

RESEARCH REPORT

FIXED INCOME

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Global Research

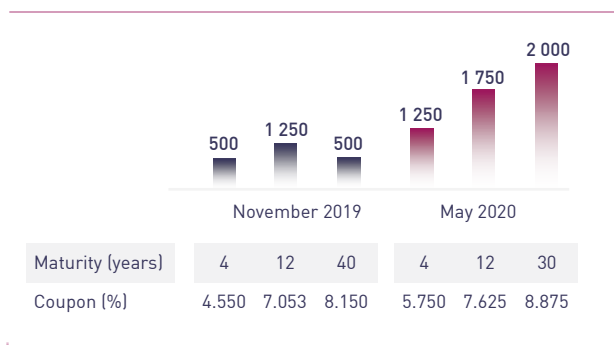
Calculated by
**S&P Dow Jones
Indices**

FOCUS EGYPT : CONSIDERABLE FINANCING NEEDS ... A GREAT INVESTORS' APPETITE (1/2)

On May 2020, Egypt achieved the second largest Eurobond issuance of its history after that realized in 2017 (\$ 7.0 Bn). This is an operation amounting to \$ 5.0 Bn, subdivided into three tranches. The first tranche concerns \$ 1.25 Bn with a 4-year maturity and a coupon rate of 5.750%. The second tranche has a 12-year maturity with a coupon rate of 7.625% for an amount of \$ 1.75 Bn. The third and last tranche issued concerns an amount of \$ 2.0 Bn over 30 years and offers an interest rate of 8.875%. This is much more attractive to yield-seeking investors compared to the November 2019 issuance, which was agreed at a coupon rate of 8.150% for 40 years.

This operation was extremely well received by highly liquid investors in a context of low, and even negative bond yields in Europe. In fact, it attracted a total Demand of \$ 22.0 Bn from 400 investors, i.e. an oversubscription rate of more than 4.0x the amount issued.

COMPARATIVE OF LATEST EUROBONDS (IN MN \$)



TECHNICAL RESULTS OF THE EUROBOND ISSUE (MAY-20)

Date of issue	May 2020		
Issue amount (\$ Mn)	1 250	1 750	2 000
Maturity (years)	4	12	30
Coupon rate (%)	5.750	7.625	8.875
S&P Rating	B		
Subscribed amount (\$ Mn)	22,000		
Subscription rate	4.0x		
Number of subscribers	400		

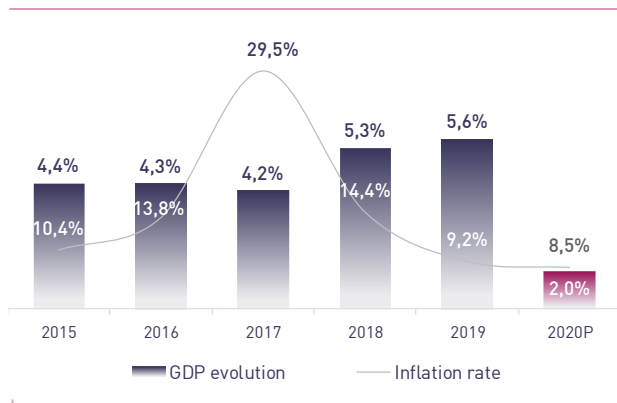
Impacts of the Covid-19 pandemic on the Egyptian economy are certainly out there. Despite its relative resilience with positive economic growth outlook (around 2% of GDP in 2020E), Egypt remains dependent on external shocks. These are revenues from the tourism sector (4.4% of GDP), workers remittances (9.0% of GDP) or even Suez Canal revenues (2.0% of GDP). At the same time, international gas prices have fallen sharply by more than 25% since the beginning of the current year pushing Egypt to slow down its production and suspend its exports of GLN in order to preserve its profitability.

Given the spread of the Covid-19 pandemic, the Egyptian government has implemented important health measures. These also have an economic cost such as closing borders to people and some businesses. It is obvious that these measures had a negative impact on the country's balance of payments and foreign exchange reserves. This has put pressure on the Egyptian Pound, which declined by -2.5% from EGP 15.6/\$ at the end of February to EGP 16.0/\$ currently.

