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CMB INTERNATIONAL

Fixed Income
Credit Commentary

17 Nov 2023

CMBI Credit Commentary

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

- *IG benchmarks widen 1-2bps this morning. New issues AGRBK'25 widened c5bps. HRINTHs were stable with fewer flows. High-yielding CPDEV Perp rose 1.2pts while other CPDEVs/GZINFUs were unchanged to down 0.5pt. We also saw buying flows on low-beta names HKAA/AIA.*

- ***EHICAR:*** *Strong recovery of operating performance despite higher capex. Maintain Buy on EHICARs. See below.*

- ***China Economy*** *– To brace for a modest recovery amid fiscal stimulus. CMBI maintains the forecast for GDP growth at 5.2% for 2023 and 4.9% for 2024.See below for comments from CMBI economic research.*

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❖ Trading desk comments 交易台市场观点

Yesterday, Asia ex-JP IG space opened flat post UST rates rebounded 7-10bps. High coupon EU AT1s UBS 9.25 Perp, SOCGEN 10 Perp and BNP 8.5 Perp down c0.4 to 0.75pt, new BACR 9.625 Perp traded at reoffer level. The Korea space continued to be firm with HYUELE/SHINFN/KOEWPW /WOORIB/KOROIL tightened 2-3bps with buying flows. In China IG space, the focus was on HRINTH post its four announcements of name change, acquisition of 5.01% stakes in CITIC Ltd., etc. The HRINTH curve rose 1.0 to 5.1pts. Bonds of other AMCs CCAMCL, ORIEAS and GRWALL were up to 1pt higher despite we saw better selling. Chinese Big4 AT1s remained supported and stable. High-beta TMTs MEITUA/LENOVO/ XIAOMI were unchanged to 2bps wider due to profit taking. Chinese SOEs were soft after previous days' rally, HAOHUA/CHALUM/CHGRID were 1-2bps wider. Chinese developers were mixed, LNGFOR/FTLNHD were down 0.2 to 0.5pt, VNKRLE/DALWAN rebounded 0.2 to 0.8pt. Macau gaming sector was firm post rating agency's positive rating action, STCITYs rallied 0.75 to 1.75pts, WYNMACs/MPELs rose 0.3 to 1.3pts, SJMHOLs were c1pt higher. In SEA, APLNIJ'24 rose another 3pts after the announcement of tender offer of cUSD64mn.

LGFV/SOE Perps remained firm, high-yielding LGFVs KMRLGP'24 picked up 0.4pt, CQLGST'24 rose 0.2pt. Quality LGFVs SHUGRP/JNHITE/HKIQCL were unchanged to 0.1pt higher. Property related CPDEVs were 1 to 1.5pts higher and ZHHFGRs were unchanged to 0.3pt higher. PINGREs were up another 1.75 to 4pts after 5-11pts rebound since late Oct. In SOE perps, CHPWCN 4.25 Perp edged up 0.5pt, RLCONS 3.97 PERP and HUADIA 4 PERP were stable. Elsewhere, ZHONAN '26 was up 1.75pts.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change
GEMDAL 4.95 08/12/24	**33.2**	**6.0**
HRINTH 5 1/2 04/27/47	**82.8**	**5.1**
HRINTH 4 1/4 PERP	**92.9**	**4.4**
HRINTH 4 3/4 04/27/27	**92.8**	**4.1**
PINGRE 3 1/4 06/23/25	**73.4**	**4.0**

Top Underperformers	Price	Change
CHIGRA 9 1/8 01/30/24	**93.5**	**-2.2**
FTLNHD 4.8 12/15/24	**32.7**	**-0.8**
HYSAN 4.1 PERP	**80.5**	**-0.8**
HRINT 3.8 04/27/25	**92.7**	**-0.6**
COGARD 5.4 05/27/25	**5.1**	**-0.6**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.12%), Dow (-0.13%) and Nasdaq (+0.07%) were mixed on Thursday. The latest US initial jobless claim was +231k, higher than the expectation of +220k and +218k in last week. The Nov US Philadelphia Fed Manufacturing Index was -5.9, better than the expectation of -9.0. The UST yield retreated yesterday, 2/5/10/30 yield reached 4.83%/4.43%/4.45%/4.63%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ EHICAR: Strong recovery of operating performance despite higher capex. Maintain Buy on EHICARs

EHICAR's operating results rebounded significantly in 1H23. The strong yoy recovery in revenue, EBITDA and margin was driven by "normalized" RevPAC and utilization rate. In 1H23, the RevPAC and average daily rent rate of its car rental operations already exceeded the pre-pandemic levels in 1H19. The strong recovery of EHICAR is in sync with that of CARINC.

On the back of the stronger operating performance, EHICAR's key overage ratios such as EBITDA/int and net debt/EBITDA ratios improved notably. That said, net debt increased as EHICAR has expanded fleet size to cater for the strong demand recovery. The proceeds from sales of used vehicle were also much lower over the past 12-18 months facing the weaker market for used vehicle sales and the quest for expanding fleet size. We understand that EHICAR's full year target of net vehicle addition was more or less done by Jun'23, we expect its capex for vehicle purchases to be notably lower starting from 2H23.

EHICAR has a manageable debt maturity profile. Over the next 12-18 months, the major maturities will be the amortizations of onshore syndicated loans (remaining o/s amt of cRMB280mn) in 1H24. We understand that the company is in discussions for new loans but the amortization will be comfortably covered by operating cash flow. The next major maturity will be the o/s USD403.6mn EHICAR 7 ¾ 11/14/24 due Nov'24.

After the call of CARINC 9 ¾ 03/31/24 in Sep'23, EHICARs are one of the few remaining proxies on smaller-ticket/frequent consumption plays in China (Macau gaming names are amongst the others). Over the past months, EHICAR 7.75 11/14/24 and EHICAR 7 09/21/26 have been performing well and were up 24pts and 14pts, respectively. At 84.9 and 65.1, EHICAR 7.75 11/14/24 and EHICAR 7 09/21/26 are trading at YTM of 26.2% and 24.9%, respectively. Both bonds continue to offer good value, in our view, and we expect the company to be opportunistic in early redemption of its USD bonds, especially EHICAR 7.75 11/14/24. EHICAR'24 was unchanged and EHICAR'26 rose 0.5pt post Fitch's Watch Negative on 15 Nov'23. We maintain Buy on EHICARs.

Security Name	Amt Out (USD mn)	Ask Price	YTM (Ask)	Mod Duration	Rating (M/S/F)
EHICAR 7 ¾ 11/14/24	403.58	84.9	26.2	0.86	-/-/B *-
EHICAR 7 09/21/26	300	65.1	24.9	2.26	-/-/B *-

Source: Bloomberg.

- **China Economy – To brace for a modest recovery amid fiscal stimulus**

Oct economic data showed growth momentum remained weak. Retail sales and service output index picked up thanks to base effect as their 2Y CAGRs slowed. FAI growth moderated while housing market continued to slump. Overall, China's economy still lacks robust recovery momentum. The deflation in consumer goods and soft credit demand in private sector showed similar implications of weak consumer and business confidence. Looking forward, China will maintain the GDP growth target at around 5% for 2024 with more expansionary fiscal policies and continuous accommodative monetary policy. We expect general fiscal deficit ratio to reach 3.7% in 2024, compared to 3.8% in 2023. Local government special bond quota is expected to climb from 3% of GDP in 2023 to 3.3% of GDP in 2024. The PBOC may launch additional cuts in RRR, LPR and deposit rates in next several quarters to facilitate credit expansion. China's economy may gradually improve in 2024. We maintain our forecast for GDP growth at 5.2% for 2023 and 4.9% for 2024.

