

CMBI Credit Commentary – GZRFPR

GZRFPR: The consent solicitation and scheme

GZRFPRs priced in another round of liability management

The estimates of FV/recovery analysis ratio could be arbitrary given GZRF has yet to announce FY21 results. That said, the GZRFPR curve, trading at 20ish, is largely flat and in line with those of peers went/are going through debt restructuring. In our view, the current valuation of GZRFPRs have priced in maturity extension with limited cash inflow of the coming 18 months, as well as the execution risk of the debt restructuring plan. Recalled that GZRF would announce its FY21 results by the end of Jun'22 and resolution on the appointment of BDO as its new auditor was just passed on 10 June'22. We see limited options for USD bondholders outside the consent or the scheme, though both options appear far from ideal, especially, factoring into the limited cash inflow over the coming 18 months and lower coupon rate for most of the existing USD bondholders.

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

If consent not secured, scheme will follow

USD (mn)	Ticker	ISIN	Principal amount	Accrual interests capitalized	New principal amount with capitalized interests	New coupon rate
Group A	GZRFPR 5 3/4 07/13/22	XS1545743442	608.63	2.84	625.93	6.5% in
	GZRFPR 9 1/8 07/28/22	XS1940202952	288.00	4.13	299.90	cash /7.5%
	GZRFPR 12 3/8 11/18/22	XS2255777224	360.00	1.82	366.56	in PIK (first
			Sub-total	1,256.63		1,292.39
		% of total USD bonds o/s	25%			
Group B	GZRFPR 5 7/8 02/13/23	XS1720054383	587.00	0.88	592.17	6.5% in
	GZRFPR 8 1/8 02/27/23	XS1956133893	875.00	3.02	901.46	cash /7.5%
	GZRFPR 11 3/4 08/02/23	XS2293918285	675.00	5.19	710.03	in PIK (first
			Sub-total	2,137.00		2,203.67
		% of total USD bonds o/s	43%			
Group C	GZRFPR 8 5/8 02/27/24	XS1956169657	375.00	3.21	387.04	6.5% in
	GZRFPR 8 5/8 03/05/24	XS2125172085	400.00	3.02	412.08	cash /7.5%
	GZRFPR 8 1/8 07/11/24	XS2025848297	450.00	4.06	468.28	in PIK (first
	GZRFPR 11 5/8 09/03/24	XS2307743075	325.00	4.13	338.43	18 months)
		Sub-total	1,550.00		1,605.83	
		% of total USD bonds o/s	31%			
Total			4,943.63		5,102	

GZRF proposes to collapse 10 outstanding USD bonds into 3 tranches: Group A (originally maturing in 2022); Group B (originally maturing in 2023) and Group C (originally maturing in 2024), and extend maturities of them for 3-4 years, as well as adjust the coupon rate to 6.5%. GZRF can elect PIK for coupon payments in the first 18 months after the effective date (expected to be on 12 Jul'22). Accrued interests for existing bonds will be capitalized. Hence, there could be very limited cash inflow (0.5pts per 100 consent fee) for holders in the 18 months after debt restructuring unless GZRF can dispose of the specified assets (Princess Cove in Malaysia and One Nine Elms in London). Our rough estimate of the net

CMBI Fixed Income
fis@cmbi.com.hk

asset value of these assets is cUSD900mn, c18% of the total outstanding amount of new bonds. We understand that GZRF's priority is to develop these projects and extract the highest value instead of divesting these projects immediately.

If GZRF fails to secure the requisite consent, it could turn to a scheme which would collapse 10 USD into 1 tranche and extend the maturity for 6 years. See below for the comparisons of the consent and the scheme.

Key terms and dates of the consent:-

- Consent fee: 0.5
- Consent expiry date: 7 Jul'22
- RSA expiry date: 8 Jul'22
- Approval threshold: 75% of holders in principal amount in EGM with a meeting quorum of 66% of holders in principle amount of each of the 10 USD bonds
- Specified assets: Princess Cove in Malaysia and One Nine Elms in London

Consent or scheme? What holders of 2024 bonds will prefer?

	Consent			Scheme
	Group A	Group B	Group C	
Minimum mandatory redemption (by month)				
24th	25%			
30th	60%	5%		
36th		10%	5%	14%
42th		30%	15%	28%
48th		50%	25%	42%
54th		70%	40%	56%
60th			60%	70%
66th			80%	84%
Coupon				
Cash	6.50%	6.50%	6.50%	5.50%
PIK (only in the first 18th month)	7.50%	7.50%	7.50%	6.50%

Compared with the consent, coupon rate of the scheme is 1pct pt. lower. The amortization timetable for the consent is notably slower than those of Group A and B but faster than that of Group C. Hence, one of the keys for the consent to go through is whether the holders of 2024 bonds will prefer the scheme instead of the consent.

If the scheme will be the way out, the process could take months to finish, taking cues from the case of Modern Land which secured requisite support for its RSA in late Mar'22 and the restructuring is expected to complete only by mid Jul'22. GZRF has yet to specify the timetable for the scheme but the long-stop date of the scheme is on 23 Jan'23.

NPV estimates for sake of discussions

Discount rate	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%
Group A	84.11	75.55	68.18	61.79	56.23	51.36	47.08	43.29
Group B	75.63	64.09	54.76	47.15	40.87	35.67	31.31	27.64
Group C	72.49	60.07	50.28	42.47	36.19	31.08	26.89	23.42
Scheme	70.96	59.47	50.31	42.93	36.93	32.00	27.92	24.51

As we wrote below, FV/recovery analysis could be arbitrary as we are lack of the even latest financials. For the sake of discussion, we use a wide spectrum of discount rates and assume GZRF will elect PIK in the first 18-month. From the table above, we can tell current valuation of GZRFPRs priced in a deep discount rate, and even a significant risk of scheduled redemption will not be met in a timely manner.

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

Disclaimer

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.