

CMBI Credit Commentary

GZRF: The missing parts of consent solicitation and exchange offers

The LOI in essence

Further to our write-up on GZRF's LOI to sell ONE Nine Elms, the London mixed-use development project, we have a few discussions with clients on the rationale of the sale and implication to USD bondholders. In essence, the LOI is for GZRF to sell ONE Nine Elms to a wholly owned SPV of CHEUNG Chung Kiu, in return, the SPV will assume USD bonds of at least USD800mn issued by GZRF. The USD bonds will be exchanged into perps issued by the SPV and the perps will be backed by cash flow from ONE Nine Elms.

Is the sale positive or negative for USD bondholders?

Bond	ISIN	o/s amount (USD mn)	Ask Price	Ask YTM
GZRFPR 6 ½ 07/11/25	XS2495355674	1,443	6.8	1,586.2%
GZRFPR 6 ½ 07/11/27	XS2495358009	2,461	7.1	215.6%
GZRFPR 6 ½ 07/11/28	XS2495359403	1,793	6.9	169.8%
		5,698		

There remain many missing parts of the consent solicitation and exchange offers to determine if the potential sale of One Nine Elms is good or bad for USD bondholders. Nonetheless, completion of the project have already been delayed from Nov'23 to Apr'24. Given the tight liquidity of GZRF, the project may not be completed as scheduled and GZRF could default on the project loans. This will adversely affect the recovery rate of GZRF's USD bonds. Regarding whether the sale is fairly priced, a good gauge would be GZRF's sale of its 50% stakes in an adjacent JV project with CC Land (also owned by Cheung) for HKD2.7bn in Apr'22. This translated into an AV of cHKD3,200/sq ft. The minimum consideration of the sale of ONE Nine Elms is USD800mn (HKD6.2bn), translating into an AV of cHKD5,100/sq ft.

We believe that obtaining bondholders' approval could be challenging if the asset sale, the consent and exchange offers are not structured in a way which is beneficial to bondholders, especially GZRFPRs are trading at distressed prices of only 6-7pts and the opportunity cost for USD bondholders to say "no" is limited. The approval threshold for the consent should be the same as that of the consent in Jun'22, i.e. 75% of holders in principal amount in EGM with a meeting quorum of 66% of holders in principle amount of each USD bonds. Li Sze Lim and his family own 0.9%, 0.5% and 7.4% of the o/s amount of the bonds due 2025, 2027 and 2028, respectively. The ownership, if any, of Cheung and his family in GZRFPRs is not disclosed.

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What are the major missing parts?

1. The structure, terms and ranking of various perps?

We have numerous questions but the key one is “and” or “or”? Do bondholders have to participate into the exchanges of Tranche B1 and B2 and A and C? Or they can choose to participate into one or more than one tranches? Is cash consideration subscription for Tranche A only reserved for subscribers of Tranche B2? What will be the major differences amongst the terms of various tranches? We believe that bondholders can exchange the USD bonds into one or more than one tranches of perps at their discretion. The terms for Tranches A and C would be more favourable given the requirements of additional cash contribution.

2. Any cap on the exchange?

A minimum of USD800mn bond exchange mentioned throughout the press release on 6 Feb'24. However, will the exchange be capped? As disclosed in the press release, the carry value of the project as of Dec'23 was only HKD3.2bn (cUSD405mn), excluding the development and property value totaled HKD23.4bn (cUSD3bn). If the perps are properly structured such that cash flow and value of the project are “ring-fenced” for the perps holders, we would argue that the higher the cap (up to the fair residual value of the project), the less likelihood of the sale of ONE Nine Elms will damage the recovery value of USD bondholders.

3. What are the debt level at ONE Nine Elms?

As per the consent solicitation memorandum in Jun'22, the project loan at ONE Nine Elms was GBP772mn, GBP130mn was drawn for debt repayment and the final maturity was Jun'26. We would need to find out the total debt level at the project level to estimate the residual value of the project for USD bondholders. The exchange will raise GBP820mn and USD200mn. We expect these to be used to settle project loans and capex required to complete the project. We also need to find out what will be the plan B if the exchange fails to raise the targeted amount.

4. Cheung and his family's ownership of GZRFPRs

Whether and how much Cheung and his family own GZRFs are not disclosed. We would need to find out how much influence he and his family have on the consent solicitation process, and whether they will abstain from voting in consent solicitation.

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