

CMBI Credit Commentary

CHIYBKs: Yield pick-up plays in a lower conviction environment

Initiate buy on CHIYBK 8 Perp and CHIYBK 5.75 04/07/32

YTD, the spread of Asian AT1 and T2 has tightened notably and conviction level is lower. Nonetheless, we believe that CHIYBK 8 Perp (AT1) and CHIYBK 5.75 04/07/32 (T2) still offer more appealing risk-return profiles compared with those of its peers. The concerns of weaker credit profile of Chiyu Bank, in terms of lower profitability, weaker asset quality, and smaller business scale, is tempered by its sufficient capital buffer, track records of calling its AT1 on the first call date and parental support from Xiamen International Bank (XMINLB).

We believe that the likelihood of Chiyu Bank's AT1 and T2 being called on the first call dates is high. Hence, we initiate buy recommendations on CHIYBK 8 Perp (AT1) and CHIYBK 5.75 04/07/32 (T2). Between the AT1 and T2, we prefer AT1 more in view of the widening yield differential between them. See Chart 1.

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Table 1: Bond profile of CHIYBK

Security name	Ask px	YTC (ask, %)	First call date	Yr to call	Amt o/s (USD mn)	Bond rating
CHIYBK 8 Perp	100.8	7.8	10/26/2027	3.0	200	NR
CHIYBK 5.75 04/07/32	99.5	6.0	04/07/2027	2.4	200	NR

Source: Bloomberg.

Chart 1: Yield differential of CHIYBK 8 Perp over CHIYBK 5.75 04/07/32



Source: Bloomberg.

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Strong support from Xiamen International Bank expected

Fujian government is the largest shareholder of XMINLB owning an aggregate shareholding of 27.79%, followed by Xiamen government holds totaled 7.68% shareholdings and ICBC holds 4.25%. XMINLB is a city commercial bank based in Fujian, with networks covering mainland China, Hong Kong (through Chiyu Bank with 69.6% shareholdings), as well as a leading position in Macau (through Luso International Bank (Luso Bank) with 49.0% shareholdings). The network coverage allows XMINLB to provide comprehensive cross-border services to its onshore and offshore customers. Chiyu Bank is an integral part of XMINLB's network. In addition to XMINLB, Fujian government also has ownership in Industrial Bank and Fujian Rural Credit Union.

XMINLB has been a supportive parent since acquiring 64.3% shareholdings in Chiyu Bank from BOCHK in Mar'17. Chiyu Bank's capital increased by HKD6.3bn to HKD6.6bn at Dec'20 from Dec'17 by issuing new shares to its existing shareholders during 2018-2020, and XMINLB's shareholdings in Chiyu Bank increased to 69.6%. Besides, Chiyu Bank divested a subsidiary in Shenzhen to XMINLB in Jun'23 and recognized HKD1.5mn gain from the sale to XMINLB. We understand the credit profile of XMINLB deteriorated under the weaker economic backdrop in mainland China. That said, we take comfort that it has a smooth access to onshore bond markets. In Aug'24, it issued onshore bonds of RMB8bn at a coupon rate of 1.95%. XMINLB does not have any outstanding offshore issues. We take additional comfort from Fujian government's control of and significant ownership in XMINLB, we expect the support from Fujian government to continue.

CHIYBK 8 Perp: Higher certainty of call than CATFIN 5.1 Perp and ESUNBK 4.75 Perp

At 100.8, CHIYBK 8 Perp was traded at a YTC of 7.8%. CHIYBK 8 Perp offers the highest YTC in the Asian AT1 universe only after the two Taiwan AT1s; CATFIN 5.1 Perp and ESUNBK 4.75 Perp. We view that the predictability of return of CHIYBK 8 Perp is high in view of high certainty of call on the first call date in Oct'27, in view of Chiyu Bank's track record of calling CHIYBK 5.25 Perp on first call date in Nov'22, as well as the track records of calling AT1 on the first call date by Hong Kong banks.

