

July 2019
Fixed Income Research

GCC Bonds and Sukuk Market Survey H1 2019 Highlights

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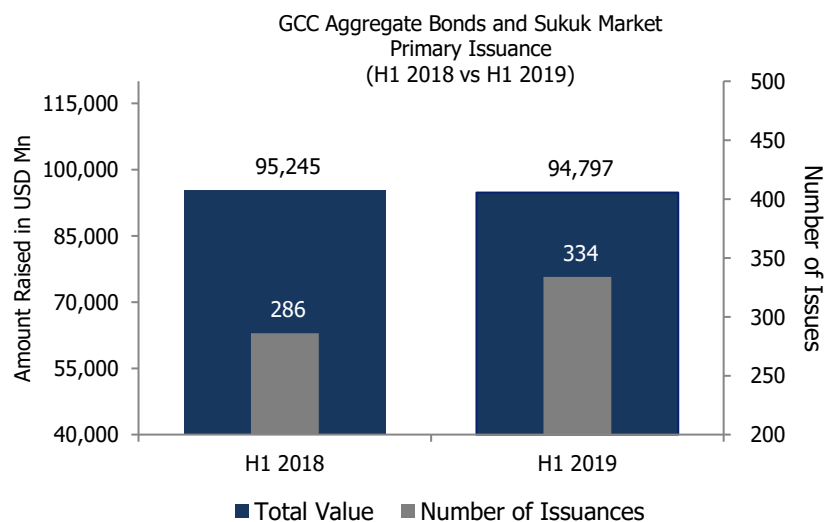
Notes before Reading This Report:

- *GCC: Gulf Cooperation Council*
- *GCC Aggregate Bonds and Sukuk market includes:*
 - * *GCC Central Banks Local Issuances (CBLIs): Treasury bills, Notes and Bonds issued by GCC Central banks, mostly to regulate the levels of domestic liquidity.*
 - * *GCC Sovereign Issuances: Bonds and Sukuk issued by GCC governments in local or foreign currencies for financing purposes.*
 - * *GCC Corporate Bonds: Bonds and Sukuk issued by GCC corporate entities including Financial Institutions (FIs) and Government Related Entities (GREs).*
- *GCC Bonds and Sukuk market: includes GCC Sovereign Issuances and GCC Corporate Issuances and does not include CBLIs.*
- *A number of resources were utilized in the drafting of this report; notable sources are Bloomberg, Zawya, GCC central banks' websites, rating agencies' reports and Offering Memorandums.*
- *Every effort has been made to include and quote the majority of data that is accessible to Markaz.*
- *All currencies were converted into US dollars for easy comparison.*

GCC Aggregate Bonds and Sukuk Market H1 2019

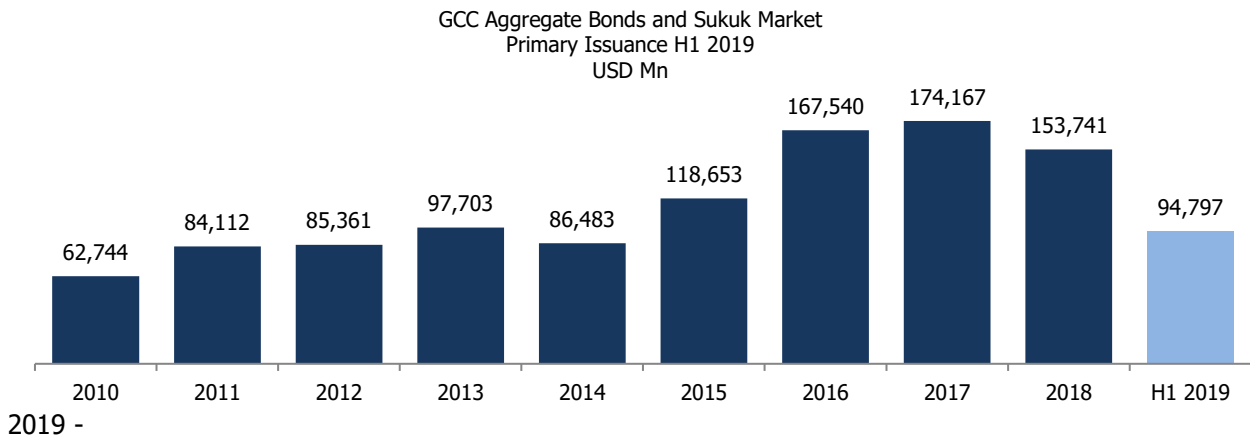
GCC Aggregate Bonds and Sukuk Market includes GCC Central Banks Local Issuances in addition to GCC Sovereign and Corporate Issuances. (Please refer to detailed definition at the beginning of this report).

A total of USD94.79 billion was raised in the GCC Aggregate Bonds and Sukuk market during H1 2019, a decline of 0.47% over USD95.25 billion raised in H1 2018. A total of USD29.77 billion was raised by the GCC Central Banks local issuances (CBLI) whereas USD65.03 billion was raised by GCC sovereign and corporate issuances.



Source: Bloomberg, Zawya, Central bank websites, Markaz Analysis

Below is a yearly trend of GCC aggregate Bonds and Sukuk primary issuances from 2010 to 2018 and H1

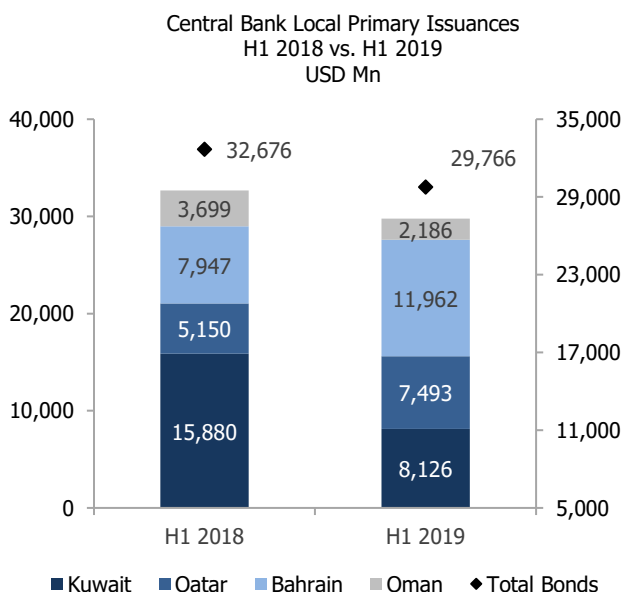


Source: Bloomberg, Zawya, Central bank websites, Markaz Analysis

GCC Central Banks Local Issuances H1 2019¹

- GCC Central Banks Local Issuances ("CBLIs") include Treasury bills, notes, bonds and sukuk denominated primarily in local currencies and issued, by GCC central banks to regulate the level of domestic liquidity.
- The only publically and regularly available information of such issuances are from Central Bank of Bahrain (CBB), Central Bank of Kuwait (CBK), Central Bank of Oman (CBO), and Central Bank of Qatar (CBQ).

