

## CMBI Credit Commentary

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

- *Markets were quiet this morning. New issues EIBKOR'25/33 further tightened 1-2bps. We saw buying interests on front-end TMTs while Bank T2s were better selling. High-yielding LGFVs were continued to be sought after.*
- **China Insurance:** *NAFR relaxed solvency measurement for insurers to promote long term stability. We view ZhongAn Online P&C could benefit from the relaxation. See below.*
- **DALWAN:** *Another reality check. We have buy recommendations on DALWANs. See below.*

#### ❖ Trading desk comments 交易台市场观点

Yesterday, the sentiment on Asia ex-JP IG remained cautious ahead of US CPI/PPI. On the primary front, EIBKOR priced USD500mn 2y bond at T+45, USD1bn 5y bond at T+75, USD500mn 1y bond at T+95. The new EIBKOR 2y and 10y tightened 4bps from RO while its 5y paper hovered around RO. In Chinese SOEs/TMTs, the front end of HAOHUAs were under small better buying while the curve closed largely unchanged. BIDU 24s/25s tightened 2-3bps. The front end of high-beta TMTs such as LENOVO 24-25s were better bid. In financials, AMCs were mixed with two-way flows. HRINTH curve was skewed to better buying and closed 0.5-1pt higher. There were also some selling flows on CCAMCL 24-25s. In Chinese bank T2s, the front-end 23s papers were better bid with cash parking needs, while the 24s called papers were under better selling. HK Corp space performed mixed. NWDEVL Perps recovered 1-2pts after falling 3-6pts on Tuesday. NWSZF 29/Perp were up 0.25pt. LIFUNG 5.25 Perp was marked down 1.5pts. CKINF Perps lowered 0.5pt. Chinese properties were mixed. LNGFORs/ROADKGs gained 1-1.5pts. GEMDAL 24s were traded 2pts higher. DALWANs/CHJMAOs were up 0.75-1.25pts. COGARDs were 0.25pt higher. Media reported COGARD received approval from bondholders to extend six out of eight onshore bonds. However, FUTLANs/FTLNHDs were traded down 0.5-1pt. GRNLGR 25s declined 1.75pt. In industrials, FOSUNIs/EHICARs were quoted 0.5pt higher. Macau gaming papers such as MPEL/WYNMAC 26-28s were marked down 0.25-0.75pt. In Indian space, VEDLN 24-26s were traded 0.75-1.25pts higher. Media reported that VRL sounded out a three-year maturity extension for a substantial portion of its USD bonds due-2024s/2025s. Indonesian space was muted.

The LGFV space had a fairly active session. On the new issue side, TJRTGC priced a USD140mn 364d senior unsecured notes at par. The new issue TJRTGC 7.5 '24 was traded slightly weaker with a bit of primary indigestion. However, investors would take comfort with the paper's 7.5% yield for 1y, compared favourably with 3%-handle of the guarantor's onshore bonds. There were active two-way flows in the 3y LGFVs between on-and-offshore

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as a result of divergence in hurdle yields among USD and RMB funded mandates. The shorter-dated LGFV 24s/25s papers were active too, driven by cash management needs. Meanwhile, the higher-yielding LGFVs remained sought after. SOE perps were a touch softer in the c24s. Whilst c25s SOE perps were still well-bid with some buying interests from Chinese RMs. HUADIA 3.375 Perp were marked 0.125pt higher. FRESHK '26/ZHONAN '25 were quoted 0.1-0.2pt higher.

#### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
GEMDAL 4.95 08/12/24	51.6	2.0	GRNLGR 6 1/8 04/22/25	12.2	-1.8
NWDEVL 4 1/8 PERP	51.3	1.9	FTLNHD 4 5/8 10/15/25	35.7	-0.9
NWDEVL 5 1/4 PERP	61.5	1.6	LIFUNG 5 1/4 PERP	37.3	-0.9
ROADKG 6 09/04/25	51.6	1.5	CSCHCN 9 12/11/24	44.7	-0.9
LNGFOR 3.85 01/13/32	51.8	1.4	ROADKG 5 1/8 07/26/26	39.3	-0.8

#### ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (-0.57%), Dow (-0.05%) and Nasdaq (-1.04%) were dragged by tech sector on Tuesday. Crude oil price continued to rally that WTI/Brent oil price reached USD88.9/92.1 per barrel, the highest level since Nov'22. US treasury yields moved in a narrow range before the CPI data tonight, 2/5/10/30 yield reached at 4.98%/4.41%/4.27%/4.35%, respectively.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ China Insurance: NAFR relaxed solvency measurement for insurers to promote long term stability

