

# Seahawk Investments

## Quarterly Note

### 2025/04



## PDVSA bonds (Petroleos de Venezuela S.A.) – a potential (re)- structuring and recovery scenarios

### Venezuela's oil reserves and crude oil production potential

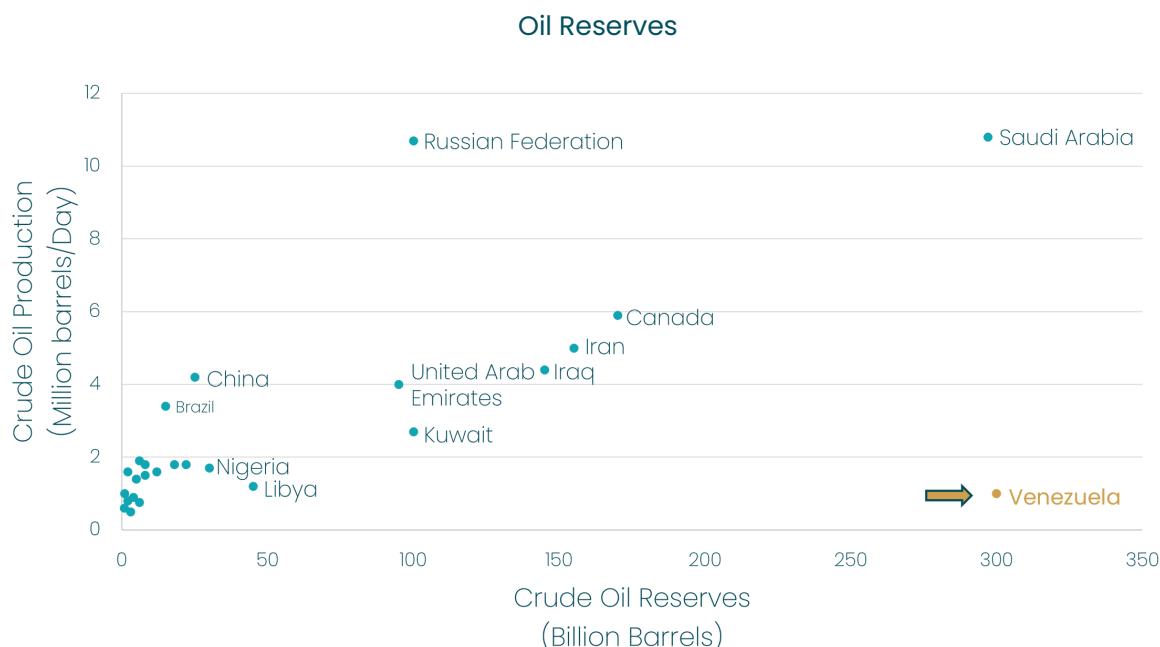
PDVSA, Venezuela's state-owned oil company, is the largest oil producer in Latin America. In 2024, its hydrocarbon exports totaled \$17.5 billion. Despite its scale, Venezuela's oil output has fallen sharply since 2014. PDVSA continues to operate domestic production facilities, but it has released only limited public information since 2016.

Venezuela is widely believed to hold some of the world's largest oil reserves. The country officially claims more than 300 billion barrels—around 17% of global reserves, surpassing even Saudi Arabia. However, many industry experts have long questioned this figure. More realistic assessments suggest the true volume may be roughly one-third lower. Proven

reserves represent the amount of crude that can be commercially extracted with reasonable certainty under current economic, technological, and regulatory conditions. Conservative estimates place Venezuela's proven reserves far below the official number, ranging from 60 to 110 billion barrels.

For investors, Venezuela's production capacity is ultimately more important than the size of its reserves. The country could potentially increase output to 3 million barrels per day, a level last achieved in the 1990s. Reaching this capacity would require an estimated \$100 billion in investment over the next decade.

Currently, Venezuela produces fewer than 1 million barrels per day.



