June 2020

Fixed Income Recommendations

Prepared by:

JN Fund Managers Ltd.'s Global Investment Research Unit

Global Investment Research Unit

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Issuer Name	Symbol	Coupon	Maturity	S&P Issuer Rating	S&P Outlook	Current Bid Price	Yld to Mty (Bid)	Yld to Next Call (Bid)	YTD - Return	1-YR Return	G-Spread	Recommendation	Minimum Piece	Risk	
SOVEREIGN															
Bahamas	BAHAMA	5.75%	16-Jan-24	BB	NEG	US$ 90.83	8.78%	-	-15.87%	-13.13%	780.72	SELL	US$ 200,000.00	Medium- High	High Yield
Bahamas	BAHAMA	6.00%	21-Nov-28	BB	NEG	US$ 85.25	8.483%	8.542%	-24.77%	-19.56%	799.26	SELL	US$ 200,000.00	Medium- High	High Yield
Barbados	BARBAD	6.50%	1-Oct-29	B-	STABLE	US$ 91.67	7.773%	-	-6.44%	-1.46%	754.62	HOLD	US$ 100.00	Medium- High	High Yield
Barbados	BARBAD	6.50%	1-Feb-21	B-	STABLE	US$ 98.73	8.681%	22.717%	-1.34%	-1.34%	742.93	HOLD	US$ 100.00	Medium- High	High Yield
Jamaica	JAMAN	7.63%	9-Jul-25	B+	NEG	US$ 109.23	5.511%	-	-8.15%	-4.98%	451.71	HOLD	US$ 200,000.00	Medium- High	High Yield
Jamaica	JAMAN	9.25%	17-Oct-25	B+	NEG	US$ 116.02	5.723%	-	0.34%	0.84%	534.94	HOLD	US$ 100,000.00	Medium- High	High Yield
Jamaica	JAMAN	6.75%	28-Apr-28	B+	NEG	US$ 109.27	5.294%	-	-9.98%	-6.93%	448.57	BUY	US$ 200,000.00	Medium- High	High Yield
Jamaica	JAMAN	8.50%	28-Feb-36	B+	NEG	US$ 118.25	6.613%	-	0.34%	0.84%	554.01	HOLD	US$ 100,000.00	Medium- High	High Yield
Jamaica	JAMAN	8.00%	15-Mar-39	B+	NEG	US$ 120.11	6.173%	-	-8.88%	-3.70%	497.89	BUY	US$ 100,000.00	Medium- High	High Yield
Jamaica	JAMAN	7.875%	28-Jul-45	B+	NEG	US$ 118.76	6.368%	-	0.34%	0.84%	499.62	BUY	US$ 200,000.00	Medium- High	High Yield
CORPORATES															
Credito Real SAB	CREAL	9.50%	7-Feb-26	BB	STABLE	US$ 101.67	9.110%	10.357%	-12.91%	-6.00%	865.36	HOLD	US$ 200,000.00	Medium - High	High Yield
Credito Real SAB	CREAL	7.25%	20-Jul-23	BB	STABLE	US$ 99.02	7.608%	53.587%	-6.36%	-4.82%	733.66	HOLD	US$ 200,000.00	Medium - High	High Yield
Societe Generale SA	SOCGEN	4.25%	14-Apr-25	A	NEG	US$ 105.10	3.103%	-	-0.52%	3.95%	275.89	HOLD	US$ 200,000.00	Low - Medium	Investment Grade
Societe Generale SA	SOCGEN	3.25%	12-Jan-22	A	NEG	US$ 102.84	1.419%	-	0.80%	2.10%	119.86	HOLD	US$ 200,000.00	Low - Medium	Investment Grade
Trinidad Generation UnLtd	TRNGEN	5.25%	4-Nov-27	BB+	STABLE	US$ 91.90	6.654%	-	-13.77%	-8.82%	644.56	HOLD	US$ 200,000.00	Medium - High	High Yield

As of June 10 , 2020

Country	Currency	Currency Code&Symbol
Bahamas	Bahamas Dollar	B$
Barbados	Barbados Dollar	Bds$
European Union*	Euro	€
Jamaica	Jamaican Dollar	J$
Mexico	Mexican Pesos	MXN
Trinidad & Tobago	Trinidad and Tobago Dollar	TT$
United States	United States Dollar	US$

* The European Union is a political and economic union of 27 member states that are located primarily in Europe.

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INVESTMENT ANALYSIS: FIXED INCOME

BAHAMAS

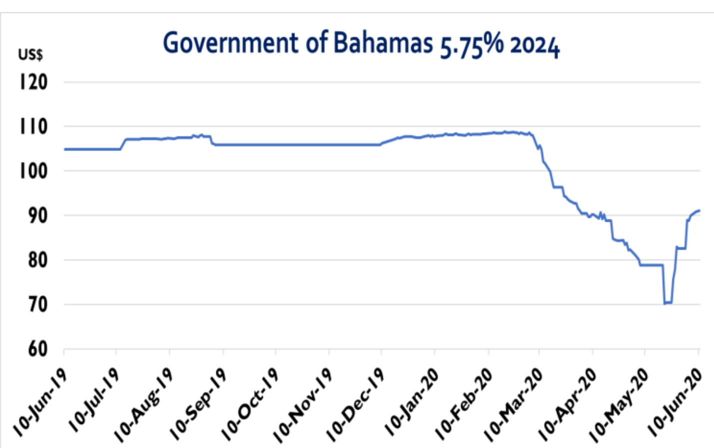
Country Overview

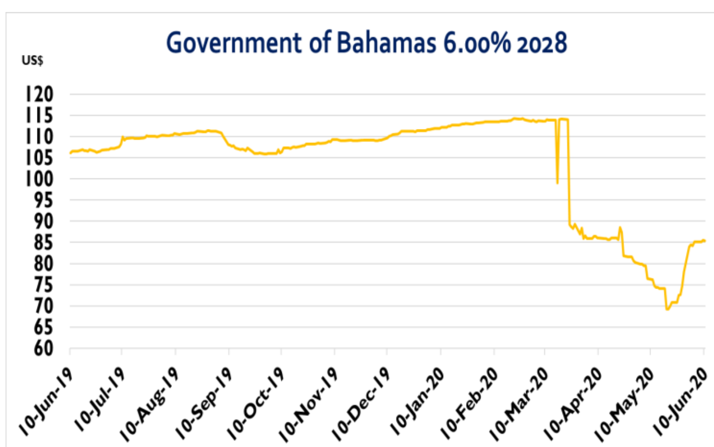
Recommendation:	SELL	SELL
Issuer Name	Government of Bahamas	Government of Bahamas
Coupon	5.75%	6.00%
Maturity	16-Jan-24	21-Nov-28
S&P Issuer Rating	BB	BB
S&P Outlook	NEGATIVE	NEGATIVE
Current Price	US$90.83	US$85.25
Consider Purchasing at	US$54.29	US$52.99
Yield to Maturity	8.78%	8.48%
Yield to Next Call	-	8.54%
YTD - Return	-15.87%	-24.77%
1-YR Return	-13.13%	-19.56%
G-Spread (bps)	780.72	799.26
Risk	Medium-High High Yield	Medium-High High Yield

June 10, 2020

The Commonwealth of Bahamas is a small archipelagic island state and is a service-based economy largely dominated by two service sectors, tourism and financial services (its two-major income - generating sectors). Tourism, its principal sector, contributes approximately 40% of the country's Gross Domestic Product (GDP). Construction, driven by tourism, adds 20% to Bahamas aggregate output. Tourist arrivals are predominantly from North America due to its proximity. Financial services, the second largest sector, contributes approximately 15% of the country's GDP, primarily from offshore banking. Although limited by the country's geography, agriculture contributes to approximately 2.1% of GDP.

Other activities such as oil, maritime, transhipment, salt, rum, aragonite and pharmaceuticals industries account for about 7% of the GDP. With low agricultural activity, the Bahamas rely heavily on imports from countries such as United States, India, South Korea, Colombia and China. The top five (5) countries Bahamas exports to are: Singapore, United States, Poland, Ecuador and Switzerland. The Bahamas, officially the Commonwealth of the Bahamas, follows





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the structure of a parliamentary system. Since 1976 the Bahamian dollar has been pegged to the US Dollar at B$1 per US$1.

