

## CMBI Credit Commentary

### 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

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

**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

	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%

## 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.

*CMB International Securities Limited*

*Fixed Income Department*

Tel: 852 3761 8867/ 852 3657 6291

[fis@cmbi.com.hk](mailto: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

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.