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China Stimulus Spending Boosts Distressed Debt Recovery Rate

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By Tom Kohn

April 29 (Bloomberg) -- China's economic stimulus measures are helping distressed debt investors recover more from defaulting companies, according to Joshua Kurtzig, executive vice president at Gao Fei Consulting in Beijing.

"Recovery rates have picked up substantially in the past two to three months," Kurtzig said at a conference organized by FinanceAsia and AsianInvestor in Hong Kong today. "Companies seem to be more willing to pay. In the previous six months they were flat."

China's government in November removed lending restrictions and unveiled a 4 trillion yuan (\$585 billion) stimulus package, including spending on roads and railways, as well as support for 10 key industries. Premier Wen Jiabao told banks to boost credit by at least 5 trillion yuan in 2009 to help fund the stimulus and prevent an economic slide.

Chinese banks, mostly government-controlled, extended a record 4.58 trillion yuan of new loans in the first quarter, more than triple the same period a year earlier.

Bonds are termed distressed when they yield at least 10 percentage points more than similar-maturity government notes. Distressed debt managers typically seek to profit by buying assets at below their face value, providing high-yield financing that could give rights to equity opportunities to restructure companies before selling them at a higher value.

Detailed knowledge of borrowers is the key to recovery success, said Kurtzig, whose company has advised on more than 50 distressed deals worth \$3.2 billion, according to its Web site.

"A lot of distressed debt investors are relying on yield spreads, but unless you've been there to really kick the tires you're flying blind," he said.

The annualized default rate for March was an "eye-popping" 19.4 percent, according to Goldman Sachs Group Inc. Recovery rates are below the bank's forecast of 12.5 percent, Goldman analysts said in an April 24 report.