

CMBI Credit Commentary

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

- *Markets focus on this week's new issue this morning, HKAA and HYUELE were overall squeezed c10bps. SOE perps/AT1 and LGFV were relatively quiet.*
- **DALWAN** : *The first "proper" book-built deal of Chinese HY properties since Sep'21. Buy DALWANS, prefer DALWAN 6.8 11/07/25 most. See below.*
- **China Economy** – *China's reflation risk remains low. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, China IG space opened in a cautious tone as street awaited for the crucial CPI data on Thursday night. On primary side, new ICBCAS 3Y Fixed/SOFR had mixed performance, as the fixed one widened by 7bps and SOFR one tightened by 10bps. IG flows remained focused on recent new issues, and HKINTL/HKAA were traded slightly tighter for 3bps. Korea recent new issues remained rather active, with EIBKOR/POHANG traded another 3-5bps tighter by EOD. HYUELE opened 5bps wider but ended up back to unchanged. China financials space were largely stable, with AMCs showed more two-ways on 29-31s. Selective AMC/ leasing name like CCAMCL/ ICBCIL tightened 2-5bps. T2 benchmark CCBs grounded 1-4bps further tighter. TMT benchmarks underperformed amid better selling flows with BABA/ TENCNT curve widened 2-3bps. BBB- tech names MEITUA/ XIAOMI/ LENOVO curves continued the recent momentum to tighten 7-10bps. In IG properties, DALWANS moved up 0.5-1.5pts with its 23s/24s closed at 97/95 by EOD, respectively. Market eyed Dalian Wanda Commercial circulated 12.625%-area IPG and then priced at 12.375% for its keepwell-backed USD400mn 2Y Reg-S bond (Ba3/BB by Moody's/Fitch). LNGFORs were unchanged to 0.5pt higher. China HY space opened firm, and property bonds extended positive sentiment. COGARDs closed unchanged to 0.5pt lower under some profit taking flows. COGARD 23s were quoted at 99/100, post on Wednesday it further repurchased USD218.4mn of its due-2023s from open market. SINOCES closed 1-3pts higher, and FUTLANs/FTLNHDs were up 0.5-1.5pts. Among beaten names, CENCHIs notably plunged 3.5-10pts, amid media reported CCRE not planning to pay 14 Jan'23 USD coupon for its due-2025s on time, but will strive to cure miss within grace period. HK names like CPDEV/FWDINS were traded 2-4pts higher. In industrial space, FOSUNI/HONGQI 24-26s were bid up 0.5-1.5pts. Macau gaming names like MGMCHIs/MPELs dipped 0.5pt. Outside China, Indian HY VEDLNs were up 0.5-2.5pts again, after having gained 4-5pts on Wednesday. In Indonesian space, LPKRIJs/LMRTSPs were marked 1-3.5pts higher after Lippo Karawaci unit's tender offer on Wednesday. LPKRIJ 25s and 26s were indicated at 87/89 level and 80/82 level on the day, respectively.

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In the LGFV/ SOE Perp/ AT1 space, market had another hectic day. Flow wise, we were seeing new deployment buying flows from Chinese NBRM as it felt like there were sizeable inflows. We saw the onshore RMs trying to re-deploy after underweighted 2H22, and took over the driver's seat in buying, after leveraged accounts had largely completed cash deployment while lifting offers since new year. Meanwhile in light of much richened valuations, we continued to see AM/ HF offloading into the rally, particularly in the long end of several higher-beta LGFV names in Chongqing/ Shandong. Hence LGFV flows were fairly balanced in the morning then skewed to better buying in the afternoon. Elsewhere, sentiment on Henan names initially turned weaker into lunch amid CENCHI's drop, then more buyers emerged after the first clip of loose bond was taken. Overall, it felt like most 24s or even 25s/26s LGFVs were already seen as carry bonds by many people on the street, as long as the papers could yield 6% to maturity, as 23s had tightened to low-5%. One underperformer would be DFINVH 7 '25 which remained heavily offered amid recent news in Yancheng. SOE Perps/ AT1s remained very well bid despite tight levels thanks to the upbeat sentiment overall. Although AT1s started to see some loose bonds coming out before CPI, they were well absorbed by the market on the day.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CPDEV 4.65 01/19/26	82.1	4.3	CENCHI 7 1/4 04/24/23	56.0	-10.0
LMRTSP 7 1/4 06/19/24	82.3	3.6	CENCHI 7.9 11/07/23	43.4	-7.3
CCAMCL 4 3/4 12/04/37	80.1	3.3	CENCHI 7 3/4 05/24/24	41.3	-3.5
CHINSC 7 1/4 04/19/23	73.9	2.9	CENCHI 7.65 08/27/23	45.8	-2.3
SINOCE 6 07/30/24	80.9	2.8	ROADKG 7 PERP	55.7	-2.2

