

2024H1 Chinese Offshore Bond Market Report



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New issuance of Chinese offshore bonds rose; transformation risk of Chengtou and refinancing risk of real estate companies remained a concern

Review of China's offshore debt market in the first half of 2024

- **New issuance of Chinese offshore bonds has rebounded, but the net financing amount is still negative.** Due to the increasing expectations of the Fed's interest rate cut and the continued expansion of the dim sum bond market, the Chinese offshore bond market has rebounded in the first half of 2024. Chinese issuers issued a total of 556 offshore bonds, up 45.93% year-on-year ("YoY"); the issuance amount was approximately USD50.94 billion, up 22.28% YoY. The net financing amount was -USD30.17 billion.
- **The issuance scale of all sectors except Chengtou decreased YoY.** The issuance amount of Chengtou offshore bonds increased by 45.1% YoY to USD26.24 billion, making it the only industry sector that maintained an upward trend; the issuance amount of financial institutions offshore bonds was USD22.26 billion, a decrease of 11.5%; the issuance amount of industrial offshore bonds was USD1.75 billion, a decrease of 34.5%; the decline in real estate bonds was the largest, with an issuance amount of USD700 million, a decrease of 58.2%.
- **High-yield issuance has decreased significantly, and the proportion of unrated issuance has increased.** In the first half of 2024, the amount of high-yield issuance decreased by 75% YoY to USD430 million, accounting for only about 0.8% of new issuance. In the first half of 2024, there were 384 Chinese offshore bond issuers that did not obtain public ratings from the three major international rating agencies, of which 223 were Chengtou issuers, accounting for 87.4% of the total number of Chengtou issuers.
- **China's offshore bonds are still mainly issued via direct and guaranteed models, and the coupon rate remains high.** In the first half of 2024, the direct and guaranteed issuance amounts of China's offshore bonds were USD16.5 billion and USD22.9 billion, accounting for about 32.4% and 44.9% of new issuances, respectively. As the Fed's interest rate cut policy has been delayed, the average coupon rate of China's offshore bonds is at a high level of 5.15%.
- **The currencies used for issuing Chinese offshore bonds are still mainly USD and RMB, and RMB offshore bonds continue to rise.** In the first half of 2024, RMB and USD are still the main currencies for issuance, with an issuance amount of USD47.626 billion, accounting for 93.5% of the new issuance in the first half of the year. In addition, the issuance of dim sum bonds continued the strong upward trend in the fourth quarter of 2023, with an issuance of USD18.875 billion in the first half of 2024, a YoY increase of 14.9%, driving the continued increase in the issuance of RMB-denominated bonds.
- **The overall performance of the Chinese dollar bond market is on an upward trend, and the real estate industry is rebounding.** In the first half of 2024, the total return index of Chinese offshore bonds was 3.49%, of which the return rate of investment-grade bonds was 2.30% and the return rate of high-yield bonds was 11.76%. In terms of sectors, real estate offshore bonds performed the best, with a return rate of 18.05% in the first half of the year.

Rating Adjustments and Credit Events

- **Negative rating actions continue to be unabated, and financial and industrial sectors have been intensively downgraded.** In the first half of 2024, the three major international rating

agencies took 274 rating actions on 224 Chinese issuers, including 222 negative rating actions and 52 positive rating actions, with negative rating actions accounting for 81%. In terms of sectors, rating actions are mainly concentrated in the financial and industrial sectors.

- **The real estate companies are still exposed to credit risks, but the default trend has slowed down.** In the first half of 2024, the new defaulted entities were concentrated in the real estate industry, with a total of four entities defaulting on their debts, including Xijiao International, China South City, Jinhui Holdings and Agile.

Outlook

- The continued decline in the growth rate of US PCE has provided strong support for the expectations of Fed's rate cut in September this year. In addition, there are still a large number of Chinese offshore bonds maturing this year. It is expected that the financing costs of Chinese companies' dollar bonds will decline in the second half of the year, driving an increase in issuance volume.
- The Draft for Comments mainly refines and optimizes the financing of high-quality enterprises, and the supporting policies focus on procedural aspects, such as simplifying relevant review requirements and processes, and improving in-process and post-process supervision. The publication of the Draft for Comments by the National Development and Reform Commission is a major boon for qualified high-quality enterprises, and it is expected that the issuance scale of high-quality entities will increase in the future.
- Under the trend of accelerated diversion of Chengtou enterprises, Chengtou enterprises with weak qualifications in weak regions may face the dual challenges of insufficient resource advantages for transformation and prevention and resolution of existing debt risks. Their credit risk mitigation depends to a large extent on the subsequent implementation strength and duration of the current debt reduction policy.

Introduction

As of mid-2024, the Federal Reserve maintained the federal funds rate in the range of 5.25% to 5.50%. Due to the rising expectations of the Federal Reserve's interest rate cuts and the continued expansion of the dim sum bond market, the Chinese offshore bond market has rebounded, but the net financing amount continues to be negative. In the first half of 2024, Chinese issuers issued a total of 556 offshore bonds, with an issuance amount of approximately USD50.94 billion, an increase of 23.07% YoY; the net financing amount was - USD30.17 billion. The continued decline in the growth rate of US PCE has provided strong support for the Fed's expectations of interest rate cuts this year. In addition, there are still large-scale Chinese offshore bonds due this year. It is expected that the financing cost of US dollar bonds of Chinese companies will decline in the second half of the year, which will help increase the willingness to issue US dollar bonds. In addition, the National Development and Reform Commission publicly solicited opinions on the "Notice on Supporting High-quality Enterprises to Borrow Medium- and Long-term Foreign Debt to Promote High-quality Development of the Real Economy (Draft for Comments)" in March 2024. This is another clear support policy for offshore financing after the release of Circular No. 56. The publication of the "Draft for Comments" is a major boon to qualified high-quality enterprises, and it is expected that the issuance scale of high-quality entities will increase in the future.

