

# ACCESSING LIQUIDITY AMID UNCERTAINTIES IN CHINA'S PROPERTY SECTOR

China Evergrande Group and China's real estate sector have consistently been on China's headlines recently. Many investors and shareholders are concerned about the default risk of China Evergrande's outstanding bonds and how this would potentially trigger cross-default in other China Property companies. In fact, we have already witnessed the default (either in interest or principal repayment) in some property developers (e.g. Fantasia) and as of 11 October 2021, the trading of 15 real estate companies on HKEX were suspended, according to Bloomberg.

In this report, we have summarized what has happened and the impact to China's Property Sector. **More importantly, we present a solution to the listed company shareholders of Evergrande / other China real estate**

**companies to**

- 1. diversify their systematic risk;**
- 2. limit the downside risk in the worst-case scenario;**
- 3. retain 100% upside in the best-case scenario.**

## TIMELINE OF EVERGRANDE CRISIS

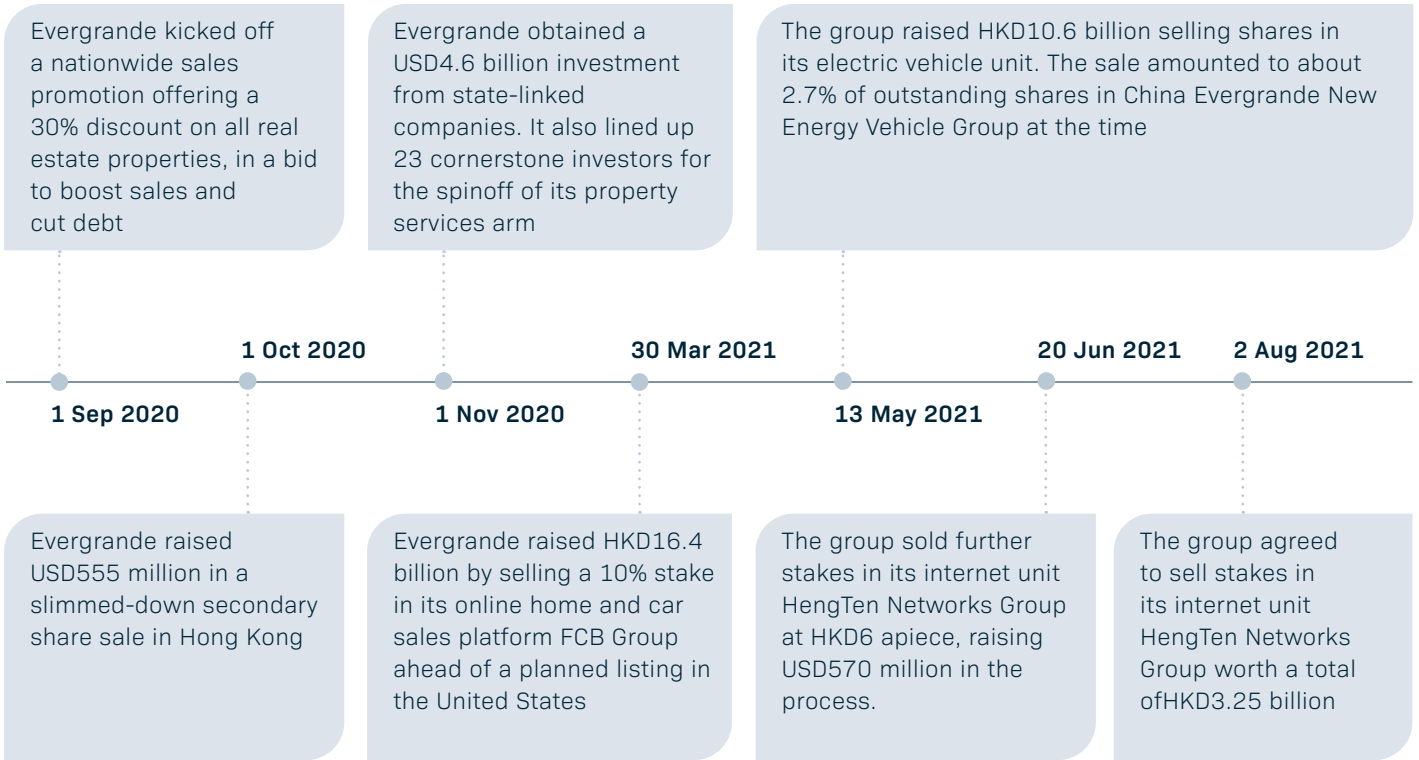
DATE	EVENT
2014	Evergrande began to aggressively expand its scale
2016	Evergrande net gearing reached >400%, but the capital market tolerated its leverage owing to the perception that it is "too big to fail."
2017	Policy tightening and the government's repeated calls for deleveraging
Aug 2020	Chinese Regulators met with 12 major property developers, including Evergrande, and roll out the "Three red lines" policies to control the housing price and land markets
Jun 2021	Chinese regulators reportedly instruct major Evergrande creditors to conduct a fresh round of stress tests on their exposure to the developer
Jun 2021	Bloomberg reported several large Chinese banks are restricting credit to Evergrande, amid mounting concern of the developer's financial health
Jul 2021	A court in Jiangsu province ordered the freezing of a RMB132 million bank deposit held by a unit of Evergrande at the request of China Guangfa Bank.
Jul 2021	Some banks in Hong Kong, including HSBC and Standard Chartered, were reported to be declining loans to buyers of Evergrande's two uncompleted residential projects in the city.
Jul 2021	Huaibei Mining Holdings said its construction unit is suing Evergrande over an overdue RMB400 million payment. Evergrande said parties are disputing whether payment under the contract is due
Aug 2021	Mr Hui stepped down as chairman of China Evergrande Group's onshore real estate unit - Hengda Real Estate

