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Singapore Alert to Risks as Cracks Emerge for Junk: Asean Credit

by David Yong Christopher Langner

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(Bloomberg) -- Demand for higher returns in Singapore bonds from the city's swelling private banking industry has brought with it greater risks.

Three out of every 10 notes sold last year are yielding more than 6 percent. Halcyon Agri Corp. went to debtholders last month asking them to waive interest cover requirements before it's even had to stump up a coupon payment. Bloomberg's default model shows that VTB Capital SA has an almost 50 percent chance of reneging on its debt.

"The recent swings have been a good wake-up call," said Vishal Goenka, the Singapore-based head of local currency trading in Asia for Deutsche Bank AG. "Investors need to analyze the credit quality of issuers more thoroughly."

Junk-rated companies in Singapore must find funds to repay $2.1 billion of debt this year, up from $1.7 billion in 2014 and $1.1 billion in 2013, according to data compiled by Bloomberg. That accounts for 35 percent of all bonds maturing in Singapore in 2015. Wealthy clients of the island's private banks snapped up 86 percent of the highest-yielding local bonds last year, the data show.

Historically considered one of Asia's safest bond markets, risks are escalating as international issuers increase, local economic expansion slows and the city adjusts to weaker demand from a slowing Chinese economy. Singapore-dollar junk note returns lagged investment-grade debentures last quarter for the first time since September 2013, Markit Ltd. indexes show, and volatility is the highest since 2011, according to Deutsche Bank.

MAS Measures

Companies in Singapore sold 72 bonds with a coupon of more than 4 percent last year, a level considered high-yield by Deutsche Bank, and almost six times what two-year government notes pay. The securities had an average life of 3.7 years.

The U.S. Federal Reserve is signaling it will start raising rates this year, driving up global borrowing costs just as the Monetary Authority of Singapore considers making it easier for individuals to buy company bonds.

A draft of the new MAS rules states that notes meeting certain requirements can be re-denominated into amounts smaller than the standard S$200,000 ($149,936) and sold to retail investors. The regulator has requested feedback by Jan. 23.

"You know that stocks could fall significantly but when the common man on the street invests in bonds he doesn't expect that kind of volatility," said Hong Kong-based Dilip Parameswaran, who heads advisory firm Asia Credit Advisors Ltd. "Some bonds of smaller companies have dropped dramatically."

Halcyon Agri

Halcyon Agri, which makes rubber for car tires, raised S$125 million in July selling 6.5 percent notes due 2019. Last month it sought the consent of bondholders to not comply with one of its interest-coverage ratios until the third quarter of 2015. Investors holding 82.8 percent indicated they'll allow it, according to a Dec. 30 stock exchange filing.

The debentures were trading at 94.5 percent of par value Jan. 6 to yield 8.77 percent, up from 7.40 percent on Dec. 1, DBS Bank Ltd. prices show. Private banking clients bought 90 percent of the bonds and private banks were offered a S$0.75 rebate apiece to place the notes.

Bonds of Swiber Holdings Ltd., an oil services company, are among the worst performing over the past month. Its S$130 million of 5.125 percent 2016 notes sold in May are trading at 90.5 percent of par from as high as 100.35 percent after issue.

More Protection

Some volatility could be mitigated if sales were focused more on institutional investors, according to Paul Au, the Hong Kong-based head of debt syndicate at UBS Group AG.

“The market can offer a great diversification avenue for issuers but it needs to get more institutional investors,” he said. “Issuers have to start offering more protections to investors in the form of stronger covenants.”

Investor protections are weaker in part for Singapore dollar-denominated bonds because the market is heavily supported by high net worth individuals, Au said.

The new measures being proposed by the MAS may help protect individual investors, according to Clifford Lee, the Singapore-based head of debt capital markets for DBS.

Companies wanting to sell to retail investors must have a credit score at least one level above the lowest investment grade, be cash-flow positive and have had no net losses on average for the past three years or have sold more than S$500 million of notes over the past five years. Bonds must be listed on an exchange and can’t be convertible into stock.

“The proposed regulations shield retail investors,” Lee said by phone Jan. 2. “Besides, individuals are already allowed to buy stocks and you can argue they’re much riskier.”

VTB Bonds

VTB Bank OSJC, the only Russian company with Singapore dollar bonds outstanding, would probably have made the cut when it sold its notes in 2012, when it had a foreign long-term bank deposit rating of Baa1 from Moody’s Investors Service, according to Asia Credit Advisors’ Parameswaran.

Five-year credit-default swaps insuring the debt of unit VTB Capital against non-payment were 990 basis points on Jan. 5, HSBC Holdings Plc prices indicate, signaling a 50.1 percent chance the subsidiary won’t be able to meet its obligations.

The S$400 million of 4 percent notes due July 2015 are yielding 26.081 percent, prices from Oversea-Chinese Banking Corp. show. VTB’s U.S. dollar notes due September 2015 yield 15.915 percent.

VTB said in a Dec. 30 e-mailed response to questions from Bloomberg News that it is fully committed to servicing all its outstanding bonds and plans to repay its Singapore dollar notes in a timely manner.

“The market in Singapore has grown,” Deutsche Bank’s Goenka said. “It now follows international markets more closely but few banks provide enough liquidity, so moves can be steeper.”