

# Panda Bond Market Overview

**Ms. Christine ZHANG,**  
Director of International Ratings, CCXI

Oct. 21, 2019

- **Panda Bond Market Recap**
- **New Trends of Panda Bond Market**
- **CCXI Panda Bond Rating**

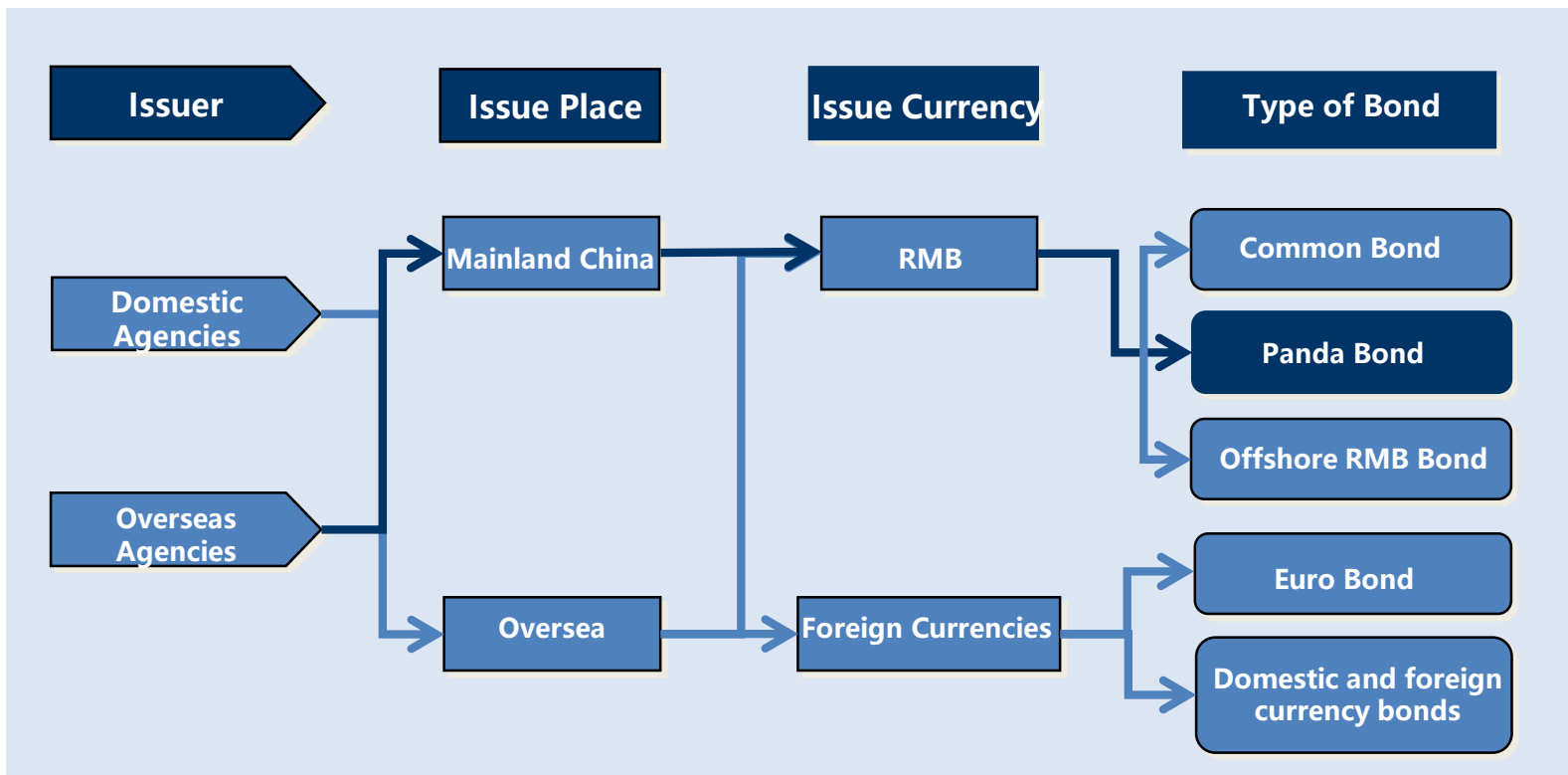


## Panda Bond Market Recap

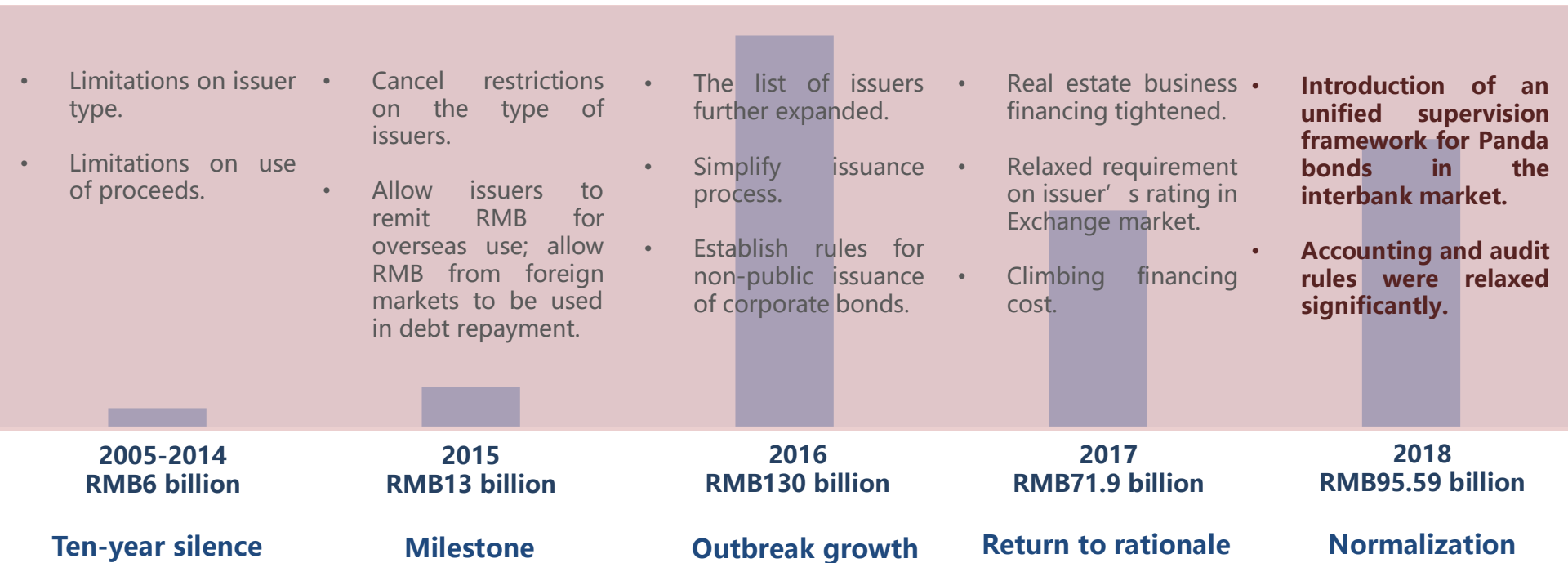


# What is Panda Bond?

- Panda bonds - RMB bonds issued by overseas entities in mainland China.



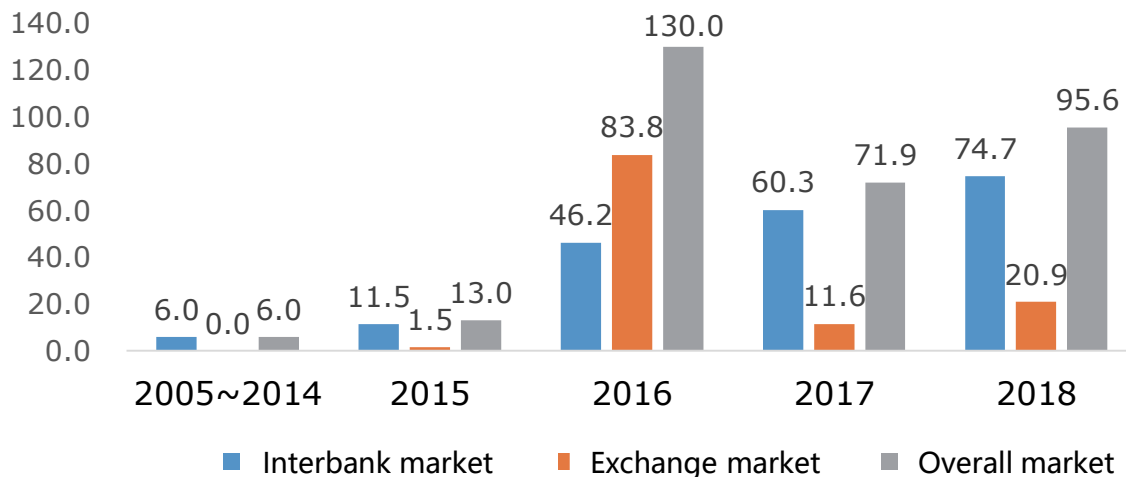
- Panda bond market is getting matured with the opening-up of China's bond market and clarification regarding market regulations.