A total of USD29.77 billion was raised through GCC Central Banks Local Issuances (CBLIs) during H1 2019 through 105 issuances, a decline of 8.91% from USD32.77 billion raised through 114 issuances during the same period last year. Conventional issuances totaled to USD26.79 billion making up 90.01% whereas sukuk's totaled USD2.97 billion, making up 9.98% of the GCC CBLI's.



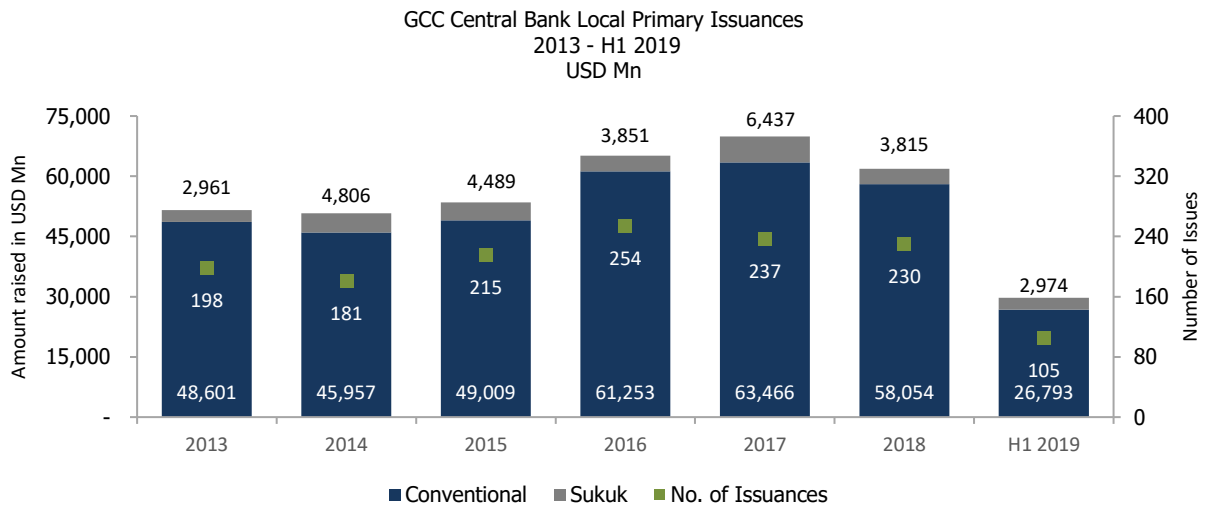
During H1 2019, Central Bank of Bahrain (**CBB**) was the leading issuer among GCC Central Banks with 44 issues raising BHD4.51 billion (USD11.96 billion), higher by 50.52% as compared to BHD2.99 billion (USD7.94) billion raised in H1 2018.

Central banks of Kuwait (**CBK**) and Oman (**CBO**) decreased their issuances in H1 2019, raising KWD2.47 billion (USD8.13 billion) and OMR0.84 billion (USD2.19 billion) respectively vs. KWD4.77 billion (USD15.88 billion) and OMR1.32 billion (USD3.69 billion) in H1 2018. An increase was recorded for Central Bank of Qatar (**CBQ**) which raised QAR27.75 billion (USD7.49 billion), vs. QAR13.88 billion (USD5.15 billion) during the same period last year.

¹The data published by Central Bank of Kuwait, has started to include data from Tawarruq operations along with other central bank issuances starting April 2016. Tawarruq is an instrument of monetary policy used to regulate liquidity with Islamic banks.

Source: Central Bank Websites, Markaz Analysis

Below is a yearly trend of GCC Central Bank Local issuances from 2013 to 2018 and H1 2019 -



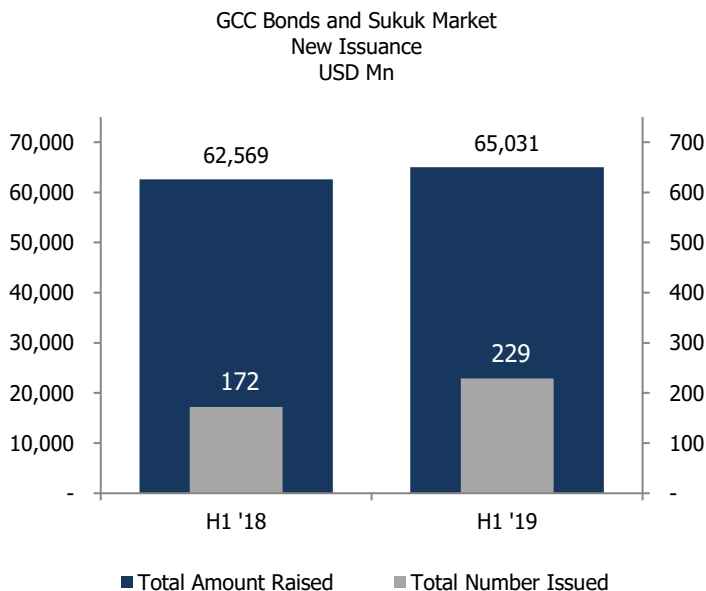
Source: Central Bank Websites, Markaz Analysis

GCC Bonds and Sukuk Market – H1 2019

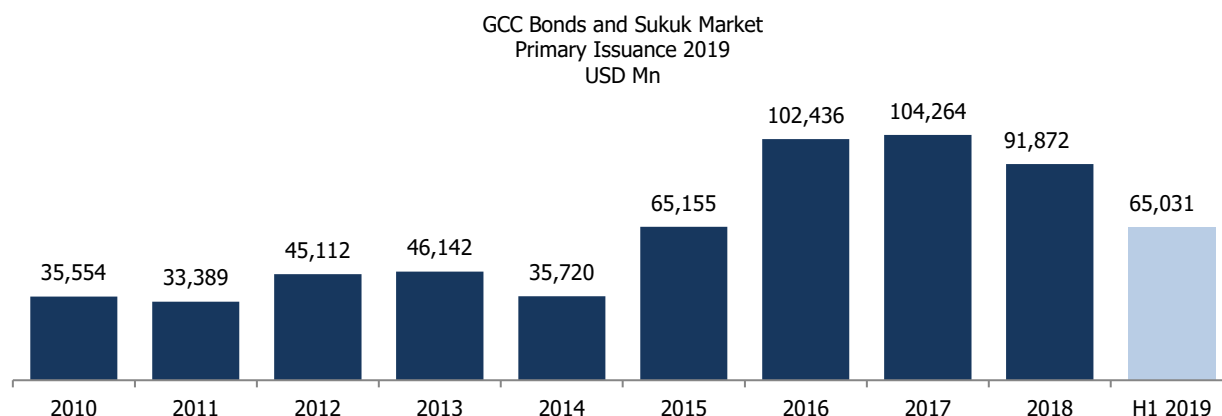
The GCC Bonds and Sukuk market includes only GCC Sovereign and Corporate Issuances.

