

## LFI Other -

### China Distressed Real Estate Weekly (5/2/2022 - 5/6/2022)

LEVFIN INSIGHTS  
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*The CDRE weekly newsletter tracks distressed Chinese real estate developers and related high yield issuers. The newsletter catalogs and comments on the week's developments in the sector, providing discussion and analysis of Chinese government policy, bankruptcy law, and debt recoveries in ongoing cases, in tandem with LFI's sister publications Covenant Review, CreditSights, and Fitch.*

The Asia ex-Japan High Yield Dollar Index widened by 21 bps to 1,313 bps in April, alongside its HY Non-Financials sub-index which widened by 27 bps, "as the disappointing 25-bps cut in RRR by the People's Bank of China triggered a sell-off in China property bonds in general," *CreditSights* noted in a April market [review](#).

For investors betting on easing policies, "Bad economic news usually means good policy news," *CreditSights* suggested in an earlier [note](#). On May 3, Fitch Ratings [lowered](#) its forecast for China's 2022 GDP growth to 4.3% from an initial 4.8% - also where its **Q1 figure** sits - citing evidence of spillover effects to economic activity from Covid-related disruption in March. "The partial/full lockdowns in Shanghai, Jilin and a few other cities dragged China's manufacturing PMI and construction & services PMI to two-year lows of 47.4 and 41.9, respectively in April," *CreditSights* [wrote](#) in a weekly note.

Construction activity is muted amid property sector stress and Covid-19 related lockdowns, with the first-quarter steel and cement production in China dropping 10.5% and 12.1% year over year, respectively, according to another Fitch Rating's [report](#). Despite curbed production of basic materials, prices remain supported by rising high input costs and supply shortage, the note states.

In a shortened work week, with onshore exchanges closed May 2-4 for Labor Day holidays, property bonds from high-yield issuers are bouncing after the Chinese market watchdog flashed signals of support for real estate developers, including the China Securities Regulatory Commission vowing to support developers' onshore bond issuance and the Shenzhen Stock Exchange suggesting to give a greenlight to "high-quality" developers for broadening uses of bond proceeds beyond debt refinancing. As with other directional policy messages from Beijing, the devil is in the details, *CreditSights* [suggested](#).

#### Policy

The National Association of Financial Market Institutional Investors, a self-regulatory body overseeing China's interbank bank market, announced new rules on May 5 to introduce bond exchange and consent solicitation mechanisms into interbank-traded bonds "in response to market needs," according to [notices](#) on its website.

The Shenzhen Stock Exchange released a notice on May 4 that the exchange will "allow high-quality developers to broaden their uses of bond proceeds" for the healthy development of the sector, with no further details provided. The message came after the exchange convened a teleconference on April 29 with local government finance officials and representatives from nine private enterprises, four brokerage firms and 14 financing guarantee firms for inputs to address financing needs of the private sector, according to a [notice](#) released.

#### Spotlight

##### **Cogard/Country Garden**

The investment-grade developer announced another round of bond buyback on Monday, May 2, repurchasing \$9 million of its 4.75% senior notes due July 2022, and \$1 million of its 4.75% senior notes due 2023, sending its short-dated bonds up. Read the company announcement [here](#).

##### **Times China**

S&P has withdrawn its B+ long-term issuer credit ratings on the developer "at the company's request" The outlook was negative at the time of withdrawal. Times China was lowered to B2 from B1 by Moody's and to B+ from BB- by Fitch in March citing deteriorating liquidity. The company made the redemption on two dollar bonds totaling \$342 million maturing in April. Read *CreditSights* report on the company [here](#).

##### **Powerlong**

*CreditSights* has revised its recommendation on Powerlong's 4% unsecured notes due July 2022 to Hold from Sell to reflect "increased probability of repayment." Analysts pointed out in a note that the work performed by Powerlong's new auditor Elite Partners after the resignation of PwC did not constitute an assurance in accordance with the Hong Kong Standards on Auditing and other rules. Read *CreditSights*' note in detail [here](#).

##### **KWG**

Offshore notes of KWG Group underperformed its peers this week as positive sentiment following last week's earnings call waned, according to *CreditSights*. LFI reported that the management told investors in its earnings call on April 27 that the company is in talks with mainland banks for RMB 15 billion loans to refinance short-term debt and with offshore bankers to issue syndicated loans to refinance its bonds due Sept. 22

bonds which they expect to complete by June. Investors remain concerned about the execution risk of the refinancing plan. On May 5, Moody also [withdrew](#) its ratings on the company citing business reasons. Read CreditSights' note on KWG's results [here](#).