Investment Thesis

Positives

- **Strong Net International Reserves** – External reserves during the month of March 2020, strengthened by 1.6% or US$30.7M to US$1,964.2M. This was higher than US$1,392.30M recorded for the similar period last year. The Central Bank Governor has indicated that the external reserve is sufficient to meet Bahamas' foreign currency needs despite the "major reduction" projected due to the coronavirus outbreak and its impact on Bahamas' tourism sector. The Bahamian government in their preliminary projections, anticipate that reserves should fall by US$900M by the end of 2020. However, it is anticipated that this expected reduction is likely to be offset by expectations for an ease in traditional pressures on the reserves such as: imports consumed by tourists; foreign travel by Bahamians; higher oil prices; energy and transportation related purchases.

US$1.96B

External Reserves as at March 2020

- **Implemented Measures and Pre-Existing Tools to buffer Coronavirus Impact** – The Government of Bahamas announced various support measures totalling B$65.7M (0.6 percent of GDP) which include: (i) B$4M for the health sector; and (ii) B$4M for food programmes and B$5.9M as income support for the self-employed; (iii) B$20M to support business loans to Small and Medium-sized Enterprises (SMEs) and B$30M to provide tax deferrals (or tax credits) to companies retaining at least 80% of staff, and (iv) B$1.8M to support family island administrators (local public officers). Along with implementing social distancing measures, the government also convened an Economic Recovery Committee that will advise the government on the safe and gradual reopening of the economy, as well as propose medium to long term strategy to restore economy of Bahamas. Additionally, pre-existing tools such as unemployment and sickness benefits should also help to buffer some of the impact from the coronavirus. However, this is only for individuals who have made specific amount of contributions previously or fit in the self-employed category. After feeling the effects of Dorian, the National Insurance Board now must brace for a major draw down on its resources of at least an additional B$16M per month, which is above expected budgeted expenditures. The government will present its budget for the upcoming fiscal year in May 2020.

B$65.7M

Fiscal Measures to Fight COVID-19

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- **Steps to energy reform** – The Hubert Minnis administration has taken steps to reform the energy sector. On December 15, 2019, Bahamas Power and Light Company Ltd.'s US$95M, 130-megawatt plant in the existing Station A building at the Clifton Pier was brought online. It is equipped with seven Wartsila 50DF tri-fuel engines that burns light fuel oil but also has the capacity to burn natural gas or heavy fuel oil. This coupled with currently low oil prices could help buffer some of the shocks from the coronavirus and other impending disasters. Reducing energy costs is vital to lowering the cost of living for Bahamians and the cost of doing business. Once the pandemic abates, the steps to energy reform will in return help to boost the country's image as being an attractive place to conduct business.

US$95M

130-Megawatt plant brought online December 15, 2020

Negatives

- **Higher Unemployment levels** – Unemployment levels in the Bahamas will likely increase in the short-term due to restrictions placed on travel globally considering COVID-19. According to the Ministry of Tourism, tourism accounts for over 70% of the country's employment directly and indirectly and 77.2% of exports according to Inter-American Development Bank (IDB) making it the principal earning sector in Bahamas. In the most recent labour market report, unemployment rate for New Providence of Bahamas, which is the most populous island was 12.9% as at December 2019 relative to the 9.4% recorded in May 2019. Given the negative impact of Hurricane Dorian on Grand Bahama and Abaco islands in September 2019, only New Providence was highlighted in the labour market report. The Caribbean Disaster Emergency Management Agency (CDEMA) projects that up to 40% of the Bahamian workforce may become unemployed due to the COVID-19 pandemic in upcoming months. As of April 17, 2020, unemployment application claims which include those who paid contributions previously and self-employed were more than 18,000 and approximately B$9M was paid. However, considering the ongoing foreign investment projects as well as restoration efforts, we anticipate that the construction sector might help to offset the severe increase in the unemployment rate caused by the halt in the tourism sector.

12.9%

Unemployment Rate for New Providence as at December 2019

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- **Lack of Fiscal Space to Combat the Coronavirus and Natural Disasters** – Although the government is committed to fiscal reform through implementing various measures such as value added tax, current external shocks have negatively impacted the government's revenues. Expenditures related to the rebuilding of key infrastructure from Hurricane Dorian damages and social welfare spending coupled with the revenue intake disruptions related to the COVID-19 pandemic is expected to weigh on the Government's fiscal outturn. Given that 2020 hurricane season is just months away the Government and the central bank is unable to provide direct stimulus to counter the negative effect of the coronavirus on the economy. However, the country may likely mitigate some of the pressures from re-insurance receipts and donations from domestic and international sources as well as an increase in domestic and external borrowings.

30.2%

Deficit widens for second quarter of FUY 2019/20

- **Higher Debt and Interest Burden –** On April 16, 2020, Standard & Poor's credit rating agency lowered its long-term foreign and local currency credit rating for The Bahamas from BB+ to BB. The outlook was previously changed in March from stable to negative. This change in outlook was due to an increase of weaker revenues or higher borrowing, resulting in a sustained interest burden in excess of 15% of revenues. Preliminary estimates showed that the government's overall deficit widened by 30.2% during the second quarter of FY2019/20, relative to the same period for FY2018/19. This was attributed mainly to a rise in unplanned hurricane recovery related spending, which outstripped the value added tax-led increase in aggregate revenue. Budgetary financing was primarily sourced from the domestic market and comprised of a combination of long and short-term debt. The rating agency also noted that The Bahamas substantial deficits, including hurricane-related spending, have led to a notable increase in the country's debt burden. Also, at the same time, external risks to the country's economic growth are rising due to, the global spread of COVID-19, which could have a significant impact on the country's GDP, fiscal accounts and foreign exchange inflows.

Excess of 15% of revenues

Interest Rate Burden

- **Risks to Growth Outlook –** Bahamas is heavily dependent on tourism and offshore financial services which can be negatively affected by other countries' economic recession and natural disasters that affect these countries. In light of the coronavirus crisis, which comprises of health shock, domestic economic disruptions and severe external demand shock, it is likely that The Bahamian economy will contract in the short to medium term. Moody's has indicated that

-8.3%

IMF anticipates that economic growth will contract in 2020

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in a "credit opinion" it anticipates that the economy may contract by 8% in 2020 and has placed the country "under review" for potential downgrade to so-called "junk" status and cited that the Bahamian economic and fiscal performance as significant risk to growth. During the review period, Moody's will assess the Government's short-term response to the ongoing shock from the coronavirus and its fiscal plans for the next few years as set in the 2020-2021 budget to be tabled in May. Also, the impact of natural disasters and appreciation of the US dollar which is pegged to the Bahamian dollar could further affect the country's competitiveness. The IMF projects that The Bahamas will contract by 8.3% before rebounding to 6.7% in 2021.

Before the coronavirus health crisis, the Bahamas had been rebuilding the Grand Bahama and Abaco islands after they suffered severe damages during Hurricane Dorian in September 2019. As a result, the government had planned sizable deficits for the two-three years following the hurricane, which added almost B$1.5B in additional debt over six years.

The Bahamas is heavily dependent on the tourism sector which is virtually shuttered due to the travel bans and other social distancing measures implemented globally to slow the spread of COVID-19. While the country has reasonable level of external reserves, ongoing foreign investment projects as well as tools such as unemployment and sick benefits to help buffer the shocks, the increase in request for unemployment benefits will likely put a further strain on the economy as the sector employs up to 70% directly or indirectly according to the Ministry of Tourism.

With the current health crisis, the government could reprioritize some of its planned hurricane restoration spending to meet its pandemic needs but given the importance of tourism to the country, we expect a significant decline in revenues, which in conjunction with elevated spending, will lead to large fiscal deficits over the next two years, which will be financed by increased borrowing. Interest payments will remain above 15% of government revenues for three or more years net debt to GDP is expected to jump to 67.7% in 2020 from 49.2 in 2019 and remain above 64% through to 2023, according to S&P.

Once the coronavirus abates and excluding any other external shocks such as natural disaster, The Bahamas is likely to see some recovery. The IMF projects that Bahamas' economy will contract by 8.3% in 2020 and rebound in the economy in 2021 by 6.7%. However, given the importance of tourism to the Bahamas economy and the fact that a timetable to an abatement of the virus is very unclear, the return of tourists to Bahamas is highly uncertain. According to Moody's Analytics, tourism contributes up to 75%-80% of the country's GDP[1]. We further estimate that if the travel restrictions were to be removed prior to the development of a vaccine potential tourists will be hesitant to travel out of fear of contracting the virus. Additionally, this recovery will also depend on the Bahamian government's strategy to ensure that the fiscal stabilizations policies are balanced but also depends to a great extent on the recovery in countries

[1] https://www.economy.com/bahamas/indicators

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it heavily relies heavily on for tourism, such as the USA. Given the above, we believe that the measure of risk is **Medium - High** and recommend that clients **SELL** these bonds given their specific circumstances.

