

# The Asia convertibles primary market has become too big to ignore

04 April 2019

## Asian converts total 22% of total issuance in '19, a record

Asian convertibles, as represented by the ICE BofAML Asia Convertible Bond Index (VASI), are currently up 8.4% YTD, behind only the US (VXA0), which is up 11.9% YTD (Chart 1). The strong performance, driven by the region's rallying equities, has attracted both investors and issuers alike, which has helped to broaden the investor base and support the primary market. In fact, the Asia market has seen \$4.9bn of new paper so far this year, comprising nearly 22% of global new supply, a record since 1998. (Chart 2).

Notably, a sizable portion of the new Asia volume is from US-listed Chinese tech companies, which have been seeking additional capital after their IPOs last year, when market conditions were softer than they are today (i.e., IQ and BILI each IPOed in March 2018, when global equities were declining after February's vol event). In fact, of the \$4.9bn of new Asian convertible paper, 50% is from US-listed companies—also a record (Chart 3)—on the back of the large \$1.2bn deal from iQIYI, its [second](#) convertible new offering in the past 6 months. Given this, it's unsurprising that the tech sector has led new deal volume from Asian issuers (both non-US and US listed). This is a major departure from last year when Asian convertible issuance was driven mainly by Hong Kong property names, which took advantage of their high-flying stocks early in the year to raise capital via relatively inexpensive convertible bonds. However, most of this paper rolled off in February and, as we [expected](#), was not refinanced (Chart 4). Despite last year's real estate trend in the primary market, we also saw a substantial amount of US-listed Chinese tech names offer converts in 2018, including the aforementioned notes from iQIYI Inc, Momo Inc, Sea Ltd, and GDS Holdings.

So far, thirteen new deals have come to market from Asian issuers in 2019, each listed in Table 1 below. The converts have become popular among investors (especially hedge funds) looking for exposure to these names as stock borrow has been improving. Going forward, we believe that Asian convertibles new supply will remain supported this year, especially by Chinese tech companies, as they continue to monetize their high growth stock and investor demand stays strong. What's more, the primary market should benefit from an improving macro backdrop as our Asia equity strategists remain bullish—recently, they noted that [green shoots](#) are emerging in China on improved growth and business confidence, the subsiding trade war, and more dovish global central banks.

**Table 1: So far in 2019, thirteen new Asia convertibles have come to market, all listed below (shaded deals are from US-listed companies)**

Issue Date	Cusip	Ticker	Issuer	Coupon	Maturity	Issue Amt (LOC)	Issue Amt (USD)	Currency	Initial Cv Prem	Cvt Sector	Price
9-Jan-19	AW6341795	6169 HK	CHINA YUJHUA	3.00	16-Jan-20	940	120	HKD	8.0	Cons Disc	114.581
15-Jan-19	AW7146607	992 HK	LENOVO GROUP LTD	3.38	24-Jan-24	675	675	USD	40.0	Tech	114.647
17-Jan-19	AW7707028	6269 TT	FLEXIUM INTERCONNECT INC	0.00	22-Jan-22	100	100	USD	15.0	Tech	112.815
29-Jan-19	62914VAA4	NIO US	NIO INC	4.50	1-Feb-24	750	750	USD	27.5	Cons Disc	88.063
19-Feb-19	AX3088371	2601 TT	FIRST STEAMSHIP CO LTD	0.00	26-Jan-22	50	50	USD	5.0	Transport	--
20-Feb-19	AX3498786	TOPG MK	TOP GLOVE LABUAN LTD	2.00	1-Mar-24	200	200	USD	20.0	Healthcare	98.722
26-Feb-19	AX3088371	2601 TT	FIRST STEAMSHIP CO LTD	0.00	26-Jan-22	50	50	USD	5.0	Transport	--
7-Mar-19	AX5707226	823 HK	LINK 2019 CB LTD	1.60	3-Apr-24	4,000	510	HKD	22.5	Financials	100.27
12-Mar-19	AX6468802	DXS AU	DEXUS FINANCE PTY LTD	2.30	19-Jun-26	425	300	AUD	20.0	Financials	99.501
21-Mar-19	AX8200740	839 HK	CHINA EDUCATION GROUP	2.00	28-Mar-24	2,355	300	HKD	30.0	Cons Disc	104.01
27-Mar-19	46267XAC2	IQ US	IQIYI INC	2.00	1-Apr-25	1,200	1,200	USD	32.5	Tech	103.875
2-Apr-19	AX9961118	KREIT SP	KEPPEL REIT	1.90	10-Apr-24	200	148	SGD	12.5	Financials	98.312
3-Apr-19	090040AA4	BILI US	BILIBILI INC	1.38	1-Apr-26	500	500	USD	37.5	Tech	98.563

Source: BofA Merrill Lynch Global Research, ICE Data Services, LLC, Bloomberg. Data as of 03-Apr-2019.

