

CMBI Credit Commentary

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

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- *US-China tension escalated. TAISEM yield rallied amid weaker sentiment. Some short covering emerged in IG space this morning. We saw some loose bonds in SOE perps came out and digested well and LGFV 25s were skewed to better buying.*
- *SJMHOLS: Shareholder's support provides much-needed financial flexibility. See below.*
- *CENCHI: New director appointment signal the HNRail deal on the right track. Maintain Buy on CENCHIs. See below.*

❖ Trading desk comments 交易台市场观点

Chinese IG market was tepid yesterday. In financial sector, AT1 were 25c higher on the day. For AMCs, GRWALL tightened 30bps. TMT space slightly widened, as the market anxiously eyed the US-China tension escalation, BABA widened 3-5bps. IG property space saw some active two-way flows especially VNKRL/LNGFOR. Chinese HY space was mixed. In industrials, TSINGH'23 plunged 17.5pts amid news that Tsinghua Unigroup' offshore entities could be liquidated if the chip-maker fails to disclose information with noteholders. Macau gaming space was further up 1-2pts, after the government announced that entertainment facilities and public services shall resume normal operations from 2 Aug'22 as the city kept Covid-zero for nine consecutive days. STCITY rose another 6-8pts and most of its trenches were at ~60s level. MPEL up 3.5-6pts. China HY property space was unchanged, ceasing last week's firmer tone. COGARD/CIFIHG notably down 3.5-5pts under selling pressure. Among distressed names, KWGPRO 6 09/15/22 opened down 0.5pt on S&P downgrade but closed 11pts higher, at 36/40 on screen, as KWG expected sales proceeds to come in place soon for redemption of its two offshore maturities.

LGFV/SOE space opened with a firm start into August now that the rates outlook is less skewed to the upside. Flow-wise, Chinese AM deployed funds in SOE perps and to a lesser extent in LGFVs. Demand was robust on high-grade senior SOE perps callable =<3y at low-to-mid-4%, followed by sub-perps from infrastructure SOEs at mid-to-high-4%. Specifically, c23 perps issued by chemicals SOEs were also sought after, for yield enhancement. Buying traction was mainly from Chinese AM on-and-offshore, while global/ regional RM stayed put. LGFVs also saw buyers in

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

CMBI Fixed Income
fis@cmbi.com.hk

several high-rating names at high-4%, but demand was generally more modest as yields did not look particularly attractive from an RV point of view among offshore China credit. AT1s were quieter now that short-squeezed to the rich level. Overall, 4% seems to be a rather strong resistance for AT1s to break in, given higher funding/leverage costs offshore nowadays.

➤ **Last trading day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
KWGPRO 6 09/15/22	40.1	11.2	TSINGH 5 3/8 01/31/23	44.4	-17.5
FIHUCN 5 02/26/28	98.8	8.4	GEMDAL 4.95 08/12/24	60.0	-6.4
STCITY 5 01/15/29	58.5	7.8	COGARD 8 01/27/24	43.2	-4.9
GNGLNG 13 1/2 11/11/22	101.9	7.7	COGARD 6.15 09/17/25	33.5	-4.5
STCITY 6 1/2 01/15/28	61.5	6.1	CIFIHG 6.55 03/28/24	43.3	-4.2

