

RESEARCH REPORT

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Global Research

Calculated by

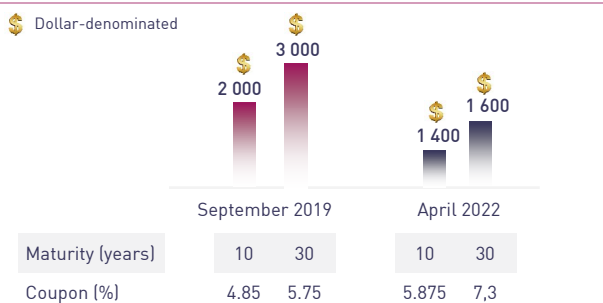
S&P Dow Jones
Indices

A QUARTER MARKED BY THE RETURN OF SOUTH AFRICA TO THE EUROBOND MARKET (1/2)

South Africa is the 3rd African nation after Nigeria and Angola to issue a Eurobond since the start of Russia's war with Ukraine. This is an operation amounting to \$ 3.0 Bn, structured into two tranches with 10 years and 30 years maturities. The first tranche concerns \$ 1.4 Bn and offers an interest rate of 5.875% while the second tranche has a coupon of 7.3% for an amount of \$ 1.6 Bn.

This latest international loan was very successful, as indicated by the amount raised, i.e. with a Demand of \$ 7.1Bn, equivalent to an oversubscription rate of 2.4x. It should be noted that the conditions for this issue are significantly less advantageous for the issuer than those of September 2019 operation. Recall that, this was carried out on the basis of a rate of 4.85% and 5.75% for similar maturities (10 and 30 years). This situation find its origin in the rise in Central Bank key rates in order to counter increasing inflation pressures as well as the increase of risk aversion in the financial markets.

COMPARATIVE OF LATEST EUROBONDS (IN \$ MN)



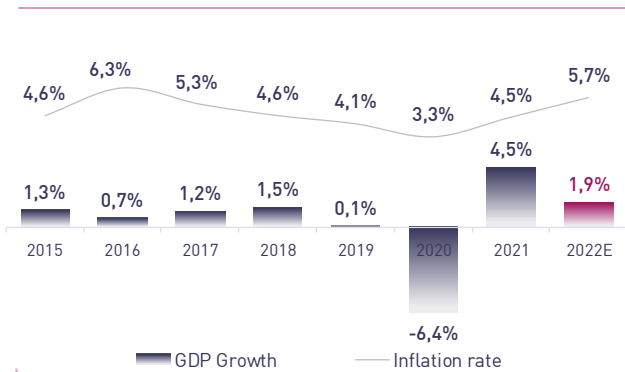
TECHNICAL RESULTS OF THE EUROBOND ISSUE APR-22

Issue Date	April 2022	
Issue amount (\$ Mn)	1 400	1 600
Maturity (years)	10	30
Coupon (%)	5.875	7.3
Issue spread (Pbs)	309	447
S&P Rating	BB ⁻	
Subscription rate	2.4x	

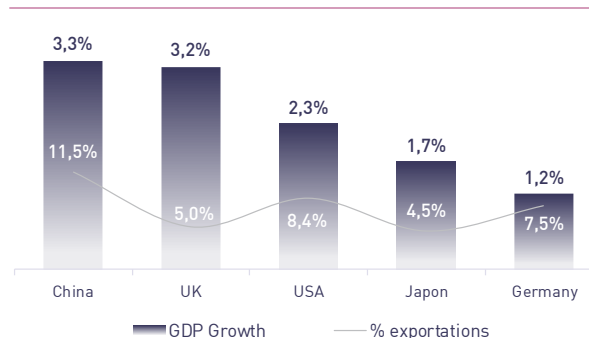
In a context of crisis, South Africa's economic activity contracted in 2020 to -6.4% before rebounding to 4.5% in 2021. In 2022, GDP is expected to grow at a moderate pace below 2%. While the country's exports are expected to benefit from the upward cycle in commodity prices, their volumes are expected to be moderate due to the downward revision of South Africa's major trading partners growth outlook.