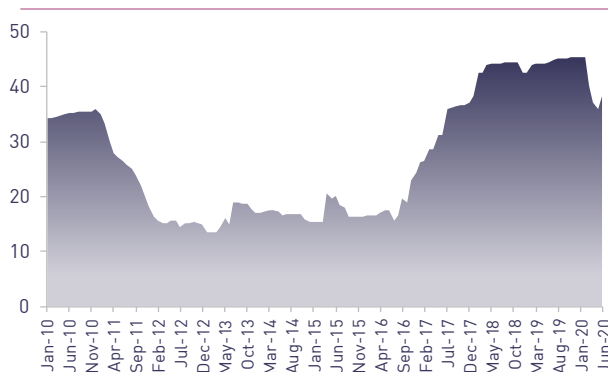
FOCUS EGYPT : CONSIDERABLE FINANCING NEEDS ... A GREAT INVESTORS' APPETITE (2/2)

In this context, this new Eurobond is very timely to replenish the country's foreign exchange reserves. Indeed, Net International Reserves reached \$ 36.0 Bn in May 2020 compared to \$ 44.3 Bn a year earlier, i.e. a decline of nearly 18%. Finally, the IMF has approved an emergency aid of \$ 2.8 Bn and a new 12-month \$ 5.2 Bn loan for Egypt to help it cope with challenges posed by the Covid-19 pandemic and finance its fiscal deficit and balance of payments shortfall. Additionally, another offering Green bonds is under study.

GDP VS. INFLATION EVOLUTION



EVOLUTION OF FOREIGN EXCHANGE RESERVES (\$ BN)



Mahat Zerhouni
 Senior Associate
 +212 529 03 68 16
 m.zerhouni@attijari.ma

Abdelaziz Lahlou
 Chief Economist
 +212 529 03 68 37
 ab.lahlou@attijari.ma

Sources : World Bank, Bloomberg, AGR Computations

RESULTS' SUMMARY

In this sixth edition, we have tracked the **AGR Africa Bond Index** evolution during Q2-2020. During this period, the index has experienced a sharp rebound in terms of value and outstandings:

- The index value reached 97.5 pts against 80.7 pts in the last edition. Thus, the index recovers two-thirds of the losses recorded during Q1-2020. This development could be explained on the one hand by the impact of the new integrated lines, which represent 28% of the total outstandings, and on the other hand by a relative dissipation of risk premiums which rose sharply in the previous quarter ;
- The deposit outstanding size widened from \$ 57 Bn to more than \$ 82 Bn. This results from the rise in the number of lines meeting the eligibility criteria of our index from 59 in Q1-2020 to 67 in Q2-2020. This evolution is mainly due to a scope effect with the integration of 9 Eurobond lines in the index and the withdrawal of one line ;
- The AGR Africa Bond Index is still represented by 6 African countries like the previous edition. Indeed, the latter is composed by Egypt, South Africa and Nigeria and which are largely representative in this benchmark. These 3 countries dominate nearly 60% of the capitalization while Ghana, Kenya and Morocco share the balance ;
- The observation of the current index breakdown by S&P rating agency shows the strong contribution of bonds B rated which monopolize 40% of AGR ABI. Furthermore, this latter is composed for 80% of residual maturities superior to 5 years.

Sources : S&P Dow Jones Indices, AGR Computations

RESULTS' DETAIL

Since our last report concerning Q1-2020, we have seen a significant increase of 20.8% in the index value. Similarly, the deposit outstanding size improved by \$ 25 Bn from \$ 57 Bn to more than \$ 82 Bn. The results of this new scope are as follows:

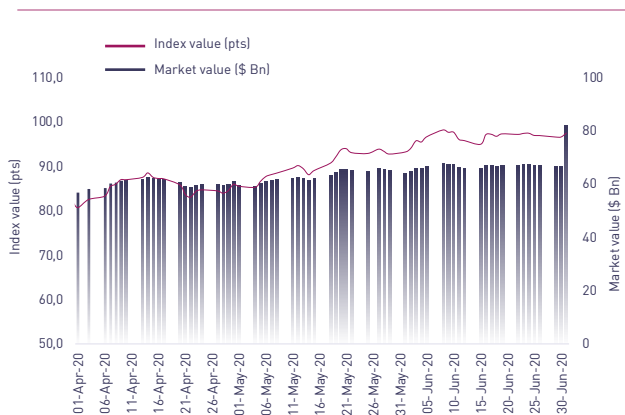
- **A significant improvement of AGR ABI value**

The AGR Africa Bond Index rose by 20.8%, from 80.7 pts in April 2020 to 97.5 points in July 2020, recovering two-thirds of the losses incurred during Q1-2020. A development which can be explained on the one hand by the impact of the new integrated lines, which represent 28% of the total outstandings, and on the other hand by a relative dissipation of risk premiums which had increased sharply in the previous quarter.

