招銀国际 CMB INTERNATIONAL

Fixed Income
Credit Commentary

5 Jan 2026

Asia Credit Outlook 2026

Sailing to Persian Gulf from Yellow Sea

Executive Summary

Deja Vu in 2025

Let me repeat the first sentence in our Asia Credit Outlook in 2024 by just changing the year to 2025 from 2024: 2025 was a good year for Asia USD bond markets despite we still have idiosyncratic issues such as NWD and Vanke (towards year-end). ACIG (Asia Dollar Investment Grade Corporate Index) and ACHY (Asia Dollar High Yield Corporate Index) returned 7.9% and 8.3% respectively in 2025, driven by rate cuts in the US, bullish steepening of yield curve, improving market sentiment on China and other Asian economies, as well as the strong technical supported by “onshore demand”. Indonesia HYs are the best performers with a total return of 12.3%.

Tailwind in 2026: Lower interest rate, weaker USD, strong technical and declining default rate

CMBI Economic Research expects only a single 25bps rate cut in 2026 compared with the market consensus of 2-3 25bps rate cuts. We also expect a bull steepening of the UST curve in 2026 in view of the lower Fed Fund Rate (FFR) and worsening of the US fiscal position to continue. We believe that the strong “onshore demand”, the more favourable fund flow in anticipation of weaker USD should support the technical of Asia USD bond universe. We see the possibility of net redemption trend over the past 4 years to reverse in 2026. We are not too concerned about the higher gross issuance and potential reversal of net redemptions on the back of improving market sentiment over Asia and more favourable fund flow. We also expect Asia’s default rate to continue to trend downward given the improving refinancing environment and Asia’s faster economic growth. Asia HY default was 3.1% in 2025, down from 3.6% in 2024. We estimate the default rate of Asia HY to fall below 2% in 2026.

Headwind: Even less appealing valuation with mid-single-digit total return expected

The tights of credit spreads of ACIG and ACHY continue to be tested under strong technical. The key difference in 2026 is that UST rates also declining. Valuations on both spread and yield terms of Asia credits could be even more unappealing. That said, Asia slightly underperformed other EMs and global markets in 2025. On a RV basis, Asia does not appear to be particularly expensive. We do not expect 2026 to repeat the high single-digit performance in 2025 in view of the tight credit spread and our expectation of moderating pace of rate cut. We expect a mid-single-digit total return for ACIG and ACHY in 2026, driven mainly by coupon and 15-20bps lower in UST for the 3-5-yr part of the UST curve. In general, we believe that the room for material credit spread tightening, especially for ACIG, to be limited.

Themes of 2026

In 2026, we will continue our focuses on west-bound diversification and spread compression opportunities. We see value in Middle East credits and European bank capital papers (AT1s and T2s). In a tight credit spread environment, 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 of call. We also like capital papers of SE Asia financial institutions such as Taiwan lifers with new issue premium. From a sector perspective, we continue to prefer consumption plays in view of supportive measures across the region to stimulate domestic consumption. We see Alpha opportunities by going down the credit curve for lower-rated credits in sectors which credit fundamental is improving. See page 4 for our summary of recommendations.

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Themes and picks

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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 SE Asia credits and believe that they will continue to be the candidates for early redemptions.

Our themes for 2026 center on: -

- "Westbound" diversification to Middle East as well as European bank capital papers
- Yield curve bull steepening in 2026. We prefer belly part of the yield curve for tenor of 3-5 years to maturity or call
- Yield pick-up/spread compression trades such as bank capital papers, corporate perps with high coupon step-up
- Domestic consumption plays benefitting from supportive policies on domestic consumption
- Alpha plays such as surviving Chinese properties and situational credits such as VDNWDL and WESCHI
- SE Asia credits with smooth access to various channels and better risk-return profile

Summary of recommendations

Theme	Bond	Maturity/ first call date	Ask price	YTM/YTC (%)
➢ **Middle East diversification plays**	ARAMCO 4 3/4 06/02/30	06/02/2030	101.6	4.3
	BSFR 6 3/8 PERP	11/07/2030	101.0	6.1
	BSFR 5.761 09/03/35	09/03/2030	100.2	5.7
	EBIUH 4 1/4 PERP	02/27/2027	98.6	5.6
	FABUH 6.32 04/04/34	10/04/2028	104.3	4.6
	FABUH 5.804 01/16/35	07/16/2029	103.5	4.7
➢ **Yield pick-up/spread compression trades**	PTTGC 6 1/2 PERP	09/10/2030	101.3	6.2
	PTTGC 7 1/8 PERP	03/10/2035	102.5	6.8
	PCORPM 7.35 PERP	08/22/2028	103.0	6.1
	RAKUTN 5 1/8 PERP	04/22/2026	99.7	6.1
▪ Corporate perps	RAKUTN 8 1/8 PERP	12/15/2029	103.6	7.1
	SMCGL 5.45 PERP	12/09/2026	99.3	6.2
	SMCGL 8 1/8 PERP	12/02/2029	101.7	7.6
	SMCGL 8.95 PERP	04/24/2030	104.3	7.8
	BBNIIJ 4.3 PERP	03/24/2027	98.1	5.9
	NOMURA 7 PERP	07/15/2030	102.8	6.3
	BBLTB 3.466 09/23/36	09/23/2031	91.1	5.3
	BBLTB 6.056 03/25/40	03/25/2035	102.1	5.8
▪ Capital papers (AT1s and T2s) of financial institutions and life insurance	CHIYBK 5 3/4 04/07/32	04/07/2027	100.2	5.6
	KBANK 3.343 10/02/31	10/02/2026	98.8	5.0
	BACR 4 3/8 PERP	03/15/2028	97.1	5.8
	INTNED 3 7/8 PERP	05/16/2027	97.6	5.7
	FUBON 5.45 12/10/35	09/10/2035	102.0	5.2
	SHIKON 6.95 06/26/35	06/26/2035	107.7	5.9
	RESLIF 6 7/8 PERP	05/19/2032	101.6	6.6
	SUMILF 5 7/8 PERP	01/18/2034	102.2	5.5
	FRESHK 4 1/4 10/26/26	10/26/2026	99.7	4.7
➢ **Chinese leasing companies**	FRESHK 6 5/8 04/16/27	04/16/2027	102.3	4.7
	FRESHK 5 7/8 03/05/28	03/05/2028	101.7	5.1
	FRESHK 6 10/01/28	10/01/2028	102.4	5.1
	CCAMCL 4.4 PERP	11/03/2026	99.9	4.5
➢ **Chinese AMCs with demonstrated government support**	CFAMCI 3 7/8 11/13/29	11/13/2029	98.4	4.3
	CFAMCI 3 3/8 02/24/30	02/24/2030	95.4	4.6
	CFAMCI 3 5/8 09/30/30	09/30/2030	95.6	4.7
	AACTEC 3 ¾ 06/02/31	06/02/2031	95.6	4.7
	CNMDHL 4 7/8 07/10/30	07/10/2030	99.7	4.9
	HYUELE 1.5 01/19/26	01/19/2026	99.9	3.9
➢ **Short-term consumption plays**	HYUELE 2.375 01/19/31	01/19/2031	90.9	4.4
	ZHOSHK 5.98 01/30/28	01/30/2028	101.1	5.4
	EHICAR 7 09/21/26	09/21/2026	79.8	42.9
	EHICAR 12 09/26/27	09/26/2027	66.4	40.9

Theme	Bond	Maturity/ first call date	Ask price	YTM/YTC (%)
➢ **Macau gaming**	MPEL 5 3/8 12/04/29	12/04/2029	99.2	5.6
	MPEL 7 5/8 04/17/32	04/17/2032	105.4	6.6
	MPEL 6 1/2 09/24/33	09/24/2033	100.6	6.4
	STCITY 6 1/2 01/15/28	01/15/2028	100.3	6.4
	STCITY 5 01/15/29	01/15/2029	96.8	6.2
	WYNMAC 5 1/2 10/01/27	10/01/2027	100.1	5.5
	WYNMAC 5 1/8 12/15/29	12/15/2029	99.3	5.3
➢ **Chinese TMT**	MEITUA 0 04/27/28	04/27/2028	99.7	5.3
	MEITUA 3.05 10/28/30	10/28/2030	93.3	4.6
	TENCNT 3.595 01/19/28	01/19/2028	99.6	3.8
	TENCNT 3.975 04/11/29	04/11/2029	100.2	3.9
	XIAOMI 3 3/8 04/29/30	04/29/2030	96.3	4.3
	XIAOMI 2 7/8 07/14/31	07/14/2031	92.4	4.4
➢ **LGFVs from higher tier cities with ongoing access to onshore funding**	CPDEV 7.15 03/21/28	03/21/2028	100.4	7.0
	CPDEV 6.8 04/07/29	04/07/2029	99.5	7.0
➢ **Chinese properties** ▪ SOEs ▪ non-SOE survivors with:- ✧ T1/2 cities positioning ✧ Ownership of high quality IPs providing recurring rental income and access to alternative funding channels such as CMBS, CBICL-guaranteed bonds, operating loans, etc. ✧ Manageable near-term maturities, especially offshore bond maturities	CHJMAO 3.2 04/09/26	04/09/2026	99.4	5.7
	CHJMAO 4 1/4 07/23/29	07/23/2029	91.5	7.0
	CHJMAO 6 PERP	02/08/2026	100.1	4.5
	DALWAN 11 01/12/26	01/12/2026	99.9	17.6
	DALWAN 11 02/13/28	02/13/2028	96.2	13.1
	FTLNHD 4 1/2 05/02/26	05/02/2026	95.3	86.3
	FTLNHD 11.88 09/30/27	09/30/2027	92.1	17.3
	FUTLAN 11.88 06/26/28	06/26/2028	91.7	16.1
	GRNCH 8.45 02/24/28	02/24/2028	100.6	8.1
	LNGFOR 3 3/8 04/13/27	04/13/2027	92.7	9.6
	LNGFOR 4 1/2 01/16/28	01/16/2028	89.7	10.2
	LNGFOR 3.95 09/16/29	09/16/2029	79.5	10.8
	LNGFOR 3.85 01/13/32	01/13/2032	72.3	10.1
➢ **HK Corporate**	FAEACO 12.814 Perp*	01/18/2026	70.5	18.0
➢ **Situational credits**	VDNWDL 9 Perp	06/05/2026	96.5	11.0
	WESCHI 9.9 12/04/28	12/04/2028	98.5	10.5
➢ **SE Asia** ▪ Smooth access to various funding channels ▪ Better risk-return profiles	INCLEN 4 1/2 04/18/27	04/18/2027	97.7	6.4
	INDYIJ 8 3/4 05/07/29	05/07/2029	99.5	8.9
	MEDCIJ 8 5/8 05/19/30	05/19/2030	105.9	7.0
	VEDLN 9.475 07/24/30	07/24/2030	102.6	8.8
	VEDLN 11.25 12/03/31	12/03/2031	107.9	9.5

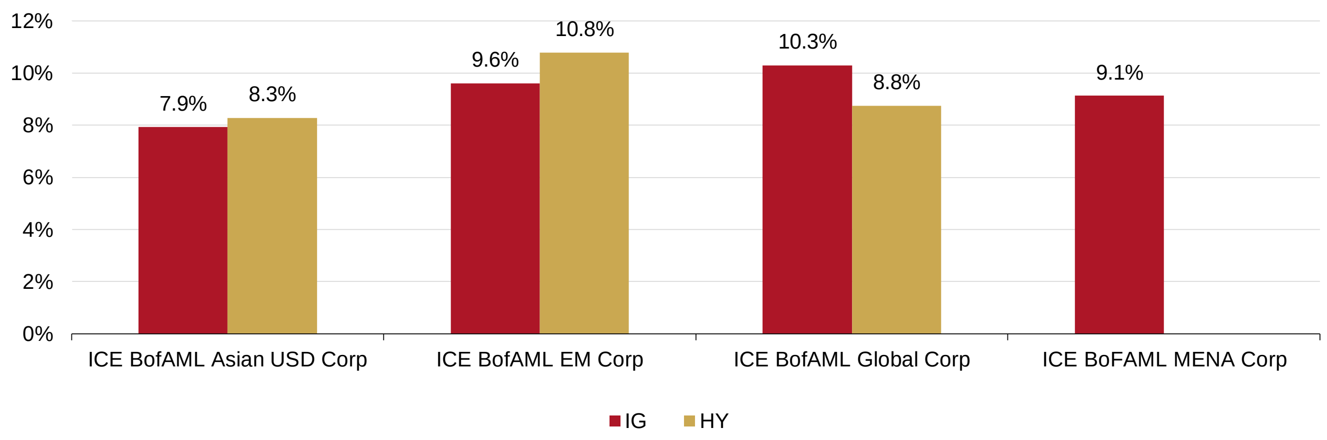
Note: FAEACO 12.814 Perp refers to the next call date.
Source: Bloomberg.

Sailing to Persian Gulf from Yellow Sea

Deja Vu in 2025

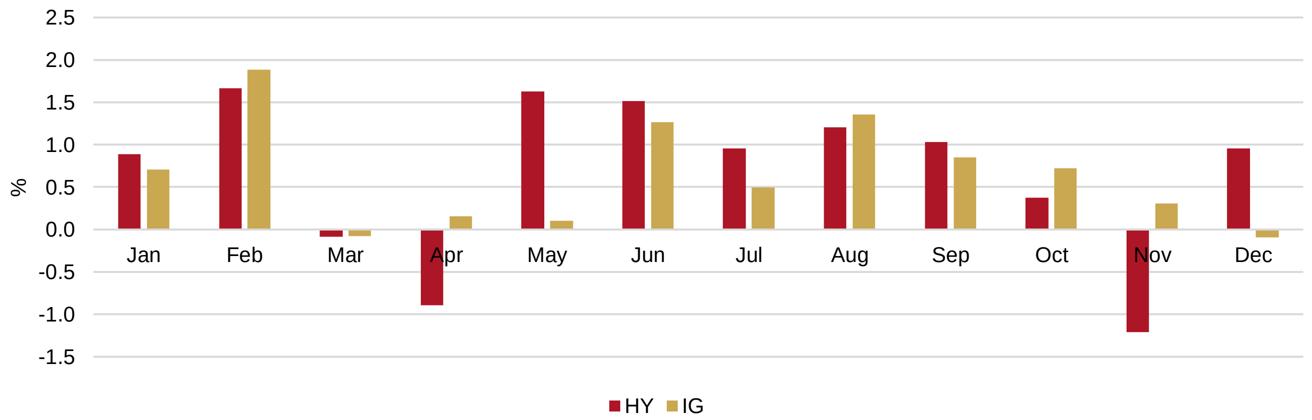
Let me repeat the first sentence in our Asia Credit Outlook in 2024 by just changing the year to 2025 from 2024: 2025 was a good year for Asia USD bond markets despite we still have idiosyncratic issues such as NWD and Vanke (towards year-end). We experienced solid performance across the board. Indonesia HYs and developed market AT1s are notable outperformers. Overall, ACIG and ACHY returned 7.9% and 8.3%, respectively in 2025, driven by rate cuts in the US, bullish steepening of yield curve, improving market sentiment on China and other Asian economies, as well as strong technical supported by the strong onshore demand. ACIG has experienced the strongest performance since 2019 while ACHY continued the rebound since 2024. That said, Asia and Middle East underperformed global market and other EMs, in 2025.

Chart 1: ACHY and ACIG total return in 2025



Source: Bloomberg.

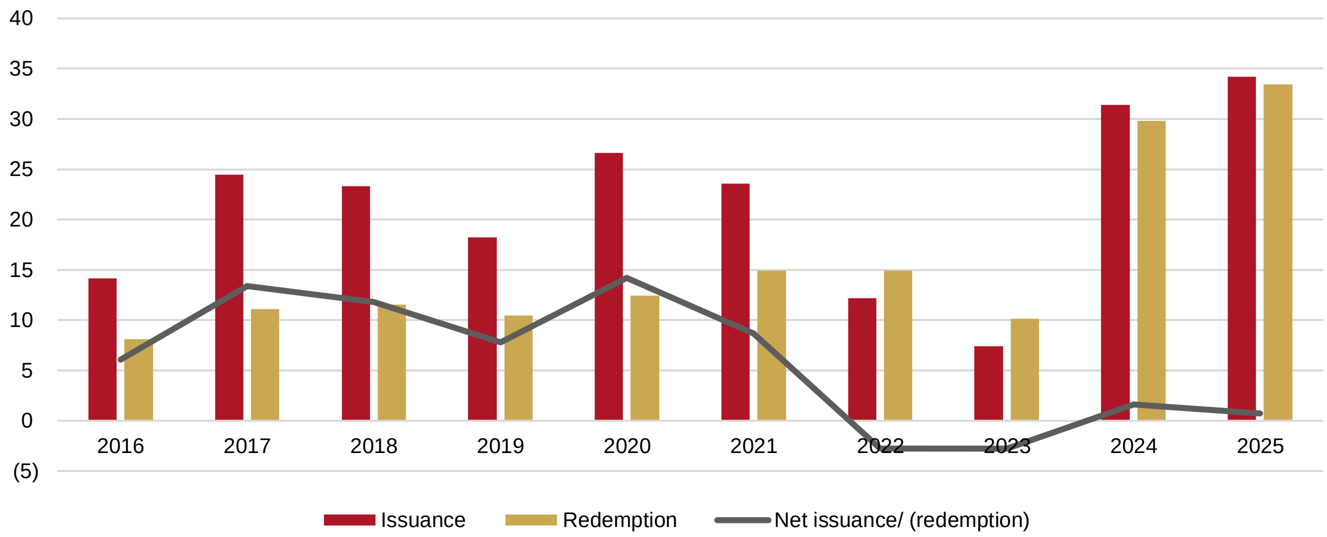
Chart 2: ACHY and ACIG total return by month in 2025



Source: Bloomberg.

Indonesia HYs are the best performers, double-digit return 3 years in a row

Chart 3: Indonesia USD bonds (USD bn)



Source: Bloomberg.

Under the backdrop of strong onshore liquidity, Indonesia HYs generated double-digit return over the past 3 years, 12.3% in 2025, 10.5% in 2024 and 14.0% in 2023.

Over the past 2-3 years, we saw a slew of Indonesian HY issuers had early redeemed their USD bonds, taking advantage of lower-cost onshore funding resulting from the stronger onshore liquidity. Even some familiar names in Asia HY USD space have no more outstanding USD bonds. For example, Gajah Tunggal early redeemed its only USD bonds in Jan'25, partly funded with cheaper onshore funding.

We believe that the strong technical of Indonesia will continue to support the segment's performance, taking cues on further tightening of the mandate on depositing export proceeds onshore. Starting from Jan'26, exporters can only convert 50% of their export proceeds to IDR as such onshore USD liquidity will be even stronger. Recalled that Indonesia government mandated natural exporters to repatriate 30% of their export proceeds onshore for at least 3 months starting from Aug'23 to strengthen the foreign currency reserve and stabilize IDR. The mandate was tightened to 100% of export proceeds for a year starting Mar'25.

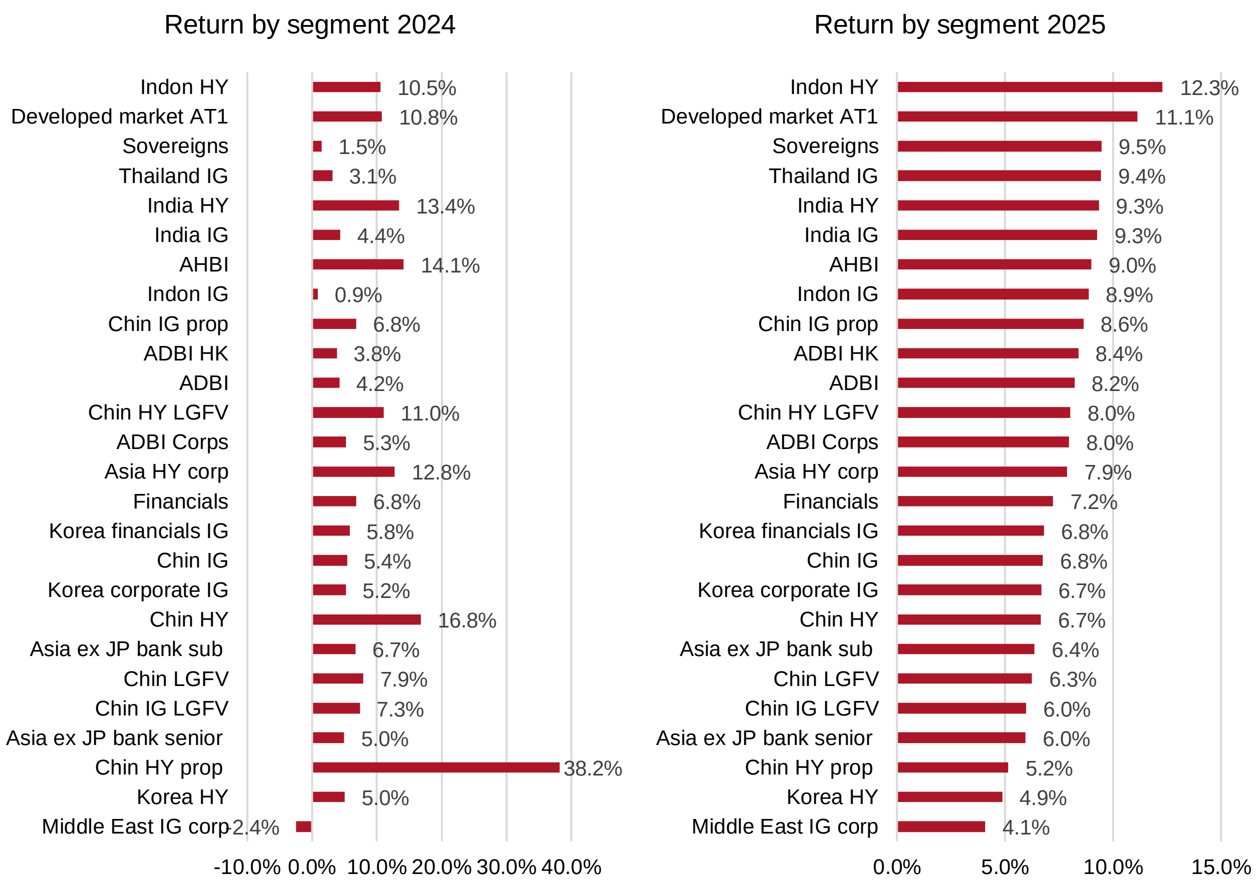
Chinese HY properties' total return was only 5.2% in 2025, compared with 38.2% in 2024. The total return of Chinese HY properties has sharply narrowed as Vanke's bond plunged to 20ish from 60-70 after its parent company announced the cap on shareholder's loan in Nov'25 and maturity extension for 2 onshore maturing in Dec'25. This caught the market by surprise after SZ Metro had provided shareholder's loans totaled cRMB30bn for the bond repayments of Vanke.

European bank AT1s are another outperformers despite ECB's recent comments

Away from Asia, European bank AT1s which Asia-based investors are heavily involved continued their good performance in 2025 despite the pull-back around "liberation day". The segment returned 11.1% in 2025, after returning 10.8% in 2024. The outperformance of European bank AT1s was mainly driven by improving credit fundamental (earning and capital position), lower interest rate and improving funding access. The market sentiment on European banking sector was also buoyed by M&A talks. Indeed, European bank stocks, as measured by Euro STOXX Bank (SX7E), moved c80% and 21% higher in 2025 and 2024, respectively.

On 11 Dec'25, ECB announced proposed changes to the structure of the AT1s. We are not too concerned about ECB's potential tweaks to AT1s to closer to equity. There is no detail as to ECB's exact plan but we take comfort that the policy objectives of any changes are to simplify the regulatory framework without reducing banks' capital and liquidity buffers. We believe that the near-term impact resulting from ECB's comments should be limited. Even in the case of any drastic changes in the regulatory regime on AT1, such as abolishing AT1 as per some discussions, we believe that such changes would be gradual and not be retrospective to existing AT1s. Instead, if existing AT1s will have to be phased out, our take is the certainty of calls of these "legacy" AT1s will even be higher. See Appendix 2 for more discussions.

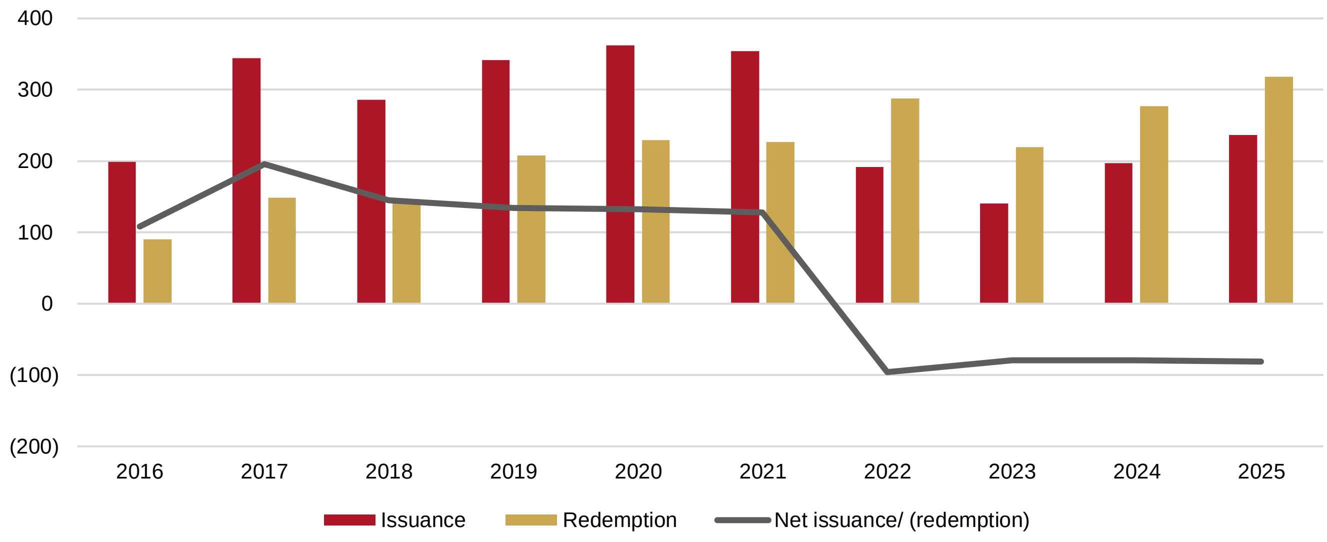
Chart 4: Segment return 2025 vs 2024



Source: Bloomberg.

Higher gross issuance but net redemptions continued….

Chart 5: Asia ex JP, AU & NZ issuance (USD bn)



Source: Bloomberg.

In 2025, the gross issuance (incl. sovereigns) of Asia ex JP, AU & NZ increased 20.2% yoy to USD236.6bn. The net redemption streak extended to 4 years. The net redemptions (gross issuance minus maturities, amortization, tender offers, repurchases and calls) were USD81.6bn in 2025, compared with USD79.7bn in 2024. Over the past 4 years, our space had shrunk c20% to USD1.3tn.

Even if we include JP, AU & NZ, the Asia Pacific USD bond universe has also experienced net redemptions since 2022 despite the size of net redemptions was tempered by higher issuance in Japan and Australia. In 2025, the net redemptions were USD40.6bn, shrinking from USD56.0bn in 2024. Since 2022, the Asia Pacific universe had shrunk c10% to USD2.0tn.

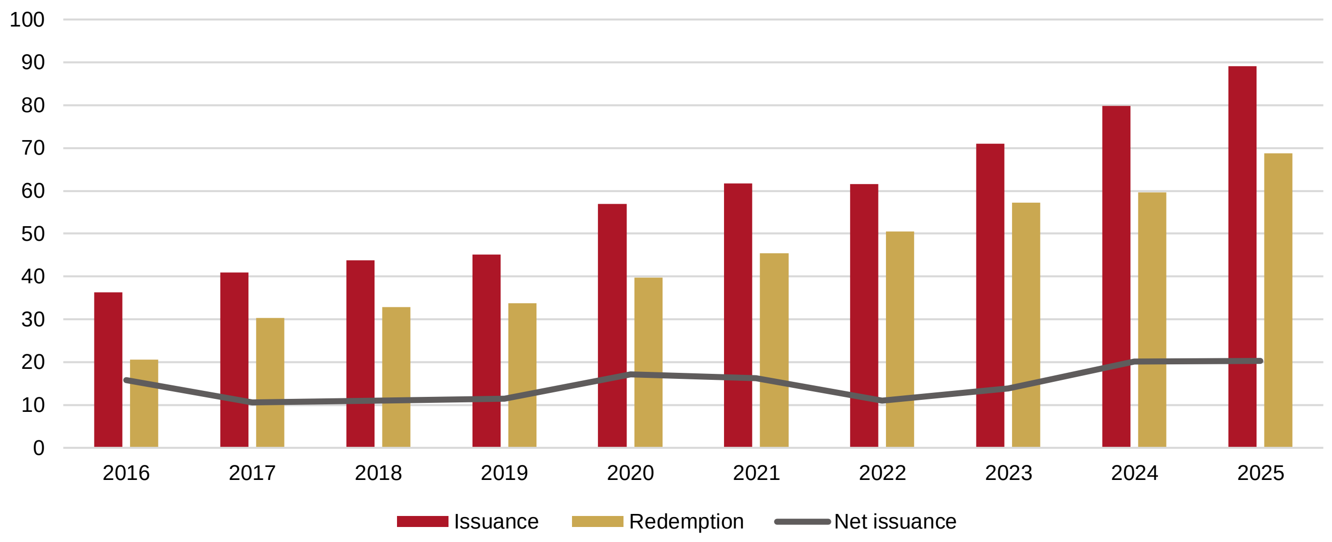
IGs accounted for c55% of the gross issuance amount. Financial institutions are the largest issuers with issuance totaled USD110.2bn, accounting for c47% of total gross issuance.

China was by far the largest issuing country with gross issuance totaled USD105.4bn in 2025, followed by Korea with gross insurance of USD40.0bn. The gross issuance from China increased 35.9% yoy, the higher gross issuance from China was attributable to lower funding and improving market sentiment, especially the "less negative" on China given the gradual economic recovery from COVID lockdown and the demonstrated resilience against trade war. China and Korea accounted for c45% and c17% of the gross issuance, respectively.

…partly driven by availability of lower-cost funding alternatives

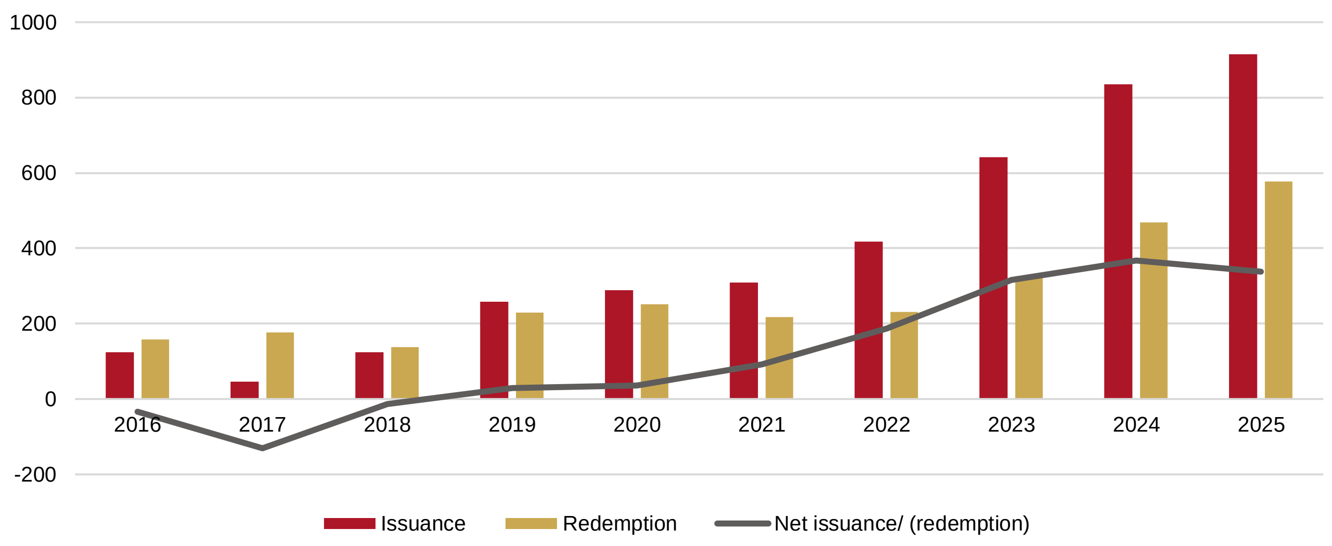
We believe that the trend of net redemptions was partly attributable to the availability of other lower-cost funding channels such as local currency bonds. As shown in Charts 6-8, issuance in local currencies such as RMB (both CNY and CNH) and IDR have been increasing under the backdrop of easing onshore credit in many of the Asian countries, growing depth and width of onshore bond markets, as well as the US rate hikes in 2022-23. For example, Indonesian government raised RMB6bn from Dim Sum bond market in Oct'25: 5-year tranche of RMB3.5bn at a coupon rate of 2.5% and 10-year tranche of RMB2.5bn at a coupon rate 2.9%.

Chart 6: China onshore CNY bonds issuance (RMB tn)



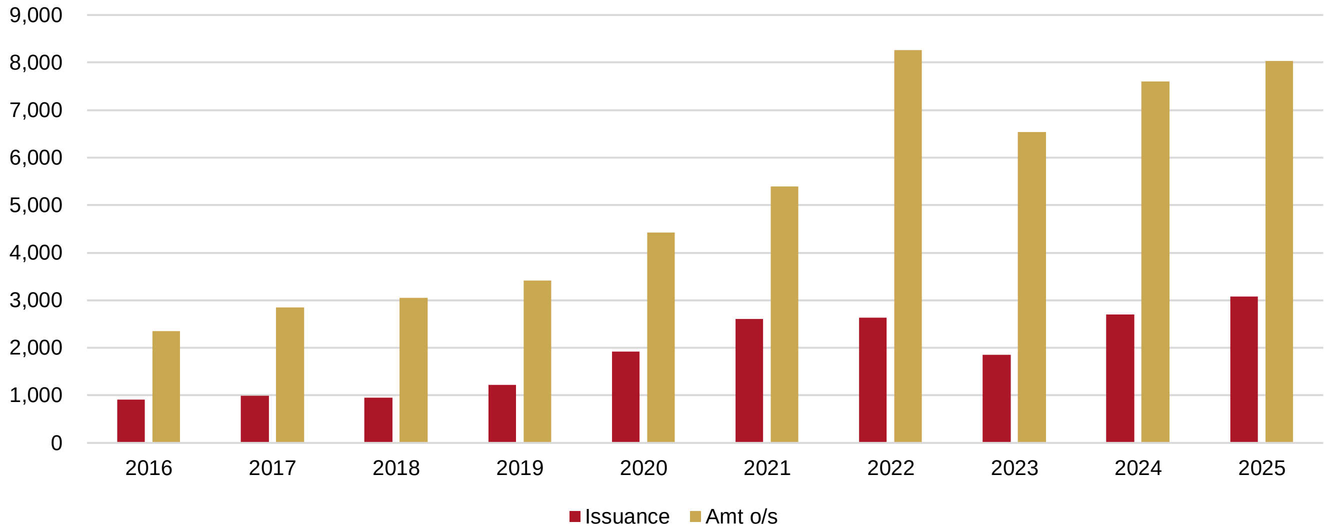
Source: Wind.

Chart 7: Dim Sum bonds issuance (RMB bn)



Source: Bloomberg.

Chart 8: IDR bond issuance (IDR tn)

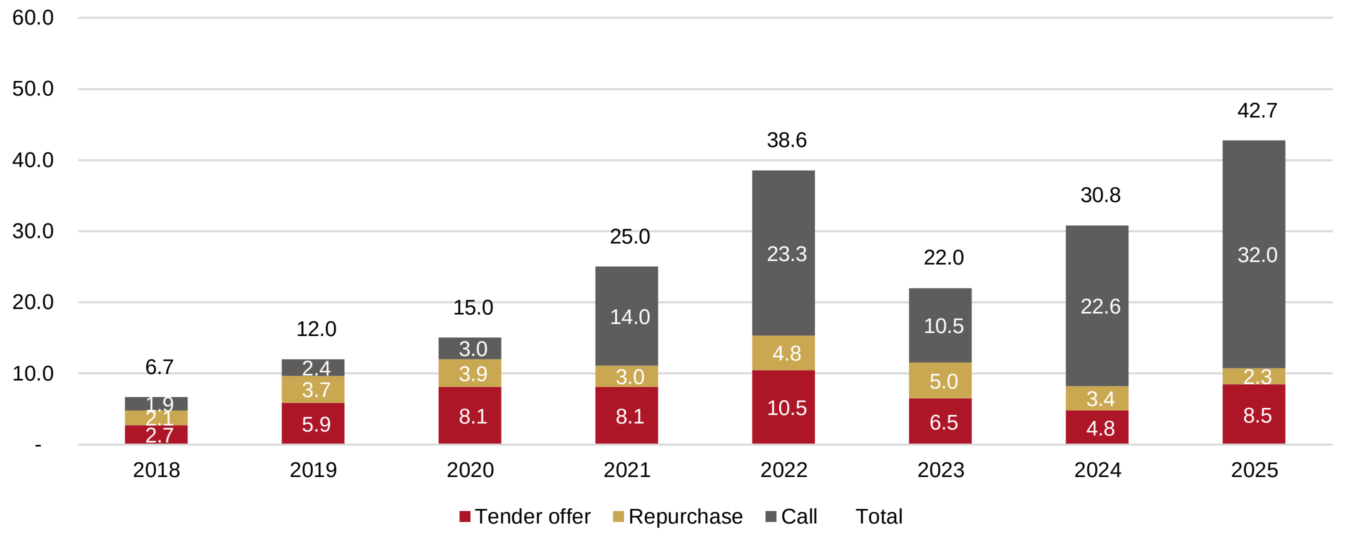


Source: Bloomberg.

…making early redemptions more feasible

With other lower-cost funding options, issuers are more flexible to consider early redemptions to lower their funding costs. We estimate that the total amount of early redemptions (tender offer, repurchases and call) in 2025 totaled cUSD42.7bn, equivalent to c18% of gross issuance in Asia ex JP, AU & NZ. Since 2022, we estimate the amount of early redemptions averaged USD33.5bn, equivalent to c14% of the gross issuance. As written before, 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 after the implementation of mandate to deposit export proceeds onshore. The increasing availability of lower-cost onshore funding in countries such as China and Indonesia partly contributed to the significant amount of net redemptions over the past few years.

