

Chinese Offshore Bond Market Report

Quarter 1

Q1

2023



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3 May 2023

New issuance of Chinese offshore bonds declined, with maturity pressure and refinancing risks for Chengtou and real estate companies

2023Q1 Chinese Offshore Bond Market Recap

- **The new issuance of Chinese offshore bonds declined, with negative net financing amount.** In 2023Q1, 206 new offshore bonds were issued, decreasing by 8.4% YoY, with a total issuance of USD23.41 billion, decreasing by 32.6% YoY. The issuance per bond dropped.
- **The issuance of real estate offshore bonds recovered, while the issuance of Chengtou offshore bonds decreased.** In 2023Q1, new issuance of real estate offshore bonds recovered slightly, but with limited improvement. The total offshore bond issuance of Chinese property developers was USD1.52 billion. Affected by the hawkish monetary policy taken by the Fed and the strict regulation policies, the offshore financing channels of Chengtou companies have shrunk significantly, with issuance dropping sharply. In 2023Q1, the total issuance of Chengtou companies was USD6.74 billion, decreasing by 39.7% YoY.
- **The SBLC issuance decreased under strict regulation.** In 2023Q1, 42 bonds were issued with SBLC structure, with issuance of USD2.52 billion, a YoY decrease of 42.8%. Among them, district and county-level Chengtou companies were the main issuers. Besides, USD2.32 billion bonds were issued under the Keepwell + Guarantee structure, representing a YoY increase of 27.4%, with Chengtou companies being the main issuers.
- **Investment-grade (IG) issuances decreased, with Chengtou companies being the majority among non-rated issuers.** In 2023Q1, there were 117 offshore bond issuers, 17 of which have obtained international credit ratings. There were 15 investment-grade issuers in total, with issuance of USD10.9 billion, a YoY decrease of 53.7%. Investment grade issuances as a share of total new issuances dropped from 62.7% in 2022Q1 to 41.6% in 2023Q1. As many Chengtou companies issued bonds with SBLC structure, they were in the majority among non-rated issuers.
- **New issuance of Free Trade Zone (FTZ) bonds increased greatly, and the proportion of RMB bonds has gradually increased.** In 2023Q1, 63 FTZ bonds were issued, with a total volume of RMB42.31 billion, a YoY increase of 247.0%. With the rapid growth of FTZ bonds and continuous issuance of Dim Sum bonds, more and more Chinese offshore bond issuers are issuing RMB bonds, with proportion rising from 8.7% in 2022Q1 to 35.2% in 2023Q1. Meanwhile, the proportion of USD bonds declined from 84.4% in 2022 Q1 to 57.1% in 2023Q1.
- **The price of Chinese dollar bonds in the secondary market rose, and real estate sector performed the best.** In 2023Q1, the total return of Chinese dollar bonds rose, with the overall trend of falling after rising. The Chinese dollar bond return index was 2.7% in 2023Q1. Meanwhile, the investment-grade bond return index was 2.7% and the high-yield bond return index was 2.9%. The real estate sector performed best among all sectors, with return index of 3.71%.

Rating Actions and Credit Events

- **The number of negative rating actions has decreased significantly, but still accounted for the majority of rating actions.** In 2023Q1, the three major international rating agencies took rating actions on 40 Chinese issuers, including 33 negative rating actions and 7 positive rating actions, declining greatly compared with 2022Q1. Negative rating actions still accounted for the majority of rating actions, representing 82.5% of the total.

- **Real estate companies were still exposed to credit risks.** According to Bloomberg data, in 2023Q1, 4 Chinese issuers defaulted on their overseas bonds, with Yincheng International Holding Co., Ltd. bearing the brunt. Defaults totaled USD1 billion, a sharp drop from 2022Q1. The defaulting issuers were mainly real estate issuers, and 3 real estate issuers defaulted on their overseas bonds.

Outlook

- Under the expectation that the Federal Reserve will slow down the pace of adopting hawkish monetary policies, we expect the new issuance of Chinese USD bonds to improve slightly in the next three quarters, with overall trend of closing high after opening low. Besides, offshore RMB still has a cost advantage, and FTZ bonds, as an emerging product, will attract much attention. Therefore, we expect that the new issuance of FTZ bonds would maintain at a high level in the short to medium term, with Chengtou companies being the majority.
- At present, the profitability of most of Chengtou companies is weak. Due to the weak status of real estate companies and the land market, the fiscal capacity of local governments to support some Chengtou companies is low, and Chengtou companies in weak areas and with low quality would have high debt servicing pressure. As a result, Chengtou companies' maturity pressure and refinancing risk need great attention. Besides, considering that more than USD24 billion bonds would be due or put over the next three quarters, low-quality real estate companies would face greater financial pressure in the short term, and we need to pay attention to these companies' cross-default risks triggered by defaulted debts.

