

July 2018
Fixed Income Research

GCC Bonds and Sukuk Market Survey H1 2018 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 2018

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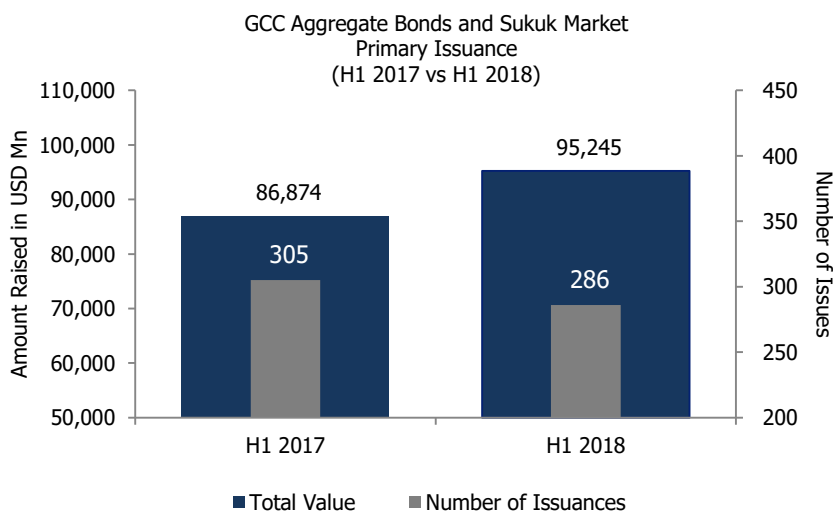
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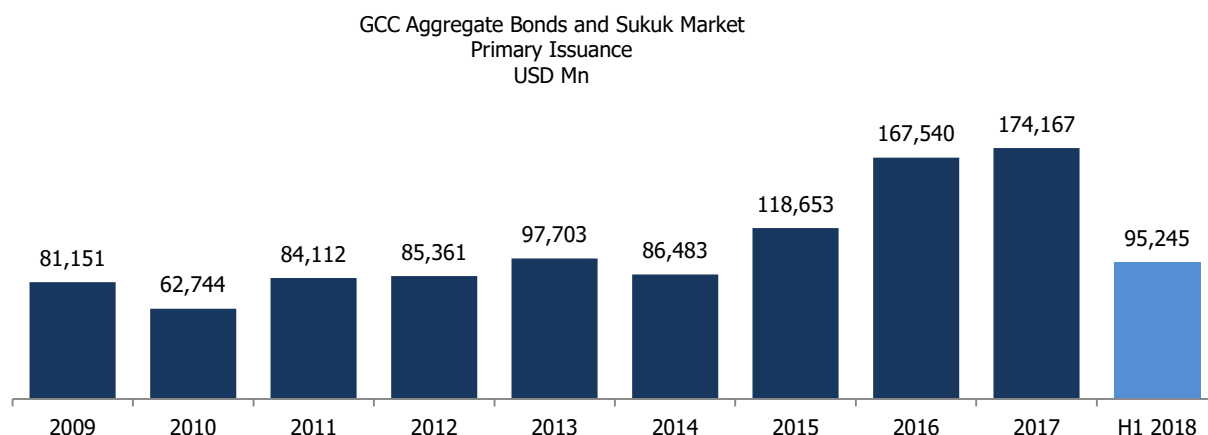
GCC Aggregate Bonds and Sukuk Market includes GCC Central Banks Local Issuances in addition to GCC Sovereign and Corporate Issuances. (Please refer to detailed definition at the beginning of this report).

A total of USD95.25 billion was raised in the GCC Aggregate Bonds and Sukuk market during H1 2018, an increase of 9.64% over USD86.87 billion raised in H1 2017. A total of USD32.68 billion was raised by the GCC Central Banks local issuances (CBLI) whereas USD62.57 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 issuances from 2009 to 2017 and H1 2018 -

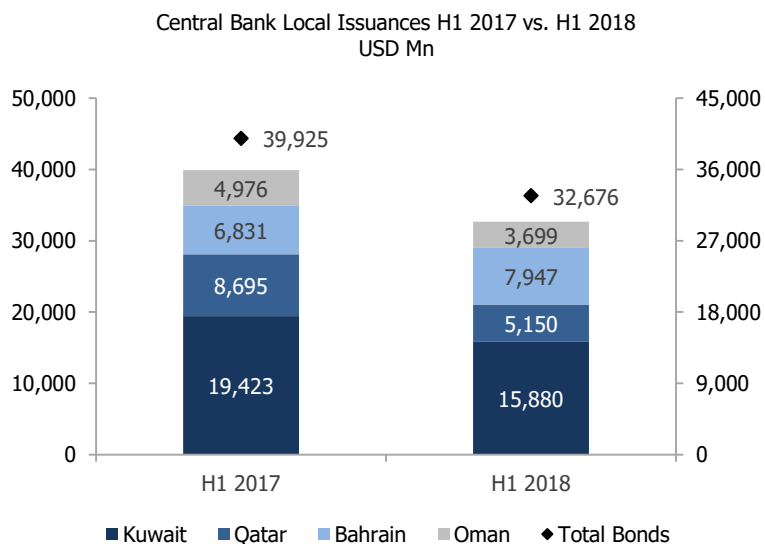


Source: Bloomberg, Zawya, Central bank websites, Markaz Analysis

GCC Central Banks Local Issuances H1 2018¹

- **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 USD32.68 billion was raised through GCC Central Banks Local Issuances (CBLIs) during H1 2018 through 114 issuances, a decline of 18.15% from USD39.92 billion raised through 129 issuances during the same period last year. Conventional issuances totaled to USD29.70 billion making up 90.89% whereas sukuk's totaled to USD2.97 billion, making up 9.10% of the GCC CBLI's.



