



## GCC Fixed Income Chart Book: Q1 2018 Review

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## Foreword / Disclaimer

Welcome to our Q1'2018 chart book for the GCC fixed income market. The idea is very simple – to give those of you who follow this market a quick snapshot of some of the key points in terms of the following:

- Primary Market issuance in the first quarter of 2018 and the overall trend
- Relative value analysis and developments in the GCC bond market
- Secondary Market performance of key instruments (snapshot from 29th December 2017 to 6th April 2018)

We have deliberately made the report text-light in an attempt to make it easier to digest. Hopefully you will find it both interesting and useful.

Please click [here](#) to view our recent publications on MENA and Global Markets

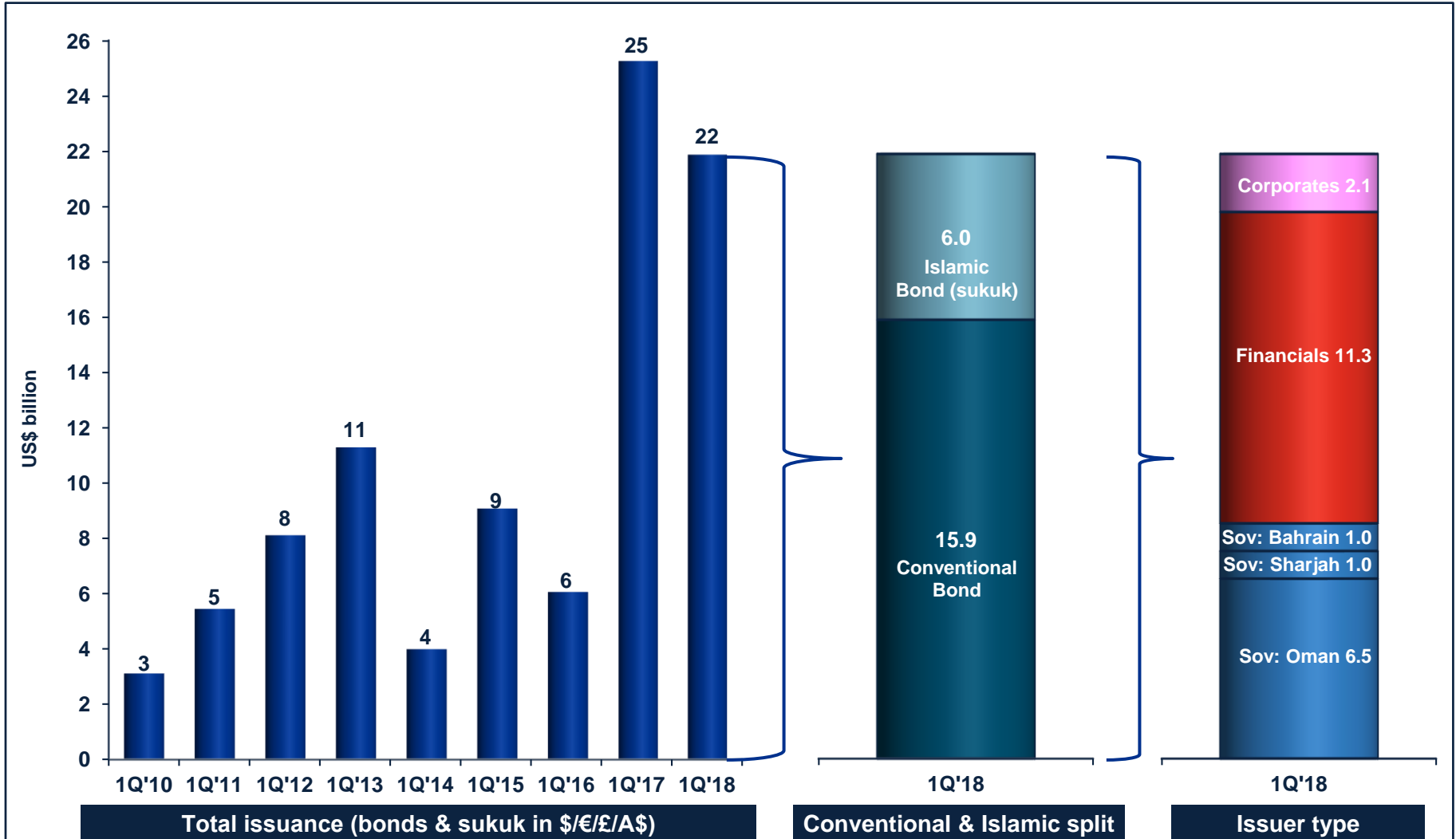
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# A busy first quarter for GCC bonds & sukuk primary market

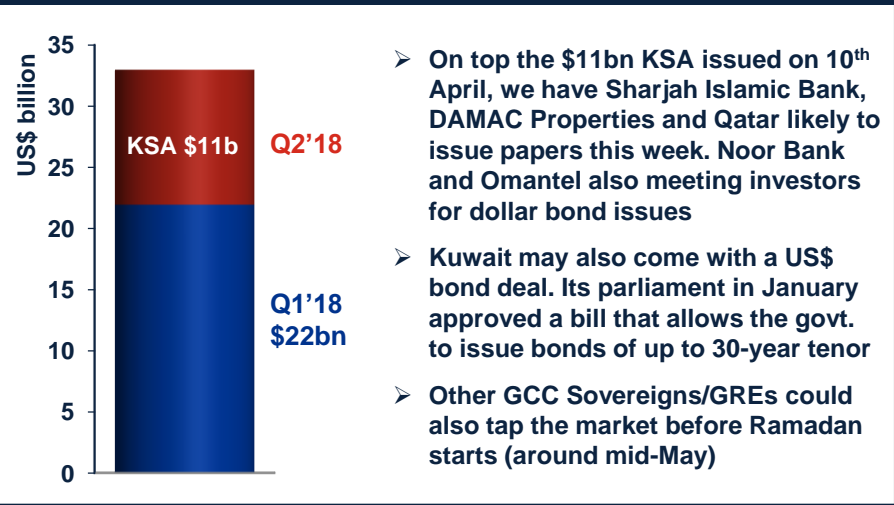
In the analysis below we have considered major hard currency (\$/€/£/A\$) bonds and sukuk issuances from the six nations in the GCC. This includes both fixed and floating rate issuances of \$100m or above and maturity of 1-year or above.



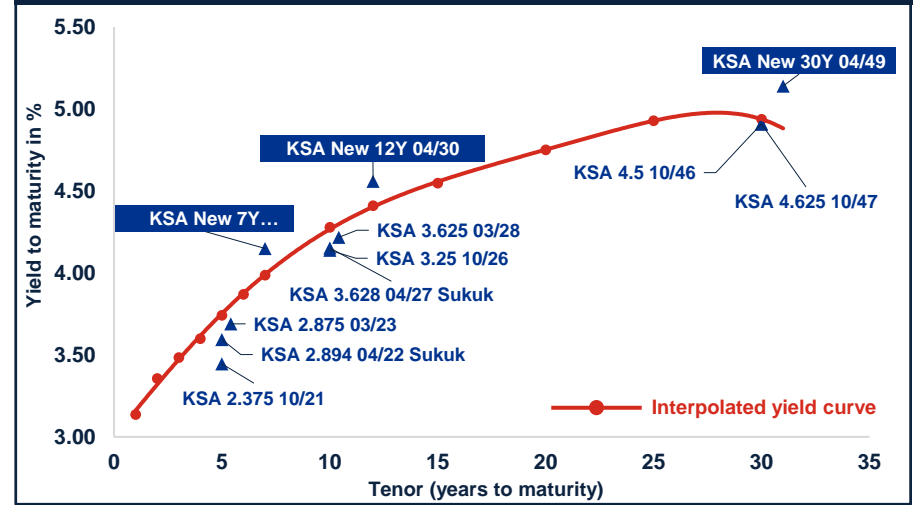
Source: FAB/Bloomberg

# The momentum seems to be continuing in Q2 with the BIG KSA deal

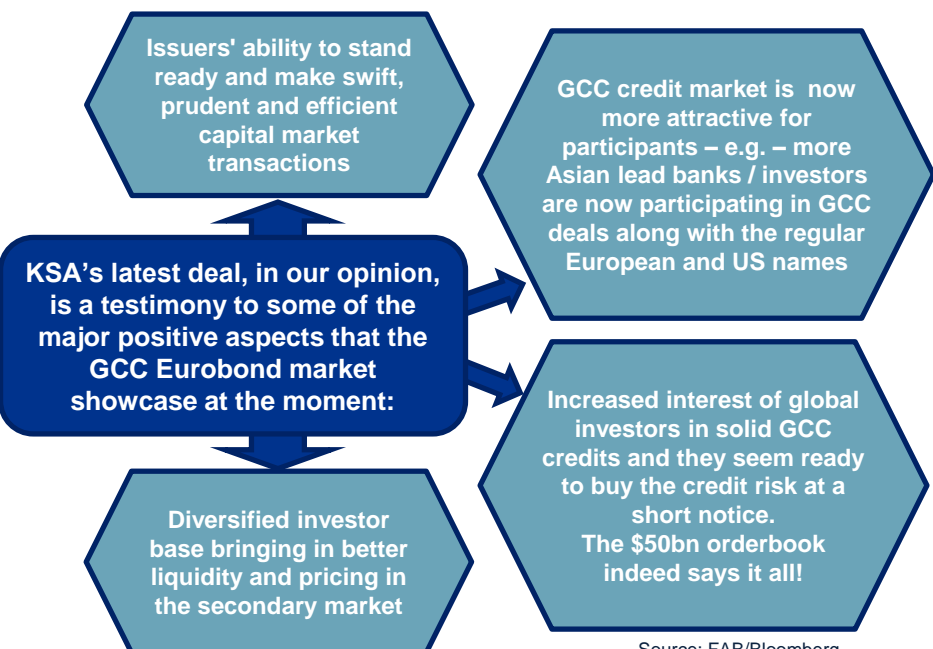
## \$11bn already raised in April and New Issue pipeline appears strong



## Saudi Arabia's yield curve

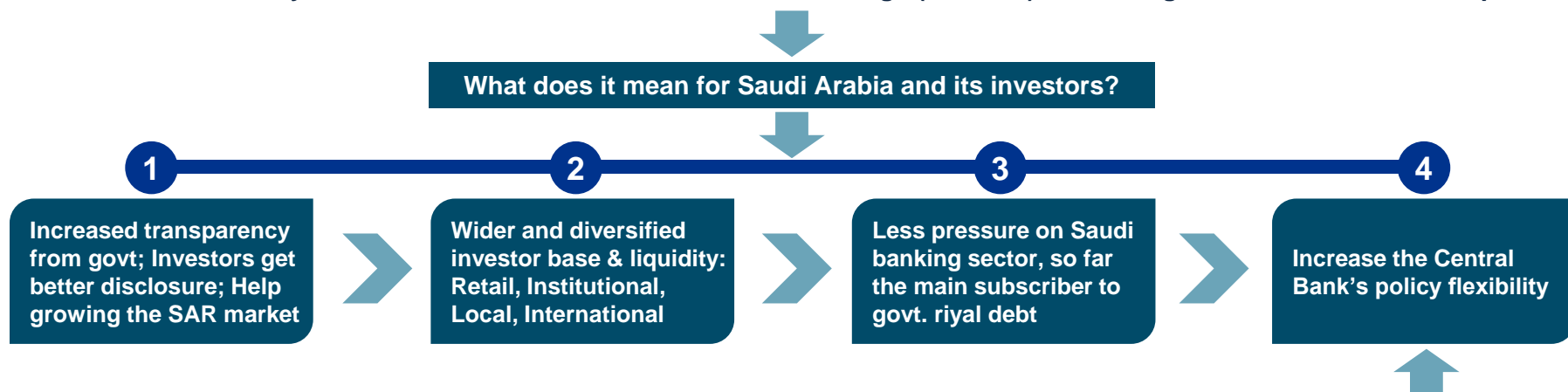


## Saudi Arabia's \$11bn bond deal on 10th April was another milestone



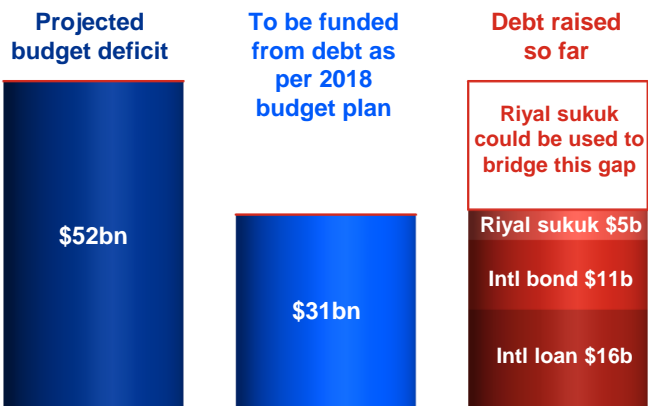
# The Kingdom's local sukuk market also gaining traction

Saudi Arabia's Ministry of Finance on 1<sup>st</sup> April announced that it has received approval from the Capital Market Authority to list and trade Saudi Riyal bonds and sukuk on the Saudi Stock Exchange (Tadawul). The listing came into effect on 8<sup>th</sup> April.