Chart 9: Asia ex JP, AU & NZ tender offer and repurchases (USD bn)



Source: Bloomberg.

The macro backdrop in 2026

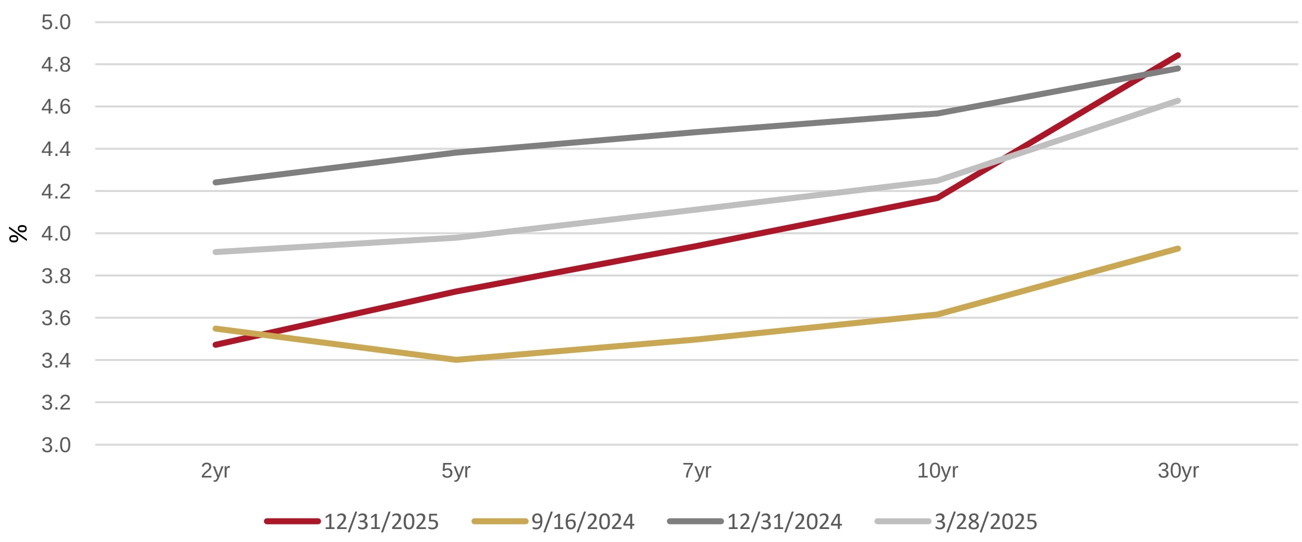
House view of only 1 FFR cut vs market expectation of 2-3 cuts

The Fed cut FFR by 75bps in 2025, including the 25bps cut after the last FOMC meeting on 10 Dec'25. CMBI Economic Research expects the pace of further FFR cut to be moderate with only a single 25bps rate cut in 2026, likely in Jun'26. The US economy will slow down with a real GDP growth moderating from 1.9% in 2025 to 1.8% in 2026. The growth might rebound in 1H26 as tariff headwinds fade and fiscal tax cuts and monetary easing provide support, before decelerating in 2H26 amid diminishing policy impulse and a rebound in inflation. This will bring FFR down to 3.25-3.5% by the end of 2026.

The widely expected replacement of Fed chairman in May'26 could see candidates for new chairman competing on dovish stances to show their loyalty to Trump, making expectations for monetary easing in Dec'25 and 1Q26. We believe that the new chairman, with a secured tenure, may become more political neutral to build credibility. With inflation potentially rebounding in 2H26, expectations for the end of Fed easing will significantly increase.

CMBI Economic Research also expects the Fed to cease Quantitative Tightening (QT) from Dec'25, ending the 29-month balance sheet reduction cycle that began in Jun'22. The Fed's total assets decreased from the peak of cUSD9tn to USD6.6tn, still above the pre-pandemic level of USD4.1tn. The market is highly attentive to whether the Fed will restart QE in 2026 to artificially suppress long-term Treasury yields. However, as inflation remains above target in 2026, we believe that the conditions for restarting QE may not yet be met.

Chart 10: Yield curve to steepen



Source: Bloomberg.

We expect the US yield curve to steepen modestly in 2026. The short-term rates will decline in line with policy rate cuts, while long-term rates will reflect fiscal expansion and inflation rebound later in the year. In 1H26, falling inflation and accommodative policy may push both short- and long-term yields lower. By 2H26, however, inflation bottoming out and fiscal deficit expansion will lift long-term rates again, while short-term rates remain anchored by earlier rate cuts. This divergence results in a steeper curve, with 2-year yield projected to fall to around 3% and 10-year yield to 3.9% by the end of 2026.

China economic growth to slow down with more policy stimulus expected

Our economic research projects China's real GDP growth to slow from 5% in 2025 to 4.8% in 2026. New policy stimulus might be launched in 1Q26 after GDP growth remains below 5% in 2H25. 2026 may see slowing export growth, narrowing property price declines, flat consumption growth and moderating infrastructure investments.

As 2026 marks the beginning of the 15th Five-Year Plan, the GDP growth target is very likely to remain near 5%. The GDP growth falling below 5% for two consecutive quarters in the 2H25, the probability of a new round of policy stimulus being introduced in 1Q26 significantly increases. The 15th Five-Year Plan emphasizes structural transformation to support green transition, digitalization, advanced manufacturing, and supply chain resilience. These priorities will channel resources toward technology, renewable energy, and defense sectors, while traditional property and infrastructure sectors face slower growth.

Spread differential between China and the US to narrow but remains wide

Chart 11: 10-yr UST over 10-yr CGB (%)

Source: Bloomberg.

China's monetary policy is expected to remain accommodative, with a 50bps cut in the reserve requirement ratio (RRR) and a 20bps cut in the loan prime rate (LPR) during 2026. We project the 10-year Chinese Government Bond (CGB) yield to increase modestly from 1.85% at the end of 2025 to around 1.9% at the end of 2026 taking cues from the improving deflation, proactive fiscal policy leading to high government bond issuance. Hence, the wide spread between UST and CGB will maintain. This will continue to support the "onshore demand" for offshore bonds and the technical of Asia USD bond market.

USD to weaken, especially during 1H26

The US Dollar Index (DXY) is expected to weaken in 1H26, falling from 98 at the end of 2025 to 92, before rebounding to 95 by the end of 2026. In 1H26, we expect US economic growth and inflation to decline, the Fed may continue to cut interest rates and restart balance sheet expansion, increasing USD supply. In the 2H26, under the influence of accommodative monetary policy and expansionary fiscal policy, we expect US economic growth to rebound, and inflation to stabilize, leading to a rebound in the USD index.

In 1H26, China could intensify fiscal expansion, implementing a new round of policies to stabilize real estate and promote consumption, and accelerate the implementation of anti-involution policies, leading to a stronger RMB against the USD. In the 2H26, as the USD index strengthens and the scope for further domestic fiscal easing diminishes, the RMB may weaken against the USD. USD/CNY is projected to be at 7.02 by the end of 2026, reflecting China's easing bias versus US stabilization.

Noise from trade war to dwindle, eyes on court ruling on tariff

While the impact of higher tariff on export-oriented Asian economics will gradually be surfaced, the noise from trade war should dwindle. Indeed, we believe that the focuses in relation to trade war should be on the US Supreme Court ruling on the legality on Trump imposing tariff under the International Emergency Economic Powers Act (IEEPA) and whether the US government will initiate the investigation under Section 301 of the Trade Act of 1974. Recalled that the US Supreme Court has already heard the oral argument in Nov'25, the Supreme Court ruling is expected be issued in early 2026. The investigation under Section 301 could take time. The alternative is to impose a temporary tariff under Section 122. That said, any tariff imposed under Section 122 will be capped at 15% and will only last for no longer than 150 days.

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

Technical: Remain to be a key support for performance

Doubling Southbound Bondconnect quota will support on-shore demand….

Out of the 3 pillars, we believe that technical remains to be the most important driver for Asia USD bond performance. After the big bull-run of China's onshore bond markets, the offshore Chinese USD bonds offer good relative value from onshore investors' perspective. As shown in Chart 11, the "onshore demand" will remain strong given the wide spread differential. Since Jul'25, there have been media reports on doubling of annual Southbound Bondconnect quota to RMB1tn. While there is no detail as to the implementation timetable and approval process, the doubling of annual Southbound Bondconnect quota, if goes ahead, will provide additional impetus for "onshore demand". As per media reports, NBFIs will be included in Bondconnect. Currently, Southbound Bondconnect covers banks which are generally more cautious and less flexible in expanding their white-lists given their more stringent credit approval processes and capital charges for capital papers of financial institutions.

Having said that, we need to observe whether the expansion of Southbound Bondconnect quota to NBFIs is a substitute for or supplement of QDII. In our view, the Chinese regulators should be more open to larger offshore investment quota under the backdrop of strengthened RMB against USD, and the very low yield environment onshore.

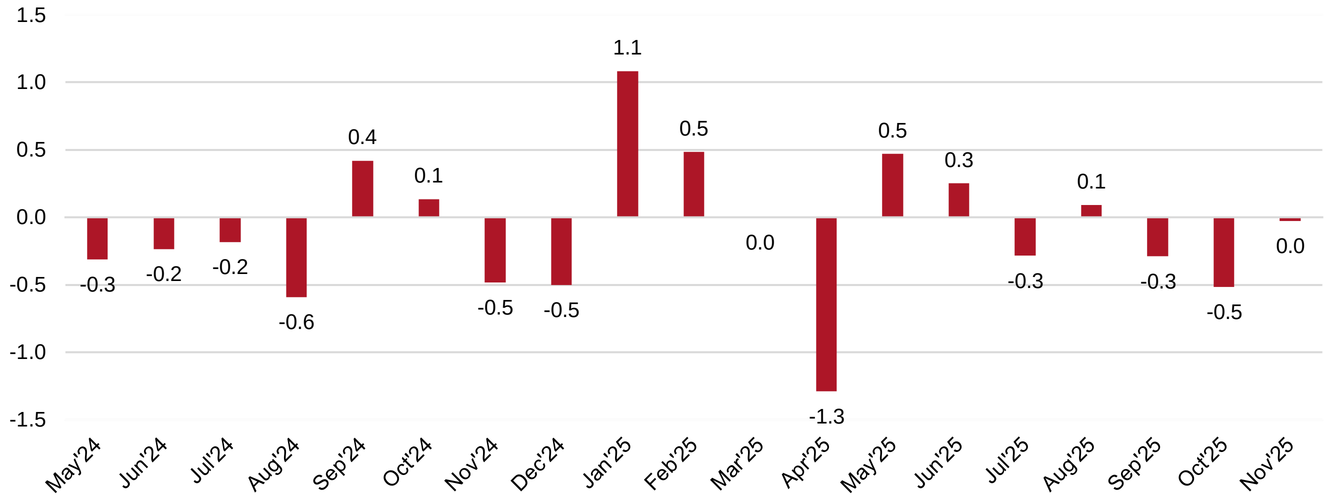
… and the "onshore demand" not unique to China

Indeed, we see strong onshore liquidity in other countries such as Indonesia and the Philippines with availability of other low-cost funding alternatives. This, coupled with the stronger market sentiment, has largely explained the significant amount of early redemptions in our universe over the past few years. See Chart 9 for early redemptions.

Fund flow from DM could turn more positive

Our house views of lower UST rates and weaker USD are supposed to be more favourable for fund flow from DM to EM and Asia USD bond universe. That said, we can envisage fund inflow could turn to other competing funding channels such as Dim Sum bonds as shown in Chart 7. Hence, a significant fund inflow from DM into Asia USD bond universe is not our base case taking cues from the similar backdrop in 2025.

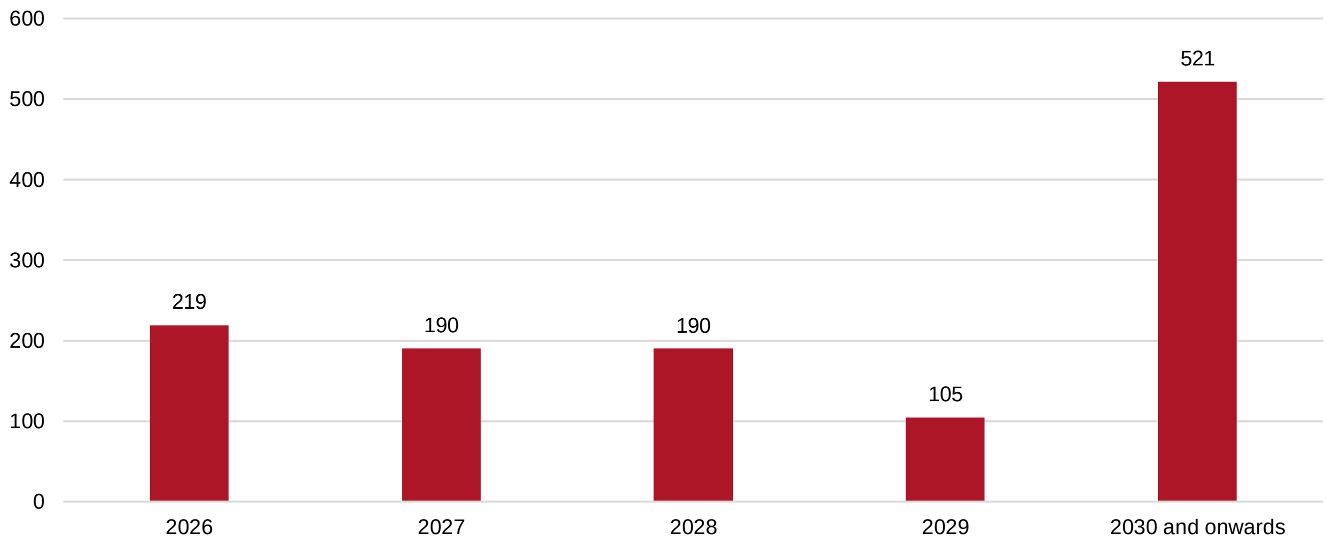
Chart 12: Monthly fund flows of selected 37 Asian fixed income funds (USD bn)



Source: Bloomberg.

Will the net redemption trend reverse in 2026?

Chart 13: Asia ex-JP, AU and NZ maturity (USD bn)

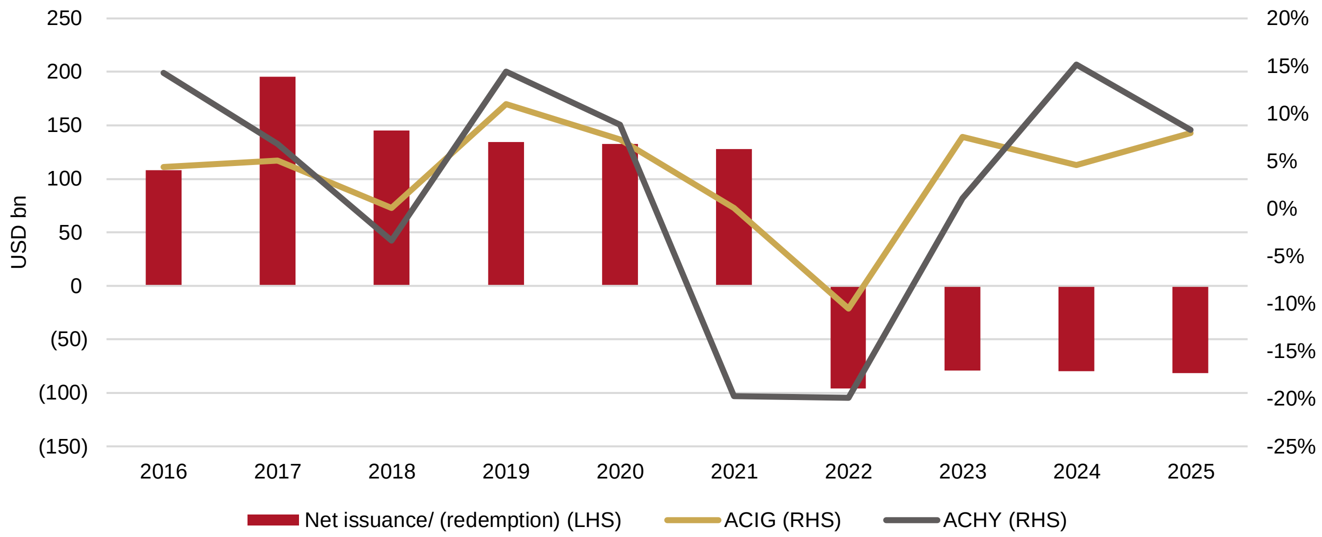


Source: Bloomberg.

As written before, the gross issuance in Asia ex JP, AU and NZ increased 20.2% yoy to USD236.6bn in 2025. Since 2024, the scheduled maturity in our universe has been on the decline, reflecting the sharply lower gross issuance since 2022 and the significant amount of early redemptions over the past few years. Assuming gross issuance to increase 15-20% in 2026, we estimate that the net issuance to be USD18-30bn in 2026, reversing the trend of net redemptions since 2022. The major moving parts will be the size of early redemptions and the size of potential gross issuance diverted into other lower-cost funding alternatives such as onshore loans and bonds.

Will higher gross issuance affect performance?

Chart 14: Issuance vs performance



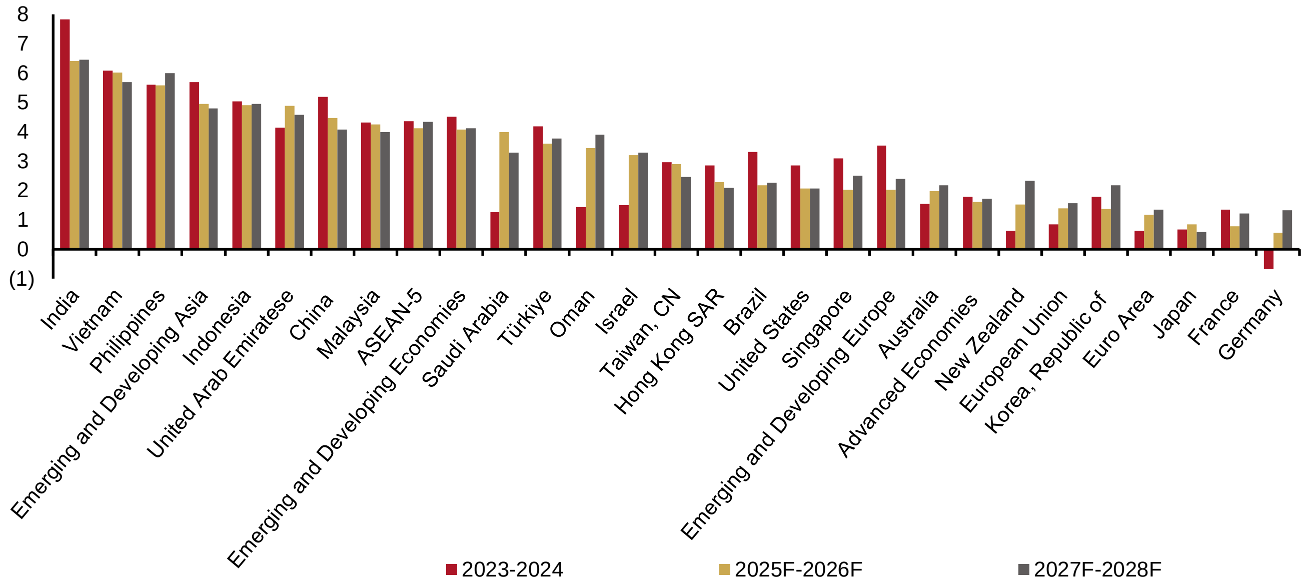
Source: Bloomberg.

As we have been arguing, the causality between supply and performance should be higher supply will only be able to come if the performance and market sentiment are strong enough. We believe that the strong "onshore demand", the more favourable fund flow in anticipation of weaker USD should support the technical of Asia USD bond universe. Additionally, we expect funding costs and default rate to continue to trend downward. These should allow the market to absorb the net issuance in our universe. We are not too concerned about the higher gross issuance and potential reversal of net redemptions. As shown in Chart 14, the Asia ex JP, AU & NZ USD bond market performed well during 2017-2020 with the uptrends of gross and net issuance. The market performed poorly in 2021 and 2022 even though gross issuance declined and net issuance turned to negative. The higher gross issuance and net issuance will however make investors more selective. This reinforces our belief that we should pay more attention to Alpha instead of Beta.

Fundamental: Supportive policies and lower default rate

Asian economic growth, albeit lower, still faster than that of other regions

Chart 15: Real GDP Growth (CAGR %)



Source: IMF, Wind.

We expect the economic growth of major economies to moderate from the levels in 2023-2024, due partly to the negative impact on export resulting from higher tariff. That said, the growth of major Asian economies remains notably faster than that of the other part of the globe. Taking cues from the forecasts of IMF, the average real GDP growth of China, India, Indonesia and Korea in 2025-26 are 4.8%, 6.6%, 4.9% and 0.9%, respectively, compared with 1.2% in Euro area, 2.0% in the US and 1.1% in Japan. The stimulus on domestic consumption across the region and the anti-involution measures in China help temper the impact slowing export growth.

As such, we continue to prefer sectors that could benefit from improving domestic consumption such as Macau gaming (such as Melco Resorts and Studio City), TMT (such as Meituan, Rakuten, and Xiaomi) and other consumer goods and services (such as AAC Technologies, China Modern Dairy, eHi Car and Zhongsheng). We believe that in case Trump's tariff is ruled illegal, this ruling will be an upside surprise to export-oriented Asia economies. As discussed before, the alternative will be to initiate investigation under Section 301 which could be lengthy. The temporary measures under Sector 122 will cap the tariff rate at 15% for no longer than 150 days.

Default rate to trend lower

The default rate of Asia HY corporates continues to moderate from the peaks in 2022 (c18%) after the widespread default of Chinese property bonds. The "blackest" swans have more or less been out and idiosyncratic risk should be lower. We have a glance at the maturity profile in 2026 and do not see many candidates for default in principal repayment. Eyes now on Vanke whether the maturity extension for onshore bonds can be completed to avoid default triggered. That said, the total outstanding amount of USD bonds of Vanke is USD1.3bn and the next offshore maturity will be VNKRLE 3.975 11/09/27 (o/s USD1bn) in Nov'27. We estimated that the default rate of Asia HY corporates declined to below 2% in 2026, compared with c3% in 2025 and 3.6% in 2024.

Valuation: Even less appealing valuation, mid-single-digit total return expected

Chart 16: Spread movement of ACIG (bps)

Source: Bloomberg.

Chart 17: Spread movement of ACHY (bps)

Source: Bloomberg.

As shown in Chart 16 and 17, the tights of credit spreads of ACIG and ACHY continue to be tested under strong technical. The key difference is that UST rates are also declining. Valuations on both spread and yield terms of Asian credits are getting more expensive. That said, Asia slightly underperformed other EMs and global markets in 2025. See Chart 1. On a RV basis, Asia does not appear to be particularly expensive.

We do not expect 2026 to repeat the high single-digit performance in 2025 in view of the tighter credit spread and our expectation of moderating pace of rate cut. We expect a mid-single-digit total return for ACIG and ACHY in

2026, driven mainly by coupon and 15-20bps lower in UST for the 3-5-yr part of the UST curve. In general, we believe the room for material credit spread tightening, especially for ACIG, to be limited.

In 2026, we will continue our efforts to west-bound diversification and spread compression opportunities. We see value in Middle East, European bank capital papers (AT1s and T2s). We continue to prefer yield pick-up plays such as corporate perps with coupon reset and/or high coupon step-up, as well as capital papers of SE Asia financial institutions (banks and lifers). We also prefer Alpha plays on improving credit stories and situational credits.

Appendix 1: Middle East – Diversification and yield pick-up plays

We initiate buy on **ARAMCO 4.75 06/02/30** for its more balanced risk-return profile and better trading liquidity, and we view the bond offers good carry relative to other Aa/A peers. We also initiate buy on **BSFR 6.375 Perp, BSFR 5.761 09/03/35, EBIUH 4.25 Perp, FABUH 6.32 04/04/34, and FABUH 5.804 01/16/35.** We view these AT1s and T2s issued by Middle East banks offer more appealing risk-return profiles compared with those of its peers. We believe that the certainty of call on their respective first call dates are also high, as supported by their sufficient capital buffers. See the summary of our recommendation in Table 1 below.

Table 1: Our Middle East picks

Security name	Amt o/s (USDmn)	Basel III	Ask px	YTM/YTC	Mod dur	First call date	Issuer rating (M/S/F)	Issue rating (M/S/F)
ARAMCO 4.75 06/02/30	1,500	-	101.6	4.3%	3.9	06/02/2030	Aa3/-/A+	Aa3/-/A+
BSFR 6.375 Perp	650	AT1	101.0	6.1%	4.1	11/07/2030	A1/A-/A-	Unrated
BSFR 5.761 09/03/35	1000	T2	100.2	5.7%	4.0	09/03/2030	A1/A-/A-	-/-/BBB
EBIUH 4.25 Perp	750	AT1	98.6	5.6%	1.1	02/27/2027	A1/-/A+	Unrated
FABUH 6.32 04/04/34	1,000	T2	104.3	4.6%	2.5	10/04/2028	Aa3/AA-/AA-	-/-/A
FABUH 5.804 01/16/35	750	T2	103.5	4.7%	3.1	07/16/2029	Aa3/AA-/AA-	-/-/A

Source: Bloomberg.

ARAMCO

We initiate buy on **ARAMCO 4.75 06/02/30** (Aa3/-/A+) for its more balanced risk-return profile and better trading liquidity. We view the bond offers good carry relative to other Aa/A peers. At 101.6, ARAMCO 4.75 06/02/30 is trading at YTM of 4.3%, provides yield pick-up of c20-60bps over CNPCCH 2 06/23/30 (A1/A+/A), KOROIL 4.75 03/31/30 (Aa2/AA/-) and SINOPE 2.7 05/13/30 (A1/A+/-). The shorter tenor Sukuk issue with Saudi Arabian Oil Company (Saudi Aramco) as the obligor and service agent. We prefer to stick with papers with 5 years or shorter in view of out view of bull steepening of the UST curve.

Saudi Aramco's strong credit profile is underpinned by its status as the world's lowest-cost oil producer and its critical role in the Saudi Arabia's economy as a key supplier of feedstock to the country's power generation and other key end-markets. Saudi Aramco is 81% owned by Saudi government and the remaining are held by Public Investment Fund and others. Saudi Aramco receives strong government support, due to its strategic important to Saudi Arabian economy.

Saudi Aramco has the exclusive right to explore, develop, and produce the Saudi Arabia's hydrocarbon resources, except in the excluded areas, for an initial period of 40 years from 2017, which will be extended by the government for 20 years provided Saudi Aramco satisfies certain conditions commensurate with current operating practices. As of Dec'24, Saudi Aramco's reserves under the concession agreement were 250bn boe.

In 9M25, Saudi Aramco reported lower revenue and net income compared to 9M24, as higher sales volumes and improved gas output were offset by softer oil price. Revenue in 9M25 dropped by 9% yoy to USD335bn while net income declined by 10% yoy to USD76bn. That said, Saudi Aramco maintained robust free cash flow of USD58bn during 9M25, lower operating cash inflow was mitigated by lower capex spent during the period. Saudi Aramco guided the FY25 capex at the lower end of the budget of USD52-58bn. The 9M25 run-rate represented 64-71% of the FY25 budget.

Moreover, Saudi Aramco's performance-linked dividend, which resulted in a lower dividend payment in 9M25 of USD64bn compared to USD93bn in 9M24. The dividend payout is substantial relative to its free cash flow generated of USD58bn in 9M25. While dividend from Saudi Aramco is a critical funding source for the Saudi government to fund the Vision 2030 diversification projects and therefore, Saudi Aramco may need to tap on other funding sources to fund its investments and capex going forward, in our view.

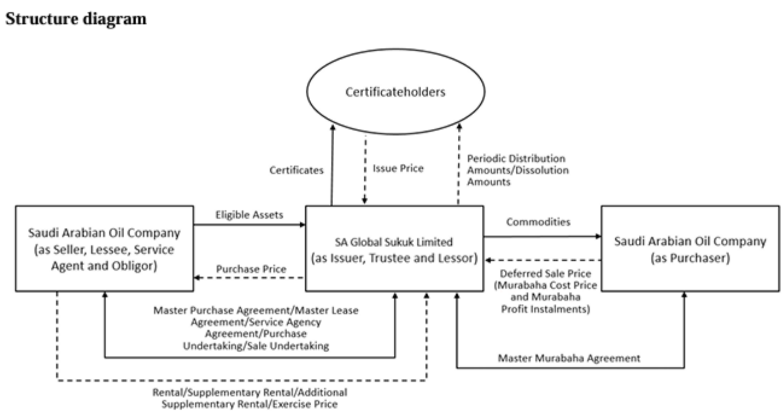
That said, we view Saudi Aramco has good access to different funding channels and its leverage remained low. During 2025, Saudi Aramco issued USD bonds in three tranches totaled USD5bn, i.e. USD1.5bn ARAMCO 4.75 06/02/30, USD1.25bn ARAMCO 5.375 06/02/35, and USD2.25bn ARAMCO 6.375 06/02/55. Despite the USD5bn increase in total debts, Saudi Aramco's gearing ratio was only 6.3% as of Sep'25 and adj. EBIT/interest coverage was 73.5x in 9M25.

Table 2: Saudi Aramco financial highlights

USD mn	FY22	FY23	FY24	9M25
Revenue	604,366	495,033	480,446	334,644
EBIT	306,512	230,677	205,946	146,165
Net income	161,068	121,271	106,246	75,621
Operating cash flow	186,174	143,417	135,704	95,369
Capex	38,800	49,700	53,300	37,413
Free cash flow	147,374	93,717	82,404	57,956
Dividend paid	75,018	97,780	124,245	64,088
Average realized crude oil price (USD/bbl)	100.2	83.6	80.2	71.0
	Dec'22	**Dec'23**	**Dec'24**	**Sep'25**
Cash and bank balances	60,279	53,059	57,771	51,699
Total debts	104,838	77,373	85,143	95,077
Net debts	44,559	24,314	27,372	43,378
Gearing ratio	-7.9%	-6.3%	4.5%	6.3%
EBIT/Interest coverage	129x	106x	73x	72x

Source: Company filling, CMBI FICC Research.

Chart 1: USD bond structures



Source: Company filling.

BSFR

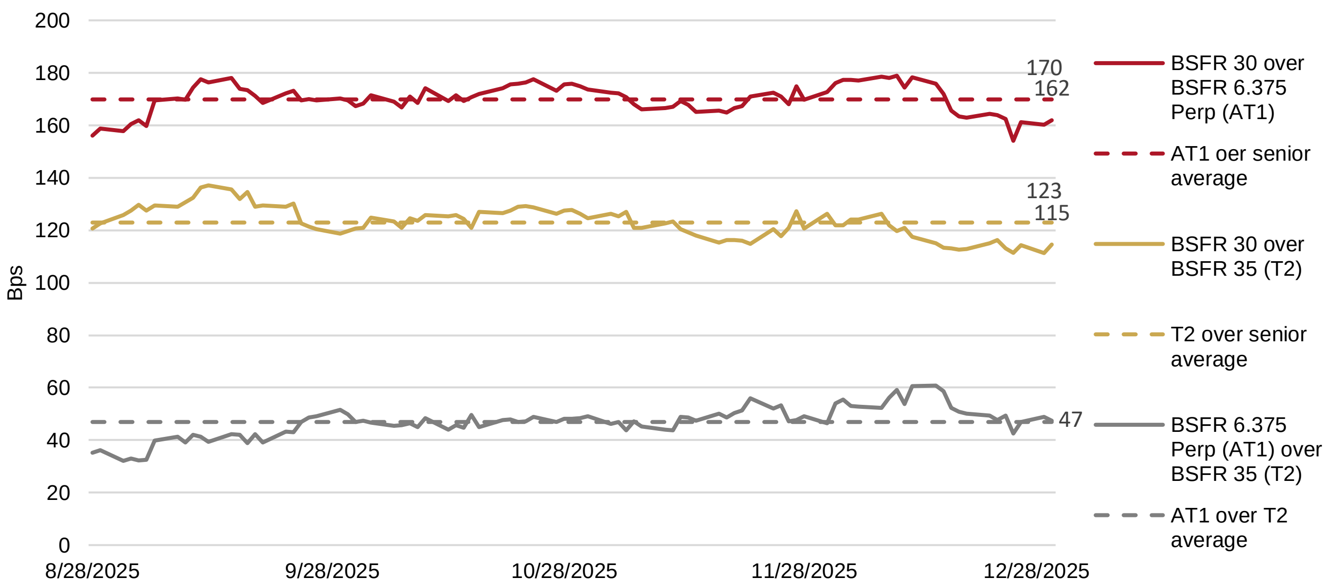
We initiate buy on **BSFR 6.375 Perp and BSFR 5.761 09/03/35**, as we view they offer more appealing risk-return profiles compared with those of its peers. These are the first USD AT1 and T2 issued by Banque Saudi Fransi (BSF). At 101.0, BSFR 6.375 Perp (first call in Jul'30) is trading at YTC of 6.1%, and offer yield pick-up of c160bps over its senior BSFR 5.375 01/21/30. At 100.2, BSFR 5.761 09/03/35 (first call in Sep'30) is trading at YTC of 5.7%, offering c120bps pick-up over BSFR 5.375 01/21/30. We consider the likelihood of its AT1 and T2 to be called on first call date is high given BSF's large capital buffer. Between the AT1 and T2, we prefer AT1 more in view of the widening yield differential between them. See Charts 1-2.

BSF is a D-SIB and is the 5th largest bank in Saudi Arabia by assets as of Sep'25 with strong focus on domestic operations, its business span across corporate, retails, treasury, investment banking and brokerage. BSF is 16.3%-owned by Saudi government, 10.1%-owned by Rashed Abdul Rahman Al Rashed & Sons Co which is one of the largest conglomerates in Saudi Arabia, and the remainder owned by public.

BSF's profitability has been improving since 2020. In 9M25, ROAA and ROAE further improved to 1.79% and 10.92%, respectively, from 1.63% and 10.29% in FY24. Moreover, BSF's loan book comprised of c80% to commercial and c20% to retail, which exposed BSF to higher credit risk than its peers with larger retail mix in their loan book, in view of higher NPL ratio of the commercial sectors. As of Sep'25, BSF's NPL was low at 0.99%, slightly increased from 0.93% as of Dec'24, due to 9bps increase in commercial NPL ratio to 1.06% while consumer NPL ratio decreased by 4bps to 0.74% over the same period. The NPL balances increased by 12% from the level as of Dec'24, compared to 6% growth in gross loan, showed BSF increased loan to higher risk sectors during the period.

That said, BSF's capitalization remained sound. Its CET 1 ratio was 15.7% as of Sep'25, comfortably above the regulatory minimum requirement of 7.6%. Moreover, BSF's liquidity coverage ratio of 160% and net stable funding ratio of 120% were both comfortably above their minimum regulatory requirements.

Chart 1: Yield pick-up across BSFR capital structure



Source: Bloomberg, CMBI FICC Research.

EBIUH

We initiate buy on **EBIUH 4.25 Perp**, which offers 100bps yield pick-up over Emirates NBD Bank (ENBD)'s senior unsecured bonds for similar tenor. At 98.6, EBIUH 4.25 Perp (first call in Feb'27) is trading at YTC of 5.6%. We consider the likelihood of its AT1s to be called on first call date is high given ENDB's large capital buffer. ENBD called all its USD AT1s on the first call date, i.e. EBIUH 6.375 Perp in Sep'20 and EBIUH 6.125 Perp in Mar'25.

ENBD is a D-SIB and is the second largest bank in UAE by assets as of Sep'25. ENBD is 40.9% owned by Investment Corporation of Dubai (ICD) and 14.8% by a wholly-owned subsidiary of Dubai Holding. Both ICD and Dubai Holding are wholly-owned by the government of Dubai. We expect a strong implicit support from the government of Dubai given the systemic importance and majority government ownership.

ENBD is a full-service bank with operations in Austria, Bahrain, Egypt, Germany, Turkey, China and Indonesia in addition to UAE. Its profitability was strong in 9M25 with NIM at 3.4%, ROAA at 2.4% and ROAE at 19.0%, supported by high interest rate environment and improved operating environment. ENBD's asset quality showed an improvement from Dec'24. NPL ratio was 2.5% as of Sep'25, well within the guidance of below 3%, and improved from 3.3% as of Dec'24. NPL coverage ratio was 160%, increased from 156% as of Dec'24. Moreover, ENDB had ample capital buffer. Its CET 1 ratio was 14.7% as of Sep'25, well above the regulatory minimum requirement of 8.6%. Furthermore, ENBD's liquidity coverage ratio of 149% and net stable funding ratio of 124% were both comfortably above their minimum regulatory requirements. Moody's upgraded ENBD's rating by one notch to A1 from A2 in May'25 because of the sustained improvements in asset quality while maintaining solid profitability and strong capital.

FABUH

We initiate buy on **FABUH 6.32 04/04/34 and FABUH 5.804 01/16/35**, which offer 30-60bps yield pick-up over First Abu Dhabi Bank (FAB)'s senior unsecured bonds for similar tenor. At 104.3, FABUH 6.32 04/04/34 (first call in Oct'28) is trading at YTC of 4.6%. FABUH 5.804 01/16/35 (first call in Jul'29) is trading at YTC of 4.7% at 103.5. We expect FAB to call its T2s to on their respective first call dates is high given FAB's adequate capital buffer. FAB called its first USD AT1, FABUH 5.25 Perp, on the first call date in Jun'20. The next USD AT1 callable is FABUH 4.5 Perp in Apr'26.

FAB is a D-SIB and is the largest bank in UAE by assets as of Sep'25. It is 37.9% owned by the government of Dubai through the wholly-owned MIC.2 and 18.0% owned by Abu Dhabi ruling family. Given the systemic importance and the close tie with the government, we expect a strong implicit support from the government of Dubai.

FAB is a full-service bank and its core businesses include consumer, wholesale, treasury and Islamic banking products and services within the UAE and the wider MENA region. FAB also acts as the primary banker of the government. FAB's NIM down to 1.84% in 9M25 from 1.93% in 9M24, in line with the lower benchmark rates. The impact from lower NIM on profit was partly mitigated by lower cost-to income ratio at 22.0% in 9M25, from 24.3% in 9M24 as supported by improved operating efficiency. Impairment charge was also lower, and that led to higher net income for the period. ROAA and ROAE for 9M25 was 1.6% and 15.9%, respectively, dropped from 1.9% and 17.8% in FY24, mainly due to rapid asset growth during 9M25.