## ■ The inter-bank market grew steadily, and the exchange market was affected largely by real estate issuers.

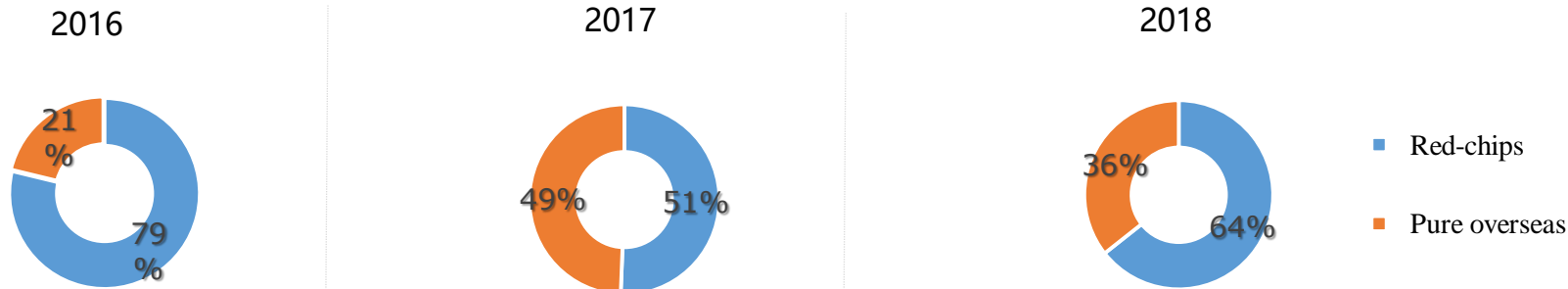
- The **overall market** scale of the Panda Bond market from 2016 to 2018 has rapidly expanded, significantly tightened and gradually recovered to a relatively stable range.
- Interbank market** is the main venue for panda bonds issuance, and the circulation has shown steady growth.
- The issuance scale in the **exchange market** has been affected by the circulation of real estate enterprises in recent years, fluctuation of which is relatively large.

