

ASIAN WALL STREET JOURNAL

Debt Swap by Singaporean Company Sparks Anger

By

FIONA LAW

Dec. 5, 2013 7:12 a.m. ET

A rare and complex debt swap by a Singaporean semiconductor company owned by private-equity giants TPG Capital and Affinity Equity Partners has sparked anger among its bondholders, who say the move unfairly hurts their investments and are pushing the company to reverse the transaction.

The dispute has sparked as much as a 32% plunge in the price of Global A&T Electronics Ltd.'s debt since September. Moody's cut the company's credit rating last month due to poor earnings and the clash with bondholders.

While unusual, the dispute underscores some of the risks of investing in Asia's rapidly growing bond markets, where yields are frequently high but investors' interests are usually less protected than in the U.S. and Europe, analysts said.

The dispute involves United Test and Assembly Center Ltd., a unit of Global A&T, which assembles semiconductors. The company was taken private in 2007 through a \$1.5 billion leveraged buyout but has recently struggled amid intense competition in the global technology sector.

UTAC issued senior bonds in September to pay off a loan ranked as junior and lower down the capital structure. But holders of senior debt sold in January say the September offering dilutes their holdings as more junior creditors now have the same claim to assets as they do, should there be a default.

A UTAC spokeswoman declined to comment.

"Investors should be very angry about the fact that the exchange occurred just eight months after the notes were sold and that the disclosure around that possibility was limited," said Adam Cohen, founder of the research firm Covenant Review.

The company's bond price has rebounded as more bondholders have joined an investor group that appointed U.S.-based law firm Lowenstein Sandler to push for action, with at least some buying based on hopes that the company would reverse its controversial transaction.

Still, its bond price remains 15% below the value at issuance in January. In its latest move, the investor group issued another letter late Wednesday in New York, reiterating its stance to Global A&T Electronics.

The biggest beneficiary of the debt swap is Affinity, which held 35% of the junior bond and owns 48% of Global A&T, the investor group says. Affinity didn't reply to emailed requests for comment. TPG, another major stakeholder, declined to comment.

The private-equity firms sought an initial public offering of UTAC in Singapore in 2011, but the offering never happened as capital markets were weakened by a global economic downturn.

Three investors in the company's January bonds who declined to be named said the company never mentioned it would swap the junior loans for senior bonds. They are involved with the larger group that represents roughly half, or US\$300 million worth, of the original bondholders, who may step up their actions if the company doesn't respond to their requests.

The investor group said the company has amended, without investors' approval, the "intercreditor agreement" on sale documents which ensures senior bondholders remain prioritized in terms of access to collateral. That breaches the offering documents, which state that basically "no amendments" should be made to the "intercreditor agreement," according the investor group's letter on Wednesday.

"The lesson learned, though, is buyers have to be careful in these complex deals. They should do their own due diligence and make sure the bonds have the right covenants," said Dilip Parameswaran, founder of research firm Asia Credit Advisors Ltd.

Write to Fiona Law at fiona.law@wsj.com