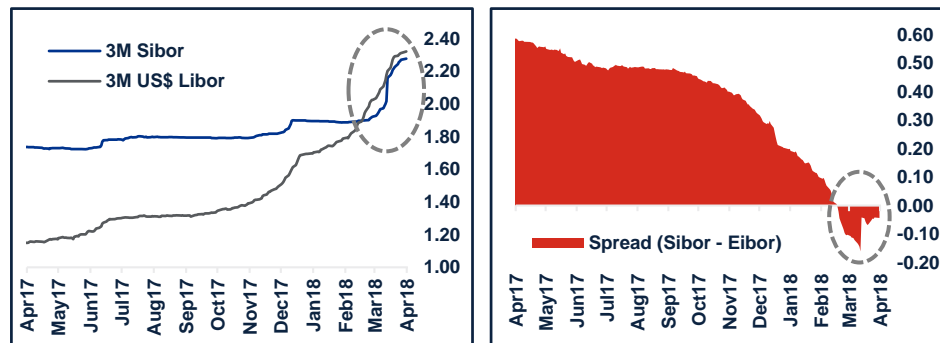
## Saudi Arabia's fiscal mandate for 2018, and current position

After raising 27 billion of US\$ debt this year (\$11bn through bonds and \$16bn through loans), Saudi Arabia may focus on issuing riyal sukuk on a monthly basis, as the authorities aim to do.



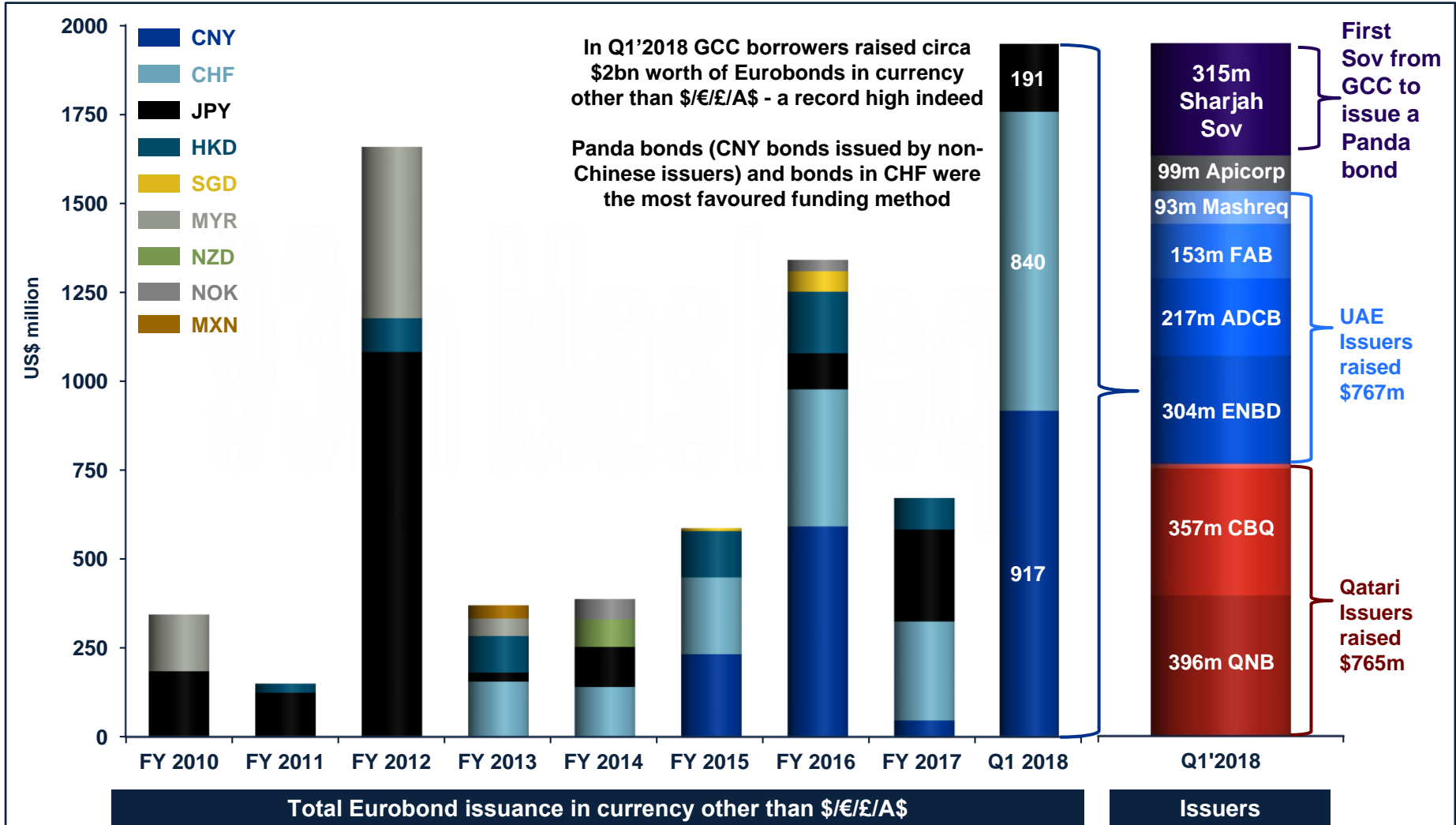
## More policy flexibility through issuing local sukuk?

- 3-month interbank rate (Sibor) in Saudi Arabia is moving faster this year and indeed surpassed the US\$ Libor. As a result, SAMA had to intervene and raise rates in March, ahead of Fed hike, to keep the Sibor attractive and curb any potential capital flight outside the country.
- Additional local sukuk issuance by the government will remove some liquidity from the local banks and help to push the Sibor higher.



# GCC issuers are also tapping CNY, CHF & JPY markets

GCC issuers have increased their funding diversification efforts in the current rising rates environment. As short-term (1-5 year) US\$ rates squeezed higher, issuers – mainly banks – increased their short-term funding via other popular currencies.



Source: FAB/Bloomberg

# Investors demand for GCC credits appear healthy, although investors are paying more attention to credit quality and pricing

- Investors demand for GCC credits appears healthy and issuers' appetite for funding is also robust as long-term US\$ rates market still attractive for them. The Fed also appeared less-hawkish in its March FOMC meeting.
- The primary Eurobond market is still favourable for solid GCC credits, mainly due to the risk-reward they offer relative to their global peers. This is indeed one of the primary reason why international investor base for high quality GCC issuers has more than doubled in past 2-3 years and now account upward of 50% of most transactions.
- However, we also observed that investors have become more price conscious and want to be compensated for holding such risk in a rising rates environment. This is evidenced by certain transactions in Q1'18 that perhaps didn't meet the issuer's somewhat aggressive pricing aspiration.
- For lower rated GCC credits, markets are becoming more challenging as investors demand a higher premium for such credit risk. Furthermore, regional and global geopolitics are adding to this issue.

## Order Book and Issue size of some of the Sov deals this year



## Bahrain's sovereign deals in 2017 & 2018



What the Sov said in its roadshow?

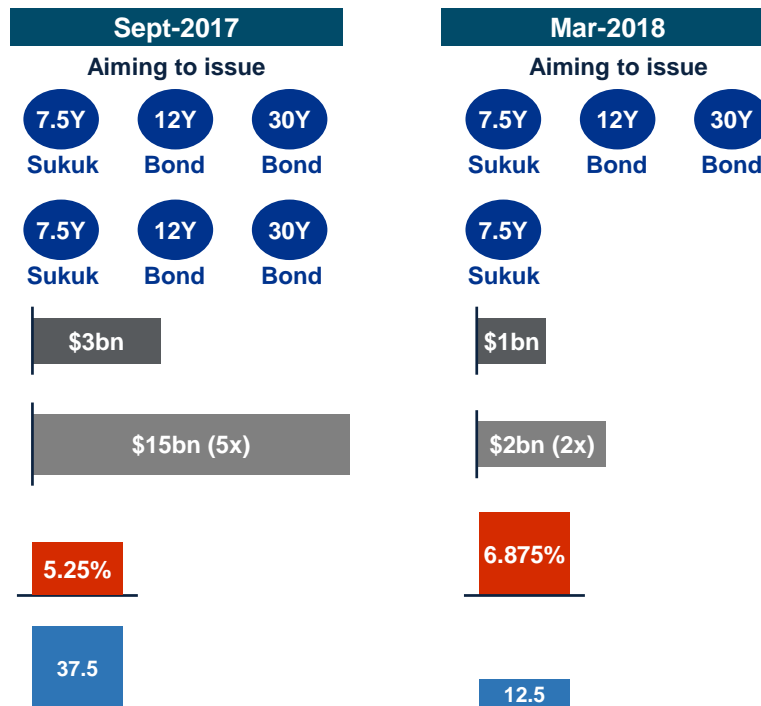
Outcome?

Total amount raised?

