

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 NANYAN'34 tightened 8bps this morning, high-beta BNKEA, DAHSIN T2 tightened 2-3bps. We are neutral on NANYAN 6 08/06/34, prefer BNKEA 6.75 06/27/34. See comments below. HRINTHs rose 0.25pt while CCAMCL, ORIEAS were weak. The front-end LGFVs, SOE perp with higher yields were well bid.*
- *ZHOSHK: More early redemptions on CB and the '26? ZHOSHKs were unchanged this morning. See comments below.*
- *China Policy - Noteworthy shift of focus, yet without detail. CMBI expects China's monetary policy to remain accommodative with additional cuts by 10-20bps in LPRs, refinancing rates and deposit rates in the remainder of the year. See comments from CMBI economic research below.*

❖ Trading desk comments 交易台市场观点

Yesterday, NANYAN priced a USD700mn 10NC5 T2 at CT5+210. See below for comments. Chinese AMCs were under better buying. HRINTH/GRWALL 26-29s tightened 2-4bps. CSFCO/GTJA/NACF/NAB Float 27s were unchanged to 2bps tighter. DAHSIN/BNKEA T2s were also 1-2bps tighter. In AT1s, the new SANTAN 8 Perp was 0.7pt higher from RO at par at Asia close. The old SANTAN 9.625 Perp rose 0.4pt. INTNED 3.875 Perp/ACAFP 6.5 Perp were up 0.1-0.3pt. In Chinese IGs, HAOHUA/TENCNT 30s tightened 1bp. The long end of TENCNTs/JDs closed unchanged to 4bps wider (unchanged to 0.1pt lower). ZHOSHK '28 widened 1bp. See below for comments. In KR, DAESec 5.5 '27 widened 2bps. POHANGs/KOROILs tightened 1-2bps. In HK, the high coupon step-up perps of NWDEVL rose 0.9-1.5pts post news of additional operating loans. See our comments on [30 Jul '24](#). Meanwhile NWDEVL FFL perps and 27-31s were 0.5-0.8pt higher. FAEACO/REGH Perp were 0.3-0.5pt higher. Chinese properties were mixed. CHIOLI 29-43s were 0.3-0.5pt higher. On the other hand, DALWAN 25/26 were 0.9pt lower following media report that DALWAN has not yet received RMB60bn capital from PAG-led consortium. ROADKGs were 0.3-0.6pt lower. Outside properties, EHICAR 26/27 declined another 0.6-0.7pt and close 1.7-2.3pts lower WTD. In Macau gaming, STCITY '29/WYNMAC '28 were 0.2-0.3pt lower. In India, VEDLN '26 was 2.0pt higher, VEDLN 27/28 were up 0.3-0.4pt. Vedanta Ltd announced the demerger plan was approved with the consent of 75% of its secured investors. In Indonesia, the new PTSMGP '31 closed 0.1pt higher from RO at par. MDLNIJ '25 rose 0.8pt.

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Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吳蓓瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

In LGFVs, YNHIWA price a USD200mn 2-yr bond at par to yield 6.4%. NIHACA priced a USD100mn 3-yr bond to yield 5.6%. CPDEV 25/26/Perp were 0.1-0.2pt higher. LIANYU '25/KMRLGP '24/WFURCD '24 were 0.2-0.3pt higher. CDCOMM '27 was 0.2pt lower. In SOE perps, SPICPT 3.45 Perp was up 0.1pt, CHPWCN 4.25 Perp was 0.1pt lower. In the high beta names, HUANEN 29/31 were 0.2pt higher. GRPCIN '26/ZHONAN '25 were up 0.1pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
VEDLN 9 1/4 04/23/26	98.3	2.0	DALWAN 11 01/20/25	93.4	-0.9
NWDEVL 5 1/4 PERP	86.3	1.5	DALWAN 11 02/13/26	87.1	-0.9
NWDEVL 4 1/8 PERP	66.0	1.5	EHICAR 12 09/26/27	84.3	-0.7
NWDEVL 6.15 PERP	97.3	0.9	EHICAR 7 09/21/26	79.1	-0.6
NWDEVL 4.8 PERP	45.2	0.8	ROADKG 7.95 PERP	25.3	-0.6

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.50%), Dow (+0.50%) and Nasdaq (-1.28%) were weak on Tuesday. China Jul'24 manufacturing/non-manufacturing PMI was 49.4/50.2, in line with expectation. US Conference Board Jul'24 consumer confidence was 100.3, higher than the expectation of 99.7. UST yields retreated yesterday, 2/5/10/30 yield reached 4.35%/4.03%/4.15%/4.40%.

