

Media Seminar

Primary Market Bond Issues / Common Misconceptions about Bonds and Bond Markets

28 May 2004



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香港財資市場公會



SPEAKERS

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AGENDA

- Common Misconceptions about Bond Investments
- Bond Fundamentals, Curve Movements
- Structured Products
- Primary Issuance Process



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Common Misconceptions about Bond Investments



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COMMON MISCONCEPTIONS ABOUT BOND INVESTMENTS - Coupons & Yield

- HK Link 2007
- 3 years (7/5/04-7/5/07)
- Coupon: 2.75%
- Yield: EFN + 0.45%
- Price: 98.87

- HKMC 2007
- 3 years (9/7/04-9/7/07)
- Coupon: 2.50%
- Yield = EFN + 0.12%
- Price: ???

COMMON MISCONCEPTIONS ABOUT BOND INVESTMENTS - Coupons & Yield

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- HKMC 2007
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- Coupon: 2.50%
- Yield = EFN + 0.12%
- Price: ???

0#HKBMK= HK - BENCHMARK

Issue/Issuer	Coupon	Maturity		L a t e s t		Yiel	
1W EF BILLS		02JUN04		99.988	A	99.989	0.70
1M EF BILLS		30JUN04	B↓	99.991	A	99.995	0.10
3M EF BILLS		18AUG04	B↓	99.920	A	99.932	0.35
6M EF BILLS		10NOV04	B↓	99.699	A	99.722	0.66
9M EF BILLS		14FEB05	B↓	99.299	A	99.334	0.98
1Y EF BILLS		04MAY05	B↓	98.842	A	98.888	1.250 1.200
2Y EF NOTES	1.760	15MAY06	B	99.190	A	99.260	2.190 2.153
3Y EF NOTES	4.760	18JUN07	B↓	105.200	A	105.330	2.985 2.941
4Y EF NOTES	2.980	17MAR08	B	98.600	A	98.780	3.397 3.345
5Y EF NOTES	2.520	24MAR09	B	94.350	A	94.580	3.847 3.792
7Y EF NOTES	3.270	25FEB11	B	93.860	A	94.130	4.376 4.326
10Y EF NOTES	4.320	02DEC13	B↑	97.050	A	97.400	4.763 4.715

COMMON BOND INV

- HK Link
- 3 years
- Coupon:
- Yield: EF
- Price: 98
- Today
Price:
yield:

Hong Kong Link 2004 Limit 2.75% 7May2007 HKD NR (S&P)

Basics and Calcs | RICs and Quotes | MID | MID MM 97.84 WING LUNG HK | Yield | Price | Spread | For histor

Issue	Quote / Valuation	Price and Yield Display precision
Ticker: HKLINK	Settlement mm/dd/yy: 1JUN04	
Domicile: Hong Kong	Accrued / Days Acc.: 0.190 25	
Maturity: 7-May-07	Price / Gross: 100.000 100.190	
Redemption: Bullet	Yield & Sensitivities: Native Yield	
Coupon	Yield / Price: 2.778 100.000	
Coupon Rate: 2.750	Duration / Modified Dur: 2.823 2.747	
Frequency: Quarterly	PVBP / Convexity: 2.752 10.409	
Next Coupon: 9-Aug-04	Proceeds: To create a ticket for this bond click->	
Coupon type: Fixed	Nominal: 10M	
Convention	Principal: 10,000,000.00	
Day Count: Actual/365	Accrued: 18,990.43	
Calculation: Yield to Maturity	Total: 10,018,990.43	

Double click on the Matrix to change related instruments

Name	Maturity	Coupon	Close	Bid Price	Ask Price	Bid Yield	Ask
HK1WT=RR	1W EF BILLS	02JUN04	99.999	99.988	99.989	0.700	0.650
HK1MT=RR	1M EF BILLS	30JUN04	99.989	99.991	99.995	0.100	0.050
HK3MT=RR	3M EF BILLS	18AUG04	99.926	99.920	99.932	0.350	0.300
HK6MT=RR	6M EF BILLS	10NOV04	99.700	99.699	99.722	0.660	0.610
HK9MT=RR	9M EF BILLS	14FEB05	99.315	99.299	99.334	0.980	0.930
HK1YT=RR	1Y EF BILLS	04MAY05	98.854	98.842	98.888	1.250	1.200
HK2YT=RR	2Y EF NOTES	15MAY06	99.190	99.190	99.260	2.190	2.153
HK3YT=RR	3Y EF NOTES	18JUN07	105.200	105.200	105.330	2.985	2.941
HK4YT=RR	4Y EF NOTES	17MAR08	98.550	98.600	98.780	3.397	3.345
HK5YT=RR	5Y EF NOTES	20MAR09	98.300	98.350	98.580	3.847	3.792

