

## Asia Pacific Credit Biweekly

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# The Model Portfolio

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## Positive return driven by lower rates and Asia IG

(Published 3 May 2023)

### Positive return driven by lower rates and Asia IG

In April, Asia credit (ACOR) saw a positive return at +0.78% (vs. +1.0% in March) driven by declining treasury yields and outperformance in Asia IG. In terms of spread performance, Asia IG tightened 9bp MoM to 156bp while Asia HY slightly widened 2bp MoM to 958bp. Within Asia IG, China IG tightened 12bp MoM to 157bp, and Asia non-China IG tightened 7bp MoM to 150bp. For Asia HY, we saw divergence between China HY and the rest space. China property widened 492bp MoM to 3,418bp, China HY non-property (corps only) widened 46bp MoM to 862bp, while Asia non-China HY tightened 40bp MoM to 584bp. The overall market saw an excess return of +0.3% in April (Asia IG: +0.59%, Asia HY: -1.65%), vs. -1.42% in March. This, with lower treasury yields contributed to a total return of +0.78%, with +1.1% for Asia IG and -1.23% for Asia HY.

In terms of valuation, we prefer Asia HY to Asia IG considering the relative value over US peers as well as their own historical spread. Asia IG is trading at 156bp, below its 5yr average (163bp), and with a pick-up over US 5-7yr IG at 12bp (below 5yr average of 42bp). For Asia HY, the RV of Asia non-China HY over US peers is now at 139bp, below 5yr average of 144bp, while the RV of China HY non-property (corporate only) over US has been back to above 5yr-average (the pick-up over US HY now at 417bp, vs. 5yr-avg. of 361bp). By sector, we are more constructive on India corporates and Macau gaming, given attractive risk-reward versus US peers and solid or improving fundamentals.

### LTM default rate for Asia HY eased to 16.1% by count

In April, we saw one default from Central China, a Chinese private developer, as it completed exchange offer of three USD bonds, totaling US\$748mn. As the LTM defaulted amount and No. of defaulted issuers decreased, the LTM default rate by amount/count eased to 16.1%/27.4% for Asia HY, and 32.8%/48.3% for China HY, respectively (from 17.6%/28.4%, and 37.1%/49.5% by end-March). However, for China HY property, the default rate by count was unchanged at 53.7%, as LTM No. of defaulted issuers and universe denominator were unchanged; and the default rate by amount rose to 65.1% from 64.6% by end-March, as decrease of LTM defaulted amount was more than offset by decrease of universe denominator.

### April supply at US\$6.2bn, YTD -45%

In April, Asian USD fixed supply increased to US\$6.2bn (+12% MoM), mainly driven by bank senior; but declined 68% on YoY basis. In non-financial space, IG corps supply increased 18% MoM to US\$1.8bn due to issuance from CK Hutchison (US\$1.25bn); HY corps saw US\$1.0bn issuance driven by Indo and India HY. Due to weak issuance, the YTD net redemption was around US\$20bn.

### Where is value showing up today

Looking at the z-scores over the past 12-month spreads and the current spreads vs. duration among Asian countries, we note that among IG, Philippine BBB and Korea A look inexpensive, while Malaysia BBB is trading tight; among HY, China BB property stands out as cheap, while Indo BB and Indo B Industrial appear relatively expensive.

Refer to the full report of [The Model Portfolio: Positive return driven by lower rates and Asia IG 03 May 2023](#) including important disclosures

# China Property

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## Top 100 developers' attributable sales up 32%/ 11% YoY in Apr/ 4M23

(Published 2 May 2023)

