

CMBI Credit Commentary

China TMT: Maintain buy XIAOMI'30-31s, XIAOMI 0'27 (CB), MEITUA'27-28s (CB), initiate buy on WB 3 3/8'30

Executive Summary

- **Credit stories remain sound:** Chinese TMT issuers are generally cash-rich with solid liquidity profiles. Most of them are in net cash positions and have strong coverage ratios at their rating levels. See Table 6 on p.7.
- **Shorter-dated XIAOMIs remain our top picks:** We like Xiaomi for its solid credit story. The sizeable net cash position and operating cash inflow offset the impact of higher R&D expenses, especially those on EV. **XIAOMI 3 3/8 04/29/30** (Baa2/BBB-/BBB) and **XIAOMI 2 7/8 07/14/31** (Baa2/BBB-/BBB) offer 121bps yield pick-up over JD 3 3/8'30 (Baa1/A-/-) and 12bps over MEITUA 3.05'30 (Baa3/BBB-/BBB-). Additionally, **XIAOMI 0 12/17/27** (CB, Baa2/-/-), puttable in Dec'25 with a YTP of 7.1%, is a good short-dated play within the XIAOMI curve. We prefer shorter-dated XIAOMIs as well as other Chinese TMT papers because of our view of "higher for longer" UST.
- **Prefer CBs within the MEITUA curve:** At 88.8, **MEITUA 0 04/27/27** (CB, Baa3/-/-, put on 27 Apr'25) offers a YTP of 7.8% and a yield pick-up of c159bps over MEITUA 2.125 10/28/25. The cash price of the CB is c3pts lower and the tenor is effectively 6 months shorter. We also like **MEITUA 0 04/27/28** (CB, Baa3/-/-, put on 27 Apr'26) which offers largely the same YTP but 6pts lower in cash price and a year longer in tenor. The CB redemptions should be comfortably managed with Meituan's sizeable net cash position.
- **Initiate Buy recommendation on WB 3 3/8'30:** At 78.6, **WB 3 3/8 07/08/30** (Baa2/BBB/-) is trading at a YTM of 7.4%, 58bps pick-up over MEITUA 3.05'30 which is rated 1 notch lower. The current valuation of WB 3 3/8'30 has more than priced in the concerns on Moody's negative outlook, in our view. We are neutral on WB 3½ 07/05/24 in view of better alternatives for short-dated plays with higher yield and lower cash prices.
- **Turned neutral on PDD 0'25 (CB):** PDD 0 12/01/25, puttable at 100 on 1 Dec'23, has moved 3pts higher since our recommendation in May'23. At 98.4, the CB is trading at a YTP of 8.1% with 2.5 months to the put date. While we still like the credit story of PDD, we turn neutral to the CB as the near-term upside for the CB appears to be limited unless CB holders are very confident on its near-term equity story. The stock price of PDD was 44.6% higher since May'23 and the US tariff issue which, in our view, will be an overhang of its equity story in the near-term.

