

Pakistan Economy

Pakistan set to float USD denominated Eurobonds

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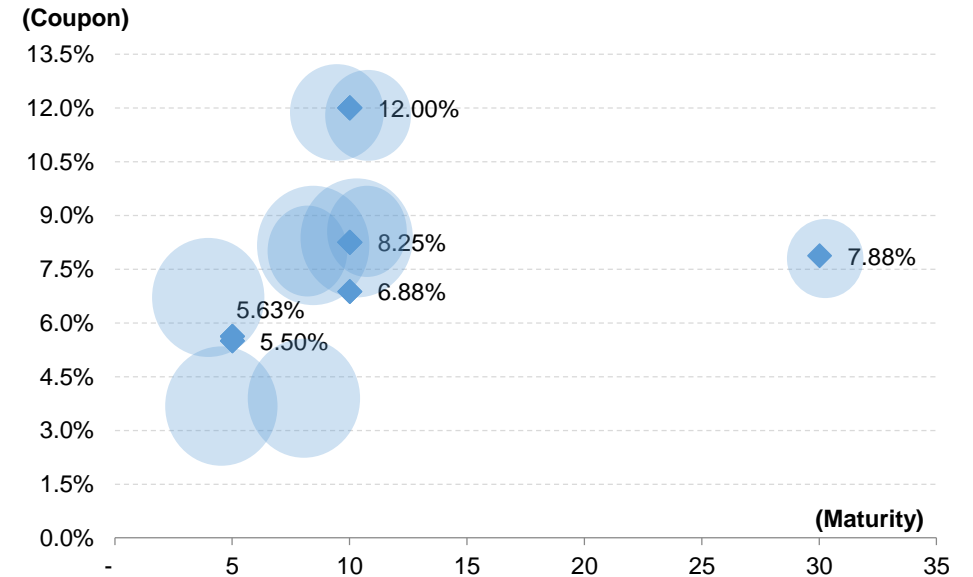
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Analyst: 2020

Pakistan Economy

Pakistan to float USD denominated Eurobonds

- Pakistan is all set to float USD denominated Eurobonds in the international market, under the Global Medium Term Note Programme. After a hiatus of almost 4 years, Pakistan is tapping the international bond market, with last Eurobond (USD 1.5bn| 10yr) and Sukuk (USD 1bn| 5yr) issued in 2017 at 6.875% and 5.625%, respectively.
- As per the initial information received from various media sources, some salient features of the programme and the Notes are as follows:
 - USD benchmarked 5 year Fixed Rate note with maturity on April 6, 2026 expected to be priced at around 6.25%. Coupon: Semi Annual (30/360)
 - USD benchmarked 10 year Fixed Rate note with maturity on April 6, 2031 expected to be priced at around 7.5%. Coupon: Semi Annual (30/360)
 - USD benchmarked 30 year Fixed Rate note with maturity on April 6, 2051 expected to be priced at around 8.875%-9 %. Coupon: Semi Annual (30/360)
 - Issuer: The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan.
 - Arrangers and Dealers: BOCI Asia Limited, Credit Suisse (Singapore) Limited, Deutsche Bank AG, London Branch, Emirates NBD Bank PJSC, J.P. Morgan Securities plc, Standard Chartered Bank and any other Dealers appointed in accordance with the Programme Agreement from time to time.
 - Format: 144A/Reg S, global MTN, senior unsecured
 - Settlement Date: April 6, 2021
 - Issuer ratings: B3 (Moody's), B- (S&P), B- (Fitch); all stable outlook
 - Expected issue ratings: B3 (Moody's), B- (Fitch)

