Santiago Resico
Economist
sresico@tpcgco.com
+54 11 4898 6615

Provinces – Argentina

February 27, 2024

Provinces Strategy Flash

La Rioja fails to meet its principal and interest payments on the PRIO28

Yesterday, La Rioja failed to service the interest and amortization payments corresponding to the PRIO2028 HC bond and is now looking to restructure the issuance.

Yesterday, La Rioja failed to service the interest and amortization payments corresponding to the PRIO2028 HC bond and is now looking to restructure the issuance. This time around, the province had to pay USD10mn in interest and USD16mn in principal payments, with this being the first sinking of the 2028 bond. In addition, the security is scheduled for a step-up in coupon after February's payments, going from 6.5% to 8.5%. The province issued a statement informing the non-payment of the accrued monies and informed it will be starting a consent solicitation process with the holders of the bonds, in order to arrive at an amicable solution. The province highlighted its ability to pay has been severely compromised, due to several factors. Firstly, it points out the current state of the Argentinean economy, including plummeting activity levels, high inflation and the devaluation of the FX strained provincial tax revenues, making the province unable to meet its obligations. In addition, the statement points fingers at the national administration, as the province affirms it has not received coparticipation funds it should have, and that has further impacted its ability to service its bonds. This failure to service its debt constitutes an Event of Default, under the securities' issuance conditions, as, by the latter, failure to pay any principal disbursements for more than three days after the intended date constitutes an Event of Default.

In this context, the province announced its intention to reach out to holders in order to restructure the outstanding notes via a consent solicitation.

In this context, the province announced its intention to reach out to holders in order to restructure the outstanding notes via a consent solicitation. As established in the issuance conditions of the bonds, changing reserve matters of the bonds, including the interest the bonds bear, and changes in the schedule of principal payments require the consent of the holders of 75% of the securities' amount outstanding. Last time around, when the bonds failed to perform in 2020 and were restructured close to a year later, the terms that were finally offered to investors were relatively amicable. These included a step-up coupon structure which did trim interest payments significantly (change in coupons resulted in a YTP close to 6.7%, coming down from 9.75% in the old structure), and even if the province asked for a maturity extension back to 2028, the structure included several sinkings, in addition to complete payment of the accrued interest (as the province had failed to meet three interest payments), 58% of which was paid in cash, with the other 42% paid in kind. For more information on the previous restructuring offer, please click here).

We find this news to be credit-negative for the entire provincial space, albeit we believe the sovereign curve is increasingly decoupling from the performance of provincial bonds, especially given the administration's position on provincial debt.

We find this news to be credit-negative for the entire provincial space, albeit we believe the sovereign curve is increasingly decoupling from the performance of provincial bonds, especially given the administration's position on provincial debt. As we have discussed on several occasions in the past (to see more, please click here, here, and here), La Rioja was one of the provinces that were bound to be hit the hardest by the changes implemented by the new administration and would see its financial position severely strained going forward, as cuts in discretionary transfers, fiduciary funds and provincial and national tax revenues, compounded with balance sheet effects bloating its hard currency payments would generate a noxious effect in the province's fiscal health. However, these issues are not only a problem for La Rioja but are hardships that will affect, in varying degrees, the entire provincial space. The main concern with La Rioja's restructuring in the space has to do with the reaction of the rest of the governors, who must face similar choices. The national administration has, up to now, been successful in nudging the bias of provincial public expenditure back to hawkish. However, it is in each of the provinces' prerogative which budget lines to cut. In this context, we expect PBA's payment on Friday to be a key event for the fate of the sub-sovereign space as if the province meets its obligations, then La Rioja's default might remain an isolated event. However, if PBA fails to serve its interest and principal payments, then a second default might spark a round of restructurings throughout the entire space. Even if we believed that the March payments for the PBA bonds carried significant risk, having published the payment notice some days ago, we expect the province to honor its commitments come Friday. However, the precarity of the province's fiscal position remains, as we highlighted in yesterday's report. On the other hand, we do not expect this news to affect the sovereign space as harshly, as we see a strong decoupling between the national's government fiscal position and fundamentals, and the provincial space. In addition, we find the national government's view on provincial bonds to be quite agnostic, in the sense that the administration sees them as contracts to be fulfilled by the provinces with its investors, rather than an issue that requires sovereign intervention, or which has bearing on the debt risk of the national government.

TPCG Analysts & Staff

Research

Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Santiago Resico	Economist	sresico@tpcgco.com	+54 11 4898-6615
Camila Sanchez Lauria	Research Analyst	csanchezlauria@tpcgco.com	+54 11 6616-9512

Sales & Trading

Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**

Institutional Sales

Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Santiago Jauregui	Sales	sjauregui@tpcgco.com	+598 9933-9495
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635

Trading

Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

Corporate Finance

José Ramos	**Head of Corporate Finance**	**jramos@tpcgco.com**	**+54 11 4898-6645**

Corporate Sales

Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

Capital markets

Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604

Wealth Management

Josefina Guerrero	Private Wealth Management Specialist	jguerrero@tpcgco.com	+54 9 11 6556 2401

Asset Management

Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For U.S. persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.