

Petrotrin/TPHL Offer to Exchange Bonds in Lieu of Payment

April 16th, 2019

Trinidad Petroleum Holdings Limited (TPHL) has announced an offer to exchange some of Petrotrin's debt for new bonds with a 9.75% coupon maturing in 2026, plus a possible payout in cash should certain limits of acceptance be achieved.

Link to PR Newswire release:

<https://www.prnewswire.com/news-releases/trinidad-petroleum-holdings-limited-announces-the-commencement-of-offers-to-exchange-any-and-all-of-its-9-75-notes-due-2019-and-6-00-notes-due-2022-for-new-us-dollar-denominated-9-75-senior-secured-notes-due-2026-and-if-appl-300832398.html>

Per the release:

Trinidad Petroleum Holdings Limited ("TPHL" or the "Issuer"), a limited liability company organized under the laws of the Republic of Trinidad and Tobago, today announced that it is offering to exchange newly issued 9.75% Senior Secured Notes due 2026 (the "New Notes") and, if applicable with respect to the 2019 Notes, cash, for any and all of its outstanding 9.75% Notes due 2019 (the "2019 Notes") (the "2019 Notes Offer") and 6.00% Notes due 2022 (the "2022 Notes" and together with the 2019 Notes, the "Existing Notes") (the "2022 Notes Offer" and together with the 2019 Notes Offer, the "Exchange Offers").

By agreeing to the exchange or payout, bondholders also agree to amend the terms of the bond deal to give up certain protections:

The Proposed Amendments would amend the Existing Indentures to eliminate substantially all of the restrictive covenants, certain events of default and release of guarantees upon the sale of certain subsidiaries and other related provisions contained in the Existing Indentures.

As always, the devil is in the details. The exchange offer appears very complex, with many moving parts, deadlines, limits and contingencies, prices etc.

Below from the press release is the description of the terms of the exchange:

The aggregate amount of "2019 Notes Consideration" paid by the Issuer consists of up to U.S.\$425 million principal amount of New Notes (subject to increase at our discretion, as described herein) (the "2019 New Notes Cap") plus cash for the 2019 Notes validly tendered that exceed the 2019 New Notes Cap. The Issuer has set the "2019 New Notes Cap" at U.S.\$425 million, but it may increase the 2019 New Notes Cap after the commencement date at its sole discretion to any amount up to U.S.\$600 million. If the total amount of 2019 Notes validly tendered does not exceed the 2019 New Notes Cap, a Holder who validly tenders 2019 Notes will only receive New Notes as 2019 Notes Consideration. If the total amount of 2019 Notes validly tendered exceeds the 2019 New Notes Cap, the total principal amount of New Notes that the Holder receives as 2019 Notes Consideration for every U.S.\$1,000 principal amount of 2019 Notes tendered will be equal to (x) the 2019 New Notes Cap divided by (y) the aggregate amount of 2019 Notes tendered and accepted for purchase multiplied by (z) U.S.\$1,000, rounded to the nearest cent. The remainder of the 2019 Notes Consideration that such Holder receives will be paid in cash.

Investors who tender will not know if they will get just new bonds, or new bonds and cash, or be left with their original position if the deal does not meet its contingencies. In the interim, investors may have difficulty selling their position as the bonds would be pledged to wait on the outcome of the offer.

Bond Investor Choices for the 2019 Issue

Ignore the offer

What you get: Your cash (plus accrued) in August maturity at par as originally promised in the original bond, barring an outright default by the issuer.

Tender your 2019 bonds by April 28th deadline

Possible outcomes (% likelihood estimates are mine)

- 1) You get new 2026 bonds issued by TPHL. Projected likelihood: 40%
- 2) You get new 2026 bonds issued by TPHL for a portion of your bonds, plus cash at par for the remainder. Projected likelihood: 10%
- 3) Deal does not meet limits or contingencies and expires without any exchange. Projected likelihood: 50%

In the interim period your bonds will be restricted from sale pending the outcome of the offer or your withdrawal from the deal.

Sell your bonds in the open market

What you get: 99.25 to 100 cash for your bonds and exit the risks associated with the repayment in August.

Ownership of Petrotrin 19s

The Petrotrin bond maturing in August 2019 has a face value of \$850 million USD. Ownership includes local and regional institutions but is spread across the globe in over 200 mutual funds and insurance companies. It is likely that many investors acquired the bonds when they were investment grade, falling back on the interpretation of implicit support and guarantee of the Trinidad government. In their downgrade from Ba3 to B1 in 2017 (when the company's major asset was the operating refinery), Moody's said:

*Moody's assumptions of high default correlation and very high support by the government of Trinidad to Petrotrin to avoid default of its oil company result in a three-notch uplift to Petrotrin's **caa1** BCA (stand-alone credit rating)*

It is expected that the final documents of the new exchange bond will very carefully state that the Trinidad government has no direct or implied guarantee on the issue, and bond holders will be relying on the profitability of the new TPHL (without significant operating assets that were part of the original Petrotrin company).

