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MOZAMBIQUE FLASH-NOTE

A Fishy tale - outlook for the Empresea mocambicana de Atum (EMATUM) eurobond

Issued during the halcyon period of 2012/2013, when the markets were awash with QE3 liquidity, the deal to finance a fleet of trawlers for the Republic of Mozambique had to be upsized by a factor of 70% to accommodate pent-up investor demand. Despite the numerous red-flags surrounding the transaction, no credit concerns were triggered until last week.

1) The week-end edition of the publication *Noticias* contains excerpts of Finance Minister Maleiane's remarkable statement to the National Assembly on Thursday 19th. Among the tidbits reported:

- Public loans, whether already on the books or yet to be negotiated, "need to adjust to the country's realities", so as to avoid become a constraint on the socio-economic development of the Mozambican people.
- The EMATUM bond's five-year ***amortization period is "too short"*** and the L+600 b.p. ***interest rate "too high"***.[1]

2) On Saturday, former prime minister and current board chairman of Barclays Mozambique, Luisa Diogo weighed in, supporting the Minister's position. While acknowledging that the EMATUM liability was now an obligation of the State by virtue of the sovereign guarantee, she denounced the terms of the deal as impracticable, declaring that *"The debt must be restructured."* [2]

3) The problem is that ***the infamous fishing fleet has been an operational disaster***, generating gross revenues of a measly USD 3 million last year. This is orders of magnitude less than the USD 200 million that fisheries minister Victor Borges confidently predicted in his briefing to the National Assembly ahead of the 2013 transaction. Worse, ***USD 200 million is roughly the annual debt service load (interest and principal amortization) on the EMATUM bond*** [3] that the State will almost certainly be called upon to shoulder, as guarantor.

4) Unfortunately, this is happening at a time when the authorities are notionally committed to a ***fiscal consolidation effort aimed at cutting the deficit from last year's 10.6% level to the 2015 target of 7.5%*** (as spelled out in the Memorandum of Understanding submitted in connection with the 3rd Review under Mozambique's PSI with the IMF)[4]. This might explain the Fund's alleged support for the idea of restructuring the EMATUM bond.

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[1] As reported in *"Segundo Adriano Maleiane: Ajustar empréstimos à realidade do país"*, in *Noticias*, segunda-feira, 22 Junho 2015.
[2] As quoted in *'Dívida da EMATUM é muito pesada'*; *O Pais*, Domingo, 21 Junho 2015 | 17:16.
[3] For the relevant terms and conditions see *Bond description* page on *Bloomberg* for CUSIP # XS 096935141450.
[4] See *"IMF Staff Concludes Review Mission to Mozambique, Calls for Fiscal Prudence, More Inclusive Growth, and Greater Public Investment Transparency"*, IMF Press Release No. 14/502, November 5, 2014.
[5] As the IMF pointedly observes, *"[S]ubstantial natural resource revenues are 6-10 years away"*; op. cit.

5) It is also worth noting that the instrument whose face value is equal to 5% of Mozambique's GDP, ***will begin maturing before export revenues from the offshore gas mega-project have begun to materialize***[5]. In the interim, the country is running a current account deficit equivalent to more than 40% of GDP.

6) Clearly, this chronological detail failed to trouble the buyers who snapped up the bond, showing equal disregard for the prospectus' conspicuous lack of detail on use of proceeds[6].

Under the circumstances, ***it would seem to be in the interest of both creditors and the issuer to reschedule the bond*** so that the principal amortization payments fall due after the onset of significant USD inflows from gas exports - i.e. 2025 and beyond, as illustrated in Table 2.

[6] In particular, the fact that the cost of the 24 fishing vessels and 6 patrol boats to be purchased from *Constructions Mécaniques de Normandie* (France) amounted to only USD350 million, the lion's share of the issue's USD 850 million proceeds being earmarked for sundry expenses as spare parts, training and security.

TABLE 1 - *Scheduled cash-flows*

EMATUM eurobond			Issue date	Sep-14
Face	100		1st coupon	3/15/2015
Current	6.305%		Maturity	11/20/2020
Swap rate	0.90%		Grace ends	9/15/2015
Spread	6.00%		Amortizns.	11
All-in	6.90%		USTR	1.000%
Clean Px	88.500			
Accrued	2.434		YTM	11.583%
Full px	90.934		Spread	1058

Date	Principal	Amortizn	Coupon	Cash Flow
Jun-15				-90.934
Sep-15	100.000	9.091	3.153	12.243
Mar-16	90.909	9.091	3.136	12.227
Sep-16	81.818	9.091	2.823	11.914
Mar-17	72.727	9.091	2.509	11.600
Sep-17	63.636	9.091	2.195	11.286
Mar-18	54.545	9.091	1.882	10.973
Sep-18	45.455	9.091	1.568	10.659
Mar-19	36.364	9.091	1.255	10.345
Sep-19	27.273	9.091	0.941	10.032
Mar-20	18.182	9.091	0.627	9.718
Sep-20	9.091	9.091	0.314	9.405

TABLE 2 - *Restructured cash-flows*[7]

EMATUM - Potential restructuring		Issue date	Sep-14
Face	100	1st coupon	3/15/2015
		Maturity	9/15/2030
Fixed-rate		Grace ends	9/15/2018
Coupon	**6.25%**	Amortizns.	25
USTR	2.350%	Full px	92.247
Risk premium	550	Accrued	2.413
YTM	7.850%	Clean Px	89.834

Date	**Principal**	**Amortizn**	**Coupon**	**Cash Flow**
Jun-15				0.000
Sep-15	100.000	0.000	3.125	3.125
Mar-16	100.000	0.000	3.125	3.125
Sep-16	100.000	0.000	3.125	3.125
Mar-17	100.000	0.000	3.125	3.125
Sep-17	100.000	0.000	3.125	3.125
Mar-18	100.000	0.000	3.125	3.125
Sep-18	100.000	4.000	3.125	7.125
Mar-19	96.000	4.000	3.000	7.000
Sep-19	92.000	4.000	2.875	6.875
Mar-20	88.000	4.000	2.750	6.750
Sep-20	84.000	4.000	2.625	6.625
Mar-21	80.000	4.000	2.500	6.500
Sep-21	76.000	4.000	2.375	6.375
Mar-22	72.000	4.000	2.250	6.250
Sep-22	68.000	4.000	2.125	6.125
Mar-23	64.000	4.000	2.000	6.000
Sep-23	60.000	4.000	1.875	5.875
Mar-24	56.000	4.000	1.750	5.750
Sep-24	52.000	4.000	1.625	5.625
Mar-25	48.000	4.000	1.500	5.500
Sep-25	44.000	4.000	1.375	5.375
Mar-26	40.000	4.000	1.250	5.250
Sep-26	36.000	4.000	1.125	5.125
Mar-27	32.000	4.000	1.000	5.000
Sep-27	28.000	4.000	0.875	4.875
Mar-28	24.000	4.000	0.750	4.750
Sep-28	20.000	4.000	0.625	4.625
Mar-29	16.000	4.000	0.500	4.500
Sep-29	12.000	4.000	0.375	4.375
Mar-30	8.000	4.000	0.250	4.250
Sep-30	4.000	4.000	0.125	4.125

[7] Priced at a yield spread of 150 b.p. inside that of Rep. of Ghana 7.875s , due 2026.