

Update on Ghana's Eurobond Restructuring

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Nearing the finish line

In view of the setback to the initial restructuring proposals in April 2024, the Ghanaian authorities and the two Steering Committees of its Eurobond holders returned to the negotiation table to rework a debt deal compatible with the IMF programme parameters. The Steering Committee – which included International Steering Committee and the Regional Steering Committee – together accounts for 55.0% of Ghana's outstanding Eurobonds. Following the rework of new terms, the Ghanaian authorities and the two Steering Committees reached an Agreement-in-Principle (AIP) on the financial and non-financial terms of the new bonds to be created. Our review of the financial terms of the AIP showed a deeper haircut of 37.0% (vs initial haircut of 33.0%), a lower coupon rate on the Disco Option, and relatively shorter tenors compared to the initial terms. Having secured the IMF staff confirmation that the new terms are compatible with the programme parameters, the authorities have scaled the first hurdle upon which the April 2024 proposals tripped. In our view, this moves the Eurobond restructuring closer to the finish line, subject to confirmation of comparability of treatment by the Official Creditor Committee (OCC), which will pave the way for consent solicitation from all bond holders. Also, the deeper haircut in the AIP suggests a reduction in potential upsides on the secondary market pricing compared to our expectation in the April 2024 proposal.

Highlights of the financial terms in the Agreement-in-Principle (AIP) with our views

- **A deeper haircut with lower coupon on the Disco option, and relatively shorter tenors across options:** Like the April 2024 proposal, the AIP included two options for bond holders – A Par option and a Disco option. ([April 2024 proposal](#)). We also observed that apart from the deeper haircut, the terms of the Past Due Interest (PDI) bond remain unchanged with interest accruals terminated on 31st December 2023. *This indicates foregone PDI and unrealized cashflow for investors for the 2024 financial year.*

The Disco Option:

- A deeper effective nominal haircut of 37.0% on the outstanding principal and PDI (vs 33.0% initial proposal)
- a two-tenor structure with maturities in July-2029 (Bond Short) and July-2035 (Bond Long). This contrasts with the April proposal which had a three-tenor structure with maturities in July-2030 (Bond Short), July-2035 (Bond Medium), and July-2038 (Bond Long). *This indicates the potential for early redemption as the reworked maturities have been shortened.*
- a coupon rate of 5.0% p.a. accruing from 01st January 2024 to 01st July 2028, and stepped up to 6.0% p.a. afterwards. This contrasts unfavourably with the April proposal which had a coupon rate of 5.0% p.a. accruing from 01st January 2024 to 01st July 2027, and stepped up to 6.5% p.a. afterwards. *Effectively, we note that the AIP has resulted in a one-year extended payment of a lower coupon of 5.0% and slashed the stepped-up coupon by 50bps to 6.0%.*
- a soft amortization schedule with first instalment due in January 2026 for Bond Short and January 2030 for Bond Long. This contrasts favourably with the April proposal which had a soft amortization schedule with first instalment due in January 2026 (for Bond Short), January 2031 (for Bond Medium) and January 2036 (for Bond Long).

The PAR Option:

For the Par option, we observed that the subscription cap of USD 1.6bn and annual coupon rate of 1.5% remained unchanged. However, the maturity profile has been shortened to January 2037 for 96% of subscribed face value (vs January 2043 in the April proposal) while first instalment is due in January 2036 (vs July 2034 in the April proposal).

The structure of the Past Due Interest (PDI) bond largely remained unchanged with the accrued interest terminated on 31st December 2023, a zero-coupon, first instalment in July 2024, and final maturity in January 2030. However, a deeper haircut of 37.0% will be applied in the new agreement (vs 33.0% haircut in the April 2024 proposal).

Under both options (Disco vs Par), a consenting holder would receive a consent fee of USD 10 for each USD 1,000 face value (that is, a consent fee equivalent to 1.0% of original face value), the PDI bond, and a Down Payment Bond. The Down Payment Bond is a new addition which allocates 4.0% of a USD 1,000 initial face value as a new bond with zero coupon, final maturity in July 2026, and first instalment in July 2024. *In our view, the Down Payment Bond enabled the maturity shortening for both the Disco and Par options, enhancing the perceived attractiveness of the new agreement. However, its zero-coupon structure likely offset this perceived benefit.*

Our general views:

We now envisage limited upside for secondary market pricing due to the deeper haircut and slashed coupon

