

CMBI Credit Commentary

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

- *Markets were quiet this morning due to Chinese long holidays. Asian IG space was mostly unchanged apart from AMCs. GRWALL down c0.5pt as FY22 annual report delay and HRINTH retreated c0.5pt. KWGPROs dropped 3-8pts this morning post the default news.*
- **DALWAN:** *Summary of our recent Q&As with clients. We consider the price actions on DALWANs over the 2 weeks overdone even if the IPO cannot be completed by FYE23 and maintain Buy on DALWANs. DALWANs were unchanged to +0.25pt this morning. See below.*
- **China Policy:** *Politburo maintains pro-growth stance while ruling out big stimulus. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

Last Friday, Asia IG space was largely firm. State Bank of India priced new SBIIN 28s of USD750mn at CT5+145 and the bonds were traded two-way actively at around T+153 amid FMs selling vs PBs buying. Other recent new issues CKHH/BOCAVI edged 1-2bps tighter. In China SOEs, HOAHUA curve grinded 1-3bps tighter. SINOPE 26-31s were better bid. TMT benchmark papers such as TENCNT/BABA closed 1-2bps tighter. In financials, AMCs were under better buying. HRINTH curve was traded 0.5-1pt higher (10-20bps tighter). GRWALL/ORIEAS curves ended 5-10bps tighter. In Chinese bank T2s, BCHINA/ICBCAS curves widened 3-7bps. Elsewhere in KR/HK IGs, we saw the front-end of HYUCAP/CICCHK were under better buying. The Chinese property space performed mixed. COGARDs/ROADKGs were traded 0.5-2.5pts higher. However, SINOCES lowered 1-1.5pts. GRNLGR 24s/25s dropped 1.5-3.5pts. KWGPROs were down 1-1.5pts to close 3-5pts lower WoW. KWG disclosed its default in payment of RMB212mn. Industrials such as FOSUNIs/WESCHIs were marked around 0.5-1.25pts higher. Macau gaming names such as SANLTDs/WYNMACs moved around 0.5pt higher. In Indian space, VEDLNs gained 0.75-1.75pts. Indonesian names LPKRIJs/LMRTSPs were marked 0.5-1pt higher post 1Q23 results announcements. FRIDPTs were traded up 1-2pts.

The LGFV/Perp/Asia AT1 spaces had an uneventful session to end the month, and prices were largely stable across the spaces. Flows were overall light ahead of Labor Day long holiday onshore, and dominated by month-end rebalancing needs as well as cash parking needs. Higher-yielding LGFV papers in the front end remained sought-after by RMs for yield enhancement/alpha. Although in some cases for names from really weak regions, we also saw other RMs taking profit or trimming risks into the rally. Overall sentiment was still firm, as robust deployment need was unfulfilled with scarce offer-side liquidity. There were active two-way interests on LGFVs that used to have little tractions such as WFUCRD/CHADEC. In Shandong names,

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SHGUOH 25s/QDHTCO 24s were under better selling. SOE Perps such as CHALUM/HUADIA perps were under better buying. In HK corp perps, NWDEVL/FWDINS perps were marked 0.25-1.5pts lower. Elsewhere in AT1s, Chinese bank names were largely stable. HSBC/STANLN perps were up around another 0.125-0.25pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
COGARD 5 1/8 01/14/27	46.2	2.4	GRNLGR 6 3/4 06/25/24	37.5	-3.3
FRIDPT 6.2 04/14/52	92.6	1.9	GRNLGR 5.9 02/12/25	33.2	-1.4
VEDLN 6 1/8 08/09/24	64.4	1.8	SINOCE 5.95 02/04/27	28.1	-1.4
HRINTH 3 7/8 11/13/29	76.2	1.7	NWDEVL 4.8 PERP	62.4	-1.4
ROADKG 5 1/8 07/26/26	56.6	1.6	SINOCE 6 07/30/24	41.2	-1.0

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.04%), Dow (-0.14%) and Nasdaq (-0.11%) were weak on Monday and markets focused on JPM's acquisition of First Republic Bank. U.S. Apr Markit manufacturing PMI was 50.2 and lower than expectation of 50.4. U.S. March core PCE was +4.6% yoy, exceeded expectation of +4.5% yoy. The U.S. treasury yield rallied higher yesterday, the yield curves bear steepened and 2/5/10/30 yields reached 4.14%/3.64%/3.59%/3.84%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ DALWAN: Summary of our recent Q&As with clients

Over the past few days, we have numerous meaningful discussions on Dalian Wanda Commercial Management (DALWAN). We summarize the Q&As below for the reference of our clients:-

How were DALWAN FY22 results? What are the keys to be highlighted?

