

Singdollar bond market gets buzzing

DBS issue of \$1.5b preference shares opens new doors

By **SIOW LI SEN**

[SINGAPORE] Clifford Lee, DBS Bank head of fixed income, is a happy man. After last week's record sale of DBS Group Holdings' \$1.5 billion preference shares, he is now busy talking to other banks that also want to tap the Singapore dollar (SGD) bond market.

"It will help to develop the SGD bond market ... now because of our deal, other people can come to the market," said Mr Lee.

"An assortment of banks have been calling us to bring them to the SGD market," said Mr Lee.

The \$1.5 billion preference or perpetual share issue sold last week, which will qualify as Tier 1 regulatory capital, was a landmark issue in more ways than one.

According to Thomson Reuters, it was the biggest Singapore dollar bond on record and it was snapped up by local investors, handled entirely by DBS itself. Earlier this year, CapitaLand sold what was then the largest corporate bond issue of \$1.3 billion convertible bonds to global investors.

Mr Lee noted that the market is more familiar with convertible bonds which can be converted into ordinary shares.

But preference shares issuance by banks in the local bond market, which qualify as regulatory capital,

known as hybrid Tier 1, have been mainly sold to global investors.

Previous preference share issuance, including those sold by DBS and rival United Overseas Bank, were in US dollars and were taken up by international investors.

"Our issue was in Singapore dollars and, due to its take-up and size, can now serve as a benchmark issue for other similar issues to price off," said Mr Lee.

DBS's latest preference shares, also called perpetual securities because they have no maturity, will pay 5.75 per cent in the first 10 years, before becoming floating rate notes paying 3.415 percentage points above the three-month Singapore dollar swap rate. DBS can call the securities after 10 years.

The benefit of the hybrid Tier 1 to fixed income investors is that it offers a higher yield than straightforward debt, in return for assuming a higher risk. The benefits to the issuers is that while the interest cost is higher, it is still much lower than the cost of equity, so the issuance is considered as more cost-efficient capital.

Mr Lee said last week's sale showed that the domestic bond market has come of age and investors now have the assurance that the market is able to absorb large issues.

"It has been a long while for Singapore banks to attempt a preference issue of such a size in SGD," he said.

"The concern was that

the SGD bond investor base is not deep enough to absorb a transaction of this size," said Mr Lee.

Initially, DBS wanted to sell \$700-750 million preference shares but, on seeing the demand, decided to raise the size of the deal.

Book building or gauging investors' interest began at 9am on Thursday, May 19, and by 3pm, DBS decided to stop accepting orders when they exceeded \$1.8 billion, said Mr Lee.

Through DBS's own internal channels such as its brokerage unit DBS Vickers, more than \$500 million of the preference shares were sold.

The bank said that 50 per cent of the issue was sold to private banks, 34 per cent to insurance com-

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– *Clifford Lee, DBS Bank head of fixed income*

panies, 10 per cent to funds and the rest to corporates and others.

According to Thomson Reuters, year-to-date SGD bond issuance, including DBS's \$1.5 billion, totalled \$5.7 billion, down 18.5 per cent from a year ago. Full year 2007 saw \$14 billion SGD bonds sold.

"Hopefully, this year it will be more," said Mr Lee.

Japan moves to ease foreign investment inflow

Govt panel calls for clearer M&A rules, corporate tax cut

By **ANTHONY ROWLEY**
in Tokyo

A GOVERNMENT advisory panel yesterday submitted proposals that would make Japan more friendly to foreign investors by improving the transparency of rules on mergers and acquisitions and cutting corporate tax.

recent events have damaged its image as a destination for foreign investment.

The Ministry of Economy, Trade and Industry (Meti) moved a few weeks ago to block an attempt by a UK hedge fund, known as the Children's Fund or TCI, to double its stake in Japanese electric power utility J-Power from almost 10 per cent to an effectively controlling 20 per cent.

Meti cited national strategic interests as a reason for blocking the bid, after