

6 February 2019

SOVEREIGN RESEARCH

Debut eurobond issue on the way

- Uzbekistan (-/BB-/BB-) will hold an investor roadshow for its debut eurobond issue on 7-12 February. A US\$-denominated benchmark five-and/or 10-year eurobond offering will follow, subject to market conditions.
- It follows a long wait. Issuance plans have been mooted for some time, with media reporting a year ago on plans for US\$200mn-300mn of bonds to be issued in 2018. At the time, it was reported that proceeds may be used to finance infrastructure projects and would set a benchmark for the private sector. It now looks like the size will be larger. S&P and Fitch assigned their first-time ratings in December 2018.
- Uzbekistan (BB-) falls between Azerbaijan (BB+) and Belarus (B) in terms of rating notches. Another regional rating comp might be Tajikistan, although it is three notches lower, at B-. Tajikistan 27s trade at 8.7% (spread: 114bps to the equivalent US Treasury).
- Outside the CIS, similar rating comps might be Vietnam (Ba3/BB-/BB) and Senegal (Ba3/B+/-). Vietnam 24s trade at 3.9% (spread: 127bps). Senegal 24s trade at 5.8% (spread: 320bps). Senegal 33s trade at 7% (spread: 419bps).
- A new issue premium, scarcity factor, diversification potential and possible limited future supply might see relatively tight pricing, while lack of familiarity and institutional/governance factors could see wider pricing. Uzbekistan's ratings are supported by low debt, modest twin deficits and high reserves. However, the country's track record of reforms is limited, and its ability to manage significant foreign capital inflows and the political business cycle is untested. Much will depend on how the roadshow goes.
- Below, we provide macro background on Uzbekistan, detail on the debt stock and information of the key comparable sovereign bonds.

Contact:

Stuart Culverhouse

+44 (0)20 7725 1015

stuart.culverhouse@exotix.com

Luke Richardson

luke.richardson@exotix.com

Recommendations and opinions in this report, unless otherwise stated, are based on a combination of discounted cash flow analysis, ratio analysis, industry knowledge, logical extrapolations, peer group analysis and company specific and market technical elements (events affecting both the financial and operational profile of the company). Forecasting of company sales and earnings are based on segmented top-bottom models using subjective views of relevant future market developments. In addition, company guidance and financial guidance is taken in to account where applicable. This report is on a stock under "active coverage". All prices provided within this research report are taken from the close of business on the day prior to the issue date unless explicitly stated. Please see disclosures on the last page of this report.

Uzbekistan's key macro features

- **The largest country in central Asia** by population (32.9mn, nominal GDP US\$51.3bn, according to the IMF), Uzbekistan is nearly three times the size of Tajikistan (B3/B-/-), which was a debut issuer in 2017. Its per capita income (US\$1,600) is twice that of Tajikistan, but well below Azerbaijan, Belarus, Georgia and Ukraine.
- **The sixth-fastest growing country** (historical data to be treated with some caution) over the 10 years to 2016 (average real GDP growth of 8.3% pa, according to the IMF), behind Nauru, Ethiopia, Turkmenistan, Qatar and China (Figure 1). The Fund expects it to be the 26th-fastest-growing country over the next five years (average 5.7% pa, the same as Egypt and Panama), although the general stability in the officially reported GDP growth rate may seem dubious. Growth has slowed somewhat since 2016, falling to 5.3% 2017 due to external shocks (lower commodity prices and remittances) and there is some evidence of overheating, according to the IMF.
- **Commodity dependence, with gold, cotton and energy (natural gas) its key exports.** The country holds the fourth-largest gold reserves in the world. Gold and energy generally account for half of the country's exports. However, it is still a net oil importer, as demand significantly exceeds domestic production.
- **Favourable credit metrics.** Uzbekistan has modest twin deficits – a 2.8% fiscal deficit and a 1.5% current account deficit, according to IMF projections (although, in November, the Fund projected a wider current account deficit, of 3%). It achieved a current account surplus from 2000-17, although the shift to deficit may be appropriate as the country seeks to reform and modernise. At the same time, the external balance is supported by significant income and transfers. Workers' remittances amount to cUS\$1bn (or c2-3% of GDP, according to the IMF). We continue to monitor the widening current account deficit, given concerns about overheating.
- **Low indebtedness.** Public debt is 19% of GDP (projected to rise to 22% in 2019), while external debt is 36% of GDP (split evenly between public external debt and private external debt; Table 2). The government has no domestic debt and does not (currently) owe external commercial creditors. Its main external creditors are multilaterals. State-driven growth since 1991 has led to the large publicly guaranteed external debt. As a share of GDP, public debt was on a declining trend from the early 2000s, but rose sharply in 2016-17 following devaluation (Figure 2). Public debt/GDP doubled in 2015-18, albeit from a low base (this is in contrast to Tajikistan, whose debt/GDP nearly doubled over 2014-17, partly due to devaluation, and is now projected at 54% of GDP). In US\$ terms, public external debt has risen by 40% since Q1 2016. The IMF assessed risks to debt sustainability as low in its last DSA in [April 2018](#). A gradual increase in external borrowing is projected over the medium term. Public sector external debt service is also low, given the composition of public external debt (amounting to US\$260mn in the four quarters to Q2 18, according to central bank data).
- **Strong liquidity cushion.** Foreign reserves stood at US\$27bn (18 months' import cover) at end-2018, largely unchanged over the year. Gold makes up around half of its reserves. Assets in its sovereign wealth fund provide further liquidity support, according to Fitch.
- **Double-digit inflation remains a key challenge.** One concern is the high rate of inflation, driven up after cuts to certain subsidies, including for petrol and electricity. CPI inflation ended 2018 at 14.3%, according to the state statistics office; little changed from the 14.4% rate at end-2017, but lower than the IMF projection of 17.5%. The Fund expects inflation to remain high over the near term. High inflation could test the central bank as it transitions towards inflation-targeting. Its policy rate has remained unchanged at 16% for the past few months, after two sizeable increases: a 200bps hike in September 2018 and a 500bps hike when the tightening cycle began in June 2017.
- **The country appears to have a good relationship with the IMF.** The last Article IV was published in May 2018, which noted the authorities' comprehensive reform programme. A further statement was issued on 8 November 2018, following an IMF

