

## CMBI Credit Commentary

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

- *Market sentiment was firm this morning. KR IG space moved -2 to +2bps, China IG space was 1-2bps tighter. Front-end IGs were heavy while long-term IGs were well bid. Flows on LGFV/SOE Perps were fewer than previous days while the demand remains firm.*
- **China Properties:** *Relaxation of purchase restrictions in Guangzhou, Shanghai and Suzhou. See below.*
- **China Property Sector – Expert call takeaways:** *A positive shift in regulatory stance; sector may see recovery post CNY. See below for comments from CMBI equity research.*

#### ❖ Trading desk comments 交易台市场观点

Yesterday, overnight UST yield tightened 4-7bps across the curve. On the primary front, new HYUCAPs were traded mixed, as 27s widened 2bps from RO (CT2+89) and 29s tightened 3bps from RO (CT5+120). On the secondary side, KR space was traded mixed with more selling on 27s vs better buying on 29s. DAESEC/KORELE/POHANG 27s widened 1-2bps. DAESEC/WOORIB 29s tightened 2bps. Chinese IG benchmark papers TENCNT/BABA 30-31s were 1-3bps tighter. The high beta TMTs MEITUA/LENOVO/WB 30s were unchanged to 5bps tighter. The flows were quite balanced two-way though the front-end of TMTs were still under better selling. In TH space, BBLTB papers were 1-3bps tighter. AU T2s such as WSTP/MQGAU 26-30s were 2-5bps tighter. Chinese AT1s ICBCAS/BOCOHK Perps were up 0.1pt. HK Corp space was mixed. LIHHK '26 was up 0.5pt. SHUION 24/25 were down 0.4-0.6pt. HYSAN 4.1 Perp lowered 1.6pts, while NWDEVL Perps were stable supported by buying interests from PBs/HFs. Chinese properties were also mixed. GEMDAL '24 was up 1.3pts. CHJMAO '26 was up 0.3pt. On the other hand, RDHGCL '24 plunged 24.5pts to close at mid-50s following media report of bondholders' meeting for the USD300mn RDHGCL 7.8 03/20/24 next week. DALWAN 25-26s lowered 1-1.1pts. FUTLANs/FTLNHDs/LNGFORs were down 0.5pt. In industrials, FOSUNI 26-27s were up 0.6-1.3pts. EHICAR '26 was 0.7pt higher. Macau gaming names MPELs/SANLTDs were up 0.2-0.4pt. In Indian space, VEDLN '26 was 2.9pts higher while VEDLN 27-28s were up 0.2pt. UPLLIN 5.25 Perp was down 1.1pts. Indonesian names were quiet. LMRTSP '26 was 1.1pts lower. Elsewhere, GLPCHI 24/26 were 0.5-0.6pt higher.

The LGFVs/Perps/high-beta names remained firm. We saw robust buying in papers yielding 6%-7%+ across sectors from RMs, as investors continued to hunt for yield. In LGFVs, we saw better buying in 2-3yr papers yielding above 6% such as JNHTE '26/HNFARM '27, whilst the 5%-handle yielding names were traded in two-way mixed flows among AMs driven by cash management

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needs. GZINFU/YWSOAO 24-26s were up 0.1pt. In high-beta IG names, we saw RMs/Prop desks buying CPDEV/ZHHFGR as well as insurance names GRPCIN/ZHONAN 26s in a flurry of buying post lunch. CPDEV 25/26/Perp were 0.4-0.6pt higher. ZHHFGR 24/25/Perp were up 0.1pt. SOE perps were better bid by AMs. CHSCOI 3.4 Perp/CHPWCN 4.3 Perp were up 0.1pt. The insurance hybrids were firm supported by PBs/HFs buying. ASAMLI 4.1 Perp/FUKOKU 6.8 Perp were 0.1pt higher.

#### ❖ Last Trading Day's Top Movers

| Top Performers        | Price | Change | Top Underperformers | Price | Change |
|-----------------------|-------|--------|---------------------|-------|--------|
| VEDLN 9 1/4 04/23/26  | 80.4  | 2.9    | RDHGCL 7.8 03/20/24 | 55.1  | -24.5  |
| CITLTD 4 3/4 02/04/36 | 94.6  | 2.1    | HYSAN 4.1 PERP      | 84.4  | -1.6   |
| CITLTD 4 7/8 02/04/41 | 92.2  | 1.7    | UPLIN 5 1/4 PERP    | 81.7  | -1.1   |
| GEMDAL 4.95 08/12/24  | 66.3  | 1.3    | DALWAN 11 01/20/25  | 81.1  | -1.1   |
| FOSUNI 5.05 01/27/27  | 77.8  | 1.3    | DALWAN 11 02/13/26  | 70.1  | -1.0   |

#### ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (-0.06%), Dow (+0.35%) and Nasdaq (-0.76%) were mixed on Tuesday. US Conference Board Consumer Confidence Index rose to 114.8 in Jan'24, lower than the expectation of 115.0. China Jan'24 official manufacturing/non-manufacturing PMI was 49.2/50.7, compared with the expectation of 49.3/50.6. UST yields retreated yesterday, 2/5/10/30 yield reached at 4.36%/4.00%/4.06%/4.28%, respectively.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ China Properties: Relaxation of purchase restrictions in Guangzhou, Shanghai and Suzhou

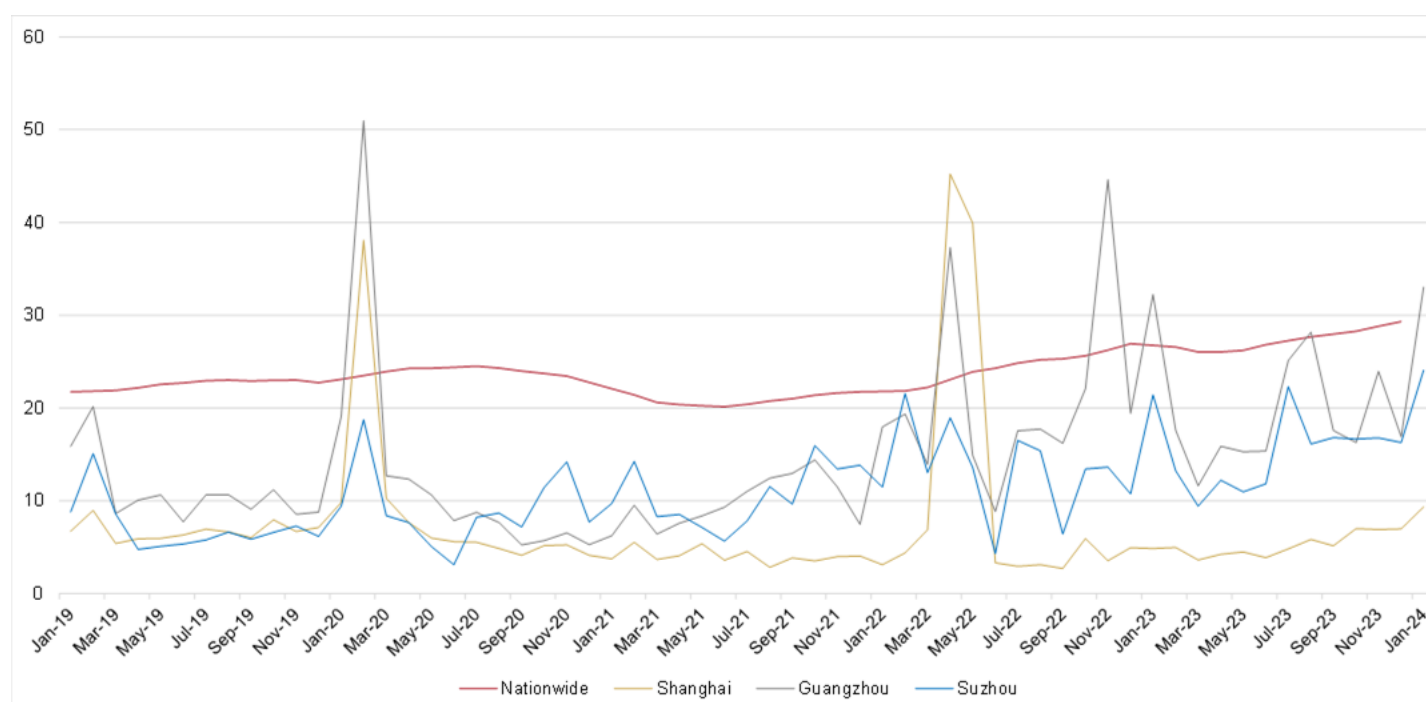
In past few days, two tier-1 cities Guangzhou and Shanghai as well as one tier-2 city Suzhou further relaxed purchase restrictions on properties. This is in line with our forecast in [2024 Asia Credit Outlook](#) that China authorities will launch more supportive measures including cancellation of purchase restrictions in high-tier cities. In 2023, commercial residential housing sales in Guangzhou, Shanghai and Suzhou was 7.9, 14.5 and 5.8 million sqm, moved +1.9%, +2.3% and -36.8% respectively. The inventory month of commercial residential housing in Guangzhou, Shanghai and Suzhou reached 9, 33 and 24 months in Jan'24.