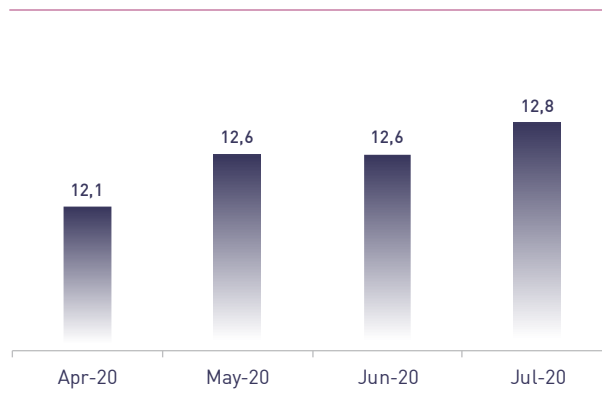
- **An increase in residual maturity**

The weighted residual maturity of the AGR Africa Bond Index stood at 12.8 years after the last rebalancing. This is higher than the level observed in Q1-2020, i.e. 12.1 years. Indeed, it should be noted that the maturities of the latest Eurobond issuances added to the index during Q2-2020, are relatively long. For example, we include Egypt which issued a raised an overall amount of \$ 5 Bn through the issuance of a new Eurobond divided into 3 tranches for a weighted maturity of 17.2 years.

AGR ABI EVOLUTION (PTS) VS. OUTSTANDING AMOUNTS (\$ BN)



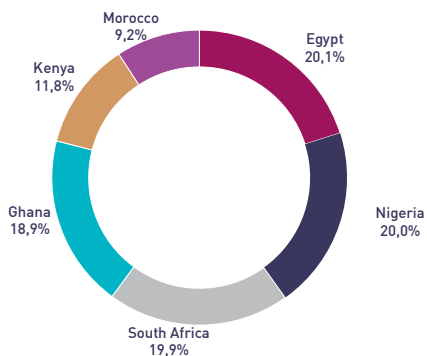
EVOLUTION OF THE RESIDUAL MATURITY (YEARS)



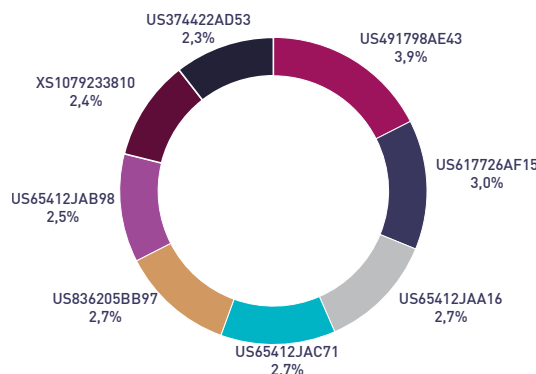
The AGR Africa Bond Index is dominated by Egypt, South Africa and Nigeria which preserved a high representativeness in this benchmark. Indeed, these 3 countries represent nearly 60% of the capitalization while Ghana, Kenya and Morocco share the remaining 40%.

In terms of issuances' number, among the current 67 constituents of the AGR ABI, the former three countries together account for 48 bond issuances, i.e. nearly 70% of our index.

