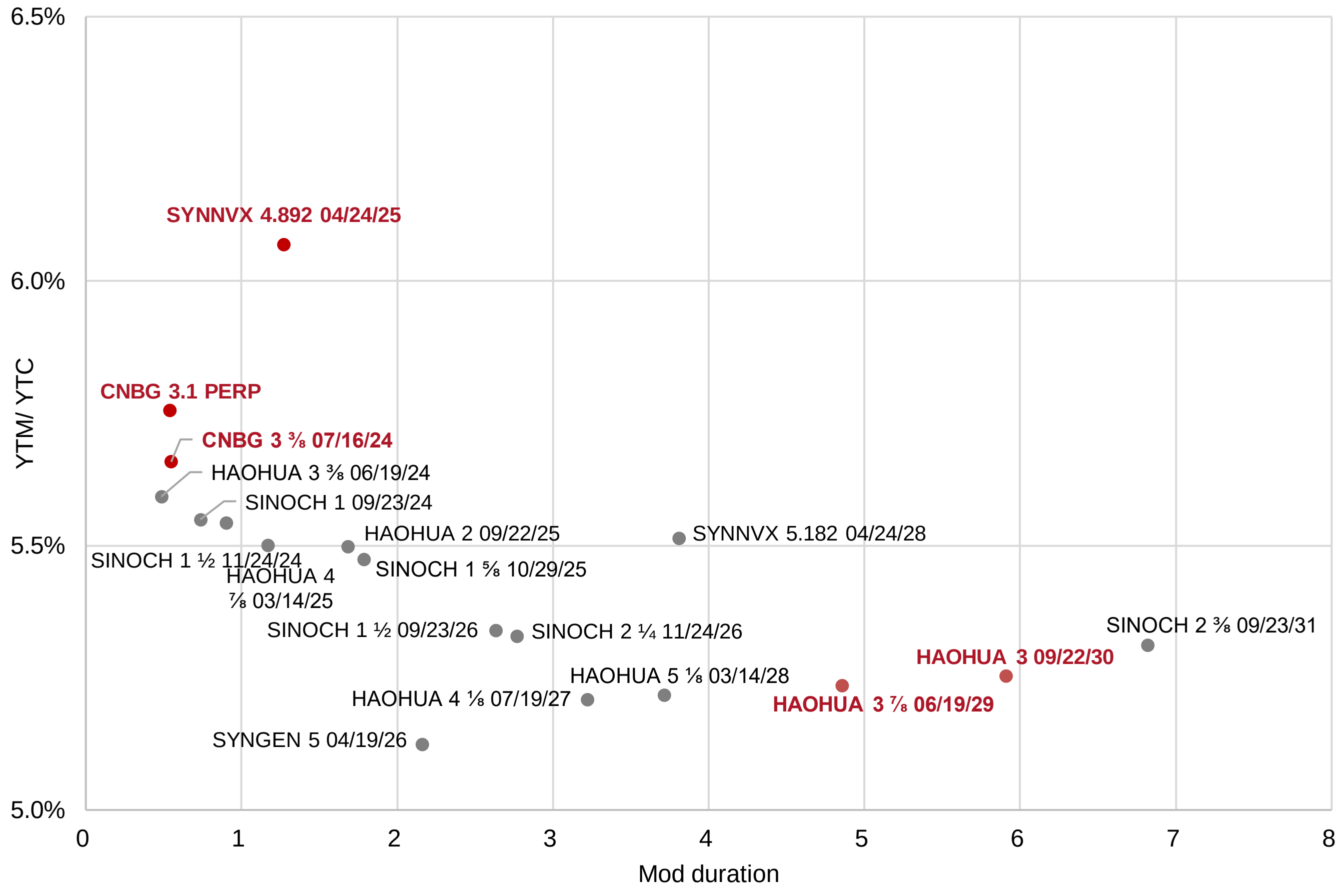
Appendix 4: China SOE – Leverage play on the ChemChina complex

Table 12: Summary of our picks

Bond	Ask price	YTM/YTC (Ask, %)	Z-spread (bps)	Amt o/s (USD mn)	Bond rating (M/S/F)
CNBG 3.1 Perp	98.5	6.03	84.6	400	Baa3/-/BBB
CNBG 3.375 07/16/24	98.8	5.67	49.8	700	-/BBB/A-
HAOHUA 3.875 06/19/29	98.9	5.91	66.3	900	Baa2/-/A
HAOHUA 3 09/22/30	87.9	5.16	165.7	1,000	Baa2/-/A
SYNNVX 4.892 04/25/25	98.6	5.98	145.8	676.7	Baa3/BBB/BBB+

Source: Bloomberg.

Chart 25: YTM/YTC of Sinochem Holdings outstanding bonds

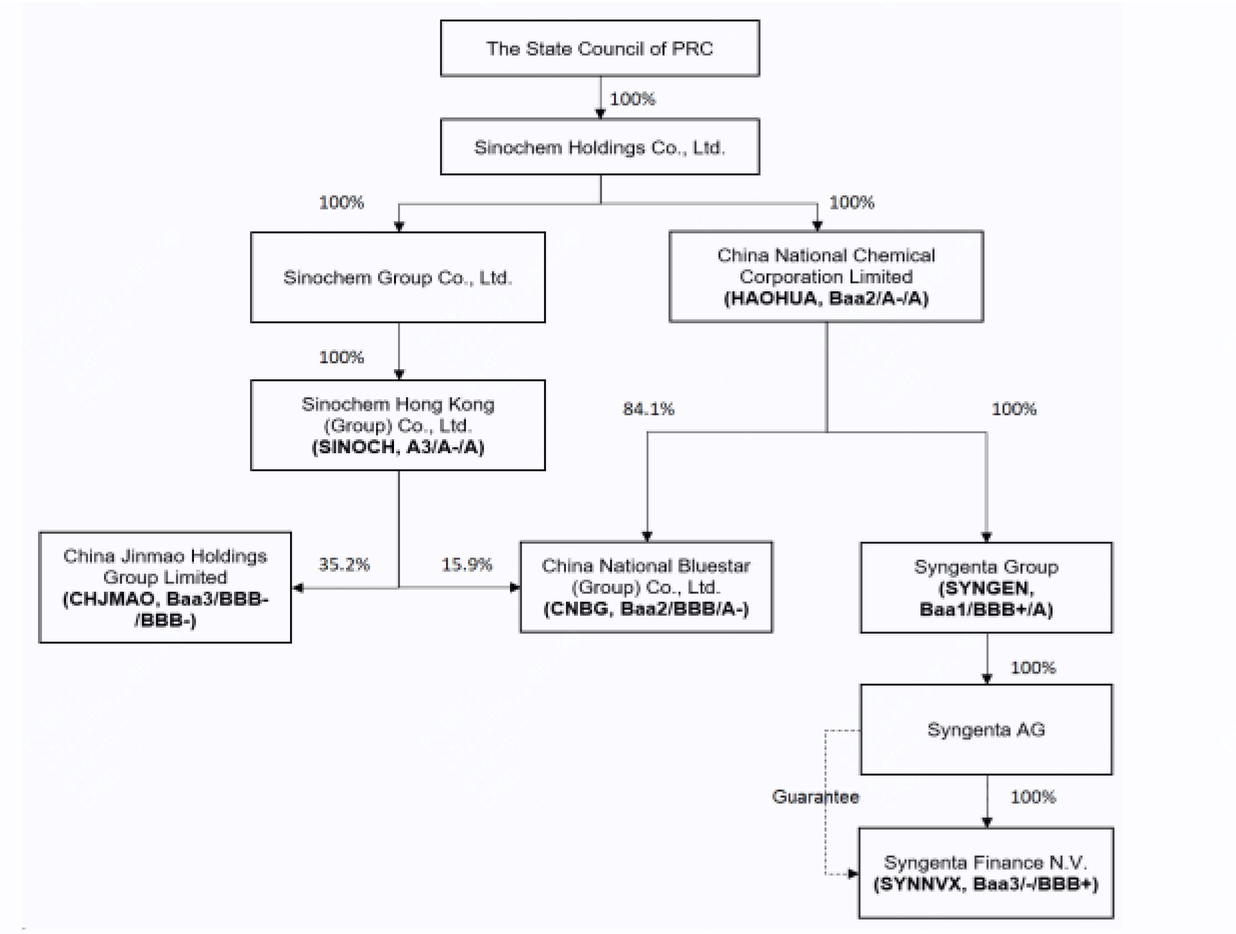


Source: Bloomberg.

Sinochem Holdings at a glance

ChemChina and Sinochem Group were merged in Sep'21 under Sinochem Holdings, which in turn, is 100% owned by central's SASAC. Both ChemChina and Sinochem Group are integral to Sinochem Holdings with different strategic focuses. ChemChina focuses on agricultural inputs from crop protection to distribution and chemical businesses. Sinochem Group, on the other hand, focuses more on the oil refining, real estate (China Jinmao) as well as financials. In FY22, ChemChina accounted for 41% of the total revenue and 52% of total assets of Sinochem Holdings, according to our estimates.

Chart 26: Org chart of Sinochem



Source: CMBI Research.

Buy HAOHUAs, prefer HAOHUA'29-30s

We consider the ChemChina complex a leverage play on Chinese central SOEs. As an indirectly wholly owned central SOE, ChemChina is an integral part of Sinochem Group and is strategic important to the food security of China. We maintain buy on HAOHUA to take advantage of 21-84bps yield pick-up over bonds of other Chinese central SOEs in the oil and petrochemical sector.

We maintain buy on HAOHUAs. With the expectation of FFR cut, we prefer more on the belly part of the curve, i.e. **HAOHUA 3.875 06/19/29** and **HAOHUA 3 09/22/30**. At 98.9, **HAOHUA 3.875 06/19/29** is trading at YTM of 5.9%

(Z-spread of 66bps), and **HAOHUA 3 09/22/30** is trading at YTM of 5.2% (Z-spread of 166bps) at 87.9. They offer yield pick-up of 75-85bps over bonds of other Chinese central SOEs in the oil and petrochemical sector.

Buy CNBG’24 and CNBG Perp as leverage plays on ChemChina

We also maintain buy on CNBG’24 and CNBG Perp as leverage plays on ChemChina. At 98.8 and 98.5, CNBG’24 and the CNBG 3.1 Perp (callable 07/12/24) are trading at YTM of 5.7% and YTC of 6.0%, respectively. The coupon of CNBG 3.1 Perp will be reset to 3yUST+563.4bps after a step-up of 300bps, i.e. 9.6% based on current 3-yr UST. CNBG has track records of calling its perps. It called three offshore perps on their first call dates, i.e. CNBG 3.875 Perp on 15 Jun’23, CNBG 6.25 Perp on 7 Nov’21, and CNBG 4.375 Perp on 17 Dec’18. We expect CNBG 3.1 Perp to be called on the first call date in Jul’24 given its smooth access to lower-cost onshore funding.

CNBG, 84% owned by ChemChina and 16% owned by Sinochem HK, is ultimately 100% owned by Sinochem Holdings. CNBG is engaged in the production of chemical products, including silicon upstream and downstream products, methionine, water treatment solutions, and polyethylene and petrochemical products. In 9M23, CNBG’s revenue and total assets were 12.1% and 10.9% of ChemChina’s total revenue and total assets, respectively.

Buy SYNNVX 4.892 04/25/25 as another leverage play on ChemChina

We like SYNNVX 4.892 04/25/25 as another leverage play on ChemChina. At 98.6, SYNNVX 4.892 04/25/25 is trading at a YTM of 6.0% and offering 60bps pick-up over HAOHUA 4 ⅞ 03/14/25 and 93bps over SYNGEN 5 04/19/26. SYNNVXs offer a more appealing risk-reward profile compared with bonds of ChemChina and Syngenta Group.

SYNNVXs are issued by Syngenta AG, which is 100% owned by Syngenta Group and ChemChina. Syngenta AG is an integral part of Syngenta Group, contributed 60% of revenue and 40% of total assets in FY22. The concerns of Syngenta AG’s sensitivity to weather conditions are partly mitigated by its world leading position in crop protection and seeds. These enable Syngenta AG to have good and independent funding access. Furthermore, we expect strong parental support from ChemChina and Syngenta Group given the strategic importance of Syngenta Group and Syngenta AG to the agrochemical sector of China.

Syngenta Group’s application for IPO on Shanghai Stock Exchange was approved in Jun’23. It plans to raise RMB65bn (cUSD9bn) to fund its research and development, upgrade its agricultural platform and support global acquisitions, and 30% of the net proceeds to be used to retire existing debts. As per media, the IPO may be completed by the end of 2024 and this will enhance the funding access of ChemChina and Syngenta, as well as data transparency.

Strategic importance to the food security of China

The acquisition of Syngenta AG in May’17 enhanced ChemChina’s strategic role in food security of China, by providing more vigorous seeds, advanced crop protection and nutrition solution to the farmers. The acquisition has diversified ChemChina geographically from China. In 9M23, Syngenta Group’s revenue and total assets were 47.3% and 64.4% of ChemChina’s total revenue and total assets, respectively.

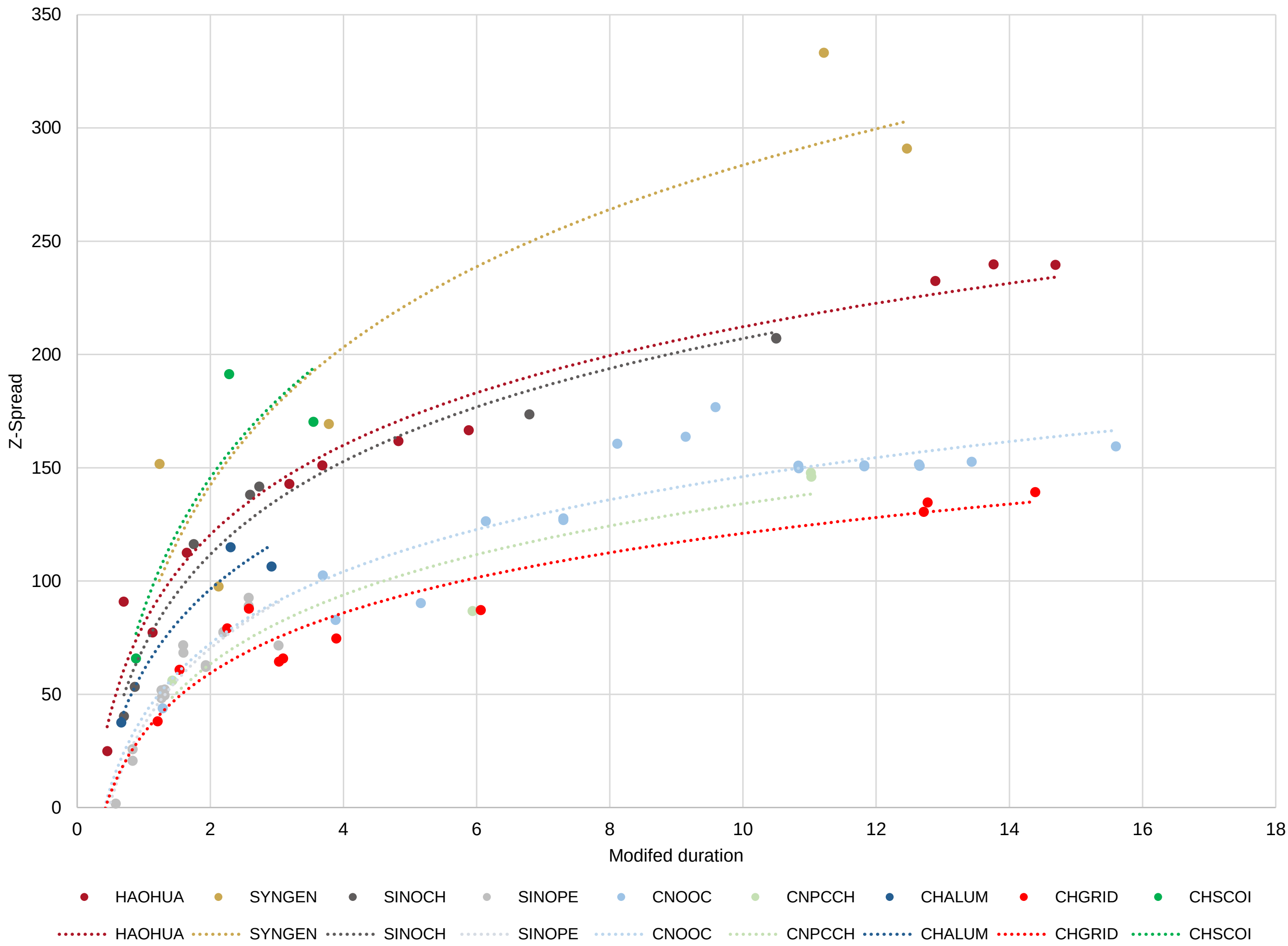
Syngenta AG develops and produces herbicides, insecticides, fungicides, biological controls and seed treatments to protect plant growth. To streamline the operations, ChemChina and Sinochem Group consolidated their agricultural assets into a new holding company Syngenta Group in 2019, which is wholly owned by ChemChina. The newly formed group specializes in crop protection, seeds, fertilizers, agrochemical and distribution, comprised of Syngenta AG, Israeli crop protection company ADAMA, China National Seed Group, etc. ChemChina is the world’s largest agrochemical and third largest seed producers, and also the industry leader in crop protection in China. Major crop categories under its coverage are staple foods such as corn, rice, wheat, oil-bearing crops and vegetables. Meanwhile, its nutrition sales also cover 95% of arable land in China.

The default of Yongcheng Coal and Electricity and Tsinghua Unigroup in 2020 signaled that not all the SOEs are shielded from default risk. Nonetheless, we believe that SOEs such as ChemChina with a clear “strategic mandate” will continue to enjoy the strong support from the central government via Sinochem Holdings in time of need.

Sanction risk priced in

We believe that the yield pick-up of ChemChina complex has already priced in the sanction risk. We take comfort that ChemChina and its subsidiaries had tapped the markets and raised a total of cUSD3.2bn since the US government added ChemChina to a list of 31 Chinese companies as “Communist Chinese military companies” in Aug’20. Recalled that HAOHUA issued 4-year, 5-year, 10-year and 30-year bonds totaled cUSD2.3bn in Sep’20, CNBG issued perp of USD400mn in Jul’21 and Syngenta Group issued USD bond of USD500mn in Oct’22.

Chart 27: Z-spread of more frequently traded SOE bonds (excl. financial and real estate)



Note: SYNGEN includes SYNGEN and SYNNVXs.
Source: Bloomberg.

Appendix 5: Macau Gaming – Credit stories continue to improve

Prefer MPELs, SJMs and STCITYs/STDCTYs

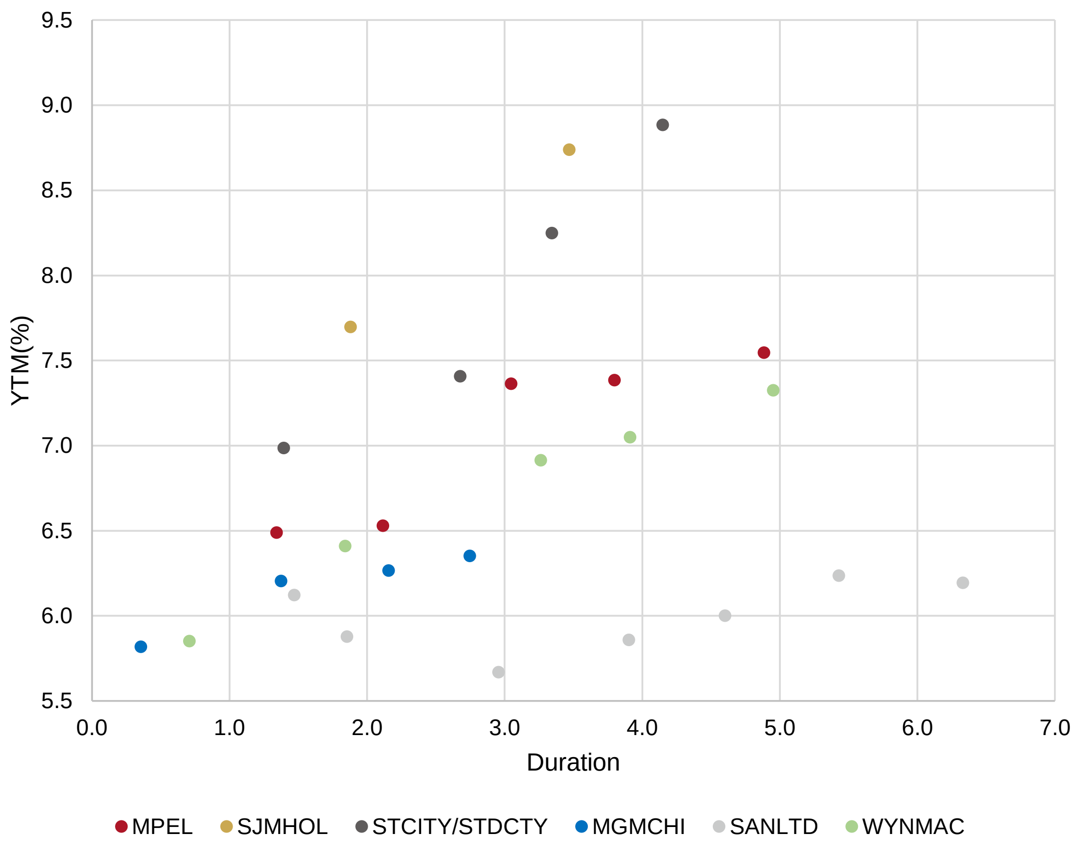
The Macau gaming bonds have been performing well and conviction is lower at current valuation. Nonetheless, we expect the credit stories of Macau gaming operators to continue to improve, benefitting from the resilient GGR recovery and normalization of funding access. These should support the performance of Macau gaming bonds. Within the sector, we prefer **MPELs**, **SJMs** and **STCITYs/STDCTYs** for their better risk-return profiles. We also consider MGMCHIs and WYNMACs leveraged plays of the bonds of their US parents given the yield pick-up of 100-120bps.