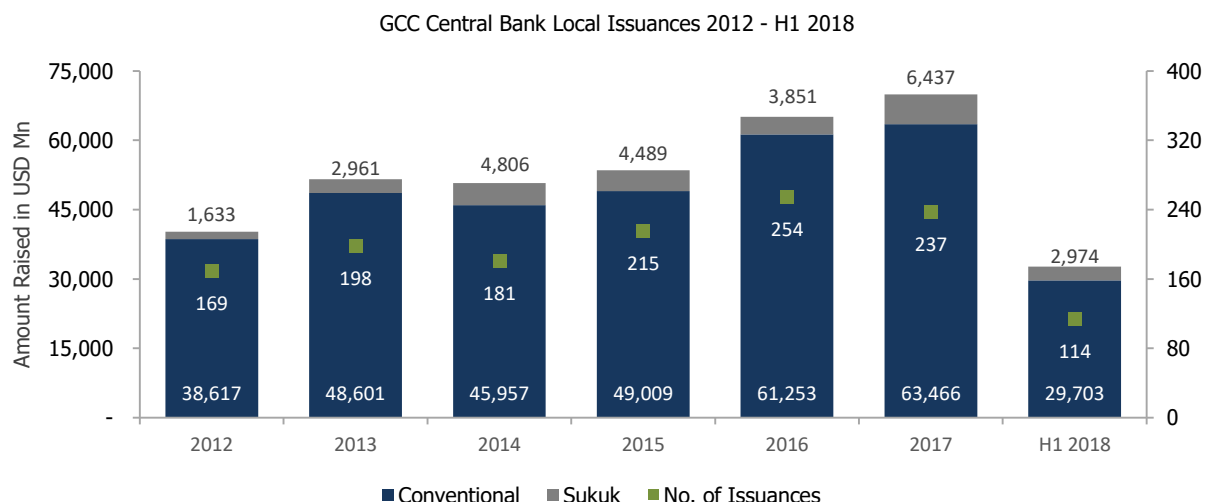
Source: Central Bank Websites, Markaz Analysis

During H1 2018, Central Bank of Kuwait (**CBK**) continued to be the leading issuer among GCC Central Banks with 22 issues raising KWD4.77 billion (USD15.88 billion), lower by 18.2% as compared to KWD5.87 billion (USD19.42) billion it raised in H1 2017.

Central banks of Oman (**CBO**) and Qatar (**CBQ**) decreased their issuances in H1 2018, raising OMR1.42 billion (USD3.7 billion) and QAR19.07 billion (USD5.15 billion) respectively vs. OMR1.91 billion (USD4.98 billion) and QAR32.17 billion (USD8.69 billion) in H1 2017. An increase was recorded for Central Bank of Bahrain (**CBB**) which raised BHD2.99 billion (USD7.95 billion), vs. 2.57 (USD6.83 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.

Below is a yearly trend of GCC Central Bank Local issuances from 2012 to 2017 and H1 2018 -



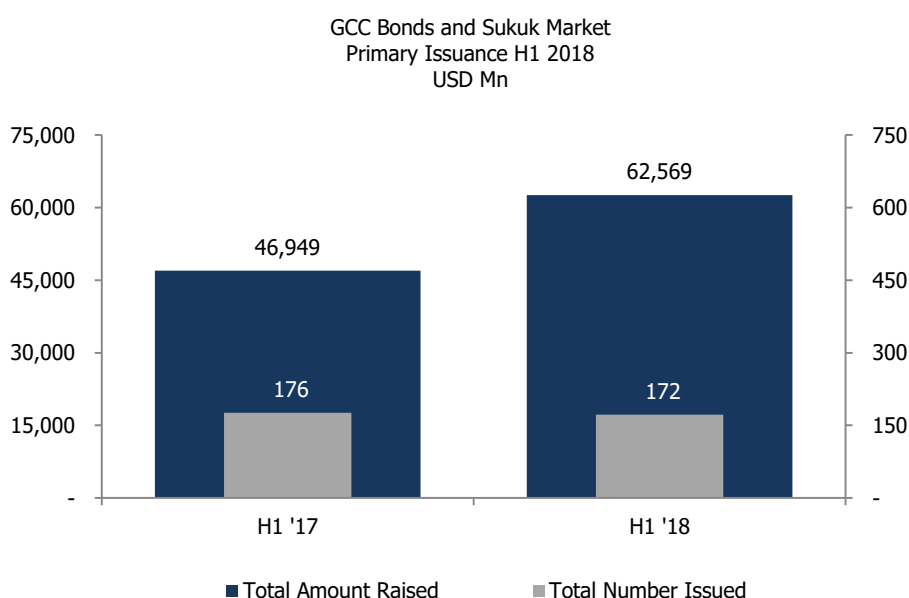
Source: Central Bank Websites, Markaz Analysis

GCC Bonds and Sukuk Market – H1 2018

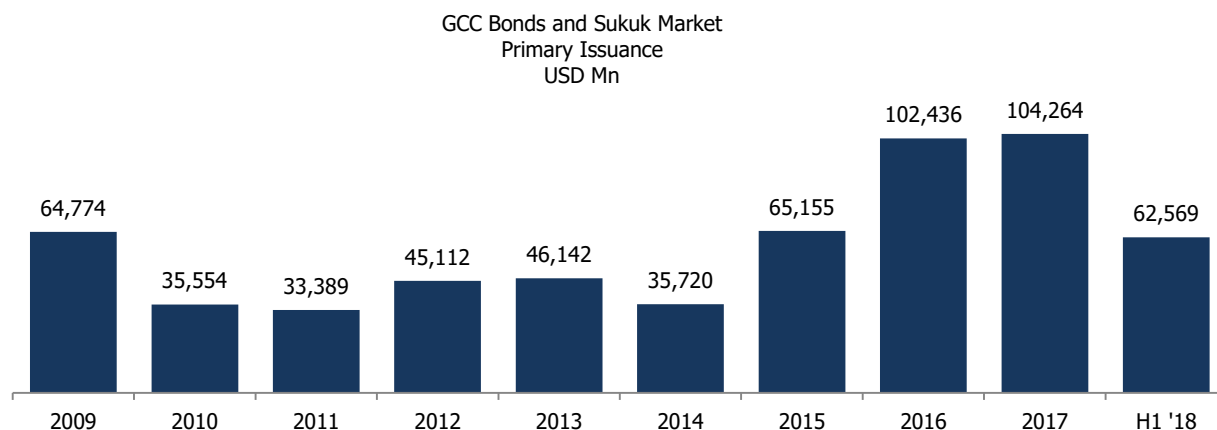
The GCC Bonds and Sukuk market includes only GCC Sovereign and Corporate Issuances.

