CMBI Credit Commentary

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

The Asset Asian G3 Bond Benchmark Review 2023

We hope you found our commentaries and ideas helpful. We seek to elevate our efforts and value-add further in the coming year. We highly appreciate your support to us in Sell-Side Analysts of the polls of "The Asset Asian G3 Bond Benchmark Review 2024". Thank you for your support!

- *New issue KOBCOP'29 tightened 3bps, MITCO'34 tightened 6bps this morning. Asian IG space was stable with two-way flows. VNKRLEs and rebounded 0.1-0.2pt.*

- ***VEDLN:** Facts and thoughts on demerger, steel sale, and maturity profile. Maintain neutral on VEDLNs. See below.*

- ***China Economy** - Deflation lingered amid weak consumption. See below for comments from CMBI economic research.*

❖ **Trading desk comments 交易台市场观点**

Yesterday, on the new issues, KOBCOP priced a USD400mn 5-yr floating rate bond at SOFR +88. KRA 27s tightened another 2bps to T+77. MATSEL 34s tightened 1bp from RO (T+100). CCB Float 07/16/27 widened 2bps from RO (SOFR+55). On the secondary front, HYUELE/LGENSO 27-34s tightened 1-3bps. HYNMTR 26/28/31 widened 1-2bps. WSTP '30/ MQGAU '33/ CBAAU '34 closed unchanged to 3bps tighter. In Chinese IGs, the front-end of CHGRIDs/CITLTDs/TAISEMs widened 1-4bps. BABA/TENCNT 25-28s were 1-2bps wider. In financials, BCLMHK/CMINLE Floater 27s closed 1bp tighter. In Chinese AMCs, CCAMCL 25-29s closed 1-2bps tighter. ORIEAS 27/29 were 1bp tighter. In AT1s, BBLTB 5 Perp/KTBTB 4.4 Perp/BCHINA 3.6 Perp were unchanged to 0.1pt higher. EU AT1s were under small better buying. BNP 8 Perp/INTNED 8 Perp/SWEDA 7.625 Perp were 0.1-0.3pt higher. In HK, AIA/CKHH 33-34s tightened 1bp. LIFUNG 5.25 Perp/CKINF 4.2 Perp were 0.3pt higher. NWDEVLs retraced 0.7-1.3pts after gaining 0.3-2.5pts on Tue. Chinese properties were mixed. YXREIT '26 was 0.7pt higher. GEMDAL '24/ CHJMAO Perp were 0.3-0.5pt higher. VNKRLE 25/27/29, on the other hand, dropped 1.0-1.3pts following its profit warning for upcoming 1H24 results. See our comments on 10 Jul '24. SHUION 24-26s closed unchanged to 0.2pt lower. In industrials, EHICAR 26s and 27s lowered 2.0pts and 0.4pt, respectively. In Macau gaming, MPEL 28-29s were up 0.2pt, STCITY 28-29s were 0.3-0.5pt lower. In Indonesia, MDLNIJ 25/27 were down 0.4-0.5pt. The long-end of FRIDPTs/PLNIJs were 0.3-0.9pt higher. In India, UPLLIN 28/30/Perp were 0.3pt lower. ADSEZs/ADANEMs were 0.3-0.5pt higher. Vedanta obtained creditors' approval for its proposed business demerger. VEDLN 26-28s closed largely unchanged yesterday. See below for comments.

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In LGFVs, ZHEBAR priced a USD200mn 3-yr bond at par to yield 6.05% and the bond closed 0.5pt higher above par . The old ZHEBAR '24 was 0.2pt higher. There were active two-way flows in both USD and CNH issues. DFINVH '25/CQNANA '26 were 0.1pt higher. In SOE perps, HUADIA/CHPWCN Perps were 0.1pt higher. In the high-beta IG names, the loose bonds were well-digested by RM demand. HUANEN '29/HNINTL '30 were 0.1-0.4pt higher. ZHOSHK '26 was up 0.2pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
TAISEM 2 1/4 04/23/31	**84.9**	**1.3**
FRIDPT 6.2 04/14/52	**99.2**	**0.9**
YXREIT 2.65 02/02/26	**90.8**	**0.7**
MTRC 1 5/8 08/19/30	**84.2**	**0.5**
ADSEZ 3.828 02/02/32	**82.9**	**0.5**

