

CMBI Credit Commentary

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

- *Weakness in PWRLNG puts a cap on the sector performance. PWRLNG further plunged 6-12 pts after its auditor resignation. COGARD down 1-2pt. CIFIHG broadly unchanged this morning. See below for the table of auditor changes and delay in publication of FY21 results.*
- **CIFIHG:** *An outperformer despite weaker FY21 result. Maintain Buy on CIFIHGs, Hold on CIFIHG Perps. See below.*
- **BTSDf:** *Relative value emerges at 86 mid-px, YTM~11%, despite weak FY21 result. We expect gradual deleveraging and successful refinancing of term loan to tighten its bond yield. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, Chinese HY space pulled back from recent rally, with benchmark names down 1-4pts. We saw market selling in some higher cash price names such as SINOCE (-4-6pts), COGARD (-2-3pts), CIFIHG (-1-2pts). PWRLNG also plunged 5-8pts on the back of auditor change news. The industrial space also turned slightly negative, FOSUNIs were unchanged to slightly down 1pt.

Chinese IG space also underperformed amid weak market sentiment. TMT names like TENCNT widened 2-5bps. WB spread also widened post news that it has been added to Holding Foreign Companies Accountable Act (HFCAA) watch list by SEC. Financial space generally widened 2-3bps, and AT1 space slightly pulled back.

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

CMBI Fixed Income
fis@cmbi.com.hk

➤ **Yesterday's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
LVGEM 12 03/10/23	48.0	7.7	PWRLNG 4.9 05/13/26	26.3	-8.8
JIAYUA 12 10/30/22	45.1	6.0	PWRLNG 7 1/8 11/08/22	42.5	-7.7
GRNLGR 5 7/8 07/03/24	50.6	4.5	PWRLNG 6.95 07/23/23	35.6	-7.3
GRNLGR 6 1/8 04/22/23	55.6	4.4	PWRLNG 3.9 04/13/22	85.4	-6.8
GRNLGR 6 3/4 03/03/24	50.5	4.2	PWRLNG 6 1/4 08/10/24	34.2	-5.9

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock market finished higher on Thursday, while oil prices steadied, and front-end Treasury bond yields edged up. The S&P (+1.43%), Dow (+1.02%), Nasdaq (+1.93%) closed higher. Another round of hawkish comments from U.S. Federal Reserve has consolidated bets on a 50 basis point rate hike at the central bank's May policy meeting. Treasury yield curve shifted upwards, with 1/5/10/30Yr yield reaching 1.55%/2.37%/2.34%/2.51%

➤ **Desk analyst comments 分析员市场观点**

➤ **CIFIHG: An outperformer despite weaker FY21 results**

Maintain Buy on CIFIHGs, Hold CIFIHG perps

CIFIHGs moved 7-13pts higher since our comments titled "CIFIHG: Ping An Bank casted a vote of confidence" on 10 Mar'22. That said, CIFIHGs remain 6-10pts lower than the levels at the beginning of Mar'22, partly reflected the vulnerability of higher cash price bonds to EM fund outflow. We remain impressed with CIFI's ability to access various funding channels (equity, onshore bonds, onshore loans and USD bonds) in a very challenging market environment. As we wrote before, Ping An Bank's strategic cooperation agreement to offer CIFI M&A loans is a confidence vote on the survival of CIFI. At current valuations, CIFIHGs still offer good value for longer-term investors. We have Buy recommendations on CIFIHGs and prefer '24s and '25s for a more balanced risk-return profile. At the same time, we have a Hold recommendation on CIFIHG perps as we believe that calling of the perps (callable starting 24 Aug'22) is not the company's priority in near term.

Weaker FY21 results and flat attributable sales in FY22 targeted

In FY21, CIFI's revenue increased 50.5% to RMB107.8bn, driven by 37% increase in GFA delivered. Its net core profit attributable to owners declined 9.2% to RMB7.3bn, reflected the lower gross margin (19.3% in FY21 vs 21.7% in FY20) and 66% decline in share of profit of JCE and associates to RMB713.8mn. CIFI guides a stable profit margin over the coming 1-2 years.