TIMELINE OF EVERGRANDE CRISIS (CONT.)

DATE	EVENT
Aug 2021	China's central bank said it has summoned Evergrande's executives to talk and issue a warning that the company needed to reduce its debt risks and prioritise stability. It indicated the central bank's concern of Evergrande's crisis to influence the property market
Aug 2021	Piping supplier Yonggao said in a Shenzhen exchange filing that Evergrande owed them RMB478 million in commercial bills, of which RMB195 million was overdue. They added that it could sue the developer, and that it has stopped deliveries since May.
Aug 2021	Chan Hoi-wan, a key Evergrande backer and long time supporter of Mr Hui, cut her stake to 8.96% from 9.01%. She is the chief executive officer of Chinese Estates Holdings and the wife of Hong Kong billionaire Joseph Lau.
Aug 2021	Evergrande said its total liabilities have hit a near-record RMB1.97 trillion, mainly due to swelling bills to suppliers. Although its borrowings shrank to RMB572 billion, the group's cash and cash equivalents had plunged to a six-year low.
Sep 2021	Trading in Evergrande's bonds is suspended following "abnormal fluctuations".
Sep 2021	The group warned of a risk of cross-default as two of its subsidiaries had failed to discharge guarantee obligations for RMB934 million worth of wealth management products issued by third parties.
Sep 2021	Evergrande was due to pay \$83 million of interest on Sep 24 for a \$2 billion dollar-denominated bond that's set to mature in March 2022. Dollar bonds are typically held by foreign investors. Even if no payment is made, the company will not technically default unless it fails to make that payment within 30 days.
Sep 2021	Evergrande missed its \$47.5 million bond interest - the second missed debt obligation. The company will not technically default unless it fails to make that payment within 30 day after the September 23 and 29 payments end.

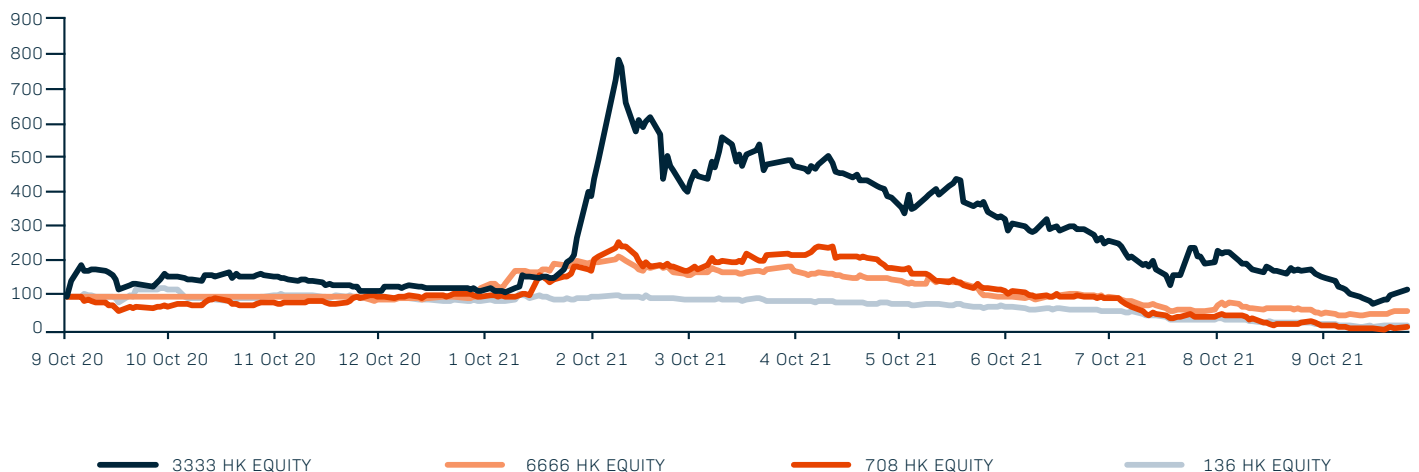
The details of what has happened to China Evergrande Group were summarized in the tables above. But in a nutshell, Evergrande started to expand aggressively since 2014 and its net gearing ratio has reached >400% in 2016. However, policies started to tighten since 2017 and despite the government's repeated calls for deleveraging, Evergrande's debt level remained high. In 2020, Chinese government rolled out the "Three red lines" policies to control the housing price and land markets. The market view is that the tightening of government policies, the slowdown in property sales and the oversupply risk of China's housing market have triggered the Evergrande crisis.

