Quotidiano Londra

Diffusione: n.d. Lettori: n.d.

FINANCIAL TIMES

Direttore: Lionel Barber

15-DIC-2009

da pag. 4

Dubai debt woes

Focus turns to restructuring

Default threat

A £10bn lifeline provided breathing space, but further hurdles lie ahead, writes **Robin Wigglesworth**

Abu Dhabi's surprise decision to offer Dubai financial succour has bought time for the debt-laden emirate to restructure its troubled Dubai World conglomerate, but the former boom town still faces a severe test.

Dubai World holds most of the emirate's credit pile, and despite the $10bn (€6.8bn, £6.1bn) support extended yesterday by Abu Dhabi, the United Arab Emirates capital, the conglomerate must still restructure its debts.

Abu Dhabi's move temporarily staves off the spectre of default, but bankers remain concerned that other state-owned companies, known collectively as "Dubai Inc", may have to restructure their own debts. Meanwhile, other looming maturities will continue to strain the emirate's finances and economy.

"We've avoided a dramatic, chaotic and disorderly default, but Dubai still has challenges ahead," said Mohieddine Kronfol, the managing director of Algebra Capital, a Dubai-based asset manager that is partially owned by Franklin Templeton.

Morgan Stanley estimates that Dubai's overall public and quasi-public debt burden stands at $108.2bn, about 140 per cent of gross domestic product. Of this, up to $46.7bn may have to be restructured, the bank said last week.

Dubai's government and state-linked companies have to repay on average $12.5bn a year for the next three years, according to Deutsche Bank. The first large repayment is a $2.5bn loan at Borse Dubai, the emirate's stock market holding company. Dubai's government has declined to guarantee the debts of Dubai World, but bankers are still uncertain of the level of support for other state-owned companies. These include Dubai Holding, the personal investment vehicle for Sheikh Mohammed bin Rashid al-Maktoum, the emirate's ruler, and Investment Corporation of Dubai, which holds stakes in companies such as Borse Dubai, Emirates Airlines and local banks.

"They probably now have some more breathing space to restructure in a proper manner. But Dubai still has significant liabilities outstanding and the deleveraging will continue," noted Saud Masud, regional head of research at UBS.

Abu Dhabi's decision to prevent a default at Nakheel's bond due yesterday – and cross-defaults at Dubai World, which guaranteed the issue – has buoyed sentiment and spurred a rally in capital markets across the region.

However, most of Dubai Inc's debt is trading at depressed values as investors take a pessimistic view of the city-state's ability, and Abu Dhabi's willingness, to meet fully all the commitments of its state-owned companies.

"Markets are already pricing in restructuring in other parts of Dubai Inc," said Mr Kronfol. "The more they restructure, and the earlier they do it, the better it is for market confidence."

Confusion over the extent and conditions of Abu Dhabi's support for Dubai, and the different treatment of Nakheel's bondholders and lenders – who still face arduous negotiations – has further clouded the picture.

The total financial aid for Dubai from Abu Dhabi, its banks and the UAE central bank has reached $25bn, and analysts are unsure of when the support will be turned on and off.

People familiar with the matter say Abu Dhabi's support was extraordinary and specifically designed to give Dubai more breathing space. It does not necessarily indicate a carte blanche bail-out of Dubai Inc.

Uncertainty over the emirate's debts, and unhappiness over the way Dubai has handled the issue, will ensure that international investors remain wary even of debts with explicit state backing, bankers said.

"There is a lot of ground to cover before they can tap the markets independently again," said Mr Kronfol. "Whether it is a state-backed entity or not, investors will want a lot more clarity and security."

That will continue to highlight questions about the viability of Dubai's economic model of zero-tax, debt-financed infrastructure development.

"I don't think Dubai realises the depth of their trouble," said the regional head of a big international bank. "And it's not over yet: $10bn isn't nearly enough to solve their problems."

Additional reporting by Andrew England and Simeon Kerr