Fixed Income
Credit Commentary

6 Jan 2025

Asia Credit Outlook 2025

To cut or not to cut, that is the question…. haunting FED… and us

Executive Summary

Technical continues to be supportive in 2025

In 2024, ACIG and ACHY returned 4.6% and 15.1%, respectively, thanks to the rate cuts in the US, improving market sentiment on the expectation of China's more forceful supportive measures and strong market technical. While we believe that repeating the performance in 2024 is challenging, we remain constructive on Asian USD bonds, mainly because of the positive market technical, especially the sustained onshore "demand". Fundamentally, we are facing slowing growth in major economies and a potential trade war but these concerns will be somewhat tempered by the stimulus measures in countries like China and Indonesia, and moderating default rate. Valuation-wise, the credit spreads of both IG and HY are tight by historical standard but not as unappealing on yield terms. We continue to see Alpha and spread compression opportunities for improving credit stories.

FFR to cut 50bps in 2025 but the rate movement to be choppy

CMBI economic research maintained the view that the US Federal Reserve (FED) will cut Fed Fund Rate (FFR) by 50bps in 2025 and another 50bps in 2026, in line with the projections released by FED on 18 Dec'24. At the time of writing, the "Trump trades" appear to have overshot, we expect the 10-year UST to decline from 4.6% at the end of 2024 to 4% at the end of 2025 and 3.75% at the end of 2026. We expect the US dollar index to weaken from 108.5 at the end of 2024 to 104.5 at the end of 2025 and 102 at the end of 2026. That said, the rate and currency will not move in straight lines. We expect a choppy rate environment as details of Trump's inflationary policies, as well as economic and employment figures unfolding.

Net redemptions to shrink, if not reverse

The "normalized" or lower funding costs for sectors such as banks, Chinese AMCs, LGFVs, Macau gaming and TMT should support the continuous rebound in gross issuance. In 2024, the gross issuance in Asia ex JP, AU & NZ increased 31% to cUSD189bn. If the growth of gross issuance in 2025 is the same as that of 2024, the gross issuance in 2025 will increase to cUSD248bn, translating into a net issuance of cUSD8bn, compared with scheduled maturities of cUSD240bn in 2025. This will reverse the net redemption trend since 2022. If the growth of gross issuance is only 10-15%, the gross issuance will increase to USD208-217bn, implying a net redemption of cUSD23-32bn in 2025. The eventual growth of gross issuance will depend very much on UST movements. That said, we expect net redemptions to shrink notably, if not reverse, in 2025. We are not too concerned on higher gross issuance and potential reversal of net redemptions. As we have been arguing, the higher gross and net issuance can only come if the market sentiment is strong.

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吳蒨瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang, 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

CMBI Fixed Income
fis@cmbi.com.hk

Themes and picks

Based on our house view, we expect a largely parallel shift of UST rates from the current levels to the end of 2025. However, we believe that 2025 will start with a lot of noise on tariff, trade war and UST rate movement as Trump will be sworn in the presidency. These will raise the longer-term inflation expectation but the near-term impact should be relatively muted before the actual policies coming in effect. Hence, from a trading perspective, we expect the UST to steepen first before flatten towards the year-end and prefer short-tenor in the near-term.

From a sector perspective, we prefer domestic consumption plays under the threat of trade war, and sectors protected or supported by governments. On the other hand, in a tight credit spread environment, we prefer to go down the credit curve for lower-rated credits in sectors where credit fundamental is solid or improving. We see Alpha opportunities for under-researched credits and spread compression opportunities in various sectors. Additionally, we continue to recommend going down the capital structure such as corporate perps with high coupon step-up and bank capital papers in regimes with sound track records on call.

Given the generally easing credit environment and availability of lower-cost funding alternatives in the region, we expect the active early redemptions to continue. We see the strong technical of selected SEA credits and believe that they are the candidates for early redemptions.

Our themes for 2025 will center on: -

- Yield curve steepening in 1H25 with shorter-tenor rates going lower while longer-tenor rates being volatile. We prefer tenor of 5-year or short
- Consumption plays with less exposure to export markets
- Yield pick-up/spread compression trades such as bank capital papers, corporate perps with high coupon step-up
- LGFVs from higher-tier cities and ongoing access to low-cost onshore funding channels
- Surviving Chinese properties
- SEA credits with smooth access to various channels and better risk-return profile

Theme	Bond	Recommen-dations	Maturity/ first call date	Ask price	YTM/YTC(%)
➢ **Yield pick-up/spread compression trades**	FAEACO 12.764 Perp	Buy	18/2/2025	99.9	13.2
	NWDEVL 5.25 Perp	Buy	22/3/2026	49.2	77.0
	NWDEVL 6.15 Perp	Buy	16/3/2025	64.0	301.5
	NWDEVL 4.8 Perp	Buy	02/3/2025	32.4	14.8 (YTM)
	RAKUTN 5.125 Perp	Buy	22/4/2026	97.3	7.4
▪ Corp perps	RAKUTN 8.125 Perp	Buy	15/12/2029	100.0	8.1
	PCORPM 5.95 Perp	Buy	19/4/2026	100.1	5.9
	SMCGL 5.7 Perp	Buy	21/1/2026	98.9	6.8
	SMCGL 5.45 Perp	Buy	9/12/2026	96.9	7.2
	SMCGL 8.125 Perp	Buy	2/12/2029	101.7	7.7
	SMCPM 5.5 Perp	Buy	29/7/2025	99.5	6.4
	ANZ 6.75 Perp	Buy	15/6/2026	102.0	5.3
	KBANK 4 Perp	Buy	10/2/2027	95.7	6.2
	MQGAU 6.125 Perp	Buy	8/3/2027	101.0	5.6
▪ Capital papers (AT1s and T2s) of financial institutions and life insurance	WSTP 5 Perp	Buy	21/9/2027	98.8	5.5
	BACR 4.375 Perp	Buy	15/3/2028	90.5	7.7
	BBLTB 5 Perp	Buy	23/9/2025	99.2	6.1
	CHIYBK 8 Perp	Buy	26/10/2027	100.9	7.6
	INTNED 3.875 Perp	Buy	16/5/2027	91.2	8.0

	SHINFN 2.875 Perp	Buy	12/5/2026	96.6	5.5
	KBANK 5.275 Perp	Buy	14/10/2025	99.3	6.2
	RCBPM 6.5 Perp	Buy	27/8/2025	100.2	6.2
	BBLTB 3.466 09/23/36	Buy	23/9/2031	86.0	6.0
	CHIYBK 5.75 04/07/32	Buy	7/4/2027	98.5	6.5
	KBANK 3.343 10/02/31	Buy	2/10/2026	95.9	5.9
	NSINTW 5.45 09/11/34	Buy	11/9/2034	96.9	5.9
▪ Leasing companies' majority-owned by state-owned banks or laggards	BCLMHK Float 07/14/25	Buy	14/7/2025	100.6	5.3
	BCLMHK Float 06/26/27	Buy	26/6/2027	100.0	5.2
	BCLMHK Float 08/23/27	Buy	23/8/2027	100.2	5.2
	FRESHK 3.375 02/18/25	Buy	18/2/2025	99.8	5.2
	FRESHK 4.25 10/26/26	Buy	26/10/2026	97.2	5.9
	FRESHK 6.625 04/16/27	Buy	16/4/2027	101.2	6.1
	FRESHK 5.875 03/05/28	Buy	5/3/2028	98.9	6.2
➢ **Other Asian IGs**					
▪ Short-term bonds with high yields	AACTECs	Buy	Jun'26-Jun'31	89.5-96.4	5.3-5.7
	HYUELE 1.5 01/19/26	Buy	19/1/2026	96.5	5.0
	HYUELE 2.375 01/19/31	Buy	19/1/2031	84.4	5.4
	ZHOSHKs	Buy	May'25-Jan'28	97.2-115.0	5.9-6.3
➢ **Consumption plays with less exposure to export markets**					
▪ Car rental, Macau gaming and TMT	BTSDF 13.5 06/26/26	Buy	26/6/2026	107.1	8.3
	EHICARs	Buy	Sep'26-Sep'27	67.4-69.6	30.4-31.2
	MPELs	Buy	Jun'25-Apr'29	91.8-100.9	5.6-7.5
	SJMHOLs	Buy	Jan'26-Jan'28	95.5-98.4	6.1-6.5
	STCITYs/STDCTYs	Buy	Jul'25-Jan'29	91.2-100.9	6.1-7.6
	MEITUA 0 04/27/27	Buy	27/4/2025	98.8	5.3
	MEITUA 2.125 10/28/25	Buy	28/10/2025	97.7	5.0
	TENCNT 3.595 01/19/28	Buy	19/1/2028	96.5	4.9
	TENCNT 3.975 04/11/29	Buy	11/4/2029	96.4	4.9
	WB 3.375 07/08/30	Buy	8/7/2030	89.8	5.5
	XIAOMI 3.375 04/29/30	Buy	29/4/2030	91.0	5.3
	XIAOMI 2.875 07/14/31	Buy	14/7/2031	86.1	5.4
➢ **Beneficiaries of supportive government policies**					
▪ Chinese AMCs with demonstrated government support	CCAMCL 4.4 Perp	Buy	3/11/2026	98.4	5.3
	HRINTH 4.25 Perp	Buy	30/9/2025	99.0	5.7
	HRINTH 3.875 11/13/29	Buy	13/11/2029	92.8	5.6
	HRINTH 3.375 02/24/30	Buy	24/2/2030	89.9	5.7
	HRINTH 3.625 09/30/30	Buy	30/9/2030	89.9	5.7
▪ LGFVs from higher tier cities with ongoing access to onshore funding	SHUGRP 7.2 03/20/27	Buy	20/3/2027	99.5	7.5
	CCUDIHs	Buy	Jun'26-Jun'27	101.8-102.0	5.5-6.0
	CPDEVs	Buy	Jul'25-Jan'26	97.6-98.5	6.6-7.0
	KMRLGP 8.125 12/07/25	Buy	7/12/2025	100.0	8.2
	ZHHFGR 2.8 11/04/25	Buy	11/04/2025	97.6	5.8
➢ **Survivors in Chinese properties**					
▪ SOEs ▪ non-SOE survivors with:- ➢ T1/2 cities positioning ➢ Ownership of high quality investment properties providing recurring rental income and	CHJMAOs	Buy	Mar'25-Jul'29	85.9-100.0	4.4-8.1
	DALWANs	Buy	Jan'26-Feb'26	86.6-96.0	15.4-25.7
	FUTLAN/FTLNHDs	Buy	Jul'25-May'26	83.4-94.1	16.9-19.4
	GRNCHs	Buy	Jan'25-Jul'25	99.2-99.9	3.5-7.2
	LNGFORs	Buy	Apr'27-Jan'32	70.4-84.6	9.8-11.5
	YLLGSP	Buy	20/5/2026	95.5	8.7

access to alternative funding channels such as CMBS, CBICL-guaranteed bonds, operating loans, etc. ➢ Manageable near-term maturities, especially offshore bond maturities					
➢ **SEA credits**					
▪ Smooth access to various funding channels ▪ Better risk-return profiles	VEDLN 10.25 06/03/28	Buy	3/6/2028	102.6	9.3
	INCLEN 4.5 04/18/27	Buy	18/4/2027	95.5	6.7
	INDYIJ 8.75 05/07/29	Buy	7/5/2029	103.3	7.8
	MEDCIJ 6.95 11/12/28	Buy	12/11/2028	100.0	6.9
	MEDCIJ 8.96 04/27/29	Buy	27/4/2029	105.5	7.4
	ADANEM 3.867 07/22/31	Sell	07/22/2031	78.0	8.3
	ADANEM 3.949 02/12/30	Sell	02/12/2030	81.4	8.5
	ADSEZ 4 07/30/27	Sell	07/30/2027	90.6	8.1
	ADSEZ 4.2 08/04/27	Sell	08/04/2027	90.7	8.3
	ADSEZ 4 3/8 07/03/29	Sell	07/03/2029	86.5	8.0
	ADSEZ 3.1 02/02/31	Sell	02/02/2031	76.8	8.0
	ADSEZ 3.828 02/02/32	Sell	02/02/2032	77.8	8.0
	ADSEZ 5 08/02/41	Sell	08/02/2041	75.7	7.6
	ADTIN 4 08/03/26	Sell	08/03/2026	92.3	9.3
	ADTIN 4 1/4 05/21/36	Sell	05/21/2036	78.5	7.0
	ARENRJ 4 5/8 10/15/39	Sell	10/15/2039	74.8	7.5
	ADGREG 6.7 03/12/42	Sell	03/12/2042	84.5	8.4

Note: The call date of FAEACO 12.764 Perp and NWDEVL 4.8 Perp refer to next call date.
Source: Bloomberg.

Summary of recommendations

Asian Corporate-IG	Maintain Buy	AACTECs HYUELE 1.5 01/19/26 HYUELE 2.375 01/19/31 ZHOSHKs
	Chg. to Neutral	HAOHUA 3.875 06/19/29 HAOHUA 3 09/22/30 SYNNVX 4.892 04/25/25
Asian Corporate-Non IG	Maintain Buy	BTSDF 13.5 06/26/26 EHICARs
Asian Bank AT1	Initiate Buy	ANZ 6.75 Perp KBANK 4 Perp MQGAU 6.125 Perp WSTP 5 Perp
	Maintain Buy	BBLTB 5 Perp CHIYBK 8 Perp KBANK 5.275 Perp RCBPM 6.5 Perp SHINFN 2.875 Perp
	Chg. to Neutral	BCHINA 3.6 Perp DBSSP 3.3 Perp ICBCAS 3.58 Perp
Asian Bank T2	Initiate Buy	BBLTB 3.466 09/23/36
	Maintain Buy	CHIYBK 5.75 04/07/32 KBANK 3.343 10/02/31
	Chg. to Neutral	SHINFN 3.34 02/05/30
Asian Lifer	Initiate Buy	NSINTW 5.45 09/11/34
Chinese AMC	Maintain Buy	CCAMCL 4.4 Perp HRINTH 4.25 Perp HRINTH 3.875 11/13/29 HRINTH 3.375 02/24/30 HRINTH 3.625 09/30/30
Chinese Leasing	Initiate Buy	BCLMHK Float 07/14/25 BCLMHK Float 06/26/27 BCLMHK Float 08/23/27
	Maintain Buy	FRESHK 3.375 02/18/25 FRESHK 4.25 10/26/26 FRESHK 6.625 04/16/27 FRESHK 5.875 03/05/28
	Chg. to Neutral	CDBALF 3.5 10/24/27 CDBLFD 2 03/04/26 CDBLFD 3 1/8 03/02/27
Chinese Properties	Maintain Buy	CHJMAOs DALWANs FUTLAN/FTLNHDs GRNCHs LNGFORs YLLGSP
Chinese TMT	Initiate Buy	TENCNT 3.595 01/19/28 TENCNT 3.975 04/11/29
	Maintain Buy	MEITUA 0 04/27/27 MEITUA 2.125 10/28/25 WB 3.375 07/08/30

		XIAOMI 3.375 04/29/30
		XIAOMI 2.875 07/14/31
	Chg. to Neutral	TENCNT 2.39 06/03/30
		TENCNT 2.88 04/22/31
Corporate Perps	Initiate Buy	FAEACO 12.764 Perp
		NWDEVL 4.8 Perp
	Maintain Buy	NWDEVL 5.25 Perp
		NWDEVL 6.15 Perp
		RAKUTN 5.125 Perp
		RAKUTN 8.125 Perp
		PCORPM 5.95 Perp
		SMCGL 5.7 Perp
		SMCGL 5.45 Perp
		SMCGL 8.125 Perp
		SMCPM 5.5 Perp
	Chg. To Neutral	NWDEVL 4.125 Perp
	Maintain Neutral	RAKUTN 6.25 Perp
		UPLLIN 5.25 Perp
European Bank AT1	Maintain Buy	BACR 4.375 Perp
		INTNED 3.875 Perp
	Chg. to Neutral	BACR 6.125 Perp
LGFV	Initiate Buy	SHUGRP 7.2 03/20/27
	Maintain Buy	CCUDIHs
		CPDEVs
		KMRLGP 8.125 12/07/25
		ZHHFGR 2.8 11/04/25
	Chg. to Neutral	GSHIAV
		GXFING
		GZINFUs
		ZHHFGR 2.95 02/28/25
Macau Gaming	Maintain Buy	MPELs
		SJMHOLs
		STCITYs/STDCTYs
SEA Renewables and Commodities	Initiate Buy	VEDLN 10.25 06/03/28
	Maintain Buy	INCLEN 4.5 04/18/27
		INDYIJ 8.75 05/07/29
		MEDCIJ 6.95 11/12/28
		MEDCIJ 8.96 04/27/29
	Sell	ADANEM 3.867 07/22/31
		ADANEM 3.949 02/12/30
		ADSEZ 4 07/30/27
		ADSEZ 4.2 08/04/27
		ADSEZ 4 3/8 07/03/29
		ADSEZ 3.1 02/02/31
		ADSEZ 3.828 02/02/32
		ADSEZ 5 08/02/41
		ADTIN 4 08/03/26
		ADTIN 4 1/4 05/21/36
		ARENRJ 4 5/8 10/15/39
		ADGREG 6.7 03/12/42

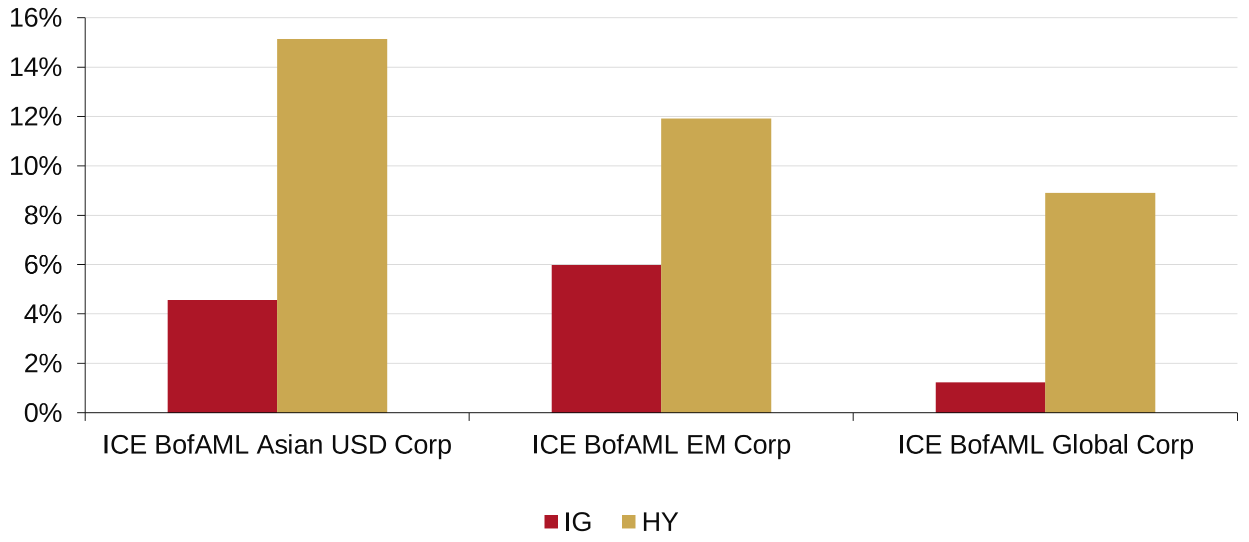
Contents

A recollection of key issues in 2024

ACHY experienced the best performance since 2012

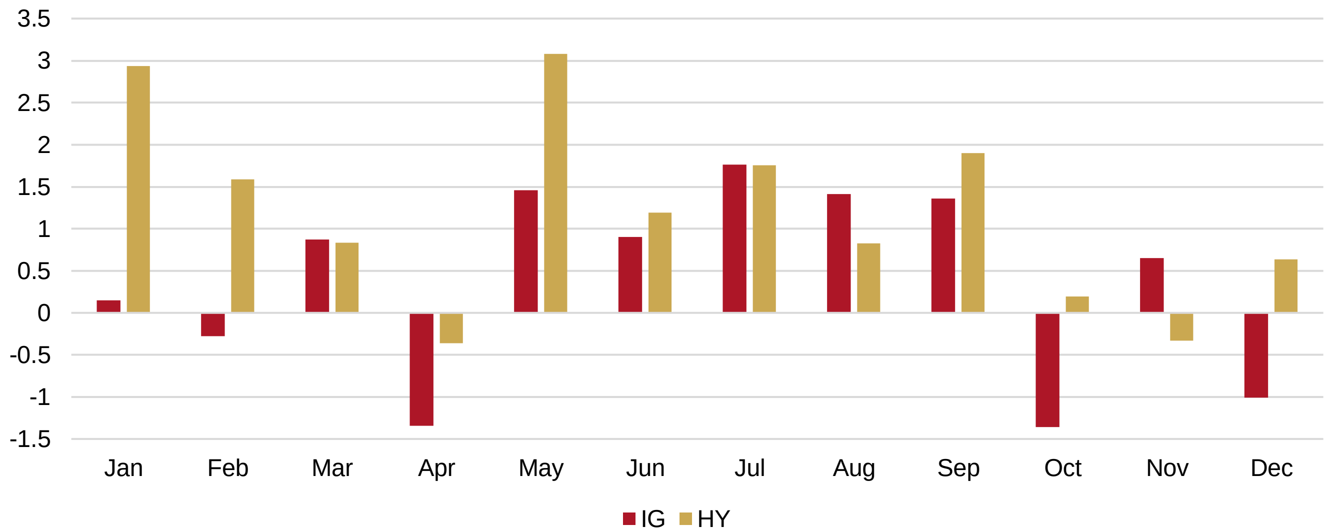
In 2024, ACIG (Asia Dollar Investment Grade Corporate Index) and ACHY (Asia Dollar High Yield Corporate Index) returned 4.6% and 15.1%, respectively, given the rate cuts in the US, China's more concrete supportive measures and the strong market technical, reflected by the net redemptions and active early redemptions. HY reversed the underperforming trend since 2020, thanks mainly to the rebound from distressed valuations. ACHY had the best year since 2012. Asia HYs out-performed global and EM HYs while Asia IGs out-performed global IGs but underperformed EM IGs.

Chart 1: ACHY and ACIG total return in 2024 (%)



Source: Bloomberg.

Chart 2: ACHY and ACIG total return by month in 2024 (%)



Source: Bloomberg.

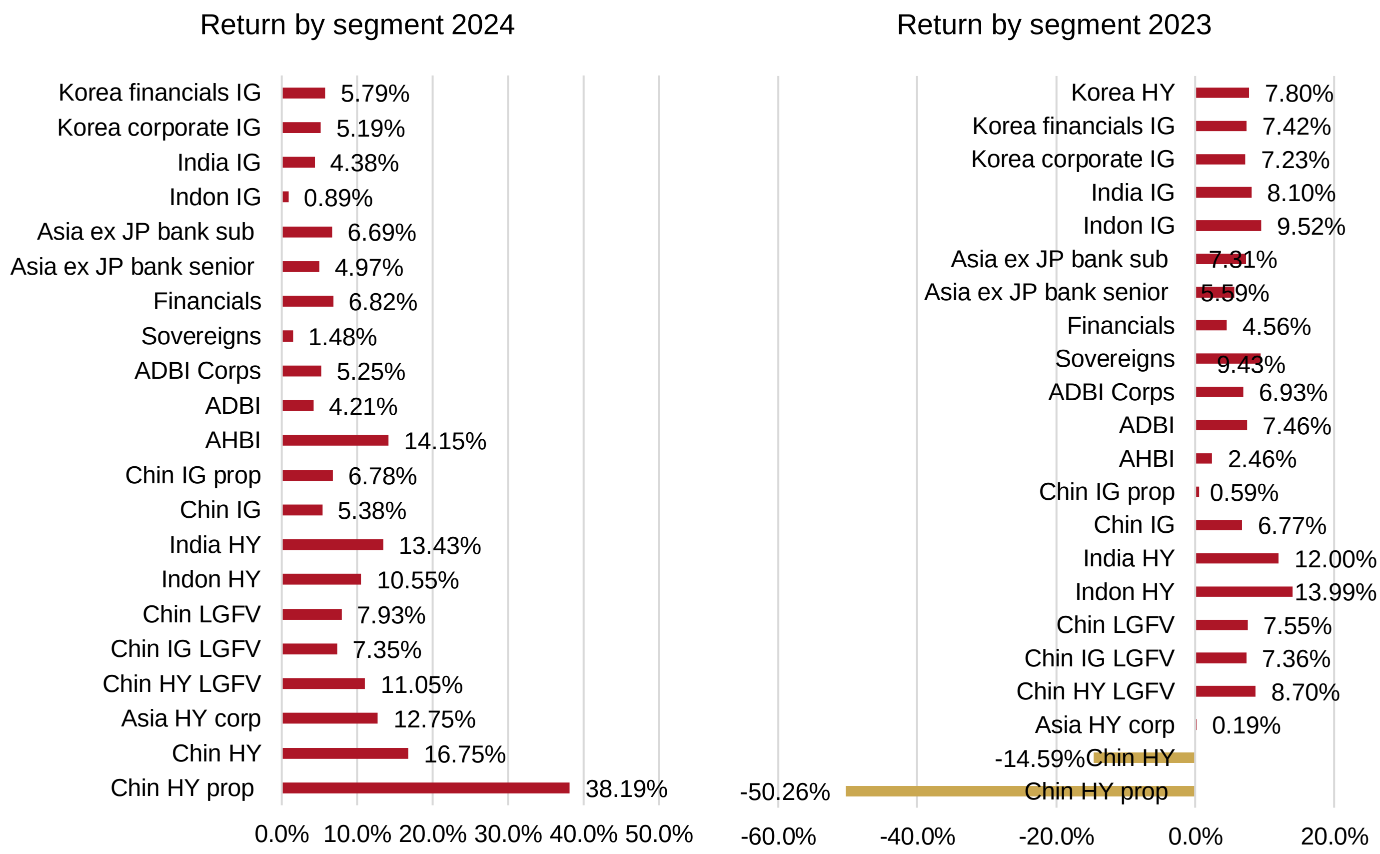
Chinese HY properties and India HYs are notable outperformers

According to IBOXX, the Chinese HY properties posted a total return of 38.2% in 2024, compared with a negative total return of 50.3% in 2023. Chinese properties posted the first positive total return since 2020. The bonds of surviving Chinese properties such as Longfor, Seazen and Yanlord rebounded significantly from distressed prices. Chinese IG properties, comprised mainly of SOEs, posted a return of 6.8% in 2024, compared with 0.6% in 2023.

Another notable outperformer was India HY (mainly Vedanta). Bonds of Vedanta rebounded sharply as near-term refinancing has been considerably relieved after rounds of liability management exercises throughout the year.

Indon HY and Chinese HY LGFVs also posted strong performance with total return of over 10%, thanks mainly to the strong technical. We noted a few Indonesian issuers such as ABM Investama, Alam Sutera, Gajah Tunggal and Lippo Karawaci early redeemed or announced to early redeem their USD bonds with lower-cost onshore funding. Chinese LGFVs also benefitted from the strong technical demand from onshore investors given the bull run of the onshore bond markets.

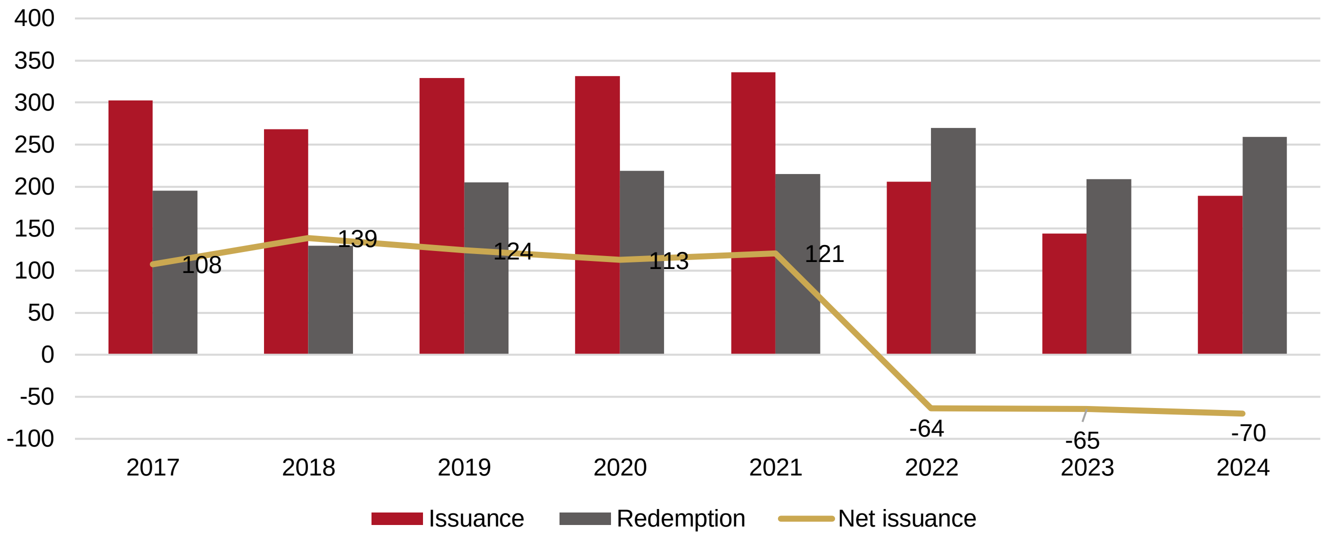
Chart 3: Segment return 2024 vs 2023



Source: Bloomberg.

Higher gross issuance but net redemptions three years in a row

Chart 4: Asian ex JP issuance (USD bn)



Source: Bloomberg.

The gross issuance of Asia ex JP in 2024 increased 31% (incl. sovereigns), reversed the declining trend of gross issuance since 2022. IGs contributed 79% of the gross issuance amount. Financial institutions are the largest issuers with issue amount totaled USD103.4bn, accounting for 53% of total gross issuance.

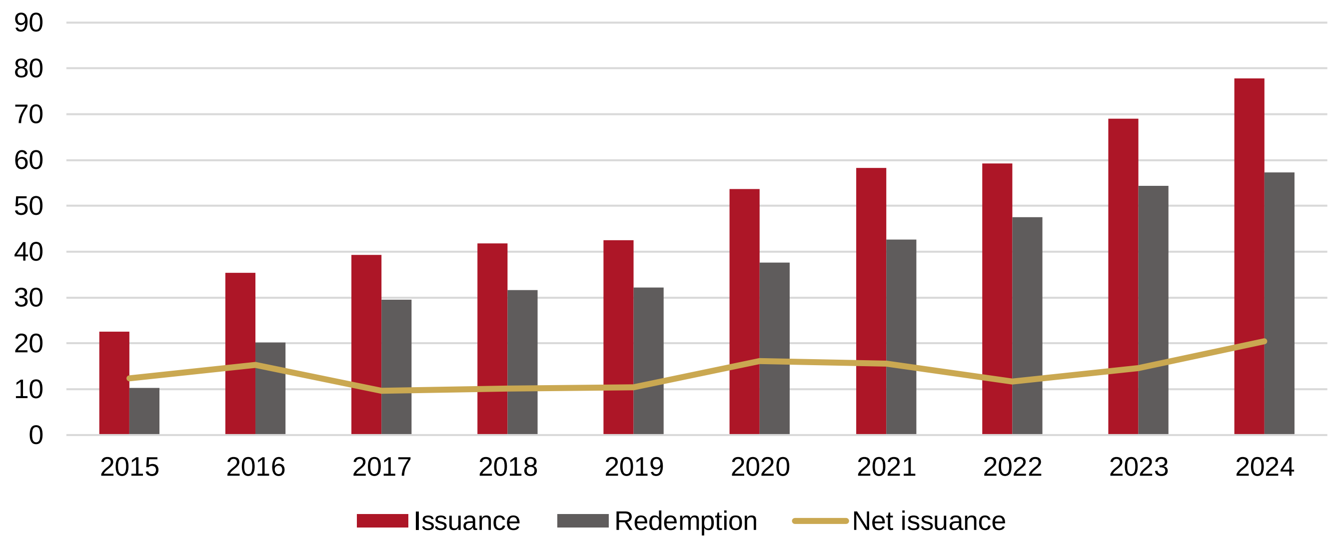
China retook the position of top issuing country from Korea. The gross issuance amount of China increased 83% to USD63.4bn. China and Korea accounted for 33% and 24% of the gross issuance, respectively. China continues to be a key driver for gross issuance in our universe.

The higher gross issuance from China was attributable to the "less negative" market sentiment, especially starting from 3Q24 after China signaled more forceful policy support. The bull-run in onshore bond market also means offshore bonds were relatively cheap from onshore investors' perspective. Hence, the technical demand for offshore Chinese USD bonds remains strong.

Among major issuing countries, the gross issuance of Indian, Indonesia and the Philippines in 2024 increased 145%, 58% and 102% to USD11.8bn, USD9.8bn and USD8.1bn, respectively. The significant rebounds of issuance from Indonesia, India and the Philippines can be attributable to both stronger demand and supply. On demand side, the diversification demand for non-China credits remains strong. On supply side, after the strong performance over the past 2-3 years, the offshore funding costs were notably lower and became more attractive for issuers in India, Indonesia and the Philippines. Nonetheless, except Korea, the gross issuance from China, India, Indonesia and the Philippines were way below the previous highs.

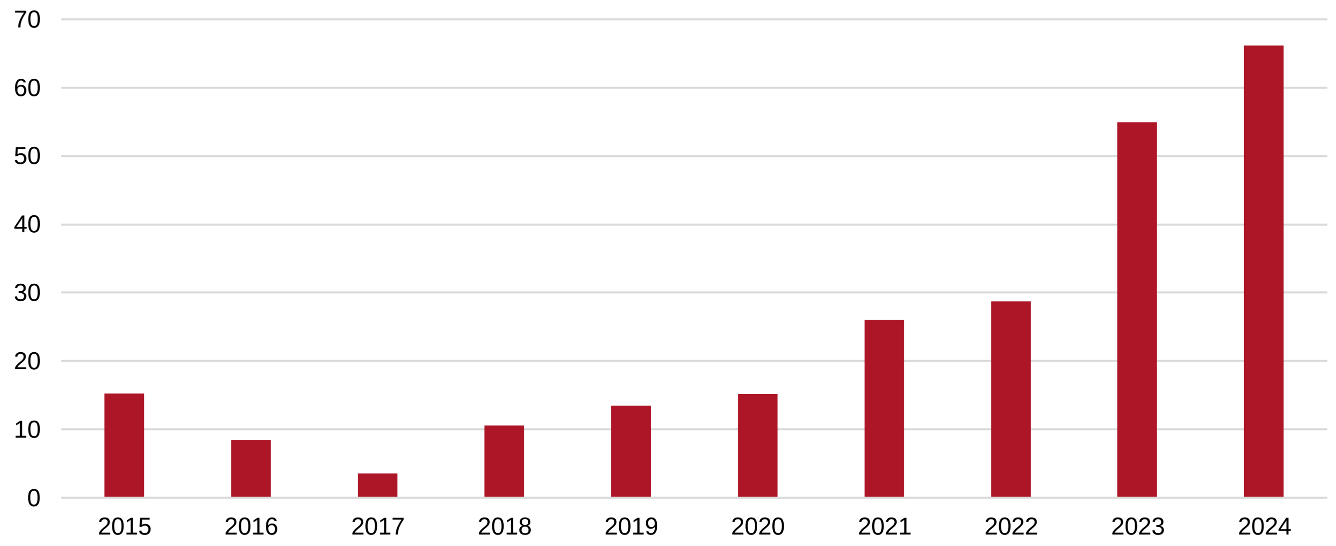
Notwithstanding the rebound in gross issuance, the net redemption trend of Asia ex JP universe since 2022 continued. After deducting maturities, amortization, tender offers, repurchases and calls from gross issuance, the net redemptions in 2024 were cUSD70bn. Over the past 3 years, our space had shrunk c13% to cUSD1.3tn. The net redemptions partly reflected the notably stronger onshore liquidity which serves as a lower-cost funding alternative for issuers. The easing credit environment in those countries, growing depth and width of onshore bond markets as well as the mandatory holding period for repatriated export earnings in Indonesia with effective from Aug'23 continue to support onshore liquidity in the region.

Chart 5: China onshore CNY bonds issuance (RMB tn)



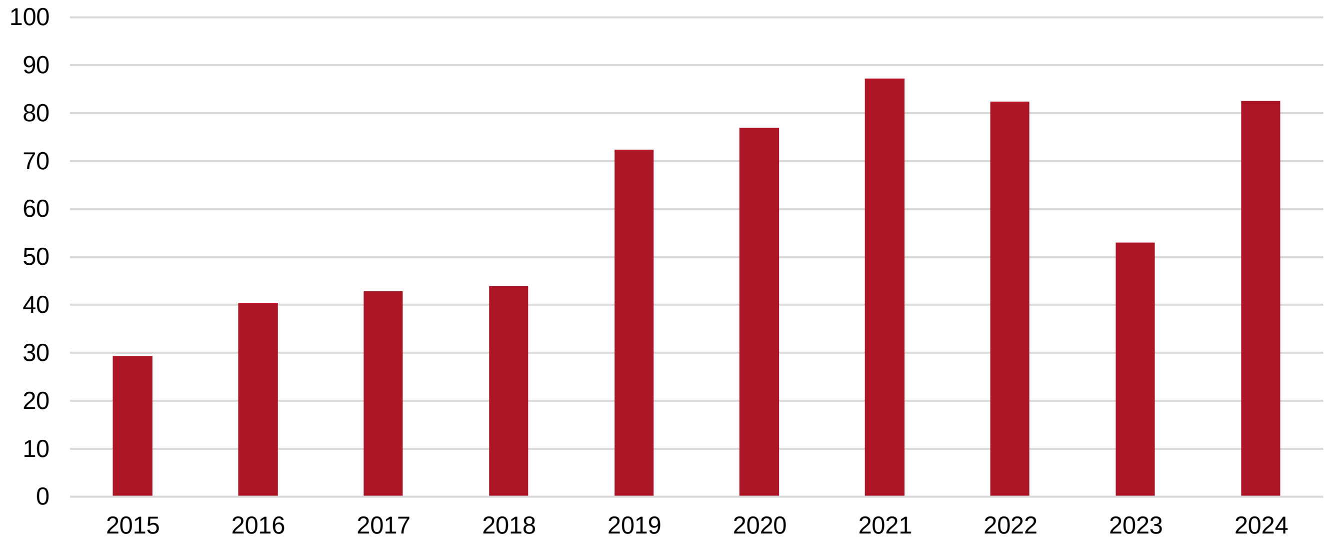
Source: Bloomberg.

