

RESEARCH REPORT

FIXED INCOME

Q1

Q2

Q3

Q4

| AFRICA | QUARTERLY AGR Africa Bond Index

02 | Egypt : issuances are multiplying ... without losing their attractiveness

04 | Results' summary for Q4-21

05 | Results' detail for Q4-21

07 | AGR AFRICA Bond Index presentation



Attijari
Global Research

Calculated by

S&P Dow Jones
Indices

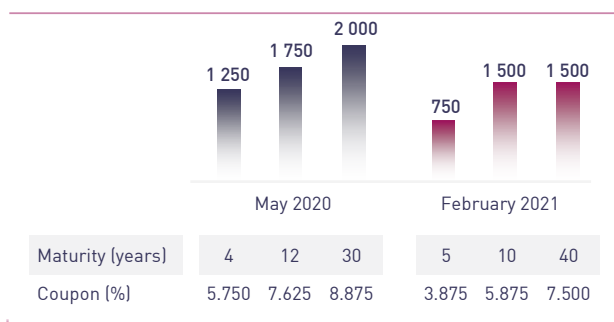
EGYPT : ISSUANCES ARE MULTIPLYING ... WITHOUT LOSING THEIR ATTRACTIVENESS

Egypt has just successfully issued its first Eurobond in 2021. Used to this channel for its debt raising, Egypt has achieved its 13th Eurobond issuance since 2010. In total, its issues have reached \$ 38,9 Bn over this period. It is considered as the first issuer in the African continent well ahead of South Africa with a total amount of \$ 21.7 Bn.

This last issue of February is singular. Indeed, this is the second time in its history that Egypt has sold 40-year bonds, which were last featured in the \$ 2 Bn Eurobond issue in 2019. As a whole, the operation concerns a total amount of \$ 3.75 Bn subdivided into three tranches of 3 maturities of 5 years, 10 years and 40 years.

However, the high frequency of issuance from Egypt does not affect its attractiveness. Investors' Demand exceeded \$15 Bn, i.e. an oversubscription rate of 4.0x. This strong Demand allowed Egypt to revise downwards its initially proposed yields to 4.25%, 6.25% and 7.875% to lower thresholds of 3.875%, 5.875% and 7.500% for maturities of 5 years, 10 years and 40 years respectively. It should be remembered, that in absolute terms, these yields are significantly lower than those of the previous issue of May 2020 although the maturities are longer, thus denoting the investors' confidence in the Egyptian signature.

COMPARATIVE OF LATEST EUROBONDS (IN \$ MN)



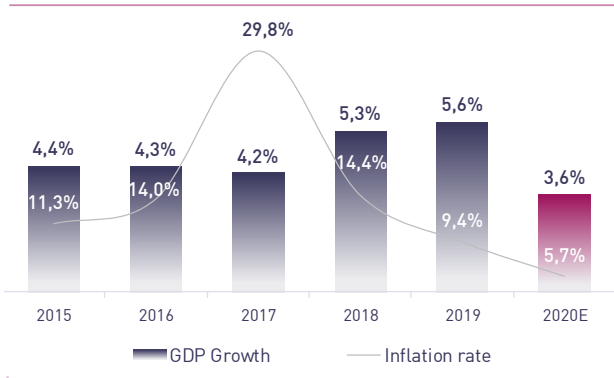
TECHNICAL RESULTS OF THE EUROBOND ISSUE FEB-21

Date of issue	February 2021		
Issue amount (\$ Mn)	750	1 500	1 500
Maturity (years)	5	10	40
Coupon (%)	3.875	5.875	7.500
S&P Rating	B		
Subscribed amount (\$ Mn)	15,000		
Subscription rate	4.0x		

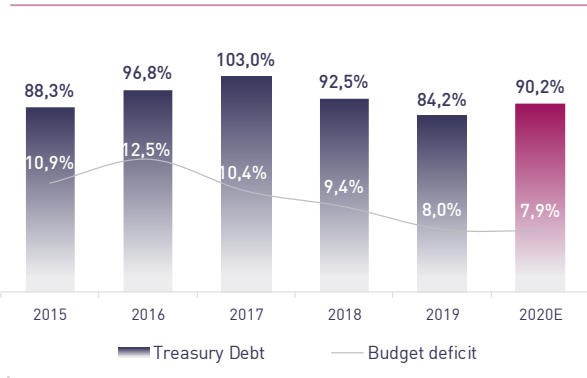
The persistent interest in Egyptian sovereign bonds could be explained by three factors :

- ⇒ Persistent liquidity to be invested in sovereign bonds;
- ⇒ The size of Egypt's issuances, which remain one of the largest in the region;
- ⇒ A correct Risk / Return profile of the country. The latter displays proven resilience within the health crisis context.

