

CMBI Credit Commentary

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

- *Markets sentiment was cautious and tended to sell this morning. Perps and AT1s were better selling and AT1s down ~0.25pt. Some short squeeze showed on LZINVE'22 and pushed its price to 94 level. China property sector were dragged by AGILE and CIFIHG.*
- **CHFOTN:** *Thoughts on the debt restructuring plan. See below.*
- **AGILE:** *Media reported that Agile was uncertain to redeem its onshore bonds 20Panya02 (o/s RMB1.5bn) due 19 Oct'22 on time. AGILE'25/26 down 2-5pts this morning.*

❖ Trading desk comments 交易平台市场观点

Yesterday, IG space held up relatively well post another 75bps rate hike and hawkish comments from Powell, with T2s outperformed again. Financials space was roughly steady, despite soft macro sentiment. AT1s were sold by offshore AM/PB to close 0.125-0.25pt lower, while ICBCAS 3.2%/ BOCOM 3.8% showed some resilience. Bank T2s emerged a strong wave of street lifting on BCHINA'24/CCB'29, pushed the sector 1-2bps tighter. Overall, T2 papers were sought after, by dealers covering shorts in <+100 spread papers and Chinese RM in >+100 spread (so again ~5%+) papers as these bonds had cheapened a lot in absolute yield terms following the rates move. AMC space moved 0.5-1pt lower post S&P rating action. HRINTHS dipped down 0.25-0.375pt. Under the backdrop of treasury yield jump, TMT 10yr papers opened wider but turned to better buying, with TENCNT/MEITUA tightened 4-6bps. IG property dipped down 0.5pt on the back of negative sentiment from broad real-estate sector. China HY space closed 1-4pts lower on RM/Chinese de-risking. Market spotlight was onshore chatter that CIFI sought extension of a private bond with RMB500mn in principal outstanding due late this month. Despite CIFI denied the matter and circulated the completion of RMB1.2bn CBIC-back notes offering, CIFIHGs fell 4-5pts, with its long-end below 40 level once again. COGARDs were also down 2-3.5pts across the curve. Elsewhere, AGILEs closed down 3.5-4.5pts and FTLNHDs also down 1.5-2.5pts, on RM/PB better selling. In industrial space, FOSUNIs/EHICARs were 1pt higher amid PB better buying interest. Away from China, India HY AZUPOEs slightly bounced back 2-4pts amid media reported the renewable power producer might publish its delayed annual report for FY22 by mid-Oct. VEDLNs were unchanged to 0.5pt higher post the USD700mn facility news. Indonesian HY BUMIJ was up 1-2pts.

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

Cyrena Ng, CPA 吴倩莹
(852) 3900 0801
cyrenang@cmbi.com.hk

CMBI Fixed Income
fis@cmbi.com.hk

The LGFV/SOE space had an especially busy day post FOMC meeting as further 75bps and 50bps hikes in Nov and Dec seemed to be all but certain. SOE perps/AT1s were down 0.375-0.625pts following 2y rates' climb to ~4.1%, as pretty much all papers callable beyond 22s rushed to 5% or above. In terms of flows, we saw global RM selling SOE perps whilst Chinese fund managers initially tried to pick up offers ~5% but eventually the former would dominate. In LGFVs, flows were concentrated in AM selling front-end 22s papers in rush to raise cash. On the other hand, there were still a plenty of mandates who could park spare cash in these short-dated papers, although it did seem like even for 22s yields were edging higher to low-mid-4% in more cases. Elsewhere, 2-3y papers at 4%/5%-handle were marked down quite aggressively, led by recent papers that had an indigestion post-primary where bids were low-ball only, but overall selling flows were tiny. 23-25s papers only marked 0-0.125pt lower despite the higher rate path. LZINVE was better buying and was traded back to 94 level, on the back of consistent PB demand. ZHANLO/SHURGP ended unchanged to 0.125pt higher.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
AZUPOE 5.65 12/24/24	80.2	3.6	CIFIHG 5 1/4 05/13/26	40.1	-5.0
LZINVE 4.15 11/15/22	93.3	3.4	CIFIHG 4.45 08/17/26	40.1	-4.9
GRNLGR 5 7/8 07/03/24	43.7	2.6	CIFIHG 4 3/8 04/12/27	38.9	-4.7
CHJMAO 4 7/8 PERP	78.1	1.8	CIFIHG 5.95 10/20/25	42.8	-4.6
FOSUNI 5.95 01/29/23	83.4	1.7	CIFIHG 6 07/16/25	43.2	-4.6

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets down consecutively in previous 3 days. The S&P (-0.84%), Dow (-0.35%) and Nasdaq (-1.17%) fell on Thursday amid markets pessimistic forecast of further interest rate hike and economic growth. Bank of England raised 50bps and pushed the base rate to 2.25% from 1.75%, the 75bps hike was lower than markets expectation by 25bps. U.S. weekly new jobless claims was published as 213k, increasing 5k compared to last week. The U.S. treasury yields bear steepened yesterday and the yields curves were inverted that 2/5/10/30 yield reaching 4.11%/3.91%/3.70%/3.65%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ CHFOTN: Thoughts on the debt restructuring plan

8-yr extension, up to 70% debt to trust/equity swap....