- *GCC Sovereign Issuances: Bonds and Sukuk issued by GCC governments in local or foreign currencies for financing purposes.*
- *GCC Corporate Bonds: Bonds and Sukuk issued by GCC corporate entities including Financial Institutions (FIs) and Government Related Entities (GREs).*

The total value of primary issuances in the GCC Bonds and Sukuk market during H1 2019 reached USD65.03 billion, representing an increase of 3.94% over USD62.57 billion raised in H1 2018. The number of issuances increased from 172 in H1 2018 to 229 in H1 2019, an increase of 33.14% while the average size per issue decreased by 21.93% from USD364 million in H1 2018 to USD284 million in H1 2019.



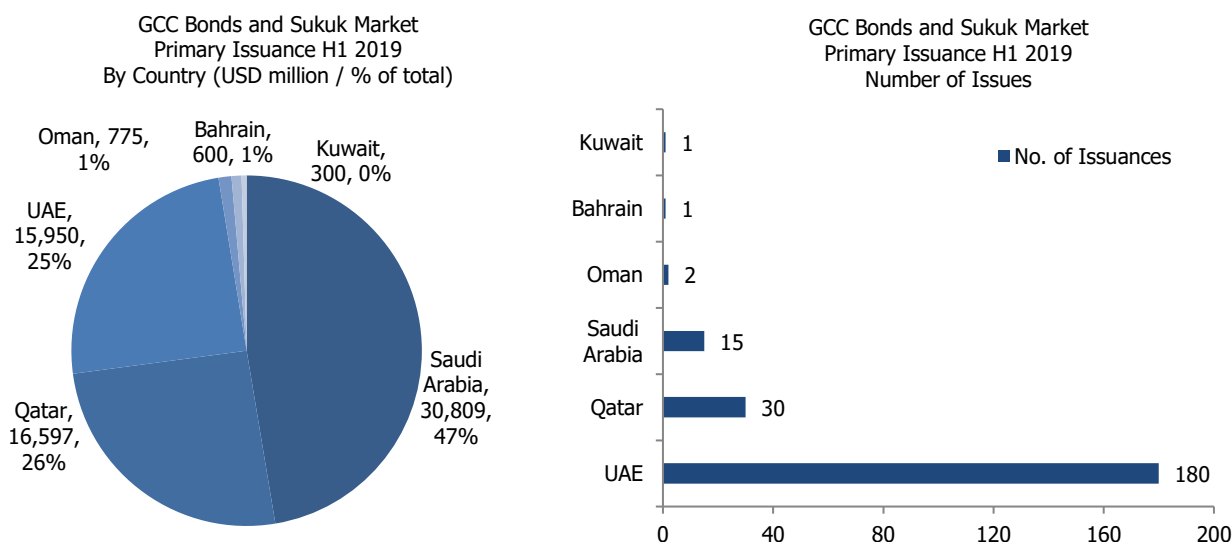
Below is a yearly trend of Primary issuances from 2010 to 2018 and H1 2019 -



Source: Bloomberg, Zawya, Markaz Analysis

Breakdown by Country

Saudi Arabia issuers were the leading GCC issuers during H1 2019, raising a total of USD30.81 billion through 15 issuances and representing 47.4% of the total value raised in the GCC. In terms of the frequency of issuances, UAE maintained its dominant position with 180 issuances (78.6% of total).



Source: Bloomberg, Zawya, Markaz Analysis

The total value of Saudi Arabian sovereign and corporate issuances during H1 2019 rose to 1.7 times of that in H1 2018.

Qatari entities raised USD16.58 billion from 30 issuances making up 25.52% of the market. The primary issuances decreased by 16.9% compared to USD19.97 billion raised in H1 2018.

UAE issuers raised USD15.95 billion during H1 2019, up by 3.6% as compared to USD15.39 billion raised in H1 2018. With 180 issuances during the H1 2019, UAE entities issued the highest number bonds and sukuk in the region.

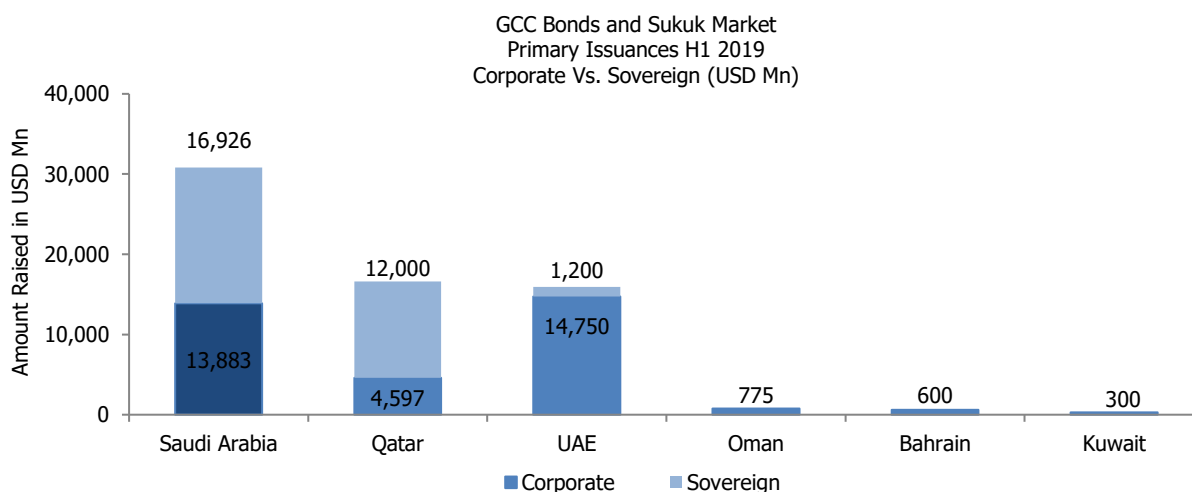
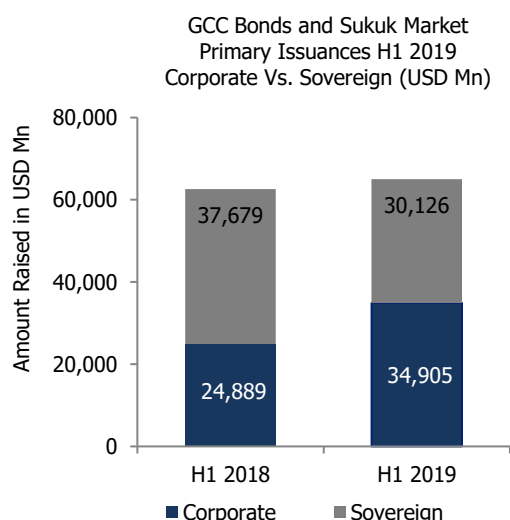
Kuwaiti entities represented 0.46% of the total issuances, raising USD0.30 billion through a single issue.