Panda bond issuance scale (billion RMB)



- The participation of pure overseas entities has gradually increased, but its overall growth is still slow, accounting for less than 50% of overall market.

Distribution of Panda bond issuer type distribution (by scale)

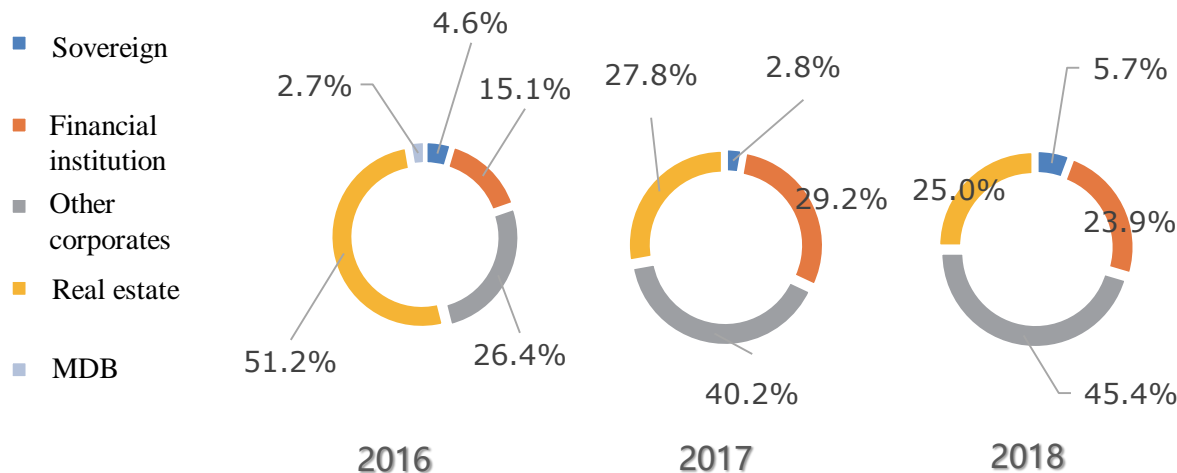


- In **2016**, the RMB exchange rate continued to depreciate, keeping financing costs relatively low, driving more pure overseas entities to enter the Panda Bond market
- From **2017 to 2018**, thanks to domestic business development and financing demand driven by the BRI, the scale of issuance has been increased. However, there are also factors slowing down the upward trend, such as rising domestic interest rate and tightening of the usage of the fund. These suppressed the willingness of pure overseas entities to enter the market, thus slowing the overall growth rate of the market



- Real estate enterprises and financial institutions comprise the majority of Panda bond issuer, and the variety of the issuers' background and industries continue to expand.

Industry distribution of Panda bond issuers (2016-2018)



- During Year **2016-18**, bond issuance by the real estate enterprises and financial institutions accounts for **37.2%** and **21.3%** of the overall market, respectively
- Since **2016**, driven by policies liberalization, enterprises in the consumer goods, service industry, pharmaceutical industry, and public utilities industries starting to enter the Panda Bond market. Background of financing entities has been continuously **enriching**, representing the trend of Panda Bond market **maturing** and **diversifying**

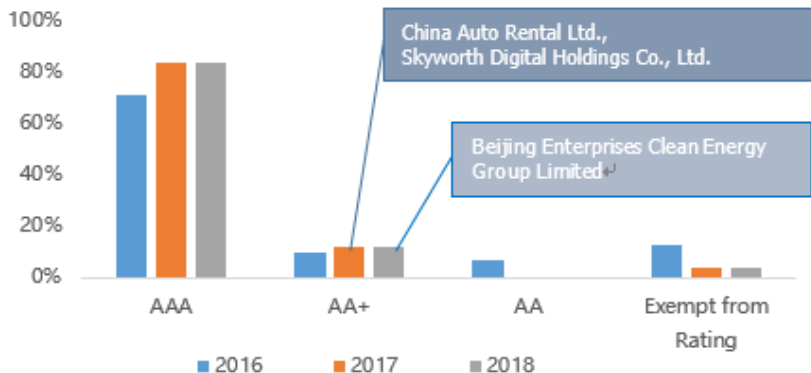




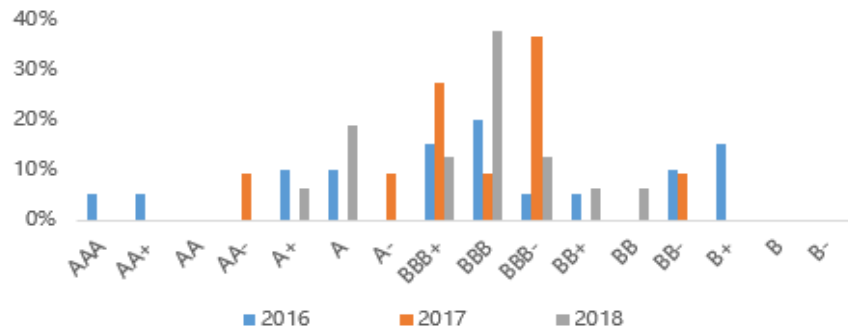
## ■ Increasingly diversified credit profiles of Panda bond issuers.