Reuters BMK: All Govys | Yield Curve

BMK Closest: MID CO 105.265 DB5HK BK LTD

Benchmark: HNGKNG 4.76% 18Jun2007 HKD A

Yield: 2.963

Spread: -18.6 bp

News | Futures | Top Fixed Income | TOP/

11:50 25May04 RTRS-*TOP NEWS* World Politics and
 11:07 25May04 RTRS-*TOP NEWS* Fixed Income
 09:08 25May04 RTRS-*TOP NEWS* Front Page
 02:04 25May04 RTRS-*TOP NEWS* Emerging Markets
 18:00 24May04 RTRS-Reuters World News Highlight



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COMMON MISCONCEPTIONS ABOUT BOND INVESTMENTS - Coupons & Yield

Quote Browser: Item Address: QASIASPREADS

Search ASIASPREADS

00:00 25MAY04 ASIAN USD CREDIT SPREADS SP01047 ASIASPREADS

	COUPON	MATURITY	BID	OFFER	BID	OFFER	RATINGS	
US 10 YEAR	4.75	15-May-14	100.06	100.13	4.742	4.734		
					SPREADS		RATINGS	
CHINA	6.80	23-May-11	109.62	109.92	39	35	BBB+	A2
KOWLOON CANTON	8.00	15-Mar-10	114.32	114.59	37	33	A+	A1
MAS TRANSIT RLWY	7.50	8-Nov-10	112.85	113.14	39	35	A+	A1
HUTCHISON CORP	7.00	16-Feb-11	104.38	104.77	145	139	A-	A3
PCCW-HKT	7.75	15-Nov-11	111.49	111.80	109	105	BBB	Baa1
KOREA DEV BK	5.50	13-Nov-12	98.19	98.45	103	100	A-	A3
MALAYSIA	7.50	15-Jul-11	111.57	111.89	77	73	A-	Baa1
TENAGA NAS BHD	7.63	1-Apr-11	118.56	119.31	-24	-34	BBB	Baa2
PETRONAS	7.00	22-May-12	108.16	108.49	97	93	A-	Baa1
PHILIPPINES	9.38	18-Jan-17	100.25	101.50	460	444	BB	Ba2
PHILIPPINES	9.875	16-Mar-10	105.50	106.00	390	380	BB	Ba2
DBS BANK	7.125	15-May-11	109.70	110.00	69	65	A-	Aa3
SINGAPORE TELE	6.375	1-Dec-11	105.47	105.73	74	70	A+	A1



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BOND FUNDAMENTALS, CURVE MOVEMENTS



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Types of “bonds”

- Fixed vs. floating vs. 0%
- CDs, CP (commercial papers), bills, notes, bonds
- Callable, extendible, puttable
- Senior vs. subordinated
- Secured vs. unsecured
- Dated vs. undated (perpetual)
- Rated vs. unrated



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Price of a bond

- Sum of Present Value of future cash flows
- Cash flows are discounted to today's value using respective interest rates



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Different benchmark interest rates

- Fed Funds : o/n
- LIBOR : 1-12mths London interbank offered rates (LIBOR=)
- HIBOR : 1-12mths HK interbank offered rates (HIBOR=)
- Swap : 1-30 yrs (ISDAFIX1)
- US Treasury : 2-30 yr (F10, USBMK=)
- EFB/EFN : 1-10 yr (F10, HKBMK=)

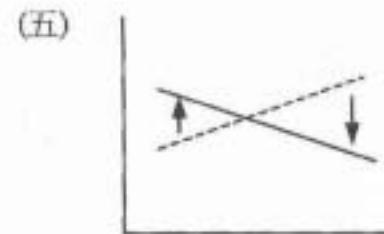
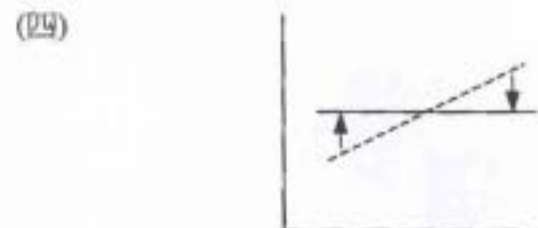
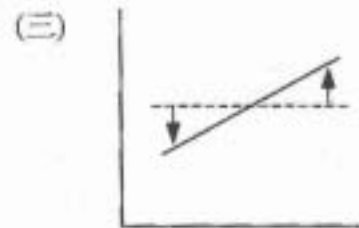
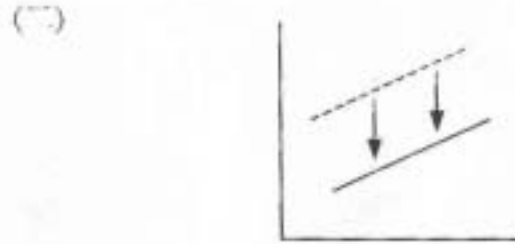
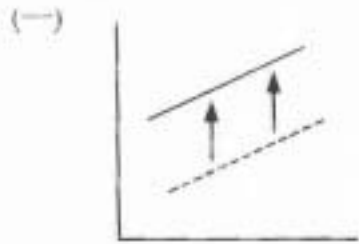