Exhibit: Pakistan International Bonds: Coupon and Maturity



Source (s): SBP, AHL Research

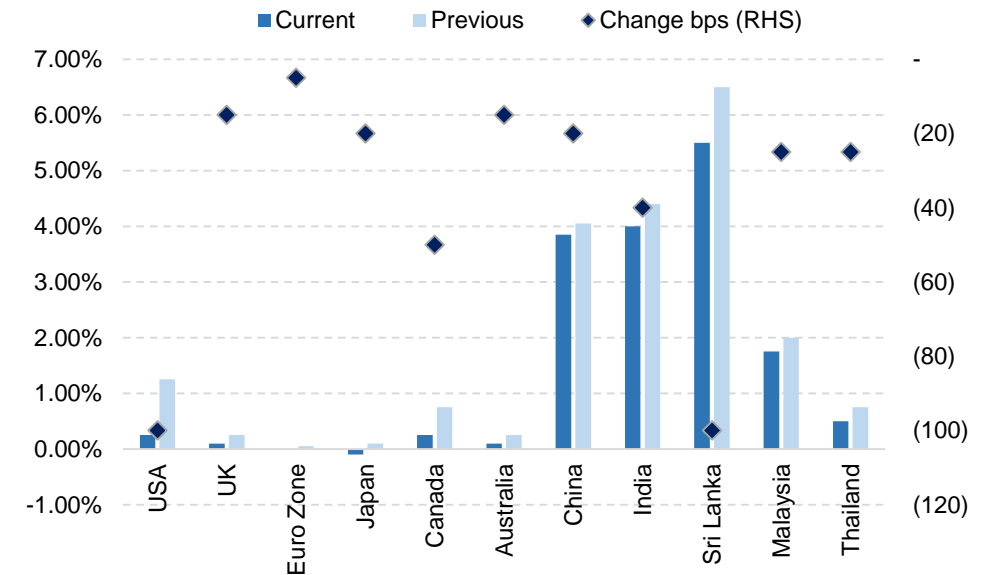
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Tapping the Eurobond Market

Tapping the Eurobond market at this time seems a prudent decision. We base our case with the following factors going in favor of Pakistan:

- Pakistan's sovereign credit rating stands at B3 (Moody's), B- (S&P), B- (Fitch); with all stable outlook. The country's economy has made considerable progress despite facing pandemic challenges. Overall fundamental indicators of the economy, broadly speaking, signal at the robust economic growth, such as: i) LSM witnessing an increase of 7.9% YoY during 7MFY21, ii) other high-frequency indicators to the likes of sales of fast-moving consumer goods, automobiles, cement, POL and electricity, also improving, iii) the Current Account balance remaining in surplus during 8MFY21, standing at USD 881mn supported by robust remittances, "relatively subdued domestic demand" and steady uptick in exports, and iv) the primary fiscal balance posting a surplus of 0.7% of GDP during 1HFY21 in spite of higher non-interest current expenditure.
- With expectation of nominal interest rates to remain unchanged in the near future and recent downward pressure on the equity indices globally, reignited discussions over the investors interest shifting from bourse to fixed income securities have started taking place. Despite Fed's dovish tone, recent jump in US treasury also have been reshaping market dynamics over the last few months.
- Moreover, the resumption of IMF program (Extended Financing Facility of USD 6bn) provided support to the overall external position of the country. Also, being in an IMF program helps unlock other financing as they can act as a catalyst for other lenders. An IMF program serves as a signal that the country has adopted sound policies, reinforcing policy credibility and increasing investors' confidence.
- **Our expectation:** With all these measures and deals in place, we expect Pakistan to issue around USD 1.5-2.5bn worth Eurobonds under the Global Medium-Term Note (MTN) programme with expected yields of around 6.0%, 7.25% and 8.5-8.7% in 5yr, 10yr and 30yr, respectively.