- From the perspective of domestic ratings, the interbank public offering market requires high qualification in **AAA**; while the exchange public offering market liberated along the way and was highlighted by the entry of **AA+** rated issuers.
- The concentration of credit levels of Panda bond issuers in the global scale has declined compared with the initial stage. From 2017 to 2018, the number of issuers with **A-** or below ratings has increased significantly in the public offering market. In 2018, the proportion rose to **90.9%**, indicating a further strengthened trend of diversification

Distribution of domestic credit ratings of Panda bond issuers (2016~2018)



Distribution of overseas credit ratings of Panda bond issuers (2016 to 2018)



## ■ Public and private placement have their own advantages.

### Public placement :

- A more reliable price setting reference
- Advantage in issuance cost
- More diversified investor base

Issuer	Amount (RMB billion)	Coupon (%)	Tenor (years)	Bond Type	Issue Market
Cassa di Risparmio di Roma S.p.A.	1	4.50	3	Financial Bond	China Interbank Market
Malayan Banking Berhad	1	3.28	1	Financial Bond	China Interbank Market
The Republic of Portugal	2	4.09	3	International Institutional Bond	China Interbank Market
Republic of the Philippines	2.5	3.58	3	International Institutional Bond	China Interbank Market
United Overseas Bank Ltd	2	3.49	3	Commercial Bank Bond	China Interbank Market
New Development Bank	2	3.00	3	International Institutional Bond	China Interbank Market

### Private placement :

- Issuance volumes are more flexible
- Less restrictions in information disclosure
- Further relaxed requirements on credit quality of issuers

Issuer	Amount (RMB billion)	Coupon (%)	Tenor (years)	Bond Type	Issue Market
Daimler AG	3	3.84	3	PPN	China Interbank Market
Daimler AG	2	3.53	2	PPN	China Interbank Market
Bayerische Motoren Werke (BMW) Finance N.V.	1.5	3.30	1	PPN	China Interbank Market
Bayerische Motoren Werke (BMW) Finance N.V.	2	3.98	3	PPN	China Interbank Market
Bayerische Motoren Werke (BMW) Finance N.V.	3	4.00	3	PPN	China Interbank Market



## New Trends of Panda Bond Market

# Panda Bond Issuance Process

## Preparation

Application for approval to issue onshore RMB bonds

Submit draft documents

Non-financial enterprises

Sovereign/non-financial enterprises

Financial institutions

Consent letter from Foreign accountant (if applicable)

Letter of recommendation from lead underwriter

Bond prospectus

Audited financial statements (if any)

Underwriting agreement

Rating report (if any)

Legal opinions

## Approval

### Regulators

China Securities Regulatory Commission (CSRC)

National Association of Financial Market Institutional Investors (NAFMII)

People's Bank of China (PBOC)

## Issuance

Approval on issuance is Granted/Keep on record

Approval on Registration is granted

Approval on issuance is Granted

Pricing, settlement and trading

Publication of issuance of plan and bond terms

Admission to the onshore clearing house and book building exchange

## Application

Proceeds can be used in onshore market

Proceeds can be used in offshore market as well

Direct remittance is subject to PBOC regulations, and purchases of foreign exchange are subject to SAFE approval

*The issuer shall specify the real purpose of proceeds to be transferred offshore market and report the usage periodically*

# The First Clear Guideline on Regulation

- The Panda Bond supervision has been gradually improved with the “Measures” issued in 2018 to provide clear guidelines. The relaxation of accounting and auditing standards and the diversification of foreign investors could uplift the market prospect.

<b>Registration requirement</b>	For interbank bond market, the issuance of Panda Bonds by overseas financial institutions will be approved by PBOC, and the issuance by overseas non-financial institutions, foreign government, international development institutions will be registered in advance by NAFMII
<b>Issue type</b>	Public Placement or Private Placement. Panda Bonds in the interbank market can be issued in full or in installments within the registered quota
<b>Accounting and auditing standards</b>	If an overseas institution applying for public bond issuance is not using the Chinese accounting standards or the equivalent, one could disclose the accounting standards adopted and provide explanations for important differences as compared to Chinese ones while having audits conducted by an overseas accounting firm
<b>Legal opinion</b>	Foreign matters should be issued by qualified foreign law firms, and legal opinions on domestic matters shall be provided by domestic lawyers
<b>Use of proceed</b>	The fund raised can be used both at home or abroad, while the regulator encourages the domestic use of the funds or in RMB-related business.