Table 13: Bond profile of Macau gaming bonds

	Ask YTM (%)	Mod Duration	Ask price
MGMCHI	6.38-6.53	0.4-2.8	95.3-99.6
MPEL	**6.81-7.80**	**1.4-4.9**	**88.7-97.4**
SANLTD	5.69-6.25	1.5-6.4	83.6-99.4
SJMHOL	**7.90-8.81**	**1.9-3.5**	**86.7-93.6**
STCITY/STDCTY	**7.05-8.90**	**1.5-4.2**	**84.4-98.9**
WYNMAC	4.07-7.40	0.7-5.0	89.2-101.9

Source: Bloomberg.

Chart 28: YTM of our Macau gaming picks



Source: Bloomberg.

GGR recovery continues to support the improving credit stories

In Dec'23, the gross gaming revenue (GGR) in Macau rose 433.1% yoy to MOP18.6bn, compared to 434.9% yoy growth rate in Nov'23. The cumulative GGR in 2023 rose 333.8% yoy to MOP183.1bn and was 68.43% of pre-pandemic level in 2019, increased from 61.01% in 11M23. As reported, the Macau government estimated GGR in 2024 to be MOP216.0bn, representing 18% yoy growth compared to 2023.

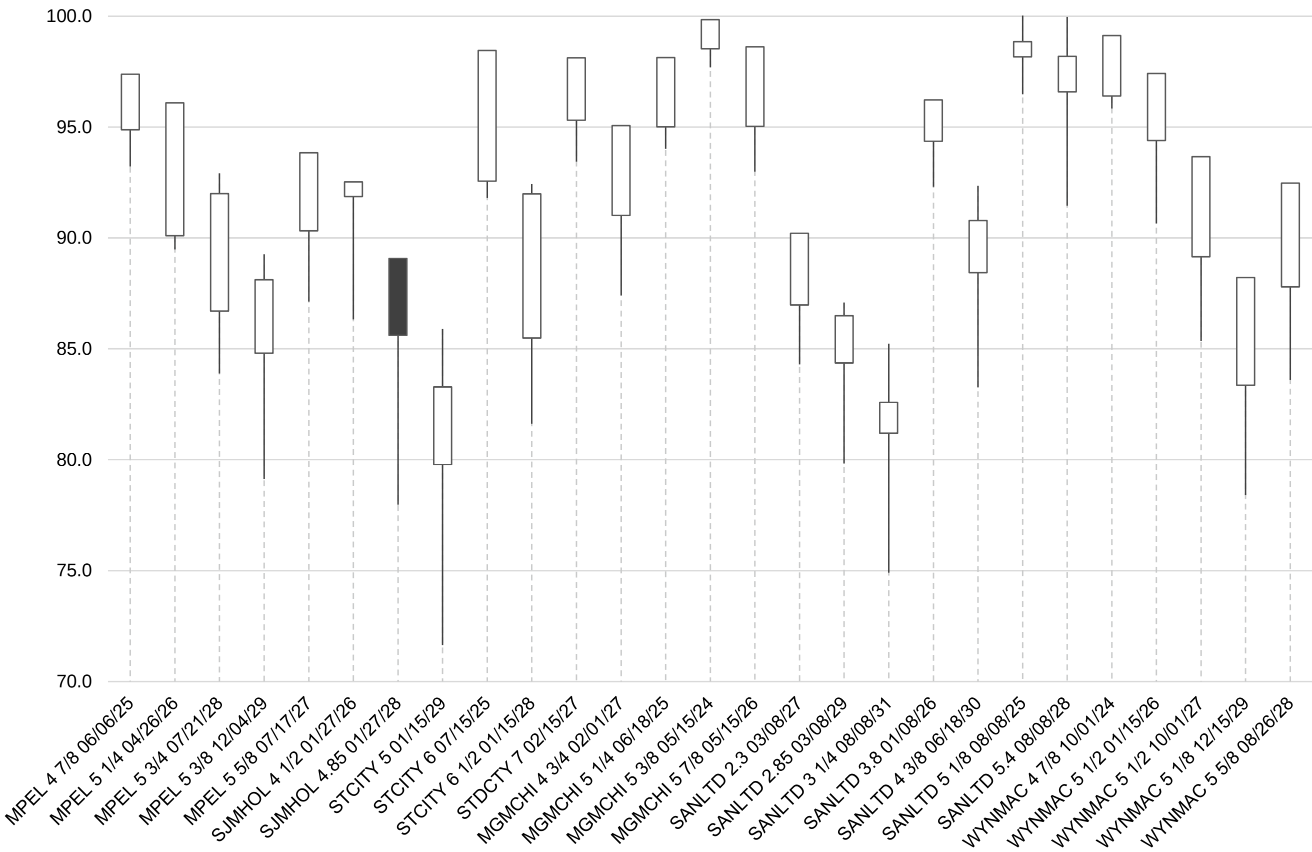
Macau gaming operators turned positive EBITDA since 1H23 based on the notable recovery of Macau tourist arrivals and GGR. As we discussed previously, the recovery of small ticket and frequent consumption in China remains resilient. We expect the Macau gaming sector to continue to recover, supporting the continued improvement of credit profiles and normalization of funding access for gaming operators. In 2024 and 2025, the total USD bond maturities of the Macau gaming sector will be USD1.35bn and USD3.7bn, respectively. Given the recovery of Macau gaming sector, S&P raised SANLTD's rating one notch to BBB- and placed stable outlook in Jul'23. In Nov'23, Moody's changed the outlook of MPEL and STCITY/STDCTY's Ba3 rating to stable from negative. Moody's affirmed WYNMAC's B1 rating and changed the outlook to positive from stable. We expect to see more rating actions over the coming 12-18 months. Macau gaming names rebounded 1-7pts in 2023. In the sector, we prefer MPEL, SJM and STCITY/STDCTY for better risk-return profile. We also like MGMCHIs and WYNMACs for 100-150bps yield pick-up over the bonds of its US parents.

Table 14: Accelerating GGR recovery continued in 2023

MOP mn	2022	2023	Cumulative GGR 2023	Cumulative GGR 2023 growth rate	% of 2019 GGR
Jan	6,344	11,580	11,580	62.60%	46.40%
Feb	7,759	10,324	21,904	48.40%	43.50%
Mar	3,672	12,738	34,642	94.90%	45.50%
Apr	2,677	14,722	49,364	141.40%	49.50%
May	3,341	15,565	64,929	172.90%	51.70%
Jun	2,477	15,207	80,136	205.00%	53.60%
Jul	398	16,662	96,798	263.00%	55.60%
Aug	2,189	17,213	114,011	295.10%	57.50%
Sep	2,962	14,937	128,948	305.30%	58.50%
Oct	3,899	19,501	148,449	315.60%	60.20%
Nov	2,999	16,043	164,492	324.86%	61.01%
Dec	3,482	18,564	183,056	333.79%	68.43%

Source: Macau DSEC.

Chart 29: Price movement of Macau gaming names in 2023



Source: Bloomberg.

Manageable maturity profiles

The offshore bond maturities of the sector are manageable. In 2024 and 2025, the total USD bond maturities of the Macau gaming sector will be USD1.35bn and USD3.7bn, respectively, in which MGMCHI 5.375 05/15/24 and WYNMAC 4.875 10/01/24 will be matured in 2024. With the solid recovery of GGR, the gaming operators are able to generate large operating cash flow to fund its operation and CAPEX. We expect these operators to be more active in the capital markets in 2024, i.e. more issuance, as well as bond repurchases or tender offers to actively manage their debt maturity profiles and reduce interest expenses.

Studio City completed the tender offer on STCITY 6 07/15/25 in Nov'23. It redeemed USD100mn at USD97.5 at the early tender deadline, higher than the tender cap of USD75mn stated in the tender offer memorandum. It also repurchased USD3mn of the notes in the open market. In aggregate, these represent 20.6% of the issue size of STCITY 6 07/15/25.

Appendix 6: Car Rental – EHICARs are proxy plays on consumption recovery

We believe there are split recovery paths for different sectors in China: the slowing recovery pace of large-ticket and durable consumptions vs. the solid recovery for small-ticket and frequent consumptions such as travelling, F&B and car rental. Hence, we maintain buy on EHICARs. After the call of CARINC 9.75 03/31/24 in Sep'23, EHICARs are one of the few remaining proxies on small-ticket and frequent consumption plays in China (Macau gaming names are amongst the others). At 87.9 and 67.8, EHICAR 7.75 11/14/24 and EHICAR 7 09/21/26 are trading at YTM of 24.0% and 23.7%, respectively. Both bonds continue to offer good value, in our view.

Table 15: Summary of our picks

	Ask price	YTM (ask, %)	Mod duration	Amt o/s (USD mn)	Rating (M/S/F)
EHICAR 7.75 11/14/24	87.9	24.00	0.8	381.5	-/-/B-
EHICAR 7 09/21/26	67.8	23.69	2.2	300	-/-/B-

Source: Bloomberg.

The strong yoy recovery in revenue, EBITDA and margin in 9M23 was driven by "normalized" RevPAC and utilization rate. In 9M23, the RevPAC and average daily rent rate of its car rental operations already exceeded the pre-pandemic levels in 1H19. The strong recovery of EHICAR is in sync with that of CARINC.

On the back of the stronger operating performance in 9M23, EHICAR's key coverage ratios such as EBITDA/int and net debt/EBITDA ratios improved notably. That said, its net debt increased as EHICAR has expanded fleet size to cater for the strong demand recovery. The proceeds from sales of used vehicles were also much lower over the past 12-18 months, facing the weaker market for used vehicle sales and the quest for expanding fleet size. We understand that EHICAR's full year target of net vehicle addition was more or less done by Jun'23, we expect its capex for vehicle purchases to be notably lower starting from 2H23.

EHICAR has a manageable debt maturity profile. Over the next 12-18 months, the major maturities will be the amortizations of onshore syndicated loans (remaining outstanding amount of cRMB280mn) in 1H24. We understand that the company is in discussions for new loans, but the amortization will be comfortably covered by operating cash flow. The next major maturity will be EHICAR 7.75 11/14/24 due Nov'24 with an outstanding amount of USD381.5mn. EHICAR does not announce a concrete refinancing plan for the USD bonds. That said, we take comfort with its improving operating cash flow, lower capex starting from 2H23 and "normalizing" funding access.

Appendix 7: Chinese TMT – Credit stories remain solid

Solid IG picks

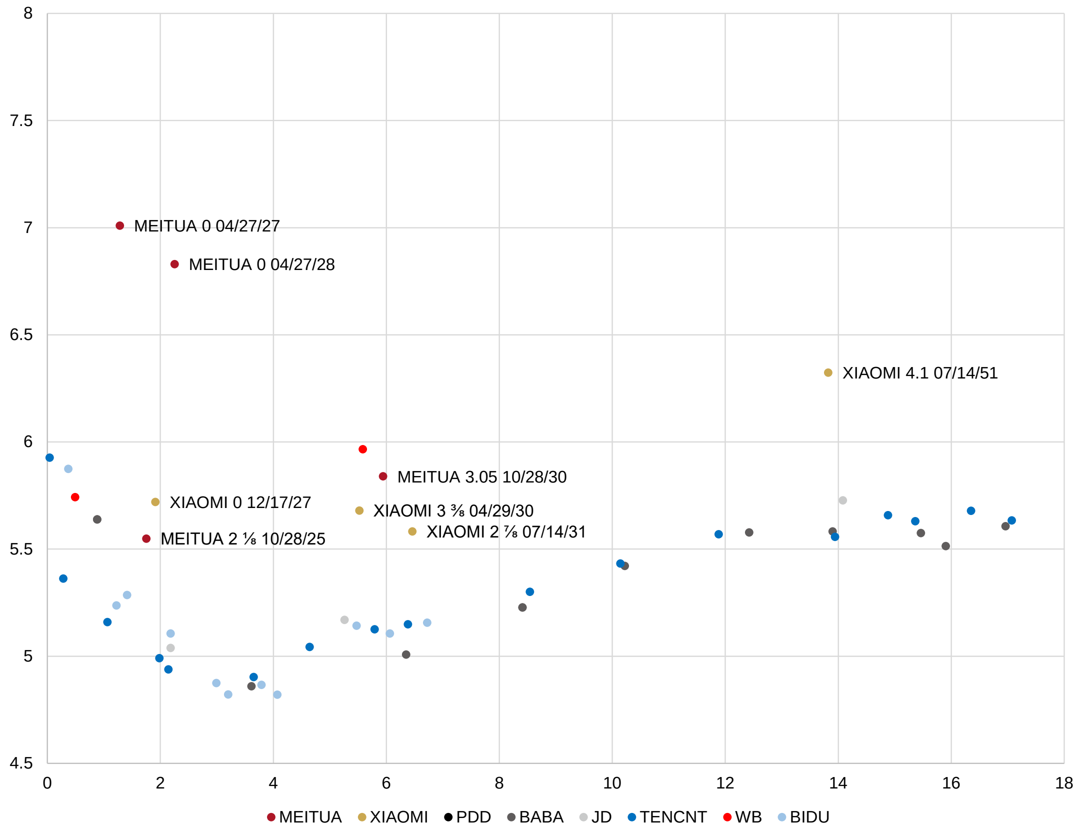
The credit stories of the Chinese TMT issuers are generally sound with large cash holdings and solid liquidity profiles. Most of them are in net cash positions and have strong coverage ratios at their rating levels. We maintain buy on **MEITUA 0 04/27/27 (CB), MEITUA 0 04/27/28 (CB), MEITUA 3.05 10/28/30, WB 3.375 07/08/30, XIAOMI 0 12/17/27 (CB),** and **XIAOMI 3.375 04/29/30** as consumption play in 2024 by riding on the recovery in the country. We also initiate buy recommendation on **TENCNT 2.39 06/03/30** at the belly part of the TENCNT curve factoring into our expectation of the rate cut of the U.S. and "normalized" yield curve.

Table 16: Summary of our picks

Bond	Ask price	YTM/ YTP (ask, %)	Z-spread (bps)	Amt o/s (USD mn)	Put date	Rating
MEITUA 0 04/27/27	91.7	7.01	251.2	1,480	04/27/25	Baa3/-/-
MEITUA 0 04/27/28	86.7	6.83	286.6	1,500	04/27/26	Baa3/-/-
MEITUA 3.05 10/28/30	84.7	5.79	229.1	1,250	-	Baa3/BBB/BBB-
WB 3.375 07/08/30	86.5	5.91	239.9	750	-	Baa2/BBB/-
XIAOMI 0 12/17/27	89.8	5.61	151.2	855	12/17/25	Baa2/-/-
XIAOMI 3.375 04/29/30	88.1	5.63	211.8	600	-	Baa2/BBB-/BBB
TENCNT 2.39 06/03/30	85.5	5.08	157.1	2,250	-	A1/A+/A+

Source: Bloomberg.

Chart 30: YTM/YTP of major China and U.S. TMT players



Source: Bloomberg.

MEITUA: Prefer MEITUA 0 04/27/27 (CB), MEITUA 0 04/27/28 (CB) and MEITUA 3.05 10/28/30

We prefer **MEITUA 0'27** and **MEITUA 0'28** (CB, Baa3/-/-) within the MEITUA curve. MEITUA 0 04/27/27, puttable at 100.37 on 27 Apr'25, is trading at 91.7 with a YTP of 7.0%. **MEITUA 0'27** offers a yield pickup of 158bps over MEITUA 2.125'25, cash price of **MEITUA 0'27** is c3pts lower and the tenor is effectively 6 months shorter. For **MEITUA 0'28**, puttable at 101.28 on 27 Apr'26, offers YTP of 6.8% but 5pts lower in cash price than **MEITUA 0'27** and a year longer in tenor. We also like **MEITUA 3.05'30** for adding duration. **MEITUA 3.05'30** is trading at 84.7 with YTM of 5.8% and Z-spread of 229bps.

Meituan has a market share of c75% of the food delivery business in China. Other segments, including hotel and travel, also benefited from resumed travel after the pandemic. We expect Meituan continues to benefit from the consumption recovery in China in 2024. At the same time, it maintained ample liquidity as of Sep'23, with unrestricted cash and short-term investments of RMB133.6bn, and a net cash position (debts minus unrestricted cash and short-term investments) of RMB70.7bn. These should be sufficient to cover its short-term debts of RMB24.1bn and capex. Over the past 5 years, its net cash position averaged RMB55.9bn. Meituan has sufficient liquidity to redeem or repay its offshore maturities in the medium term, in our view.

On the other hand, S&P upgraded Meituan to BBB from BBB- in Nov'23 on the strong operating momentum in core local commerce. Fitch also revised Meituan's outlook to positive from stable in Dec'23, reflecting its strong cash flow generation in 9M23, improved profitability and strong market positions in core segments.

WB: Pick WB 3.375 07/08/30

WB 3.375 07/08/30 is trading at 86.5 with YTM of 5.9%. The current valuation of WB 3.375'30 has more than priced in the concerns on Moody's negative outlook, in our view. We are neutral on WB 3.5 07/05/24 in view of better alternatives for short-dated plays with higher yield and lower cash prices.

Weibo issued USD300mn CBs with a coupon rate of 1.375% in Nov'23. The conversion price is USD13.7565 and parity is 74.5 on Weibo shares' last close of USD10.11. The company mentioned that it would use the proceeds to partly repay USD800mn WB'24 due Jul'24 and USD1.2bn syndicated loan due Aug'27. In our view, Weibo does not have a pressing need to raise money for refinancing; especially it has been in net cash position over the past few years. As of Sep'23, Weibo had USD2.46bn cash on hand and ST investments of USD314.6mn, compared with total debts are USD2.44bn and ST debts of cUSD800mn. Its near-term refinancing pressure is low, and its liquidity profile is sound.

XIAOMI: Buy XIAOMI 0 12/17/27 (CB) and XIAOMI 3.375'30

Xiaomi's credit is solid with large net cash position. Among XIAOMIs, we maintain buy **XIAOMI 3.375'30** (Baa2/BBB-/BBB). It is trading at 88.1 with YTM of 5.6%. The cash prices of the bond went up c6pts compared to our recommendation in Sep'23. We also like **XIAOMI 0'27** (CB, Baa2/-/-), puttable at 100.0 on 17 Dec'25 with a YTP of 5.6%**,** is a good short-dated play within the XIAOMI curve.

We expect the sizeable net cash position and operating cash inflow offset the impact of higher R&D expenses, especially those on EV. Xiaomi's budgeted EV related R&D investment at USD10bn (RMB72.8bn) over 10 years (2021-31). In 2022, it spent RMB3bn in EV R&D while it planned to spend RMB7.5-8bn in 2023. Xiaomi's total R&D budget for 2022-26 was budgeted at RMB100bn, in which RMB17bn and RMB20bn were spent in 2022 and 2023, respectively. That means the incremental R&D expenses on EV will be cRMB5bn from the level of FY22.

As of Sep'23, Xiaomi has RMB98.7bn unrestricted cash and short-term investment, compared with total debts of RMB24.8bn. It has been in net cash position averaged RMB51.1bn over the past five years. We believe it will be able to repay the bond in the absence of refinancing.

