

GCC Bond Chart Book

A comprehensive overview of the risk and return parameters of the key securities in the GCC Fixed Income space

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October 2018

بنك أبوظبي التجاري
ADCB 

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GCC Bond Markets – Key Takeaways

This GCC Bond Chart Book provides a comprehensive overview of the trends in GCC dollar bond issuances so far this year (Chapter I), the bond market performance (Chapter II) and finally the bond valuations compared mostly with other emerging market peers (Chapter III and Chapter IV).

Unlike most emerging bond markets, GCC bonds have been relatively resilient, confirming our view that the region's financial markets remain relatively insulated from (the repricing of) global growth concerns (see in particular on page 23 the performance of the higher quality sovereigns).

Yet, when comparing GCC sovereign bond market prices with global sovereign bond market prices we can see that - for each credit class - GCC bonds still appear to be cheaper (this, of course, is most marked for Bahrain and Oman).

Whilst GCC corporate credits have been relatively resilient when compared to corporate bond markets of other EM regions (Page 25), there still appears to be value if one contrasts current price trends with past price movements in the presence of a rising oil price.

All in all, ADCB's House View remains cautious about the outlook of global risk assets, and in particular emerging market assets (bonds and equities) in which we have a tactical underweight. Having said so, within the broader asset class we are relatively constructive on the GCC bond markets.

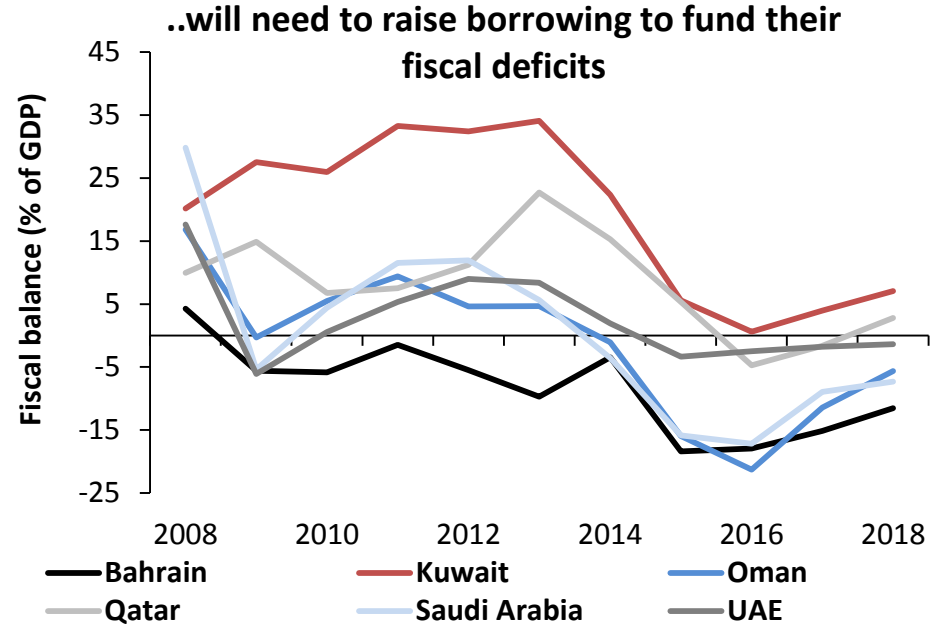
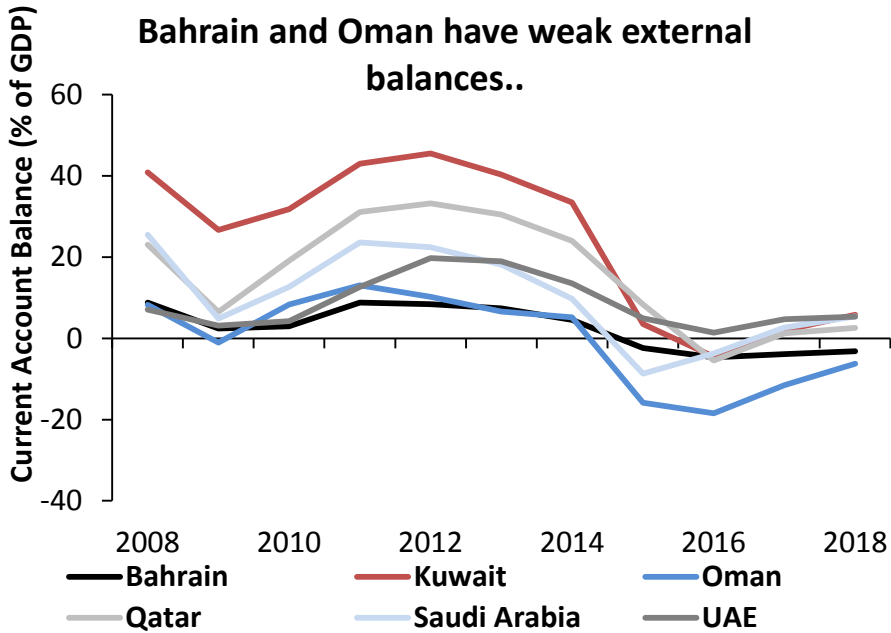
- ▶ Chapter I: Primary market bond issuances in GCC
- ▶ Chapter II: GCC bond performance
- ▶ Chapter III: Credit rating valuation
- ▶ Chapter IV: GCC valuation analysis

Chapter I: Primary market bond issuances in GCC

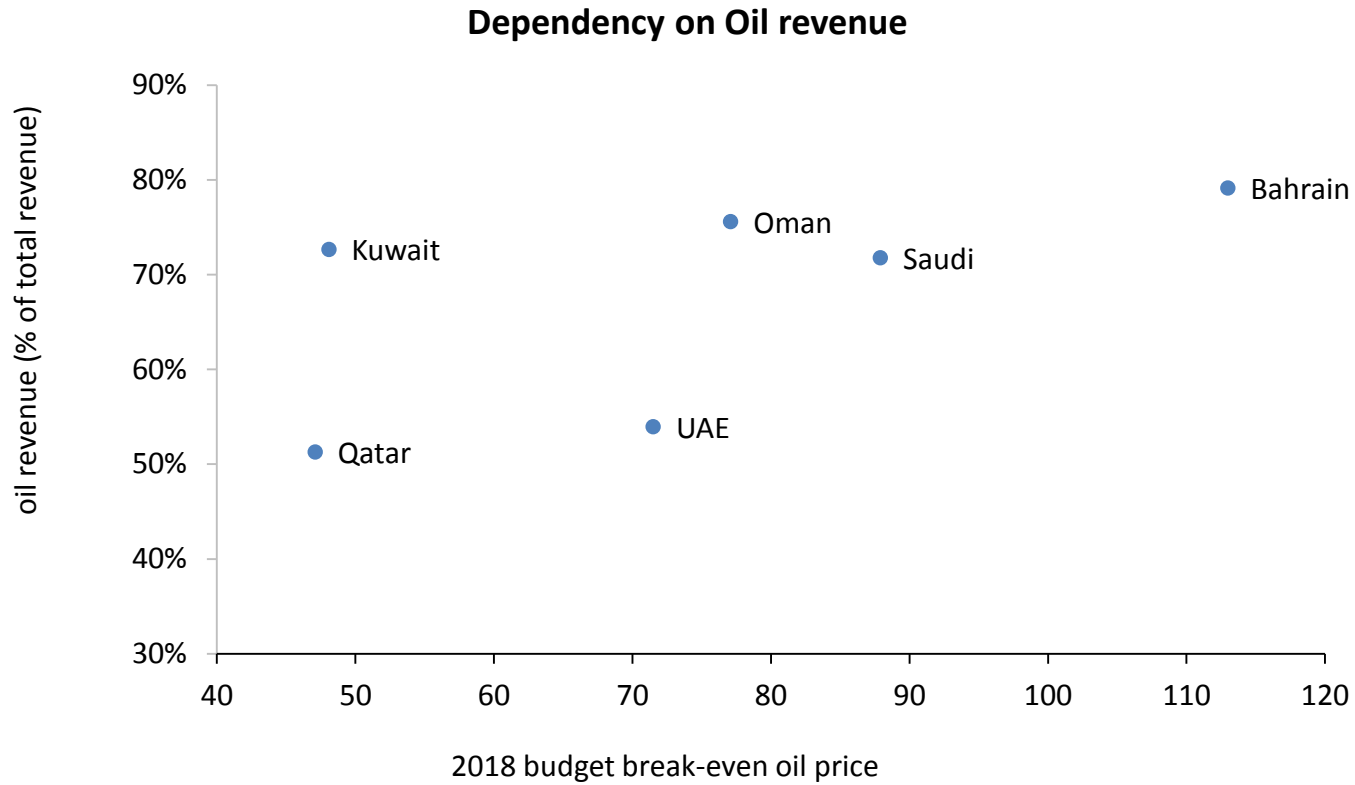


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Weaker economies need to scale up their diversification