GDP GROWTH Vs. INFLATION



FISCAL DEFICIT Vs. TREASURY DEBT



Sources : IMF, Bloomberg, AGR Computations

EGYPT : ISSUANCES ARE MULTIPLYING ... WITHOUT LOSING THEIR ATTRACTIVENESS

In terms of economic growth, Egypt stands out from its peers with a GDP growth for fiscal year 2020/2021 estimated at 3.6% against 5.6% a year earlier. The country is one of the few countries on the African continent exposed to both the tourism sector and raw materials to achieve positive growth in 2020/2021.

Regarding the fiscal deficit, the latter certainly does not pursue its strongly bearish planned trajectory but should, nevertheless, stabilize around 8% of GDP in 2021. An achievement qualified as "a performance" because of the exceptional expenditure generated in this pandemic period and the pressure on tourism revenues and those of the Suez Canal.

Meanwhile, this strategy of using debt to maintain economic growth has a cost. The country's debt ratio should therefore break with its downward trajectory observed since 2018 by posting a significant increase of 600 BPS to 90.2%. This rebound is fuelled by the increase in outstanding debt, although slightly offset by an economic growth of 3.6% which should be displayed in 2020/2021.

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Sources : IMF, Bloomberg, AGR Computations

RESULTS' SUMMARY FOR Q1-21

In this 9th edition, we analysed the AGR Africa Bond Index evolution during Q1-21. The main findings are as follows :

- The value of the AGR ABI index stands at 101.9 pts after reaching an all-time high of 108.5 pts in the last edition, i.e. a decline of -6.1 pts ;
- The deposit outstanding decreased from \$ 100.4 Bn to \$ 97.5 Bn. At the origin of this decline, the increase in the risk premium of Eurobonds for several African countries in a general context of ratings downgrade. For example, Kenya has seen its S&P rating going from B+ to B ;
- The number of lines meeting the criteria of our index goes from 74 in Q4-20 to 77 in Q1-21. This evolution results from the integration of a new Eurobond issuance in the index, which is composed of several lines. This is Egypt, which issued an amount of \$ 3.75 Bn subdivided into three tranches with different maturities: 5 years, 10 years and 40 years ;
- The AGR Africa Bond Index is still represented by 6 African countries like the previous edition. Indeed, the latter is composed of Egypt, South Africa and Nigeria which are largely representative in this benchmark. These 3 countries monopolize nearly 58% of the capitalization while Ghana, Morocco and Kenya share the remaining 42% ;
- The observation of the current index breakdown by S&P rating agency shows the strong contribution of B- rated bonds which monopolize 35% of AGR ABI. Furthermore, this latter is composed for 75% of residual maturities superior to 5 years.

RESULTS' DETAIL FOR Q1-21

Since our last report related to Q4-20, we have seen a -6.1% decline in the index value, dropping from 108.5 pts to 101.9 pts on April 1st, 2021. Similarly, the deposit outstanding fell from \$ 100.4 Bn to \$ 97.5 Bn. In addition, we note a single change of scope following the rebalancing of the AGR Africa Bond Index operated at the end of February 2021. Since then, we have observed the integration of a new Eurobond issuance in the index, which is composed of several lines. This is Egypt, which issued an amount of \$ 3.75 Bn subdivided into three tranches with different maturities: 5 years, 10 years and 40 years. The results of this new scope are as follows:

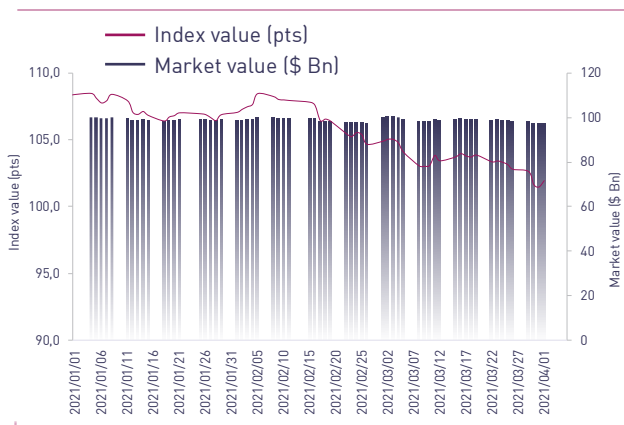
- **A decrease in AGR ABI value**

The AGR Africa Bond Index fell by -6.1%, from 108.5 pts in January 2021 to 101.9 pts in April 2021. Also, we note a decline in the deposit outstanding to \$ 97.5 Bn against \$ 100.4 Bn on January 1st, 2021 despite the increase in the number of constituents of the AGR Africa Bond Index, which stood at 77 bond lines at the end of Q1-21 against 74 a quarter earlier.

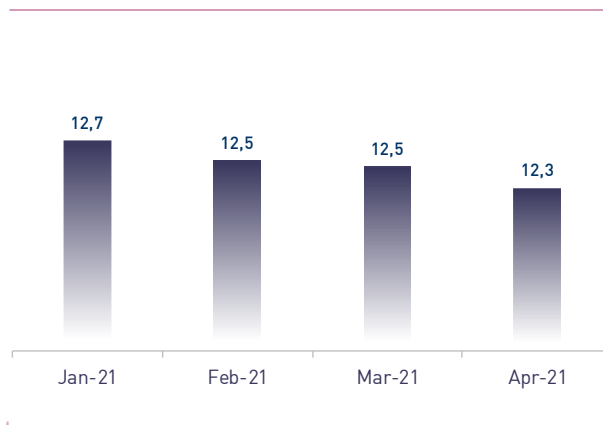
- **A decline in residual maturity**

The weighted residual maturity of the AGR Africa Bond Index stood at 12.3 years after the last rebalancing. This is down from the level observed at the end of Q4-20, i.e. 12.7 years. At that date, the AGR ABI index consisted of 16.2% of Euro-bonds with a residual maturity between 10 and 15 years against 13.9% currently.

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



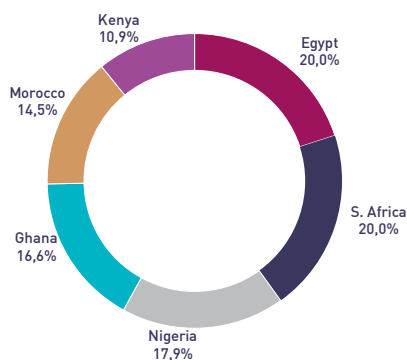
EVOLUTION OF THE RESIDUAL MATURITY (YEARS)



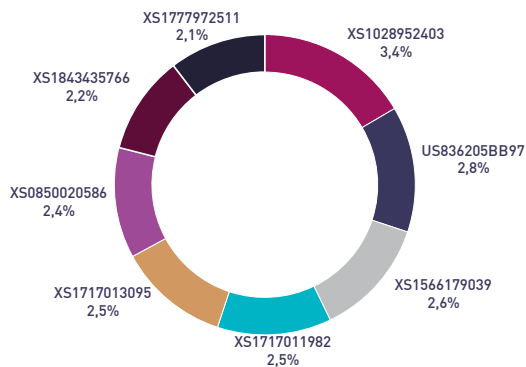
The AGR Africa Bond Index is dominated by Egypt, South Africa and Nigeria which preserved a high representativeness in this benchmark. Indeed, these 3 countries represent nearly 58% of the capitalization while Ghana, Morocco and Kenya share the remaining 42%.

In terms of issuances' number, among the current 77 constituents of the AGR ABI, the former three countries together account for 53 bond issuances, i.e. nearly 69% of our index.

