Non-Rating Commentary
31 March 2023

2023 Chinese Offshore USD Bond Investor Survey Report (Part Two)

The 2023 Chinese offshore USD bond investor survey is based on the data and feedback collected from 32 Chinese offshore USD bond investors of which 23 are based in Hong Kong and 9 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.

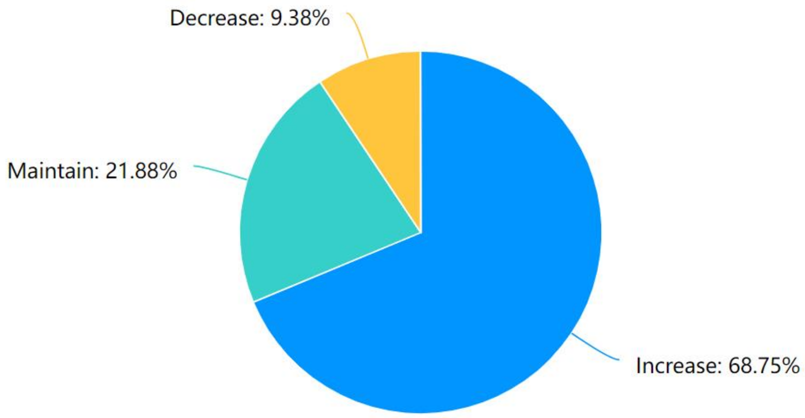
We have published the first part of the survey results on the Views on Macroeconomy, Views on Chinese Offshore USD Bond Market in the **2023 Chinese Offshore USD Bond Investor Survey Report (Part One)**. In this report, we have summarized the survey results on the Views on the Investment Strategy in Chinese Offshore USD Bond market.

Part D: Investment Strategy in Chinese Offshore USD Bond market

Very few respondents (9.38%) planned to decrease their investment portfolios' current durations. 68.8% would increase the duration of their investment portfolio, and 21.9% 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?

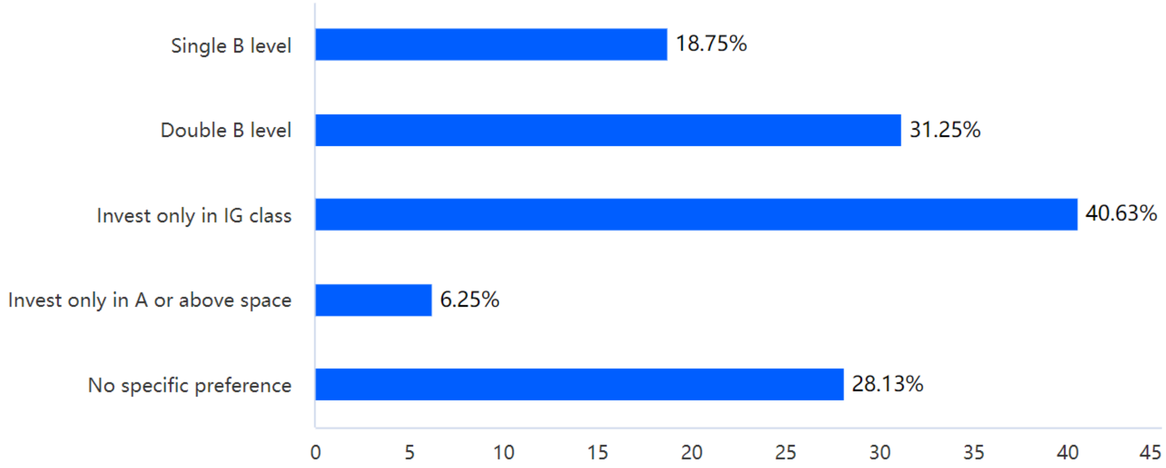


Source: Lianhe Global

18.8% of the respondents would participate in single B level bonds in the coming 12 months. 31.3% of the respondents would participate in double B level bonds and at the same time 40.6% of the respondents would participate in investment grade (IG) bonds only. 28.1% 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)

