

WHAT NEXT FOR DUBAI WORLD?

The shadow of Nakheel's sukuk debt has been banished. But parent company Dubai World still has much left to do to fully ease the threat of future standstills.

Abu Dhabi's move to come to the aid of the troubled Dubai World conglomerate stopped the emirate from falling at its first debt hurdle, but the situation over the longer term remains somewhat unclear.

The funding from Abu Dhabi, a \$10 billion loan to cover the payment of a \$4.1 billion Nakheel sukuk on December 14 and to provide working capital to Dubai World subsidiaries on the successful conclusion of the restructuring talks, is widely thought to have strings attached. Some of those strings include root-and-branch reforms of Dubai entities to make them more transparent. Already, we have seen details of a new "reorganisation law", issued by decree, that will allow Dubai's government related entities to go bankrupt, should restructuring talks falter.

In addition, Sheikh Mohammed Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE, and Ruler of Dubai, has issued laws that rein

in spending, boost accountability and divert any surpluses made by government departments straight to its coffers.

As a result of Abu Dhabi's action, there's been a notable shift in sentiment among investors – though an initial surge on the Dubai and Abu Dhabi financial markets on the back of the December 14 package has somewhat abated as profit-takers move in and analysts look for further clues as to how Dubai will manage its debt pile.

This shift in sentiment was reinforced by comments from the UAE foreign minister, Sheikh Abdullah Bin Zayed Al Nahyan, who said at the sidelines of a meeting in the occupied West Bank told journalists: "The economic crisis in Dubai is over."

But, in its promotion of a united front for the UAE, has Abu Dhabi really said it will foot the bill for Dubai's earlier spending? A mini-rally by Dubai's bonds in the days following Abu Dhabi's intervention suggest that some investors think so, with one senior regional banker telling the Financial Times that Dubai's creditors now have the upper hand. "It would be a massive event if any UAE entity defaults," he said. "If you're a bondholder it looks like you have an awful lot of leverage."

Debt Snapshot

- Dubai's government puts the overall debt figure at \$80 billion, with a sovereign debt of just \$26 billion
- After paying the Nakheel sukuk, Dubai World has some \$22 billion to be restructured
- According to Morgan Stanley, however, Dubai's overall public and quasi-public debt burden stands at \$108.2bn, about 140 per cent of gross domestic product
- Of this, the bank says up to \$46.7 billion may have to be restructured
- Dubai's entities companies have to repay on average \$12.5 billion a year for the next three years, according to Deutsche Bank
- Abu Dhabi's aid so far amounts to \$25 billion

It would be unwise to think Dubai has been handed a blank cheque, though, and the emirate can look forward to tough negotiation on its obligations. Some 90 banks are now in restructuring talks with Dubai World over its remaining \$22 billion of debt, including loans, bonds and debts to contractors. British banks are the most exposed, with loans to Dubai World amounting to about \$5 billion, and their willingness – or not – to compromise is likely to be key to the success of the talks.

Full repayment

Repayment in full would, of course, be the favoured option by creditors, and in talks with the UK banks RBS, Standard Chartered, Lloyds and HSBC and regional banks Abu Dhabi Commercial Bank and Emirates NBD, a high-level Dubai delegation said this option was still on the table for the medium term. Quite how much of a wait creditors are willing to accept to get their cash in full remains to be seen, however.



Dubai's bonds and loans due until 2014

Issuer	Maturity Date	Amount (\$m)	Debt Type
2010			
Gold Sukuk	May 6, 2010	20	BOND
Nakheel Development	May 13, 2010	980	BOND
Dubai World	June 23, 2010	2,100	LOAN
Dubai Intl Capital	June 27, 2010	1,683	LOAN
Dubai Aerospace Enterprise	July 31, 2010	1,539	LOAN
Emirates Airline	October 10, 2010	85	LOAN
Empower	December 5, 2010	225	LOAN
Total		6,632	
2011			
Nakheel Development	January 16, 2011	750	BOND
Ports Customs & Free Zone	March 22, 2011	6,800	LOAN
Emirates Airline	March 22, 2011	89	LOAN
Emirates Airline	March 24, 2011	500	BOND
Tamweel	May 15, 2011	235	LOAN
Emirates Airline	June 21, 2011	31	BOND
Emirates Airline	June 21, 2011	126	BOND
Dubai World	June 24, 2011	1,950	BOND
Ports Customs & Free Zone	July 10, 2011	1,003	LOAN
Dubai Holding Comm'l Ops	July 14, 2011	241	BOND
Dubai Aerospace Enterprise	July 23, 2011	1,000	LOAN
Du	July 27, 2011	817	LOAN
Emirates Airline	August 14, 2011	120	LOAN
Investment Corp of Dubai	August 21, 2011	6,000	LOAN
Dubai Holding	August 26, 2011	1,160	LOAN
Dubai Financial	August 27, 2011	1,500	LOAN

Short back and sides

The least popular result will be a forced "haircut" for creditors. Morgan Stanley, in a research note that predicted the debt to be restructured would swell to include obligations from other government related companies, believes a haircut of up to 50 per cent could be in order.

