

UPDATE 3-China's HNA sells short-dated bond at "scary" high yield

Reuters Staff

4 MIN READ

* Raises \$300 million via 363-day bond at 8.875 pct coupon

* HNA's Dec 2018 bonds are trading with 8.5 pct yield

* HNA has \$2.84 bln worth of bonds maturing before end-2018 (Adds issue statistics in last three paragraphs)

By Umesh Desai

HONG KONG, Nov 3 (Reuters) - China's HNA Group sold \$300 million worth of a high yielding, short-dated bond to global investors in a sign that the acquisitive, airline-to-property conglomerate is under pressure to refinance its debt-laden balance sheet, analysts said.

The group sold a 363-day bond carrying an 8.875 percent coupon at par for "general corporate purposes and refinancing existing indebtedness overseas".

"This is a scary number but they have to pay up as the cost of funds has gone up, given the levels where their 2018 bonds are trading," said Dilip Parameswaran, chief executive at Asia Investment Advisors.

The yield offered is higher than the 8.5 percent yield indicated on HNA's December 2018 bond at the time of pricing, according to Thomson Reuters data.

The high coupon reflected the market's concerns about the high levels of debt at some Chinese companies, said Banny Lam, head of research at CEB International.

HNA Group did not respond to an emailed request for comment.

Bonds of less than one year maturity do not require approval from China's top economic planner, the National Development and Reform Commission (NDRC), bankers said, and HNA Group has made increasing use of this instrument in recent times.

Thursday's bond offering, which is unrated, follows group company Hainan Airlines' 364-day note issue last week which raised \$300 million at a yield of 6.35 percent.

That marked Hainan Airlines' second sale of dollar bonds in 2017 with a maturity of less than a year, but at a higher cost. In June it sold 364-day bonds at yield of 5.5 percent.

HNA Group, which is under scrutiny following Beijing's clampdown on highly-leveraged foreign investments, faces a wall of maturity in coming months with sources saying investment banks such as Goldman Sachs and Bank of America Merrill Lynch have grown wary of working with the company.

HNA Group has maturing bonds of \$643 million in the rest of this year and \$2.2 billion of bonds due in 2018, according to Thomson Reuters data.

The group has unveiled \$50 billion of acquisitions in the past two years, much of it debt-financed.

The latest bond offering, which pays an additional 25 cents to private banking investors as an incentive, has CCB International, China International Capital Corp, Citic CLSA Securities and Guotai Junan International as joint global coordinators.

“The commission indicates they are trying to get some private bank customers to buy a part of the bond. This coupon is roughly equal to where CCC-rated bonds are trading and close to the 10 percent thumb rule for distressed credits,” said Parameswaran.

Private banking investors were the biggest participants in the issue, accounting for 43 percent. Fund managers took 36 percent while banks and corporations accounted for 21 percent.

The issue attracted \$700 million in orders from 42 accounts.

By region, Asia made up for 94 percent of the issue with Europe accounting for the rest. (Reporting by Umesh Desai; Editing by Eric Meijer)