

## CMBI Credit Commentary

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

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- *New ZHANLO 4.8 25 down 0.5pts at open to 5.15% where onshore buyers absorbed some loose bonds but it still well offered. Elsewhere we saw some covering in CNSHAN Perp and CNSHAN 25 as broader China credit space tried to take a breather from the WTD selloff.*
- *China AMCs: We saw opportunities in the space after the collateral damage. See below.*
- *PWRLNG: announced result of exchange offer. See below.*

#### ❖ Trading desk comments 交易台市场观点

Yesterday Chinese IG investors remain cautious before CPI announcement, spread generally widened 2-5bps. In financial space, we continue to see some selling in AMC long-end bonds. Bank AT1 also down 0.25-0.5pt. Benchmark name in TMT space also widened 4-8bps.

In LGFV/SOE space, sentiment continued to be weak as selling in the LGFV and SOE perp spaces echoed weakness in broader China credits driven by A) more outflows since 2H after 1H JACI total return loss surpassed 2008; and B) risk aversion sentiment over recent Henan bank headlines. Specifically, on back of (A) we continued to see 2022/ PC22s papers coming out. Some of these bonds nonetheless managed to find incremental buying at high -3% (A/high-BBB) to 5% (low-BBB) from a limited number of Chinese NBRM. Meanwhile on back of (B), selling was very heavy in Henan LGFVs (along with CBZHZH and ZHYUBK AT1s) with almost sell inquiries only, as the bearish sentiment continued to accumulate and spread. The selloff also spilt over to non-core names asset managers held in weaker regions/ sectors. In particular, SHDOIS 23 and 24 plunged by 2-3pts to 7%+ quickly in light of a series of low-ball hits, although one could argue that the name merely caught up with the broader downfall having remained resilient in previous rounds of correction thanks to its high absolute yield.

China property sector slightly stabilized yesterday after huge sell off on the day before. IG space such as LNGFOR/VANKE gained 1-3pts. Higher quality names like COGARD/ROADKG/CIFIHG/YLLGSP up 1-4pts. However, other names like CENCHI continued to drop 1-4pts. In industrial space, FOSUNI/HONGQI fell another 2-4pts.

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➤ Last trading day's Top Movers

Top Performers	Price	Change
COGARD 4.8 08/06/30	33.0	3.0
CIFIHG 6.45 11/07/24	41.6	2.2
SINOCE 2.7 01/13/25	35.9	2.2
CIFIHG 4 3/8 04/12/27	35.5	2.2
COGARD 5 1/8 01/14/27	33.3	1.6

Top Underperformers	Price	Change
SINOCE 4.9 PERP	32.0	-7.8
YLLGSP 6.8 02/27/24	74.0	-7.2
FTLNHD 4.8 12/15/24	41.1	-7.0
CENCHI 7 1/4 04/24/23	23.3	-5.8
CSCHCN 11.95 02/09/23	56.1	-5.4

