

A GUIDE TO INTERNATIONAL CAPITAL MARKET TRANSACTIONS

The Case of Egypt

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Agenda

- Macroeconomic Background
- Medium –Term Debt Strategy
- Issuance Strategy in International Markets
- Recent and New International Issuance
- Egypt 2020 and 2040 Allocation
- Egypt 2020 and 2040 Performance
- JLM Selection Criteria
- Pricing Considerations
- Lessons Learnt



Macroeconomic Background

The government has adopted a balanced and comprehensive reform program with a well-defined time frame that will strengthen Egypt's position with regards to global economy, while putting the country back on international investment map



Macroeconomic Indicators

- Real Sector:
 - GDP growth rate shows a rapid and significant pick-up in the first quarter of FY 14/15 registering **6.8** per cent as compared to **1** per cent during Q1 – FY13/14
- Fiscal Sector:
 - The budget sector deficit has reached USD **21** billion (**6.9** per cent of GDP) during July – January 14/15 as compared to **6** percent of GDP during July – January 13/14
 - Revenues has increased from **8** per cent of GDP to **10.9** per cent of GDP during the same period.
 - Expenditures has also increased from **14.5** per cent of GDP to **16.7** per cent of GDP.



Macroeconomic Indicators

- External Sector:
 - BOP showed an overall surplus of USD **0.4** billion during Q1 – FY14/15, compared to higher overall surplus of USD **3.7** billion during the same period last year.
- Headline Urban Inflation declined during 2015 recording **9.7** per cent, compared to **10.1** per cent last month, and compared to the 11.4 per cent recorded in January 2014.
- Public Debt:
 - Total government debt (domestic and external) reached **86** per cent of GDP at end of September 2014 compared to **86.2** per cent of GDP at end of September 2013.
 - External Debt represents **13.8** per cent of GDP, which is relatively low if compared to average of **27** per cent of GDP recorded by Middle East and North African countries.



Medium Term Debt Strategy

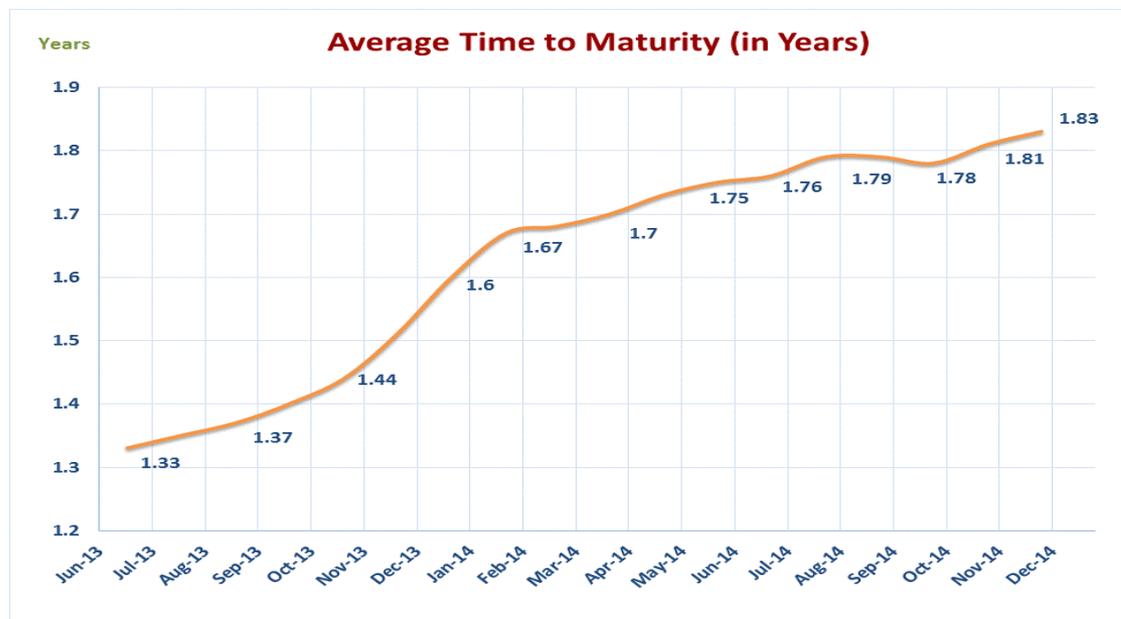
- The current MTDS covers only tradable debt.
- The majority of the outstanding tradable debt is domestic debt representing **89** percent of total tradable debt and only **11** percent denominated in foreign currency as at end of June 2014.
- Cost and Risk Indicators of Debt Portfolio