➤ **Macro News Recap 宏观新闻回顾**

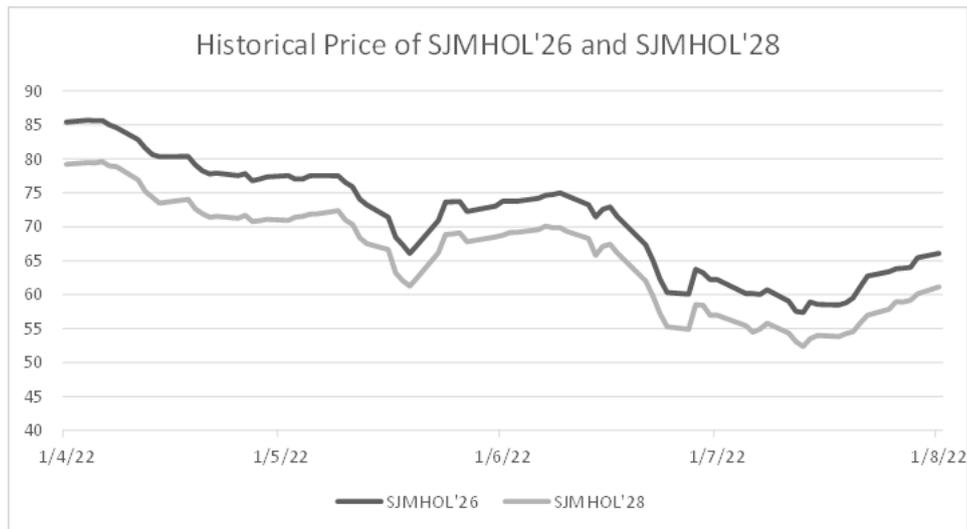
Macro – U.S. stock market downed slightly on Monday after consecutive ascents. The S&P (-0.28%), Dow (-0.14%) and Nasdaq (-0.18%) dragged by energy sector as crude oil's price slumped due to OPEC's potential production increasing plan. The U.S. July's PMI was 52.2 and 0.1 lower than expectation, while the index showed that U.S. manufacturing was prosper. U.S. treasury yields continued tightening as long term yields decreased 7-8bps. Yield curves flattened with 2/5/10/30 yield reaching 2.90%/2.66%/2.60%/2.92%, respectively.

❖ **Desk analyst comments 分析员市场观点**

➤ **SJMHOLs: Shareholder's support provides much-needed financial flexibility**

Range-bound trading to continue without a strong conviction but prefer SJMHOL'26 over '28

Since mid Jul'22, SJMHOLs rebounded 8-9pts, along with other Macau gaming bonds. In our view, the valuation of SJMHOLs and that of other Macau gaming bonds are not demanding for non-distressed credits. That said, the operating environment will remain challenging and uncertain given the strict quarantine policy of Macau and travel approval policy of Mainland China, as well as the risk of future lock-down if number of COVID-19 cases rebounds. We expect SJMHOLs, as well as other Macau gaming bonds, to be range-bound until there will be more material change in quarantine policy. Since the strict quarantine policy implemented in late Mar'22, SJMHOL'26 and '28 were mostly traded within the ranges of high 50 to high 70, and low 50 to low 70, respectively. At 66 and 61, we see more upside for SJMHOL'26 within the recent trading range. As we wrote in [our comments: Macau Gaming: Q&A after the final draft of gaming law amendment bill published on 20 Jun'22](#), buying Macau gaming bonds is equivalent to buying an idea that the quarantine policy and approval for mainland travelers will be relaxed. Our preference for the sector in case of relaxation of these policies will be those offer deeper value, the order of our preference is: SJMHOL>STCITY>WYNMAC>MPEL.



Weak 1H22 results expected, 3Q22 remain challenging

The weak 1H22 results are not surprising given the tightened quarantine policy since Mar'22 and the stricter non-essential travel approval from Mainland China. In 1H22, its net gaming revenue declined 26% yoy to HKD4.1bn while adj. EBITDA loss widened significantly to HKD1.2bn from HKD510mn in 1H21. As we have been discussing, even the quarantine policy relaxed to 10+7 on 15 Jun'22 from 14+7, this policy remains a big hindrance for Macau gaming sector as the average stay of Macau tourist is only 1.6 days. In view of the closure of casinos in Jul'22, as well as the strict quarantine policy and travel approval, the 2H22 operating performance will continue to be under pressure.

Parental support notably strengthens financial flexibility

Subsequent to the conclusion of 6-yr syndicated loans of HKD19bn with maturity in Jun'28, SJM's new-term refinancing risk was substantially relieved. We take additional comfort that Daisy Ho who is the chairman of SJM and effectively controls its parent (STDM) reiterated the willingness of STDM to provide shareholder's loan of up to HKD5bn during the investors' call last evening. This should be sufficient for SJM to cover the capital commitment of MOP5bn required for the new casino concession. As per Chairman Ho, the shareholder's loan of HKD5bn will be additional to the CBs of HKD1.9bn for the purchase of Oceanus in Jun'22. For the remaining 3 self-promoted and leased casinos, SJM owns the gaming area of Casino Lisboa. The operations of Eastern and Taipa are relatively small. SJM will assess the market condition if these operations and current leased arrangements will continue. Based on the LTM run-rate and the daily opex of HKD15.5mn 2Q22, we estimate its liquidity can cover cash burnt of 13-14 months.

