

CMBI Credit Commentary

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

- *New Issue KOEWPW 3.6 '25 we decent saw two-way flows at T2+95, while as STESP 27 stabilized at T5+64bps.*
- **Zhongliang:** *Exchange is a better option, in our view. See below.*
- **VEDLN:** *announced Tender offer of 6.375%'22 at 100, up to USD 500mn (50% of O/S amount). MEDCIJ also announced tender offer of MEDCIJ 7.375% '26 at 100 and MEDCIJ 6.375% '27 at 94.25, up to USD 150mn (11% of O/S amount of both notes). See below.*

❖ Trading desk comments 交易平台市场观点

Yesterday, Chinese HY property space rebounded amid slightly better market sentiment. KWGPRO curve strongly rebounded 4-6pts, helped by positive takeaways from its post-results call. TPHL curve was also traded up 3-4pts. Other property names like CIFIHG/COGARD were traded up around 1pt and DALWAN/PWRLNG/SUNAC up around 0.5pt. On the other hand, we saw LOGPH down 0.5pt after news circulating its proposed offshore restructuring plan with maturity extension of 4- 7 years. REDSUN/ZHPRHK were also down 1-1.5pts.

Chinese IG market was generally traded stable. The SOE sector was broadly stable and benchmark names in financial sector generally tightened 3-5bps. AT1 names also rose 0.25pt.

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➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
KWGPRO 7.4 03/05/24	39.1	7.1	ZHLGHD 8 1/2 05/19/22	28.7	-9.0
KWGPRO 7 7/8 09/01/23	44.4	6.8	REDSUN 9.7 04/16/23	24.3	-6.5
KWGPRO 5.95 08/10/25	35.2	6.3	ZHLGHD 12 04/17/23	20.9	-3.4
KWGPRO 6.3 02/13/26	35.0	6.3	REDSUN 9 1/2 09/20/23	23.8	-2.0
KWGPRO 5 7/8 11/10/24	36.8	6.2	REDSUN 10 1/2 10/03/22	48.4	-1.8

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock market ended higher yesterday, powered by surging tech stock sentiment. The S&P (+2.47%), Nasdaq (+3.06%), and Dow (+1.85%) closed lower. US first quarter GDP estimate showed the first contraction in two years amid a sharp slowdown in the world's biggest economy. GDP was pegged at -1.4%, the data indicated, firmly short of the Street estimate of a 1.1% growth rate for the three months ending in March. Treasury yield continued to climb up, with the 1/5/10/30 yield reaching 2.04/2.86/2.85/2.92% respectively.

❖ Desk analyst comments 分析员市场观点

➤ VEDLN: Tender offer of 6.375%'22

Vedanta Resources Ltd. (VRL) offers to buy back up to USD500mn of VEDLN 6.375%'22 (due 30 Jul'22), equivalent to 50% of the outstanding amount (USD1bn) of the bonds. The early tender price is 100 and early tender deadline is on 11 May'22. As discussed before, VRL's gradual increase in the ownership of VED, coupled with the upcycles of commodity prices, help considerably improve VRL's cash flow although the debt-funded acquisitions of VED stakes could heap more repayment pressure over the longer-term. For VEDLN curve, we prefer short-dated VEDLN'22 and 23s. We also prefer VEDLN 13.875%'24 which is secured by the stakes in VED.

➤ MEDCIJ: Partial tender offer for MEDCIJ 7.375% '26 and MEDCIJ 6.375% '27

Medco Energi announced tender offers for MEDCIJ 7.375% '26 at USD 100 and MEDCIJ 6.375% '27 notes at USD 94.25, both inclusive of USD 3 Early Tender Premium before 11 May 2022. The maximum acceptance amount is USD 150mn, equivalent to 11% of the outstanding amount (USD 1.3bn) of the 2 bonds.

As discussed before, Medco's proposed acquisition of Conocco Phillips Indonesia Holding will significantly boost Medco's production volume and EBITDA, with low capex requirement. This acquisition has already secured acquisition loan financing from bank. Medco also secured an IDR 750bn (USD 52mn) syndicated facility led by Bank Syariah Indonesia on 27 April, according to Debtwire. We expect Medco's credit metric will improve amid high oil price. We prefer short-end MEDCIJ '25 (YTM ~6.7%) and MEDCIJ '26 (YTM~7.3%)

➤ China South City: Regulatory approval and consent for SZCDG acquisition official announced

China South City officially announced that SZCDG obtain the approval and consent for the stakes acquisition from commerce department, the development and reform department and the administration of market regulation

on the overseas investments of domestic enterprises. As we wrote in [our daily on 19 Apr'22](#), the completion of the stakes sale may experience a short delay from the end of Apr'22 as documentary procedures are affected by the recent pandemic outbreak and lock-down. We maintain Buy on CSCHCNs.

➤ **Zhongliang - Q&As on the exchange and consent solicitation**

Exchange or hold-out?

Exchange, in our view, is a better option! As per Zhongliang, its cash on hand as at 31 Mar'22 was cRMB22bn compared with RMB27.6bn as at 31 Dec'22. Over 90% of this were restricted, mainly in escrow accounts. That means, its unrestricted cash would be smaller than RMB220mn (cUSD33mn). Hence, even if up to 95% of holders of ZHLGHD 8.5%'22 and 9.5%'22 will exchange and only holders of 5% of the principal amount (i.e. USD36.5mn) opt to stay put, Zhongliang will not be able to repay these amount these hold-outs. Zhongliang mentioned clearly that it would not be able to repay the hold-outs and it had to be fair for all holders. Despite no upfront repayment, we think exchange is still a better option as holders will receive 1pt incentive fee, c3-4pts accrued interests up to settlement date (17 May'22) and will start to accrue interests on the news notes/bonds from settlement date (on or before 17 May). Please see [our comments yesterday on details of the exchange and consent solicitation](#).

Should holders of ZHLGHD 9.5%'22 (due 29 Jul'22) wait?

We doubt! We are not too optimistic that operating environment and Zhongliang's liquidity will improve considerably before end of 3Q22, taking cues from cash burnt (RMB5.6bn) in 1Q22, and accelerating sales decline (70% yoy in Mar – Apr'22) due to the COVID lockdown. We understand that cash burnt is partly attributable to debt repayments including the USD250mn bonds due Jan'22. Indeed, Zhongliang repaid 3 USD bonds with aggregate issue size of USD850mn since 2H21.

Please see our full note <https://www.cmbi.com/article/6714.html?lang=cn>

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

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Korea East-West Power	USD500	3	3.6	3.752	Aa2/AA/AA-
Chongqing Nan'an Urban Construction and Development Group	USD260	3	4.98	5	-/-/BBB

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

Issuer	Currency	Size (mn)	Tenor	FPG	Issue Rating (M/S/F)
Yangzhou Yuanbo Investment Development	USD	-	2Y11M	3.801	-/-

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 54 credit bonds issued yesterday with an amount of RMB41bn. As for Month-to-date, 1,703 credit bonds were issued with a total amount of RMB1,716bn raised, representing a 10.5% yoy decrease
- **[BTSDP]** announced it was granted USD1.2bn three-year refinancing facilities
- **[GZRFPR]** to sell 50% of target company holding 'Thames City' in London for HKD2.66bn
- **[HRINTH]** publishes equity transfer information of Huarong International Trust on CFAE with RMB6.152bn listing price
- **[SHIMAO]** drops recovery suit against Shimao over originally USD100mn loan
- **[PWRLNG]** gets auditor's okay on FY21 results; recommends HKD 0.1 per share dividend for FY21

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