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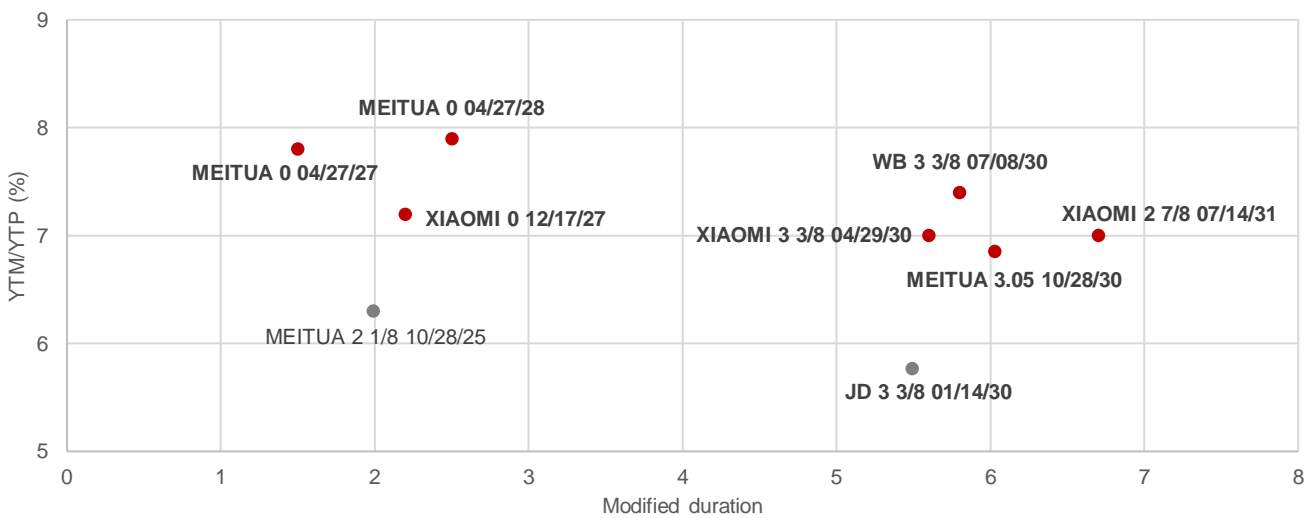
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Table 1: Summary of our picks

Bond	Ask Px	Ask YTM/YTP	Outstanding (USD mn)	Maturity/put date	Modified duration
MEITUA 0 04/27/27	88.8	7.8%	1,480	04/27/25	1.5
MEITUA 0 04/27/28	82.9	7.9%	1,500	04/27/26	2.5
WB 3 3/8 07/08/30	78.6	7.4%	750	07/08/30	5.8
XIAOMI 0 12/17/27	85.5	7.1%	855	12/17/25	2.2
XIAOMI 3 3/8 04/29/30	81.2	7.0%	600	04/29/30	5.6
XIAOMI 2 7/8 07/14/31	75.6	7.0%	800	07/14/31	6.7

Source: Bloomberg.

Chart 1: YTM/YTP of our picks



Source: Bloomberg.

Buy XIAOMI CB and 30-31s for solid liquidity profile

We like Xiaomi’s solid credit story and liquidity profile with a large cash position. As at Jun’23, Xiaomi has RMB89.3bn unrestricted cash and short-term investment, compared with total debts of RMB22.9bn. It has been in net cash position over the past 5 years. We believe it will be able to repay the bond in the absence of refinancing.

Among XIAOMIs, we maintain buy **XIAOMI 3 3/8 04/29/30** (Baa2/BBB-/BBB) and **XIAOMI 2 7/8 07/14/31** (Baa2/BBB-/BBB) offer 121bps yield pick-up over JD 3 3/8’30 (Baa1/A-/A-) and 12bps over MEITUA 3.05’30 (Baa3/BBB-/BBB-). XIAOMI 3 3/8’30 is trading at 81.2 while XIAOMI 2 7/8’31 is trading at 75.6, both with YTM of 7.0%. We also like **XIAOMI 0 12/17/27** (CB, Baa2/-/-), puttable at 100.0 on 17 Dec’25 a with YTP of 7.1%, is a good short-dated play within the XIAOMI curve. We prefer shorter-dated XIAOMIs as well as other Chinese TMT papers because of our view of “higher for longer” UST.

Profit margins improvement in 1H23

The global smartphone demand remains soft in 1H23, Xiaomi global smartphone shipments amounted to 63.3mn units, 18.4% drop from 77.6mn units in 1H22. Still, it maintains the No.3 global smartphone shipment ranking with a market share by shipment units of 12.9% in 2Q23. In 1H23, Xiaomi recorded 11.6% decrease in revenue to RMB126.8bn mainly due to decrease in smartphone shipments, partly offset by increase in average selling price (ASP) of smartphone. The ASP of smartphone is estimated at RMB1,152-1,189 per unit for 1H23, increased from RMB1,135 per unit in 1H22.