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets rallied higher yesterday, S&P (+0.34%), Dow (+0.64%) and Nasdaq (+0.64%) were boosted by moderated inflation. The U.S. Dec CPI data is same with market expectation of +6.5% yoy, decreased from +7.1% yoy in Nov'22. New weekly unemployment claims is 205k, lower than market forecast of 215k while have 1k increment compared to last week. The U.S. treasury yields were overall down yesterday, the 2/5/10/30 yields curves reached 4.12%/3.53%/3.43%/3.56%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ DALWAN: The first "proper" book-built deal of Chinese HY properties since Sep'21

Buy DALWANs, prefer DALWAN 6.8 11/07/25 most

As we discussed in our Asia Credit Outlook 2023, we consider DALWAN one of "survivors" of the sector. The issue of DALWAN 11 01/20/25 further enhances our belief on DALWAN's long-term viability. Recalled that DALWAN issued 3-year onshore MTN of RMB2bn (without CRMW and CBICL guarantee) at a coupon rate of 6.8% in Nov'22 when the market sentiment hitting the trough. These demonstrated the company's ability to access onshore and offshore funding channels even in times of challenging market environment. We have buy recommendations on DALWANs and prefer DALWAN 11 01/20/25 most. The next catalyst for DALWANs to perform will be the progress of the spin-off of Zhuhai Wanda in HK. Given the Chinese regulatory is relaxing the access to equity funding, we believe the chance of the spin-off to go through is increasing. The new DALWAN issue will also have positive spill-over to developers such as **Seazen** and **Yanlord** as their bond yield are already at "affordable" levels (from issuer's perspective) and could be candidates for next USD bond issues.

First "proper" book-built deal since Sep'21

ISIN	Name	Company	Tranche Pricing Date	Tranche Amount (USD mn)	Total Issued Amount (USD mn)	Issue Rating (M/S/F)	Remark
XS2247552446	GRNCH 4.7 04/29/25	Greentown	Feb'22	150	450	Ba3/-/-	Additional Issue
XS2342908949	CIFIHG 4.45 08/17/26	CIFI	Jan'22	150	500	Ba3/BB-/-	Additional Issue
XS2316077572	CHINSC 5.95 09/29/24	China SCE	Dec'21	150	450	-/-/BB-	Additional Issue
XS2250030090	PWRLNG 5.95 04/30/25	Powerlong	Dec'21	135	535	B2/B+/-	Additional Issue
XS2213954766	PWRLNG 6 1/4 08/10/24	Powerlong	Dec'21	150	500	B2/B/-	Additional Issue
XS2400512146	DAFAPG 13 1/2 04/28/23	DaFa Properties	Oct'21	100	100	B3/-/-	New issue
XS2387698926	XINHUZ 11 09/28/24	Xinhu Zhongbao	Oct'21	250	500	-/B/-/-	Additional Issue
XS2376908344	HLBCNH 11 10/08/23	Helenbergh China	Oct'21	102	270	B3/-/-	New issue
XS2333154867	JIAYUA 11 02/17/24	Jiayuan	Sep'21	100	230	B3/-/B+	Additional Issue
XS2386506310	JINGRU 12 01/28/24	Jingrui	Sep'21	165	165	-/B/-/-	New issue
XS2387698926	XINHUZ 11 09/28/24	Xinhu Zhongbao	Sep'21	250	500	-/B/-/-	New issue
XS2385313064	ZENENT 12 1/2 04/23/24	Zensun Enterprises	Sep'21	160	160	B3/-/-	New issue
XS2384610577	RDHGCL 7.8 03/20/24	Radiance	Sep'21	300	300	B2/B/-	New issue
XS2384273475	REDSUN 9 1/2 09/20/23	Redsun Properties	Sep'21	200	200	B3/-/B+	New issue
XS2034561584	KWGPRO 7.4 03/05/24	KWG Group	Sep'21	158	458	-/-/BB-	Additional Issue
XS2386495100	ZHLGHD 12 04/17/23	Zhongliang	Sep'21	200	200	-/-/B+	New issue
XS2382158207	ZENENT 12 1/2 09/13/23	Zensun Enterprises	Sep'21	200	200	B3/-/-	New issue
XS2214229887	KWGPRO 5.95 08/10/25	KWG Group	Sep'21	100	300	-/-/BB-	Additional Issue
Total				3,020			

