

## CMBI Credit Commentary

### NWDEVL: Our thoughts on the latest developments

We were on the road over the last 1.5 weeks and had numerous discussions with clients on NWD. While there remains limited clarity as to the latest developments, we summarize our thoughts based on news/information in public domain below and try to connect dots as much as we can.

#### What are happening? Refinancing or restructuring?

There are numerous reports and rumours since late 2024 on debt restructuring. As we have been discussing, NWD, as every other companies with maturing debts, should be considering refinancing options and be receiving refinancing proposals from time to time. Indeed, the company has once again indicated that it would work on early refinancing of maturing loans in 2025 and 2026. At the moment, we believe that NWD's focuses are on refinancing loans instead of a holistic restructuring including bonds (next maturity in Jan'27) and the perps. With hindsight, the consent solicitation completed late last year should be a precursor for the discussions of early loan refinancing.

#### How alarming are the covenant changes?

We understand that the calculation of net gearing ratio in NWD's loan covenants excludes the perps and MI, i.e. perps are taken out from the numerator and denominator and while MI is excluded from equity. We estimate that its adj. net gearing ratio to be 73.9% on that basis, compared with 59.1% as of Jun'24. The covenant changes secured in Dec'24 should be more of pre-emptive moves in anticipation of RMB depreciation and delay in NCD instead of a drastic asset write-down or a sharp deterioration in financial profile resulting from asset revaluation over the past months.

#### What banks want and what they could ask for in rolling over loans?

We believe that what banks want is to remain the first in the sequence of repayment. With so many rumours and negative headlines, we would be not be surprised to see banks are more cautious and more demanding in refinancing. We should also not be surprised on any discussions on credit enhancement, banks' reluctance for NWD to call the perps, buy back bonds, as well as discussions on the refinancing options for the US bonds. Additionally, given so many banks (50+) involved, we can envisage the discussions on rolling over the bank loans and providing credit enhancement will take weeks' time and likely be more on a syndicated basis, instead of on a bilateral basis with legal advisor(s) appointed for the discussions.

**Glenn Ko, CFA** 高志和  
(852) 3657 6235  
glennko@cmbi.com.hk

**Cyrena Ng, CPA** 吳蒨瑩  
(852) 3900 0801  
cyrenang@cmbi.com.hk

**Jerry Wang** 王世超  
(852) 3761 8919  
jerrywang@cmbi.com.hk

**CMBI Fixed Income**  
fis@cmbi.com.hk

While we do not have any the details of negotiations between NWD and banks, we believe that there will be 2 directions for banks to ensure banks will get paid first if they agree to rollover loans: either by asking bondholders to extend maturities to restore loan creditors' priority in terms of timeline of repayment; or getting credit enhancement such that banks are structurally more senior than the holders of USD bonds and perps. The latest media reports appear to point to the direction of credit enhancement.

#### .... and how USD bond/perp holders will be affected?

If the reports on credit enhancement are true, USD bond/perps will be structurally subordinated to bank loans. That said, the near-term refinancing pressure on NWD will be notably relieved. We also believe that banks, with the credit enhancement, will be more comfortable with their structural seniority and less concerned on whether maturities of USD bonds have to be extended, the potential calls and distributions of perps will have any adverse impact on the recovery of bank loans.

Regarding credit enhancement, an increment of USD15bn (cHKD117bn) appears to be large in view of ST unsecured bank loans of no more than HKD42bn. Anyway, for the sake of discussions, the book value of pledged assets and secured loans totaled HKD88.5bn and HKD38.1bn as of Jun'24, respectively. This implied a LTV of c43% for its pledged assets. The % of total tangible assets being pledged is 19.9%. Assuming incremental credit enhancement of USD15bn is made, the pledged assets as a % of total intangible assets will increase to 46.3%. Assuming all the credit enhancement will be from IPs, properties under developments, properties held for sales, PPEs and unrestricted cash, the unpledged IPs, properties under developments, properties held for sales, PPEs and unrestricted cash after the credit enhancement will be cHKD116bn (vs total intangible assets of cHKD444bn), equivalent to 2.2x of o/s USD bonds and perps totaled cUSD6.8bn (cHKD53bn). We believe that NWD will still have adequate asset coverage for USD bonds/perps.

