2022 Chinese Offshore USD Bond Investor Survey Report (Part Two)

The 2022 Chinese offshore USD bond investor survey is based on the data and feedback collected from 31 Chinese offshore USD bond investors of which 25 are based in Hong Kong and 6 are based outside HK. The survey took place in January and February 2022. This survey includes 4 parts: General Questions, Views on Macroeconomy, Views on Chinese Offshore USD Bond Market and the Investment Strategy in Chinese Offshore USD Bond market.

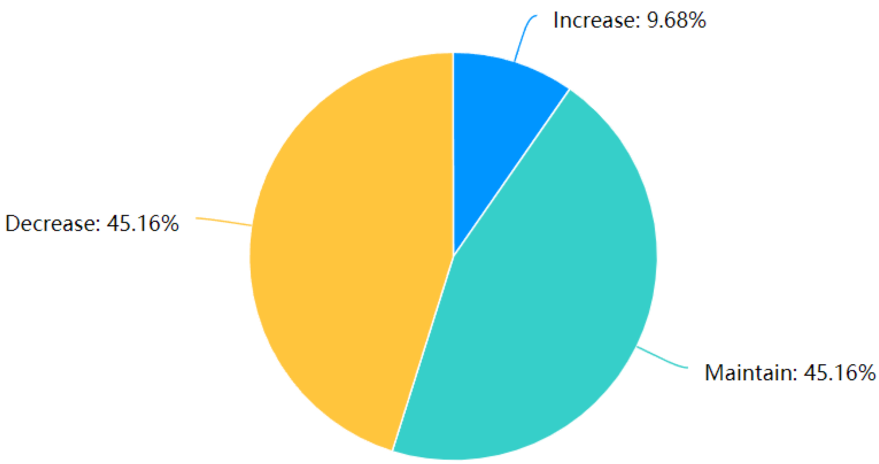
We have published the first part of the survey results on the Views on Macroeconomy, Views on Chinese Offshore USD Bond Market in the **2022 Chinese Offshore USD Bond Investor Survey Report (Part One)**. In this report, we have summarized the survey results on the Views on the Investment Strategy in Chinese Offshore USD Bond market.

Part D: Investment Strategy in Chinese Offshore USD Bond market

Very few respondents (9.7%) planned to increase their investment portfolios' current durations. 45.2% would decrease the duration of their investment portfolio, and the same number of them would maintain the duration of their investment portfolio in the coming 12 months (see Exhibit 1 below).

EXHIBIT 1:

In the following 12 months, how will you adjust the duration of your investment portfolio?