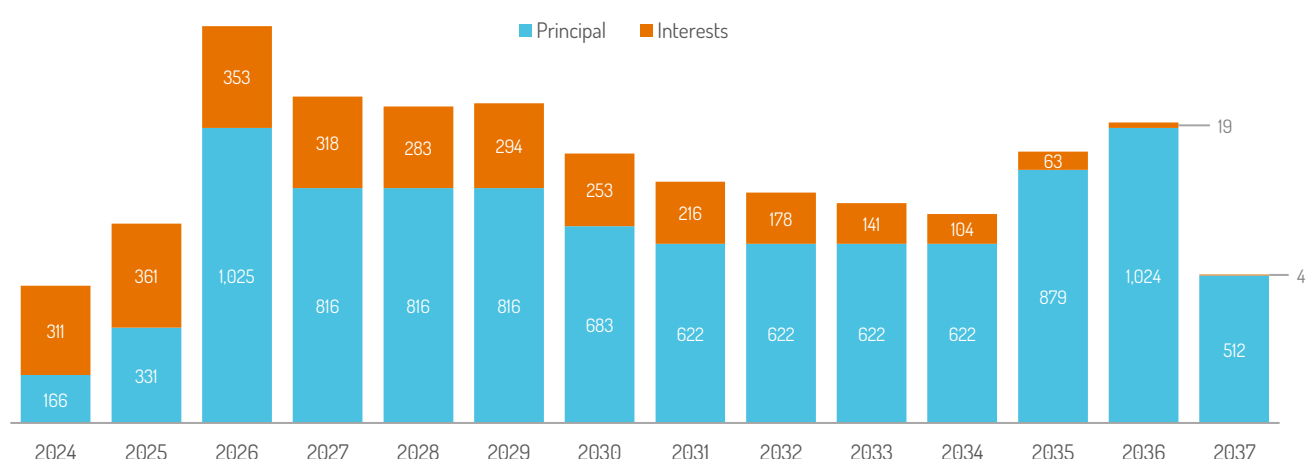
Following our early May 2024 update note on the initial proposal in which we anticipated upside of between 10.0% and 20.0%, Ghanaian Eurobonds have posted an average price gain of 3.8% as of mid-day 24 June 2024. However, we opine that the new terms impose deeper losses on investors via the effective haircuts on principal and PDI, as well as the 50bps reduction in the stepped-up coupon rate (6.0%) while the lower coupon of 5.0% is extended for one extra year. In view of this, we now see limited upside scope from the current average market cash price of USD 53.4 per USD 100.0 face value, with upside potential of between 5.0% – 7.0%. As the market digests the new terms, we noted an average intra-day price loss of 1.1% across the outstanding securities, reflecting the bearish view of the market and our envisaged cap on the upside.

Our longstanding view remains that the authorities are prioritizing reserve accumulation ahead of debt service resumption

The estimated cash flow on the restructured Eurobonds envisages the resumption of debt service on the restructured Eurobonds from July 2024. Despite a cumulative cash flow relief of USD 4.4bn during the IMF programme (average: USD 1.5bn per year), the AIP envisages USD 477.0mn in Eurobond debt service in 2024. Accounting for the ongoing multilateral debt service (given that these debts were outside the perimeter of debt restructuring), we think the authorities would require between USD 600.0mn – USD 800.0mn for external debt service in 2024. These estimates exclude the USD 1.6bn legacy arrears owed to the Independent Power Producers, out of which only USD 400.0mn has been paid, and other commercial creditors. Extending the outlook, the cash flow forecast shows intensified debt service obligation from 2026 – 2030, from peak USD 1.4bn to USD 1.1bn on the Eurobonds alone. However, Ghana's forex reserves (excluding oil funds and encumbered assets) stood at USD 4.3bn in April 2024 (2.0 months of import). This emphasizes our longstanding view that the authorities have been in reserves accumulation mode in anticipation of external debt service resumption rather than sufficient FX market support. Consequently, we remain less bullish on the outlook for the Ghanaian Cedi as we see limited sources of sizable FX inflow to the market.

Financial terms of the Agreement-in-Principle

Annual Post-restructuring cashflow (USD Mn)



Source: Bloomberg, IC Insights

OPTION 1	DISCO OPTION			
Cap (on subscription amount)	No Cap			
Consent Fee (for USD 1,000) original face value	USD 10			
	Bond Short	Bond Long	Down Payment Bond	PDI Bond
Amount (for USD 1,000 initial face value)	USD 242	USD 348	USD 40	Accrued amount until 31 Dec-2023
Interest Rate	5% (accruing from 1-Jan-2024) until 1-July-2028 6% afterwards		0%	0%
Maturity	Jul-29	Jul-35	Jul-26	Jan-30
First Instalment	Jan-26	Jan-30	Jul-24	Jul-24
Effective Nominal Haircut	37%			37%

Source: Bloomberg, IC Insights

OPTION 2	PAR OPTION		
Cap	USD 1,600mn		
Consent Fee (for USD 1,000) original face value	USD 10		
	Bond PAR	Down Payment Bond	PDI Bond
Amount (for USD 1,000 initial face value)	USD 960	USD 40	Accrued amount until 31 Dec-2023
Interest Rate	1.50%	0%	0%
Maturity	Jan-37	Jul-36	Jan-30
First Instalment	Jan-26	Jan-30	Jul-24
Effective Nominal Haircut	0%		37%

Source: Bloomberg, IC Insights

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