

[SINGAPORE] Sixteen Chinese companies face a high chance of having their bonds default over the next year, given a lack of cash and problems of overcapacity in their industry, data from National University of Singapore's Risk Management Institute (RMI) showed.

The attention to Chinese corporate debt - which stands at 70 trillion yuan (\$14.4 trillion), or 120 per cent of China's gross domestic product - comes as Shanghai Chaori Solar Energy Science & Technology became the first Chinese company to default on payment for its onshore bond last week. The solar panel maker said that it would not be able to make coupon payment of 89.8 million yuan that had been due on March 7. It could pay just four million yuan.

"A significant portion of the debt has been used to expand capacity in a number of industries linked to the domestic real estate boom, or that were assigned importance by the Chinese government in response to the global financial crisis," said analyst James Weston in a weekly credit report issued by RMI. "As a result, industries including the solar, steel, cement and shipbuilding sectors are now plagued by overcapacity," he added.

The institute filtered out 16 companies that would have problems repaying their investors soon. These include Ruitai Materials Technology Co Ltd and Leshan Electric Power Co, which lack cash to repay investors of bonds that mature in the second half of this year.

Most of the financial figures are based on data from end-September last year. The exceptions are that of Fiyta Holdings Ltd and Leshan Electric Power Co, for which data is as at Dec 31 last year.

Ruitai, a Shenzhen-listed maker of fused cast refractories, has a 200 million yuan bond that is maturing in August this year, but has cash of only 150 million yuan. Its net debt is 1.21 billion yuan.

Similarly, Shanghai-listed Leshan - which generates and distributes hydroelectric power - has a 200 million yuan bond due in October, but its cash position stands at 82 million yuan. It has net debt of 1.63 billion yuan.

Others may miss their coupon payments. Paper product manufacturer MCC Meili Paper Industry Co Ltd has a 37.8 million yuan coupon payment due in September, but the company reported just three million yuan of cash.

Chaori - which has until April 7 to pay its investors under a 30-day grace period - is unlikely to meet the deadline since it has less than 60 million yuan of cash, RMI noted.

While Hangzhou Iron & Steel Co, and Xinjiang Ba Yi Iron & Steel Co Ltd are two cash-strapped companies with bonds also maturing in the third quarter, RMI noted that these firms have a direct government owner, which means that they may get some form of bailout.

These 16 companies, which include Chaori, are paying out coupons at the rate of between 4.55 per cent and 8.98 per cent. RMI screened the companies using a measure known as their probability of default (PD). These 16 firms made up the worst 5 per cent of PDs of all Chinese corporations that were assessed.

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