



KNOSSOS ASSET MANAGEMENT

17 / 06 / 21

# VENEZUELAN MARKETS REPORT





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# Venezuelan and PDVSA Debt

June 2021

## *We are back!*

After a 6-months break from our Venezuelan debt and PDVSA report, we have returned with great news. In addition to our traditional report on Venezuelan debt, and taking advantage of our recent partnership with Grupo Solfin, we are including a new section on local markets with an emphasis on the performance of the Caracas Stock Exchange.

Looking at the year so far, prices of Venezuelan and PDVSA debt have remained range bound and without major changes so far, trading between 9.5- 11% in the sovereigns and 4.5-5.5% in PDVSA, with the exception of the PDVSA 2020, which has traded between 25.5- 28.5% (see graphs). In general, the most demanded securities in both curves remain the high coupon bonds. These bonds are trading with a small premium of around 0.25- 0.50% above the low coupon bonds. The rationale behind this discrepancy is that in the case of restructuring the accumulated value of the unpaid coupons is substantially higher, and therefore they could have a higher recovery value at the time of negotiation.

From the price action we can infer that most market participants are not expecting an agreement any time soon between the opposition, the Maduro government, and the United States. However, a potential relaxation of the sanctions imposed by OFAC could include the free negotiation in the secondary

market of bonds, something which is in our opinion not priced in. If this occurs, prices of both curves should increase significantly. According to our analysis, Venezuela could initially go into a price range of 14-16% and PDVSA to 7- 9%. In the case of PDVSA 2020, we expect that during 2021 or 2022, some type of agreement will be reached with investors and that settlements are only pending OFAC to authorize the execution of the guarantee. However, given the importance of CITGO for Venezuela, it is expected that an agreement that will not imply its outright sale and other alternatives should be explored, including leveraging CITGO to pay the PDVSA 2020.

Título	31/12/2020	15/06/2021	Retorno Total
VENZ 13 5/8 08/15/18	9.55	10.35	+8.38%
VENZ 7 12/01/18	9.95	9.75	-2.01%
VENZ 7 3/4 10/13/19	9.75	10.45	+7.18%
VENZ 6 12/09/20	9.60	9.50	-1.04%
VENZ 12 3/4 08/23/22	9.70	10.60	+9.28%
VENZ 9 05/07/23	9.80	10.20	+4.08%
VENZ 8 1/4 10/13/24	9.80	10.55	+7.65%
VENZ 7.65 04/21/25	9.80	10.35	+5.61%
VENZ 11 3/4 10/21/26	9.80	10.65	+8.67%
VENZ 9 1/4 09/15/27	9.80	10.65	+8.67%
VENZ 9 1/4 05/07/28	9.80	10.60	+8.16%
VENZ 11.95 08/05/31	9.80	10.25	+4.59%
VENZ 9 3/8 01/13/34	9.80	10.55	+7.65%
VENZ 7 03/31/38	9.75	10.40	+6.67%
PDVSA 8 1/2 10/27/20	25.00	27.00	+8.00%
PDVSA 9 11/17/21	3.60	4.50	+25.00%
PDVSA 12 3/4 02/17/22	4.00	4.55	+13.75%
PDVSA 6 05/16/24	3.75	4.45	+18.67%
PDVSA 6 11/15/26	3.75	4.45	+18.67%
PDVSA 5 3/8 04/12/27	3.75	4.40	+17.33%
PDVSA 9 3/4 05/17/35	3.95	4.45	+12.66%
PDVSA 5 1/2 04/12/37	3.85	4.50	+16.88%

# Local market

The Bolsa de Valores de Caracas has shown a significant recovery during the first half of 2021. So far this year the BVC index shows an average yield in dollars of 26%, with some companies up more than 100% in USD.

Although market depth and liquidity levels continue to be low, around \$100M per day, in recent weeks it has increased to levels close to US \$ 220M. Locals investors are exploring other investment alternatives for their excess liquidity to hedge against the devaluation of the Bolivar and the stock market is regaining attention.

In terms of market news, two public offerings have taken place this year. Mercantil Servicios Financieros, C.A. (MSF), the holding group of Banco Mercantil, Mercantil Seguros and Mercantil Capital Markets, offered to swap shares of MSF with shares of Mercantil Servicios Financieros Internacional in Panama, a holding that includes in addition to MSF, Banco Mercantil Panama, Mercantil Seguros Panama and Mercantil Corredora de Bolsa. Furthermore, Corimon, a local company that produces painting and other chemical products offered a takeover bid for the minority shares outstanding at 40 % above the market price. Although both operations reduced the liquidity of the listed companies, they demonstrate a clear interest of investors in the local market.

