

# Republic of South Africa

## Largest Ever Bond Issue by RSA and the Broader Sub Saharan Region

### Case Study

**The Client** The Republic of South Africa is the southern-most country in Africa and has a population of 59 million people. In 2019, it had a GDP of US\$359bn that is forecast to grow by 1.1% in 2020. Minerals make up the largest share of its exports, followed by agricultural products and auto exports. As of September 2019, South Africa's credit ratings by S&P, Moody's and Fitch were BB/Baa3/BB+ respectively.

**The Challenge** Prior to the transaction, the National Treasury (NT) for the Republic of South Africa had been absent from the international bond markets for over a year and this offering was its first since the country's general election in May 2019. The NT had a target of US\$4bn for the offering. This was US\$2bn larger than the Republic's previous largest offering size, which took place in 2016. Furthermore, the NT were trying to achieve this target against a backdrop of weakening sovereign credit quality and rand-dominated bond issuances that were being increasingly absorbed by domestic investors with some auctions being undersubscribed.

**The Solution** In 2019 the NT appointed Citi as one of four banks to manage its dual tranche US\$5 billion Bond offering. Citi also assumed responsibility for Billing & Delivery as well as acting as the Fiscal & Paying Agent on the transaction. As is customary for the NT, no roadshow marketing was undertaken as part of the offering. However, Citi arranged a successful non-deal roadshow for the NT in London and the U.S. in March 2019, which provided investors with a valuable update on the latest developments in the South African story. Furthermore, the NT chose to access markets following important central bank meetings at the European Central Bank (ECB) and Federal Reserve (FED). The Republic of South Africa took advantage of strong market conditions and announced a dual tranche 10 & 30-year Bond offering on September 23rd, 2019.

**The Result** Under robust conditions at the opening of the market on September 23rd, 2019, the NT and the Bookrunners announced Initial Price and Thoughts (IPTs) of 5.250% for the 10-year tranche and 6.125% for the 30-year tranche. Strong investor sentiment meant the orderbook grew rapidly in the morning and was covered by the time US markets opened. At 13.30UKT the Bookrunners released price guidance at 5.000-5.125% for the 10-year tranche and 5.875% area for the 30-year tranche. Books went "subject" at 14.30UKT at a peak of US\$15bn from over 300 line items; a record book size for the Republic of South Africa. Yields were subsequently set at 4.850% and 5.750% for the 10-year and 30-year tranches respectively, with a public reference to an overall size target of up to US\$5bn. The total price revision represented a 37.5-40bps tightening in yields. The transaction priced shortly thereafter with US\$2bn booked for the 10-year tranche and US\$3bn for the 30-year tranche demonstrating a leaning towards the latter. Testament to its success, the 37.5-40bps price tightening from IPTs represented a new issue concession of just ~10bps across both tranches, despite the relatively large deal size. The transaction represented the largest bond offering ever issued in the history of the Republic of South Africa and the broader Sub-Saharan Africa region.