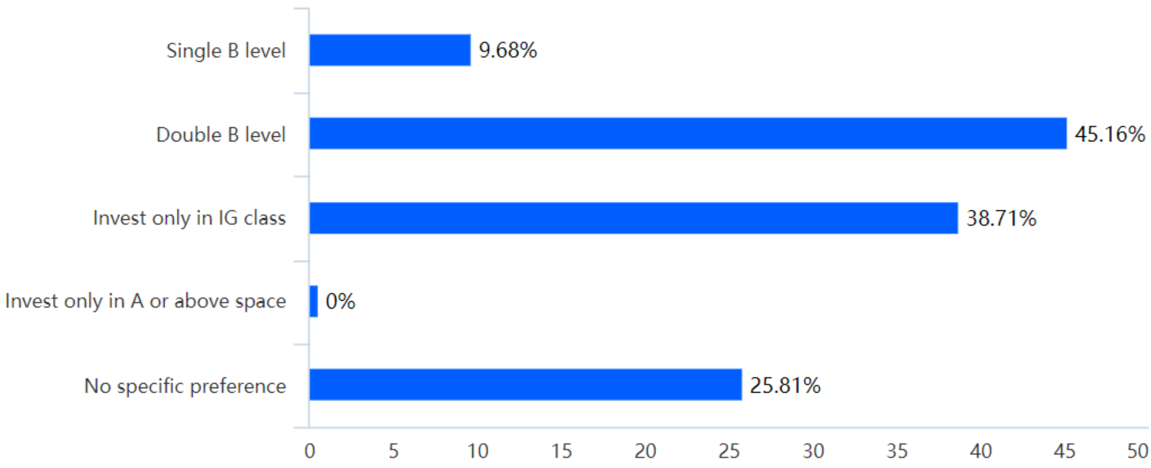


Source: Lianhe Global

Less than 10% of the respondents would participate in single B level bonds in the coming 12 months. 45.2% of the respondents would participate in double B level bonds and at the same time 38.7% of the respondents would participate in investment grade (IG) bonds only. 25.8% of them have no specific preference in the coming 12 months (see Exhibit 2 below).

EXHIBIT 2:

In the following 12 months, do you have any investment preference in terms of the ratings? (Multiple answers)

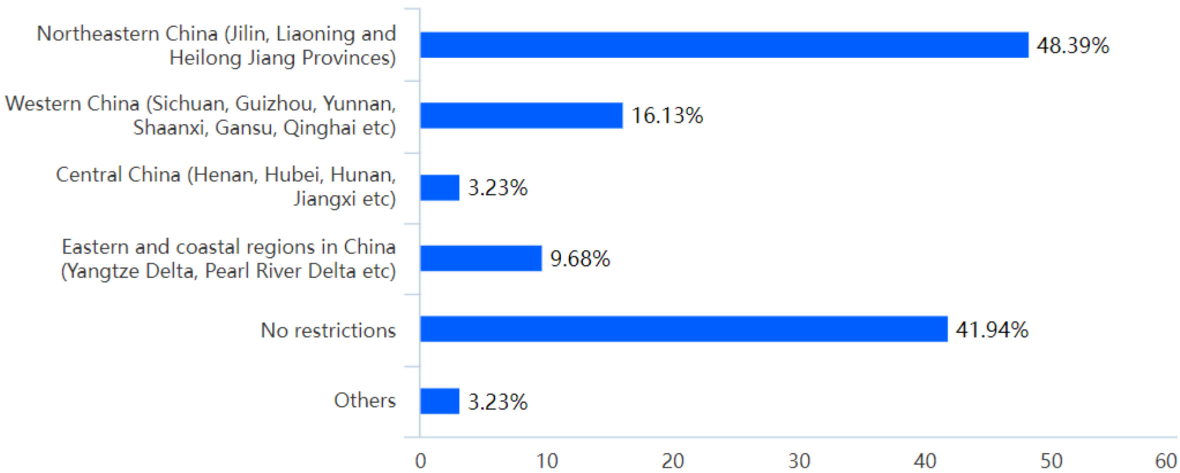


Source: Lianhe Global

Most of the respondents said they would not invest in certain areas of China where the bond issuers are located: 48.4% of them would not consider the Northeastern region, and 16.1% would not consider the Western region in China. But many of them (41.9%) have no investment restrictions in terms of geographic locations. One respondent mentioned explicitly that Tianjin would not be considered (see Exhibit 3 below).

EXHIBIT 3:

In the following 12 months, are there any regions in China that you will not consider investing? (Multiple answers)