The decision about tendering bonds for exchange, should consider:

- Likelihood of outcomes with receipt of exchange bonds, bonds and some cash, or no deal
- Lock-up time between tender and deal conclusion, during which tendered bonds will be restricted from trading
- Credit analysis of TPHL assuming statement of no support from GoTT
- Comparable yields from bonds with similar credit risks
- Suitability of TPHL to your portfolio

Comparative Bond Issues

While local and regional investors may limit their choices to domestic issuers, the international owners of Petrotrin bonds will consider all options across ratings and industries. The list below is a search of live offers today (4/17/19) for similarly rated issuers in the oil industry, with yields between 9 and 14%.

Company Name	Coupon	Maturity	Ratings	Ask Yield	Sector	Industry	Category
KCA Deutag UK Finance PLC	7.25	May15'21	CAA1/B-	13.7216	Energy	Oil&Gas S	Oil-Field Services
Raffinerie Heide GmbH	6.375	Dec01'22	B3/B	13.2041	Energy	Oil&Gas	Oil Refining&Market
McDermott Technology Americas	10.625	May01'24	B3/CCC+	13.1105	Energy	Oil&Gas S	Oil-Field Services
California Resources Corp	8	Dec15'22	CAA2/B-	14.0757	Energy	Oil&Gas	Oil Comp-Explor&Pr
SESI LLC	7.75	Sep15'24	B2/B+	13.0115	Energy	Oil&Gas S	Oil-Field Services
Compressco Partners LP	7.25	Aug15'22	CAA2/CCC+	11.7214	Energy	Oil&Gas S	Oil-Field Services
Source Energy Services Canada	10.5	Dec15'21	B+ (SP)	11.678	Energy	Oil&Gas S	Oil-Field Services
Comstock Resources Inc	9.75	Aug15'26	CAA1/B	10.9642	Energy	Oil&Gas	Oil Comp-Explor&Pr
Ensco Rowan plc	7.75	Feb01'26	CAA1/B	10.5319	Energy	Oil&Gas	Oil&Gas Drilling
Calumet Specialty Products Partner	7.75	Apr15'23	CAA2/B-	10.5128	Energy	Oil&Gas	Oil Refining&Market
Forum Energy Technologies Inc	6.25	Oct01'21	B2/B	10.3204	Energy	Oil&Gas S	Oil Field Mach&Equi
Noble Holding International Ltd	7.95	Apr01'25	CAA2/B	10.5089	Energy	Oil&Gas	Oil&Gas Drilling
ENSCO International Inc	7.2	Nov15'27	CAA1/B	10.1649	Energy	Oil&Gas	Oil&Gas Drilling
Calumet Specialty Products Partner	7.625	Jan15'22	CAA2/B-	10.0783	Energy	Oil&Gas	Oil Refining&Market
Bruin E&P Partners LLC	8.875	Aug01'23	B3/B+	9.8587	Energy	Oil&Gas	Oil Comp-Explor&Pr
Vesta Energy Corp	8.125	Jul24'23	B (SP)	9.6234	Energy	Oil&Gas	Oil Comp-Explor&Pr
Ensco Rowan plc	5.2	Mar15'25	CAA1/B	9.5478	Energy	Oil&Gas	Oil&Gas Drilling
Rowan Cos Inc	7.375	Jun15'25	CAA1/B-	9.5039	Energy	Oil&Gas	Oil&Gas Drilling
W&T Offshore Inc	9.75	Nov01'23	B3/B	9.0722	Energy	Oil&Gas	Oil Comp-Explor&Pr
Covey Park Energy LLC	7.5	May15'25	B3/B	8.8948	Energy	Oil&Gas	Oil Comp-Explor&Pr

Conclusion

One month ago, the press was abuzz with the report of an agreement for a loan of \$1.4 billion to refinance the deal and fund TPHL's necessary investments. The bonds rallied significantly on this 'funding secured' announcement. While new details about capital injections or subordination agreements may yet emerge, the exchange offer this week does not seem to provide an irresistible financial incentive to bond holders. Regional investors may be inclined to exchange their bonds out of patriotism, but that will not influence the international holders. With apologies for the mix of metaphors, the initial description of the offer seems to be kicking the can down the road by offering cat-in-bag.

Mark Scott, CFA

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