Its gross profit margin increased to 20.3% in 1H23 from 17.1% in 1H22. We expect the margin improvement trend to continue in 2H23 with its smartphone premiumization strategy. At the same time, it further optimized inventory management and total inventory down 33.5% yoy to RMB38.5bn, the lowest level in the past 10 quarters. Both of these strategies should increase the operating cash inflow for FY23. EBITDA was up to RMB8.2bn according to our estimate, representing 38.3% yoy increase from 1H22. This was driven by decrease in selling and marketing expenses particularly in the overseas market.

As at Jun'23, it had a net cash position (debt minus unrestricted cash, ST deposits and investments) of RMB66.4bn, increased from RMB44.1bn as at Dec'22. Total debt amounted to RMB22.9bn. Xiaomi also maintained a net cash position averaged RMB51.1bn over the past five years.

After getting approval from the NDRC to manufacture smart electric vehicle (EV) in Aug'23, it will still need approval from Ministry of Industry and Information before proceeding to mass production, which Xiaomi targets to conduct in 1H24. It budgeted EV related R&D investment at USD10bn (RMB72.8bn) over 10 years (2021-31). In 2022, it spent RMB3bn in EV R&D while it planned to spend RMB7.5-8bn in 2023. Xiaomi's total R&D budget for 2022-26 was budgeted at RMB100bn, in which RMB17bn and RMB20bn were spent in 2022 and 2023 respectively. That means the incremental R&D expenses on EV will be cRMB5bn from the level of FY22. We expect Xiaomi to fund its capex on EV with its cash, ST deposits, ST investments and operating cash inflow while maintaining net cash position.

Table 2: Xiaomi's financials

RMB mn	1H22	1H23	Change
Revenue	143,522	126,832	-11.6%
Gross profit	24,478	25,753	5.2%
EBITDA	5,925	8,193	38.3%
Profit before tax	1,321	10,426	689.3%
Gross profit margin	17.1%	20.3%	
EBITDA margin	4.1%	6.5%	
	Dec'22	Jun'23	
Unrestricted Cash and short-term investment	67,777	89,270	31.7%
ST debts	2,151	1,122	-47.8%
LT debts	21,493	21,764	1.3%
Net cash	44,133	66,384	50.4%
Gearing ratio	16.4%	14.8%	
Cash/ST debts	12.8x	28.0x	

Note: Net cash is calculated as total debts minus unrestricted cash and short-term investment.
Source: Company fillings.

Prefer MEITUA 0'27 and MEITUA 0'28 (CB) within MEITUA curve

We like **MEITUA 0 04/27/27** (CB, Baa3/-/-) within the MEITUA curve. The CB, puttable at 100.37 on 27 Apr'25, is trading at 88.8 with a YTP of 7.8%. Compared with MEITUA 2.125 10/28/25, the CB offer a yield pickup of 159bps and the tenor is effectively 6 months shorter. The CB is trading at 88.8, c3pts lower than the cash price of MEITUA 2.125'25 of 92.1. We also like **MEITUA 0 04/27/28** (CB, Baa3/-/-, puttable on 27 Apr'26) which offers largely the same YTP but 6pts lower in cash price and a year longer in tenor. With unrestricted cash and short-term treasury investments of RMB120.2bn as at Jun'23, Meituan has sufficient liquidity to redeem or repay its offshore maturities over the coming 2-3 years.

Strong 1H23 results benefited from consumption recovery

With the recovery in consumption post the removal of COVID restrictions, Meituan's revenue increased 30.2% yoy to RMB126.6bn in 1H23. Its gross profit margin improved to 35.7% in 1H23 from 27.1% in 1H22, mainly due to the lower delivery cost per order with abundant courier supply. Profit before tax increased to RMB8.1bn in 1H23, from loss before tax of RMB6.9bn in 1H22. Its operating cash flow also turned positive to RMB18.9bn in 1H23 from an outflow of RMB2bn in 1H22.

Meituan is expanding the merchant base, promotional events such as "Shen Quan Jie" and "Shen Qiang Shou" allowed merchants to offer dishes through flash sales, live streaming and short-form videos. These all help to boost the number of transactions. Its Instashopping also grew robustly in 1H23, especially in electronics and home appliances, daily necessities, beauty and personal care, and mother-and-child products. The company guided a faster growth in Instashopping in 3Q-4Q23. We expect the hotel and travel business to continue to grow in 2H23 alongside with the rebound in domestic travel.