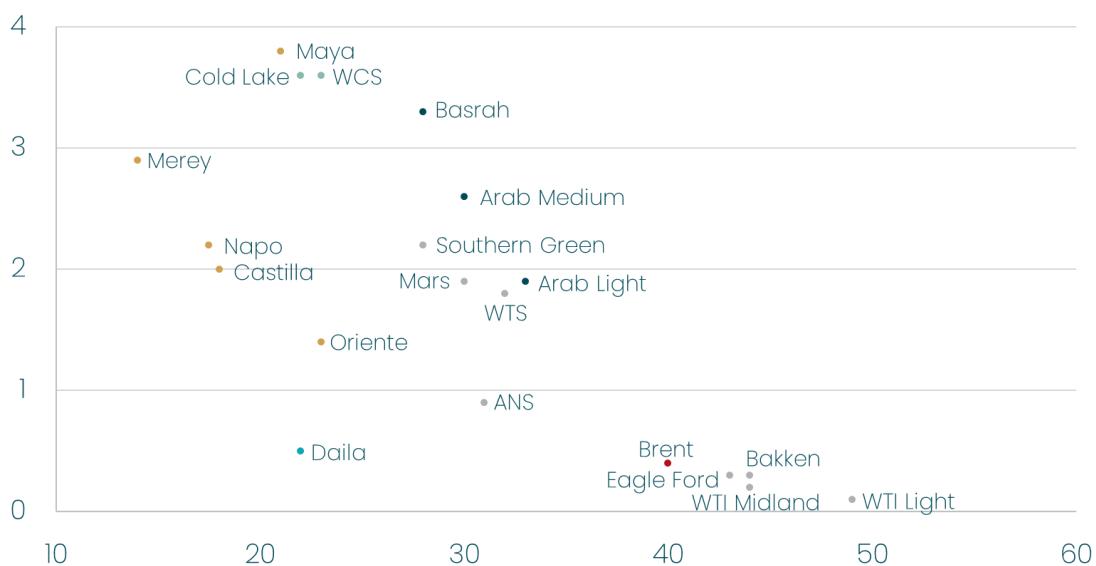
Source: OPEC as of July 2025

## Crude type and quality

Venezuela's crude is classified as extra-heavy oil and therefore trades at a steep discount compared with lighter crude grades. Oil quality is primarily determined by density: an API gravity above 35° is considered light, while anything below 26° is classified as heavy. Crudes that fall between these

thresholds are categorized as medium. Sulfur content is another key factor—higher sulfur levels indicate a "sour" crude, whereas low-sulfur grades are known as "sweet." Light, sweet crude is easier to refine and generally commands a higher market value. This type of high-quality crude is predominantly produced in the Permian Basin.

### Different types of crude oil quality

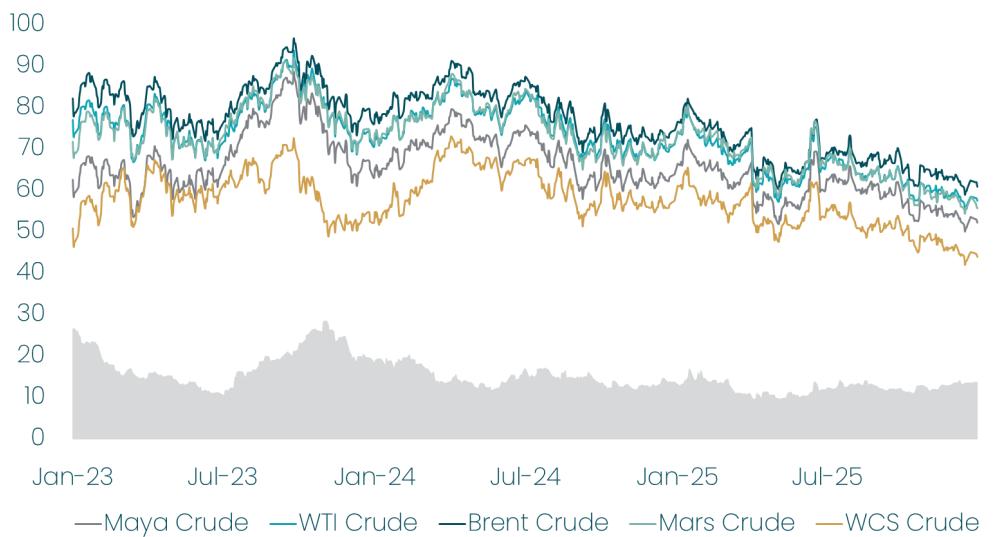


Source: Bloomberg; As of: January 2026

Most crude oils are classified as sour, since a sulfur content well below 1% is required for a crude to be considered sweet. As illustrated in the chart above, only a small number of crude grades meet this threshold—among them Eagle Ford, ANS, Dalia, Brent, Bakken, and WTI (Midland and Light). The majority of these are produced in the United States. In essence, light and sweet crude oils typically command higher prices than heavy, sour grades. The main reason is that gasoline and diesel can be produced

more easily and at lower cost from light, sweet crude. These crudes are highly desirable because they can be refined using far less complex and less energy-intensive processing facilities.

Price trend of different crude oil baskets ranging from heavy to light ones (in USD/bbl)



Source: IMF as of January 2026

The lightest and sweetest crude oils command the highest prices, as the chart illustrates. While Brent, WTI, and Mars trade within a relatively narrow price range, heavy crude grades such as Maya and Western Canadian Select (WCS) sell at a much steeper discount. In particular, the price spread between WCS and the U.S. benchmark WTI averaged around \$15 per barrel from January 2023 to the present, with the differential reaching as high as \$28 per barrel. This discount reflects the greater complexity and cost of refining oil extracted from Canada's oil sands compared with medium or light crude.

