

MOZAMBIQUE DEBT UPDATE

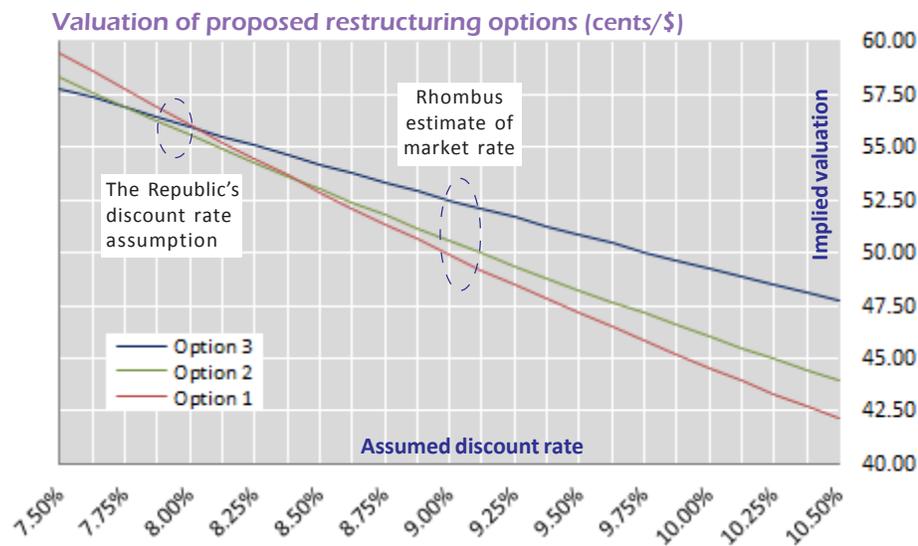
Wake-up call

As we had anticipated, the much-vaunted meeting on March 20th produced *not even the glimmer of a break-through*¹ in the 18-month stalemate between Mozambique and its external commercial creditors.

1) Any residual hopes² the Bond-holder group still harboured, of a proposal conducive to a “consensual” restructuring agreement, were dashed by the Republic’s maximalist demands. Even under the most benign discount-rate NPV assumptions, **the three options³ presented by finance minister Maleiane each imply a sizable haircut**, given the heady price at which the existing bond continues to trade.

2) The proposal appears to have been designed assuming **7.875%-8.00%** as the appropriate yield for discounting the relevant cash-flows. This can be inferred from the fact that it is around these rates that **the three instruments produce roughly identical present values**, as illustrated in the chart below⁴.

However, we envisage a market-clearing rate of between **9% and 9.25%**, which would produce a valuation in the range of **48.50-52.50 cents** on the dollar for the three instruments.



3) It was therefore not at all surprising that the restructuring proposals were immediately dismissed as **“a complete non-starter”**⁵ by the GGMB, who indicated that a follow-up meeting with the Mozambican authorities was planned for the following day⁶. Their subsequent silence strongly suggests a **failure to achieve any improvement in the terms originally offered**⁷.

¹ See our research note, “*Scant prospect of substantive progress*”, Mar. 7, 2018.

² The authorities had apparently ignored the request by the Global Group of Mozambique Bondholders (GGMB) for a preliminary session to discuss the scope and agenda.

³ See summary of terms, and relevant cash-flow schedules in the attached Annex.

⁴ For all yields above this level, it is Option 3 - i.e. the 8-year bond, with a 20% write-down of principal – that enjoys the highest present value. Conversely, when we apply a discount rate below 7.875%, it is Option 3 – i.e. the 16-year bond, with no haircut – that comes out on top. Option 2 - i.e. the 12-year instrument with the 10% haircut - occupies the intermediate position under all discount rate scenarios.

⁵ Reaction by GGMB, as quoted in, “*Mozambique Bonds Sink Most in Year as Restructuring Plan Snubbed*”, by Bloomberg; Mar. 20, 2018.

⁶ I.e. Mar. 20, 2018.

⁷ It was probably no coincidence that the meeting with creditors was scheduled exactly three days before the ruling party’s central committee was scheduled to convene. As such, there was never a real prospect of the authorities’ moving to accommodate any of the bond-holders’ concerns, given the hostility against the so-called “secret loans” within Frelimo – and, indeed, in the country at large.