DALWAN just posted its FY22 this morning. Operating performance was resilient. In FY22, its revenue increased 4.7% to RMB49.3bn, c92% of this was leasing and commercial property management income. Operating income was flat at RMB36.7bn. While no detailed operating statistics provided, we believe that the revenue growth was supported by the addition of new leasable area but this was offset by the impact of COVID lockdown. Another noteworthy area is the substantial increase in non-current liabilities due within 1-year to RMB68.8bn in FYE22 from RMB17.0bn in FYE21. The increase was attributable to the reclassification of potential redemption of pre-IPO investments (estimated to be RMB45bn) should Zhuhai Wanda IPO not going through by the end of FY23. Adjusted for this, its net debt increased 15% to RMB124.6bn. Its net debt/equity, adj. liab/assets and cash/ST debts in FYE22 were 42%, 50% and 0.8x, compared with 38%, 51% and 2.4x in FYE21 and 40%, 50% and 1.2x in 9M22, respectively.

What is the latest for the syndicated loan with early repayment clause?

As per DALWAN, Dalian Wanda Group, the parent company, managed to obtain the waiver for early repayment of the syndicated loans of USD1.3bn resulting from the failure to complete the Zhuhai Wanda IPO by 8 May'23. DALWAN pointed out that the early repayment was waived not amended to extend the prepayment date to Nov'23 as per media reported. Additionally, as disclosed in its FY22 results, DALWAN did not provide guarantee for its parent and ultimate shareholders.

What causes the delay in Zhuhai Wanda IPO?

As we discussed, in our comments: [The facts, the noise and the uncertainties on 18 Apr'23](#), the IPO of Zhuhai Wanda is the major overhang DALWAN and bondholders are facing. We heard different stories and conspiracies of the delay but our thoughts remain the same: CSRC does not have much incentive to block/delay the IPO of Zhuhai Wanda to nullify the impact of a more supportive regulatory environment should the company meet the regulatory requirements for spinning off Zhuhai Wanda for listing.

CSRC received the application of Zhuhai Wanda on 20 Apr'23, and is supposed to provide DALWAN the official feedback by 20 May'23. Additionally, the filing of IPO application in HKEX expired on 25 Apr'23, we expect DALWAN to file a new application with updated FY22 results. To us, the uncertainties in relation to the IPO is less on regulatory approvals but more on the sentiment of stock markets and valuation of the IPO.

What could be the outcome if the IPO not going through by FYE23?

The worst outcome will be a full redemption of pre-IPO investments of RMB38bn. We estimated the redemption amount to cRMB45bn factoring into the guaranteed IRR of 8% p.a. We believe that additional borrowings against its investment properties (IPs) is a potential source of liquidity for the redemption, if needed. Based on DALWAN's FY22 results, c75% of its IPs with a BV of RMB457.6bn were pledged for loans but loan drawn against these IPs should be only cRMB100bn. Assuming DALWAN fully utilizing its IPs and increasing LTV to 50%, the headroom for raising additional debts against its IPs is RMB128.8bn (2.9x of the estimated redemption amount). Additionally, it had cash on hand of RMB21.7bn as at Dec'22. As an asset-light company, we expect the proportion of cash in escrow account to be much lower than that of a traditional property developer.

A more likely scenario is to waive or amend the put option of pre-IPO investors. We do expect at least some of the pre-IPO investors to be open to the waiver or amendment of the put option. We believe that pre-IPO investors and DALWAN are in the same boat. In our view, the pre-IPO investors will have to choose between: 1) pushing DALWAN for full redemption. If so, DALWAN may rush for the IPO at the expense of valuation; or 2) giving DALWAN more time especially DALWAN generates growing and recurring rental and property management income of over RMB40bn p.a.

Indeed, we believe that it is in the interests of the pre-IPO investors to openly discuss the possibility of waiving or amending the put option. This signals to the market that DALWAN would not be under liquidity pressure to rush for the IPO at the expense of valuation.

What is our latest view on DALWANs?

We consider the price actions on DALWANs over the 2 weeks overdone even if the IPO cannot be completed by FYE23. We maintain Buy on DALWANs.

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➤ China Policy: Politburo maintains pro-growth stance while ruling out big stimulus

The politburo indicates continuous pro-growth policy without big stimulus at its meeting on economic condition last week. China will maintain accommodative credit policy while the possibility of additional fiscal stimulus is low. It is still too early for China to pivot toward policy tightening as the GDP growth remains below the potential growth and the reflation pressure is low. Top leaders also reiterate pro-business stance and commitment to open up. To boost consumer confidence and comprehensive recovery, China has to restore private business confidence as the private business absorbs over 80% of the urban employment. The leaders also pay attention to financial risks related to small & medium sized financial institutions, property sector and local government

contingent debt, indicating more regulations over smaller financial institutions, continuous debt risk relief for property developers and stricter control over local government contingent debt expansion.

