

Chinese Dollar Bond Market Report

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CXI & CCXAP 2020FY Chinese Dollar Bond Market Report

2020 Chinese Dollar Bond Market Recap

- **New issues amount in 2020 was similar to 2019 level.** Chinese companies issued 616 dollar bonds totaling USD203.4 billion, representing a YoY increase of 1.3% and YoY decrease of 0.7%, respectively. Affected by market volatility as well as supervisory controls on the Chinese real estate and Chengtou bond issuance, last year saw a decrease in net financing amount at USD68.1 billion, a YoY decrease of 27.3%.
- **Issuance of real estate and Chengtou companies shrank in scale whereas financial institutions and industrial companies were active.** In 2020, real estate companies issued a total of USD61.2 billion, equivalent to a Year-on-Year ("YoY") decrease of 15.8%; Chengtou companies issued a total of USD18.2 billion, representing a YoY decrease of 32.6%. Financial institutions and industrials issued USD60.1 billion and 63.9 billion, representing a YoY increase of 11.6% and 24.5%, respectively.
- **Issuance of Investment grade companies was active while high yield issuers found more difficult in new issuance.** There were 318 Chinese companies that issued dollar bonds in 2020. 149 investment grade companies issued a total of USD125.1 billion, a YoY increase of 18.5% and accounting for 61.5% of the total. Issuance from high yield entities dropped significantly. 67 high-yield issuers raised USD52.5 billion from bond issuance, decreasing by 26.8% from 2019 and equivalent to 25.8% of the total issuance.
- **Average coupon rate of Chinese dollar bond demonstrated downward trend as influenced by the Fed's near-to-zero interest rate policy.** The average coupon rate of newly issued Chinese dollar bond fell from 5.97% in 2019 to 4.69% in 2020.
- **Chinese issuers seized the timing of low interest environment to optimize their debt structure.** Average tenor of new issuance extended from 3.61 years in 2019 to 3.86 years in 2020.
- **The secondary market continued to recover.** Bond return index rebounded and real estate bonds performed the best in 2020H2.

Rating Actions and Credit Events

- **Negative action accounted for a large proportion while Chinese corporate credit continued to diverge.** In 2020, the big three international credit rating agencies took 78 positive actions and 175 negative actions on Chinese issuers. 69% of the rating actions were negative. In 2020, the big three international credit rating agencies upgraded 35 Chinese issuers and downgraded 53 Chinese issuers.
- **Default events were dominated by private companies, yet risk of default was spreading towards state-owned enterprises.** In 2020, there were 32 defaults in the offshore bond market. It involved 16 issuers and a total amount of USD9.8 billion, with 14 issuers defaulting for the first time. In 2020, many Chinese companies experienced credit incidents in offshore markets. Among them, the default incidents of Founder Group and Yongcheng Coal were worth more attention.

Outlook

- **With the successful invention and application of COVID-19 vaccines, major economies could anticipate a gradual revival in 2021.** The current expansionary monetary policies may be marginally tightened, together with the fall in Renminbi exchange rate, eroding the competitive edge of offshore financing's lower cost. Some Chinese issuers will take advantage of the period of low interest rate to issue bonds, together with the large refinancing needs, will further boost new issuances. It is expected that new issuance in 2021 will remain around USD200 billion level, while real estate and financial companies will be the major issuers. Nevertheless, impacts of the debt control policy on real estate and Chengtou companies will continue. Offshore issuance is restricted to refinance medium to long-term notes due within a year, which may affect the net issue amount of some companies.
- **From the perspective of credit risk, Yongcheng Coal's default damages the market confidence on state-owned enterprises.** In the future, the market will pay more attention to a company's credit fundamentals with less reliance on a company's ability to receive government support. State-owned companies with weaker profile may have faster exposure to credit risk. At the same time, in the midst of a possibly marginal contraction of refinancing policies, private companies with poor operating performance consistently and exorbitant expansion will be challenged. We anticipate that credit risk of onshore and offshore markets will be marginally heightened and investors should take particular concern to the peak repayment period in 2021.

Introduction

As the COVID-19 pandemic swept across the globe at the beginning of 2020, it sparked off market worries about that the extensive impacts of the global economic depression and economic shutdown on the financial markets. Major global assets witnessed a slide on prices, once triggering off the dollar liquidity crisis. Impacted by external factors, investors' market risk appetite plummeted. There was a decrease in issuance in the primary market of Chinese dollar bonds, while secondary market saw downward price pressure. March and April's issuance amount fell drastically, with issuance of high yield bonds almost stopped. With a view to boosting the economy, the Fed implemented a low interest rate policy through lowering the interest rate for two times totaled 150bp to maintain an interval between 0% to 0.25%. It also implemented a large-scale plan of quantitative easing to foster market liquidity. Chinese dollar bond market started to recover afterwards. The gradual restoration of market confidence since May encouraged new issuance of high yield bonds. In 2020, Chinese dollar bond issuance reached a total of USD203.4 billion. Outstanding amount continuously climbed, reaching a level of USD791.6 billion at end-2020. With regard to the secondary market, there was a rare deep V-shaped rebound this year. The Yield-To-Date ("YTD") return of Chinese dollar bond index in 2020 stood at 5.88%.

To conclude, in 2020, central banks globally continued to uphold loosened monetary policies. Underpinned by the restoration of market liquidity, interest yield spreads between China and the United States widened and Renminbi continued to appreciate. This offered a favourable condition for domestic issuers to issue bonds in offshore markets. Coupled with the fact that China was the first to get out from the COVID-19 jitters, along with the resumption of production and the attraction of capital, Chinese corporate bonds were more attractive to overseas investors. It is worth noting that, China's exposure to credit risk in the second half of 2020 brought turmoil to both onshore and offshore markets. Eventually, the size of default in the Chinese dollar bond market reached a new high. Having a glimpse of the future, we think that expansionary policies of different countries could be tightened under the global economic recovery. The defaults of state-owned enterprises' bonds indeed symbolize the importance of analysing corporate fundamentals. Companies of weaker qualities are facing a new round of challenges and more risk events could be expected in 2021.

2020 Chinese Dollar Bond Market Recap

Regulatory Policy

The relaxation of macro policy on domestic enterprises' oversea fund raising facilitated their cross-border financing activities. On March 11, the People's Bank of China and the State Administration of Foreign Exchange jointly issued the "Notice by the People's Bank of China and the State Administration of Foreign Exchange of Adjusting the Macro-Prudent Adjustment Parameter for Full-Covered Cross-Border Financing", which adjusted upward the macro-prudent adjustment parameter for full-covered cross-border financing from 1 to

1.25. This expanded the issuance scale of offshore debts. After this change of policy, the corresponding increase in the upper limit of risk-weighted cross-border financing balance will help domestic institutions, especially small-and-medium sized enterprises and private enterprises, to fully utilize both international and domestic resources to raise funds through multiple channels. The macro-prudent management for full-covered cross-border financing originated in 2016, changing from the initial approach of pre-approvals on foreign debts to post-contract recording. Financial companies can independently carry out cross-border financing in both foreign and local currency as long as they do not exceed the upper limit of cross border financing, which is correlated with the level of capital and net assets. The upward adjustment of such parameter implies a loosened grip through macro-policies, which facilitates the issuance of bonds abroad by Chinese companies. However, the change does not apply to local government financing vehicles and real estate companies.