Click [here](#) for full report.

➤ CENCHI: new director appointment signal the HNRail deal on the right track

CENCHI announced the appointments of 2 non-executive directors (DENG Gaoqing and SHI Song). Deng is the secretary of the party committee and chairman of the board of Henan Tongsheng Zhiye Co., Ltd.(HTSZY). Shi, on the other hand, is the general manager of the investment management department of Henan Railway Construction Investment Group Co., Ltd., director of HTSZY, and General Manager of Henan Railway Construction Investment Comprehensive Development Co., Ltd. Recalled that the chairman of CENCHI and HTSZY, the wholly-owned subsidiary Henan Railway (rated A2 by Moody's), entered into S&P agreement for the shares transfer and continue to work on issuance of CB of HKD708mn. We believe that the appointments of 2 members of senior management within HNRail signaled the share transfer and CB

issuance are moving on the right track. We expect to see more concrete support from the Henan government going forward. We maintain Buy on CENCHIs.

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Mianyang Investment Holding (Group)	USD300	3yr	6.70%	6.70%	-/-/BB
KT Corp	USD500	3yr	4.00%	T+125	A3/A-/A

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

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Suzhou City Construction Investment Group (Holding) Co., Ltd.	USD	-	3yr	6.20%	-/-/BBB-
Jinan Hi-tech Holding Group Co., Ltd.	USD	-	3yr	5.80%	-/-/BBB
Tianjin Binhai New Area Construction & Investment Group Co., Ltd.	USD	-	-	-	Baa2/-/-

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 46 credit bonds issued yesterday with an amount of RMB65bn
- China's central bank pledged to keep financing for the real estate industry stable in 2H22 including bonds and loans to boost economic growth, since as of 30 Jun'22 the outstanding loans to the real estate sector increased at the slowest pace on record
- Fitch expected the Chinese government to roll out more financial support to boost infrastructure investment after this year's special-bond issuance quota was almost filled by end-June
- Macau's government announced on 1 Aug'22 that coronavirus restrictions would be eased further on 2 Aug'22 after the city reported no new community infections for nine consecutive days
- **[CAPG]** China Aoyuan's subsidiary Aoyuan Group's bondholders of "20Aoyuan02" bonds approved three proposals on exemption of the requirement on the notice period for convening the meeting, the adjustment of the interest repayment due 6 Aug'22 for the period from 6 Aug'21 to 5 Aug'22 for the bonds, and the issuer makes commitment not to dodge debts regarding the bonds
- **[CHCOMU]** China Communications Construction proposed to offer up to RMB2bn extendable corporate bonds to boost working capital
- **[EVERRE]** Media reported China Evergrande hoped to reach in-principle debt-restructuring agreements with its major creditors before the 20th National Congress of the Chinese Communist Party this year
- **[FTLNHD]** Seazen Holdings scheduled the put option exercise for its RMB500mn "20Xinkong03" bonds on 4-10 Aug'22

- **[KWGPRO]** KWG Group Holdings' July pre-sales value fell 41.4% YoY to RMB4.76bn, and the pre-sale area fell 45.6% YOY to 222,000 square meters
- **[MIANYA]** Mianyang Investment scheduled the put option exercise for its RMB1.5bn "19Miantou01" corporate bonds on 5-9 Aug'22
- **[PINGMI]** Pingdingshan Tianan Coal Mining proposed to offer up to RMB700mn five-year corporate bonds to repay interest-bearing debts
- **[SHSHMA]** Shanghai Shimao's indirectly owned subsidiary Changsha Maohong Property Development extended an outstanding RMB435mn loan for a year
- **[SINOCE]** Moody's assigned a Ba1 CFR to Sino-Ocean and withdrew the company's Baa3 issuer rating. Moody's downgraded the senior unsecured ratings to Ba1 from Baa3 and the subordinated, guaranteed perpetual capital securities rating to Ba3 from Ba2. Rating outlook downed to negative from ratings under review
- **[YGCZCH]** Shandong Energy Group proposed to offer RMB500mn five-year MTNs to fund a coal power project

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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