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CGIF stakeholders to boost CGIF's pivotal role in Asean's local bond markets



Stakeholders in Asean+3 multilateral financial institution Credit Guarantee and Investment Facility (CGIF) are set to boost its capital in a significant vote of confidence for CGIF. The additional capital will support expanded deal flows as CGIF builds on its impressive track record since its first credit guarantee facility in 2013. Founded in 2011, with 13 successful deals already completed and many notable milestones achieved, CGIF will in the foreseeable future become self-sustaining as the outstanding bond issues are repaid and guarantee capacity is recycled to new deals. CGIF's 10 Asean+3 government shareholders launched the multilateral credit guarantee institution in 2010 along with the Asian Development Bank. With an impressive track record as the first regional guarantor, the ambition is now to further expand CGIF's pivotal role in promoting economic development, stability and

resilience of financial markets in the Asean region. CGIF's mandate was first elucidated by the Asian Bond Markets Initiative (ABMI), a regional initiative of Asean+3 countries to develop and strengthen the local currency and regional bond markets to promote economic growth and financial development and to prevent the occurrence of another financial crisis like the Asian financial crisis in the late nineties. As a core element of ABMI, CGIF's mission is to provide credit enhancement to increase the access of creditworthy firms and projects in Asean+3 countries to local currency (LCY) bond markets and lengthen the maturities of their bonds. While the structure chosen at CGIF's creation was as an Asian Development Bank (ADB) trust fund to benefit from ADB's privileges and immunities as an international organization, its operational independence led by CGIF's own board and

management team has given it the agility and flexibility required to operate in capital markets. That vision has paid off handsomely, as CGIF's 13 transactions have already supported bond issues for issuers from eight of 10 Asean+3 countries in five of six Asean local currency bond markets, thereby significantly expanding and diversifying corporate sources of debt capital. And the deals have supported a wide variety of sectors, from vital geopolitical areas such as infrastructure, green energy to microfinance for disadvantaged women, whilst also covering many other staple industries. CGIF maintains exceptionally high ratings of AA on a global scale by Standard & Poor's, as well as AAA ratings from the region's domestic rating agencies. CGIF also attracted private sector confidence when it signed a reinsurance treaty with commercial reinsurers led by Munich Re in 2016 to cover a part of its portfolio – a first of its

kind for a portfolio of corporate obligations in the region.

Teamwork and commitment

"We are proud of what we have achieved thus far," says Kiyoshi Nishimura, CGIF's CEO since its inception. "Our team has grown in expertise and size and our guarantees have allowed many companies that otherwise would have struggled to raise funds in matching currencies and tenors and to issue bonds that transcend country sovereign ceilings for cross-border transactions. We have worked successfully with many leading local financial intermediaries, as well as the local arms of global banks and brokerages."

The guarantees issued by CGIF are irrevocable and unconditional commitments to pay bondholders in the unlikely event of non-payment by the issuers throughout the tenor of the bonds. This commitment is backed by CGIF's equity capital, which began at \$700 million and will increase to \$1.2 billion in the coming years, in steps. "We have been given a further vote of confidence in our mission and our capabilities by the planned addition of this capital," says Nishimura. "This is a testament to the accuracy of the original vision and to the team we have assembled and their drive and professionalism. Moreover, it is testament to the willingness of governments, regulators, clients and investors in the Asean region to try new techniques to facilitate bond issues that would otherwise have been difficult to complete."

Guarantees to support disintermediation

"Armed with CGIF guarantees, our clients have been able to diversify their long-term financing needs by tapping domestic bond markets and

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markets across the region,” says Boo Hock Khoo, CGIF’s Vice President of Operations, responsible for CGIF’s guarantee operations. “Our facilities have helped reduce dependency on short-term foreign currency loans and minimize their vulnerability to sudden reversals of capital flows to the region. We have also helped broaden the Asean+3 investor base by providing increased credit protection to local investors, many of which in the Asean countries have had rather restrictive investment criteria.”

As CGIF provides guarantees for bonds across the Asean region, policy makers also had an eye on promoting the harmonization of standards and practices for bond issuance within Asean+3, paving the way for regional financial market integration. The Asean+3 Multi-Currency Bond Issuance Framework (AMBIF), another key achievement of AMBI, has created a common platform to foster the standardization of market practices and regulations targeting domestic professional LCY bond markets. During its initial phase of operations, CGIF employed a leverage ratio of 1:1 for its capital of \$700 million. As its guarantee operations expanded, its leverage ratio was raised in 2013 to 1:2.5, boosting its current guarantee capacity to \$1.75 billion.