Validity of foreign debt filings lengthened, fostering the resumption of Chinese dollar bond issuing activities. According to Circular No. 2044 of the National Development and Reform Commission (“NDRC”), domestic companies intending to issue bonds with maturity more than one year must register and receive permission from NDRC beforehand, as proven by the Certificate of Enterprise Foreign Debt Filing issued by NDRC. After that, companies are required to complete the issuance within the stated deadline mentioned in the certificate. Reporting to the NDRC is required within 10 working days for each phase of issuance. Companies that fail to register and submit information in accordance with the above regulations will be labeled with bad credits in the national credit information platform and the joint punishment information platform. In response to the COVID-19 pandemic, NDRC issued the “Guidelines on Issues Concerning Enterprises’ Application for Extending the Validity Period of Foreign Debt Filing Registration Certificates” and clarified that eligible companies registered with certificates but failing to complete debt issuance before the deadline could submit a written application to NDRC for an extension of the validity period of up to six months within 20 working days before the expiry of the validity period. Thus, Chinese companies are permitted to issue offshore bonds in a more appropriate time.

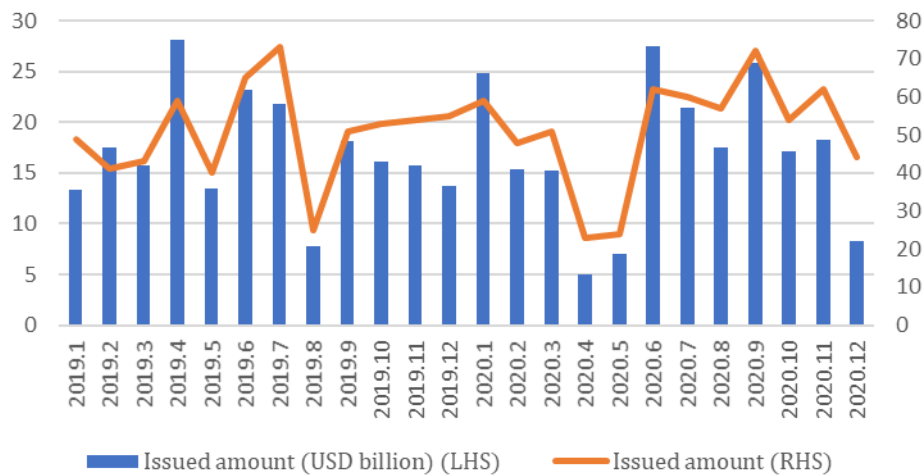
Debt control policies for individual industries had lasting effect in 2020. In Mid-2019, NDRC successively announced Circular No. 666 “Notice by the General Office of the National Development and Reform Commission of the Relevant Requirements for the Application for Recordation and Registration of Foreign Debt Issuance by Local State-owned Enterprises” and Circular No. 778 “Notice by the General Office of the National Development and Reform Commission of the Relevant Requirements for Recordation and Registration of Real Estate Enterprises’ Applications for Issuance of Foreign Debts”, which are debt control policies targeting to Chengtuo and real estate companies. Offshore bond issuance is confined to refinance medium to long-term foreign debts due within one year. Furthermore, the “Three Red Lines” policy acting on real estate financing was unveiled in late August 2020. It restricts the financing scale of real estate enterprises through several financial and operating indicators. Among them, financial and operating indicators include leverage ratio (debt-to-asset ratio and net debt ratio after excluding advance receipts),

liquidity indicators (short-term cash debt ratio), and indicators to measure the cash flow balance of real estate companies (land acquisition ratio, operating net cash flow from activities). The policy aims at reducing companies' reliance on financial leverage and improving liquidity and cash flow. In December 2020, the central bank and the China Banking and Insurance Regulatory Commission ("CBIRC") jointly issued the "Notice on Establishing a Real Estate Loan Centralized Management System for Banking Financial Institutions" to establish a centralized management system for real estate, banks, and financial institutions. Considering the asset scale and institution type of banking financial institutions, an upper limit was set on the proportion of real estate loan balance and the proportion of personal housing loan balance in total bank loans. Not only does it further tighten the grip on real estate onshore financing, but it also controls the scale of personal housing loans.

Primary Market

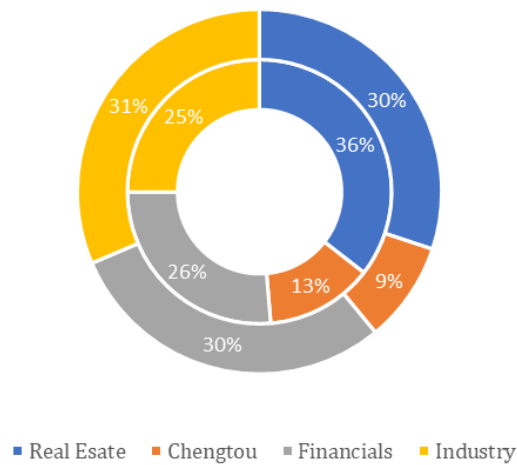
In 2020, new issuance of Chinese dollar bonds was similar to the level in 2019. Influenced by market volatility as well as supervisory controls on the Chinese real estate and Chengtou bond issuance, last year saw a decrease in net financing amount. Since Chinese companies confronted concentrated maturity of debts in 2020, the huge financing needs helped maintain the issuing scale in 2020 at a relatively high level. Chinese companies issued 616 dollar bonds totaling USD203.4 billion, representing a YoY increase of 1.3% and YoY decrease of 0.7%, respectively. Net financing amount of the year stood at USD68.1 billion, a YoY decrease of 27.3%. Due to the continuous impact of debt replacement policy imposed by the NDRC on real estate and Chengtou companies since 2019, as well as the relaxation of the Chinese financing environment under the pandemic, offshore market experienced increased volatility. As a result, some companies decided to defer their offshore financing plan. By month, issuers seized the opportunity to issue bonds in January and February to prepare for the coming peak of dollar bond maturity. Yet, new issuance tumbled as the market experienced large volatility in March and April. Issuance of high yield bonds was almost halted. Starting from May to June and July, total issuance amount rebounded as market sentiment gradually recovered. It saw a downward adjustment from the peak in August due to the impact of "Three Red Lines" policy on real estate sector. But the issuance amount went up again on September as issuers sought to issue debts before the US election. From October to December, default events of state enterprises and seasonal factors put pressure on issuance. Overall speaking, 2020 featured an issuance slump because of market volatility at year start. When the market gradually recovered, the yearly issuance amount caught up the 2019 level.

