

CMBI Credit Commentary

HK corps: Perps offer better value than seniors

Executive Summary

HK corps have performed well since Nov'22, in line with the sharp rebound of the market. Like peers in other spaces, the conviction of HK corps is lower at current valuation. Nonetheless, we still see value in selected HK perps of which coupon will be reset and/or step-up upon the first call dates and issuers can access various funding channels. We believe that these issuers will be strongly incentivized and have the ability to call their perps to avoid significant increase in interest expenses. These perps offer not only good carry but also decent yield pick-up over their respective senior papers. Our picks are **NWDEVL 6.15 Perp**, **NWDEVL 4.125 Perp**, **NWSZF 5.75 Perp**, **ROADKG 7.75 Perp** and **LEEMAN 5.5 Perp**.

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

Cyrena Ng, CPA 吴倩莹
 (852) 3900 0801
 cyrenang@cmbi.com.hk

Jerry Wang 王世超
 (852) 3761 8919
 jerrywang@cmbi.com.hk

Table 1: Summary of our picks

	NWDEVL 6.15 Perp	NWDEVL 4.125 Perp	NWSZF 5.75 Perp	ROADKG 7.75 Perp	LEEMAN 5.5 Perp
Credit rating (M/S/F)	-	-	-	Ba3	-
YTC (%)	8.8	9.1	7.9	31.9	9.4
Ask px	96.0	81.4	98.3	70.1	95.0
Year to call	2.1	5.3	1.0	1.8	1.3
First call date	03/16/25	03/10/28	01/31/24	11/18/24	05/29/24
Outstanding (USD mn)	500	1,200	1,019.1	300	240.6

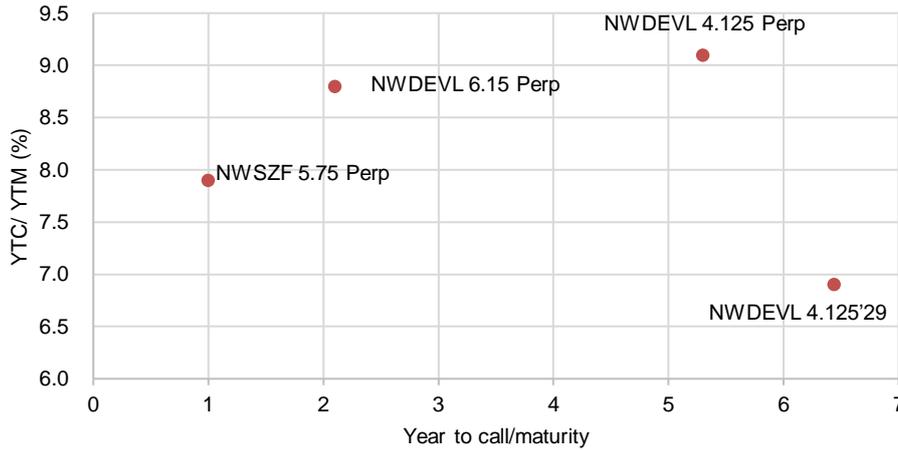
Source: Bloomberg

CMBI Fixed Income
 fis@cmbi.com.hk

NWDEVL 6.15 Perp, NWDEVL 4.125 Perp and NWSZF 5.75 Perp

Strong incentive to call the perps with coupon reset and step-up and yield pick-up

Chart 1: Our picks of NWDEVL and NWSZF



Source: Bloomberg

We believe that the chance of NWDEVL and NWSZF to call NWDEVL 6.15 Perp, NWDEVL 4.125 Perp and NWSZF 5.75 Perp is high given the coupon to be reset and step-up (see Table 2). In our opinion, its recent tender offer and non-core asset disposals have demonstrated group’s ability to actively manage its liquidity and liability in times of challenging environment.

Additionally, we consider NWDEVL 4.125 Perp a good yield pick-up trade over NWDEVL’29. The perp’s coupon will be reset to 5yUST+5.858% from 4.125% in Jun’28 (3 months after the first call date). Based on the current UST rate, the reset coupon will be c9.8% on the first call date in Mar’28. At 79.7, NWDEVL 4.125 Perp is trading at YTC of 9.1%. The perp offers a yield pick-up of 2.2% while trading at 5.3pts lower in cash price and potentially short tenor than NWDEVL’29. The call date of the perp is 13 months ahead of the maturity of NWDEVL’29.

Table 2: Coupon and step-up of our picks

	Next call date	Issue spread (bps)	Coupon	Reset spread (bps)	Coupon Step-up (bps)
NWDEVL 6.15 PERP	3/16/2025	320.1	6.150%	620.1	300
NWDEVL 4.125 PERP	3/10/2028	285.8	4.125%	585.8	300
NWSZF 5.75 PERP	1/31/2024	320.5	5.750%	820.5	500

Source: Bloomberg

Chart 2: Yield pick-up of NWDEVL 4.125 Perps (YTC) over NWDEVL 4.125'29 (YTM)

Source: Bloomberg.

