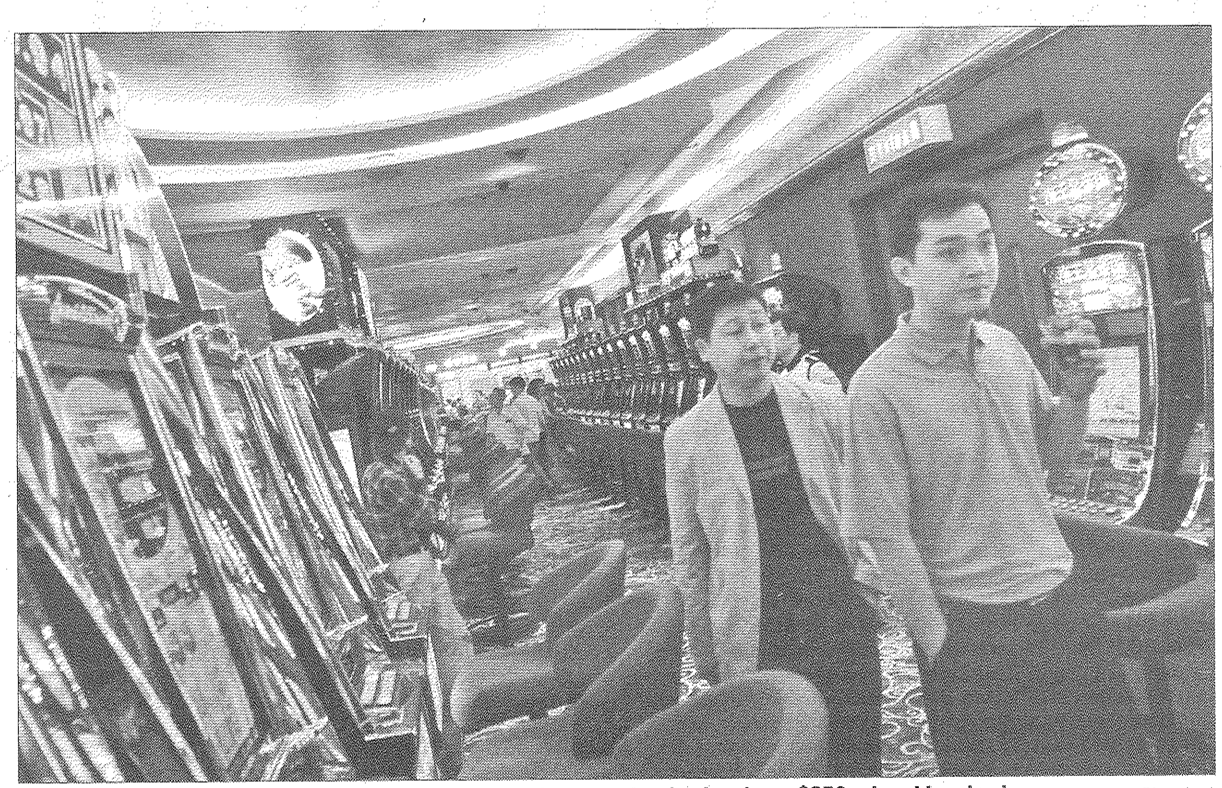
FINANCIAL TIMES DECEMBER 6/DECEMBER 7 2008

Buy-backs tempt as Asian bond prices fall

News Analysis

Companies with cash to spare look to purchase their debt at significant discounts, writes **Lindsay Whipp**



A fairly safe bet: Galaxy Entertainment, the Macau casino operator, is planning a $350m bond buy-back Bloomberg

The pace of corporate debt repurchases in Asia has accelerated sharply amid a slump in prices in the highly illiquid market.

The price of some bonds has been forced down to levels of below 50 cents to the dollar as investors flee in search of lower risk.

This has left the market with a dearth of buyers, particularly as hedge funds disappear or face forced redemptions and those with longer-term views such as pension funds and insurance companies also feel the pain of global deleveraging.

This difficult situation has provided cash-rich companies with an opportunity to buy back their debt at ultra-cheap prices and profit from the transaction.

"For companies with spare cash and given the limited investment appetite in the current environment it doesn't take much to justify buying your bonds back at a significantly discounted rate for a one-off gain," said Jason Rogers, a credit analyst at Barclays Capital in Singapore. "The economic arguments are very compelling, especially for those that have confidence in their own liquidity positions and business strategy.".

This week Galaxy Entertainment, the Macau casino operator, offered to repurchase a total of as much as $350m of bonds due in 2010 and 2012 for 53 cents on the dollar and between 37.5 cents and 45 cent on the dollar.

Other Asia-based companies that plan to, or have, repurchased their bonds at a discount include Hong Kong's Hutchison Whampoa, Singapore's Flextronics and Olam, and China High Speed Transmission and Pacific Basin.

Bloomberg calculates that bond buy-backs since June have jumped by 55.8 per cent to $61.7bn, compared with the same period a year earlier.

There are many companies that do not announce their decision to repurchase, so it is possible that the number is higher.

"The fact of the matter is that in Asia a lot of the companies are reasonably well off," said Pierre Gave, head of research at boutique research firm GaveKal in Hong Kong. "They don't have the underlying fundamentals to justify those kinds of valuations on their debt."

However, it is not always easy for companies to buy back their bonds.

"It might prove difficult to buy back should there be an inkling that the company was planning on doing so, as you would see them shoot up in price very quickly because the markets are very illiquid. So it's easier said than done," Mr Rogers said.

Not all investors would be prepared to sell their holdings back, particularly if they are not prepared and do not need to cut their losses.

Given the illiquidity in both the cash bond and CDS markets, coupled with a dearth of issuance and investors prepared to buy, the corporate bond market in Asia remains dysfunctional.

Asia-Pacific corporate bond issues so far this year have dropped 19.2 per cent to $309.7bn compared with the same period of 2007, according to Thomson Reuters.

The number of issues has declined to 1,592, compared with 1,935 last year, the data show. Since the demise of Lehman Brothers in mid-September and the subsequent worsening of the financial crisis, it has become increasingly difficult even for highly rated companies to issue corporate bonds.

On the investor side, in the past US investors were holders of Asian corporate bonds, but many have now unwound their non-core holdings.

"If you're a US credit investor at the moment there are more opportunities on your doorstep than worrying about Asia," said Mr Rogers.

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