

CMBI Credit Commentary

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

- *Market was quiet with firm sentiment this morning. Non China IGs from AU/KR/JP were under better buying. High-yielding China names such as ZHONAN and properties CPDEV, CHJMAO were well bid.*
- **AACTEC:** *Recovering profitability in 2H23 with cushion to protect the IG status. We maintain Buy on AACTECs, AACTEC'24/26 rose c0.15pt and AACTEC'31 rose 0.75pt post the FY23 results. See below.*
- **VNKRL:** *Ping An Insurance refuted rumor on acquisition of stake in China Vanke from Shenzhen Metro Group. VNKRLs moved -0.2 to +0.3pt this morning.*

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❖ Trading desk comments 交易台市场观点

Asia IGs were mixed yesterday. The recent new SIASP '34 edged 2bps wider. In KR, DAESECS/DFHOLDS tightened 3-5bps and HYUELE/SAMTOT 29s were 2-3bps tighter. In JP, SMBCAC 33s tightened 3bps. In Chinese IGs, benchmark TMTs BABA/TENCNT 30-31s were 1-3bps wider under profit taking. The high beta TMTs such as MEITUA/XIAOMI 30s closed unchanged to 2bps wider. In financials, BOCAVI 28-33s widened 1-2bps. AMCs were mixed with buying in HRINTH 24-25s and selling in HRINTH 30s. ORIEAS 27s widened 2bps. In T2s, DAHSIN '33 tightened 9bps amid buying from onshore RMs. BNKEA 27-28s tightened another 5-10bps under AM/PB chasing and BNKEA Perps were unchanged to up 0.1pt. AT1s were firm. BCHINA/ICBCAS Perps were up 0.1pt. DBSSP/KBANK/KTBTB Perps edged 0.1-0.3pt higher under short covering. EU AT1s remained under buying in the Asia session. STANLN/SOGEN/INTNED Perps were 0.25-0.75pt higher. BACR Perps remained under one-way bidding, closed 0.1-0.5pt higher. In HK, REGH/PRUFIN Perps rose 1.7-1.8pts. NWDEVL/NANFUN 27-30s were up 0.2-0.5pt, whilst LASUDE '26 was down 0.5pt. Chinese properties moved lower. ROADKG 24-26s slumped 2.8-12.6pts and ROADKG Perps dropped 2.5-3.0pts given the concerns on "debt management measures". SHUION 24-26s declined 1.1-2.1pts. The FY23 result briefings gave no clarity on its refinancing plan. FUTLAN/FTLNHD 24-26s were 0.5-0.9pt lower. CSCHCN '27 dropped 1.7pts, while its 24s were down 0.3-0.5pt. In industrials, HCELEC '26 was up 4.8pts. AACTEC 24/26 were up 0.1-0.3pt, and its 31s gained 1.1pts following the results announcement. See below for comments. On the other hand, HILOHO '24 was down another 3.3pts and closed 15pts lower WTD. EHICARs were unchanged to 0.2pt lower. Macau gaming names MPEL/WYNMAC 26-29s were up 0.2-0.5pt. In Indian space, ADSEZ/ADANEM/ADTIN 24-36s and ADANIG '24/ADGREG '42 moved 0.3-0.5pt higher. UPLLINs were down 0.3-0.5pt. Indonesian name JPFAIJ '26 was up 0.9pt, whilst APLNIJ '24 dropped 5.7pts and closed 7pts lower WTD.

