



MOZAMBIQUE RESEARCH H NOTE

Outlook for the Empresea moçambicana de atum (EMATUM) bond - update on the 'fishy' tale

1) Although the authorities in Maputo have managed to keep their cards very close to the vest, it is evident that they have **no choice but to radically restructure the current amortization schedule**.

At a mere 3.1 months' import cover, their **external reserves are simply unable to handle the USD 206 million in annual scheduled debt-service** – a point underlined by the Metical's recent performance.

2) As we argued in a note published over the summer, the problem with the bonds – apart from the gross misappropriation of the relevant proceeds – is that the bunched principal repayments fall due years before the major export revenues anticipated from their offshore gas projects are projected to materialize.

3) If Rhombus were advising the Mozambican authorities, we might **recommend an 12³/₄% coupon, and a 2¹/₂-year grace period, with principal to be repaid in 25 ESAI, commencing Sept 2019** - i.e. an average life of approximately 9 years. (*See schedule of restructured cash-flows in panel on next page*)

★ For the issuer, **the restructured instrument would slash 2016 and 2017 debt-service burden in half**.

★ From an investor stand-point, the new bonds would entail significantly less credit risk than the ill-conceived original, and so could command **a credit spread as low as 1,350 b.p., implying an initial price target of approximately 80.5 cents**.

4) With barely a week to go before the March 11th coupon date, the fact that no proposal has been presented might be **interpreted as implying that the issuer has decided against a restructuring deal** – perhaps in the expectation of financial support from the IMF.

We do not share this view.

5) In a memorandum of economic and financial policies (MEFP) attached to their Letter of intent¹, the Mozambican authorities specifically notified the Fund last December that, **"Work is ongoing to restructure the EMATUM debt."**²

In our view, **the question is, not whether, but how soon a restructuring proposal materializes**.

¹ i.e. In support of a request for an 18-month standby credit facility approved by the IMF Executive Board on Dec. 18, 2015.

² See Paragraph 32 of MEFP, reproduced in [Mozambique country report No. 16/9, published by IMF on Jan. 8, 2016](#).

EMATUM - Potential restructuring		Issue date	Mar-16
Face	82.000	1st coupon	9/15/2016
		Maturity	9/15/2031
Fixed-rate		Grace ends	9/15/2019
Coupon	12.75%	Amortizns.	25
USTR	1.625%	Clean px	66.032
Risk premium	1350	Accrued	<u>0.000</u>
YTM	15.125%	Par value	80.526%

Date	Principal	Amortizn	Coupon	Cash Flow
Mar-16				0.000
Sep-16	82.000	0.000	5.228	5.228
Mar-17	82.000	0.000	5.228	5.228
Sep-17	82.000	0.000	5.228	5.228
Mar-18	82.000	0.000	5.228	5.228
Sep-18	82.000	0.000	5.228	5.228
Mar-19	82.000	0.000	5.228	5.228
Sep-19	82.000	3.280	5.228	8.508
Mar-20	78.720	3.280	5.018	8.298
Sep-20	75.440	3.280	4.809	8.089
Mar-21	72.160	3.280	4.600	7.880
Sep-21	68.880	3.280	4.391	7.671
Mar-22	65.600	3.280	4.182	7.462
Sep-22	62.320	3.280	3.973	7.253
Mar-23	59.040	3.280	3.764	7.044
Sep-23	55.760	3.280	3.555	6.835
Mar-24	52.480	3.280	3.346	6.626
Sep-24	49.200	3.280	3.137	6.417
Mar-25	45.920	3.280	2.927	6.207
Sep-25	42.640	3.280	2.718	5.998
Mar-26	39.360	3.280	2.509	5.789
Sep-26	36.080	3.280	2.300	5.580
Mar-27	32.800	3.280	2.091	5.371
Sep-27	29.520	3.280	1.882	5.162
Mar-28	26.240	3.280	1.673	4.953
Sep-28	22.960	3.280	1.464	4.744
Mar-29	19.680	3.280	1.255	4.535
Sep-29	16.400	3.280	1.046	4.326
Mar-30	13.120	3.280	0.836	4.116
Sep-30	9.840	3.280	0.627	3.907
Mar-31	6.560	3.280	0.418	3.698
Sep-31	3.280	3.280	0.209	3.489

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