staff visit. Uzbekistan has not had an IMF programme for 25 years (probably because it has not needed one).

- **A bold reform agenda.** President Shavkat Mirziyoyev has overseen a period of economic and social reforms and opening of the economy, including lifting currency controls and easing some travel restrictions. This saw the currency (the soum) depreciate by 48% against USD in September 2017, although it has reverted to a steady crawl since. Uzbekistan has seen its ranking fall (ie improve) markedly on the Doing Business Index in recent years, rising to 87 from 141 (out of 189) in just one year in 2016 (due to improvements in starting a business, access to credit and registering a property) and has seen a more gradual improvement since (Figure 3).
- **The government has ambitious multi-billion-dollar public sector-led infrastructure plans,** across various sectors (energy, electricity, mining, tourism, chemicals and technology). The administration's ability to appraise, manage and prioritise these projects effectively will be crucial in ensuring value for money, sustainable growth and debt sustainability, and could test its institutional capacity.
- **The former Soviet republic has a warm relationship with Russia.** The two countries signed over US\$27bn in business deals in October 2018.
- **A history of political suppression.** Elections under Mirziyoyev's predecessor Islam Karimov were criticised for their lack of freedom. Opposition parties and independent media have been suppressed, and there is a history of alleged human rights abuses. Mirziyoyev was elected president with 88.6% of the vote at the December 2016 election. The country ranks poorly on the Freedom House index of political freedom, scoring a lowly 9 (out of 100) in the 2019 rankings; the same as Tajikistan, just below Azerbaijan and China, and slightly better than Sudan and Saudi Arabia.
- **The country ranks 105 out of 189 on the UN's Human Development Index,** the same as Belize, and between Botswana and Gabon; but above South Africa and Egypt.
- For more on Uzbekistan, see the latest [Eurasia Macro Monthly](#) from our research partner, Macro-Advisory.

Bond comps

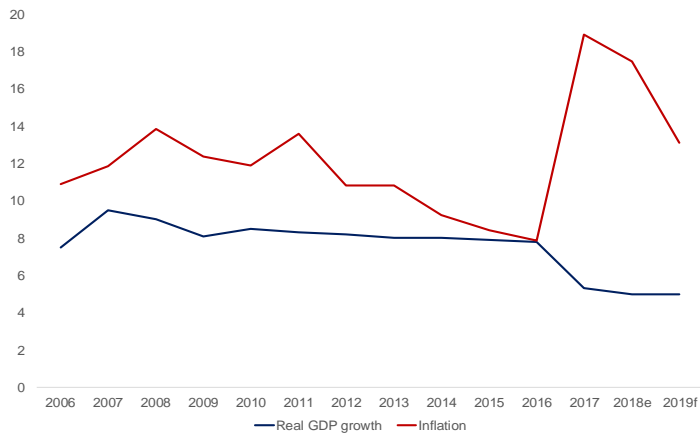
We show possible regional bond comparisons (by rating and maturity) in Table 1.

