AMLO's Latest Pemex Rescue Mission Fails to Convince Investors

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- Analysts from Citi to Eurasia Group say plan is not enough
- Investors waiting for further details on tax relief measures


Andres Manuel Lopez Obrador Photographer: Alejandro Cegarra/Bloomberg

Mexico's grand plan for Pemex -- an unprecedented $8 billion syndicated loan, tax breaks and refinancing billions in debt -- was supposed to change the outlook for the embattled oil company.

The market's reaction has amounted to little more than a shrug.

Andres Manuel Lopez Obrador

Photographer: Alejandro Cegarra/Bloomberg

While Pemex's benchmark bonds outperformed peers Monday after President Andres Manuel Lopez Obrador made the announcement in his daily press conference, they lagged behind Tuesday as investors seemed to wager that the plan wasn't enough to change the company's long-term outlook. That sentiment was backed by analysts from Eurasia to Citigroup, who cautioned that there's still no lasting solution for the oil giant, which will continue to face financial challenges to meet the government's state-driven energy policy.

"Bank credit does not equal a plan," Citi analysts Eric Ollom, Ayoti Mittra and James Barry wrote in a note. "Given the cash drain at the company, obtaining new credit is clearly positive, but does not solve the core problem."

Petroleos Mexicanos, as the company is formally known, has struggled to reverse over a decade of production declines under a $106.5 billion debt pile. Concern only grew in the last few days after the government announced it was abandoning the bidding process to build an $8 billion refinery, leaving Pemex to foot the bill itself.

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"The measures could provide Pemex with some short-term financial relief, but the state-driven strategy for the firm still poses a meaningful risk," Eurasia Group analysts Carlos Petersen, Daniel Kerner and Ana Abad wrote in a note. Meeting the administration's oil production target and restoring downstream activities seems "unrealistic," they added.

The bonds have returned 2.6% since AMLO was elected last July, compared with 7.7% in the iShares JP Morgan USD Emerging Markets Bond ETF.

Investors are watching closely for further details on tax measures aimed at providing relief for the company. Pemex Chief Executive Officer Octavio Romero said Monday the government would give $1.3 billion in tax breaks to the company via a decree.

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Citi analysts also say the company's tax burden needs to be reduced before they can recommend the bonds. Lopez Obrador "claimed that the tax regime for Pemex would be modified, but gave no details," the analysts wrote. "We have heard this rhetoric before without anything substantive happening."

Mexico relies on taxes paid by Pemex to balance the nation's budget -- funds from the oil major accounted for about 20% of the nation's budget revenue last year -- and reducing that take could free up funds for Pemex to invest.

"You have a big wound, and they put a Band-Aid on it," said Luis Maizel, senior managing director of LM Capital Group in San Diego, who holds a small position in the company's bonds. "The problems are much deeper in Pemex."