Review of China's offshore debt market in the first half of 2024

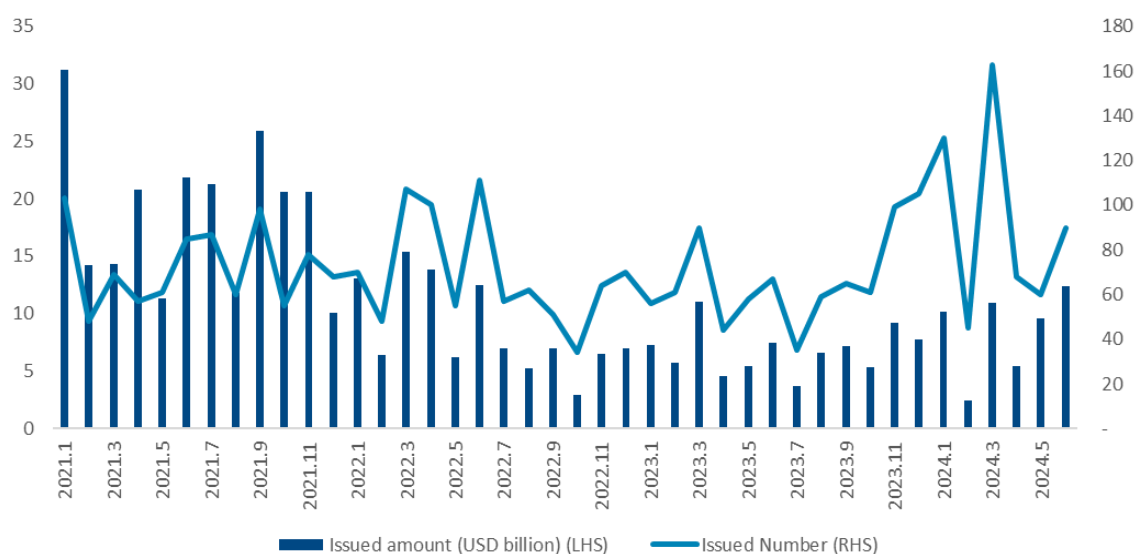
Primary Market

New issuance of Chinese offshore bonds has rebounded, but the net financing amount is still negative.

Due to the rising expectations of the Fed's interest rate cuts and the continued expansion of the dim sum bond market, the Chinese offshore bond market has rebounded in the first half of 2024. Chinese issuers issued a total of 556 offshore bonds, up 45.93% YoY; the issuance amount was approximately USD50.94 billion, up 22.28% YoY. The new issuance volume was significantly higher than the same period last year, but it still did not reach the same period in 2021-2022. Against the backdrop of the slow recovery of the mainland's real economy and the Fed's continued non-rate cuts, the net financing amount of Chinese offshore bonds in the first half of 2024 was -USD30.17 billion.

In the first half of the year, the issuance scale of each month varied YoY. In terms of month, due to the Spring Festival holiday, the issuance scale in February fell sharply. The issuance amount in February 2024 was USD2.399 billion, a YoY decrease of 58.0%. The number of offshore debt issuances in January, March, April, May and June all increased or remained the same YoY. Among them, the issuance amount in May alone recorded approximately USD9.566 billion, a YoY increase of 75.9%, the month with the highest YoY increase.

Figure 1: Amount and number of Chinese offshore bonds issued in the first half of 2024



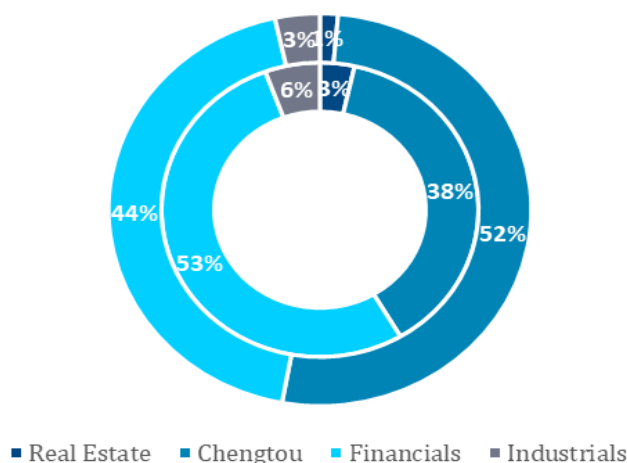
Source: CCXAP

The issuance scale of all sectors except Chengtou decreased YoY. By industry classification, only the issuance amount of Chengtou offshore bonds increased by 45.1% YoY to USD26.24 billion. Financial institutions, industrial and real estate companies accounted for approximately 43.7%, 3.4% and 1.4% of new issuances in the first half of 2024, respectively. The issuance number of financial institutions' offshore bonds was USD22.26 billion, a decrease of 11.5 %, a decrease of 58.2%; the issuance amount of industrial offshore bonds was USD1.75 billion, a decrease of 34.5%; the decline in real estate bonds was the largest, with an issuance amount of USD700 million.