China's financial regulator, the National Administration of Financial Regulation (NAFR), issued a notice on "Optimizing the Solvency Standards for Insurance Companies" on 10 Sep. In brief:

- (i) Differentiate minimum capital requirement for insurers based on the size of the total assets;
- (ii) For policies with remaining terms less than 10 years, the proportion of future surplus to be included in core capital increase to not less than 40% from 35%;
- (iii) Reduce the risk weighting for CSI300 Index constituents to 0.3 from 0.35; stocks listed on Shanghai's tech-focused STAR market to 0.4 from 0.45; REITs to 0.5 from 0.6; unlisted equity of China' strategic and emerging sectors is set at 0.4
- (iv) Disclose 3-year average investment rate of return and comprehensive investment rate of return in solvency quarterly report

The minimum capital of life insurers with total assets less than RMB50bn will be calculated as 90% of previous level; while more than RMB50bn but less than RMB500bn at 95%. For P&C and reinsurers, total assets less than RMB10bn will be calculated as 90%; while total assets more than RMB10bn but less than RMB200bn at 95%. Small to mid-size insurers will be subject to a lower minimum capital requirement from the revised differentiated treatment, and the released capital could be directed to investments. Within the sector, we view ZhongAn Online P&C could benefit from the relaxation given its total assets was RMB49.3bn as at Jun'23, there could be improvement from comprehensive solvency ratio from 263% at Jun'23.

The revised framework with lower capital requirement and reduced risk weights could help insurers to improve the solvency ratio, and the 3-year average return disclosure requirement could also help to enhance the stability

of the solvency ratios across the years. We view reducing risk weighting is to encourage insurers to invest in equities, direct the funding from insurers to stimulate the activities of the equity markets and to boost investor confidence. However, these policies might not prompt insurers to increase equity exposures amid weak market sentiment.

During 2022-23, the sector's solvency ratios dropped notably due to the more stringent CROSS-II (effective from 1 Jan'22) coupled with declining investment returns. According to NAFR, the average comprehensive solvency ratio/ core solvency ratio for assessed insurers was 188.0%/122.7% in 2Q23, lower than 220.8%/148.1% in 2Q22.

➤ **DALWAN: Another reality check**

**How DWCM 1H23 results compared with those of other developers?**

Subsequent to the withdrawal from property developments in 2020, Dalian Wanda Commercial Management (DWCM) is more of a commercial property investor with growing recurring rental income from its expanding IP portfolio. In 1H23, recurring income from investment property leasing and management accounted for 91% of DWCM's revenue. Hence, its operating performance has been more resilient than that of developers. In 1H23, DWCM reported largely stable interim results with higher revenue, gross profit and EBITDA. Its gross and EBITDA margin in 1H23 were 65% and 55%, compared favourably with 63% and 53% in 1H22 and 62% and 52% in FY22, respectively.

**Concerns of affiliation risk?**

There are concerns on affiliation risk resulting from Dalian Wanda Group and whether we should assess the credit profile of DWCM on a standalone basis. We do not have much information as to the credit profiles of Dalian Wanda Group and affiliates of DWCM but we believe that ultimate controlling shareholder WANG Jianlin as well as Dalian Wanda Group have a strong incentive to keep DWCM as a ring-fenced operation even if the IPO of Zhuhai Wanda may not be completed soon.

Based on the feedback from CSRC on the IPO of Zhuhai Wanda in Jun'23, the regulator's major concerns are whether the IPO proceeds from Zhuhai Wanda will be used to "fund" the property developments of Dalian Wanda Group, related transactions of between Zhuhai Wanda and Dalian Wanda Group, the risk related to redemption of pre-IPO investments. Ring-fenced Zhuhai Wanda and DWCM will be the keys to persuade CSRC to approve the IPO, as well as to lure any anchor investors for the IPO. On 5 Sep'23, media reported that Dalian Wanda has conducted IPO pricing roadshow in Hong Kong and two overseas investors has indicated that they could become cornerstone investors depending on valuation. We believe that CSRC does not have much incentive to block or delay the IPO of Zhuhai Wanda. The uncertainties of the IPO, in our view, is less on regulatory approvals but more on the sentiment of stock markets and the listing valuation.

