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JULY 31, 2017 / 9:18 AM / 3 DAYS AGO

Asian high yield suffers triple whammy, as investors push back

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* Three bond deals withdrawn as record issuance finally takes toll

By Frances Yoon

HONG KONG, July 31 (IFR) - Three high-yield issuers failed to go ahead with planned bond offerings last week in Asia in a clear sign that investors have become selective amid a spike in low-rated supply.

Continuum Wind Energy, an Indian renewable energy producer, and Lionbridge Capital, a leasing company targeting small and medium-sized companies in China with Bain Capital as majority shareholder, postponed US dollar offerings on Tuesday. A day earlier, Indonesian coal producer Geo Energy Resources had held back on a proposed deal of its own.

"There is general market consensus that valuations in high-yield credit are somewhat unattractive relative to the investment-grade universe, particularly in specific pockets," said SuanJin Tan, senior portfolio manager at Thirdrock Group.

"There is also the noise to contend with in recent months surrounding restructuring of a certain high-yield issuer or government crackdown on certain acquisitive companies from China."

Two bankers on the Lionbridge transaction said a reported crackdown on lending to HNA Group, Dalian Wanda Group and Anbang International had dampened secondary trading for Chinese names. A sudden fall last Tuesday in US dollar bonds of Reward Science and Technology Industry and Kangde Xin Composite Material Group made investors even more cautious towards high yield, one of them pointed out.

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Asia-based investors said the failed deals did not represent a pullback from high yield, but signalled that investors had become cautious on credit fundamentals.

"This suggests investors are not complacent and just blindly chase whatever is available in the market. We believe this is a positive development and acts as a sanity check for both issuers and syndicated banks," said Arthur Lau, head of Asia ex-Japan fixed income at PineBridge Investments.

London-listed natural resources group Vedanta Resources is expected to draw strong investor demand for a proposed seven-year non-call four bond with expected ratings of B3/B+ (Moody's/S&P) during a roadshow this week. Demand will benefit from an exchange offer for its outstanding dollar bonds.

All last week's pulled deals were debut transactions with Single B credit ratings, as were issues withdrawn earlier this year, including those from Eros International, Soechi Lines and Brightoil Petroleum.

The fate of those deals suggests investors remain wary of low-rated issuers with short track records.

"Investors will continue to be cautious on Single or Double B names that are not from the Chinese property sector, such as industrials," said Ben Yuen, CIO of fixed income at BOCHK Asset Management. "We're not expecting a rapid hike in interest rates by the US Federal Reserve. So, investors will still be interested in yield, but fundamentals will become more important."

Investors are still chasing yield, but may look for it in longer-dated bonds rather than riskier credits.

"From an all-in yield basis, the relative attractiveness and risk reward, compared to the IG universe, have diminished with the higher rates environment," said Thirdrock's Tan.

"It is the proverbial battle between credit and duration risk for investors, and looking at the anaemic inflation rates and economic growth currently, moderate duration risk is winning over going down the credit quality curve, in my opinion." SUPPLY GLUT Record issuance has made investors more selective. Asian US dollar high-yield volumes reached a year-to-date record of $26.8 billion as of July 26, up more than 200 percent from the same period last year, according to Thomson Reuters data.

ABM Investama was the only Asian high-yield issuer to complete a US dollar issue last Tuesday, pricing debut five non-call three bonds of $300 million at 7.375 percent. The bonds have expected ratings of Ba3/BB– (Moody's/Fitch).

Lionbridge, with expected ratings of B2/B/B, was marketing three-year notes at 9.5 percent area. A banker on the deal explained that the book was fully covered, but it was not strong enough to tighten pricing.

For its part, Continuum had announced guidance on 5.25-year non-call three senior bonds at 6.375 percent area and had expected ratings of B1/B+ (Moody's/Fitch). One investor said he did not receive a book update on Tuesday afternoon, suggesting that the deal struggled to build momentum.

Geo Energy (B2/B/B+) had expressions of interest from investors during its roadshow, but the yield of around 9 percent was higher than Geo's other funding avenues, said a banker on the deal. STABLE TRADING Given the string of cancelled deals, bankers on ABM Investama had to strike a delicate balance between achieving tight pricing and giving investors an incentive versus similar credits that offered higher yields.

Those included Indonesian energy producer Indika Energy, which issued five-year non-call three notes in April. Those bonds are currently rated B2/B- (Moody's/Fitch), two to three notches lower than ABM's paper, and were yielding around 7.4 percent for a shorter tenor.

During the ABM Investama roadshow, investors voiced concerns of possible execution risks in its plans to buy new mines, but a banker on the deal explained that investors took comfort in its low cost of production and links to the Hamami family, controller of the miner.

Bankers also said ABM benefited from a stable performance of coal-related credits in secondary markets. BUMA's 2022s and Indika's 2022s had been rangebound in the past month.

ABM's new notes traded three-quarters of a point higher in secondary.

Geo Energy had mandated JP Morgan and Deutsche Bank as joint global coordinators for its planned offering. The pair were also joint bookrunners with BOC International.

Deutsche Bank was sole global coordinator of Continuum's deal, as well as joint bookrunner with Credit Suisse, Investec and Nomura.

Guotai Junan International, UBS and ICBC International were joint global coordinators of the Lionbridge transaction. They were also joint bookrunners with Zhongtai International.

Credit Suisse was sole global coordinator, as well as joint bookrunner with DBS, OCBC and Standard Chartered on ABM Investama's trade. (Reporting by Frances Yoon; Editing by Vincent Baby and Daniel Stanton)