

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
July 4, 2016

Economy

CBAR reserves flat in June 2016

Central Bank of Azerbaijan Republic did not participate in FX auctions in June 2016, resulting in reserves remaining flat at US\$ 4.3bn, compared to the previous month. In annual terms, however, reserves were down 49.7% y/y.

SOCAR posted AZN 1.8bn loss in 2015

State Oil Company of Azerbaijan Republic (SOCAR) published its 2015 audited report. According to the report, SOCAR's total revenue decreased 16.6% y/y to AZN 33.1bn in 2015. The decrease is mainly attributable to lower revenue from crude oil (-34.0% y/y) and oil products (-7.5% y/y).

The company slightly improved its gross profit margin from 9.65% in 2014 to 9.83% in 2015. However, the operating profit margin fell from 4.53% in 2014 to 3.89% in 2015. A significant foreign exchange loss (AZN 2.9bn), caused by currency devaluation, resulted in a loss before income tax of AZN 1.6bn compared to AZN 1.7bn profit before income tax in 2014.

Company reported AZN 1.8bn loss for 2015 after tax deductions, compared to AZN 1.3bn profit in 2014. However, due to significant other comprehensive income from currency translation differences (AZN 5.0bn), SOCAR's total comprehensive income reached AZN 3.2bn in 2015 (+186.9% y/y).

Key macro indicators

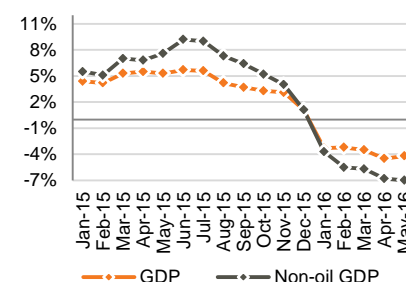
	5M16	2015	2014
GDP (% change)	-4.2%	1.1%	2.8%
NO* GDP (% change)	-7.0%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	10.2%	7.7%	-0.1%
CAB (% of GDP)**	-5.4%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-18.4%	-18.4%	-16.5%
Fiscal balance (% of GDP)**	8.9%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	-14.9%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	38.3	38.6	50.9

Source: Official data

* Non-oil

**1Q16

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 40 (regional leader)

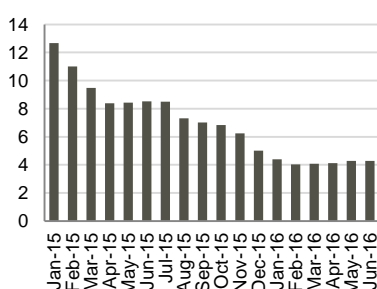
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

 BB+ Stable Jan-2016	 Ba1 Negative Apr-2016	 BB+ Negative Feb-2016
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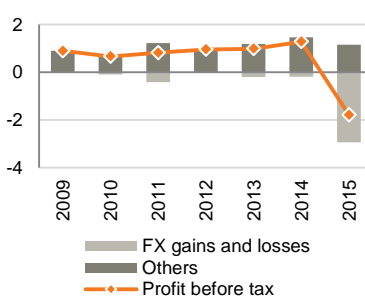
Source: Rating agencies

CBAR reserves, US\$ bn



Source: CBAR

SOCAR's profit, AZN bn



Source: SOCAR

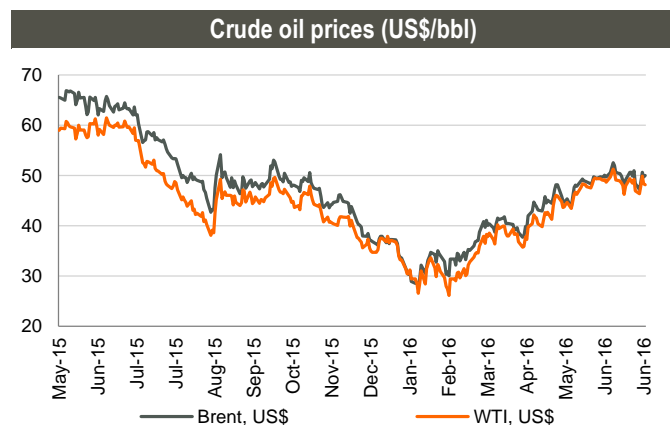
Oil prices and exchange rate

Oil price: Brent oil price was up 3.3% w/w to US\$ 50.0/bbl (down 19.4% y/y), while WTI oil price increased 2.5% w/w to US\$ 48.1/bbl (down 15.5% y/y). In AZN terms, Brent oil price was up 5.6% w/w to AZN 75.9 (up 21.3% y/y).

