

Puerto Rico risk pulls Children's Trust bond prices down, out of line with similar tobacco bonds

January 18, 2018

Puerto Rico Children's Trust is trading down more than other similar structured tobacco bonds as risks to Puerto Rico become more clear, said a fund manager and two analysts.

Reports [questioning](#) the strength of Children's Trust, in light of legal questions about the **Puerto Rico Sales Tax Financing Corporation** (COFINA by its Spanish acronym) structure, are beginning to gain more traction, said a fund manager, which may be driving the downward moves.

"Once the COFINA trust was questioned harshly... there's just no reason to sit on the tobacco," said an analyst. "Anyone who holds anything that's a legal trust with Puerto Rico... all those bonds should be suspect in some way. And if enough people feel that type of doubt you would see some leakage."

A USD 471.1m tranche of Series 2002 Children's Trust tobacco bonds which mature in 2033 traded in round lots on 12 January between 85.8 and 88 yielding 6.6% to 7.0%, according to *Electronic Municipal Market Access (EMMA)*. This is down from round lot trading on 28 December, the last trades of 2017, where the bonds traded at 95.75 to yield 5.8%, according to *EMMA*.

CHILDRENS TR FD P R TOB SETTLEMENT REV / TOB SETTLEMENT BDS 2002. CUSIP: 16876QBE8

[Close](#)

[Trade Price Graph](#)

[Trade Yield Graph](#)

 [Summary](#) (All trading days) |  [Details](#) (Most recent 5,000 trades)

Select a time period: [1W](#) [1M](#) [3M](#) [6M](#) [YTD](#) [1Y](#) [ALL](#)

From: [Jan 17, 2017](#) To: [Jan 17, 2018](#)



 16876QBE8

EMMA
Electronic Municipal Market Access
emma.msrb.org

[Read about using EMMA's trade price and yield graphs](#)

That analyst compared the Puerto Rico bonds to Ohio's **Buckeye Tobacco Settlement Financing Authority** bonds, which have not traded down in 2018. A USD 1.4bn tranche of Series 2007 Buckeye tobacco bonds which mature in 2047 last traded in round lots on 8 January between 96.6 and 96.7 yielding 6.1%, according to *EMMA*. The bonds traded in round lots for the last time in 2017 at 96.8 to yield 6.1% on 29 December, according to *EMMA*.

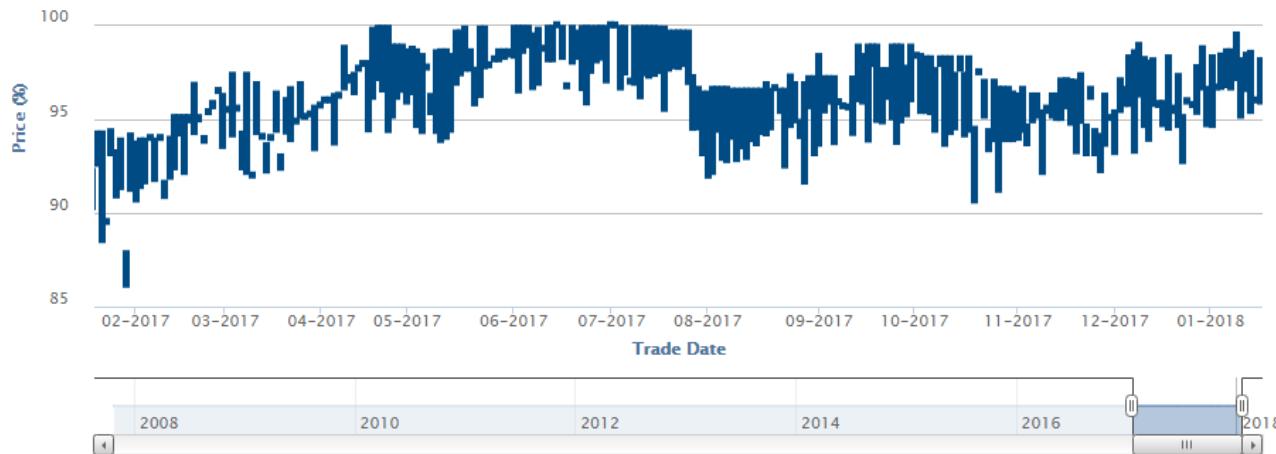
BUCKEYE OHIO TOB SETTLEMENT FING AUTH / TOBACCO SETTLEMENT ASSET BACKED BDS TURBO SINKING FUND A-2. CUSIP: 118217AU2 [Close](#)

Trade Price Graph Trade Yield Graph

 [Summary](#) (All trading days)  [Details](#) (Most recent 5,000 trades)

Select a time period: [1W](#) [1M](#) [3M](#) [6M](#) [YTD](#) [1Y](#) [ALL](#)

From: [Jan 18, 2017](#) To: [Jan 18, 2018](#)



 [118217AU2](#)

EMMA
Electronic Municipal Market Access
emma.msrb.org

There is relatively more risk in Puerto Rico tobacco because of the ongoing restructuring, said a second analyst, who compared Children's Trust trading to that of California's **Golden State Tobacco Securitization Corporation**. A USD 68m tranche of Series 2017 Golden State bonds which mature in 2029 last traded in round lots on 3 January between 117.6 and 117.8 yielding 2.8% to 2.9%, according to *EMMA*. The bonds traded slightly lower at the end of 2017, in round lots on 21 December at 116.7 yielding 3.0%.

GOLDEN STATE TOBACCO SECURITIZATION CORPORATION / TOBACCO SETTLEMENT ASSET-BACKED BONDS, SERIES 2017A-1.
CUSIP: 38122NZD7

[Close](#)

Trade Price Graph

Trade Yield Graph

 [Summary](#) (All trading days) |  [Details](#) (Most recent 5,000 trades)



Both Children's Trust and COFINA funds are owned by the entity, but COFINA has ended up in court sooner because it is relatively larger, said the first analyst. There is USD 15.2bn of COFINA debt [outstanding](#), more than 10 times the USD 1.2bn of Children's Trust debt [outstanding](#).

Both entities are [covered entities](#) under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) and as such are required to submit fiscal economic growth plans (FEGPs) to the Financial Oversight and Management Board (FOMB), according to the legislation.

COFINA funds were included in the [Commonwealth of Puerto Rico FEGP, certified](#) on 13 April 2017. However the FOMB has requested that Puerto Rico file new FEGPs following Hurricane Maria, with a [deadline](#) of 24 January. A FEGP for Children's Trust was not filed prior to the Hurricane.

If people were looking to get out of Children's Trust it would be difficult for them to find buyers as lately it would be hard for a firm to justify adding Puerto Rico exposure, said a third analyst, who does not believe that the Children's Trust structure is at risk.

Children's Trust tobacco bonds were last rated BB/negative by S&P Global Ratings in April 2016.

by *Maryellen Tighe*