- *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 2018 reached USD62.57 billion, representing an increase of 33.27% over USD46.95 billion raised in H1 2017. The number of issuances decreased from 176 in H1 2017 to 172 in H1 2018, a decline of 2.27% while the average size per issue increased by 36.36% from USD267 million in H1 2017 to USD364 million in H1 2018.



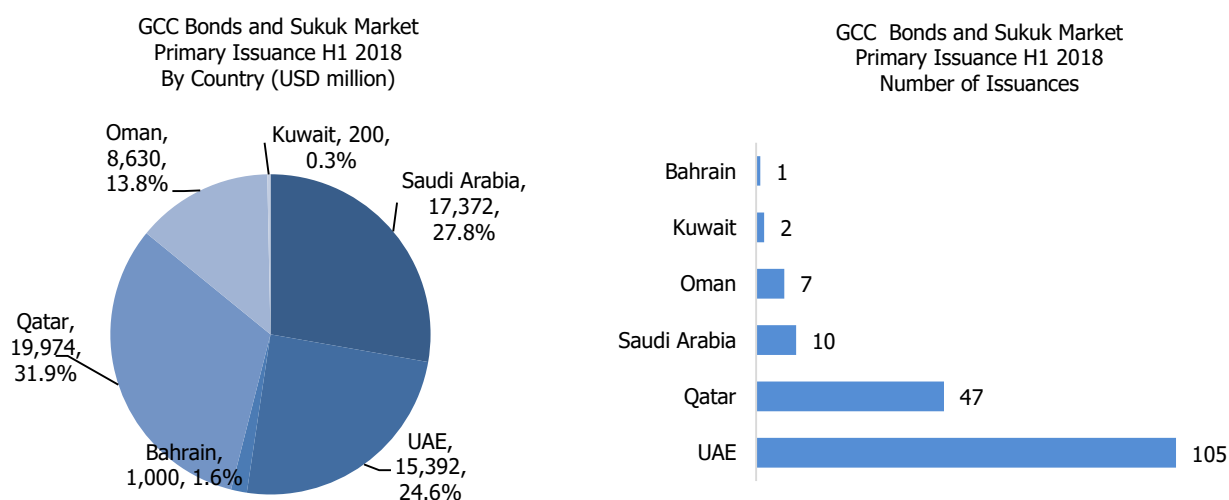
Below is a yearly trend of Primary issuances from 2009 to 2017 and H1 2018 -



Source: Bloomberg, Zawya, Markaz Analysis

Breakdown by Country

Qatari issuers were the leading GCC issuers in H1 2018, raising a total of USD19.97 billion through 47 issuances and representing 31.9% of the total value raised in the GCC. In terms of the frequency of issuances, UAE maintained its position as the dominant issuer with 105 issuances (61.0% of total).



Source: Bloomberg, Zawya, Markaz Analysis

The total value of Qatari sovereign and corporate issuances during H1 2018 was 4 times as much in H1 2017 as the regional crisis subsided as compared to last year.

Saudi Arabian entities raised USD17.37 billion from 10 issuances making up 27.76% of the market. The primary issuances increased by 68.4% compared to USD10.31 billion raised in H1 2017.

UAE issuers raised USD15.39 billion during H1 2018, up by 21.9% as compared to USD12.6 billion raised in H1 2017. UAE issuances represented 24.6% of the GCC market versus 26.9% in H1 2017.

Total issuances by Kuwaiti entities dropped to USD0.20 billion representing 0.3% of the total market as compared to USD10.50 billion raised in H1 2017 or 22.4% of the total market. Kuwait government was the only GCC government not to tap the international debt markets in H1 2018.

Omani issuances raised a total of USD8.63 billion through 7 issues representing 13.8% of the market and 13.2% above USD7.62 billion raised in H1 2017.

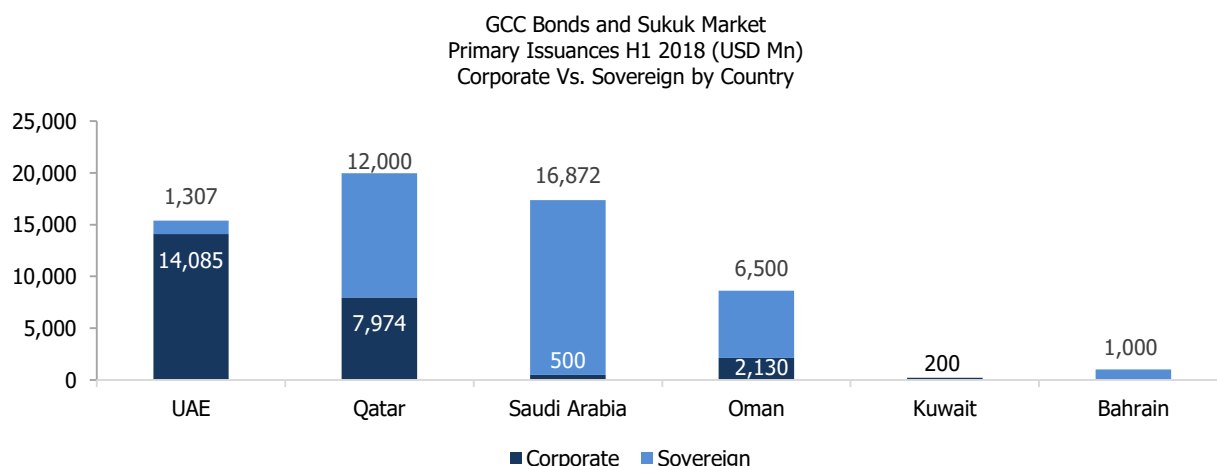
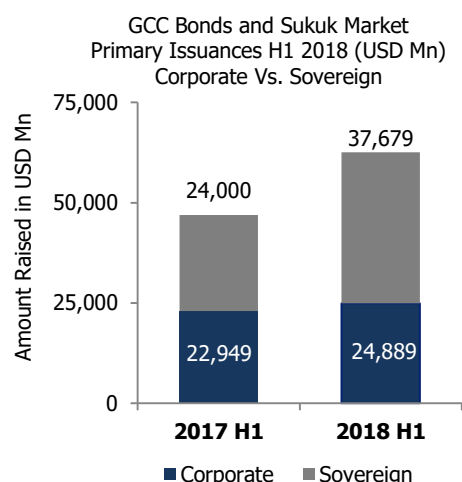
Bahraini entities represented 1.6% of the total issuances, raising USD1 billion through a single issue.

