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# Dubai government transfers \$980mn to repay Nakheel bond on schedule

May 14, 2010

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### Talks continue between lenders and Nakheel's parent, Dubai World, in efforts to restructure \$24.8 billion in debt.

Dubai repaid a \$980 million Islamic bond issued by developer Nakheel while another state-owned firm said it was confident of refinancing an upcoming loan as it digs out from a massive debt burden.

Nakheel, builder the palm-shaped artificial islands off Dubai, repaid the bond on schedule as talks continue between its parent Dubai World and lenders to restructure \$24.8 billion in debt.

"It's a good first step and the right thing to do," said Khuram Maqsood, managing director at Emirates Capital. "If they had defaulted on the current payment, that would have been a setback for the restructuring process."

"It looks as though the process is moving on as per the expectations of the market," John Bates, head of fixed-income at Silk Invest in London, said of Nakheel's bond repayment.

"This should be positive for the region."

A Dubai government spokeswoman said the funds to repay the bond had been sent to the paying agent, Deutsche Bank, and sources with knowledge of the situation confirmed the funds had been paid out.

Dubai shocked global markets last year when it unveiled plans to delay repaying \$26 billion in debt as it restructured state-owned conglomerate Dubai World. It unveiled a \$9.5 billion rescue plan for the firm in March.

A debt deal may come in about two weeks, the head of the Dubai Supreme Fiscal Committee Sheikh Ahmed bin Saeed Al-Maktoum told Reuters on Wednesday.

Investors, worried about a lack of transparency, are fretting about the risk of more debt problems at Dubai-linked entities. Speculation has centered on Dubai Holding – owned by the emirate's ruler, Sheikh Mohammed bin Rashid Al-Maktoum – which has about \$10 billion in outstanding debt.

Dubai International Capital, the overseas investment arm of Dubai Holding, reiterated on Thursday it would refinance its upcoming June loan.

"We are confident of our ability to refinance the \$1.25 billion loan and we continue to service our debt obligations as usual," said a spokeswoman.

Strategist Omair Ansari at Gulfmena Alternative Investments, said investors were more focused on global, rather than regional, risk in the wake of the Greek debt crisis.

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"The (Dubai) risk is priced in and all the bad news is out there. Transparency is definitely going to be an issue ... it does add pressure for the government to step up their game," he told Reuters Insider television.

Nakheel said it had received 50 percent approval from its trade creditors for its repayment plan, still shy of the 65 percent necessary.

Nakheel trade creditors have been offered full repayment, with 40 percent in cash and the rest with an Islamic bond, or sukuk, which has a 10 percent annual return.

Dubai World is still in talks with a core panel of seven banks, including four UK banks, on the debt plan, which offers the bank lenders full repayment in two tranches over five and eight years at 1 percent interest and 1 percent payment-in-kind.

The disparity between the two offers has been a sticking point for some lenders, who feel that Nakheel has been offered a far better deal on the interest rate.

Uncertainty over Dubai World's restructuring process has weighed on the bonds of other Dubai-related names, pushing their values below par.

Bond prices reflected market confidence in the run-up to the payment. Nakheel's May 2010 bond was quoted at 99.5 cents to the dollar on Thursday, data from Deutsche Bank Autobahn showed.

The developer has another \$1.2 billion Islamic bond maturing on January 2011

—Arabnews

Tags: Deutsche Bank, Dubai, Dubai International Capital, investors, Islamic bond, Khuram Maqsood, nakheel.

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