

5 January 2023

## CMBI Credit Commentary

### Asia Credit outlook 2023 - After dawn

#### Executive Summary

- A horrendous year in 2022! ACIG and ACHY posted return of -12.3% and -19.9%, respectively. Asia HY corps notably underperformed those of other EMs while Asian IG corps out-performed. The weak sentiment also led to significant drop in new issuance. The gross issuance in 2022 in Asia ex JP decreased 52% to USD165.1bn, the lowest since 2014. Indeed, the net issuance in 2022 was negative USD105.2bn. 2022 is the first negative net issuance year for Asia ex JP USD bond market since 2008.
- Looking ahead, we expect the Asian ex JP credit market to perform notably better after 2 successive years of marked correction. We envisage credit fundamentals to rebound off the lows with the re-opening of China. In terms of valuation, we see a sufficient margin of safety in general for Asian ex JP credits at current levels. We also see more supportive technical as fund flow situation turned more favourable. The US rate hikes and the strength of USD will likely be moderating and these should be more supportive for EMs to perform. That said, we should be aware of near-term volatility resulting from the spike in COVID cases and death toll resulting from the reopening of China (including HK and Macau), the non-consensual view on the UST rate hikes which will remain sensitive to data such as CPI, NFP and global economic outlook. CMBI research expects a mild recession in the US economy starting from 2Q23.
- Under this backdrop, our picks are:-

**AMCs:** HRINTH 4.25 PERP, HRINTH 5.5'25, CCAMCL 4.4 PERP, CCAMCL 4.375'25, GRWALL 3.95 PERP. [See Appendix 1.](#)

**AT1s:** BCHINA 3.6 PERP, ICBCAS 3.58 PERP, DBSSP 3.3 PERP, UOBSP 3.875 PERP, SHINFN 5.875 PERP, KBANK 5.275 PERP, KTBTB 4.4 PERP. [See Appendix 2.](#)

**Car rentals:** CARINC and EHICAR. We prefer CARINC despite its higher cash price given CARINC's more resilience operating performance.

**Chinese properties:** CHJMAO, CSCHCN, DALWAN, GRNCH, HPDLF, LNGFOR, SEAZEN, VNKRL and YLLGSP. [See Appendix 3.](#)

**Corp perps:** PCORPM 4.6 Perp, UPLLIN 5.25 Perp, NWDEVL 6.15 Perp and NWSZF 5.75 Perp. Our picks are on perps with reset/high coupon step-up, as well as chance of buy-back/tender offer. [See Appendix 4.](#)

**LGFVs:** Prefer short-dated bonds from stronger regions such as SHUGRP 4.3'23, HKIQCL 3.99'23, HZCONI 3.15'23 and YWSOAO 3.15'23. [See Appendix 5.](#)

**Macau gaming:** Conviction is lower after the recent strong performance. We prefer MPELs and STCITYs within the Macau gaming sector. [See Appendix 6.](#)

**SE Asia commodities and renewables:** Our picks are GRNKENS, INDYIJ 8.25'25, SAKAEI 4.45'24, VEDLNs, especially short-dated and secured VEDLNs such as VEDLN 23s, secured VEDLN'24 and 25.

**TMTs:** Short-dated yield plays through "busted" CBs. Our picks are PDD 0'25 and XIAOMI 0'27. Both PDD and Xiaomi were in net cash position as at Sep'22.

**Glenn Ko, CFA 高志和**  
 (852) 3657 6235  
[glennko@cmbi.com.hk](mailto:glennko@cmbi.com.hk)

**Cyrena Ng, CPA 吳蔭瑩**  
 (852) 3900 0801  
[cyrenang@cmbi.com.hk](mailto:cyrenang@cmbi.com.hk)

**Jerry Wang, 王世超**  
 (852) 3761 8919  
[jerrywang@cmbi.com.hk](mailto:jerrywang@cmbi.com.hk)

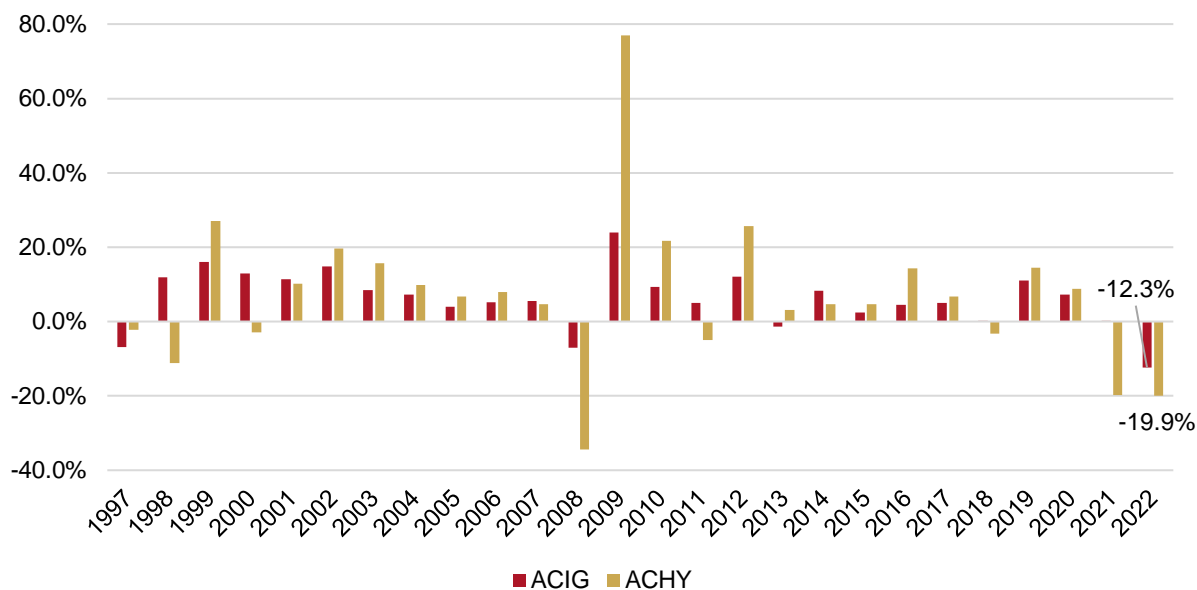
**CMBI Fixed Income**  
[fis@cmbi.com.hk](mailto:fis@cmbi.com.hk)

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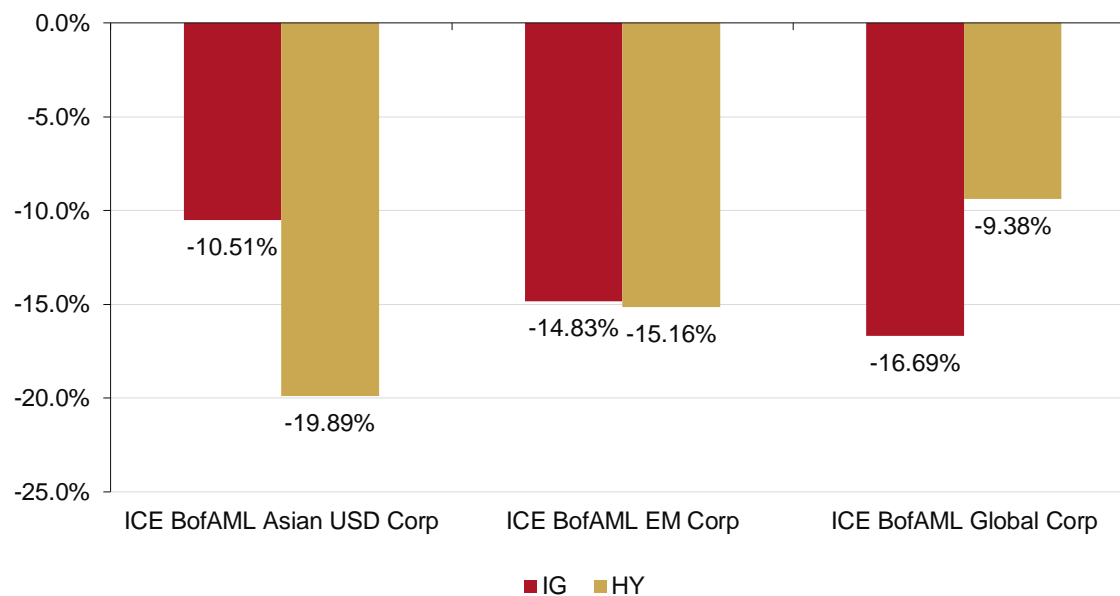
## A recap of 2022 – A long and daunting year

Chart 1: 2022 return of ACIG/ACHY



Source: Bloomberg.

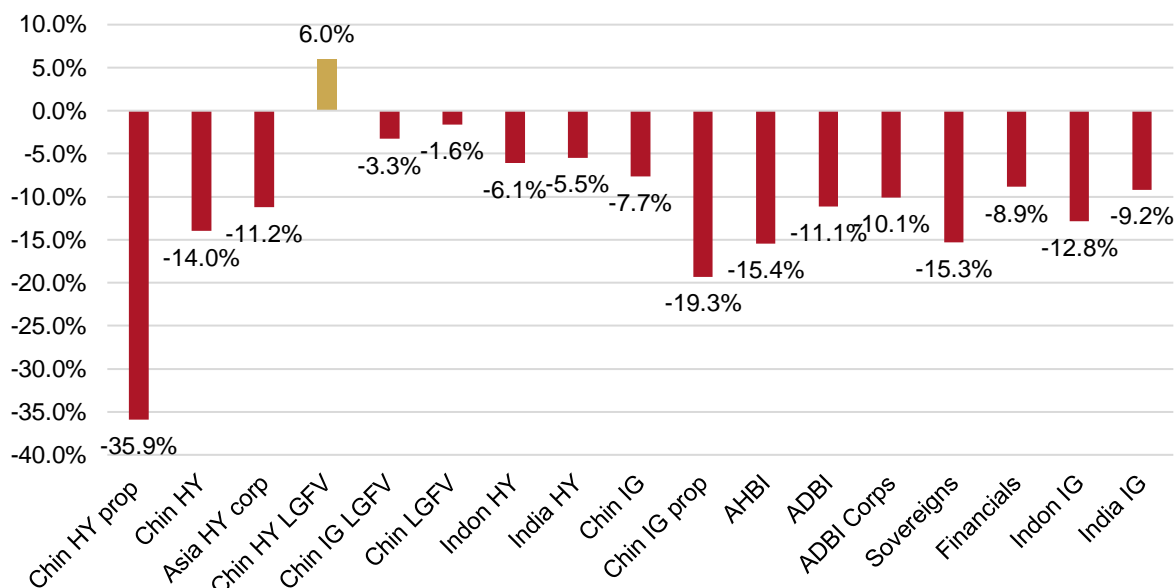
Chart 2: 2022 ICE BofAML return



Source: Bloomberg.

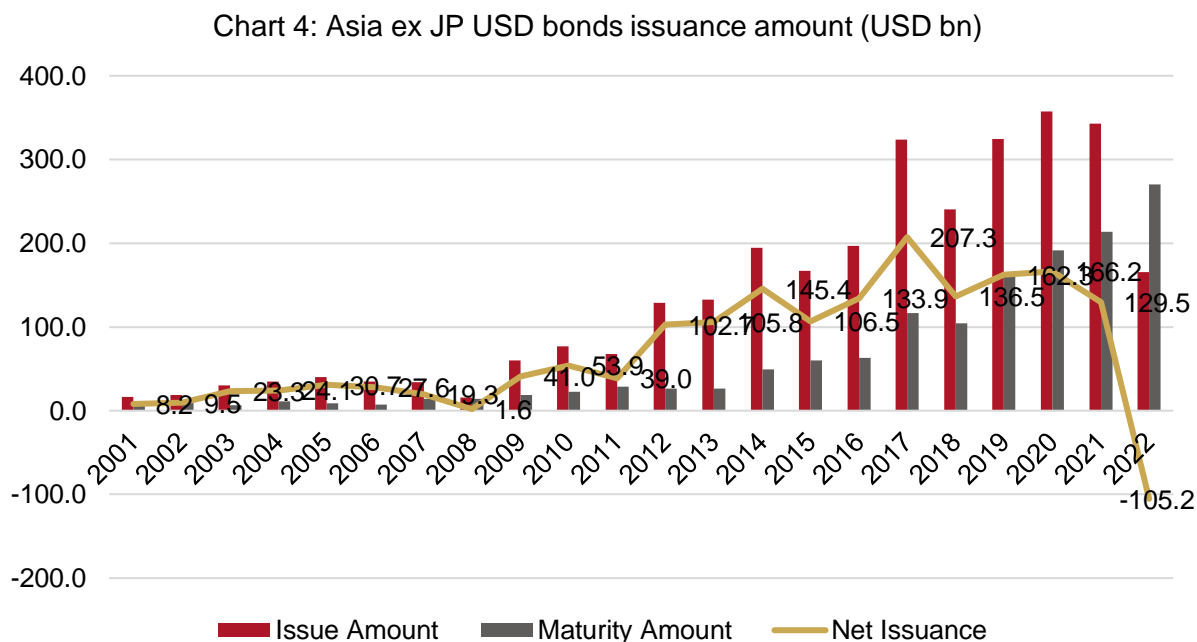
Asia credit market went through a horrendous year in 2022 after a bad year in 2021. We saw escalating defaults, especially in Chinese property sector, a sharp rise in interest rate and significant fund outflow. In 2022, ACIG and ACHY posted return of -12.3% and -19.9%, respectively. For Asian IG corps, 2022 was the worst performing year since the index inception in Dec'96. For Asian HY corps, 2022 was the second worst performing year (after 2008) since the ACHY index inception in Dec'96. Asian IG corps out-performed those of other EMs while Asia HY corps notably underperformed.

Chart 3: 2022 return by segment



Source: iBOXX, Bloomberg.

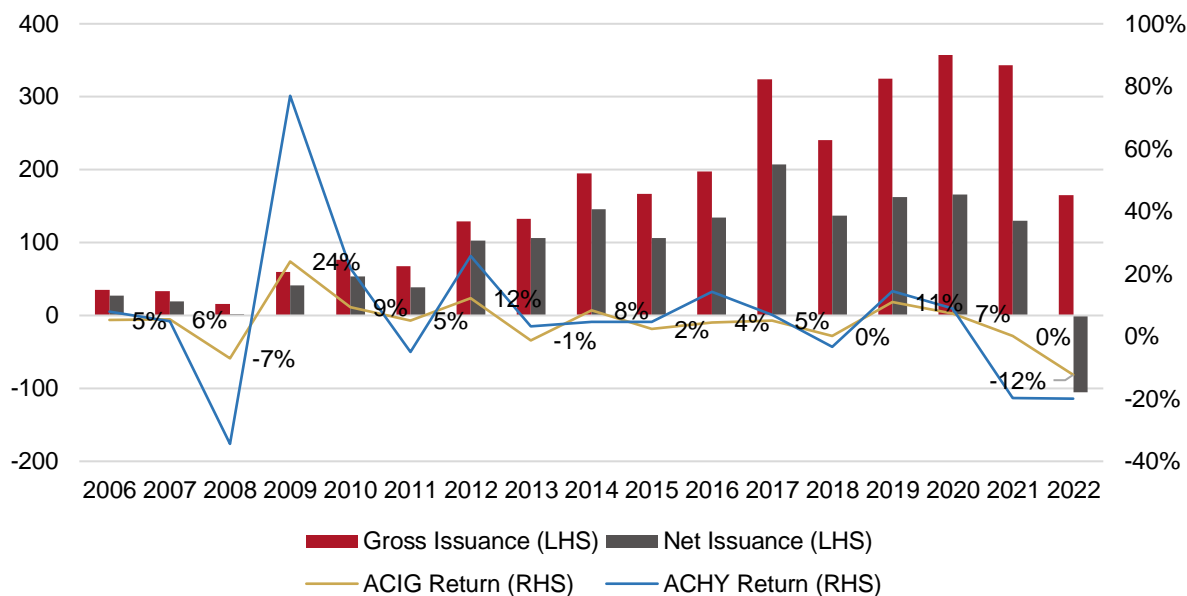
Not surprisingly, Chinese property sector is the worst performer. According to IBOXX, the total return of Chinese HY properties were -35.9% in 2022, compared with -6.1% and -5.5% of Indonesian and Indian HY corps, respectively. Chinese HY LGFVs, on the other hand, is a notable outperformer with a positive total return of 6.0%.



Note: Net issuance is calculated before tender offers, buy-back and call/put exercises. The total amount of tender offers, buy-backs and call/put exercises were USD44.0bn and USD62.2bn in total. Source: Dealogic.