➤ Macro News Recap 宏观新闻回顾

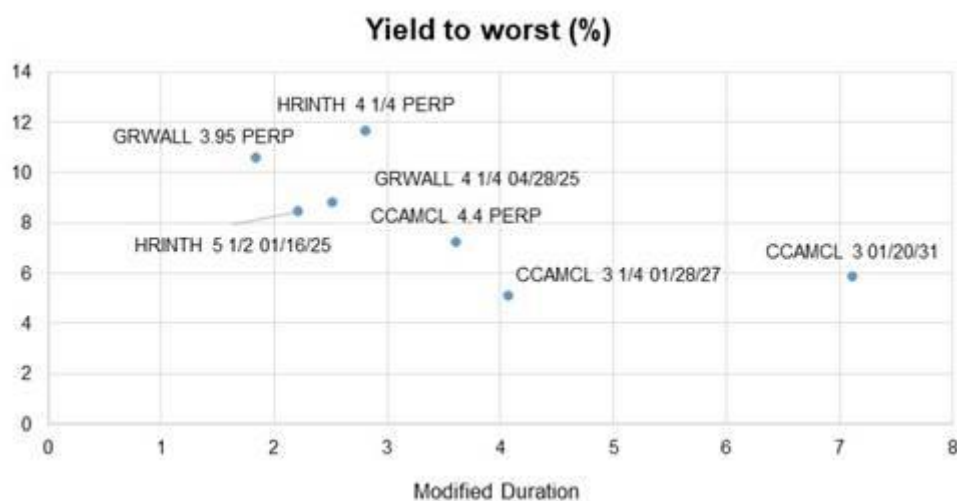
**Macro** – U.S. stock market ended lower on Wednesday, as the market reacted to the CPI disclosure. The S&P (-0.045%), Nasdaq (-0.15%), and Dow (-0.67%) ended down. U.S. inflation accelerated to a fresh forty-year high last month, and the headline CPI for June rose to 9.1% from last year. The bond market's recession warning continues to flash red, with the steepest inversion of the yield curve since 2007 and the weakest demand for a 10-year note auction in more than two years during yesterday's \$33 billion sale. Currently OIS market has priced in more than 60% probability of a 100bps rate hike in upcoming FOMC meeting. Treasury yield twist-flattened with the 2/5/10/30 yield reaching 3.13/3.02/2.91/3.08% respectively and 2s10s inversion further down to -22bps.

❖ Desk analyst comments 分析员市场观点

➤ China AMCs – Opportunities after the collateral damage

**Recent Sell-off offers better entry points for HRINTHs and CCAMCLs**

In view of the timely publication of FY21 results by Cinda, Huarong and Orient, we believe that Great Wall's delay in releasing FY21 results should be due to its specific issues instead of industry-wide issues. After the rebound off the lows last week, cash prices of benchmark HRINTHs and CCAMCLs are still 1-4 pts lower from the levels in end of Jun'22 when Great Wall announced the further delay in releasing FY21 results. HRINTH 4.25% perps was hit down as much as 14 pts and remain 10 pts below the level at the end of Jun'22. The spill-over effect to other Chinese national AMCs, in our view, offers better entry opportunities for bonds/perps of central state-owned national AMCs.



Within the sector, we prefer list companies such Cinda and Huarong for higher data transparency. We like HRINTHs for better valuations and trading liquidity, improving credit story after the state-orchestrated recapitalization. Our picks within the HRINTH curve are **HRINTH5.25% '25 and HRINTH 4.25% perps (callable in Sep'25 at 100)**.

For lower beta plays with stronger fundamental, we prefer CCAMCLs. Our picks are **CCAMCL 3.25%'27, CCAMCL 3%'31 and CCAMCL 4.4% perps**.

Regarding GRWALLs, we see trading value in the curve and our pick is **GRWALL 4.25%'25 and GRWALL 3.95% perps**. That said, we prefer HRINTHs more as Huarong is an improving credit with better data transparency and lower headline risk. See appendix 1 for peer comparisons for Chinese national AMCs.

#### Summary of CMBI picks on Chinese AMC sector

	Ranking	Offer price	YTW	YTC	T-spread	Modified duration	Next call date
CCAMCL 3 1/4 01/28/27	Sr Unsecured	93.0	5.1%	5.1%	197.4	4.1	28/10/2026
CCAMCL 3 01/20/31	Sr Unsecured	81.5	5.8%	5.9%	278.8	7.1	20/10/2030
CCAMCL 4.4 PERP	Jr Subordinated	90.6	7.1%	7.0%	379.3	3.6	3/11/2026
HRINTH 5 1/2 01/16/25	Sr Unsecured	94.8	8.1%	N/A	475.8	2.2	N/A
HRINTH 4 1/4 PERP	Subordinated	81.5	11.6%	11.3%	816.1	2.8	30/9/2025
GRWALL 4 1/4 04/28/25	Sr Unsecured	90.3	8.6%	N/A	515.8	2.5	N/A
GRWALL 3.95 PERP	Sr Unsecured	88.9	10.6%	10.1%	703.0	1.8	31/7/2024

#### Great Wall's delay in releasing FY21 results should be company-specific...

As discussed before, we view the delay of Great Wall to announce FY21 financial results due to issues specific to Great Wall instead of industry-specific issues. All other 3 national AMCs had released their FY21 results in a timely manner. According to media reports, Great Wall's delay is mainly due to the regulator's disagreement over the accounting treatment of its exposure to HNA. Our base case is Great Wall to announce FY21 results before the expiry of grace period, i.e. 29 Aug'22 and take some comfort from Fitch's comments that Great Wall's capital adequate ratio (CAR) would remain above regulatory requirement of 12.5%. As at 30 Jun'21, Great Wall's CAR was 15.59%.