In terms of domestic Demand, the war in Ukraine is strengthening inflationary pressures, which should erode household purchasing power. It is true that South Africa has little exposure to Ukraine and Russia with only 0.8% of total imports in 2020. However, its status as a net importer of hydrocarbons and cereals makes the country vulnerable to the rising costs related to supply chains disruptions.

SOUTH AFRICA : GDP GROWTH VS. INFLATION



TRADING PARTNERS GDP FORECASTS IN 2022



A QUARTER MARKED BY THE RETURN OF SOUTH AFRICA TO THE EUROBOND MARKET (2/2)

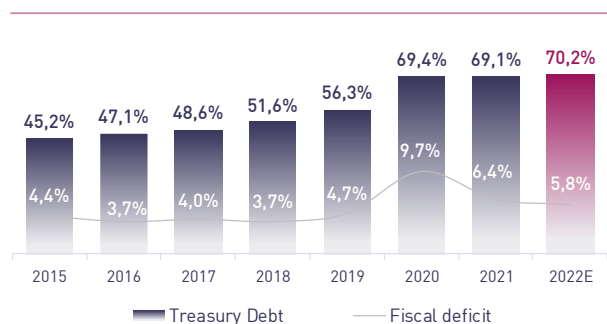
On the budgetary level, the situation is more tense with a fiscal deficit expected at 5.8% of GDP in the FY 2022 against an average level of 4.1% during the 2015-2019 period. Similarly, the public debt/GDP ratio should increase by more than 20 pts over the same period to exceed 70%. At the origin of this evolution, a considerable natural resources revenue drop, combined with increased spending related to the inflationary context.

Despite this economic slowdown, South Africa remains nevertheless the leading economic power in Southern Africa, representing almost 2/3 of the sub-region's GDP and the 3rd on the African continent after Nigeria and Egypt. It is an emerging non-oil country particularly rich in mineral resources such as Gold & Silver, Iron, Lead, Diamonds and Coal.

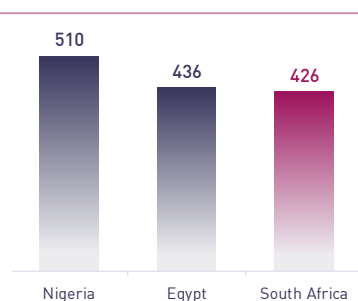
The South African economy has a number of strengths. We cite as an example:

- 1) A powerful and competitive automotive industry ;
- 2) A good integration in international trade ;
- 3) A Flexible regulations, adapted to the business climate ;
- 4) A strong financial sector representing almost 20% of GDP.

SOUTH AFRICA : FISCAL DEFICIT VS. TREASURY DEBT



PIB NOMINAL (MM\$) : TOP 3 DES PAYS AFRICAINS



RESULTS' SUMMARY FOR Q2-22

In this 14th edition, we analysed the **AGR Africa Bond Index (AGR ABI)** evolution during Q2-22. The main findings are as follows :

- The value of the AGR ABI stands at 71.6 pts against 89.4 pts in the last edition, i.e. a decrease of 20.0 pts;
- The deposit outstanding declined from \$ 94.0 Bn to \$ 78.1 Bn. At the origin, the increase in the risk premium in an inflationary context. This situation weighed on the valuation of Eurobonds for several countries ;
- The inclusion of South Africa's new Eurobonds issue in the AGR ABI which is the main subject of this edition ;
- The AGR ABI is still represented by 6 African countries like the previous edition. Indeed, the latter is composed by Nigeria, South Africa and Egypt 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 37% of AGR ABI. Furthermore, this latter is composed for 70% of residual maturities strictly superior to 5 years.

