

Financing Portfolio of Evergrande (3333.HK)

1 Company Profile

Evergrande, one of the leading property developers in China, mainly operates in four business lines: property development, property investment, property management and other segments. The company is also widely engaged in industries such as new energy vehicle, tourism and healthcare.

As of April 5, 2020, among real estate firms listed in A-shares and Hong Kong, Evergrande ranked 2nd with revenue of RMB 479.96Mn. Its market value and net income ranked 7th and 9th respectively.

2 Financial Overview

From 2015 to 2018, Evergrande's revenue increased rapidly with an average 50%¹ year-on-year growth rate. However, with the release of stringent regulations, Evergrande's revenue increased by only 2.4% in 2019. Its net profit even dropped by 54%. Both its gross profit margin and net profit margin declined significantly.

Nevertheless, the debt ratio of Evergrande was only 1.2%² higher than the industry median in 2019. Its leverage had not risen sharply, showing a stable downward trend in the past five years, which mainly due to Evergrande's efforts to reduce leverage and introduce strategic equity financing.

Fig 1: Evergrande's Basic Financial Information

(RMB Bn)	2019	2018	2017	2016	2015
Revenue	478.96	467.81	311.37	212.76	133.96
Operating Income	86.20	132.35	77.55	32.50	17.70
Net Income	17.28	37.39	24.37	5.09	10.46
Assets	2,206.58	1,880.03	1,761.75	1,350.87	757.03
Liabilities	1,848.04	1,571.40	1,519.54	1,158.34	614.89
Equities	358.54	308.63	242.21	192.53	142.14
Net Profit Margin	7.00%	14.23%	11.90%	8.28%	12.94%
Debt Ratio	83.75%	83.58%	86.25%	85.75%	81.22%
Asset Turnover	0.23	0.26	0.20	0.20	0.22
EPS	1.30	2.77	1.79	0.37	0.70
P/E (TTM)	11.65	7.13	14.05	18.53	5.03

Source: Evergrande's Financial Statements

¹ Calculation based on Evergrande's financial statements (Appendix)

² Fig 5: Liquidity and Solvency Ratios

3 Historical Financing

In the past five years, the amount raised by equity financing was relatively small compared to its debt financing. Long-term bank loans and long-term senior notes were the main financing options. Long-term bank loans accounted for the largest proportion, reaching around 56% of the total borrowings. The proportion of short-term borrowings was slightly smaller than that of long-term borrowings. The main form of short-term borrowing was issuing short-term notes.

Fig 2: Evergrande's Borrowings (amount)

Borrowings (RMB Mn)	2019	2018	2017	2016	2015
Borrowings included in non-current liabilities					
Senior notes (note a)	128,511	79,912	57,682	22,112	19,854
PRC corporate bonds (note b)	63,664	43,666	53,863	53,761	39,549
Convertible bonds (note c)	12,829	12,704	-	-	-
Bank and other borrowings (note d)	451,341	420,143	484,672	334,455	175,295
Total borrowing in note a-d	656,345	556,425	596,217	410,328	234,698
Less: current portion of non-current borrowings	219,019	201,568	219,973	78,164	96,536
Total borrowings included in non-current liabilities	437,326	354,857	376,244	332,164	138,162
Borrowing included in current liabilities					
Bank and other borrowing (note d)	156,826	116,717	136,408	124,742	62,208
Current portion of non-current borrowings	219,019	201,568	219,973	78,164	96,536
-PRC corporate bonds (note b)	-	26,510	36,482	-	-
-Other borrowings (note d)	-	112,952	105,436	-	-
-Bank borrowings (note e)	-	62,106	78,028	-	-
Total borrowings included in current liabilities	375,845	318,285	356,381	202,906	158,744
Total borrowings	813,171	673,142	732,625	535,070	296,906
Total borrowings denominated in currencies					
RMB	606,924	529,669	598,945	450,433	241,876
US\$	169,699	110,075	88,295	74,452	47,798
HK\$	34,548	33,398	29,826	4,081	7,187
EURO	-	-	15,559	6,104	-
Others	-	-	-	-	45
Total borrowings	813,171	673,142	732,625	535,070	296,906

Source: Evergrande's Annual Reports

With the tightening regulations on real estate industry in mainland China, issuing domestic bonds becomes much harder. The issue size of Evergrande's PRC corporate bonds had declined year by year. Many senior notes denominated in USD had been issued, with its proportion rising from 7% to 16%.

More limitations are also imposed on bank loans. In the past 5 years, Evergrande borrowed less from banks, but bank loan was still the most important source of funds. The share of RMB borrowings continued to go down from 82% to 75%, and the share

of USD borrowings had risen to 21% in 2019. The amount of HKD and EURO borrowings was relatively small.

