

CMBI Credit Commentary

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

- *Markets were quiet this morning. Asian IG overall widened 1-3bps with better selling flows. For SOE perps and LGFV, we saw onshore buyers had demands on them for quarterly deployment while offers from offshore were fewer.*
- **WESCHI:** *Higher leverage from rapid foreign expansion in FY23 and beyond. See below.*
- **Asia ex-JP USD bond:** *1Q23 gross issuance decrease 29.8% yoy, FTZ issuance remained active. See below.*

❖ Trading desk comments 交易台市场观点

Last Thursday, Asia IG space was broadly unchanged to 3bps wider amid light flows. Sentiment was cautious ahead of NFP last Fri and CPI this week, as weaker-than-expected ADP prompted the market to reassess policy rate path. On the primary side, new SHNHAN/RECLIN 28s were unchanged to 2bps wider. China SOEs widened 5-10bps WoW. HAOHUA widened 5bps across the curve. In TMTs, TENCNT benchmark papers closed 3-5bps wider vs Tue's close. MEITUA widened 8bps to T+320. In financials, BCHINA/CCB T2s were 2-4bps wider. Thai bank T2s such as BBLTB papers were 3-5bps wider. In AMCs, HRINTHs remained stable amid active two-way flows. China property space was still subdued. SINOCE Perp fell 5.5pts and SINOCE bullets moved 1-4pts lower to high-20s-mid-30s. COGARDs lowered 1-3.25pts across the curve. FUTLANs/FTLNHDs/CIFIHGs were down 0.5-2pts. GRNLGRs dropped 1.25-4pts. Industrial names performed mixed. HILOHO 9.75 '24 closed 6-7pts higher WoW to end at high-50s. Whilst FOSUNIs were down 0.5-1pt. Macau gaming names such as STCITYs/STDCTYs/WYNMACs were marked down 0.5-1pt. In India space, VEDLNs were traded 1.5-3pts higher. Indonesian oil name MEDCIJs were traded another 0.25-1pt higher. LMRTSPs were down 0.25-0.75pt. Fitch downgraded Lippo Malls by one notch to CCC- on refinancing delays.

The LGFV/Perp/Asia AT1 spaces had a very quiet Thu Asia session, with many clients already out for holiday. Flows were fairly muted ahead of Easter long weekend. In LGFVs, Fitch downgraded TLINVT by one notch to BB- and placed its rating on RWN. We saw small two-way flows in the front-end high-beta/high-yielding papers such as TLINVT/GXFING/SHUGRP, as well as in 7%-9% names like CNSHAN/CQNANA. GUAMET 30 were marked 1.75pts higher to close at 83. CNSHAN 24 edged 0.25pt higher. Away from LGFVs, there were light two-way flows in HSBC/STANLN AT1s from PBs. Perps were unchanged to 0.25pt higher. We also saw small AM interests in some FFL Perps in light of the recent rates drop. NANFUN/LEEMAN perps were traded up 0.25-1pt. ROADKG perps lowered 1-2pts. Activities remained on the lower side, as all eyes were on Friday night's NFP print.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
VEDLN 8.95 03/11/25	66.9	2.9	SINOCE 6.876 PERP	32.1	-5.4
VEDLN 13 7/8 01/21/24	84.4	2.0	SINOCE 5.95 02/04/27	35.0	-4.0
HILOHO 9 3/4 11/18/24	58.5	2.0	SINOCE 3 1/4 05/05/26	35.4	-3.9
ICBPIJ 4.805 04/27/52	74.4	1.9	GRNLGR 5 7/8 07/03/26	35.8	-3.9
GUAMET 2.31 09/17/30	82.9	1.7	COGARD 5 1/8 01/14/27	55.2	-3.3

❖ Marco News Recap 宏观新闻回顾

Macro – U.S. stock markets were divergent on Monday, S&P (+0.10%), Dow (+0.30%) and Nasdaq (-0.03%) were weak that investors showed caution before CPI data. U.S. March NFP is +236k, down from +326k in Feb and is slightly lower than expectation of +239k. China Mar'23 CPI is +0.7% yoy and PPI is -2.5% yoy. The U.S. treasury yields rallied yesterday, the 2/5/10/30 yields reached 4.00%/3.52%/3.41%/3.62%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ WESCHI: Higher leverage in the course of foreign expansion

