

CMBI Credit Commentary

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

- *China HY space opened in negative tone today, BB rated KWGPRO/TPHL/CHINSC/PWRLNG down 3pts or more, while YUZHOU/CIFIHG/LOGPH/ROXIN traded down 1-2pts.*
- *INDYIJ: We maintain OW for INDYIJs '24 at ~5.2%, '25 at ~6.6%, based on relatively high coal price outlook. Strong 9M21 results reported, we also expect Indonesia export ban on coal in Jan'22 will only temporarily dent its revenue. See below.*
- *DAFAPG: announced to sell 33% interest of Chengdu project company to Xiamen Chenxuan for total consideration of RMB 195mn (USD 30mn). We understand the company has received the deposit. See below for more.*

❖ Trading desk comments 交易台市场观点

Yesterday, China HY space traded softer and the sentiment skewed to better selling. Property names like TPHL/SUNAC/KWGPRO slipped down slightly though relative stock prices went up. Besides, SHIMAO curve dropped by 3-4pts due to low prints onshore but recovered a bit post the news of onshore ABS due on 14th Jan getting paid. SUNAC was down by 1-2pts due to the cancellation of buyout of First Service. Other property names like YUZHOU/REDSUN continued to go down and closed as low as -2pts. In addition, we continued to see demands on Industrial HY names like FOSUNI/WESCHI/HONGQI and small selling on YUNNAN complex.

IG market spreads tightened today along with U.S. Treasury yield curve moving upward overnight. TMT names like TENCNT/XIAOMI tightened by 4-6bps while financial names like ICBCIL saw strong buying interests. Meanwhile, sentiment on SOE sector was positive along with demands on names like HAOHUA/SINOCH.

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➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
ZHPRHK 10 1/4 PERP	98.5	8.5	CSCHCN 11 1/2 02/12/22	82.1	-6.3
MEITUA 0 04/27/28	93.9	1.3	CSCHCN 10 7/8 06/26/22	75.9	-6.2
MGMCHI 4 3/4 02/01/27	97.1	1.1	GRNLGR 5.6 11/13/22	82.0	-5.5
MGMCHI 4 3/4 02/01/27	97.2	1.0	REDSUN 9.7 04/16/23	40.4	-5.2
SINOCE 2.7 01/13/25	92.9	0.9	CSCHCN 7 1/4 11/20/22	74.2	-5.1

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stocks diverged in different sectors as investors scrutinized new data that showed expanding U.S. factory activity and a tight labor market. The S&P slipped by (-0.6%), Nasdaq (-1.2%), but Dow rose by (0.5%). In addition, oil price rose after OPEC and a Russia-led group of oil producers agreed to keep pumping more crude in a bet that the global surge in Covid-19 cases won't depress demand like earlier waves of the virus. Brent crude climbed 1.3% to USD 80 while WTI crude rose 1.2% to USD 76.99. On the other hand, U.S Treasury yield curve steepened on the day. The yield on the benchmark 10Y Treasury note was up to 1.63%. The 30Y yield rose slightly to 2.07% while the near leg, 1Y/5Y yields, moved to 0.38/1.37% respectively.

➤ Desk analyst comments 分析员市场观点

➤ **INDYIJ: Short-lived impact from Indonesia export ban on coal****Strong 9M21 results...**

Indika's revenue grew to USD 2,155mn (+43% yoy) backed by 40% rise in ASP during the period. Despite heavy rainfall, its production volume grew to 28.2mt (+13% yoy), hence EBITDA tripled to USD509mn for 9M21, trailing gross Debt/EBITDA lowered to mid-2x (Gross debt: USD 1,611mn and Cash: 712mn at Sep 2021). INDYIJs '24 at ~5.2%, '25 at ~6.6% remain our OW for 2022.

