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Asia Conference 2023: Asia Corporates

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Executive Summary

- **CreditSights held its Asia Conference 2023 in Hong Kong and Singapore earlier this month.**
- **This is the transcript for the presentation on Asian corporates, entitled "Asia Corporates - State-Owned, Privately-Owned and Disowned".** We outline our thoughts on investment grade, high yield and distressed South and Southeast Asian corporates, Chinese and Korean state-owned enterprises and Chinese privately-owned companies.

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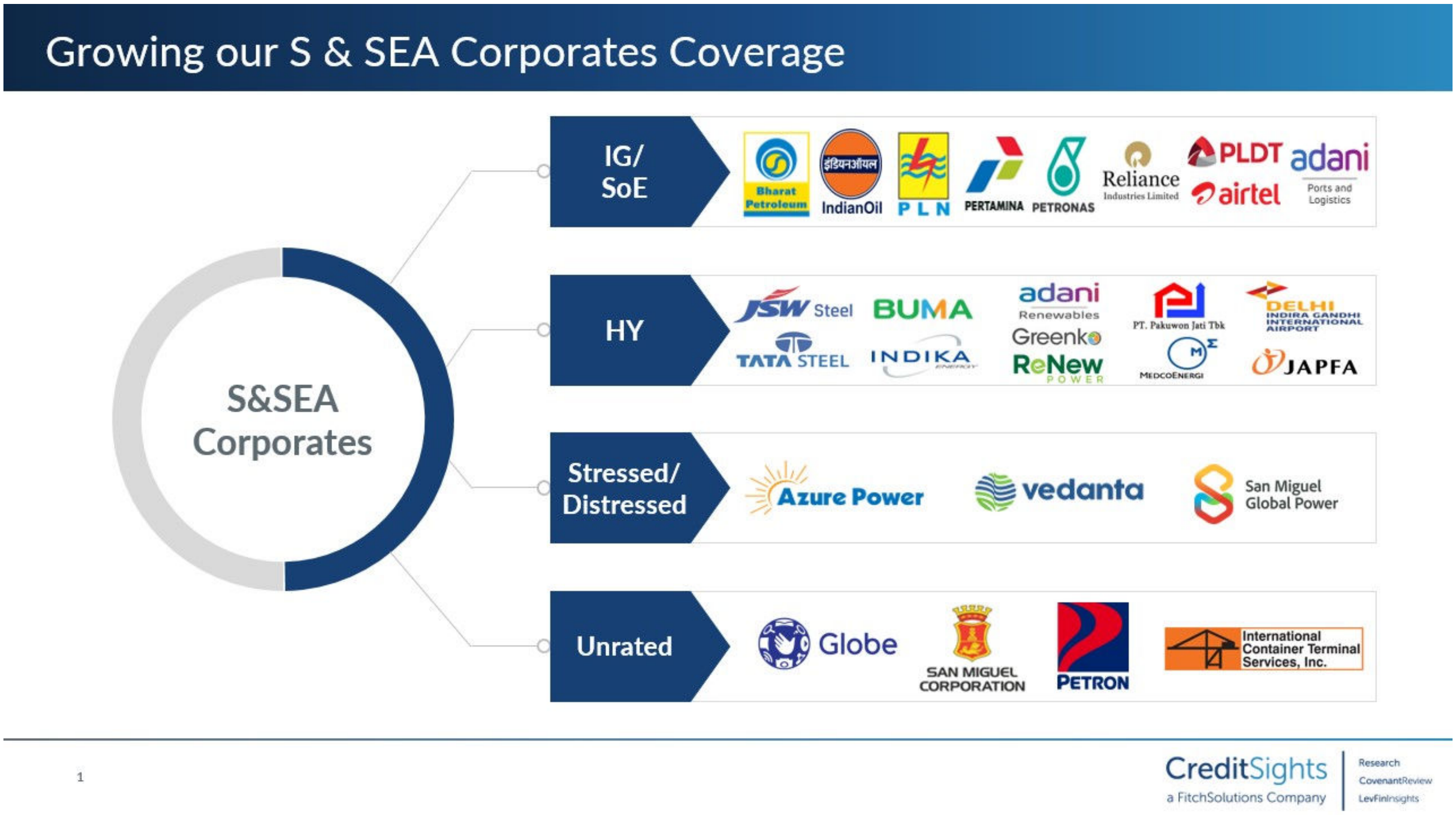

Our coverage currently spans India, Indonesia and the Philippines, and is broadly split into 4 categories: The investment grade (IG) names and state-owned enterprises, high yield privately-owned enterprises, some stressed and distressed credits, along with unrated Philippine credits. Based on our client feedback, we have been steadily expanding coverage in the Philippines, and added 6 such names over the past year. These include San Miguel Corporation, Petron, San Miguel Global Power, Globe Telecom, PLDT and ICTSI.

