

CMBI Credit Commentary

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

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- *Chinese financial space tightened 7bps due to short covering this morning. LGFV mixed while we saw selling on weak region like Shandong/Gansu's bonds but new issues ZHAPIE and GZGETH were stable. HY space was boosted by the news of real estate funds and names with relatively good financial quality like COGARD/CIFIHG went up 2-4 pts.*
- **Chinese AMCs:** *Maintain buy on HRINTHs and CCAMCLs despite CCAMCL's profit warning. See below.*
- **SAKAEI:** *Exploring short-term loans and extension of shareholder's loan. Maintain buy on SAKAEI'24. See below.*

❖ Trading desk comments 交易台市场观点

Chinese IG market spread tightened slightly yesterday. In financial sector, AT1 names ICBCAS/BCHINA upped around 0.5-0.75pts, AMC names GRWALL/HRINTH went up 1-2.5pts with buying flow. TMT sector overall widened, MEITUA /JD were 10-15bps widen and XIAOMI/LENOVO continued down. IG property names VNKRL/LNGFOR recovered around 3pts. China HY space bounced on the back of the Chinese government's plan to set up a real estate fund, COGARD/CIFIHG went up 0.5-2pts, CENCHI' 22 climbed up 10pts and closed at high 70s level on FM/PB consistent buying. AGILE' 22 had balanced two way at low 90s level.

In LGFV space, more onshore buyers on a few recent 25s at low -5%, as positioning seemed to favor the upside in the short term after most loose bonds from primary were absorbed and some dealers might have potentially been left short. In SOE space, CHGRID showed firm demand on the short end, meanwhile steel names, which were beaten on Friday, gradually saw dip buying emerged (led by that in TSSTEE 22) following slightly more selling on Monday morning. Nonetheless on the other hand names from weak regions continued to be one-way offered as screen prices remained staled in many cases. But as selling pressure continued to mount it is only a matter of time when screen prices react and update. SOE perps meanwhile were better offered ahead of FOMC by offshore Chinese and global AM.

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

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

CMBI Fixed Income
fis@cmbi.com.hk

➤ **Last trading day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
CENCHI 6 7/8 08/08/22	69.3	10.2	CHJMAO 4 7/8 PERP	66.9	-5.6
VNKRLE 3 1/2 11/12/29	76.4	5.3	CHNAAR 5 1/2 03/08/24	91.0	-3.1
LNGFOR 4 1/2 01/16/28	65.1	4.6	SHIMAO 4.6 07/13/30	9.0	-2.1
CENCHI 7 3/4 05/24/24	17.5	4.2	AGILE 5 1/8 08/14/22	95.2	-2.1
VNKRLE 3.975 11/09/27	81.3	4.1	FUTLAN 4.45 07/13/25	46.2	-2.0

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock market mixed yesterday, the S&P (+0.13%) and Dow (+0.28%) went up slightly while Nasdaq (-0.43%) downed as TMT sector was affected by the likely 75bps interest rate lifted within this week. The U.S. government plans to report 22Q2 GDP on Thursday and the markets predict there is just a 0.5% or lower increasing. U.S. treasury yields rebounded with 2-5bps on Monday. Yield curves bear steepened with 2/5/10/30 yield reaching 3.00%/2.89%/2.81%/3.04%, respectively.