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of USD)		15,706.5	129,073.5	144,780.1
Nominal debt as % GDP		5.6	45.7	51.3
PV as % of GDP		5.6	45.7	51.3
Cost of debt*	Weighted Av. IR (%)	3.5	12.1	11.2
Refinancing risk	ATM (years)	1.5	2.0	1.9
	Debt maturing in 1yr (% of total)	65.9	57.8	58.7
Interest rate risk	ATR (years)	1.5	2.0	1.9
	Debt refixing in 1yr (% of total)	65.9	57.8	58.7
	Fixed rate debt (% of total)	100.0	99.1	99.2
FX risk	FX debt (% of total debt)			10.8
	ST FX debt (% of reserves)			#DIV/0!



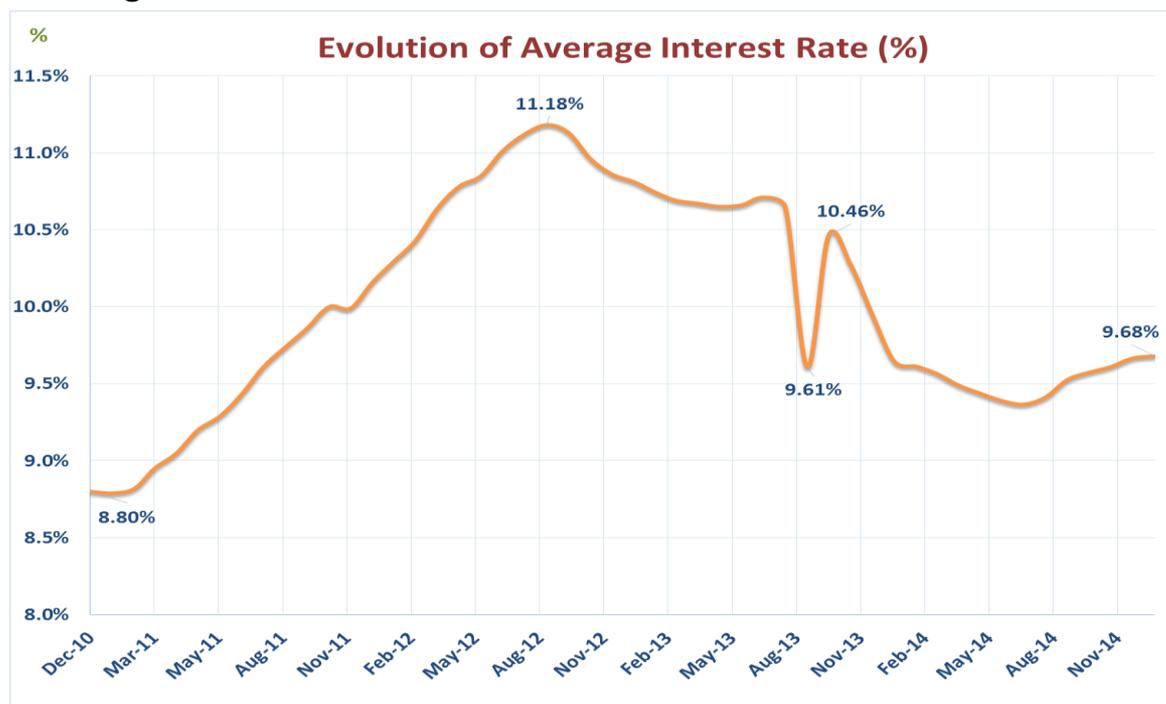
Cost and Risk Indicators

- Average time to maturity for the domestic debt portfolio has improved significantly in February reaching **1.86** year as compared to December 2013 when it stood at **1.46**.
- The reason for this improvement is the debt management strategy of issuance focusing on a stable split between bills and bonds (**70:30**). Also the focus on issuing benchmarks of 3, 5, 7 and 10 years. In addition to building size into outstanding issues by re-opening to increase liquidity in secondary market.



Cost and Risk Indicators (Cont'd)

- Average interest rate has dropped slightly despite an increase in the policy rates of 100 basis points done by CBE in July 2014 to curb inflationary pressures.
- The stability in the rate was maintained because of diversifying currencies denominating treasury securities and decreasing issuance sizes at some points in longer tenors to create scarcity making primary dealers compete for allocation, eventually leading to decreased interest rates.