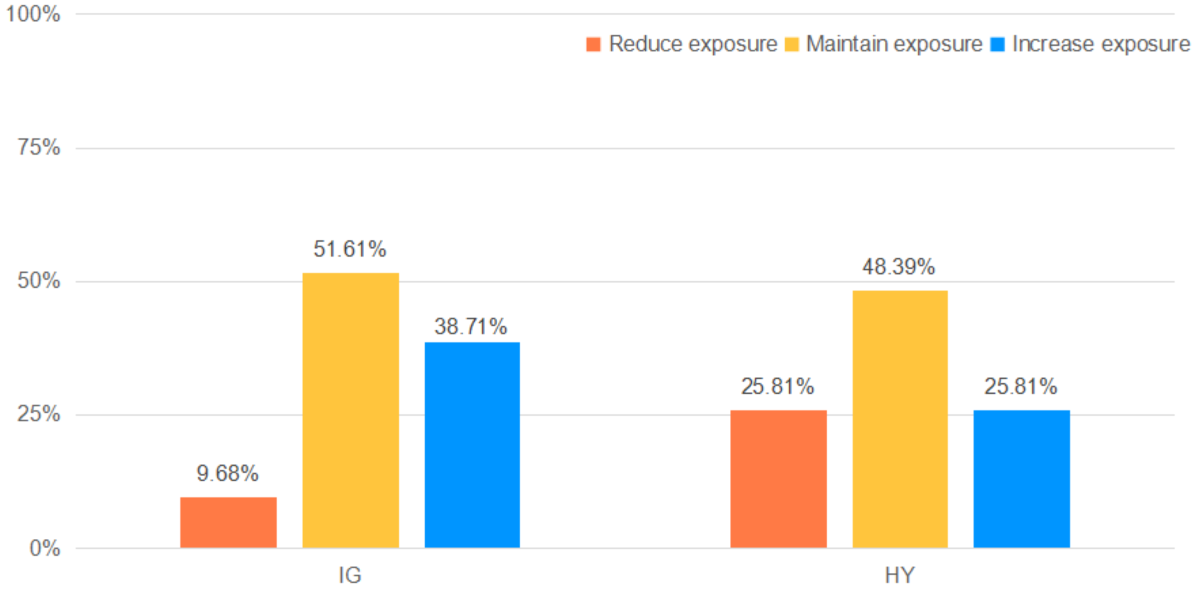


Source: Lianhe Global

The majority of the respondents intended to maintain their exposures in both IG and HY grade bonds in 2022. Some respondents intended to increase their exposures in IG grade bonds (see Exhibit 4 below).

EXHIBIT 4:

In the following 12 months, you will most likely:

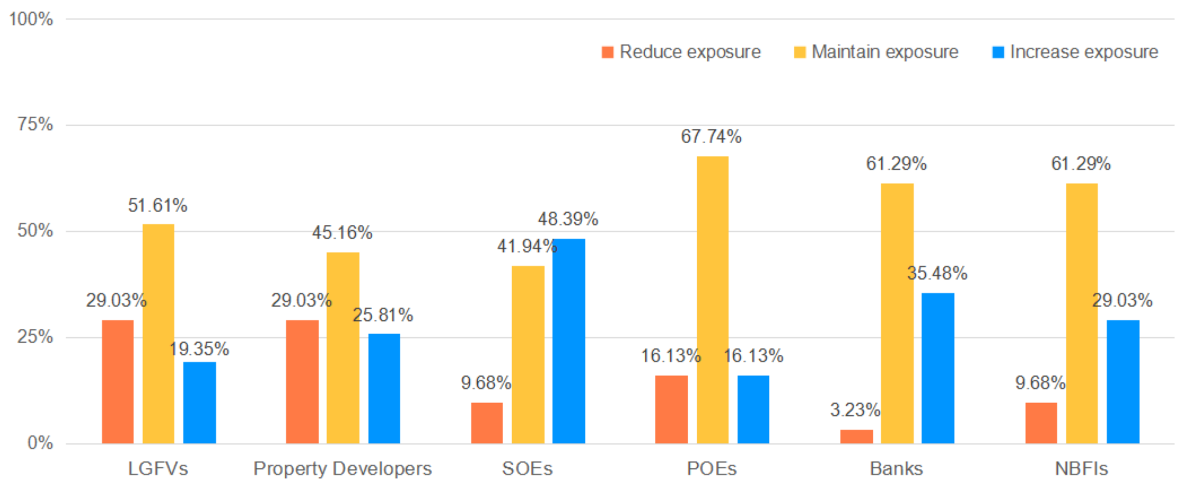


Source: Lianhe Global

For IG bonds, respondents in general planned to maintain their exposures. Only a few respondents planned to reduce their exposure in SOEs, Banks and NBFIs. Most of them would like to increase SOEs exposure in the next 12 months (see Exhibit 5 below).

