

# RESEARCH REPORT

FIXED INCOME

Q1

Q2

Q3

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Attijari  
Global Research

Calculated by

S&P Dow Jones  
Indices

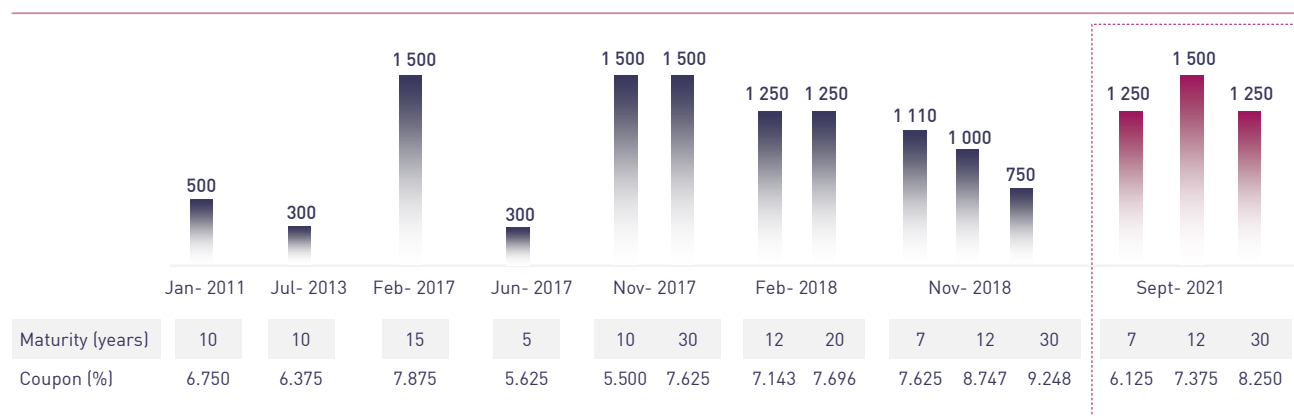
### NIGERIA SUCCESSFULLY ACCESSED THE INTERNATIONAL CAPITAL MARKET

After 3 years of absence, Nigeria has achieved in September 2021 the largest foreign exchange fundraising in its history, i.e. \$ 4.0 Bn. To this end, Nigeria is joining the select club of West African countries that made record issues in 2021, such as Ghana, which raised \$ 3.0 Bn on last March.

This long lull did not constitute a handicap for Nigeria, which succeeded in this new issue under significantly more favourable global refinancing conditions than during its last issuance in November 2018. In more detail, the bonds were issued in three tranches :

- ◆ \$1.25 Bn at 6.125% rate and maturity of 7 years ;
- ◆ \$1.5 Bn at 7.375% with a 12-year maturity ;
- ◆ \$1.25 Bn at 8.25% per year with 30-year maturity.

### HISTORICAL NIGERIA EUROBOND ISSUES (IN \$ MN)



This transaction aroused great enthusiasm among international investors. Indeed, this attracted a Demand of \$ 12.2 Bn while the country requested only a quarter of this amount, i.e. \$ 3.0 Bn. Undoubtedly, this new international issue is taking place in a favourable context, namely:

- ◆ An overabundance of liquidity : The financial markets are fuelled by 'sizable' stimulus plans thanks to the support provided by the central banks of large economies, such as the Fed and the ECB, which are trying to stem the economic crisis ;
- ◆ A search for yield : Faced with the "insufficiency" of the traditional offered yields, institutional investors turned to emerging debt for a tolerable level of risk. Nigeria is a perfect illustration of this observation ;
- ◆ A positive development in international hydrocarbon prices exceeding 85 \$/bbl for Brent fuelled by prospects for a global economic recovery. Recall that Nigeria is considered to be the Africa's largest oil exporter, with a current production of 1.47 million barrels / day while its actual production capacity is around 2 million barrels per day.