Sources: Dealogic, Bloomberg.

DALWAN 11 01/20/25 is the first “proper” book-built USD issue from Chinese HY properties since RDHGCL 7.8 03/20/24 in Sep'21. With the final book size of USD1.4bn at FPG, DALWAN managed to “upsized” the issue to USD400mn from USD200-300mn and tightened price guidance by 25bps. The issuance will substantially relieve DALWAN’s near-term refinancing pressure. DALWAN’s coming offshore maturities are USD349.5mn due 21 Mar'23 and USD400mn due 23 Jul'23.

IPO of Zhuhai Wanda will be the next catalyst

The A1 for IPO of Zhuhai Wanda in HK were re-submitted in Oct'22, and this will be valid for 6 months, i.e. till Apr'23. As the Chinese regulator is relaxing the policies for equity raising for property companies, the chance of IPO going through is increasing. The IPO will remove a major overhang for potential redemption of pre-IPO investments of cUSD7.1bn if the IPO fails to complete by Dec'23. Recalled DALWAN introduced pre-IPO investments of RMB38bn for a 21% stakes in Zhuhai Wanda. PAG and Country Garden Property Services are amongst pre-IPO investors. The IPO will also widen DALWAN’s funding access and enhance data transparency as DALWAN is unlisted.

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➤ China Economy – China’s deflation risk remains low

China’s CPI growth was slightly below expectations in December. Despite a pick-up of food prices amid winter season, core CPI growth was still low at 0.7% amid weak consumer demand. Looking forward, core CPI growth especially in some service items may moderately rise after reopening. However, the overall deflation risk should be low as the resumption of domestic demand is gradual and overseas demand starts to soften. Based on experiences of Japan, South Korea & Chinese Taipei, the Omicron wave should have limited impact on China’s labor participation rate. Therefore, China is likely to maintain easing liquidity policy to support growth. The PBOC may continue to loosen credit policy unless housing sales and deflation risk significantly rebound.

CPI growth was slightly below expectations. The YoY growth of consumer price index (CPI) increased from 1.6% in November to 1.8% in December, slightly below market expectations. From MoM perspective, CPI kept unchanged in December after dropping 0.2% in November. By item, fresh vegetables and fruits seasonally increased 7% and 4.7% MoM in cold winter, while gasoline and meat dropped 6.1% and 4.6% MoM amid global recession risk and further weakening of catering service activity in China shortly after reopening. However, air

tickets, movie tickets and vehicle lease fees respectively increased 7.7%, 5.8%, and 3.8% MoM as transportation and recreation service demand rapidly rebounded after reopening.