Besides, Meituan maintained an ample liquidity. It had unrestricted cash and short-term investments of RMB120.2bn and a net cash position (debts minus unrestricted cash and short-term investments) of RMB61.2bn as at Jun'23. These should be sufficient to cover its short-term debts of RMB20.7bn and capex. Over the past 5 years, its net cash position averaged RMB55.9bn.

Table 3: Meituan's financials

RMB mn	1H22	1H23	Change
Revenue	97,207	126,582	30.2%
Gross profit	26,315	45,215	71.8%
EBITDA	-2,050	9,673	571.9%
Profit before tax	-6,879	8,066	217.3%
Gross profit margin	27.1%	35.7%	
EBITDA margin	-2.1%	7.6%	
	Dec'22	Jun'23	
Unrestricted Cash and short-term investment	112,032	120,192	7.3%
ST debts	19,728	20,694	4.9%
LT debts	38,360	38,291	-0.2%
Net cash	53,944	61,207	13.5%
Gearing ratio	41.0%	38.0%	
Cash/ST debts	5.7x	5.8x	

Note: Net cash is calculated as total debts minus unrestricted cash and short-term investment.

Source: Company fillings.

Initiate buy on WB 3 3/8'30 for better risk-adjusted return

WB 3 3/8 07/08/30 (Baa2/BBB/-) is trading at 78.6 with YTM of 7.4%, 58bps pick-up over MEITUA 3.05'30 which is rated 1 notch lower. The current valuation of WB 3 3/8'30 has more than priced in the concerns on Moody's negative outlook, in our view. We are neutral on WB 3½ 07/05/24 in view of better alternatives for short-dated plays with higher yield and lower cash prices.

Active users are increasing but revenue is trending down...

Weibo posted a modest increase in monthly active users (MAUs) and average daily active users (DAUs) in 1H23. MAUs were 599mn as at Jun'23, increased by 13mn compared to Dec'22. DAUs were 258mn as at Jun'23, increased by 6mn compared to Dec'22. However, the increase in active users did not translate into higher revenue in 1H23. Indeed, both advertising and value-added service (VAS) revenue dropped in 1H23, and total revenue declined 8.6% yoy compared to that of 1H22. The cost-cutting effort allowed Weibo to achieve EBITDA growth of 5.8% to USD250mn. Moreover, the profit before tax turned positive to USD236mn in 1H23, from loss before tax of USD14mn in 1H22 mainly due to the one-off investment-related impairment and provision of USD204mn in 1H22. Going forward, Weibo targets to enhance its content ecosystem, including content quality and traffic, to monetize the increasing active users of its platform.

As at Jun'23, the net cash position of Weibo dropped to USD405mn from USD740mn as at Dec'22 while the gearing ratio weakened to 78% from 73% during 1H23. Nonetheless, its near-term refinancing pressure is low and its liquidity profile is sound.

Table 4: Weibo's financials

USD mn	1H22	1H23	Change
Revenue	935	854	-8.6%
Gross profit	735	674	-8.3%
EBITDA	236	250	5.8%
Profit before tax	-14	236	1,768.2%
Gross profit margin	78.6%	78.9%	
EBITDA margin	22.1%	29.3%	
	Dec'22	Jun'23	
Unrestricted Cash and short-term investment	3,171	2,830	-10.8%
ST debts	9.7	-	-100%
LT debts	2,422	2,425	0.1%
Net cash	740	405	-45.3%
Gearing ratio	73%	78%	
Cash/ST debts	2.6x	N/A	

Note: Net cash is calculated as total debts minus unrestricted cash and short-term investment.

Source: Company fillings.

PDD 0'25 (CB)

PDD 0 12/01/25 (CB), puttable at 100 on 1 Dec'23, up 3pts since our recommendation in May'23. At 98.4, the CB is trading at a YTP of 8.1% with 2.5 months to the put date. While we still like the credit story of PDD, we turn neutral to the CB as the near-term upside for the CB appears to be limited unless CB holders are very confident on its near-term equity story. The stock price of PDD was 44.6% higher since May'23 and the US tariff issue which, in our view, will be an overhang of its equity story in the near-term.