Exhibit 1: Issuance scale from 2019 to 2020



Source: Bloomberg, CCXAP Research

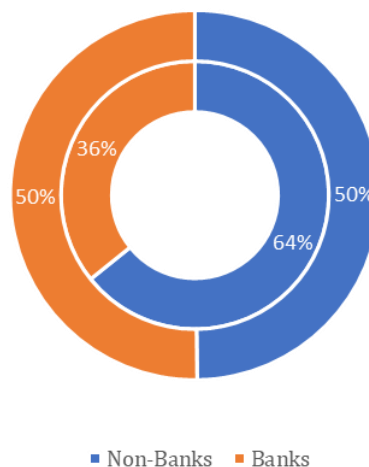
Issuance of real estate and Chengtou dollar bonds shrank in scale; financial institutions and industrial companies were active in issuance. In 2020, real estate, Chengtou, financial institutions and industry companies were the main issuers, accounting for 30.1%, 8.9%, 29.6% and 31.4% of the yearly issued amount in 2020. Real estate issuers issued a total of USD61.2 billion, equivalent to a Year-on-Year (“YoY”) decrease of 15.8%. Chengtou companies issued a total of USD18.2 billion, representing a YoY decrease of 32.6%. Chinese real estate dollar bonds saw a contraction in issuance scale, mainly attributed to the impact of Circular No. 778 and the “Three Red Lines” policy. This has led to a significant decline in net financing amount. At the same time, as plagued by the liquidity incidents in March and April, issuance activities of high yield issuers, including real estate companies, plunged. In 2020, real estate companies mainly had their issuance concentrated in January, February, and June, which are traditional peak periods of real estate bond issuance. Benefited by a relatively loose financing environment in the onshore market, onshore issuance cost consistently went downward, thereby leading to a reduced willingness of issuing offshore dollar bonds. In addition, Circular No. 666 “Notice by the General Office of the National Development and Reform Commission of the Relevant Requirements for the Application for Recordation and Registration of Foreign Debt Issuance by Local State-owned Enterprises” debt replacement policy continued to inhibit the issuance of Chengtou bonds. This coupled with the crisis of market confidence on state-owned companies caused by the Yongcheng Coal Incident. Chengtou companies found it more difficult to issue new bonds.

Exhibit 2: Issued amount in 2019 and 2020 by sector

Inner Circle is the statistics of 2019 ; Outer Circle is the statistics of 2020

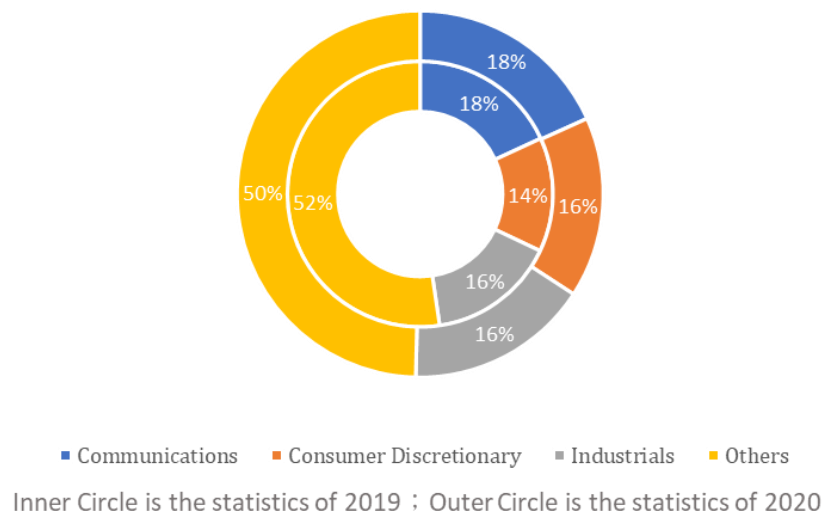
Source: Bloomberg, CCXAP Research

On the other hand, financial institutions were actively issuing bonds, with a total issuance of USD60.1 billion, a YoY increase of 11.6%. Since banks generally have relatively good credit quality, there are very few obstacles to issuance in 2020. Banks raised a total of USD30.7 billion in 2020, soaring by 56.6% YoY. Industrial companies including central enterprises, state-owned companies and large technology and communication enterprises were active in issuance as well, with a total issuance of USD63.9 billion and equivalent to a YoY increase of 24.5%. In particular, Communications issuers were the most active issuers, with a total issuance of USD11.7 billion, a YoY increase of 25.3%.

Exhibit 3: Issued amount in 2019 and 2020 of Financials by sub-sector

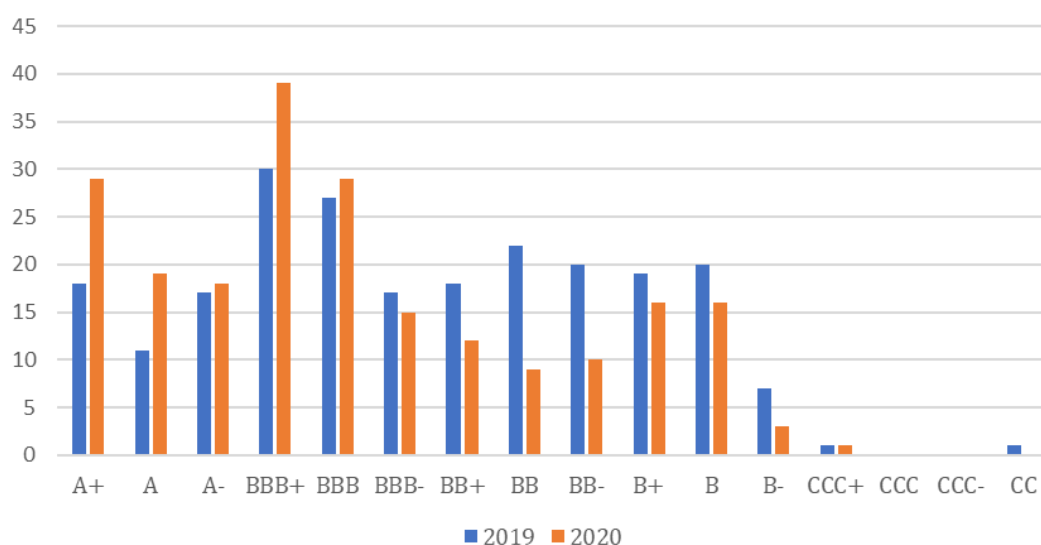
Inner Circle is the statistics of 2019 ; Outer Circle is the statistics of 2020

