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El Salvador Strategy Flash

El Salvador announced the results of its tender offer

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Yesterday, El Salvador announced the results of the tender offer for its Eurobonds maturing in 2025, 2027 and 2029. The repurchase totaled nearly USD487mn, roughly half of the raised funds in last week's issuance, where the country was able to collect nearly USD1bn in order to finance the bonds' buyback. The size of the repurchase was significant, and the aggressive buyback slightly exceeded market expectations, as did the tenders, which totaled USD946mn, as investors deemed the proposal attractive. Still, given the very tight premiums and close-to-par prices, the savings of the LMO were minimal, amounting to USD29mn (USD23.6mn in principal, and USD5.4mn in interest), which pale in comparison to the massive benefits the 2022 repurchases yielded. As expected, the administration prioritized repurchasing the bond maturing in 2025, even if it was the bond that would grant the least savings. Therefore, the administration accepted 100% of the tendered amount, effectively repurchasing USD248.4mn of the 2025s. This generated a measly USD2.27mn savings in principal and interest payments. Next, regarding the 2027s the government accepted USD166.9mn of the USD407.6mn tenders received, which in turn yielded the most savings, amounting to USD17.65mn. Finally, the 2029s, which were dead last in the administration's priority list, received USD290mn in tenders, of which only USD71.6mn were accepted, shaving USD9.14mn from the government's payment profile going forward. All in all, the repurchase offer generated a 6% ROI for the country and significantly cleared the short-term payment schedule for the Eurobond curve. However, this came at a high associated cost, as last week's issuance came in at a 12% interest rate, factoring in the 9.25% coupon and the discounted purchase price, doubling the return of the bond repurchase, in addition to heavily loading the medium term maturity schedule. For additional information on the aftermath of last week's events, please click here.

Figure 1: The administration's repurchase totaled USD487mn

	Ammount issued (USDmn)	Amount outstanding (USDmn)	Repurchase offer price (per 1000 nominals)	Tendered Amount (USDmn)	Repurchased Amount (USDmn)	% of offers accepted	New Amount Outstanding	Principal savings (USDmn)	Interest savings (USDmn)	Total savings (USDmn)
ELSALV25	800	348	991.25	248.4	248.4	100.0%	99.6	2.17	0.1	2.27
ELSALV27	800	800	910	407.6	166.9	41.0%	633.1	15.02	2.63	17.65
ELSALV29	601	601	910	290.0	71.6	24.7%	529.4	6.44	2.7	9.14

Source: TPCG Research based on TPCG Trading Desk

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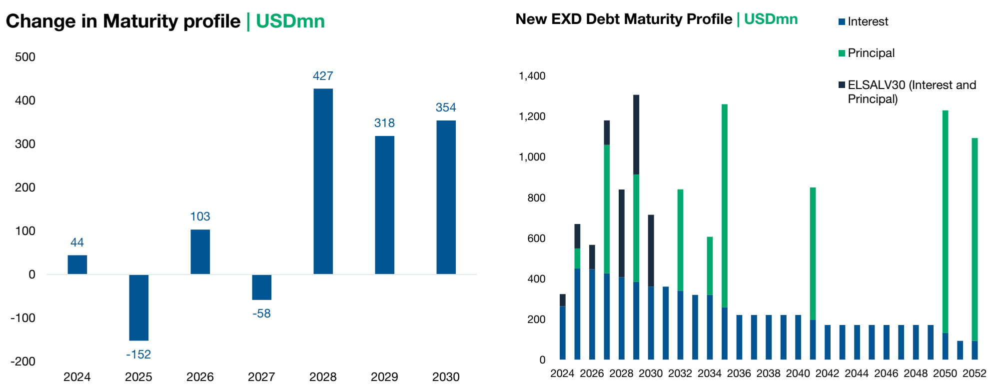
Looking at both phases of the LMO, it is clear that it was successful in clearing the short-term payment schedule of the Eurobond curve, albeit paying a high financing cost for additional funding, which compounds with a steeper payment profile, which is now heavily loaded in the 2028-2030 period. Taking a look at the change in the maturity schedule after both the issuance and the repurchase, the results showcase that El Salvador will pay a high price for punting maturities down the field. For the 2024-27 period, the results of the operation look positive, as the total maturity profile compressed by around -USD63mn, which means that, for said years, the LMO yielded a reduction in payments stemming from the Eurobond curve. This drop comes

loaded in the 2028-2030 period.

mostly on the back of the cut in principal payments of the 2025 and 2027 bonds, which outweigh the increased interest burden caused by the new 2030s in 2024 and 2026. However, this positive contribution, even if slight, is massively outweighed by the spike in maturities caused by the 2030 issuance. For the 2028 to 2030 period, payments exhibit an increase of USD1.1bn, resulting from the sinking and interest payments of the 2030's. All in all, even factoring in the repurchases, this LMO loaded the Salvadoran payment profile by nearly USD1.04bn. While this assures the payment of the 2025s, which had their amount outstanding reduced to a measly USD99mn and is positive for the payment of the 2027s, it is clearly negative for the 2029s as it will now have to compete with the 2030s' sinkings, and any possible IMF payments, given the country enters an agreement with the fund. Even with a more aggressive repurchase than expected the success of the operation hinges on the administration's behavior going forward. While both the burden and shape of the new payment profile suggest a harder time for El Salvador in the medium term, the potential result of the gamble hinges on the administration's policy choices going forward, as there are some scenarios where the move proves beneficial. While an IMF deal seems a clear answer to the increase in maturities, it does not look as clear-cut as initially envisaged. Even if it would provide cash to pay for the early maturities, the payments of the program are bound to enter in direct competition with the Eurobond sinkings, and being senior to them, represent a threat to investors, rather than a relief, especially once the initial aid is spent, as we have discussed in previous pieces. To catalog the operation as a success, the administration must maintain its course, resume fiscal discipline, and invigorate fundamentals, so as to retain the main asset it has gained in the LMO, market access. If the country continues exhibiting a robust primary surplus and uses its remaining financing sources wisely, then it will have the recently reopened market access to refinance its maturities. However, if it does not, this issue will surely brew additional trouble for the country. While Mr. Bukele's character showcases that he does not shy away from high-risk high-reward scenarios, this time the reward for making such a gamble is not as apparent, or as bountiful as in recent history, shrouding the results of the operation in uncertainty.

Figure 2: The LMO cleared short term maturities, albeit at a hefty price



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