Recalled that in Apr'23, the U.S.-China Economic and Security Review Commission released a report accusing Temu and SHEIN (another Chinese e-commerce platform) of exploiting trade loopholes to import goods into U.S. and evading from paying import tariffs. Under the current Tariff Act, goods with a fair retail value not exceeding USD800 enter duty-free into the U.S. as long as they are packaged and addressed to individual buyers (also known as de minimis rule). As of Jun'23, Temu and SHEIN accounted for about one-third of de minimis parcels sent to the U.S. Temu was accused to take unfair advantages over US competitors from the tariff exemption and the lawmakers in the U.S. are trying to exclude Chinese companies from using the tariff exemption.

PDD has not disclosed the financials or operating performance of Temu yet since its launch, as the size of the business is still small compared to online business in China, as per company's management. The possible increase in tariff may dampen the price competitiveness of the products sold on Temu. That could slow down PDD's overseas expansion. There is limited updates as to timeline and the next step since the US Select Committee on the Chinese Communist party published in Jun'23.

Table 5: PDD's financials

RMB mn	1H22	1H23	Change
Revenue	55,233	89,918	62.8%
Gross profit	40,112	60,103	49.8%
EBITDA	12,219	21,015	72.0%
Profit before tax	13,619	25,965	90.7%
Gross profit margin	72.6%	66.8%	
EBITDA margin	22.1%	23.4%	
	Dec'22	Jun'23	
Unrestricted Cash and short-term investment	149,439	179,509	20.1%
ST debts	14,488	15,387	6.2%
LT debts	2,447	2,883	17.8%
Net cash	132,504	161,239	21.7%
Gearing ratio	14.4%	12.6%	
Cash/ST debts	2.4x	2.0x	

Note: Net cash is calculated as total debts minus unrestricted cash and short-term investment.

Source: Company fillings.

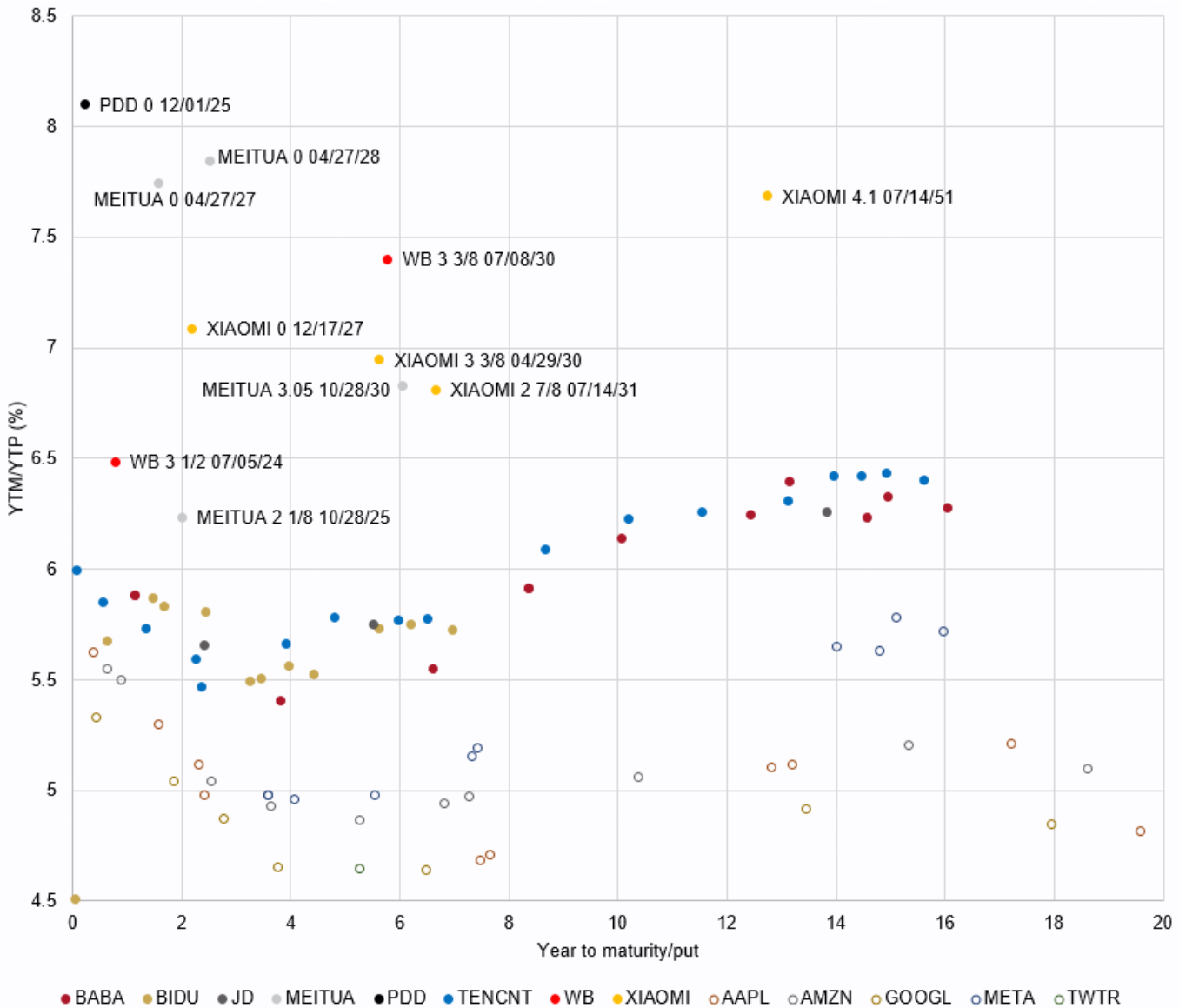
Table 6: Summary of latest financials of major China TMT players