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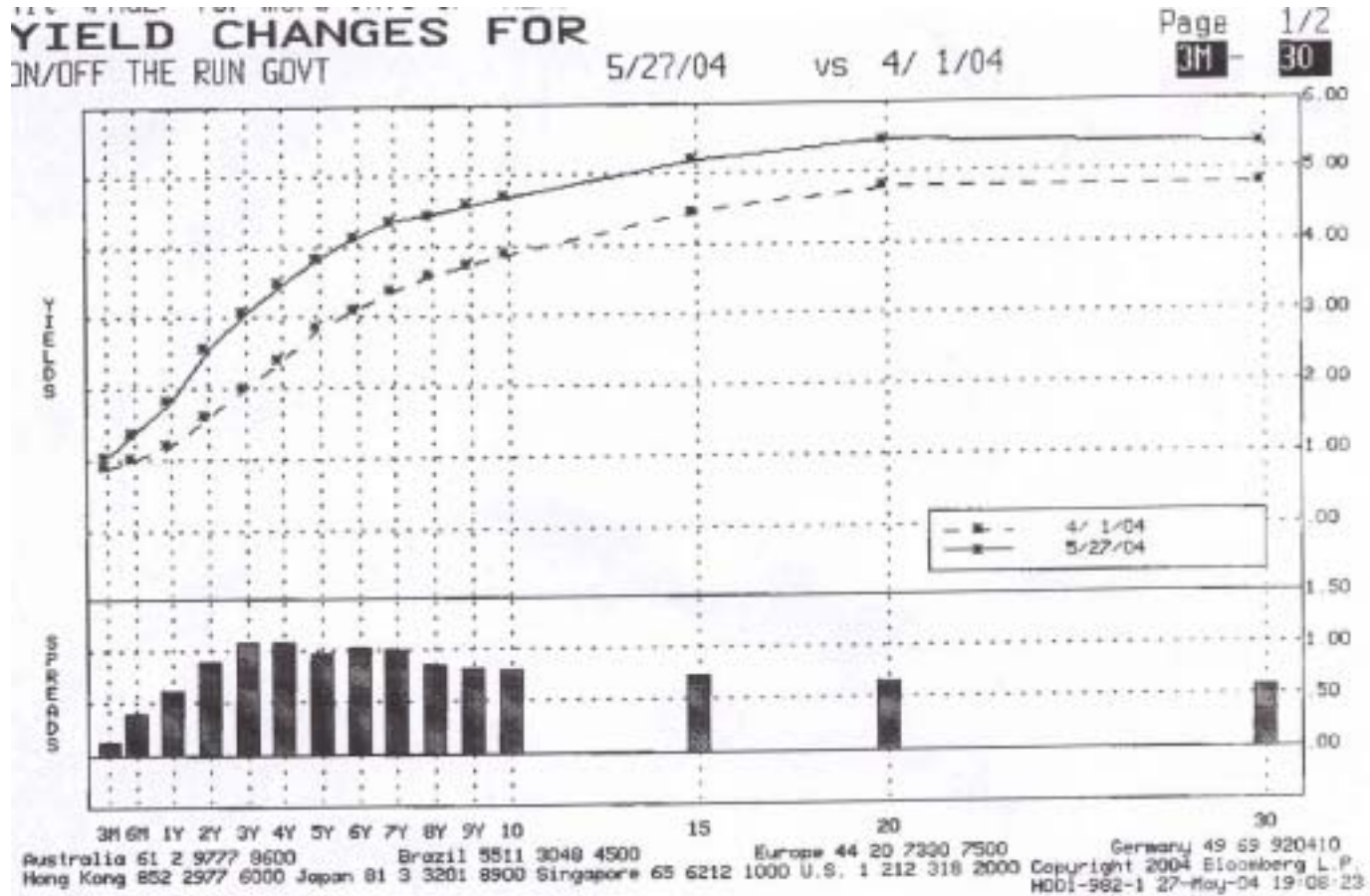
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Different types of curve movements



