

SHARED RISK & REWARD

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DANA GAS SUKUK RESTRUCTURING

Dana Gas, the Emirati-based oil & gas company, hired Blackstone to help it restructure its sukuk which has dropped significantly in value on fears the company will not be able to convert its growing receivables from Egypt into cash to repay investors. The yield has also risen along with the receivables growth from the company's operations in the Iraqi region of Kurdistan, where oil companies with contracts with the regional government are under pressure from the Iraqi central government, which says the contracts are invalid.

In March, oil giant ExxonMobil announced it was freezing its contract with the regional government of Kurdistan, after pressure on it because it also operates in southern Iraq. Dana Gas has not announced any changes to its own contract with the regional government, but fears of legal changes that affect it will likely to remain just behind the Egyptian receivables in investors' minds.

However, the restructuring environment could be markedly different for sukuk issuers now that Arcapita has been pushed into bankruptcy by funds that held its murabaha debt. The entry of these investors into the distressed market limit the ability of issuers to force hidden write-downs on their creditors

through 'extend-and-pretend' debt deals. While these deals promise full repayment later in the future, in reality, they are forcing investors to take a net present value write-down.

Investment banking firm Exotix is quoted by Bloomberg saying that the principal write-down on the Dana Gas sukuk, which when paired with a 2-3 year maturity extension, would reduce the yield-to-maturity down to zero from current prices, suggesting that if the principal reduction is in the cards, it has yet to be fully priced into the current market price.

What is significant with the prospects for a restructuring of sukuk that includes an explicit principal write-down is that it should make it easier for investors to reference market prices in determining the likely principal write-down for distressed sukuk. One of the largest risks in many countries in the GCC for sukuk investors is that insolvency laws are underdeveloped and untested and the sovereign is present in many of the distressed debt negotiations. Dana Gas is a private company, so the outcome of the restructuring, if it proceeds in a way that treats investors fairly, could help to clarify the expectations for investors in non-sovereign sukuk.

Until next week,
Blake Goud

My Reading List

- [K&L Gates, Islamic Finance Dispute Resolution \(pdf\)](#)
- [Deloitte, Risk Intelligence in Islamic Finance](#)

Blog Posts This Week

- [Egypt as a microcosm of debate in Islamic finance](#)
- [Arcapita bankruptcy update](#)
- [Too few sukuk!](#)
- [Arcapita's portfolio company profine sold to private equity firm Hidden Peak Capital](#)

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