EXHIBIT 5:

In the following 12 months, for IG bonds, you will most likely:

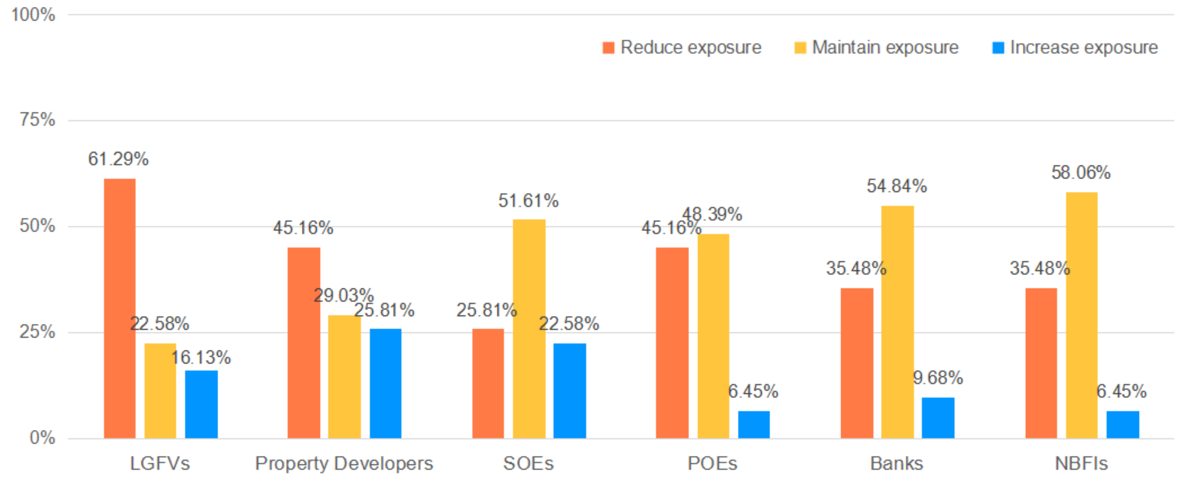


Source: Lianhe Global

For HY bonds, the majority of respondents intended not to increase their exposures in all sectors. For the LGFV and property sectors, most of them intended to reduce their exposures (see Exhibit 6 below).

EXHIBIT 6:

In the following 12 months, for HY bonds, you will most likely:

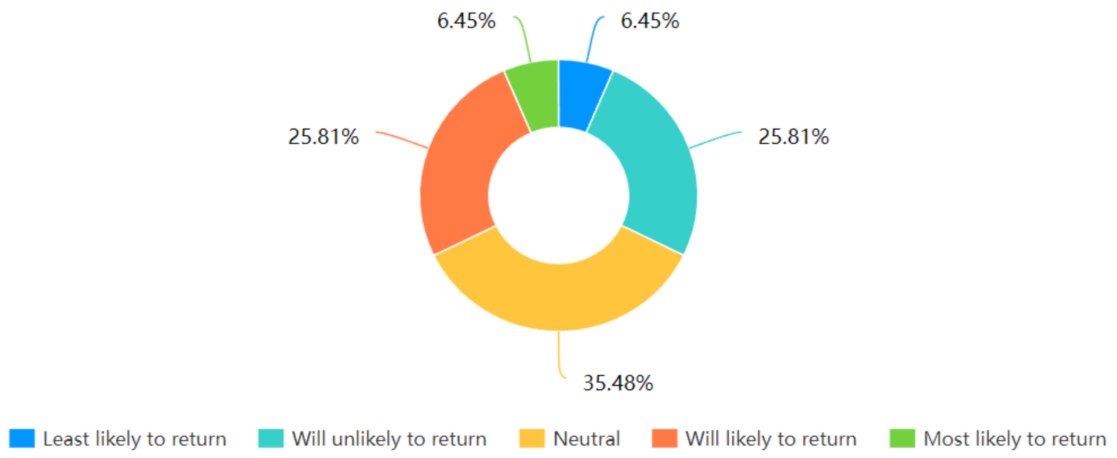


Source: Lianhe Global

Given the series of defaults in the property sector, respondents were asked if they would like to return to the China property HY USD bond market. The responses collected to this question are very symmetrical. There are the same number of respondents likely and unlikely returning to the market. Majority of them held a neutral view about whether they would come back to the market (See Exhibit 7 below).