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In the LGFVs/perps/high beta names, the sentiment was constructive. In SOE perps, RLCONS 3.97 Perp/COFCHK 3.1 Perp were up 0.1pt. There were RMs deployment buying in blocks in quality LGFVs/the high-beta names. The 5-6% yielding GZINFU '26/YWSOAO '25 were 0.1pt higher. In Shandong names, JMUDIV '25/HKIQCL '25 were up 0.1-0.4pt, QDJZWD '24 was down 0.2pt. CPDEV 25-26s were 0.1-0.3pt higher. ZHONAN/SUNSHG 25-26s were up 0.1-0.2pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
HCELEC 4.65 12/29/26	49.3	4.8	ROADKG 6.7 09/30/24	59.2	-12.6
REGH 6 1/2 PERP	52.7	1.8	ROADKG 5.9 03/05/25	45.1	-8.3
PRUFIN 4 7/8 PERP	86.6	1.7	ROADKG 6 09/04/25	35.5	-7.0
AACTEC 3 3/4 06/02/31	82.8	1.1	APLNIJ 5.95 06/02/24	82.1	-5.7
JPFAIJ 5 3/8 03/23/26	92.1	0.9	HILHOHO 9 3/4 11/18/24	62.2	-3.3

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.32%), Dow (+0.68%) and Nasdaq (+0.20%) continued to rally higher on Thursday. The latest initial jobless claim in US was +210k, lower than the expectation of 212k. US Mar'24 Markit manufacturing/service PMI was 52.5/51.7, compared with the expectation of 51.8/52.0. UST yield were stable yesterday, 2/5/10/30 yield reached 4.62%/4.26%/4.27%/4.44%.

❖ Desk analyst comments 分析员市场观点

➤ AACTEC: Recovering profitability in 2H23 with cushion to protect the IG status

Security Name	ISIN	o/s amount (USD mn)	Ask Price	YTM (Ask)	Rating (M/S/F)
AACTEC 3 11/27/24	XS2080819779	276.8	98.0	6.0	Baa3/-/-
AACTEC 2 ½ 06/02/26	XS2341038656	231.3	92.6	6.3	Baa3/-/-
AACTEC 3 ¾ 06/02/31	XS2342248593	292.1	81.6	7.1	Baa3/-/-

Source: Bloomberg.

In view of AAC Tech's stronger operating performance and cash flow generation, we believe that the company's IG status is well cushioned even after the full acquisition of PSS. We maintain buy on AACTECs. AACTEC'24/26 rose c0.15pt and AACTEC'31 rose 0.75pt post the FY23 results.

The highlight for AAC Tech's FY23 results is the notable recovery in profitability in 2H23 given the resilient consumer electronics market. We noticed that the improvement in profitability across the board, including optics segment of which its negative gross margin narrowed c8pct pts, thanks to the higher ASP and higher volume. Overall, AAC Tech's gross and EBITDA margins rebounded to 19.2% and 17.6% in 2H23 from 14.1% and 15.7% in 1H23, respectively.

AAC Tech's credit profiles remained solid. The company generated a historically high free cash flow (FCF) of RMB3.8bn in FY23, driven by lower working capital. Its inventory days shortened to 80 days in FY23 from 109 days in FY22. We estimate that its working capital conversion cycle shortened 15 days to 87 days in FY23. Its net gearing, EBITDA/interest and debt/EBITDA ratios were 12.2%, 8.8x and 2.8x with a cash/ST debts ratio of 1.8x in FY23.

AAC Tech guided revenue growth of 20-30% in FY24, driven by the organic growth and consolidation of PSS results starting from Feb'24. The gross margin will rebound to over 20% in FY24. On 9 Feb'24, AAC Tech

announced the completion of acquisition of 80% stakes in PSS for USD320mn (cRMB2.3bn). AAC Tech targets to complete the acquisition of the remaining 20% stakes before mid-2025 (PSS's financial year end at Mar). The valuation will be based on an EBITDA multiple and the maximum considerations for the remaining stakes will be USD204mn (cRMB1.5bn).

Given the strong FCF, AAC Tech funded half of the acquisition of 80% stakes in PSS with internal resources. Hence, the incremental debts were contained. On a pro-forma basis, we estimate AAC Tech's debt/EBITDA ratio to be below 3x after acquiring the remaining 20% stakes in PSS by mid-2025. The ratio is well within Moody's downgrade rating trigger of 3.5x.

