

CMBI Credit Commentary - CSCHCN

CSCHCN – Shenzhen SASAC to become the largest shareholder

Further to our discussions yesterday, China South City announced to issue new shares to Shenzhen SEZ Construction and Development Group (深圳市特區建設集團) to raise HKD1.9bn (cUSD245mn) for debt repayments. SZCDG is wholly-owned by Shenzhen SASAC. SZCDG will own 29.28% of the enlarged capital of China South City and become the largest shareholder of China South City. The share subscription of SZCDG will be subject to regulatory approvals in HK and China. The long-stop date is at the end of Jun'22. At the same time, China South City delayed the dividend payment to Jun'22 to conserve cash outflow of HKD243mn.

This is a piece of very positive news. We believe that with SZCDG becoming the largest shareholder, China South City will have a much stronger access to onshore funding channels, and will be able to resume the drawdown of onshore operating loans (經營性貸款) and working capital facilities secured for offshore repayments. Indeed, the company has repaid 4 USD bonds (issue amount of cUSD1bn in 2021) through the drawdown of onshore loan facilities .

Recalled that the company was previous reported to identity holders of USD348mn 11.5% due Feb'22 and USD346mn 10.875% due Jun'22 for potential maturity extension. This was partly attributable to the failure to draw down onshore facilities starting from 4Q21, given the tightened onshore credit environment and banks' skeptical view on property sector. We understand the approved but the company's undrawn operating loans and working capital facilities is more than enough to cover its outstanding USD bonds of China South City is USD1.6bn, cRMB10.2bn.

The controlling shareholding of SZDCDG will help resume the drawdown of onshore loan facilities, and notably increase the chance of USD bonds to be repaid in full as scheduled. This morning, we see 30 pts mark-up for CSCHCNs. We put CSCHCNs one of our key picks for 2022.

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