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Fixed Income Analysis

NATIONAL GAS COMPANY OF TRINIDAD & TOBAGO

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Company Overview

Incorporated in August 1975 by the Government of Trinidad and Tobago (T&T) as a wholly-owned state enterprise, The National Gas Company of Trinidad and Tobago Limited (NGCTT) is an energy company with core business activities in the aggregation, purchase, sale, transmission and distribution of natural gas. NGCTT is an investment-grade company with the financial flexibility to self-finance or access funding on the local and international markets.

Executive Summary

NGCTT 6.05% 2036 gives investors exposure to a monopoly in the energy sector in Trinidad & Tobago. The company has been operating with a track record of consistently growing revenues and profits, driven predominantly by equity, which translates into relatively strong credit metrics. Consequently, the balance sheet of this company is relatively strong as they maintain low leverage; this bond represents their only debt obligation. The COVID-19 pandemic has significantly impacted the quality of the operations of the entity in the form of weaker demand, translating to the deterioration of some of its credit metrics. But, the overall strength of the balance sheet and the implicit support from the government of T&T, the sole shareholder, makes the solvency risk of the entity moderate. Since the outbreak, there has been a slight recovery in the price of natural gas as entities globally look towards more carbon-friendly energy options to drive their businesses. The medium-term prospect bodes well for the outlook of this company's future cash generation, given the short-term capital expenditure being undertaken to expand both their operation capacity and their customer base. **This bond is best suited for investors seeking consistent interest payments with a short to medium-term investment horizon, with a moderate to aggressive risk profile.**

Investment Rationale

- **Large Cash Balance:** The company currently boasts a negative net debt, indicating the cash on the balance sheet is higher than its debt levels.
- **Integral Infrastructure:** With the energy sector being a key industry in T&T, the monopolistic nature of NGCTT bodes well for its operational capacity
- **Management Team:** Strong and stable management team that continues to provide both operational and strategic guidance to the company
- **Government Support:** The government of Trinidad & Tobago is the sole shareholder of NGCTT and implicitly stands readily available to offer assistance in the event of any undue distress.
- **Risk Profile:** This bond is best suited for investors with a high-risk tolerance-profile.

Credit Assessment

NGCTT has its individual issuer rating of Ba1 affirmed by Moody's on May 27, 2020, which doesn't take into consideration the implicit support from the government of Trinidad and Tobago (Moody's Rating: Ba1). This rating affirmation came in tandem with a change in outlook from Stable to Negative. The rationale for the rating affirmation is underpinned by the long track record of profitability and conservatively managed operation, despite the deterioration in credit metrics from low prices and operating margins. The monopolistic position of the company within the Oil & Gas industry in T&T, with the government being the only shareholder makes it an essential entity within the country's energy sector. The rapid spread of COVID-19 has impacted the industry due to its sensitivity to consumer demand and sentiment.

Moody's assumed a joint default correlation between NGCTT and the government as the sole shareholder, and a very high support probability from the government to the company if necessary. Nonetheless, the company currently has a strong balance sheet with cash balances of over US$500 million as at June 30, 2020, and short-term investments of over US$500 million.

Industry:	Energy
Bond Name	NGCTT6.05% 2036
Credit Rating (Moody's/S&P)	Ba1/BBB-
Maturity	January 15th, 2036
Issue Size	US$400 Mn
Rank	Sr. Unsecured
Current Price (December 10th, 2020) (Source: Bloomberg)	US$106.49/US$107.20 (Bid/Ask)
Yield to Maturity	5.41%/5.34% (Bid/Ask)
Recommendation	**Marketweight**

Financial Summary (US$ in Thousands)			
	2017	2018	2019
Revenue	2,053	2,367	2,013
EBITDA	520	728	344
Total Assets	6,425	6,408	6,046
Total Equity	3,996	4,311	4,064
Financial Ratios			
EBITDA Margin (%)	25%	30%	17%
Total Debt/ EBITDA	0.82X	0.55X	1.07X
Financial. Leverage Ratio	1.61X	1.49X	1.49X
Net Debt/EBITDA	-1.00X	-0.83X	-0.47

Definitions:
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MARKETWEIGHT/HOLD = EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO
OVERWEIGHT/BUY = EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO

Moody's stated that the company might be downgraded if there is a materially weakened margin or cash flow performance, greater government interference via increased taxation or dividends that could jeopardize the company's liquidity profile, or a diversion of the company away from its core gas pipeline operations into public policy programs, including the extension of special credit terms to less profitable state entities. Also, NGCTT can be downgraded as a result of a decreased likelihood that the government would provide extraordinary support to NGCTT, as a result of the government being downgraded. The rating could be upgraded if size and scale improve, in combination with sustainable low leverage and satisfactory returns.