On track to achieve USD 750mn EBITDA for full year 2021,

Given current benchmark coal price is still 10% higher than 3Q21's level. Discretionary cash flow, nonetheless will likely be USD 150mn - USD 200mn, after its planned capex of USD 120mn, tax of USD 280mn, interest expense of USD 100mn potential dividend of USD 50mn.

For 9M21, Indika recorded an increase in cash balance of USD99mn, from its operating cash flow of USD 316mn minus USD 58mn capex and USD 124mn debt repayment. There is a non-cash loss of USD 100mn from disposal of MBSS (51% stake) in Oct 2021. MBSS is a coal barging and transshipment subsidiary and accounts for 7% of Indika's EBITDA, disposal sales proceed of USD 41mn will be deployed into its non-coal diversification initiative.

2022 Benchmark coal price will likely be higher than historical average

While benchmark coal price will likely moderate in 1Q2022 as manufacturing activities will slow down during Chinese New Year and Beijing Winter Olympics, we expect 2022 average coal price to remain relatively high as alternative energy prices (i.e. oil and gas) are well-supported at higher levels, due to sporadic production disruption from Covid.

Export ban on coal in January will dent Indika's revenue, temporarily

Indonesian government imposed an outright export ban on coal for January due to low domestic coal inventory. This is different from previous incidents when government imposed export ban on non-DMO compliant coal miners. This will suppress Indika's revenue in Jan 2022 as domestic coal sales are subject to

price cap. However, Indika has been fully compliant of domestic market obligation (DMO) and industry practitioners will seek review from government on 5 Jan 2022 to solely impose export ban on non-compliant miners.

Our base-case is that this one-month export ban is short-lived and government will not resort to frequent outright export ban to fulfil domestic demand as there is already a 25% Domestic Market Obligation requirement in place. **Indika has supplied 30%-35% of its coal domestically over the past few years and so we also expect Indika can raise its export volume after Jan '22 while remaining compliant to DMO.**

<https://www.cmbi.com/article/6237.html?lang=en>

➤ **DAFAPG: 33% equity interest sale in project company to raise RMB 195mn**

Dafa announced it has signed an equity transfer agreement to sell 33% interest of Chengdu project company to Xiamen Chenxuan for total consideration of RMB 195mn (USD 30mn). The payment timeline is rather speedy as the buyer needs to deposit RMB 120mn within one business day after signing the equity transfer agreement. The remaining sum will be paid within two business days after the shareholder registration and document transfer. We understand Dafa has received the deposit.

Dafa has been an outperformer in contracted sales last year and actively raised offshore funding, including a 1-year loan facility of USD 30mn in Aug 2021, and issuance of USD100mn bond due Apr'23 to lower its upcoming DAFAPG 9.95%'22 maturity on 18 Jan'22 (USD 184.5mn).

➤ **Offshore Asia New Issues (Priced)**

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
CIFI Holdings (Group) Co Ltd	USD 150	5.25	4.45%	4.45%	Ba3/Bb-/bb

➤ **Offshore Asia New Issues (Pipeline)**

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

➤ **Onshore China conditions and color**

- Regarding onshore primary issuances, there were 62 credit bonds issued yesterday with an amount of RMB55bn. As for Month-to-date, 143 credit bonds were issued with a total amount of RMB128bn raised, representing a 6.7% yoy increase

- **[FUTLAN/FTLNHD]** to raise HKD 1.57bn via rights issue on the basis of 1 rights share for every 21 existing shares held on the record date on a non-underwritten basis
- **[HRINTH]** fulfills all share trading resumption guidance; share trading to resume on 5 January
- **[SHIMAO]** says funds ready to covers RMB 1.16bn ABS due 14 January
- **[VEDLN]** has raised INR 10bn (USD 134mn) for three years at 7.68% pricing
- **[ZHLGHD]** to postpone 1H21 interim dividend payment to maintain liquidity under current adverse market conditions
- **[ZHLGHD]** further repurchases USD 20.4mn of 7.5% senior notes due January 2022

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