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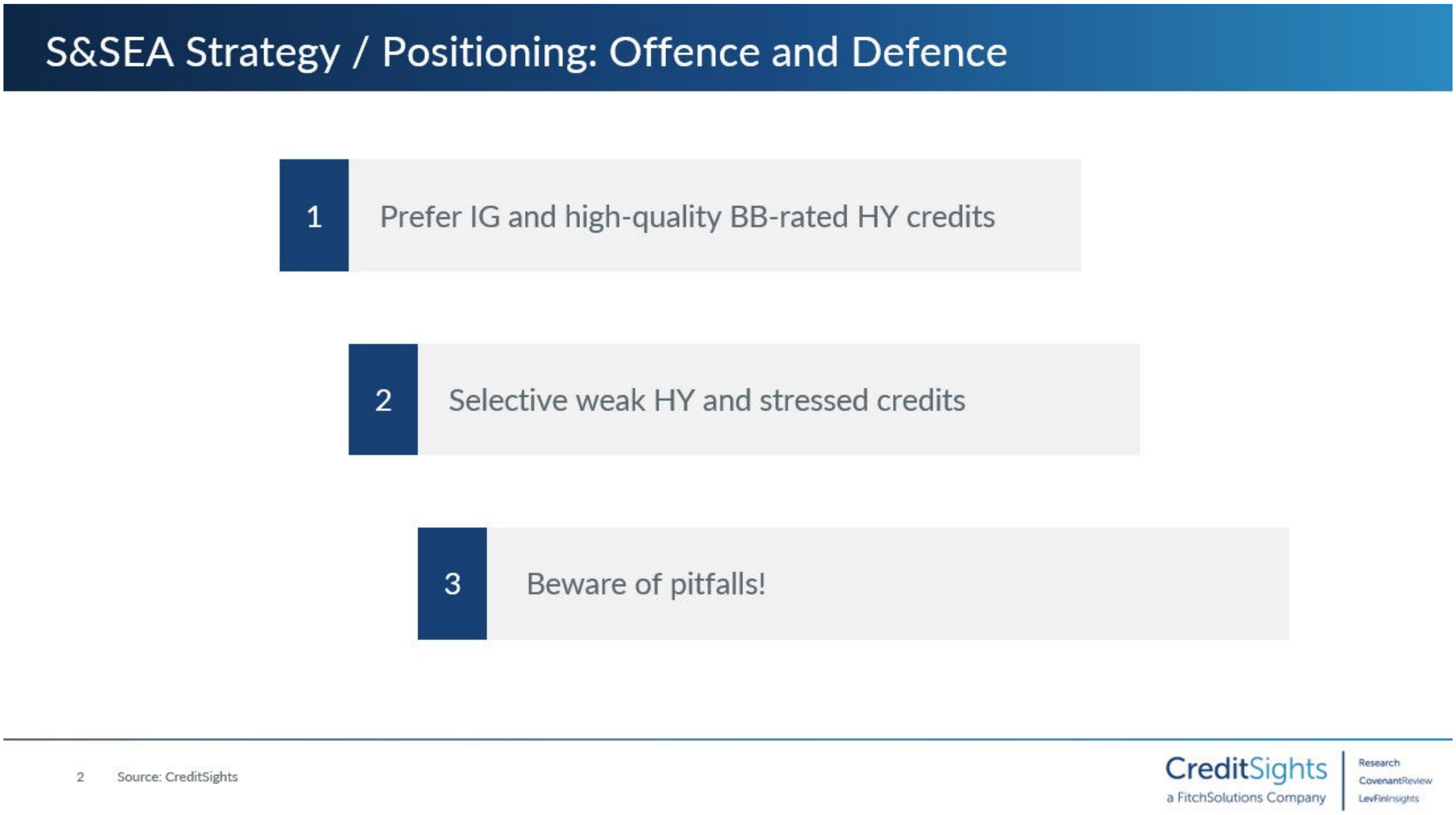

Our asset positioning within South & Southeast Asia continues to be IG and high-quality BB-rated HY credits, the bulk of which have outperformed the broad ADOL index year-to-date. We would selectively prefer some of the weak HY and stressed credits for investors with a higher risk appetite, such as Japfa and Vedanta, which we touch on later in the presentation. We would stay away from corporates embroiled in corporate governance issues or have very poor refinancing prospects, such as Azure Power and San Miguel Global Power.

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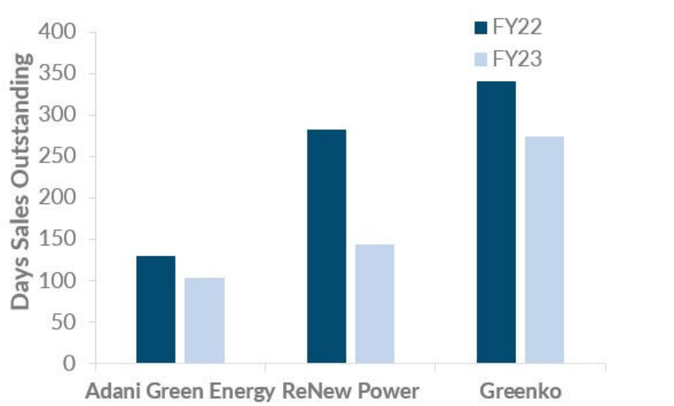
HY Private-owned Enterprises (POE): Outperform Greenko

Select Indian renewables and steel companies have good prospects

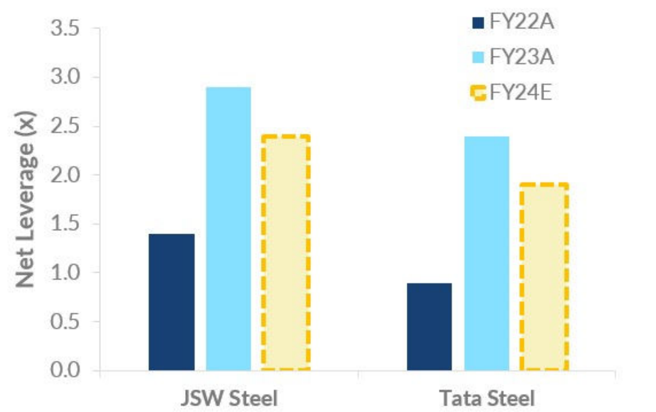
India Renewables: Days Receivable Outstanding

Stark improvement as the Andhra Pradesh discom cleared its owed dues



India Steel: Net Leverage

FY24 aided by resilient steel prices and moderating coking coal costs



3 Source: CreditSights. Note: (1) Greenko has not yet released its FY23 results, so we used its F1H23 data in place. (2) Indian companies' financial year end is on 31 March.

