

Chinese Dollar Bond Market Report

CCXAP 2019Q1 Chinese Dollar Bond Market Report

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Primary Market

- **With the improvement of market liquidity, the issuance of Chinese dollar bond in 2019Q1 recovered.** In the first quarter of 2019, Chinese issuers issued 135 dollar bonds in total, and the issued amount increased by 17.2% QoQ to USD 43.27 billion. The net financing amount was approximately USD 24.46 billion, an increase of 85.3% QoQ.
- **The issued amount of Chinese real estate dollar bond hit a new quarterly high; the issued scale of the Chengtou dollar bond fell significantly.** In 2019Q1, a total of 58 real estate dollar bonds were issued, and the issued amount reached a record high of USD 21.8 billion, accounting for 50.3% of the total issuance. In the same period, only 6 Chengtou enterprises issued dollar bond, with a total issued amount of USD 1.13 billion, decreasing 75.7% YoY and 87.4% QoQ, respectively.
- **The overall quality of the issuers declined, and the proportion of high-yield enterprises increased.** In 2019Q1, there were 88 Chinese dollar bond issuers, 62 of which received international ratings. Among the rated issue entities, there were 40 high-yield enterprises, accounting for 45.5% of all issuers, which was significantly higher than 19.6% in 2018Q4.
- **The issuance cost of Chinese dollar bond showed a downward trend as the market environment improves, but the average coupon rate was pushed up due to the increased issued amount of real estate dollar bond.** Viewed by sector, with the improvement of the market environment, the financing costs in 2019Q1 showed a downward trend. Among them, the average coupon rate of real estate dollar bond was 8.83%, which was 7bps lower than that in 2018Q4. However, due to the relatively large proportion of real estate dollar bond issuance, the overall issuance cost increased slightly. The average issued coupon rate increased from 6.44% in 2018Q4 to 6.63% in 2019Q1.
- **The issued tenor was mainly 1-3 years, and long-term bond issuance remained difficult.** In 2019Q1, the average issued tenor of Chinese dollar bond was 2.6 years, which was equivalent to that in 2018Q4. The issued tenor was concentrated in 1-3 years, accounting for 53% of the total issuance; the proportion of long-term dollar bond issuance was relatively small, accounting for 13.7% of the total issuance, and the issuers were mainly high-quality Chinese enterprises.

Secondary Market

- **In 2019Q1, investors' confidence in Chinese issuers gradually recovered, and the willingness to allocate Chinese dollar bond strengthened, driving up the return of the secondary market.** The return on the Chinese dollar bond at the end of 2019Q1 was 4.76%, which was about 400bps higher than the 0.76% at the end of 2018Q4.
- **Default events in onshore market occurred frequently, but the impact on the Chinese dollar bond market was limited.** In 2019Q1, a total of 24 enterprises in the onshore bond market defaulted, the amount involved was about RMB 28 billion, of which 12 enterprises defaulted for the first time and their total default amount was RMB 16.1 billion. In the first quarter, there were 4 Chinese enterprises with credit events in the offshore market, namely KDX, Huiyuan Juice, China Minsheng Investment and Qinghai Provincial Investment.

Outlook

- **It is expected that the growing trend for issuance of Chinese dollar bond in 2019Q2 will continue.**
- **Real estate enterprises will still be the main issuers of Chinese dollar bond; the issued amount of Chengtou enterprises will rebound.**
- **The upward trend of the return on Chinese dollar bond may slow down.**

