

CMBI Credit Commentary

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

- *Flows are firmer this morning across IG. LGFV and SOE perps saw increasing Chinese non-bank asset managers' enquiry. AT1 also saw better buyers, while long-end TMT saw buying from fast money. New Issue KORFGR 25 pulled back after opening at 5bps tighter from reoffer.*
- **JIAYUA:** *Missed coupon cured and potential sale of property management operations. Maintain Buy on JIAYUA. See comments below, and see also the comments on Datang Group's exchange offer and HAOHUA's withdrawal of the perps call.*
- **China Policy:** *Cabinet meeting launched new relief and pro-growth policies, including VAT refund to more sectors, social insurance cost extension and loan moratorium for SMEs.*

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❖ Trading desk comments 交易台市场观点

Yesterday, Chinese HY property space was mixed. PWRLNG curve got hit under sell pressure. We saw some Chinese real money selling interest due to mounting worries whether the company will be able to pay coupons due in July, and the PWRLNG curve traded down 5-6pts especially on the front end. For the slightly distressed names, SUNAC/ZHPRHK curve were generally down 0.5pt. On the other hand, we saw AGILE curve up 0.5-5pts after the company announced they had repaid in full on the HKD3.8bn debt. COGARD curve also traded up 0.5-3pts with good news of corporate events. Macau gaming sector rebounded, with MGMCHI/SJMHOL up around 2-3 pts.

Chinese IG market generally traded stable. In financial sector, NANYAN saw some buying interest from fast money. The SOE sector was broadly stable and benchmark names tightened 2-4bps. TMT sector performed mixed, but we saw slightly better buyer on the longer end.

➤ **Last trading day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
COGARD 7 1/4 04/08/26	74.1	5.1	PWRLNG 7 1/8 11/08/22	47.8	-6.8
WYNMAC 5 1/8 12/15/29	72.2	4.9	PWRLNG 5.95 04/30/25	28.0	-2.7
WYNMAC 5 1/8 12/15/29	72.2	4.8	PWRLNG 6.95 07/23/23	35.6	-2.6
WYNMAC 5 5/8 08/26/28	73.2	4.7	PWRLNG 6 1/4 08/10/24	31.6	-2.3
AGILE 5 1/8 08/14/22	84.3	4.3	PWRLNG 4.9 05/13/26	27.0	-1.9

❖ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stocks closed higher on Monday, helped by President Joe Biden's comments that China tariffs imposed by last administration are under review. The S&P (+1.86%), Nasdaq (+1.59%), and Dow (+1.98%) performed mixed. Equities have been volatile as investors assess the outlook for monetary policy, inflation and the impact of China's strict Covid policies on the global economy. The central parity of USD/ RMB surged 731 bps to 6.6756 on Monday and China will offer more than 140 billion yuan (\$21 billion) in additional tax relief. Treasury yields bear-flatten, with the 2/5/10/30 yield advanced to 2.65/2.88/2.86/3.08% respectively.

❖ **Desk analyst comments 分析员市场观点**➤ **Jiayuan: Coupon and sales of property management operations**

Jiayuan cured the coupon payment of USD12.08mn on JIAYUA 13.75%'23 as we confirmed with various sources. We expect the company to cure another missed coupon payment (USD12mn) on JIAYUA 12%'22 before the grace period to expired on 30 May'22.

Meanwhile, the media reported that Jinke Smart Services, 52.33% owned by Jinke, entered into a framework agreement to acquire Jiayuan's stakes in Jiayuan Services. Shares of Jiayuan and Jiayuan Services have been on trading halt since 18 May'22 while Jinke Smart Services has been on trading halt since yesterday.

We believe that the share pledge of 73.56% stakes in Jiayuan Services with Allied Group could be related to share sale. The valuation of the pledged Jiayuan Services shares is in the range of USD38mn (based on last close) – USD160mn (based on closing on 11 May'22, the date share pledged disclosed). We also believe that sales price may be fixed prior to the drastic share price decline though renegotiations of transaction price after the price action on 18 May'22 is possible. For the sake of discussions, assuming Jiayuan to sell the 73.56% stakes to Jinke Smart Services at the high end of the valuation, and the LTV of the share pledge of 25%, Jiayuan could obtain incremental cash inflow of cUSD120mn from the stakes sale after deducting share pledge financing of cUSD40mn.

Our take regarding the pledges of Jiayuan CBs and Jiayuan Services shares, as well as the potential sales of Jiayuan Services' stakes is Jiayuan's strong willingness to continue to honor payments. We believe that the current valuation of JIAYUAs reflected too much downside of a distressed exchange, and hence maintain buy on JIAYUAs.

➤ **China Policy: China launches new relief & pro-growth policies**

The cabinet meeting signaled further policy support to SMEs, individual business & difficult service sectors key for employment stability as well as to real estate, autos and infrastructure construction key for GDP growth. The policy signal is positive for market sentiment especially for stocks in consumer staples, real estate, autos and infrastructure construction. Currently, there are seven mixed factors to influence Chinese stocks: cheap valuation, downward pressure in earnings revision, Covid-zero policy, economic policy easing, US inflation & Fed tightening dynamics, Russia-Ukraine war & Sino-US conflict and possibility of financial crisis in some emerging markets.

