

CMBI Credit Commentary

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

- *Weaker sentiment this morning following overnight US equity. AT1 down 0.25pt, also long-end IG. GRWALL broadly unchanged.*
- ***TQLTHI:** Reiterate Buy on TQLTHI '22 at 96(mid), thanks to strong operating cash flow, progress on new bank loan and rising value of its 23.77% stakes in SQM which are worth USD 5bn. See below.*
- ***China Property:** Case study of Zhuzhou, Hunan, which has just released 19 stimulus property policies on 29 Apr. This lower-tier city property sales have been struggling since 2020, and local government's priority has always been ensuring project construction for home delivery. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, Chinese HY property space rebounded amid recovering market sentiment, as the Chinese Securities Regulatory Commission (CSRC) signalled to support developers' debt financings. Higher quality names outperformed, CIFIHG up 0.5-1pt and COGARD also up around 1pt on the back of news that its senior management bought RMB 40mn of onshore bonds. On the other hand, we also saw some underperformers like KWGPRO (-2-3pts) and SUNAC (-1-2pts).

Chinese IG market recovered after the FOMC meeting. Buying interest was mainly focused on front-end curves and benchmark names generally tightened 5bps. In TMT sector, LENOVO/HUAWEI tightened 5-7bps. The SOE sector remained stable though US SEC added over 80 companies to list of firms facing delisting risk. In financial sector, GRWALL saw front-end buying and continued to rise 0.25-0.5pt.

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
COGARD 5 1/8 01/14/27	68.0	2.9	GZFYRE 13.6 07/27/23	89.8	-11.7
AGILE 5 1/8 08/14/22	68.9	2.9	JIAYUA 11 02/17/24	31.4	-5.1
ZHLGHD 12 04/17/23	23.9	2.7	EHOUSE 7 5/8 04/18/22	26.1	-4.8
COGARD 5 5/8 01/14/30	64.7	1.6	KWGPRO 7 7/8 09/01/23	44.0	-3.7
COGARD 7 1/4 04/08/26	74.8	1.4	KWGPRO 6.3 02/13/26	33.0	-3.2

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stocks closed sharply lower on Thursday in an abrupt reversal from the rally in the previous trading session. Nasdaq recorded its biggest one-day decline since June 2020 and the largest U-turn since the start of the pandemic. The S&P (-3.56%), Nasdaq (-4.99%), and Dow (-3.12%) all plunged. Treasury yield slightly advanced, with the 1/5/10/30 yield reaching 2.08/3.01/3.05/3.15% respectively.

❖ Desk analyst comments 分析员市场观点

➤ TQLTHI: Buy on TQLTHI'22

Tianqi Lithium's strong operating cash flow and improved banking relationship has largely removed its USD bond refinancing uncertainty. Additionally, Tianqi's financial flexibility is notably strengthened by the rising value of its 23.77% stakes in SQM which are worth USD 5bn after 58% YTD share price increase. We reiterate Buy on Tianqi '22 (96 mid-px) and the bonds due Nov 2022 will be money good.

FY2021 results

In 2021, Tianqi's revenue grew 136%yoy to RMB 7,663mn and EBITDA expanded by 284% to RMB 4,645mn. When industry average lithium price tripled to RMB 121k/ton, Tianqi enjoyed the sharp rise in ASP because its lithium compounds and derivatives are mostly sell via spot contract (65% of Tianqi's revenue). Sale volume of such lithium compounds also increased 34%yoy. Thanks to strong EBITDA and debt repayment, Tianqi significantly deleveraged. (1Q2022RTM Gross Debt/EBITDA fell to 2.4x, from 24.8x in 2020)

Please see our full note: <https://www.cmbi.com/article/6754.html?lang=en>

➤ China Property Sector – What policy relaxation means for lower tier cities – Zhuzhou's case study

Multiple cities have released positive property relaxations (Figure 1). We would like to explore Zhuzhou, Hunan as a case study as it has just released 19 counts of stimulus property policies on 29 Apr, right after Poli-Bureau's meeting. This could be interpreted as a city under struggle and adamantly seeking to turn the tides around. Combined with promotion in ASP, we have seen slight improvement in Labor Day sales. However, to overturn this down cycle is difficult on the following reasons: 1) **Timing** can be viewed as late after its two leading local developers filed for bankruptcies. 2) **Net outflow of population** of 120K people from 2018-2021 (-3% from 2018-2021), representing roughly 50K units, 5mn sqm of GFA, equivalent to annual GFA sold in 2021. 3) **Government is struggling** to boost economy with other developers also tied up.