Fig 3: Evergrande's Borrowings Structure

Borrowings (%)	2019	2018	2017	2016	2015
Borrowings included in non-current liabilities					
Senior notes (note a)	15.80%	11.87%	7.87%	4.13%	6.69%
PRC corporate bonds (note b)	7.83%	6.49%	7.35%	10.05%	13.32%
Convertible bonds (note c)	1.58%	1.89%	-	-	-
Bank and other borrowings (note d)	55.50%	62.42%	66.16%	62.51%	59.04%
Total borrowing in note a-d	80.71%	82.66%	81.38%	76.69%	79.05%
Less: current portion of non-current borrowings	26.93%	29.94%	30.03%	14.61%	32.51%
Total borrowings included in non-current liabilities	53.78%	52.72%	51.36%	62.08%	46.53%
Borrowing included in current liabilities					
Bank and other borrowing (note d)	19.29%	17.34%	18.62%	23.31%	20.95%
Current portion of non-current borrowings	26.93%	29.94%	30.03%	14.61%	32.51%
-PRC corporate bonds (note b)	-	3.94%	4.98%	-	-
-Other borrowings (note d)	-	16.78%	14.39%	-	-
-Bank borrowings (note e)	-	9.23%	10.65%	-	-
Total borrowings included in current liabilities	46.22%	47.28%	48.64%	37.92%	53.47%
Total borrowings	100.00%	100.00%	100.00%	100.00%	100.00%
Total borrowings denominated in currencies					
RMB	74.64%	78.69%	81.75%	84.18%	81.47%
US\$	20.87%	16.35%	12.05%	13.91%	16.10%
HK\$	4.25%	4.96%	4.07%	0.76%	2.42%
EURO	-	-	2.12%	1.14%	-
Others	-	-	-	-	0.02%
Total borrowings	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Evergrande's Annual Reports

From 2015 to mid-2019, Evergrande had issued at least 21 senior notes, most of which were issued at par. The average coupon rate and tenor of these senior notes were 8.8% and 3.6 years respectively. Their principal amount ranged from US\$ 100Mn to 4,681Mn, with an average figure of 933Mn.

Generally, Evergrande's PRC corporate bonds had a lower financing cost (average coupon rate: 4.7%) and a longer tenor (average 6.6 yr.). The principle amount per PRC corporate bond was about two times those per senior note. The frequency of issuing SG corporate bonds and convertible bonds was not high.

Fig 4: Evergrande's Historical Financing

(a) Senior Notes					
Issue Date	Coupon (%)	Tenor (yr.)	Principal (US\$ Mn)	Principal (RMB Mn)	% of Par
2015-02-27	12.00	5	1,000	6,133	100

Fig 4: Evergrande's Historical Financing

2016-01-11	7.80	3	400	2,625	100
	8.00	3	300	1,969	100
2017-03-23	7.00	3	500	3,443	100
	8.25	5	1,000	6,886	100
2017-03-29	9.50	7	1,000	6,886	100
2017-06-28	6.25	4	598	4,078	100
	7.50	6	1,345	9,172	100
	8.75	8	4,681	31,921	100
2018-11-06	11.00	2	565	3,874	100
2018-11-19	11.00	2	1,000	6,838	100
2019-01-25	7.00	1.5	1,100	7,474	99
	6.25	2.5	875	5,945	93
	8.25	3.5	1,025	6,964	94
2019-02-21	8.00	1.5	100	672	100
2019-03-06	9.00	2	600	4,023	100
2019-04-11	9.50	3	1,450	9,728	100
	10.00	4	850	5,702	100
	10.50	5	700	4,696	100
2019-04-30	9.50	2.75	300	2,019	100
2019-05-24	8.90	2	200	1,380	100

(b) PRC Corporate Bonds

Issue Date	Coupon (%)	Tenor (yr.)	Principal (US\$ Mn)	Principal (RMB Mn)	% of Par
2015-06-19	5.38	5	-	5,000	100
2015-07-07	5.3	4	-	6,800	100
	6.98	7	-	8,200	100
2015-10-16	7.38	5	-	17,500	100
	7.88	5	-	2,500	100
2016-01-11	6.98	4	-	10,000	100
2016-07-29	6.8	3	-	4,200	100
2019-05-06	6.27	4	-	15,000	100
	6.8	5	-	5,000	100

(c) SG Corporate Bonds

Issue Date	Coupon (%)	Tenor (yr.)	Principal (US\$ Mn)	Principal (RMB Mn)	% of Par
2012-01-22	12	4	1,000	-	100
	11.5	3	1,000	-	100

(d) Convertible Bonds

Issue Date	Coupon (%)	Tenor (yr.)	Principal (HK\$ Mn)	Principal (RMB Mn)	Conversion Price (HK\$)
2018-01-30	4.25	5	18,000	-	38.99

(d) Placing

Issue Date	Issue Price (HK\$)	Issue Volume (Mn shares)	Fundraised (HK\$ Mn)	Purpose
2015-05-28	5.67	820.00	4,649.40	Debt payment and working capital supplement

Source: Evergrande's Annual Reports

4 Reasons for Historical Financing Choices

Evergrande's competitors Poly and Vanke were mainly financed by bank loans, with an average financing cost from 4.8% to 7%. Evergrande's average financing costs of senior notes, bank loans and PRC corporate bonds were 8.8%, 6.9% and 4.7%

respectively. Evergrande had higher financing costs and greater debt pressure compared to its main competitors.