In the case of the IPO is not going through soon, we would argue that the "ring-fenced" operations of DWCM and Zhuhai Wanda are instrumental in persuading pre-IPO investors to waive or amend the put of pre-IPO investments of cRMB46bn (incl guaranteed IRR). Hence, we consider the affiliation risk is contained and we should assess DWCM credit profile more on a standalone basis.

**Near-term bond maturities manageable?**

YTD, DWCM repaid offshore USD bonds of USD960mn (incl USD400mn in Jul'23) and repaid or redeemed onshore bonds of RMB14.7bn (incl put of onshore bonds of cRMB3.8bn last week). For the rest of 2023, the only offshore and onshore bond maturity or redemption is onshore bond DALWAN 6.6%'23 with remaining o/s

amount of RMB30mn. We estimate that the coupon payments for the rest of 2023 is cRMB200mn. The next major bond maturities will be USD600mn (RMB4.3bn) in Jan'24. The total outstanding USD bonds of DWCM is USD1.4bn, and is smaller than that of smaller developers such as Road King which has o/s USD bonds of USD1.9bn and 3 perps of USD900mn, as well as Shui On Land which has o/s USD bonds of USD1.9bn. Its bond maturity profile, especially the offshore bond maturity profile, is manageable.

### How about the pre-IPO investments?

We expect DWCM to be able to waive or amend the put of pre-IPO investments. The pre-IPO investors and DWCM are in the same boat. The waiver or amendment of put option is in the interests of the pre-IPO investors and DWCM/Zhuhai Wanda as DWCM will not have to rush for the IPO at the expense of valuation. The keys to persuade pre-IPO investors for waiving or amending the put option, in our view, are: 1) DWCM and Zhuhai Wanda are ring-fenced operations, continue to generate large recurring income from property leasing and management; and 2) both are them remain solvent and continue to honour payment obligations.

### How is the financial profile of DWCM?

DWCM has a largely stable financial profile. While its cash on hand reduced and net debt increased, we take comfort from the cRMB15bn and RMB2.4bn increase in financial assets held for trading and current wealth management products during Jun'23. Assuming these financial assets and wealth management products would only be "monetized" at 40% of their book values for conservative sake, DWCM's pro-forma cash/ST debts ratio will be 1.5x. Furthermore, as per our previous discussions with DWCM, the LTV of its IP (BV cRMB459bn) was c22%. There will be a headroom of additional secured financing of over RMB100bn (cUSD14bn) against its IPs if the LTV increases to 50%. These should support an adequate liquidity profile of DWCM.

### Our view on DALWANS?

Our base case is that the operations of DWCM and Zhuhai Wanda are ring-fenced, as such a major part of the pre-IPO put will be waived or delayed if the IPO cannot be completed by FYE23. Hence, DWCM's near-term repayment pressure is manageable. DALWANS will continue to be high beta plays in view of the headline risk and "higher" cash prices. That said, at current valuations, even after the rebound of 15-25pts over the past 4 weeks, the risk and return profiles of DALWANS remain favourable. We have buy recommendations on DALWANS.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	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)
China Everbright Bank, Sydney Branch	USD	-	3yr	SOFR+110	-/BBB+/-

#### ➤ News and market color

- Regarding onshore primary issuances, there were 97 credit bonds issued yesterday with an amount of RMB128bn. As for Month-to-date, 557 credit bonds were issued with a total amount of RMB513bn raised, representing a 14% yoy increase
- Zhengzhou, the capital of Henan province, dismantled the restrictions on home purchase
- **[BABA]** Media reported that Alibaba will place the development of AI, user experience as its top strategic priorities post new CEO appointment
- **[COGARD]** Country Garden unit scheduled to pay cRMB50mn coupon of its RMB1.5bn onshore bonds on 19 Sep
- **[GLPCHI]** GLP China plans to cut the coupon of its RMB700mn puttable notes to 1% on 18 Oct
- **[RGETDC]** Rugao Economic and Trade Development proposed to offer up to RMB500mn three-year MTNs to repay debts
- **[ROADKG]** Road King Infrastructure announced to pay RMB295mn to acquire 51% of target company from CIFI Holdings to unwind JV engaged in Beijing Shunyi project
- **[SOFTBK]** Media reported that SoftBank-owned ARM attracts TSMC, Apple, Nvidia, etc. as cornerstone investors in US IPO
- **[VEDLN]** Vedanta Resources chairman said it could transfer Konkola Copper Mines to Vedanta Ltd at appropriate valuation

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