

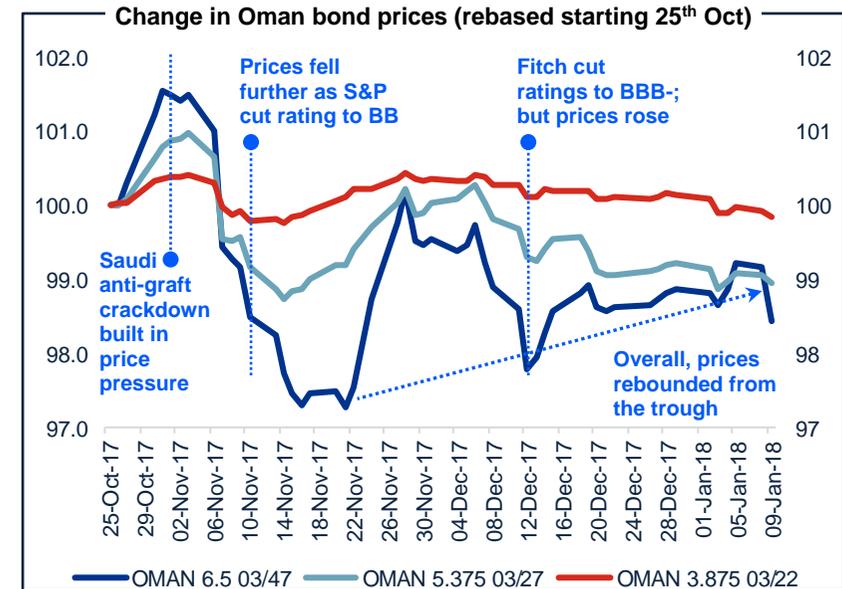
Oman to print 2018's first bond deal from the GCC

The Sultanate of Oman is back in the international bond market. The sovereign released the initial price thoughts (IPTs) for its RegS/144A US\$ 3-tranche benchmark size bond offerings as below after completing investor roadshow in the UK and the US.

- * 5-year US\$ Benchmark bond @ T+205 area
- * 10-year US\$ Benchmark bond @ T+325a area
- * 30-year US\$ Benchmark bond @ T+410 area

We think the IPTs look generous at the moment relative to the Oman curve and also peer bonds (please see the chart on next page). This indicates that Oman may be willing to offer some new issue premium to investors considering the following facts:

1. Oman ratings were cut by Moody's/S&P/Fitch last year; S&P indeed cut ratings below investment grade
2. It has delayed the value added tax (VAT) implementation which would have provided some additional sources of revenues this year
3. The 2018 state budget, announced last week, envisaged higher spending, keeping the budget deficit elevated at ~\$8bn (OMR 3bn), even though rating agencies last year flagged concerns on Oman's financial health.



Nevertheless, we still expect strong international investor demand for the bonds, skewed more towards the long-end, as they offer good risk-reward and diversification opportunities. Oman still maintains investment grade rating at a composite level (considering Moody's Baa2 and Fitch's BBB- ratings on the sovereign) and its bonds remained in demand even after the rating downgrades.

Furthermore, we should consider the fact that (1) Oman should benefit being the first issuer from the GCC this year; (2) Its \$5bn 3-tranche deal in March-2017 attracted demand of circa \$20bn and more than 75% allocation went to US and UK investors; and (3) the latest roadshow was more US & UK focused. We thus expect the IPTs to be tightened through the book-building process.

However, what is more important to watch on the deal is how Oman will decide on the final pricing and issue size, as we think Oman needs to leave something on the table to make the deal attractive for overseas investors especially if the sovereign wants to issue in size and aspires to be a regular issuer. Certainly, an area to watch. Pricing of the deal is expected later today.