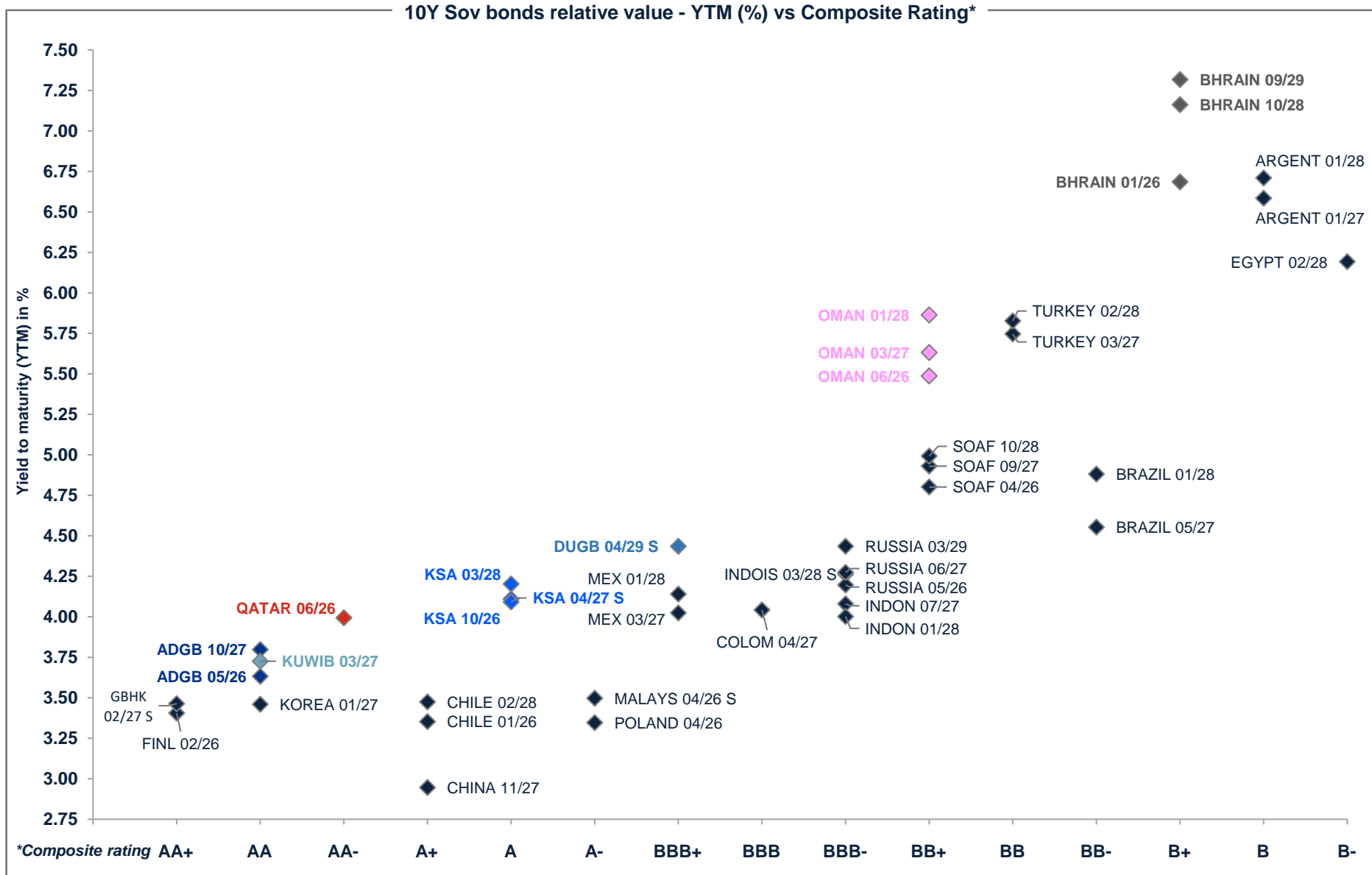
Orderbook Size?

7.5Y Sukuk Final pricing yield?

7.5Y Sukuk IPT tightened by (bps)?



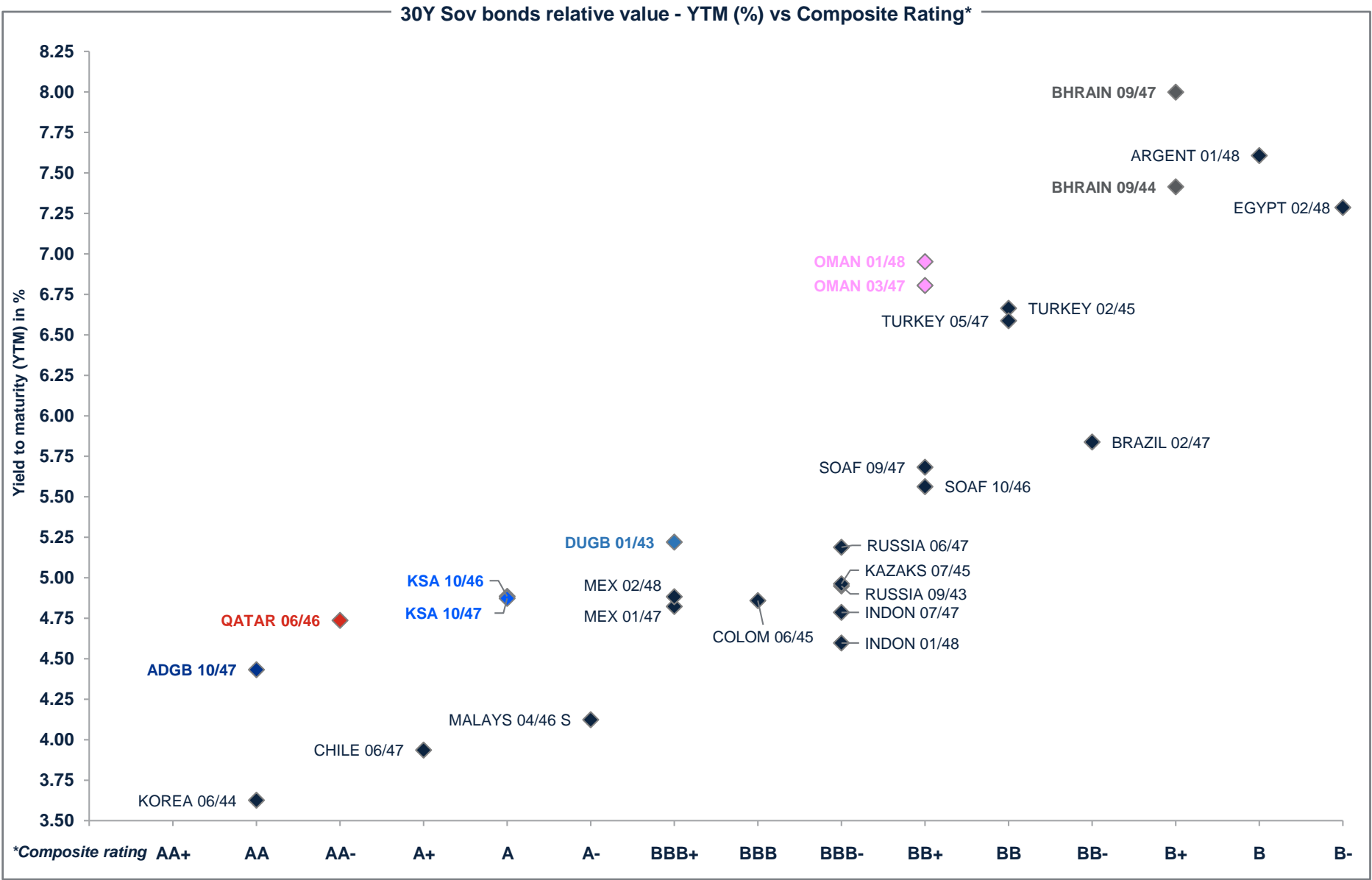
# GCC sovereign bonds vs EM peers – 10Y relative value



\* Notes: Yields as on 6-Apr-2018; Composite rating - please refer Appendix for definition and calculation method; Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+); Source: Bloomberg/FAB



# GCC sovereign bonds vs EM peers – 30Y relative value

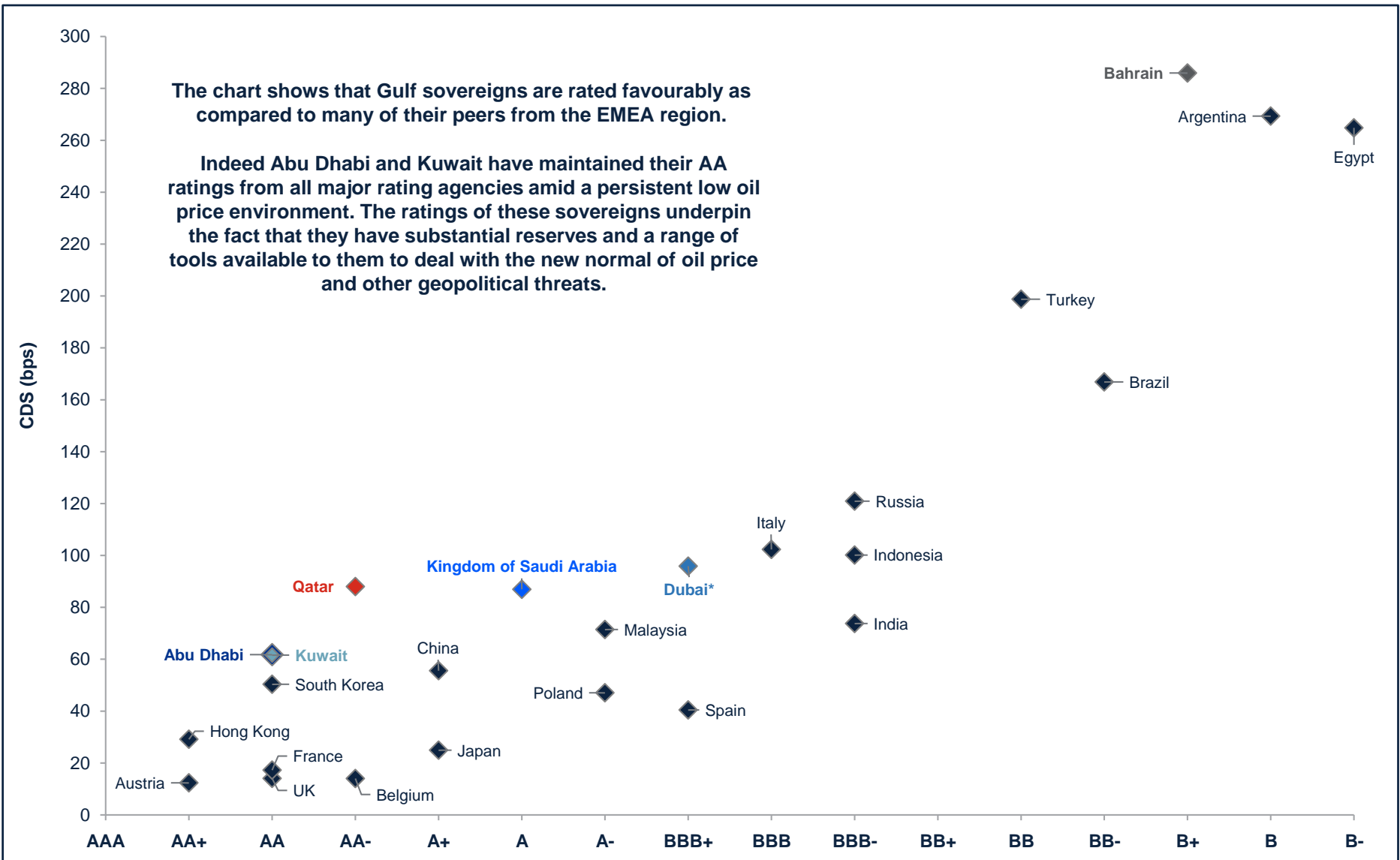


\* Notes: Yields as on 6-Apr-2018; Composite rating - please refer Appendix for definition and calculation method; Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+); Source: Bloomberg/FAB

