

CMBI Credit Commentary

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

- *Quiet market this morning. New issues HKINTL'28/33 widened 2bps as profit taking. Other Asian IG spaces were mostly unchanged. Chinese AT1s edged up c0.25pt post rates down.*
- **Macau gaming:** *GGR growth accelerating. Macau gaming names were overall unchanged this morning. See below.*
- **ZHLGHD:** *Entered into a term sheet with AHG for proposed offshore restructuring. See below.*

❖ Trading desk comments 交易平台市场观点

Yesterday, we were busy on new HKINTL26/28/33, priced at T+30/35/40, respectively, as clients took profit around the RO levels given the overnight UST rates retreated 3-4bps. The other recent new EIBKOR 33s closed 3bps wider at T+88. In Chinese SOEs, the front end of CHITRA/SINOPE/SINOCH widened 2-5bps. TMT benchmarks BABA/TENCNT edged unchanged to 2bp wider. The high beta TMTs XIAOMI/LENOVO 30s widened another 3-4bps. Financials performed mixed with some two-way interests. CICCHK curve ended 2-4bps wider. BOCAVI 23-26s tightened 3-7bps. In AMCs, HRINTH/CCAMCL 26-30s were better bid. Chinese properties were largely firm. DALWAN 24s/26s continued to be marked 1-3.25pts higher. LNGFORs/FUTLANs/FTLNHDs were traded up 1-2.5pts across the curve. ROADKG performed mixed with its 25s/26s gained 1.75-3.25pts, whilst its perps moved 1-1.25pts lower. Industrials FOSUNI 26s were marked 3.5pts higher. Macau gaming names SANLTDs/STCITYs were bid up 0.25-0.5pt. MPELs/WYNMACs moved 0.5-0.75pt higher. In Indian space, VEDLNs drifted another 0.5pt higher and renewables were under small buying. Indonesian names were quiet, LMRTSP 24s gained 1pt. Elsewhere, GLPCHI 24s/26s were marked down 1pt.

The LGFV/Perp/Asia AT1 spaces opened relatively stable amid balanced two-way flows, but the tone significantly softened in the afternoon as liquidity tightened again. In LGFVs, selling emerged again on the short dated papers, adding to their recent heaviness as clients sought to raise cash and make room for duration deployment. The 23s LGFVs widened towards 6%-6.15%. Flows on high-beta/high-yielding LGFVs were overall balanced two-way. Shandong/Chongqing names were firm with sporadic demand. SHGUOH 23s/25s were traded 0.125-0.25pt higher. The short-dated perps were also less favored, whilst there were two-way flows/interests in 3y papers. The c23 SOE Perps/Chinese AT1s continued to hover around 5.9%-6.2%. BCHINA 3.6 Perp/ICBCAS 3.58 Perp were indicated 0.125-0.2pt higher.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
FOSUNI 5 05/18/26	67.0	3.4	ROADKG 7 PERP	30.8	-1.3
DALWAN 7 1/4 01/29/24	59.4	3.2	PLBIJ 5 3/8 05/05/45	94.9	-1.2
ROADKG 5.2 01/12/26	51.6	3.2	ROADKG 7.95 PERP	31.7	-1.0
ROADKG 5 1/8 07/26/26	46.1	3.1	GLPCHI 4.974 02/26/24	86.9	-1.0
ROADKG 6 09/04/25	56.6	2.5	GLPCHI 2.95 03/29/26	57.8	-0.9

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.99%), Dow (+0.47%) and Nasdaq (+1.28%) rebounded post the House passed debt ceiling bill. US May ADP employment was +278k, higher than expectation of +170k. The latest US initial jobless claim was +232k, lower than expectation of +235k. US May'23 Markit manufacturing PMI was 48.4, down from 50.2 in Apr'23. The US treasury slightly down yesterday, the 2/5/10/30 yield reached 4.33%/3.70%/3.61%/3.84%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ Macau gaming: GGR growth accelerating

	MOP mn	2022	2023	Cumulative GGR 2023	Cumulative GGR 2023 growth rate
Jan		6,344	11,580	11,580	62.6%
Feb		7,759	10,324	21,904	48.4%
Mar		3,672	12,738	34,642	94.9%
Apr		2,677	14,722	49,364	141.4%
May		3,341	15,565	64,929	172.9%

In May'23, the gross gaming revenue (GGR) in Macau increased 366% yoy to MOP15.6bn. In 5M23, the cumulative GGR was MOP64.9bn, already well-exceeded the GGR of MOP42.2bn for the full-year of 2022. We also note the GGR growth in Macau has been accelerating since Feb'23, reflected by the higher cumulative GGR growth rate.