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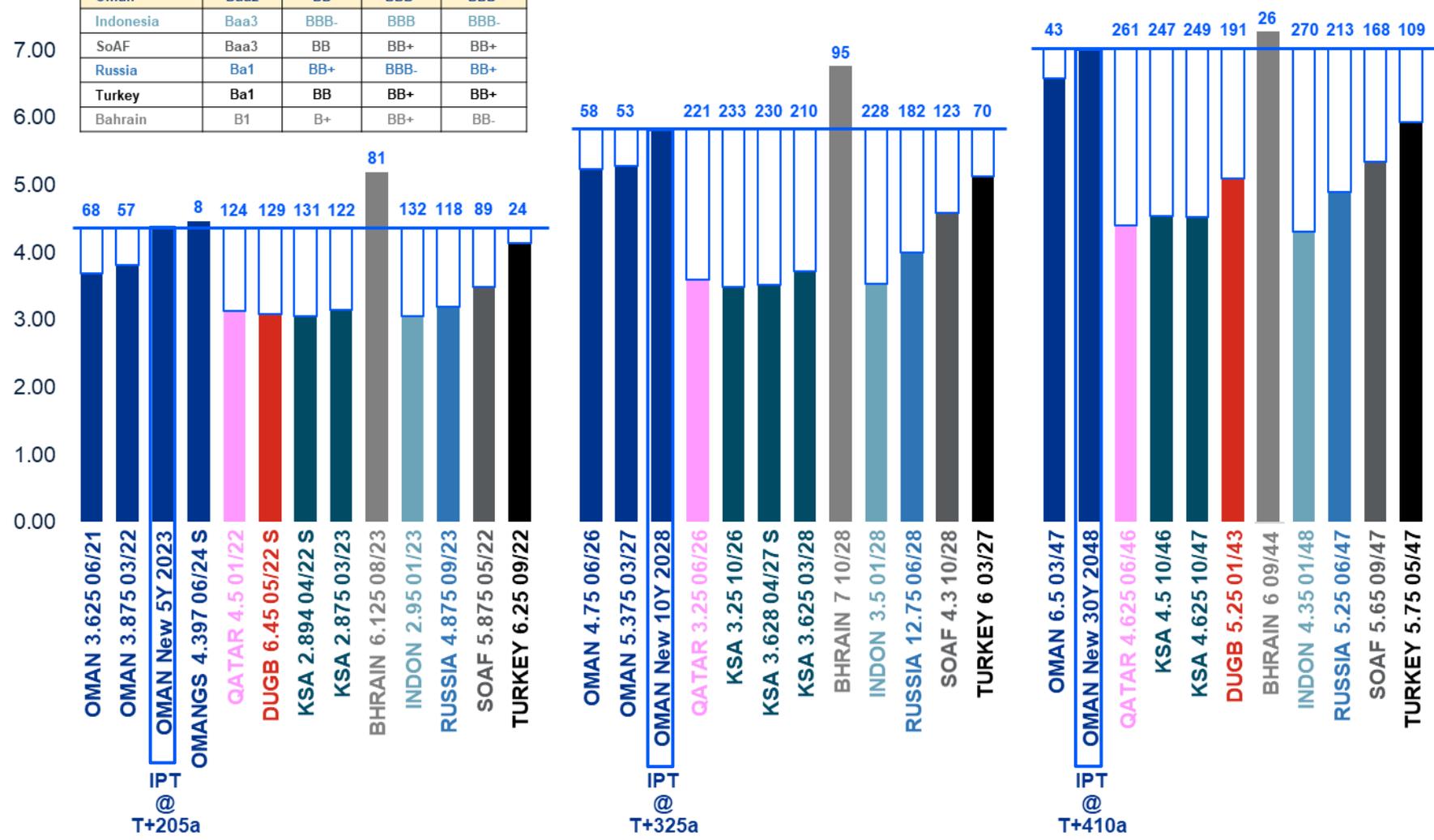
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Relative Value (Yield to maturity based on IPT)

Credit Rating	Moody's	S&P	Fitch	Composite
Qatar	Aa3	AA-	AA-	AA-
Saudi Arabia	A1	A-	A+	A
Dubai*	NA	NA	NA	*BBB+
Oman	Baa2	BB	BBB-	BBB-
Indonesia	Baa3	BBB-	BBB	BBB-
SoAF	Baa3	BB	BB+	BB+
Russia	Ba1	BB+	BBB-	BB+
Turkey	Ba1	BB	BB+	BB+
Bahrain	B1	B+	BB+	BB-

Spread in basis points vs peers based on initial price thoughts

Yield to Maturity (in %)



Note * Dubai's 'BBB+' rating is a proxy rating based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+); Source: Bloomberg; FAB

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