Realized over HKD5.3bn via non-core asset disposals YTD FY22-23

NWDEVL disposed of HKD13.9bn non-core assets in FY21-22 and as at Jun'22, it has completed investment properties of HKD169bn. In Jul'22, the company guided to dispose of non-core assets (car park space, loss-making hotels and non-controlling projects) of HKD9-10bn in the coming 1-2 years.

Since Jul'22, NWDEVL had realized over HKD7bn via disposals of four assets in Hong Kong. The assets sold including 50% interests in a commercial property in Cheung Sha Wan at HKD3.1bn in Sep'22, Penta Hotel at HKD2bn and shops in Sai Ying Pun at HKD200mn in Dec'22, shops in Sai Wan at HKD70mn in Jan'23, and also commercial building KOHO in Kwun Tong at HKD1.7bn in Feb'23. Meanwhile, the company says they have no plan to sell any of the K11 brand properties including K11 Atelier King's Road in Hong Kong Quarry Bay. We see it is on track on the monetization from non-core assets.

Active liability management exercise help reducing its debt level

The company completed two rounds of tender offer in 2022. In Jun'22, it redeemed USD129.4mn of its NWDEVL 4.375 11/30/22 at 100.5. Another round happened in Dec'22. It redeemed USD109.4mn in total of its NWDEVL 4.5 05/19/30 and NWDEVL 3.75 01/14/31 at 81.4 and 76.5 respectively. We view that the company is actively managing its liability structure and take advantages of the market fluctuation to reduce the debt level.

The debt leverage ratios slightly deteriorated at Jun'22 when compared to Jun'21. Net debt/EBITDA deteriorated to 9.7x from 9.1x. The cash/short term debt also dropped to 1.2x from 1.6x mainly due to higher short-term debt. Nonetheless, we expect the company will be able to fulfill the repayment obligations given the cash level of HKD57.7bn at Jun'22, proceeds from ongoing non-core asset disposal, record of operating cash inflow generation, as well as diversified funding channels offshore and onshore.

Table 3: NWDEVL tender offers since 2022

Date	Bond	Tender price	Accepted amt (USDmn)
Dec'22	NWDEVL 4.5 05/19/30	81.4	37.2
Dec'22	NWDEVL 3.75 01/14/31	76.5	72.2
Jun'22	NWDEVL 4.375 11/30/22	100.5	129.4

Source: Bloomberg.

Table 4: Five-year financial summary

HKD mn	Jun'22	Jun'21	Jun'20	Jun'19	Jun'18
Revenue	68,212.7	68,233.2	59,007.8	76,763.3	60,668.7
EBITDA	14,538.2	13,316.1	15,730.7	27,656.2	13,894.0
Cash and cash equivalents	57,715.6	61,615.0	67,291.2	63,723.1	63,388.4
Short-term debts	51,554.8	39,827.4	57,829.0	41,776.0	20,629.1
Long-term debts	147,556.2	143,003.1	140,547.3	114,558.6	120,123.6
Total debts	199,111.0	182,860.5	198,376.3	156,334.6	140,752.7
Total debt/EBITDA (x)	13.7	13.7	12.6	5.7	10.1
Net debt/EBITDA (x)	9.7	9.1	8.3	3.3	5.6
Cash/short-term debt (x)	1.2	1.6	1.2	1.5	3.1
EBITDA/interest coverage (x)	3.0	2.5	2.2	4.6	2.7

Note: Debt includes lease liabilities. Source: Bloomberg, Company's filings, CMBI Research.

ROADKG 7.75 Perp

Table 5: Bond list of Road King

Name	ISIN	O/s amount (USD mn)	YTC/YTM	Price	Next call date
ROADKG 7.75 PERP	XS2079096884	300	31.9%	70.1	11/18/2024
ROADKG 6.7 09/30/24	XS2057076387	422.5	10.5%	94.4	2/24/2023
ROADKG 7.95 PERP	XS1567389728	300	11.5%	69.3	8/17/2023
ROADKG 5.125 07/26/26	XS2356173406	500	12.7%	79.4	7/26/2024
ROADKG 5.2 01/12/26	XS2281039771	500	13.0%	81.7	1/12/2024
ROADKG 5.9 03/05/25	XS2127855711	252	11.7%	89.7	3/5/2023
ROADKG 7 PERP	XS1635996603	300	11.3%	62.0	6/23/2023
ROADKG 6 09/04/25	XS2223762209	338.9	11.6%	87.9	9/4/2023
Total		2,913.4			

Source: Bloomberg.

Chart 3: Yield pick-up of ROADKG 7.75 PERP (YTC) over ROADKG 6.7 09/30/24 (YTM)



Source: Bloomberg.

Chart 4: Price movement of ROADKG 7.75 PERP over ROADKG 6.7 09/30/24

Source: Bloomberg.