In 5M23, cumulative GGR in Macau was c52% of the pre-pandemic level in 5M19. While the breakdown of monthly GGR is not available, we note the GGR of mass market in 1Q23 was already c67% of the pandemic level while that of VIP was only 23%. We do not expect GGR of VIP to recover to the pre-pandemic level in the coming 2-3 years, the GGR recovery will continue to be driven by the contribution from mass market and slot machine with the recovery of tourist visitation. The mass market and slot machines contributed c75% of GGR in Macau in 1Q23. There are concerns of the recovery of Chinese economy is losing steam, we take comfort that the service sector remains relatively robust as reflected by PMI in construction and service of 53.8% in May'23.

For Macau gaming bonds, we prefer MPEL, SJM and STCITY/STDCTY for better risk-return profile. We also see MGMCHI, SANLTD and WYNMAC yield pick-up plays (100-200bps) over the bonds of their US parents.

➤ **ZHLGHD: Entered into a term sheet with AHG for proposed offshore restructuring**

Zhongliang has entered into a term sheet with offshore AHG holding c19% of aggregate outstanding principal of the 5 USD bonds totaled USD929.3mn. The offshore restructuring is proposed to be implemented by a scheme of arrangement. Upfront principal repayment of 1% and consent fee of 0.25% will be offered to the consenting creditors. For the remaining 99% of the principal, creditors can elect any portion of the new senior notes and new convertible bonds (CB). The size of the CB will be capped at USD140mn (the company can adjust the cap at its discretion when there is oversubscription). An additional principal amount equal to 6% of the new senior notes to be issued will be added to the total issue size of the new senior notes. The company may also include other debts into the scheme at its election.

The new senior notes will have a tenor of 3.5 years with 5% interest, starting to be accrued from the end of the 12th month after the earlier of the restructuring effective date (RED) and 1 Jan'24, i.e. no interest for the first 12 months. The CB will also have a tenor of 3.5 years, at interest of 3% starting to be accrued from earlier of the RED and 1 Jan'24. For the first 12 months, the CB coupon could be paid in PIK at the election of the Zhongliang. CB holder can convert the CB anytime, at the conversion price range of HKD1.2-2 per shares (calculation mechanism is detailed below). The closing price of company's share is HKD0.34 at 1 Jun.

There is a mandatory redemption clause for both new senior notes and CB. Throughout the 3.5 years, new senior notes holders and CB holders will receive amortization of 25% and 15%, respectively, of the issued amount in aggregate. Zhongliang is committed to redeem more on top of these when the contract sales achieve targeted levels. Assuming the RED on 1 Jan'24, it will increase the amortization when the contract sales exceed (i) RMB120bn for the period from Jan'23 to Sep'24, (ii) RMB160bn for Jan'23-Sep'25, (iii) RMB180bn for Jan'23-Sep'26. As a reference, the contract sales for 4M23 was RMB14.7bn, achieved c24% of the company target of RMB62bn for FY23.

The scheme is more straightforward than those proposed by China Evergrande/Sunac/Fantasia during past few months. It is in shorter maturity, interests of new senior notes to be paid in cash, as well as amortization to be paid during the tenor. Nonetheless, sales recovery will be the key to provide the ongoing sources of repayment and operation in the longer run, despite the terms of the scheme.

<u>Bonds</u>	<u>Principal amount (USDmn)</u>
ZHLGHD 8.5 05/19/2022	18.653
ZHLGHD 9.5 07/29/2022	12.574
ZHLGHD 12 04/17/2023	200
ZHLGHD 8.75 04/15/2023	224.225
ZHLGHD 9.75 12/31/2023	473.848
Total	929.3