If Venezuelan crude were to return to international markets, the spread between WTI and WCS could widen further. Although there is currently no established market price for Venezuelan heavy crude, it is expected to be less viscous than WCS. As a result, Venezuelan

heavy crude could trade at a slight premium of \$1–2 per barrel above WCS.

#### Economic viability

According to Rystad, Venezuela could currently increase its daily oil production by roughly one-third—around 300,000 barrels per day—at break-even costs well below prevailing market prices. However, once production rises beyond this level, costs are expected to increase sharply, requiring significantly higher oil prices to justify further investment. Wood Mackenzie estimates that new production in the Orinoco Belt would require break-even prices of around \$80 per barrel.

These elevated costs are driven by operational inefficiencies, deteriorating infrastructure, and the need to blend Venezuela's extra-heavy crude. This break-even level is far above current oil

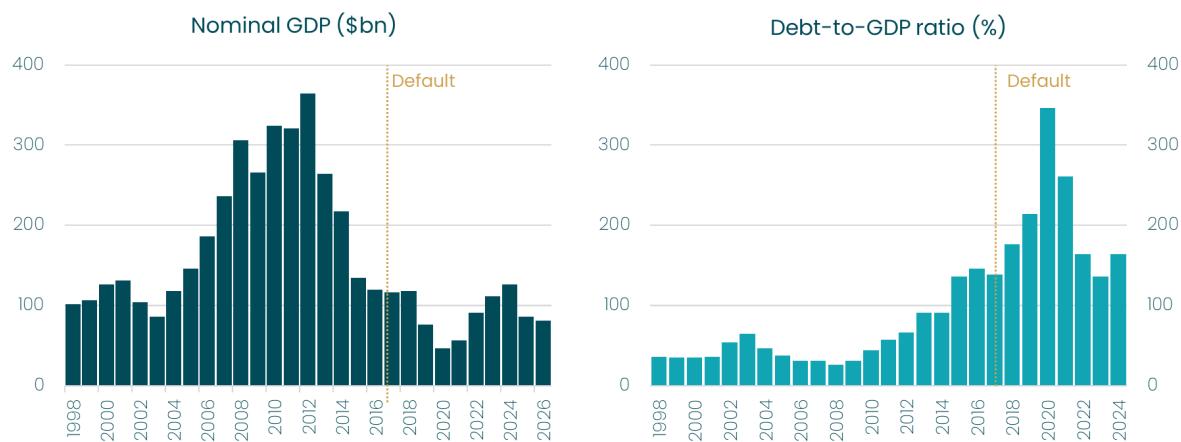
prices, which stand at roughly \$60–65 per barrel. By contrast, international oil projects—such as offshore developments in Guyana—are far more competitive, with break-even thresholds in the \$25–35 per barrel range. As a result, U.S. oil companies have so far adopted a cautious stance toward potential investments in Venezuela's oil infrastructure.

### Venezuela's debt situation

Nicolás Maduro's political downfall has

opened the door to what may become one of the largest and most complex sovereign debt restructurings in history. Venezuela has shifted from having "no prospect of restructuring" to facing a likely restructuring within the next one to two years. Creditors must now evaluate the country's overall debt position. Current estimates of Venezuela's external liabilities begin at \$150 billion and extend significantly higher. This implies a debt-to-GDP ratio in the range of 175–200%.

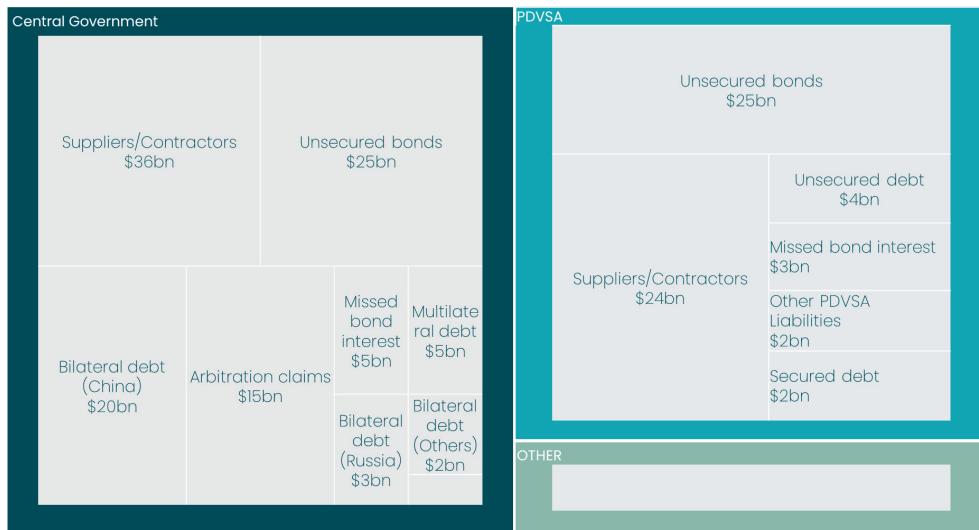
Venezuela's debt-to-gdp ratio surged as the economy shrank