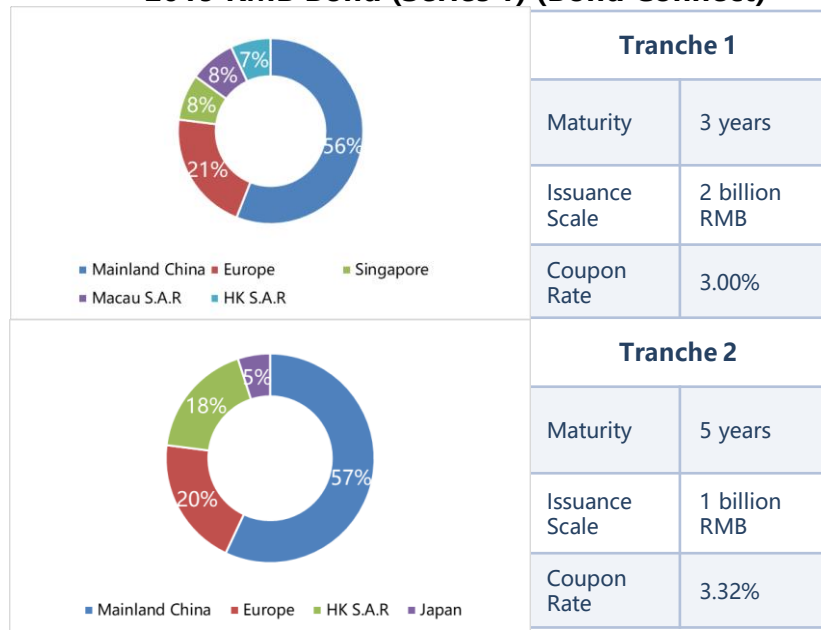
**The interbank public offering market requires higher qualifications of Panda Bond issuers, with all of the issuers assigned AAA ratings. While the requirements on issuers' qualifications in the exchange public offering market have been relaxed with AA+ rated issuers emerged.**



## ■ Significant expansion of overseas investors under the “Bond Connect” arrangement, leading to increasing issuance scale of the Panda Bond market.

- By the end of Dec. 2018, a total of **503** overseas entities had entered the inter-bank bond market under the “**Bond Connect**” arrangement. Panda Bond market became a key attraction for medium-/long-term high-quality overseas investors.
- The opening-up of the overseas investment market in China's bond market will greatly promote the expansion of the Panda Bond market through reducing issuance costs, enriching investment groups and increasing the investment activities

**Distribution of investors for the New Development Bank  
2019 RMB Bond (Series 1) (Bond Connect)**



## ■ Green panda bond has become a new bright spot in the panda bond market.

- Existing Green Panda Bonds are mainly used to support renewable energy (>60%), low carbon transportation, and water resource management

Issuer	Bond Name	Issuance Date	Issuance Scale	Maturity	Coupon Rate	Usage of Proceeds
New Development Bank	16新开发绿色金融债01	2016.07.18	3 billion RMB	5 years	3.07%	Used to support solar power, wind power, renewable energy and related transmission and hydropower projects in China, Brazil, Russia
Beijing Enterprises Water Group (China) Investment Limited	G16北控1	2016.08.01	0.4 billion RMB	8 years	3.25%	Used to support projects in alliance with the Green Bond Support Project Catalogue compiled by the Green Finance Professional Committee and the Green Industry Project of the Green Project Certification Body approved by the Shanghai Stock Exchange.
China Power New Energy Development Company Limited	17中电新能GN001	2017.05.19	0.8 billion RMB	3 years	5.50%	Used to fund the company's construction and operation of energy saving and cleaning projects.
Hang Lung Properties Limited	18恒隆地产MTN001BC	2018.07.13	1 billion RMB	3 years	5.00%	Fully used in the construction of Hang Lung Plaza (Kunming) and Hang Lung Plaza (Wuhan) of the company.
China Everbright Water Limited	G18光水1	2018.08.14	0.4 billion RMB	5 years	4.60%	Used to fund Nanjing water-related municipal PPP project, Pulandian sewage treatment plant phase II project, Dezhou South Canal sewage treatment plant phase II and tailwater defluoridation project, Zhangqiu Chengdong Industrial Park water supply project.
Beijing Enterprises Group Company Limited	18清PGY1	2018.11.23	1 billion RMB	3 years + N	6.5%	Used to repay debts of company (including its subsidiaries).



- In 2019, amid tightening real estate industry policies and the crowding out of the dollar bond market, the number of red-chip Panda Bonds declined, and the number of pure overseas entities is on the rise.

- By the end of September, the number of Panda Bonds issued in 2019 was 27, down 41% YoY, with a total scale of RMB41.04 billion.

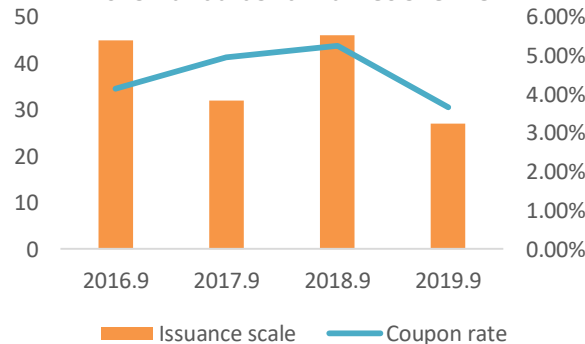
- The issuing rate of Panda Bonds is substantially reduced, and the financing cost remains relatively low.

- By the end of September, the average coupon rate of Panda Bonds issued in 2019 was 3.67%, significantly lower than that of 2018. Monetary policy is expected to maintain a loose tone under the pressure of steady economic growth

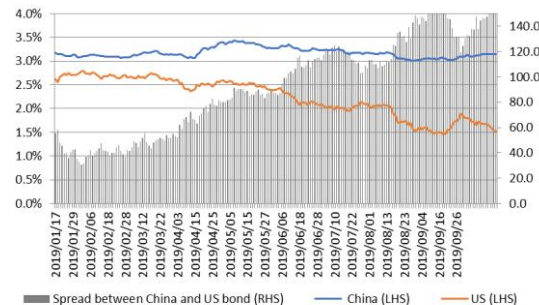
- RMB exchange rate fluctuation and capital outflow pressure are generally under control.