❖ Desk analyst comments 分析员市场观点

➤ **NANYAN: Neutral on NANYAN 6 08/06/34, prefer BNKEA 6.75 06/27/34**

Nanyang Commercial Bank (NANYAN) priced 10NC5 T2 at CT5+210bps/6%. NANYAN 6 08/06/34 is callable at par on 6 Aug'29 subject to the approval of the HKMA. It is a T2 instrument with loss absorbing capacity, i.e. to be written off if a non-viability event occurs. Meanwhile, NANYAN 7.35 Perp (first call date 7 Mar'28) AT1 is trading 14bps higher than NANYAN 6 08/06/34, reflecting the structural subordination. We believe that the proceeds will be used to redeem NANYAN 3.8 11/20/29 of USD700mn on the call date on 20 Nov'24. We are neutral on the new NANYAN 6 08/06/34. In HK T2 space, we prefer BNKEA 6.75 06/27/34 more for its better risk-return profile. At 102.0, BNKEA 6.75 06/27/34 is trading at YTC of 6.3% and Z-spread of 248bps, 20bps higher than NANYAN 6 08/06/34. Both are T2 instruments with call dates in 2029.

Table 1: Bond profile of NANYAN 6 08/06/34 and its peers

Bond	Ask px	YTC (% ask)	Z-spread (bps)	Issue rating (M/S/F)
NANYAN 6 08/06/34	99.79	6.07	228.5	Baa2/-/-
BNKEA 6.75 06/27/34	102.03	6.28	248.2	Baa2/BBB/-
CINDBK 6 12/05/33	103.89	5.01	119.0	Baa2/-/-

Source: Bloomberg.

The credit profile of BNKEA is better than NANYAN, in our view. The size of BNKEA is larger than that of NANYAN in terms of loan book and total assets. In FY23, BNKEA has higher capital buffers against the regulatory minimum requirements, despite lower profitability. On the other hand, BNKEA has lower loan exposures to mainland China than NANYAN. In FY23, BNKEA's mainland China loan exposures was 30% of its total loans, compared to 37% of NANYAN. The asset quality of both NANYAN and BNKEA worsened in FY23. The impaired loan ratio of NANYAN and BNKEA worsened to 2.3% and 2.7% in FY23 from 1.2% and 2.4% in FY22, respectively. Admittedly, the weakness of NANYAN is partly mitigated by support from China Cinda AMC which owns a 100% stake in NANYAN. Indeed, BNKEA is rated at A3 by Moody's with negative outlook while NANYAN is rated at Baa1 from A3 with negative outlook after the 1 notch downgrade in Jan'24.

Table 2: Financial highlights of NANYAN and its peers

FY23	Total asset (HKDmn)	CET1 ratio (%)	Tier 1 ratio (%)	CAR (%)	ROA (%)	ROE (%)
NANYAN	555	13.23	15.20	18.56	0.63	3.27
BNKEA	860	17.30	19.40	22.00	0.47	2.78
CINDBK	470	13.40	16.40	20.10	0.56	2.79

Source: Bloomberg.

➤ Zhongsheng: More early redemptions on CB and the '26?

Zhongsheng announced to fully accept the tendered amount of USD292.166mn for ZHOSHK 3 01/13/26 at 96.6. We estimate that the remaining proceeds from the USD600mn issue of ZHOSHK 5.98 01/30/28 to be cUSD307mn after settlement of the tender offer (tendered price of 96.6 and small accrued interests). We expect Zhongsheng to fund its capex over the coming 3-4 years with internal resources and understand that it is in advance stage of refinancing the offshore syndicated loans due Apr'25 with another 3-yr syndicated loans of USD350mn with lower credit spread (although higher SOFR will lead to higher all-in funding cost). Hence, the remaining proceeds of cUSD307mn offer Zhongsheng the war-chest for further early redemptions of its CB due May'24 and ZHOSHK 3 01/13/26. We like the improving credit story of Zhongsheng. The larger than expected issue of ZHOSHK 5.98 01/30/28 and concurrent tender offer, coupled with the “roll-over” of syndicated loans and NAFMII’s approval for onshore bond issuance of RMB5bn, will significantly alleviate its refinancing pressure over the coming 2 years. See our detailed analysis on 13 Jun'24 and comments in our daily on 24 Jul'24. We maintain buy on ZHOSHK 3 01/13/26, ZHOSHK 0 05/21/25 (CB) and ZHOSHK 5.98 01/30/28. The likelihood of further redemptions of the CB and ZHOSHK 3 01/13/26 will continue to support their performance.

Ticker	Ccy	O/S (mn)	Coupon	Maturity	Offer price	Z-spread	YTM (%)
ZHOSHK 0 05/21/25 CB	HKD	3,124.0	0.0%	5/21/2025	112.1	132.9	5.9%
ZHOSHK 3 01/13/26	USD	450.0	3.0%	1/13/2026	96.7	95.9	5.4%
ZHOSHK 5.98 01/30/28	USD	600	5.98	1/30/2028	99.7	219.0	6.1%

Source: Bloomberg.