Chart 6: Dim Sum bonds issuance (USD bn)



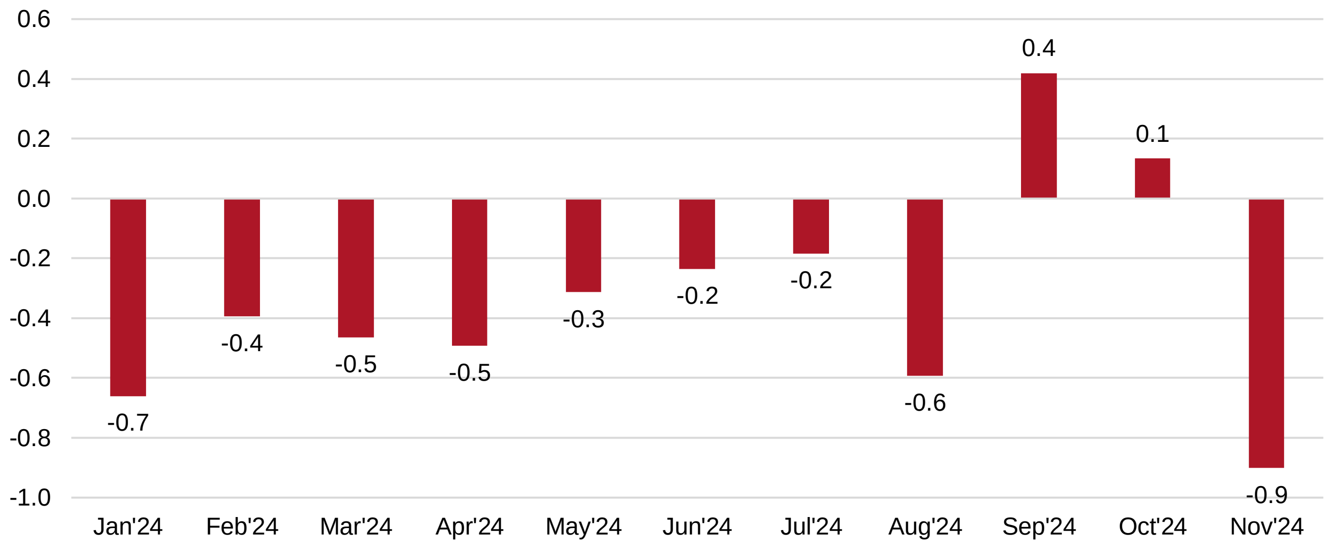
Source: Bloomberg.

Chart 7: IDR bond issuance (USD bn)



Source: Bloomberg.

Chart 8: Monthly fund flows of selected 36 Asian fixed income funds (USD bn)

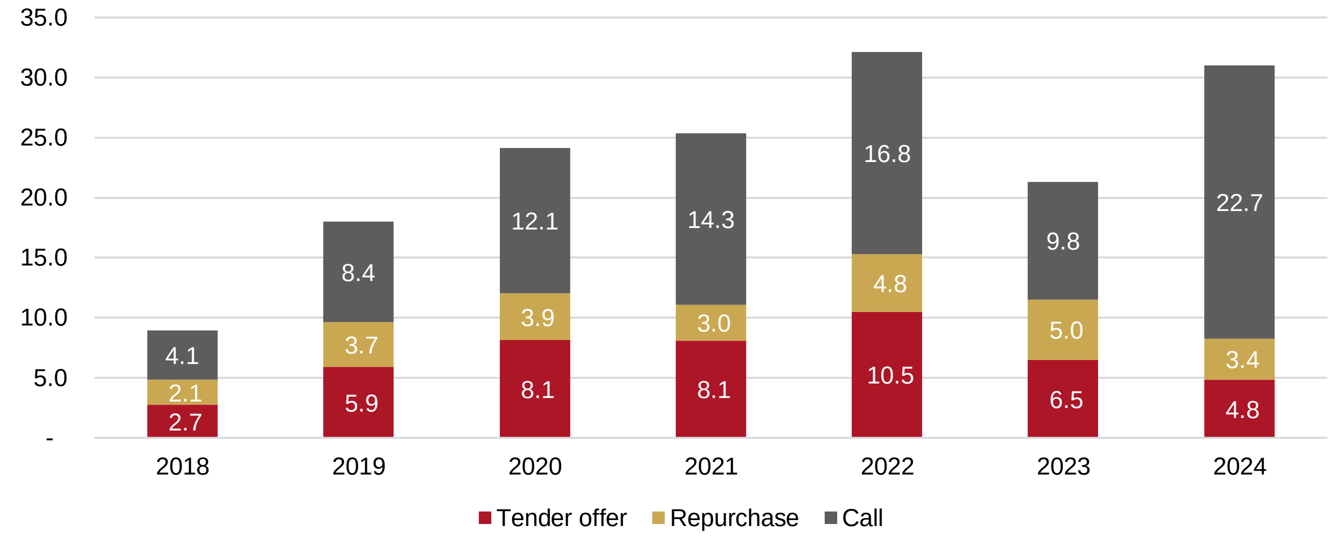


Source: Bloomberg.

Early redemptions continued to be active

In 2024, the total amount of early redemptions (tender offer, repurchases and call) totaled USD31.0bn in principal amount, compared with USD21.3bn in 2023. Even some "distressed" Indonesia issuers such as Alam Sutera, ABM Investama, Gajah Tunggal, Lippo Karawaci, Modernland and Agung Podomoro are able to access lower-cost onshore funding to redeem the more expensive offshore bonds. Over the past 3 years, the early redemptions maintained above USD20bn despite gross issuance had decreased to USD189bn in 2024 from USD336bn in 2021. The increasing availability of lower-cost onshore funding in countries such as China and Indonesia partly contributed to the net redemptions over the past few years.

Chart 9: Asian ex JP tender offer and repurchases (USD bn)



Source: Bloomberg.

Looking ahead – Repeating the 2024 performance is challenging

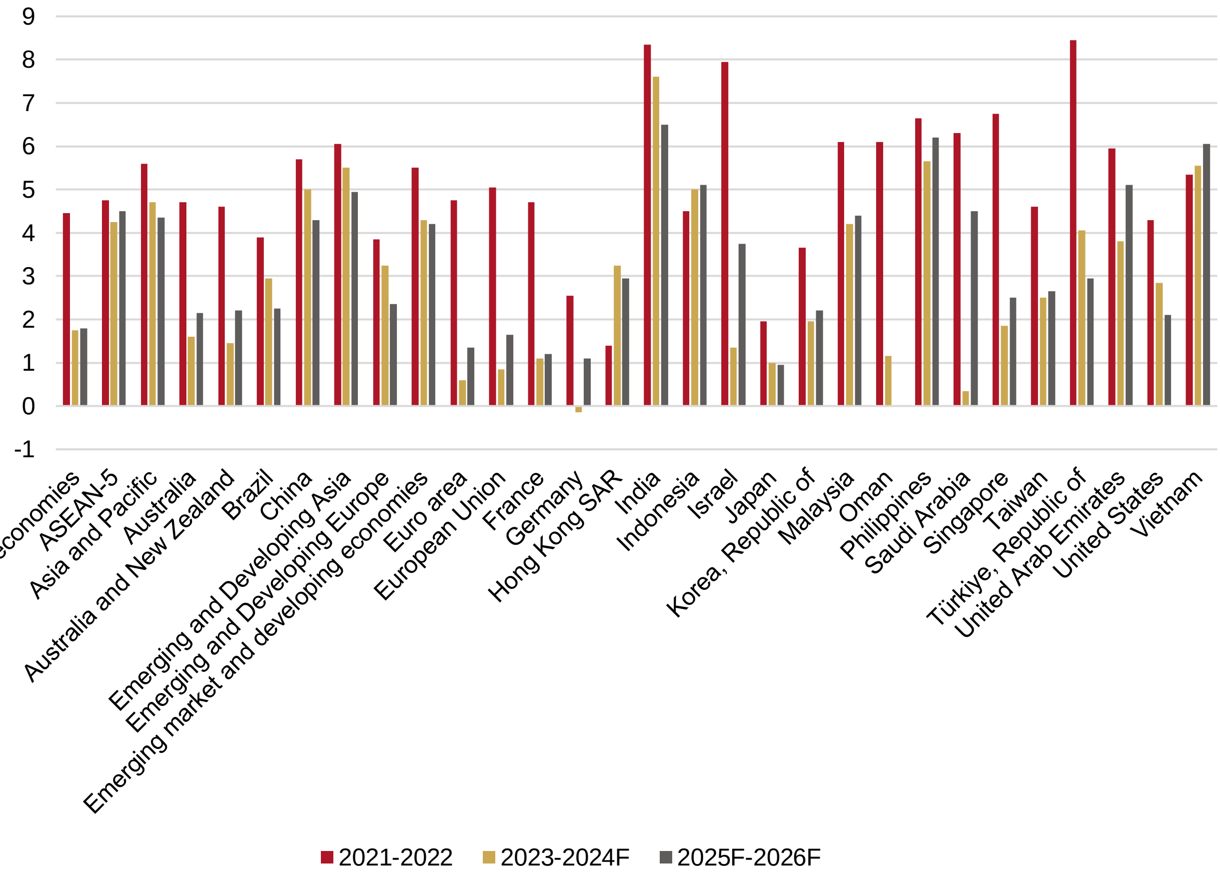
Our house view of 50bps FFR cut in 2025

CMBI economic research expects the US economy to have a soft landing and forecasts the real GDP growth of the US to moderate from 2.7% in 2024 to 2.3% in 2025 (vs. IMF's forecast of 2.2%) while inflation (non-core PCE) to lower from 2.4% in 2024 to 2.3% in 2025.

On the back of moderating economic growth and inflation in the US, our economic research maintained the view that FED will cut FFR by 50bps (25bps in Mar'25 and 25bps in Sep'25) in 2025 and another 50bps in 2026. The FFR will lower to 3.75-4% by end of 2025 and 3.25-3.5% by end of 2026. Our house views are in line with economic projections released by FED after the FOMC meeting on 18 Dec'24.

At the time of writing, the "Trump trades" appear to have overshot, we expect the 10-year UST to decline from 4.6% at the end of 2024 to 4% at the end of 2025 and 3.75% at the end of 2026. We also expect the US dollar index to weaken from 108.5 at the end of 2024 to 104.5 at the end of 2025 and 102 at the end of 2026.

Chart 10: World economic growth forecast (%)



Source: IMF.

Flip-flop on rate movement amid Trump 2.0

While we expect the UST to lower form current level, we believe that the rate environment to be volatile as details of Trump's policies, as well as economic and employment figures unfolding. Since mid Sep'24, the 5-year and 10-year UST rates have moved c100bps and c90bps higher, respectively.

Going forward, we envisage a few moving parts will be in play simultaneously. On one hand, we expect the Trump administration to pressure FED to cut FFR as what happened in Trump's previous term and economic growth to slow down. On the other hand, the trade war and illegal immigration deportation could be inflationary. The extension of tax cut and drama of debt ceiling discussions could also lead to a more volatile rate environment.

Slowing Chinese economy tempered by more forceful supportive measures

In Dec'24, the Central Economic Working Conference (CEWC) signaled additional policy stimulus in 2025 with stronger pro-growth commitment and more expansionary fiscal policies. The broad fiscal deficit will further rise with additional RRR and policy rate cuts. The policy stimulus will focus on stabilizing the property and stock markets, boosting consumption, promoting technology innovation and reducing in-coil competition.

CMBI economic research expects the general fiscal deficit, ultra-long special Treasury bond issuance and local government special bond quota to increase to RMB5.06tn (3.7% of GDP), RMB2tn (1.5% of GDP) and RMB4.4tn (3.2% of GDP) in 2025 from RMB4.06tn (3.1% of GDP), RMB1tn (0.8% of GDP) in 2024 and RMB3.9bn (3% of GDP) in 2024, respectively. RRR, money market rates and LPRs will decline 1pct pt, 30bps and 20bps in 2025, respectively. As a result, RMB will depreciate to 7.30 at the end of 2024 to 7.50 by the end of 2025.

Additionally, we expect to see policy support including renovation of urban villages to stabilize the property market. We also expect to see actions to boost consumption including the extension of the "trade-in" policy for business equipment, automobiles and durables with possible higher subsidy levels and broader product coverage. There are also discussions on expanding investments in urban renewal projects and reduce social logistics costs. These will be positive for LGFVs and negative for logistics service companies.

Our economic research expects China's economic growth to reach 5% in 1Q25 and 5.1% in 2Q25 as the policy stimulus continues to boost domestic demand and overseas interest rate cuts and tariff expectations stimulate China's exports. However, GDP growth may fall to 4.7% in 3Q25 and 4.3% in 4Q25 as the effects of policy stimulus diminish and the trade war comes. For the full-year of 2025, we expect GDP growth to slow from 4.9% in 2024 to 4.7% in 2025 and 4% in 2026, with the contribution from net exports down from 1.2pct pts in 2024 to 0.6pct pts in 2025 and -0.4pct pts in 2026. Meanwhile, the contribution of consumptions and investments to GDP growth may rise from 2.4pct pts and 1.3pct pts to 2.7pct pts and 1.4pct pts in 2025, and then to 2.8pct pts and 1.6pct pts in 2026, respectively.

The implications to the 3 pillars: Fundamental, Valuation and Technical

Fundamental: Slowing growth but more supportive measures and lower default rate

Asian countries have been preparing for trade war

As shown in Chart 10, economic growth of major Asian economies remain notably faster than that of the other part of the globe despite the growth rate over the coming 2 years will be moderating from the levels in 2023-2024. As per the forecasts of IMF, the average real GDP growth of China, India, Indonesia and Korea in 2025-26 are 4.3%, 6.5%, 5.1% and 2.2%, respectively, compared with 1.35% in Euro area, 2.1% in the US and 0.95% in Japan.

With Trump's return to the presidency and "Red Sweep", the resistance for him to launch a trade war is lower. While China may be the number one target of the US trade war, we should not be surprised to see higher tariff could also be levied to other Asian countries/regions.

Whether and how the trade war will be unfolded remain highly fluid. For the sake of discussions, assuming a step-by-step increase of 30% tariffs on China and 10% tariffs on other countries with 5% retaliatory tariffs on the US by major countries in 2H25, CMBI economic research projects that the annualized impact on China's merchandise exports and GDP at constant price would be 2.7% and 0.7% lower than without the tariff hikes, respectively. If Trump would impose 60% tariffs on China and 20% tariffs on others, the annualized impact on China's constant-price merchandise exports and GDP at constant price would be 5.3% and 1.6% lower, respectively.

Nonetheless, we take some comfort that Asian governments are somewhat preparing for the trade war. For example, the Chinese government could implement more supportive measures, especially those target on domestic consumptions. Indonesian government, on the other hand, was reported to roll out economic stimulus package to support labour intensive and property sector starting from Jan'25. We also believe that Asian countries and regions will be open to let their currencies to depreciate to mitigate part of the impact of higher tariff.

Default rate to trend lower

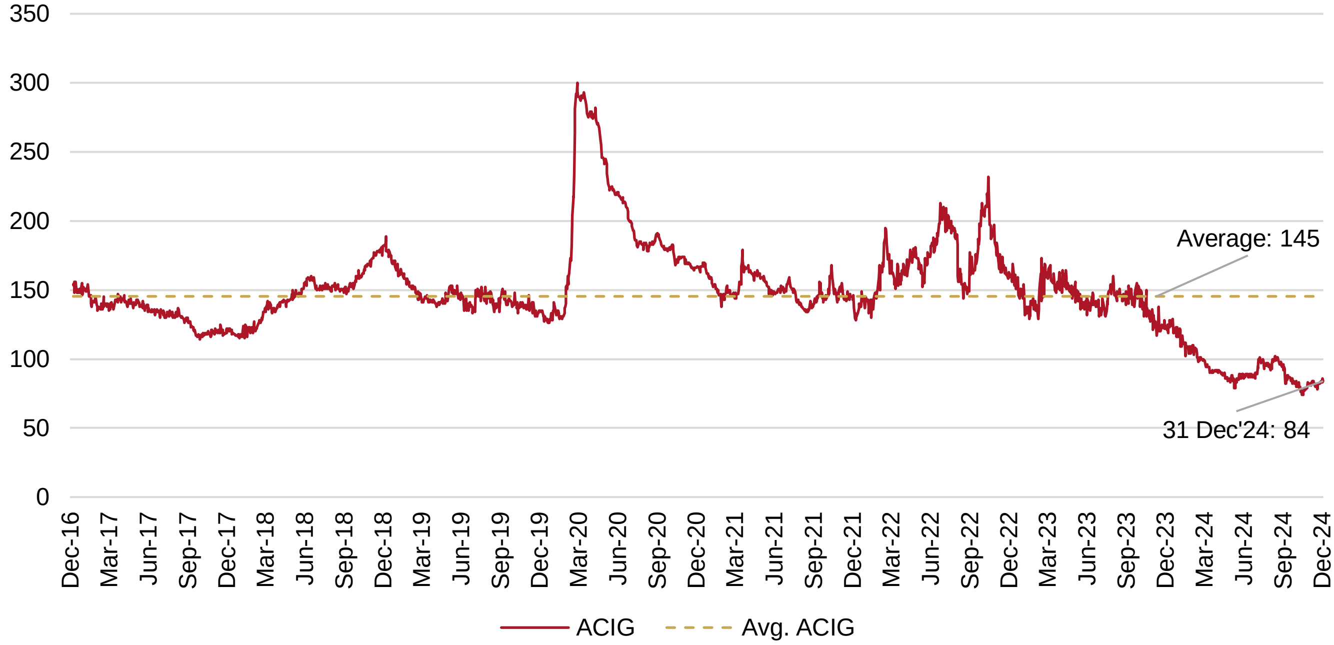
The default rate and defaulted amount have been moderating since the peaks in 2022. As we discussed in Asia Credit Outlook 2024, the "blackest" swans were out. We estimated that the default rate of Asia HY corps declined to 2.8% in 2024 from 5.3% in 2023 (vs 17.9% in 2022). With more supportive government measures, lower interest environment and more friendly onshore credit environment, we expect default rate to continue to trend downward.

Sectors will be fared differently under the trade war

We prefer sectors which focus on domestic consumption and less exposed to the export markets. We still believe that the recovery of smaller-ticket consumptions such as F&B and travelling will remain resilient. We also prefer sectors that could be the beneficiaries of governments' support measures. These include renewable sectors in the region, as well as banks, AMCs and LGFVs in China.

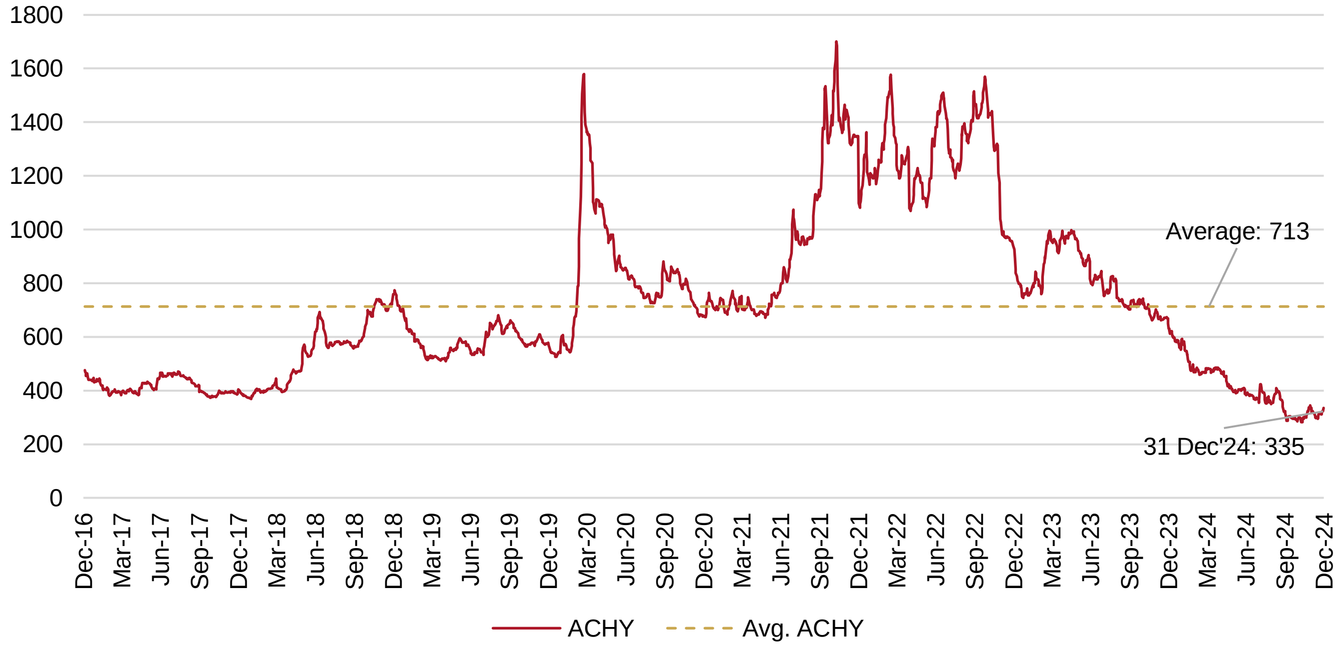
Valuation: Not appealing, focus on Alpha and spread compression opportunities

Chart 11: Spread movement of ACIG (bps)



Source: Bloomberg.

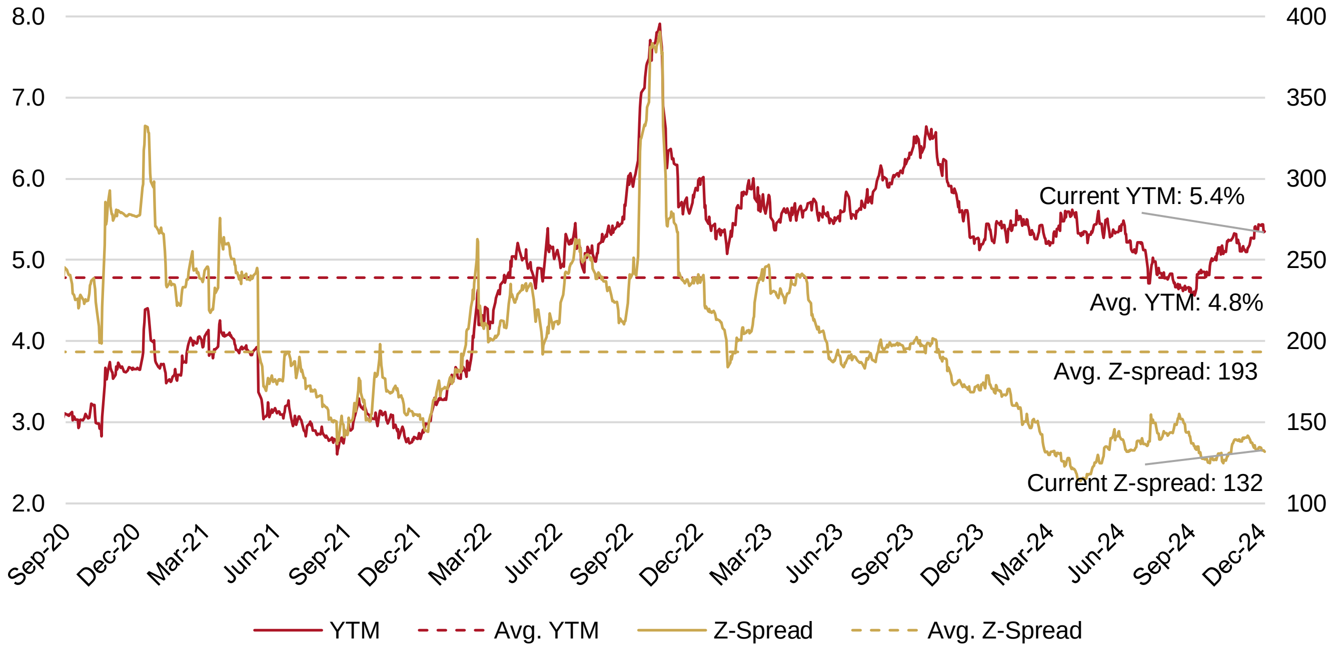
Chart 12: Spread movement of ACHY (bps)



Source: Bloomberg.

In IG, the credit spread of Asia ex JP USD credits are at the tighter end of the spectrum. However, Asia ex JP USD credits are at the higher end of the spectrum in term of yield, reflecting the higher UST rates. To illustrate, as shown in Chart 13, the Z-spread of HAOHUA 3 09/22/30 tightened c42bps and bond price was c1.1pt higher in 2024, however, its YTM was closed at c5.4%, 20bps higher than that in the beginning of 2024, reflecting the higher UST rates.

Chart 13: YTM (%) and Z-Spread (bps) of HAOHUA'30



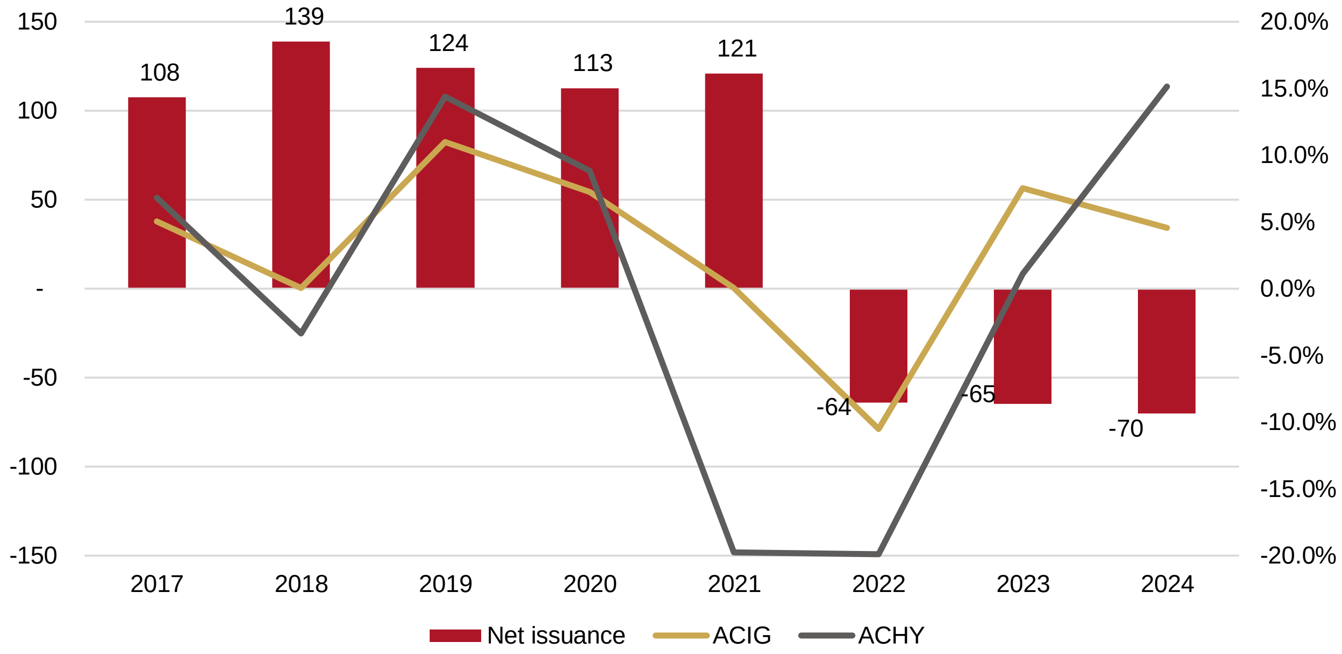
Source: Bloomberg.

In HY, the overall credit spread is also tight. After the good performance in 2024, the overall conviction level is even lower, especially for Indonesian HY credits. Hence, we should be even more focus on Alpha opportunities, including spread compression for laggards of sectors with solid or improving credit stories such as those in Macau gaming and TMT. We should also focus on capital papers which offer yield pick-up over seniors and issuers have sound track records to call.

Technical: Onshore demand to remain strong

Higher supply not a major concern, credit selection becomes more important

Chart 14: Issuance vs performance (USD bn)



Source: Bloomberg.

In 2025, we believe that the technical of Asian USD bond universe will remain supportive given the continued onshore "demand". With funding costs and default rate trending downward, we expect the net redemption amount to shrink notably, if not reverse, in 2025. We are not too concerned on the higher gross issuance and potential reversal of net redemptions. As shown in Chart 14, the Asia ex JP USD bond market performed well during 2017-2020 with the uptrends of gross and net issuance. The market performed poorly since 2021 even gross issuance declined and net issuance turned to negative. We have been arguing that the higher gross and net issuance can only come if market sentiment is strong. The higher gross issuance and net issuance will however make investors more selective. This reinforces our belief that 2025 is a year we should pay more attention to Alpha instead of Beta.

Forecast a net redemption of USD23-32bn in 2025

On supply side, the "normalized" or lower funding costs for sectors such as banks, Chinese AMCs, LGFVs, Macau gaming and TMT should support the continuous rebound of gross issuance. However, the estimation of gross issuance is complicated by the expected volatile rate and currency movements, as well as the increasing uses of lower cost funding alternatives such as Dim Sum bonds and Indonesian Rupiah bonds.

If the growth of gross issuance in 2025 is the same as that of 2024, the gross issuance in 2025 will increase to cUSD248bn, translating into a net issuance of cUSD8bn, compared with scheduled maturity of cUSD240bn in 2025. This will reverse the net redemption trend since 2022. If the growth of gross issuance is only 10-15%, the gross issuance will increase to USD208-217bn, implying a net redemption of cUSD23-32bn in 2025. The eventual growth of gross issuance will depend very much on UST movements. That said, we expect net redemptions to shrink notably, if not reverse, in 2025.

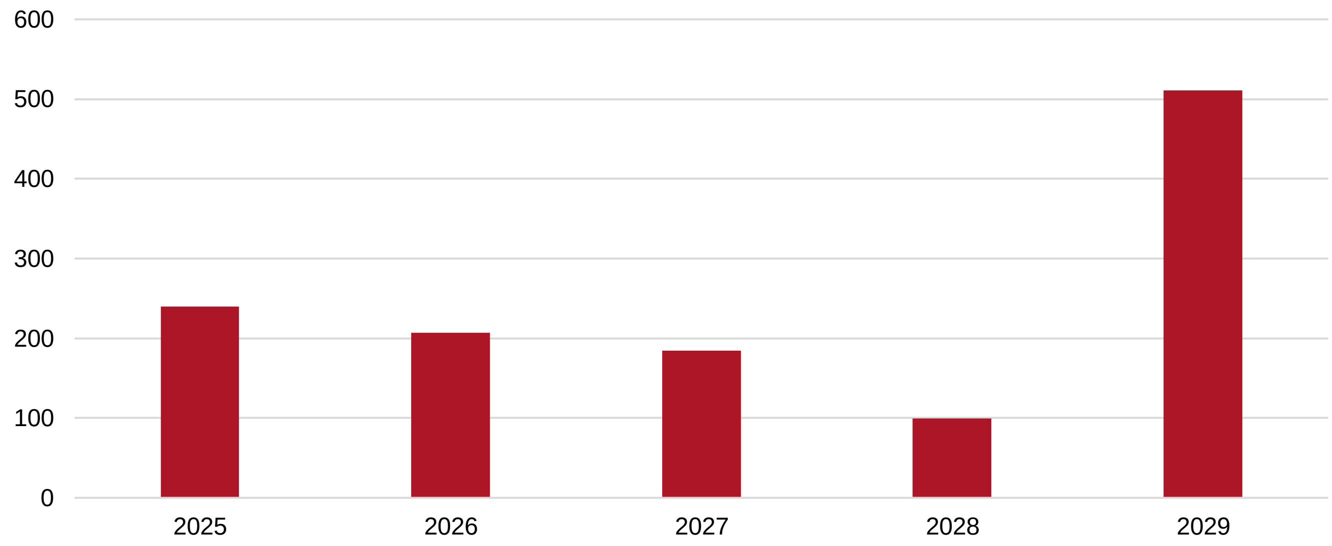
Fund flow from DM not a key technical driver…

On demand side, our house views of lower UST rates and weaker USD are supposed to be positive for fund flow from DM to EM and Asia USD bond universe. That said, the rate and USD will not move in straight lines and will instead be choppy as we discussed earlier. Hence, a significant fund inflow from DM into our universe is not our base case taking cues from the similar backdrop in 2024.

….onshore "demand" remains to be the key

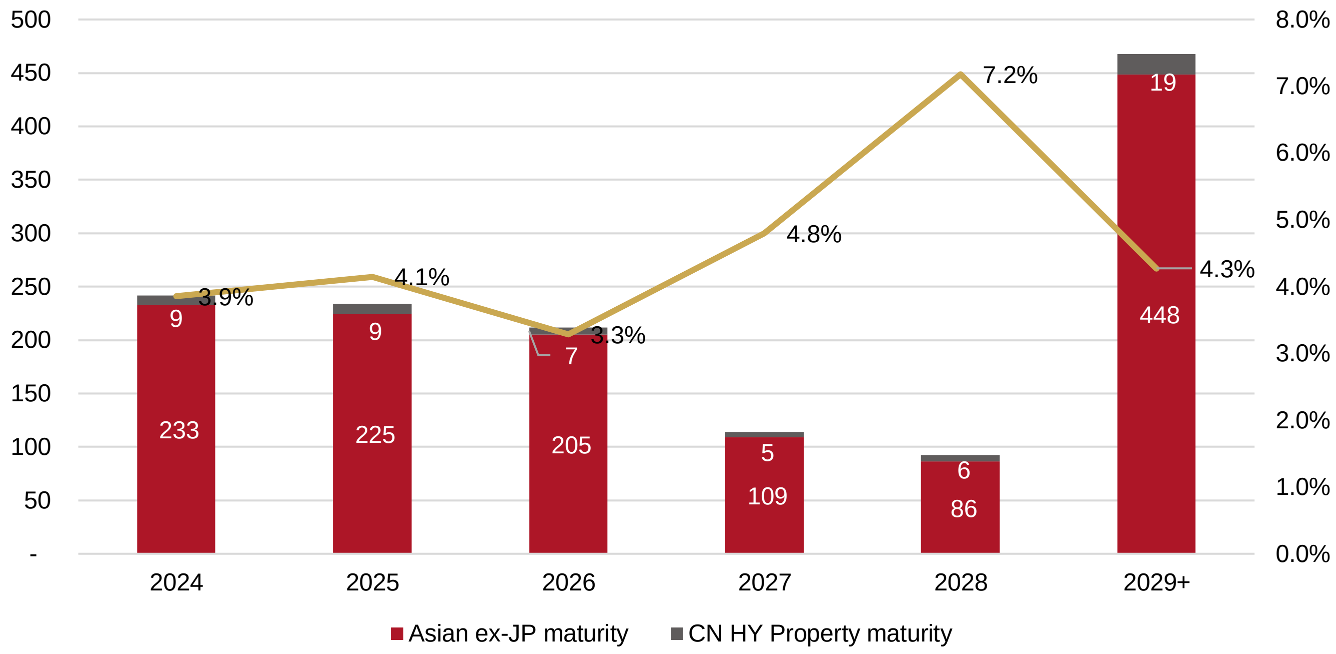
Indeed, we see onshore "demand" within the region a more important technical driver in 2025. After the big bull-run of China's onshore bond markets, the offshore Chinese USD bonds offer good relative value from onshore investors' perspective. The bottleneck of onshore demand will be quota of QDII and Southbound Bond Connect. The Chinese and Indonesian issuers have been using lower-cost onshore funding to repay or early redeem their offshore bonds. The latest example is Gajah Tunggal, the Indonesian tire manufacturing company, announced the call of GJTLIJ 8.95 06/23/26 (o/s USD175mn), the company's only outstanding USD bonds, on 17 Dec'24. Gajah Tunggal is one of the Indonesian corps able to secure lower-cost onshore funding over the past few years and have been using onshore funding to early redeem its offshore bonds. After completion of the call on 16 Jan'25, Gajah Tunggal will no longer have outstanding USD bonds. We believe that these onshore "demand" will continue to support the performance of the Asian USD bonds

Chart 15: Asian ex-JP maturity (USD bn)



Source: Bloomberg.

Chart 16: Asian ex-JP maturity and China HY properties maturity (USD bn)



Source: Bloomberg.

Appendix 1: Corporate Perps – Prefer perps with high coupon step-up

We prefer perps with a high coupon step-up as issuers are more incentivized to early redeem or buy back their perps on or before call dates. While Far East Consortium did not call FAEACO 12.764 Perp on the first call date (18 Oct'24), we expect the company to start calling the perp partially towards the end of 1Q25 with the proceeds to be collected from property sales and non-core asset disposals. Hence, we initiate a buy recommendation on **FAEACO 12.764 Perp** and consider this as a good short-term carry play. After recent price movements of NWDEVLs, we recommend switching to FFL **NWDEVL 4.8 Perp** from **NWDEVL 4.125 Perp** given the higher cash yield over the coming 3 years and lower cash price of NWDEVL 4.8 PERP. At the same time, we maintain buy on the 2 perps with high coupon step-up, i.e**. NWDEVL 6.15 Perp** and **NWDEVL 5.25 Perp**. We also maintain buy on **RAKUTN 5.125 Perp, RAKUTN 8.125 Perp, PCORPM 5.95 Perp, SMCGL 5.7 Perp, SMCGL 5.45 Perp, SMCGL 8.125 Perp and SMCPM 5.5 Perp**. Meanwhile, we are neutral on RAKUTN 6.25 Perp and UPLLIN 5.25 Perp.

Table 1: Summary of our corporate perps picks

Security name	ISIN	Amt o/s (USD mn)	Px	YTC/YTM (%)	First/next call date	Coupon reset	Step-up (bps)
Initiate buy							
FAEACO 12.764 Perp	XS2050584866	360	99.9	13.2	18 Feb'25	-	-
NWDEVL 4.8 Perp	XS2268392599	700	32.4	14.8	3 Feb'25	-	-
Maintain buy							
NWDEVL 5.25 Perp	XS2132986741	999	49.2	77.0	22 Mar'26	5yrUST+7.889%	300
NWDEVL 6.15 Perp	XS2435611327	345	64.0	301.5	16 Mar'25	3yrUST+6.201%	300
RAKUTN 5.125 Perp	US75102WAA62	750	97.3	7.4	22 Apr'26	5yrUST+4.578%	25
RAKUTN 8.125 Perp	USJ6264AM64	550	100.0	8.1	15 Dec'29	5yrUST+4.000%	25
PCORPM 5.95 Perp	XS2330597738	550.0	100.1	5.9	19 Apr'26	5yrUST+7.574%	250
SMCGL 5.7 Perp	XS2098881654	493.3	98.9	6.8	21 Jan'26	5yrUST+6.554%	250
SMCGL 5.45 Perp	XS2346954873	683.5	96.9	7.2	9 Dec'26	5yrUST+7.155%	250
SMCGL 8.125 Perp	XS2943809900	500	101.7	7.7	2 Dec'29	5yrUST+6.404%	250
SMCPM 5.5 Perp	XS2207320701	500	99.5	6.4	29 Jul'25	5yrUST+10.237%	500
Neutral							
NWDEVL 4.125 Perp	XS2348062899	1,144	39.3	39.2	10 Mar'28	5yrUST+5.858%	300
RAKUTN 6.25 Perp	US75102WAB46	1,000	90.7	8.2	22 Apr'31	5yrUST+4.956%	25
UPLLIN 5.25 Perp	XS2125139464	400	90.7	79.5	27 Feb'25	5yrUST+3.865%	-

Note: The call date of FAEACO 12.764 Perp and NWDEVL 4.8 Perp refer to next call date.
Source: Bloomberg.

FAEACO 12.764 Perp: Initiate buy

Although Far East Consortium did not call FAEACO 12.764 Perp on 18 Oct'24, the first call date, and instead solicited the consent for partial calls. We understand that the non-call is partly due to the potential loan covenant breach if the perp were called in full in Oct'24. The consent solicitation for partial calls reflects Far East Consortium's strong willingness to call perps to lower funding cost. The consent also allows Far East Consortium much more flexibility to call the perp depending on the cash collections from property and non-core asset sales without the concerns of breaching covenant.

We expect that the net cash collection from properties to be delivered and conclusion of non-core asset disposals such as the planned sale of BC Invest will allow Far East Consortium to partial call the perp starting from late 1Q25. The cash to be collected from property deliveries in 1Q25 will be cHKD2.5bn while the investments (including debenture) in BC Invest is cUSD100mn. Trading at 99.9 with the coupon rate stepped up to 12.764%, FAEACO 12.764 Perp is a good short-dated carry play.