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

**Abdelaziz Lahlou**  
Head of Economy  
+212 529 03 68 37  
ab.lahlou@attijari.ma

Sources : IMF, Bloomberg, AGR Computations

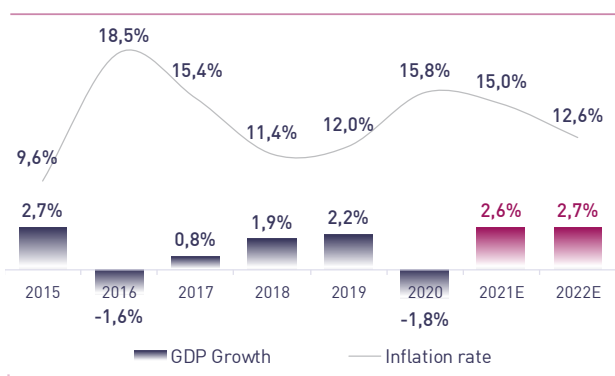
## A DOUBLE-CHALLENGE OPERATION

### ◆ Financing the budget deficit

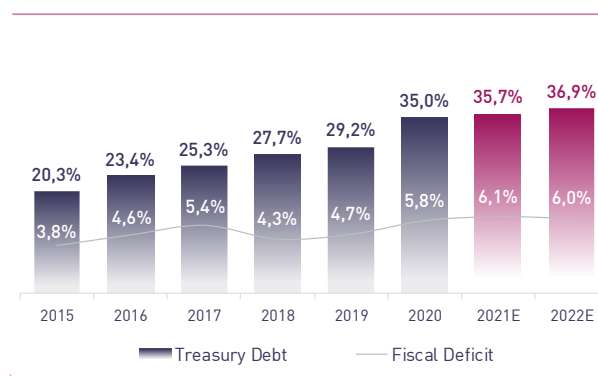
The economic crisis caused by Covid-19 severely affected Nigeria, as the country struggled to restart after the previous recession. The sharp contraction in oil prices due to the drop in global Demand has overcome the Nigerian economy, which posted in 2020 its second recession in five years. Indeed, the GDP fell by -1.8% in 2020. Nevertheless, the oil prices recovery (+61.5% since the beginning of this year) following the improvement in the world health context would allow Nigerian economy to resume with growth from 2021, i.e. a GDP growth estimated at 2.6%. As a reminder, the sale of oil and gas accounts for about half of the state revenues and over 90% of its export revenues.

On the budgetary level, the situation is more tense with a fiscal deficit of 5.8% of GDP in 2020, its highest level since 1993 due to the deterioration of tax revenues and the continued government expenditure. For 2021 and 2022, Nigeria intends to pursue a stimulus plan that relies on public expenditure. The country considers that its current debt level of 35.7% of GDP remains quite sustainable, and that the country's budgetary challenge remains raising income.

### GDP GROWTH Vs. INFLATION



### FISCAL DEFICIT Vs. TREASURY DEBT

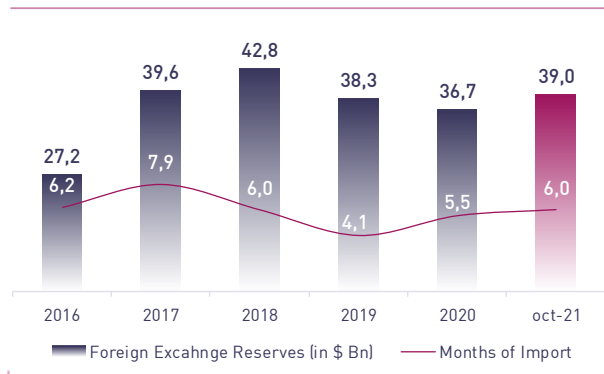


### ◆ Strengthening of foreign exchange reserves

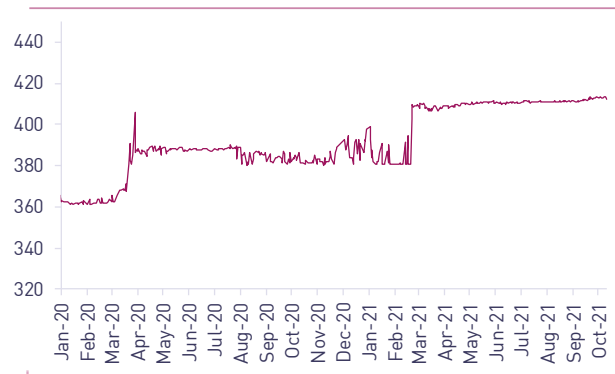
The crisis also impacted Nigeria's balance of payments and therefore foreign exchange reserves. Indeed, these have dropped, going from \$ 45 Bn in July 2019 to \$ 33.5 Bn in April 2020, i.e. 5 months of imports of goods and services. This new international loan should help replenish the country's foreign exchange reserves. As of October 10<sup>th</sup>2021, these have reached \$ 39 Bn.