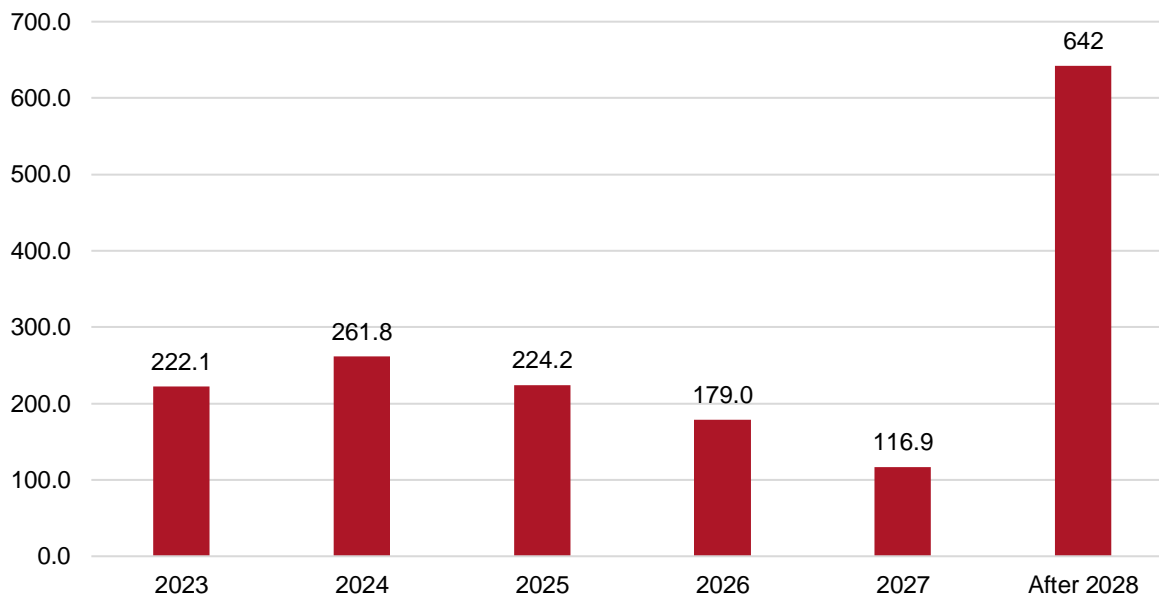
In terms of new issuance, the gross issuance in 2022 in Asia ex JP decreased 52% to USD165.1bn, the gross issuance amount was the lowest since 2014. As we have been arguing, new issuance is a function of market sentiment, i.e. the weaker market sentiment and bond performance, the smaller will be the issuance amount, and vice versa. Within the Asia ex JP universe, China financials space is the sector with the largest decline in issuance, followed by China property and South Korea financials. Issuance from the China LGFV space, on the other hand, is an exception and only slightly decreased 2.3% to USD25.9bn.

Chart 5: Asian ex JP issuance (USD mn) and performance



Notes: Net issuance is calculated before tender offers, buy-back and call/put exercises. Source: Dealogic, Bloomberg.

Chart 6: Maturity profile of Asian ex JP USD bonds



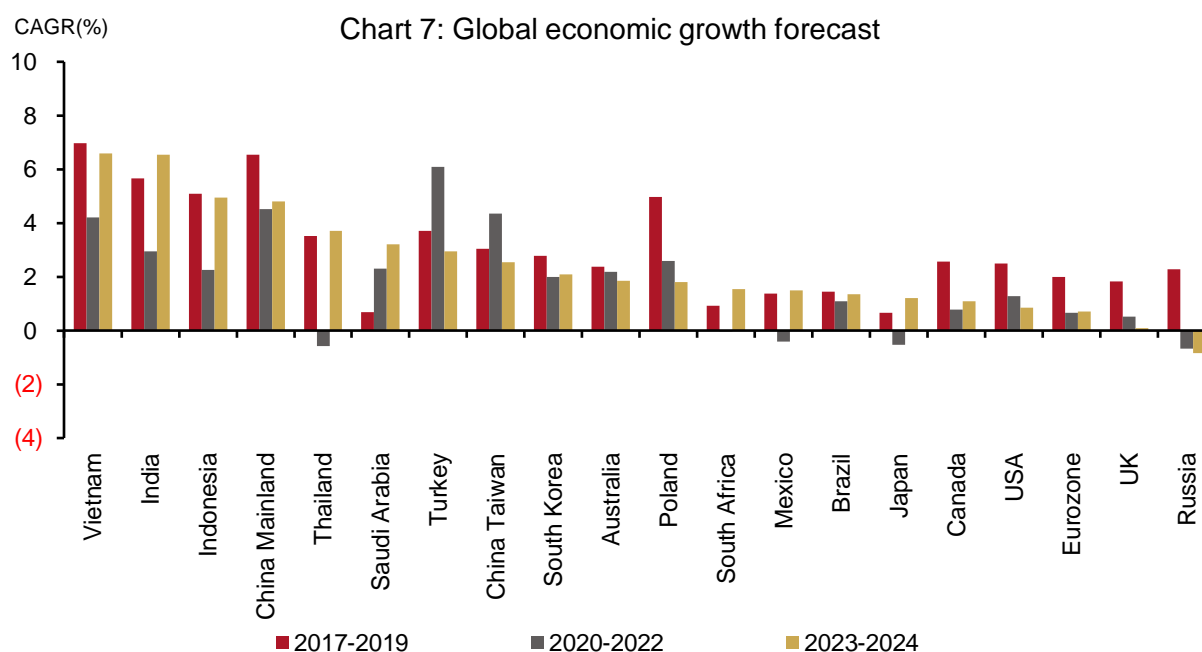
Source: Dealogic.

## Looking ahead.... A reality check on 3 drivers

As we have been discussing with clients, the direction of market is always driven by 3 factors: fundamentals, valuations and technical such as fund flow, net issuance, investors' leverage etc. We envisage credit fundamentals to rebound off the lows with China re-opening. In terms of valuation, we see a sufficient margin of safety in general for Asian ex JP credits after a horrendous year in 2022. On technical, fund flow situation should be at least less negative, if not positive. The moderating of US rate hikes and USD strength will also provide a more supportive environment for EMs to perform. Nonetheless, volatility could remain high in view of the followings:-

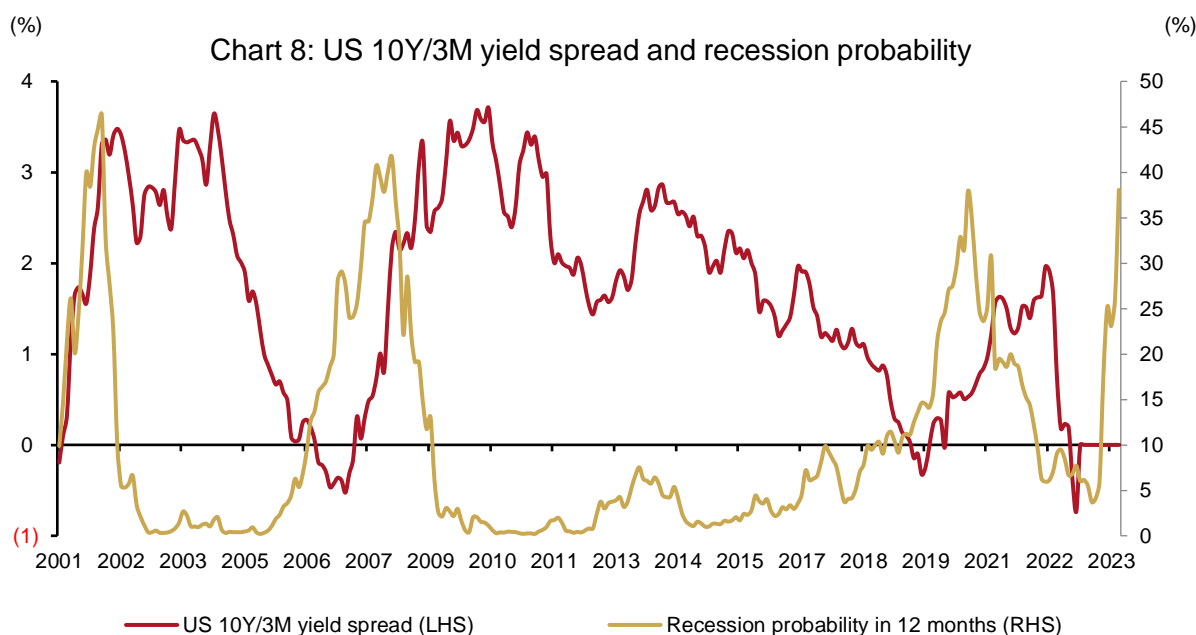
- The path for reopening of China (including HK and Macau) could be bumpy as the number of cases and death toll will surge in the course of relaxation. While the general direction of China's dynamic zero policy is relaxed, we could see "back-and-forth" in the course of relaxation.
- The non-consensual view on the UST rate hikes which will remain sensitive to data such as CPI, NFR and global economic outlook.
- The evolving geopolitical developments such as Ukraine war, the tension between China and the US, sanction on Chinese corporates, etc.
- Negative headlines such as defaults and negative rating actions.

## Fundamental – Policy pivot to support faster economic growth



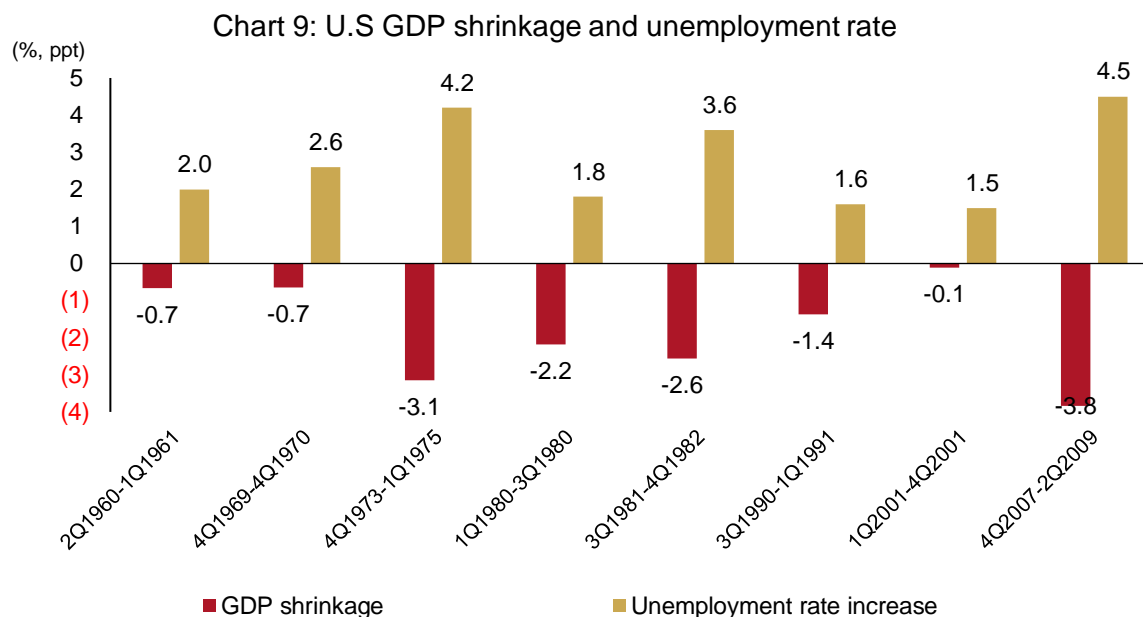
Source: Wind, CMBI Research.

The policy pivot with new growth push in China will support the recovery of her and Asian economies. CMBI research expects the global economies to be more divergent with a notably stronger economic growth in China and Asia compared with Europe and the US. As per our house view, the economic growth in China, driven by consumption, will accelerate to 5.1% in 2023 and 4.7% in 2024 from 2.7% in 2022 while the average economic growth of other major Asia economies (India, Indonesia and Thailand) in 2023-24 will be in the range of 3.7-6.5%, compared with 0.8% and 0.7% of the US and Euro zone. Indeed, CMBI Research expects a mild recession (more severe than that in 2001) in the US starting from mid-2023.



Source: Wind.

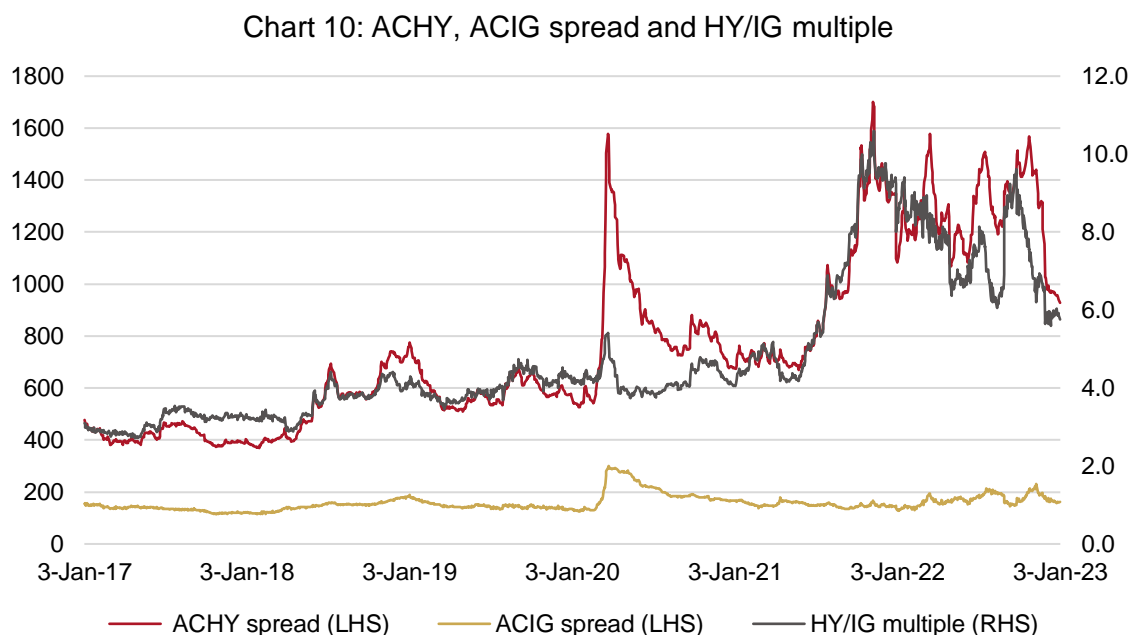




Source: Wind.

We believe that operating performance, especially on a yoy basis, for Asia ex JP issuers will generally benefit from China's relaxation of dynamic zero COVID policy and supportive measures in curbing the Chinese property market spiraling downward. The recovery of economic activities and stabilizing property market should be positive to the demand for commodities, domestic consumption (such as car rental), Macau gaming sector, property market, asset quality of banks and asset management companies (AMCs), etc. These should offset the potential impact of slowing global economy. While commodity prices may be moderating from the peak in 2022, the current price levels remain notably higher than the pre-pandemic levels. These should continue to support good operating cash flow of commodity credits and their access to funding channels in the near-term. There will be more defaults and negative rating actions, but we believe the largest "black swans" are already there.

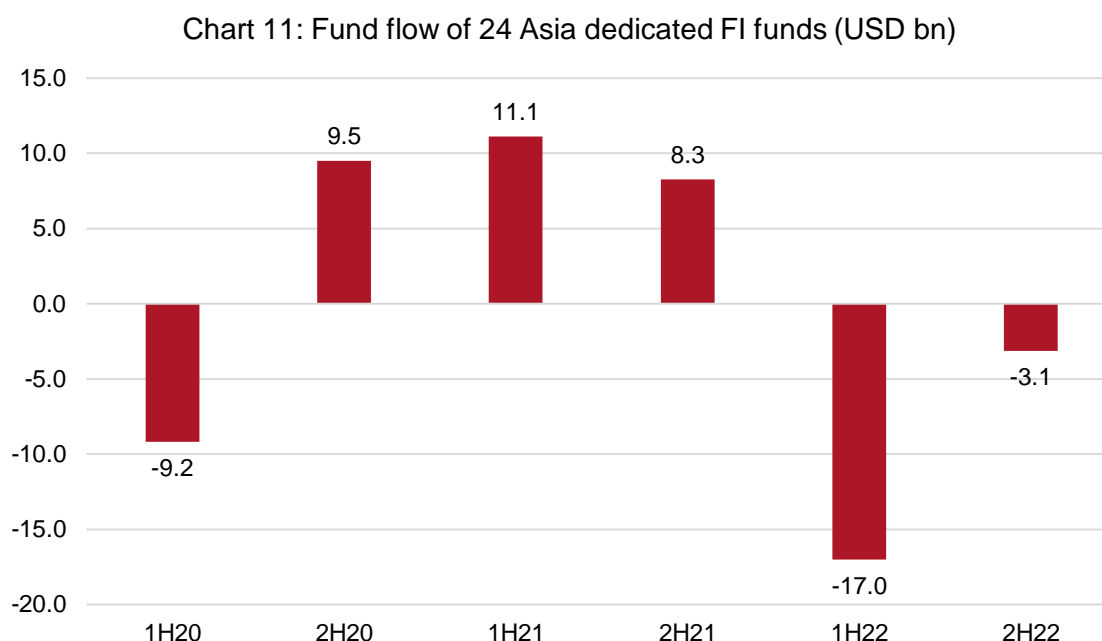
## Valuations – More comfortable margin of safety



Source: Bloomberg.

