Cool reception seen for Dubai World offer

Reuters
Friday, April 30, 2010 6:22:45 PM Oman Time

Email the story Print the story
XML RSS feed

DUBAI: Dubai World, which is in talks to restructure $26 billion in debt, is offering lenders an additional 1 percent in interest upon maturity of new debt, but the deal is unlikely to satisfy banks, analysts said on Thursday.

The state-owned conglomerate's offer is for a 1 percent interest rate and 1 percent payment-in-kind, a source familiar with the matter said, an upgrade from an opening 1 percent interest rate offer which was rejected as being too low.

A Dubai government spokeswoman said there was no change to the initial terms, which called for a cash interest payment as well as a payment-in-kind but did not outline the interest rates offered.

"The government has not presented a revised offer or improved terms, there has been no change to the original proposal," she said.

Dubai unveiled a $9.5 billion rescue plan for Dubai World and its property unit Nakheel in March.

The source, who asked not to be identified, said Dubai World added the 1 percent payment-in-kind option, a lump sum interest payment at the end of a loan maturity, to sweeten the offer.

Another person familiar with the process said: "(It's) fish market haggling over prices, only this is played out in the media."

Dubai World is in talks with a core panel of seven banks -- five foreign and two local -- which represents more than 97 creditors.

A 2 percent total rate may still be seen as low by local lenders whose borrowing costs are higher compared with some of the foreign banks on the panel.

"For local banks the difference between their cost of funding and the offered rate is still high, it creates a funding mismatch," said one banking expert.

Under Dubai's debt deal, lenders would receive new debt covering the $14.2 billion they are owed over five to eight years at an undisclosed commercial rate.

The plan is to be partly funded by asset sales, with any shortfall guaranteed by the government.

"It's a step in the right direction but I am not sure the offer will be overwhelmingly accepted by the creditors," said John Bates, head of fixed income at asset management firm Silk Invest in London.

"It's looking closer now but there's still quite a gap between the current level (2 percent) and the level being offered to trade creditors."