Fixed Income
Credit Commentary

6 Mar 2024

CMBI Credit Commentary

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

- *Asian IG space was stable with two-way flows this morning. VNKRLEs were unchanged to down 0.3pt with active trades. Other China properties CHJMAO/LNGFOR/CPDEV were weak and dropped up to 0.4pts. EHICAR'24 rose 2pts post the news about proposed exchange offer.*

- ***GZRFPR:** Exchange offers and consent solicitation of three USD bonds. See below.*

- ***China Policy** - Ambitious target with easing policy stance. CMBI maintains the forecast on China's GDP growth at 4.8% for 2024. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易台市场观点

Asia IG space was under better selling yesterday. In KR, HYUELE/HYUCAP/SAMTOT 29s widened 2-6bps. In Chinese IGs, HAOHUA 29-30s widened 1-3bps. TENCNT/BABA 30-31s widened 2-4bps. The BBB TMTs such as MEITUA/WB 30s were also 4-5bps wider. In financials, the leasing name BOCAVI 29 -30s were 2-3bps wider. In Asia AT1s, ICBCAS Perps were unchanged to 0.1pt higher. BBLTB/KBANK Perps were 0.1-0.2pt lower. In EU AT1s, BNP 8 Perp/BACR 9.625 Perp were well bid by PBs in Asia and closed 0.1pt higher. JP insurance hybrids were soft. ASAMLI/FUKOKU Perps were 0.1pt lower. In HK, FWDGHD 8.492 Perp was up 2.6pts. NWDEVL Perps were down 0.3-0.6pt. Chinese properties moved lower. VNKRLE 24-27s declined another 1.3-2.2pts under selling from RMs/PBs, after dropping 3.6-6.0pts on Mon. Meanwhile VNKRLE 29s closed unchanged at low-40s on short covering interests after falling 6.8pts on Mon. LNGFOR 27-32s dropped 1.7-4.4pts. SHUION 24-25s were down 1.3-1.9pts. FUTLAN/FTLNHD 24-26s and GEMDAL '24/CHJMAO '29 were 0.4-0.9pt lower. ROADKGs/CSCHCNs were down 0.3-0.6pt. On the other hand, RDHGCL '24 was up 4.3pts and closed 6pts higher WTD. In industrials, EHICAR '24 was down 1.9pts. Media reported eHi Car's plan to partial exchange the o/s USD381.5mn EHICAR 7.75 '24. Macau gaming names were quiet. SANLTD 28-30s were 0.2-0.3pt higher. In Indian space, the new ADGREG '42 was around 0.2pt higher from par. The rest of ADGREGs/ADANIGs were unchanged to 0.1pt higher. VEDLN 26-28s were down 0.3-0.6pt. Indonesian name MDLNIJ '25 declined 1.1pts. Elsewhere, GLPCHI '26 was 0.5pt lower.

The LGFVs and SOE perps were largely stable. CHSCOI 3.4 Perp/CHPWCN 3.55 Perp were up 0.1-0.2pt. The 5-6% LGFVs HZCONI/SXUCI 25-26s and GZINFU '24/GZDZCD '26 were 0.1-0.2pt higher. Shandong names SHUGRP/QDJZWD 24s were up 0.1pt. WFURCD '24 was 1.5pts higher. On the other hand, the high-beta name CPDEV 25/26 declined another 0.3-0.6pt

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

Cyrena Ng, CPA 吴蒨瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

CMBI Fixed Income
fis@cmbi.com.hk

under selling from RMs/PBs amid the jittery of VNKRLEs. The high-yielding financials IG names such as TIANFS/GRPCIN 26s were 0.1-0.2pt higher and we saw decent demands on these names from AMs.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
RDHGCL 7.8 03/20/24	**57.4**	**4.3**
FWDGHD 8.492 PERP	**94.3**	**2.6**
WFURCD 2.6 09/27/24	**97.2**	**1.5**
CITLTD 5.07 04/18/48	**94.4**	**1.3**
CHEDRP 2 1/2 12/01/25	**12.2**	**1.0**

Top Underperformers	Price	Change
LNGFOR 3 3/8 04/13/27	**50.5**	**-4.4**
LNGFOR 4 1/2 01/16/28	**49.1**	**-2.8**
LNGFOR 3.95 09/16/29	**40.0**	**-2.3**
VNKRLE 3.975 11/09/27	**47.1**	**-2.2**
SHUION 5 1/2 03/03/25	**71.8**	**-1.9**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-1.02%), Dow (-1.04%) and Nasdaq (-1.65%) were weak on Tuesday. US Feb'24 Markit service PMI was 52.3, higher than the expectation of 51.3. Eurozone Feb'24 Markit service PMI was 50.2, higher than the expectation of 50.0. UST yield retreated yesterday, 2/5/10/30 yield reached 4.54%/4.13%/4.13%/4.27%.