US Treasury Curves 4/1/04 vs 5/27/04

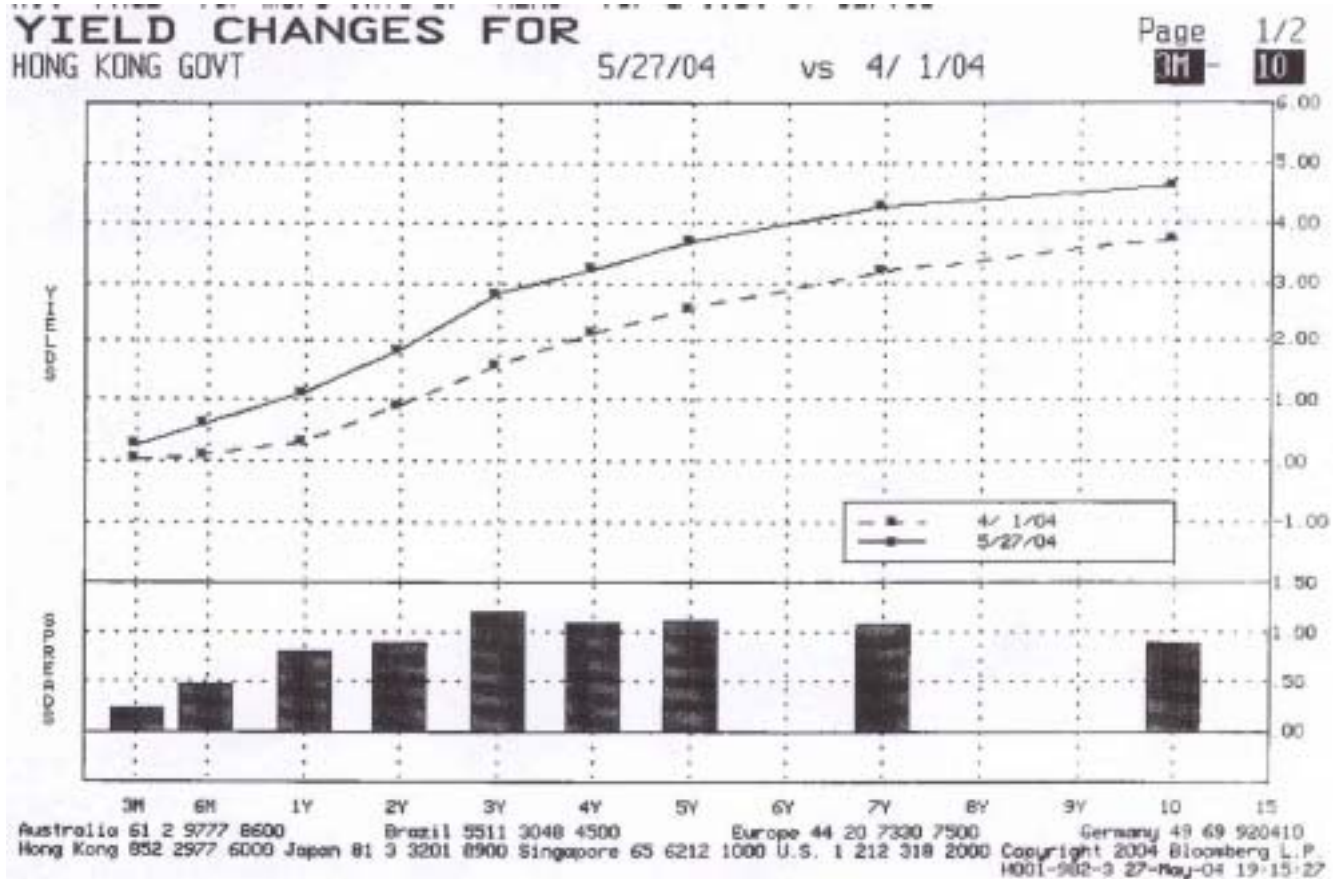


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HK EFN Curves 4/1/04 vs 5/27/04