As discussed, Asia credit market went through a horrendous year in 2022 after a bad year in 2021, the margin of safety or risk-return profile of Asia ex JP credits are more favorable, especially for HY. Indeed, we see appealing values in selected Chinese properties, car rental, Macau gaming, Asian AT1s, etc. With improving fundamentals, we expect to see more bottom-up investors to take advantage of price dislocations.

**Technical – mixed signals but less negative, if not positive, should be a fair comment**



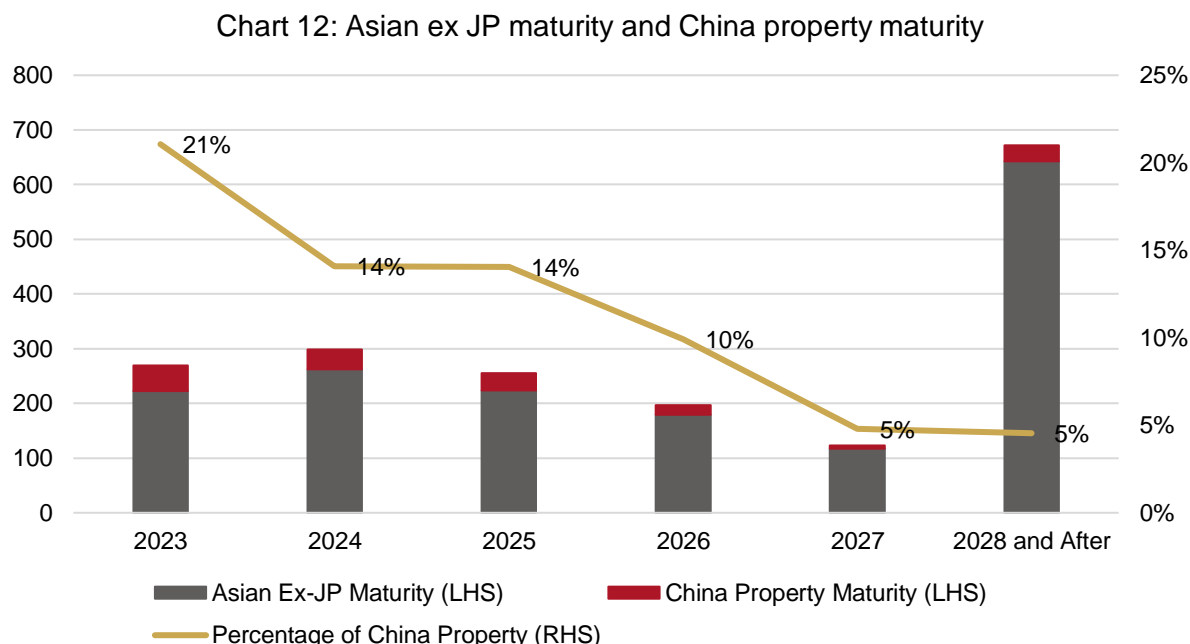
Source: Bloomberg.

Out of the 3 drivers, technical is always the most difficult to gauge, especially on the fund flow. Since mid-Dec'22, we have met and discussed with numerous clients in the likes of global AMs, PBs, Chinese banks and Chinese AMs, the views on fund flow situations were mixed and patchy. We understand some global AMs' fund outflow situation reversed since 4Q22 and new Asia credit mandates were set up while some RMs/FMs experienced fund outflow throughout 2022. We were also told by some Chinese banks/AMs that they had funds ready for deploying while others said they remained skeptical of the market. Regarding PBs, the LTV of major PBs, especially on HYs, had cut to a very low level since early 2022, carry trades may not be coming back soon as borrowing costs are escalating. Nonetheless, the rare consensuses amongst clients are 2023 would perform better than 2022, and fund flow is less negative, if not positive, towards the 4Q22. This is largely in line with the estimations of fund flow tracking 24 Asian or EM bonds funds with exposure in Asia. Taking cues from our house of view divergence of economic growth with China and Asia growing faster, and moderating rate hike in the US and potentially weaker USD, we should see more favourable fund flow to EMs in 2023.

Recalled that the gross issuance in 2022 declined 52% to USD165.1bn, and net issuance dropped sharply to negative USD105.2bn. Last year was the first negative net issuance year for Asia ex JP USD bond market since 2008, and only the second negative net issuance year over the past 2 decades. The negative net issuance means Asia ex JP USD bond market shrank 9.2% in size compared with that at the end of 2021 given the weak market sentiment and fund outflow.

While there have been a lot of discussions on new issue pipeline and whether new issuance will increase significantly from the level of 2022. Our view, as we have been arguing, is that new issuance will only come if the market sentiment is strong enough to absorb.

We expect gross issuance to pick up as market sentiment is improving and this should not be a concern to the performance of Asia ex JP USD bonds market. As shown in chart 5, issuance is highly correlated to the market performance. Furthermore, we expect the trend of negative net issuance to continue in 2023 as issuance from Chinese property sector will likely be muted with survivors of the sector to turn to onshore for funding and those in struggle will not be able to access the USD bond market. Chinese property sector accounted for an average 16% of Asia ex JP USD bond issuance during 2017-2021. In 2023, 21% of maturity in 2023 will be the Chinese property sector.



Source: Dealogic.

## Our Picks

Under this backdrop, we expect a better performance of Asia ex JP USD bond market in 2023 despite the volatility. Our top picks for 2023 are:-

**AMCs:** HRINTH 4.25 PERP, HRINTH 5.5'25, CCAMCL 4.4 PERP, CCAMCL 4.375'25, GRWALL 3.95 PERP. [See Appendix 1.](#)

**AT1s:** BCHINA 3.6 PERP, ICBCAS 3.58 PERP, DBSSP 3.3 PERP, UOBSP 3.875 PERP, SHINFN 5.875 PERP, KBANK 5.275 PERP, KBTB 4.4 PERP. [See Appendix 2.](#)

**Car rentals:** CARINC and EHICAR. We prefer CARINC despite its higher cash price given CARINC's operating performance is more resilience, and recovering faster than that of EHICAR.

**Chinese properties:** CHJMAO, CSCHCN, DALWAN, GRNCH, HPDLF, LNGFOR, SEAZEN, VNKRL and YLLGSP. [See Appendix 3.](#)

**Corp perps:** PCORPM 4.6 Perp, UPLLIN 5.25 Perp, NWDEVL 6.15 Perp and NWSZF 5.75 Perp. Our picks are on perps with reset/high coupon step-up, as well as chance of buy-back/tender offer. [See Appendix 4.](#)

**LGFVs:** Prefer short-dated bonds from stronger regions such as SHUGRP 4.3'23, HKIQCL 3.99'23, HZCONI 3.15'23 and YWSOAO 3.15'23. [See Appendix 5.](#)

**Macau gaming:** Conviction is lower after the recent strong performance. We prefer MPELs and STCITYs within the Macau gaming sector. [See Appendix 6.](#)

**SE Asia commodities and renewables:** Prefer more established issuers such as Greenko, Indika, Saka Energi (pick up over sovereign), Vedanta. Their near-term cash flow and access to funding channels will continue to benefit from commodity prices which remain notably higher than the pre-pandemic levels albeit moderating from the peaks. Our picks are GRNKENS, INDYIJ 8.25'25, SAKAEI 4.45'24, VEDLNs, especially short-dated and secured VEDLNs such as VEDLN 23s, secured VEDLN'24 and 25.

**TMTs:** Short-dated yield plays through "busted" CBs such as PDD 0'25 (YTP 7.3% and put at Dec'23 with a parity of 44.3) and XIAOMI 0'27 (YTP 6.8% and puttable at Dec'25 with a parity of 30.9). Both PDD and Xiaomi were in net cash position as at Sep'22.

Table 1: Summary of our picks

Sector	Ticker/Bonds	Price	YTM (%)	YTC (%)	YTP (%)	Next Call/ Put date
AMCs	HRINTH 4.25 PERP	77.5	-	13.7	-	30 Sep'25
	HRINTH 5.5 01/16/25	95.6	7.6	-	-	-
	CCAMCL 4.4 PERP	91.1	-	6.8	-	11 Mar'26
	CCAMCL 4.375'25	96.6	6.0	-	-	-
	GRWALL 3.95 PERP	93.4	-	8.0	-	31 Jul'24

AT1s	BCHINA 3.6 PERP	96.1	-	5.3	-	4 Mar'25
	ICBCAS 3.58 PERP	95.5	-	5.2	-	23 Sep'25
	DBSSP 3.3 PERP	93.1	-	6.5	-	27 Feb'25
	UOBSP 3.875 PERP	97.5	-	6.6	-	19 Oct'23
	SHINFN 5.875 PERP	98.4	-	7.5	-	13 Aug'23
	KBANK 5.275 PERP	95.2	-	6.9	-	14 Oct'25
	KTBTB 4.4 PERP	89.1	-	8.0	-	25 Mar'26
Car rentals	CARINC 9.75 03/31/24	89.7	19.6	-	-	-
	EHICAR 7.75 11/14/24	68.9	30.9	-	-	-
	EHICAR 7.0 09/21/26	61.7	22.8	-	-	-
Properties	CHJMAO	72.8-92.6	8.4-10.9	-	-	-
	CSCHCN	61.1-67.3	39.1-45.8	-	-	-
	GRNCH	88.8-99.0	6.3-10.9	-	-	-
	VNKRLE	79.2-99.4	6.2-7.8	-	-	-
	DALWAN	89.5-98.2	16.1-18.5	-	-	-
	FUTLAN/FTLNHD	67.3-97.9	13.4-23.2	-	-	-
	HPDLF	81.3-87.8	21.2-23.7	-	-	-
	LNGFOR	68.2-82.1	9.0-9.5	-	-	-
	YLLGSP	83.7-99.3	9.0-11.1	-	-	-
Corp Perps	NWSZF 5.75 PERP	97.1	10.3	-	-	31 Jan'24
	NWDEVL 6.15 PERP	92.4	9.7	-	-	16 Mar'25
	PCORPM 4.6 PERP	92.2	20.8	-	-	19 Jul'23
	UPLLIN 5.25 PERP	71.4	21.1	-	-	27 Feb'25
LGFV	SHUGRP 4.3 05/08/23	97.3	12.61	-	-	-
	HKIQCL 3.99 04/27/23	98.9	8.22	-	-	-
	HZCONI 3.15 07/30/23	98	6.81	-	-	-
	YWSOAO 3.15 08/11/23	97.8	7.08	-	-	-
Macau gaming	MPEL	83.6-92.6	8.3-9.6	-	-	-
	STCITY	73.4-86.9	11.2-12.5	-	-	-
SE Asia commodities and renewables	GRNKEN	84.1-99.7	7.7-8.8	-	-	-
	INDYIJ 8.25 10/22/25	98.9	8.7	-	-	-
	SAKAEI 4.45 05/05/24	95.9	7.8	-	-	-
	VEDLN	63.8-94.9	23.5-38.6	-	-	-
TMTs	PDD 0 12/01/25	94.9	-	-	5.8	1 Dec'23
	XIAOMI 0 12/17/27	82.3	-	-	6.7	17 Dec'25

Sources: Bloomberg.

## Appendix 1: Chinese AMCs – HRINTHs and CCAMCLs are our preference

We continue to see value in the sector given the proven government support and the increasing strategic importance of the sector under the backdrop of the rising defaults onshore. Within the space, we prefer listed AMCs, i.e. Huarong and Cinda in view of the higher data transparency, and continue to stay with shorter-tenor papers in a rising rate environment.

Similar to banks, these AMCs tend to redeem their perps on first call date to meet investors' expectation as well as to demonstrate their refinancing capabilities. Despite the weakening financing condition offshore especially since 2H22, HRINTH redeemed its USD700mn perps on the first call in Nov'22 and ORIEAS redeemed USD250mn perps in Dec'22. So far, HRINTH, CCAMCL and GRWALL called their USD perps on the first call date. In our view, the predictability for AMCs to call their perps on first call remains high.

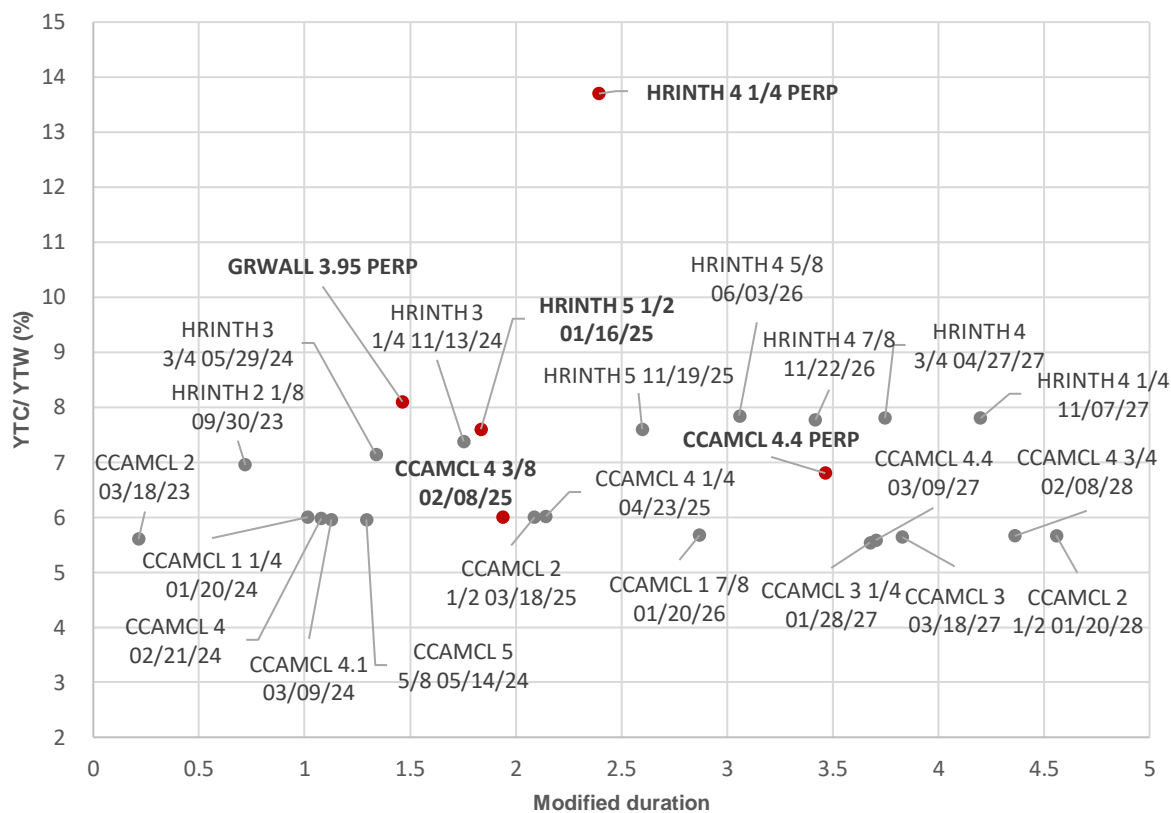
For better yield plays, we like Huarong's improving credit story with better liquidity and access to funding channels after the government 'bail-out' in 2021. Huarong has been optimizing its asset structure via non-core and non-performing asset disposals. It has realized cRMB30.5bn via disposing of Huarong Consumer Finance, Huarong International Trust, Huarong Securities, Huarong Futures and Huarong Xiangjiang Bank in 2022. Huarong also obtained approval for the full circulation of its A shares from CSRC in Oct'22 and H shares from HKEX in Nov'22. These enhance our conviction on HRINTHs and our picks within the curve are **HRINTH 4.25% perps** and **HRINTH 5.5%'25** for lower cash price and better valuations.

For lower beta plays with stronger fundamentals, we prefer CCAMCLs and our picks are **CCAMCL 4.4% perps** and **CCAMCL 4.375'25**. We also see value for **GRWALL 3.95 PERP**, callable in Jul'24.