TENCNT: Add duration through TENCNT 2.39 06/03/30

Tencent (A1/A+/A+) is rated on par with the sovereign rating of China, highest among the Chinese TMT players. Moody's placed Tencent on negative outlook in Dec'23 following the outlook revision on China. In short-to-medium term, we are not concerned with Tencent's repayment ability despite the rating pressure resulting from the negative rating outlook. In Sep'23, it has unrestricted cash and short-term investments of RMB356.4bn and a net cash position (debts minus unrestricted cash and short-term investments) of RMB16.6bn. TENCNT 2.39'30 is trading at YTM of 5.0% and Z-spread of 157bps at 85.5. We favour the belly of the curves of TENCNT factoring into our expectation of the US rate cut expectation in 2024 and less inverted yield curve.

Appendix 8: LGFV – Supportive measures to alleviate debt burden

Our picks

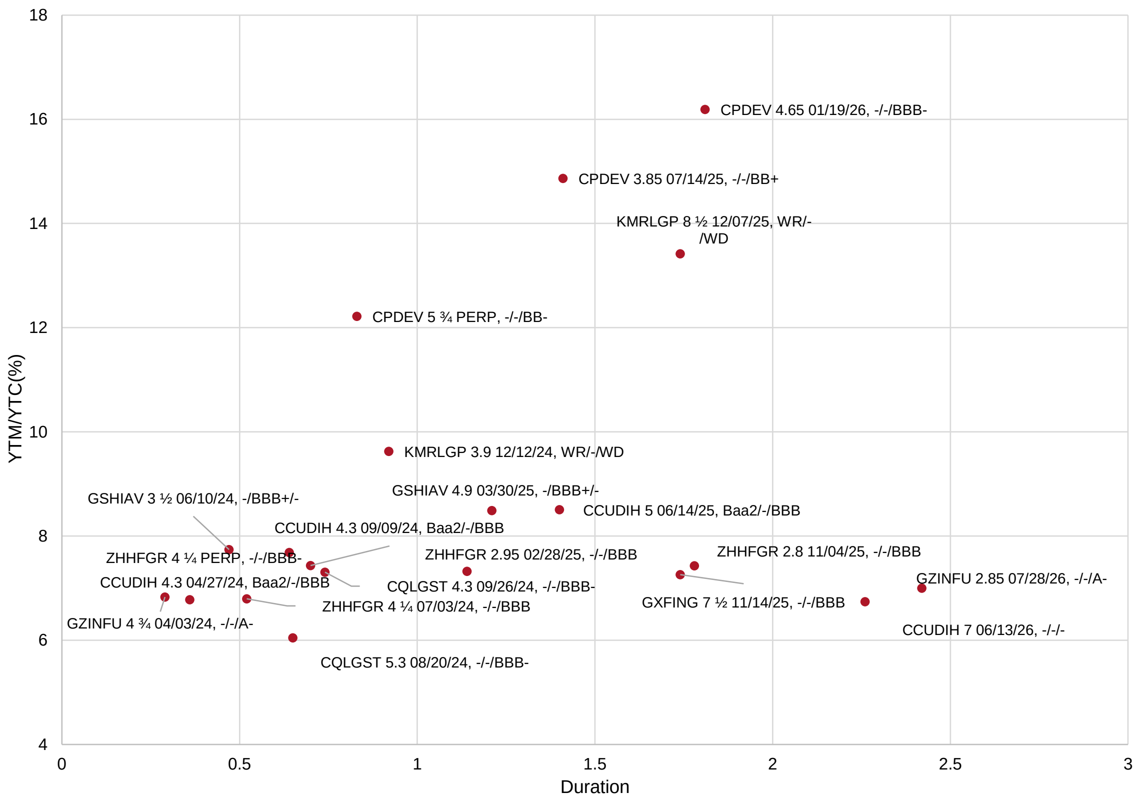
We prefer LGFVs which offer unique or critical services in higher tier cities, especially cities with recent issuance of special refinancing bonds, and have smooth access to funding channels, and their bonds offer a good risk-return profile. These include **CCUDIH, CPDEV, GSHIAV, GXFING, GZINFU, KMRLGP** and **ZHHFGR**.

Table 17: Summary of our picks

Ticker	Issuer	Administrative level	Ask price	YTM (ask, %)	Issuer rating (M/S/F)
CCUDIH	Changchun Urban D&I Holdings	Vice-provincial	97.5-101.0	6.5-7.0	Baa2/-/BBB
CPDEV	Beijing Capital Group	Provincial	80.6-92.5	12.2-16.2	Baa3/BBB-/BBB
GSHIAV	Gansu Provincial Highway Aviation Tourism	Provincial	96.2-98.3	7.5-8.2	-/-/BBB+
GXFING	Guangxi Investment Group	Provincial	100.3	7.3	Baa2/-/BBB
GZINFU	Guangzhou Industrial Investment Fund	Prefecture	90.1	7.1	-/-/A-
KMRLGP	Kunming Rail Transit Group	Prefecture	91.9-95.0	9.6-13.4	NR
ZHHFGR	Zhuhai Huafa	Prefecture	92.2-98.8	6.6-10.6	-/-/BBB

Source: Bloomberg.

Chart: 31 YTM of our LGFV picks



Source: Bloomberg.

Supportive policies to address local debt burden

Special refinancing bonds

In Jul'23, the Chinese Politburo meeting proposed to defuse local government debt risk. The Chinese government tabled a package of measures to address the local debt burden. We noticed that more forceful measures such as issuance of special refinancing bonds and monetization of state-owned assets. There are 28 local governments issued special refinancing bonds since Oct'23 to swap local hidden debts totaling RMB1,365.7bn as of Nov'23 (cRMB887.3bn are general bonds), including **Guizhou, Tianjin, Yunnan, Hunan. Inner Mongolia, Jilin and Liaoning.** The total issuance amount of special refinancing bonds in 2023 could reach cRMB1.5tn (cUSD207bn). Besides, the Chinese government encourages state-owned banks to extend maturities of LGFV loans, and to relieve the local debt burden. Furthermore, we expect PBOC to cut the LPR further. These help alleviate the liquidity pressure of local governments.

Table 18: Special refinancing bonds issuance as of Nov'23

Region	Issued amt (RMB bn)	Region	Issued amt (RMB bn)
Guizhou	214.9	Sichuan	28.0
Tianjin	128.6	Hebei	27.7
Yunnan	125.6	Jiangsu	26.1
Hunan	112.2	Gansu	22.0
Inner Mongolia	106.7	Jiangxi	15.6
Jilin	89.2	Dalian	13.6
Liaoning	87.0	Shaanxi	10.0
Chongqing	72.6	Qinghai	9.6
Guangxi	62.3	Hubei	9.2
Anhui	62.0	Ningxia	8.0
Henan	34.8	Xinjiang	5.6
Heilongjiang	30.3	Shanxi	2.8
Shandong	28.2	Ningbo	2.5
Fujian	28.2	Hainan	2.4
Total	**1,365.7**		

Source: CMBI Research.

Higher budgeted fiscal deficit

In Oct'23, the Chinese government raised the budgeted fiscal deficit to 3.8% of GDP from 3%, and also approved to issue sovereign bonds of RMB1tn (cUSD137bn) to boost economic growth. During the Central Economic Work Conference for 2024, the Chinese government discussed to take proactive fiscal and prudent monetary policies to boost economy. These should help relieve the hidden debt problem of local governments.

Lower risk weighting for local governments debts

At the same time, the Chinese regulator released the final version of the capital regulation of commercial banks in Oct'23, the regulation, to be implemented in Jan'24, will reduce the risk weighting of general/special bonds issued by provincial governments to 10%/20% from 20%/20% compared to previous version (as of Nov'23, c63.9% special financing bonds are general government bonds). This may increase the appetite and demand from financial institutions to hold local government bonds after the capital regulation become effective on 1 Jan'24. As of Dec'22, 86% of onshore local government bonds are held by commercial banks.

We expect local governments to be more selective in allocating resources to different LGFVs given the sharp decline in income from land sales. We believe that the LGFVs providing provincial or municipal services such as infrastructure and utilities will be prioritized to obtain support from local governments.

Table 19: Fiscal conditions of Chinese provinces

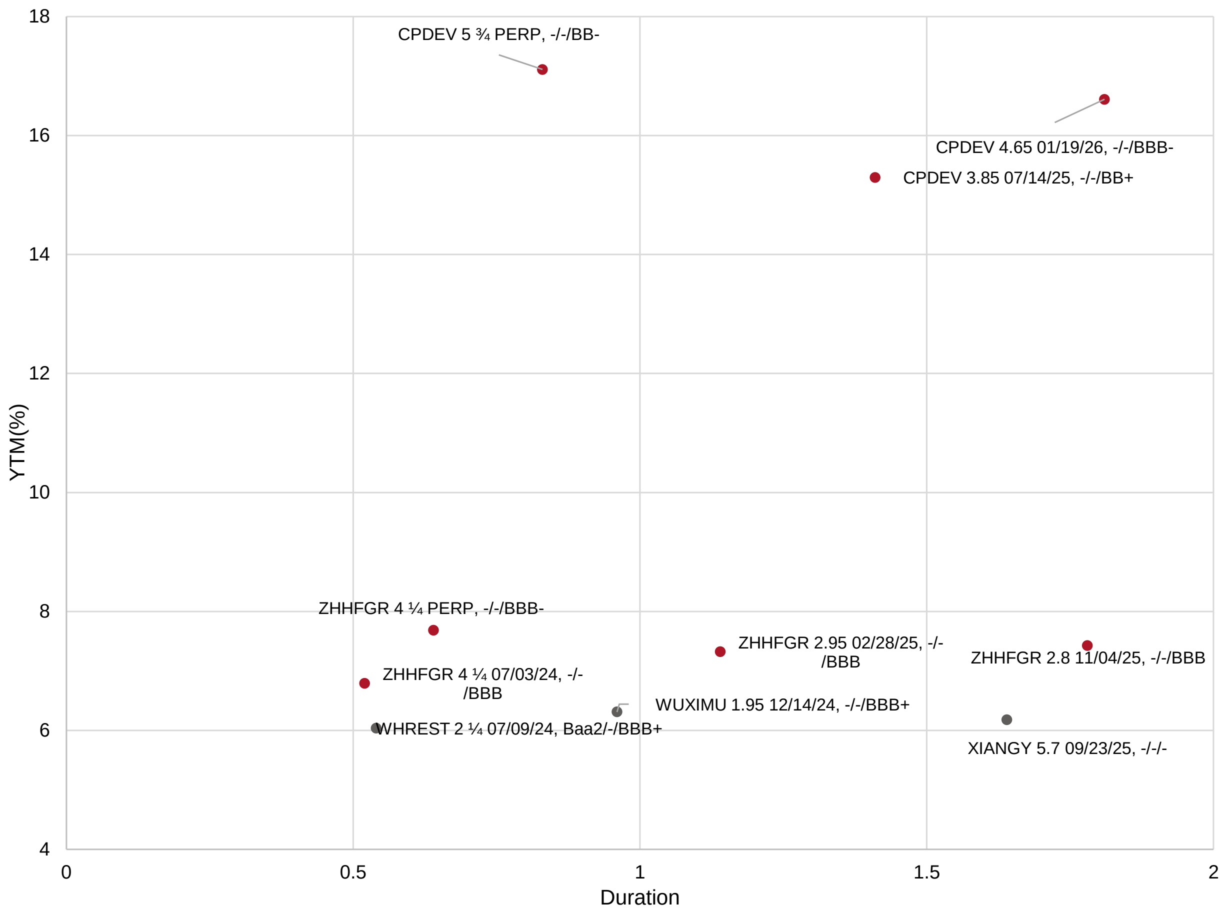
	RMBbn					Financial condition		
Region	**2022**	**2023 GDP(E)**	**LGFV bond amt o/s**	**LGFV interest-bearing debts o/s**	**SOE bonds default history**	**LGFV debt/ 2022 GDP**	**Govt.+LGFV Debt/2022 GDP**	**Fiscal self-sufficiency ratio**
Guangdong	12,912	13,493	112	519	Y	4%	23%	72%
Jiangsu	12,288	13,000	2,689	7,425		60%	77%	62%
Shandong	8,744	9,268	956	2,630		30%	57%	59%
Zhejiang	7,772	8,261	1,770	5,095		66%	92%	67%
Henan	6,135	6,368	509	1,496	Y	24%	49%	40%
Sichuan	5,675	6,044	750	3,310	Y	58%	90%	41%
Hubei	5,373	5,696	576	1,761	Y	33%	59%	38%
Fujian	5,311	5,529	270	705	Y	13%	36%	59%
Hunan	4,867	5,062	751	1,977		41%	72%	35%
Anhui	4,505	4,779	530	1,559		35%	64%	43%
Shanghai	4,465	4,733	124	569	Y	13%	32%	81%
Hebei	4,237	4,457	119	450	Y	11%	48%	44%
Beijing	4,161	4,373	135	362	Y	9%	34%	77%
Shaanxi	3,277	3,356	255	1,077		33%	63%	49%
Jiangxi	3,207	3,317	465	1,292		40%	74%	40%
Chongqing	2,913	3,076	595	1,537	Y	53%	87%	43%
Liaoning	2,898	3,025	19	157	Y	5%	43%	40%
Yunnan	2,895	3,049	108	791	Y	27%	69%	29%
Guangxi	2,630	2,733	146	1,136	Y	43%	80%	33%
Shanxi	2,564	2,680	113	271	Y	11%	35%	59%
Inner Mongolia	2,316	2,483	3	74	Y	3%	44%	48%
Guizhou	2,016	2,113	219	1,215		60%	122%	32%
Xinjiang	1,774	1,882	115	415	Y	23%	68%	30%
Tianjin	1,631	1,706	378	1,264	Y	77%	131%	68%
Heilongjiang	1,590	1,631	21	136		9%	54%	24%
Jilin	1,307	1,383	60	385	Y	29%	84%	21%
Gansu	1,120	1,194	20	294	Y	26%	81%	21%
Hainan	682	747	16	74	Y	11%	62%	40%
Ningxia	507	539	14	71		14%	53%	29%
Qinhai	361	381	7	32	Y	9%	93%	17%
Tibet	213	234	26	65		30%	57%	7%
Total	**120,346**	**126,592**	**11,870**	**38,142**		**32%**	**60%**	**78%**

Note: 2023 GDP is estimated based on 9M23 GDP growth; Government debts includes general and special government bonds; Fiscal self-sufficiency rate is calculated by revenue in general public budget divided by expenditure in general public budget. Source: DMI, Wind.

Buy CPDEVs, prefer CPDEV 5.75 Perp

CPDEV is indirectly wholly owned by Beijing SASAC and is an integral part of the affordable housing market in Beijing. At current valuation, we view CPDEVs offer good risk-adjusted return among LGFVs of high-tier cities. Within the curve, we prefer CPDEV Perp which is callable on 14 Nov'24. If the perp is not called, the coupon will be reset to 5yr UST+8.066%, i.e. coupon step-up of 400bps. Based on the current UST, the reset coupon will increase to c12.0% from 5.75%. We believe that the chance of this perp being called on the first call date is high. Recalled that CPDEV called its two previous perps on their first call dates, i.e. in Apr'18 and Dec'19, respectively.

Chart 32: YTM of real estate related LGFVs



Source: Bloomberg.

CPDEVs were issued by Central Plaza Development, a 100% owned subsidiary of Beijing Capital Land (BCL). BCL was listed in Hong Kong and was privatized in 2021. It is currently 100% owned by Beijing Capital City Development (BCCD, rated BBB- by Fitch) and an indirect wholly owned subsidiary of Beijing Capital Group (BCG) which, in turn, is wholly owned by Beijing SASAC.

In 11M23, BCCD's contract sales decreased 31.8% yoy to RMB16.6bn. We take comfort that BCCD and BCG are accessible to low-cost onshore financing. Both companies raised RMB6.2bn and RMB6.0bn with weighted average coupon of 4.38% and 3.15%, respectively. Additionally, CPDEVs were provided with credit enhancement through keepwell+EIPU by BCG. In the recent court ruling of PKU Founder and Tsinghua Unigroup, keepwell+EIPU is considered legally binding. We also expect the willingness of the Beijing government to support BCCD and CPDEV to be high given their strategic importance roles in Beijing's affordable housing construction.

Buy KMRLGPs for its attractive risk-return profile and close linkage with the municipal government

Kunming Rail Transit Group (KMRLGP) was the sole developer and operator of Kunming subway system. It is 90% owned by Kunming SASAC and 10% owned by Finance Department of Yunnan Province. Since 2008, the Kunming municipal government injected monetary capital of RMB5bn into KMRLGP. KMRLGP's operations rely on government subsidy. The company's gross margin is continuously negative, it received cRMB3.5bn subsidy to turn net profit to positive over the past three years. During FY20-22, the Kunming government granted subsidies to KMRLGP totaling cRMB2bn during. In 9M23, the subsidy was increased to RMB1.5bn.

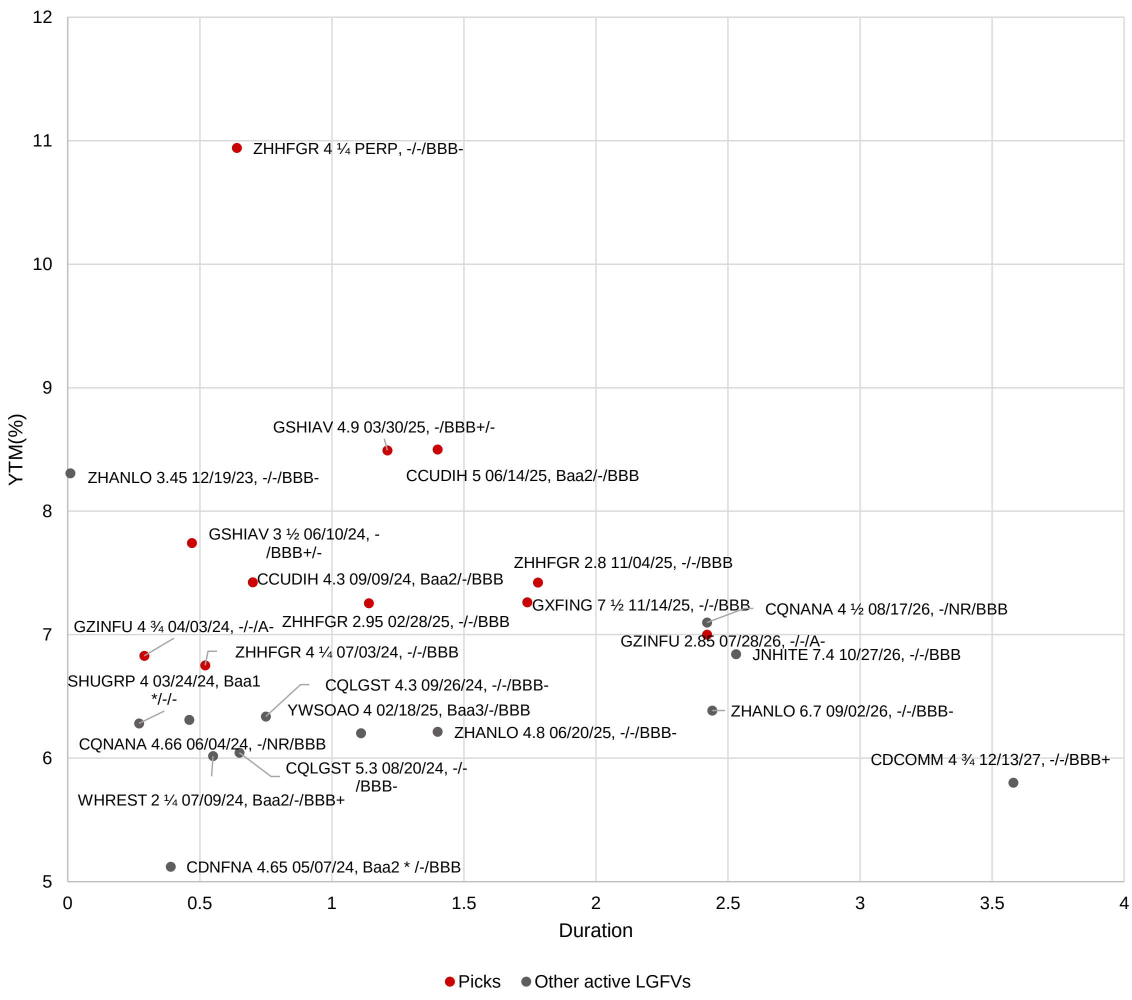
KMRLGP highly relies on external financing to repay debts. As of Sep'23, the company had net debts of cRMB96.5bn (incl. cRMB6.3bn short-term debts) while its debts/EBITDA ratio was 0.06x in FY22. Currently, it has overdue CP of cRMB600mn. We take some comfort that LGFVs prioritize the repayment of public bonds in general. So far, Yunnan and Kunming LGFVs have paid all the scheduled repayment of their public bonds.