Introduction

In 2023Q1, the Fed raised interest rates by 25 basis points in February and March, respectively, with Federal Fund Rate in the range of 4.75% to 5.0%. Although US still has high inflation, it has shown signs of falling, and the market expects the Fed to slow down the pace of adopting a hawkish monetary policy. As a result, US Treasury yields and credit spread between Chinese and US would drop. Due to the high financing costs of offshore dollar bonds and stricter regulatory policies, Chinese companies were not willing to issue offshore bonds. The number of new issuances in the primary market had dropped, and the net financing amount had been negative. In 2023Q1, 206 new offshore bonds were issued, with a total issuance of USD23.41 billion, decreasing by 32.6% year-on-year (“YoY”), and the net financing amount was USD-10.4 billion. In addition, affected by the negative credit spread between Chinese and US Treasury yields, the new issuance of FTZ bonds have grown rapidly. Considering the continuous credit spread between Chinese and US and the relaxation of regulations on FTZ bonds, we expect new issuance of short and medium term FTZ bonds to remain at a high level. Finally, as the pace of hawkish monetary policy adopted by the Fed slows down, we expect new issuance of Chinese USD bonds to improve in 2023.

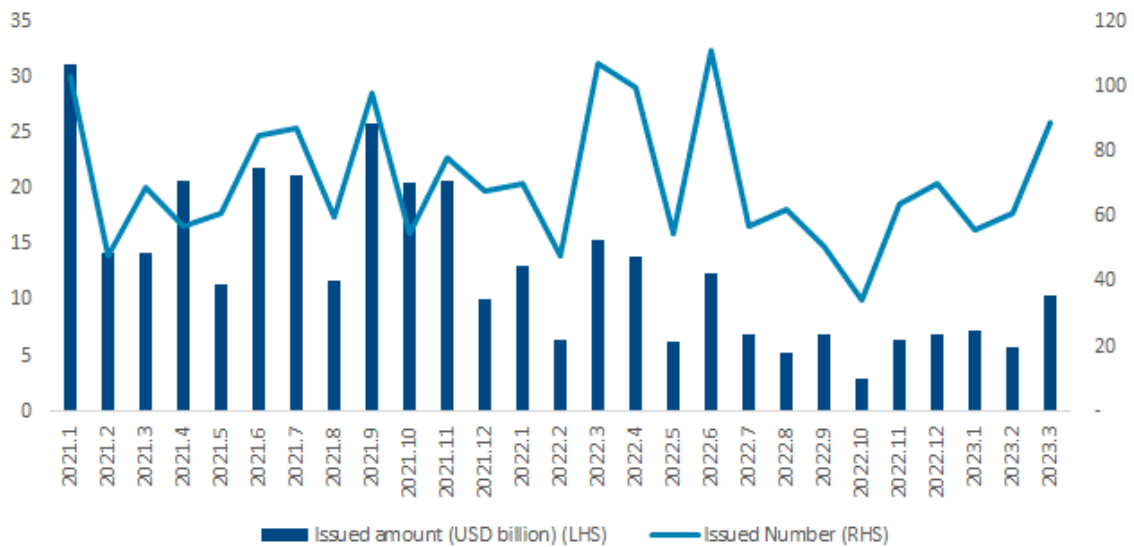
Chinese Offshore Bond Market Recap

Primary Market

The new issuance of Chinese offshore bonds declined, with negative net financing amount. In 2023Q1, 206 new offshore bonds were issued, decreasing by 8.4% YoY but increasing by 22.62% month-on-month (“MoM”), with a total issued volume of approximately USD23.41 billion, decreasing by 32.6% YoY and increasing by 42.54% MoM. The issuance per bond dropped. Due to the high financing costs of offshore dollar bonds and the strict regulatory policies on offshore bond issuances, Chinese issuers were less willing to issue offshore bonds. Besides, real estate companies have great amounts of maturing debts but limited financing channels, so the overall net financing amount dropped sharply and continued to be negative, reaching USD-10.4 billion in 2023Q1.

On a monthly basis, new issuances declined in January, February and March, with total issued volumes of USD7.24 billion, USD5.71 billion and USD10.47 billion, respectively. The Federal Reserve raised interest rates by 25 basis points in February and March, which led to a sharp increase in financing costs of Chinese offshore bonds in 2023Q1, and reduced the willingness of Chinese issuers to issue offshore bonds.