❖ Desk analyst comments 分析员市场观点

➢ GZRFPR: Exchange offers and consent solicitation of three USD bonds

On 28 Feb'24, Guangzhou R&F (GZRF) announced details for the exchange offers and consent solicitation related to its three USD bonds totaled cUSD5.7bn. The exchange offeror is London One Limited (London One), a SPV operates the London Project (One Nine Elms) and is 100% owned by Cheung Chung Kiu while the consent solicitation is initiated by GZRF.

Our view on the exchange and consent?
Unappealing! We believe that most of the USD bondholders unrelated to GZRF and Cheung Chung Kiu will be unwilling to contribute additional capital. These bondholders, if choose to exchange, will end up owning the most subordinated Tranche C with upfront and substantial haircut, as well as limited control and clarity on future sales and cash flow of the project. These, coupled with the cap of the exchange offers and size of Tranche C, mean most of the USD bondholders will unlikely share the upside of the London project. Please see GZRF - The missing parts of consent solicitation and exchange offers.

To facilitate the disposal of ONE Nine Elms, GZRF concurrently launched the consent solicitation to amend terms of its existing USD bonds related to the asset sale. See Table 4 for details. We believe that obtaining bondholders' requisite consent could be challenging, especially GZRFPRs are trading at distressed prices of only 6-7pts and the opportunity cost for USD bondholders to say "no" is limited. The approval threshold for the consent is a quorum comprised of two or more persons holding in aggregate over 50% in principal amount of existing bonds and 75% of holders in principal amount vote for the consent in the EGM. Li Sze Lim and his family own 0.9%, 0.5% and 7.4% of the o/s amount of the bonds due 2025, 2027 and 2028, respectively. The ownership, if any, of Cheung and his family in GZRFPRs is not disclosed.

The exchange offers in essence
In essence, the exchange offers are to swap the USD bonds of GZRF into different tranches of project financing for the London project. GZRF's bondholders who are willing to contribute capital to the London project will

subscribe Tranche A1 perps to be issued by London One with additional cash contribution, as well as par-par exchanges of their GZRF bonds into Tranche B1 and B2 perps to be issued by London One.

For bondholders not willing to contribute capital, they can only exchange their GZRF bonds into Tranche C perps with an immediate haircut of 20-90%. Tranche C will be subordinated to Tranche B1/2 which, in turn, will be subordinated to Tranche A1. All the perps will be non interest-bearing and subordinated to loans, if any, from shareholders of London One. Bondholders who subscribe Tranche A1 will be subject to future capital call (capped at GBP40mn p.a. in aggregate). Tranche A1 perp holders who fail to meet future capital calls could risk their perps being converted into Tranche A2 perps which is subordinated to Tranche B1, and their Tranche B1/2 perps being forfeited. See Table 2 for details of new perps.

Who are Anchor Investors, Key Investors and Investors

In the proposed exchange offer, there are four types of investors for the new Perps: Anchor Investor, Key Investorss, Investor and Other Existing Noteholders: -

1. **Anchor Investor:** Chance Best Holdings Limited, a company wholly owned by Cheung Chung Kiu and 100% owns offeror. The Anchor Investor commits to get allocation of GBP307.5mn Tranche A1, USD150mn Tranche B1 and USD150mn Tranche B2 and underwriting GBP512.5mn Tranche A1, USD250mn Tranche B1 and USD250mn Tranche B2.
2. **Key Investors:** The bondholders a) commit to subscribe for at least GBP30.75mn Tranche A1 Perps; b) commit to tender at least USD15mn in principal of existing notes for exchange into Tranche B1/B2 Perps; c) commit to certain underwriting obligations of Tranche A and B; and d) Subscribe additional amount of Tranche A1 after settlement date if any.
3. **Investor:** The bondholders have to: a) commit to subscribe for at least GBP2.05mn Tranche A1 Perps; b) commit to tender at least USD1mn in principal of existing notes for exchange into Tranche B1/B2 Perps; c) subscribe additional amount of Tranche A1 after settlement date if any.
4. **Other Existing Noteholders:** Those unwilling to contribute additional capital.

Table 1: GZRFPR's existing USD bonds

Bond	ISIN	o/s amount	Ask Price	Ask YTM
GZRFPR 6 ½ 07/11/25	XS2495355674	1,443	7.3	361.1
GZRFPR 6 ½ 07/11/27	XS2495358009	2,461	6.7	145.8
GZRFPR 6 ½ 07/11/28	XS2495359403	1,793	7.1	117.6
		5,697		

Source: Bloomberg.