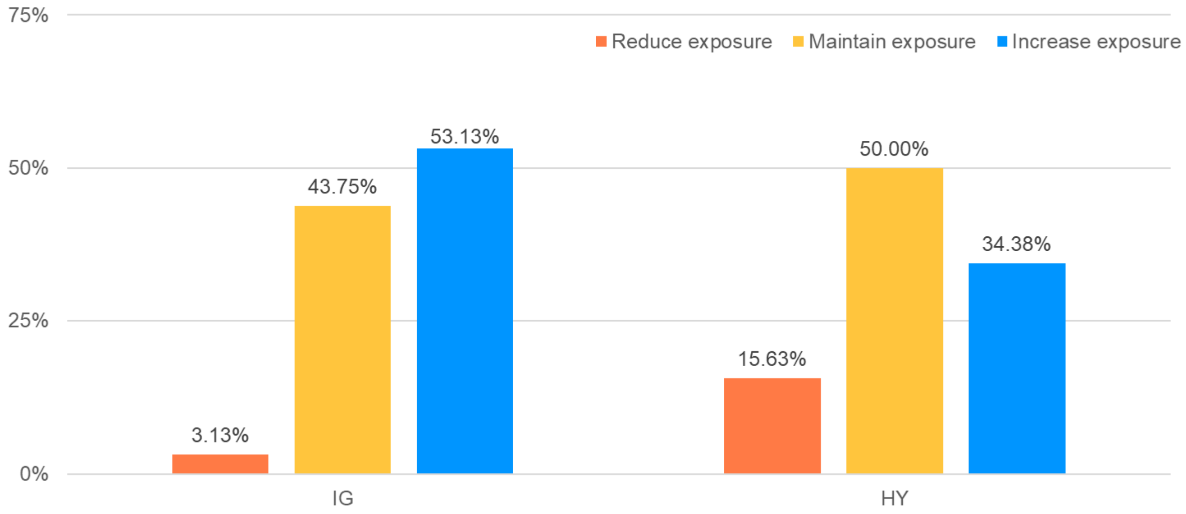


Source: Lianhe Global

The majority of the respondents intended to maintain their exposures in both IG and HY grade bonds in 2023. More than half of the respondents intended to increase their exposures in IG grade bonds (see Exhibit 3 below).

EXHIBIT 3:

In the following 12 months, you will most likely:

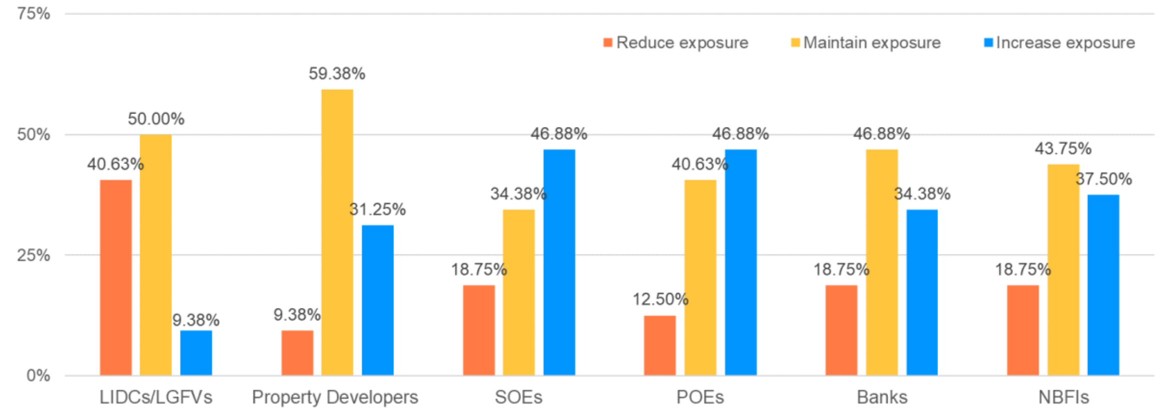


Source: Lianhe Global

For IG bonds, highest portion of the respondents (40.6%) planned to reduce their exposure in LGFVs, and the reduction in other sectors is much smaller. Most of them would like to increase their SOEs and POEs exposure in the next 12 months (see Exhibit 4 below).