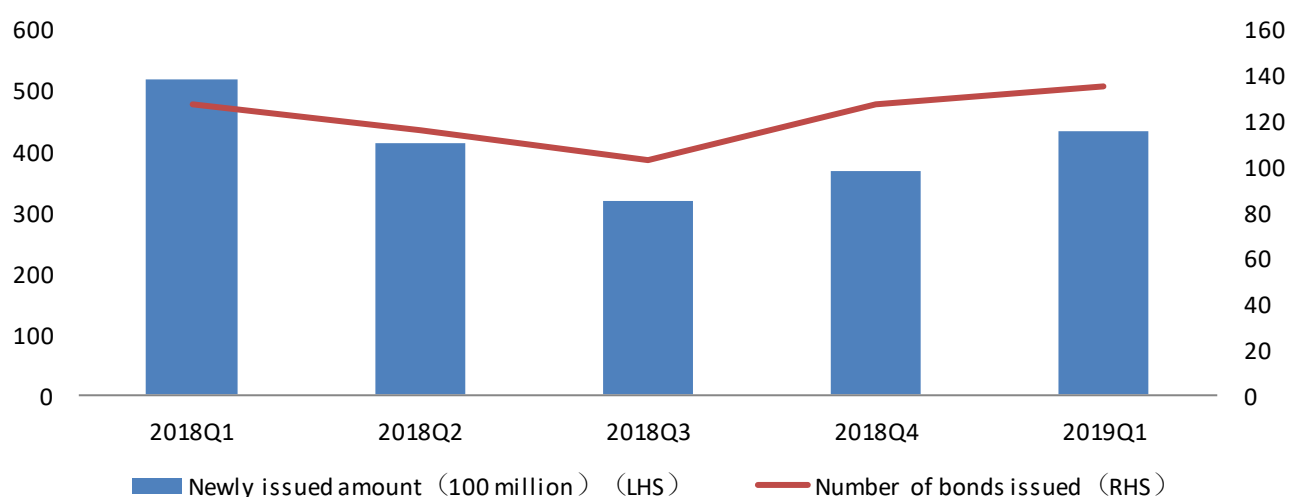
Introduction

Since 2019, domestic monetary policy has continued to relax. In addition, foreign capital has continued to flow into the Chinese dollar bond¹ market and market liquidity has been abundant. As a result, investor confidence has gradually recovered and the willingness to allocate Chinese dollar bond assets has also increased. In other words, the market environment has gradually improved. On the other hand, the global economic growth has slowed down and the Fed has continued to release the dovish signal. The US treasury yields have showed a downward trend, the financing cost of dollar bond has declined, and the willingness of Chinese enterprises to issue dollar bond has increased. Therefore, the overall issued scale of Chinese dollar bond in 2019Q1 increased, and the newly issued amount of real estate dollar bond reached a record high.

Primary market

With the improvement of market liquidity, the issuance of Chinese dollar bonds in 2019Q1 recovered. In 2019Q1, Chinese issuers issued 135 dollar bonds in total, and the issued amount increased by 17.2% quarter-over-quarter (“QoQ”) to USD 43.27 billion. The net financing amount was approximately USD 24.46 billion, an increase of 85.3% QoQ. However, due to the improvement of the onshore financing environment in 2019Q1 and the comparative advantages of onshore financing costs, it attracted the return of financing needs of some Chinese enterprises, resulting in 16.6% decrease in the amount of newly issued Chinese dollar bond compared with 2018Q1. At the same time, the issued amount of onshore credit bonds² in 2019Q1 reached RMB 2,756.9 billion, a substantial year-over-year (“YOY”) growth of 57.3%.

Exhibit 1: Newly issued amount and number of bonds issued in 2018Q1 to 2019 Q1



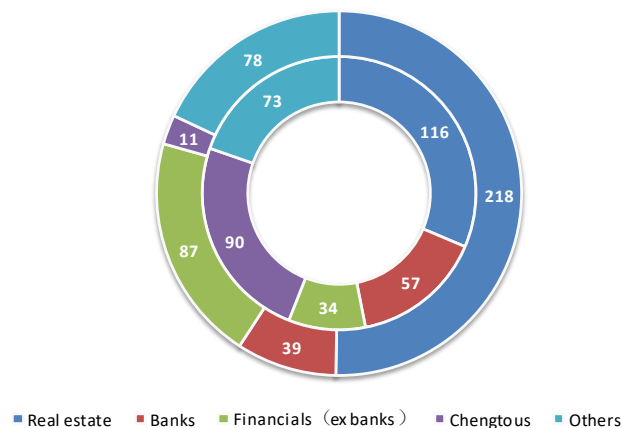
Sources: Bloomberg, CCXAP research

¹ The Chinese dollar bonds refer to the bonds, excluded certificates of deposit (“CD”), denominated in US dollars issued by the Chinese entities

² The onshore credit bonds refer to the RMB bonds, excluded ABS/ABN, issued by the Chinese entities in the onshore market