In brief, the debt restructuring plan is to swap up to 70% of its debt into trust units/equities or extend maturity of CFLD's "eligible redemption debts" of RMB134bn for 8-year, and the remaining 30% will be settled with proceeds from asset disposals. The eligible redemption debts include 11 offshore bonds with total outstanding amount of USD4.96bn (cRMB35bn) and other onshore debts. CFLD will earmark an asset portfolio with NAV of RMB50mn, c30% of eligible redemption debts of RMB134bn. CFLD is yet to identify the disposable assets and hence, we do not have sufficient information to gauge the fair value of disposable assets. Please see the Appendix 1 for details of the restructuring plan.

....cash redemption by Dec'23 is on a best effort basis....

As per the debt restructuring plan, CFLD will sell assets in disposable portfolio and, on a best effort basis, to redeem 64.2% of Bond 1 in cash, i.e. c30% cash repayment (including 1% cash prepayment fee to be paid on restructuring effect date) by 31 Dec'23. Failure to Bond 1 in cash by 31 Dec'23 is not an event of default.

.... 1% cash prepayment fee to be deducted from principal amount

In our view, the cash pre-payment fee is more of a principal repayment as the “fee” will be deducted from the principal amount. The cash prepayment fee deadline is on 13 Oct'22 and the longstop date of the restructuring plan is 31 Mar'23.

Bond 2 or Bond 3?

We do not have sufficient information on the 3 companies to gauge whether the equity valuation of RMB50bn by 2026 is fair! There will be no investors' put on Bond 2 if these businesses will not be IPOed by 2026.

Another noteworthy point is that there is no cap on holders to pick Bond 2. Assuming creditors of all the remaining 53.3% eligible redemption debts, i.e. RMB71.4bn, pick Bond 2, the attributable value of the equities will only be sufficient to cover c35% of Bond 2 before the 33% premium to incentivize holders to pick Bond 2. Recalled that holders of Bond 2 will have a maximum of 50% interests in the 3 companies, hence valuation attributable to Bond 2 holders will be capped at RMB25bn based on the valuation of CFLD.

Will Bond 3 offer more uncertainties? We are not sure! We expect that CFLD have to carve out the more liquid and higher quality assets as credit enhancements for Bond 1 and Bond 2. If so, there will be quite a bit of uncertainties in term of the sources of repayment for Bond 3 after 8 years.

What are the approval thresholds?

CFLD and its advisor are yet to decide if the restructuring will be in the form of consent or scheme, pending on the investors' response. For consent, the restructuring of each individual USD bonds is not dependent on the consent of other bonds. Theoretically, CFLD can restructure some instead of all USD bonds. The approval thresholds are a quorum of at least 2/3 in principal amount and at least 2/3 in principal amount of the quorum vote for the restructuring proposal.

For scheme, the approval will be on an aggregate basis for the 11 outstanding USD bonds. The approval thresholds are at least 75% in principal amount and at least 50% headcount in the creditors' meeting. There will be no minimum principal amount requirement in the scheme meeting.

