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China's debt time bomb ticking loudest in Chinese port bordering North Korea as liabilities top US$7 billion

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Investors to meet on Friday after company defaulted on US$150 million worth of bonds that matured last month

A debt time bomb is ticking at Dandong port in northeastern China, whose operator – according to corporate filings and analysts – has accumulated liabilities of 46.5 billion yuan (US$7 billion).

Dandong Port Group, which manages the largest Chinese port trading with North Korea, failed to settle 1 billion yuan worth of bonds that matured at the end of October.

The default raised questions over its ability to honour a further 6.95 billion yuan worth of publicly traded bonds and bills, two thirds of which will mature at the end of next year.

A fixed-income manager who works in China's interbank market, where much of Dandong's debt is bought and sold, told the *South China Morning Post* that the chances of the company repaying the bonds were "not good", based on publicly available figures.

A meeting of bond investors, convened by Beijing-based Citic Securities, which underwrote the defaulted bonds, was held on Friday. Citic declined to comment on the matter.

The *Post* made repeated calls to Dandong Group, all of which went unanswered.

China's biggest port trading with North Korea defaults on US$150 million bond [1]

Nearly 90 per cent of North Korea's foreign trade is with China, and at least two-thirds of trade between North Korea and China goes through the border city.

The default is not directly connected with the sanctions imposed on North Korea over its nuclear tests or dwindling trade with North Korea, although the sanctions would affect the port's profitability.

According to Dandong Port's latest financial statement published on the website of China's interbank bond market, its total debt at the end of September, including bank loans and bonds, was 46.5 billion yuan. Its net profit for the first nine months of the year was 539 million yuan, a drop of 20 per cent from the same period of 2016.

After reaffirming the company's "AA" rating in June, China Lianhe Credit Rating this month downgraded it to a "C".

The rating company said in a report that Dandong Port's largest shareholder was Wang Wenliang, with a 70 per cent stake. The Dandong city government held 20 per cent, and the remaining 10 per cent was held by two offshore units, it said.

The *Post* was unable to contact Wang for comment. US records show he is a permanent resident of the United States.

It supplies 90 per cent of oil to North Korea ... so why is China's pipeline excluded from UN sanctions? [2]

Last year, Wang was implicated in a vote-rigging scandal in northeastern China's Liaoning province, where Dandong Port is registered, and his membership of the National People's Congress was subsequently rescinded. In August, he was removed as the company's legal representative.

As well as defaulting on its debt obligations, Dandong Port has failed to pay its workers on time.

A Chinese frontier policeman checks sacks of rice from South Korea, which will be sent to North Korea, at Dandong port, Liaoning province October 29, 2010. Photo: Reuters

According to its own data, as of the end of September 3,300 employees were owed 43 million yuan in unpaid wages.

One worker, who asked not to be identified, told the *Post* that it was common for wages to be late.

"I still have one month's salary unpaid," he said.

Another employee said the company had also refused to honour pension payments for the past three years.

As UN sanctions bite, North Korean workers leave Chinese border hub [3]

Dandong Port's debt problems are typical of the economic woes facing China's rust belt region.

According to central bank governor Zhou Xiaochuan, excessive debt is a major source of financial risk. China's overall leverage ratio was "higher than the international alarm line" and the fundamental source for its financial fragility, he wrote in an article published this month.

Corporate defaults are not uncommon in Liaoning.

Last year, Dalian-based Dongbei Special Steel defaulted on more than 7 billion yuan worth of bonds. A restructuring plan was started, which saved the company, but only after its creditors lost 78 per cent of their money.

Just last week, a court in Dalian declared Dalian Machine Tools Group bankrupt after it repeatedly failed to repay its debts.

China's mortgage debt bubble raises spectre of 2007 US crisis [4]

The troubles facing Dandong Port began to show last year. In January 2016, the company sold 2 billion yuan of five-year bonds with an annual coupon rate of 5.5 per cent. By November the same year, however, it was forced to raise the coupon to 8.5 per cent to sell 550 million yuan worth of bonds.

All the money raised was used to repay bank loans, according to the company's annual report for 2016.

Despite the distress signals, Dandong Port was able to continue to accumulate debt, partly because there was no record of a Chinese port defaulting on a bond issue.

Because of their contribution to the economy, ports enjoy a tacit credit guarantee from local banks and authorities. In Dandong's case, however, there is no pot of gold available.

Liaoning's economy grew by just 2.5 per cent in the first three quarters of 2017, the lowest rate for any Chinese province. In Dandong, the nominal economic output for the first three quarters fell by 15 per cent year on year to 57.1 billion yuan.

Chinese bank banned from operating in US over North Korea ties [5]

The region was badly hit by the sanctions imposed on North Korea, especially China's ban on coal imports from its restive neighbour, which is one of the core commodities handled by Dandong Port.

Ding Shuang, chief China economist at Standard Chartered Bank in Hong Kong, said that a generous local government bailout plan was unlikely.

"I don't believe local governments have much power to save [the company]… The more new loans issued, the more loss will ensue," he said.

"It'd be better to let the defaults happen and let all parties share the loss. It might be more acceptable."

Ding said that the defaults would be a form of deleveraging, although the losses would be "significant".

Waiting game for North Korean workers in China as shutdown deadline looms [6]

Hong Hao, chief strategist and head of research at Bocom International, said Dandong Port's woes were not surprising.

"The northeast's economy has been struggling for nearly 20 years, and its economic structure hasn't changed," he said.

"So, not surprisingly, when you allow defaults, it starts from the weakest and most problematic place."

Additional reporting by Kristin Huang

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