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China National Bluestar Said to Cancel Bond It Already Sold

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(Bloomberg) -- China National Bluestar Group Co. has canceled a \$1 billion bond it already sold after discovering the shares in a company guaranteeing the notes had been pledged as collateral for a bank loan.

The Beijing-based maker of chemical products sold \$500 million of 3.125 percent notes due 2018 and \$500 million of 3.875 percent securities due 2020 May 28, Bloomberg data show. The debentures will now be repriced after bankers realized shares of the company guaranteeing the notes under a so-called keepwell agreement had also been pledged to the Export-Import Bank of China, people familiar with the matter said.

The three banks that managed the sale -- Bank of China International Ltd., Deutsche Bank AG and Morgan Stanley -- have sent out an amended offering circular and have asked that any transactions that took place on the notes prior to settlement be made void, the people said, asking not to be identified because the details are private. The notes may price again Thursday with weaker bondholder protection, should investors accept those new terms, the people said.

“From my memory, I can’t remember a bond being canceled before it had even been settled like this,” said Dilip Parameswaran, the Hong Kong-based head of Asia Investment Advisors Ltd. “Normally, underwriters and lawyers do some due diligence before the transaction goes to the market so nothing unexpected comes up.”

Loan Agreement

Officials at China National Bluestar didn’t reply to four e-mails and one phone call seeking comment. Jeremy Hughes, a Singapore-based spokesman for Deutsche Bank and Nick Footitt, a Morgan Stanley spokesman in Hong Kong, declined to comment. Paris Pei, a Bank of China International spokesman in Hong Kong, also in the city, didn’t reply to phone calls and e-mails seeking comment. Connie Heng, a Hong Kong-based partner at law firm Clifford Chance LLP, an adviser to the sale, didn’t reply to a phone call and e-mail seeking comment.

The \$1 billion of bonds were sold by unit Bluestar Finance Holdings Ltd. and guaranteed by China National Bluestar. China National Bluestar is in turn 53.77 percent owned by China National Chemical Corp., or ChemChina.

According to an agreement inked back in June 2011, ChemChina’s equity interest in China National Bluestar was pledged to Export-Import Bank of China to secure a loan between ChemChina unit, China National Agrochemical Corp., and the bank, the offering circular obtained by Bloomberg shows.

Company’s Obligations

Export-Import Bank of China agreed not to exercise its rights with regard to the share pledge “provided that no breach or default has occurred under the underlying loan agreement,” according to the document. Should the share pledge be enforced, “ChemChina may no longer own any equity interest in the guarantor” and “may therefore not be able to perform or comply with its obligations under the keepwell deed.”

Keepwell deeds or agreements are contractual clauses sometimes attached to bond sales that assure creditors a subsidiary will get the funding it needs from its parent company to pay its dues.

China National Bluestar’s notes were scheduled to settle Tuesday, meaning investors would have to stump up the money for the bonds they acquired. The company received orders from investors for about 5.5 times the amount of notes originally sold, other people familiar with the matter said.