Top Underperformers	Price	Change
EHICAR 7 09/21/26	**84.7**	**-2.0**
VNKRLE 3.975 11/09/27	**62.4**	**-1.3**
NWDEVL 4 1/8 PERP	**62.4**	**-1.3**
VNKRLE 3.15 05/12/25	**85.2**	**-1.1**
VNKRLE 3 1/2 11/12/29	**55.2**	**-1.0**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+1.02%), Dow (+1.09%) and Nasdaq (+1.18%) were strong on Wednesday. UST yields retreated yesterday, 2/5/10/30 yield reached 4.62%/4.24%/4.28%/4.47%.

❖ Desk analyst comments 分析员市场观点

➢ VEDLN: Facts and thoughts on demerger, steel sale, and maturity profile

Maintain neutral on VEDLNs

After the liability management exercises (LME), VEDLNs rallied 10-32pts. The LME helped lower the leverage of Vedanta Resources (VRL) and lengthen its debt maturities though at the expense of higher funding costs. We take additional comfort that VRL and Vedanta Ltd (VEDL) remain accessible to different funding channels That said, we remain neutral on VEDLNs on valuation.

Table 1: Summary of VRL's USD bonds

Bond	ISIN	o/s amt (USDmn)	Ask px	YTM (ask, %)	Issue rating
VEDLN 9.25 04/23/26	US92243XAA90	600	93.46	13.47	Ca/CCC+/-
VEDLN 13.875 01/21/27	US92243XAD30	470	99.39	14.16	-/CCC+/-
VEDLN 13.875 12/09/28	US92243XAE13	1,008	97.89	14.53	-/CCC+/-
VEDLN 13.875 12/09/28	US92241TAM45	894	97.54	14.65	Ca/CCC+/-
Total		2,972			

Source: Bloomberg.

The demerger at a glance

According to the demerger plan, VEDL will spin off 5 separate companies with mirrored shareholdings, i.e. shareholders of VEDL will receive one share of each of the five newly listed companies for every one share of VEDL. These 5 new companies will subsequently list on BSE and National Stock Exchange of India. VEDL will retain 64.92% stake in Hindustan Zinc (HZL), and nurturing/incubating businesses like FACOR, Nicomet, display and semiconductors. The five new companies to be listed are:

- Aluminium (51% stake in BALCO and all associated captive power plants)
- Oil and Gas (Cairn India Limited)
- Base Metals (Zinc International, downstream copper business and recent expansion in Saudi Arabia and Fujairah)
- Steel and Ferrous Materials (assets in Karnataka, Goa, Electrosteel and Liberia)

- Power (all VEDL IPPs, including Athena and Meenakshi)

The demerger is to be conducted through the scheme. VEDL obtained approvals from the board and Securities and Exchange Board of India. VEDL has also secured the required 75% approval from its lenders on the demerger plan. On USD bonds, VRL has obtained sufficient support from the bondholders in the consent solicitation in Jan'24 to amend certain covenants and seek waivers to account for the demerger, including the calculation of debt cap. VEDL also needs to file an application with the National Company Law Tribunal (NCLT). VEDL expects to complete the demerger by Dec'24.

After the demerger, HZL will remain be held under VEDL. VEDL highly relies on the dividend upstream from HZL, and indeed, most of the cash and cash equivalent of VEDL is sitting at HZL. At Mar'24, the cash and cash equivalent of VEDL standalone/HZL are USD286mn/USD1,221mn, respectively, compared with VEDL's consolidated of USD1,849mn. Upstream of dividend from HZL to VEDL remains a critical source of funds for VEDL in fulfilling the debt obligations. VEDL has pledged its 64.86% shareholdings in HZL according to BSE, compared with its total shareholdings of 64.92%.