The issued amount of Chinese real estate dollar bond hit a quarterly high; the issued scale of the Chengtou dollar bond fell significantly. In 2019Q1, a total of 58 real estate dollar bonds were issued, and the issued amount reached a record high of USD 21.8 billion, 80.8% YoY and 85.7% QoQ increases, accounting for 50.3% of the total issued amount. Real estate issuers issued bonds mainly for the purposes of refinancing with new ones. Among the 41 real estate entities who issued bonds, only 1 was a new issuer. In the Chengtou sector, due to the relatively loose onshore liquidity in 2019Q1, under the background of the cancellation of the “single 50%” limit³ and the decreasing onshore financing costs, the newly issued amount of onshore Chengtou bond amounted to RMB 807.1 billion, hitting a record high. Due to attraction of the onshore market, the issued amount of Chengtou dollar bond fell sharply. In 2019Q1, only 6 Chengtou enterprises issued dollar bond, with a total issued amount of only USD 1.13 billion, decreasing 75.7% YoY and 87.4% QoQ, respectively. Chengtou issuers issued dollar bonds mainly for the purposes of testing or broadening financing channels and 4 out of the 6 issuers issued offshore dollar bond for the first time.

Exhibit 2: Newly issued amount in 2018Q4 and 2019Q1 by sector (USD 100 million) ⁴



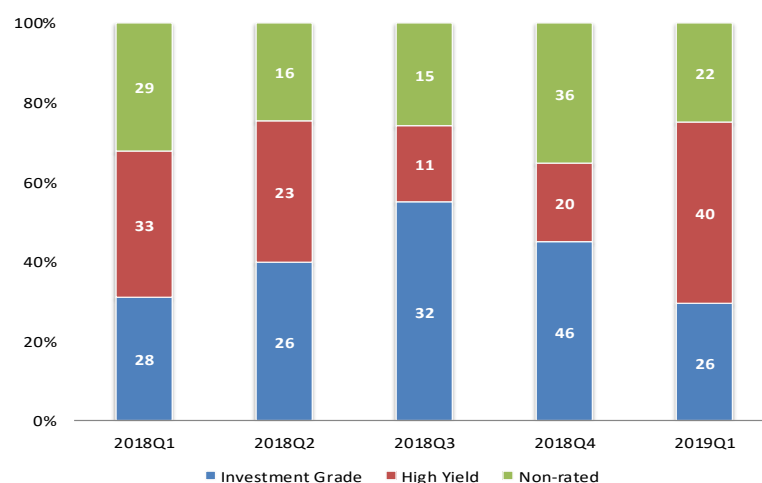
Sources: Bloomberg, CCXAP research

The credit quality of the issuers declined, and the proportion of high-yield enterprises increased. In 2019Q1, there were a total of 88 Chinese dollar bond issuers, 62 of which received international ratings. As the real estate sector dominated the issuance of dollar bond in 2019Q1, and the international ratings of Chinese real estate enterprises were generally lower which suggested a decline in the overall quality of issuers. Among the rated entities, there were 40 high-yield enterprises, accounting for 45.5% of all issuers, significantly higher than 19.6% in 2018Q4. In addition, 40 high-yield enterprises issued a total of USD 19.3 billion dollar bonds, more than double from the USD 8.5 billion dollar bonds issued in 2018Q4.

³ In March, the Exchanges relaxed the threshold for Chengtou enterprises to repay old bonds with new ones. For bond issuance applications that are used to repay old bonds with new ones, they can be exempted from the 50% upper limit of government revenue and issued on a rolling basis. The Exchanges also required that the use of funds raised is limited to repaying the Exchange corporate bonds

⁴ The inner ring is the data of 2018Q4; the outer ring is the data of 2019Q1

Exhibit 3: Issuer rating distribution in 2018Q1 to 2019Q1



Sources: CCXAP research

The coupon rate of Chinese dollar bond showed a downward trend as the market environment improved, but the average coupon rate was pushed up due to the increased issued amount of real estate dollar bond. In terms of sector, the financing cost of Chinese dollar bond in 2019Q1 showed a downward trend. For example, the average coupon rate of real estate dollar bond was 8.83%, which was 7bps lower than that in 2018Q4. However, because majority of the Chinese dollar bonds were issued by Chinese real estate enterprises with low credit rating given by international rating agencies, the overall financing cost increased slightly. The average issued coupon rate⁵ was increased from 6.44% in 2018Q4 to 6.63% in 2019Q1.

