

CMBI Credit Commentary

HRINTH – Capital injection realizes, Neutral post rally

Huarong AMC proposed non-public issuance of domestic shares and H shares to a consortium of investors including CITIC Group, China Insurance Investment, China Cinda, China Life and ICBC Investment to raise no more than RMB 42 bn to replenish its core tier-1 capital.

This proposed equity injection is in-line with our previous expectation of a government bail-out. Post the rally of HRINTH curve, we are Neutral with a preference of HRINTH '22 notes at YTM~3.75% at par cash price.

After the new share issuance, Ministry of Finance stake will lower from 57% to 27.76%, but remaining its largest shareholder, following by CITIC Group of 23.46%, and China Insurance Investment of 18.08%. HRINTH's USD notes Change of Control will not be triggered, given PRC government or persons controlled by PRC government continue to control Huarong AMC.

At the same time, Huarong announced to implement public transfer of its entire 79.92% stake in Huarong Financial Leasing and its entire 40.53% stake in Huarong Xiangjiang Bank. Both of these subsidiary stake transfer will be no less than asset valuation filed with Ministry of Finance as of 30 Sep, 2021.

We estimate stake sales of Huarong Financial Leasing and Huarong Xiangjiang Bank can fetch at least RMB 26 billion approximately. We believe new shares issuance together with subsidiaries disposal can help Huarong meeting its minimum regulatory capital adequacy ratio and replenish liquidity, vs Huarong's reporting of RMB102.9bn net loss in FY2020 and its attributable equity of RMB19.2bn as of 1H21.

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Huarong AMC has recently been approved by CBIRC to issue up to RMB 70bn financial bonds on 11 Nov, 2021. The onshore issuance, if successful, can substantially meet its offshore maturities of USD 6bn (including Perps) before end-2022.

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