Exhibit 1: Chinese offshore bonds new issuance has shrunk and per issue amount has dropped since 2023Q1

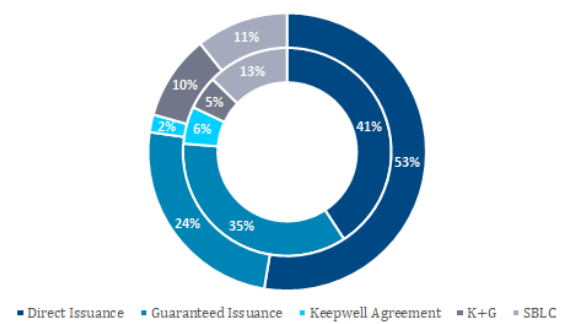
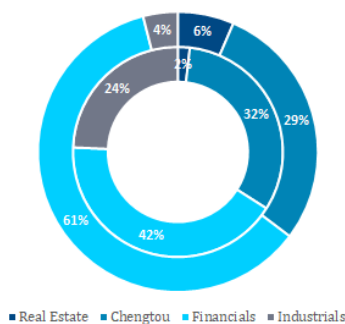


Source: Bloomberg, CCXAP Research

The issuance of Chinese real estate offshore bonds recovered, while the issuance of Chengtou offshore bonds decreased. In terms of sectors, real estate¹, Chengtou, financial institutions and industrials account for 6.3%, 30.7%, 58.7% and 4.3% of the overall new issuance in 2023Q1. Real estate had received great policy support since the beginning of this year. The Monetary Policy Committee was focused on reducing risks from top-ranked real estate companies and improving asset-liability situations. In 2023Q1, the new issuance of real estate offshore bonds recovered slightly, but the improvement was limited. The total offshore bond issuance of Chinese real estate was USD1.52 billion. Affected by the Fed’s hawkish monetary policy and strict regulatory policies, offshore financing channels of Chengtou companies have shrunk significantly, and issuance has dropped sharply. In 2023Q1, the total issuance of Chengtou companies was USD6.74 billion, decreasing by 39.7% YoY. From the perspective of administration levels, all the Chengtou offshore bond issuers are city-level and district-level companies, with city-level and district-level Chengtou companies accounted for 55% and 45% of the new issuance volume, respectively. The bond issuance volume of financial institutions dropped slightly by 1.8% YoY to USD14.21 billion, while the bond issuance volume of industrial companies fell sharply by 88.9% YoY to USD0.94 billion, due to the increase of financing costs of dollar bonds.

Exhibit 2: Sector distribution of Chinese offshore bonds

Exhibit 3: Issue Structure of Chinese offshore bonds



Remark: Based on issuance amounts; Inner Circle is the statistics of 2022Q1; Outer Circle is the statistics of 2023Q1

¹ Did not include bond issuances after exchange offer.

Source: Bloomberg, CCXAP Research

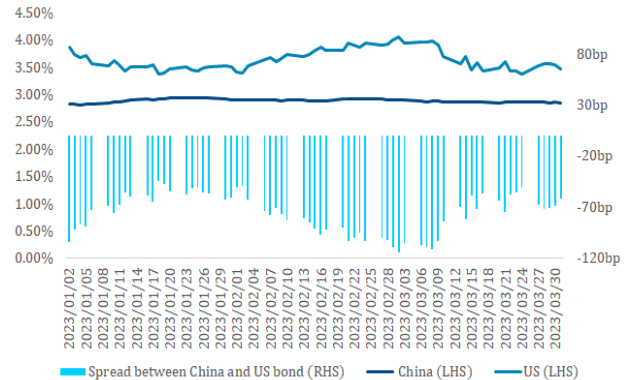
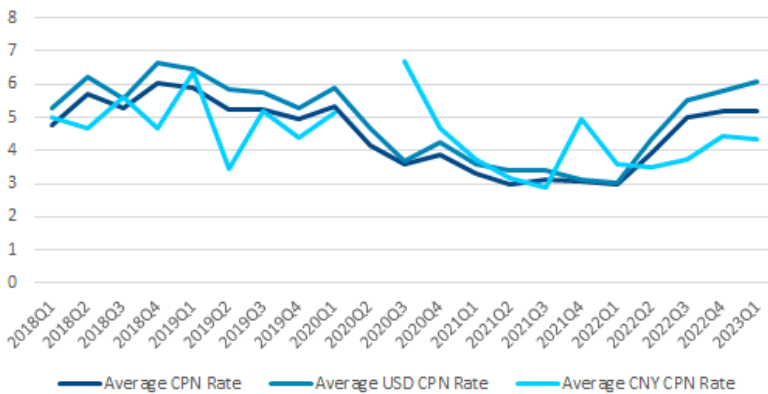
The SBLC issuance decreased under strict regulation. From the perspective of issuance structure, direct issuance and guarantee issuance accounted for the majority, with total issued amount of USD12.33 billion and USD5.77 billion, accounting for 52.7% and 24.6% of the total, respectively. The issued amount declined by 13.1% and 53.2% compared with last year. From the second half year of 2022, many Chengtou companies with low credit ratings have adopted enhancement measures to provide guarantees on bond payments. However, onshore banks providing SBLC would have higher guarantee risk exposures and would need to make the payments by themselves if the Chengtou companies fail to repay on time. As a result, NDRC and SAFE have issued some guidance on banks providing SBLC and Chengtou companies. In 2023Q1, 42 SBLC structured bonds were issued, with issuance of USD2.52 billion, a YoY decrease of 42.8%. Among them, district level and county level Chengtou companies were the main issuers. Moreover, USD2.32 billion bonds were issued under the Keepwell + Guarantee structure, a YoY increase of 27.4%, with Chengtou companies being the main issuers.