Sovereign Vs. Corporate

Even with Kuwait government staying out of the sovereign debt market in H1 2018, total value of GCC Sovereign issuances increased by 56.9% and reached a total of USD37.68 billion through 18 issuances, making up 60.2% of the primary issuances in the GCC bonds and Sukuk market.

Saudi Arabia Government raised USD16.87 billion out of which USD5.87 billion (SAR29.99 billion) were through domestic issuances and USD 11.0 billion through US Dollar denominated bonds. Governments of Qatar and Oman issued bonds totaling to USD12 billion and USD 6.5 billion respectively with maturities of 5, 10 and 30 years. Bahrain managed to raise USD1 billion with a single issue for 7-year maturity.

GCC Corporate entities raised a total of USD24.89 billion in H1 2018, an increased by 8.45% from USD22.95 billion in H1 2017. However, the number of corporate issues dropped from 168 issuances in H1 2017 to 154 in H1 2018.

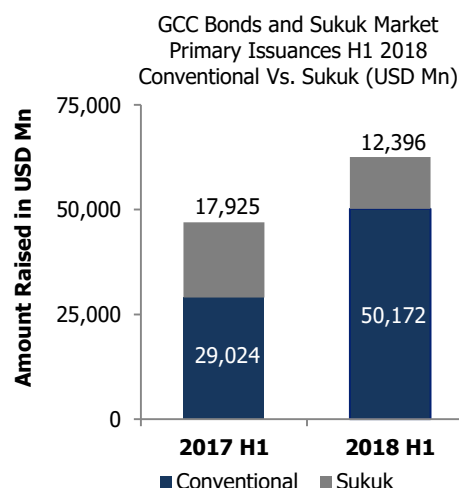


Source: Bloomberg, Zawya, Markaz Analysis

Conventional Vs. Sukuk

Conventional issuances continued to dominate the mix of primary GCC Bonds and Sukuk market, raising USD50.17 billion and representing 80.19% of the total issuances. Additionally, such issuances were 72.86% higher versus the same period last year.

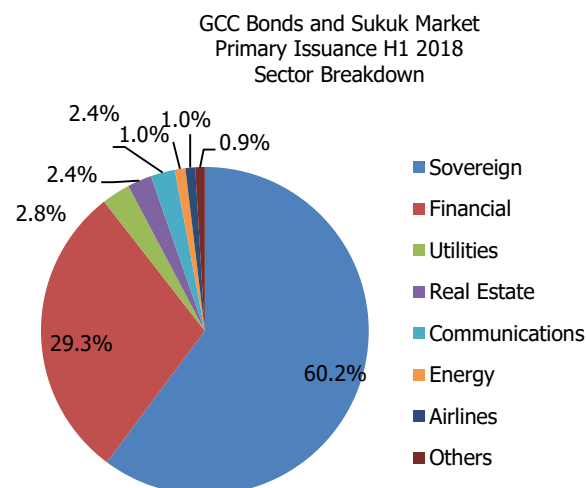
Sukuk raised USD12.39 billion, 30.84% lower as compared to USD17.93 raised in H1 2017.



Breakdown by Sector

A total of USD37.68 billion were raised by the Government sector in H1 2018 with 18 issues, and representing 60.2% of the market, as compared to USD24.89 billion issued in H1 2017. Financial sector stood second, raising USD18.31 billion in H1 2018 and representing 29.26% of the market as compared to USD17.61 billion in H1 2017.

The Financial sector led market in terms of the number of issuances, with 140 issues.

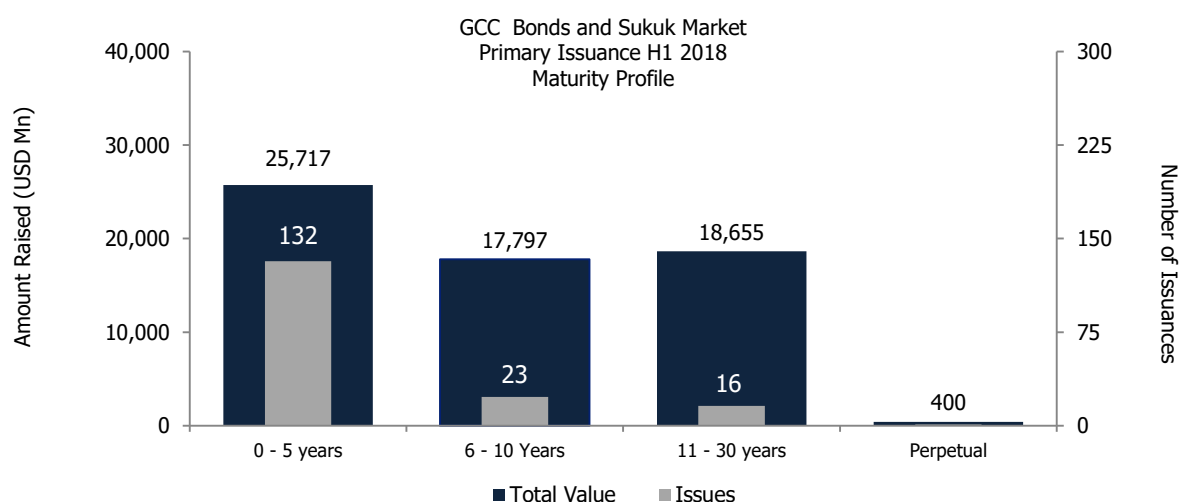


Source: Bloomberg, Zawya, Markaz Analysis
*Other sectors include Diversified and Oil & Gas,

Maturity Structure

Primary Issuance with tenors of up to five years dominated the GCC market, raising a total value of USD25.72 billion through 132 issues and representing 41.1% of the market in terms of value.

