

## CMBI Credit Commentary

### NWD – “Privatization” helps mobilizing liquidity within the group

#### The Asset Asian G3 Bond Benchmark Review 2023

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#### Maintain Buy on NWDEVL 4.125 Perp, NWDEVL 6.15 Perp and NWSZF 5.75 Perp

	NWDEVL 4 1/8 PERP	NWDEVL 6.15 PERP	NWSZF 5 3/4 PERP
Price	68.8	93.7	98.9
YTC	13.3%	10.3%	7.7%
Call date	3/10/2028	3/16/2025	1/31/2024
Coupon	Reset to 5yr	Reset to 3yr	Reset to 5yr
reset/step-up	UST+5.858%, step-up 300bps.	UST+6.201%, step-up 300bps.	UST+8.205%, step-up 500bps.

If NWS offer goes ahead, NWD will receive a net proceeds cUSD2.3bn in cash (after special dividend). This will notably strengthen its financial flexibility for refinancing, as well as well redemption of its perps. Recalled that NWD and NWS conducted tender offers in Dec’22 to buy back USD482.5mn (in principal amount) of NWDEVLs and NWSZFs. We continue to believe that the sweet spots of NWDEVL/NWSZF complex are perps with coupon reset and step-up given there is no short-dated paper. NWD, in our view, will have an even stronger incentive to early redeem its perps with reset and coupon step-up. We maintain Buy on NWDEVL 4.125 Perp, NWDEVL 6.15 Perp and NWSZF 5.75 Perp. At the time of writing, NWDEVLs gained 2.5-3.75pts and NWSZFs were up 0.75pt this morning.

#### NWS offer to notably strengthen the liquidity of NWD

As at Dec’22	NWD (excl NWS)	Pro-forma
Cash (HKD mn)	38,968.7	56,750.7
ST debt/Cash	1.0x	1.4x

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CTFH, the parent of NWD, offers (through its 100% subsidiary) to acquire all the outstanding shares owned by NWD and other non-concerted parties in cash. The offer price is HKD9.15 per NWS share, compared with the last close of HKD7.99. The maximum cash consideration will be HKD35.5mn (cUSD4.6bn). The key condition, in our view, is to secure the approval from the independent shareholders of NWD. The longstop date of the NWS offer is on 26 Dec'23.

NWD is 45.2% owned by CTFH. NWD owns a 60.9% stake in NWS. Should the offer go ahead, NWD will receive cash of HKD21.8bn. Even after the plan to pay a special dividend of HKD4bn, NWD's financial flexibility in refinancing and redemption of its perps will notably improve. The offer will effectively mobilize liquidity at lowly-g geared NWS upward with manageable cash leakage (through special dividend). On a pro-forma basis, NWD's cash on hand will increase to HKD56.8bn from HKD39.0bn on a pro-forma basis. Its cash/ST debts ratio will also increase to 1.4x from 1.0x.

### The impact to NWS?

As at Dec'22	NWS
Cash (HKD mn)	17,691.9
ST debt/Cash	3.0x
Net gearing	13%

CTFH will fund the NWS offer (up to HKD35.5mn) with internal resources and loan facility. We expect CTFH to mobilize part of cash and liquidity at NWS level to settle the offer considerations. There are also concerns that information flow of NWS will more limited if NWS will be delisted. Nonetheless, we take comfort that the financial profile of NWS is solid and its gearing level is low. Even factoring into the potential special dividend to be paid to partially settle the offer considerations, NWS's credit profile should remain health. On information flow, NWS will continue to be required to file periodic financial reports as a bond issuer offshore and onshore. Recalled that NWS issued RMB1.5bn (coupon rate of 3.9%) onshore MTN in late May'23. Information flow should not be materially weakened.

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