Sovereign Vs. Corporate

As Kuwait, Oman and Bahrain governments opted to stay out of the sovereign debt market during H1 2019, the total value of GCC Sovereign issuances decreased by 20.05% and reached a total of USD30.13 billion through 12 issuances, making up 60.2% of the primary issuances in the GCC bonds and Sukuk market.

Saudi Arabia Government raised USD16.93 billion out of which USD9.43 billion (SAR35.35 billion) were through domestic issuances and USD7.5 billion through US Dollar denominated bonds. Government of Qatar issued bonds totaling to USD12 billion with maturities of 5, 10 and 30 years. Government of Sharjah issued USD1.2 billion in through two sukuks maturing in 2025 and 2026.

GCC Corporate entities raised a total of USD34.91 billion in H1 2019, an increased by 40.24% from USD24.89 billion in H1 2018. However, the number of corporate issues increased from 154 issuances in H1 2018 to 217 in H1 2019.

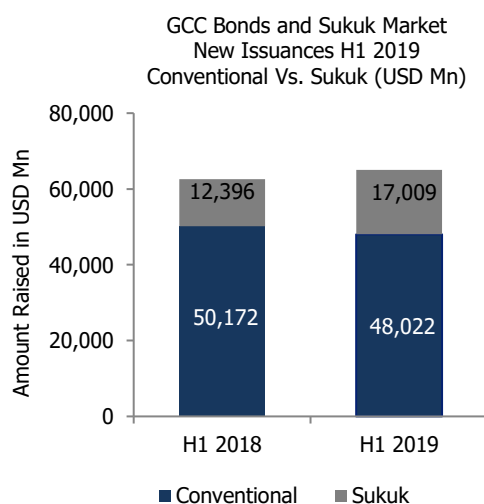


Source: Bloomberg, Zawya, Markaz Analysis

Conventional Vs. Sukuk

Conventional issuances continued to dominate the mix of primary GCC Bonds and Sukuk market, raising USD48.02 billion and representing 73.84% of the total issuances. However, such issuances were 4.29% lower versus the same period last year.

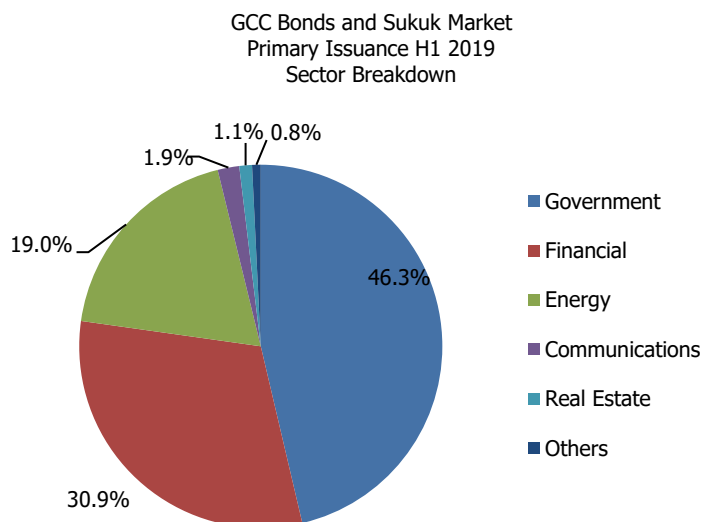
Sukuk raised USD17.01 billion, 37.21% higher as compared to USD12.40 billion raised in H1 2018.



Breakdown by Sector

A total of USD30.13 billion were raised by the Government sector in H1 2019 with 12 issues, and representing 46.3% of the market, as compared to USD37.68 billion issued in H1 2018. Financial sector stood second, raising USD20.09 billion in H1 2019 and represented 30.9% of the market as compared to USD18.31 billion in H1 2018.

The Financial sector led market in terms of the number of issuances, with 207 issues.

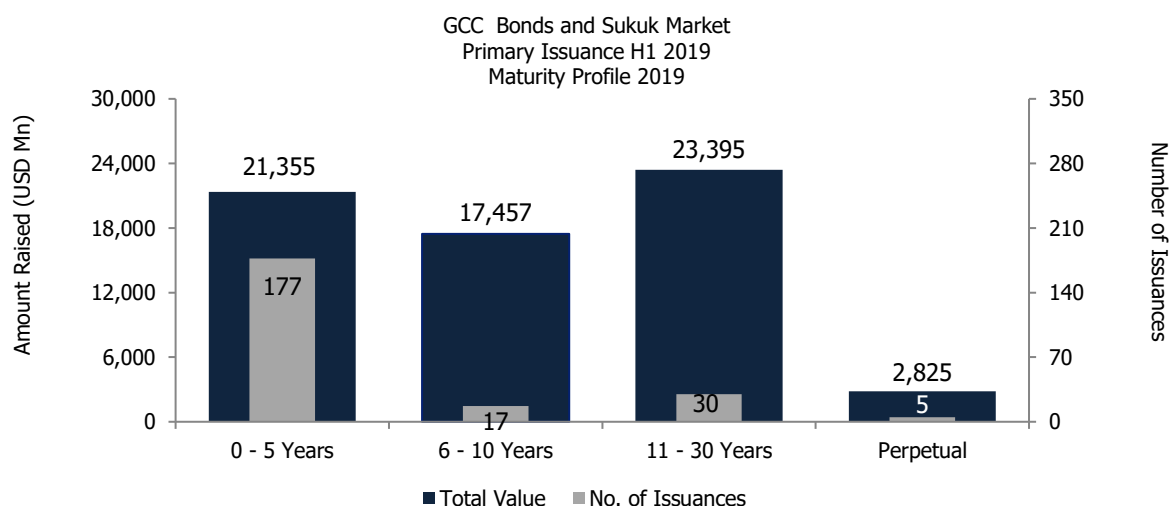


Source: Bloomberg, Zawya, Markaz Analysis
*Other sectors include Consumer

Maturity Structure

Primary Issuance with tenor of more than 10 years dominated the GCC market, raising a total value of USD23.39 billion through 30 issues and representing 36.0% of the market in terms of value.

Issuances with maturities of 0 to 5 years raised USD21.36 billion representing 32.8% of the market whereas Issuances with maturity term 6 to 10 years contributed 26.8% or USD 17.46 billion. Perpetual issues represented 4.3% or USD2.83 billion.