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First up, the HY privately-owned enterprises (POEs). We see brighter prospects for select Indian renewable and steel companies. All the major Indian renewable players saw a marked improvement in their account receivables position in FY23. This came as the Andhra Pradesh discom cleared its backlog of owed payments since August last year. We expect this to persist till F1H24, which should continue to aid their working capital positions. While Indian steelmakers JSW Steel and Tata Steel saw a poor FY23, we expect FY24 to be stronger on the back of resilient domestic steel demand and moderating coking coal costs. We have Greenko and JSW Steel on Outperform recommendations.

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Philippine Unrated Credits: Avoid SMC GP

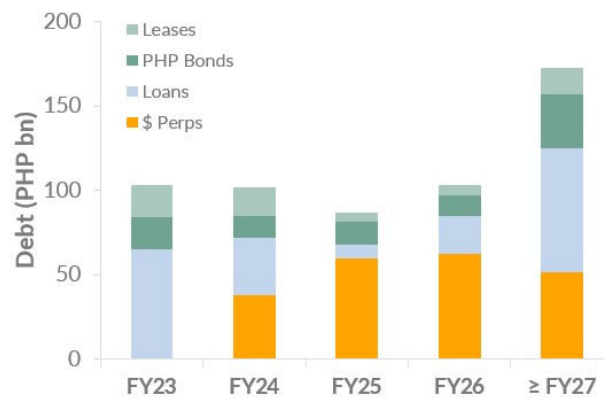
SMC Global Power (SMC GP) remains worrying

SMC GP: Net Leverage

Worsened due to costlier thermal coal input costs

SMC GP: Debt Maturity Profile

Chunky $3.3 bn perp call wall



4 Source: Company data, CreditSights.

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Of our unrated Philippine credits, we notice SMC Global Power has received very strong client interest given its stressed credit profile. Its net leverage spiraled to nearly 18x as of end-FY22 due to elevated thermal coal input costs with limited pass-throughs. We remain concerned of non-call risk on its $3.3 bn of upcoming perpetuals, and we have an Underperform recommendation on the name.

Special Situations: Japfa and Vedanta for the Brave

Contributing Factors for Current Stressed State

Japfa Comfeed

- Deterioration in leverage from weak poultry prices and high agri input costs
- Weak $/IDR
- Credit metrics to improve from stronger poultry prices and lower soybean costs

Vedanta Resources (VRL)

- Refinancing risk on FY24 debts amid recent commodity price weakness
- Heavy reliance on external funding to meet debt maturities
- Various funding avenues still open (dividend upstreaming, stake pledging)

6 Source: company data, CreditSights

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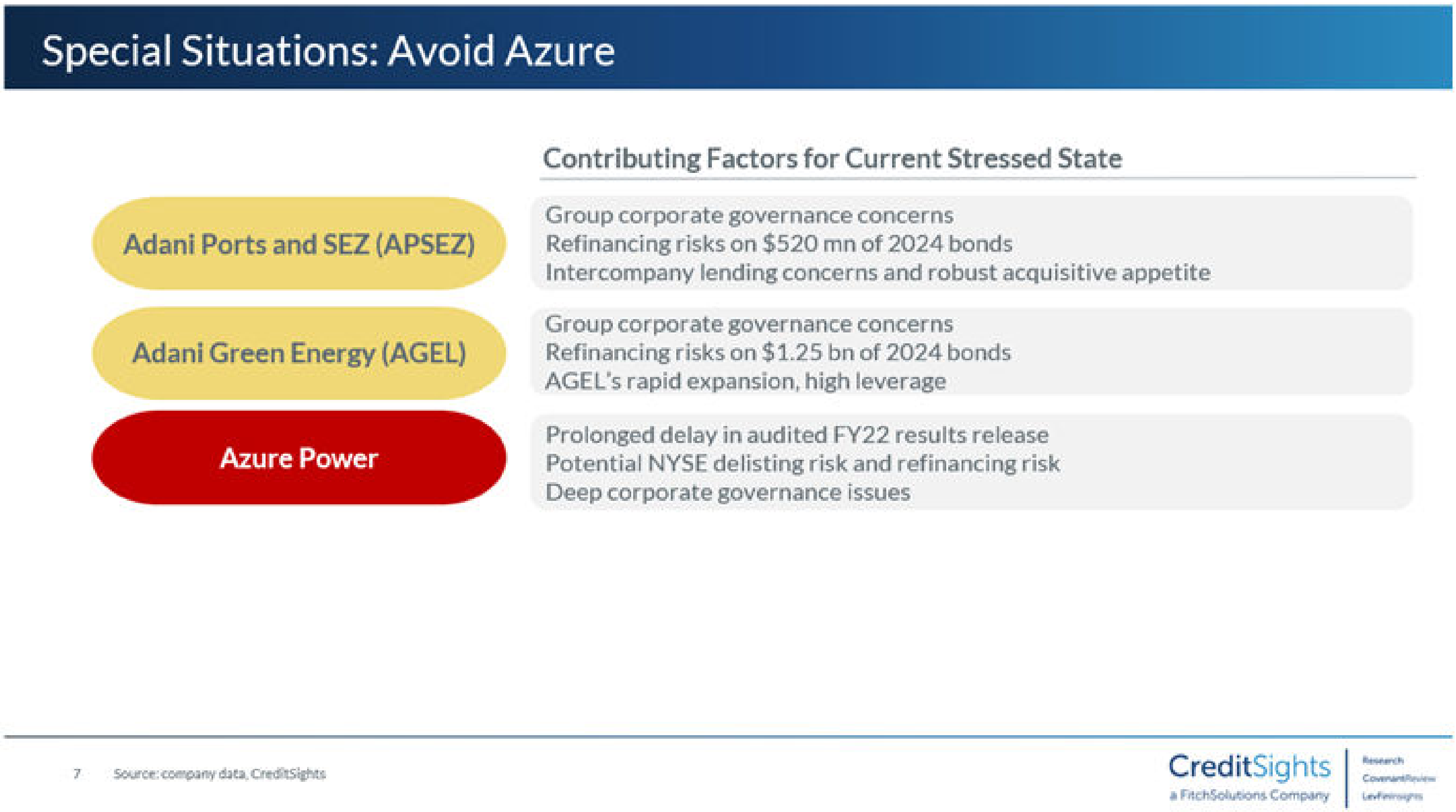
Moving on to the special situations, we would prefer Japfa and Vedanta for investors with a higher risk appetite. Although Japfa's first quarter results were poor, we expect its credit profile to improve ahead from stronger poultry prices and moderating input costs. While Vedanta Resources suffers from refinancing risk for its FY24 debt amid its weak Opco liquidity and the recent decline in commodity prices, we expect a successful refinancing given recent fundraisings and its past track record.



