DEBT CAPITAL MARKET PRODUCT

DEFINITION

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DEBT CAPITAL

Long-term capital with more than 1 year maturity, specifically bonds, rather than short-term loans.

DEBT CAPITAL MARKET

A market for trading of debt securities where business enterprises (companies) and governments can raise long-term funds

DEFINITION

DEBT CAPITAL MARKET PRODUCTS

The service provided by FI to help the companies or government raise long-term funds in debt capital market

DEFINITION

"Beware that not debt instrument itself, but the service related to it instead that is considered as DCM products provided by FIs."

SOME MAJOR PLAYERS

TOP 10 BOND UNDERWRITERS

By Total Fee

2013 RANK	UNDERWRITERS	2013 FEE (BILLIONS)	2012 RANK	2012 FEE (BILLIONS)
1	**JPMORGAN CHASE**	**1.34**	**1**	**1.51**
2	BANK OF AMERICA MERRILL LYNCH	1.26	2	1.23
3	CITIGROUP	1.04	3	1.20
4	MORGAN STANLEY	0.96	6	0.89
5	DEUTSCHE BANK	0.92	5	0.91
6	BARCLAYS CAPITAL	0.89	4	0.99
7	GOLDMAN SACHS	0.81	7	0.84
8	UBS	0.62	9	0.72
9	HSBC HOLDING	0.59	8	0.75
10	WELLS FARGO	0.55	13	0.47

Source : Bloomberg

MAJOR PLAYERS IN THAILAND

THAI BOND UNDERWRITERS RANKING IN 2013

2013 RANK	UNDERWRITERS	AMOUNT (THB MIN.)	NO. OF ISSUES	SHARE (%)
1	**SCB**	**89,427**	**46**	**21.25**
2	BBL	61,429	39	14.59
3	KTB	60,633	39	14.40
4	KBANK	44,557	33	10.59
5	BAY	31,454	23	7.47
6	SCBT	25,529	20	6.07
7	HSBC	19,135	13	4.55
8	CIMBT	18,247	25	4.33
9	TMB	15,798	12	3.75
10	TBANK	13,216	10	3.14

Source: ThaiBMA

PRODUCTS

LEVERAGE FINANCE

- Greater D/E ratio than industrial average, making it “Riskier” and thus more costly
- Specific, temporary financing purpose
  - e.g. share repurchase/one time dividend, acquisition → LBO
- Potential higher return for shareholders
- Involve High Yield bonds or Mezzanine loan

MEZZANINE DEBT (Private)

- Can be structured as either equity (preferred share) or unsecured debt
- Used to bridge the gap between senior debt and amount of capital needed, while avoiding dilution effect
  - Acquisition, expansion
  - Recapitalizing
  - LBO, MBO
- Can be converted into Equity; Hybrid security
- Uncollateralized, subordinated debt → Risky

Therefore, investor demand High return (~20%)

HIGH GRADE/HIGH YIELD

High Grade (or investment grade)
- Rating of BBB- or higher (S&P)

High Yield (aka Junk Bond)
- Rating of BB+ or lower → higher default risk
- Higher yield compared to Investment grade
- Usually come with covenant

May involve special feature such as callable, etc.

STRUCTURED FINANCE

Complex instruments offered to suit unique or sophisticated needs

Securitization

- Pool of assets is sold to SPV.
  The purchase is paid for by issuance of bonds whose payments are financed by stream of cash flows derived from the assets.
  - e.g. mortgage-backed securities

Syndicated loan

SYNDICATED LOAN

Offered by a 'Syndicate' (group of lenders) to single borrower

Lead lender or underwriter: put lenders together, facilitate and administer the loan → get fees

1. **Underwritten Deal:** underwriter guaranteed the whole loan
2. **Club Deal:** all members share equal fees
3. **Best-efforts Syndication Deal:** does not guarantee the entire loan. Company might not receive the targeted amount.

ASSET BASE

Collateralized; secured by assets or cash flow from underlying assets

- Machinery, equipment, real estate

Less risky compared to unsecured loan

Lower cost of funding

e.g. **- project finance**
- whole business securitization
SPV funds loan to a company by issuing bonds.
Structured like secured loan.