Issuances with maturities of 6 to 10 years raised USD17.79 billion representing 28.4% of the market whereas Issuances with maturity term 10 to 30 years contributed 29.8% or USD 18.66 billion. Perpetual issues represented 0.6% or USD0.4 billion.



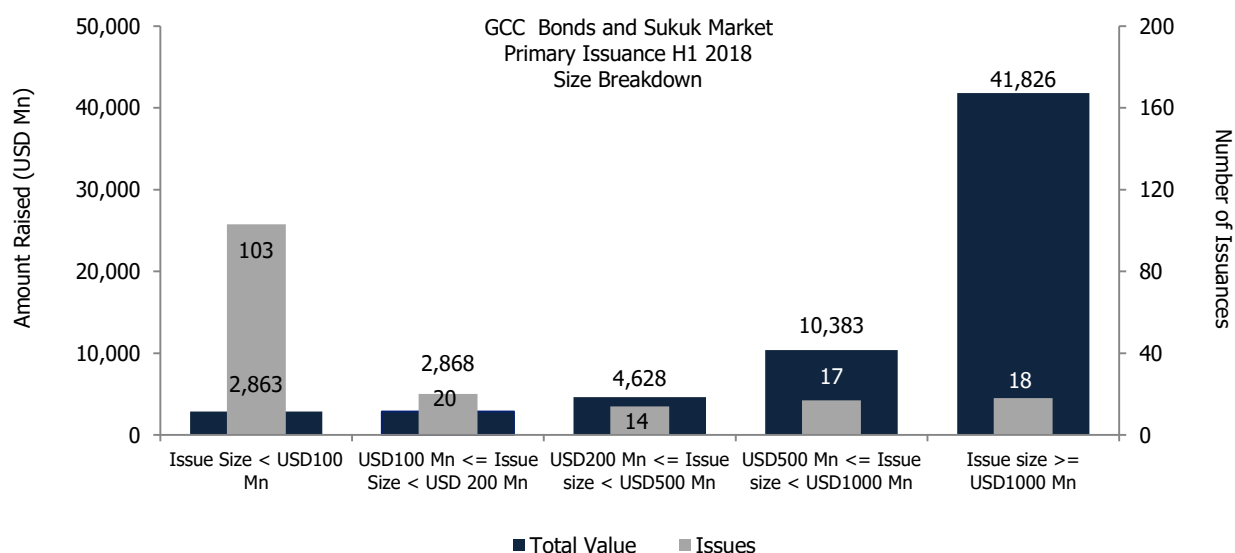
Source: Bloomberg, Zawya, Markaz Analysis

Size

During H1 2018, primary issuances ranged in size from USD1 million to USD6.0 billion. Issuances with principal amounts greater than or equal to USD1.0 billion raised the largest amount with USD41.83 billion, representing 66.85% total value issued. However, the most frequent issuance was for issuance sizes under USD100 million with 103 issuances, representing 59.9% of the overall number of GCC issuance.

The largest GCC conventional bond issued during H1 2018 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 USD2.5 billion in domestic currency with a 5-year tenor.

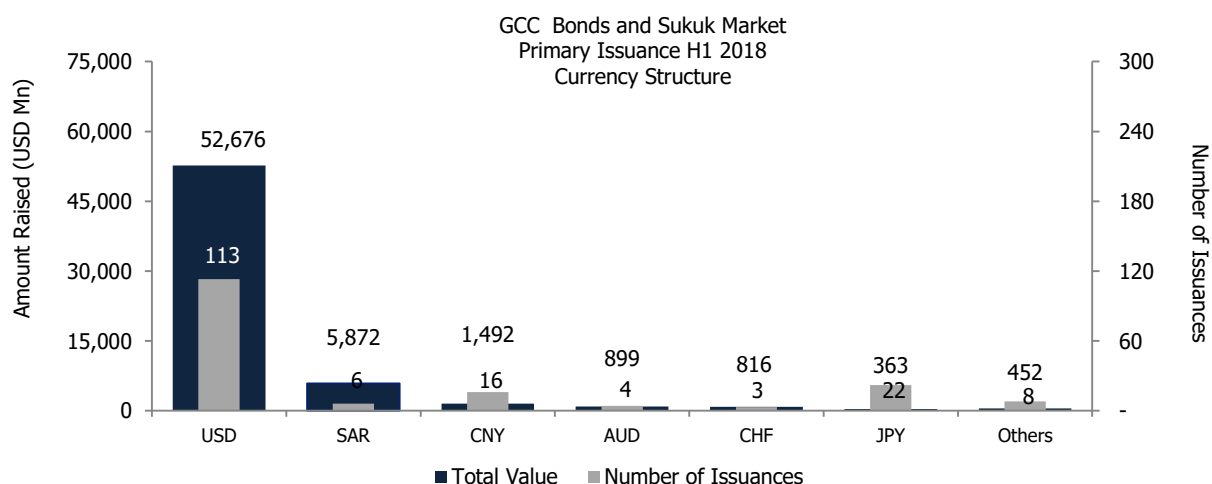
The largest bond issuance by a non-sovereign entity was issued by Qatar National Bank raising, USD1.5 billion followed by Abu Dhabi National Energy Co. (TAQA), and Oman Telecommunications Co. (Omantel) which raised USD1 billion and USD0.9 billion respectively. The largest Sukuk was issued by Dubai Islamic Bank for USD1.5 billion with a tenor of 5 years.