Table 2: Summary of China AMC picks

	Bid price	YTW	YTC	Modified duration	Next call date
HRINTH 4 1/4 PERP	77.5	13.7%	13.7%	2.4	30/9/2025
HRINTH 5 1/2 01/16/2025	95.6	7.6%	N/A	1.8	N/A
CCAMCL 4.4 PERP	91.1	6.8%	6.8%	3.5	3/11/2026
CCAMCL 4 3/8 02/08/25	96.6	6.0%	N/A	1.9	N/A
GRWALL 3.95 PERP	93.4	8.0%	8.0%	1.5	7/31/2024

Chart 13: YTW/YTC of our AMC picks



Source: Bloomberg.



## Appendix 2: Our picks of Asian banks AT1s

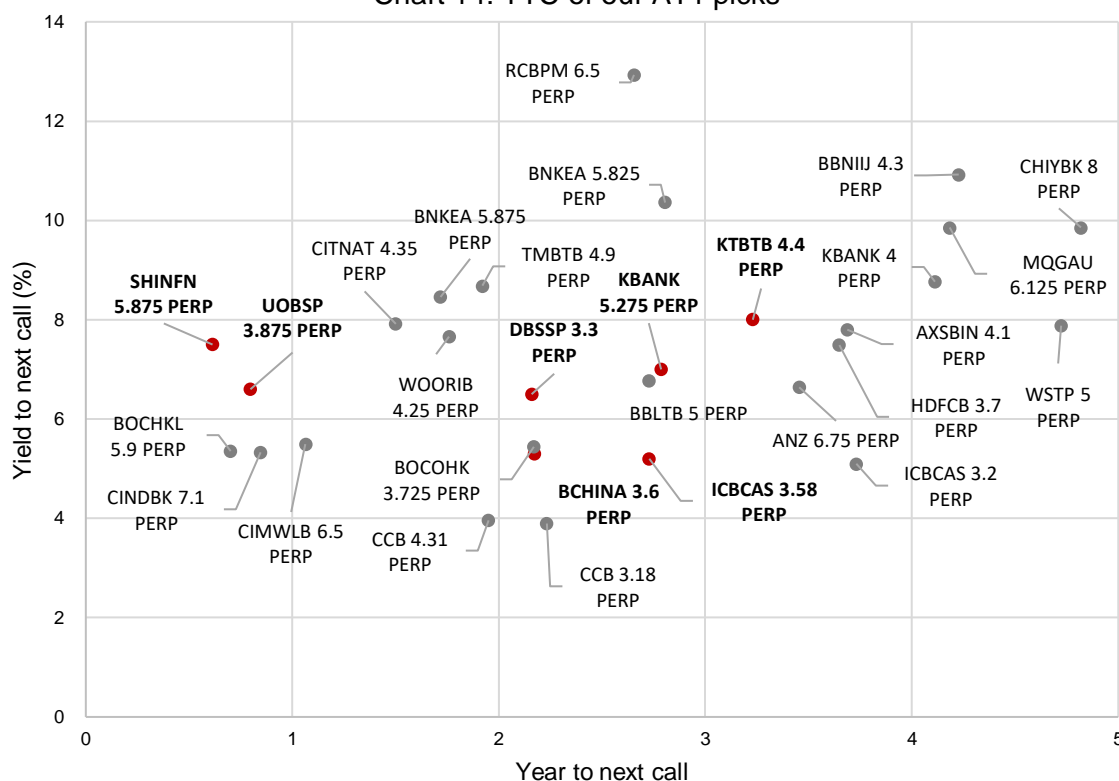
We published three commentaries on Asian banks AT1s since Oct'22. We still see relative value, albeit less appealing, in **BCHINA 3.6 PERP** and **ICBCAS 3.58 PERP** within China G-SIBs, **DBSSP 3.3 PERP**, **UOBSP 3.875 PERP**, and **SHINFN 5.875 PERP** among Asian DMs, **KBANK 5.275 PERP** and **KTBTB 4.4 PERP** in Asian EMs given their high predictability of return, and more balanced risk-return profile.

Table 3: Summary of our Bank AT1 picks

Region		Rating	First call date	Yr to call	YTC	Bid px	Coupon reset (%)	Trigger	Loss absorption	CET1 ratio trigger (%)
BCHINA 3.6 PERP	CN	Ba1	3/4/2025	2.2	5.3	96.1	5yrUST+2.45	Mechanical	Equity conversion	5.125
ICBCAS 3.58 PERP	CN	Ba1	9/23/2025	2.7	5.2	95.5	5yrUST+3.30	Discretionary	Equity conversion	N/A
DBSSP 3.3 PERP	SG	Baa1	2/27/2025	2.2	6.5	93.1	5yrUST+1.92	Discretionary	Write-down	N/A
UOBSP 3.875 PERP	SG	Baa1	10/19/2023	0.8	6.6	97.5	5yrUST+1.79	Discretionary	Write-down	N/A
SHINFN 5.875 PERP	KR	Baa3	8/13/2023	0.6	7.5	98.4	5yrUST+3.05	Discretionary	Write-down	N/A
KBANK 5.275 PERP	TH	Ba2	10/14/2025	2.8	6.9	95.2	5yrUST+4.94	Mechanical	Write-down	5.15
KTBTB 4.4 PERP	TH	Ba3	03/25/2026	3.2	8.0	89.1	5yrUST+3.53	Mechanical	Write-down	5.15

Source: Bloomberg.

Chart 14: YTC of our AT1 picks



Source: Bloomberg.

### **Buy BCHINA 3.6 PERP and ICBCAS 3.58 PERP within China G-SIBs**

There is no precedent on the principal of the AT1s of Chinese G-SIBs being written down or converted into equity. There is also no precedent for Chinese G-SIBs to cancel distribution, and all of the Chinese AT1s were called on their respective first call dates. Chinese G-SIBs' AT1s offer highly predictable return because of their lower likelihood of loss absorption, higher certainty of being called on the first call dates and scheduled distributions.

Amongst China G-SIBs' AT1s, our picks are BCHINA 3.6 PERP and ICBCAS 3.58 PERP in view of their higher YTC, relatively shorter-tenor and better trading liquidity. These AT1s also offer decent yield pick-up (43-52bps) over their senior bonds.

### **Pick DBSSP 3.3 PERP, UOBSP 3.875 PERP, and SHINFN 5.875 PERP among Asian DMs**

Among AT1s in developed markets (DM) in Asia, i.e. Hong Kong, Singapore, South Korea, and Australia. Our picks in this space are DBSSP 3.3 PERP, UOBSP 3.875 PERP, and SHINFN 5.875 PERP in view of their more balanced risk and return profile, as well as shorter tenor. These AT1s also offer appealing yield pick-up (170-250bps) over their senior bonds.

DBS, UOB and Shinhan Bank are systemic importance banks in their home countries. These three banks have demonstrated their ability to maintain capital adequacy, even at the trough of last economic cycle around 2008. We view that the chance they become non-viable is remote over the medium term.

### **Prefer KBANK 5.275 PERP and KTBTB 4.4 PERP in Asian EMs**

Compared with that of Chinese G-SIBs and Asian DMs, the return predictability of AT1s in Asian EMs, i.e. India, Indonesia, Philippines and Thailand, are lower. There were loss absorption and non-call incidents for INR capital papers of Yes Bank, Lakshmi Vilas Bank, Dhanlaxmi Bank and ICICI Bank. We notice Indian government's differential treatments in loss absorption for private and public banks. In the case of IDBI Bank, its INR AT1 was called early in 2018 before possible loss absorption triggered by low level of CET 1 ratio.

Under this backdrop, our picks are KBANK 5.275 PERP and KTBTB 4.4 PERP in view of their more balanced risk-return profile. As AT1 is a relatively new instrument to Asia EM banks, track record of call and distribution is relatively limited. Hence, we prefer AT1s issued by banks which are more remote to loss absorption given their ample capital buffers and comparatively more stable profitability throughout the cycles.

Table 4: Capital adequacy ratios of our Bank AT1 picks as at 3Q22

Issuer	Region	CET1 Ratio (%)	Tier 1 Ratio (%)	Total Capital Ratio (%)
BCHINA	CN	11.6	13.9	17.2
ICBCAS	CN	13.7	15.3	18.9
DBSSP	SG	13.8	14.5	16.2
UOBSP	SG	12.8	13.8	16.2
SHINFN	KR	14.0	14.7	17.5
KBANK	TH	15.1	16.1	18.2
KTBTB	TH	15.6	16.6	20.6

Source: Companies' filing.

## Appendix 3: Chinese properties – Sales recovery is the key

### Our picks of survivors.... for the time being

In 11M22, commercial housing sales in China declined 27% to RMB11.86tn. The contract sales of 36 developers under our radar dropped 49% on average. The reopening of China and commitment to ensure timely home deliveries, in our view, are right policy moves to prevent the Chinese property sector to spiral downward. In a more optimistic scenario, a notable contract sales recovery could come starting from 3Q23, factoring into the time-lag of stimulus measures and low base figures of 3Q22.

Hence, in the near-term, the survivors of the sector will be those with funding access being resumed and manageable near-term debt maturities, especially manageable offshore debt maturities as resumption of offshore funding access appears to be more remote.

Under this backdrop, those developers have good access to onshore funding channels and matured investment property portfolios as collaterals for operating loans, CMBS and CBICL-guaranteed onshore bond issuances, and relatively small offshore maturities in 2023 will be better positioned to survive until a more notable sales recovery.

Our picks for the sector are **CHJMAO, CSCHCN, DALWAN, GRNCH, HPDLF, LNGFOR, SEAZEN, VNKRL** and **YLLGSP**. These provide more decent return than other majority government-owned survivors like CHIOLI, CRHZCH and YUEXIU. We agree that other lower cash price bonds in the sector may offer better upside/beta. That said, we believe our picks offer better downside protection in case sales recovery falls short of our expectation.

Table 5: Sales and financial conditions (1H22) of our picks

Ticker	Contract Sales YoY Change (11M22)	Net Gearing	Adj. Liabilities to Assets Ratio	Unrestricted Cash/ST Debts
CHJMAO	-36%	64.5%	68.0%	1.51x
CSCHCN	-	66.3%	57.9%	0.31x
DALWAN	-	35.2%	50.1%	1.22x
FUTLAN/FTLNHD	-49%	48.4%	69.1%	1.74x
GRNCH	7%	72.0%	72.5%	2.32x
HPDLF	-28%	68.3%	60.0%	0.79x
LNGFOR	-27%	55.3%	68.1%	4.07x
VNKRL	-33%	44.3%	68.6%	1.77x
YLLGSP	23%	57.5%	67.7%	2.24x

Note: VNKRL, CSCHCN and DALWAN's financial date is up to 3Q22. Source: Company announcement.

Table 6: Basic information of selected developers (USD mn)

Type	Ticker	O/S USD number	Bonds Amount	O/S USD Bonds Amount	Issuer Rating	YTM (%)
State-owned	CHJMAO	7	2,900	-/-/-	-/-/-	8.4-10.9
	CSCHCN	5	1,521	-NR/-	-NR/-	39.1-45.8

Quasi state-owned	GRNCH	4	1,300	-/BB-/	6.3-10.9
	VNKRLE	7	4,574	-/BBB-/	6.2-7.8
	DALWAN	3	1,350	-/-/-	16.1-18.5
Privately-owned	FUTLAN				
	/FTLNHD	8	2,354	Ba3/BB-/	13.4-23.2
	HPDLF	2	538	-/B-/	21.2-23.7
	LNGFOR	4	2,000	Baa2/BBB-/	9.0-9.5
	YLLGSP	3	1,230	-/-/-	9.0-11.1

Source: Bloomberg.

Table 7: USD bonds maturity of selected developers (USD mn)

	2023	2024	2025	2026	2027	After 2028	Total
CHJMAO	-	250	350	600	-	1,700	2,900
CSCHCN	-	1,521	-	-	-	-	1,521
DALWAN	750	600	-	-	-	-	1,350
FUTLAN/							
FTLNHD	650	700	600	404	0	0	2,354
GRNCH	-	150	1,150	-	-	-	1,300
HPDLF	238	300	-	-	-	-	538
LNGFOR	-	-	-	-	250	1,750	2,000
VNKRLE	1,621	1,230	423	-	1,000	300	4,574
YLLGSP	330	400	-	500	-	-	1,230
<b>Total</b>	<b>3,589</b>	<b>5,151</b>	<b>2,523</b>	<b>1,504</b>	<b>1,250</b>	<b>3,750</b>	<b>17,767</b>

Source: Bloomberg.

Table 8: Onshore bonds maturity of selected developers (RMB bn)

	2023	2024	2025	2026	2027	After 2028	Total
CHJMAO	2.1	-	1.6	-	-	-	3.7
CSCHCN	-	-	-	-	-	-	-
DALWAN	9.6	5.1	6.8	-	-	-	21.5
FUTLAN/							
FTLNHD	1.7	1.6	5.0	-	-	4.9	13.2
GRNCH	11.7	4.4	13.5	7.2	1.5	1.4	39.7
HPDLF	-	-	-	-	-	-	-
LNGFOR	12.2	3.2	6.5	7.6	6.3	14.1	50.0
VNKRLE	24.2	9.3	22.1	3.4	12.2	4.7	75.8
YLLGSP	-	1.5	-	-	-	2.4	3.9
<b>Total</b>	<b>61.5</b>	<b>25.1</b>	<b>55.5</b>	<b>18.2</b>	<b>20.0</b>	<b>27.5</b>	<b>207.8</b>

Source: Wind.

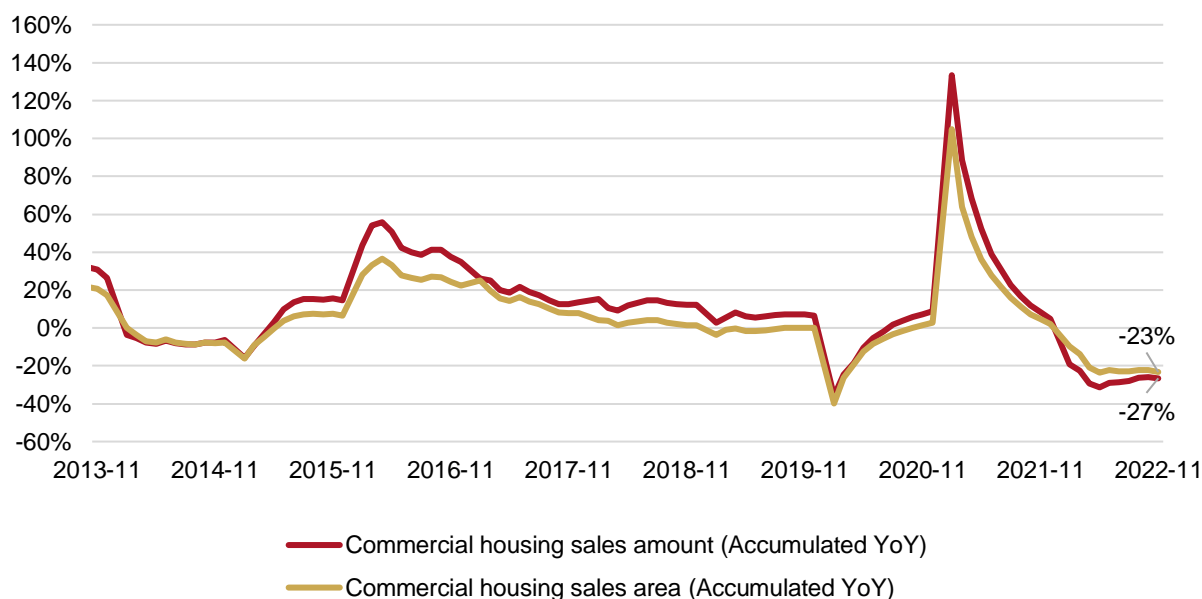
### Sales recovery could come by 3Q23

As discussed before, a notable contract sales recovery could come starting from 3Q23, factoring into the time-lag of stimulus measures and low base figures of 3Q22. Over the longer-term, the

viability of the sector will hinge on a significant recovery of contract sales, which in turn, will be driven by the economic outlook, income expectation and property price expectations. All these factors will come hand in hand.

As for sales of 38 developers under our radar, the FY22 contract sales were weak with 36 developers' recorded sales decline in 11M22. Outperformers are YLLGSP (RMB70.0bn, +23% yoy), YUEXIU (RMB102.9bn, +8% yoy) and CRHZCH (RMB251.7bn, -7% yoy). CSCHCN and DALWAN are not included in our radar and their revenue in 3Q22 are RMB2.9bn and RMB36.4bn, representing -42.1% and +5.7% yoy, respectively.

Chart 15: China commercial housing sales YoY change



Source: NBS, Wind.



