

# JMMB INVESTMENT & SOVEREIGN RESEARCH

## SURINAME → Prelim. Restructuring Discussion

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX



### EXECUTIVE SUMMARY

The newly elected (July-2020) government of Suriname, led by Chan Santokhi, has identified the global pandemic and its consequent economic crisis as the basis for its May/June-2021, announced provisional debt restructuring. In **October 2020, external creditors supported Suriname by providing room for the suspension of payment on its external debt.** The Republic of Suriname sought and received, on two occasions (December 2020 & April 2021) consent from bondholders of the 2023 and 2026 Eurobonds, for a suspension of payments. The relaxation of payments was to aid the sovereign to generate short-term liquidity which would aid in the finalization of discussions with the IMF.

Suriname announced, **on July-29-2021**, that it had reached a **Staff-Level Agreement (SLA) with IMF to the tune of US\$630 million**, for 36 months under an Extended Fund Facility (EFF). The agreement entails approximately US\$632 million **in project and budgetary support** from **International Financial Institutions** to be disbursed over the duration of the program.

We have highlighted, in this piece, our alternative opinion and recommendations on the proposed restructuring. We speak to issues that in our opinion, are key to a getting external creditor buy in while simultaneously recommending possible concessions on both sides. We conclude with a summary table highlighting our preliminary recommendations. **We note also that we do not speak for the Creditor Group, nor is this the official position of JMMB but we wish to add our opinion to what may be a workable solution for both sides.**



### UNDERLYING MACRO-FISCAL ASUMPTIONS OF IMF-SUPPORTED PROGRAM

According to the Suriname authorities, the macro-fiscal framework incorporates a massive fiscal adjustment equivalent to 15% of GDP over the period 2020 to 2024. The authorities further include:

- (I) A reduction in the public debt, as a percentage of GDP, from 159.1% (2020) to 120% by 2024.
- (II) A reduction of the public debt to 60% of GDP by 2035.

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percentage of GDP. Below we outline the debt restructuring proposed by the Suriname government, in detail, for the two Eurobonds.

The government's preliminary debt restructuring parameters for external commercial creditors are a cause for concern.

- (I) Despite the fact that FL-FC non-market debt (Official, Bilateral + Multilateral) represents the lion share of the debt outstanding as a percentage of GDP (67.3%);

	Eurobonds	
	<i>Eurobond 2023</i>	<i>Eurobond 2026</i>
<b>Existing features</b>		
Out. Amt. as of end-2020	USD 125.0 m	USD 550.0 m
Accrued interest or arrears	Approx. USD 15.2 m <sup>1</sup>	USD 57.5 m <sup>1</sup>
Interest	12.875%	9.250%
<b>Restructuring parameters</b>		
Nominal Amount	70.0% nominal haircut <sup>5</sup> New instrument amount: approx. USD 236 m	
Principal Repayment	Sinkable : 5 equal annual repayments First payment date : 01-Jun-25	
Maturity	Final maturity: 01-Jun-29 Average maturity: 6.0 years	
Coupon schedule	<ul style="list-style-type: none"> <li>• First coupon payment date: 01-Dec-2021</li> <li>• Coupon payments dates: 01-Dec &amp; 01-Jun               <ul style="list-style-type: none"> <li>• Until 01-Jun-25: 4.0%</li> <li>• From 01-Jun-25 until 01-Jun-28: 5.0%</li> <li>• From 01-Jun-28 until maturity: 6.0%</li> </ul> </li> </ul>	

this category, excluding multilateral creditors, faces only a 30% average nominal haircut. While Eurobond holders are being punished with a 70% nominal haircut despite holding only 34.6% of the debt as a percentage of GDP.

- (II) Eurobond holders, who exhibited faith and confidence in Suriname on two occasions (December-2020 & April-2021), by allowing the suspension of payments, are being forced to absorb a larger percentage of the losses compared to other debt holders.
- (III) It is our view that Eurobond holders should be offered GDP warrants, i.e. if annual GDP growth comes in above pre-oil discovery long term trend growth, then for each

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1% GDP above trend growth, bondholders should be compensated with additional coupon payments.

