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China

Evergrande's debt revamp roadblock hits China property investors' sentiment

Reuters
September 25, 2023 7:12 AM GMT+2 · Updated 11 min ago

HONG KONG, Sept 25 (Reuters) - China Evergrande Group's latest trouble in firming up a long-pending debt restructuring plan led to a sell-off in its and peers' shares on Monday, as worries resurfaced about the crisis-hit property sector after a brief respite.

Evergrande, the world's most indebted property developer, which has become the poster child of China's property crisis, has been working to get its creditors' approval for a debt restructuring plan after having defaulted in 2021.

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Under the plan unveiled in March this year, Evergrande (3333.HK) proposed options to offshore creditors including swapping their current debt holdings into new notes with maturities of 10 to 12 years.

In an unexpected development, the embattled developer said late on Sunday it was unable to issue new debt due to an ongoing investigation into its main domestic subsidiary, Hengda Real Estate Group Co Ltd.

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Hengda said last month it was being investigated by China's securities regulator for suspected violation over the disclosure of information.

Shares in Evergrande plunged as much as 24% on Monday, while Hong Kong's Hang Seng mainland property sector index (HSMPI) was trading 3.7% lower.

"Its debt restructuring plan is now stuck and can't go any further," said Steven Leung, sales director at UOB Kay Hian in Hong Kong. "Other options, such as converting the debt into shares of other listed units, are also seen not workable now."

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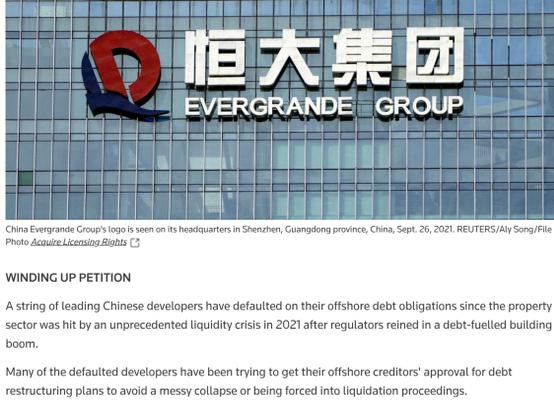
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Evergrande's offshore debt restructuring involves a total of \$31.7 billion, which includes bonds, collateral and repurchase obligations, potentially making it one of the world's biggest such exercises.

The developer's latest woes reverse a brief respite for the Chinese property sector, which accounts for roughly a quarter of the economy, on the back of Beijing's support measures and two other major developers forged debt deals with their creditors.

"Concern over the financial health (of developers) still clouds the property sector, especially those smaller property developers with high gearing but very few property projects on hand," Leung said.



WINDING UP PETITION

A string of leading Chinese developers have defaulted on their offshore debt obligations since the property sector was hit by an unprecedented liquidity crisis in 2021 after regulators reined in a debt-fuelled building boom.

Many of the defaulted developers have been trying to get their offshore creditors' approval for debt restructuring plans to avoid a messy collapse or being forced into liquidation proceedings.

Not many of those plans have succeeded.

Developer China Oceanwide Holdings Ltd (0215.HK), which has failed to meet its debt obligations, said in an exchange filing on Monday that a Bermuda court has ordered the winding up of the company and has appointed joint provisional liquidators.

The latest roadblock in Evergrande's debt restructuring plan opens a new front for the developer just a week after police detained some staff at its wealth management unit, sending its shares slumping.

Earlier this month, Evergrande said it had delayed making a decision on offshore debt restructuring from September to next month to allow holders of its debt more time to consider its proposal.

Evergrande needs approval from more than 75% of the holders of each debt class to approve the plan.

The Evergrande development comes as leading developers such as Country Garden (2007.HK) scramble to avoid a default, keeping home-buyer sentiment depressed despite Beijing's raft of support measures to prop up the sector and spur property demand.

As of the end of August, the combined floor area of unsold homes stood at 648 million square metres (7 billion square feet), the latest data from the National Bureau of Statistics (NBS) show.

Reporting by Donny Kwok, Writing by Anne Marie Roantree and Sumeet Chatterjee, Editing by Lincoln Feast and Sam Holmes

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