"We believe that a haircut on the external debt at risk in the area of 40 to 50 per cent is necessary to have a notable long-term favourable impact on public debt dynamics," the report said, predicting that the total amount of debt needing to be restructured could hit as much as \$46.7 billion.

However, not all of Dubai World is subject to the restructuring talks. DP World, the profitable ports group, Istithmar World, the investment company, and Free Zone World, which includes the sprawling Jebel Ali Free Zone, have been ringfenced, for example. Given the emirate's moribund real estate market, it's the money owed by the struggling property companies Nakheel and Limitless that will be the key sticking points in the talks.

To sell, or not to sell?

The Dubai officials in talks over the restructuring have ruled out forced asset sales, especially any disposals of the emirate's "crown jewels" such as

Dubai Drydocks World	September 30, 2011	2,200	LOAN
Emirates Airline	November 8, 2011	87	LOAN
Total		24,609	
2012			
Dubai Aerospace Enterprise	January 17, 2012	800	LOAN
Dubai Holding Comm'l Ops	February 1, 2012	500	BOND
Emaar Properties	February 12, 2012	1,000	LOAN
Dubai Financial	February 13, 2012	330	LOAN
Emirates Airline	February 20, 2012	90	LOAN
Dubai Sukuk Centre	June 13, 2012	1,250	BOND
Wings	June 15, 2012	550	BOND
Nakheel Corp	August 20, 2012	1,850	LOAN
Emirates Airline	September 9, 2012	66	LOAN
DP World	October 22, 2012	3,000	LOAN
JAFZ Sukuk	November 27, 2012	2,000	BOND
Dubai World	June 25, 2013	1,000	LOAN
Total		12,436	
2013			
Emirates Airline	July 11, 2013	500	BOND
2014			
Dubai government	2014	10,000	BOND
Dubai government	2014	5,000	BOND
Dubai government	2014	1,250	BOND
Dubai government	2014	681	BOND
Total		16,931	

Source: Standard & Poor's and Zawya Dow Jones data

DP World, Emirates airline and the Jumeirah hotels group. Of those, only DB World falls under the Dubai World banner, but the group has other assets, and on these, it may have little choice but to sell. Its Istithmar division bought the New York-based luxury retailer Barneys in 2007 for \$942.3 million, while Dubai World itself acquired a \$5.1 billion stake in the US casino company MGM Mirage in 2008. Despite the announced ringfencing of Istithmar, analysts think that some of its assets are obvious candidates for disposal.

Whatever assets are sold, it's highly likely that Abu Dhabi will have a major say in the restructuring. There have been plenty of rumours about Abu Dhabi's motivation in coming to Dubai's aid, mostly

speculating on what Dubai would be giving in return, in terms of assets and political compromise. Whether any companies or assets actually change hands remain to be seen, but the capital's decision was, ultimately, a completely pragmatic one.

Dubai's categorical rejection of an implied sovereign backing of its company's obligations sent the cost of insuring debt in the emirate – and across the region – skywards. As stock markets fell on the back of fears over bank exposure, the world's press then piled on with a barrage of uniformly negative coverage. Also at stake was the nascent Islamic finance sector: Nakheel's \$3.5 billion represented the single biggest Islamic issuance to date; a default on such a big sum would have put the entire system to test and opened a can of worms that nobody was ready to face.

The final straw for Abu Dhabi, though, may well have been when Moody's, the investment rating company, warned it may mark down Abu Dhabi's quasi-government entities alongside Dubai's, many of which had been slashed to junk. That somewhere

as wealthy as Abu Dhabi could be put in such a situation simply forced the capital's hand. According to the Financial Times, however, the decision to intervene went right down to the wire: even as late as December 13, the newspaper says, Dubai World officials were ready to tell bond-holders the worst.

The scale of Abu Dhabi's largesse still surprised analysts. John Sfakianakis, chief economist at Banque Saudi Fransi-Credit Agricole Group in Riyadh, said on day of the announcement: "This is an essential lifeline above what the market expected. Everyone believed that Abu Dhabi (would) just cover the Nakheel bond. But this is no free lunch... every bailout comes at a cost, and Abu Dhabi is not running a philanthropic investment agency."

A clearer vision

Whatever the outcome of the Dubai World talks, the one certainty is that things in Dubai will never be the same. On the negative side, the growth and exuberance that defined Dubai for the past decade

have come crashing to a halt. On the plus side, the international business community will welcome the enforced transparency the crisis is bringing to the emirate, especially as its position as the de facto business hub for the region still looks unassailable.

The relative clarity of the statement announcing the Abu Dhabi deal on December 14, when compared with the confusion surrounding the November 25 standstill call, was the first sign of more open business dealings, while the insolvency law, a draft of which was released on the same day, went further to calm investor's nerves. In addition, the government has set up a three-man tribunal to rule on disputes between Dubai World and creditors. While as yet untested, the insolvency law is to be based on US and UK principles, and comes under the jurisdiction of the respected DIFC courts.

The next few months will be a true test of Dubai's mettle, but if the city must learn one lesson from the international reaction to the debt situation, it is that it will be punished hard for further opacity and obfuscation.



(Source: GULF business)