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MARKETS

# Brazil Oil Giant Petrobras Sells $2.5 Billion in Bonds

Robust demand, long tenor surprise analysts


Petrobras' headquarters in Rio de Janeiro. Brazil's state-run oil company sold $2.5 billion in bonds on Monday.
*PHOTO: SILVIA IZQUIERDO/ASSOCIATED PRESS*

By **MIKE CHERNEY** and **CAROLYN CUI**
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Brazil's state-controlled oil giant, Petroleo Brasileiro SA, sold $2.5 billion in 100-year bonds on Monday, the latest sign of robust demand from investors for bonds that offer higher rates than safe government debt.

The bonds were sold at a rate of 8.45% and attracted about $13 billion in orders from investors, according to an investor tracking the sale. In comparison, a 30-year U.S. Treasury bond yields 2.94%, and a Mexican government bond that matures in 2110 recently traded at a yield of 5.52%, according to FactSet.

Some analysts were surprised by the strong demand and the long term of the Petrobras debt—such lengthy bond issuance is typically seen from highly-rated institutions like universities. Petrobras carries a junk rating from Moody's Investors Service and is rated just one notch above junk by Standard & Poor's Ratings Services and Fitch Ratings. The company has been dealing with the fallout of a corruption scandal that resulted in management changes and delays in reporting earnings.

The high interest rate on the debt, however, enticed investors to pick up some bonds. To sweeten the deal, the company offered the bonds at around 80 cents on the dollar.

"My trader was shocked" at the demand, said Joseph Mayo, head of credit research at Conning, an asset manager that oversees $95 billion and didn't participate in the sale Monday. "That says people are still looking desperately for income in the near term as rates stay low."



Companies of all stripes have been tapping the U.S. bond market in recent months, looking to lock in low borrowing costs before the Federal Reserve raises benchmark interest rates. Such a move could occur in the coming months.

"Emerging-market sovereigns and corporates are well aware that the abundance of global liquidity will come to an end," said Alejo Czerwonko, an emerging markets strategist at UBS Wealth Management, which oversees $1 trillion in assets.

Yields on Petrobras' outstanding bonds have been falling, and prices rising, in recent months after the company disclosed its audited financial earnings and wrote down billions of dollars in corruption-related charges. A 2044 bond traded Monday to yield about 7.6%, according to MarketAxess, compared with 8.04% in March.

The bond sale is an important milestone for Petrobras, which needs access to the capital markets to help pay for its business. The sale also shows investors are still willing to lend money to Petrobras despite a corruption investigation by Brazilian prosecutors regarding a massive bribery and kickback scheme.

"They came back to market with a bang," said Christopher Tackney, head of trading at Greylock Capital Management, which oversees $1 billion. “I’m sure that the government and Petrobras [are] going to tout this as a sign that they’re back.”

Brazilian companies have been largely absent in the primary market so far this year, as concerns around Petrobras, the largest borrower, had bid up the yields and deterred bond investors. The successful deal Monday, however, could open the door for other Brazilian firms to tap the bond markets.

Fitch Ratings, which said Petrobras would be rated lower without the support of the Brazilian government, noted that a successful debt sale would “be viewed as a positive step.” Still, the rating agency views Petrobras with a negative outlook, indicating doubt on whether the heavily leveraged company can reduce its $125 billion debt load.

Moody’s assigned a Ba2 rating—two steps into junk—to Petrobras’ new bonds, citing the company’s “high financial leverage, operating challenges and weak corporate governance,” the firm said in a note. The rating agency estimated Petrobras needs to borrow $13 billion this year.

*—Rogerio Jelmayer contributed to this article.*

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