

RESEARCH REPORT

FIXED INCOME

| AFRICA | HALF-YEARLY AGR Africa Bond Index

KENYA : AN INTERNATIONAL ISSUANCE AFTER 3 YEARS OF ABSENCE

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Attijari
Global Research

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

AFTER A BREAK..., THE GREAT RETURN OF EUROBONDS IN AFRICA?

After an almost two-year lull, Sub-Saharan African issuers are clawing their way back in international markets. In fact, with a few exceptions, African countries were largely excluded from the international Eurobonds market. This is due to several factors: (1) high interest rates required by investors following the high inflation in the Eurozone and the US during the recent years, (2) debt distress and sustainability concerns in African countries, as well as (3) weakening local currencies.

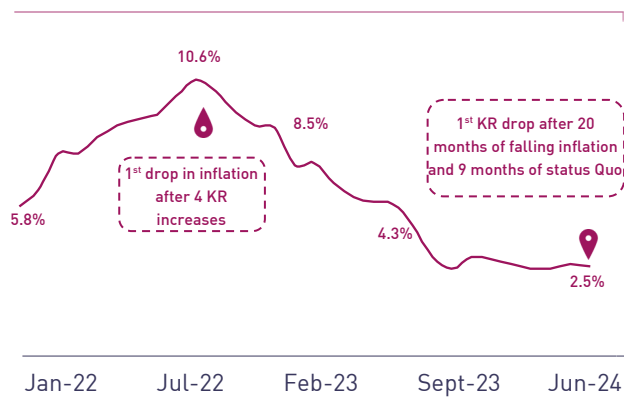
In 2022, the average inflation in the Eurozone reached a record high of 8.4%. This rise in prices was fueled by disruptions to global supply chains within an unstable geopolitical context. In 2023, although inflation declined slightly, it remained high at around 5.5%. In this context, the ECB was forced to increase its key rates, thus leading to a reduction in liquidity on the financial markets and impacting the public financing costs.

In the United States, the inflationary phenomenon is also omnipresent. The average inflation reached 8.0% in 2022 and 4.1% in 2023, i.e. above normative levels. In response, the Fed adopted a more restrictive monetary policy, raising interest rates more aggressively in an attempt to contain price increases. This policy led to a systematic increase in financing costs while limiting investment opportunities. Under these conditions, we have witnessed a visible increase in the cost of financing for African countries on the international market.

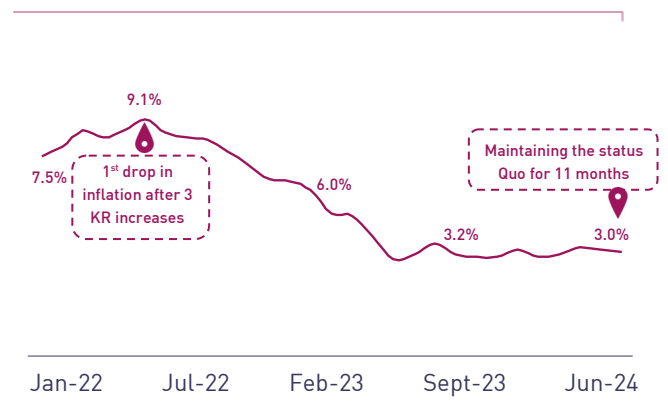
While dealing with these challenges, African countries have also suffered from the depreciation of their local currencies. For example, the Egyptian Pound lost about -52% of its value against the dollar during the period 2022-2023, the Nigerian Naira fell by -50%, the Ghanaian Cedi lost -30% while the Kenyan Shilling declined by almost -20%. These depreciations have increased the interest cost of foreign currency debt, restricting access to international capital markets.

For 2024, the outlook is relatively improving. Forecasts indicate a significant decrease in inflation, with an estimate of 2.5% for the Eurozone and around 2.6% for the United States. This decline should improve financing conditions and generate a return of appetite for Eurobond issuances.