Source: Bloomberg, CCXAP Research

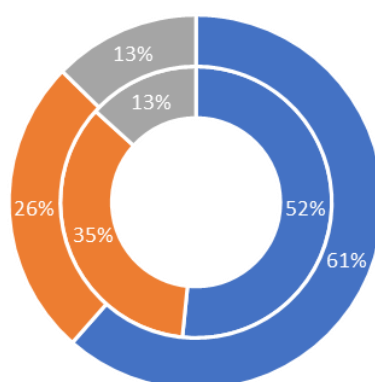
Exhibit 4: Issued amount in 2019 and 2020 of Industry by sub-sector

Source: Bloomberg, CCXAP Research

Market risk appetite reduced; investment grade bonds were active in issuance; and issuance of high yield bonds was under pressure. A total of 318 Chinese companies issued dollar bonds in 2020, 216 of which received ratings from the three international credit rating agencies. In the first half of 2020, COVID-19 jitters damped risk appetite. Investment grade issuers accounted for a large proportion of the issuance while the proportion of high yield issuers were relatively small. Due to the widening of US-China yield spread and continuously weakening dollar, the relative cost of dollar bonds fell, attracting issuers with better credit quality to issue dollar bonds. With the gradual recovery of the market environment, high yield issuers made a comeback in the market. Meanwhile, high yield issuers still represented a larger proportion of the yearly total. In 2020, 149 investment grade issuers issued a total of USD125.1 billion, a YoY increase of 18.5% and accounting for 61.5% of the total. For high-yield dollar bond, issuance demonstrated a decline with 67 high-yield issuers issued USD52.5 billion bonds, decreasing by 26.8% from 2019 and equivalent to 25.8% of the total issuance.

Exhibit 5: Distribution of issuer rating amount in 2019 and 2020

Source: Bloomberg, Fed, CCXAP Research

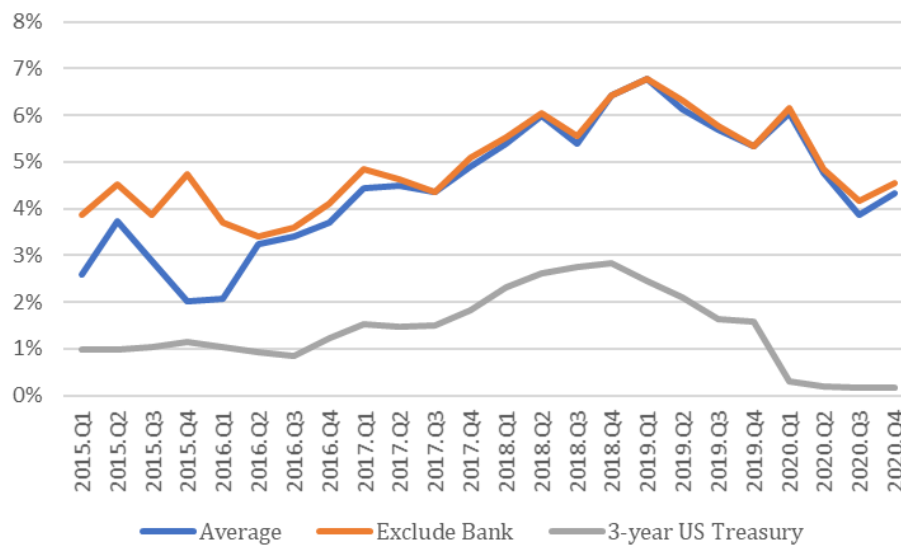
Exhibit 6: Chinese dollar bond issuance amount in 2019 and 2020 (by issuer rating)

■ Investment Grade ■ High-Yield ■ Non-Rated

Inner Circle is the statistics of 2019 ; Outer Circle is the statistics of 2020

Source: Bloomberg, Fed, CCXAP Research

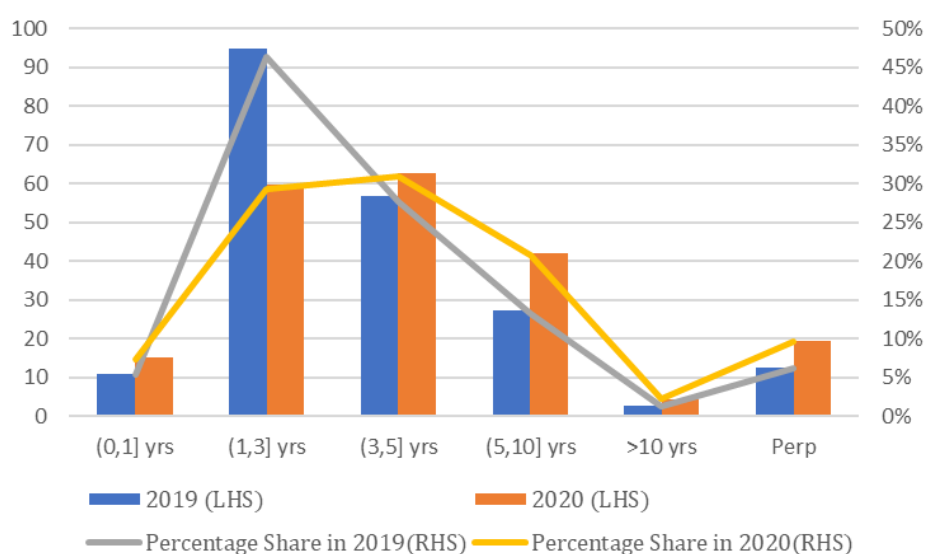
The average coupon rate of Chinese dollar bond demonstrated a downward trend in 2020. As influenced by the Fed's near zero interest rate policy, US Treasury yield continued to decline during the year. In 2020H1, because of large market volatility, the issuance of Chinese dollar bonds was halted, especially for high-yield issuers. Average coupon rate fell from 6.0% in the first quarter of 2020 to 3.9% in the third quarter. With the recovery of market temper and the comeback of high-yield issuers, average coupon rate restored to 4.3% in the fourth quarter. Overall speaking, 2020 concluded with a diminished average coupon rate, as it decreased from 6.0% in 2019 to 4.7% in 2020.

Exhibit 7: Average coupon rate of fixed-rate ordinary Chinese dollar bonds and US Treasury yields

Source: Bloomberg, CCXAP Research

Average tenor of Chinese dollar bond extended as it increased from 3.61 years to 3.86 years.

