The Evergrande case

What does Evergrande do?

Evergrande, formerly known as the Hengda Group, has been founded in 1996 in Guangzhou, southern China.
The group owns more than 1,300 projects in more than 280 cities across China.
Other than real estate, its subsidiaries are active in different businesses, including food and drink manufacturing, automotive (electric vehicles) and even football (Guangzhou FC).

Why is Evergrande in trouble?

Evergrande expanded aggressively to become one of China's biggest companies by borrowing more than $300bn.
Now, it is struggling to meet the interest payments on its debts. This uncertainty has seen Evergrande's share price tumble by around 90% in the last 14 months. Its bonds have also been downgraded by global credit ratings agencies.

What is MIFL's view?

Central scenario: MIFL believes an Evergrande default/debt restructuring is now almost a certainty but should be manageable for markets.
Chinese authorities are likely to step in to take over the running of its operations given their size and importance to the wider Chinese property market.
Key risks to MIFL's scenario:
The key risks are deteriorating investor sentiment and a broad-based liquidity crunch and tightening of credit conditions in China due potentially to the lack of timely communication and decision-making at the central government.
A resulting disorderly liquidation of Evergrande could cause wider financial market contagion and a large negative impact on Chinese/global growth though MIFL view is this outcome as unlikely at this stage.

Are MIFL products exposed to Evergrande?

MIFL's fund range has no direct exposure* to Evergrande.

Are MIL products exposed to Evergrande?

Some Coupon Plus tranches have an exposure to Evergrande. That said, the overall level of holdings in the Coupon Plus tranches is relatively small (below 0.4% for each tranche) and the current market pricing is in line with what you would expect from a recovery process. Nevertheless, MIFL would not expect a significant further adverse pricing for these holdings given where they trade. It is simply now a matter of waiting to see what the authorities in China implement.

* MIFL may have very limited indirect exposure through target funds or ETFs.