

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 2023”](#). Thank you for your time. Your support will mean a lot to us.

- *Markets continue to be risk-off as rates rallied higher. In Asian IG space, TMT benchmarks widened 2-5bps. HRINTHs down 0.25-0.5pt. KR names and low beta names like HKAA were better buying. LGFV/SOE Perps were weak and overall slightly dropped.*
- **SAKAEI:** *Another tender offer for SAKAEI'24. We continue to view SAKAEI a good short-dated and leverage play. SAKAEI'24 rose 0.5pt this morning. See below.*
- **China LGFVs:** *Refinancing environment could worsen amid government's effort to defuse debt risks. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, Asia ex-JP IG space closed on a slightly risk-off tone post the FED minutes on Wed night that implied more hawkish stance from FED officials. On Thu night, UST 2Y yields jumped past 5%, and 10Y yields spiked 5bps to break 4%, post stronger-than-expected ADP figures. The new KOEWPW 28s, priced at T+98, were traded at T+95/+94 and closed 3bps tighter inside RO. The other Korean recent new issues were also better bid. KORGAS/NACF 28s were unchanged to 1bp tighter. In Chinese SOEs, HAOHUAs/CHALUMs were under better selling. TMT benchmarks TENCNT 30s/BABA 31s edged 2-4bps wider. The high beta TMTs such as WB/MEITUA 30s were traded 7-10bps wider. In financials, AMCs performed softly. The long-end of HRINTH curve was traded 0.25-0.5pt lower (10-25bps wider). GRWALL curve was also quoted down ~0.25pt. Chinese AT1s were under better selling, following the rates move and weakness from the equities side. The big-5 bank AT1s such as ICBCAS 3.2 Perp/BOCOM 3.8 Perp were marked down 0.125-0.25pt. Chinese properties were mixed. SINOCEs rebounded 1-3.5pts to close between low-10s to high-10s with some short covering flows. On the other hand, COGARD 24s were down 1-1.5pts. AGILE/GRNLGRs drifted 0.75-1.75pts lower. CENCHI 23s were quoted down 2.25pts. Industrials also performed mixed. FOSUNIs/WESCHIs were marked 0.5-1.5pts higher. Whilst EHICARs lowered 0.75-1.5pts. Macau gaming papers MPELs/SANLTDs were quoted down 0.25-0.5pt. In Indian space, VEDLNs declined 0.5-0.75pt. ADANEMs/ADSEZs were indicated 0.25-0.5pt lower. Indonesian names PLNIs/PERTIs were marked 1-1.5pts lower.

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In the LGFV/Perp space, flows were relatively active in the front end papers. The corporate SOE Perps were stable at low-6% thanks to the presence of local buyers albeit in modest size. There were some loosed bonds of 23s/24s call SOE papers coming out but were well absorbed. LGFVs were stable, supported by the cash parking demand in the front end. CPDEVs were traded in some two way flows amid volatilities in SINOCE/property space. Selective Shandong papers such as SHGUOH/QDJZWD 25s drifted 0.125pt lower. Elsewhere, KMRLGP 3.9 '24 was quoted 0.3pt lower. In HK Corp Perp space, NWDEVL/HYSAN Perps were marked 0.25-0.5pt lower. NANFUN Perp was marked 0.5pt lower.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
SINOCE 5.95 02/04/27	11.9	3.5	CENCHI 7.65 08/27/23	7.5	-2.3
SINOCE 6 07/30/24	17.9	2.0	CENCHI 7 1/4 04/24/23	18.1	-2.2
SINOCE 4 3/4 08/05/29	11.5	1.9	FTLNHD 4 1/2 05/02/26	34.8	-1.8
SINOCE 2.7 01/13/25	16.9	1.7	GRNLGR 5.6 11/13/24	26.5	-1.5
FOSUNI 5.95 10/19/25	82.3	1.4	EHICAR 7 3/4 11/14/24	76.4	-1.4

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.79%), Dow (-1.07%) and Nasdaq (-0.82%) dropped after the higher-than-expected Jun ADP employment data was published that increases the possibility of further interest rate hike. US Jun ADP employment was +497k vs. the expectation of +267k. US latest initial jobless claim was +248k, higher than expectation of +236k. US Jun Markit service PMI was 54.4, higher than expectation of 54.1. The US treasury rallied higher yesterday, the 2/5/10/30 yield reached 4.99%/4.37%/4.05%/4.01%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ Saka Energi: Another tender offer for SAKAEI'24

Saka Energi announced another tender offer of up to USD200mn for SAKAEI 4.45 05/05/24. The tender offer price, including the early tender premium of 0.75, is 99.25. The early tender deadline will be on 19 Jul'23. Recalled that Saka Energi upsized its tender offer to USD220mn from USD200mn in Feb'22. It also bought back USD11.981mn in Jan and Feb'22, as well as USD16.77mn in 4Q22. As per Saka Energi, the bonds bought back were cancelled, the outstanding amount of SAKAEI 4.45 05/05/24 before this tender offer should be cUSD376mn. With cash on hand of USD385.8mn and positive free cash flow generation, we see room for Saka Energi to conduct tender offer and on-market purchases of SAKAEI 4.45 05/05/24.

