

CMBI Credit Commentary – TSINGH

TSINGH: In-court restructuring proposal is favorable to USD guaranteed notes holder, we estimate recovery value at 70 to mid-80

On 13 Dec. 2021, TSINGH's administrator revealed a draft restructuring proposal that shows a favorable recovery value to unsecured bondholders. **There is a cash payment of RMB 38 – RMB 40 under 3 proposed options**, regardless of different equity swap amount and debt amortization balance.

We estimate the recovery value of the USD guaranteed bonds are in the range of low-70 to mid-80, based on our assumption of 70% recovery rate from equity shares (to account for share price volatility amid disposal and potential lock-up period), and applying 8% -12% annual discount rate on its amortized debts balance.

- Based on our assumption of 8% discount rate on amortizing debt, **option 2 offers higher recovery value of 84.** vs. Option 1 and 3's recovery value at 80.
- Under a more conservative assumption of 12% discount rate on its amortizing debt, option 2 still offers highest recovery value of 79, followed by Option 1's 78 and Option 3's 73.

Options	Notional value			Recovery value	
	Cash	Equity Swap	Debt amortization	8% discount rate on amortizing debt	12% discount rate on amortizing debt
1	38	38	19	80	78
2	40	15	45	84	79
3	40	0	60	80.4	73

- For investors that require high repayment certainty, option 1 is preferred. Given among 100 notional value, there will be cash payment of RMB 38 + Equity Swap worth of RMB 38, and the least debt extension of RMB 19, albeit a notional RMB 5 hair-cut. However, **option 1 is capped at a total claim amount of CNY 24bn, any remainder would proportionately automatically get settled by option 2.**
- **Creditors who do not choose any repayment option will be allocated to option 3.**

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- We do not find terms relating to equity lock-up in the draft restructuring document, however we are uncertain if there is any lock-up period on the equity stake, we thus apply a 30% discount on the equity portion to derive its recovery value.

A creditors' meeting will be convened on 29 Dec, 2021 to vote on the draft restructuring plan. **TSINGH curve (except for TSINGH '20 keepwell notes) jumped 15pt to 65 handle yesterday, which we view has appropriately priced-in this favorable restructuring proposal.**

Separately, TSINGH'22 keepwell USD notes is still pending claim by administrator and is quoted at 27/30. We believe its recovery will be a longer process, and come from liquidation of Unigroup's offshore issuing entities, under HK court.

Other key points to note include:

Strategic Investors:

On 12 Dec '21, TSINGH's administrator confirmed a domestic private-equity consortium led by Beijing Jianguang Asset Management (JAC) and Wise Road Capital as strategic investor of Unigroup's comprehensive restructuring. The consortium includes 4 state or local government backed investors: China Great Wall AMC, Hebei Industrial Investment Guidance Fund Management Co., Zhuhai Huafa Group and Hubei Science & Technology Investment Co. Ltd.

The consortium will invest RMB 54.9bn into the restructured Unigroup, while Hubei Science & Technology Investment Co. Ltd. will invest RMB5.1bn to acquire Yangtze Memory Technologies Co., Ltd (YMTC).

Transaction pre-requisites are

- Approval ruling by Beijing No.1 Intermediate People's Court
- Passing anti-trust of State Administration for Market Regulation
- Passing review by State Administration of Science, Technology and Industry for National Defense

For its upcoming 29 Dec creditors' meeting, it requires >50% of attending creditors to pass this restructuring proposal, and such creditors represent >2/3 of debt claims attending in the creditors' meeting.

Timeline: the consortium has already paid RMB3.5bn as contractual deposit, it is required to pay the remaining RMB51.4bn by 31 Mar, 2022.

