

CMBI Credit Commentary - CSCHCN

CSCHCN - Maturity extensions fully priced in, maintain OW

China South City (CSC) announced consent solicitation for 6-month and 4-month maturity extension for CSCHCH 11.5%'22 and CSCHCN 10.875%'22 to 12 Aug'22 and 26 Oct'22, respectively. The maturity extension should be not a surprise. As we wrote in our Asia HY corps outlook 2022 dated 4 Jan'22, the new share placement to SZDCG will be completed by Apr'22. The maturity extensions will allow CSC adequate time to complete the transaction while maintain time order of its USD bonds maturities unchanged, i.e. CSCHCH 11.5%'22 and CSCHCN 10.875%'22 will remain the first 2 maturities of CSC's USD bonds. Its other USD bonds are USD276.5mn due Nov'22, USD225mn due Feb'23 and USD370mn due Apr'23.

We maintain OW on CSCHCNs as the current valuations of CSCHCNs more than reflected a few months maturity extension. To illustrate, the YTM of CSCHCN 11.5%'22 (offered at 77) will be 78% factoring into a 6-month maturity extension. We see a good chance of the new share placement to SZDCG to go through as CSC and SZDCG entered into a share subscription agreement instead of a framework agreement. We understand the intention of the strategic cooperation agreement between them is the back-up for SZDCG to offer near-term support in case the new share placement will experience delay beyond the long stop date at end of Jun'22. SZDCG will become the largest shareholder of CSC upon the completion of new share placement. This will considerably improve CSC's funding access and enhance its credit profile. Assuming a discount rate of 10% (demanding in our view for a company with Shenzhen government being the largest shareholder), the fair price of CSCHCN 11.5%'22 (due Aug'22) should be c101.

Summary of the consent solicitation

	CSCHCN 11 1/2 02/12/22	CSCHCN 10 7/8 06/26/22
O/S (USD mn)	348	346
Original maturity	12 Feb'22	26 Jun'22
New maturity	12 Aug'22	26 Oct'22
Early Consent fee	0.5	0.5
Early expiration date	26 Jan'22	26 Jan'22
Late consent fee	0.15	0.15
Expiration date	28 Jan'22	28 Jan'22
Approval threshold	75%	75%

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