Despite the high leverage ratio, the company still has access to the funding markets. As of Sep'23, it had credit lines of RMB157.3bn, of which RMB71.9bn was undrawn and would mainly be used for rail transit projects. In 2023, it raised RMB2bn via onshore SCP at average coupon of 5% and the last issuance was in Dec'23. Currently, KMRLGP operates six subway lines and will develop and operate another four new subway lines according to Kunming municipality's 2022-2027 Rail Transit Construction Plan. Given KMRLGP's strategic important role in the development and operation of Kunming's subway system and heavy capex requirements (cRMB40.2bn) in developing new subway lines, we expect the financial support from Kunming government to continue.

Other higher quality picks

We consider **CCUDIH, GSHIAV, GXFING, GZINFU** and **ZHHFGR** as higher-quality picks with better-return profiles, compared with peers with similar credit profiles.

Chart 33: YTM of high quality LGFVs



Source: Bloomberg.

Tender offers at par by CQNANA and CQLGST to reduce debt level

Chongqing Nan'an Urban Construction & Development (CQNANA) completed the tender offers in Nov'23 for two of its bonds due in 2024 at par with cash recovered from local government and other third parties' receivables. It raised the cap of tender offers and accepted USD272.4mn of CQNANA 4.66 06/04/24 and USD28.2mn of CQNANA 4.2 07/07/24, totaling USD300.6mn. The tender offers reduced the total outstanding USD bonds of CQNANA 46.2% to USD349.4mn. This helps to lessen the near-term refinancing pressure.

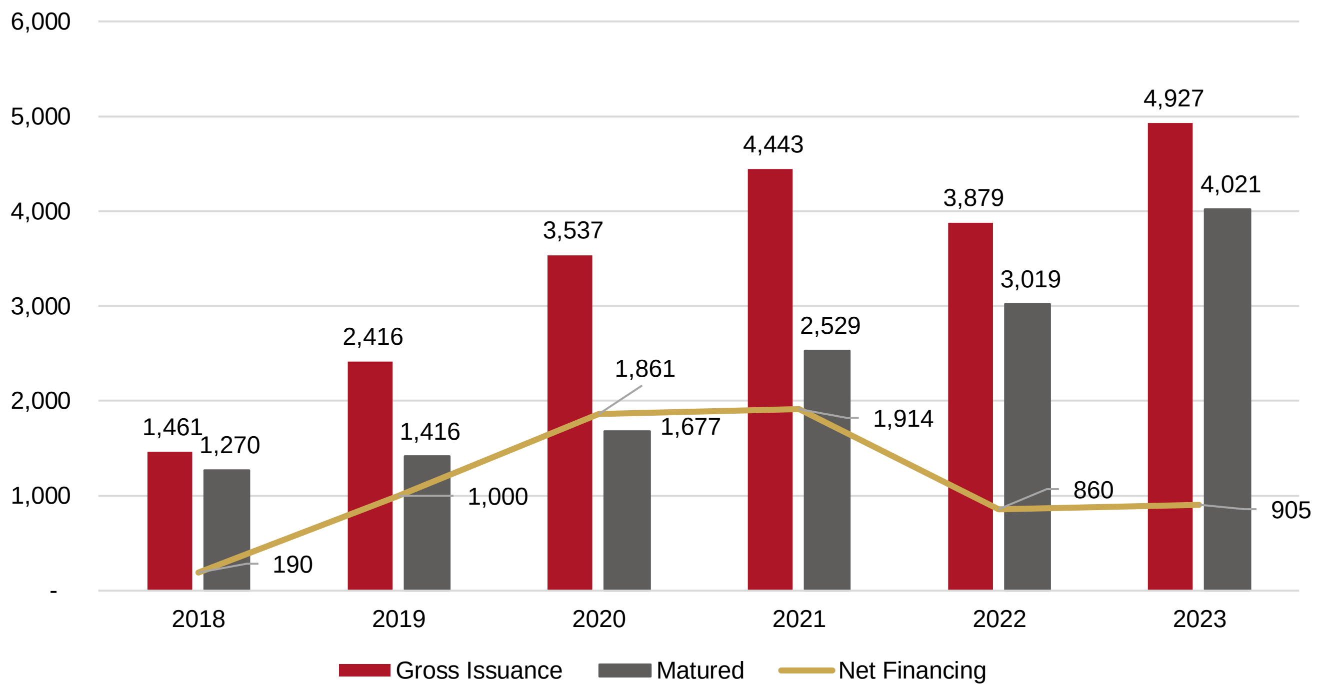
Following CQNANA, Chongqing International Logistics Hub Park (CQLGST) completed the tender offers in Dec'23 for two of its bonds due in 2024 at par. CQLGST repurchased and cancelled USD471.6mn bonds, reduced its USD815mn outstanding USD bonds by 57.9% to USD343.4mn.

We noted that the debt ratio (local government debt/GDP) of Chongqing was 34.6% and the self-sufficiency ratio was 43% in 2022, ranked 15 and 13 among 31 provinces, respectively. Despite the relatively weak fiscal position of Chongqing, we take comfort with the near-term repayment ability of CQNANA and CQLGST in view of reduced refinancing pressure in 2024 after the tender offers.

Positive albeit lower net onshore issue ….

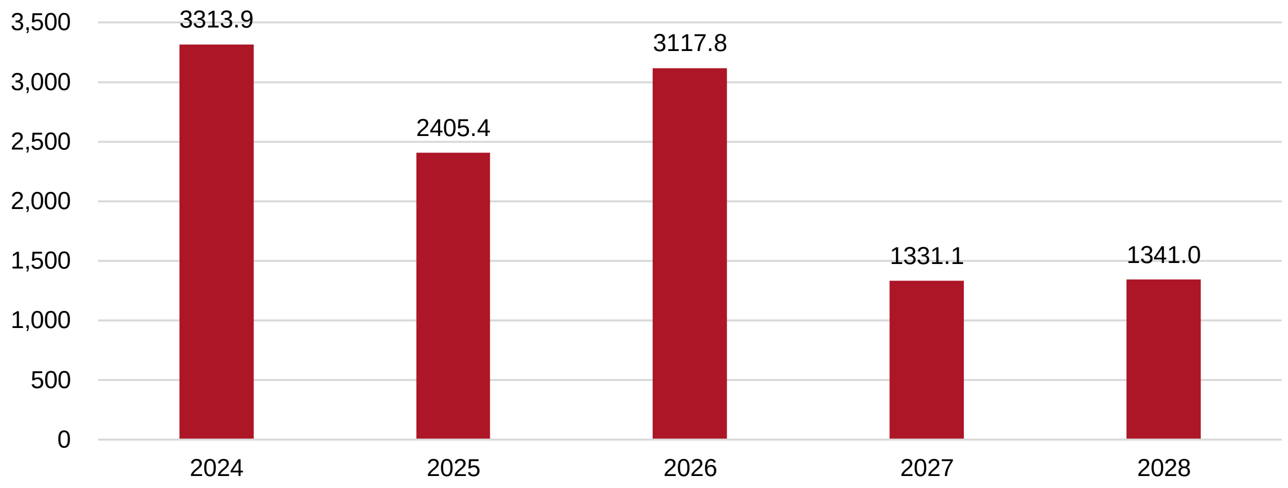
In 2023, LGFV onshore bonds issuance was RMB4,927bn, increased 27.0% yoy. On the other hand, onshore net financing amount increased 5.3% to RMB905bn. Jiangsu, Zhejiang and Shandong are the provinces with most LGFV onshore issuances, accounting for c46% of the total issuance.

Chart 34: LGFV onshore bonds issuances (RMB bn)



Source: Wind.

Chart 35: LGFV onshore bonds maturity profile (RMB bn)

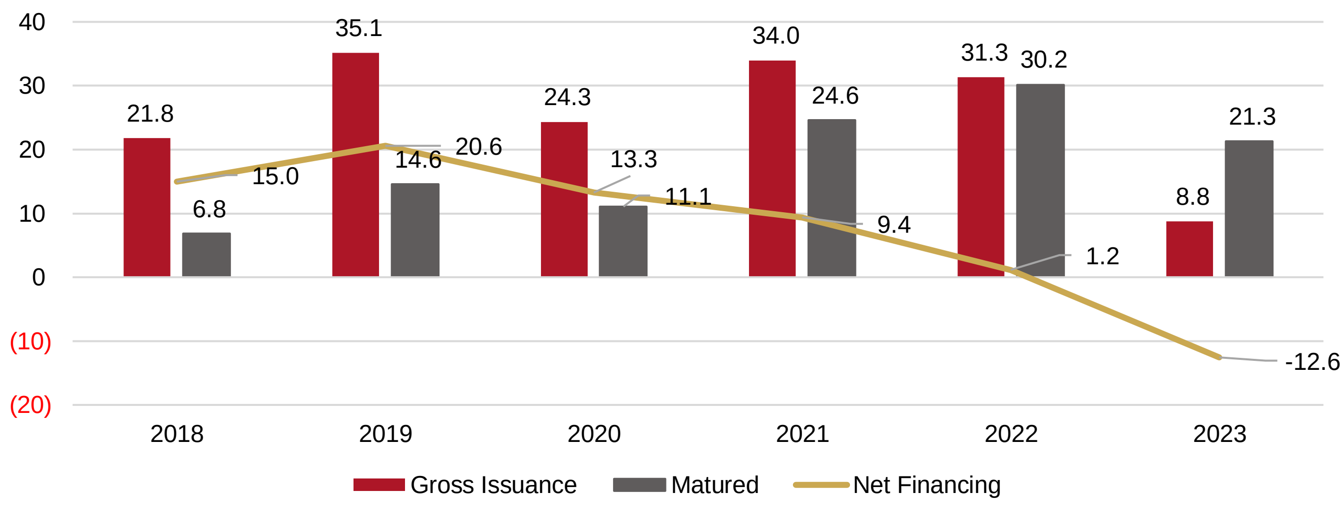


Source: Wind.

…. but net offshore redemptions continues

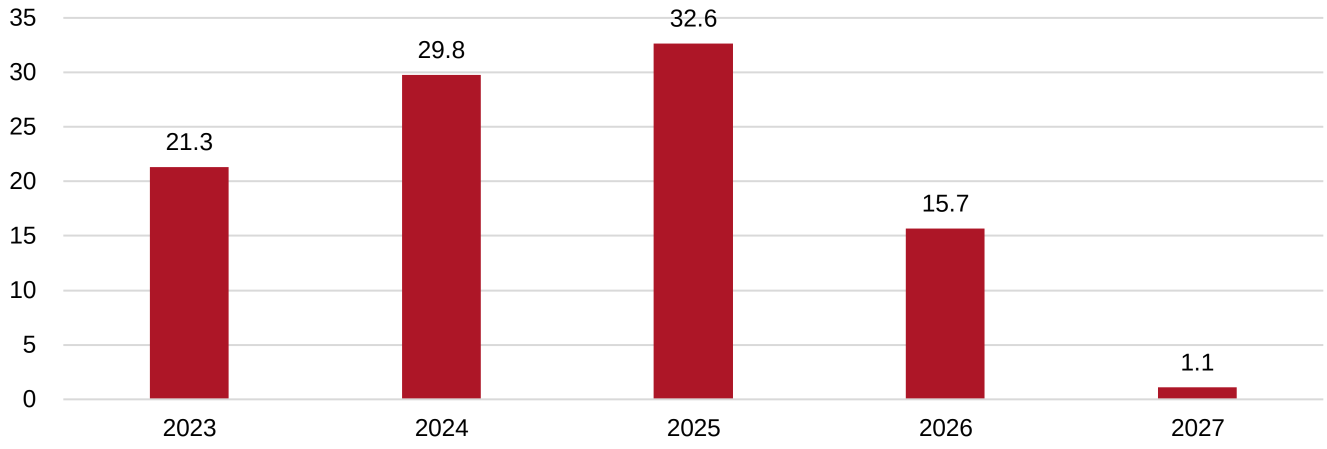
The net offshore redemption trend continued in 2023. The offshore issuance by LGFV decreased 72.1% in 2023, partly reflected LGFVs turned to issue onshore bonds due to the weak offshore market sentiment as well as high US interest rate. LGFVs will face higher repayment pressure with the offshore maturities rising from USD21.3bn in 2023 to USD32.6bn in 2025. We expect gross issuance to pick up from the low in 2023 taking cues of higher maturities and the expectation of rate cuts. Nonetheless, we expect the net redemption trend to continue as we believe that a significant part of the refinancing requirements will be funded with onshore financing.

Chart 36: LGFV USD bonds issuances (USD bn)



Source: Bloomberg.

Chart 37: LGFV USD bonds maturity profile (USD bn)



Source: Bloomberg.

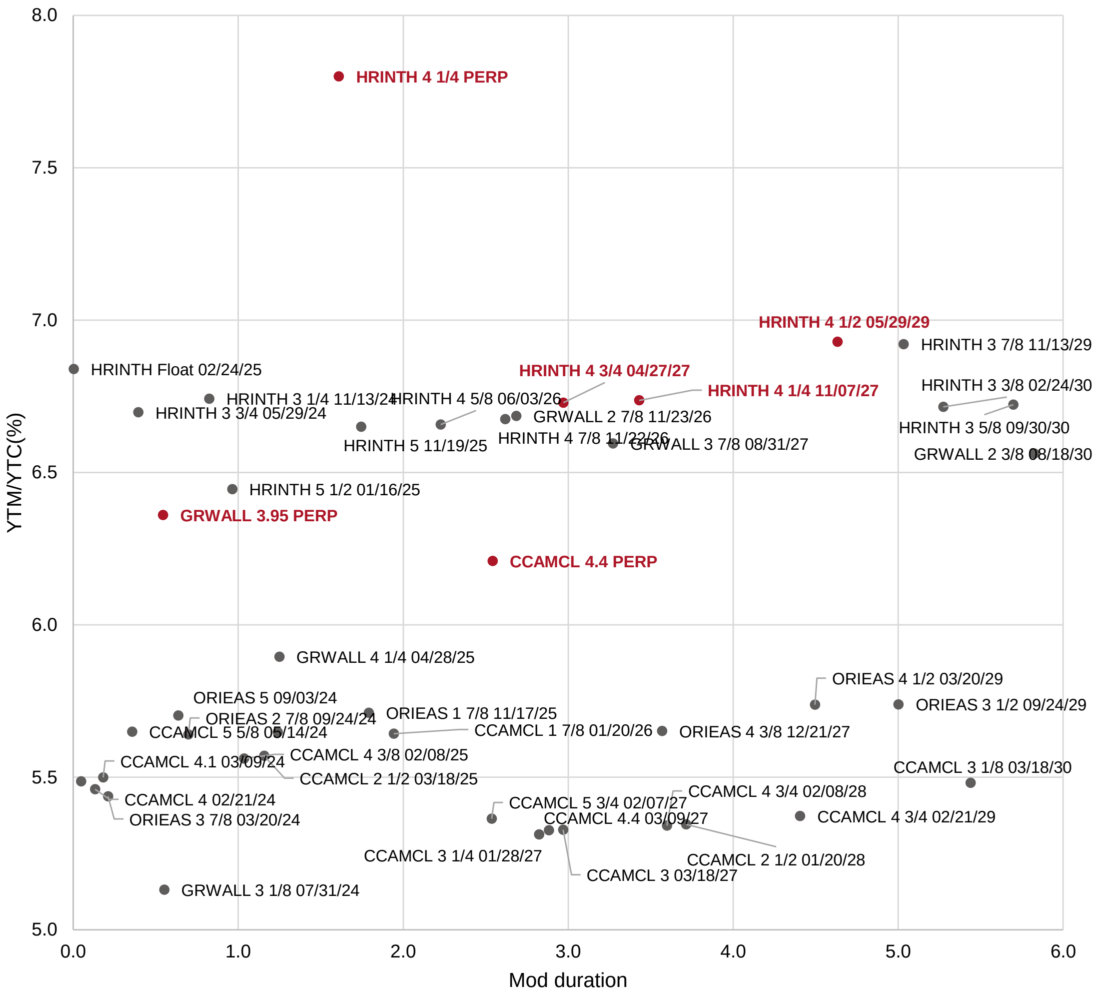
Appendix 9: Chinese AMC – Government supports demonstrated

Table 20: Summary of our AMC picks

	Ask price	YTM/YTC (ask, %)	Year to maturity/call	First call date	Coupon reset	Step-up (bps)	Amt o/s (USD mn)
CCAMCL 4.4 Perp	95.5	6.17	2.9	03/11/26	5yr UST+3.232%	N/A	1,700
GRWALL 3.95 Perp	98.6	6.40	0.7	07/31/24	5yr UST+7.145%	500	400
HRINTH 4.25 Perp	94.4	7.77	1.8	09/30/25	5yr UST+6.979%	300	250
HRINTH 4.75 04/27/27	94.3	6.68	3.4	-	-	-	850
HRINTH 4.25 11/07/27	91.8	6.70	3.9	-	-	-	1,100
HRINTH 4.5 05/29/29	89.3	6.91	5.5	-	-	-	544

Source: Bloomberg.

Chart 38: YTM/YTC of China AMC



Source: Bloomberg.

Further spread compression opportunities given the demonstrated government support

We stay with our recommendations on the AMC perps, despite lower convictions after the rally during 2023. We continue to take a top-down approach in analyzing the Chinese AMC sector in view of the strategic importance of the sector in maintaining the stability of Chinese financial system, and the demonstrated support from the Chinese government for Huarong in times of distress. We expect strong government support for the sector to continue. Hence, we expect further credit spread compression among issues of 4 state-owned AMCs. Our picks are **HRINTH 4.75 04/27/27**, **HRINTH 4.25 11/07/27** and **HRINTH 4.5 05/29/29.** We also like perps including **HRINTH 4.25 Perp (callable Sep'25), CCAMCL 4.4 Perp (callable in Nov'26)** and **GRWALL 3.95 Perp (callable 07/31/24).**

Huarong remains our top pick of the sector….

We like its improving credit story; however, we see the conviction is lower after the strong performance driven by continuous bond repurchases since Sep'23. Among HRINTHs, we prefer **HRINTH 4.75 04/27/27**, **HRINTH 4.25 11/07/27** and **HRINTH 4.5 05/29/29** with the "normalization" of UST expectation in 2024. We also see value in HRINTH 3.875 11/13/29, HRINTH 3.375 02/24/30 and HRINTH 3.625 09/30/30. Yet, the amount outstanding dropped to USD200mn, USD271mn and USD139mn, respectively, after rounds of repurchase that may affect the technical of the bonds.

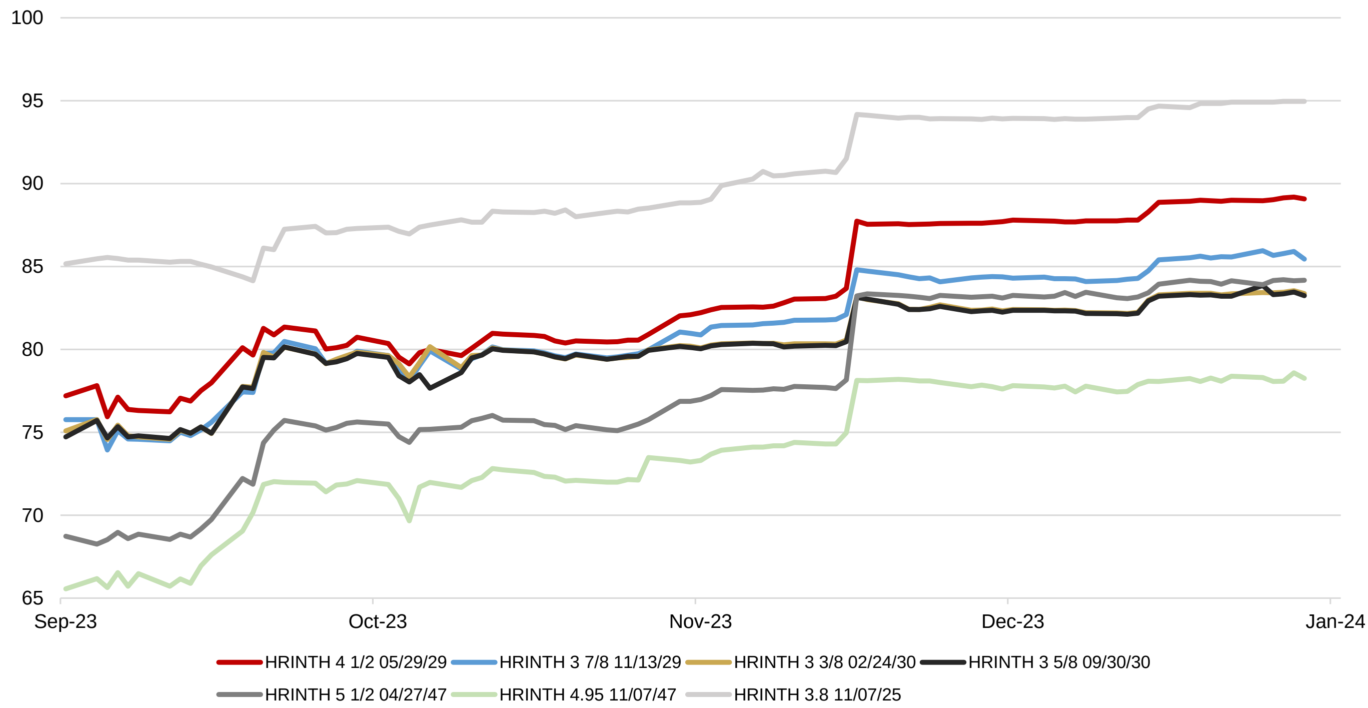
Recalled that Huarong raised 3-year onshore financial bonds of RMB20bn (cUSD2.7bn) at a coupon rate of 3.1% on 16 Aug'23. Since Sep'23, Huarong announced repurchases of its six longer dated and lower cash USD bonds due in 2029-47 and also HRINTH 3.8'25 in SGD. These demonstrated Huarong's confidence in its liquidity. Cumulatively, Huarong repurchased offshore bonds of USD1.54bn equivalent in principal amount. We estimated that the net debt reduction and exceptional gain from repurchases to be cUSD350mn (cRMB2.5bn). See table below for the summary of repurchase.

