

CMBI Credit Commentary

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

- *China IG space widened 2-5bps at one point but paired some losses into noon. Among new issues, NWDEVL'27 was the best performer (25bps tighter) while KYOBOL and NWDEVL Perps opened higher but soon back to RO with profit taking selling. ON HY, CSCHCNs were 0.5pt higher after the refinancing news. We expect more details on refinancing in the coming weeks. We have buy recommendations on CSCHCNs.*
- **COGARD:** *IG status at risk but current valuation but current valuations of COGARDS have more than priced in 1-2 notch(es) downgrade to high-mid BB. We have buy recommendations on COGARDS. For shorter-dated plays, we prefer COGARD 4.5%'23, the CB which, offered at 80, is trading at a YTM at 21%. See below.*
- **INDYIJ:** *Launched a capped tender offer for its due 2024 and 2025 USD Notes. We see the tender offer not particularly attractive. INDYIJs are 0.5-1pt higher. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, Chinese IG space was firm, and generally up 2-4bps. In Financial space, Chinese banks continued to show demands in some SOE names, mostly on front end papers. Tier 2/AT1 were relatively quieter. CMHI traded another 4-6bps tighter on the day. In SOE sector, benchmark names tightened 5-10bps. TMT high-beta names tightened 7-10bps on the long end and saw some two-way trading. AMC space was mixed. HRINTH/CCAMCL up 0.5-1pt. For other names on Wednesday, we saw INDOIS 27/32 continued to open higher on cash price despite the fact that UST yields indeed are still holding up at recent high levels, at 101.25 and 101.625 respectively.

HY property space continued to trade softer with limited flow. CENCHI was up 1-3pts. GRNLGR'22 continued the recent gains to be up as much as 1.5-3pts with retail accounts buying. LVGEM curve was up 10pts on Wednesday morning after the developer announced China Vanke has conditionally agreed to inject RMB2.3bn into its Shenzhen urban-renewal project. On the flip side, COGARD opened down 0.5-1pt yesterday after Fitch placed its rating on Negative watch. CHINSC was down 2-4pts after its contracted sales in May printed low amid weak sentiment. Among the distressed names, TPHL/PWRLNG down 2-3pts. Macau gaming sector was slightly higher.

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➤ **Last Trading Day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
LVGEM 12 03/10/23	68.4	8.2	ZENENT 12 1/2 09/13/22	60.8	-7.3
CENCHI 7.9 11/07/23	57.5	5.5	CHINSC 7 3/8 04/09/24	40.1	-5.7
CENCHI 7 1/4 08/13/24	48.3	4.6	CHINSC 5.95 09/29/24	39.2	-4.2
CENCHI 7 1/2 07/14/25	47.7	4.6	TPHL 6.6 03/02/23	40.6	-4.2
CENCHI 7 3/4 05/24/24	49.1	4.5	PWRLNG 6.95 07/23/23	20.0	-3.1

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stocks finished lower amid mounting stagflation concerns. The S&P (-1.08%), Nasdaq (-0.73%), and Dow (-0.81%) fell a little, amid the news that OECD slashed both its U.S. and global growth forecasts on Wednesday. US Treasury Secretary Janet Yellen said the Biden administration is looking to “reconfigure” tariffs imposed on Chinese goods, though it was “no panacea” for easing inflation. Treasury saw uniformly sell-off, leaving yields around 5bps up across the curve, with the 2/5/10/30 yield advancing to 2.78/3.03/3.03/3.18% respectively.

❖ **Desk analyst comments 分析员市场观点**

➤ **COGARD: IG status at risk**

Fitch put Country Garden's ratings on negative watch. This is the second negative rating action over the past 2 weeks. Currently, Moody's and Fitch are reviewing COGARD's Baa3 and BBB- senior unsecured ratings for downgrade. COGARD could lose its IG status over the coming 3 months. S&P rates COGARD at BB+. Despite the risk of losing IG status, we continue to take comfort from its ability. COGARD was recently selected to be one of the few developers to issue onshore bonds with credit risk mitigation tool. On 21 May, COGARD completed a 3-yr (1+1+1) onshore bond issue of RMB500mn with CDS (of RMB100mn) at a coupon rate of 4.5%.

COGARDs are 1pt lower after the negative action. While we expect some volatility in bond prices in view of the potential selling from IG mandates, we believe that the current valuation of COGARD have more than priced in 1-2 notch(es) downgrade to high-mid BB. We believe the current valuations of COGARDs offer decent value for longer-term investors, factoring in our belief that COGARD will be a “survivor” of the sector. For shorter-dated plays, we prefer COGARD 4.5%'23, the CB which, offered at 80, is trading at a YTM at 21%.

➤ **INDYIJ: Tender Offer for due 2024 and 2025 notes**

Indika launched a tender offer for INDYIJ 5.875 2024 and INDYIJ 8.25 2025 USD notes, subject to maximum acceptance amount of USD200mn and USD50mn, respectively. INDYIJ'24 and '25 were 0.5-1pts higher and are offered at 100 and 102, respectively after the launch of tender offer. We see the tender offer not particularly attractive.

The repurchase price will be determined by Modified Dutch Auction Process, with the acceptable price range below:-

	At or prior Early Tender Deadline (22 Jun'22)	Early Tender Payment	At or prior Expiration Deadline (7 Jul'22)
2024 Tender Offer	USD 97.75 – USD 100.75	USD 5	USD 92.75 – USD 95.75
2025 Tender Offer	USD 100.25 – USD 102.5	USD 5	USD 95.25 – USD 97.5

Holders who tender before Early Tender deadline and accepted for repurchase notes will receive USD 5 per USD 100 principal amount of 2024 Notes and 2025 notes validly tendered. The early tender payment is included in the tender offer consideration determined by the above Modified Dutch Auction. The acceptance amount is prioritized over early tender, i.e. if this Tender Offer is fully or oversubscribed at its Early Tender Deadline, Indika will only purchase the Notes validly tendered at or before the Early Tender Deadline, subject to acceptance proration.

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Shandong Guohui Investment	USD500	3	4.7	4.7%	-/-/BBB+
Qingdao Jiaozhou Bay Development Group	USD300	3	4.9	4.9%	-/-/-
New World Development	USD200	5	5.875	T+290	-/-/-
New World Development	USD500	Perp NC3	6.15	6.15%	-/-/-
Xinjiang Transportation Construction Investment	USD70	3	5.80	5.80%	-/-/-

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

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Lianyungang Port Group	USD	-	3	5.30%	-/-/BBB
Shandong Hi-Speed Group	USD	-	3	4.60%	A3/-/A
Bank of China Frankfurt Branch	USD	-	3	T+65	A1/A/A

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 71 credit bonds issued yesterday with an amount of RMB93bn. As for Month-to-date, 724 credit bonds were issued with a total amount of RMB760bn raised, representing a 4% yoy decrease.
- **[CSCHCN]** China South City lays out refinancing plan for USD bond maturities totaling around USD1bn due in the remainder of 2022
- **[JIAYUA]** Jiayuan Chairman Shum Tin Ching hit by a recovery suit in Hong Kong over USD50mn loan from Boyu-linked entity
- **[SHIMAO]** Shimao sounded a weakened term extension proposal for three offshore syndicated loan facilities, bilateral offshore loans and USD bonds due or puttable in 2022, calling for the debt to amortize over 2024 and 2025

- **[VNKLE]** Vanke Real Estate (Hong Kong) issued RMB510mn 3.55% dim sum bonds due 2025 with a keepwell agreement from China Vanke
- **[VEDLN]** Vedanta pledges 5.77% stake in Hindustan Zinc for INR80bn term loan (USD1.03bn)

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