Table 1: Comparison of Chinese dollar bond issuance

Enterprise	Date of issue	Amount (USD 100 million)	Tenor (year)	Coupon rate (%)	Embedded Option
Vanke Co. Ltd	2018/12/11	6.3	5.25	5.35	/
	2019/3/7	6	5.25	4.2	/
Agile Group	2018/7/18	6	3	8.5	Call provision
	2019/3/7	5	3	6.7	Call provision
Hangzhou Financial Investment	2018/12/4	1.95	363 days	5.5	/
	2019/3/4	1	363 days	5.2	/

Sources: Bloomberg, CCXAP research

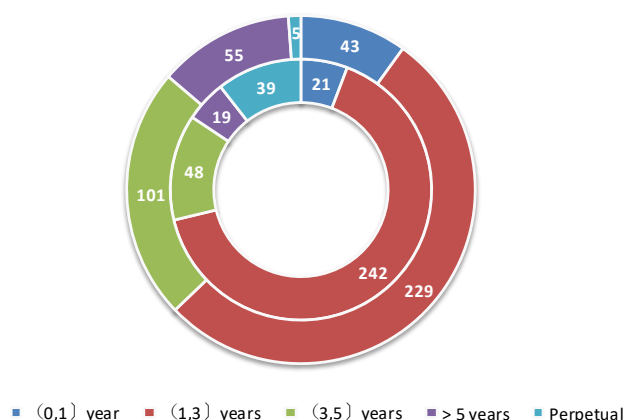
The issued tenor was mainly 1-3 years, and long-term bond⁶ issuance remained difficult. In 2019Q1, the average tenor of newly issued Chinese dollar bond was 2.6 years, which was equivalent to that in 2018Q4. The issued tenor was concentrated in 1-3 years, accounting

⁵ The statistical caliber is bonds with fixed coupon rate, excluding bonds with call or put provisions

⁶ The long-term bonds refer to bonds with tenor more than 5 years

for 53% of the newly issued amount. Specifically, the issuance of offshore bond with tenor less than 1 year does not need to be filed with the National Development and Reform Commission (“NDRC”). Consequently, having taken into consideration the factors of timeliness and issuance convenience, enterprises are more willing to issue short-term bond. The issued amount of bonds with tenor less than 1 year was USD 4.3 billion in 2019Q1, accounting for 10% of the total issuance, increased by 4.2% QoQ. On the other hand, there was still downward pressure on China's economic growth, coupled with the high financing costs of long-term bonds, resulted in enterprises being less willing to issue long-term bonds. The proportion of long-term dollar bond issuance was relatively small in 2019Q1, accounting only for 13.7% of the total issuance. Issuers were mainly Chinese enterprises with good credit quality, such as Vanke Co., Ltd. and China Resources Land Co., Ltd., reflecting that investors were still relatively cautious about long-term Chinese dollar bond.

Exhibit 4: Newly issued amount in 2018Q4 and 2019Q1 by tenor (USD 100 million) ⁷

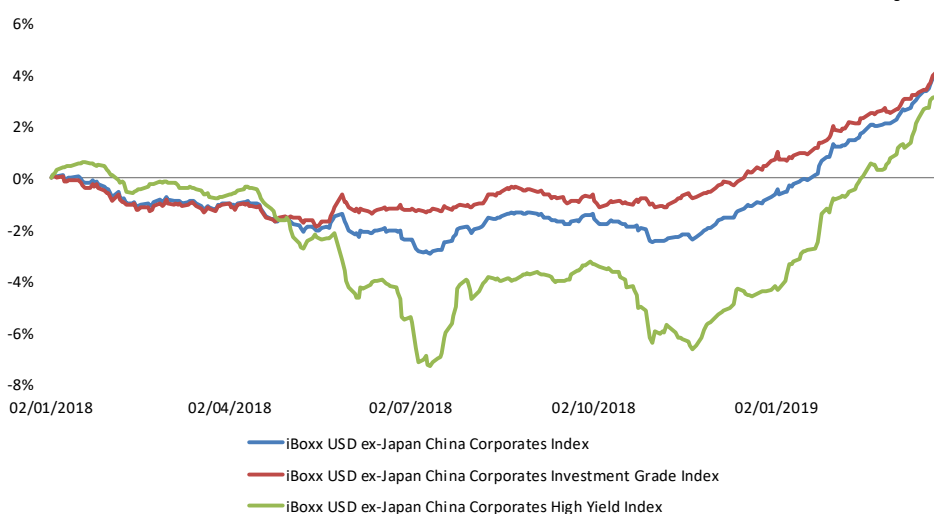


Sources: Bloomberg, CCXAP research

Secondary market

In 2019Q1, investors' confidence in Chinese issuers gradually recovered, and the willingness to allocate Chinese dollar bond strengthened, driving up the return of the secondary market. The quarterly return on the Chinese dollar bond at the end of 2019Q1 was 4.76%, which was about 400bps higher than the 0.76% at the end of 2018Q4. Most of the high-yield issuers had weak financial strength and high debt pressure. With the improvement of the financing environment, their liquidity pressure was eased, investor confidence was strengthened, and the quarterly return of high-yield dollar bonds increased remarkably. At the end of 2019Q1, the quarterly return on Chinese high-yield dollar bond was 7.42%, an increase of about 700bps from the end of 2018Q4.

⁷ The inner ring is the data of 2018Q4; the outer ring is the data of 2019Q1

Exhibit 5: Return of Chinese dollar bond index in 2018 to 2019Q1⁸

Sources: Bloomberg, CCXAP research

Default events in onshore market occurred frequently, but the impact on the Chinese dollar bond market was limited. In 2019Q1, a total of 24 enterprises defaulted in the onshore market, the amount involved was about RMB 28 billion, of which 12 enterprises defaulted for the first time and their total default amount was RMB 16.1 billion. The default enterprises were mainly private enterprises with a rating below AA+, and their sectors were very diverse, including real estate, food and beverage, clothing and apparel. The main factors that caused the defaults included excessive debt burden, cross main business expansion, and obvious corporate governance problems. In the first quarter, there were 4 Chinese enterprises with credit events in the offshore market, namely Kangde Xin Composite Material Group ("KDX"), China Huiyuan Juice Group Ltd ("Huiyuan Juice"), China Minsheng Investment Group ("CMIG") and Qinghai Provincial Investment Group Co., Ltd ("Qinghai Provincial Investment") (see Table 2). On the whole, the credit events in offshore markets have been all individual incidents, and after frequent onshore defaults in recent years, the accumulation and release of credit risk in the bond market has become the consensus of all parties, so the impact of credit events have been weakened. From the perspective of the secondary market, the overall return on Chinese dollar bond was on the rise (see Figure 5), and did not decline significantly during the credit event.

⁸ Based on the beginning of 2018

Table 2: Credit events of Chinese issuers in offshore market in 2019Q1

Enterprise	Credit events
KDX	On January 15, KDX failed to pay "18 KDX SCP001", triggering a cross-default clause for the dollar bond due in 2020 that was guaranteed by the company.
	On April 19, KDX announced that the company failed to raise sufficient funds during the 30-day grace period to repay the USD 300 million bond due in 2020, which constituted a material default.
Huiyuan Juice	On January 24, Huiyuan Juice announced that the company failed to redeem the convertible HKD bond due on January 23, which constituted a material default and triggered the cross-default clause of its dollar bond due in 2020. As of the end of 2019Q1, the company has not yet provided a debt solution.
	On February 19, Huiyuan Juice announced that it would delay the payment of interest on the dollar bond due in 2020. Since the bond has a 30-day grace period and the company completed payment on March 14, it did not constitute a material default.
CMIG	On January 29, the RMB 3 billion non-public targeted debt financing instruments issued by China Minsheng Investment expired. The company did not repay the principal on time and triggered cross-default clause of 2 dollar bonds due in 2019-2020, the keepwell agreements of which were provided by the company.
Qinghai Provincial Investment	On February 22, Qinghai Provincial Investment failed to repay the interest of USD 10.875 million on time. Since the bond had a grace period of 5 working days, and Qinghai Provincial Investment completed the payment on February 26, so it did not constitute a material default.

Sources: CCXAP research

Outlook

2019-2020 is the peak period of Chinese dollar bond repayment and, in 2019Q2 to 2019Q4, there will be USD 28.6 billion, 21.2 billion and 23.7 billion bonds maturing respectively. In addition, at the end of 2018, NDRC extended the validity period of some Chinese companies' offshore bond issuance quotas to June this year. It is expected that the new issuance amount of Chinese dollar bond in 2019Q2 will continue to grow. Given that real estate enterprises have a large amount of outstanding bonds that will expire, the refinancing demand of real estate enterprises will remain high. It is expected that real estate enterprises will still be the main issuers of Chinese dollar bond. In addition, in 2019Q2, there will be USD 3.3 billion Chengtou dollar bonds maturing, and the issuance of Chengtou enterprises is expected to rebound. As to secondary market, the downward pressure on global economic growth, the Brexit and US-China trade war continue to sour, bringing uncertainties to investors. Therefore, it is expected that the upward trend of the return on Chinese dollar bond may slow down.

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