Reorg Asia Bi-Weekly

Reorg Asia Bi-Weekly: Trends, Developments in Asian Markets Feb. 10-24: Ruyi Tests Lycra's Ability to Stretch Under Stress

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From Reorg Asia's Managing Editors

In this column, managing editors Stephen Aldred and Shasha Dai will take turns writing about trends in high yield, distressed debt, restructuring and bankruptcy in major Asian markets including China, Southeast Asia, India and Australia. For questions or comments, contact Stephen at saldred@reorg.com and Shasha at sdai@reorg.com.

Stephen Aldred
Managing Editor-Asia

All eyes in the credit space are focused on the potential financial impact of the coronavirus outbreak. Reorg is modelling the potential impact on a number of credits, including one of the most followed current distressed situations in Asia: China's apparel and textile company Shandong Ruyi and its US spandex subsidiary The Lycra Company.

Discussion centres around what could be the event that tips Lycra and Ruyi into a collapse: the formerly expansive Ruyi now finds itself at a cycle low, and living in a liquidity bear market. Multiple factors loom over the credit, and any one could push the company into collapse. It could be that the outbreak of coronavirus and its impact on customers in the supply chain is the tipping point for Lycra and Ruyi. It could equally be an amortization payment on a promissory note; or the appointment of receivers by holders of a $400 million mezzanine facility used to partly fund the Lycra buyout which has been in technical default since a contested amortisation payment was missed in December.

Or it could be nothing at all.

Ruyi has already defied the bond default gods once, with its last-minute repayment of $345 million 7.5% senior notes on Dec. 19, initially announced via a statement on the WeChat account of the COO, Su Xiao.

As speculation mounts as to what exactly could push Ruyi/Lycra into collapse and when, one part of the equation to consider is that December bond repayment. The widely held rumour is that it involved at least one national level Asset Management Company, with China Cinda Asset Management – a former substantial holder of the due Dec. 19s - widely tipped as involved. But that would mean a national level company had stepped in on behalf of a relatively insignificant private – though formerly state-owned – provincial company.

In that regard, sources also point to the role of Jining City Urban Construction Investment - a local government financing vehicle wholly owned by Ruyi's home city government, which acquired 26% of Ruyi for RMB 3.5 billion ($498.06 million) in Oct. 2019. Jining City Urban Construction Investment helped dissuade holders from exercising a put on an onshore bond in Oct. 2020 by providing a guarantee on repayment.

It's not who made the payment though – it's who ordered the payment. (Spoiler alert: I don't know the answer).

To give further context, in Hollywood backstory style, it's worth dialling back to the beginning of the Ruyi/Lycra saga. The story begins in October 2017, when the then-acquisitive Shandong Ruyi emerged closing in on a deal to buy Lycra from Koch Industries. That deal was eventually struck for a

$2.6 billion enterprise value, or $1.5 billion in equity. The acquisition was at over 11x levered off the back of $229 million adjusted EBITDA.

Ruyi already owned French fashion retailer SMCP and British trench coat maker Acquascutum at the time it announced the Lycra deal, and had continued to pursue leading overseas textile brands in its seeming quest to become China's LVMH. That quest continued even as Chinese corporations slowed down their earlier overseas shopping spree on warnings from the central government about excessive use of leverage (which has close ties to excessive cash leakage overseas). At the time the Ruyi deal emerged in news headlines in late 2017, Chinese companies' deal-making in the US had already fallen 78% for the year to $15.7 billion, according to *Bloomberg*.

The fact that Ruyi continued to target overseas acquisitions and closed on the Lycra deal has significance, say many observers. Fosun International, Dalian Wanda, Anbang Insurance, and HNA Group had already fallen under a cloud of regulatory scrutiny: the China Banking Regulatory Commission (CBRC) had ordered banks in June 2017 to review their offshore exposure to these companies, amid a crackdown on money laundering and financial risks ahead of the 19th party congress.

Ruyi went ahead with the Lycra acquisition, funding the deal with €250 million 5.375% senior secured notes due 2023 and $690 million 7.5% due 2025 senior secured notes issued by the Lycra company in April 2018. Additional financing at the Ruyi level came from a Credit Suisse led $400 million mezzanine facility out of a Hong Kong entity, as well as an additional $140 million junior mezzanine debt held by China Oceanwide Securities.

