

Coal funding premia: Port of Newcastle USD deal

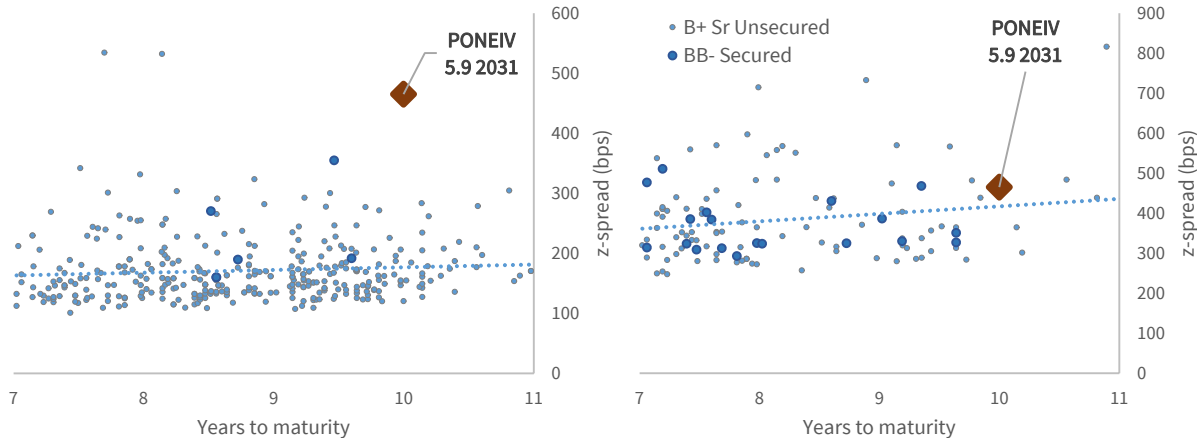
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The Port of Newcastle – the world’s largest coal terminal – this week issued an inaugural bond in USD. The transaction was sized at USD300mn and priced at a 6% yield (CT10+441.6bp), equivalent to a spread over swaps / z-spread of around 465bps.¹ We illustrate this bond’s pricing in Figure 1 (PONEIV 5.9 11/31, ISINs: USQ7700PAA23 – REGS, US734865AA63 – 144a) alongside that of similar bonds in the BBB- rating category.² The bond has an expected rating of Baa3/BBB-/BBB- (Moody’s / S&P / Fitch).

This pricing implies a very substantial increase in the cost of capital for coal issuers for longer-dated capital. ROIs required for coal projects should accordingly see adjustments for such high costs of capital going forward.

It should be noted that in general, credit ratings have an up-to-five-year forward-looking window. In order to calibrate what the wide pricing implies in terms of credit rating / default probability, we compare the bond with 10y equivalents in lower rating categories (BB+/BB/BB-), as illustrated in Figure 2. This yields a long-term rating of BB-/B+ rather than BBB-. Looking at spread-implied default probabilities, our calculations suggest a cumulative default probability of >50% for the issuer.³

Figure 1. New PONEIV bonds vs BBB- rated (left); BB-/B+ rated (right) USD benchmark bonds



¹ We have previously covered other debt market transactions with respect to Port of Newcastle in “[Lipstick on a pig: NAB’s sustainability loan to coal](#)”, 4 May 2021; “[Peak greenwashing](#)”, 6 May 2021. The former piece provides specific details on the activities of the Port of Newcastle. See also “[Port of Newcastle’s roadblock on the path away from thermal coal](#)”, IEEFA Australia, 18 Mar 2021.

² “[Fitch Rates Port of Newcastle’s Proposed Senior Secured USD Notes ‘BBB-\(EXP\): Outlook Stable](#)”, Fitch, 8 Nov 2021.

³ Default probabilities will be highly dependent on the assumption of recovery values. Our >50% cumulative probability assumes a recovery value of 40% or more.

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