- (IV) Local Law (LL) market debt (both local currency and foreign currency) represents approximately 29.6% of GDP. Central bank debt (LL-LC-non-market debt) also represents 27.5% of GDP. **Hence, local law debt combined represents 57.2% of GDP.** However, the government has not put forward any adjustment to the local financial sector in terms of a nominal haircut to debt outstanding. We believe that this approach is unfair and that the burden must be spread equally so that the local financial sector faces an equal burden as Eurobond holders.
- (V) The government clearly has liquidity and/or solvency issues; yet we have not heard of any adjustment to the fiscal accounts. We suggest the government explore a combination of the following:-
  - (a) A wage freeze for government workers;
  - (b) A cut in the size (numbers) of the public sector;
  - (c) A cut to the salary of public sector workers;
  - (d) A review of both recurrent and capital expenditure to identify room to repay money owed.
- (VI) Suriname should note that, in a worst case scenario, Eurobond holders do have the option to sue for compensation in foreign courts. This would effectively freeze Suriname's overseas assets and would make royalties from future hydrocarbon sales open to seizure and sale court orders. This would effectively restrict Suriname's access to international capital markets for decades to come blurring the waters of any potential clean restructuring process.



#### **RECOMMENDATION-Proposed Structure of Eurobond**

Below, we outline more specific recommendations for the restructuring of the two outstanding Eurobonds. Key to our recommendation is an extension of the maturity profile, a more amenable principal haircut, the creation of a combined superbond which would significantly improve liquidity, step up coupon payments to ease the short-term cash flow burden, the inclusion of a GDP warrant and a sinking fund feature to ensure that the pressure of finding a one-off bullet payment is eased.

<b>DEBT RESTRUCTURING PARAMETERS PROPOSED BY JMMB-RESEARCH</b>			
<i>"in US\$ Millions"</i>			
	<i>Eurobonds</i>		
	<b>Eurobond 2023</b>	<b>Eurobond 2026</b>	
Out. Amt. as of end-2020	\$125.0	\$550.0	
Approx. Accrued Interest / Arrears	\$15.2	\$57.5	
Interest	12.875%	9.250%	
<b>JMMB Proposed Restructuring Parameters</b>			
Accrued Interest	Forgiveness of accrued Interest	Savings: US\$72.7 mill	Nominal Haircut: 9.7%
Outstanding Principal: Total: US\$675	Principal Haircut	Savings: US\$174.15 mill	Nominal Haircut: 25.8%
<b>Total Savings</b>	<b>Forgive Acc. Int. + Prin. Haircut</b>	<b>Savings: US\$246.85 mill</b>	<b>Nominal Haircut: 33.01%</b>
<b>Create One(1) Super Bond</b>	Combine both bonds into 1 super bond with a nominal outstanding amount of <b>US\$ 500.85 million</b>	The combination would allow the new bond to be listed on the <b>JP-Morgan EMBI (Emerging Market Bond Index)</b> which would <b>SIGNIFICANTLY</b> improve liquidity for existing bondholders.	
Maturity	<b>Extend Maturity to 2040</b>		
Principal Repayment	Sinkable: 5 Equal annual payments First Payment date: Jun-1-2035		
Coupon Schedule	<input checked="" type="checkbox"/> First Coupon Payment Date: Dec-1-2021 * Coupon payment dates Dec-1 & June 1		
Step-up Coupon Payments	* Until June-1-2025: 3% * From June-1-2025 until June-1-2028: 5.0% * From June-1-2028 until June-1-2040 (maturity): 7%		
GDP Warrants	<input checked="" type="checkbox"/> If annual GDP growth comes in above pre-oil discovery long term trend growth, then for each 1% GDP above trend growth, bondholders should be compensated with additional coupon payments.		

*Source: \*Republic of Suriname Document-Debt Restructuring: Principles and Preliminary Elements  
\*-JMMB-Group Research*

To our clients, we note that given the murky waters outlined above, a **SELL is the only plausible recommendation** that can come at this time.

**Source: Capitaliq.com; Moodys.com; Bloomberg; Debt Restructuring: Principles and Preliminary Elements-Government of Suriname Document.**

# APPENDIX

## IMPORTANT DISCLOSURES

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

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**STRONGLY UNDERPERFORM**—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 2.5% FOR THIS PARTICULAR ASSET

**UNDERPERFORM**—REDUCE EXPOSURE IN YOUR PORTFOLIO TO 2.5% - 4.9% FOR THIS PARTICULAR ASSET

**SELL**—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

**HOLD/MARKETPERFORM**—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

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

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