

HNA's Missed Payments Show Deutsche Bank Exit Won't Be Enough  
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By Bloomberg News

(Bloomberg) -- Despite HNA Group Co. having sold more than \$17 billion in assets this year, one of its units still missed payments on a \$44 million loan this week, illustrating how the once-acquisitive Chinese conglomerate will need to unload more properties and shares to overcome its liquidity challenges.

Signs abound that the selloff will continue: It's planning to get out of Deutsche Bank AG, seeking a buyer for its container-leasing Seaco business, surrendering eight floors of office space in Hong Kong and selling stakes in various Chinese units, people familiar with the matter have said since last week. What's more, HNA is said to be dangling billions of dollars in real estate in the U.S., London and China to prospective buyers.

All in all, the company that was once at the forefront of China's massive global buying binge has more than \$17 billion in further asset sales planned, according to a tally by Bloomberg, as HNA tries to shrink back to its aviation roots. But as the missed payments show, there's plenty of turbulence lying ahead for the conglomerate, which is saddled with one of the biggest piles debt in corporate China.

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"HNA is in a Catch-22 situation right now because although it needs to divest its assets urgently to raise cash and shore up its balance sheet, the current market sentiment is weak," said Corrine Png, founder of Singapore-based research firm Crucial Perspective. "Financing for large acquisitions is becoming more difficult and more costly for potential buyers of HNA assets, and they may tend to low-ball HNA in terms of valuations."

Like HNA, Chinese trophy hunters such as Dalian Wanda Group Co. and Anbang Insurance Group Co. have reversed course after their acquisition sprees ultimately drew the ire of the Chinese government amid concerns their debt levels would become unsustainable.

On Deutsche Bank -- one of the most high-profile stake purchases HNA made -- Citic Group Corp. and sovereign-wealth fund China Investment Corp. are among parties interested in buying the shares, people familiar with the matter said, confirming an earlier Wall Street Journal report. But those talks are being complicated because the stakes are linked to derivatives, the people said. China Everbright Group looked as well but decided to walk away, according to the people.

Representatives at all the companies didn't immediately respond or couldn't comment.

The biggest disposal so far has been HNA's sale of its stake in Hilton Worldwide Holdings Inc. and its spinoffs for a combined \$8.5 billion.

Behind HNA's troubles are its debts, which by the end of June totaled 541.6 billion yuan (\$79 billion). That amount, one of the highest levels for a non-financial company in Asia, is more than triple what fellow Chinese conglomerate Fosun International Ltd. owed. HNA also continues to pay some of the highest interest expenses in the world, according to data compiled by Bloomberg.

Consequently, HNA units have struggled to regain the confidence of bond investors, despite of signs that the group clinched the support of the government. Case in point: HNA's Bohai Capital Holding Co., which in June raised only about half of what it wanted from a bond sale, made another attempt this week, and again raised just about half of what it sought. In another red flag, HNA Ecotech Panorama

Cayman Co. said in September that it pushed back the redemption of \$105.6 million in notes by eight weeks.

"Events such as the missed debt repayment are indications of the financial stress the company is under, exacerbated by the high level of short-term debt, but not necessarily a sign that the group is at imminent risk of collapse," said Nigel Stevenson, an analyst in Hong Kong at GMT Research Ltd. "The disposal of assets and deleveraging is likely to be a prolonged process."

Beyond financial challenges, HNA was roiled by the sudden death of 57-year-old Co-Chairman Wang Jian in July, a tragedy that threw a wrench at the company's normalization plans as Wang was said to be the mastermind behind the purchase of many of the assets that are now being sold.

Chairman Chen Feng has since stepped up, promoting two family members as key lieutenants in August and tightening his control over the group as he seeks to persuade banks, investors and the government to restore their confidence in HNA.

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