4) Nevertheless, the sovereign eurobond has remained remarkably buoyant, trading at around 81 cents, after an initial 8% drop to 78 cents. Since the Bondholders Group controls a reported 80% of the total bond issue, the price performance is fairly easy to explain.

What is far less evident, given the Group’s palpable lack of leverage over the sovereign, **is the overarching strategy**.

5) It is possible that bond-holders perceive an Achilles’ heel in the Republic’s need to guarantee a prospective financing of USD 3 billion by the national oil company⁸. However, we see this as **a decidedly Panglossian view**.

Given Mozambique’s recent history and current circumstances, no serious lender would even consider extending such financing unless it was via **a collateralized structure under which ENH’s share of the LNG exports flowed into a bankruptcy-remote entity that said lender controlled**. As such, the status of the Republic’s Eurobond would remain a matter of complete indifference⁹.

6) In the light of the foregoing, the Bond-holders’ defiant stance looks like **the triumph of hope over experience**. Unfortunately for them, it has not escaped the attention of the Mozambican authorities that, repeatedly expressions of defiance, have given way to placatory gestures¹⁰ – hence the ongoing stalemate.

In other words, **the Group will probably have to exert ever more heroic efforts to hold up the bonds’ remarkable price**.

⁸ Empresa Nacional de Hidrocarbonetos, will need to borrow this amount to fund its pro-rata 9% capital contribution to the ENI (USD 5.4 billion) and Anadarko (USD 25 billion), consortiums developing the Rivuma Basin LNG projects. See relevant discussion in 2017 Article IV review.

⁹ It is worth noting that Exxon acquired a USD 2.9 billion stake - i.e. a 25% interest in ENI’s Coral project in Dec. 2016. This was two months after the Republic had announced that it would need to restructure its external commercial debts. The project’s final investment decision was announced in Jun. 2017 – i.e. after the Republic had already defaulted and before restructuring negotiations had even commenced.

¹⁰ A prime example was the moderation with which the Group reacted in Aug. 2017, when the Republic sardonically dismissed their demand that the ProIndicus and MAM loans be repudiated - as a precondition for any debt negotiations.

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ANNEXE

1. Valuation of proposed restructuring options (cents/\$)

Option 1: 16-yr bond				Option 2: 12-yr bond				Option 3: 8-yr bond			
Exch. ratio	100%			Exch. ratio	90%			Exch. ratio	80%		
Face value	100			Face value	90			Face value	80		
Coupon 1	2.00%	Jun-23		Coupon 1	1.50%	Jun-23		Coupon	2.80%		
Coupon 2	3.00%	Jun-28		Coupon 2	5.00%						
Coupon 3	6.00%										
Amortizn #1	Jun-32	35.00%		Amortizn #1	Jun-28	35.00%		Amortizn #1	Jun-24	35.00%	
Amortizn #2	Jun-33	35.00%		Amortizn #2	Jun-29	35.00%		Amortizn #2	Jun-25	35.00%	
Amortizn #3	Jun-34	30.00%		Amortizn #3	Jun-30	30.00%		Amortizn #3	Jun-26	30.00%	

2. Cash-flow sSchedules

Option 1: 16-yr bond

Date	Principal	Interest	Amortization	Cash flow
Jun-18				0.00
Dec-18	100.00	1.00	0.00	1.00
Jun-19	100.00	1.00	0.00	1.00
Dec-19	100.00	1.00	0.00	1.00
Jun-20	100.00	1.00	0.00	1.00
Dec-20	100.00	1.00	0.00	1.00
Jun-21	100.00	1.00	0.00	1.00
Dec-21	100.00	1.00	0.00	1.00
Jun-22	100.00	1.00	0.00	1.00
Dec-22	100.00	1.00	0.00	1.00
Jun-23	100.00	1.00	0.00	1.00
Dec-23	100.00	1.50	0.00	1.50
Jun-24	100.00	1.50	0.00	1.50
Dec-24	100.00	1.50	0.00	1.50
Jun-25	100.00	1.50	0.00	1.50
Dec-25	100.00	1.50	0.00	1.50
Jun-26	100.00	1.50	0.00	1.50
Dec-26	100.00	1.50	0.00	1.50
Jun-27	100.00	1.50	0.00	1.50
Dec-27	100.00	1.50	0.00	1.50
Jun-28	100.00	1.50	0.00	1.50
Dec-28	100.00	3.00	0.00	3.00
Jun-29	100.00	3.00	0.00	3.00
Dec-29	100.00	3.00	0.00	3.00
Jun-30	100.00	3.00	0.00	3.00
Dec-30	100.00	3.00	0.00	3.00
Jun-31	100.00	3.00	0.00	3.00
Dec-31	100.00	3.00	0.00	3.00
Jun-32	100.00	3.00	35.00	38.00
Dec-32	65.00	1.95	0.00	1.95
Jun-33	65.00	1.95	35.00	36.95
Dec-33	30.00	0.90	0.00	0.90
Jun-34	30.00	0.90	30.00	30.90