In order to maintain the national currency stability, the Central Bank devalued the naira's official rate twice, going from 306 NGN / USD to 379 NGN / USD, i.e. a loss of its value of 20% within six months. In addition, to counter the crisis effects, the Central Bank has decided to reduce its main key rate by 200 BPS between May and September 2020 to 11.5%. At the same time, the upward trend in international commodity prices has led to higher consumer prices in Nigeria. To that end, inflation rate increased from 12% in 2019 to 15.8% in 2020, its highest level during the last four years. According to the IMF, it should decline slightly to 15.0% this year.

### FOREIGN EXCHANGE RESERVES Vs. MONTHS OF IMPORT



### USD / NGN EXCHANGE RATE EVOLUTION



Sources: IMF, AGR computations

## RESULTS' SUMMARY FOR Q3-21

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In this 11<sup>th</sup> edition, we analysed the AGR Africa Bond Index evolution during Q3-21. The main findings are as follows :

- The value of the AGR ABI index stands at 100.2 pts against 104.4 pts in the last edition, i.e. a decrease of 4.2 pts;
- The deposit outstanding remains around \$ 104.0 Bn. This is attributed to the increase in the number of lines meeting the eligibility criteria of our index, going from 82 in Q2-21 to 87 in Q3-21. This change stems, on the one hand, from the inclusion of 2 new Eurobond issues in the index, consisting of 3 lines each. These concern Nigeria, which issued \$ 4.0 Bn subdivided into 3 tranches (7, 12 and 30 years) and Egypt, which has realized its second Eurobond issue of the year 2021 for a total amount of \$ 3.0 Bn composed of 3 maturities (6, 12 and 30 years). On the other hand, we note the withdrawal of an issue from Egypt whose residual maturity has become strictly less than 6 months;
- The AGR Africa Bond Index is still represented by 6 African countries like the previous edition. Indeed, the latter is composed by Nigeria, Egypt and South Africa which are largely representative in this benchmark. These 3 countries monopolize nearly 60% of the deposit outstanding while Ghana, Morocco and Kenya share the remaining 40% ;
- The observation of the current index breakdown by S&P rating agency shows the strong contribution of B- rated bonds which monopolize almost 38% of AGR ABI. Furthermore, this latter is composed for 76% of residual maturities strictly superior to 5 years.

## RESULTS' DETAIL FOR Q3-21

Since our last report related to Q2-21, the scope changed following the two “rebalancing” of the AGR Africa Bond Index which occurred at the end of August and September 2021. Since then, we note on the one hand, 2 new Eurobond issued by two countries which have been included in the index, each made up of three lines. It is about Nigeria which issued for an aggregate amount of \$ 4.0 Bn while the second issue concerns Egypt which has raised \$ 3.0 Bn. On the other hand, we have also observed the withdrawal of one Egyptian Eurobond line. The results of this new scope are as follows:

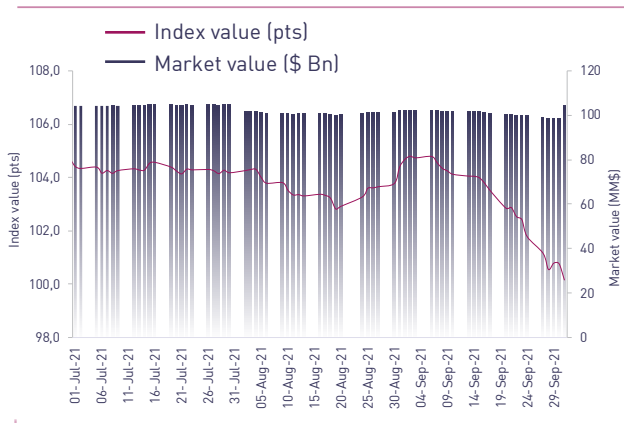
- **A decrease in AGR ABI value**

The AGR Africa Bond Index fell by 4.1%, from 104.4 pts in July 2021 to 100.2 pts in October 2021. along with a stagnation in the total size of the index deposit which amount to \$ 104 Bn despite the increase in the number of constituents, which reaches 87 bond lines at the end of Q3-21 against 82 a quarter earlier.

