

## CMBI Credit Commentary

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

- *High dollar price bonds sell-off continued this morning, ROADKG/GEMDAL/KWGPRO down 3-5pt. YUZHOU also down 3-4pt after it defaulted from non-interest payment on YUZHOU 8.5% '23. Non-property also sees pressure - EHICAR/SJMHOL/HONGQI/WESCHI down 2-4pt.*
- ***LIHHK:** We initiate a Buy on LIHHK 4.3 '22 at 98.7 (YTM 6.5%), and Hold for rest of LIHHK curve (YTM 7.1% - 7.8%). LIHHK '22 is one of our preferred short-term pick for carry. See below.*
- ***Yuzhou:** Failure to pay the coupon is a negative surprise and could undo the previous efforts. See below.*

#### ❖ Trading desk comments 交易台市场观点

Yesterday, China HY property space sentiment remained weak with relatively low volume. LOGPH curve was skewed to selling and down 2-3pts post downgrades. AGILE/GRNLGR/TPHL saw selling flows in the street and down 3-4pts while ZHPRHK/SHIMAO saw two way flows and closed relatively unchanged to 0.5pts down. Other property names like DALWAN/SINOCE/ROADKG/YUZHOU/LOGPH also traded down 2-3pts. In industrial sector, CHIOIL/WESCHI fell 3-4pts for the day while CARINC/FOSUNI closed 1-2pts down.

IG market continued to trade soft with panic sentiment, benchmark spread widened 5-10bps. In financial sector, benchmark names like BOCAVI remained relatively heavy on the long end and spread closed 15-20bps wider. AT1 space traded down 0.25-0.5pts for the day. TMT sector names like BABA/TENCNT/BIDU continued to see market selling and spread widened 5-10bps.

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## ➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
REDSUN 9.95 04/11/22	52.0	5.8	SUNSHI 7 7/8 09/04/24	7.5	-6.0
LSEAGN 10 1/2 06/20/22	72.6	5.6	XIN 14 01/25/24	21.2	-5.7
REDPRO 13 05/27/23	21.8	3.8	REDSUN 7.3 01/13/25	17.0	-5.5
EHOUSE 7.6 06/10/23	20.2	3.1	LOGPH 7 1/2 08/25/22	27.6	-5.4
JIAYUA 12 10/30/22	52.9	2.4	KWGPRO 6 09/15/22	45.8	-5.0

## ➤ Macro News Recap 宏观新闻回顾

**Macro** – U.S. stock indexes fell as investors dialed back on risk by selling shares across much of the economy. The S&P (-3%), Dow (-2.4%), and Nasdaq (-3.6%) all fell for the day. Gold rose 1.5% to USD 1993.90 per troy ounce, its highest settle value since August 2020. U.S. Treasury yield curve shifted upward yesterday. The yield on the benchmark 10Y Treasury note rose to 1.78%. The 1/5/30Y yields up to 1.07/1.71/2.19% respectively.

## ➤ Desk analyst comments 分析员市场观点

## ➤ LIHHK '22 is our preferred short-term pick for carry, initiate Buy

We initiate a Buy on LIHHK 4.3 '22 at 98.7 (YTM 6.5%), and Hold for rest of LIHHK curve (YTM 7.1% - 7.8%). LIHHK '22 is one of our preferred short-term pick for carry, given management's plan to repay in full by Oct 2022, backed by its current high cash balance. Nonetheless, we recommend hold for LIHHK '24, '25 and '26 as the company's leverage will continue to edge up these 2 years, before its Kai Tak project's revenue contribution comes in by 2024.

- **Mixed 2021 result:** Lifestyle reported 2021 result with revenue/EBITDA of HKD 2,290mn and HKD 1,211mn, up 14% and 17% yoy. This was on the back of 9.9% increase in sales proceeds at its department stores in 2021 (vs HK retail sales growth of 8.1%), plus incremental rental income of HKD 120mn after acquiring a London investment property in late 2020. However, it recorded a net loss of HKD1,305mn in 2021 (vs net profit of HKD 138mn) after booking HKD 1.9bn fair value loss on its financial investment, following plunge in bond/stock prices of various Chinese developers it invested.
- **Lackluster outlook for 2022:** In view of current 5th wave of Covid in HK, management commented its 1H2022 operating performance can potentially be worse than 1H2020 (amid 1st wave of covid in HK). Lifestyle reported Revenue/EBITDA/CFO of HKD 942mn/ 365mn/ 116mn in 1H2020.
- **Financial Investment Portfolio... damage largely priced in:** Lifestyle's total financial investment lowered to HKD 3,065mn (vs HKD 6,151mn at Dec'20) after a large fair value write-off (HKD1,900mn) and redemption of its money market fund for bank loan repayment. Post impairment, its Chinese property bonds/equity investment was reduced to HKD 741mn/ 157mn at Dec'21, according to its profit warning announcement. Other key holdings in its investment portfolio include 2 London listed property developers' stocks (HKD 1.5bn), non-Chinese property bonds (c. HKD 600mn – 700mn) according to management in 2021 result presentation. Its financial investment has already been pledged for short-term bank loan and so it is unlikely to serve as additional liquidity source.
- **High leverage only to improve after the commencement of Kai Tak project starting 3Q23:** As of Dec'21, leverage remains relatively high with Net Debt/EBITDA at 12x (vs 16x at Dec '20) as Lifestyle spent a hefty sum in a large greenfield Kai Tak project since 2016. The Kai Tak project costs HKD 13 -14bn in total (land

