Bond Analysis: Port of Spain Waterfront Development (POSWD) 7.875% 19/02/2040

Issuer Summary & Thesis:

Port of Spain Waterfront Development Limited (POSWDL), a wholly government-owned subsidiary of the Urban Development Corporation of Trinidad & Tobago (UDeCOTT), functions as a financing vehicle for the Trinidad and Tobago government. Created to develop and manage the Port of Spain International Waterfront Centre, a large mixed-use complex. POSWDL's primary income derives from rent payments under a Sub-Lease Agreement with the government, designed to cover its debt service and operational costs. Effectively, POSWDL raises funds for strategic government projects, making its financial health intrinsically tied to the government's support and financial obligations.

Bond Term Summary:

Issuer	Port of Spain Waterfront Development Limited
Currency	USD
Issue Amount	US$500M
Tenor	15 Years
Ask Price	$99.75
Indicated Ask Yield to Worst	7.922%
Coupon (Semi-Annual)	7.875%
Credit Rating (Moody's/Fitch)	Ba2 (Stable)/BB (Stable)
Collateral	• first-priority security interest in and to the rights under the Head lease and the Sub-lease agreement • debt service reserve account
Maturity	19-Feb-2040
Use of proceeds	• Fund the DSRA, • Distribute dividends to UDeCOTT to repay US$150mm Scotiabank loan obligations, • Repay intercompany balance with UDeCOTT, • Distribute dividends to UDeCOTT • Pay for certain expenses in this and other related transactions

<u>Bond Recommendations</u>

Low Risk: Underweight

Moderate Risk: Marketweight

High Risk: Overweight

Credit Rating Analysis:

<u>Moody's:</u>

On February 4, 2025, Moody's assigned POSWDL a Ba2 CFR and a caa2 BCA, along with a Ba2 rating to its proposed $500 million notes, with a stable outlook, reflecting its reliance on government rent payments, assumed full government support, and strong government linkages.

<u>Fitch Rating:</u>

On February 5, 2025, Fitch assigned POSWDL a 'BB' IDR and a 'BB' rating to its expected $500 million bond issuance, with a stable outlook, based on its GRE status and "virtually certain" government support, equalizing its rating with the sovereign's and highlighting its role as a government financing vehicle relying on rental income.

Economic Overview:

Trinidad and Tobago's economy has shown resilience and growth, with the IMF projecting a 2.4% GDP increase in 2024—the strongest performance in a decade. This growth is driven by a robust non-energy sector, which expanded by 4.2%, while inflation significantly declined from 8.7% in 2022 to 0.3% in early 2024. Although the energy sector remains a cornerstone of the economy, contributing 40% of GDP and 80% of exports, diversification efforts are underway, with investments in LNG, petrochemicals, and manufacturing playing a key role. Fiscal management has deteriorated, with a fiscal deficit of 1.1% of GDP in 2023 increasing to 5.2% in 2024, and Central Government Total Debt to GDP Ratio increased to 61.3% of GDP in 2024 from 59.1% in 2023.

Trinidad and Tobago's economic outlook for 2025 is cautiously optimistic, with the IMF projecting 2.4% GDP growth and a 1.9% rise in consumer prices. Growth is supported by strategic energy sector initiatives, including Shell's Manatee and BP's Cypre projects, expected to boost natural gas output by 2028. Additionally, a recent LNG contract revamp has increased government revenues. However, challenges remain, particularly with the European Union's Carbon Border Adjustment Mechanism, which may impact exports due to environmental compliance issues. Domestic concerns like crime and governance also pose risks, but the government's focus on diversification and investment provides a foundation for stability and growth.

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SWOT Analysis:

Strengths:

- **Stable Revenue Stream:** The sublease agreement with the government provides a stable and predictable revenue stream, directly linked to debt service obligations. This significantly reduces financial risk.
- **Government Backing:** Being wholly owned by the government and acting as a proxy financing vehicle provides strong implicit and explicit support. This translates to higher credit ratings than POSWDL might otherwise achieve.
- **Strategic Importance:** The Port of Spain Waterfront Centre is a significant asset housing key government agency, making it politically important and increasing the likelihood of continued government support.