➤ China Policy - Noteworthy shift of focus, yet without detail

The Politburo of the Communist Party of China held a meeting on Tuesday to set out economic priorities for 2H24. The meeting indicates a good shift of policy focus to weak consumption, yet without detail on how to revive consumer income and confidence in future. The focus shift was shown by the interest rate cuts and fiscal subsidy plan on equipment renewal announced last week. But market sentiment has remained weak recently as most investors see insufficient fiscal support to households. The Politburo said some new fiscal measures will be prepared but without elaboration on the plan. We believe new fiscal stimulus could potentially be launched if Trump wins the US presidential election and sharply raises tariffs against China. We expect China’s monetary policy to remain accommodative with additional cuts by 10-20bps in LPRs, refinancing rates and deposit rates in the remainder of the year. As US Fed starts to cut interest rates from September, Renminbi may face less downward pressure in next four quarters. China will continue to inject huge credit and fiscal resources to support the development of high-tech industries. Meanwhile, it may strengthen self-discipline of industry associations as well as market discipline to reduce vicious involution and competition.

More focus on consumption. The Politburo pointed to a shift the focus of economic policies toward benefiting people’s livelihood and promoting spending. It seems the policymakers have recognized consumer demand weakness is a key problem of the economy. This was echoed by the recent string of interest rate cuts by the PBOC as well as the fiscal subsidy of RMB300bn to businesses and households for their equipment and durables renewal. The Politburo made a good shift of policy focus, but still lacked a specific plan on how to revive consumption. Consumption was weak mainly because of sluggish household income and low confidence. In

1H24, individual income tax dropped 5.7% YoY and consumer confidence remained low with a high saving ratio. The stock market continued to decline after the recent interest rate cuts and fiscal subsidy plan because most investors thought those policies were insufficient to address the weakness of consumer income and confidence. To boost market sentiment, China needs a convincing plan on how to improve employment conditions, household income and consumer confidence.

To prepare some new fiscal measures. The leaders said to prepare a batch of new fiscal measures in advance yet without elaborating the plan. The outcome of the US presidential election may be an important factor for China's policy dynamics in future. If Trump wins and significantly increases tariffs against China, China may launch additional fiscal stimulus to offset the tariffs impact. The leaders also pledged to make greater efforts to promote the renewal of equipment and consumer durables with fiscal support. The current planned fiscal subsidy totals RMB300bn for industrial equipment, environmental infrastructure facility, transport vehicles, logistic equipment, educational equipment, healthcare equipment, power generation or grid equipment, agricultural machinery and home appliances. The policy effect may vary across different sectors. Some sectors like auto may see a limited boost effect as the policy stimulus in the past two years may have already exhausted some demand for the next two years.

To increase financing support to real sector. The Politburo called for increasing financial service support to real economy with a decline of financing costs. We estimate China's monetary policy may remain accommodative with additional cuts by 10-20bps in LPRs, refinancing rates and deposit rates in the remainder of the year. Top leaders said to keep renminbi exchange rates basically stable around reasonable equilibrium levels. As the US dollar is likely to mildly weaken if the Fed starts to cut rates in September, renminbi may face less downward pressure in next four quarters. We maintain our forecast on USD/RMB rates at 7.2 at end-2024 and 7.15 at end-2025.

To accelerate technology development and reduce vicious competition. The Politburo emphasized boosting technological self-reliance and self-improvement with breakthroughs in key technologies. Top leaders required strengthening the self-discipline mechanism of industry associations to avoid "involution-style vicious competition" and facilitate the exit of obsolete capacity by enhancing market discipline. This might be the first time for top leaders to make a policy response to the involution and overcapacity issue in some sectors. Due to a high proportion of private enterprises in related sectors, however, the policymakers may not use administrative policies to push forward overcapacity reduction as they did in 2015-2017.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Nanyang Commercial Bank	700	10NC5	6.0%	T+210	Baa2/-/-
Ninghai City Investment Group	100	3yr	5.6%	5.6%	-/-/-
Yunnan Communications Investment and Construction	200	2yr	6.4%	6.4%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ **News and market color**

- Regarding onshore primary issuances, there were 76 credit bonds issued yesterday with an amount of RMB47bn. As for month-to-date, 1,923 credit bonds were issued with a total amount of RMB1,871bn raised, representing a 20.2% yoy increase
- **[ADEIN]** Media reported that Adani Enterprises intends to launch public bond issue of up to INR6bn (cUSD71.7mn) within weeks
- **[ADTIN]** Media reported that Adani Energy Solutions is likely to raise USD1bn through a qualified institutional placement of shares before 10 Aug'24
- **[APLNIJ]** Agung Podomoro 1H24 revenue rose 0.9% yoy to cUSD116mn and net profit turned to positive cUSD4mn
- **[HYUELE]** Media reported that SK Hynix plans to start mass production of next-generation GDDR7 in 3Q24
- **[VEDLN]** Vedanta received consent from 75% of its secured creditors for demerger filing
- **[ZHHFGR]** Zhuhai Huafa to issue RMB1.9bn 6% senior guaranteed perp

Fixed Income Department

Tel: 852 3657 6235/ 852 3900 0801

fis@cmbi.com.hk

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