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**Fixed Income**
**Credit Commentary**

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## CMBI Credit Commentary

# CSCHCN: A more convincing restructuring plan with a clearer roadmap


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### FV estimates to be 75 to 99

Further to our comments yesterday, we consider China South City (CSC)'s restructuring plan one of most convincing, if not the most, amongst 20-plus debt restructuring plan in the Chinese property sector. With SZCDG's equity injection, asset sales to SZ SOEs, as well as assistance in securing onshore loans, we can see the roadmap and actionable plan for recovery. While the progress of negotiation for onshore secured loans is slower than our expectation (partly reflect the tight credit environment for the property sector even for company with state-owned background), SZCDG once again demonstrated its commitment and ability to provide liquidity support by acquiring 50% of CSC's property management operations. We believe that the maturity extension will give CSC more time in securing cheaper and longer-term onshore loans. CSCHCNs were 6-8 pts higher post the announcement of restructuring plan yesterday. Our FV estimates (excluding consent fee of 1 pt and interest accrual up to the effective date, expected to be 9 Aug'22) of CSCHCNs are 75 to 99. Compared with current valuations of 41-51, we consider CSCHCNs offer sufficient margin of safety and good upside potential in view of its actionable restructuring plan. We have buy recommendations on CSCHCNs.

FV estimates

| Discount rate | 10% | 15% | 20% | 25% |
|---|---|---|---|---|
| CSCHCN 11 1/2 08/12/22 | 98.92 | 92.97 | 87.65 | 82.87 |
| CSCHCN 10 7/8 10/26/22 | 98.80 | 92.14 | 86.23 | 80.97 |
| CSCHCN 7 1/4 11/20/22 | 98.76 | 91.75 | 85.55 | 80.03 |
| CSCHCN 11.95 02/09/23 | 98.11 | 90.81 | 84.01 | 77.56 |
| CSCHCN 10 3/4 04/11/23 | 97.22 | 90.22 | 82.99 | 75.35 |

### Consent solicitation not ideal, but more generous….

To recap, CSC is soliciting the consent to extend the maturities of its 5 USD bonds (o/s totaled USD1.6bn) for 20 months. It will pay 1 pt early consent fee and 5 pts on original maturities. A total of 10-12 pts amortization within 6 months of the original maturities, and accrued


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interest will be paid on the original coupon dates. The coupon rate (from 7.25% to 11.95%) will be unified to 9%.

The early consent deadline is 27 Jul'22 and the consent threshold is 75% in principal amount for each of its 5 USD bonds.

The 20-month extension in maturity is longer than our expectation of 12-month extension. As per CSC, the 20-month extension will move those USD bonds from short-term to long-term debts. This will relieve its onshore lenders' concerns of its near-term repayment pressure, and increase the chance for CSC to refinance and secure new loans onshore. In our view, CSC's consent solicitation plan is not ideal but more generous than most of those of its peers with faster amortization schedules.

### …. and credit enhancement provided

Additionally, SZCDG will provided keepwell for the consented bonds. In late Jun'22, CSC completed the consent solicitation for its 5 outstanding USD bonds to include SZCDG as a permitted holder and change the threshold of COC to 29.9% from 20.0% after SEZCDIH, a wholly owned subsidiary of SZCDG. CSC will also set up specified offshore accounts for early redemption of the consented bonds when CSC obtains new onshore loans against its specified assets in Hefei and Chongqing. Based on asset valuation of cUSD3bn and a LTV of 50%, CSC could obtain incremental secured loans of USD1.2bn from these assets. As per CSC, the usage of these loans under discussions will be restricted for USD bonds repayment.

| | | | | | | Cash amortization | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Original maturity | Extended maturity | Original coupon | New coupon | 20-Nov-22 | Original maturity | End 2022 | 6-month | 1-yr | New maturity |
| CSCHCN 11 1/2 08/12/22 | XS2085883119 | 12-Aug-22 | 12-Apr-24 | 11.50% | 9% | | 5% | 2% | 5% | 5% | 83% |
| CSCHCN 10 7/8 10/26/22 | XS2120092882 | 26-Oct-22 | 26-Jun-24 | 10.875% | 9% | | 5% | 2% | 5% | 5% | 83% |
| CSCHCN 7 1/4 11/20/22 | XS1720216388 | 20-Nov-22 | 20-Jul-24 | 7.25% | 9% | | 5% | | 5% | 5% | 85% |
| CSCHCN 11.95 02/09/23 | XS2238030162 | 9-Feb-23 | 9-Oct-24 | 11.95% | 9% | 2.5% | 2.5% | | 5% | 5% | 85% |
| CSCHCN 10 3/4 04/11/23 | XS2227909640 | 11-Apr-23 | 11-Dec-24 | 10.75% | 9% | 2.5% | 2.5% | | 5% | 5% | 85% |

### The road map to recovery

While every developer is, to some extent, at the mercy of the property market and government policies, CSC has a clearer and more actionable plan to take out its USD bonds. The discussions of secured loans against specified assets in Hefei and Chongqing, if successfully concluded, will significantly speed up redemption and resolve its offshore maturities. The incremental loans from these assets could be USD1.2bn, compared with its outstanding USD bonds totaled USD1.6bn. Recalled that CSC repaid 2 USD bonds (issue size totaled USD550mn in Aug and Sep'22) through the drawdown of onshore secured loans. We understand that CSC is under discussions of up to another USD800mn onshore secured loans with the assistance of SZCDG.

SZCDG also demonstrated its commitment to provide financial support to CSC while the discussions to secure onshore loans is slower than expected. On 15 Jul'22, CSC entered into an equity transfer agreement with SZCDG to sell CSC's 50% stakes in its property management operations to SZCDG for HKD1.46bn (USD185mn). As per the agreement, CSC will have the call option to buy back the 50% stakes in the property management operations and SZCDG will have the put option should the put triggering events including failure to meet 70% of performance guarantee for successive years. The performance guarantee (annual net profit of HKD264.5-298.1mn over the coming 3 years vs. HKD89.488mn in FY22) appears aggressive but FY22 results were adversely affected by the waiver of management fee given COVID. CSC expects the stake sale will complete by Sep'22.

### Cash burnt undermined recent efforts in funding raising

As per our discussions with CSC, it experienced quite a bit of cash burnt over the past few months in meeting debt repayment and interest expenses, as well as construction capex. These offset its effort in funding raising over the past months. To illustrate, it repaid on shore bonds of RMB600mn in Apr'22. It also repaid RMB500mn loans at project levels after receiving RMB1.2bn (out of total consideration RMB1.7bn) from the sales of logistic assets in Hefei and Zhengzhou. Additionally, cash interest payment is cRMB200mn per month. These are against a backdrop of notably weaker operating cash inflow. In FY22 (ended Mar'22), its contract sales fell 27% to HK11.8bn.

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