Tapping the debt capital markets

DEBT CAPITAL ISSUERS IN EMERGING MARKETS HAVE MORE CHALLENGES THAN MOST. **GAURAV ARORA** OF BNP PARIBAS DEBT CAPITAL MARKETS TALKS TO **DECLAN SAWEY**, GROUP TREASURER AT KIPCO, ABOUT ITS EXPERIENCE IN THE INTERNATIONAL CAPITAL MARKETS.

KIPCO $500m 8.875% 2016 bond, issued October 2009

■ Gaurav Arora: Why did KIPCO issue a bond? What was your thought process?
Declan Sawey: KIPCO is a diversified holding company with a presence across the Middle East and North Africa (MENA). Our main lines of business are banking, insurance and media. In October 2009, we tapped the international bond markets, our third issue in four years. The bond market is a great way to access new investors, extend the tenor of borrowings and secure fixed-rate funding with covenant-light documentation.

■ GA: What steps did you take to put your ideas into practice?
DS: Before you start thinking about issuing a bond, you need to have good investor relations in place. KIPCO was among the first in the region to hold annual investor forums allowing stakeholders to question senior management. We also attend investor conferences arranged by the major banks, which is a great way of meeting many investors in a short period of time. A good proportion of our order book came from investors we met at these conferences. If they like your story, they will invest.

In the recent bond issue, we talked with our relationship banks early in the process and maintained a close and continuous dialogue to get a sense of market appetite. We communicated with potential investors and updated our website with all the relevant information. It was also important to prepare all documentation in advance, such as the bond prospectus.

■ GA: In light of recent high-profile crisis, how much importance do you give to transparency and investor disclosure?
DS: An ongoing dialogue and dedicated investor relations is paramount for a prospective issuer. This is especially true in the Middle East, where international investors have voiced their concerns about lack of transparency. At KIPCO we take investor relations very seriously and maintain proactive communication with top investors and analysts. This is particularly important in times of market distress.

■ GA: How did you go about selecting the right partners for your transaction?
DS: Selecting the right lead managers is key and there is a lot more to it than just looking at league table rankings. KIPCO has existing strong and deep relationships with a number of banks and we looked at each bank's track record in distributing Middle Eastern paper, the level of reciprocity and the way the proposed banks could position the KIPCO credit. You also have to be able to trust your lead managers; if you have a broad-based relationship, there is a greater chance that interests will be aligned. Based on these demanding requirements, we appointed three lead managers, including BNP Paribas, all of which have strong international distribution networks.

GA: How did you go about raising your profile for the transaction? Which marketing tools were most effective?
DS: In addition to our investor relations programme, we ran a global programme of roadshows, one-on-one meetings, special investor days and conference presentations. To build confidence among potential investors, we also posted the latest rating reports and financial and interim results on our website.

For non-frequent emerging-market issuers, roadshows are critical because they allow you to build relationships with key investors. Transactions in this sector are driven by perhaps a handful of key accounts, which ultimately determines the price. An effective presentation can make all the difference and this can take time, so you need to take advantage of your banks' extensive experience in this area early in the process. We strove to strike a balance between giving enough information and keeping it focused – for example highlighting the low market penetration of KIPCO's diverse businesses and low cost of doing business in the region.

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GA: What were the difficulties of being the first issuer from Kuwait, as well as the first true corporate from the region, in 2009?
DS: It was a challenging and very fulfilling exercise. We had to overcome several hurdles: there was no existing sovereign curve to provide a pricing reference; there was a lack of comparable issuance and similarly-rated companies in the MENA region due to the nature of our business.

It was a complex and an intricate exercise, requiring an enormous effort from both ourselves and the lead managers. A combination of a superb marketing effort and our conviction in both our business and our credit story answered any potential concerns among investors. We made a huge effort in the investor presentation, where we sought to inform, educate and provide confidence to investors about our business and growth model. So it was a price-discovery exercise for both us and the investors.

GA: How did you determine currency, maturity and deal size? How did you decide between EMTN and standalone documentation?
DS: We reviewed the options and took advice from our lead managers, benefiting from their experience. Regarding currency, USD offers maximum liquidity for emerging-market and Middle-Eastern borrowers. As most regional currencies are pegged to the USD, it was an obvious choice. With respect to maturity, our preference was for a longer tenor in order to match our structural maturity needs. While we knew a five-year bond was both standard and easily achievable, the strength of our marketing efforts and guidance from the lead managers led us to opt for a seven-year maturity at a relatively good price, allowing us to achieve our target of long-term financing. As for the size, we opted for a $500 million deal, since it is considered a benchmark size and ensures both liquidity and a greater institutional following. On the documentation, we invested in an EMTN programme in 2006 to maximise flexibility and take advantage of market windows as they materialise. This offers easy execution with short lead times to launch a trade. More importantly, it raises an issuer's profile in the debt capital markets and signals to investors that there will be repeat issuance. However, an EMTN programme requires annual updating and has marginally higher upfront costs compared with standalone documentation.

GA: What were the most interesting aspects or challenges you faced during the book-building process and the pricing exercise?
DS: The post-marketing period is an interesting aspect of any bond transaction. After receiving investor feedback, we had to decide whether to announce a deal. This can be challenging for the issuer as the strategy is typically to set the initial price wide enough to get maximum support for the issue and then to tighten the price once investor demand is strong enough. If you already have a liquid bond in the market, this will serve as a good benchmark. In KIPCO's case, we had an existing illiquid bond at a wide spread, with a further disadvantage of not having a local treasury yield curve as a pricing reference. This is where the lead managers come into play: it's about communication and answering investor questions promptly and professionally.

GA: How would you rate the overall experience?
DS: Our 2016 bond was 6.6 times oversubscribed and has since performed very well in the secondary markets. All our objectives were achieved: we achieved longer-term, seven-year, funding; we secured investor commitment from key accounts in the UK, Continental Europe and Asia; we established investor interest in both our company and region; and we maintained an active and ongoing dialogue with our debt investors. Given that in 2009 KIPCO was the only international private-sector corporate transaction from the MENA region, the first USD-denominated issue from a Kuwaiti institution since August 2007 and the first BBB rated MENA issue since the financial crisis, the success of the issue certainly made it all worth the effort.

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