

CMBI Credit Commentary

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

- *Overall sentiment continue to be constructive this morning. In LGFV space, outright prices remain resilient amid higher rates. We still see buyers in CMHI'27, spread further tightened 1-2bps to T+119 level.*
- **CENCHI:** *Chairman to sell his 29.01% stakes and CENCHI to issue CBs to a wholly owned subsidiary of Henan government. Recommend Buy on CENCHIs. See below.*
- **JIAYUA:** *announced to sell Yancheng City project for RMB879mn yet company was served with two winding-up petitions and intend to defend vigorously. Meanwhile, holders has yet to receive the coupon on JIAYUA 12%'22.*

❖ Trading desk comments 交易台市场观点

Yesterday, Chinese IG space was firm, generally up 2-4bps with better buying interest. AT1/Perp names performed mixed. ICBC 3.2 PERP was still firm at 96 area. In SOE sector, SINOPE tightened 1-2bps, at its recent tight level. In TMT sector, beta names performed well, TENCENT/BIDU tightened 1-2bps and saw some two-way trading. In AMC sector, we saw GRWALL/CCAMCL trading stable around +0.5/-0.5bps.

Chinese HY property space generally underperformed amid weak market sentiment. The benchmark names saw some selling pressure from Chinese accounts. CSCHCN/CHINSC/KWGPPO down 5-8pts.

CENCHI/JIAYUA/TPHL down 1-2pts yesterday. This morning, CENCHI quickly traded up across the curve right after the news that its 29% stake shall be acquired by a LGFV wholly owned by Henan provincial government. RONXIN dropped 0.5-3.5pts. For the distressed names, GRNLGR rebounded 1pt, after its HK unit claimed to repay dollar bond due 3 Jun. In Industrial sector, EHICAR down 1pt. Macau gaming was broadly stable. WYNMAC/MGMCHI up around 0.5pt.

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➤ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
GRNLGR 5 3/4 09/26/22	40.5	5.6	CSCHCN 11.95 02/09/23	81.9	-5.2
JIAZHO 10 7/8 06/18/22	30.8	3.1	CSCHCN 7 1/4 11/20/22	84.5	-5.7
XINHUZ 11 09/28/24	87.3	3.0	KWGPRO 7 7/8 09/01/23	38.1	-5.7
XINHUZ 11 06/12/22	96.6	2.8	CSCHCN 10 3/4 04/11/23	80.6	-5.9
GRNLGR 5.6 11/13/22	39.1	2.6	CHINSC 5.95 09/29/24	51.4	-6.4

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stocks closed slightly lower yesterday, Treasury yields edged up following hawkish Bank of Canada statement and rising ISM Manufacturing PMI. The S&P (-0.75%), Nasdaq (-0.72%), and Dow (-0.54%) ended lower. Inflation continued to prompt Fed hawks and doves work together to cool prices. In China, Beijing ordered USD120bn line of credit for infrastructure projects to stimulate the economic contracted since April and Shanghai formally ended its two-month lockdown. Treasury curve bear flatten, with the 2/5/10/30yr yield up 8.5/9.9/6.2/1.1bps to 2.53/2.81/2.85/3.07% respectively.

❖ Desk analyst comments 分析员市场观点

➤ CENCHI: Buy on CENCHIs

State-owned background is a re-rating story, buy on CENCHIs

Central China (CENCHI) and its Chairman entered into a framework agreement with Henan Tongsheng Zhiye (HTSZY) for the chairman to sell his 29.01% stakes and for CENCHI to issue CBs of HKD708mn to the latter. If the CBs are fully converted, Henan Tongsheng Zhiye will own 40.8% stakes in CENCHI and become its largest shareholder. Henan Tongsheng Zhiye is wholly-owned by Henan Railway Construction & Investment Group Co. Ltd (HNRAIL, rated A2 by Moody's), which, in turn, is wholly owned by Henan government. We consider the state-owned background a re-rating story for CENCHI with HNRAIL's involvement to significantly improve CENCHI's funding access. While some investors are concerned of local government's willingness to support after the proposed maturity extension of Greenland, we would argue that for new and incoming local government shareholders as in the cases of China South City and CENCHI. If these new and incoming shareholders are not preparing to support, why would they have to go through all the hustle to become the major shareholders and risking their own reputation instead of cherry picking of the companies' most lucrative projects? The timeline for the definitive agreement of shareholding transfer and CB issue is on or before 1 Jul'22. That said, as per our discussions with the company, it is optimistic that the transaction can be completed with all necessary regulatory approvals and DD by the end of Jun'22. CENCHIs moved 20pts higher this morning with CENCHI 7.25%'23 being the outperformer. We still see another 10-15pts upside for CENCHIs, taking cues from the current valuation CSCHCNs. We recommend Buy on CENCHIs and see more upside for longer-dated CENCHIs.

