

CMBI Credit Commentary – KAISAG

Kaisa - Exchange offer and sales of Kai Tak project

Consent and exchange: effective mature extension of 18 months

Kaisa announced the exchange offer and consent solicitation plan for KAISAG 6.5%'21 due 7 Dec'21. In brief, the principal amount of USD400mn, plus accrued interest will be exchange into new bonds on 1 to 1 basis. The key terms of new bonds and exchange offer are:

- Maturity: 6 Jun'23, extend the maturity by 18 months
- Consent fee: 2.5pts
- Minimum acceptance level: 95%, i.e. USD380mn in principal amount
- Accrued interest: Capitalized into principal of the new bonds
- Coupon: 6.5% in cash or 7.5% if Kaisa elects PIK
- Exchange and consent deadline: 2 Dec'21

Full repayment for hold-out??

Regarding exchange/consent or holdout, we see the imminent default risk if exchange/consent cannot be secured. At the same time, **we see a low chance of full repayment for those choose to hold out if the exchange/consent goes through.** Kaisa has to pay USD88.375mn before 12 Dec'21 to cure missed coupon. A quick check on the OCs of other KAISAGs such as KAISAG 11.7%'25, the cross-default trigger is USD20mn in principal amount, assuming over 95% holders in principal amount consent, the remaining o/s KAISAG 6.5%'21 will be less than USD20mn. Failure to fully repay holders choose to hold-out will not trigger the cross-default of other existing KAISAGs. Cash could be conserved to cure missed coupon payments. It is noteworthy to point out that the default of KAISAG 6.5%'21 will be carved out from triggering cross default to the new bonds

More comprehensive asset liability management is required

Kaisa sold its stakes in the Kai Tak to Far East Consortium and New World Development. We understand that the net proceeds from the sales to be HKD950mn. The long stop date is 30 Nov'21. The total cash proceeds from the sales of Kai Tak and Tuen Mun projects should be cHKD2bn, cUSD258mn, vs its annual coupon payment of USD1.2bn for public USD bonds. The asset sales help support its liquidity but we believe that Kaisa will need a more comprehensive asset liability management exercise. In

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addition to the due onshore WMPs of cRMB1.5bn (RMB396.6mn in principal amount has yet to be resolved), Kaisa will have to cure missed coupons totaled USD88.375mn on 11 and 12 Dec'21. The failure to secure the consent from 95% or above holders of KAISAG 6.5%'21 in principal amount will likely lead to immediate default. Even if the consent can be secured, Kaisa will have USD2.8bn public USD bonds due in FY22, including RMB1.7bn in 1H22.

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