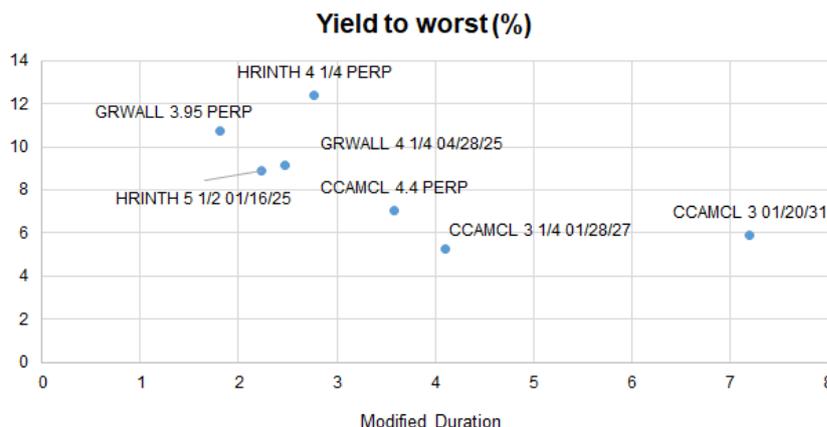
❖ **Desk analyst comments 分析员市场观点**

➤ **Chinese AMCs: Maintain buy on HRINTHs and CCAMCLs despite CCAMCL's profit warning**

China Cinda Asset Management (CCAMCL) announced profit warning on the expectation of 30-35% decline in net profit attributable to equity holders in 1H22 resulting from higher provision. This morning, we see some short covering on short-dated AMC papers along with similar moves in AT1 space. Price movement of AMC papers is otherwise muted.

We think the profit warning of CCAMCL should have limited impact on CCAMCLs and papers of other Chinese AMCs after the sell-off triggered by Great Wall's delay in publication of FY21 results in early Jul'22. Indeed, we consider the sell-off was overdone, and offers better entry opportunities for bonds/perps of central state-owned national AMCs, especially for HRINTHs and CCAMCLs. The Chinese AMCs are playing an ever more important role under China's current economic backdrop. The Chinese government, on the other hand, has demonstrated the strong willingness and ability to support the sector through the bail-out of Huarong. Hence, the near-term default of the sector is low. Additionally, we believe that the technical of the sector is somewhat supported by the net redemption in the USD space. CCAMCL obtained shareholders approved yesterday on the issuance of onshore T2 capital of RMB1bn. Huarong also obtained shareholders' approval to issue up to RMB20bn undated capital bonds onshore in mid Jun'22. YTD, the onshore issuance was only RMB80.6bn, declined 29.8% over the same period last year.

For valuation, we pick HRINTH 5.25% '25 and HRINTH 4.25% perps (callable in Sep'25 at 100). For lower beta options, we pick CCAMCL 3.25%'27, CCAMCL 3%'31 and CCAMCL 4.4% perps. We see trading value in GRWALL 4.25%'25 and GRWALL 3.95% perps. Between HRINTH and GRWALL, we prefer HRINTHs as Huarong is an improving credit with better data transparency and lower headline risk. Please read our comments: [CMBI Fixed Income: China AMCs – Opportunities after the collateral damage](#) published on 14 Jul'22 for more detailed analysis.

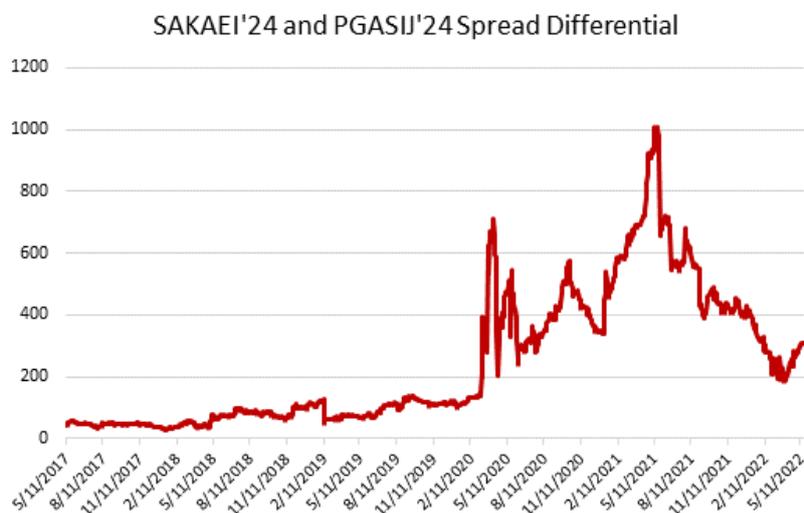


➤ **SAKAEI: Exploring short-term loans and extension of shareholder’s loan. Maintain buy on SAKAEI’24**

Media reported that Saka Energi is exploring short-term working capital loans below USD100mn, potentially with its parent PGN as joint borrowers. In addition, Saka is also seeking extension for its USD76.6mn shareholder loan due Jan’23 from PGN (Tranche A).