Investment-grade (IG) issuances decreased, with Chengtou companies being the majority among non-rated issuers. In 2023Q1, there were 117 offshore bond issuers, 17 of which have obtained international credit ratings². There were 15 investment-grade issuers in total, with issuance of USD10.9 billion, a YoY decrease of 53.7%. Investment-grade issuances as a share of total new issuances dropped from 62.7% in 2022Q1 to 41.6% in 2023Q1. For the high-yield grade, real estate companies accounted for the majority. Affected by improved finance policies, volume of issued amounts increased, and volume of high yield grade issued amounts also increased. In 2023Q1, there were 2 high-yield issuers, with a total issuance of USD1 billion, accounting for 4.1% of all new issuances. As many Chengtou companies issued bonds with SBLC structure, they were in the majority among non-rated issuers.

The impact of the Fed's interest rate hike continued, and the coupon rates of Chinese offshore bonds continued to rise. In 2023Q1, the Fed raised interest rates twice during the year, with a total of 50 basis points. As a result, the average coupon rate³ of newly issued Chinese dollar bonds continued to rise, while the average coupon rate of newly issued Chinese RMB bonds remained stable. The average coupon rate soared from 3.04% in 2022 Q1 to 5.18% in 2023 Q1. Classified by sectors, the average coupon rate of financial institutions rose from 2.72% in 2022 Q1 to 5.14% in 2023 Q1. Meanwhile, the majority of Chengtou offshore bonds issuers are district-level Chengtou companies located in poor fiscal areas, and they mainly chose SBLC structure with credit linked to banks providing SBLC. The average coupon rate of Chengtou companies rose from 3.21% in 2022 Q1 to 6.85% in 2023 Q1.

² As of March 31, 2023, if there are differences among credit ratings of the three international rating agencies, the statistics shall be based on the highest rating.

³ Only bonds with fixed coupon rates with no repurchase or resale clauses were counted.

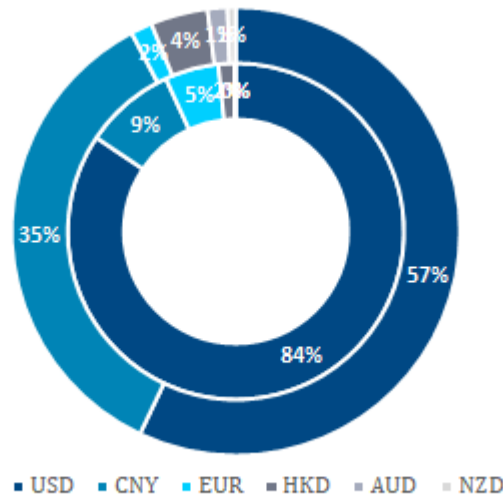
Exhibit 4: Average coupon rate from 2018 Q1 to 2023 Q1
Exhibit 5: US-China 10-year Treasury yield spread


Source: Bloomberg, CCXAP Research

The impact of the Fed's interest rate hike continued, and the coupon rates of Chinese dollar bonds continued to rise. In 2022, the Fed raised interest rates 7 times during the year, with a total of 425 basis points. The U.S. federal funds rate was raised to a range of 4.25%-4.5%, and the US Treasury yields generally rose. As a result, the average coupon rate of newly issued Chinese dollar bonds soared from 3.08% in 2022Q1 to 5.56% in 2022Q4. Throughout the year, the average coupon rate of newly issued Chinese dollar bonds soared from 3.51% in 2021 to 4.39% in 2022. In terms of industries, the average coupon rate of financial institution bonds soared from 1.63% in 2021 to 4.02% in 2022. Meanwhile, since Chengtou bonds were dominated by county-level issuers with weak quality, SBLC is generally adopted by Chengtou companies and linked to the credit of the backup banks. The average coupon rate of Chengtou bonds increased from 3.17% in 2021 to 4.59% in 2022.

New issuance of FTZ bonds increased greatly, and the proportion of RMB bonds has gradually increased. FTZ bond were launched in 2016 and the Shanghai Municipal Bureau of Finance was the first issuer. After that, the issuance of FTZ bonds stalled until the end of 2019 when the first corporate bond was issued in the free trade zone. With the promotion of FTZ bonds, the new issuance of FTZ bonds has grown very rapidly since 2022, and the proportion of RMB bonds has also increased very rapidly. In 2023Q1, 63 FTZ bonds were issued, with a total volume of RMB42.31 billion, a YoY increase of 247.0%. With the rapid growth of FTZ bonds and the continuous issuance of Dim Sum bonds, more and more Chinese offshore bonds are issued in RMB, accounting for 35.2% in 2023 Q1 from 8.7% in 2022 Q1. Meanwhile, the proportion of USD bonds declined from 84.4% in 2022Q1 to 57.1% in 2023 Q1. In terms of regions, FTZ bond issuers were spread in 17 provinces, including 20 bond issuers in Zhejiang province, accounting for 40% of total new issuance amount. From the perspective of issuance structure, FTZ bonds were issued mainly with direct issuance structure and SBLC structure. There were 22 FTZ bonds issued with direct issuance structure, with a total volume of RMB20.49 billion. At the same time, 35 bonds FTZ bonds were issued with SBLC structure, with a total volume of RMB16.03 billion.

