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Bahrain's new bond/sukuk combo – a good test of investor appetite?

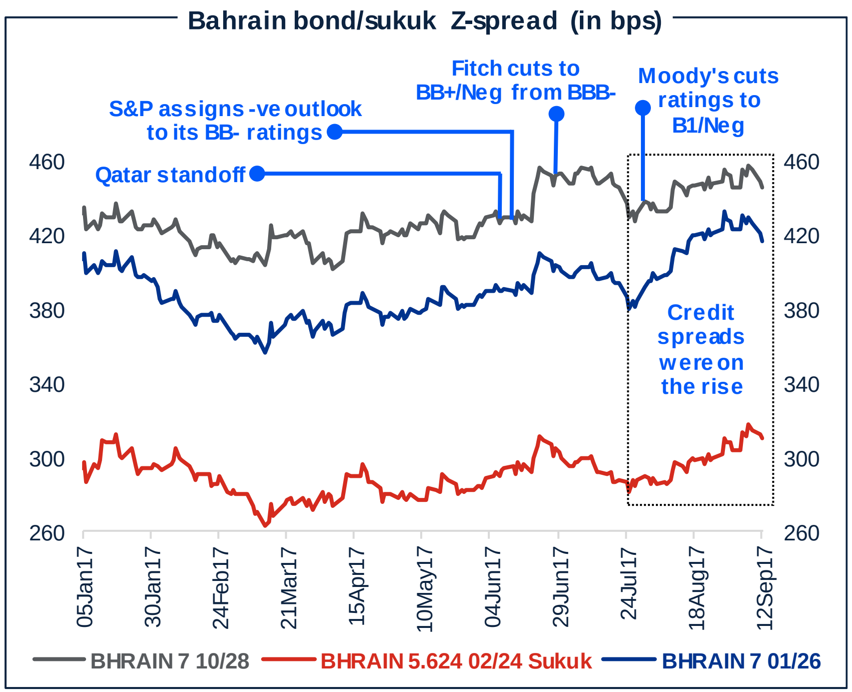
The Kingdom of Bahrain completed its investor roadshow in the UK, Asia, the Middle East, and the US yesterday and released the initial price talk this morning for its RegS/144A US$ benchmark multi-tranche transaction as below.

* 7.5-year US$ Benchmark Sukuk @ 5.625% area
* 12-year US$ Benchmark bond @ 7.250% area
* 30-year US$ Benchmark bond @ 7.875% area

Bahrain as a credit is not new to international investors - it is indeed a regular issuer in the international markets. Even though it has the weakest balance sheet strength among the GCC sovereigns, it is quite popular among investors. For example, its last debt offering, a $2bn dual-tranche in October last year, was 3.5 times oversubscribed.

This latest deal however we believe is a good test of investor appetite given that

1. It is the first public deal after the Qatar crisis that started on June 5th;
2. Bahrain has been downgraded deep in to junk territory by rating agencies with negative outlook; (Moody's: B1/Neg; S&P: BB-/Neg; Fitch: BB+/Neg); and
3. Credit spreads have widened for the sovereign and some other GCC sovereigns per se in past three months.



Source: Bloomberg/FAB

We think the IPTs look generous at the moment which offers some good premium to the existing curve and some other sovereign bonds from the peer group (*please see the chart on next page*), although some tightening can be expected subject to demand.

However, what is worth watching is the final pricing the sovereign offers in order to make the deal attractive to overseas investors as it needs to tap the market at regular intervals due to its financing needs. Moreover, the total amount Bahrain manages to print and the orderbook size would be a good barometer of investor perception and appetite for GCC credits post the Qatar crisis.