We continue to be neutral on Adani Green and Adani Ports. Both bore the brunt of corporate governance allegations that were sparked by the Hindenburg report early this year, which induced refinancing risks on their 2024 debts. While these corporate governance concerns have somewhat abated, we remain cautious of ongoing regulatory investigations and a resumption in pre-Hindenburg aggressive capex. Finally, we have a Sell recommendation on Azure Power. It ails from a series of deep corporate governance issues including unreleased audited FY22 results, poor internal controls and employee fraud. We see high downside risk to bond prices amid an impending delisting.

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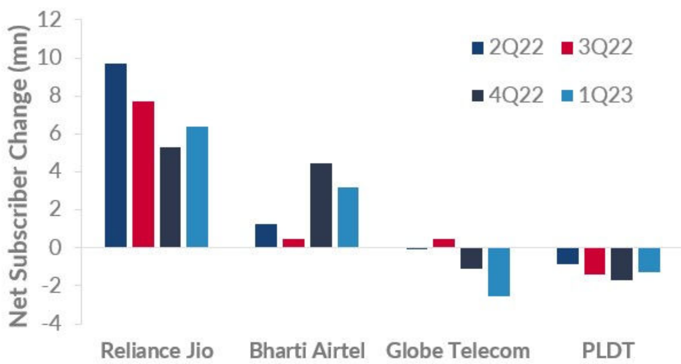
S&SEA Corporates: IG Telecom

IG telecom remains resilient, especially in India

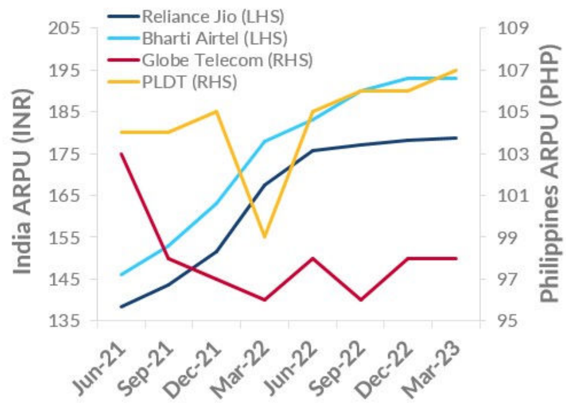
Net Mobile Subscriber Change

Ongoing sector consolidation in India vs. new entrant risk in Philippines



Mobile ARPU

Tariff hikes in India vs. stiff price competition in Philippines



6 Source: Company data, CreditSights.

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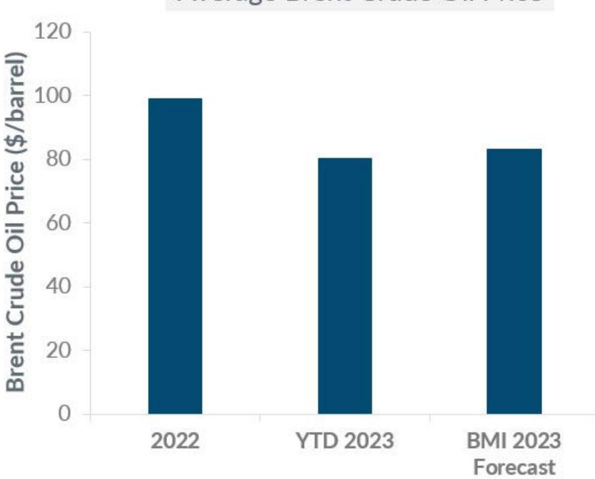
We note IG telecom has remained resilient thus far. Particularly so for the two India telecos Reliance and Bharti, aided by a consolidating sector and tariff hikes. Philippine telcos Globe and PLDT face a more challenging operating environment due to threat of a new entrant. But overall, we think they should hold up well for the year ahead, and that their sizable war chests should mitigate their high 5G capex.