EXHIBIT 4:

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

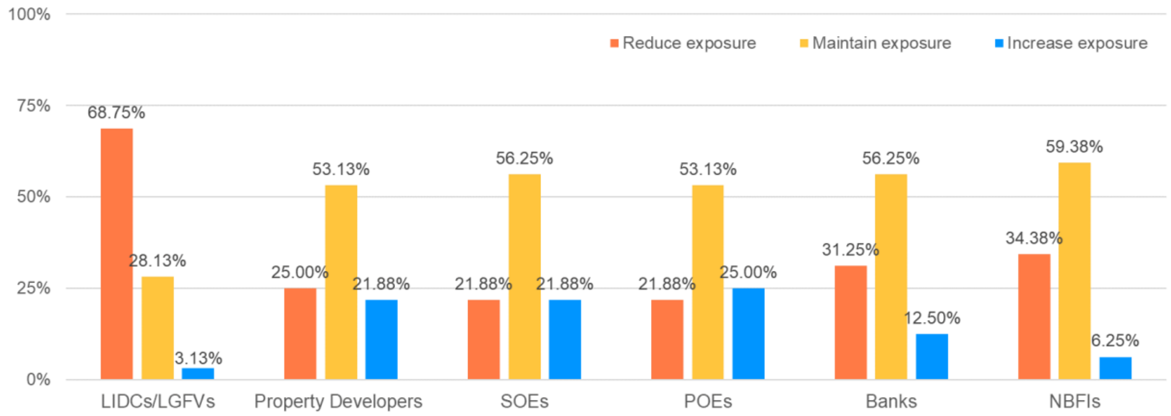


Source: Lianhe Global

For HY bonds, the majority of respondents intended to maintain their exposures in all sectors but to reduce their exposure in the LIDCs/LGFVs (see Exhibit 5 below).

EXHIBIT 5:

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

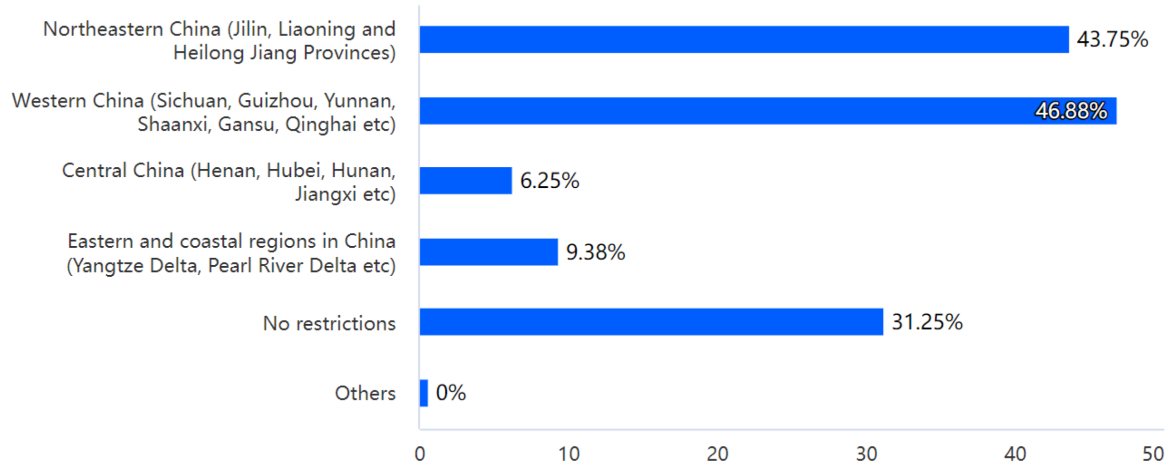


Source: Lianhe Global

Most of the respondents said they would not invest in certain areas of China where the bond issuers are located: 46.9% of them would not consider the Western region. 43.8% would not consider the Northeastern region in China. But many of them (31.3%) have no investment restrictions in terms of geographic locations (see Exhibit 6 below).

EXHIBIT 6:

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

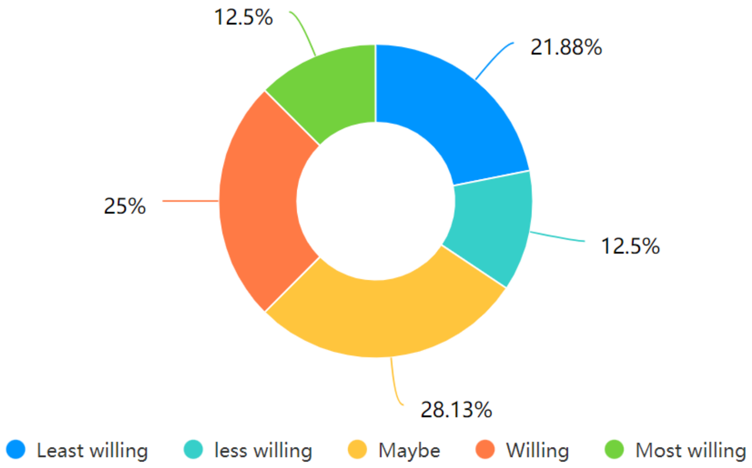


Source: Lianhe Global

Respondents were asked how willing they would invest in the LIDC/LGFV offshore bond backed by Standby Letters of Credit ("SBLCs"). 37.5% of respondents would be willing to. 34.4% of them would be less willing to. 28.1% held a neutral view about whether they would invest in these bonds (See Exhibit 7 below).

EXHIBIT 7:

LIDC/LGFV offshore bond issuance backed by Standby Letters of Credit ("SBLC") has become very common. How willing will you be to invest in these bonds backed by SBLC?

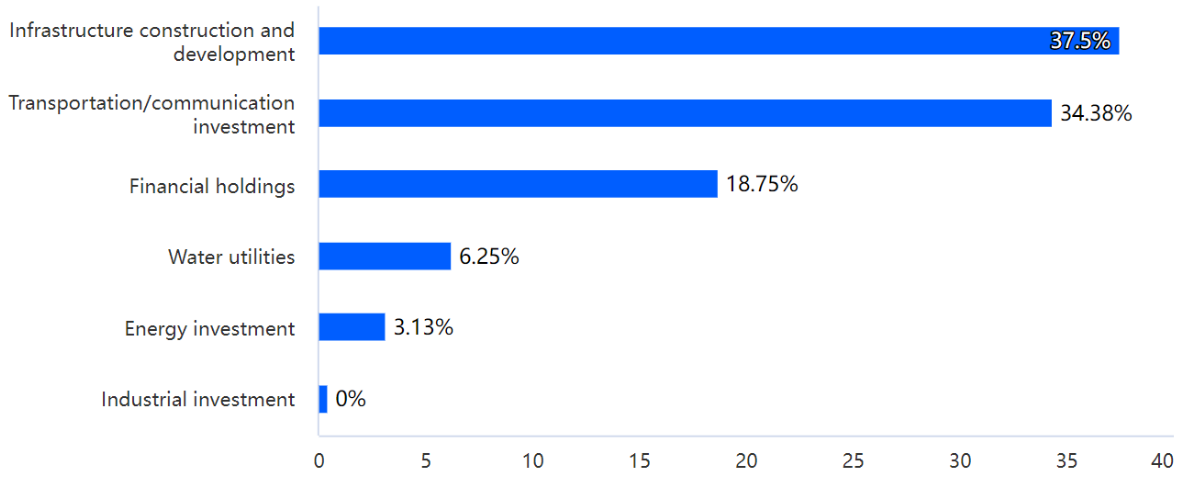


Source: Lianhe Global

Among major sub-sectors in the LIDC/LGFV sector, infrastructure construction and development (37.5%), transportation/communication investment (34.4%) and financial holdings (18.8%) are the top 3 preferred sub-sectors. No respondent was interested in industrial investment (See Exhibit 8 below).

EXHIBIT 8:

What is your top preferred sub-sector in the LIDC/LGFV sector?

