



Rating Action: Moody's downgrades DWCM's and Wanda HK's ratings; outlooks remain negative

20 Jul 2023

Hong Kong, July 20, 2023 – Moody's Investors Service has downgraded Dalian Wanda Commercial Management Group Co., Ltd.'s (DWCM) corporate family rating (CFR) to Caa1 from B1.

Moody's has also downgraded the following ratings to Caa3 from B3:

- Wanda Commercial Properties (HK) Co. Limited's (Wanda HK) CFR; and
- The senior unsecured ratings on the bonds issued by Wanda Properties Global Co. Limited, Wanda Properties Overseas Limited and Wanda Properties International Co. Limited.

Wanda Properties Global, Wanda Properties Overseas and Wanda Properties International are wholly-owned subsidiaries of Wanda HK. The rated bonds are guaranteed by Wanda HK and supported by deeds of equity interest, purchase undertakings and keepwell deeds between DWCM, Wanda HK and the bond trustee.

All the rating outlooks remain negative.

"The downgrade reflects our concern over DWCM's liquidity position because of its weak financial and liquidity management, as well as its weaker-than-expected financial flexibility in deploying its internal sources," says Alfred Hui, a Moody's Analyst.

Moody's believes there is high uncertainty over DWCM's ability to address its debt repayment due in the next 3-6 months, including its USD400 million bond maturity due on 23 July 2023. The company's ability to mobilize its cash and liquid investments could have been jeopardized due to risk aversion from its banks and other financiers.

"The negative outlook reflects the high uncertainties over the company's ability to address its refinancing needs, given its weakened access to funding," adds Hui.

RATINGS RATIONALE

DWCM's wholly-owned offshore subsidiary, Wanda HK, has a USD400 million offshore bond maturing on 23 July 2023. It is highly uncertain whether DWCM will be able to repay its maturing debt over the next 3-6 months, including this bond.

DWCM had cash of RMB30.5 billion and wealth management products of around RMB54 billion, most of which were reported as financial assets held for trading at the end of March 2023. But contrary to Moody's previous expectations, the company's ability to mobilize these resources in a timely manner for debt servicing, in particular its offshore debt, is highly uncertain.

The company's elevated repayment risk reflects its weak liquidity management. In particular, DWCM has not proactively managed its offshore liquidity position against its deteriorated funding access. Such a management practice would position the company's CFR at the Caa rating level.

The downgrade of Wanda HK's ratings to Caa3, which incorporates a two-notch parental uplift, follows the downgrade

of its parent DWCM and reflects the company's heightened default risk.

Wanda HK's Caa3 ratings reflect the weaker recovery prospect of its creditors compared with DWCM's creditors if Wanda HK defaults, given the company's weaker credit quality and reliance on DWCM's support through keepwell deeds and equity interest purchase undertaking.

These agreements provide weaker protection to bondholders compared with direct guarantees from DWCM. They differ from direct guarantees for payment obligations under bonds, and the enforcement of these agreements could be subject to extensive legal and procedural uncertainties, particularly because of the lack of a legal precedent in China for enforcing such agreements.

In terms of environmental, social and governance (ESG) considerations, the Credit Impact Scores of CIS-5 for both DWCM and Wanda HK reflect the impact of ESG attributes, especially governance risk, on their ratings.

The companies' governance risk exposure is reflected in DWCM's very weak financial management and management credibility, in view of its aggressive approach to managing (1) its liquidity to meet its maturing debt, and (2) its pre-IPO transaction, given the sizable repurchase obligation to pre-IPO investors if it cannot be completed by the designated timeline. In addition, DWCM's and Wanda HK's concentrated board structures indicate that influence from the largest shareholder could materially change their financial policy and strategy. The companies also have complex organizational structures and their low transparency on areas such as its corporate actions and wealth management products, as well as its weak disclosure on related-party transactions, could lead to fund leakage.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlook, an upgrade of DWCM's ratings is unlikely.

However, positive rating momentum could emerge if DWCM (1) satisfactorily addresses its near-term refinancing risks, (2) strengthens its financial and liquidity management by prudently managing its liquidity position and improving its access to funding, (3) manages its related-party transactions such that it lowers its cash leakage and contagion risk associated with the parent, and (4) maintains stable operations.

Moody's could downgrade DWCM's ratings if the company's offshore bond defaults, or if its liquidity and refinancing risks heighten further.

Wanda HK's ratings are also unlikely to be upgraded, given the negative outlook. However, positive rating momentum could emerge if DWCM's rating is upgraded.

Moody's could downgrade Wanda HK's rating if (1) DWCM's rating is downgraded, (2) it defaults on its debt obligation, or (3) the likelihood of the company receiving support from DWCM declines.

The principal methodology used in rating Dalian Wanda Commercial Management Group Co., Ltd. was REITs and Other Commercial Real Estate Firms published in September 2022 and available at <https://ratings.moodys.com/rmc-documents/393395>. The principal methodology used in rating Wanda Commercial Properties (HK) Co. Limited, Wanda Properties Global Co. Limited, Wanda Properties International Co. Limited and Wanda Properties Overseas Limited was Business and Consumer Services published in November 2021 and available at <https://ratings.moodys.com/rmc-documents/356424>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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