FAB's asset quality improved. NPL ratio declined to 2.6% as of Sep'25 from 3.4% as of Dec'24, while NPL coverage ratio increased to 106% from 96% over the same period. Besides, FAB had sufficient capital buffer, with CET 1 ratio at 13.7% as of Sep'25 that was above the regulatory minimum requirement of 9.2%. Furthermore, FAB's liquidity coverage ratio of 158% and net stable funding ratio of 106% were both comfortably above their minimum regulatory requirements.

Table 3: Key financials of our picks

As of Sep'25	BSFR	EBIUH	FABUH
Region	Saudi Arabia	UAE	UAE
Issuer rating	A1/A-/A-	A1/-/A+	Aa3/AA-/AA-
Total assets (USD mn)	83,981	310,123	376,336
NIM	3.1%	3.4%	1.8%
Cost-to-income ratio	32.8%	30.5%	22.0%
ROAA	1.79%	2.37%	1.65%
ROAE	10.92%	19.00%	15.88%
NPL ratio	0.99%	2.5%	2.6%
NPL coverage	174.5%	160.0%	106%
CET 1 ratio	15.7%	14.7%	13.7%
CET 1 ratio requirement	7.6%	8.6%	9.2%
LCR	160%	149%	158%
NSFR	120%	124%	106%
Loan-to-deposit ratio	116%	79%	70%

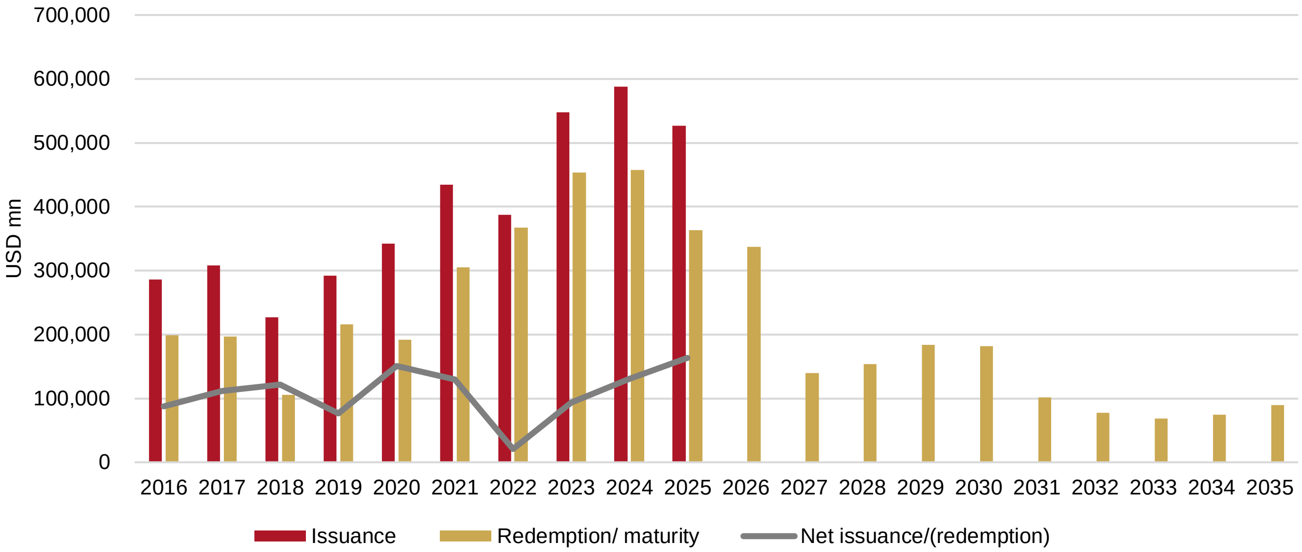
Source: Company filling, CMBI FICC Research.

Net issuance trend to continue in 2026

The Middle East space experienced a net issuance trend in past 10 years with the net issuance of USD163.4bn in 2025. We expect the net issuance trend to continue in 2026, supported by sustained funding needs from projected capex as part of the non-oil growth strategy in the region.

Governments in the region plan to build a more diversified economy and reduce reliance on oil by expanding into non-oil sector. Long-term domestic policies and reforms include Bahrain Economic Vision 2030, Kuwait Vision 2035, Oman Vision 2040, Qatar National Vision 2030, Saudi Arabia Vision 2030 and We the UAE 2031. These projects aim to enhance fiscal resilience and sustainability by investing in strategic industries, which involve significant investment in new sectors and infrastructures.

Chart 3: Net issuance to continue



Note: Only included issues >USD50mn at issuance, and excluded convertibles.
Source: Bloomberg, CMBI FICC Research.

Appendix 2: Banks – Picks of Asian and European AT1 and T2

Asian AT1 & T2 offer higher return predictability

In Asian AT1 & T2 space, we maintain buy on **BBNIIJ 4.3 Perp, NOMURA 7 Perp, BBLTB 3.466 09/23/36, BBLTB 6.056 03/25/40, CHIYBK 5.75 04/07/32 and KBANK 3.343 10/02/31** on more appealing risk-return profiles.

On the other hand, we maintain neutral on CHIYBK 8 Perp, KBANK 4 Perp, SHINFN 2.875 Perp, and WSTP 5 Perp. These are more of valuation considerations instead of concerns on non-call. See Tables 1-2 for our recommendations.

As we have been arguing, capital papers of European banks offer better YTC but capital papers of Asian banks offer more predictable return through higher certainty of call and coupon distributions. Overall, we believe that our picks in Asian AT1 and T2 space offer more attractive yield and high predictability of return, given the issuers' solid capital adequacy, stable dividend policy, as well as track records of call on the first call dates and payments of scheduled distributions. The return predictability is even higher for T2s as they are more senior in the capital structure. Additionally, the annual capital amortization of 20% in the last five years to maturity provides an extra incentive for the banks to call.

Table 1: Our Asian AT1 picks

Security name	ISIN	Region	Amt o/s (USD mn)	Ask px	YTC	Mod dur	Issue rating	First call date	Loss absorption trigger
Maintain buy									
BBNIIJ 4.3 Perp	XS2385923722	ID	600	98.1	5.9%	1.2	Ba3/-/-	24 Mar'27	Discretionary
NOMURA 7 Perp	US65535HCC16	JP	1000	102.8	6.3%	3.7	Ba3/-/BB	15 Jul'30	CET 1 at 5.125%
Maintain neutral									
CHIYBK 8 Perp	XS2543377068	HK	200	104.8	5.2%	1.7	Unrated	26 Oct'27	Discretionary
KBANK 4 Perp	XS2371174504	TH	350	98.9	5.2%	1.0	Ba2/-/-	10 Feb'27	Discretionary
SHINFN 2.875 Perp	USY7749XAY77	KR	500	99.3	4.8%	0.4	Baa3/-/-	12 May'26	Discretionary
WSTP 5 Perp	US96122UAA25	AU	1250	100.5	4.7%	1.6	Baa2/BBB/BBB	21 Sep'27	CET 1 at 5.125%

Source: Bloomberg, CMBI FICC Research.

Table 2: Our Asian T2 picks

Security name	ISIN	Region	Amt o/s (USD mn)	Ask px	YTC	Mod dur	Issue rating	First call date	Loss absorption trigger
Maintain buy									
BBLTB 3.466 09/23/36	US059895AV49	TH	1000	91.1	5.3%	5.0	Baa3/-/-	23 Sep'31	Discretionary
BBLTB 6.056 03/25/40	USY0616GAA14	TH	1000	102.1	5.8%	6.9	Baa3/-/-	25 Mar'35	Discretionary
CHIYBK 5.75 04/07/32	XS2460522555	HK	200	100.2	5.6%	1.2	Unrated	7 Apr'27	Discretionary
KBANK 3.343 10/02/31	XS2056558088	TH	800	98.8	5.0%	0.7	Ba1/-/BB+	2 Oct'26	Discretionary

Source: Bloomberg, CMBI FICC Research.

BBLTB

We maintain buy on **BBLTB 6.056 03/25/40** (first call in Mar'35), which offers YTC of 5.8% at 102.1. Its YTC ranks among the highest in the Asian IG T2 space and trades at a similar level to the longer-dated SUMIBK 5.796 07/08/2046 (first call in Jul'45). We also maintain buy on **BBLTB 3.466 09/23/36**, which offers YTC of 5.3% at a lower cash price of 91.1. We expect that Bangkok Bank continues to redeem its subordinated bonds on the first call date, consistent with its track records. The most recent first-call redemption was BBLTB 5 Perp on 23 Sep'25.

As of Sep'25, Bangkok Bank is the largest bank in Thailand by total assets with presence in 14 international markets. We view Bangkok Bank's loan book is more diversified geographically than its local peers. Its international loans accounted for 23% of its total loan book, and that is higher than its peers Kasikornbank (KBank, 5%) and Krung Thai Bank (KTBTB, 2%). Bangkok Bank also has the largest exposures to corporate while lowest exposures to SME and retails compared to its local peers.

Bangkok Bank's 9M25 results showed resilient profitability, stable asset quality and strong capital adequacy. In 9M25, Bangkok Bank's NIM declined to 2.81% from 3.05% in 9M24, in line with the lower rate environment. The BOT policy rate dropped to 1.5-2% during 9M25 compared to 2.5% in 9M24. Despite the margin pressure, Bangkok Bank's profitability improved, with ROA/ROE increased to 1.12%/8.99% in 9M25 from 1.03%/8.54% in 9M24, respectively, as supported by higher investment gains and disciplined costs. The cost-to-income ratio fell to 44.7% from 46.3% over the same period.

We view Bangkok Bank's asset quality stabilized in 3Q25 amid softened tourism and trade-policy uncertainty. The 3Q25 credit costs were down to c1.5% from c1.6% in 2Q25, as per our estimate. Bangkok Bank's gross NPL ratio rose to 3.3% as of Sep'25 from 3.2% as of Jun'25. The increase was due to shrink in loan book size, as the non-performing loan declined to THB103bn as of Sep'25 from THB106bn as of Jun'25. NPL coverage ratio at 294% as of Sep'25 was at a high level compared to regional peers, albeit lower than that of 334% as of Dec'24. We take comfort in Bangkok Bank's more diversified loan book by geography and by industry compared to its local peers, which should mitigate concentration risk.

Bangkok Bank's capital buffers remain ample as of Sep'25 despite the redemption of USD750mn AT1 during 3Q25. Standalone/consolidated CET1 ratio at 19.6%/18.0%, respectively, well above the regulatory minimum requirement of 8.0%. In our view, Bangkok Bank's capital position should be sufficient to absorb further asset-quality normalization. Furthermore, we view Bangkok Bank has diverse funding sources onshore and offshore, demonstrated by loan to deposit ratio of 82.1% as of Sep'25, as well as issuance of USD1bn T2 bonds in Mar'25.

BBNIIJ

Despite limited USD AT1 call precedent in Indonesia, we view **BBNIIJ 4.3 Perp** (first call in Mar'27) offers good relative value, supported by Bank Negara Indonesia (BNI)'s state ownership and solid capital adequacy. BBNIIJ 4.3 Perp is the first USD AT1 issue of BNI as well as in Indonesia. At 98.1, BBNIIJ 4.3 Perp is trading at YTC of 5.9%. As a state-owned bank, we see BNI and Indonesian government to have a strong incentive to redeem the AT1 at the first call to preserve USD bond market access and to avoid premium for future issuance across the Indonesian banking sector.

Additionally, based on current UST rate, the coupon of BBNIIJ 4.3 Perp will be reset to 5yrUST+3.466%, i.e. 7.1%, on the first call date, notably increase from the current 4.3%. We expect BNI to refinance the perp with a lower cost alternative onshore or offshore, given its access to diverse funding channels.

BNI is 60% government-owned, D-SIB and ranks the fourth largest bank in Indonesia by total assets as of Sep'25. BNI reported solid capital adequacy and stable profitability in recent years. BNI's CET1 ratio was 18.5% as of Sep'25, well above the regulatory minimum requirement of 8.5%. In 9M25, BNI's NIM was 3.8%, dropped from

4.2% in 9M24, due to softening loan yields and higher funding costs from elevated competition for deposits. The lower NIM trend is consistent with that of other Indonesian banks due to policy rate cut. In Sep'24, Bank Indonesia started the first rate cut since 2021. Including this cut, Bank Indonesia has since cut rate 6 times (25bps each), including 125bps during 9M25. BNI's ROA and ROE down to 2.2% and 14.1% in 9M25, respectively, from 2.5% and 16.4% in 9M24. We expect the earnings growth of BNI should be slower in 2026 due to continuous margin compression.

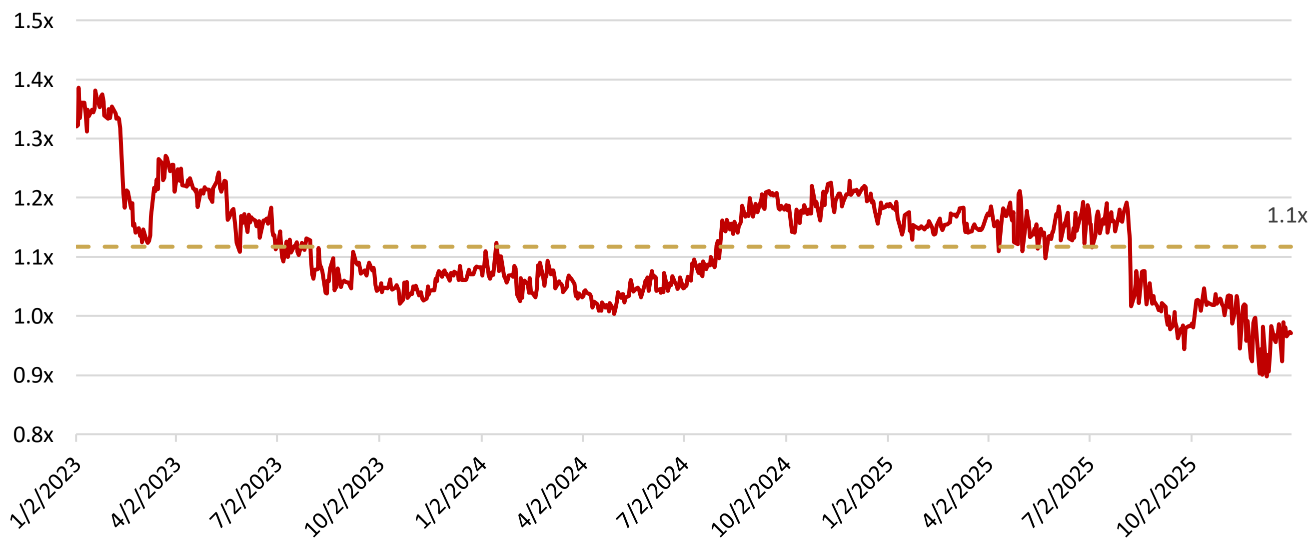
We view BNI's asset quality was broadly stable. NPL ratio increased slightly to 1.96% as of Sep'25 from 1.97% as of Dec'24, at a level in between its peers Bank Mandiri (1.03%) and Bank Rakyat Indonesia (3.29%). The loan-at-risk ratio was 10.3%-10.4% as of Sep'25 and Dec'24. NPL coverage ratio was 222.7% as of Sep'25. In May'25, Fitch upgraded BNI's rating to BBB from BBB- with stable outlook, reflecting high systemic importance and the government's strategic ownership, as exemplified by the transfer of the state's ownership in the bank to the sovereign wealth fund Danantara.

CHIYBK

We also maintain buy on **CHIYBK 5.75 04/07/32** (first call in Apr'27), trading at YTC of 5.6% at 100.2, for its yield pick-up over its local peers BNKEA 4.875 04/22/32 (Baa3/BBB-/-, first call in Apr'27, YTC of 4.8%) and SHCMBK 6.375 02/28/33 (Baa2/BBB-/BBB-, first call in Feb'28, YTC of 4.8%). The weaker credit profile of Chiyu Bank, in terms of lower profitability, weaker asset quality, and smaller business scale compared with its peers, is compensated by the higher YTC of CHIYBKs.

Meanwhile, we maintain neutral on CHIYBK 8 Perp (first call in Oct'27). At 104.4, CHIYBK 8 Perp is trading at YTC of 5.1%. We view the conviction is now lower in view of the perp compressed from YTC of 7.8% since our initiation of buy recommendation in Nov'24, and now is c4pts higher. Within CHIYBK curve, we also view the CHIYBK 5.75 04/07/32 offers better risk-adjusted return than CHIYBK 8 Perp at current valuation. The spread multiple of the perp over its T2 compressed to 0.9-1.0x from 3-year average of 1.1x. See Chart 1.

Chart 1: Yield multiple of CHIYBK 8 Perp over CHIYBK 5.75 04/07/32



Source: Bloomberg, CMBI FICC Research.

The profitability of Chiyu Bank improved in 1H25, driven by higher NII and fee income (insurance and securities brokerage income. The cost-to-income ratio down to 48.0% in 1H25 from 57.0% in 1H24. As a result, ROAA and ROAE increased to 0.4% and 3.5%, respectively, from 0.1% and 0.6% in 1H24. As of Jun'25, Chiyu Bank's impaired loan ratio was 3.9%, down from 4.5% as of Dec'24. However, we view the level remained high as compared to its historical range at 0.4%-4.5% in past five years and compared to its local peers. The coverage of collateral against impaired loans also decreased to 182% as of Jun'25 from 224% as of Dec'24, due to lower market value of the collateral.

That said, we take some comfort on Chiyu Bank's effort in lowering exposures in property-related loans to 7.1% of total loans as of Jun'25, from 7.4% as of Dec'24. We also saw the impaired loan coverage ratio increased to 30.7% from 19.2% over the same period, reflecting more prudent in provisioning.

KBANK

We maintain buy on **KBANK 3.343 10/02/31** (first call in Oct'26) which is trading at 98.8 and offering YTC of 5.0%. Similar to Bangkok Bank, KBank has track records of first-call redemption, and we expect KBank to continue to call its subordinated bonds on the first call dates in view its track records and sufficient capital buffer. The most recent first-call redemption was KBANK 5.275 Perp on 14 Oct'25.

In 9M25, KBank's NIM fell to 3.31% from 3.64% in 9M24, reflecting a lower-rate environment. Net fee income increased, led by international trade services. Insurance revenue and gains from financial instruments at FVTPL and investment securities also rose. Cost-to-income ratio increased slightly to 42% in 9M25 from 41% in 9M24. Profitability softened on margin pressure, with ROA/ROE declined to 1.19%/9.16% in 9M25 from 1.20%/9.63% in 9M24, respectively.

KBank's asset quality slightly improved as of Sep'25, NPL ratio down to 3.19% from 3.20% as of Dec'24 while NPL coverage increased to 166% from 152% over the same period. Meanwhile, KBank's standalone/consolidated CET1 ratio at 17.8%/18.7% as of Sep'25, respectively, well above the regulatory minimum requirement of 8.0%. KBank's standalone/consolidated Tier 1 ratio at 18.8%/19.6% as of Sep'25, respectively, were also higher than the regulatory minimum requirement of 9.5%. We view KBank's capital position sufficient and the risk of a non-viability event appears low.

NOMURA

We maintain buy on **NOMURA 7 Perp** (first call in Jul'30) for its higher yield and better trading liquidity in the Asian AT1 universe, and better risk-return profile within the NOMURA curve. At 102.8, NOMURA 7 Perp is trading at YTC of 6.3%.

Nomura's 1HFY26 results show stronger profitability with stable capital adequacy and improving earnings quality. Net revenue rose 11% yoy to JPY1.0tn and ROE increased to 10.9%, above its 8-10% medium-term target. The revenue mix shifted towards more stable fee income stream with record-high recurring revenue assets in wealth management and record AUM in investment management.

We expect asset quality to remain stable given its risk appetite, and reduced reliance on principal risk as fee businesses are expanding. As of Sep'25, Nomura had ample capital buffer with CET 1 ratio at 12.9% which is higher than the regulatory minimum requirement of 7.7%. Nomura expects the CET 1 ratio to decline by c0.7% from 12.9% after the acquisition of US asset management business, with a target range of CET 1 ratio at 11-14%. Besides, we consider the impact from Basel III finalization on Nomura, which it adopted since 31 Mar'25, was broadly manageable, in view of its CET1 ratio declined to 14.5% as of Mar'25 from 16.3% as of Dec'24. Furthermore, we view the chance of the NOMURA 7 Perp to be written down due to non-viability or going concern is low in the near-term.

Table 3: Key financials of our picks

USD mn	BBLTB	BBNIIJ	CHIYBK	KBANK	NOMURA
Region	TH	ID	HK	TH	JP
As of	Sep'25	Sep'25	Jun'25	Sep'25	Sep'25
Total assets	140,063	76,177	24,191	136,921	408,166
NIM	2.81%	3.76%	N/A	3.31%	N/A
Cost-to-income ratio	44.7%	46.1%	48.0%	42.1%	N/A
ROA/ROAA	1.12%	2.17%	0.40%	1.19%	N/A
ROE/ROAE	8.99%	14.11%	3.47%	9.16%	10.9%
NPL ratio	3.30%	1.96%	3.86%	3.19%	N/A
NPL coverage	294.2%	222.7%	30.7%	166.4%	N/A
CET 1 ratio	19.6%	18.5%	14.7%	17.8%	12.9%
CET 1 ratio requirement	8.0%	8.5%	7.3%	8.0%	7.7%
LCR	N/A	167.4%	232.0%	N/A	216.5%
NSFR	N/A	142.1%	130.4%	N/A	N/A
Loan-to-deposit ratio	82.1%	86.9%	54.1%	88.0%	N/A

Source: Bloomberg, CMBI FICC Research.

We maintain neutral on KBANK 4 Perp, SHINFN 2.875 Perp and WSTP 5 Perp

We maintain neutral on lower yield bonds at current valuation, i.e. KBANK 4 Perp at YTC of 5.1% (up c3pts YTD) and SHINFN 2.875 Perp at YTC of 4.8% (up c2pts YTD). We also maintain neutral on WSTP 5 Perp. We view the certainty of being called is even higher following the Australian Prudential Regulation Authority (APRA)'s framework to phase out the uses of AT1s starting from Jan'27. Our stances are more of relative valuation considerations instead of concerns on non-call.

Basel III finalization's impact to be limited

The Basel Committee's Basel III finalization, also referred to Basel 3.1 or Basel IV, includes revising credit risk approaches, a standardized operational risk approach, an updated credit valuation adjustment (CVA) framework, and an output floor. The output floor requires bank using internal models to raise RWAs to at least 72.5% of the amount calculated under standardized approaches gradually. While this floor aims to reduce cross-bank variability in RWAs, the resulting higher RWAs lower banks' capital ratios. The Basel 3.1 implementation timelines differ across jurisdictions. We view the overall impact on banks in APAC regions as limited, as they have generally adopted more conservative approaches and less rely on internal models compared to European peers.

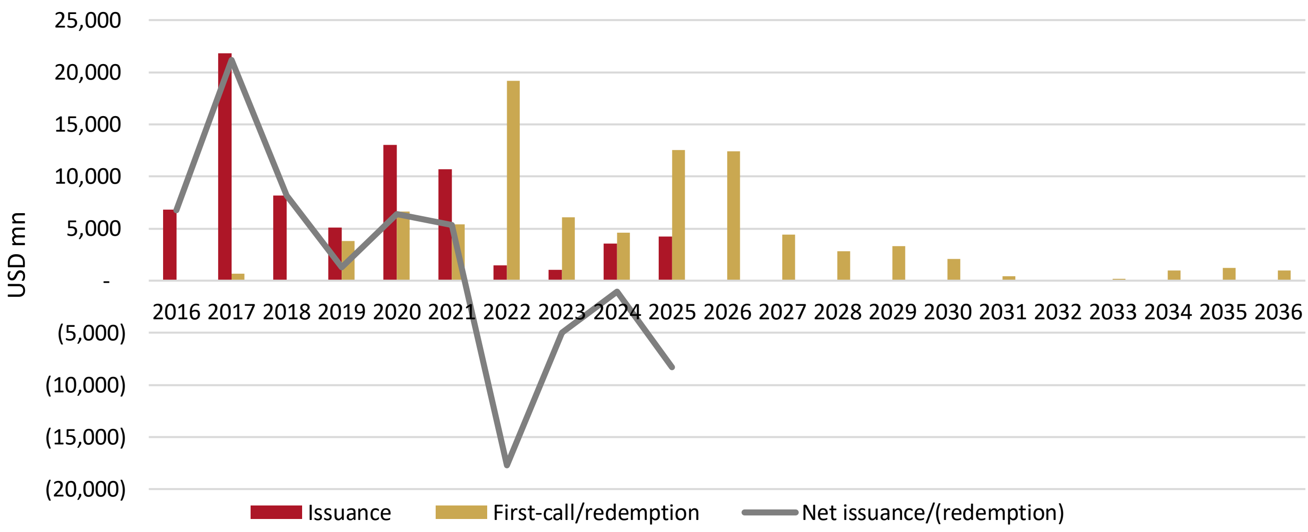
Among our picks, we view the impact on Bangkok Bank, BNI, Chiyu Bank, and KBank are limited due to the uses of standardized approach in RWA calculation. Besides, we consider the impact from Basel III finalization on Nomura, which it adopted since 31 Mar'25, was broadly manageable, in view of its CET1 ratio declined to 14.5% as of Mar'25 from 16.3% as of Dec'24.

Net redemptions likely to continue in 2026

In 2025, the net redemptions for Asian AT1s was USD8.3bn, and there will be USD11.4bn AT1s first callable in 2026. On Asian T2s, the net redemptions in 2025 was USD3.1bn, and T2s of USD8.2bn will be first callable or will mature in 2026. We expect most of the Asian banks to call their AT1s and T2s on their first call dates, and issuers could refinance part of the calls through onshore funding channels. Hence, there is a high chance that the Asian AT1s and T2s will continue to experience net redemptions in 2026, and this should support the positive technical of the segment.

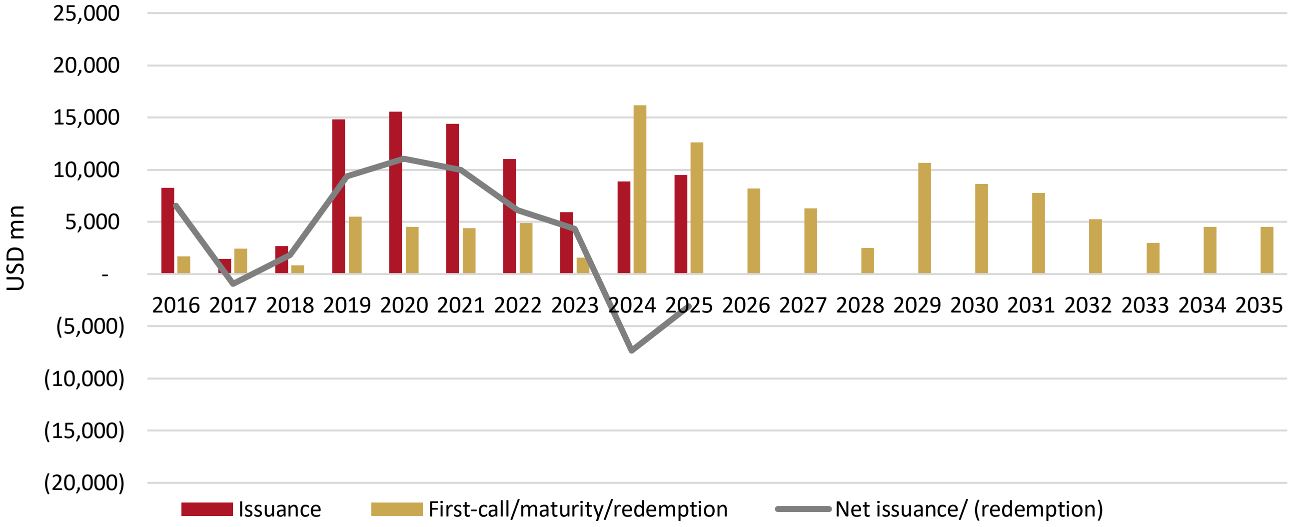
In particular, we expect Aussie banks to continue to issue T2s to refinance the callable T2s and maturing T2s (legacy non-callable T2s), as well as to replenish their capital given APRA to phase out AT1s starting from Jan'27. That said, we expect Aussie banks to tap onshore market to fulfill part of the refinancing and capital replenishment requirements.

Chart 2: Net redemptions of Asian AT1s



Note: First call/redemption include AT1 next callable.
Source: Bloomberg, CMBI FICC Research.

Chart 3: Net redemptions of Asian T2s



Note: First call/maturity/redemption include T2 next callable.
Source: Bloomberg, CMBI FICC Research.

European AT1s: Our picks under Basel III finalization

Our top picks are BACR 4.375 Perp and INTNED 4.25 Perp

In European USD AT1 space, we prefer UK and EU G-SIBs in view of their stance of equity should be written down ahead of AT1 in any resolution. We consider the risk of non-call and coupon skips for EU G-SIBs is low under the backdrop of the falling UST and these banks' ability and incentive to maintain access to capital markets at low funding costs. We prefer banks with good track records in coupon payments as scheduled and calling their AT1s on the first call dates. Finally, we prefer shorter tenor (to call) AT1s given our view of yield curve to steepen, and AT1s with lower cash prices.

Hence, we maintain buy on **BACR 4.375 Perp** (Ba1/BB+/BBB-, first call in Mar'28), supported by Barclays' solid CET1 ratio of 14.1% in Sep'25, consistent call history of its USD AT1s and the lower cash price of the AT1. The bank's robust capital position provides substantial buffer above the 7.0% mechanical trigger. At 97.1, BACR 4.375 Perp is trading 5.8% YTC with c50bps yield pick-up of over HSBC 8 Perp (Baa3/-/BBB, first call in Mar'28).

We also maintain buy on **INTNED 3.875 Perp** (Ba1/-/BBB, first call in May'27). At 97.6, INTNED 3.875 Perp is trading at 5.7% YTC and offering pick-up of c20bps over UBS 4.875 Perp (-/BBB-/BBB-, first call in Feb'27). ING has solid capital metrics, CET1 ratio of 13.4% in Sep'25 which is higher than the 7.0% mechanical trigger, and good track records to call its USD AT1s on the first call dates. We expect ING to continue to call its perps on the first call.

BACR 4.375 Perp and INTNED 3.875 Perp will be converted into equity rather than being written down at PONV. This loss absorption mechanism, in our view, is more favourable from a recovery perspective.

We anticipate a modest increase in the net issuance in the space, driven by the refinancing requirements, potential capital replenishment arising from Basel 3.1 and falling UST. On 11 Dec'25, ECB announced proposed changes to the structure of the AT1s. We are not too concerned about ECB's potential tweaks to AT1s to closer to equity. There is no detail as to ECB's exact plan but we take comfort that the policy objectives of any changes are to simplify the regulatory framework without reducing banks' capital and liquidity buffers. We believe that the near-term impact resulting from ECB's comments should be limited. Even in the case of any drastic changes in the regulatory regime on AT1, such as abolishing AT1 as per some discussions, we believe that such changes would be gradual and not be retrospective to existing AT1s. Instead, if existing AT1s will have to be phased out, our take is the certainty of calls of these "legacy" AT1s will even be higher.

Table 4: Our European AT1 picks

Security Name	ISIN	Amt o/s (USD mn)	Ask px	YTC	First call date	Issue rating (M/S/F)
BACR 4.375 Perp	US06738EBT10	1,500	97.1	5.8%	15 Mar'28	Ba1/BB+/BBB-
INTNED 3.875 Perp	US456837AY94	1,000	97.6	5.7%	16 May'27	Ba1/-/BBB

Source: Bloomberg.

BACR

We maintain buy on **BACR 4.375 Perp**, supported by Barclays' solid capital adequacy. Its CET 1 ratio of 14.1% as of Sep'25 provided a sufficient buffer over the 7% mechanical trigger. Barclays' consistent call history for its USD AT1 also underpins our high confidence in future call. At 97.1, BACR 4.375 Perp is trading 5.8% YTC.

Barclays is a global systemically important bank (G-SIB) with businesses spanning across retail, wholesale, and investment banking. Barclay's achieved ROTE of 12.3% in 9M25, increased from 11.5% in 9M24. As of Sep'25, Barclays' CET1 ratio was 14.1%, within its 2025-26 internal target of 13-14%, and higher than the regulatory requirement of 12.2%. Barclays also maintained a strong TLAC/RWA ratio and MREL/RWA ratio of 35.8%. These were well above the TLAC requirement of 18.0% and MREL requirement of 30.5% plus a confidential, institution specific PRA buffer, providing substantial loss-absorption capacity ahead of AT1 instruments.

BACR 4.375 Perp contains both mechanical and statutory loss-absorption features. It will be converted if Barclays' fully-loaded CET1 falls below 7%. Statutory powers allow the Bank of England to exercise bail-in or trigger conversion at the point of non-viability or resolution, regardless of whether the mechanical trigger is breached. In our view, the loss-absorption risk in the medium term is low given Barclays' large capital and MREL buffers, protected by a diversified business profile.

The UK Special Resolution Regime (SRR) empowers the Bank of England, as the resolution authority, to intervene early and stabilize failing banks through mechanisms such as bail-in. The SRR can only be invoked when four conditions are met: a firm is failing or likely to fail; recovery actions are unlikely to restore viability; resolution is necessary in the public interest; and objectives cannot be met as effectively through insolvency. In such resolution events, AT1 instruments may be written down or converted at the point of non-viability, ranking after equity but ahead of Tier 2 and senior liabilities.

In Nov'25, S&P upgraded BACR 4.375 Perp by two notches to BB+ from BB-, as a part of S&P portfolio review on European banks' hybrid instruments where S&P viewed these instruments faced lower default risk than previously assessed. At the same time, S&P also upgraded Barclays' subordinated bonds by one notch to BBB from BBB-.

INTNED

We maintain buy on **INTNED 3.875 Perp**, anchored by ING's solid capital adequacy and track records of redeeming AT1 bonds at their first call dates. ING reported a robust CET1 ratio of 13.4% in Sep'25, well above the 7% mechanical trigger. This mitigated the risk of contractual loss-absorption in the near term. At 97.6, INTNED 3.875 Perp is trading at 5.7% YTC.

ING is a G-SIB. It has diversified retail and wholesale banking operations across Europe. Under the Dutch regime, AT1 bonds are subject to both contractual triggers and statutory bail-in, ranking behind equity but ahead of T2 and senior debt in loss absorption. If ING's consolidated CET1 ratio falls below 7% or the bank reaches the point of non-viability as designated by authorities, INTNED 3.875 Perp holders could face conversion even if the contractual trigger has not been breached. However, we view ING's robust capital position and historically stable asset quality make loss-absorption risk remote in the near-term.

As of Sep'25, ING's asset quality improved with the NPL ratio fell to 1.5% from 1.7% as of Dec'24, placing it at the low end of its historical range since 2017. ING's CET 1 ratio was 13.4% as of Sep'25, slightly down from 13.6% as of Dec'24 after the Basel 3.1 implemented from 1 Jan'25, while still above its own internal target range of 13.0%. ING reported TLAC/RWA ratio of 23.4% and MREL/RWA ratio of 28.0% as of Sep'25, above the TLAC requirement of 18.0% and MREL requirement of 22.6%, respectively, providing a sufficient headroom for bail-in resolution.

Table 5: Key financials of our picks

Sep'25, USD mn	BARC	INTNED
Total assets	2,191	1,282
NIM	4.5%	1.3%
Cost-to-income ratio	59.0%	53.6%
ROTE/ROE	12.3%	14.2%
NPL ratio	1.20%	1.50%
CET 1 ratio	14.1%	13.4%
CET 1 ratio requirement	12.2%	9.9%
LCR	174.6%	140.0%
NSFR	135.3%	129.0%

Source: Bloomberg, CMBI FICC Research.

Basel 3.1 in EU and UK at a glance…

We believe that some European banks will have to increase their capital in the course of implementation of Basel 3.1. In the EU, the output floor of 50% started phasing in from 1 Jan'25, the floor will gradually be raised to 72.5% by 1 Jan'30. There are specific transitional arrangements, particularly for certain legacy portfolios such as unrated corporates and low-risk residential real estate. The phase-in period of these will be extended up to the end of 2032.

Meanwhile, in the UK, the Prudential Regulation Authority (PRA) delayed its Basel 3.1 implementation to 1 Jan'27 to better align with the US timeline. Despite the late start, the output floor is still scheduled to be fully phased-in by 1 Jan'30, implying a more compressed transition period for UK banks compared to their EU counterparts. See Table 6 for the implementation timeline.

Table 6: Basel 3.1 implementation timeline

Component	EU	UK
Credit risk SA	1 Jan'25	1 Jan'27
Credit risk IRB	1 Jan'25	1 Jan'27
Market risk	1 Jan'27	1 Jan'27
CVA	1 Jan'25	1 Jan'27
Operational risk	1 Jan'25	1 Jan'27
Output floor phase in	From 1 Jan'25 till 1 Jan'30 (with transitional arrangement until 31 Dec'32)	From 1 Jan'27 till 1 Jan'30

Source: BIS as of 31 Oct'25.

…. EU banks may need to replenish capital

EU banks face higher capital adequacy pressures relative to UK peers under Basel 3.1. That said, the impact on EU banks remains manageable with the sector's strong capital base. As per European Banking Authority (EBA), the aggregate capital shortfall across the EU banking sector is EUR5.1bn, with additional Tier 1 capital needs of EUR0.9bn. According to the EBA's third mandatory Basel III monitoring report published in Oct'24, EU banks' minimum Tier 1 capital requirements will increase by 7.8% at full implementation in 2033, represents a substantial improvement from the EBA's Dec'22 estimate of 9.0% increase, and reflecting the beneficial impact of EU-specific adjustments.

The impact from Basel 3.1 varies across banking categories. The overall minimum Tier 1 capital requirements for large and internationally active banks (Group 1) would increase by 8.6%; global systemically important institutions (G-SIIs, subset of Group 1) would increase by 12.2%; and Group 2 banks (smaller institutions) would increase by 3.6%. The output floor is the dominant factor driving capital increases. Operational risk under the new Standardized Measurement Approach (SMA) constitutes the second major contributor, particularly impacting institutions with substantial retail operations.

On the other hand, UK's PRA estimated that Tier 1 capital requirements for major UK banks will increase by less than 1% when fully implemented the Basel 3.1. The big four UK banks, i.e. Lloyds, Barclays, HSBC and NatWest face limited capital increase despite their significant IRB model usage. The difference in Basel 3.1 impact between UK and EU banks are partly attributable to UK banks' IRB models which have resulted in more conservative parameter estimates compared to EU practices.

