Abbott Point bonds go 10/90: Coal refi bellwether?

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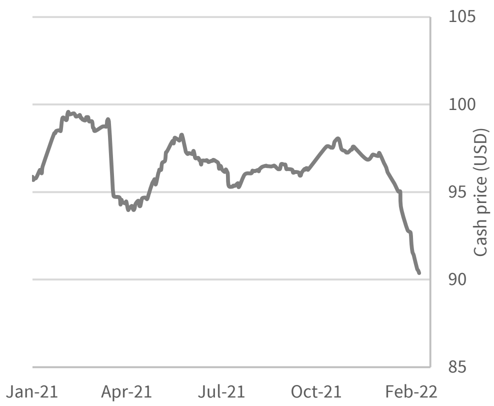
The ADAABB 4.45% 12/2022 (USQ0102FAD70/ US00653GAB05) bond is entering 10/90 territory: 10 months remaining until maturity and trading at 90 cents on the dollar. In yield terms, this is equivalent to a yield of around 18%, which in turn indicates significant stress. The natural flow of money market funds mopping up <1yr paper as traditional indexed funds exit (as they instead deal mostly with >1yr paper) should now be over, if it was there at all. ADAABB was downgraded to junk last year and the MMF bid may not have crystallized due to rating constraints, which could explain the poor price dynamics since December (Figure 1). Having said this, we believe bonds are still pricing in (on the upside) hope of a rescuer arriving in time to refinance the bond at par.[1]

Figure 1. ADAABB 4.45% 12/22, BB-/BB+, clean cash price. Source: Bloomberg.



In our view, the likely counterparties to do so, if a bond market or bank loan refinancing is not possible, would be Adani Enterprises (ADEIN, the ultimate owner) or Adani Ports (ADSEZ, the operator of the NQXT terminal) or other majority interests in the Adani Group. Earlier ADAABB debt redemption that failed to refi in the bond market were indeed covered by related parties, according to reports.[2] Having said this, "there is limited visibility into the sponsor's future capacity to provide the requisite support for refinancing", as per Moody's negative review report dated 20 Dec 2021.

If we entertain a hypothesis of a fairly low general appetite for ADAABB – given its linkage to the Carmichael thermal coal mine greenfield project[3] - that could lead to any potential rescuer(s) negotiating a tough bargain with ADAAAB to refinance/restructure the ADAABB 22s. If we assume an expected recovery value of 30%, in line with the CDX.HY index, on the bonds, a restructuring offering bond investors anything more would obviously be better for the bond investors than the alternative. "An offer one could not refuse" so to speak. In practice, a rescuer spending USD175mn (repayment at 30 cents on the dollar) rather than US500mn (repayment at par) of capital would appear to be a better steward of that same capital.

Hence, beyond the primary investors in ADAABB 22s, the developments around the refi of the bonds could therefore be relevant for bond investors in ADSEZ.[4] Minority equity investors across both ADSEZ and ADEIN cap structures would be diligent to monitor the situation as well.

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[1] "Credit investors, rating agencies and climate: Exhibit 1", AFII, 14 May 2021, discusses the refinancing situation. "Global investors and the Carmichael mega-mine", AFII, 1 Sep 2020, gives a broad overview over the Adani/Carmichael situation.
[2] "Adani in $100mn debt scramble", Australian Financial Review, 15 Apr 2020.
[3] See, for example, "Adani feels the heat from coal", IFR, 30 Jul 2021.
[4] ADSEZ has been a prolific issuer in the USD benchmark market with 6 new deals (out of a total of 7 outstanding) since June, 2019. That month is concidentally the same month that the Carmichael project was given the go-ahead from Australian authorities, see "The World's Most Insane Energy Project Moves Ahead", Rolling Stone, 14 Jun 2019.

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The Anthropocene Fixed Income Institute is a non-profit organization "to monitor, advocate for and influence the impact of the fixed income and bond markets in the age of human induced climate change." For more information about the Institute, please visit wwww.anthropocenefii.org or follow us using the hashtag #anthropocenefii.