[Bond Case Briefs]

Municipal Finance Law Since 1971

[Perry Joins Bullish Puerto Rico Camp as BlackRock Sees Losses.]

The divide over the outlook for Puerto Rico's bonds is widening as investors and speculators take sides on the commonwealth's debt restructuring proposal.

Richard Perry, head of Perry Capital, said Wednesday the commonwealth is in better shape than most people realize. Jeffrey Gundlach, co-founder of DoubleLine Capital, likes the debt at current prices. BlackRock Inc. warned Tuesday that investor risk receiving an average of just 60 cents on the dollar in a reorganization.

Perry, speaking at the CNBC Institutional Investor Delivering Alpha Conference in New York, said that the population has only fallen marginally, and that government debt is about 70 percent of GDP, lower than in many other countries, including Japan.

"It's often mischaracterized in the U.S. and it's painted like Detroit," said Perry, who's New York-based firm holds Puerto Rico securities, including its Government Development Bank debt.

Puerto Rico and its agencies owe $72 billion after borrowing for years to fix budget deficits. The island's economy has shrunk every year but one since 2006. Governor Alejandro Garcia Padilla last month directed island officials to create a debt-restructuring plan by Aug. 30 that would delay payments. Garcia Padilla says Puerto Rico cannot pay all of its obligations.

Bearish View

The commonwealth needs to slash its debt load to $40 billion, Peter Hayes, who helps oversee about $116 billion as head of municipal debt at New York-based BlackRock, the world's biggest money manager, said in an interview Tuesday on Bloomberg Television. That would mean an average recovery of about 60 cents on the dollar on its securities, which include general-obligation bonds, sales-tax debt and those from its electric utility, he said.

"They have all this debt that they can't afford," said Hayes, whose firm held just $28 million of Puerto Rico debt as of May 31, according to Morningstar. "How do you get out of debt? You either grow your way out — they're not growing — or you restructure. So from the point of view of its citizens, it's the best outcome."

Recovery rates will differ, Hayes said after his television interview. Holders of general obligations may get at least 60 cents on the dollar, he said. Subordinate sales-tax bonds that are second in line for repayment may get restructured at below 60 cents on the dollar if the commonwealth chooses to use that revenue stream for other expenses, he said.

Returns Forecast

The island's constitution says the commonwealth must repay general obligation bonds before other expenses. Such debt maturing in July 2041 and carrying an 8 percent coupon traded Wednesday at an average price of 72.6 cents on the dollar, the highest since June 26, before the governor called for a debt-restructuring plan.

OppenheimerFunds Inc., the largest U.S. mutual-fund investor of Puerto Rico securities, said last week that sales-tax collections, unemployment and income growth show the economy is strong enough for the government to repay.

Gundlach said he hopes those bonds “might return par,” if a presidential candidate were to campaign on helping out Puerto Rico. He spoke on CNBC from the conference.

DoubleLine’s $2.24 billion Income Solutions Fund held $45 million of Puerto Rico’s 2041 general obligations, as of May 29, data compiled by Bloomberg show. Its $137 million Multi-Asset Growth Fund held $2.5 million of the same securities, as of June 30.

That debt will need to gain in price for investors to consider negotiating changes in debt payments, Perry said.

“The government obligations that are really in the highest part of the pecking order, they are going to have to trade at par if they’re going to make this restructuring work,” Perry said.

Bloomberg

by Michelle Kaske

July 15, 2015 — 1:21 PM PDT