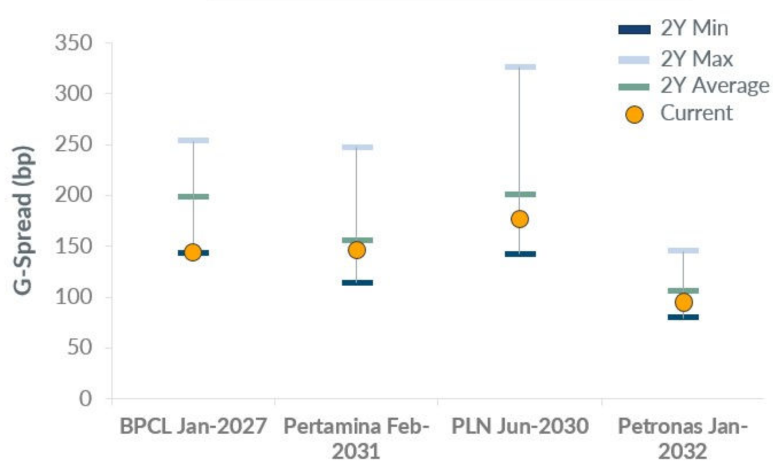
S&SEA Corporates: IG State-owned Enterprises (SOE)

Upstream O&G hurt, downstream O&G to gain, power producers to remain stable

Average Brent Crude Oil Price



G-Spread of SOE Benchmark Bonds



7 Source: Bloomberg, BMI Research, CreditSights.

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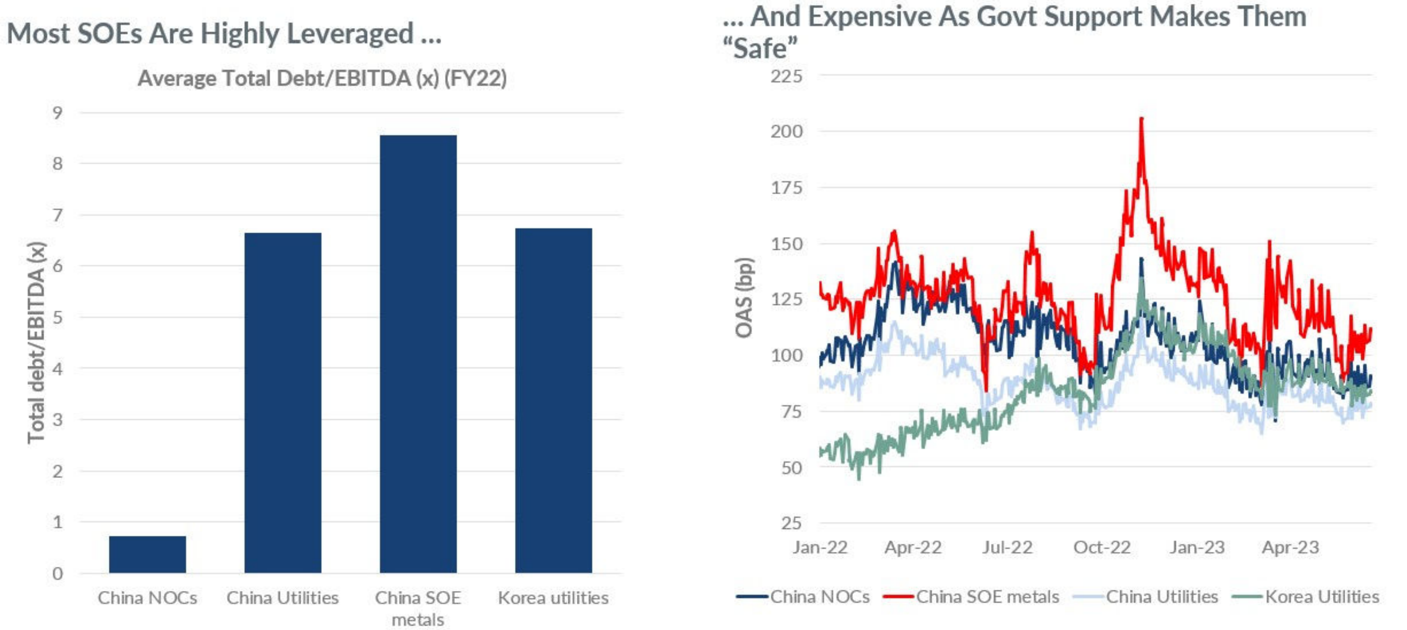
Lastly for the IG state-owned enterprises (SOEs), these are mainly oil and gas firms. Brent crude prices have moderated YTD and are likely to average lower YoY. This could hurt the integrated players like Pertamina and Petronas, but benefit downstream players like BPCL. But overall we think their credit profiles remain robust, and we take comfort in their strong state backing. Their bond spreads are currently on the tighter end of their 2Y averages, and we have a neutral outlook on these names. I will now pass on the time to Zerlina.

