

## CMBI Credit Commentary

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

- *Flows tilted towards selling in market this morning. SUANC dipped 3-4pts after downgraded by Moody's last Friday and CENCHI down 2-3pts on the back of CEO changing news. LOGPH/SHIMAO/COGARD also dropped 1.5-2.5pts. In IG space we also saw spread widening for names like BABA/CITLTD//HAOHUA.*
- **YUZHOU & ZHLGHD:** *Yuzhou announced to pay the missed coupons of YUZHOU '26 and '27 before the end of grace period. Total coupon to be cured over the coming 4 weeks to be USD53.5mn. On a separate note, media reported that CG Services intends to acquire Zhongliang's property management arm, which is owned by Zhongliang's Chairman. Hence, the sales should have limited direct impact on ZHLGHD. See below.*
- **HONGQI:** *announced positive profit alert that expecting FY2021 net profit to rise >60% yoy. We reiterate our OW on HONGQI, prefer HONGQI '24 (~YTM 6.3%, 99.75 mid). See below.*

#### ❖ Trading desk comments 交易台市场观点

Last Friday, China HY property space opened firm with street better buying in benchmark names. COGARD/SUNAC saw buying interests and up 2-3pts. PWRLNG/ROADKG up 1-2pts while CHINSC/FUTLAN rose 3-4pts for the day. ZHRPHK perp further down 25-30pts to 30-35 level. In industrial space, names like FOSUNI/WESCHI remained relatively unchanged for the day.

IG market opened mixed with wider 10yr benchmark spread after the release of January's CPI of 7.5% on Thursday. TMT names like BABA/BIDU closed unchanged to 1-2bps wider. In SOE sector, names such as HAOHUA/SINOPE traded down slightly and spread widened around 1bps. We saw better selling in high cash price AT1 names like POSABK.

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➤ **Yesterday's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
TPHL 5 3/4 04/26/22	80.2	5.5	ZHPRHK 10 1/4 PERP	35.4	-58.2
SUNAC 8.35 04/19/23	68.4	4.6	ZHPRHK 5.98 04/13/22	32.5	-45.3
TPHL 5.3 04/20/22	80.4	4.6	ZHPRHK 8.7 08/03/22	28.5	-26.5
TPHL 5.55 06/04/24	50.8	4.2	RONXIN 10 1/2 03/01/22	58.9	-14.1
SUNAC 7.95 08/08/22	80.2	3.4	ZHPRHK 8.35 03/10/24	28.6	-13.8

➤ **Macro News Recap 宏观新闻回顾**

**Macro** – U.S. stock indexes further declined on Friday with continuing inflation fears and geopolitical concern. On Friday U.S. National Security Adviser stated that there were signs of Russian escalation at the Ukraine border and that it was possible that an invasion could take place during the Olympics. The S&P (-1.90%), Nasdaq (-2.78%), and Dow (-1.43%) ended much lower. U.S. Treasury yield curve gapped down lower given the escalated geopolitical tension. The 1/5/10/30Y yields dipped 7 /12 /11 /6 bps to 1.07 /1.84 /1.92 /2.24% respectively.

**Desk analyst comments 分析员市场观点**

➤ **YUZHOU: Missed coupons cured to avoid official default**

Yuzhou announced to pay the missed coupons of YUZHOU 7.375%'26 and '27 totaled USD41.2mn before the end of grace period (12 Feb'22). As we discussed in our comments: [YUZHOU: Why exchange offer relaunched? dated 4 Feb'22](#), Yuzhou's priority is to avoid default which could be the stumbling block for the future funding access, introduction of investors and further exercises of asset liability management. Hence, we should expect Yuzhou to continue to cure the missed coupons in the near-term. In addition to YUZHOU 7.375%'26 and '27, Yuzhou also missed the coupons of YUZHOU 8.625%'22 and 6%'22, the 2 bonds subject to an exchange offer, as well as those of 8.5%'23 and 7.85%'26. Total coupon to be cured over the coming 4 weeks is USD53.5mn.

Regarding the exchange offer relaunched on 3 Feb'22, we continue to see the exchange is the best available option for holders of YUZHOU 8.625%'22 and 6%'22. The offer allows holders to get a total of 6pts upfront cash, and potentially another 10.53pt when the sales of its property management subsidiary will complete by mid-2022 (RMB 1.06bn), and coupon of 3-4.3pt before end-of grace period. The deadline of the exchange will be on 18 Feb'22.

➤ **ZHLGHD: CG Services acquisition largely irrelevant but questions remain**

Media reported that CG Services was in talks to acquire the entire stakes of Zhongliang Real Estate which is engaged in property management operations. It is noteworthy to point out that Zhongliang Real Estate's core entity; Everjoy Services Company is owned by Zhongliang Holdings Group's Chairman, instead of by Zhongliang Holdings. Hence, the sale of Zhongliang Real Estate, if goes ahead, should have limited direct impact on Zhongliang Holdings though, arguably, the sale can strengthen the chairman's ability to support Zhongliang Holdings in case of necessary.

On the other hand, we are curious about the consideration and the structure of, as well as the timetable for the transaction, if any. As per CMBI equity research, the valuation of Zhongliang Real Estate could be in the range of HKD3-3.6bn, i.e. RMB2.4-2.9bn, taking a cue from the valuation CGS paid on 30 Mar'21 for 6.24% stakes in the pre-IPO investments. Recalled that in a press release dated 14 Dec'21, CG Services undertook not to

conduct any material asset disposals and acquisitions with considerations of more than RMB200mn and not placing any new shares in the 6 months ended 14 Jun'22. The price tag of the acquisition appears to be too large for the undertaking up to 14 Jun'22.

➤ **HONGQI: Positive profit alert; expecting FY2021 net profit to rise >60% yoy**

The positive profit alert implies that Hongqiao would record a similar net profit for 2H2021 as 1H2021 (c. RMB 8.4bn), indicating a stable unit gross margin dollar thanks to high aluminum price offsetting higher coal price, based on management's sale volume guidance of 5.6mn -5.8mn tons for 2021 (vs 2020's 5.67mn tons).

Hongqiao continues to have good onshore market access, taking cue from its recent onshore MTN issuance of RMB 1bn (2yr, 4.5%) in Jan'22. For the rest of 2022, the company only has a bullet maturity of RMB7.6bn, which is very manageable in view of its strong cash flow. It also had a high cash balance of RMB 49.7bn as of Jun, 2021. **We therefore reiterate our OW on HONGQI, prefer HONGQI '24 (~YTM 6.3%, 99.75 mid).**

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

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

➤ **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 13 credit bonds issued last Friday with an amount of RMB14bn. As for Month-to-date, 68 credit bonds were issued with a total amount of RMB84bn raised, representing a 81% yoy decrease.
- **[CENCHI]** appoints Yang Mingyao as CEO in place of Wang Jun to facilitate more efficient corporate management
- **[EXCECP]** schedules '20Zhuoyue02' bond put option on 16-18 February
- **[GUOPRO]** Guorui Properties announces exchange offer, consent solicitation for 14.25% senior notes due 2024; plans to issue new USD-denominated senior notes

- **[SHIMAO]** to auction off InterContinental (Shenkeng) Hotel at initial bidding price of CNY 2.25bn but company denied; Company also announced that the latest valuation of 'Grand Victoria' in Hong Kong is HKD17.7bn and company expects to use around 90% of net proceeds from disposal for debts repayment
- **[SUNAC]** Moody's downgrade Sunac to B1/B2, outlook changed to negative from stable
- **[ZHPRHK]** says internet articles about company, controlling shareholder Ou Zongrong concerning offshore debt securities untrue, fictitious

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