ECB proposed changes to the regulatory treatment of AT1s

On 11 Dec'25, European Central Bank (ECB) proposed changes to simplify the European regulatory, supervisory and reporting frameworks, and these recommendations will be presented to the European Commission. These include proposed changes on the design and regulatory treatment of AT1s as part of a broader initiative to simplify EU bank regulations and improve capital quality. The ECB is seeking to resolve the "regulatory grey area" where AT1s are designed to absorb losses while a bank is still a going concern, but rarely happen in practice until the point of non-viability. ECB presented two options for AT1s to be reformed. See Table 7.

We are not too concerned on ECB's comments on potential tweaks to AT1s to closer to equity. We take comfort that the policy objectives of any changes are to simplify the framework without reducing the capital and liquidity buffers. We believe the near-term impact should be limited. Even in the case of any drastic changes in the regulatory regime on AT1s, such as abolishing AT1s as per some discussions, we believe that such changes would be gradual and not be retrospective to existing AT1s. Instead, if existing AT1s will have to be phased out, our take is the certainty of call of these "legacy" AT1s will even be higher.

Table 7: Summary of ECB's proposed changes on AT1s

	Option 1: Enhance loss-absorption	**Option 2: Removal from capital stack**
Rationale	Keep AT1 in the capital stack, but redesign them to make AT1 a reliable going concern buffer that absorbs losses while the bank is still operating	Completely eliminate AT1 (and potentially Tier 2) instruments from the definition of going concern regulatory capital
Trigger	To move away from purely discretionary or low quantitative triggers (e.g., CET 1 ratio at 5.125%) which are rarely hit. New designs might feature higher, more automatic triggers that force conversion or write-down earlier in a stress scenario	Banks would essentially be funded by CET 1 capital and bail-in-able senior debt (MREL/TLAC) for resolution

Source: ECB, CMBI FICC Research.

Non-call is not uncommon in non-USD space but less common in USD space

Among non-USD European AT1s issued after the implementation of Basel III in Jan'14, 96 issues were not redeemed on their first call dates. These AT1s are mainly from Germany, Norway and Austria. The non-call of USD AT1s is less common. We noted that there were 6 non-call events for USD AT1 issued after Jan'14, including the 3 AT1s of Credit Suisse, which were written down in 2023 when Credit Suisse collapsed. See Table 8. These somehow reflect the overall quality of issuers in USD space is higher such that they are more able to access offshore funding channels. They are also more incentivized to maintain the access and avoid higher funding cost resulting from coupon skip and non-call.

Table 8: Loss absorption and non-call events for USD AT1s issued after 2014

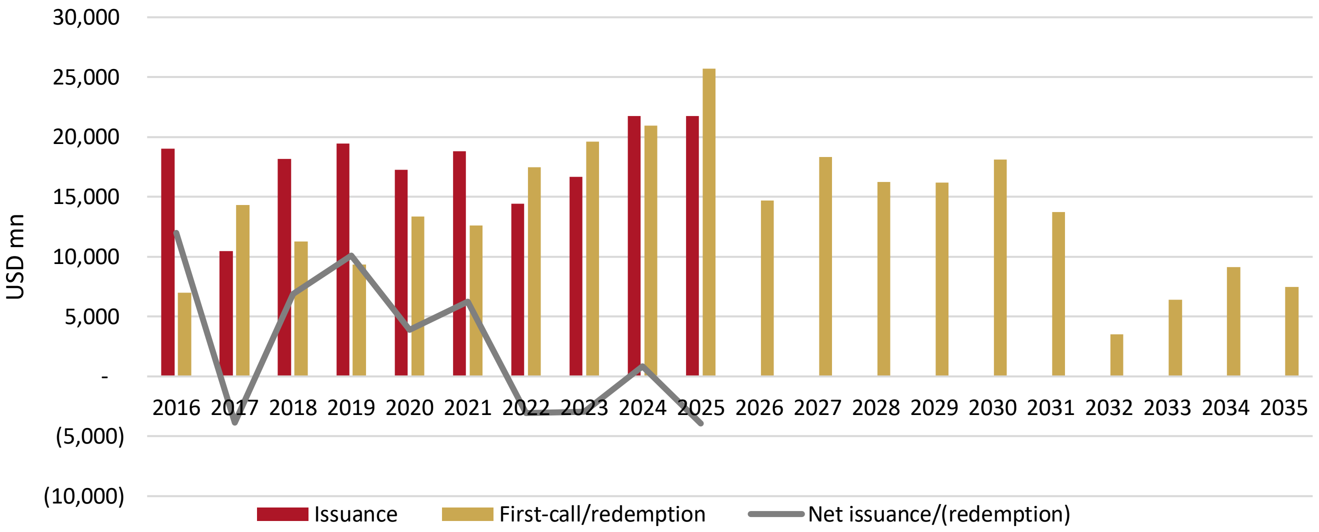
Year	Bank	Country	Incident	Bond	ISIN	Principal amt	Detail
USD							
2020/ 2025	Deutsche Bank AG	DE	Non-call on first call in Apr'20 and second non-call in Apr'25	DB 4.789 Perp/ DB 8.13011 Perp	XS1071551474	USD1.25bn	To avoid high refinancing cost, the coupon is reset to 8.13011% from 4.789% on the first call date
2022	CEG NV	NL	Non-call on first call in Dec'22	CGRPNV 10.27 Perp	XS1740243834	USD50mn	N/A
2023	Credit Suisse	CH	Written down	CS 7 1/2 Perp/ CS 7 1/2 Perp/ CS 6 1/4 Perp	US225401AJ72/ US225401AK46/ US225436AA21	USD2.0bn/ USD2.25bn/ USD2.5bn	Written down to zero during the emergency takeover by UBS

Source: Bloomberg, CMBI FICC Research.

Modest increase in net issuance expected

We expect the capital requirements of European banks to increase in the course of implementation of Basel 3.1. That said, the gradual phase-in should provide adequate time for raising additional capital in an orderly manner. Hence, we expect a modest increase in net issuance in 2026, driven by USD AT1s set for first-call redemption totaled USD11.2bn. A lower interest rate environment would also be supportive for new issuance to replenish capital. We consider the risk of non-call and coupon skips for EU G-SIBs is low under the backdrop of the falling UST, as well as the banks' incentive to maintain access to capital at low funding costs.

Chart 4: Net issuance to increase in 2026



Note: First-call/redemption include AT1 next callable.
Source: Bloomberg, CMBI FICC Research.

Appendix 3: Lifers – High-quality diversification plays

Taiwan Lifers – An emerging subset with new premium

Maintain buy on SHIKON 35 and FUBON 35

Taiwan insurer is emerging market subset, coming to the offshore USD bond market since Sep'24 with new issue premium ahead of the full adoption of IFRS. Despite the tightened credit spread compared with the levels when we first put out our trade ideas in Jul'25, we continue to prefer **SHIKON 6.95 06/26/35** for over NSINTWs for 15-30bps yield pick-up. We also continue to prefer **FUBON 5.45 12/10/35** with a yield pick-up of 10-15bps over CATLIFs.

Table 1: Bond profile of selected TW lifers subordinated bonds

Security name	ISIN	Amt o/s (USD mn)	Ask px	T-spread (bps)	Z-spread (bps)	YTW	Mod dur	First call date	Issue rating (M/S/F)
CATLIF 5.95 07/05/34	XS2852920342	600	106.1	91	137	5.0%	6.7	N/A	-/BBB+/BBB+
CATLIF 5.3 09/05/39	XS2885079702	320	101.2	97	142	5.1%	6.8	09/05/2034	-/BBB+/BBB+
FUBON 5.45 12/10/35	XS3151416727	650	102.0	105	144	5.2%	7.4	09/10/2035	-/BBB+/BBB+
NSINTW 5.45 09/11/34	XS2888260564	700	99.2	141	186	5.5%	6.7	N/A	-/BBB+/BBB
NSINTW 5 ⅞ 03/17/41	XS3046322593	395	100.6	164	201	5.8%	7.3	12/17/2035	-/BBB+/BBB
SHIKON 6.95 06/26/35	XS3096123883	400	107.7	174	215	5.9%	7.0	N/A	-/BBB/-

Source: Bloomberg.

Supportive regulatory environment for lifers

We analyze the sector more from a top-down approach as we believe that the 4 major Taiwan lifers with outstanding USD bonds are more or less exposed to the same macro issues such as TWD appreciation and regulatory environment. We pair up Nanshan Life with Shin Kong Life, as well as Cathay Life with Fubon Life for fair and relative value assessments based on their credit profiles and scale of operations. In 1H25, the profitability of the Taiwan lifers was adversely affected by TWD appreciation against USD through fair value loss on USD-denominated bonds and equities.

We take comfort with the supportive regulatory environment. In Jun'25, the FSC Taiwan introduced three interim measures including (i) using semi-annual average exchange rate for RBC ratio calculation; (ii) insurers can transfer funds from "special reserve" into the FX volatility reserve to absorb FX losses, and so insurers can reduce the use of expensive derivative hedging and (iii) differentiated transitional supervision, such that a 15-year phase-in period to avoid cliff effects, including gradual phase-in of the net fair value impact from assets and liabilities of legacy portfolios based on insurers' RBC levels; risk factor for interest rate risk will increase from 50% to 100%; emerging risk including longevity, lapse, expense and catastrophe, non-default risk will increase from 0% to 100%. The long transition path means insurers do not need to be fully capitalized for the full requirement by 1 Jan'26. The urgency to replenish capital is reduced notably.

TW insurers are proposing changes to accounting rules that will cut annual hedging costs by an estimated TWD90bn (cUSD2.9bn) and provide relief for excessive currency swings, by way of allowing exchange rate fluctuations to be partially recognized over time, rating than having the full impact booked immediately. In the past decades, TW insurers spent cTWD2tn on hedging forex exposures. FSC will explore approaches for fair financial accounting representation of FX risks, aiming to help insurers better reflect the impact of FX fluctuations on their financial statements. The FSC Taiwan is actively reviewing this accounting change to provide relief before the 2025 annual reporting cycle concludes. We take additional comfort that TWD had weakened c8% since early Jul'25.

More investor-friendly regulatory framework in case of PONV

The insurance regulatory framework varies across different regions in Asia. We understand that in Australia, the Mainland China and Singapore, the regulatory frameworks for lifers are similar to those for banks, such that the principal of the capital papers will have to absorb losses at PONV, or the local regulator has the bail-in power. In Hong Kong and South Korea, the distribution is deferrable and noncumulative to absorb losses, while distribution is deferrable and cumulative in Japan. Overall, we view the local rules in Taiwan is more investor friendly, in view of the absence of PONV, distribution deferral or cancellation clauses.

TW-ICS and IFRS 17 introduce more volatility to solvency ratio

We understand that HK, Korea, Japan and Singapore insurers already adopted IFRS 17 starting from Jan'23, Taiwan insurers will fully adopt IFRS 17 starting from Jan'26. The IFRS 17 implementation is expected to increase the volatility in life insurer's solvency ratios, though the magnitude of volatility increases will depend significantly on the measurement model applied and specific business characteristics.

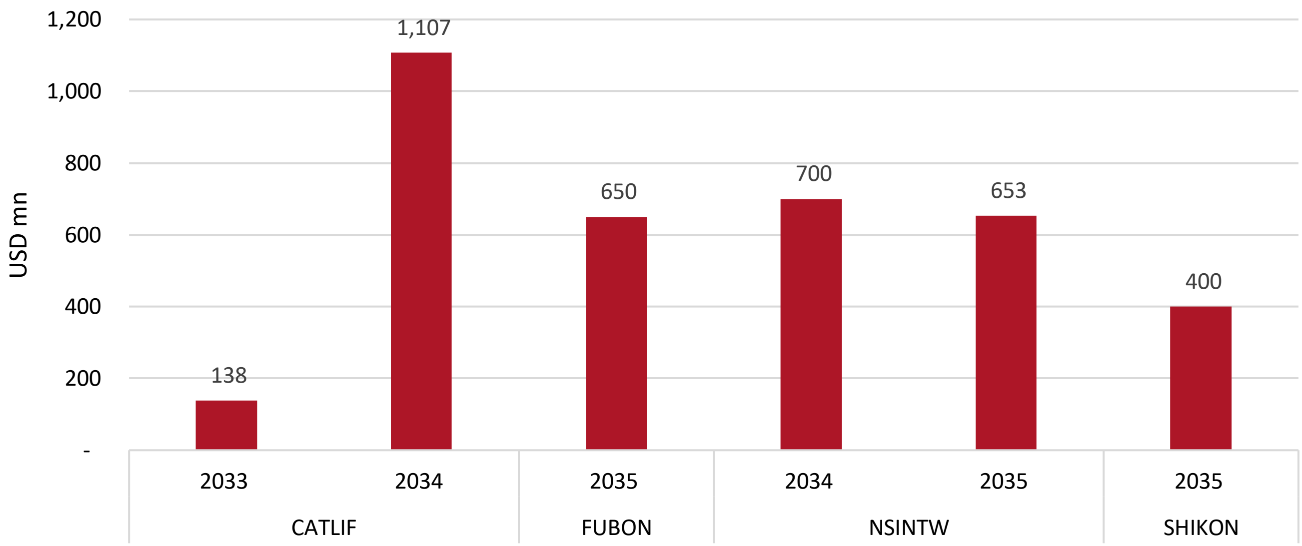
To illustrate, insurers are required to use current discount rates that fluctuate with market conditions under IFRS 17. This will affect the valuations of assets and liabilities. The volatility of interest rate and steepness of yield curve could cause material changes in reported equity of lifers which have, in general, long-duration liabilities.

Meanwhile, the CSM, representing unearned profit to be released over time which should smooth the revenue recognition. However, the revaluation of CSM at each of the reporting period end could introduce new volatility to the life insurers. Changes in future cash flows estimates are now recognized through CSM adjustments gradually, instead of immediately impacting profit or loss. When adverse changes exceed the remaining CSM, losses must be recognized immediately.

USD bond supply from Taiwan lifers to decelerate in 2026

Since 2023, Taiwan lifers issued USD papers totaling USD3.75bn to build capital buffers ahead of the TW-ICS and IFRS 17, which will become effective from 1 Jan'26. FSC Taiwan provided pre-implementation incentives, such as increasing insurer's asset allocation flexibility and decreasing risk factors (incl. policy-based infrastructure investments and equity), for insurers who raise capital during the preparatory phase. Along with the interim measures discussed above, major insurers should be able to absorb the initial impact of the new rules and be in compliance with the regulatory requirements when the new rules go live on 1 Jan'26. This will relieve the urgency for large scale external capital replenishment in 2026. The scheduled maturities of the outstanding USD papers are concentrated in 10-year tenor or callable in 10 years. The next major new supply should come in 2033-34. There could also be opportunistic issues from the existing 4 lifers and smaller lifers to tap on the USD market over the next couple years but we expect the overall issue size should be relatively small compared with the issuance in 2025.

Chart 1: Taiwan lifers' USD bond maturities/first callable



Source: Bloomberg.

Table 2: TW lifers' financial highlights

As of Sep'25	**CATLIF**	**FUBON**	**NSINTW**	**SHIKON**
RBC ratio (>200%)	N/A	402%	N/A	NA
Equity-to-asset ratio (>3%)	9.3%	11.4%	6.7%	4.9%
ROE	6.3%	10.4%	7.8%	NA
ROA	0.5%	1.0%	0.6%	NA
Investment portfolio				
Cash & cash equivalents	3.5%	6.0%	3.1%	2.8%
Equity - Domestic	6.9%	9.9%	13.0%	6.5%
Equity - International	5.1%	6.8%	4.1%	1.0%
Bond - Domestic	8.7%	14.7%	5.0%	12.0%
Bond - International	60.3%	51.5%	62.5%	66.1%
Others	15.5%	11.1%	12.3%	11.6%
Total	100.0%	100.0%	100.0%	100.0%
FX exposures in FX assets	69%	NA	73%	68%
% hedged with hedging tools	60%	53%	59%	50%

Note: NSINTW's FX exposures were as of Jun'25.
Source: Company filling, CMBI FICC Research.

Japan Lifers – Yield pick-up plays over peers

Maintain buy on RESLIF 6.875 Perp and SUMILF 5.875 Perp

At the time of writing, JP lifers have outstanding USD papers totaled USD27.5bn, representing 45% of the total outstanding USD papers issued by Asian lifers. We view JP lifers USD hybrids as high-quality diversification plays in view of these lifers' solid capitalization and resulting refinancing capacity.

Meanwhile, the structure of subordinated capital papers of JP lifers (except RESLIF 6.875 Perp) are more investor-friendly compared to those issued by Australia, mainland China and Singapore, in view of the absence of principal write-down or equity conversion features. In addition, any deferred distribution will be cumulative.

Table 3: Our JP lifer picks

Security name	ISIN	Amt o/s (USD mn)	Ask px	Z-spread (bps)	YTC	Mod dur	First call date	Payment rank	Issue rating (M/S/F)
RESLIF 6.875 Perp	XS3219360081	750	101.6	309	6.6%	5.1	5/19/2032	Jr Sub	Baa3/-/BBB
SUMILF 5.875 Perp	USJ77549AP86	1,040	102.2	192	5.5%	6.2	1/18/2034	Sub	A3/-/A-

Source: Bloomberg.

RESLIF

We maintain buy on **RESLIF 6.875 Perp** (first call in May'32) for attractive risk-adjusted return profile. At 101.6, RESLIF 6.875 Perp is trading at YTC of 6.6%. It is the highest-yielding bond in JP lifer universe. We view that the current valuation reflects its lower credit rating, deep subordination, and loss absorption features.

On a RV basis, RESLIF 6.875 Perp offers yield-pick up of c70bps over RESLIF 6 ¾ 07/02/35 (first call in Feb'35), as well as c130bps over its parent NIPLIF 6.25 09/13/53 (first call in Sep'33) and first callable c1 year earlier. We view the spread differential compensates for RESLIF 6.875 Perp's subordination relative to the dated subordinated structures.

RESLIF 6.875 Perp is the only instrument contains loss absorption features in JP lifer universe, and qualified as Tier 1 Capital of Resolution Life. The distribution of RESLIF 6.875 Perp is non-cumulative, subject to optional cancellation at issuer's discretion and mandatory cancellation if Resolution Life fails to meet any enhanced capital requirements (ECR). The perp also carries dividend stopper clauses. Moreover, the principal is subject to be written down if eligible capital as determined by regulator falls below 100% of the ECR. The issuer retains full discretion to reinstate written-down principal (up to the original amount) provided it has not been previously written up.

Resolution Life is a global life insurance group designated as an Internationally Active Insurance Group (IAIG) and regulated by the Bermuda Monetary Authority (BMA). The Resolution Life institutional business includes block reinsurance (for existing policy portfolios), flow reinsurance (for new business sold by primary life insurers), pension risk transfer reinsurance and the acquisition and management of policy portfolios from primary insurers across Bermuda, UK, US and Singapore; while its retail business serves customers across Australasia.

In 1H25, Resolution Life reported revenue of USD5.9bn, 46% from premium income, 40% from net investment income and related gain, and remaining 14% from fee income. Resolution Life had an investment portfolio totaling USD79.6bn as of Jun'25, mainly comprises of corporates (39.1%), structured (18.7%), mortgage loan (9.5%), equity (8.9%), alternatives (8.1%), cash (6.6%), and others, and are managed by third-party investment managers. Currently, Blackstone is the asset manager for certain key areas, including directly originated assets across private credit, real estate and asset-based-finance markets.

As of Jun'25, Resolution Life had reserves of USD96.0bn, 49% exposures to life, 28% to fixed and pay-out annuity and remaining 23% to fee-based and investment. Moreover, Resolution Life issued T2 of USD750mn in Jul'25, its Bermuda Solvency and Capital Requirement (BSCR) ratio was 212% and that provided a buffer above its internal target of 175% as well as BMA's ECR of 120%, while its leverage ratio increased to 29% which was still within in its target range of 25-30%. Resolution Life expects the leverage ratio to trend lower following the Nippon Life integration. Moreover, we view Resolution Life's liquidity profile as sufficient, supported by cash and cash equivalent of USD4.8bn and undrawn RCF of USD750mn, compared to long-term debt of USD2.6bn as of Jun'25.

In Oct'25, Nippon Life (Japan's largest life insurer by revenue and Resolution Life's largest investor since 2019) completed its 100% acquisition of Resolution Life for USD10.6bn. We view this transaction as credit positive, anchoring Resolution Life to Nippon Life's strong balance sheet and generating group-wide synergies. After the completion, Fitch upgraded Resolution Life's rating by two notches to A- from BBB; while Moody's upgraded RLGH Finance Bermuda's rating, an intermediate holding and debt issuing entity of Resolution Life, by one notch to Baa1 from Baa2.

SUMILF

Moreover, we maintain buy on **SUMILF 5.875 Perp** (first call in Jan'34) for better risk-adjusted return profile. At 102.2, SUMILF 5.875 Perp is trading at YTC of 5.5%, offering c20bps pickup over NIPLIF 5.95 04/16/54 (first call in Apr'34) with earlier first call date at same issue rating. SUMILF 5.875 Perp is also trading broadly the same as DAIL 6.2 Perp (first call in Jan'35) while 1 year shorter to first call.

We view the yield pickup of SUMILF 5.875 Perp over A-rated hybrid NIPLIFs more than compensates for Sumitomo Life's comparatively lower solvency ratios and profitability metrics. In Sep'25, Sumitomo Life's solvency ratio at 669% was well above the 200% regulatory minimum. See Table 4.

Sumitomo Life is one of the largest life insurance companies in Japan by total assets as of Sep'25, with business in life insurance and annuities, property and casualty, as well as asset management and investment. The profitability metrics of Sumitomo Life is weaker than its peers. This was partly due to its higher exposure to foreign bonds, accounted for c25% of total investment portfolio, compared to its peers at 9-14% of total investment portfolio and related higher currency hedging cost.

That said, we view Sumitomo Life's FX risk is manageable, with 30% of its assets denominated in foreign currency in Sep'25. JP lifers typically hold higher local-currency assets than other regions, earnings and capital are less volatile to FX swings than its regional peers as a result. Moreover, higher domestic yields also support investment income, helping stabilize profitability and internal capital generation in 2026.

J-ICS becomes effective for the fiscal year ending Mar'26

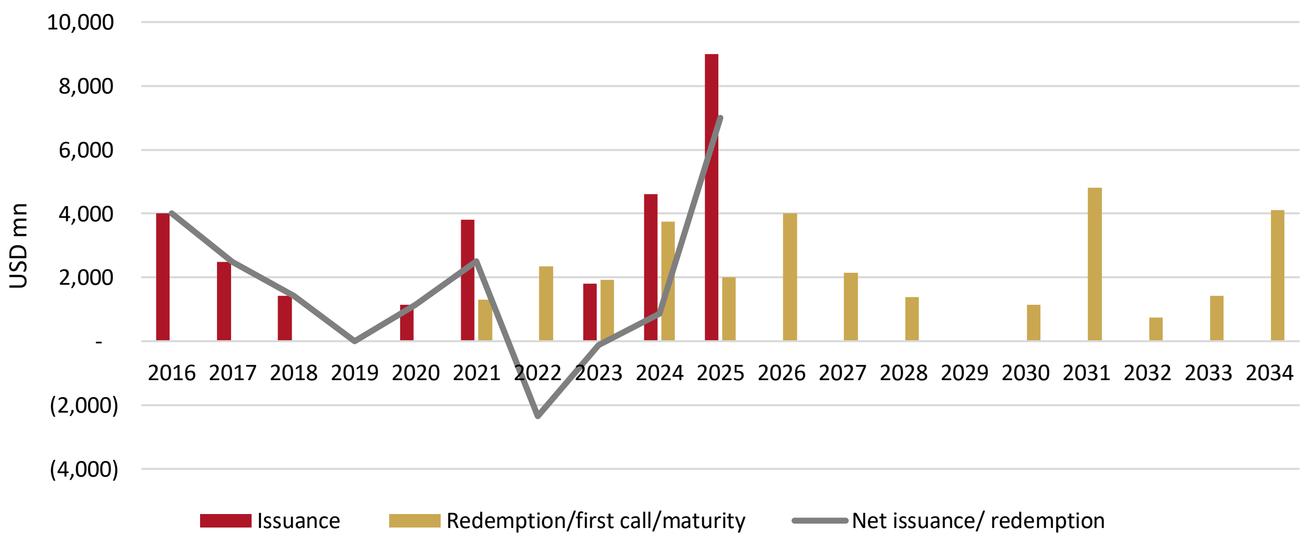
Under the new J-ICS, JP lifers are required to comply with the Economic Value-Based Solvency Ratio (ESR), and the structure for eligible capital has been changed. Eligible capital is categorized into Tier 1 Unlimited capital, Tier 1 Limited capital, and Tier 2 Paid-Up capital. Hybrid securities, including perps and dated subordinated bonds, are both classified as Tier 2 capital. The use of perps provides issuers financial flexibility under the new J-ICS, in view of 100% recognition as Tier 2 capital indefinitely. This is in contrast to the dated subordinated Tier 2s that will subject to amortization on a straight-line basis during final five years before maturity in capital adequacy calculation, similar to the Basel III's requirement on banks.

Despite perps offer higher flexibility than dated subordinated bonds under the new J-ICS, we envisage JP lifers continue to issue both dated subordinated bonds and perps to replenish its capital. Dated subordinated bonds should remain to dominate, in view of the lower funding cost compared to that of perps.

Refinancing over capital replenishment in 2026

We expect that 2026 issues by JP lifers are more for refinancing than for capital building as JP lifers have prepositioned through reinsurance, asset mix rotation, and ALM optimizations, lifting economic solvency ratio and tempering FX sensitivity. With solvency ratios well above the regulatory floor, the incentive and ability of JP lifers to refinance their subordinated bonds on the first call dates remain strong. The two candidates to tap the USD market in 2026 are Nippon Life with NIPLIF 4.7 01/20/46 (o/s USD1.5bn) first callable in Jan'26 and Dai-ichi Life with DAIL 4 Perp (o/s USD2.5bn) first callable in Jul'26.

Chart 2: JP lifers' net issuance since 2023



Source: Bloomberg, CMBI FICC Research.

Table 4: JP lifers' financial highlights

	Asahi Mutual Life	Dai-ichi Life	Fukoku Mutual Life	Meiji Yasuda Life	Nippon Life	Sumitomo Life
1HFY26						
ROA	0.9%	0.9%	0.9%	0.2%	0.5%	0.1%
ROE	8.4%	12.6%	9.5%	2.3%	4.6%	1.9%
As of Sep'25						
SMR ratio (>200%)	990%	831%	1215%	1057%	865%	669%
Investment portfolio						
Cash, deposits, call loans	1.6%	2.3%	6.4%	-	1.2%	4.4%
Monetary claims bought	0.2%	0.5%	0.3%	-	0.1%	1.9%
Domestic bonds	49.7%	53.4%	43.5%	-	36.7%	39.0%
Domestic stocks	13.1%	10.5%	15.3%	-	17.5%	9.5%
Foreign bonds	11.5%	9.1%	12.3%	-	14.1%	24.7%
Foreign stocks and others	8.2%	4.9%	10.2%	-	13.7%	9.3%
Other securities	1.8%	4.3%	3.0%	-	3.2%	1.4%
Loans	5.5%	9.8%	4.5%	-	9.3%	5.5%
Real estate	5.9%	3.5%	3.4%	-	2.1%	1.7%
Others	2.5%	1.7%	1.1%	-	2.1%	2.6%
Total assets	100.0%	100.0%	100.0%	-	100.0%	100.0%
Foreign currency denominated assets	18.9%	12.7%	22.0%	-	27.5%	29.6%

Source: Bloomberg, CMBI FICC Research.

Appendix 4: Chinese Leasing – A beneficiary to benefit from lower onshore funding costs

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. 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. In our view, FRESHKs offer more attractive risk-return profiles than its peers such as BOCAVI 26-28s (YTM of 4.0-4.1%).

Meanwhile, within the subset of financial leasing companies, we turn neutral on BCLMHK Float 06/26/27 and BCLMHK Float 08/23/27 on valuation as well as the falling UST expectation. BCLMHK Float 06/26/27 BCLMHK Float 08/23/27 are both trading at YTM of 4.2% at 100.1-100.4.

We expect the technical of the Chinese leasing sector to remain strong, in view of issuers' good access to lower-cost onshore funding channels and net offshore redemptions since 2022. We believe that the net redemption trend to continue in 2026.

Table 1: Our Chinese leasing picks

Security name	ISIN	Amt o/s (USD mn)	Ask px	Z-spread (bps)	YTM	Mod dur	Issue rating (M/S/F)
FRESHK 4.25 10/26/26	XS2393797530	300	99.7	134	4.7%	0.8	-/BBB-/-
FRESHK 6.625 04/16/27	XS2800583606	500	102.3	143	4.7%	1.2	-/BBB-/-
FRESHK 5.875 03/05/28	XS2886144232	550	101.7	177	5.1%	2.0	-/BBB-/-
FRESHK 6 10/01/28	XS3025777221	500	102.4	177	5.1%	2.5	-/BBB-/-

Source: Bloomberg.

FRESHK

We maintain buy on **FRESHKs**. Compared with other Chinese commercial leasing peers, FEH has more diversified operations and better profitability. 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. In our view, FRESHKs offer more attractive risk-return profiles than its peers such as BOCAVI 26-28s (YTM of 4.0-4.1%).

FEH's revenue and profit have steadily increased since FY19 despite the pandemic. 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. In 1H25, FEH's revenue declined 4% yoy to RMB17.3bn, against the backdrop of a complex and volatile downturn environment. Income from industrial operations were lower, due to weaker demand from contract builder clients. This was partly offset by higher income from advisory services and stable financial leasing businesses. The NIM rose by 4bps to 4.51% in 1H25 from 1H24. PBT remained stable at RMB4.0bn in both 1H25 and 1H24. The ROAA declined by 9bps to 1.21%, while ROAE increased by 17bps to 8.66%.

In 1H25, FEH's operating cash outflow rose by 80% due to higher receivables and lower payables from the level in 1H24, while its capex dropped by 70% yoy to RMB1bn in 1H25. We understand that FEH generated net operating cash inflows in the second half of the year due to increased collections of receivables. We expect FEH to generate sufficient operating cash flow to cover its capex throughout 2025.

We expect FEH’s asset quality to remain stable, in view of its prudent policies to contain non-performing assets and reduce exposure to LGFVs. As of Jun’25, the NPL ratio declined by 2bps to 1.05% from Dec’24. FEH’s exposure in urban public utilities, i.e. LGFVs, had declined, to 31% of net interest-earning assets as of Jun’25 (down from 34% as of Dec’24 and 40% at Dec’23). In addition, the assets at risk to equity of the company and its main financial leasing business entities remained well below the regulatory cap of 8.0x.

As of Jun’25, FEH’s net debts increased slightly by 1% from Dec’24 to RMB248.0bn, primarily due to a lower cash balance. 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 FY20. Its weighted average tenor of onshore bonds shortened to 1.6 years in 2025 from 2.1 years in 2022 due to increasing issuance of super-short commercial papers (SCP), of which the funding cost is lower, and decreasing issuance of medium-term notes and corporate bonds, of which the funding cost is higher. We believe that these changes reflected that FEH turned to a shorter tenor market to take advantage of the funding costs of SCP in an opportunistic manner. As discussed before, we take comfort from FEH’s continued access to various funding channels. In 2025, FEH has issued totaled cUSD3.2bn of bonds in USD, RMB, HKD and JPY with maturity up to Oct’29.

Table 2: 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
2021	4.05%	3.77%	-	3.14%	1.3	3.56%
2022	3.76%	3.63%	-	2.39%	2.1	3.24%
2023	4.97%	4.51%	4.35%	3.39%	1.0	3.85%
2024	3.34%	3.12%	-	2.41%	1.3	2.82%
2025	2.55%	2.74%	-	1.94%	1.6	2.30%

Source: Wind, CMBI FICC Research.

Table 3: Comparison of major commercial leasing players

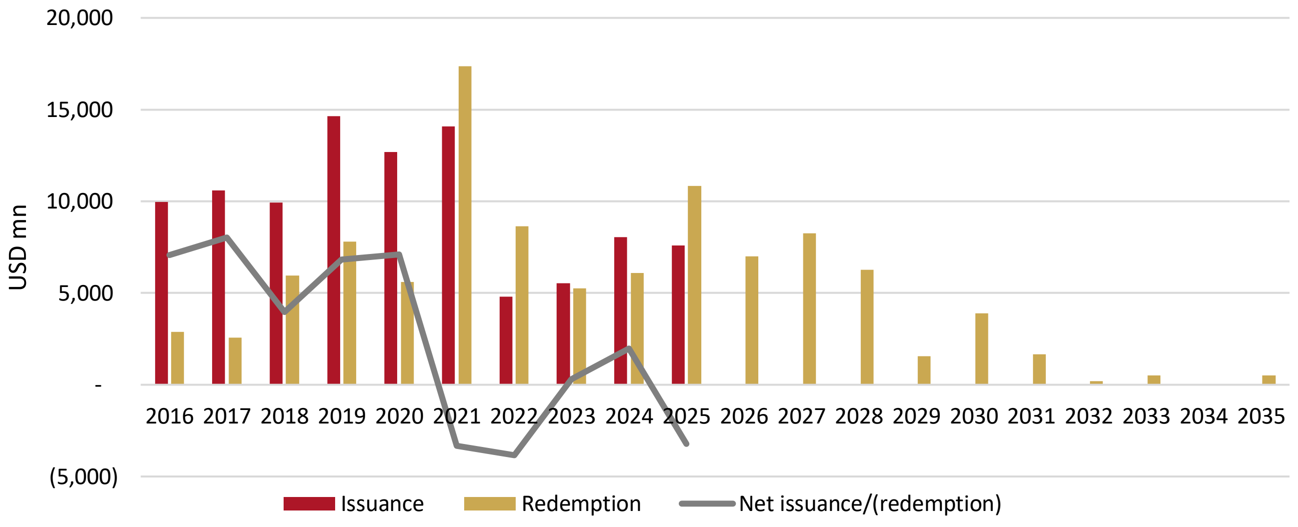
	Company	Total revenue (RMB mn)	Total assets (RMB mn)	ROA	ROE	Net debt/ EBITDA	Total debt/total asset
FY23	BOCAVI	14,794	173,054	3.30%	13.95%	11.3x	68.4%
	CHNAAR	3,905	55,637	0.05%	0.63%	10.3x	84.4%
	FRESHK	37,960	351,483	1.98%	12.99%	16.1x	73.5%
FY24	BOCAVI	15,429	180,387	3.75%	15.26%	13.7x	66.2%
	CHNAAR	4,013	53,733	0.44%	6.02%	8.9x	83.4%
	FRESHK	37,749	360,390	1.27%	7.80%	18.1x	73.8%
1H25	BOCAVI	8,213	185,425	1.35%	5.31%	13.2x	66.1%
	CHNAAR	1,776	54,553	0.47%	6.65%	11.1x	83.3%
	FRESHK	17,336	363,800	1.21%	8.66%	19.5x	73.2%

Source: Company fillings, CMBI FICC Research.

Net redemptions to continue in 2026

In 2026, totaled USD7.0bn of USD bonds will be up for redemption or first call. Given leasing companies have good access to other lower cost funding channels, we expect the net redemption trend to continue in the leasing space.

Chart 1: Chinese leasing sector's net redemptions to continue



Source: Bloomberg, CMBI FICC Research.

Appendix 5: Chinese AMCs – Spread compression to continue

We expect the spread compression of Chinese AMC bonds to continue, driven by continuous government support and strong "onshore demand". While the conviction levels are lower, CFAMCIs continue to be our top picks for their better risk-adjusted return profiles. Within the CFAMCI curve, we like **CFAMCI 3.875 11/13/29, CFAMCI 3.375 02/24/30 and CFAMCI 3.625 09/30/30** for their lower cash prices at YTM of 4.5-4.7%, and provides a yield pick-up of c10-20bps over its AMC peers.

Outside CFAMCI, we like **CCAMCL 4.4 Perp** of which, we believe that the certainty of call on the first call date is also high. We are neutral on GRWALL 7.15 Perp on valuation. At 104.2, GRWALL 7.15 Perp is trading at YTC of 4.2% with the first call date in Jul'27.

Table 1: Our Chinese AMC picks

Security name	ISIN	Amt o/s (USD mn)	Ask Px	YTC/YTM	Mod dur	First call date	Coupon reset
CCAMCL 4.4 Perp	XS2397254579	1,700.0	99.9	4.5%	0.8	3 Nov'26	5yr UST+3.232%
CFAMCI 3.875 11/13/29	XS2076078786	199.5	98.4	4.3%	3.5	-	
CFAMCI 3.375 02/24/30	XS2122990810	270.5	95.4	4.6%	3.8	-	
CFAMCI 3.625 09/30/30	XS2235973869	139.0	95.6	4.7%	4.2	-	

Source: Bloomberg.

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

	Ask YTM/YTC	Mod Dur	Ask px
CCAMCL	4.2-5.5%	0.1-12.7	93.3-104.1
CFAMCI	4.4-5.6%	0.4-12.8	92.7-100.4
GRWALL	4.2-4.5%	0.8-4.5	91.3-104.2
ORIEAS	4.2-4.5%	0.8-4.5	92.7-103.9

Source: Bloomberg.

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

As we have been arguing, we view the AMC sector a very strategically important constituent in maintaining the stability of the Chinese financial system. All big 4 Chinese AMCs are still be firmly in the grip of MoF. Hence, we take a top-down, instead of bottom-up, view on the sector.

We view the consolidation of big three Chinese AMC, Cinda, Great Wall, and Orient, to Central Huijin Investment (Central Huijin) showed the Chinese government's support for the sector. The Ministry of Finance (MoF) completed the transfer of its equity holdings in three Chinese AMC to Central Huijin in Apr'25. As a wholly-owned subsidiary of the China Investment Corporation (CIC), which is in turn wholly owned by the MoF, Central Huijin now acts as the controlling shareholder of these three AMCs.

While the holding structure has changed, the MoF remains the ultimate beneficial owner. We view this as a strategic realignment to improve the financials, capitalization, as well as operating performance of these three AMCs on a more commercial basis under a dedicated state capital manager. The transfer of ownership also follows the trajectory of China CITIC Financial AMC (CFAMCI), where CITIC Group replaced the MoF as the controlling shareholder in Nov'22 to drive operational synergy.