China And Korea SOEs: Uninspiring, Safe, And Expensive



9 Source: Company financials, ICE BAML Indices, Factset, CreditSights

We expanded our coverage to Korean corporates including **primers**, **cross-market comparisons** and **new issues** in response to increasing investor interest. We found interesting similarities between Korean and Chinese SOEs: (1) Korean SOEs are even more dominant than Chinese SOEs in their respective industries. For example, **KEPCO** and **Korea Gas** are the sole integrated electricity and gas utility companies in Korea, respectively, while in China no SOEs dominates in any utility sectors; (2) like many Chinese SOEs, Korean SOEs are highly leveraged as they have and will continue to incur large capex to fulfill their policy roles e.g., ensuring stable power supply and green transition. The debt metrics, measured by Total debt/EBITDA of Korean utility companies is weaker than **Chinese national oils** (NOCs) and **grid companies**; (3) the credit profiles of Korean SOEs are underpinned by the extremely high level of government support, which translates to their excellent access to onshore and offshore funding. We view government support towards Korean utility companies is higher than China due to their de facto monopolistic positions in national strategic industries. Korean and Chinese SOEs are viewed as core holdings by many investors for safe carry. Coupled with technical support factors (e.g., limited new issues and strong demand from onshore accounts), they are trading tight.

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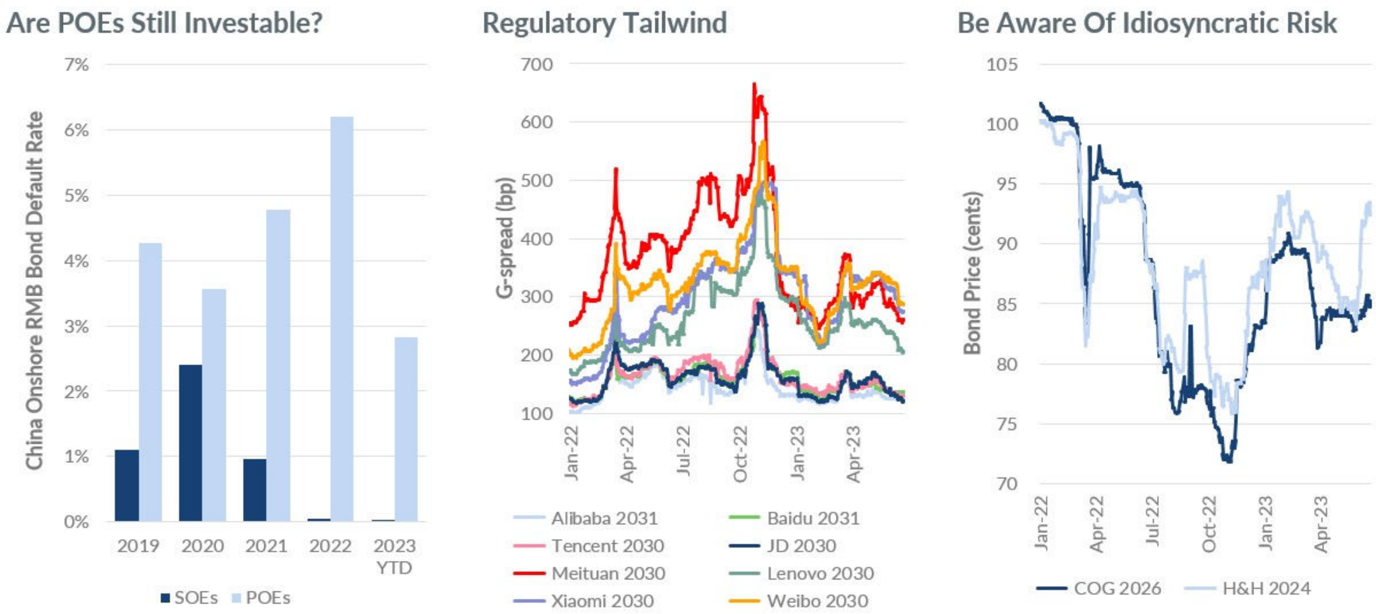
Greater China POEs: Distress, Dislocation And Opportunities



10 Source: Bloomberg, CreditSights.

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In contrast, most investors are shunning Chinese POEs as elevated POE defaults, the prolonged property sector downturn, and regulatory crackdown have shaken market confidence, and thin trading liquidity, rampant negative headlines and corporate governance risks add to the worries. We still see pockets of opportunities within Chinese POEs, but we are selective. For those who prefer IG exposure, we continue to like China tech as we believe that domestic tech regulation has **normalized** and more policies will be rolled out to support the sustainable development of the sector, providing a catalyst for their $ bonds. Among HY industrials, we are relatively more comfortable holding companies whose owners have demonstrated the willingness to repay and ability to secure refinance. For example, we moved **Health & Happiness** to Market perform from Underperform after the company offered additional concessions to existing bondholders to secure its new $ bond and tender offer.

