



China Evergrande: Fixed on its fate

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November 2021





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Introduction

The fate of China's Evergrande, the second-largest developer in China by sales, continues to grip the international markets, with fears that the debt crisis being faced by the heavily-indebted housing developer will not only have knock-on repercussions for China's real estate sector – which, with its related industries accounts for as much as 30% of the Chinese GDP –, but also trigger a string of both domestic and international defaults, in what doomsayers have warned could well be another Lehman moment for financial markets.

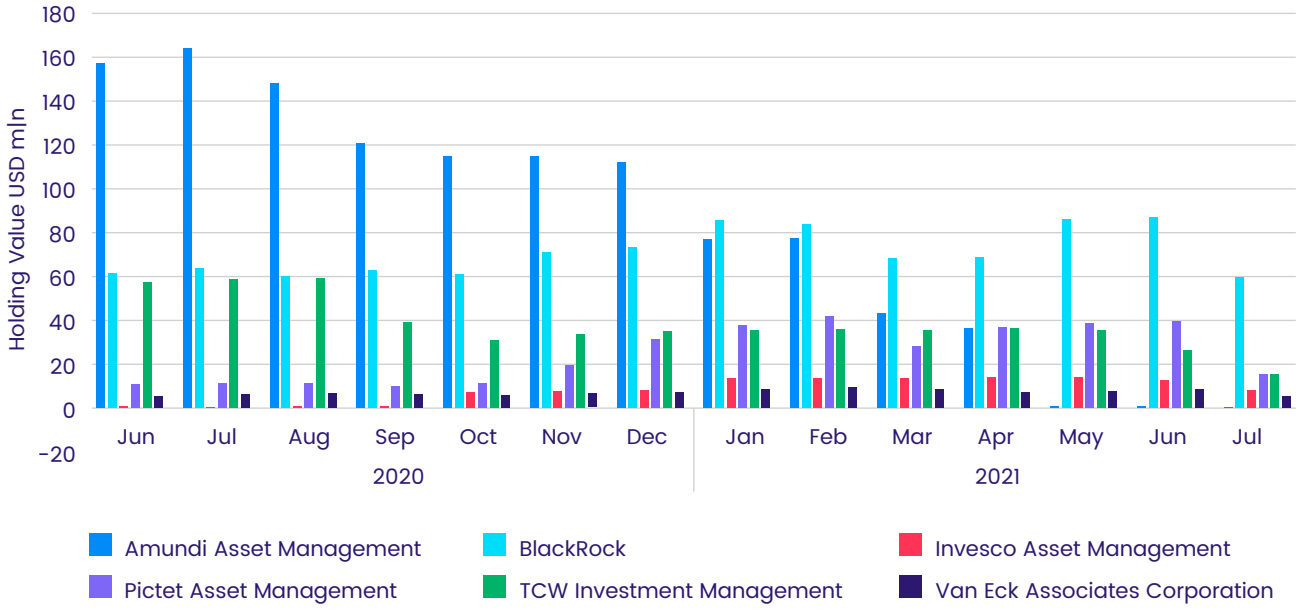
Evergrande – which is snowed under a mammoth US\$300 billion of debt – has warned twice that it could default, setting off investor worries. It has missed interest payments on five US dollar offshore bonds so far and has been scrambling to raise cash to pay suppliers and investors.

Which funds are still holding Evergrande's debt?