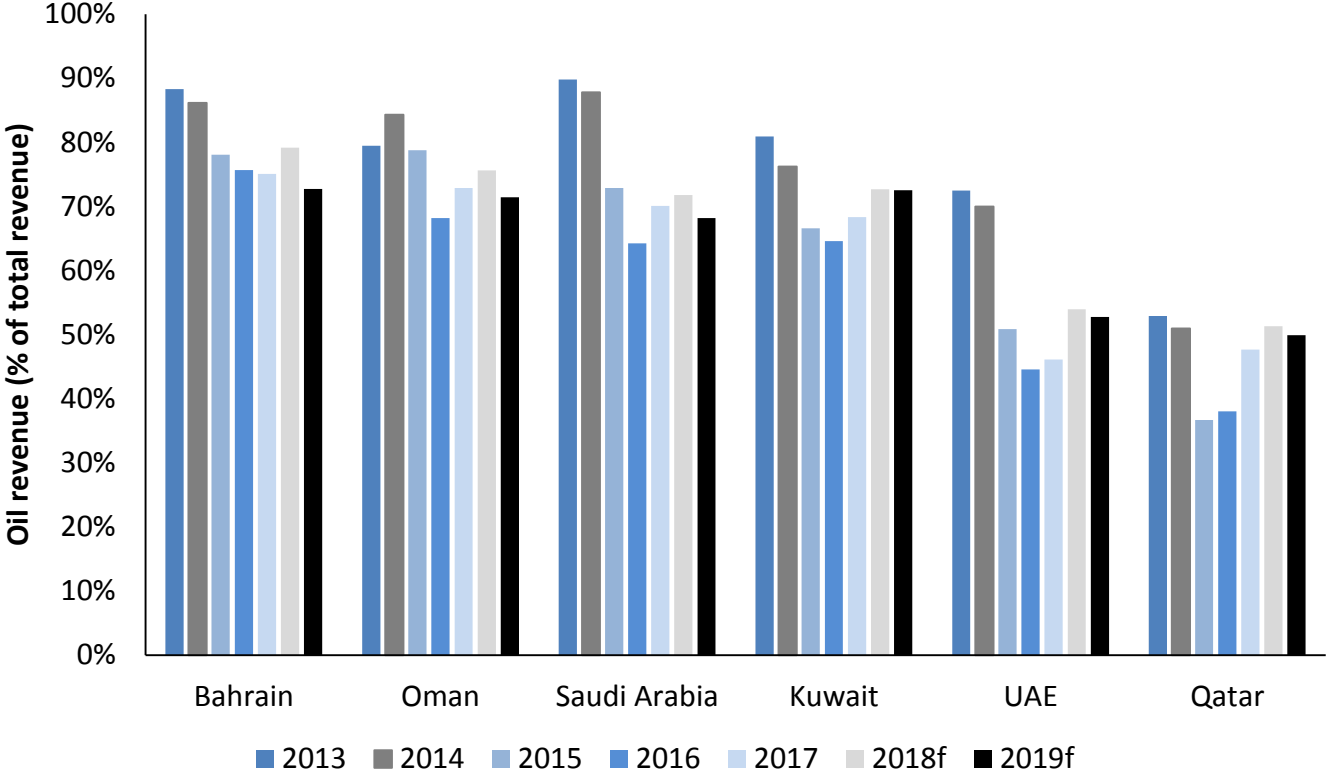


Source: IMF, ADCB



Source: IIF, Bloomberg, ADCB

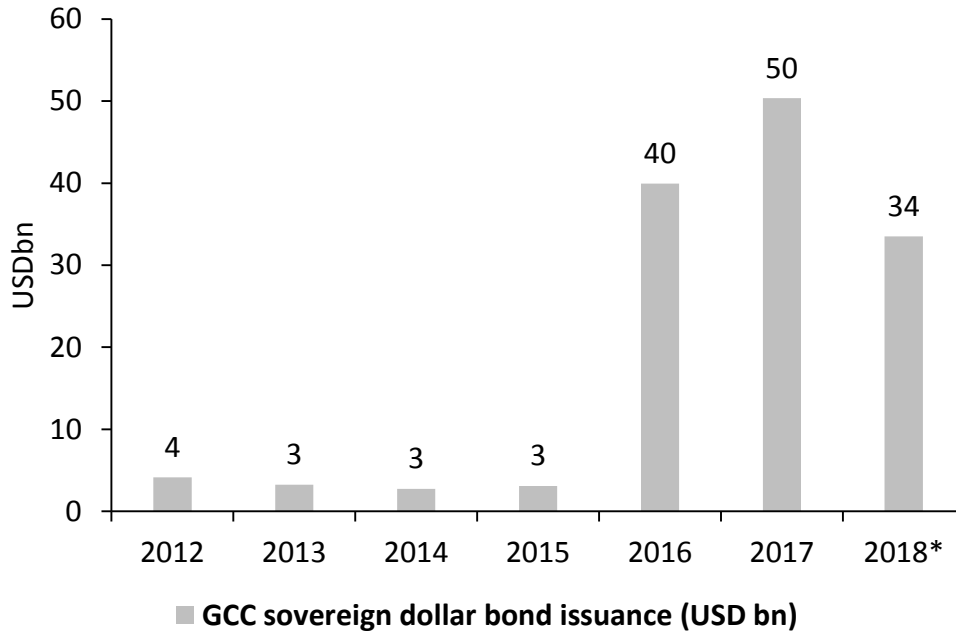
More diversification needed



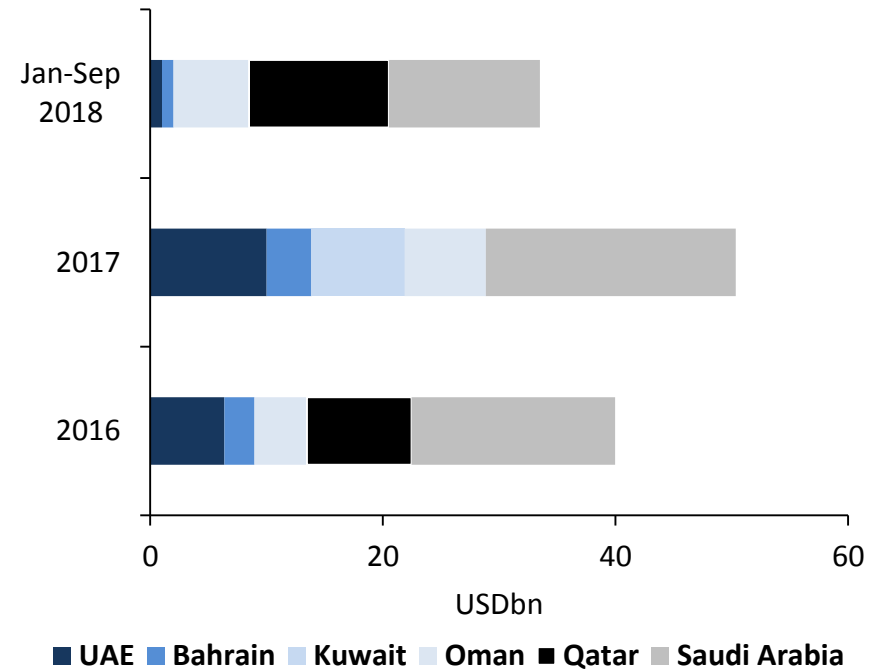
Source: IIF, ADCB

Sovereign dollar bond issuance trend

Sovereign dollar bond issuance has more than tripled

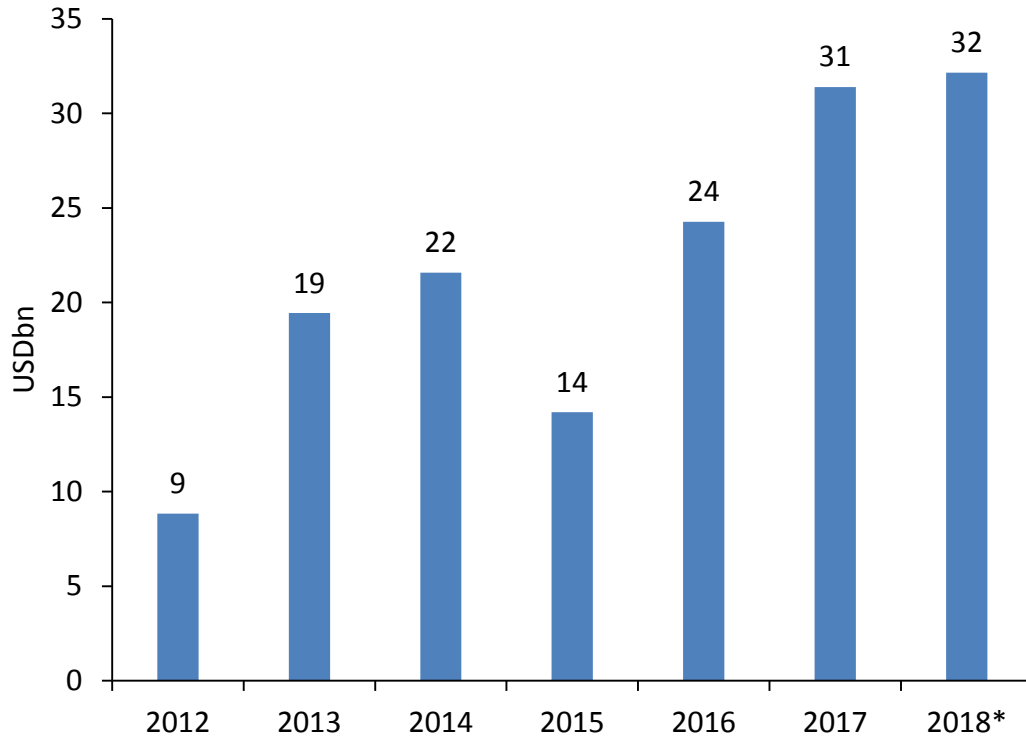


Bulk of issuance from Saudi Arabia

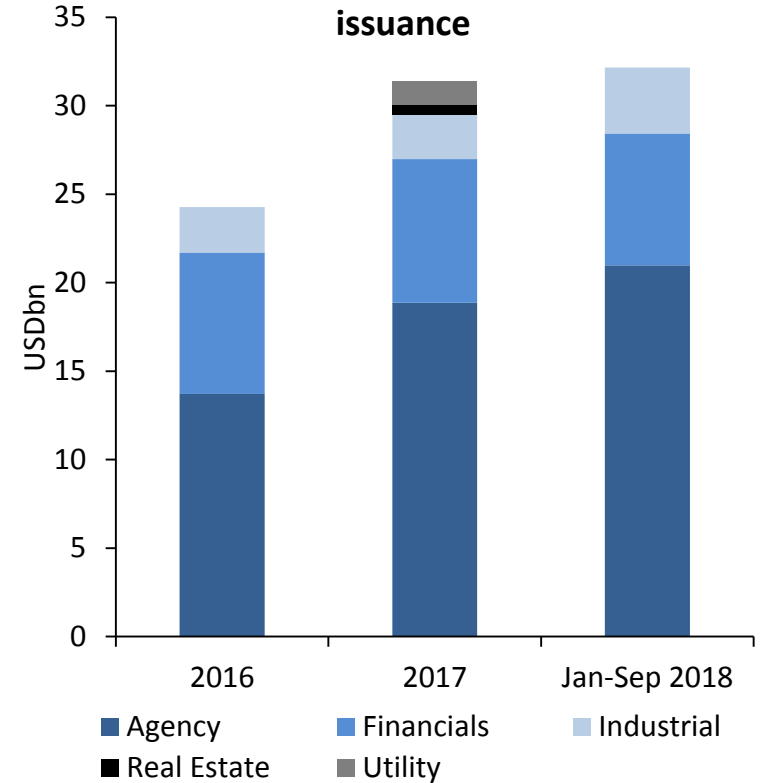


Source: Bloomberg, ADCB, *data from January- September 2018

Corporate dollar bond issuance



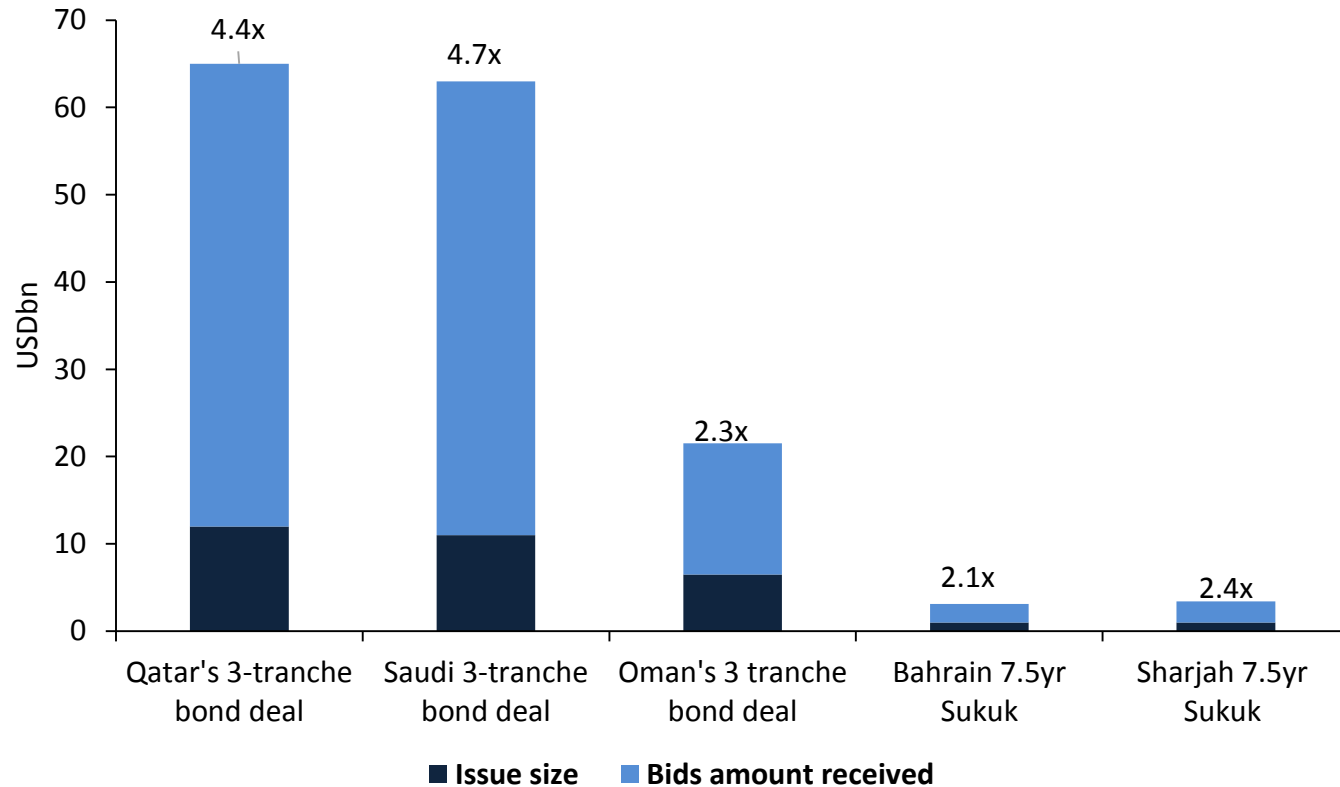
Financials and Agencies dominate issuance



Source: Bloomberg, ADCB, *data from January- September 2018

Strong demand for GCC sovereign bond issuers

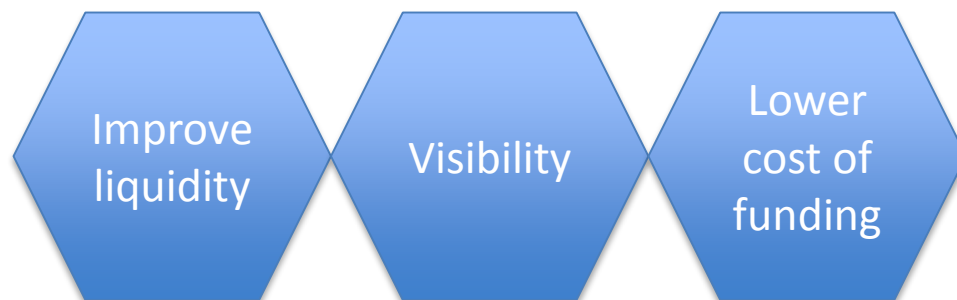
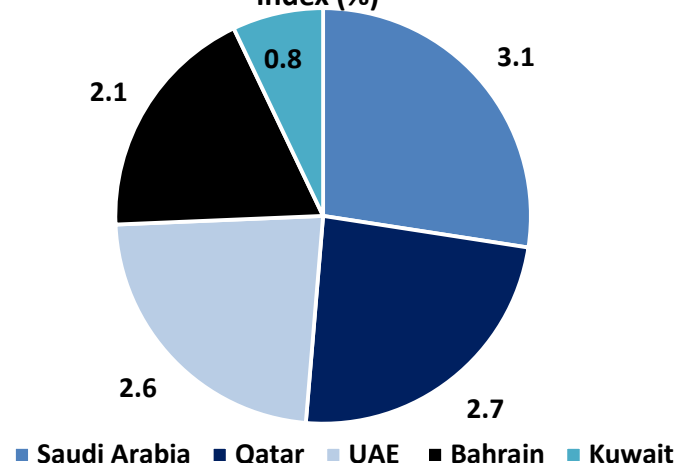
Strong demand for bond issuances this year



Source: Bloomberg, ADCB

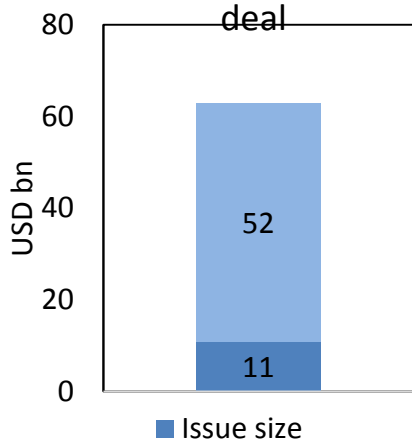
- **Sovereign and quasi-sovereign debt issuers from Saudi Arabia, Qatar, UAE, Bahrain and Kuwait eligible to be included in the EMBI Global Diversified (EMBIGD), EMBI Global (EMBIG) and EURO-EMBIG indices**
- **Entry will be phased over nine months beginning from January 2019 (31st Jan 2019– 30th Sep 2019)**
- **Both conventional bonds and sukuk to be included. For the sukuk to be included, a credit rating from at least one of the three major rating agencies is mandatory**
- **With the inclusion, GCC countries will represent approx. 11.2% of the JP Morgan's EMBI Global Diversified and EMBI Global series**

Potential weight in the EMBI global diversified index (%)

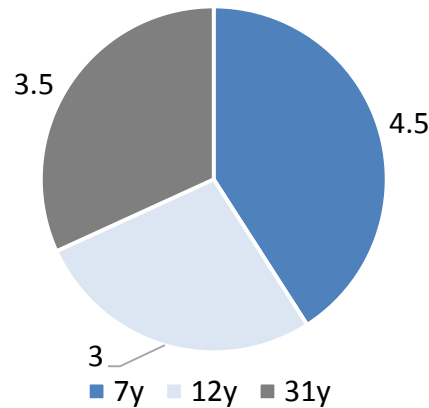


Saudi sovereign dollar bond issuance 2018

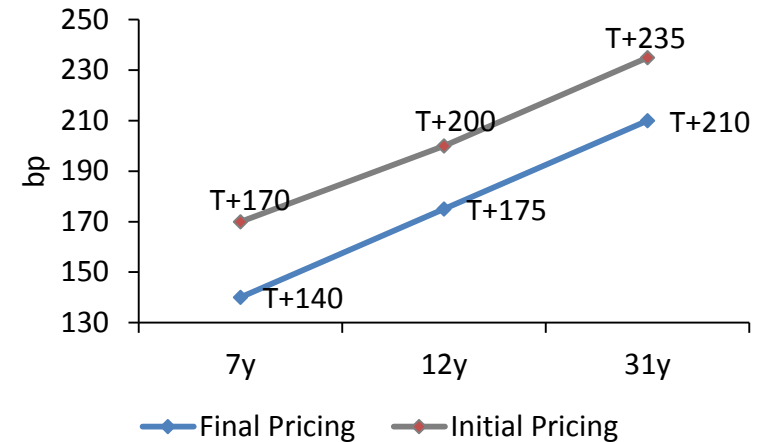
Strong demand for the 3-tranche bond deal



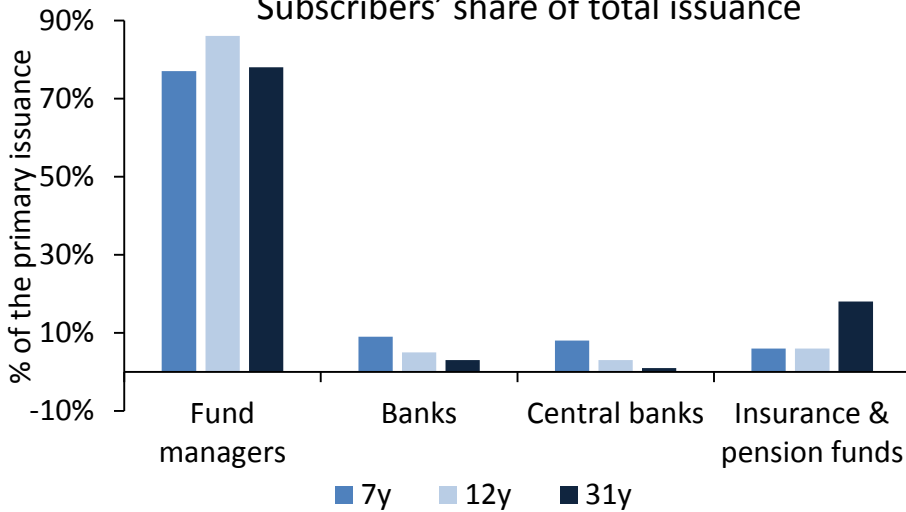
Issue size (bn)



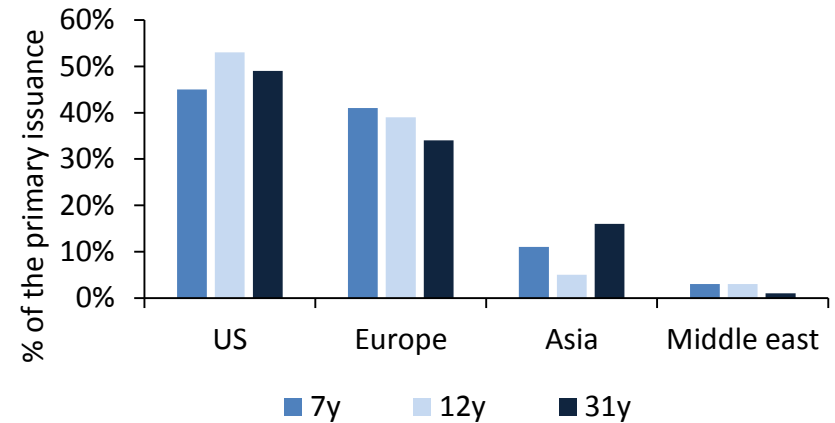
Saudi USD11bn 3-tranche bond deal



Subscribers' share of total issuance



Subscribers' nationality as a share of total issuance

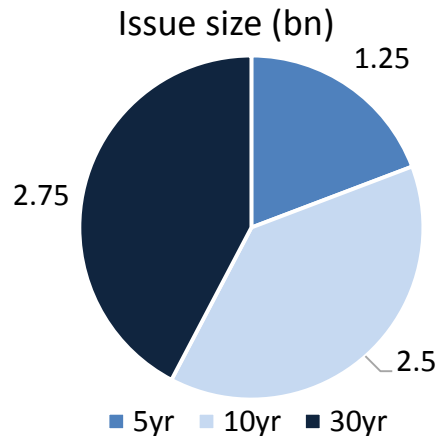


Note: "T" refers to similar-maturity treasuries

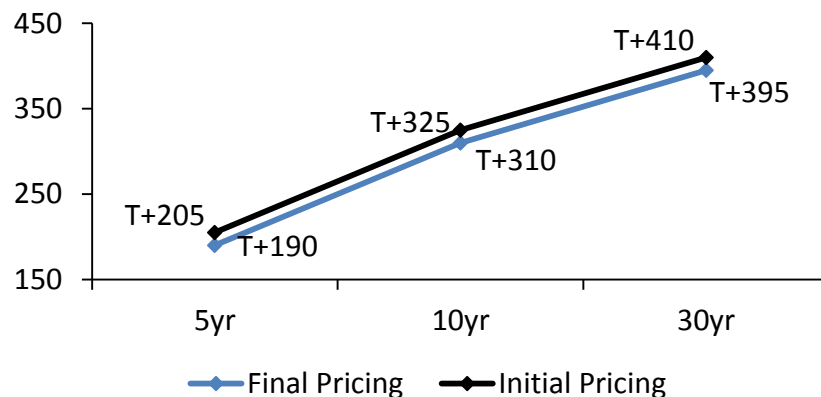
Source: Bloomberg, ADCB

Oman sovereign issuances 2018

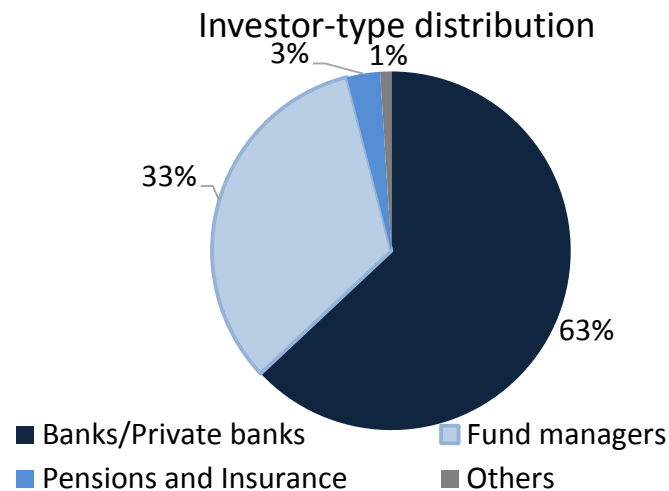
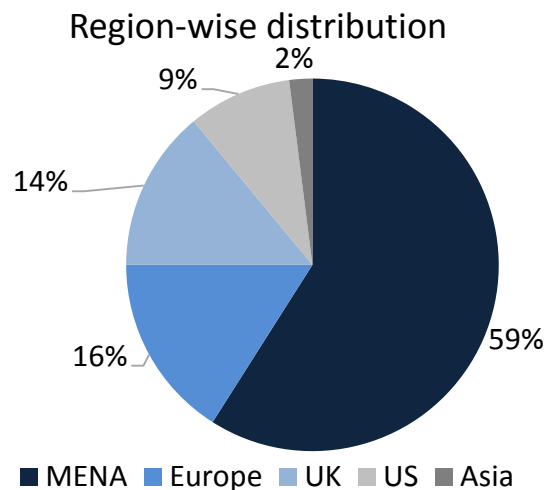
▶ Oman USD6.5bn 3-tranche dollar bond issuance