Source: IMF as of January 2026

The largest share of Venezuela's liabilities consists of outstanding central government and PDVSA bonds, which have a combined nominal value of \$60 billion. However, due to unpaid interest accumulating since 2017, creditors are now owed more than \$100 billion on these instruments alone. In addition, roughly \$20 billion in international arbitration

awards—mostly owed to energy companies expropriated by the Venezuelan government—must be included. Bilateral obligations also add to the total, including an estimated \$15 billion in loans owed to China. Together, these components significantly increase Venezuela's overall external debt burden.



Source: Financial Times as of January 2026

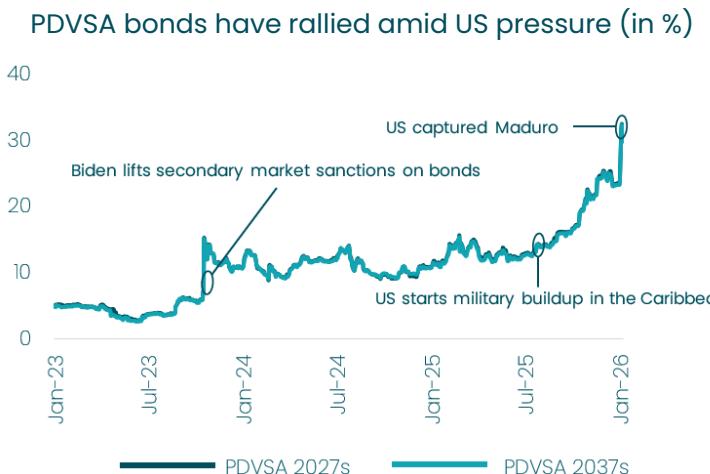
## Price Development of PDVSA bonds

PDVSA bonds fell into default in 2017 after the company missed scheduled payments, and since then they have traded flat, with no accrued interest. Prices subsequently collapsed to as low as 5 cents on the dollar. Between 2017 and 2025, Venezuela's economy suffered a severe contraction driven by hyperinflation, declining oil production, and U.S. sanctions.

By mid-2025, the United States began

increasing its military presence in the Caribbean, raising the perceived likelihood of a potential intervention. Against this backdrop, PDVSA bonds rebounded from below 15 cents on the dollar to roughly 25 cents by year-end.

In early January, the bonds returned to the spotlight following the capture of Nicolás Maduro, which strengthened expectations of an eventual debt restructuring. PDVSA bonds are now trading at around 35 cents on the dollar.



Source: Bloomberg; As of: January 2026

## Key takeaways

Whether creditors ultimately recover 25, 40, 50 cents on the dollar—or more—for outstanding PDVSA bonds will depend largely on the condition of Venezuela's economy and its oil sector. A key factor is the trajectory of global oil prices, given that new production in Venezuela requires a significantly higher break-even price of around \$80 per barrel.

Venezuela's exceptionally high public-debt-to-GDP ratio—estimated at 175–200%—is another constraint. If the country aims to reduce its debt burden to a more sustainable level of roughly 80% of GDP, creditor recoveries could be capped well below 50%.

Some investors expect that any restructuring of bonds and bilateral loans may include instruments that link payouts to a recovery in oil production. Such mechanisms—often referred to as warrants—are common in sovereign restructurings and can provide creditors with upside tied to exports or GDP performance.

Overall, the restructuring process is likely to be lengthy and complex. Numerous stakeholders will be involved, including representatives of the Venezuelan government, holders of defaulted bonds, multilateral institutions such as the IMF and World Bank, bilateral lenders like China, and other claimants.

The current optimism surrounding potential recovery values may ultimately be tempered by a more sober assess-

ment of Venezuela's ability to restore meaningful production capacity and operate rehabilitated infrastructure profitably.

## Contacts

**Hubertus Clausius, , MBA, CFA**  
Managing Director  
+49.69.244044.10  
hc@seahawk-investments.com

**Benedikt Schroeder, CAIA**  
Senior Portfoliomanager  
+49.69.244044.33  
bs@seahawk-investments.com

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