

CMBI Credit Commentary - THSCPA

THSCPA – Consent favors bondholders; recovery should be mid-50 to low-60

Tuspark Forward (issuer of the THSCPA bonds) launched consent solicitation of the THSCPA 7.95% '21 (USD400mn) and THSCPA 6.95% '22 (USD550mn) to extend maturities to May'24 with the major terms as below. We estimated the recovery value of the bonds to be in the range of 47 pts (worst-case scenario) to 75 pts (blue-sky scenario), depending on the liquidation value of the new assets guaranteed and progress of assets sale. **Our base case recovery rate is mid-50 to low-60 (table 1), based on assumed recovery rates of 60%-70% from the new assets guaranteed, and 60%-70% from asset sales, should the Extraordinary Resolutions be implemented.**

Table 1: Recovery value – base case

Items	Market valuation (USD mn)	Adj. valuation	as % of USD950mn	Assumption
Consent fee			2pts	
Upfront payment			5pts	
Addition of new guarantees	493	296-345	31-36 pts	30%-40% discount
Overdue and accrued interests			4-4.5 pts	
Assets sales	177	106-124	13-11 pts	30%-40% discount
Recovery value			54-61 pts	

Table 2: Recovery sensitivity analysis

		<i>Recovery from new assets guaranteed</i>				
		90%	80%	70%	60%	50%
	90%	74.9	69.7	64.5	59.3	54.1
	80%	73.0	67.8	62.6	57.4	52.2
Recovery from assets sales	70%	71.1	65.9	60.7	55.5	50.3
	60%	69.2	64.0	58.8	53.6	48.4
	50%	67.3	62.1	56.9	51.7	46.5

In addition, we note the following key points;

1) **Maturity extension.** Extend the 21s and 22s bond's maturity to

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- 13 May'24. Coupon rates will remain at 6.95% and 7.95% for the 2 tranches.
- 2) **Consent fee.** 2 pts of early consent fee for investors who submit the consent on or before 4 Aug'21, 0.5 pt of base consent fee on or before 11 Aug'21;
 - 3) **Upfront repayment.** 5 pts of the THSCPA 21s or 22s principal by 31 Aug'21
 - 4) **Addition of new assets guaranteed (~USD490mn at today's market valuation).** Full recovery of the new assets (USD490mn) translates into 52 pts of total outstanding of THSCPA'S USD outstanding (USD950mn). We apply 30%-40% discount ratio for the new assets guaranteed.
 - a) New guarantors, including owners of 94mn shares of VNET (VNET) and 4bn shares of CEGL (1250.HK). Total market share amounted to ~HKD2.66bn (~USD338mn) at market price of 23 Jul'21;
 - b) Granting of an intercompany loan with valuation of USD152mn.

Table 3: valuation of assets under new guarantors and granted assets

Assets	Shares	Est. Valuation at 23 Jul'21 (USD mn)
VNET (VNET. US)	94,415,771	288.8
CEGL (1250 HK)	4,045,000,000	52.1
Shares valuation		340.8
Intercompany loan		152.2
a) Total assets		493.0
b) THSCPA new notes size		950.0
a) / b)		52%

- 5) **Principal repayment scheme.** To repay at least 35% of the 21s or 22s principal by Aug'22, at least 65% of the 21s or 22s principal by Aug'23, and the rest by the new due date (May'24)
- 6) **Overdue interest repayment scheme.** Repayments of the overdue interest and accrued interest of the 22s bonds and accrued interest of the 21s bond. These translate into ~4 pts for the 21s and ~4.5 pts for the 22s.
- 7) **Further assets disposals with estimated valuation of RMB1.15bn.** Tus-Holdings will promptly dispose of the below assets and deposits the sales proceeds into an escrow account. We note these assets may require longer time for disposal. Thus, we assumed 30%-40% discount for the assets sales. Full recovery of the assets translates into ~19 pts of THSCPA'S USD outstanding (USD950mn). We also apply 30%-40% discount in our base case analysis.

Table 4: valuation of assets to be disposed

Assets to be disposed	Estimated valuation as of 21 July 2021 (RMB mn)
Photovoltaic power station fund	100
Equity shares 2 NEEQ listed companies	199
Beijing office building	850
Total	1,149

- 8) **Consent requirement.** 75% of consent is required to pass the relevant meeting of the consent solicitation. The quorum required for each meeting is holding in the aggregate at least 66% in principal amount of the of the bonds. Pass of both relevant Extraordinary Resolutions (in respect of the 2021s and 2022s) is required to satisfy the Consent Conditions. **That is to say, consent from holders with at least 50% of each bond's principal amount is required to implement the Extraordinary Resolutions.**

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