

Goldman Said to Earn \$500 Million Arranging Malaysia Bond

By Elffie Chew & Ye Xie - May 9, 2013 12:20 AM GMT+0800

Goldman Sachs Group Inc. (GS) made about \$500 million arranging three bond sales in the past year for 1Malaysia Development Bhd. (0206021D), the state investment fund led by Prime Minister Najib Razak, said a person familiar with the matter.

The total is almost as much as Malaysia, Southeast Asia's third-largest economy, pays each month on its debt and compares with Goldman (GS)'s record \$694 million of global bond underwriting fees in the first quarter, according to data compiled by Bloomberg. Goldman, the securities firm with the fastest-growing investment-banking fees, arranged \$6.5 billion of bond sales for the fund.



Flags fly outside of Goldman Sachs Group Inc. headquarters in New York. Photographer: Jin Lee/Bloomberg



Najib Razak, Malaysia's prime minister, center, witnesses a ceremony, as Shahrol Halmi, chief executive officer of 1Malaysia Development Bhd. (1MDB), signs agreement documents with Du Zhingang, chief economist of State Grid Corporation of China, in Kuala Lumpur on Jan. 11, 2010. Photographer: Saeed Khan/AFP/Getty Images

1MDB, as the fund is known, was started in 2009 to invest in energy assets, tourism, agriculture and property developments such as the \$8.5 billion business district in Kuala Lumpur named after Najib's late father. Opposition lawmakers said the fund lacks transparency, pointing to the timing of the latest note sale in March as well as the fees. Goldman won the underwriting work without competing for the deals, according to the person, who asked not to be named as the details are confidential.

"Relationships are what I'll attribute these wins to," said Ang Ser-Keng, a senior lecturer of finance at the Singapore Management University. "If they wanted to issue a bond very quickly, maybe Goldman had the appetite and balance sheet to do the deal."

Goldman's revenue from the 1MDB deals amounted to about 7.7 percent of the face value of the securities. Underwriters collected average fees of 1.32 percent this year on junk bonds, rated below Baa3 by Moody's Investors Service and BBB- at Standard & Poor's, according to data compiled by Bloomberg.



Publication: Bloomberg

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Hurried Sale

In the first quarter, New York-based Goldman (GS) reported a 36 percent increase in investment banking fees, including a 69 percent rise in fixed-income underwriting revenue. Fees across the industry gained 17 percent, according to a report by Alison Williams, a Bloomberg Industries investment banking analyst.

1MDB and Goldman are coming under increased scrutiny after the fund sold \$3 billion of 4.4 percent, 10-year notes privately on March 19. The sale was hurried because it required a government letter of support, said the person familiar with the process.

Najib dissolved parliament two weeks later, ahead of national elections on May 5. His Barisan Nasional coalition retained its parliamentary majority, extending its 55-year rule, even though his alliance took 47 percent of the popular vote, the lowest since 1969.

'Red Flags'

1MDB's bonds "raised too many red flags, coming so close to the election date," Wong Chen, a 44-year-old corporate lawyer and opposition candidate, said in an interview May 2.

The Wall Street Journal reported May 1 that Goldman earned \$200 million from four government-linked bond sales, two for 1MDB and two for Sarawak, the biggest state in the nation, on Borneo island. Edward Naylor, a Goldman spokesman in Hong Kong, declined to comment on fees for specific offerings. "Clients seek us out for our ability to develop and deliver complex financing solutions," he said in a May 2 e-mail.

Najib is the chairman of the fund's advisory board. 1MDB has its origins in Terengganu Investment Authority, which was created in 2009 to invest oil royalties from the state of Terengganu. When Najib became prime minister that year, it was renamed 1MDB, became a national entity and its funding source was changed to government-backed debt instead of oil income.

The Star newspaper reported in July 2010 that the government would not table 1MDB's annual financial report in parliament because disclosures weren't required. 1MDB has a total of 29.8 billion ringgit (\$10 billion) of bonds and loans outstanding, according to data compiled by Bloomberg.

False Accusations

The opposition is making false allegations against Najib, 59, to smear his name, a government spokesman, who asked not to be named according to policy, said May 6. Shahriza Embi, a spokeswoman for 1MDB, didn't return e-mails and calls to her office and mobile phone yesterday.

1MDB's bonds were unrated when Goldman bought them and got an A- grade, the same as on sovereign debt, from Standard & Poor's on April 12. The sale matched a Petroliam Nasional Bhd. (PET) deal in 2009 as the largest by a Malaysian company in the international market, according to data compiled by Bloomberg. It made Goldman the



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second-biggest underwriter of Malaysian dollar bonds after Citigroup Inc., with 18.5 percent of the market, the data show.

Trading Gains

Part of the \$500 million came from Goldman buying the notes at a discount to face value before marking them up to sell to investors, said the person familiar with the deal.

