

CMBI Credit Commentary

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

- *Quiet Monday morning to start the week. CHINSC (+10-12pts) recovering to >65 level, vs low cash price LOGPH (+8-10pts) and AGILE (+6pts) back to >30s handle. KWGPRO down -1pt on rating downgrade following its delay to publish audited FY2021 results.*
- **Chinese Internet:** *Regulators proposed to change audit rules to avoid US delisting of Chinese companies. We prefer TENCNT free of this delisting headline risk. See below.*
- **China South City:** *Asset sales to a SZ SOE. Maintain Buy on CSCHCNs. See below.*

❖ Trading desk comments 交易台市场观点

Last Friday, Chinese HY space pulled back from recent rally. High quality names like CIFIHG/COGARD/FTLNHD slightly traded down following strong rebound previously. PWRLNG short end closed higher, notably its due Apr notes. YUZHOU slightly dropped after its announcement of event of default and appointment of financial advisor on a comprehensive offshore restructuring...EHOUSE' 22 fell after its exchange offer announcement.

Chinese IG market was quiet, with benchmark names slightly widened. TMT space generally widened 5bps, as five more Chinese firms were added to Holding Foreign Companies Accountable Act (HFCAA) watch list by SEC, including Baidu. In other sectors, however, we can still see better buying in some short-end curves.

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➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
HONGSL 9 7/8 08/27/22	29.1	11.9	EHOUSE 7 5/8 04/18/22	20.0	-4.1
PWRLNG 3.9 04/13/22	96.4	7.5	COGARD 6 1/2 04/08/24	79.8	-3.8
RSMACA 3 3/8 09/21/22	81.0	6.0	COGARD 7 1/4 04/08/26	74.1	-3.3
GRNLGR 6 1/8 04/22/23	72.5	4.5	COGARD 5.4 05/27/25	74.2	-3.0
RONXIN 8 3/4 10/25/22	41.0	4.2	COGARD 6.15 09/17/25	74.5	-2.8

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock market ended higher last Friday, after the worst quarterly performance for the S&P 500 in at least two years. The S&P (+0.34%), Dow (+0.40%), Nasdaq (+0.29%) closed higher. Global oil prices slipped lower, pulling U.S. crude fell below the \$100 per barrel mark, following President Joe Biden's historic move to release 180 million barrels from the Strategic Petroleum Reserve. The spread between 2-year and 10-year Treasury note yields, inverted for a third time last week following the US March jobs report, which showed fewer-than-expected new positions were added last month, but also a big decline in the headline unemployment rate, as well as rising wages, that indicated extended strength in the country's labor market. Treasury yield flattened with short-end strongly rose, and 1/5/10/30Yr yield reached 1.72%/2.56%/2.38%/2.44%.

❖ Desk analyst comments 分析员市场观点

➤ Chinese Internet: Regulators revised rules on audit regulations. Prefer TENCNT

CSRC revised draft rules last Saturday that withdrew a requirement that only Chinese regulators conduct on-site audit inspections of Chinese companies listed overseas. These changes were made to accommodate the new circumstances and developments concerning overseas securities listing and offerings, and that shows Chinese regulators have an open attitude in audit oversight cooperation.

In practice, CSRC states that when Chinese companies need to provide documents that contain state secrets and sensitive information, the burden of ensuring information security would fall on the Chinese companies. Chinese regulators also revealed that CSRC and SEC have held 3 online meetings since Aug 2021 to discuss the prospect of cooperating on audit regulations.

We will monitor US regulators' response to the issue, given their demand of total compliance with US audit inspections. Weibo, which was added to the SEC list on 23 Mar 2022, has until 13 April 2022 to submit its appeal. Baidu was also added to the SEC list on 30 Mar 2022, with deadline of its appeal on 20 April 2022. **We prefer TENCNT among Chinese Internet complexes given its sole HK-listing and hence is free from the US delisting risk.**

➤ China South City: Asset sales to a SZ SOE. Maintain Buy on CSCHCNs

China South City (CSC) entered into the sale and purchase agreement with Shenzhen International Holdings (43.5% owned by Shenzhen SASAC) to sell the logistic warehouse projects in Hefei and Zhengzhou to the latter for a consideration of RMB1.7bn. CSC sold its Xian logistic assets for RMB330mn last year. We believe that China South City will sell more logistic assets to shore up liquidity and speed up asset churn.

Since the announcement in Dec'21 of issuing new shares to SZCDG, a LGFV wholly owned by Shenzhen SASAC, to raise HKD1.9bn (cUSD245mn) for debt repayments, CSC has been forging a closer relationship with Shenzhen SOEs. On 16 Feb'22, CSC announced the strategic cooperation agreement with Pengcheng Zhixiang, a subsidiary of SZCDG to offer the information-based and intelligent park solutions for the 8 China South Cities. On 23 Feb'22, CSC entered into another strategic cooperation framework agreement with Shenneng Nanjing Energy for carrying out cooperation in rooftop distributed photovoltaic, carbon asset management, energy storage, contract energy management, etc. Shenzhen Nanjing Energy is a subsidiary of Shenzhen Energy which, in turn, is 43.91% and 25.02% owned by Shenzhen SASAC and Huaneng, respectively.

Regarding SZCDG's subscription of new CSC shares, there are 3 regulatory approvals required: 1) NDRC; 2) MOC; and 3) Anti-trust. The deal has already obtained the approvals from NDRC and MOC already. The company targets to secure the anti-trust approval in Apr'22 though the recent outbreak of COVID-19 cases in China may delay the process. That said, we believe that the anti-trust approval should be more of a matter of formality as the scale of CSC and the share subscription are relatively small, and should not create much concern on market manipulation. Upon the completion of this deal, SZCDG will become the largest and controlling shareholder of CSC. This will help CSC to resume the drawdown of onshore loan facilities, and notably improve CSC's financial flexibility. We maintain Buy on CSCHCNs.

➤ 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)
Yuyao Shunca Investment	USD	-	3	4	Baa3/-/BBB-
South32	USD	-	-	-	Baa1/BBB+/-
Korea Mine Rehabilitation	USD	-	5	-	A1/A/-
Kalyan Jewellers	USD	-	-	-	B2/B/-

➤ Market conditions and color

- Last Saturday, regarding onshore primary issuances, there were 10 credit bonds issued last week with an amount of RMB11bn. As for Month-to-date, 37 credit bonds were issued with a total amount of RMB48bn raised, representing a 38.3% yoy decrease.
- [CAPG] will announce progress on strategic restructure shortly

- **[CIFIHG]** controlling shareholders purchase USD 2mn of company's 4.375% senior notes due 2027, 4.8% senior notes due 2028 in secondary market
- **[EDU]** repurchases total USD 210.53mn of 2.125% bonds due 2025
- **[KWGPRO]** downgraded to B- on weak governance; ratings placed on CWN - S&P
- **[REDSUN]** further repurchases USD 142.202mn of 9.95% senior notes due 2022 in open market
- **[SUNAC]** Sunac onshore bondholders approve proposals including adjustment of repayment regarding 20Rongchuang01 bonds. Regarding the repayment proposal, once passed by shareholders, Sunac will repay 10% of principal on 15 May 22, and quarterly amortization from 30 Jun '22 to 30 Sep '23. The issuer also proposed credit enhancement, including guarantee from Sun Hongbin, pledging a 70% stake and proportional income in Qingdao Longyue Property etc.
- **[TQLTHI]** Tianqi Australia JV close to producing battery-ready lithium hydroxide

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