

CMBI Credit Commentary

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

- *New Issue TAISEM 3.875'27 and 4.5 '52 tightened 4bp overnight at US trading session. Long-end 30 year tranche particularly outperformed amid UST yield curve pull back. Muted activity on Sino Ocean's SBLC deal.*
- **China Property:** *Pandemic lockdown severely hits property sales in YRD in April, CMBI Equity Research expects property sales will only stabilize in late 3Q. See below for comments from CMBI Equity Research.*
- **Macau Gaming:** *Regime for the Exploitation of games of chance voted in favour in the first-reading of the Legislative Assembly. SJM will be more affected. See below.*

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❖ Trading desk comments 交易台市场观点

Yesterday, Chinese HY property space remained lacklustre. We saw selling flows in high quality names. COGARD/CIFIHG curves saw street selling and dropped 2/1-2pts respectively. KWGPRO curve was traded down 1-2pts although it has repaid a bond due in April. Other property names like AGILE/CENCHI/LOGPH also down 1-2pts, while CSCHCN up 0.5pt. In the Industrial sector, EHICAR was traded down 1-2pts.

Chinese IG market was mixed. IN TMT space, benchmark names like BIDA/TENCNT/JD slightly widened 1-3bps. CHIGRID and SINOPE in SOE sector also widened 2-3bps. In financial sector, shorter-end benchmark names generally tightened 1-2bps but AT1 names dropped 0.25-0.5pt. New issue wise, TAISEM 5/30-year tranche tightened 2-3bps during US overnight trading.

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➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
EHOUSE 7 5/8 04/18/22	30.9	10.9	FANHAI 14 1/2 05/23/21	44.0	-56.0
REDPRO 11 08/06/22	26.9	2.9	GRNLHK 10.21 PERP	76.9	-26.0
MOLAND 12.85 10/25/21	19.0	2.0	FANHAI 12 10/31/21	44.0	-17.1
CHIOLI 6 3/8 10/29/43	114.3	1.8	GRNLGR 7 1/4 01/22/25	63.8	-4.5
BEIENT 6 3/8 05/12/41	119.1	1.7	AGILE 6.05 10/13/25	37.6	-3.8

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock market ended higher on Wednesday and Treasury yields stabilized somewhat, as investors digested a bumpy start to the first quarter earnings season and ongoing concerns over the impact of a hawkish Federal Reserve. The S&P (-0.06%), Nasdaq (-1.22%), and Dow (+0.71%) closed mixed. The Treasury yield curve stabilized after 2 days of advancement, with the 1/5/10/30 yield reaching 1.93/2.87/2.85/2.90% respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Property Sector – Pandemic, Policy and Political bureau meeting

The worse-than-expected pandemic in YRD region has just become the last straw for the already-distressed property market. Even developers that still hang on tight like Powerlong, CIFI, Seazen are impacted due to their high exposure to the region (67%/35%/34%). We think some betting money on policy support may scale back as current local government policy support is too little and central government is too busy with other priorities. This may lead to some volatilities in the coming weeks until we see pandemic being well controlled and stronger policy support. Given the current situation, we only expect property sales to stabilize in late 3Q and thus suggest investor to hold quality names COLI>Vanke H>CR Land (all PB <1 with long-term market share gain story) and CIFI>Midea (survivor and beta). As for PM sector, COPH (earnings growth to further accelerate) >CR Mixc (Consumption V-shape) >CGS (Beta).

■ **How bad is lockdown/partial lockdown affecting sales? – Up to 25% of national sales.** Based on our channel check, most of developers are heavily hit by the pandemic for their projects in the Yangtze River delta region (Shanghai, Jiangsu and Zhejiang). For example, Country Garden currently has 150 projects completely shut down (no sales nor construction) in the region, which represents 20% of their overall sellable resources. Other YRD players such as Powerlong, Seazen and CIFI are estimated to suffer more due to their more concentrated land bank (67%/35%/34% in the region, stated in Figure 2). What's even worse, the recent resumption has not listed property in the priority list and thus it implies they have to wait till at least May or even early June. On a more macro level, YRD sales has contributed 26% of national level in 2021 and if we assume a missing April, then national sales fall is likely to widen further than Mar 2022. Based on the high-frequency data we track, MTD sales in April was down 56% YoY in the major 15 cities.

■ **Is the current policy support enough? – No.** Despite the fact that >70 cities have relaxed property policies, it is UNLIKELY to overturn the market mainly because it is just too little. This can be seen from two aspects: 1) 90% of cities that relaxed policies are lower-tier cities. They are already suffering population outflow and thus hard to spur demand even with lower down payment or interest rate. 2) For the remaining 10% high-tier cities, local governments are only taking baby steps (Eg. Suzhou only shortened resell forbidden period from

5 years to 3 years, which is not enough to support or encourage demand. Also, this has limited room for further relaxing as they need to wait for its effectiveness.