Table 1: Selected bond comps

Country	Security	YTM (%)	Z-sprd (bp)	AVL (yrs)	Mdur (yrs)	Size (US\$mn)	Moody's	S&P	Fitch
5y									
Azerbaijan	AZERBJ 4 3/4 03/18/24	4.2	159	5.1	4.5	1250	Ba2	BB+	BB+
Armenia	ARMEN 7.15 03/26/25	5.4	278	6.1	5.0	500	B1	-	B+
Belarus	BELRUS 6 7/8 02/28/23	5.9	334	4.1	3.5	800	B3	B	B
10y									
Azerbaijan	AZERBJ 3 1/2 09/01/32	4.8	214	12.6	9.9	1077	Ba2	BB+	BB+
Belarus	BELRUS 6.2 02/28/30	6.9	413	11.1	7.9	600	B3	B	B
Tajikistan	TAJIKI 7 1/8 09/14/27	8.7	630	7.4	5.6	500	B3	B-	-

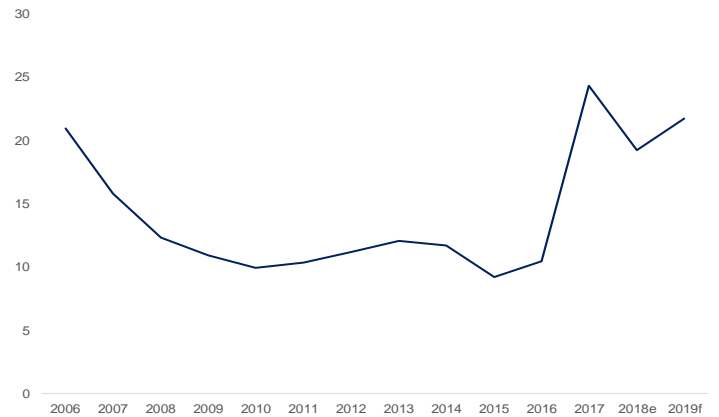
Source: Exotix, Bloomberg. Prices as of 5 February on Bloomberg.

Figure 1: Real GDP growth and inflation (%)



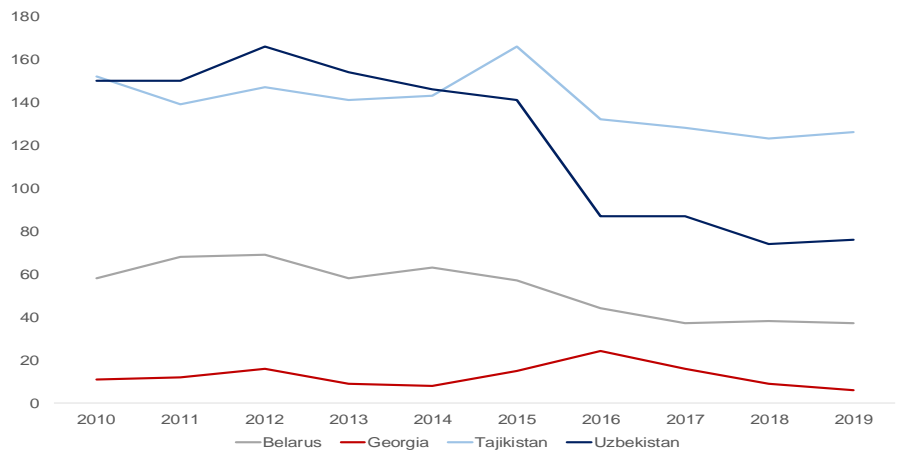
Source: IMF WEO

Figure 2: Public debt/GDP ratio (%)



Source: IMF WEO

Figure 3: Doing Business Rankings



Source: World Bank's Doing Business, Exotix. Note: The lower the number, the higher the rank.