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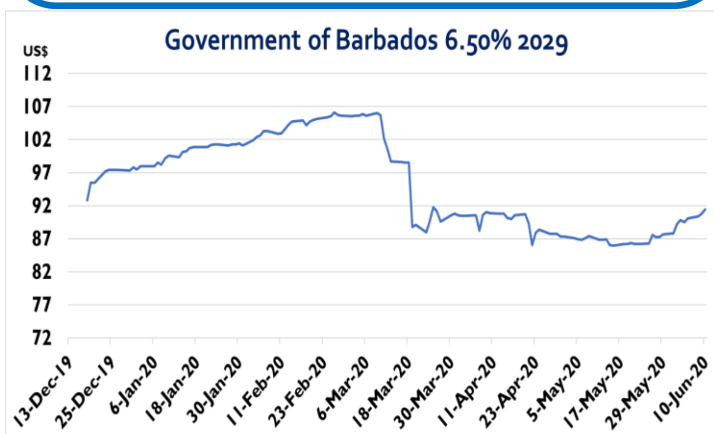
BARBADOS

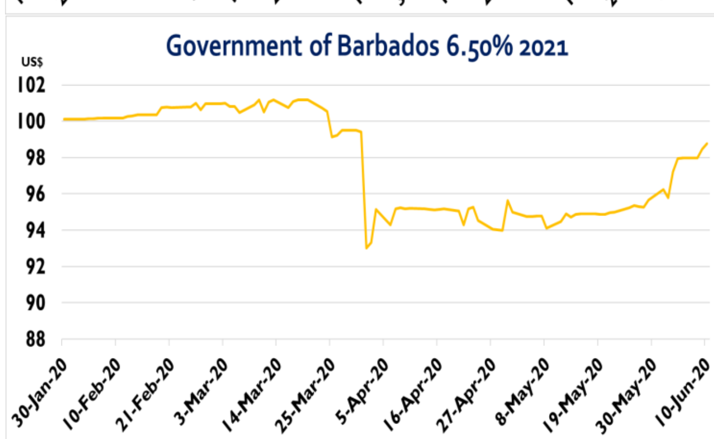
Country Overview

Barbados is in the Lesser Antilles of the Caribbean and is one of the most developed countries in the Eastern Caribbean. It currently has one of the highest per capita Gross Domestic Product (GDP) in the region of an estimated US$18,100 as at 2018. The island functions as a constitutional monarchy and parliamentary democracy modelled on the British Westminster system. Barbados is a member of the Caribbean Community (CARICOM) and the Caribbean Single Market and Economy (CSME). In 2019 Barbados' population was estimated to be 287,000. Since July 1975, the Barbadian dollar has been pegged to the US dollar at US$1 = BD$2.

Recommendation:	HOLD	HOLD
Issuer Name	Government of Barbados	Government of Barbados
Coupon	6.50%	6.50%
Maturity	1-Oct-29	1-Feb-21
S&P Issuer Rating	B-	B-
S&P Outlook	STABLE	STABLE
Current Price	US$91.67	US$98.73
Yield to Maturity	7.77%	8.68%
Yield to Next Call	-	22.72%
YTD - Return	-6.44%	-1.34%
1-YR Return	-1.46%	-1.34%
G-Spread (bps)	754.62	742.93
Risk	Medium-High High Yield	Medium-High High Yield

June 10, 2020





In the last two years, Barbados has come under great scrutiny. Upon successfully gaining office in 2018, the current Prime Minister, Mia Mottley, indicated a large misuse of public funds and revealed that the government was running fiscal deficits, the public debt was close to 160% of GDP and the country's reserves at Bds$440M could only cover 5 – 6 weeks of imports, below the 12-week benchmark. To restore stability and boost investor confidence, the government approached the International Monetary Fund (IMF) to enter an Extended Fund Facility (EFF) agreement for US$290M or Bds$580M. In granting the country the EFF, the IMF laid out a comprehensive debt restructuring plan that would complement the fiscal consolidation plans. The IMF identified parameters that would provide debt relief without jeopardizing financial stability. On April

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30, 2020, the IMF completed its third review of Barbados' Economic Programme under the EFF. The report indicated that the country had made good progress in implementing the reform programme, managed to boost reserves, completed its debt restructuring in December 2019, met the primary surplus target of 6% to GDP and met all the performance targets under the EFF up to March 2020. However, due to the coronavirus pandemic, the Barbadian government has had to lower its primary balance target from 6% to 1% and the IMF staff supports this easing of the fiscal stance.

The impact of COVID-19 on Barbados' economy threatens to be severe. The cancellation of global business and travel with the associated effects on air and cruise visits to Barbados has already curtailed tourism activity and it is having negative spill-over effects on other sectors. According to the S&P Global Ratings, in affirming Barbados' B-/B long- and short-term sovereign credit ratings, stated that the Barbados economy is expected to contract significantly in 2020. This they say is being spurred by the drastic decline in tourism as a result of the shutdowns that were put in place to reduce the spread of the coronavirus.

According to the World Travel and Tourism Council (WTTC), travel and tourism accounted for 30.9% of Barbados' GDP in 2019. Tourism is the largest contributor to foreign exchange in Barbados[2], and therefore the loss in foreign exchange earnings is likely to weaken the country's external current account, according to the Barbadian Central Bank.

However, the buffer of international reserves, 19.4 weeks of reserve cover, might be enough to meet external obligations including external debt. Along with this reserve build-up over the past 18 months, the government's commitment to fiscal discipline will better enable Barbados to continue to meet foreign exchange needs. However, the current situation of reduced FX flows highlights the need for Barbados to have larger buffers to safeguard the economy against large shocks that could undermine its financial stability.

NIR

19.4 Weeks

Reserve Cover

[2] http://www.centralbank.org.bb/news/article/9165/tourism-is-our-business

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Investment Thesis

Positives

- **Strong International Reserves** – Since May 2018, international reserves have increased from a low of ~Bds$440M (5-6 weeks of goods and services imports) to ~Bds$1.6B (19-20 weeks of goods and services imports) as at end-March 2020. Barbados managed to increase its international reserves despite having to make its first payments on the external restructured bond and increased foreign exchange demand from the private sector during the year. The Central Bank of Barbados noted in the April to March 2020 quarterly report that commercial banks in the country were able to satisfy demand without recourse to purchases from the Central Bank during FY 2019/20. The reserves, at the current level, exceeds the standard 12-week benchmark and is adequate to meet the country's external obligations including external debt payments over the next 18 months, notwithstanding reduced tourism-related foreign exchange flows.

US$1.6B

International Reserves as at March 2020

- **Currently in an IMF Programme** – Barbados is currently in an IMF programme which enables them to benefit from financial support and technical assistance in banking, fiscal affairs and exchange matters which will prove to be invaluable at this time to assist in dealing with the economic shocks of the COVID-19 pandemic. The fact that the country is already in the programme also brings the expectation that Barbados will be more fiscally disciplined at this time which better enables them to navigate through this crisis.

- **Coronavirus Stimulus Package** – The Government of Barbados announced a Bds$20M "survival" stimulus package whereby through a Household Survival Programme, which is aimed at helping more than 1,500 vulnerable families. The government has promised to provide up to Bds$600 per month to each family through the Welfare Department, as well as a 40% increase in all rates and fees paid out by the Welfare Department to individuals. This package will be made available to families for an initial three to six months period. This initiative will help to protect some of the most vulnerable persons in the country, especially those that were recently laid off due to reduced business activities.

B$65.7M

Fiscal Measures to Fight COVID-19

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Negatives

- **Projected Weak Economic Growth** – Over the past two years, The Barbadian economy was estimated to have contracted by an average of 0.3% due largely to a reduction in tourist arrivals. Tourism contributes approximately 12% of the country's GDP. With the tourism sector at a global standstill, the projection is that the Barbadian economy will contract in 2020. The IMF projects that the country could contract by 7.6% in 2020 before rebounding a recording growth in 2021. This contraction of 7.6% that the IMF is projecting, would shrink Barbados' economy to the level it was in 2003.

-0.6%

Real GDP growth for 2018

- **Fiscal Pressures** – The Government of Barbados has embarked on a fiscal consolidation process supported by the IMF. The measures include a reform of the State-Owned Operations (SOEs), reduced public sector wages, tax revenue enhancement, among other things. The government also adopted fiscal rules that would act as benchmarks that must be met, one of which is the 6% primary balance rule. However, due to the projected significant lowering of tax revenues as a result of reduced economic activities, the primary balance target had to be relaxed to 1% of GDP for this fiscal year. While the IMF has no issue with the reduced target given the current circumstance, we believe that the reduced revenues could lead to more borrowing by the government to meet funding shortfalls, which will put additional strain on recurrent interest expenditures going forward.

