

## FINANCIAL TIMES

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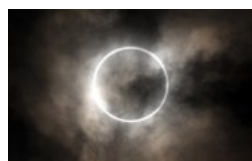
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### Dark times for China's Suntech

Mar 19, 2013 2:01am by Pan Kwan Yuk



Things are going from bad to worse for Suntech Power, the Chinese solar panel maker.

The company, which has been fighting to stay afloat amid falling panel prices and slowing demand, became the latest company from mainland China to default on its international

bonds.

Suntech said in a statement on Monday that it has failed to make a principal payment on the \$541m in convertible bonds that was due on Friday. The non-payment triggered cross-defaults on Suntech's debt with other lenders, including International Finance Corporation and Chinese domestic lenders.

Although Suntech had previously reached an agreement with 60 per cent of the note holders to defer the March 15 payment date by two months, it was still required to pay the remaining 40 per cent of bondholders.

Its failure to do so on Friday now opens up the possibility that the company could be forced into an involuntary bankruptcy by the minority bondholders.

Once the world's largest solar panel maker, Suntech has been hard hit by a global oversupply of solar panels and a drop in prices. The company swung from a net income of \$237.9m in 2010 to a net loss of more than \$1bn in 2011. It has not recorded a profit since the first quarter of 2011.

Suntech's financial woes were further compounded by the revelation last July that it might have been the victim of a \$690m fraud.

The company, listed on the New York Stock Exchange in the form of American depository receipts, has seen its shares collapse from a peak of \$85.16 in December 2007, when it had a market capitalisation of \$15.3bn, to \$0.70 on Monday (giving it a market cap of roughly \$125m).

It had net debt of \$1.6bn at the end of March 2012 and, since then, analysts say its debts have continued to mount over the past year.

Suntech's predicament is a severe setback to China's efforts to make the country the leader in renewable energy.

For foreign bondholders, the default will serve as a reminder of the importance of *caveat emptor* when it comes to investing in Chinese assets.

Although David King, Suntech chief executive, said in a statement that "the management and board of Suntech are committed to finding a way forward," foreign bondholders' chances of getting their money back are looking slim.

As Naomi Rovnick over at Quartz pointed out:

*Not only do Suntech's bondholders own a kind of debt that offers them scant legal rights. The Chinese courts often ignore the pleas of foreign investors that are owed money.*

*But their biggest problem is that they may only be able to sue an empty shell company that does not really own Suntech's businesses.*

*The bondholders lent cash to Suntech's parent company, which is listed in the US but legally headquartered in the Cayman Islands. (Chinese companies often set up these offshore structures for tax reasons – pdf, p.17 – before listing overseas.)*

*The Caymans vehicle, Suntech Power Holdings, owns shares in the firm's Chinese subsidiaries but no physical assets. And it is unlikely to have any cash.*

Nor should foreign bondholders get too excited about reports that Suntech could be bailed out by the regional Chinese government.

From Reuters:

*A Chinese government bailout would not help the convertible bondholders as China-based lenders have the first right to the assets, said Himanshu Shah, chief investment officer of Shah Capital. The firm exited Suntech in early January.*

Caveat emptor indeed.

Tags: bond defaults, China corporate bonds, solar panels, Suntech Posted in Asia, China | [Permalink](#)