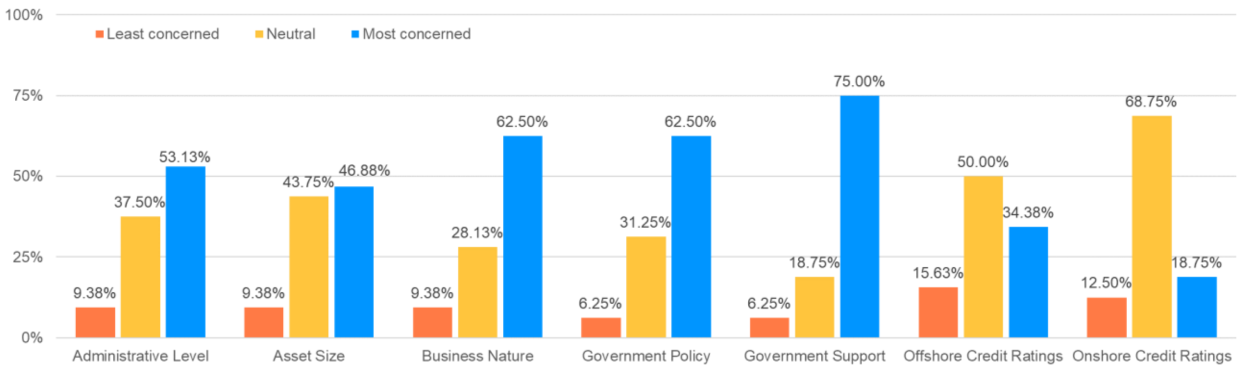


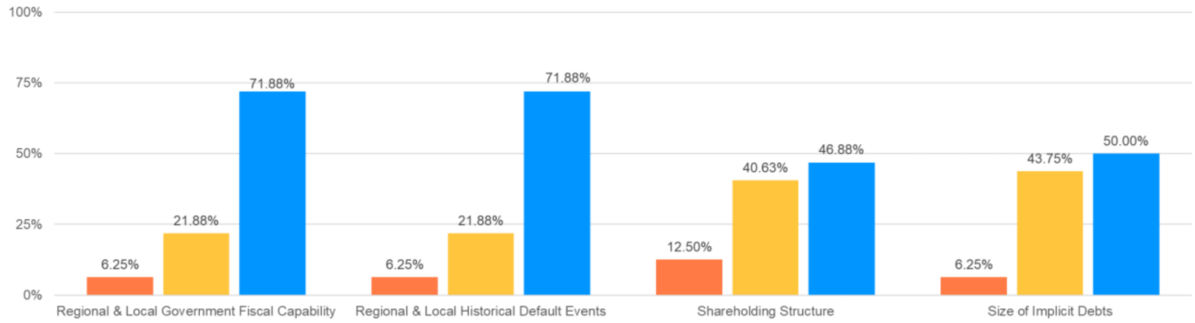
Source: Lianhe Global

In terms of the significant factors when investors consider investing in LIDC/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. Most of them held a neutral view on offshore and onshore credit ratings (see Exhibit 9 below).

EXHIBIT 9:

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



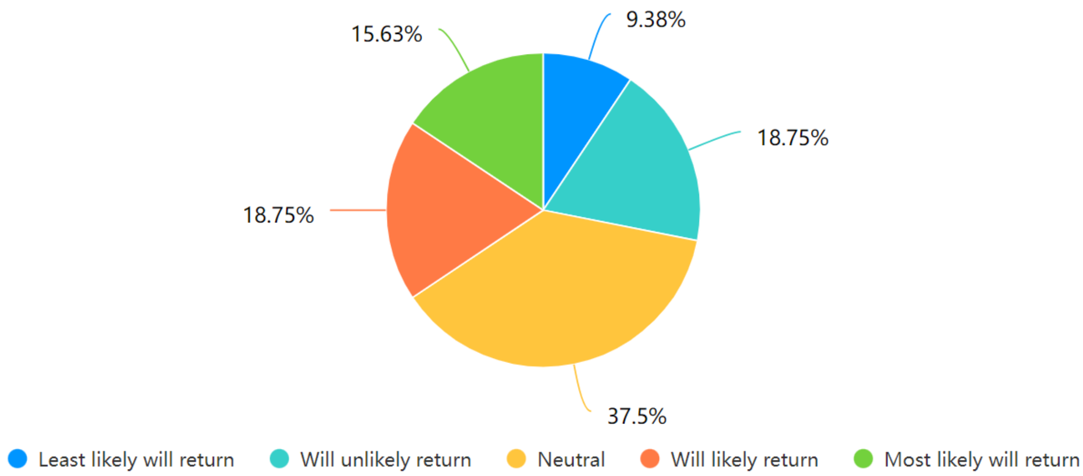


Source: Lianhe Global

Given the series of defaults in the property sector in 2021, respondents were asked if they would like to return to the China property HY USD bond market. 34.4% of respondents would like to return to the market. 28.1% of them would not like to return to the market. 37.5% held a neutral view about whether they would come back to the market (See Exhibit 10 below).

EXHIBIT 10:

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?

