



## The Angolan Economy

### Second Eurobond deal worth US\$ 3 billion

Research

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Economics

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**NEWS:** The Angolan government announced that it has raised US\$ 3 billion in its second Eurobond issue in international markets. The deal included two parts, namely (1) US\$ 1.75 billion of 10-year bonds with a yield of 8.25% and (2) US\$ 1.25 billion of 30-year bonds with a yield of 9.375%. There was strong appetite for the deal, with demand from 500 investors based in the US, Europe and Asia reaching nearly US\$ 9 billion.

The government added that this Eurobond deal is a sign of investors' confidence in the reform plans being implemented by President João Lourenço since his election in August 2017. These are reflected in the government's Macroeconomic Stability Plan as well as the National Development Plan (2018-22).

**OPINION:** We believe this issue shows that investor appetite for African Eurobond deals remains very much intact. Despite the recent rise in US Treasury yields to four year highs, demand for these deals is in fact showing little sign of abating in 2018. It is worth noting that the African continent has now sold more than US\$ 15 billion of Eurobonds this year and is fast approaching the record US\$ 18 billion raised in 2017 (it already exceeded the total for the whole of 2016). The bid-cover ratio for this deal was close to 3x and compares with ratios in recent issues of 4.3x for Senegal, 3x for Egypt, 4.6x for Nigeria and 7x for Kenya.

Angola joins South Africa, Nigeria, Kenya and Senegal as first time issuers of 30-year tranches. The South Africa and Nigeria issues occurred at the end of 2017 while Kenya and Senegal issued earlier this year. The coupons paid in these deals stood at 5.65%, 7.625%, 8.25% and 6.75%, respectively. Angola's 9.375% yield is at the lower part of the 9.375%-9.5% well-defined range set before the deal took place. Meanwhile, the 8.25% yield paid for the 10-year tranche was lower than the 9.5% in Angola's maiden 2025 Eurobond issue back in November 2015.

This Eurobond comes despite the latest ratings downgrade by Moody's from B2 to B3 on April 27<sup>th</sup>. The outlook for Angola's sovereign debt was revised to stable from negative though. The ratings agency stated that this downgrade was due to domestic and external debt refinancing risks for the country.

The government's borrowing requirements remain significant for 2018-19, standing at near 20% of GDP on average during this period. Debt service needs are also at historical highs well above 5% of GDP while government debt stands at near 65% of GDP. It is therefore not a surprise that debt sustainability was reportedly raised as a major concern for investors on the roadshow before the deal.

We believe this is the right time for Angola to address the surge in public debt levels of recent years. The government's current reform agenda and the announcement that the country reached a non-financing agreement with the IMF are steps in the right direction. The fact that oil prices are currently well above the 2018 budget estimate of US\$ 50 per barrel and that a large proportion of the country's debt is denominated in dollars (oil receipts are denominated in dollars) will be a clear bonus in the fiscal consolidation efforts.

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