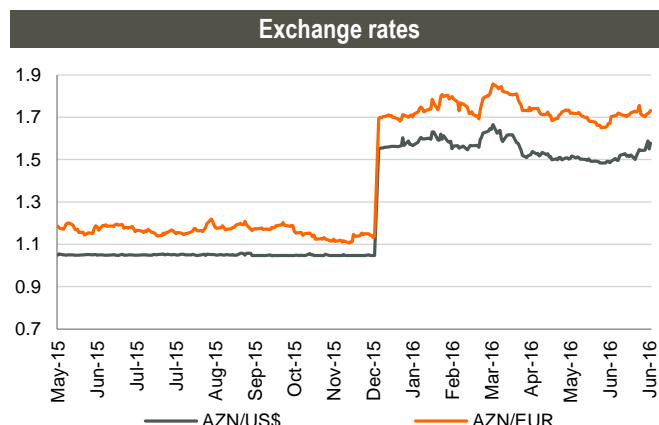
Exchange rate: On July 1, 2016, Central Bank set AZN/US\$ rate at 1.5425 (+0.6% w/w) and AZN/EUR at 1.7119 (+2.0% w/w). At Bloomberg AZN/US\$ was trading at 1.5770 (+2.2% w/w) while AZN/EUR was trading at 1.7320 (+1.1% w/w).

Monetary policy rate: Monetary policy rate remained unchanged at 7.0%.

FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 100.0mn to commercial banks.



Source: Bloomberg



Source: Bloomberg

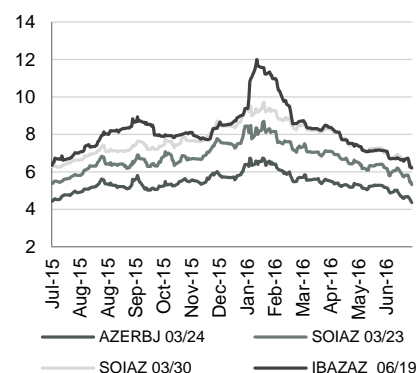


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.3% yield, trading at 105.9 (+3.7% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.4 (+1.2% w/w), yielding 6.2%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 102.5 (+2.0% w/w) at 4.4% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

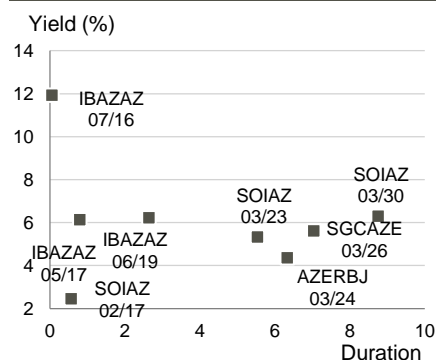


Source: Bloomberg

	Eurobonds							
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 07/16	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	97.1	1000	750	100	198	500	1,000	1,250
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Sep-2013	Jun-2014	Mar-16	Mar-14
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Jul-2016	Jun-2019	Mar-26	Mar-24
Coupon, %	5.450%	4.750%	6.950%	6.170%	7.750%	5.625%	6.875%	4.750%
Fitch/S&P/Moody's	BB+/BB+/Ba1	BB+/BB+/Ba1	BB+/BB+/Ba1	BB-/Ba3	BB-/Ba3	BB-/Ba3	BB+/-/Ba1	BB+/Ba1
Mid price, US\$	101.8	96.8	105.9	100.0	99.7	98.4	102.5	102.5
Mid yield, %	2.4	5.3	6.3	6.1	11.9	6.2	4.4	4.4
Z-spread, bps	177.4	437.8	479.8	584.7	-188.7	570.6	314.4	314.4

Source: Bloomberg

Azerbaijan Eurobond universe



Source: Bloomberg

Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid price, US\$	Mid yield, %	Z-spread, bps
Azerbaijan	1,250	4.750%	3/18/2024	BB+/BB+/Ba1	102.5	4.4	314.4
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.6	4.4	327.6
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	118.7	1.2	-238.1
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	103.4	3.2	323.1
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.4	3.1	220.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.0	3.0	204.2
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	108.4	2.7	172.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	109.4	3.5	243.7
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	110.5	3.7	243.5

Source: Bloomberg

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