



Asia  
China

Corporate Credit  
Real Estate

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## Asia Credit

# Screening HY bonds post-weakness; U/G EVERRE 25s & CAPG 22s to Buy

### Screening of China property HY bonds after recent market weakness

We take a screening of the recent weakness of China property HY bonds, and note that recent underperformance especially in the long-dated bonds as well as high beta names. The overall China property HY segment has been weak partly due to rates concerns, high supply of China property bonds, and equity sell-off. Since Jan 8 which was a mini peak in China property bond prices on average, China property BBs have retracted by 1ppt on a simple average basis, and Bs by 1ppt as well on average. Having said that, bond prices are still far from 2017 lows in general. We take stock of the HY property bonds which have dropped the most in dollar prices from Jan 8 (see figure 1) and they include Evergrande, Kaisa, KWG, Yida straight bonds, and Shui On 6.4% perps and Yuzhou 5.375% perps. On the more resilient side from a dollar price perspective since Jan 8, they were Dalian Wanda Commercial Prop 2024s, Golden Wheel 2019s and Ronshine 2019P18s (see figure 2).

### We upgrade Evergrande 2025s and Aoyuan 2022s to Buy

Evergrande 2025s (ask price: 102.875, YTW: 8.1%, Z+545bp as we write) have dropped by close to 3ppt from recent peaks and we upgrade the bond from Hold to Buy. After the issuance of the CBs, some hedge funds might have shorted Evergrande USD straight bonds. Fundamentally, we continue to expect Evergrande to de-leverage in 2018 and 2019, and expect its 2018 contract sales to grow by at least 20% YoY. In Jan, Evergrande achieved RMB64.4bn of contract sales, representing 12% of its full year 2018 contract sales target of RMB550bn. We also upgrade Aoyuan 2022s (ask price: 95.5, YTW: 6.5%, Z+392bp as we write) from Hold to Buy given a low dollar price, constructive yield, our expectation of very robust contract sales in 2018 without the company being levered up. Furthermore, we continue to believe Aoyuan will benefit from the Great Bay area's favorable policy.

### Risks

Upside risks include stronger-than-expected sales/margins, improvement in the onshore financing environment, and lower-than-expected landbanking. Downside risks include unfavorable policy, lower-than-expected sales/margins, and further credit tightening.

7 February 2018

Corporate Credit

Real Estate



## Key charts

Figure 1: Bond performance of China property HY bonds over the period Jan 8 – Feb 6, 2018

Bond	Ask price			Bond	Ask price		
	6-Feb-18	8-Jan-18	Price change		6-Feb-18	8-Jan-18	Price change
EVERRE 9.5 24	106.3	109.4	(3.1)	CIFIHG 5.5 23	97.5	99.5	(2.0)
EVERRE 8.25 22	104.0	107.0	(3.0)	CHINSC 5.875 22	96.3	98.1	(1.9)
EVERRE 8.75 25	102.5	105.5	(3.0)	SUNSHI 7.5 20	97.3	99.1	(1.9)
SHUION 6.4 PERP	100.8	103.6	(2.9)	KWGPRO 5.2 22	96.8	98.5	(1.8)
EVERRE 7.5 23	100.5	103.3	(2.8)	KWGPRO 6 22	99.3	101.0	(1.8)
EVERRE 6.25 21	98.5	101.1	(2.6)	CIFIHG 5.375 PERP	96.3	98.0	(1.8)
KAISAG 9.375 24	97.4	100.0	(2.6)	CSCHCN 5.75 20	96.6	98.3	(1.6)
YUZHOU 5.375 PERP	94.5	97.1	(2.6)	ROADKG 7 PERP	96.0	97.6	(1.6)
KWGPRO 5.875 24	96.1	98.6	(2.5)	LOGPH 5.75 22	98.3	99.9	(1.6)
YIDCHL 6.95 20	90.0	92.5	(2.5)	CAPG 5.375 22	95.5	97.0	(1.5)
YUZHOU 6 22	99.8	102.3	(2.5)	CSCHCN 7.25 22	96.5	98.0	(1.5)
LOGPH 5.25 23	93.8	96.1	(2.4)	KAISAG 8.5 22	97.4	98.9	(1.5)
SHUION 5.7 21	101.3	103.4	(2.1)	COGARD 5.625 26	103.0	104.5	(1.5)
YUZHOU 6 23	99.5	101.6	(2.1)	COGARD 5.125 25	98.5	100.0	(1.5)

Pricing change from Jan 8, 2018. Note: for new issues after Jan 8, 2018, we use price change from issue price.  
Source: Deutsche Bank, Bloomberg Finance L.P.

