Market Insights & Strategy
Global Markets

Oman Joins the New Issue Party

While all eyes were on the multiple new issues that have recently come to the market from the GCC, and indeed anticipating the jumbo deal from Kuwait, Oman joined the party in quite an 'under the radar' sort of way.

The Government of the Sultanate of Oman today announced the initial terms for a 3-tranche bond deal, with maturities of 5, 10 and 30 years, in 144A/RegS format. The initial price thoughts (please refer below) offer in our view a reasonable premium over Oman's existing curve and indeed over the comparable bonds from GCC sovereigns.

Oman is rated lower than Saudi Arabia and its budget deficit – estimated at 14.1% of GDP in 2016 – is also one of the most stretched among GCC sovereigns. The government earlier this year said its 2017 borrowing plans include raising debt internationally up to OMR 2.1bn ($5.45bn) as it projects a 2017 budget deficit at OMR 3bn ($7.8bn). Given its fiscal challenges, we expect the sovereign will need to tap the debt market again - therefore we believe Oman needs to keep the current offering attractive and at the same time leave some room for further investor appetite further down the road. We expect the current deal may be skewed towards the long end, particularly the 30-year, due to the following reasons:

- Oman would seek to lock in lower funding cost for a longer tenor as it is offering a 30-year bond for the first time;
- The last leg of the investor meetings targeted US investors who prefer long-dated papers. This would also help Oman diversify its investor base;
- The sovereign may try to ride on the success of the recent Saudi bond deal, given that the primary and secondary demand for KSA 30-years was very strong
- Oman could always come up with another 5-year offering later – a tenor that tends to be the sweet spot among regional investors; in fact there are already rumours that a sukuk transaction may follow the current deal.

In our opinion Oman needs to offer the right balance of risk-reward to its investors on this transaction as there are several other deals live or in the pipeline and hence investors have ample choice of where to allocate their cash in terms of new GCC deals. Watch this space.

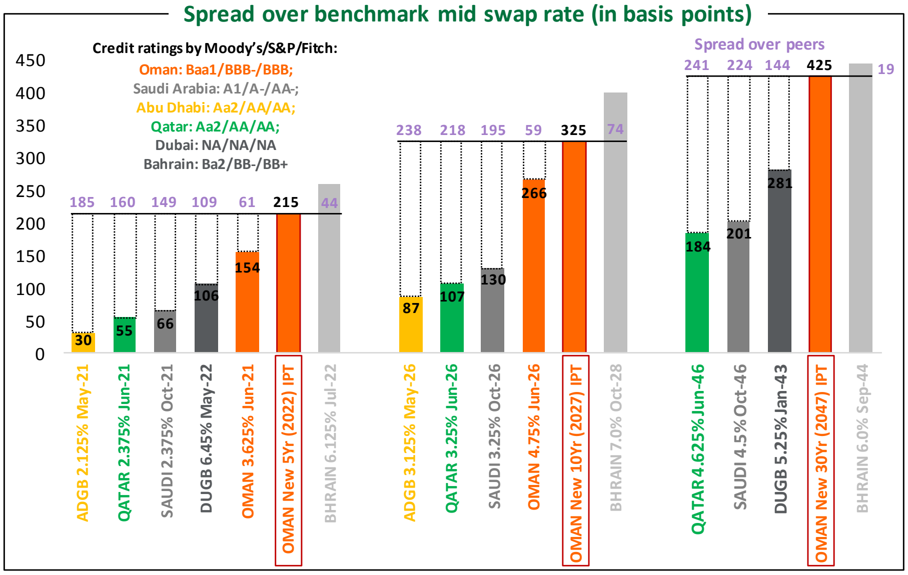
Initial price guidance announced:

* 5-year US$ Benchmark @ MS+215bps area

* 10-year US$ Benchmark @ MS+325bps area

* 30-year US$ Benchmark @ MS+425bps area

Relative Value (based on IPT):



