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MEXICO SEEKS UP TO $10 BILLION IN DEBT SALE TO BACK PEMEX

PETRÓLEOS MEXICANOS

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PETROLEOS MEXICANOS (PEMEX) IS A STATE-OWNED COMPANY THAT PRODUCES, TRANSPORTS, REFINES, AND MARKETS OIL AND NATURAL GAS IN MEXICO. IT HAS AN INDIVIDUAL CONSTITUTIONAL REGIME CALLED A PRODUCTIVE STATE COMPANY FOR THE EXPLOITATION OF ENERGY RESOURCES IN MEXICAN TERRITORY, ALTHOUGH IT ALSO HAS VARIOUS OPERATIONS ABROAD.

Bloomberg

(Bloomberg) -- Mexico is looking to raise between $7 billion and $10 billion with a debt sale to shore up resources for battered state-owned oil company Petroleos Mexicanos, people familiar with the matter said. The offering, disclosed in a filing earlier Tuesday, will consist of dollar-denominated debt maturing August 2030, in the form of amortizing precapitalized securities, or P-Caps, a type of instrument used in asset-backed finance. The government "is implementing a series of measures to provide support to Pemex in the management and improvement of its balance sheet," it said without providing details on the amount it plans to raise. Once issued, the P-Caps will not be consolidated with the liabilities of Pemex or Mexico, but "constitute public debt of the Mexican Government." A spokesperson for Mexico's finance ministry declined to comment. A Pemex spokesman didn't immediately respond to a request for comment.

Pemex bonds jumped across the curve on the news, with notes due in 2050 up about 3 cents on the dollar, according to Trace data, the best performers in the high-yield space. Five-year credit-default swaps for the oil company sank 45 basis points. Mexico's five-year CDS contracts, meanwhile, jumped almost 6 basis points to the highest level in a month, according to pricing data collected by Bloomberg. Sovereign dollar notes fell across the curve and were some of the worst performers in emerging markets on Tuesday.

Support

President Claudia Sheinbaum's administration has been working on a broad plan to shore up the struggling state oil producer, which has a debt load of over $100 billion, including nearly $19 billion in bonds maturing next year. As part of the plan, Pemex will open some of its key oil and gas fields to joint investment projects with private sector partners in a bid to boost production which has slumped to four- decade low.

Read More: Investors Bet Sheinbaum Can Rescue Pemex Where Others Failed "It's a sign of support from Sheinbaum, which shows pragmatism and decisiveness," said Armando Armenta, a senior economist at AllianceBernstein in New York. "The financial challenges were clouding the outlook and taking attention away from the company's management and operational challenges. We hope they can start to address the latter soon."

Structure

The offering will allow Mexico to borrow billions of dollars from debt investors to support Pemex, while keeping the obligations off its books. Mexico, through an entity named Eagle Funding LuxCo., will sell the so-called P-Caps and use the proceeds of the sale to buy a portfolio of US government debt including Treasuries, according to the filing. Pemex will then take that portfolio and use it as collateral for loans through the repurchase market, using the proceeds as it sees fit, according to an offering memorandum seen by Bloomberg. If Pemex isn't able to pay back the loans, the banks will seize the collateral and end up whole. In that scenario, the investors in P-Caps would lose their collateral, and end up with sovereign debt from Mexico, according to a presentation seen by Bloomberg. "This transaction is undoubtedly positive for Pemex as it gives them another financial lifeline to tie them over, at least for the next few years," said Aaron Gifford, a senior sovereign analyst at T. Rowe Price. "The downside, however, is off balance sheet financing and reduced transparency which should cause investors concern, especially if this is the approach they'll continue to take."

Read more: Mexico Debt Deal Could Repay Pemex 2025 Maturities: Credit React P-Caps are typically used by insurance companies to tap capital markets without putting more obligations on their balance sheets.

In the Mexico deal, the securities are expected to come with investment-grade scores from both Moody's Ratings and S&P Global Ratings, said the people. That will likely lower borrowing costs that are ultimately incurred by the Mexican government. Since its credit downgrade to junk during the pandemic, Pemex has lost a pool of investors who can't buy sub-investment grade securities, adding to its debt woes. The sale is expected as early as July 28, according to a person familiar with the matter. Mexico mandated JPMorgan to serve as sole structuring advisor and BofA Securities, Citi and JPMorgan as joint bookrunners on the deal, they added.