4.1 PRC Corporate Bonds

It stands to reason that Evergrande should mainly finance by issuing PRC corporate bonds to reduce its interest expense. However, the proportion of financing in this way kept declining to 8% in 2019. The main reason is that there are increasing restrictions on issuing corporate bonds in China due to the policy that “house is for living, not for speculation”.

Regarding the PRC corporate bonds issuance, in addition to the long approval time, the use of funds raised has been subject to more limits. The NDRC prohibits real estate firms from issuing corporate bonds for commercial property projects unless these funds raised are used for affordable housing, shantytown renovation and resettlement housing.

4.2 Senior Notes

Regarding overseas bond financing, it had increasingly become a significant financing channel for property firms. The overseas bond issuance usually takes a short time, which is quite important for these capital-intensive companies.

Evergrande had issued many senior notes whose bondholders can be paid off first once the liquidation occurs. Therefore, this feature provides higher security for bondholders, and thus enables Evergrande to enjoy a lower financing cost. Besides, senior notes usually have a long tenor that matches the property’s long construction cycle.

4.3 Bank Loans

Regarding the bank loans, Evergrande can achieve a lower financing cost than issuing senior notes, but this financing channel has also been gradually narrowed. There are more requirements for enterprises’ capital, license and fund usages

As a result, Evergrande has been gradually reducing its reliance on banks loans, PRC corporate bonds, and increasing the issue size of overseas senior notes.

5 Evergrande’s Debt Service Capacities

Before deciding the future financing portfolio, it is essential to evaluate the

Evergrande's liquidity and solvency to avoid financial distress caused by subsequent financing.

Compared to 20 comparable firms, Evergrande had a decreasing debt ratio that was close to the average level of A-share listed firms, but it was still higher than that of HK-listed firms. Evergrande's current ratio and quick ratio were also slightly lower than its major competitors listed in Hong Kong.

Fig 5: Liquidity and Solvency Ratios

Company	Debt Ratio (%)				Current Ratio (x)				Quick Ratio (x)			
	2019	2018	2017	2016	2019	2018	2017	2016	2019	2018	2017	2016
Evergrande	83.75	83.58	86.25	85.75	1.37	1.36	1.40	1.52	0.38	0.42	0.52	0.62
Median (HK)	82.54	82.25	81.11	79.93	1.35	1.34	1.35	1.51	0.44	0.49	0.53	0.58
China Res Land	69.36	72.44	69.99	67.41	1.33	1.33	1.39	1.46	0.42	0.45	0.46	0.50
China Vanke	84.36	84.59	83.98	80.54	1.13	1.15	1.20	1.24	0.42	0.48	0.49	0.44
China Overseas	60.06	59.52	57.62	60.19	2.17	2.28	2.43	2.38	0.66	0.74	0.80	1.07
Longfor	74.45	72.22	70.73	66.59	1.48	1.49	1.32	1.51	0.49	0.50	0.40	0.42
R&F	81.33	80.92	78.23	79.31	1.58	1.53	1.90	2.04	0.49	0.44	0.61	0.80
Shimao	75.25	72.12	68.54	66.32	1.38	1.54	1.64	1.60	0.46	0.51	0.66	0.58
Seazen	87.65	86.43	86.99	85.53	1.03	1.16	1.12	1.13	0.39	0.53	0.53	0.58
Country Garden	88.54	89.36	88.89	86.20	1.17	1.15	1.13	1.20	0.55	0.59	0.62	0.58
Sunac	88.12	89.80	90.27	87.92	1.17	1.17	1.30	1.50	0.39	0.45	0.48	0.72
Median (A-S)	74.09	78.28	81.07	77.29	1.54	1.63	1.58	1.74	0.44	0.52	0.59	0.57
Vanke A	84.36	84.59	83.98	80.54	1.13	1.15	1.20	1.24	0.42	0.48	0.49	0.44
Joy City	76.78	84.91	84.50	81.58	1.58	1.78	1.35	1.65	0.68	0.84	0.63	0.69
Beijing North Star	74.09	77.12	78.16	75.20	1.65	1.66	1.79	1.88	0.44	0.45	0.45	0.49
Shimao	62.21	58.65	62.33	62.71	1.17	1.61	1.46	1.29	0.40	0.39	0.69	0.47
SIIC	69.84	69.69	70.47	70.81	1.64	1.87	1.98	2.04	0.47	0.51	0.82	0.93
Seazen	86.60	84.57	85.84	84.14	1.04	1.17	1.09	1.13	0.39	0.53	0.50	0.57
Cinda	76.92	79.43	86.01	85.69	1.62	1.66	1.93	2.31	0.49	0.53	0.74	0.50
Citychamp Dartong	64.46	62.87	60.26	61.09	1.35	1.97	1.84	1.73	0.27	0.53	0.54	0.63
World Union	53.52	59.02	61.94	45.17	1.54	1.36	1.32	1.75	1.54	1.36	1.31	--
Jinke	--	83.63	85.79	79.38	--	1.55	1.71	2.07	--	0.29	0.44	0.58