Ad-hoc group claims to have secured veto

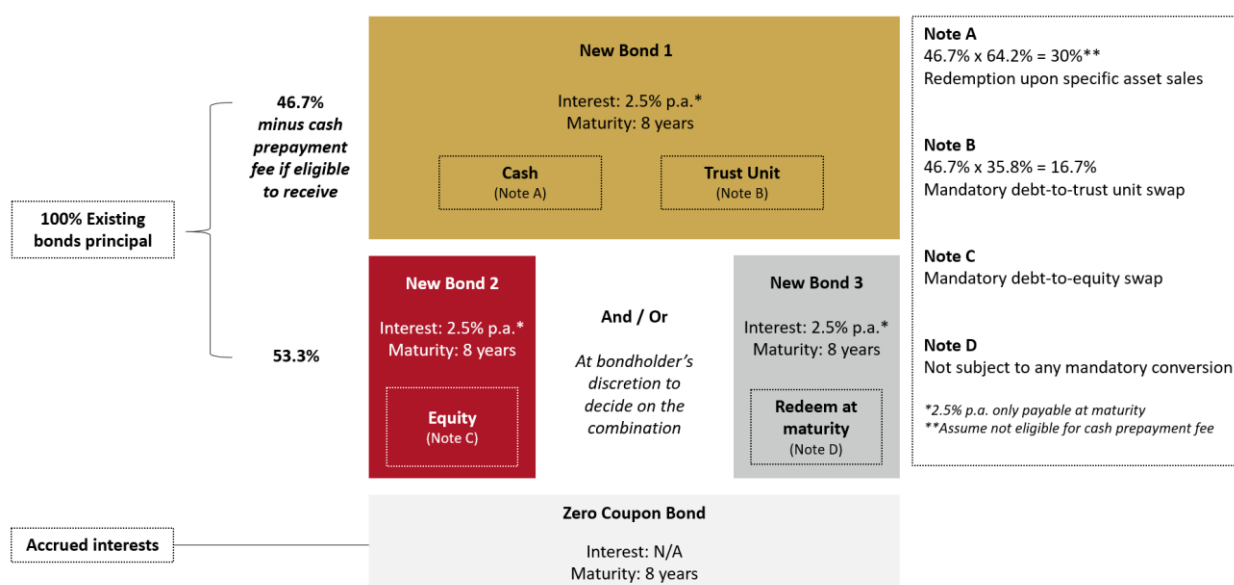
The ad-hoc group claimed in the call last evening that it held over 25% of the aggregate amount CFLD's USD bonds, and a veto of the restructuring plan. The group mentioned its opposition to the existing restructuring plan, and preparation for winding-up petitions in Hong Kong.

Fair value estimates at 16-51 per 100

Purely for the sake of discussions, we estimate the fair value of CHFOTNs to be 16-51. We assume that CFLD can divest the disposable asset portfolio by end of 2023 and monetize the trust by end of 8th year but apply discount rates of 0-50% to the asset value provided by the company. For the equities, we assume that investors can monetize them by end of 2026, again, we apply discount rates of 0-50% to the valuation of RMB50bn provided by the company various. A caveat is not all creditors can pick 100% Bond 2 as discussed previously.

Discount to asset/equity values provide by CFLD		Discount rate		
		30%	35%	40%
0%	Bond 1/Bond 2	50.7	45.8	41.7
	Bond 1/Bond 3	33.4	30.0	27.4
30%	Bond 1/Bond 2	35.9	32.4	29.5
	Bond 1/Bond 3	26.0	23	20.8
50%	Bond 1/Bond 2	26.0	23.5	21.4
	Bond 1/Bond 3	21.1	18.4	16.3

Appendix 1: Summary of debt restructuring plan



➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
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No Offshore Asia New Issues Priced Today

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Jinan Shizhong Finance Investment Group	USD	-	364d	6.3%	-/-/-

➤ Market conditions and color

- Regarding onshore primary issuances, there were 76 credit bonds issued yesterday with an amount of RMB63bn. As for Month-to-date, 1026 credit bonds were issued with a total amount of RMB1057bn raised, representing a 1.1% yoy increase
- Media reported that China has dispatched a group of officials from CSRC and Ministry of Finance to help US inspectors review audits in Hong Kong
- [AGILE]** Media reported that Agile was uncertain about whether it would be able to redeem its RMB1.5bn 6.2% private notes 20Panya02 due 19 Oct'22 on time
- [CIFIHG]** CIFI Holdings raised RMB1.2bn(cUSD170.3mn) via 3yr notes backed by CBICL to repurchase its USD bonds; CIFI denies the rumors about its private bond maturity extension
- [CRHZCH]** China Resources Land proposed to spin off and listed its Shanghai rental residential housing property as REITs to raise RMB1.12bn
- [GZFYRE]** Moody's downgraded the corporate family rating of Guangzhou Fineland Real Estate to Ca1 from B3 and maintained negative outlook
- [JINKE]** Jinke Property Group got approval from bondholders to extend the payment date of its RMB800mn 6.8 due 19 Sep'22 onshore bonds by 270days
- [SHIMAO]** The proposal to extend the principal repayment date of 20ShimaoG4 (o/s RMB500mn, original due 24 Sep'22) for 2 years was approved by bondholders
- [SUNAC]** Media reported that Sunac Real Estate proposed to further extend the maturity of its RMB4bn(o/s RMB3.47bn, cUSD489.3mn) 4.78% notes due Sep'23 by six months

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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