

CMBI Credit Commentary

Tongfang

TSIGTF 6.8 Jan'22 95.5/96.5 (11.7%/10.6%)

Tongfang remains our industrial top pick. We argue, ever since CNNC became Tongfang's controlling shareholder (21%) and paid RMB 6.4 billion consideration to Tsinghua Holding on 30 Dec 2019, CNNC now tightly controls Tongfang (i.e. sending 5 out of 7 board representatives and Chief Financial Officer)

We believe Tongfang will see gradual operational improvement and deleveraging under control of CNNC in 2021-2022.

We see catalysts to bond price over next few months include:

a) Completion of RMB 2.5 billion equity placement to CNNC, b) potential successful SCP issuance onshore, and c) USD bond repayment in Mar 2021

Recent development:

- i. **Borrowing from CNNC** – CNNC will provide shareholder entrusted loan of RMB 2 billion, at 4.75% with a 2 years' tenor to Tongfang. Use of proceed serves to replenish Tongfang's working capital.
- ii. Tongfang recently replied to CSRC's enquiry regarding private placement to CNNC on 22 Dec 2020. **We believe it is highly likely that CSRC will approve the equity placement**, given there is limited detriment to minority shareholders from the new share issuance.
 - The equity placement has received CNNC's approval on 5 June 2020.
 - It has also received approval from SASTIND (State Administration for Science, Technology and Industry for National Defense) on 10 Aug 2020.

After the successful share placement, CNNC's stake in Tongfang will increase to 30.11% and the RMB2.5 billion proceed will be used for debt repayment and working capital funding.

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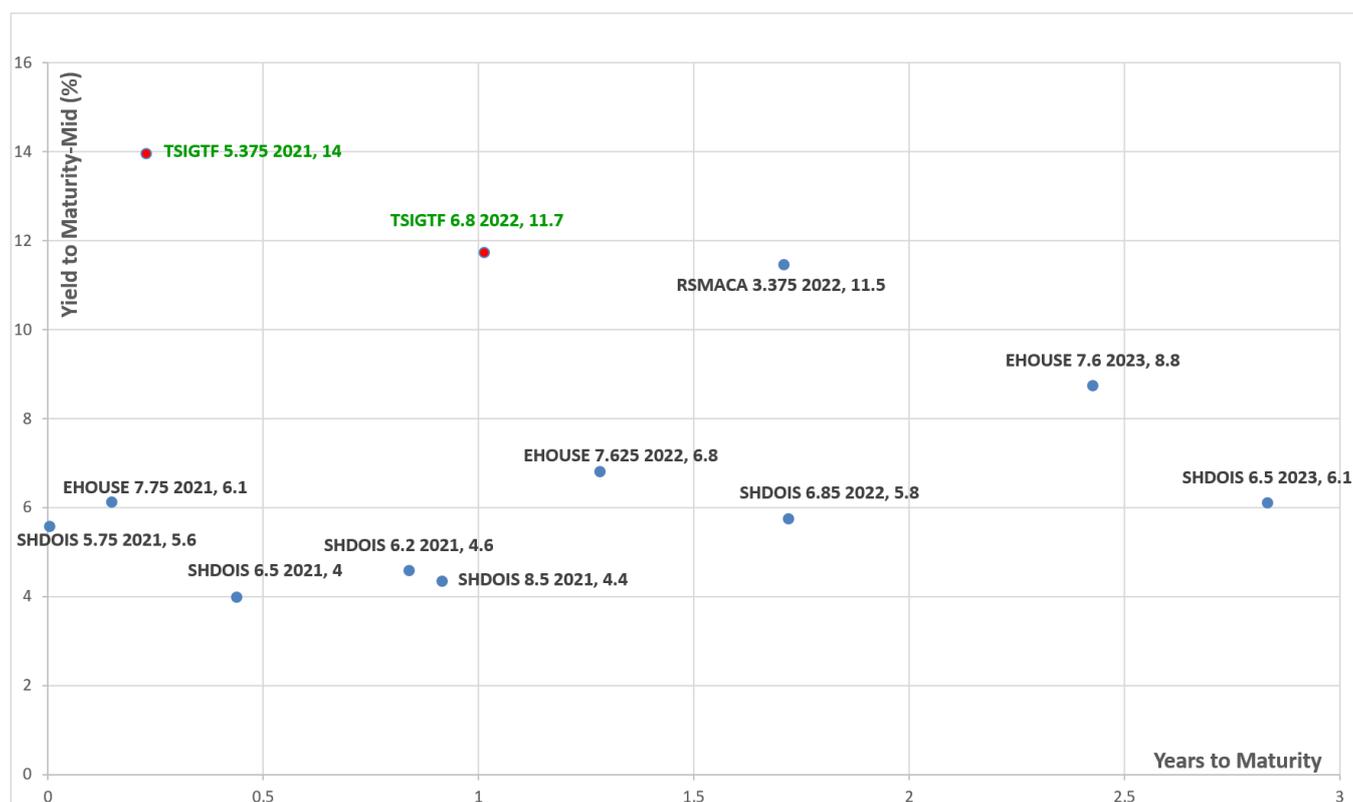
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- iii. Other related party transaction – **disposal of 4 residential lands to CNNC**. Tongfang will raise RMB 620 million and it also shows more closely-linked operation between the two companies.

