ACT LEADING TREASURY PROFESSIONALS

Navigating the Chinese Bond Market

Panelists:

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Moderator:

Warut Promboon: Managing Partner and Head of Credit Research - **Bondcritic**

BOND CRITIC

DISRUPTIVE ACTIONABLE LOCAL

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The Headlines

BOND CRITIC

Donald Trump threatens to expand trade war to all Chinese imports as US moves ahead with further tariffs

'Now we've added another US$200 billion,' Trump told reporters aboard Air Force One, adding that 'there's another US$267 billion ready to go on short notice if I want'

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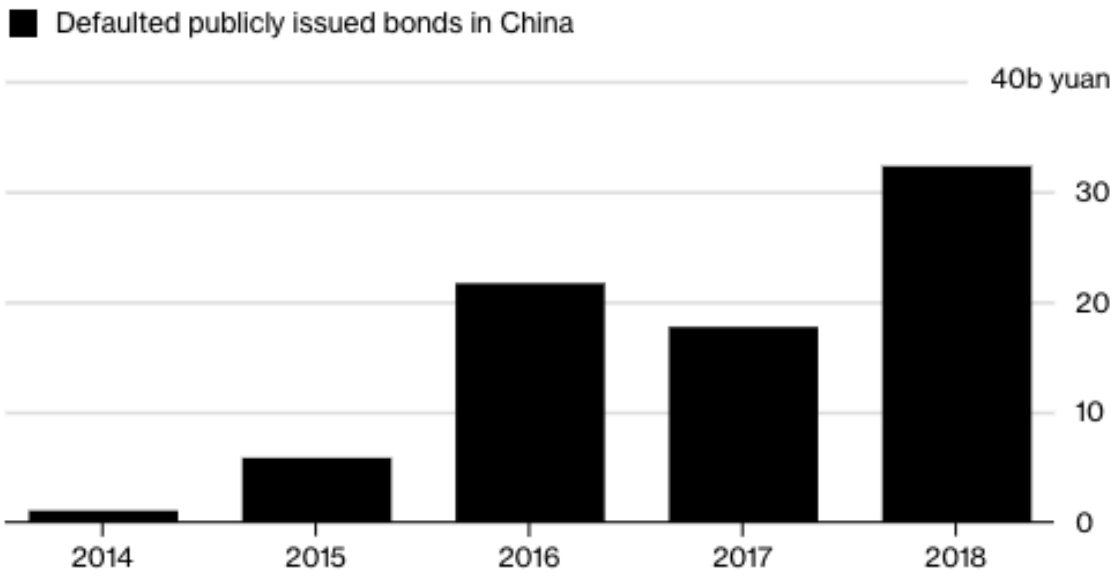
COMMENTS:



Source: Bloomberg

China's economy cools further as investment growth hits a record low

- China's economy shows signs of slowing, as the trade war with the U.S. threatens more pressure.
- Fixed-asset investment expanded by a less-than-expected 5.5 percent in January-July, while industrial output also undershot expectations.
- The government has pledged to ramp up spending on railways and roads while the central bank is pumping more money into the system.

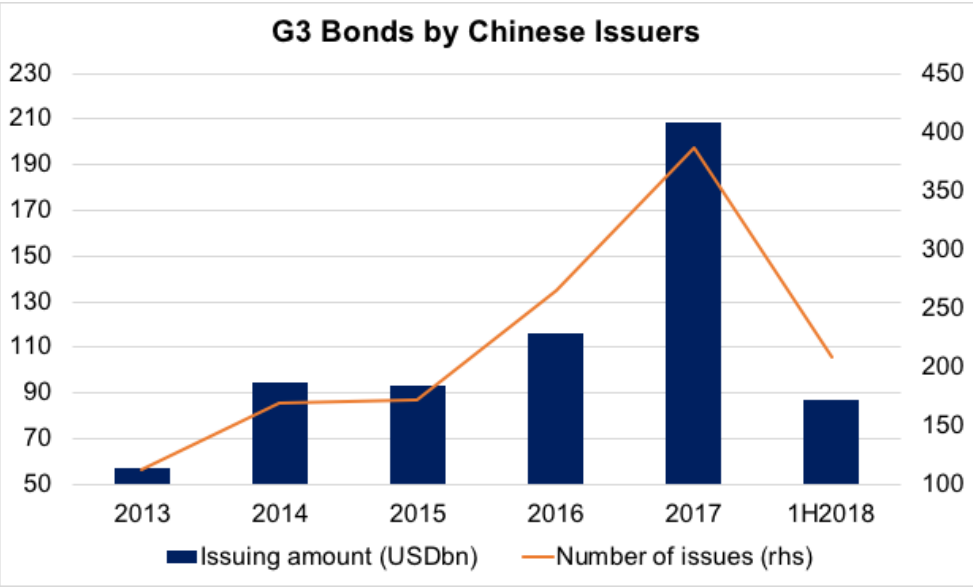
Chinese credit rating agency Dagong suspended after cash-for-ratings probe

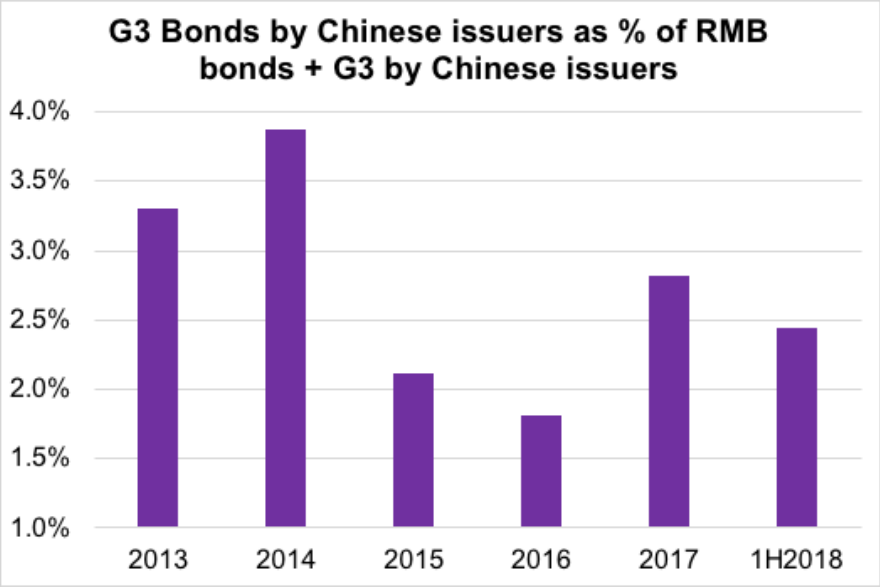
Watchdog orders firm to cease domestic services for a year after it was found to have compromised its independence by charging excessive fees