#### .... grace period to expire by 29 Aug'22....

On 30 Jun'22, China Great Wall Asset Management (keepwell provider of GRWALL 3.125% 22, 4.375% 23 and 3.875 27) announced the failure to publish its FY21 financial report pending on "confirming valuation for certain operating projects". This is not the first time Great Wall delays the publication of financial results. It delayed the announcement of financial results in FY19 and FY18 as well although in both occasions. However, in both occasions, it managed to announce the full-year results before end of June in the respective years. As per bond covenants, Great Wall has to publish the audited results within 180 days after the end of each period (i.e. 30 Jun) with a grace period of 60 days (i.e. 29 Aug). Hence, the events of default could be triggered if the company fails to publish audited results by end of Aug'22.

#### .... Great Wall not a near-term default candidate

We expect Great Wall to announce the FY21 results before the end of grace period. Even if Great Wall fails to publish FY 21 results then, it can look for a temporary waiver/consent to avoid payment acceleration. The delay will therefore have limited immediate impact on its liquidity. So far, Great Wall has been honoring its payment obligations. In 1H22, it acquired RMB43.3bn and RMB9.1bn distressed assets from financial institutions and non-financial institutions, respectively. The operations of Great Wall has been largely business as usual. Given the experience of Huarong, we believe that Great Wall is not a near-term default candidate although we could see more price volatility for its bonds/perps arising from negative headlines such as rating downgrade and sizeable asset impairment.

Moody's/S&P put Great Wall rating on review for downgrade/credit watch negative because of the delay in releasing FY21 results. We recall our previous discussions with Moody's that it would not treat Huarong's delay

in FY20 results as a technical default, even after grace period. Moody's definition of default only includes principal repayment with haircut, but not an agreed upon extension and profiling of debt.

### A sector with increasing strategic importance with demonstrated government support

Chinese national AMCs have been integral parts of the Chinese financial system. The Chinese government's willingness and ability to support were demonstrated in the state-orchestrated "bail-out" of Huarong. We see an increasing strategic importance of the sector under the backdrop of the slowing Chinese economy, rising defaults and NPLs.

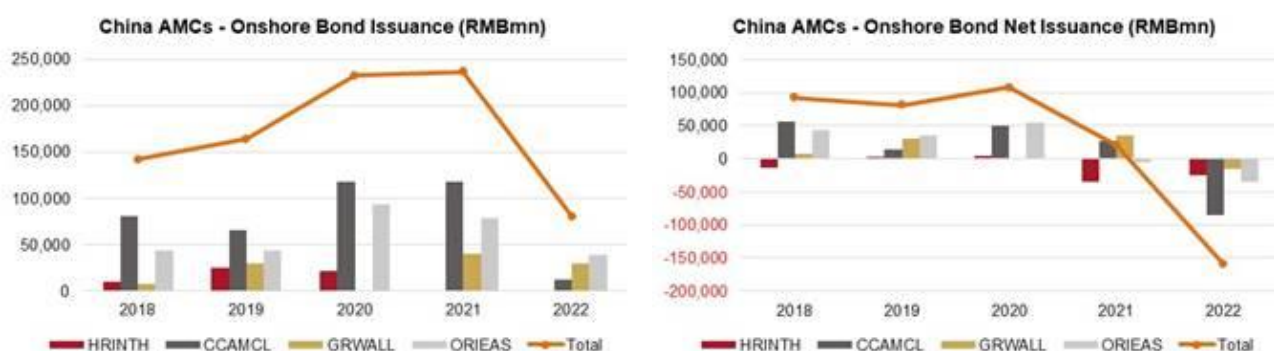
Prior to the completion of recapitalization plan (announced in Aug'21), the Chinese government ensured that all onshore and offshore debts of Huarong were serviced in a timely manner. Offshore redemption since Apr'21 totaled cUSD7.7bn, including the calls of HRINTH 2.875% perps (USD500mn) and 4.5% perps (USD1.5bn) on their first call dates in Sep'21 and Jan'22, respectively.