CHINA EVERGRANDE GROUP IS USING ALL MEASURES TO  
RAISE CAPITAL

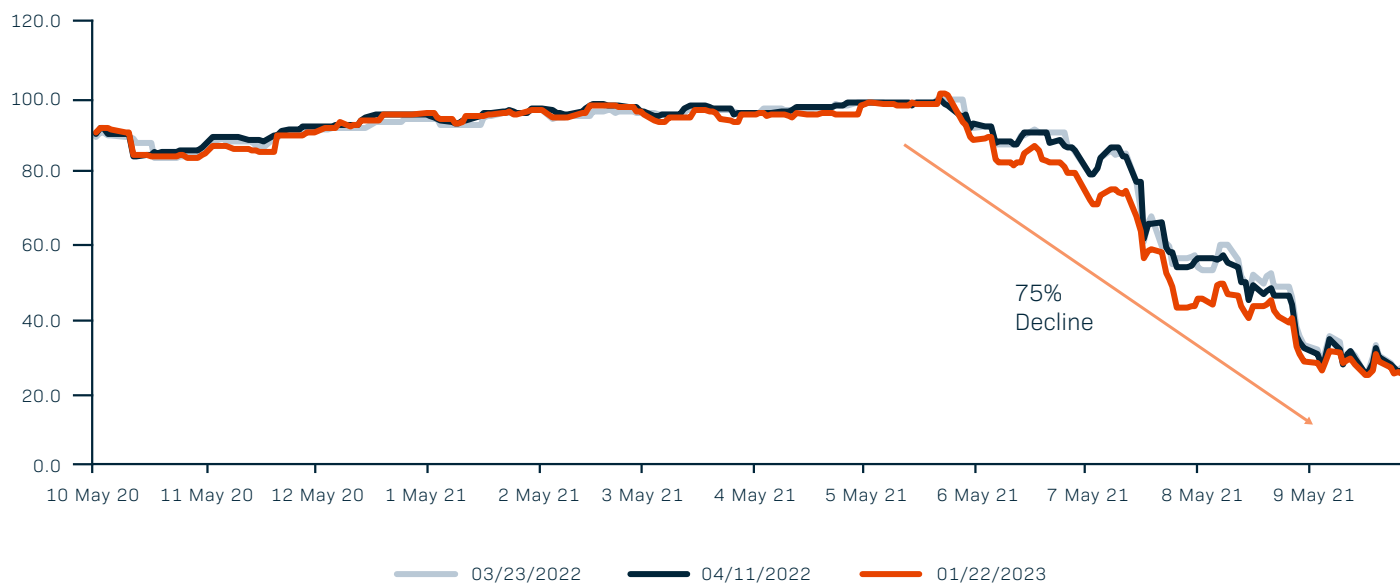


Evergrande Group is using all measures to raise capital, and this includes secondary equity offering, disposal of shareholding in its subsidiaries and obtain investments from state-owned companies. However, these have not been adequate, and the company has already missed the interest payment in some of its debt obligations. These had dramatic impact to the share price of the listed companies under Evergrande and the public bonds. In fact, the trading of Evergrande Group (3333:HK) and Evergrande Property Services (6666:HK) were temporarily suspended.