Exhibit 6: Pricing currency structure



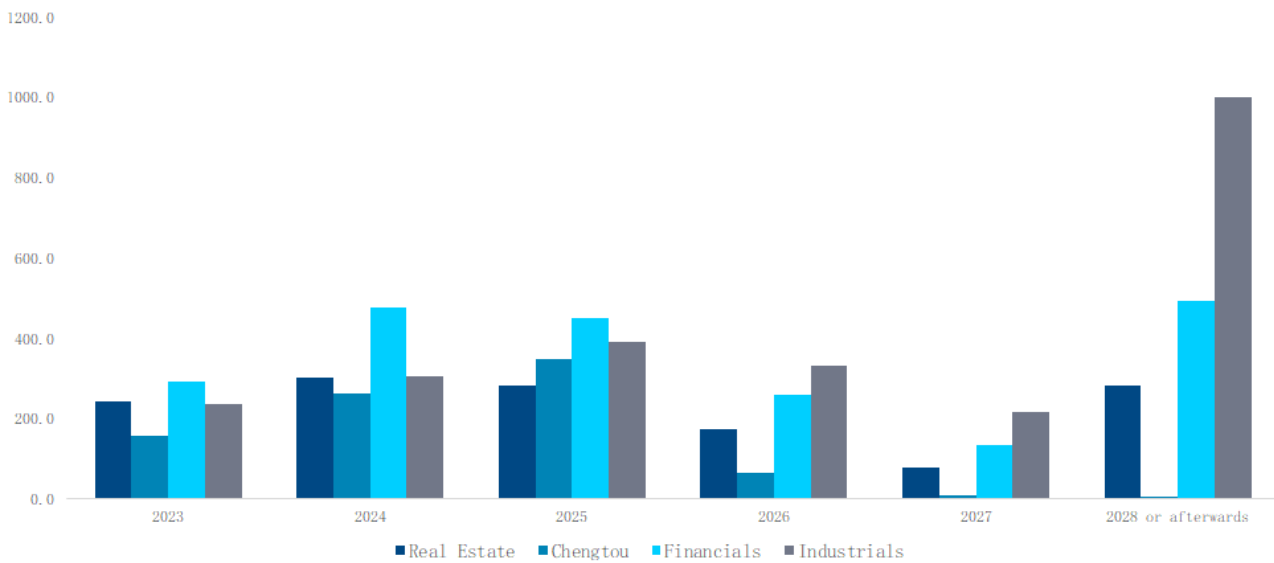
Remark: Based on pricing currency; Inner Circle is the statistics of 2022 Q1; Outer Circle is the statistics of 2023 Q1
Source: Bloomberg, CCXAP Research

Medium-term and Short-term Chinese offshore bonds account for the majority, with shorter average maturities. In 2023 Q1, the tenor of most Chinese dollar bonds was between 1 to 3 years, with a total amount of USD15.94 billion, accounting for 68.1% of the total issuance. Moreover, since July this year, the 2-year and 10-year yields of U.S. Treasury bonds have inverted, making long-term bonds less attractive. The total issuance of bonds with a tenor of more than 5 years was USD2.5 billion, accounting for 10.7% of the total issuance. The average tenor⁴ of new issuances fell from 2.65 years in 2022 Q1 to 1.91 years in 2023 Q1.

The amount of matured offshore bonds would increase year by year in the next three years, with real estate companies and financial institutions having the largest outstanding amounts. As of March 31, 2023, the outstanding amount of Chinese offshore bonds was USD681.23 billion. Among them, the amounts that will mature in 2023, 2024 and 2025 are USD93.03 billion, USD135.02 billion, and USD147.44 billion, respectively. From an industry perspective, the next one to three years will be the peak period for the maturity of real estate offshore bonds. Outstanding amounts that will be due in 2023, 2024, and 2025 are USD24.22 billion, USD30.27 billion and USD28.16 billion, respectively. As for real estate offshore bonds, the next three years will be the peak period for their maturity. Outstanding amounts due in 2024 and 2025 are USD47.82 billion and USD45.2 billion, respectively. In terms of Chengtou offshore bonds, the outstanding amounts due in 2023, 2024, and 2025 are approximately USD15.86 billion, USD26.17 billion and USD35.03 billion, respectively.

⁴ Only non-perpetual bonds were counted.

