

Port of Newcastle junked as debt wall approaches

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Port of Newcastle (Ticker: PONEIV) is the world's largest coal terminal, with an average throughput of 140-160 million tonnes per annum, equivalent to around 500 million tonnes of CO₂e emissions. PONEIV brought attention to itself when launching a USD benchmark bond back in 2021. Our analysis concluded that the bond pricing illustrated an elevated cost-of-capital for coal-related credits.¹ The bond, PONEIV \$5.9 11/31s (USQ7700PAA23/US734865AA63) was issued at CT10+441.6bp and now trades (pre-event) at a G-spread of 457bp (cash price c84).

On 7 Sep 2023, S&P downgraded PONEIV to BB+ from BBB-. The reliance on coal, with an uncertain Asian outlook, is mentioned as one reason for this rating action. Fitch rates the company at BBB-, unchanged since issuance but affirmed in May 2023. Moody's previously rated the company but withdrew the rating a year ago. This means that the credit now sits at a split rating between investment grade and high-yield. Depending on rules on average ratings, some investment-grade investors may have to sell off the bonds. If a Fitch downgrade follows, many more are likely to follow.

Furthermore, the company has substantial loan maturities coming due this November, for a total of AUD506mm (\$325mm). To refinance this debt, the company could either tap the bond market, or seek to renew loan financing where only select coal-financing banks will still offer capital. In the context of sustainable financing, PONEIV carries some significance; it has four sustainability-linked loans (SLLs), with KPIs covering a range of social and environmental metrics (full details overleaf). A third-party review of the structure was given in "[NAB's Port of Newcastle loan is peak greenwashing](#)", Australian Financial Review, 6 May 2021.² Going further, given the private nature of these, it is also hard for third parties to verify if sustainability targets, e.g. the avoidance of using slavery, have been achieved. The SLLs amount to AUD1.2bn/USD750mn, over 70% of outstanding loans.

The refinancing attempts for PONEIV will be interesting to observe, both in terms of coal financing dynamics, but also in term of SLL dynamics. The current situation does, in our view, present a negative technical on the bonds that investors (see table below) should be aware of.

Table 1. PONEIV loan facilities. Source: Bloomberg, AFII.

FIGI	AUD	SLL	Maturity
BBG01GH08TM8	80		10-Nov-23
BBG01GH08TN7	326	SLL	10-Nov-23
BBG01GH08TQ4	50		10-Nov-23
BBG01GH08TP5	29	SLL	10-Nov-23
BBG01GH08TR3	21		10-Nov-23
BBG0184Q14X3	160		01-Jun-26
BBG00KNKF0X2	160		01-Jun-26
BBG0116T72Y7	160	SLL	10-Nov-26
BBG0116T6WH1	666	SLL	10-Nov-26

¹ "[Coal funding premia: Port of Newcastle USD deal](#)", AFII, 19 Nov 2021.

² AFII earlier covered these SLLs in "[Lipstick on a pig: NAB's sustainability loan to coal](#)", 4 May 2021; and "[Peak greenwashing](#)", 6 May 2021.

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Table 2. Top 15 holders of PONEIV \$5.9 11/31s. Source: Bloomberg, AFII.

Holder	Notional amount (AUD)
Americo Financial Life & Annuity Insurance Co	34.77
Cigna Health and Life Insurance Co	30.80
Lord Abbett & Co LLC	16.60
Connecticut General Life Insurance Co	9.20
New Era Life Insurance Co	9.00
Aham Asset Management Bhd	7.23
Victory Capital Management Inc	7.00
Great Southern Life Insurance Co	6.00
Conning Inc	3.50
ISDA Fraternal Association	3.00
Farm Bureau Life Insurance Co	3.00
BlackRock Inc	1.83
Capitol Life Insurance Co	1.00
Value Partners Group Ltd	1.00
National Farmers Union Life Insurance Co	1.00

Comment; Of the individual funds holding the bonds, we find the “Blackrock Global Corporate ESG Insights Bond Fund” (BLGCEIX LN) to be somewhat surprising owner, with the position appearing to have been added as late as in the summer of 2023.

Figure 1. SLL performance targets for PONEIV. Source: [Company web-page](#).

“Port of Newcastle will have the opportunity to earn a margin reduction over the next five years on the sustainability-linked loans if it hit targets across a range of social and environmental metrics.

1. To keep Scope 1 and 2 GHG emissions below the 2025 trajectory level based on Port of Newcastle’s *Well Below2*-degree scenario
2. 100% of all existing and new suppliers active during the relevant calendar year screened for modern slavery risk and demonstrated engagement where medium or high risk is identified
3. Establish an Aboriginal and Torres Strait Islander student internship program with The University of Newcastle
4. Achieve accreditation of a number of mental health first aiders in each company department.
5. Demonstrated progression under the NSW Government Sustainability Advantage Recognition Scheme “

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