NWDEVL complex: Switch to NWDEVL 4.8 Perp from NWDEVL 4.125 Perp

NWDEVLs had moved sharply lower given the recent negative headlines of CEO change, covenant changes and rumours of debt restructuring. Nonetheless, we understand that the covenant changes are preemptive moves to raise its adj. net gearing ratio to 100% from 80% (adj net gearing was c74% in Jun'24 as per our estimates) and the widespread debt restructuring plan is "faked". We believe that the recent price movements overdone and we see a switching opportunity to FFL NWDEVL 4.8 Perp from NWDEVL 4.125 Perp given the higher cash yield over the coming 3 years and lower cash price of NWDEVL 4.8 Perp. At the same time, we maintain buy on the 2 perps with high coupon step-up, i.e. NWDEVL 6.15 Perp and NWDEVL 5.25 Perp.

We believe that the latest CEO change reflected the heavy involvement the Cheng family has in NWD's strategic directions. CTF and the Cheng family's tightening grip on NWD means they will continue to provide support to NWD. Over the past 18 months, CTF has demonstrated once again the key strategic directions of NWD are to cut debts and interest expenses. CTF had provided support through acquiring NWD's stakes in NWS and stakes in Shenzhen commercial complex for a total consideration of cHKD37bn.

Despite some delays in closing NCDs in 1HFY25, NWD maintains the plan to cut debts and interest expenses, as well as the NCD plan of HKD13bn in FY25. As of Sep'24, NWD had completed NCD of HKD3.8bn, c29% of FY25 target. NWD signed cooperative/strategic agreements on the developments of land reserve in Northern Metropolis with 3 Chinese state-own developers. It has also been working on accessing onshore funding channels including operating loans against its Chinese IPs (BV of over HKD50bn and o/s operating loans against IPs in China was cHKD5.8bn). There are also media reports on the potential sale of K11 Art Mall to a group company of Chinese Resources Group. A new CEO with a stronger connection in mainland China may help speed up NCD as well as monetization of its IPs and land reserve in HK and China.

RAKUTN 5.125 Perp and RAKUTN 8.125 Perp

We maintain buy on the new RAKUTN 8.125 Perp in view of the yield pick-up and good carry within the RAKUTN curve. At 100.0, RAKUTN 8.125 Perp (callable Dec'29) is trading at YTC of 8.1%, offers yield-pick up of 78bps over RAKUTN 9.75 04/15/29 with 8 months longer in "tenor", as well as trading 20bps lower than RAKUTN 6.25 Perp but callable c1.3 years earlier.

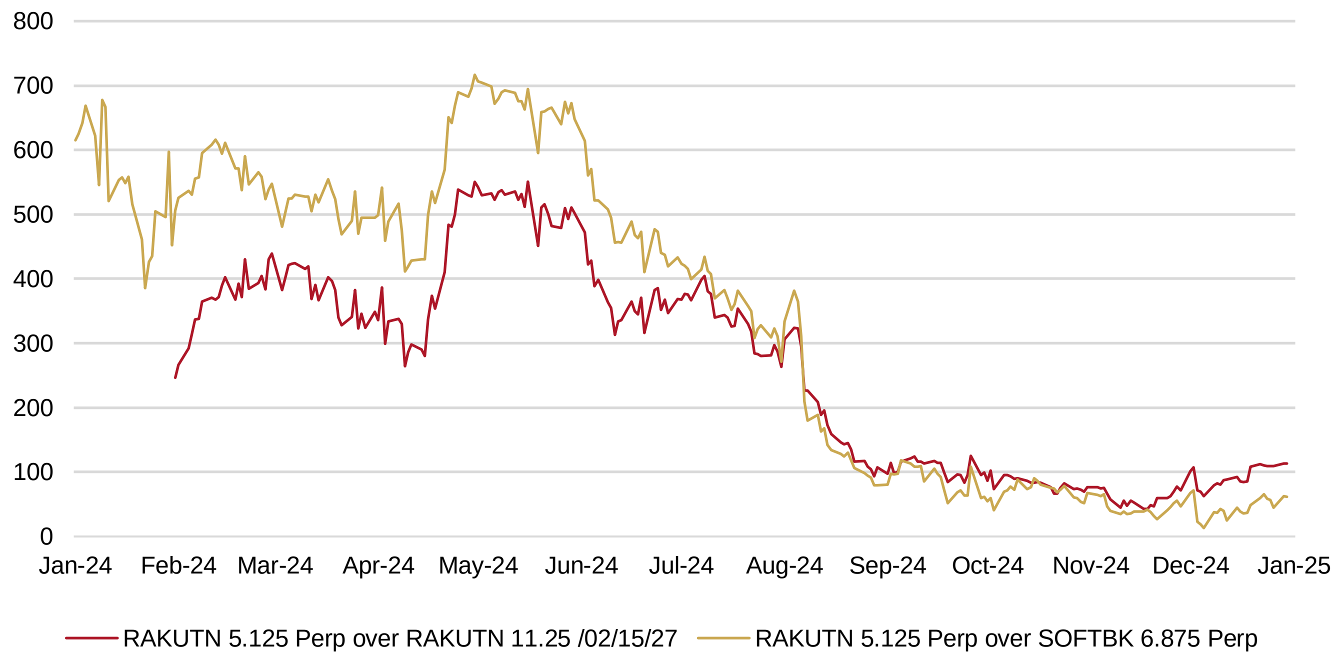
Meanwhile, we also maintain buy on RAKUTN 5.125 Perp (callable Apr'26) in view of yield pick-up of 88bps over RAKUTN 11.25 02/15/27 and 43bps over SOFTBK 6.875 Perp (callable Jul'27), despite the conviction is lower after the price rally during the year. See Chart 1. At 97.3, RAKUTN 5.125 Perp is trading at YTC of 7.4%. The coupon of RAKUTN 5.125 Perp and RAKUTN 8.125 Perp will be reset with a coupon step-up of 25bps if the perps are not called on their respective first call dates. We see a good chance of Rakuten to call the perps on first call dates, in view of its improving operating performance and good access to various funding channels. We have a neutral recommendation on RAKUTN 6.25 Perp as we prefer shorter tenor given our expectation of higher rate volatility.

We understand that the issuance of RAKUTN 8.125 Perp is to redeem its due-2055 JPY subordinated bonds on their respective first call dates in Nov-Dec'25. The redemptions of the two JPY subordinated bonds reinforce our view that Rakuten will call its perps on the first call dates. Indeed, these two JPY subordinated bonds carry coupon step-up to 2.2-3.6% from 1.81%-2.61% if they are not called on their first call dates, the magnitude of coupon step-up is lower than that of its USD perps.

On the other hand, Rakuten completed the transfer of 14.99% of Rakuten Card, its wholly-owned subsidiary, to Mizuho FG for JPY165bn on 1 Dec'24. Rakuten will continue to control Rakuten Card with a remaining stake of 85.01%. Teaming up with Mizuho FG will help to expand Rakuten Card's customer base to corporate customers. Additionally, the stake sale also demonstrates Rakuten's ability to monetize its good quality assets in case of necessary, in our view. Rakuten Card generated revenue of JPY406bn in FY23 and total equity was JPY147bn as of Dec'23. The share transfer implies a market valuation of Rakuten Card at JPY1.1tn (excl. control premium).

We consider Rakuten's liquidity profile adequate over the medium term. As of Sep'24, Rakuten had cash on hand of JPY5,887bn, compared with total debts (incl. perps) of JPY5,881bn. As per Rakuten, its debt maturities up to FY25 largely plugged, the issuance of USD bonds in 1H24 has addressed its maturities up to end of 2025. Meanwhile, we are not too concerned with Rakuten Mobile may miss the monthly positive EBITDA target by end of 2024. We understand that Rakuten Mobile is still at a negative EBITDA position in 3Q24 of JPY10bn, narrowed from JPY20bn in 1Q24. The revenue of Rakuten Mobile has been increasing since 3Q23, and the 3Q24 revenue increased 30% yoy to JPY73bn from 3Q23 with higher number of subscribers. These should enable Rakuten Mobile to achieve positive EBITDA in the near term.

Chart 1: Yield differential of RAKUTN 5.125 Perp over peers (bps)



Source: Bloomberg.

SMC Complex

PCORPM 5.95 Perp

PCORPM 5.95 Perp is Petron's only outstanding USD issue. The coupon of PCORPM 5.95 Perp will be reset and step-up by 250bps to c11.9% (i.e. 5yrUST+7.574%) after the first call date in Apr'26. We expect Petron to call the perp on the first call date in Apr'26, in view of 250bps of coupon step-up and Petron's track record of calling its perps on the first call dates. Recalled that Petron called PCORPM 4.6 Perp and PCORPM 7.5 Perp on their first call dates in Jul'23 and Jun'18, respectively. Given Petron's good access to funding channels, especially onshore preference share issues and loans, we believe that Petron is capable of refinancing PCORPM 5.95 Perp with lower cost alternatives. At 100.1, PCORPM 5.95 Perp was traded at YTC of 5.9%. We consider PCORPM 5.95 Perp a low beta and good carry play.

The average refining margin of Petron declined by c30% yoy in 9M24, reflecting the weak demand for petroleum products, new capacity coming on stream and depreciation in PHP against USD. The average benchmark Dubai crude price was the same at USD82/barrel in 9M24 and 9M23. We take some comfort that the pressure on refining margin will be tempered by some refiners' reduction of refinery runs. As of Sep'24, Petron had cash of PHP31bn while total debts (incl. USD perps) of PHP295bn.

We take additional comfort on Petron's good access to bank borrowings for refinancing of short-term dues. Petron issued Series 4D (at 6.8364%) and 4E (at 7.1032%) preferred shares onshore totaled PHP17bn in Sep'24, to redeem Series 3A preferred shares in Dec'24 and refinance debts. In Oct'24, Petron drew USD141mn from an USD500mn term loan obtained in Jul'24 to repay debts. The new loan will be amortized in 7 equal semi-annual installments starting from Jul'26 and will be matured in Oct'29 at SOFR+170bps.

SMCGL 5.7 Perp, SMCGL 5.45 Perp, and SMCGL 8.125 Perp

SMCGL was active in the offshore USD bonds market in 2024. It completed two rounds of tender and exchange offers in Sep'24 and Nov'24, funded by issuance of SMCGL 8.75 Perp of USD900mn (incl. tap of USD100mn) and SMCGL 8.125 Perp of USD500mn, respectively. We view the near-term refinancing pressure of SMCGL is lessen after two rounds of exchange and tender offers. The next callable USD perp will be SMCGL 5.95 Perp in May'25. Indeed, SMCGL may utilize the remaining proceeds from the issuance of SMCGL 8.125 Perp to further repurchase SMCGL 5.95 Perp and SMCGL 7 Perp.

Within the SMCGL curve, we prefer SMCGL 5.7 Perp and SMCGL 5.45 Perp for better risk-return profiles in view of their lower cash price, higher YTC and shorter effective tenor. We also like SMCGL 8.125 Perp which offers the highest YTC along the curve, and traded 7bps higher than SMCGL 8.75 Perp for 6-month longer in "tenor". We believe that SMCGL will redeem its perps on the first call dates due to the coupon reset and high step-up, as well as good access to funding channels.

Apart from the offshore USD issuance discussed above, SMCGL completed a private placement of USD800mn perp to Azure Venture Investments to redeem SMCGL 6.5 Perp on the first call date in Apr'24. The distribution rate of the perp is c11%, as per our estimate. SMCGL was also active in refinancing via onshore funding channel during 2024. For instance, SMCGL drew the remaining PHP12bn from its due-Oct'33 amortizing term loan of PHP40bn in Mar'24; PHP10bn 7.375% due-Jun'29 term loan in Jul'24; drew USD300mn due-Aug'27 term loan at SOFR+170bps in Sep-Oct'24. Furthermore, SMCGL had track record of calling its perps on the first call date, i.e. SMCGL 7.5 Perp in Nov'19, SMCGL 6.75 Perp in Feb'21, and SMCGL 6.5 Perp in Apr'24.

SMCPM 5.5 Perp

SMCPM 5.5 Perp, issued by SMC at the holdco level, is the perp with the highest coupon step-up of 500bps within SMC Complex. At 99.5, SMCPM 5.5 Perp was traded at YTC of 6.4%. We expect SMC to refinance SMCPM 5.5 Perp on the first call date, as the coupon will be reset and step-up to c14.3% if it is not called on the first call date in Jul'25. At the holdco level, SMC had cash on hand of PHP56bn as at Dec'23. We take additional comfort on SMC's ability to access to onshore funding to meet its debt maturities. Recalled that SMC issued 6.5-year and 10-year bonds in Jul'24 totaled PHP20bn at 7.7197% and 7.2584%, respectively, for refinancing.

UPLLIN 5.25 Perp

We are neutral on UPLLIN 5.25 Perp. At 90.7, UPLLIN 5.25 Perp was traded at YTC of 79.5%. UPLLIN 5.25 Perp will be first callable in Feb'25. The coupon will be reset in May'25 to c7.9% (i.e. 5yUST+3.865%) from 5.25% with no coupon step-up, and callable anytime thereafter with minimum 10 days' notice. Our base case is UPLLIN 5.25 Perp will not be called on the first call date, in view of UPL's average cost of borrowing of 7% in 2QFY25.

UPL sold 8.93% stake in Advanta, its 86.7%-owned seeds business, to Alpha Wave at USD250mn on 19 Nov'24 at an equity valuation of USD2.7bn. At the same time, Advanta will issue new shares of USD100mn to Alpha Wave. After the stake sale and new share issuance, UPL holds 74.7% in Advanta, KKR and Alpha Wave hold 12.86% and 12.44%, respectively. We understand that UPL is in the process of filing the red herring prospectus for Advanta and believe UPL may continue to look for a window to spin off Advanta at a higher valuation. Nonetheless, given the deteriorated profitability of Advanta (EBITDA margin dropped to 24.2% in 1HFY25 from 29.5% in 1HFY24), the timing for IPO of Advanta remains uncertain.

On the other hand, UPL raised INR33.8bn (cUSD394mn) from the rights issue in Dec'24. The stake sale in Advanta for USD250mn and the rights issue of cUSD394mn have shored up UPL's liquidity and lessened its refinancing pressure. As per our estimate, the proforma net debt/LTM EBITDA will drop to 5.2x from 6.3x as of Sep'24 with the cash proceeds totaled cUSD644mn.

Nonetheless, UPL is under rating downgrade pressure. Moody's downgraded UPL by one notch to Ba2 in Aug'24, and changed the outlook to negative in Nov'24 from rating under review on weak liquidity. Fitch downgraded UPL by one notch to BB in May'24 with negative outlook. The leverage of UPL will be higher from Fitch's perspective if it redeem the UPLLIN 5.25 Perp, as the perps currently enjoying 50% equity credit in Fitch's leverage calculation.

Appendix 2: Bank Capital Papers – Opportunities in AT1 and T2

Asian AT1s & T2s: Lower YTC than European peers but higher return predictability

We maintain buy on **CHIYBK 8 Perp (AT1), CHIYBK 5.75 04/07/32 (T2), SHINFN 2.875 Perp (AT1) in Asian DM, and BBLTB 5 Perp (AT1), KBANK 5.275 Perp (AT1), KBANK 3.343 10/02/31 (T2), RCBPM 6.5 Perp (AT1) in Asian EM.** On the other hand, we changed recommendations on short-dated to call capital papers with high cash prices and lower coupons to neutral, and recommend investors to switch to longer-dated to call (i.e. 2-3 years to call) capital papers with higher YTC, higher coupon and, in some cases, lower cash prices. We therefore initiate buy on **BBLTB 3.466 09/23/36 (T2)** and **KBANK 4 Perp (AT1)** for their better risk-return profiles, as well as **ANZ 6.75 Perp (AT1), MQGAU 8.125 Perp (AT1), and WSTP 5 Perp (AT1)** for the even higher certainty of being called following the Australian Prudential Regulation Authority (APRA)'s framework to phase out the uses of AT1s starting from Jan'27. The switches are more of RV trades instead of our concerns on non-call. See Table 1 for the summary of our recommendation changes.

While capital papers of European banks offer better YTC, we consider capital papers of Asian banks offer more predictable return. Overall, we believe that the return predictability of our Asian AT1s and T2s picks are high, given these issuers' solid capital adequacy, stable dividend policy and track records of calls and timely distributions. For T2s, the return predictability is even higher given T2s' seniority in the capital structure. Additionally, the annual capital amortization of 20% in the last five years to maturity provides an extra incentive for the issuing banks to call.

Table 1: Our Asian AT1 & T2 picks

Security name	ISIN	Region	Type	Recommendation	Amt o/s (USD mn)	Px	YTC	First call date	Mod duration	Issue rating (M/S/F)
Asian DM										
CHIYBK 8 Perp	XS2543377068	HK	AT1	Maintain buy	200	100.9	7.6	26 Oct'27	2.4	NR
CHIYBK 5.75 04/07/32	XS2460522555	HK	T2	Maintain buy	200	98.5	6.5	7 Apr'27	2.0	NR
SHINFN 2.875 Perp	US824596AA84	KR	AT1	Maintain buy	500	96.6	5.5	12 May'26	1.3	Baa3
DBSSP 3.3 Perp	XS2122408854	SG	AT1	Chg. to neutral	1,000	99.6	6.0	27 Feb'25	0.1	Baa1/-/BBB+
SHINFN 3.34 02/05/30	US82460P2A28	KR	T2	Chg. to neutral	500	99.8	5.4	5 Feb'25	0.1	Baa1/BBB/-
Asian EM										
BBLTB 3.466 09/23/36	US059895AV49	TH	T2	Initiate buy	1,000	86.0	6.0	23 Sep'31	5.7	Baa3
BBLTB 5 Perp	US06000BAA08	TH	AT1	Maintain buy	750	99.2	6.1	23 Sep'25	0.7	Ba1
KBANK 4 Perp	XS2371174504	TH	AT1	Initiate buy	350	95.7	6.2	10 Feb'27	1.9	Ba2
KBANK 5.275 Perp	XS2242131071	TH	AT1	Maintain buy	500	99.3	6.2	14 Oct'25	0.7	Ba2
KBANK 3.343 10/02/31	XS2056558088	TH	T2	Maintain buy	800	95.9	5.9	2 Oct'26	1.6	Ba1/-/BB+
RCBPM 6.5 Perp	XS2219370660	PH	AT1	Maintain buy	300	100.2	6.2	27 Aug'25	0.6	B1
BCHINA 3.6 Perp	XS2125922349	CN	AT1	Chg. to neutral	2,820	99.8	4.8	4 Mar'25	0.2	Ba1/BB+/BB+
ICBCAS 3.58 Perp	XS2229473678	CN	AT1	Chg. to neutral	2,900	99.0	5.0	23 Sep'25	0.7	Ba1
Australia										
ANZ 6.75 Perp	US05254HAA23	AU	AT1	Initiate buy	1,000	102.0	5.3	15 Jun'26	1.4	Baa2/BBB/BBB
MQGAU 6.125 Perp	US556079AB79	AU	AT1	Initiate buy	750	101.0	5.6	8 Mar'27	2.0	Baa3/BBB-/-
WSTP 5 Perp	US96122UAA25	AU	AT1	Initiate buy	1,250	98.8	5.5	21 Sep'27	2.5	Baa2/BBB/BBB
ANZ 2.95 07/22/30	US052528AL09	AU	T2	Neutral	1,250	98.7	5.4	22 Jul'25	0.5	A3/A-/A-
WSTP 2.894 02/04/30	US961214EM13	AU	T2	Neutral	1,500	99.8	5.2	4 Feb'25	0.1	A3/A-/A-

Source: Bloomberg.

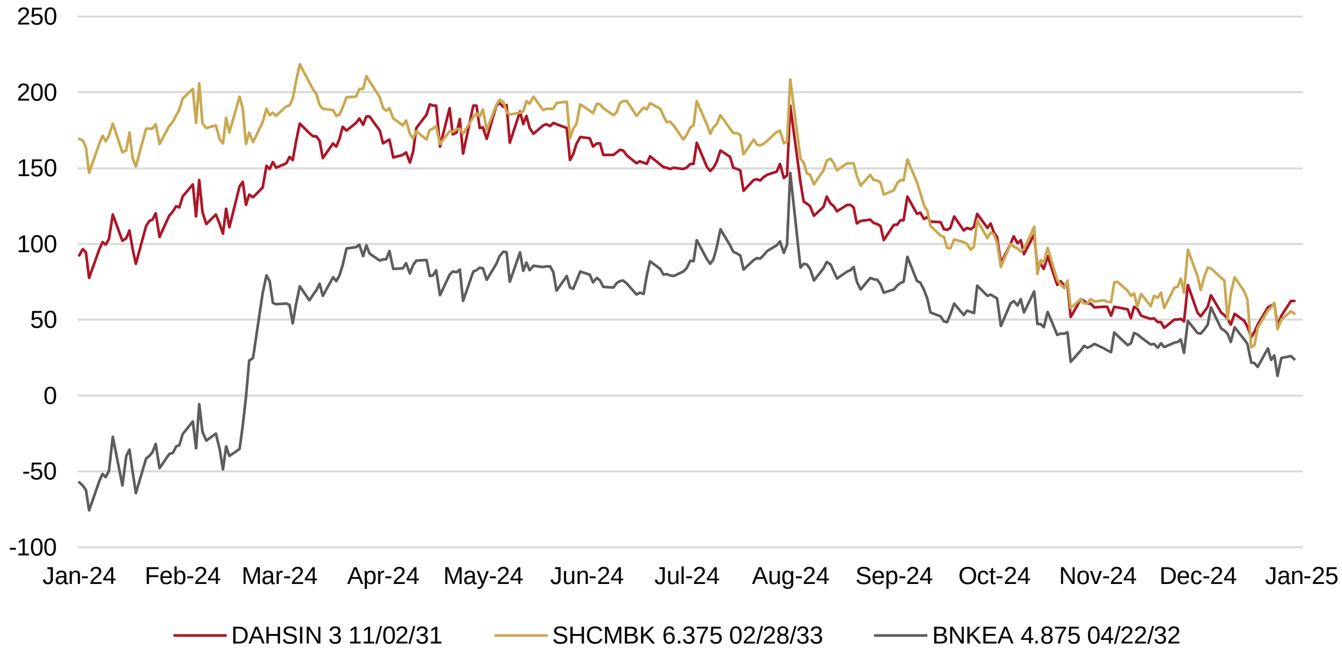
Asian DMs

CHIYBKs

In Asian DMs, we view CHIYBKs offer more appealing risk-return profiles compared with those of its peers. We believe that the weaker credit profile of Chiyu Bank, in terms of lower profitability, weaker asset quality, and smaller business scale compared with other Asian peers, is well compensated by its higher YTC. At 100.9, CHIYBK 8 Perp is trading at YTC of 7.6%. At 98.5, CHIYBK 5.75 04/07/32 (T2) is trading at YTC of 6.5%, and provided yield pick-up its local peers.

The YTC of CHIYBK 8 Perp (AT1, callable Oct'27) is the highest among Asian AT1s after the two Taiwan AT1s, CATFIN 5.1 Perp and ESUNBK 4.75 Perp. At the same time, the YTC of CHIYBK 5.75 04/07/32 (T2, callable Apr'27) is also the highest among Asian T2s after ESUNBKs and LUSOIBs. We view that the higher YTC of CATFIN and ESUNBK reflects the higher non-call risk. See our discussions on Taiwan AT1s & T2s below. We also prefer CHIYBKs to LUSOIBs because of Chiyu Bank's higher capital adequacy. Luso Bank is indeed an affiliate of Chiyu Bank. Both of them are ultimately owned by Xiamen International Bank. The CET1 ratio of Chiyu Bank was 14.0% as of Jun'24, well above Luso Bank's 6.7%.

Chart 1: Yield differential of CHIYBK 5.75 04/07/32 (T2) over its peers (bps)



Source: Bloomberg.

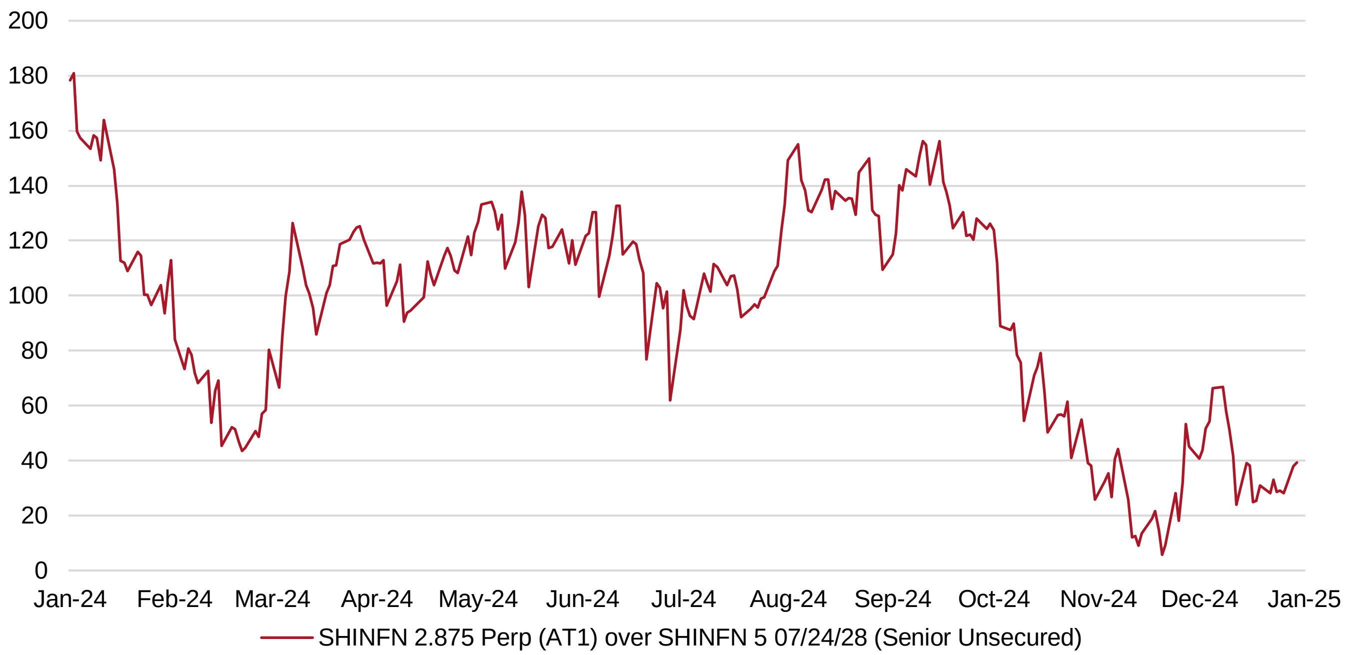
SHINFN

We maintain buy on SHINFN 2.875 Perp (AT1, callable May'26) in view of its more balanced risk and return profile. At 96.5, SHINFN 2.875 Perp (AT1) is trading at YTC of 5.5%, offering yield pick-up of 35bps over its senior bonds SHINFN 5 07/24/28 with two year shorter in "tenor". As of Sep'24, Shinhan Bank continues to deliver resilient profitability and solid capital adequacy.

We believe that Asian DM AT1s, especially those issued by major banks, also offer predictable return, partly because of these banks' comfortable capital adequacy levels even at the trough of last economic cycle around

2008. The chance of these banks become non-viable is remote over the medium term. Our belief of Asian DM banks to call their capital papers on the first call dates have reinforced after South Korea's Heungkuk Life insurance reversed the decision of not calling its perp in Nov'22 in response to the negative market reaction.

Chart 2: Yield differential of SHINFN 2.875 Perp over its senior SHINFN 5 07/24/28 (bps)



Source: Bloomberg.

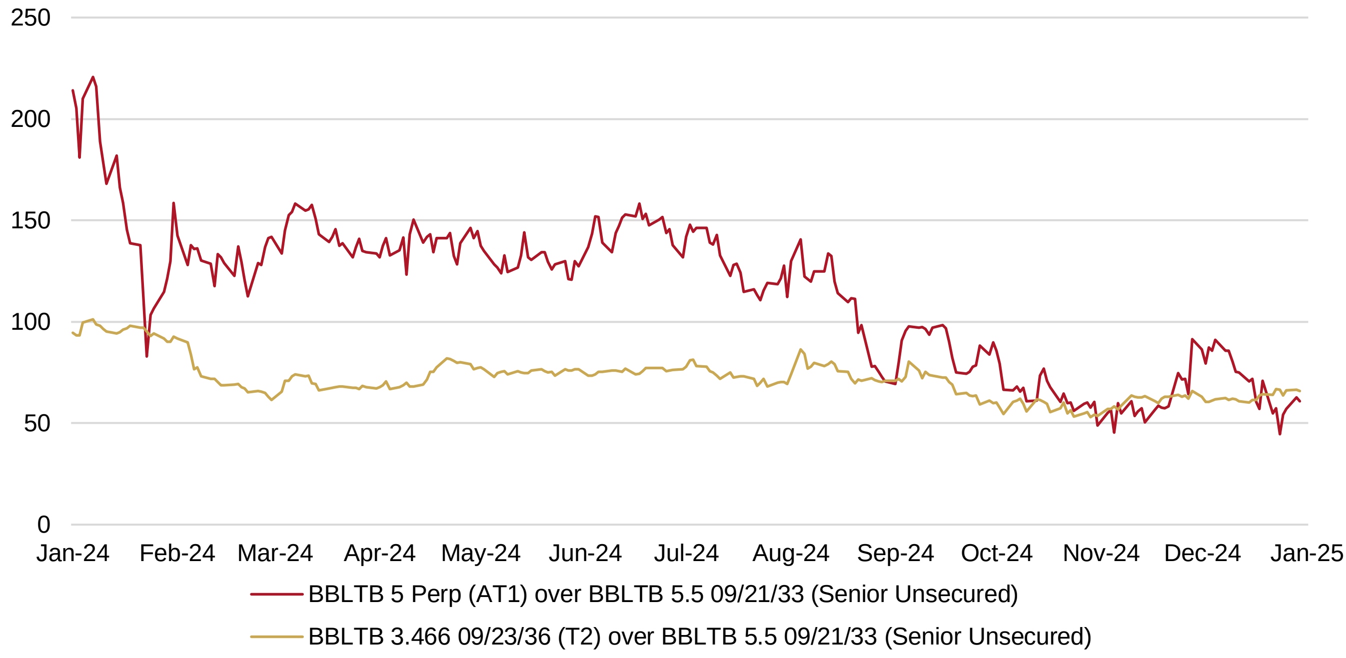
Asian EMs

BBLTBs

We initiate buy on BBLTB 3.466 09/23/36 (T2, callable Sep'31) for Bangkok Bank's resilient business profile, and lower cash price than BBLTB 3.733 09/25/34 with similar YTC but callable 2 years earlier. At 86.0, BBLTB 3.466 09/23/36 (T2) is trading at YTC of 6.0%, offering a yield pick-up of 64bps over its senior bond BBLTB 5.5 09/21/33 with two year shorter in "tenor". We also maintain buy on BBLTB 5 Perp (AT1, callable Sep'25), which is trading at YTC of 6.1% at 99.2. BBLTB 5 Perp offers a yield pick-up of 65bps over its senior bond BBLTB 5.5 09/21/33. See Chart 3.

Bangkok Bank is the largest bank in Thailand by total assets and customer deposits in FY23. It accounted for 16.3% and 16.0% of total assets and customer deposits in Thai banking sector, respectively. Bangkok Bank has more geographically diversified operations than its peers. Its international loan book represented 25% of total loans, higher than Kasikornbank (KBANK, 6%) and Krung Thai Bank (2%). The profitability of Bangkok Bank, in terms of NIM/ROA/ROE, has been improving since FY20-21. The lower profitability of Bangkok Bank, in our view, reflects that majority of its exposure is to larger corporates with lower credit risk. We take comfort on its sufficient capital buffers above the regulatory minimum requirement. We view the chance of non-viability for Bangkok Bank to be low in the medium term.

Chart 3: Yield differential of BBLTB AT1 and T2 over its senior BBLTB 5.5 09/21/33 (bps)



Source: Bloomberg.

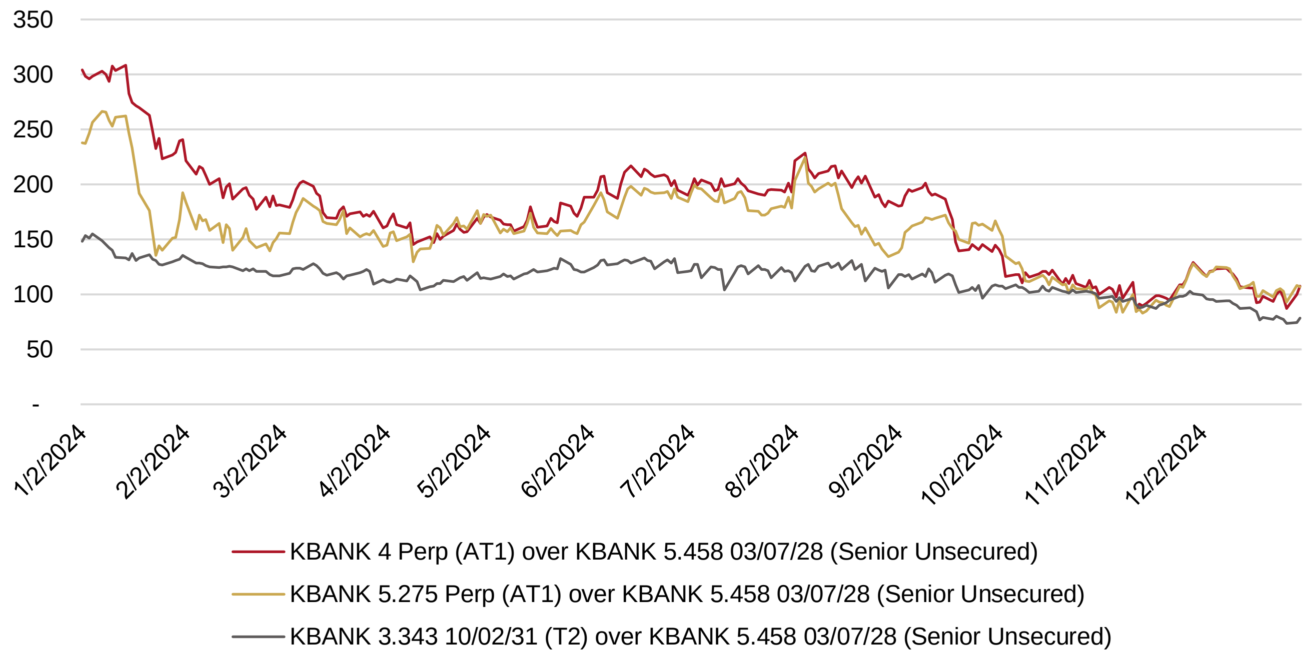
KBANKs

In Asian EM, we like KBANK in view of its higher NIM, stable asset quality, as well as ample capital buffers. The better profitability than peers was supported by more loan directed to manufacturing and commerce sectors where the lending rates are higher. The profitability of KBANK improved in 9M24, in which the NIM increased to 3.66% in 9M24 from 3.62% in 9M23. ROAA and ROAE also increased to 1.17% and 9.47%, respectively, in 9M24. Meanwhile, KBANK’s asset quality has been stable. Its NPL ratio stood at 3.2% as of Sep’24, Dec’23 and Dec’22, and the provision coverage at c150% over the same periods. KBANK also maintained ample capital buffers above the regulatory minimum requirement.

In Thailand, the regulatory forbearance ended in 2023 and the stage 2 and 3 loans to total loans increased in 2024 to reflect the loan reclassification. Despite the higher anticipated credit losses in 2025, we expect KBANK to have sufficient capital buffer to withstand the upcoming stress.

We prefer KBANK 4 Perp (AT1, callable Feb’27) over KTBTB 4.4 Perp (AT1) at similar YTC, in view of KBANK’s better profitability and lower cash price of KBANK 4 Perp (AT1). At 95.7, KBANK 4 Perp (AT1) is trading at YTC of 6.2%. We also maintain buy on KBANK 5.275 Perp (AT1, callable Oct’25) and KBANK 3.343 10/02/31 (T2, callable Oct’26), which are trading at YTC of 6.2% and 5.9% at 99.3 and 95.9, respectively. These two AT1s and the T2 also offer good yield pick-up over its senior bond KABNK 5.458 03/07/28. See Chart 4.

Chart 4: Yield differential of KBANK AT1 and T2 over its senior KABNK 5.458 03/07/28 (bps)



Source: Bloomberg.

RCBPM

We maintain buy on RCBPM 6.5 Perp (AT1, callable Aug'25), despite the conviction is lower after its good performance (+4pts) in 2024. At 100.2, RCBPM 6.5 Perp (AT1) is trading at YTC of 6.2%, offering yield pick-up of 90bps over its senior bond RCBPM 5.5 01/18/29. We noted Rizal Commercial Bank (RCB)'s profitability, in terms of ROAA and ROAE, decreased in 1H24 compared to that of FY23 and 1H23. The asset quality also deteriorated with higher impaired loan ratio at 2.0% as of Jun'24, compared to 1.6% as of Dec'23. These led CET1 ratio declined to 13.8% as of Jun'24 from 14.7% as of Dec'23. That said, its latest CET1 ratio is still 5.3 pct pt higher than the regulatory minimum requirement of 8.5%. The chance of RCB to be non-viable in the near-term is low, in our view.

Australia: ANZ 6.75 Perp (AT1), MQGAU 8.125 Perp (AT1) and WSTP 5 Perp (AT1)

On 9 Dec'24, APRA confirmed the proceeding to phase out the uses of AT1 capital instruments, it will finalize the prudential and reporting standards by late-2025. The new framework will come into effective starting from 1 Jan'27, and the existing AT1s will be eligible to be included as T2 until their first scheduled call date.

As per our estimates, the total outstanding AT1s issued by the big five banks (ANZ, WSTP, Macquarie, NAB and CBA) were AUD40bn, including offshore USD AT1s totaled USD3bn. The APRA proposal will maintain the total capital and buffer ratios unchanged but will replace AT1s with T2s and CET1s. To illustrate, the Advanced Banks (large and internationally active banks) will replace 1.5% AT1s with 0.25% CET 1s and 1.25% T2s, while smaller banks to fully replace AT1s with T2s. See Table 2.

Moreover, APRA expects banks with surplus AT1 up to 1 Jan'27 not to issue new AT1, and the last AT1 will reach their first call date by 2032. Hence, Aussie AT1 will become a legacy product once the proposal become effective. We recommend buy on the three Aussie AT1, i.e. ANZ 6.75 Perp (callable Jun'26), MQGAU 8.125 Perp (callable

Mar'27) and WSTP 5 Perp (callable Sep'27), for scarcity of Aussie AT1 as well as their high certainty of call on its respective first call dates. As AT1 will only be accounted as T2 anyway by Jan'27, we can envisage Aussie banks will be highly incentivized to refinance their AT1s either with T2s or with CET1s, even if APRA would not expect to approve regulatory calls of these AT1 instruments at an earlier date than their first call dates.

With AT1s will be partially replaced with T2s, the supply of Aussie T2s will likely increase over the coming few years. Furthermore, T2s will be more risky instruments without the cushion of AT1s. As per APRA, the additional T2s issuance will be AUD36bn from 2025 to 2032, c26% of existing T2s totaled cAUD137bn. c39% of existing T2s are in AUD, c49% are in USD, and the remaining c12% are in EUR, GBP, JPY, etc. The less cushion for loss absorption and notable increase in supply over the coming years will be an overhang for the performance of Aussie T2s. Given high cash prices and short call dates, we turned neutral on the two Aussie T2s, ANZ 2.95 07/22/30 and WSTP 2.894 02/04/30 from buy. With more active issuance, we expect more switching and RV trade opportunities in Aussie T2 space.