# GCC sovereign credit ratings & CDS spreads versus peers

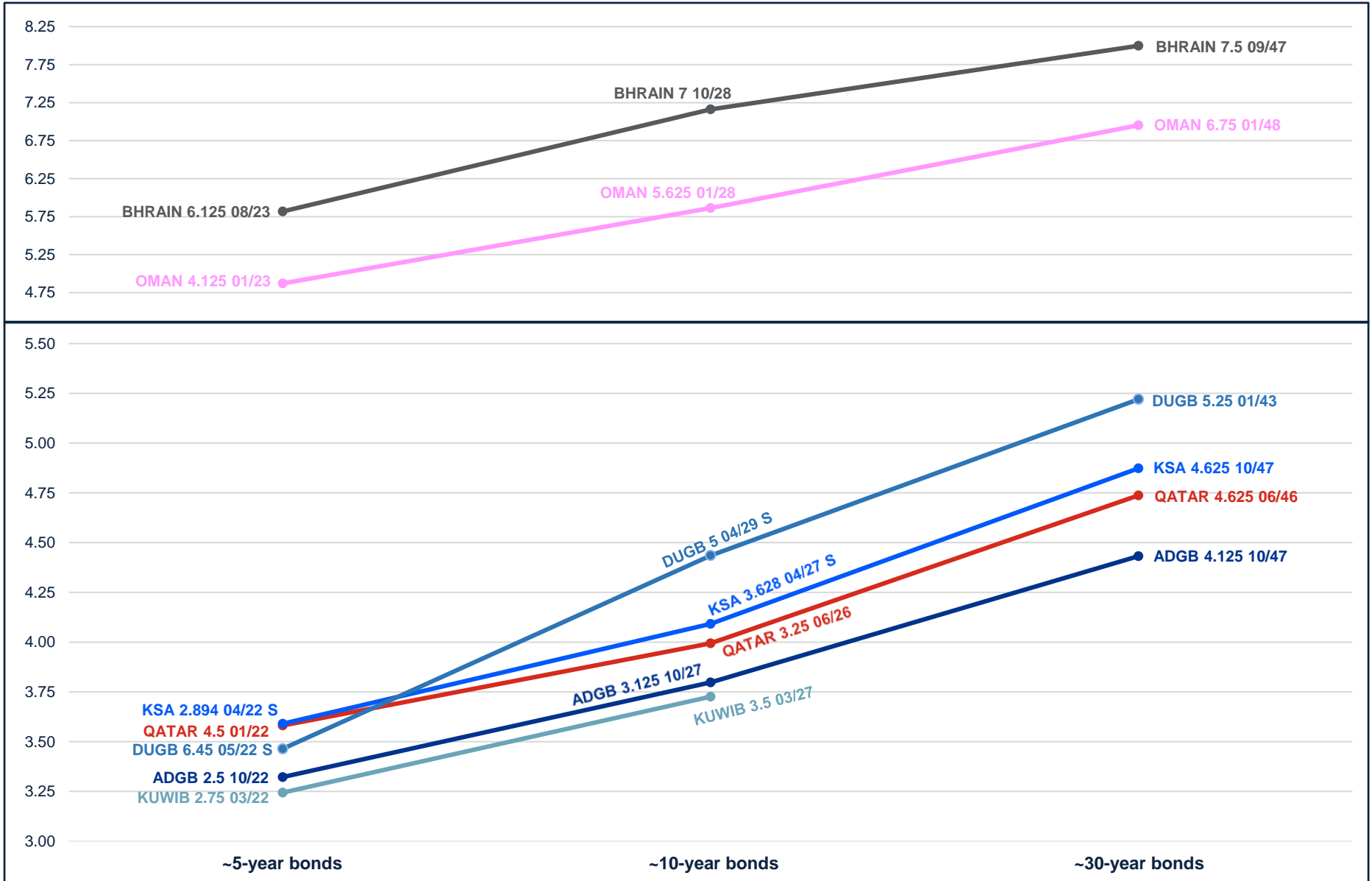
The chart shows that Gulf sovereigns are rated favourably as compared to many of their peers from the EMEA region.

Indeed Abu Dhabi and Kuwait have maintained their AA ratings from all major rating agencies amid a persistent low oil price environment. The ratings of these sovereigns underpin the fact that they have substantial reserves and a range of tools available to them to deal with the new normal of oil price and other geopolitical threats.



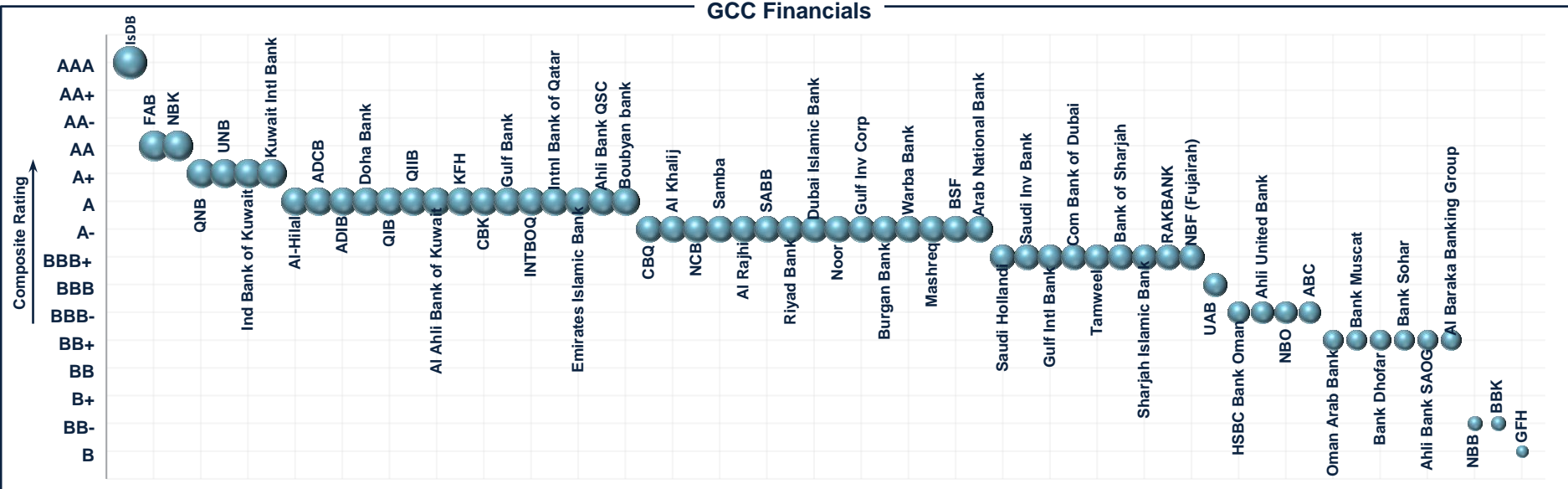
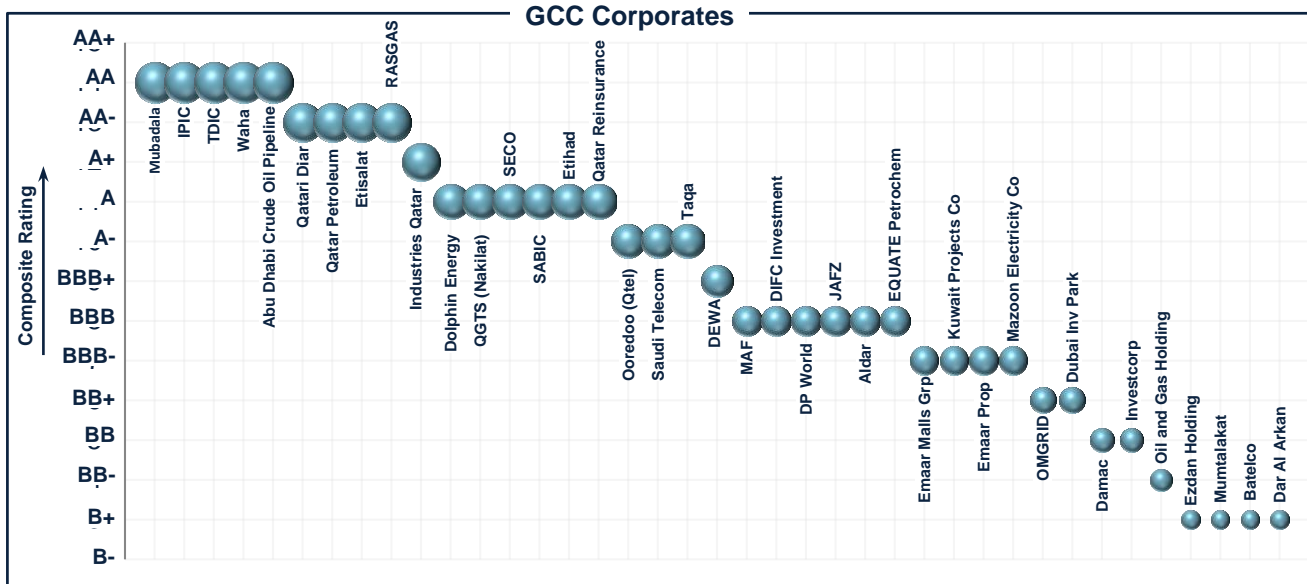
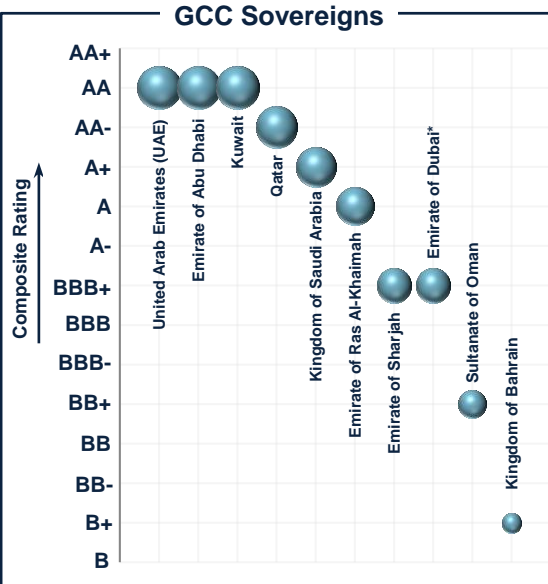
Notes: \* X-axis represents the composite rating (please refer Appendix for calculation method); Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+). The ratings have been arranged from higher to lower starting from 'AA', followed by 'AA-' and so on; CDS levels are for 6-Apr-18 & in basis points; Source: Bloomberg/FAB

# GCC sovereign curves



Notes: Curves as on 06-Apr-2018; "S" in the ticker indicates that the bond is Islamic (sukuk); Source: Bloomberg/FAB

# GCC credit quality at a glance

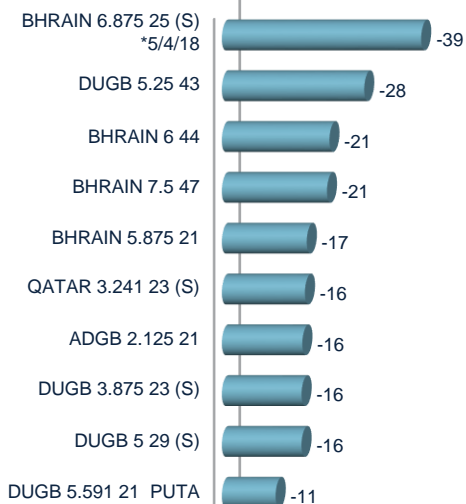


Note: The ratings mentioned here are composite credit rating for each issuer. Please see appendix for the methodology of calculating composite credit rating; \* Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) and Emirate of Sharjah (BBB+) & ; Source: Bloomberg/FAB

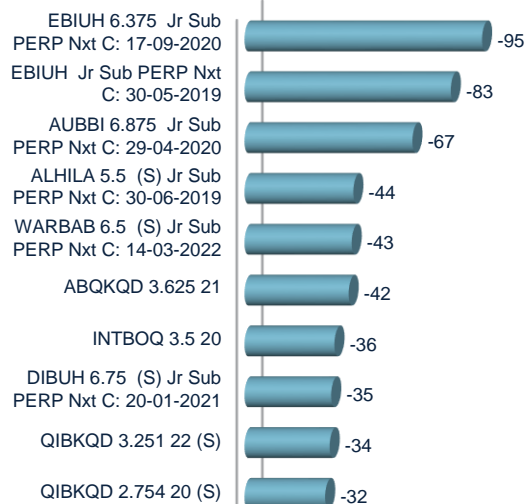
# GCC spread performance summary

Top 10 / bottom 10 bond/sukuk performers (z-spread, bps) in each category from 29<sup>th</sup> Dec 2017 to 6<sup>th</sup> Apr 2018

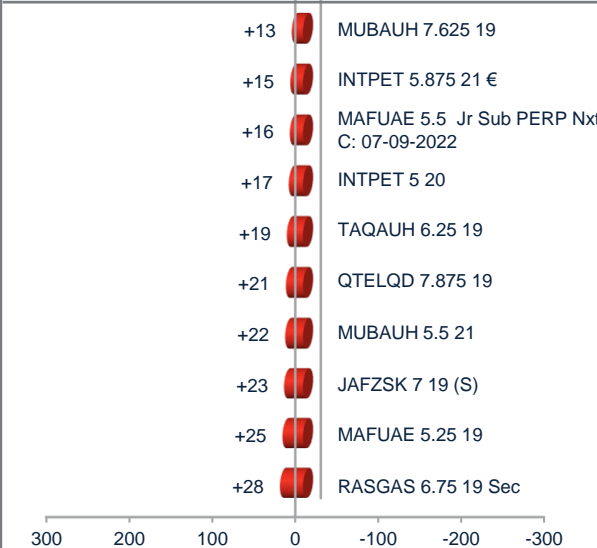
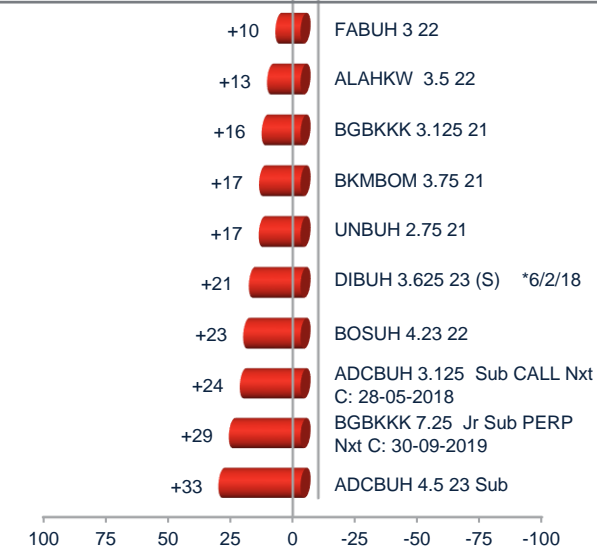
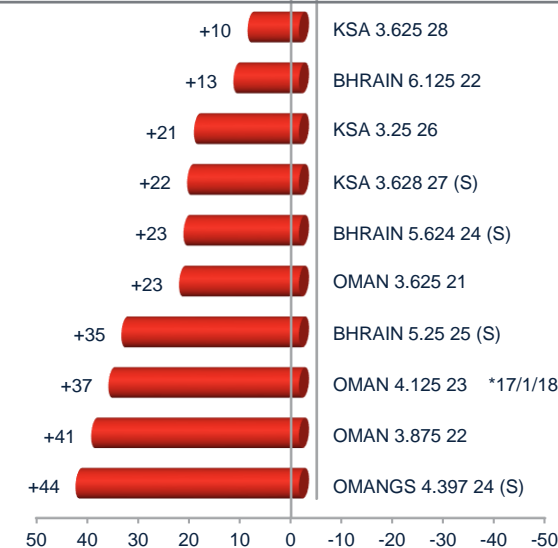
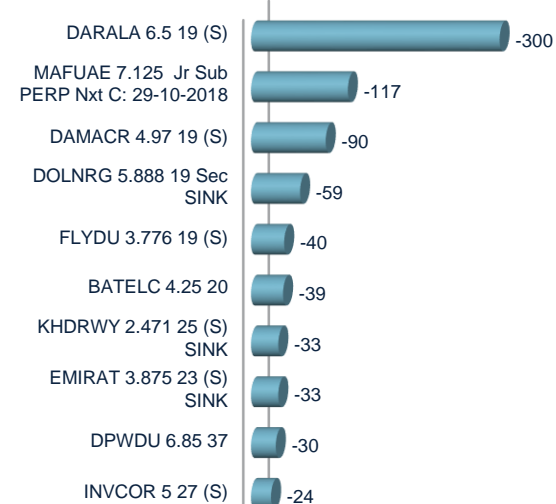
## Sovereigns



## Financials



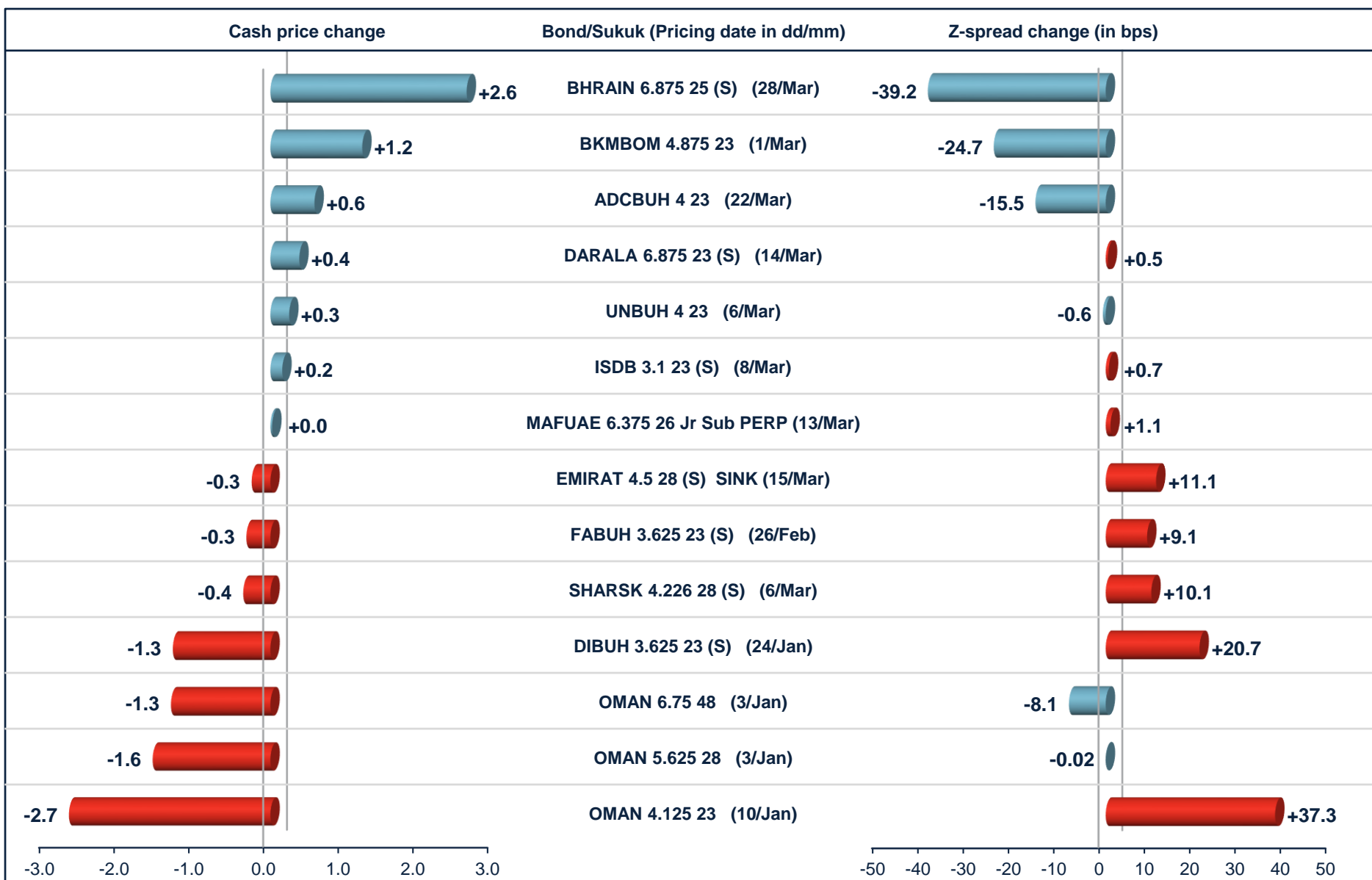
## Corporates



Notes: (1) We have used a list of GCC public debt which are maturing in 2019 or beyond; (2) (S) in the ticker indicates Sukuk; (3) All bonds/sukuks are senior unsecured debt unless an abbreviation for the debt type is highlighted in the ticker – e.g. – “Unsec” = Unsecured debt junior to Senior Unsecured debt; ; “Sub” = Subordinated; “Sr Sub” = Senior Subordinated; “Jr Sub” = Junior Subordinated; “Perp” = Perpetual; Callable, Puttable and Sinkable highlighted as “Call”, “Put”, & “Sink” respectively; (4) \* highlights spread change from the 1st settlement date of the bond as it was issued in 2018; Source: FAB/Bloomberg

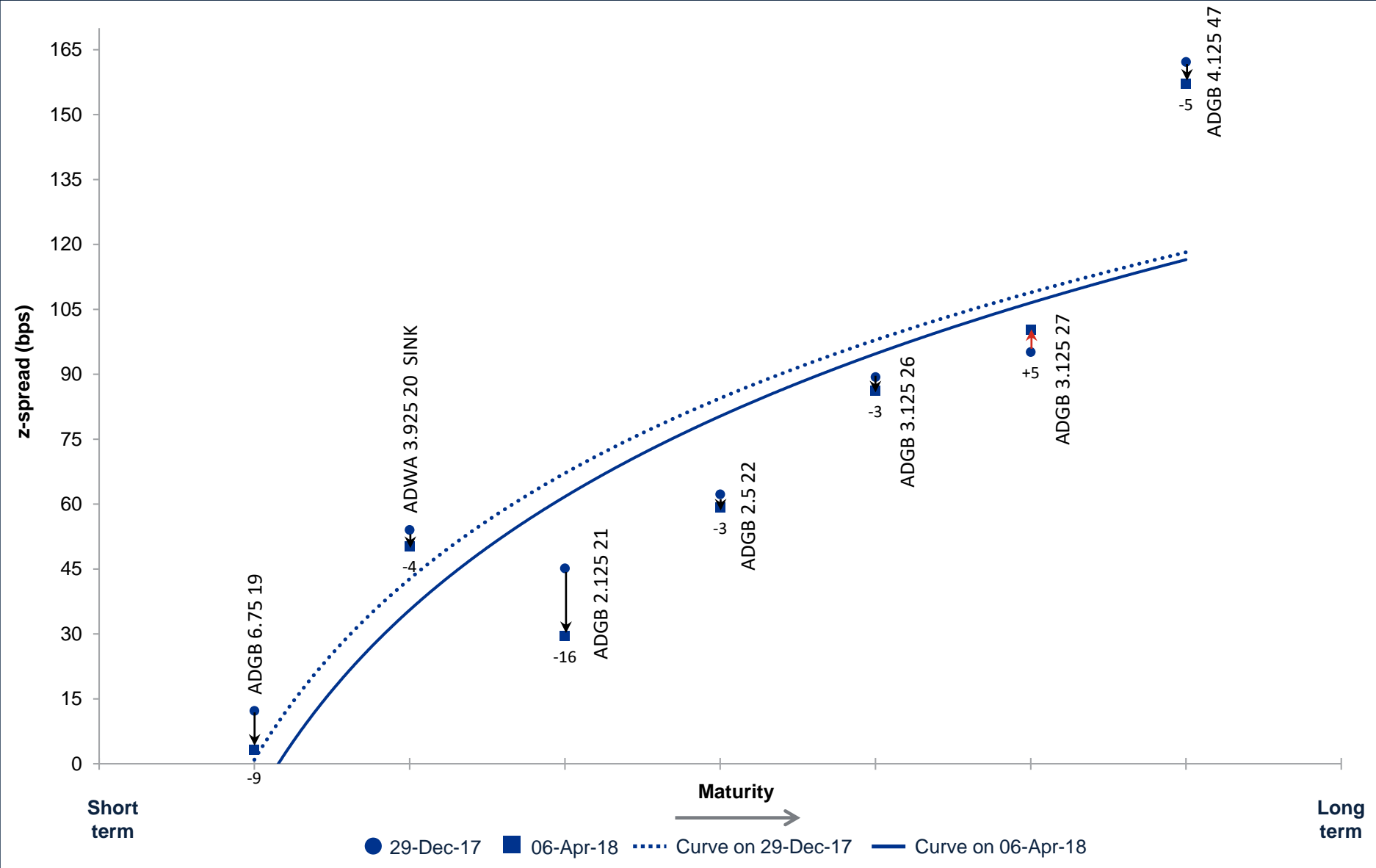
# GCC's major primary deals in Q1'2018 and their performance

