

Dalian Wanda Commercial Rating Lowered To 'CCC' On Nonpayment Risk; Remains On CreditWatch Negative

- Dalian Wanda Commercial Management Group Co. Ltd.'s (Wanda Commercial) nonpayment risk on its near-term maturities, including US\$400 million due July 23, 2023, and US\$22 million interest payment due July 20, 2023, has risen as we believe the company faces significant execution risk in unfreezing offshore cash that could be pledged for onshore borrowings. Based on our understanding, Wanda Commercial currently only has US\$200 million in accessible offshore cash.
- Wanda Commercial will also face considerable pressure in addressing its onshore and offshore bond maturities of RMB13.35 billion over the next 12 months. This is because we believe the company's accessible cash has been depleting after repaying bond maturities since April 2023. We also believe the company may not be able to access its wealth management products to repay debt in a timely manner, and its banking relationships could also be put to the test amid uncertainties over the listing of its subsidiary, Zhuhai Wanda Commercial Management Group Co. Ltd. (Zhuhai Wanda). Cash trapped in Zhuhai Wanda, may also not be accessible, in our view. Parent Dalian Wanda Group Co. Ltd. (DWG) will also face considerable liquidity pressure given its already weaker liquidity.
- On July 20, 2023, S&P Global Ratings lowered its long-term issuer credit rating on Wanda Commercial to 'CCC' from 'B+'. At the same time, we lowered the long-term issuer credit rating on Wanda Commercial Properties (Hong Kong) Co. Ltd. (Wanda HK) and long-term issue credit rating on the senior unsecured notes Wanda HK guarantees to 'CCC-' from 'B'. All the ratings remain on CreditWatch, where we placed them with negative implications on April 28, 2023.
- We expect to resolve the CreditWatch once we have more details to assess Wanda Commercial's capability, including concrete back-up plans, to repay its near-term maturities, and the likelihood of the listing of Zhuhai Wanda.

HONG KONG (S&P Global Ratings) July 20, 2023--S&P Global Ratings today took the rating actions listed above.

Wanda Commercial's repayments on its near-term maturities are vulnerable to execution risk. This includes a US\$400 million bond due July 23, 2023, and US\$22 million interest payment due July 20, 2023, with a 10-day grace period. Based on our understanding, the company currently only has about US\$200 million in accessible offshore cash. We believe the rest of the funding will need to come from unfreezing the company's offshore cash that could be currently pledged for onshore borrowing. Given the tight timeline, we believe such execution risk is high. We have lowered our assessment of Wanda Commercial's management and governance score to weak from fair to reflect its inadequate risk management.

Wanda Commercial faces high repayment pressure for the next 12 months. This is because we believe the company's consolidated cash balance has now deteriorated to Chinese renminbi (RMB) 15 billion-RMB20 billion from RMB30.5 billion as of the end of the first quarter of 2023, after repaying bond maturities of RMB9.6 billion since April 2023. Of this consolidated amount, we estimate about RMB8 billion-RMB10 billion cash is kept at the Zhuhai Wanda level. In our view, cash trapped at Zhuhai Wanda may not be accessible in a timely manner. On the back of the uncertainties over the listing of subsidiary Zhuhai Wanda by end-2023, we believe Wanda Commercial's banking relationships could be put to the test. We also believe Wanda Commercial may not be able to access its wealth management products (RMB49 billion as of end-2022) to repay debt in a timely manner.

We have therefore lowered our assessment of Wanda Commercial's liquidity to weak from less than adequate. Over the next 12 months, Wanda Commercial faces the need to address onshore and offshore bond maturities of RMB13.35 billion.

We believe the recent asset disposals at the DWG level are not enough to replenish DWG's weakening liquidity. In July 2023, DWG disposed of 8.26% of Wanda Film for RMB2.17 billion to a third party and subsequently 8.14% of Wanda Film for RMB2.34 billion to a related party. Amid the headwinds for its property development business and potentially weakening banking relationships, we believe such disposals are not enough to replenish DWG's liquidity. Furthermore, we believe DWG's risk of loan repayment acceleration could increase due to heightened nonpayment risk.

In our view, DWG needs to be able to refinance its borrowings and boost its liquidity through major asset sales to significantly improve its liquidity, and to improve its financial capacity to support Wanda Commercial.

CreditWatch

We expect to resolve the CreditWatch as soon as practicable, once we have more details on Wanda Commercial's capability, including concrete back-up plans, to repay its near-term maturities. We will also assess the spillover effect from heightening nonrepayment risk to Zhuhai Wanda's IPO application.

We may lower the rating on Wanda Commercial and DWG if prospects for making debt repayments further weaken. This may happen if Wanda Commercial's or DWG's capacity or willingness to honor its debt obligations further deteriorates.

We may lower the rating if we confirm that Zhuhai Wanda is unlikely to list by the end of 2023, and Wanda Commercial and DWG fail to implement practical alternatives to maintain their liquidity for the next six months.

In addition, we could also lower the rating on Wanda Commercial, DWG, and Wanda HK if debt nonpayment becomes a virtual certainty or in the event of defaults on debt obligations.

ESG credit indicators: To E-2, S-2, G-5; From E-2, S-2, G-4

Governance factors are a very negative consideration in our credit rating analysis of Wanda Commercial. A historically aggressive, acquisition-fueled overseas expansion and rationalization of assets indicate significant influence of its major shareholder. In addition, we consider the heightening nonpayment risk on its near-term maturities reflects inadequate risk management. Indicative of this are recent frequent share freezes as a result of financial disputes and slower-than-expected progress on negotiations with Zhuhai Wanda's pre-IPO investors.

Environmental and social factors are an overall neutral consideration. Following a full unwinding of its development activities since 2019, the company's exposure to environmental factors is comparable with that of the broader real estate operator industry. Rental business now contributes more than 95% of its EBITDA. The company faces fewer safety issues than property developers, although it is exposed to shifts in consumer behavior and economic trends. Tempering this is its good geographic diversity across China.

Related Criteria

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry](#), Feb. 26, 2018
- [General Criteria: Guarantee Criteria](#), Oct. 21, 2016
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [Criteria | Corporates | General: Corporate Methodology](#), Nov. 19, 2013
- [General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Nov. 13, 2012
- [General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings](#), Oct. 1, 2012
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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