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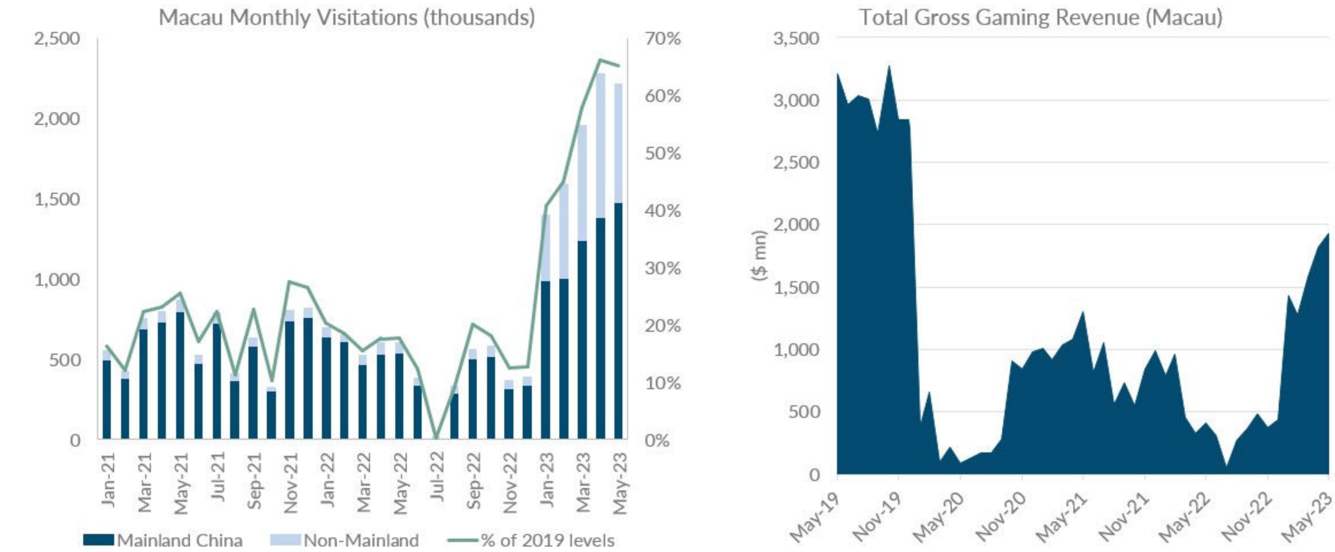
Greater China POEs: Macau Monthly Visitations and Total GGR

Visitations and Total GGR have reached 60% and 65% of 2019 levels in May, respectively



11 Source: Gaming Inspection and Coordination Bureau, CreditSights

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The Macau gaming sector has experienced a meaningful recovery following the lifting of travel restrictions in early January this year. Visitations increased from 1.4 mn in January, which is about 41% of 2019 levels, to 2.2 mn in May, which is about 65% of 2019 levels. Total gross gaming revenue has also increased from about 46% of 2019 levels in January to 60% of 2019 levels in May.

The recovery has been driven by a faster return from premium mass players (vs base mass), which we think reflects the ease of access and quicker return for more affluent regions, namely the Guangdong province and Hong Kong. We also believe this trend is reflective of the recent crackdown of junket activity, causing a shift of some customers that were previously junket-sourced into the premium mass markets.

Gaming operators have also seen a robust recovery on the non-gaming side, despite some labour constraints. For example, Las Vegas Sands saw its 1Q23 retail revenues return to 95% of 2019 levels. Wynn Macau’s first quarter tenant sales was about 60% higher than in the first quarter of 2019. This has been driven by strong sales of luxury brands – reflecting an earlier return of the more affluent customers with a higher propensity to spend.

Looking ahead, we expect to see additional tailwinds from increased air lift capacity, as well as more hotel room capacity. On the latter, Sands China was only operating about 65% of its 12,000 room portfolio in 1Q23 due to labor constraints. Management expects to eventually reach 12,000 in the third quarter for the peak summer season. Melco had also operated at ~70% of its Macau room capacity in 1Q23 and expects to reach 100% capacity in June. These tailwinds also align with comments from various management teams, expecting accelerating recovery in Macau (including higher revenues, EBITDA, as well as improvements in margin) driven by a combination of improving travel options for Chinese visitors, especially outside of the Guangdong province, as well as an increase in hotel room inventory.

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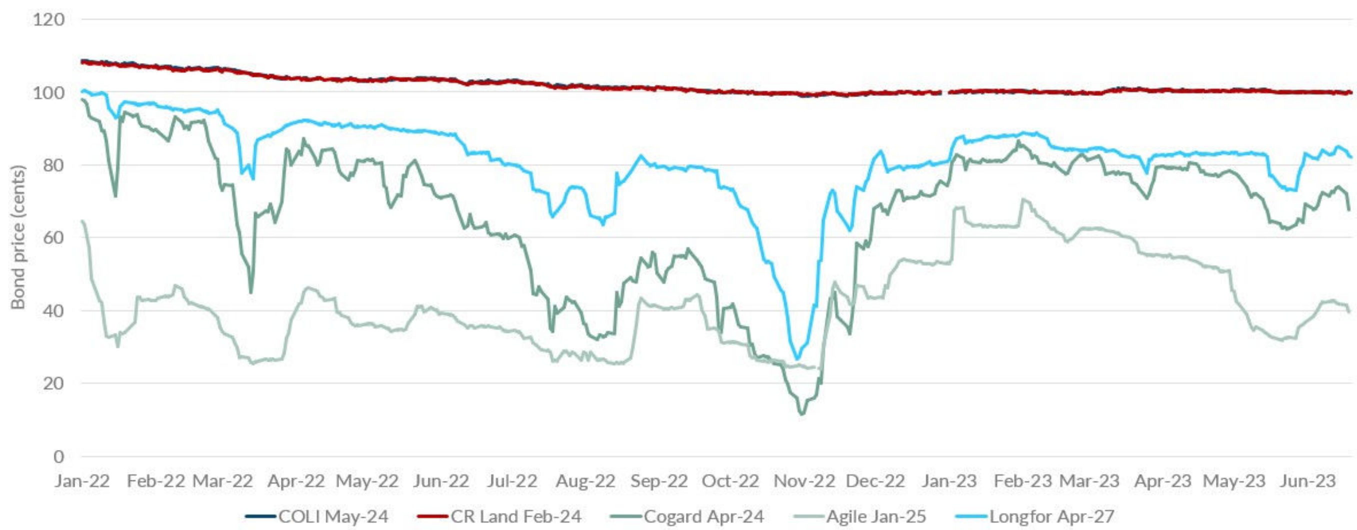
Greater China POEs: State-Linked vs Privately-Run China Developers