Since the end of the epidemic, the debt pressure of Chengtou companies has increased under the background of a relatively slow recovery of fundamentals and the land market still in the bottom consolidation. Since October last year, the central government has issued documents to strengthen the review of Chengtou

companies' issuance of offshore bonds. The document first proposed 12 key provinces: Tianjin, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Guangxi, Chongqing, Guizhou, Yunnan, Gansu, Qinghai, and Ningxia, as the objects of strict supervision in the future; further, the document requires banks to strengthen the management of new loans and foreign debts, and 12 provinces are upgraded to the head office for approval. Rural small and medium-sized banks are not allowed to provide new financing, and the increase of offshore bonds and free trade bonds is strictly controlled. The issuance of Chengtou foreign bonds in 2024 continued the stricter regulatory policy. In January this year, the issuance of "364 bonds" in some provinces was restricted, aiming to correct the loopholes that short-term offshore bonds can bypass supervision and solve the problem of some companies taking advantage of policy loopholes to raise large-scale debts and high costs. In March this year, the central government once again issued policies to restrict some banks from providing credit certificates (SBLC) to Chengtou companies that issue offshore bonds in a disorderly manner. The banks involved include Bohai Bank, Hengfeng Bank and other four banks. However, despite a series of policy restrictions, the issuance scale of Chengtou offshore bonds has still expanded YoY, becoming the only sector to expand. The main reason is that some Chengtou companies that obtained approval documents before the tightening of supervision continued to issue them in the first half of this year. However, among the Chengtou offshore bonds issued in the first half of 2024, the first-time issuers issued a total of 97 offshore bonds totaling USD6.522 billion, and the newly issued offshore bonds of Chengtou only accounted for 24.76%. Among them, district and county-level entities issued a total of 58 bonds totaling USD3.794 billion for the first time, and the newly issued offshore bonds of Chengtou only accounted for 14.46%. It reflects that the proportion of newly issued offshore bonds of Chengtou has declined significantly. In the same period last year, the issuance scale of Chengtou offshore bonds issued by the first issuers was USD5.068 billion, accounting for 35.24% of the new issuance. It can be obtained from this that in the future, the external debt of Chengtou will enter the stock era, and strictly speaking, it can only borrow new to repay old debts.

Figure 2: Distribution of Chinese offshore debt by industry in 2023 and the first half of 2024



Note: By issuance amount; the inner circle is the data for the first half of 2023, and the outer circle is the data for the first half of 2024

Source: CCXAP

High-yield issuance has decreased significantly, and the proportion of unrated issuance has increased.

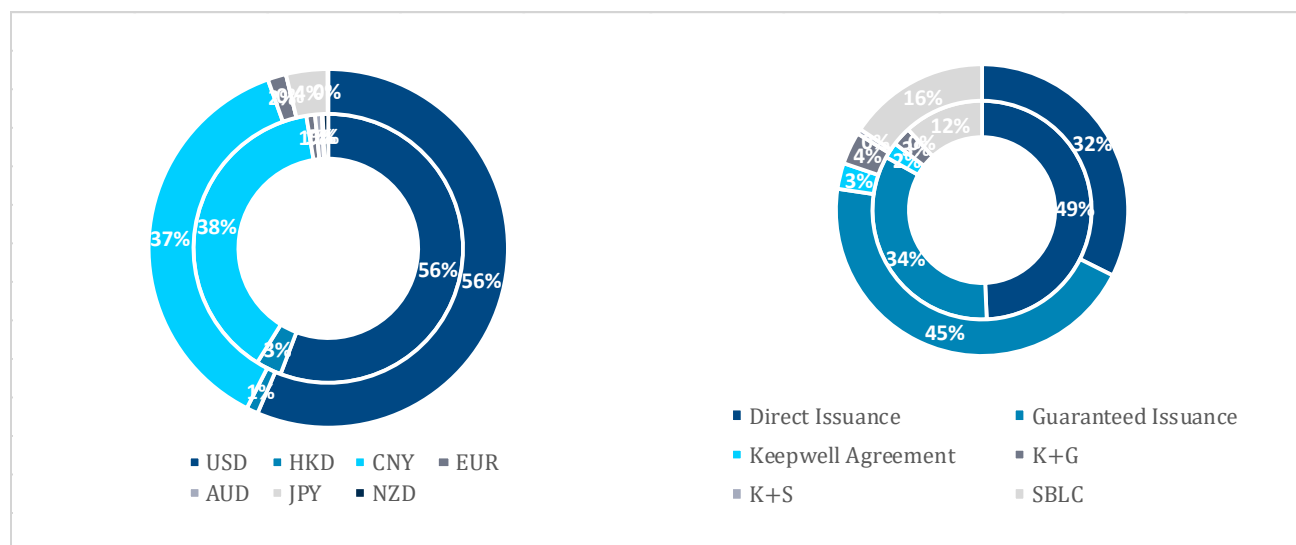
There were 556 Chinese offshore bonds issued, of which 142 were rated offshore by the three major

international rating agencies¹. In terms of investment-grade issuance, there were 134 investment-grade issuances in the first half of 2024, and the issuance amount decreased by 50.08 % YoY to USD12.882 billion, accounting for about 25.29 % of new issuances. High-yield issuance has always been dominated by Chengtou and industrial issuers. Due to the tightening of the state's management of speculative-grade Chengtou companies' issuance of offshore bonds, and the continued sluggish issuance of industrial entities under high US dollar interest rates, the number of industrial and Chengtou issuers has decreased significantly, resulting in a sharp drop in the issuance number of high-yield issuers. In the first half of 2024, there were only three high-yield issuances, and the issuance amount decreased by 75 % YoY to USD 430 million, accounting for only about 0.8 % of new issuances. In addition, as some Chengtou companies have issued offshore bonds more through bank standby letters of credit or guarantee companies to increase credit, the number of unrated issuances has increased significantly. In the first half of 2024, there were 384 Chinese offshore bond issuers that did not obtain public ratings from the three major international rating agencies, of which 223 were Chengtou issuers, accounting for 87.4 % of the total number of Chengtou issuers. In the future, we need to continue to pay attention to the lack of ratings for Chengtou companies.