Summaries of the tender offer for SAKAEI 4.45 05/05/24:-

Tender cap	USD200mn
Early tender premium	0.75
Tender consideration	98.5
Total tender consideration	99.25
Early tender deadline	19 Jul'23
Tender deadline	2 Aug'23

At 98.5, SAKAEI 4.45 05/05/24 is trading at a YTM of 6.3% with a yield pick-up of c130bps over PGASIJ'24 and c150bps over INDON 4.45 02/11/24. While the pick-up had narrowed notably over the past 12 months and conviction is lower, we continue to view SAKAEI a good short-dated play, as well as a good leverage play on PGAS in view of Saka Energi's significant improvement in credit profile and the track record of support from PGAS. Saka Energi is a "material subsidiary" of PGN, and the default of Saka Energi, if any, will trigger the cross default of PGN. We believe that PGN will continue to have a strong incentive to support Saka Energi, if needed. Given the higher ASP and increase in production volume, Saka Energi generated large free cash flows in FY21, FY22 and 1Q23. As a result, Saka Energi bought its net debt down by 2/3 to USD280.7mn since Dec'20 with minimal short-term debts after scheduled amortization of shareholder's loan of USD77.6mn. Its net debt/EBITDA was 0.6x in 1Q23, compared with 8.1x in FY20.

➤ China LGFV: Refinancing environment could worsen amid government's effort to defuse debt risks

In the 2022 Budget Report, China's Ministry of Finance (MoF) continues to urge local governments at all levels to reduce debt risks gradually, and investigate and penalize for problems including new hidden debt and falsely reported debt. Meanwhile, media reported that PBOC asked lenders to stop buying bonds sold in China (Shanghai) Pilot Free Trade Zone (FTZ) from issuers without genuine business operations in the region. These are in line with the theme highlighted by President Xi during Politburo held in Apr: to prevent and defuse local government debt risk and called for greater efforts to deal with outstanding hidden debt.

A report from the National Audit Office revealed 49 local governments added RMB41.5bn (cUSD5.7bn) new hidden debts in 2022, by pledging to buy back debt or advance financing for SOE. According to the MoF, LGFV debts (excl. hidden debt) totaled RMB37tn (cUSD5.1bn) as of Apr'23. While there is no official figures for hidden debt, IMF estimated that there was RMB66tn (cUSD9.1bn) of LGFV hidden debt by the end of 2022.

The PBOC's move could block the way for LGFVs to raise fund in FTZ given many of them turned to FTZ bond issuance for refinancing amid the weak market sediment in offshore USD bond market. We expect more challenges for LGFVs to refinance under the current policy theme. We also expect to see enlarged credit differentiation: LGFVs in regions with stronger fiscal profile, such as Guangdong, Zhejiang and Jiangsu, would be able to refinance; while for LGFVs in weaker regions would continue to strive for debt extension talks or seeking help from their respective local governments. Guizhou, Jilin, Gansu, Tianjin, Yunnan are the regions facing higher refinancing risk, in our review. The liabilities ratio (local government debts/local GDP) are among the highest in 2022.

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Toyota Motor Corp	500/500/500	3/5/10yr	5.275%/5.118%/5.123%	T+58/75/108	A1/A+/-
Sumitomo Mitsui Financial Group	850/750/650/650	3/5/7/10yr	3/5/7/10yr	T+120/145 /165/175	A1/A+/-
Sumitomo Mitsui Financial Group	1000	20yr	20yr	T+195	A2/BBB+/-

➤ 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

- **[ADANIG]** Adani Green board approved fundraising of USD1.5bn via issuance of shares
- **[AGILE]** Guangzhou Yue Xiu obtained 7.04% stake in A-Living Smart City Services
- **[CHINSC/FUTLAN]** Media reported that China SCE Group and Seazen are planning to issue CBICL bonds
- **[DALWAN]** Moody's downgraded Dalian Wanda Commercial Management to B1, Wanda HK to B3 and changed outlook to negative; Media reported that Wanda Properties failed to pay and requested extension on a trust facility due-25 Jun
- **[EVERRE]** China Evergrande got cHKD74.7mn from sale of two mansions at Emerald Bay project in Tuen Mun
- **[INNMON]** Fitch affirmed Inner Mongolia Baotou Steel Union at BB+ and placed stable outlook
- **[KWGPRO]** KWG Group appointed Alvarez & Marsal as FA to explore holistic solution

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