

CMBI Credit Commentary

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

- *Market was stable this morning. NWDEVLs were unchanged to 2.5pts lower this morning after the profit warning and managerial changes at CTF. See comments below.*
- **Zhongsheng:** *Weaker 1H24 results but net debts reduction continues. Maintain buy on ZHOSHKs. See comments below.*
- **China Economy** - *PMI further softened. See below for comment from CMBI economic research.*

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❖ Trading desk comments 交易台市场观点

Asia IG space was quiet last Friday. The new BOCAVI '31 tightened 2bps. The new CATLIF '39 was traded in mixed two way flows and closed 1bps tighter. The new KNBZMK 29/34 widened 1bp. In JP, SUMIFL/SMBCAC 28-34s tightened 1-3bps on some AM buying. In Chinese IGs, SINOCH '31/TENCNT '28 widened 1bp. ZHOSHK '28 widened 6bps. See comments below. In financials, GRWALL'30/Perp were unchanged to 0.1pt higher (4-8bps tighter). In AT1s, INTNED 8 Perp/BNP 8 Perp were up 0.1pt. In HK, NWDEVLs closed unchanged to 0.4pt lower. See our comments below. LIFUNG/CKINF Perps were 0.2-0.9pt higher. Chinese properties were mixed. SHUION '25 and '26 dropped 5.9pts and 1.1pts, respectively, post the announcement of its unaudited 1H24 results. VNKRL '27 was 0.5pt lower. On the other hand, LNGFOR 27/28/29 were 0.3-0.7pt higher despite Moody's downgrade. YLLGSP/COGO 26s were up 0.2-0.3pt. In industrials, HILOHO '24 was up 3.1pts. EHICAR '27 was up 0.3pt. In Indonesia, LPKRIJ '26 was up 0.5pt. In India, ADSEZs/ADANEMs were up 0.2-0.6pt. UPLLINs were unchanged to 0.2pt lower, but closed 0.9-2.5pts higher WoW.

In LGFVs, CPDEV 25/26 were 0.4-0.5pt higher. KMRLGP '24 was 0.3pt higher. HZCONI '25/WUXIND '26 were up 0.1pt. The new FRESHK 5.875 '28 closed unchanged. GRPCIN/SUNSHG/ZHONAN 26s were up 0.1pt. In SOE perps, CHCOMU 3.65 Perp/HUADIA 3.375 Perp were up 0.1-0.2pt, CHPWCN 4.25 Perp was down 0.1pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
HILOHO 9 3/4 11/18/24	57.6	3.1	SHUION 5 1/2 03/03/25	82.0	-5.9
CKINF 4.85 PERP	89.0	0.9	SHUION 5 1/2 06/29/26	76.6	-1.1
PRUFIN 2.95 11/03/33	92.0	0.7	MUFG 4.286 07/26/38	94.1	-0.9
LNGFOR 4 1/2 01/16/28	78.3	0.7	SINOPE 4 1/4 05/03/46	91.9	-0.8
ADSEZ 5 08/02/41	84.6	0.6	RILIN 3 5/8 01/12/52	74.0	-0.7

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+1.01%), Dow (+0.55%) and Nasdaq (+1.13%) rallied higher on last Friday. US Jul'24 core PCE rose 0.2% mom, in line with the expectation. Euro-zone Aug'24 CPI was +2.2% yoy, in line with the expectation. UST yields edged up on Friday, 2/5/10/30 yield reached 3.91%/3.71%/3.91%/4.20%.

❖ Desk analyst comments 分析员市场观点

➤ NWDEVL: Core operating profit to down 18-23% yoy in FY24

Last Friday, New World Development (NWD) issued a profit warning. It expects to recorded a loss attributable to shareholders of the company (incl. continuing and discontinued operations) of HKD19-20bn in FY24, compared to profit attributable to shareholders of the company of HKD900mn in FY23. The losses were mainly due to non-recurring and non-cash items, including properties and goodwill impairment losses of HKD8.5-9.5bn, as well as losses from disposal of NWS Holdings and adoption of HKFRS 17 with effective from 1 Jul'23 totaled HKD8.3bn. As disclosed in the circular dated 13 Oct'23, the losses from the sale of NWS would be HKD2.4bn prior to the adoption of HKFRS17, implying that the losses resulting from the adoption of HKFRS17 would be cHKD5.9bn. NWD expects the core operating profit from continuing operations to decrease 18%-23% yoy to HKD6.5-6.9bn, due to weak sales of Pavilia Farm I & II. We are not too concerned on the non-recurring and non-cash losses in view of NWD's good progresses in refinancing and NCD. Indeed, we are more focused on the reshuffling of the management of CTF and will monitor if the managerial changes at CTF will affect its support to NWD.

