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Agile Perpetual Cuts Costs Amid Chairman Scandal: China Credit
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By Rachel Evans and Tanya Angerer

Jan. 15 (Bloomberg) -- Agile Property Holdings Ltd. saved more than 1.5 percentage points selling bonds with no maturity date last week, even as its stock slumped after its billionaire founder was charged with indecent assault.

The developer, whose first project in 1992 was in Zhongshan in the southern province of Guangdong, paid 8.25 percent for perpetual notes denominated in U.S. dollars, according to data compiled by Bloomberg. The company offered 9.9 percent in March for five-year debt. Asian company dollar yields averaged 3.78 percent on Jan. 10, the lowest ever and 118 basis points more than corporates globally, the narrowest gap since 2011, according to Bank of America Merrill Lynch indexes.

The sale raises questions over whether investors, piling into higher-yielding assets as central banks print cash, are being sufficiently compensated for risk. Investors put more than $1.6 billion into emerging-market bond funds in the week to Jan. 9, the most since the beginning of 2012, according to data provider EPFR Global, as the U.S., Japan and Europe extended near-zero interest rates.

"Investors need to be more circumspect when investing in perpetual bonds as bond structures do matter," said Suanjin Tan, a Singapore-based fixed-income portfolio manager at BlackRock Inc., which had $3.67 trillion of assets under management as of Sept. 30. "Investors need to understand what they are investing in and whether they are sufficiently compensated for the inherent underlying and market risks."

Coupon Resets

Agile, in which JPMorgan Chase & Co. owns a stake, raised $700 million on Jan. 11 after Chen Zhuo Lin, its chairman and founder, was formally charged with two counts of indecent assault in Hong Kong earlier in the week. The developer's shares posted their biggest drop in almost a year in Hong Kong on Jan. 8 following the charges.

Chen's arrest is unrelated to the business of the group and will not affect operations, the developer said in a statement to the Hong Kong stock exchange on that day. Chen's family ranked 24th with $3.4 billion in the 2012 Hurun Rich List, which tracks China's affluent individuals and families.

Agile, the third Chinese developer to sell perpetual bonds, can opt to buy back the notes after 5 1/2 years, according to data compiled by Bloomberg. If it doesn't, the coupon is reset at the initial spread more than prevailing five-year Treasuries and then reset again and increased by 25 basis points after 10.5 years with a further reset and an additional 75 basis-point rise after 20.5 years, the data show.

KWG Property Holding Ltd., the Hong Kong-listed developer whose projects include the five-star Sheraton Huadu Resort in Guangzhou, is now marketing a perpetual bond with a similar structure, a person familiar with the matter said today.

Shui On

By comparison, Shui On Development Holdings Ltd., which sold undated debt in December, will pay an extra 300 basis points in addition to the initial credit spread over Treasuries from 2017, and the coupon resets and increases by a further 300 basis points every five years after if the bond is not called, Bloomberg-compiled data show.

"I'm not sure people differentiate sufficiently between the different bonds," said Dilip Parameswaran, chief executive of Asia Credit Advisors Ltd. in Hong Kong. The structure of Agile's perpetual notes is weaker than that of some earlier issues, such as Shui On's, according to Parameswaran. The sale breaks new ground as it comes from a high-yield Chinese property company that doesn't have a big incentive to buy the bonds back, he added.

Private Banks

Agile’s securities, which rank below senior debt in the event of default, will be considered as 50 percent equity when calculating financial ratios, Standard & Poor’s wrote in a report dated Jan. 10. While the ratings company did not grade the notes, it said they would be “at least three notches below” Agile’s BB issuer rating. S&P will stop considering the notes as equity after 5 1/2 years.

Agile received almost 10 times more orders for its perpetual debt than the number of notes available, according to a person familiar with the matter yesterday, who asked not to be identified because the details are private. Some 76 percent of the notes were allocated to private banks, the person said.

“Private banks continue to be focused on name and yield,” said Lee-Shin Koh, a director covering hybrid capital in Citigroup Inc.’s capital markets origination team. “Institutional investors have and will continue to participate in perpetual bonds, but they are more demanding in terms of value and the level of premium you should be paying to a vanilla bond based on the specific structure and credit.”

Agile’s notes yielded 8.51 percent as of 5:42 p.m. in Hong Kong, according to prices quoted by Credit Agricole SA.

Economic Pickup

Economic growth in China may rebound to 8.1 percent in 2013 from an estimated 7.7 percent in 2012, according to economists surveyed by Bloomberg. New home prices climbed 0.23 percent last month from November, a seventh-straight increase, and expectations for further advances boosted sales, according to SouFun Holdings Ltd.

The cost of insuring China’s debt against non-payment with credit-default swaps has fallen 3.6 basis points this year to 62.7 basis points as of yesterday, according to data provider CMA, which is owned by McGraw-Hill Cos. and compiles prices quoted by dealers in the privately negotiated market. Bond risk in Asia excluding Japan has fallen 8.5 basis points during the same time period, prices from CMA show.

The yuan advanced 0.09 percent to close at 6.2136 per dollar in Shanghai today, according to the China Foreign Exchange Trade System.

More Risk

China’s benchmark 10-year government bond yielded 3.61 percent as of yesterday, climbing from as low as 3.24 percent on July 11. Top-rated corporate debt with similar maturities paid 5.29 percent, according to Chinabond indexes.

“With rates so low, to get the return that you want from a certain sort of issuer, you may need to take more credit risk,” Stephen Williams, head of debt capital markets for the Asia- Pacific region at HSBC Holdings Plc said last month. “Instead of buying corporate bonds at the senior level, if you like the name, you buy in the subordinated format.”

Chinese developers may issue more than the record $10.2 billion of bonds sold in 2012 this year, assuming that debt maturing in 2013 and 2014 is refinanced, according to Jacphanie Cheung, a director of corporate credit research at Deutsche Bank AG.

Planned Offerings

KWG Property plans to sell perpetual notes that can be called after 5.5 years as soon as today, a person familiar with the matter said. Fantasia Holdings Group Co., the Shenzhen- based builder of boutique residences, is marketing seven-year securities, another person said.

Shimao Property Holdings Ltd. and Hopson Development Holdings Ltd. raised $800 million and $300 million last week respectively, Bloomberg-compiled data show. Shimao’s seven-year bonds yielded 6.97 percent, as of 11:26 a.m. in Hong Kong, according to Royal Bank of Scotland Group Plc prices.

“The technical headwinds, that over the last few weeks have propelled massive oversubscriptions, weak bond structures and low yields, can also dramatically reverse as seen from the price action over the last two days,” BlackRock’s Tan said.