

Evergrande: What to Do as the Body Floats Down the River

“If you wait by the river long enough,” said the ancient Chinese scholar Sun Tzu, “the bodies of your enemies will float by.”

Sun Tzu’s quip came to mind this week as a drama unfolded in China with Evergrande. The firm has massive debt – well over \$300 billion – and minimal money to pay interest, let alone repay principal.

Indeed, as the week progressed, Evergrande offered excuses and a mere few, token payouts. These included offers of title to real estate in lieu of cash. While many Evergrande employees learned that they are not going to be paid. Definite cash flow problems on display here, right?

It’s more than that though. Evergrande highlights how we’re deep into a global liquidity crisis, coming at the end of a ridiculously expansive period of worldwide money creation. Yet despite all the currency issued by central banks across, many big players are broke, if not insolvent.

Media are filled with forecasts of how an Evergrande crash will lead to a major global meltdown, the “next Lehman Brothers” as many have phrased it. Evergrande will smack the global economy like a big asteroid.

Well, there’s no extinction-level event just yet. Everything is playing out day by day, and as the matter comes into better focus it’s evident that the whole affair is not unexpected.

Evergrande has long been known for its growth-by-debt approach to business. It overpaid for land, labor and materials. It overbuilt hundreds of major projects across China, many

becoming those infamous empty, “see through” cities out of some science fiction movie.

Many wondered how this could go on, because it didn't make sense. And guess what... it was pretty much a fake form of business and development.

Ponzi-like (or to use a more recent analogy, Madoff-like), Evergrande remained afloat for as long as the company could raise cash from sales, from deposits for new projects and a revenue stream of new, gullible investors.

But there's no stopping the clock. At some point, and certainly, as the business climate played out after 18 months of Covid, there would come a day when the scam ran its course. Hence my thoughts about Sun Tzu, an allegory supporting the virtue of patience. Give things enough time and eventually, the bodies float by.

What does it mean to you? At this stage, whatever happens with Evergrande will happen. It's not that the firm is “too big to fail” in China. In fact, I suspect that Chinese leaders would be happy to see a bigshot, go-go business cut down to size, and arrogant managers publicly humiliated, if not standing in a court dock charged with economic crimes against the state.

At the same time, Evergrande has hundreds of thousands of employees and millions of indirect hires based on its development work. China's leaders cannot afford to let things get too far out of hand, leading to large-scale job losses and social unrest.

Expect some form of government-backed restructuring of Evergrande, with limited payouts to the small but numerous stakeholders, and other cash to domestic suppliers. Also expect to see China stiff many foreign creditors, such as hedge funds and banks who bought into the Evergrande promise. Many write-downs lay ahead for those foreign devils.

Meanwhile, something even more important is afoot. Evergrande's collapse is a clear sign that many other overextended plays across the world are about to hit their own brick walls. They may be smaller than Evergrande, but cumulatively they add up to more asteroids raining down on the global economy, one after another.

In other words, investors large and small are about to rediscover the meaning of investment risk as a decade of up-up-up markets confront the realities of too much debt and not enough cash flow.

Frame it as many discrete, sector bubbles about to deflate in a disorderly way. And please don't think that you can outplay an avalanche.

Safe havens include cash, of course. Precious metals too, although when markets sell down abruptly even gold and silver take big hits, but only because they're liquid. People sell what they must to raise cash, not what they might like to sell, especially when markets go no-bid for shares of crummy companies.

This mess is not over, It won't be over any time soon. Step aside if you can. And whatever you do, don't become one of those bodies in the river.

**Grafoid bench strength
deepens with the addition of**

strategic advisor Thomas H. Cruikshank

✘ Grafoid Inc., part of Focus Graphite ('Focus', TSXV: FMS | OTCQX: FCSMF) has appointed Mr. Thomas H. Cruikshank, the former Chairman and CEO of Halliburton, as Strategic Advisor. This the third major strategic announcement to come out of Grafoid in less than a month after they announced forming a partnership with Mitsui Co. – one of the largest and influential Japanese trading houses – and signing an agreement with Altamat to adopt its proprietary 3D printing technology.

As a CEO of Halliburton, Mr. Cruikshank would have had to manage large infrastructure, foreign operations, logistics, long-range planning, considerable political risk among other things. He would also have had access to the world's most influential 'corridors of power', being in a position to build a priceless rolodex of contacts worldwide Not surprisingly, after joining the Board of Lehman Brothers, Mr. Cruikshank was replaced by Dick Cheney, as CEO of Halliburton. Cheney had served as Secretary of Defense in the George H. Bush White House from 1989 to 1993 – and would go on to serve as US Vice-President from 2001-2009. The characteristics of managing Halliburton were ideal for someone who had managed the Pentagon. If the partnership with Mitsui will be invaluable in opening doors for Grafoid's graphene products, Mr. Cruikshank will surely be able to open the door to top North American industry players. Meanwhile, Mitsui offers unrivaled distribution networks, which support the sales of Japanese products and services around the world. Mitsui will likely use its channels and network to introduce graphene to Japanese battery manufacturers like Hitachi or Panasonic as well as automotive groups like Toyota or Nissan.

Grafoid has an expanding and pioneering array of graphene developments backed by ventures and intellectual property

rights, bringing graphene ever closer to commercial reality such as its MesoGraf™ series. Grafoid and its parent Focus Graphite have also been involved in advanced applications for lithium iron phosphate (LiFeP) battery materials in partnership with Hydro-Québec and the development of graphene-based repayment cancer therapies in partnership with Calevia Inc.

MesoGraf™ ('MesoGraf') represents nothing short of the first platform for the industrialization and commercialization of graphene. MesoGraf bridges the gap between the growing bodies of graphene research with actual commercialization of the material, essentially making the science available to the market. Until very recently, graphene has been prohibitively expensive for industrial use. Graphene is composed of only one layer of carbon atoms which must be isolated and then arranged in a honeycomb structure, which is the key to its high strength. For years since the discovery of graphene in 2004, laboratories have been trying to come up with an economically viable method to produce the material. Many have claimed 'revolutionary' discoveries to bring this material into a mass production cycle but little has actually developed. MesoGraf, however, is much closer to becoming the elusive mass production graphene that so many have been trying to achieve.

MesoGraf was developed by Dr. Loh Kian Ping and Grafoid co-founder Dr. Gordon Chiu. The main difference between MesoGraf and all other attempts at developing a graphene material is that MesoGraf is finally able to offer the scalability that is needed to bring the material's potential to the market. A scalable graphene material implies that it can be made to address a large increase in users and applications without undue effort. Scalability has been the 'weak link' in graphene until now. MesoGraf will be derived using natural flake graphite ore from Focus's Lac Knife deposit in Quebec in a patented one-step process. Even this process is 'scalable' because, it can use any graphite ore with 10% or higher purity

according to Focus.

Graphene will make its way in many electronic devices such as smartphones, tablets, connected devices, batteries or flexible displays . But it will also be used in the manufacturing of extremely durable structures in the civil engineering, aerospace and automotive sectors.