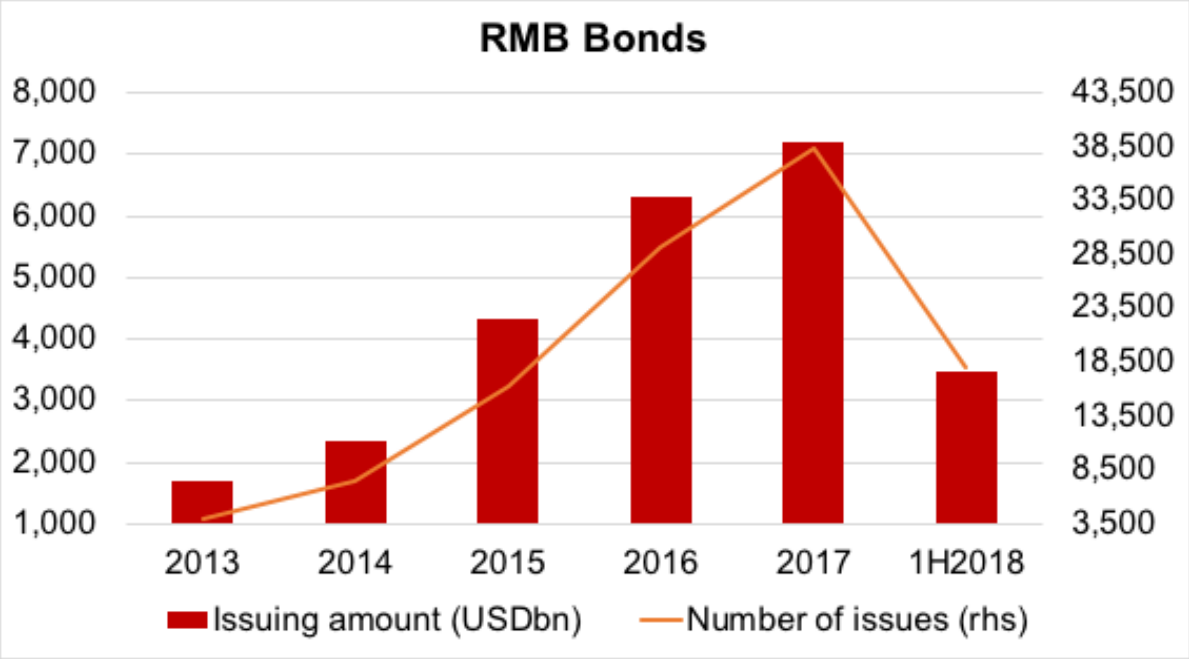
PUBLISHED : Saturday, 18 August, 2018, 5:34pm
UPDATED : Saturday, 18 August, 2018, 10:06pm

COMMENTS: 6

The Issuances







Source: Bloomberg, Wind

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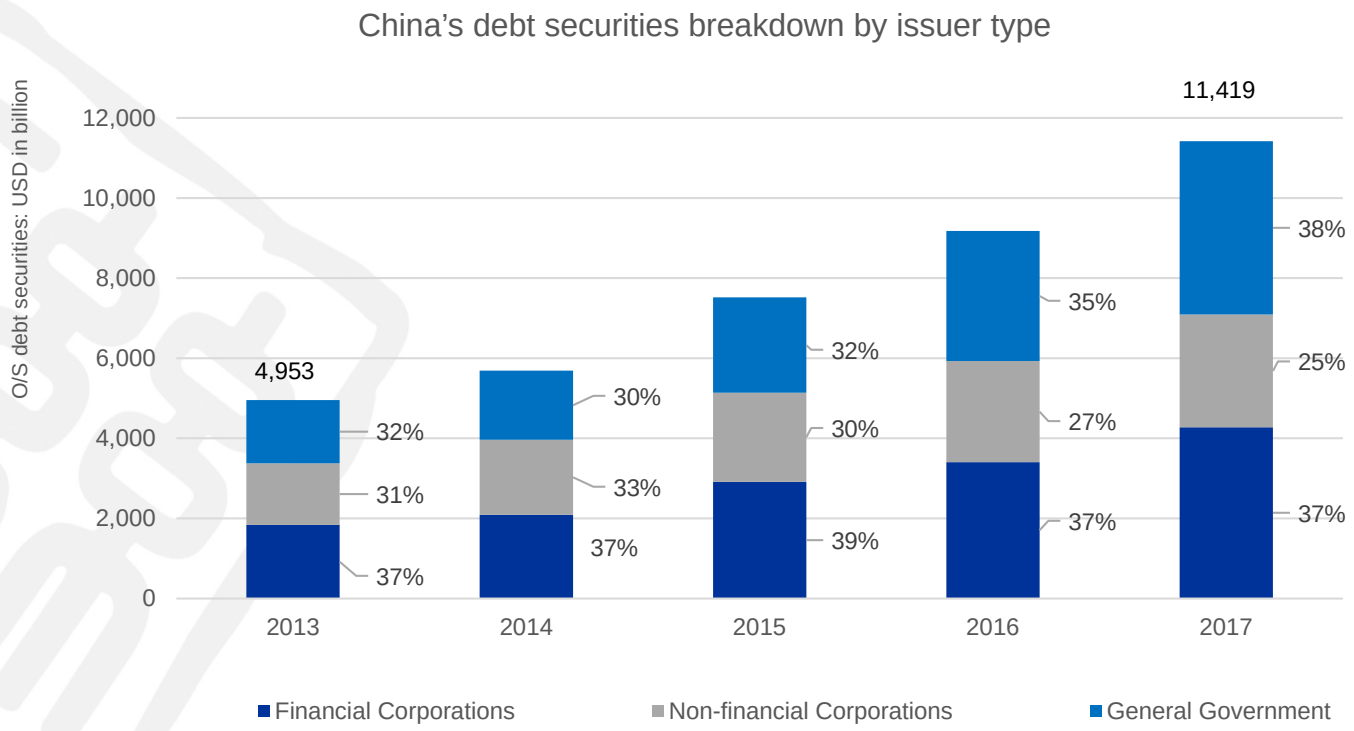
China's Bond Market Still has Growth Potential

1) Bond issuance volume doubled in five years:

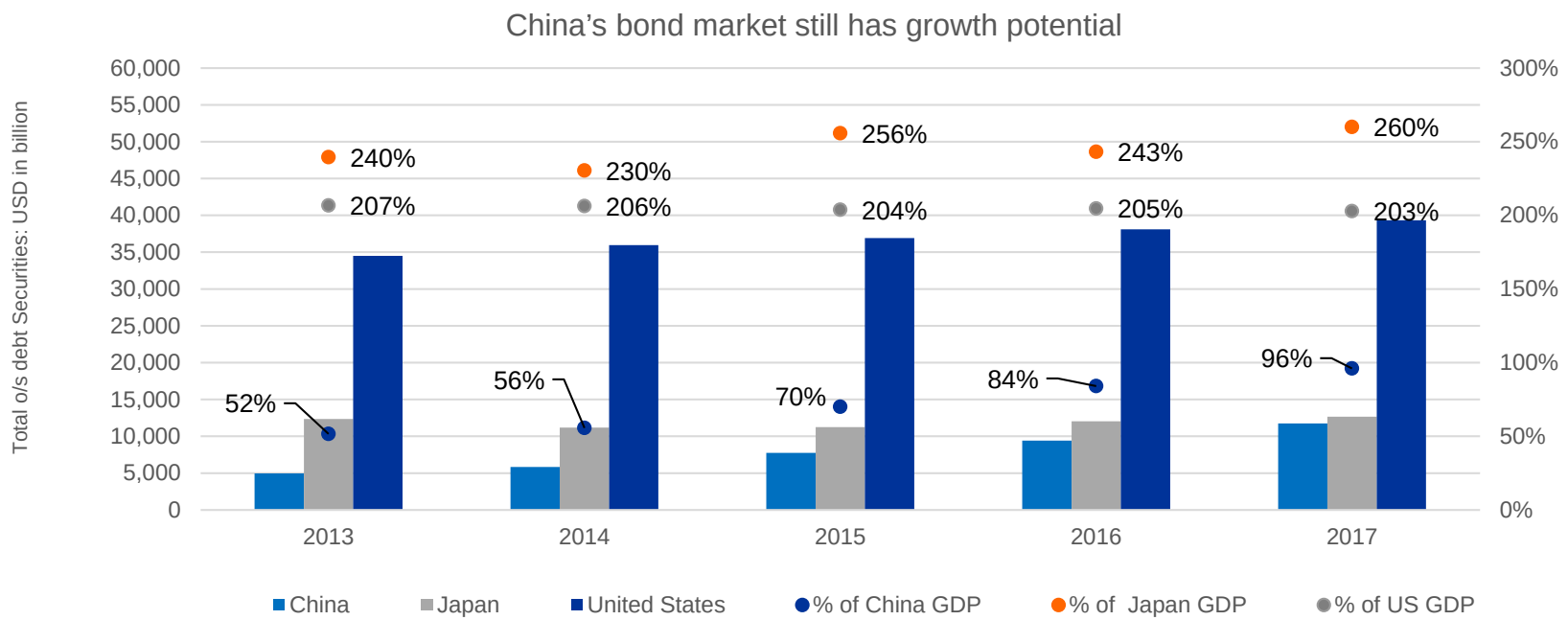


Source: BIS, Lianhe Global

China's Bond Market Still has Growth Potential

2) Issuance volume to GDP ratio is much lower compared to other developed markets

- Total outstanding debt securities volume to GDP:
  China: 96% in 2017; Japan: 260% in 2017; United States: 203% in 2017



Source: BIS, World Bank, Lianhe Global

Chinese Credit Rating Agencies

- Currently, there are 8 credit rating agencies in China, of which 7 operate on a traditional issuer paid fee model and only 1 (i.e. China Credit Rating) provides rating initiated by investors.
- The credit rating market is characterized by oligopoly with China Chengxin and China Lianhe dominate the landscape.

Major Rating Company	Accreditation in Interbank Market	Market Share in Interbank Market Issuance	Accreditation in Exchange Market	Market Share in Exchange Market Issuance
China Chengxin	Y	35%-40%	Y	35%-40%
Lianhe Ratings/United Ratings ("China Lianhe")	Y	30%-35%	Y	30%-35%
Dagong Global Credit Ratings	Y (suspended for 1 year since August 2018)	13%-15%	Y (suspended for 1 year since August 2018)	10%-13%
Shanghai Brilliance	Y	10%-13%	Y	13%-15%
Golden Credit Rating	Y	<5%	Y	<5%
Pengyuan	N	N/A	Y	<5%
Shanghai Far East	N	N/A	Y	<1%

Source: Lianhe China

Comparison of Onshore and Offshore Rating

- The table below lists the key difference between the onshore and offshore rating agencies

Key Difference	Onshore Rating	Offshore Rating
Scope of Rating Service	Limited to the Chinese bond market	Across the Globe
Regulatory Regime	China (PBOC, NDRC, CSRC, CBIRC, NAFMII)	Global: SEC, FSA, ESMA, SFC, and MAS (Singapore) etc.
Country factor	China's sovereign rating is implied/embedded and does not compare to other sovereigns	Take China's sovereign rating into consideration, and compare to other sovereigns
Regulatory control on bond issuance rating	Yes (AA- and higher)	No
Investment grade rating	AA- and above	BBB- and above
Rating Criteria: Major drivers	Asset size	Market position, profitability, coverage ratios, and liquidity

Recent Development of the Onshore Market

Quick cap for recent development of the onshore market

- The Chinese government opened the door to foreign rating companies in May 2017
  - Fitch sold its shares in China Lianhe Credit Rating in 2H2017
  - S&P and Fitch have ventured into the onshore rating business since 1H2018

- The Chinese government made efforts to streamline regulatory framework and increase market transparency to improve credit rating quality
  - Issued guidance to rely less on credit ratings for bond issuance:
    CSRC aims to delink bond issuance with credit rating assignment in the future
  - Consolidation of regulatory bodies -> the merge of CBRC and CIRC
  - Penalized Dagong Global Credit Rating for improprieties and suspended it from conduct rating for one year.

1H2018 Onshore Bond Ratings Overview

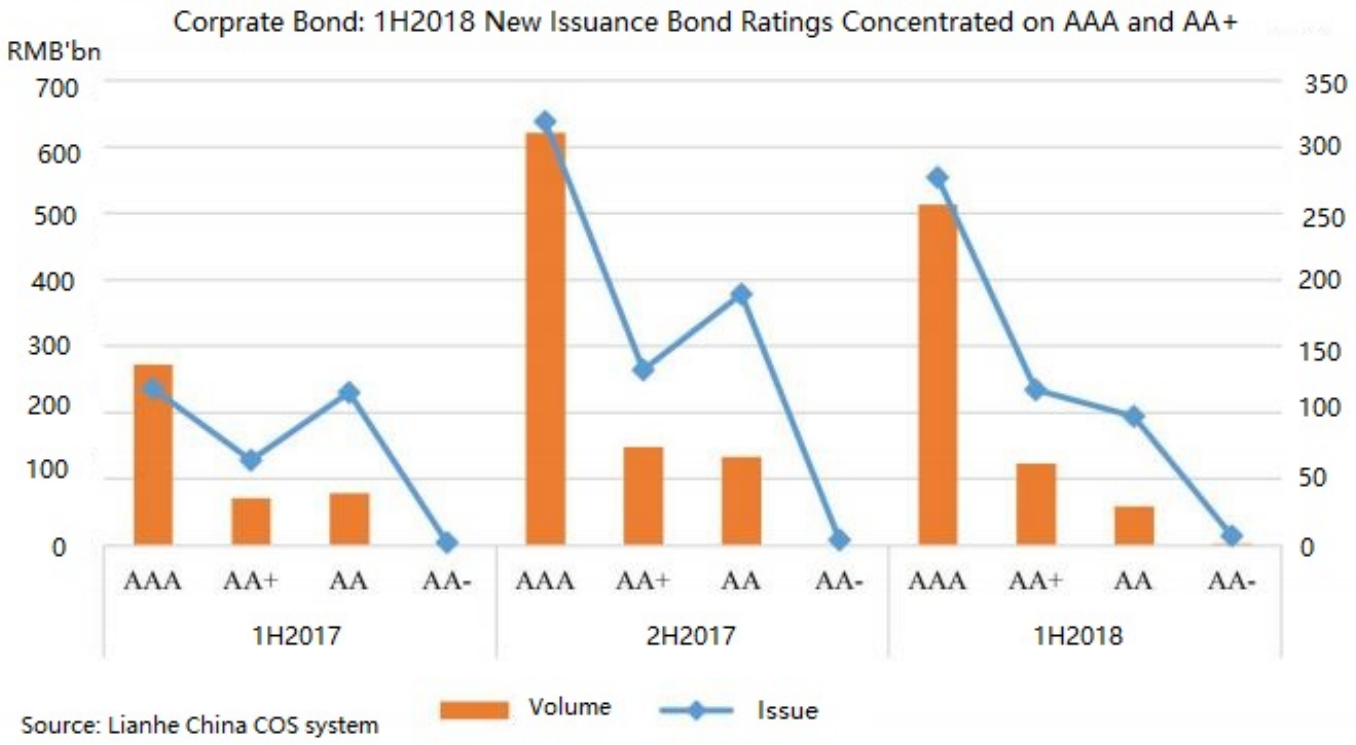
1. Corporate Bond New Issuance:

(1) New issuance ratings concentrated on AA+ and higher

Volume: AAA: 73.35%, AA+: 17.74%; No of Issue: AAA: 55.62% AA+: 23.49%

AAA issuers: 89% was from State-Owned Enterprises

84% was from Financial Services, Property, and Engineering companies

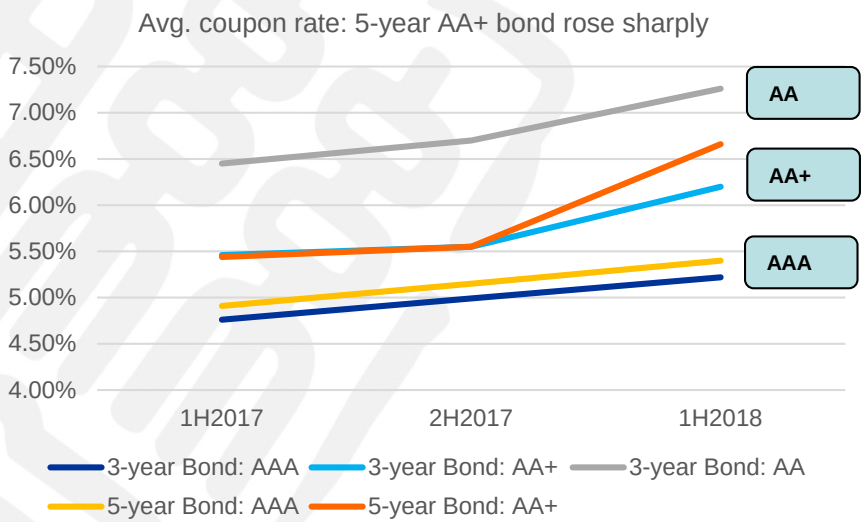


1H2018 Onshore Bond Ratings Overview

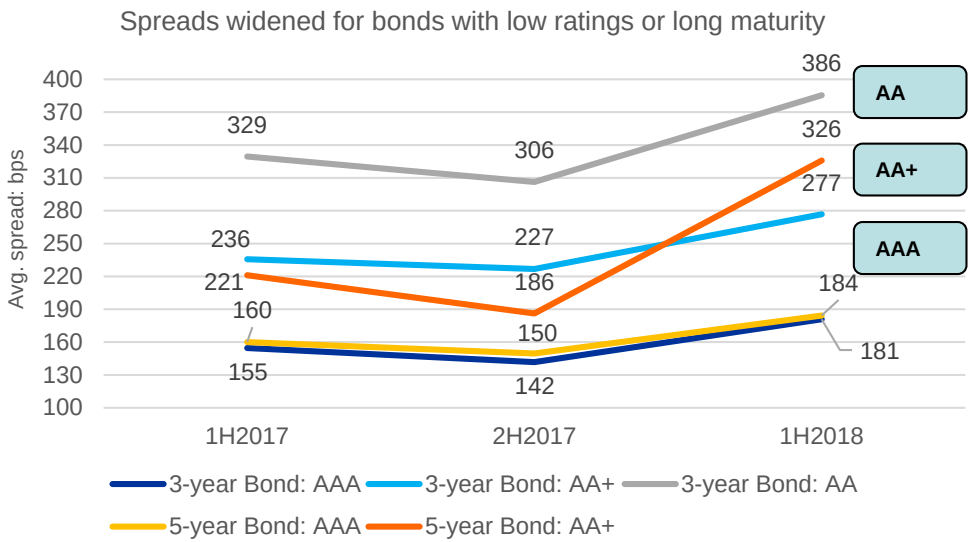
1. Corporate Bond New Issuance:
   (2) Coupon Rate: Higher than 1H2017 and 2H2017; 5-year AA+ rated bond yield rose sharply
   (3) Spread Movement: Widened most for bonds with low ratings or long maturity
   e.g. 3-year: AA bond; 5-year: AA+ bond

→ Onshore investors remained cautious on bonds with low ratings and long maturity

→ Coupon rate rose and spreads widened; Investors fretted about default and extension risk



Source: Lianhe China COS System



Source: Lianhe China COS System

1H2018 Onshore Bond Ratings Overview

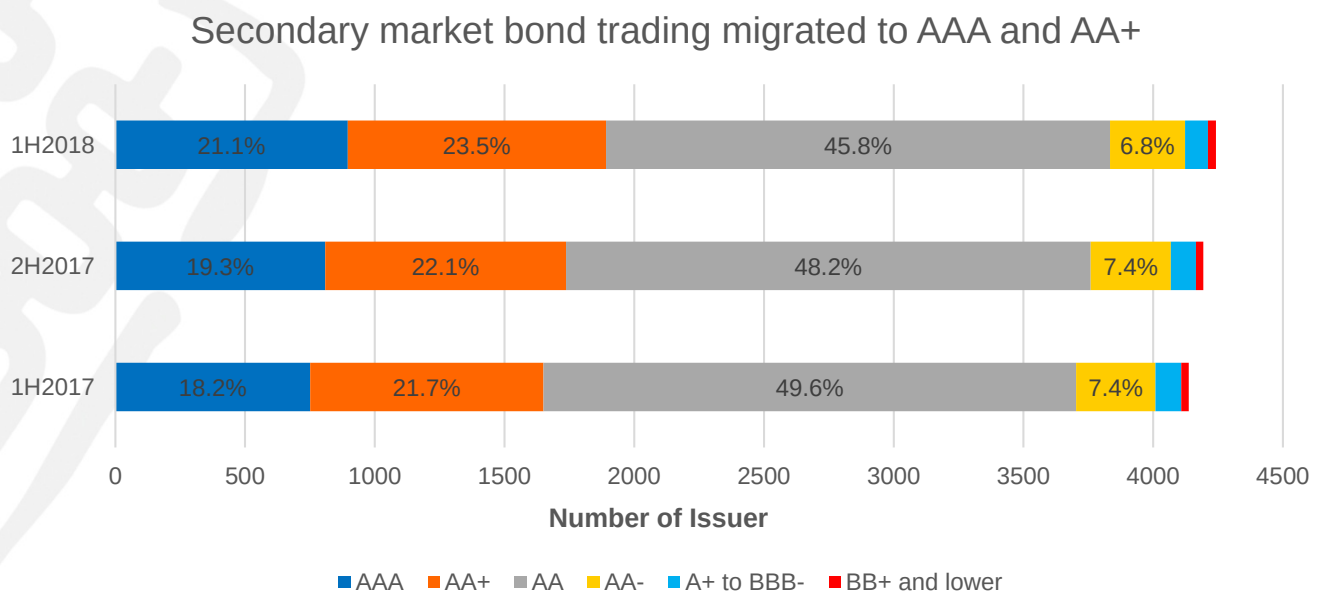
2. Secondary bond market trading trend:

(1) Number of issuers: AAA bond increased to 18.2% from 21.1%, AA bond increased to 21.7% from 23.5%

- Bonds with AAA and AA+ ratings became more active as refinancing channels and liquidity improved

  Revision of regulatory requirement to include AA+ for pledged bond repurchase at banks in 2017

- New issuance ratings concentrated on AAA and AA+ level



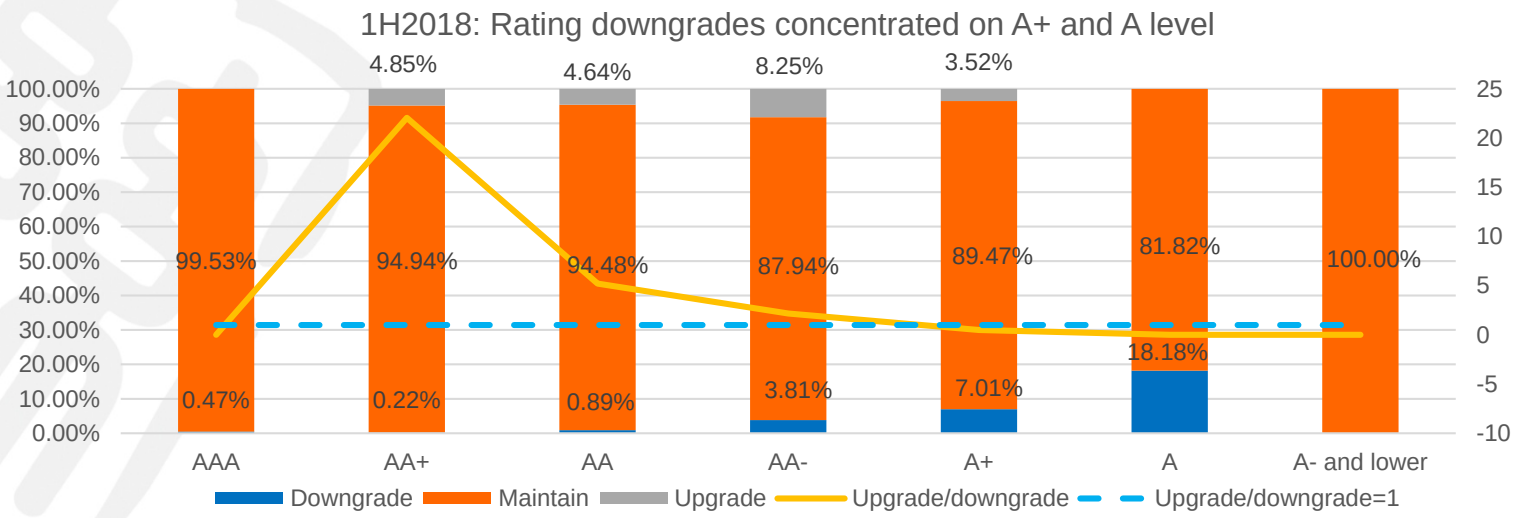
Source: Lianhe China COS system

1H2018 Onshore Bond Ratings Overview

2. Credit Migration Diverged

(2) Credit profiles of lowly rated issuers deteriorated while credit metrics improved for highly rated issuers in 1H2018

- Liquidity concern on AA- and lower rating issuers;
- Flight to quality: Onshore investors are in favour of bond with higher ratings e.g. AAA and AA+



Note: Downgrade in AAA cohort mainly resulted from Shanghai Huaxin's default in 1H2018.

Source: Lianhe China COS system

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Galvanize the Power of Growth

- SZSE's Fixed Income Market

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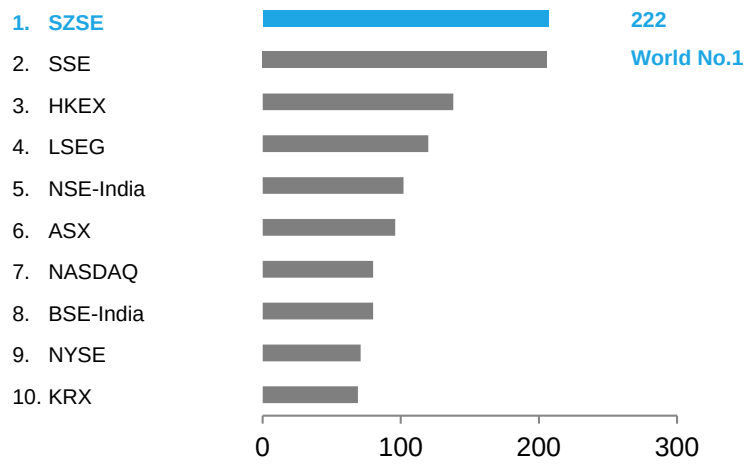
深圳证券交易所
SHENZHEN
STOCK EXCHANGE