CIFI targets flat attributable contract sales in FY22, i.e., cRMB120bn. The attributable ratio for its contract sales in FY21 was c50%, and it expects the ratio is roughly the same in FY22. CIFI targets to raise the attributable ratio to 70%. Factoring into the attributable ratio for the gross saleable resources acquired in FY21 was only 13.1%, i.e. RMB26.9bn, we expect that CIFI can only raise the sales attributable ratio gradually over the medium term. CIFI has turned its focus to attributable instead of gross sales. It also targets to achieve an income growth of 30-40% p.a. from its asset-light businesses (property management, construction, etc.) to enhance core net profit growth and ROE.

From yellow to green camp under 3 Red Lines

CIFI managed to improve its key credit ratios, thanks mainly to the enlarged equity base (higher retained earnings and NCI). Assuming perps as debts, its net gearing, cash/ST debts and adj. liab/asset ratios were

65.9%, 2.6x and 69.7% as at Dec'21, compared with 71.4%, 2.7x and 72.5% as at Dec'20, respectively. CIFI moved to green from yellow under 3 Red lines. The company reiterated its discipline in fulfilling 3 Red Lines going forward. Regarding the concerns on NCI, 91% (in terms of NCI value) of its JVs are partnering with solid strategic and long-term investors such as China Merchants Shekou, Henderson Land, Hongkong Land, GIC and Jinmao. Only less than 5% of these projects are JVs with distressed developers. There are adequate cash at the project levels to complete the developments.

Manageable maturity profile

CIFI has been managing its ST debts/total debts at a low level (15.6% as at Dec'21 and 17.9% as at Dec'20). 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 does not have any onshore bonds maturing or puttable in FY22. We do not expect CIFI to call the perps (callable starting 24 Aug'22) at current market condition. As at Dec'21, CIFI had cash on hand of RMB46.7bn compared with its ST debts of RMB17.8bn. We understand that cash in escrow accounts was RMB16.7bn.

Please see our full note <https://www.cmbi.com/article/6532.html?lang=en>

➤ **BTSDf: Gradual deleveraging will be achievable. Buy with good relative value**

We see relative value in BTSDf now following its bond price correction of 15pts after its failed USD bond attempt in Jan'22. At BTSDf '24 (YTM~11%, 86-mid), we believe the current low bond price has reflected its higher leverage from acquisition and weak 2021 result. We expect H&H's successful refinancing of bridge loan in Sep'22 and its gradual deleveraging via operating cash flow, will help its bond yield to tighten, albeit gradually.

Operational challenge in 2021

Health & Happiness (H&H) saw operational challenge from low birth rate in China. FY2021 Sales +3% yoy to RMB 11.5bn but EBITDA fell 14%yoy to RMB 1.8bn. Net profit further declined by 55%yoy after write-down of one infant milk formula factory.

Rise in leverage from aggressive acquisition

By Dec'21, H&H's net debt rose substantially to RMB 7bn, from RMB 4.3bn at Dec'20, after an expensive Zesty Paws acquisition (USD 610mn) in Sep'21. This increased H&H's Net Debt/EBITDA to 3.8x, from 2.0x in 2020.

New bank loan for refinancing will be crucial given volatile offshore bond market

Management revealed at its annual result presentation that it has obtained internal credit approvals from certain banks for a new syndicated loan to refinance its bridge loan (USD 350mn due Sep'22 and USD 150mn due Nov'22). We believe H&H can successfully roll-over this bridge loan given its deleveraging track record via free cash flow from operation. The company recorded annual free cash flow of RMB 1.3bn – 1.4bn during 2019 – 2020.