### April: top 100 developers' attributable sales up 32% YoY

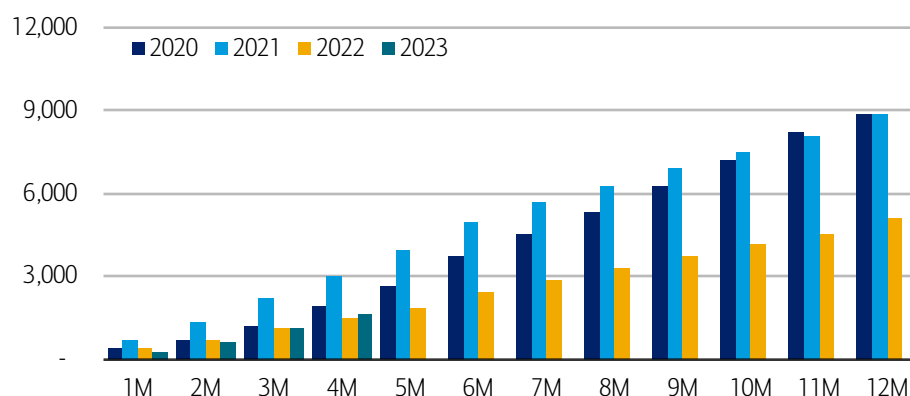
According to CRIC, in Apr '23, top 100 Chinese developers' attributable contracted sales increased by 32% YoY. We estimate that SOE developers saw a 77% growth in their sales while POE ones saw a 11% decline in their sales. Among top 100 developers with outstanding USD bonds, outperformers are Poly Property Group (POLHON) (+166% YoY), China Resources Land (CRHZCH) (+165% YoY), Yanlord (YLLGSP) (+135% YoY), Greentown (GRNCH) (+135% YoY), and Kaisa Group (KAISAG) (+123% YoY) whereas underperformers are Helenbergh (HLBCNH) (-84% YoY), Wanda (DALWAN) (-84% YoY), Jinke (JINKE) (-72% YoY), Times (TPHL) (-70% YoY) and Ronshine (RONXIN) (-67% YoY).

### 4M23: top 100 developers' attributable sales up 11% YoY

According to CRIC, in 4M2023, the attributable contracted sales of top 100 developers increased by 11% YoY to c.RMB1,634bn. We estimate that SOE developers saw a 52% growth in their sales while POE ones saw a 25% decline in their sales. The market share of SOE developers increased to 63% (vs 4M22: 46%). Among top 100 developers with outstanding USD bonds, outperformers are POLHON (+197% YoY), CRHZCH (+119% YoY), China Evergrande (EVERRE) (+99% YoY), GRNCH (+74% YoY), and China Overseas Land & Investment (CHIOLI) (+63% YoY) whereas underperformers are Zhongliang (ZHLGHD) (-62% YoY), Guangzhou R&F (GZRFPR) (-63% YoY), RiseSun (RISSUN) (-70% YoY), TPHL (-70% YoY) and RONXIN (-75% YoY). See Exhibit 2 for individual developer's sales performance.

#### Exhibit 1: Top 100 developers' YTD attributable contracted sales

Apr: top 100 developers' attributable sales up 32% YoY; 4M23: top 100 developers' attributable sales up 11% YoY



Source: BofA Global Research, CRIC

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**Exhibit 2: Individual developer cumulative contracted sales YoY performance**

Below are the YTD cumulative contracted sales YoY changes for some individual developers

<b>Ticker</b>	<b>Company Name</b>	<b>1M23 YoY</b>	<b>2M23 YoY</b>	<b>3M23 YoY</b>	<b>4M23 YoY</b>
CHIOLI	China Overseas Land & Investment	-19%	50%	74%	63%
CHJMAO	China Jinmao	0%	42%	40%	40%
CRHZCH	China Resources Land	17%	82%	104%	119%
LNGFOR	Longfor Group	-7%	37%	36%	41%
POLYRE	Poly Development and Holdings	5%	41%	31%	39%
VNKRLE	China Vanke	-17%	-11%	-4%	-3%
YUEXIU	Yuexiu Property	43%	152%	96%	39%
AGILE	Agile Group	-65%	-54%	-46%	-26%
CENCHI	Central China	-27%	N/A	-26%	-22%
CHINSC	China SCE	-33%	-19%	-30%	-33%
COGARD	Country Garden	-42%	-34%	-27%	-22%
FUTLAN	Seazen Group	-33%	-29%	-30%	-29%
GRNCH	Greentown China	11%	49%	56%	74%
GZRFPR	Guangzhou R&F	-68%	-80%	-70%	-63%
KWGPRO	KWG Group	-39%	-26%	-42%	-17%
PWRLNG	Powerlong	-64%	-43%	-40%	-35%
SINOCE	Sino-Ocean Group	-27%	1%	10%	7%
YLLGSP	Yanlord	-90%	-49%	-47%	-36%