Besides, Chiyu Bank has sufficient capital buffer, albeit lower than its peers. As of Jun'24, the CET1 ratio of Chiyu Bank was 14.0%, 6.3% higher than its regulatory minimum requirement. Furthermore, the yield differential of CHIYBK 8 Perp over CHIYBK 5.75 04/07/32 has been widening substantially during the year, from 44bps at the start of the year to 174bps yesterday. The widening yield differential offers better entry opportunity for CHIYBK 8 Perp.

Out of the higher yielding Asia AT1s, we prefer CHIYBK 8 Perp over Taiwan's AT1s given Taiwan banks' track records of non-call on TWD-denominated AT1s. See Table 3. We also believe that the likelihood of Taiwan's USD AT1 being called on the first call date is lower due to their FFL coupon. ESUNBK 4.75 Perp is issued by E.SUN Commercial Bank (ESUN), and ESUN has a non-call history of 4 USD T2 on their respective first call dates. Additionally, we are less convinced on the certainty of Cathay United Bank (CUB)'s call given its low capital buffer against the regulatory minimum requirement. The minimum Tier 1 ratio requirement on CUB in 2026 will be 12.5%, compared with its CET1 ratio at 11.3% and Tier 1 ratio at 13.0% as at Jun'24.

Table 2: CET1 ratio of Chiyu Bank

%	Chiyu Bank	Regulatory requirement
Dec'20	15.66	7.69
Dec'21	14.65	7.64
Dec'22	13.19	7.65
Dec'23	13.87	7.65
Jun'24	13.97	7.65

Source: Bloomberg.

Table 3: Non-call of outstanding TWD-denominated AT1s

Security name	O/s Amt (TWDmn)	Issue date	First call date
IBTAIW 4 PERP	750	12/27/2017	3/27/2021
BOPHSN 4 ¾ PERP	1,216	8/31/2016	8/31/2021
BOPHSN 4 ¾ PERP	410	9/30/2016	9/30/2021
TCCBNK Float PERP	1,500	12/28/2016	12/28/2021
LANTAI 3.15 PERP	7,500	12/29/2016	12/29/2021
TCCBNK Float PERP	1,000	3/28/2017	3/28/2022
BOPHSN 4 ¾ PERP	150	4/28/2017	4/28/2022
TCCBNK Float PERP	500	5/18/2017	5/18/2022
LANTAI 2.95 PERP	4,500	6/29/2017	6/29/2022
BOPHSN 4 ¾ PERP	133	7/21/2017	7/21/2022
TCCBNK Float PERP	500	8/28/2017	8/28/2022
TCCBNK Float PERP	1,350	12/5/2017	12/5/2022
SUNYBK 4 ½ PERP	700	12/24/2015	12/24/2022
TCCBNK Float PERP	2,650	12/27/2017	12/27/2022
SINPAC 4 PERP	3,000	6/28/2017	12/28/2022
SUNYBK 4 ½ PERP	200	12/31/2015	12/31/2022
COOPTW 2.28 PERP	5,000	11/26/2018	1/26/2023
TCCBNK Float PERP	1,000	4/25/2018	4/25/2023
HUANAN 2.7 PERP	3,200	2/26/2018	5/26/2023
COTABK Float PERP	600	6/21/2018	6/21/2023
SHIKON 3.4 PERP	2,500	3/30/2018	6/30/2023
CHCB 2.66 PERP	7,000	4/26/2018	7/26/2023
FIRFIN 2.57 PERP	5,000	5/28/2018	7/28/2023
SUNYBK 4.35 PERP	300	8/19/2016	8/19/2023
BKKAOH 2.6 PERP	800	9/12/2018	9/12/2023
TAISTA 4 PERP	200	9/17/2018	9/17/2023
FAREST 3.2 PERP	2,900	9/18/2018	9/18/2023
FIRFIN 2.36 PERP	7,000	9/25/2018	9/25/2023
IBTAIW 4 PERP	700	6/29/2018	10/16/2023
SUNYBK 4.35 PERP	200	10/18/2016	10/18/2023
CHCB 2.3 PERP	3,000	11/8/2018	12/8/2023
TCCBNK Float PERP	1,500	12/18/2018	12/18/2023
TAISTA 4 PERP	130	12/24/2018	12/24/2023