Table 21: Huarong's bond repurchase since 1 Sep'23

					Incremental repurchased amt (mn) as at							
Ticker	Currency	Issue size (mn)	O/S (mn)	Repurchased amt (mn) as at 19 Sep	21-Sep	27-Sep	11-Oct	19-Oct	26-Oct	2-Nov	9-Nov	Total repurchases disclosed
HRINTH 4 1/2 05/29/29	USD	700.00	544.35	98.65	7.00	-	-	-	-	-	50.00	155.65
HRINTH 3 7/8 11/13/29	USD	500.00	199.53	52.48	23.00	-	-	-	107.00	70.00	48.00	300.48
HRINTH 3 3/8 02/24/30	USD	700.00	270.50	-	141.00	108.50	101.21	78.79	-	-	-	429.50
HRINTH 3 5/8 09/30/30	USD	350.00	139.00	41.00	32.00	15.00	52.50	60.50	10.00	-	-	211.00
HRINTH 5 1/2 04/27/47	USD	200.00	78.50	-	-	21.55	32.95	10.00	57.00	-	-	121.50
HRINTH 4.95 11/07/47	USD	700.00	403.00	72.27	87.91	18.00	-	51.83	-	67.00	-	297.00
HRINTH 3.8 11/07/25	SGD	400.00	368.00	32.00	-	-	-	-	-	-	-	32.00
				288.43	290.91	163.05	186.65	201.12	174.00	137.00	98.00	1,539.16

Source: Bloomberg, CMBI Research.

Chart 39: Price movement of repurchased HRINTHs since 1 Sep'23



Source: Bloomberg.

….name change reflected the close tie with the CITIC Group

In Nov'23, Huarong announced that it would change its name to CITIC Financial AMC, acquisitions of 5.01% stakes in CITIC Ltd. (267 HK) for HKD13.6bn from CITIC Group. CITIC Ltd. is currently 78.13% owned by CITIC Group based on the latest filings with HKEX. These demonstrate that Huarong is already an integral part of CITIC Group even though the group's less than majority ownership (26.5%) in Huarong. The closer ties with the CITIC Group, and the name change to CITIC Financial AMC will further enhance its access to funding channels, especially onshore, in our view. These help to address the key concerns of Huarong, i.e. weakening asset quality, equity base and profitability.

On the other hand, the acquisition of CITIC Ltd. stakes at a book value of c0.2x will provide a lift to Huarong's recurring earnings, book value and cash flow despite the upfront cash outflow. Huarong reported a net loss of RMB6bn in 1H23. The net profit of CITIC Ltd. was RMB57.5bn in 1H23. On a pro-forma basis, the attributable profit to Huarong's 5.01% stakes will be cRMB2.9bn. The attributable dividend in FY23 will be RMB877mn. The acquisition of CITIC Ltd. stakes, coupled with the non-recurring gain from non-core assets and offshore bond repurchases, should offer an immediate and significant lift for Huarong's profitability and capital base.

Non-call risk on perps remains low for China AMCs

We also like the AMC perps because of the high certainty of call, as well as their yield pick-up over the senior bonds. At 94.4, **HRINTH 4.25 Perp (callable Sep'25)** is trading at a YTC of 7.8%**,** offer 116bps yield pick-up over HRINTH 5 11/19/25. For **CCAMCL 4.4 Perp (callable in Nov'26)**, it offers highest yield within the CCAMCL curve. At 95.5, CCAMCL 4.4 Perp is trading at YTC of 6.2% and offers 58bps yield pick-up over CCAMCL 1.875 01/20/26. We also see value in **GRWALL 3.95 Perp (callable 07/31/24)**. It is trading at YTC of 6.4% at 98.6 and yield pick-up of 182bps over GRWALL 3.125 07/31/24. We draw additional comfort from Great Wall's repayment on GRWALL 4.375 05/25/23 of USD600mn offshore in May'23.

HRINTH 2.875 Perp issued in Sep'16 was the first perp issuance by AMC offshore. All of the five perps issued in 2016-17 (by Huarong, Cinda and Orient) were called on their respective first call dates in 2021-22. We believe that the likelihood for the three remaining perps being called on the first call dates remains high even for CCAMCL 4.4 Perp, the only one with coupon reset but without step-up in case of non-call. The coupon rates will be reset to expensive levels from AMCs' perspective. We expect AMCs to call these offshore perps with other lower cost funding. Orient recently issued 3-year onshore bonds at a coupon rate of only 2.89%.

Our confidence in the perps being called on the first call dates is also predicated on Huarong's calls on HRINTH 2.875 Perp in Sep'21 and HRINTH 4.5 Perp in Jan'22 totaled USD2bn when Huarong was in the mid of financial distress and recapitalization. It also announced the call of HRINTH 4 Perp on 29 Sep'22 ahead of its first call date on 7 Nov'22.

Net offshore redemption trend continues

The sector has experienced net redemption trend offshore since 2021. YTD, the offshore net redemption for Cinda was USD1.1bn. Great Wall retired USD600mn in May'23 and Huarong retired four USD bonds of USD2.0bn (excl. bond repurchase discussed above). In onshore market, Cinda repaid RMB5bn without refinancing, while the net issuance for Orient is RMB4bn. Good access to low-cost onshore funding offers AMCs the financial flexibility to repurchase its offshore bonds. We continue to expect the four AMCs to repurchase their offshore bonds to deleverage and lower the funding costs. Hence, the offshore net redemption trend should continue.

Concerns on asset quality deterioration mitigated

The Chinese regulators have been proposing different initiatives to support the property market during 2023. The latest move is to direct financial support, including unsecured short-term financing, from banks to property developers. These could adversely affect the asset quality of banks and AMCs. That said, the concerns are mitigated as one of the key policy objectives for any supportive measure is to prevent systemic risk in the financial sector.

Appendix 10: Chinese Properties – A stock-take on survivors

Our picks of survivors in 2024

We believe that survivor of the sector will be those with: -

- major operations in T1/2 cities where the sales and ASP remain more resilience and sales recovery is more visible. See Chart 42 and 43 (new property price index and inventory by cities)
- manageable near-term debt maturities, especially offshore bond maturities
- the ownership of quality investment properties (IP) can be collateralized for funding through operating loans, CMBS and CBICL-guaranteed onshore bond issuances

Our picks for the sector are **CHJMAO, CSCHCN, DALWAN, FUTLAN//FTLNHD, HPDLF, LNGFOR** and **YLLGSP**. We consider these companies are survivors of the sector and their bonds offer good risk-return profile at current valuations. Meanwhile, we changed our recommendations on VNKRLEs to neutral after they rebound 3-17pts since early Shenzhen Metro Group Co., Ltd. sent a stronger than expected signal of providing support to Vanke. Please see our comments on 7 Nov'23.

Table 22: Summary of our picks

Ticker	Recommendation	Number of USD bonds o/s	Amt o/s (USD mn)	YTM/YTC (%)	Next maturity	Type
CHJMAO	Maintain buy	6	2,600	10.68-14.78	CHJMAO 4 06/21/24	State-owned
CSCHCN	Maintain buy	5	1,347	226.28-1,542.14	CSCHCN 9 04/12/24	Quasi-state-owned
VNKRLE	Chg. to neutral	5	2,953	14.57-19.50	VNKRLE 5.35 03/11/24	Quasi-state-owned
DALWAN	Maintain buy	3	1,400	41.98-228.90	DALWAN 7.25 01/29/24	Non-state-owned
FUTLAN//FTLNHD	Maintain buy	6	1,804	76.66-708.49	FUTLAN 7.95 05/20/24	Non-state-owned
HPDLF	Maintain buy	1	300	34.18	HPDLF 7 05/18/24	Non-state-owned
LNGFOR	Maintain buy	4	2,000	17.55-23.49	LNGFOR 3.375 04/13/27	Non-state-owned
YLLGSP	Maintain buy	2	900	30.74-33.29	YLLGSP 6.8 02/27/24	Non-state-owned

Source: Bloomberg.

Disappointing sales recovery in 2023

In Nov'23, the 34 Chinese developers under our radar reported contract sales totaled RMB233.8bn. The yoy decline of contract sales in Nov'23 was 26.5%. In 11M23, the aggregate contract sales of 34 developers were RMB3,049.9bn, down 20.7% yoy from RMB3,844.6bn in 11M22. There are only 3 developers under our radar achieved yoy contract sales growth in 10M23, including YUEXIU (RMB132.9bn, +29% yoy), CRHZCH (RMB286.0bn, +14% yoy), CHIOLI (RMB287.0bn, +12% yoy). The nationwide commercial housing sales declined 11.2% yoy in 11M23 to RMB10,531.8bn. In Nov'23, the value of commercial housing sales was down 16.9% from Oct'23.

Table 23: 2023 YTD sales of 34 developers under our radar (RMB mn)

2023 YTD Sales (in RMB mn)

Company	CN Name	BBG Ticker	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Trend	Nov'23 MoM Growth	Nov'23 YoY Growth	Nov'23 YTD Sales	Nov'23 YTD Sales Growth
Yuexiu Property	越秀地产	YUEXIU	8,884	13,712	21,237	13,331	12,355	14,108	8,473	9,858	9,976	9,100	11,875		30%	0%	132,909	[illegible]
China Resources Land	华润置地	CRHZCH	16,020	24,200	38,800	33,010	31,300	26,900	17,190	20,290	26,610	27,580	24,120		-13%	[illegible]	286,020	[illegible]
China Overseas	中国海外发展	CHIOLI	13,188	27,424	42,987	34,033	29,345	33,199	11,947	18,833	28,071	25,056	22,945		-8%	[illegible]	287,028	[illegible]
Poly Real Estate	保利地产	POLYRE	29,545	34,284	50,301	41,695	40,838	40,157	31,002	31,308	36,022	33,113	31,237		-6%	[illegible]	399,502	0%
Hopson	合生创展	HPDLF	1,327	2,193	6,547	1,585	2,323	2,087	1,067	1,177	6,988	1,426	996		-30%	[illegible]	27,716	-1%
Greentown	绿城	GRNCH	13,500	17,900	29,900	27,100	20,200	25,600	18,200	18,100	21,800	30,400	33,700		11%	[illegible]	256,400	-3%
China Jinmao	中国金茂	CHJMAO	10,000	14,130	20,100	14,402	14,180	13,140	6,368	5,100	12,080	12,500	10,030		-20%	[illegible]	132,030	[illegible]
Longfor	龙湖集团	LNGFOR	7,220	11,140	15,240	11,260	9,410	11,370	7,600	8,520	9,120	9,340	6,950		-26%	[illegible]	107,170	-8%
China Vanke	万科企业	VNKRLE	28,630	30,120	42,630	33,470	32,940	36,140	22,050	22,610	32,010	31,830	30,700		-4%	1%	343,130	-9%
Greenland Holding*	绿地控股集团*	GRNLGR	9,790	7,710	11,290	6,860	11,940	11,310	6,857	8,563	10,180	7,940	10,060		27%	[illegible]	102,500	[illegible]
Gemdale	金地集团	GEMDAL	9,210	14,790	20,110	15,000	13,230	13,470	10,510	12,510	13,100	11,000	10,200		-7%	[illegible]	143,130	[illegible]
Powerlong	宝龙地产	PWRLNG	2,040	3,319	3,478	3,123	3,054	2,596	2,031	2,067	1,945	1,629	1,132		-31%	[illegible]	26,414	[illegible]
Agile	雅居乐	AGILE	6,440	6,120	4,250	3,680	4,200	3,540	2,270	2,540	3,170	3,480	2,230		-36%	[illegible]	41,920	[illegible]
Future Land	新城控股	FUTLAN/FTLNHD	5,776	7,809	7,920	7,162	7,033	6,700	6,006	6,047	5,740	6,032	5,003		-17%	[illegible]	71,228	[illegible]
Central China Real Estate	建业地产	CENCHI	2,871	2,120	1,237	1,013	1,523	1,260	402	650	720	910	890		-2%	[illegible]	13,596	[illegible]
Redsun	弘阳地产	REDSUN/HONGSL	1,109	2,770	3,434	2,189	2,019	1,504	2,011	1,877	1,990	1,202	929		-23%	[illegible]	21,034	[illegible]
Dexin China*	德信中国*	DEXICN	2,340	3,200	2,630	1,390	2,150	1,810	1,030	3,150	1,150	490	750		53%	[illegible]	20,090	[illegible]
Radiance*	金辉控股*	JNHUIG/RDHGCL	1,920	1,750	1,530	3,050	3,230	1,370	1,640	1,800	1,980	2,070	2,410		16%	24%	22,750	[illegible]
CIFI Holdings	旭辉集团	CIFIHG	5,020	7,810	8,300	8,300	7,000	5,510	4,700	4,460	5,350	4,370	3,830		-12%	[illegible]	64,650	[illegible]
Jingrui Holdings	景瑞控股	JINGRU	342	454	442	370	449	405	265	218	207	203	209		3%	[illegible]	3,564	[illegible]
Sino-Ocean	远洋集团	SINOCE	3,290	5,070	8,190	7,030	5,040	7,040	2,490	1,970	2,570	2,740	2,120		-23%	[illegible]	47,550	[illegible]
Logan Property*	龙光地产*	LOGPH	1,070	2,190	3,110	3,200	2,490	1,270	1,960	3,490	1,390	1,000	700		-30%	[illegible]	21,870	[illegible]
Zhongliang	中梁控股	ZHLGHD	3,660	4,020	3,750	3,300	3,190	3,110	2,200	2,040	2,380	2,400	1,900		-21%	[illegible]	31,950	[illegible]
Guangzhou R&F*	富力地产*	GZRFPR	1,350	2,110	3,910	1,660	1,540	2,970	1,000	980	1,470	1,120	610		-46%	[illegible]	18,720	[illegible]
Yuzhou Properties	禹洲地产	YUZHOU	1,505	1,750	2,150	2,063	2,253	1,952	1,302	1,252	1,202	1,101	703		-36%	[illegible]	17,233	[illegible]
KWG Property	合景泰富集团	KWGPRO	3,561	4,320	3,850	3,231	2,380	1,730	1,130	880	830	760	1,251		65%	[illegible]	23,923	[illegible]
Shimao	世茂房地产	SHIMAO	4,510	4,110	6,220	5,010	4,010	4,210	3,050	2,200	2,020	2,240	2,430		8%	[illegible]	40,010	[illegible]
Country Garden	碧桂园	COGARD	22,010	24,850	25,010	22,690	18,200	16,000	12,070	7,980	6,170	6,310	6,110		-3%	[illegible]	167,400	[illegible]
China SCE	中骏集团控股	CHINSC	3,051	3,809	4,608	2,505	3,102	3,090	2,304	1,199	1,105	1,014	1,022		1%	[illegible]	26,809	[illegible]
Sunac China	融创中国	SUNAC	7,230	10,860	11,180	8,060	7,790	7,020	5,120	4,190	9,570	4,760	3,500		-26%	[illegible]	79,280	[illegible]
Yanlord	仁恒置地	YLLGSP	905	3,667	3,557	4,220	6,101	2,876	1,634	1,564	1,568	2,054	1,088		-47%	[illegible]	29,234	[illegible]
Zhenro Properties	正荣地产	ZHPRHK	1,356	1,620	1,811	1,654	1,566	1,674	1,024	1,010	1,090	975	705		-28%	[illegible]	14,485	[illegible]
Times Property	时代中国控股	TPHL	852	1,961	2,638	1,494	1,418	1,080	818	908	850	750	654		-13%	[illegible]	13,423	[illegible]
Ronshine China	融信中国	RONXIN	995	1,334	1,537	2,086	2,029	1,809	947	872	1,171	1,695	797		-53%	[illegible]	15,272	[illegible]

Source: Wind.

More supportive measures….

We view the recent round of high-profile discussions and potential support policies positively. That demonstrated a "turn" of policy direction. For example, China is considering allowing banks to offer unsecured short-term loan, i.e. working capital loans, to qualified developers as a part of the new measures package. However, we believe the major beneficiaries will be SOEs. Furthermore, we are skeptical on the implementation and timetable of these supportive policies. We are curious on how the KPI of banks and financial institutions will be set in order to incentivize them to accomplish the policy objectives.

Even if banks and financial institutions are required to provide unsecured funding to non-state-owned developers, one scenario we can envisage is that banks and financial institutions will focus on providing financing to non-state-owned developers which remains current on its debts. These include larger players such as Longfor and Seazen, and even Agile, as well as smaller developers such as Hopson and Yanlord. Banks and financial institutions should remain reluctant to provide financing, especially unsecured loans, for developers which are undergoing holistic debt restructuring.

Going forward, we expect the Chinese government to launch more supportive measures such as LPR cut and cancellation of purchase restrictions in high-tier cities. We believe that the policy objectives of any supportive measures will be to prevent the widespread default of Chinese property sector from triggering systemic risk of the financial sector, instead of bailing out individual property developers. We could see further defaults of individual property developers but the concerns on supportive measures would bring additional risk to the asset quality of banks and financial institutions are mitigated.