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Relative Value (based on IPT)

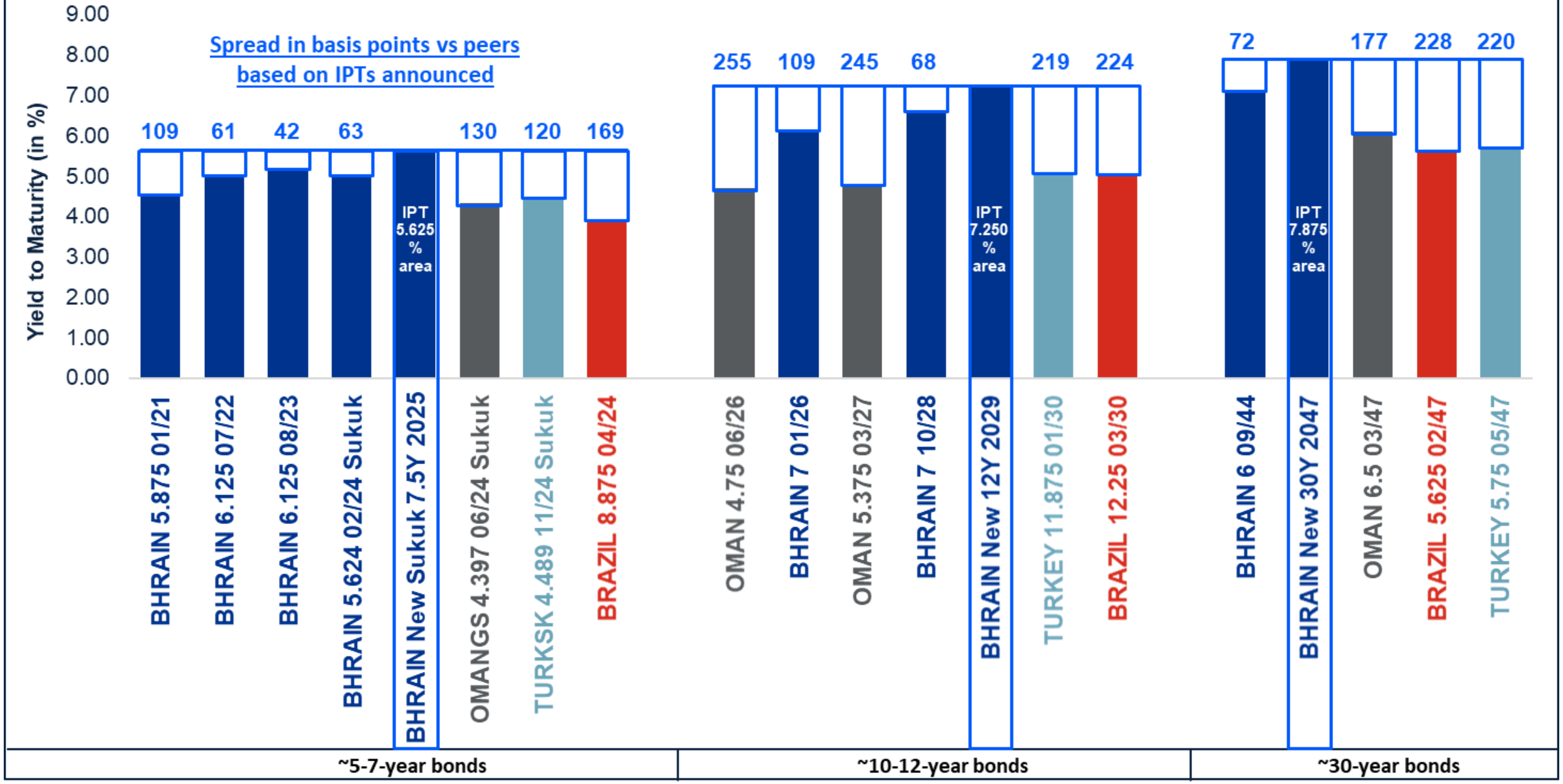
The IPTs for the 3-tranche deal looks very attractive at the moment vs Bahrain's own sovereign curve and some other peer sovereign bonds

* 7.5yr sukuk offers circa 63bps premium over Bahrain's 20existing 24 sukuk

* 12yr bond is offering circa 68bps premium over Bahrain 28s and even looks cheap vs the 44s

