

## CMBI Credit Commentary

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

- *The markets were overall quiet this morning. LGFV buyers' minimum yield hurdles are approaching 4.9%-5.0% for 24s, 5.0%-5.15% for 25s and 5.25% for 26s after the treasury yield increased. Transportation infrastructure names showed more resilient against the yield move.*
- **Macau Gaming:** *Meaningful policy relaxations to double visitation. Buy Macau gaming sector and our order of preference, factoring in risk and return profile, is SJMHOL>STDCTY>STCITY>MPEL> WYNMAC. Macau gaming bonds were 4-6pts higher this morning. See below.*
- **TPHL:** *Times China failed to pay USD13.95mn interest of TPHL 6.2 03/22/26 (o/s USD450mn) that was due on 22 Sep, the company plans to remit funds within 30-day grace period. TPHLs down 0.125-0.5pt this morning.*

#### ❖ Trading desk comments 交易台市场观点

Last Friday, IG space was rather silent amid limited flows. In financials space, spread products remained strong but AT1s underperformed amid continued selling with rates trending higher. AT1s were down 0.25-0.5pt in street as UST futures continued to drop despite lack of cash UST on Japan holiday. ICBCAS 3.2% Perp led the selloff as support naturally disappeared at earlier levels after shorts were covered. There was some sizeable unwinding selling on these used-to-be <5% bank papers. T2s were still squeezed, with BCHINA 5%'24 was the first benchmark T2 to be quoted at T+50 spread level this year. TMTs held firm as BIDU/TENCNT tightened 3-8bps under small buying. IG property was slightly better selling with VNKRLEs/YUEXIUs cash prices dipping 0.1-0.25pt. China HY was weak, weighed down by soft sentiment from property. Despite CIFI denied the rumor on private bond extension, COGARDs/CIFIHG closed 0.5-1pt lower. Elsewhere, AGILEs fell 3.5-6.5pts on uncertainty of its RMB1.5bn onshore private bond redemption, though selling volume was relatively light. CENCHIs/FTLNHDs/ROADKGs were also down 1-2pts. CSCHCN'24/GRNLGR'22 were up 1.5-2.5pts. Industrial space was broadly unchanged to 0.5pt lower. Gaming sector was broadly down 0.5-1.5pts. Away from China, Indonesia HYs performed weak on longer-duration bonds and the space was down 0.5-1pt. PLNIs/PERTIs were notably traded down 1-2pts. India HY also opened weaker with street trying to push benchmarks lower. Indian renewables like VEDLNs/GRNKENS/RPVINs were generally 0.25-1pt lower, though not any further material client selling from there.

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In LGFV/SOE Perp spaces, flow was light as market participants were busy on making travel plans post the new 0+3 quarantine policy in HK. In contrast to the joy from holiday plans, market sentiment was regrettably still rather weak today. As UST futures implied rates drifted further higher in the morning, SOE Perp/AT1s remained better sold as the latter finally caught up with the former's WTD correction, falling in general another 0.375-0.5pts to break the 5% line where a little bit of marginal buying would emerge. These papers were no longer resilient as soon as shorts were being covered. Selling in both SOE Perps/AT1s was largely from Chinese RM, many of which were unwinding/ offloading <5% stuff on back of rising leverage/ repo/ funding costs. In LGFVs, 25s-27s papers were better-sold by prop desks as they were being repriced on screen towards low-5%. QDJZWD'25 had some selling from onshore and prop desks, after a headline of onshore commercial acceptance bills overdue. The coastal LGFV name explained that it was due to a system error, and that Qingdao Jiaozhou Bay Development had indeed remitted sufficient funds and settled before maturity. Elsewhere, LZINVE'22 gapped up 1-1.5pts to close at ~94/95.5 area possibly as a result of a short squeeze. We saw small buying from short coverers and PB here, but later on we received more selling interests from trading accounts as some 96-handle offers were being blasted away. CNSHAN 4.1%'25 drifted down 0.5pt to be traded at 98/99 level.

### ➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CSCHCN 9 10/09/24	48.4	2.3	AGILE 5 1/2 05/17/26	30.5	-5.0
GRNLGR 5 3/4 09/26/22	95.4	1.8	AGILE 5 1/2 04/21/25	32.5	-4.8
LZINVE 4.15 11/15/22	94.8	1.5	AGILE 6.05 10/13/25	31.8	-4.4
CHINSC 7 3/8 04/09/24	26.3	1.4	AGILE 5 3/4 01/02/25	35.2	-3.2
CNOOC 4 7/8 04/30/44	90.8	1.3	LSEAGN 10 3/4 10/21/22	76.9	-2.5

### ➤ Macro News Recap 宏观新闻回顾

**Macro** – U.S. stock markets continuously went downward on last Friday. The S&P (-1.72%), Dow (-1.62%) and Nasdaq (-1.80%) closed with c5% falls in last week and S&P, Dow down to the lowest level in 2022 amid the hawkish hike forecast. The USD index reached 113, the highest level in around 20 years while GBP slumped 4% and its exchange rate to USD down to 1.085 after the new government published tax cut plan. The 2yr U.S. treasury yield kept ascending and the yields curves were inverted that 2/5/10/30 yield reaching 4.20%/3.96%/3.69%/3.61%, respectively.

### ❖ Desk analyst comments 分析员市场观点

#### ➤ Macau gaming: Meaningful policy relaxations to double visitation

**Buy Macau gaming, prefer SJMHOL, STDCTY/STCITY, MPEL and WYNMAC**

Over the weekend, the Macau government announced that the agreement with the Chinese government to resume package tours for mainland Chinese to visit Macau, and the electronic visa issuance. We expect these changes to help turning most of the gaming operators into positive EBITDA by 1H23 and reverse the trend of cash burnt. As we repeatedly discussed, the key drivers for Macau gaming bonds are the visa policy of mainland China and Macau's quarantine policy. We consider these relaxations significant positive catalysts for the Macau gaming bonds to perform. Hence, we recommend buy on the sector. Our order of preference, factoring in risk and return profile, is SJMHOL>STDCTY>STCITY >MPEL> WYNMAC. Macau gaming bonds were 4-6pts higher this morning.

**What are the relaxations?**

Macau has suspended package tour from mainland China since early 2020. Currently, individual travelers from mainland China under the Individual Visit Scheme (IVS) needs to make appointments in advance and apply the Macau visa in person over the counter. The approval period is one week. Subsequent to the changes, Macau will resume the package tours from mainland China with priorities given to residents from Guangdong, Zhejiang, Jiangsu, Fujian and Shanghai where, altogether account for c60% of visitations in Macau. Regarding the resumption of e-visa, mainland Chinese can walk in and use automated kiosks to obtain instant visa approval. The Macau government expects the new policies to be implemented by end of Oct'22 or by early Nov'22. Additionally, the government expects the daily visitation from mainland China to double to 40,000. In 2021, mainland Chinese accounted for 91.4% of the tourist visitation in Macau. Before the pandemics, mainland Chinese accounted for 70.9% of tourist visitation in Macau. Even Macau is yet to relax quarantine policy (7+3) for travelers from HK, Taiwan and overseas, this round of relaxations targeting on travelers from mainland China will significantly boost the visitation in Macau.

### Trend of cash burnt to be reversed

We expect most of the gaming operators to reverse the trend of cash burnt and turn positive EBITDA by 1H23. In our ballpark estimates, 60-70% increase in visitation from the current low level and the commensurate increase in gaming revenue will allow most of the gaming operators to turn into positive EBITDA. This will also have a knock-on positive impact on the funding environment for operators in refinancing and funding. The near-term default risk of Macau gaming sector has always been low, in our view.

