

## CMBI Credit Commentary

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

- *Markets were stable this morning. We saw profit taking on front-end Bank T2s and SOE bonds. Fitch downgraded China Vanke to BB+ and placed the ratings on RWN. VNKRLs were unchanged to 1.75pts lower this morning.*
- **LNGFOR:** *Reported FY23 results. Maintain buy on LNGFORs. LNGFORs rose 2.5-4.1pts post the results. See below.*
- **HPDLF:** *Hopson Development released profit warning that it expects FY23 profits to drop up to 63% yoy to RMB2.9bn due to decrease in fair value gain on investment properties and impairment of inventories. HPDLF'24 were unchanged this morning.*

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#### ❖ Trading desk comments 交易台市场观点

Last Friday, Asia IG space had a quiet session. On the new issues, GUONEV priced a USD210mn 14-month bond at par to yield 5.85%. FWDGHD priced a USD900mn 5-yr subordinated-bond at par to yield 8.4%. The new FWDGHD '29 was 3pts higher from RO at par, amid one-way topping-up from PBs. The other recent new SIASP '34 widened 1bp to T+95 area. In KR, HYNMTR/HYUCAP/POHANG 26-29s closed unchanged to 3bps tighter under small buying. In Chinese IGs, HAOHUA/TENCNT 28-30s were unchanged to 1bp wider. The high beta TMTs such as MEITUA/XIAOMI 30s tightened 1-2bps. In financials, Chinese AMCs were under better selling. ORIEAS '27 widened 4bps. HRINTH 25-27s were around 0.25pt lower (around 10bps wider). In T2s, BNKEAs tightened 3-7bps under PB chasing. In AT1s, ICBCAS Perps declined 0.1pt. KTBTB/KBANK/WSTP Perps were 0.1-0.3pt higher. EU AT1s were mixed in Asia session. HSBC/DB Perps were up 0.1pt, whilst ACAFP 6.5 Perp/BNP 8 Perp were down 0.1-0.2pt. In HK, NWDEVLs/NANFUNs were up 0.2-0.5pt. Chinese properties performed mixed. LNGFOR 27-32s increased 2.5-4.1pts post the FY23 results. See below for comments. On the other hand, ROADKG '24 slumped 7.3pts and closed 20pts lower WoW, while the rest of ROADKG 25-26s and perps dropped another 0.9-2.8pts. DALWAN 24-26s were 1.0-2.3pts lower. FUTLAN/FTLNHD 24-26s and VNKRL 25-29s were down 0.8-1.0pt. SHUION 25-26s were down another 0.2-0.8pt and closed 2-3pts lower WoW. In industrials, AACTECs remained under better buying post its solid FY23 results and closed 0.1-0.3pt higher, [see our comments on 22 Mar'24](#). HILOHO '24 was 0.9pt lower. Macau gaming names MPEL/SANLTD 25-31s were up 0.3-0.6pt. In Indian space, UPLLIN 28/30/Perp dropped 0.8-2.6pts and closed 2-6pts lower WoW. AZUPOE 24/26 were down 0.4-0.5pt. Indonesian names were quiet.

In the LGFVs/perps/high beta spaces, the sentiment remained constructive. CPDEV 25-26s were up another 0.3-0.5pt. Shandong names QDJZWD 24-25s/SHGUOH 25-26s were up 0.1-0.2pt. In the 5-6% LGFVs, GZDZCD '25/GZGETH '27 and GZINFU 26s were unchanged to 0.1pt higher. In SOE perps, CHPWCN 3.45 Perp/CHSCOI 4 Perp were up 0.1-0.2pt whilst HUADIA 4 Perp/RLCONS 3.97 Perp were 0.1pt lower.

### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
LNGFOR 3 3/8 04/13/27	59.7	4.1	ROADKG 6.7 09/30/24	51.9	-7.3
LNGFOR 4 1/2 01/16/28	55.8	3.3	ROADKG 7 3/4 PERP	13.3	-2.8
LNGFOR 3.95 09/16/29	46.6	2.9	ROADKG 6 09/04/25	32.8	-2.7
LNGFOR 3.85 01/13/32	42.3	2.5	UPLLIN 5 1/4 PERP	68.3	-2.6
CITLTD 4 3/4 02/04/36	91.1	1.4	ROADKG 5.9 03/05/25	42.6	-2.5

### ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (-0.14%), Dow (-0.77%) and Nasdaq (+0.16%) were mixed on last Friday, three indices all moved higher in last week and Nasdaq reached historical high. UST yield slightly retreated on last Friday, 2/5/10/30 yield reached 4.59%/4.20%/4.22%/4.39%.

