ANDBANK
Private Bankers

Flash note
08/10/2021

Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

Latest news on the Evergrande's saga and Beijing crackdown on tech sector

- The Evergrande saga continues with its shares suspended from trading in Hong Kong after another REIT missed repayment last week moved it closer to restructuring. Markets were jolted after another smaller China property developer, Fantasia Holdings (1777.HK), missed a $205.7M repayment on a dollar bond (Bloomberg). That saw China dollar-denominated junk bonds remain under sustained pressure with yields hitting near-decade highs (that is why we decided to sell one position in our portfolios exposed to the REIT sector regionally).
- Sector view: Amid uncertainty around systemic risks, funding costs are now higher for the REITs companies, causing the aggregate interest coverage ratio of 21 big listed Chinese real estate developers being today was the lowest in at least a decade. That brought more attention on the opacity of the sector's exposure. JP Morgan argued that gearing levels at major property developers were likely much higher than reported when accounting for off-balance sheet debt.
- China property bonds and shares slump in accordance: Chinese developers' bonds fell sharply last night (Friday) with onshore bonds of Yango Group and Guangzhou R&F Properties among those down today. Another, China Aoyuan Group took to issuing a statement declaring it had deposited funds for an onshore coupon payment due 12-Oct.
- Meanwhile, Beijing crackdown on tech sectors continue: PBOC Governor Yi Gang said last night that "China will continue to curb the monopolistic behavior of internet platform companies and strengthen consumer privacy and data security". Technology platform businesses that offer financial services will also have to set up holding companies and bring all subsidiaries engaged in financial activities under them. The PBOC will also ask holding companies that have financial subsidiaries to consolidate their balance sheets. Bad omens, then for the Chinese stock market in the short term.

Best