RESULTS' DETAIL FOR Q2-22

The second quarter of 2022 was marked by a continuation of the downward trend, ending with a decline in the AGR ABI at the end of the previous quarter, both in terms of value and size of the deposit. In addition, we note, on the one hand, the integration of a new South African Eurobonds issue amounting \$ 3.0 Bn and which composed by 2 lines of maturities. On the other hand, we also noted the withdrawal of a Moroccan Eurobond. The results of this new scope are as follows:

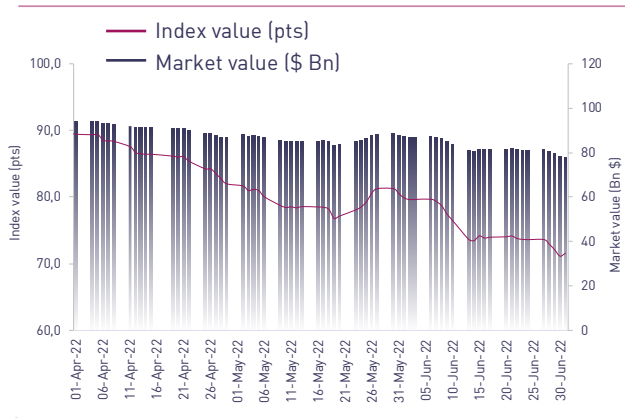
- **A decrease in AGR ABI value**

Since our last Q1-22 publication, we have witnessed a -20.0% drop in the value of the AGR ABI, falling from 89.4 points in April 2022 to 71.6 points on July 1st, 2022. Similarly, the total size of the index deposit declined from \$ 94.0 Bn to \$ 78.1 Bn despite the increase in the number of constituents, which reaches 88 bond lines compared to 87 a quarter earlier.

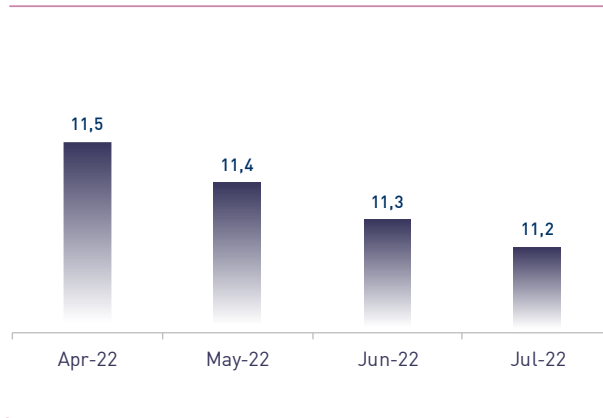
- **A decline in residual maturity**

The weighted residual maturity of the AGR ABI stood at 11.2 years after the last rebalancing. This appears to be down 0.3 pts compared to the level observed in Q1-22. Currently, the AGR ABI index consisted of 44.0% of Eurobonds with a residual maturity between 5 and 12 years.

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



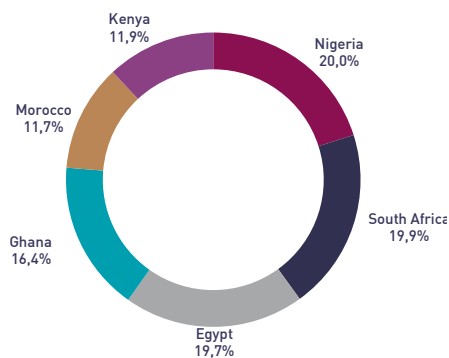
EVOLUTION OF THE RESIDUAL MATURITY (YEARS)



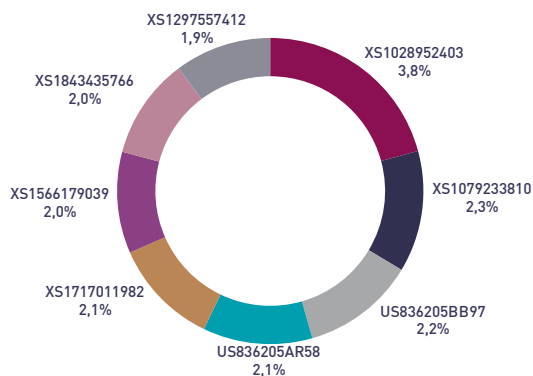
The AGR Africa Bond index is dominated by Nigeria, South Africa and Egypt which preserved a high representativeness in this benchmark. Indeed, these 3 countries represent nearly 60% of the capitalization while Ghana, Morocco and Kenya share the remaining 40%.

