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Provinces – Argentina

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Provinces Strategy Flash

TdF launched its restructuring offer for the FUEGO27

On Friday, the province of Tierra del Fuego announced an exchange offer for its 2027 global bond, which includes several changes in the bond's structure.

On Friday, the province of Tierra del Fuego announced an exchange offer for its 2027 global bond, which includes several changes in the bond's structure. As expected, the province claims the decision comes on the back of the BCRA regulation issued in 1H23, which granted the provinces the right to purchase USD from the CenBank to convert only 40% of their maturities, forcing them to either purchase the remaining USD in the financial markets, at nearly double the FX rate or to restructure. It seems TdF has chosen to walk the second path, even if officials suggest the administration has enough liquidity to pay its maturities, being the access to the USD the issue.

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The proposed changes to the FUEGO2027 are extensive, including significant changes to the bond's structure and modifications related to the Trigger and Default events definition. The offer solicits the amendment of nearly fourteen items of the bond's structure, which include: (i) Postponing the maturity date from 17th April 2027 to 21st January 2030, (ii) Modifying interest payment dates, from the 17th of January, April, July and October to the 21st of these months, (iii) halting amortization payments until April 2025, and restructuring the schedule, now proposing to pay 4% of the remaining principal every quarter from Apr-2025 to Apr-2026 (not including the latter), 5% per quarter from Apr-26 to Apr-2028 (not including the latter) and 5.5% per quarter from Apr-28 to the maturity date. (iv) Allowing for the coupon in the notes to step up by 1% to 9.950%, given that at any calculation date (the last business day of the Collection Period), the Royalties Coverage Amount is less than 1.35x but more than 1.05x, with the step-up applying to the interest period immediately following this date. This clause also includes the possibility of resetting the interest rate back to 8.950%, if, after the step-up, at any future calculation date, the Royalties Coverage Amount exceeds 1.35x. Once more, this applies to the period immediately following said calculation date. (v) This step up also comes in conjunction with a relaxation of the Trigger Event Definition, which would see the Royalties Coverage Amount causing a trigger event going from 1.35x to 1.05x. So, the province needs a tighter Royalties Coverage Amount to spark a Trigger Event, but also must pay additional interest if the 1.35x level is breached. (vi) Modifying the Default events so that no Default can be triggered if the Royalties Coverage Amount is more than 1.05x. (vii) Altering the Indenture so that the requirement for the Reserve Adequacy Ratio to be at all times no less than the Minimum Reserve Adequacy Ratio only applies from January 1, 2025, until the maturity date. (viii) A modification to the information clauses so that the requirement by the Province to deliver a Reserves Certificate is to do so 90 days after the end of each fiscal year. (ix) Waiving any Event of Default, Potential Event of Default or Trigger Event in existence.

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To sweeten the deal, the province has offered a consent fee, which will be subject to the date on which the bondholders subscribe to the offer. Given the major changes proposed to the bond structure and that the exchange must reach at least 75% acceptance to effectively implement the changes, the province is offering some additional cash to investors who consent. The exchange offer drawn up by TdF will be valid up until 27th Nov, expiring at 5 pm, NY time. In addition, the province defines an extra date, called the Early Consent Time, which is 9th Nov, 5 pm NY time. For any holders that deliver their consent before the Early Consent Time, then they will be eligible to receive an Early Consent Consideration, while those who do so after said date, but before 27th Nov, can receive the Late Consent Consideration. The province has offered a fixed lump sum of USD6mn as a consent Consideration, which will be split between the Early and Late Consent Considerations mentioned above. The advantage for those who consent before 9th Nov is that they will receive double the cash per 1000USD face value of their notes than the ones that subscribe after said date to the offer. If all holders decide to exchange the bond early then each will receive 30USD per 1000USD of original face value consented (61.22USD per 1000USD face value outstanding). If just 76% consent and all of them do so early, each will receive 39.47USD per 1000USD original face value (80.56USD per 1000USD outstanding face value). If the split is 70% Early consent and 5% Late Consent, then all the holders who consented early will receive 41.38USD per 1000USD original face value, while those who consented late would receive 20.69USD per 1000USD original face value.

As we discussed at length in our recent piece (for more info, click here), we find the structure of the bond puts most of the bargaining power on the creditors' side, which means that the province should not be able to force a restructuring, with the key being how the creditors perceive the deal.

As we discussed at length in our recent piece (for more info, click here), we find the structure of the bond puts most of the bargaining power on the creditors' side, which means that the province should not be able to force a restructuring, with the key being how the creditors perceive the deal. We find that, with the current structure of the bond, even if the BCRA does stop selling USD to the province, the local trust should start transferring USD to the international leg via BCS purchasing, which means bondholders will continue to receive their payments, even if this means a significant amount of fiscal pain for the province, giving it significant incentives to regain access to the MULC as soon as possible. In addition, Oil prices currently are such that a sub-collateralization of the trust does not seem likely in the short run. Furthermore, the international trust has enough funding to stay current until April-2024, which means the bondholders could also wait until the next administration is in office to see how the situation with the BCRA develops. Finally, any extension in maturity dates will only result in a depreciation of the collateral, as the used oil wells will continue to age, yielding fewer royalties to fund the trust. With this in mind, it is difficult to envisage a restructuring without very favorable conditions for the bondholders, as the province does not seem to have as valid a reason as Chubut and Neuquén did back during COVID to restructure, as the possibility of a breach of covenant or a non-payment event are not in sight. In this context, we do not envisage the province having many instruments to power a renegotiation through on its own. Most of the bargaining power is on the creditors' side. This means the province must get the creditors on board, an issue that it is trying to address with this offer, where both the step-up clause and the cash as a consent fee point in that direction..

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