CMBI Credit Commentary

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

- *Overall flow is light this morning but skewed to better selling in the front end papers. AT1 space like ICBCAS slightly hit down and SOE names also traded wider. FOSUNIs lower another 1pt after the 2 pts drop yesterday.*

- ***Macau Gaming:** The skeleton of the final draft of the Gaming Law is largely the same as the first draft in Jan'22. The key drivers for Macau gaming bonds, in our view, remains the COVID quarantine policy and visa approval for mainland travelers. See below.*

- ***CSCHCN:** consent solicitation for its 5 USD bonds. The major proposed amendments are to include SZCDG as a permitted holder and change the threshold of COC to 29.9% from 20.0%. Additionally, we expect the conclusion of Hefei asset sales and new loan facilities by end of Jul. See below.*

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

❖ Trading Desk Comments 交易台市场观点

Yesterday, Chinese IG space remained relatively quiet before the FOMC meeting. Markets was cautiously gauging and pricing in a 75 basis-point move. In financials, T2s tightened 2-4bps while AT1 prices dipped 0.125pt. In SOE sector, we saw some buying interest on the front and belly. HAOHUA tightened 5-10bps. In TMT sector, MEITUA/TENCNT tightened 4-6bps. In property sector, SINOCE'24s recovered 2-4pts but were still traded at 50s level.

For LGFV/SOE Perps, market was cautious. Chinese accounts paused buying but were content to hold on existing positions. In the LGFV space in particular, home bids seem to remain a strong technical driver.

Chinese HY space was mixed. FOSUNI down around 2pts upon the open following Moody's rating on review for downgrade, but then resumed some losses as we saw some dip buying and short covering interest. Among benchmark names, COGARD/CIFIHG up 1-3pts. CSCHCN down around 2pts. For the distressed names, SUNAC/KWGPRO up 0.5-1.5pts. In Macau gaming sector, WYNMAC gained 0.5-1.5pts after the casino operator claimed to obtain USD500mn loan facility from parent company.

CMBI Fixed Income
fis@cmbi.com.hk

Last Trading Day's Top Movers

Top Performers	Price	Change
ZENENT 12 1/2 04/23/24	**57.9**	**4.2**
COGARD 4.8 08/06/30	**49.1**	**3.9**
COGARD 8 01/27/24	**70.2**	**3.5**
MOLAND 9.8 04/11/23	**19.2**	**3.4**
COGARD 5.4 05/27/25	**58.9**	**3.4**

Top Underperformers	Price	Change
FOSUNI 5.05 01/27/27	**77.7**	**-4.8**
CSCHCN 11.95 02/09/23	**77.2**	**-4.7**
CSCHCN 10 7/8 10/26/22	**81.5**	**-4.5**
CSCHCN 10 3/4 04/11/23	**75.2**	**-4.4**
FOSUNI 5 05/18/26	**80.1**	**-3.9**

Macro News Recap 宏观新闻回顾

Macro – U.S. stock market rebounded on Wednesday following the Fed's less hawkish statement that it did not expect outsized rate hikes to be a "common" tool going forward. The S&P (+1.46%), Nasdaq (+2.50%), and Dow (+1.00%) ended higher. Besides hiking the key lending rate by 75bps, the Fed also forecast its domestic GDP growth to slow to 1.7% this year compared with a 2.8% expansion projection in March. Treasury yield pulled back, with the 2/5/10/30 yield retreating to 3.20/3.38/3.33/3.39% respectively.

Desk Analyst Comments 分析员市场观点

Macau Gaming: Not much surprise in the final draft

The skeleton of the final draft of the Gaming Law is largely the same as the first draft in Jan'22. The keys such as maximum 6 concessionaires and concession terms of up to 10+3years remain unchanged. If there are any subtle changes from the first draft more noteworthy, we would highlight that concessionaires need to maintain their net asset value of at least MOP5bn throughout the concession period, in addition to cash capital requirements of MOP5bn (Article 17). Another change is on levies for public good which change to 5% from not exceeding 5% while Macau CE can waive or lower the levies if concessionaires can contribute to attract more overseas patrons (Article 22). These subtle changes imply that total gaming tax and levies could reach 40% (35% gaming tax+5% levies) from the current level of 38-39%. The final draft will have the second and final read in Legislative Assembly by 26 Jun'22. The regulatory uncertainties regarding concession renewal is dwindling. That said, the key drivers for Macau gaming bonds, in our view, remains the COVID quarantine policy and visa approval for mainland travelers. The recently relaxed quarantine period 10+7 remains a big challenge for Macau gaming sector as the average stay of Macau tourist is only 1.6 days.

