

CMBI Credit Commentary

EVERRE – Stock take on listed investments

The shorter-dated EVERREs/TIANHLs moved up 4-5pts while longer-dated EVERREs/TIANHLs were 2-3 pts higher yesterday after the sale of HengTen stakes. In our view, the stake sales, media reports that Evergrande is facing liquidity instead of insolvency and the massive plan for asset sales (RMB120bn, cUSD18.5bn), reinforced our belief that monetizing assets, instead of restructuring is the priority of the company, at least in the next coming 6-9 months. We expect Evergrande to continue to honor near-term offshore payments through asset sales, taking cues of other Chinese companies such as Dalian Wanda and HNA which faced successive negative headlines or difficulties in access USD bond market. We believe that Evergrande's asset base including its listed subsidiaries/investments (worth USD19.5bn as at the last close) will offer an alternative source of funding and support its near-term liquidity. **Hence, we recommend investors to collapse the long-short positions and buy short-dated EVERRE/TIANHL bonds including EVERRE'22s and TIANHL'22s.**

After scrapping the special dividend proposal, Evergrande announced the sales of 11% stakes (7% to Tencent) of HengTen for HKD3.25bn (net proceeds to be HKD1.2bn, i.e. cUSD150mn after the provision of 5-year interest-free shareholder's loans). Evergrande divested its 7.08% stakes of Shenzhen HTI to Vanke on 30 Jul'21. The selling price is not disclosed. The registered capital of Shenzhen HTI is RMB13.9bn, as such Evergrande's attributable share of registered capital was RMB981mn prior to the divestment.

Additionally, we notice that **Evergrande sold 29.99% stakes in China Calxon (000918 CH) to Shenzhen Huajian for RMB2.8bn in mid Jul'21. We estimate the net proceeds from the stake sales to be RMB3.4bn (cUSD520mn) after the repayment of loans on the pledged shares and return of shareholder's loans provided.** Recalled that Evergrande entered in agreement with Shenergy, wholly-owned by Shanghai SASAC, to sell to the latter the 40.964% Guanghui stakes for RMB14.85bn. The transaction remains pending for regulatory approvals.

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To us, the key of the recent asset sales is not just the size of proceeds (over USD670mn from the sales of HengTen and China Calxon stakes since mid Jul'21), but on the signal that Evergrande's priority is to shore up liquidity to meet the near-term obligations through asset sales instead of restructuring. We stock-take listed investments Evergrande has, and estimate that the attributable market cap of its listed subsidiaries and investments was USD19.5bn, compared with its total offshore bonds of USD19.8bn. Out of these, USD16.3bn can be attributable to the stakes of Evergrande Property Services, China Evergrande New Energy Vehicle and HengTen. There were talks on these shares to be distributed in specie as a part of the scrapped special dividend plan, hence, we believe that the shares of these companies are not pledged. Evergrande's listed subsidiaries/investments could be a meaningful source of funding in the near-term.

Subsidiary / investment	Stock Code	Evergrande's ownership	Total market cap (USD mn)	Evergrande's attributable market cap (USD mn)	Remarks
Evergrande Property Services Group Ltd	6666 HK	60.96%	7,243.08	4,415.38	
China Evergrande New Energy Vehicle Group Ltd	708 HK	64.98%	15,753.35	10,236.53	
HengTen Networks Group Ltd	136 HK	26.55%	6,092.07	1,617.44	
E-House China Enterprise Holdings Ltd	2048 HK	9.82%	742.24	72.89	
Shengjing Bank Co Ltd	2066 HK	36.40%	7,805.40	2,841.16	
Guangdong Meiyang Jixiang Hydropower Co Ltd	600868 CH	5.00%	816.22	40.81	Entire stakes pledged
China Calxon Group Co Ltd	000918 CH	27.85%	1,040.93	289.90	
				19,514.11	

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