Rankings among world exchanges

深圳证券交易所
SHENZHEN STOCK EXCHANGE

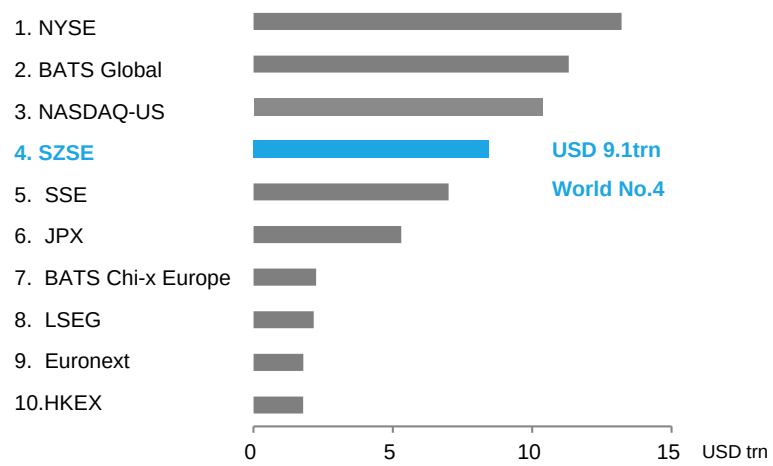
No. of IPO

January to December, 2017

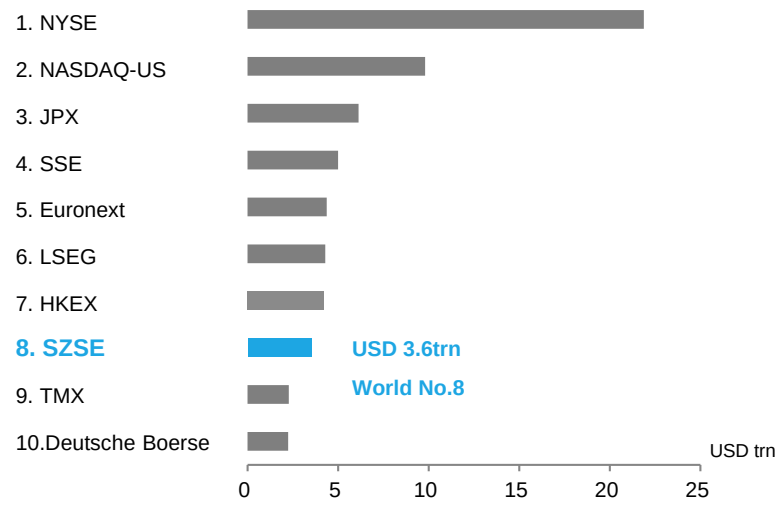


Trading Value

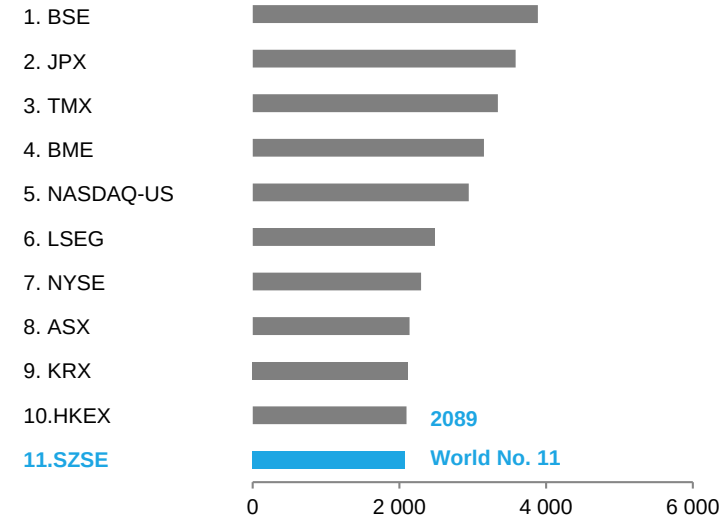
January to December, 2017



Market Cap



No. of Listed Companies



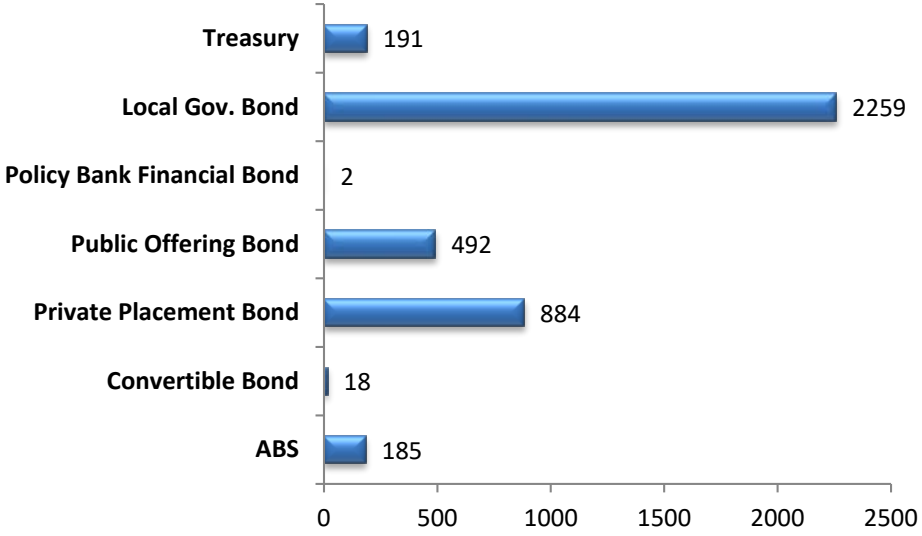
Source: WFE, as of December 2017

SZSE's Fixed Income Market

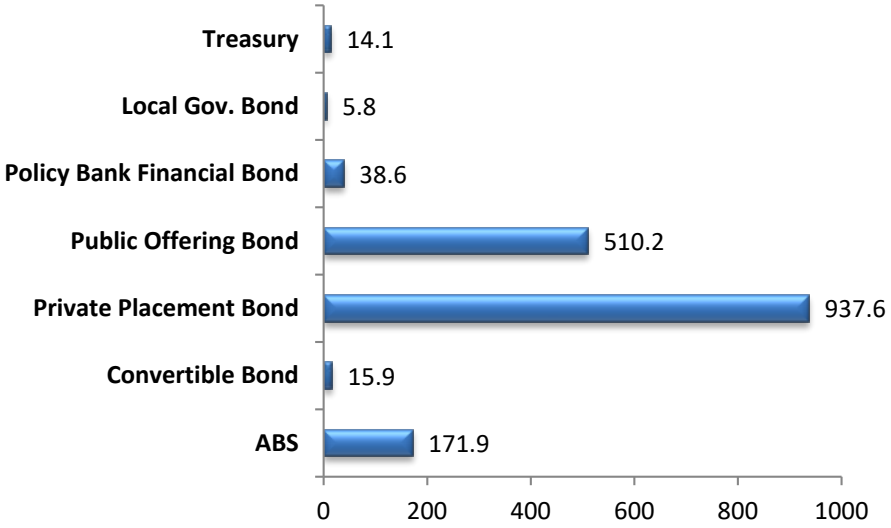
深圳证券交易所 SHENZHEN STOCK EXCHANGE

- In 2017, 561 fixed income products have been newly issued and raised RMB 755.6bn (USD 120bn). Debt financing has exceeded equity financing in fundraising value in SZSE.
- By the end of 2017, 4,031 fixed income products were listed in SZSE with a total outstanding value of RMB 1,694bn (USD 269bn).
- Various fixed income products can be listed and traded in the exchange market. Rates products can be issued by tender. Corporate bonds can be either traded by agreement or traded on the centralized quotation system.

No. of Listed Bonds: 4,031



Outstanding Amount: 1,694 (RMB bn)



Source: SZSE, as of 31 Dec. 2017

Characteristics Of Exchange Bond Market

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Offer Hybrid Products
exchangeable bonds and convertible bonds

Provide Efficient Refinancing Channels
for all market issuers

Diversified Investor Base
Differentiated investor base including retail investors

Unique Trading Platform
Centralized Quotation System for listed bonds and pledged repo

Belt and Road Bond

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On 2nd March 2018, CSRC through the Shenzhen Stock Exchange promulgated an official set of rules for onshore and offshore entities to issue bonds in the Exchange Market with a Belt & Road theme. The latest set of rules provides exchange issuers with linkage to Belt & Road Initiative with maximum flexibility.

1 B&R Sovereign Bond

- Panda Bonds issued by government or government related entities on the Belt & Road countries

2 B&R Panda Bond

- Panda Bonds issued by corporates and financial institutions from the Belt and Road countries.
- Panda bonds issued by corporates (not located in B&R countries) deploy proceeds on B&R projects, repayment of B&R loans or develop B&R business.

B&R Bond

3 Domestic B&R Bond

- Domestic companies deploy proceeds on B&R projects, repayment of B&R loans or develop B&R business.

