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Fixed Income Research

## GCC Bonds and Sukuk Market Survey 2018 Highlights

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### Authors:

**Rasha A. Othman**  
SVP - Capital Markets &  
Fixed Income  
+965 2224 8000 Ext.: 1113  
[rothman@markaz.com](mailto:rothman@markaz.com)

**Arun S. Iyer, CFA**  
Senior Analyst  
+965 2224 8000 Ext.: 1182  
[aiyer@markaz.com](mailto:aiyer@markaz.com)

**Munif Al Saad,**  
Analyst  
+965 2224 8000 Ext.: 1184  
[musaad@markaz.com](mailto:musaad@markaz.com)

### Kuwait Financial Centre "Markaz"

P.O. Box 23444, Safat  
13095, Kuwait  
Tel: +965 2224 8000  
Fax: +965 2242 5828  
[markaz.com](http://markaz.com)

### Notes before Reading This Report:

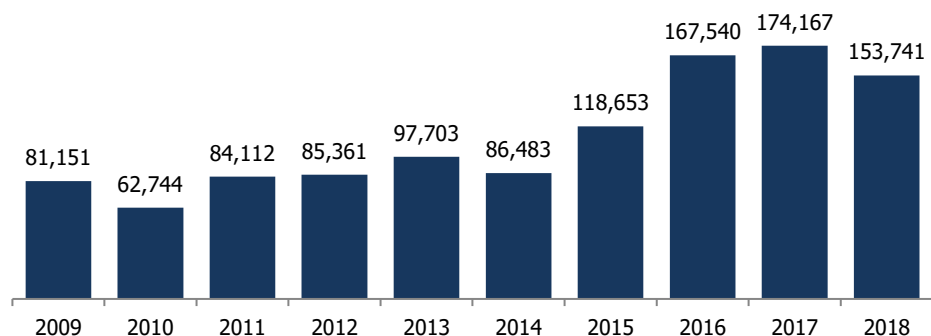
- *GCC: Gulf Cooperation Council*
- *GCC Aggregate Bonds and Sukuk market includes:*
  - \* *GCC Central Banks Local Issuances (CBLIs): Treasury bills, Notes and Bonds issued by GCC Central banks, mostly to regulate the levels of domestic liquidity.*
  - \* *GCC Sovereign Issuances: Bonds and Sukuk issued 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 2018

*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 USD153.74 billion was raised in the GCC Aggregate Bonds and Sukuk market during 2018, a decline of 11.73% over USD174.17 billion raised in 2017. A total of USD61.87 billion was raised by the GCC Central Banks local issuances ("CBLI") whereas USD91.87 billion was raised by GCC sovereign and corporate issuances.