EUROZONE: EVOLUTION OF INFLATION 22-24



USA: EVOLUTION OF INFLATION 22-24



Sources: S&P Dow Jones Indices, Bloomberg, ECB, Fed, AGR Computations

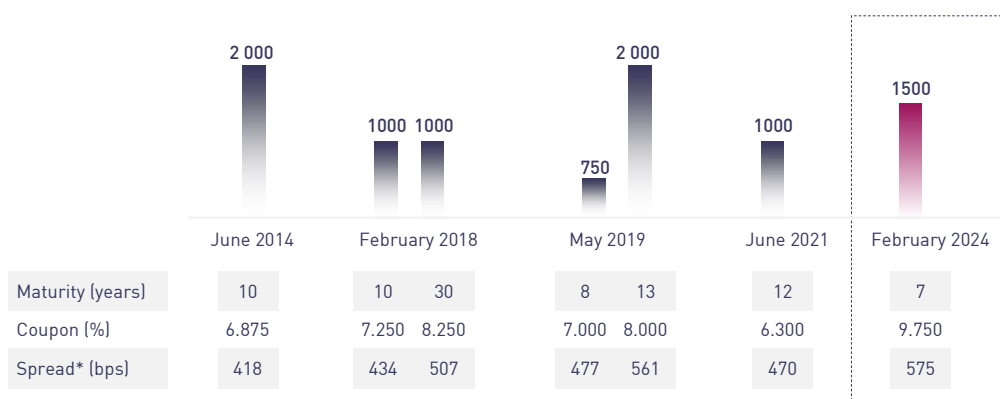
KENYA MARKS ITS COMEBACK TO THE EUROBOND MARKET

The year 2024 shows a change in trend. In fact, H1 2024 marks a renewed interest in sovereign Eurobonds. In this context, Côte d'Ivoire, Benin and Kenya have managed to carry out new issuances, reflecting a gradual return to normality in this market. Among these successes, the Kenyan Eurobond stands out in particular as long as it meets the eligibility criteria of our **AGR Africa Bond Index**. This is reason behind that this will be the subject of our edition.

In February 2024, Kenya has successfully issued its fifth Eurobond. This in an operation amounting \$ 1.5 Bn for a 7 year maturity. This transaction is intended to finance 75% of the € 2.0 Bn Eurobond issue maturing on June 24th 2024. With regards to the new market conditions, the coupon of the new bond was set at 9.75%, significantly higher than that of the previous bond agreed at 6.3%. Recall that Kenya's last issue dates back to June 2021 for a total amount of \$ 1.0 Bn maturing in 2034.

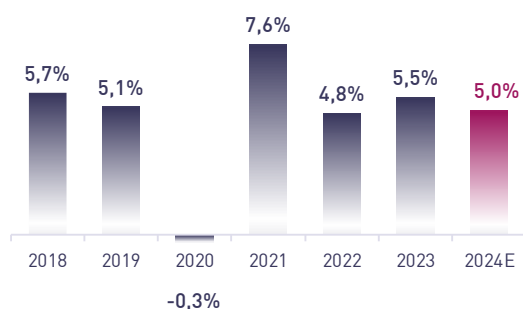
This transaction aroused great enthusiasm among international investors. Indeed, this attracted a Demand of \$ 6.0 Bn while the country requested only a quarter of this amount, i.e. \$ 1.5 Bn. Undoubtedly, this new international issue reflect an improvement in economic conditions and increased investor confidence.

KENYA : HISTORICAL EUROBOND ISSUES (IN \$ MN)

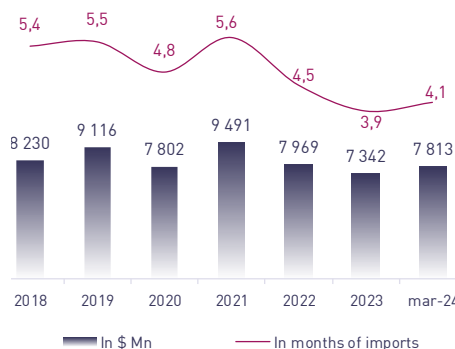


The Kenyan economy has shown considerable resilience despite global challenges and its presence on the grey-listed by the Financial Action Task Force (FATF). In this context, Kenya's economic growth is expected to consolidate at 5.0% in 2024, after 5.5% in 2023 and 4.8% in 2022, a pace significantly higher than the sub-Saharan African average. This growth is mainly driven by key sectors such as services, which represent around 55% of GDP and agriculture which contributes 22% of GDP. However, the country remains under surveillance due to concerns about the fight against money laundering and the financing of terrorism, which lead to additional budgetary costs and increased vigilance by international partners. In terms of hard currency reserves, Kenya is somewhat recovering with a level of 4.1 months of imports after a low of 3.9 months.