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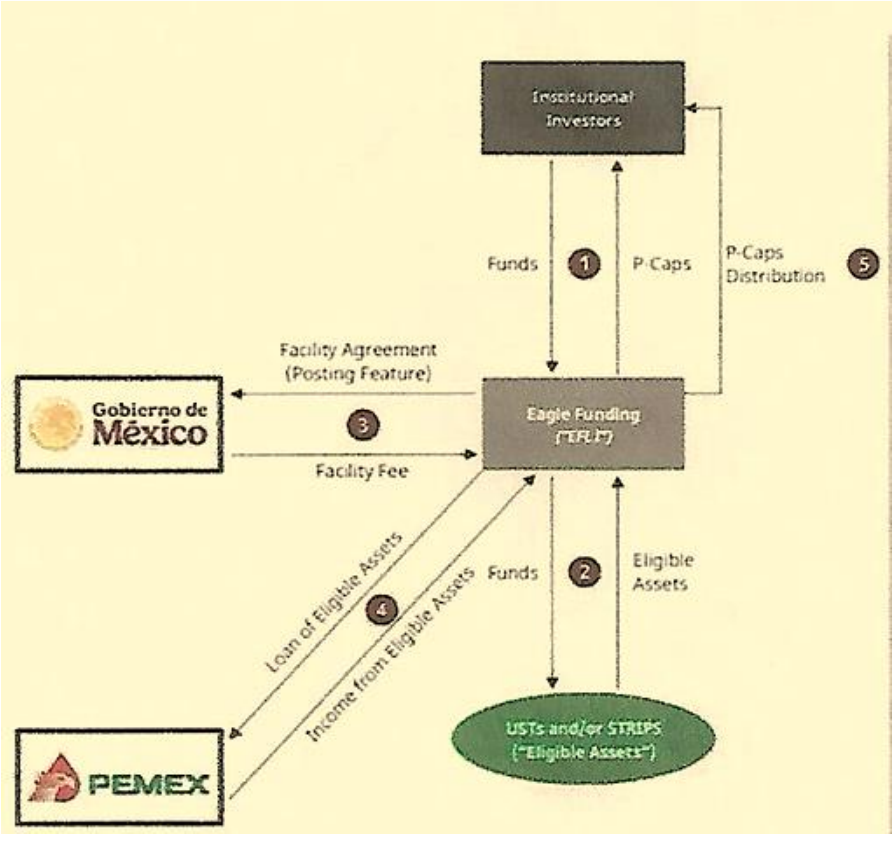
P- Cpas | Transaction Overview



1. EFL I issues P-Caps to investors and receives proceeds
2. Net proceeds are invested in a portfolio of Eligible Assets
3. EFL I enters into the Facility Agreement with Mexico:
   - A. Mexico will, upon the initial issuance of the P-Caps, direct EFL I to deliver Eligible Assets for the entire P-Caps amount to PEMEX
   - B. Mexico (or PEMEX at the direction of Mexico) will be obligated to return the Eligible Assets or pay an equivalent amount in cash to EFL I when due
   - C. Mexico (or PEMEX at the direction of Mexico) will be obligated to pay a periodic Facility Fee to EFL I
   - D. Mexico will issue and sell Mexico Notes in full to EFL I anytime Eligible Assets or cash are not delivered to EFL I when due for whatever reason
4. EFL I lends Eligible Assets to PEMEX; cashflows (principal and interest) from Eligible Assets will flow back to EFL I
5. EFL I uses (i) the cashflows received on the Eligible Assets and (ii) the Facility Fee to make distributions to P-Caps holders
6. Mexico will automatically issue and sell Mexico Notes to EFL I upon:
   - A. Failure by Mexico (or PEMEX at the direction of Mexico) to return any Eligible Assets to EFL I or to pay an equivalent amount in cash to EFL I,
   - B. Failure by Mexico (or PEMEX at the direction of Mexico) to pay the Facility Fee to EFL I or to purchase any Defaulted Eligible Assets,
   - C. The occurrence of an Insolvency Event (general moratorium in respect of any Public External Indebtedness of Mexico), or
   - D. The occurrence of a Mexico Notes Event of Default or an ICA event[1]
7. Upon an Automatic Issuance (step 6), EFL I will be dissolved and the Mexico Notes will be distributed to P-Caps Investors

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Pre- Capitalized Securities
Indicative Terms and conditions

Pre-Capitalized Securities ("P-Caps")	
Issuer	Eagle Funding LuxCo S.à r.l., acting in respect of its compartment "EFL Compartment I" ("EFL I"), a private limited liability company organized under Luxembourg law[3]
Expected P-Caps Ratings[1]	Baa2 / BBB (Moody's / S&P), consistent with the United Mexican States foreign currency credit ratings
Amount	Benchmark
Distribution	144 A / Reg S / 3(c)(7) for life
Use of Proceeds	P-Caps proceeds will be invested in US Treasuries and/or STRIPS ("Eligible Assets") to be delivered to and for the benefit of PEMEX under securities lending transactions
P-Cap Distributions	●% per annum of interest, 30/360 basis, paid semi-annually on each February 17 and August 17, and a partial repayment of principal annually beginning on August 17, 2027, as per the Amortization Schedule
Final Redemption & WAL	August 17, 2030; 3.57 years WAL
Amortization Schedule	Approximately 14.0% of issuance size in August 2027, approximately 43.5% in August 2028, approximately 14.0% in August 2029, and approximately 28.5% in August 2030
Facility Agreement	Agreement to be entered between Mexico and EFL I specifying that: 1) Upon settlement of the P-Caps, the Posting Feature will be exercised and EFL I will deliver all of the USTs/STRIPS to PEMEX 2) Mexico will be obligated to either (i) pay, or cause PEMEX to pay, in immediately available funds to EFL I an equivalent amount to the return on the Eligible Assets delivered to PEMEX ("Substitute Payment"), and/or (ii) return, or cause PEMEX to return to EFL I, any Eligible Assets previously delivered to PEMEX 3) Mexico will be obligated to pay, or cause PEMEX to pay, a facility fee to EFL I, in an amount which when taken together with the returns of the Eligible Assets equals the P-Caps distributions 4) Mexico will automatically issue and sell to EFL I an amount of Mexico's ●% Notes due 2030 (the "Mexico Notes") equivalent to the P-Caps outstanding amount upon the occurrence of certain automatic issuance events

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