The proposed restructured Unigroup will include Unigroup Holdco. and its 6 subsidiaries – i.e. Beijing Ziguang Telecommunication Technology

Group, Beijing Unis Capital Management, Tibet Unisplendour Daqi Investment, Tibet Unisplendour Telecommunication Investment, Tibet Unisplendour Zhuoyuan Stake Investment, and Tibet Unisplendour Chunhua Investment. As of Jun. 2021, these 7 entities have RMB 157.8bn liabilities, including RMB141.6bn unsecured debt, RMB16bn asset-backed debt; in which RMB 128.5bn has been confirmed while RMB12.9bn is pending confirmation by administrator.

Appendix**Table 1: 8% discount rate on amortizing debt****Option 1 (for 100 notional debt value)**

Items	Listed subsidiaries	Share allotment	Share Price at 13 Dec	Notional value/ Market value at 13 Dec 2021	Present value	Assumption
Cash payment - to be repaid in 6 months				38	38	
Equity Swap into subsidiaries	Unisplendour	0.8714 share	24	21.2		
	Unigroup Guoxin	0.064 share	227	14.5		30%
	Xueda Xiamen	0.0364 share	20	0.7	25.5	discount
Debt extension -over 3 years at 2.695% interest -annual amortization: 10%, 25%, 65%				19	16.1	15% discount
Recovery value				93.4	80	

Option 2 (for 100 notional debt value)

Items	Listed subsidiaries	Share allotment	Share Price at 13 Dec	Notional value/ Market value at 13 Dec 2021	Present value	Assumption
Cash payment - to be repaid in 6 months				40	40	
Equity Swap into subsidiaries	Unisplendour	0.344 share	24	8.4		
	Unigroup Guoxin	0.0253 share	227	5.7		30%
	Xueda Xiamen	0.0144 share	20	0.3	10.1	discount
Debt extension -over 5 years at 4.65% interest -annual amortization: 3%, 5%, 12%, 40%, 40%				45	33.9	25% discount
Recovery value				99.4	84	

Option 3 (for 100 notional debt value)

Items	Listed subsidiaries	Share allotment	Share Price at 13 Dec	Notional value/ Market value at 13 Dec 2021	Present value	Assumption
Cash payment				40	40	
Debt extension -over 8 years at 4.65% interest -annual amortization: 2%, 2%, 6%, 10%, 20%, 20%, 20% and 20%				60	40.4	33% discount
Recovery value				100.0	80.4	

Table 2: 12% discount rate on amortizing debt**Option 1 (for 100 notional debt value)**

Items	Listed subsidiaries	Share allotment	Share Price at 13 Dec	Notional value/ Market value at		Assumption
				13 Dec 2021	Present value	
Cash payment - to be repaid in 6 months				38	38	
Equity Swap into subsidiaries	Unisplendour	0.8714 share	24	21.2		
	Unigroup Guoxin	0.064 share	227	14.5		30%
	Xueda Xiamen	0.0364 share	20	0.7	25.5	discount
Debt extension -over 3 years at 2.695% interest -annual amortization: 10%, 25%, 65%				19	14.7	23% discount
Recovery value				93.4	78	

Option 2 (for 100 notional debt value)

Items	Listed subsidiaries	Share allotment	Share Price at 13 Dec	Notional value/ Market value at		Assumption
				13 Dec 2021	Present value	
Cash payment - to be repaid in 6 months				40	40	
Equity Swap into subsidiaries	Unisplendour	0.344 share	24	8.4		
	Unigroup Guoxin	0.0253 share	227	5.7		30%
	Xueda Xiamen	0.0144 share	20	0.3	10.1	discount
Debt extension -over 5 years at 4.65% interest -annual amortization: 3%, 5%, 12%, 40%, 40%				45	29.3	35% discount
Recovery value				99.4	79	

Option 3 (for 100 notional debt value)

Items	Listed subsidiaries	Share allotment	Share Price at 13 Dec	Notional value/ Market value at		Assumption
				13 Dec 2021	Present value	
Cash payment				40	40	
Debt extension -over 8 years at 4.65% interest -annual amortization: 2%, 2%, 6%, 10%, 20%, 20%, 20% and 20%				60	33.0	45% discount
Recovery value				100.0	73.0	

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