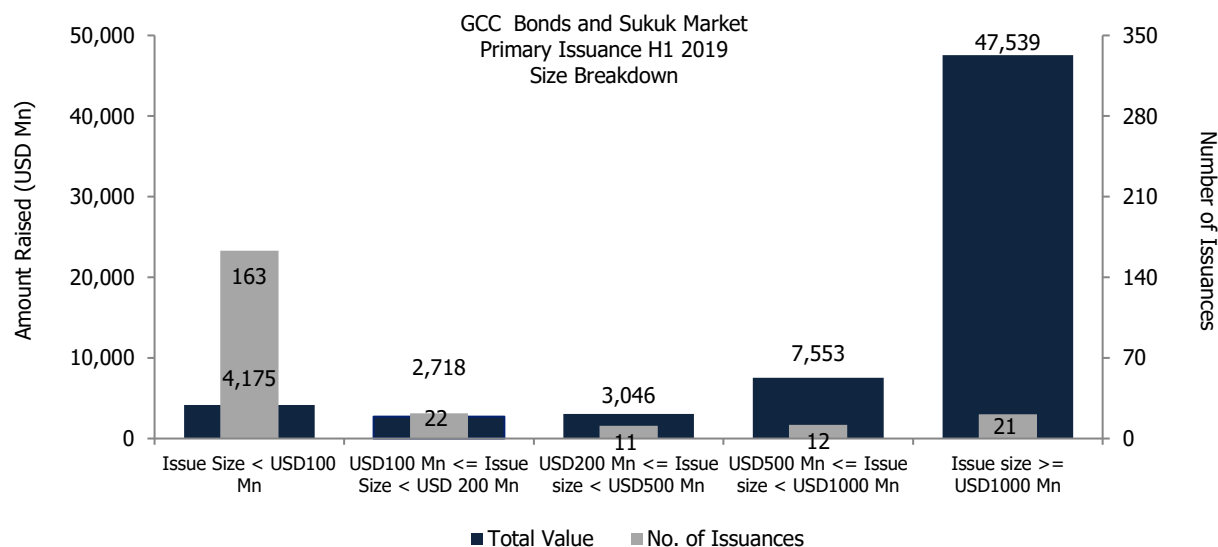
Source: Bloomberg, Zawya, Markaz Analysis

Size

During H1 2019, primary issuances ranged in size from USD5 million to USD6.0 billion. Issuances with principal amounts greater than or equal to USD1.0 billion raised the largest amount with USD47.54 billion, representing 73.10% of total value issued. However, the most frequent issuance was for issuance sizes under USD100 million with 163 issuances, representing 71.18% of the overall number of GCC issuance.

The largest GCC conventional bond issued during H1 2019 was by the Government of Qatar raising USD6 billion with a 30-year tenor, whereas the largest sukuk was issued by Saudi Arabia government raising USD2.62 billion in domestic currency with a 12-year tenor.

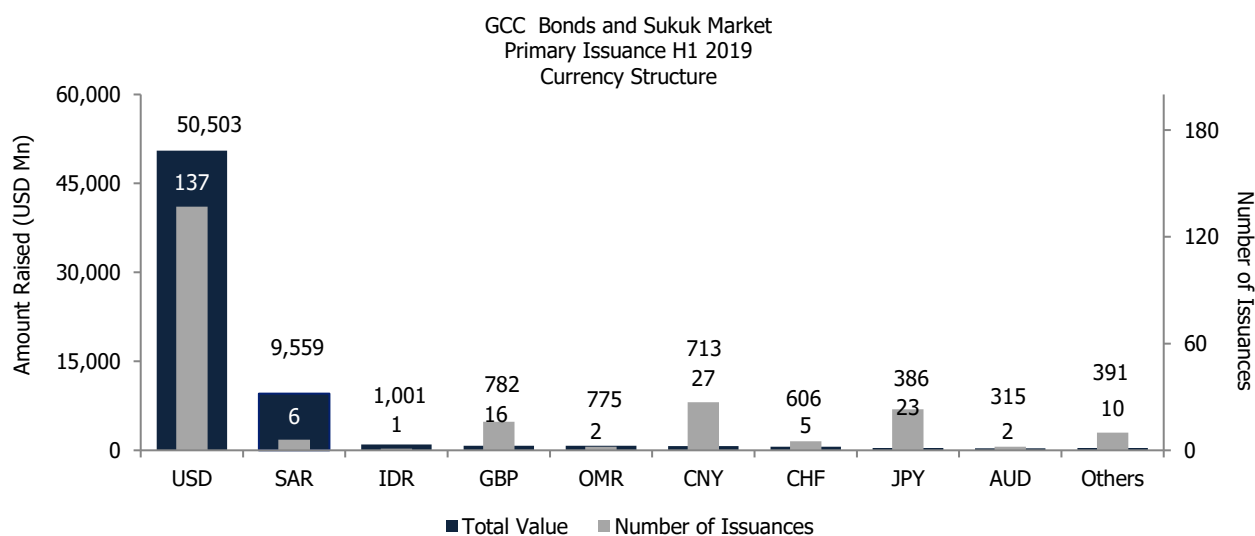
The largest bond issuance by a non-sovereign entity was issued by Saudi Arabian Oil Co, (Aramco) raising, USD12.0 billion followed by First Abu Dhabi Bank (FAB), and Qatar National Bank (QNB) which raised USD1.1 billion and USD1.0 billion respectively. Saudi Telecom Co issued the largest sukuk, for USD1.25 billion with a tenor of 10 years.



Source: Bloomberg, Zawya, Markaz Analysis

Currency Structure

US Dollar denominated issuances led the GCC Bonds and Sukuk market during H1 2019, raising USD50.53 billion and representing 77.66% of the market. Saudi riyal denominated issuances followed raising USD9.56 billion and representing 14.70% of the market.

