

CMBI Credit Commentary

First take from Corporate Day: Hongqiao - Solid turnaround

We suggest to OW HONGQI '24 (YTM ~5.4%)

HONGQI curve has greatly outperformed in Chinese HY Bond market in 2021 year-to-date. Still we think its outperformance will continue, given its sustainably lower leverage, free cash flow operation and a longer aluminum price upcycle.

Industry leader benefiting from higher aluminum price

Hongqiao recently announced a positive profit alert, expecting its net profit in 1H2021 to increase by >200% yoy, thanks to a significant increase in aluminum price. This implies its net profit increased to >RMB8.4bn in 1H2021, from RMB2.8bn in 1H2020.

China Aluminum price currently stays at RMB18,790/ton, up from RMB15,265/ton at end-2020. Management expects full year aluminum price to remain above RMB18,000/ton, given limited supply addition under environmental regulation. In 2021, Shandong government requires any aluminum production upgrade to come with reduced supply capacity.

Sustainably lower leverage

Alongside strong operating cash flow, Hongqiao has paid down RMB18.5bn onshore bonds in 2021 year-to-date, partly refinanced by RMB5.5bn new debt. We estimate Hongqiao's total debt will significantly lower to RMB57bn by end-2021, from RMB75bn at end-2020, translating to <2x Gross Debt-to-EBITDA by end-2021, and 2.6x based on mid-cycle EBITDA.

Refinancing is no longer an area of concern

For rest of 2021, Hongqiao just has a total of RMB5.5bn onshore bond due and RMB7.8bn puttable bond in Oct 2021. Management is prepared to redeem puttable bonds if a large step-up is required by investors vs existing coupon of 4%. But we expect a good number of investors will extend, taking cue from Hongqiao's recent RMB1bn onshore bond

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issuance at 4.9% -5.6%. Management will pursue ESG certification, as its production relocation plan to Yunnan will see 1/3 of its energy source from hydro in the medium term. We expect to see its green bond issuance for rest of 2021.

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