Table 9: 2022 YTD sales of 36 developers under our radar (RMB mn)

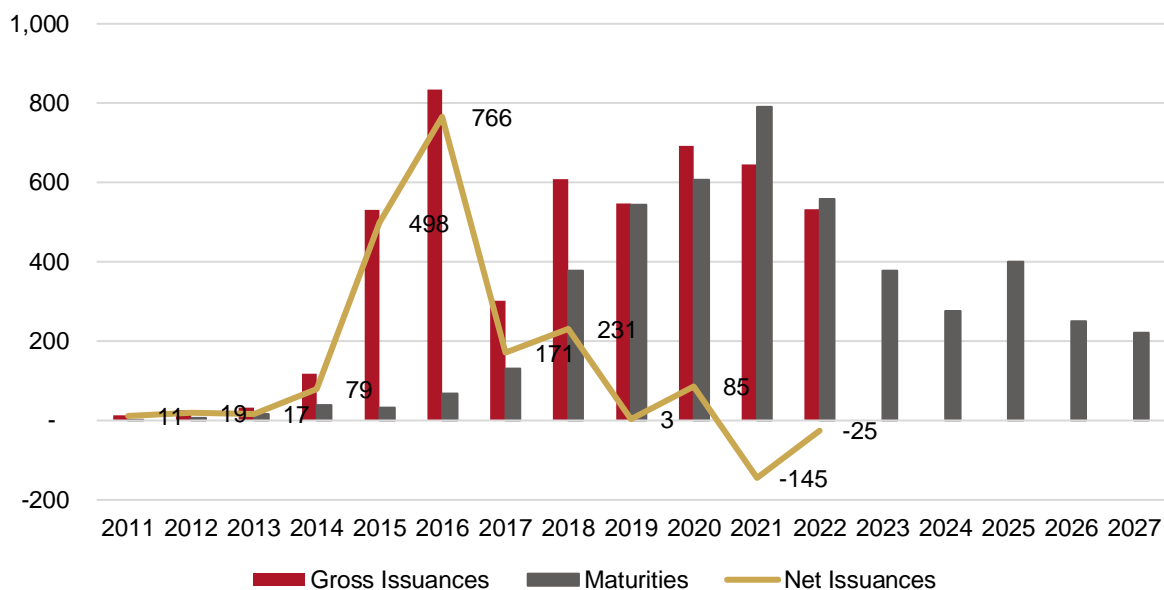
2022 YTD Sales (in RMB mn)														Nov'22 MoM Growth	Nov'22 YoY Growth	Nov'22 YTD Sales	Nov'22 YTD Sales Growth
Company	CN Name	BBG Ticker	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Trend			
Agile	雅居乐	AGILE	7,380	6,720	7,010	3,940	6,130	8,270	5,010	5,050	3,500	4,770	3,600		25%	70%	61,380
Aoyuan Property	中国奥园	CAPG	1,920	1,580	4,460	1,560	2,390	3,010	1,090	1,240	1,050	900	680		24%	90%	19,880
Central China Real Estate	建业地产	CENCHI	2,007	1,158	3,102	2,630	2,170	2,973	2,119	1,735	1,470	1,335	1,089		18%	90%	21,788
China Jinmao	中国金茂	CHJMAO	10,000	7,000	14,660	10,240	9,000	19,000	10,497	16,520	13,063	13,200	14,300		8%	-1%	137,480
China Overseas	中国海外发展	CHIOI	14,779	10,839	22,662	20,362	26,391	43,467	17,468	22,507	22,826	31,291	24,111		23%	-1%	256,703
China Resources Land	华润置地	CRHZCH	15,262	9,813	20,896	15,057	20,320	39,690	28,050	22,270	30,700	27,470	22,200		19%	9%	251,728
China SCE	中骏集团控股	CHJNSC	5,022	4,219	8,010	4,490	4,790	6,050	5,049	3,490	4,520	4,570	4,203		8%	94%	54,413
China Vanke	万科企业	VNKRLE	35,600	29,370	41,530	30,840	30,760	47,190	33,690	30,970	34,730	32,100	30,440		5%	2%	377,220
CIFI Holdings	旭辉集团	CIFIHG	8,440	8,300	12,000	10,100	10,800	13,500	16,100	15,060	10,020	9,060	4,150		54%	75%	117,530
Country Garden (Attributable)	碧桂园	COGARD	36,360	32,760	30,110	22,640	28,710	34,520	30,110	28,870	32,020	33,330	26,010		22%	57%	335,440
Dafa Properties	大发地产	DAFAPG	1,011	990	607	302	300	500	361	300	446	555	320		42%	88%	5,692
Dexin China	德信中国	DEXICN	2,830	2,480	4,040	3,040	2,640	4,350	2,810	2,920	2,430	3,010	3,050		1%	4%	33,600
Future Land	新城控股	FUTLAN/FTLNHD	7,862	11,231	11,966	9,029	11,081	13,991	10,890	9,496	8,328	9,078	6,531		28%	47%	109,483
Gemdale	金地集团	GEMDAL	14,960	9,620	20,930	12,500	14,190	28,400	18,550	21,230	22,700	20,300	18,020		11%	3%	201,400
Greenland Holding	绿地控股集团	GRNLGR	12,010	8,040	10,750	7,990	10,930	18,680	7,900	10,000	14,000	7,310	10,300		11%	54%	117,910
Greentown	绿城	GRNCH	14,600	12,800	20,800	15,500	15,100	34,000	27,300	29,700	27,000	32,100	34,100		6%	15%	263,000
Guangzhou R&F	富力地产	GZRFPR	4,600	4,510	4,370	4,270	4,080	4,670	1,900	2,470	2,300	2,050	1,170		43%	85%	36,390
Hopson	合生创展	HPDLF	2,999	1,946	3,076	2,562	2,875	3,402	1,940	2,088	2,294	3,012	1,919		36%	2%	28,113
Jiayuan International	佳源国际	JIAUYA	1,727	1,276	1,516	892	983	1,386	1,047	771	982	955	827		13%	76%	12,362
Jingrui Holdings	景瑞控股	JINGRU	634	581	1,016	905	693	680	425	460	407	492	332		33%	89%	6,625
KWG Property	合景泰富集团	KWGPRO	4,160	4,381	4,533	4,352	4,121	4,681	4,761	3,861	4,150	4,220	2,700		36%	24%	45,920
Logan Property (Attributable)	龙光地产	LOGPH	9,010	4,200	3,910	3,200	3,540	3,740	2,730	3,030	2,750	3,270	2,620		20%	7%	42,000
Longfor (Attributable)	龙湖集团	LNGFOR	6,990	6,080	11,000	7,360	9,060	16,020	11,850	14,500	11,490	11,680	10,060		14%	73%	116,090
Poly Real Estate	保利地产	POLYRE	28,302	23,978	38,415	30,519	38,003	51,003	33,001	38,479	38,395	43,014	37,013		14%	-3%	400,122
Powerlong	宝龙地产	PWRLNG	4,701	3,101	4,313	3,096	3,810	4,220	3,209	2,710	2,410	3,119	3,245		4%	81%	37,934
Radianse	金辉控股	JNHUIG/RDHGCL	4,320	3,050	3,150	3,690	3,910	6,250	4,050	3,630	3,310	3,170	1,940		39%	11%	40,470
Redco Properties	力高集团	REDPRO	2,617	1,903	1,025	1,502	2,317	2,901	2,516	3,116	3,140	2,507	2,003		20%	27%	25,547
Redsun	弘阳地产	REDSUN/HONGS	4,020	3,062	2,738	2,587	3,108	4,094	2,832	2,669	3,403	3,709	1,801		51%	94%	34,023
Ronshine China	融信中国	RONXIN	6,506	8,329	5,396	4,336	5,067	9,103	7,570	2,652	4,092	2,544	1,201		53%	88%	56,797
Shimao	世茂房地产	SHIMAO	7,510	7,260	7,340	6,030	6,110	9,500	6,820	6,220	8,000	8,200	6,500		21%	81%	79,490
Sino-Ocean	远洋集团	SINOCE	4,490	3,730	6,850	6,830	7,410	13,700	8,990	9,110	8,050	9,470	10,860		15%	2%	89,490
Sunac China	融创中国	SUNAC	27,920	22,360	22,080	13,570	12,850	14,040	11,030	10,750	8,740	9,750	8,040		18%	78%	161,130
Times Property	时代中国控股	TPHL	7,088	2,516	4,563	3,580	4,530	5,180	2,763	2,298	2,063	2,060	1,560		24%	85%	38,201
Yanlord	仁恒置地	YLLGSP	9,807	1,069	5,335	1,470	1,135	12,578	5,435	7,893	9,344	4,077	3,824		6%	59%	61,967
Yuexiu Property	越秀地产	YUEXIU	5,040	2,824	5,951	12,544	8,256	14,299	9,950	8,128	16,681	11,440	11,828		3%	-1%	102,941
Yuzhou Properties	禹洲地产	YUZHOU	4,520	3,354	3,520	2,612	2,911	4,031	2,952	2,573	2,268	2,831	2,231		21%	70%	33,803
Zhenro Properties	正荣地产	ZHPRHK	7,897	3,529	2,585	2,301	2,316	2,689	2,055	1,713	1,922	2,152	1,724		20%	83%	30,883
Zhongliang	中梁控股	ZHLGHD	8,390	6,410	6,800	4,100	6,000	7,000	4,700	4,220	4,480	5,500	4,400		20%	84%	62,000

Source: Wind.

## Unwinding draconian tightening measures

Since Dec'16, the Chinese government had implemented tightening measures to ensure that "Houses are built to be lived in, not for speculation". As a result, the onshore equity and debt financing of developers shrank a lot. A-share equity financing slumped to zero in recent two years and onshore bonds issuance dropped substantially from the peak of RMB834bn in 2016. The wave of defaults started in 2021 and this further deteriorated developers' funding access. The net issuances of onshore and offshore bonds turned into -RMB25bn and -USD49bn in 2022, respectively.

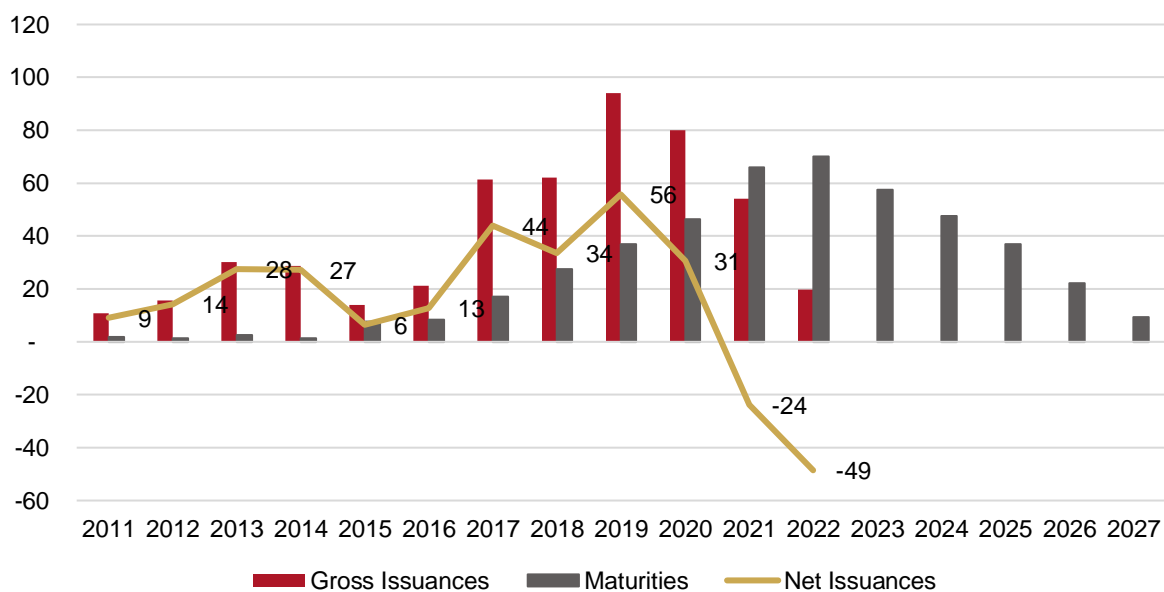
Chart 16: Real estate onshore bonds issuances (RMB bn)



Note: Net issuance includes tender offers, buy-backs and put/call exercises.

Source: Wind.

Chart 17: Real estate USD bonds issuance amount (USD bn)

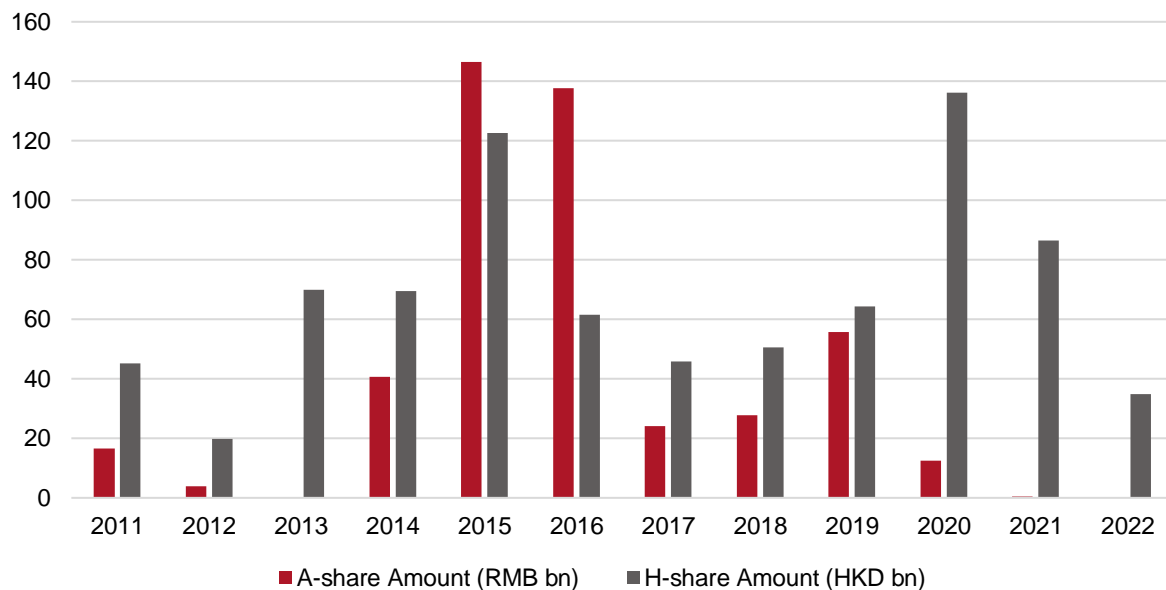


Note: Net issuance includes tender offers, buy-backs and put/call exercises.

Source: Bloomberg.



Chart 18: Property sector equity financing amount



Source: Wind.

Starting from mid-2022, there has been news on incomplete projects and boycott of mortgage payments. The Chinese government has successively launched a series of policies to stabilize the market. These include lowering the mortgage rates and expanding developers' funding channels to ensure project completions.

The government's priority is to ensure timely completions and project deliveries to maintain social stability, rather than bail out distressed developers. Some state-owned, quasi state-owned or high quality privately-owned developers which have relatively better conditions than peers obtained most support from banks and/or CBICL. We view that the new policies may be not universal for all Chinese developers, defaulted or distressed developers will benefit little and survivors from this downturn are major beneficiaries.

Table 10: Real estate related new policies in 2H22

Date	Department	Content
28-Nov-22	CSRC	'Third Arrow': reopen the equity financing channel for property developers via five measures
Since 24 Nov'22	Commercial Banks	To implement '16 Measures', banks sign strategic agreements with developers to provide credit line and financial services
14 Nov'22	CBIRC, MOHURD, PBOC	Allowing commercial banks to issue letter of guarantee to developers with up to 30% amount of escrow pre-sale housing funds

11 Nov'22	PBOC, CBIRC	'16 Measures' including 1) increase loans and residential mortgages to property developers and individual respectively; 2) manage the risks of distressed developers properly, etc.
8 Nov'22	NAFMII	'Second Arrow': Expanding bond financing for private firms including developers, with support from the PBOC
30 Sep'22	PBOC	Lower the interest rates on personal housing provident fund loans for first-time home buyers by 0.15 percentage points from 1 Oct'22
30 Sep'22	MOF, STA	Residents who buy new homes within one year after selling old homes will enjoy personal-income tax refunds on the sale before Dec'23

Source: China government.

Table 11: 'First Arrow': Number of banks that grant credit lines to developers, as of mid-Dec'22

Ticker	Number of banks	Ticker	Number of banks
VNKRLE	14	CHJMAO	4
GRNCH	12	ZHHFGR	3
COGARD	12	FUTLAN/FTLNHD	3
LNGFOR	10	YLLGSP	2
CHIOLI	9	PWRLNG	2
CRHZCH	7	CIFIHG	2
GEMDAL	7	OCTOWN	2
CENCHI	4	JNHUIG/RDHGCL	2
POLYRE	4	HKLSP	2
YUEXIU	4	HPDLF	2

Source: China Index Academy.