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Spreads

- Credit spreads (Reuters : bondspreads)
- Risk Premium



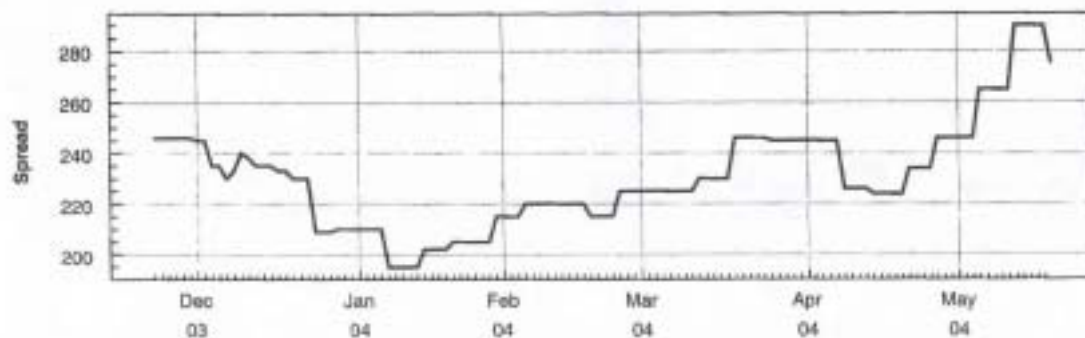
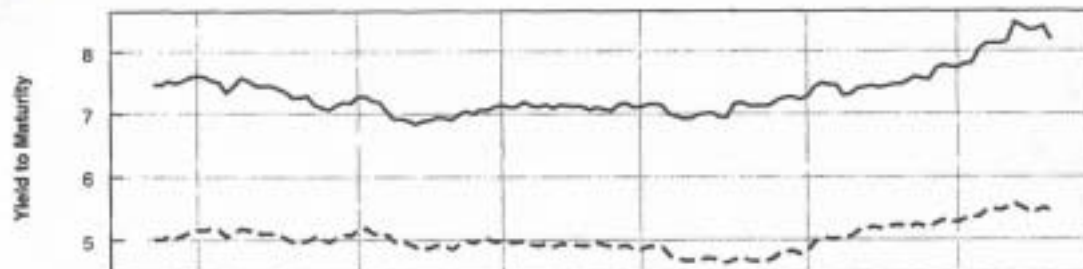
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Example 1: Hutchison 7.45% 11/2033 spread / UST

Historical Data: Daily 11/20/2003 to 5/20/2004



	High	Low	Average	Latest
----- A1: Hutchison 7.45% 11/2033 (Yield to Maturity)	8.500	7.450	7.975	8.433
- - - - - A2: 30 Year Treasury (Yield to Maturity)	5.580	4.643	5.028	5.433
----- ETPSPB(A1-A2)	295.00	108.00	289.72	298.00