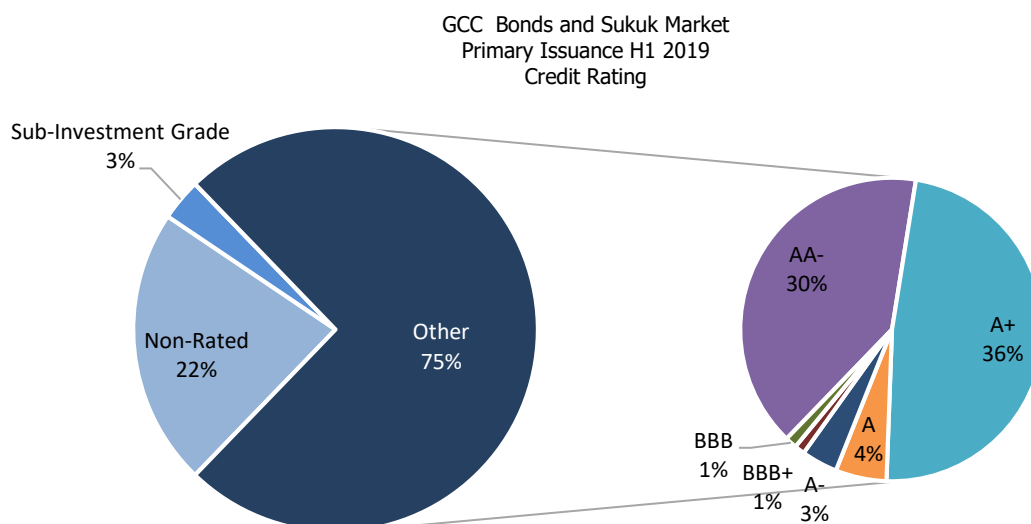


Source: Bloomberg, Zawya, Markaz Analysis

Credit Rating

In terms of value, a total of 77.8% of GCC bond and Sukuk market issuances were rated by either one or more of the following Rating Agencies: Standard & Poor's, Moody's, Fitch, and/or Capital Intelligence as

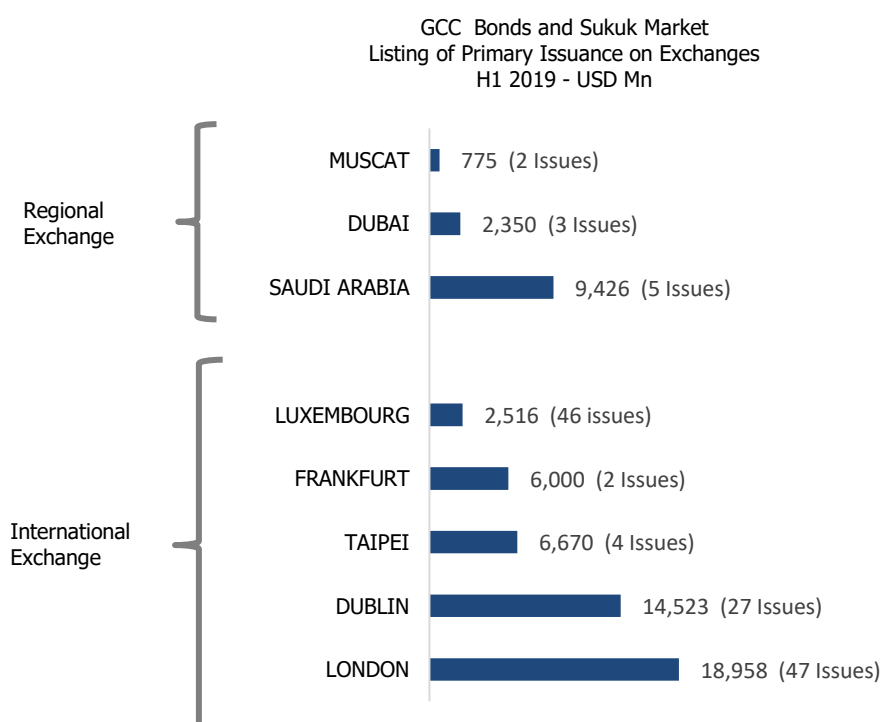
compared to 85.2% in H1 2018. Of those rated, 94.62% issues had investment grade ratings while the rest were sub-investment grade.



Source: Bloomberg, Zawya, Markaz Analysis

Listing

During H1 2019, 59% of all issuances or a total of 136 bonds and sukuks, with an aggregate value of USD61.22 billion were listed on exchanges. International exchanges accounted for 126 of such listings while regional exchanges recorded listing of 10 bonds and sukuk with a total value of USD12.55 billion. London outdid Dublin to be the most sought after exchange as it listed 30.9% of all the listed issuances (in value terms).

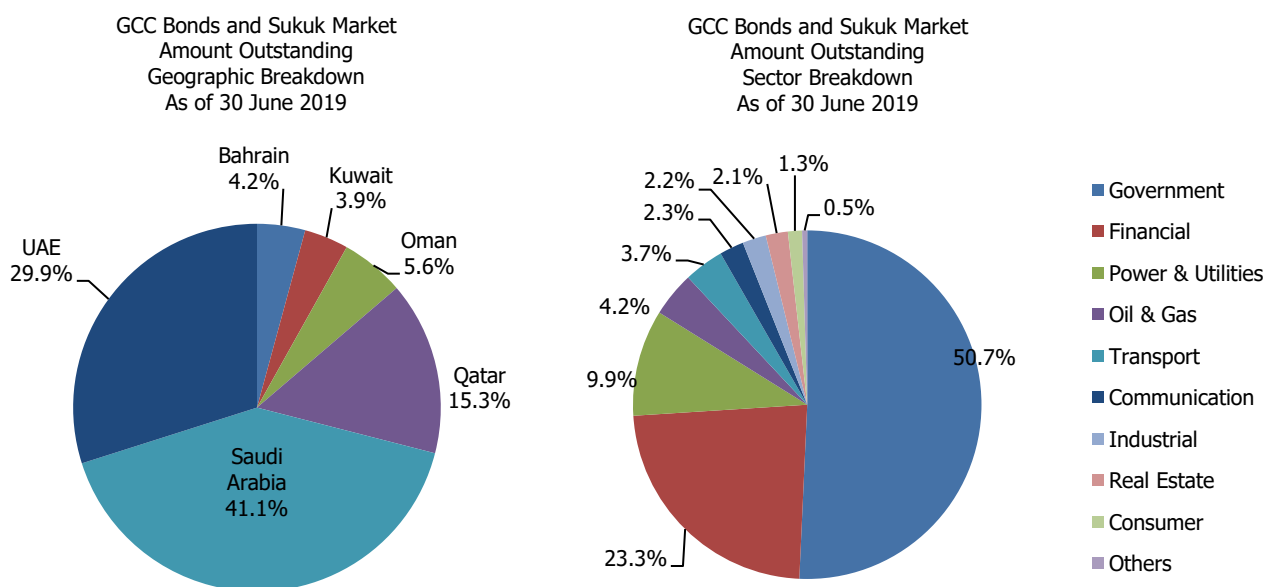


Source: Bloomberg, Zawya, Markaz Analysis

GCC Bonds and Sukuk Market - Amount Outstanding (as of 30 June 2019)

As of 30 June 2019, the total amount outstanding of the GCC Bonds and Sukuk was USD528.95 billion.