The debt could yet prove a millstone round Ruyi's neck. Factors looming over Ruyi and Lycra, as covered by Reorg, include:

- **Planned appointment of receivers by mezz lenders** – Alvarez & Marsal and Borrelli Walsh have been in talks with Ruyi Textile and Fashion International Group Ltd's mezzanine lenders for a potential receiver role, as first reported by Reorg. Based onReorg's analysis, the appointment is unlikely by itself to trigger the change of control provisions under Lycra's $690 million and €250 million notes, but could signal that mezz lenders are taking further steps to prepare for a potential enforcement action under the loan and security.
- **Promissory note amortization payment** – As Reorg has analysed, Lycra faces an amortization payment of a $53 million promissory note along with accrued interest on July 31. The promissory note, issued to satisfy working capital closing adjustments, is due to Koch Industries, a 22.2% shareholder of Lycra and the previous owner of the company. **Our legal analysis suggests there are a number of options for the company to address the promissory note maturity. Any of the options we consider amounts to value leakage from the bondholders.** We forecast Lycra to have insufficient liquidity from its operations or availability under its RCF to be able to make such payments and a resulting default is something to consider. If a default on the promissory note is: (a) caused by a failure to pay principal at the stated maturity (and following expiration of any grace period), or (b) results in the acceleration of the promissory notes prior to maturity, there would be a cross-default under the company's dollar notes and euro notes. In each case, the aggregate amount of such debt to trigger the cross-default provisions must be at least $20 million. The RCF also contains similar cross-default provisions based on the information in the OM which Reorg assumes would be triggered by a failure to pay under the promissory note.
- **Coronavirus impact on Lycra supply chain** – according to Reorg's analysis, Lycra's exposure to COVID-19 is material, with its customers' sales and supply chains integrated globally. The spandex producer also has a production facility in China with additional facilities in Taiwan and Singapore. Lycra's main customers include Luluemon, Under Armour, Adidas, Nike, The North Face, Calzedonia, Uniqlo, Levi's, American Eagle, Victoria's Secret, Wrangler, Speedo, Huggies, Pampers among others. Our revised forward projections can be found in our model HERE and our view on the group's liquidity and original valuation can be found HERE and HERE respectively.

Amid all this, Ruyi has been sighted making what sources note is becoming a common play: the firm has entered the medical garments space. Ruyi has expanded into production of protective medical clothing and is awaiting a permit for production of surgical masks, which could entitle it to grants of prioritized loans from banks available to combat the coronavirus outbreak.

The fact pattern points to the company having a high-level backer, or backers, powerful enough to intervene and provide last minute liquidity when needed.

But the financial situation in December or even January is wholly different than now. With the ongoing coronavirus outbreak, there are now multiple competing demands on Chinese liquidity.

It remains to be seen whether Ruyi's backers can still provide liquidity when it's needed.

If Ruyi is allowed to fall over, observers say it sends a very clear signal that such private Chinese companies – even with high level backers - may not always be protected. But it depends who orders the payment.

--Stephen Aldred

Reorg Asia Watchlist

Below is a list of companies or credits worth watching that face looming maturities, upcoming court proceedings or creditor campaigns. For questions or comments, please send email to questions@reorg.com.

AUSTRALIA
Altura Mining Ltd

West Australian lithium miner Altura Mining Ltd's (ASX: AJM) planned bond issue - which was already reduced to around $160 million from an initial $200 million - has been cancelled, said two sources. The proposed issue, which was guided at a coupon of 14%-15%, up from an initial 12%, was expected to refinance Altura's $125 million due Aug. 2020 loan note.

Read Reorg's coverage of Altura Mining HERE

CHINA
Peking University Founder Group Company Limited

Beijing No.1 Intermediate People's Court has accepted Bank of Beijing's reorganization petition against Peking University Founder Group. Dentons is likely to be appointed as legal advisor to the administrator team, according to three advisory sources. Subsidiary Founder Information had yet to transfer a $4.4 million coupon payment for its $310 million floating rate notes by Friday (Feb. 21). It is likely that an event of default has already been triggered under the offshore bonds based on Reorg's legal analysis.

Read Reorg's coverage of PKU Founder HERE.

HNA Group

The Hainan provincial government will take over defaulted Haikou Meilan International Airport amid talks that the state plans to take control of indebted conglomerate HNA Group and sell off its assets, according to two sources close to the situation. HNA Group's $200 million 6.25% notes due Oct. 5, 2021 jumped five to six points to 77/79 on Thursday morning (Feb. 20) after rumours began to surface on Chinese social media the night before saying that HNA's airline assets will be taken over by state-owned carriers.

Read Reorg's coverage of HNA Group HERE.