premium HKD 7.4bn and construction cost HKD 5.8bn). Notwithstanding its high Net Debt/EBITDA, Lifestyle's crown jewel property – SOGO Causeway Bay is booked at cost at HK1.3bn as at Dec'21. If adjusting for SOGO Causeway Bay at market value, Lifestyle's asset/equity base will increase by HKD14.7bn to HKD37.7bn/HKD 17.4bn, and its net debt/total assets and net gearing will lower to 39.8% and 86% on a proforma basis, from 65% and 566% as at Dec'21 respectively. We consider its asset based leverage not excessive.

- **Liquidity is adequate:** Lifestyle's major capex outlay for next 2 years (Kai Tak) can be financed by its undrawn committed facility (HKD 4.25bn, pledged by its Sogo building). Moreover, the company is seeking to extend its Kai Tak project loan (HKD 9bn, in which HKD 5.1bn undrawn) by 18 months (from July 2022 to Jan 2024) to match Kai Tak's project construction. We expect it to be able to rollover the project loan which is secured by the land parcel of the Kai Tak project. The management plans to repay LIHHK '22 USD notes (O/S USD 205.4mn) with internal resources including cash on hand of HKD3.8bn as at Dec'21.

<https://www.cmbi.com/article/6433.html?lang=en>

#### ➤ **Yuzhou: Failure to pay the coupon is a negative surprise**

We are surprised by Yuzhou's failure to cure the coupon payment of USD21.25mn for YUZHOU 8.5%'23 after the grace period ended 7 Mar'22 (6 Mar'22 is Sunday). This could trigger cross-default to its other debts and undo Yuzhou's previous efforts in avoiding default. Recalled that Yuzhou completed the exchange of YUZHOU 6%'22 and 8.625%'22 on 18 Feb'22. Additionally, it also cured the missed coupon totaled USD41.2mn on YUZHOU7.375%'26 and 6.35%'27 before grace period expired on 12 Feb'22. It also cured the missed coupon totaled USD20.6mn on YUZHOU 6%'22 and 8.625%'22 before the grace periods expired on 22 Feb'22 and 24 Feb'22, respectively. We understand that Yuzhou is not working on another round of asset liability management for the time being and will monitor if Yuzhou will make a late payment of the coupon on YUZHOU 8.5%'23. That said, the missed coupon of USD21.25mn and inability to cure within grace period reflect that Yuzhou is facing acute liquidity situation.

As we wrote in our [comments on its exchange offer and consent solicitation dated 18 Jan'22](#), we expect further exercises of asset liability management are likely in view of tight liquidity and heavy repayment pressure. Yuzhou will have PPs of USD267mn due Mar'22, USD440mn due Jun'22 and USD150mn due Sep'22 in addition to USD115mn YUZHOU 8.5%'22 due Sep'22. In addition, it has offshore loan facilities of up to USD338.5mn which are subject to the cross-default of non-payment. It will also have coupon payment totaled USD21.9mn due within Mar'22, including (USD8.9mn on YUZHOU 9.95%'23 due today).

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

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

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

Issuer	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Henan Railway Construction Investment	USD	-	5	FPG T5+150	A2/-/-

### ➤ Onshore China conditions and color

- Regarding onshore primary issuances, there were 79 credit bonds issued yesterday with an amount of RMB73bn. As for Month-to-date, 404 credit bonds were issued with a total amount of RMB430bn raised, representing a 0.5% yoy decrease.
- **[CIFIHG]** further repurchases RMB70.4mn of 6.70% senior notes due April 2022
- **[EVERRE]** chairman of company has been told by the authorities not to attend key political meeting
- **[FUTLAN]** remits funds to repay RMB600mn bond puttable 9 March
- **[GERSP]** completes SGD86.9mn share placement
- **[GERLSP]** expects 1H22 EBITDA to more than double YoY on coal prices
- **[LOGPH]** Company's lynchpin domestic subsidiary Shenzhen Logan Holdings Co, Ltd aims to seek an extension on the 19 March put for its RMB1.51bn, 5.5% public bonds due-2024, said two holders, a credit market source briefed by one of the four underwriters of the tranche, and two holders of offshore bonds briefed by another underwriter

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