Source: Comparable Firms' Annual Reports

From 2015 to 2018, Evergrande's tangible assets did not cover its interest-bearing debt well as his major competitors did. Evergrande's percentage of cash flows from operation to interest-bearing debts improved a lot but it was still smaller than that of Vanke and Greenlands.

Since 2017, Evergrande has begun to shift from a "high-leverage, high-turnover, low-cost" to a "low-leverage, low-cost, high-turnover" model by introducing strategic investments, reducing land reserves, cutting expenses and using its own funds to pay off part of the high-interest borrowings in advance.

Fig 6: Interest-bearing Debts Coverage

Companies	Tangible Assets / Interest-bearing Debts (x)					CFOs / Interest-bearing Debts (x)				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Evergrande	2.55	2.52	2.40	2.77	0.14	-0.08	-0.11	-0.21	0.08	-
Vanke	7.68	6.44	6.11	5.85	0.72	0.20	0.31	0.43	0.13	0.18
Greenlands	2.47	2.54	3.12	3.80	-	-0.10	-0.02	0.22	0.16	-
Country Garden	4.03	4.13	4.85	4.95	0.41	-0.20	0.29	0.11	0.09	-
Poly	3.35	4.15	3.39	3.20	-	0.15	0.30	-0.14	0.05	-

Source: Comparable Firms' Annual Reports

As of the first half of 2019, Evergrande's interest-bearing debts amount and net debt ratio ranked the highest among its major rivals. Evergrande's cash can only cover 55% of its short-term interest-bearing debts, compared to Poly's 263% and Vanke's 216%. Overall, Evergrande's debt burden was relatively high among listed property companies.

Fig 7: Debt Services Capitales

Company	Interest-bearing Debts (RMB Bn)	Net Debt Ratio (%)	Cash / Short-term Interest-bearing Debts (%)
Evergrande	813.17	175.60	55.03
Country Garden	331.89	66.31	182.87
Poly	271.00	76.64	262.99
Vanke	225.32	35.04	215.86

Source: Calculation based on semi-annual financial statements

6 Features of Financing Options

Available Financing Options are:

a) Loan:

Size: HK\$ 4Bn

Interest: 6.5% p.a.

Tenor: 3 years

b) USD High Yield Bonds:

Size: US\$ 500Mn

Interest: 10% p.a. for 5 years or 10.75% for 7 years

c) Dim Sim Bonds:

Size: RMB 2Bn

Interest: 10% p.a.

Tenor: 3 years

d) Perpetual Hybrid:

Size: US\$ 300Mn

Yield: 15%

Tenor: Perp NC 5

e) Panda Bonds:

Size: RMB 3Bn

Interest: 6% p.a.

Tenor: 3 years

f) Follow-on offering:

Type: Top-up Placement

Size: HK\$ 3Bn

Discount: 8%

g) Convertible Bonds:

Size: US\$ 500Mn (US\$ denominated, RMB settled)

Coupon: 4.5% p.a.

Yield: 7% p.a.

Conversion Premium: 30%

Tenor: 5 years

Issuer Call: Callable after 3 years @130% of the prevailing conversion price

Investor Put: On the third anniversary

h) Rights Issue:

Size: HK\$ 3.5Bn

Pricing: 30% discount to TERP

Ratio: One new share for every two existing shares

6.1 USD High Yield Bonds

Evergrande has issued many USD bonds. Normally, USD bonds with a larger investor base and issue size have better liquidity than RMB bonds.

However, issuing high-yield bonds requires a considerable financing cost, which will impose more burdens on Evergrande's already highly leveraged capital structure. The 10% or 10.75% rate of high-yield bonds is higher than the 8.8% of senior notes issued by Evergrande in the past.

Besides, Evergrande may find it hard to satisfy the strict covenants required by high-yield bond issuance (e.g. restrictions on cash distributed).

