IRAQ IN MARKET TO RAISE $1 BILLION, FIRST STANDALONE BOND IN OVER DECADE

- 03.08.2017

Reuters (2 August 2017)

Iraq started marketing a $1 billion bond on Wednesday, its first international debt issuance as a standalone credit since 2006 and an attempt to put decades of turmoil behind it.

With huge oil reserves behind it, the bond was seeking to tempt emerging market investors with alluring profits -- necessary to offset concerns over a history of war and the recent rise of militant group Islamic State.

Iraq issued $1 billion in bonds last January, but that offering was 100 percent guaranteed by the U.S government. This time it is alone.

A document issued by one of the banks leading the deal showed an initial price guidance for the bond, with a maturity of five and a half years, in the low 7 percent area.

That level would be considered "attractive" by some fund managers. It is a yield comparable with that of Ukraine, another conflict-troubled emerging market.

The transaction is expected to gather significant demand from U.S. and European investors looking at emerging markets for yield they cannot get elsewhere.

Pension funds, fund managers and sovereign wealth funds are likely to take a good share of the paper, fund managers said.

Iraq needs external financing to plug a widening budget deficit which lower oil prices since 2014 and the slow pace of much needed fiscal reforms have inflated to approximately 25 trillion Iraqi dinars ($21.44 billion) for 2017, according to the bond prospectus.

Out of a deficit of 25 trillion Iraqi dinars, 23.3 trillion will be raised through domestic and international borrowing, according to Iraqs 2017 supplementary budget.

Commercial banks, bond investors and international lenders, including multilateral institutions such as the International Monetary Fund, World Bank and the Organisation for Economic Cooperation and Development are estimated to contribute approximately 11.5 trillion dinars.

The support Iraq gets from development finance institutions is a form of an implicit guarantee for investors.

Elections Ahead

When compared with similarly rated countries across emerging markets such as Ukraine and Ghana, Iraq has the advantage of not having any immediate solvency concerns, and sizable commitments of donors for reconstruction purposes.

It is less of a credit risk than some of its peers, but upcoming parliamentary elections in spring 2018 and, potentially, ensuing political instability are all risks that will be factored in the final pricing, fund managers said.

Iraqs bond could also benefit from extra liquidity coming from yield-hungry investors exiting riskier assets.

People potentially exiting distressed high yield names in the emerging markets space would look to participate in a new high yield issue given that they would get liquidity in the primary market rather than in the secondary, said Max Wolman, senior portfolio manager at Aberdeen Asset Management.

Country representatives met fixed income investors in the United States earlier this week, ending last Tuesday a roadshow which stopped in London, Boston and New York. Citi, Deutsche Bank and JPMorgan are the joint lead managers. Iraq is rated B- stable by S&P and Fitch.

Kaynak/Source: