
OVERVIEW OF DEBT CAPITAL MARKETS

CBonds conference | September 2018

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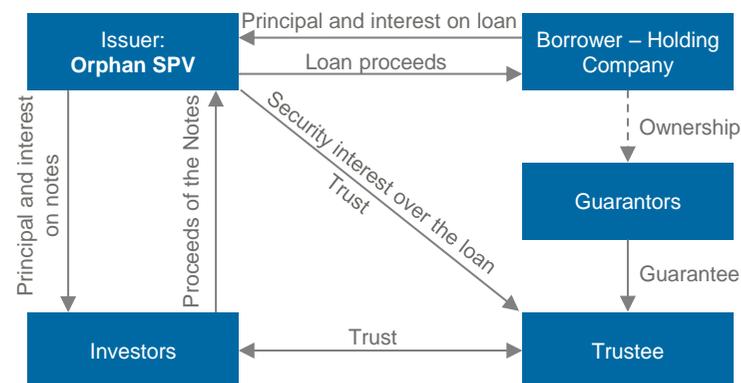
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Introduction to international bonds

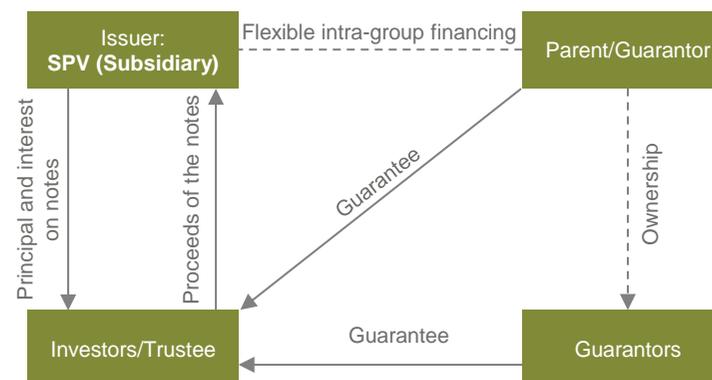
EUROBOND: KEY TERMS AND CHARACTERISTICS

- A Eurobond is a bond that is governed by an internationally accepted (e.g. English) law and is distributed to investors internationally
- Key terms:
 - **Tenor** – 3-10 years in most cases
 - **Repayment** – one time, rarely may include amortization
 - **Interest** – fixed, semi-annual (US Dollar market convention)
 - **Size** – not less than US\$300mm to guarantee secondary market liquidity and index inclusion
 - **Distribution** (core categories):
 - *Reg S only* – Europe, Asia, offshore US but excludes onshore US institutional investors
 - *Reg S / 144A* – Europe, Asia and institutional US investors
 - **Security** – typically unsecured, guarantees from operating companies may be required
 - **Clearing** – international clearing systems (euroclear, clearstream, DTC)
 - **Listing** – Irish or London Stock Exchange most common
 - **Secondary trading** – primarily “over-the-counter” (i.e. directly and bilaterally by market participants)

Eurobond issuance structure – Loan Participation Notes



Eurobond issuance structure – Guaranteed Structure

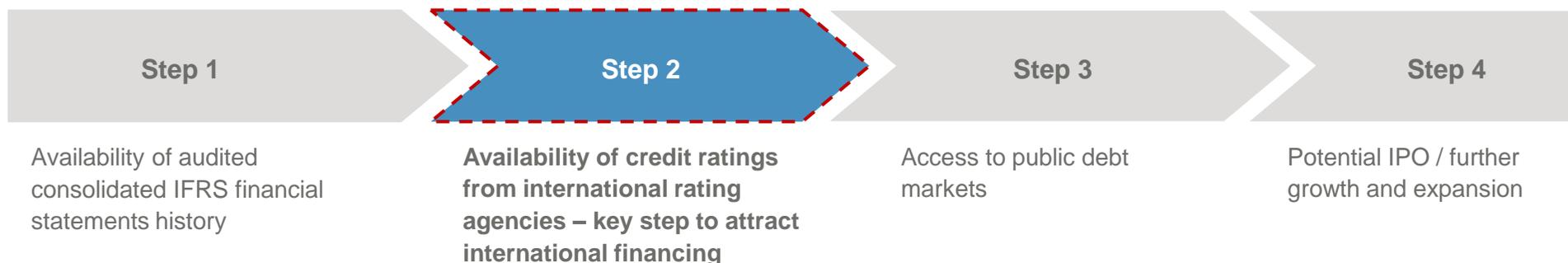


Bonds vs. Loans overview

	Bonds	Loans
Advantages	<ul style="list-style-type: none"> ✓ Longer maturity terms are available ✓ Diversification of investor base away from banks (fund managers, private banks, insurers, corporates and central banks) ✓ Extension of investor base increases amounts available from lending banks – more capacity under the exposure “limits” ✓ Credit ratings enhance a company’s profile and facilitate access to capital markets on a regular basis ✓ Easy to replicate for subsequent transactions ✓ Lighter covenant package compared to loan financing ✓ Unsecured funding most widespread ✓ Bullet repayment (no amortization) 	<ul style="list-style-type: none"> ✓ Lower upfront costs compared to bonds (i.e. legal fees, roadshows, etc.) ✓ Can be conducted with no ratings ✓ Modification process can be more flexible and agreed bilaterally compared to a bond ✓ No public reporting requirements
Limitations	<ul style="list-style-type: none"> ■ Expensive to prepay in early years (no free call option) ■ New issue pricing is subject to macroeconomic factors, including broader market conditions and market sentiment ■ Higher upfront costs (ratings, legal fees, etc.) ■ Work required to acquire credit ratings ■ Public reporting requirements 	<ul style="list-style-type: none"> ■ No diversification of investor base – may restrict future lending commitments from banks ■ Bank financing executed on more individual case-by-case basis – less sustainable and reliable source of funding ■ Typically, priced with a floating rate ■ Scarcer long-term financing capacity ■ Stricter covenant package can be imposed by the lending banks, any potential re-negotiation can result in higher effective price payable vs. bond ■ Uses secured capacity ■ Principal amortization ■ Strict ongoing reporting requirements to lending banks

Corporate development snapshot

Logical schedule of corporate evolution



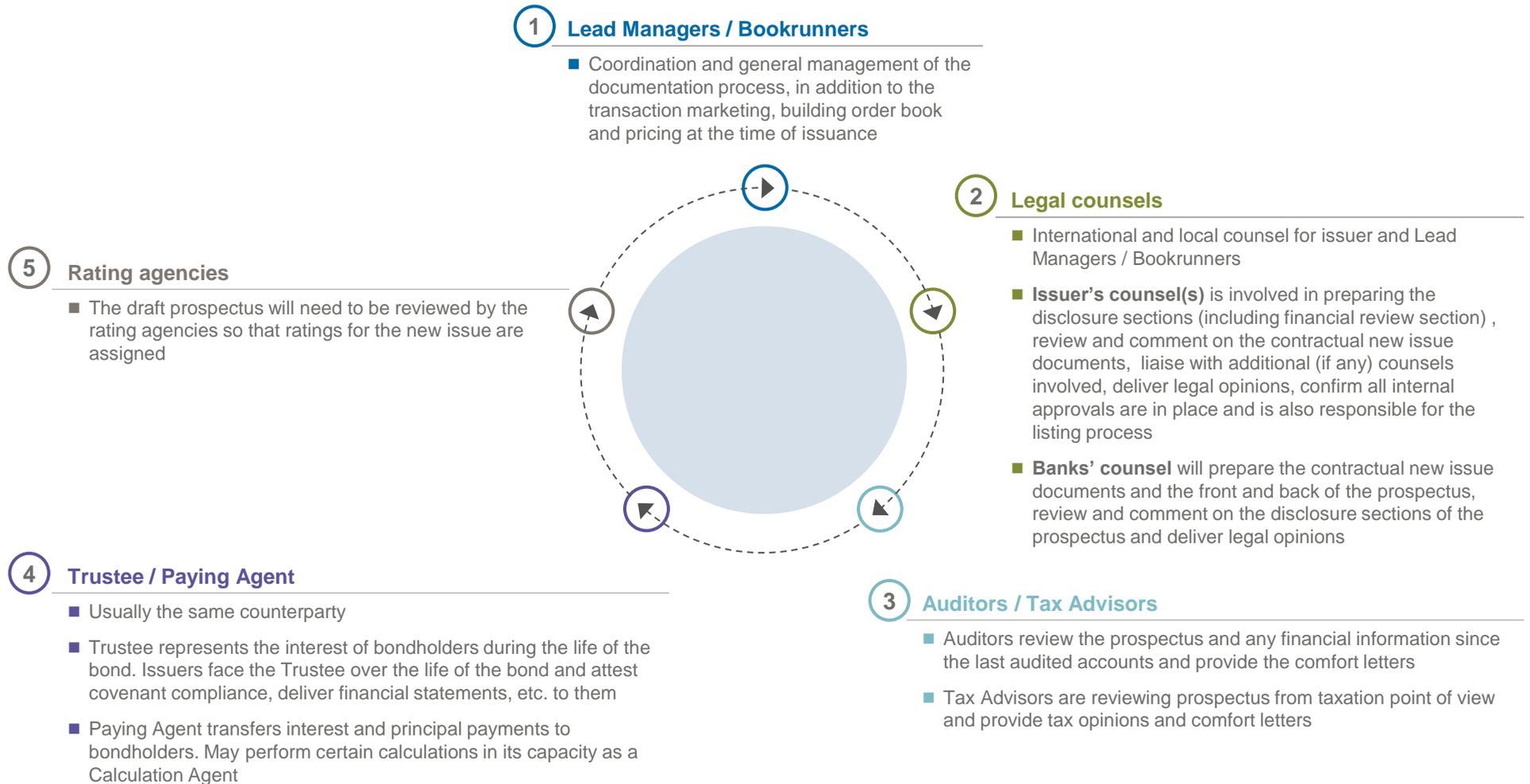
RATING BENEFITS

- Substantially enhances company name recognition
- Establishes company visibility among international investor community
- Facilitates access to public debt capital markets
- Improves access to bank financing through third party assessment of company's credit
- Improves company's flexibility in case of ongoing M&A – being pre-rated reduces execution risk, improves rating outcome probability
- Improves company's transparency and financial discipline while still giving management enough flexibility to operate the company (rating agencies will not publish information without your approval)

Requirements for Eurobonds issue

Borrower size and business characteristics:	<ul style="list-style-type: none"> ■ EBITDA of at least US\$100mm per annum ■ Preferably (for corporates and hard-currency denominated transactions): sizeable share of hard-currency (or hard-currency linked) and/or export revenues
New issue ratings:	<ul style="list-style-type: none"> ■ Minimum 1 rating (2 for Reg S/144A transactions – can be sold directly to qualified investors in the US) from top-3 international rating agencies: Moody's, S&P or Fitch ■ Rating should typically be at least B- level or otherwise in line with the sovereign
Financials:	<ul style="list-style-type: none"> ■ 2 years of audited IFRS financial statements (3 years for Reg S/144A) ■ Ongoing reporting commitment (at least semi-annually) from the Issuer until the maturity of the Eurobonds
Timing:	<ul style="list-style-type: none"> ■ Reg S only issue should be completed within 270 days from the date of the latest financial statements, while Reg S/144A within 135 days ■ New issue should be settled at least 2 weeks before publication of the new financial statements

Key parties involved in a Eurobond transaction



Overview of the Eurobond issues from the CIS region

Examples of Eurobond issues from the CIS region

	Date	Issuer	Issuer type	Moody's	S&P	Fitch	Country	Currency	Size (mm)	Coupon (%)	Tenor
Size	18-Oct-17	Eurotorg	Corporate	N.R.	B-	B-	Belarus	US\$	350	8.750	5 yrs
	17-Apr-18	Kazmunaigaz	Corporate	Baa3	BB-	BBB-	Kazakhstan	US\$	3,250	4.75 - 6.375	7-30.5 yrs
	7-Sep-17	Tajikistan	Sovereign	B3	B-	N.R.	Tajikistan	US\$	500	7.125	10 yrs
	18-Sep-17	Ukraine	Sovereign	Caa2	B-	B-	Ukraine	US\$	3,000	7.375	15 yrs
Rating	13-Nov-17	Kazakhstan Temir Zholy	Corporate	Baa3	BB-	BBB-	Kazakhstan	US\$	780	4.800	10 yrs
	7-Nov-17	Petropavlovsk	Corporate	N.R.	B-	B-	Russia	US\$	500	8.125	5 yrs
Currencies	14-Mar-18	Gazprom	Corporate	Baa3	BBB-	BBB-	Russia	EUR	750	2.500	8 yrs
	29-Mar-17	Gazprom	Corporate	Ba1	BB+	BBB-	Russia	GBP	850	4.250	7 yrs
	28-Feb-18	Gazprom	Corporate	Baa3	BBB-	BBB-	Russia	CHF	750	1.450	5 yrs
	2-Feb-18	RusHydro	Corporate	Ba1	BB+	BB+	Russia	RUB	20,000	7.400	3 yrs
	7-Dec-17	Development Bank Of Kazakhstan	Bank	Baa3	BB+	BBB-	Kazakhstan	KZT	100,000	9.500	3 yrs
	27-Feb-18	Ukreximbank	Bank	Caa2	N.R.	B-	Ukraine	UAH	4,051	16.500	3 yrs

Source: J.P. Morgan, Bondradar as of 11 September 2018

Current trading levels of CIS sovereign Eurobonds

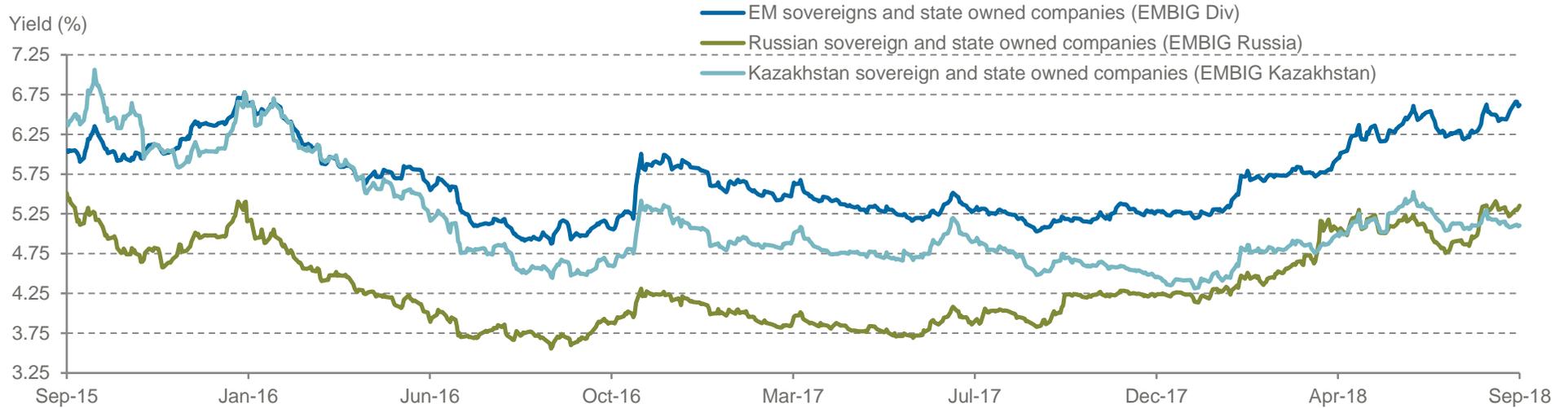
Select current sovereign US\$ Eurobond trading levels

Issuer	Moody's	S&P	Fitch	Amt O/S (mm)	Coupon (%)	Maturity	Yield (%)
 Kazakhstan	Baa3	BBB-	BBB	1,500	3.875	2024	3.64
 Kazakhstan	Baa3	BBB-	BBB	2,500	5.125	2025	3.87
 Kazakhstan	Baa3	BBB-	BBB	1,000	4.875	2044	4.77
 Russia	Ba1	BBB-	BBB-	3,000	4.875	2023	4.56
 Russia	Ba1	BBB-	BBB-	2,405	4.250	2027	5.07
 Azerbaijan	Ba2	BB+	BB+	1,250	4.750	2024	4.75
 Azerbaijan	Ba2	BB+	BB+	1,077	3.500	2032	5.33
 Georgia	Ba2	BB-	BB-	500	6.875	2021	4.79
 Armenia	B1	N.R.	B+	500	6.000	2020	5.28
 Armenia	B1	N.R.	B+	500	7.150	2025	6.21
 Belarus	B3	B	B	800	6.875	2023	6.33
 Belarus	B3	B	B	600	7.625	2027	7.01
 Belarus	B3	B	B	600	6.200	2030	6.99
 Tajikistan	B3	B-	N.R.	500	7.125	2027	9.19
 Ukraine	Caa2	B-	B-	1,355	7.750	2023	8.55
 Ukraine	Caa2	B-	B-	1,329	7.750	2025	8.60
 Ukraine	Caa2	B-	B-	3,000	7.375	2032	9.37

Source: J.P. Morgan, Bloomberg, as of 11 September 2018

Emerging Markets Eurobond yields are gradually rising on the back of Central Banks' hawkish monetary policy but remain low from historical perspective

Emerging Markets yield evolution since 2005



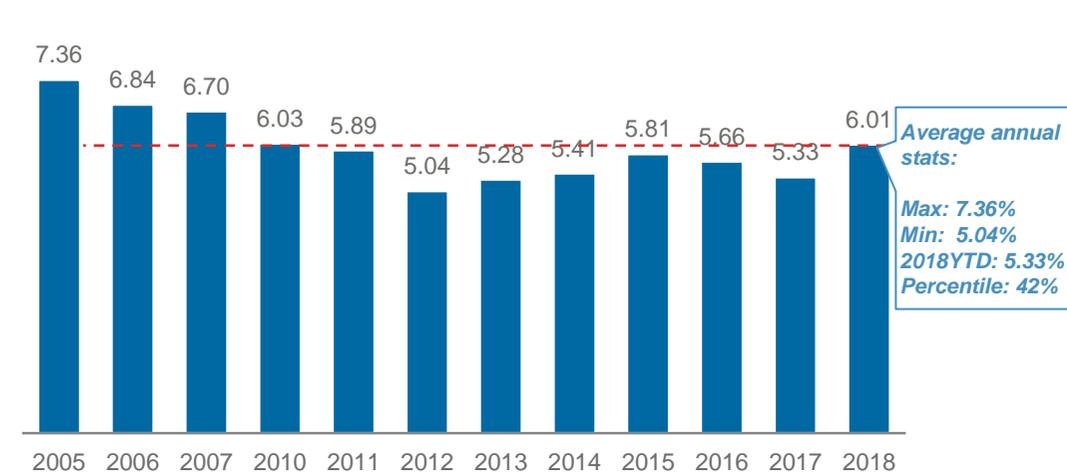
Source: J.P. Morgan as of 10 September 2018

J.P. Morgan's UST forecasts

	Present	4Q18	1Q19	2Q19
Fed funds	1.91%	2.38%	2.63%	2.88%
3M Libor	2.33%	2.70%	3.10%	3.25%
5Y benchmark yield	2.82%	3.10%	3.25%	3.35%
10Y benchmark yield	2.94%	3.20%	3.35%	3.40%
30Y benchmark yield	3.11%	3.25%	3.35%	3.40%

Source: J.P. Morgan as of 10 September 2018

Average annual yields of EM state owned bonds (EMBIG Div)



Source: J.P. Morgan as of 10 September 2018