On refinancing, NWD completed debt maturities arrangements of over HKD16bn in Jul and Aug'24. Recalled that NWD issued USD bonds of USD400mn and repurchased USD bonds and perp totaled USD154.5mn via tender offer. Besides, NWD is actively pursuing NCD to enhance its liquidity. In Mar'24, NWD sold its interest in the D-PARK mall to Chinachem for HKD4.02bn. In Aug'24, NWD completed the sale of 30% equity interests a commercial complex building in Qianhai, Shenzhen to CTF for RMB1.4bn. Recently, media reported that NWD is in talks with CR Longdation, a unit of China Resource (Holdings), for the sale of K11 Art Mall for HKD9bn.

We continue to expect NWD to make more early-redemptions after black-out period for FY24 results. Within the NWDEVL complex, NWDEVL 5.25 Perp remains our top pick in view of its more balanced risk-return profile, i.e. lower cash price, higher YTC and highest credit spread (1103bps) after the first call date. NWDEVLs were unchanged to 2.5pts lower this morning after the profit warning and managerial changes at CTF.

Table 1: NWDEVL's USD bonds

Security Name	ISIN	Amt Out (USD mn)	Ask Price	YTM/YTC (Ask)	Next Call Date	Coupon reset	Coupon Step-up
NWDEVL 6.15 PERP	XS2435611327	345	98.1	9.7	3/16/2025	3yrUST+6.201%	300bps
NWDEVL 5 ¼ PERP	XS2132986741	999	86.2	15.5	3/22/2026	5yrUST+7.889%	300bps

NWDEVL 4 ¼ PERP	XS2348062899	1140	65.3	17.8	3/10/2028	5yrUST+5.858%	300bps
NWDEVL 6 ¼ PERP	XS1960476387	1300	55.5	11.3	3/7/2025	-	-
NWDEVL 4.8 PERP	XS2268392599	700	44.8	10.7	9/23/2024	-	-
NWDEVL 4 ¾ 01/23/27	XS1549621586	458	91.5	8.8	--	-	-
NWDEVL 5 ¾ 06/16/27	XS2488074662	172	92.4	9.0	3/16/2027	-	-
NWDEVL 8 ¾ 02/08/28	XS2873948702	400	96.5	9.8			
NWDEVL 4 ½ 07/18/29	XS2028401086	718	77.0	10.2	--	-	-
NWDEVL 4 ½ 05/19/30	XS2175969125	443	75.4	10.3	--	-	-
NWDEVL 3 ¾ 01/14/31	XS2282055081	76	71.1	10.0	--	-	-

Source: Bloomberg.

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➤ Zhongsheng: Weaker 1H24 results but net debts reduction continues

Maintain buy on ZHOSHKs

Zhongsheng (rated Baa2/BBB/BBB by Moody's/S&P/Fitch) reported weaker than expected 1H24 results due mainly to lower ASP in new car sales. That said, the impact was partly mitigated by the growing contributions from used car sales, as well as accessories and after-sales services. Zhongsheng continues to generate positive free cash flow to reduce net debts. Additionally, the funding exercises since Jul'24 have considerably shore up its liquidity and relieved its refinancing pressure over the coming 1-2 years. We consider Zhongsheng a solid IG. In our opinion, ZHOSHKs are good shorter-dated carry plays and candidates for early redemptions, especially the CBs. We maintain buy on ZHOSHKs.

Table 1: Summary of Zhongsheng's o/s bonds

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	112.5	178.9	6.1%
ZHOSHK 3 01/13/26	USD	157.8	3.0%	1/13/2026	96.4	179.1	5.8%
ZHOSHK 5.98 01/30/28	USD	600.0	6.0%	1/30/2028	99.1	275.6	6.3%

Source: Bloomberg.

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➤ China Economy - PMI further softened

China's economy further softened as manufacturing PMI in Aug hit another YTD low since Feb and has contracted for the fourth consecutive month. Production slid into contraction dragged by weak demand in new orders. Corporate procurement notably contracted while de-stocking persisted. Construction activities sharply slowed down as its PMI receded to a new low since Feb 2020. Deflation in manufacturing further escalated as ex-factory price index notably dropped due to declining material purchase prices. Employment also remained sluggish, weighing on consumer sentiment, which currently hit a historic low. The softening PMI indexes, escalated deflationary pressure and deteriorating employment conditions all point to weakening economic momentum heading into 4Q24. The policymakers may start to focus on boosting consumption as they have increased fiscal subsidies to consumers for auto & home appliance upgrading recently and may further lower outstanding mortgage rates to relieve household debt burden. 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.

