



Sometimes a gamble pays off

Sultan Sooud Al-Qassemi on how some made profits out of the negative headlines on Dubai World.

Every once in a while, a person may be tempted to take a risk and buy into an investment that may or may not prove to be a wise decision. I have always tried to be a conservative investor, steering clear of risky endeavours. Recently, however, I watched how a friend's gamble paid off. It was late November and Dubai World (DW) had just announced that it would be requesting a standstill from creditors. The entire world went into a spiral that was perpetuated by the global media. There was a sense of desperation and opacity.

My friend is an educated thirty-something executive who took a giant leap of faith and decided to buy the bonds when they had gone down in value to 44 cents. Although I do not know the amount of money he invested, I do know that he was on a high for a number of days when the bond payment was announced. It was a big risk. He had not borrowed the money, though, and it was money that he could afford to risk.

According to this individual, it was more an external factor that prompted him to invest. He had studied the composition of the DW creditors and realised that a major bondholder was New-York-based hedge fund QVT Financial LP. QVT has previously led creditor committees that have successfully lobbied to strip down assets of firms that filed for bankruptcies in which it was a creditor, such as former New-York-based financial services company Refco.¹

QVT, a US\$8.5 billion firm, was undoubtedly the most active of DW's bondholders, going as far as organising an investor conference call to discuss picking a law firm to represent bondholders and a possible law suit that

would attempt to seize assets of DW if the bonds weren't paid.²

In fact, QVT's 25 per cent holding in the bond was exactly the amount that would have allowed it to disrupt any agreement that DW could have reached with bondholders since, according to the terms of the bond, 75 per cent of its holders had to agree to the restructuring.³

On December 8, a source from the foreign bondholders that QVT gathered told Reuters: "We sent a letter last week saying we do not accept the standstill, and we expect to be paid."⁴

The logic of my friend was that if QVT had done it before successfully, then there is a strong chance that they would be able to pull it off once again in the UAE, especially because DW subsidiaries hold assets in dozens of countries around the world, including the US.

This is a case of being careful what you wish, as you might actually get it. The UAE has been trying very hard over a number of years to attract and invite international money to invest in the country's projects, but it wasn't ready for the international money mentality that comes with it. It would have been unlikely for UAE investors to threaten suing a Dubai government-owned investment firm out of respect, but international players operate on a different level altogether.

The truth is that after all of the agony that we went through in the UAE thanks to DW's mismanagement, there was a strong argument to proceed with the debt standstill and offer the creditors a take it or leave it discount. It is clear now, though, that the restructuring of the US\$60 billion DW debt will proceed for two very good reasons. It would be

very challenging for DW to come up with this kind of money to pay back future instalments. The government of Dubai, DW's owner, is probably more concerned with financing strategic assets like Emirates airlines' massive airplane order than it is with the DW's QE2 liner.

The other major development was the introduction by the Dubai government of new bankruptcy laws in the DIFC that would make it easier for DW's debt to be restructured in local courts. A tribunal to adjudicate on potential claims against the firm has also been set up.⁵ This bankruptcy court was established for a reason.

I do not expect that all creditors will be so pleasantly surprised in the 11th hour in the future. Also, officials told the media that the scenario of a last-minute Abu Dhabi bailout should not be seen as a precedent for other state-owned firms' debt.⁶ *The Financial Times* said in an editorial that the way to make money in Dubai is to back sound businesses – not just ones that are also being backed by the state.⁷ In this case, my friend's gamble paid off. But keep in mind that no matter what risk-takers tell you, it was a lucky move in a dangerous game of Russian roulette. Long-term sound investments remain a much better strategy.

Footnotes

- [1 http://online.wsj.com/article/BT-CO-20091201-714132.html](http://online.wsj.com/article/BT-CO-20091201-714132.html)
- [2 http://www.zawya.com/story.cfm/sidZW20091127000074/](http://www.zawya.com/story.cfm/sidZW20091127000074/)
- [3http://www.theational.ae/apps/pbcs.dll/article?AID=/20091127/NATIONAL/711279794](http://www.theational.ae/apps/pbcs.dll/article?AID=/20091127/NATIONAL/711279794)
- [4 http://uk.news.yahoo.com/22/20091208/tbs-uk-dubai-nakheel-debt-4210405.html](http://uk.news.yahoo.com/22/20091208/tbs-uk-dubai-nakheel-debt-4210405.html)
- [5 http://www.reuters.com/article/idUSLDE5BE1C620091215](http://www.reuters.com/article/idUSLDE5BE1C620091215)
- [6 http://www.ft.com/cms/s/0/e0aac7a2ea76-11de-a9f5-00144feab49a.html?catid=6&SID=google](http://www.ft.com/cms/s/0/e0aac7a2ea76-11de-a9f5-00144feab49a.html?catid=6&SID=google)
- [7 http://www.ft.com/cms/s/0/8147737a-e8e4-11de-a756-00144feab49a.html](http://www.ft.com/cms/s/0/8147737a-e8e4-11de-a756-00144feab49a.html)

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