China's offshore bonds are still mainly issued via direct and guaranteed models, and the coupon rate remains high. In the first half of 2024, the direct and guaranteed issuance amounts of Chinese offshore bonds were 16.5 billion and 22.9 billion US dollars, respectively, accounting for about 32.4 % and 44.9 % of new issuances. Similar to the same period last year, under the background of market risk preference fluctuations, some weak-qualified enterprises provided guarantors for bond repayment through credit enhancement measures, and SBLC issuance maintained a certain proportion in the total issuance scale. In the first half of 2024, 69 bonds were issued through SBLC, with an issuance scale of approximately USD8.26 billion, accounting for 16.3% of the issuance scale in the first half of the year, while the issuance amount of SBLC accounted for 11.8 % of the issuance scale in the same period last year, mainly from district-level Chengtou issuers. However, the performance risk of external guarantors of domestic issuing banks has increased. Once the issuer is unable to repay the debt, the certificate preparation agency needs to use domestic funds to compensate offshore investors. Therefore, the central government has restricted Chengtou companies from using the certificate preparation method to issue offshore bonds since March this year. Due to the limited channels for credit enhancement through SBLC, many bond issuers have turned to using guarantee companies to complete credit enhancement. In the first half of 2024, various companies issued a total of 16 bonds through 7 guarantee companies, with a total scale of USD1.026 billion. The bond issuance areas include Henan, Sichuan, Chongqing, Hubei and Jiangxi. In addition, in the first half of 2024, 3.57 billion offshore bonds were issued through maintenance agreements, and the issuers were mainly financial institutions and Chengtou issuers. However, compared with direct, guaranteed and SBLC issuance, maintenance agreements do not have mandatory legal effect, and their effect on reducing the financing costs of issuers is increasingly limited. In the case of the offshore bond default of South China City in February this year, its maintenance issuer directly stated that the maintenance agreement should not fully assume the guarantee responsibility. Therefore, the issuance volume of maintenance agreements has been on a downward trend in recent years. When investors choose bonds with maintenance agreements, they need to pay more attention to details such as the credit quality of the bond credit subject and the bond terms.

¹ Data as of June 30, 2024. If there are differences in the ratings of the three major international rating agencies, the highest rating will be used for statistics.

Figure 3: Structure and currency distribution of Chinese offshore debt issuance in 2023 and the first half of 2024



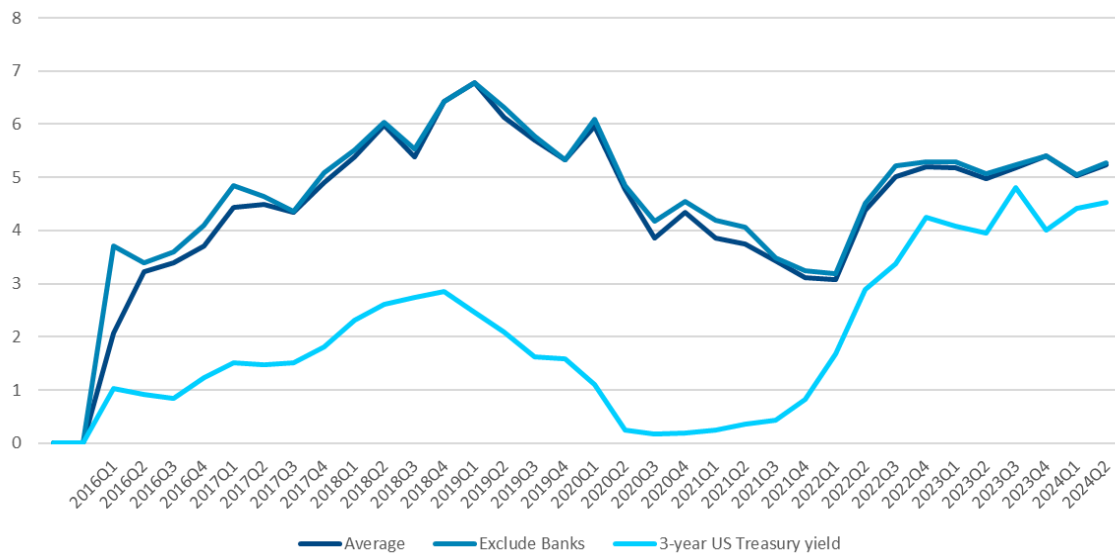
Note: Based on issuance amount and subject credit rating; the inner circle is the data for the first half of 2023, and the outer circle is the data for the first half of 2024
Source: CCXAP

The coupon rate of Chinese offshore bonds remains high. In the second half of 2023, the Federal Reserve ended the interest rate hike trend that began in early 2022. As of June 30, 2024, the US federal funds rate has remained at 5 %-5.25% for half a year, and the market has high expectations that interest rates will gradually decline. However, as the US consumer market data continued to be high in the first half of 2024, it meant that inflation was high and the Federal Reserve was unable to start the interest rate cut operation. Therefore, the average coupon rate ²of Chinese offshore bonds in the first half of 2024 was at a high level of 5.15 % . In particular, the average coupon rate of Chinese offshore bonds increased in the second quarter, from 5.04% in the first quarter to 5.14 % . However, as the US interest rate cut cycle is expected to start this year and the People's Bank of China still maintains an active and prudent monetary policy, we expect that the issuance cost of Chinese offshore bonds will have limited room for increase and may decline.