Henan government will become the largest shareholder if CBs fully converted

	Existing shareholding	% shareholding	Upon share sale completed	% shareholding	If CBs fully converted	% shareholding
Total no. of o/s shares (mn)	2964.12		2964.12		3554.12	
Wo Po Sum	2078.04	70.11%	1218.04	41.09%	1218.04	34.27%
Henan Railway Construction & Investment			860.00	29.01%	1450.00	40.80%

Based on the framework agreement, HNRAIL, through HTSZY, will acquire 860mn shares at HKD0.8 per share, a premium of 23% over the last close of HKD0.65 per share. At the same time, CENCHI will raise HKD708mn (cUSD91mn) from issuing CBs to HNRAIL. The conversion price is HKD1.2 per share, a premium of 85% over the last close. The tenor of the CBs is 2 years and can be extended for another year subject to a mutual agreement. There will be no investor's put. The coupon rate is 5% and YTM is 9%, implying a redemption price of 108 at maturity. If the CBs are fully converted, HNRAIL will become the largest shareholder of CENCHI.

Who is Henan Railway Construction & Investment?

HNRAIL is a LGFV tasked with the development of Henan into a major railway hub in the central china region. It is the sole entity in Henan designated by the Henan government to invest in railways and is responsible for the investment, construction and operation management of railways in Henan. HNRAIL is rated A2 by Moody's and is wholly owned by Henan government. As at 30 Jun'21, it had total assets of RMB75.6bn and cash on hand of RMB3.1bn, compared with the aggregate value of RMB1.2bn in acquiring CENCHI stakes and CBs. We expect HNRAIL's shareholding to significantly enhance CENCHI's access to various funding channels. HNRAIL is also an issuer in the offshore USD bond market, HNRAIL 2.2% '25 is trading at a YTM of 4.0%.

Change of control triggered?

No. First, the shareholding is credit positive and we do not expect a rating decline as a result. Second, prior to the CBs conversion, the chairman will own 41.09%, well above the COC threshold of 30% and CENCHI will not be consolidated into HNRAIL.

How this compared with that of China South City?

As per our previous discussions with clients, Central China fits in the very strict criteria for developers to be "bailed out" by a local government given its relatively small size, highly concentrated in one province and importance to the local economy. Compared with China South City, CENCHI sells its existing shares owned by the chairman to HNRAIL, hence no shareholders' approval is required. The deal should be closed faster. Additionally, we believe that the backdrop for CENCHI's sales of stakes and CBs to HNRAIL to go through will be even more supportive as the Chinese government has turned more active in stabilizing the weakening economy and property market.

<https://www.cmbi.com/article/6855.html?lang=en>

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Taizhou Xintai Group (SBLC by Bank of Nanjing)	USD48	3	3.85	3.85	-/-

➤ **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 53 credit bonds issued yesterday with an amount of RMB39bn.
- **[DTGRHD]** Datang Group Holdings completes exchange offer for 12.5% due 2022; expects non-payment of interest on remaining non-tendered USD16.05mn notes
- **[JIAYUA]** Jiayuan to sell Yancheng City project for CNY 879m; company announced it is served with two winding-up petitions and will defend vigorously
- **[VANKE]** China Vanke pays RMB20.15mn for share repurchase
- **[VEDLN]** Vedanta proposes to issue rated, secured, redeemable, non-cumulative, NCDs aggregating up to INR41bn

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