Industry Analysis/Country Analysis

Industry Analysis – Oil & Gas Exploration (Natural Gas)

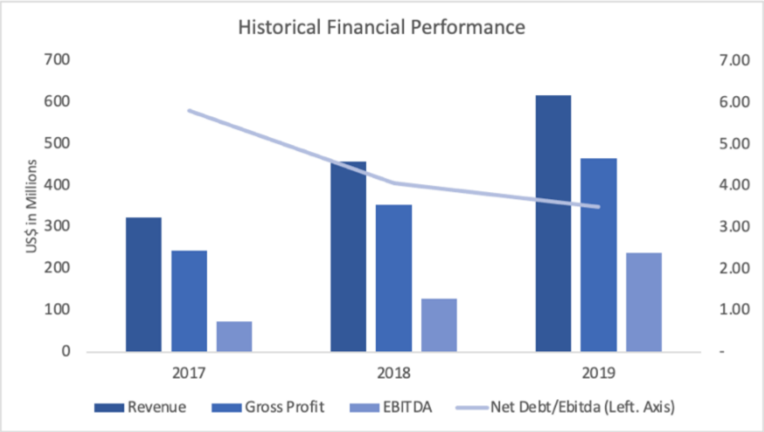
The company operates in the Oil and Gas exploration industry in Trinidad & Tobago. The energy sector accounts for over 26% of T&T GDP and over 80% of the country's export, but less than 5% of employment. The country has one of the largest naturals gas liquefaction facilities in the Western Hemisphere, and gas contributes approximately two-thirds of the energy sector government revenues. Being essentially a monopoly within this space makes the company's operations particularly vital to the strength of the sovereign. The Liquid Natural Gas (LNG) market faces challenges due to excess supply and weakened demand. Despite this, NGCTT has undertaken significant CAPEX with the signing of Gas Sales Agreements (GSA) between them and BHP to begin in Q4 2021. As productivity and overall economic activity globally remains below pre-covid levels, this industry is expected to continue to underperform relative to historical levels on the basis of oversupply, lower demand, and erosion of commodity prices. Notwithstanding, the global thrust towards clean energy places LNG in a positive light which improves the growth prospects for that section of the oil/gas industry over the medium-term. With T&T being one of the primary producers in the Western Hemisphere, and NGCTT being the monopoly in the natural gas space, these are positive credit factors. The short-term credit risk remains elevated primarily in the form of slow global recovery, depressed commodity prices and a potential downgrade of the sovereign to non-investment grade.

Country Analysis

Trinidad & Tobago was recently downgraded by S&P Global to BBB- from BBB while Moody's affirmed their Ba1 rating with an outlook change to negative. These credit changes reflect increased credit risk due to the country being a net exporter of commodities, namely oil and LNG. Within the last five years, T&T has seen a significant erosion of their once strong credit profile due to the continuous decline in oil prices and the lack of diversity of the goods and services produced and exported. With the decline in commodity prices, there is concern about the degree to which the country will be able to offset revenue losses over time and sustain robust economic growth and budgetary outcomes conducive to stabilization or gradual reduction in its debt burden. The recovery of the country's metrics is highly sensitive to the recovery of the energy sector. Despite renewed efforts, limited prospects for economic diversification and institutional constraints could continue to limit the shock absorption capacity of the economy.

Financial Performance

For the six-month period ended June 30, 2020, the company generated revenues of US$867.35 million, 22.9% lower than in the corresponding 2019 period. This decrease in revenue was primarily driven by the global reduction in productivity due to COVID-19 and a consequent softening of global aggregate demand, which limited the capacity to offtake the supply from NGCTT. The company's margins continued to be affected by volatility in the commodity markets with prices decreasing by 33%, 9%and 44% for Methanol, Ammonia and Natural Gas Liquids respectively during this reporting period.



