MARKETCALL
JMMB INVESTMENT RESEARCH

INVESTMENT AND SOVEREIGN RESEARCH

SOVEREIGN: The Bahamas

PLEASE SEE IMPORTANT DISCLOSURES IN THE APPENDIX

Summary of the Sovereign

Table 1: SWOT of the Bahamas

Strengths	**Weakness**
✓ Positive economic developments in the US economy pose upside risk to tourism and job growth. ✓ Strong governance framework and institutional strengths rooted in English common law. ✓ Favourable tax regime and enabling business environment make the sovereign a preferred destination for offshore financial activities. ✓ Strong regulatory framework for banks, trusts, and pooled investments	✓ The sovereign is highly vulnerable to external shocks due to its narrow economic base and small size. ✓ High fiscal deficit and low economic growth pushing debt to GDP towards unsustainable levels ✓ Erosion of competitive advantage as an off-shore financial centre due to more stringent and continued evolving regulatory environment in G-20 countries, particularly the US and Europe.
Opportunities	**Threats**
✓ The political administration has signalled its willingness to deregulate the economy and reduce capital restrictions. ✓ Real growth and strong job market conditions are likely to persist in the US, which augur well for dependent services given the sovereign's strong ties to the US economy.	✓ High energy cost and unemployment are likely to mitigate higher GDP growth over the medium- to long-run. ✓ Competition from cheaper destinations poses downside risk to the tourism sector, which accounts for the lion share of employment. ✓ High vulnerability to external weather related shocks, especially hurricanes and flooding.

Ratings: S&P, BB+/Stable; and Moody's, Baa3/stable

Hurricane Dorian

On September 1-3, 2019, Hurricane Dorian ripped through the northern sections of the Bahamas. The tropical cyclone touched down as a category 5 hurricane ravaging parts of the archipelago. The two main islands that are affected are the Grand Bahama and Abaco with an estimated population of 59,000 and 20,000 respectively or 20% of the combined population of the Bahamas. The International Red Cross estimated that 45% of homes or about 13,000 buildings were totally destroyed or severely damaged in the Grand Bahama and Abaco. Civil and other infrastructure were also severely damaged and the islands are without electricity, water and proper sanitation. So far over 40 persons are presumed dead, but the death toll could rise exponentially in the coming days as rescue efforts get on in earnest. International aid agencies and other Caribbean governments are providing help and the United Nations Food programme has so far been allocated an initial budget of US $5 million to provide food and supplies to persons affected for 3 months.

Satellite imagery showed that vast acreage of land in Grand Bahama and Abaco were inundated with water as storm winds with speeds of over 145 miles per hour resulted in storm surges upward of 23 feet.

Tourism

The Bahamas is a tourism-dependent economy with the sector contributing to 60% of GDP and employs over 53,000 or 26.5% of the working population. The islands attract well over 1.5 million stopover visitors and 3.5 million cruise visors every year. Total available room counts for the two islands worst affected by the hurricane is estimated at 3,000 or 20% of available stock while an additional 600 properties are listed for short term rentals. Given the extent of the damage, all the properties on the worst affected areas – Grand Bahama and Abaco - are likely to be out of service and offline for at least another year or two. A comprehensive assessment of the damage is not yet available however based on the number of persons affected and the extent of the destruction to properties and infrastructure, the capital cost needed to return the islands to where they were prior to the hurricane could easily stretch beyond US$600 million. Hurricane Mathew struck the islands as a category 3 hurricane in 2016 and did relatively less damage due to lower wind speed and minimal storm surge. However, the final cost associated with Hurricane Mathew is estimated at 4.8% of GDP (US $580 million).

Notwithstanding the passage of Hurricane Dorian, the Bahamas is opened for business and some of the main tourist areas such New Providence and Nassau, territories with attractions such as Atlantis and Baha Mar, suffered relatively minimal damage. The sea and international airport are open and were relatively unscathed by the hurricane. Data for 2018 shows that New Providence accounts for 76% of tourist arrivals compared to 12% for Abaco and Grand Bahama.

The Bahamas was on course to record a stellar year in tourist arrivals, but the hurricane has put a damper on this outlook. Given the extent of the damage and the number of rooms that are out of commission, we are expecting visitor arrivals via air to contract by at least 10% cumulatively over the next year or two.

Fiscal and Debt Implications

The fiscal account will take a hit from two sides initially – lower revenue intake from tourism/consumption and higher spending on hurricane related damage. We are expecting reduction in revenue flows from tourism over the coming year, and potentially lower consumption tax receipts if waivers are given by the authorities to aid in the reconstruction efforts. While most hotels are insured, the same is not true for private residence where it is estimated that at least 60% are not insured or are under insured. Thus, we envisage that the government in addition to spending on infrastructure will assist persons without insurance to rebuild their homes.

The sovereign is to receive a pay-out of US $11 million from the Caribbean Catastrophic Risk Insurance Fund (CCRIF) while the Inter-American Development Bank has approved an emergency loan package of US$100 million. These flows will go a far way to help jumpstart the reconstruction efforts on the government side.

The authorities took decisive steps to plug the fiscal deficit which ballooned to 6% of in 2017 but declined to 3.3% in 2018. We were programming a deficit of 1.5% in 2019 and 1.2% in 2020, but in an environment where lower revenues and higher spending are anticipated in Q4:19 through to 2020 and possibly beyond the deficit is expected be higher over the forecast horizon. While real GDP growth is likely to fall over say the next two quarters, higher hurricane-related capital spending could accelerate growth thereafter through to 2021. In the process this could help to stymie the fiscal deficit as a percentage of GDP and prevent total government debt from accelerating beyond our initial forecast of 66% in 2021.

Recommendation

The effect of Hurricane Dorian on the Bahamas is relatively contained notwithstanding the effect on the Grand Bahama and Abaco. **Downside risks to the fiscal accounts have increased, but there is no indication to suggest that the sovereign will be severely burdened over the short- to medium-term to meet debt obligations, or that debt levels will rise to unsustainable levels. In light of the above we are maintaining our recommendation for all the Bahamas sovereign bonds at Market weight.**

Source:

Bloomberg
British Broadcasting Corporation
Moody's Investor Service

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.
HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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