KENYA : GDP EVOLUTION



KENYA: EVOLUTION OF FOREIGN EXCHANGE RESERVES



Sources: S&P Dow Jones Indices, CBK, IMF, AGR Computations

KENYA: BETWEEN ECONOMIC PROGRESS AND BUDGETARY CHALLENGES

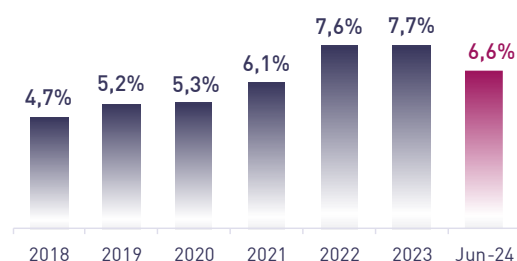
In June 2024, inflation rate has decreased to 6.6%, after reaching 7.7% in 2023, thanks to a restrictive monetary policy and control of food prices. In fact, we are witnessing an increase in the key rate of 50 BPS in February 2024, bringing this rate to 13%, cumulating an increase of 425 BPS since the beginning of 2023. This measure aims to moderate the effects of inflation and stabilize forex rate expectations. In addition, the Central Bank of Kenya (CBK) has put in place new measures aimed at improving the functioning of the interbank foreign exchange market. For its part, the unemployment rate remains high at around 8.4%, awaiting the effect of public investments in infrastructure development and private sector promotion.

Kenya is the largest economy in the East African Community (EAC) with a GDP of \$ 108.9 Bn in 2023, or \$ 2,100/capita. It was the first EAC country to achieve middle-income status in 2014, followed by Tanzania in 2020 and then Uganda in 2024. This performance is the result of a public policy of sustained investment in infrastructure, mainly in transport and energy, aimed at strengthening the country's integration into global trade. Thus, the share of public investment has doubled, from 4% of GDP between 2000 and 2008 to 8% over the last decade.

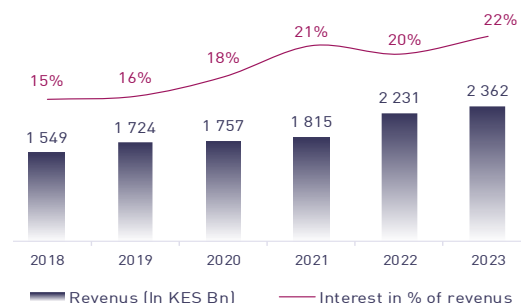
To cover these expenses, Kenya has activated the debt lever. Public debt reached 73% of GDP in 2023, up 5 pts from its 2022 level. This recourse is fueled by the need to cover the fiscal deficit which takes into account an increased cost of debt servicing, exacerbated by recent interest rate increases. In fact, the government's interest-to-income ratio stands at around 25% in 2024. It was 22% in 2023 after 20% in 2022. This is the counterpart of a fiscal policy that could be described as expansionary.

As a reminder, Kenya's fiscal deficit has shown a downward trend after reaching peaks during the pandemic. Indeed, in 2019, it had reached 7.4% before climbing to 8.1% of GDP in 2020, in connection with the economic repercussions of the COVID-19 pandemic and associated support measures. Subsequently, the deficit entered a downward phase, falling to 7.2% in 2021 then 6.1% in 2022 before reaching a more sustainable level of 5.3% in 2023.

KENYA: INFLATION EVOLUTION



KENYA: REVENUS VS. INTEREST AS % OF INCOME



In sum, although Kenya's economic growth is robust, the stagnant fiscal deficit and debt remain a major challenge. This is a prerequisite for achieving long-term economic stability while pursuing development targets.

Sources: S&P Dow Jones Indices, IMF, AGR Computations

RESULTS' SUMMARY FOR H1-24

For this edition, we have chosen to follow the behavior of the **AGR Africa Bond Index (AGR ABI)** during H1 2024. Here are the main results from this analysis:

- The AGR ABI index is up +1.7% to 85.6 points on July 1st, 2024, compared to 84.2 points on January 1st 2024 ;
- The value of the outstanding deposit shows an improvement of +4.3% to \$ 73.3 Bn against \$ 70.3 Bn in H2-23. The number of constituents is stable at 68 bond lines at the end of H1 2024 ;
- The integration of a new Kenyan Eurobond issue and the withdrawal of an Egyptian bond line whose residual maturity is strictly less than 6 months ;
- The AGR ABI index continues to be represented by 5 main countries. In more detail, Nigeria, Kenya, South Africa, Morocco and Egypt, which share almost equally the representation in the index ;
- Observation of the current breakdown of the index by the rating agency S&P shows the strong representation in weight of bonds rated B and B-, which concentrate 60.0% of the AGR ABI index. Furthermore, a share of 64% of the deposit has residual maturities greater than 5 years.