CSCHCN: Consent Solicitation and refinancing updates

China South City (CSC) solicits consents for its 5 outstanding USD bonds. The major proposed amendments are to include SZCDG as a permitted holder and change the threshold of COC to 29.9% from 20.0% after SEZCDIH, a wholly owned subsidiary of SZCDG, acquired new shares equivalent to 29.28% of CSC's enlarged capital for HKD1.9bn (cUSD245mn). The new shares subscription was completed on 16 May'22. Subsequent to this, SEZCDIH has become CSC's largest shareholder and CHENG Chung Hing's stakes was diluted to 20.16%. Currently, the 2 permitted holders control a total of 49.44% stakes in CSC. We consider the consent solicitation a formality after the major shareholding changes, and the changes are positive for bondholders, especially the permitted holder included is SZCDG (instead of SEZCDIH) which has a closer to Shenzhen SASAC. The consent fee, albeit small, a free lunch, in our view.

Summary of the consent solicitation

Consent fee	0.05 per 100
Threshold	75% in principal amount
Expiration date	28 Jun 2022

Separately, the sales of logistic assets in Hefei for RMB1.7bn (cUSD250mn) is expected to be completed by Jul'22. We understand that CSC and SZCDG are working together to finalize onshore loan facilities. We expect to see more details on the new loan facilities over the coming weeks. These, coupled with proceeds from equity injection of cUSD245mn) from SZCDG, should notably enhance CSC's ability to repay USD bonds maturing in 2H22 (USD348mn due Aug'22, USD346mn due Oct'22 and USD276.5mn due Nov'22). We have Buy recommendations on CSCHCNs.

- **GRNLGR: Results of maturity extension and consent solicitation**

Greenland Holding announced the results of its consent solicitation for GRNLGR 6.75%'22 due 25 Jun'22 to extend maturity to 25 Jun'23 and obtain covenant waiver of event of default relating to this proposed amendments. Consent represented more than 66% of the outstanding principal amount and company will proceed to extend the maturity and make payment of consent fee, upfront cash repayment as well as accrued interests.

As mentioned in our Daily on 27 May, management indicated that the maturity extension is due to short-term liquidity issue triggered by lock-down in Shanghai and they expect to repay the outstanding bonds due in 2H22 when they fall due. However, we have reservation over Greenland meeting its maturities in 2H22 as the company only expects to receive cUSD200mn from cash collection overseas in 2H22, and there is high uncertainty over property sales recovery in China. We see a high chance of maturity extension for GRNLGR 5.75%'22 due Sep'22.

Please see more details in our Daily on 27 May

- **COGARD: Tender offer of COGARD 4.75% 07/25/22**

Country Garden announced tender offer to purchase COGARD 4.75% bond (o/s USD683.4mn) due on 25 Jul'2022 at par. As the maturity is close and purchase price is at par, we believe this offer is a gesture from the company in response to the recent tumble in bond price.

Please see below for the key terms of the tender offer.

Offer for COGARD 7.75 07/25/22	
Purchase Price	100%
Expiration Deadline	22 Jun'22
Settlement Date	24 Jun'22

- **Chinese economy in a gradual resumption cycle**

China's economy has started to resume gradually in May amid factory restart and macro policy loosening. 2H22-1H23 will see a resumption cycle as the GDP is expected to increase by 4% in 3Q22 and 5% in 4Q22 after decreasing 0.2% in 2Q22. But the pace of resumption should be much slower than in 2Q20-2H20 due to the zero-COVID policy, weak confidence and policy tightening with downside risks in global economy. China is ahead of the US in the latest cycle as the Chinese economy is in a resumption cycle with policy easing while the US economy faces downside risks with policy tightening. Such a divergence in the business cycle for China and the US indicates Chinese stock market may outperform the US market in the next few months.

