

CMBI Credit Commentary

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

We hope you found our commentaries and ideas helpful. We highly appreciate your support to us in Sell-Side Analysts of the polls of [“The Asset Asian G3 Bond Benchmark Review 2022”](#). Thank you for your time. Your support will mean a lot to us.

- *We saw not much buying traction for new issue GETDZS 4.5 25 even at 99 (1pt below RO). The names isn't strong enough such that banks' demand alone can drive it to mid-to-low-4% yet neither is its yield high enough to attract non-bank onshore buyers who look for low-5% in weak-BBB LGFVs.*
- *SHAGAN down 2-4pts and TSSTEE also down 0.5-1pt on the back of Baowu Steel's negative view on steel market.*
- ***CSCHCN:** A more convincing restructuring plan with a clearer roadmap. FV estimates to be 75 to 99. See below.*

❖ Trading desk comments 交易台市场观点

Chinese IG market slightly rebounded from recent low. SOE names generally tightened 2-3bps. In financial sector, AT1 rebounded 0.125-0.5pt while T2 spread also tightened 2-4bps. TMT sector still underperformed, XIAOMI 2030 widened more than 10bps. New issue LENOVO 28 and 32 once widened to +288/+382 in the morning but gradual tightened to +285/+373 level (RO: +265/+350). In property space, IG names strongly rebounded. VNKRLR up 2-6pts, recovered part of the loss from the previous day. China HY space also showed some recovery. COGARD up 4-6pts and CIFIHG up 1-3pts driven by short covering buying. In industrial sector, FOSUNI and Macau gaming bonds slightly up 0.5-1.5pt. Outside China, new issue KOHNPW 4.25% 2027 spread once traded wide to +131 but tightened to +120 by day end.

In LGFV space, weaker session comes back again once primary supply resumed. New ZHAPIE 25 was subject to dealer shorts until top up buying emerged from onshore NBRM at 98.5, ie. ~5.25% or ~1pt below primary RO 99.448. Although not as heavy as the recent ZHANLO 25, this paper turned out also seemed to have a meaningful amount of residual loose bonds from primary. Meanwhile ZHANLO 25 tried to converge towards ZHAPIE 25N and edged slightly higher on back of demand from NBRM. Otherwise LGFV papers remained better offered led by names from weaker regions Henan and western provinces. Marginal bids remained tough to find and if any were often 1-2pts below staled screen prices. Sentiment felt softer again after the mini-improvement over the past two days. SOE perps selling also resumed from non-Chinese investors although on the other hand we also saw buying interests from Chinese AM in a few rare lines.

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➤ **Last trading day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
CSCHCN 10 3/4 04/11/23	40.9	7.8	ZHONAN 3 1/2 03/08/26	78.0	-9.2
COGARD 6 1/2 04/08/24	34.3	7.0	ZHONAN 3 1/8 07/16/25	79.6	-8.6
VNKRLE 3 1/2 11/12/29	70.8	7.0	FRESHK 2 5/8 03/03/24	89.3	-4.0
CSCHCN 11.95 02/09/23	41.1	6.7	AACTEC 2 5/8 06/02/26	84.5	-3.8
CSCHCN 10 7/8 10/26/22	48.6	6.5	CHINSC 5.95 09/29/24	19.7	-2.4

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock market continued the strong rebound as big names like Tesla announced positive performance exceeded expectation. The S&P (+0.99%), Nasdaq (+1.36%), and Dow (+0.51%) rebounded to the highest level in more than a month. European Central Bank lifted interest rate for the first time in 11 years by 50 basis point, which is larger than markets expected. The ECB also increased its deposit facility from negative (since 2014) to 0%, and its marginal lending rate to 0.75%. The number of U.S. applicants for unemployment benefits reached highest level within 9 months. U.S. treasury yields ended ascending trend and turned to down 9-18bps yesterday. Yield curves became flatter with slight invert. The 2/5/10/30 yield reached 3.10%/3.00%/2.91%/3.08%, respectively.

❖ **Desk analyst comments 分析员市场观点**

➤ **CSCHCN: A more convincing restructuring plan with a clearer roadmap**

FV estimates to be 75 to 99

Further to [our comments yesterday](#), we consider China South City (CSC)'s restructuring plan one of most convincing, if not the most, amongst 20-plus debt restructuring plan in the Chinese property sector. With SZCDG's equity injection, asset sales to SZ SOEs, as well as assistance in securing onshore loans, we can see the roadmap and actionable plan for recovery. While the progress of negotiation for onshore secured loans is slower than our expectation (partly reflect the tight credit environment for the property sector even for company with state-owned background), SZCDG once again demonstrated its commitment and ability to provide liquidity support by acquiring 50% of CSC's property management operations. We believe that the maturity extension will give CSC more time in securing cheaper and longer-term onshore loans. CSCHCNs were 6-8 pts higher post the announcement of restructuring plan yesterday. Our FV estimates (excluding consent fee of 1 pt and interest accrual up to the effective date, expected to be 9 Aug'22) of CSCHCNs are 75 to 99. Compared with current valuations of 41-51, we consider CSCHCNs offer sufficient margin of safety and good upside potential in view of its actionable restructuring plan. We have buy recommendations on CSCHCNs.