[1] Representing 28% of the AGR ABI index

Sources: S&P Dow Jones Indices, AGR Computations

RESULTS' DETAIL FOR H1-24 (1/2)

In H1 2024, we are witnessing an increase of +1.7% in the value of the index, rising from 84.2 pts on January 1st, 2024 to 85.6 pts on July 1st, 2024. In addition, we note, on the one hand, the withdrawal of an issue from Egypt whose residual maturity has become less than 6 months. On the other hand, we also noted the integration of a new Kenyan Eurobond issuance. In more detail, the results of this new scope are as follows:

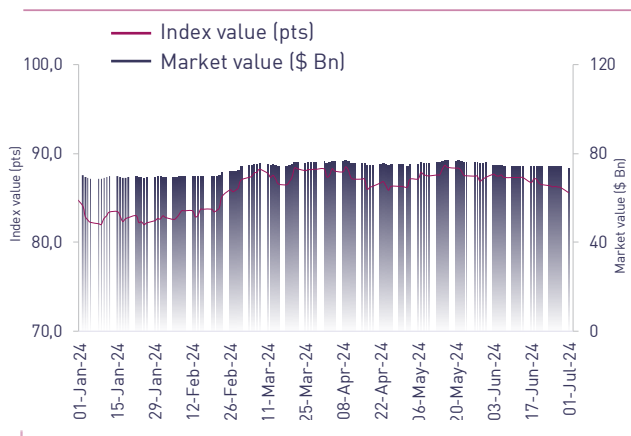
- **A recovery in AGR ABI value**

The AGR Africa Bond Index gained +1.7 pts, going from 84.2 pts in January 2024 to 85.6 pts at the end of H1 2024. This positive evolution was accompanied by an improvement of +4.3% in the total size of the index deposit to reach \$ 73.3 Bn. The number of constituents remains stable at 68 bond lines at the end of H1 2024.

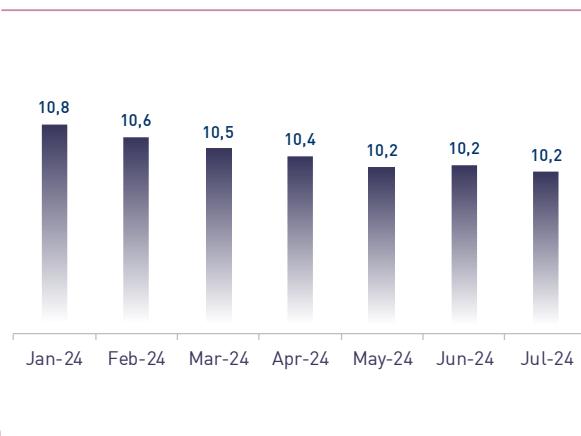
- **A slight decrease in the residual maturity**

The weighted residual maturity of the AGR ABI index stands at 10.2 years following the monthly "rebalancing" carried out during H1 2024. This is down +0.6 pt compared to the level observed at the end of the FY 2023. It should be noted that the AGR ABI index is represented by 24.7% of Eurobonds with a residual maturity greater than 15 years, compared to 25.9% previously.