New housing market kept slumping without any signs of alleviation while second-hand housing sale continued to improve. The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 7.8% and 23.2% YoY (all in YoY terms unless specified) in 10M23 after decreasing 7.5% and 23.4% in 9M23. Property development investment further declined 9.3% in 10M23 after dropping 9.1% in 9M23. 30 major cities saw a modest rebound in recovery ratio of commercial housing unit sales compared to the same period in 2019 in Oct to 62.1% from 53.5%, with the recovery across tier-1, 2 and 3 cities thanks to the loosening of property policy. However, when looking into the data in the first half of Nov, the recovery rates of all tiers of cities have dropped sharply as policy momentum faded. The recovery ratio of second-hand housing unit sales in 11 major cities significantly improved in Oct, and that in the first half of Nov improved from 81.6% in Sep to 99% and 105.5% respectively, with divergent performance across cities. If we exclude the outlier Chengdu, the recovery ratio is only 79.5% in Oct, although still modestly recovered from 69.9% in Sep. Breaking down the funding source for property development investment, deposit & advance payment and individual mortgage fund both further dropped 10.4% and 7.6% in 10M23 after falling 9.6% and 6.9% respectively in 9M23. Meanwhile, domestic loan fund declined 11% in 10M23 after dropping 11.1% in 9M23. Policymakers have loosened property policy and expanded credit supply to support the collapsing housing market, as we have seen the mild rebound across the country. However, the support is far from enough as momentum from previous policy easing seems to fade away quickly after just one month or two when the demand of housing upgraders starts to drain. Looking forward, we expect housing sales continue to dwindle in November. The reported RMB1 tn RMB funding support for urban village renovation, construction of public affordable housing should be a good news for local state-owned developers.

Retail sales dropped in terms of 2Y CAGRs amid weak consumer demand. Retail sales came in slightly above the market expectation by rising 7.6% YoY in Oct thanks to lower base effect after climbing 5.5% in Sep, while its 2Y CAGR dropped to 3.5% from 4% in Sep. Looking into the details, medicine and cultural & office products surged with their 2Y CAGRs respectively rose from 6.9% and -3.1% in Sep to 8.5% and 2.7% in Oct while most products softened. Catering service, clothing, daily used goods, telecom equip, petroleum product and auto all declined from 5.8%, 4.6%, 3.1%, 3.1%, 9.5% and 8.4% to 3.7%, -0.3%, 1%, 2.2%, 3.1% and 7.6% Housing-related durables marginally improved although remained weak as furniture and home appliance respectively grew 1.7% and 9.6% YoY when their 2Y CAGR narrowed the decline to 2.5% and 3%. Construction & decoration materials narrowed its YoY decline to 4.8% from 8.2%, but its 2Y CAGR remained negative at -

6.8%. Looking forward, retail sales may maintain mild to moderate recovery as employment and confidence slowly improve. We maintain our forecast for the retail sales growth in 2023 at 7.5%.

Service activities and industrial output modestly improved. Service output index and VAIO growth modestly improved as they respectively rose 7.7% and 4.6% in Oct after growing 6.9% and 4.5% in Sep. In terms of 2Y CAGRs, VAIO fell to 4.8% from 5.4% in Sep while service output index decelerated to 3.8% from 4.1%. In the service sector, lodging and dining, transportation, storage & postal service, information transmission, internet & IT service and retail & wholesale saw higher YoY growth and transportation, postal service, and telecom service showed good sentiment. In the manufacturing sector, auto sector continued to be the highlight in the economy with elevated 11.3% YoY growth in 10M23 amid strong export and domestic performance. Output in chemical products, rubber & plastic product, food production, ferrous & non-ferrous metal smelting & pressing, electrical equipment and electronic equipment saw robust growth while textile and medicine remained weak. Looking forward, we may see a gradual recovery of service sector and VAIO as domestic consumer demand continues to improve and exports recover slowly.