- **Worsening of Debt Position** – Barbados has managed to significantly reduce its debt levels over the last two years. After reaching out to the IMF to enter an EFF agreement, the Barbadian Government has adhered to rigours of the programme and has significantly reduced the country's debt levels from 158.3% in 2017 to 125.7% in 2018. The IMF also projects that the debt levels have further declined to 115.4% as of 2019 and is on a sustained path to 60% of GDP by FY 2033/34. However, we believe that the debt levels may rise this year as the government attempts to meet its planned expenditure through increased borrowing, given the reduction in tax revenues and increased health and welfare-related expenses. However, given the country's commitment to fiscal discipline, we do not believe that the 60% debt target by FY 2033/34 is at great risk at this point. The IMF and S&P also project that if the virus dissipates in the second half of 2020, then the economy will gradually rebound in 2021.

115.4%

General Government Gross Debt to GDP for 2019

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- **Higher Unemployment levels** – In 2018 and 2019, Barbados recorded an unemployment rate of 10.1%. As a result of the reduction in business activities in 2020, unemployment in Barbados is expected to spike, resulting from the increased layoffs brought on by the pandemic. This is especially to the tune that most of the country's employment is tied to the tourism sector which has been the most affected industry from the outbreak[3]. The Central Bank of Barbados (CBB) in their quarterly monetary policy report for January to March 2020 indicated that a rise in unemployment claims over the last five weeks leading to the end of March had reached unprecedented levels. The increased claims were partly due to the temporary layoffs associated with the restrictions on business activity. However, they note that the extension of unemployment insurance is expected to temper the impact of these lost jobs on spending in the short run, but individuals may also have to rely on domestic savings to compensate for lost earning. We believe that the unemployment levels in Barbados will rise in 2020 but followed by a decline in 2021 as business activities improve.

10.1%

Unemployment Rate for 2019

Before Barbados entered into the EFF agreement with the IMF, they had to cope with persistent fiscal deficits and growing debt burden. Importantly as well, the government had to technically default on their existing debt instruments in 2018 so as not to deplete the country's foreign currency reserves that were below benchmark levels at the time. However, with the fiscal consolidation efforts, public wage bill reduction, debt restructuring and improved oversight to SOEs, the Barbadian Government has improved their fiscal and primary balances, lowered their existing debt levels and improved their foreign currency reserves significantly above the benchmark, albeit inorganically.

Notwithstanding the country's fiscal improvements, the coronavirus pandemic is threatening the gains the county has recently made. Unemployment is expected to rise, given that the country's main income earner has taken a hit, and debt levels may increase as the government tries to ascertain funding to meet budgetary shortfalls which could ultimately lead to the largest contraction in Barbados history. Notwithstanding the likely increase in the debt levels, the recent completion of foreign and local currency debt exchanges which has contributed to more sustainable debt service, commitment to fiscal discipline and the financing from multilateral lending institutions, limits Barbados' near-term payment risks.

Barbados entered the outbreak with a stronger fiscal and external position and therefore we expect that when the virus has passed, the Barbadian economy shall begin its recovery process and experience growth for 2021. With the strict path that the government is on, with oversight and technical support from the IMF, the turnaround in the

[3] WTTC – Contribution of Travel & Tourism to Barbados economy 33.4% in 2019

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economy is more likely to be sustained by the country in at least the short term. With an improved record of execution and having passed all the structural benchmarks set by the IMF as at March 2020, among other positive developments in the country, we believe that the measure of risk is **Medium - High** and recommend that clients **HOLD** the Barbadian bonds given their specific circumstances. As our views on Barbados may change as things evolve, we will continue to monitor the situation and provide appropriate updates accordingly.

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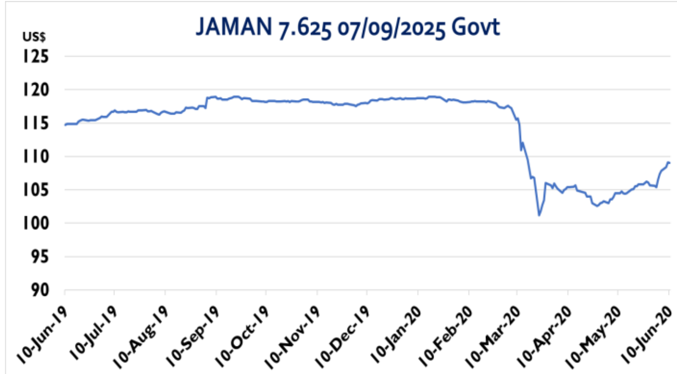
JAMAICA

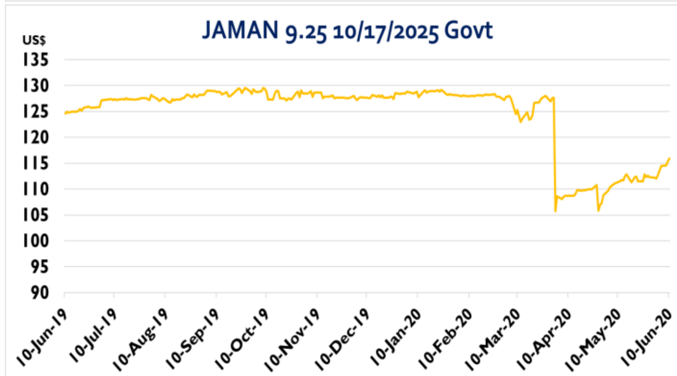
Country Overview

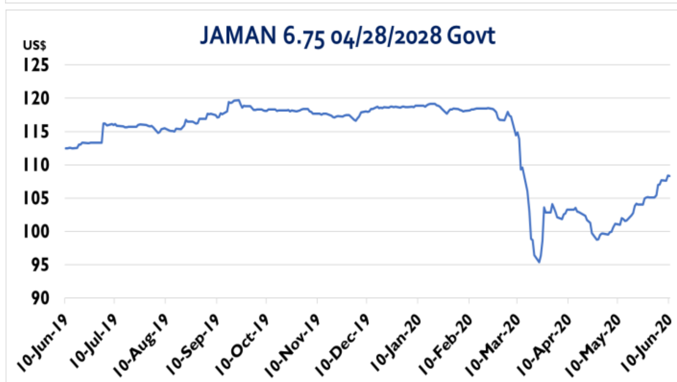
Jamaica is the largest English speaking and third largest island in the Caribbean. The island is a service-based economy largely dominated by tourism, agriculture, mining, and manufacturing. Tourism, its principal sector, contributes approximately 31% of the country's Gross Domestic Product (GDP) and about 33% of Jamaica's total employment, approximately 406,100 jobs[4]. As at February 2020, Jamaica's unemployment rate stood at 7.3% and inflation remained within the Bank of Jamaica's four to six per cent target range.

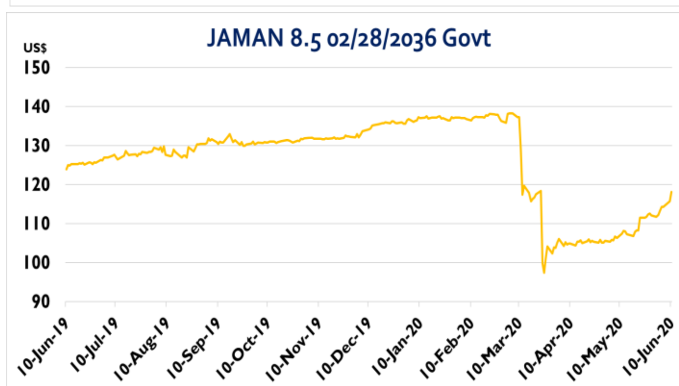
Jamaica's macroeconomy has improved over the last few years, through fiscal and monetary prudence and support from the International Monetary Fund (IMF). However, economic growth has remains anaemic, and with the current coronavirus pandemic, Jamaica prospects for economic growth in the short-term has been severely depressed.

Travel restrictions and social distancing measures put in place have led to increased unemployment, particularly within the hospitality sector. The government's COVID-19 Allocation of Resources for Employees (CARE) Programme has provided some monetary assistance to some of the affected persons. Saved fiscal surpluses over the years, as well as the US$520M, received from the IMF under their Rapid Financing Facility, should help to fund the government's initiatives to curtail the spread of the virus and gradually reopen the economy.