Convertibles  
Global

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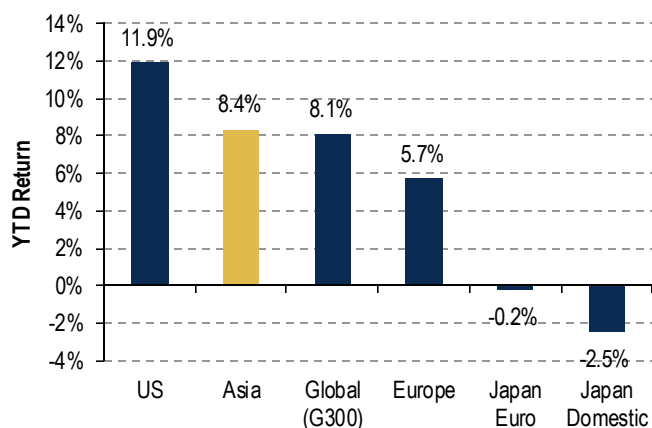
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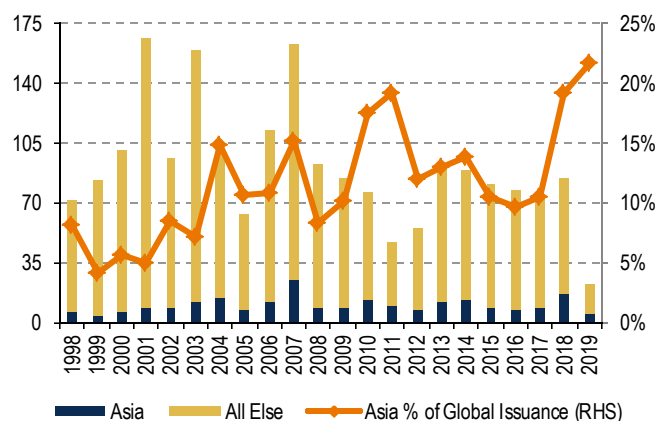
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**Chart 1: Asia convertibles have added 8.4% so far in 2019, second only to US converts, which have gained 11.9%**



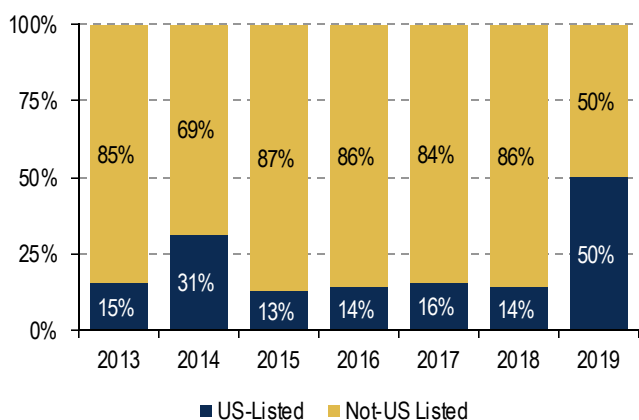
Source: BofA Merrill Lynch Global Research, ICE Data Services, LLC. Data as of 03-Apr-2019.

**Chart 2: The Asian primary market has priced \$4.9bn of new paper so far this year, totaling 22% of all global convertible issuance**



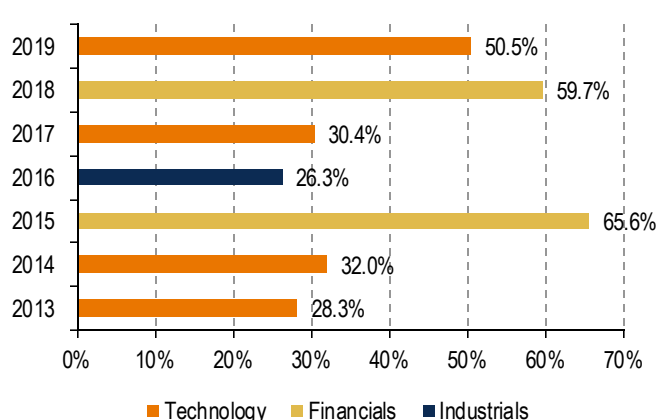
Source: BofA Merrill Lynch Global Research. Data as of 03-Apr-2019.

**Chart 3: About half of 2019's Asia new convertible supply is from US-listed companies, a record since at least 2013**



Source: BofA Merrill Lynch Global Research. Data as of 03-Apr-2019.

**Chart 4: The top sector in 2019 so far has been technology, a departure from 2018 when real estate names dominated the Asia primary market**



Source: BofA Merrill Lynch Global Research. Data as of 03-Apr-2019.

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