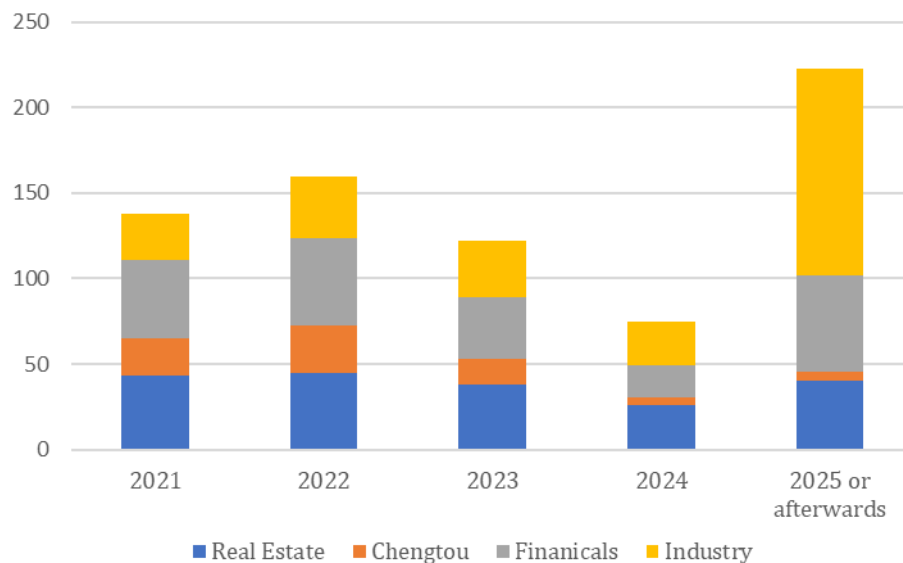
In 2020, 8 tranches of bonds with tenor more than 10 years were issued, with a total value of USD43.8 billion, an increase of 67.8% YoY, accounting for 2.2% of the total. For bonds with tenor between 5 to 10 years, 69 tranches of bonds worth USD40.1 billion were issued, representing a YoY increase of 47.4% and 19.7% of the total. Nonetheless, there are less bond issuances for bonds with tenor between one to three years. The number of bonds issued decreased from 306 tranches in 2019 to 214 tranches in 2020; while total issuance amount fell from USD94.9 billion in 2019 to USD59.6 billion in 2020, a 37.1% YoY decrease. Chinese issuers, in particular high-quality issuers, seized the low interest environment to issue bonds with longer tenor so as to optimize its debt structure.

Exhibit 8: Chinese dollar bond issuance amount by maturity in 2019 and 2020 (USD billion)

Source: Bloomberg, CCXAP Research

As of 31 December 2020, outstanding Chinese dollar bond totaled USD791.6 billion. Scale of maturity will reach USD138.0 billion, USD159.3 billion, USD122.4 billion and USD 746.0 billion in 2021, 2022, 2023 and 2024, respectively. By industry, real estate dollar bonds will have a peak of maturity in 2021 and 2022, with the amount totaling USD43.2 billion and USD44.8 billion, respectively. In addition, Chengtou companies have USD22.0 billion and USD28.0 billion of bonds to be due in 2021 and 2022. Due to the continuous impact of the offshore debt control policy on estate and Chengtou companies, it is anticipated that future net financing amount will drop.

Exhibit 9: Outstanding amount of Chinese dollar bonds by maturity in 2019 and 2020 (USD billion)



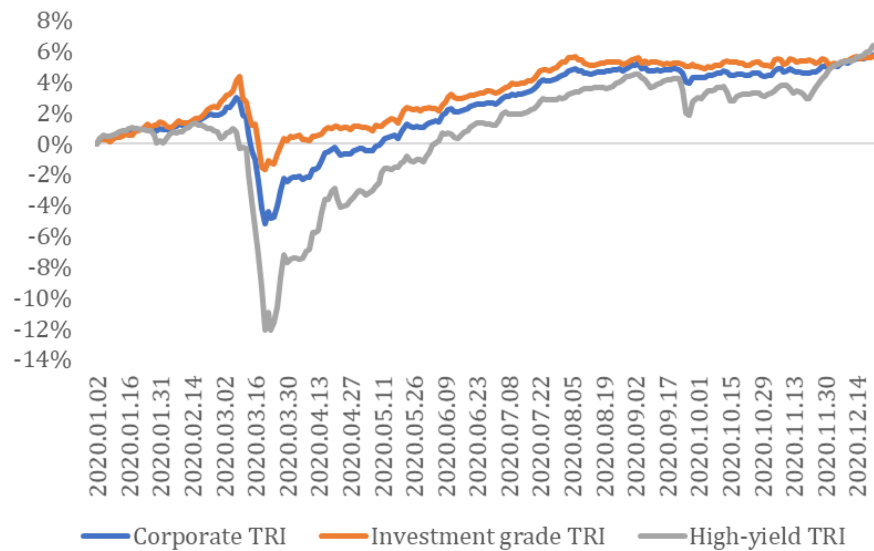
Source: Bloomberg, CCXAP Research

Secondary Market

Prices of Chinese dollar bonds continuously rebounded, and bond yield index ran out of the haze; the frequent occurrence of credit incidents in the second half of 2020 aroused investors' concern. At the beginning of 2020, driven by sufficient liquidity and good market sentiment, Chinese dollar bonds showcased a rising price trend in the secondary market. However, when the COVID-19 pandemic began to sweep across the globe, it led to a slump in price of major financial assets globally, followed by the dollar liquidity crisis. Given that the market had a lower risk appetite, Chinese dollar bond prices were under significant pressure. Afterwards, governments and central banks announced expansionary monetary policies to prevent the overwhelming of systemic and to stabilize the financial markets. Market liquidity and investor sentiments recovered. In late September, China Evergrande's liquidity issues provoked market worries, leading to the slide of bond index, especially high yield and real estate bond index. Another wave of market volatility was seen shortly as the Yongcheng Coal Incident raised concerns about the credit quality of state-owned enterprises. All in all, the outbreak of COVID-19 pandemic led to a drastic drop in asset prices. Since then, the prices continued to recover and surpass year start's level. As of 31

December 2020, the Yield-To-Date (“YTD”) return of Chinese dollar bond index stood at 5.88%, in which investment grade bonds had a return of 5.76% and high-yield bonds gave a return of 6.47%.