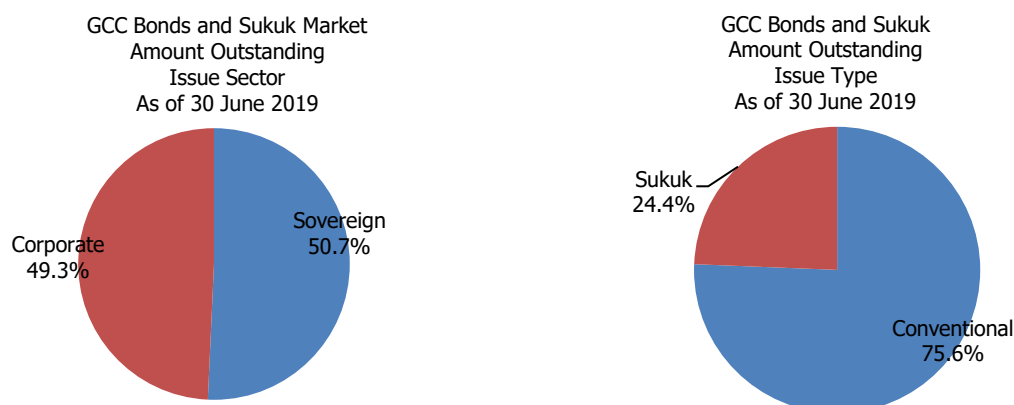
According to geographical distribution, Saudi Arabia issuances accounted for the largest share with USD217.41 billion or 41.10% of the total amount outstanding followed by UAE issuances, representing 29.9% or USD158.17 billion.



Source: Bloomberg, Zawya, Markaz Analysis

In terms of sector allocation, Government issuances represented the largest share with total amount outstanding at USD268.31 billion representing 50.7% of outstanding market. Financial institutions stood next, representing 23.3% with USD123.05 billion in total amount outstanding.

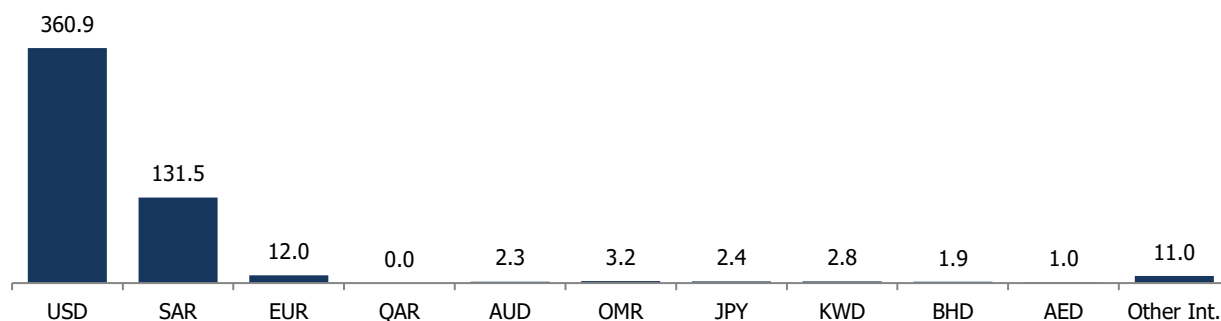
Conventional issues accounted for 75.6% of the total amount outstanding, totaling USD400.08 billion whereas Sukuk's represented 24.4% of the amount outstanding or USD128.87 billion. Sovereign issuances constituted 50.7% of the total amount outstanding with USD268.31 billion versus the Corporate issuances which represented 49.3%.



Source: Bloomberg, Zawya, Markaz Analysis

US Dollar denominated issuances comprised 68.2% of total amount outstanding with USD360.9 billion, followed by Saudi Riyal denominated issuances which represented 24.85% or USD131.5 billion.

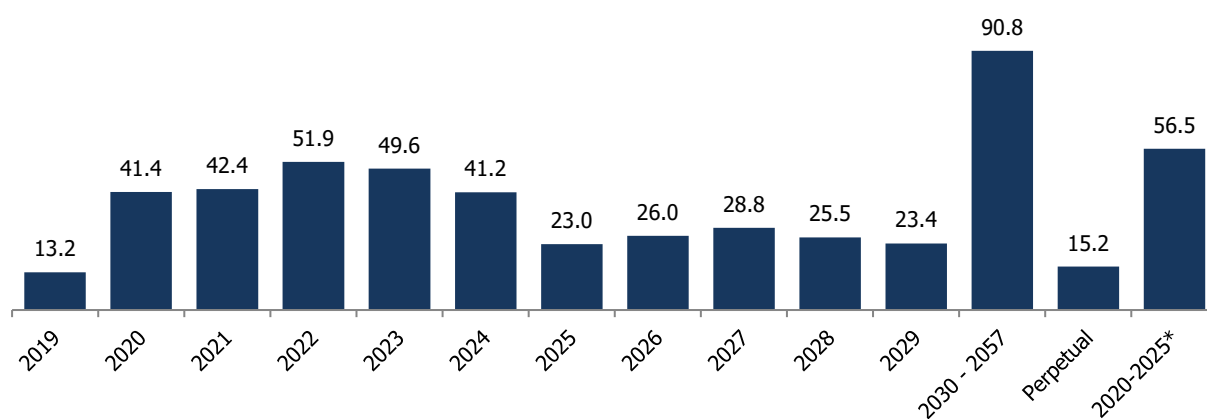
GCC Bonds and Sukuk Market
Outstanding Issuance
Currency Breakdown (USD Mn)
As of 30 June 2019



Note: Others include HKD, SGD, NZD, NOK, MXN, TRY, GBP, CNY, MYR
Source: Bloomberg, Zawya, Markaz Analysis

As of 30th of June 2019, bonds and Sukuk amounting to USD13.18 billion mature within the next six months indicating a probable requirement for refinancing to that tune by the corporates and sovereigns. A total of 76.05% of the amount outstanding or USD353.23 billion are expected to mature during the 10-year period from 2020 to 2029.

GCC Bonds and Sukuk Market
Outstanding Issuance
Maturity Breakdown (USD Mn)
As of 30 June 2019

