Pemex Assistance Plan Fails to Impress Bondholders

By Amy Stillman , Nacha Cattan , and Eric Martin
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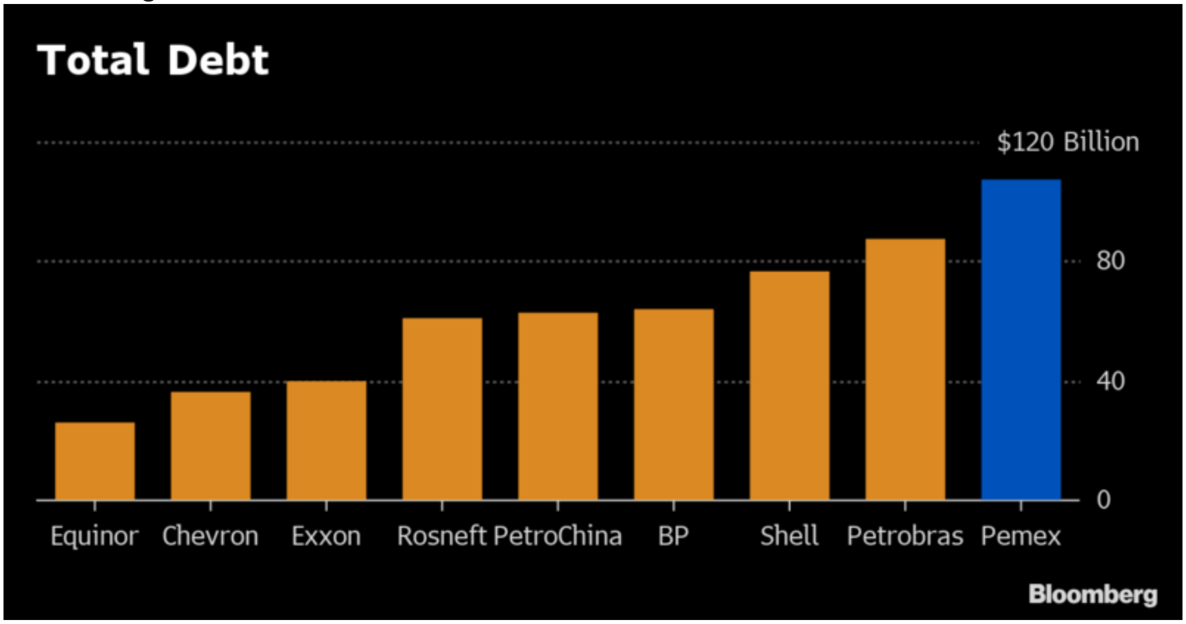

Mexico's Petroleos Mexicanos, the world's most indebted oil company, will refrain from issuing new bonds this year and begin prepaying existing liabilities as part of a broad turnaround plan. The peso and the company's bonds fell on investor doubts that the steps will be enough.

Pemex, as the company is known, will boost investment this year to 288.1 billion pesos ($14.9 billion), 5.5 percent more than an original estimate, Chief Financial Officer Alberto Velazquez Garcia said on Friday. President Andres Manuel Lopez Obrador's administration will also expand tax breaks for the state-run firm to 90 billion pesos spread over six years, a 36 percent increase.

Mexico's peso weakened 0.1 percent to 19.2834 per dollar as of 12:23 p.m. local time after earlier falling as much as 0.8 percent. The yield on Pemex's benchmark 2027 bonds rose seven basis points, or 0.07 percentage point, to 6.95 percent, reversing a drop from before the announcement. The yield fell on Thursday in anticipation of the announcement.

"It's not clear that this was the silver bullet," said Guido Chamorro, senior investment manager at Pictet Asset Management Ltd in London, who's neutral on the company's debt. "Without outside investment, Pemex must get funding from the government or through debt. There is no other visible source."

A historic symbol of Mexican national pride, Pemex has become something of an embarrassment after 14 years of declining output and accusations of past corruption leveled by Lopez Obrador's administration.

This plan "will allow Pemex to avoid adding net debt, only to refinance existing debt throughout the year," Finance Minister Carlos Urzua told reporters in Mexico City at a press conference, flanked by Lopez Obrador and Pemex's top managers.

Production Drop

Source: Energy Information Agency

"Wall Street was looking for double that amount in fiscal relief, and sources of additional savings to pay for it are suspect," said John Padilla, managing director of IPD Latin America LLC. The measures are "very disappointing" for investors.

The "extraordinary measures" extend the Lopez Obrador's administration's efforts to shore up Pemex's finances. The government had previously announced some tax breaks, a 25 billion peso capitalization and 35 billion pesos in payouts of pension liability promissory notes this year.

It's unlikely to reverse declining production, according to Alejandra Leon, an analyst at IHS Markit in Mexico City."It seems to me that they are not thinking about the basic problems of Pemex: operational efficiency, profitability of the projects, investment efficiency," she said.

The company, which has a debt pile of $107 billion, needs to make payments on $5.3 billion of debt coming due by the end of May. Fitch Ratings said in a statement Pemex's credit outlook is unaffected by the announcement and that it's unlikely to prevent continued deterioration in the company's credit quality.

Last month Fitch downgraded Pemex's bonds to one notch above junk.

Upcoming Payments

Source: Bloomberg

— With assistance by Dale Quinn, Juan Pablo Spinetto, Ben Bartenstein, and Aline Oyamada

(Updates with comments from Fitch Ratings in last paragraph.)