Great Wall was recapitalized following the equity transfer. Its original registered capital of RMB51bn was first reduced to RMB10bn to adsorb the massive accumulated loss. Then Central Huijin injected RMB36.8bn into Great Wall, bringing the new registered capital to RMB46.8bn. The changes in registered capital were completed with approval from NFRA in Jun’25.

Moreover, CICC (also under the Central Huijin) agreed to merge Cinda Securities and Dongxing Securities (a subsidiary of Orient) in Dec’25 through a share-swap transaction. We view these divestments as a signal of Chinese government’s determination to strip non-core financial licenses from the AMCs, and support the AMC to focus on distressed asset management. The divestment should also reduce the reducing the AMC operational structure complexity, in our view.

Higher-quality equity investment continued to support CFAMCI’s performance

CFAMCI reported a robust improvement in financial performance for 1H25, with revenue rose 21.1% yoy to RMB40.2bn and net profit grew 19.7% yoy to RMB5.5bn. The strong performance was primarily driven by a significant RMB21.2bn gain from its investments in associates and JVs, reflecting its strategic pivot towards acquiring higher-quality equity stakes since 2024. This strategy has expanded its investment portfolio in associates and JVs at RMB260.2bn as of Jun’25 from RMB216.3bn as of Dec’24. We view these investments to provide stable, recurring earnings and cash flows to CFAMCI, further bolstered by its close ties with its parent CITIC Group.

In 1H25, ROAA and ROAE stood at 1.1% and 21.1% respectively. These are broadly stable compared to 1H24 and show an improvement from 0.8% and 18.4% in FY24, respectively. Moreover, CFAMCI maintained sufficient capital buffer, capital adequacy ratio was 16.0% as of Jun’25 that comfortably above the 12.5% regulatory minimum requirement. Similarly, its leverage ratio of 8.6x remained well below the regulatory ceiling of 16.7x.

Besides, CFAMCI's funding strategy highlights its strong access to domestic liquidity. CFAMCI has not tapped the offshore USD bond market since 2020, while actively early redeemed bonds in 2024 and redeemed maturing bonds in 2025 with onshore resources. This showed its ability to leverage lower-cost onshore funding channels to refinance offshore debt efficiently. As of Jun’25, CFAMCI’s bank borrowings increased to RMB752.3bn, compared to the level as of Dec’23 at RMB665.3bn, while total bonds outstanding decreased to RMB152.9bn from RMB179.4bn over the same period. Furthermore, c99% of its outstanding bank borrowings were on unsecured basis as of Jun’25, demonstrated its strong financial flexibility.

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. CCAMCL 4.4 Perp is trading at YTC of 4.6% at 99.8. All the perps issued by the AMCs were called on their respective first call dates. The most recent call was performed by CFAMCI in Sep’25 for CFAMCI 4.25 Perp.

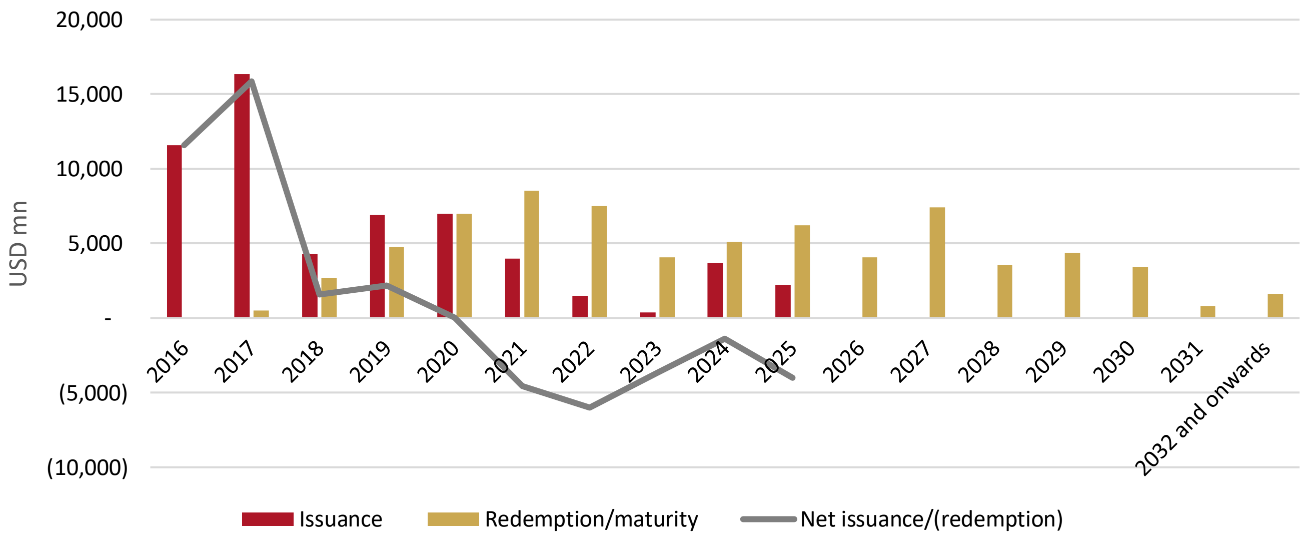
We believe the likelihood for the two outstanding perps being called on the first call dates remains high including CCAMCL 4.4 Perp, the only perp without high coupon step-up in case of non-call. The coupon of CCAMCL 4.4 Perp will be reset to a c7% based on current UST which is expensive from Cinda’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

Offshore net redemption trend will likely continue in 2026

The sector has experienced net redemption trend offshore since 2021. In 2025, the offshore net redemption was USD4.0bn where both Cinda and Great Wall experienced net redemption; CFAMCI redeemed three bonds totaled USD2.5bn at maturity and CFAMCI 4.25 Perp of USD250mn without tapping offshore markets; while only Orient showed net issuance of USD350mn.

In 2026, USD4.1bn bonds and perps will be up for redemptions. Given AMCs' good access to low-cost onshore funding, we believe that AMCs continue to fund a considerable part of these via onshore funding channels including bond market and bank borrowing. Among the four AMCs, only Orient issued onshore bonds during 2025 which totaled RMB13bn at weighted average coupon rate at 1.9%, which were lower than the offshore bond it issued at 4.3%, i.e. ORIEAS 4.3 12/04/28, in Dec'25. In our view, the net redemption trend will likely continue in 2026.

Chart 1: Chinese AMCs offshore USD bonds maturities



Note: Redemption/maturity include perp first callable.
Source: Bloomberg, CMBI FICC Research.

Appendix 6: Corporate Perps – Prefer perps with high coupon step-up

Prefer PCORPM, PTTGC, RAKUTN and SMCGL

We prefer perps with coupon step-up as this incentivizes issuers to call at the first call dates. We also favor issuers that have demonstrated disciplined liability management, track records to call their perps on the first call dates and sustained USD market access, such that the extension risk is lower. Under this backdrop, we maintain buy on **PCORPM 7.35 Perp, RAKUTN 5.125 Perp, RAKUTN 8.125 Perp, SMCGL 5.45 Perp, SMCGL 8.125 Perp, and SMCGL 8.95 Perp**. The mechanism of coupon reset and step-up of these perps, as well as the funding flexibility of these issuers support a higher probability of redemption on the first call dates.

Meanwhile, we initiate buy on **PTTGC 6.5 Perp and PTTGC 7.125 Perp**. While these perps have minimal step-ups, we still see a high chance of incentive for PTT Global Chemical (PTTGC) to redeem these perps before the first coupon reset date in view of PTTGC's strong access to funding channels/financial flexibility. We also believe that PTTGC places a high prioritize to ensure a smooth offshore funding access. We maintain neutral on PCORPM 5.95 Perp and RAKUTN 6.25 Perp on valuation. We turned neutral on SMCGL 5.7 Perp in Nov'25, given limited upside near its first coupon reset in Jan'26. In Dec'25, SMCGL announced full redemption of the perp on the first call date in Jan'26, after it terminated the exchange and tender offers.

Table 1: Our corporate perps picks

Security name	ISIN	Amt o/s (USDmn)	Ask px	YTC	First call date	Coupon reset date	Coupon reset	Step-up (bps)	Issue rating
Initiate buy									
PTTGC 6.5 Perp	USY3004DAD67	600	101.3	6.2%	10 Sep'30	10 Dec'30	5yrUST+2.815%	-	Ba2/-/BB
PTTGC 7.125 Perp	USY3004DAE41	500	102.5	6.8%	10 Mar'35	10 Sep'35	5yrUST+3.162%	25	Ba2/-/BB
Maintain buy									
PCORPM 7.35 Perp	XS3178401793	475	103.0	6.1%	22 Aug'28	22 Sep'28	3yrUST+6.375%	250	Unrated
RAKUTN 5.125 Perp	USJ6S87BAA66	750	99.7	6.1%	22 Apr'26	22 Apr'26	5yrUST+4.578%	25	-/B/-
RAKUTN 8.125 Perp	USJ64264AM64	550	103.6	7.1%	15 Dec'29	15 Dec'29	5yrUST+4.000%	25	-/B/-
SMCGL 5.45 Perp	XS2346954873	683.5	99.3	6.2%	9 Dec'26	9 Dec'26	5yrUST+7.155%	250	Unrated
SMCGL 8.125 Perp	XS2943809900	500	101.7	7.6%	2 Dec'29	2 Mar'30	5yrUST+6.404%	250	Unrated
SMCGL 8.95 Perp	XS3121131125	400	104.3	7.8%	24 Apr'30	24 Jul'30	5yrUST+7.445%	250	Unrated
Maintain neutral									
PCORPM 5.95 Perp	XS2330597738	550	100.3	5.0%	19 Apr'26	19 Apr'26	5yrUST+7.574%	250	Unrated
RAKUTN 6.25 Perp	USJ6S87BAX69	1,000	95.9	7.2%	22 Apr'31	22 Apr'31	5yrUST+4.956%	25	-/B/-
SMCGL 5.7 Perp	XS2098881654	300.4	100.2	1.0%	21 Jan'26	21 Jan'26	5yrUST+6.554%	250	Unrated

Source: Bloomberg.

PCORPM

We prefer **PCORPM 7.35 Perp** (coupon reset in Sep'28) to PCORPM 5.95 Perp (coupon reset in Apr'26) in view of better carry and trading liquidity. We like Petron's smooth access to diverse funding channels as well as notably lower refinancing pressure after the exchange and tender offers for PCORPM 5.95 Perp. We acknowledged that Petron maintains track records of calling its perps on the first coupon reset, i.e. PCORPM 7.5 Perp in Aug'18 and PCORPM 4.6 Perp in Jul'23.

In 9M25, Petron's revenue declined by 10% yoy to PHP595bn, primarily driven by lower sales volume and selling price. The sales volume dropped by 3% yoy to 100.9mn barrels in 9M25, due to lower export sales and narrowed regional refining cracks by 11% yoy during 9M25. These negative impacts were partly offset by 11% yoy increase in domestic retail sales volume supported by higher market shares, and increase in domestic commercial sales from higher jet fuel and LPG sales volume.

Despite the revenue decline, Petron's gross profit increased by 15% yoy PHP40bn in 9M25, as benefited from lower cost of sales from 13% yoy lower in average Dubai crude price to USD71/barrel in 9M25, from USD82/barrel in 9M24. EBITDA grew by 11% yoy to PHP37bn in 9M25, at a lower magnitude than the growth in gross profit due to 7% yoy increase in SG&A expenses, driven by higher terminal fees, employee compensation, and additional retail network expansion costs. Interest expenses were lower during the period due to rate cut. As a result, net profit surged 37% yoy to PHP10bn in 9M25.

Free cash flow jumped 361% to PHP47bn in 9M25 from 9M24, attributable to lower net working capital as well as lower capex. Petron spent PHP5bn in capex in 9M25, represented 45% of the full year budget of PHP11bn, and reflected capital discipline under compressed margin environment. Moreover, Petron completed an exchange offer and concurrent new issuance of PCORPM 7.35 Perp during 3Q25, resulting in net cash inflows of PHP1.8bn after the settlement. Petron's cash and ST investments increased to PHP42bn as of Sep'25 from PHP31bn as of Dec'24 and its net leverage was lower, net debt/LTM EBITDA (perp was accounted as debt) was 4.7x while the cash to short term debt increased to 0.4x. We take comfort with Petron's good access to bank borrowings for refinancing of short-term dues.

PTTGC

We initiate buy on **PTTGC 6.5 Perp and PTTGC 7.125 Perp** for attractive carry in PTTGC curve. At 101.3, PTTGC 6.5 Perp is trading at 6.2% YTC, pick-up of c130bps vs its senior PTTGC 2.98 03/18/31 with 3 months shorter in "tenor". At 102.5, PTTGC 7.125 Perp is trading at 6.8% YTC, and is the highest yielding paper within the PTTGC curve.

The issuance of these two perps were to fund the tender offers for two long-dated bonds due in 2051-52, which help to improve adjusted leverage via 50% equity credit treatment from the rating agencies' calculation. We understand that the call incentives could be weaker given minimal step ups. That said, we believe PTTGC to preserve the hybrid market access and equity credit recognition and to redeem the perps before the first coupon reset date.

PTTGC is a 48.2%-owned subsidiary of PTT Public Company Limited, as a leading integrated petrochemical and refining company in Thailand. In 2Q25, PTTGC's adjusted EBITDA rose 13% qoq to THB6.1bn, reflecting margin recovery despite a challenging market backdrop. PTTGC has been deleveraging, and monetizing its non-core assets to strengthen its financial profile with a target of THB30bn. In Jun'25, PTTGC's total debts lowered to THB164.1bn from THB257.9bn in Dec'24. However, total debt/LTM EBITDA and net debt/LTM EBITDA increased to 13.3x and 11.0x, respectively, from 9.4x and 8.2x in Dec'24 due to lower EBITDA in 2H24. We expect the leverage ratios to improve going forward in view of gradual recovery of profit.

As per PTTGC, it saved THB4.4bn of cost in 9M25, and aims to save THB1.2bn by switching to cheaper ethane than naphtha imported from the US. Moreover, sale of 35.4% stake in Thai Tank Terminal and sale-and lease-back transaction on buffer tank farm are expected to be completed by end of Nov'25. These should further support the profit recovery and enhance its financial flexibility, in our view.

PTTGC's ratings remain borderline IG at Baa3/Negative (Moody's), BBB-/Stable (S&P), and BBB-/Stable (Fitch). That said, we take some comfort from Moody's affirmation on its Baa3 rating despite the outlook revision, supported by planned deleveraging (asset sales, hybrid capital, and extended terms from the parent) over the next 12-18 months. Future negative catalyst include slower than planned deleveraging or weaker margins could limit upside or risk further pressure.

RAKUTN

Within RAKUTN curve, we prefer the perps because of the yield pick-up and lower cash prices, despite the higher volatility. We expect Rakuten to call its perps at the first call dates, supported by improving operating performance and diversified funding access. YTD, Rakuten issued onshore bonds totaled JPY352bn.

Out of the 3 perps, we prefer **RAKUTN 5.125 Perp and RAKUTN 8.125 Perp** for their shorter tenors. We consider RAKUTN 5.125 Perp, trading at YTC of 6.1% and callable in Apr'26, a short-tenor carry. Rakuten plans to redeem RAKUTN 5.125 Perp on the first call date in Apr'26. We also consider RAKUTN 8.125 Perp a good yield pick-up trade. At 103.6, RAKUTN 8.125 Perp offers yield pick-up of c140bps over RAKUTN 9.75 04/15/29 at a cash price c8pts lower for 8 months longer in "tenor". We are neutral on RAKUTN 6.25 Perp.

Rakuten reported strong 3Q25 results, with robust revenue growth across all three segments. The 3Q25 revenue rose 11% yoy to JPY629bn, while EBITDA jumped 29% yoy to JPY119bn which is an all-time high for 3Q. For 9M25, revenue grew 11% yoy to JPY1.8tn and EBITDA surged 43% yoy to JPY302bn. Rakuten is on track to achieve its FY25 EBITDA target of over JPY400bn in view of the current run-rate. In 9M25, Rakuten's EBITDA was c75% of its FY25 target.

By segment, internet services revenue increased 11% yoy to JPY350bn in 3Q25, led by Rakuten Ichiba. Demand was boosted by users bringing forward purchases ahead of changes to the hometown tax program effective from Oct'25. As such, a reactionary yoy decline is expected in 4Q25. We also saw revenue growth in Rakuten Travel during 3Q25, supported by the World Expo and continued inbound tourism momentum.

FinTech segment revenue rose 20% yoy to JPY251bn in 3Q25, driven by an expanding customer base across the card, banking, securities, and payment businesses, all of which achieved record-high quarterly revenues in 3Q25. Rakuten Bank delivered a 21.2% ROE for 1HFY25 (ended Sep'25), benefiting from a 41% yoy rise in ordinary income supported by higher policy rates. The bank's CAR was 10.9% as of Sep'25. Rakuten insurance showed 9% yoy growth in revenue from strong sales of medical and online automobile insurances. General insurance experienced loss due to one-off adjustment to projected income and expenses of existing contracts, coupled with increased payments for Kyushu heavy rains, and we view these losses as temporary.

Mobile segment revenue grew 12% yoy to JPY119bn in 3Q25. Segment EBITDA reached JPY11bn in 3Q25 and JPY14bn for 9M25. We view Rakuten is on track to deliver full-year positive EBITDA in mobile, underpinned by solid growth in both net ARPU and subscriber numbers. Net ARPU increased 4.6% yoy to JPY2,471 in 3Q25, while total subscribers reached 9.3mn as of Sep'25, up from 7.9mn a year earlier. Rakuten aims to reach 10mn subscribers by end-2025, which should continue to support mobile revenue growth, in our view.

Despite EBITDA improvement, Rakuten reported a net loss of JPY11bn in 3Q25, mainly due to a one-off impairment charge of JPY28bn related to the withdrawal of its online supermarket business from the Kansai area. Excluding this non-cash item, net profit would have been JPY16bn in 3Q25.

Management maintained its target to lower the net debt/EBITDA (non-FinTech net interest-bearing debt to non-FinTech non-GAAP EBITDA). The LTM ratio was 8.3x as of Sep'25, and Rakuten expected the ratio to rise slightly to 8.5x in Dec'25, then decline to 6.0x in Dec'26 and below 5x in Dec'27. The deleveraging trajectory will be supported by proactive maturity management and EBITDA growth. Rakuten's consolidated equity ratio was 4.3% as of Sep'25, with management setting a mid-term target of 5% and maintaining a long-term target of 10%.

As of Sep'25, Rakuten had JPY5.3tn in cash and cash equivalents, down 14% from JPY6.2tn as of Dec'24. Rakuten recorded operating cash outflow of JPY81bn during 9M25, mainly due to a reduction in financial liabilities for securities. Capex totaled JPY157bn for 9M25, down 20% yoy. We continue to view Rakuten's capex as manageable and expect funding to come from internal resources given its sizable cash position. Rakuten was in a net debt position of JPY125bn as of Sep'25, shifted from a net cash position of JPY709bn as of Dec'24, largely due to bond redemptions during 9M25. Total debts stood at JPY5.5tn. We take comfort that Rakuten has already addressed all bond maturities and callable bonds through the end of 2025.

SMCGL

Within the SMCGL curve, we prefer **SMCGL 5.45 Perp, SMCGL 8.125 Perp and SMCGL 8.95 Perp f**or better risk-return profiles in view of their higher YTC in the Asian corporate perp universe, and a high likelihood of first call redemption. We turned neutral on SMCGL 5.7 Perp in Nov'25, given the limited upside near its first coupon reset in Jan'26. In Dec'25, SMCGL announced full redemption of the perp on the first call date in Jan'26 even though it terminated the exchange and tender offers.

We believe that SMCGL will continue to redeem its perps on their first coupon reset dates given the high step-up, as well as its proven funding channels. Over the past two years, SMCGL has actively managed its liability profile. In 2025, it issued SMCGL 8.95 Perp to fund the exchange offers for SMCGL 7 Perp and SMCGL 5.45 Perp; in 2024, SMCGL completed two rounds of tender and exchange offers to fund the redemption of its perps first callable in 2025-26, through the issuance of SMCGL 8.75 Perp and SMCGL 8.125 Perp. We acknowledged that SMCGL maintains a first call track record, i.e. SMCGL 7.5 Perp in Nov'19, SMCGL 6.75 Perp in Feb'21, and SMCGL 6.5 Perp in Apr'24, SMCGL 5.95 Perp in May'25, and SMCGL 7 Perp in Oct'25.

In 9M25, SMCGL's revenue fell by 23% yoy to PHP119bn, primarily reflecting deconsolidation effects. SMCGL reclassified SPPC, EERI and IPIEC from subsidiaries to associates following the dilution of its ownership to 33% from 100%. Consequently, earnings from these entities were re-classified from consolidated revenue to share of net earnings from associate, which surged to PHP7bn in 9M25 from PHP236mn in 9M24. The dilution also triggered a revaluation of these investments, resulting in one-off gain of PHP22bn recognized as other income. Revenue was further weighed by downward adjustment in fuel tariffs amid lower coal price, as average GC Newcastle coal price dropped by 22% yoy to USD104/mt in 9M25 from USD134/mt in 9M24. This was partly offset by incremental output from newly operational facilities during the period.

Gross profit increased 4% yoy to PHP41bn in 9M25, driven by lower cost of sales from lower coal price. We expect additional generating capacity to support the gross profit growth in 4Q25. At the time of writing, average GC Newcastle price was cUSD106/mt QTD, compared to cUSD144/mt a year earlier. SMCGL's 9M25 EBITDA surged 57% yoy to PHP68bn mainly due to one-off revaluation gain of PHP22bn. Excluding this one-off gain, proforma EBITDA would be PHP46bn, representing 6% yoy increase from 9M24 and broadly in line with gross profit growth.

Operating cash flow declined by 38% yoy to PHP27bn in 9M25 on higher net working capital. Capex fell 35% yoy to PHP18bn, indicated disciplined capex. We expect that SMCGL continues to fund its capex through operating cash inflow with discipline. As of Sep'25, SMCGL's cash and cash equivalent increased to PHP104bn from PHP68bn as of Dec'24, attributable to preferred shares redemption from the deconsolidated entities totaled PHP79bn, shares issued to parent San Miguel of PHP59bn, free cash flow of PHP9bn, and net of debt repayment. Net debt/LTM EBITDA was lowered to 6.5x, supported by lower total debt, higher cash balances and higher LTM EBITDA. The cash to ST debt also increased to 1.4x.

Appendix 7: Asian IG Corporate Picks

We maintain buy on AACTECs and prefer **AACTEC 3 ¾ 06/02/31** post strong 1H25 results with higher revenue and profit despite lower margin, as well as **ZHOSHK 5.98 01/30/28** after Zhongsheng's funding exercises since Jul'24. We expect their credit stories to continue improve.

Meanwhile, we maintain buy on HYUELEs as diversification and yield pick-up plays over its global peers such as Micron. We like SK Hynix's strong global market position, 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 99.9 and 91.1, HYUELE 1 ½ 01/19/26 and HYUELE 2 ⅜ 01/19/31 are both trading at 4.4% YTM.

We also consider **CNMDHL 4 ⅞ 07/10/30** a yield pick-up play over CHMEDA 2 ½ 06/17/30 in view of the close relationship between China Modern Dairy (CMD) with China Mengniu Dairy (Mengniu), and the better trading liquidity of CHMEDA 2 ½ 06/17/30. We also believe that the slightly weaker 1H25 results have been priced in the lagging performance of CNMDHL 4 ⅞ 07/10/30.

Table 1: Our Asian IG corporate picks

Security name	ISIN	Amt o/s (USD mn)	Ask Px	Z-spread (bps)	YTM	Mod dur	Issue rating (M/S/F)
Maintain buy							
AACTEC 3 ¾ 06/02/31	XS2342248593	290	95.6	123	4.7%	4.8	Baa3/-/-
CNMDHL 4 7/8 07/10/30	XS3099223284	350.0	99.7	151	4.9%	3.9	-/BBB/-
HYUELE 1 ½ 01/19/26	US78392BAB36	1,000	99.9	45	3.9%	0.1	Baa2/BBB-/BBB
HYUELE 2 ⅜ 01/19/31	US78392BAC19	1,000	90.9	95	4.4%	4.6	Baa2/BBB-/BBB
ZHOSHK 5.98 01/30/28	XS2867272630	600	101.1	213	5.4%	1.8	-/BBB/-

Source: Bloomberg.

AACTEC

We maintain buy on AACTECs and prefer **AACTEC 3 ¾ 06/02/31**, given the higher yield and lower cash price. The current valuations of AACTECs are less appealing after the good performance of AACTECs, moved 2.6-6.5pts higher YTD and 6.8-12.1pts higher in 2024. That said, we continue to view AACTECs lower beta and good carry plays, offering better risk-return profiles than peers such as SUNOTG 5.95 07/17/26 (Moody's: Baa1, YTM of 4.2%/Z-spread of 65bps). Additionally, we also believe that AACTECs are candidates for early redemptions through repurchases and tender offers and these should support the performance of AACTECs.

In 1H25, AAC Tech's revenue increased 18% yoy to RMB13.3bn, driven by growth across all business segments. The gross profit margin (GPM) stood at 20.7%, down by 0.8 pct. pt. from 1H24, driven by production ramp-up of new acoustics production and strong volume growth of lower-margin sensor and semiconductor products. That said, the impact was somewhat mitigated by the margin expansion of optics products. AAC Tech's EBITDA increased 6.3% yoy to RMB2.3bn in 1H25. Net profit surged 63% yoy to RMB876mn, primarily supported by revenue growth and one-off fair value gains on contingent consideration payables related to PSS, partly offset by higher expenses incurred from new business initiatives.

We expect the strong performance of AAC Tech to continue and margin to pick up in 2H25 with AI-driven spec upgrade cycle such as AI smartphones, foldable phones, glasses and AI-driven devices. AAC Tech guided the FY25 growth as follows: (1) acoustics: more mid-to-high end products ramping up in 2H25 that would improve the GPM. The newly acquired company First Light, an automotive microphone manufacturer, should further strengthen AAC

Tech's core competitiveness of acoustics system solutions; (2) ED: 18-20% yoy revenue growth with new business; (3) PM: 15-20% yoy revenue growth with GPM of 30%+; (4) optics: 20% yoy revenue growth with GPM at 10-15%; (5) SSE: 100% yoy revenue growth with GPM at 15-20%.

In 1H25, AAC Tech's operating cash inflow rose 9% yoy to RMB2.9bn, supported by higher revenue and shorter cash conversion cycle to 48 days, compared to 52 days in FY24. Longer payable days offset the impact of extended receivables and inventory days. Meanwhile, AAC Tech's capex increased 56% to RMB1.5bn, reflecting investments in the latest generation automation machinery and equipment for modifications, upgrades, and capacity expansion. We expect AAC Tech to continue funding capex with operating cash inflows while maintaining its current liquidity position.

Its solid credit profile is well-positioned for mid-BBB rating. As of Jun'25, AAC Tech had cash and cash equivalent of RMB7.7bn and its net gearing ratio was 14.5%. Total debt/LTM EBITDA and EBITDA/gross interest were 2.1x and 12.2x, respectively, in 1H25. We consider AAC Tech's credit profile solid for current rating (rated Baa3 by Moody's). We believe that AAC Tech's improving profit and manageable refinancing requirements could trigger positive actions by Moody's in the near-term. As per our estimates, the adjusted EBITA margin of AAC Tech was 10.1% in 1H25 and total debt/adjusted EBITDA was 1.9x as of Jun'25, compared with the Moody's upgrade trigger of adjusted EBITA margin at or above a high single-digit percentage and total debt/adjusted EBITDA below 2.5x on a sustained basis.

CNMDHL

At 99.7, **CNMDHL 4 7/8 07/10/30** is trading at YTM of 4.9% and c80bps over CHMEDA 2 1/2 06/17/30. While ZHOSHKs offer even better risk return profile in Chinese IG space, we consider CNMDHL 4 7/8 07/10/30 a yield pick-up play over CHMEDA 2 1/2 06/17/30 in view of the close relationship between CMD with Mengniu, and the better trading liquidity of CHMEDA 2 1/2 06/17/30. We also believe that the slightly weaker 1H25 results have been priced in the lagging performance of CNMDHL 4 7/8 07/10/30.

CMD is the second largest dairy farm operator by herd size and raw milk output, after China Youran Dairy Group. CMD has been enjoying strong parental support from Mengniu which holds 56.36% stakes in CMD. The company entered into raw-milk 10-yr offtake agreement with Mengniu in 2008 to purchase at least 70% of raw milk output of CMD. The agreement was extended to 2028 in 2018. Over the past 3 years, CMD supplied an average of 92.7% of raw milk to Mengniu. The procurement from CMD accounted for 30% of Mengniu's total procurement. COFCO Corp (COFCO), which holds 24.24% in Mengniu and holds 1.43% directly in CMD, is one of the top three raw material suppliers of CMD.

In 1H25, CMD reported cash EBITDA of RMB1.5bn, 2.5% yoy decline from the level in 1H24. The net loss for 1H25 was RMB984bn in 1H25, widened from RMB207mn in 1H24. These were in line with its profit warning. During 1H25, CMD revenue dropped by 5.4% yoy to RMB6.1bn. The loss incurred in 1H25 was mainly due to the drop in selling price of raw milk resulting from the oversupply of domestic raw milk and fair value loss from re-assessment of dairy cows. These were partly offset by the lower operating costs. During 1H25, CMD generated operating cash flow of RMB490mn, compared to RMB1.7bn spent on capex and biological assets. As of Jun'25, CMD had cash and cash equivalent of RMB3.9bn and available and unused credit facilities of RMB6.8bn, compared to total debts of RMB19.3bn. Nonetheless, given the strong parental support and issuance of CNMDHL 4 ⅞ 07/10/30 of USD350mn in Jul'25, we view CMD's liquidity profile and the refinancing pressure are manageable.

In Oct'25, CMD agreed to purchase 1.28% of the totaled issued shares of China Shengmu Organic Milk (CSM) for HKD37.5mn in cash. Mengniu, as the largest shareholder of CMD, holds c29.9% in the total issued shares of CSM. CMD and parties acting in concert will hold in aggregate 30% or more of the total issued share capital of CMD, and that triggered the mandatory cash offer to buy all other CSM shares at HKD0.35 per share by CMD. The maximum consideration payable by CMD under the cash offer will be HKD2.0bn. CMD intends to finance the total consideration payable under the acquisition and the cash offer through its internal resources.

HYUELE

We maintain buy on HYUELEs in view of SK Hynix's resilience against trade war given its strong market position globally and solid operating cash flow, as well as HYUELEs' more balance risk-return 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 99.9 and 90.9, HYUELE 1 ½ 01/19/26 and HYUELE 2 ⅜ 01/19/31 are trading at 3.9% and 4.4% YTM, respectively.

SK Hynix delivered another record-high quarterly revenue of KRW24.4tn in 3Q25, representing 39% yoy increase driven by strong industry demand. This growth was primarily attributable to surging AI investments by big tech companies, strengthened DRAM and NAND pricing, and increased DRAM shipments.

DRAM bit shipments exceeded management guidance, increased by high-single digits qoq in 3Q25 as driven by growing sales of HBM3E 12-high products and server DDR5 to support accelerating AI demand, coupled with seasonal demand recovery for LPDDR5 products. DRAM ASP rose by mid-single digits qoq, with particularly strong ASP growth for conventional DRAM products. NAND bit shipments declined by mid-single digits qoq due to a high base effect from 2Q25. However, enterprise SSD shipments grew by double digits qoq to meet rising demand from AI server deployments. NAND ASP increased by low-teens % qoq, supported by continued price recovery and a higher mix of enterprise SSDs with pricing premium.

For 4Q25, SK Hynix expects both DRAM and NAND bit shipments to grow by low-single digits. SK Hynix completed HBM4 mass production preparation in Sep'25 and will commence HBM4 shipments in 4Q25, with further expansion planned for 2026. We expect SK Hynix's revenue and profit growth momentum to continue into 2026, as it has already secured HBM contract pricing for 2026 at levels that can maintain current profitability, and underpinned by strong demand for memory used in AI services, particularly higher-margin HBM products.

As of Sep'25, SK Hynix's cash balance increased by 64% qoq to KRW27.9 trillion, driven by 56% qoq increase in operating cash flow and USD bond issuance totaled USD1.2bn during 3Q25. These were partially offset by a 16% qoq increase in capex. SK Hynix opened its M15X facility during 3Q25, ahead of the original 4Q25 schedule, and has begun equipment installation to accelerate new capacity expansion. We expect SK Hynix's capex to increase in a disciplined manner in 2026, which will continue to be funded by cash on hand and strong operating cash inflows.

SK Hynix robust operating cash flow generation also provides solid support for its liquidity profile. SK Hynix turned into a net cash position as of Sep'25 with net cash of KRW3.8tn compared to net debt of KRW4.9tn in Jun'25. The total debt/LTM EBITDA fell to 0.5x, reflecting significant EBITDA growth. SK Hynix has near-term USD bond maturities totaling USD1.75bn, consisting of two bonds due in Jan'26. These upcoming maturities will be addressed through the USD1.2bn bond issuance completed in Sep'25 and its internal resources.

ZHOSHK

In early Oct'25, both Moody's and Fitch withdrew the senior unsecured ratings of Zhongsheng. We believe that the rating withdrawals are more of cost saving measures instead of indications of deterioration in credit fundamental and transparency. S&P is the only rating agency to rate ZHOSHK 5.98 01/30/28, the company's only outstanding USD bond. We expect Zhongsheng to keep the S&P rating. Zhongsheng's 1H25 operating performance continued to be dragged by the negative gross margin of new car sales. That said, we take comfort with its solid credit and liquidity profiles, supported by its consistent positive FCF generation, reducing debts and low near-term refinancing pressure through the active liability management since Jul'24. ZHOSHK 5.98 01/30/28 has been outperforming since Jul'25, cash price has been 1.7pts higher and credit spared tightened c80bps since then. Nonetheless, we still consider **ZHOSHK 5.98 01/30/28** one of the few good shorter-dated in Chinese IG space and maintain buy on ZHOSHKs.

Zhongsheng's weaker 1H25 results reflected the weak new car sales with lower volume and ASP, as well as enlarged negative gross margin. The commission income from automobile insurance was also adversely affected as a result. In addition, the active trade-in policies for used car from various local governments have notably affected the age profile and ASP of used car transactions. We take comfort that Zhongsheng focuses on luxury and mid-high end brands of which the sales are more resilience against intensifying competition and weak economic backdrop. Zhongsheng has been optimizing its store network, focusing on the expansion of collision centers to create more "recurring" revenue and cross-selling opportunities, as well as exiting stores on brands with lagging sales such as Nissan. These support the continued growth in income from parts, packages and after-sales services and further improvement of absorption ratio.

Going forward, gross margin of new car sales will be affected by the timing of OEM subsidy. The silver linings are the growing sales of VITO which raised the overall gross margin of new car sales by 0.6pct pts in 1H25, and the in-market consolidation in car dealership sector, as such competition is moderating. We also believe that the smaller trade-in subsidies and "anti-involution" policies will provide some support to Zhongsheng's new and used car sales.

Over the past few years, Zhongsheng has been disciplined in expansion and has instead been focusing on optimizing its store network. Hence, the company has been consistently generating positive FCF for net debt reduction. We are impressed with Zhongsheng's effort to actively manage its liabilities in advance and its good access to various funding channels. Since May'25, Zhongsheng repaid the remaining o/s amount of its CB due May'25 and early-redeemed the remaining ZHOSHK 3 01/13/26, totaling cUSD630mn. These reflect the company's solid liquidity profile. Subsequently, its near-term refinancing risk is low. Recalled that in Jul'24, Zhongsheng completed the tender offer for ZHOSHK 3 01/13/26 and had a concurrent issue of ZHOSHK 5.98 01/30/28 of USD600mn. On 31 Jul'24, it signed new offshore syndicated loans of USD350mn for the refinancing of existing loans due Apr'25. We understand the new 3-yr bullet loans will bear a lower credit spread than that of the existing loans although higher SOFR will lead to a higher all-in funding cost. Additionally, Zhongsheng issued Panda bonds of RMB1bn at a coupon rate of 3.5% on 1 Aug'24.

Appendix 8: Asian non-IG Corporate Picks

Table 1: Our Asian non-IG corporate picks

Security name	ISIN	Amt o/s (USD mn)	Ask Px	YTM	Mod dur	Issue rating (M/S/F)
Maintain buy						
EHICAR 7 09/21/26	XS2384059122	300	79.8	42.9%	0.6	Unrated
EHICAR 12 09/26/27	XS2782510049	325	66.4	40.9%	1.3	Unrated
Maintain neutral						
BTSDF 9.125 07/24/28	XS2971969287	300	106.3	5.7%	0.5	Ba3/BB/-
HONGQI 7.05 01/10/28	XS2968971676	330	103.4	5.2%	1.8	-/-/BB+
HONGQI 6.925 11/29/28	XS3084116055	270	103.8	5.5%	2.6	-/BB/BB+

Source: Bloomberg.

BTSDF

We view H&H credit profile is improving, supported by active liability management and IMF recovery, and the bond continues to offer good carry in Chinese HY space. That said, we view the conviction level of BTSDF 9.125 07/24/28 (Ba3/BB/-) is lower after moving up c5pts since our initiation of buy recommendation in Jan'25, and compared to its peers. Therefore, we changed to neutral on BTSDF 9.125 07/24/28 in Nov'25.

H&H 9M25 revenue increased by 12.0% yoy in 9M25 to RMB10.8bn, with all business segments recording growth. By geography, mainland China remained H&H's largest market, contributing 71.0% of revenue in 9M25, up from 65.9% in 9M24. H&H has upward adjusted its FY25 revenue target to high-single digit to low double digit, from high-single digit. We view H&H is on track to achieve its revised FY25 revenue target, in view of the current run-rate. In 9M25, H&H's revenue accounted for 73-77% of the FY25 target, assuming 8-13% yoy revenue growth for the full year. We expect growth to be underpinned by the recovery in IMF post GB transition in mainland China, as well as continued expansion of the higher-margin PNC business. H&H reiterated its guidance on profitability for FY25, i.e. adj. EBITDA margin at 15% and adj. net profit margin at 5%.