Table 12: 'Second Arrow': CBICL-backed onshore bonds issuance

Ticker	Issue date	Amount (RMB mn)	Amount (USD mn)	Coupon	Tenor
COGARD	22 Dec'22	1,000	143	4.30	3yr
	15 Sep'22	1,500	215	3.20	3yr
FUTLAN/FTLNHD	09 Dec'22	2,000	287	4.30	3yr
	08 Sep'22	1,000	144	3.28	3yr
MIDEAP	01 Dec'22	1,500	215	2.99	3yr
	02 Sep'22	1,000	144	3.33	3yr
JNHUIG/RDHGCL	01 Dec'22	1,200	172	4.00	3yr
LNGFOR	29 Nov'22	2,000	287	3.00	3yr
	25 Aug'22	1,500	215	3.30	3yr
EXCECP	12 Oct'22	600	86	3.50	3yr
CIFIHG	21 Sep'22	1,200	172	3.22	3yr
Total		14,500	6,775	3.48	

Source: Wind.

Table 13: 'Third Arrow': equity financing in FY22

Ticker	Date	Type	Amount (HKD mn)	Amount (USD mn)
AGILE	20 Dec'22	Share placement	623	79
	16 Nov'22	Share placement	791	101
CIFIHG	20 Dec'22	Share placement	958	122
	31 Aug'22	Share placement	628	80
KWGPRO	13 Dec'22	Share placement	472	60
DEXICN	13 Dec'22	Share placement	236	30
FUTLAN/FTLNHD	13 Dec'22	Share placement	1,960	250
	06 Dec'22	Share placement	4,806	612
COGARD	15 Nov'22	Share placement	3,921	499
	26 Jul'22	Share placement	2,828	360
	20 Jan'22	CB issue	3,900	497
TPHL	26 Jan'22	Share Placement	400	51
LOGPH	26 Jan'22	ELN issue	1,950	248
SUNAC	13 Jan'22	Share Placement	4,520	576
Total			27,992	3,566

Source: Wind.

Table 14: 'Third Arrow': equity financing plan announced by developers

Ticker	Date	Maximum issue percentage	Market value on 20 Dec'22 (RMB bn)	Maximum size (RMB bn)	Maximum size (USD mn)
GRNLGR	7-Dec-22	30%	43	13	91
JINKE	5-Dec-22	30%	11	3	23
ZHHFGR	5-Dec-22	30%	21	6	43
CHFOTN	2-Dec-22	30%	10	3	21
VNKRLE	2-Dec-22	20%	218	44	305
XINHUZ	1-Dec-22	20%	23	5	32
SHIMAO	30-Nov-22	30%	9	3	20
Total				76	534

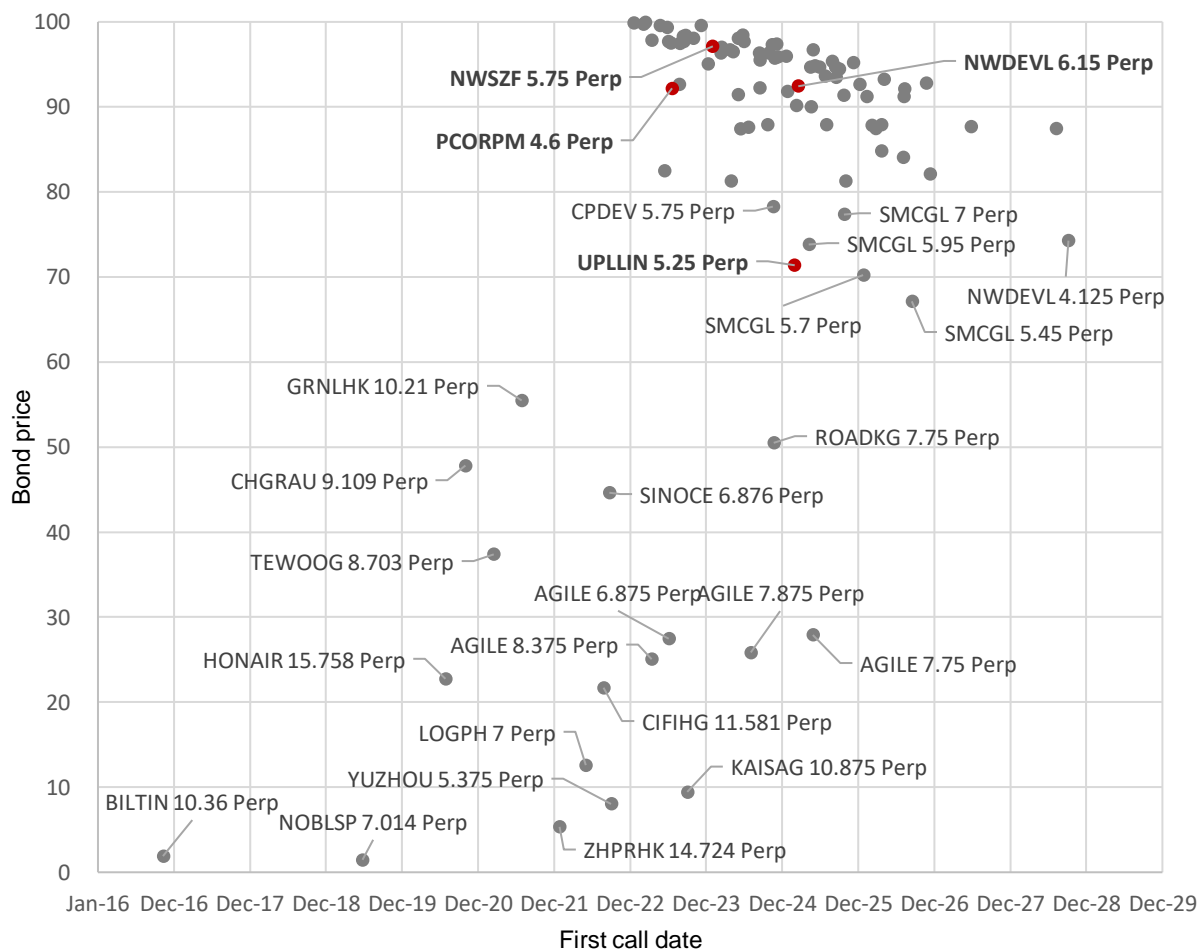
Source: Company announcements.

## Appendix 4: Corporate perps picks

### Prefer PCORPM 4.6 Perp, UPLLIN 5.25 Perp, NWDEVL 6.15 Perp and NWSZF 5.75 Perp

We prefer perps with coupon reset and a high step-up as the certainty of being called will be higher and issuers are more incentivized to early redeem or buy back their perps before call dates.

Chart 19: Outstanding Asia ex JP corporate perps' price and first call dates



Source: Bloomberg.

Riding on the oil price rally, the Philippine oil refining company Petron Corporation is able to generate 116% yoy increase in sales in 9M22 and cash level at 30 Sep'22 reached the highest level since 2015 at PHP41.5bn (cUSD740mn). [As we mentioned in our daily back in Oct'22](#), we view **PCORPM 4.6 Perp** a candidate for tender offer, considering the perps' coupon will be increased to 5yr UST+4.77% from 4.6% on its first reset date on Jul'23. The company has announced a tender offer up to USD50mn for PCORPM 4.6 Perp under modified Dutch auction

on 4 Jan'23. Recalled that PCORPM called its perps, PCORPM 7.5 Perp, on the first call date in Jun'18.

Meanwhile, **UPLLIN 5.25 Perp** is trading at 71.4, compared to its due-28 and due-30 senior bonds at 86.0 and 81.0 respectively. The perps are callable in Feb'25 and will have coupon step up from 5.25% to 5yUST+3.87%. UPL Corporation, the Indian agricultural solution provider, might take advantage of the lower bond price to redeem the perps before the first coupon reset date. Furthermore, UPLLINs will be included in bond indexes starting from 31 Jan'23 and we see there is technical demand on this company.

For NWDEVLs, our pick remains **NWDEVL 6.15 Perp**, callable in Mar'25 and coupon step-up to 3yr UST+6.2% from 6.15%. The perps are trading at 92.4 with YTC of 9.7%. Given it would face high coupon step up after the first reset as well as its currently cash-rich position, we believe that the certainty of call is high and would not be surprised if New World Development would propose another tender offer. NWDEVL has two other perps callable in '23 and '24, NWDEVL 4.8 Perp and NWDEVL 6.25 Perp, are trading at 73.0 and 83.0 respectively. These two do not contain coupon step up clauses after first reset date and therefore the chance of call on first call is deemed comparatively lower.

NWSZF completed the tender offer for its **NWSZF 5.75 Perp** callable in Jan'24 at 95.5 in Dec'22, and the accepted amount is higher than the originally proposed USD250mn. Meanwhile, the company completed the sale of commercial aircraft leasing platform to SMBC Aviation Capital for a consideration of USD1.6bn in Dec'22. The additional cash inflow allows the company to ride on the weak market sentiment to buy back the outstanding bonds trading at discount. NWSZF 5.75 Perp will have coupon step-up to 5yr UST+8.2% from 5.75% in Jan'24, and currently trading at 97.1 with YTC of 10.3%.

Table 15: Financials of our corporate perps picks

	<b>PCORPM 4.6 Perp</b>	<b>UPLLIN 5.25 Perp</b>	<b>NWDEVL 6.15 Perp</b>	<b>NWSZF 5.75 Perp</b>
<b>Credit rating (M/S/F)</b>	N/A	Ba2/BB-/-	N/A	N/A
<b>Yield to call</b>	20.8	21.1	9.7	10.3
<b>Price</b>	92.2	71.4	92.4	97.1
<b>Year to call</b>	0.6	2.2	2.2	1.1
<b>First call date</b>	19 Jul'23	27 Feb'25	16 Mar'25	31 Jan'24
<b>Outstanding (USD mn)</b>	500.0	400.0	500.0	1,020.0
<b>USD mn</b>	<b>Sep'22</b>	<b>Mar'22</b>	<b>Jun'22</b>	<b>Jun'22</b>
<b>Revenue</b>	13,938.4	5,532.3	8,745.3	3,992.2
<b>Net profit</b>	145.0	484.8	464.9	278.2

<b>Cash</b>	738.8	686.8	7,399.5	1,724.7
<b>Short-term debts</b>	3,118.9	362.9	6,603.7	698.0
<b>Long-term debts</b>	1,725.7	2,923.7	18,946.0	2,467.9
<b>Total debts</b>	4,844.6	3,286.6	25,549.7	3,165.8

Source: Bloomberg, S&P Capital IQ.

### The call of corporate perps are not certain...

There are 133 corporate perps outstanding as of Dec'22. Out of these, 23 corporate perps were not called on their first call dates. Among these 23 corporate perps, the coupon of 12 of them are fixed for life and 11 of them with coupon step-up on the first call date and thereafter. We see a lower certainty of call on first call dates for corporate perps, compared with that of bank AT1s and perps of China AMCs discussed above.

Chart 20: Number of corporate perps outstanding as of Dec'22

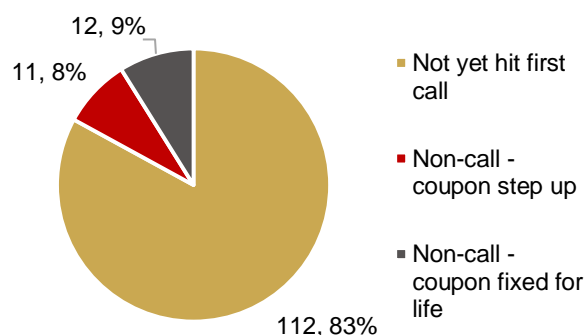
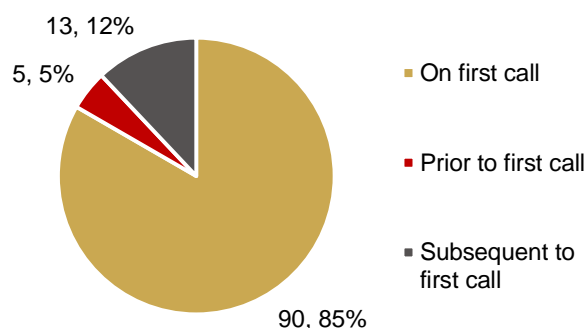


Chart 21: Number of corporate perps redeemed as of Dec'22

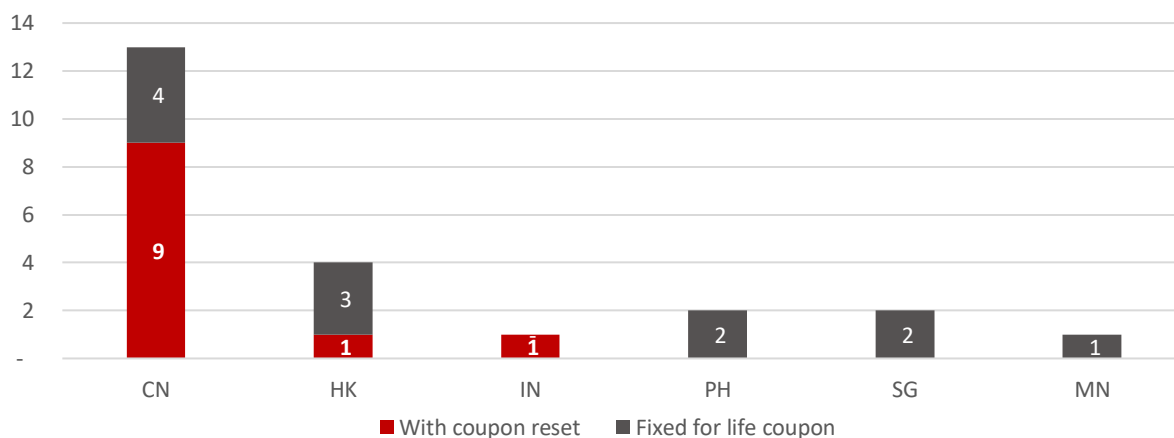


Source: Bloomberg.

### ....non-call of high coupon step-up perps mainly due to liquidity issues

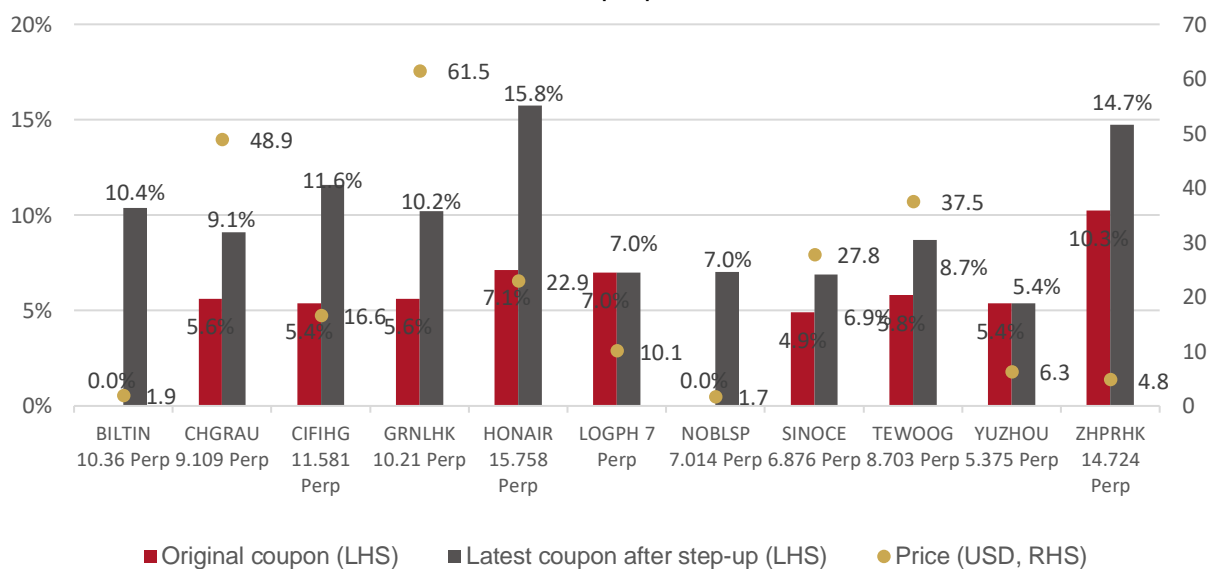
High coupon step-up clause would incentivize corporates to redeem their outstanding perps on first call dates. For the 23 perps not called on the first call dates, 11 of them are with coupon step up and these 11 perps are all issued by corporates currently in distress, mainly real estate developers in China.