Table 2: Minimum prudential capital requirements under APRA's new framework

	Advanced banks		Standardized banks	
Minimum capital requirements	**Current**	**Proposed**	**Current**	**Proposed**
CET 1 ratio	*4.5%*	*6.0%*	*4.5%*	*4.5%*
Capital conservation buffer	*3.75%*	*2.5%*	*2.5%*	*2.5%*
Countercyclical capital buffer	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Additional buffer for D-SIB	*1.0%*	*1.0%*	-	-
AT1 ratio	*1.5%*	-	*1.5%*	-
Tier 1 ratio	11.75%	-	9.5%	-
Tier 2 ratio	2.0%	3.25%	2.0%	3.5%
Total capital ratio	13.75%	13.75%	11.5%	11.5%

Note: Advanced banks refers to Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, ING Bank (Australia) Limited, Macquarie Bank Limited, National Australia Bank Limited, and Westpac Banking Corporation. Source: APRA.

Table 3: Key financials of our picks

USD mn	**ANZ**	**BBLTB**	**CHIYBK**	**KBANK**	**MQGAU**	**RCBPM**	**SHINFN**	**WSTP**
Region	AU	TH	HK	TH	AU	PH	KR	AU
As of	Sep'24	Sep'24	Jun'24	Sep'24	Sep'24	Jun'24	Sep'24	Sep'24
Total assets	782,209	131,750	23,711	128,567	263,670	21,729	388,914	685,749
Total loans	511,272	70,171	10,849	68,347	119,048	11,498	266,733	513,427
NIM (%)	1.6	3.1	N/A	3.7	N/A	3.7	1.6	1.9
ROA/ROAA (%)	0.6	1.0	0.1	1.2	0.9	0.7	0.8	0.7
ROE/ROAE (%)	9.4	8.5	0.6	9.5	9.9	5.7	11.5	9.8
NPL (%)	0.2	3.4	3.5	3.2	1.4	2.0	0.3	0.2
NPL coverage (%)	217.1	266.6	22.4	150.7	42.2	N/A	190.4	49.4
CET 1 ratio (%)	12.2	18.4	14.0	16.9	12.8	13.8	15.0	12.5
CET 1 ratio requirement (%)	10.3	8.0	7.7	8.0	9.0	8.5	10.5	10.3
CET 1 ratio buffer (%)	2.0	10.4	6.3	8.9	3.8	5.3	4.5	2.2

Source: Company filling, CMBI Research.

Non-call history of Taiwanese TWD AT1s and USD T2s

Despite the high YTC of Taiwanese AT1s and T2s, we are neutral on these given the non-call history of Taiwanese TWD AT1s as well as USD T2s. There were plenty of non-call AT1s in Taiwan banking sector. See Table 4. We also believe that the likelihood of Taiwan's USD AT1s being called on the first call dates is lower as Taiwanese banks are less incentivized to call without coupon reset. ESUNBK 4.75 Perp and CATFIN 5.1 Perp are the two AT1s with the highest yields in the Asian USD AT1 universe. However, E.SUN Bank (ESUN) has track records of not calling 4 USD T2s (ticker ESUNBK 0 05/27/45, ESUNBK 0 10/28/45, ESUNBK 0 01/22/46 and ESUNBK 0 06/06/46) on their respective first call dates in 2022-23. These very long-dated T2s were first callable in 2022-23 and will be callable every 5 years thereafter, thus their next call dates will be in 2027-28. We believe that ESUN will delay the call of these T2s to 2040-41, five years to maturities, when the capital amortization starts to kick in.

Cathay United Bank (CUB), on the other hand, has a low capital buffer against the regulatory minimum requirement. The minimum Tier 1 ratio requirement on CUB in 2026 will be 12.5%, compared with its CET1 ratio at 11.3% and Tier 1 ratio at 13.0% as at Jun'24. In our view, whether CATFIN 5.1 Perp will be called on the first call date is highly uncertain.

Table 4: Non-call of outstanding TWD-denominated AT1s

Security name	O/s Amt (TWD mn)	Issue date	First call date
IBTAIW 4 PERP	750	12/27/2017	3/27/2021
BOPHSN 4 ¾ PERP	1,216	8/31/2016	8/31/2021
BOPHSN 4 ¾ PERP	410	9/30/2016	9/30/2021
TCCBNK Float PERP	1,500	12/28/2016	12/28/2021
LANTAI 3.15 PERP	7,500	12/29/2016	12/29/2021
TCCBNK Float PERP	1,000	3/28/2017	3/28/2022
BOPHSN 4 ¾ PERP	150	4/28/2017	4/28/2022
TCCBNK Float PERP	500	5/18/2017	5/18/2022
LANTAI 2.95 PERP	4,500	6/29/2017	6/29/2022
BOPHSN 4 ¾ PERP	133	7/21/2017	7/21/2022
TCCBNK Float PERP	500	8/28/2017	8/28/2022
TCCBNK Float PERP	1,350	12/5/2017	12/5/2022
SUNYBK 4 ½ PERP	700	12/24/2015	12/24/2022
TCCBNK Float PERP	2,650	12/27/2017	12/27/2022
SINPAC 4 PERP	3,000	6/28/2017	12/28/2022
SUNYBK 4 ½ PERP	200	12/31/2015	12/31/2022
COOPTW 2.28 PERP	5,000	11/26/2018	1/26/2023
TCCBNK Float PERP	1,000	4/25/2018	4/25/2023
HUANAN 2.7 PERP	3,200	2/26/2018	5/26/2023
COTABK Float PERP	600	6/21/2018	6/21/2023
SHIKON 3.4 PERP	2,500	3/30/2018	6/30/2023
CHCB 2.66 PERP	7,000	4/26/2018	7/26/2023
FIRFIN 2.57 PERP	5,000	5/28/2018	7/28/2023
SUNYBK 4.35 PERP	300	8/19/2016	8/19/2023
BKKAOH 2.6 PERP	800	9/12/2018	9/12/2023
TAISTA 4 PERP	200	9/17/2018	9/17/2023
FAREST 3.2 PERP	2,900	9/18/2018	9/18/2023

FIRFIN 2.36 PERP	7,000	9/25/2018	9/25/2023
IBTAIW 4 PERP	700	6/29/2018	10/16/2023
SUNYBK 4.35 PERP	200	10/18/2016	10/18/2023
CHCB 2.3 PERP	3,000	11/8/2018	12/8/2023
TCCBNK Float PERP	1,500	12/18/2018	12/18/2023
TAISTA 4 PERP	130	12/24/2018	12/24/2023
SHCZ 2.15 PERP	7,000	12/12/2018	1/12/2024
FUBON 2.15 PERP	6,500	12/18/2018	1/18/2024
TAISTA 4 PERP	40	1/25/2019	1/25/2024
COSMBK 2.35 PERP	3,000	12/27/2018	1/27/2024
SUNYBK Float PERP	800	3/31/2017	3/31/2024
TAISTA 4 PERP	20	4/25/2019	4/25/2024
TAISHI 2.45 PERP	5,000	3/28/2019	4/28/2024
TAISTA 4 PERP	210	6/17/2019	6/17/2024
CHIFIN 3.7 PERP	10,000	6/18/2014	6/18/2024
SINPAC 2.4 PERP	2,000	1/25/2019	7/25/2024
FUBON 1.9 PERP	3,100	6/25/2019	7/25/2024
COOPTW 1.9 PERP	5,000	6/26/2019	7/26/2024
CHCB 1.9 PERP	5,960	6/27/2019	7/27/2024
HUANAN 1.95 PERP	6,000	4/29/2019	7/29/2024
SUNYBK Float PERP	530	8/30/2017	8/30/2024
SHIKON 2.2 PERP	4,500	6/21/2019	9/21/2024
SUNYBK Float PERP	350	9/25/2017	9/25/2024
FUBON 1.63 PERP	4,400	9/26/2019	10/26/2024
BKKAOH 2 PERP	1,200	12/20/2019	12/20/2024

Source: Bloomberg.

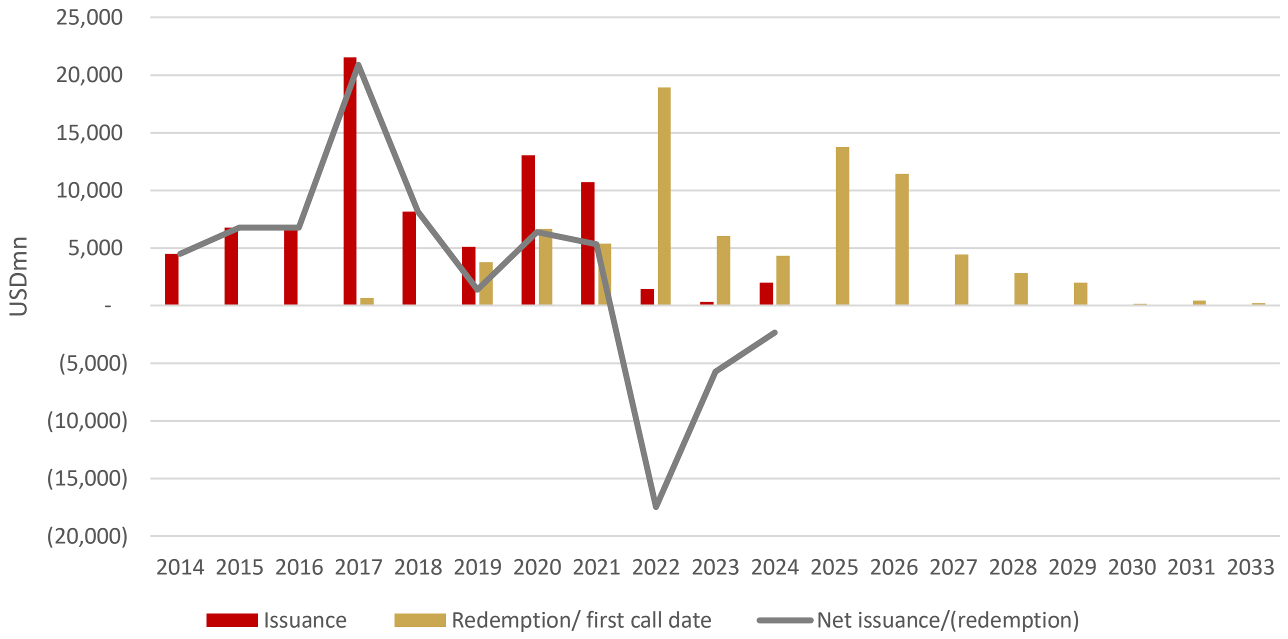
Net redemptions likely to continue in 2025

We expect Asian banks (other than Taiwanese banks) to call their AT1s and T2s on their first call dates, and issuers will likely refinance part of the call through onshore funding channels. Hence, we see a high chance that the Asian AT1s and T2s will experience another year of net redemption in 2025, taking cues from the sizable AT1s and T2s to be callable next year.

In 2024, the net redemptions for Asia ex JP AT1s totaled USD2.3bn. CCB issued totaled USD2bn of AT1 in Nov-Dec'24, while seven AT1s totaled USD4.3bn were called without tapping new offshore USD AT1s. In 2025, there will be AT1s totaled USD13bn first callable in which USD8.5bn are Chinese AT1s. We expect the issuing banks, especially Chinese banks, to refinance a major part of calls onshore given the lower onshore funding cost. In 2024, Chinese banks issued AT1s totaled cUSD97.9bn equivalent onshore at coupon rate of 2.17%-3.80%, compared with CCB 5.705 Perp issued in Nov'24 at 5.705%.

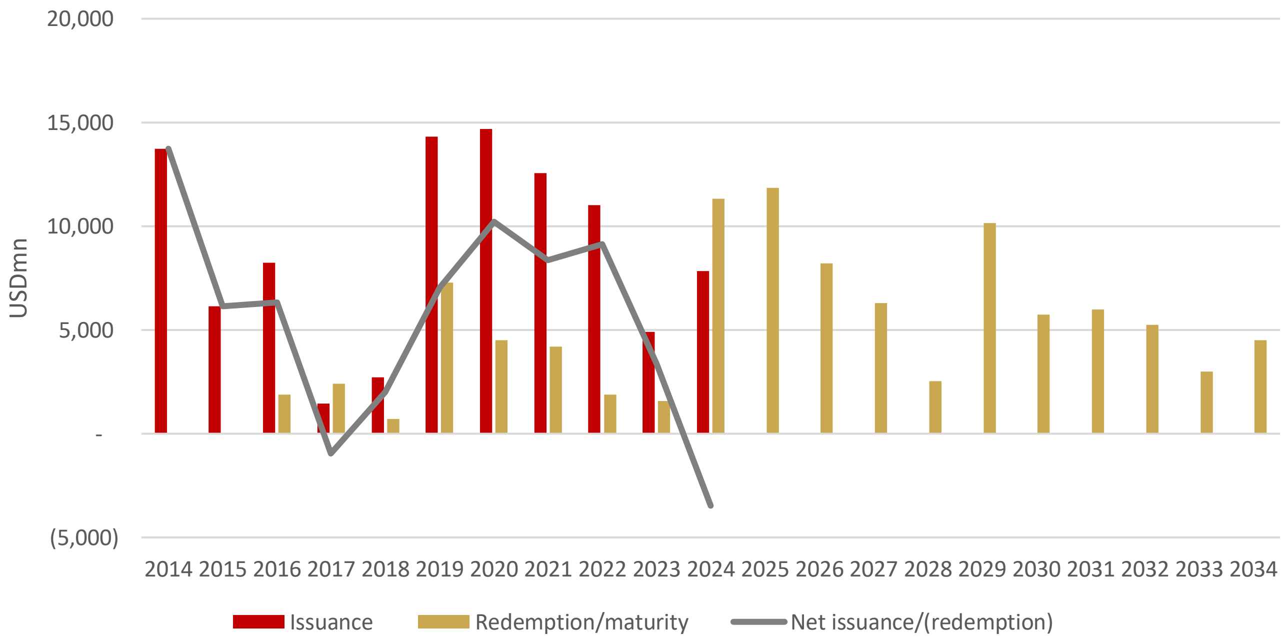
On Asia ex JP T2s, the net redemption in 2024 was USD3.5bn. 70% of the gross issuance of USD7.9bn was from Aussie banks. We expect Aussie banks to continue to issue T2s to refinance the callable T2s and maturing T2s (legacy non-callable T2s), as well as to replenish their capital given APRA's plan to phase out AT1s starting from Jan'27. That said, we expect Aussie banks to tap onshore market to fulfill part of the refinancing and capital replenishment requirements to lower forex risk. In 2024, Aussie banks issued onshore T2s totaled cUSD9.4bn equivalent at coupon rates in the range of 5.60-6.39%, and Chinese banks issued onshore T2 totaled cUSD133bn equivalent at coupon rate of 1.96-5.10%.

Chart 5: Net redemption of Asian AT1s in 2024 (USD mn)



Note: CIMWLB 7.93 Perp (first callable Dec'24) and CCB 6.75 Perp (first callable Dec'24) will be next callable in Jun'25 per Bloomberg, and included in 2025. Source: Bloomberg.

Chart 6: Net redemption of Asian T2s in 2024 (USD mn)



Note: First call date is treated as maturity in the chart. The "maturity" of ESUNBKs are the next call dates in 2027-28. Source: Bloomberg.

European AT1s: Even more selective under tighter Basel III requirements

We expect European AT1s (incl. EU, Switzerland and UK) continue to provide higher YTC compared with those of similarly-rated Asian AT1s in 2025, due to the relatively weaker technical and track records of non-call and distribution cancellation. We also expect the net issuance in the European AT1 space to increase given bank's increasing risk-weighted assets (RWA) and higher capital ratio requirements after the implementation of final batch of Basel III by European Central Bank (ECB) and Bank of England (BoE) starting from Jan'25 and Jan'26, respectively.

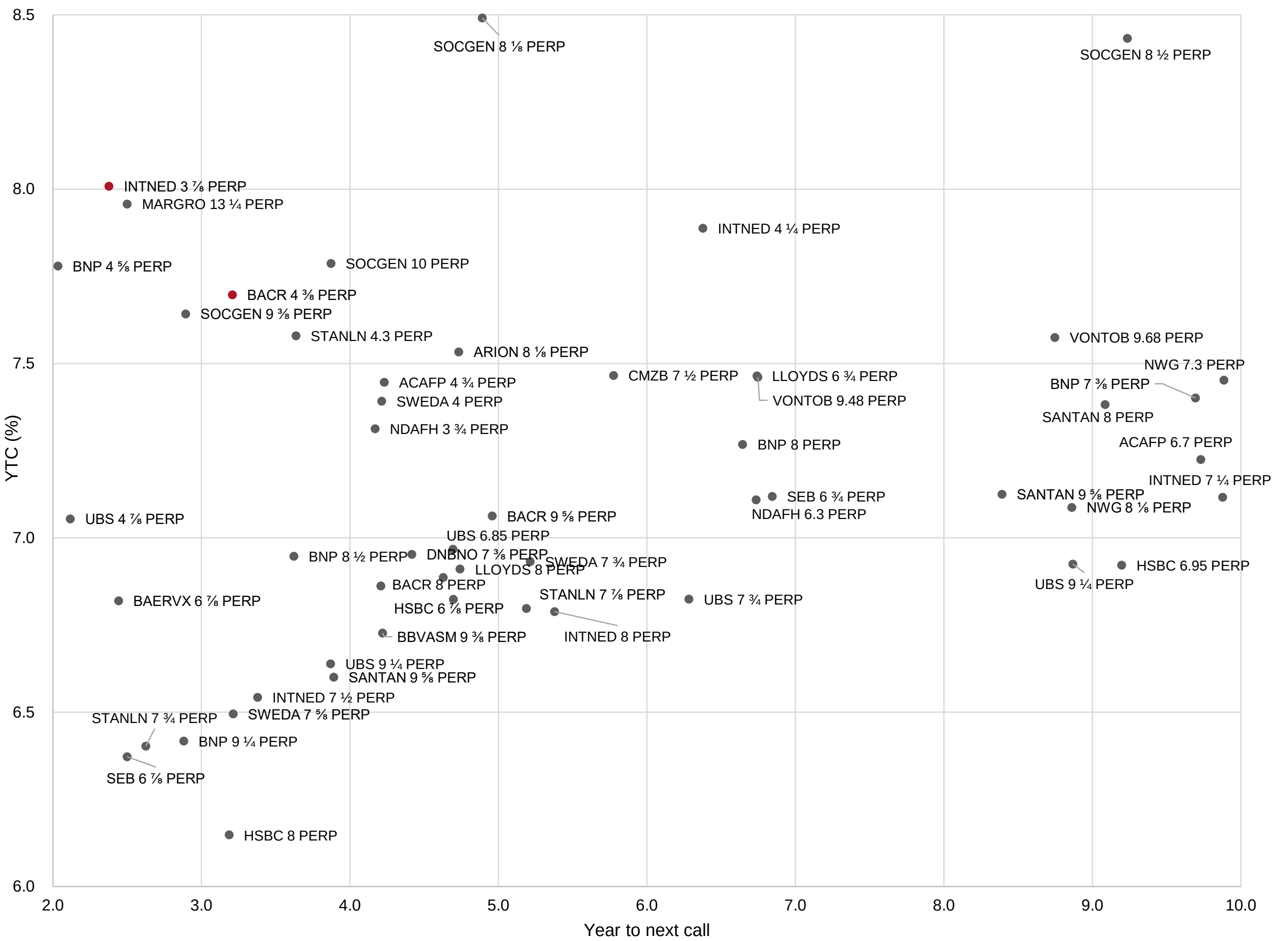
In this space, we continue to prefer AT1s issued in regulatory regimes where the common equity will absorb losses ahead of AT1s, i.e. issues in the EU and the UK. We maintain buy on **BACR 4.375 Perp and INTNED 3.875 Perp,** while change our recommendation on BACR 6.125 Perp to neutral from buy after this moved c4.5pts higher since we initiated a buy recommendation in Mar'24.

Table 5: Our European AT1 picks

Security Name	Amt o/s (USD mn)	Next call date	Coupon reset	Px	YTC (%)	Trigger type	Loss absorption	Issue rating (M/S/F)
BACR 4.375 Perp	1,500	15 Mar'28	H15T5Y+3.410	90.5	7.7	Mechanical	Equity Conversion	Ba1/BBB-/BBB
INTNED 3.875 Perp	1,000	16 May'27	H15T5Y+2.862	91.2	8.0	Mechanical	Equity Conversion	Ba1/-/BBB

Source: Bloomberg.

Chart 7: Yield comparison of European AT1s with active trades



Source: Bloomberg.

BACR 4.375 Perp and INTNED 3.875 Perp

BACR 4.375 Perp and INTNED 3.875 Perp are our top picks in the European AT1 space given their better risk-return profiles and more investor-friendly terms, i.e. equity conversion rather than write-down in case of loss absorption. Besides, we expect BARC and INTNED to call these AT1s on the first call dates given their comfortable CET1 ratios and their track records of calling AT1s on the first call dates.

Table 6: Comparisons of selected European large banks' AT1s

Security Name	Region	Amt o/s (USD mn)	Px	YTC (%)	Next call date	Year to call	Capital Trigger Type	Loss absorption	Issue rating (M/S/F)
ACAFP 4 ¾ PERP	FR	1250	90.3	7.4	03/23/2029	4.2	Mechanical	Temporary Write Down	-/BBB-/BBB
ACAFP 6.7 PERP	FR	1250	96.4	7.2	09/23/2034	9.7	Mechanical	Temporary Write Down	-/BBB-/BBB
BACR 4 ⅜ PERP	**GB**	**1500**	**90.6**	**7.7**	**03/15/2028**	**3.2**	**Mechanical**	**Equity Conversion**	**Ba1/BB-/BBB-**
BACR 8 PERP	GB	2000	104.1	6.9	03/15/2029	4.2	Mechanical	Equity Conversion	Ba1/BB-/BBB-
BNP 7 ⅜ PERP	FR	1000	99.8	7.4	9/10/2034	9.7	Mechanical	Equity Conversion	Ba1/BBB-/BBB
BNP 8 PERP	FR	1500	103.8	7.3	08/22/2031	6.6	Mechanical	Equity Conversion	Ba1/BBB-/BBB
DB 6 PERP	DE	1250	98.3	8.2	10/30/2025	0.8	Mechanical	Temporary Write Down	Ba2/BB/-
HSBC 6 ⅞ PERP	GB	1350	100.2	6.8	9/11/2029	4.7	Mechanical	Equity Conversion	Baa3/-/BBB
HSBC 6.95 PERP	GB	1150	100.2	6.9	3/11/2034	9.2	Mechanical	Equity Conversion	Baa3/-/BBB
INTNED 3 ⅞ PERP	**NL**	**1000**	**91.2**	**8.0**	**05/16/2027**	**2.4**	**Mechanical**	**Equity Conversion**	**Ba1/-/BBB**
INTNED 7 ¼ PERP	NL	1000	100.9	7.1	11/16/2034	9.9	Mechanical	Equity Conversion	Ba1/-/BBB
SOCGEN 8 ⅛ PERP	FR	1000	98.5	8.5	11/21/2029	4.9	Mechanical	Temporary Write Down	Ba2/BB/-
SOCGEN 8 ½ PERP	FR	1000	100.4	8.4	03/25/2034	9.2	Mechanical	Temporary Write Down	Ba2/BB/BB+
STANLN 7 ¾ PERP	GB	1250	103.2	6.4	08/15/2027	2.6	Mechanical	Equity Conversion	Ba1/BB-/BBB-
STANLN 7 ⅞ PERP	GB	1000	104.6	6.8	3/8/2030	5.2	Mechanical	Equity Conversion	Ba1/BB-/BBB-
UBS 6.85 PERP	CH	1500	99.5	7.0	9/10/2029	4.7	Mechanical	Equity Conversion	Baa3/BB/BBB-
UBS 7 ¾ PERP	CH	1000	104.6	6.8	4/12/2031	6.3	Mechanical	Equity Conversion	Baa3/BB/BBB-

Source: Bloomberg.

Chart 8: Yield differentials of our AT1 picks over its senior bonds (bps)

Source: Bloomberg.

European AT1 issuance overview and outlook

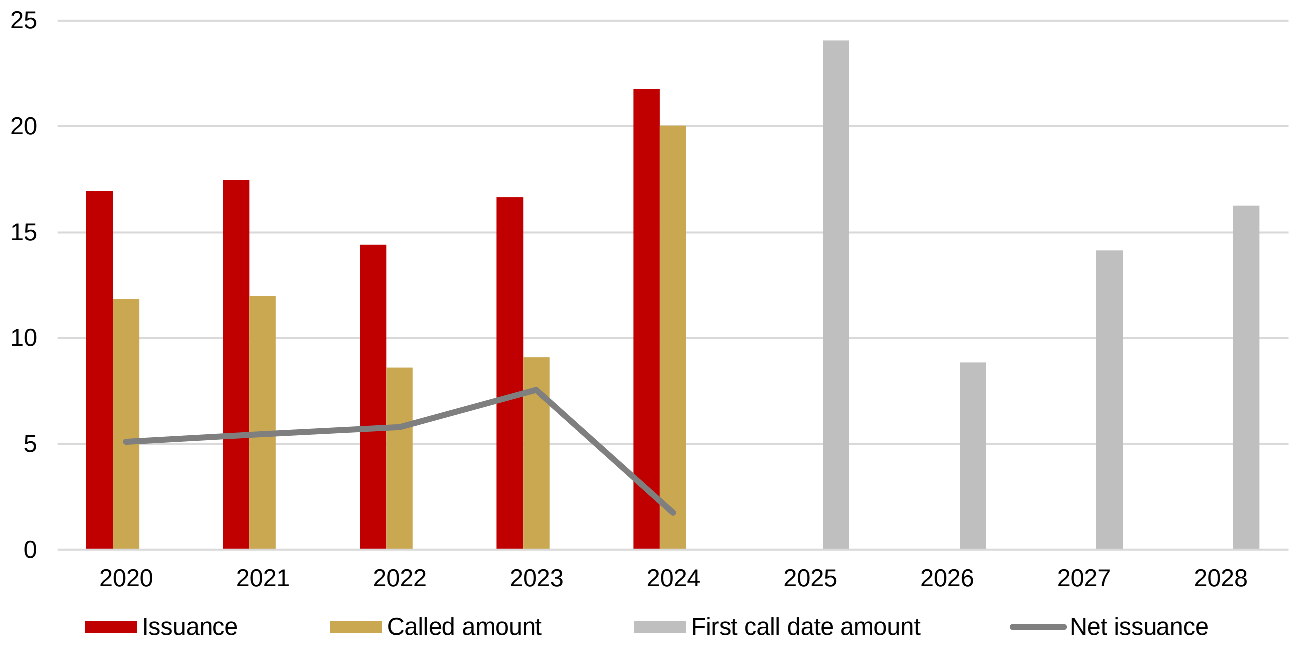
Since the implementation of the bank capital requirements under Basel III framework in EU in Jan'14, European banks have issued USD AT1s totaled cUSD193bn. Banks from EU, UK and Switzerland issued USD76.9bn, USD64.1bn and USD37.1bn USD AT1s, respectively. Within EU, banks from France, Netherlands and Spain are the largest issuers with AT1 offerings of USD40.0bn, USD12.1bn and USD10.7bn, respectively.

ECB scheduled to implement final batch of Basel III starting from Jan'25. Compared with the current regulatory standards, the main changes of final batch of Basel III are on the definition and calculation of bank's RWAs. Basel III finalization introduces output floor calibration, which sets a minimum floor on the RWAs calculated by banks using their internal models, so that the RWAs computed using bank's internal models cannot fall below a specific ratio of the RWAs computed using the standardized approach.

The output floor will gradually increase from 50% of standardized approach in 2025 to 72.5% in 2030 and drive EU banks to increase their capital adequacy. EU banks, especially large banks, have been widely used their own internal models to compute RWAs. As per the estimation performed by European Banking Authority, the full implementation of Basel III in 2033 will increase the minimum required Tier 1 capital by 9.9% for all EU banks and 14.7% for EU G-SIIs (Global systematically important institutions). On the other hand, the Tier-1 capital requirements for large UK banks will be unchanged to 1% higher after the Basel III finalization, according to estimation performed by Prudential Regulation Authority of UK.

In 2025, we expect European USD AT1 space to be in net issuance and the total issuance to exceed USD25bn, representing an increase of c15% from USD21.8bn in 2024. Moreover, by tracking the non-call history of European AT1s, European banks may choose not to call their AT1s on first call date to maintain sufficient capital buffer or to avoid higher funding cost of new issuance. Despite increasing Tier-1 capital requirements in 2025, we consider the risk of non-call and coupon skip of EU G-SIIs' AT1s is low given the falling UST rates, as well as the strong incentive to avoid paying higher funding costs for the future issues resulting from the track record of non-call.

Chart 9: European USD AT1 net issuance in 2024 (USD bn)



Note: Data includes AT1 issued after Jan'14 when EU implement Basel III.
Source: Bloomberg.

Table 7: Non-call and coupon skip in Europe

Year	Ticker	Bank	Country	Incident	Principal amt	Bond	Background
2016	STANLN	Standard Chartered	UK	Non-call on first call date of 30 Jan'17	USD750mn	STANLN Float Perp US853254AA86	To avoid high cost refinancing
2017	NDB	BremerLB	Germany	Coupon skip	EUR150mn	NDB Float Perp DE000BRL00A4 NDB 9.5 Perp DE000BRL00B2	NDB recorded loss due to its exposure to weak shipping industry
2019	SANTAN	Banco Santander	Spain	Non-call on first call date of 12 Mar'19	EUR1.5bn	SANTAN 5.481 Perp XS1043535092	The coupon reset to 5.481 from 6.25 on first call date, then AT1 was called on 12 Mar'20
2020	DB	Deutsche Bank AG	Germany	Non-call on first call date of 30 Apr'20	USD1.25bn	DB 4.789 Perp XS1071551474	To avoid high cost refinancing
2020	LLOYDS	Lloyds Banking Group	UK	Non-call on first call date of 27 Jun'20	EUR750mn	LLOYDS 4.947 Perp XS1043545059	To maintain Tier 1 capital resources during Covid-19
2023	PBBGR	Deutsche Pfandbriefbank	Germany	Non-call on first call date of 28 Apr'23	EUR300mn	PBBGR 8.474 Perp XS1808862657	To avoid high cost refinancing under weak market condition
2023	SANTAN	Banco Santander	Spain	Non-call on first call date of 9 Sep'23	EUR1bn	SANTAN 8.1232 Perp XS1692931121	To maintain AT1 capital and save funding cost while the perp was called in Dec'23 after issuance of EUR2.5bn two AT1 with 9.625 coupon

Source: Bloomberg.

Table 8: Key financials of our picks

As of Sep'24	BACR	INTNED
Region	GB	NL
ROA/ROAA (%)	0.33	0.66
ROE/ROAE (%)	7.33	13.19
NIM (%)	3.15	1.59
CET 1 ratio (%)	13.8	14.3
Tier 1 ratio (%)	17.3	16.7
Total capital ratio (%)	19.9	19.7
Regulatory capital requirements (%)	17.5	15.1
NPL (%)	1.77	1.60
Loan-to-deposit ratio (%)	74.5	96.6

Source: Company filling, CMBI Research.

Appendix 3: Asian Lifers – Lower beta and diversification plays

The current valuations of the Asian lifers' subordinated bonds appear to be less appealing compared to banks' AT1s and T2s. That said, we consider Asian lifer lower beta and diversification plays with better trading liquidity. From a RV perspective, our top pick of this segment is **NSINTW 5.45 09/11/34 (T2)**. NSINTW 5.45 09/11/34, issued in Sep'24, is the only offshore bond issued by NSINTW. At 96.9, NSINTW 5.45 09/11/34 is trading at Z+185bps/YTM of 5.9%, and it is trading 17bps higher than MYLIFE 5.8 09/11/54 (T2) with one notch lower in credit rating. We consider NSINTW 5.45 09/11/34 offer better risk-return profile.

Cathay Life Insurance (CATLIF) is the closest comparable of Nan Shan Life Insurance (NSINTW) in terms of business profile but we prefer NSINTW 5.45 09/11/34 over CATLIF 5.95 07/05/34 and CATLIF 5.8 05/09/34 in view of the slightly better yield, lower cash price and better trading liquidity, especially compared with that of CATLIF 5.8 05/09/34. In view of the track records on non-call in Taiwanese bank's T2 space, we prefer dated maturity bonds in Taiwanese insurer space, and hence we are neutral on CATLIF 5.3 09/05/39 which is first callable in Sep'34.

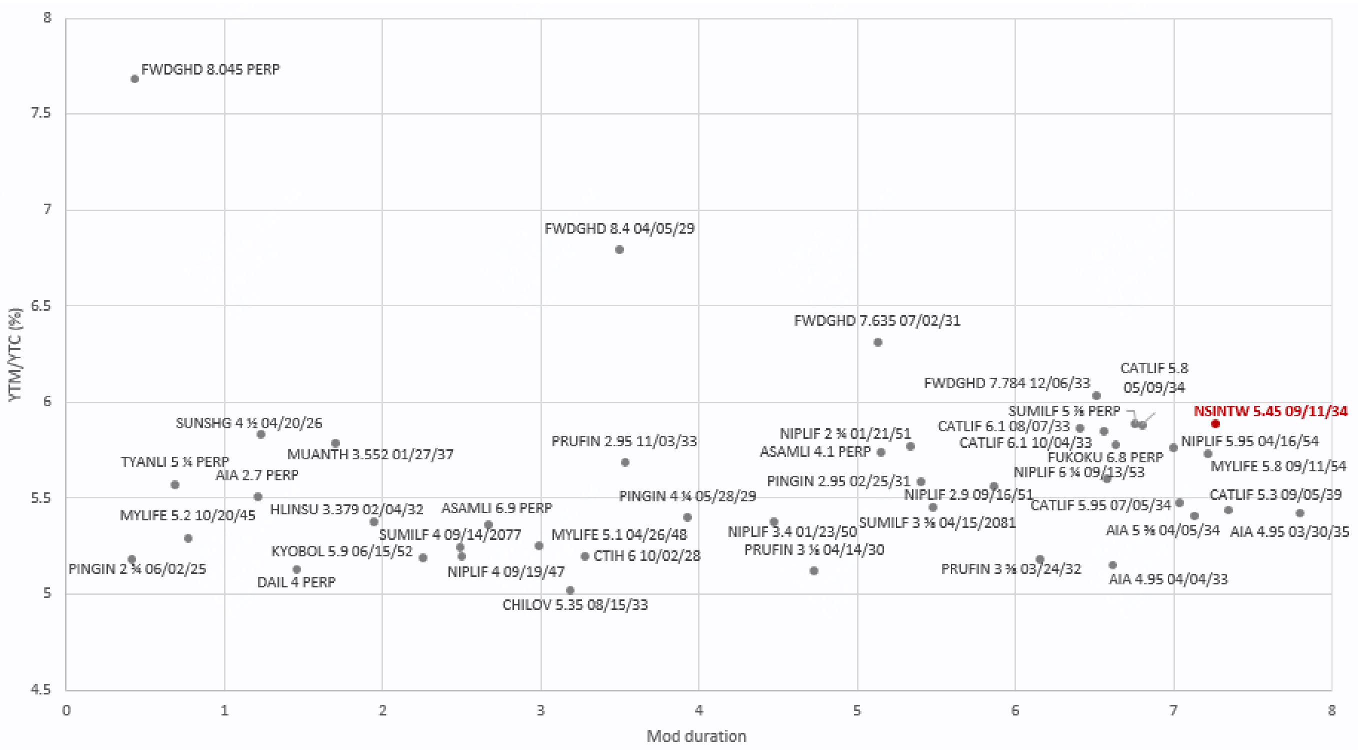
Meanwhile, we are neutral on actively traded JP insurers subordinated bonds based on current valuations. See Table 1. We are also neutral on higher yielding perps and T2s of HK insurers given the non-call history. We believe the extension risk is even higher under the current high interest rate environment.

Table 1: Our Asian lifer picks

Security name	ISIN	Region	Recommendation	Amt o/s (USD mn)	Px	Z-spread (bps)	YTC/YTM (%)	First call date	Mod dur	Issue rating (M/S/F)
NSINTW 5.45 09/11/34	XS2888260564	TW	Initiate buy	700	96.9	185	5.9	N/A	7.2	-/BBB+/BBB
CATLIF 5.8 05/09/34	TW000F190038	TW	Neutral	187	99.1	180	5.8	N/A	7.0	NR
CATLIF 5.95 07/05/34	XS2852920342	TW	Neutral	600	103.0	145	5.5	N/A	7.2	-/BBB+/BBB+
CATLIF 5.3 09/05/39	XS2885079702	TW	Neutral	320	97.7	153	5.6	5 Sep'34	7.3	-/BBB+/BBB+
FUKOKU 6.8 Perp	XS2673651217	JP	Neutral	500	106.6	170	5.8	14 Nov'33	6.6	-/A-/A-
MYLIFE 5.8 09/11/54	US585270AD32	JP	Neutral	1,750	100.3	168	5.8	11 Sep'34	7.2	A3/A-/-
NIPLIF 5.95 04/16/54	US654579AN16	JP	Neutral	1,320	101.8	157	5.7	16 Apr'34	7.0	A3/A-/-
SUMILF 5.875 Perp	US86564CAE03	JP	Neutral	1,040	100.3	170	5.8	18 Jan'34	6.8	A3/-/A-

Source: Bloomberg.

Chart 1: Asian lifer bonds and perps



Source: Bloomberg.

3rd largest life insurer in Taiwan with improving profitability

NSINTW has a strong market presence in Taiwan. It is the third largest life insurer in Taiwan by gross written premium (GWP) with a market share of 13% as of Jun'24, following CATLIF (17.7%) and Fubon Life (FUBON, 15.4%). In Mar'24, NSINTW resumed the sales of investment-linked products, offering full-range of insurance products similar to CATLIF including life, health, accident, and group insurance products.

The profitability of NSINTW is comparable with CATLIF. The ROE of both NSINTW and CATLIF increased to 14.3% in 1H24, from 7.8% and 3.1% in FY23, respectively. NSINTW's ROA increased to 0.9% in 1H24 from 0.4% in 2023, was slightly lower than CATLIF of 1.1% in 1H24. On the other hand, NSINTW's capital adequacy is lower than that of CATLIF. As of Jun'24, NSINTW's risk based capital ratio was 281.8%, higher than the regulatory minimum requirement of 200% yet lower than CATLIF of 352.1%.

NSINTW has a lower risk appetite

We take comfort on NSINTW's lower risk appetite than its peers which would help to maintain its investment income resiliency. NSINTW has a higher portion of fixed income investments in its investment portfolio, and lower equity and real estate exposures than that of CATLIF. See Table 2. We also acknowledged the exposures by credit ratings and geographies of fixed income portfolios of the two insurers are similar. The pre-hedging investment yield of investment portfolio of CATLIF at 3.30% is higher than the 3.17% of NSINTW, due partly the difference in investment mix.

In our view, the credit profile of CATLIF is better than NSINTW in view of parental support from Cathay Financial Holdings via capital injections and bonds subscriptions, as well as CATLIF's more solid capital position. That said, we take comfort on NSINTW's lower risk appetite. We believe that the weaker credit profile of NSINTW is well compensated by the higher YTM of NSINTW 5.45 09/11/34. In Nov'24, S&P upgraded NSINTW by one notch to A- from BBB+ on improved capital and earnings with stable outlook, rated on par as CATLIF and FUBON.

