

Chinese Developers Repay Bonds Early as Contagion Spreads (1)  
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By Richard Frost

(Bloomberg) -- As stress among Chinese developers mounts, some firms are telegraphing their ability to meet debt obligations.

On Monday, Zhenro Properties Group Ltd. said it informed a bond trustee it will redeem its 5.95% dollar notes early in full on Nov. 16. Central China Real Estate Ltd. on Tuesday said it has remitted funds to a trustee for payment of its 6.75% dollar bonds, which are due Nov. 8.

“Central China Real Estate becomes one of a string of developers publicly setting aside money to redeem offshore bonds in apparent attempts to set themselves apart from weaker firms,” said Daniel Fan, an analyst at Bloomberg Intelligence.

Property companies need to do all they can to restore investor faith. Yields on Chinese junk dollar bonds -- dominated by real estate firms -- surged to more than 20% on Monday, the highest in at least a decade. Credit assessors are downgrading the industry’s companies at the fastest pace on record. At least four developers defaulted last month and others sought to delay near-term bond payments as contagion sparked by China Evergrande Group spreads.

On Monday, Yango Group Co. became the latest company to try and avoid default through extending bonds, saying “existing internal resources may be insufficient.” A surprise default by Fantasia Holdings Group Co. last month shocked investors because it had earlier signaled that it had sufficient working capital and no liquidity issues.

China’s property sector is under strain from rules aimed at curbing leverage as well as a slowdown in the housing market. The surge in the borrowing costs is making it all but impossible for firms to refinance their maturing debts.

Developers have just over \$2 billion of onshore and dollar-bond payments due in November, according to data compiled by Bloomberg. China’s real estate sector makes up almost half of the world’s distressed dollar-denominated debt.

Zhenro shares were down 1.6% in late morning trade, while Central China Real Estate was little changed.

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