Valuation chart



USD bond repayment plan

Our communication with management reveals the company plans to raise onshore bank loan to repay USD bond in March 2021, via its cross-border funding pool.

Ever since CNNC consolidates Tongfang's financials, Tongfang's used bank credit increased to RMB 15.4 billion by Jun 2020, from RMB 13.6 billion at end-2019.

We also think raising further shareholder loan from CNNC is also a viable USD bond repayment option.

Reported bank borrowing breakdown - Not exhaustive

	2018		1H2020		Change	
建设银行	206,348	29.5%	264,777	35.9%	58,428	6.4%
厦门国际	100,000	14.3%	100,000	13.6%	0	-0.7%
中国进出口银行	75,878	10.8%	69,359	9.4%	-6,519	-1.4%
星展银行	35,002	5.0%	55,220	7.5%	20,218	2.5%
中国银行	96,660	13.8%	44,740	6.1%	-51,920	-7.8%
工商银行	20,763	3.0%	39,020	5.3%	18,257	2.3%
国家开发银行	0	0.0%	30,000	4.1%	30,000	4.1%
华夏银行	24,990	3.6%	29,789	4.0%	4,799	0.5%
兴业银行	11,882	1.7%	25,000	3.4%	13,118	1.7%
北京银行	22,189	3.2%	21,578	2.9%	-612	-0.2%
渤海银行	0	0.0%	10,004	1.4%	10,004	1.4%
农业银行	8,975	1.3%	9,065	1.2%	90	-0.1%
招商银行	4,624	0.7%	7,314	1.0%	2,690	0.3%
台新国际	0	0.0%	7,080	1.0%	7,080	1.0%
招行银行	0	0.0%	5,000	0.7%	5,000	0.7%
九江银行	3,283	0.5%	4,885	0.7%	1,602	0.2%
上海银行	0	0.0%	4,847	0.7%	4,847	0.7%
浙商银行	1,989	0.3%	3,955	0.5%	1,966	0.3%
张家港农村商业银行	0	0.0%	1,876	0.3%	1,876	0.3%
光大银行	5,834	0.8%	1,701	0.2%	-4,133	-0.6%
重庆银行	0	0.0%	1,000	0.1%	1,000	0.1%
苏州银行	0	0.0%	960	0.1%	960	0.1%
中信银行	9,082	1.3%	0	0.0%	-9,082	-1.3%
交通银行	1,818	0.3%	0	0.0%	-1,818	-0.3%
广发银行	3,493	0.5%	0	0.0%	-3,493	-0.5%
建行北京	1,505	0.2%	0	0.0%	-1,505	-0.2%
新加坡华侨银行	24,021	3.4%	0	0.0%	-24,021	-3.4%
民生银行	29,636	4.2%	0	0.0%	-29,636	-4.2%
汇丰银行	11,489	1.6%	0	0.0%	-11,489	-1.6%
Total	699,463	100%	737,170	100%	37,707	5%

Note* Selective bank borrowing breakdown by company's interim and final report disclosure

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