In Dec'21, a consortium led by CITIC Group, 100% owned by the Ministry of Finance (MOF), completed the capital injection (core T1) of RMB42bn to recapitalize Huarong after the huge asset impairment losses in FY20. Other participants in the consortium include Cinda, ICBC Investment, China Life and China Insurance Rongxin Fund, a PE sponsored by Chinese lifers such as Ping An, Sunshine, China Pacific, Taiping, Taikang, etc. The capital injection helped restore Huarong's capital adequacy ratio (CAR) to 12.95% in Dec'21 from 4.16% in Dec'20. Under Chinese regulations, AMCs are required to maintain CAR of no less than 12.5%.

Subsequent to the capital injection, MOF remained the largest shareholder of Huarong despite its direct stakes in Huarong reduced to 27.8% from 57.02%. CITIC Group, 100% owned by MOF, owns 23.46% direct stakes in Huarong. Altogether, MOF and CITIC Group owns 51.3% stakes in Huarong.

In Mar'22, Huarong announced that MOF would transfer 3% stakes in Huarong to CITIC Group. After completion of the equity transfer, CITIC Group will own 26.46% stakes and become the largest shareholder of Huarong. MOF's direct stakes will lower to 24.76%. That said, Huarong remains to be a majority central state-owned company, and we do not expect the equity transfer to weaken Huarong's link with the central government. As per the latest HKEX disclosure, the transfer has yet to be completed.

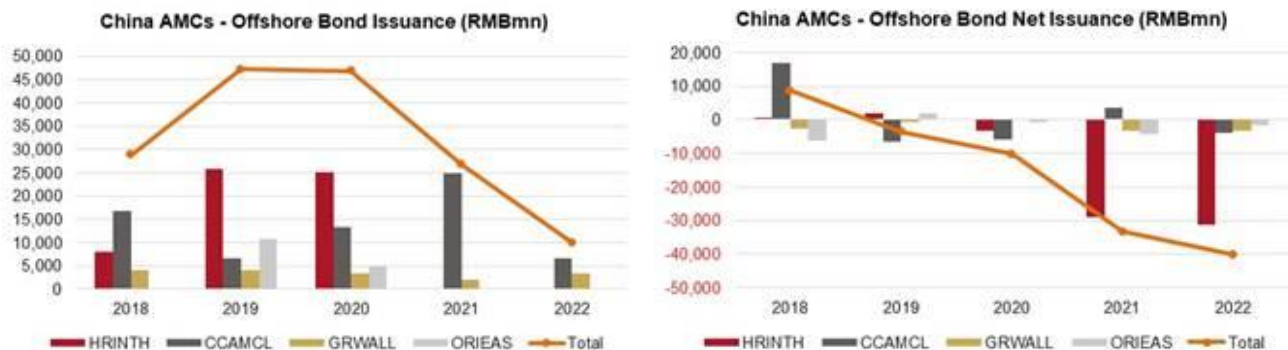
### CBIRC guidance to improve AMCs' access to onshore funding channels....



In addition to the financial support, we also see regulatory support for the national AMCs. In early Jun'22, media reported that CBIRC issued a guidance for China national AMCs to expand their distressed asset management scope and to help resolve financial risk of small-medium financial institutions. Under the guidance, the risk weighting of AMCs' onshore bonds and capital papers would lower to 25% from 100%, subject to meeting certain commercial banks regulatory conditions. The lower risk weighting will encourage banks and insurance companies to invest in AMCs' onshore bonds and capital papers, and hence help lengthen their funding costs and liability tenor. We envisage the guidance, if implemented, will increase AMCs' reliance on onshore funding channels. Recently, Cinda announced plan to issue onshore T2 capital of RMB1bn. Huarong also obtained

shareholders' approval to issue up to RMB20bn undated capital bonds onshore in mid Jun'22. YTD, the onshore issuance was only RMB80.6bn, declined 29.8% over the same period last year.

