Chinese companies have come up with an alternative: raise money overseas. Chinese firms have issued some $52.6 billion worth of U.S. dollar bonds in the first quarter, up 72% from the previous three months, according to Dealogic, and nearly five times the amount from the first quarter of 2016. The surge has come as Beijing has tightened curbs on capital outflows, making it harder for Chinese companies to use their yuan earned domestically overseas. Those companies looking to make acquisitions abroad, or even just pay back existing dollar debt, are increasingly turning to the U.S. dollar markets to raise funds.

“If a company is considering an overseas acquisition and looking for financing, even if it is sitting on billions of [yuan] onshore, it may struggle to transfer [that money] offshore to pay for it,” said David Yim, head of debt capital markets for Greater China at Standard Chartered in Hong Kong.
Some bankers say much of the demand for Chinese dollar bonds is coming from Chinese investors who have stowed money overseas. The pent-up demand for those bonds is raising concerns that some riskier Chinese firms are able to issue offshore debt too cheaply, at yields that aren’t far enough above those for safer, blue-chip companies.

“Spreads [for Chinese high-yield debt] are very narrow relative to investment grade, so the compensation isn’t a good one,” said Andy Seaman, London-based chief investment officer at Stratton Street Capital, which manages $1.3 billion of assets.

Some Chinese companies are tapping the dollar debt market because Beijing officials are curbing fundraising at home in certain overheated sectors such as real estate—a reversal from the past couple of years, when regulators made it cheap and easy for such borrowers to get funding. Domestic bond issuance in the first quarter fell 64% from a year ago to $91 billion, according to Dealogic.

In mid-March, one of China’s largest and most indebted property developers, China Evergrande Group, priced three dollar bonds in Hong Kong within a week for a total of $2.5 billion, which the company says it will use to refinance existing debt.

Evergrande’s latest issues include a $500 million, three-year bond with a 7% coupon; a $1 billion, five-year bond with an 8.25% coupon; and a $1 billion, seven-year bond with a 9.5% coupon. While those yields look “punchy,” they are still too low considering Evergrande’s junk rating, said Rick Mattila, international head of market strategy at MUFG Securities Asia Ltd. in Hong Kong. An Evergrande spokeswoman declined to comment.

In the near term, the yuan’s rise against the dollar will make it easier to pay back dollar debt: The yuan is up 0.9% this year versus the greenback after sliding 6.6% in 2016. Longer term, however, the outlook is less certain, bankers say.

Some bankers say the fact that more than half of the first quarter’s dollar issuance by Chinese companies has come from financial institutions could herald a rise in deal activity; banks need dollars to lend out to companies that are buying dollar assets. One of the biggest deals was a $2 billion bond issued by ICBCIL Finance Co., a unit of Industrial & Commercial Bank of China, which priced on Thursday.

Meanwhile, some big Chinese companies are raising money because they are looking to refinance as bonds come due this year and in 2018, or to meet other obligations.

“Capital controls have made it harder for Chinese companies to move funds out of the country for business purposes, so many are borrowing offshore instead,” said Rita Chan, head of China debt capital markets at Goldman Sachs.

In mid-March, Beijing-based Lenovo Group Ltd., the world’s largest personal-computer maker by shipments, issued five-year bonds worth $500 million with a 3.875% coupon and $850 million of 5.375% perpetual bonds that have no maturity date. On Friday, the company added $150 million to its perpetual-bond issue, bringing the total to $1 billion.
In 2014, Lenovo agreed to buy Motorola Mobility Holdings LLC from Google Inc. for $2.91 billion. That price tag included a $1.5 billion, three-year promissory note to Google. Lenovo’s latest bond issues help the company refinance that note and will go toward repaying Google for the acquisition. A Lenovo spokeswoman declined to comment.

**Corrections & Amplifications**

One of the biggest deals of the quarter was a $2 billion bond issued by ICBCIL Finance Co., a unit of Industrial & Commercial Bank of China, which priced on Thursday. An earlier version of this article incorrectly stated thatIndustrial & Commercial Bank issued the bond.

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*Appeared in the Apr. 03, 2017, print edition as ‘Facing Outflow Curbs, China Firms Sell Bonds Abroad.’*