As of Sep'25, H&H held RMB1.7bn of cash, up from RMB1.6bn as of Dec'24. H&H has been proactive in managing its debt maturity profile during 2025, supported by its good access to diversified funding channels. This includes a tender offer and new USD bond issuance in Jan'25, the prepayment of RMB152mn-equivalent on its USD term loan in Sep'25, and a further RMB152mn-equivalent prepayment in Oct'25. We view H&H's near-term refinancing risk is manageable, given it has no major debt maturities until 2027. H&H also targets to reduce net debt/adj. EBITDA to 3.7x by Dec'25, from 3.9x as of Jun'25, through a combination of debt reduction and EBITDA growth. In addition, H&H considers an 80% RMB share of its total debt as an optimal currency mix, broadly aligned with the proportion of its underlying RMB-denominated business.

As discussed before, we are not too concerned of the ongoing tax audit of H&H's subsidiary Biostime Healthy Australia Pty (BHA) to materially impact its near-term liquidity. BHA has made a cash deposit of AUD104mn to Australian Tax Office (ATO) on 15 Jul'25, in line with ATO administrative practice for disputed tax debts, and this deposit is recorded as an asset on BHA's balance sheet. No further deposit is required until the case reaches a final conclusion. BHA maintains that it does not expect a final fund outflow in relation to the dispute. We acknowledged that there is a residual exposure of AUD303mn (cUSD197mn), i.e. total assessment incl. penalty of AUD407mn net of AUD104mn deposit. H&H expects ATO to review objection by Jun'26.

EHICAR

In 3Q25, EHICAR's EBITDA increased 7.2% yoy to RMB836.8mn. The LTM EBITDA increased 24% yoy to RMB2.5bn. Higher utilization rate more than offset lower ADRR, reflecting the continued recovery in demand despite intense competition. We are impressed with the trend of higher utilization rate despite EHICAR's fleet size increased 11% in 9M25 to 139,592. In 3Q25, the utilization rate was 72.3%, the highest since 1Q23 while RevPAC was RMB157.5, the highest since 3Q23. 3Q is the seasonal high of the year and we expect utilization rate and RevPAC in 4Q25 to moderate from the levels of 3Q25. That said, EHICAR saw stronger yoy operating performance in 4Q25.

As of Sep'25, EHICAR's net debts were RMB9.6bn, declined from RMB9.8bn as of Jun'25 and RMB10.4bn as of Sep'24. Net debts/LTM EBITDA and LTM EBITDA/LTM int. slightly improved to 3.9x and 3.1x in 3Q25 from 4.0x and 2.9x in 2Q25 and 5.2x and 2.6x in 3Q24, respectively. We expect EHICAR's net debt reduction to remain gradual given its expectation of small increase in fleet size in 2026.

At 79.8 and 66.4, **EHICAR 7 09/21/26 and EHICAR 12 09/26/27** are trading at YTM of 42.9% and 40.9%, respectively. We consider the current valuations have priced in too much downside for a non-distressed credit with a slowly improving credit profile despite EHICAR has yet to come out with a concrete refinancing plan for EHICAR 7 09/21/26 (o/s USD267mn as per 1H25 interim report) due Sep'26. We expect EHICAR to buy back the bonds and tap the USD bond market in an opportunistic manner taking cues from its track records.

GLPSP/GLPCHI

We consider the non-call risk of the two GLPSP perps is fairly priced, we do not expect they will be called on the first call date given the lack of high coupon step-up feature. The near-to-midterm catalyst for GLPSPs/GLPCHIs to perform is the potential IPO of GLP's China business in 2026. The IPO, if successful goes ahead, will be credit positives to GLP and GLP China. These include deleveraging at the parent level, potential tender offer for the two perps at current market prices, as well as improving liquidity and financial flexibility of GLP China. That said, among Asia non-IG names, we prefer WESCHI 28 and South East Asia names such as VEDLNs to for their improving credit story and strong cash flow generation.

GLP is actively monetizing its assets to enhance financial flexibility, with a target of USD3bn per year. GLP achieved USD3.4bn of asset monetization LTM ended 1H25. GLP also completed the sales of the non-China operations of GLP Capital Partners (GCP) to Ares Management in Mar'25 for USD5.2bn. The sales allows GLP to sharpen its focus on China. In Aug'25, GLP secured an investment of USD1.5bn from Abu Dhabi Investment Authority to accelerate growth in GLP's China business and new-economy verticals such as digital infrastructure and renewables.

GLP reported 1H25 revenue of USD974mn, down 3% yoy, mainly driven by lower management fee income. It swung back to PBT of USD3.3bn in 1H25 from LBT of USD311mn in 1H24, primarily attributable to the USD3.5bn gain from the Ares transaction. Excluding the disposal gain, GLP would have recorded LBT of USD245mn that underlying earnings remain soft. As of Jun'25, cash and cash equivalents fell 27% to USD1.4bn from Dec'24, while total debt declined 10% to USD11.8bn, mainly reflecting repayment of the USD1bn GLPSP 3.875 06/04/25 in Jun'25, partly offset by the USD300mn GLPSP 9.75 05/20/28 issued in May'25 (GLP tapped USD200mn the GLPSP 28 at 104.49 in Nov'25). Net gearing improved to 53.4% as of Jun'25 from 58.9% as of Dec'24, though liquidity headroom remains thin with cash/ST debt slipping to 0.3x from 0.4x as of Dec'24, with GLPCHI 2.95 03/29/26 of USD700mn will be due within a year.

On GLPCHI 26, GLP China privately placed USD300mn GLPCHI 7.75 04/30/29 in Oct'25 and used the proceeds to partially redeem USD205mn of GLPCHI 2.95 03/29/26. The new issue considerably alleviated the refinancing risk of GLPCHI 26, but the funding cost (7.75% vs. 2.95%) will weaken interest coverage. While USD495mn remains outstanding and due in Mar'26, GLP China may tap GLPCHI 29 to fund the redemption in 1Q26 or through onshore funding channels. As of Jun'25, GLP China had cash and cash equivalents of RMB6.5bn compared to total debt of RMB56.1bn, with cash to ST debt at 0.3x.

HONGQI

While we remain comfortable with HONGQI's overall credit profile, we maintain neutral on HONGQIs on valuation. At 103.4-103.8, HONGQI 28s are trading at YTM of 5.2-5.5%. In 1H25, China Hongqiao (HONGQI) reported 35.4% yoy increase in net profit to RMB13.6bn, in line with the positive profit alert in Jun'25. In 1H25, HONQGI's revenue was 10.1% yoy higher to RMB81.0bn driven by higher sales volume, as well as higher selling prices of aluminum alloy products and alumina products. GP increased by 16.9% yoy to RMB20.8bn and the GP margin improved to 25.7% from 24.2% in 1H24. EBIT rose by 21.0% to RMB18.1bn, supported by higher revenue and improved operational efficiencies.

As of Jun'25, HONGQI had cash and cash equivalent of RMB48.7bn, increased by 8.9% from the level in Dec'24 of RMB44.8bn, which was driven by operating cash inflow of RMB22.3bn during 1H25. Net debt was 16.8% lower to RMB24.3bn from RMB29.2bn in Dec'24, due to higher cash balances and slightly lower in total debts. The leverage ratios improved as a result, the total debt/LTM EBITDA and net debt/LTM EBITDA down to 1.6x and 0.5x in Jun'25, respectively, from 1.7x and 0.7x in Dec'24.

We take comfort on HONGQI's good access to various onshore and offshore funding channels. YTD, HONGQI has raised totaled RMB12.6bn via onshore bonds at a weighted average funding cost of 2.5% and USD900mn (USD bonds and CB) offshore. HONGQI also raised totaled HKD11.5bn offshore from placing existing shares and top-up subscription of new shares in Nov'25. We understand that net proceeds will be used to fund its projects (60% of the net proceeds, HKD6.9bn), debt repayments (30%, HKD3.4bn) and for working capital purposes (10%, HKD1.1bn). Moreover, HONGQI intends to repurchase shares in the open market with a proposed total amount not less than HKD3bn. YTD, HONGQI bought back 10.2mn shares for cHKD234mn, where we expect more buy-back will come based on the mandate. The buyback should be aimed at minimizing the dilution as its o/s USD300mn HONGQI 5.25 01/25/26 due Jan'26 will be gradually converted into shares over the coming months in view of the CB's parity of over 400. Excluding the CB which will be converted into equity, the next major offshore maturity will be HONGQI 7.05 01/10/28 of USD330mn due in Jan'28. We view HONGQI's near-term maturity profile as manageable.

Appendix 9: Macau Gaming – GGR recovery and normalization of funding access to continue

As discussed before, we consider Macau gaming bonds lower-beta and good carry plays with improving credit stories despite we should see more new supply to come in view of the scheduled maturities and undemanding funding costs.

Our top picks within the segment remain **MPELs and STCITYs** given the growing adj. EBITDA of Melco Resorts (MPEL) and Studio City (STCITY), as well as the more appealing risk-return profiles of MPELs/STCITYs. We also consider **WYNMAC'27 and '29** yield pick-up plays, trading at premium of c40-80bps over bonds of its US parent. We are neutral on MGMCHIs, SANLTDs, and SJMHOLs on valuation.

Table 1: Our Macau gaming picks

Security name	ISIN	Amt o/s (USD mn)	Ask Px	YTM	Mod dur	Issue rating (M/S/F)
MPEL 5 3/8 12/04/29	USG5975LAE68	1,150	99.2	5.6%	3.5	Ba3/BB-/-
MPEL 7 5/8 04/17/32	USG5975LAK29	750	105.4	6.6%	4.9	Ba3/BB-/-
MPEL 6 1/2 09/24/33	USG5975LAL02	500	100.6	6.4%	5.9	Ba3/BB-/-
STCITY 6 1/2 01/15/28	USG85381AF13	500	100.3	6.4%	1.8	B1/B+/-
STCITY 5 01/15/29	USG85381AG95	1,100	96.8	6.2%	2.7	B1/B+/-
WYNMAC 5 1/2 10/01/27	USG98149AD29	750	100.1	5.5%	1.6	B1/BB-/BB-
WYNMAC 5 1/8 12/15/29	USG98149AE02	1,000	99.3	5.3%	3.5	B1/BB-/BB-

Source: Bloomberg.

GGR growth is accelerating starting from 2Q25

In Dec'25, Macau's gross gaming revenue (GGR) increased 14.8% yoy to MOP20.9bn, reflecting the strong performance across both mass and premium mass/VIP markets Cumulatively, the GGR in 2025 increased 9.1% to MOP247.4, equivalent to 84.6% of pre-COVID level in 2019. The full year GGR exceeded Macau's government full year budget of MOP228bn, benefitting from the sustainable recovery of tourist arrival. In 2025, the tourist arrival of Macau was 40.1mn, increased 15% yoy and exceeded the all-time high record of 39.4mn in 2019. Macau government set GGR target of MOP236bn in 2026. The target appears to be conservative based on the growth momentum in 2025.

Table 2: GGR market shares

	FY24	1Q25	2Q25	3Q25	9M25
Melco Resort (incl. Studio City)	13.3%	15.7%	15.7%	14.7%	15.4%
MGM China	15.8%	15.7%	16.6%	15.6%	16.0%
Sands China	23.9%	22.5%	22.6%	23.6%	22.9%
SJM Holdings	13.1%	13.5%	12.3%	12.2%	12.1%
Wynn Macau	13.1%	12.4%	11.9%	13.0%	12.4%

Source: Company filling, CMBI FICC Research.

Table 3: Macau monthly GGR

MOP mn	2023	2024	2025	Cumulative GGR 2025	Cumulative GGR 2025 growth rate	% of 2019 GGR
Jan	11,580	19,337	18,254	18,254	-5.6%	73.2%
Feb	10,324	18,486	19,744	37,998	0.5%	75.5%
Mar	12,738	19,503	19,659	57,657	0.6%	75.7%
Apr	14,722	18,545	18,858	76,515	0.8%	76.7%
May	15,565	20,188	21,193	97,708	1.7%	77.7%
Jun	15,207	17,694	21,064	118,772	4.4%	79.4%
Jul	16,662	18,595	22,125	140,897	6.5%	81.0%
Aug	17,213	19,754	22,156	163,053	7.2%	82.3%
Sep	14,937	17,253	18,289	181,342	7.1%	82.3%
Oct	19,501	20,787	24,086	205,428	8.0%	83.3%
Nov	16,043	18,438	21,088	226,516	8.6%	84.0%
Dec	18,564	18,202	20,890	247,406	9.1%	84.6%

Source: Macau DSEC.

MPEL/STCITY

MPEL reported 12% yoy increase in revenue to USD3.9bn in 9M25 and 17% yoy increase in adj. EBITDA to USD1.0bn, driven by both gaming and non-gaming operations. Overall, we view MPEL's 9M25 results as broadly in line with Macau's 7% yoy GGR growth during 9M25, its GGR market share also increased to c15.4% in 9M25 from 13.3% in FY24, based on our estimates. Among Macau gaming operators, MGM China also captured market share gains in 9M25. In 9M25, STCITY reported 10% yoy growth in revenue to USD534mn and 19% yoy increase in adj. EBITDA to USD224mn, supported by both gaming and non-gaming operations. We understand that Studio City remains focus on the premium mass customers.

We believe the near-term revenue growth catalysts include newly opened Signature Club House at COD Macau with premium mass focus in Jul'25, reopening of 15 lower-minimum tables at COD Macau in Sep'25, as well as the ongoing Countdown Hotel conversion to luxury suites which MPEL expects to open in 3Q26. The newly launched iRad Hospital at Studio City also adds to non-gaming income.

Moreover, we view the closing of satellite casino and Mocha clubs to have immaterial impact on MPEL's operating performance given the reallocation of resources and limited profit contributions. MPEL's Grand Dragon Casino and Mocha Kuong Fat were closed in Sep'25, and 15 tables were reallocated to COD Macau and 90 gaming machines to Studio City. Mocha Grand Dragon Hotel and Mocha Royal Hotel was closed in Nov'25 and Dec'25, respectively, gaming machines were reallocated across COD Macau, Studio City and Altira Macau. For other three Mocha Clubs, Mocha Inner Harbour, Mocha Hotel Sintra and Mocha Golden Dragon, MPEL received authorization from Macau government to continue the operations through the appointment of a management company from 1 Jan'26.

MPEL held USD1.5bn cash and USD2.6bn undrawn facilities as of Sep'25. 9M25 capex spent reached USD283mn, implying USD132mn remaining compared to FY25 full year budget of USD415mn. MPEL budgeted USD125mn for the refurbishment of the Countdown Hotel. We expect MPEL to fund its capex via its operating cash inflows and cash on hand. Looking ahead, MPEL budgets USD400mn capex in 2026, similar to that of 2025.

As of Sep'25, total debts were USD7.5bn, slightly increased from USD7.4bn as of Dec'24. During 2025, STCITY repaid USD500mn STCITY 6 07/15/25 by using revolving credit facility HKD1.3bn (cUSD170mn) and cash on hand. MPEL also early redeemed USD500mn MPEL 5.25 04/26/26 through a tender offer and call in Sep'25, financed by the issuance of USD500mn MPEL 6.5 09/24/33. Following the early redemption of the 2026s, MPEL now faces limited near-term refinancing risk with no major maturity in 2026. MPEL further reduced leverage through repayment of USD180mn credit facilities during 3Q25, and an additional USD180mn in Oct-Nov'25. Furthermore, MPEL targets completion of COD Manila strategic review by end-2025. The potential sale proceeds could strengthen its financial flexibility.

WYNMAC

At current valuations, we consider the risk-return profiles of WYNMACs not as attractive as those of MPELs/STCITYs. That said, WYNMAC '27 and '29 could be yield pick-up plays, trading at premium of 30-50bps over bonds of its US parent.

Wynn Macau (WYNMAC)'s 9M25 operating revenue declined 0.2% yoy to USD2.8bn, due to lower VIP and mass market table games win at Wynn Macau, partially offset by higher VIP and mass market table games win at Wynn Palace. We estimate WYNMAC GGR market share was 12.4% in 9M25, decreased from 13.1% in FY24. The adj. property EBITDAR declined by 8% yoy in 9M25 to USD814mn, due to decline in casino revenue at Wynn Macau, and lower ADR and room revenue at Wynn Palace.

WYNMAC launched the Chairmans Club expansion project at Wynn Palace, which is expected to be completed before Chinese New Year in 1Q26. WYNMAC has also finished refreshing the initial floors of the Wynn Tower rooms, and is in the process of renovating the rest. These two projects will help support revenue growth and market share gain, in our view.

Taking cues of LTM adj. EBITDAR of cUSD1.1bn and budgeted capex of USD200-250mn in 2025 and USD450-500mn in 2026, we expect room for further deleveraging. We are also comfortable with its financial flexibility, supported by its cash on hand of USD1.5bn as of Sep'25 and available undrawn facilities of USD1.2bn and USD1.4bn under the WRF Revolver and the WM Cayman II Revolver, respectively. Its maturity has also been lengthened after the issuance of USD1bn WYNMAC 6.75 02/15/34 in Aug'25, which was the first USD bond in Macau gaming sector with maturity beyond the new concession period expiring on 31 Dec'32. The proceeds were used to early redeem USD1bn WYNMAC 5.5 01/15/26 in full in Sep'25.

Valuation of MGMCHIs, SANLTDs, SJMHOLs are not too appealing

MGMCHI

MGM China (MGMCHI) posted a stronger set of 9M25 results. In 9M25, MGMCHI's revenue and adj. EBITDA increased 7% yoy and 5% yoy to HKD25.2bn and HKD7.3bn, respectively, supported by growing visitation and the growth of high-end market. Adj EBITDA margin was, however, lowered to 28.8% in 9M25 vs 29.5% in 9M24. As per MGMCHI, in Oct'25, its market share increased to 16.5%, up from 15.8% in FY24, and EBITDAR to be over USD100mn (cHKD780mn).

Notwithstanding the capex, MGMCHI's cash on hand increased to HKD5.5bn as of Jun'25 from HKD5.3bn as of Dec'24 while net debts reduced to HKD16.3bn from HKD17.8bn over the same period, reflecting the positive free cash flow after capex. In Apr'25, MGMCHI obtained a 5-year senior unsecured revolving credit facility of HKD23.4bn, which bears a funding cost of HIBOR+1.625-2.75%, depending on MGMCHI's leverage ratio. The credit facility extends MGMCHI's loan maturity by four years to 2030. Besides, MGMCHI redeemed USD500mn MGMCHI 5.25 06/18/25 in Jun'25, and the next USD bond maturity will be USD750mn MGMCHI 5.875 05/15/26. We believe that its refinancing risk is low in view of its operating cash inflow, cash on hand, available undrawn unsecured credit facility of HKD17bn as of Jun'25, as well as its access to funding channels.

SANLTD

In 9M25, Sands China's revenue increased 1% yoy to USD5.4bn while adj property EBITDA declined 3% to USD1.7bn. The growing contributions from The Londoner Macao mitigated the weaker performance of Sands China's other facilities. Its adj. property EBITDA margin was 31.5% in 9M25, compared with 32.9% in 9M24. Recalled that The Londoner Macao hotel tower was under rebranding and renovation starting from 2Q24, and the works were completed in 2Q25. Sands China's GGR market shares declined to 22.9% in 9M25, from 23.9% in FY24, as per our estimates.

As of Jun'25, Sands China had cash and bank balance of USD985mn, declined from USD2.0bn in Dec'24, while the undrawn available facility is cUSD2.5bn. Despite having 6 USD bonds o/s, the highest among the Macau gaming operators, we believe Sands China faces limited refinancing risk in view of its operating cash inflow, cash on hand, available undrawn unsecured credit facility, as well as its access to funding channels. Sands China early repaid USD1.1bn LVS Term loan in full in Mar'25, three years ahead of its original maturity in Jul'28. The company also early redeemed USD1.6bn SANLTD 5.125 08/08/25 in full in Jun'25, utilizing a combination of cUSD1.6bn loan facility and cash on hand. The next USD bonds maturity of Sands China is USD1.6bn SANLTD 3.8 01/08/26 in Jan'26.

SJMHOL

SJM posted weaker 9M25 results with GGR market share declined to 12.1% in 9M25 from 13.1% in FY24, partially attributable to lower rolling hold and partly due to the closure of satellites. On a brighter side, we see qoq improvement in SJM's operating performance as adj. property EBITDA of GLP swung back to HKD111mn in 3Q25 from -HKD66mn in 2Q25. The swing can be partly attributable to the higher rolling hold in 3Q25, increased to 3.8% from 1.9%. Additionally, SJM pays junket commissions based on chip sales. The lower chip sales in 3Q25 compared with those in 2Q25 mean lower commission expenses and higher EBITDA in 3Q25. The timing of chip sales, to some extent, contributes to the volatility of adj. property EBITDA.

SJM closed 8 satellites casinos, i.e. Casino Grandview in Jul'25, Casino Emperor Place in Oct'25, Casino Legend Palace, Casino Casa Real and Ponte 16 in Nov'25, Casino Kam Pek Paradise, Casino Fortuna and Casino Landmark in Dec'25. The excess staff cost had been fully absorbed and gaming tables of satellites were transferred to other properties of SJM. The total adj. property EBITDA of 9 satellites in 3Q25 was only HKD53mn, equivalent to c6% of SJM's total adj. property EBITDA. That said, its EBITDA and market share could be adversely affected over the next few months as gaming tables are in the course of transfer.

For the last satellite, Casino L'Arc Macau, Macau regulator approved the transfer of 100% stake in L'Arc Hotel complex, including Casino L'Arc Macau, to SJM in Dec'25. The total consideration is HKD1.75bn, comprises a nominal equity payment of cHKD175k and the repayment of the seller's bank loan of HKD1.75bn. In additional, SJM will lend the remaining amount of the bank loan of HKD177.5mn to the seller for a period of 3 years. SJM received the authorization from Macau government to operate Casino L'Arc under direct management from 2am on 30 Dec'25.

As of Sep'25, SJM had cash on hand of HKD3.4bn. Its LTM adj. property EBITDA was HKD3.7bn compared with the budgeted capex of HKD2bn in 2025, HKD1.5-1.8bn in 2026 and below HKD1bn in 2027. The budgeted capex should cover the satellite acquisition costs which we expect to be small. SJM's cash on hand, undrawn facilities and operating cash inflow should support a stable financial profile.

Table 4: VIP win rate %

	1Q24	1H24	3Q24	9M24	FY24	1Q25	1H25	3Q25	9M25
Melco Resort									
-City of Dreams	2.2%	2.6%	4.0%	N/A	2.7%	3.7%	3.8%	3.7%	N/A
-Studio City	3.7%	3.3%	5.6%	N/A	3.9%	-	-	-	-
-Altira Macau	-	-	-	-	-	-	-	-	-
-Mocha and others	-	-	-	-	-	-	-	-	-
MGM China									
-MGM Macau	1.8%	2.5%	3.0%	2.6%	2.9%	4.2%	3.6%	2.0%	3.0%
-MGM Cotai	2.4%	2.4%	3.3%	2.6%	2.7%	3.4%	3.4%	4.4%	3.7%
Sands China									
-The Venetian Macao	6.7%	5.9%	3.6%	N/A	4.4%	2.2%	2.9%	5.9%	N/A
-The Londoner Macao	3.8%	3.1%	2.9%	N/A	3.3%	3.6%	3.9%	3.7%	N/A
-The Parisian Macao	4.6%	4.6%	-7.1%	N/A	-7.8%	4.3%	4.3%	0.0%	N/A
-The Plaza Macao	-0.6%	1.4%	3.9%	N/A	2.0%	2.4%	2.5%	1.8%	N/A
-Sands Macao	3.4%	4.3%	4.4%	N/A	4.4%	4.2%	4.6%	3.1%	N/A
SJM									
-Grand Lisboa Palace	3.8%	3.7%	4.7%	4.1%	3.8%	3.9%	2.8%	3.8%	3.1%
-Grand Lisboa	3.7%	3.1%	5.2%	3.7%	4.0%	2.9%	3.1%	3.4%	3.2%
-Self-promoted casino	-	-	-	-	-	-	-	-	-
Wynn Macau									
-Wynn Palace	3.3%	3.6%	3.0%	3.4%	3.5%	2.6%	2.7%	4.7%	3.3%
-Wynn Macau	3.4%	2.9%	3.6%	3.1%	3.5%	1.1%	2.0%	2.9%	2.3%

Source: Company filling.

Table 5: Mass table win rate %

	1Q24	1H24	3Q24	9M24	FY24	1Q25	1H25	3Q25	9M25
Melco Resort									
-City of Dreams	31.7%	32.0%	32.3%	N/A	32.1%	30.2%	30.4%	29.8%	N/A
-Studio City	29.5%	29.8%	30.7%	N/A	30.6%	32.8%	33.4%	33.1%	N/A
-Altira Macau	24.3%	22.5%	21.7%	N/A	22.4%	22.4%	21.8%	19.4%	N/A
-Mocha and others	16.2%	17.6%	16.6%	N/A	16.8%	16.2%	16.0%	19.5%	N/A
MGM China									
-MGM Macau	23.0%	21.8%	20.9%	21.5%	21.7%	21.5%	21.8%	23.0%	22.2%
-MGM Cotai	26.6%	27.3%	29.0%	27.8%	28.1%	28.5%	28.0%	26.2%	27.4%
Sands China									
-The Venetian Macao	25.3%	24.9%	24.7%	N/A	24.7%	22.7%	23.1%	23.6%	N/A
-The Londoner Macao	21.1%	20.7%	21.9%	N/A	21.5%	23.0%	22.4%	23.4%	N/A
-The Parisian Macao	22.4%	21.0%	19.6%	N/A	20.9%	21.0%	21.2%	21.5%	N/A
-The Plaza Macao	26.2%	24.6%	22.9%	N/A	24.3%	22.2%	22.3%	25.7%	N/A

-Sands Macao	15.9%	16.5%	16.8%	N/A	16.6%	15.6%	15.0%	16.4%	N/A
SJM									
-Grand Lisboa Palace	16.8%	17.3%	17.8%	17.5%	18.0%	19.6%	18.8%	17.9%	18.5%
-Grand Lisboa	21.5%	21.1%	21.8%	21.3%	21.3%	20.2%	19.7%	20.2%	19.9%
-Self-promoted casino	14.7%	14.4%	15.4%	14.8%	14.9%	15.4%	15.2%	14.8%	15.1%
Wynn Macau									
-Wynn Palace	24.5%	24.1%	23.9%	24.0%	24.5%	24.8%	23.5%	22.6%	23.2%
-Wynn Macau	19.4%	18.5%	18.5%	18.5%	18.4%	18.7%	18.0%	18.7%	18.3%

Source: Company filling.

Table 6: Slot hold %

	1Q24	1H24	3Q24	9M24	FY24	1Q25	1H25	3Q25	9M25
Melco Resort									
-City of Dreams	3.1%	3.1%	3.2%	N/A	3.1%	3.2%	3.1%	3.2%	N/A
-Studio City	3.2%	3.3%	3.3%	N/A	3.3%	3.8%	3.7%	3.7%	N/A
-Altira Macau	3.2%	2.9%	1.8%	N/A	2.5%	2.9%	2.7%	3.1%	N/A
-Mocha and others	4.5%	4.4%	4.3%	N/A	4.3%	4.0%	4.0%	4.0%	N/A
MGM China									
-MGM Macau	4.1%	4.0%	3.7%	3.9%	3.9%	3.3%	3.3%	3.5%	3.4%
-MGM Cotai	3.5%	3.7%	3.1%	3.5%	3.6%	3.1%	3.4%	2.9%	3.2%
Sands China									
-The Venetian Macao	3.9%	3.7%	3.9%	N/A	3.8%	4.0%	3.7%	3.6%	N/A
-The Londoner Macao	4.0%	3.8%	4.0%	N/A	3.8%	3.5%	3.8%	3.9%	N/A
-The Parisian Macao	4.4%	4.3%	4.2%	N/A	4.1%	3.7%	3.9%	3.6%	N/A
-The Plaza Macao	16.2%	20.7%	3.0%	N/A	3.4%	2.2%	2.3%	2.5%	N/A
-Sands Macao	3.2%	3.1%	2.9%	N/A	3.0%	2.9%	3.0%	2.8%	N/A
SJM									
-Grand Lisboa Palace	2.8%	2.9%	2.8%	2.9%	2.8%	3.0%	2.9%	2.8%	2.9%
-Grand Lisboa	4.9%	4.7%	4.7%	4.7%	4.6%	4.0%	3.8%	3.4%	3.7%
-Self-promoted casino	4.8%	4.8%	4.4%	4.7%	4.2%	3.5%	3.5%	3.3%	3.4%
Wynn Macau	-	-	-	-	-	-	-	-	-
-Wynn Palace	-	-	-	-	-	-	-	-	-
-Wynn Macau	-	-	-	-	-	-	-	-	-

Source: Company filling.

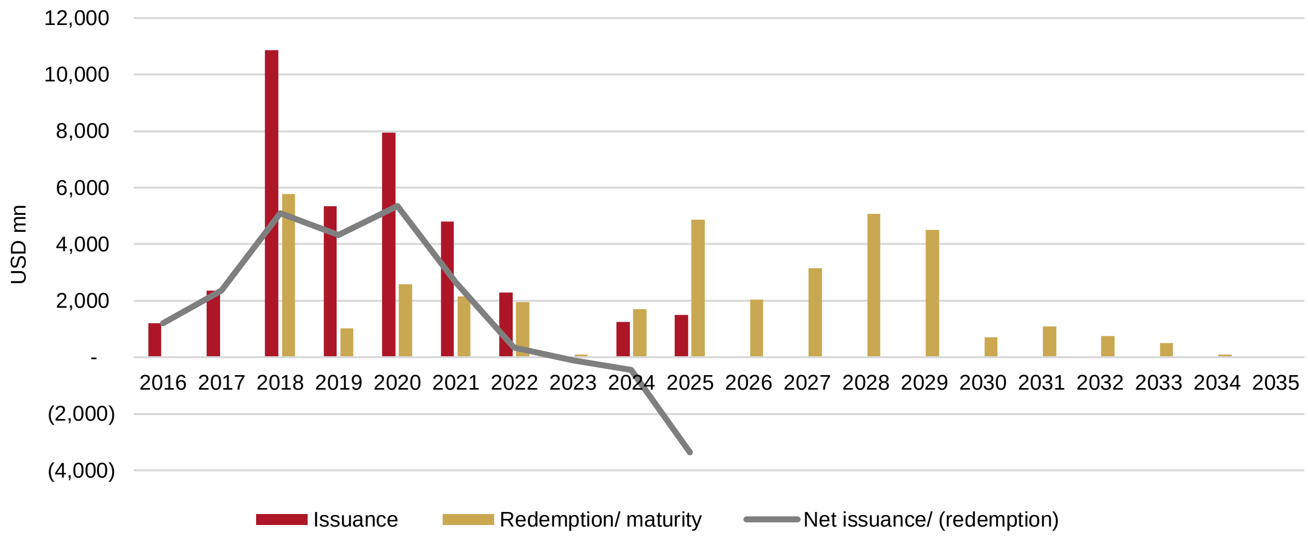
Net redemptions trend to continue

We view the offshore bond maturities of the sector are manageable. The total USD bond maturities of the sector will be USD2.1bn in 2026.

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 that these operators will continue to actively manage their debt maturity profiles through capital market activities such as new issues, bond repurchases and tender offers. During 2025, through excising call option, Sands China early redeemed USD1.6bn SANLTD 5.125 08/08/25 in Jun'25, while Wynn Macau early redeemed USD1bn WYNMAC 5.5 01/15/26 in Aug'25.

We expect Macau gaming operators to be active in tapping the USD bond market facing the scheduled maturities and lower funding costs. Nonetheless, given the improving cash flow, more diversified funding channels, completion of the peak funding cycle, the net redemption trend of this sector will continue.

Table 1: Net redemptions since 2023



Source: Bloomberg, CMBI FICC Research.

Appendix 10: Chinese TMTs – IG picks with strong credit profiles

We like the strong credit profiles of the Chinese TMT issuers, and we view they 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. A few of them are in net cash positions and sit comfortably at their rating levels. We maintain buy on **MEITUA 0 04/27/28 (CB), MEITUA 3.05 10/28/30, 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** 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	Amt o/s (USD mn)	Ask px	Z-spread (bps)	YTM/YTP	Mod dur	Issue rating (M/S/F)
MEITUA 0 04/27/28	XS2333569056	1,500	99.7	-	4.8%	0.3	Baa1/-/-
MEITUA 3.05 10/28/30	US58533EAC75	1,250	93.6	115	4.6%	4.4	Baa1/A-/BBB+
TENCNT 3.595 01/19/28	US88032WAG15	2,500	99.6	48	3.8%	1.9	A1/A+/A
TENCNT 3.975 04/11/29	US88032WAN65	3,000	100.2	58	3.9%	2.8	A1/A+/A
XIAOMI 3.375 04/29/30	US98422HAA41	600	96.3	92	4.3%	3.9	Baa1/BBB/BBB+
XIAOMI 2.875 07/14/31	US98422HAC07	800	92.4	95	4.4%	5.0	Baa1/BBB/BBB+

Source: Bloomberg.

MEITUA

We maintain buy on **MEITUA 0 04/27/28 (CB, puttable at 101.28 in Apr'26) and MEITUA 3.05 10/28/30**. We continue to view MEITUAs as domestic consumption plays, which should demonstrate relative defensiveness against the impact of trade war. The intense competition in China's food delivery market materially weighed on Meituan's 3Q25 profitability, primarily driven by elevated incentives and marketing expenses aimed at defending market share against aggressive subsidy campaigns from its competitors. While the aggressive price war has eroded sector-wide margins, we anticipate this pressure to persist until the competitive landscape becomes more rational, that could be driven by regulatory intervention to curb excessive subsidies.

Despite near-term headwinds, we view Meituan's overall credit profile remains robust with a strong net cash position of RMB90.0bn as of Sep'25. This should help cushion the near-term impact on its earnings as the price war continues in 4Q25. We would not be surprised to see some near-term pressure on MEITUAs but consider further volatility will present better entry opportunities. We maintain buy on MEITUA 0 04/27/28 (CB), which is trading at 99.7 with YTP of 4.8%. As of Sep'25, Meituan's net cash position was at RMB90.0bn, down from RMB106.7bn as of Dec'24, as mitigated by lower total debts. Over the past 5 years, Meituan's net cash position has averaged RMB70.6bn.

Meituan's 3Q25 performance reflected the costly battle for user retention. Total revenue only increased by 2% yoy to RMB95.5bn as strong growth from new initiatives largely offset by weakness in core local commerce. Looking ahead, Meituan expects substantial losses in its core local commerce segment. This reflects its ongoing and elevated investments in incentives, subsidies, and marketing to defend its leading market position amid escalation of industry competition. Alibaba, with its RMB50bn, 12-month subsidy program for Taobao Flash Sale platform and Ele.me food delivery services, and JD, with RMB10bn in targeted merchant support, have both ramped up investment to gain market share.

In the near term, we expect aggressive subsidy campaigns from Alibaba and JD to weigh on Meituan's profitability, particularly Meituan faces rising costs and compressed margins due to the intensifying industry competition. We anticipate the pressure on Meituan's profitability to persist until the sector's subsidy competition becomes more rational, that could be driven by regulatory intervention to curb excessive subsidies. In our view, these subsidy campaigns are driving user and order volume growths, they are also eroding profitability across the entire sector. Despite near-term headwinds, we view Meituan's overall credit profile remains robust, and its strong net cash position should help cushion the impact on its earnings as the price war continues in 4Q25.

TENCNT

For investors with lower risk appetite, we recommend buy on **TENCNT 3.595 01/19/28 and TENCNT 3.975 04/11/29** given their lower cash prices among the shorter tenor TENCNT bonds. At 99.6, TENCNT 3.595 01/19/28 is trading at YTM 3.8%/Z-spread of 48bps, while TENCNT 3.975 04/11/29 is trading at YTM 3.9%/Z-spread of 52bps at 100.2.

Tencent delivered steady increases in revenue and profit in 9M25. Tencent gross profit margin increased to 56% in 9M25 from 53% in 9M24, thanks to the growth in higher-margin domestic games, video accounts and Weixin Search. In 9M25, Tencent generated RMB237bn operating cash flow, represented 16% increase yoy. As of Sep'25, Tencent had unrestricted cash of RMB160.0bn and net cash (unrestricted cash and short term investments minus total debts) of RMB8.8bn, compared to net debt of RMB20bn as of Dec'24.

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'25, Tencent's investments in listed entities totaled RMB801bn. 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 RMB9bn as of Sep'25, improving gross profit margin and strong free cash flow generation.

XIAOMI

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 96.3 and 92.4, XIAOMI 3.375 04/29/30 and XIAOMI 2.875 07/14/31 are trading at YTM of 4.3% and 4.4%, respectively.

Xiaomi released strong 3Q25 results, driven by strong growth in the smartphone × AIoT segment, as well as increase in delivery of smart EV. In 3Q25, the gross margin of Xiaomi was flat at 22.5%, higher gross margin in smart EV was partly offset by lower gross margin in smartphone. Xiaomi's GP margin improved to 22.9% in 3Q25, compared to 20.4% in 3Q24, due to a higher GP margin in both the smart EV and the Smartphone x AIoT segment. A decrease in the cost of key components and lower manufacturing cost per unit contributed to margin expansion. Adj. EBITDA rose 29% yoy to RMB8.9bn in 3Q25, with adj. EBITDA margin improved 0.4 pct. pt. to 7.9%.

Xiaomi's credit profiles remained solid. As of Sep'25, Xiaomi had net cash (unrestricted cash and short term investments minus total debts) of RMB83bn, representing an 18% increase from RMB69.9bn as of Dec'24, driven by operating cash inflows of RMB33.5bn during 9M25, share placement of RMB39.2bn, net of debt repayment. Xiaomi's unrestricted cash to ST debts ratio at 3.7x at Sep'25. During 9M25, Xiaomi invested RMB13.0bn in capex, 87% yoy increase, and RMB23.5bn in R&D, 52% yoy increase. Xiaomi expects to spend cRMB6bn in 4Q25, and RMB200bn over the next five years which represents cRMB40bn per year. We expect Xiaomi to remain in a net cash position over the medium term despite increasing R&D expenses and capex, which will be funded by internal resources and strong operating cash inflows, supported by the growing contribution from Smart EV segment which achieved quarterly profitability in 3Q25.

