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

El Salvador Strategy Flash

El Salvador announced a tender offer for its 2025, 2027 and 2029 eurobonds.

Yesterday, El Salvador announced a tender offer to purchase its 2025, 2027 and 2029 Eurobonds.

Yesterday, El Salvador announced a tender offer to purchase its 2025, 2027 and 2029 Eurobonds. The administration announced an offer to tender for cash its outstanding bonds due 2025, 2027, and 2029. This seems to be part of a two-leg Liability Management Operation, which would also see El Salvador issue a macro-linked- USD-denominated external bond, which seems to be designed to raise additional monies to fund the repurchase. The tender offer will be valid until April 15th, 5 pm NY time, when it will expire. The press release states that the administration will prioritize the acceptance of offers related to the 2025 issuances, then the 2027, and finally, coming in last, offers for the 2029, which is reasonable considering the duration of each of the securities. In terms of pricing, the government is offering to pay 991.25 USD per 1000 USD in nominal value for the 2025 bonds, 910 USD per 1000 nominals for the 2027's, and 910 USD per 1000 nominals for the 2029's, meaning the administration is not offering such a juicy premium compared to the 2022 buybacks, as these prices are closer to the market value of the securities. On a second note, the administration is poised to issue an international bond, with some interesting conditions, to raise monies to fund the transaction. El Salvador is planning to present a package of securities to the market. Basically, it will bundle a conventional security, similar to the current issuances, and a macro-linked security, and will trade separately in the secondary market. This security is bound to offer the following conditions. Allegedly, its design envisages an initial coupon of 0.25%, which may step up to 4%, if El Salvador fails to sign a deal with the IMF in the following 18 months.

Figure 1: The exchange offer is fairly priced, for both sides

	Ammount issued (USDmn)	Amount outstanding (USDmn)	Repurchase offer price (per 1000 nominals)	Market price (per 1000 nominals)	Offer premium (per 1000 nominals)	Cashflow to maturity (per 1000 nominals)	Principal savings (per USD100mn repurchased) in USDmn	Interest savings (per USD100mn repurchased) in USDmn	Total savings (per USD100mn repurchased) in USDmn
ELSALV25	800	348	991.25	989	2.25	1029	0.875	0.041	0.916
ELSALV27	800	800	910	888	22	1032	9	1.6	10.6
ELSALV29	601	601	910	889	21	1043	9	3.8	12.8

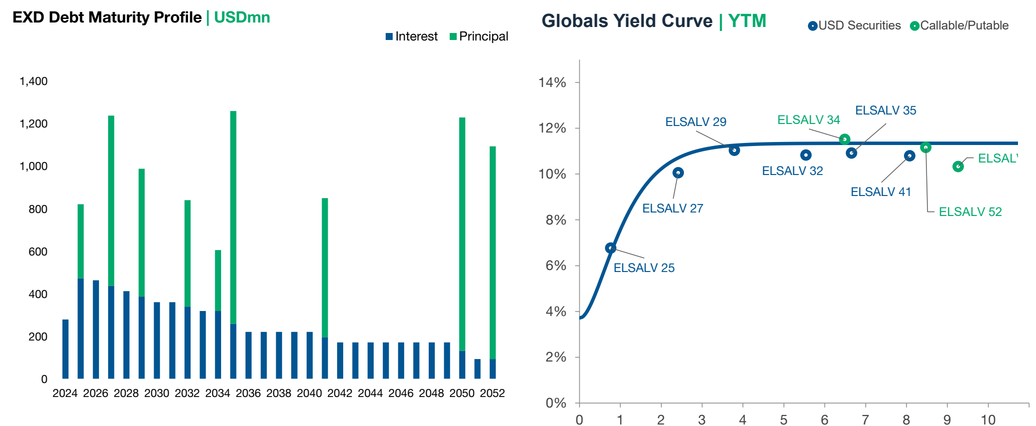
Source: TPCG Research based on TPCG Trading Desk

In terms of the repurchase, the administration is offering to buy back the bonds with a tight premium relative to market prices, and close to the nominal values of the securities, minimizing the value of the offer for both sides.

In terms of the repurchase, the administration is offering to buy back the bonds with a tight premium relative to market prices, and close to the nominal values of the securities, minimizing the value of the offer for both sides. In our view, the repurchase offer presented by the administration has little juice, especially considering the government's external payment profile for the next years, which only requires it to come up with USD347mn to cancel the 2025 issuance, and then USD800mn for the 2027 bond two years beyond the former sinking. Currently, ELSALV25 has a market price of around 986.7USD, meaning that the offer presents a premium of around 4.55USD per 1000 nominals, while the offer for the 2027 includes a 5.89USD premium, and finally, the 2029 offer includes a cash payment premium of around 5.58USD, which pale in comparison to the premiums offered in the 2022 repurchase, that obviously reflected a much more distressed

payment profile and financial context for the country. In addition, while there is not as much juice for investors, the government won't be able to capitalize significantly from this operation, in terms of monetary savings, as bonds are quoting close to par, and the administration already announced it will focus on buying back the 2025's, which are the bonds that present the least favorable conditions for the administration. To exemplify, if the government decides to commit USD100mn to the repurchase, if it decides to buy back only 2025's it would only save USD0.875mn in principal payments, and USD0.041mn in interest payments, putting the total at USD0.916mn, which would result in a meager return on investment. If the USD100mn were applied to repurchase the 2027's then the savings would be somewhat more substantial, totaling USD9mn in principal and 1.6mn in interest. Finally, the 2029's would yield the most savings, with also USD9mn in principal savings, but more substantial reductions in coupon payments, which would amount to USD3.8mn.