SHCZ 2.15 PERP	7,000	12/12/2018	1/12/2024
FUBON 2.15 PERP	6,500	12/18/2018	1/18/2024
TAISTA 4 PERP	40	1/25/2019	1/25/2024
COSMBK 2.35 PERP	3,000	12/27/2018	1/27/2024
SUNYBK Float PERP	800	3/31/2017	3/31/2024
TAISTA 4 PERP	20	4/25/2019	4/25/2024
TAISHI 2.45 PERP	5,000	3/28/2019	4/28/2024
TAISTA 4 PERP	210	6/17/2019	6/17/2024
CHIFIN 3.7 PERP	10,000	6/18/2014	6/18/2024
SINPAC 2.4 PERP	2,000	1/25/2019	7/25/2024
FUBON 1.9 PERP	3,100	6/25/2019	7/25/2024
COOPTW 1.9 PERP	5,000	6/26/2019	7/26/2024
CHCB 1.9 PERP	5,960	6/27/2019	7/27/2024
HUANAN 1.95 PERP	6,000	4/29/2019	7/29/2024
SUNYBK Float PERP	530	8/30/2017	8/30/2024
SHIKON 2.2 PERP	4,500	6/21/2019	9/21/2024
SUNYBK Float PERP	350	9/25/2017	9/25/2024
FUBON 1.63 PERP	4,400	9/26/2019	10/26/2024

Source: Bloomberg.

CHIYBK 5.75 04/07/32: Higher certainty of call than ESUNBKs and better capital cushion than LUSOIBs

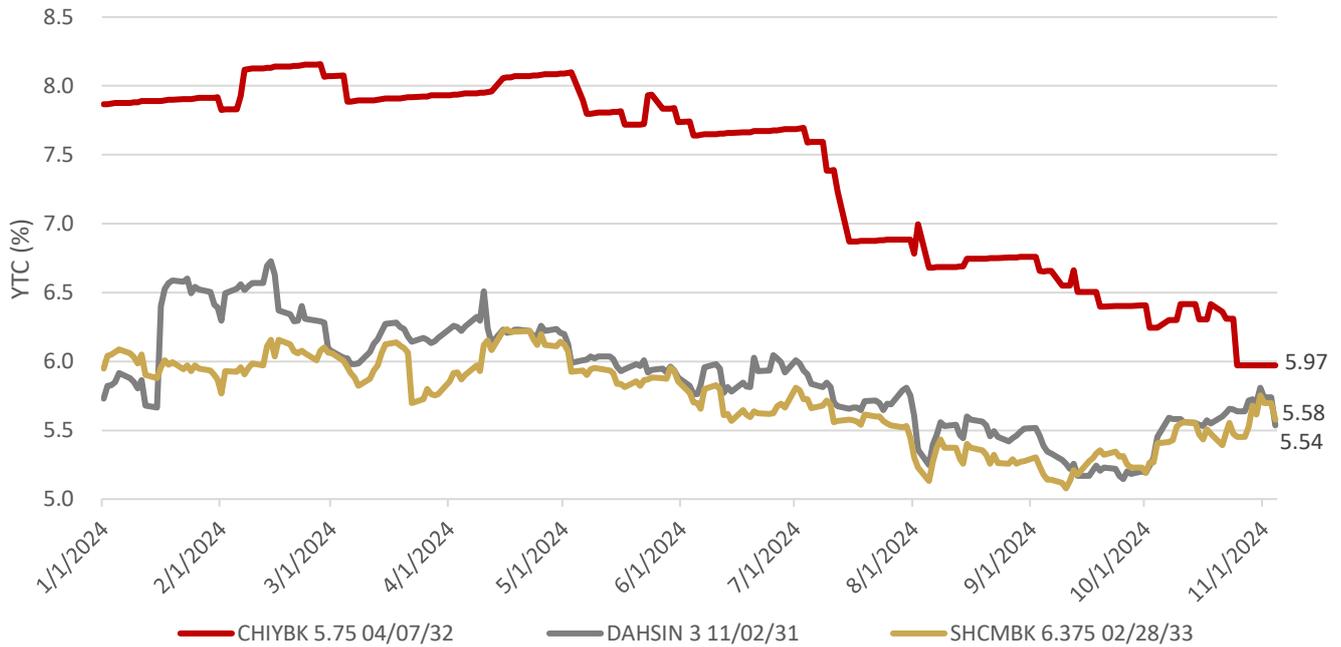
We also consider CHIYBK 5.75 04/07/32 offering an attractive risk-return profile in the Asian USD T2 space. At 99.5, CHIYBK 5.75 04/07/32 was traded at YTC of 6.0%, and provided yield pick-up of 43bps over DAHSIN 3 11/02/31 and 39bps over SHCMBK 6.375 02/28/33. The YTC of CHIYBK 5.75 04/07/32 is the highest among Asian T2s, after ESUNBKs and LUSOIBs.

