

Turning a new leaf

Few borrowers can lay claim to the turnaround story Colombia told in 2001. Emerging from a severe recession and a series of rating downgrades, the sovereign successfully diversified its funding base and wooed back those investors it had lost. The Republic of Colombia is IFR's Latin American and Sovereign Borrower of the Year.

Despite the looming threat of an Argentine default, Colombia managed to dip into all three major currencies (yen, dollars and euros), skilfully tap both the international and domestic markets, smooth amortisation humps and please investors with some of the best performing emerging market assets this year.

Between November 14 2000 and November 13 2001, the Colombian composite of the EMBI+ tightened by 216bp compared with a 261bp widening for the overall index. "It was good to be long Colombia this year," said Dario Pedrajo, portfolio manager at Biscayne Americas, which bought into Colombia's 2006 and 2010 issues.

By November 15, the sovereign had raised around US\$3.7bn, completed a US\$2.8bn local exchange, wrapped up 2001 external financing needs and only had about US\$700m left for 2002.

That is a far cry from the bleak financing landscape at the beginning of the year. Coming out of 2000, the Colombian government was still grappling with the fallout of a blundered privatisation programme, a series of rating downgrades and the tail-end of the country's worst recession in recent history.

Against that backdrop, it had to raise US\$2.7bn in the external market for 2001 as the country prepared itself for 2002 presidential elections. International success was also important as it assuaged local investor fears and thus kept a lid on interest rates.

However, regaining credibility among foreign investors was not necessarily an easy task. High-grade holders of Colombian debt had suffered after it

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lost its much-coveted investment grade rating in 1999, and other dollar investors had been burnt after political battles blew out debt spreads in 2000.

Known for his fondness for military history, head of public credit Juan Mario Laserna mapped out a strategy that allowed Colombia to remedy past mistakes and set a course for smoother times ahead. As a result, the country is now being compared with the Mexico of the mid-1990s, which proactively created a debt profile that is now the envy of the region.

"Laserna came to office when Colombia was going through a radical shift of perception and adjusted well to what the market was showing him," said a New York-based debt capital markets official. "He stood back and asked: 'What can I do in a proactive way?' and set the course."

Laserna set his sights on building a euro curve, luring back investment-grade buyers, a proactive liability strategy, decoupling financing forays from the political noise in and outside the country and wrapping up 2001 – and a good portion of 2002 – funding needs before volatility from presidential elections started.

He began by making a conscious effort to limit Colombia's borrowing in the dollar market. This strategy not only diversified a funding base overly reliant on the dollar market, but it also helped disgruntled investors recoup some of their losses. "In the long run bond prices are determined by fundamentals, but in the short-term there are clear supply and demand considerations," said Laserna. "By limiting supply of US dollar paper with Colombian risk, we helped tighten spreads."

Colombia started the year with a E250m seven-year issue in January through BNP Paribas and Deutsche Bank. Thanks to the renewed strength of the euro and falling interest rates, the leads were able to lure retail investors, who had traditionally shied away from anything longer than four years.

The deal was priced to yield 11.55%, or 60bp through the dollar curve, standing in stark contrast to a five-year launched in October 2000, which became the first Latin American euro bond to price wide of the dollar curve.

The idea was to form a beach-head with small transactions and then reopen them to at least US\$500m in size. That way deals would meet JP Morgan's criteria for inclusion in its euro-denominated EMBI+. "We tried to create and reopen bonds up to a

specific amount so that they would become liquid and well known in Europe," said Laserna.

Colombia reopened the 2008 twice, once in March for another E200m, again through BNP and Deutsche, and once for E200m through CSFB. Each time yields came in tighter than previous sales. The March reopening was priced to yield 11.14%, and bettered by the June issue coming at 11.12%.

The euro forays were topped off with the long-awaited 10-year bond through ABN AMRO and UBS Warburg.

Talk of a mega exchange from Argentina and more European and US rate cuts helped pricing, which came at a decent 40bp over the sovereign's outstanding 2008. Apart from European accounts, US buyers were also attracted by the bond's cheapness, given that Colombia's euro curve was trading wide to its dollar counterpart.

As the Republic built its euro curve, noise surrounding its expected US\$1.2bn–\$1.3bn World Bank guaranteed deal grew louder. The investment-grade deal lured back US accounts still stinging from Colombia's loss of its investment-grade.

In the works since May 2000, the World Bank transaction was originally designed as a temporary crutch in case Colombia had trouble accessing the international market. "Investors were putting everyone in the same bucket and the strategy was to differentiate yourself. They needed US\$2bn and wanted to get most of it out of the way," said a banker on the deal.

The first issue on April 2 was a relatively small US\$750m, but the sovereign returned a month later with a US\$250m reopening and wrapped up most of its 2001 external funding needs. "The transaction was able to reopen the dollar market for Colombia and since then we have been able to advance quickly into next year's financing," said Laserna.

Learning from Argentina's experience with a similar structure in 1999, leads Goldman Sachs and JP Morgan wanted to ensure investors enjoyed much more liquidity this time round. They did this by issuing the 10-year/six-year average bond in one tranche versus Argentina's illiquid multi-tranche bond.

On November 13, the paper ended the day at 104.75 at a yield of 9.26%. That compares with an issue price of 99.847 and a yield of 9.786% on April 2 when the sovereign completed the first US\$750m deal. The US\$250m reopening on May 3 was priced at 98.30 to yield 10.002%, but traded up to 99.60 the following day.

Dollar deals

The World Bank deal set the stage for other dollar deals. Colombia returned on May 30 with a US\$400m five-year. Morgan Stanley won the mandate on May 25 and priced the deal to yield 10.546%, or 550bp over US Treasuries, luring a flock of asset managers. It then reopened the 2006 June 12 by a further US\$100m to yield 10.369%. By November 14, the bond tightened to yield 9.66%, a spread of 440bp.

During its dollar forays, the sovereign won praise for its sensible attitude toward pricing, leaving investors content to return for more. "They have been reasonable about pricing their issues so that they trade well," said Pedrajo. "They haven't been overly aggressive on pricing, although they could have brought them out at smaller premiums."

The 2006 was followed by a US\$325m reopening of the 11.75% due 2020, despite scepticism about the sovereign's ability to go so far along the curve. Leads Merrill Lynch and SSB built a US\$550m book in just over three hours. The deal launched on August 14 saw about 59% of the paper placed among US accounts and among local players (30%), who also became big buyers of dollar paper this year.



Juan Mario Laserna

After rumours of a reopening of its 2009s, the Republic priced on November 15 a US\$500m bond due 2012, which generated orders of US\$1.8bn. The deal left the borrower with only US\$700m to garner for 2002 and another dollar bond along the yield curve that it could easily reopen.

While wrapping up its external financing needs, Colombia also focused on domestic liability management strategies. Concerned about its heavy domestic amortisation schedule in 2002, the sovereign and lead manager SSB put together a US\$2.4bn local exchange, which also included about US\$199m in new money.

Bondholders were allowed to swap outstanding Treasuries for three, five and 10-year paper. The deal helped pension funds gain comfort with longer-dated paper, which resulted in their migration to longer-dated paper, said bankers. But most importantly, it allowed for lower new issue rates and amortisation payments were cut by 22.5% this year, 34.1% in 2002, 40% in 2003 and 17% in 2005.

"At the end of the day, Colombia no longer has an amortisation or maturity debt profile problem," said Michael Corbat, head of Latin American debt capital markets at SSB.

Paul Kilby