AGR ABI : BREAKDOWN BY COUNTRY



AGR ABI : ISIN OF THE 8 MAIN ISSUANCES ⁽¹⁾



(1) Representing 20.8% of AGR ABI

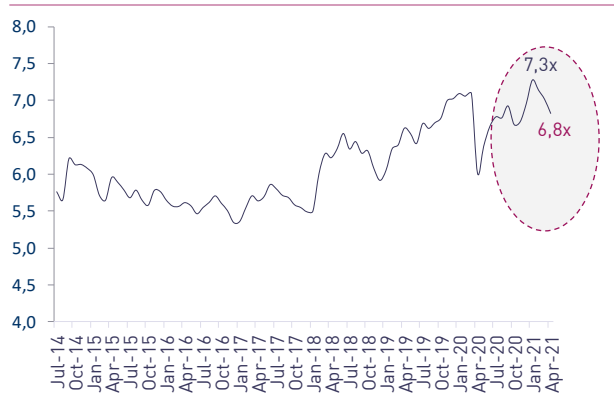
Sources : S&P Dow Jones Indices, AGR Computations

RESULTS' DETAIL FOR Q1-21

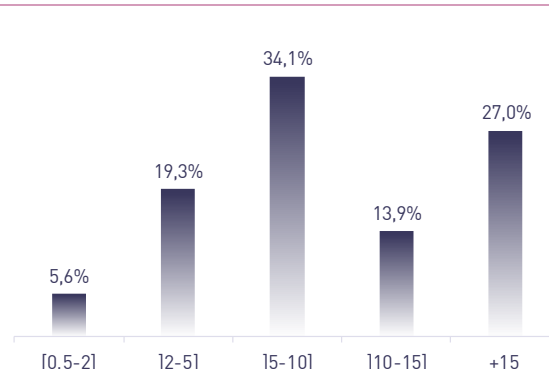
The modified duration⁽¹⁾ of the AGR ABI index has fallen significantly compared to its level observed in January 2021. This is the translation of the significant rise in interest rates on Eurobonds that occurred during the last quarter following the downgrading of several African countries. In this context, the index shows a modified duration's level of 6.8x against 7.3x in last January.

The bond securities eligible for this index can be subdivided 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 75% of residual maturities superior to 5 years.

AGR ABI : EVOLUTION OF THE MODIFIED DURATION



AGR ABI : BREAKDOWN BY MATURITIES⁽²⁾ (YEARS)



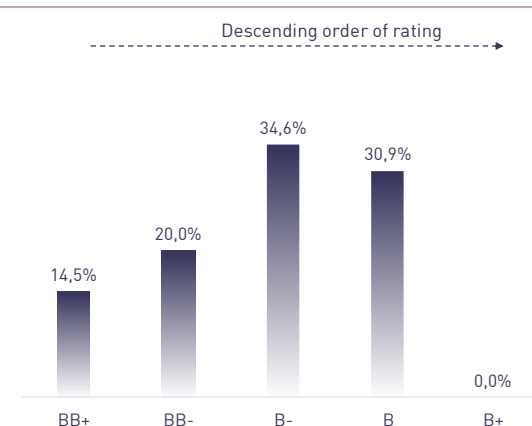
The number of the AGR Africa Bond Index constituents increased from 74 lines in January 2021 to 77 currently. During the monthly rebalancing of the AGR Africa Bond Index operated during Q1-21, we note:

- The integration of a new Eurobonds issue consisting of three bond lines. This is Egypt, which issued a total amount of \$ 3.75 Bn subdivided into three tranches with different maturities: 5 years, 10 years and 40 years;
- The observation of the current index breakdown by S&P's rating shows the strong contribution of bonds rated B⁺, B and B⁻ rated which concentrate 65.5% of the AGR ABI index. At the same time, sovereign bonds rated BB⁻ and BB⁺ represent 20.0% and 14.5% of the index respectively.

ENTRIES AND/OR EXITS OF LINES IN THE AGR ABI

Country	Code ISIN	Description	Weight in the index
Entries			
Egypt	XS2297220423	EGGV 3.875 02/16/26 MTN	0.37%
	XS2297221405	EGGV 7.500 02/16/61 MTN	0.69%
	XS2297226545	EGGV 5.875 02/16/31 MTN	0.71%

INDEX BREAKDOWN BY S&P'S RATING



(1) 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.

(2) 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.

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