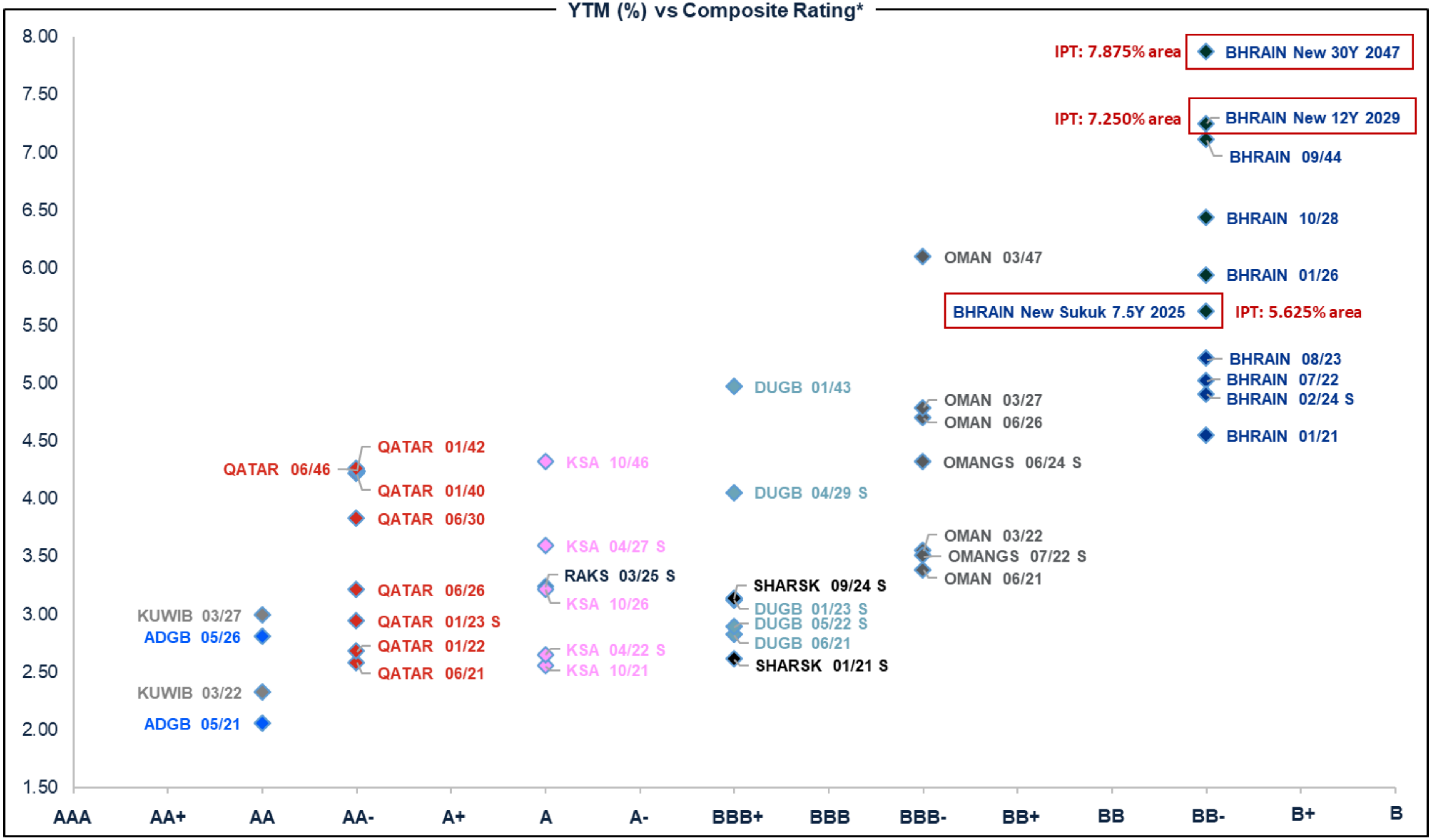
* 30yr bond offers circa 72bps premium over Bahrain 44s

Credit Rating	Moody's	S&P	Fitch
Bahrain	B1/Neg	BB-/Neg	BB+/Neg
Oman	Baa2/Neg	BB+/Neg	BBB/Neg
Turkey	Ba1/Neg	BB/Neg	BB+/Stable
Brazil	Ba2/Neg	BB/Neg	BB/Neg



Source: Bloomberg/FAB

GCC sovereign bonds relative value



Notes: * X-axis represents the composite rating which is the average of the ratings assigned by three leading rating agencies Moody's, S&P and Fitch. We have used the composite rating in order to provide a more representative view of the credit strength of each bank. Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to Sharjah (BBB+) & DEWA (BBB+). The ratings have been arranged from higher to lower starting from 'AA', followed by 'AA-' and so on; Source: Bloomberg/FAB

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