FV estimates	Discount rate	10%	15%	20%	25%
CSCHCN 11 1/2 08/12/22		98.92	92.97	87.65	82.87
CSCHCN 10 7/8 10/26/22		98.80	92.14	86.23	80.97
CSCHCN 7 1/4 11/20/22		98.76	91.75	85.55	80.03
CSCHCN 11.95 02/09/23		98.11	90.81	84.01	77.56
CSCHCN 10 3/4 04/11/23		97.22	90.22	82.99	75.35

Consent solicitation not ideal, but more generous....

To recap, CSC is soliciting the consent to extend the maturities of its 5 USD bonds (o/s totaled USD1.6bn) for 20 months. It will pay 1 pt early consent fee and 5 pts on original maturities. A total of 10-12 pts amortization within 6 months of the original maturities, and accrued interest will be paid on the original coupon dates. The coupon rate (from 7.25% to 11.95%) will be unified to 9%.

The early consent deadline is 27 Jul'22 and the consent threshold is 75% in principal amount for each of its 5 USD bonds.

The 20-month extension in maturity is longer than our expectation of 12-month extension. As per CSC, the 20-month extension will move those USD bonds from short-term to long-term debts. This will relieve its onshore lenders' concerns of its near-term repayment pressure, and increase the chance for CSC to refinance and secure new loans onshore. In our view, CSC's consent solicitation plan is not ideal but more generous than most of those of its peers with faster amortization schedules.

.... and credit enhancement provided

Additionally, SZCDG will provided keepwell for the consented bonds. In late Jun'22, CSC completed the consent solicitation for its 5 outstanding USD bonds to include SZCDG as a permitted holder and change the threshold of COC to 29.9% from 20.0% after SEZCDIH, a wholly owned subsidiary of SZCDG. CSC will also set up specified offshore accounts for early redemption of the consented bonds when CSC obtains new onshore loans against its specified assets in Hefei and Chongqing. Based on asset valuation of cUSD3bn and a LTV of 50%, CSC could obtain incremental secured loans of USD1.2bn from these assets. As per CSC, the usage of these loans under discussions will be restricted for USD bonds repayment.

		Cash amortization									
		Original maturity	Extended maturity	Original coupon	New coupon	20-Nov-22	Original maturity	End 2022	6-month	1-yr	New maturity
CSCHCN 11 1/2											
08/12/22	XS2085883119	12-Aug-22	12-Apr-24	11.50%	9%		5%	2%	5%	5%	83%
CSCHCN 10 7/8											
10/26/22	XS2120092882	26-Oct-22	26-Jun-24	10.875%	9%		5%	2%	5%	5%	83%
CSCHCN 7 1/4											
11/20/22	XS1720216388	20-Nov-22	20-Jul-24	7.25%	9%		5%		5%	5%	85%
CSCHCN 11.95											
02/09/23	XS2238030162	9-Feb-23	9-Oct-24	11.95%	9%	2.5%	2.5%		5%	5%	85%
CSCHCN 10 3/4											
04/11/23	XS2227909640	11-Apr-23	11-Dec-24	10.75%	9%	2.5%	2.5%		5%	5%	85%

The road map to recovery

While every developer is, to some extent, at the mercy of the property market and government policies, CSC has a clearer and more actionable plan to take out its USD bonds. The discussions of secured loans against specified assets in Hefei and Chongqing, if successfully concluded, will significantly speed up redemption and resolve its offshore maturities. The incremental loans from these assets could be USD1.2bn, compared with its outstanding USD bonds totaled USD1.6bn. Recalled that CSC repaid 2 USD bonds (issue size totaled USD550mn in Aug and Sep'22) through the drawdown of onshore secured loans. We understand that CSC is under discussions of up to another USD800mn onshore secured loans with the assistance of SZCDG.

SZCDG also demonstrated its commitment to provide financial support to CSC while the discussions to secure onshore loans is slower than expected. On 15 Jul'22, CSC entered into an equity transfer

agreement with SZCDG to sell CSC's 50% stakes in its property management operations to SZCDG for HKD1.46bn (USD185mn). As per the agreement, CSC will have the call option to buy back the 50% stakes in the property management operations and SZCDG will have the put option should the put triggering events including failure to meet 70% of performance guarantee for successive years. The performance guarantee (annual net profit of HKD264.5-298.1mn over the coming 3 years vs. HKD89.488mn in FY22) appears aggressive but FY22 results were adversely affected by the waiver of management fee given COVID. CSC expects the stake sale will complete by Sep'22.

Cash burnt undermined recent efforts in funding raising

As per our discussions with CSC, it experienced quite a bit of cash burnt over the past few months in meeting debt repayment and interest expenses, as well as construction capex. These offset its effort in funding raising over the past months. To illustrate, it repaid on shore bonds of RMB600mn in Apr'22. It also repaid RMB500mn loans at project levels after receiving RMB1.2bn (out of total consideration RMB1.7bn) from the sales of logistic assets in Hefei and Zhengzhou. Additionally, cash interest payment is cRMB200mn per month. These are against a backdrop of notably weaker operating cash inflow. In FY22 (ended Mar'22), its contract sales fell 27% to HK11.8bn.

<https://www.cmbi.com/article/7055.html?lang=en>

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Guangzhou Development District Investment Group Co. Ltd.,	USD400	3yr	4.50%	4.50%	-/-/BBB+
China Three Gorges Corp	USD300	3yr	3.625%	T+46	A1/A/A+

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Hangzhou Shangcheng District Urban Construction & Comprehensive Development Co.	USD		364d		-/-/BBB
Qingdao Jimo District Urban Development Investment Co.	USD		3yr	5.2%	-/-/BBB-

➤ Market conditions and color

- Regarding onshore primary issuances, there were 80 credit bonds issued yesterday with an amount of RMB55bn. As for Month-to-date, 965 credit bonds were issued with a total amount of RMB941bn raised, representing a 10.5% yoy decrease
- [AGILE]** Agile Group secured an unknown buyer for selling a stake in its Clearwater Bay project for USD296mn, and would use the proceeds to redeem two offshore bonds USD200mn 5.125% 14 Aug'22 and USD400mn 4.85% 31 Aug'22
- [AVIILC]** AVIC International Leasing proposed to offer up to RMB1.2bn two-year MTNs to repay debts

- **[BABA]** Alibaba missed registration deadline to comply with new Indonesian content, tax restrictions, and have five working days to comply before their services are potentially blocked
- **[BEDUUS]** Bright Scholar Education retained Citigroup as independent financial advisor and Skadden, Arps, Slate, Meagher & Flom as legal counsel to evaluate US 0.83 per share non-binding take-private proposal offer from its chairperson
- **[CDBLFD]** China Development Bank Financial Leasing signed an agreement to purchase wind power generation facilities located in Shanxi Province for RMB1.1bn in a leaseback transaction. The company agreed to transfer the ownership of railway assets located in Hubei to Bank of Beijing Financial Leasing for RMB590mn
- **[CHGRID]** State Grid proposed to offer RMB5.5bn five-year MTNs to boost working capital
- **[DALWAN]** Dalian Wanda Group repurchased USD66.5mn of its 7.5% guaranteed bonds due 2022 (12.09% of the initial principal amount) in the open market
- **[EVERRE]** Media reported Evergrande aimed to release a "simple" debt restructuring plan by month-end. A detailed plan will likely be finalized after the 20th National Congress in October
- **[FTLNHD]** Seazen Holdings received approval from CSRC to offer up to RMB6.172bn corporate bonds to repay interest-bearing debts
- **[INDYIJ]** Poly Property Group proposed to offer up to RMB5bn corporate bonds to repay debts and boost working capital
- **[JINGRU]** Jingrui Holdings' independent committee engaged professional advisor to assist in investigation of RMB4.91bn bank deposits
- **[KWGPRO]** Fitch downgraded KWG Group's LT Foreign-Currency IDR to 'CCC+' from 'B-', and senior unsecured rating to 'CCC+' from 'B-', with the Recovery Ratings remaining at 'RR4', and all ratings have been removed from Rating Watch Negative
- **[LENOVO]** Lenovo sets USD 200m tender cap for outstanding 4.75% notes due March 2023
- **[ORIEAS]** China Orient Asset Management received Shanghai bourse approval over RMB270mn ABS offering
- **[POLYRE]** Poly Property Group proposed to offer up to RMB5bn corporate bonds to repay debts and boost working capital
- **[SUNAC]** Sunac Real Estate Group, a subsidiary of Sunac China, had 70% stake in Qingdao Longyue Property frozen by court due to loan disputes
- **[SUNSHI]** Yango offshore issuing unit faces winding-up petition in Hong Kong Yango offshore issuing unit faces winding-up petition in Hong Kong

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