The exchange rate should also be considered. The semi-annual report shows that Evergrande had approximately \$21.2Bn outstanding USD debts. The depreciation of RMB means that Evergrande needs much more money to pay for the principal and

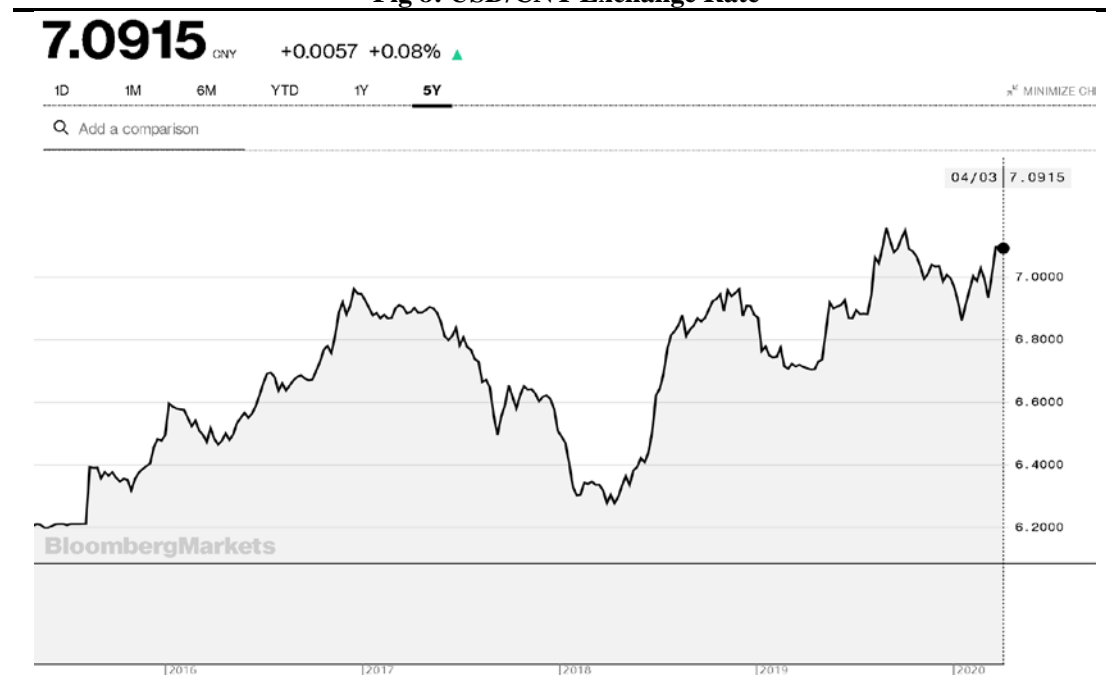
interest.

6.2 Dim Sum Bonds

Evergrande can hardly obtain enough funds by issuing Dim Sum bonds due to the depreciation of RMB. RMB depreciated significantly after the exchange rate reform in 2015 and this trend has become more obvious since 2018. Dim Sum bondholders suffered a lot from the depreciation.

Moreover, less amount of offshore RMB may also reduce investors' purchases of Dim Sum bonds. Therefore, it is unwise to issue Dim Sum bonds when the RMB continues to depreciate. Investors will rarely subscribe to these bonds.

Fig 8: USD/CNY Exchange Rate



Source: Bloomberg

6.3 Panda Bonds

Issuing panda bonds can reduce the exchange rate risk due to the devaluation of RMB, which benefits property firms with large offshore lending exposure. After Country Garden and Shimao successfully issued panda bonds in 2016, Longfor, Agile and Joy City also announced their issuance plans.³

However, as the regulation tightened since 2018, the regulator used window guidance to prohibit property firms from issuing panda bonds. Subsequently, Agile's

³ Zhen, Summer. "Chinese Developers Scramble to Issue Panda Bonds." South China Morning Post, 5 Apr. 2016.

RMB 8Bn panda bond was disapproved. Therefore, Evergrande should not issue panda bonds unless restrictions are relaxed.

6.4 Top-up Placement & Rights issue

Follow-on offering can increase public flat and diversify the investor base. It can also help Evergrande reduce its financial leverage. Top-up placing takes a short time to complete, which can quickly meet investors' subscription requests.

However, follow-on offering may increase stock price volatility. It sends a signal that the stocks are overvalued, which will cause the stock price to fall. Evergrande's current stock price is already relatively low, so it may not be a good time to issue additional shares.

Fig 9: Evergrande's Share Price



Source: Yahoo Finance

Also, compared to major competitors, Evergrande has a low ROE and EPS. The follow-on offering will dilute the ratios and exacerbate the stock price drop.

