

CMBI Credit Commentary

HRINTH: What are behind the name change?

What Huarong announced?

While the market appears to have just spotted the name of China Huarong (Huraong) would be changed to CITIC Financial AMC, Huarong indeed made 4 announcements last night. In addition to name change, Huarong announced:-

1. the acquisition of 5.01% stakes in CITIC Ltd. (267 HK) for HKD13.6bn from CITIC Group. CITIC Ltd. is currently 58.1% owned by CITIC Group;
2. the completion of disposals of 5 out of 8 non-core assets. The realized consolidated gain from these disposals is RMB3.5bn (vs. cRMB2.5bn estimated gain from offshore bond repurchases);
3. XU Jiongwei was appointed as VP of Huarong. Xu was the chairman of China Securities Investment Co. Ltd., 100% owned CSC Financial Co., Ltd. (6066 HK) which, in turned, is 35.8%, 30.8% and 4.9% owned by Beijing Financial Holdings, Central Huijin and CITIC Securities. Beijing Financial Holdings is ultimately owned by Beijing SASAC; and
4. the abovementioned name change.

What are the key takeaways from these announcements?

These demonstrate that Huarong is already an integral part of CITIC Group even though the group's less than majority ownership (26.5%) in Huarong. On the other hand, the acquisition of CITIC Ltd. stakes, despite the upfront cash outflow, will provide a lift to Huarong's recurring earning and cash flow. Huarong reported a net loss of RMB6bn in 1H23. The net profit of CITIC Ltd. was RMB57.5bn in 1H23. On a pro-forma basis, the attributable profit to Huarong's 5.01% stakes will be cRMB2.9bn. The attributable dividend in FY23 will be RMB877mn. The acquisition of CITIC Ltd. stakes, coupled with the non-recurring gain from non-core assets and offshore bond repurchases, should offer an immediate and significant lift for Huarong's profitability and capital base.

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Will the acquisition of CITIC Ltd. stakes adversely affect Huarong's credit profile?

To us, liquidity is not a major concern for Huarong. As we discussed in our recent pieces on its offshore bond repurchases, Huarong focuses on buying back the longer-dated and lower cash bonds. These demonstrated its confidence in its liquidity. Indeed, we believe that the name change and closer tie with CITIC Group will further enhance its access to funding channels, especially the onshore ones. Furthermore, the acquisition of CITIC Ltd. stakes will boost Huarong's asset quality, recurring earnings and cash flow. These help address the key concerns on Huarong, i.e. weakening asset quality, equity base and profitability.

Any change in our view on HRINTHs?

HRINTHs opened 2-4pts higher this morning and conviction is lower. That said, we consider Huarong an improving credit story and HRINTHs still offer good carry. Their performance should also be supported by on-going bond repurchases. We expect Huarong to continue the offshore bond repurchases as boosting P&L and equity base appear to be the priorities of Huarong and CITIC Group.

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