“While we have achieved much since we began, the reality is that despite broad improvements and robust growth, the local currency bond markets of Asean still play relatively limited roles in the funding of Asean corporates,” explains Nishimura. “To further harness their potential, the region’s local currency corporate bond markets still need to expand the issuer and investor bases, to extend out the tenors and diversify the range of bonds on offer. At the same time the governments of the region will need to continue their efforts to improve market infrastructure and regulation, as well as pushing towards regional financial integration.”

Frontier markets in sharp focus

CGIF and its stakeholders identify that the least developed capital markets of Asean such as Vietnam, Cambodia, Laos and Burma require greater attention in the years ahead. “The major Asean capital markets of Singapore, Malaysia, Thailand, Indonesia and the Philippines are relatively mature, followed by Vietnam, with Laos, Cambodia and Burma requiring a lot of nurturing,” says Khoo. CGIF’s evolution provides it with an ideal springboard for this next phase. “We have made our financial and human

capital more efficient,” notes Khoo. “We began by offering a full wrap guarantee for plain vanilla corporate bonds and we then began to apply partial guarantees to enhance and diversify deal flows, while helping extend maturities. And in more recent times we have moved to providing guarantees to new types of bond instruments such as project bonds, green bonds and securitization deals and introducing new guarantee products to enhance CGIF’s developmental role. The recently launched Construction Period Guarantee (CPG) to boost the use of local currency denominated project bonds to finance greenfield infrastructure projects in the Asean markets is a good example of our ingenuity and commitment to be ahead of the game.”

Little surprise that with this impressive track record, CGIF’s Asean+3 government shareholders and the ADB are backing the team to boost its presence and capacity. The further capital increase of \$500 million to \$1.2 billion will allow

CGIF to pursue a self-sustaining growth strategy without any further capital injection from the existing contributors.

“We have now had several deals mature and full repayment made, so we can recycle our guarantee capacity,” explains Nishimura. “Assuming we can achieve our target of high profitability – return on equity of 6% – that will place us as one of the highest among multilateral agencies by 2026, thus opening up the possibility to tap private capital. The aim is to increase guarantee capacity further to \$6 billion by 2026 by taking on an additional leverage to 3.5 times afforded by greater portfolio diversification, in addition to internal profit generation.”

The next chapter of CGIF’s remarkable story is eagerly awaited by Asean market participants. “CGIF is now a tried and trusted member of the Asean capital markets community,” concludes Nishimura. “Our collective drive for innovation, excellence and diversification will continue unabated.”



Credit Guarantee & Investment Facility

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Deal highlights: CGIF’s collected tales of innovation

Since CGIF’s first guarantee was issued in April 2013, in Thai baht for a Singapore listed company the cross-border, multi-jurisdictional character of CGIF’s deals was seemingly cast in stone. The story since that first deal is of non-stop innovation to create diversification of structures, assets, maturities and investors. Since that first issue CGIF has completed 13 transactions in the amount of \$1.1 billion

equivalent in various Asean local currencies. “Every deal is a landmark for the market and for us, but we can highlight several issues as pointing the way to the future,” remarks Nishimura.

Kolao Holdings: The first Lao-based company to tap the Singapore dollar bond market

In August 2014 the S\$60 million issue of three-year bonds marked the arrival of Kolao, one of the largest private

conglomerates in Lao PDR, as the country’s first ever issuer in the Singapore dollar bond market. Kolao thereby became a milestone for CGIF and underscored CGIF’s mission of mobilizing capital across the Asean+3 region.

“Our CGIF guarantee allowed Kolao to reach key institutional investors in Singapore and raise attractively priced debt capital,” explains Khoo. “We helped build a bridge between a company which has limited

funding options in its home country and investors from a more developed market in the region. That profile helped Kolao later issue bonds in the Thai Baht bond market on its own accord, when it redeemed the CGIF guarantee bonds upon maturity in August 2017.”

Masan Consumer Holdings: The first 10-year Vietnam Dong bond issued by a private company in Vietnam. Masan Consumer Holdings (MCH) on December 5, 2014

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sold 2.1 trillion of Vietnamese Dong (VDG) denominated, 10-year bonds to register CGIF's first guarantee in the local Vietnamese bond market. The leading food and beverage group thereby became the first non-bank private corporate to issue 10-year bonds.