Fig 10: ROA, ROE and EPS

Companies	ROE(%)			ROA(%)			EPS		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Evergrande	12.40	30.18	30.65	0.85	2.05	1.57	1.31	2.85	1.83
Median (HK)	19.63	22.37	26.72	2.50	2.57	2.99	3.22	2.81	2.43
Sunac	37.21	32.92	32.81	3.10	2.47	2.40	5.99	3.79	2.76
Seazen	35.39	42.34	34.47	1.94	2.57	2.58	1.32	1.15	0.67
Country Garden	28.95	32.20	31.82	2.24	2.58	3.18	1.85	1.61	1.23
China Vanke	22.61	23.42	22.80	2.39	2.51	2.81	3.47	3.06	2.54
Longfor	20.88	21.33	19.04	3.16	3.73	4.29	3.13	2.78	2.17
China Res Land	18.38	18.38	17.74	4.04	4.18	4.60	4.12	3.50	2.78
Shimao	17.37	15.12	14.24	2.57	2.58	2.75	3.31	2.65	2.32

Fig 10: ROA, ROE and EPS

Companies	ROE(%)			ROA(%)			EPS		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
China Overseas	15.57	16.35	16.71	6.06	6.55	6.70	3.80	3.59	3.11
R&F	13.29	12.90	40.24	2.44	2.52	8.08	3.00	2.60	6.57
Median (A-S)	9.90	12.52	10.72	2.02	2.44	2.47	0.65	0.68	0.51
Seazen	36.72	41.05	33.99	3.19	4.08	4.21	5.62	4.69	2.71
Vanke A	22.61	23.42	22.80	2.39	2.51	2.81	3.47	3.06	2.54
Joy City	17.44	19.17	15.10	1.73	1.66	1.38	0.61	0.77	0.52
Cinda	11.09	14.46	10.72	2.31	2.48	1.48	0.81	1.04	0.66
Shimao	9.90	10.58	10.71	2.06	2.40	2.59	0.65	0.64	0.59
Beijing North Star	8.76	7.39	7.81	1.77	1.50	1.74	--	0.35	0.34
SIIC	7.61	6.59	9.15	2.02	1.72	2.36	0.42	0.36	0.47
Citychamp Dartong	5.37	10.06	8.46	1.68	3.35	2.92	0.29	0.51	0.40
World Union	1.54	8.02	21.69	0.66	3.10	9.37	0.04	0.20	0.49
Jinke	--	18.10	10.08	--	2.00	1.50	1.05	0.72	0.35

Source: Calculation based on financial statements

Rights issue enables shareholders to chip in, sell the rights or do nothing, which generally takes a long time. However, like Country Garden, Evergrande's shares are highly concentrated. As of Jun 30, 2019, Mr. Xu Jiayin controlled the firm with a 77.4% shareholding through Xinxin Co. and Junrong Co. Financing using rights issue means that Mr. Xu must distribute most of the capital. Therefore, this rights issue proposal is unlikely to get approved by the board.

6.5 Perpetual Hybrid

A perpetual hybrid may be an acceptable financing option for Evergrande, even though its 15% financing cost is a bit high. The major reasons are as follows:

First, Evergrande's debt burden is already heavy, so issuing more straight bonds will lower down its rating, and thus will reduce its debt capacity. Issuing hybrid will cut down Evergrande's leverage by achieving equity accounting.

Second, regarding Evergrande's low ROE and EPS, the perpetual hybrid does not include conversion features that may cause dilution.

Third, Evergrande has the option to defer coupons, which gives more room to the company once the financial distress occurs. Nevertheless, the exercise of this right will damage the issuer's reputation and subsequent financing.

6.6 Convertible Bonds

Issuing convertible bonds can also be feasible for Evergrande.

Concerning the pros, compared to the historical financing options (senior notes: 8.8%, bank loans: 6.9% and PRC corporate bonds: 4.7%) and seven new alternatives,

Evergrande can achieve the lowest coupon rate of 4.5%. The reason is that investors need lower risk compensations because of having downside protection and upside participation at the same time.

Second, the issuance is faster than equity offering because of no ratings required and an accelerated bookbuild. Besides, the upfront payments for equity to be issued later and less stringent covenants can give Evergrande more flexibility.

Third, like the hybrid, Evergrande will not suffer an immediate and large dilution after issuing the convertible bonds.

Fourth, convertible bond issuance can signal that the issuer's stocks are undervalued because the issuer believes the future price will reach the conversion price and investors will convert. In consequence, issuing convertible bonds might help Evergrande support its stock price.

Concerning the cons, first, this USD-denominated and RMB-settled bonds may produce exchange loss once RMB continues to depreciate.

Second, there is uncertainty. For one thing, The Covid-19 and tight regulations suppress demands for properties, which will reduce the company's profits and thus the stock price. Once the conversion cannot be triggered, Evergrande will need additional funds to redeem the bonds. For another, large selling pressure will generate once investors successfully convert their bonds and then sell them.

