

CMBI Credit Commentary

YUZHOU: More thoughts on the restructuring plan

Terms and RSA so far, scheme not yet launched

Further to our write-up on Yuzhou's proposed restructuring and RSA [in the daily on 20 Feb'24](#), we had numerous client discussions on our thoughts of the proposed restructuring and RSA. We would like to point out that Yuzhou has so far sent out the proposed terms and RSA to gather the creditors' support for the proposed restructuring. Yuzhou is yet to formally launch the scheme. As written before, the approval threshold of the eventual scheme will be a simple majority in headcount, representing at least 75% in principal amount in the scheme meeting. The ad hoc group, representing c30% of aggregate principal amount of public USD bonds, would accede to the RSA. The longstop date of the restructuring plan is on 31st Dec'24. In our opinion, Yuzhou's restructuring plan is less complicated compared with that of Sunac and Aoyuan. We assume the restructuring effect date (RED) to be 30 Sep'24 in our recovery analysis.

Option 1 or 2? Depending on discount rate and equity value

For the sake of discussions, assuming a discount rate below 30%, Option 2 offers higher recovery rates than Option 1 with less outright haircut and longer tenors of the restructured bonds. However, assuming a discounting rate of over 30% and no recoverable value from equity, Option 1 will offer better recovery rates than Option 2. Option 3 will have the lowest recovery rates.

For Option 1, the claims will be converted through the "waterfall", such that a cap of c23% will be converted to STNs for holders of public and senior unsecured USD bonds as per Option 1. The unallocated portion will be automatically converted into MTNs and equity as per in option 2. **We estimate the weighted average recovery rates for the public senior unsecured USD bonds to be 18-39%**, assuming a slippage of 85% in equity value, taking cues from the restructuring of Aoyuan. The equity value contributes 3-4 pct. pts of recovery rate in our analysis. **The weighted average recovery rates for the USD perps to be 16-26%**. The equity value contributes 7-8pct pts of recovery rate, reflecting the higher proportion of debt-to-equity swap for the perps.

For Option 2, **the weighted average recovery rates for the public senior unsecured USD bonds to be 18-43%**, assuming a slippage of 85% in equity value, taking cues from the restructuring of Aoyuan. The equity value contributes c4 pct. pts of recovery rate in our analysis. **The weighted average recovery rates for the USD perps to be 18-30%**. The equity value contributes 9-10pct pts of recovery rate, reflecting the higher proportion of debt-to-equity swap for the perps.

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Table 1 (revised)	Discount rate				
	15%	20%	25%	30%	35%
Recovery for Class A					
Option 1					
Recovery (incl early RSA fee)	38.9%	31.1%	25.3%	21.0%	17.7%
Recovery (excl equity value and incl RSA fee)	35.6%	27.8%	22.1%	17.8%	14.5%
Option 2					
Recovery (incl early RSA fee)	43.3%	33.8%	27.0%	22.0%	18.2%
Recovery (excl equity value and incl RSA fee)	39.1%	29.6%	22.8%	17.8%	14.0%
Option 3					
Recovery (incl RSA fee)	25.3%	16.2%	10.6%	7.0%	4.8%
Recovery for Class B					
Option 1					
Recovery for (incl early RSA fee)	26.0%	22.3%	19.4%	17.3%	15.6%
Recovery for (excl equity value incl early RSA fee)	18.2%	14.5%	11.7%	9.5%	7.8%
Option 2					
Recovery for (incl early RSA fee)	30.0%	25.5%	22.1%	19.6%	17.7%
Recovery for (excl equity value incl early RSA fee)	20.4%	15.9%	12.5%	10.0%	8.1%
Option 3					
Recovery for (incl RSA fee)	25.3%	16.2%	10.6%	7.0%	4.8%

Meaningful debt reduction for Yuzhou

We estimate that the total debts of Yuzhou, including perps and privately placed USD notes to be cUSD8.3bn. The proposed restructuring, if completed, will reduce Yuzhou's total debts by cUSD2.8bn (c34% of the total) if all claims prefer Option 1 or USD2.2bn (c27% of the total) if all claims prefer Option 2. The creditors will own an aggregate shareholding of 36.6%-40.1% of Yuzhou post restructuring while the founding family's ownership will be diluted to no more than 40-41%. The lower debt level will help notably relieve the funding and refinancing pressure of Yuzhou in the coming 2-3 years. That said, significant sale recovery remains to be the key for the longer-term development of Yuzhou. We are also concerned of Yuzhou's ability to replenish quality land bank over the medium term.

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