### ❖ Desk analyst comments 分析员市场观点

#### ➤ LNGFOR: Maintain buy on LNGFORs

Security Name	ISIN	Amt (USD mn)	Out	Ask Price	YTM (Ask)	Rating (M/S/F)
LNGFOR 3 3/8 04/13/27	XS2098539815	250	55.9	24.8	Ba2/BB+/BBB-	
LNGFOR 4 1/2 01/16/28	XS1743535491	500	53.2	23.8	Ba2/-/BBB-	
LNGFOR 3.95 09/16/29	XS2033262895	850	44.1	22.0	Ba2/BB+/BBB-	
LNGFOR 3.85 01/13/32	XS2098650414	400	40.5	18.6	Ba2/BB+/BBB-	

Source: Bloomberg.

Longfor Group reported weak FY23 results, in line with its profit warning on 8 Mar'24. On the bright side, its investment property (IP) and property service operations maintained the growth momentum. Additionally, Longfor's matured IPs offer additional liquidity headroom of cRMB30bn after NFRA optimized rules of operating property loans in Jan'24. We continue to believe that Longfor would be a survivor of the sector given its manageable near-term maturities and robust non-development businesses. We maintain buy recommendation on LNGFORs.

### Weak operating performance partly mitigated by non-development operations

RMB mn	FY22	FY23	% change	1H22	1H23	% change
Revenue	250,565	180,737	-27.90%	94,805	62,044	-34.60%
-Property sales	227,017	155,857	-31.30%	83,767	49,869	-40.50%
-Non property sales	23,548	24,879	5.70%	13,334	14,797	11.00%
Gross profit	53,038	30,584	-42.30%	20,147	13,900	-31.00%
Profit before tax	45,822	24,729	-46.00%	15,927	12,375	-22.30%
Recognized GFA (mn sqm)	15.5	10.8	-30.50%	6.0	3.8	-36.00%
Recognized ASP/sqm (RMB)	14,632	14,449	-1.30%	4,001	13,014	-7.00%
Gross margin	21.20%	16.90%		21.25%	22.40%	

Source: Company fillings.

In FY23, Longfor's core attributable profit dropped 49.1% to RMB11.4bn and its gross margin reached the lowest level of 16.9% since listing in 2009 as gross margin of property developments lowered to 11.0%, mainly due to weak sale prices of properties with high costs plots acquired before 2022. The company made cRMB1.0bn write-down of inventories of properties to net realisable value, which affected c3.9% of profit before taxation. Longfor expects to make cRMB1-2bn write-down p.a. in the coming years.

In FY23, Longfor's attributable contracted sales were down 9.8% yoy to RMB114.8bn and sell-through rate was 56%, lower than the target of 65%. In 2M24, Longfor's attributable contracted sales also down 55% yoy to RMB8.4bn. Longfor will have saleable resources of cRMB240bn with c77% located in T1/2 cities in FY24. Assuming a sell-through rate of 56% and an attributable ratio of c66%, same as the levels in FY23, we estimate Longfor's attributable contracted sales to decline c23% to cRMB88bn in FY24.

Nonetheless, the weak development operations were partly mitigated by the continued growth of the non-development businesses which contributed c60% of core attributable profit, i.e. cRMB6.8bn, increased from RMB6.0bn in FY22. The margin pressure was partly offset by the continued growth of IP and property service operations of which the gross margins improved to 75.9% and 31.0% in FY23 from 75.6% and 28.9% in FY22, respectively.

Longfor expects that the non-development operations will continue to have a higher profit contribution than development operations. The company also expects to maintain net profit of over RMB10bn and profit from non-development business would grow 20% p.a. in the next years.

