CMB INTERNATIONAL

Fixed Income
Credit Commentary

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CMBI Credit Commentary – ZHLGHD

Zhongliang - Q&As on the exchange and consent solicitation

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Exchange or hold-out?

Exchange, in our view, is a better option! As per Zhongliang, its cash on hand as at 31 Mar'22 was cRMB22bn compared with RMB27.6bn as at 31 Dec'22. Over 90% of this were restricted, mainly in escrow accounts. That means, its unrestricted cash would be smaller than RMB220mn (cUSD33mn). Hence, even if up to 95% of holders of ZHLGHD 8.5%'22 and 9.5%'22 will exchange and only holders of 5% of the principal amount (i.e. USD36.5mn) opt to stay put, Zhongliang will not be able to repay these amount these hold-outs. Zhongliang mentioned clearly that it would not be able to repay the hold-outs and it had to be fair for all holders. Despite no upfront repayment, we think exchange is still a better option as holders will receive 1pt incentive fee, c3-4pts accrued interests up to settlement date (17 May'22) and will start to accrue interests on the news notes/bonds from settlement date (on or before 17 May). Please see our comments yesterday on details of the exchange and consent solicitation.

Should holders of ZHLGHD 9.5%'22 (due 29 Jul'22) wait?

We doubt! We are not too optimistic that operating environment and Zhongliang's liquidity will improve considerably before end of 3Q22, taking cues from cash burnt (RMB5.6bn) in 1Q22, and accelerating sales decline (70% yoy in Mar – Apr'22) due to the COVID lockdown. We understand that cash burnt is partly attributable to debt repayments including the USD250mn bonds due Jan'22. Indeed, Zhongliang repaid 3 USD bonds with aggregate issue size of USD850mn since 2H21.

What will be the split of new bonds maturing in Apr'23 and Dec'23?

30/70 subject to the cap of USD533mn on the Dec'23 bonds. USD533mn is Zhongliang's available NDRC quota. As per our discussions with Zhongliang, the allocation of new notes/bonds between the 2 maturities of Apr'23 and Dec'23 will not be in the form of waterfall, i.e. funnel all exchange bonds into the one maturing in Dec'23 first up to USD533mn before any allocations to the other one maturing in Apr'23. The company is aware of the fact that ZHLGHD 12%'23 (due 17 Apr'23), which is not subject to exchange, will mature ahead of new bonds maturing in Dec'23. The 30/70 split will ensure a meaningful portion of new bonds to mature ahead of ZHLGHD 12%'23, and the size of new bonds maturing in Apr'23 will be large enough for any trading liquidity.

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Any credit enhancement?

Strictly speaking no! However, Zhongliang proposes the proceeds allocation plan for specific asset sales. Under the plan, It earmarked 12 ready-for-sale projects (in major T2 cities such as Suzhou and Wuxi or provincial capitals) with saleable resources of cRMB10bn. 50% of net consideration of over RMB500mn from these sales will be reserved for principal repayments, early redemption and interest payments to bondholders if the cumulative reserved amount is over USD50mn.

What will be the treatment for USD150mn private placement (pp) due Aug'22?

Zhongliang reached an agreement with the holder of the pp to extend the maturity to 15 May'23. To be specific, the pp will be fully redeemed with loans provided by the pp holder. Other terms such as interest rate (11%) of the loans will remain the same. The maturity extension is conditional upon the successful exchange of ZHLGHD 8.5%'22 and 9.5%'22.

Any other onshore and offshore bond maturities?

The only other bond maturity will be onshore ABS of RMB318.6mn due Nov'22. Zhongliang stressed that it does not have any off-balance sheet bonds.

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