Core CPI growth was low as consumer demand remained weak. Core CPI slightly picked up 0.7% YoY in December after rising 0.6% YoY in November, as core consumer expenditures remained weak. Prices in clothing and footwear respectively rose 0.5% and 0.2% YoY as social activities need some time to resume. Urban housing rent dropped 0.7% YoY as the migration flow dropped during the latest epidemic and unemployment pressure remained high for the youth. The price of Chinese medicine rose 3.1% YoY as demand sharply increased during the latest epidemic.

PPI continued to decline with less magnitude. PPI dropped 0.7% YoY in December after decreasing 1.3% in November. The shrinkage of YoY declines was mainly due to base effect. From MoM perspective, PPI dropped 0.5% after rising 0.1% as prices of energy and chemical products declined amid global recession risk. However, coal prices rose 0.8% MoM in December as overheating demand seasonally increased in winter. Meanwhile, prices of ferrous metals and non-ferrous metals respectively rose 0.4% and 1.1% MoM amid temporary supply-side disruptions.

China's reflation risk after reopening should be low as demand resumption is gradual and supply-side disruptions are temporary. We expect the CPI growth to slightly rise from 2% in 2022 to 2.2% in 2023 and 2.5% in 2024. PPI is projected to drop 0.5% in 2023 and increase 1.6% in 2024 after rising 4.3% in 2022. Growth of GDP deflator may decline from 2.7% in 2022 to 1.1% in 2023 before rebounding to 2.1% in 2024. There are three reasons for the mild reflation. First, the resumption of domestic demand should be gradual and slow especially in property and durables. Chinese government is unlikely to provide substantial cash subsidy to households. The overheating risk of demand should be low in China. Second, overseas demand starts to soften with rising recession risk. Overseas supply chain should further resume to normal. China's exports of goods may drop by 3.5% in 2023. Thirdly, based on experiences of Japan, South Korea & Chinese Taipei, Omicron virus is much weaker and the latest outbreak should have limited impact on China's labor participation rate. Reflation may be strong in some service sectors like air transportation, tourism, catering and hotel after the reopening. Demand for those services will rapidly rebound. However, supply capacity needs some time to resume. We should see upward pressure on prices in these sectors after the reopening.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Wanda Properties	400	2yr	11%	12.375%	Ba3/-/BB
Taishan City Investment Co., Limited	120	364d	7.95%	7.95%	-/-/-
Hongkong Xiangyu Investment	190	3.5yr	6.7%	6.7%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Golden Dragon Mountain Trading Co., Ltd	USD	-	364d	8.5%	-/-/-

➤ **News and market color**

- Regarding onshore primary issuances, there were 139 credit bonds issued yesterday with an amount of RMB124bn. As for Month-to-date, 644 credit bonds were issued with a total amount of RMB590bn raised, representing a 2.7% yoy decrease
- **[BABA]** Media reported that Alibaba reaps around USD125mn via disposal of shares in Paytm
- **[CENCHI]** Media reported that CCRE does not plan to pay 14 Jan'23 USD coupon on time and will strive to cure miss within grace period
- **[CHCOMU]** China Communications Construction proposes to raise up to RMB30bn via preference share issue
- **[CHINSC]** China SCE unit proposes to offer up to CNY1.5bn CBICL-backed three-year MTNs
- **[CIFIHG]** Media reported that CIFI's unit has obtained the formal letter of guarantee from CBICL to back its planned onshore bonds issuance
- **[FOSUNI]** Media reported that Fosun's key unit gets RMB12bn (cUSD1.8bn) credit line from a syndicate of lenders; Fosun mulls sale of Belgian diamond-grading firm at USD215mn valuation
- **[LPKRIJ]** Moody's placed Lippo Karawaci's ratings on review for downgrade following tender offer
- **[SHIMAO]** Shimao obtains consents for additional 18-month maturity extensions on two ABSs totaled RMB1.17bn
- **[ZHPRHK]** Zhenro properties' unit Zhengzhou Xinronggui Property was placed on the dishonest debtor list

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