### **Watchlist**

#### **Sunac**

The issuer of 12 dollar bonds has missed at least three coupon payments on dollar bonds, namely its 7.95% bond due 2023 on March 11, its 8.35% bond due 2023 on March 19, and its 5.95% bond due 2024 on March 26, and entered a 30-day grace period under each of the bond indentures. Read CreditSights report on the company [here](#).

#### **Shimao**

Singaporean OCBC Bank, or Oversea-Chinese Banking Corporation, has filed a suit against Shimao and its unit in a Hong Kong court regarding a \$100 million revolving credit facility entered in October, likely triggering an event of default. Read *CreditSights* report on the concern [here](#).

#### **Zhenro**

Zhenro Properties missed the grace period deadline to cure three bond interest payments, respectively \$12.9 million, \$8.3 million and \$11.4 million before April 10, April 14, and April 14. The non-payments have constituted an event of default on notes but accelerated payments have yet to be triggered. Read Zhenro's filing [here](#).

#### **Zhongliang**

The company was cut to C from B- by Fitch after the company launched a consent solicitation to exchange \$290 million of its 8.5% senior notes due May 19 and \$440 million of its 9.5% senior notes due July 9 for new senior notes due April 2023 and December 2023. The recovery rating of 4 remains unchanged. Read the ratings note [here](#).

#### **R&F/Easy Tactic**

Fitch affirmed Guangzhou R&F at CC and its subsidiary R&F Properties (HK) at CC, and downgraded the two entities' senior unsecured notes to C from CC with a revised recovery rating to RR4 from RR6. The downgrade was driven by poor recovery prospects. Read the ratings notes [here](#).

#### **Logan**

Offshore bonds of Logan took a beating after a UBS report showed that Logan has sizable off-balance sheet debt that could bring its net debt as much as 1.7 times of its reported figure as of June 2021. On March 31, Credit Derivatives Determinations Committees determined that a credit event occurred on May 17 after Logan Group failed to repay \$200 million credit facilities borrowed by its subsidiary Perfect Odyssey Ltd on March 10, 2020 that counts Logan Group as guarantor, according to a [disclosure](#) and [statement](#) on the website of CDDC. A group of offshore bondholders has retained Ropes & Gray LLP as legal advisor. Read *CreditSights*' reports on the company [here](#).

#### **Agile**

The developer was cut to B- and B2 by [S&P](#) and [Moody's](#), respectively, on the delayed release of audit reports. Ratings of the dollar denominated notes that Agile guarantees were cut to CCC+ from B by S&P from B and to B3 from B2 by Moodys. Read CreditSights' report on the company [here](#).

#### **Ronshine**

PricewaterhouseCoopers resigned as auditor for Ronshine China Holdings as the firm was unable to complete audit for 2021 financials due to delays in receipts of bank confirmations linked to "pledging of certain bank deposits" by the developer. Fitch downgraded Ronshine to CCC from B- on March 25 due to increasing uncertainty following the auditing replacement. Read CreditSights' report on the company [here](#).

#### **Yuzhou**

Yuzhou has retained BOCI Asia and Haitong International Securities as financial advisors and Linklaters as legal advisor to communicate with offshore creditors. An event of default was triggered on Yuzhou's outstanding \$500 million 8.5% senior notes due 2023 as the developer failed to cure \$21.25 million missed interest due Feb. 4 before a 30-day grace period expired. Yuzhou said at that time that it has yet to receive notices from holders on request of accelerated payments of the 2023 notes. Read its 2021 financials [here](#).

#### **Redco Properties**

Redco was upgraded to CCC- from RD by Fitch after completion of a distressed exchange offer on April 8. The company's capital structure was improved after it purchased bonds due in 2022 and 2023 in exchange for bonds maturing in 2023 with maturities extended for nine to 12 months, noted Fitch. Redco faces around \$692 million offshore bonds maturing in 2023. Read the ratings note [here](#).

#### **Modern Land**

Modern Land is proposing a scheme of arrangement in the Cayman Islands after proposing a restructuring support agreement dated Feb. 25 with creditors. Read LFI's full coverage [here](#).