Table 2: Financial highlights of NSINTW and CATLIF

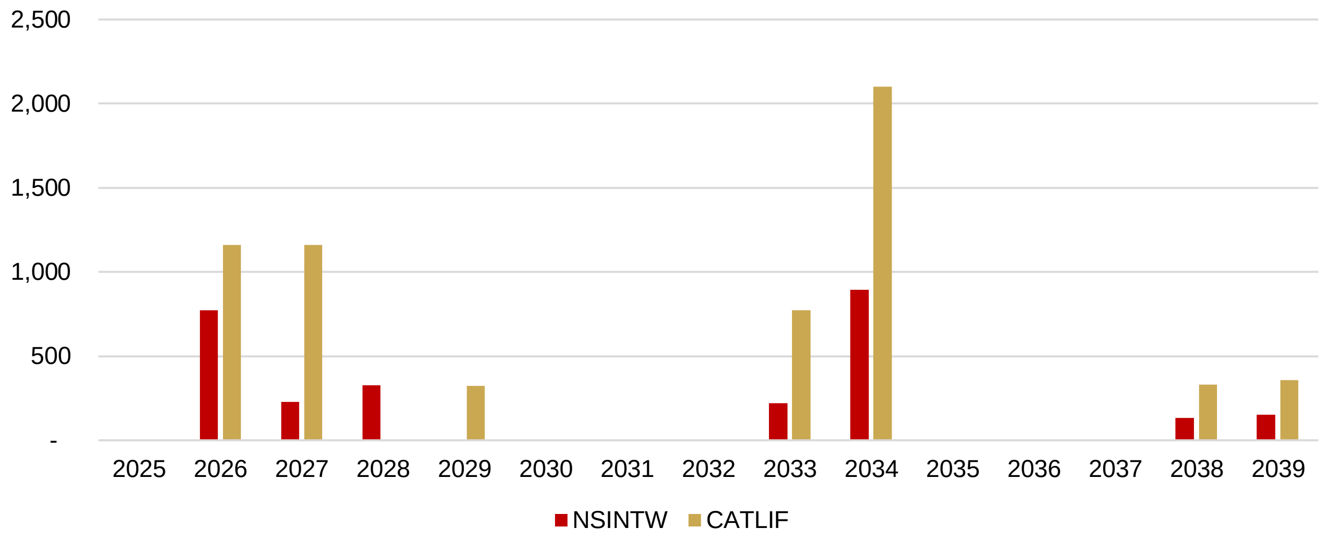
USD mn	NSINTW	CATLIF
As of	Jun'24	Jun'24
Total assets	171,785	274,893
Total investments	167,020	241,169
Fixed income/total investment (%)	78.0	70.0
Equity/total investment (%)	4.2	7.4
Real estate/total investment (%)	7.8	12.3
ROA/ROAA (%)	0.9	1.1
ROE/ROAE (%)	14.3	14.3
Pre-hedging investment yields (%)	3.2	3.3
Risk based capital ratio (>200%)	281.8	352.1
Equity to asset ratio (>3%)	7.0	9.2
Policy persistency ratio (13 months, %)	97.4*	97.6
Policy persistency ratio (25 months, %)	96.2*	95.6

*Note: *Data as of Dec'23. Source: Company fillings.*

More manageable maturity profile

We view the maturity profile of NSINTWs more manageable than that of CATLIF with less concentrated maturity and lower outstanding balances. NSINTW has USD and TWD bonds and perps outstanding totaled cUSD2.7bn. NSINTW 5.45 09/11/34 of USD700mn is its only USD issue. CATLIF has more bonds and perps outstanding totaled cUSD6.2bn, including 5 USD bonds totaled USD1.3bn maturing or first callable in 2033-34.

Chart 2: Maturity profile of NSINTW and CATLIF (USD mn)



Note: First call date of the perps and T2s are treated as "maturity" in the chart. CATLIF included TWD35bn perps (first callable in Dec'26) issued to Cathay FHC. Source: Bloomberg, Company fillings

Non call track record matters

Most of the Asian insurers had redeemed their perps and T2s on their first call dates. In particular in South Korea, Heungkuk Life insurance reversed the decision of not calling its perp in Nov'22 in response to the negative market reaction on the potential non-call. This reinforced our belief that Korean and other insurers with track records of calling their perps and T2s will likely continue to call their perps and T2s on the first call dates.

We are neutral on higher yielding perps and T2s of HK insurers given the non-call history. We believe the extension risk is higher under the current high interest environment.

Table 3: Asian lifers' non-call record

Security name	ISIN	Region	Amt issued (USD mn)	Amt o/s (USD mn)	First call date	Called date	Payment rank
PRUFIN 6.5 Perp	XS0170488992	HK	1,000	-	12/23/2008	12/23/2017	Jr Subordinated
PRUFIN 7.75 Perp	XS0580467875	HK	550	-	6/23/2016	12/23/2018	Jr Subordinated
PRUFIN 5.25 Perp	XS0873630742	HK	700	-	3/23/2018	12/23/2021	Subordinated
PRUFIN 5.25 Perp	XS1426796477	HK	1,000	-	7/20/2021	1/20/2022	Subordinated
PRUFIN 4.375 Perp	XS1488414464	HK	725	-	10/20/2021	1/20/2022	Subordinated
FWDGHD 8.045 Perp	XS1628340538	HK	750	750	6/15/2022	-	Subordinated
FWDGHD 8.492 Perp	XS1716777344	HK	314	314	11/16/2022	-	Subordinated
PRUFIN 4.875 Perp	XS1700429480	HK	750	750	1/20/2023	-	Subordinated
FWDGHD 6.675 Perp	XS1748857379	HK	200	200	2/1/2023	-	Subordinated

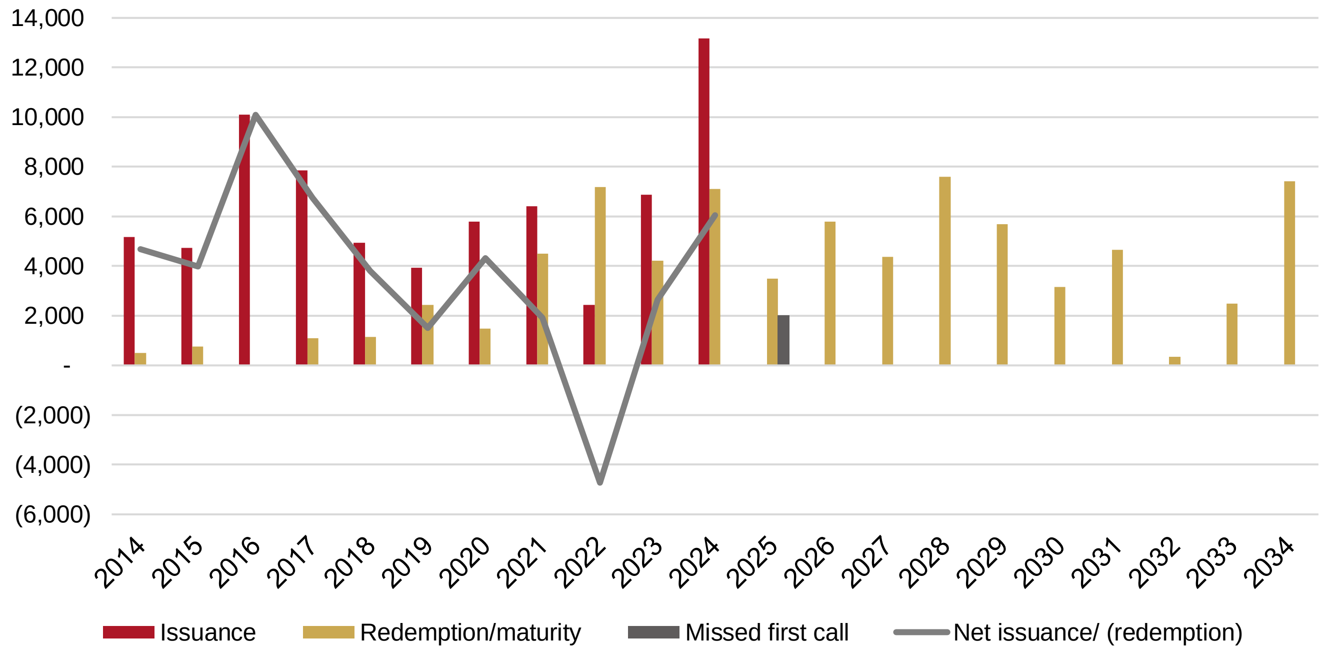
Note: HLINSU 4.7 Perp and KYOBOL 3.95 07/24/47 were called one day after the first call date and not included above. Source: Bloomberg.

Gross insurance to slow down from 2024 with lower scheduled maturities and redemptions

In 2025, a total of USD3.5bn bonds and perps will mature or be first callable. We expect the gross issuance in 2025 to be lower than the level in 2024, in view of lower scheduled maturities and first call compared with USD7.1bn in 2024.

IFRS 17 is effective since Jan'23, and Taiwan insurers will adopt IFRS 17 starting from Jan'26 along with a new capital regime, i.e. Taiwan-localized Insurance Capital Standards (TW-ICS). IFRS 17 requires all insurers to measure assets and liabilities at fair value, while TW-ICS imposes a stricter capital requirements by raising the confidence level to calibrate the regulatory capital regime to 99.5% from 95%. Therefore, we expect to see more Taiwan insurers to issue capital-qualifying bonds going forward to replenish capital in order to cope with the requirements. That said, we take comfort from the adequate capital of the two Taiwanese lifers with USD bonds issuance, such that the impact from increase in supply should be manageable.

Chart 3: Asian lifers' net issuance in 2024 (USD mn)



Note: First call date of the subordinated bonds are treated as "maturity" in the chart. Source: Bloomberg.

Appendix 4: Chinese Leasing – Lower conviction but continue to benefit from lower onshore funding costs

We see a lower conviction level in Chinese leasing space. That said we see selected bonds of financial leasing companies offering better yield pick-up over bonds of their bank parents and peers. Furthermore, the technical of the sector remains strong given issuers' good access to lower-cost onshore funding channels and net redemptions since 2022. In view of high scheduled maturities over the coming 3 years, we believe that the net supply, if not net redemption, will remain small.

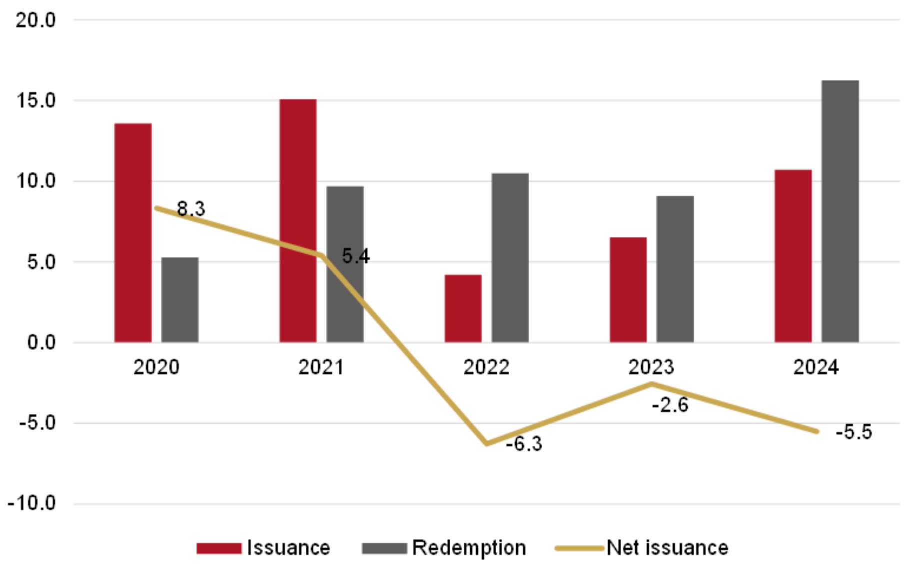
Our picks in the subset of financial leasing companies are **BCLMHK Float 07/14/25, BCLMHK Float 06/26/27 and BCLMHK Float 08/23/27** given their better trading liquidity and more decent yield than peers. Meanwhile, we changed our recommendation on CDB Leasing's senior bonds CDBALF'27 and CDBLFD'26/27 to neutral from buy on valuation after price increase since Jul'24. For the subset of commercial leasing companies, our picks remain **FRESHKs** in view of Far East Horizon (FEH)'s diversified operations, stable profitability and good access to funding channels.

Table 1: Our Chinese leasing picks

Bond	ISIN	Recommendation	Amt o/s (USD mn)	Px	Z-spread (bps)	YTM/YTC (%)	Mod dur	Issue rating (M/S/F)
BCLMHK Float 07/14/25	XS2176772205	Initiate buy	450	100.6	-	5.3	-	A3/-/A
BCLMHK Float 06/26/27	XS2849213058	Initiate buy	650	100.0	-	5.2	-	A3/-/A
BCLMHK Float 08/23/27	XS2886030811	Initiate buy	400	100.2	-	5.2	-	A3/-/A
FRESHK 3.375 02/18/25	XS2109200050	Maintain buy	300	99.8	140	5.0	0.3	-/BBB-/-
FRESHK 4.25 10/26/26	XS2393797530	Maintain buy	300	97.2	200	5.9	1.9	-/BBB-/-
FRESHK 6.625 04/16/27	XS2800583606	Maintain buy	500	101.2	229	6.1	2.2	-/BBB-/-
FRESHK 5.875 03/05/28	XS2886144232	Maintain buy	550	98.9	248	6.3	3.0	-/BBB-/-
CDBALF 3.5 10/24/27	XS1703056801	Chg. to neutral	400	96.2	83	5.0	2.6	A2/-/A+
CDBLFD 2 03/04/26	XS2297060126	Chg. to neutral	500	96.6	84	5.0	1.1	A2/-/A+
CDBLFD 3 1/8 03/02/27	XS2423459325	Chg. to neutral	250	96.3	80	4.9	2.0	A2/-/A+

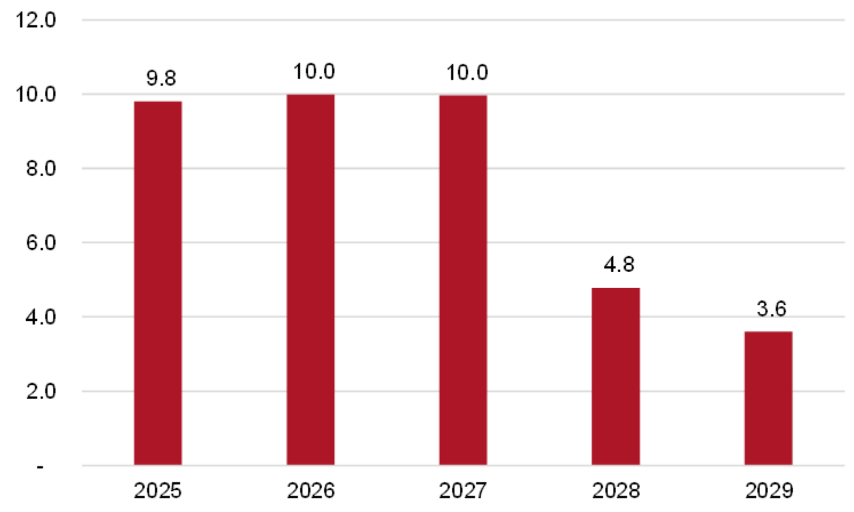
Source: Bloomberg.

Chart 1: Chinese leasing USD bonds issuance and redemption (USD bn)



Source: Bloomberg.

Chart 2: Chinese leasing USD bonds maturity profile (USD bn)



Source: Bloomberg.

Financial Leasing: Parental support to remain strong

We expect that financial leasing companies with outstanding USD bonds will continue to receive strong support from their parent banks in view of the cross default or acceleration clauses (with USD25-50mn threshold) between their USD bonds. Currently, all Chinese financial leasing companies with outstanding USD bonds are consolidated entities of their bank parents and their default or payment acceleration will trigger the cross default or payment acceleration of their parents. We expect the support such as credit lines from parents to be forthcoming in view of the strong financial positions of parents, cross default and acceleration clauses as well as majority shareholdings.

Maintain buy on active BCLMHK floaters….

Within this subset, we maintain buy on BCLMHK floaters which have better trading liquidity, i.e. BCLMHK Float 07/14/25, BCLMHK Float 06/26/27 and BCLMHK Float 08/23/27, as lower beta plays. The active floaters was traded at YTM of 5.1% and offer yield pick-up of 16-39bps over BOCOM's senior bonds with similar tenor. Besides, BOCOM Leasing's operating performance remained solid. In 1H24, its revenue and net profit increased 6.9%/7.2% yoy to RMB15.1bn/RMB2.1bn, respectively. As of Sep'24, BOCOM Leasing's Tier-1 capital adequacy ratio and capital adequacy ratio rose to 11.44%/12.37% from 11.40%/12.25% in 2Q24 and were higher than the requirements of 8.5%/10.5%.

…. and changed recommendation on CDBALF'27 and CDBLFD'26/27 to neutral from buy

Meanwhile, we changed our buy recommendations on CDBALF'27 and CDBLFD'26/27 to neutral on valuation after their 1.5-2pts increase since Jul'24 when CDB Leasing announced its parent CDB exploring the sale of its 64.4% stakes in CDB Leasing. Recalled that the bondholders of three senior bonds could put their bonds at 101 under COC clause if CDB no longer holds a major shareholding in CDB Leasing. See our comments on 4 Jul'24. Nonetheless, we do not expect the sale of CDB leasing stakes to be closed in the near term, taking cues from the 3-year renewal of connected transactions framework agreements related to deposit, financing and service between CDB Leasing and CDB for another 3 years in Dec'24.

News measures to enhance the risk management of financial leasing companies

In Sep'24, China NFRA published the new "Measures for the Administration of Financial Leasing Companies" with effective from Nov'24 to tighten the risk management of financial leasing companies. The new version had replaced the old one implemented in 2014. The new measures increased financial leasing company's minimum registered capital requirement to RMB1bn from RMB100mn and the minimum shareholding from main shareholder to 51% from 30%.

Besides, the additional requirements under the new measures include minimum leverage ratio of 6%, maximum total assets/net assets of 10x, minimum coverage ratio of 100% and minimum leasing receivable provision rate of 2.5%. We consider Chinese financial leasing companies benefited from the new measures for stronger shareholder supports, the more detailed regulatory requirements also help financial leasing companies to refine their risk management frameworks.

Table 2: Cross default clauses to shareholders

Ticker	Shareholder	Shareholding	Shareholder's cross default	Cross default with shareholder	Cross default threshold (USD mn)
BCLMHK	Bank of Communication	100%	Y	the Issuer or any of its subsidiaries	25
CCBL	China Construction Bank	100%	Y	the Bank or any of its subsidiaries	25
CDBALF	China Development Bank	64.4%	Y	the Bank or any of its subsidiaries	50
CMINLE	China Merchants Bank	100%	Y	the Bank, any relevant branch or any of the bank's subsidiaries	25
MSFLCZ	Minsheng Bank	55.0%	Y	the Bank or any of its subsidiaries	25
ICBCIL	ICBC	100%	Y	the Issuer or any of the Bank's subsidiaries	30

Source: Company fillings, CMBI Research.

Commercial Leasing: Maintain buy on FRESHKs

Compared with other Chinese commercial leasing peers, FEH has more diversified operations and better profitability. FRESHKs offer more attractive risk-return profiles than those of peers such as BOCAVIs and CHNAARs.

More diversified operations and better profitability

FEH's revenue and profit have steadily increased since FY19 despite the pandemic. We expect FEH's operating performance and asset quality to remain stable in view of its diversified leasing asset base. We also expect its liquidity profile to remain adequate given its smooth access to low-cost onshore funding. Compared with BOCAVI and CHNAAR which focus on aircraft leasing, FEH had demonstrated a more stable profitability trend over the past few years, given its exposure to more cyclical sectors such as construction, aviation and shipping is lower.

Table 3: Comparison of major commercial leasing players

	Company	Total revenue (RMB mn)	Total assets (RMB mn)	ROA	ROE	NPL ratio	Net debt/ EBITDA	Total debt/total asset
FY22	BOCAVI	16,841	161,118	0.09%	0.38%	-	13.5x	68.6%
	CHNAAR	3,294	51,459	0.14%	1.59%	-	11.9x	81.5%
	FRESHK	36,586	346,995	1.93%	14.13%	1.05%	14.9x	73.5%
FY23	BOCAVI	14,794	173,054	3.30%	13.95%	-	11.3x	68.4%
	CHNAAR	3,905	55,637	0.05%	0.63%	-	10.3x	84.4%
	FRESHK	37,960	351,483	1.98%	12.99%	1.04%	16.1x	73.5%
1H24	BOCAVI	7,590	173,886	3.80%	15.58%	-	10.7x	66.9%
	CHNAAR	2,067	59,517	0.43%	6.13%	-	9.8x	85.6%
	FRESHK	18,036	361,642	1.30%	8.49%	1.04%	18.6x	74.0%

Source: Company fillings, CMBI Research

Access to different funding channels despite increasing reliance on short-term funding

FEH returned to the offshore USD bonds market in 2024 by issuing two USD bonds, FRESHK 6.625 04/16/27 and FRESHK 5.875 03/05/28, totaled USD1.1bn, and redeemed FRESHK 2.625 03/03/24 of USD500mn. Meanwhile, FEH also redeemed and cancelled USD249.1mn of FRESHK 0 06/15/26 (CB) in Jun'24 pursuant to the exercise of put option by bondholders.

FEH, as other leasing peers do, relies on short-term funding and around half of FEH's total debts are due within a year since FY19. Its weighted average tenor of onshore bonds shortened to 1.4 years in 2024 from 2.3 years in 2019 due to increasing issuance of super-short commercial papers (SCP), of which the funding cost is lower. We believe that these changes reflected that FEH turned to a shorter tenor market to manage the pressure of higher funding costs.

We expect FEH to refinance its short-term debts in various funding channels, and to lower its average financing cost by raising short-term financing. We take comfort from FEH's continued access to low-cost onshore funding. The weighted average coupon rate of its onshore bonds issued in 2024 is 2.84%, down from 4.03% in 2023.

Table 4: Weighted average cost and tenor of FEH's onshore bond issuance

	MTN	Corporate bond	Commercial paper	Super-short commercial paper	Weighted average tenor (years)	Weighted average cost
2020	3.35%	3.47%	-	1.85%	2.3	4.63%
2021	4.09%	3.65%	-	3.14%	1.4	4.41%
2022	3.76%	3.63%	-	2.39%	1.9	4.06%
2023	4.97%	4.51%	4.35%	3.39%	1.1	4.03%
2024	3.34%	3.12%	-	2.44%	1.4	2.84%

Source: Wind, CMBI Research.

Appendix 5: Asian IG Corporate Picks

We maintain buy on **AACTECs** post strong 1H24 results, as well as **ZHOSHKs** after Zhongsheng's funding exercises since Jul'24. Given good access to funding channels of AAC Tech and Zhongsheng, we believe that they are candidates for early redemption of their offshore bonds.

Meanwhile, we maintain buy on HYUELEs as diversification and yield pick-up plays. We like SK Hynix's strong market position globally, improving cash flow and credit profile. Within the HYUELE complex, we prefer **HYUELE 1 ½ 01/19/26** and **HYUELE 2 ⅜ 01/19/31** most for lower cash prices. At 96.5 and 84.4, HYUELE 1 ½ 01/19/26 and HYUELE 2 ⅜ 01/19/31 was traded at YTM of 5.0% (z-spread of 84bps) and 5.4% (z-spread of 144bps), respectively. HYUELEs also provide 5-20bps yield pick-up over Micron's bonds.

Furthermore, we recommend investors to take profit from short-dated SYNNVX 4.892 04/25/25, HAOHUA 3.875 06/19/29 and HAOHUA 3 09/22/30 in view of their less appealing valuations, and switch to other bonds, such as HYUELE 2 ⅜ 01/19/31, with similar rating levels and lower cash price.

Table 1: Our Asian IG corporate picks

Security name	ISIN	Recommendation	Ccy	Amt o/s (USD mn)	Px	Z-spread (bps)	YTM (%)	Mod dur	Issue rating (M/S/F)
AACTEC 2 ⅝ 06/02/26	XS2341038656	Maintain buy	USD	231	96.4	114	5.3	1.4	Baa3/-/-
AACTEC 3 ¾ 06/02/31	XS2342248593	Maintain buy	USD	292	89.5	169	5.7	5.5	Baa3/-/-
ZHOSHK 0 05/21/25 (CB)	XS2171663227	Maintain buy	HKD	3,124	115.0	201	5.9	0.4	NR
ZHOSHK 3 01/13/26	XS2278364075	Maintain buy	USD	158	97.2	164	5.9	1.0	Baa2/-/BBB
ZHOSHK 5.98 01/30/28	XS2867272630	Maintain buy	USD	600	99.2	222	6.3	2.7	-/BBB/-
HYUELE 1 ½ 01/19/26	US78392BAB36	Maintain buy	USD	1,000	96.5	84	5.0	1.0	Baa2/BBB-/BBB
HYUELE 2 ⅜ 01/19/31	US78392BAC19	Maintain buy	USD	1,000	84.4	144	5.4	5.4	Baa2/BBB-/BBB
HAOHUA 3.875 06/19/29	XS2011969735	Chg. to neutral	USD	900	94.2	129	5.4	4.0	Baa2/-/A
HAOHUA 3 09/22/30	XS2226808165	Chg. to neutral	USD	1,000	88.5	130	5.4	5.1	Baa2/-/A
SYNNVX 4.892 04/25/25	US87164KAG94	Chg. to neutral	USD	677	99.9	97	5.3	0.3	Baa3/BBB/BBB+

Source: Bloomberg.

AACTEC

AACTECs have been performing well, moved 7-12pts higher in 2024. The current valuations of AACTECs are less appealing but they continue to offer better risk-return profiles than peers such as SUNOTG 5.95 07/17/26. We also believe that AACTECs are candidates for early redemptions through repurchases and tender offers. These should support AACTECs to outperform. Hence, we maintain buy recommendations on AACTECs.

AAC Tech released strong 1H24 results with notably higher profit and margin expansion. The company's leverage ratios were also improved after consolidation of PSS. AAC Tech sounded out an optimistic guidance and expects its operating performance to further improve given the upgrade of product mix amid the surge AI smartphone and AR/VR devices.

In 1H24, AAC Tech's revenue (incl. PSS) increased 22.0% yoy to RMB11.2bn because of the consolidation of PSS. The revenue excl. PSS increased 5.5% yoy to RMB9.7bn, mainly driven by growth of optics products. AAC Tech's gross margin (excl. PSS) improved to 20.5% in 1H24 from 14.1% in 1H23 given the recovery of consumer electronics and improvement of product mix. The gross margins of all segments expanded yoy with gross margin of optics products turned to positive. In 1H24, AAC Tech's EBITDA increased 47.6% yoy to RMB2.4bn and EBITDA margin improved to 19.0% from 15.7%. The company guided that its revenue (incl. PSS) would increase c30% yoy to cRMB26bn in FY24 and gross margin (incl. PSS) improve to 22%-25% from 21.5% in 1H24 given the upgrade of product mix amid the surge of AI smartphone and AR/VR devices.

AAC Tech's credit profiles remained solid for IG ratings. As of Jun'24, it had cash and bank deposits of RMB7.8bn, increased c14.1% from RMB6.8bn in Dec'23. In Feb'24, the company completed the acquisition of 80% PSS stake for cRMB2.2bn while its total debts were stable at cRMB9.6bn in Jun'24. The acquisition of remaining 20% PSS stake of cRMB1.2bn will be completed after mid-2025, we expect the impact to AAC Tech's leverage ratios to be limited given its strong operating cash flow. As of Jun'24, AAC Tech's net gearing decreased to 7.7% from 12.2% in Dec'23 and debt/EBITDA ratio down to 2.2x. Moody's changed the outlook of AAC Tech to stable from negative in Aug'24.

ZHOSHK

Zhongsheng reported weaker than expected 1H24 results due mainly to lower ASP in new car sales. That said, the impact was partly mitigated by the growing contributions from used car sales, as well as accessories and after-sales services. Zhongsheng continues to generate positive free cash flow to reduce net debts. Additionally, the funding exercises since Jul'24, i.e. new offshore syndicated loans of USD350mn for the refinancing, Panda bonds issuance, new issue of ZHOSHK 5.98 01/30/28 and concurrent new issue, have considerably shored up its liquidity and relieved its refinancing pressure over the coming 1-2 years. We consider Zhongsheng a solid IG. In our opinion, ZHOSHKs are good shorter-dated carry plays and candidates for early redemptions, especially the CBs.

Zhongsheng made an announcement on the preliminary agreement with Seres in Nov'24 to explore the distribution of EVs manufactured by Seres. So far, there is no detail as to the timetable, potential investments and distribution agreement. The market talks are Zhongsheng would have 40-50 stores to distribute Seres' AITO. Seres is a Chinese automobile manufacturer and AITO is a smart EV brand of Seres. AITO is the first brand under Harmony Intelligent Mobility Alliance collaboration model with Huawei providing solutions for product planning, design, marketing, and intelligent vehicle software and hardware. In 2023, the new car sales of Seres Group were 253,181 units, of which AITO accounted for 94,380 units. The new car sales of Zhongsheng in 2023 Is 501,570 units.

We view the potential EV distribution agreement with Seres slightly credit positive in the near-term given the government's promotion of EV sales. The sales of EVs, through optimizing sales network, will help sales volume growth at a manageable capex. That said, as we discussed before, new car sales only accounted for 5.9% of its aggregate profit (gross profit+ commission income) in FY23 given the growing contribution from after-sale services and used car sales. How the sales of EVs will affect the contributions of higher margin after-sale services over the medium term will need to be monitored.

HYUELE

We maintain buy on HYUELEs in view of SK Hynix's strong market position globally, improving cash flow and credit profile. Within the HYUELE complex, we prefer HYUELE 1 ½ 01/19/26 and HYUELE 2 ⅜ 01/19/31 most for lower cash prices. SK Hynix's operating performance continued to improve in 3Q24 with all-time high quarterly revenue at KRW17.5tn. This was attributable to the strong growth in premium products HBM and eSSD. The sales of HBM products increased 70% qoq and 330% yoy, while the sales of eSSD products were 20% higher qoq and 430% yoy. The 3Q24 operating profit margin and EBITDA margin also increased notably.

While SK Hynix focuses on premium products, the ASP of DRAM and NAND rose mid-teen qoq in 3Q24. However, the higher ASP was partly offset by the decrease in bit shipments. In 3Q24, the bit shipment of DRAM decreased slightly qoq, in line with the company's guidance made in 2Q24 while the bit shipment of NAND fell by mid-teen qoq, higher than the guidance of mid-single digit decrease qoq.

SK Hynix guides the 4Q24 DRAM bit shipment to increase mid-single digit qoq and FYE24 to increase mid-to-high teen yoy; while NAND bit shipment to increase low-teen qoq in 4Q24 and mid-teen yoy in FYE24. In 4Q24, SK Hynix will supply 12-layer HBM3E product as scheduled which were mass-produced in Sep'24. The HBM sales in 4Q24 will then account for 40% of DRAM revenue, increase from 30% in 3Q24. For NAND, SK Hynix will expand the sale of high-capacity eSSD to cope with the increasing market demand. We expect the growth momentum of SK Hynix's revenue and operating profit to continue in 4Q24 and 2025. The strong demand for AI services memory will continue to support higher ASP and higher bit shipments of HBM and eSSD.

As at Sep'24, SK Hynix accumulated higher cash balances while the total debts decreased compared to Jun'24, thanks to the strong operating cash flow generation during 3Q24. The net debts reduced by 29% to KRW11.0tn at Sep'24 from Jun'24. The next USD bond maturities of HYUELE Float 11/17/25 of USD300mn will be due in Nov'25, and two USD bonds totaled USD1.75bn in Jan'26. We expect SK Hynix to be able to refinance the bonds at reasonable costs in view of its strong cash flow generation and good access to different funding channels.

Furthermore, SK Hynix announced the capex plan (incl. R&D expenses) in Jun'24 of KRW103tn (cUSD74bn) from 2024 to 2028. 80% of the capex will be allocated to the production capacity expansion of HBM chips. The KRW103tn investment plan includes the investments in Yongin Semiconductor Cluster and Cheongju M15X fab in Korea, as well as advanced packaging facility in Indiana, the U.S. The new production capacities are expected to be coming on stream from 2025-28. In Dec'24, U.S. Department of Commerce will provide USD458mn subsidy as well as government loan of up to USD500mn to SK Hynix to support its USD3.87bn investments in the facility in Indiana. We expect the management to remain disciplined in expansion and the capex will continue to be funded with its cash on hand and operating cash flow.

Appendix 6: Consumption plays with less exposure to export markets

Table 1: Our Asian non-IG corporate picks

Security name	ISIN	Amt o/s (USD mn)	Px	YTM (%)	Mod duration	Issue rating (M/S/F)
EHICAR 7 09/21/26	XS2384059122	300	69.6	31.2	1.4	NR
EHICAR 12 09/26/27	XS2782510049	325	67.4	30.4	2.0	NR
BTSDF 13.5 06/26/26	XS2621755375	300	107.1	8.3	1.3	Ba3/BB/-

Source: Bloomberg.

EHICARs

We maintain buy on EHICARs. After the bond price corrections due mainly to the delay in finalizing onshore syndicated loans and weak 1H24 results, we believe that the valuations of EHICARs are even more attractive, especially EHICAR posted considerably improved 3Q24 results. EHICARs offer attractive carry among performing credits in our universe. We believe that its credit profile will gradually improve, supported by stronger free cash flow from ramping up utilization and further migration to operating leases. These should be positive in paving the way to secure onshore syndicated and bilateral loans.

In 3Q24, EHICAR's operating performance considerably rebounded from the low in 2Q24, reflecting the seasonal peak in 3Q and ramping-up utilization rate after aggressive fleet additions in 1Q24. EHICAR increased its fleet size by 42% during the quarter and has maintained a largely stable fleet size since then. In 3Q24, its fleet utilization rate has notably rebounded to 65.5% (on par with that of 4Q23 and in line with EHICAR's target of 65% mentioned during the investors' call for 1Q24 results) from 59.0% in 2Q24. ADRR also rebounded notably on a qoq basis. Hence, its EBITDA minus lease payments have considerably increased despite was still c4% lower than that of 3Q23. The positive free cash flow in 9M24 and improving operating performance also led to notably improvements in its key coverage ratios from the levels in 1Q24.

As per EHICAR, its focuses will be on balancing the utilization rate and ADRR going forward. The operating stats of 4Q24 were slightly weaker than those of 4Q23. Nonetheless, we expect EHICAR to be prudent in fleet size expansion facing the weakened economy and pressure on ADRR. The positive free cash flow and migration to operating leases will lead to further improvement in credit profile. Currently, c54% of its fleet is under operating leases. EHICAR targets to bring the level up to 70%.

BTSDF

We maintain buy on BTSDF 13.5 06/26/26 in view of H&H's lengthened debt maturity profile after the exchange and concurrent new issue in Jun'23, as well as its full prepayment of USD term loan with a remaining amount of USD581mn due in Jun'25. BTSDF 13.5 06/26/26 offers a better risk-return profile than those of other Chinese BB-rated bonds. At 107.1, BTSDF 13.5 06/26/26 is trading at YTM of 8.3%, offering yield pick-up of 50bps over FOSUNI 5 05/18/26 (-/BB-/-, YTM of 8.1%), and 210bps over GWFOOD 2.349 10/29/25 (-/-/BB, YTM of 6.5%).

In 9M24, H&H International (H&H)'s revenue fell 6% yoy to RMB9.6bn, due mainly to the decline in infant milk formula (IMF) sales. Most of the IMF of H&H were sold in China (over 95% in past five years), the fall in IMF sales attributable to the competitive environment for super-premium IMF, lower sell-in from depleting the old "GB" products and introduction of new "GB" series. Since China is the largest market for H&H, accounting for 66% of its revenue, the 13% yoy decline in revenue from China was more than offset the growth of other regions.

We expect the revenue to fall by mid to high single digit in FYE24 compared to FY23. Per H&H guidance, ANC and PNC revenue will grow at high single digit to low-teen (FY23: ANC: 35% yoy, PNC: 23% yoy); while BNC revenue to fall at c25% (FY23: -12% yoy). The revenue drop in BNC would outweigh the revenue increase in ANC and PNC. H&H maintains the guidance of EBITDA margin in FYE24 at mid-teen (FY23: 15.9%).

H&H had a cash balance of RMB1.9bn as of Sep’24, increased from RMB1.4bn at Dec’23. It also utilized a new 3-year term loan of USD540mn in Oct’24 to fund the full prepayment of the due-Jun’25 term loan. The maturity profile of H&H has notably lengthened. Per H&H, refinancing of USD300mn BTSDF 13.5 06/26/26 will be its top priority in 1H25, and it targets to issue new debt instruments at a lower cost than the existing bonds. We take additional comfort from H&H’s good access to different funding channels, including bond issuances and as bank borrowings. In 2024, H&H tapped USD120mn of BTSDF 13.5 06/26/26, issued BTSDF 7.5 03/26/27 of RMB500mn, and obtained 3-year CHN loan of cUSD150mn equivalent due Jun’27 in two tranches (CNH1,022mn at 5% and CNH73mn at 3MHIBOR+195bps).

Appendix 7: Macau Gaming – GGR recovery and normalization of funding access to continue

The Macau gaming bonds have been performing well and conviction is lower. Nonetheless, we expect the credit stories of Macau gaming operators to continue to improve, benefitting from the resilient GGR recovery and normalization of funding access. These should support the performance of Macau gaming bonds.

Within the sector, MPELs and STCITYs/STDCTY are our top picks after SJMHOLs' outperformance in 2024. That said, we still consider SJMHOLs good carry play. We also like MGMCHIs and WYNMAC'29 yield pick-up plays. They offer 40-110bps and c110bps yield pick-up over bonds of their US parents, respectively. We are neutral on SANLTDs on valuation.

Table 1: Our Macau gaming picks

	Ask YTM (%)	Mod Duration	Ask px
MGMCHI	5.8-6.8	0.5-3.7	97.0-101.7
MPEL	**5.6-7.5**	**0.5-4.2**	**91.8-100.9**
SANLTD	5.5-5.8	0.7-5.8	86.1-99.8
SJMHOL	**6.1-6.5**	**1.1-2.8**	**95.5-98.4**
STCITY/STDCTY	**6.1-7.6**	**0.6-3.5**	**91.2-100.9**
WYNMAC	4.2-6.9	1.1-4.2	92.7-101.0

Source: Bloomberg.

GGR recovery continues in 2024

In 2024, the gross gaming revenue (GGR) in Macau rose 24% yoy to MOP226.8bn, reaching 77% of the pre-pandemic level in 2019 and was higher than Macao government's target of MOP216bn. See Table 2. In 2025, Macao government expects GGR to rise to MOP240bn (cUSD30bn). We believe the 2025 target is highly achievable given the sustained recovery in tourist arrivals and incremental supportive policies in mainland China. In the end of Nov'24, the Chinese government resumed the application of multiple-entry visa to Macau for Zhuhai residents and the policy was effective on 1 Jan'25.

The six Macau gaming (including Studio City) with outstanding USD bonds had released improving 3Q24 results except Sands China which was disrupted by renovation of Londoner Macau. We expect the operating performance of Macau gaming operators to remain solid in 2025. We also expect them to be candidates for early redemption of their bonds given their improved financial conditions and resumed access to capital markets.