Oman USD6.5bn 3-tranche bond deal



▶ Bahrain USD1bn 7.5yr Dollar Sukuk



Note: "T" refers to similar-maturity treasuries

Source: Bloomberg, ADCB

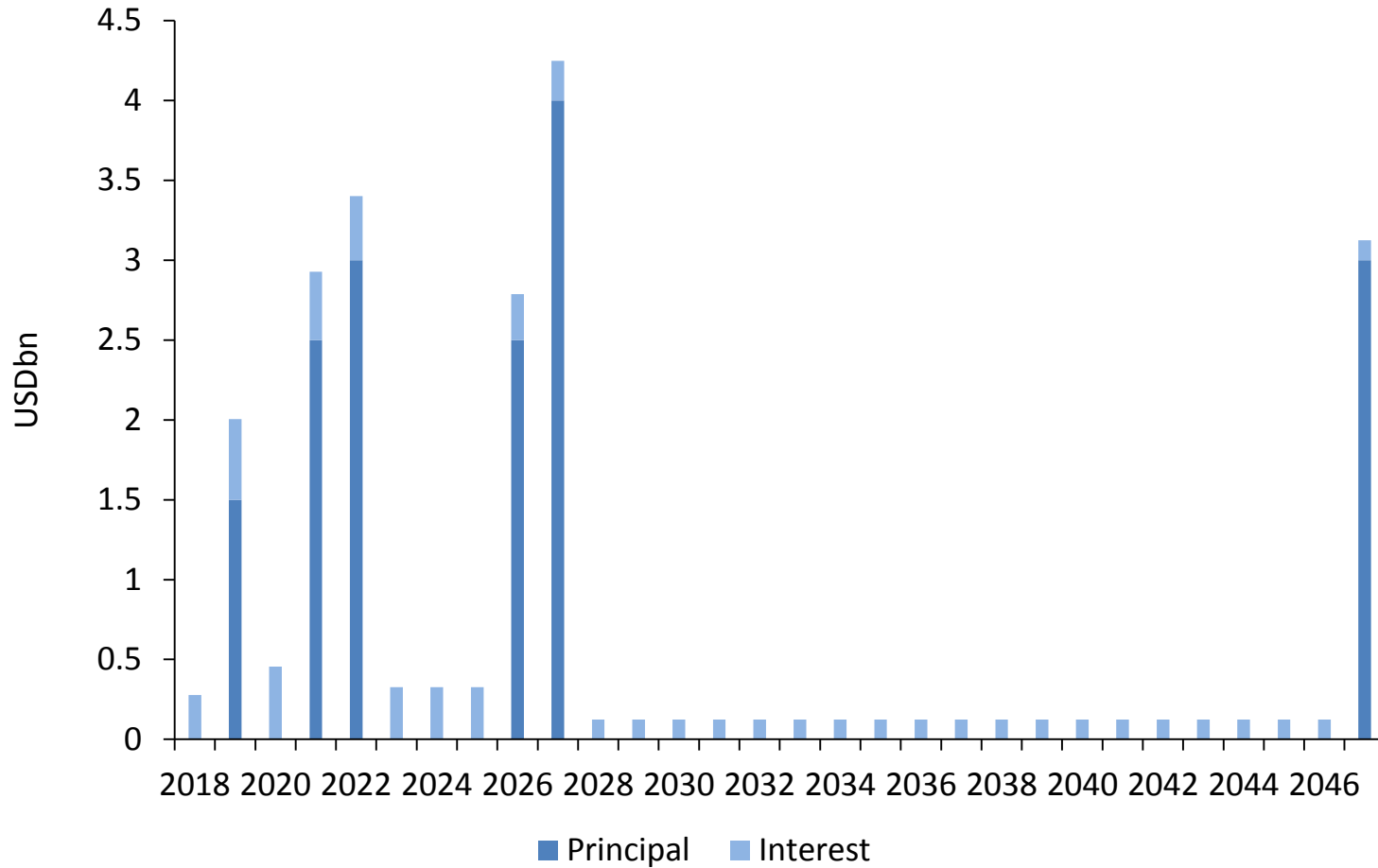
Major corporate dollar bond deals

Corporate Issuer	Bloomberg Ticker	Sector	Country	Amount Issued	Coupon	Maturity	Maturity Type	Issue Date	Moody Rtg	Priced at issue (spread, bp)*
QNB Finance Ltd	QNBK	Agency	QA	1500	0	5/31/2021	AT MATURITY	5/31/2018	Aa3	-
QNB Finance Ltd	QNBK	Agency	QA	1388	0	2/12/2020	AT MATURITY	2/12/2018	Aa3	-
Saudi Electricity Global Sukuk Co 4	SECO	Agency	SA	1200	4.72	9/27/2028	AT MATURITY	9/27/2018	A2	M+160
DP World Ltd	DPWDU	Financials	AE	1000	5.63	9/25/2048	AT MATURITY	9/25/2018	Baa1	T+251
DP World Crescent Ltd	DPWDU	Agency	AE	1000	0	9/26/2028	AT MATURITY	9/26/2018	Baa1	T+181
DIB Sukuk Ltd	DIBUH	Financials	AE	1000	3.63	2/6/2023	AT MATURITY	2/6/2018	A3	M+115
Abu Dhabi National Energy Co PJSC	TAQAUH	Agency	AE	1000	4.88	4/23/2030	AT MATURITY	4/23/2018	A3	T+205
QNB Finance Ltd	QNBK	Agency	QA	1000	0.00	2/7/2020	AT MATURITY	2/7/2018	Aa3	-
Oztel Holdings SPC Ltd	OTELOM	Agency	OM	900	6.63	4/24/2028	AT MATURITY	4/24/2018	Baa3	T+406
Shelf Drilling Holdings Ltd	SHLFDI	Industrial	AE	900	8.25	2/15/2025	CALLABLE	2/7/2018	B2	T+557
Saudi Electricity Global Sukuk Co 4	SECO	Agency	SA	800	4.22	1/27/2024	AT MATURITY	9/27/2018	A2	M+115
Adib Capital Invest 2 Ltd	ADIBUH	Financials	AE	750	7.13	-	PERP/CALL	9/20/2018	B1	T+427
ADCB Finance Cayman Ltd	ADCBUH	Financials	AE	750	4.00	3/29/2023	AT MATURITY	3/29/2018	A1	T+145
Abu Dhabi National Energy Co PJSC	TAQAUH	Financials	AE	750	4.38	4/23/2025	AT MATURITY	4/23/2018	A3	T+160
QNB Finance Ltd	QNBK	Agency	QA	720	0.00	1/23/2048	CALLABLE	1/23/2018	Aa3	-
Fab Sukuk Co Ltd	FABUH	Financials	AE	650	3.63	3/5/2023	AT MATURITY	3/5/2018	Aa3	M+95
First Abu Dhabi Bank PJSC	FABUH	Financials	AE	610	0.00	1/22/2048	CALLABLE	1/22/2018	Aa3	-
Oztel Holdings SPC Ltd	OTELOM	Financials	OM	600	5.63	10/24/2023	AT MATURITY	4/24/2018	Baa3	-
Zahidi Ltd	EMIRAT	Financials	AE	600	4.50	3/22/2028	SINKABLE	3/22/2018	-	T+198
ADCB Finance Cayman Ltd	ADCBUH	Financials	AE	540	0.00	1/18/2048	CALLABLE	1/18/2018	A1	-
Nile Delta Sukuk Ltd	DANAUH	Financials	AE	530	4.00	10/31/2020	CALLABLE	8/13/2018	-	-
National Bank of Oman SAOG	NBOBOM	Financials	OM	500	5.63	9/25/2023	AT MATURITY	9/25/2018	Baa3	T+289
AHB Sukuk Co Ltd	ALHILA	Financials	AE	500	4.38	9/19/2023	AT MATURITY	9/19/2018	A2	M+148
Bank Muscat SAOG	BKMBOM	Financials	OM	500	4.88	3/14/2023	AT MATURITY	3/14/2018	Baa3	M+230
CBQ Finance Ltd	COMQAT	Financials	QA	500	5.00	5/24/2023	AT MATURITY	5/24/2018	A3	M+213
Dar Al-Arkan Sukuk Co Ltd	DARALA	Financials	SA	500	6.88	3/21/2023	AT MATURITY	3/21/2018	B1	M+437
Noor Sukuk Co Ltd	NOORBK	Financials	AE	500	4.47	4/24/2023	AT MATURITY	4/24/2018	A3^	M+165
SIB Sukuk Co III Ltd	SIB	Financials	AE	500	4.23	4/18/2023	AT MATURITY	4/18/2018	A3	M+150
Union National Bank PJSC	UNBUH	Financials	AE	500	4.00	3/13/2023	AT MATURITY	3/13/2018	A1	M+135

Note: Deals of only amount issued greater than USD500m are shortlisted, *Priced at issue indicated as spread over Treasury (T) or as mid-swap spread (M), Bloomberg sector classification has been used, ^Fitch rating used instead of Moody's rating