Exhibit 7: Maturity distribution of Chinese offshore bonds as of end of March 2023

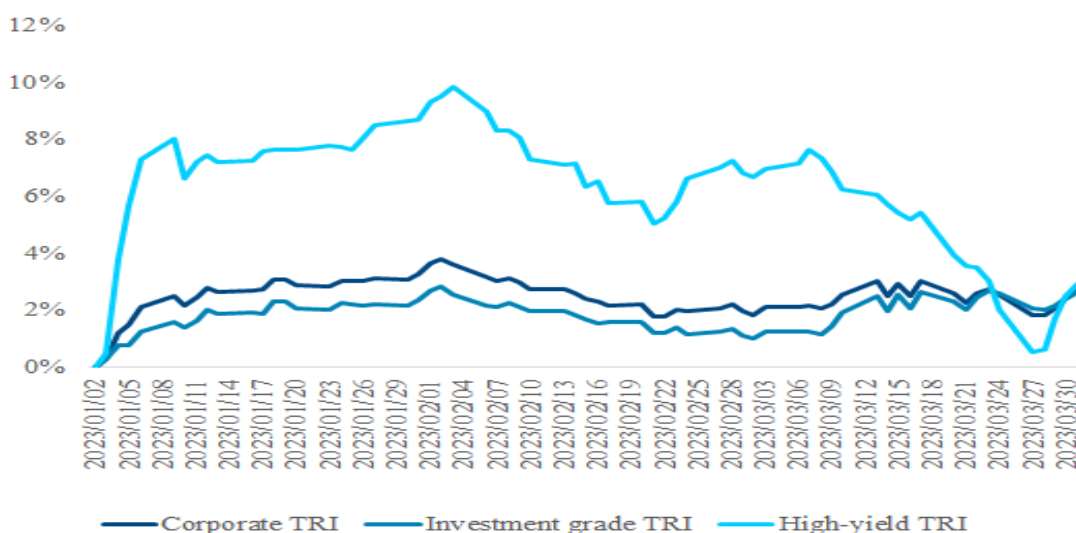


Source: Bloomberg, CCXAP Research

Secondary Market

The high-yield return index continued to fluctuate violently due to the improvement of real estate financing and the Fed’s interest rate hike, showing a state of falling after rising. In 2023Q1, the total return index of Chinese dollar bonds rose, showing an overall state of falling after rising. The Chinese dollar bond return index was 2.7% in 2023Q1. Meanwhile, the investment-grade bond return index was 2.7% and high-yield bond return index was 2.9%. As for the high-yield bonds, the real estate sector of high-yield bonds rebounded in January due to the news of improvement in the financing regulation of real estate companies. In February and March, the Federal Reserve raised interest rates twice, but the financing situation did not change significantly, and the secondary market price continued to drop. As of 31 March 2023, the yield spread of Chinese offshore bonds was 337.09bp, representing a decrease of 31.5bp from the beginning of the year. The yield spread of investment-grade bonds decreased by 7.1bp to 163.17bp, while that of the high-yield bonds decreased by 111.6bp to 1408.14bp

Exhibit 8: YTD return and Yield Spreads of Chinese offshore bond index in 2023 Q1



Source: Bloomberg, CCXAP Research

The price of Chinese dollar bonds in the secondary market rose, and real estate sector performed the best. In terms of sectors, as of 31 March 2023, the real estate sector performed the best among all sectors, with a return index of 3.71%, followed by non-financials (3.21%), Chengtou (2.71%) and financials (2.29%). Affected by the loosening of real estate regulatory policies, the performance of the real estate sector improved in 2023Q1. Affected by policy support and the recovery of investor confidence, the financials and non-financials sectors continued to rise. In terms of the Chengtou sector, investors had a certain confidence in the strong linkage between onshore and offshore Chengtou bonds, and the Chengtou sector was much more stable than other sectors.

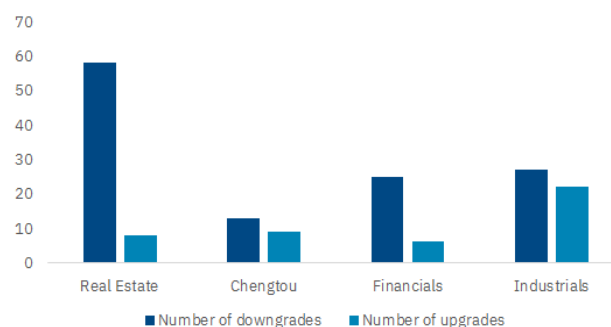
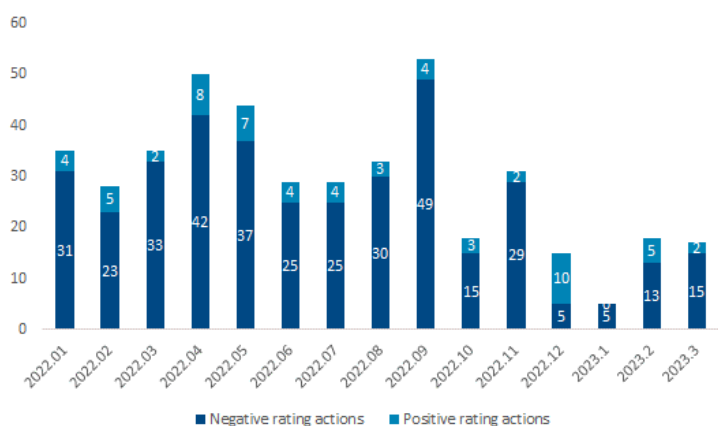
Table 1: Returns of Chinese dollar bonds in 2023Q1 (by industry)

