

Shoreline Capital Eyes Unsecured Distressed Assets in China

By Patricia Kuo

Aug. 1 (Bloomberg) -- [Shoreline Capital Management Ltd.](#), a China-focused distressed asset investment manager, is looking at unsecured deals in the country for better returns and less competition, said a co-founder of the firm.

Shoreline Capital in June closed Shoreline China Value I, a China-focused distressed asset fund, raising \$178.2 million. The fund today bought non-performing loans with 1.8 billion yuan (\$263 million) of face value for less than 10 cents on the dollar, in Henan province, central China, said Benjamin Fanger.

The Guangzhou, southern China-based investment firm has been paying between 2 cents and about 20 cents on the dollar for distressed assets in the world's fastest-growing major economy, which is estimated to have at least \$300 billion of non-performing loans, Fanger, who's based in Silicon Valley in California, said in a telephone interview today.

“We're happy to invest in deals with fewer traditional collaterals. They often have complicated history, attract little competition and have sellers undervaluing the assets,” he said. “The barrier of entry is quite high for the type of deals we do. There's very tedious work involved, so I don't see a hoard of investors coming in.”

Shoreline Capital keeps a database with information on about \$100 billion of distressed assets across China and spends between six months to a year investigating before deciding on a bid, said Fanger, who spends one-third of his time in China. The strategy has helped Shoreline beat the 20 percent annual return most of the [distressed asset funds](#) target, he said.

Local Teams

“We're seeing a lot of deals get done by local teams instead of investment banks, which tend to like massive private equity or real estate deals,” Fanger said. Shoreline is seeking to have as many as 10 deals a year in China, he said.

Shoreline, founded in 2004, has closed more than \$70 million of investments in China's distressed assets with face value of more than the equivalent of \$1.8 billion, according to its Web site.

China, the world's biggest market for distressed assets, has been trying to sell its bad loans. It set up Huarong Asset Management Ltd., Orient Asset Management Corp., Cinda Asset Management Corp. and Great Wall Asset Management Corp. in 1999 to clean up the four biggest state-owned banks, saddled with an estimated 2 trillion yuan of bad loans built up during decades of government-directed lending to unprofitable companies and projects.

China's bank assets totaled 57.7 trillion yuan at the end of June, up 19 percent from a year earlier, the China Banking Regulatory Commission said on July 21. Non-performing loans at China's commercial banks totaled 1.24 trillion yuan, down 25.9 billion yuan from the beginning of this year, according to the banking regulator.

The [bad-loan ratio](#) at China's banks stood at 5.58 percent at the end of June, down 0.59 percentage points from the beginning of 2008. Foreign banks in China had a non-performing loan ratio of 0.5 percent in the period, up 0.04 percentage points.

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