AGR ABI : BREAKDOWN BY COUNTRY



AGR ABI : ISIN OF THE 8 MAIN ISSUANCES*



* Representing 22.3% of AGR ABI

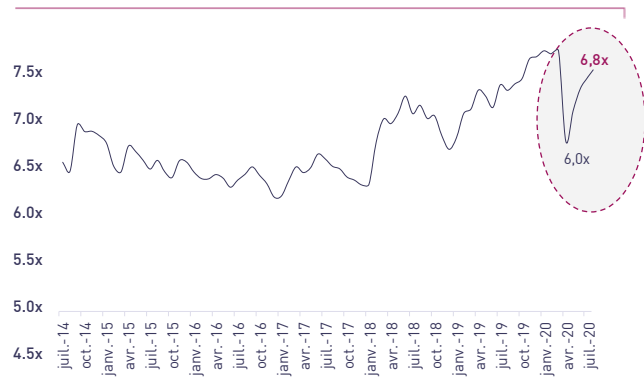
Sources : S&P Dow Jones Indices, AGR Computations

RESULTS' DETAIL

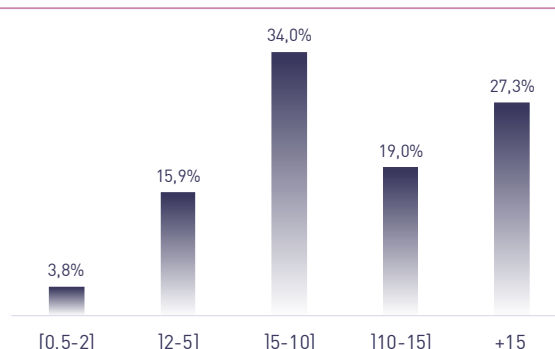
The modified duration* of the AGR ABI increased significantly from its level observed during the last quarter due to two factors. Firstly, the increase in the residual maturity which contributes to the rise in modified duration of the index. At the same time, the drop in rates observed in Q2-2020 naturally increased the index modified duration. Overall, the index shows a modified duration's level of 6.8x against to 6.0x last April.

The bond securities eligible for this index can be divided into five categories associated with five intervals of residual maturities (0.5-2 years, 2-5 years, 5-10 years, 10-15 years and more than 15 years). In this edition, we note that the AGR ABI index is composed for 80.3% of residual maturities superior to 5 years, slightly up compared with a weight of 78.6% during Q1-2020.

AGR ABI : EVOLUTION OF THE MODIFIED DURATION



AGR ABI : BREAKDOWN BY MATURITIES** (YEARS)



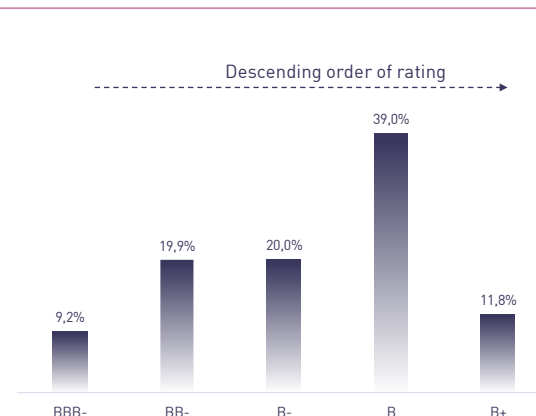
The number of the AGR Africa Bond Index constituents increased from 59 lines in April 2020 to 67 currently. It should be noted that during the monthly rebalancing of the AGR Africa Bond Index operated during Q1-2020, we note:

- On the one hand, the integration of 9 Eurobond lines in the index and the withdrawal of one line. In more detail, this concerns, on the one hand, the addition of 6 Eurobond lines whose issue date is prior to Q1-2020 and which have just met the eligibility criteria of the AGR ABI in terms of S&P rating. The Agency now proceeds by assimilating the rating of lines according to the overall risk of the issuing country. On the other hand, during Q2-2020 Egypt raised an overall amount of \$5 Bn through the issuance of a new Eurobond divided into 3 tranches with maturities of 4 years, 12 years and 30 years. At the same time, the withdrawal of a line belonging to Morocco whose residual maturity has become strictly inferior than 6 months. Morocco now has 4 Eurobond lines outstanding ;
- On the other hand, the observation of the current index breakdown by S&P's rating shows the strong contribution of bonds B⁺, B and B⁻ rated which concentrate 70.9% of the AGR ABI index. Secondly, we find that the sovereign bonds BB⁻ rated represent 19.9% of the index. Note that Investment Grade issuances (at least BBB-) weigh now 9.2% of the index against 13.0% in the previous edition.