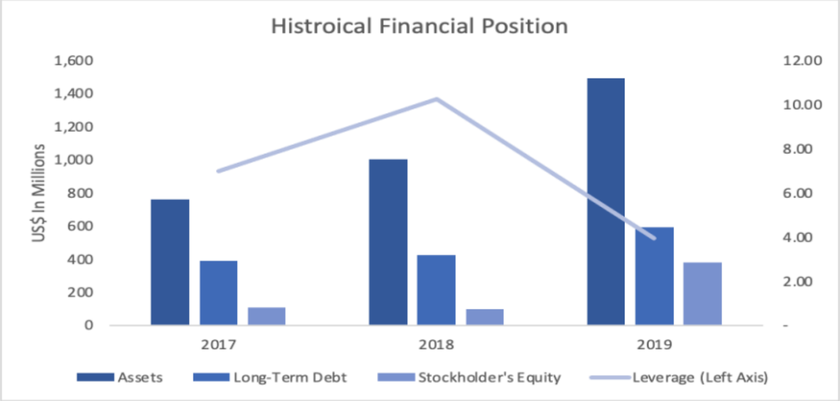
Amidst the shock to the oil-based energy industry, the company recorded an operating loss of US$37.37 million relative to an operating profit of US$60.59 million in the 2019 financial year. The decline in margins, as well as impairment provisions on assets associated with changes in market outlook, legacy issues, and non-payment of gas sales by NGC's largest customer, have caused the overall results to be unfavourable and contributed towards a tightening of NGC's liquidity position.

After accounting for finance costs and loss from associates and taxation, the company made a net loss of US$46.77 million relative to a net profit of US$23.83 million in the corresponding period.

Liquidity and Solvency

As at June 30, 2020, the company had total assets of US$5.93 billion, Total Liabilities of US$1.95 billion and Shareholders' Equity of US$3.98 billion. As at December 31st, 2019, the company boasted assets of J$5.79 billion, with cash and cash equivalents of US$511.63 million and short-term investments of US$426.29 million. Short-term investments refer to investment that matures within 30 days and 12 months, depending on the immediate cash requirements of the company. Borrowings amounted to US$371.13 million which is primarily the remainder of the US$400 million bond issuance that matures in 2036.

Over the last 3-year period, NGCTT boasted an improving financial leverage, moving from 1.61X in 2017 to 1.49X in 2019. The Company also saw improvements in Net Debt/EBITDA, moving from negative 1.0X to negative -0.47X.



Relative Valuation and Spread Analysis

tional Gas Co. of Trinidad & Tobago Ltd. -- Peer Comparison

Industry Sector: Infrastructure

Ratings as of April 14, 2020 (Mil. $)	The National Gas Co. of Trinidad & Tobago Ltd. BBB-/Stable/-- --Fiscal year ended Dec. 30, 2018--	Magellan Midstream Partners L.P. BB+/Stable/A- --Fiscal year ended Dec. 31 2019--	Buckeye Partners L.P. BB/Stable/-- --Fiscal year nded Dec. 31 2018--	NuStar Energy L.P. BB-/Negative/-- --Fiscal year ended Dec. 31, 2019--	Trinidad Generation Unlimited BB+/Stable/-- --Fiscal year ended Dec. 31, 2019--
Revenue	2,359.0	2,727.9	4,108.3	1,498.0	102.8
EBITDA	503.2	1,558.4	1,026.0	707.4	77.7
Funds from Operations (FFO)	267.8	1,315.2	780.7	424.3	39.3
Interest expense	30.3	231.2	198.2	282.5	39.2
Cash interest paid	28.6	243.2	244.0	276.2	37.7
Cash flow from operations	326.3	1,313.1	1,057.8	438.5	3.1
Capital expenditure	86.4	924.7	458.7	524.7	6.6
Free operating cash flow (FOCF)	239.9	388.4	599.1	-86.1	-3.6
Discretionary Cash Flow (DCF)	49.5	-533.2	-99.2	-378.6	-13.6
Cash and short-term investment	1,218.1	58.0	1.8	16.2	119.6
Debt	0.0	4,940.3	4,721.5	4,410.4	472.4
Equity	4,296.3	2,715.0	4,331.2	1,428.1	239.9
Adjusted ratios					
EBITDA margin (%)	21.3	57.1	25.0	47.2	75.6
Return on capital (%)	14.7	16.9	6.7	6.6	11.1
EBITDA interest coverage (x)	16.6	6.7	5.2	2.5	2.0
FFO cash interest coverage (x)	10.4	6.4	4.2	2.5	2.0
Debt/EBITDA (x)	0.0	3.2	4.6	6.2	6.1
FFO/debt (%)	N.M.	26.6	16.5	9.6	8.3
Cash flow from operations/debt (%)	N.M.	26.6	22.4	9.9	0.6
FOCF/debt (%)	N.M.	7.9	12.7	-2.0	-0.8
DCF/debt (%)	N.M.	-10.8	-2.1	-8.6	-2.9