We prefer CHIYBK over ESUNBKs despite ESUNBKs offer the highest YTC in Asian T2 universe. In our view, the higher YTC of ESUNBKs reflect the higher non-call risk. Recalled that ESUN did not call its 4 USD T2s (ticker ESUNBK 0 05/27/45, ESUNBK 0 10/28/45, ESUNBK 0 01/22/46 and ESUNBK 0 06/06/46) on their respective first call dates in 2022-23. These very long-dated T2s are first callable in 2022-23 and every 5 years thereafter, thus their next call dates will be in 2027-28. These T2s are subject to amortization at a rate of 20% per year in the last five years to maturity. We believe the chance of ESUNBKs being called is higher in 2040-41 when the capital amortization start to kick in.

On the other hand, we prefer CHIYBK to LUSOIBs for Chiyu Bank's higher capital adequacy. LUSOIBs are issued by Luso Bank which indeed is an affiliate of Chiyu Bank. Both Chiyu Bank and Luso Bank are ultimately owned by XMINLB. The CET1 ratio of Chiyu Bank was 14.0% as at Jun'24, compared to Luso Bank's 6.7%.

We consider the incentive for Chiyu Bank to call T2 CHIYBK 5.75 04/07/32 on the first call date to be high, considering the amortization at a rate of 20% per year in the last five years to maturity starting from 2027 in capital adequacy calculation. CHIYBK 5.75 04/07/32 is the first T2 of Chiyu Bank. We expect Chiyu Bank to call the T2 on its first call date to ensure smooth refinancing in the capital market in future. Furthermore, Hong Kong banks have track records of calling their T2s on the first call dates. The only "non-call" case is CMB Wing Lung Bank. This was a technical delay in issuing the replacing T2 in Nov'17 and CMB Wing Lung Bank subsequently called the T2 on May'18, the next call date.

Chart 2: YTC of CHIYBK 5.75 04/07/32 and peers



Source: Bloomberg.

Table 4: Financial highlights of Chiyu Bank and peers

1H24	CHIYBK	DAHSIN	SHCMBK	LUSOIB	XMINLB
Total assets (HKDmn)	184,370	262,373	227,138	219,781	1,234,335
Total loans (HKDmn)	84,358	147,238	83,338	113,845	681,218
NIM (%)	N/A	2.09	1.94	N/A	N/A
ROAA (%)	0.12	1.10	0.11	-0.19	0.09
ROAE (%)	0.58	8.50	0.66	-2.58	1.13
NPL (%)	3.47	1.96	3.37	3.09	1.96
NPL coverage (%)	22.4	42.6	22.4	63.3	116.2
Property loans to total loan (%)	7.70	21.90	9.90	N/A	19.40
CET 1 ratio (%)	13.97	16.70	24.70	6.81	8.83
CET 1 ratio requirement (%)	7.65	7.74	7.65	N/A	7.50
Buffer (%)	6.32	8.96	17.05	N/A	1.33

Note 1: Property loans refers to property investment and property development loans.

Note 2: MOP: HKD 1:0.97. LUSOIB as of Dec'23.

Note 3: RMB: HKD 1:1.10. XMINLB as of Dec'23, and property loans refer to real estate and rental and commercial services loans.

Source: Company filling, CMBI Research

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