Source: Bloomberg, Zawya, Markaz Analysis

Currency Structure

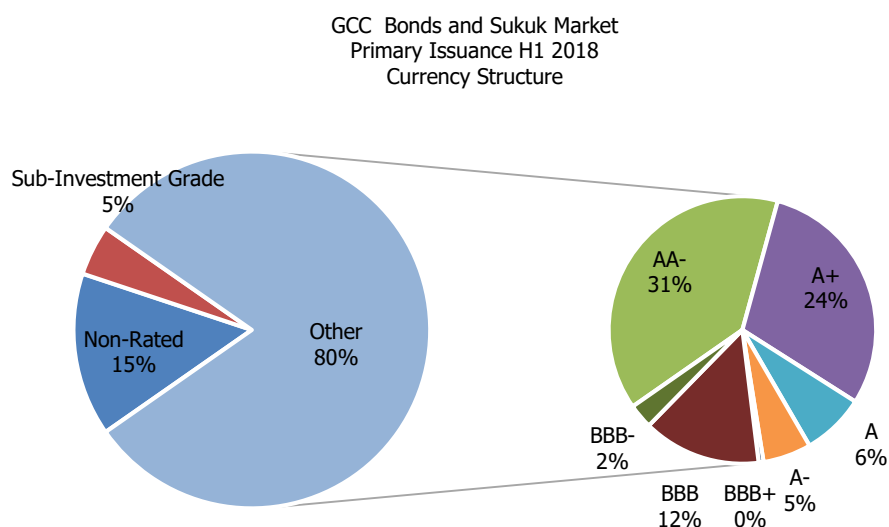
US Dollar denominated issuances led the GCC Bonds and Sukuk market during H1 2018, raising USD52.68 billion and representing 84.19% of the market. Saudi riyal denominated issuances followed raising USD5.87 billion and representing 9.38% of the market.



Source: Bloomberg, Zawya, Markaz Analysis

Credit Rating

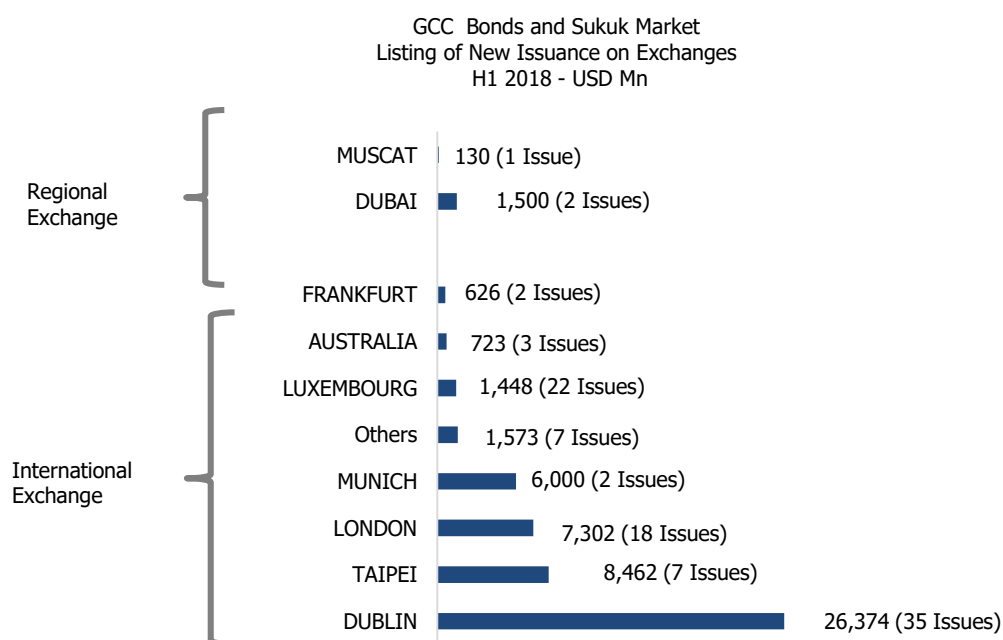
In terms of value, a total of 85.2% of GCC bond and Sukuk market issuances were rated by either one or more of the following Rating Agencies: Standard & Poor's, Moody's, Fitch, and/or Capital Intelligence as compared to 73.7% in H1 2017. Of those rated, 94.62% issues had investment grade ratings while the rest were sub-investment grade.



Source: Bloomberg, Zawya, Markaz Analysis

Listing

During H1 2018, 42% of all issuances or a total of 99 bonds and sukuks, with an aggregate value of USD54.14 billion were listed on exchanges. International exchanges accounted for 96 of such listings while regional exchanges recorded listing of 3 bonds and sukuk with a total value of USD1.63 billion. Dublin continues to be the most sought after exchange as it listed 48.7% of all the listed issuances.

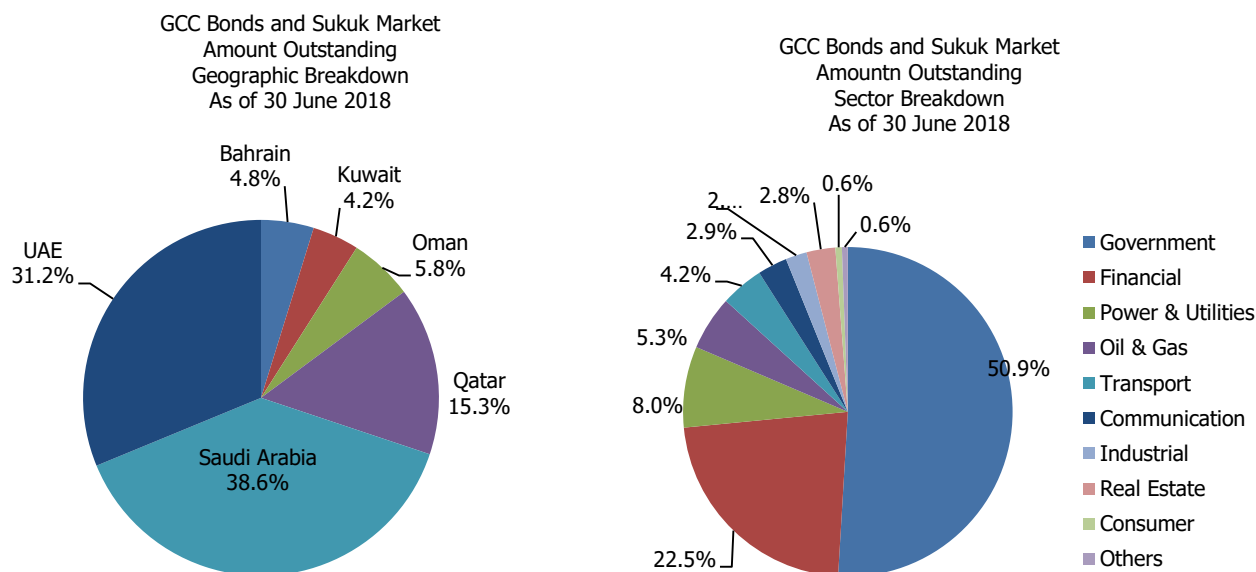


Source: Bloomberg, Zawya, Markaz Analysis

GCC Bonds and Sukuk Market - Amount Outstanding (as of 30 June 2018)

As of 30 June 2018, the total amount outstanding of the GCC Bonds and Sukuk was USD463.29 billion.