The currencies used for issuing Chinese offshore bonds are still mainly USD and RMB, and RMB offshore bonds continue to rise. In the first half of 2024, RMB and USD are still the main currencies for issuance, with an issuance amount of USD 47.626 billion, accounting for 93.5 % of the new issuance in the first half of the year. As the Federal Reserve expected to start cutting interest rates in the first and second quarters at the beginning of the year, some issuers plan to issue US dollar bonds in the middle of the year so that they can raise funds at a lower cost in the relatively low interest rate environment of US dollar bonds. In addition, the issuance of dim sum bonds continued the strong upward trend in the fourth quarter of 2023, with an issuance of USD18.875 billion in the first half of 2024, a YoY increase of 14.9%, driving the continued increase in the issuance of RMB-denominated bonds. Among bonds denominated in other currencies, Japanese yen-denominated offshore bonds were chosen by many issuers due to their low coupon rates, with an issuance amount of USD1.901 billion, a significant YoY increase.

² The statistical scope is bonds with fixed coupon rates and no repurchase or resale clauses.

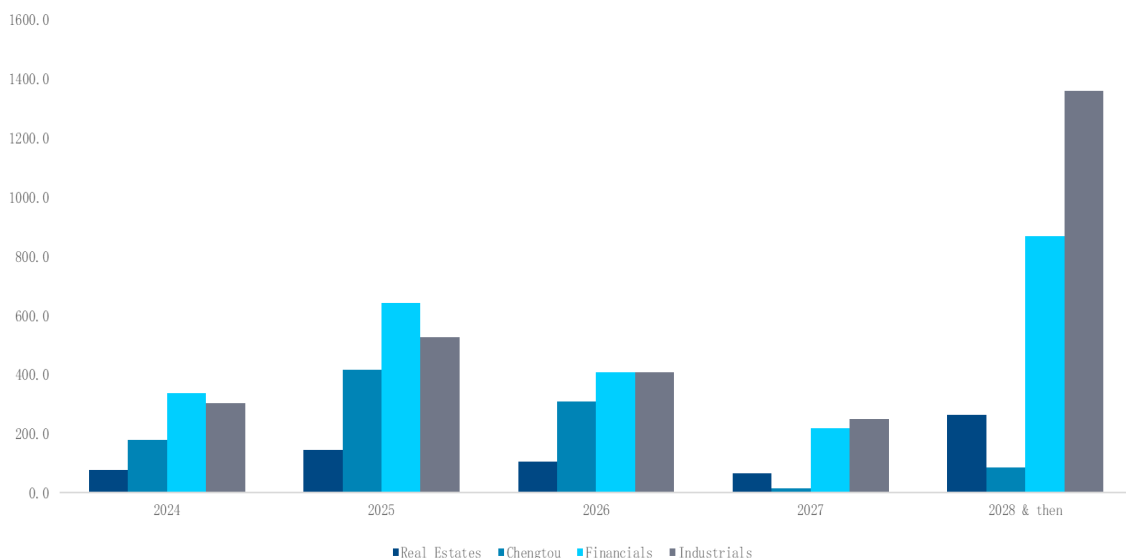
Figure 4: Average coupon rate of Chinese offshore bonds issued from Q1 2016 to Q2 2024



Source: CCXAP

The next two years will be the peak period for the maturity of financial entities, and the net financing scale of Chengtou may hit the bottom. As of June 30, 2024, the total stock of Chinese offshore debt is USD697.92 billion. Among them, the maturity scale in the second half of 2024, 2024 and 2025 is USD89.71 billion, USD172.95 billion and USD123.03 billion respectively. In terms of industry, the next two to three years will be the peak period for the maturity of financial offshore debt, with the maturity scale in the second half of 2024, 2024 and 2025 being USD33.62 billion, USD64.24 billion and USD40.66 billion respectively. In terms of Chengtou bonds, the maturity scale in the second half of 2024, 2024 and 2025 is USD17.93 billion, USD 41.70 billion and USD 30.96 billion respectively. Affected by the continued tightening of the review policy for the issuance of offshore bonds by Chengtou enterprises, the net financing scale of Chengtou issuers may hit a low point in the future.

Figure 5: The remainder of offshore bonds as of the end of June 2024



Source: CCXAP; Unit: USD 100 million

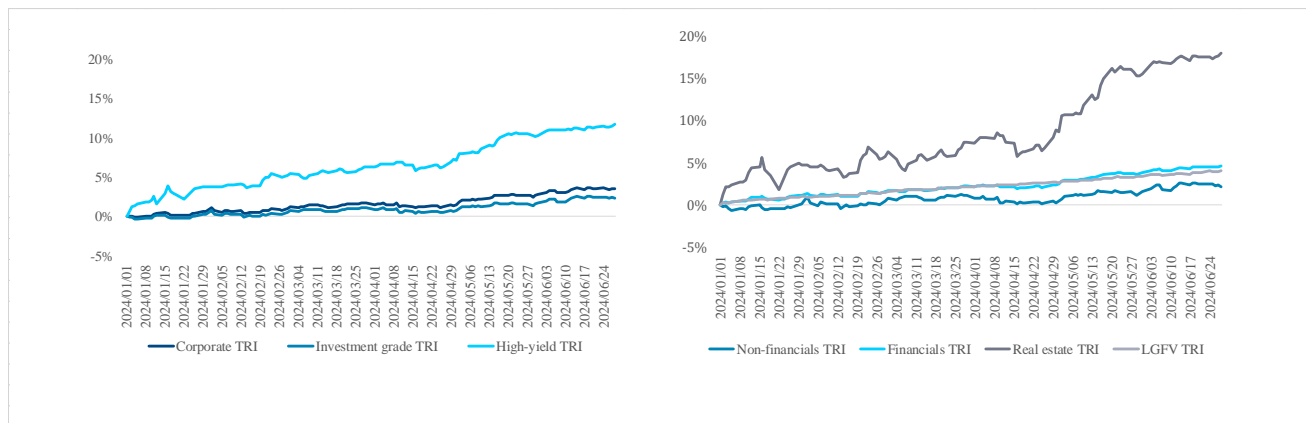
Secondary market

The overall performance of the Chinese dollar bond market showed a steady upward trend.