Additionally, some of the traditional companies in the Venezuelan stock market such as Ron Santa Teresa, Banco Nacional de Crédito, and Fondo de Valores Inmobiliarios issued new IPO's and Grupo Zuliano has announced a new innovative IPO of preferred shares. It is also expected that towards the end of the year some companies will go to the market with

new Initial Public Offering of common shares. Among them, we have Calox Venezuela a pharmaceutical company and the microcredit bank Bancamiga.

During the year a new legal vehicle for investors was also approved. A Venezuelan type of SPAC's (Special Purpose Acquisition Company) are now being listed in the BVC to attract PE investors to invest in medium and small companies in different sectors. Currently, Fivenca Fondo de Capital Privado S.A. and Impulsa Agronegocios C.A. are examples of these SPAC's.

Finally, the debt market continues to consolidate as a source of financing for companies. During the first quarter, 27 companies were able to finance around \$1.4 million, an amount that is still very small but shows growth compared to previous periods. As local companies are now able to issue in dollars (after the approval of new regulations), we expect the amount of financing to increase substantially and develop an interest rate curve in local dollars, which could encourage capital to enter the local fixed income market in dollars.

Nombre	Diciembre 2020	Junio 2021	Variación %
BANCO DEL CARIBE-A	104.097.264	76.501.430	-27%
BANCO NACIONAL DE CREDITO	64.128.567	151.377.897	136%
BANCO OCCIDENTAL DE DESCUENTO	3.241.392	3.024.690	-7%
BANCO PROVINCIAL	165.442.494	177.485.326	7%
BOLSA DE VALORES DE CARACAS	5.691.697	5.877.026	3%
BANCO DE VENEZUELA	195.164.271	480.941.854	146%
CORP INDUSTRIAL DE ENERGIA	6.377.685	14.657.848	130%
CORIMON S.A.C.A.-A	6.275.461	23.021.926	267%
CORPORACION GRUPO QUIMICO	57.673.836	115.858.173	101%
DOMINGUEZ & CIA	7.959.629	12.226.227	54%
PRODUCTOS EFE SA	61.295.203	72.068.637	18%
ENVASES VENEZOLANOS SA	16.671.044	22.585.743	35%
FABRICA NACIONAL DE CEMENTOS	19.327.297	19.323.403	0%
FVI FONDO DE VALORES INMOB-A	16.530.379	32.992.885	100%
FVI FONDO DE VALORES INMOB-B	69.250.119	91.278.320	32%
INMUEBLES Y VALORES CARACAS	22.014.497	16.953.439	-23%
GRUPO ZULIANO CA	24.217.428	37.906.959	57%
MANUFACTURAS DE PAPEL MANPA	118.063.570	109.728.830	-7%
MERCANTIL SERVICIOS FINAN-A	80.688.637	83.618.860	4%
MERCANTIL SERVICIOS FINAN-B	9.832.511	29.783.705	203%
PROAGRO CA	6.846.964	14.584.071	113%
PROTINAL CA	111.165.132	144.772.675	30%
CA RON SANTA TERESA SACA-A	689.341	771.729	12%
CA RON SANTA TERESA SACA-B	5.465.982	11.816.733	116%
SIDERURGICA VENEZ SIVENSA	160.744.516	137.498.157	-14%
CANTV	3.099.583	14.349.252	363%
TELARES DE PALO GRANDE CA-C	43.208.386	68.795.491	59%
CERÁMICA CARABOBO	14.117.837	45.028.297	219%
INVERSIONES CRECEPYMES	576.724	302.764	-48%

## The view from the ground

The stock market is currently reflecting more optimism than the Venezuelan and Pdvsa bond market. This may be because local market participants are seeing first-hand the change in the government's strategy and the incipient but still timid economic recovery that is underway. In addition, the government is making an effort to present itself more pro-market, deregulating the economy and prices, approaching the private sector with proposals to change laws such as the "special

economic zones" or "the capital market law". On the political side, the government also took an important step, designating a new CNE rector, the release of Citgo executives, and the proposal for a mega-election in November. Furthermore, the negotiation channels with Norway have been reactivated and the government is trying in every possible way to reach an agreement with the new Biden administration. There is no better example of this effort than the recent Bloomberg interview where Maduro calls on bondholders, oil transnationals, and the private sector in general: Venezuela is open for business and it has a bold plan to renegotiate its debt, the only obstacle are Trump's sanctions. However, after 20 years of with a hostile attitude towards the private sector and part of the international community, it will take much more concrete actions to convince them to return.