### Credit profile remains stable

RMB mn	Dec'22	Dec'23	% change	Dec'22	Jun'23	% change
Cash	72,095	59,224	-17.9%	72,095	71,294	-1.1%
Cash in escrow	18,000	22,800	26.7%	18,000	24,000	33.3%
ST debts	22,118	28,508	28.9%	22,118	38,554	74.3%
LT debts	200,754	178,970	-10.9%	200,754	183,238	-8.7%
Net debts	150,776	148,253	-1.7%	150,776	150,498	-0.2%
Net gearing	64.7%	62.7%		64.7%	63.9%	
Cash/ST debts	3.3x	2.1x		3.3x	1.8x	
Adj. liab/assets	64.8%	60.4%		64.8%	61.9%	

Source: Company fillings.

As of Dec'23, Longfor's net debts decreased 1.7% yoy to RMB148.3bn and net gearing ratio improved to 62.7%. The net reduction reflected its positive free cash. As per Longfor, its free cash flow turned to positive for cRMB3.5bn in FY23 from negative cRMB8.3bn in FY22. All segments contributed net operating cash inflows and cash collection rate of development business exceeded 100%.

Longfor's debt maturities are manageable. The company has RMB14bn maturities including RMB6bn onshore bonds in FY24 and has no offshore maturities before Apr'27. As of Mar'24, Longfor has remitted funds for RMB1.5bn LNGHDV 3.5 05/21/26 puttable in May'24 and plans to raise funds in 2Q24 for RMB3.5bn onshore bonds puttable in Jul/Aug'24. Furthermore, Longfor is mulling for early repayment of cRMB8bn syndicated loan due Jan'25 since Jun'24. We believe that Longfor's maturities are manageable and the company has adequate resources to secure its maturities in the near term.

### Additional headroom of RMB30bn for operating property loans

In Jan'24, NFRA optimized rules of operating property loans that allowed developer to use operating property loans to repay group's debts and raised LTV cap to 70% from 50%. As per Longfor, the LTV of its matured IPs

increased to 60-70% from 40-50%. Its IPs can be collateralized for cRMB100bn operating property loans in total, representing additional liquidity headroom of cRMB30bn. As of Mar'24, Longfor has secured cRMB17bn operating property loans and expects to secure another RMB3bn in the rest of 2024. The tenor of operating loans is typically 15yr and the funding cost is below 4%. Longfor's IPs offer sizable source of alternative liquidity to cover its refinancing requirements.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	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)
China Hongqiao Group	USD	-	364d	8.25%	Ba2/BB-/BB+
Korea National Oil Corp	USD	-	3/5yr	T+110/120	Aa2/AA/-
Korea National Oil Corp	USD	-	3yr	SOFR Equiv	Aa2/AA/-

➤ **News and market color**

- Regarding onshore primary issuances, there were 121 credit bonds issued on last Friday with an amount of RMB100bn. As for month-to-date, 1,796 credit bonds were issued with a total amount of RMB1,671bn raised, representing a 1.7% yoy increase
- **[CENCHI]** Central China Real Estate expected to record up to RMB3.8bn for FY23
- **[DALWAN]** Media reported that Dalian Wanda Commercial Management Group's RMB16.2bn frozen equity will be unfrozen very soon; PAG seeks about RMB20bn-equivalent loan for Zhuhai Wanda stake buy; Warburg Pincus was behind freeze of Wanda Commercial RMB5.07bn shares
- **[GRNKEN]** Greenko Energy Holdings received requisite consents to approve proposed amendments to 5.50% senior notes due 2025
- **[HPDLF]** Hopson Development expected up to 63% yoy drop in FY23 profit due to decrease in fair value gain on investment properties, impairment of inventories
- **[KWGPRO]** KWG Group expected FY23 loss to widen to RMB19bn, compared with RMB9.2bn in 2022
- **[PWRLNG]** Powerlong Real Estate announced scheme creditors holding around 90.9% of existing notes accede to RSA; early consent fee deadline amended to 26 April
- **[VEDLN]** Media reported that Vedanta Limited is planning to raise INR10bn (cUSD120mn) in non-convertible debentures
- **[VNKRLE]** Fitch downgraded China Vanke to BB+ and Vanke Hong Kong to BB, placed the ratings on RWN

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