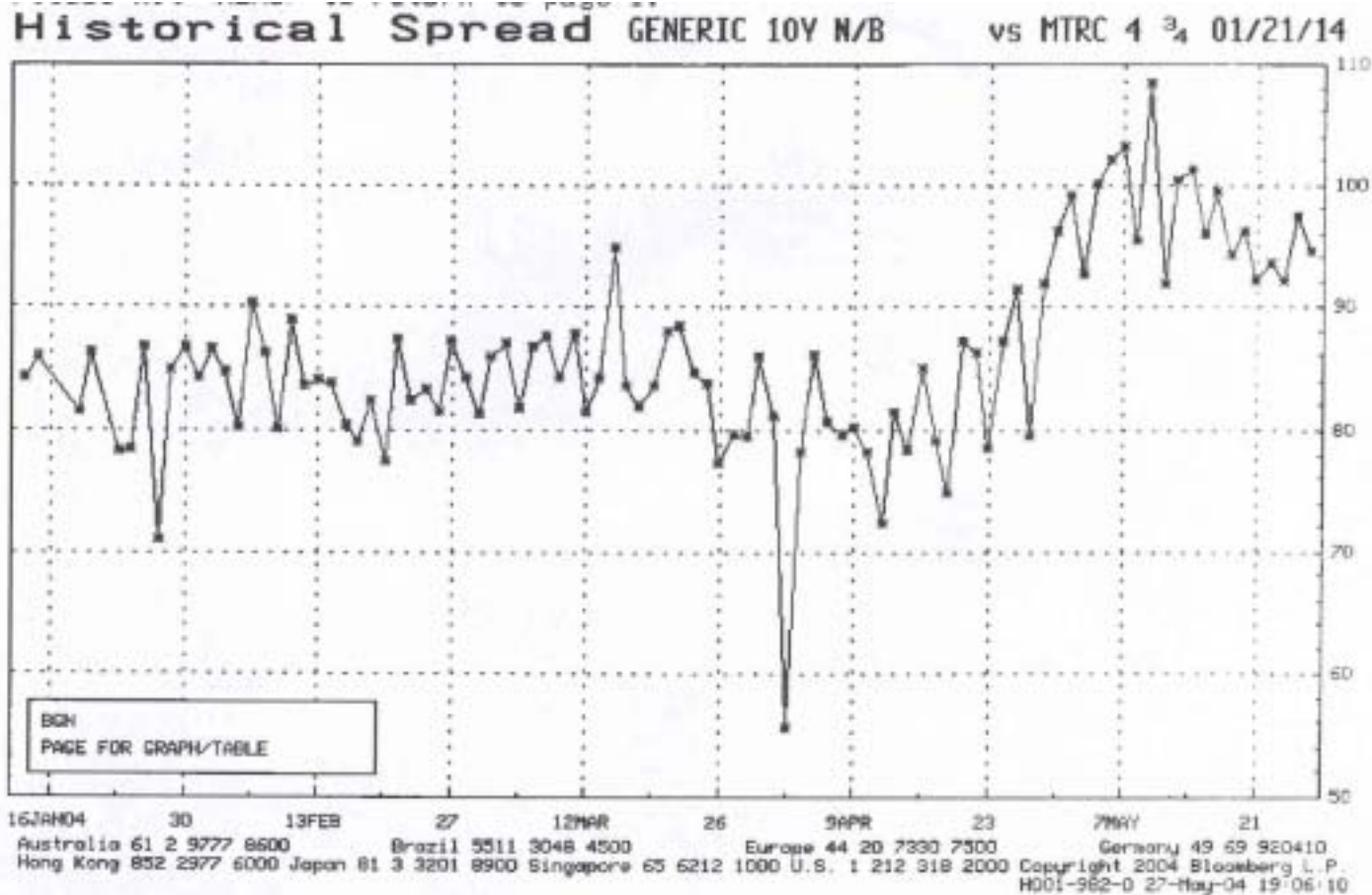


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Example 2: MTRC 4.75% 1/2014 spread / UST



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Structured Products



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債券投資分析 --- 如何選擇債券?

1. 債券產品結構日趨複雜，由最初的一般利率結構發展到現在的複雜結構，以美元和港幣為主。
2. 投資者需要考慮的因素：包括可供投資的金額、可接受的投資年期、貨幣的選擇、自身承受風險的能力、目標收益率水平。
3. 此外，投資者對目前及未來數年的經濟和利率走勢等市場環境應作出一定的判斷，並充分瞭解投資產品中包含的風險和變數。



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債券投資分析 --- 結構性財資產品

高回報的結構性財資產品

1. 票面息率遞加的可提早贖回債券 (Step-up Callable Bond)
2. 定息轉浮息債券 (Fixed-to-Floating Bond)
3. 雙重貨幣債券 (Dual-currency Bond)
4. 與股票掛鈎的債券 (Equity-linked Notes)
5. 與信貸掛鈎的債券 (Credit-linked Notes)



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債券投資分析 --- 結構性財資產品

1. 票面息率遞加的可提早贖回債券 (Step-up Callable Bond)

發行者有權在某一指定日子，提早贖回所有或部分債券(贖回價通常為票面值)。若在指定日子不贖回債券，發行者會提高票面息率。

適用性

- 如果投資者認為利率在債券持有期內會保持現有水平或上升，則適用該債券。

風險

- 如果在債券持有期內利率向下走，發債結構選擇提前終止存款，投資者將面臨再投資時的低利率環境。



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債券投資分析 --- 結構性財資產品

1. 票面息率遞加的可提早贖回債券 (Step-up Callable Bond)

例子：5年期港幣票面息率遞增的可提早贖回債券

本金：港幣5000萬

債券持有期：5年

票面利息：3.50%

計息期：利息每6個月清算一次, 實際天數/365

提早贖回權利：在每個存款支付日，債券發行結構有權利而非義務提前贖回債券，一旦債券決定被贖回，投資者會得回本金；若債券未被贖回，投資者在以後的若干年內享有4.50%的票面息率。



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債券投資分析 --- 結構性財資產品

2. 定息轉浮息債券 (Fixed-to-Floating Bond)

債券的持有期間內前部分為定息，後部分為浮息。

適用性

- 投資者對利率走勢的看法為遠期有上升壓力。

風險

- 投資者對利率走勢的判斷失誤。

例子：5年期的港幣債券，前兩年為定息4%，後兩年票面利率按港幣三個月同業拆息加30個基點確定。



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債券投資分析 --- 結構性財資產品

3. 雙重貨幣債券 (Dual-currency Bond)

債券發行機構支付投資者某種貨幣的票面息率，到期時本金卻以另一種貨幣支付給投資者，兩種貨幣的兌換率在債券發行時定下。

適用性

- 如果投資者想賺取相對較高的票面息率，不介意以另一種貨幣收回本金和利息，且認為匯率在債券持有期內會保持現有水平或掛鈎貨幣升值而有機會賺取彙差，則可選擇該投資。



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債券投資分析 --- 結構性財資產品

3. 雙重貨幣債券 (Dual-currency Bond)

