

CMBI Credit Commentary

EVERRE vs. HPDLF – Rashomon on the termination of the Evergrande Property Services deal

Evergrande's sales of 50.1% stakes in Evergrande Property Services to Hopson for HKD20bn was terminated which helps Hopson to conserve liquidity. We consider HPDLFs good carry plays.

The termination is not too surprising as termination news has been widely reported in the media. More interestingly, the 2 announcements (Hopson's one was released 5 mins later than that of Evergrande) told contrasting stories like Rashomon, the best foreign-language film in the Academy Awards in 1952. According to Evergrande, it had reason to believe that Hopson had not met the prerequisite to make the general offer for shares in Evergrande Property Services. Hopson, on the other hand, has refuted Evergrande's reasoning and stated that Evergrande changed the agreement terms by requesting Hopson to deposit the consideration into the bank account of Evergrande. According to Hopson, it should deposit the consideration to the account of Evergrande Property Services pending the due diligence and the netting of payables and receivables between Evergrande and Evergrande Property Services. As per the agreement, the defaulting party will have to compensate HKD1bn to the non-defaulting party if the transaction cannot be completed as scheduled (on or before 12 Oct'21).

Indeed, we have been arguing that the Chinese regulators would prefer a standstill until a consensual and comprehensive debt restructuring plan for Evergrande is in place. The Chinese regulators' priorities are to ensure home deliveries and settlement of construction expenses in a timely manner. They will be concerned that proceeds from offshore asset sales will be diverted to meet Evergrande's offshore obligations while remitting proceeds from offshore asset sales to fulfill onshore obligations will be subject to offshore creditors' legal challenge. Hence, we believe that sizeable offshore asset sales before a comprehensive debt restructuring plan is unlikely. The terminations of the sales of Evergrande Tower and Evergrande Property Services have reinforced our belief.

Separately, media reported that Evergrande had secured an over 3-month maturity extension of its privately placed bonds of USD260mn due 3 Oct'21 with extra collaterals. There was also media report that Chairman Hui pledged 500mn Evergrande shares on 8 Oct'21. The shares were worth cUSD190mn then.

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Nonetheless, we remain highly skeptical on the news of the payment of onshore bond coupon, and whether Evergrande will pay the coupon payments of EVERRE 8.25%'22 (USD83.5mn) before the grace period ended 23 Oct'21. We should find out more on next Mon. So far, Evergrande failed to make coupon payments totaled USD276.8mn on 5 offshore public bonds, the grace periods will end from 23 Oct'21 to 10 Nov'21.

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