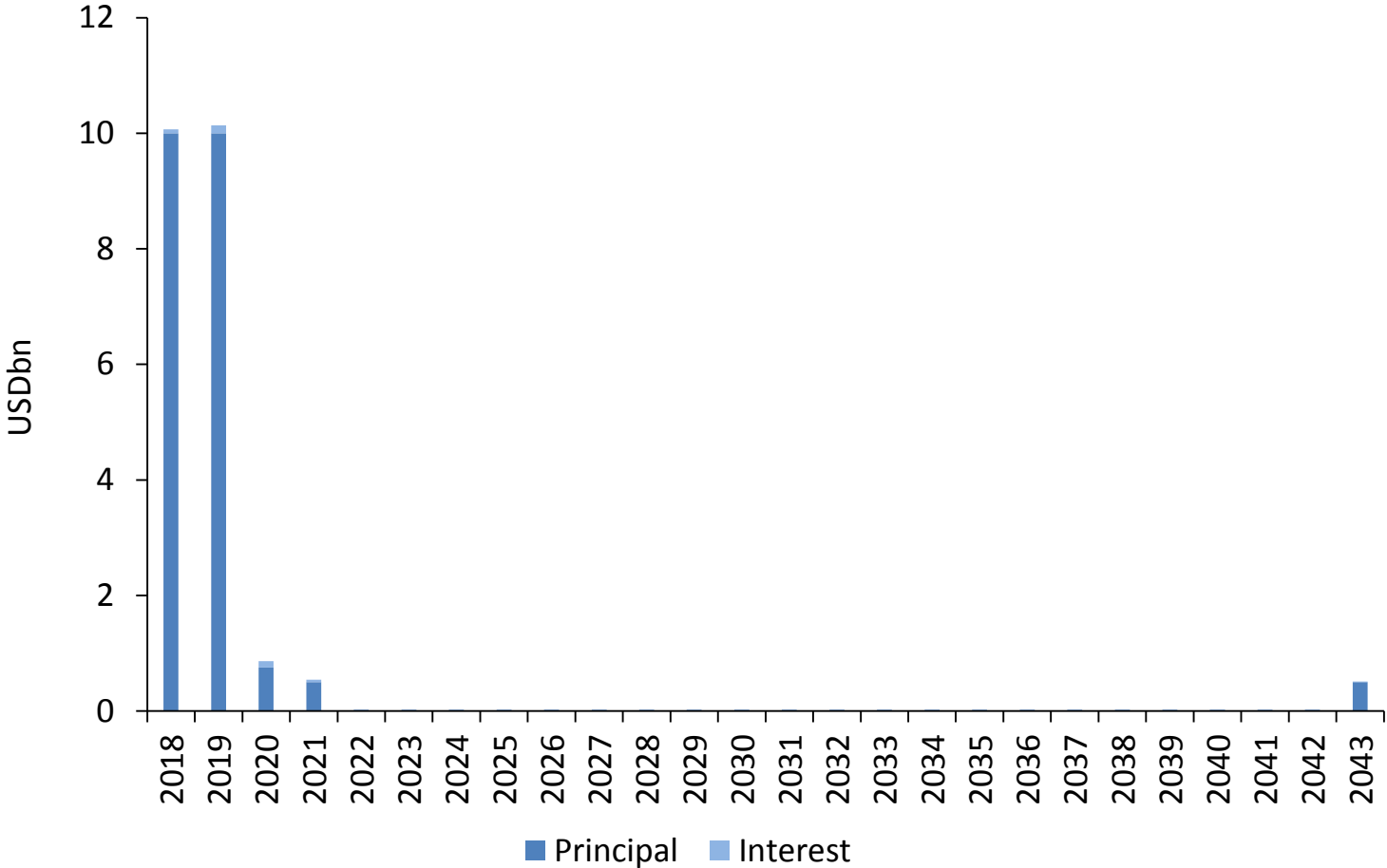
Source: Bloomberg

Abu Dhabi Sovereign Dollar Debt Maturity Profile



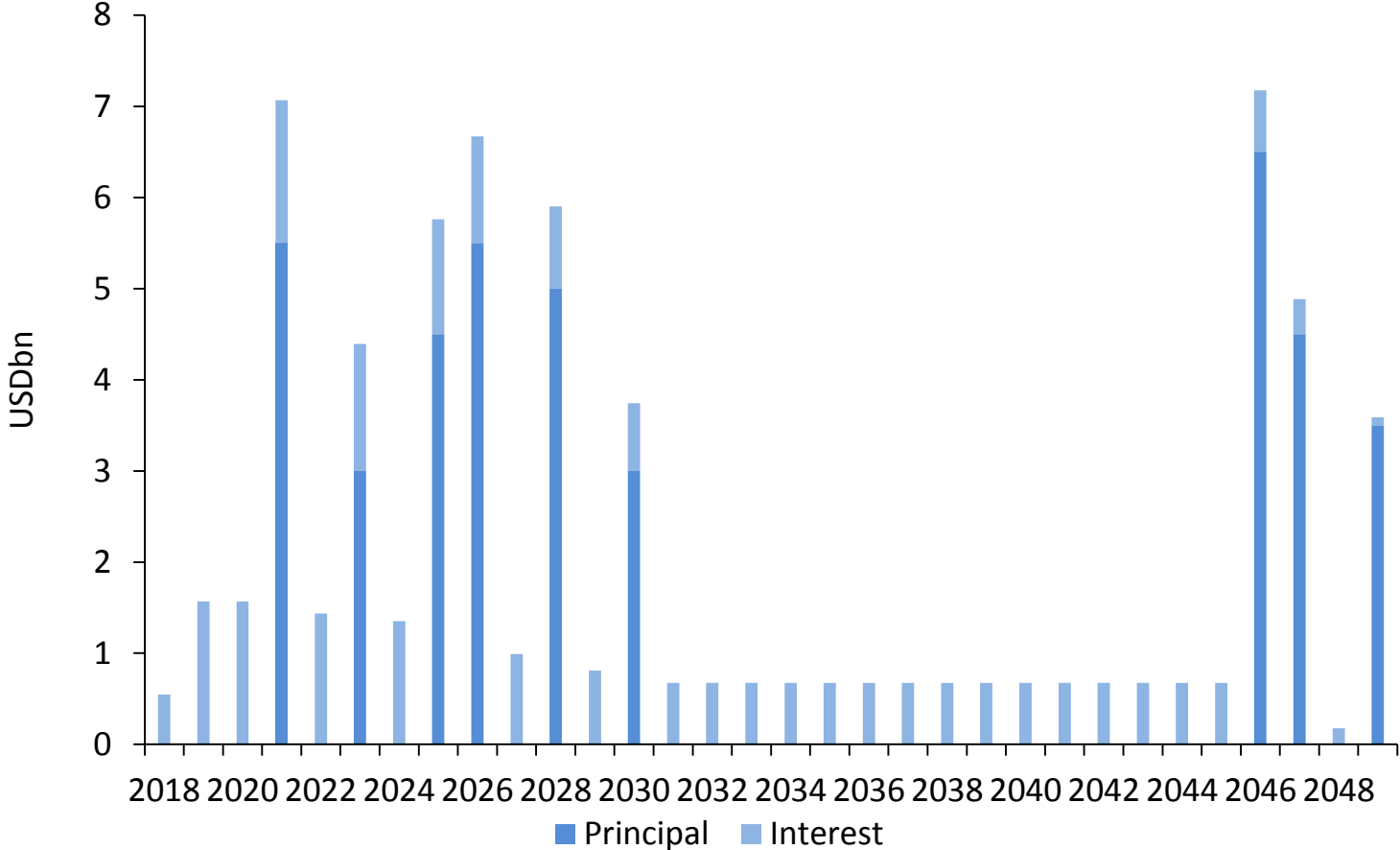
Source: Bloomberg, ADCB

Dubai Sovereign Dollar Debt Maturity Profile



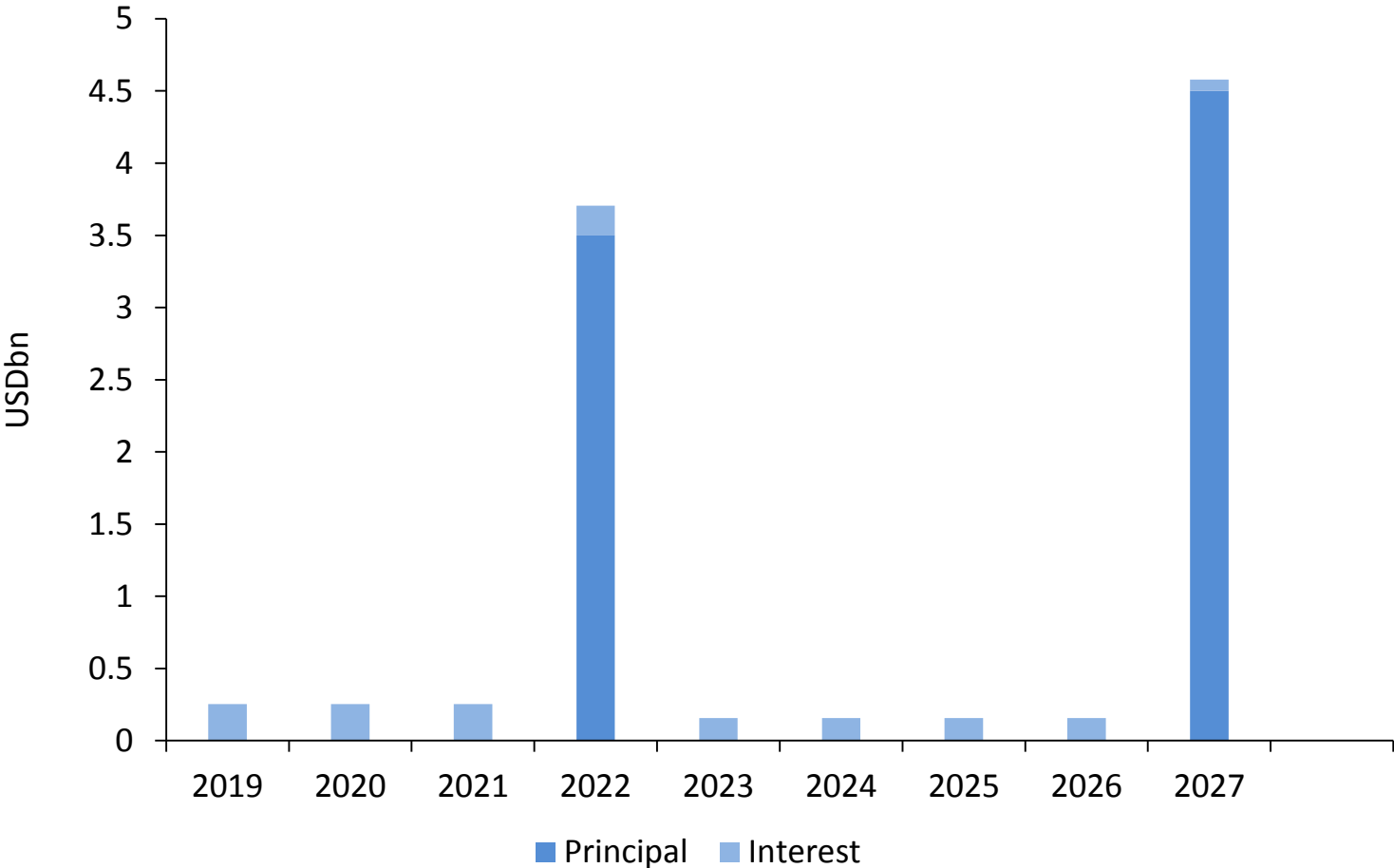
Source: Bloomberg, ADCB

Saudi Arabia Sovereign Dollar Debt Maturity Profile



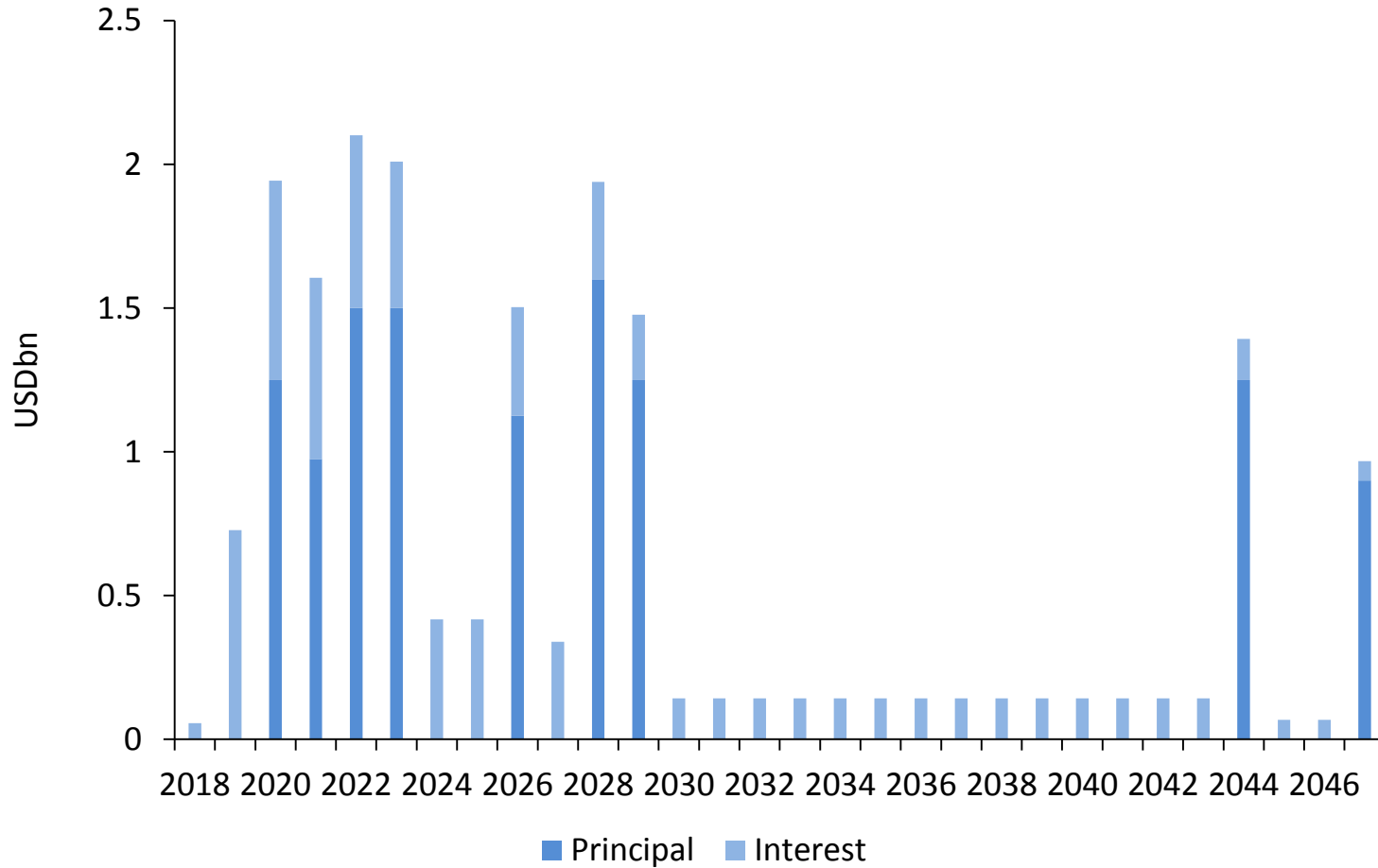
Source: Bloomberg, ADCB

Kuwait Sovereign Dollar Debt Maturity Profile



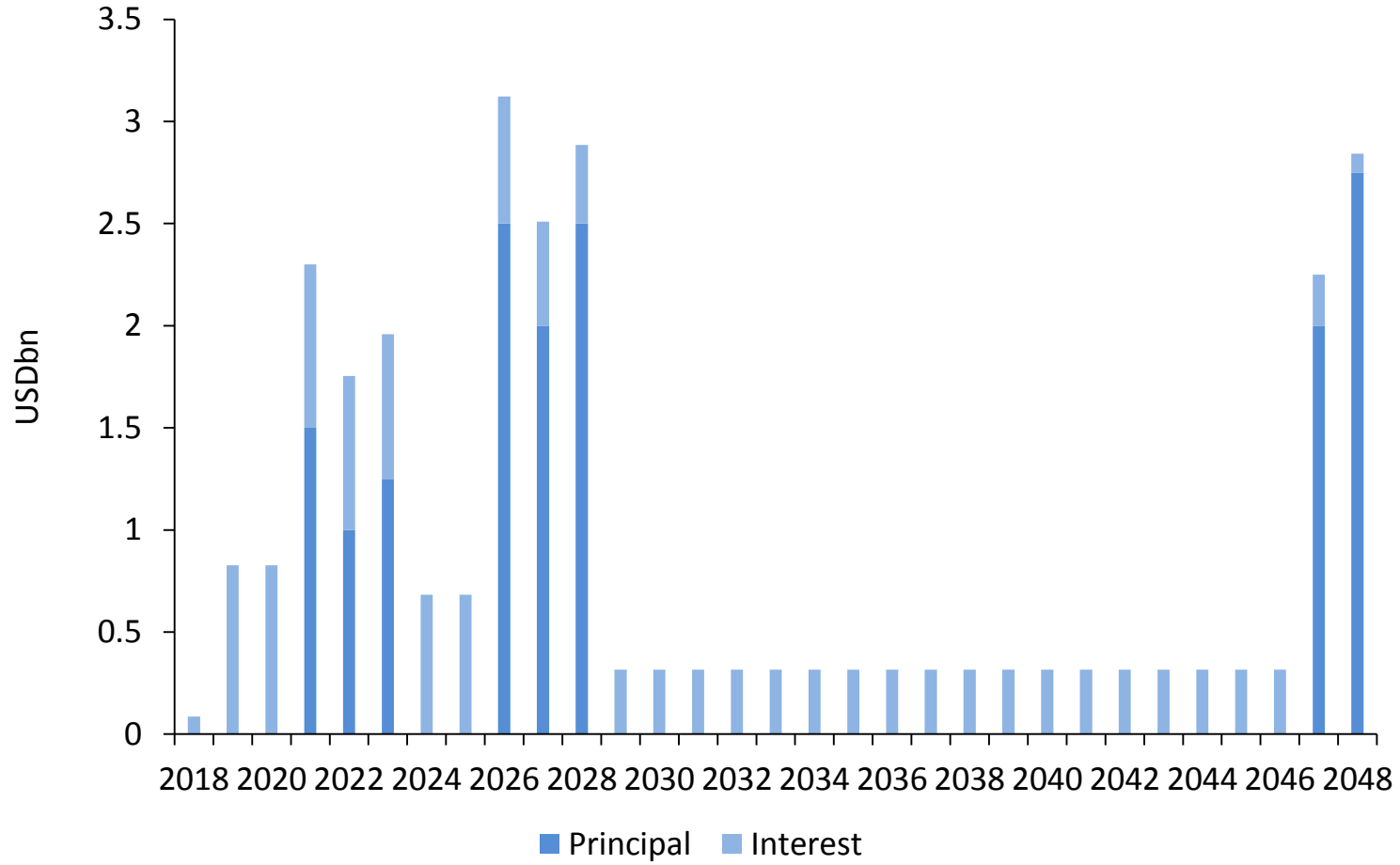
Source: Bloomberg, ADCB

Bahrain Sovereign Dollar Debt Maturity Profile



Source: Bloomberg, ADCB

Oman Sovereign Dollar Debt Maturity Profile



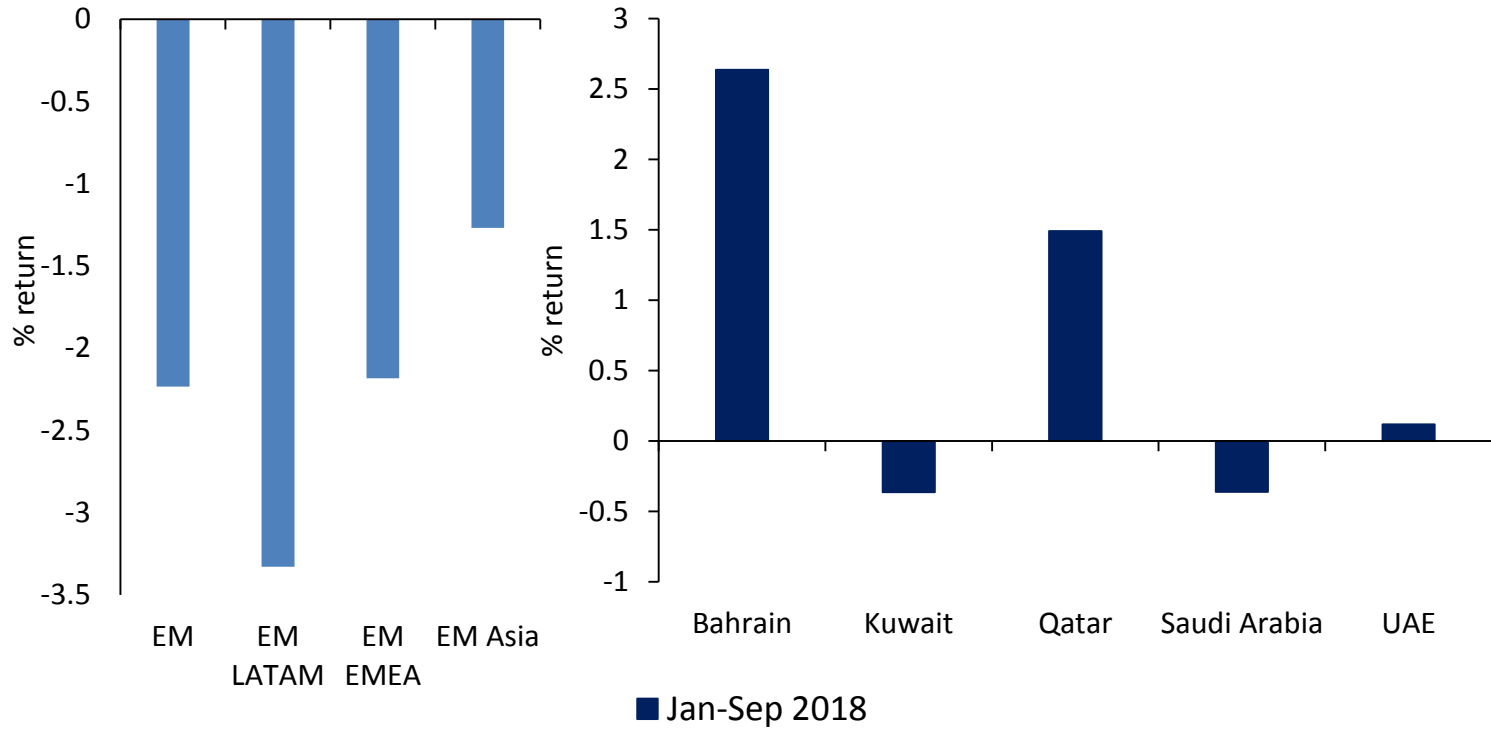
Source: Bloomberg, ADCB

Chapter II: GCC bond market performance



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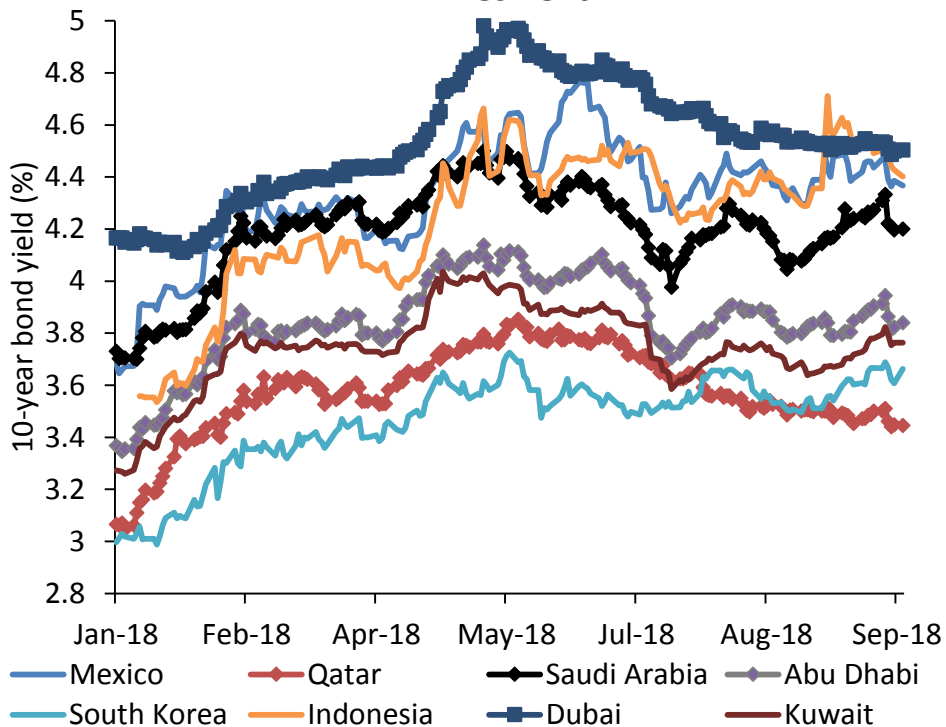
GCC countries: US dollar bond performance versus EM indices



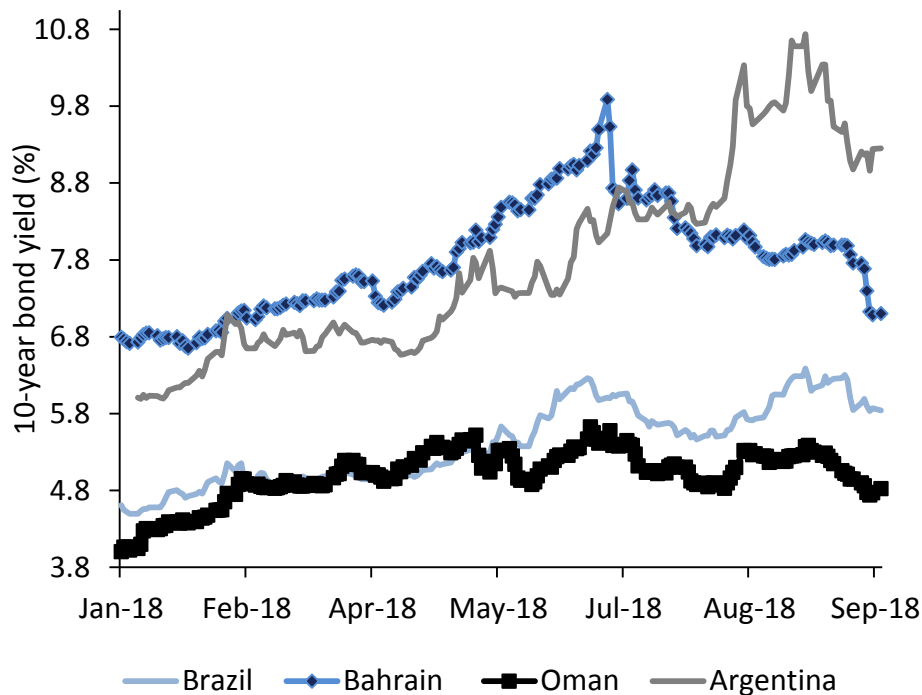
Source: Bloomberg, Barclays indices, ADCB