風險

-投資者面臨彙差風險。

例子：美元/日圓債券

投資者收到的利息是日圓(日圓票面值 \times 票面息率)，但債券到期時會收回美元本金。



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債券投資分析 --- 結構性財資產品

4. 與股票掛鈎的債券 (Equity-linked Notes)

債券到期時，持有人收到的本金金額會根據某一種或一籃子的股票而結算。

適用性

- 投資者可賺取相對較高的票面息率。
- 投資者可間接投資於某類或一籃子的股票，降低投資成本。
- 投資者認為掛鈎的股票價格在債券持有期內會保持現有水平或上升。



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債券投資分析 --- 結構性財資產品

4. 與股票掛鈎的債券 (Equity-linked Notes)

風險

-投資者面臨掛鈎股票價格下跌的風險。

例子：股票掛鈎的債券

債券的票面息率要比普通債券的票面息率高，並且與預先設定的相關股票掛鈎。相應的，在到期日發行者可以根據掛鈎股票在到期日的即期價格水平選擇以現金或以一定數量的掛鈎股票支付給債券持有人。



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債券投資分析 --- 結構性財資產品

5. 與信貸掛鈎的債券 (Credit-linked Notes)

這種債券是直接與某一個(或一籃子)機構的償還能力掛鈎。

適用性

- 如果投資者想賺取相對較高的票面息率，並對某一個或一些機構在債券持有期間的償還能力充滿信心，則可選擇該投資。

風險

- 投資者面臨發行機構以及掛鈎機構到期不能償還債務的風險。



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債券投資分析 --- 結構性財資產品

5. 與信貸掛鈎的債券 (Credit-linked Notes)

例子：和黃信用掛鈎債券

渣打銀行作為發行人，發行一張三年期的債券。該債券與和記黃埔的信用掛鈎，投資者享有比三年期和黃債券更高的回報率，如和黃在三年之內發生一些不能償還債務的事項，投資者手上的債券便自動消失了，取而代之，持有和黃的債券。



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Primary Issuance Process



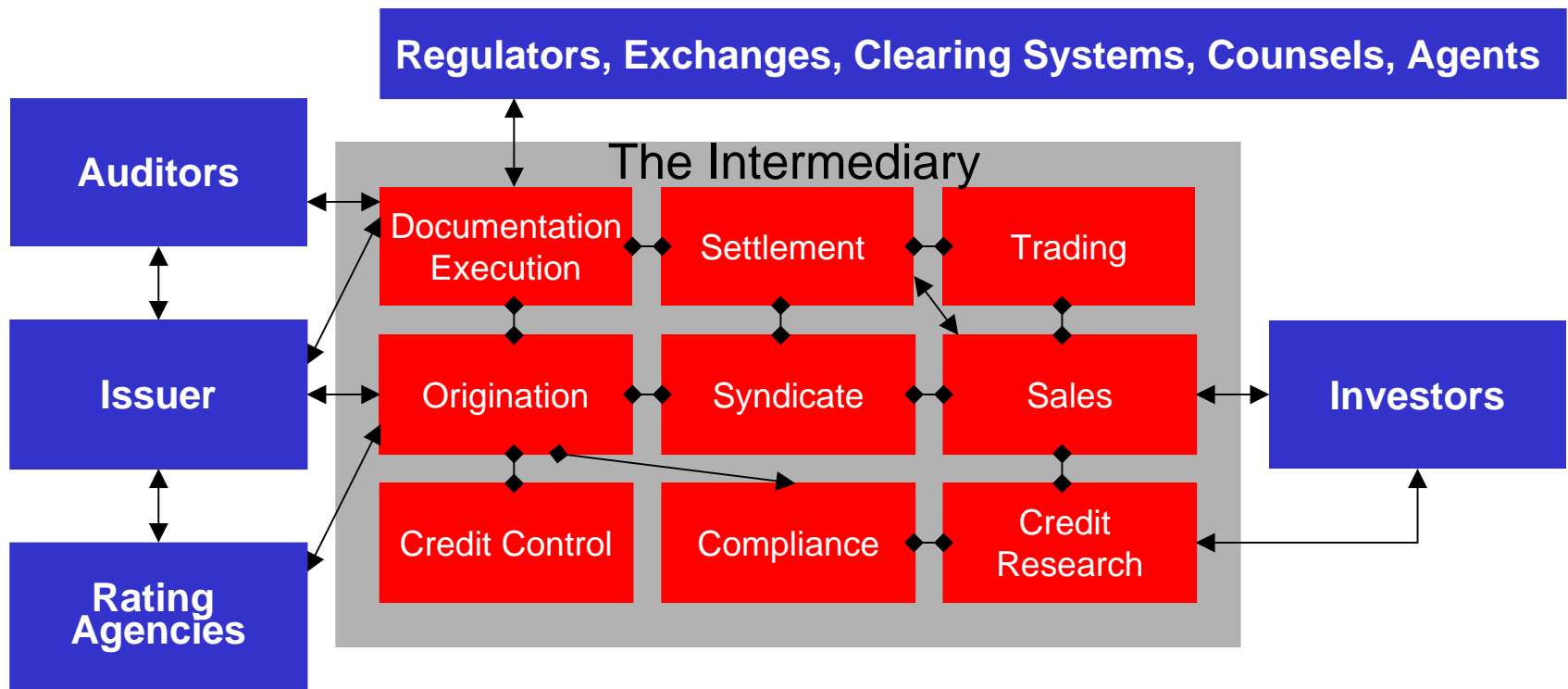
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PRIMARY ISSUANCE PROCESS