- **VAT credit refund to benefit more sectors.** The cabinet extends value added tax (VAT) credit refund to more sectors with additional refund totaling RMB140bn. This will raise total tax cut & refund amount from RMB2.5tn to RMB2.64tn in 2022. The VAT credit refund is equivalent to providing an interest-free loan to enterprises and could improve their cash flow. Enterprises with large amount of input tax credit will benefit the most.
- **Social insurance cost relief for SMEs, individual business and targeted sectors.** The cabinet allows SMEs, individual business and certain difficult sectors (catering, retail trade, tourism service, transportation service, etc.) to postpone the payment of social insurance premiums until the end of this year. The deferred payment is expected to amount to RMB320bn this year. This policy will alleviate pressure for SMEs, individual business and related sectors as the epidemic and lockdowns have hurt them most and their survival is key for employment stability.
- **Special financing support to SMEs & individual business.** The state council calls for banks to double the special inclusive lending to micro business. Meanwhile, banks are required to allow SMEs, individual business, truck owners and households in financial distress to defer their principal and interest repayments this year under the loan contracts. For the truck loans made by the central state-owned truck companies, the principal & interest repayment will also be deferred for half a year and banks should provide financing support to related truck companies. China uses its banking system to relieve financial pressure for SMEs & individual business as they absorb over 80% of workers in the country.
- **Policies to restore supply chains.** The cabinet vows to restart factory and business and facilitate free flow of goods as soon as possible. The government promises to increase domestic and international passenger flights in an orderly manner. These policies will benefit the industries with supply chains disrupted by the lockdowns and air transportation service sector. But these policies are in conflict with the Covid-zero policy and the actual effects still need further observation.
- **Stimulus on auto, real estate and infrastructure construction to boost demand.** The state council guaranteed to reduce the vehicle purchase tax types of autos by RMB60bn or 17% of total vehicle purchase tax in 2021. The cabinet continues to support local governments to boost first-time and upgrading home purchase. The government also plans to start new projects in irrigation, transportation, old neighborhoods and underground integrated pipe gallery with more long-term credit support from banks.
- **Priority to increase energy supply & investment.** The cabinet attaches great importance to the security of energy supply. The central government requires local governments to take responsibility for increasing coal output and plans to start some new projects in energy production and supply. Since the Ukraine crisis, the Chinese government has paid more attention to the security of energy supply. In the short term, China will increase coal output. In the medium to long term, China will increase its investment in new energy production and supply.
- **Enhancement of social security network & welfare for the unemployed and low-income individuals.** The cabinet promises to provide more support to the unemployed and people in need. The government proposes to initiate a mechanism linking social assistance and security benefit with inflation

level in the country. This policy shows the central government focuses on helping people in need in order to keep social stability and meet their basic consumption needs.

Please see CMBI research team's full report [here](#).

➤ **Datang Group: Exchange offer**

Datang announced a well-expected exchange offer to effectively extend the maturity of DTGRHD 12.5%'22 to 31 May'23 from 6 Jun'22. Datang's exchange offer compares unfavourably with those of other developers. The exchange offer will have no upfront repayment, no incentive fee and no coupon step-up and no credit enhancement. Please see below for the summary of the offer.

Exchange for DTGRHD 12.5%'22 due 6 Jun'22

Incentive fee:	No
Upfront cash repayment:	No
New bonds:	100 in principal, a par-par exchange
New bonds maturity	31 May'23
Coupon of new bonds:	12.5%, same as that of existing bonds
Accrued interests:	Paid in cash, to be accrued up to settlement date (to be on or before 17 May'22)
Minimum acceptance level:	90%
Cross default carve-out:	Yes, default on hold-out of DTGRHD 12.5%'22 will not trigger the cross default of the bonds
Deadline	31 May'22

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

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Korea Credit Guarantee Fund	USD300	3	3.619	T+85	Aa2/AA/-
Haitong Securities	USD150	5	4	4	-/BBB/-
Zhongrong International Holdings	USD190	1	6.8	6.8	-/B/-

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

Issuer	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Chongqing Hechuan City Construction Group	USD	-	3	6.3	-/-/-
China Merchants Port Holdings	USD	-	-	-	Baa1/-/-
ICBC Hong Kong Branch	USD	-	3	T+85	A1/-/-
ICBC Singapore Branch	USD	-	3	SOFR+115	A1/-/-

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 72 credit bonds issued yesterday with an amount of RMB52bn. As for Month-to-date, 587 credit bonds were issued with a total amount of RMB604bn raised, representing a 6.7% yoy decrease.
- **[EDU]** repurchases total of USD228.785mn of 2.125% bonds due 2025 so far
- **[FWDGRP]** FWD Group to raise USD1bn via HK IPO in June
- **[HAOHUA]** ChemChina announces withdrawal of proposed redemption for all outstanding USD600mn 3.9% senior guaranteed perps on 2 June
- **[JINKE]** Jinke Property issuer rating lowered to B- from B+ and unsecured notes cut to CCC+ from B; ratings withdrawn - S&P
- **[PWRLNG]** Powerlong wavers on whether to exercise 26 June call of RMB500mn perps, USD bonds fall sharply
- **[SAWSST]** SSMS gets shareholder approval to pledge assets for up to IDR4.5tn syndicated loan
- **[SINBIO]** repurchases total EUR260.268mn of zero coupon CBs due 2025
- **[TPHL]** Time China obtains consent to add 2023 put options on two private tranches puttable in August
- **[XIAOMI]** Xiaomi's operating strains will not ease over the next few quarters – S&P

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