In 2023, nationwide commercial housing sales area/amount declined 8.5%/6.5% yoy to 1.12bn sqm and RMB11.66tn, 34 developers that we tracked recorded RMB3,296.6bn contracted sales amount, down 22.8% yoy from RMB4,269.6bn in 2022. We continue to expect the pace of recovery of the property markets to be slow in the near-term while there be more supportive measures including rates cut and further relaxation on purchase restrictions. Within the sector, we prefer developers which have major operations in T1/2 cities, quality investment properties (IP) that can be collateralized for funding, and manageable short-term debt maturities, our picks are **CHJMAO, CSCHCN, DALWAN, FUTLAN/FTLNHD, HPDLF, LNGFOR and YLLGSP**.

Table 1: Relaxations of Guangzhou, Shanghai, Suzhou

| City      | Date      | Relaxation  |
|-----------|-----------|---|
| Guangzhou | 27 Jan'24 | 1. Removing purchase restrictions on properties with more than 120 sqm floor area.<br>2. The number of properties owned by residents will be deducted if residents register rent or sale for the properties in the government system. |
| Shanghai  | 30 Jan'24 | Unmarried non-Shanghai residents who continuously paid 5-year social insurance or income tax in Shanghai are allowed to purchase properties outside outer ring road of Shanghai.  |
| Suzhou    | 30 Jan'24 | Removing purchase restrictions on properties.   |

Chart 1: Inventory month of commercial residential housing in Guangzhou, Shanghai, Suzhou



Source: Wind.

➤ **China Property Sector – Expert call takeaways: A positive shift in regulatory stance; sector may see recovery post CNY**

We've hosted a conference call and invited a real estate expert within the government system to interpret the intention of recent policies and provide insights into the future policy direction. According to the information shared by the expert, **a significant shift in policymaker's attitude has occurred on the financing side – from “rescuing projects rather than developers” to “rescuing developers through rescuing projects”**. Due to the gradual ineffectiveness of demand-side policies, developers may face another wave of liquidity crisis under the new round of debt repayment pressure in 1Q24 especially in March. Regulators aim to prevent this from causing a further downturn in industry fundamentals and leading to a prolonged drag on capital market performance and expectations on the macro economy. Therefore, there is an accelerated push for the introduction of financing support policies, with an emphasis on robust implementation to address the issue of supporting policies not being materialized over the past two years. **We believe that the implementation effort of this round of financing support policies may exceed the market's initial expectations.**

### Key takeaways of our expert call:

- **Policy focus:** Managing two risks for real estate enterprises - operational and liquidity risks. The ultimate goal is to resolve operational risks but it would require a recovery in property sales. **The current emphasis is primarily on addressing the liquidity issues.** This round of policy is not merely rhetoric; it is expected to have substantive effects, as the financing coordination mechanism is dedicated to address the lack of implementation of financing supporting policies over the past two years.
- **Core differences in this round of financing support policy:** 1) Introducing local governments as credit endorsement. 2) Focusing on the project and city level which provide more operational space for cities and developers' local branches to package projects effectively for better acceptance by the banks.
- **The Financing Coordination Mechanism (FCM)** was formulated with the consideration of exempting banks from certain liabilities and making them treat state-owned enterprises (SOEs) and private-owned enterprises (POEs) equally without burdens. If the required project whitelist includes only SOEs' projects, it contradicts the regulatory intention behind establishing the mechanism. Thus, **the project whitelist is likely to lean towards POEs, especially in the initial batches.** The list may be made public to help stabilize market expectations by showcasing that POEs' projects are included. The ultimate goal of the mechanism is to prevent more POE names from defaulting by easing their liquidity risks. The mechanism is a regulatory innovation and is expected to be effectively implemented. However, it should not be anticipated to reverse the market trend. We believe it is a promising start to change the negative cycle of property market.
- **The FCM demands faster effectiveness compared to previous policies.** Usually the implementation timeline for similar policies is measured over a quarter, but regulators demand urgent effectiveness for FCM with the project whitelist due at the end of Jan and incremental loans from banks are expected to be deployed post the CNY/in late Feb. By doing so, POEs facing debt repayment peak in 1Q24 may have more chance to avoid defaulting. Additionally, regulators require continuity for the FCM, indicating the whitelist will not end after the first batch.
- **Efficiency will also be higher for investment property loans:** Normally, approval of investment property loans takes 2-3 months, but under the current regulatory stance, around 1/3 reduction in time is possible, based on expert's estimates. Developers meeting the requirements are highly likely to get loans in 1.5-2 months.
- **Expected policy results in Guangzhou:** Due to the CNY, property sales are not expected to quickly recover within one month, but certain areas such as Tianhe District and Yuexiu District may experience more stabilized housing prices within a quarter based on the expert's estimation. Considering the current economic conditions, overheating and rapid increases in housing price are unlikely, in expert's view.
- **Other tier-1 cities may follow the relaxation in Guangzhou but with smaller steps and differences on timing.** Based on the expert's expectation, Shenzhen may adopt Guangzhou's experience and potentially start easing from suburban areas to core areas, for example, to lift restrictions on houses with GFA>144 sq. m. As Shanghai and Beijing have different market positioning and fundamentals, a complete removal of purchase restrictions seems unlikely. Beijing's relaxation may involve measures related to talent introduction, lottery systems, and balancing residential and work populations in certain area etc.
- **Property sales in 2024E:** the expert expects a 3-5% YoY contraction in GFA of property sales in 2024E, with new home prices to stay stable and property sales meeting upgrading demands with higher ASP to take a larger proportion. The price of existing homes is expected to decline 3-5%.