GCC Sovereign: 10-year dollar bond yield performance

Better quality GCC sovereigns continue to be resilient



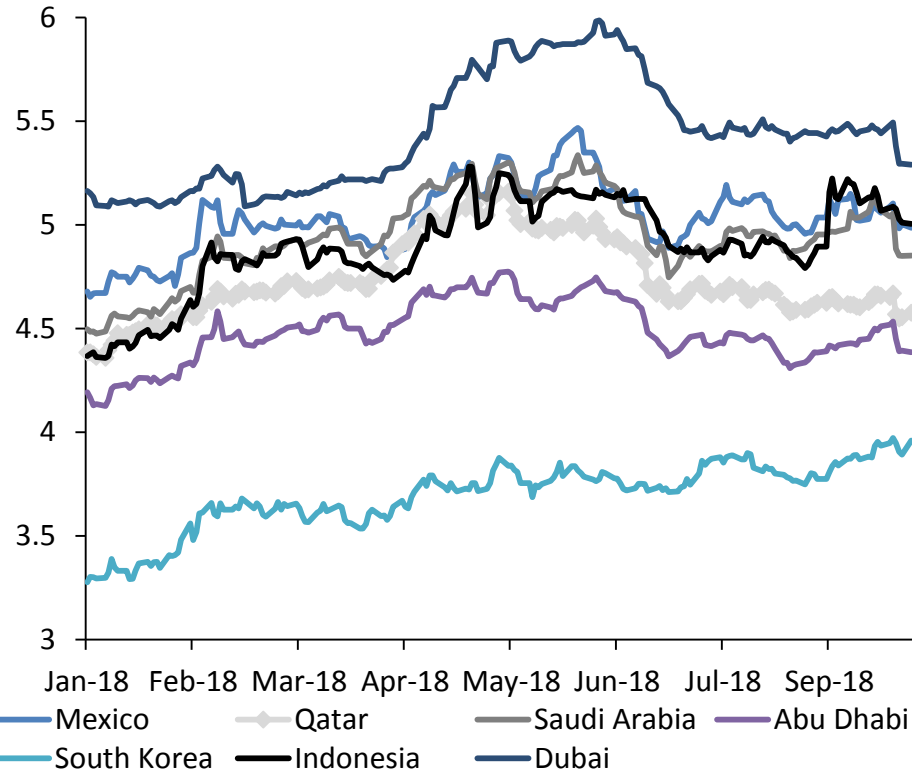
Bahrain has reversed its losses



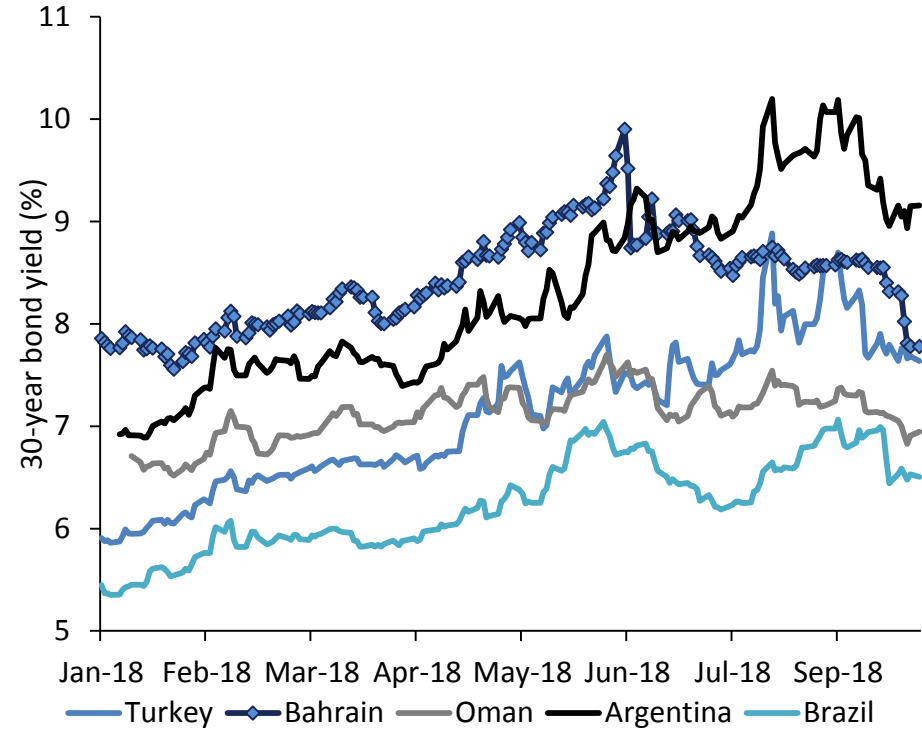
Source: Bloomberg, ADCB

GCC Sovereign: 30-year dollar bond yield performance

Dubai is trading cheap versus other EM peers

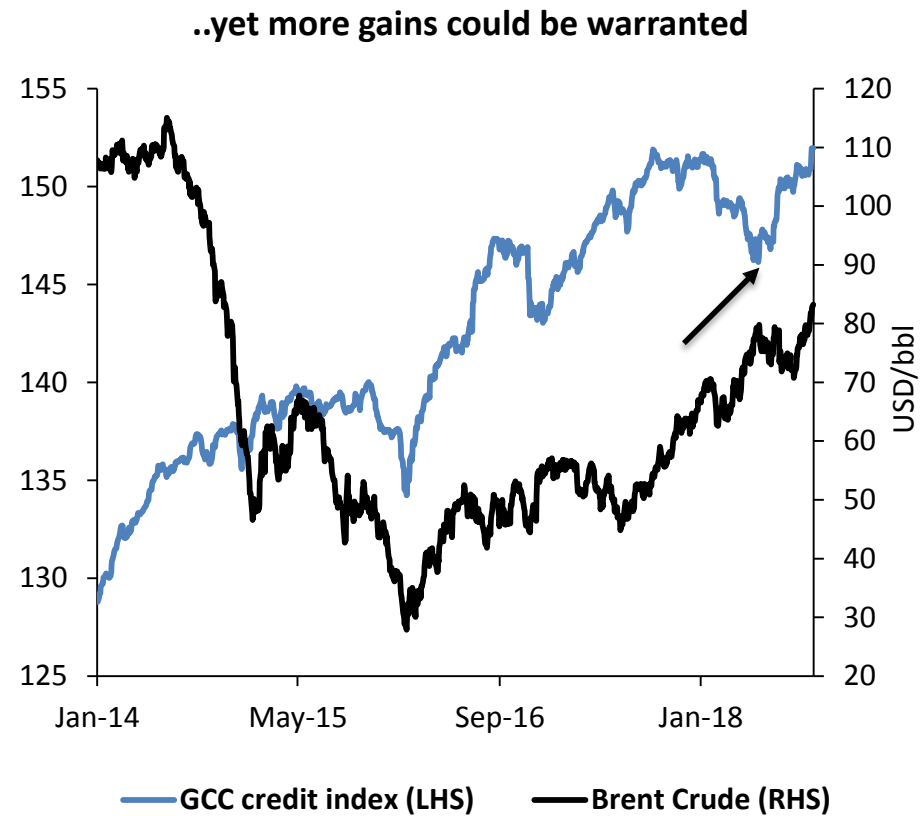
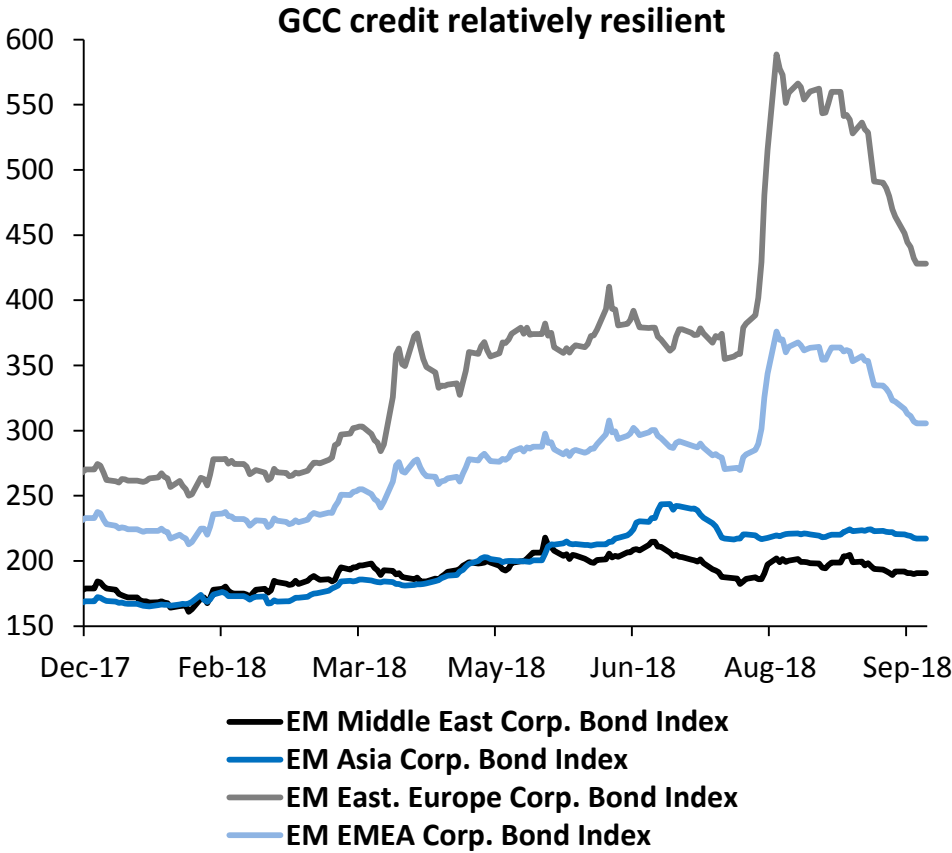


Bahrain at same levels as Turkey



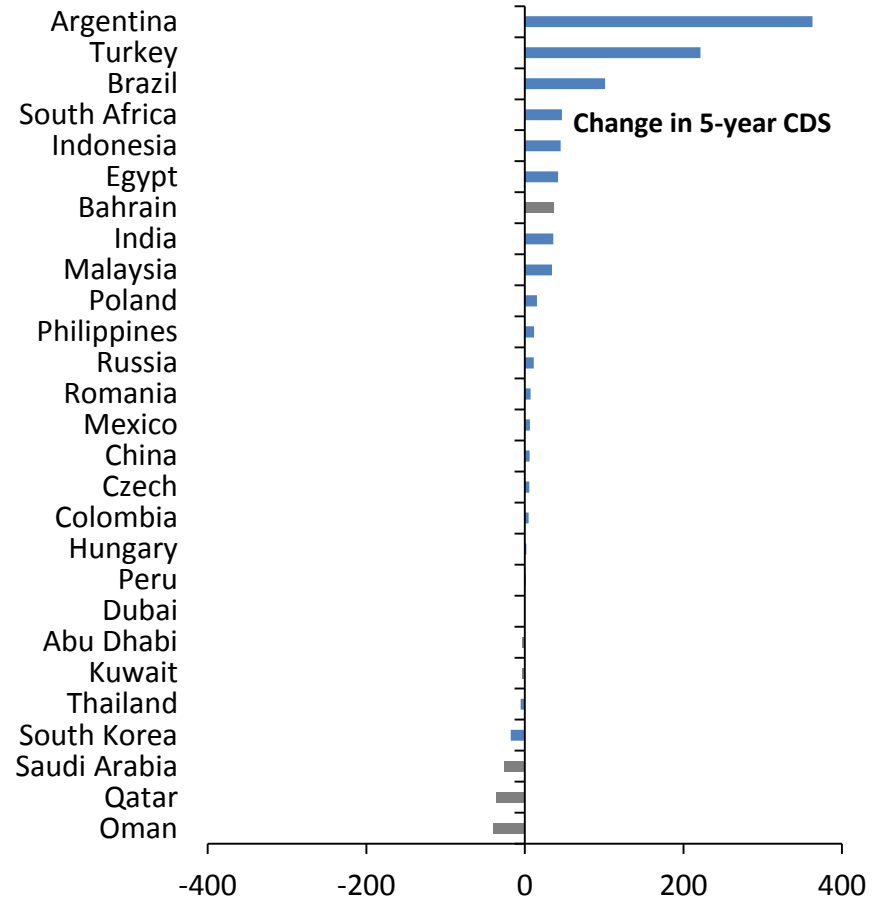
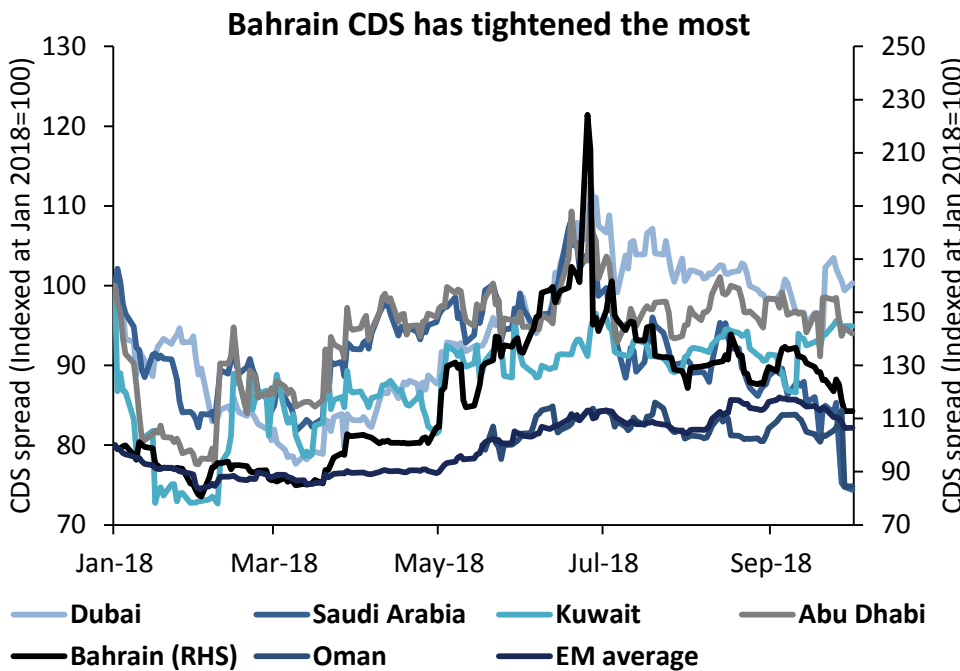
Source: Bloomberg, ADCB

GCC corporate bond performance



Source: Credit Suisse Indices, Bloomberg Barclays Indices, Bloomberg, ADCB

GCC sovereign CDS have been rangebound



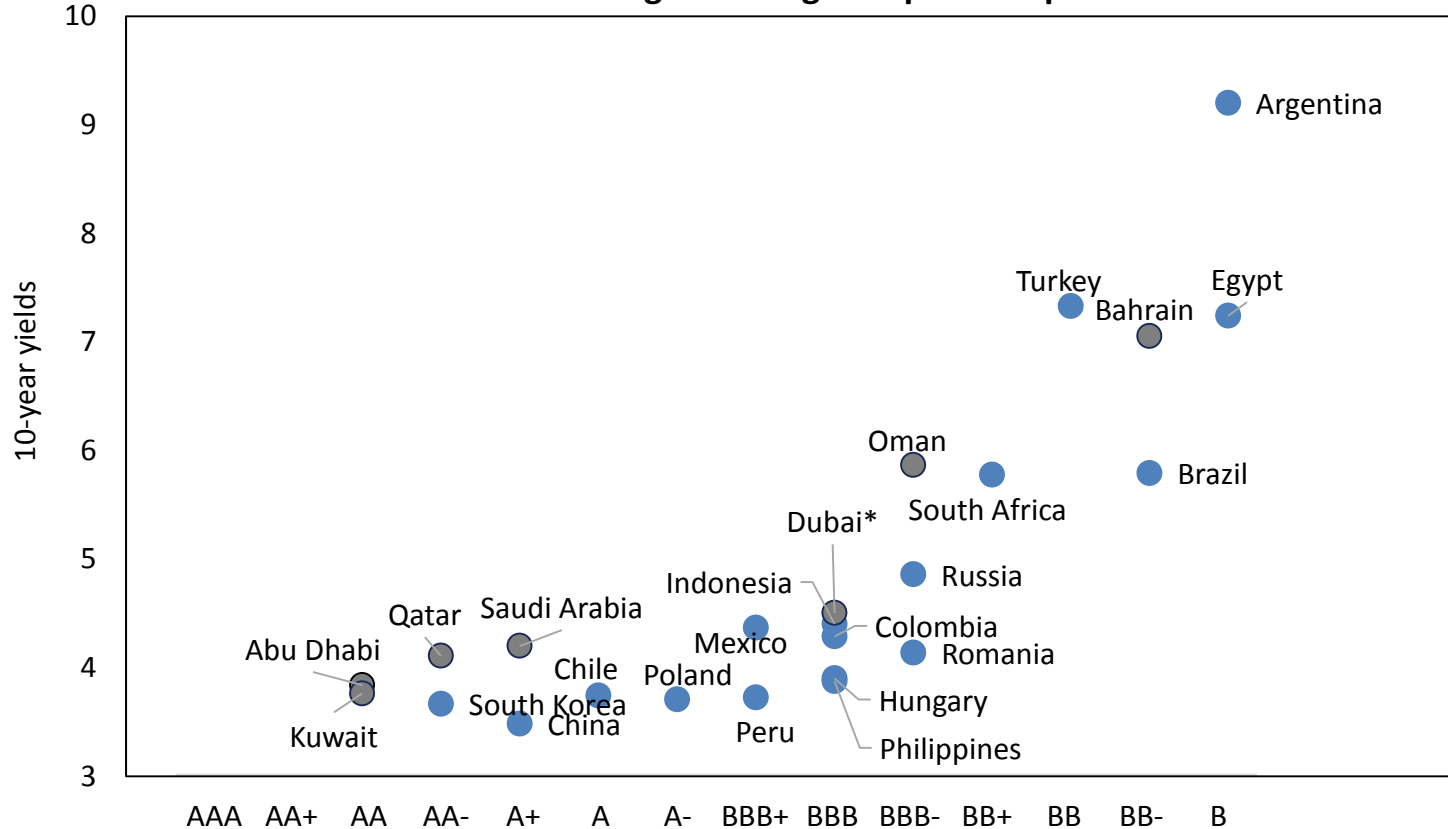
Source: Bloomberg, ADCB

Chapter III: Credit rating valuation



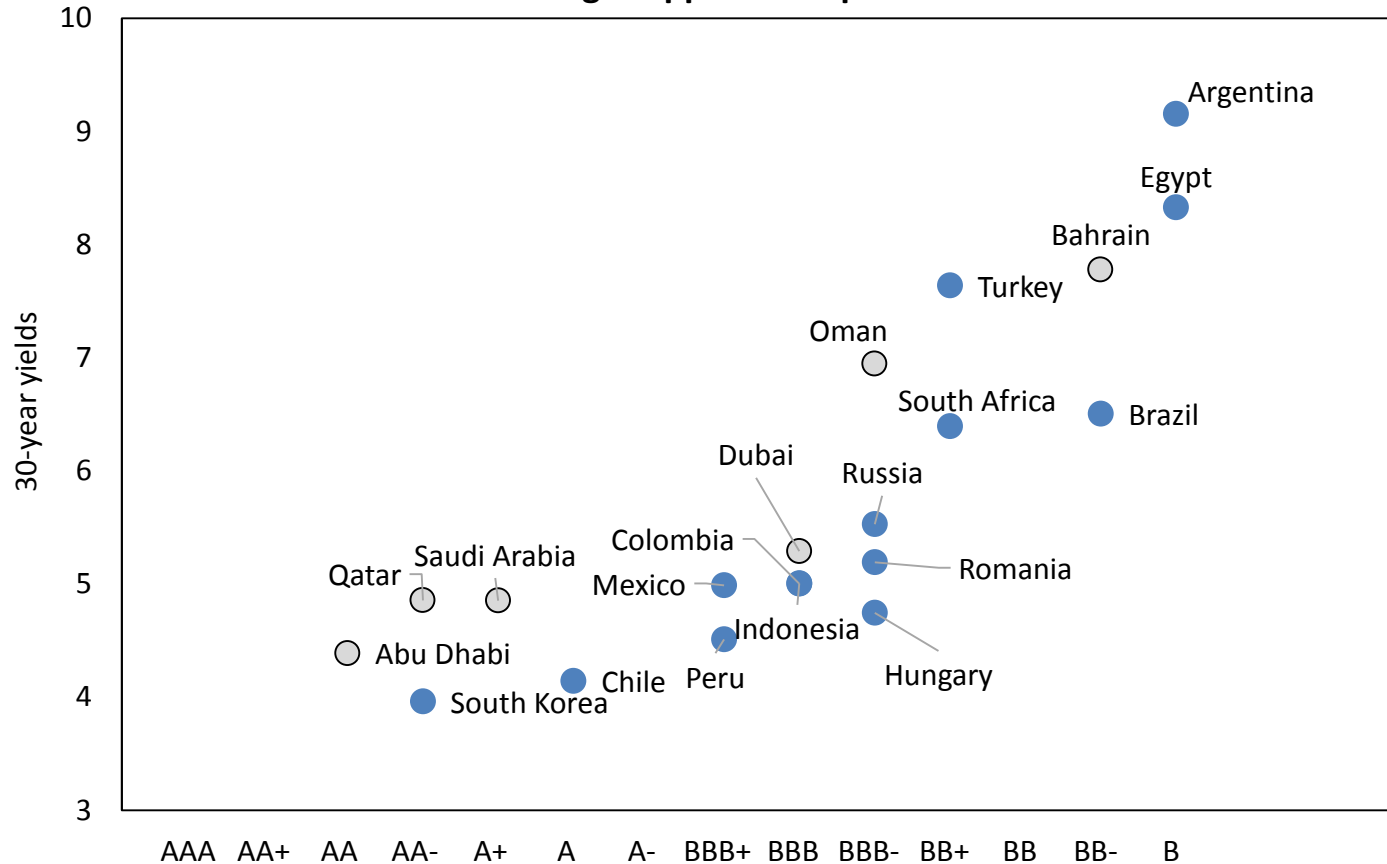
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GCC sovereigns trading cheap versus peers



