

10/05/1999

Bond way to attract foreign funds in equity

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A SOVEREIGN bond issue at this point in time would serve both to raise money for the country as well as put to rest any outstanding doubts in the minds of investors and attract capital inflows back into the equity market.

J.P. Morgan Asia Ltd head of investment banking for Malaysia Philip Lee told Business Times in an interview in Singapore recently that Malaysia would have no problems structuring a very successful bond deal and by going on a roadshow now, putting to rest any concerns that may still be out there.

"This is so that investors will not only buy Malaysian bonds but also start investing in the equity market in Malaysia. That would be the ideal scenario," he said.

Lee added that there will be issues raised, such as the future of the selective foreign exchange controls and the future of the Central Limit Order Book (Clob) and investors would like to get clarity on these issues face to face with the Malaysian authorities.

However, he added, these issues would not detract from the attractiveness of a sovereign bond deal, as they are more related to the equity market.

"A global fixed income investor is concerned about two things - how a country is going to repay the bonds, and whether in fact it is going to repay the bonds.

"These are related to the fundamentals of the country, and everyone knows that Malaysia, by way of Danaharta, Danamodal and the Corporate Debt Restructuring Committee, is doing more to strengthen its economy than any other countries in Asia," he said.

Lee pointed out that this is one of the reasons that the spreads for Malaysian bonds have tightened considerably over the past few months. At the moment Malaysia has four outstanding bond issues - Petronas, Telekom Malaysia Bhd, Tenaga Nasional Bhd and Maybank Bhd.

"Malaysia probably has the best performing bonds in the world, which means that fixed income investors are now aware of the country's good fundamentals and technical story," he said.

He added that the Government can do anything from a five to 10-year deal, adding that he would not recommend anything less than five years, and that it does not need a third-party guarantee.

"Malaysia has such strong fundamental economic development that it does not need a third-party guarantee. It is able, without question, to accompany its own name," he added.

He added that anything less than a global bond deal would not be the right recommendation. "The Prime Minister, Datuk Seri Dr Mahathir Mohamad, has indicated that he intends to raise RM8 billion, which is roughly equivalent to US\$2 billion (US\$1 = RM3.80) and for that kind of size, we think Malaysia should structure a global deal," he said.

Using the recent Korea Development Bank bond deal as an indicator, he thinks the majority of the bonds are likely to be placed in the US.

J.P. Morgan were lead managers for the KDB bond deal, which was oversubscribed by three times, and 70 per cent of the bonds was placed in the US.

"The bulk of the funds is in the US. It is the most liquid market.

"From our experience with the Korea Development Bank deal, we saw

significant amounts of demand out there, unsatisfied. Investors are more comfortable with Asia in general, and the Malaysian sovereign deal, if structured correctly, can refocus the demand on Malaysia," he pointed out.

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