**Our view.** We noticed that, on the demand side, [Suzhou](#) implemented relaxation of purchase restrictions citywide and [Shanghai](#) eased restrictions in areas beyond the outer ring road. On the financing side, [Guangxi](#) has submitted a project whitelist with 107 project included. These are in line with the expert's assertion that "this round of supporting policies will be effectively landed." We believe that if other cities actively submit project whitelists as Guangxi, particularly those featuring a substantial number of projects from POEs, **the stock performance of the property sector may see short-term recovery, especially post the CNY due to the following.** **1)** The regulatory stance shifting from "rescuing projects rather than developers" to "rescuing developers through projects", which is beyond the market expectation, indicating that the determination of regulators to boost the market is beyond what was anticipated as well. **2)** The market response to the policy relaxation in Guangzhou was a bit unexpected for regulators in our view and this may provide more motivation for regulators to promote implementation of support policies. **3)** The effective implementation of financing policies will alleviate homebuyers' concerns on new home delivery risk; coupled with the delayed impact from Guangzhou's policy measures, property sales may experience a mild recovery under the influence of multiple positive factors. For stocks, we recommend the one with 40% land bank exposure in Guangzhou (1H23) and developers with higher land-to-sales ratios (2023): C&D Intl., CR Land, COLI, Greentown China; developers with a larger proportion of investment properties like Longfor, CMSK, Vanke and Seazen.

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

| Issuer/Guarantor        | Size (USD mn) | Tenor | Coupon | Priced | Issue Rating (M/S/F) |
|-------------------------|---------------|-------|--------|--------|----------------------|
| Ji'An Chengtong Holding | 173.7         | 3yr   | 7.5%   | 7.5%   | -/-/-                |

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

| Issuer/Guarantor                          | Currency | Size (USD mn) | Tenor | Pricing | Issue Rating (M/S/F) |
|---|----------|---------------|-------|---------|----------------------|
| Hong Kong SAR                             | USD      | -             | -     | -       | -/AA+/AA-            |
| Qingdao Huatong                           | USD      | -             | 3yr   | 7.3%    | -/-/-                |
| Science City (Guangzhou) Investment Group | USD      | -             | 1.5yr | 7.2%    | -/-/BBB              |

#### ➤ News and market color

- Regarding onshore primary issuances, there were 100 credit bonds issued yesterday with an amount of RMB132bn. As for Month-to-date, 1,791 credit bonds were issued with a total amount of RMB1,524bn raised, representing a 61.9% yoy increase
- [CHFOTN]** China Fortune Land estimates up to CNY9bn net loss in 2023, compared with RMB1.6bn net profit in 2022
- [CHIGRA]** China Grand Auto completes redemption of USD231.7mn offshore bonds; the company forecasts net profit of RMB360-430mn for FY23; compared with RMB2.7bn net loss in FY22

- **[COGARD]** Media reported that Country Garden's bondholders plan to apply for court order to liquidate company
- **[GRNLGR]** Greenland expects RMB7bn-9bn net loss for 2023, compared with CNY 1.01bn net profit in 2022
- **[JIAYUA]** Jiayuan International's liquidators experience difficulties in securing sufficient funding to move forward with debt restructuring
- **[RAKUTN]** Rakuten increases tender offers for USD notes due 2024 to any and all of outstanding notes
- **[SECGRP]** Shanghai Electric Group expects to record RMB260-310mn net profit in FY23, compared with RMB3.57bn net loss in FY22
- **[SINOCE]** Media reported that Sino-Ocean Group informs key USD bond creditor group that it will prioritize local debt repayment
- **[TQLTHI]** Tianqi Lithium expects net profit to drop up 72.56% yoy to RMB6.6bn in 2023 due to decline in sales price of lithium chemical products
- **[VLLPM]** Vista Land & Lifescapes decides to cancel USD 5NC3 Reg S bond offering

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