Table 2: Financial highlights of newly created companies

	Revenue		EBITDA		EBIT	
INRmn	**FY22**	**FY23**	**FY22**	**FY23**	**FY22**	**FY23**
Vedanta Aluminium	508,090	526,180	173,370	57,750	150,660	32,570
Vedanta Oil & Gas	124,300	150,380	59,920	77,820	43,590	52,050
Vedanta Base Metals	196,350	227,000	14,180	19,300	6,970	12,430
Vedanta Steel and Ferrous Materials	127,070	138,820	29,810	13,020	25,850	7,700
Vedanta Power	55,010	67,240	10,820	9,130	4,700	2,940
Residual Vedanta Limited	301,100	344,420	165,090	175,390	132,470	139,170

Source: Company filling.

How VEDL and VRL will benefit from the demerger?

From a credit perspective, the demerger will not have immediate effect on the consolidated debt level of VRL. That said, the subsequent listings of pure-play subsidiaries will enhance the overall data transparency of the group. The separating listings of subsidiaries can also enhance their standalone funding access and improve VRL's overall financial flexibility. Recalled that VRL's subsidiary Finsider International sold 97.9mn shares (2.6% stake) of VEDL at INR427.2 per share on 26 Jun'24 for INR41.8bn (cUSD501mn). The proceeds were used to repay debts at VRL level. Finsider International also sold 65.5mn shares (1.8% stake) of VEDL at INR265.14 per share on 15 Feb'24 for INR17.4bn (cUSD208mn). We believe that VRL's stakes in listed subsidiaries after the demerger could be alternative sources of liquidity in case of necessary.

On the other hand, the demerger will help streamline the organization structure. We believe that a "flatter" organization structure will likely reduce the structural subordination risk although detailed assessments can only come after details on how to allocate the debts among different group companies.

Table 3: VEDL and VRL debt level

At 31 Mar'24	Gross debt	Net debt	Net debt/EBITDA
Vedanta Limited	INR717.6bn (cUSD8.6bn)	INR563.4bn (cUSD6.8bn)	1.5x
Vedanta Resources	USD14.3bn	USD12.3bn	2.6x

Source: Company filling.

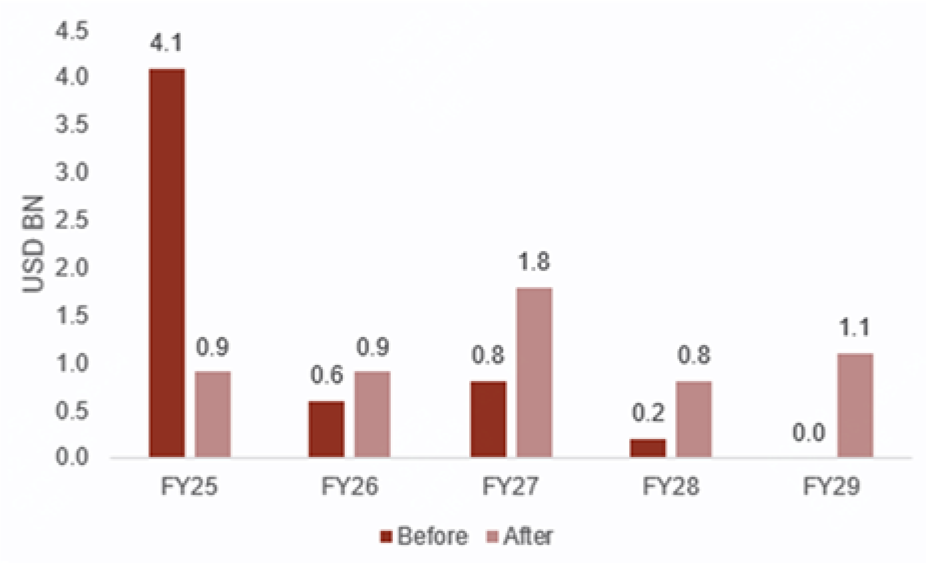
What is the status of the sale of non-core ESL Steel?

VEDL expects to complete the divestment of ESL Steel by Oct'24 to focus on core mining businesses. VEDL valued its 95.5% stakes in ESL Steel at INR100bn (cUSD1.2bn), more than doubled of the book value of INR45.9bn (cUSD552mn) at Mar'24. VEDL plans to use the sales proceeds to repay debts. VEDL operates steel businesses under a 95.5%-owned subsidiary ESL Steel. VEDL entered the steel production businesses via an acquisition of 90% stake in ESL Steel through the insolvency process in 2018 for INR52.3bn (cUSD629mn) in cash. Assuming cash proceeds of USD1.2bn from the stake sale, we estimate that net debt/EBITDA ratios of VEDL and VRL would moderately improve to 1.3x and 2.4x from 1.5x and 2.6x, respectively.