In terms of issuances' number, among the current 88 constituents of the AGR ABI, the former three countries together account for 60 bond issuances, i.e. nearly 68% of our index.

AGR ABI : BREAKDOWN BY COUNTRY



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



(1) Representing 18.3% of AGR ABI

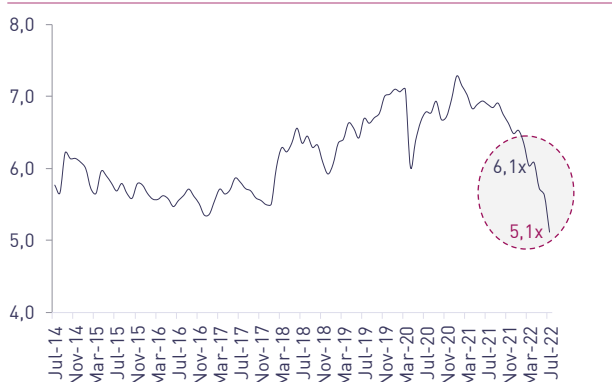
Sources : S&P Dow Jones Indices, AGR Computations

RESULTS' DETAIL FOR Q2-22

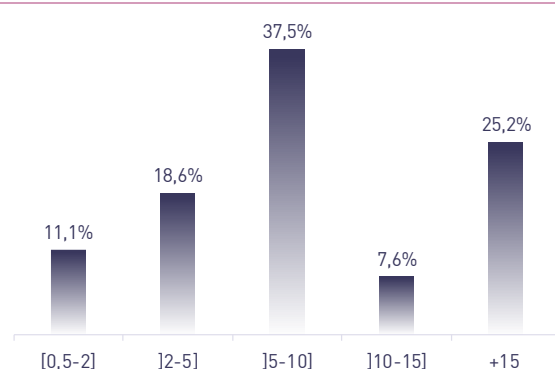
The modified duration⁽¹⁾ of the AGR ABI has fallen compared to its level observed in April 2022. This is the result of the rise in actuarial rates in an inflationary context as well as the fall in duration due to the non-renewal of old lines. In this context, the index shows a modified duration's level of 5.1x against 6.1x in last April.

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 70% of residual maturities superior to 5 years.

AGR ABI : EVOLUTION OF THE MODIFIED DURATION



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



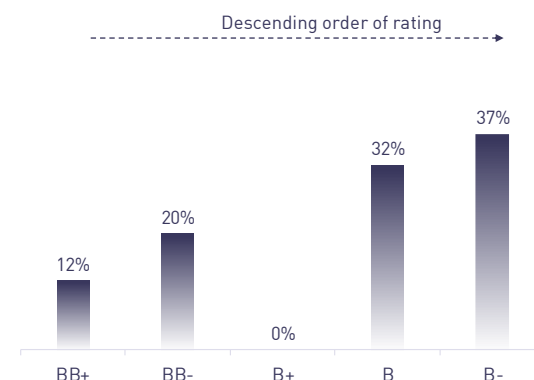
The number of the AGR Africa Bond Index constituents increased from 87 lines in April 2022 to 88 at the end of June 2022. During the monthly rebalancing of the AGR Africa Bond Index operated during April and May 2022, we note:

- The integration of a new Eurobonds issue carried out by South Africa for a total amount of \$ 3.0 Bn subdivided into two tranches with maturities of 10 years and 30 years. In addition, the withdrawal of a line belonging to Morocco whose residual maturity has become strictly inferior than 6 months ;
- 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 12.0% of the index respectively.

ENTRIES AND/OR EXITS OF LINES IN THE AGR ABI

Country	Code ISIN	Description	Weight in the index
Entry			
S. Africa	US836205BC70	ZAGV 5.875 04/20/32	1.29%
	US836205BE37	ZAGV 7.300 04/20/52	1.45%
Exit			
Morocco	XS0850020586	MAGV 4.250 12/11/22	2.73%

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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