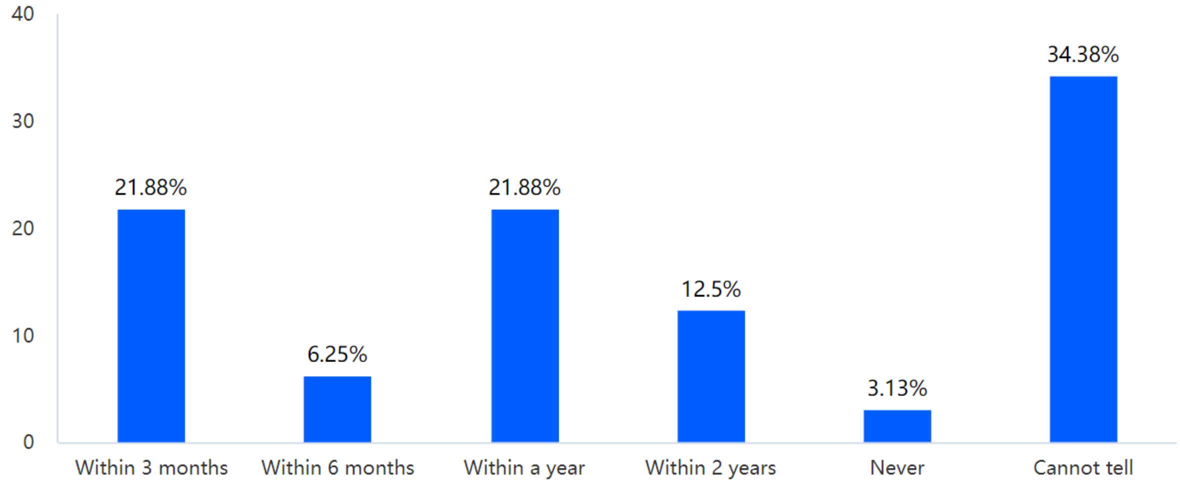


Source: Lianhe Global

28.1% of the respondents would see themselves returning to the China property HY USD bond market within 6 months. 21.9% of them would return to the market within a year. Note that quite a number of them (34.4%) are unsure about when to return (See Exhibit 11 below).

EXHIBIT 11:

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

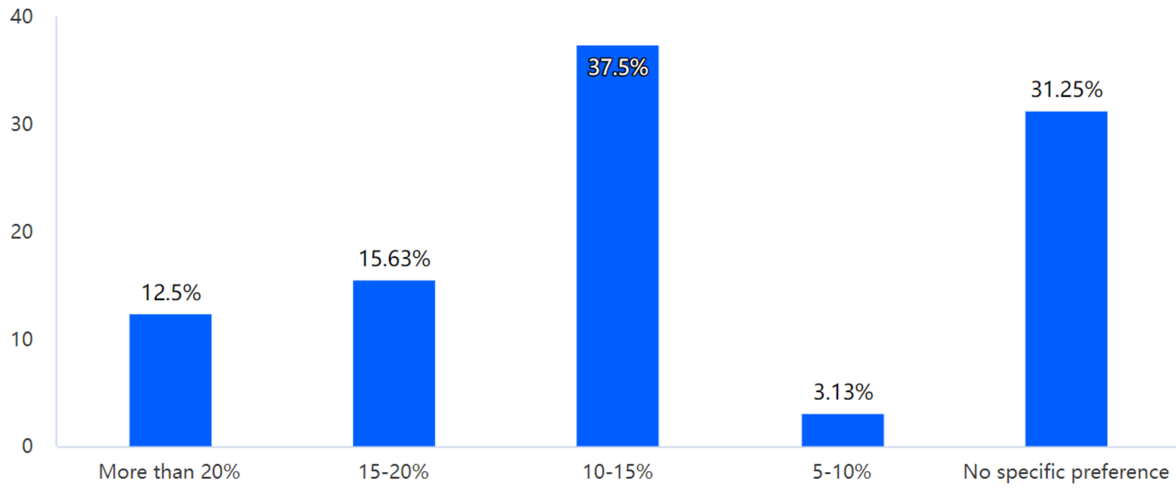


Source: Lianhe Global

Less than 5% of the respondents would expect a moderately low annual return of 5-10% for themselves on return to the China property HY USD bond market. It makes sense that 65.6% 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 12 below).

EXHIBIT 12:

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



Source: Lianhe Global

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