

Bond Case Briefs

Municipal Finance Law Since 1971

Investors Bottom Fish Municipal Bonds Tied to Westinghouse Bankruptcy.

NEW YORK — The sell-off of municipal bonds tied to the bankruptcy filing of Westinghouse Electric Co paused on Thursday as investors reconsidered concerns on the likelihood that construction of four U.S. nuclear power plants hit by billions in cost overruns will be completed.

The four reactors are part of two projects known as V.C. Summer in South Carolina, which is majority-owned by SCANA Corp and Vogtle in Georgia, which is owned by a group of utilities led by Southern Co.

Westinghouse is a unit of Japanese conglomerate Toshiba Corp.

Tax-exempt bonds issued by the Municipal Electric Authority of Georgia (MEAG), which owns 22.7 percent of the Vogtle units, and South Carolina Public Service Authority (Santee Cooper), which owns 45 percent of the V.C. Summer units, reversed a recent slide, albeit in thin trading volumes.

"It could be considered a dead-cat bounce in the market as people are starting to get comfortable with their ability to pay their bonds and it doesn't appear that this is going to lead to a default," said Brett Adlard, municipal strategist at Piper Jaffray in Chicago.

Adlard said there could be near-term weakness in the bonds because of headline risks, but there is a slow realization that there are underlying strengths, such as Santee Cooper's flexibility to raise electricity rates given that the rates are considered low when measured against the rest of the nation.

On Wednesday, SCANA executives told analysts that in the case of the V.C. Summer operations, most of the components are already bought and on site, which employs about 5,000 people.

"The Trump administration, being so pro-jobs, shutting down these two large nuclear plants would look like a negative from their goal," Adlard said, adding that Westinghouse's involvement in military operations makes this a national security interest."

MEAG's 6.637 percent bond maturing in 2057 saw improvement with the yield spread over the benchmark MMD yield curve narrowing by 4.5 basis points to 285.7 basis points. However, over the last 10 trading days, spreads are wider by a significant 26.9 basis points, according to Thomson Reuters data..

Santee Cooper's 5 percent bond maturing in 2028 improved on Thursday with the yield spread narrowing by 16.7 basis points to 95.1 basis points. That is still 35.6 basis points wider over the last 10 trading days. Wider spreads indicate weak performance in a credit.

Costs for the projects have soared due to increased safety demands by U.S. regulators and also due to significantly higher-than-anticipated costs for labor, equipment and components.

“These are fundamentally strong credits, but that said, they have made a lot of investments in these plants and now there is more uncertainty on how much more it is going to cost or how much longer it will take to complete the plants,” said John Ceffalio, municipal credit analyst at AllianceBernstein in New York.

“To date, both MEAG and Santee Cooper have had a lot of political support. We question how strong that support will be going forward given additional costs and delays,” he said.

By REUTERS

MARCH 30, 2017, 6:27 P.M. E.D.T.

(Reporting by Daniel Bases; Editing by Leslie Adler)

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com