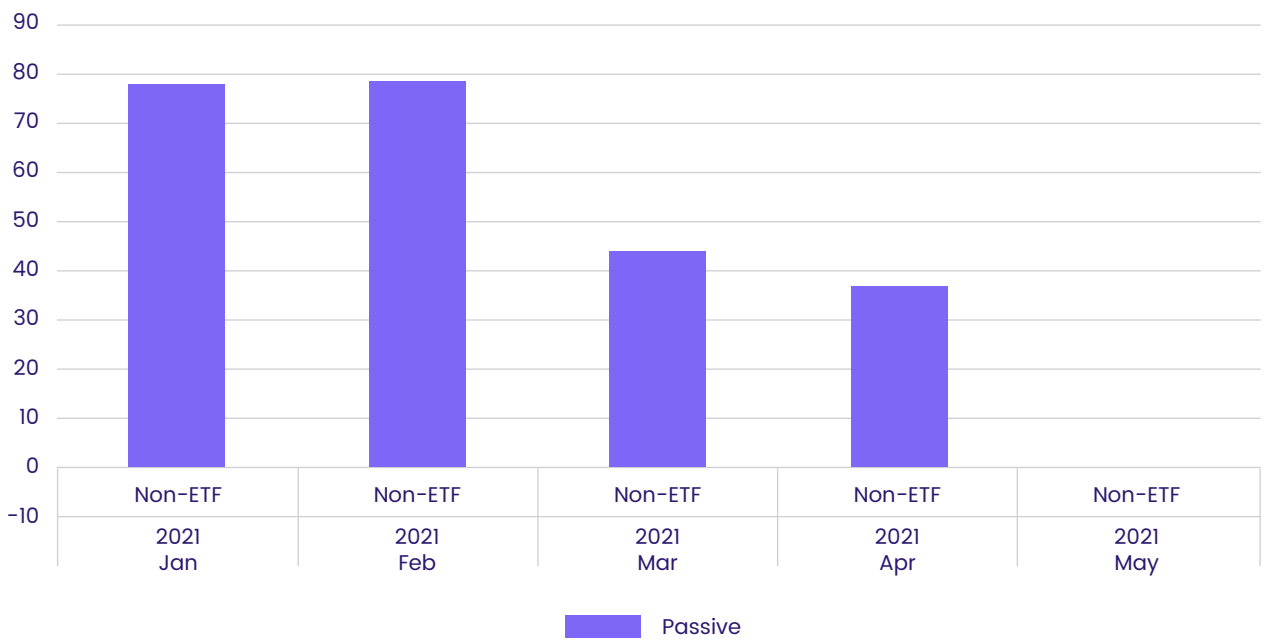
A closer glance at Evergrande's USD debt, per EPFR's Fixed Income Barometer, indicates perhaps a differing in opinions between fund managers on how the Evergrande saga will play out.

- BlackRock has to date been unwavering in retaining its exposure to Evergrande debt, and as at July 31st 2021, its holding value represented over a third of all fund manager holdings.
- Amundi Asset Management was the dominant holder of Evergrande's debt last year. However, from the beginning of 2021, when Blackrock was instead increasing its holdings, Amundi started to scale back its exposure, to the point that it had zero exposure by May.

Evergrande's top 5 fund managers (source: EPFR)