Source: BofA Global Research, CRIC

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# Macau Gaming

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## Apr GGR at 62% of 2019; eyes on 1Q23 results and May Golden Week

(Published 2 May 2023)

### Apr GGR at MOP14.7bn, 62% of 2019 level

Apr GGR in Macau was MOP14.7bn (+15.6% MoM), or 62% of Mar'19 level. Daily run rate increased 19% MoM from MOP411mn in Mar'23 to MOP491mn, or 61% of 2019 average level. 4M23 GGR was at MOP49.4bn, representing 49% of 1Q19 level. At this level, we believe operators are seeing positive cash flow.

### Performance: Beating China Ind. & US but lagging vs India

According to ICE Index, Macau HY Gaming (excluding SANLTD) has delivered +1.60% total return/+1.13% price return in Apr, outperforming China HY Industrials exd. FOSUNI (0.26%/-0.21%) and US HY Gaming (1.19%/0.75%), but underperforming India HY (2.28%/1.80%). Sector YTW has come off from the tightest level (c.7.6% YTW in early-Feb) and is currently at 8.6%. The yield gap between Macau HY vs US peers is 232bp as of 28 Apr, 2bp tighter than 234bp at end-Mar, 116bp wider than their YTD tightness at c.116bp, and 142bp wider than 2019 average at c.90bp. The top performers in Mar were mainly longer-dated bonds, and the worst performing gaming bonds were SJMHOL and those with shorter maturities.

### Eyes on 1Q23 results & May Golden Week

We expect Macau gaming issuers to report their 1Q23 results by mid-May, with positive EBITDA (except SJM) and moderate decrease in total debt. Separately, we expect to see strong visitation in the coming May Golden Week. According to Ctrip, majority of hotels ran by the concessionaires are fully booked during the holiday, or not yet released to cash-paying visitors. With the recovery story well and truly underway, we believe skeptical investor sentiment will improve, supporting technical of gaming bonds.

### New amendments to gaming bill related to granting credit

The Macau government has announced a new bill on 21<sup>st</sup> Apr, proposing that only the concessionaires and licensed junkets are permitted to issue credit, while management companies – those who operate satellite casinos – are not allowed. We don't expect the new bill will have a material impact on operators' fundamentals.

### March visitation at ~58% of Mar'19 level

According to Macau's Statistics and Census Service (DSEC), Macau reported ~1.96mn visitor arrivals in Mar'23 (~58% of Mar'19 level), of which 1.24mn were from mainland China (~52% of Mar'19 level) and 0.62mn were from Hong Kong (~103% of Mar'19 level). Daily visitation reached ~63K, up 11% MoM, and the number of visitors travelling under the Individual Visit Scheme reached 0.72mn (+24% MoM, ~68% of Mar'19 level). Looking forward, we expect sequential growth in visitations from both mainland (mainly due to more package tours and normalizing flights) and Hong Kong (with more ferries). In addition, our [channel checks on implementation of e-visa](#) show the process hasn't been back to pre-pandemic normal. This may discourage some mainlanders from visiting Macau in our view. As such, easing visa policies could be one of the key drivers for mainland visitation growth in the mid-term.

Refer to the full report of [Macau Gaming: Apr GGR at 62% of 2019; eyes on 1Q23 results and May Golden Week 02 May 2023](#) including important disclosures



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