EXHIBIT 7:

In light of the defaults in the Chinese property sector, some investors exit their positions in the China property HY USD bond market. What is the likelihood for you to return to the China property HY USD bond market?

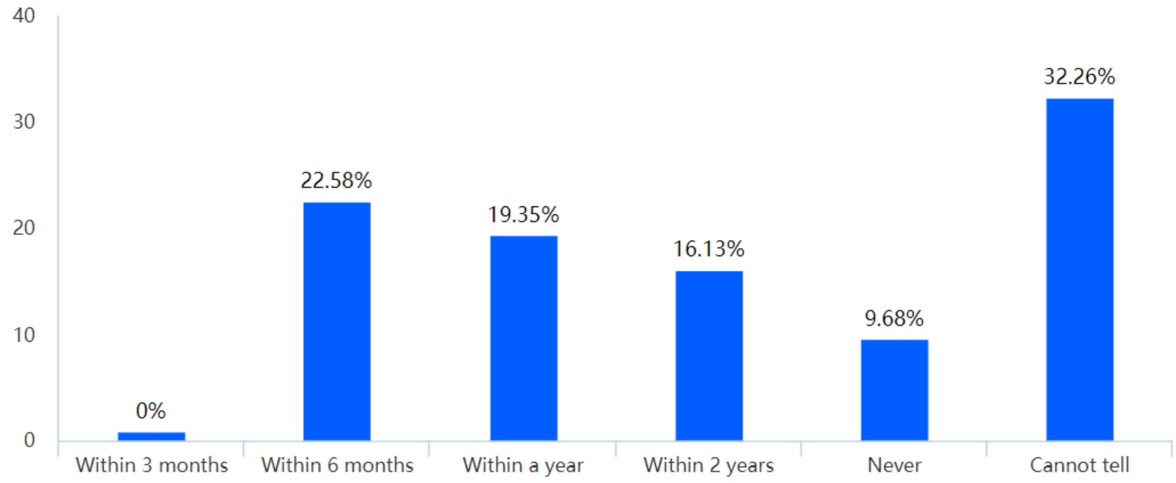


Source: Lianhe Global

None of the respondents would see themselves returning to the China property HY USD bond market in short term (i.e. within 3 months). But 41.9% of them would return to the market within a year. Note that quite a number of them (32.3%) are unsure about when to return (See Exhibit 8 below).

EXHIBIT 8:

When will you see yourself returning to the China property HY USD bond market?

