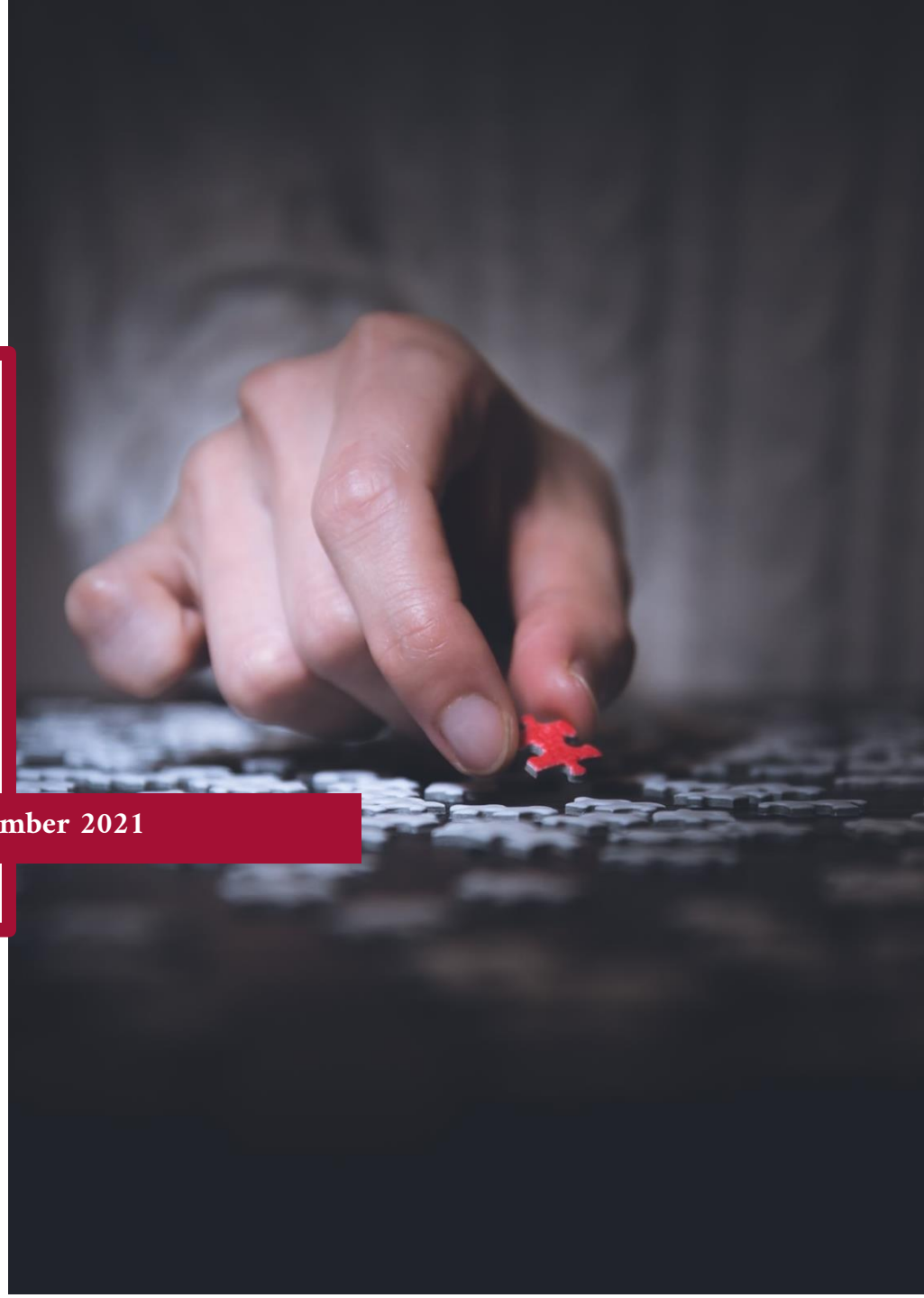


# Evergrande's (De)Fault

## Investment Team Weekly Focus

24 September 2021



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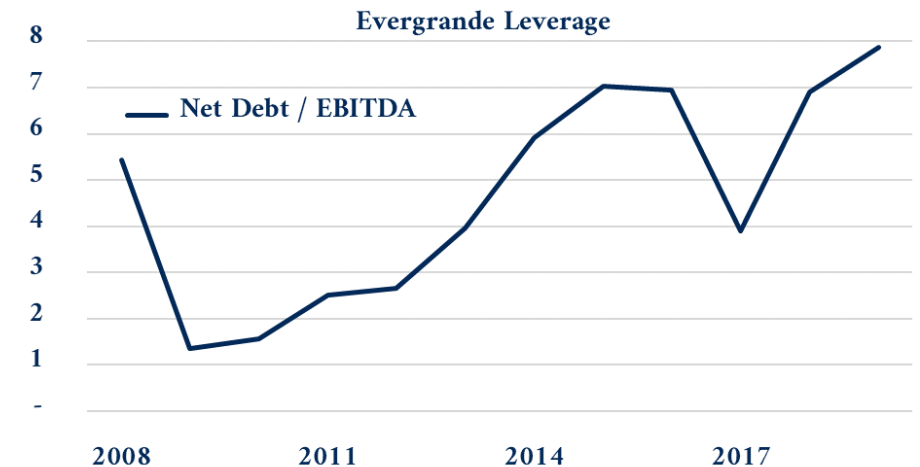
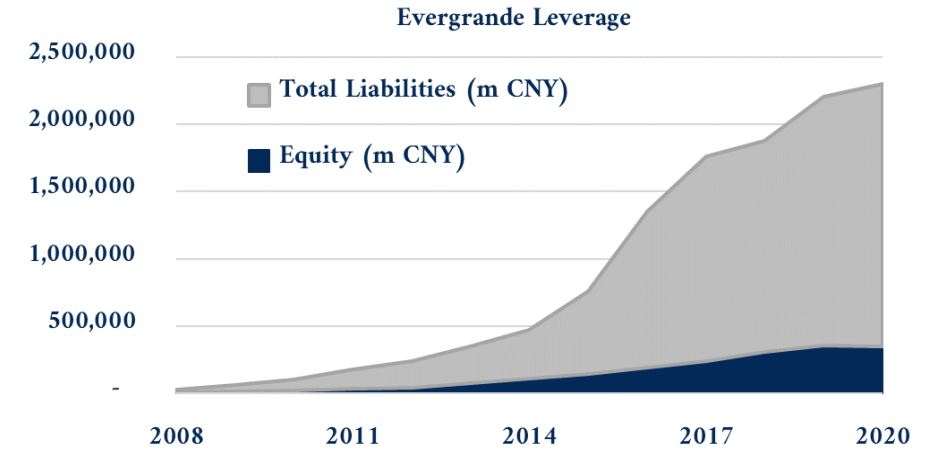
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# Evergrande's default is not a surprise

## Leverage increased regularly over time

- As mentioned, 2 weeks ago in our “Borrowing Binge” comments, borrowers worldwide have largely benefitted from investors’ complacency and Central Banks’ unorthodox policies to borrow, sometimes at negative rates. And as always after “excessive” nights, comes the hangover. Evergrande’s default will not be a surprise to the prepared investors. Others will be left holding the bag, along with suppliers and employees, of whom are the real victims here.
- Since Real Estate accounts for 28% of Chinese GDP (Source: Bank of America, September 2021), and that Evergrande is the largest developers with USD 360bn of Liabilities (Source: Bloomberg, June 2021), Chinese Authorities can’t afford anything else other than an orderly restructuring. Consequently, we expect the leverage to start decreasing in the sector, which is welcomed since Evergrande is not an isolated case.



## Takeaways from the restructuring

There is a silver lining and lessons to be learnt here:

- First, Banks and investors will have to resume paying attention to fundamentals and stop assuming that borrowers will always manage to refinance their rising debts. Had Evergrande not been able to refinance itself so easily few years ago, such a fiasco would have been avoided.
- This default is a clear reminder to Central Bankers (Authorities at large) that excessive liquidity and lack of supervision are causing more pain than good in the long run. It is high time to stop flooding markets with cheap money and let professional investors do their job.
- Lastly, Credit Agencies have once again failed miserably to ring the alarm until the very last moment. Underscoring their misalignment (with end investors) and lack of credibility yet again.







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