In the first half of 2024, the total return index of Chinese offshore bonds was 3.49%, of which the return rate of investment-grade bonds was 2.30% and the return rate of high-yield bonds was 11.76%. As the domestic economy gradually recovers, the fundamentals of enterprises have been repaired, and market confidence has gradually recovered. In addition, benefiting from the rebound in bond prices under the expectation of interest rate cuts, the secondary market prices of high-yield and investment bonds have generally maintained a stable and steady upward trend.

In terms of interest rate spread, as of June 30, 2024, the spread of Chinese offshore bonds fell 79.79bp to 140.11bp from the beginning of the year, among which the investment-grade bond spread fell 38.72bp to 82.30bp, and the high-yield bond spread fell 424.03bp to 522.70bp.

Figure 6 : Return trend and interest rate spread of Chinese offshore bonds in the first half of 2024



Source: CCXAP

The performance of the real estate industry showed a rebound. In terms of sectors, real estate offshore bonds performed the best, with a return rate of 18.05% in the first half of the year, followed by finance (4.58%), Chengtou (4.04%) and non-financial (2.18%). In the real estate industry, due to the gradual clearing of real estate bond risks and the central government's promotion of favorable policies such as guaranteed delivery of houses and the elimination of existing real estate projects, investor confidence has been improved, and valuations have been significantly repaired, driving the real estate sector up. In the Chengtou sector, with the continued implementation of debt reduction policies, short-term debt repayment pressure has been alleviated, and investors have a certain degree of confidence in offshore Chengtou bonds. The performance of the non-financial sector is relatively stable, due to the relatively stable returns under the influence of the slow recovery of consumer confidence.

Table 1: Returns of Chinese dollar bonds in 2023 H1 (by industry)

Markit iBoxx USD Asia ex-Japan China Index Return	Q1	Q2	H1
Real Estate TRI	7.44%	9.87%	18.05%
- Investment Grade TRI	0.16%	2.28%	2.45%
- High Yield TRI	14.66%	13.96%	30.67%
Financial TRI	2.23%	2.30%	4.58%

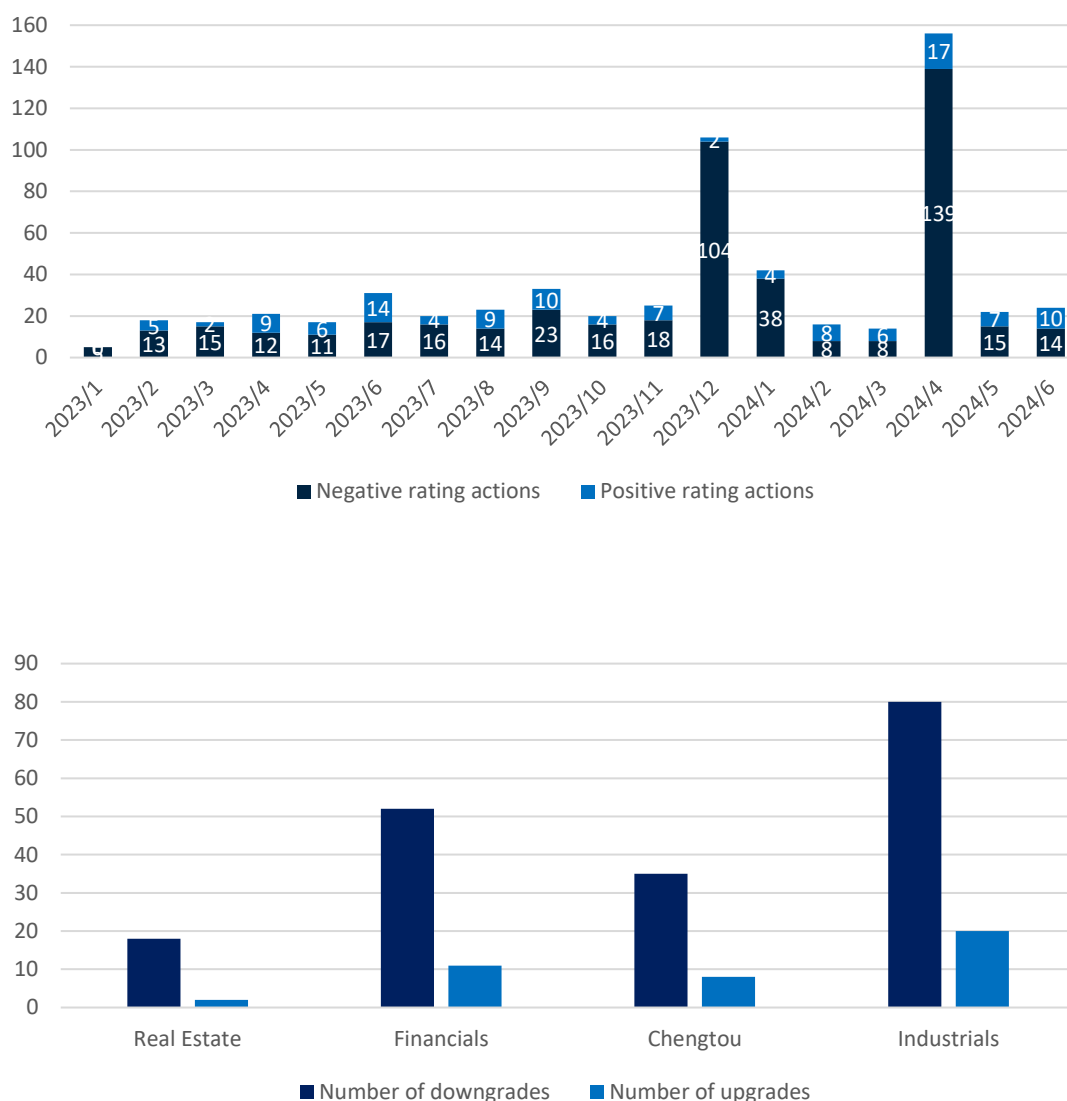
- Investment Grade TRI	1.29%	1.37%	2.68%
- High Yield TRI	6.34%	5.60%	12.29%
Non-financial TRI	1.15%	1.02	2.18%
- Investment Grade TRI	0.99%	0.93%	1.92%
- High Yield TRI	6.03%	2.91%	9.12%
Chengtou TRI	2.12%	1.88%	4.04%
- Investment Grade TRI	1.94%	1.63%	3.60%
- High Yield TRI	3.23%	3.15%	6.48%