Manageable maturity profiles

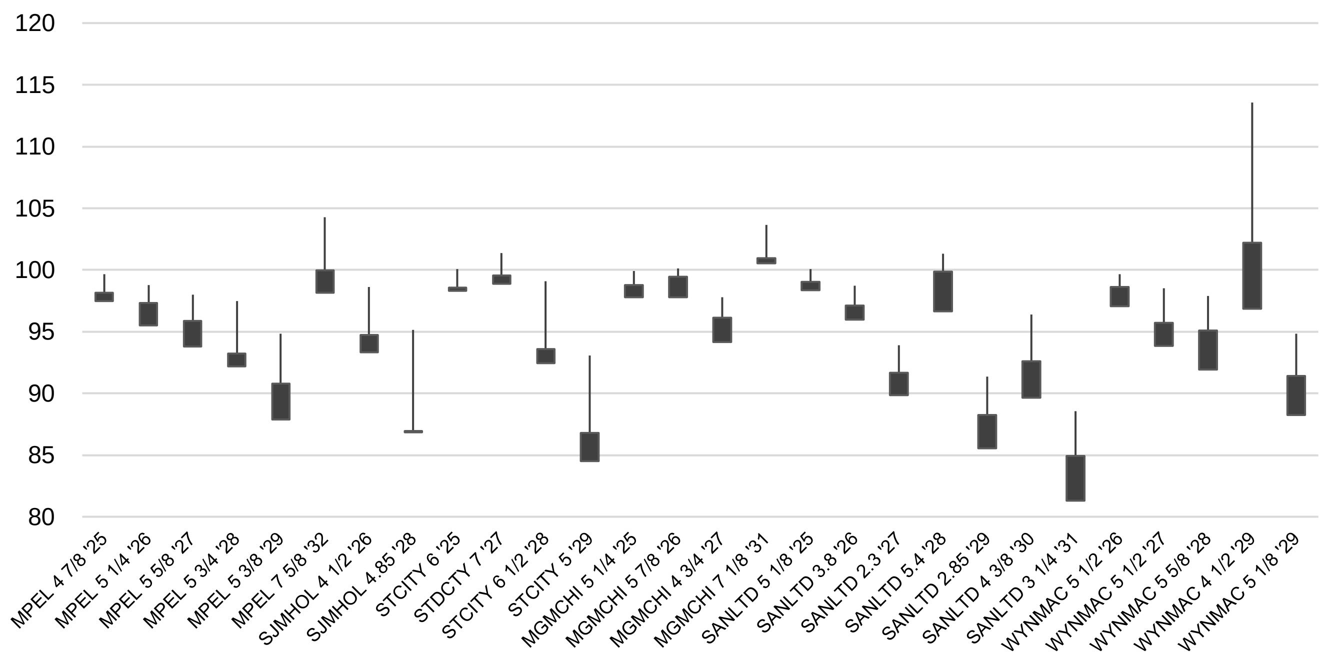
The offshore bond maturities of the sector are manageable. The total USD bond maturities of the Macau gaming sector will be USD3.4bn in 2025. With the solid recovery of GGR, the gaming operators are able to generate large operating cash flow to fund its operation and capex. We expect these operators continue to actively manage their debt maturity profiles and reduce interest expenses through capital market activities such as new issues, bond repurchases and tender offers. During 2024, Studio City early redeemed totaled cUSD310mn (vs. issue size of USD500mn) of STCITY 6 07/15/2025 through market repurchases and tender offer.

Table 2: Macau monthly GGR

MOP mn	2022	2023	2024	Cumulative GGR 2024	Cumulative GGR 2024 growth rate	% of 2019 GGR
Jan	6,344	11,580	19,337	19,337	67%	78%
Feb	7,759	10,324	18,486	37,823	73%	75%
Mar	3,672	12,738	19,503	57,326	65%	75%
Apr	2,677	14,722	18,545	75,871	54%	76%
May	3,341	15,565	20,188	96,059	48%	76%
Jun	2,477	15,207	17,694	113,753	42%	76%
Jul	398	16,662	18,595	132,348	37%	76%
Aug	2,189	17,213	19,754	152,102	33%	77%
Sep	2,962	14,937	17,253	169,355	31%	77%
Oct	3,899	19,501	20,787	190,142	28%	77%
Nov	2,999	16,043	18,438	208,580	27%	77%
Dec	3,482	18,564	18,202	226,872	24%	78%

Source: Macau DSEC.

Chart 1: Price movement of Macau gaming bonds in 2024 (pts)



Source: Bloomberg.

Appendix 8: Chinese TMTs – IG picks with solid liquidity profiles

We like the solid liquidity profiles of the Chinese TMT issuers. A few of them are in net cash positions and sit comfortably at their rating levels. We prefer TMT credits which are less vulnerable to geopolitical risk, as well as proxies on domestic consumption, such that they could benefit from government's measures to stimulate domestic consumption. Furthermore, we prefer BBB- over A-rated TMT credits for better risk-return profiles. We maintain buy on **MEITUA 0 04/27/27, MEITUA 2.125 10/28/25, WB 3.375 07/08/30, XIAOMI 3.375 04/29/30 and XIAOMI 2.875 07/14/31**. For investors with lower risk appetite, we recommend buy on **TENCNT 3.595 01/19/28 and TENCNT 3.975 04/11/29**, switching from TENCNT 2.39 06/03/30 and TENCNT 2.88 04/22/31 for shorter tenor given our preference for shorter-tenor plays and their lower cash prices among the shorter tenor TENCNT bonds.

Table 1: Our Chinese TMT picks

Security name	ISIN	Recommendation	Amt o/s (USD mn)	Px	Z-spread (bps)	YTM/YTP (%)	First put date	Put px
MEITUA 0 04/27/27	XS2333568751	Maintain buy	1,484	98.8	90	5.2	27 Apr'25	100.37
MEITUA 2.125 10/28/25	US58533EAB92	Maintain buy	750	97.7	77	5.0	-	-
WB 3.375 07/08/30	US948596AE12	Maintain buy	750	89.8	150	5.5	-	-
XIAOMI 3.375 04/29/30	US98422HAA41	Maintain buy	600	91.0	129	5.3	-	-
XIAOMI 2.875 07/14/31	US98422HAC07	Maintain buy	800	86.1	146	5.4	-	-
TENCNT 3.595 01/19/28	US88032WAG15	Initiate buy	2,500	96.5	84	4.9	-	-
TENCNT 3.975 04/11/29	US88032WAN65	Initiate buy	3,000	96.4	88	4.9	-	-
TENCNT 2.39 06/03/30	US88032XAU81	Chg. to neutral	2,250	87.2	101	5.1	-	-
TENCNT 2.88 04/22/31	US88032XBA19	Chg. to neutral	500	87.7	107	5.2	-	-

Source: Bloomberg.

MEITUA 0 04/27/27 and MEITUA 2.125 10/28/25

We maintain buy on MEITUA 0 04/27/27 (CB), puttable at 100.37 on 27 Apr'25, is trading at 98.8 with YTP of 5.2%. We also like MEITUA 2.125 10/28/25 for lower cash price and less than a year to maturity. At 97.7, MEITUA 2.125 10/28/25 is trading at YTM of 5.0%. In our view, Meituan is able to redeem the MEITUA 0 04/27/27 and MEITUA 2.125 10/28/25 comfortably with its internal resources based on its net cash position as at Sep'24, and the issuance of the two USD bonds totaled USD2.5bn in Oct'24 further boost its liquidity.

Meituan delivered strong growth in revenue and profits in 9M24, driven by increase in number of delivery transactions, number of online marketing active merchants, as well as growth in goods retail businesses. The number of delivery transactions increased by 18% yoy in 9M24 to 19bn. As of Sep'24, Meituan had unrestricted cash and cash equivalent of RMB43bn. Along with the short-term treasury investment of RMB92bn, Meituan's net cash position (unrestricted cash and short term investments minus total debts) further increased to RMB93bn as of Sep'24. Over the past 5 years, its net cash position averaged RMB59bn.

In our view, Meituan has ample liquidity to cover its short-term debts of RMB13bn and capex, and to redeem or repay its offshore maturities in the medium term with its internal financial resources. In Oct'24, Meituan issued USD bonds totaled USD2.5bn, which is more than sufficient to cover the redemption of MEITUA 0 04/27/27 of USD1,484mn (callable in Apr'25) and MEITUA 2.125 10/28/25 of USD750mn due in Oct'25.

Furthermore, Meituan's brand Keeta officially launched in Riyadh, the capital of Saudi Arabia, in Oct'24. As per Meituan, it is also keen on expanding the coverage of Keeta to other Saudi Arabia cities. While international expansion of Keeta will burn cash at initial stage, the impact to Meituan's credit profile should be well contained given its large net cash position.

WB 3.375 07/08/30

We maintain buy on WB 3.375 07/08/30, the only outstanding senior bonds of Weibo. WB 3.375 07/08/30 offers the second highest YTM among its BBB-rated TMT peers with similar tenor, after LENOVO 6.536 07/27/32 which we view the valuation is expensive at the current level. At 89.8, WB 3.375 07/08/30 is trading at YTM of 5.5%.

The higher YTM of WB 3.375 07/08/30 priced in the comparably slower business growth of Weibo than that of BBB-rated peers in the likes of Meituan and Xiaomi. Weibo's 9M24 revenue growth was largely muted compared to that in 9M23. Lower advertising revenue in 9M24 was offset by higher value-added services revenue, supported by growth of membership services and game-related revenues. The monthly active users decreased to 587mn as of Sep'24 from 605mn as of Sep'23. Besides, Weibo's operating cash flow fell 13% yoy in 9M24 while capex increased by 49% yoy.

We expect that the operating performance of Weibo will continue to be pressured by intense competition with WeChat and ByteDance. That said, we take comfort from Weibo's net cash (unrestricted cash and short term investments minus total debts) position of USD339mn as at Sep'24, and it did not have any ST debts.

XIAOMI 3.375 04/29/30 and XIAOMI 2.875 07/14/31

We maintain buy on XIAOMI 3.375 04/29/30 and XIAOMI 2.875 07/14/31 on Xiaomi's solid credit profile with strong net cash position. At 91.0 and 86.1, XIAOMI 3.375 04/29/30 and XIAOMI 2.875 07/14/31 are trading at YTM of 5.3% and 5.4%, respectively.

Xiaomi released strong 9M24 results, driven by the growth in smartphone shipment and ASP, as well as increase in delivery of smart EV. Xiaomi further lifted the FY24 delivery goal of smart EVs to 130k units, from 120k units and 100k units announced in Jun'24 and Mar'24, respectively. In 9M24, the gross margin of Xiaomi was flat at 21%, higher gross margin in smart EV was partly offset by lower gross margin in smartphone which was due to higher production costs. We expect Xiaomi's FY24 EBITDA to increase 53% to cRMB29bn from RMB19bn in FY23.

Xiaomi's credit profiles remained solid. As of Sep'24, Xiaomi had net cash (unrestricted cash and short term investments minus total debts) of RMB72bn, while its unrestricted cash to ST debts ratio at 8.0x. We expect Xiaomi to remain in a net cash position over the medium term despite increasing R&D expenses and capex in the EV segment, supported by abundant cash on hand and strong operating cash inflows. Xiaomi smart EV went to market at the end of Mar'24 and it delivered 135k units as of 28 Dec'24, achieving the full year goal earlier than expected. Besides, Xiaomi expects to deliver 300k units EV cars in 2025.

TENCNT 3.595 01/19/28 and TENCNT 3.975 04/11/29

For investors with lower risk appetite, we recommend switch to TENCNT 3.595 01/19/28 and TENCNT 3.975 04/11/29 from TENCNT 2.39 06/03/30 and TENCNT 2.88 04/22/31 for shorter tenor given our expectation on higher rate volatility and their lower cash prices among the shorter tenor TENCNT bonds. At 96.5 and 96.4, TENCNT 3.595 01/19/28 and TENCNT 3.975 04/11/29 are trading at YTM of 4.9% and 4.9%, and Z-spread of 84bps and 88bps, respectively.

Tencent delivered steady increases in revenue and profit in 9M24, with highest growth from online advertising segment. Tencent gross profit margin increased to 53% in 9M24, thanks to the growth in high-margin domestic games, video accounts and Weixin Search. In 9M24, Tencent generated RMB204bn operating cash flow, representing 22% increase yoy. As of Sep’24, Tencent had unrestricted cash of RMB145bn and net cash (unrestricted cash and short term investments minus total debts) of RMB6bn, increased from net cash of RMB2bn as of Dec’23.

We believe the needs of external financing for new investments to be limited for Tencent, following its self-funded strategy through recycling of capital unlocked from divestments. As of Sep’24, Tencent’s investments in listed entities totaled RMB274bn. We expect that Tencent continues to maintain a solid credit profile in line with its credit ratings of A1/A+, with a net cash position of RMB6bn as of Sep’24, improving gross profit margin and strong free cash flow generation.

Meanwhile, Tencent is in discussions with Apple to share revenue on Mini Games on WeChat platform via Apple’s iOS payment system. Apple charges 30% commission on all the transactions performed on its iOS system. Our base case is Tencent to pass on part of the Apple’s charges to the third-party game developers, and the financial impact on Tencent should be limited.

Appendix 9: Chinese AMCs – Spread compression to continue

We saw a notable spread compression among the AMC bonds in 2024, and expect the compression to continue, driven by recent stimulus packages, on-going government support, as well as capitalization and operating support CIC and CITIC could bring. While the conviction levels are lower, HRINTHs continue to be our top picks in the Chinese AMC universe for their better risk-return profiles. Within the HRINTH curve, we continue to prefer HRINTH 4.25 Perp a good short-tenor carry play in view of the high certainty of call on the first call date. We also like HRINTH 3.875 11/13/29, HRINTH 3.375 02/24/30 and HRINTH 3.625 09/30/30.

Outside HRINTH, we like CCAMCL 4.4 Perp as a low beta play in the sector. We believe that the certainty of call on the first call date is also high. We are neutral to GRWALL 7.15 Perp. At 103.8, GRWALL 7.15 Perp is trading at YTC of 5.5% with the first call date in Jul'27. We consider GRWALL 7.15 Perp fairly priced and prefer HRINTH 4.25 Perp and CCAMCL 4.4 Perp more for their more balanced risk-return profiles.

Table 1: Our Chinese AMC picks

Security name	ISIN	Amt o/s (USD mn)	First call date	Coupon reset	Step-up (bps)	Px	YTC/YTM (%)
CCAMCL 4.4 Perp	XS2397254579	1,700	3 Nov'26	5yr UST+3.232%	-	98.4	5.3
HRINTH 4.25 Perp	XS2235973943	250	30 Sep'25	5yr UST+6.979%	300	99.0	5.7
HRINTH 3.875 11/13/29	XS2076078786	200	-	-	-	92.8	5.6
HRINTH 3.375 02/24/30	XS2122990810	271	-	-	-	89.9	5.7
HRINTH 3.625 09/30/30	XS2235973869	139	-	-	-	89.9	5.7

Source: Bloomberg.

Table 2: YTM/YTC of Chinese AMCs bonds and perps

	Ask YTM/YTC (%)	Mod Duration	Ask px
CCAMCL	5.0-6.2	0.1-12.5	85.2-101.1
GRWALL	5.5-5.8	0.3-5.1	84.4-102.5
HRINTH	5.6-6.1	0.8-12.3	87.0-99.5
ORIEAS	5.2-5.5	0.9-5.3	86.3-100.9

Source: Bloomberg.

Consolidation of the three AMCs under CIC shows government support to continue

In Sep'24, media reported that China Investment Corporation (CIC) started the due diligence process on Cinda and Orient. The due diligence on Great Wall was completed in Aug'24. MOF currently owns majority stakes in these three AMCs, and MOF may transfer its stakes to CIC which is wholly-owned by MOF. On the other hand, CITIC Group replaced the MOF as the largest shareholder of China CITIC FAMC (Huarong) since Nov'22.

As we have been arguing, we view the AMC sector a very strategically important constituent in maintaining the stability of the Chinese financial system. Hence, we take a top-down, instead of bottom-up, view on the sector. We are not concerned that the potential share transfer to CIC from MOF will weaken the government support and linkage, taking cues from the ownership transfer of Huarong to CITIC Group. Even after the shareholding changes, all big 4 Chinese AMCs will still be firmly in the grip of MOF.

Indeed, we believe that the transfer of ownership to CIC reveals the Chinese government's determination to improve the financials, capitalization, as well as operating performance and management of these AMCs on a more commercial basis, as in the case of Huarong. To us, the potential shareholding changes reinforce our view that the government views all big 4 from a top-down approach and the government support to them will continue.

Huarong turns focus to higher quality equity investments

In 1H24, Huarong reversed to PBT of RMB4.8bn from LBT of RMB4.9bn with the fair value gain on distressed debts and other financial assets, as well as higher contributions from its associates and joint ventures. Huarong has been disposing of non-core assets to enhance its financial flexibility in refinancing as well as to redirect its focus to its distressed asset management.

In 2024, the focus of Huarong turned to acquisitions of higher quality equity stakes, from bonds and perps repurchase, by recycling the proceeds from the assets disposal, such as 5.01% in CITIC Ltd. In Nov'24, Huarong announced an investment plan of RMB50bn (in CITIC Limited, Bank of China, CEB Bank and a trust). We believe that these will provide Huarong stable and recurring earnings and cash flow. In our view, the higher quality equity investments, focus in distressed asset management business and along with close tie with CITIC Group will continue to support Huarong's credit profile.

Great Wall successfully raised USD500mn to refinance despite low capital adequacy

We are yet to see any regulatory actions towards Great Wall on the breach of minimum regulatory requirement on the capital adequacy since Dec'22. The latest CET1 ratio disclosed by Great Wall was 9.81% at Jun'22, we believe the CET1 ratio as of Dec'22 should fall below the regulatory requirement of 9% based on the sizeable loss incurred in FY22 of RMB45bn. In our view, the potential transfer of ownership to CIC from MOF will help address the capital shortfall issue of Great Wall.

Despite the low capital adequacy ratio coupled with failure to publish its financial reports on time, Great Wall successfully issued GRWALL 7.15 Perp of USD300mn to refinance GRWALL 3.95 Perp of USD400mn on the first call date in Jul'24. As we have been arguing, we are not too concerned about Great Wall's repayment ability given the demonstrated support from the Chinese government to the AMC sector. We also take comfort that the AMCs remain accessible to various funding channels.

Non-call risk on perps remains low for Chinese AMCs

We like the AMC perps in view of the high certainty of call, as well as their yield pick-up over the senior bonds. At 99.0, HRINTH 4.25 Perp was traded at YTC of 5.7%, offer 30bps yield pick-up over HRINTH 5 11/19/25. CCAMCL 4.4 Perp was traded at YTC of 5.3% at 98.4. All the perps issued by the AMC were called on their respective first call dates. The most recent call was performed by Great Wall in Jul'24 on GRWALL 3.95 Perp.

We believe that the likelihood for the three outstanding perps being called on the first call dates remains high including CCAMCL 4.4 Perp, the only perp without high coupon step-up in case of non-call. The coupon of CCAMCL 4.4 Perp will be reset to a c7.3% based on current UST which is expensive from Cinda' perspective given its access to lower cost funding alternatives.

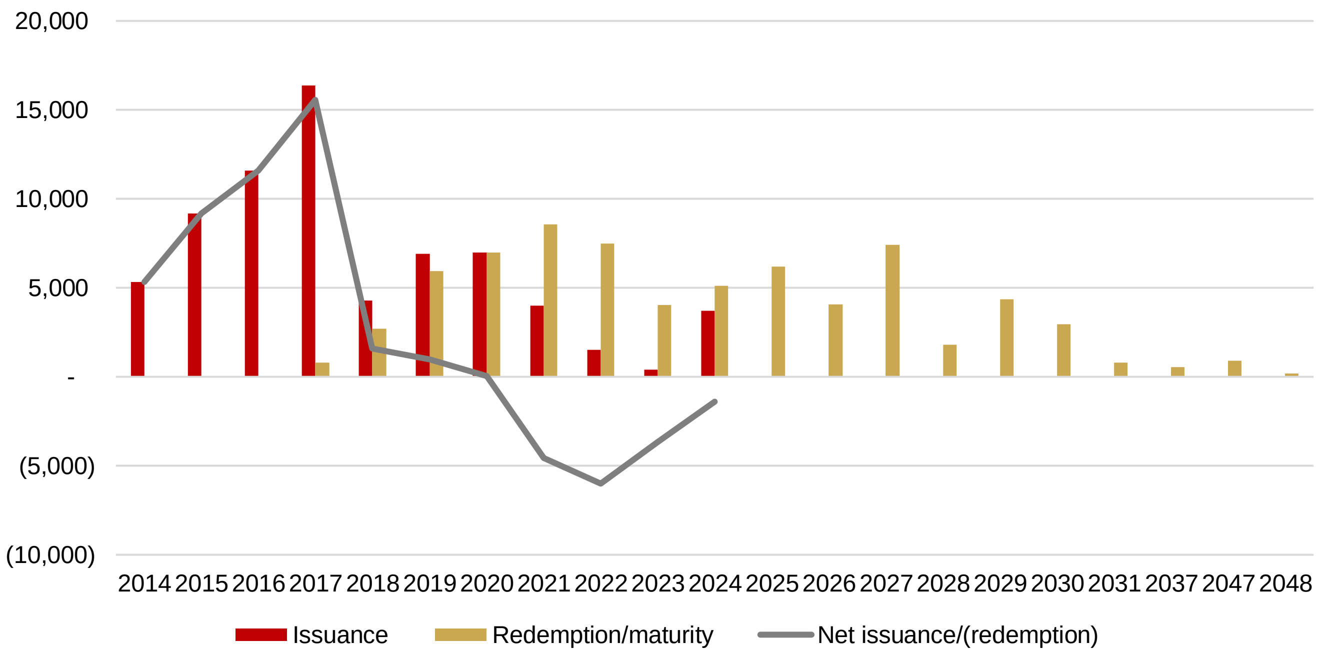
Our confidence on the perps being called on the first call dates is also predicated on Huarong's calls on HRINTH 2.875 Perp in Sep'21 and HRINTH 4.5 Perp in Jan'22 totaled USD2bn when Huarong was in the mid of financial distress and recapitalization. It also announced the call of HRINTH 4 Perp on 29 Sep'22 ahead of its first call date on 7 Nov'22.

Offshore net redemption trend will likely continue in 2025

The sector has experienced net redemption trend offshore since 2021. The offshore net redemption in the sector is USD1.4bn in 2024. The net issuance of Orient was USD200mn, while the net redemption of Cinda and Great Wall were both USD100mn. For Huarong, it redeemed two bonds totaled USD1.4bn at maturity without tapping offshore markets. We understand that Huarong has been refinancing its offshore bonds via onshore funding channels, and its last offshore issuance was back in Sep'20. We also saw the same net redemption trend onshore in 2024. The net redemption for Orient was RMB1.7bn and Huarong retired RMB6bn bonds.

In 2025, USD6.2bn of bonds and perps will be up for redemptions. Given AMCs' good access to low-cost onshore funding, we believe that AMCs could fund a considerable part of these via onshore funding channels. Recalled that Orient issued 3-year onshore bonds at a coupon rate of only 2.46% in May'24. Hence, the net redemption trend will likely continue.

Chart 1: Chinese AMCs offshore USD bonds maturities (USD mn)



Note: The first call date of the perp is treated as "maturity" in the chart.
Source: Bloomberg, CMBI Research.

Appendix 10: LGFVs – Policy support remains strong

We believe the policy support to LGFVs to remain firm, reflected by the debt swap for the hidden debts of local governments. Hence, the access to onshore funding channels for LGFVs to be smooth in general with funding costs trending lower. Additionally, we believe that the technical of the LGFV space will remain strong given the strong onshore demand and net redemptions, partly because of the cannibalization from lower-cost Dim Sum issues. We also saw LGFVs with better credit profile to conduct early redemptions of their USD bonds through tender offer or open market repurchases to lower funding costs and manage their debts maturities.

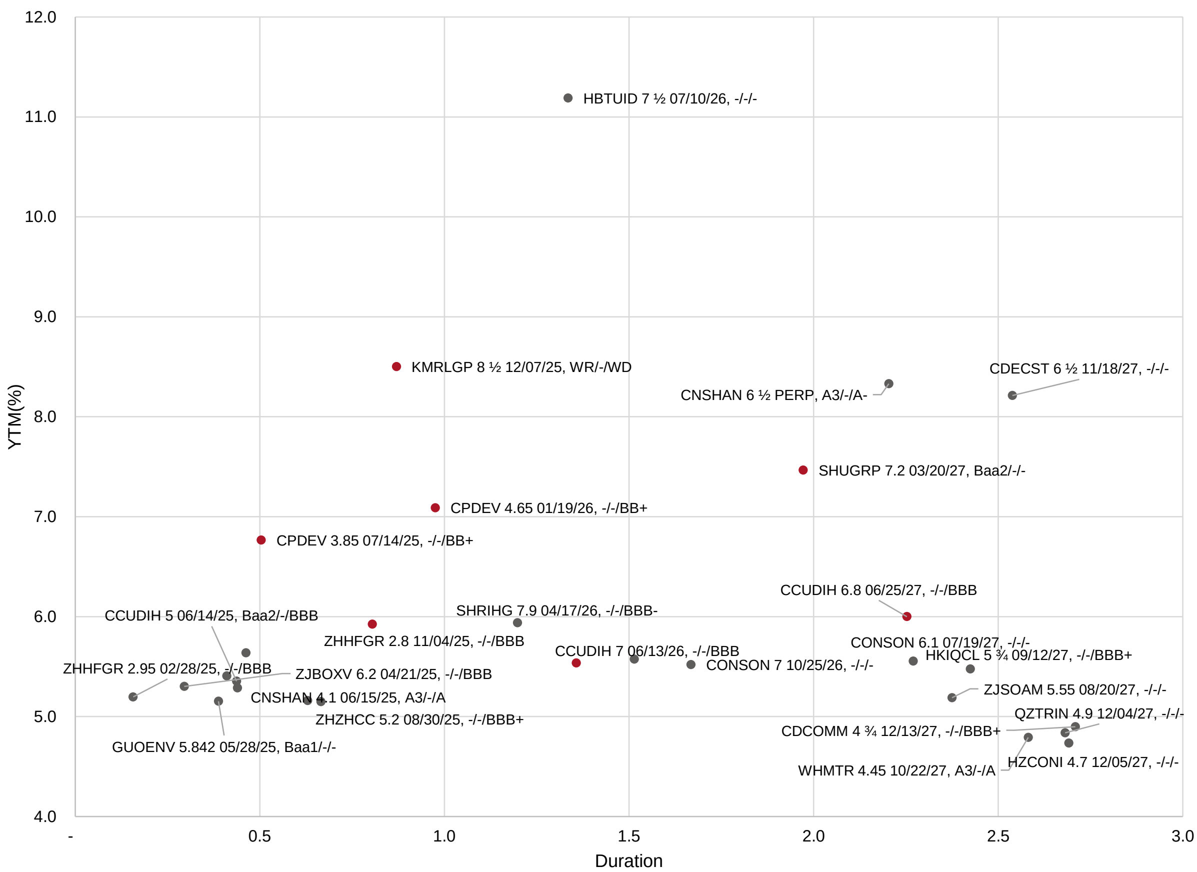
In LGFV space, we continue to prefer bonds issued by LGFVs with critical roles in higher tier cities and better trading liquidity than peers. Our picks are **CCUDIH'26/27**, **CPDEV**, **KMRLGP**, **SHUGRP** and **ZHHFGR**.

Table 1: Our LGFV picks

Security Name	ISIN	O/S amt (USD mn)	Ask Px	YTM (%, ask)	Mod Dur	Issue rating (M/S/F)
CCUDIH 7 06/13/26	XS2701555968	200	101.9	5.6	1.4	-/-/BBB
CCUDIH 6.8 06/25/27	XS2824607266	230	101.8	6.0	2.3	-/-/BBB
CPDEV 3.85 07/14/25	XS2098096568	450	98.6	6.6	0.5	-/-/BB+
CPDEV 4.65 01/19/26	XS2279594282	500	97.7	7.0	1.0	-/-/BB+
KMRLGP 8 ½ 12/07/25	XS2558634791	253	100.3	8.2	0.9	-/-/-
SHUGRP 7.2 03/20/27	XS2530843759	180	99.5	7.5	2.1	Baa2/-/-
ZHHFGR 2.8 11/04/25	XS2250383762	400	97.6	5.8	0.8	-/-/BBB

Source: Bloomberg.

Chart 1: YTM of our LGFV picks



Source: Bloomberg.

On-going supportive policies to resolve credit risk of local governments

In Jul'23, the Chinese government tabled a series of measures, e.g. debt swaps and monetization of state-owned assets, to mitigate the hidden debts of local governments. In 2023 and 2024, 30 provincial governments issued RMB1,388.5bn and RMB1,492.2bn special refinancing bonds to replace the hidden debts, respectively.

Table 2: Local government special refinancing bonds issuance as of Nov'24

Region	Issued amt (RMB bn)	Region	Issued amt (RMB bn)
Guizhou	411.0	Hebei	69.4
Jiangsu	339.7	Henan	66.6
Hunan	255.9	Gansu	65.4
Yunnan	191.7	Guangxi	62.3
Tianjin	174.9	Fujian	40.2
Shandong	163.1	Jiangxi	27.7
Liaoning	161.4	Guangdong	19.4
Sichuan	129.3	Shanghai	17.8
Zhejiang	116.7	Ningxia	15.9
Inner Mongolia	106.7	Xinjiang	14.6
Jilin	90.6	Qinghai	10.5
Heilongjiang	81.0	Hubei	9.2
Shaanxi	79.1	Shanxi	6.4
Anhui	76.0	Hainan	4.7
Chongqing	72.6	Tibet	0.9
Total	2,880.7		

Source: CMBI Research.

On the other hand, media reported that the Chinese government issued several LGFV related decrees in 2024 to address LGFV debts. See Table 3 for details. The government had opened up the supportive policies from 12 heavily indebted provinces to all 31 provinces and extended validity of decree No.35, which facilitates LGFV's refinancing, from Dec'25 to Jun'27. These decrees demonstrate government's ongoing efforts in resolving the debt problem of LGFVs over the coming years.

Table 3: Summary of Decrees on LGFVs in 2024 per media report

Date	Decree	Details
Jan'24	35	Urged financial institutions to support LGFVs of 12 heavily indebted provinces on repayments of debts due before 2025 via debt restructuring or debt swap
Mar'24	47	Restricted local government of 12 provinces investing new projects excluding livelihood projects
Mar'24	14	Extended the coverage to all 31 provinces from 12 provinces listed in Decree 35
Jul'24	134	Extended the validity of Decree 35 which supported LGFV's refinancing to Jun'27 from Dec'25

Source: CMBI Research.

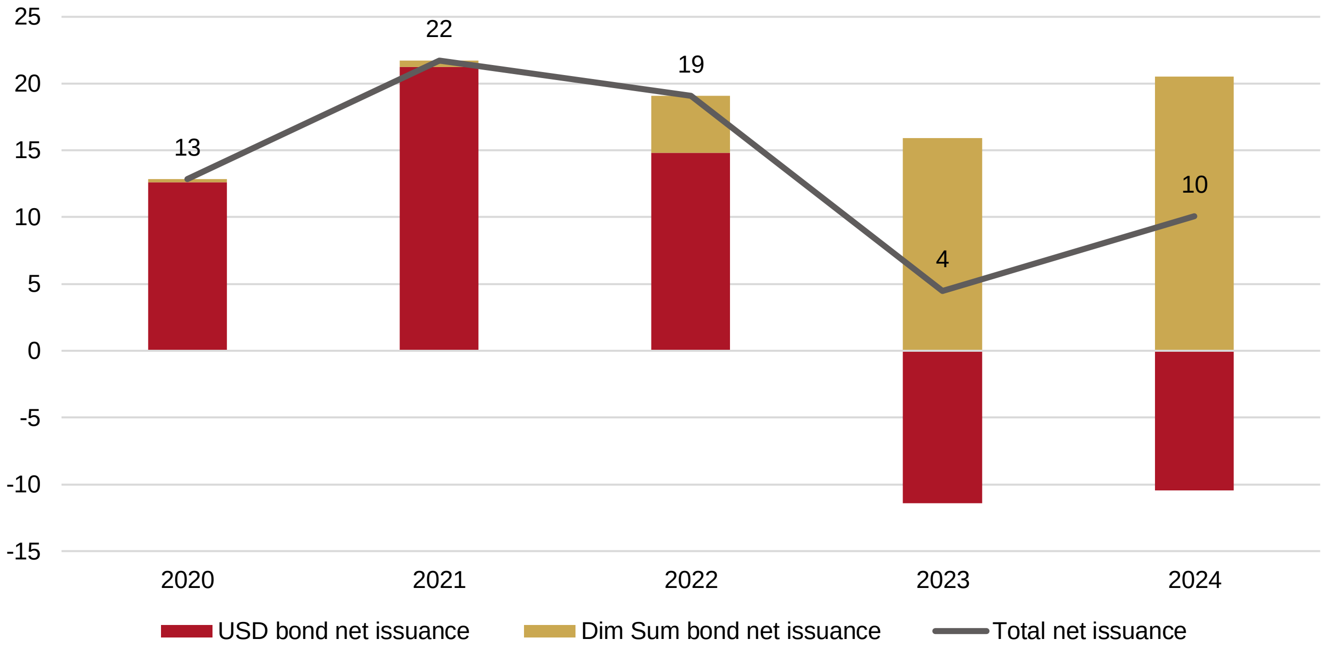
During the Politburo meeting in Jul'24, the Chinese government announced to implement packaged measures to resolve the debt problem of LGFVs. In Nov'24, the Chinese NPC announced packaged measures of RMB12tn (cUSD1.65tn) to solve local hidden debts. The package includes: 1) raising local government special debt ceiling by RMB6tn to RMB35.52tn to swap existing hidden debts; 2) allocating RMB800bn of local government special debts per year in next five years to resolve hidden debts; and 3) guaranteeing the repayment of RMB2tn hidden debts from shanty town renovation. MOF expects to decrease hidden debts of local government to RMB2.3tn in 2028 from current RMB14.3tn and believes local governments are able to repay the remaining hidden debts by their own.

In Dec'24, Chinese top leaders held CEWC for 2025 and indicated to implement more proactive fiscal policy to further raise fiscal deficit. Recalled that Chinese government had raised the budgeted fiscal deficit to 3.8% of GDP from 3% in 2024. Besides, Chinese government said to actively conduct urban renewals in the next year. We believe that LGFVs will benefit from these new policies.

Divergence of offshore LGFV issuance to continue in 2025

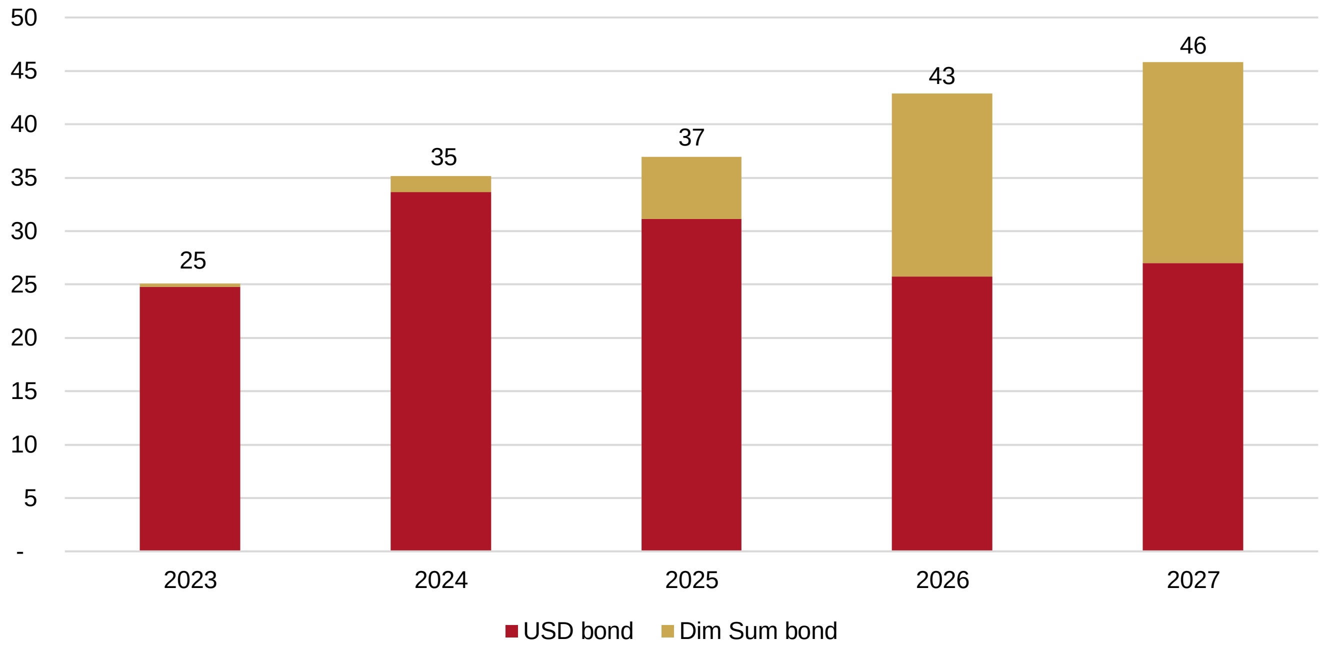
In 2024, LGFV USD bond space experienced another year of net redemptions with net redemption amount of cUSD10.4bn. Meanwhile, LGFV Dim Sum bond space further expanded with net issuance amount of USD20.5bn equivalent, increased 29.0% from net issuance of USD15.9bn in 2023. We expect the LGFV Dim Sum bond issuance to remain active in 2025 in view of lower cost of Dim Sum issues and the maturity profiles of offshore LGFV bonds.

Chart 2: LGFV offshore bonds net issuance (USD bn)



Note: Data as of 10 Dec'24.
Source: Bloomberg.

Chart 3: LGFV offshore bonds maturity profiles (USD bn)

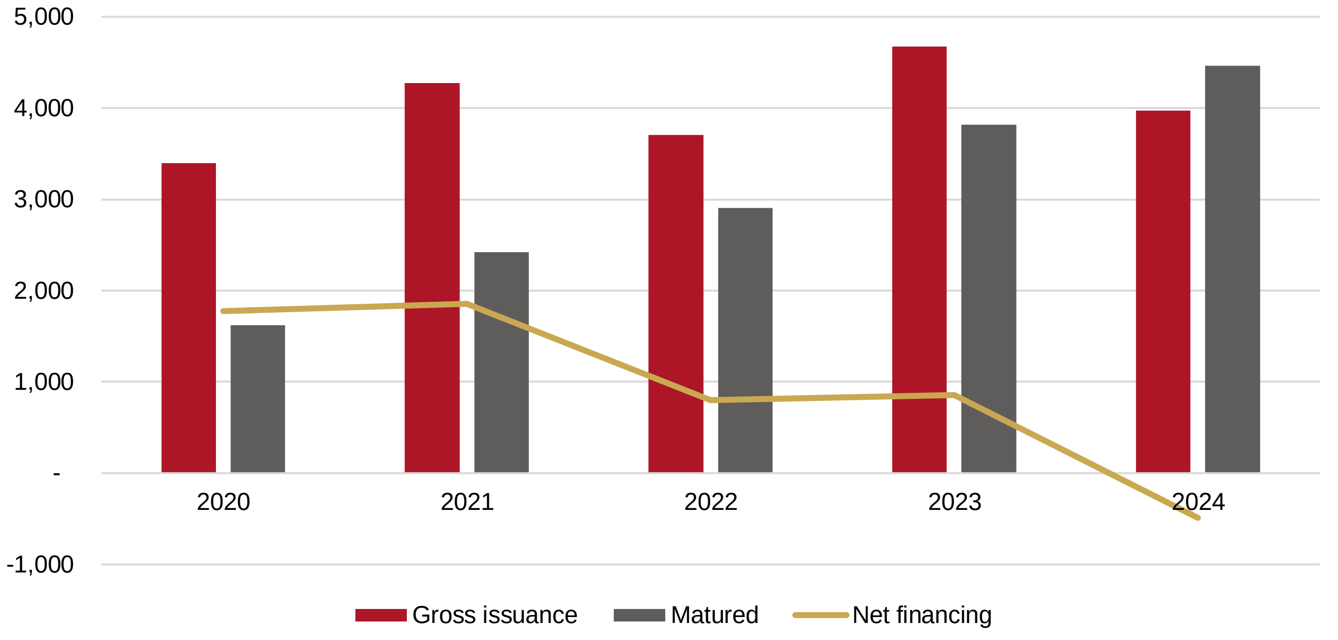


Note: Data as of 10 Dec'24.
Source: Bloomberg.