Figure 2: Bond performance of China property HY bonds over the period Jan 8 – Feb 6, 2018

Bond	Ask price			Bond	Ask price		
	6-Feb-18	8-Jan-18	Price change		6-Feb-18	8-Jan-18	Price change
SUNAC 7.95 22	102.3	102.8	(0.5)	DALWAN 4.875 18	100.3	100.4	(0.1)
TPHL 6.25 20	101.3	101.8	(0.5)	GRNLHK 3.875 19	98.5	98.6	(0.1)
AGILE 8.25 PERP	101.5	102.0	(0.5)	HYDOO 13.75 18	105.8	105.8	-
CIFIHG 7.75 20	105.0	105.5	(0.5)	LVGEM 8.5 20	102.3	102.3	-
GRNLGR 4.375 19	99.2	99.7	(0.5)	XIN 8.125 19	100.3	100.3	-
YLLGSP 5.875 22	102.4	102.9	(0.5)	MOLAND 6.5 18	100.6	100.5	0.0
COGARD 4.75 23	99.1	99.6	(0.4)	SUNAC 6.875 20	100.6	100.6	0.0
PWRLNG 7.625 18	102.5	102.9	(0.4)	MOLAND 6.875 19	100.0	99.9	0.1
BJCAPT 7.125 PERP	104.3	104.6	(0.4)	SUNAC 8.75 19	104.8	104.6	0.1
FUTLAN 5 20	100.0	100.4	(0.4)	TPHL 6.25 21	100.1	100.0	0.1
FTHDGR 10.75 20	103.4	103.6	(0.3)	JINGRU 7.75 20	99.1	98.8	0.4
PWRLNG 4.875 21	96.0	96.3	(0.3)	GWTH 7 21	99.8	99.3	0.4
ROADKG 5 19	100.7	100.9	(0.2)	RONXIN 6.95 19	99.4	98.8	0.6
RONXIN 8.25 21	98.4	98.5	(0.2)	GWTH 8.25 19	103.0	102.3	0.8
GUOPRO 7 20	96.9	97.0	(0.1)	DALWAN 7.25 24	103.8	101.3	2.5

Pricing change from Jan 8, 2018. Note: for new issues after Jan 8, 2018, we use price change from issue price.  
Source: Deutsche Bank, Bloomberg Finance L.P.

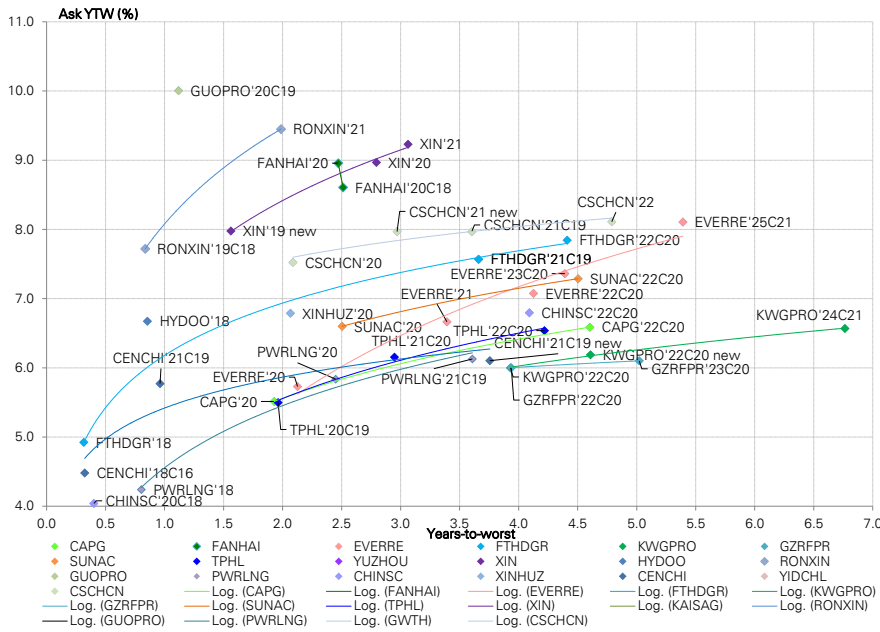
7 February 2018

Corporate Credit

Real Estate



Figure 3: RV chart for select China property HY bonds in ask YTW



Pricing date as of Feb 6, 2018.  
Source: Deutsche Bank, Bloomberg Finance L.P

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# Appendix 1

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<b>Aoyuan</b>	
CAPG 5.375% 2022	1,7,13,14,15

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7 February 2018

Corporate Credit

Real Estate



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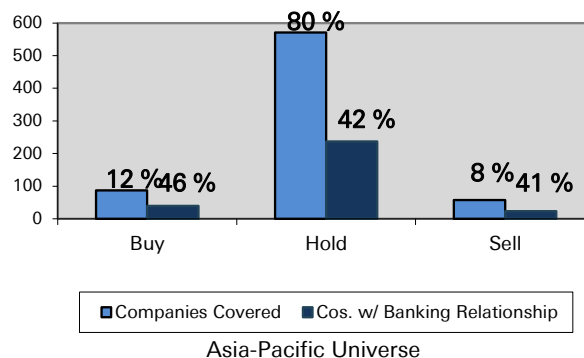
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7 February 2018

Corporate Credit

Real Estate



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7 February 2018

Corporate Credit

Real Estate



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7 February 2018  
Corporate Credit  
Real Estate



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7 February 2018

Corporate Credit

Real Estate



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