[4] World Travel & Tourism Council – Jamaica 2020 Annual Research: Key Highlights

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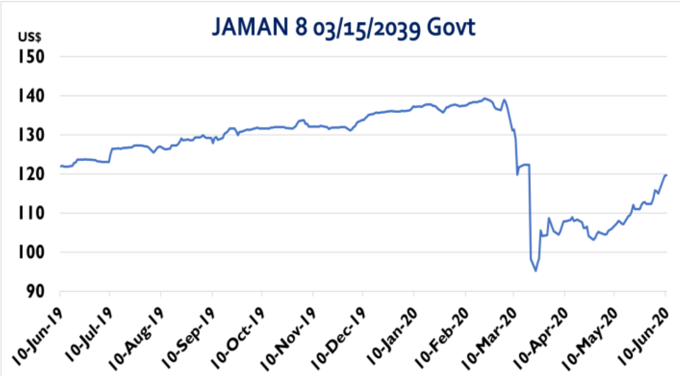

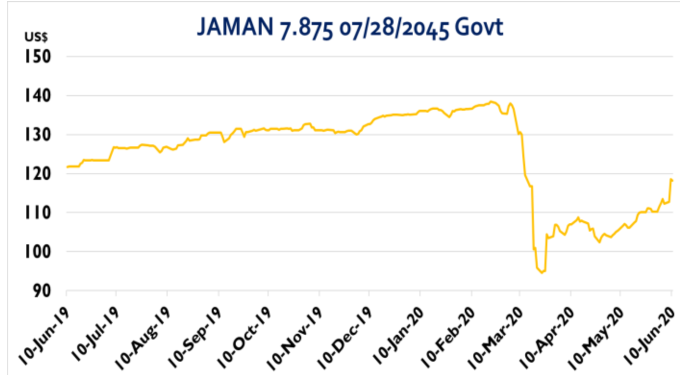

Investment Thesis

Positives

- **Strong Net International Reserves** – Jamaica has organically grown its stock of Net International Reserves (NIR) from approximately US$1.08B in October 2012 to US$3.13B in April 2020. Currently, the reserves are adequate to cover 23 weeks of goods and services, far greater than the BOJ's 12 weeks benchmark. Due to the coronavirus outbreak, which has led to reduced supply of foreign exchange (FX), the central bank has had to draw from the reserves to meet the FX demand. There is however no threat to the reserves at present given that it nearly doubles the benchmark and the fact that the government recently secured the IMF's Rapid Financial Instrument of US$520M slated for balance of payment support will be reflected in the NIR.

US$3.13B

Net International Reserves as at April 2020

- **Increased Liquidity Measures by the BOJ** – To ensure that orderly conditions are maintained in the market, the BOJ has taken several pre-emptive measures to assure financial institutions and the public of adequate access to both domestic and foreign currency liquidity during the challenging period. These measures include, but not limited to, swap arrangements, removal of the penal fee on overnight borrowing, reactivation of the intermediation and emergency liquidity facility and most recently the reduction in the cash reserve requirements.

⬇ to 13%

Foreign Currency Reserves Requirement

⬇ to 5%

Domestic Currency Reserve Requirement

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- **Fiscal Stimulus-Response to COVID-19 –** In March 2020, the GOJ announced the largest fiscal stimulus in Jamaica's history of J$25B to deal with the adverse economic implications of the coronavirus pandemic on the Jamaican economy. The measures include a reduction in the GCT from 16.5% to 15% to put J$14B back to the hands of consumers, a J$1B Micro, Small and Medium Enterprises (MSME) tax credit to provide cash-flow support to MSME's, as well as the reduction in regulatory fees for coconut, coffee, cocoa and spice farmers. There was also a reduction in asset tax for financial institutions presented at budget, but the banking sector volunteered to forgo the reduction for one year, which added J$3B to the J$7B COVID-19 contingency, bringing the total COVID-19 Fiscal Contingency to J$10B.

J$10B

COVID-19 Fiscal Contingency

- **Strengthened Monetary Policy Framework –** Jamaica's monetary policy framework was strengthened during the course of the Standby Arrangement with the IMF, where price stability through inflation targeting became the central bank's goal. The move to an inflation-targeting strategy coupled with other monetary strategies have allowed for significant organic reserve accumulation, and further measures are being pursued to continue the development of the foreign exchange and debt markets, which will be critical in sustaining efficient intermediation of capital to support increased investment in Jamaica.

- **Commitment to Fiscal Discipline** – Under the recently concluded IMF agreement, Jamaica achieved a level of unprecedented fiscal discipline—across two governments from opposing parties—delivering a primary surplus in excess of 7 per cent of GDP for six consecutive years. Public debt went below 100 per cent of GDP for the first time since 2000/01. To demonstrate the government's clear commitment and intent to maintain a credible macroeconomic path, inclusive of a fiscal trajectory that is consistent with fiscal responsibility framework, the Economic Programme Oversight Committee (EPOC) continues to monitor Jamaica's economic reform outside of the IMF Standby Agreement. Notwithstanding the recent relaxation of the Debt/GDP target, which is likely to be derailed by the coronavirus pandemic, we believe the government will remain fiscally prudent.

- **Reopening of Tourism Sector –** The Government of Jamaica has indicated that the critical tourism sector will be reopened to tourists on June 15, 2020 under strict protocols developed by the COVID-19 Recovery Task Force. These protocols developed by ministry have been globally recognised, by World Travel and Tourism Council, as being a leader in tourism COVID-19 management arrangement.

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Negatives

- **Higher Unemployment levels** – Over the last seven years, Jamaica's unemployment rate has been significantly reduced from 16.3% in April 2013 to 7.3% in January 2020. According to the World Travel and Tourism Council, Tourism and Travel, directly and indirectly, account for more than 30% of total employment in Jamaica. With the closure of the tourism sector, along with other layoffs directly or indirectly related to the sector, unemployment levels in Jamaica will likely increase in the short-term. The magnitude of the growth in unemployment will be dependent on the time it takes for industries like tourism and Business Process Outsourcing (BPO) to get back to full potential post-COVID-19, which is also heavily dependent on the development of a vaccine, as potential tourists will likely still be fearful about travelling abroad until that time. However, as we gradually move closer to the full reopening of the Jamaican economy, unemployment is expected to gradually decline.

7.3%

Unemployment Rate as at January 2020

- **Foreign Exchange –** Due to the shortfall in foreign currency flows from the BPO sector, remittances and tourism, the Jamaican dollar is forecasted to come under significant pressure. According to the BOJ, the shortfall in the US Dollar has averaged US$30M per week. As a result, on May 18, 2020, the Jamaican Dollar tested a new low of J$147.39 to US$1.00, well above the end 2019 rate of J$132.57 to US$1.00. When the Jamaican Dollar depreciates, the cost of servicing Jamaica's US Dollar debt becomes more difficult. However, in response to the depreciation, the BOJ has made several changes, which includes inter alia, the lowering the foreign currency cash reserve requirement to 13%, which should allow for an easing of supply shortages for the US currency.

J$147.39/ US$1

As at May 18, 2020

- **Higher Debt and Interest Burden –** Due to the reduced economic activities and fast pace of depreciation of the Jamaican dollar vis-à-vis the US dollar, amortization, interest burden and domestic loans have been programmed to increase for the fiscal year. The government increased its domestic borrowing in the second supplementary budget by J$2B for the year. Two reasons for the minimal increase is the fact that the government has a buffer of fiscal surpluses accumulated over the years to draw back on to meet the projected deficit. As well as, they could conduct the planned sale of Jamaica Public Service and Jamaica Mortgage Bank to assist with funding shortfalls. With economic growth projected to be less and debt increasing, the country's debt to GDP path might be derailed and as such the government has relaxed the fiscal targets and postponed the debt target of 60% to GDP for FY 2025/26 to FY 2027/28, two years later.

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- **Low External Demand for Exports –** Last year, the merchandise trade deficit amounted to US$4.8 B. With the global economy projected to contract by 3.00%[5] and Jamaica's main trade partners expected to experience contractions and significant increases in unemployment, the external demand for Jamaican exports will likely be low in at least the short term. This scenario could lead to a further widening of the trade deficit and may even be wider depending on the demand for imported items, especially during the crisis when the demand for health care products and basic food items have increased. However, the expected increase in the trade deficit could be offset by the fall in global oil prices.

- **Risks to Growth Outlook –** Jamaica is a service-driven country, with a heavy dependence on the tourism sector[6]. Before COVID-19, Jamaica had recorded 20 consecutive quarters of growth however, in light of the pandemic, the Jamaican economy will likely contract over the short to medium term as business activity wanes. Standard and Poor's (S&P) has indicated in a "credit opinion" that the economic contraction for Jamaica will be more moderate than in many other Caribbean sovereigns, and the IMF projects that the economic contraction in Jamaica's will be around 5.6% in 2020. Both S&P and IMF expect a recovery for Jamaica in 2021, and in light of the announced gradual reopening, we believe that this is a possibility. However, this is under the caveat of no second wave of the virus impacting Jamaica or its main trading partners. Therefore, in the absence of a second wave economic growth is expected to gradually pick up in the first half of 2021, as ports re-open, travel and tourism-related activities gradually pick-up.