VRL's debt maturity profile lengthened after the LME

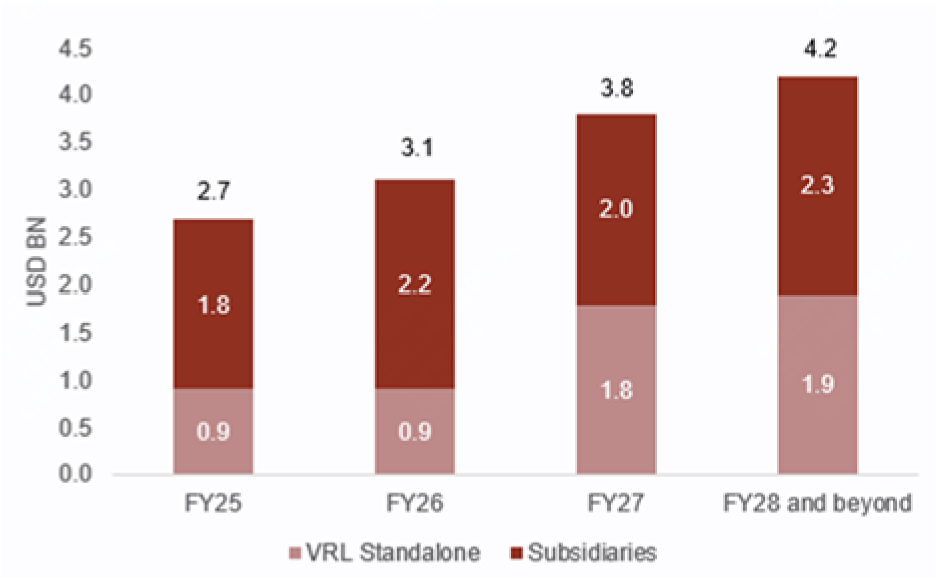
On a standalone basis, VRL plans to cut its debt by USD3bn over the next three years from USD6bn at Mar'24, through brand fees and dividends received from subsidiaries. Through the LME in Jan'24, the average maturity of VRL standalone lengthened to 3 years from 1 year, and the maturities of VRL also streamlined in FY25-29. See Chart 1 & 2 below.

Chart 1: VRL standalone's maturities restructured through LME in Jan'24



Source: Company filling.

Chart 2: VRL consolidated's long-term debt maturity profile after LME



Source: Company filling.

Continued access to funding channels but at the expense of higher funding costs

VEDL and VRL continue to have access to different funding channels post LME thought at the expense of higher funding costs. On 11 Jul, VEDL will issue NCDs of INR10bn (cUSD120mn) maturing in Oct'25, at a coupon rate of MIBOR-linked OIS1M+3.75%, i.e. c10.4%, to repay debts and to fund the capex. During FY23/24, VEDL has raised onshore funding of INR55.4bn (cUSD709mn) through issuance of NCDs to Oaktree. The coupon rates of the new issues are 12%, higher than the existing onshore bonds VEDLN 8.74 06/29/32 of 8.74% issued in 2020 and VEDLN 9.2 02/25/30 of 9.2% issued in 2022. Its average funding cost increased from 7.8% in FY23 to 9.65% in FY24. The weighted average interest rate of foreign currency term loan and NCD showed the highest increase yoy, see Table 4 below.

On the other hand, VRL planned to issue USD500mn-1bn USD bonds per news report. Based on the yields of VEDLNs, the funding costs of the planned USD issuance could go up to mid-teen.