Markit iBoxx USD Asia ex-Japan China Index Return	January	February	March	2023Q1
Real Estate TRI	11.14%	-1.74%	-5.03%	3.71%
- Investment-Grade TRI	4.90%	-0.93%	0.22%	4.14%
- High-Yield TRI	15.97%	-2.29%	-8.72%	3.44%
Financials TRI	3.66%	-0.78%	-0.55%	2.29%
- Investment-Grade TRI	1.98%	-0.55%	0.68%	2.11%
- High-Yield TRI	9.45%	-1.53%	-4.58%	2.83%
Non-Financials TRI	2.76%	-1.41%	1.88%	3.21%
- Investment-Grade TRI	2.71%	-1.48%	1.97%	3.18%
- High-Yield TRI	3.88%	0.09%	-0.15%	3.81%
Chengtou TRI	1.42%	0.60%	0.67%	2.71%
- Investment-Grade TRI	1.40%	0.56%	0.70%	2.68%
- High-Yield TRI	1.57%	0.90%	0.44%	2.92%

Source: Bloomberg, CCXAP Research

Rating Actions and Credit Events

The number of negative rating actions has decreased significantly, but still accounted for the majority of rating actions. In 2023Q1, the three major international rating agencies took rating actions on 40 Chinese issuers, including 33 negative rating actions and 7 positive rating actions, declining greatly compared with 2022Q1. Negative rating actions still account for the majority of rating actions, representing 82.5% of the total. The credit situation of Chinese issuers continued to deteriorate against the backdrop of a slowing economy. In terms of sectors, rating actions were mainly concentrated in the real estate industry, mainly due to issuer defaults and deteriorating financial status. In 2023Q1, a total of 8 real estate issuers got their ratings or outlooks downgraded. Only Longfor Properties Co. Ltd received positive rating action. There were 4 companies in the financial sector that have been downgraded. Affected by factors such as slowing economic growth, heightened market volatility, and downturn in the real estate industry, the profit expectations of the four major AMCs (Cinda, China Orient, China Great Wall, Huarong Asset Management) and their subsidiaries were weak. The leverage of these companies will continue to be limited. Negative rating actions were also taken against Chengtou issuers. The three major international rating agencies took negative rating actions on 9 Chengtou companies, mainly due to the issuers being less likely to receive government support and the tightening of financing conditions in regions with economic downturns. These companies were located in regions with weak economic fundamentals such as Qingdao and Yunnan. At the same time, the performance of companies in other industries was divided, with 9 downgrades and 5 upgrades. The issuers whose ratings were upgraded were mainly distributed in raw materials (3 entities) and consumer discretionary (2 entities). Driven by changes in corporate debt structure, improvement in financial conditions, and improvement in operating performance and financial conditions of the enterprises and their parent companies, the liquidity risk was reduced.

Exhibit 9: Rating actions and issuer rating changes in 2023 Q1
Exhibit 10: Rating actions by sector in 2023 Q1


Source: Bloomberg, CCXAP Research

Real estate companies were still exposed to credit risks. According to Bloomberg, 4 Chinese issuers defaulted on their offshore bonds in 2023Q1. Total defaulted amount was USD1 billion, a sharp decrease from 2022Q1. The defaulted issuers were mainly real estate issuers, with 3 real estate issuers defaulting on their offshore bonds, including Times China Holdings Limited, Ronshine China Holdings Limited and Yincheng International Holding Co., Ltd. Among them, Yincheng International Holding Co., Ltd. Defaulted for the first time. The reasons for their default share certain commonalities, including weak sales in the real estate market, poor financial environment, and other unfavorable factors. This leads to blockage of financing channels, deterioration of liquidity, and eventual default.

In addition, even though Chengtou companies did not default on their offshore debts, the number of defaults on non-standard financing instruments and commercial papers for Chengtou companies have increased. The defaulting issuers were mainly located in regions with high debt pressure, weak fiscal status, and poor financial resources, such as Gansu, Guizhou and Shandong provinces.