- China-US trade frictions has intensified the fluctuations of RMB exchange rate. Risk preference is tilted to the downside

2019 Panda bond market overview



Spread between China and US 10-year bond





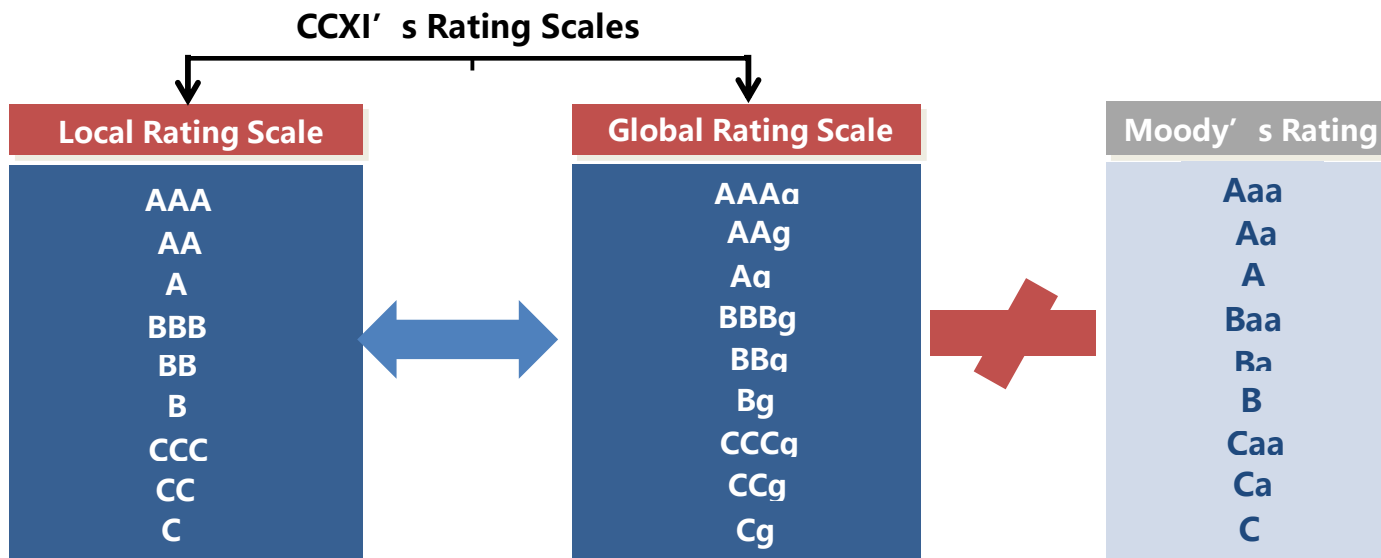


## CCXI Panda Bond Rating



# Specialty of Panda Bond Rating

- As one of foreign bonds, Panda bond has characteristics of cross-board and cross-currency, with more complicated credit analysis than domestic issuers.
- CCXI has local scale and global scale, but there is no one to one mapping relationship.
- No comparability between CCXI' s global scale and scales of other rating agencies.

