Lebanese Eurobond Valuations:
Some Different but Meaningful Scenarios

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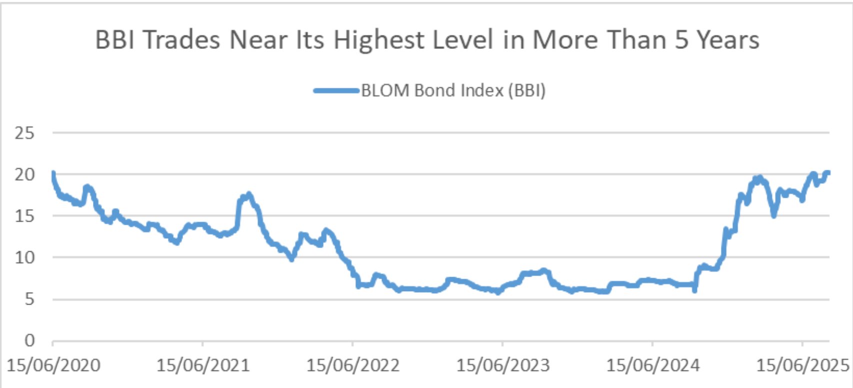
Lebanese Eurobonds continue their upward trajectory, with the **BLOM Bond Index** (BBI)—which excludes coupon payments—trading near a five-year high at around **20%**. Multiple factors are driving this trend. Market sentiment has improved amid signs of *Hezbollah's diminished influence* following the war with Israel and recent proposals to centralize arms under state control. The group's prior dominance is believed to have contributed to regional isolation and stalled key reforms.

Investors have also responded positively to the resolution of political gridlock and the passage of the *Banking Secrecy and Bank Restructuring Laws*—both critical steps toward unlocking IMF support. However, several reforms remain pending, notably the *Financial Gap Law* to define and allocate sector losses.



Source: BLOMINVEST Bank

As Eurobond prices rise, investors are asking: *Are current prices justified?* And if public debt is nearing restructuring, as key IMF deal prerequisites are accomplished one after another, do fundamentals point to further upside—or downside—for bond prices?

To answer these questions, **Leaders Club by Lebanon Opportunities (LO)** published a report valuing the country's Eurobonds.

LO's Three Scenarios

Assumption	Scenario 1 (most likely)	Scenario 2	Scenario 3
Past Due Interest (PDI)	Excluded	Excluded	Excluded
Haircut	75% (Goldman Sachs benchmark)	70% (J.P. Morgan benchmark)	None
New face Value	$25	$30	$100
Restructuring/ Reissuance Timing	In 2 years	In 2 years	In 2 years
Rescheduling Period	10 years (after the 2 years period; so in 12 years)	10 years (after the 2 years period; so in 12 years)	30 years (after the 2 years period; so in 32 years)
Interest Rate	4% and 7%	4% and 7%	4% and 7%
Yearly Interest Payment at 4%	$1	$1.2	$4
Yearly Interest Payment at 7%	$1.75	$2.1	$7
Discount Rate	20%	20%	20%
Today's PV at 4%	$5.72	$6.86	$14
Today's PV at 7%	$7.9	$9.48	$24.5

Source: Lebanon Opportunities' Leaders Club

LO adopts a two-year timeline for Restructuring/Reissuance, based on the following phased assumptions:

- **Months 0–6:** The government launches formal negotiations with bondholders.
- **Months 6–24:**
    - An IMF agreement is finalized.
    - The current government's mandate expires.
    - Parliamentary elections lead to a transitional phase.
    - A new post-election government is formed and resumes negotiations.

LO considered the *20% discount rate generous*—closer to a B- rating than CCC—on the assumption that post restructuring, Lebanon's rating would rise from SD to CCC. However, exit yields in comparable EM restructurings since 2000 have typically ranged between *9% and 15%*. Given Lebanon's abated political and fiscal risks, we adopt a more reasonable exit yield of **14%**—closer to the upper bound of EM precedents, yet below LO's assumption.

Revised Scenarios Using 14% Discount Rate

Assumption	Scenario 1	Scenario 2	Scenario 3
PDI	Excluded	Excluded	Excluded
Haircut	75%	70%	0%
New face Value	$25	$30	$100
Restructuring/ Reissuance Timing	In 2 years	In 2 years	In 2 years
Rescheduling Period	10 years (+2)	10 years (+2)	30 years (+2)
Interest Rate	4% and 7%	4% and 7%	4% and 7%
Yearly Interest Payment at 4%	$1	$1.2	$4
Yearly Interest Payment at 7%	$1.75	$2.1	$7
Discount Rate	14%	14%	14%
Today's PV at 4%	$9.2	$11.04	$23.06
Today's PV at 7%	$12.21	$14.66	$39.23

Source: BLOMINVEST Bank

BLOMINVEST Adjustments and Valuation

LO's analysis is a valuable first step in valuing Eurobonds in the post-restructuring era. Below, we outline a few technical clarifications and alternative assumptions, in addition to the revised exit yield.

1. **Interest Rate Assumptions for PDI:**
   LO cites coupons ranging from 6.6% to 7.25%. We apply a *weighted average of 7.38% for PDI*, reflecting the full portfolio, including defaulted bonds.
2. **Eurobond Holdings:**
   Their figures appear rounded. We use **$31.314 billion** in outstanding Eurobond principal.
3. **PDI:**
   LO excludes PDI, which they estimate to exceed $10 billion. We take a different view and include PDI in our calculations, reassessing it as follows:
   - Simple interest from March 2020 to August 2025 (5.42 years) plus an additional 2-year period until bond reissuance.
   - Weighted Interest Rate: 7.38%
   - Outstanding Principal: $31.314 billion
   - **PDI: $17.152 billion**
     → While the $10 billion figure is often cited, it reflects outdated assumptions. Our revised estimate shows that accumulated interest has already reached **$12.53 billion**, and is projected to rise to **$17.152 billion** over the next two years.
4. **Haircut Estimate:**
   We use a **65% haircut**, based on our Debt Sustainability Analysis (*see: Debt Sustainability Analysis: A Critical Note on Lebanon*). This reflects both market realities and bondholder resistance to deeper cuts.
5. **Interest Rate Assumption for the Reissued Bonds:**
   We apply a flat 8% rate—above LO's 4% and 7%—that reflect more accurately Lebanon's risk profile and likely post-restructuring yield. This aligns Lebanon's exit yield with those seen in comparable distressed cases.

BLOMINVEST Valuation

Assumption	BLOMINVEST's Scenario
Accumulated Interest	$17.152 Billion
Total Eurobonds	$31.314 Billion
Haircut	65%
New Face Value (including the PDI)	$54
Restructuring/Reissuance Timing	In 2 years
Rescheduling Period	10 years (+2)
Interest Rate Used	8%
Yearly Interest Payment at 8%	$4.32
Discount Rate	14%
Today's PV	$28.55

Source: BLOMINVEST Bank

This valuation is *not* an investment advice. It is a technical exercise built on assumptions that remain highly sensitive to political developments. While Eurobond prices have rallied, they are still largely driven by *expectations—not a whole lot of fundamentals*. The restructuring process itself hinges on a sequence of political events that are far from guaranteed.

In short: Lebanon's Eurobonds valuation may be climbing, but the steps are dominated by political rather than economic developments—and far from steady yet.

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