Secondary market performance since issue (change in z-spread and cash price since issue till 06-Apr-18)



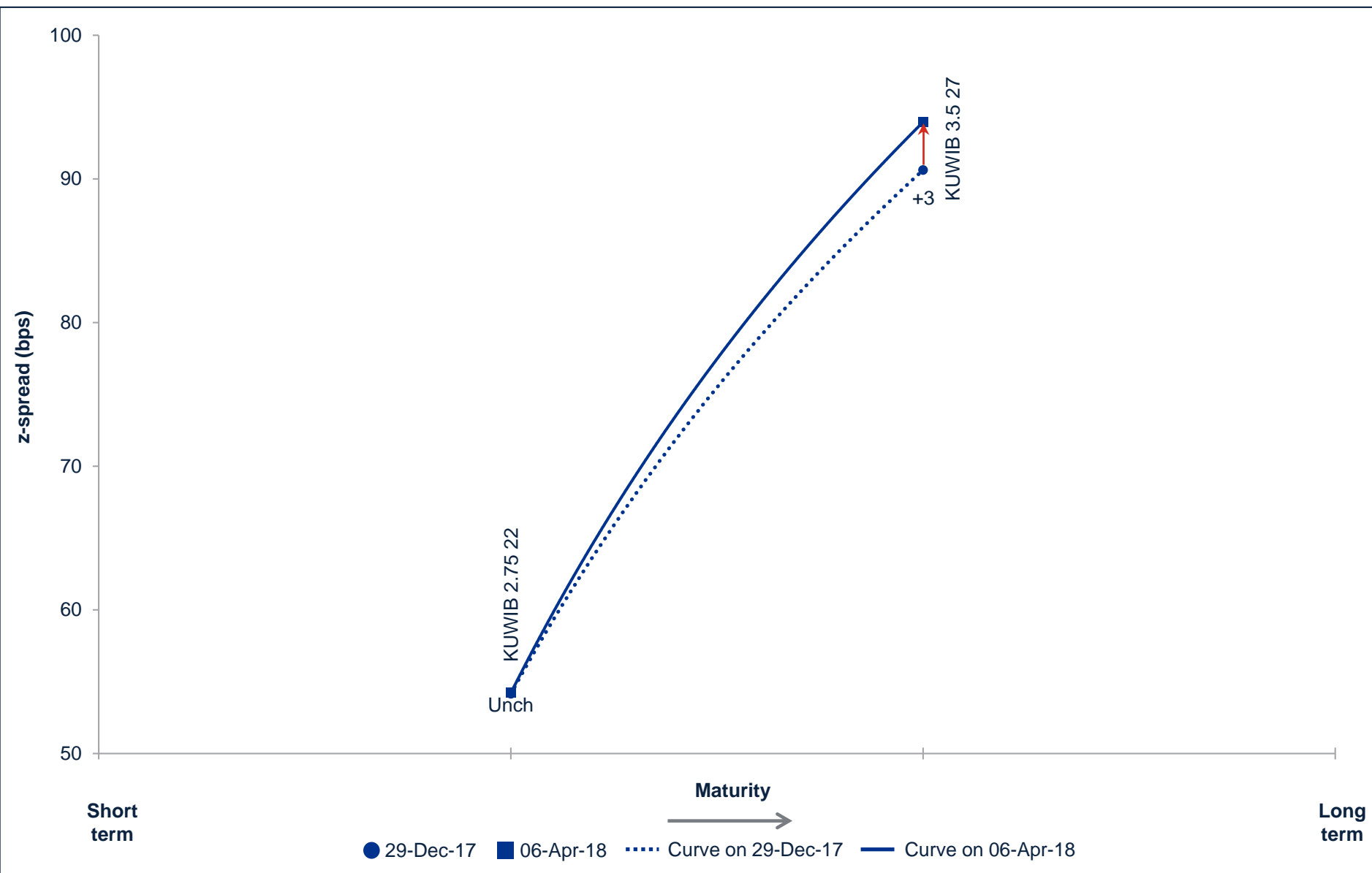
Notes: (S) in the ticker indicates Sukuk; All bonds/sukuks are US\$ senior unsecured debt of the issuer unless an abbreviation for the debt type is highlighted – e.g – “Unsec” = Unsecured debt; “Sub” = Subordinated; “Sr Sub” = Senior Subordinated; “Jr Sub” = Junior Subordinated; “Perp” = Perpetual; Callable, Puttable and Sinkable highlighted as “Call”, “Put”, & “Sink” respectively; Source: Bloomberg/FAB

