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Analysis: Dubai World restructuring could trigger Gulf gains

By Carolyn Cohn and Rachna Uppal

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(Reuters) - Pivotal talks this week on restructuring the debts of Dubai World DBWLD.UL could be a trigger for investors to return to the Gulf region, under a cloud since the state firm suspended bond payments last year. Dubai World has invited creditors to a meeting on Thursday to offer details on its multi-billion dollar debt restructuring, the first session to include all lenders since December 2009.

The debt-laden conglomerate requires support for its restructuring deal from lenders representing two thirds of the debt owed to the banks. Seven core banks, which represent 60 percent of Dubai World's debt, have

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already agreed to the deal.

As such, analysts expect the deal to go through and Dubai assets may look cheap as a result.

"Once this Dubai World restructuring is done, the economy will be finding the bottom," said Okan Akin, emerging corporate strategist at RBS in London.

"We would expect Dubai's five-year CDS (credit default swap) levels to come down to 400 bps -- even below -- once the restructuring process is complete."

The cost of insuring Dubai's debt against default in the five-year CDS market is close to 500 basis points, one of the highest in the world, and twice the levels seen before the debt standstill. Dubai stocks .DFMGI are close to six-year lows.

The emirate's property-dominated economy collapsed in the aftermath of the financial crisis and the debt standstill effectively paralyzed credit. Analysts say the restructuring, in addition to recent regulatory changes, will restore confidence in lending to Dubai's property sector, even if growth will be slower than in the past.

The IMF forecasts growth contraction for Dubai of a little over 0.5 percent and growth for Abu Dhabi at 3.7 percent this year, but has said its numbers are conservative.

"The finalization of the complicated Dubai World debt restructuring process will prove to investors that the Dubai government has the support of creditors going forward," said Akin.

"The stabilization of Dubai's real estate market ... would aid further strengthening of investor confidence."

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-0.00 -1.02%
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Gulf markets suffered across the board by association with Dubai following the Dubai World announcement.

Abu Dhabi had to come to the rescue of its fellow emirate and in Kuwait, International Investment Group (IIGK.KW) also said in April it was unable to pay the coupon of a $200 million sukuk.

"Unfortunately, even investors that know the difference find it difficult to divorce the Dubai debt story from the GCC (Gulf Cooperation Council) as a net creditor," said Daniel Broby, chief investment officer at Silk Invest fund in London.

"The risk-taking hedge funds have returned but traditional long fixed income players are yet to return."

The risks include the continued possibility of defaults. Dubai International Capital (DIC), the private equity unit of flagship conglomerate Dubai Holding, said in May it was seeking a three-month debt delay, and Dubai Holding Commercial Operations Group DUBAHC.UL said earlier this month it was extending a $555 million revolving credit facility for two months.

But there have been more positive signs in recent months for investment in the Gulf region as a whole. Qatari Diar, the property arm of the country's sovereign wealth fund attracted orders of $23 billion for a $3.5 billion government-guaranteed Eurobond launched earlier this month. In March, Bahrain issued a $1.25 billion Eurobond, having initially aimed for $1 billion, and bonds from National Bank of Abu Dhabi NBAD.AD and Banque Saudi Fransi 1050.SE were heavily oversubscribed.

One London-based emerging debt fund manager said his company had relaxed its policy of keeping clear of the Gulf.

"We have a couple of corporates now, we are more comfortable with the story," the fund manager said.

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Analysts say much of Dubai's debt is in the hands of Gulf investors and these are the investors who most need convincing that it is safe once more to buy Dubai debt.

Upcoming Dubai debt maturities account for 50 percent of GCC debt redemptions, according to research firm Arabia Monitor. Of that debt, 45 percent is held domestically by local and foreign banks.

"Those who want exposure to the Middle East but want to minimize the level of risk they are taking will typically buy Qatari or Abu Dhabi credits," said Chavan Bhogaita, head of credit research at National Bank of Abu Dhabi. "However, those looking for higher yields are getting back into selected Dubai credits."

A Dubai entity, utility DEWA DEWATF.UL, raised $1 billion in April, with an order book that was 11 times oversubscribed, and Dubai ran a non-deal roadshow last month, prompting speculation of a dollar-denominated Islamic bond this year.

Dewa and global ports operator DP World (DPW.DI) are among Dubai credits seen as lower risk.

The Gulf countries will also have to win back investors who have delved further into the MENA -- Middle East and North Africa -- region. Egypt, Turkey and even Jordan, which is planning a debut Eurobond later this month, have attracted interest as they are seen as insulated from the sovereign debt crisis affecting both Dubai and the euro zone.

Egyptian CDS and Turkish CDS are trading far below Dubai, at 225 bps and 175 bps respectively.

"Investors are being selective," said Broby.

"I have noticed a preference for Turkey as a sovereign and we certainly have bought into local Egyptian paper."

(Editing by Patrick Graham)

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