$ bonds from privately-run developers have experienced more volatility than their state-linked peers



12 Source: Bloomberg, CreditSights

The chart on the screen shows the historical bond prices of selected state-linked and privately-run developers. The more or less flat lines on the top of the chart refers to state-linked China Overseas Land and China Resources Land, which stand in stark contrast compared to the hyper-volatile prices of the privately-run developers including Longfor, Cogard and Agile. Although Cogard and Agile can be argued to be weaker credits compared to the state-linked companies, Longfor's credit metrics are actually quite comparable to the state-linked ones, and even consistently boasting a stronger liquidity position than the 2 state-linked developers. We think that the stability of the state-linked developers is mainly due to: (1) the perceived implied government support, (2) the access to cheaper funding due to their state-backing, and (3) the access to development projects that could translate into more affordable land bank. These factors give state-linked developers a leg up in the current environment, while privately-owned developers continue to struggle. With these differences in mind, homebuyers also tend to prefer projects built by stronger state-linked developers, fearing that projects built by weaker privately-run developers may stall due to liquidity concerns, like what we saw last year.

However, not all state-linked developers are created equal. For example, in the case of Sino-Ocean, its link to the central government was insufficient to prevent its bonds from plunging dramatically on the back of an unexpected fund transfer to its associate, Sino-Ocean Capital. This led to a sharp decline of the company's own liquidity position. We also note that Sino-Ocean sits several layers away from the central government through 2 China Life entities and the effective ownership is low. We think that these factors are key in deciding if these companies should be treated as state-owned or risk ending up being disowned. CCRE is also another state-linked developer that initially managed to avoid a debt exchange exercise thanks to the funding provided by its new state-owned shareholder. However, the company eventually succumbed to its liquidity troubles, conducting an exchange offer of 3 $ bonds earlier year, and subsequently defaulting on the offshore bond coupon. From these examples, we observe that merely having a link to the state, does not guarantee a company's survival.

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On to our picks and pans within South and Southeast Asia. For picks, we like Greenko Energy due to its strong backing from reputed sponsors and better working capital position. We think BUMA is attractive too: its wide yields don't fully justify its resilient EBITDA, stronger business diversification, lower organic capex and lower refinancing risk on its sole 2026 $ bond. We also like Philippine port operator ICTSI: we think its disciplined deleveraging and strong yield profile mitigates growth slowdown concerns. We like the Indonesian property developer Pakuwon Jati; it maintains a robust net cash position and strong recurring income that can support its high capex, amid a pause in Bank Indonesia's rate hike path. On to the higher yielding names, we continue to have a Buy recommendation on Vedanta Resources as we anticipate a successful refinancing to meet its FY24 refinancing needs, given its recent $1.3 bn of fresh loans and further funding avenues that we think can be tapped onto, such as stake pledges and some dividend upstreaming. Lastly, we also think Japfa Comfeed is attractive. While its first quarter 2023 results were poor from lackluster poultry prices and high agri input costs, we believe improving monthly poultry and expectations of moderating raw material costs should allow for a turnaround.

For pans, we have a Sell recommendation on Azure Power. We are increasingly concerned of its inability to file its audited FY22 financial results till now, which points towards deep corporate governance issues and raises delisting risk. We also have an Underperform on San Miguel Global Power. Its credit profile is poor, has elevated net leverage due to high input costs and a chunky $3.3 bn of perps turning callable in the next 3 years.

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Among China corporates, we continue to like **China tech** on improving earnings and normalizing regulatory environment. We like **Alibaba** & **Tencent** (5-10Y for spread investors and 24 & 25 for total return) among A-rated China tech, and **Meituan** (30) and **Lenovo** among BBB-rated names, which are also our preferred IG high-beta name to hedge/trade positive macro and policy surprises from China. Among Chinese SOEs, we like **ChemChina** (27, 28, 29) for yield pick up, and we view the IPO of its subsidiary, **Syngenta Group** as credit positive. We also like non-rated **Shangdong Iron & Steel** as we expect Baowu's acquisition to bring it a high investment grade. We are selective among LGFVs, and we like names with strong policy role, track record of government support and strong funding access, such as **Gangsu Provincial Highway**.

We continue to favour playing the Macau recovery through the **WYNMAC bonds** which offer the most yield among the U.S. operators in the region. We also like **SANLTD bonds**, which are technically included in the ICE BofA U.S. IG index, due to the additional spread offered by SANLTD vs the U.S. BBB index. At the same time, within the Las Vegas Sands structure, we see room for additional compression as yields on the SANLTD bonds wide to the LVS bonds compared to prior to the pandemic. We also like **New World Development** due to attractive valuations and our expectations that credit fundamentals should improve on the back of China's cessation of its zero-COVID policy and the reopening of the HK-Mainland China border.

We also remain very cautious on high yield China property developers despite their distressed bond prices, given the inadequate liquidity profiles of most companies and the still bleak outlook for a sustained improvement in home sales.

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