The Scheme

Upfront principal repayment	1% of outstanding principal of the scheme debt	
New senior notes and new CB issuance	99% of outstanding principal of the scheme debt plus all accrued and unpaid interests up to (but excluding) the earlier of the RED and 1 Jan'24	
Additional issuance	An additional principal amount equivalent to 6% of the new senior notes	
Tenor	<u>New senior notes</u>	<u>New CB</u>
	3.5 years	3.5 years
Interest rate	5%, starting to be accrued on and from the end of 12 months after the RED and payable semi-annually. It	3%, starting to be accrued from the RED and payable semi-annually

	does not bear any interests prior to that	
Interest payment	Cash	For the first 12 months: cash or PIK at the election of the issuer For the 13 th month onwards: cash
Issuance size	99% of outstanding principal plus accrued and unpaid interest, minus CB issuance, and add additional issuance	Cap at USD140mn, the company may increase the cap at its discretion
Conversion price	-	At any time, 1.3 times the 30-trading-days VWAP immediately preceding (and excluding) the RED, not lower than HKD1.2 or higher than HKD2 per share At the end of 6 th /18 th /24 th months after the RED ("relevant reset date"), if the 30-trading-day VWAP immediately preceding (and excluding) the relevant reset date ("average market price") is less than the above conversion price, conversion price will be adjusted to higher of average market price and HKD0.8 per share
Mandatory redemption	See table below	See table below
Optional redemption	Anytime on or before the end of 12 th month after RED at USD83.3	Anytime during the tenor of the CB
Cash sweep	When the aggregate net consideration of all specified asset sales has exceed RMB400mn, remit 50% of the excess of the RMB400mn to an offshore bank account within 3 months. As long as the accumulated and unused remitted amount exceed USD50mn, the company has to: (1) pay the principal become due within the 3 months period of the new senior notes and CB on a pro rata basis, and/or apply a portion towards the next cash interest payment; or (2) make an offer to purchase the new senior notes and CB not lower than the market price on a pro rata basis; or (3) repurchase up to 25% of the issue amount of the new senior notes and CB provided that the aggregate principal amount repurchased via open market equals or exceeds USD40mn	
Guarantee	Same subsidiary guarantors who guaranteeing the existing notes will also guarantee the new senior notes and CB.	
Collateral	First ranking share charges over the issued shares of the company (2772.HK)	
Consent fee	0.25%, payable on or prior to the RED	
Expected restructuring effective date	On or about 1 Jan'24, not earlier than 1 Nov'23	

Mandatory redemption and additional redemption

New Senior Notes		If the contract sales from 1 Jan'23 to		
Month	Mandatory redemption	(i) the date falling 9 months after the RED exceeds RMB120bn	(ii) the date falling 21 months after the RED exceeds RMB160bn	(iii) the date falling 33 months after the RED exceeds RMB180bn
12 th	-	5%		
18 th	5% of the issue amount (excl. additional issuance)	5%		
24 th	5%	5%	10%	
30 th	5%	5%	10%	
36 th	10%	10%	10%	30%

New CB		If the contract sales from 1 Jan'23 to		
Month	Mandatory redemption	(i) the date falling 9 months after the RED exceeds RMB120bn	(ii) the date falling 21 months after the RED exceeds RMB160bn	(iii) the date falling 33 months after the RED exceeds RMB180bn
12 th	-	3%		
18 th	3% of the issue amount	3%		
24 th	3%	3%	6%	
30 th	3%	3%	6%	
36 th	6%	6%	6%	20%

➤ **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)
No Offshore Asia New Issues Pipeline Today					

➤ **News and market color**

- Regarding onshore primary issuances, there were 84 credit bonds issued yesterday with an amount of RMB98bn. As for Month-to-date, 84 credit bonds were issued with a total amount of RMB98bn raised, representing a 116% yoy increase
- Macau gaming revenue for May'23 rises 365.9% yoy to MOP15.57bn, total gaming revenue for 5M23 up 172.9% yoy to MOP64.93bn
- [ADEIN]** Adani Enterprises to be removed from NSE, BSE short-term ASM framework
- [ADSEZ]** Deloitte, the auditor for Adani Group and Adani Ports, raises concerns over Adani Ports transactions amidst allegations of fraud
- [KWGPRO]** KWG Group shareholders approved re-appointment of EY as auditor at AGM

- **[PCORPM]** San Miguel unit Petron approved to redeem USD477.5mn PCORPM 4.6 PERP on 19 Jul'23
- **[PWRLNG]** Media reported that Powerlong offshore bond term-out preparation prioritizes possible exchange of short-dated notes over holistic process; the company cured missed 30 April coupon
- **[RSMACA]** Xiamen C&D mandates advisors for cRMB6.3bn acquisition of 29.95% stake in Red Star Macalline
- **[SINOCE]** Media reported that Sino-Ocean Group repaid remaining amount (90%) originally due 31 Mar on 5% amortization payment for four totaled cUSD800mn offshore loans
- **[SINOCL]** Media reported Sino-Ocean Capital seeks a four-year extension for RMB800mn notes

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