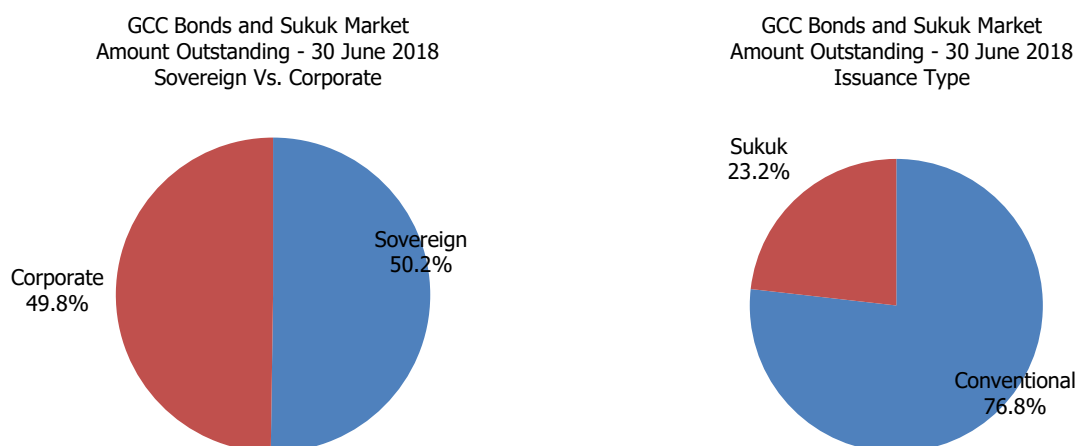
According to geographical distribution, Saudi Arabia issuances accounted for the largest share with USD179.03 billion or 38.64% of the total amount outstanding followed by UAE issuances, representing 31.2% or USD144.65 billion.



Source: Bloomberg, Zawya, Markaz Analysis

In terms of sector allocation, Government issuances represented the largest share with total amount outstanding at USD236.02 billion representing 50.9% of outstanding market. Financial institutions stood next, representing 22.5% with USD104.37 billion in total amount outstanding.

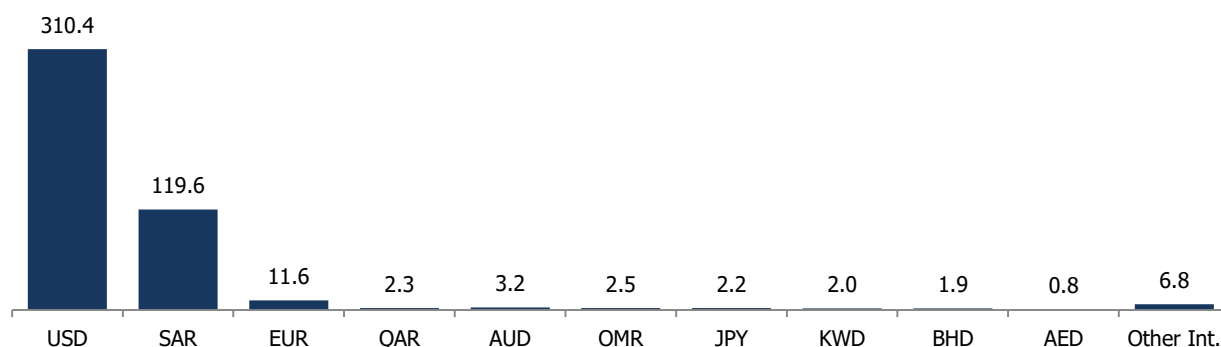
Conventional issues accounted for 76.79% of the total amount outstanding, totaling USD355.77 billion whereas Sukuk's represented 23.20% of the amount outstanding or USD107.53 billion. Sovereign issuances constituted 50.2% of the total amount outstanding with USD232.72 billion versus the Corporate issuances which represented 49.76%.



Source: Bloomberg, Zawya, Markaz Analysis

US Dollar denominated issuances comprised 67.0% of total amount outstanding with USD310.4 billion, followed by Saudi Riyal denominated issuances which represented 25.80% or USD119.6 billion.

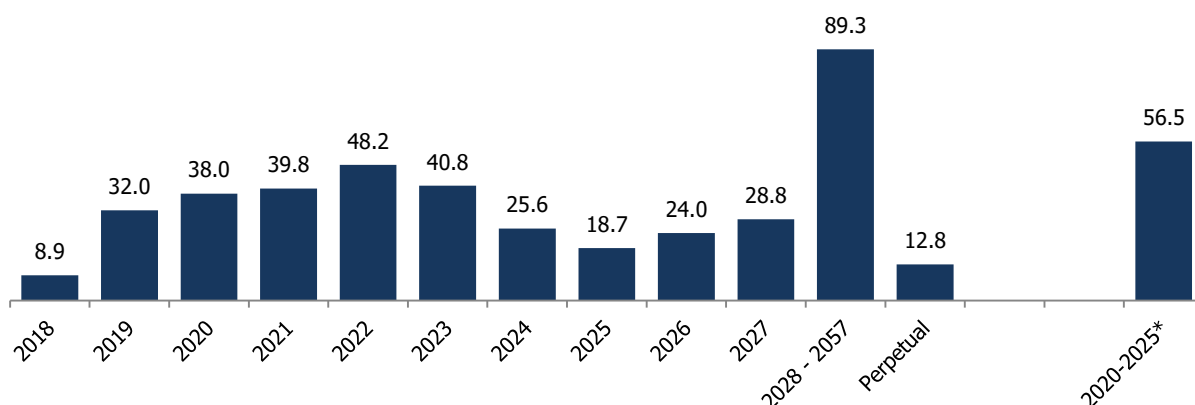
GCC Bonds and Sukuk Market
Amount Outstanding- 30 June 2018
Currency Breakdown (USD Mn)



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

As of 30th of June 2018, bonds and Sukuk amounting to USD8.89 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 USD352.33 billion are expected to mature during the 10-year period from 2019 to 2028.

