

CMBI Credit Commentary

Fantasia: Facts and thoughts on debt restructuring

Our estimated NPV of 19-43%

Fantasia finally announced the long-awaited debt restructuring plan. In brief, USD1.3bn, about 1/3, of the outstanding USD bonds will be converted into equity of Fantasia, and the remaining USD2.7bn will be exchanged into 8 tranches of new bonds with maturities ranging from 2-6.5 years. The coupon rates range from 5-8% for cash coupon and 7-10% for coupon with PIK. Please see Appendix 1 for the summary of debt restructuring plan. Assuming zero value of the equity value, holders not participating into the Dutch auction for redemption of bonds at 15pts or lower, and discount rates of 15-40% for the restructured bonds, we estimate the NPV of the restructured bonds to 19-43% in addition to the consent fee of 0.1. The long-stop date of the restructuring will be on 30 Nov'23.

Discount rate	15%	20%	30%	35%	40%
NPV	43.3%	35.9%	25.5%	21.8%	18.7%

32% of outstanding bonds will be swapped for equity...

Fantasia has 13 USD bonds (including a pp of USD50mn) with an aggregate outstanding amount of USD4bn. USD1.3bn of these will be equitized into the shares of Fantasia which has been suspended from trading since 1 Apr'22. The market capitalization of Fantasia prior to trading suspension was cUSD150mn. Upon the completion of debt restructuring, the controlling shareholder Baby Zeng will hold at least 45% equity in Fantasia, while USD bondholders will hold at least 52.6% in Fantasia.

...the balance to be exchanged into new bonds

For the remaining USD2.7bn will be exchanged into 8 tranches of new bonds with maturities from Dec'24 – Jun'29. The cash coupon and PIK coupon of the new bonds range from 5-8% and 7-10%, respectively. From now to Dec'25, at least part of the coupon will be PIK. All cash coupon will only come starting from Dec'25.

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Target to raise new money of USD115mn

One of the condition precedents is the completion of raising “initial new money” of USD100mn super senior debt from Gortune Alternative and subordinated debts of USD15mn from Baby Zeng. Gortune Alternative, 40% owned by Gortune Investment Co., Ltd., specializes in equity investments, distressed asset investments, asset management and industrial resource integration. Gortune Investment Co., Ltd., established in 2016, is an investment company. Its paid-up capital is RMB16bn. Shareholders include GD enterprises such as COGARD, Midea and Xiangxue Pharmaceutical.

After deduction of USD25mn for fee and expenses, the remaining USD90mn will be used to redeem existing bonds through a Dutch auction tender offer at a purchase price of no higher than 15 pts. Fantasia will raise, on a best effort basis, “Additionally New Money” of USD100mn.

Approval thresholds

The approval threshold will be headcount vote of over 50% and at least 75% in value voted for the restructuring plan in the scheme meetings. Currently, the ad-hoc group represents c24.5% of the outstanding USD bonds of Fantasia.

The unknowns???

At the time of writing, we are yet to obtain a firm answer from the restructuring advisor on the quorum and arrangement of the scheme meeting. We are not sure if there will be 13 separate scheme meetings for 13 outstanding bonds or these bonds will be lumped into a single scheme meeting.

Additionally, 40% of net considerations of “Specified Asset Sale” will be deposited in a reserve account for bond redemption. However, there is no information as to what assets will be include in “Specified Asset Sale”.

Appendix 1: Summary of the debt restructuring

The debt restructuring

The o/s (USD mn)	4018.356	67.6%
Debt to equity swap	1300	32.4%

Initial new money

Gortune Alternative Fund Management (Zhuhai Hengqin) Co. Ltd.	USD100mn	Super senior debts secured by onshore assets
Zeng Jie Baby	USD15mn	Unsecured debts with no fixed maturity, interest to be 5-8%

Additional new money

Financing or asset sales (best effort basis)	USD100mn	Pari passu with super senior debts. No amortization within 1 yr o restructuring effective date (RED)
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Longstop date	30 Nov'23
Step plan	9 Apr'23
Consent fee	0.10%
Consent fee deadline	30 Mar'23 the latest
Approved threshold	50% in headcount and 75% in value in scheme meeting

	Size (USD mn)	Maturity	All cash coupon	Coupon with PIK	31-Dec-22	30-Jun-23	31-Dec-23	30-Jun-24	31-Dec-24	30-Jun-25	31-Dec-25 onwards
Tranche A	200.0	31-Dec-24	5%	7%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash
Tranche B	200.0	31-Dec-25	5.25%	7.25%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash
Tranche C	300.0	31-Dec-26	5.50%	7.50%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash
Tranche D	400.0	30-Jun-27	6%	8.00%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash
Tranche E	500.0	31-Dec-27	6.50%	8.50%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash
Tranche F	500.0	30-Jun-28	7%	9.00%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash
Tranche G	309.2	31-Dec-28	7.50%	9.50%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash
Tranche H	309.2	30-Jun-29	8%	10.00%	All PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	0.5% cash, the rest in PIK	3% cash, the rest in PIK	3% cash, the rest in PIK	All cash

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