Table 4: VEDL's weighted-average interest rate

	At 31'Mar'23	At 31'Mar'24	Change (pct pts)
Foreign currency term loan	8.90%	11.58%	2.68
Rupee term loan	8.50%	10.19%	1.69
External commercial borrowings	7.42%	8.16%	0.74
Non-convertible debentures	8.51%	11.14%	2.63
Commercial paper	7.69%	-	NA
Working capital loan	8.07%	9.26%	1.19
Amounts due on factoring	8.70%	8.28%	-0.42
Non-convertible bonds	0.28%	0.30%	0.02
Others	5.00%	5.12%	0.12
Total	7.80%	9.65%	1.85

The funding cost of VRL is higher on a consolidated basis compared to its operating subsidiary VEDL, reflected the structural subordination risk. The average borrowing costs of VRL increased to 10.2% in FY24, from 8.7% in FY23, as VRL standalone refinanced its debts at substantially higher rates. In Dec'23, VRL entered into a 28-month amortizing loan of USD1.25bn at a funding cost of 18%, in order to early redeem part of the three outstanding USD bonds in the liability management exercises in Jan'24. After the LME, the coupons of the originally due-24 and due-25 bonds were increased to 13.875%, from 6.125% and 8.95% respectively. This also added pressure to VRL's funding cost.

In Jul'23, VRL's wholly-owned subsidiary Twin Star Holdings rolled over the intercompany loan from Cairn India Holdings, a subsidiary of VEDL, which originally due in Dec'23 for 1 year. The new maturity will be in Dec'24, and the interest rate increased to 17% from 7%. However, the increase in interest rate of intercompany loan should only impact the funding cost of VRL's standalone, and the intercompany loan was eliminated at the VRL consolidated level.

The higher funding costs will drag on the profitability of VRL and VEDL. In FY24, the consolidated PBT of VRL dropped 13% yoy due to 6% yoy decrease in revenue from operations as well as 21% yoy increase in finance cost. However, we are not too concerned with the near-term repayment ability of VRL and VEDL, in view of their refinancing capabilities through various funding channels.

We take additional comfort that as per VRL, the dividend income and brand fees from subsidiaries should be sufficient to cover majority of its debt maturities in FY25. VRL received dividend and brand fee from VEDL and its subsidiaries. Brand fee is calculated based on 3% of forecasted revenue of VEDL, 1.7% for HZL, and 0.75%-3% of the VEDL's other subsidiaries. Annual brand fee is upstreamed to VRL at the beginning of each financial year. In FY23/24, VRL received dividend income of cUSD780mn, as well as brand and management fees of cUSD343mn from VEDL.

- **China Economy - Deflation lingered amid weak consumption**

China's CPI growth notably dipped to 0.2% in June against market expectation of 0.4%, as food price further declined even though pork price has rebounded markedly. Non-pork food items including vegetables, fruits, and beef became the major headwinds. Core CPI still stuck in a quagmire as consumer demand remained weak.

Price of durable goods including vehicles and home equipment plunged amid intense supply-side competition. PPI continued to recover mainly driven by lower base. As the prolonged deflation has led to the formation of deflationary expectations, household consumption could be further impeded leading to a downward spiral in price. Looking forward, the PBOC may cautiously seek a balance between multiple targets in 2H24 with possible mild cuts in RRR, deposit rates and LPRs once possible Fed cuts in 2H24 grant more policy autonomy for PBOC. We expect CPI and PPI may rise from 0.2% and -3% in 2023 to 0.5% and -1% in 2024.

CPI dropped unexpectedly dragged by weak food price. CPI YoY came in below expectations at 0.2% in June compared to 0.3% in May, against market expectation of 0.4%. In sequential terms, CPI further dipped 0.2% after dropping 0.1% in May. Food price dipped 0.6% in June while its YoY declined to -2.1% from -2% even though pork price has significantly rebounded, while non-food price stayed flat at 0.8%. Pork prices have finally come out of woods with 11.4% MoM growth in June while its YoY growth accelerated to 18.1% from 4.6%. Pork price may continue to rebound in upcoming months indicated by pork wholesale price, as supply side continued to cut overcapacity. However, non-pork food items became the major headwinds as prices of vegetables and fruits markedly dropped 7.3% and 3.8% MoM in June, while beef price saw a 13.4% YoY decline with -2.5% MoM growth. Vehicle fuel price moderated from 6.3% to 5.6% YoY as its MoM growth notably declined 2% in June compared to -0.8% growth in May. Surprisingly, MoM change of public utility has been 0 since Feb, considering recent news of increasing electricity and water bills.