Goldman purchased the bonds for 91 cents on the dollar, according to the person. At that price, the notes yielded about 5.6 percent, or 364 basis points more than Treasuries and 261 basis points more than the rate on Malaysia's sovereign Islamic dollar debt due July 2021. Quasi-sovereign bonds due in seven to 10 years yielded 2.3 percent on average, according to data compiled by Bank of America Corp.

Prices of the notes surged as they began trading, rising to 102.24 cents on the dollar on May 3 and at 99.99 cents on May 6, according to data compiled by Xtracker, a London-based market data vendor. The latest price means a yield of 4.4 percent, or 157 basis points more than the sovereign bonds maturing in 2021.

The discount accepted by 1MDB is steep compared with other issuers that are linked to governments. Korea Development Bank, rated A by S&P, sold \$750 million of 3 percent bonds due 2022 in September at 98.78 cents on the dollar. The yield was 155 basis points, or 1.55 percentage points, more than Treasuries, or less than half of the premium for 1MDB. The Korean bank paid underwriting fees of 0.25 percent.

'Cost Involved'

"For a company like Goldman, which has enough confidence in getting the bonds off their books at some point, there's certainly cost involved" for the borrowers, Prashant Singh, the Singapore-based lead manager for Asian emerging-market debt at Neuberger Berman Group LLC, which oversees \$216 billion, said in a phone interview yesterday.

1MDB also paid more to Goldman than the government has been charged by its underwriters. Malaysia has sold eight dollar bonds since the start of 1999, raising a \$7.1 billion, according to data compiled by Bloomberg. The last was in June 2011, when the government issued \$2 billion.

Citigroup, JPMorgan Chase & Co., CIMB Group Holdings Bhd. (CIMB) and HSBC are among the lead underwriters, managing 69 percent of the sales, Bloomberg data show. The banks charged an average 0.47 percent of the bond sales in fees for five deals between 1999 and 2002. The government didn't disclose commissions for the rest of the deals.

Goldman's \$500 million in revenue also came from two sales of 1MDB notes, each which raised \$1.75 billion.



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Power Purchase

The fund privately placed bonds in May 2012 to help pay for the purchase of billionaire T. Ananda Krishnan's power generation business for 8.5 billion ringgit. The notes, rated AA by S&P and Aa3 by Moody's, had a 5.99 percent coupon, 260 basis points more than the Malaysian government bonds due 2021 were yielding at the time. The other sale was in October to purchase Genting Bhd. (GENT)'s domestic energy operations for 2.3 billion ringgit, 1MDB's annual report shows.

All told, the amount Goldman collected is almost as much as the government pays each month on its outstanding debt. Malaysia had 502 billion ringgit of outstanding borrowings at the end of 2012 and debt service charges last year were 19.5 billion ringgit, or about \$548 million a month, according to data published on the central bank's website.

Goldman Strategy

Underwriting Malaysian debt is consistent with Goldman's strategy. Goldman executives have identified growth markets such as Brazil, Russia, India, China and South Africa as a priority for investment.

In a November 2011 presentation, Goldman Chief Executive Officer Lloyd C. Blankfein said the firm's focus is to "chase GDP growth and operate in more places."

Malaysia's gross domestic product grew 5.6 percent in 2012, compared with 2.2 percent in the U.S., 2.1 percent in Japan and 0.2 percent in the U.K., government data showed.

The firm has helped to arrange 9.2 percent of the dollar, euro and yen bond sales in Asia ex-Japan this year, trailing HSBC Holdings Plc, according to Bloomberg data. It ranks third globally in handling dollar notes.

With the 1MDB bonds, Goldman also faced no rival bids. The absence of a competitive process "isn't unusual in Malaysia," Edmund Terence Gomez, a University of Malaya professor who has written on government-business relations, said in a phone interview from Kuala Lumpur.

All Options

All options for financing were considered and Goldman's structure was chosen to ensure "timely completion," 1MDB said in an April 23 statement. Proceeds will invest in "strategic and important high-impact projects like energy and real estate," as part of a collaboration between Malaysia and Abu Dhabi, it said.

1MDB signed agreements in March with Aabar Investments PJSC, a company controlled by Abu Dhabi's state-owned International Petroleum Investment Company, to co-invest 18 billion ringgit in projects in Malaysia, according to a joint statement.

One of 1MDB's biggest investments is the new financial district in the nation's commercial hub. The 70-acre development, including office towers, retail malls, a convention center and hotels, will be named Tun Razak Exchange after Najib's father, a former prime minister.



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“1MDB has a case in raising the funds as the projects undertaken are part of efforts by the government to spur growth and to attract foreign direct investment,” said Gomez. “The key issue here is lack of transparency and implementation.”

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