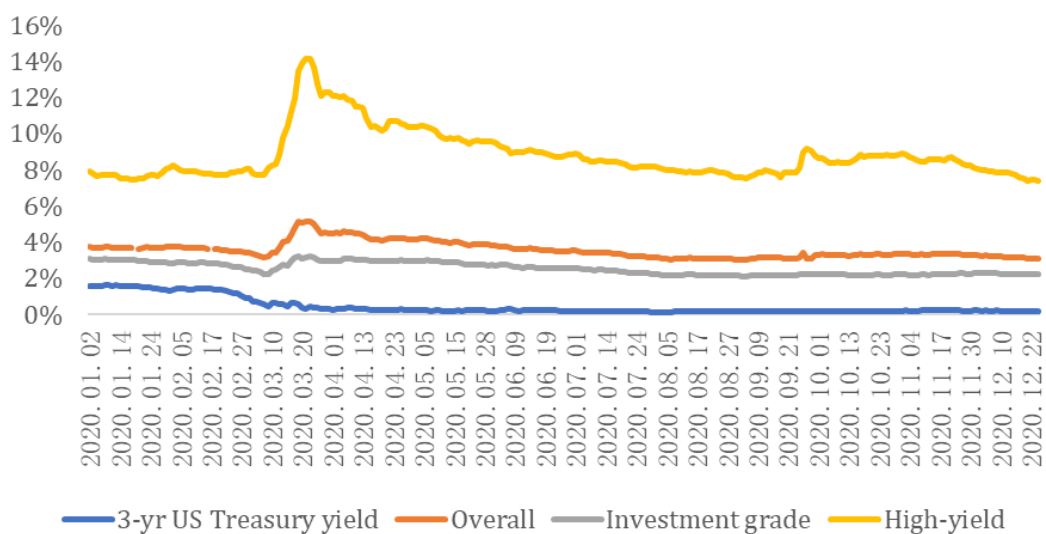
Exhibit 10: YTD return on Markit iBoxx Chinese USD bond index



Source: Bloomberg, CCXAP Research

In terms of yield, as of 31 December 2020, the yield to worst of Chinese dollar bond stood at 3.08%, narrowed by 69bp from the beginning of the year. In particular, investment grade bonds saw the largest decline as the yield to worst decreased by 88bp to 2.20%. High yield bonds had a yield to worst of 7.37%, narrowing by 56bp from the beginning of the year.

Exhibit 11: Yield-to-worst of Bloomberg Barclays Chinese USD bond index



Source: Bloomberg, CCXAP Research

Market risk appetite rebounded in the second half of the year, with real estate bonds performing the best and non-financial bonds being under pressure. By sector, as of 31 December 2020, real estate bonds performed the best with a YTD return of 7.59%, followed by financials (6.34%), non-financials (4.96%) and Chengtong (4.45%). The first half of the year featured a return of 1.97%, 2.21%, 3.20% and 1.84% on real estate, financials, non-financials and Chengtong bonds. Investment grade bonds in general gave a better rate of return than high-yield bonds, mainly associating with the lower risk preference under large market volatility. In 2020H2, real estate, financials, non-financials and Chengtong bonds had a rate of return of 5.62%, 4.13%, 1.76% and 2.61%. Real estate bonds performed the best because Chinese real estate industry suffered relatively less than the others during the coronavirus outbreak. With the restoration of market confidence, the rate of return of high-yield bonds improved significantly in the second half of the year. Non-financial high-yield dollar bonds performed the worst with rate of return of 1.76%. It reflects that under the rampant COVID-19 pandemic, investors have responded to greater differences in credit quality in cyclical industries such as industrial and energy, and that they have a more conservative risk appetite.

Table 1: Returns of dollar bonds in 2020 by sector

Markit iBoxx USD Asia ex-Japan China Index Return	H1	H2	2020
Real Estate TRI	1.97%	5.62%	7.59%
- Investment Grade TRI	2.50%	3.63%	6.13%
- High Yield TRI	1.83%	6.40%	8.23%
Financials TRI	2.21%	4.13%	6.34%
- Investment Grade TRI	2.63%	2.88%	5.51%
- High Yield TRI	1.78%	5.71%	7.49%
Non-Financials TRI	3.20%	1.76%	4.96%
- Investment Grade TRI	3.97%	1.78%	5.75%
- High Yield TRI	-2.49%	1.95%	-0.54%
Chengtong TRI	1.84%	2.61%	4.45%
- Investment Grade TRI	1.61%	2.63%	4.24%
- High Yield TRI	2.62%	2.53%	5.15%

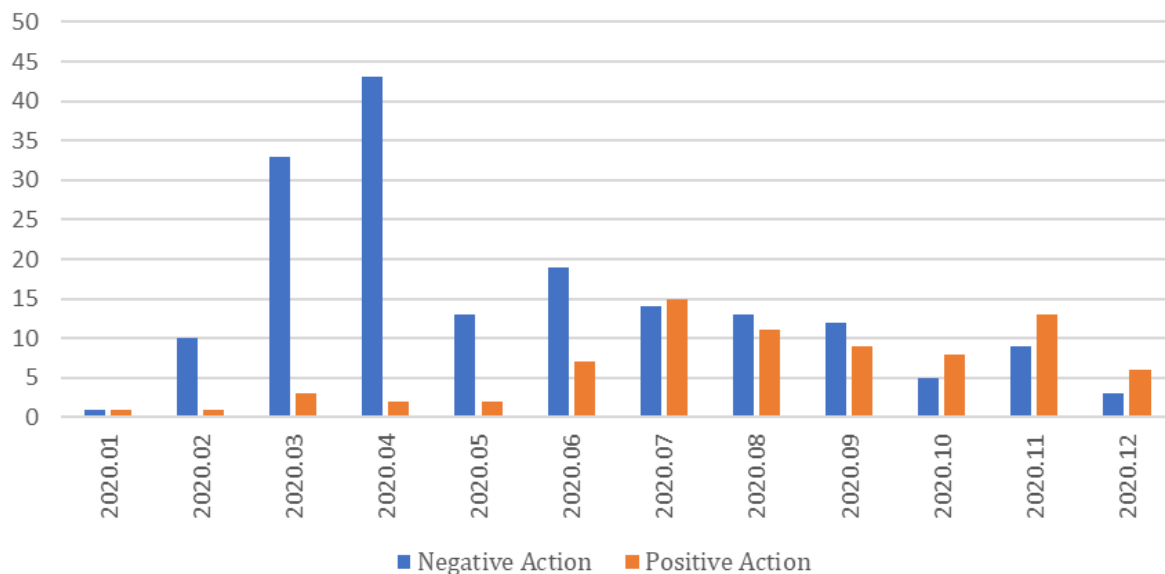
Source: Bloomberg, CCXAP Research

Rating Actions and Credit Events

The COVID-19 pandemic led to a larger share of negative actions, but the situation started to turn around in the second quarter; and Chinese issuers continuously had diverged credit quality. In 2020, the three international credit rating agencies exercised 78 positive actions and 175 negative actions on Chinese issuers. Among them, negative actions accounted for 69% of them, including 87 issuer downgrades, 81 outlook changes and 33 negative watch. The reasons for negative actions were mainly due to the weakened credit quality under the impact of the pandemic. In the fourth quarter of 2020, the three international credit rating agencies had 27 positive actions and 18 negative actions. The situation improved later as