-5.6%

IMF's Projected Growth Rate

Having completed two consecutive IMF programmes with vast improvements to the economic landscape of the country, at the start of 2020, Jamaica's economy is set for improved growth, especially with the government's actions to remove impediments to growth, one such being, the lowering of GCT from 16.5% to 15% in 2020. However, the coronavirus pandemic is threatening to derail some of the gains that the country has made over the last couple of years such as the 15 consecutive quarters of surpluses up to December 2019. Following the onset of the virus in March, the country posted a deficit in the last quarter of the fiscal year 2019/2020 and is likely to record an even larger fiscal deficit in the first quarter of fiscal year 2020/2021 due to low economic activities stemming from the government's lockdown, social distancing measures and shorter operating hours that were implemented.

Notwithstanding, Jamaica's economic improvement over the last few years, including the reduction of debt to GDP, has provided greater flexibility to Jamaica to counter the health and financial shocks of COVID-19. The Government of Jamaica has established a special task force to effectively respond to the crisis and is providing J$25B stimulus, the

[5] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

[6] WTTC – Tourism indirectly/directly contributed ~31.1% of Jamaica's 2019 GDP

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largest in Jamaica's history, to support economic activity currently. The GOJ has also put forward a plan to reopen the economy, which includes the reopening of its borders to tourist on June 15, 2020. With Jamaica's impressive performance under the IMF agreements, it may be easier to unlock new financing from multilateral agencies, thereby helping to bolster the country's ability to respond effectively to the virus.

With the gradual reopening of the tourism sector and other non-essential businesses, the projection is that Jamaica could return to growth in the first quarter of 2021. The IMF projects that the Jamaican economy will grow by 3.5% in 2021 following the 5.6% contraction forecasted for 2020. However, this is under the caveat of no second wave of the virus after the reopening.

Given the above, we believe that the measure of risk for the six bonds under review is **Medium - High** and recommend that clients **BUY** the GOJ Bond Due 2028, GOJ Bond Due 2039 and GOJ Bond Due 2045. At the same time, we are requesting that clients **HOLD** the GOJ Bonds Due 2025 and the GOJ Bonds Due 2036 due to the relative illiquidity of these issues and fact that the potential upside is limited.

Recommendation:	**HOLD**	**HOLD**	**BUY**	**HOLD**	**BUY**	**BUY**
Issuer Name	Jamaica	Jamaica	Jamaica	Jamaica	Jamaica	Jamaica
Coupon	7.63%	9.25%	6.75%	8.50%	8.00%	7.88%
Maturity	7/9/2025	10/17/2025	4/28/2028	2/28/2036	3/15/2039	7/28/2045
S&P Issuer Rating	B+	B+	B+	B+	B+	B+
S&P Outlook	NEG	NEG	NEG	NEG	NEG	NEG
Current Price	US$109.23	US$116.02	US$109.27	US$118.25	US$120.11	US$118.76
Yield to Maturity	5.51%	5.72%	5.29%	6.61%	6.17%	6.37%
YTD - Return	-8.15%	0.34%	-9.98%	0.34%	-8.88%	0.34%
1-YR Return	-4.98%	0.84%	-6.93%	0.84%	-3.70%	0.84%
G-Spread (bps)	451.71	534.94	448.57	554.01	497.89	499.62
Risk	Medium- High	Medium- High	Medium- High	Medium- High	Medium- High	Medium- High
	High Yield	High Yield	High Yield	High Yield	High Yield	High Yield

June 10, 2020

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CREDITO REAL

Company Profile

Credito Real is a leading speciality finance company with operations in Mexico, the United States, Costa Rica, Honduras, Nicaragua and Panama. Since 1993, Credito Real which offers financial solutions to segments generally underserved by the traditional banking system built a diversified and scalable business platform focused primarily on the following types of financing products: (i) Payroll loans (ii) Consumer loans (iii) loans for used car purchases (iv) Small and Medium Enterprises (SMEs) loans and (v) loans to small groups of borrowers (Group loans). The Company has been able to infiltrate the Mexican credit sector through its targeting of low to middle-income earners, under the business model of a Multiple Purpose Financial Company (MPFC).

CRÉDITO REAL
Beyond your limits.

Recommendation:	HOLD	HOLD
Issuer Name	Credito Real SAB	Credito Real SAB
Coupon	9.50%	7.25%
Maturity	7-Feb-26	20-Jul-23
S&P Issuer Rating	BB	BB
S&P Outlook	STABLE	STABLE
Current Price	US$101.67	US$99.02
Yield to Maturity	9.11%	7.61%
Yield to Next Call	10.36%	53.59%
YTD - Return	-12.91%	-6.36%
1-YR Return	-6.00%	-4.82%
G-Spread (bps)	865.36	733.66
Risk	Medium-High High Yield	Medium-High High Yield

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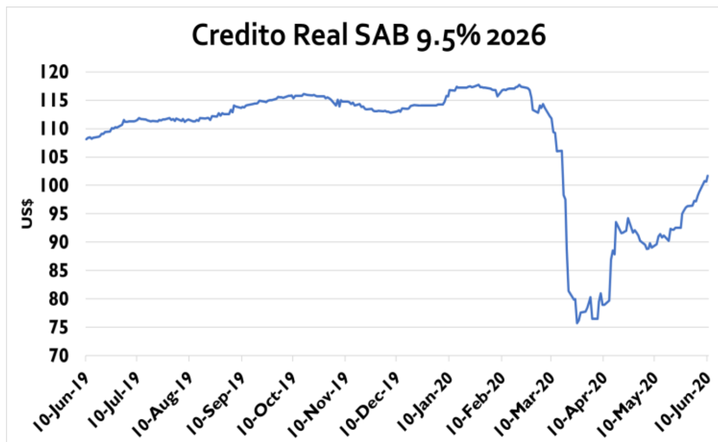

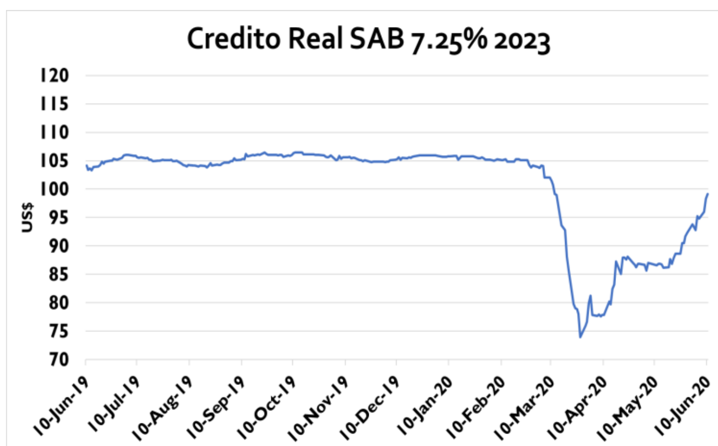

Investment Thesis

Credito Real's has maintained strong growth in its loan portfolio and asset base, whilst maintaining a low non-performing asset ratio. Although it faces significant competition in the Mexican microcredit sector, the company has maintained a strong profit margin primarily through its payroll business which mitigates this risk posed to the business. Notwithstanding, Mexico is expected to experience a growth drag going into 2020 due to the global economic slowdown enhanced by the coronavirus disease 2019 (COVID-19) pandemic which has affected many businesses. The number of confirmed COVID-19 cases and related deaths have been rising in Mexico and business activities have slowed in response. As CREAL bears ~80% operational concentration to Mexico, the company will

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likely experience increased NPLs and reduced profitability in the short run. However, given the general strength and track record of the company, these losses may normalize over the medium term.

Financial Highlights

As at December 31, 2019 Credito Real's consolidated loan portfolio stood at **MXN46.96B**, an increase of **29.3%** over the balance at the end of the previous year, while the non-performing loans (NPLs) ratio stood at **1.3%.** Net income for the year totalled **MXN1.98B** an increase of **1.30%** over 2018. Provision for loan losses decreased by **15.2%** to amount to **MXN1.31B** down from the **MXN1.54B** posted in in 2018.