Growth is better than official expectations as the possibility of additional policy stimulus is low. Top leaders said economic growth is better than their expectations as the triple pressure including demand shrinkage, supply shock and confidence weakening alleviates. They thought China's economy has achieved a good start in 1Q23 with a recovery in demand. The possibility of additional policy stimulus seems low in 2Q23 when the YoY growth of GDP may accelerate to above 7% thanks to base effect and further economic recovery.

Growth engine is not strong as the politburo maintains the pro-growth policy stance. While the growth is better than expectations, top leaders acknowledged that the internal engine for growth is not strong as aggregate demand remains insufficient. Therefore, China will maintain the pro-growth stance to boost growth momentum. We do not think China will pivot toward policy tightening as its GDP growth remains below the potential growth and the reflation pressure is very low. Specifically, China's exports face downside risk amid overseas economic uncertainty while the recovery of private business confidence, domestic consumption and property market is gradual and slow.

China will speed up tech innovation and development of advanced industries. The politburo emphasized China needs to become more self-reliant in science & technology as the country should strive to achieve breakthroughs in sectors that are relatively weak. It stated that China should double down on China's existing areas of strength like electric vehicle with investment in charging pile, energy storage facility and power grid transformation. The politburo also highlighted the development of generalized artificial intelligence as an area of great importance. China's industrial policy will mainly focus on semiconductor, new energy supply & vehicle, high-end manufacturing and digital economy.

China will maintain supportive macro policies to boost demand recovery. Demand recovery is the key for economic growth this year. The politburo said China would maintain proactive fiscal policy and prudent monetary policy to support demand expansion. The leaders vowed to increase household income and support consumer spending especially in cultural & tourism services.

Leaders will continue to take pro-business measures to boost private business confidence. The politburo vowed to improve business environment to facilitate fair competition for all kinds of enterprises. Top leaders indicated more pro-business measures to boost private business confidence. The leaders also encouraged internet platforms to take a lead in the innovation. Private businesses account for over 80% in China's urban employment. To restore consumer confidence, the policymakers have to boost the private business sentiment in future. The politburo also pledged high-level opening to foreign companies as it targeted to boost foreign trade and capital inflows.

China will continue to prevent and resolve financial risks. The politburo said to relieve risks in small & medium banks, insurance companies and trust companies. Top leaders emphasized housing is for living and not for speculation indicating differential mortgage policy in different cities. In tier one and few tier two cities, housing market continued to recover and mortgage policy may remain stable. In lower-tier cities, housing market recovered slowly and mortgage policy may see further easing in future. The leaders vowed to control local government contingent debt, posting downside risk for some infrastructure investments dominated by LGFVs.

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➤ Offshore Asia New Issues (Priced)

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

➤ Offshore Asia New Issues (Pipeline)

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

➤ News and market color

- Regarding onshore primary issuances, there were 53 credit bonds issued last Friday with an amount of RMB30bn. As for Month-to-date, 2,129 credit bonds were issued with a total amount of RMB2,036bn raised, representing a 30.3% yoy increase
- Macau gaming revenue for Apr'23 rises 449.9% yoy to MOP14.7bn. The cumulative 4M23 gaming revenue increased 141% to MOP49.4bn, equivalent to 49% of the gaming revenue in 4M19
- **[CENCHI]** CCRE completed exchange offer, consent solicitation for senior due-2023s; Fitch downgraded its rating to RD from C on completion of exchange offer, consent solicitation
- **[CIFIHG]** CIFI Holdings unable to publish audited FY22 annual results on or before 30 April due to incomplete audit work
- **[COGARD]** Country Garden unit proposed to offer RMB900m two-year MTNs
- **[DAFAPG]** DaFa Properties misses payment of USD100mn 13.5% senior notes due 2023
- **[EHOSUE]** E-House (China) Enterprise extends RSA expiration deadline to 19 May; gets 50.43% of scheme creditors support
- **[GEMDAL]** Gemdale proposes up to RMB16bn debt financing instrument offering
- **[GRNCH]** Greentown issued RMB1.5bn two-year MTNs to repay debts
- **[HONGQI]** Fitch affirmed China Hongqiao rating at BB+ and placed stable outlook
- **[HYDOO]** Guangdong – Hong Kong Greater Bay Area completed exchange offer for 12% due-2023s, 13.85% due-2023s; issues USD413.6mn 7% new notes due 2026
- **[KWGPRO]** KWG defaults on RMB212mn borrowings due 28 April, triggers RMB31.2bn repayment on demand

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