# Sovereigns spread performance – Abu Dhabi



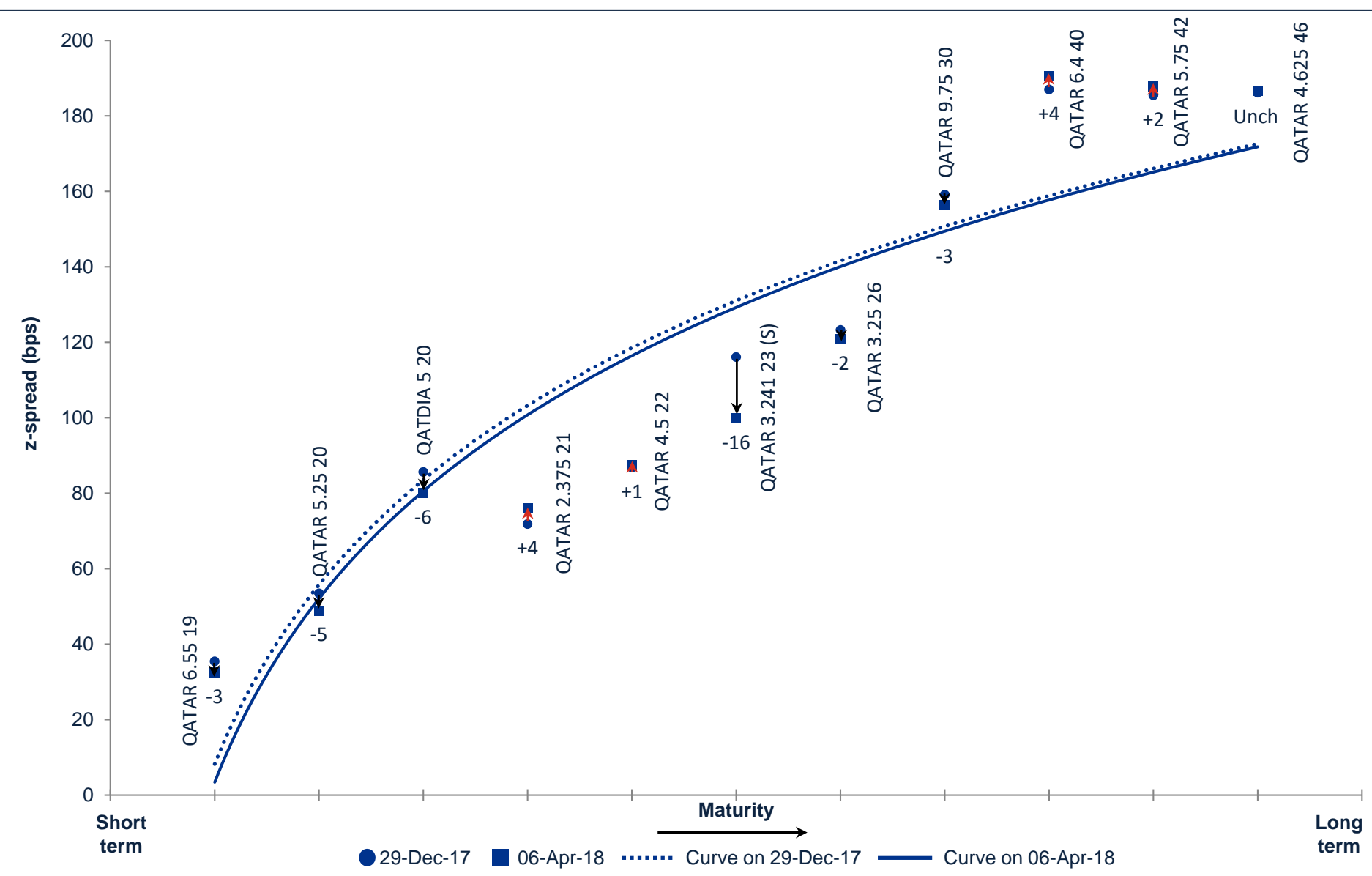
Source: FAB/Bloomberg

# Sovereigns spread performance – Kuwait



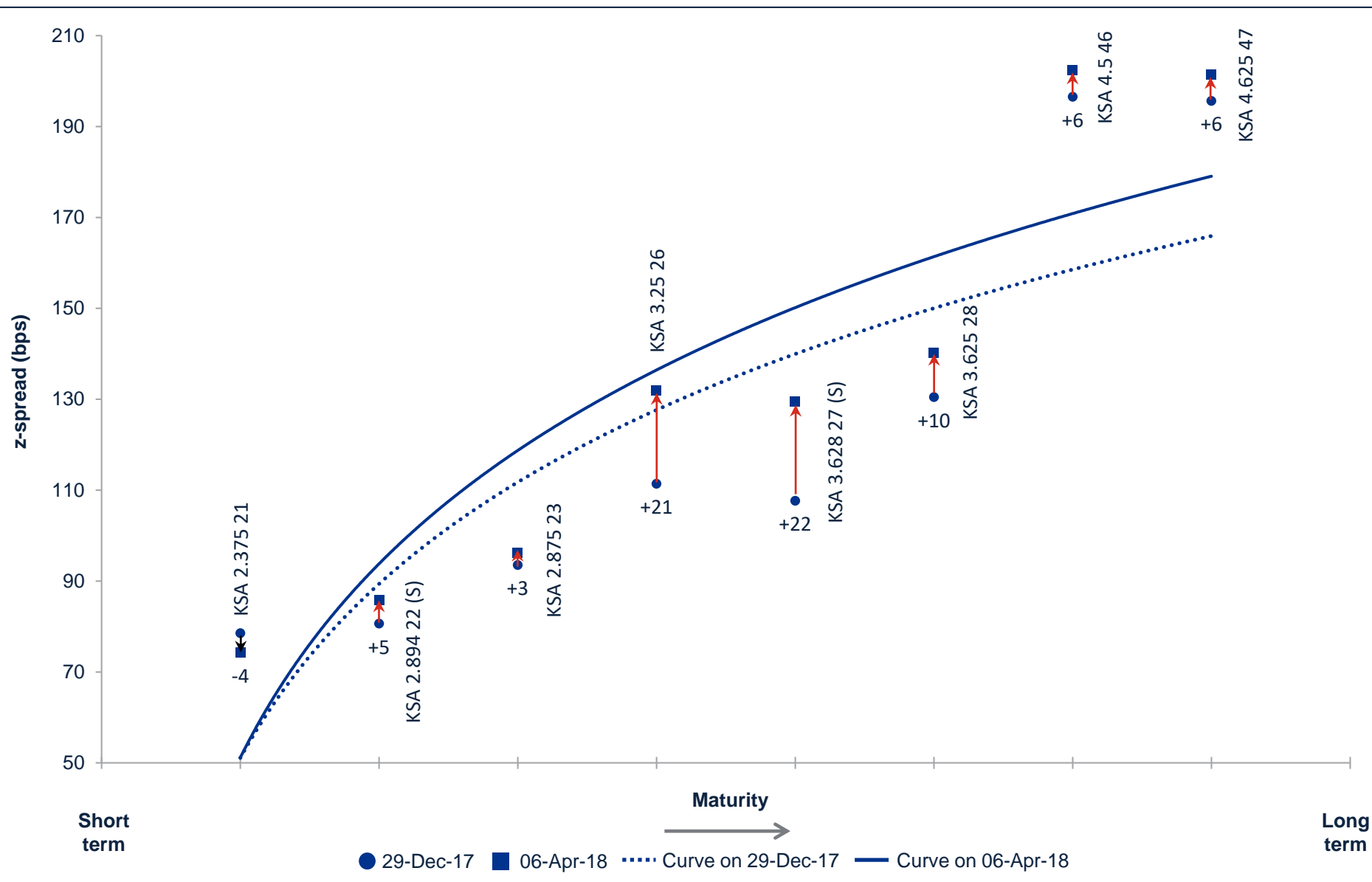


# Sovereigns spread performance – Qatar



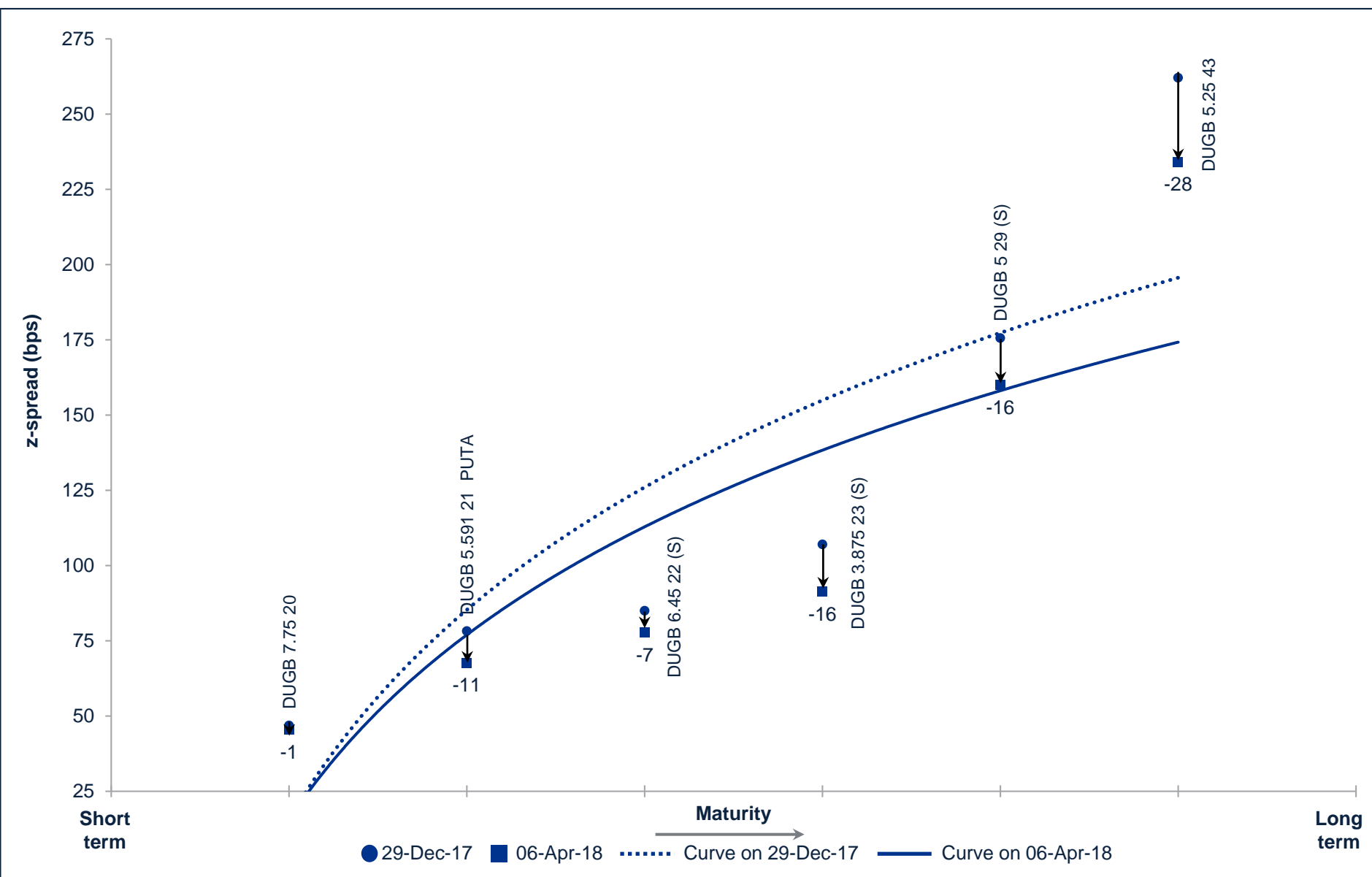
Notes: (1) If the instrument is a "Sukuk", the ticker contains "(S)" next to the maturity year; (2) \*\* Included QATDIA in Qatar Sov curve as it is explicitly Govt guaranteed; Source: FAB/Bloomberg

# Sovereigns spread performance – Saudi Arabia



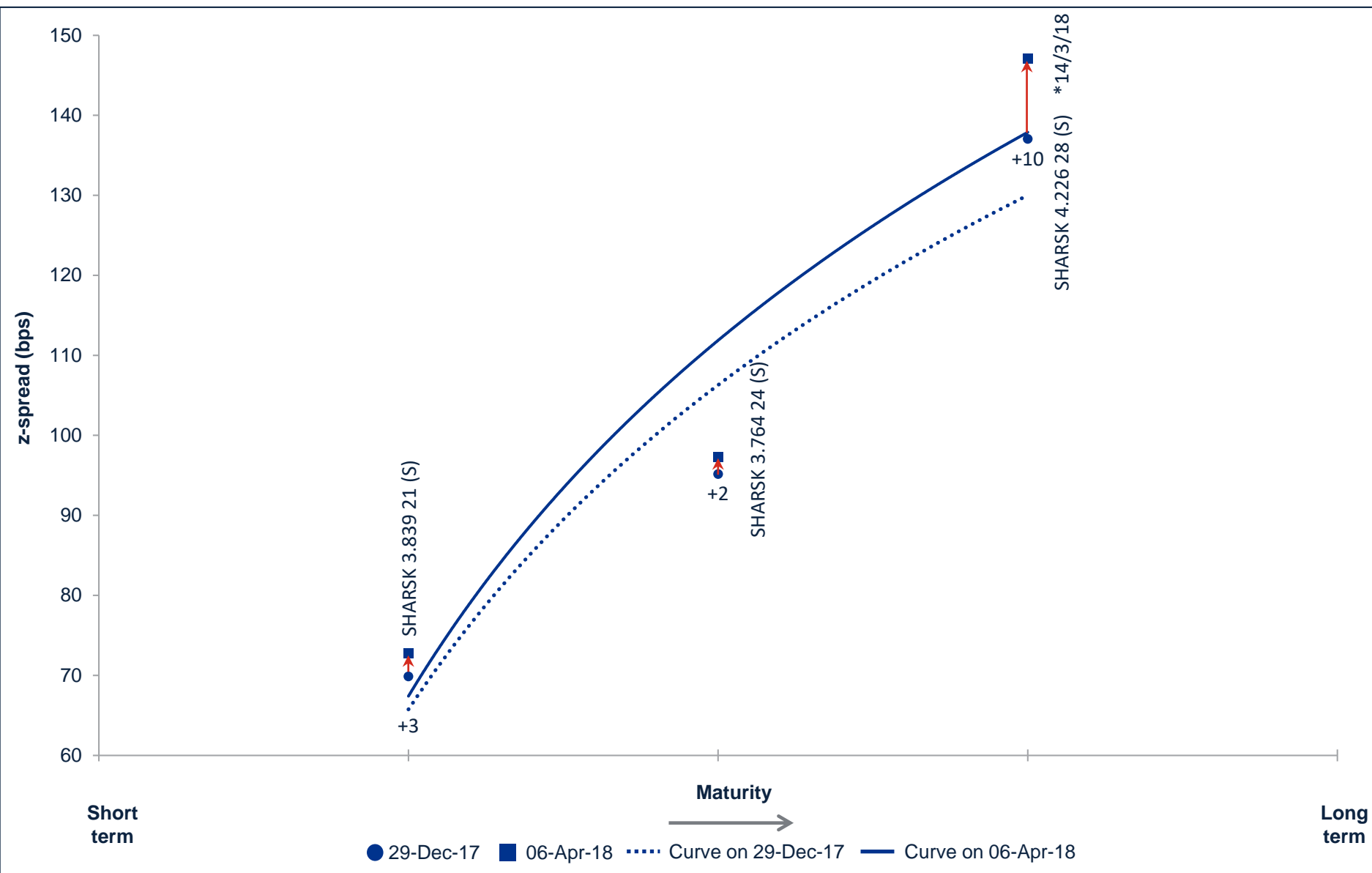
Notes: If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