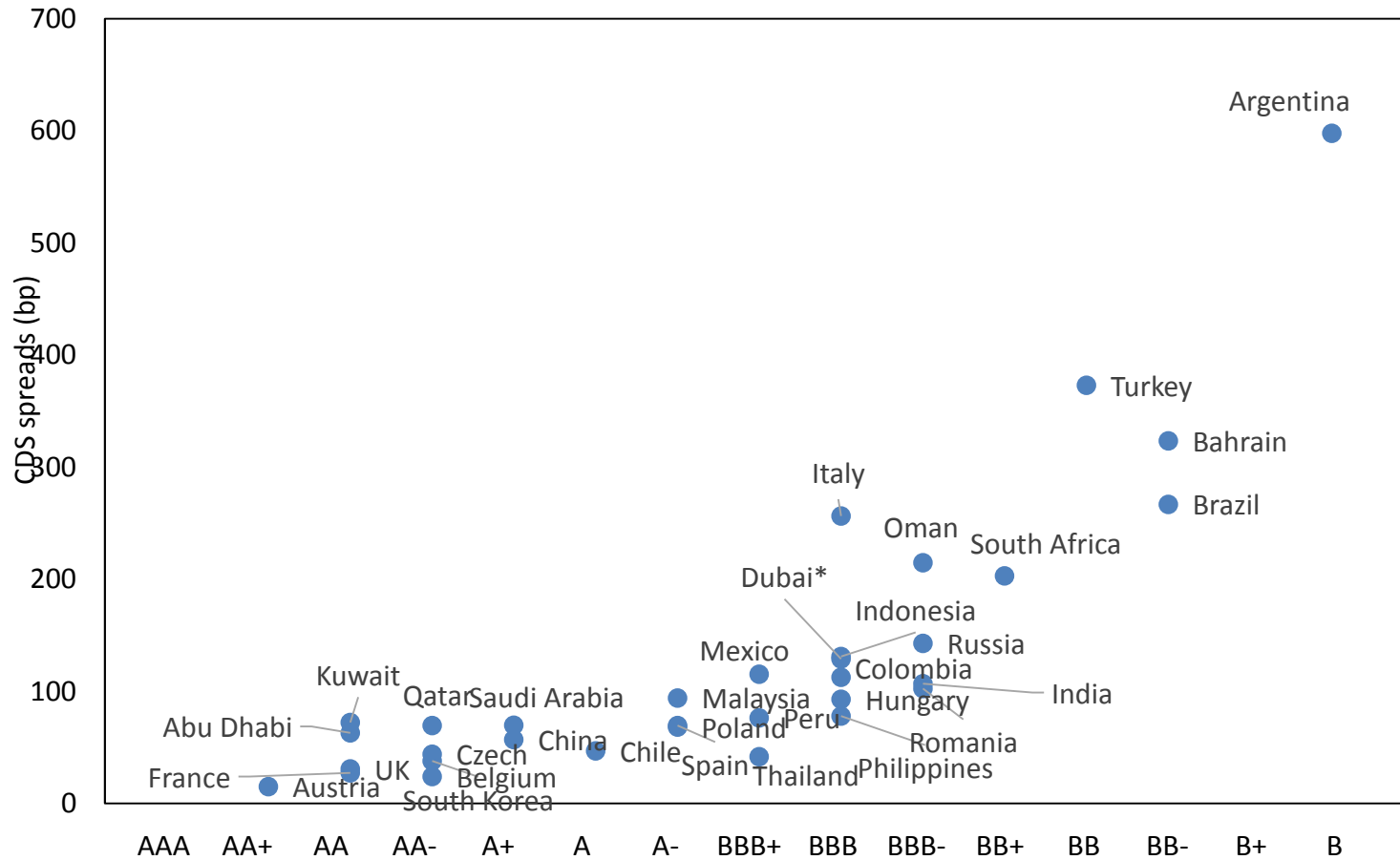
Note: The ratings refer to Fitch ratings, * DEWA credit rating used as a proxy for Dubai credit rating
 Source: Bloomberg, ADCB

GCC sovereigns appear cheap versus other EM



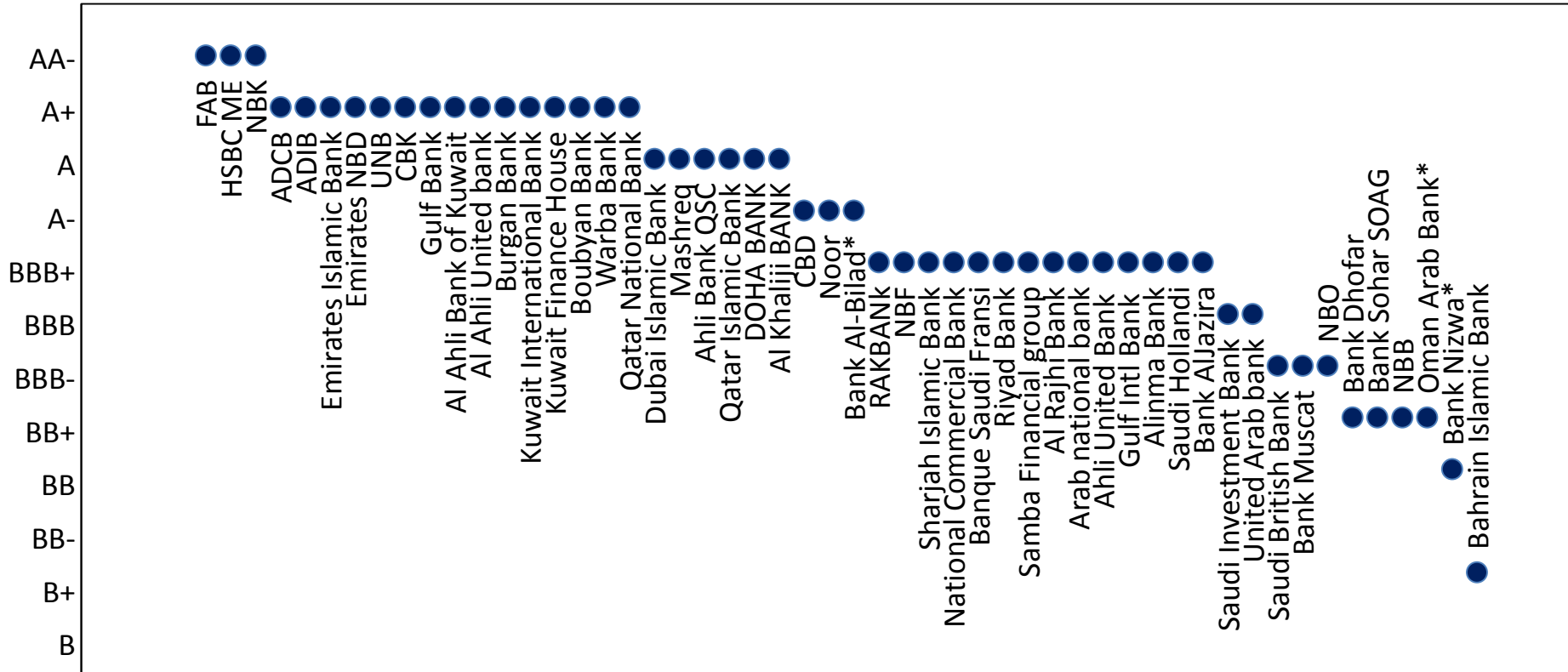
Note: The ratings refer to Fitch ratings, * DEWA credit rating used as a proxy for Dubai credit rating
 Source: Bloomberg, ADCB

GCC CDS versus ratings



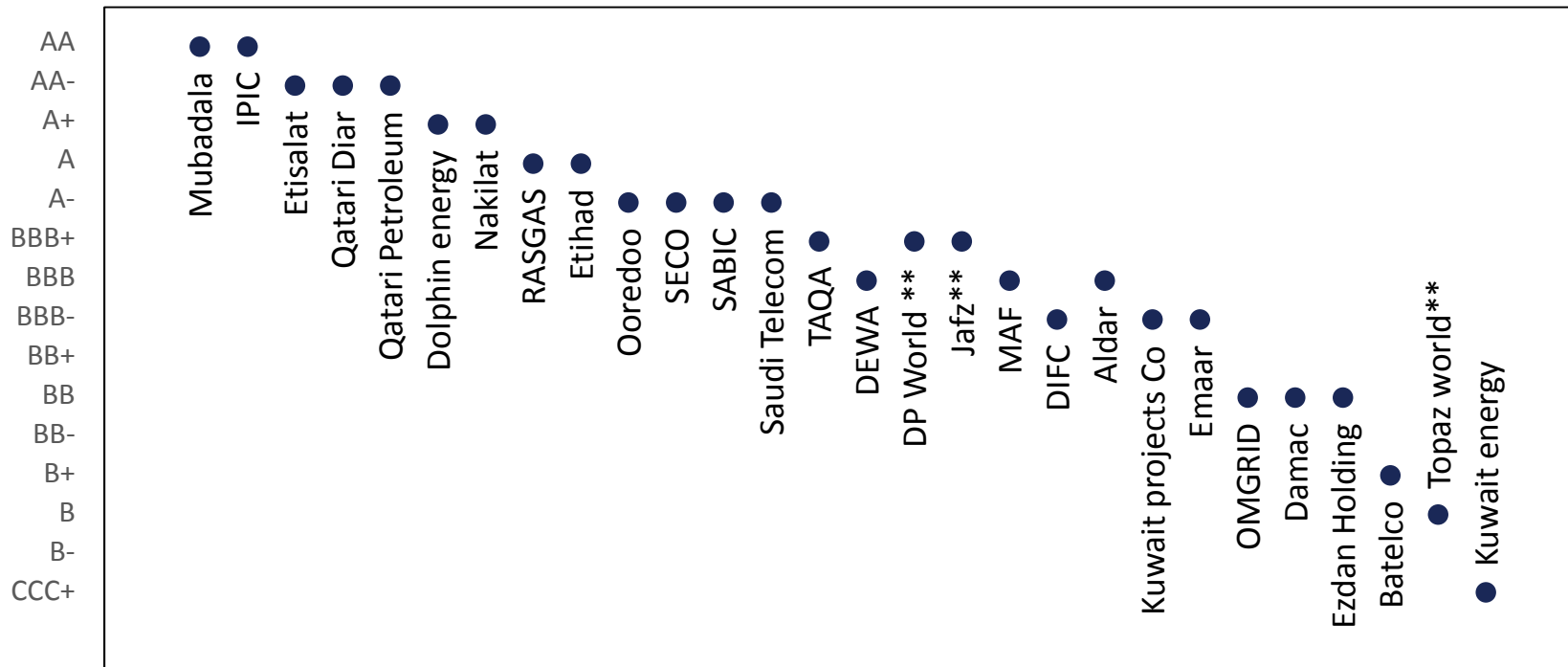
Note: The ratings refer to Fitch ratings, * DEWA credit rating used as a proxy for Dubai credit rating
 Source: Bloomberg, ADCB

GCC Financials



Note: The ratings refer to Fitch ratings, *S&P rating used as substitute where the corporate/bank not rated by Fitch ratings
 Source: Bloomberg, ADCB

GCC Corporates



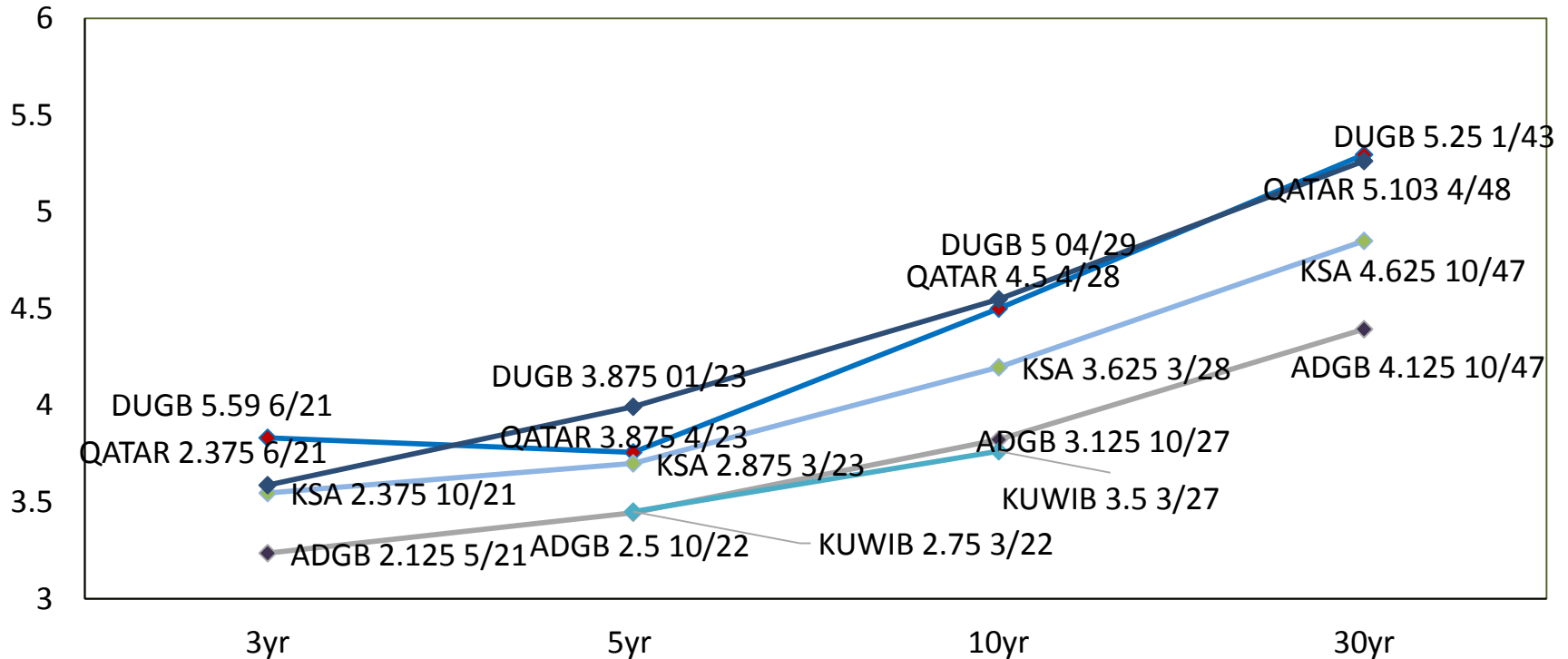
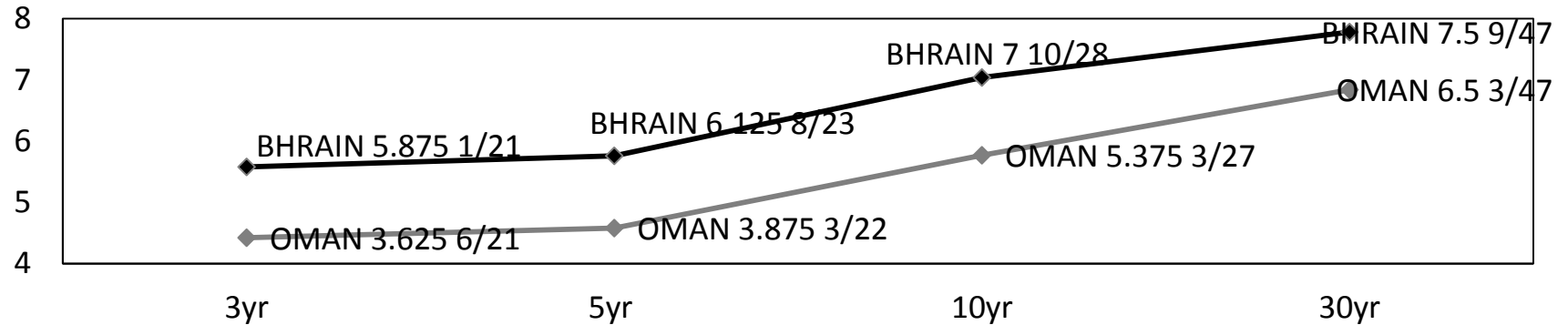
Note: The ratings refer to S&P ratings, ** Fitch ratings used as substitute where the corporate/bank not rated by S&P ratings
 Source: Bloomberg, ADCB

Chapter IV: GCC valuation analysis



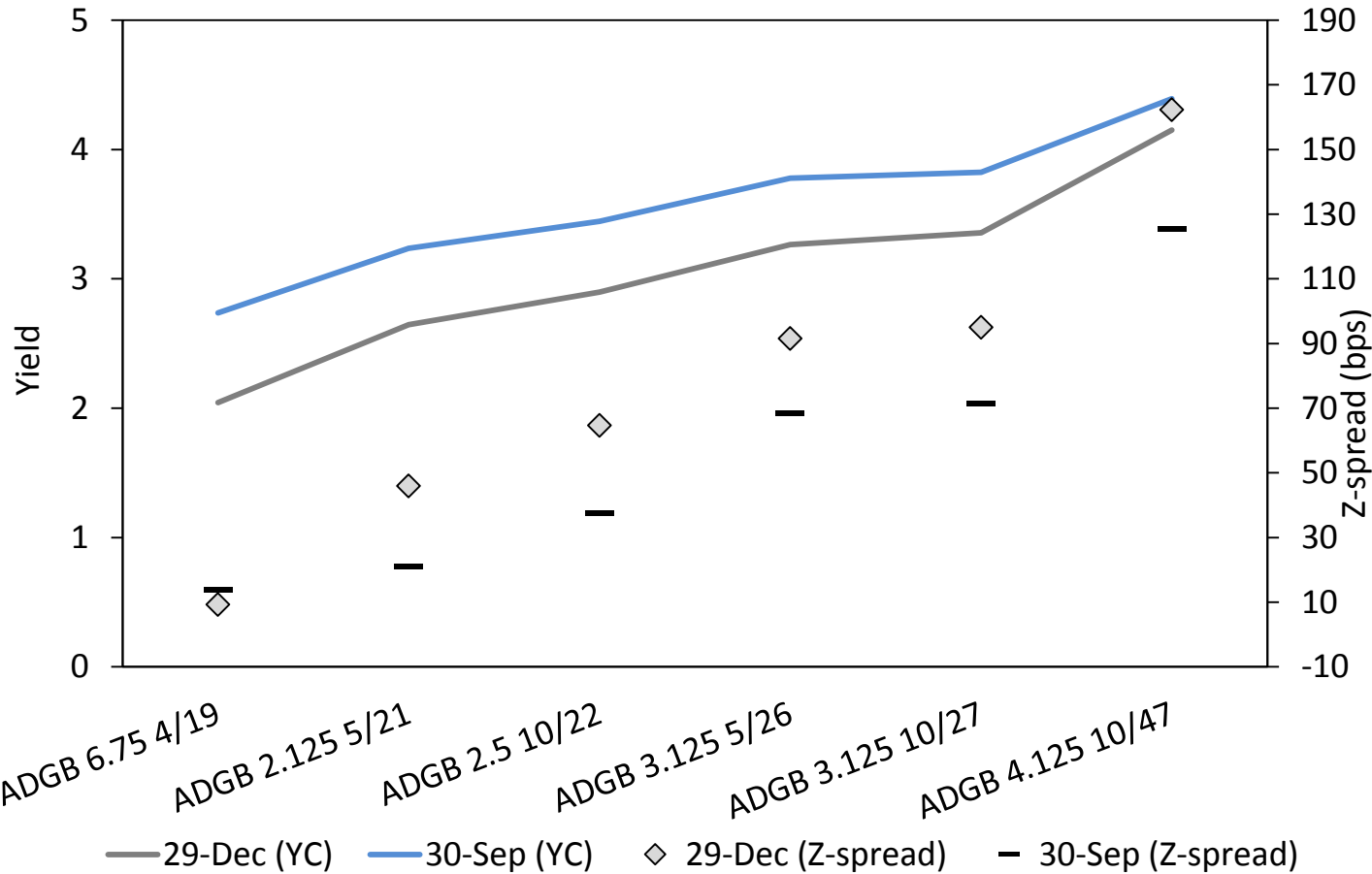
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GCC sovereign dollar yield curves