Evergrande holdings (in \$US min) Fund manager: Amundi Asset Management

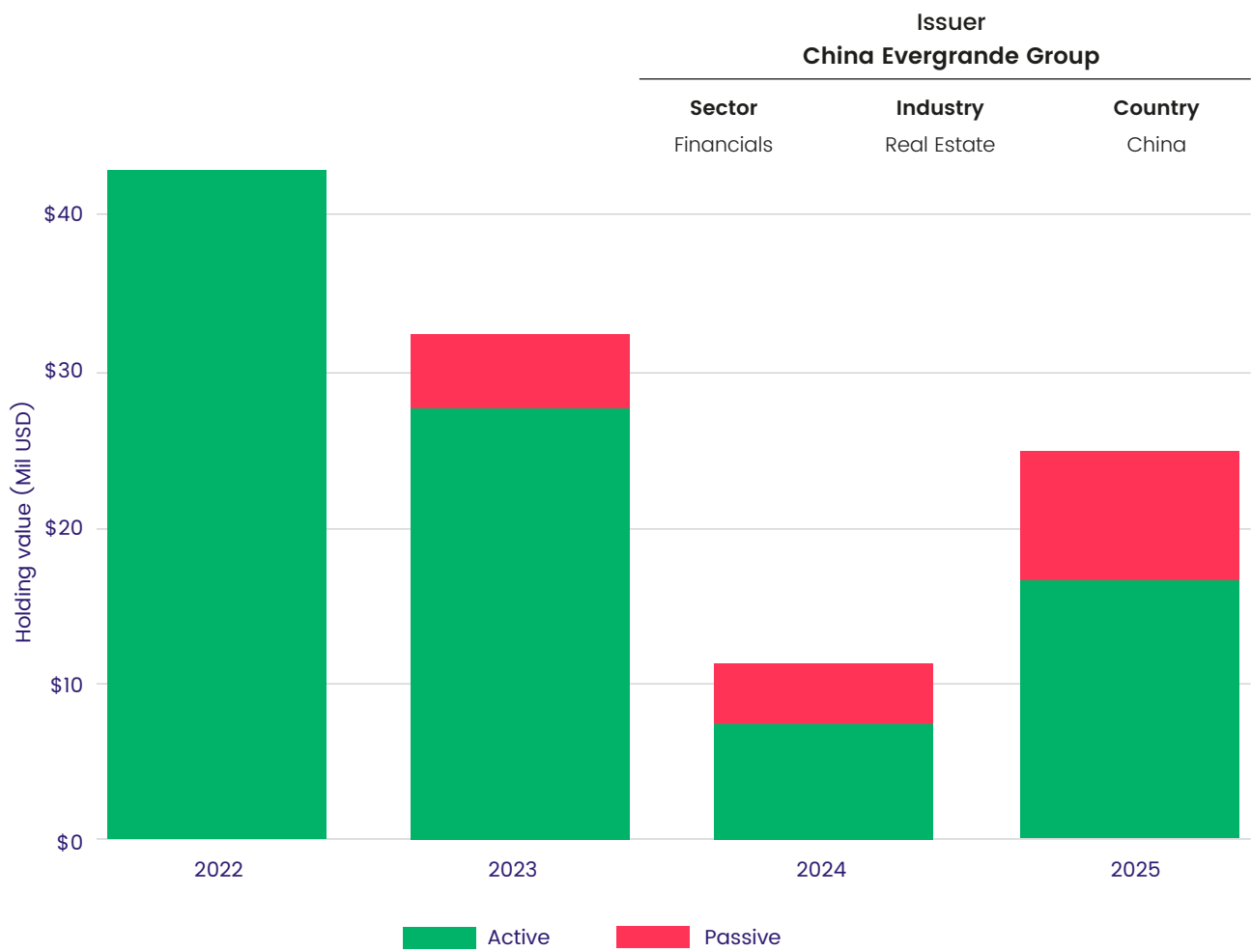


Where is the maturity exposure?

In the international credit markets, the Evergrande Group has nine USD-denominated issues outstanding, of which 3 are due in 2022, 3 in 2023, 2 in 2024 and 1 in 2025 (Source: IGM).

Ownership by funds is focused on the shorter 2022 maturity. Interestingly, holdings are purely owned by active investors, perhaps punting on market volatility for a quick exit. Not surprisingly, where there are more passive investors is in the "longer" 2025 maturity bucket, but even here most are held by active funds.

Ownership by maturity



Eyeballing Evergrande's issues

Of Evergrande's outstanding international bond issues, one that has been in the spotlight lately has been its 8.25% 2022 bond, where the property developer missed an interest payment due on September 23rd 2021.

Looking at the bond's ISIN of XS1580431143 indicates that there was a steep sell-off in the issuance in March by passive investors, with net fund flows turning negative. The month of July also saw the average allocation in the issue by active funds drop sharply, and here too net fixed-income flows were negative, albeit to a lesser extent.

Fixed Income ISIN Flow & Allocation Factsheet



Data as of
2021-07-31

Issuer
China Evergrande Group

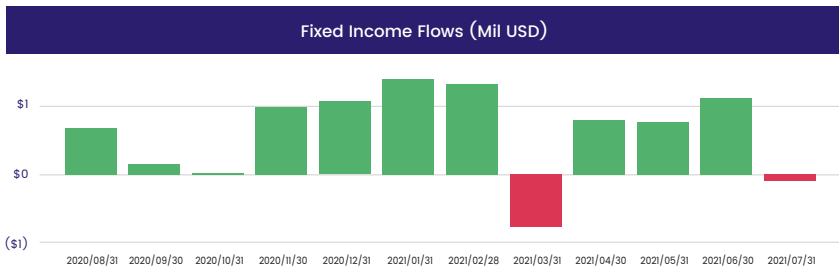
Count of ISIN
1

Sector	Industry	Country	Maturity	Coupon	Type
Financials	Real Estate	China	03/23/2022	8.25	Corporate