- **Economy slowly resumed amid factory restart and macro policy loosening.** After the economic collapse in April, China took great effort in May to restart freight logistics and supply chain activities. Some factories were in reopening to deliver the delayed orders and resume supply chains. The value added industrial output (VAIO) rose 0.7% YoY in May after dropping 2.9% YoY in April. However, population mobility remained low as lockdowns continued in most communities in a few cities. Service output index dropped 5.1% YoY in May, compared to the YoY decrease of 6.1% YoY in April. Catering revenue continued to drop sharply by 21.1% YoY in May after decreasing 22.7% in April.

- **Consumption improved yet consumer confidence remained weak.** The lockdowns in April severely hurt employment, income, confidence and outdoor activities. As the economy started to resume gradually, consumption slowly improved. Retail sales declined 6.7% YoY in May after dropping 11.1% YoY in April. Staples picked up as food, beverage, alcohol & tobacco product and medicine respectively rose 12.3%, 7.7%, 3.8% and 10.8% in May, compared to 10%, 6%, -7% and 7.9% in April. Most durables saw narrowing YoY declines as communication equipment and autos declined 7.7% and 16% in May after dropping 21.8% and 31.6% in April. But home appliance further deteriorated and furniture saw limited improvement as housing sales continued with sharp declines.

- **Property market continued to slump with mild improvement.** Gross floor area (GFA) sold for commodity buildings dropped 31.8% YoY in May after declining 39% YoY in April. GFA started for buildings and land area purchased respectively plummeted 41.8% and 43.1%, compared to the YoY declines of 44.2% and 57.3% in April. Average sales price for commodity buildings dropped 8.7% YoY in May after decreasing 12.6% YoY in April. Total funding source for property development investment dropped 25.8% in 5M22 after declining 23.6% in April. Property development investment moderately improved as it declined 7.7% in May after dropping 10.1% in April.

- **Mining, infrastructure & health service investments remained strong.** Total urban fixed asset investment (FAI) picked up 4.7% YoY in May after rising 2.3% YoY in April. The YoY growth of FAI in manufacturing slightly improved from 6.4% to 7.1%. Mining, public utility, water conservancy China Economy In a gradual resumption cycle 16 Jun 2022 PLEASE READ THE ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ON LAST PAGE 2 management and health & social welfare services maintained strong FAI as their YoY growth rates reached 17.3%, 11.5%, 11.8% and 28.1% in May.

- **China's economy is in a gradual resumption cycle in 2H22-1H23.** The worst time has been over as China's economy is in a gradual resumption cycle in 2H22-1H23. China has loosened virus control as the epidemic condition has improved. The policymaker has eased macro policy to support the growth. But the zero-COVID policy, weak confidence and global economic slowdown may restrain the resumption pace of China's economy.

Click here for full report.

➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Yangzhou Jiangdu Yanjiang Development (SBLC by China Zheshang Bank)	USD30	3	3.2	3.2	-/-/-

➢ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Linyi Investment Development (Tap of LYINDE 4.5 03/30/25)	USD	-	3	5.6	-/-/-
Korean Western Power	USD	-	3/5	-	-/-/-
Kunming Traffic Investment	USD	-	366 days	7	-/-/-

➢ Market Conditions and Color

- Regarding onshore primary issuances, there were 79 credit bonds issued yesterday with an amount of RMB78bn.
- **[GRNCH]** Greentown Property Group proposes to offer up to RMB2bn medium-term notes
- **[SKYFAM]** Skyfame Realty to face unprecedented liquidity pressure; If the company fails to reach a timely resolution with its creditors, it may result in the acceleration of relevant financial obligations and may lead to cross-default of certain debts
- **[ZHLGHD]** Fitch withdraws the rating of Zhongliang Holdings Group as the company has chosen to stop participating in the rating process

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

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-6under 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.