Table 24: Key policies related to Chinese real estate market

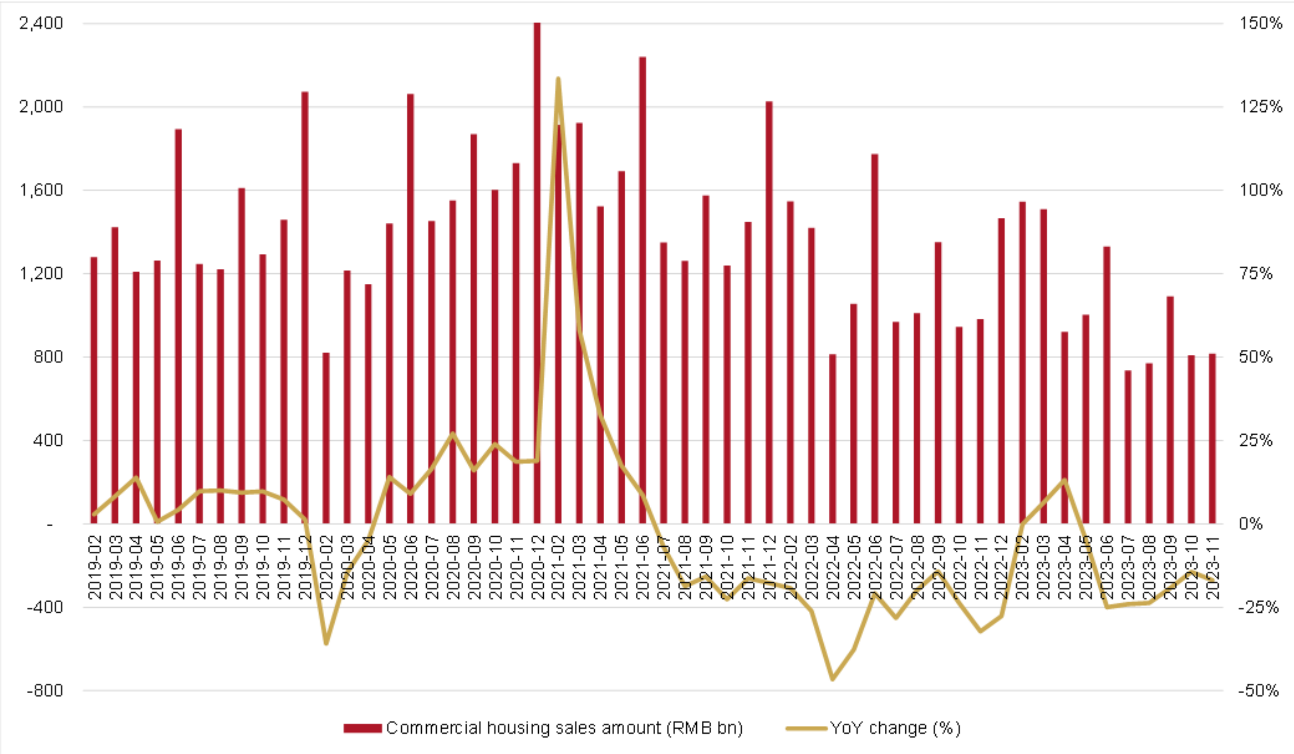
Time	Key policies
Dec'16	The Chinese government had implemented tightening measures to ensure that "homes are built to live, not for speculation". As a result, the onshore equity and debt financing of developers shrank a lot. A-share equity financing slumped to zero in the last two years and onshore bonds issuance dropped substantially from the peak of RMB834bn in 2016. The wave of defaults started in 2021 and this further deteriorated developers' funding access.
4Q22	The Chinese regulators started to enhance the funding channels for the property developers via bank (First Arrow), bond (Second Arrow) and equity (Third Arrow) financing. Commercial banks also implemented "16-point Measures" to provide financial support to the developers.
Sep'23	Relaxation of the home purchase restrictions; allowing the banks to treat the mortgage loans on the second homes as first mortgage loans as long as the buyers have paid off the first loans. These reduce the down payment ratio on the first homes; and lower the interest rate on the mortgage loans for second homes.
Nov'23	Chinese regulators require financial institutions to follow "Three No-lowers Principles": (i) the growth rate of real estate loans of banks will not lower than that of the industry average; (2) the growth rate of loans to non-state-owned developers will not lower than that of the banks' average real estate loans; and (3) the growth rate of residential mortgage loans to the projects of non-state-owned developers will not lower than that of the banks' average mortgage loans. The Chinese government plans to provide low-cost funding of at least RMB1tn (cUSD137bn) to support "Three Major Projects", i.e. affordable housing, urban village renovation and public infrastructure, according to the media report. The theme of "Three Major Projects" appeared multiple times in official meetings this year, including the Politburo Meetings in Apr'23 and Jul'23, and Central Financial Work Conference in Oct'23. The special loans and pledged supplemental lending are also the options under consideration. PBOC will provide medium-to-long term and low-cost funding by phases to support the "Three Major Projects". Pledged supplemental lending was introduced in 2014 to provide low-cost funding to shanty town redevelopments.
Dec'23	Beijing and Shanghai published new measures to boost local real estate markets, e.g. lowering down payment ratio and mortgage rate

Source: CMBI Research.

…. Sales recovery remains to be the key

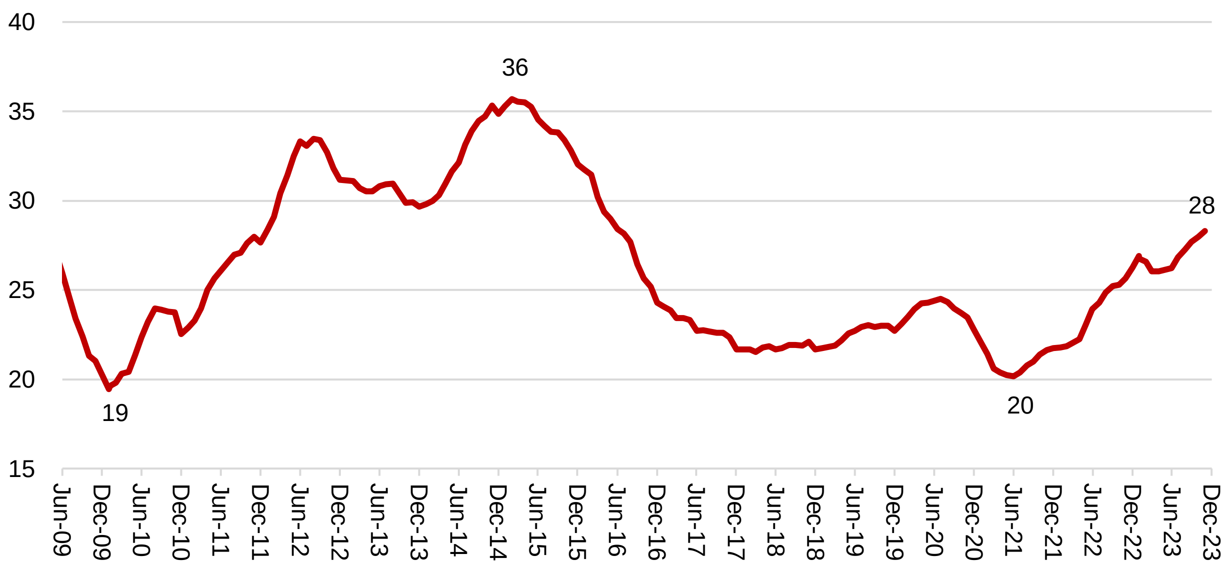
The viability of developers will continue to hinge on a significant recovery of contract sales which, in turn, will be driven by the economic outlook, income expectation and property price expectations. All these factors will come hand in hand. The path of sales recovery to be long as potential homebuyers remain skeptical of the property market and economic outlook. We believe that the survivors of the Chinese property will be those with major operations in T1/2 cities where the sales and ASP remain more resilience and sales recovery is more visible. See Chart 42 and 43 (new property price index and inventory by cities); manageable near-term debt maturities, especially offshore bond maturities; and ownership of high-quality investment properties (IPs) which can be collateralized for funding through operating loans, CMBS and CBICL-guaranteed onshore bond issuances.

Chart 40: Monthly commercial housing sales in China yoy change



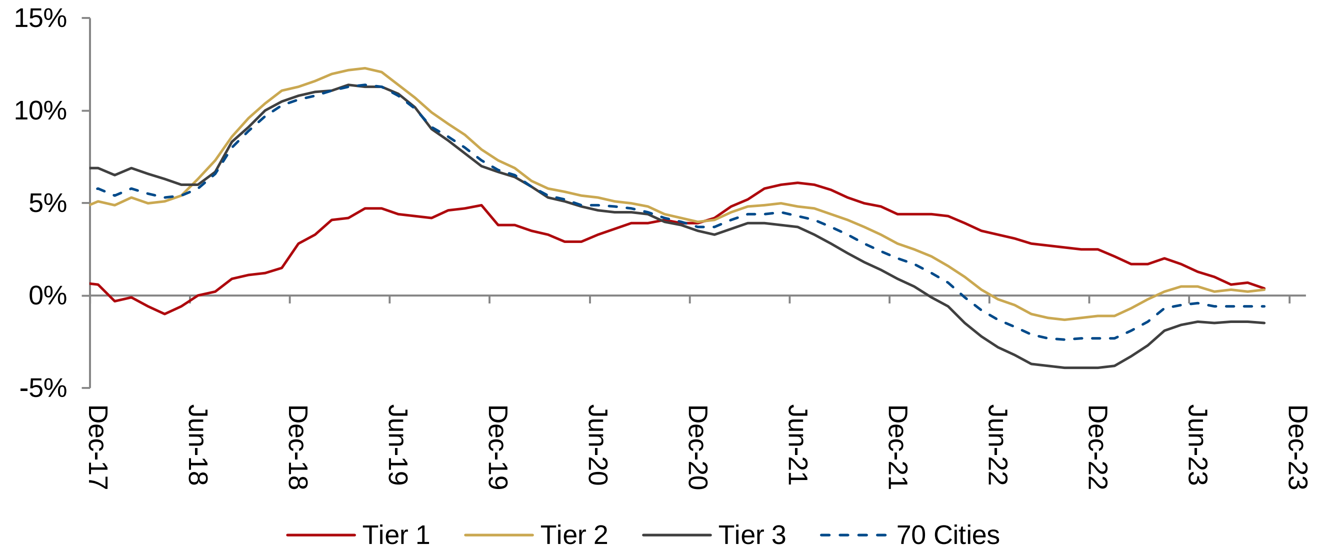
Source: NBS, Wind.

Chart 41: Rising residential inventory month of China



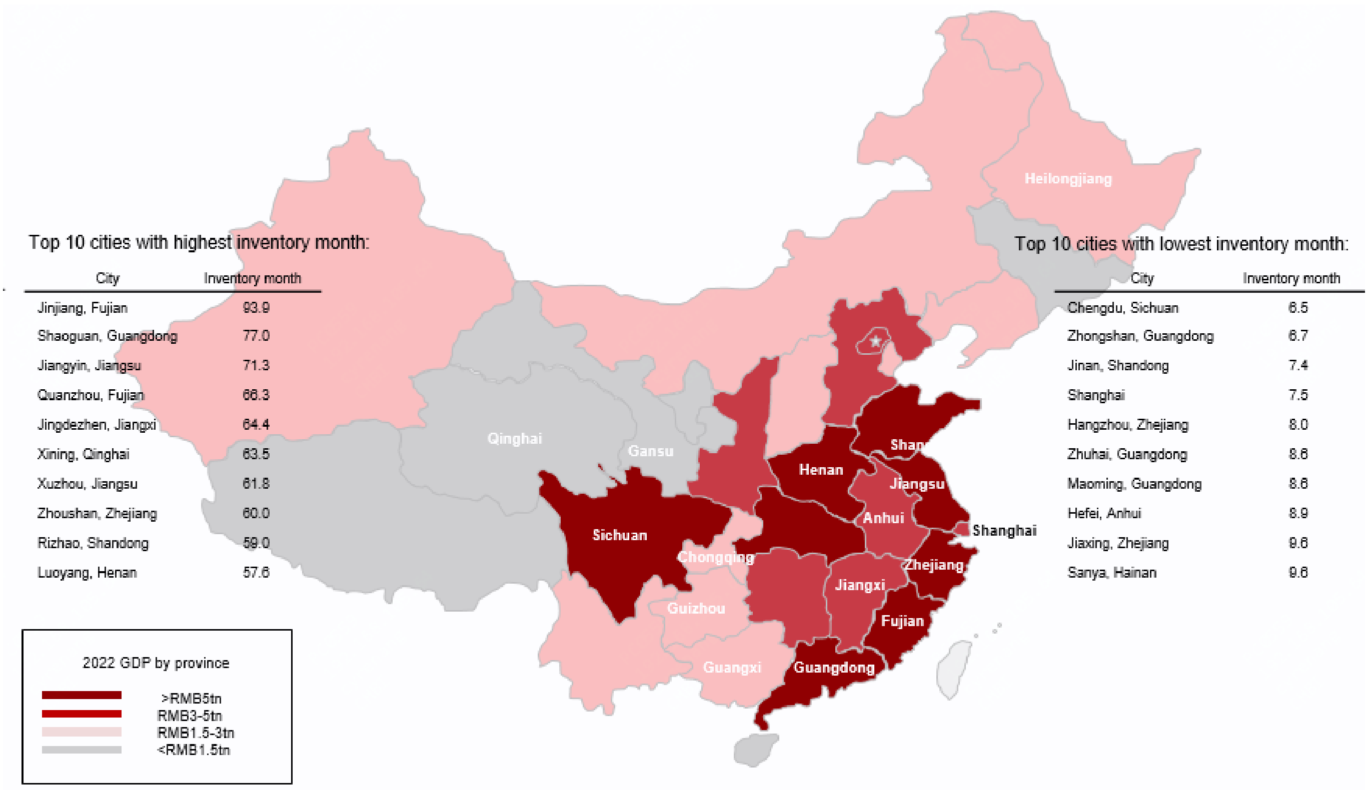
Source: NBS.

Chart 42: New resident property price Index (yoy)



Source: NBS, CEIC, CMBIGM.

Chart 43: Lower Inventory level in higher tier cities



Top 10 cities with highest inventory month:

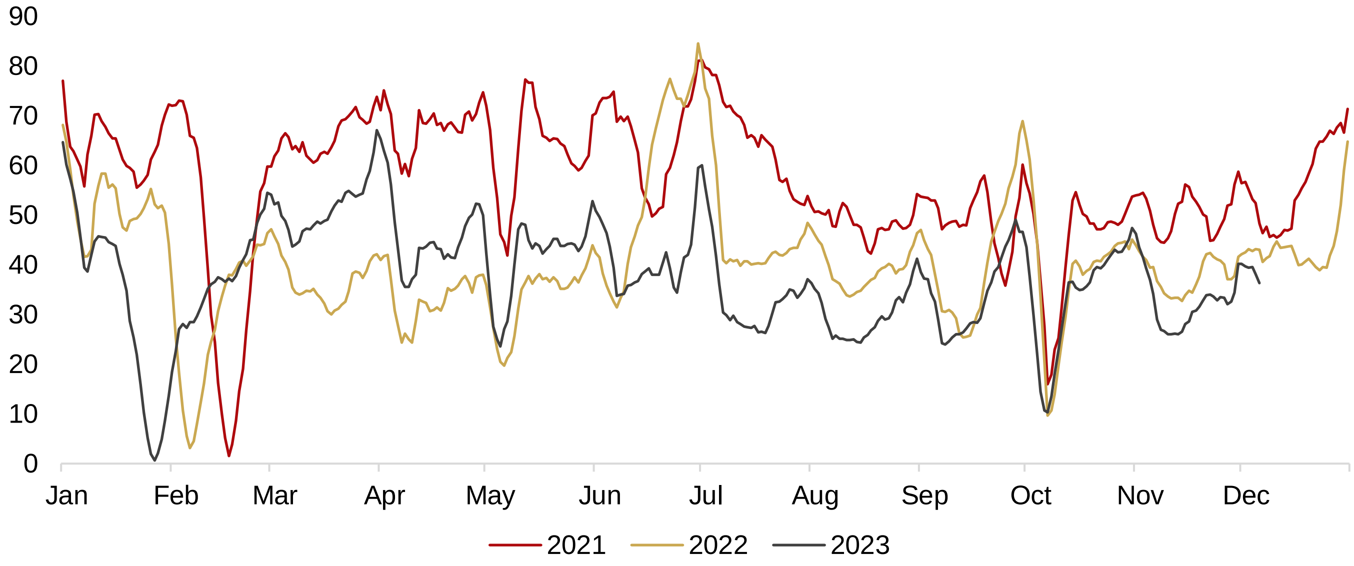
City	Inventory month
Jinjiang, Fujian	93.9
Shaoguan, Guangdong	77.0
Jiangyin, Jiangsu	71.3
Quanzhou, Fujian	66.3
Jingdezhen, Jiangxi	64.4
Xining, Qinghai	63.5
Xuzhou, Jiangsu	61.8
Zhoushan, Zhejiang	60.0
Rizhao, Shandong	59.0
Luoyang, Henan	57.6

Top 10 cities with lowest inventory month:

City	Inventory month
Chengdu, Sichuan	6.5
Zhongshan, Guangdong	6.7
Jinan, Shandong	7.4
Shanghai	7.5
Hangzhou, Zhejiang	8.0
Zhuhai, Guangdong	8.6
Maoming, Guangdong	8.6
Hefei, Anhui	8.9
Jiaxing, Zhejiang	9.6
Sanya, Hainan	9.6

Source: CRIC.

Chart 44: Weaker sales of 30 major cities: average 7-day rolling property sales ('0000 sqm)



Source: Wind, CMBI Research.

Table 25: USD bonds maturity of our picks

USD mn	2024	2025	2026	2027	2028	After 2029	Total
CHJMAO	250	350	600	-	-	1,400	2,600
CSCHCN	1,347	-	-	-	-	-	1,347
DALWAN	600	400	400	-	-	-	1,400
FUTLAN/FTLNHD	800	600	404	-	-	-	1,804
HPDLF	300	-	-	-	-	-	300
LNGFOR	-	-	-	250	500	1,250	2,000
YLLGSP	379	-	500	-	-	-	879

Source: Bloomberg.

Table 26: Onshore bonds maturity of our picks

RMB bn	2024	2025	2026	2027	2028	After 2029	Total
CHJMAO	-	1.6	0.5	-	-	-	2.1
CSCHCN	-	-	-	-	-	-	-
DALWAN	0.8	3.0	1.5	-	-	-	5.3
FUTLAN/FTLNHD	0.2	4.0	0.9	-		-	5.1
HPDLF	-	-	-	-	-	-	-
LNGFOR	14.3	14.5	5.9	0.8	-	-	35.6
YLLGSP	-	-	-	-	-	-	-

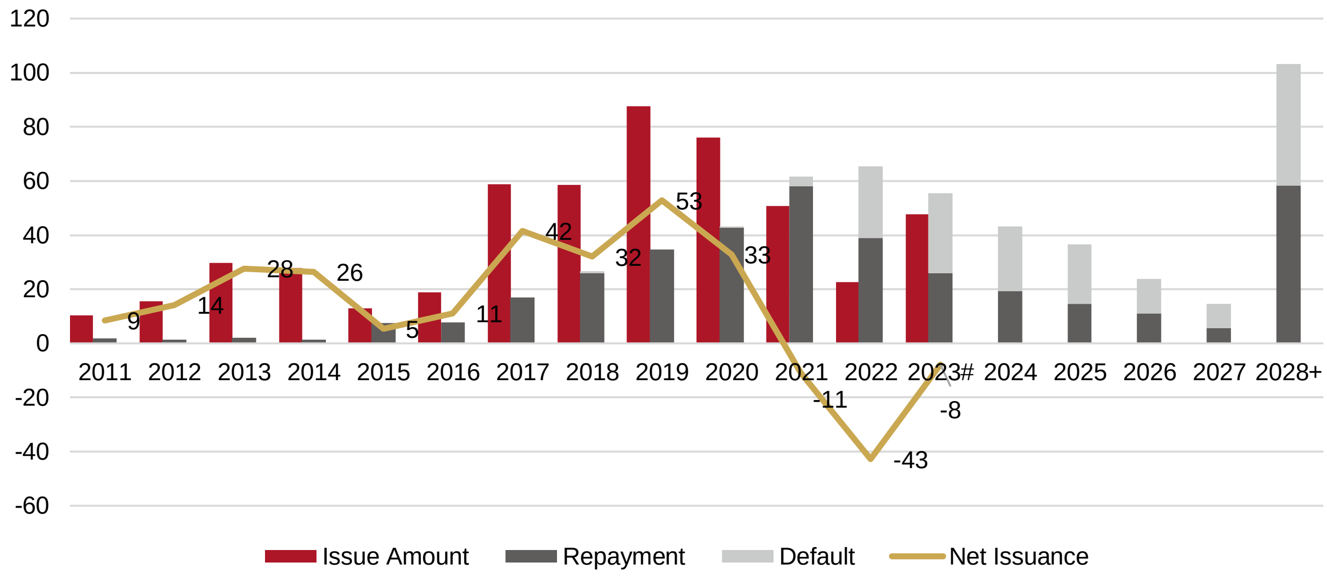
Source: Wind.