Holding Statistics			
ETF/nonETF	Active/Passive	Count of Funds	Holding Value (Mil USD)
nonETF	Active	11	\$34.49
Total		11	\$34.49

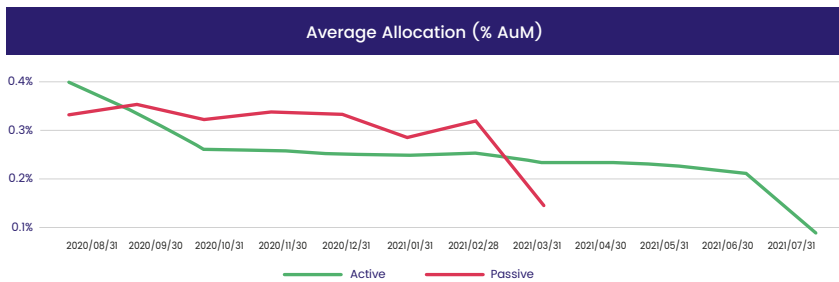
Number of Active Funds that have			
Increased Allocation	Decreased Allocation	Added to Portfolio	Removed from Portfolio
0	0	0	14

ETF/nonESG	Active/Passive	Count of Funds	Holding Value (Mil USD)
nonESG	Active	11	\$34.49



Fund Domicile			
Fund Domicile	Active/Passive	Count of Funds	Holding Value (Mil USD)
Lux	Active	9	\$18.24
United Kingdom	Active	1	\$0.35
USA	Active	1	\$15.89

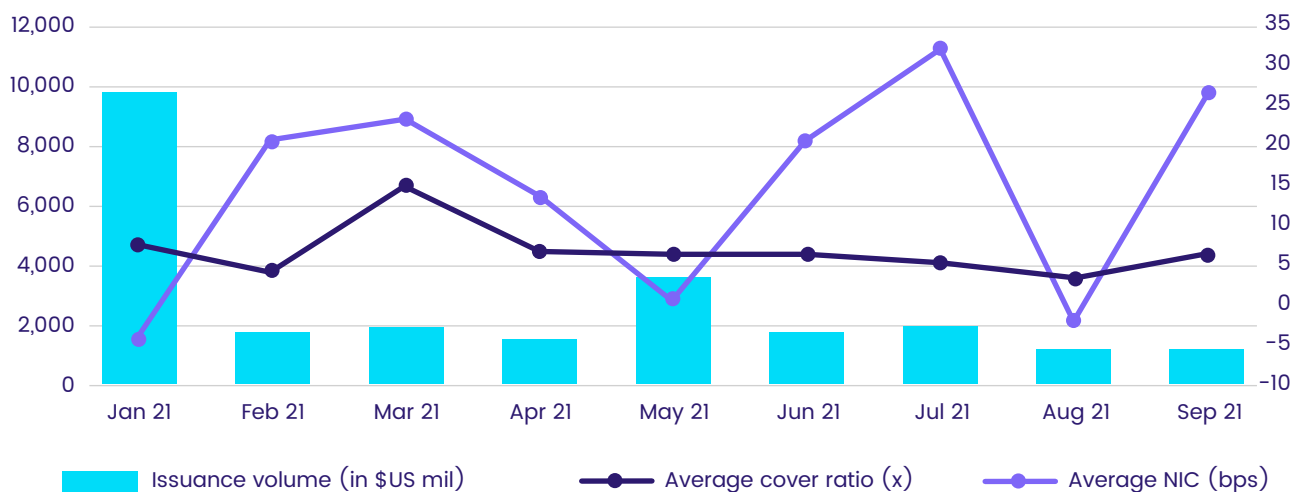
Fund Geographic Focus			
Fund Geographic Focus	Active/Passive	Count of Funds	Holding Value (Mil USD)
Asia ex-Japan Regional	Active	1	\$7.45
Global	Active	7	\$9.96
Global Emerging Markets	Active	3	\$17.07



So, who's next as stress and contagion fears build?