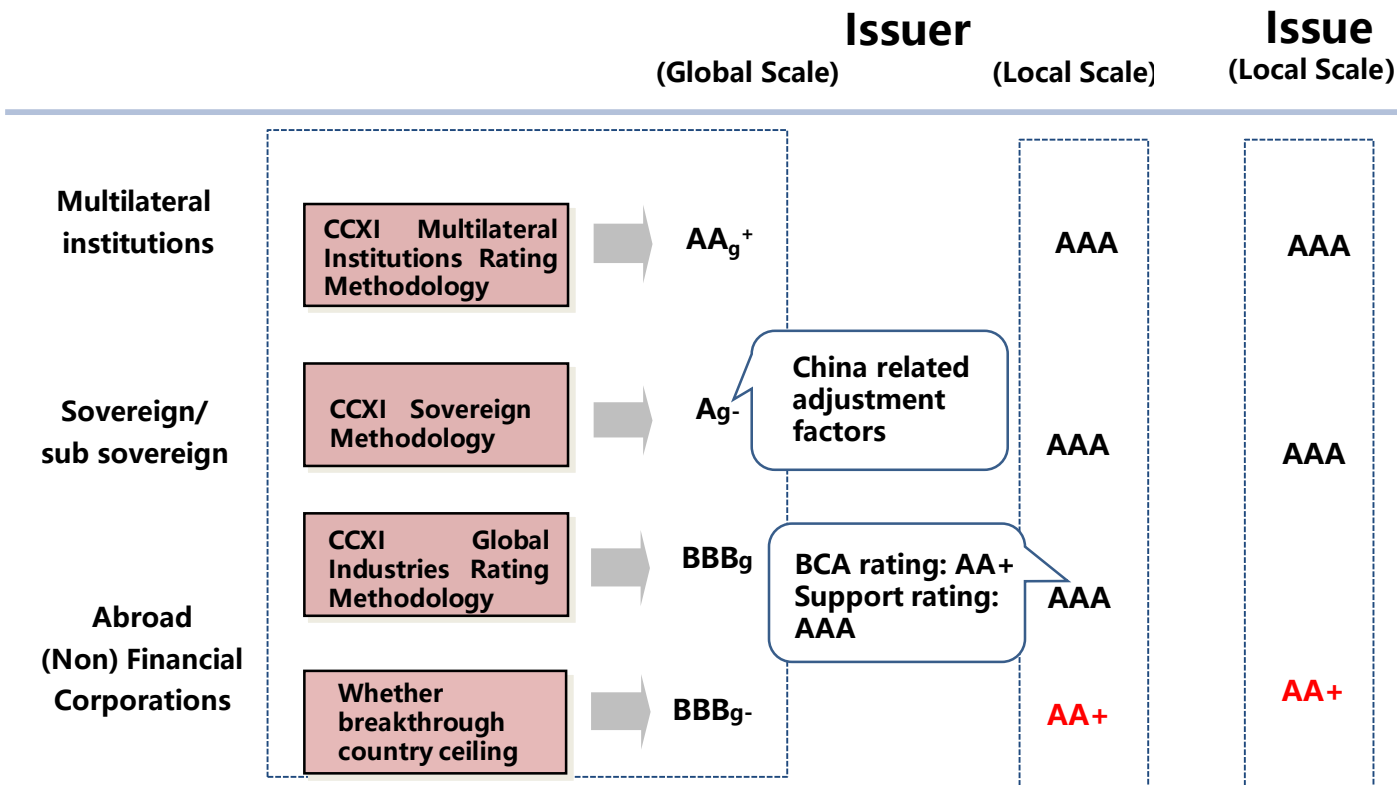


	Issuer (Global Scale)	Issuer (Local Scale)	Issue (Local Scale)
Multilateral institutions	CCXI Multilateral Institutions Rating Methodology	<ul style="list-style-type: none"> <li>Special support from Chinese government</li> </ul>	<ul style="list-style-type: none"> <li>Credit enhancement /guarantee from third party</li> </ul>
Sovereign/Sub Sovereign	CCXI Sovereign/GRI Rating Methodology	<ul style="list-style-type: none"> <li>Bilateral political mutual trust</li> <li>Amount of RMB swap</li> <li>Weight of bilateral trade</li> </ul>	
Abroad (Non) Financial Corporations	CCXI Global Industries Rating Methodology + Whether breakthrough country ceiling	<ul style="list-style-type: none"> <li>BCA Comparison in the same industry in China</li> </ul>	



中诚信国际  
CCXI

# CCXI Panda Bond Credit Rating Framework



- Due to **regional differences** among issuers and investors in the Panda bond market, the problem of **information asymmetry** is more prominent than common bonds. While the qualification level among overseas issuers became increasingly diversified, **domestic rating agencies** are irreplaceable when it comes to analyzing and revealing **risk profile** of offshore entities



Due to **sovereign ceilings**, the different judgments of sovereign credit risks made by Chinese and foreign rating agencies may lead to underestimation of the credit strength of some overseas enterprises and restrain their willingness to issue Panda bonds.

When assessing the credit level of a Panda bond, comparisons with domestic competitive companies in the industry are essential. With abundant **rating samples**, Chinese rating agencies can provide more accurate and **effective benchmarks** when measuring the credit risk of Panda bonds.



- **CCXI has so far undertaken ratings of the majority of panda bonds publicly issued in the interbank bond market. As of the end of 2018, CCXI held a market share of 67.7% in respect of market announcement.**

<b>First non-financial institution Panda bond</b>	China Merchants (Hong Kong) Ltd. (Sep 2015)
<b>First sovereign Panda bond</b>	Ministry of Strategy and Finance, the Republic of Korea (Nov 2015)
<b>First European sovereign panda bond</b>	The Republic Of Poland (Aug 2016)
<b>First North-American financial institution Panda bond</b>	National Bank of Canada (Nov 2016)
<b>First "B&amp;R" Panda bond in the Exchange market</b>	United Company RUSAL Plc. (Mar 2017)
<b>First "Bond Connect" Panda bond</b>	Malayan Banking Berhad (Jul 2017)



中诚信国际  
CCXI

# Rusal- the First Russian Panda Bond Issuer



## PANDA BOND

### Issue Information

- **Amount:** 17UCR01: RMB1.0 billion; 17UCR02: RMB0.5 billion
- **Tenor:** 3 years
- **Coupon:** 17UCR01: 5.50%; 17UCR02: 4.00%
- **Issuer credit rating from CCX:** AAA, Stable
- **Issue credit rating from CCX:** 17UCR01: AAA; 17UCR02: AAA

### CCX Rating Opinions

#### Credit strengths:

- Aluminum production continues to maintain a leading position in the world;
- Equity investment return brings strong support to profit;
- Financial leverage ratio has declined with good debt maturity structure.

#### Credit focus:

- Business income will be affected by the downward pressure on aluminum price at certain degree;
- The risk of instability in the regional political and economic environment.

### Factors attracting issuers to the Panda bond market

- Access to the **second largest** bond market
- Comparative advantage in **issuance cost**
- Diversified financing channels as an **alternative to euro financing**;
- Conducive to improving **market recognition** and expanding the markets of East Asia and China.