Manufacturing PMI dipped further amid broad-based deterioration. China's manufacturing PMI dropped to 49.1% in Aug from 49.4% in July, hitting another YTD low since Feb and missed the consensus expectation of 49.5%. New orders index edged down to 48.9% in Aug from 49.3%, the lowest since last Dec, as demand

softened amid weaker consumer sentiment and employment conditions. New export order edged up to 48.7% from 48.5%. Dragged by sluggish demand, production index slid into contraction at 49.8% from 50.1%. Existing order further contracted to 44.7% from 45.3%, while supplier delivery time further shortened with its index at 49.6%. The extent of contraction in corporate procurement deepened to 47.8% in Aug from 48.8%, the lowest reading since Dec 2022. De-stocking persisted as raw materials inventory and finished goods inventory kept contracting, registering 47.6% and 48.5% in Aug compared to 47.8% and 47.8% in July. Breaking down by sector, new orders index of food, alcohol, beverages & tea, transportation equipment other than vehicle and electrical equipment showed booming demand and production while chemical fibers, rubber & plastic products, ferrous metal smelting and processing, specialized equipment and etc. remained in deep contraction. PMI of large enterprises inched down to 50.4% in Aug from 50.5%; while medium and small enterprises notably contracted to 48.7% and 46.4% from 49.4% and 46.7% from 49.8% and 47.4%.

Deflation in manufacturing products further escalated amid decline in raw material prices. Ex-factory price index sharply dropped to 42% in Aug from 46.3%, the lowest reading since May 2023, as material purchase prices dropped to 43.2% in Aug from 49.9%. We might see some easing of cost-side deflationary pressure since global commodity prices have stabilized in Aug amid expectations of the Fed's pivot. Meanwhile, service price index dropped to 47.1% from 48%, while construction price softened to 48.1% from 49.3%. Looking forward, China's deflation pressure may minimally improve as CPI gradually rebounds within the lower positive range due to mildly reflating service prices and the low base effect. PPI may encounter more headwinds as previous cost-driven deflation runs its course while narrowing its YoY decline due to the base effect.

Service PMI mildly rebounded while construction activities notably slowed down. Non-manufacturing PMI edged up to 50.3% in Aug from 50.2%, slightly above market expectation. Service PMI expanded to 50.2% in Aug compared to 50% in July. New order index marginally rebounded to 46.8% from 46.7%, while business activity expectations dropped to 55.4% from 56.6%, the lowest reading since Dec 2022. Breaking down by sector, activities in air and railway freight, postal services, TV & broadcast, and culture, sports & entertainment activities reached above 55% in Aug, while real estate, capital market and resident services stayed in contraction. Construction PMI sharply slowed down to 50.6% in Aug from 51.2% in July, the lowest reading since Feb 2020, as growth of fixed asset investment moderated. New order index rebounded to 43.5% from 40.1%.

Employment remained sluggish. Employment indexes in manufacturing, service and construction all remained in contraction. The first two declined to 48.1% and 45.9% in Aug from 48.3% and 46.4% while the latter edged up to 41% from 40.2%. The weakening employment conditions have weighted heavily on consumption, as consumer sentiment index reached another low in June.

China is poised to further loosen policies to support the economy. The softening PMI indexes, escalated deflationary pressure and deteriorating employment conditions all point to weakening economic momentum heading into 4Q24. The policymakers have made a subtle shift towards demand-side stimulation as they raised fiscal subsidies to households for their auto & home appliance upgrading and may further lower outstanding mortgage rates. China will have further policy flexibility in 4Q24 as the higher likelihood of Harris winning indicates increasing consistency in China-US relationship while expectations of the Fed's pivot in Sep means concerns over exchange rates become less of a constraint for PBOC. 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. China might strengthen its countercyclical support through credit and fiscal resources for the development of high-tech industries, existing home buybacks and private consumption stimulus.

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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)
Nan Shan Life Insurance	USD	-	10yr	-	-/BBB/BBB
Power Construction Corp. of China	USD	-	3yr	-	-/-/A-

➤ News and market color

- Regarding onshore primary issuances, there were 45 credit bonds issued on last Friday with an amount of RMB40bn. As for month-to-date, 2,138 credit bonds were issued with a total amount of RMB2,052bn raised, representing a 9.6% yoy increase
- Macau gaming revenue rose 14.8% yoy to MOP19.8bn in Aug'24
- [BNKEA]** Bank of East Asia announced to redeem all outstanding USD650mn AT1 on 19 Sep'24
- [FUTLAN/FTLNHD]** Seazen Holding 1H24 revenue down 19% yoy to RMB33.9bn and net profit down 42% yoy to RMB1.3bn
- [HPDLF]** H&H International signed USD560mn syndicated refinancing facilities agreement
- [LASUDE]** Media reported that Lai Sun Development has no plan to sell Hong Kong Ocean Park Marriott hotel
- [LNGFOR]** Moody's downgraded Longfor to Ba3, Longfor's senior unsecured ratings to B1 with negative rating outlook
- [PCORPM]** Petron got Philippine Stock Exchange's approval for USD302mn share offering
- [SHIMAO]** Shimao Group extended early consent fee deadline for offshore debt restructuring to 31 Oct'24
- [SINOCH]** Media reported that Sinochem plans to sell minority stake in US shale JV for cUSD2bn
- [XIAOMI]** S&P affirmed Xiaomi's BBB- rating and revised rating outlook to positive from stable

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