Note: If the underlying assets of an ABS product generated from B&R projects, this ABS product will be labeled as a B&R ABS.

CLP Group

August 2018

Francis Ho
https://www.clpgroup.com

Energy for Brighter Tomorrows

Responsible Energy Provider

深圳证券交易所
SHENZHEN
STOCK EXCHANGE

Business Objectives

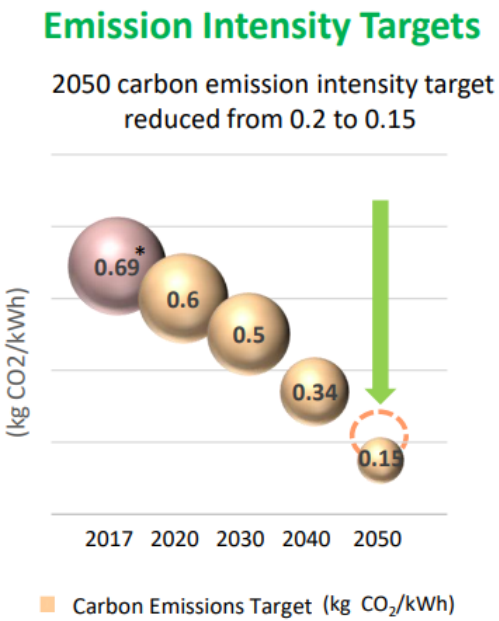
- To be the leading responsible energy provider in the Asia-Pacific region, from one generation to the next
- Aims to power the sustainable development of communities in which we operate by providing reliable and safe electricity to our customers at a reasonable price with minimum impact to the environment

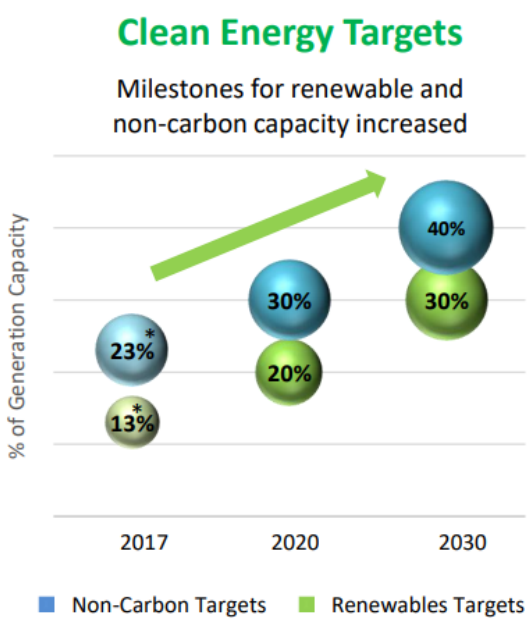
Climate Vision

- Firstly published in 2007. Revised in 2018 with further tightening of carbon intensity reduction target to 85% from 2007 level (2007 baseline 0.84 kg CO_2/kWh, 2050 target 0.15 kg CO_2/kWh
- Renewable energy target of 30% and a non-carbon emitting target of 40% by 2030

Climate Action Finance Framework (CAFF)

- Launched in July 2017, sets out a holistic approach for us to provide more options for financing the transition towards a low carbon energy future by tapping into a fast-expanding community green and ESG investors





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CAFF

Use of Proceeds

Project eligibility follows a robust, transparent framework and clear guidelines

Project Evaluation

Approved by Climate Action Finance Committee consisting of senior management from different functions

Management of Proceeds

Proceeds of each Climate Action Bond are credited to dedicated bank accounts / deposits

Reporting

Climate Action Finance Report issued annually and assured by independent third party

Energy Transition / Emission Reduction Bonds

- New gas-fired power plants which will result in carbon emissions fewer than 450g CO_2 / kWh at baseload

New Energy Bonds

- Renewable energy
- Energy efficiency
- Low carbon transport infrastructure

Climate Vision 2050

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Key Business Units & Credit Ratings

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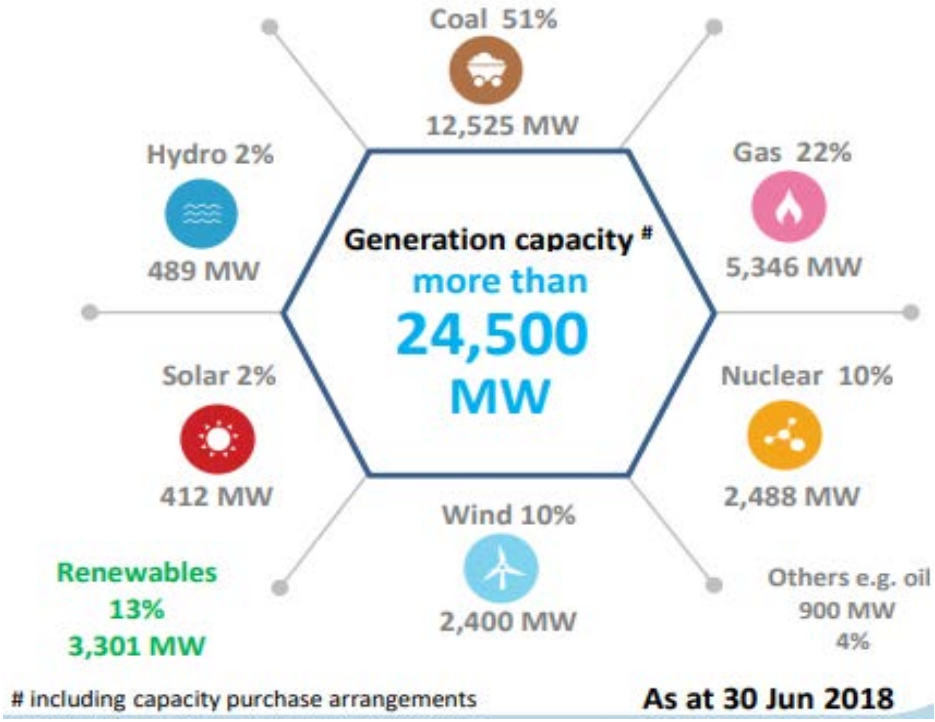
Key Business Units

- Hong Kong: vertically-integrated busi under Scheme of Control
- Australia: integrated energy provide south-eastern region
- Mainland China, India: transforming renewables and nuclear-focused investm
- SEA & Taiwan: selected investments joint venture partners

Credit ratings

- Investment grade S&P and Moody's credit ratings across group companies
  - CLP Holdings: S&P A (stable) / Moody's A2 (stable)
  - CLP Power: S&P A+ (stable) / Moody's A1 (stable)
  - CAPCO: S&P AA- (stable) / Moody's A1 (stable)
  - EnergyAustralia: S&P BBB+ (stable)