GCC Bonds and Sukuk Market
Amount outstanding
Maturity Breakdown (USD Mn)
As of 30 June 2018



*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 loss of 1.78% (up by 3.14% in H1 2017) with total index decreasing from 120.19 on 31st December 2017 to 118.04 on 30th June 2018. The index recorded the lowest value on 9th May 2018 when it reached 116.21, while it recorded its highest value of 120.34 on 4th January 2018.

During H1 2018, the index yield increased from 3.40% to 4.21%. The index recorded its maximum yield during the year of 4.32% on 17th May 2018 while it recorded its minimum yield of 3.49% on 4th January 2018.



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

Credit Default Swaps (CDS)

During H1 2018, 5Y CDS for Qatar's dropped by 4.26% to 96.6 bps, and Saudi Arabia's 5Y CDS decreased by 0.62% to end at 91.14 bps.

Bahrain's 5Y CDS was the most negatively affected in H1 2018 as it increased by 39.28% to 385.18 bps. Kuwait's 5Y CDS widened by 8.93% to reach 69.63 bps while still being the lowest among the GCC nations, Dubai's 5Y CDS widened by 7.46% to 131.56 basis points, while Abu Dhabi's 5Y CDS widened by 5.97% to reach 66.66 bps.

GCC 5-Year Sovereign Credit Default Swaps Spread

	Opening CDS	Closing CDS	Percent Change During H1 2018
	Basis Points	Basis Points	
Saudi Arabia	91.71	91.14	-0.62%
Abu Dhabi	61.66	65.34	+5.97%
Dubai	122.43	131.56	+7.46%
Qatar	100.94	96.64	-4.26%
Kuwait	63.92	69.63	+8.93%
Bahrain	276.55	385.18	+39.28%

Source: Bloomberg, Markaz Analysis

Key GCC Sovereign and Corporate Bonds and Sukuk Issuances – H1 2018

Issuer/Guarantor	Security Description	Country	Subscription Month	Maturity Date	Issue Size (US\$ mn)	Coupon / Profit Rate	Sector	Rating
State of Qatar	QATAR 5.103 04/23/48	Qatar	April	23-Apr-48	6,000	5.10	Sovereign	AA-
Kingdom of Saudi Arabia	KSA 4 04/17/25	Saudi Arabia	April	17-Apr-25	4,500	4.00	Sovereign	A1
Kingdom of Saudi Arabia	KSA 5 04/17/49	Saudi Arabia	April	17-Apr-49	3,500	5.00	Sovereign	A1
Kingdom of Saudi Arabia	KSA 4 1/2 04/17/30	Saudi Arabia	April	17-Apr-30	3,000	4.50	Sovereign	A1
State of Qatar	QATAR 4 1/2 04/23/28	Qatar	April	23-Apr-28	3,000	4.50	Sovereign	AA-
State of Qatar	QATAR 3 7/8 04/23/23	Qatar	April	23-Apr-23	3,000	3.88	Sovereign	AA-
Sultanate of Oman	OMAN 6 3/4 01/17/48	Oman	January	17-Jan-48	2,750	6.75	Sovereign	Baa2
Kingdom of Saudi Arabia	KSASUK 3 1/4 01/24/23	Saudi Arabia	January	24-Jan-23	2,532	3.25	Sovereign	-
Oman Government International Bond	OMAN 5 5/8 01/17/28	Oman	January	17-Jan-28	2,500	5.63	Sovereign	Baa2
Kingdom of Saudi Arabia	KSASUK 3.4 04/25/23	Saudi Arabia	April	25-Apr-23	1,907	3.40	Sovereign	-
Qatar National Bank	QNBK 0 05/31/21	Qatar	May	31-May-21	1,500	3.66	Financial	A
Qatar National Bank	QNBK 0 02/12/20	Qatar	February	12-Feb-20	1,388	3.16	Financial	Aa3
Sultanate of Oman	OMAN 4 1/8 01/17/23	Oman	January	17-Jan-23	1,250	4.13	Sovereign	Baa2
Dubai Islamic Bank	DIBUH 3 5/8 02/06/23	UAE	February	6-Feb-23	1,000	3.63	Financial	A3
Qatar National Bank	QNBK 0 02/07/20	Qatar	February	7-Feb-20	1,000	3.14	Financial	Aa3
Sharjah Sukuk Program Ltd	SHARSK 4.226 03/14/28	UAE	March	14-Mar-28	1,000	4.23	Sovereign	BBB+
Kingdom of Bahrain	BHRAIN 6 7/8 10/05/25	Bahrain	March	5-Oct-25	1,000	6.88	Sovereign	-
Abu Dhabi National Energy (Taqa)	TAQAUH 4 7/8 04/23/30	UAE	April	23-Apr-30	1,000	4.88	Utilities	A3
Oman Telecommunications	OTELOM 6 5/8 04/24/28	Oman	April	24-Apr-28	900	6.63	Communications	Baa3
Abu Dhabi Commercial Bank	ADCBUH 4 03/29/23	UAE	March	29-Mar-23	750	4.00	Financial	A
Abu Dhabi Commercial Bank	ADCBUH 4 03/29/23	UAE	March	29-Mar-23	750	4.00	Financial	A
Abu Dhabi National Energy (Taqa)	TAQAUH 4 3/8 04/23/25	UAE	April	23-Apr-25	750	4.38	Utilities	A3

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About marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making

Our aim

Advocate intellectual research on MENA economics, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- Markaz research activities commenced in 2006
- Marmore established in 2010 to intensify the research activities
- Publishes research reports and provides consulting services

Published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.

Consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- Industry market assessment (market size, competitors, regulations)
- White label reports (industry reports, company newsletters, periodic research)
- Databases (competitors' information, target clients insights)
- Company valuation (buy/sell side advisory)
- Due diligence / Business evaluation
- Feasibility studies (market and financial)
- Business plans
- C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- Step 1: Requirement and scope analysis
- Step 2: Proposal submission
- Step 3: Project initiation
- Step 4: Fieldwork / research
- Step 5: Analysis & reporting
- Step 6: Review & approval
- Step 7: Report submission / presentation