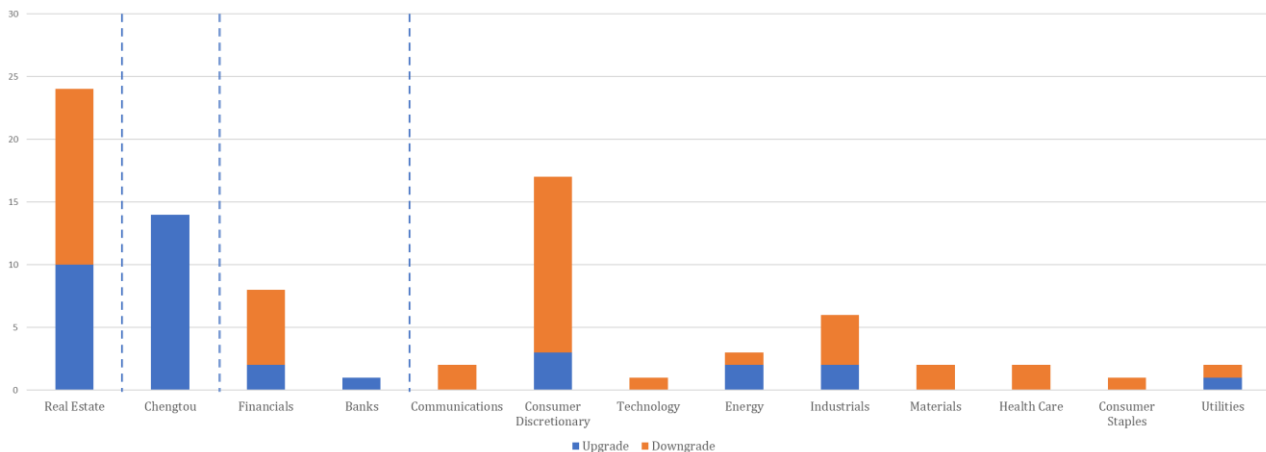
negative actions occupied 40.0% of the total negative actions in 2020Q4, as compared with 52.7%, 87.2% and 88.0% in 2020Q3, 2020Q2 and 2020Q1, respectively. Classified by industry, issuers with negative actions mainly belong to consumer discretionary and real estate industries, with a combined share of 53.9%. Meanwhile, issuers who were negatively acted upon also come from industries such as financials (19), industrials (9), materials (9) and banks (8).

Exhibit 12: Rating actions by international rating agencies in 2020 (by month)



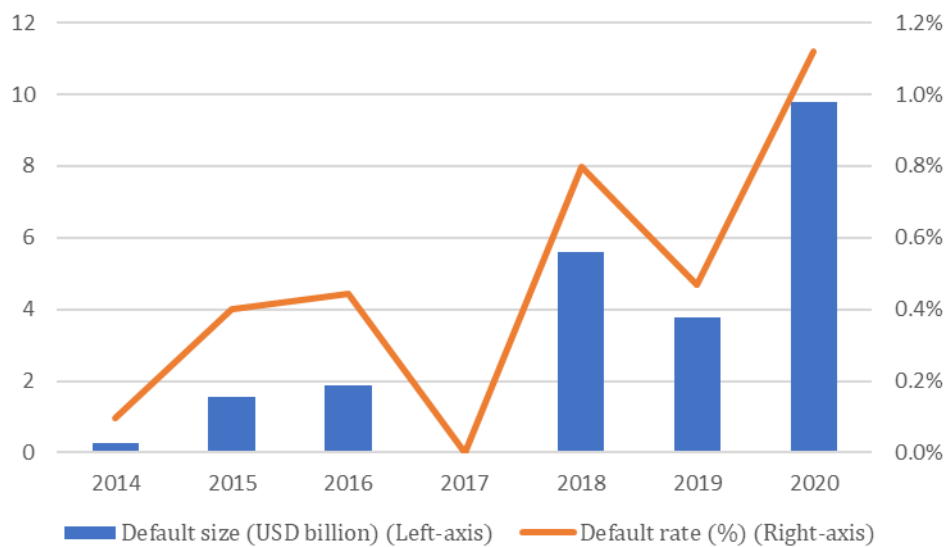
Source: Bloomberg, CCXAP Research

Corporate credit quality differed further in 2020, while downgrades were concentrated in real estate and consumer discretionary industries. From the perspective of issuer rating adjustment, the three international credit rating agencies adjusted the entity rating of 83 Chinese issuers, in which 35 of them were issuer upgrades and 53 of them were issuer downgrades. Reasons for upgrade include the improvement of credit metrics, operations, and financial conditions, while reasons for downgrade include high leverage and tightened liquidity. By industry, upgraded issuers mainly concentrated in industries such as Chengtou and real estates, totaling 14 and 10, respectively. The change in Moody's rating methodology on Chengtou industry caused the technical upgrades of some Chengtou corporations, to reflect the possibility of receiving stronger government support. Furthermore, upgrades on real estate issuers reflect the improvement of operating conditions and credit metrics of some issuers under the background of a controlled COVID-19 pandemic and solid fundamentals of the Chinese economy. On the other hand, issuer downgrades were concentrated in consumer discretionary and real estate industries, mainly attributed to the increased refinancing pressure and leverage. Others were dispersed in industries such as non-banks (6), industrials (4), communications (2), health care (2) and materials (2).

Exhibit 13: Issuer rating changes by international rating agencies in 2020 (by industry)

Source: Bloomberg, CCXAP Research

Default events were dominated by private companies; yet the risk of default has been spreading towards state-owned enterprises. In 2020, default rate reached 1.1% with a total of 32 defaults in the offshore bond market. It involved 16 issuers and a total amount of USD9.79 billion, of which 14 issuers defaulted for the first time. Fourth quarter highlighted bond defaults from 3 issuers, adding up the amount of USD2.51 billion. Major default reasons include deferred sales receivable, unsatisfactory operating performance, and the over-expansion of business. Among the 16 defaulted entities, private companies made up 10 of them with a percentage share of 62.5%, while state-owned enterprises totaled 6 with a percentage share of 37.5%. The increased representation of state-owned enterprises' defaults unveiled emergence of problems such as defects of internal management, poor operation as well as over-reliance on government support. In 2020, multiple state-owned enterprises underwent credit events in the offshore market. In particular, Founder Group's and Yongcheng Coal's default incidents have the largest impact on the market.

Exhibit 14: Default rate and default amount from 2014-2020 (USD billion)

Source: Bloomberg, CCXAP Research

Peking University Founder Group Co., Ltd. ("Founder Group") defaulted on a coupon of bonds during the year. The move refusing to acknowledge its keepwell agreement aroused much market concern. According to the notice by the company on 4 September 2020, administrators of Peking University Founder issued a "Notice of Confirmation of Creditor's Rights" to the Bank of New York Mellon London Branch, saying that the full amount of 5 tranches of bonds totaling USD1.7 billion were not recognized. Such incident shows that the legal effect of keepwell agreement could be limited, and its protection for investors is weaker than direct issuance and guaranteed issuance. The actual strength of keepwell agreement still depends on how the Chinese judicial system handles it and whether it could be affirmed by law. On 16 November 2020, the Shanghai Financial Court recognized the Hong Kong High Court's civil ruling on CEFC Shanghai International Group Limited's EUR29.91 million bonds accompanied with keepwell agreement". It becomes the first case to seek for recognition of offshore bond's keepwell agreement and enforcement of the verdict from the courts of the Hong Kong Special Administrative Region. The High Court of the Hong Kong Special Administrative Region exercised trial in absentia on 24 July 2018, ordering CEFC Shanghai International Group Limited to repay the bond principal, interest and specific fees to RightTime Fund. The incident provides a precedent for the future implementation of the maintenance agreement and reflects certain progress at the implementation level.

