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CHFOTN: Thoughts on the debt restructuring plan

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8-yr extension, up to 70% debt to trust/equity swap….

In brief, the debt restructuring plan is to swap up to 70% of its debt into trust units/equities or extend maturity of CFLD's "eligible redemption debts" of RMB134bn for 8-year, and the remaining 30% will be settled with proceeds from asset disposals. The eligible redemption debts include 11 offshore bonds with total outstanding amount of USD4.96bn (cRMB35bn) and other onshore debts. CFLD will earmark an asset portfolio with NAV of RMB50mn, c30% of eligible redemption debts of RMB134bn. CFLD is yet to identify the disposable assets and hence, we do not have sufficient information to gauge the fair value of disposable assets. Please see the Appendix 1 for details of the restructuring plan.

…. cash redemption by Dec'23 on a best effort basis….

As per the debt restructuring plan, CFLD will sell assets in disposable portfolio and, on a best effort basis, to redeem 64.2% of Bond 1 in cash, i.e. c30% cash repayment (including 1% cash prepayment fee to be paid on restructuring effect date) by 31 Dec'23. Failure to Bond 1 in cash by 31 Dec'23 is not an event of default.

…. 1% cash prepayment fee to be deducted from principal amount

In our view, the cash pre-payment fee is more of a principal repayment as the "fee" will be deducted from the principal amount. The cash prepayment fee deadline is on 13 Oct'22 and the longstop date of the restructuring plan is 31 Mar'23.

Bond 2 or Bond 3?

We do not have sufficient information on the 3 companies to gauge whether the equity valuation of RMB50bn by 2026 is fair! There will be no investors' put on Bond 2 if these businesses will not be IPOed by 2026.

Another noteworthy point is that there is no cap on holders to pick Bond 2. Assuming creditors of all the remaining 53.3% eligible redemption debts, i.e. RMB71.4bn, pick Bond 2, the attributable value of the equities will only be sufficient to cover c35% of Bond 2 before the 33% premium to incentivize holders to pick Bond 2. Recalled that holders of Bond 2 will have a maximum of 50% interests in the 3 companies, hence valuation attributable to Bond 2 holders will be capped at RMB25bn based on the valuation of CFLD.

Will Bond 3 offer more uncertainties? We are not sure! We expect that CFLD have to carve out the more liquid and higher quality assets as credit enhancements for Bond 1 and Bond 2. If so, there will be quite a bit of uncertainties in term of the sources of repayment for Bond 3 after 8 years.

What are the approval thresholds?

CFLD and its advisor are yet to decide if the restructuring will be in the form of consent or scheme, pending on the investors' response. For consent, the restructuring of each individual USD bonds is not dependent on the consent of other bonds. Theoretically, CFLD can restructure some instead of all USD bonds. The approval thresholds are a quorum of at least 2/3 in principal amount and at least 2/3 in principal amount of the quorum vote for the restructuring proposal.

For scheme, the approval will be on an aggregate basis for the 11 outstanding USD bonds. The approval thresholds are at least 75% in principal amount and at least 50% headcount in the creditors' meeting. There will be no minimum principal amount requirement in the scheme meeting.