	BABA	Tencent	Baidu	JD	Xiaomi	Weibo	Meituan	PDD
	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	USD mn	RMB mn	RMB mn
Year end	31 Mar	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec
Report date	1Q24	1H23	1H23	1H23	1H23	1H23	1H23	1H23
Issuer ratings (M/S/F)	A1/A+/A+	A1/A+/A+	A3/-/A	Baa1/A/-	Baa2/BBB-/BBB	Baa2/BBB/-	Baa3/BBB-/BBB-	Not rated
Rating outlook	Stable	Stable	Stable	Stable	Stable	Neg./Sta./-	Stable	Not rated
Revenue	234,156	299,194	65,200	530,887	126,832	854	126,582	89,918
EBITDA	53,681	104,574	13,829	16,567	8,193	250	9,673	21,015
Interest expenses	1,784	5,941	1,621	1,244	(1,044)	N/A	708	24
Unrestricted cash	226,405	139,647	42,060	91,020	31,459	2,361	27,003	31,379
Short-term investments/deposits	283,953	206,225	148,095	144,101	57,811	469	93,189	148,129
Short-term debts	8,236	66,206	24,859	25,896	1,122	-	20,694	15,387
Long-term debts	157,307	311,371	66,407	47,045	21,764	2,425	38,291	2,883
Total debts	165,543	377,577	91,266	72,941	22,886	2,425	58,985	18,269
Net debt/(net cash)	(344,815)	31,705	(98,889)	(162,180)	(66,384)	(405)	(61,207)	(161,239)
EBITDA margin	22.9%	35.0%	21.2%	3.1%	6.5%	29.3%	7.6%	23.4%
EBITDA/int	26.3x	17.6x	8.5x	13.3x	7.8x	N/A	13.7x	831.7
Debt/EBITDA	0.9x	1.8x	3.3x	2.2x	1.4x	4.9x	3.0x	0.5x

Note: Net debt is calculated as total debts minus unrestricted cash and short-term investment/deposits.

Sources: Companies' filing, CMBI Research.

Chart 2: YTM/YTP of major China and U.S. TMT players



Source: Bloomberg, CMBI Research.

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