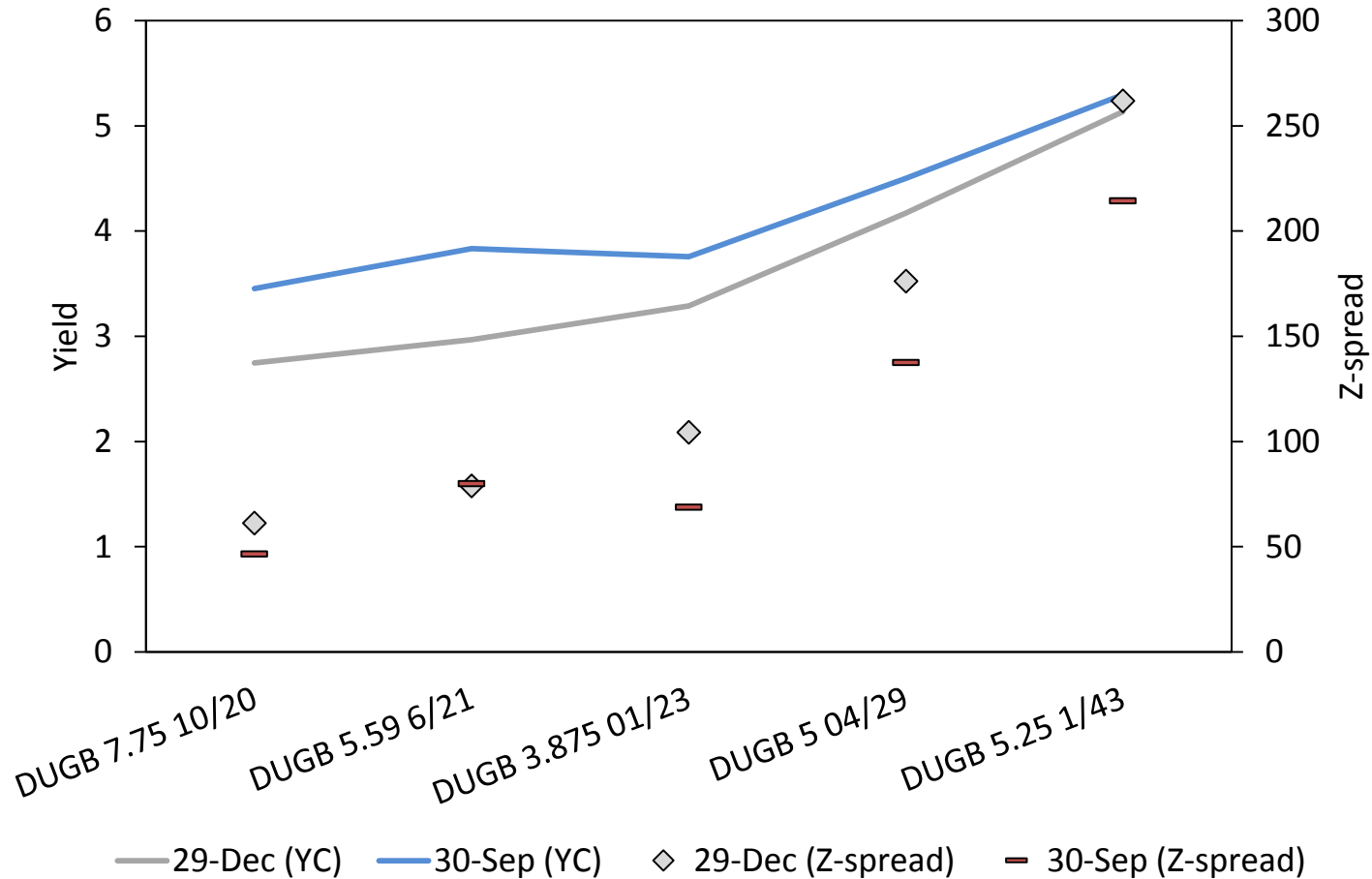
Source: Bloomberg, ADCB

Abu Dhabi z-spread and yield curve (YTD change)



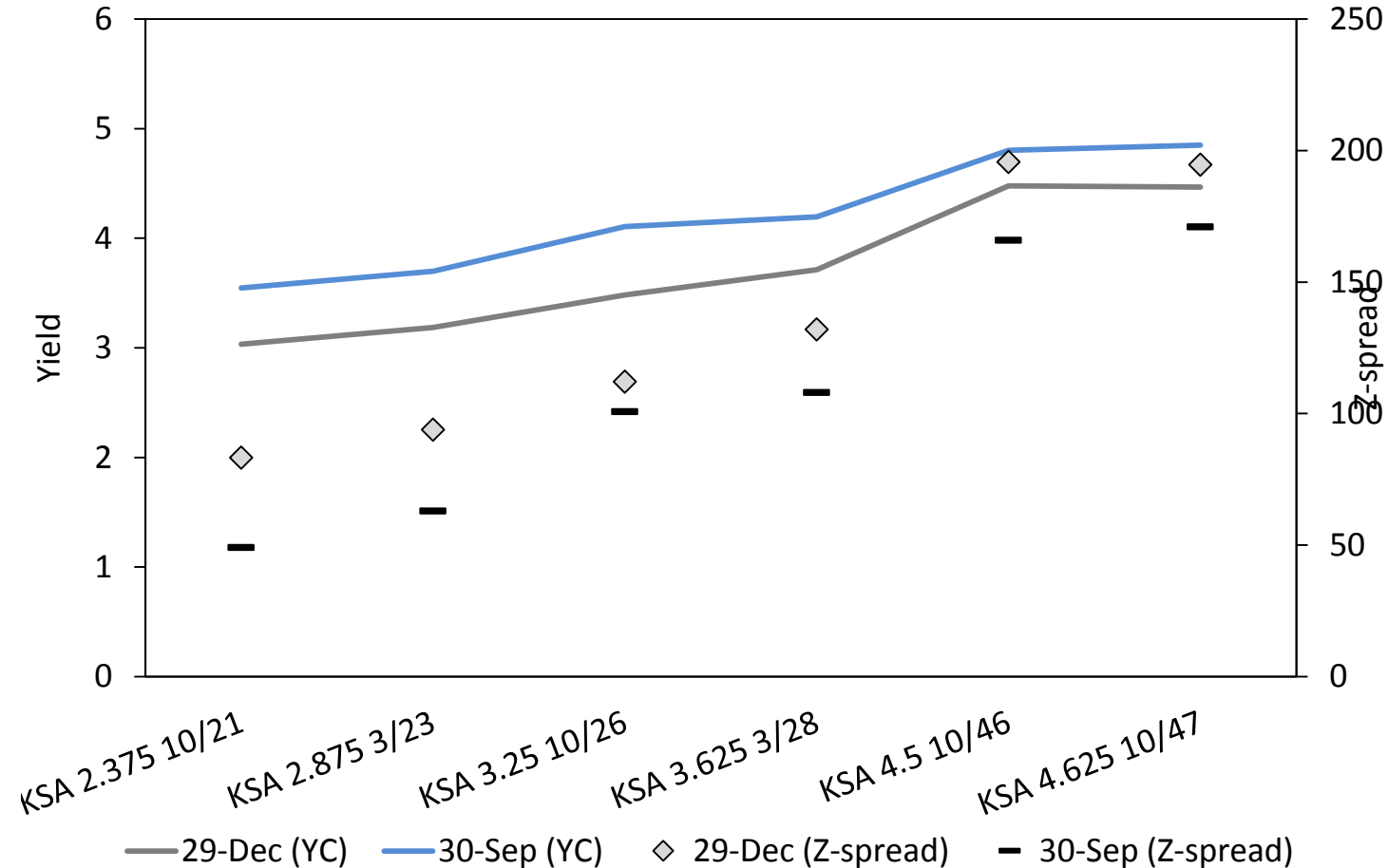
The **z-spread** is our preferred measure for analyzing the relative value of a bond. The z-spread is the additional yield one gets after having calculated an equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium. Note that the recent general upward shift in the **yield curve** indicates that bonds have sold off across all maturities. Thus yield curve analysis allows us to see which maturities have suffered more and which have suffered less.

Dubai z-spread and yield curve (YTD change)



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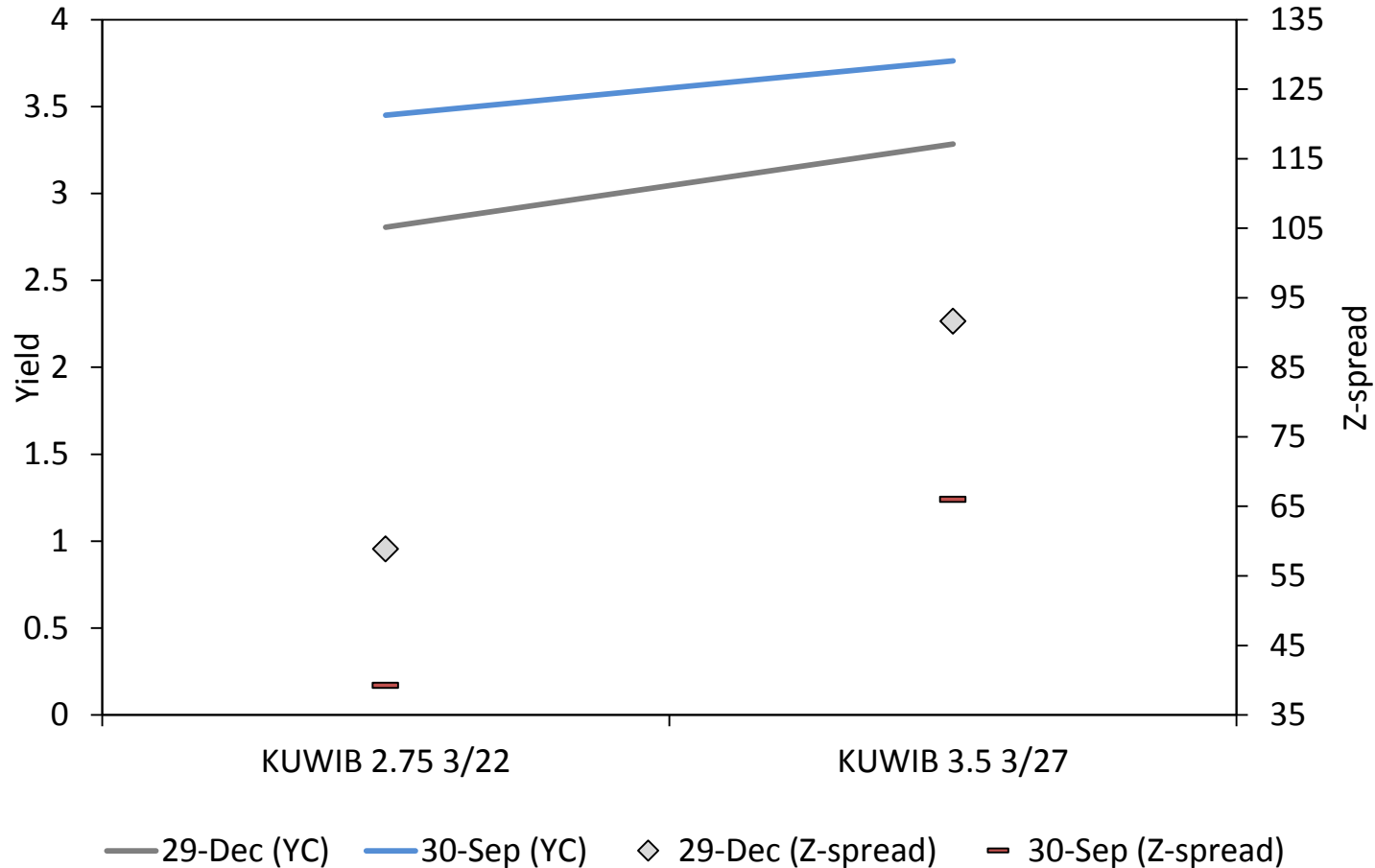
Saudi Arabia z-spread and yield curve (YTD change)



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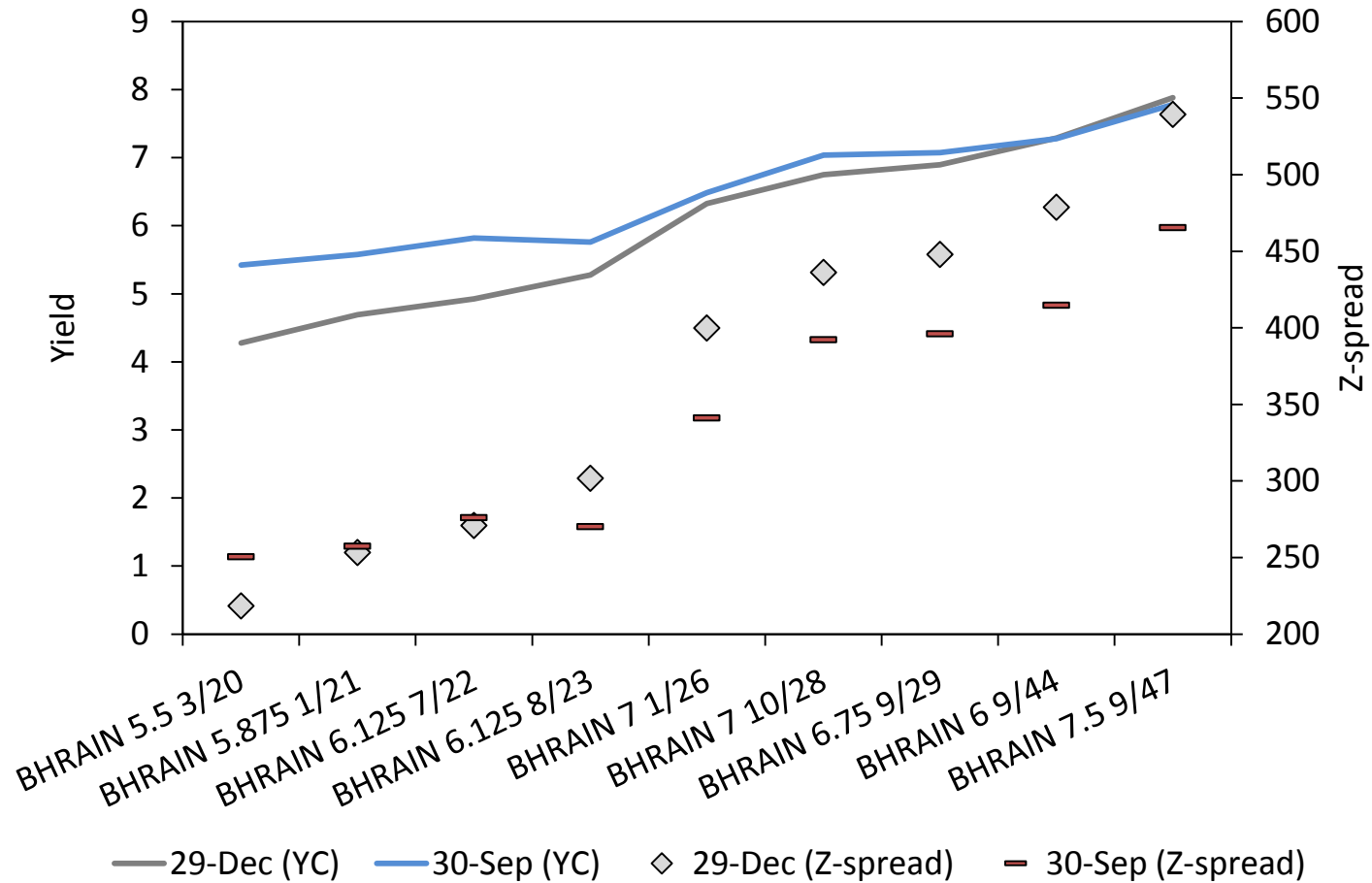
: YTD change: 29th December 2017 to 28th September 2018, , Source: Bloomberg, ADCB

Kuwait z-spread and yield curve (YTD change)



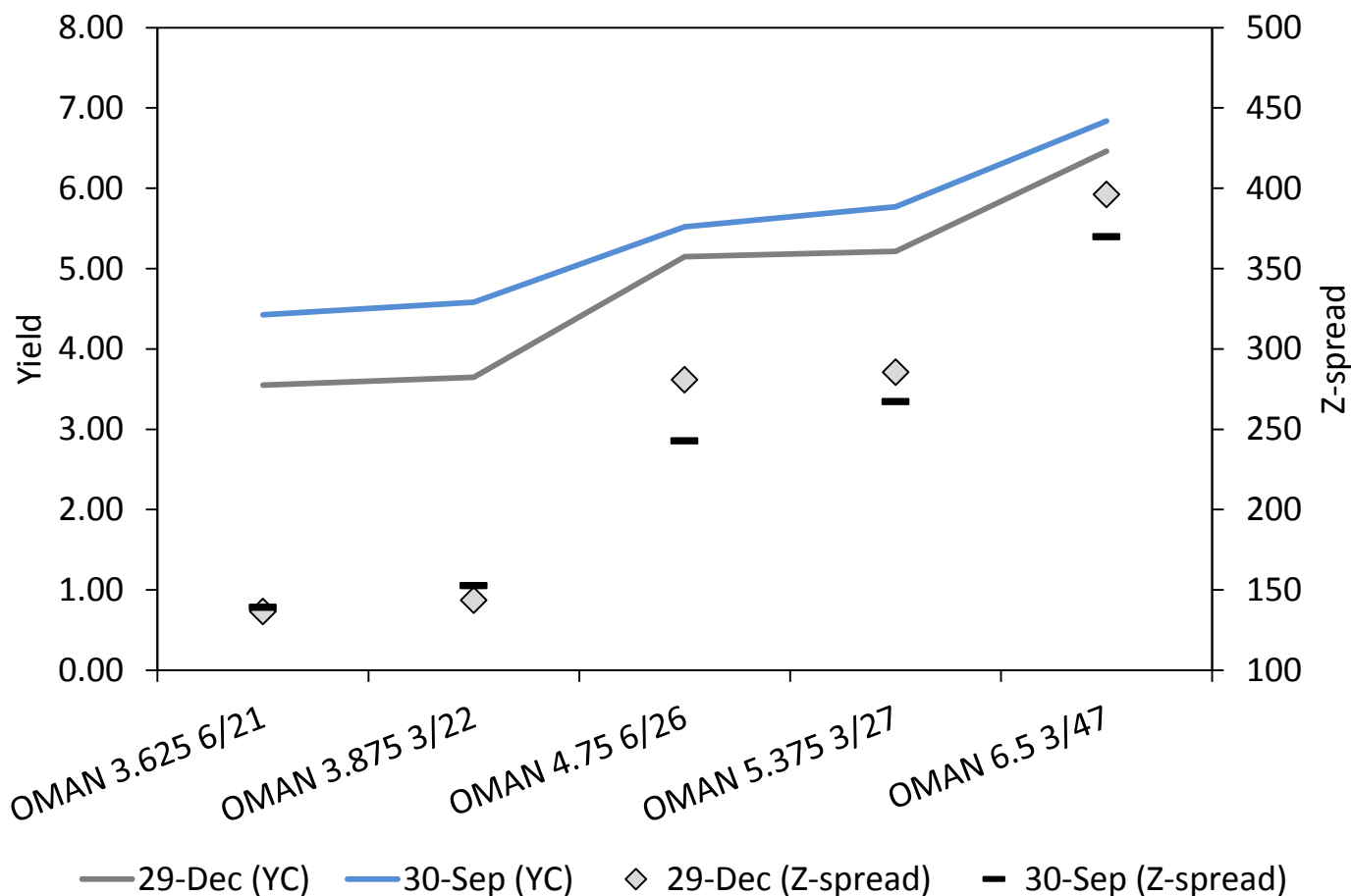
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Bahrain z-spread and yield curve (YTD change)