Zhuzhou has seen its property market cool down since 2019 with 8.6/6.8/6.9/5.7mn sqm GFA sold in 2018/19/20/21, representing +13.8%/-20.3%/+1%/-16.9% YoY respectively. Below we will walk through the major events that has transpired and caused the fall in Zhuzhou's property market and what will follow this fall:

- 2020 – The beginning signs of the tumble.** With overall property sales declining 20.3% YoY in 2019, Zhuzhou's largest local developer Zhuzhou Huachen began seeing liquidity issues in 2020. Through our channel check with Huachen's construction units, issues like unpaid development loans, unpaid private financing and un-settled project construction funds began surfacing as early as Oct 2020. This ended in a typical government bailout at the end of 2020 with Zhuzhou State-owned Assets Investment lending RMB500mn to Huachen to resolve its problems regarding migrant workers' wages and construction payment arrears. In contrast to expected property market pickup, after a national rebound in 1H21, the property market continued its downturn with overall sales only up 0.1mn YoY in 2020. The government can no longer bailout its largest developer – Huachen...
- 2021 – The tumble.** ...defaulted in 2021, entered into bankruptcy and restructuring process. After Huachen's default, Zhuzhou Granduer Group – second largest local developer in Zhuzhou (the first successfully restructured state-owned enterprise in the construction industry of Hunan, formerly known as Zhuzhou Construction Company) filed for bankruptcies twice in 2021 but were denied both times by the government. In addition, other nation-wide developers' projects in Zhuzhou failed to deliver, including that of Evergrande and Greenland, as well as some SMDs' projects. The events that transpired have all casted doubts and undermined homebuyers' confidence. Homebuyers began to demand sales on finished projects; construction units began to delay completion to guarantee fee collection; government platforms halted delivery on limited buyer interest. Zhuzhou's property market was in a standstill.
- 2022 – The aftermath and redemption. On Huachen:** The Company has brought in Jinke to provide brand support, project management, and capital injection. It also brought in China Huarong AMC and Zhejiang Jinhui Trust and began resuming approval process on land sales. Huachen chairman's equity investment in Sansure Biotech Inc. are also included as an asset in Huachen's restructuring. The shares can be realized and refinancing to provide financial guarantee for the resumption of project construction. All of the above measures are to prioritize filling the funding gap for the resumption and construction to ensure delivery. Through our channel check with local MOHURD, Huachen's projects will be fully resumed on the premise that they pass the safety and quality tests and meet the standards, subject to when the funds will be in place.

Please see CMBI Research Team's [full report](#).

➤ 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					

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 44 credit bonds issued yesterday with an amount of RMB53bn. As for Month-to-date, 107 credit bonds were issued with a total amount of RMB105bn raised, representing a 141.8% yoy increase.
- **[JD/TME/SINOPE]** US SEC added 88 Chinese companies on its provisional list that could be delisted from US stock exchange if they fail to comply with American auditing standards for consecutive 3 years, under the Holding Foreign Companies Act enacted in Dec 2020. These newly added companies include JD.com, Tencent Music Entertainment, Sinopec, VNET, NetEase, Pinduoduo, Bilibili, Sinopec, Trip.com. The provisional list has increased to 105 Chinese companies.
- **[GRNCH]** raises RMB1.5bn via offering of three-year MTNs to repay debts
- **[RSMACA]** in talks with major CMBS holders to manage upcoming June put
- **[SINOCE]** repurchases USD64mn of due-2022, USD3mn of due-2023 guaranteed notes issued by Mega Wisdom Global on open market
- **[WYNMAC]** gets financial covenant waivers from Bank of China on USD1.5bn equivalent syndicated revolver
- **[ZHPRHK]** obtains one-year extension on RMB153mn ABS due-8 May

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-6 under 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.