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Top 5 Banks Exposures: 30 June 2020

Minsheng Bank
Agricultural Bank of China
China Zheshang Bank
China Everbright Bank
Shengjing Bank
Total Top 10 Exposure: US\$19.6bn

Other bank exposures reported	
UBS	US\$275.7m
HSBC	US\$206.9m

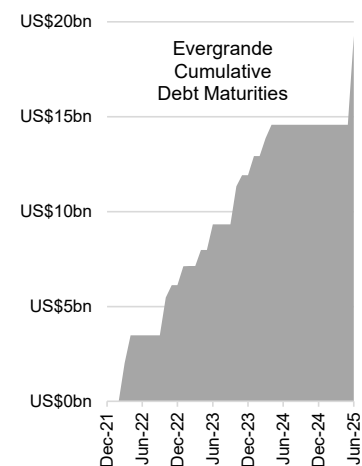
SOURCE: BLOOMBERG

# Evergrande is not too big to fail

## Fight for survival remains

- **Evergrande's debt mountain of US\$305bn equates to 2% of China's GDP:** Spans 128 banks and 121 non-banking institutions, plus US\$6bn of retail debentures.
- **US\$967m of interest payable by Jan 2021:** Evergrande also has US\$14bn of wholesale debt maturities between Mar 22-Mar 24.
- **Half of its 800 projects stalled due to non-payment of contractors:** The ability of being able to trade itself out depends on getting projects completed, where press reports indicate that it has been common for Evergrande to pay contractors and suppliers with commercial paper instead of cash. The ability to generate revenue from apartment sales will also be challenging, given the reputational damage from buyers in stalled projects, which are typically pre-sold at a substantial deposit / full settlement.
- **Signal that China does not bail out corporates:** The Government wishes to ensure that lenders are more stringent on funding non-productive investment projects. Xi Jinping focus is on genuine growth, labelling debt fuelled projects as "fictional growth".
- **Further People's Bank of China intervention required:** A report released in 2020 stated the Central Bank requested Evergrande's major lenders to review exposures.
- **Government intervention likely as a last resort:** The current Government strategy appears to let Evergrande to negotiate with its bondholders, meeting commitments by assets sales, new strategic investors or debt restructure. Banks may continue to support Evergrande should it devise an acceptable go forward plan to trade itself out.
- **Stabilising the property sector important for funding / GDP growth:** Evergrande default could cripple access to credit for other property developers. Reform will be required to restore confidence, given the property sector contribution to GDP growth.
- **Clearing the glut of surplus supply likely to dampen demand for raw materials:** There appear to be some similarities with US sub-prime funding speculative supply of home building. Clearing this excess supply is likely to slow property development.
- **Spreads likely to widen in credit markets:** The pending debt restructure will likely put upward pressure on credit spreads, particularly for sub-investment grade debt. In the domestic market, we have seen only a modest uptick in senior debt spreads over the past 2 weeks, with the trading margin on NAB Aug 24 senior increasing 5.5bp to 44bp.

### Evergrande Debt Maturities



Evergrande Divisions

- Evergrande Auto (electric vehicles)
- Evergrande Property Services
- HengTen Networks (online streaming)
- Fangchebao (property / auto data)
- Evergrande Fairyland (amusement)
- Evergrande Health
- Evergrande Spring (mineral water)

### Evergrande Wholesale Debt Issuance and Upcoming Coupons

Issuer	Price	Coupon	Maturity	Outstanding	Next Coupon	Coupon
	23 Sep 21			USDm	USDm	Date
Evergrande	\$29.39	8.25%	23 Mar 22	2,025	83.53	23 Sep 21
Evergrande	\$24.53	9.50%	29 Mar 24	951	45.17	29 Sep 21
Evergrande	\$27.62	9.50%	11 Apr 22	1,450	68.88	11 Oct 21
Evergrande	\$28.41	10.00%	11 Apr 23	850	42.50	11 Oct 21
Evergrande	\$27.03	10.50%	11 Apr 24	700	36.75	11 Oct 21
Scenery Journey	\$14.44	13.00%	6 Nov 22	645	41.93	6 Nov 21
Scenery Journey	\$19.48	13.75%	6 Nov 23	590	40.56	6 Nov 21
Evergrande	\$28.43	7.50%	28 Jun 23	1,345	50.43	28 Dec 21
Evergrande	\$30.43	8.75%	28 Jun 25	4,680	204.77	28 Dec 21
Evergrande	\$25.46	12.00%	22 Jan 24	1,000	60.00	22 Jan 22
Evergrande	\$25.50	11.50%	22 Jan 23	1,000	57.50	22 Jan 22
Scenery Journey	\$18.68	11.50%	24 Oct 22	2,000	115.00	24 Jan 22
Scenery Journey	\$20.58	12.00%	24 Oct 23	2,000	120.00	24 Jan 22
Evergrande	\$25.37	4.25%	14 Feb 23	13	0.28	14 Feb 22
Total				19,249	967.30	

SOURCE: BLOOMBERG

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