Furthermore, on 10 November 2020, Yongcheng Coal & Electricity Holding Group Co., Ltd. ("Yongcheng Coal") failed to repay its interest payables, constituting a material default. Yongcheng Coal's incident was deemed to have had a profound impact on the market, as it has led to a tightened financing environment. Furthermore, the bond prices of coal companies have dropped, and multiple companies in Henan Province have cancelled their bond issuance plans. According to Wind, from November 11 to December 11, there were

447 onshore bonds announcing cancellation or postponed issuance. At the same time, offshore bond issuance was affected as well. The total issuance of Chinese dollar bonds on December amounted to USD8.25 billion, a YoY decrease of 40.0%. It once again caused a blow to the faith on state-owned enterprises. As such, when analyzing the credit risk of issuers, investors should resort to their credit fundamentals like the consideration of profitability, debt scale, debt structure, and capital adequacy. Prudent judgement has to be made concerning the state-owned companies' ability to obtain external support.

Table 2: Credit events of Chinese issuers in offshore market in 2020

Enterprise	Credit events
Qinghai Provincial Investment Group Co. Ltd.	Since January 10, Qinghai Provincial Investment Group Co. Ltd. constituted a material default multiple times over a size of USD0.39 billion.
Peking University Founder Group Company Limited	Peking University Founder Group Company Limited announced that it was unable to repay the principal and interest of 10 tranches of bond, constituting a material default over a size of USD3.44 billion.
China Huiyuan Juice Group Limited	On March 17, China Huiyuan Juice Group Limited announced that it defaulted on interest payments for its USD0.2 billion notes.
Yida China Holdings Ltd.	On April 23, Yida China Holdings Ltd announced that it defaulted on principal and interest payments for its USD52.854 million notes.
Shandong Yuhuang Chemical Co. Ltd.	On April 26, Shandong Yuhuang Chemical Co. Ltd. announced that it defaulted on principal and interest payments for its USD0.3 billion notes.
MIE Holdings Corporation	On May 11, MIE Holdings Corporation announced that it defaulted on principal payments for its USD0.248 billion notes.
Zhongrong Xinda Group Co. Ltd.	On May 26, Zhongrong Xinda Group Co. Ltd. announced that it defaulted on principal and interest payments for its USD0.5 billion notes.
Yihua Enterprise (Group) Co. Ltd.	According to Bloomberg, the Bank of New York Mellon (Trustee) announced on June 2 in its Notification to Investors that Yihua Enterprise (Group) Co. Ltd. was unable to repay an interest for its USD0.25 billion on its bond, constituting a material default.
Tunghsu Group Co. Ltd.	Since June 12, Tunghsu Group Co. Ltd. constituted a material default over a size of USD0.34 billion.
Hilong Holding Limited	On June 22, Hilong Holding Limited announced that it defaulted on principal and interest payments for its USD0.165 billion notes.
Shandong Ruyi Technology Group Co. Ltd.	According to Bloomberg News, Shandong Ruyi Technology Group Co. Ltd. was unable to repay interest for its EUR0.25 billion convertible bonds on June 22 or within a grace period of 5 days, constituting a material default.
Century Sunshine Group Holdings Limited	On July 3, Century Sunshine Group Holdings Limited announced that it defaulted on principal and interest payments for its SGD1.0175 million notes.
Tahoe Group Co. Ltd.	On August 10, August 17 and September 11, Tahoe Group Co. Ltd. announced that it was unable to repay the principal and interest in 4 tranches of bond, constituting a material default over a size of USD1.35 billion.

Tianjin Real Estate Group Co. Ltd.	On September 29, Tianjin Real Estate Group Co. Ltd. announced that it defaulted on principal and interest payments for its USD0.1 billion notes.
Tsinghua Unigroup Co. Ltd.	On December 10, Tsinghua Unigroup Co. Ltd. announced that it defaulted on principal and interest payments for its USD 0.45 billion notes.
Henan Energy & Chemical Group Co. Ltd.	On December 28, Henan Energy & Chemical Group Co. Ltd. announced that it defaulted on principal and interest payments for its USD62.5 million notes.

Source: public information, CCXAP Research

Outlook

With the successful invention and application of COVID-19 vaccines, major economies could anticipate a gradual revival in 2021. The current expansionary monetary policies may be marginally tightened, together with the fall in Renminbi exchange rate, eroding the competitive edge of offshore financing's lower cost. Some Chinese issuers will take advantage of the period of low interest rate on dollar bonds to announce new issuances, and refinancing needs will further drive new issuances. It is expected that new issuance in 2021 will remain around USD200 billion level, while real estate and financial companies will be the major issuers. Nevertheless, impacts of the debt control policy on real estate and Chengtou companies will continue. Offshore issuance is restricted to refinance medium to long-term notes due within a year, which may affect the net issue amount of some companies. As for real estate industry, the coming out of the "Three Red Lines" financing policy restrains the expansion of real estate debts. Real estate companies will have limited growth in debt scale. The narrowed access to financing channels will put a test to the cash balancing capability of real estate companies, pressing on the refinancing of some real estate corporates. For Chengtou industry, given the COVID-19 pandemic fading away and the economic recovery in China, China's refinancing policies could be revoked marginally. Regional differences will be more pronounced since those regions with larger debt pressure or issuers with weaker credit quality will encounter more obstacles in refinancing than the others.

From the perspective of credit risk, Yongcheng Coal's default damages the market confidence on state-owned enterprises. In the future, the market will pay more attention to a company's credit fundamentals with less reliance on a company's ability to receive government support. State-owned companies with weaker profile may have faster exposure to credit risk. At the same time, in the midst of a possibly marginal contraction of refinancing policies, private companies with poor operating performance consistently and exorbitant expansion will be challenged. We anticipate that credit risk of onshore and offshore markets will be marginally heightened and investors should take particular concern to the peak repayment period in 2021. On the other hand, one needs to pay attention to the latest updates of the pandemic. For example, the new variants of the coronavirus may reduce the effectiveness of vaccines in controlling the epidemic. Furthermore, any change in global liquidity situation or alternation of Fed's expansionary policies will exert uncertainties on the recovery of market confidence and market stability.

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