Table 1: Key financials of our picks

9M25, RMB mn	MEITUA	TENCNT	XIAOMI
Revenue	273,886	557,395	340,370
Gross profit	88,009	314,304	77,443
Operating profit/(loss)	(8,967)	181,224	41,672
Adj. EBITDA	242	253,379	31,632
Net profit/(loss)	(8,210)	170,712	35,023
Operating cash flow	(7,244)	236,577	33,528
Capex	N/A	59,566	13,000
Gross margin	32.1%	56.4%	22.8%
Adj. EBITDA margin	0.1%	45.5%	9.3%
Net profit margin	-3.0%	30.6%	10.3%
As of Sep'25			
Unrestricted cash and cash equivalent	99,234	159,982	35,548
Short-term treasury investments	42,054	258,144	74,602
Unrestricted Cash and ST investment	141,288	418,126	110,150
ST debts	19,011	68,148	9,589
LT debts	32,255	341,147	18,000
Total debts	51,266	409,295	27,589
Net cash	90,022	8,831	82,561
Cash/ST debts	5.2x	2.3x	3.7x

Source: Company filling, CMBI FICC Research.

Appendix 11: Chinese LGFVs – Supported by strong technical and policy support

We believe the policy support to LGFVs to remain firm, reflected by the debt swap for the hidden debts of local governments. Meanwhile, the technical of the space remain strong in view of net redemption trend since 2022, driven by strong onshore demand and lower cost funding alternatives onshore. 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 maintain buy on **CPDEVs**. We continue to prefer bonds issued by LGFVs with critical roles in higher tier cities and better trading liquidity than peers. We turn to neutral on CCUDIH 26-27 and SHUGRP 27 based on current valuation, which are trading at YTM of 3.9-4.9%.

Table 1: Our LGFV picks

Security Name	ISIN	Amt o/s (USD mn)	Ask Px	YTM	Mod Dur	Issue rating (M/S/F)
CPDEV 7.15 03/21/28	XS2867168226	450	100.4	7.0%	2.0	Unrated
CPDEV 6.8 04/07/29	XS3035206518	500	99.5	7.0%	2.8	Unrated

Source: Bloomberg.

CPDEV

We maintain buy on **CPDEVs**. CPDEV 28-29 were issued by Central Plaza Development (CPDEV) with keepwell provided by its parent Beijing Capital Group (BCG), which is 100%-owned by Beijing SASAC. BCG engages in environmental protection, city development and financial services in the mainland China. We take comfort with Beijing SASAC's ownership in BCG, CPDEV's strategic importance to the government in city development, and CPDEV's good access to onshore funding channels. In FY24, BCG generated operating income of RMB57.5bn and had total assets of RMB400.9bn as of Dec'24.

During 2025, CPDEV has been proactively managing its offshore maturity profile as supported by its good access to diverse funding channels. In Mar'25, CPDEV issued USD450mn of CPDEV 28 and concurrent tender offer for CPDEV 25 then repurchased USD386.8mn. In Apr'25, CPDEV issued USD500mn of CPDEV 29 and concurrent tender offer for CPDEV 25 and CPDEV 26, then repurchased totaled USD319.4mn. YTD, CPDEV issued totaled RMB11.5bn onshore bonds at weighted average coupon rate of 2.08%, down from 2.53% in 2024. It has also called its three USD perps on their first call dates, i.e. in Apr'18, Dec'19 and Nov'24, respectively.

On-going supportive policies to resolve local government debt risks

The MoF disclosed a hidden debt balance for first time totaled RMB14.3tn in 2023 and reduced to RMB10.5tn in 2024, supported by RMB10tn debt substitution program to replace off-BS liabilities with lower-cost, longer-tenor government bonds. We understand that weaker provinces received a larger share of debt swap quota.

The RMB10tn package include an annual debt quota of RMB2tn from 2024 to 2026 to swap LGFV's expensive hidden debts, as well as an annual allocation of RMB800bn from newly issued local government special bonds from 2024 to 2028. LGFVs can convert hidden debts into on-BS debts at lower interest rates, that reduce theirs borrowing costs and ease near-term repayment pressures. In our view, moving the hidden debts on-BS will enhance the transparency in debt control and should allow a stronger oversight.

We see further efforts by the government to resolve the LGFV debt risk during 2025. The MoF set up a debt management department in Nov'25. The new department consolidated the previous dispersed functions across the MoF including issuance and repayment of government debts, set quotas for national and local government bonds, policy formulation and risk oversight. It also takes responsibility for strengthening oversight over government debt and resolving hidden debt risks.

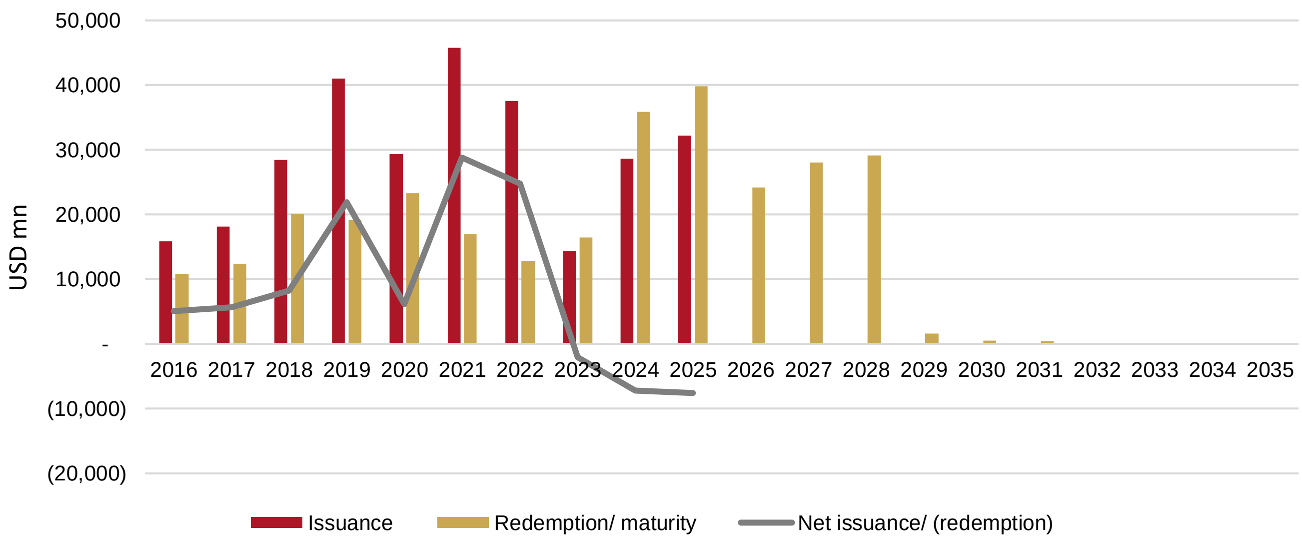
Chinese regulatory bodies target the complete elimination of government financing platforms by Jun'27. LGFVs have to strip government financing functions and become a market-oriented entity and maintain local economic and financial stability. As of Sep'25, number of LGFVs reduced by 71% and their business-related financial debt reduced by 62% compared with Mar'23 level.

LGFV issuance to decrease both onshore and offshore

Similar to many other sectors in Asia USD bond universe, LGFV experienced net redemption since 2022. The space experienced another year of net redemptions in 2025 totaled USD7.6bn. Meanwhile, LGFV Dim Sum bond space experienced net issuance of RMB86bn, amid lower than RMB204bn in 2024. Higher barriers were set for offshore issuance, such that only high quality issuers can tap on the offshore market to refinance. Moreover, we view the lower LGFV Dim Sum bonds issuance was partly due to the tightened regulatory environment for onshore investors starting from 4Q24 by limiting Southbound Bond Connect allocations to LGFV Dim Sum bonds.

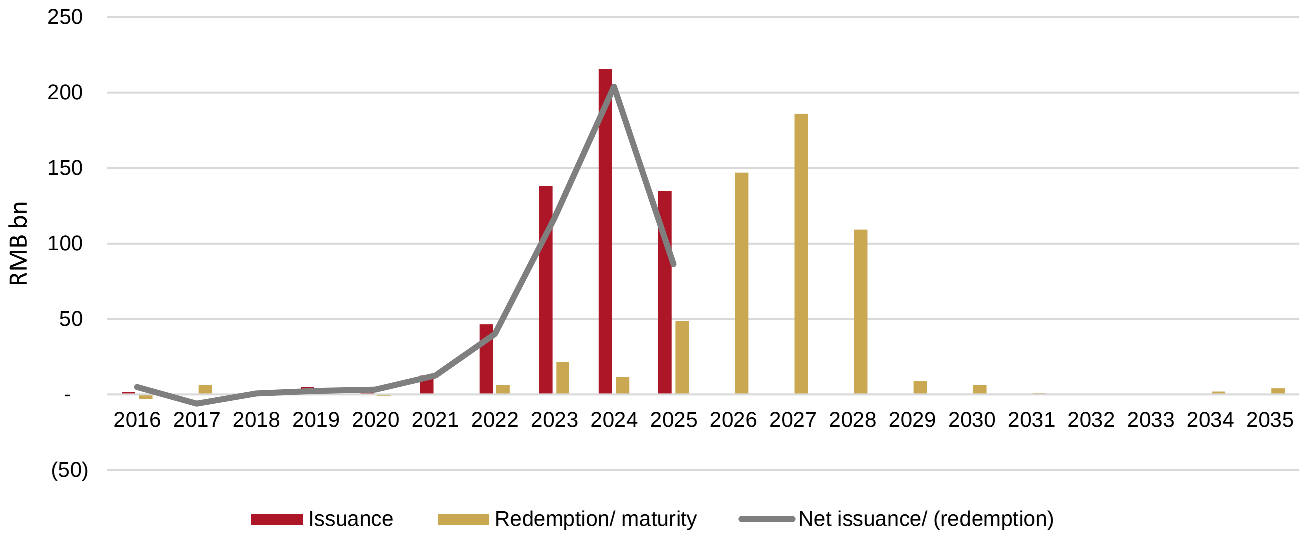
On the other hand, LGFV onshore bond space recorded first net redemptions in 2024 and the trend continued in 2025, totaled RMB700bn. While the onshore net redemptions should not be too surprising as new issues is only for refinancing maturing debts. The net redemptions reflect the availability of lower-cost funding alternatives such as bank facilities and funding through the debt swaps of local government. We expect LGFV onshore issuance to further decrease in 2026 given the smaller scheduled maturities and availability of lower-cost funding alternatives.

Chart 1: Offshore USD bonds net redemption to continue



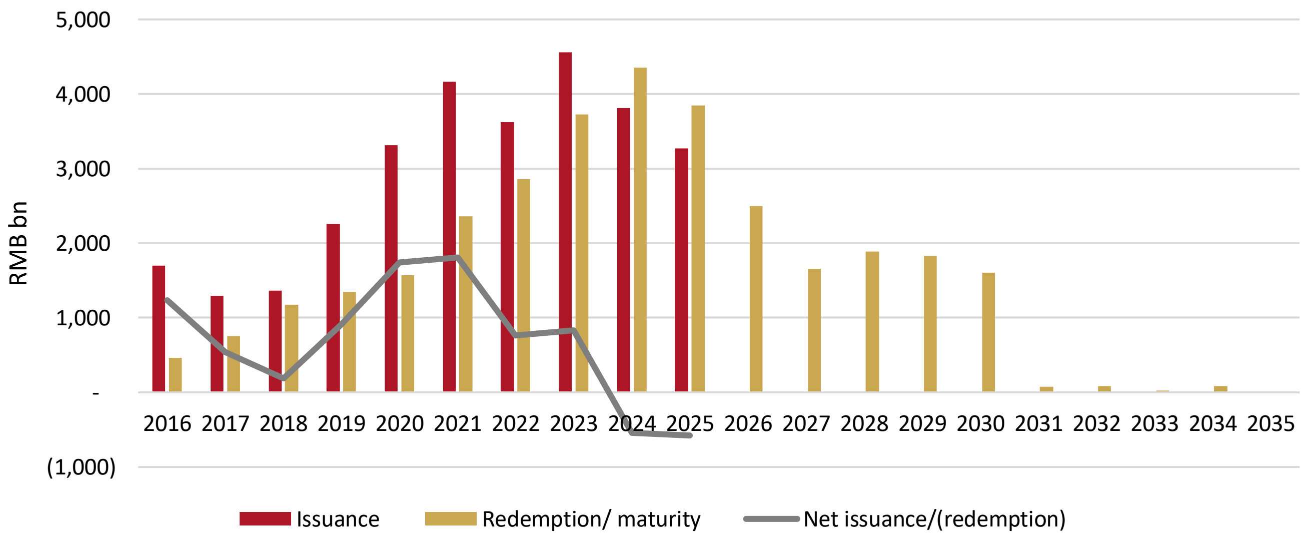
Source: Bloomberg, CMBI FICC Research.

Chart 2: Dim sum bonds net issuance to decrease



Source: Bloomberg, CMBI FICC Research.

Chart 3: Onshore bond issuance to decrease



Source: Wind, CMBI FICC Research.

Appendix 12: Chinese Properties – Recovery remains slow

The signs of improvement from a series of supportive measures launched in Sep'24 did not turn into a sustainable recovery, contracted sales continued to drop in 2025. CMBI economic research expects the PBOC to cut LPR by 10bps in 1Q26, followed by an additional 10bps LPR cut in 3Q26. This should provide some support to the weak economy and housing market. 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, GRNCH, and LNGFORs.** 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 Charts 3-4 (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

While we continue to view Yanlord as one of the survivors in the sector and like the credit story of Yanlord, we maintain neutral on **YLLGSP 26** on valuation.

On Vanke, we change our recommendations on **VNKRLEs** to hold from buy as we see limited upside in the near-term in anticipation of the noise on onshore bond restructuring. That said, offered at 21.6 and 21.4, VNKRLE'27 and '29 have already priced in the recovery ratio in a liquidation scenario. We shall continue to monitor the progress of maturity extension of onshore bonds and believe that if Vanke is given time, it can avoid a holistic restructuring. Indeed, we were surprised by the latest developments including the cap on shareholders' loans and extension of maturity on onshore bonds as Vanke's debt maturity profile is notably more manageable after early redemptions and repayments of public bonds totaling cRMB29bn YTD with shareholder's loans from SZ Metro.

In our opinion, Vanke can turn to alternative funding channels such as long-term operating loans or CBICL-guaranteed bonds secured by IPs, funding channels successfully utilized by Seazen over the past 2 years. As of Jun'25, the book value of Vanke's IPs was cRMB152bn. We understand that the book value of pledged IPs were cRMB80bn (vs. cRMB74bn as of Dec'24). Hence, c48% of IPs should remain unencumbered. Assuming a LTV of 50%, Vanke can secure additional financing of cRMB36bn from its unencumbered IPs. This should provide Vanke a good financial flexibility to deal with public bond maturities. Currently, the total o/s onshore and offshore bonds of Vanke is cRMB31bn, including onshore bonds totaling RMB21.9bn and offshore bonds totaling USD1.3bn.

Table 1: Our Chinese properties picks

Ticker	Number of USD bonds o/s	Amt o/s (USD mn)	Ask px	YTM/YTC (%)	Next maturity	Ownership
CHJMAO	3	1,600	91.5-100.1	4.5-7.0	CHJMAO 3.2 04/09/26	State-owned
DALWAN	2	800	96.2-99.9	13.1-17.6	DALWAN 11 01/12/26	Non-state-owned
FUTLAN/FTLNHD	3	914	91.7-95.3	16.1-86.3	FTLNHD 4.5 05/02/26	Non-state-owned
GRNCH	1	500	100.6	8.1	GRNCH 8.45 02/24/28	Non-state-owned
LNGFOR	4	2,000	72.3-92.7	9.6-10.8	LNGFOR 3 ⅜ 04/13/27	Non-state-owned

Source: Bloomberg, CMBI FICC Research.

Contracted sales continued to drop in 2025

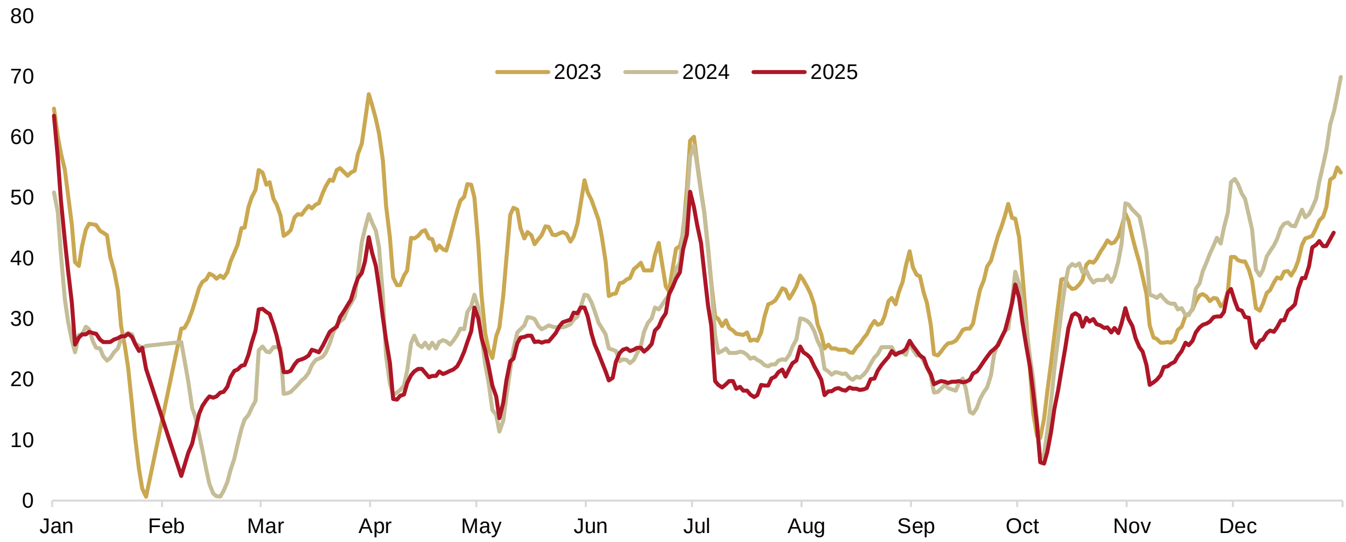
In 11M25, the cumulative contracted sales of 31 developers dropped 22.1% yoy to RMB1,571.4bn. Only 2 out of 31 developers reported yoy increase in contracted sales; CHJMAO and GRNLGR posted 21% and 6% increase in contracted sales to RMB100.7bn and RMB62.0bn, respectively. The bottom performers were GEMDAL (RMB27.6bn), JINGRU (RMB876mn) and CIFIHG (RMB15.1bn). Their contracted sales dropped 56%, 54%, and 52% yoy in 11M25, respectively.

Table 2: Jan-Nov'25 sales of 31 developers under our radar

Company	CN Name	BBG Ticker	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Trend	Nov'25 MoM Growth	Nov'25 YoY Growth	Nov'25 YTD Sales	Nov'25 YTD Sales Growth
China Jinmao	中国金茂	CHJMAO	6,695	4,416	7,191	7,001	12,444	15,600	8,460	9,077	9,801	11,997	7,997		-33%	0%	100,679	21%
Greenland Holding*	绿地控股集团*	GRNLGR	3,300	3,600	5,243	5,997	6,870	8,500	4,500	4,400	5,600	8,000	6,000		-25%	13%	62,010	6%
Yuexiu Property	越秀地产	YUEXIU	6,602	6,225	18,000	10,293	9,581	10,800	6,006	5,505	6,801	12,290	5,115		-58%	-49%	97,218	-14%
Hopson	合生创展	HPDLF	473	427	1,174	2,670	1,289	1,895	1,119	855	1,362	1,901	1,105		-42%	-2%	14,270	-19%
Greentown	绿城	GRNCH	11,300	12,700	28,400	18,600	25,500	25,700	14,600	19,500	22,200	22,600	22,400		-1%	-30%	223,500	-19%
Yuzhou Properties	禹洲地产	YUZHOU	501	561	872	661	621	512	421	403	361	702	581		-17%	-26%	6,196	-25%
China Resources Land	华润置地	CRHZCH	11,600	13,500	26,100	17,300	18,350	23,450	13,300	13,200	17,600	15,200	23,000		51%	[illegible]	192,600	-26%
Central China Real Estate	建业地产	CENCHI	580	990	540	600	690	1,050	520	657	499	561	486		-13%	-49%	7,173	-26%
Logan Property*	龙光地产*	LOGPH	550	460	760	650	700	400	580	860	470	500	600		20%	-8%	6,530	-27%
Poly Real Estate	保利地产	POLYRE	18,015	15,996	29,016	24,622	28,512	29,011	18,014	18,015	20,531	21,116	18,019		-15%	[illegible]	240,867	-32%
China Overseas	中国海外发展	CHIOLI	12,020	13,200	21,200	20,164	23,854	29,713	11,850	18,330	20,173	18,661	22,235		19%	-26%	211,400	-32%
Sino-Ocean*	远洋集团*	SINOCE	1,890	990	2,400	2,810	2,330	2,950	1,370	1,700	2,390	2,470	2,490		1%	-33%	23,790	-32%
China SCE*	中骏集团控股*	CHINSC	600	800	920	690	800	710	600	610	580	750	680		-9%	-27%	7,740	-33%
Sunac China	融创中国	SUNAC	6,840	1,800	1,460	1,100	4,800	7,550	1,530	5,390	1,290	1,010	1,120		11%	-30%	33,890	-35%
KWG Property	合景泰富集团	KWGPRO	502	361	801	509	738	653	616	611	745	621	511		-18%	-21%	6,668	-38%
Shimao	世茂房地产	SHIMAO	2,200	1,870	3,000	1,997	2,135	2,321	1,987	1,806	1,901	1,702	1,513		-11%	-44%	22,432	-38%
Country Garden (Attributable)	碧桂园	COGARD	2,260	2,300	3,210	3,080	3,090	2,810	2,770	2,960	2,580	2,900	2,350		-19%	-22%	30,310	-41%
Zhongliang	中梁控股	ZHLGHD	1,100	1,210	1,090	950	1,020	1,010	950	960	970	1,050	910		-13%	-28%	11,220	-42%
Zhenro Properties	正荣地产	ZHPRHK	373	330	421	372	467	402	336	290	297	452	269		-40%	-50%	4,009	-43%
Longfor (Attributable)	龙湖集团	LNGFOR	3,010	3,730	4,740	3,610	4,760	4,640	4,010	3,390	3,550	3,540	2,520		-29%	-56%	41,500	-44%
Yanlord*	仁恒置地*	YLLGSP	1,420	2,650	1,230	1,380	1,370	820	1,150	470	930	690	540		-22%	-66%	12,650	-44%
Times Property	时代中国控股	TPHL	650	280	320	560	680	380	332	430	301	403	451		12%	-47%	4,787	-43%
Powerlong	宝龙地产	PWRLNG	692	608	696	565	608	554	582	602	524	714	521		-27%	-47%	6,666	-43%
China Vanke*	万科企业*	VNKRLE	11,010	10,200	13,200	11,510	11,120	11,620	13,450	9,000	9,180	14,370	9,420		-34%	-53%	124,080	-44%
Agile	雅居乐	AGILE	790	860	1,170	490	930	930	520	580	460	710	640		-10%	-47%	8,080	-45%
Redsun	弘阳地产	REDSUN/HONGSL	669	443	408	490	460	400	337	299	272	202	200		-1%	-68%	4,180	-48%
Ronshine China	融信中国	RONXIN	350	283	460	327	438	251	462	130	302	216	274		27%	-65%	3,492	-50%
Future Land	新城控股	FUTLAN/FTLNHD	1,017	1,959	2,127	1,761	1,973	1,493	1,661	1,576	1,484	1,419	1,448		2%	-42%	17,918	-52%
CIFI Holdings	旭辉集团	CIFIHG	1,810	1,610	2,020	1,720	1,680	1,320	1,040	960	900	1,100	930		-15%	-59%	15,090	-52%
Jingrui Holdings	景瑞控股	JINGRU	60	62	120	77	68	85	99	52	117	87	49		-44%	-75%	876	-54%
Gemdale	金地集团	GEMDAL	2,250	2,800	3,100	2,780	3,120	3,100	2,580	2,220	2,230	1,920	1,520		-21%	-68%	27,620	-56%

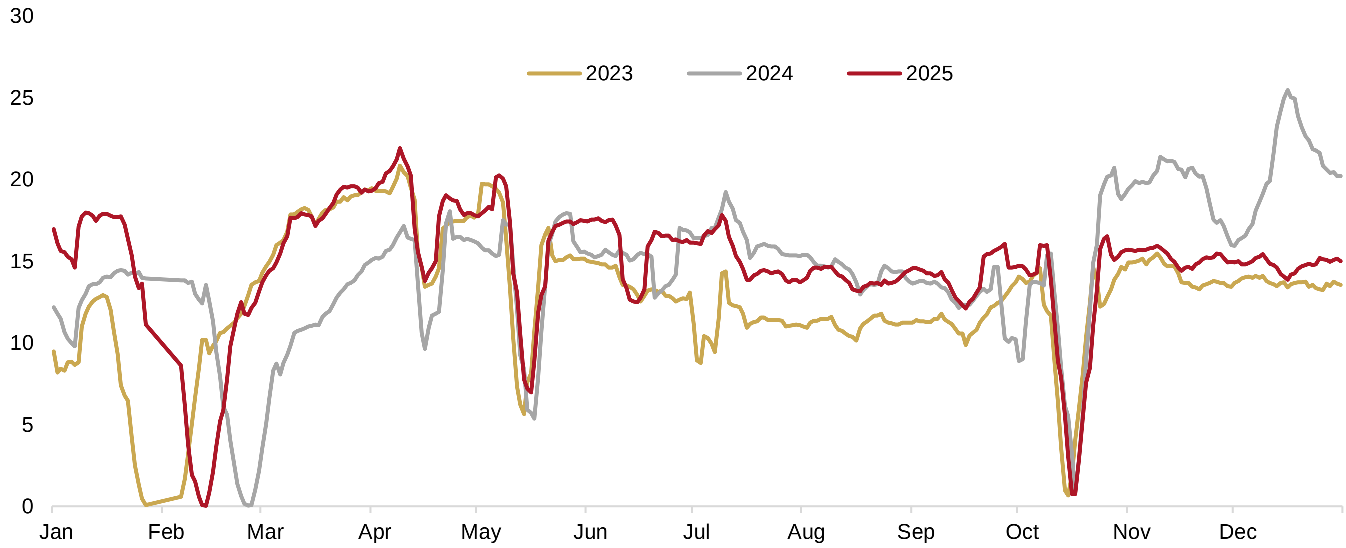
Source: Company fillings, CRIC, CMBI FICC Research.

Chart 1: Lower sales of 30 major cities: average 7-day rolling property sales ('0000 sqm)



Source: Wind, CMBI FICC Research.

Chart 2: 10 Major cities: average 7-day rolling secondary property sales ('0000 sqm)

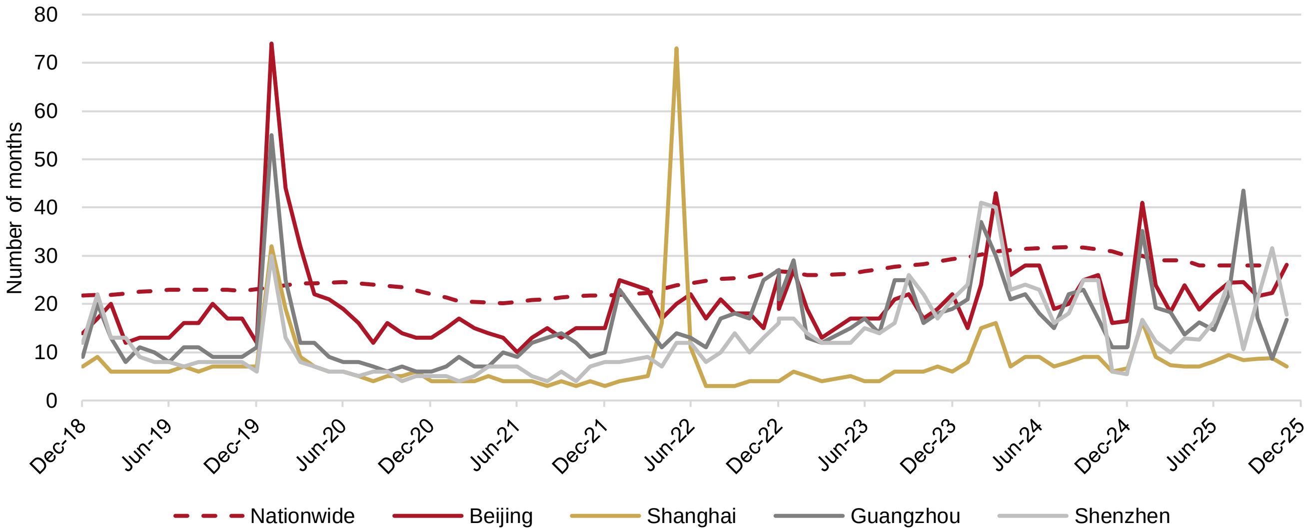


Source: Wind, CMBI FICC Research.

Lower overall inventory level

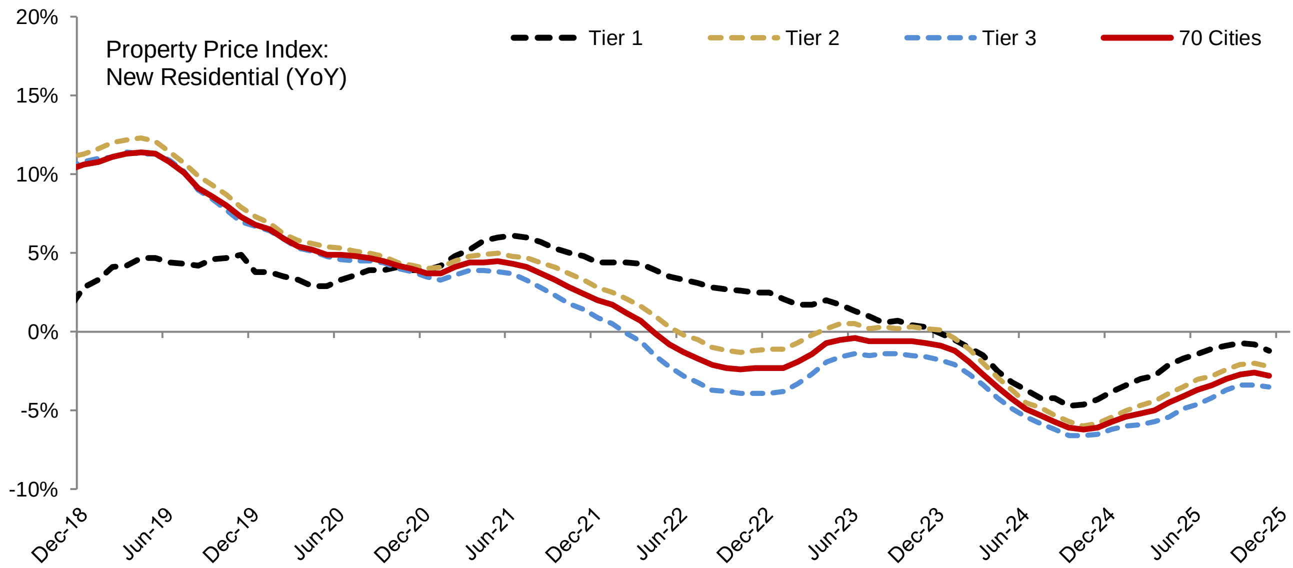
As of Dec'25, the inventory months of four tier-1 cities, e.g. Beijing, Shanghai, Guangzhou and Shenzhen were 28, 7, 17 and 18, respectively, compared to 25, 9, 23, 25 when the relaxations were launched in Sep'24.

Chart 3: Lower inventory level in higher tier cities



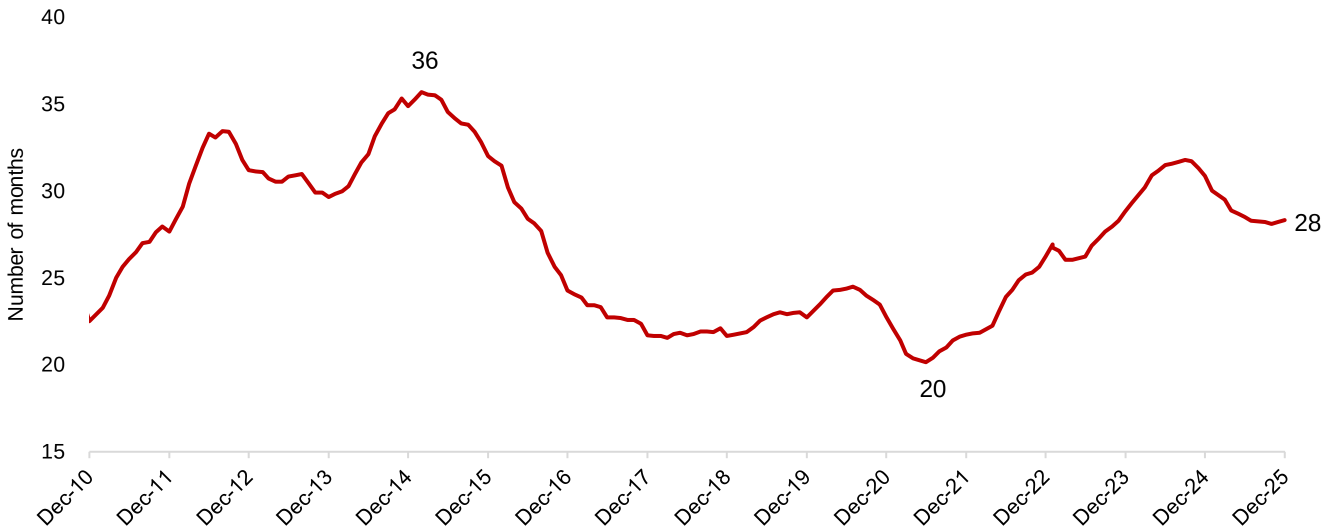
Source: NBS, Wind, CMBI FICC Research.

Chart 4: Tier 1/2 cities remain more resilient



Source: NBS, CEIC, CMBIGM.

Chart 5: Overall inventory level started declining



Source: NBS, CMBI FICC Research.

Sales recovery is the key

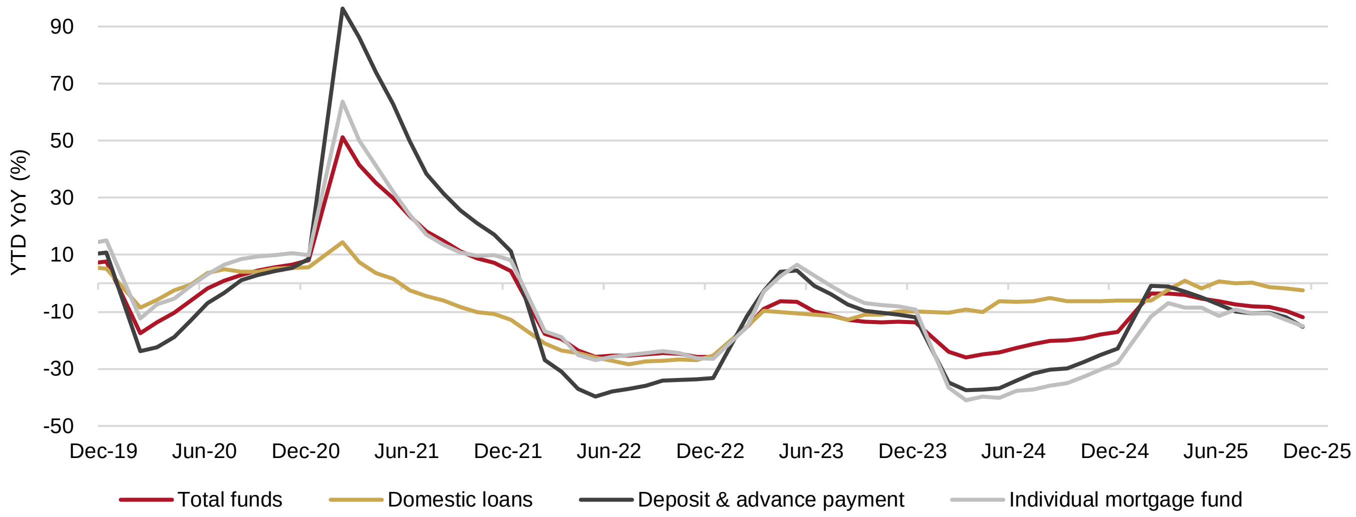
Among tier-1 cities, the home purchase restrictions (HPR) were completely lifted in Guangzhou, while Beijing, Shanghai and Shenzhen have implemented differentiated policies, i.e. retaining HPR in core areas while fully opening up in non-core areas. The differentiated policies on core and non-core areas reflect the government's attempt to stimulate property sales while remaining cautious on overheating in core areas.

As per media report, China is considering additional measures to support the property market. These include providing new homebuyers mortgage subsidies for the first time nationwide, raising income tax rebates for mortgage borrowers and lowering home transaction costs. We expect a new round of demand-driven stimulus may come in 1Q26. In May'25, PBOC cut the 5yr LPR by 10bps to 3.5%, as the lowest level since the LPR was launched in Aug'19.

That said, the recovery of the property market hinges on homebuyers' confidence which, in turn, hinges on household income expectation and trend of the property price. 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. Default of Vanke, if triggered, could further dampen the market sentiment.

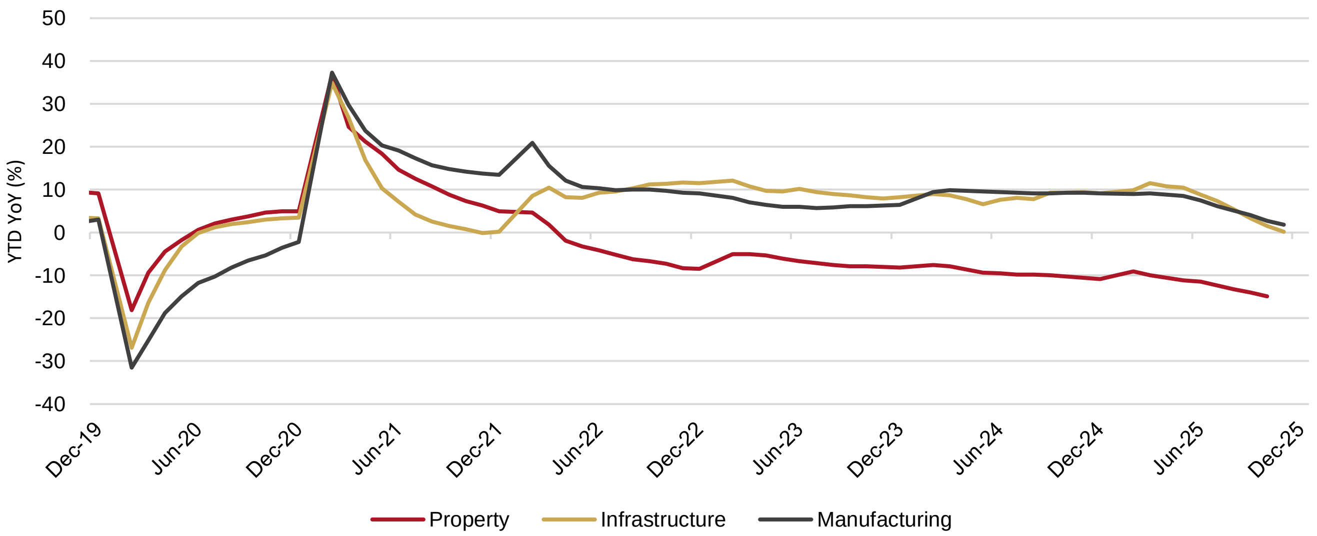
We believe that the survivors of the Chinese property will be those with major operations in tier 1/2 cities where the sales and ASP remain more resilience and sales recovery is more visible; manageable near-term debt maturities, especially offshore bond maturities; and ownership of high-quality IPs which can be collateralized for funding through operating loans, CMBS and CBICL-guaranteed onshore bond issuances.

