EXCLUSIVE PHIL BARTSCH TUES 17 OCT 23

Country Garden's Debt Timebomb Nears Zero Hour

He who plants a garden, plants happiness.

So the old Chinese proverb goes but Yang Huiyan—once Asia's richest woman—has had little joy since taking the helm of Country Garden after her father and the property giant's founder stepped down as chairman earlier this year.

As things have gone from bad to worse in the world's biggest real estate market, the company's 42-year-old majority shareholder has lost more wealth than any other billionaire. According to Bloomberg's wealth index, her fortune has shrunk by a massive 84 per cent or almost $US29 billion ($46 billion) since June 2021.

In August, she reportedly lost $US490 million ($772 million) in one day as shares in the Hong Kong-listed conglomerate plunged after it missed interest payments totalling $US22.5 million ($35.4 million) on two bonds, leaving the company teetering on the edge of the default cliff.

Since then, the debt timebomb has been ticking.
Scrambling to meet its obligations before the 30-day grace periods lapse, it twice dodged default last month but is now in a race against the clock to fulfill a bond coupon payment of $US15.4 million ($24.3 million)

At the time of publication, the countdown to that deadline was in its final hours.

Bad to worse: Country Garden majority shareholder Yang Huiyan

Non-payment would deliver another blow to China's fragile residential property sector, triggering cross-defaults on the company's other bonds and one of the country's biggest corporate debt restructures.

With operations and interests spread far and wide—including in Australia—Country Garden's deepening financial woes also have raised fears of contagion risks.
For the past few weeks, Melbourne-based property dealmaker Mark Wizel has been in the thick of China's intensifying cash crunch in its property sector.

"Pretty much in each of the seven cities I've visited I've seen evidence of it . . . residential projects that have stalled, three-quarters built and there are just no people on the sites," he tells *The Urban Developer* from Nanjing, west of Shanghai
"It's quite prolific and, in a weird way, not something that uncommon in the past decade when I've come to China."

Despite the meltdown of the country's property sector—once an economic powerhouse accounting for 25 to 30 per cent of its GDP—and the current troubles surrounding its former largest private-sector developer by sales volume, Wizel says it appears to be keeping calm and carrying on.

"I've been meeting with people—government and private—and they're very relaxed about what's happening with the residential property market.
"They believe that for too long their economy has been too dependent on residential property and they see a big need to transition the economy and reweight it away from the major impacts residential property has had on it over the past 15 years."

Melbourne-based property dealmaker Mark Wizel is currently in China and spoke to The Urban Developer about the situation.

Between 2012 and 2017, Wizel—a former CBRE marketing agent who now heads up his own business, Wizel Property Group—negotiated sales of Australian sites with an end value of more than $15 billion to mainland Chinese buyers.

That “great run” —as he describes it—came to an end when China’s government curtailed the amount of foreign investment by putting major restrictions on capital outflows to keep more money in the local economy.

It sparked an exit of China-backed investors and developers from Australia as well as a pull back in local interests by others—including Poly, Greenland, Dalian Wanda and Yuha—which was then accelerated by the collapse of China’s second largest developer, Evergrande. in 2021.

Guangzhou-based Country Garden made its move into the Australian market in 2014 and five years later its local operation was rebranded Risland Australia after a restructuring of its international property development business.
It is behind two large-scale residential estates with a planned total of 10,000 housing lots in Sydney and Melbourne.

The undeveloped 150ha portion of its Windermere estate in the Victorian capital’s west was put on the block a few months ago with a $250-million price tag. It has reportedly drawn interest from housing heavy-hitters including ASX-listed Stockland, Singapore’s Frasers and Melbourne’s Central Equity.
At the end of June, Country Garden had total liabilities of more than $US191 billion ($300 billion), including almost $US11 billion in offshore bonds and $US6 billion of offshore debt.

Although Evergrande is still the world’s most indebted developer—with $US340 billion ($535 billion) in liabilities—Country Garden has a workbook of more than 3000 projects, almost four times as many as Evergrande.

One the block: A render of Risland's Windemere estate in Melbourne's west.

In a filing to the Hong Kong Stock Exchange last week, Country Garden warned of its impending potential default on its offshore debts given "significant challenges" and "profound adjustments" to China's property sector putting its sales under "remarkable pressure".

Its recorded contracted sales of about $US21.7 billion in the first nine months of this year, a fall of 43.9 per cent and 65.4 per cent from the same periods in 2022 and 2021, respectively.

"Despite the group's best endeavors to explore various options for cash generation, such as asset disposals, in order to continue to meet its financial commitments, prevailing market conditions have made it difficult for the group to procure sufficient cash to enhance its liquidity position within a short period of time," the company said.

"Consequently, the group's cash position remains under significant pressure."
In the statement, the company conceded it had not made due bond payments of $US60 million ($95 million).

"The company also expects that it will not be able to meet all of its offshore payment obligations when due or within the relevant grace periods," it said.

On the homefront, Wizel is confident that no matter how things play out for Country Garden and China's property sector it will have "little impact" on the Australian market.
"I don't think that there is going to be much material change to the Australian market in the wake of what is occurring in China," he says.

Too big to fail: Wizel is confident the situation in China will have little impact on the Australian market.

In fact, Wizel believes China's embattled property sector potentially could be "a massive positive for our market". That is, if two things occurred—the removal of restrictions and taxes on foreign investment in Australia and also China's government removing its cap on money that can be transferred internationally.

"If the Chinese were given the runway to invest again … we would see a boom in the Australian apartment market like you've never seen before," he says.
"The main reason the Chinese started investing in Australian property in the first place was because they wanted to have security over their funds, and the fact that all Chinese property is a leasehold with the government controlling and owning the land ultimately.
"So, the current troubles with its property market, if anything, would influence the wealthy investors to buy apartments offshore."

And he notes: "We are seeing monies start to flow again out of Hong Kong and Singapore which will no doubt have links to mainland Chinese capital".
Weakened demand for Australia's resources linked to building materials has been widely cited as a potential impact from the slowdown in China's residential property development sector.

However, Wizel says there is "a heap of development occurring in the industrial, commercial and hotel sectors".
"So, there may be no impact felt as it feels to me like there is significant building occurring, with cranes everywhere in all cities I have passed through, maybe suggesting there is still demand for Australian resources."
Indeed, according to a recent report from resources giant BHP, the demand for iron ore from China's steel mills "is still strong despite the soft property maket" and the impact of its housing slowdown is being offset by "solid demand from infrastructure, power machinery, autos and shipping".

"It's just such a big play," Wizel says. "There's 1.6 billion people here. It's very hard from Australia to appreciate the scale and the enormity of the scale. It's just massive.
"The feeling over here is that the Chinese are on a mission, they seem to have a strong resolve. And if you spend time over here and see how strong the domestic demand drivers are, you wouldn't be nervous either."