Figure 2: The EXD maturity profile does not look frontloaded



Source: TPCG Research based on TPCG Trading Desk

In our view, with the sovereign curve standing near issuance territory, the administration is trying to ensure its return to international markets is as successful as possible, freeing tied-up cash and offering the macro-linked security as a sweetener, as it could provide a hedge to investors if the country fails to sign an IMF deal.

In our view, with the sovereign curve standing near issuance territory, the administration is trying to ensure its return to international markets is as successful as possible, freeing tied-up cash and offering the macro-linked security as a sweetener, as it could provide a hedge to investors if the country fails to sign an IMF deal. With the outstanding rally the Salvadoran curve experienced since the first buyback in 2022, yields have compressed significantly, and now almost the entirety of the curve is at an arm's length of single-digit yields. This means that El Salvador is close to regaining market access, especially with bonds quoting closer to par and political risks having diluted now that Mr. Bukele won the latest dual legislative and presidential elections. In addition, the government's policy bias on the fiscal side continues to be relatively restrictive, posting a significant primary surplus, while prospects of an IMF deal could provide further support to the global curve. Moreover, the administration's maturity profile has significant gaps it might want to take advantage of. While the early 2030's look crowded, the government might try to profit from the relatively flat rates, and issue a 15-20 year bond, albeit it is unclear how much demand for said instrument there will be. Still, the government is being especially vague on the amount of cash it has to perform the repurchase, and on the size of the issuance it is planning. In that sense, we believe that both the current buyback and the macro-linked security are sweeteners to nudge the final issuance rate downwards and ensure the country has a successful return to international markets.

Figure 3: ELSALV has performed robustly since the start of the year

	8-abr.-24			Last Week			Last Month			YTD		
	MD	YTM	PX (Conv.)	Carry (bps)	Δ Clean PX (bps)	Total Return (bps)	Carry (bps)	Δ Clean PX (bps)	Total Return (bps)	Carry (bps)	Δ Clean PX (bps)	Total Return (bps)
ELSALV 25	0.8	7.3	98.86	12	296	308	53	473	526	170	489	658
ELSALV 27	2.4	10.3	90.62	14	373	387	63	578	642	196	246	442
ELSALV 29	3.8	11.1	90.74	19	387	406	84	480	564	262	112	374
ELSALV 32	5.3	10.9	86.08	19	328	347	85	444	529	265	138	402
ELSALV 34	6.5	11.5	76.73	19	331	351	89	580	668	280	340	620
ELSALV 35	6.7	11.0	78.90	19	321	340	86	437	523	266	71	337
ELSALV 41	8.1	10.8	75.43	20	268	288	89	400	488	276	25	300
ELSALV 50	9.3	10.3	71.15	20	271	290	89	502	591	272	-12	261
ELSALV 52	8.5	11.2	85.50	22	264	286	97	369	466	309	229	538

Source: TPCG Research based on TPCG Trading Desk

In that sense, the macro-linked security seems to be designed to resolve the incompatibility between a successful market issuance and an IMF deal.

In that sense, the macro-linked security seems to be designed to resolve the incompatibility between a successful market issuance and an IMF deal. While the country has posted a significant primary surplus for quite some time now, which reduced the financial strain for the administration, the return to international markets and the IMF deal do not seem as complementary. Looking at the maturity profile of El Salvador, it is clear that on the external front, the administration is not hard-pressed to extend its schedule, as it does not look at all frontloaded, having only to face timid payments for the remainder of the 2025 issuance, and a medium-sized, USD800mn payment in 2027. And while the Salvadoran risk premium has compressed significantly, it is still not quite at attractive levels for funding. On the other hand, an IMF deal could provide cheap funding but might shackle the government into following policy alternatives that are not quite as palatable for it. So, at first glance, given the administration does not change its fiscal bias, one extra funding source should likely be enough to keep the Eurobond curve running. Therefore, a successful market issuance is bound to reduce the likelihood of an IMF deal, as it would provide the administration with the plug for its financing gap, and by doing so, make it less likely for the administration to commit to a relatively uncomfortable IMF program, scenario which the market might find unpalatable. Therefore, the macro-linked security is designed to keep the incentives of the administration aligned with an IMF deal, as failing to sign the agreement would result in higher financing costs for the country. This, in turn, should reduce the Salvadoran risk premium and result in a more successful issuance. So, by providing an instrument that increases the chances of the administration committing to a deal with the IMF, the administration could ensure lower financing costs for its international issuance, which looks like a smart move by the administration, especially if it plans to enter an IMF program.

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.