Core CPI mired in mud as durable goods remained sluggish. Core CPI remained flat at 0.6%. Its MoM growth further dipped by 0.1% in June after dropping 0.2%. For the first time since Mar 20, it has declined for two consecutive months, as a sign of extremely weak domestic demand. Durable goods consumption was still subdued amid elevated real interest rate and price cut expectations. Vehicles notably plunged by 1% MoM in June, the largest drop in last 15 months, with still no signs of price war ending. Even more concerning was the price drop in new vehicles has transmitted to used car market, with second-hand cars notably declined by 12.5% in early July. Home equipment dropped 1.2% MoM after dipping 1.1%, one of the largest drops in history, partly due to mid-year promotion on e-commerce platform. Telecom equip rebounded by 0.8% MoM following five months of decline. Price of clothing and footwear also declined by 0.2% and 0.4% MoM, broadly in-line with historic seasonality. Service sector registered 0% MoM growth in June as tourism notably declined by 0.8% while rent, home service and medical service saw 0.1% growth. Other services price including telecom, express and education remained unchanged in June. Looking forward, core CPI growth may remain restrained in the near term resulted from deterioration in household income and balance sheet, elevated real interest rate and fierce producer competition, but the trade-in policy could be a potential game-changer.

PPI continued to recover mainly driven by low base effect. PPI continued to narrow its contraction from -1.4% YoY to -0.8% in June, in line with market expectation. The MoM growth of PPI dropped by 0.2% after rising 0.2% in May. For mining industries, PPI of non-ferrous metals continued its rally rising 11.5% YoY from 8.9% in May. Oil and gas mining moderated to 8% from 9.4% YoY albeit much lower base last year due to declining crude oil price. Coal mining and ferrous metals both narrowed their decline from -3.7% and -9% YoY to -2.1% and -1.6%. For mid-stream industries, PPI in intermediate goods such as rubber & plastics and metal products saw no change while general machinery dropped 0.1% MoM. Final goods such as auto manufacturing endured higher deflation pressure, dropping 0.7% MoM in June, the largest decline in history as a sign of weak domestic demand and persisted supply-side competition. Looking forward, we expect MoM growth to remain muted due to weak domestic demand while its YoY decline gradually closing in on 0 thanks to lower-base effect and rising raw material cost.

The self-reinforcing deflationary expectations could hinder economic recovery. As we have seen in the auto industry, as a result of overcapacity, diminishing consumer demand and fierce price cuts, once the prolonged deflation has led to the formation of deflationary expectations, the consumption could be further impeded as consumers would just simply sit and wait in exchange for larger purchasing power. Instead of focusing on managing long-term yields, the PBOC should act more aggressively to cut shorter-term policy rates to lower real interest rates, boost consumer demand and defy deflation pressure. We do not expect significant policy stimulus at the Third Plenary Session of the Party's Central Committee in July. A gradual policy easing in the next two quarters would be more likely as possible Fed cut in 2H24 would enable more policy autonomy for the PBOC, since RMB exchange rate stability was a key focus for the PBOC. The central bank may cautiously seek a balance between multiple targets in 2H24 with possible mild cuts in RRR, deposit rates and LPRs.

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➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Korea Ocean Business Corp	400	5yr	6.256%	SOFR+88	Aa2/-/-
Mitsubishi Corporation	500	10yr	5.125%	T+93	A2/A/-
Neijiang Road and Bridge Group	62	3yr	7.5%	7.5%	-/-/-

➢ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Mirae Asset Securities	USD	-	3/3.5yr	-	-/-/-

➢ News and market color

- Regarding onshore primary issuances, there were 109 credit bonds issued yesterday with an amount of RMB176bn. As for month-to-date, 578 credit bonds were issued with a total amount of RMB718bn raised, representing a 119.8% yoy increase

- **[BTSDF]** H&H International announced full utilization of USD150mn refinancing term loan facilities

- **[COGARD]** Moody's withdrew Country Garden's Ca ratings

- **[CWAHK]** China Water Affairs plans offshore syndicated loan and bond for refinancing

- **[YUZHOU]** Yuzhou Group signed an amendment deed with the majority initial consenting creditors to amend the RSA and the term sheet to include certain loans; convening hearings for schemes on 31 Jul'24 and 16 Aug'24

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