Issuance Strategy in International Markets

- The purpose of issuing in international market is to return to international capital market, set benchmarks for corporates to issue, diversify investor base, make use of lower interest rates and longer tenors.
- There is no intention to increase the proportion of external debt as per cent of GDP significantly. Rather, MOF will replace maturing issues of Eurobonds namely:
 - Eurobond privately placed with QNB which matured in Nov 2014 for a nominal value of \$2.5 billion.
 - U.S. guaranteed bond maturing in Sep 2015 for a nominal value of \$1.25 billion.



Recent and New International Issuance

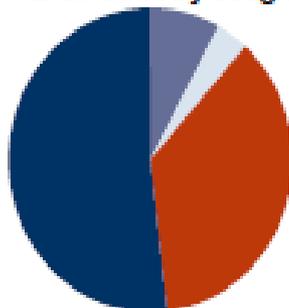
- The most recent international issuance was in April 2010 with a dual tranche dollar denominated Eurobond.
 - **Size:** 1.5 billion
 - **Tenor:** 10 and 30 years
 - **Governing Law:** English Law
 - **Listing Exchange:** Luxembourg Stock Exchange
 - **Demand:** Order book reached 10.5 times for the 10 year tranche and 6 times for the 30 year tranche.
 - **JLM:** Morgan Stanley and HSBC
 - **Local Banks:** National Bank of Egypt and Banque Misr



Egypt 2020 and 2040 Allocation

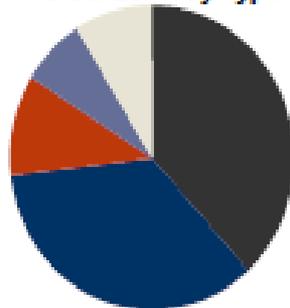
Egypt 2020 USD1.0 billion (10 Year)

Breakdown by Geography



■ MENA (8%)
 ■ Asia (4%)
 ■ Europe (36%)
 ■ North America (52%)

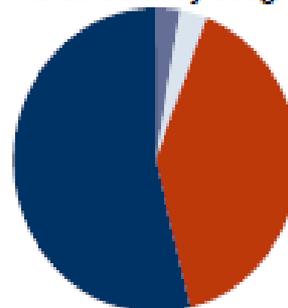
Breakdown by Type



■ Fund Managers and HFs (38%)
 ■ Asset & Fund Mgmt (35%)
 ■ Banks (16%)
 ■ Private Banks (7%)
 ■ Ins & Pension (6%)

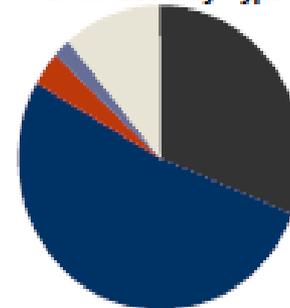
Egypt 2040 USD500 million (30 Year)

Breakdown by Geography



■ MENA (3%)
 ■ Asia (3%)
 ■ Europe (40%)
 ■ North America (54%)