Functional Flowchart



Issuers

What do Issuers Want?

- Funding
- Competitive Cost
- Issue Size, Tenor, and Structure
- Diversifying Investor Base
- “Soft” Considerations



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Intermediary

Types of Intermediaries

- Lead managers vs participants
 - Syndication vs private placement
- Investment banks vs commercial banks
 - Underwriting/Distributing vs “booking”
- Global players vs Regional players vs Domestic players
- Retail bond market players



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Intermediary

Roles of the Intermediary

- Advises on structure, regulations, timing and pricing
- Underwrites and distributes
- Balances interests between Issuers and Investors
- Secondary market making and liquidity
- Credit and economic research
- Hedging, credit-linked products
- Publicity
- Market development e.g. Bond indices and E-platforms



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Intermediary

Risks

- Underwriting and reputational risk
- Credit and interest rate risk
- Trading and mark-to-market

Rewards

- Underwriting and Selling fees
- Swaps and other income
- Advisory fees
- League tables and industry awards



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Investors

Institutional investors

Banks
Insurance Companies
Provident Funds
Corporations
Fund Managers
Private Banking

Retail investors

Individuals
Private Banking
Corporations



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Investors

Investment Considerations

- Coupon
- Yield to maturity
- Types of issuer
- Credit rating
- Issue size
- Secondary Market Liquidity
- Tenor
- Portfolio concentration



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Investors

Investment Considerations

Equity

- Upside potential
- Earnings and earnings per share growth
- Efforts to enhance equity value
- Return on equity
- Price/earnings ratio
- Market share enhancement
- Acquisitions

Bond

- Downside risk
- Return on total capital employed
- Cash flow coverage/adequacy
- Quality of earnings, cash flow and capitalization
- Conservative financial policies
- Appropriate competitive position
- Financially responsible growth plans/flexibility

The New Issue Process

Participants

- Lead managers
- Co-lead managers
- Co-managers
- Underwriter
- Bookrunner
- Arranger / Co-ordinator
- Placing Banks
- Legal Counsels
- Auditors/Accountants
- Rating Agencies
- Trustee
- Fiscal agent
- Paying agent / Reference Agent
- Transaction Administrator



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The New Issue Process

- Fee structures
- Syndication (Pot vs Retention)
- Distribution (Public offer vs private placement)
- Underwriting (Book-building vs “hard” underwriting)
- Trading
- Settlement and Clearing
- Documentation and Listing



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New Issue Terms

- Issuer / Guarantor
- Ranking
- Credit Rating(s)
- Maturity
- Issue Size
- Coupon / Spread
- Announcement date
- Pricing / Allotment date
- Closing/Payment Date
- Issue Price
- Re-offer Price
- Yield
- Denomination
- Selling Restrictions
- Governing Law
- Clearing / Listing



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New Issue Terms

- Use of Proceeds
- Force Majeure
- Cross-default
- Negative Pledge
- Covenants (Financial / Others)
- Step-ups / Callable
- Form (Definitive / Global)
- Taxation / Stamp Duty
- Stabilisation



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New Issue Documentation

- Invitation fax

- Commitment fax

- Allotment fax

- Red Herring

- Prospectus/OC



- Subscription Agreement

- Trust Deed

- Fiscal agency agreement

- Paying agency agreement

- Global Note

聲明

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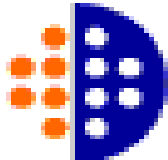


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