Update on Russian coal miner SUEK's new USD bonds

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In our "[Notable fixed income fossil funding deals 2021]" article, we put SUEK's inaugural USD deal a few weeks ahead of COP26, SUEK $3.375 09/26 (XS2384174228/ US78486MAA80, REGS/144a, USD500mn, rated Ba2/BB) at the top spot. The bonds have already fallen to trade at around 91-92 cents on the dollar, Figure 1, and on a spread basis, widened to approximately z+385bp to be compared to an issuance level of ms+248.5bp. These are not updated number: currently Russia 5y CDS is trading at 800bps, if we reprice the SUEK bonds to trade level with the sovereign, the corresponding cash price would be around 78 cents on the dollar.

Figure 1. SUEK 3.375 09/26 USD bonds. Source: Bloomberg.

Given the recent invasion developments, we believe one should consider scenarios where strengthened sanction regimes come into play, noting a non-zero probability that the issuer will not be able to/not willing to pay coupons to international investors in the bond. Next coupon payment date is 15 March. Noting that the investor base in the USD denominated bonds was mostly domestic ("Suek finds sanctuary in bond markets", IFR, 10 Sep 2021), the question is if there could even be situations where coupons are paid to domestic investors but not to international ones.

Investors who invested in the SUEK deal in September[1] made a conscious choice to participate in an inaugural (market-opening) deal for a key thermal coal exporter a few weeks prior to COP26, and with what – in our opinion – is not to be considered a strong governance structure. Reviewing what investors have exposure, we note that Fidelity has taken a considerable position of USD37mn (7.4% of outstanding).[2]

In general, given the low general appetite for thermal coal deals in the global fixed income community, we would expect the deals that do to come out to come from parties that generally score lower on Governance factors. We opine that the SUEK deal well illustrates how such deals and such correlations can be fraught with real financial risks for end-investors.

[1] Refer to "Banking on coal: SUEK bond review", AFII, 2 Sep 2021, and "SEUK calls force majeure: bank and investor implications", AFII, 14 Oct 2021.
[2] Data according to Bloomberg. We have previously discussed the manager in "Fidelity and the oil sands pudding", AFII, 26 July 2021.

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