

CMBI Credit Commentary

HRINTH – Stay short-end of its curve as FY2020 annual report release draws near

Media reported Huarong was soliciting feedback from investors on its pending asset impairment, and Huarong prepares to release its delayed 2020 annual report this month. We recommend investors to stay short-end of HRINTH's curve (HRINTH '21) for higher repayment visibility. Huarong has so far exhibited willingness to repay, given its recent announcement to call its upcoming USD 500mn perp on 14 Sep '21.

The asset impairment amount could be very sizeable, close to RMB100bn (USD15.4bn), per REDD news. This will jeopardize Huarong's financial health and consume its equity reserve, given Huarong merely has attributed equity of RMB120bn (c. RMB80bn if excluding Huarong Xiangjiang Bank and Huarong Financial Leasing's equity). If this speculated asset impairment amount actualizes, we believe the auditor will issue an opinion to comment of solvency (going-concern) in the annual report.

However, from a high-level management gesture, the fact that Huarong announced to call its USD 500mn perp on 14 Sep 2021 shows the company's intention to stay solvent. Or else given litigation risk involved in lookback period (6 months), Huarong cannot repay a perp (non-debt) at a time when the company deems itself insolvent. Legal jurisdiction stipulates that company should treat creditors fairly before a winding-up (no unfair preference) or else directors are subject to litigation risk, from other previous winding-up court cases in HK.

With that, we think Huarong will require a larger scale of asset disposals, more than previous media's report of its sales of licensed financial subsidiaries. We examine Huarong's licensed financial subsidiaries account for roughly 1/3 of Huarong's consolidated asset. Their sales proceed can reach c.RMB35bn, assuming these can be sold at 1x P/B (See *table below*). Debtwire recently reported Huarong plans to sell its 4.99% stake in Chongqing Ant Consumer Finance for RMB 399mn. We expect more of these disposal news to come.

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31/12/2020 (RMB'bn)	Huarong's stake	Total Asset	Shareholders' equity	Effective Stake Worth	Revenue	Profit before tax
Huarong Xiangjiang Bank	40.53%	405,976	30,943	12,541	10,461	3,671
Huarong Financial Leasing	79.92%	138,280	16,648	13,305	8,245	2,046
Huarong Securities*	71.99%	66,142	12,074	8,692	4,979	48
Huarong International Trust*	76.79%	21,772	8,247	6,333	1,417	346
Huarong Consumer Finance*	55%	5,108	483	265	1,029	-
*Based on 31/12/2019		615,506	60,148	34,804		

Remark: we exclude Huarong International Trust from our calculation of licensed subsidiaries' disposal after Huarong proposed Debt to Equity restructuring of this subsidiary, according to its announcement on 3 August 2021.

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