

CMBI Credit Commentary – TSINGH

TSINGH: Creditors approved restructuring proposal

Tsinghua Unigroup's creditors approved its draft restructuring proposal on 29 Dec 2021, [see our note of analysis for USD guaranteed bonds](#). This will become official upon receiving Beijing court's approval and 2 regulators' clearance, which is estimated to be 2-3 months later, taking cue from PK Founder's restructuring last year. **Offshore bondholders will be deemed to select Option 3 (40 upfront cash payment, and remaining 60 amortized over 8 years), unless 10% or more noteholders convene an EGM, and pass the resolution for the trustee to cast a single vote for all holders to select other options.**

Meanwhile, media reported that Unigroup offers to negotiate with USD guaranteed notes and keepwell noteholders' ad-hoc groups if they drop the offshore lawsuits against it. We believe Unigroup's negotiation may be triggered by the upcoming winding-up court case hearing of its 2 offshore companies - Tsinghua UNIC Ltd and Unigroup International Holdings Ltd on 17 Jan '22 and 31 Jan '22. **This is a binary scenario, and honoring keepwell is not our base-case. Even if Unigroup accepts the keepwell notes as confirmed claims to its restructuring proposal, we expect the recovery rate for TSINGH '20 to be way below that of the guaranteed notes of mid 70 to mid 80. At 38/39, We do not see much conviction on TSINGH '20. We believe that the recovery rate of keepwell notes will unlikely have an adverse impact on that of guaranteed notes after the creditors approved the debt restructuring plan.** We estimate the strategic investors' equity injection of RMB54.9bn is sufficient to cover upfront cash repayment of all confirmed claims and pending claims under this plan. At current valuation, we prefer the guaranteed notes TSINGH '21/23/28 at 68 over keepwell notes.

Recall TSINGH keepwell bond (USD459mn) is currently a pending direct claim at Unigroup's administrator, which is not entitled to recovery proposed by Unigroup's latest restructuring plan. However, the administrator has confirmed an intercompany claim from Unigroup International Holding. Upon receiving winding-up court order, keepwell noteholders can appoint liquidator and wind up Unigroup International Holding (The Keepwell notes issuer) to investigate use of proceed of the

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keepwell notes and seek recovery if there's intercompany loan extended to onshore Unigroup.

Separately, the keepwell notes' trustee is also suing Unigroup over its breach of obligations under the keepwell and EIPU deeds backing the notes since Aug 2021. If the keepwell note trustee obtains validation of its keepwell by Hong Kong court, the trustee will then seek Beijing's court recognition of the Hong Kong court's ruling, so as to directly submit the keepwell notes claim to Unigroup's administrator. There will be challenges to this recognition approach, including litigation cost and also uncertainty that Beijing court will not recognize Hong Kong court's ruling on the basis of public interest. For reference, Hong Kong court is in the final stage of delivering its ruling over PK Founder's keepwell, pending Chinese translation of its judgement, this will set a precedence for Unigroup's keepwell notes lawsuit. **In short, keepwell recovery via offshore litigation is costly and long-winded.**

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