Weaknesses:

- **Dependence on Government:** POSWDL's financial health is entirely dependent on the government's ability and willingness to meet its lease obligations. This creates vulnerability to sovereign credit risk.
- **Single Asset Concentration:** The reliance on a single property (the Waterfront Centre) for revenue creates some concentration risk.
- **Potential for Political Influence:** Government ownership and involvement can expose POSWDL to political influence and potential changes in policy or priorities.

Opportunities:

- **Potential for Expansion/Diversification:** While currently focused on the Waterfront Centre, there might be opportunities for POSWDL to be involved in other government-related projects, diversifying its asset base and revenue streams (though this would likely remain tied to government direction).
- **Improved Governance/Transparency:** While government oversight is a strength in terms of support, improvements in transparency and corporate governance could further enhance investor confidence.

Threats:

- **Sovereign Credit Downgrade:** A downgrade of Trinidad and Tobago's sovereign credit rating would directly and negatively impact POSWDL's ratings and potentially increase borrowing costs.
- **Changes in Government Policy:** Shifts in government priorities or fiscal constraints could lead to reduced support for POSWDL, though given the nature of the asset and its importance, this is less likely.
- **Economic Downturn:** A severe economic downturn in Trinidad and Tobago could impact the government's ability to meet its lease obligations, indirectly affecting POSWDL.
- **Political Instability:** Political instability could also pose a threat, though again, the strategic importance of the asset makes this less likely.

Comparable Bonds:

Ticker	Ask Yield to Worst (%)	Ask Price ($)	Duration (Years)	Credit Rating (Fitch/Moody)	Maturity Type	Currency
POSWDL 7.875 19/2/2040	**7.92**	**99.75**	**9.04**	**BB/Ba2**	**Callable**	**USD**
BRAZIL 5.63% 7/1/2041	6.90	87.83	10.27	BB/Ba1	At Maturity	USD
COLOM 6.13% 18/1/2041	8.06	82.77	9.75	BB+/Baa2	At Maturity	USD
SOAF 6.25% 8/3/2041	7.74	86.45	9.60	BB-/Ba2	At Maturity	USD
GUATEM 4.65% 7/10/2041	6.86	78.28	10.80	BB/N/a	Callable	USD
TPHLTT 9.00% 12/8/2029	7.88	104.14	2.07	BB/Ba3	Callable	USD
NGCTT 6.05% 15/01/2036	7.32	90.57	7.93	N/a/Ba2	At Maturity	USD
TRNGEN 5.25% 04/11/2027	6.00	98.14	1.38	BB/N/a	Sinkable	USD
Average	**7.25**	**91.27**				

Conclusion:

The POSWDL 7.875% 2040 bond is secured by priority security interest to the rights of the Head lease Sub-lease agreement along with a debt-service reserve account. Given the intertwined nature of the issuer and the Government of the Republic of Trinidad & Tobago. T&T has shown strong economic resilience over the past few years and is cautiously expected to see a positive outlook as with continued GDP growth, controlled inflation levels, and diversification. However, the T&T economy is still at risk of international conflicts and trade wars impacting its export revenue, particularly in relation to the energy sector.

It is with expected positive outlook of the Trinidad and Tobago economy, the relatively high yield of the POSWDL 2040 offering compared to those of a similar risk rating and maturity, and the stable credit rating outlook of the offering that the following recommendations have been provided:

Low Risk: Underweight – Despite the relatively attractive yield and stable outlook, the longer maturity and callable feature, coupled with uncertainties in the energy sector and the economy's reliance on energy prices, may pose a higher risk for conservative investors.
Moderate Risk: Marketweight – While the callable feature and longer maturity add some risk, the moderate YTM of 7.92% could appeal to investors with a moderate risk appetite. Additionally, the POSWDL 2040 bond offer has a relatively shorter duration, compared to bonds of a similar maturity and credit rating, indicating investors should be able to recoup their investments faster.

High Risk: Overweight – The relatively high yield, coupon rate, and call feature align well with a high-risk investor profile.