6.7 Bank Loans

Compared to issuing bonds mentioned above, borrowing from banks is usually faster without ratings and public disclosure. Evergrande can also have more flexibility in drawdown and repayment.

Concerning historical financing, this new loan with a 6.5% interest rate is cheaper than Evergrande's historical loans with an average rate of 6.9%.

Concerning competitors, the rate of this new loan is relatively close to Country Garden's 6.54%. Compared with Vanke and Poly's loan rate ranging from 4.8% to 7%, this 6.5% interest rate can be acceptable.

7 Recommended Financing Portfolio

The recommended financing portfolio below is determined based on historical financing, capital structure, debt service capacities, financing environment, exchange

rate, policy, equity structure and features of each available financing option.

Fig 11: Recommended Financing Portfolio

Options	Amount (Bn)	Amount (Bn)	Choose or not	Sequence
High Yield Bonds	USD 0.50	USD 0.50	×	-
Panda Bonds	CNY 3.00	USD 0.43	×	-
Rights Issue	HKD 3.50	USD 0.45	×	-
Loans	HKD 4.00	USD 0.52	✓	1
Convertible Bonds	USD 0.50	USD 0.50	✓	1
Top-up Placement	HKD 3.00	USD 0.39	✓	2
Perpetual Hybrid	USD 0.30	USD 0.30	✓	3
Dim Sum Bonds	CNY 2.00	USD 0.29	✓	4
Total (Chose)	-	USD 2.00	✓	-

7.1 Why not choose the first three options

It might not be suitable for Evergrande with heavy debt burdens to issue high-yield bonds. Panda bonds is also not a good alternative because of the policy prohibits. Regarding the shareholding structure, the feasibility of the rights issue is probably low. Therefore, these three options will not be considered in the final financing portfolio.

7.2 Why choose the other four options and how to rank them

Currently, the property market is being hit by the Covid-19. From January to March 2020, the total revenue of all Chinese property firms fell by 15%. The property investments and sales of commercial housing dropped by 16% and 36% respectively. In April 2020, Agile, R&F and Tahoe were all downgraded by Moody's due to their rising liquidity risks⁴.

Most real estate companies are encountering cash collection problem. Therefore, financing speed is the top priority of this financing to alleviate Evergrande's short-term liquidity tension.

● Bank loans and convertible bonds (1st)

Both loans and convertible bonds with large available financing amount and no rating requirements should be considered first to fulfil the short-term capital needs.

The 6.5% interest rate of the loan is acceptable, and it might become lower due to the expansive monetary policy during the coronavirus outbreak. Issuing convertible bonds can be quickly executed through accelerated bookbuild, and it will not cause

⁴ "Many Property Companies Were Downgraded by Rating Agencies." Sina Finance, 6 Apr. 2020.

dilution. Besides, the cost of issuing convertible bonds is lower than that of other options.

- **Top-up placement and perpetual hybrid (2nd & 3rd)**

Top-up placement should be in front of the perpetual hybrid. Top-up can improve capital structure and thus provides more room for the subsequent rating of hybrid. Evergrande can achieve less dilution and greater flexibility using hybrid, but its 15% rate is a bit high. So Evergrande can adopt the hybrid financing later when the interest rate environment improves.

- **Dim Sum bonds (4th)**

Dim Sum bonds should be ranked last because the depreciation of RMB does not seem to stop. Evergrande may find it difficult to raise enough money through Dim Sum bonds that are not popular with investors who bear loss due to the depreciation.

Dim Sum bond's US\$ 0.29Bn financing amount is the smallest among all options, which is unlikely to meet Evergrande's huge capital needs as fast as possible during the epidemics.

Overall, the final recommended fundraising sequence is:

Loans (US\$ 0.52Bn) and convertible bonds (US\$ 0.50Bn) (1st)



Top-up placement (US\$ 0.39Bn) (2nd)



Perpetual Hybrid (US\$ 0.30Bn) (3rd)



Dim Sum Bonds (US\$ 0.29Bn) (4th)