GP margin down to 25.7% in FY22, net gearing more than doubled compared to FY20

West China Cement reported 6.1% yoy revenue increase in FY22 to RMB8.5bn. Its GP margin fell to 25.7%, down from 29.7% in FY21 while EBITDA margin at 37.1%, dropped from 39.9%, driven by higher coal cost, which climbed 33.4% to RMB1,039 from RMB779 per ton. Profit before tax was down to RMB1.5bn from RMB2.1bn. Dividend payout ratio was at c30%, same as that of FY21. Its leverage metrics deteriorated; net debt/EBITDA worsened to 2.4x from 1.6x in FY21 and net gearing increased to 55.9% from 42.3% in FY21, and from 22.2% in FY20. It is currently rated at Ba2/BB by Moody's/Fitch, both on negative outlook. Both agencies expressed further leverage up on a sustained basis, i.e. debt/EBITDA>3-3.5x (Moody's), net debt/EBITDA>2.5x (Fitch), will trigger rating downgrade. Our estimated total debt/EBITDA was 3.4x and net debt/EBITDA was 2.4x in FY22, both are close to the downgrade triggers.

Africa to be the key driver for revenue growth

The production volume and revenue split between China and Africa was 93.5%/6.5% and 87%/13%, respectively in FY22. The ASP in Africa has been significantly higher than that in the mainland, i.e. RMB617 vs RMB340 per ton. Meanwhile, the company views African market is more prosperous with limited competition, compared to the highly competitive market in mainland China. At the same time, the demand of cement remains weak in China because of the softened demand from property and infrastructure development. West China Cement expects to the revenue split to be 50%/50% in FY23 and Africa could account for an even larger share from FY24 onwards given the growing revenue contribution from Africa.

Recalled that the company acquired 61.9% stake in National Cement Share Company ('NCSC') in Ethiopia for USD170mn on 29 Jun'22. NCSC adds 5mt to the total production volume that the contribution from Africa increases to 26% from 6.5%. This should help with the revenue split target of 50%/50% between China/Africa. However, given the current split of 87%/13%, the FY23 target revenue split is still aggressive, in our view. Foreign expansion could be a revenue driver for the company to generate new business from another continent where the company deems as less competitive, and hoping for positive cash inflow in a longer term. NCSC is one of the largest privately owned cement companies in Ethiopia, and it engages in cement producing and selling since

1930s. West China Cement can leverage the expertise of the local partners and it could mitigate the risk in the foreign expansion.

Increasing leverage in the course of overseas expansion

RMB mn	2020	2021	2022
Total assets	18,906.2	26,648.4	30,239.3
Cash	651.5	3,507.7	1,424.3
Net debts	2,337.0	4,990.4	7,487.1
Net gearing	22.2%	42.3%	55.9%
Cash/ST debts	0.73x	1.27x	0.53x
Net debts/EBITDA	0.7x	1.6x	2.4x
Net operating cash flow	2,702.6	1,959.7	2,134.5
Net investing cash flow	-3,123.0	-3,516.6	-3,275.3
Net financing cash flow	322.0	4,453.4	-1,079.8
CAPEX	1,614.8	2,941.9	3,794.7

Source: Company's filling, CMBI Research.

Liquidity weakened in FY22 that with RMB1.4bn cash in hand at Dec'22, it is facing debt maturities of RMB3.9bn in FY23, including RMB700mn MTNs and RMB3.2bn bank borrowings. It is currently negotiating RMB1.8bn banking facility with various banks for refinancing. The company said it would fund the business growth in Africa partly with bank borrowings, the credit ratios would further deteriorate. The only outstanding offshore bonds of USD600mn, representing 44.1% of total outstanding debt, will mature in Jul'26. Based on the size of the USD bond, the cash on hand and the expected free cash flow (operating cash flow minus CAPEX and finance costs) may not be sufficient to support such debts at maturity. We expect the company would need to access capital markets for refinancing.

Detail of the outstanding USD bond:

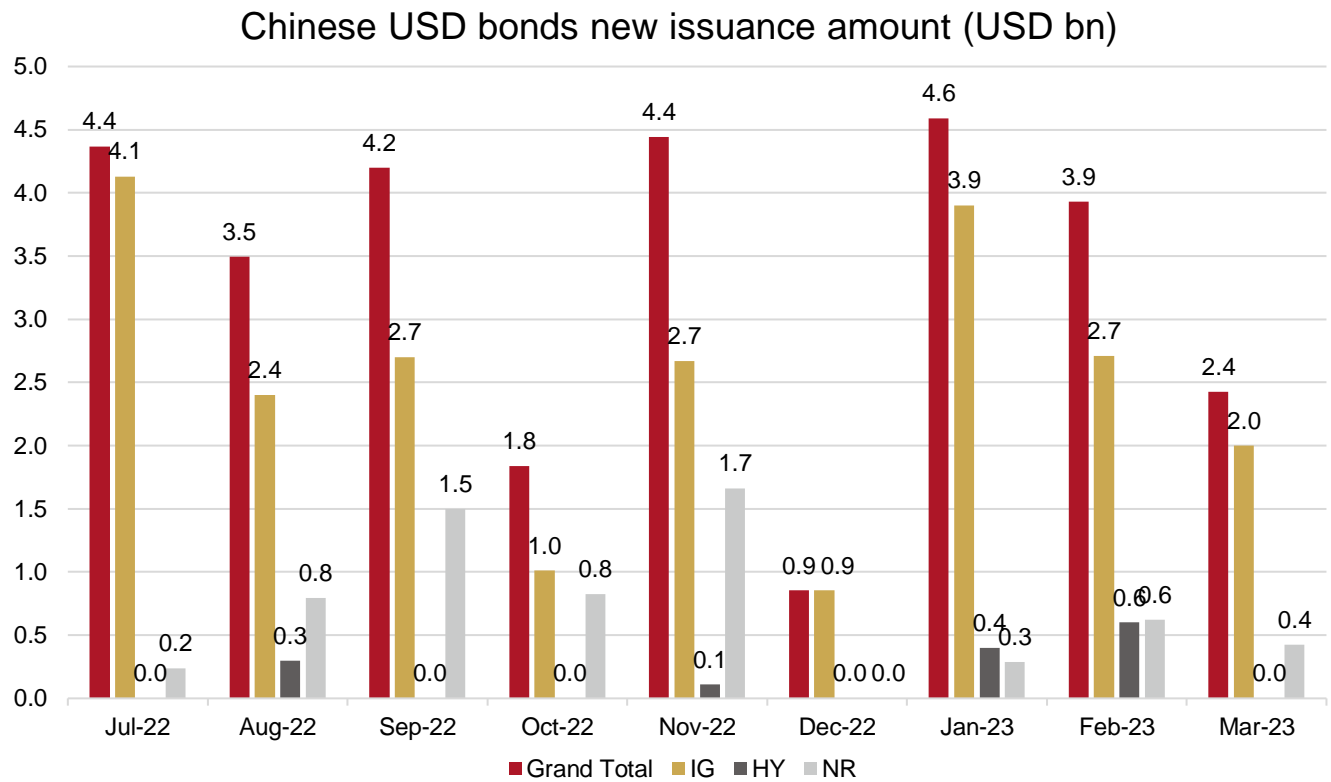
	Px	YTM	Amount o/s
WESCHI 4.95 07/08/26	81.2	12.1%	USD600mn

Source: Bloomberg.