Chart 22: No. of non-call corporate perps outstanding as of Dec'22



Source: Bloomberg.

Chart 23: Outstanding non-call corporate perps price and coupon after step-up



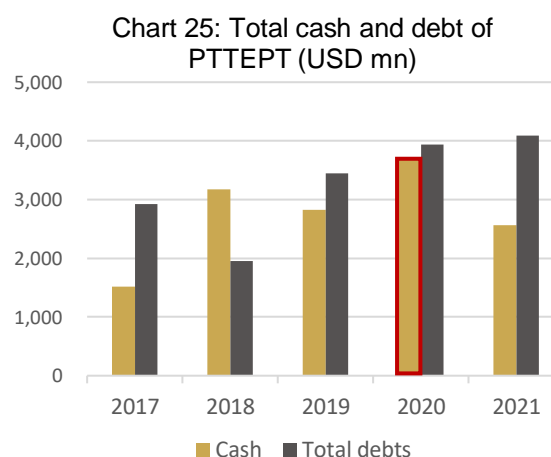
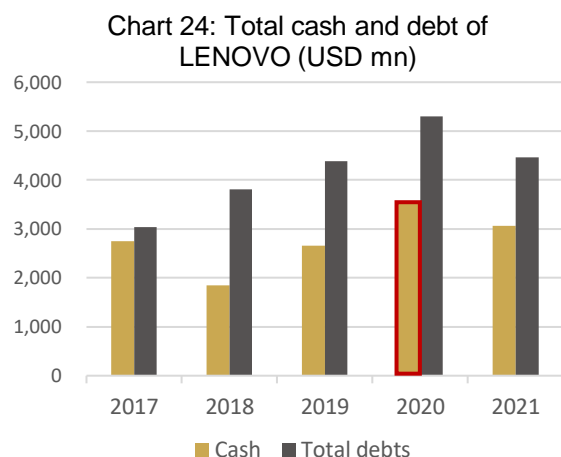
Source: Bloomberg.

### Issuers with sufficient liquidity could early redeem perps before the first call dates

We believe high coupon step up attracts issuers to redeem their perps on the first reset dates. Early redemption by a way of tender offer is also popular for issuers with abundant cash in hand.

Amongst 106 corporate perps redeemed since the first redemption by GLENLN in Jun'11, 3 of them were redeemed in full 1-2 years prior to first call dates. LENOVO 5.375 Perp and PTTEPT

4.6 Perp launched tender offers 1.4 and 1.8 years ahead of their first respective call dates. These two perps carried coupon step up after the first reset date; the coupon of LENOVO 5.375 Perp would be reset from 5.375% to 5yr UST+6.257%, and that of PTTEPT 4.6 Perp would be reset from 4.6% to 5yUST+2.724%. The cash level of these LENOVO and PTTEPT showed 3-year high before the announcement of tender offers in 2020, and this incentivized Lenovo and PTTEPT to early redeem the perps to optimizing the capital structure. For YZCOAL 7 Perp, the early redemption in full was due to group reorganization.



Note: Red boxes indicate the year of early call.

Source: S&P Capital IQ.

We see more issuers launched the tender offers or repurchased their bonds and perps in size. Over the past 6 months, 28 tender offers were announced and proposed tender offer amount is over USD8bn. The trend is even more notable after the sharp correction of bond/perp prices in Oct'22. On a bright side, the tender offers reflect that some issuers consider their bond/perp prices too low and they have sufficient liquidity even with the early redemptions.

So far, we notice that the tender offers are mainly from issuers which benefited from higher commodity prices or of which operations not significantly affected by the weakened economic backdrop. Indonesian commodity companies such as ABM Investama, Inalum, Indika and Medco Energi are amongst the examples. Their operating performance and operating cash flow are boosted by higher commodity prices. The tender offers to early redeem nearest maturities at a discount, in our view, make a lot of economic sense.

In view of the weak capital market sentiment and the resulting challenges for new issuance, we believe that only selected group of issuers will tender offer their bonds/perps despite we see lots of bonds/perps are trading at a deep discount. Most likely candidates, in our view, to launch tender offer will remain commodity plays. We would not be surprised if the Indonesian commodity



names such as Inalum and Indika will come back for another tender offers. Other commodity plays such as Vedanta could also be a candidate in view of the progress in funding access, discounted bond prices and lumpy maturities in 2023.

Table 16: List of Asia ex JP perps tendered since Jun'22 (USD mn)

Date	Region	Bond	Bond outstanding	Proposed price	Proposed amount	Accepted amount
4-Jan-23	PH	PCORPM 4.6 Perp	500	92.7	50	-
14-Dec-22	HK	LIFUNG 4.375 10/04/24	103.71	89	103.71	103.71
6-Dec-22	HK	LEEMAN 5.5 PERP	300	86	130	59.42
5-Dec-22	HK	NWSZF 5.75 PERP	1300	95.5	250	280.86
		NWSZF 4.25 06/27/29	650	86.5	All valid tender	92.30
5-Dec-22	HK	NWDEVL 4.5 05/19/30	600	81.4	250	37.18
		NWDEVL 3.75 01/14/31	200	76.5		72.17
28-Nov-22	ID	PGASIJ 5.125 05/16/24	1350	100.55/99.95	400	400
24-Nov-22	CN	FWDGRP 5.75 07/09/24	900	94	30	31.09
21-Nov-22	HK	LIFUNG 4.5 08/18/25	600	87.5/84.5	250	77.52
15-Nov-22	CN	BJSTAT 4.125 05/26/25	700	100.1	149.88	149.88
11-Nov-22	IN	SUMDIG 2.875 08/12/2031	500	73.5/70.5	100	27.37
7-Nov-22	MN	MONMIN 9.25 04/15/24	440	57-63	100	42.6
4-Nov-22	KH	NAGACL 7.95 07/06/24	541.7	91.5	120	120
27-Oct-22	HK	LIFUNG 4.375 10/04/24	500	94/89		396.29
26-Oct-22	TH	TMBTB 4.9 PERP	400	90	120	125.37
		SMCGL 6.5 PERP	800	68		16.84
		SMCGL 5.95 PERP	500	66		7.89
26-Oct-22	PH	SMCGL 5.7 PERP	600	65	400	6.66
		SMCGL 7 PERP	750	67		26.1
		SMCGL 5.45 PERP	750	63.5		66.45
20-Oct-22	ID	ABMMIJ 9.5 08/05/26	200	95	40	40
19-Oct-22	SG	AVTCAP 8.25 10/31/26	355.6	71-81	60	
17-Oct-22	IN	SHTFIN 5.1 07/16/23	500	98.5/95.5	251.83	248.17
17-Oct-22	CN	GCLNE 10 01/30/24	429.47	83	78.4	145
		MEDCIJ 6.75 01/30/25	500	98/95		250
11-Oct-22	ID	MEDCIJ 7.375 05/14/26	539.31	93/90	250	0
		MEDCIJ 6.375 01/30/27	601.7	85/82		0
10-Oct-22	CN	HAIDIL 2.15 01/14/26	539.3	84.8	240	240.3
10-Oct-22	ID	ASRIIJ 8 05/02/24	171.4	82	All valid tender	138.6
14-Sep-22	CN	AACTEC 3 11/27/24	388	88/85	100	111.18
		AACTEC 2.625 06/02/26	300	75.8/72.8	50	47.4
31-Jul-22	IN	SHTFIN 5.95 10/24/22	750	100	750	176.5
		SHTFIN 4.15 07/18/25	475	92	75	80
18-Jul-22	CN	LENOVO 4.75 03/29/23	686.8		200	200
15-Jul-22	ID	IDASAL 5.71 11/15/23	1250	102.3	1000	363.3
		IDASAL 6.53 11/15/28	1000	103.2		401.5

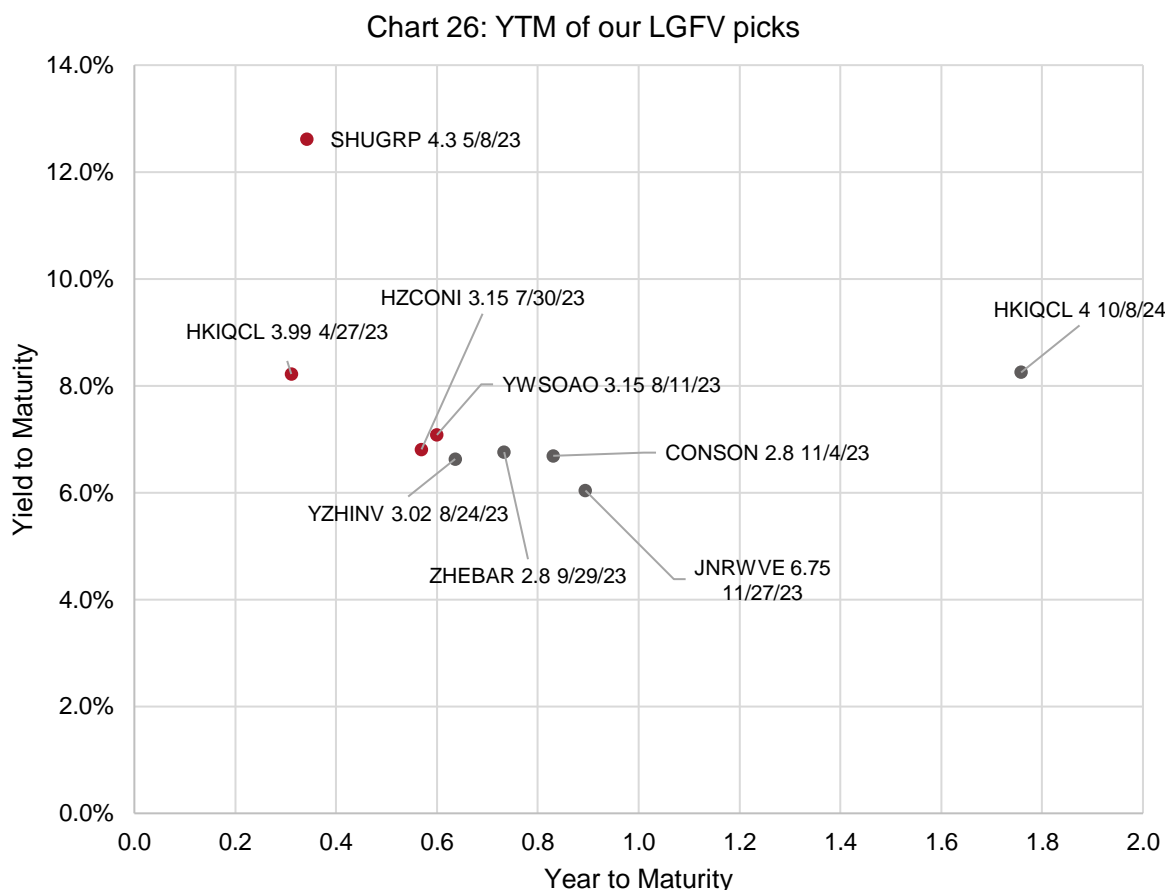
5 January 2023

		IDASAL 6.757 11/15/48	750	94.1		394
28-Jun-22	ID	SAWSST 7.75 01/23/23	300	90	270	259.7
20-Jun-22	CN	FOSUNI 5.5 08/17/23	379.8	100	200	291.4
		FOSUNI 3.3 10/09/22	EUR384.2	EUR100		4.2
8-Jun-22	ID	INDYIJ 8.25 10/22/25	675	100.25-102.5	50	56.6
		INDYIJ 5.875 11/09/24	546.4	97.75-100.75	200	184

Source: Bloomberg.

## Appendix 5: LGFV – Prefer short-dated bonds from the stronger regions

Our picks are **SHUGRP 4.3'23**, **HKIQCL 3.99'23**, **HZCONI 3.15'23** and **YWSOAO 3.15'23**



Source: Bloomberg.

We prefer LGFVs from the regions with stronger fiscal self-efficiency ratio, i.e. Jiangsu, Shandong and Zhejiang (see table 18 for elaborations) and short-dated bonds with better trading liquidity. Our picks are **SHUGRP 4.3'23**, **HKIQCL 3.99'23**, **HZCONI 3.15'23** and **YWSOAO 3.15'23**, in view of their more favourable risk-return profile.

Amongst these, we would like to highlight SHUGRP 4.3'23, issued by Shuifa Group, which is 70% owned by Shandong SASAC and 20% owned by Shandong Guohui Investment. Shuifa generates 39.2%, 23.3% and 16.5% of revenue from agriculture, clean energy and water utilities in FY21, respectively.

We noticed rising defaults of Shandong LGFVs in private placement space but take comfort that there is no default on public bonds, both onshore and offshore. We take additional comfort that

Shuifa Group has been playing a strategic important role for the provincial government. Furthermore, it has diverse funding channels. The company has obtained regulatory approval to issue RMB1.5bn Panda bonds in Jan'23. Apart from that, it also issued RMB6.3bn commercial papers at average cost of 4.58% in 2H22.

Table 17: List of our LGFV picks (RMB mn)

Name	SHUGRP 4.3 5/8/23	HKIQCL 4/27/23	3.99	HZCONI 7/30/23	3.15	YWSOAO 8/11/23	3.15
Company	Shuifa International Holdings	Hongkong International (Qingdao) Company		Huzhou Investment Development Group	City	Yiwu State-owned Capital Operation	
Administrative level	Province	Vice-provincial city		Prefecture-level city		County	
Credit rating (M/S/F)	Baa1/-/-	-/-/BBB+		Baa3/-/BBB		Baa3/-/BBB	
YTM	12.6%	8.2%		6.8%		7.1%	
Price	97.3	98.9		98.0		97.8	
Year to maturity	0.3	0.3		0.6		0.6	
Outstanding amount (USD mn)	400	300		300		500	
<b>Financials (as of Jun'22)</b>							
Revenue	40.9	18.2		8.0		13.4	
Net profit	0.5	0.2		0.3		0.4	
Net profit margin	1.2%	0.9%		3.5%		3.0%	
Cash	10.9	21.2		10.4		14.6	
Short-term debts	20.9	25.1		0.7		13.0	
Long-term debts	48.0	147.6		48.9		62.4	
Equity	39.3	155.8		40.8		55.3	

Source: Bloomberg, company fillings.

## Stronger regions are Jiangsu, Shandong and Zhejiang

Table 18: Fiscal conditions of Chinese provinces (RMB mn)