N.M.--Not meaningful

Based on S&P's April 2020 report on National Gas, they have identified the companies above as NGCTT's peers. S&P noted that all the entities chosen, despite being in different geographical locations, operate within the same industry. At the time of assessment, NGCTT had the strongest financial ratios and was the only company with negative net debt (more cash than total debt). However, unlike the US-based peers, NGC's earnings are more volatile, given the company's exposure to global commodity prices. Additionally, because NGCTT is bounded by the sovereign's risk, the company is therefore assessed to have a higher business risk profile relative to the others that operate within a country that has a lower credit risk assessment.

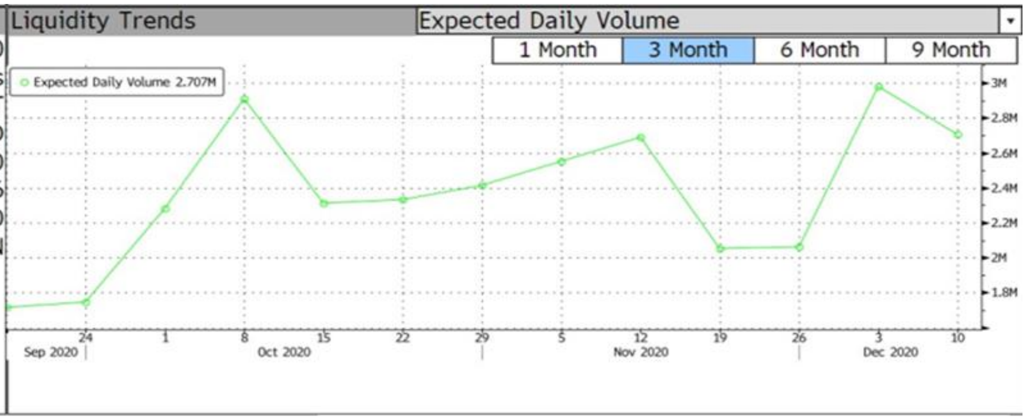
As it pertains to price action and spreads, as the Figure below shows, NGCTT 2036 trades wide of most spread measures, since June 2020, which could be a useful point of comparison in terms of a run rate going forward.

	Spread	Low	Range	High	Avg	+/- bps	StdDev	#SDs
1) Spreads to Curves (RV)			Avg Now					
2) Spread-Bench	370	369		534	471	-101	37	-2.7
3) G-Spread	418	417		575	517	-99	35	-2.8
4) I-Spread	420	419		590	525	-105	39	-2.7
5) Z-Spread	430	429		597	534	-104	38	-2.7
6) Credit Rel Value (CRVD)								
7) CDS Basis								

As the data shows, NGCTT, on average has been trading in high triple digits wide of important spread measures such as the G-Spread. For the period, NGCTT's average spread relative to treasury securities has been 517 bps, and 525 bps wide relative to an interpolated yield curve. Notwithstanding, the pickup implied in these spreads has to be weighed against the implied credit risk implied in the Z-spread. This is expected, given the still-elevated levels of uncertainty and risks on the back of the COVID-19 crisis as well as idiosyncratic risks from the Trinidad and Tobago economy.

An important consideration in the economics of the security is its liquidity. Based on the data below, the security seems fairly liquid, with trading volumes above the volumes that Barita or any of its clients would typically hold/trade.

Descriptive Data	DES >>
Name	NATIONAL GAS CO
Industry Sector	Utilities
Country of Risk	TT
Currency	USD
Coupon	6.050
Maturity	01/15/36
Amount Outstan..	400000000.00
BRAM HQLA US E..	N



Recommendation

Given the underlying economics surrounding the business and the current state of the sovereign in which it operated we rate this bond as **marketweight.** The credit rating of NGCTT is capped and highly correlated with that of the sovereign of Trinidad & Tobago which is currently facing weak macroeconomic factors. But, the monopolistic nature of the operations, the strong balance sheet and high liquidity levels (more cash then debt) and significance of the business to the overall Oil & Gas industry in T&T makes it an attractive investment opportunity for investors with a high-risk profile.

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