ENTRIES AND/OR EXITS OF LINES IN THE AGR ABI

Country	Code ISIN	Description	% AGR ABI
Entries			
Egypt	US038461AK57	EGGV 6.125 01/31/22 MTN	1.71%
	US038461AL31	EGGV 7.500 01/31/27 MTN	1.40%
	US038461AM14	EGGV 8.500 01/31/47 MTN	1.64%
	US03846JX477	EGGV 5.750 05/29/24 MTN	0.82%
	US03846JX543	EGGV 7.625 05/29/32 MTN	1.12%
	US03846JX626	EGGV 8.875 05/29/50 MTN	1.30%
S. Africa	US836205AW44	ZAGV 4.850 09/27/27	1.00%
	US836205AX27	ZAGV 5.650 09/27/47	1.33%
Ghana	US374422AD53	GHGV 10.750 10/14/30	2.35%
Sortie			
Morocco	XS0546649822	MAGV 4.500 10/05/20	2.63%

INDEX BREAKDOWN BY S&P'S RATING



* Modified duration : expressed in multiple (x), represents the change in the price of a bond following a 1% change in the discount rate. This notion takes into account the lines' weight with respect to their market value.

** Residual maturity

Sources : S&P Dow Jones Indices, AGR Computations

AGR AFRICA BOND INDEX PRESENTATION

As a part of its mission to represent a high profile Research Center based in Africa and dedicated to African markets, Attijari Global Research has launched in March 2019 a new index called **AGR Africa Bond Index** « Code Bloomberg AGRAFBDT ».

Being the intellectual owner of the index, AGR joins forces with S&P Dow Jones Indices, world leader in indices computations and conception.

AGR Africa Bond Index represents a Total Return Index denominated in USD. Its starting universe is sovereign Eurobonds in Africa. In order to get closer to the economic reality across the continent, a series of eligibility criteria have been selected for the filters, particularly in terms of size, liquidity and rating.

This index aims to follow the outstanding amount of sovereign debts issued by African countries and denominated in foreign currencies. It thus allows to:

Analyze debt behavior in the Continent ;

Track a profitable funding vehicle in full expansion in Africa ;

Present an investment benchmark which could be replicated in respect of investment, size and diversification standards.

Through this new publication, AGR is gradually strengthening its coverage of African markets in a particular context where African economies express a more pronounced appetite for debt issuances, particularly Eurobonds (Cf. «Africa: Eurobonds, an acclaimed tool for an expanding debt » published on March 15th, 2019).

The role of S&P Dow Jones Indices revolves around the index calculation according to international standards and in accordance with criteria defined by AGR. Computed on a daily basis, this index is released on the Bloomberg platform. AGR ensures the edition and the publication of this document on a quarterly basis. This release provides a detailed analysis of the index evolution and its main characteristics.

AGR ABI TECHNICAL SPECIFICATIONS

CHARACTERISTICS

Characteristics :

- **Return type** : Total Return
- **Base date** : 30 juin 2014
- **Index Currency** : US Dollars
- **Base Value** : 100 pts

METHODOLOGY

- **Starting Universe** : All African countries to which we apply selection criteria of S&P AFRICA HARD CURRENCY SOVEREIGN BOND INDEX which leads to 13 countries, including : Botswana • Kenya • Namibia • Tanzania • Zambia • Egypt • Mauritius • Nigeria • Tunisia • Ghana • Morocco • South Africa • Uganda.
- **Weighting** : 20% per country of risk.
- **Selection criteria** :
 - ⇒ Residual maturity is 6 months meaning that a bond is only added into the index only if its residual maturity is strictly inferior to 6 months and is from the index if its residual maturity is superior or equal to 6 months ;
 - ⇒ Only include EUR and USD dominated bonds ;
 - ⇒ Minimum outstanding amount will be set for \$ 500 Mn for USD bonds and € 500 Mn for EUR bonds ;
 - ⇒ Only include fixed coupons bonds ;
 - ⇒ Only include bullet/at maturity type ;
 - ⇒ Only include bond rating superior or equal to B3/B- per S&P rating ;
 - ⇒ Only include 144A* ISIN issues.

- **Custom Index Calculation** :

Follows « S&P Fixed Income Index Mathematics Methodology » and all S&P standardized calculation approaches, precisely interest payments and principle prepayments are kept in cash until next rebalance date and Bids are used as pricing input for the calculation.