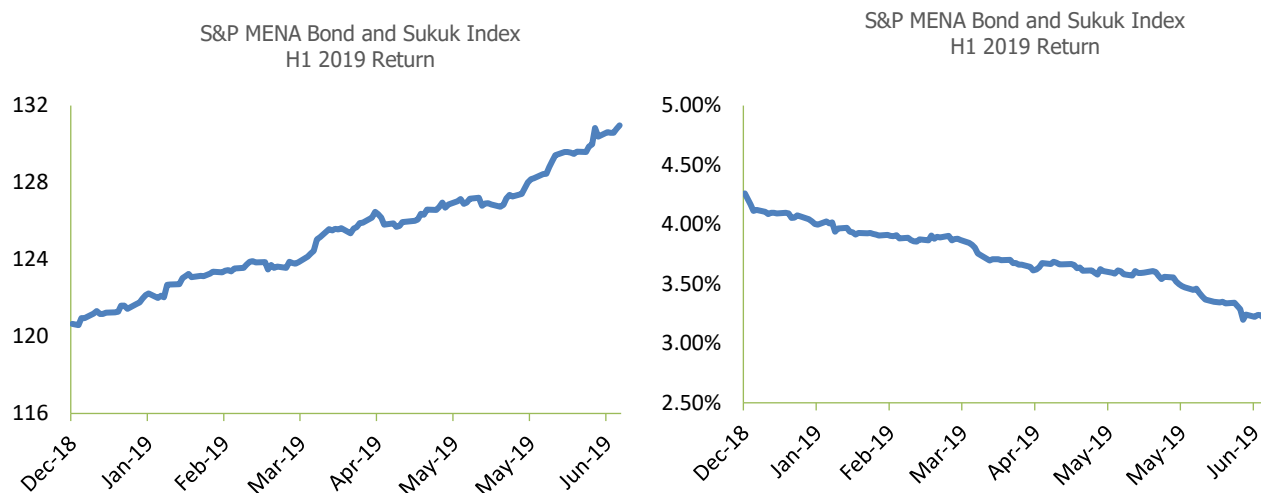


*The Tenor for Saudi Arabian bonds issued in domestic currency during 2016 is not known and according to sources, is estimated to be 5 to 10 years.
Source: Bloomberg, Zawya, Markaz Analysis

Market Performance

S&P MENA Bonds and Sukuk Index posted a gain of 8.54% (down by 1.78% in H1 2018) with total index increasing from 120.66 on 31st December 2018 to 130.97 on 30th June 2019. The index recorded the lowest value on 2nd January 2019 when it reached 120.59, while it recorded its highest value of 130.97 on 28th June 2019.

During H1 2019, the index yield decreased from 4.26% to 3.20%. The index recorded its maximum yield during the year of 4.17% on 2nd January 2019 while it recorded its minimum yield of 3.20% on 20th June 2019.



Source: S&P Mena Bond & Sukuk Index, Bloomberg, Markaz Analysis

Credit Default Swaps (CDS)

	2 Yr CDS		5 Yr CDS		10 Yr CDS	
	31/12/2018	30/06/2019	31/12/2018	30/06/2019	31/12/2018	30/06/2019
Kuwait	29.6	20.8	65.8	57.7	109.8	98.4
Abu Dhabi	31.4	23.2	67.1	60.8	104.6	101.2
Qatar	37.2	20.8	82.4	62.0	121.3	104.8
Saudi Arabia	63.8	39.7	104.7	82.8	145.1	127
Dubai	75.8	87.5	129.2	138.0	166.2	186.5
Bahrain	216.3	158.7	291.5	252.1	345.2	329.1
Oman	177.6	196.9	323.2	335.6	389.1	415.9

Source: Bloomberg, Markaz Analysis

Key GCC Sovereign and Corporate Bonds and Sukuk Issuances – H1 2019

Issuer/Guarantor	Security Description	Country	Subscription Month	Maturity Date	Issue Size (US\$ mn)	Coupon / Profit Rate	Sector	Rating
State Of Qatar	QATAR 4.817 03/14/49	Qatar	March	14-Mar-49	6,000	4.82	Government	AA-
Kingdom Of Saudi Arabia	KSA 4 3/8 04/16/29	Saudi Arabia	January	16-Apr-29	4,000	4.38	Government	A+
State Of Qatar	QATAR 4 03/14/29	Qatar	March	14-Mar-29	4,000	4.00	Government	AA-
Kingdom Of Saudi Arabia	KSA 5 1/4 01/16/50	Saudi Arabia	January	16-Jan-50	3,500	5.25	Government	A+
Saudi Arabian Oil Co. (Aramco)	ARAMCO 4 3/8 04/16/49	Saudi Arabia	April	16-Apr-49	3,000	4.38	Energy	A+
Saudi Arabian Oil Co. (Aramco)	ARAMCO 3 1/2 04/16/29	Saudi Arabia	April	16-Apr-29	3,000	3.50	Energy	A+
Saudi Arabian Oil Co. (Aramco)	ARAMCO 4 1/4 04/16/39	Saudi Arabia	April	16-Apr-39	3,000	4.25	Energy	A+
Kingdom Of Saudi Arabia	KSASUK 4.1 02/20/31	Saudi Arabia	February	20-Feb-31	2,620	4.10	Government	-
Kingdom Of Saudi Arabia	KSASUK 4.64 04/24/49	Saudi Arabia	April	24-Apr-49	2,466	4.64	Government	-
Kingdom Of Saudi Arabia	KSASUK 3.9 01/23/29	Saudi Arabia	January	23-Jan-29	2,092	3.90	Government	-
State Of Qatar	QATAR 3 3/8 03/14/24	Qatar	March	14-Mar-24	2,000	3.38	Government	AA-
Saudi Arabian Oil Co. (Aramco)	ARAMCO 2 7/8 04/16/24	Saudi Arabia	April	16-Apr-24	2,000	2.88	Energy	A+
Kingdom Of Saudi Arabia	KSASUK 4.01 03/27/34	Saudi Arabia	March	27-Mar-34	1,510	4.01	Government	-
Saudi Telecom Co.	STCAB 3.89 05/13/29	Saudi Arabia	May	13-May-29	1,250	3.89	Communications	A+
First Abu Dhabi Bank	FABUH 0 04/16/22	UAE	April	16-Apr-22	1,100	3.55	Financial	AA-
Abu Dhabi Commercial Bank	ADCBUH 8.16 04/29/29	UAE	April	29-Apr-29	1,001	8.16	Financial	A+
First Abu Dhabi Bank	FABUH 3 7/8 01/22/24	UAE	January	22-Jan-24	1,000	3.88	Financial	AA-
Emirates NBD Bank	EBIUH 6 1/8 PERP	UAE	March	Perpetual	1,000	6.13	Financial	-
Qatar National Bank	QNBK 3 1/2 03/28/24	Qatar	March	28-Mar-24	1,000	3.50	Financial	AA-
Government of Sharjah	SHARSK 3.854 04/03/26	UAE	April	3-Apr-26	1,000	3.85	Government	A-
Saudi Arabian Oil Co. (Aramco)	ARAMCO 2 3/4 04/16/22	Saudi Arabia	April	16-Apr-22	1,000	2.75	Energy	A+
Qatar National Bank	QNBK 0 05/02/22	Qatar	May	2-May-22	850	3.58	Financial	AA-
Dubai Islamic Bank	DIBUH 6 1/4 PERP	UAE	January	Perpetual	750	6.25	Financial	B
Emirates Development Bank	EMDEBK 3.516 03/06/24	UAE	March	6-Mar-24	750	3.52	Financial	AA-
Qatar Islamic Bank	QIBKQD 3.982 03/26/24	Qatar	March	26-Mar-24	750	3.98	Financial	A

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