Qinghai Provincial Investment Group

A controversial tender offer for QPIG's three offshore bonds received 54% acceptance, a level that buyside sources said was higher than they expected. Meanwhile, bondholders representing over 35% of QPIG's $850 million total offshore bond stack have appointed Kirkland & Ellis and Admiralty

Harbour as legal and financial advisors, respectively as they weigh legal options. QPIG announced on Friday (Feb. 21) the non-payment of interest and principal under its $300 million 6.4% notes due Feb. 22.

Read Reorg’s coverage of Qinghai Provincial Investment Group HERE.

Yida China

China Minsheng Investment Group (CMIG) has paused its negotiations with Sichuan Development Holding (SDH) in connection with a proposed takeover of business park developer subsidiary Yida China due to the ongoing coronavirus outbreak, and stalled talks over pricing as CMIG had insisted on a HKD 5 per share asking price. A source at Yida has told Reorg that the the company is unlikely to be able to make any asset disposals before the maturity of its $300 million 6.95% senior notes due Apr. 19, hinting that it could be forced to undertake a distressed exchange offer for the notes.

Read Reorg’s coverage of Yida China HERE.

Xinjiang Guanghui Industry Investment Group

Urumqi-based Xinjiang Guanghui, the controlling shareholder of auto dealer China Grand Automotive, is expected to announce an exchange offer by Wednesday (Feb. 26) for its $300 million 7.875% senior notes due March 30. Meanwhile, anchor investors have lowered their commitments in a concurrent new issuance from the initial target of $150 million to just $60 million. Market feedback for the anticipated exchange is lukewarm, but the company has stressed that it has enough onshore cash to meet the offshore maturity.

Read Reorg’s coverage of China Grand Auto/Xinjiang Guanghui HERE.

Tunghsu Group

The delayed holder meetings of four onshore bonds issued by Tunghsu Optoelectronic, a subsidiary of Tunghsu Group, are expected to happen this week. The meetings, which are bound to discuss the next steps after Tunghsu missed a coupon payment under “16 Tunghsu 01” due Jan. 18, have been postponed for two weeks due to the coronavirus outbreak.

Read Reorg’s coverage of Tunghsu HERE.

INDIA

Vodafone Idea

The Supreme Court of India slammed the Department of Telecommunications for stating that there should be no coercive action taken against telecom companies for not paying adjusted gross revenue (AGR) dues of as much as INR 920 billion ($13 billion), despite court orders to the contrary. The Supreme Court heard pleas by telecom companies, including Vodafone Idea and Bharti Airtel, seeking more time to repay the AGR dues to the government.

Read Reorg’s coverage of Vodafone Idea HERE.

Suzlon Energy

Lenders to Suzlon Energy have informally agreed to let the State Bank of India-led resolution process run its course and they will not initiate a corporate insolvency resolution process unilaterally under the Insolvency & Bankruptcy Code, 2016. The lenders are of the view that the SBI-led resolution process has the potential for a better recovery.

To read Reorg’s previous coverage of Suzlon see HERE.

Altico Capital

The CoC of Altico Capital failed to reach a consensus on the resolution plan submitted by SSG Capital Management after Mashreq Bank, a key lender, raised an objection. Mashreq expressed its objections over the SSG Capital resolution plan, which was preferred by most lenders, citing the high haircut it would need to take.

To read Reorg's coverage of Altico see HERE.

SOUTHEAST ASIA
Garuda Indonesia

Indonesian airline company PT Garuda Indonesia (Persero) Tbk has not been able to set roadshow dates for its planned sukuk issuance as the audited 3Q19 financials are still being finalised. The company has 135 days from Sept. 30, 2019 - or until Feb. 12 - to issue the sukuk, proceeds of which will be used to refinance its $500 million 5.95% sukuk due June 2020.

Read Reorg's coverage on Garuda HERE.

Agritrade International Pte Limited

Agritrade International Pte Limited (AIPL), the troubled parent company of Hong-Kong Listed coal, oil and palm oil trading company Agritrade Resources Limited (ARL) has entered into interim judicial management on Feb. 14. Meanwhile, ARL said that Ng Say Pek has resigned as the executive director and chairman of the board of directors and Lim Beng Kim, Lulu has resigned as the executive director and member of the executive committee with effect from Feb. 10. ARL said on Feb. 18 that it received notices regarding events of default on its $60 million, $125 million and $59 million secured term loan facilities.

From Our Financial & Legal Analysts

Below are links to reports written this week by our financial and legal analysts.