Table 2: Terms of new Perps

	Tranche A1	Tranche A2	Tranche B1	Tranche B2	Tranche C
Maximum issue size	GBP820mn		USD400mn	USD400mn	USD200mn
Exchange discount	No discount		No discount		20%-90%
Coupon	No Coupon				
Issuer	London One Limited				
Issue date	Expected to be 18 Apr'24				
Maturity date	No fixed maturity date				
Intention of issuance/exchange	To repay R&F international's loan of GBP820mn and fund operation of the London Project		To acquire sufficient Existing notes to settle the acquisition		To exchange existing notes issued by GZRF to new Perps issued by the Offeror
Payment Rank	If consolidated cash and cash equivalents held by Offeror and its subsidiaries (Excess Proceeds) or Distributable Profits exceeds GBP25mn at any time, the Offeror shall pay an amount equal to Excess Proceeds or the Distributable Profit at the order of: 1. Shareholder loans, which is loan made available by a shareholder of the Issuer (Easy Tactic Limited, the issuer of existing USD notes) to the Issuer.				

2. Tranche A1
3. Tranche B1
4. Tranche A2
5. Tranche B2/C

Source: Company fillings.

Table 3: Allocation of new Perps

	Tranche A1	Tranche A2	Tranche B1	Tranche B2	Tranche C
Anchor Investor	GBP307.5mn		USD150mn	USD150mn	
Key Investor	GBP307.5mn, GBP30.75mn per Key Investor in minimal	Initially allocated Tranche A1 will be converted to A2 If Key Investor fails to perform obligation	USD150mn, USD15mn per Key Investor in minimal		
Investor	GBP205mn, GBP2.05mn per Investor in minimal		USD100mn, USD1mn per Investor in minimal		
Other Existing Noteholders					USD200mn
Total Allocation	GBP820mn		USD400mn	USD400mn	USD200mn

Source: Company fillings.

Table 4: Details of consent solicitation

Proposed amendment in respect of notes:	
1. removal of “Disposal of Specified London Asset, Security over Designated London Account” covenant	
2. removal of the Information Undertaking in respect of the Specified London Asset (ONE Nine Elms)	
3. carving out Specified London Asset from the definition of “Asset Sale”; and	
4. other conforming changes, including the amendment or deletion of certain definitions and cross-references to the foregoing amended provisions	
Consent fee:	No consent fee
Quorum requirement:	Two or more persons holding in aggregate over 50% in principal amount of existing bonds attend EGM and 75% of holders in principal amount vote for the consent in the EGM
Consent solicitation expiration date:	18 Mar'24
Long stop date:	31 May'24

Source: Company fillings.

- **China Policy - Ambitious target with easing policy stance**

The premier’s report at the NPC session put the GDP growth target for 2024 at an ambitious 5% as the government tries to boost confidence in the economy with continued policy easing. We believe it won’t be easy to accomplish the growth target given the higher base, a slumping property market, deflation pressure and weak business & consumer confidence. The policymakers continue to put technology innovation and industrial upgrading as top priorities while starting to stimulate demand by facilitating production equipment and consumer durables replacement. With tentative signs of a policy shift to demand-side stimulus recently, the premier’s report indicates the de-risking goals may continue to restrain the room for stimulus policies. We maintain our forecast on China’s GDP growth at 4.8% for 2024.

Economic targets in line with expectations. China’s major economic targets for 2024 were set by top leaders at the Central Economic Working Conference last December and made public in the premier’s report at the NPC session this week. The GDP growth target for 2024 is at around 5%, higher than our forecast at 4.8% and Bloomberg consensus at 4.6%. By setting an ambitious target, the policymakers may want to send a positive signal to the market. But it won't be easy to accomplish the target as challenges mount especially in terms of a slumping housing market, persistent deflation and weak business & consumer confidence. Strong and fast policy responses are needed but real progress is yet to be seen. The target for surveyed urban unemployment ratio is kept at below 5.5% for 2024. We think it is not difficult to achieve this target thanks to the relatively loose definition of employment (up to one hour of paid work in the past week) and the hardworking character of Chinese people. But the unemployment ratio for the youth may remain high as they were born in affluent times and could rely on their parents' savings. The target for CPI growth remains at below 3% for 2024 with the continued deflation making it achievable. Energy consumption per unit of GDP is targeted to decline 2.5% in 2024, compared to the YoY decline of 0.5% in 2023. The energy saving goal is challenging, indicating continued policy support on new energy industries ahead.