ROADKG 7.75 Perp move c40pts higher since Nov'22. That said, ROADKG is still trading at a YTC of 31.9% and offer yield pick up of 21.4% over ROADKG 6.7 09/30/24. We note Road King is yet to call its 2 outstanding fixed-for-life perps (ROADKG 7.95 Perp with first call date on 17 Feb'22 and ROADKG 7 Perp with first call date on 23 Jun'22). That said, ROADKG 7.75 Perp is different. Its coupon will be reset to 5yr UST+6.003% on 18 Nov'24, first call date of the bonds. Based on the current UST rate, the reset coupon will be c10%. Road King will have a strong incentive to call or buy back ROADKG 7.75 Perp, in our view. We take additional comfort that Road King's more resilient operating performance, adequate liquidity profile and manageable bond maturities.

In FY22, Road King recorded RMB41.7bn property sales from mainland China in 2022, representing 5% yoy increase. Its sales performance outperformed most of the Chinese property peers. For 38 developers under our radar, the average contract sales dropped 47% in FY22.

The next offshore USD bond maturity will be ROADKG 6.7 09/30/24 in Sep'24. On 1 Feb'23, it redeemed ROADKG 7.875 02/01/23 (o/s USD343mn). In addition, it has repurchased a total of USD224.5mn in principal amount of USD bonds since Mar'22, reflecting its adequate liquidity.

Table 6: ROADKG debt redemption record

Date	Bonds	Amount (USDmn)	Event
1 Feb'23	ROADKG 7.875 02/01/23	358	Full redemption
31 Oct'22	ROADKG 6 09/04/25	31	Open market repurchase
14 Oct'22	ROADKG 6.7 09/30/24	31	Open market repurchase
14 Oct'22	ROADKG 5.9 03/05/25	15	Open market repurchase
13 Oct'22	ROADKG 5.9 03/05/25	33	Open market repurchase
13 Oct'22	ROADKG 6 09/04/25	46	Open market repurchase
9 Sep'22	ROADKG 6.7 09/30/24	26.5	Open market repurchase
17 Aug'22	ROADKG 7.875 02/01/23	22	Open market repurchase
22 Mar'22	ROADKG 7.875 02/01/23	20	Open market repurchase
		582.5	

Source: Bloomberg.

Table 7: ROADKG debt maturity profile

Maturity	Amount (USDmn)
2023	-
2024	422.5
2025	590.9
2026	1,000.0
2027 and after	900.0
	2,913.4

Source: Bloomberg and CMBI Research.

LEEMAN 5.5 Perp

Incentive to call is high, reflected by tender offer in Dec'22

We expect Lee & Man to call the perp on 29 May'24, the first call date, in view of the high coupon step-up of 500bps of the perp, Lee & Man's manageable USD refinancing pressure as the perp is its only outstanding USD issue and its ability to access alternative funding channels. At 93.9, LEEMAN 5.5 Perp is trading at YTC of 9.4%. We consider LEEMAN 5.5 Perp a short-tenor carry play.

The coupon of LEEMAN 5.5 Perp will be reset to 5yr UST+8.28% from 5.5% after the first call date on 29 May'24. Based on the current UST rate, the reset coupon will be c12.2%. We believe that Lee & Man has a strong incentive to call the perp to reduce funding costs, as reflected by its tender offer in early Dec'22 to early redeem USD59.2mn of the perps at 86. Additionally, it signed HKD4.75bn 5-year term loan facility agreement for refinancing and general funding, demonstrating its ability to access to other funding channels.

Available credit lines enable Lee & Man to refinance at the first call date

On 13 Feb'23, Lee & Man issued profit warning that it expects its FY22 net profit to drop c60% due to a decrease in profit margin. The profit warning is not a surprise to us given the net profit drop of c57% in 1H22, adversely affected by higher pulp price.

The company's capex were in the range of HKD3.3-3.5bn in FY19-21. It covered the investments on the new pulp production lines at its plants in Jiangxi and Chongqing, which are expected to start operation in 2023. Lee & Man is also working on the plant construction in Cambodia. The active expansion to increase the pulp supply is to reduce the raw material cost in the long run, yet it will continue to consume internally generated cash flow in short-term.

Nonetheless, we view the incentive for Lee & Man to call the perps remains high due to substantial coupon step-up if it is not called on the first call date. The outstanding amount of the perp is USD240.6mn (cHKD1.89bn), with its latest reported cash level at HKD1.8bn at Jun'22, and the mentioned HKD4.75bn term loan. We see is sufficient to refinance this sole outstanding USD perp in May'24 and USD510mn (cHKD4.0bn) due Apr'24 bank loans.

Table 8: LEEMAN tender offers since 2022

Date	Bond	Tender price	Accepted amount (USD mn)
Dec'22	LEEMAN 5.5 Perp	86.0	59.4

Source: Bloomberg.

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

CMB International Global Markets Limited ("CMBGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

Disclaimer:

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.