Onshore issuance continues to shrink

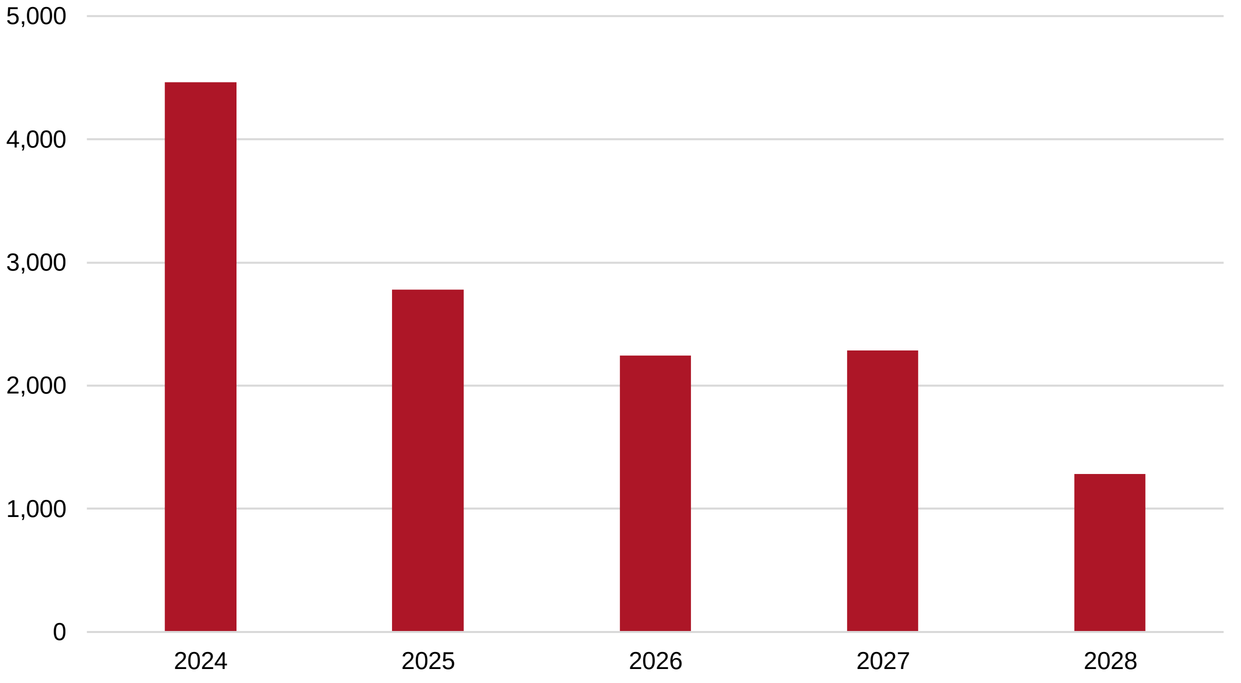
In 2024, LGFV onshore space historically recorded net redemption for the first time with net redemption amount of RMB490bn. We believe that the net redemption reflects the availability of lower-costing funding alternatives such as bank facilities and funding through the debt swaps of local government. We expect LGFV onshore issuance amount to further decrease in 2025 given the lower maturities in next three years and more diversified funding channels.

Chart 4: LGFV onshore bonds issuances (RMB bn)



Source: Wind.

Chart 5: LGFV onshore bonds maturity profiles (RMB bn)



Source: Bloomberg.

Appendix 11: Chinese Properties – Stay focus on the survivor list

The Chinese property shows signs of improvement after a series of supportive measures launched in Sep'24. In Jun'24, the nationwide inventory months reached highest level of 32 months since 2016 then slightly lowered to 31 months in Nov'24. In Dec'24, the Politburo Meeting sounded out more proactive fiscal policy and more easing monetary policy in 2025 to stabilize the property market. We expect more concrete supportive measures related to property sector, e.g. further LPR cut and repurchase of commercial houses as affordable houses, to be announced over the coming months post CEWC. That said, we still believe that more speedy recovery will only be in higher tier cities and the recovery of the lower tier cities will be slow.

Our picks in the space remain to be **CHJMAOs, DALWANs, FUTLAN/FTLNHDs, GRNCHs, LNGFORs** and **YLLGSP**. We consider these companies are survivors of the sector in view of: -

- major operations in T1/2 cities where the sales and ASP remain more resilience and sales recovery is more visible. See Chart 1 and 3 (inventory by cities and new property price index)
- manageable near-term debt maturities, especially offshore bond maturities
- the ownership of quality investment properties (IP) can be collateralized for funding through operating loans, CMBS and CBICL-guaranteed onshore bond issuances

Table 1: Our Chinese properties picks

Ticker	Number of USD bonds o/s	Amt o/s (USD mn)	Px	YTM/YTC (%)	Next maturity	Ownership
CHJMAO	4	1,950	85.9-100.0	4.5-8.0	CHJMAO 4.4 03/04/25	State-owned
DALWAN	2	800	86.6-96.0	15.4-25.7	DALWAN 11 01/20/25*	Non-state-owned
FUTLAN/FTLNHD	3	1,004	83.6-94.2	16.5-19.2	FUTLAN 4.45 07/13/25	Non-state-owned
GRNCH	3	768	99.2-99.9	3.5-7.2	GRNCH 2.3 01/27/25	Non-state-owned
LNGFOR	4	2,000	70.1-84.4	9.8-11.5	LNGFOR 3 ⅜ 04/13/27	Non-state-owned
YLLGSP	1	500	95.5	8.7	YLLGSP 5 ⅛ 05/20/26	Non-state-owned

*Note: *Refers to the USD100mn amortization due in Jan'25. Source: Bloomberg.*

Contracted sales continued to drop in 2024

In 11M24, the cumulative contracted sales of 32 developers dropped 33.0% yoy to RMB2,030.5bn. All developers under our radar posted yoy decrease in cumulative contracted sales in 11M24. GRNCH (RMB256.4bn) was a better performer with a modest yoy contracted sales decline of 4%. The distressed developers continued to underperform. The contracted sales of COGARD (RMB43.8bn), LOGPH (RMB7.8bn) and AGILE (RMB14.8bn) dropped 74%, 65% and 65% yoy in 11M24, respectively.

Table 2: Jan-Nov'24 sales of 32 developers under our radar

2024 YTD Sales (in RMB mn)																		
Company	CN Name	BBG Ticker	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Trend	Nov'24 MoM Growth	Nov'24 YoY Growth	Nov'24 YTD Sales	Nov'24 YTD Sales Growth
Greentown	绿城	GRNCH	12,000	12,900	28,300	22,300	23,300	27,700	21,000	18,100	21,600	27,800	31,800		14%	-6%	246,800	-4%
China Overseas	中国海外发展	CHIOLI	10,504	8,491	41,211	21,795	19,700	46,677	13,192	18,460	18,819	41,589	30,028		-28%	31%	270,466	-6%
China Resources Land*	华润置地*	CRHZCH	11,420	9,190	30,110	21,280	20,700	32,000	15,500	15,200	16,900	31,000	25,800		-17%	7%	229,100	-20%
Shimao	世茂房地产	SHIMAO	2,110	2,240	3,900	2,610	2,920	3,310	2,720	2,600	2,940	3,110	2,720		-13%	12%	31,180	-22%
Poly Real Estate	保利地产	POLYRE	20,323	15,624	27,036	33,024	35,314	42,014	25,318	22,115	20,916	42,337	24,001		-43%	-23%	308,022	-23%
Yuexiu Property	越秀地产	YUEXIU	6,545	3,815	11,341	8,312	10,078	15,308	5,028	10,002	7,210	13,361	10,021		-25%	-16%	101,021	-24%
Times Property	时代中国控股	TPHL	532	841	685	1,055	1,005	705	855	550	555	1,305	855		-34%	31%	8,943	-33%
Yanlord*	仁恒置地*	YLLGSP	1,480	2,060	990	1,870	2,950	1,850	1,470	1,220	860	2,930	1,590		-46%	46%	19,270	-34%
Sino-Ocean*	远洋集团*	SINOCE	1,200	820	2,300	2,800	2,440	8,770	1,790	2,640	1,960	2,730	3,700		36%	75%	31,150	-34%
China Vanke	万科企业	VNKRLE	19,450	14,000	24,510	20,890	23,330	25,130	19,220	17,240	17,420	21,360	20,130		-6%	-34%	222,680	-35%
Central China Real Estate	建业地产	CENCHI	710	680	440	750	950	960	620	800	720	960	960		0%	8%	8,550	-37%
China Jinmao	中国金茂	CHJMAO	6,400	4,150	6,970	6,500	7,220	13,300	5,660	6,196	7,008	11,597	7,999		-31%	-20%	83,000	-37%
Longfor (Attributable)	龙湖集团	LNGFOR	4,660	3,680	7,440	6,230	5,980	6,780	5,250	4,630	5,140	7,340	5,710		-22%	-18%	62,840	-41%
Greenland Holding*	绿地控股集团*	GRNLGR	4,500	4,000	5,500	3,800	6,130	7,940	5,770	5,000	6,000	4,800	5,320		11%	-47%	58,760	-43%
Sunac China	融创中国	SUNAC	3,760	2,730	3,510	12,450	2,270	1,560	1,410	7,350	1,410	7,330	1,610		-78%	-54%	45,390	-43%
Hopson	合生创展	HPDLF	1,286	630	1,978	1,510	1,665	1,781	1,488	1,389	1,164	1,649	1,126		-32%	13%	15,666	-43%
Jingrui Holdings	景瑞控股	JINGRU	206	112	170	167	131	130	287	133	130	250	194		-22%	-7%	1,910	-46%
Future Land	新城控股	FUTLAN/FTLNHD	3,692	4,020	4,236	3,704	4,102	3,801	3,487	2,501	2,291	2,616	2,514		-4%	-50%	36,964	-48%
Zhongliang	中梁控股	ZHLGHD	2,010	1,730	1,500	1,370	1,450	1,600	1,360	1,300	1,250	1,600	1,270		-21%	-33%	16,440	-49%
Radiance*	金辉控股*	JNHUIG/RDHGCL	1,450	610	1,840	870	1,430	2,160	1,290	290	460	1,030	860		-17%	-64%	12,290	-49%
CIFI Holdings	旭辉集团	CIFIHG	3,720	2,240	4,180	3,980	3,340	2,850	1,860	1,940	2,020	2,870	2,270		-21%	-41%	31,270	-52%
Ronshine China	融信中国	RONXIN	448	543	742	542	544	543	602	1,076	446	659	789		20%	-1%	6,932	-55%
Powerlong	宝龙地产	PWRLNG	1,121	1,177	1,548	1,134	1,208	1,142	1,056	634	614	1,109	987		-11%	-13%	11,730	-56%
Gemdale	金地集团	GEMDAL	5,510	5,100	6,130	6,240	6,510	6,630	6,100	5,400	5,200	5,610	4,810		-14%	-53%	63,240	-56%
Yuzhou Properties	禹洲地产	YUZHOU	803	503	902	802	703	632	465	431	473	752	781		4%	11%	7,247	-58%
Zhenro Properties	正荣地产	ZHPRHK	619	471	554	591	596	594	468	430	570	558	539		-3%	-24%	5,990	-59%
KWG Property	合景泰富集团	KWGPRO	830	620	1,070	970	1,180	990	760	710	603	847	650		-23%	-48%	9,230	-61%
Redsun	弘阳地产	REDSUN/HONGSL	982	862	831	702	723	711	680	581	601	723	621		-14%	-33%	8,017	-62%
China SCE*	中骏集团控股*	CHINSC	850	820	1,010	630	1,110	350	1,350	1,480	520	1,020	930		-9%	-9%	10,070	-62%
Agile	雅居乐	AGILE	2,390	1,530	1,430	1,190	1,650	800	810	540	1,820	1,390	1,200		-14%	-46%	14,750	-65%
Logan Property*	龙光地产*	LOGPH	800	760	400	520	790	1,270	1,030	360	500	750	650		-13%	-7%	7,830	-65%
Country Garden (Attributable)	碧桂园	COGARD	5,490	3,720	4,300	3,850	4,290	4,300	3,410	3,430	3,620	4,330	3,010		-30%	-51%	43,750	-74%

Source: Wind.

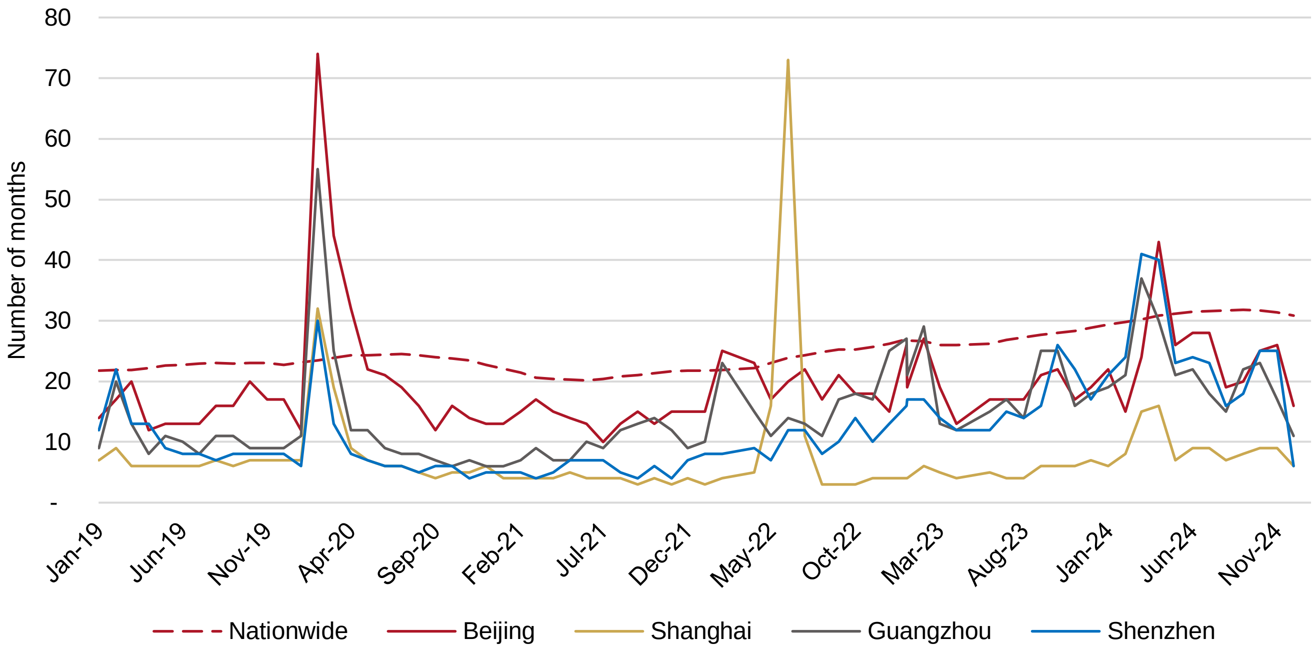
Silver lining in higher tier cities

The policy tone towards the property sector had changed since Politburo meeting in Apr'24. It is the first time that central government proposed to destock of home inventory since Dec'15. In May'24, Shanghai was the first tier-1 cities to relax home purchase restrictions (HPR), followed by Guangzhou and Shenzhen and then Beijing.

In 2024, PBOC cut the 5-yr LPR for three time (Feb'24, Jul'24 and Oct'24) to support the property market, to 3.6% in Nov'24 from 4.2% in Jan'24. The current LPR is the lowest since the LPR was launched in Aug'19. Additionally, PBOC announced more supportive measures in Sep'24 to stabilize the real estate market. In our view, this round of relaxation is more comprehensive than those introduced in May'24. See Table 3 and 4. Subsequent to the rate cuts in the US since Sep'24, the Chinese government has more room to implement easing measures with less concern on RMB depreciation and capital outflow. The new round of supportive measures helps lower the burden of interest expenses and improve the affordability of home purchases.

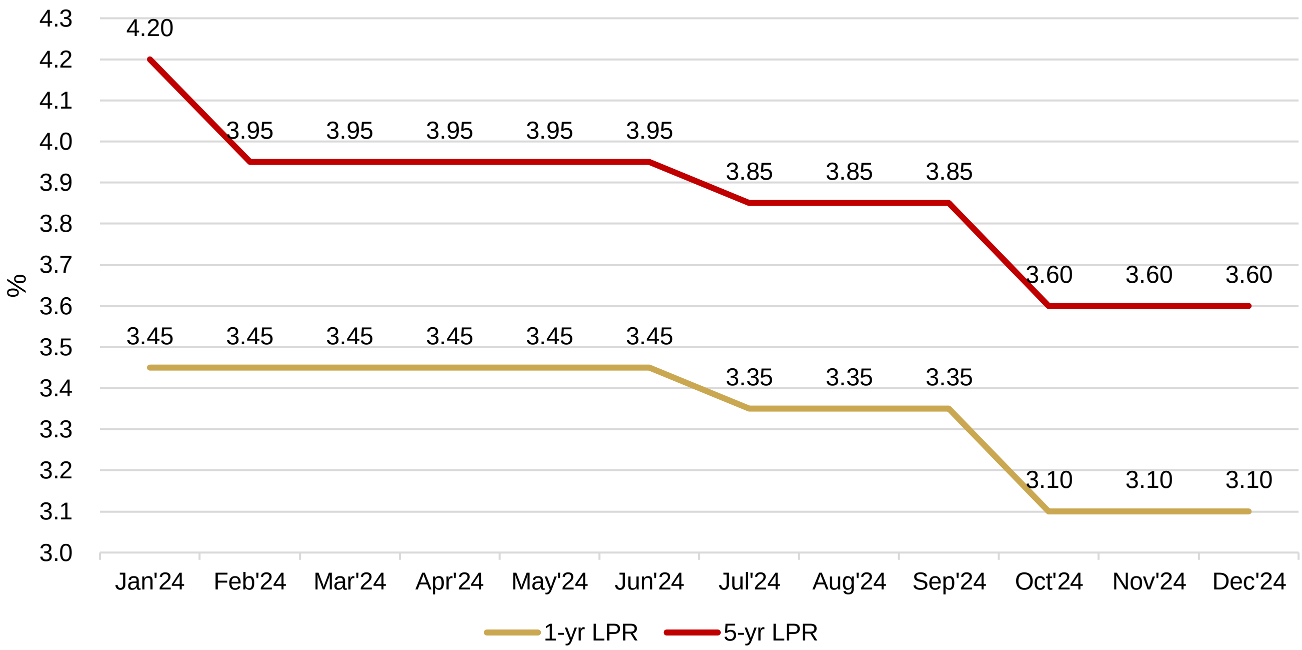
On 29 Sep'24, Shanghai, Guangzhou and Shenzhen further relaxed HPR. As of the end of Dec'24, the inventory months of four tier-1 cities, e.g. Beijing, Shanghai, Guangzhou and Shenzhen were 16, 7, 10 and 6, dropped from 29, 10, 22, 28, respectively, when the relaxations were launched in Sep'24. See Chart 1.

Chart 1: Rising residential inventory month of China



Source: NBS, Wind.

Chart 2: Change in LPR in 2024



Source: WIND.

Table 3: Properties related key policies

Time	Key policies
Apr'24	Beijing and Guangzhou increased upper limits of housing provident fund loans, of which the interest rates were 2.6%-3.1%, to boost markets. China Politburo meeting in Apr'24 proposed to explore measures to resolve home inventory. It is the first time that central government proposed to destock of home inventory since Dec'15.
May'24	Various local governments had implemented relaxation policies such as relaxation of home purchase restrictions and old home trade-in to boost the property market. Shanghai eased its property policy by further loosening the home purchase restrictions, Guangzhou and Shenzhen also announced similar measures after Shanghai.
Jun'24	Beijing relaxed housing policies. Compared to the relaxations launched in other tier-1 cities, e.g. Shanghai, Guangzhou and Shenzhen, Beijing maintained purchasing restrictions for non-Beijing residents.
Jul'24	Several cities have relaxed central provident fund housing loan policies including Xuzhou, Langfang, Anhui's Lu'an, Zunyi, Liupanshui, Hubei's Jingzhou, Sichuan's Ziyang, Yunnan's Yuxi, Yunnan's Pu'er.
Sep'24	The new measures include: 1. Lower RRR by 50bps, and further cut of 25-50bps may follow before end-2024. 2. Lower 7-day reverse repurchase rate to 1.5% from 1.7%, also rates cut on MLF, LPR and deposit rate. 3. Lower the mortgage rate of existing home loans. The estimated average mortgage rate drop is c50bps and interest expense would decrease by RMB150bn per year. 4. Lower the nationwide minimum down payment ratio for purchasing second home to 15% from 25%. 5. Increase the proportion of funds provided by PBOC to 100% from 60% for re-lending loans to local SOEs totaled RMB300bn for repurchasing unsold houses as affordable houses. 6. Extend the validity of operating property loan policy and 16-point measures to end-2026 from end-2024.
Dec'24	The CEWC in Dec'24 signaled a stronger policy support to support the property market, including urban village's renovation and rehabilitation of dilapidated houses.

Source: CMBI Research.

Table 4: Summary of policies in Tier-1 cities

	Shanghai	Beijing	Guangzhou	Shenzhen
Jan'24 (Shanghai, Guangzhou), Feb'24 (Beijing, Shenzhen)	Unmarried non-Shanghai residents who continuously paid 5-year social insurance or income tax in Shanghai are allowed to purchase properties outside outer ring road of Shanghai.	Beijing removed Tongzhou district's restrictions on purchasing properties, aligning it with Beijing's restriction.	Guangzhou started to relax the purchase restrictions on properties, including removing purchase restrictions on properties with more than 120 sqm floor area; and the number of properties owned by residents will be deducted if residents register rent or sale for the properties in the government system.	Shenzhen removed requirement for Shenzhen residents to pay social insurance or income tax to purchasing properties; Shortening the payment period of social insurance or income tax for non-Shenzhen residents to 3 years from 5 years when purchasing properties.
Apr'24	-	Beijing and Guangzhou increased upper limits of housing provident fund loans, of which the interest rates were 2.6%-3.1%, to boost markets.		-
May'24 (Shanghai, Guangzhou, Shenzhen)	1. Shortening the required years of paying social security or individual income tax for non-Shanghai residents to purchase home the from 5 years to 3 years	1. Lowering minimum down payment ratios for first/second home buyers to 20%/35% from 30%/50% 2. Lowering minimum mortgage rates for	1. Shortening the required years of paying social security or individual income tax for non-Guangzhou residents to purchase home	1. Lowering minimum down payment ratios for first/second home buyers to 20%/30% from 30%/40% 2. Lowering minimum mortgage rates for

Jun'24 (Beijing)	2. Expanding purchase areas for non-Shanghai talents and single residents 3. Cancelation of purchase restrictions after divorce and home donation 4. Allowing multi-children family to purchase 1 more home based on current purchase restriction 5. Cancelation of purchase restrictions on enterprises which purchase second-hand homes less than 70 sqm. for employees rental 6. Lowering minimum down payment ratios for first/second home buyers to 20%/35% from 30%/50% 7. Lowering minimum mortgage rates for first/second home buyers to LPR-45bps/LPR-5bps from LPR-10bps/LPR+30bps 8. Increasing the upper limit of provident fund loans for first/second home buyers to RMB1.6mn/1.3mn from RMB1.2mn/1.0mn	first/second home buyers to LPR-45bps/LPR-5bps from LPR+10bps/LPR+60bps 3. Multi-children Beijing family recognized as first home buyer when buying second home	the from 2 years to 6 months 2. Lowering minimum down payment ratios for first/second home buyers to 15%/25% from 30%/40% 3. Removing lower limit of mortgage rates for first/second home buyers 4. Allowing buyers with 2 and more than 2 homes to apply commercial mortgage loan for purchasing home in non-restricted area 5. Shortening the required time of residents/non-Guangzhou residents paying provident fund for applying provident fund loans from 1/2 years to 6 months	first/second home buyers to LPR-45bps/LPR-5bps from LPR-10bps/LPR+30bps
Sep'24	1. Shorten the required years of paying social security or individual income tax for non-Shanghai residents to purchase home in the outer ring area from 3 years to 1 year 2. Qualified non-Shanghai families who have paid social security or individual income tax more than 3 years can purchase home as Shanghai families 3. Qualified buyers can buy one more home in Lingang new district based on current purchase restrictions 4. Lower the mortgage rate of existing home loans 5. Lower minimum down payment ratios for first/second home buyers to 15%/25%	-	Cancel all purchase restrictions for Guangzhou residents and non-Guangzhou families	1. Allow Shenzhen families/ residents to buy two/one homes and additional one home in designated districts 2. Allow qualified non-Shenzhen families/residents to buy home in designated districts 3. Cancel transaction restrictions on commercial housing and apartment 4. Allow developers to set price for commercial housing and apartment by their own 5. Lower minimum down payment ratios for first/second home buyers to 15%/20% 6. Lower the VAT exemption period for individual to sell home to 5 years to 2 years

6. Lower the VAT exemption period for individual to sell home to 5 years to 2 years

7. Cancel standards of ordinary and non-ordinary home to lower transaction cost

Source: CMBI Research.

More demand driven boost in 2025

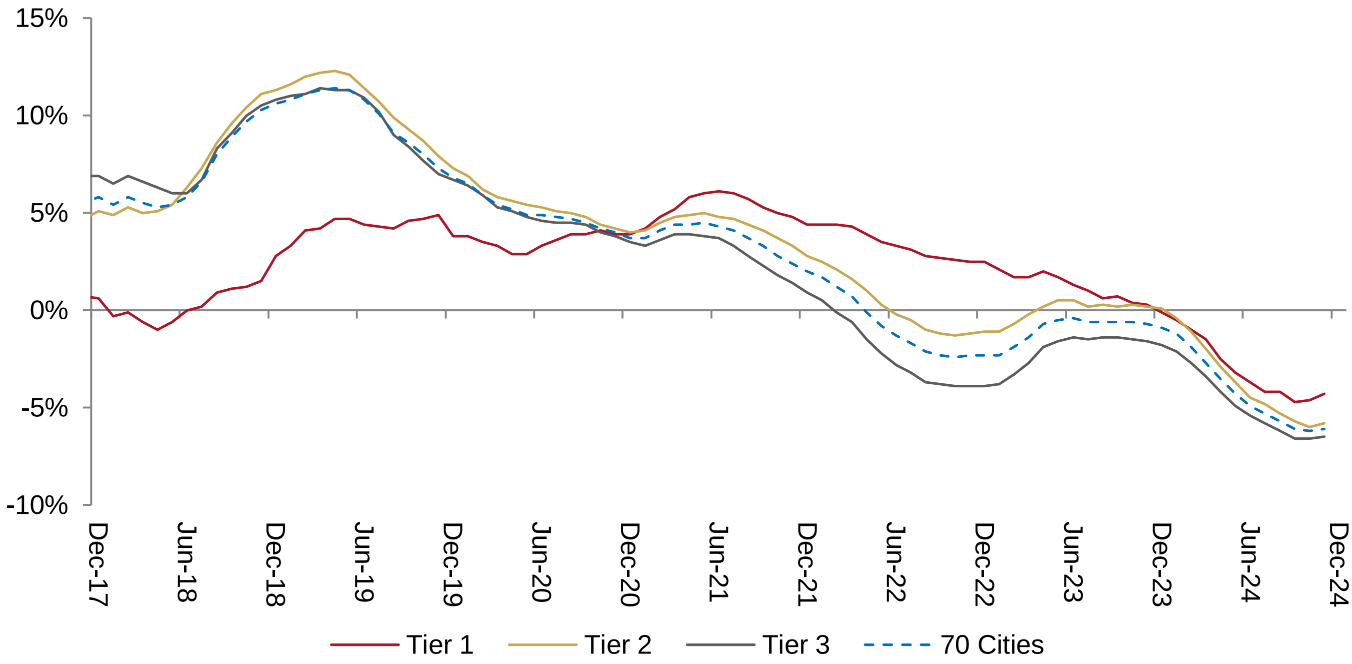
During 2024, Chinese government attempted to stimulate the property market by relaxing the HPR, as well as reducing the mortgage rates and nationwide minimum down payment ratio. The CEWC in Dec'24 signaled more forceful measures to support the property market, including urban village's renovation and rehabilitation of dilapidated houses. Among the tier-1 cities, Guangzhou had cancelled all purchase restrictions for Guangzhou residents and non-Guangzhou families by Sep'24. We expect further relaxation of HPR in Beijing, Shanghai and Shenzhen as well as further LPR cut.

That said, we believe that the policy objectives of any supportive measures are to prevent the widespread default of Chinese property sector from triggering systemic risk of the financial sector, instead of bailing out individual property developers. We expect the risk to the asset quality of the banks from the supportive measures would be mitigated by continuous support by the Chinese government towards the banking sector, such as capital injections to the state-owned banks announced in Sep'24.

Sales recovery is the key

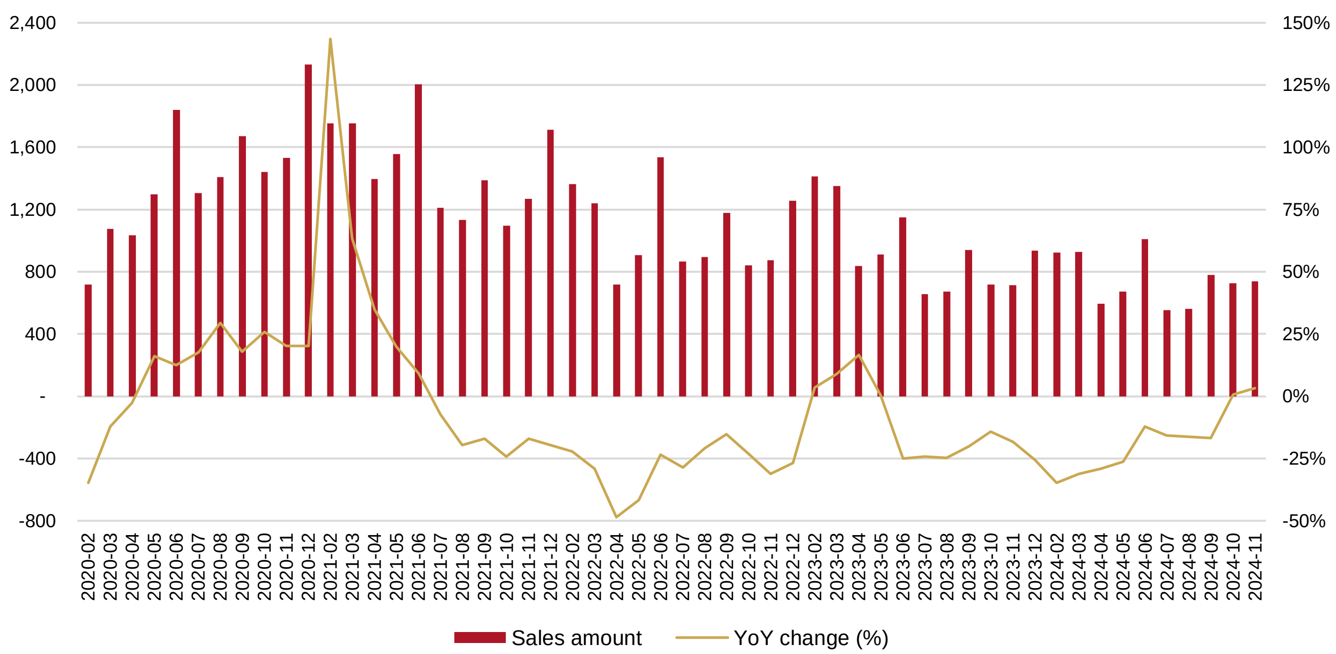
The viability of developers will continue to hinge on a significant recovery of contracted sales which, in turn, will be driven by the economic outlook, income expectation and property price expectations. All these factors will come hand in hand. The path of sales recovery will be long as potential homebuyers remain skeptical of the property market and economic outlook. We believe that the survivors of the Chinese property will be those with major operations in tier 1/2 cities where the sales and ASP remain more resilience and sales recovery is more visible; manageable near-term debt maturities, especially offshore bond maturities; and ownership of high-quality investment properties (IPs) which can be collateralized for funding through operating loans, CMBS and CBICL-guaranteed onshore bond issuances.

Chart 3: New residential property price Index (yoy)



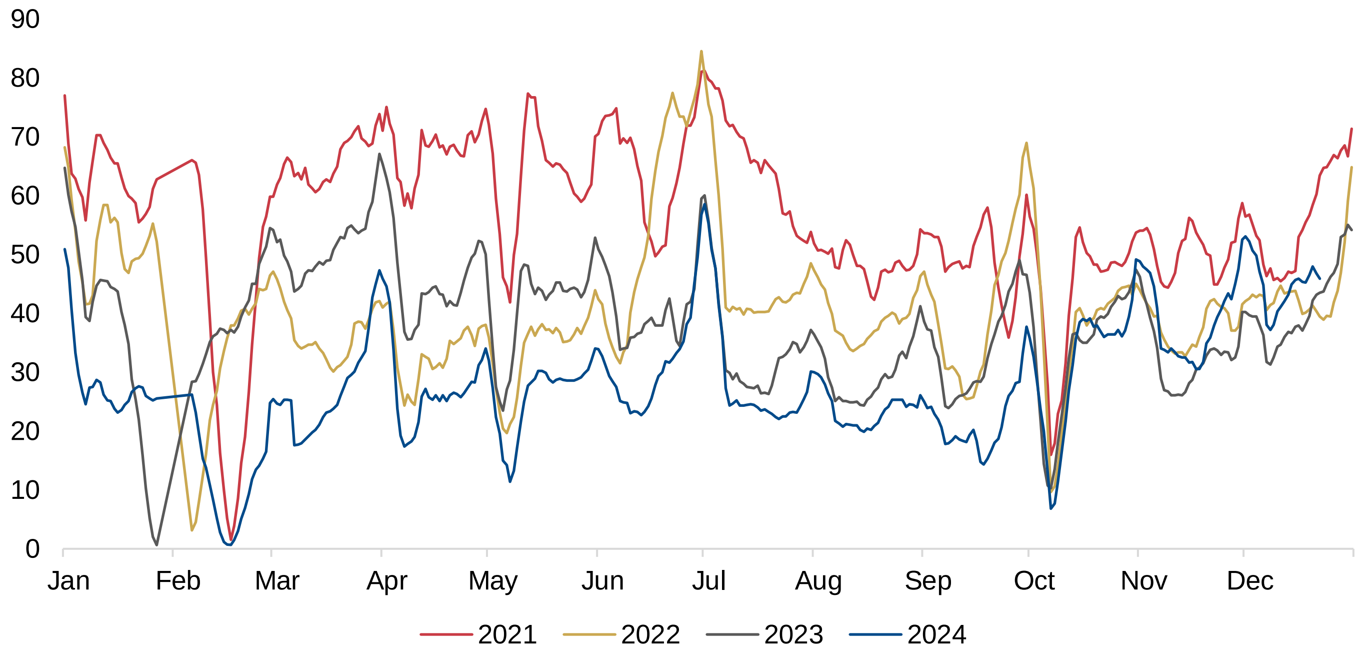
Source: NBS, CEIC, CMBIGM.

Chart 4: Monthly commercial residential housing sales in China (RMB bn)



Source: NBS, Wind.

Chart 5: Weaker sales of 30 major cities: average 7-day rolling property sales ('0000 sqm)



Source: Wind, CMBI Research.

Table 5: USD bonds maturities of our picks

USD mn	2025	2026	2027	2028	2029	2030 and beyond	Total
CHJMAO	350	1,100	-	-	500	-	1,950
DALWAN	100	700	-	-	-	-	800
FUTLAN/FTLNHD	600	404	-	-	-	-	1,004
GRNCH	768	-	-	-	-	-	768
LNGFOR	-	-	250	500	850	400	2,000
YLLGSP	-	500	-	-	-	-	500

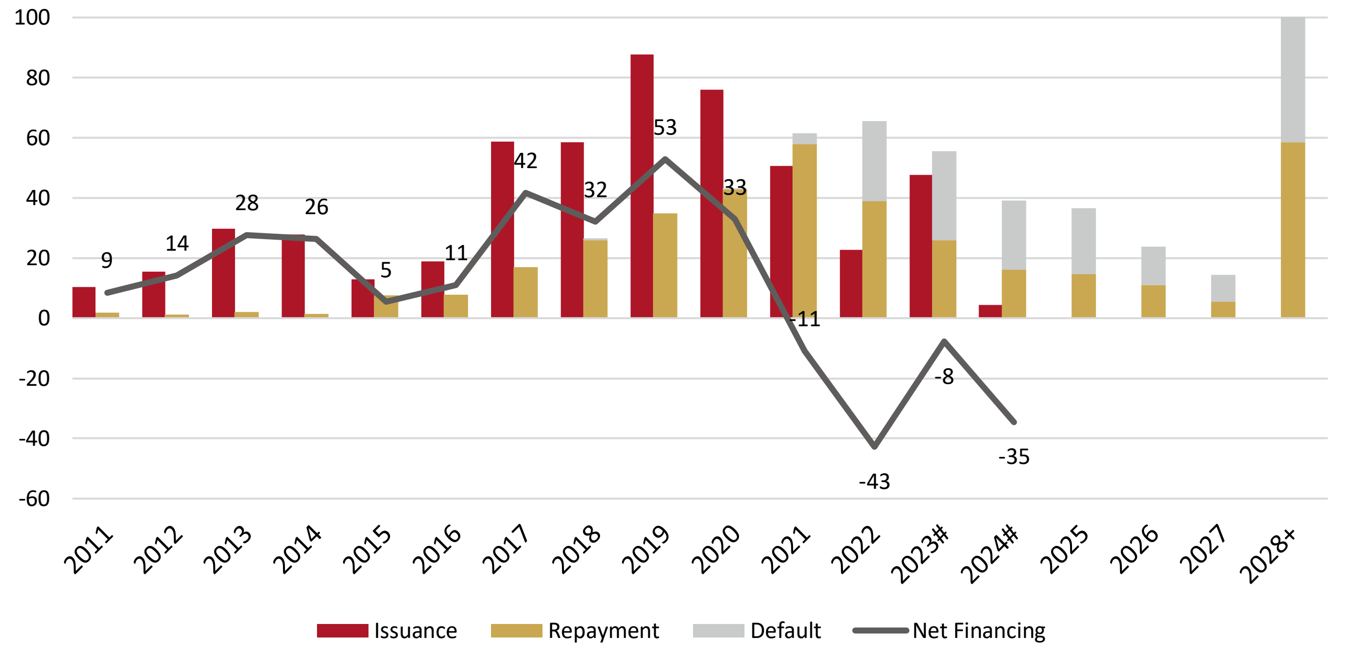
Source: Bloomberg.