Table 2: Credit events of Chinese issuers in offshore market since 2023Q1

Enterprise	Defaulted events
Times China	On January 19, Times China Holdings Limited Co Ltd (“Times China”) announced that at the date of this announcement, the Company has not made payment in relation to the interest on the 6.6% senior notes due 2023 and the 5.55% senior notes due 2024, the grace period of which expired on 30 December 2022 and 3 January 2023, respectively.
Ronshine China	On January 26, Ronshine China Holdings Limited Co Ltd (“Ronshine China”) announced that the 8.95% senior notes due 2023 (ISIN XS2031469732) in the aggregate principal amount of US\$413,000,000 issued by the Company and listed on the Singapore Exchange Securities Trading Limited matured on 22 January 2023. The principal amount and the accrued and unpaid interest total US\$431,481,750 became due and payable. As of the date of this announcement, the Company has not made such payment.
Yincheng International	On March 17, Yincheng International Holding Co., Ltd (“Yincheng International”) announced the termination of the Exchange Offer. All Existing Notes previously tendered and not withdrawn will be returned to their respective holders. The Existing Notes matured on 7 March 2023. As of the date of this announcement, the Company has not paid the principal and interest on the Existing Notes due and payable on the maturity date. Failure to make such payments constitutes an event of default under the above Notes and Securities.
Wuhan Dangdai	On March 23, Wuhan Dangdai Science & Technology Industries (Group) Company Limited (“Wuhan Dangdai”) announced that subsidiary cannot make the payment of the principal and interest of DANDAI903/07/23 on time. The note is issued on behalf of Dangdai International Investment, and Wuhan Dangdai Technology Industry Group Co., Ltd. provided guarantee for the notes. All outstanding principals (\$200 million) and accrued interests would mature on March 7 2023. Considering liquidity status, the company would not make the payment, such event constitutes default under the above Notes and Securities.
Enterprise	Credit Events
Huijing Holdings	On January 20, HUIJING HOLDINGS COMPANY LIMITED (“HUIJING HOLDINGS”) announced that under the Indenture, the Company is required to make an interest payment on the Notes on January 21, 2023, being the Original Interest Payment Date. However, due to the adverse market conditions and the reasons mentioned above, as at the date of this announcement, the Company does not expect to make such payment on the Original Interest Payment Date.

	On February 2, HUIJING HOLDINGS COMPANY LIMITED (“HUIJING HOLDINGS”) announced that as at February 2, 2023, the Company has satisfied all conditions precedent provided under the Indenture to enable the Company to enter into the Supplemental Indenture. And the payment date for interest would change from Jan 21 2023 to April 21 2023.
Sino Ocean	On March 21, according to Bloomberg, Sino-Ocean Group has told some holders of its bonds that it will not pay the postponed the interest payment in order to preserve cash. According to the relevant bond issuance documents, under certain conditions, Sino-Ocean Group can decide on its own to postpone the interest payment time. This interest due on the \$600 million 6.876% perpetual debt is \$20.6 million. On March 29, Sino-Ocean Group has made the coupon payment originally due March 21 under its \$600 million 6.876% perpetual securities.

Source: Public information, CCXAP Research

Regulation: China’s NDRC issued management measures for the issuance of medium- and long-term offshore bonds

On January 10, 2023, NDRC published Order No. 56, "Administrative Measures for the Review and Registration of Medium and Long-term offshore Debts of Enterprises" ("the Measures"), which would come into effect on February 10, 2023, and Document No. 2044 will be abolished at the same time. In terms of the offshore debt registration system, the record registration system has been converted to the review and registration system. This measure keeps pace with the times after some risks have been exposed, reflecting a strong spirit of standardization and risk prevention. Regulators not only have requirements on credit rating, but also on qualifications (especially for district-level Chengtou issuers), revenue structure (revenue coming from construction should be lower than 50%), guarantees (whether they can provide letter of guarantee), and stricter requirements on checking profits generated from invested projects.

Outlook

With the Federal Reserve raising interest rates and quantitative tightening measures to control inflation, inflation in the United States appeared to ease back over the last month. US CPI rose by 5% YoY in March, narrowing by 1% from February, which is the smallest YoY increase since May 2021. With the expectation that the Federal Reserve will slow down the pace of adopting hawkish monetary policies, we expect that new issuance of Chinese USD bonds will improve slightly in the coming three quarters, and the overall trend will be to close high after opening low.

At present, most of Chengtou companies have weak profitability, and due to the weak status of real estate companies and land market, the local governments have low fiscal capacity to support some Chengtou companies. As a consequence, the Chengtou companies in weak areas and with low quality would have high debt servicing pressure. As a result, we need to pay great attention to Chengtou companies’ maturity pressure and refinancing risks. Besides, offshore RMB still has cost advantages, and the FTZ bonds, as emerging products, will receive great attention. Therefore, we expect that new issuance of FTZ bonds would maintain at a high level in the medium and short term, with Chengtou companies being the majority.

Although the demand-side of real estate market is currently heating up, it is unlikely to improve significantly, especially operations of low-ranked real estate companies are still weak. Financing channels and regulatory environment of high-quality real estate companies is expected to improve further, but private real estate companies with weak qualifications may still face liquidity problems. In addition, considering that more than US\$24 billion bonds will be due or put over the next three quarters, low-quality real estate companies would face great financial pressure in the short term, and we need to pay attention to the cross-default risks of these companies triggered by defaulted debts.

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