	Size (USD mn)	Funding cost	Maturity	Original maturity	Original funding cost
Tranche A	77.6	3.70%	Jan’23	Jan’22	6.40%
Tranche B	141.5	5.09%	Dec’24	Jan’22	LIBOR+2%
	141.5	5.09%	Dec’25	Jan’22	LIBOR+2%

We maintain Buy recommendation on SAKAEI’24 (B2/B+ Stable/Negative by Moody’s/Fitch) and continue to view it a yield pick-up play over PGASIJ’24 given the yield pick-up of c310bps. Despite spread differential has narrowed 110bps since our initiation in Dec’21, we still see room of 50-100bps for further spread compression. As shown in the chart below, the spread differential was below 150bps before the COVID-19 outbreak in Mar’20. In addition, surge in oil price also improved Saka Energi’s operating cash flow and cash position. Recalled that company used internal cash to pay USD220mn tender offer for its SAKAEI’24 in Mar’22. As a 100% owned upstream oil and gas producer of PGN, Saka Energi accounted for 39.0% and 25.5% of PGN’s consolidated FY21 EBITDA and total assets. We believe that Saka Energi is a “material subsidiary” of PGN, and the default of Saka Energi, if any, will trigger the cross default of PGN. Hence, PGN will continue to have a strong incentive to support Saka Energi if needed.



➤ **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Shandong Guohui Investment Holding Group Co. Ltd.	USD110	3yr	5.3%	5.3%	Baa2/-/BBB+
Hangzhou Shangcheng District Urban Construction Investment Group Co. Ltd.	USD300	364d	3.99%	4.5%	-/-/BBB
LOTTE Property & Development Co. Ltd.	USD300	3yr	4.5%	T+155	Aa3/A+/A

➤ **Offshore Asia New Issues (Pipeline)**

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

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 67 credit bonds issued yesterday with an amount of RMB80bn. As for Month-to-date, 1131 credit bonds were issued with a total amount of RMB1111bn raised, representing a 10.6% yoy decrease
- **[CCAMCL]** China Cinda gained shareholders' approval for a plan to issue up to RMB10bn of tier-2 capital bonds. China Cinda expected an up to 35% YoY drop in net profit for 1H22 due to increased provision for credit risk. Cinda International reduced indicative price for sale of 35% stake in JXGM by 10% to attract bids
- **[CHIOLI]** China Overseas Land & Investment issued RMB2bn five-year T3 MTNs at a rate of 3.26%
- **[EVERRE]** Media reported China Evergrande is expected to announce a debt restructuring plan this week
- **[GRNLGR]** Greenland Holding would distribute 1.277bn shares as stock dividends to shareholders
- **[KAISAG]** Kaisa Group would strive to publish its 2021 annual results by the end of October 2022. The Group entered into agreements with CITIC Group to dispose inventory in Shenzhen and a restructure certain projects
- **[PWRLNG]** Powerlong has not paid remaining USD21.294mn non-tendered Fourth 2022 Notes, and may not in position to repay remaining USD37.259mn non-tendered Second 2022 Notes
- **[RISSUN]** RiseSun Real Estate Development disclosed that holders of its "20RongshengdichanMTN001" and "20RongshengdichanMTN002" notes have rejected the proposed exemption of the obligations of cross-protection clause for the issuer at 22 July meeting, but won approval to extend 15 months with amortized payments
- **[RSMACA]** Red Star Macalline won approval to issue SBLC-backed bond of up to USD300mn to refinance its USD300mn 3.375% bond due 21 September

- **[CNSHAN]** Shandong Hi-Speed Group proposed to offer up to RMB2bn corporate bonds to repay interest-bearing debts. The company will have the option to adjust the coupon rate while the bondholders will have puttable option
- **[YUEXIU]** Yuexiu Property signed a HKD700mn 364-day term loan facility agreement

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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