

CMBI Credit Commentary - YUZHOU

YUZHOU - Exchange and consent solicitation

The Exchange

Yuzhou proposed an exchange offer for YUZHOU 8.65%'22 (o/s USD242.069mn) and 6%'22 (o/s USD340mn) due 23 Jan'22 and 25 Jan'21, respectively. As per the exchange offer, holders of YUZHOU 8.65%'22 and 6%'22 will be repaid 5 pts in cash, 1pt in incentive cash and exchange 95 pts in principal amount into new notes of which the coupon rate is 7.8125% and maturity date is on 21 Jan'23. The exchange is conditional upon the tender of 90% or above in principal amount of each of YUZHOU 8.65%'22 and 6%'22. The terms of exchange is largely in line with the recent exchange offers by some of its smaller industry peers.

Summary of the exchange of YUZHOU 8.65%'22 and 6%'22

- Upfront repayment: 5pts
- Incentive Cash: 1pt
- Accrued interest: to be paid on original maturities
- New notes: 95pts in principal amount
- Coupon of new notes: 7.8125% (vs. 8.65% and 6% of the existing bonds)
- Maturity of new notes: 21 Jan'23 (vs. 23 Jan'22 and 25 Jan'22)
- Minimum acceptance amount: 90% in principal amount of each of the original bonds
- Deadline: 19 Jan'22

Maturity extension longer than expected

The exchange is not too surprising in view of the distressed valuations of YUZHOUs. That said, 1-year maturity extension is longer than we originally expected. This could reflect that Yuzhou may have significant repayment requirements over the next few months, and the company needs more time to complete asset disposal plans and drawdown operating loans obtained. Recalled that Yuzhou entered into the framework agreement to sell its residential property management operations to China Resources Mixc (1209 HK) for cRMB1bn on 5 Jan'22, and Yuzhou expects the transaction to be completed in mid-2022.

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The consent solicitation

At the same time, Yuzhou solicits the consent to amend terms of the remaining YUZHOUs (except the perps, o/s totalled USD4.9bn) to carve out the default of YUZHOU 8.65%'22 and 6%'22 will trigger cross default. The approval threshold is 50% in principal amount of each of remaining YUZHOUs (except the perps) and consent fee is 0.25pt. The consent deadline is also on 19 Jan'22. Consent solicitation like this is increasingly the norm for exchange offers to minimize hold-out.

Summary of the consent solicitation

- Consent fee: 0.25pt
- Consent threshold: 50%
- Deadline: 19 Jan'22

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