10 Mar 2022

CMBI Credit Commentary – CIFIHG

CIFIHG: Ping An Bank casted a vote of confidence

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

- **Recent price movements for CIFIHGs offer better entry opportunities**

  CIFIHGs were 16-25 lower over the past 4 weeks, partly reflected the weak market sentiment and partly reflected the vulnerability of high cash price bonds to EM fund outflow. That said, we are impressed with CIFI's ability to access various funding channels (equity, onshore bonds, onshore loans and USD bonds) in a very challenging market environment. In our view, Ping An Bank's strategic cooperation agreement to offer CIFI M&A loans is a confidence vote on the survival of CIFI. Furthermore, we believe that the risk of accounting issues will be low in view of Deloitte's assurance report in Dec'21 when CIFI conducted the rights offer. At current valuations, CIFIHGs offer better risk return profile for longer-term investors. We have Buy recommendations on CIFIHGs.

- **More M&A loans are possible**

  CIFI announced the strategic cooperation agreement with Ping An Bank which will offer RMB5bn (cUSD770mn) for property M&As. As per our discussions with CIFI, the M&A loans to be drawn down will be carved out from 3 Red Lines estimates and can be used for land acquisitions through M&As. The funding cost will be benchmarked with PBOC rate. The size of loans is relatively small from a M&A perspective, but this will strengthen CIFI's financial flexibility to continue the land replenishment required to support sales momentum. More importantly, this agreement reflects Ping An Bank's view that CIFI is a survivor of the sector. It is noteworthy to point out that Ping An Insurance is a shareholder of CIFI and holds a 6.6% stake In CIFI. We understand that CIFI is under discussions with other banks for M&A loans.

- **Ability to access different funding channels and manageable debt maturities in the near-term**

  CIFI has been able to access various funding channels even in a very challenging environment. In addition to M&A loans, CIFI completed rights issue to raise cUSD215mn in Dec'21. It re-tapped CIFIHG 4.45%'26 to raise USD150mn in Jan'22. CIFI is building the book for onshore 2+2 MTNs of RMB1bn. The indicative coupon rate is 3.5%-4.8%. CIFI's debt maturity is manageable. In FY22, the only remaining offshore public bonds are the dim sum bonds with o/s amount of cRMB1.5bn (cUSD230mn) due Apr'22. CIFI has just deposited funds for the repayment of RMB800mn due 21 Mar'22. CIFI does not have any onshore bonds maturing or puttable in FY22.

CMBI Fixed Income
fis@cmbi.com.hk

- **Risk of accounting issues in FY21 results should be low**

As discussed in our Asian HY corp outlook in Jan'22, we expect accounting issues such as change of auditors, qualified opinions, account restatements, etc. for Chinese property developers. That said, we believe that the risk is low for CIFI, taking comfort from Deloitte's assurance report in the offering circular for rights issue dated 6 Dec'21. A quick check on the offering circular, its total debt level as at 31 Oct'21 was largely the same as that of 30 Jun'21. CIFI will announce FY21 results on 24 Mar'21.

CMB International Securities Limited

Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.