For the first quarter of 2020 ending March 31, 2020, Credito Real's consolidated loan portfolio stood at **MXN 49.66B** while NPLs was at **1.5%.** Interest income amounted to **MXN2.69B** in the quarter, a decrease of **4.9%** below the amount posted in the same quarter in 2019. The decrease was mainly attributed to a lower origination associated to a softer start of the year in the Payroll business, a more controlled origination growth pace in the SMEs business and tighter loan origination measures implemented considering difficulties ahead. The knock-on effect was a decline in Net Income declined of **25.5%** in the quarter to reach **MXN0.35B** down from **MXN0.47B.**

Positives

- **Low Non-Performing Loans (NPLs)** – The company has a very low NPL ratio of 1.3% as at Q4 2019 and only 1.5% at the end of Q1 2020. This is in line with CREAL's 2% to 3% long-term objective, as it aims to achieve greater diversification in its loan portfolio.
- **Large Target Market** – The microfinance sector in Mexico has grown substantially over the years as it aims to serve the market segment underserved by the commercial banking sector. As of 2015, 46.7M or 61% of the total adult population had no savings account in a financial institution while only 29% or 22M of the adult population had obtained financing from a financial institution.
- **Currency Hedge** – The company has sought ways to hedge its foreign currency exposure, specifically through its recent issuance of 2023, 2026 and 2027 notes. Not only has this improved its short-term debt profile but diminished the foreign currency risk posed by its USD denominated debt.
- **Diversification of Operations** – The company has been diversifying its loan business portfolio through various acquisitions and expansion to other Latin American territories.
- **Strong Profitability** – CREAL's core business continues to improve based on its growing operating income and strong profitability. Year over year, the company's total loans portfolio has grown by **29.3%**. The strong growth over the years has been a result of organic growth from diversification and expanding product lines as well as inorganically from acquisitions.

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Negatives

- **Interest Rate Risk -** The company has substantial exposure to interest rate risk based on its microcredit business model and the competitive nature of its industry, in which lower rates could dampen interest income. The Central Bank of Mexico cut interest rates six times within the last 12 months with the last two rate cuts specifically to shore up consumer demand amid growing fears around COVID-19. The policy rate currently stands at 6.5%.
- **Increased Non-Performing Loans (NPL)** – With the current COVID-19 likely to lead to significant impairment of borrower's credit worthiness and unemployment across these countries, it is likely for Credito Real to record significant credit losses in the ensuing quarters. The company, however, manages this risk through salary deductions, guaranteed loans by the Mexican Development Bank and the short duration of its loans. Mexico's unemployment rate which stood at 3.7% in February 2020 is likely to trend much higher over the short to medium term. CREAL's NPL was only 1.3% in Q 2019 and 1.5% in Q1 2020.
- **Country Risk:** Demand for loan products depend on economic fundamentals, including GDP growth, inflation, unemployment, the cost of energy and other necessities, interest rates, consumer confidence, retail trends and foreign currency exchange rates. The coronavirus pandemic has led to a weakening of the global economy, and demand for consumer goods and services have declined as a result. This reduction in consumer demand is likely to reduce demand for payroll loans and other forms of consumer finance.
- **Rating Downgrade:** The local currency rating on Mexico was downgraded by S&P in March 2020 following the combined shocks of COVID-19 and lower oil prices. Consequently, they revised the Banking Industry Country Risk Assessment (BICRA) on Mexico downward which affected CREAL's credit rating. The Company's credit rating was downgraded to BB from BB+ and the outlook was also changed from negative to stable. An upgrade for CREAL would be possible if Mexico's outlook is changed from negative to stable.
- **Deteriorating Economic Outlook –** The worsening economic outlook, including rising unemployment, lower interest rates, and the devaluation of the Mexican currency, among other factors presents the possibility of increasing Non-Performing Loans and provisions, declines in profitability, increasing pressure on liquidity and funding, and lower book values.

Credito Real has maintained strong profitability over the years and has been increasingly diversifying through product offerings and geographic location. CREAL's profitability is however currently being threatened by the COVID-19 pandemic that has worsened the Mexico's economic outlook and the economic outlook of its main trading partner the U.S. and the other territories in the region in which the company operates. With unemployment projected to spike, companies becoming less profitable as consumer demand declines, the company's profitability will be negatively affected

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as non-performing loans are expected to increase while its loan growth slows. We believe the CREAL's recent rating downgrade by S&P indicates the agency's view that they may face major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the company's credit worthiness deteriorating.

Notwithstanding, Credito Real remains one of the strongest credits in the Mexican Non-Bank Financial Institution (NBFI) sector with low Non-performing loans (1.5%) as at Q1 2020, high capitalization rate (38.5%), geographical diversification and a concentration of 57% of its loan portfolio in the lower risk payroll lending.

In response to the COVID-19, CREAL is proactively approaching clients to assess repaying ability. We are of the view that CREAL has a high capacity to withstand lower collections in this period due to its high capitalization rate and strong liquidity which has been bolstered by its new credit lines raised during Q1 2020 and quality of loans. Additionally, in order to preserve this liquidity, the company has taken the steps to suspend dividend payments and stock buybacks, a move we view as positive. As a result, we believe that investors should **HOLD** the Credito Real's 2026 bond and we have placed a **Medium - High** risk tolerance.

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SOCIETE GENERALE SA

Company Profile

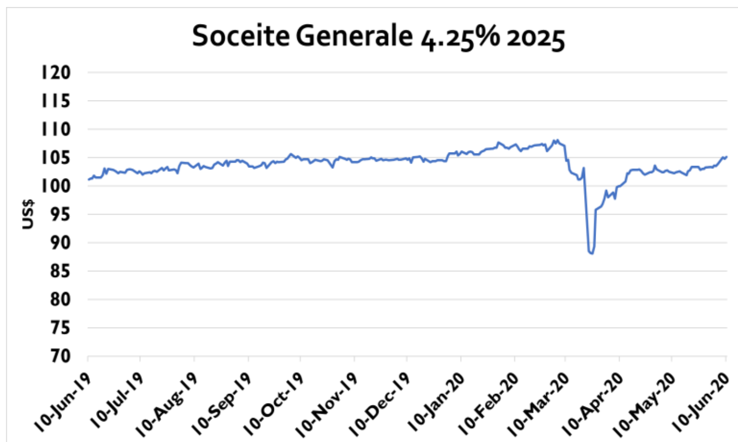
Societe Generale SA (SocGen) is a multinational bank and is one of the three largest banking groups in France by total assets. It is also among the top banking groups in Africa, Russia, Central and Eastern Europe. It offers retail, commercial, investment, and private banking services. The Bank also offers consumer credit, vehicle lease financing, information technology equipment leasing, life and non-life insurance, custodian services, trade and project financing, currency exchange, treasury services and financial and commodities futures brokerage services. The Group was founded on May 4, 1864.

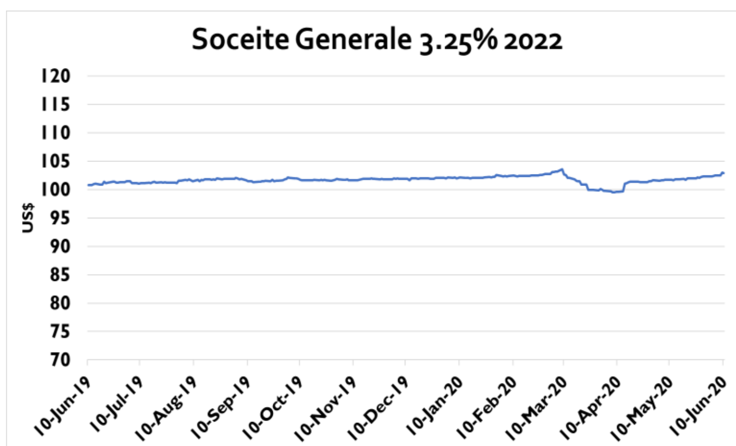
Recommendation:	HOLD	HOLD
Issuer Name	Société General	Société General
Coupon	4.25%	3.25%
Maturity	14-Apr-25	12-Jan-22
S&P Issuer Rating	A	A
S&P Outlook	STABLE	STABLE
Current Price	US$105.10	US$102.84
Yield to Maturity	3.10%	1.42%
YTD - Return	-0.52%	0.80%
1-YR Return	3.95%	2.10%
G-Spread (bps)	275.89	119.86
Risk	Low - Medium Investment Grade	Low - Medium Investment Grade

June 10, 2020

Investment Thesis

The Société Générale Group's revenues have fluctuated over the last five (5) financial years. The latest full-year unaudited report indicates revenues of €32.9B, less than the €33.0B in 2018. However, Net Interest Income for the Company grew in 2019 despite the sharp and consistent decline in global interest rates. A continuous increase in Non-Interest Income such as commissions from Investment Banking and Portfolio Management activities as well as other fee-based services has however helped to bolster income.