Cash Burnt Table	SJM (LTM to Jun'22)	Melco (LTM to Jun'22)	Studio City (LTM to Jun'22)	Sands (LTM to Jun'22)	Wynn (LTM to Jun'22)	MGM (LTM to Jun'22)
Gross Profit (Revenue - Gaming Tax)	625.5	441.0	28.5	1449.0	628.2	567.2
Liquidity (Cash + Undrawn facilities)	2082.7	2794.3	956.0	2806.0	1819.6	1961.7
Liquidity source	2708.2	3235.4	984.5	4255.0	2447.8	2528.9
OPEX	720.7	502.9	292.6	2371.0	1129.6	926.8
ST Debt	29.1	0.1	0.0	0.0	0.0	0.0
Interest expense	101.4	351.1	116.8	373.0	301.1	185.3
Capex (expansion+maintenance)	255-318	850	450	290-390	60-80	90-105
Minimum capital commitment (MOP5bn)	618.4	618.4		618.4	618.4	618.4
Share repurchases		35.0				
Cash burn	1725-1788	2357.6	859.4	3652-3752	2109-2129	1821-1836
<b>Liquidity (number of month)</b>	<b>18.2-18.8</b>	<b>16.5</b>	<b>13.7</b>	<b>13.6-14</b>	<b>13.8-13.9</b>	<b>16.5-16.7</b>

### Next focus on license renewal

As per media report, the 7 accepted applicants have made oral presentations to Macau gaming tender committee over the last weekend. The preliminary decision on the new casino concessions will be announced in Nov'22. Our base case is the 6 incumbents will have their licenses renewed, partly because of the very tight timetable, and partly because the renewal will have the lowest impact, economically and politically, to Macau. We do not believe that the operators with US investors are more exposed to the license renewal risk under the current geo-political environment. We indeed see the strong incentive for the Chinese government in vying the support from the US business sector which is an influential political bloc. We also believe that investors are, to some extent, protected from the licence renewal risk given the special put option at par in case the gaming licenses of existing operators are not renewed.

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## ➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Yancheng Oriental Capital Company Limited	USD230	3yr	7.0%	7.0%	-/-/-
Jinan Shizhong Finance Investment Group	USD80	364d	6.0%	6.0%	-/-/-
Liuzhou Dongcheng Investment Development Group Co., Ltd.	USD22.7	3yr	7.5%	7.5%	-/-/-

## ➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

## ➤ Market conditions and color

- Regarding onshore primary issuances, there were 94 credit bonds issued on last Friday with an amount of RMB96bn. As for Month-to-date, 1134 credit bonds were issued with a total amount of RMB1156bn raised, representing a 3.2% yoy decrease
- [CAPG]** China Aoyuan announced to pay 10% interest of its RMB1.82bn 21Aoyuan 6.8% from Jul'21 to Jul'22 on 10 Oct
- [EVERRE]** China Evergrande's Hong Kong headquarters (bought by the company for HKD12.5bn in 2015) up for sale. The deadline for submitting a bid is 31 Oct'22
- [GEMDAL]** Gemdale's unit has bought RMB155.7mn onshore bonds in secondary market to stable prices. The company plans to invest up to RMB1bn to repurchase bonds as disclosed
- [GRNLGR]** S&P affirmed the long-term issuer rating of Greenland HK at B- and placed negative outlook
- [INDYIJ]** Indika Energy set JV with Foxconn to manufacture electric vehicles and batteries
- [JIAYUA]** Jiayuan further extended the deadline of exchange offer for its 6 offshore bonds to 5 Oct'22 from 23 Sep
- [KWGPRO]** KWG Group's unit failed to resale up to RMB1.8bn (cUSD253.2mn) 20Hejing04 bonds then canceled them
- [MOLAND]** Modern Land announced the majority consenting creditors have consented to further extend the longstop date related to the scheme of arrangement and the RSA to 7 Oct
- [TPHL]** Times China failed to pay USD13.95mn interest of its USD450mn 6.2% bond that was due on 22 Sep, the company plans to remit funds within 30-day grace period

- **[YANGOG]** Media reported that an ad hoc group of Yango Group's offshore bondholder has appointed Moelis/Linklaters as financial/legal advisors for restructuring talks

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