- **Why don't local governments do more in high-tier cities? – Accountability and low inventory.** We think this time is different from 2014 (big property cycle) mainly from the inventory perspective ([report: unsold inventory remains significantly lower in 2021 than 2014](#)). From the narrow definition of inventory (completed but unsold), it was 275mn sqm as of Mar 2022 vs. 404mn sqm in 2014 (18% of 2021 sales vs. 26% in 2014). From the general definition of inventory (accumulated new starts - sales), current level was 2.8bn sqm, still 10% below 2014. The corresponding inventory month was only 22 months (of past 1 year sales), close to the historically low and much lower than 36 months in 2014 (Figure 3). With low inventory and short supply in land sales (2H21 and 1Q22 both down 40% YoY), big policy relaxation, especially in high tier cities may lead to rapid property price rise. For example, Shenzhen already saw 0.8% MoM price increase in Mar 2022 after lowering interest rate. Therefore, those local governments are afraid of being held accountable for violating central government's policy, just like Shenzhen's case in Mar 2021.
- **Any silver lining from the coming standing bureau meeting?** Based on the history, standing bureau would gather this or next Friday to discuss on the economy and policy for 2H. **With so many priorities this year like 20th NPC production resumption and COVID control**, we don't expect any big changes on property stance.
 - **Base case (80% chance):** The meeting maintains the same wording like the one in Dec 2021 "housing is for living, not for speculating" in order to maintain a healthy property market and satisfy the adequate housing demand. In this case, we think local government would continue to relax with baby steps which are unlikely to turn around the downward trend in the near term.
 - **Bull case (10% chance):** The meeting does not mention property like the one in 2018. This would imply a potential nation-wide relaxation on property policy and thus provide some silver lining for the industry.
 - **Bear case (10% chance):** The meeting re-iterates the firm stance "not to spur economy using property in the short term". That will provide a warning to local governments on the potential relaxation and thus is very negative for the already-very-difficult industry.
- **What is the end game?** With property sales continued to deteriorate, supply side reform is set to accelerate, meaning more non-SOEs will face liquidity issue and thus further impact buyers' confidence towards primary market. If the policy support stays like the current strength, we expect full year sales value to be down 20% to RMB15tn level in 2022E. SOE developers could take 45-50% of market share, up from 36% in 2H21. For the distressed developers, we think selected high-quality ones will have the chance being taken over or strategically invested by SOEs or AMC in the medium-to-long term but it will not happen so soon (at least not before NPC).

Please see CMBI equity team's full report <https://www.cmbi.com/article/6662.html?lang=en>

➤ **Macau gaming: Regime for the Exploitation of games of chance voted in favour in the first-reading**

Yesterday, Macau's Legislative Assembly voted in favour of the bill on "Regime for the Exploitation of games of chance" in the first-reading. 30 out of 33 Legislative Assembly members voted for the bill to tighten the grip on junket operators and satellite casinos. The bill, if implemented, will speed up the phasing out of satellite casinos well ahead of the proposed 3-year grace period. In the Macau gaming sector, SJM will be most affected by earlier than expected phasing out of satellite casinos. There are 18 satellite casinos in Macau, 14 of them (excl Jockey

club) are operated under SJM. In 4Q22, satellite casinos contributed 67% of SJM's total gross gaming revenue of HKD2.4bn and adj EBITDA of HKD41mn (vs SJM's consolidated adj LBITDA of HKD611mn). As per our discussion with SJM, it expects the timeline for the implementation of the bill to be end of 2022 after the second and final reading. So far, Dragon Group and Emperor, altogether operating 4 satellite casinos under SJM, have indicated that they might cease operations after Jun'22 facing the tightening regulatory environment.

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

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
• No Offshore Asia New Issues Priced Today					

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

Issuer	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
BOC Singapore	USD	-	3	T+85	A1/A/A
BOC Macau	USD	-	3	SOFR+115	A1/A/A
BOC Luxembourg	USD	-	3	MS+70	A1/A/A
Yueyang Construction and Investment Group	USD	-	3	4.7%	-/-/-
Busan Bank	USD	-	-	-	-/-/-
Nanyang Commercial Bank	USD	-	AT1 PerpNC5	6.7%	Ba2/-/-
China Great Wall International Holdings	USD	-	3	T+190	-/BBB+/A

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 124 credit bonds issued yesterday with an amount of RMB123bn. As for Month-to-date, 1011 credit bonds were issued with a total amount of RMB1072bn raised, representing a 14.6% yoy decrease.
- **[FOSUNI]** one of its offshore subsidiaries - Fosun Tourism Group 1Q22 business volume quadruples YoY, led by Club Med resorts
- **[JINKE]** Jinke Smart Services to acquire office premises from Jinke Property Group for RMB 48.9mn

- **[SHIMAO]** OCBC files recovery suit in HK against Shimao Group for developer's failure to repay guarantee on USD100mn loan to BVI unit
- **[SUNAC]** bondholders yet to receive interest on USD bonds due 19 April

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