#### **China Evergrande / Scenery Journey**

Evergrande [formed](#) an independent investigation committee to look into the \$2 billion-worth enforced pledge guarantee. The committee appointed Reed Smith Richards Butler as advisor. Evergrande said earlier that in preparing for 2021 financials, it found that certain bank

lenders of Evergrande Property Services had enforced the \$2 billion deposits on the service unit which were pledged as security for third-party guarantees. Offshore bondholders comprising Saba, Redwood and Ashmore subsequently threatened to take formal legal action against Evergrande. Evergrande has [delayed](#) the release of its audited 2021 financials. Read CreditSights' highlighted notes from the investor call [here](#).

#### **Kaisa**

The distressed developer announced on April 5 that it entered into a "strategic co-operation agreement" with two state-linked companies on potential assets acquisition and joint venture arrangements indicating a restructuring to be pursued, according to CreditSights. Read CreditSights' note on the transaction [here](#).

#### **Fantasia**

Fantasia and its subsidiary Colour Life Group have entered into an agreement with a domestic investment firm backed by Guangdong government for "an overall debt restructuring plan" of Fantasia, where a government related entity will likely become a possible strategic investor. Read Fantasia's filing [here](#).

#### **Links**

##### **CreditSights**

[Asia Credit Market Review: April 2022](#)

[Asia Credit Recommendations: May 2022](#)

[Asia Weekly: Feb Hikes 50 bp As Expected](#)

[China Corporates: 88 More Firms Face US Delisting](#)

[Powerlong FY21: Agreement Obtained From Auditor](#)

##### **Fitch Ratings**

[China Agriculture/Protein Watch - 1Q22: High Grain Prices to Affect Profit Margins](#)

##### **Issuers**

[China 2022 Growth Forecast Cut Amid Covid-19 Outbreaks](#)

[China Basic Materials Watch – 1Q22](#)

[Credit at a Glance – Asia Corporates - May 2022](#)

##### **Issuers**

Chinese real estate US dollar bonds comprise more than \$54.5 billion of principal value across 39 issuers, per the ICE BofA Asian Dollar High Yield Corporate Index. Defaulted issuers including China Evergrande, Guangzhou R&F, and Kaisa Group have been removed from the index.

<b>China Real Estate USD Issuers</b>	<b>Principal</b>
Agile Group Holdings Limited	2,947.0
Central China Real Estate Limited	1,548.8
Central Plaza Development Limited	500.0
China SCE Group Holdings Limited	2,300.0
China South City Holdings Ltd.	370.0
CIFI Holdings Group Co Ltd	3,391.0
Easy Tactic Limited	2,225.0
Franshion Brilliant Limited	300.0
Gemdale Ever Prosperity Investment Limited	480.0
Greenland Global Investment Ltd.	2,050.0
Greentown China Holdings Ltd.	750.0
Guangzhou Fineland Real Estate Development Co. Ltd.	340.0
Hopson Development Holdings Limited	300.0
Jiayuan International Group Ltd	600.0
Jinke Property Group Co.Ltd.	325.0
KWG Group Holdings Limited	3,161.0
Logan Group Company Ltd	1,900.0
New Metro Global Limited	1,504.0
Powerlong Real Estate Holdings Ltd	1,455.0
Radiance Capital Investments Limited	250.0
Radiance Holdings (Group) Company Limited	300.0
Redco Properties Group Limited	251.8
Redsun Properties Group Limited	805.0
RKPF Overseas 2019 (A) Limited	1,195.6
RKPF Overseas 2019 (E) Limited	300.0
Rkpf Overseas 2020 A Limited	1,000.0
Ronshine China Holdings Limited	976.5
Seazen Group Limited	550.0
Shimao Group Holdings Ltd	4,720.0
Skyfame International Holdings Limited	292.0
Sunac China Holdings Limited	6,528.4
Times China Holdings Limited	2,350.0
Wanda Properties International Co. Ltd	600.0
Wanda Properties Overseas Limited	400.0
Xinhu (BVI) 2018 Holding Company Limited	500.0
Xinyuan Real Estate Co. Ltd.	530.5
Yanlord Land (HK) Co. Limited	1,250.0
Yuzhou Group Holdings Company Ltd	3,325.9
Zhenro Properties Group Limited	1,963.0
<b>Total USD Debt Outstanding</b>	<b>54,535.4</b>

#### Related Company(s)

Special Situations Weekly Wrap

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