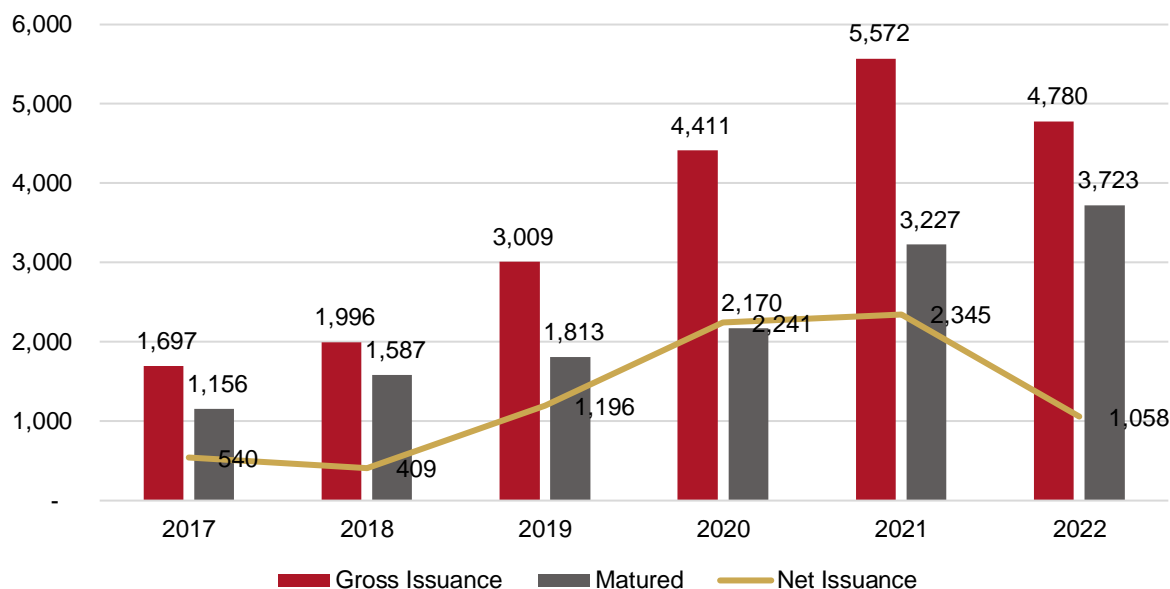
Name	GDP (RMB bn)		LGFV (RMB bn)		SOE Bonds Default History	Financial Condition		
	2021	2022GDP(E)	LGFV bond o/s	LGFV interest-bearing debts o/s		LGFV Debt/ 2022 GDP	Govt.+LGFV Debt/2022 GDP	Fiscal Self-Sufficiency Ratio
Shanghai	4,321	4,261	359	1,150	Y	27%	44%	92%
Beijing	4,027	4,059	619	3,447	Y	85%	107%	82%
Guangdong	12,437	12,723	775	2,740	Y	22%	38%	77%
Zhejiang	7,352	7,579	1,960	5,388		71%	94%	75%
Jiangsu	11,636	11,904	3,028	8,252		69%	85%	69%
Tianjin	1,570	1,585	385	1,457	Y	92%	142%	68%
Fujian	4,881	5,135	525	1,618	Y	32%	51%	65%
Shandong	8,310	8,642	1,264	3,884		45%	68%	62%
Shanxi	2,259	2,379	145	461		19%	42%	56%
Chongqing	2,789	2,876	666	1,876	Y	65%	95%	47%
Hebei	4,039	4,189	200	1,026	Y	25%	56%	47%
Liaoning	2,758	2,816	42	214	Y	8%	44%	47%
Hainan	648	644	15	72	Y	11%	58%	47%
Anhui	4,296	4,438	563	1,757		40%	66%	46%
Shaanxi	2,980	3,123	350	1,754		56%	84%	46%
Inner Mongolia	2,051	2,154	13	291	Y	13%	55%	45%
Henan	5,889	6,107	559	1,890	Y	31%	51%	45%
Sichuan	5,385	5,466	1,067	3,866	Y	71%	99%	43%
Jiangxi	2,962	3,110	645	1,753		56%	85%	41%
Hubei	5,001	5,236	717	2,610	Y	50%	73%	41%
Hunan	4,606	4,827	820	2,295		48%	76%	39%
Guizhou	1,959	2,013	278	1,591		79%	138%	35%
Yunnan	2,715	2,818	254	1,699	Y	60%	99%	34%
Ningxia	452	474	21	99		21%	61%	32%
Guangxi	2,474	2,551	293	1,568	Y	61%	95%	31%
Jilin	1,324	1,302	113	575	Y	44%	92%	31%
Xinjiang	1,598	1,661	148	635	Y	38%	78%	30%
Heilongjiang	1,488	1,531	32	253		17%	59%	25%
Gansu	1,024	1,066	80	808		76%	122%	25%
Qinhai	335	343	9	38	Y	11%	92%	18%
Tibet	208	208	22	71		34%	58%	11%
Total	113,774	117,222	15,967	55,138		47%	73%	53%

Note: 2022GDP estimation based on 9M22 GDP growth; Government debts includes general and special government bonds; Fiscal self-sufficiency rate is calculated by revenue in general public budget divided by expenditure in general public budget. Source: DMI, Wind.

Jiangsu, Zhejiang and Shandong have most outstanding LGFV bonds and are amongst the provinces with the highest GDP nationwide. The latest budget fiscal self-sufficiency ratio of Jiangsu, Zhejiang and Shandong are 69%, 75% and 62% in 2021, improving from 66%, 72% and 58% in 2020, respectively. While Guangdong has the high fiscal self-sufficiency ratio, the province's LGFVs do not have outstanding short-dated USD bonds.

## Negative net issuance in 2022

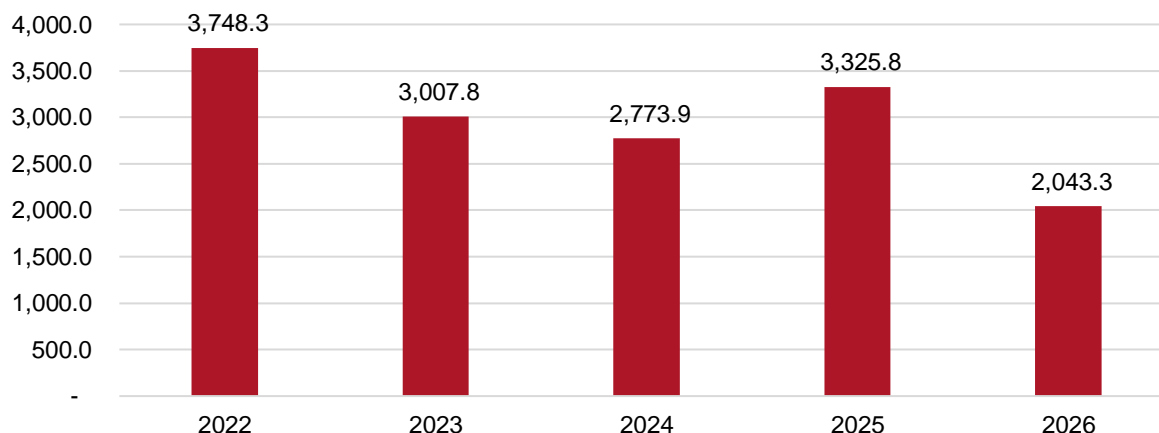
Chart 27: LGFV onshore bonds issuances (RMB bn)



Source: Wind.

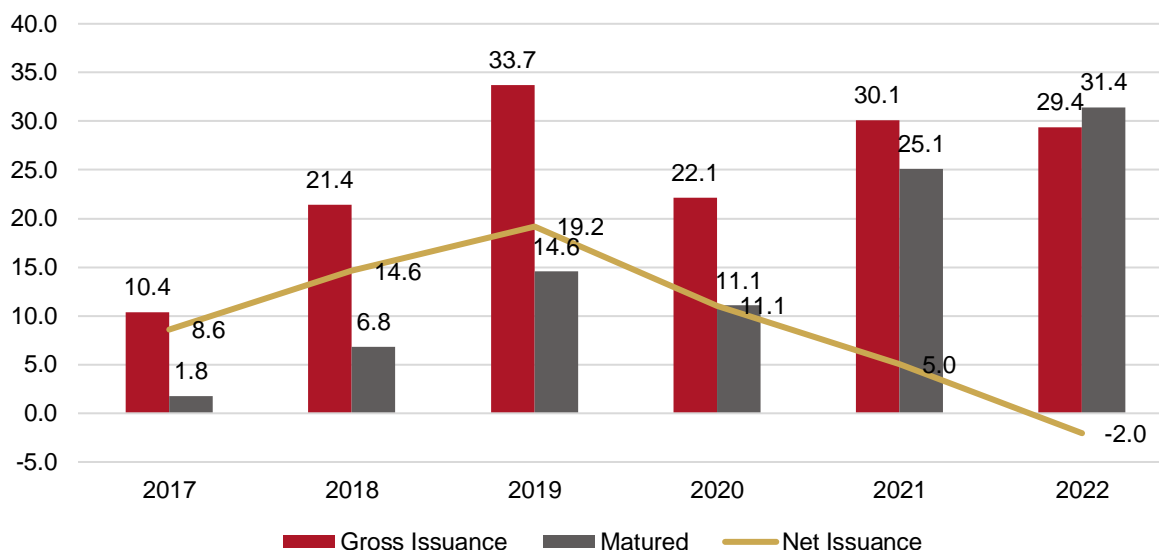
At the end of 2021, the China MOF announced to subdue new hidden debts and solve existing hidden debts of local governments, and also restrict setting up new LGFV. As of Dec'22, LGFV onshore bonds issuance was RMB4,780bn in FY22, declined 14.2% yoy. On the other hand, onshore net financing amount declined 54.9% to RMB1,058bn. Jiangsu, Zhejiang and Shandong's LGFV onshore issuances were highest among all the provinces, while their LGFV net financing amount dropped RMB413bn, RMB332.5bn and RMB103bn, respectively, accounted for 2/3 of the net issuance/financing decline of the LGFV space.

Chart 28: LGFV onshore bonds maturity profile (RMB bn)



Source: Wind.

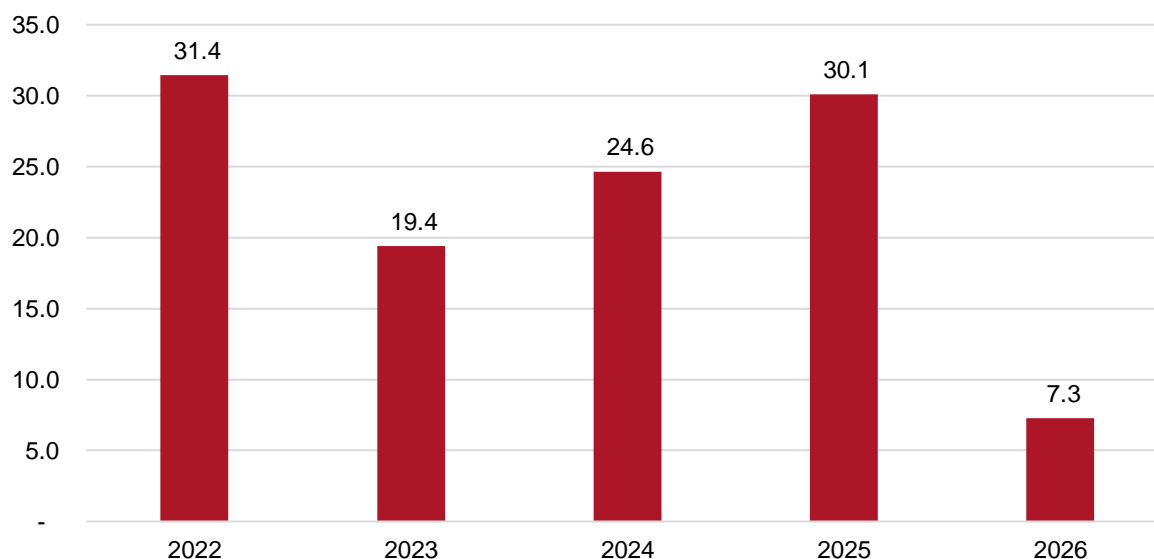
Chart 29: LGFV USD bonds issuances (USD bn)



Source: Bloomberg.

As for offshore issuances in 2022, LGFV was an exceptional sector with relatively stable issuance. Compared to the yoy decline of 51.8% of Asia ex JP USD bonds issuance, the offshore gross issuances from LGFVs in 2022 only decreased a modest 2.3% to USD29.4bn. Tracking the qoq figures, we noticed that the gross issuance turned into negative since 3Q22, reflected the weak market sentiment. Nonetheless, the trend of decline in net issuances started in 2020. In 2022, the net issuances fell further to the negative territory with net issuances of -USD2bn.

Chart 30: LGFV USD bonds maturity profile (USD mn)



Source: Bloomberg.

LGFV will face higher repayment pressure with the offshore maturities rising from USD19.4bn in 2023 to USD30.1bn in 2025. We take some comfort that there is no precedent of LGFV USD bonds default.



## Appendix 6: Macau Gaming – Conviction lower after a strong rebound

Macau gaming sector is a notable outperformer lately since granting the new 10-year concession to the 6 incumbents on 26 Nov'22. The outperformers in this outperforming sector are SJMHOLs and STCITYs, both curves were traded 12-14pts higher, followed by WYNMACs and MPELs which moved 8-11 pts higher since the gaming concessions renewed. The outperformance is in line with our order of preference for the sector: SJMHOL>STCITY>WYNMAC>MPEL. Subsequent to the sharp rebound, we see a lower conviction in the sector although the sector, in our view, continues to offer good carry, and the bond performance will be supported by improving liquidity and operating performance of operators with the relaxation of the dynamic zero COVID policy. The quarantine policy was further relaxed to 5 days home quarantine for Hong Kong, Taiwan and overseas travelers on 17 Dec'22 from 5+3. At current valuation, we prefer MPELs and STCITYs most in the Macau gaming sector.

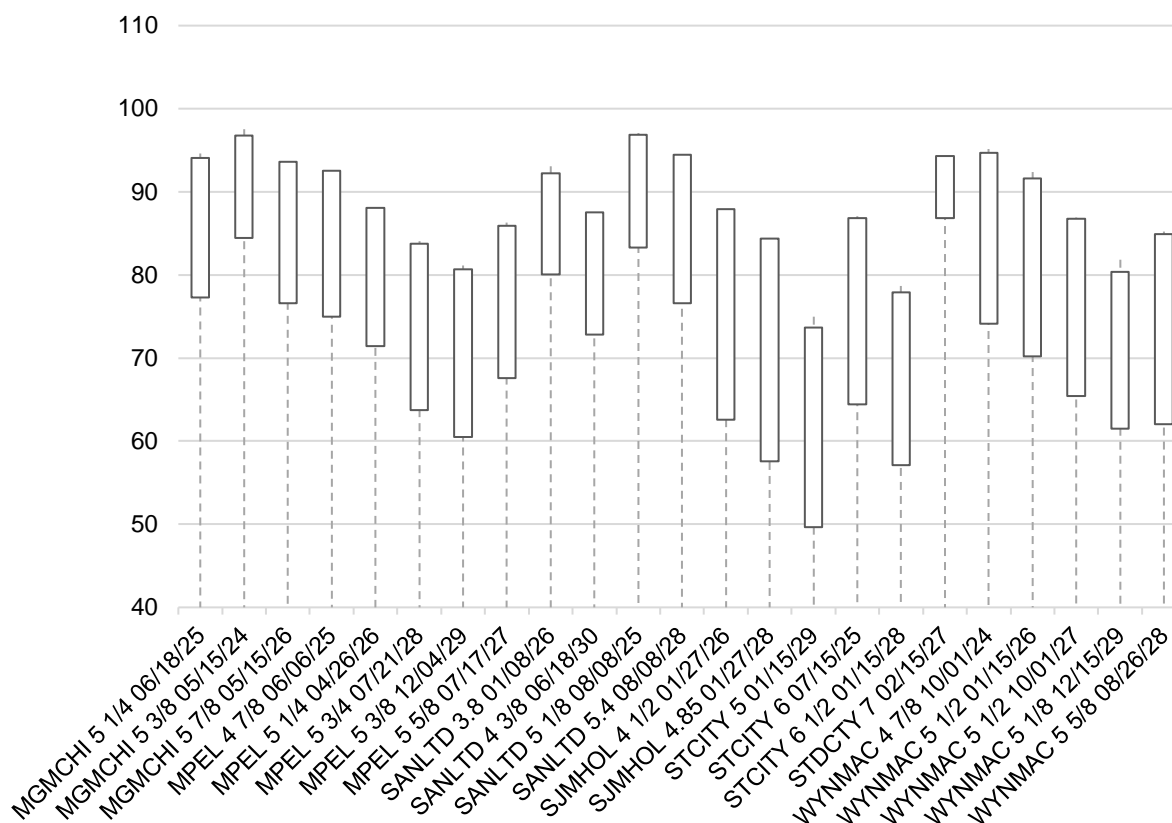
As expected, the 6 incumbents: MGM, Galaxy, Sands China (i.e. Venetian Macau), Melco, Wynn and SJM were granted 10-year casino concessions. The results do not surprise us as maintaining the status quo is our base, partly because of the very tight timetable, and partly because the renewal will have the lowest impact, economically and politically, to Macau. The final concession contracts was signed in mid Dec'22 and the new concessions will be effective from 1 Jan'23. Sands China and Galaxy will have the largest capex commitment on non-gaming operations while Melco and SJM will have the lowest capex commitment.

Table 19: Cash burn estimation of Macau names

	SJM (LTM to 3Q22)	MLCO UW (LTM to 3Q22)	Studio City (LTM to 3Q22)	Sands China (LTM to 2Q22)	Wynn (LTM to 3Q22)	MGM (LTM to 2Q22)
Gross Profit (Revenue - Gaming Tax)	630.0	73.0	4.7	1,449.0	522.0	571.3
Liquidity (Cash + Undrawn facilities)	1,211.1	2,318.0	651.0	2,806.0	961.5	1,270.2
Liquidity source	1,841.1	2,391.0	655.7	4,255.0	1,483.4	1,841.5
Opex	782.1	502.9	287.9	2,371.0	1,090.9	933.5
ST Debt	29.3	0.1	-	-	-	-
Interest expense	102.1	357.5	116.3	373.0	306.8	186.7
Capex (expansion + maintenance)	257-321	768.8	529.6	290-390	60-80	90-105
Minimum capital commitment (MOP5bn)	622.9	622.9		622.9	622.9	622.9
Cash burn	1793-1857	2,406.6	933.8	3657-3757	2081-2101	1833-1848
<b>Liquidity (number of month)</b>	<b>11.9-12.3</b>	<b>12.7</b>	<b>8.4</b>	<b>13.6-14</b>	<b>8.5-8.6</b>	<b>12-12.1</b>

Source: Company fillings.

Chart 31: Price movement of Macau gaming names in 2H22



Source: Bloomberg.

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

[fis@cmbi.com.hk](mailto:fis@cmbi.com.hk)

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