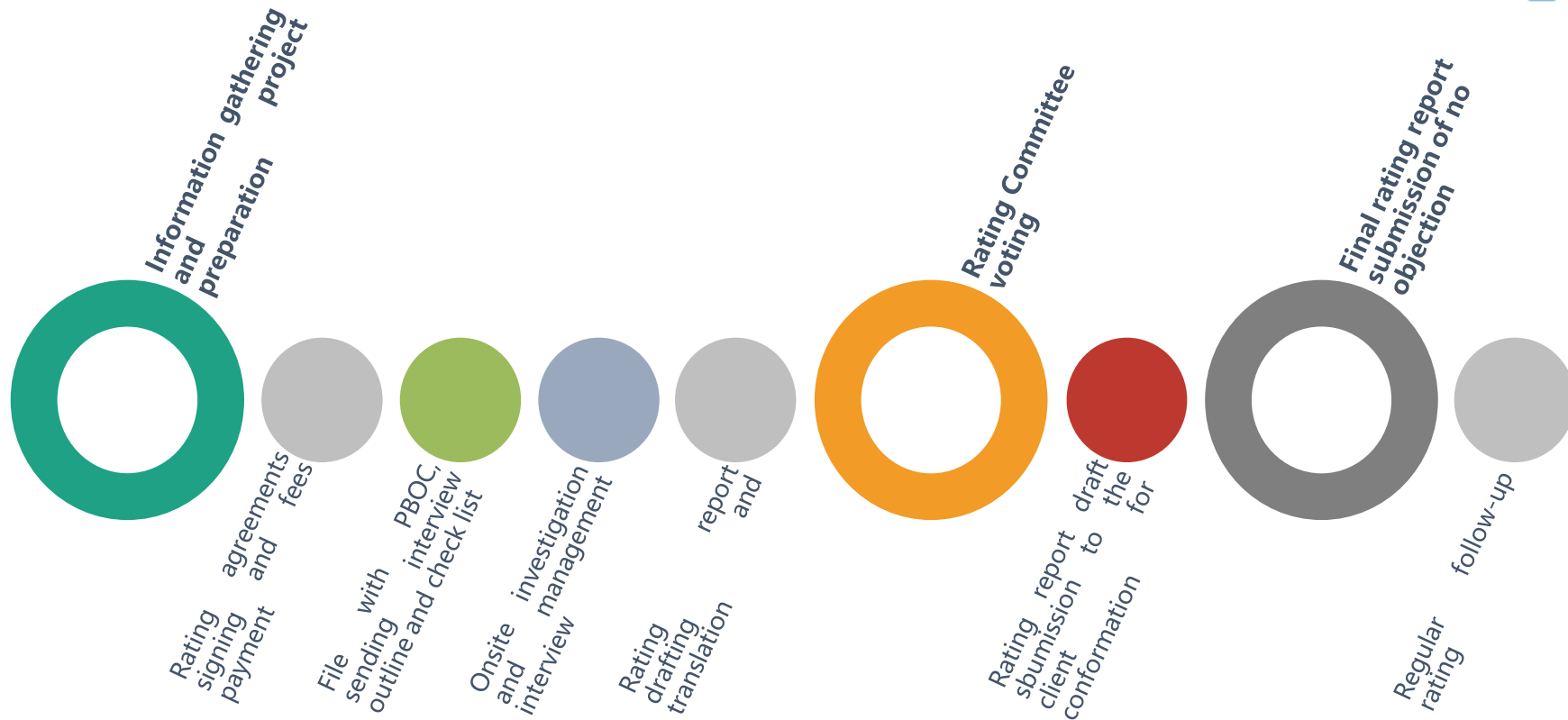
### But there are also limits faced by Russian issuers

- **Sanctions**;
- Comparatively **longer issuance process**;
- Potential **restrictions on the use of proceeds**;
- **Information asymmetry**.



中诚信国际  
CCXI

# CCXI Panda Bond Rating Process







中诚信国际  
CCXI

# Contact Information

## Ms. Ariel YANG

Vice President,  
CCXI

**TEL:**  
010-66428761 (Beijing)

**Email:**  
lyang03@ccxi.com.cn

## Ms. Christine ZHANG

General Director,  
International Credit Rating,  
CCXI

**TEL:**  
010-66428877-203 (Beijing)

**Email:**  
ttzhang@ccxi.com.cn



- **Disclaimer** This message (including any attachments) contains confidential information intended for a specific individual and purpose. China Chengxin International Credit Rating Co., Ltd. ("CCXI") makes no statement, representation, warranty or guarantee as to the accuracy, reliability or timeliness of the information and content contained in the message. Any views and opinions expressed are only those of the author(s), neither CCXI nor any of their related company accepts any responsibility or liability for any direct or indirect loss or damage (whether in tort, contract or otherwise) which may be suffered or occasioned by any person howsoever arising due to any inaccuracy, omission, misrepresentation or error in respect of any information and content provided. The contents contained in the message are copyright protected. It may contain information that is PRIVILEGED and CONFIDENTIAL. Except with the prior written permission of CCXI and/or other relevant copyright owner, download, duplicate, reproduce, edit, publish, make available or disseminate through whatever means the message or any content contained in whole or in part is strictly prohibited and may be unlawful.

A blue banner featuring a world map in the background. Overlaid on the map are several text elements: 'BB' in the top left, 'AAA' in the top center, 'BB' in the top right, 'AAA' in the middle right, 'BB' in the bottom right, and 'AAA' in the bottom right. There are also several blue squares of varying sizes and a blue circle with a white 'e' inside. The text 'Thank you!' is centered in white.

# Thank you!