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Dashed Dreams of Sunac Bailout Sends Kaisa Bonds Lower

by Christopher Langner

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(Bloomberg) -- Kaisa Group Holdings Ltd.'s dollar bonds slid after Sunac China Holdings Ltd.'s announcement it would buy some of the company's projects in Shanghai left it unclear whether more transactions between the two are still to come.

Kaisa's $500 million of 10.25 percent 2020 notes fell 10.7 cents to 63.4 cents on the dollar as of 5:50 p.m. in Hong Kong, sending yields to 23.4 percent. Kaisa missed a $23 million interest payment on the securities last month, putting it at risk of becoming the first Chinese real estate company to default on its U.S. currency debt. Shares in Sunac remained suspended, prompting speculation talks are continuing.

Sunac said over the weekend that it agreed to buy four Shanghai-based units of Kaisa for 2.375 billion yuan ($379 million). The government in Kaisa's home town of Shenzhen has been seeking investors for the troubled developer after it missed its coupon payment and officials have given initial support to Sunac to acquire the founding Kwok family's stake, people familiar with the matter said last week. Kaisa said in a statement to the Hong Kong stock exchange today that its chief executive officer, Jin Zhigang, resigned.

"The most immediate concern for offshore bondholders is whether Sunac's involvement would be limited to the purchase of these properties," Dilip Parameswaran, the Hong Kong-based head of independent advisory firm, Asia Investment Advisors Ltd., said. "If that's the case, the purchase consideration is likely to be claimed first by onshore lenders, leaving little benefit for offshore" creditors.

Shanghai Shopping

Sunac's shares were halted from trade in Hong Kong on Jan. 30 pending an announcement. The stock has declined 12 percent this year compared with a 3.4 percent advance for the benchmark Hang Seng Index.

Sunac will pay 1.18 billion yuan for Shanghai Qingwan, 606.6 million yuan for Shanghai Rongwan and 598.6 million yuan for Shanghai Yingwan and Shanghai Chengwan combined, Sunac said in a Sunday filing with the Hong Kong stock exchange.

Kaisa investor relations spokesman Frank Chen said he wasn't able to say whether Kaisa will use the money it's getting from the Sunac sale to pay its dollar bond coupon.

"I'm not in a position to give an answer on this," he said by phone today. "The company has hired a financial adviser and there should be some kind of arrangement made by the top decision makers."

Buyback Clause

He said the decision makers at the company were now the co-chairman and the board, considering Kaisa's chairman, Kwok Ying Shing, resigned in December and chief financial officer Cheung Hung Kwong and vice chairman Tam Lai Ling also quit late last year.

Sunac has signed an agreement to buy a 49.3 percent stake in Kaisa from the Kwok family, Caixin reported last week, citing an unidentified person.

Kaisa said in its Feb. 1 statement that after taking into account the total consideration of the disposals, as well as shareholder loans and related transaction costs, it will receive about 2.375 billion yuan from the Sunac transaction. A loss of about 43.9 million yuan will be recorded as a result of the disposals, it said.

The statement also said that “subject to there being no change in control of the vendor, the vendor has an option to, within 12 months from the date of the relevant agreement, repurchase the assets and liabilities.”

‘Liquidity Problems’

The purpose of the sale of projects in Shanghai to Sunac was “for liquidity,” according to Kaisa’s Chen. “The company was short on cash and the sale will solve its immediate liquidity problems,” he said today.

Kaisa’s woes began late last year when the government in Shenzhen, less than 25 kilometers (15.5 miles) from Hong Kong, blocked approvals of its property sales and new projects in the city. It’s also being probed over alleged links to Jiang Zunyu, the former security chief of Shenzhen who was taken into custody as part of a graft probe, two people familiar with the matter said last month, asking not to be named because the connection hasn’t been made public.

Kaisa’s interest payment on its 2020 bonds was due Jan. 8. The notes, sold to investors at par, or 100 cents on the dollar, in January 2013, slumped to as low as 29.9 cents on the dollar last month. In December, when some of Kaisa’s projects were blocked and key executives quit, the debentures lost 40.1 percent.

Kaisa’s $800 million of 8.875 percent 2018 notes dropped 10 cents to 64.7 cents on the dollar. That’s their biggest one-day decline since Jan. 6.

Sino-Forest, Suntech

Shanghai Chaori Solar Energy Science & Technology Co. is the only bond issuer ever to have defaulted in China’s onshore market and its noteholders were eventually paid in full. Offshore investors haven’t been so lucky. Sino-Forest Corp.’s 2017 notes tumbled to 55 cents in June 2011 after short seller Muddy Waters LLC said its timber assets were overstated, heralding a March 2012 bankruptcy. Solar-panel maker Suntech Power Holdings Co.’s securities were reduced to one cent after it defaulted on $541 million of bonds in 2013.

The asset sale may help Kaisa reduce its onshore debt, according to Yin Chin Cheong, a Singapore-based credit analyst at independent research firm CreditSights Inc.

“But given that the disposals of these Shanghai projects led to a net loss of 43.9 million yuan, it means there’s no excess cash to be moved upstream to offshore investors,” she said. “I think there should be more asset sales by Kaisa in the future as the announced sales do not resolve the home buyers’ protests in Shenzhen.”

Social Stability

People who’d bought some of Kaisa projects that were blocked from sale demonstrated in Shenzhen last week, according to local media reports. “The Chinese government would probably be more focused on maintaining social stability, hence something needs to be done for the Shenzhen projects,” Cheong said.

Reports the protests had prompted the Shenzhen government to seek a buyer for Kaisa increased speculation the company might be fully acquired, and offshore bondholders may therefore be paid back. An acquisition of only parts of the company could mean Kaisa’s subsidiaries may be sold to pay local creditors, leaving offshore investors whatever is left after all onshore dues are satisfied.

“This changes the scenario significantly for U.S. dollar bondholders,” said Charles Macgregor, the Singapore-based head of Asia high-yield research at Lucror Analytics. They’ve “reverted to a subordinated equity-like position.”