Chart 6: Source of funding for developers



Source: Wind, CMBI FICC Research.

Chart 7: Capex/fixed asset investments



Source: Wind, CMBI FICC Research.

Table 3: USD bonds maturities of our picks

USD mn	2026	2027	2028	2029	2030 and beyond	Total
CHJMAO	1,100*	-	-	500	-	1,600
DALWAN	400	-	400	-	-	800
FUTLAN/FTLNHD	404	160	350	-	-	914
GRNCH	-	-	500	-	-	500
LNGFOR	-	250	500	850	400	2,000
YLLGSP	500	-	-	-	-	500

*Note: * include CHJMAO 6 Perp of USD500mn which China Jinmao announced to redeem on the first call date in Feb'26.*
Source: Bloomberg, CMBI FICC Research.

Table 4: Onshore bonds maturities of our picks

RMB mn	2026	2027	2028	2029	2030 and beyond	Total
CHJMAO	500	-	-	-	-	500
DALWAN	-	-	-	-	-	-
FUTLAN/FTLNHD	2,100	800	-	2,120	3,650	8,670
GRNCH	9,800	6,500	8,500	-	-	24,800
LNGFOR	2,450	700	3,720	-	800	7,670
YLLGSP	-	-	-	-	-	-

Source: Bloomberg, Wind, CMBI FICC Research.

Appendix 13: HK Corporate – Seeing silver lining

Table 1: Our HK corporate picks

Security Name	ISIN	Amt o/s (USD mn)	Ask Px	YTW	Mod dur	Next call date	Payment rank	Issue rating (M/S/F)
Maintain buy								
FAEACO 12.814 Perp	XS2050584866	360	70.5	18.0%	2.5	2/18/2026	Sr Unsecured	Unrated
Maintain neutral								
HYSAN 2 7/8 06/02/27	XS2178221490	400	97.8	4.5%	1.4	3/2/2027	Sr Unsecured	Baa2/-/-
HYSAN 2.82 09/04/29	XS2044279334	500	93.5	4.8%	3.4	N/A	Sr Unsecured	Baa2/-/-
HYSAN 6 3/4 09/11/30	XS3177896613	17	101.6	6.3%	3.2	9/17/2027	Subordinated	Ba1/-/-
HYSAN 3.55 06/16/35	XS2190202015	225	86.2	5.45	7.8	N/A	Sr Unsecured	Baa2/-/-
HYSAN 4.85 Perp	XS2216209333	445.157	76.0	6.4%	15.3	2/5/2026	Sr Unsecured	Baa2/-/-
HYSAN 7.2 Perp	XS3012400746	750	104.4	6.1%	3.9	9/11/2030	Subordinated	Baa3/-/-
LASUDE 5 07/28/26	XS2368038050	493	74.5	66.6%	0.4	N/A	Sr Unsecured	Unrated

Source: Bloomberg.

FAEACO

We maintain buy on **FAEACO 12.814 Perp** as we believe that the perp continues to offer a decent risk-return profile in view of the larger cushion against the covenanted adj. net gearing ratio, as well as expected cash inflow from project deliveries and non-core asset sales. At 70.5, the perp offers a YTW of 18.0%. We believe the optimal way for Far East Consortium (FEC) to manage its interest expenses and adj. net gearing ratio is to buy back the perp at market price despite FEC continues to mention bank loan reduction is the first priority. Any plans to buyback mean FEC has to continue to pay the coupon on the perp.

FEC announced weaker 1HFY26 results, which were largely in line with the profit warning issued on 21 Nov’25. Its 1HFY26 revenue decreased by 27% yoy to HKD3.8bn, primarily driven by 41% yoy decrease in revenue from property development segment from lower recognition during the period. Key contributors to development segment included Aspen at Consort Place and Victoria Riverside (Tower B, Tower C, and Bromley Street) in the UK, West Side Place in Australia, and Mount Arcadia in Hong Kong. Hotel segment revenue rose 10% yoy, driven by Dorsett Kai Tai Hong Kong and resilient performance in Malaysia and Australia. Dorsett Canary Wharf London and HubX Shanghai soft-opened in Sep’25 should help with revenue growth in 2HFY26. FEC omitted interim dividend.

Despite the topline drop, FEC’s loss before tax increased slightly to HKD665mn in 1HFY26, attributable to increase in share of losses from associates and JVs, partially offset by lower fair value losses on IPs and forex loss, as well as a HKD270.6mn gain from the disposal of its entire 53.21% stake in the BC Investment JV. Excluding the non-cash items, FEC’s adjusted cash profit increased to HKD203mn in 1HFY26 from HKD33.3mn in 1HFY25.

FEC’s leverage improved as of Sep’25. Its adj. net gearing ratio dropped to 64.9% from 67.6% as of Mar’25. FEC monetized HKD1bn non-core assets during 1HFY26 to reduce debts, including net proceeds from disposal of HK mortgage portfolio of HKD344mn and BC Investment of cHKD513mn. As of Sep’25, FEC had cash and cash equivalent of HKD2.6bn and total debt (incl. perp) of HKD27.2bn, both decreased c5% from the level as of Mar’25. We expect FEC to continue to deleverage in 2HFY26, in view of its disposal of car park in Sydney in Oct’25 and certain interest of Ritz-Carlton Perth in Nov’25. In Dec’25, FEC agreed to sell assets under commercial development, Plaza Damas, in Kuala Lumpur to its ultimate controlling shareholder for MYR55mn (cUSD13.5mn). FEC’s cumulative attributable presales and unbooked contracted sales of HKD9.3bn also provides near-term cash inflow visibility to FEC.

HYSAN

We are neutral on HYSANs on valuation. That said, within the curve, we consider of HYSAN 7.2 Perp offers the best risk-return profile compared with those of Hysan's dated bonds and its FFL perp HYSAN 4.1 Perp. At 104.4, HYSAN 7.2 Perp (first call in Sep'30) is trading at YTC of 6.1%.

Hysan raised junior subordinated HYSAN 6 3/4 09/11/30 of USD17mn in Sep'25. The significance of this small private placement is that Hysan has to build a cushion of junior securities in order to keep the rating of HYSAN 7.2 Perp at IG. During the tender offer and concurrent new issue in Mar'25, Hysan was quoted that it needed a minimum cushion of USD25mn junior securities upon the full redemption of HYSAN 4.1 Perp in Aug'25.

Hysan posted stable 1H25 results under a challenging operating environment. In 1H25, its turnover and EBIITDA grew 2.1% and 1.4% yoy to HKD1.7bn and HKD1.3bn, respectively. The occupancy rates of its retail/office/residential were resilient at 94%/92%/70% as of Jun'25, compared with 92%/90%/70%, respectively. Its liquidity profile remains solid with cash to ST debts at 2.3x. Its credit and liquidity profiles should also be benefitted from the capital recycling plan of HKD8bn over the coming 5 years. Hysan's net gearing ratio (perp as debt) was 33% as of Jun'25 (vs 31% as of Jun'24).

LASUDE

We maintain neutral on **LASUDE 5 07/28/26**. At 74.5, LASUDE 26 is trading at 66.6% YTW. We view the current valuation priced in a potential consensual LME with partial upfront repayment and a maturity extension. We noticed that Lai Sun Development (LSD)'s Chairman sold a total of USD7.1mn of LASUDE 26 and then bought back USD7.1mn of the bond during Dec'25, his holding was unchanged at USD13.5mn.

In Dec'25, LSD agreed to sell its entire 50% stake in CCB Tower in Central, Hong Kong to JD.com for HKD3.5bn (cUSD450mn), implying an ASP of cHKD31k per sq.ft. The consideration represented a 6.7% discount to the HKD3.75bn independent valuation as of 31 Jul'25, and covers 12 of the tower's 27 floors and a number of parking spaces, with the remaining 50% stake in the tower continued to be held by CCB International. The transaction is expected to generate net cash proceeds of HKD2.4bn for LSD, with completion targeted for Jan'26 pending shareholder approval. However, HKD261mn disposal losses will be recorded given the difference between the consideration and carrying amount of the stakes.

The CCB Tower disposal will notably improve LSD's financial flexibility of refinancing the maturing USD bonds. LSD's sole USD bond, LASUDE 26 of USD493mn, will be due in Jul'26. The net cash inflow of HKD2.4bn (cUSD308mn) net cash inflow from the disposal would cover c62% of the principal amount of the bond. The disposal is in line with LSD's plan of monetizing assets to address debt maturities. That said, CCB Tower is one of LSD's highest quality IPs which provides stable, recurring rental income from a prime location office asset in Hong Kong. In FY25, LSD generated HKD114.5mn rental income from CCB Tower with 97.7% occupancy rate. In our view, monetizing this core asset strengthens its liquidity profile and supports the near-term credit profile, but it will lower LSD's revenue resilience and recurring cash flow over the longer term, leaving LSD to be more dependent on IPs in less prime locations such as Cheung Sha Wan Plaza and Lai Sun Commercial Centre in Lai Chi Kok, as well as more volatile cash flows from property developments.

Recalled that LSD targets HKD8bn of asset disposals over the next two years from Feb'25 to Jan'27. LSD achieved project sales of HKD2.2bn and disposed of assets totaled HKD4.2bn (incl. CCB Tower and Novotown Phase II Tower 1 and 3 in Hengqin) during the period. These imply LSD has a remaining target of HKD1.6bn asset disposals in coming 11 months.

LSD reported lower net losses of HKD2.9bn in FY25 (ended 31 Jul'25) from HKD3.7bn in FY24. The lower net losses were driven by lower asset impairment charges and fair value losses on IPs, alongside with lower finance costs. The cost control measures helped bring admin expenses down 5% and other opex down 39.4%, delivering total savings of HKD667mn compared to FY24. These improvements were partially offset by weaker property sales (down 42% yoy to HKD885mn) and lower contribution from film and TV program (down 86% yoy to HKD47mn), and a 42% yoy increase in share of losses of JVs to HKD1.1bn.

As of Jul’25, LSD short-term debts stood at HKD14.8bn compared to cash and bank balances of HKD4.2bn, resulting in a net current liability position. The HKD14.8bn short-term debts comprised 70% bank borrowings, 26% USD bond LASUDE 26 of USD493mn, and 4% other borrowings and lease liabilities. In Sep’25, LSD refinanced HKD3.1bn (c30% of short-term bank borrowings) as part of HKD3.5bn 5-year syndicated loan secured on Cheung Sha Wan Plaza. LSD still faces HKD7.3bn of bank borrowings maturing within nine months, with LASUDE 26 due in Jul’26.

Appendix 14: Situational Credits

Table 1: Our picks

Security name	ISIN	Amt o/s (USD mn)	Ask Px	YTW	Mod dur	Issue rating (M/S/F)
Initiate buy						
VDNWDL 9 Perp	XS3233076366	1,175.548	96.5	11.0%	4.6	Unrated
WESCHI 9.9 12/04/28	XS3219577148	400	98.5	10.5%	2.4	-/-/B
Neutral						
NWDEVL 5.25 Perp	XS2132986741	743.353	52.9	20.1%	0.2	Unrated
NWDEVL 8.675 02/06/28	XS2873948702	372.038	89.5	14.6%	1.8	Unrated
WESCHI 4.95 07/08/26	XS2346524783	200	99.8	5.3%	0.5	Caa1/-/-

Source: Bloomberg.

NWDEVL/VDNWDL

We changed our buy recommendation on NWDEVL 5.25 Perp and NWDEVL 8.675 02/06/28 to neutral after the rebound. At the same time, we initiate buy on **VDNWDL 9 Perp** in view of the higher certainty of coupon payment. We see a number of corporate actions for the businesses of Cheng family. We should not be surprised to see more LME for NWDEVLs, especially focusing on the old perps.

In Nov'25, NWD launched holistic exchange offers for all of its 5 perps and 6 USD bonds with a total outstanding amount of cUSD6.8bn to exchange into new perp with an initial coupon rate of 9% and bond due 2031 with a coupon rate of 7%. The exchange considerations include 2 cash pts for perp holders but no upfront cash for bondholders. NWD accepted totaled USD2.3bn of perps and USD236.0mn of bonds in principal amount, and issued USD1.2bn new perps and USD186.6mn of new bonds. The net reduction in NWD's debts is USD1.2bn through the LME.

The exchange for the perp instead of that for the bonds, in our view, is NWD's priority given the exchange for the perps at a 50% discount would have more meaningful impact on reduction of net debts and coupon payments. The exchange offers help NWD reduce its net coupon payments by c1% on a pro-forma basis. NWD's net debts were HKD164.3bn as of Jun'25 and interest payment including perp coupon was HKD9.4bn for FY25.

NWD reported weaker FY25 results with lower core operating profit and widened net losses, reflecting significant non-cash impairment and valuation losses. Core operating profit fell 13% yoy to HKD6.0bn, while the attributable net loss widened to HKD16.3bn from HKD11.8bn in FY24. Revenue declined 23% yoy, mainly due to lower construction revenue and fewer bookings from Mainland China property developments. Projects delivered in Hong Kong during the year included Mount Pavilia, Uptown East, Fleur Pavilia, and 888 Lai Chi Kok Road. Gross profit declined 10% yoy, while gross margin increased by 609 bps yoy. See Table 2.

In FY25, contracted sales and NCD totaled HKD26bn; NWD set an FY26 target of HKD27bn. Pre-sales for The Pavilia Forest, State Pavilia, and Deep Water Pavilia were well received since launches, recording contracted sales of HKD4.0bn, HKD3.6bn, and HKD6.3bn, respectively. NWD expects HKD20.0bn of contracted sales to be booked in FY26 and FY27, of which HKD16.9bn are from Hong Kong projects, including The Pavilia Farm III, Deep Water Pavilia, State Pavilia, Mount Pavilia, and The Pavilia Forest. Capex was HKD12.6bn in FY25, meeting the revised target of below HKD13bn; FY26 capex is targeted below HKD12bn.

As of Jun'25, NWD's net debt (excl. perps) was HKD129.6bn, down marginally from HKD133.5bn in Jun'24. Net gearing, however, rose to 62.7% from 59.4% in 1H25, reflecting the lower equity resulting from non-cash write-down. That said, we take comfort with the refinancing of bank loans of HKD88.2bn, as well as securing new loans from DB of up to HKD5.9bn (cUSD760mn). As per the press release dated 25 Sep'25, the initial committed tranche is up to

HKD4.0bn. The new facility is secured by a first-ranking mortgage over Victoria Dockside assets, and NWD also retains the ability to use Victoria Dockside as security to obtain other additional financing. The debts maturing over the coming 2 years dropped HKD44.8bn to HKD29bn. We take additional comfort that its gross interest expenses in FY25 reduced HKD1.3bn with average funding cost lowered to 4.8% in FY25 from 5.0% in FY24.

In Dec'25, NWD's launched 63 units of Austin Bohemian, located near West Kowloon High-Speed Rail in Hong Kong. All units were sold on the first day with the highest transaction price reached cHKD27k per sq.ft. Additionally, all 388 units of State Pavilia were sold out in Dec'25, generated over HKD4.2bn in total sales.

WESCHI

We initiate buy on **WESCHI 9.9 12/04/28** in view of the good carry, Weschi's improved earnings in 1H25 and lower near-term refinancing risk post tender offer in Dec'25. At 98.5, WESCHI 28 is trading at YTM of 10.5%. At the same time, we maintain neutral on WESCHI 26 which is trading at par with YTM of 4.9%. We are cautious of the dwindling trading liquidity of the bond and consider the bond unappealing.

In Dec'25, Weschi issued UDS400mn WESCHI 9.9 12/04/28 to fund the tender offer for WESCHI 26. The outstanding amount of WESCHI 26 is reduced to USD200mn. As per Weschi, it plans to early redeem the o/s WESCHI 26 not tendered.

In 1H25, Weschi's profit attributable to the owners increased 93.4% to RMB748.3mn, in line with the positive profit alert issued in Jul'25. Revenue for 1H25 rose by 46.4% to RMB5.4bn, driven primarily by 23.6% increase in cement and clinker sales volume, improvement in overall ASP and property sales. Gross profit (GP) per ton also increased, reflecting higher overall ASP and lower unit costs, with GP margin climbing by 3.7 pct. pt. to 30.0%. However, EBITDA margin was down to 34.1%, mainly due to higher SG&A expenses associated with the sale of properties under development and the commissioning of new capacities in Africa. Weschi's 1H25 EBITDA was RMB1.8bn, up 43.8% yoy, while PBT more than doubled to RMB1.1bn.

During 1H25, 42% of the GP was generated in China, up from 37% in 1H24, reflecting improved domestic profitability. In absolute terms, GP from overseas remained higher due to higher overseas ASP and GP/tons achieved in Africa compared to China. Going forward, we expect the importance of overseas operation will be even higher given the ramp-up of its overseas production capacity (such as Lemi in Ethiopia and CILU in DRC) and disposals of non-core China operations. Weschi completed the sale of Xinjiang operations in mid Aug'25 for RMB1.65bn. Part of the net proceeds earmarked for the repayment or early redemption of WESCHI 26. It plans to sell the projects in Xinjiang, Guizhou and Sichuan for RMB2-3bn.

In 1H25, Weschi spent RMB2.3bn in capex, up from RMB1.6bn in 1H24, mainly for the maintenance and upgrades of existing production facilities as well as the construction of new production facilities in Mozambique and Uganda. The CILU acquisition, which extends Weschi's footprint into western DRC, is expected to complete in the 2H25, while the construction of the new cement and grinding capacity in Uganda is expected to complete in 1H26. We expect Weschi to continue relying on external funding to support its capex. As of Jun'25, Weschi had bank and cash balances of RMB854mn, down from RMB1.2bn in Dec'24. Net debt increased by 4.3% over the same period to RMB10.9bn, reflected the negative FCF after capex. The cash to ST debts remained low at 0.2x.

Appendix 15: South East Asia – Technical remains strong despite conviction even lower

SE Asia credits had another solid performance in 2025 with Indonesia HYs being the best performing segment under our radar. We see even lower conviction level of the South East Asia credits. 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. We maintain buy on **INCLEN 4.5 04/18/27, INDYIJ 8.75 05/07/29, MEDCIJ 8.625 05/19/30 and VEDLN 9.475 07/24/30** for better risk-adjusted return profiles. Meanwhile, we initiate buy on **VEDLN 11.25 12/03/31**, which offer higher yield within VEDLN complex. At 108.1, VEDLN 11.25 12/03/31 is trading at YTM of 9.4%.

Table 1: Our SEA picks

Security name	ISIN	Amt o/s (USD mn)	Ask Px	YTM	Mod dur	Issue rating (M/S/F)
INCLEN 4.5 04/18/27	US45409MAA18	400	97.7	6.4%	1.3	Ba3/-/BB-
INDYIJ 8.75 05/07/29	US69369KAA34	455	99.5	8.9%	2.8	Ba3/-/BB-
MEDCIJ 8.625 05/19/30	USY56616AA68	400	105.9	7.0%	3.6	B1/BB-/BB-
VEDLN 9.475 07/24/30	USG9T27HAL88	550	102.6	8.8%	3.5	B2/B/-
VEDLN 11.25 12/03/31	USG9T27HAJ33	500	107.9	9.5%	4.3	-/B/B+

Source: Bloomberg.

INCLEN

We continue to view ReNew Energy (RNW)'s credit profile positively, underpinned by strong operating cash inflows and scalable operations as India's second-largest renewables platform by installed capacity after Adani Green Energy. We maintain buy on **INCLEN 4 ½ 04/18/27.** At 97.7, the bond is trading at YTM of 6.4%, offering yield pick-up within the RNW complex at a lower cash price.

RNW's 1HFY26 results benefitted from diversification into manufacturing operations and resilient operating cash flow generation. 1HFY26 revenue rose 52% yoy to INR75.3bn and adj. EBITDA increased 24% yoy to INR53.5bn, primarily driven by solar manufacturing. The facilities were fully operational and stabilized in 2QFY26, contributing revenue of INR23.4bn and adj. EBITDA of INR8.6bn in 1HFY26. RNW continued to ramp up the scale and output reached 2GW of modules and 900MW of cells YTD. In 2QFY26, RNW received INR8.7bn (cUSD100mn) from British International Investments to fund construction of 4GW TOPCon cell facility, targeting production by end of FY27. On completion, total cell capacity will increase from current 2.5GW to 6.4GW. We view manufacturing as a near-term EBITDA driver that also diversifies revenue beyond power generation.

Revenue growth was further supported by increase in operational capacity to 11.6GW, up 15% yoy or 22% yoy adjusting for 600MW assets sold during the period. Due to extended spell of monsoons, 1HFY26 weighted-average wind PLF improved to 35.1% from 33.4% in a year earlier, while solar PLF declined to 21.9% from 24.4% from lower irradiation.

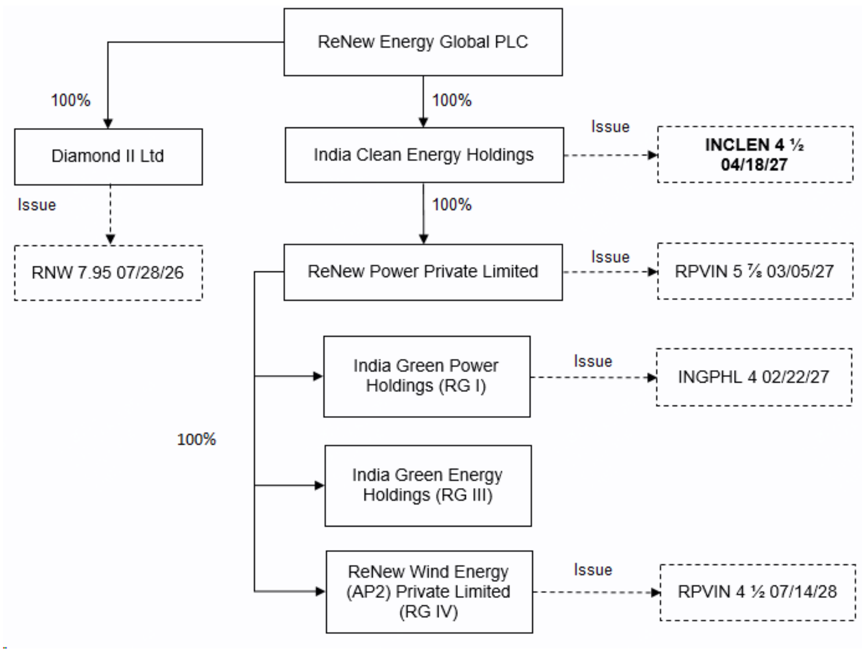
RNW is on track to its FY26 guidance. RNW reiterated FY26 adj. EBITDA guidance of INR87-93bn, comprising INR10-12bn from manufacturing (raised from INR8-10bn previously) and INR1-2bn from asset sales. The company targets at higher end of the guidance subject to the weather. We estimate that RNW has achieved 58-61% of the FY26 adj. EBITDA target in 1HFY26, with manufacturing running at 72-86% of its FY26 target. Cash flow to equity (CFe) guidance remains INR14-17bn while reporting INR19.9bn in 1HFY26, as RNW's cash outflows are typically concentrated in 4Q.

As of Sep'25, cash and bank balance was INR82.1bn, up 2% from the level as of Mar'25 on higher operating cash inflows and lower capex. We expect strong operating cash inflows and continued capital recycling to fund the remaining FY26 capex. Net debt/LTM adj. EBITDA improved to 7.1x in Sep'25 from 7.6x in Mar'25, supported by higher LTM adj. EBITDA despite increased total debts. We expect RNW's leverage to be lower on growing adj. EBITDA and asset monetization. On 8 Oct'25, RNW agreed to sell a 300MW solar project in Rajasthan to Sembcorp Industries at an EV of USD191mn. The deal is expected to generate USD98mn cash to RNW, subject to closing adjustments.

RNW's next USD bond maturity is RNW 7.95 07/28/26 of USD525mn due Jul'26. We also aware three USD bonds totaled USD1.1bn maturing in 2027 where refinancing risk is higher. RNW intends to refinance in the onshore or offshore markets, depending on cost. We take comfort from RNW's strong access to diversified funding channels across bank loans and bond markets.

Furthermore, a consortium comprising Masdar, CPP Investments, ADIA's Platinum Hawk and founder/CEO Sumant Sinha, planned to take RNW private, decided not to pursue the transaction after Masdar withdrew from the consortium on 14 Dec'25. Recalled that RNW reached an agreement in principle in Oct'25 on a cash offer at USD8.15 per share from the consortium. The offer was sweetened from USD8 per share in Jul'25 and USD7.07 per share in Dec'24. USD8.15 per share represented 28.5% premium over its share price before the initial proposal. We view the deal cancellation to have limited immediate impact on RNW's credit profile, which remains to be underpinned by RNW's strong cash flow generation and profit growth.

Chart 1: ReNew Power's structure



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

INDYIJ

Despite the weaker commodity prices, Indonesian HYs' technical remains strong as issuers have been actively making uses lower-cost onshore funding alternatives to repay and repurchase their offshore bonds through tender offer and early call. We maintain buy on **INDYIJ 8.75 05/07/29** as a good carry play. At 99.5, INDYIJ 8.75 05/07/29 is trading at YTM of 8.9%. We believe that Indika remains a candidate for early redemptions given its sufficient liquidity, disciplined capex, and track records of tender offers and early calls. These should continue to support the performance of INDYIJ 8.75 05/07/29.

The onshore liquidity Indonesia has been enhanced by Indonesian government's plan to require natural resource exporters to retain all foreign currency earnings in state-owned banks for at least a year and limit their use from 1 Jan'26. This is to boost USD supplies onshore and help keep the IDR exchange rate stable. Under the existing rules introduced in early 2025, exporters must keep proceeds from sales of natural resources including coal, palm oil and nickel within the Indonesian banking system for at least one year. The proceeds could be used for business operations, such as dividend payments, loans or the procurement of raw materials, if converted into IDR. The new regulation would cap the conversion to IDR from USD to a maximum of 50%, while there is no cap in place currently.

Indika's 9M25 results softened, driven by weaker coal ASP and lower volumes. The ASP of Kideco fell 15% yoy to USD49.4/ton from USD57.9/ton in 9M24, while volume lowered 4.3% yoy to 22.2mt. Indika Resources' sales volume declined sharply to 0.5mt from 2.7mt, reflecting the sluggish export demand. The impact of lower coal ASP and sales volume was somewhat mitigated by growing non-core revenue which increased 22% yoy to USD290.5mn in 9M25, accounting for 19% of Indika's total revenue, increased from 13% in 9M24. The impact is also partly mitigated by lower cash cost (ex. royalty) of coal which decreased 6% yoy to USD34.1/ton amid a lower strip ratio of 5.2x. Including royalty, cash cost dropped 13% yoy to USD44.0/ton, aided by the revised IUPK royalty scheme effective 26 Apr'25, which imposes the 28% maximum royalty rate only when coal prices exceed USD180/ton, compared to USD100/ton previously. Overall in 9M25, Indika's revenue was down 19% yoy to USD1.4bn, its operating profit and adj. EBITDA declined 41% and 17% yoy, respectively.

Indika's leverage ratios worsened to 5.5x (gross) and 2.7x (net), compared to 3.8x and 1.6x in Dec'24, respectively, given lower LTM EBITDA and higher net debts. Its FCF turned negative on capex of USD82mn and operating inflow of USD31mn. Its cash on hand was USD549mn as of Sep'25, 12% lower than the level in Dec'24. That said, we take comfort from Indika's proactive liability management and diversified funding access. In Jun'25, Indika secured an USD375mn 5-year facility (SOFR+1.75% pre-COD, SOFR+1.65% post-COD) to refinance an USD250mn loan, extending tenor and supporting liquidity buffers. We also take comfort from its disciplined capex. YTD capex spending represented only c33% of the FY25 budget of USD246mn. Based on the run-rate, Indika will likely spend much less than the budget amid soft market conditions.

MEDCIJ

Despite modestly weaker 9M25 results given the lower oil price, we like Medco's stable credit story and its good access to funding channels. During 9M25, Medco Energi (Medco) conducted proactive liability management, i.e. issued USD400mn USD bonds and retired totaled USD519mn USD bonds via tender offers and buybacks. Medco also issued IDR1tn onshore bonds in Jun'25. We expect Medco to conduct more early redemptions given its sufficient liquidity and good access to onshore and offshore funding channels. Hence, we maintain buy on **MEDCIJ 8.625 05/19/30** for better risk-adjusted return profile with better trading liquidity, despite the conviction is now lower which up c6pt YTD. At 105.9, MEDCIJ 8.625 05/19/30 is trading at YTM of 7.0%. We also prefer MEDCIJ 8.625 05/19/30 to MEDCIJ 8.96 04/27/29 despite the yield is slightly lower given its ranks pari passu with first priority lien.

Medco's 9M25 revenue was flat and fell only 1.5% yoy to USD1,757mn despite lower oil prices. The resilience was a result of new oil and gas fields and Power IPPs put into use in FY25 and several acquisitions. Revenue from oil and gas segment declined by 0.8% yoy in 9M25, owning to the 14.6% drop in oil average realized price to USD68.3/boe in 9M25 compared to USD79.9/boe in 9M24, but partially offset by the opening of new fields and acquisitions. In Sep'25, Medco's oil and gas production run-rate was 174mboepd, driven by increases from the new projects delivered in Natuna, Corridor and Oman. This aligns with the revised FY25 guidance of 155-160mboepd as announced in 2Q25, from 145-150mboepd announced in 1Q25. The new wells in the Senoro and Rimau PSCs will further support 4Q25 production.

As for the power segment, revenue dropped by 17.9% yoy in 9M25 due to decrease in construction revenue after completing Ijen Geothermal and East Bali Solar PV. In 3Q25, Medco achieved 1,194Gwh power sales as a result of new IPP contributions from Ijen and East Bali Solar PV. In 9M25, Medco has generated in total 3,188Gwh power sales, which represents 74.1% of the full-year guidance of 4,300Gwh. Medco is on track to achieve its power sales target, especially with the Batam ELB Expansion project in 4Q25.

The 9M25 EBITDA was down 3.4% yoy to USD946mn, but 3Q25 EBITDA was up 11.3% to USD323mn. New fields, new IPPs and acquisitions fueled the qoq EBITDA growth, though oil prices declined by 14.6% and the dry hole in Beluga PSC cost USD9mn. Medco's cash cost was USD8.8/boe in 9M25, in line with its FY25 target of below USD10/boe. PBT was down 42% yoy to USD296mn from USD507mn. This was primarily due to the share of loss from Amman Mineral Internasional (AMMAN) of USD37mn, compared to share of profit of USD129mn, from the lower production in cooper (-56.9% yoy) and gold (-89.3% yoy) in 9M25, and Indonesian export ban of copper concentrate since early this year. However, Indonesia has agreed to grant AMMAN a concentrate export permit in Oct'25, which will be valid for six months.

Medco's cash on hand was USD755mn as of Sep'25, increased 8.3% from Dec'24 but decrease 14.4% from Jun'25. During 9M25, Medco spent USD297mn in capex, represented 69% of its capex budget of USD430mn in FY25. We expect Medco's operating cash flow and cash in hand to be sufficient to cover the upcoming budgeted capex of USD133mn in 4Q25 and ST debt of USD375mn. As of Sep'25, the total debt increased to USD3.9bn from USD3.7bn in Jun'25. Its credit profile remain stable and in line with credit ratings despite net debt/LTM EBITDA increased to 2.5x in Sep'25 from 2.3x in Jun'25 and near-term operating performance will likely be affected by weaker oil price.

VEDLN

Vedanta Limited (VEDL) delivered another record-high recurring EBITDA in 2QFY26 at INR116.1bn, up 12% yoy, driven by record production across aluminum, alumina, mined metal at Zinc India, and pig iron segments. In 1HFY26, EBITDA rose to INR223.6bn, the highest first-half level ever, achieving 42% of its full-year target of USD6bn (cINR532bn). In VEDLN complex, we maintain buy on **VEDLN 9.475 07/24/30** for a better risk-adjusted profile. Meanwhile, we initiate buy on **VEDLN 11.25 12/03/31**, which offer higher yield within VEDLN complex. At 107.9, VEDLN 11.25 12/03/31 is trading at YTM of 9.5%.

VEDL's average borrowing cost declined to c9.0% in 1HFY26 from c9.7% in 1QFY26, reflecting lower interest rates. VEDL expects this to fall further below 8% in the near-term, supported by proactive credit management. Besides, VEDL recorded two one-off losses in 1HFY26 in relations to receivable write-off in the power segment, as well as settlement on contract termination with SEPCO, totaled INR15.5bn on a net of tax basis. As a result, the PAT dropped by 26% yoy to INR79.4bn.

1HFY26 operating cash flow decreased by 12% yoy to INR162.3bn, due to higher tax paid and increase in net working capital during 1HFY26. VEDL spent INR102.6bn in capex during 1HFY26, representing 61-68% of its FY26 capex target of cINR151-168bn (USD1.7-1.9bn). We estimate 1HFY26 FCF was INR59.7bn, and we expect VEDL to continue funding capex primarily through operating cash inflows given its strong operating performance.

As of Sep'25, cash and equivalents increased to INR218.6bn from INR207.5bn in Mar'25. Due to higher debts, both total debt/LTM EBITDA and net debt/LTM EBITDA rose slightly, to 1.9x and 1.4x from 1.7x and 1.3x, respectively over the same period. VEDL aims to bring the net leverage down to 1.0x in the near-term, supported by higher projected EBITDA.

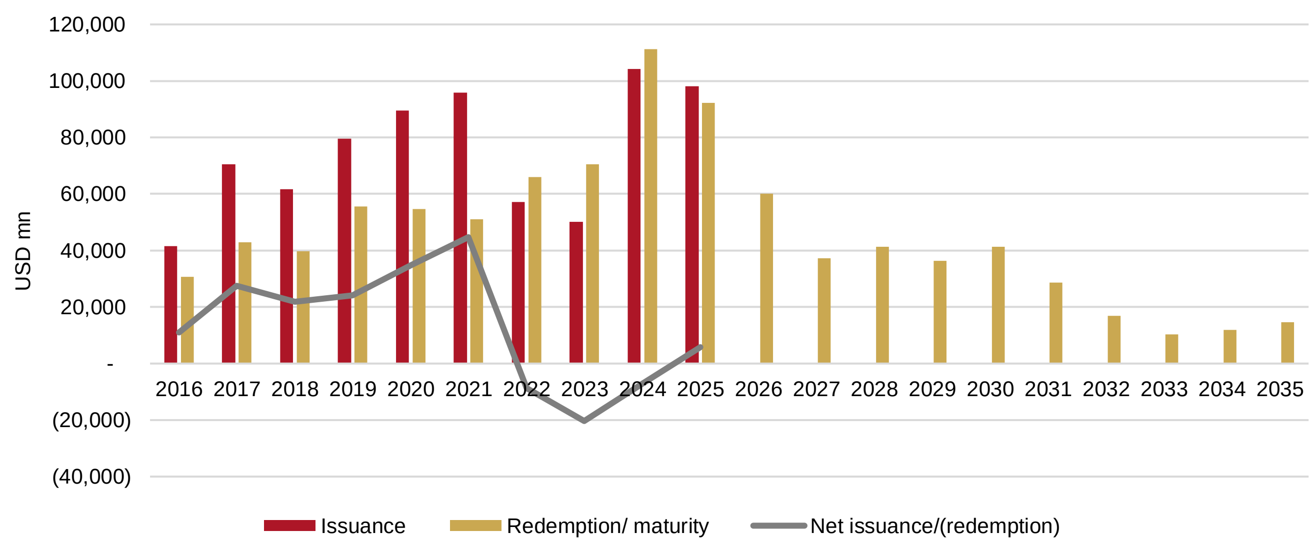
Furthermore, the Committee of Creditors of Jaiprakash Associates (JPA) has approved the resolution plan submitted by Adani Enterprises (AEL). This outcome has alleviated our previous concerns regarding the VEDL's deleveraging trajectory being side-trapped. The acquisition of JPA, a capital-intensive business in a cyclical industry, would have introduced additional funding requirements and operational complexity for VEDL, in our view.

India's National Company Law Tribunal (NCLT) approved VEDL's proposed demerger on 16 Dec'25. VEDL aims to conclude the proposed demerger by Mar'26, which is to split its aluminum, oil & gas, power, and steel businesses into respectively Vedanta Aluminium Metal, Malco Energy, Talwandi Sabo Power, and Vedanta Iron and Steel. Under the plan, VEDL shareholders will receive one share of each newly formed entity for every share held in the listed company. As discussed before, we view the demerger as moderately credit positive, in anticipation of better data transparency and potentially better funding access over the longer-term.

Net issuance trend to be broadly the same as 2025

In line with the Asia USD bond universe, the South East Asia space was in net redemptions since 2022. In 2025, the net issuance of the space was USD5.7bn, reversed from net redemptions of USD7.1bn in 2024. Within the space, issuers were actively managing its debt maturity profiles through tender offers and early calls. For instance, Vedanta Resources early redeemed VEDLN 9.25 04/23/26 and VEDLN 13 7/8 12/09/28 totaled USD1.1bn via tender offers and calls; Medco Energi retired totaled USD519mn USD bonds via tender offers and buybacks. In 2026, we expect the net issuance trend to be broadly the same as 2025, in view of these issuers could turn to onshore market to refinance the USD bonds at lower funding costs.

Chart 2: South East Asia space reversed to net issuance in 2025



Note: Only included issues >USD50mn at issuance, and excluded convertibles.
Source: Bloomberg, CMBI FICC Research.

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