

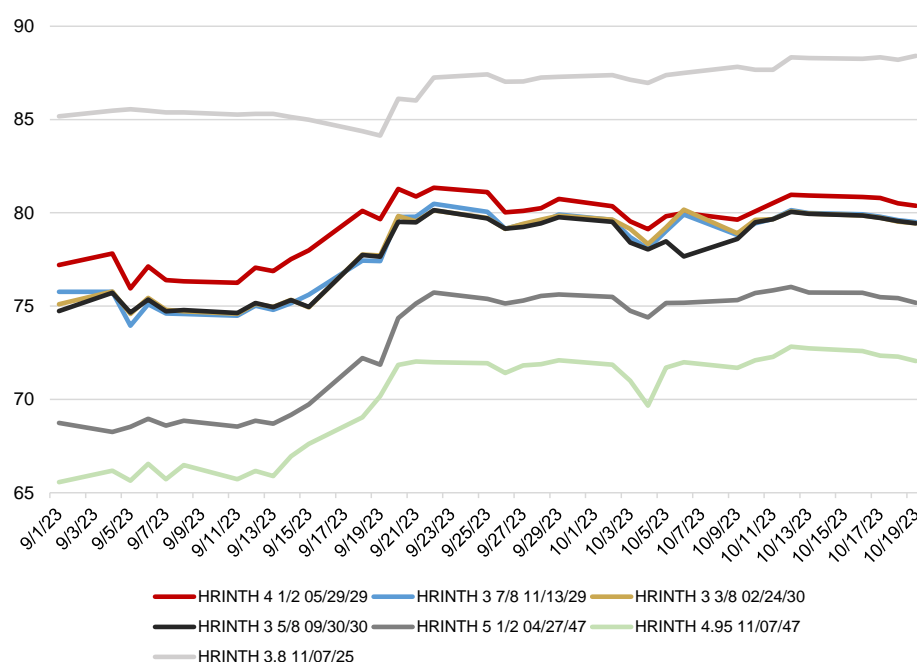
CMBI Credit Commentary

HRINTH: Room for further repurchases?

Buy on HRINTHs on the expectation of further repurchases

Last night, Huarong announced the 5th round of offshore bond repurchases. In this round, the repurchased amount was USD201.12mn in principal. All of these were conducted between 12-19 Oct'23. The focuses remain to be on longer-dated and lower cash price bonds. HRINTHs are our top picks of the Chinese AMC sector given the better risk-return profiles and our expectation of further repurchases. Within the HRINTH curve, our preferences are HRINTH 3.75 05/29/24, HRINTH 5.5 01/16/25 and HRINTH 4.25 Perp (callable 09/30/25). For Chinese AMCs, we also like GRWALL 3.95 Perp (callable 07/31/24) and CCAMCL 4.4 Perp (callable 03/11/26) as a low beta play. YTD, Asia ex Australia, New Zealand and JP issuers had tender-offered and repurchased USD bonds totaled cUSD7.4bn in principal amount (excl. convertible bonds) vs USD15.6bn in 2022 (cUSD10.9bn over 10M22). Please read [our comments: "Opportunities from tender offers and repurchases" dated 17 Oct'23](#).

Chart 1: Price movement of repurchased HRINTHs since 1 Sep'23



Source: Bloomberg.

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The room for further repurchases?

Huarong raised 3-year onshore financial bonds of RMB20bn (cUSD2.7bn) at a coupon rate of 3.1% on 16 Aug'23. For the sake of discussions, assuming the proceeds of cUSD2.7bn from the onshore issued are earmarked for offshore bond redemptions and all repurchases had been conducted since 16 Aug'23, Huarong should still have a warchest of cUSD1.2bn for early redemptions of offshore bonds, factoring into the repayment of USD600mn of HRINTH 2 1/8 09/30/23 on 30 Sep'23 and actual proceeds paid of cUSD870mn after discount. The good access to low-cost onshore funding offers Huarong the financial flexibility to continue the repurchases of its offshore bonds. We continue to expect Huarong, as well as other Chinese AMCs, to repurchase their offshore bonds to deleverage and lower funding costs.

The Round 5 repurchases is the largest since Round 3

The size of repurchases in the Round 5 is the largest since Round 3. Indeed, we suspect a portion of the repurchases in the Round 1 & 2 were conducted over a longer period of time. From Round 3 onwards, most of the repurchases had been conducted over the past few weeks. Recalled that Huarong is only required to disclose the redemptions and cancellations exceeding 10% and every subsequent 5% interval of issues as soon as possible. Cumulatively, Huarong announced bond repurchases totaled cUSD1.13bn equivalent in principal amount since 19 Sep'23. We estimate that the net debt reduction and gain from repurchases to be cUSD260mn (equivalent to cRMB1.9bn). Huarong's net debts were RMB736.3bn as at Jun'23 and it reported net losses of RMB6.0bn in 1H23. As discussed before, the significance of the successive repurchases, to us, lie on the signal of Huarong's strong confidence on its near-term liquidity.

HRINTH 3.375 02/24/30 may no longer be eligible for certain bond indices

For HRINTH 3.375 02/24/30, Huarong had so far bought back 61.4% of the issue amount and the outstanding amount of this bond fell to USD270.5mn, below the USD300mn threshold for the eligibility of certain bond indices. This may affect the technical of the bond. That said, we believe that the impact should be largely offset by the expectation of further repurchases, taking cues of the recent performance of HRINTH 3.625 09/30/30 and HRINTH 5.5 04/27/47.

Table 1: HRINTHs repurchase details

Ticker	Currency	Issue size		Offer price	YTM	Repurchase	Incremental	Incremental	Incremental	Incremental	Total
		(mn)	O/s (mn)			d amt (mn) as at 19 Sep	repurchase d amt (mn) as at 21 Sep	repurchase d amt (mn) as at 27 Sep	repurchase d amt (mn) as at 11 Oct	repurchase d amt (mn) as at 19 Oct	
HRINTH 4 1/2 05/29/29	USD	700	594.348	80.52	9.0%	98.65	7.00	0.00	0.00		105.65
HRINTH 3 7/8 11/13/29	USD	500	424.525	79.65	8.2%	52.48	23.00	0.00	0.00		75.48
HRINTH 3 3/8 02/24/30	USD	700	270.500	79.68	7.4%	0.00	141.00	108.50	101.21	78.79	429.50
HRINTH 3 5/8 09/30/30	USD	350	149.000	79.67	7.4%	41.00	32.00	15.00	52.50	60.50	201.00
HRINTH 5 1/2 04/27/47	USD	200	135.500	75.85	7.7%	0.00	0.00	21.554	32.95	10.00	64.50
HRINTH 4.95 11/07/47	USD	700	470.000	72.23	7.4%	72.27	87.91	18.00	0.00	51.83	230.00
HRINTH 3.8 11/07/25	SGD	400	368.000	87.83	10.5%	32.00	0.00	0.00	0.00		32.00
						287.87	290.91	163.05	186.65	201.12	928.49

Source: Bloomberg, Company fillings.

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