Source: CCXAP

Rating Actions and Credit Events

Negative rating actions continue, and financial and industrial sectors have been intensively downgraded.

In the first half of 2024, the three major international rating agencies took 274 rating actions on 224 Chinese issuers, including 222 negative rating actions and 52 positive rating actions, accounting for 81% of negative rating actions. Moody's had a concentrated downgrade on January 25. The reason for the adjustment was the follow-up action of putting some Chengtou companies on the watchlist in December last year, adjusting the rating outlook from credit watch to negative as well as downgrading the ratings of several major asset management companies due to uncertainty about the support strength. Fitch had a concentrated downgrade from April 15 to 22, during which a total of 112 rating actions and outlooks were made, mainly concentrated in finance and utilities. The reason for the adjustment was the rating action triggered by Fitch's negative outlook on China's sovereign rating on April 10, and then the ability of Chinese local state-owned enterprises or their local governments to provide support to enterprises was affected by the adjustment of the sovereign rating outlook. In terms of positive ratings, the largest number of companies received positive rating actions in April 2024, with a total of 17 companies, mainly concentrated in financial companies. The rating upgrades were due to the capital enhancement and liquidity improvement of some Chinese banks and their core subsidiaries. In terms of industry distribution, rating actions are mainly concentrated in the financial and industrial sectors. In the first half of 2024, 80 industrial issuers were downgraded or had their outlooks adjusted, and 20 received positive rating actions. Issuers with negative rating actions were mainly distributed in the industrial and utilities sectors. In addition, 12 real estate issuers were downgraded or had their outlooks adjusted in the first half of 2024. The reason for the adjustment was that the market was more concerned about the recovery progress of the Chinese real estate market, which may lead to more consumers to wait and see. In the first half of 2024, 52 financial issuers were downgraded or had their outlooks adjusted, while only 12 received positive rating actions. Mainly based on the uncertainty of the central government's financial support, the credit quality of Chinese central enterprises and financial institutions such as banks is more negatively evaluated. There are also many negative rating actions on Chengtou issuers. The three major international rating agencies have taken negative rating actions on 35 Chengtou companies, mainly due to the decreased possibility of issuers obtaining government support and the tight financing conditions in the region under the economic downturn.

Figure 7: Rating actions and issuer rating changes in 2024H1


Source: CCXAP

The credit risk of real estate companies continues to be exposed, but the default trend has slowed down.

In the first half of 2024, 12 Chinese issuers defaulted on their offshore bonds, with a default amount of USD1.978 billion, which is roughly the same as the number of defaults in the first half of 2023. The reasons for the defaults of these defaulting entities have certain commonalities, mainly due to weak sales in the real estate market, coupled with the impact of unfavorable factors such as the financial environment, which led to blocked financing channels and deteriorating liquidity, and ultimately defaulted. In the first half of 2024, the new default issuers were concentrated in the real estate industry, with a total of 4 entities defaulting on their debts, including China South City, XJ International Holdings, Radiance Holdings and Agile Group.

Table 2: Credit events of Chinese issuers in offshore market since 2024 H1

Company Name	Defaulted events
China South City	On February 9, 2024, China South City issued an external warning that due to increasingly tight liquidity, it is expected that it will not pay the forced redemption funds for the October 2024 notes due on February 9, 2024, which will result in a

	<p>default on the October 2024 notes; at the same time, OCT also expects that it will not pay the interest on the April 2024 notes due on February 12, 2024. Failure to pay the interest before March 13, 2024 will result in a default on the April 2024 notes.</p> <p>On June 4, 2024, as the trustee of China South City's five defaulted US dollar bonds, Citigroup International filed a case in the Hong Kong Court, suing China South City's major shareholder Shenzhen Tejianfa for failing to fulfill its obligations under the maintenance agreement, and seeking at least USD1.407 billion and additional interest. The summons mentioned that Citigroup International had informed Shenzhen Tejianfa, the provider of the maintenance letter, on April 20, requiring it to immediately perform its obligations under the maintenance agreement. As of now, the other party has not performed it. The summons was dated June 3, the case number is HCA 1054/2024, and Mayer Brown served as Citigroup International's legal counsel. Two holders said that Citigroup International's action was instructed by a group of holders, who allegedly had sufficient dissenting votes under multiple China South City US dollar bonds. The group of holders also issued a statutory payment order to China South City on May 31 to prepare for a potential liquidation petition.</p>
XJ International Holdings	<p>On March 4, XJ International Holdings announced that it received a redemption option notice for convertible bonds with a total principal amount of USD315 million on February 10. The company is ready to discuss feasible solutions with convertible bond holders and cannot pay for the relevant bonds on the selected redemption date. Therefore, a default event on the convertible bonds occurred on March 2.</p>
Radiance Holdings	<p>On March 20, Radiance Holdings announced that according to the terms of the company's 2024 senior notes with a coupon rate of 7.8% (ISIN: XS2384610577), all outstanding principal of such notes and any accrued and unpaid interest will be due and payable on the due date (March 20, 2024). As of the date of this announcement, the company has not paid a total of USD300 million in outstanding principal. The announcement stated that the group is also actively working to resolve and maintain active communication with the note holders, and is seeking to implement the best solution to ensure that the interests of all stakeholders are maintained.</p>
Agile Group	<p>On May 14, Agile Group announced the issuance of USD483 million 6.05% senior notes due in 2025 (International Securities Identification Number: XS2243343204) (the "2020 Notes").</p>

