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Hellenic Republic 2% 2023 Series PSI

I was completely lost when analyzing sovereign debt, let alone a bankrupt bond such as Greek Hellenic Republic 2% 2023 Series PSI. Aside from the valuation, investing in distressed sovereign bonds gets one into the applicable law in Greece and Europe, Greece economy forecasting, ECB/EC supragovernmental aid policy and a whole gamut of other national level policies and laws, which we have no idea whatsoever. Law, economics, bailout plans are not our strong points. Yet we read a compelling long thesis on a research forum, which we would like to share.

A little background on the matter, a PSI (private sector involvement) debt exchange was offered on Feb. 24th. Supras, or multinational entities such as ECB, IMF, EU, purchased 50% of the original bonds. In fact they purchased 100 BB Euros worth of the original bonds at a 30% haircut. The private investors purchased the other half with a 70% haircut, which is the other 100 BB Euros. The combined, original outstanding notional amount was 200 BB Euros. Through the exchange, holders of the legacy Greek bond would be able to convert 31.5% of the par value to the new reorganized bonds, plus receive 15% of par value in the form of EFSF notes. Now, the reorg bonds are selling at 19, which is 100 * 30% * 19% = roughly 6% off the original par. The yield is currently 25%. From 20 to 100 in 2023, the principal appreciation is roughly 18% annually, plus the coupon is a gradual step function, ultimately reaching a sustained 4% interest rate in 2022 to 2042, for longer maturity Series.

The above details were for the bonds held by non-government entities. On the flipside, the European Central Bank and European Union, along with all other government parties with vested interests will be senior credit, top priority above the private bondholders. With more and more bailouts, the debt burden becomes larger for the bailed out countries, making private bondholders more vulnerable to a wipeout. Private bondholders are compensated 25% yields for a reason. Supras and IMF will get their money in the future, one way or another, but we aren't sure if private bondholders can share such assumptions.

Another interesting point made was that the supras were not interested in bailing out Greece, since it was defunct already and could not be restored with austerity measures. Rather, the Greece bond purchase/haircut/reorg were purely meant for rescuing the banks who held those bonds.

Source:
http://www.riskdata.com/resources/greek-debt.html