Fiscal policy slightly weaker than expected. General fiscal deficit is at 3% of GDP in 2024. General fiscal deficit ratio for 2023 was raised from 3% to 3.8% in 4Q23 with RMB1trn added into the budget. But half of the added fiscal funds in 2023 will be spent in 2024, making the actual general fiscal deficit ratio for 2024 at 3.4%. Meanwhile, the MoF will issue ultra long-term special treasury bonds in the next several years with the quota at RMB1trn or 0.75% of GDP for 2024. The quota for local government special bond financing is set at RMB3.9trn or 2.9% of GDP in 2024, compared to RMB3.8trn or 3% of GDP in 2023. Therefore, broad fiscal deficit may reach 7% of GDP in 2024, slightly lower than we had expected. In addition, provincial governments may continue to issue special refinancing bonds to repay matured local government hidden debt as their debt swap amount may reach over RMB1trn in 2024, compared to RMB1.35trn in 2023. The premier vowed to transfer more fiscal funds to local governments especially in stressed regions and to provide additional tax cuts or credits to the technology sector and high-end manufacturing industries. More expansionary fiscal support especially to consumers is essential for solving the deflation pressure, but we see fiscal policy focus much on supply-side production and fixed investment while its support to consumers is yet to be enhanced.

Continued easing of monetary policy. China will keep liquidity conditions reasonably ample and the growth of social financing & money supply in line with economic growth and inflation targets. The country targets a decline of comprehensive financing costs for the real sector and an improvement of monetary policy transmission mechanism to avoid meaningless fund arbitrage. The authority will continue to keep renminbi exchange rates basically stable around the reasonable equilibrium levels. We expect continued easing of China's monetary policy with additional RRR cuts by 50bps in total and LPR cut by 10bps in the remainder of 2024. The government may also lower mortgage rates and down-payment ratios for first-home and second-home buyers. Given the current "debt-deflation" burden for the economy, aggressive cuts in LPRs or mortgage rates are necessary for stabilizing the property market and defying deflation. However, concerns about renminbi exchange rates, banks' NIMs and cross-market fund arbitrage activities limited the room of interest rate policy in 2023. The more-than-expected cut of 5Y LPR in February was a tentative sign that the authority may be more proactive on interest rate cuts this year, but further observation is needed on the policy front.

Strong support to technology sector especially in AI and digital economy. The premier emphasized the importance of "new productive forces" in building the modern industry system. China will strengthen policy support to accelerate the development of smart internet connection, new energy vehicles, hydrogen power, new materials, innovative drugs, biomedicine, commercial aviation, low altitude economy, quantum technology and life sciences. Meanwhile, the country will launch AI+ programs to empower the upgrading of traditional industries and advance the development of digital economy. We expect the government to provide more tax credits and other supportive policies to boost the capex in computing power and other digital infrastructure.

To boost domestic consumption and fixed investment. China will launch a large scale of consumer goods replacement programs to boost consumption, but the detail is yet to be made public. We expect the MoF and local governments may provide subsidies to consumers to replace their automobiles and home appliances with new ones. The central government may provide tax credits or loan interest subsidies to manufacturers and businesses to upgrade their production equipment. The premier also mentioned increasing fixed investment in social housing, grain and energy supply in 2024.

To boost exports and attract foreign capital. The premier encouraged expanding trade credit and export credit insurance supply and supporting the development of cross-border e-commerce to boost China's exports. To attract foreign capital inflow, China will remove all foreign investment restrictions in the manufacturing sector and relax market access restrictions in service sectors such as telecommunications and healthcare. The country will also take measures to make it more convenient for foreigners to work, study and travel to China.

Click here for full report

➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
State of Israel	2000/3000/3000	5/10/30yr	5.375%/5.5%/5.75%	T+135/145 /175	-/-/-

➢ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
The Bank of East Asia	USD	-	3NC2	T+270	Baa2/BBB/-

➢ News and market color

- Regarding onshore primary issuances, there were 117 credit bonds issued yesterday with an amount of RMB102bn. As for Month-to-date, 291 credit bonds were issued with a total amount of RMB249bn raised, representing a 9.6% yoy increase

- **[ADEIN]** Media reported that Adani Group expects to increase net debt to USD26bn by FY24-end, representing 25% yoy increase

- **[BTSDF]** H&H International expects FY23 adjusted EBITDA to rise up to 10% yoy and net profit to record up to 10% decline

- **[EHICAR]** Media reported that eHi is mulling USD200mn exchange offer for its USD380mn due-November bonds, the rest USD180mn will be repaid; The company said some potential lenders have conditionally approved cUSD200mn loans upon the completion of exchange offer

- **[GEMDAL]** Gemdale schedules RMB2.5bn 21Jindi03 bonds put option exercise on 7-13 Mar'24

- **[TIANFS]** Tianfeng Securities repurchased USD16.5m of TIANFS 4 03/15/24, the remaining principal amount is USD284mn

Fixed Income Department
Tel: 852 3657 6235/ 852 3900 0801
fis@cmbi.com.hk
CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.
Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.
There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.
This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.
The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.
CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.
Additional information on recommended securities is available upon request.

Disclaimer:
For recipients of this document in the United Kingdom
This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)(“The Order”) or (II) are persons falling within Article 49(2) (a) to (d) (“High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.
For recipients of this document in the United States
CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.
For recipients of this document in Singapore
This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.