FAI decelerated with weakening across property, manufacturing and infrastructure investment. FAI decelerated to 1.3% in Oct after rising 2.5% in Sep, below market expectation. Property sector remained sluggish as property development investment fell by 11.3% YoY after declining 11.2% in Sep. The liquidity condition of most private developers remained restricted as housing sales deeply contracted and their cash & equivalents cannot be fully mobilized due to housing delivery purposes. Some troubled developers started to commit credit default and re-organize their foreign debt while the debenture price of Vanke which considered to be one of the healthiest developers in terms of financial condition significantly dropped and the yield skyrocketed to 50-60%. We do not see any signs of substantial change in the trend of deterioration in property development investment. The YoY growth of FAI in manufacturing eased to 6.2% in Oct from 7.9% in Sep. The FAI growth of chemical product, special equipment, auto and electrical material & equipment remained strong as the energy transition and smart technology revolution boosts business capex in these sectors. Looking forward, most manufacturing industries are likely to continue the gradual deceleration in FAI due to continuous slowdown in domestic demand as well as contracted export. Infrastructure YoY growth mildly inched down to 5.6% in Oct from 6.8% despite a huge acceleration in local & central government bond issuance in Oct. The YTD growth of FAI in public utility, transportation, storage & post service, and railway transportation remained elevated while fixed investment in road transport, public facility management and health & social welfare remained weak. Looking forward, we expect infrastructure investment may continue to expand since the new trend in credit data showed that the government is picking up debt to offset the deficit of private credit demand. We maintain our forecast on the FAI growth in 2023 at 3.8%.

China will maintain accommodative policy in 2024. China is likely to maintain its 5% GDP growth target for 2024. However, the shaky property market and contracted export still cast a shadow on the economic growth while business & consumer confidence remains low. As the comparison base rises, it may become even more difficult to achieve the 5% growth target next year. Therefore, China needs continuous accommodative policy in 2024. The PBOC is likely to maintain easing monetary policy with additional cuts in RRR, deposit rates and LPRs and guide banks to further expand credit supply while continue to provide liquidity support for debt-ridden local governments and urban village renovation projects. In addition, the cabinet may increase broad fiscal deficit (including general fiscal deficit and local government special bond quota) from 6.8% of GDP in 2023 to 7% of GDP in 2024. Provincial governments will be allowed to issue additional special refinancing bonds to replace some matured hidden debts. We expect a mild recovery in China's economy with the GDP growth expected to reach 5.2% in 2023 and 4.9% in 2024.

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➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
No Offshore Asia New Issues Priced Today					

➢ Offshore Asia New Issues (Pipeline)

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

➢ News and market color

- Regarding onshore primary issuances, there were 81 credit bonds issued yesterday with an amount of RMB97bn. As for Month-to-date, 830 credit bonds were issued with a total amount of RMB863bn raised, representing a 5.6% yoy decrease
- **[BABA]** Alibaba 2Q24 revenue up 9% yoy to USD31bn and adjusted EBITDA up 14% yoy to USD6.8bn; Alibaba cancelled cloud unit spin-off over US export curbs on AI chips
- **[GLPCHI]** Media reported that GLP China drew down part of RMB350mn 5yr refinancing loan for Beijing data center
- **[LENOVO]** Lenovo 2Q24 revenue falls 16% yoy to USD14.4bn and operating profit down 40% yoy to USD514mn
- **[LIANYU]** Lianyungang Port Group issued RMB300mn three-year MTNs at 3.6% coupon rate to repay debts
- **[SJMHOL]** Moody's affirmed SJM Holding's B1 rating and changed outlook from negative to stable
- **[STCITY]** Moody's affirmed Studio City's B1 rating and changed outlooks to stable from negative
- **[WYNMAC]** S&P upgraded Wynn Macau's rating to BB- from B+ and placed stable outlook
- **[YUNINV]** Yunnan Provincial Investment schedules redemption of RMB990mn bills on 23 Nov

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