# Sovereigns spread performance – Dubai



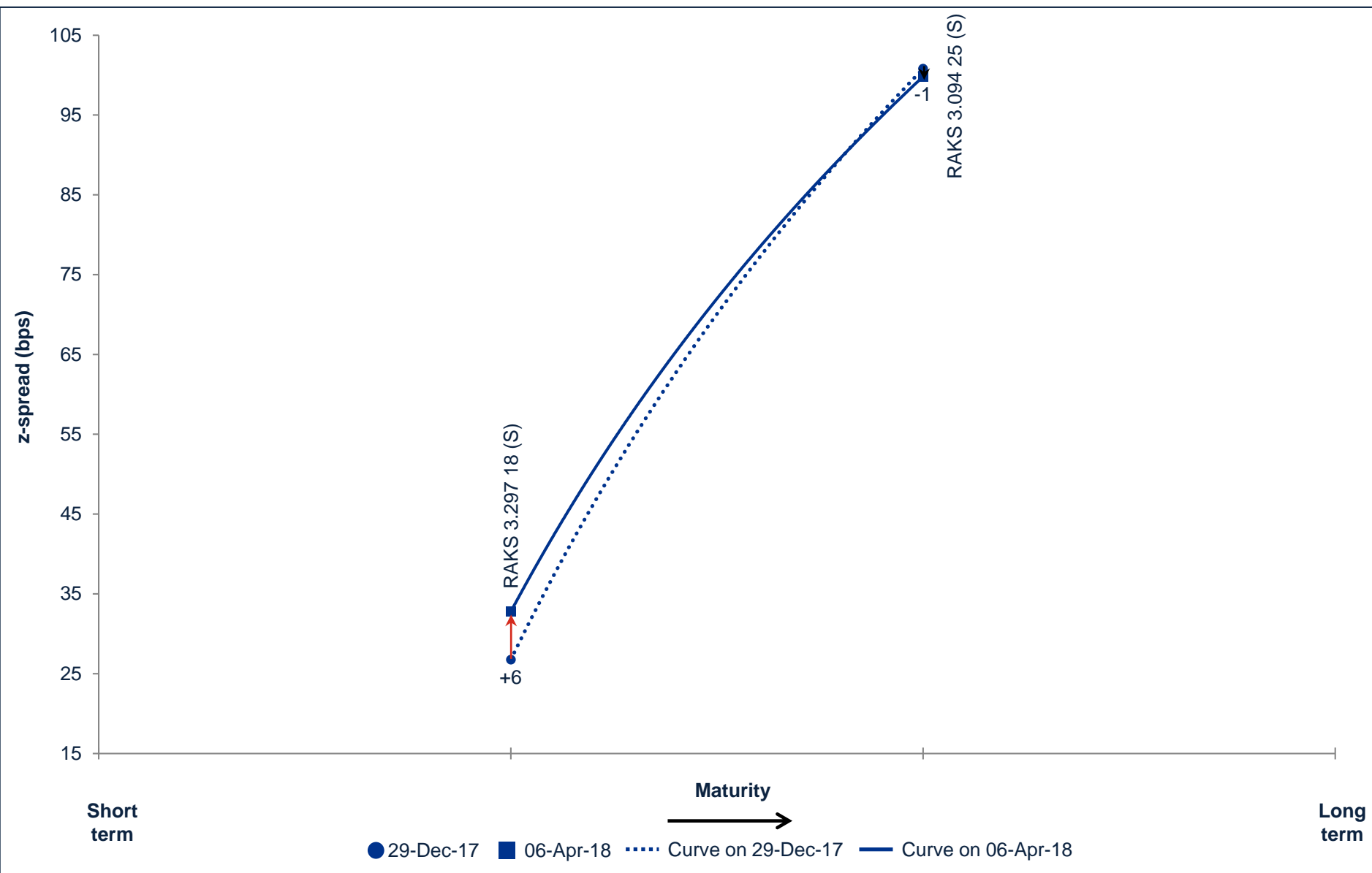
Notes: If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

# Sovereigns spread performance – Sharjah



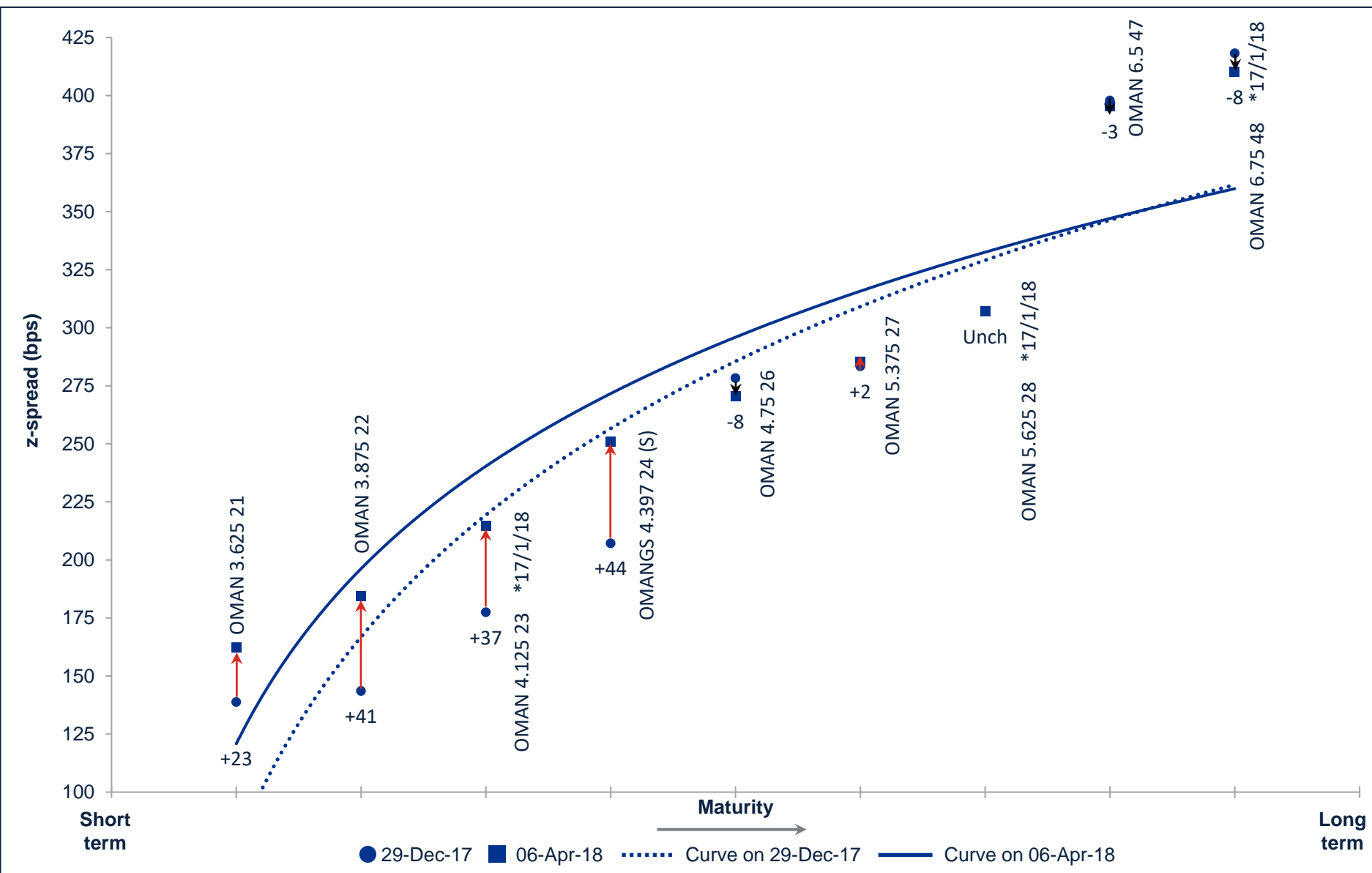
Notes: \* Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

# Sovereigns spread performance – Ras Al Khaimah



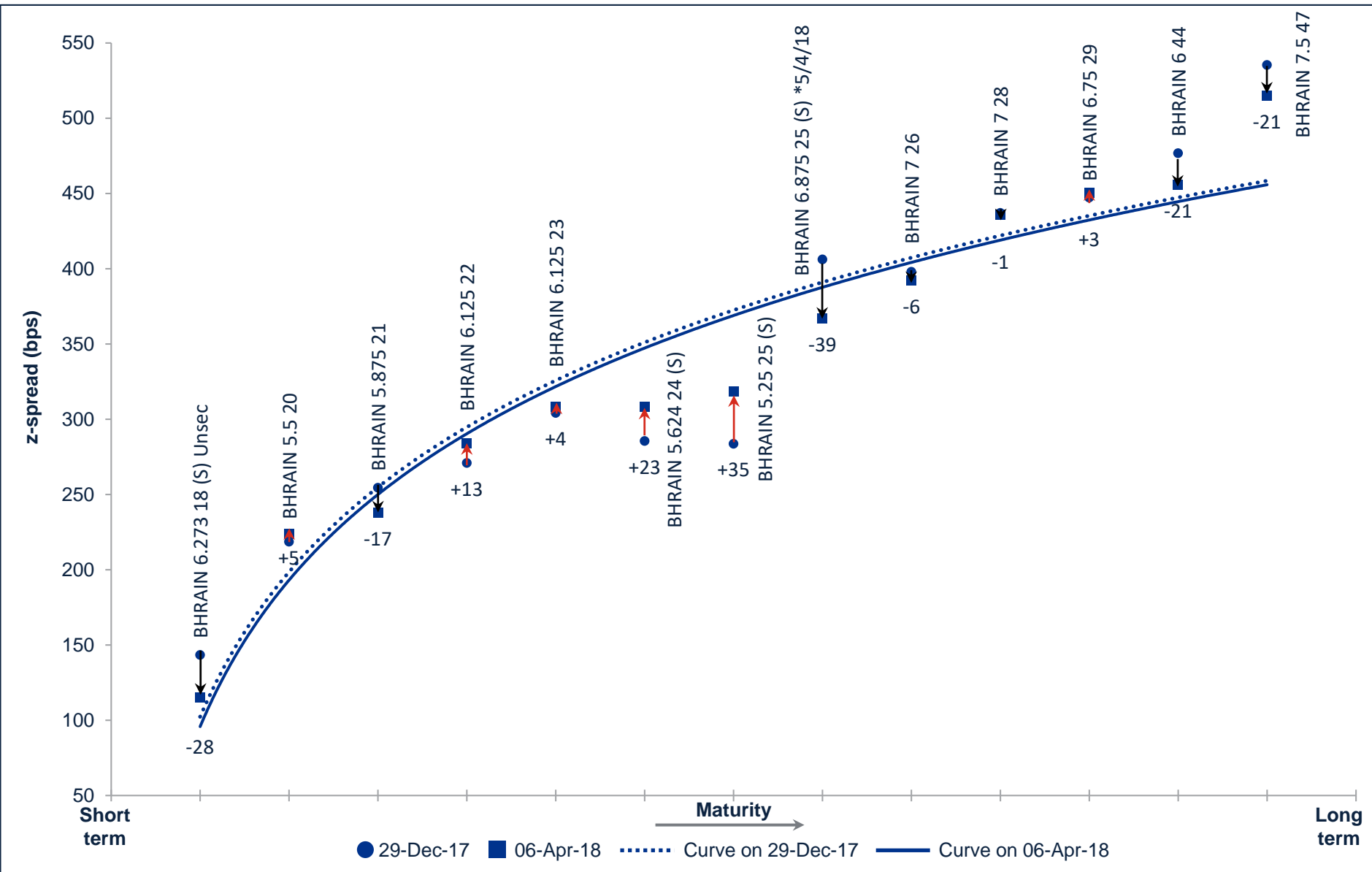
Notes: If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

# Sovereigns spread performance – Oman



Notes: \* Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

# Sovereigns spread performance – Bahrain



Notes: \* Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

- As mentioned in above slides, we have used “composite ratings” for the credit quality analysis – i.e. the average of the ratings assigned by three leading rating agencies Moody’s, S&P and Fitch – in order to provide a more representative view of the credit strength of each bank.
- The composite rating is calculated as follows:
  - A score is assigned to the rating from each rating agency: AAA or equivalent being the best with a score of “1”, followed by AA+ or equivalent as “2”, AA or equivalent as “3”, AA- or equivalent as “4” and so on;
  - For example FAB is rated Aa3/AA-/AA- by Moody’s/S&P/Fitch. So the scores are 4/4/4;
  - Hence the average of the scores is “4” which indicates a composite rating of “AA-” for FAB;
  - In case the average score is not an absolute number – e.g. 4.33 (average of 4, 5, & 4 ) – the final score is derived by rounding off the average score to the nearest whole number. In this case “4”.





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