Option 2: 12-yr bond

Date	Principal	Interest	Amortization	Cash flow
Jun-18				0.00
Dec-18	90.00	0.68	0.00	0.68
Jun-19	90.00	0.68	0.00	0.68
Dec-19	90.00	0.68	0.00	0.68
Jun-20	90.00	0.68	0.00	0.68
Dec-20	90.00	0.68	0.00	0.68
Jun-21	90.00	0.68	0.00	0.68
Dec-21	90.00	0.68	0.00	0.68
Jun-22	90.00	0.68	0.00	0.68
Dec-22	90.00	0.68	0.00	0.68
Jun-23	90.00	0.68	0.00	0.68
Dec-23	90.00	2.25	0.00	2.25
Jun-24	90.00	2.25	0.00	2.25
Dec-24	90.00	2.25	0.00	2.25
Jun-25	90.00	2.25	0.00	2.25
Dec-25	90.00	2.25	0.00	2.25
Jun-26	90.00	2.25	0.00	2.25
Dec-26	90.00	2.25	0.00	2.25
Jun-27	90.00	2.25	0.00	2.25
Dec-27	90.00	2.25	0.00	2.25
Jun-28	90.00	2.25	31.50	33.75
Dec-28	58.50	1.46	0.00	1.46
Jun-29	58.50	1.46	31.50	32.96
Dec-29	27.00	0.68	0.00	0.68
Jun-30	27.00	0.68	27.00	27.68

Option 3: 8-yr bond

Date	Principal	Interest	Amortization	Cash flow
Jun-18				0.00
Dec-18	80.00	1.12	0.00	1.12
Jun-19	80.00	1.12	0.00	1.12
Dec-19	80.00	1.12	0.00	1.12
Jun-20	80.00	1.12	0.00	1.12
Dec-20	80.00	1.12	0.00	1.12
Jun-21	80.00	1.12	0.00	1.12
Dec-21	80.00	1.12	0.00	1.12
Jun-22	80.00	1.12	0.00	1.12
Dec-22	80.00	1.12	0.00	1.12
Jun-23	80.00	1.12	0.00	1.12
Dec-23	80.00	1.12	0.00	1.12
Jun-24	80.00	1.12	28.00	29.12
Dec-24	52.00	0.73	0.00	0.73
Jun-25	52.00	0.73	28.00	28.73
Dec-25	24.00	0.34	0.00	0.34
Jun-26	24.00	0.34	24.00	24.34

3. Valuation

YTM	Restructuring options		
	1	2	3
7.500%	59.4829	58.2984	57.8049
7.625%	58.6072	57.6044	57.3393
7.750%	57.7467	56.9197	56.8779
7.875%	56.9010	56.2441	56.4208
8.000%	56.0699	55.5776	55.9680
8.125%	55.2531	54.9200	55.5192
8.250%	54.4503	54.2712	55.0746
8.375%	53.6613	53.6311	54.6341
8.500%	52.8858	52.9994	54.1977
8.625%	52.1235	52.3762	53.7652
8.750%	51.3743	51.7612	53.3367
8.875%	50.6378	51.1544	52.9121
9.000%	49.9139	50.5557	52.4914
9.125%	49.2023	49.9649	52.0746
9.250%	48.5028	49.3819	51.6615
9.375%	47.8152	48.8067	51.2523
9.500%	47.1392	48.2390	50.8467
9.625%	46.4746	47.6788	50.4449
9.750%	45.8213	47.1260	50.0467
9.875%	45.1789	46.5805	49.6521
10.000%	44.5474	46.0422	49.2611
10.125%	43.9265	45.5110	48.8737
10.250%	43.3161	44.9867	48.4898
10.375%	42.7158	44.4693	48.1093
10.500%	42.1257	43.9587	47.7323

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