Exhibit: Policy Rates in Major Economies

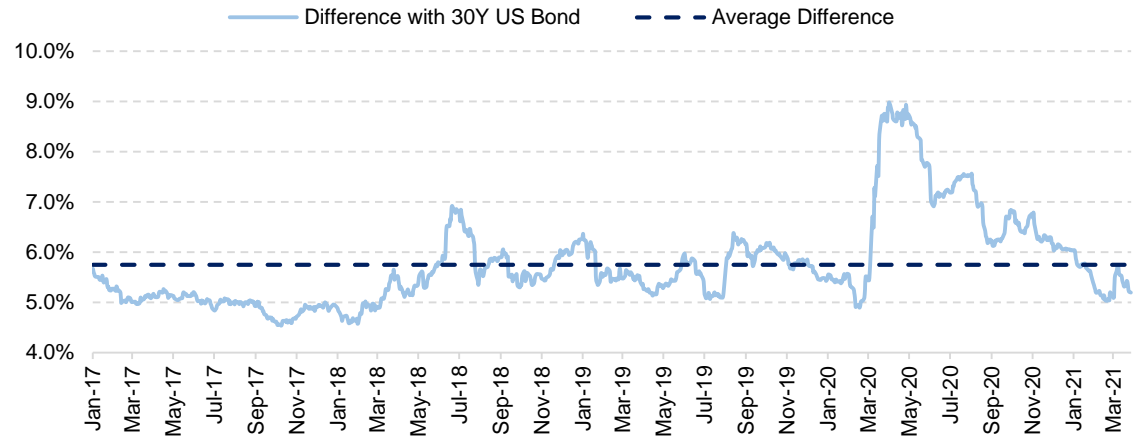


Source (s): Bloomberg, AHL Research

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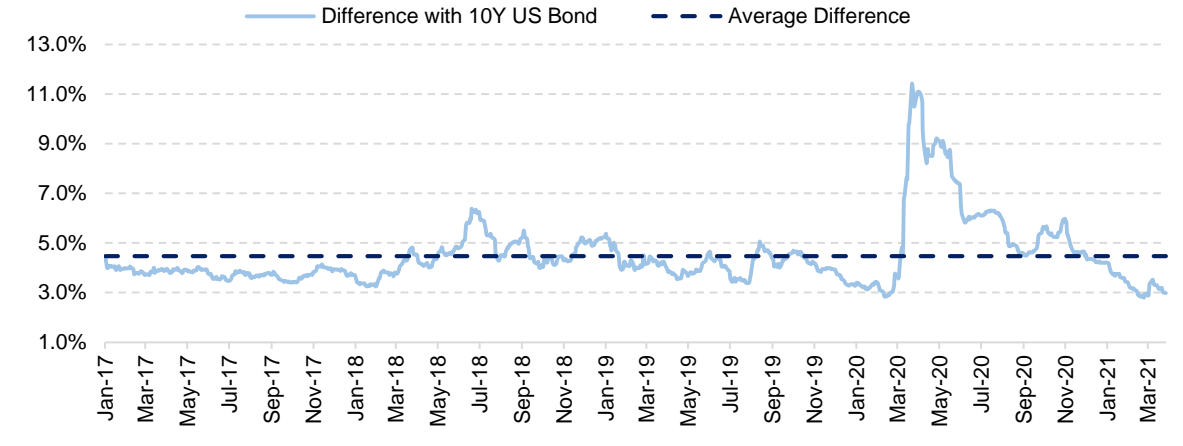
Pakistan International Bonds: Now vs Historical Trends