DEBT PRIVATE PLACEMENT

- Provides financing to entities for projects that could not be financed on the public side of the capital markets
- Mostly offer to small or chosen investors
- Less liquid than publicly traded bonds
- Typically consist of offers of common stock or preferred stock or other forms of membership interests, warrants or promissory notes (including convertible promissory notes), bonds

PUBLIC FINANCE

Focus only on governments and specifically project finance-type deals like toll roads, power plants

Government expenditures are financed primarily in three ways:

- **Government revenue**
  - **Taxes**
  - **Non-tax revenue**

    (revenue from government-owned corps, sovereign wealth funds, sales of assets, or seignorage)
- **Government borrowing**
- **Printing of Money**

Public finance through state enterprise

EXAMPLES

Simple syndicate structure:

Starwood Hotels, Inc want to raise fund of $250 million Two-year term loan
Pricing: Margin: Libor + 125 basis point
Commitment fee: 17.50 basis point of the syndication

Mandated Arranger	• Deutsche Bank
Book Runner	• Deutsche Bank
Participants	• Deutsche Bank • Bank One • Citibank • Crédit Lyonnais • UBS
Administrative Agent	• Deutsche Bank

1.mandated to originate, structure and syndicate the transaction

2.issues invitations to participate in the syndication, disseminates information to banks and informs the borrower about the progress

3.banks providing funds

4.title given to the arranger of a syndicated transaction in the US market

Japanese syndicated loan to a central Asian Nation

Mandated Arranger Book Runner Administrative Agent	▪ Japan Bank for International Cooperation (JBIC)
Participants	▪ Bank of Tokyo-Mitsubishi UFJ, ▪ Mizuho Corporate Bank, ▪ Sumitomo Mitsui Banking Corp.

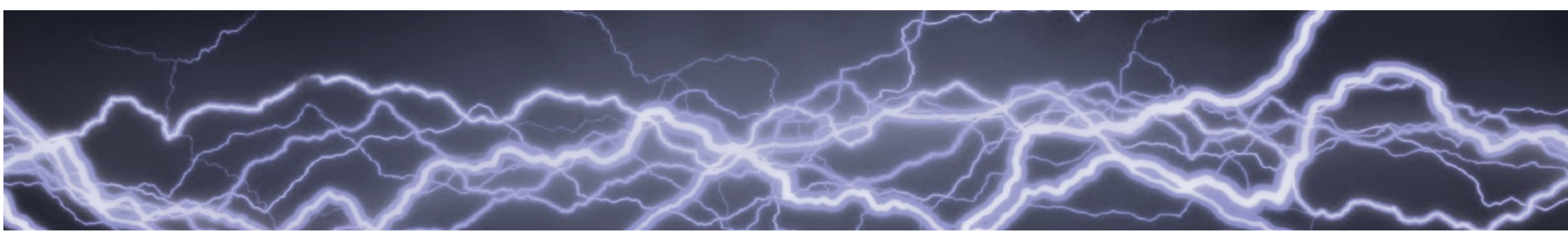
- Lend approximately 45 billion yen to the ‘Republic of Turkmenistan’.
- The loan is to help Turkmenistan’s state owned petrochemical company finance the construction of the country's largest fertilizer production plant in the eastern city of Mary

POWER PURCHASE AGREEMENT WITH EGAT (1ST HYDROELECTRIC POWER PROJECT)

- Export-Import Bank of Thailand
- Kasikorn Bank
- Asia Pacific, Belgium's KBC Bank NV
- Five other minor financial institutions

585.5-Million-Baht Syndicated Loan

Financial support aims to advance infrastructural development in the Greater Mekong Subregion in response to the growing electricity demand, particularly, in Thailand and Lao PDR.



Verizon Communications Inc.

"Sold $49 billion of bonds in 8 parts in the biggest company debt offering ever"

Second-biggest U.S. telephone issued

- fixed-rate debt with maturities ranging from 3-30 years
- 2 portions of floating-rate securities

Verizon paid a premium for the size of its sale

- 10-year portion with relative yield of 47 basis point

The sale was managed by Barclays Plc, Bank of America Corp., JPMorgan Chase & Co. and Morgan Stanley

Chicago-based Hartmarx Corp.

- The manufacturer and marketer of 40-plus brands of men's and women's apparel
  - Hickey Freeman
  - Hart Schaffner Marx
- $200 **m**. asset-based revolving line of credit **as its** primary credit facility.
  - The loan is secured by Hartmarx's accounts receivable and inventory.
- Because the loan amount available is tied to the level of these assets, the company can adjust its borrowings as its inventory and receivables increase and decrease.

THANK YOU

1. Miss Kamolmas	Kantaopas	5404640343
2. Miss Koranit	Chomchan	5404640376
3. Miss Natthacha	Thongkham	5404640566
4. Mr. Phattaris	Sittikul	5404640780
5. Miss Pimala	Thitadilok	5404640855
6. Miss Thitiporn	Siricururatana	5404641374