#### Can perp distributions be deferred and will they be deferred?

Security	ISIN	Coupon frequency	Last coupon payment date	Distribution pusher till	Next coupon date
NWDEVL 6.25 PERP	XS1960476387	Semi-Annually	7/9/2024	6/12/2024	7/3/2025
NWDEVL 4.8 PERP	XS2268392599	Semi-Annually	9/12/2024	8/3/2025	9/6/2025
NWDEVL 4.125 PERP	XS2348062899	Semi-Annually	10/12/2024	9/3/2025	10/6/2025
NWDEVL 6.15 PERP	XS2435611327	Semi-Annually	16/12/2024	15/3/2025	16/6/2025
NWDEVL 5.25 PERP	XS2132986741	Semi-Annually	22/12/2024	21/3/2025	22/6/2025

Source: Bloomberg.

No at least for the distribution of NWDEVL 6.25 PERP due 7 Mar'25. The last distribution on perps NWD paid was USD26.2mn for NWDEVL 5.25 PERP on 22 Dec'24. Taking cues from the terms of perps, NWD cannot defer distributions on perps if it has paid or declared dividend on equity or distribution of other "parity securities" during the three months ending on the day before that scheduled distribution payment date. The next perp distribution after 7 Mar'25 will be that of NWDEVL 4.8 PERP on 9 Jun'25. The tricky issue is the day before 9 Jun'25, i.e. 8 Jun'25 is Sunday, we are not sure if 3 months ending the day before the scheduled payment date should be 10 Mar'25 or 7 Mar'25. If 10 Mar'25, there could be 1 business day gap NWD can choose to defer the distribution of NWDEVL 4.8 PERP. If 7 Mar'25, NWD has to pay not only the distribution of NWDEVL 4.8 PERP, but also those of NWDEVL 4.125 PERP, NWDEVL 6.15 PERP and NWDEVL 5.25 PERP in Jun'25, as well as NWDEVL 6.25 PERP on 7 Sep'25. The next window for NWD to consider distribution deferral will be in early Dec'25.

Another tricky issue is all NWD's o/s perps are senior unsecured, our interpretation is that the senior unsecured perps and senior unsecured bonds are parity securities. We are also not sure if the coupon payment on senior unsecured bonds could be distribution pushers for the senior unsecured perps.

Indeed, NWD faced the options to defer the distributions in early Dec'24, if senior unsecured perps and senior unsecured bonds are not considered parity securities, when the company was in the mid of consent solicitation and might be planning for the early refinancing of maturing bank loans. Eventually, NWD paid the distributions totaled

USD77.2mn for its 4 out of 5 o/s perps in Dec'24. We believe that NWD will continue to pay perp distribution in the near-term.

### Bonds vs perps?

Security	ISIN	Maturity/ Next call date	Amt Out (USD mn)	Ask Price	Ask YTM (%)	Ask YTC (%)	Cash yield (%)
NWDEVL 6.25 PERP	XS1960476387	7/9/2025	1,300	20.0	31.2	3,242.6	31.3
NWDEVL 6.15 PERP	XS2435611327	2/4/2025	345	34.0	29.7	1,415.1	18.1
NWDEVL 4.8 PERP	XS2268392599	2/4/2025	700	30.5	15.7	2,991.2	15.7
NWDEVL 5.25 PERP	XS2132986741	22/3/2026	999	23.1	40.8	193.2	22.7
NWDEVL 4.125 PERP	XS2348062899	10/3/2028	1,140	21.1	30.6	68.0	19.5
NWDEVL 5.875 06/16/27	XS2488074662	16/6/2027	172	46.6	44.3	48.9	12.6
NWDEVL 8 625 02/08/28	XS2873948702	8/2/2028	400	45.6	41.9	42.8	18.9
NWDEVL 4.75 01/23/27	XS1549621586	23/1/2027	458	46.9	49.8	-	10.1
NWDEVL 4.125 07/18/29	XS2028401086	18/7/2029	718	41.0	28.1	-	10.1
NWDEVL 4.5 05/19/30	XS2175969125	19/5/2030	443	40.5	25.6	-	11.1
NWDEVL 3.75 01/14/31	XS2282055081	14/1/2031	76	40.5	22.3	-	9.3

Source: Bloomberg.

Admittedly, the chance of perps, including high step-up perps, will be called on the first call dates is subject to more uncertainty given the recent negative headlines and negotiations with banks. That said, we believe that perps offer more attractive risk and return profiles than the straight bonds at current valuations given our view of continued distribution payment.

*CMB International Global Markets Limited*

*Fixed Income Department*

Tel: 852 3657 6235/ 852 3900 0801

[fis@cmbi.com.hk](mailto:fis@cmbi.com.hk)

CMB International Global Markets Limited ("CMBGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

### Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

### Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

Disclaimer:

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.