RMB mn	2022	2023	YoY change(%)	1H22	2H22	1H23	2H23
Revenue	20,625	20,419	-1.0%	9,412	11,213	9,219	11,200
-Acoustics products	8,868	7,499	-15.4%	4,139	4,729	3,323	4,176
-Electromagnetic drives and precision mechanics	7,278	8,245	13.3%	2,931	4,347	3,620	4,626
-Optics products	3,217	3,627	12.7%	1,852	1,365	1,771	1,856
-Sensor and semiconductor products	1,256	1,025	-18.4%	479	778	494	531
Gross profit	3,775	3,452	-8.6%	1,783	1,992	1,297	2,155
SG&A and research expense	-3,030	-2,995	-1.2%	-1,388	-1,642	-1,326	-1,668
EBITDA	3,731	3,422	-8.3%	1,845	1,886	1,450	1,972
Profit before tax	861	823	-4.4%	425	398	175	648
Net profit	629	571	-9.3%	282	309	47	523
Gross margin	18.3%	16.9%	-	18.9%	17.8%	14.1%	19.2%
-Acoustics products	28.1%	28.4%	-	27.2%	28.9%	25.5%	30.7%
-Electromagnetic drives and precision mechanics	21.3%	20.1%	-	20.4%	22.0%	19.3%	20.7%
-Optics products	-13.0%	-13.0%	-	-0.6%	-29.7%	-17.0%	-9.2%
-Sensor and semiconductor products	11.6%	13.6%	-	13.7%	10.4%	11.3%	15.7%
EBITDA margin	18.1%	16.8%	-	19.6%	16.8%	15.7%	17.6%
Net profit margin	3.1%	2.8%	-	3.0%	2.8%	0.5%	4.7%
	Dec'22	Dec'23		Jun'22	Dec'22	Jun'23	Dec'23
Cash and bank deposits	6,814	6,825	0.2%	5,218	6,814	7,126	6,825
ST debts	2,125	3,811	79.4%	2,514	2,125	1,614	3,811
LT debts	8,300	5,769	-30.5%	7,660	8,300	8,260	5,769
Total debt	10,425	9,580	-8.1%	10,174	10,425	9,874	9,580
Net debt (debt - unrestricted cash)	3,611	2,755	-23.7%	4,956	3,611	2,748	2,755
Cash/ST debts	3.2x	1.8x	-	2.1x	3.2x	4.4x	1.8x
Net gearing	16.3%	12.2%		22.0%	16.3%	12.5%	12.2%
EBITDA/gross interest	9.3x	8.8x		9.1x	9.5x	7.1x	10.6x
Debt/EBITDA	2.8x	2.8x		2.8x	2.8x	3.4x	2.4x

Source: Company fillings.

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Jinan Energy Group	210	14m	5.842%	5.85%	Baa1/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
CSL Finance PLC	USD	-	10/30yr	-	-/-
Korea Mine Rehabilitation	USD	-	5yr	-	-/-

➤ News and market color

- Regarding onshore primary issuances, there were 151 credit bonds issued yesterday with an amount of RMB114bn. As for month-to-date, 1,681 credit bonds were issued with a total amount of RMB1,573bn raised, representing a 2.9% yoy increase
- **[DEXICN]** Dexin China announced CCB has filed winding-up petition against the company in relation to the non-payment of the 9.95% senior notes due December 2022
- **[GZRFPR]** Guangzhou R&F refuted allegations developer did not provide adequate info for consent solicitation and London property sale
- **[SUNAC]** Sunac China expects to record RMB7-9bn loss for FY23, compared with RMB27.7bn loss in FY22
- **[VNKRLE]** Ping An Insurance refuted rumor on acquisition of stake in China Vanke from Shenzhen Metro Group
- **[YUZHOU]** Yuzhou Group announced c90.61% of holders of existing public notes, additional existing debt instruments acceded to RSA

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