On the heels of Evergrande's debt crisis and fears over a disorderly systemic default, China's high yield property sector has been struggling to tap the international capital market, with a paltry US\$1.17 billion issuance, making it over the line in September in what marked a continuation of a long-standing trend which has been in place since February 2021. At the same time, the small number of high yield developers that did manage to fund offshore have had to pay up for the privilege, as reflected by the inflated new issue concession at 26bp on average in September (Source: IGM).

China property developer US\$ high yield



Source: IGM

With investors and lenders in general turning more cautious, this could potentially result in a credit crunch, in turn severely dampening other China property developers, and in general demand for construction materials – including steel –, made using mostly imported iron ore, where not just conglomerates inside China risk being affected.

Beyond Evergrande, individual stress is already being felt, with rating agencies recently downgrading Chinese developers Fantasia Holdings and Sinic Holdings over risks from their strained cash flow situations. Following up on this, Fantasia Holdings failed to repay the principal amount of its 7.375% Reg S 5NC3 bond that matured on Monday October 4th 2021, in a filing to the Hong Kong exchange (XS1498418224), whilst Fitch warned that Sinic Holdings is likely to default on its US\$246 million offshore dollar-denominated bond due on October 18th 2021 (XS2240047881).

Sinic Holdings XS2240047881

Fixed Income ISIN Flow & Allocation Factsheet



Data as of
2021-07-31

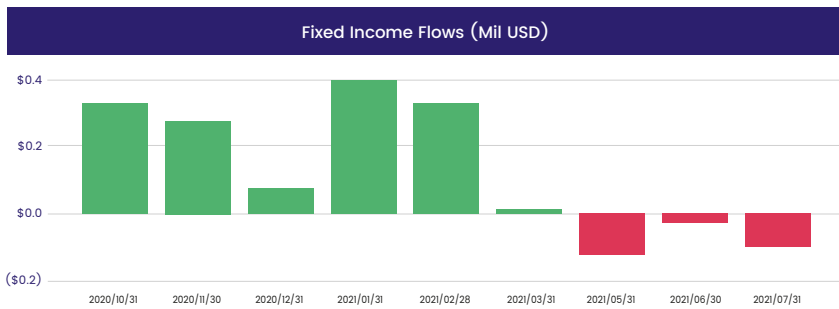
Issuer
Sinic Holdings Group Co Ltd

Count of ISIN
1

Holding Statistics			
ETF/nonETF	Active/Passive	Count of Funds	Holding Value (Mil USD)
nonETF	Active	1	\$5.80
Total		1	\$5.80

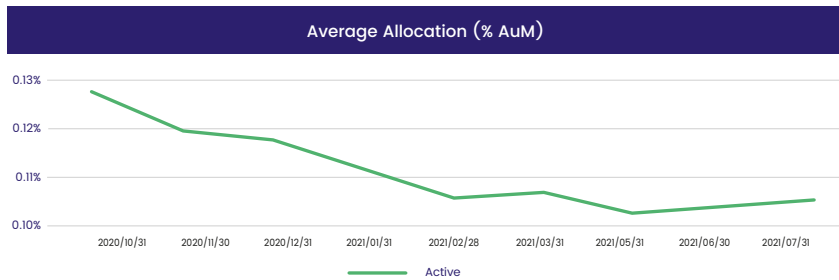
Number of Active Funds that have			
Increased Allocation	Decreased Allocation	Added to Portfolio	Removed from Portfolio
1	0	0	0

ETF/nonESG	Active/Passive	Count of Funds	Holding Value (Mil USD)
nonESG	Active	1	\$5.80



Fund Domicile			
Fund Domicile	Active/Passive	Count of Funds	Holding Value (Mil USD)
Lux	Active	1	\$5.80

Fund Geographic Focus			
Fund Geographic Focus	Active/Passive	Count of Funds	Holding Value (Mil USD)
Asia ex-Japan Regional	Active	1	\$5.80