Exhibit: Pakistan 30-Y International Bond's Yield Difference with US 30Y Bond



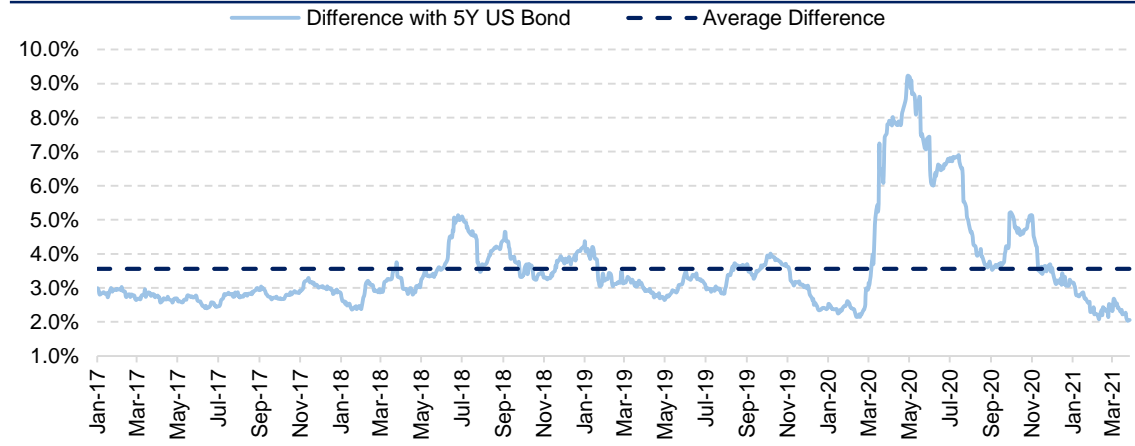
Source (s): Bloomberg, AHL Research

Exhibit: Pakistan 10-Y International Bond's Yield Difference with US 10Y Bond



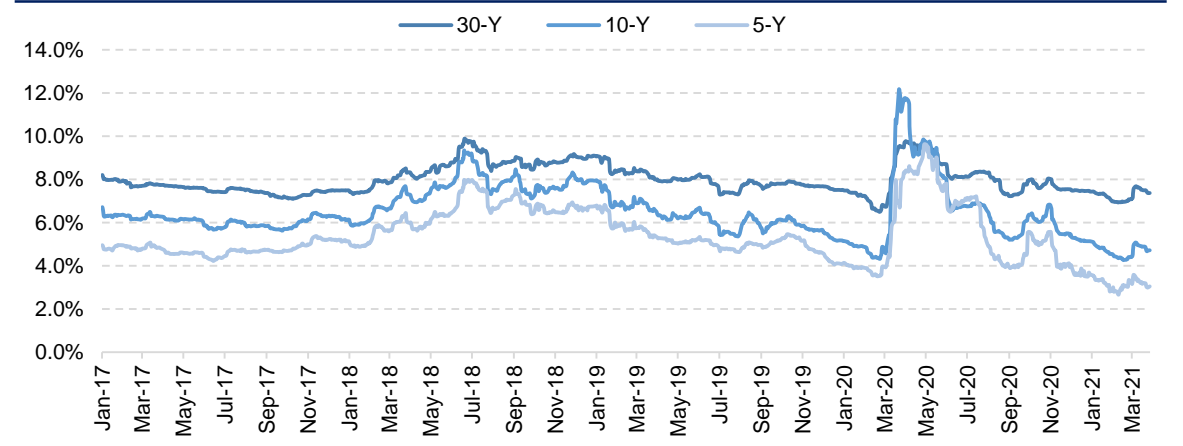
Source (s): Bloomberg, AHL Research

Exhibit: Pakistan 05-Y International SUKUK's Yield Difference with US 5Y Bond



Source (s): Bloomberg, AHL Research

Exhibit: Pakistan International Bonds and SUKUK's yield Trend



Source (s): Bloomberg, AHL Research

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Pakistan International Bonds

Exhibit: Pakistan International Bonds

Name	Issue Date	Issued Size (USD mn)	Maturity	Tenor (Years)	Coupon	YTM* (Years)
Pakistan Government International Bond	30-Mar-06	300	31-Mar-36	30	7.88%	15.01
Pakistan Government International Bond	18-Aug-11	na	18-Aug-31	20	13.00%	10.39
Pakistan Government International Bond	18-Aug-11	551	18-Aug-21	10	12.00%	0.39
Pakistan Government International Bond	18-Aug-11	551	18-Aug-21	10	12.00%	0.39
Pakistan Government International Bond	18-Aug-11	na	18-Aug-31	20	13.00%	10.39
Pakistan Government International Bond	19-Jul-12	na	19-Jul-22	10	12.00%	1.30
Pakistan Government International Bond	19-Jul-12	na	19-Jul-22	10	12.00%	1.30
Pakistan Government International Bond	15-Apr-14	1,000	15-Apr-24	10	8.25%	3.05
Pakistan Government International Bond	15-Apr-14	1,000	15-Apr-24	10	8.25%	3.05
Pakistan Government International Bond	30-Sep-15	500	30-Sep-25	10	8.25%	4.51
Pakistan Government International Bond	30-Sep-15	500	30-Sep-25	10	8.25%	4.51
Third Pakistan International Sukuk Co Ltd	13-Oct-16	1,000	13-Oct-21	5	5.50%	0.54
Third Pakistan International Sukuk Co Ltd	13-Oct-16	1,000	13-Oct-21	5	5.50%	0.54
Pakistan Government International Bond	5-Dec-17	1,500	5-Dec-27	10	6.88%	6.69
Third Pakistan International Sukuk Co Ltd	5-Dec-17	1,000	5-Dec-22	5	5.63%	1.68
Pakistan Government International Bond	5-Dec-17	1,500	5-Dec-27	10	6.88%	6.69
Third Pakistan International Sukuk Co Ltd	5-Dec-17	1,000	5-Dec-22	5	5.63%	1.68
Third Pakistan International Sukuk Co Ltd	5-Dec-17	1,000	5-Dec-22	5	5.63%	1.68

Source (s): Bloomberg, AHL Research, *Years to Maturity

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Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as Dec'21 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discounted Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks

The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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