

# THE WALL STREET JOURNAL.

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MARKETS | CREDIT MARKETS

## Asia's Rich Show Love for Junk Bonds

Private-bank clients in region have loaded up on high-yield debt, a market dominated by Chinese property firms



Chinese developer Shimao Property Holdings issued an \$800 million bond in February, and Asian private-banking clients bought 42% of the issue. Here, a Shimao construction site in Shanghai in 2013. *PHOTO: IMAGINECHINA/ZUMA PRESS*

By **FIONA LAW**

July 1, 2015 11:34 a.m. ET

Asia's wealthy investors have bought nearly \$17 billion of high-yield bonds in the past three years, more than double what they purchased in the previous three years despite rising risks among some of the biggest issuers.

High-yield-bond issuance has soared in Asia since the start of 2013, and rich individual investors buying through private banks have snapped up nearly a quarter of those bonds, as they seek out higher interest payments at a time of low rates.

In the past year, Asia's high-yield-bond issuance has been dominated by Chinese property developers, meaning many of these investors are effectively making bets on

China's real-estate market, which has slumped for much of this year before showing some signs of a recovery in recent weeks.

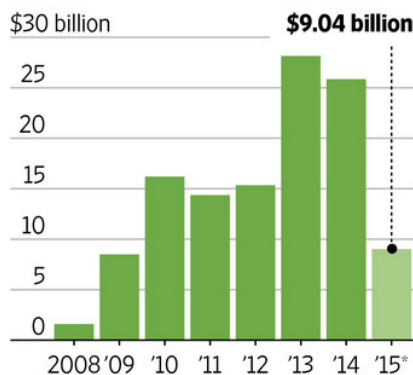
Wealthy Asia investors kept buying new debt even during a selloff in the high-yield-bond market at the start of the year, when Chinese property developer Kaisa Group Holdings Ltd. defaulted on its debt. High-yield issuance has fallen to \$9 billion in the first six months this year from \$13.7 billion in the same period last year, according to Dealogic. But the share of newly issued bonds bought by private-banking clients edged up to 23% in the first five months of the year from 21% for all of last year, according to Asia Investment Advisors, an independent credit-research firm.

Only in the past month, as institutional investors have turned more confident toward China's property sector, has the share of private-banking clients' purchases declined, and now stands at 19% for the year.

## Search for Yield

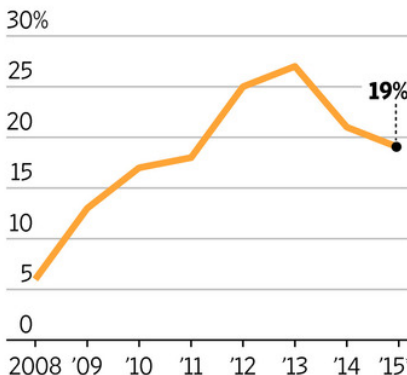
Sales of high-yield bonds in Asia have grown in recent years, with wealthy individual investors emerging as big buyers.

**High-yield bond issuance in Asia**



\*Thorough Tuesday  
Sources: Dealogic (issuance);  
Asia Investment Advisors (clients)

**Percentage of high-yield bonds sold to private-bank clients**



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“Everyone is still looking for yield under this low-interest-rate environment,” said Ben Sy, Asia head of fixed income, foreign exchange and commodities at J.P. Morgan Private Bank in Hong Kong.

Companies, governments and consumers have borrowed heavily in Asia since the financial crisis, helping the region weather the global slowdown but leaving them with high debt levels. Much of that borrowing was made

possible by yield-hungry investors who were increasingly willing to lend to riskier borrowers.

A bigger share of those investors in recent years have been wealthy individuals buying through private banks. Before 2009, when the market was much smaller, less than 8% of high-yield bonds, also known as junk bonds, were sold through private banks. But in recent years the number rose to as high as 27%.

In Asia, individual investors are willing to buy risky bonds from companies they know,

said Dilip Parameswaran, the founder of Asia Investment Advisors.

“They are still happy to jump into familiar names from the Chinese property sector, and even household names from India like Reliance Communications,” Mr. Parameswaran said. “They are not so scared off by Kaisa.”

Chinese property developers have dominated high-yield debt in Asia, accounting for 64% of total issuance this year, up from 45% in past two years, according to Dealogic. Only a quarter of junk bonds in the region were issued by Chinese real-estate firms in 2011.

Many of these companies are struggling as China's housing market has stumbled. Housing sales in the country were down 2.2% from a year earlier over the first four months of this year. But home sales rebounded in May, driven by lower borrowing costs and relaxed mortgage requirements, leaving sales up 5.1% for the first five months of the year.

Kaisa was among the biggest debt issuers. Starting in 2010, the company raised \$2.5 billion by selling junk bonds. Private-banking clients bought around a sixth of those bonds.

Early this year, after its chairman resigned and the government of the Chinese city where the company is based blocked its sales, Kaisa defaulted. Its bonds plunged to as low as 30 cents on the dollar. Bonds of the company, which is still negotiating with its bondholders on debt restructuring, are now at nearly 60 cents on the dollar.

Other companies sold large portions of their debt to private-banking clients. Such investors bought two-thirds of a \$300 million bond by India's Reliance Communications Ltd. in April and 42% of Chinese developer Shimao Property Holdings Ltd.'s \$800 million February bond. Both have attractive yields: Shimao offered 8.4%, while Reliance Communications paid 6.5%, well over the 1%-3% yields of bonds issued by Asia's biggest, safest companies.

Investors who held on during the selloff in late 2014 and early this year have been rewarded for their courage. Chinese high-yield property bonds are among the best performers in the region in 2015, getting a boost from interest-rate cuts by the central bank and government moves to support the housing market. For the first six months of 2015, the total return on these bonds, including yields and price gains, was 7.4%, according to research firm Lucror Analytics. Corporate bonds with investment-grade ratings gained 1.6%, according to the benchmark J.P. Morgan Asia Credit Index.

Even as the Shanghai Composite has tumbled more than 20% since hitting a record high on June 12, Asian high-yield debt has held up well. Asian junk bonds were up 0.7% from June 12 through Tuesday.

One reason private banks sell so much high-yield debt is that the investment banks underwriting the bonds give them a lucrative cash bonus to get these bonds sold. The so-called rebates, or concessions, given out by investment banks typically amount to 25 cents to 75 cents for every \$100 in bonds sold.

Private-banking clients tend to hold bonds during price declines, analysts say. That leaves the market with less liquidity, which can exaggerate price moves.

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