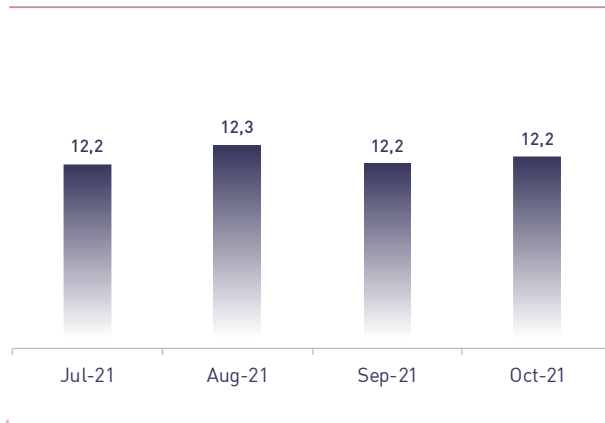
- **An almost stability in residual maturity**

The weighted residual maturity of the AGR Africa Bond Index stood at 12.2 years after the last rebalancing. This appears to be almost stable compared to the level observed in Q2-21, i.e. 12.2 years. Currently, the AGR ABI index consisted of 44.9% of Eurobonds with a residual maturity between 5 and 12 years.

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



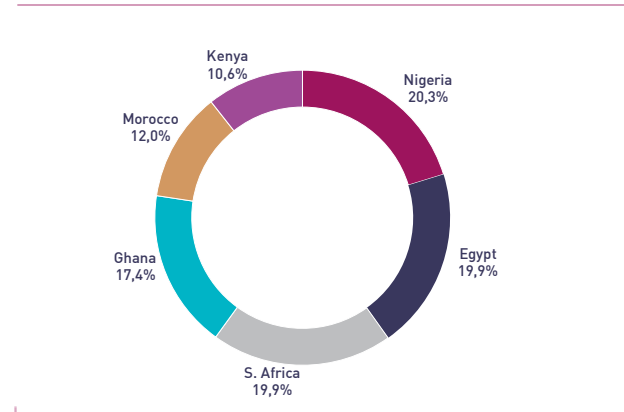
### EVOLUTION OF THE RESIDUAL MATURITY (YEARS)



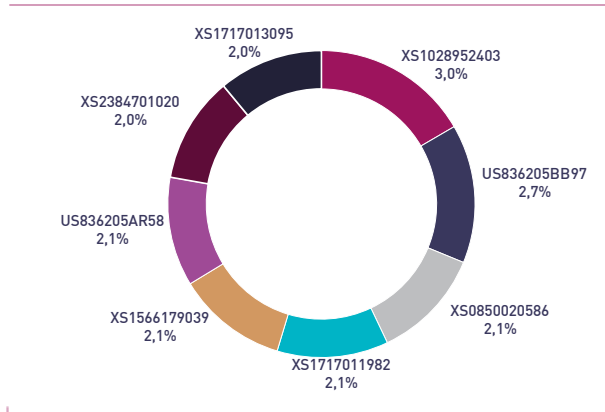
Following the integration of its new bond issue, Nigeria ranks first among the most representative countries in terms of outstanding loans. Egypt and South Africa are in second and third place respectively. These 3 countries represent nearly 60% of the capitalization while Ghana, Morocco and Kenya share the remaining 40%.

In terms of issuances' number, among the current 87 constituents of the AGR ABI, the former three countries together account for 53 bond issuances, i.e. nearly 61% of our index.

### AGR ABI : BREAKDOWN BY COUNTRY



### AGR ABI : ISIN OF THE 8 MAIN ISSUANCES <sup>(1)</sup>



(1) Representing 18.3% of AGR ABI

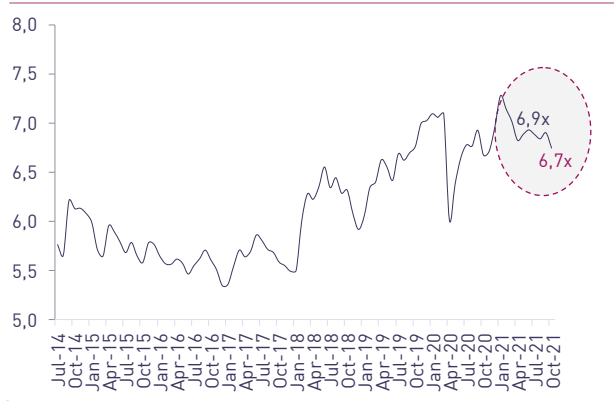
Sources : S&P Dow Jones Indices, AGR Computations