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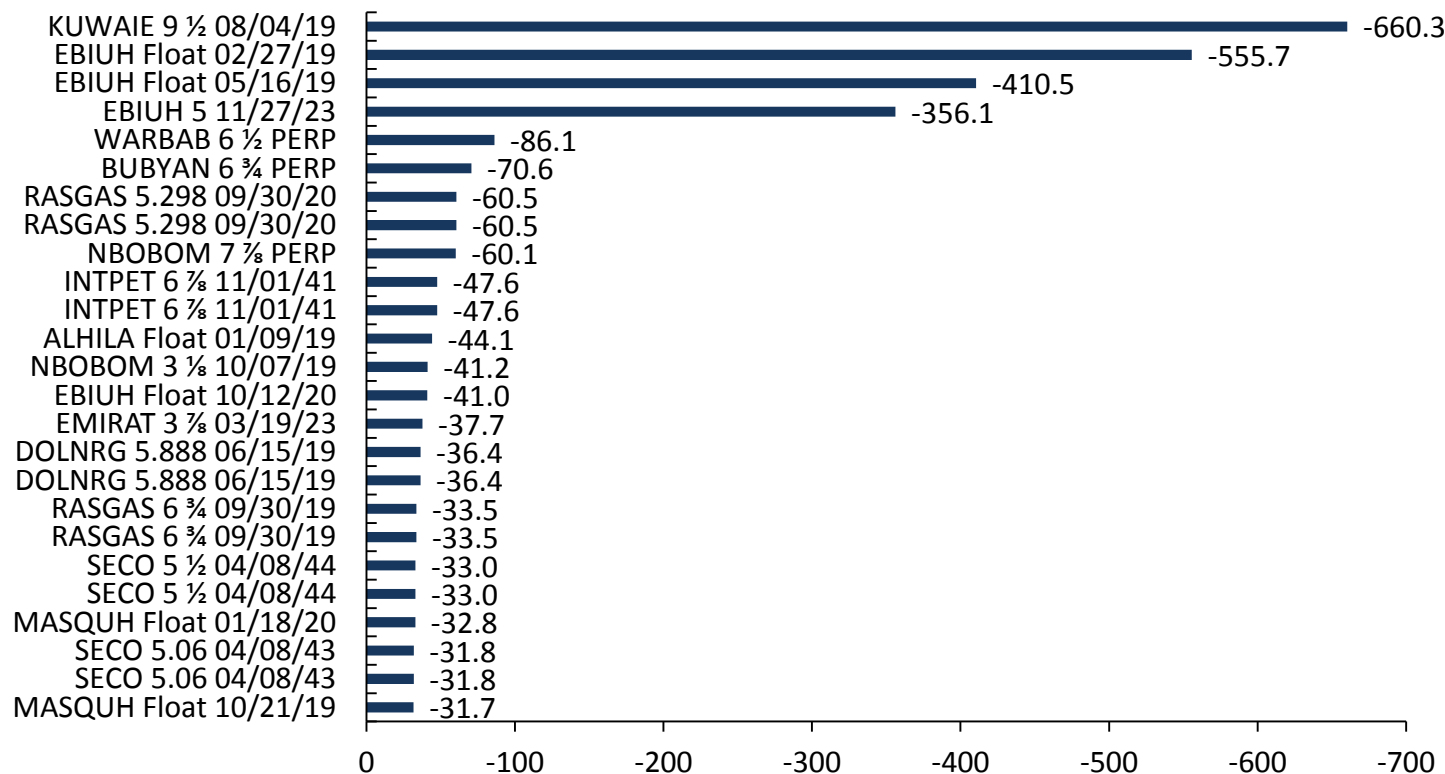
Oman z-spread and yield curve (YTD change)



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GCC corporate top performers (YTD spread performance)

Performance from 29th Dec 2017 to 28th Sep 2018



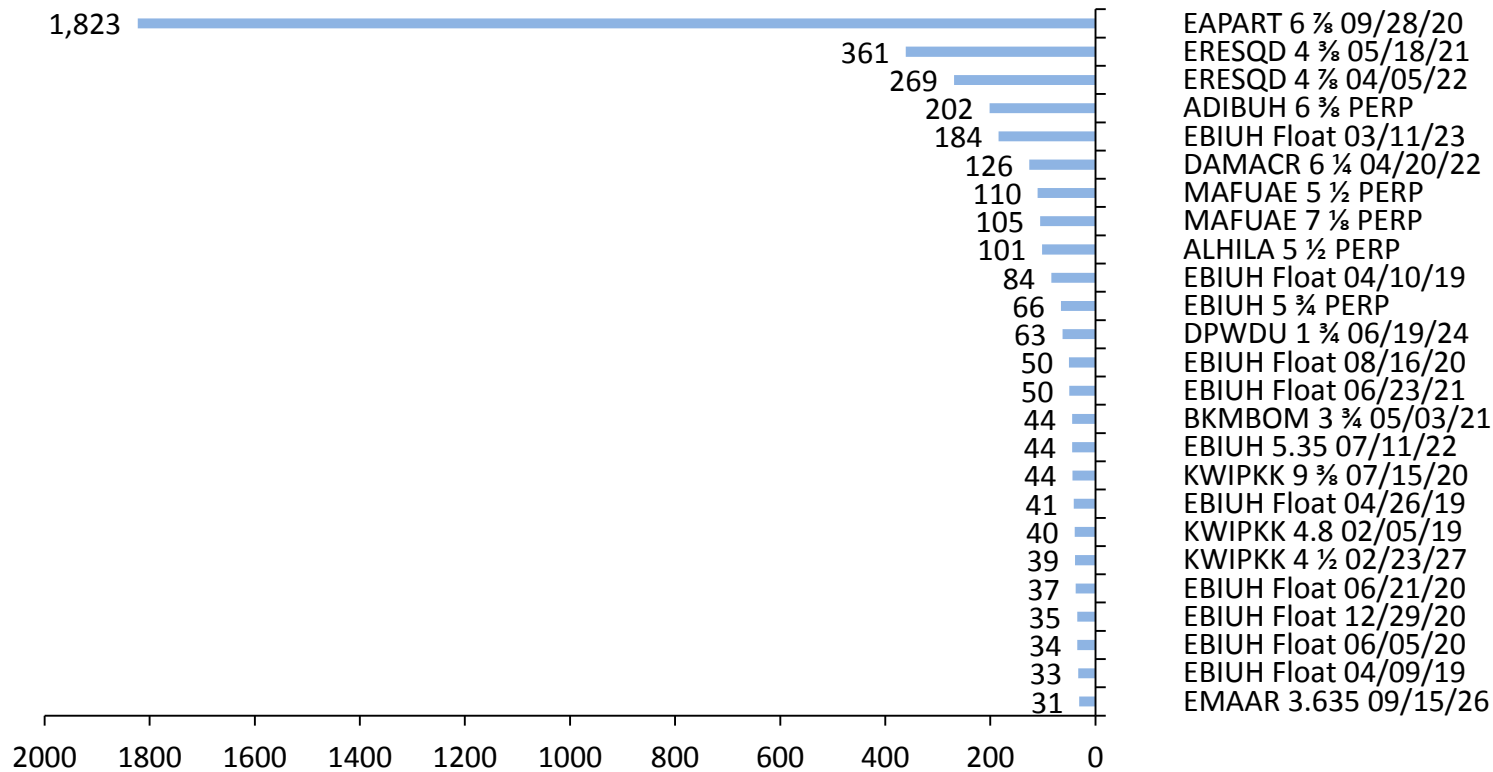
The **z-spread** is our preferred measure for analyzing the relative value of a bond. The z-spread is the additional yield one gets after having calculated an equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium.

Note : YTD change: 29th Dec 2017 to 28th September 2018, All bonds are dollar denominated and maturing in 2019 or above "PERP" refers to Perpetual, "Float" refers to floating rate bond

Source: Bloomberg, ADCB

GCC corporate bottom performers (YTD spread performance)

Performance from 29th Dec 2017 to 28th Sep 2018



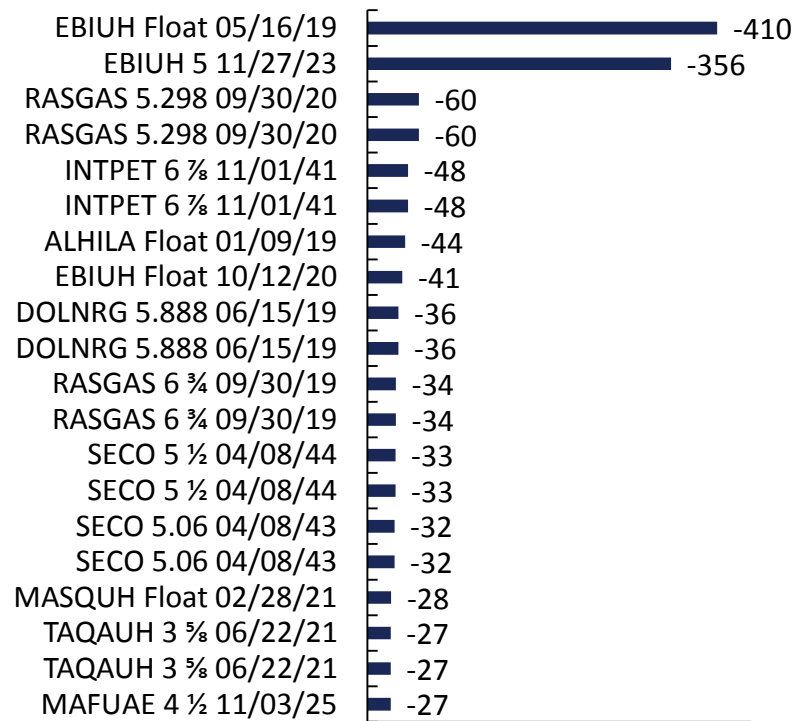
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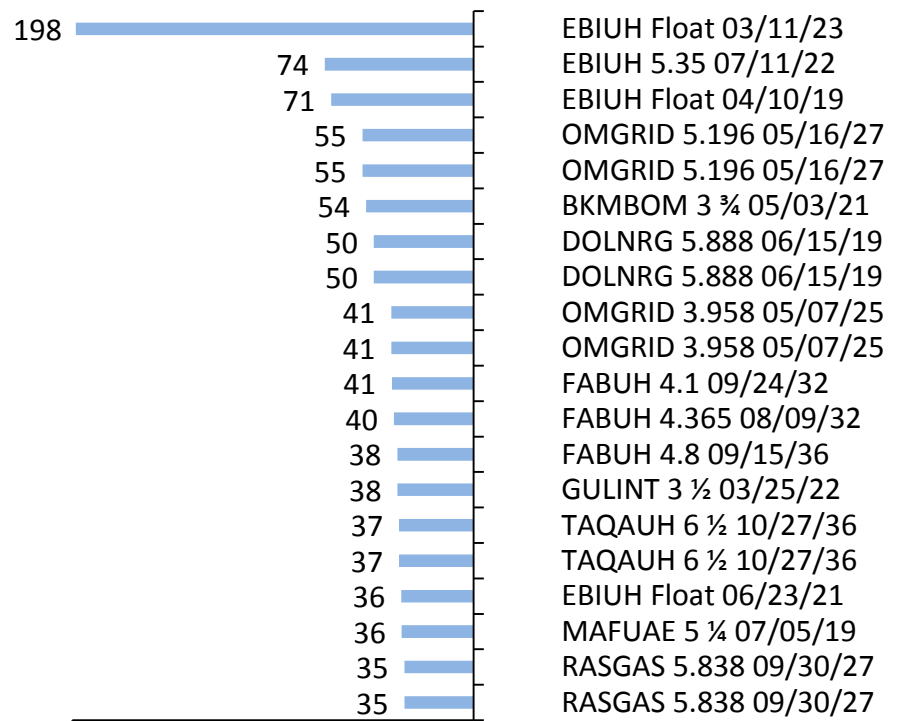
Source: Bloomberg, ADCB

GCC Investment Grade corporates (BBB- rated and above only) YTD spread performance

Top performers..



..bottom performers



■ Z-spread (bp)

■ Z-spread (bp)

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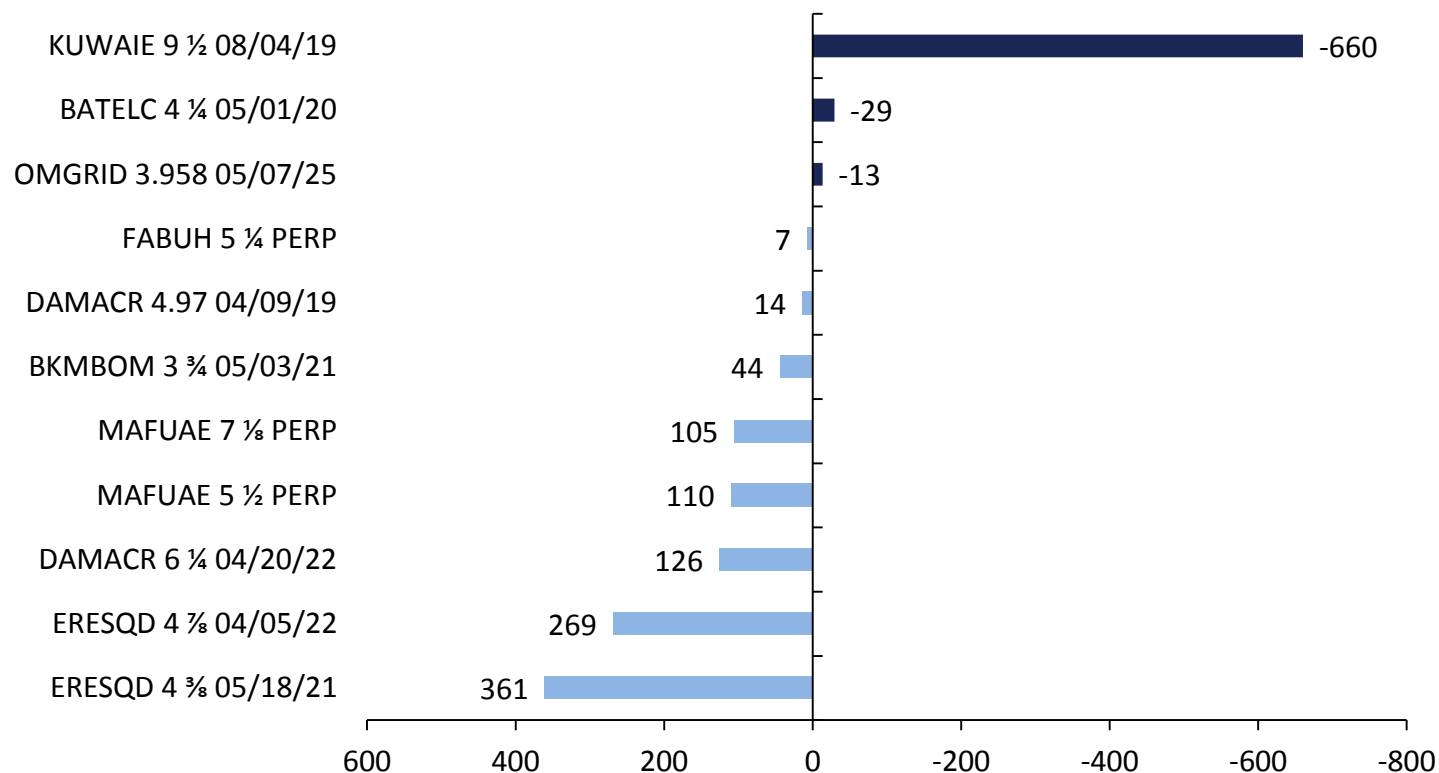
Note : YTD change: 29th Dec 2017 to 28th September 2018, All bonds are dollar denominated and with maturing in 2019 or above "PERP" refers to Perpetual,

"Float" refers to floating rate bond

Source: Bloomberg, ADCB

GCC High Yield corporates (rated BB+ and below only) YTD spread performance

Performance from 29th Dec 2017 to 28th Sep 2018



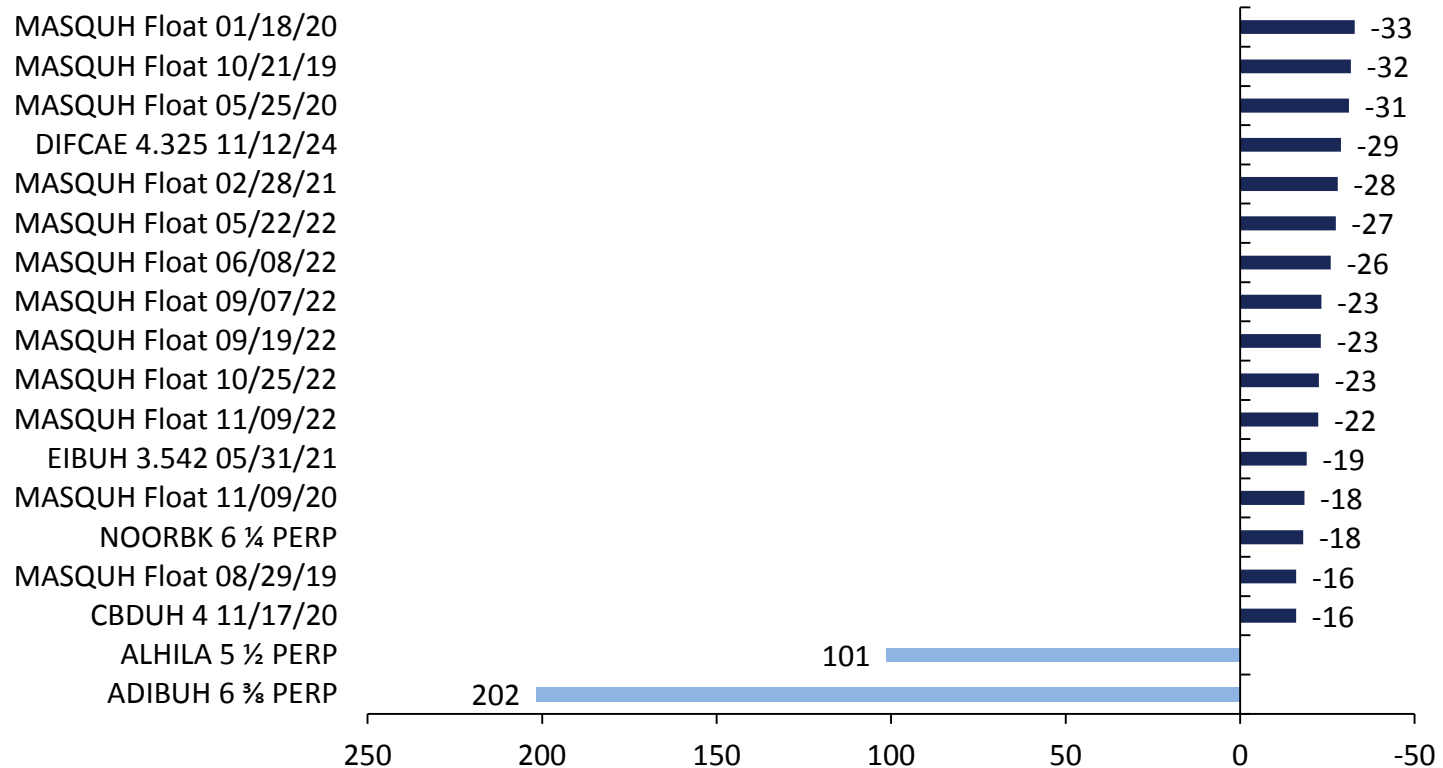
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UAE financials YTD spread performance

Performance from 29th Dec 2017 to 28th Sep 2018



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Source: Bloomberg, ADCB

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