Table 27: Contract sales and three red lines of our picks

Ticker	Contract sales yoy change (11M23)	Net gearing (<100%)	Adj. liabilities to assets ratio (<70%)	Cash/ST debts (>1x)
CHJMAO	-4%	76.0%	68.4%	2.4x
CSCHCN	-	77.9%	57.8%	0.1x
DALWAN	-	60.9%	50.2%	0.2x
FUTLAN/FTLNHD	-35%	47.1%	68.2%	1.1x
HPDLF	-1%	74.5%	59.9%	0.6x
LNGFOR	-8%	63.9%	61.9%	1.8x
YLLGSP	-53%	46.9%	64.2%	1.1x

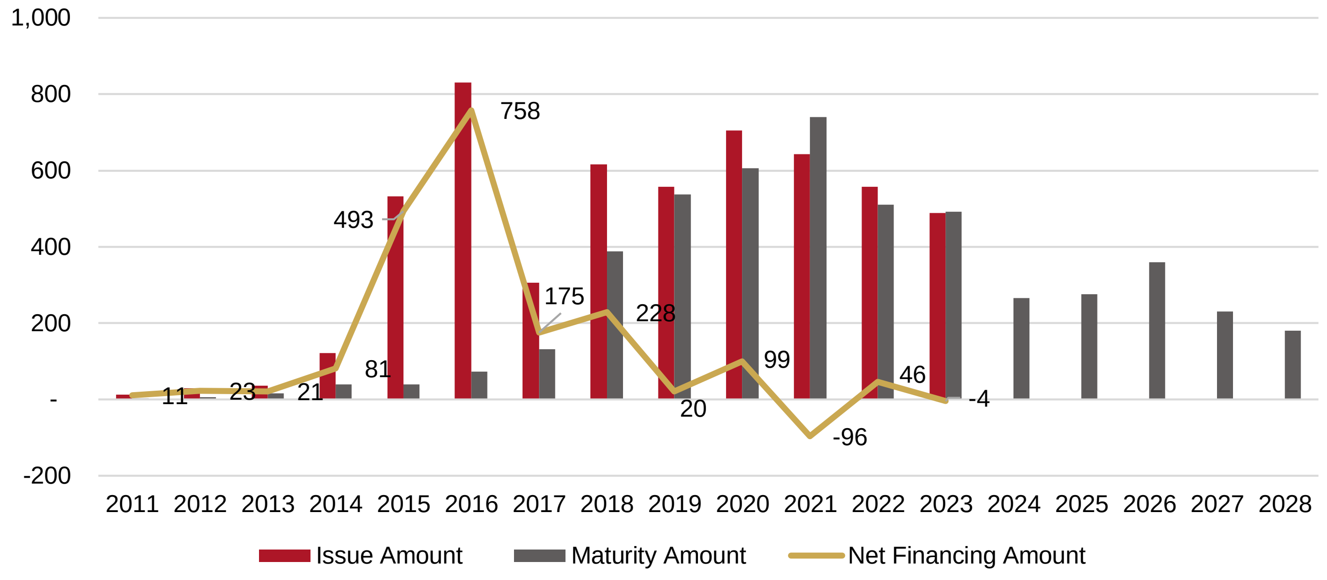
Note: Data as of 1H23. Source: Company filings.

Chart 45: Real estate USD bond issuance (USD bn)



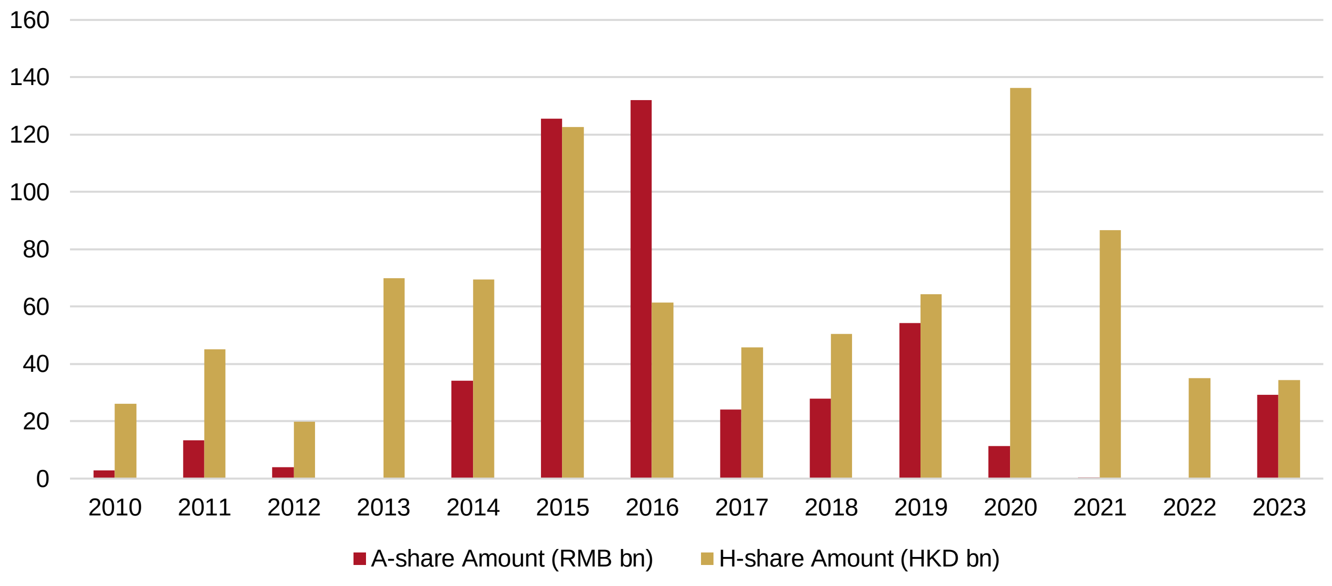
 # 2023 gross issuance is mainly from the restructured bonds issued after liability management exercises.
Source: Bloomberg.

Chart 46: Real estate onshore bond issuance (RMB bn)



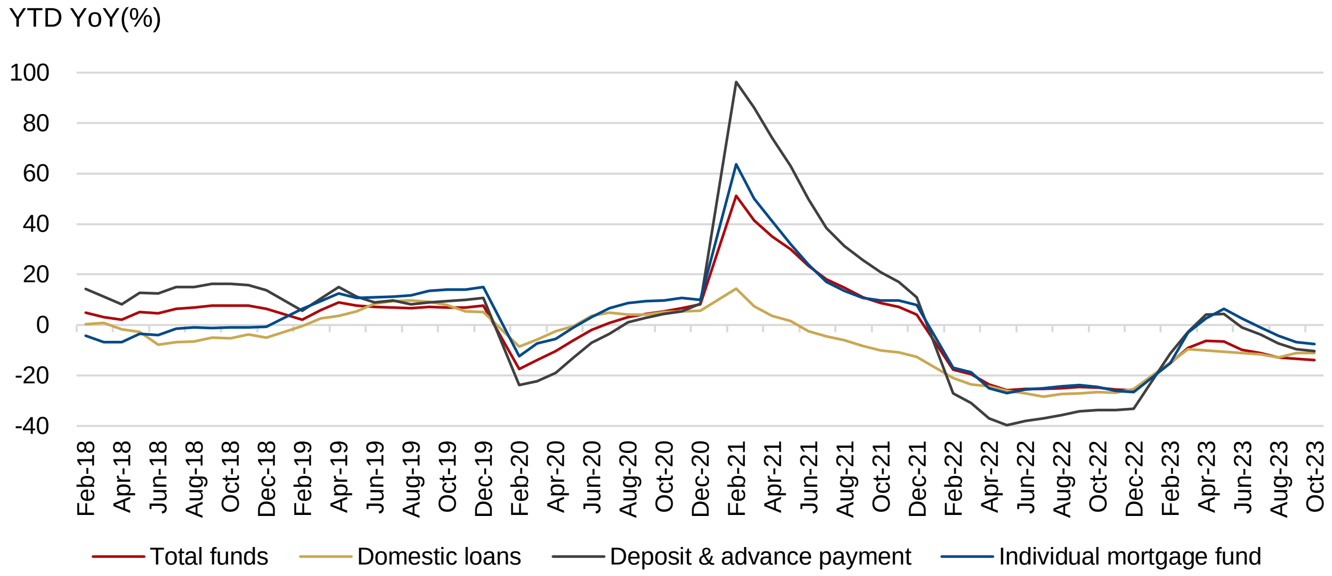
Note: Net financing includes tender offers, buy-backs and put/call exercises.
Source: Wind.

Chart 47: Equity financing in property sector



Source: Wind.

Chart 48: Source of funding for developers



Source: Wind, CMBI Research.

Table 28: 'Second Arrow': CBICL-backed onshore bonds issuance since Sep'22

Ticker	Issue date	Amt (RMB mn)	Amt (USD mn)	Coupon	Tenor
AGILE	18 Jan'23	1,200	167	4.70	3yr
CHINSC	2 Aug'23	700	97	4.28	3yr
	17 Jan'23	1,500	209	4.10	3yr
CIFIHG	21 Sep'22	1,200	167	3.22	3yr
COGARD	5 May'23	800	111	3.80	2yr
	5 May'23	900	125	3.95	2yr
	22 Dec'22	1,000	139	4.30	3yr
	15 Sep'22	1,500	209	3.20	3yr
EXCECP	20 Nov'23	500	70	4.50	3yr
	21 Sep'23	1,000	139	4.60	3yr
	20 Feb'23	400	56	4.69	3yr
	12 Oct'22	600	84	3.50	3yr
FUTLAN/FTLNHD	12 Dec'23	850	118	4.48	3yr
	24 Jul'23	850	118	4.00	3yr
	09 Dec'22	2,000	279	4.30	3yr
	08 Sep'22	1,000	139	3.28	3yr
JNHUIG/RDHGCL	22 Aug'23	800	111	4.00	3yr
	01 Dec'22	1,200	167	4.00	3yr
LNGFOR	14 Dec'23	1,200	169	3.66	3yr
	30 Aug'23	1,100	153	3.50	3yr
	29 Nov'22	2,000	279	3.00	3yr
	25 Aug'22	1,500	209	3.30	3yr
MIDEAP	31 Aug'23	500	70	3.40	3yr

	21 Apr'23	1,000	139	3.52	3yr
	01 Dec'22	1,500	209	2.99	3yr
	02 Sep'22	1,000	139	3.33	3yr
XINHUZ	12 Jul'23	700	97	4.25	3yr
Total		28,500	3,969		

Source: Wind.

Appendix 11: Southeast Asian renewables and commodities – In pursuit of yield pick-up

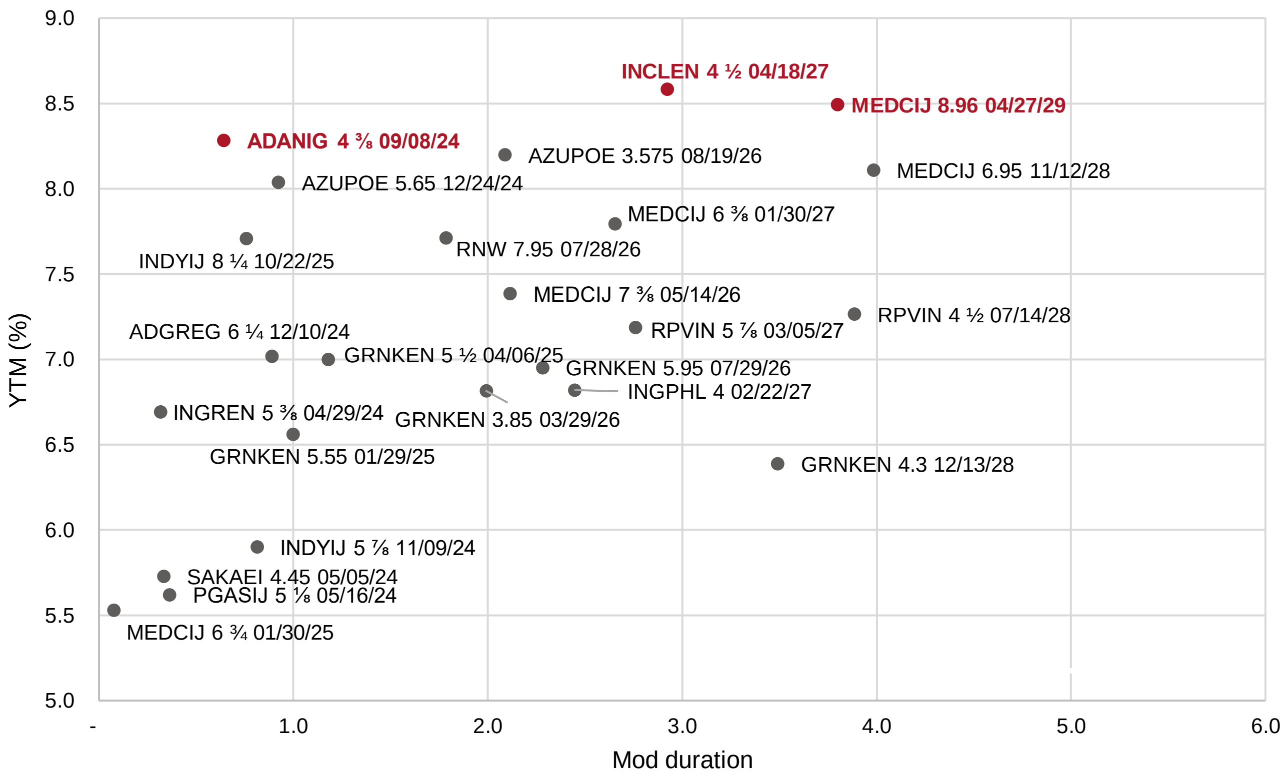
We turned more neutral on Southeast Asian commodity credits in general with moderating commodity prices. Nonetheless, we still see value in selected Indian renewables and Indonesian commodity players. Our picks in this space are **ADANIG 4 ⅜ 09/08/24, INCLEN 4 ½ 04/18/27, and MEDCIJ 8.96 04/27/29.**

Table 29: Summary of our picks

	Recommendation	Ask Price	YTM (ask, %)	Mod duration	Amt o/s (USD mn)	Bond rating (M/S/F)
ADANIG 4 ⅜ 09/08/24	Initiate Buy	97.1	8.22	0.7	750	Ba3/-/-
INDYIJ 8.25 10/22/25	Chg. to neutral	100.9	7.04	0.8	534	Ba3/-/BB-
INCLEN 4 ½ 04/18/27	Initiate Buy	88.2	8.71	3.1	400	Ba3/-/BB-
MEDCIJ 8.96 04/27/29	Initiate Buy	102.0	8.47	3.8	500	B1/B+/B+
SAKAEI 4.45 05/05/24	Chg. to neutral	99.5	5.95	0.4	156	B2/-/B+
VEDLN 13.875 01/21/24	Chg. to neutral	89.7	229.30	0.1	1,000	-/CC/-
VEDLN 8.95 03/11/25	Chg. to neutral	76.3	34.89	1.0	1,200	-/CC/-

Source: Bloomberg.

Chart 49: YTM of SE Asia commodities and renewables



Source: Bloomberg.

Prefer ADANIG 4 ⅜ 09/08/24 in the Adani complex

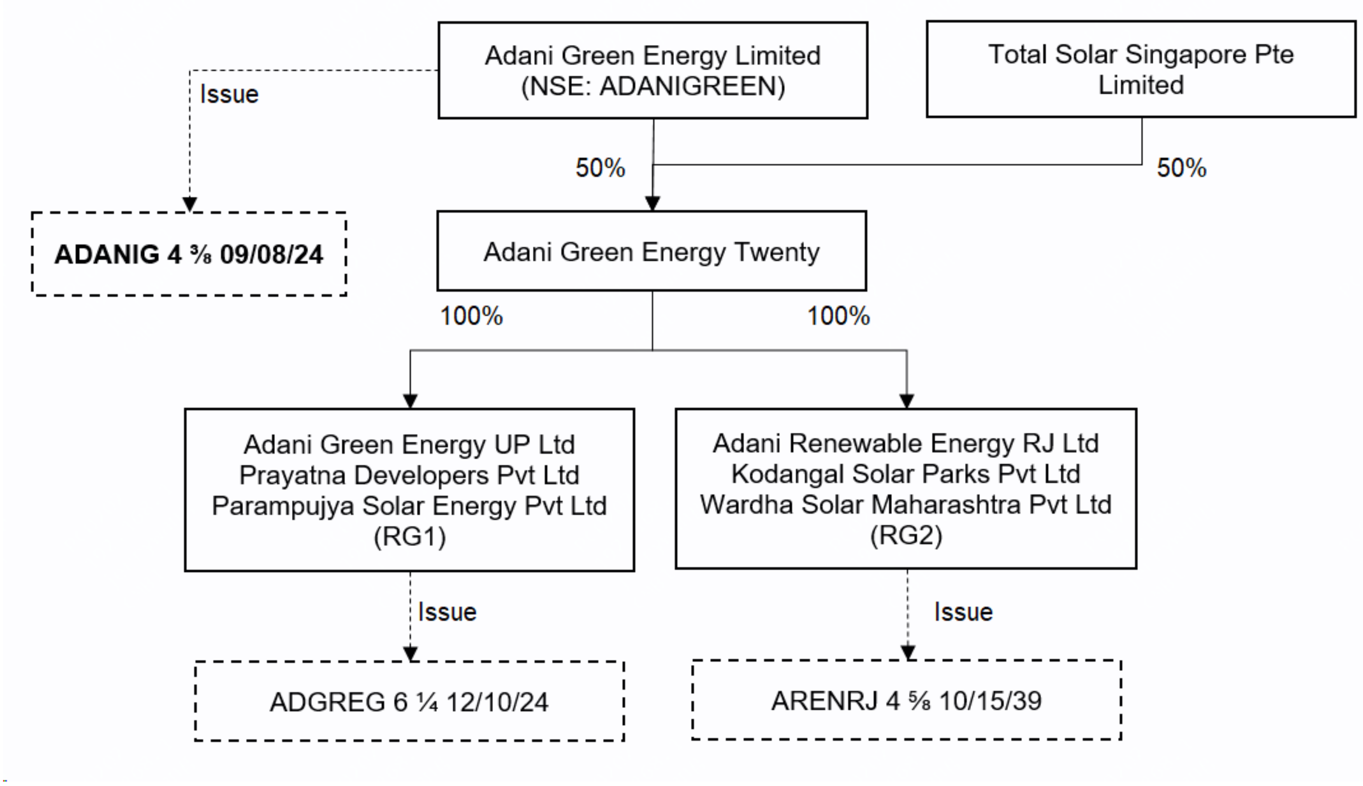
Among Adani bonds complex, we prefer Adani Green for yield pick-up and shorter tenor. At 97.1, ADANIG 4 ⅜ 09/08/24 is trading at a YTM of 8.9%. The bond offers yield pick-up of 171bps over ADGREG 6 ¼ 12/10/24, as well as 110-130bps over bonds of its subsidiary Adani Electricity, ADANEMs.

Table 30: Adani Green outstanding USD bonds

	Amt o/s (USD mn)	Ask price	YTM (ask, %)	Ranking	Rating	Issuer
ADANIG 4 ⅜ 09/08/2024	750	97.1	8.22	1st lien	Ba3	Adani Green Energy (Holdco)
ADGREG 6 ¼ 12/10/2024	500	99.2	7.14	1st lien	Ba2/BB-/BB+	Adani Green Energy RG1
ARENRJ 4.625 10/15/2039	327.6	78.5	6.88	1st lien	Ba1/BB/BBB-	Adani Green Energy RG2
Total	1,577.6					

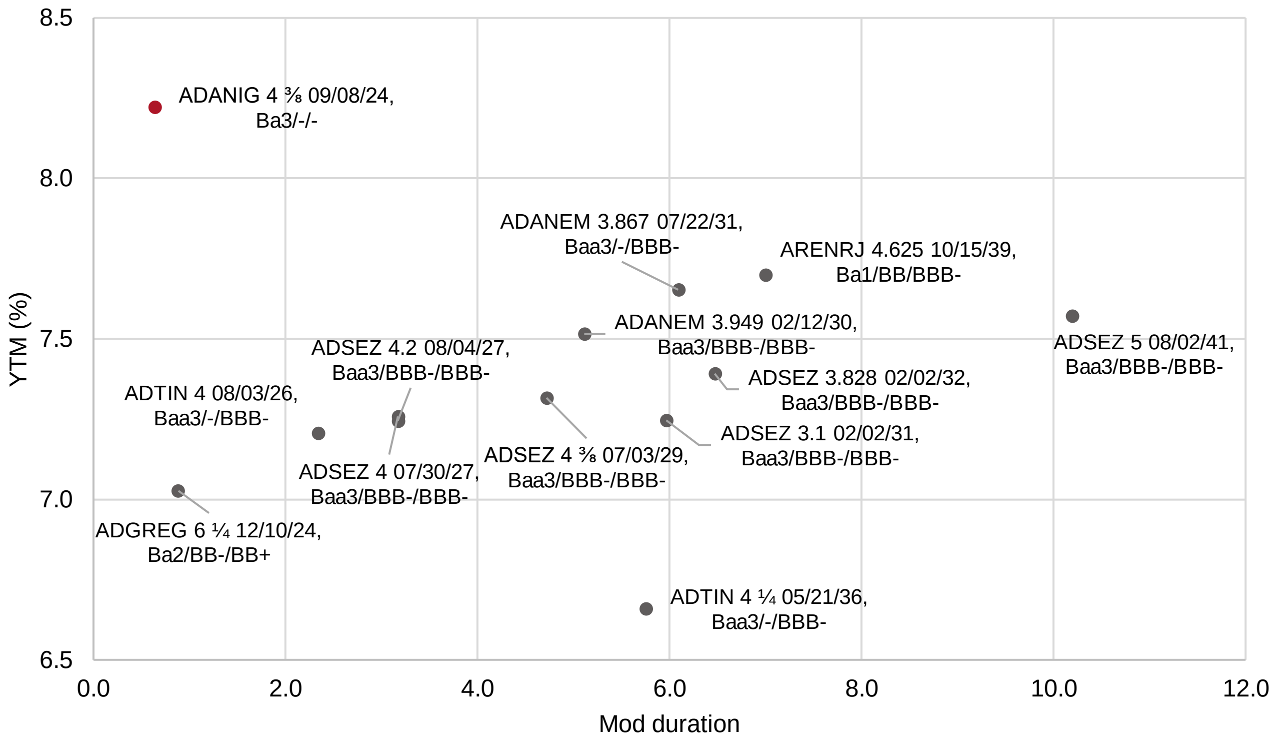
Source: Bloomberg, Company filings, CMBI Research.