Table 2: External debt stock

Q2 18	US\$m	% of GDP
Public and publicly guaranteed external debt (PPG)	8,041.2	18.6
o/w Direct debt	5,542.5	12.8
Multilaterals	3,962.1	9.1
Bilaterals	1,580.4	3.6
Commercial banks	0.0	0.0
Government-guaranteed	2,498.7	5.8
Multilaterals	197.0	0.5
Bilaterals	1,816.3	4.2
Commercial banks	485.4	1.1
Private non-guaranteed external debt (PNG)	7,538.2	17.4
o/w Multilaterals	193.5	0.4
Bilaterals	1,432.0	3.3
Commercial banks	5,912.8	13.7
Total external debt	15,579.4	36.0

Source: Central Bank of the Republic of Uzbekistan, IMF, Exotix

DISCLOSURES

Analyst Certification

This report is independent investment research as contemplated by COBS 12.2 of the FCA Handbook and is a research recommendation under COBS 12.4 of the FCA Handbook. Where it is not technically a research recommendation because the subject of the research is not listed on any European exchange, it has nevertheless been treated as a research recommendation to ensure consistent treatment of all Exotix Capital's research. This report has been produced by Stuart Culverhouse who is the Analyst (the "Analyst").

Conflicts of Interest

The Analyst certifies that the views and forecasts expressed in this report accurately reflect their personal views about the subject, securities, or issuers specified herein. In addition, the Analyst certifies that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Exotix Partners LLP and its subsidiaries ("Exotix Capital") provide specialist investment banking services to trading professionals in the wholesale markets. Exotix Capital draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Exotix Capital may at any time, hold a trading position in the securities and financial instruments discussed in this report. Exotix Capital has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Exotix Capital's conflict of interest policy is available at www.exotix.com/regulatory-information.

Exotix Capital does not generally produce maintenance research and as a result there is no planned frequency of research reports for securities under coverage, save that Exotix Capital will aim to produce updates as appropriate and as soon as practicable. Other than this, research reports are produced on an ad hoc basis.

Preparation

This report was prepared by Exotix Partners LLP, which is authorised to engage in securities activities in the United Kingdom. Exotix Partners LLP is authorised and regulated by the UK's Financial Conduct Authority under FCA register no. 586420.

This report is not an advertisement of securities. Opinions expressed herein may differ or be contrary to opinions expressed by other business areas or groups of Exotix Capital as a result of using different assumptions and criteria.

The information and opinions contained in this report are subject to change without notice, and Exotix Capital is under no obligation to update or keep current the information contained herein or in any other medium.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Exotix Capital. Exotix Capital shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Exotix Capital, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Approved and distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

United States: This research report is provided for distribution to U.S. institutional investors in accordance with the exemption from registration provided by Rule 15a-6 under the U.S. Securities Act of 1934, as amended and all relevant guidance by the U.S. Securities and Exchange Commission ("SEC") with respect thereto.

Exotix USA, Inc. is the U.S. distributor of this report. Exotix USA, Inc. is regulated by the Securities and Exchange Commission and is a member of FINRA and SIPC. Subject to the terms set forth herein, Exotix USA Inc. accepts responsibility for the contents of this report to the extent that it is delivered to a US person other than a Major U.S. Institutional Investor as defined in Rule 15a-6. Any U.S. person receiving this research report and wishing to effect transactions in any security discussed in the report or any related derivative instrument should do so through via a registered representative at Exotix USA, Inc. (Telephone: +1 (212) 551 3480).

UAE: Approved for distribution in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Nigeria: Distributed by EFCP Limited, an authorised dealing member of The Nigerian Stock Exchange, which is regulated by the Securities and Exchange Commission.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

This report has been prepared for information purposes only. The information presented herein does not comprise a prospectus of securities for the purposes of EU Directive 2003/71/EC. Any decision to purchase securities in any proposed offering should be made solely on the basis of the information to be contained in the final prospectus published in relation to such offering. This report does not form a fiduciary relationship or constitute advice and is not and should not be construed as an offer, or a solicitation of an offer, or an invitation or inducement to engage in investment activity, and cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price.

The information and opinions contained in this report have been derived from sources believed to be reliable and in good faith or constitute Exotix Capital's judgment as at the date of this report but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness and any opinions are subject to change and may be superseded without notice.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Exotix Capital with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates,

either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this report. You should always exercise independent judgment in relation to the securities mentioned herein. Neither Exotix Capital nor any of its members, directors, or employees shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this report or lack of care in this report's preparation or publication, or any losses or damages (whether direct or indirect) which may arise from the use of this report.

Exotix Capital and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Exotix Capital may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Exotix Capital.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations.

Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.

© Exotix Partners LLP, 2019. All rights reserved.

Exotix Capital is a registered trade mark of Exotix Partners LLP