

CMBI Credit Commentary

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

- *China HY continued negative sentiment. SUNAC front-end opened in strong tone but soon dragged down 2-4pts. Names hit down heavily yesterday like ZHPRHK/REDSUN further marked down 2-4pts this morning while other names generally down 0.5-2pts.*
- *YUZHOU: Yuzhou proposed an exchange offer for two bonds due 23 Jan'22 and 25 Jan'22, and consent solicitation for remaining offshore bonds (except Perps) to carve out cross default terms. See below for more.*
- *SUNAC: 452mn new share placement at HKD10 (8.3% of enlarged shares), raising HKD4.52bn (cUSD580mn). SUNAC is the most active developer in equity fund-raising to show resolve for debt repayment, despite its market cap lowering to HKD59bn (cUSD7.5bn) and controlling shareholder's stake diluting to 38.75%. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, China HY property space remained weak with sentiment skewed to selling. Names such as TPHL/ZHPRHK were impacted and fell 3-10pts. Other names like AGILE/CHINSC/REDSUN/PWRLNG also down 3-5pts. In addition, industrial names such as FOSUNI/WESCHI also saw selling and ended 0.5-1pts down.

IG market continued to trade soft, benchmark spread widened 1-3bps for the day. In SOE sector, names like HAOHUA/SINOPE saw demands on short end papers. TMT names such as TENCNT/BABA were skewed to better selling with spread 1-2bps wider. Besides, spread on SFHOLD 10Y taps continued to widen to T10+168.

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➤ **Yesterday's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
SUNAC 7 1/4 06/14/22	69.4	2.3	ZHPRHK 6 1/2 09/01/22	54.3	-11.9
MEITUA 0 04/27/28	93.9	2.1	ZHPRHK 7.35 02/05/25	49.3	-10.0
MEITUA 0 04/27/27	95.0	2.1	ZHPRHK 9.15 05/06/23	52.2	-9.3
WYNMAC 5 1/8 12/15/29	90.5	0.9	ZHPRHK 7 7/8 04/14/24	51.2	-9.1
GWFOOD 3.258 10/29/30	75.1	0.9	ZHPRHK 6.7 08/04/26	49.3	-8.9

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stocks continued to close higher yesterday though the consumer-price index in December 2021 rose 7% and marked the fastest in pace in nearly 40 years. The S&P advanced (0.3%), Nasdaq (0.2%), Dow (0.1%). In addition, U.S. Treasury yield curve flattened slightly last night. The yield on the benchmark 10Y Treasury note fell to 1.74%. The 1Y yield rose to 0.48, while 5/30Y yields dropped slightly to 1.50/2.08% respectively.

➤ **Desk analyst comments 分析员市场观点**

➤ **YUZHOU: Exchange and consent solicitation**

The Exchange

Yuzhou proposed an exchange offer for YUZHOU 8.65%'22 (o/s USD242.069mn) and 6%'22 (o/s USD340mn) due 23 Jan'22 and 25 Jan'22, respectively. As per the exchange offer, holders of YUZHOU 8.65%'22 and 6%'22 will be repaid 5 pts in cash, 1pt in incentive cash and exchange 95 pts in principal amount into new notes of which the coupon rate is 7.8125% and maturity date is on 21 Jan'23. The exchange is conditional upon the tender of 90% or above in principal amount of each of YUZHOU 8.65%'22 and 6%'22. The terms of exchange is largely in line with the recent exchange offers by some of its smaller industry peers.

Summary of the exchange of YUZHOU 8.65%'22 and 6%'22

- Upfront repayment: 5pts
- Incentive Cash: 1pt
- Accrued interest: to be paid on original maturities
- New notes: 95pts in principal amount
- Coupon of new notes: 7.8125% (vs. 8.65% and 6% of the existing bonds)
- Maturity of new notes: 21 Jan'23 (vs. 23 Jan'22 and 25 Jan'22)
- Minimum acceptance amount: 90% in principal amount of each of the original bonds
- Deadline: 19 Jan'22

Maturity extension longer than expected

The exchange is not too surprising in view of the distressed valuations of YUZHOUs. That said, 1-year maturity extension is longer than we originally expected. This could reflect that Yuzhou may have significant repayment requirements over the next few months, and the company needs more time to complete asset disposal plans and drawdown operating loans obtained. Recalled that Yuzhou entered into the framework agreement to sell its residential property management operations to China Resources Mixc (1209 HK) for cRMB1bn on 5 Jan'22, and Yuzhou expects the transaction to be completed in mid-2022.

The consent solicitation

At the same time, Yuzhou solicits the consent to amend terms of the remaining YUZHOUs (except the perps, o/s totalled USD4.9bn) to carve out the default of YUZHOU 8.65%'22 and 6%'22 will trigger cross default. The approval threshold is 50% in principal amount of each of remaining YUZHOUs (except the perps) and consent fee is 0.25pt. The consent deadline is also on 19 Jan'22. Consent solicitation like this is increasingly the norm for exchange offers to minimize hold-out.

Summary of the consent solicitation

- Consent fee: 0.25pt
- Consent threshold: 50%
- Deadline: 19 Jan'22

<https://www.cmbi.com/article/6261.html?lang=en>

➤ SUNAC: New share placement to raise HKD 4.52bn

Sunac announced 452mn new share placement at HKD10 (15.3% discount to closing price yesterday), representing 9.05% of existing shares/8.30% of enlarged shares. The gross proceeds will be HKD 4.52bn (equivalent to cUSD 580mn) and c50% will be used for general corporate purposes and c50% for repayment of loans.

SUNAC has been the most active developer in equity fund-raising to show resolve for debt repayment. Recalled that Sunac placed 335mn shares for total proceeds of HKD 5.09bn (equivalent to cUSD 653mn) in Nov'21. Over the Sunac's (1918.HK) share price has dropped almost 60% over the last 6 months with market cap decreased to HKD59bn (based on closing price yesterday). Controlling shareholder's ownership will be diluted to 38.75% after the placement.

On a separate note, Sunac has resolved a dispute related to asset-freeze order by Shenzhen court, according to media.

➤ DAFAPG: Successful consent solicitation and extension of exchange offer deadline

Dafa extended DAFAPG 9.95% 2022 exchange offer deadline for 1 day to 13 Jan 2022 4pm (London Time). Recalled that the minimum acceptance amount for exchange offer is 90% and the consideration includes 4% principal + 1% cash + 96% new notes due Jan'22. Meanwhile, Dafa secured the consent from more than holders of over 50% in principal amount to carve out DAFAPG 9.95% 2022 from triggering the cross default of its other bonds due 2022 and 2023.

➤ Offshore Asia New Issues (Priced)

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
	USD 400	5	2.75%	2.896%	Baa1/-/BBB+
CCTHK 2021	USD 300	3	2%	2.336%	Baa1/-/BBB+

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

Issuer	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ **Onshore China conditions and color**

- Regarding onshore primary issuances, there were 83 credit bonds issued yesterday with an amount of RMB87bn. As for Month-to-date, 560 credit bonds were issued with a total amount of RMB586bn raised, representing a 9% yoy increase
- **[CIFIHG]** says USD 239.983mn of 5.5% senior notes due 2022 remains outstanding following completion of tender offer
- **[SHIMAO]** in talks to sell Bund land worth RMB 1bn
- **[ZHPRHK]** Shanghai Exchange terminates Zhenro Properties ABS application

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