## RESULTS' DETAIL FOR Q3-21

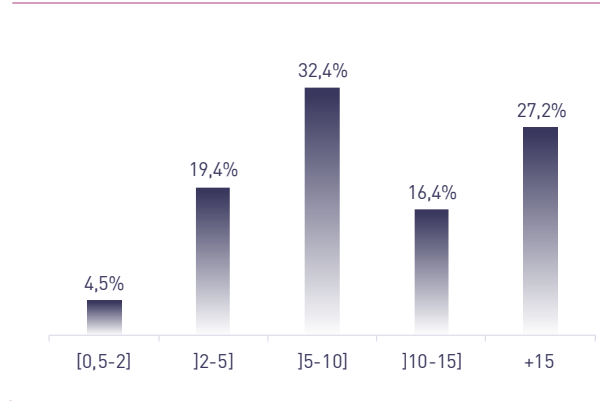
The change in scope of the AGR ABI index had a barely visible impact on the modified duration<sup>[1]</sup>, i.e. a multiple of 6.7x against 6.9x a quarter earlier.

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 76% of residual maturities superior to 5 years.

### AGR ABI : EVOLUTION OF THE MODIFIED DURATION



### AGR ABI : BREAKDOWN BY MATURITIES<sup>[2]</sup> (YEARS)



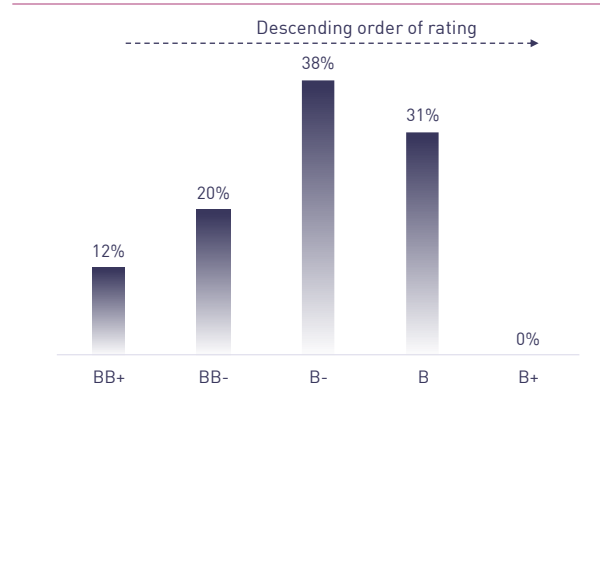
The number of the AGR Africa Bond Index constituents increased from 82 lines in July 2021 to 87 currently. During the monthly rebalancing of the AGR Africa Bond Index operated during Q3-21, we note:

- The integration of 2 new Eurobond issues: These are, **(1)** Nigeria (three lines for an aggregate amount of \$ 4.0 Bn) and **(2)** Egypt (three lines for a total amount of \$ 3.0 Bn). In addition, we observe the withdrawal of a line belonging to Egypt whose residual maturity has become strictly inferior than 6 months;
- The observation of the current index breakdown by S&P's rating shows the strong contribution of bonds rated B and B- rated which concentrate 69% of the AGR ABI index. At the same time, sovereign bonds rated BB- and BB+ represent 20.0% and 12% of the index respectively.

### ENTRIES AND/OR EXITS OF LINES IN THE AGR ABI

Country	Code ISIN	Description	Weight in the index
<b>Entries</b>			
Nigeria	XS2384698994	NGGV 6.125 09/28/28 MTN	1.70%
	XS2384701020	NGGV 7.375 09/28/33 MTN	2.05%
	XS2384704800	NGGV 8.250 09/28/51 MTN	1.71%
Egypt	XS2391394348	EGGV 5.800 09/30/27 MTN	0.56%
	XS2391395154	EGGV 7.300 09/30/33 MTN	0.56%
	XS2391398174	EGGV 8.750 09/30/51 MTN	0.37%
<b>Exit</b>			
Egypt	XS1558077845	EGGV 6.125 01/31/22 MTN	

### 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 15<sup>th</sup>, 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 30<sup>th</sup> 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

### HEAD OF ECONOMY

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

### 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

### INVESTOR RELATIONS ANALYST

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

### SENIOR ANALYST

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

### FINANCIAL ANALYST

Felix Dikosso  
+237 233 43 14 46  
f.dikosso@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

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

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

### CUSTODY - MAROC

Tarik Loudiyi  
+212 5 22 54 42 98  
t.loudiyi@attijariwafa.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 - CAMEROUN

Yves Ntchoumou  
+237 2 33 43 14 46  
n.ntchoumou@attijarisecurities.com

## 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

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 - DUBAÏ

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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