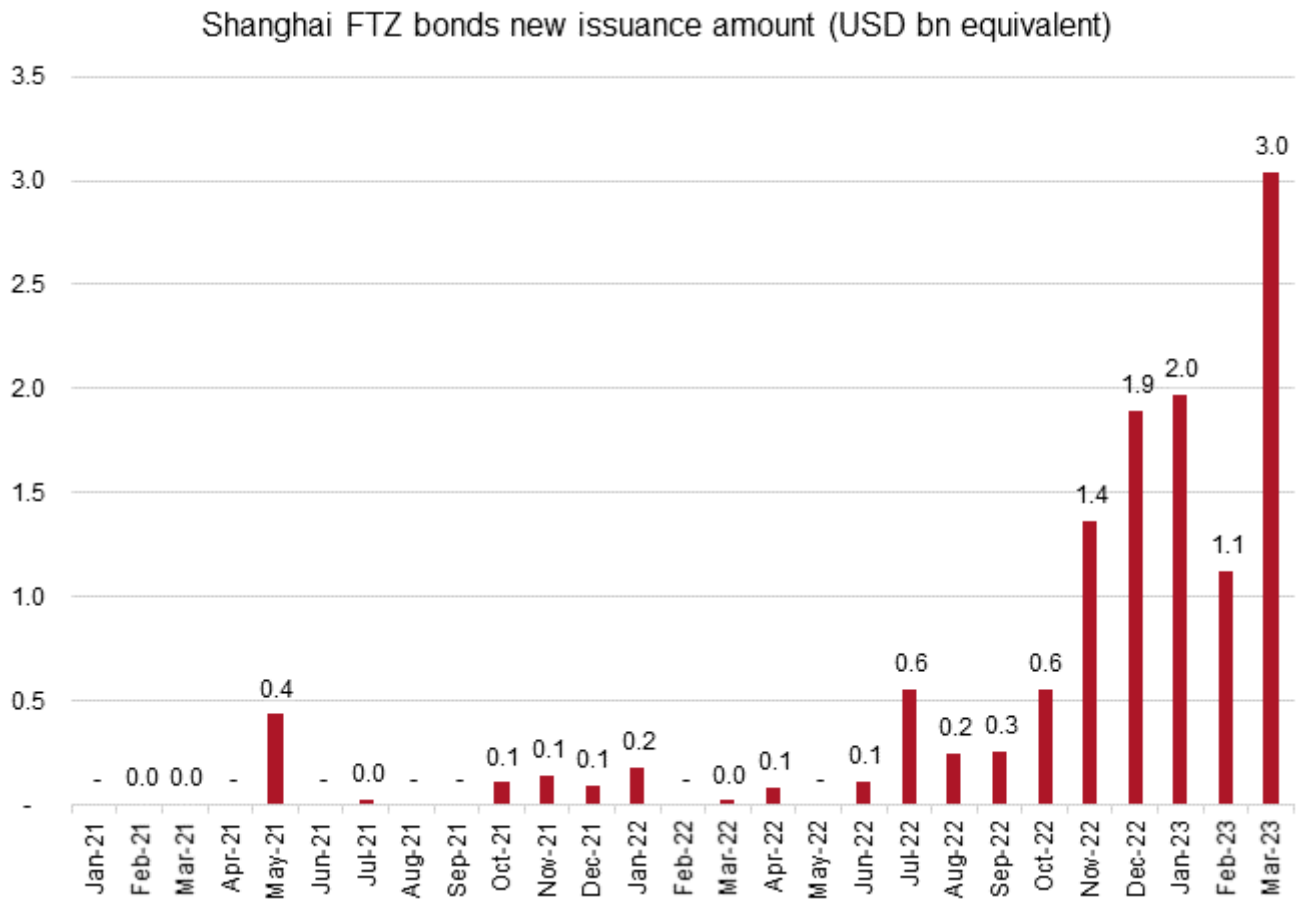
➤ • Asia ex-JP USD bonds: 1Q23 gross issuance decrease 29.8% yoy

The gross issuance of Asia ex-JP USD bond issuance in 1Q23 was USD48.9bn, down 29.8% yoy from USD69.7bn in 1Q22. IG grade issuance accounted for 83.1% of the gross issuance. In 1Q23, China new issues were USD10.9bn, down 61.5% yoy while issues from financial sector accounted for 76.3% of total.

FTZ bonds issuance remained active, reached USD6.1bn in 1Q23. In Mar'23, FTZ issue amount increased 170.4% mom to RMB20.9bn (cUSD3.0bn) with an weighted average coupon rate of 4.4%. The coupon rate is lower than the 6.4% weighted average coupon rate of USD bonds issued from China in Mar'23. Besides, It was the first month that FTZ issuances exceeded China USD issuances. Among 30 issuers in Mar'23, 26 of these are LGFVs. We view that FTZ a new funding avenue for Chinese issuers in infancy stage.



Source: Dealogic.



Source:DMI.

➤ 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)
Bayfront Infrastructure Mgmt Pte	USD	-	-	-	-/AAA/-
Nickel Industries Ltd.	USD	-	5.5NC2.5	-	B1/-/B+

➤ News and market color

- Regarding onshore primary issuances, there were 90 credit bonds issued yesterday with an amount of RMB185bn. As for Month-to-date, 442 credit bonds were issued with a total amount of RMB509bn raised, representing a 92% yoy increase
- [DALWAN]** Media report that Dalian Wanda Group's affiliate Wanda Properties has been in enforcements of more than RMB1.08bn
- [FUTLAN]** Seazen unit announced to increase coupon of RMB800mn 6.3% MTN to 6.6%, bondholders can exercise put option before 13 Apr
- [GRNCH]** Greentown schedules redemption of RMB1.5bn notes on 28 Apr
- [LENOVO]** Lenovo global PC shipments down 30% yoy to 12.7mn in 1Q23
- [LNGFOR]** Longfor Group paid RMB2.38bn to acquire three new land plots in March
- [VEDLN]** Vedanta's directors' committee to meet on 13 Apr to decide on raising funds via private debentures issue
- [ZYAMCL]** Zhongyuan Asset Management proposes to offer RMB500mn three-year MTNs to repay debts

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