Chart 50: Adani Green Energy's bond structure



Source: Bloomberg, Company filings, CMBI Research.

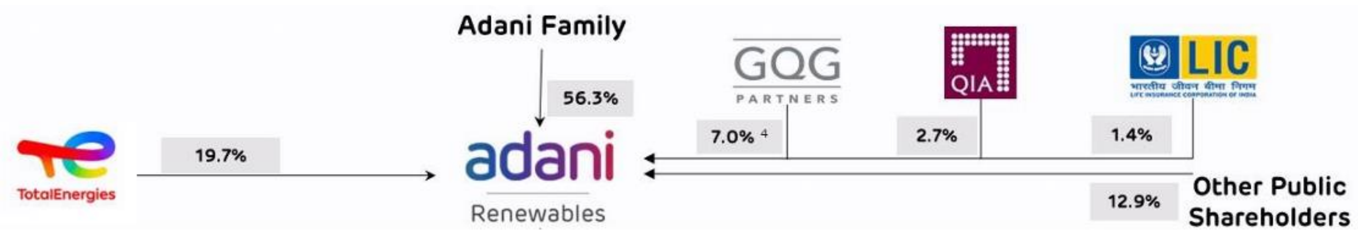
Chart 51: Adani bond complex



Source: Bloomberg.

Listed on NYSE, Adani Green is one of the largest renewable companies in India with installed capacity of 8.4GW. Adani Group is the controlling shareholder and owns 56.3% stake in Adani Green. During FY23, Adani Green started the operations of 2,140 MW solar-wind hybrid power plant in Rajasthan. This solar-wind hybrid power plant is the first in India and the largest in the world. Adani Green targets to achieve operational capacity of 11GW in FY24 by delivering 2.8-3W during FY24 ending Mar'24. It is also planning to add 5GW of renewable energy portfolio every year from FY25 onwards and have 45GW of renewable energy capacity by 2030, representing 10% of India's renewable energy target.

Chart 52: Adani Green Energy's shareholding structure



Source: Company fillings,

Table 31: Adani Green's financials and operating statistics

FY ended 31 Mar, in Crores	**FY21**	**FY22**	**FY23**	**1H24**
Revenue	3,599	5,577	8,633	4,979
EBITDA	2,710	3,954	5,772	4,339
EBITDA Margin	75.3%	70.9%	66.9%	87.1%
Operating cash flow	1,601	3,127	7,265	3,985
CAPEX	6,143	14,859	3,376	3,800
Net debt/EBITDA	8.6x	13.0x	9.1x	6.3x
Net gearing				
Cash/short-term debt	0.2x	0.2x	0.5x	0.2x
Operational capacity (MW)				
- Solar	2,973	4,763	4,975	4,975
- Wind	497	647	971	1,201
- Solar-wind hybrid	-	-	2,140	2,140
Total operational capacity	3,470	5,410	8,086	8,316
Sale of energy (Mn units)				
- Solar	4,886	8,097	10,457	5,501
- Wind	596	1,329	1,820	1,996
- Solar-wind hybrid	-	-	2,603	4,263
Total sale of energy	5,482	9,426	14,880	11,760
Solar portfolio CUF (%)	22.5	23.8	24.7	25.2
Wind portfolio CUF (%)	26.8	30.8	25.2	40.2
Solar-wind hybrid (%)	-	-	35.5	45.4

Note: CUF is capacity utilization factor. Source: Company filings.

97% of the generation capacities of Adani Green are under 25-year fixed tariff Power Purchase Agreements (PPAs) with central and state government entities at an average portfolio tariff at INR3.02/unit. Its customers include state-owned distribution companies and sovereign off-takers such as NTPC and Solar Energy Corporation of India.

The late payment surcharge (LPS) Rules imposed on the electricity distribution companies were implemented in Jun'22. The default trigger date is 30 days after the due date or 75 days after presentation of bill, wherever is later. The LPS Rules help to ensure the outstanding dues are paid on time and shorten the receivables days of Adani Green as well as improving its operating cash flow. The trade receivables days of Adani Green improved to 48 days in 1H24 from 152 days in FY21. The operating cash flow also improved to INR39,850mn in 1HFY24 from INR32,320mn in 1HFY23.

The majority of Adani Green's debts will mature in the second half of 2024. According to Adani Green's plan, ADGREG 6 ¼ 12/10/24, issued by restricted group 1 (RG1) of USD500mn will be refinanced by raising new secured bonds of USD410mn with a tenor of 18 years. At the same time, Adani Green approved to issue preference shares of INR93.5bn (cUSD1.1bn) to the promoter on 26 Dec for deleveraging and CAPEX, including the repayment of ADANIG 4 ⅜ 09/08/24 of USD750mn issued by the holdco.

Adani Green also has access to domestic bank funding. On 5 Dec'23, it secured a follow-on bank facility of USD1.36bn from a consortium of 8 international banks for the development of the world's largest renewable energy park in Gujarat. The loan will increase the revolving facility for the construction of solar and wind projects to USD3bn.

As at Mar'23, the secured onshore term loan of INR2.5bn would be repayable over FY24-25 and the interest rate of the loan was 10.75% p.a. (vs SBIPRIME of 14.05%). The YTM of ADANIG 4 ⅜ 09/08/24 and ADGREG 6 ¼ 12/10/24 are 8.9% and 7.1% respectively. We expect Adani Green to continue to tap on the USD bond market for refinancing.

Prefer MEDCIJ 8.96 04/27/29

Table 32: Medco Energi outstanding USD bonds

	Amt o/s (USD mn)	Redeemed in Nov'23 tender offer	Px	YTM (ask, %)	Ranking	Rating
MEDCIJ 6 ¾ 01/30/2025	33.6	204.52	100.6	6.21	First lien	B1/B+/B+
MEDCIJ 7 ⅜ 05/14/2026	473.76	59.85	99.9	7.43	Sr Secured	B1/B+/B+
MEDCIJ 6 ⅜ 01/30/2027	527.76	79.36	96.2	7.78	First lien	B1/B+/B+
MEDCIJ 6.95 11/12/2028	311.62	82.07	95.2	8.17	Sr unsecured	B1/B+/B+
MEDCIJ 8.96 04/27/2029	500	-	102.0	8.47	Sr unsecured	B1/B+/B+
Total	1,846.74	425.8				

Source: Bloomberg, Company filings, CMBI Research.

Medco Energi is the third largest oil operator in Indonesia by average barrel per day, after Pertamina and ExxonMobil in 2022. It is also the largest producer of solar PV and the owner of the second largest gas producing PSC in Indonesia. It covers oil and gas, power and copper mining. Oil and gas remain to be its largest revenue contributors in 9M23, accounted for 87.6% of its total revenue. Electricity power only contributed 2.3% of its total revenue. Medco Energi's leverage continues to improve, benefiting from the oil price rally in 2022. The net debt/EBITDA improved to 1.5x in Dec'22 from 2.9x in Dec'21 but slightly increased to 1.8x in Sep'23 due to the moderating oil price. Medco Energi has a financial policy of maintaining net debt/EBITDA at 2.5x at mid-cycle oil price.

In 9M23, revenue and profit from oil dropped with the moderating oil prices and drop in lifting. The average realized oil price in 9M23 was USD77/bbl, dropped from USD101.4/bbl in 9M22. Lifting also dropped to 30.6mbopd from 32mbopd over the same period. That said, Medco Energi generated operating cash flow of USD550.4mn in 9M23, sufficient to cover CAPEX of USD210mn in 9M23 (63.6% of FY23 budget) and further debt reductions. Medco Energi budgeted CAPEX of USD1.3bn during 2023-27, the CAPEX should be sufficiently covered by its robust operating cash flow.

Medco Energi has been actively managing its debt maturity profile via tender offers and concurrent new issues of USD bonds. These helped lengthen its maturity profile. As of Sep'23, Medco Energi had short-term debt of USD437.3mn and total debt of USD3.1bn, compared with USD527.2mn unrestricted cash on hand and unused bank facilities of USD982.9mn. On maturity profile, the next USD bond maturity is in Jan'25 with an outstanding amount of only USD33.6mn after the tender offer in Nov'23. Medco Energi redeemed USD425mn in total on MEDCIJ'25-28s. We expect the performance of its USD bonds to be supported by its improving credit story and potential tender offer in an opportunistic manner.

Among MEDCIJs, we prefer **MEDCIJ 8.96 04/27/29** for the highest YTM and the best trading liquidity within the MEDCIJ curve. At 102.0, **MEDCIJ 8.96 04/27/29** is trading at YTM of 8.5%.

Table 33: Operating statistics of Medco Energi

USD mn	FY20	FY21	FY22	9M23
Revenue	1,100	1,252	2,312	1,670
EBITDA	490	662	1,587	936
EBITDA Margin	44.6%	52.9%	68.6%	56.1%
Operating cash flow	459	440	1,116	550
CAPEX	191	111	269	179
Net debt/EBITDA	5.2x	3.4x	1.6x	2.0x
Net gearing	211.2%	182.8%	148.2%	122.6%
Cash/short-term debt	1.1x	2.3x	1.4x	1.5x
Average realized price				
- Oil (USD/bbl)	40.3	68.0	96.2	77.0
- Gas (USD/mmbtu)	5.2	6.5	8.2	7.1
- IPP (¢/kwh)	3.9	4.2	3.6	3.7
Lifting				
- Oil (mbopd)	39.3	33.6	32.6	30.6
- Gas (bbtupd)	302.2	299.8	667.1	665.9
- Oman service contract (mbopd)	7.4	7.2	7.4	7.6
- Renewables (GWh)	817	871	855	603
- Gas IPP (GWh)	1,822	1,847	3,138	2,475
Production				
- Oil (mbopd)	40.4	34.4	33.5	31.6
- Gas (mmscfd)	322.3	319.7	704.1	706.2
Cash cost (USD/boe)	9.1	9.5	6.9	7.5

Source: Company fillings.

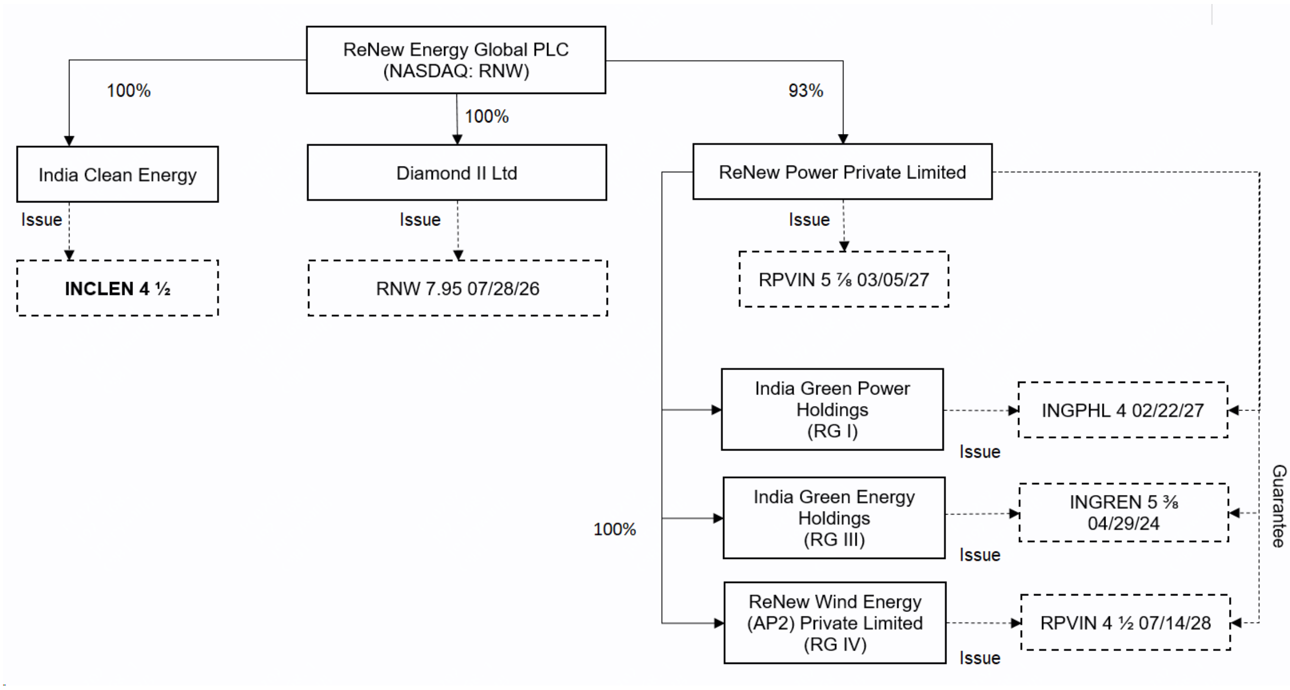
Buy INCLEN'27 within the ReNew Power complex

Table 34: Outstanding USD bonds of ReNew Power

Security name	Amt issued (USD mn)	Amt o/s (USD mn)	Modified duration	Ask price	YTM (Ask, %)	Rating (M/S/F)	Ranking	Bond type
RPVIN 5 ⅞ 03/05/27	450	270	2.76	96.1	7.29	Ba3/-/BB-	First Lien	Holdco Issuance
INGREN 5 ⅜ 04/29/24	325	325	0.31	99.2	7.75	Ba3/-/BB-	Secured	Restricted Group III
INGPHL 4 02/22/27	460	460	2.45	91.7	6.98	Ba3/-/BB-	Secured	Restricted Group I
RPVIN 4 ½ 07/14/28	585	585	3.88	89.3	7.32	Ba3/-/BB-	Secured	Restricted Group IV
INCLEN 4 ½ 04/18/27	**400**	**400**	**2.92**	**88.2**	**8.71**	**Ba3/-/BB-**	**Secured**	**Holdco Issuance**
RNW 7.95 07/28/26	400	400	1.78	100.5	7.73	Ba3/-/BB-	First Lien	Holdco Issuance

Source: Bloomberg, Company fillings.

Chart 53: ReNew Power's structure



Source: Bloomberg, Company fillings, CMBI Research.

ReNew Power is one of the largest renewable energy companies in India by aggregate capacity of solar and wind. As of Sep'23, it has 4.2GW wind and 4.0GW solar capacity under operation, c9.5% and c5.6% share of Indian installed capacity of wind and solar, respectively. Its three Restricted Group I, III and IV operate 510MW, 382MW and 800MW capacity, respectively. After Goldman Sachs sold all of its holding shares in ReNew Power to Canada Pension Plan Investment Board (CPPIB) in Mar'23, the company is currently 53.4% owned by CPPIB and 15.0% owned by Abu Dhabi Investment Authority. Among its six USD bonds, we prefer INCLEN 4.5 04/18/27 for its better risk-return profile. At 88.2, INCLEN'27 was traded at 8.7% YTM and provided 95-173bps yield pick-up over other bonds within the RENEW Power complex.

Table 35: Operating statistics of ReNew Power

	Wind					Solar				
FY ended 31 Mar	**2020**	**2021**	**2022**	**2023**	**1H24**	**2020**	**2021**	**2022**	**2023**	**1H24**
Commissioned capacity (GW)	3.2	3.6	3.8	4.0	4.2	2.2	2.0	3.7	3.9	4.0
Electricity generated (kWh mn)	7,226	6,854	8,469	9,002	6,565	6,979	4,320	5,677	8,112	4,449
Plant load factor (%)	26.4%	23.6%	26.4%	26.5%	37.0%	22.3%	22.8%	23.3%	24.9%	25.0%
Average Selling Price (INR per kWh)	4.58	4.47	4.15	4.15	4.16	4.56	4.38	4.28	3.95	3.76

Source: Company fillings.

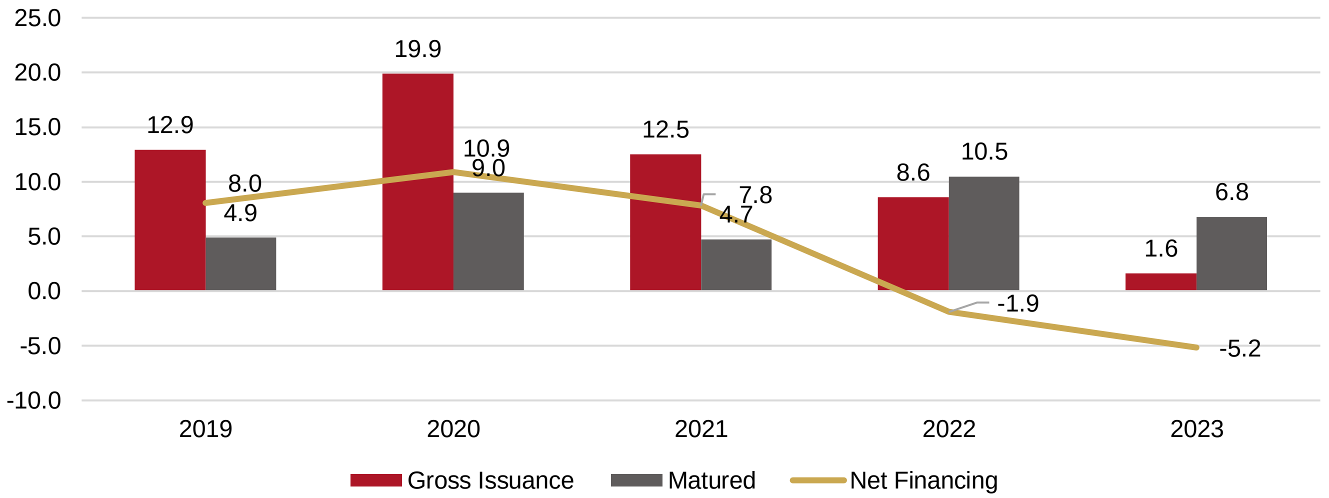
ReNew Power's credit fundamentals steadily improved since listing in Aug'21. In 1HFY24, its revenue increased 13% yoy to cUSD568mn and adjusted EBITDA rose 4% yoy to cUSD480mn. As of Sep'23, Renew Power's Days of Sales Outstanding (DSO) was 112 days, optimized from 231 days in Sep'22 and trade receivables decreased 43.1% yoy to cUSD345mn as downstream electricity distribution companies repaid overdue accounts after the implementation of LPS which aims to recover overdue receivables from distribution companies, its cash collection efficiency notably enhanced. Its cash on hand increased 44.7% yoy to cUSD1bn while net debts edged up 20.2% yoy to cUSD6.1bn with an average interest cost of 9.15%. We understand its high leverage ratio was due to high capex in project construction in recent years. We take comfort that 87% of its debts Have maturities of longer than 3-year maturities.

ReNew Power aims to install another 5.5GW capacity in the remaining FY24 and FY25 with capex of cUSD1.9bn and cUSD0.7bn, respectively. Hence, the deleveraging process could be slow. That said, we take comfort with its access to various funding channels. For example, Renew Power signed a MOU with Asian Development Bank in Dec'23 related to the financing of USD5.3bn between 2023-28 for the decarbonization-related projects. ReNew Power repaid offshore bonds totaling cUSD1bn (including repayment of RPVIN'22 of USD300mn, call of RPVIN'24 of USD525mn and amortization of RPVIN'27 of USD180mn) with internal resources and domestic financing. We view that ReNew Power will have sufficient liquidity in the near term and consider INCLEN'27 as a decent value play.

Net redemption trend prevails

With the US interest rate hike and appreciation of USD in 2023, the Indian and Indonesian issuers are switching to local currency funding to reduce the interest expenses and currency risk exposure. Medco Energi's issuance of USD500mn in Oct'23 was the only issuance in this space during the year. We expect the net redemption trend to continue in 2024, as issuers are turning onshore for funding to repay USD bonds. And this should support the technical of the bonds in this space with shrinking supply.

Chart 54: Net redemption in SE commodities and renewable sector



Source: Bloomberg.

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