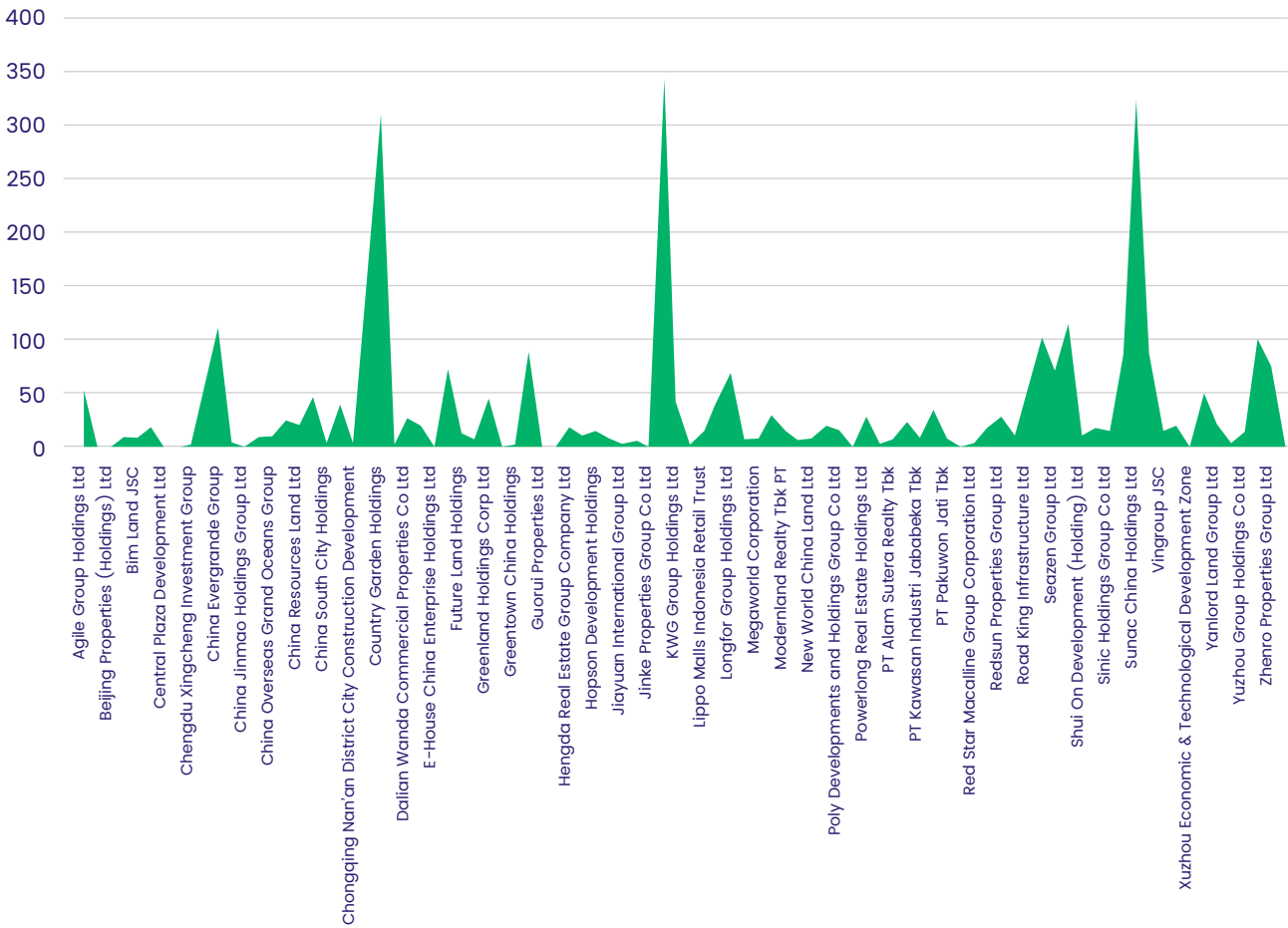
Sinic Holdings ownership by fund manager as of 31st July 2021

Fund Manager	Fund Type	Fund Geographical Focus	Fund Domicile	Active/Passive	ETF/nonETF	ESG/nonESG	Sum of Holding Value (Mil USD)
Black Rock	Bond	Asia ex-Japan Regional	Lux	Active	nonETF	nonESG	\$14.44



China property sector USD-denominated fund holdings

China property sector US\$ fund holdings as of 31st July 2021 (in USD million)





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EPFR's market-moving data services include equity and fixed income fund flows on a daily, weekly and monthly basis and monthly fund allocations by country, sector and industry, providing financial institutions around the world with an unparalleled understanding of where money is moving.

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