ANALYSIS: NIO's $200M Convertible Potentially Arbitraged for ~30% ST Gross Return; High Cash Burn, Liquidity Woes Indicate 3-Mth Runway, More Disadvantageous New Financing Terms

ANALYSIS: Majority of Lycra's Customers Yet to Quantify Coronavirus Impact; Under Armour Guides $50M-$60M Q1 APAC Revenue Hit Due to the Virus, Potential for Further Disruption; Entire Apparel Supply Chain Affected

TEAR SHEET: PKU Founder Faces Bulking Debt Due Between 2020-2022, Business Segments Operate at Low Margins, Refinancing Remains Key to Meet Debt Obligations, Lawsuit Between Minority Shareholder Causes Uncertainty

Fundraising News

Below is a summary of news about firms raising APAC-focused special situations and credit oriented funds.

Sammasan Capital is seeking to raise up to $300 million for a debut credit investment fund. Stephen Ezekiel, former head of GE Capital in Hong Kong and Singapore and before that the head of GE's private equity unit in Asia is chairman and CEO, while Rahul Mathur, previously head of leveraged finance at GE Capital Asia and SMBC, is managing partner. Erwan Stervinou, also ex GE Capital, recently joined as partner. The fund aims to provide structured financing to SMEs which do not have access to bank capital, and transaction types range from asset-backed loan and receivables financing to unitranches and mezzanine loans. Target companies typically have EBITDAs in the $5 million-$40 million range.

Zerobridge Partners, helmed by Rahul Kotwal, former head of credit and special situations at UBS Asia-Pacific, is targeting $350 million for a private credit fund focused on Singapore, China and India. The fund is sector agnostic, will invest in 12-14 positions and targets 12%-14% unlevered returns annually. The fund will focus on less developed banking and capital markets in Asia-Pacific, investing mostly in private deals, but will also look at secondary deals.

Australian corporate debt manager **Metrics Capital Partners** is seeking to raise A$638 millionfor its pre-existing listed loan fund, taking its total size to almost A$2 billion. Metrics, which loans money to about 150 Australian companies via the Master Income Trust, was among the first debt funds to tap individual investors via the listed investment trust (LIT) format in 2017. The fund, which trades under the ticker MXT, targets a net annual return of 5.45%.

Neuberger Berman is seeking to raise $750 in a follow-on offer for its NBI Global Corporate Income Trust, which invests in global high yield bonds. The fund has already raised over $900 million, and the follow-on offer comes ahead of an expected rush of prospective fixed income listed investment trusts.

People Moves

Below is a summary of news about movers and shakers in Asia.

Metrics Credit Partners plans to open a New Zealand office, and has recently made three hires from ASB Bank: Wayne Skerten, formerly executive manager – capital solutions at ABS Bank, Richard Mandeno, formerly a client director in corporate banking, and Devna Bilimoria, a manager in capital solutions.

Week Ahead

Below is a list of events on the Reorg Asia Calendar for the next two weeks.

Calendar

02/23/2020 - 02/29/2020 Today List View Calendar View

Date/Time ET	Company/Case	Event	Location	Description
02/24/2020 All Day	Qinghai Provincial Investment Group	Other		Settlement of the Tender Offer
02/24/2020 01:00	Kangmei Pharmaceutical	Other		15 Kangmei Bondholders' Meeting
02/25/2020 14:00	Faraday Future	Court Hearing		Hearing
02/26/2020 All Day	India Loan Auctions	Other		Ind-Barath Power Gencom - Extended EoI Deadline
02/27/2020 All Day	Speedcast International Limited	Earnings		Earnings FY2019
02/27/2020 All Day	Tunghsu Group	Other		17 Tunghsu 01 - Put Option Registration Deadline
02/27/2020 14:00	Global Cloud XChange	Court Hearing	Delaware - Courtroom #6	Hearing on Two-Step Emergence Motion
02/27/2020 17:00	AMC Entertainment Holdings, Inc	Earnings Call	Leawood ,Kan.	Q4'19 Earnings Conference Call
02/27/2020 18:30	Boart Longyear Ltd.	Earnings Call		FY2019 Results Update
02/28/2020 All Day	Boart Longyear Ltd.	Presentation		Result Presentation FY2019
02/28/2020 All Day	KrisEnergy	Earnings		4Q2019 and FY2019 financials Update
02/28/2020 All Day	GCL New Energy	Other		Deadline for Circular Dispatch
02/28/2020 01:30	Shenzhen Fenda Technology Co. Ltd.	Shareholder Vote		EGM
02/28/2020 08:30	Superior Industries	Earnings Call	Southfield, Mich.	Q4'19 Earnings Conference Call

Calendar

03/01/2020 - 03/07/2020 Today List View Calendar View

Date/Time ET	Company/Case	Event	Location	Description
03/07/2020 All Day	India Loan Auctions	Other		Ind-Barath Power Gencom - Release of Provisional List of Prospective Resolution Applicants

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