

## CMBI Credit Commentary

### HONGQI – Reiterate OW on solid fundamental and diversification play

**Hongqiao reported a robust 1H21 results.** Revenue up +31% yoy to RMB 52.5bn thanks to higher aluminum price of RMB15,365 per ton (Ex-VAT). Gross profit expanded by +143% yoy, and EBITDA rose to RMB 16.2bn, +104% yoy (vs. 1H2020: RMB7.9bn; 2H2020:RMB13.9bn). While HONGQI has already outperformed in USD Chinese HY market, we reiterate our OW of HONGQI '24 at 103.125(~YTM 4.9%) [Please see our note on 9 July, 21](#)

**From a forward-looking perspective, current China Aluminum price hovers at high level** of RMB20,260/ton (Shanghai Future Price, Incl-VAT of 13%), compared to average price of RMB15,693 in 1Q2021 and RMB18,512 in 2Q2021. In terms of volume, management maintains its full-year production guidance of 5.6mn to 5.8mn tons, vs 2020's 5.62mn tons of production volume. We view both ASP trajectory and volume guidance are favourable to Hongqiao's full-year 2021's results.

**Hongqiao's leverage is significantly reduced**, through its strong operating cash flow and a small equity placement in Jan '21. Net debt lowered to RMB18.8bn, from RMB29.4bn at end-2020, while gross debt reduced by RMB6.2bn to RMB68.6bn in 1H2021. Trailing Debt-to-EBITDA fell to 2.3x, from 3.4x at end-2020. Net Debt-to-EBITDA also lowered to 0.6x, from 1.3x at end-2020.

**Liquidity and capital structure have further improved as well.** With RMB49.8bn cash on hand, Hongqiao's cash-to-ST debt ratio increased to 1.4x, from 1.0x at end-2020. During 1H2021, the company repaid onshore bonds of RMB 16.5bn with internal cash, CB/equity placement, additional USD bond and new bank loan. After that, its capital structure has become more balanced, with less reliance on direct financing. (RMB37.6bn bank loan, RMB19.6bn onshore bonds, RMB6.4bn USD bond, RMB5bn CB as of 30 Jun, 21)

**We reiterate that refinancing is no longer a concern**, thanks to its high cash balance. For its upcoming RMB7.8bn puttable bond in Oct 2021,

**Polly Ng 吴宝玲**

(852) 3657 6234  
pollyng@cmbi.com.hk

**Glenn Ko, CFA 高志和**

(852) 3657 6235  
glennko@cmbi.com.hk

**Wilson Lu 路伟同**

(852) 3761 8918  
wilsonlu@cmbi.com.hk

**James Wen 温展俊**

(852) 3757 6291  
jameswen@cmbi.com.hk

**CMBI Fixed Income**

fis@cmbi.com.hk

management is prepared to redeem puttable bond if a large step-up is required by investors vs existing coupon of 4%. But we expect a good number of investors will extend, taking cue from Hongqiao's recent RMB1bn onshore bond (3 year) at 4.16%.

*CMB International Securities Limited*

*Fixed Income Department*

*Tel: 852 3761 8867/ 852 3657 6291*

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

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