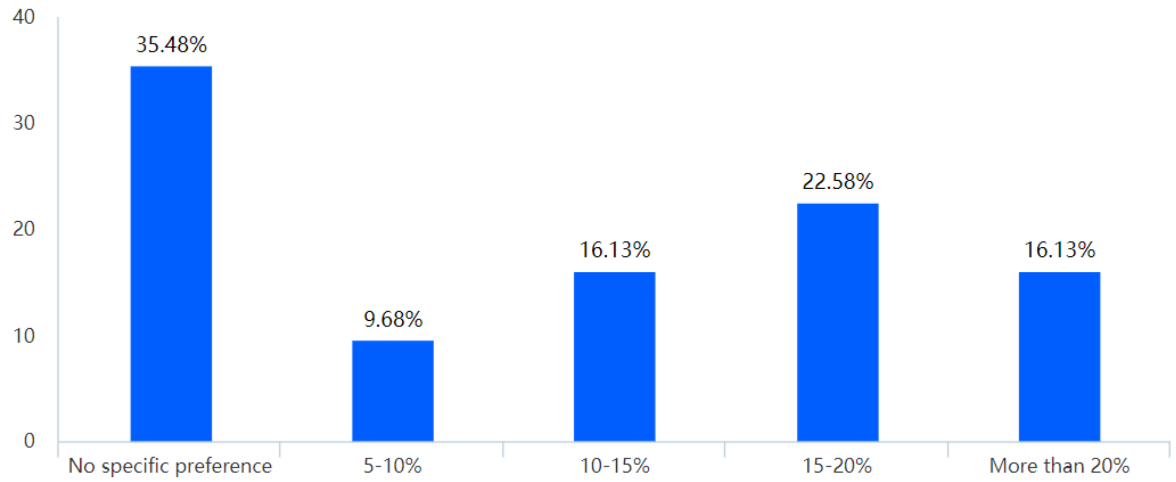


Source: Lianhe Global

Less than 10% of the respondents would expect a moderately low annual return of 5-10% for themselves to return to the China property HY USD bond market. It makes sense that 54.8% of them would prefer a high rate of return (more than 10%). However, a significant number of them had no specific preference on the required return (See Exhibit 9 below).

EXHIBIT 9:

What would be the expected annual return required for you to return to the China property HY USD bond market?

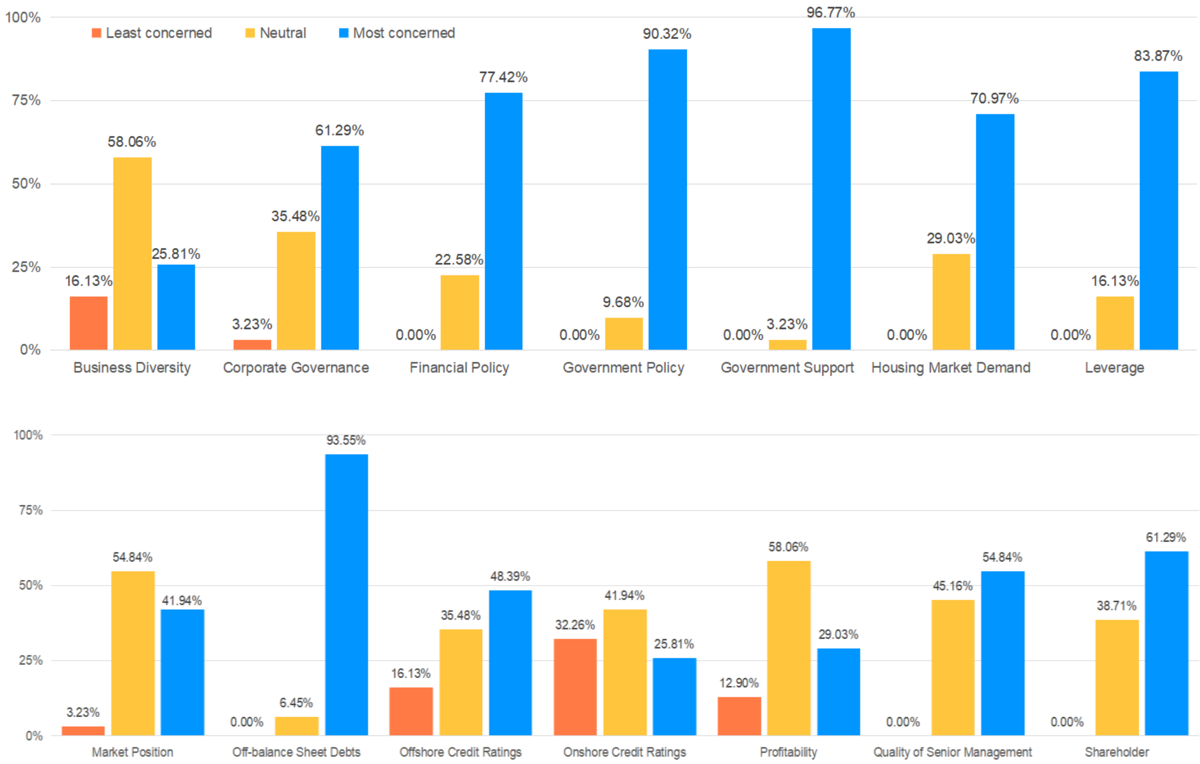


Source: Lianhe Global

In terms of the significant factors when investors consider investing in property corporate bonds, the majority of respondents were concerned about corporate governance, financial policy, government policy, government support, housing market demand, leverage, off-balance sheet debts, offshore credit ratings, quality of management and shareholder. Most of the respondents took a neutral view on business diversity, market position, onshore credit ratings and profitability. One respondent mentioned that the listing status of the company is also a concern (see Exhibit 10 below).