.... the trend of net redemption in offshore market to continue



Partly driven by asset realignment to focus on core and onshore asset acquisitions, the amount of offshore issuance from the big-4 AMCs has been on the decline since 2020. In 2021, the gross issuance from the sector was only USD4bn, down 43% from that of 2020. YTD, gross issuance declined 25% yoy to USD1.5bn. In terms of net issuance, the sector has experienced net redemption since 2019. The amount of net redemption has increased from USD544mn in 2019 to USD5.0bn in 2021. We expect the sector to continue to record net redemption in the USD bond markets in view of the heightened focus on onshore asset acquisitions, subdued offshore USD bond markets and more friendly onshore capital markets.

<https://www.cmbi.com/article/7018.html?lang=en>

➤ **PWRLNG - Result of Exchange Offer**

USD178.71mn (89.35%) of PWRLNG 4.0% 07/25/22 and USD262.74mn (87.58%) of PWRLNG 7.125% 11/18/22 were validly tendered for exchange. Powerlong also waived the minimum acceptance amount (90%). Company will proceed issue USD169.77mn new notes due Jul'23 and USD262.74mn new notes due Jan'24 (USD13.14mn subject to mandatory redemption by 18 Oct'22).

Please refer to our [daily on 4 July](#) for more details.

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Fujian Zhanglong Group (Green Bond)	USD500	2Y11M	4.8%	4.95%	-/-/BBB-

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

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



➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 53 credit bonds issued yesterday with an amount of RMB57bn. As for Month-to-date, 521 credit bonds were issued with a total amount of RMB579bn raised, representing a 0.7% yoy increase
- **[CENCHI]** Fitch downgraded Central China Real Estate's LT Foreign-Currency IDR to 'B' from 'B+', and the senior unsecured rating and the ratings on its outstanding US dollar senior notes to 'B' from 'B+' with Recovery Rating of 'RR4'. Fitch also put all the ratings on Rating Watch Negative (RWN), reflecting its tight liquidity and weak contracted sales in 1H22
- **[CIFIHG]** CIFI Holdings' controlling shareholders have increased their stake in the company to around 55.59% through open market purchase
- **[CNSHAN]** Shandong Hi-Speed Group approved its holding subsidiary Shandong Hi-Speed Road & Bridge's proposal on up to RMB5bn six-year CB offering that will be used to fund six construction projects, boost working capital and repay bank loans
- **[COGARD]** Country Garden intended to purchase corporate bonds issued by Country Garden Real Estate Group in the domestic secondary market
- **[DALWAN]** repurchased USD30.5mn in principal amount of DALWAN 8.875%'23. Upon cancellation, the outstanding amount will reduce to USD349.5mn
- **[FRESHK]** Far East Horizon appointed CICC and Deutsche Bank as arrangers for an updated USD4bn MTN and perpetual securities program for working capital and general corporate purposes
- **[GRNCH]** Greentown Property, a fully owned subsidiary of Greentown China, received an approval from the Shanghai Stock Exchange regarding an offering of RMB12.5bn corporate bonds
- **[HAIDIL]** Haidilao proposed to spin-off and separately list the shares of Super Hi on the Main Board of the HKEx
- **[HUIJHK]** Huijing Holdings extended deadline to exchange outstanding 12.5% 2022 senior notes to 14 July
- **[JINKE]** Jinke Smart Services signed agreements to acquire additional nursery properties from Jinke Property for CNY46.14mn. Holders of Jinke Property's "20JinkedichanMTN001" notes have exercised RMB928.5mn put option
- **[RPVIN]** ReNew Power refinances USD525mn 6.67% bond due 2024 with project debt
- **[TQLTHI]** Tianqi Lithium forecasted a net profit of RMB9.6bn-RMB6bn in the first half of 2022, representing more than 100 times increase from a net profit of RMB85.8mn in the first half of 2021

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