- **Rebalance** : The Custom Index is rebalanced on a Monthly basis after the close of the last business day of the month.
- **Rebalance Proforma schedule** : T-3 to T, T being the previous trading day of rebalance effective date.
- **Selection** : S&P will perform the constituent selection and weighting at each rebalance.
- **Calculation frequency** : End of The Day (EOD).
- **Calculation date** : Monday to Friday.
- **History** : since June 30th 2014.

* Reg 144A : regulatory framework of the Securities and Exchange Commission dealing with access conditions of foreign issuers to US financial markets.

ATTIJARI GLOBAL RESEARCH

CHIEF ECONOMIST

Abdelaziz Lahlou
+212 5 29 03 68 37
ab.lahlou@attijari.ma
Casablanca

MANAGER

Lamyae Oudghiri
+212 5 29 03 68 18
l.oudghiri@attijari.ma
Casablanca

SENIOR ASSOCIATE

Mahat Zerhouni
+212 5 29 03 68 16
m.zerhouni@attijari.ma
Casablanca

ASSOCIATE

Omar Cherkaoui
+212 5 22 49 14 82
o.cherkaoui@attijari.ma
Casablanca

INVESTOR RELATIONS ANALYST

Nisrine Jamali
+212 5 22 49 14 82
n.jamali@attijari.ma
Casablanca

HEAD OF STRATEGY

Taha Jaidi
+212 5 29 03 68 23
t.jaidi@attijari.ma
Casablanca

MANAGER

Maria Iraqui
+212 5 29 03 68 01
m.iraqui@attijari.ma
Casablanca

ASSOCIATE

Meryeme Hadi
+212 5 22 49 14 82
m.hadi@attijari.ma
Casablanca

SENIOR ANALYST

Ines Khouaja
+216 31 34 13 10
khouaja.ines@attijaribourse.com.tn
Tunis

FINANCIAL ANALYST

Josiane Ouakam
+237 233 43 14 46
j.ouakam@attijarisecurities.com
Douala

FINANCIAL ANALYST

Jean-Jacques Birba
+225 20 21 98 26
jean-jacques.birba@sib.ci
Abidjan

Equity

BROKERAGE - MOROCCO

Abdellah Alaoui
+212 5 29 03 68 27
a.alaoui@attijari.ma

Rachid Zakaria
+212 5 29 03 68 48
r.zakaria@attijari.ma

Anis Hares
+212 5 29 03 68 34
a.hares@attijari.ma

Kaoutar Sbiyaa
+212 5 29 03 68 21
k.sbiyaa@attijari.ma

Alae Yahya
+212 5 29 03 68 15
a.yahya@attijari.ma

ONLINE TRADING - MOROCCO

Nawfal Drari
+212 5 22 49 59 57
n.drari@wafabourse.com

Sofia Mohcine
+212 5 22 49 59 52
s.mohcine@wafabourse.com

WAEMU - CÔTE D'IVOIRE

Mohamed Lemridi
+225 20 21 98 26
mohamed.lemridi@sib.ci

BROKERAGE - TUNISIA

Abdelkader Trad
+225 20 21 98 26
trad.abdelkader@attijaribank.com.tn

CEMAC - CAMEROON

Yves Ntchoumou
+237 2 33 43 14 46

Bonds / Forex / Commodities

MOROCCO

Mehdi Mabkhout
+212 5 22 42 87 22
m.mabkhout@attijariwafa.com

Mohammed Hassoun Filali
+212 5 22 42 87 09
m.hassounfilali@attijariwafa.com

Amine Elhajli
+212 5 22 42 87 09
a.elhajli@attijariwafa.com

Btissam Dakkouni
+212 5 22 42 87 74
b.dakkouni@attijariwafa.com

Dalal Tahoune
+225 22 42 87 07
d.tahoune@attijariwafa.com

EGYPT

Mahmoud Bahaa
+202 27 97 04 80
mahmoud.bahaa@barclays.com

TUNISIA

Abdelkader Trad
+216 71 80 29 22
trad.abdelkader@attijaribank.com.tn

MIDDLE EAST - DUBAI

Serge Bahaderian
+971 0 43 77 03 00
sbahaderian@attijari-me.com

WAEMU - CÔTE D'IVOIRE

Abid Halim
+225 20 20 01 55
abid.halim@sib.ci

CEMAC - GABON

Youssef Hansali
+241 01 77 72 42
youssef.hansali@ugb-banque.com

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