Please see our full note <https://www.cmbi.com/article/6533.html?lang=en>

➤ **Chinese properties: Me too.... in delay**

Overnight, 4 more developers announced the delay in the publication of FY21 results. Powerlong, like Ronshine, replaced PWC with Elite Partners as the company's auditor. Powerlong will announce the unaudited FY21 results on 29 Mar'22 and audited FY21 results by 15 May'22. Greenland HK, Mingfa and Sansheng, on the other hand, will delay the publication of FY21 results but will announce unaudited FY21 results on 31 Mar'22. All 4 of them should be able to avoid share trading suspension.

Please see our comments titled "[Chinese properties: A stock-take on accounting issues so far](#)" for more discussions and click the link for developers originally audited by PWC.

Summary of accounting issues so far

Date	Developers	Accounting issues
26 Jan'22	Aoyuan	Replaced Deloitte with Shinewing. Board meeting on 21 Mar'22
27 Jan'22	Hopson	Replaced PWC with E&Y. Expected audited FY21 results to be released on 31 Mar'22.
25 Feb'22	Yuzhou	Replaced E&Y with UniTax. Board meeting on FY21 results on 31 Mar'22.
21 Mar'22	Evergrande	Delay in publication of audited FY21 results. No indication on the publication of unaudited FY21 results. Current shares trading suspension should be related to the account irregularities and delay in publications of FY21 results.
21 Mar'22	Ronshine	Replaced PWC with Elite Partners. Delay in publication of audited FY21 results and unaudited results to be released on 31 Mar'22.
21 Mar'22	Shimao	Delay in publication of audited FY21 results to on or before 30 Apr'22. Unaudited FY21 results to be released on 31 Mar'22.
21 Mar'22	Sunac	Delay in publication of audited FY21 results and unaudited results to be released on 31 Mar'22.
22 Mar'22	Kaisa	Delay in publication of audited FY21 results. No indication on the publication of unaudited FY21 results. Lengthy share trading suspension expected.
24 Mar'22	Powerong	Replaced PWC with Elite Partners. Delay in publication of audited FY21 results to on or before 15 May'22. Unaudited results to be released on 29 Mar'22.
24 Mar'22	Mingfa	Delay in publication of audited FY21 results and unaudited results to be released on 31 Mar'22.
24 Mar'22	Greenland HK	Delay in publication of audited FY21 results and unaudited results to be released on 29 Mar'22.
24 Mar'22	Sansheng	Delay in publication of audited FY21 results and unaudited results to be released on 31 Mar'22.

➤ **Modern Land: Requisite support for the RSA secured**

Modern Land secured over 75% of holders in principal amount to enter into RSA. To recap, Modern Land proposed to restructure its 5 existing USD bonds (total o/s cUSD1.3bn). Holders of every USD100 of its existing bonds will get USD1.7 upfront cash repayment and remaining USD98.3 in 5 tranches of new notes/bonds with maturities of 1-5 year(s). In addition, holders get RSA fee of USD0.2 if they consent to the restructuring plan on or before 21 Mar'22. The approval threshold for the restructuring plan is 75%. Please see our comments: MOLAND - Estimated recovery rate at 57-83% published on 28 Feb'22 for more detailed discussions on the restructuring plan.

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

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Gansu Provincial	250	3	4.9	4.9	-/BBB+/BBB+
Zhuzhou City Construction	400	3	4.6	4.6	Baa3/-/ BBB -

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

Issuer	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Knowledge City	USD	-	3	3.7	-/-/BBB

➤ **Onshore China conditions and color**

- Regarding onshore primary issuances, there were 81 credit bonds issued yesterday with an amount of RMB69bn. As for Month-to-date, 1543 credit bonds were issued with a total amount of RMB1533bn raised, representing a 19.3% yoy decrease.
- Sluggish China land sales to stress local governments and financing vehicles, according to Moody's
- **[CHJMAO]** China Jinmao unit sets 3.5% coupon for proposed RMB1.5bn notes
- **[FOSUNI]** onshore subsidiary Fosun technology raises RMB800mn via 180-day notes at 5.08%
- **[LOGPH]** Logan Group CCC- rating was withdrawn at company's request, according to S&P

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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