Breakdown by Type



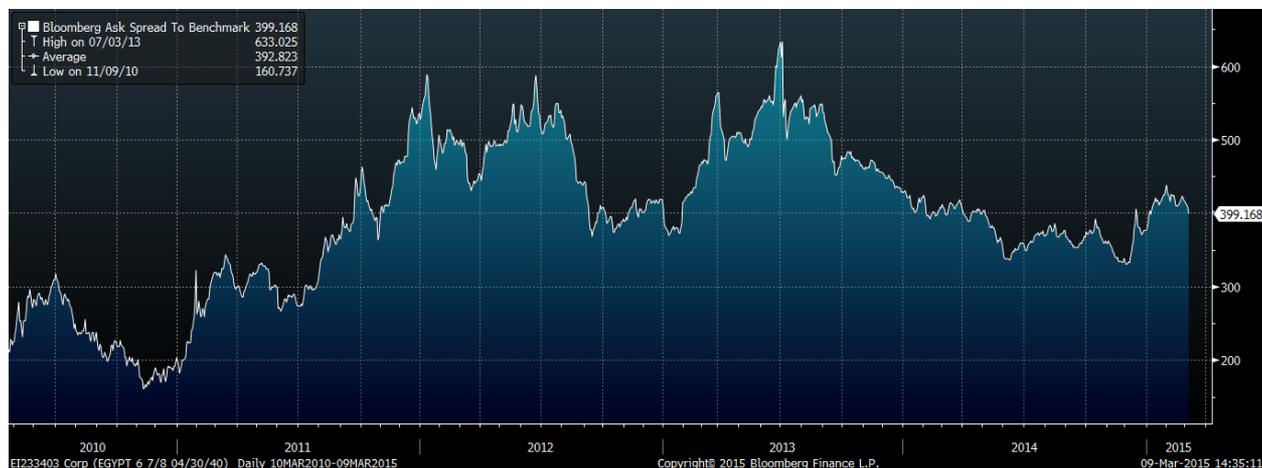
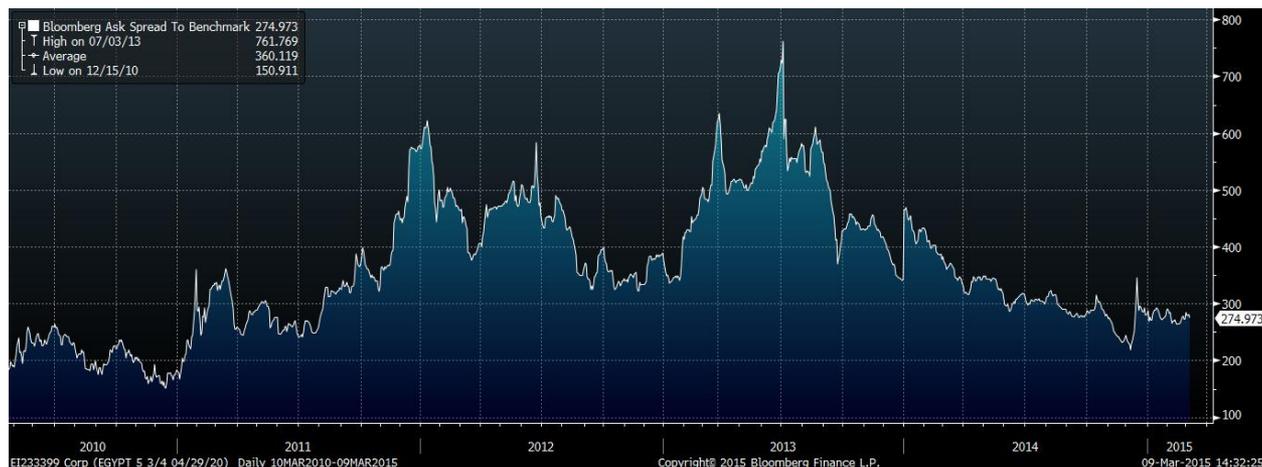
■ Fund Managers and HFs (31%)
 ■ Asset & Fund Mgmt (52%)
 ■ Banks (4%)
 ■ Private Banks (2%)
 ■ Ins & Pension (11%)



- Egypt is currently contemplating to issue a bullet repayment dollar denominated bond up to 1.5 billion in size and targeting a tenor of 10 years.

Egypt 2020 and 2040 Performance

Spreads have tightened on Egypt 2020 and 2040 Eurobonds significantly in the last year and a half. They have reached their peak in July 2013



JLM Selection Criteria

- Choice of JLMs is based on their response to a public RFP.
- They are rated based on a weighting scale that applies the following criteria:
 - Technical Criteria:
 - International experience and ranking in league tables
 - Involvement in Egypt
 - Proposing to work with local counterparts
 - Experience in Middle East and region in sovereign and quasi-sovereign transactions.
 - Financial Criteria:
 - Success/underwriting fees
 - Pricing rationale
 - Other costs (Legal, printing and listing)



Legal Advisors Selection Criteria

- Choice of legal advisors is based on their response to an RFP.
- They are rated based on a weighting scale that applies the following criteria:
 - Technical Criteria:
 - International experience and local experience
 - Experience in sovereign bonds
 - Previous work with the Ministry of Finance
 - Financial Criteria:
 - Fees



Pricing Consideration

- Benchmark rates
 - U.S. Treasury
 - Mid-Swap rates
- Spreads
 - Factors affecting spread
 - Are indicative spreads optimistic or reasonable
 - Rates at which outstanding bonds are trading
 - New Issue Premium
 - CDS rates
- Marketing and Distribution Strategy
 - Investor base: Reg S only versus Reg S 144 A



Lessons Learnt

- Continuous contact with investment banks whether there is a planned issue or not is crucial to get updates on market opportunities.
- Market sounding performed by Investment banks to provide indicative pricing is very important, but it is better to be on the conservative side.
- In a fluid environment, such as that of Egypt, debt managers need to work with JLMs to factor in surprises in the spreads.
- Book building process is of extreme importance to segregate between firm orders and inflated ones.
- Absorbing all the demand for the bonds at issuance is not a good move to pricing and secondary market trading. Leaving behind some unfulfilled demand, provide the sovereign to price within guidance and to boost secondary market trading.



Questions