

CMBI Credit Commentary

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

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- *Markets tended to be calm this morning. AT1 and SOE perps kept the trends like previous days that were sought after from onshore buyers. LGFV space showed buying flow while mainly focus on the names from strong regions. AGILE 4.85%’22 traded firm at 97.5 level mid-day today, after full redemption news pushed up 4pts yesterday.*
- **HONGSL/REDSUN:** Profit warning and missed coupon will not be cured within grace period. While HONGSL and REDSUNs were both traded firm this morning. See below.
- **CENCHI:** Share transfer to Henan Rail completed. CENCHI 23s/24s down 1-1.5pts and were still traded at ~30 level. CENCHI’25 down 2.5pts this morning. We expect more concrete support from Henan government going forward. We maintain Buy on CENCHIs. See below.

❖ Trading desk comments 交易台市场观点

Yesterday, Chinese IG performed stable, after rates retraced from recent highs following less than expected US CPI print. IG spreads broadly tightened 2-4bps, good quality names outperformed. In financials sector, Tier 2/ Leasing names saw strong buying interest. AT1 laggard papers were chased after whilst rally would promptly lose steam once yield got inside 4%. Bank perps still remained well bid. CINDBK 3.25/4.8 Perps saw one-way buying from onshore Chinese fund managers >5% as offer side liquidity had drained out, whilst the likes of BOCHKL 5.9 Perp and ICBCAS 3.2 Perp saw profit taking flows at 4% to low-4%. In TMT sector, JD/MEITUA went 5-10bps tighter. TAISEM price down 1-2pts. IG Property names were mixed with demand on short end papers. Longer-dated LNGFOR rebounded 1-2pts after the company denied the onshore CPs default rumor and circulated updates in the conference call, offsetting the previous loss. China HY space was mixed with not much conviction under limited flow. CIFIHG was down 1-2pts, ROADKG down 4pts and GRNLGR’22 fell ~3.5pts. AGILE 4.85%’22 was, on the other hand, up 4.5pts after news on full-redemption of 5.125% senior notes due 14-August, rest of the curve largely unchanged. TPHL was marked 1pt higher on retail buying post Fitch upgraded the developer from CC to C. CHINSC’23 was traded down 10pts to low-20s level. As for Non-China HY, AZUPOE rebounded 5pts, back to 95 level post refinancing news. Market generally stayed cautious, waiting for Jackson Hole to signal a clearer message on rate hike.

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SOE Perp/LGFV space extended a strong session as Chinese accounts resumed deployment buying. As expected, SOE perps embraced another wave of lifting across papers callable from 23s to 26s and yielding from 4% to 5%+. Nonetheless, selling did emerge when bonds approached 4.0%, the hurdle rate for unleveraged Chinese money nowadays. Meanwhile investors turned their sights to laggards, i.e. longer-dated-to-call papers at 5% or above, such as CHCOMU 3.65 PERP (C26) which was up 0.5pt yesterday. Overall technicals in SOE perps largely followed those of AT1s recently. Elsewhere, LGFV space remained mixed but the balance turned opposite - weaker names CQNANA/ TSSTEE/ SHDOIS/ SHUGRP were better bid mostly in the front end from structured product flows at mid-6%+ (except TSSTEE at mid-5%+), whilst previous sellers were calmer now that bonds found support levels under minimal outflow pressure. On the other hand, quality names felt slightly harder to move primarily due to their rich valuation at low-4%, as buyers were more willing to wait and see than rush. With rates looking to remain range-bound until the next data release/next FOMC, cash deployment shall be the main driver in the spaces until completion.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
AZUPOE 5.65 12/24/24	95.6	5.1	CHINSC 7 1/4 04/19/23	21.6	-10.1
AGILE 4.85 08/31/22	97.7	4.4	ROADKG 7.95 PERP	27.1	-3.9
LMRTSP 7 1/2 02/09/26	77.6	4.1	GRNLGR 5 3/4 09/26/22	74.1	-3.3
VEDLN 8.95 03/11/25	76.5	4.1	SINOCE 3 1/4 05/05/26	19.1	-2.4
PWONIJ 4 7/8 04/29/28	91.8	3.4	TAISEM 4 1/2 04/22/52	97.1	-2.1

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock indexes were mixed on Thursday after a strong rebound due to the lower than expectation U.S. July CPI. The S&P (-0.07%), Dow (+0.08%) and Nasdaq (-0.65%) fluctuated slightly as market sentiment cooled down. The U.S. July's PPI was published as -0.5% from previous month on the back of recent crude oil price slump, the first time fall after pandemic, while still rose 9.8% yoy. The PBOC published 2Q22 Chinese monetary policy report in which the PBOC proposes to focus on inflation and keep the stability of monetary market, there is limited probability that China further loose the monetary space. The U.S. treasury yields increased as the curve bear steepened with 2/5/10/30 yield reaching 3.23%/2.98%/2.87%/3.15%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ HONGSL/REDSUN: Loaming restructuring should not be a surprise

Redsun announced the profit warning with expected net losses of RMB350-450mn in 1H22 (net profit of RMB990mn in 1H21), citing the impact of weak market condition, COVID-19 and depreciation of RMB. The profit warning is not a surprise, indeed, we expect lots of profit warning and accounting issues from the Chinese property sector as we experience in FY21 results reporting season.