Appendix

1 Evergrande's B/S

項目（人民幣十億元）	2019	2018	2017	2016	2015
現金及現金等價物	150.06	129.36	152.01	198.42	103.09
受限制存款及現金	78.71	74.84	135.71	105.91	60.93
以公允價值計量且其變動計入當期損益的金融資產(流動)	0.92	1.17	3.15	3.60	0.31
可供出售金融資產(流動)	0.00	0.00	1.52	0.00	0.00
應收賬款及票據	143.71	123.14	120.78	76.43	21.71
預付款項、按金及其他應收款項(流動)	130.46	138.75	146.92	62.75	37.14
可收回本期稅項	12.17	11.12	9.20	7.66	4.13
存貨	1,328.04	1,093.77	953.65	658.86	385.04
流動資產其他項目	2.76	3.59	0.00	0.00	0.00
流動資產合計	1,846.81	1,575.75	1,522.95	1,113.64	612.34
物業、廠房及設備	55.80	40.79	32.90	20.83	16.72
投資物業	162.56	162.32	151.95	132.04	97.39
預付款項、按金及其他應收款項(非流動)	9.03	7.71	5.55	12.10	11.77
土地使用權	0.00	9.47	7.94	5.40	3.62
商譽及無形資產	15.75	2.02	1.66	1.64	1.26
其中:商譽	7.79	1.60	1.40	1.40	0.88
無形資產	7.96	0.42	0.25	0.24	0.37
以公允價值計量且其變動計入當期損益的金融資產(非流動)	97.40	77.58	30.38	24.37	8.58
可供出售金融資產(非流動)	0.00	0.00	4.57	36.80	2.60
遞延稅項資產	5.68	4.39	3.87	4.04	2.75
非流動資產其他項目	13.55	0.00	0.00	0.00	0.00
非流動資產合計	359.76	304.28	238.80	237.23	144.69
資產總額	2,206.58	1,880.03	1,761.75	1,350.87	757.04
短期借款	372.17	318.29	356.38	202.91	158.74
應付賬款及票據	717.62	554.31	399.46	299.90	191.31
應付稅項	130.54	101.27	61.46	35.62	23.57
遞延收入(流動)	0.00	0.00	267.56	194.96	83.06
流動負債其他項目	129.71	185.59	0.00	0.00	0.00
流動負債合計	1,350.04	1,159.46	1,084.86	733.39	456.68
流動資產淨值	496.78	416.30	438.09	380.24	155.66
總資產減流動負債	856.54	720.57	676.90	617.47	300.35
長期借款	427.73	354.86	376.24	332.16	138.16
衍生金融負債(非流動)	4.67	5.65	2.84	0.00	0.00
遞延稅項負債	60.77	49.90	51.56	38.42	17.57
非流動負債其他項目	4.85	1.54	4.05	54.35	2.48
非流動負債合計	498.00	411.95	434.69	424.94	158.21
負債總額	1,848.04	1,571.40	1,519.54	1,158.34	614.89
股本	1.58	1.20	1.27	1.01	0.97
儲備	144.12	131.79	113.50	43.23	50.04
留存收益	77.99	65.79	56.21	38.49	42.40
其他儲備	66.13	66.00	57.29	4.74	7.64
歸屬於母公司股東權益	145.70	133.00	114.77	44.24	51.01
非控股權益	212.84	175.63	127.44	35.35	15.40
股東權益其他項目	0.00	0.00	0.00	112.94	75.74
股東權益合計	358.54	308.63	242.21	192.53	142.14
負債及股東權益合計	2,206.58	1,880.03	1,761.75	1,350.87	757.04

2 Evergrande's I/S

項目（人民幣十億元）	2019	2018	2017	2016	2015
營業收入	477.56	466.20	311.02	211.44	133.13
銷售成本	-344.62	-297.25	-198.76	-152.02	-95.72
毛利	132.94	168.95	112.26	59.42	37.41
其他收入	8.73	9.34	-0.48	11.92	2.58
銷售及分銷成本	-23.29	-18.09	-17.21	-15.98	-13.32
行政開支	-19.81	-14.81	-12.25	-9.60	-6.14
其他支出	-5.04	-5.18	-5.60	-2.66	-1.08
資產減值損失	-0.19	-0.14	0.00	0.00	0.00
重估盈餘	1.52	1.34	8.51	5.26	15.37
經營溢利	94.85	141.41	85.24	48.37	34.83
財務成本	-22.76	-14.62	-7.92	-11.30	-2.99
影響稅前利潤的其他項目	2.08	-0.03	0.14	-0.20	-0.39
稅前利潤	74.17	126.76	77.47	36.86	31.44
所得稅	-40.63	-60.22	-40.42	-19.24	-14.10
淨利潤	33.54	66.55	37.05	17.62	17.34
本公司擁有人應占淨利潤	17.28	37.39	24.37	5.09	10.46
非控股權益應占淨利潤	16.26	29.16	12.68	1.88	1.79
股息	0.00	0.00	0.00	0.00	5.20
每股股息	0.0000	0.0000	0.0000	0.0000	0.0000
基本每股收益(元)	1.3150	2.8490	1.8330	0.3720	0.7130
稀釋每股收益(元)	1.3040	2.7650	1.7950	0.3660	0.7030
其他全面收益	-0.24	0.16	3.86	-4.89	0.03
全面收益總額	33.30	66.70	40.91	12.72	17.37
本公司擁有人應占全面收益總額	17.11	37.50	27.43	0.20	10.49
非控股權益應占全面收益總額	16.19	29.20	13.48	1.88	1.79