AGR ABI EVOLUTION (PTS) VS. OUSTANDING AMOUNTS (\$ Bn)



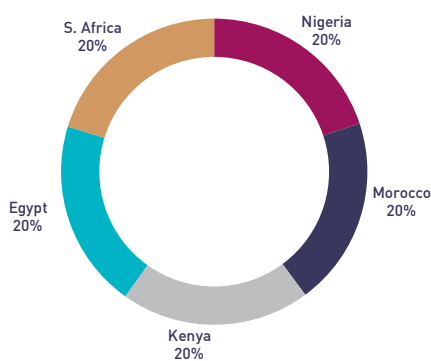
EVOLUTION OF THE RESIDUAL MATURITY (YEARS)



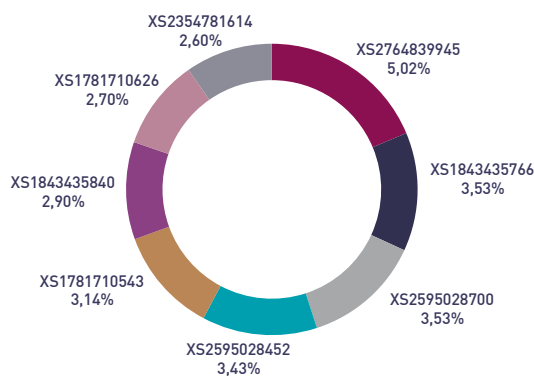
The 5 countries making up the AGR ABI, namely Nigeria, Kenya, Egypt, South Africa and Morocco, share the representation in the index in an almost similar manner. Indeed, during this edition, we note that each country captures nearly 20% of the deposit capitalization.

In number of lines, among the current 68 constituents of the AGR Africa Bond Index, Egypt alone account 26 bond issuances, i.e. nearly 40% of our index.

AGR ABI: BREAKDOWN BY COUNTRY



ABI : ISIN OF THE 8 MAIN ISSUANCES⁽¹⁾



(1) Representing 27% of AGR ABI index

Sources: S&P Dow Jones Indices, AGR Computations

RESULTS' DETAIL FOR H1-24 (2/2)

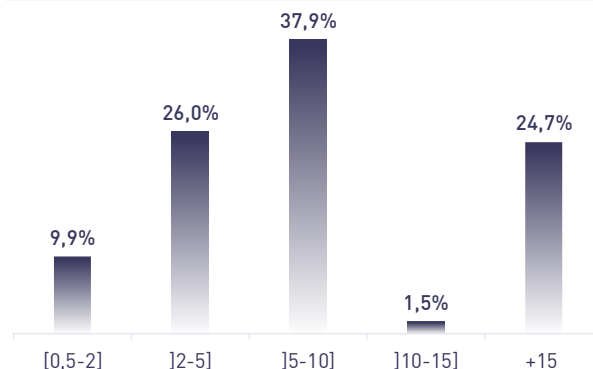
The change in the scope of the AGR ABI index had a barely visible impact on the modified duration⁽¹⁾, i.e. a multiple of 5.5x against to 5.4x a half-year earlier.

The bond securities eligible for this index can be subdivided into five categories associated with five intervals of residual maturity intervals (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 64% residual maturities superior to 5 years.

AGR ABI : EVOLUTION OF THE MODIFIED DURATION



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



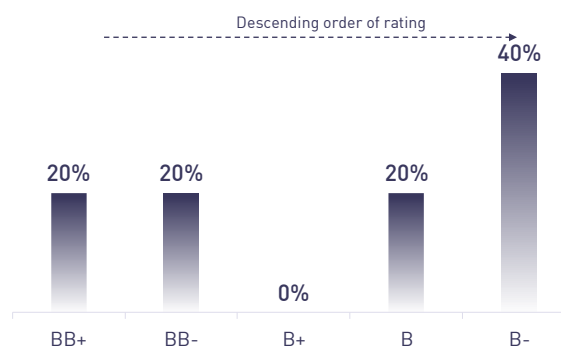
The number of the AGR Africa Bond Index constituents remained stable at 68 in July 2024. During the monthly rebalancing of the AGR Africa Bond Index carried out during H1 2024, we note:

- The integration of a new Kenyan Eurobond issue and the withdrawal of an Egyptian bond line ; which residual maturity has become less than 6 months ;
- The strong contribution of bonds rated B and B- which represent 60.0% of the AGR ABI index. Sovereign bonds rated BB- and BB+ cumulatively represent the remaining 40.0%.

ENTRIES AND/OR EXITS OF LINES IN THE AGR ABI

Country	Code ISIN	Description	Weight in the index
Entree			
Kenya	XS2764839945	KEGV 9.750 02/16/31	4.91%
Exit			
Egypt	XS1504948693	EGGV 6.750 11/10/24	0.91%

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 : réglementation préconisée par la Securities and Exchange Commission régissant les conditions d'accès aux marchés financiers américains pour les émetteurs étrangers.

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