At the same time, Redsun also mentioned that the missed coupons of REDSUN 9.7%'23 and REDSUN 7.3%'23 totaled cUSD35mn would not be cured when the grace periods expired by 15 Aug'22 and 12 Aug'22, respectively. Redsun engaged advisors for a "holistic solution". To us, that means Redsun will go to scheme to restructure all outstanding USD bonds instead of maturity extension for 1-2 bonds. REDSUNs are marked at high single-digit to 10. We believe that the debt restructuring is more or less priced in.

Redsun's parent Hong Yang will have the USD bonds (HONGSL'22) of USD275mn due 27 Aug'22. We do not expect the bonds to be fully repaid on maturity. We tend to believe that the restructuring of HONGSL'22, if any,

will be proceeded separately from that of REDSUNs. Given Hong Yang's ownership of Nanjing investment properties and 72.8% stakes in Redsun Services (Hong Yang's attributable market cap is cUSD110mn), we expect a higher recovery rate for HONGSL, although an accurate analysis is restrained as financials of Hong Yang are not publicly available.

➤ **CENCHI: Share transfer to Henan Rail completed**

Based on the latest [HKEX disclosure](#), the share transfer to Henan Rail should have completed. The ownership of Chairman Wu of CENCHI reduced to 41.72% from 70.73% while the ownership Henan Tongsheng Zhiye Co., Ltd (HTSZY), the wholly-owned subsidiary Henan Railway, increased to 29.01%. On 1 Aug'22, CENCHI already announced the appointments of 2 non-executive directors. Both of them are senior officials of HTSZY. Central China made the full repayment of USD500mn bonds due 8 Aug'22. We believe that the full repayment in such a challenging situation reflected the support of Henan government and Henan Railway. We expect more concrete support from Henan government going forward. At 30ish, CENCHIs priced in excessive downside, taking cues of the valuation of CSCHCNs after liability management. We maintain Buy on CENCHIs.

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Anhui Boyang Urban Construction Holding Group Co., Ltd.	-	3yr	-	5.5%	-/-/-
Shandong Shipping Corporation	USD200	3yr	5.0%	5.0%	-/-/-
Suzhou City Construction Investment Group (Holding) Co., Ltd	USD100	3yr	5.5%	5.5%	-/-/BBB-

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

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 103 credit bonds issued yesterday with an amount of RMB90bn. As for Month-to-date, 541 credit bonds were issued with a total amount of RMB587bn raised, representing a 0.4% yoy decrease
- [AGILE]** Agile Group deposits sufficient funds into designated trustee bank account for full redemption of USD200mn 5.125% senior notes due on 14 Aug'22
- [BUMIJJ]** The parent company of Bumi Resources, Bakrie Group announced on 11 Aug'22 that it plans to implement a non-preemptive private placement of Bumi Resources with 5.1bn Series C shares at IDR80 a piece on 23 Aug'22

- **[CENCHI]** Fitch affirmed Central China Real Estate Long-Term Foreign-Currency Issuer Default Rating at B with a negative outlook
- **[GEMDAL]** Gemdale scheduled early delisting of its RMB1bn(~cUSD148mn) 17Jindi02 bonds on 22 Aug'22
- **[HONHUA]** Moody's decided to withdraw Honhua Group's rating for its own business reason. Before that, the rating outlook on Honhua was negative
- **[LNGFOR]** The Shanghai Commercial Paper Exchange issued a statement on 10 August denying the online rumor of Chinese property developer Longfor Group recording a large volume of overdue commercial papers
- **[REDSUN]** Redsun Properties announced on 11 Aug'22 that it expects to turn to loss for 1H22 by the amount of RMB350~450mn (~cUSD52~67mn). Redsun cannot ensure to make interest payment of REDSUN 7.3 01/13/25 by expiry of 12 Aug'22
- **[SHDOIS]** Shandong Iron and Steel raises RMB1bn(~cUSD148mn) via 180-day bill offering to repay debts
- **[VNKRLE]** Vanke scheduled the put option exercise for its RMB2.5bn(~cUSD371mn) 19Wanke02 bonds on 12-18 Aug'22
- **[XIAOMI]** Xiaomi's CEO Lei Jun announced on 11 Aug'22 that the company has invested ~cUSD490mn on its phase one research plan of EV and autonomous driving. Xiaomi plans to test the auto-drive system on 140 vehicles and become the Tier 1 supplier in the fields in 2024

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