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Positives

- **Geographically Diversified** – The bank boasts a strong presence domestically and internationally. This diversification assists in lowering the risk to earnings. The company benefited from its diversified structure in the last financial year with growth in all divisions.
- **Continued Focus on Risk Reduction** – SocGen has a well-diversified portfolio of balanced risk exposures and benefits from the stability of its core business which it complements with taking a higher risk in capital markets internationally.
- **Strong Liquidity** – Société Générale's funding profile has continued to benefit from a large domestic deposit base. The company's liquidity coverage ratio stood at 119% as of December 2019 well above the regulatory requirement.
- **Strong Capital Position**– SocGen continued to strengthen its capital levels in 2019, mainly through its continued profitability and the control of operating expenses. The Group continues to keep its capital levels well above regulatory requirements. The bank has been able to increase its total capital ratio to 18.3% as at December 2019 from 16.7% as at December 2018, with additional plans in the pipeline to bolster capital.

Negatives

- **Economic Slowdown in Europe –** Europe has suffered through two distinct periods of recession since 2008. To revive the European economy the European Central Bank has combined low-interest rates with a heavy monetary stimulus which has negatively impacted the net interest income of European Banks. These low-interest rates have been further reduced in the last three months as there has been an increasing number of monetary measures by central banks to lessen the impact of COVID-19 on the economy.
- **Exposure to High-Risk Markets –** The weakness in the economic environment in Russia has resulted in lower performance by SocGen in the country. There is a tangible risk of continued underperformance by Russia and other high-risk markets. This risk is however mitigated by the company's diversified business model as well as the fact that Russia is recovering having abided by strict discipline to operating expense and cost of risk.
- **Reliance on Wholesale Funding –** SocGen relies heavily on funding from capital market activities to fund its operations. The company has however actively been reducing its funding risk by cutting its utilization of short-term commercial paper as a funding source. This has been complemented by the company's success in driving deposit growth over the last several financial years. Deposits have consequently become a larger part of SocGen's funding mix.

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Société Générale's well-diversified business model and sound risk management has translated to consistent profitability and has allowed the company to build a sound capital position. It is expected that the company will continue to benefit from its robust franchise presence in the domestic and international retail banking sector and its focus on driving non-interest income as well as continued expense reduction. Profitability is however likely to be reduced as a result of the COVID-19 pandemic. Consequently, the company has revised its forecast for 2020 downwards. However, we believe SocGen's financial strength, diversified business model, good regulatory capitalization and strong liquidity augurs well for the company and give us the confidence that they will be able to withstand the shocks that the COVID-19 pandemic presents over the short to medium term.

According to Moody's Investor's Service, SocGen could be well poised for positive rating action over the course of the next few years if there is a structural improvement in the bank's funding profile, strengthened profitability, significantly higher capitalization and a reduction in capital market activities. As a result, we believe that investors should **HOLD** the Société Générale's 2025 bond to maturity and we have assigned a **Low - Medium risk** tolerance to this issue.

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TRINIDAD GENERATION UNLIMITED

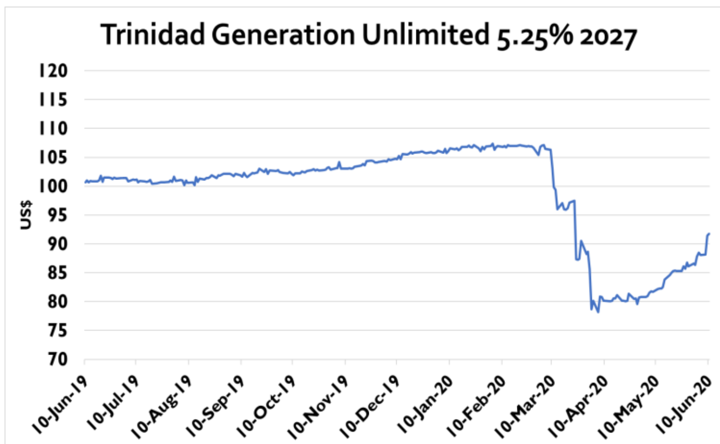
Company Profile

Trinidad Generation Unlimited (TGU) operates a 720 Mega Watt facility in Trinidad and Tobago. TGU is the largest power generation plant in terms of supplied electricity and the largest combined-cycle power plant in the Caribbean as measured by power generation capacity. The Plant currently supplies approximately 50% of the electricity that is consumed in Trinidad and Tobago.

The Government of the Republic of Trinidad and Tobago (GORTT) indirectly controls TGU through its holding company Union Estate Electricity Generation Company Limited which owns 100% of TGU. TGU was originally established as a 60%-40% joint venture between AES Corporation (a US-based company) and the Government of Trinidad and Tobago. However, the global financial crisis of 2008 forced the Trinidadian Government to assume full responsibility for financing the project.

Recommendation:	HOLD
Issuer Name	Trinidad Generation UnLtd
Coupon	5.25%
Maturity	4-Nov-27
S&P Issuer Rating	BB+
S&P Outlook	STABLE
Current Price	US$91.90
Yield to Maturity	6.65%
YTD - Return	-13.77%
1-YR Return	-8.82%
G-Spread (bps)	644.56
Risk	Medium-High High Yield

June 10, 2020



Positives

- **Operational Efficiency –** The Company utilizes modern and efficient combined-cycle technology that allows them to produce the lowest-cost electricity in the country.
- **Stable Revenue Stream –** Trinidad Generation Unlimited benefits from a Power Purchase Agreement (PPA) with Trinidad and Tobago Electricity Commission (T&TEC) until 2041. Under the agreement, TGU will continue to receive fixed payments for capacity made available. Revenues are also protected against foreign currency fluctuations as 95% is denominated in US dollars. The company is also indirectly controlled by the government of Trinidad and Tobago through the National Investment Fund Holding Company Limited (NIF), formed to hold the government's position in national assets.

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- **Stable Cash Flows –** The company benefits from stable and predictable cash flows stemming from the 30-year US dollar-denominated PPA signed with T&TEC. Approximately 99% of TGUs revenues are generated from the capacity payments, with energy sales making up the balance.
- **Access to Natural Gas Reserves** – The Purchase Power Agreement with T&TEC, asserts that T&TEC is responsible for supplying natural gas to the plant. This contract reduces the company's vulnerability to shortages of fuel, gas price fluctuations or disruptions of the water supply, as T&TEC is required to always give the plant priority in the delivery of natural gas.

Negatives

- **High Exposure to Trinidad –** Trinidad Generation Unlimited's revenues are all generated by supplying power solely in Trinidad and Tobago. As a result, the company revenues are vulnerable to external shocks which may impact the economy of Trinidad and Tobago. However, the company has a long term PPA, which expires in 2041 with the Trinidad and Tobago Electricity Commission (T&TEC) and payment under the PPA are guaranteed by the Trinidad Government.
- **Reliance on Sole Third-Party Source for Supplies –** Trinidad Generation Unlimited (TGU) relies on third parties such a General Electric for supplies, services and parts necessary for the plant operations and maintenance. If a difficulty arises with its supplier, TGU has indicated that they would be unable to find an adequate replacement. This would negatively impact the company's operations and its ability to meet its debt obligations. However, such a risk can be classified as low to moderate, as General Electric has been a long-standing reputable multinational conglomerate.
- **Competition –** Over the last few years, there has been an increasing number of natural gas suppliers and with the global thrust to cleaner fuel and energy, competitive pressures from clean fuel providers may limit the growth potential of the company.
- **Macroeconomic Volatility –** The coronavirus pandemic has disrupted supply chains globally and has to some extent muted all non-essential consumer spending. In line with this, oil, which is Trinidad and Tobago's main revenue earner has lost over 50% of its value in just three months. These lower oil prices could lead to larger increases in government debt. Notwithstanding, the GORTT has shown commitment in meeting the demand for electricity in the country and continues to support key participants in the sector. Trinidad Generation Unlimited also plays an important systematic role in the country as it supplies approximately 50% of average energy demand by the country.

Given the nature of Trinidad Generation Unlimited (TGU) business model, we have assigned a **Medium - High risk** and recommend that clients **HOLD** given their specific circumstances. Although TGU will receive continued payment from the government under the power purchase agreement despite any disruptions, we believe that the company's

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performance is underpinned by the performance of the GORTT which has been highly susceptible to global commodity swings, especially in oil prices. However, we believe that Trinidad and Tobago would be able to support TGU in the event of financial distress, given the country's healthy contingency reserves and the importance of the Company to the country's energy generation capacity. While we believe that an outright default on Trinidad and Tobago international debt is unlikely, the country's debt was recently downgraded to BBB- from BBB by S&P, one notch above junk bond, with a stable outlook. If conditions were to materially worsen, the country may be downgraded once again and so too would TGU, given the strong linkage of the company with the government.

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