Ad-hoc group claims to have secured veto

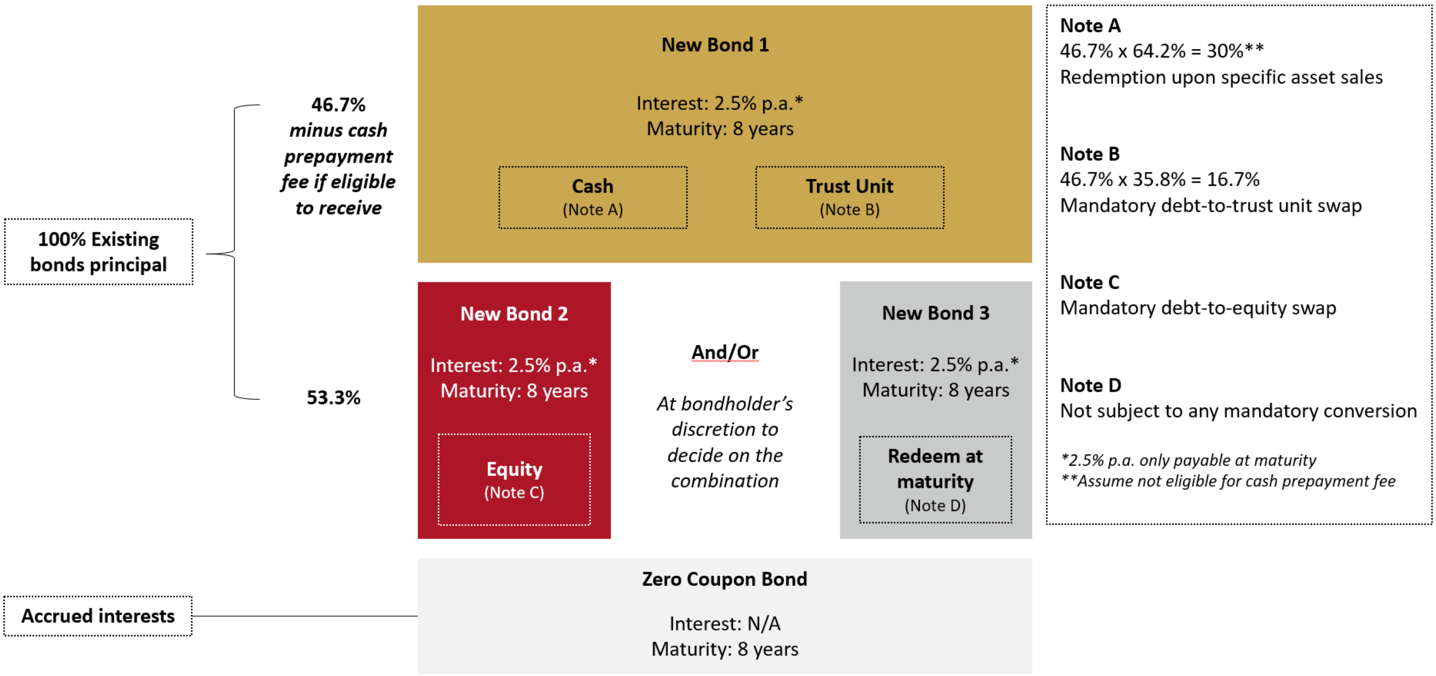
The ad-hoc group claimed in the call last evening that it held over 25% of the aggregate amount CFLD's USD bonds, and a veto of the restructuring plan. The group mentioned its opposition to the existing restructuring plan, and preparation for winding-up petitions in Hong Kong.

Fair value estimates at 16-51 per 100

Purely for the sake of discussions, we estimate the fair value of CHFOTNs to be 16-51. We assume that CFLD can divest the disposable asset portfolio by end of 2023 and monetize the trust by end of 8th year but apply discount rates of 0-50% to the asset value provided by the company. For the equities, we assume that investors can monetize them by end of 2026, again, we apply discount rates of 0-50% to the valuation of RMB50bn provided by the company various. A caveat is not all creditors can pick 100% Bond 2 as discussed previously.

Discount to asset/equity values provide by CFLD		Discount rate		
		30%	35%	40%
0%	Bond 1/Bond 2	50.7	45.8	41.7
	Bond 1/Bond 3	33.4	30.0	27.4
30%	Bond 1/Bond 2	35.9	32.4	29.5
	Bond 1/Bond 3	26.0	23	20.8
50%	Bond 1/Bond 2	26.0	23.5	21.4
	Bond 1/Bond 3	21.1	18.4	16.3

Appendix 1: Summary of debt restructuring plan



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