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Silk Invest bullish on DP World bonds

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Reuters

Asset manager Silk Invest likes Qatar and Bahrain sovereign debt, citing the Gulf's strong economic fundamentals, as well as corporate debt in the UAE, which it says has been overly punished by Dubai's problems. John Bates, who runs the London-based firm's new Silk Road Income Fund, said the euro zone's debt problems had highlighted the strength of Gulf economies.

Qatar expects to book a budget surplus of 9.7 billion riyals (\$2.67 billion) in the 2010/11 fiscal year, while Kuwait swung to a budget surplus of KD8.18 billion (\$28.21 billion) in 2009/10. "In our experience, the (Gulf) sovereigns have remained pretty robust in the last nine-month period. Qatar has been very resilient, it's really only been the Dubai names that have been knocked," Bates told Reuters.

Qatar and Bahrain bonds are also fairly liquid, said Bates, who started up the Silk Road Income Fund last October. He would not disclose the fund's value. Qatar's government bonds maturing in 2030 yield 6 percent while Bahrain's 2020 bonds yield 5.58 percent, according to Deutsche Bank Autobahn. The Silk Road fund has also been looking at corporate entities in the United Arab Emirates (UAE) which Bates says have more than factored in the debt restructuring process in Dubai.

You've got Dubai Holding Commercial Operations Group (DHCOG) trading at 89 cents on the dollar for the 2011 bonds. Whilst it's a significant discount to its par level, it's yielding 16 percent," Bates said. "That's a fair yield if you believe that this company is going to repay its debt. So far, there has been no default and interest has been paid on time.

He is also bullish on port operator DP World, a subsidiary of the government's flagship Dubai World. Dubai stunned global markets last year with news it would delay debt payments linked to Dubai World. The conglomerate said in May it had reached a deal in principle to restructure \$23.5 billion with core bank creditors.

DP World is probably our top pick on the basis that it is a truly international franchise. Also, it got a big hit by the Dubai World restructuring. We believe it should be talking at around par," Bates said. DP World's bonds were trading at 78 cents to the dollar yesterday. Bates expects Dubai, which last tapped global markets in October, to launch a sovereign issue later in the year.

Earlier this month, Dubai said it would meet European fixed-income investors and update them on the economy but had no plans for a bond issue. "They wouldn't necessarily take the trouble of travelling the planet unless they have some intention to raise money in some shape or form," Bates said. He said the investor meetings were more of a "testing the waters" before a final issue is decided and expects a benchmark issue of between \$1 billion and \$1.5 billion. Banking sector sources said yesterday Dubai could launch a dollar-denominated Islamic bond as early as the third quarter.

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Shanghai Composite		2,560.25	-0.38%
BSE SENSEX		17,616.69	0.88%
Seoul Composite		1,707.92	0.15%
Straits Times		2,840.38	-0.23%
KLCI		1,304.47	0.10%

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