EXHIBIT 10:

How important are the following factors when you consider investing in the bonds of Chinese property companies?

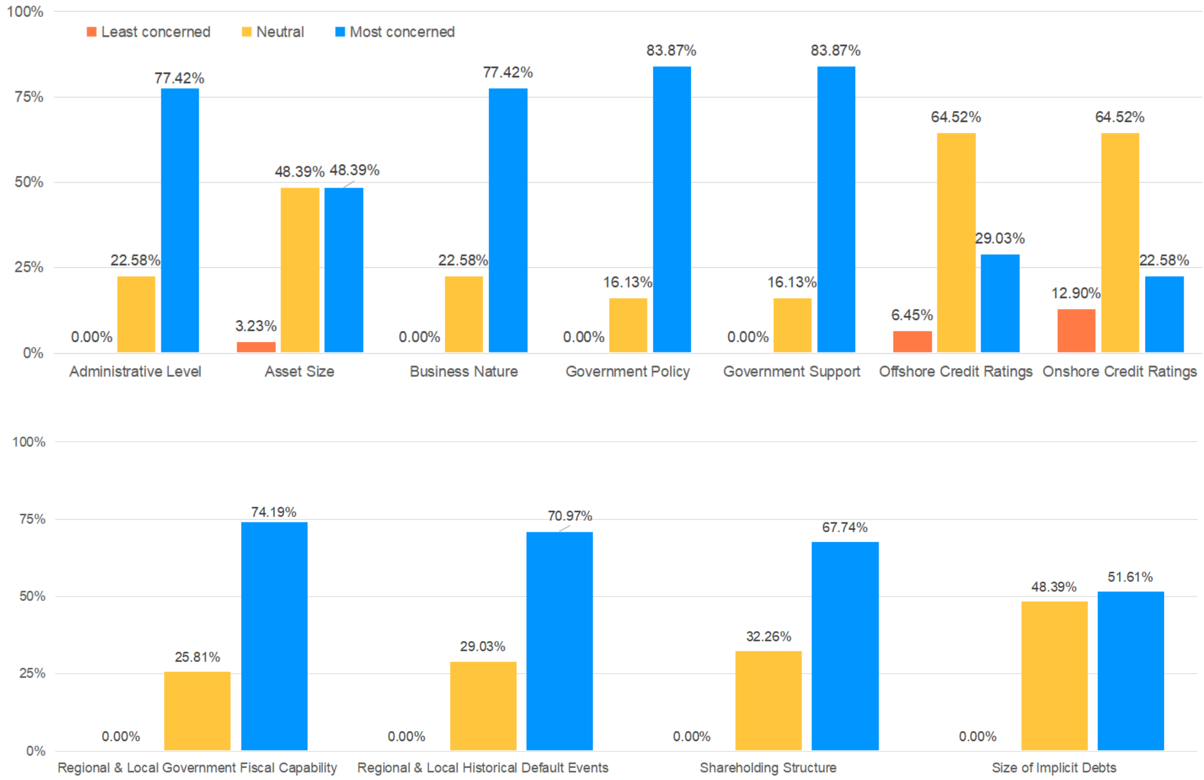


Source: Lianhe Global

In terms of the significant factors when investors consider investing in LGFV bonds, the majority of respondents were concerned about administrative level, business nature, government policy, government support, regional & local government fiscal capability, regional & local historical default events, shareholder structure, and size of implicit debts. For the asset size of the LGFVs, about half of the respondents were concerned but half of the respondents were neutral. Many of them held a neutral view on offshore and onshore credit ratings (see Exhibit 11 below).

EXHIBIT 11:

How important are the following factors when you consider investing in the bonds of LGFV companies?



Source: Lianhe Global

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