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HD **Term loan Bs come to Asia as investors mull first deal**

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A term loan B market could finally emerge in Asia, after a big investment bank launched a deal for a leveraged borrower aimed at the region's institutional investors. But the lack of depth and precedent in the Asian institutional market, coupled with low deal volumes, could pose challenges, writes Shruti Chaturvedi.

A recent flurry of deals by Asian issuers aimed at the US institutional market has reopened a debate on the potential for a similar market in Asia, where banks still provide the majority of funds.

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One bank is attempting to get things started with a modest trade of $100m-$200m and has already begun talking to potential investors, according to a banker on the deal, speaking on condition of anonymity because of the sensitivity of the transaction.

The bank is using the structure typically adopted by Australian style term loan Bs. Two thirds of the loan is amortising, with the final third having a bullet repayment. These loans tend to have tenors of 5-5.5 years and offer margins of around 450bp.

The banker would not disclose the identity of the borrower or its industry, but the outcome of this deal may well lay the groundwork for more experimentation — and a long-awaited move away from what is a bank-driven market in Asia.

While bankers away from the deal welcome the development, they remain cautious. The appetite and liquidity offered by Asian institutional investors in what is a nascent asset class is likely to constrain the size of any deal to below $250m, they said. But while investors may not be ready for Asian deals with a 1% amortisation profile such as that seen in US term loan Bs, they have already shown interest in high yield **bonds** — which suggests they are comfortable putting money into sub-investment grade names from the region.

"There is a market out there — this is evident from the fact that non-Asian investors have chosen to set up Asian units," said a **Hong Kong** based leveraged loan banker. "These guys are used to participating in leveraged deals in the US and have experience in Asian credits. They would pick up Asian [term loan **B**] paper as long as the size isn't too large. A $150m-$250m (loan) is doable exclusively with investors in the region."

He did stress, however, that demand for such offerings is likely to be limited to loans by companies that can offer collateral in geographies with a sound regulatory environment, such as Australia, **Hong Kong**, Malaysia and Singapore.

Bigger allocations

That said, size could be an issue for the Asian arms of US institutional investors, as they will need to make a bigger commitment than they would in the US, said a **Hong Kong** based banker.

"In the US there are hundreds of investors, they take only $5m-$10m. Here the situation is different — banks come in and take $25m-$30m," said another banker. "Institutional investors do a lot of deals on a statistical probability basis, so if a few go bad they go bad. Here they will have to take a higher allocation, something they might not be too comfortable doing regularly."

However, if Asian borrowers adopted the Australian template, they could find takers not just among institutional investors but also among certain European banks, he added.

The banker on the deal did not think bigger allocations would be an issue. Funds and investors operating in Asia have a mandate to buy Asian credit, are already buying high yield **bonds** and are active in mezzanine financing in Asia, he said, so entering a leveraged deal would not create much friction for them.

Investment banks at the helm

While term loan Bs may be coming to Asia, bankers agree that it is likely to be international investment banks that take the **lead** in arranging them. That's because these banks already have an established presence in the leveraged market, as well as the right infrastructure and distribution network.

But loans bankers are divided over the breadth and depth of the Asian institutional investor base. Some put the figure at less than 10; others say there are about 40. Whatever the precise scope, the limited presence of institutional investors in Asia remains the biggest hurdle.

Potential investors include Babson Capital, Siemens Financial, Partners Group and Canada Pension Plan Investment Board. Names like these already have some experience in the region. Babson Capital and Siemens Financial Services recently took part in a $150m loan that was issued to back the leveraged buyout of Minacs, the business process outsourcing unit of Indian **company**Aditya Birla Group.

Siemens also joined a $300m loan for economy hotel chain 7 Days Inn, which was taken private by a consortium including Actis, Carlyle, Sequoia Capital and existing shareholders last year.

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