EVERGRANDE COMPANIES SHARE PRICE PERFORMANCE (RE-BASED)



EVERGRANDE PUBLIC BOND PRICE PERFORMANCE:



## EVERGRANDE DISCLOSED PUBLIC BOND OUTSTANDING

TICKER	COUPON	MATURITY	BLOOMBERG COMPOSITE RATING	MATURITY TYPE	ANNOUNCE	ASK PRICE	OUTSTANDING AMOUNT	CURRENCY
EVERRE	8.25	3/23/2022	C	CALLABLE	3/17/2017	26.205	2,025,000,000	USD
EVERRE	9.50	4/11/2022	CC-	AT MATURITY	4/8/2019	25.631	1,450,000,000	USD
EVERRE	11.50	1/22/2023	C	AT MATURITY	1/16/2020	24.944	1,000,000,000	USD
EVERRE	4.25	2/14/2023	N/A	CONV/PUT	1/30/2018	25.371	101,000,000	HKD
EVERRE	10.00	4/11/2023	CC-	CALLABLE	4/8/2019	24.893	850,000,000	USD
EVERRE	7.50	6/28/2023	C+	CALLABLE	6/21/2017	24.408	1,344,921,000	USD
EVERRE	12.00	1/22/2024	C	CALLABLE	1/16/2020	25.099	1,000,000,000	USD
EVERRE	9.50	3/29/2024	C	CALLABLE	3/24/2017	24.744	951,000,000	USD
EVERRE	10.50	4/11/2024	CC-	CALLABLE	4/8/2019	24.758	700,000,000	USD
EVERRE	8.75	6/28/2025	C	CALLABLE	6/21/2017	24.69	4,680,476,000	USD

According to Bloomberg, Evergrande Group has around USD14 billion in total public debt outstanding and the maturity ranges from March 2022 to June 2025 while the company said its total liabilities have reached RMB1.97 trillion (USD305 billion) in August 2021. The potential default of Evergrande would be devastating, especially when this may trigger cross-default in other China Property companies. The market estimates the China property sector had USD2 trillion (excluding account payable and bills payable) from commercial banks. As expected, the Evergrande crisis has increased the volatilities of the China Property Developer Index (proxy from Hang Seng Index – Properties). : Also, as of 11 October 2021, the trading of 15 real estate companies on HKEX were suspended, according to Bloomberg.

## CHINA PROPERTY DEVELOPER INDEX PERFORMANCE



We understand the uncertainties faced by the shareholders of the listed companies under Evergrande Group or China property developers in general. The market still lacks visibilities in what will happen to Evergrande (e.g. bail out from the government/state-linked companies, disposals of Evergrande assets to other government-backed property developers or default/bankruptcies).

Amid the uncertainties, we present a solution to the listed company shareholders of Evergrande / other China real estate companies to

**01**

**diversify their systematic risk;**

**02**

**limit the downside risk in the worst-case scenario;**

**03**

**retain 100% upside in the best-case scenario.**

This is through a sale and repurchase agreement with EquitiesFirst with the following benefits:

### Industry-leading loan-to-value (LTV) ratio:

- With USD100 worth of collateral, the shareholder can borrow USD65-70

### Non-Recourse feature:

- This limits the downside risk of the shareholder. In the worst-case scenario, the shareholder has the option to walk away from the loan with no further liabilities (while keeping the loan proceeds)

### Non-Purpose:

- The loan capital can be used for any purpose by the borrower and is not subject to restrictions. This helps the shareholders in diversifying the systematic risk by investing the loan proceeds in other assets

### Upside Retention:

- The borrower retains the full upside price appreciation of the collateral in the best-case scenario

### Margin Call Advantage:

- Our margin call threshold is calculated as 80% of the loan LTV. If the LTV is 65%, the margin call threshold would be  $80\% \times 65\% = 52\%$ . This means the share price needs to drop from 100 to below 52 (for 3 consecutive days) before there would be a margin call

## CONTACT US



### GORDON CROSBIE-WALSH

CEO Asia

+852 3958 4589

gcrosbie-walsh@equitiesfirst.com

### BANGKOK

+66 2059 0242

THinfo@equitiesfirst.com

### HONG KONG

+852 3958 4500

HKinfo@equitiesfirst.com

### SHANGHAI

+86 21 8033 3601

info@equitiesfirst.com

### BEIJING

+86 10 5929 8670

info@equitiesfirst.com

### SEOUL

+82 2 6370 5180

info@equitiesfirst.com

### SINGAPORE

+65 6978 9100

SGinfo@equitiesfirst.com

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