Source: Bloomberg; NBAD

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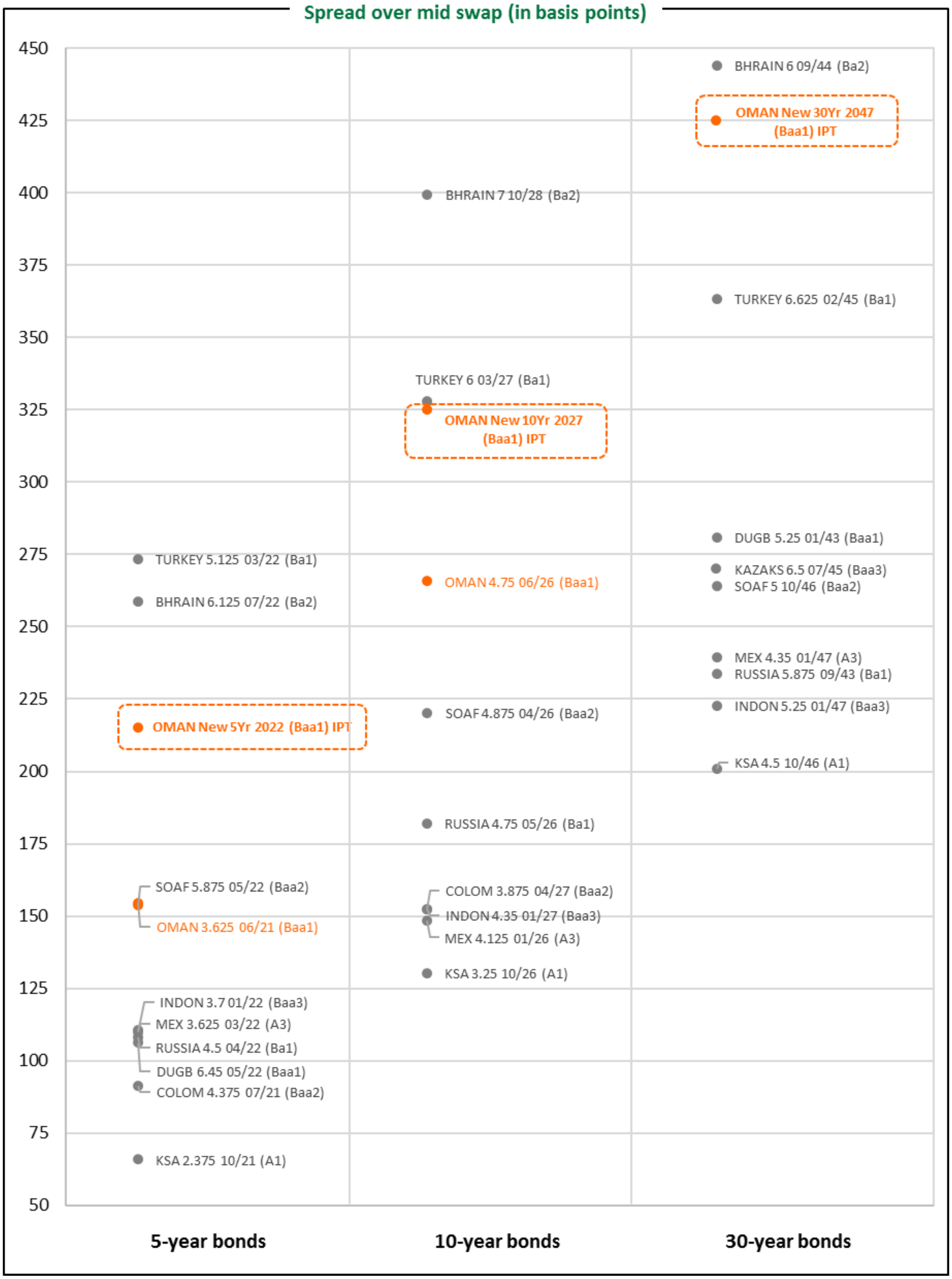
Oman bonds relative value vs emerging markets peers (spread over mid swap vs Moody's rating):



Note: The bond/sukuk name indicates the Ticker / Coupon / Month & Year of Maturity / Moody's rating; Spread over mid swap is the interpolated bond spread to the swap curve in the matching currency; *Dubai is not rated by any rating agency and we have assigned a proxy Moody's rating of Baa1 based on its fundamentals with a relative comparison to Oman (Baa1), Bahrain (Ba3) & DEWA (Baa1); Source: Bloomberg; NBAD

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