Source: public information, CCXAP

Regulation: NDRC Solicits Public Opinions on the Notice of the National Development and Reform Commission on Supporting High-quality Enterprises to Borrow Medium- and Long-term Foreign Debt to Promote High-quality Development of the Real Economy (Draft for Comments)

On March 14, 2024, the National Development and Reform Commission publicly solicited opinions on the "Notice on Supporting High-quality Enterprises to Borrow Medium- and Long-term Foreign Debt to Promote High-quality Development of the Real Economy (Draft for Comments)". This is another clear support policy for offshore financing after the release of Document No. 56. The "Draft for Comments" is based on Circular No. 56 and is basically consistent with the previous policy. It mainly refines and optimizes the financing part of high-quality enterprises. The support policy is concentrated on procedural links, such as simplifying relevant review requirements and processes, and improving in-process and post-process supervision. The launch of the "Draft for Comments" is a specific policy implementation to further expand high-level opening up to the

outside world and enhance the facilitation of cross-border investment and financing. It aims to support high-quality enterprises to better coordinate the two markets and two resources at home and abroad, and give full play to the positive role of foreign debt funds in serving high-quality development and improving the quality and level of international circulation.

Outlook

The month-on-month growth rate of the PCE price index in US in May fell from 0.3% in April to 0%, the lowest record since November 2023. More importantly, the core PCE index, excluding food and energy costs, increased by 2.6% YoY in May, reaching the lowest growth rate since March 2021. The core PCE index is the inflation indicator that the Federal Reserve is most concerned about. The continued decline in the growth rate of the US PCE has provided strong support for the Federal Reserve's expectations of a rate cut this year. In addition, there are still large-scale Chinese offshore bonds maturing this year. It is expected that the financing costs of Chinese companies' US dollar bonds will decline in the second half of the year, which will help increase the willingness to issue US dollar bonds.

Since last year, with the advancement of the "package debt reduction", the integration of Chengtou companies has continued to accelerate under the requirement of "accelerating the reduction of the number of financing platforms". In the future, the transformation and development of Chengtou companies may accelerate differentiation due to differences in regional environment and industrial resource endowments. Chengtou companies in regions with better transformation resources are expected to be favored by the capital market first, and will be able to attract and carry more new capital inflows in the future. Under the trend of accelerated differentiation and development of Chengtou companies, Chengtou companies with weak qualifications in weak regions may face the dual difficulties of insufficient resource advantages for transformation and development and prevention and resolution of existing debt risks. Their credit risk mitigation depends to a large extent on the subsequent implementation strength and duration of the current debt reduction policy. In addition, the review of Chengtou companies' bond issuance has become more stringent, especially for the high rate of termination review of Chengtou bonds in key debt reduction areas, and the refinancing pressure of Chengtou companies in related regions has not decreased. In addition, the current Chengtou platform is limited to the continuation of principal for the repayment of old debts, and its interest repayment still requires the company's own cash flow. In the case of limited use of raised funds and accumulated pressure on maturity, it is necessary to continue to pay attention to the interest payment pressure of Chengtou companies.

With the continuous optimization and implementation of real estate financing support policies, it will help boost market confidence and improve the financing environment to a certain extent. However, considering that the real estate industry is still in the process of adjustment, the sustainability of the financing recovery remains to be seen; at the same time, considering that financing funds still mainly flow to central state-owned enterprises, the improvement of private real estate companies' financing cash flow is still not ideal, especially for companies that have been in trouble. Considering that nearly USD8 billion of bonds of real estate companies will mature in the second half of the year, the overall debt pressure is still large. In the context of insufficient endogenous funds and pressure on external financing, the liquidity risk of high-debt real estate companies still exists, and it is necessary to continue to pay attention to the risk of real estate companies' risks spilling over to the upstream and downstream of the industrial chain and financial institutions through business transactions or credit channels.

The publication of the Draft for Comments is a major boon for qualified high-quality enterprises. The efficiency of high-quality enterprises in applying for medium- and long-term foreign debt review and registration will be greatly improved, which will be conducive to high-quality enterprises to flexibly borrow foreign debt. It is expected that the issuance scale of high-quality entities will increase in the future, but the growth may be relatively limited in the short term, because high-quality enterprises have relatively good domestic financing channels and low domestic financing costs, so they have little motivation to raise funds offshore in the short

term. However, in the long run, financing support for high-quality entities will be further strengthened in the future, thereby encouraging more high-quality enterprises to expand offshore financing. Although the Draft for Comments encourages high-quality enterprises to use foreign debt financing, it is expected that the offshore approval of district-level Chengtou companies will be tightened, and the issuance of foreign debt by district-level Chengtou companies may decline.

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