"This transaction represents a landmark for the Vietnamese bond market, with the participation of long-term, reputable debt investors, a 10-year tenure and an attractive fixed interest rate," said Nguyen Thieu Nam, Chairman of MCH and Deputy CEO of Masan Group after the deal. The impact of this transaction was compounded when MCH successfully issued nine trillion VDG bonds on its own to local investors six months after this transaction – demonstrating CGIF's catalytic role in encouraging corporates to tap the bond market.

AP Renewables, Inc: First project bond in Philippine Pesos and the first climate bond in Asia.

It has been a core objective of CGIF and its stakeholders to help boost the project finance market in Asean. The first public market realization of this goal emerged when Aboitiz Power Corporation special purpose entity AP Renewables, Inc. (APRI) sold 10.7 billion Philippine Pesos of 10-year notes in March 2016. The CGIF supported deal was the first climate project bond certified by the Climate Bond Initiative in Asia. The financing was to facilitate the Tiwi-MakBan geothermal energy plant in the Philippines.

"This was an innovative and complex financing for which the Asian Development Bank provided a partial guarantee covering 75% of the bond, that position made

possible by CGIF taking the first loss risk participation equivalent to US\$100 million," notes Nishimura. "CGIF's commitment was a milestone in its support of the Philippine debt capital market and in the drive towards cleaner energy in the Asean region."

Todd Freeland, Director General of ADB's Private Sector Operations Department, commented after the deal: "The successful use of credit enhancement demonstrates that project bonds have a vital role to play in financing infrastructure investment in Asia and the Pacific. Credit-enhanced project bonds offer a viable alternative to bank financing while mobilizing long-term capital to close the region's infrastructure gap."

CGIF's inaugural project bond guarantee for APRI led to widespread recognition by the industry, winning seven international awards. It also showcased a solution that helps asset owners to raise financing against their existing assets to fund new projects.

PT Mitra Pinasthika Mustika Finance: First-time issuer sells Indonesian Rupiah bonds to Japanese investors

Selling Rp300 billion of three-year MTNs to the Japanese investor market for an unknown, novice bond issuer from Indonesia might seem like financial sector alchemy, but armed with the CGIF guarantee the Indonesian-Japanese joint venture automobile consumer finance company managed to do so, not just once in March 2016 but again a few weeks later in April.

"MPMF was delighted with the outcome, which was assured once we convinced leading Japanese investor The Somp

Japan Nipponkoa Insurance Inc (SJNK) to take a lead position in the deal," recalls Nishimura. "This followed our guarantee support for PT BCA Finance, a leading auto-finance company in Indonesia, which also enabled Japanese investors to invest in Rupiah denominated MTNs issued by the company in 2013 and 2014. All of these transactions are remarkable success stories of Asean+3 cooperation, allowing important funding diversification for Asean corporates. Unlike BCA Finance, which was already an established issuer in the Rupiah bond market, this was the first time MPMF tapped the capital market, and to have the support of such an important Japanese institution as Somp was a vote of confidence in the structure and in the Indonesian company."

ASA Foundation (ASA): CGIF supports micro finance for socially critical sector

Micro finance is not a sector easily understood by investors but the opportunity to support a business that serves 1.3 million low-income women entrepreneurs across the Philippines had immense appeal to CGIF. ASA raised Ps2 billion of five-year bonds, selling the first tranche in February this year, followed by a second tranche in June, with more to follow early next year.

"The transaction has both capital markets and social significance," notes Khoo.

"Helping to fund a business that supports the alleviation of poverty in the Philippines is a great cause and investors rallied to the cause, encouraged by our 75% partial guarantee."

ASA is the top micro finance organization in Philippines with more than 1.2 million active low-income women borrowers, mostly mothers. ASA enjoys a collection rate of over 99% and plays a vital role in allowing access to funding for this vulnerable sector of the socioeconomic system in the country. CGIF helped build the bridge between bond investors and microfinance – unfortunately, a link rarely attempted in the capital markets.

CGIF's new guarantee for construction risk in SE Asian greenfield projects

The financing of greenfield infrastructure projects in Southeast Asia was in May this year boosted by the arrival of a new partnership with Surabaya Jurong Pte Ltd to help CGIF assess risks during the construction period under the Construction Period Guarantee (CPG) product. "CPG was designed to boost the use of local currency project bonds to finance greenfield infrastructure projects in the Asean markets," explains Nishimura. "The various risks during the construction period were a huge impediment, hence our guarantee, which allows bond investors to have exposure only on the operational risks of a project."



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