Table 6: Onshore bonds maturities of our picks

RMB mn	2025	2026	2027	2028	2029	2030 and beyond	Total
CHJMAO	10,900	9,250	5,000	-	-	-	25,150
DALWAN	2,274	-	-	-	-	-	2,274
FUTLAN/FTLNHD	3,700	2,100	800	-	2,120	-	8,720
GRNCH	12,600	9,800	5,000	-	-	-	27,400
LNGFOR	14,500	5,947	807	-	-	-	21,254
YLLGSP	-	-	-	-	-	-	-

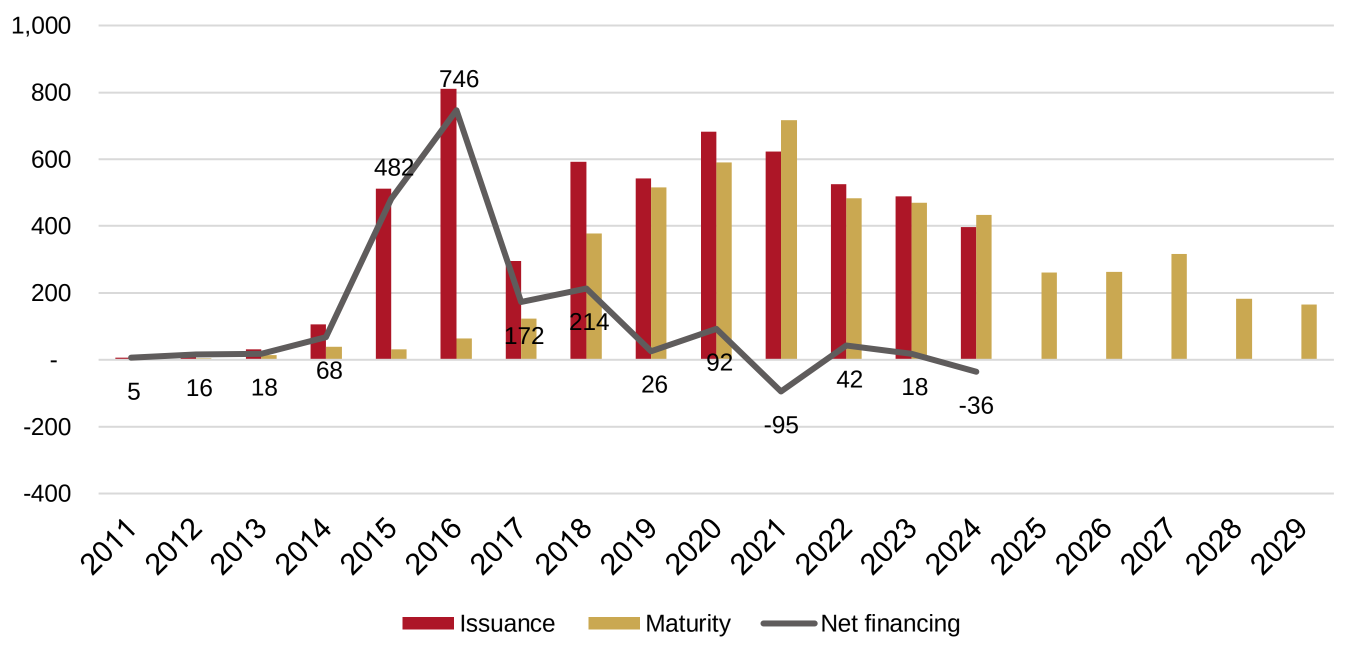
Source: Wind.

Chart 6: Real estate USD bond issuance (USD bn)



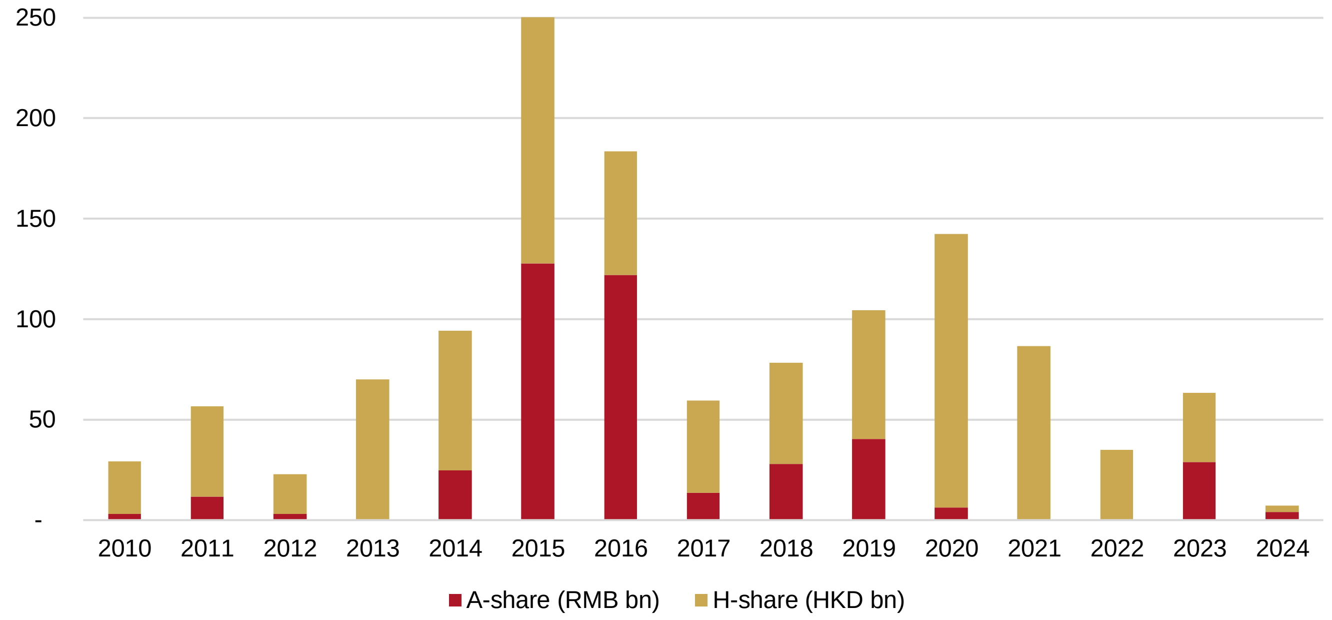
 # Gross issuances mainly from the restructured bonds issued after liability management exercises.
Source: Bloomberg.

Chart 7: Real estate onshore bond issuance (RMB bn)



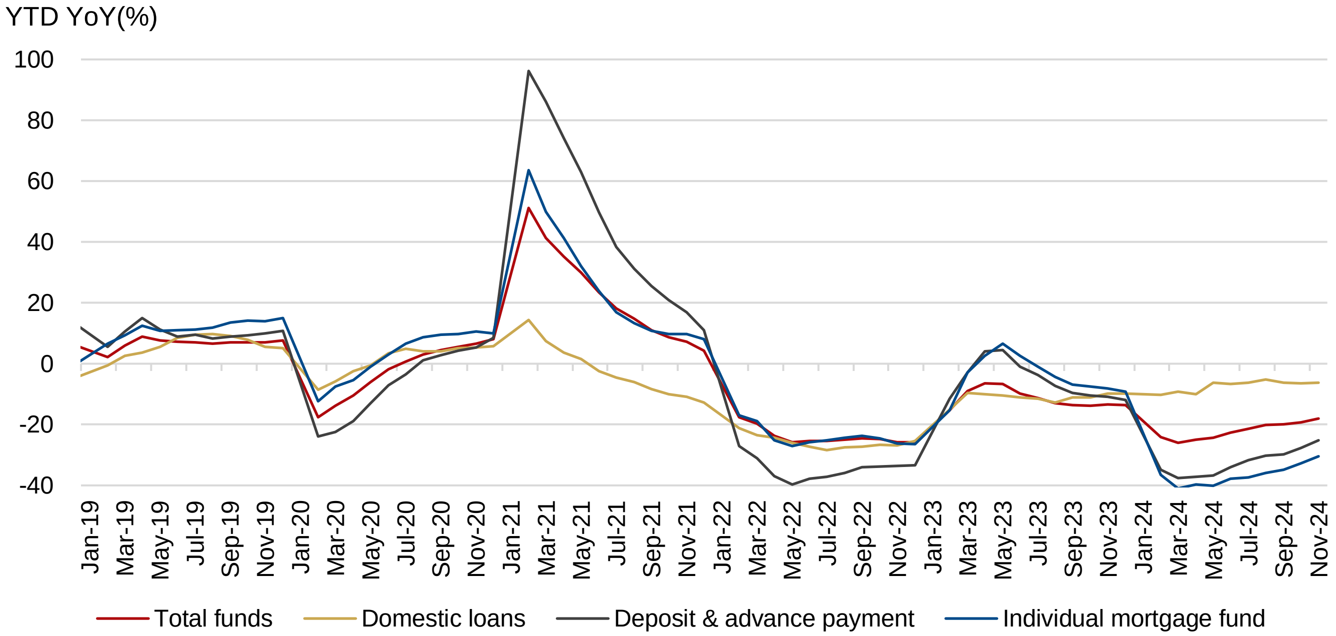
Note: Net financing includes tender offers, buy-backs and put/call exercises.
Source: Wind.

Chart 8: Real estate equity financing



Source: Wind.

Chart 9: Source of funding for developers



Source: Wind, CMBI Research.

Appendix 12: South East Asia – Technical remains strong despite conviction even lower

Another year of solid performance in 2024 made the conviction level of SEA space even lower. That said, the technical of the space will remain strong given with active early redemptions through lower-cost onshore funding and improved liquidity profile through LMEs. Hence, we maintain buy on INCLEN 4.5 04/18/27, INDYIJ 8.75 05/07/29, MEDCIJ 6.95 11/12/28 and MEDCIJ 8.96 04/27/29 for better risk-adjusted return profiles. We also change recommendation on VEDLN 10.25 06/03/28 to buy from neutral, on lengthened maturity profile of Vedanta Resources (VRL) after a few rounds of LMEs since Sep'24.

We downgraded ADANEM 3.867 07/22/31 to sell from buy in Nov'24, and we initiate sell on bonds of the whole Adani complex. We believe that risk and reward profiles of these bonds are asymmetric given the unappealing valuations and potential negative headlines. We are concerned of the uncertainties over the offshore funding access of Adani Group, funding pressure resulting any defease of bond issues, rating downgrade pressure amid the bribery charges by the US SEC.

Table 1: Our SEA picks

Security name	ISIN	Recommendation	Amt o/s (USD mn)	Px	YTM (%)	Issue rating (M/S/F)
INCLEN 4.5 04/18/27	US45409MAA18	Maintain buy	400	95.5	6.7	Ba3/-/BB-
INDYIJ 8.75 05/07/29	US69369KAA34	Maintain buy	455	103.3	7.8	Ba3/-/BB-
MEDCIJ 6.95 11/12/28	US58406RAA68	Maintain buy	299	100.0	6.9	B1/BB-/BB-
MEDCIJ 8.96 04/27/29	US58407HAA77	Maintain buy	500	105.5	7.4	B1/BB-/BB-
VEDLN 10.25 06/03/28	US92243XAJ00	Chg. to buy	300	102.6	9.3	-/-/B-
ADANEM 3.867 07/22/31	US00654GAB95	Sell	300	78.0	8.3	Baa3/-/BBB-
ADANEM 3.949 02/12/30	US00654GAA13	Sell	880	81.4	8.5	Baa3/BBB-/BBB-
ADSEZ 4 07/30/27	US00652MAD48	Sell	500	90.6	8.1	Baa3/BBB-/BBB-
ADSEZ 4.2 08/04/27	US00652MAG78	Sell	750	90.7	8.3	Baa3/BBB-/BBB-
ADSEZ 4 3/8 07/03/29	US00652MAE21	Sell	750	86.5	8.0	Baa3/BBB-/BBB-
ADSEZ 3.1 02/02/31	US00652MAH51	Sell	500	76.8	8.0	Baa3/BBB-/BBB-
ADSEZ 3.828 02/02/32	US00652MAK80	Sell	300	77.8	8.0	Baa3/BBB-/BBB-
ADSEZ 5 08/02/41	US00652MAJ18	Sell	450	75.7	7.6	Baa3/BBB-/BBB-
ADTIN 4 08/03/26	US00652XAA63	Sell	500	92.3	9.3	Baa3/-/BBB-
ADTIN 4 1/4 05/21/36	US00652XAB47	Sell	363	78.5	7.0	Baa3/-/BBB-
ARENRJ 4 5/8 10/15/39	US00654CAA09	Sell	308	74.8	7.5	Ba1/BB+/BBB-
ADGREG 6.7 03/12/42	US00654AAC09	Sell	408	84.5	8.4	Ba1/-/BBB-

Source: Bloomberg.

INCLEN 4.5 04/18/27

We maintain buy on INCLEN 4.5 04/18/27 for its better risk-return profile within the ReNew Power (RNW) complex, in view of higher yield and lower cash price. All the 5 o/s USD bonds of the RNW complex are rated the same at Ba3/BB by Moody's/Fitch despite the security structures vary. At 95.5, INCLEN 4.5 04/18/27 is trading at YTM of 6.7%.

Table 2: RNW's o/s USD bonds

Security name	ISIN	Amt o/s (USD mn)	Px	YTM (%)	Security structure	Issue rating (M/S/F)
RNW 7.95 07/28/26	US25276VAA35	525	101.7	6.8	Holdco Issuance – guaranteed by parent ReNew Energy Global	Ba3/-/BB-
INGPHL 4 02/22/27	US45410LAA08	429	95.5	6.3	Restricted Group I	Ba3/-/BB-
RPVIN 5 ⅞ 03/05/27	US75975AAA88	270	98.4	6.7	Holdco Issuance – secured by SECI II project wind assets	Ba3/-/BB-
INCLEN 4 ½ 04/18/27	**US45409MAA18**	**400**	**95.5**	**6.7**	**Holdco Issuance – fixed charge of the assets of the issuer India Clean Energy Holdings**	**Ba3/-/BB-**
RPVIN 4 ½ 07/14/28	US75973PAA75	585	93.2	6.7	Restricted Group IV	Ba3/-/BB-

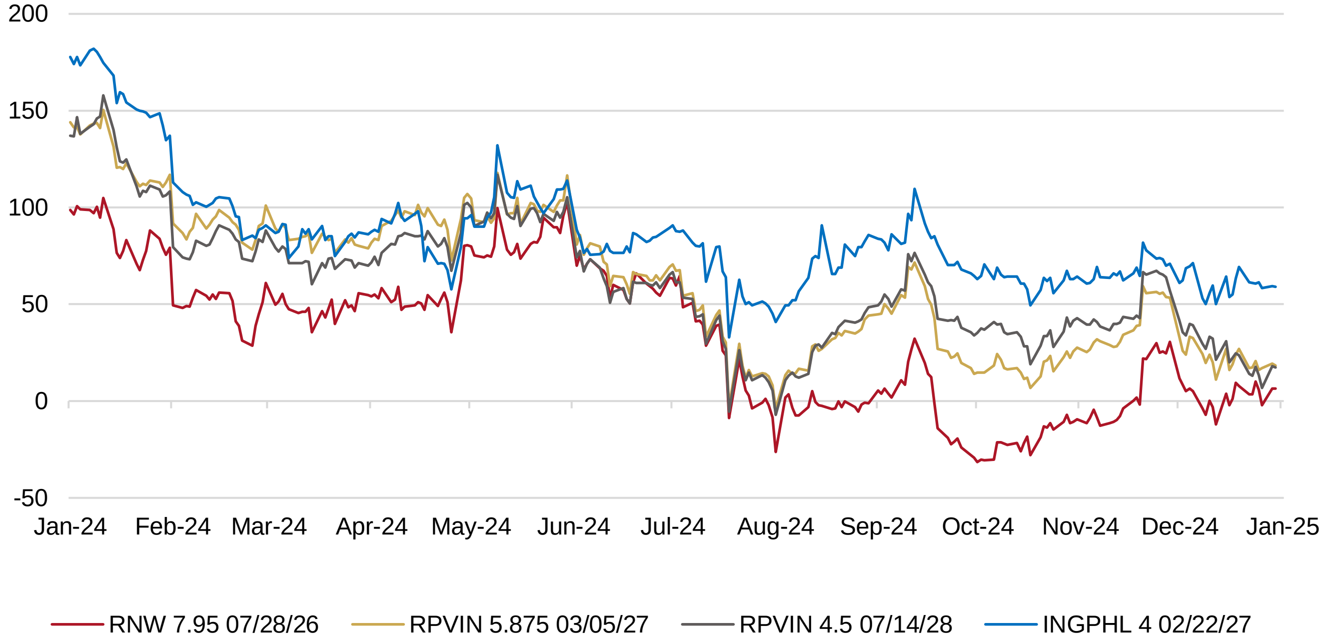
Source: Bloomberg, Company filling.

On 11 Dec'24, a consortium comprises of two-third of RNW's shareholders submitted a non-binding offer to take the company private at USD7.07 per share. The offer represents a premium of 8% over the share price before the announcement. The consortium includes RNW's CEO (also the founder of RNW), Masdar (the state-owned UAE renewable energy company), CPPIB, and the ADIA. We expect RNW to continue to release the financial reports timely to bondholders as per bond covenants even if it is privatized. We also take comfort from RNW's good access to different funding channels onshore and offshore, even if it is delisted from NASDAQ, supported by its recurring cash flow and its operating profile as the second largest renewable company in India.

As of Sep'24, RNW has an operational capacity of 10.1GW. It is on track to its FY25 EBITDA and cashflow to equity (CFe) guidance in 1HFY25. RNW's EBITDA of INR43bn in 1HFY25 was equivalent to 52-57% of its FY25 guidance at INR76-82bn. The last twelve-month (LTM) EBITDA was INR73bn and LTM CFe was INR10bn, compared to FY25 guidance of INR12-14bn. On the other hand, we believe RNW's cash and bank at INR74bn and operating cash flow will sufficiently cover the budgeted capex of INR17-21bn in 2HFY25.

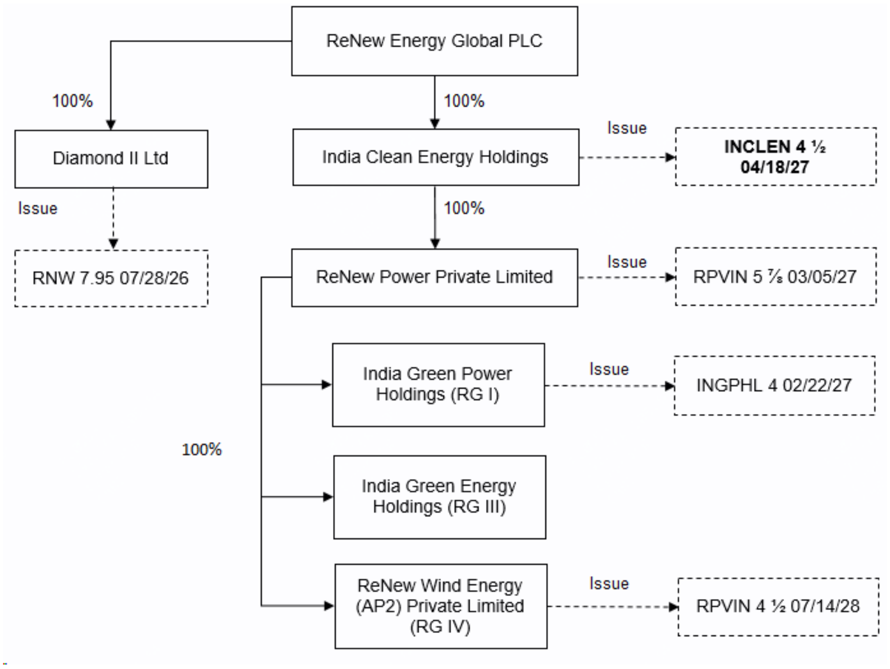
RNW does not have much near-term refinancing pressure. RNW has 3 USD bonds totaled USD1.1bn to be due in 2027 and another 1 USD bond of USD585mn will be due in 2028. We take comfort with its good access to various funding channels. In Aug'24, RNW retapped USD125mn of RNW 7.95 07/28/26 to repay debts; and in Jan'24, RNW early redeemed INGREN 5.375 04/29/24 of USD325mn, financed by 15-year amortizing project loan at an interest cost of less than its average cost of debts of 9.17%.

Chart 1: Yield differential of INCLEN 4.5 04/18/27 over bond within the complex (bps)



Source: Bloomberg.

Chart 2: ReNew Power's structure



Source: Bloomberg, Company fillings, Fitch Ratings, CMBI Research.

Table 3: ReNew Power's financials and operating statistics

FY ended 31 Mar, INR mn	FY22	FY23	FY24	1H25
Revenue	59,349	78,223	81,319	49,546
EBITDA	55,144	62,004	69,216	43,188
EBITDA Margin	92.9%	79.3%	85.1%	87.2%
LTM EBITDA	55,144	62,004	69,216	72,507
Net profit	-16,128	-5,029	4,147	5,333
Operating cash flow	42,390	62,572	79,608	30,071
CAPEX	89,830	83,364	164,516	56,914
Net debt	312,548	463,769	580,891	638,060
Net debt/LTM EBITDA	5.7x	7.5x	8.4x	8.8x
Net gearing	247.3%	391.7%	477.3%	491.8%
Cash/short-term debt	5.3x	1.1x	0.9x	0.6x
Wind				
Operational capacity (GW)	3.8	4.0	4.7	4.8
Electricity generated (kWh mn)	8,469	9,002	10,243	4,198
Average selling price (INR per kWh)	4.15	4.15	4.12	4.21
Solar				
Operational capacity (GW)	3.7	3.9	4.7	5.5
Electricity generated (kWh mn)	5,677	8,112	8,794	2,379
Average selling price (INR per kWh)	4.28	3.95	3.85	3.36

Note: Debts include lease liabilities. Source: Company filings.

INDYIJ 8.75 05/07/29

We maintain buy on INDYIJ 8.75 05/07/29, as a low beta and good carry play. At 103.3, INDYIJ 8.75 05/07/29 is trading at YTM of 7.8%. The bond continues to offer a better risk-return profile amongst Indonesia non-distressed HYs. Indika reported weaker 9M24 results due to lower thermal coal ASP despite higher sales volume. We expect the operating performance of Indika to improve slightly in 4Q24 supported by high coal production expected. Indonesian government budget full year coal production of 922mt in 2024. This represents a 19% increase in coal production compared with that of 2023.

Indika's liquidity profile remains sufficient with positive free cash flow in 9M24. As of Sep'24, it had cash on hand of USD706mn and total debts of USD1,289mn. Its total debt/adj. EBITDA was 4.5x and adj. EBIT/interest ratio was 2.1x, slightly above Moody's downgrade trigger of 4.0x and 2.0x, respectively. We are not too concerned with the potential negative rating action considering Indika's sufficient liquidity to cover its debt maturities.

Indeed, we see strong technical of the oil & gas and mining sectors in Indonesia given the trend of early redemptions through market repurchases, tender offers and calls. We expect this trend to continue in view of Indonesian government's intention to lengthen the holding period of repatriated export earnings. This should further strengthen the onshore liquidity. We consider Indika a candidate for early redemption given its sufficient liquidity and disciplined capex. Recalled that Indika repurchased USD310mn of INDYIJ 8.25'25 via tender offer in Apr'24 then early called the remaining bonds of USD224mn in Oct'24.

On the other hand, Indika is diversifying its revenue sources from coal to gold mining, renewables, EVs and digital technology. In 9M24, Indika's non-coal revenue was 13% of total revenue. Therefore, Indika has to increase the non-coal revenue to total revenue by 37 pct pt in coming 4 years in order to achieve its target of 50% by 2028.

Table 4: Indika's financials and operating statistics

USD mn	FY21	FY22	FY23	9M24
Revenue	3,069	4,335	3,027	1,784
EBITDA	871	1,265	329	151
EBITDA Margin	28.4%	29.2%	10.9%	8.4%
LTM EBITDA	871	1,265	329	220
Net profit	63	511	151	52
Operating cash flow	485	926	-199	-53
CAPEX	67	28	112	50
Net debt	589	-59	643	584
Net debt/LTM EBITDA	0.5x	-0.0	1.8x	2.6x
Net gearing	164.8%	81.9%	79.3%	94.1%
Cash/short-term debt	6.6x	10.6x	1.5x	2.5x
Production (mt)	35.8	34.8	30.1	23.4
Newcastle benchmark (USD/ton)	137.3	362.8	172.8	134.3
Average selling price (USD/ton)	61.4	86.6	72.9	60.6
Coal traded volume (mt)	5.8	7.0	3.2	2.7

Note: Debts include lease liabilities. Source: Company filings.

Buy MEDCIJs, prefer MEDCIJ 6.95'28 and MEDCIJ 8.96'29

We maintain buy on MEDCIJs and prefer MEDCIJ 28 and 29 for better risk-return profiles within the curve. Medco Energi (Medco) has been actively managing its maturity profile. In 2024, Medco repurchased USD bonds totaled USD337mn through tender offers and market repurchases. The repurchases reinforced our view that Medco would conduct more early redemptions given its sufficient liquidity and good access to onshore funds. In Feb'24, Medco issued IDR bonds of USD95mn equivalent with coupon rates ranging from 7.35 to 8.5%. On 4 Dec'24, Medco issued IDR2.5tn bonds to refinance IDR2tn bonds maturing in 2025, and cUSD7.5mn will be used to repurchase the MEDCIJ 6.375 01/30/27.

Table 5: Medco's o/s USD bonds

Security name	ISIN	Amt o/s (USD mn)	Px	YTM (%)	Issue rating (M/S/F)
MEDCIJ 7 ⅜ 05/14/26	US58405FAA30	242	101.8	6.0	B1/BB-/BB-
MEDCIJ 6 ⅜ 01/30/27	US58406LAA98	435	100.1	6.3	B1/BB-/BB-
MEDCIJ 6.95 11/12/28	**US58406RAA68**	**299**	**100.0**	**6.9**	**B1/BB-/BB-**
MEDCIJ 8.96 04/27/29	**US58407HAA77**	**500**	**105.7**	**7.4**	**B1/BB-/BB-**

Source: Bloomberg.

We expect the revenue and EBITDA of Medco to increase moderately in FYE24 from the levels of FY23, supported by higher oil lifting and mild increase in average realized oil price compared to those in FY23. Meanwhile, Medco is on track to meet its FY24 operational guidance. The oil and gas production of 153mboepd in 9M24 was indeed ahead of full year guidance of 145-150mboepd. The oil and gas production in FY24 will be lower than that of FY23 of 160mboepd, due to Corridor working interest reduction to 46% from 54% and divestment in Vietnam. These impacts were partially offset by the acquisition of Oman 60. Besides, the power sales in 3Q24 was slightly lower than 1Q24 and 2Q24 owning to Riau gas-fired IPP shutdown in Aug'24, therefore the total power sales of 2,961Gwh in 9M24 were only 72% of the annual target of 4,100Gwh.

During 9M24, Medco generated operating cash flow of USD891mn and had unrestricted cash of USD606mn as at Sep'24. Medco's capex was USD300mn in 9M24, implying a capex of USD130mn in 4Q24 based on the FY24 guidance. The operational guidance in FY25 is largely the same as that in FY24. The oil and gas production will remain at 145-150 mboepd and cash cost of below USD10/boe, as well as capex of USD430mn, the same as that of FY24. Medco also guides power sales to increase 400Gwh more to 4,500Gwh in FY25.

We expect the operating cash flow (LTM EBITDA of cUSD1.3bn) and cash in hand (USD672mn as of Sep'24) of Medco to sufficiently cover the upcoming capex and ST debt of USD503mn. As of Sep'24, the total debts were USD3.5bn. The net debt/EBITDA stood at 2.3x at Sep'24 and Jun'24, down from 2.5x at Dec'23.

Table 6: Medco Energi's financials and operating statistics

USD mn	FY21	FY22	FY23	1H24
Revenue	1,252	2,312	2,249	1,165
EBITDA	662	1,587	1,245	650
EBITDA Margin	52.9%	68.6%	55.4%	55.8%
Operating cash flow	440	1,116	723	594
CAPEX	111	269	300	146
Net debt/EBITDA	3.4x	1.6x	2.5x	2.2x
Net gearing	182.8%	148.2%	152.8%	127.7%
Cash/short-term debt	2.3x	1.4x	0.8x	1.8x
Average realized price				
- Oil (USD/bbl)	68.0	96.2	77.9	80.8
- Gas (USD/mmbtu)	6.5	8.2	7.0	7.0
- IPP (¢/kwh)	4.2	3.7	3.5	3.6
Lifting				
- Oil (mbopd)	33.6	32.6	30.8	41.3
- Gas (bbtupd)	299.8	667.1	659.2	566.0
- Oman service contract (mbopd)	7.2	7.4	7.6	8.8
- Renewables (GWh)	871	855	801	409
- Gas IPP (GWh)	1,847	3,138	3,353	1,594
Production				
- Oil (mbopd)	34.4	33.5	32.1	42.2
- Gas (mmscfd)	319.7	704.1	697.4	606.2
Cash cost (USD/boe)	9.5	6.9	8.3	7.0

Source: Company fillings.

VEDLN 10.25 06/03/28

VRL's liquidity and maturity profiles improved notably after a few rounds of LMEs since Sep'24. VRL issued USD bonds totaled USD2bn during Sep-Nov'24 and redeemed VEDLN 13.875 01/21/27 and VEDLN 13.875 12/09/28 (US92243XAE13) in full totaled USD1.5bn. As per our estimates, VRL's weighted average coupon rate would decrease to c11.4% post LME from c12.9% as of Aug'24. Among VEDLNs, we prefer VEDLN 10.25 06/03/28 for higher trading liquidity and lower cash price. At 102.6, VEDLN 10.25 06/03/28 is trading at YTM of 9.3%.

As of Sep'24, VRL had net debts of USD11.4bn, decreased from USD12.3bn as of Mar'24. VRL has also rolled over the intercompany loan due to its subsidiary, Vedanta Limited (VEDL). The intercompany loan of USD417mn originally due in Dec'24. After the roll over, half of loan will be due in Jan'26 and another half will be due in May'26. On the other hand, VRL partially redeemed VEDLN 13.875 12/09/28 (US92241TAM45) of USD434mn at par in Dec'24. We expect VRL to incur new borrowings at lower cost to fund the full redemption of VEDLN 13.875 12/09/28 (US92241TAM45) in coming few months, so as to further reduce its weighted average funding cost.

In our view, VRL has a smooth access to offshore funding channels, evidenced by the bonds issuances in past three months. We expect that VRL will continue to be able tap the offshore USD bonds market. We take additional comfort on the improving profitability of Vedanta Ltd which is the major source of repayment for VRL. Moody's upgraded VRL by one notch to B2 from B3 with stable outlook in Nov'24 following the LMEs. S&P also upgraded VRL by one notch to B from B- with stable outlook in Dec'24 on diminished refinancing risk.

On the other hand, VEDL is on track on the demerger. VEDL received the order from National Company Law Tribunal (NCLT) to convene shareholders and creditors meetings within 90 days from 22 Nov'24. The next milestone for the demerger after getting the respective approvals would be filling the scheme petition to the NCLT and wait for its sanction. VRL expects to complete the demerger by Jun-Jul'25.

Meanwhile, VEDL will exclude Vedanta Base Metals from the demerger as VEDL is exploring to restart its copper business. From a credit perspective, the demerger will not have immediate effect on the consolidated debt level of VRL. That said, the subsequent listings of pure-play subsidiaries will enhance the overall data transparency of the group. The separate listings of subsidiaries can also enhance their standalone funding access and improve VRL's overall financial flexibility. Recalled that VRL's subsidiary Finsider International sold 97.9mn shares (2.6% stake) of VEDL at INR427.2 per share on 26 Jun'24 for INR41.8bn (cUSD501mn). The proceeds were used to repay debts at VRL level. Finsider International also sold 65.5mn shares (1.8% stake) of VEDL at INR265.14 per share on 15 Feb'24 for INR17.4bn (cUSD208mn). We believe that VRL's stakes in listed subsidiaries after the demerger could be alternative sources of liquidity in case of necessary.

On the other hand, the demerger will help streamline the organization structure. We believe that a "flatter" organization structure will likely reduce the structural subordination risk although detailed assessments can only come after details on how to allocate the debts among different group companies.

Table 7: VRL's o/s USD bonds

Security name	ISIN	Amt o/s (USD mn)	Px	YTM (%)	Guarantor	Issue rating (M/S/F)
VEDLN 13.875 12/09/28	US92241TAM45	460	100.6	13.7	Twin Star, Welter Trading	B3/CCC+/-
VEDLN 9.25 04/23/26	US92243XAA90	600	100.6	8.7	VRL	B3/CCC+/-
VEDLN 10.25 06/03/28	**US92243XAJ00**	**300**	**102.5**	**9.4**	**VRL, Twin Star, Welter Trading**	**-/-/B-**
VEDLN 10.875 09/17/29	US92243XAH44	1,200	104.5	9.7	VRL, Twin Star, Welter Trading	-/CCC+/-
VEDLN 11.25 12/03/31	US92243XAK72	500	105.9	10.0	VRL, Twin Star, Welter Trading	/-/B-

Source: Bloomberg, Company filling.

Sell Adani complex as upside and downside are asymmetric

We downgraded ADANEM 3.867 07/22/31 to sell from buy in Nov'24, and we initiate sell on bonds of the whole Adani complex. We believe that risk and reward profiles of these bonds are asymmetric given the unappealing valuations and potential negative headlines. We are concerned of the uncertainties over the offshore funding access of Adani Group, funding pressure resulting any defease of bond issues, rating downgrade pressure amid the bribery charges by the US SEC. Gautam Adani, the chairman of Adani Group, and his nephew Sagar Adani, Executive Director of Adani Green, are alleged to orchestrate a bribery scheme from 2020 to 2024. This involves paying cUSD265mn in bribes to Indian government officials to obtain solar energy supply contracts, as well as falsely touting Adani Green's compliance with anti-bribery principles. A key moving part of the charge will be how determined is the US regulator to pursue the charge with the new administration coming onboard soon.

Our takes are the impact of the charges could be much larger than that of a short-seller report, and the near-term funding access to Adani Group, especially Adani Green, could be severely affected. We went through the 41-page Grand Jury Charges which contain details on alleged bribery scheme and the involvement of individual. The charge on misleading US investors is on the offering of USD750mn bonds (USD175mn were offered to US investors) in Sep'21. We believe that the charge refers to ADANIG 4 ⅜ 09/08/24 which was supposed to mature on 8 Sep'24 but was defeased on 18 Jan'24.

The first impact to Adani Green's access to funding is the cancellation of the 20-year green bonds of USD600mn at 7.45% priced on 20 Nov'24. We are concerned of the risk of further defease of USD bonds since 2020, especially ADGREG 6.7 03/12/42 which was issued in Mar'24, after the defease of ADANIG 4 ⅜ 09/08/24. There will also be a lot of uncertainties in terms of attitude of other creditors, i.e. whether they will reduce or cut the credits to Adani Green and its affiliates, as well as contact cancellations. On 11 Dec'24, Adani Ports withdrew its USD553mn loan request from US International Development Finance Corp for Sri Lanka port project and will finance the project through internal resources. While Adani Group may not have smooth access to offshore funding channel in the near-term, we noted they are trying to refinance its debts via banks and onshore private placement.

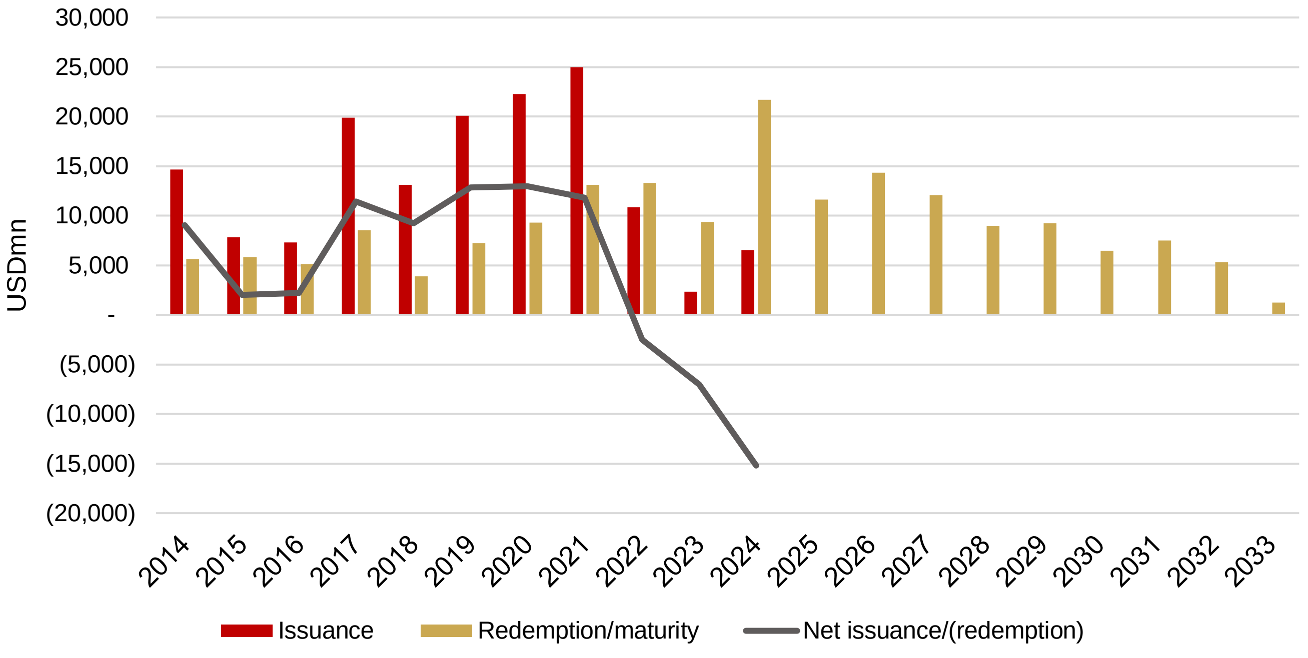
Furthermore, Adani group companies are under rating downgrade pressure on governance issues. Moody's changed the outlook to negative from stable on seven Adani entities after the allegation of US SEC; Fitch also changed the outlook to negative/rating watch negative from stable on seven Adani entities. As most of the bonds in the Adani complex are rated at Baa3/BBB-/BBB- (M/S/F), any rating downgrades will put bonds in the complex into the HY territory. The Adani complex fell 5-11pts since alleged bribery news on 21 Nov'24.

Net redemptions to shrink in 2025

In line with the Asian USD bond universe, the SEA space was in net redemptions over the past 3 years. In 2024, net redemptions trend in SEA corporate space were USD15bn. Issuers in the space performed LMEs to lengthen the maturity profiles during the year. For instance, VRL issued USD bonds totaled USD2bn to redeem VEDLN 13.875 01/21/27 and VEDLN 13.375 12/09/28 (US92243XAE13) in full, as well as partial redemption of VEDLN 13.375 12/09/28 (US92241TAM45) of USD434mn. Indika issued INDYIJ 8.75 05/07/29 of USD455mn in Jul'24 to refinance the early call of INDYIJ 8.25 10/22/25 of USD224mn at par in Oct'24 to lengthen the maturity profile.

That said, SEA issuers continue to turn to lower cost funding alternatives to redeem their offshore bonds. Alam Sutera, Gajah Tunggal, Lippo Karawaci early redeemed or announced to early redeem their bonds with lower-cost onshore funding in 2024. Greenko Energy will early call its GRNKEN 5.95 07/29/26 of USD535mn in Jan'25 at 101.488. In view of the lower scheduled maturity of USD12bn and our expectation of higher gross issuance given the lower funding costs, we expect the net redemptions in 2025 to shrink in 2025.

Chart 3: Net redemption in SEA corporate space (USD mn)



Note: Excluded sovereigns and financials. First call date of the perps are treated as maturity in the chart.
Source: Bloomberg.

CMB International Global Markets Limited

Fixed Income Department
Tel: 852 3657 6235/ 852 3900 0801
fis@cmbi.com.hk

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