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Puerto Rico Optimistic About Bond Sale as Buyer Doubts Increase.

Puerto Rico isn't giving up hope just yet that it can sell \$750 million in water bonds while moving toward a debt-restructuring plan that may leave some investors with significant losses.

After initially announcing a sale date last week for the island's Aqueduct & Sewer Authority issue, the sale was pushed back to a day-to-day status as investors demanded higher yields and more protection against the risk of the bonds being caught up in a reorganization proposal that may be released as soon as next week. The offering has remained in limbo since.

"We are not expecting to price this week since some investor's requested, and we have agreed, to wait until after Sept. 1," Alberto Lazaro, the water utility's executive director, said in an e-mail Thursday. "There is not a set date, but rather we will evaluate and determine the appropriate timing, but are expecting it would be in early September."

The water authority, known as Prasa, anticipates that investors should be able to make more informed decisions after Puerto Rico officials deliver the debt-restructuring proposal and the island's electric utility also unveils a turnaround plan on Sept. 1, Lazaro said.

Investors aren't convinced. While Puerto Rico officials tried Monday to assure would-be buyers that the water utility doesn't need to restructure its debt, the commonwealth last week petitioned the U.S. Supreme Court to reinstate a law that would allow some public corporations, including Prasa, to negotiate with bondholders to reduce what they owe.

"I'd be shocked if they get the deal done," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages \$3 billion of municipal securities, including Puerto Rico debt. "Unless there's some big change between now and then, they're still looking at empty pockets for their debt."

Prasa had already increased the preliminary yield to 10 percent last week from an earlier offer of 9.5 percent, according to two people familiar with the sale who requested anonymity because pricing wasn't final. That's more than three times the 3.16 percent yield on benchmark 30-year municipal bonds, according to data compiled by Bloomberg.

Sale proceeds would help repay a \$90 million bank loan with Banco Popular that expires Aug. 31. Prasa is negotiating with the bank and other financial institutions, Lazaro said.

"They've exhausted the traditional municipal buyer and now they've lost the bulk of the hedge fund industry," Dalton said.

Bloomberg

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