DMSA Deutsche MarktScreening Agentur GmbH

PRESS RELEASE

Berlin, 2021.10.25

EVERGRANDE
International bond investors facing 22.5 billion USD write-offs

The almost unavoidable bankruptcy of Evergrande could even trigger a global financial crisis. This is shown by the DMSA research report "The Great Reset - Evergrande and the Final Meltdown of the Global Financial System".

In the research report, former Fitch analyst Dr. Marco Metzler demonstrates that a bankruptcy of real estate developer Evergrande could trigger a global financial crisis. The developer, which directly or indirectly employs around four million people, has accumulated around $300 billion in debt that it cannot repay on time.

Metzler, who already correctly predicted the bankruptcy of Mannheimer Lebensversicherung in 2003, and his two co-authors - Michael Ewy and Asia expert Duc Dam - demonstrate in detail in the report for the German market screening agency DMSA that international investors alone have put around 23.67 billion US dollars into 23 bonds and three large loans of the lurching property developer. Among the already known institutional investors are such well-known addresses as Fidelity, Blackrock, UBS, Ashmore Group, Prudential, HSBC, Pictet, Vontobel, BNP and Allianz. "At the same time, we are far from aware of all international investors, but only 148 investors with increased reporting obligations, such as fund companies, who have invested a total of $3.44 billion, are known. There could still be some negative surprises here," believes Dr. Metzler.
(Note: The list of investors known so far can be taken from the DMSA report available at www.dmsa-agentur.de).

Particularly dangerous: At the end of September, the rating agency Fitch downgraded Evergrande's credit rating to C, giving it a recovery rating of RR6 for outstanding bonds. In other words, the agency expects investors to recover only zero to ten percent of their invested capital in the event of Evergrande's bankruptcy. "Assuming an average recovery of five percent, international investors would have to immediately write off around $22.5 billion in the event of insolvency," report author Metzler calculates. "In the worst case, some of the international investors we don't know today could then also face bankruptcy."

The bankruptcy of Evergrande itself, on the other hand, has probably already occurred.. As of Monday morning German time, no confirmation had been received - neither from Evergrande itself, nor from rating agencies on the ground, affected bond investors or banks involved - that overdue interest of $83.5 million had been paid at the end of last week - the last possible date of the 30-day grace period. So far, there are only unconfirmed press reports that the interest has been paid into escrow accounts.

However, it has not yet been received by the creditors. This would mean that the company would have gone bankrupt. But even if the interest had been paid this time, it would only be a postponement of insolvency. Because from now on, it will be one blow after the other: The next but one (also already in arrears) must be paid by November 10.
In addition, Evergrande is due to make a further 275.8 million US dollars in regular coupon payments by December 6. And until January 27, distributions of another 255.2 million US dollars are due. If it is indeed possible to service all the coupons due, a much larger chunk of the repayment of a two-billion-dollar bond will have to be paid off by March 23, 2022 at the latest.

According to the respected Chinese business magazine Caixin, Evergrande will have to raise a total of 106 billion euros for interest and repayments within the next twelve months. "In the unlikely event that the Chinese government does not step in, Evergrande's collapse must be regarded as certain," says report author Metzler, interpreting these figures.

The bankruptcy of the dangerously lurching developer is merely the first stage of a financial chain reaction that such a bankruptcy is likely to trigger. In their report, Dr. Metzler and Co. make it clear that Evergrande is not the only Chinese real estate developer in trouble. Fantasia, Modern Land and Sinic, for example, have also recently been unable to service their debts. The entire real estate sector, which accounts for 25 to 30 percent of economic output in China, is completely overheated. Any bankruptcy can drag down other Chinese real estate companies, banks and insurers.

In addition, an Evergrande bankruptcy is likely to significantly slow down Chinese economic growth. The economic problems in China will then become even more apparent. Keywords: energy and raw material shortages, plant and port closures, and the over-indebtedness of the state, companies and private individuals. The debt ratio is already 230 percent of the country's annual economic output. "This could have devastating consequences for the global economy. Supply chains would be put under even greater strain than they already are today - if they don't break completely," predicts report author Marco Metzler. This, in turn, would then inevitably lead to galloping inflation in the USA and Europe.

In the view of the report authors, a bankruptcy of Evergrande has the potential to lead to extreme disruption of the global financial system - with bankruptcies of players that are still considered rock solid today. "Triggered by a Chinese financial virus called Evergrande, the world may be facing a 'Great Reset' - the final meltdown of the current global financial system," Dr. Marco Metzler pessimistically concludes.

Please find more information and the research report at www.dmsa-agentur.de

About DMSA Deutsche Markt Screening Agentur GmbH:

DMSA Deutsche Markt Screening Agentur GmbH, is an independent data service that collects and evaluates market-relevant information on companies, products and services. DMSA sees itself as an advocate for consumers, private customers and intelligent investors. The claim: to always look at companies and providers, products and services through the eyes of the customers. The customers are the focus of DMSA's work. For them, important and decision-relevant information is bundled and presented as market screenings. The aim is to create more transparency for consumers when selecting products, investments and services.

Press contact:

Inga Oldewurtel
Press Officer

mailto: oldewurtel@prio-pr.de
Tel.: +49 176 62 26 18 97

Responsible for the content:

DMSA Deutsche Markt Screening Agentur GmbH
Wichertstraße 13
10439 Berlin
Germany

Michael Ewy
Managing Director

http://www.dmsa-agentur.de