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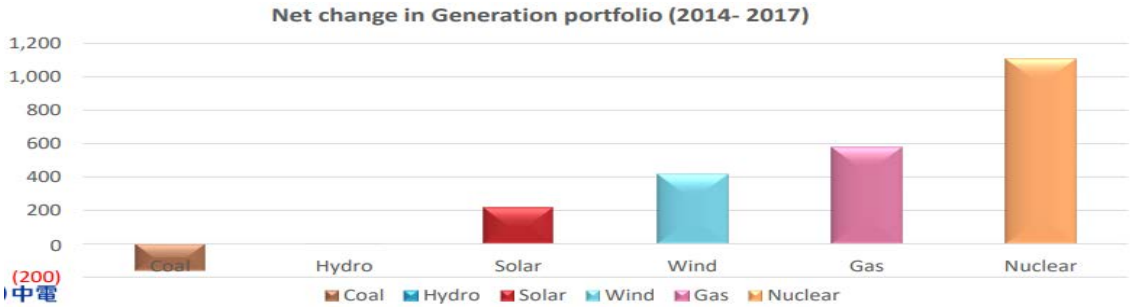
Growing Green & Non-Thermal Portfolio

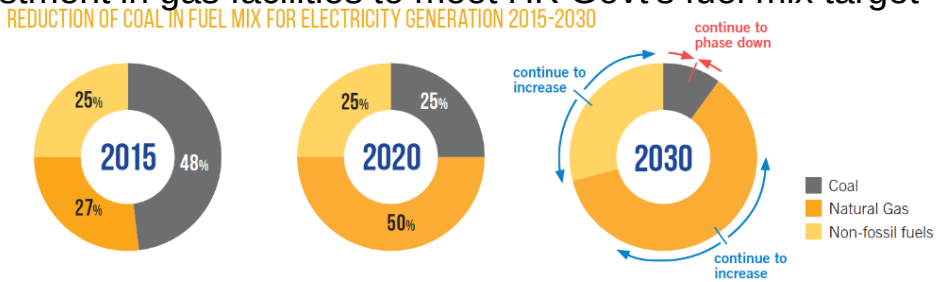
深圳证券交易所 SHENZHEN STOCK EXCHANGE

Progressive increase in green and non-thermal assets

- Completed acquisition of 17% China Yangjiang nuclear project, stable growth of solar and wind assets, retire coal-fired units at life end

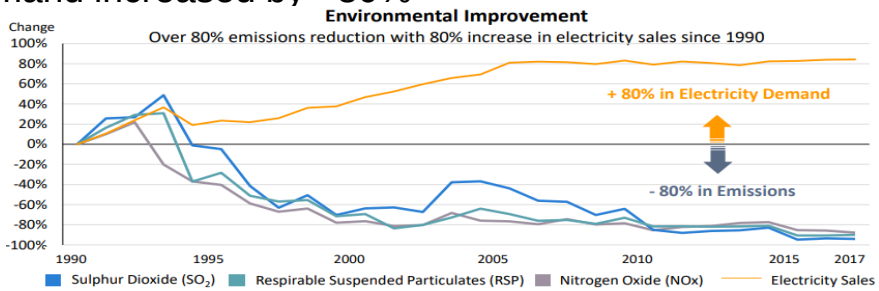


- Further investment in gas facilities to meet HK Govt's fuel mix target



Emission reduction over years

- Prominent 80% emission reductions for HK business as compared to 1990 whilst at the same time electricity demand increased by ~80%



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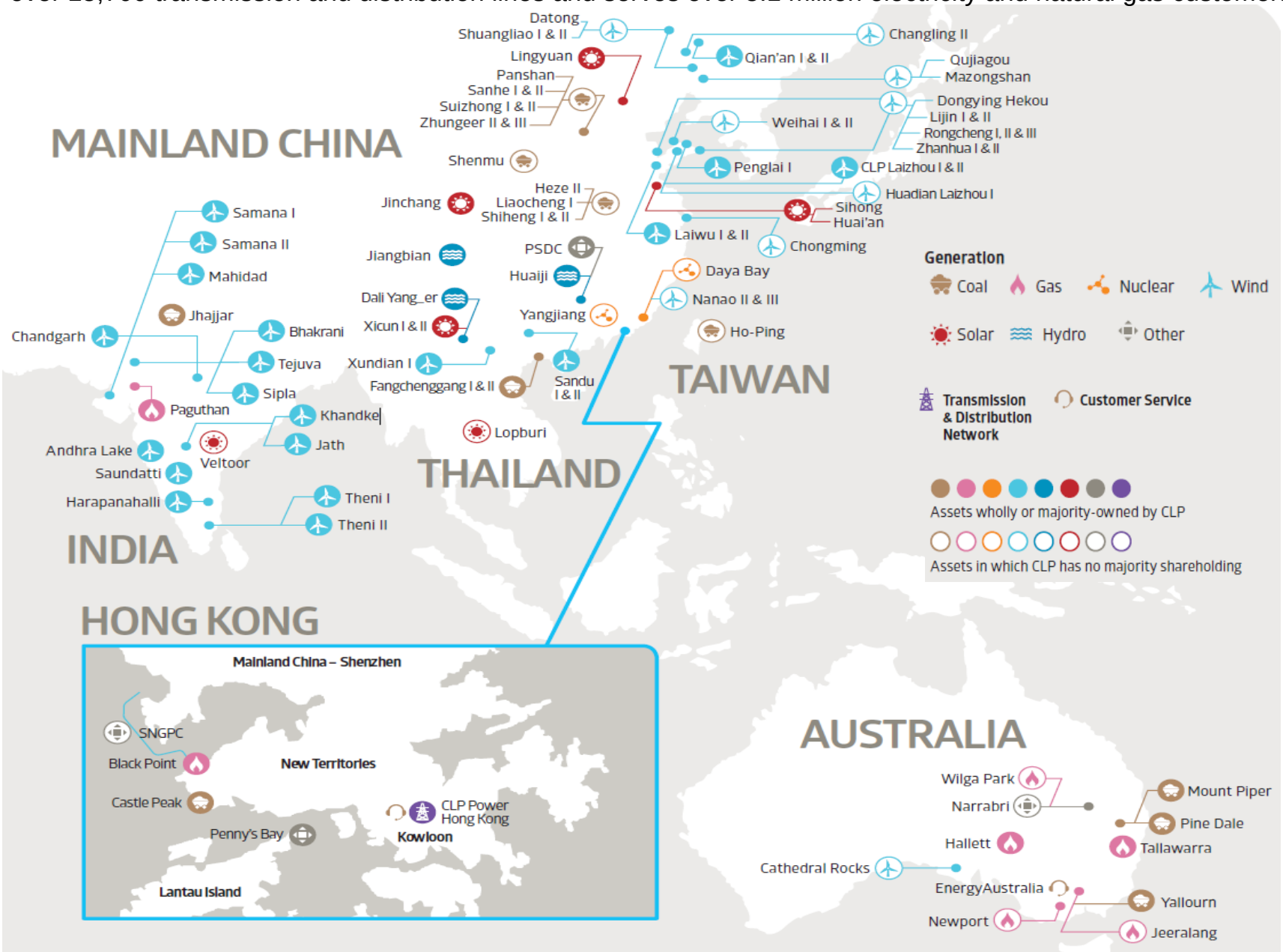
Strong Presence in Asia Pacific

CLP has 24,561MW equity generation and capacity purchase assets using six different energy sources, over 15,700 transmission and distribution lines and serves over 5.1 million electricity and natural gas customers

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