

CMBI Credit Commentary

HRINTH: Will Huarong do another round of bond repurchase?

HRINTHs remain our top picks in Chinese AMC space

China CITIC Financial Asset Management (Huarong) announced the transfer of its 60% stakes in China Huarong Financial Leasing (Financial Leasing) to CITIC Group for a consideration of cRMB12bn (cUSD1.7bn). The share transfer will boost Huarong's liquidity and is in line with the Huarong's strategy to re-focus on distressed asset management. While the conviction levels of HRINTHs are lower after a good run since 2H23, HRINTHs, especially HRINTH 4.25 Perp, remain to be our top picks in the sector. We see the likelihood that Huarong could use part of the share transfer proceeds to buy back its longer-dated and lower cash price bonds. Within the Chinese AMC space, we also like GRWALL 3.95 Perp and CCAMCL 4.4 Perp.

Share transfer in line with Huarong's strategic focus

Under the share transfer agreement, Huarong will sell 60% out of its 79.92% stakes in Financial Leasing to CITIC Group for cRMB12bn. The share transfer will be subject to the internal approval of CITIC Group, MOF, EGM of Huarong, etc. Financial Leasing should be the 6th out of 8 non-core assets divested by Huarong over the few 2 years. The sale proceeds will boost Huarong's financial flexibility in refinancing and the one-off gain (cRMB6.4bn) will also help improve the equity base of Huarong at the company level (though the impact at consolidated level should be more muted). The share transfer should help re-direct its focus on expanding distressed asset management. On a pro-forma basis, Huarong's consolidated liab/asset would remain at 95% after deconsolidation of Financing Leasing. We believe that Huarong could further divest its remaining 19.92% stakes in Financing Leasing. Based on the current valuation, the remaining stakes are worth cRMB4bn, representing a source of alternative liquidity.

The close tie with CITIC Group demonstrated once again

The share transfer once again demonstrates that Huarong is an integral part of CITIC Group and the ability of CITIC Group to strengthen Huarong's liquidity and operating profile. Recalled that Huarong acquired 5.01% stakes in CITIC Ltd. (267 HK) for HKD13.6bn from CITIC Group. See our comment titled: [HRINTH: What are behind the name change?](#)

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Will Huarong resume bond repurchases?

During Sep-Nov'23, Huarong announced bond repurchases totaled USD1.5bn, focusing on the longer-date and lower cash price bonds. The estimated non-recurring gain from these repurchases is cUSD350mn. We believe that the repurchases were funded with onshore bonds of RMB20bn issued in Aug'23 at a coupon rate of 3.1%. With the proceeds of cUSD1.7bn to be received from transferring the shares of Financial Leasing and another onshore bonds issue in Dec'23 (RMB6.4bn at 3.3%), we believe that Huarong has a strong financial flexibility in considering further repurchases of its long-dated and lower cash price offshore bonds, as well as preparing for the redemption of HRINTH 4.25 Perp which is callable on 30 Sep'25 at par. The repurchases of lower cash price bonds could help cut Huarong's net debts, funding costs and strengthen its equity base.

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