GCC Aggregate Bonds and Sukuk Market  
Primary Issuance 2018  
USD Mn

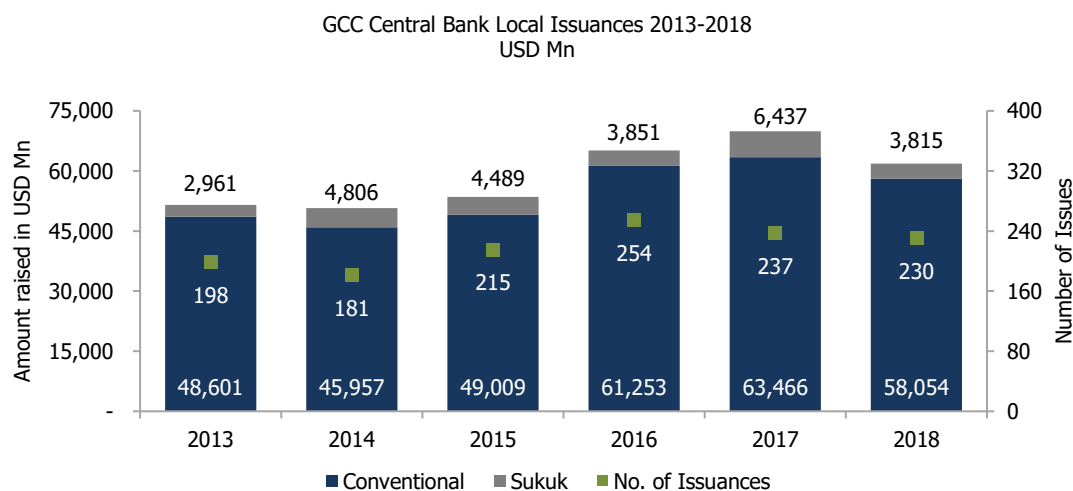


Source: Bloomberg, Zawya, Central bank websites, Markaz Analysis

## GCC Central Banks Local Issuances 2018

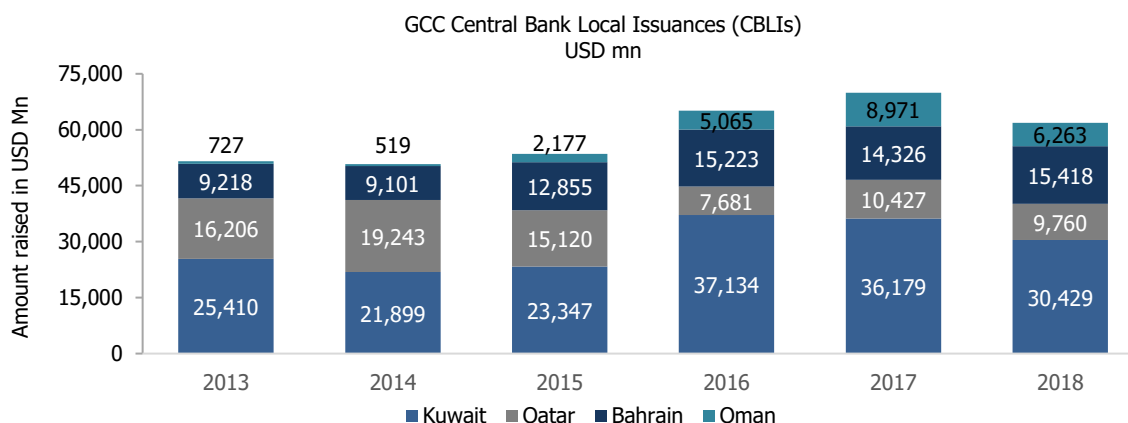
- GCC Central Banks Local Issuances ("**CBLIs**") include Treasury bills, notes, bonds and sukuk denominated in local currencies issued by GCC central banks, primarily to regulate the level of domestic liquidity.
- The only publically and regularly available information of such issuances are from Central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

A total of USD61.87 billion was raised through GCC Central Banks Local Issuances ("**CBLIs**") during 2018 with 230 issuances, a decline of 11.49% from the previous year. Conventional issuances totaled to USD58.05 billion making up 93.8% whereas sukuk's totaled to USD3.82 billion, making up 6.2% of the GCC CBLI's.



Source: Central Bank Websites, Markaz Analysis

During 2018, Central Bank of Kuwait ("**CBK**") continued to be the leading issuer among GCC Central Banks with 42 issues raising KWD9.14 billion (USD30.43 billion), lower by 15.9% as compared to KWD10.93 billion (USD36.18) billion it raised in 2017. Similar decline was recorded for Central Bank of Oman ("**CBO**") which raised OMR2.41 billion (USD6.26 billion), lower by 30.2% from previous year and Central Bank of Qatar ("**CBQ**") which raised QAR35.71 billion (USD9.76 billion), lower by 6.4% from the previous year. Central bank of Bahrain ("**CBB**") increased its issuances in 2018, raising BHD5.79 billion (USD15.42 billion) and posting an increase of 7.6% as compared to 2017.



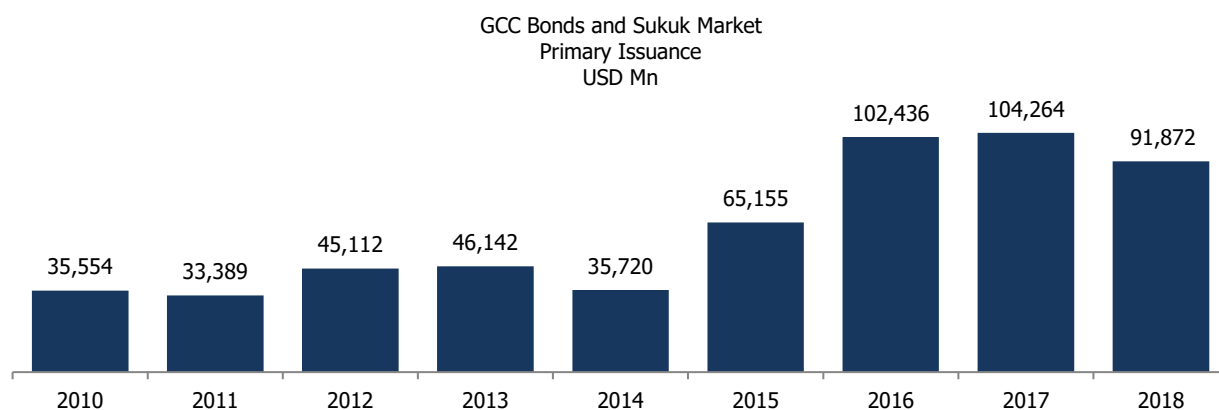
Source: Central Bank Websites, Markaz Analysis

## GCC Bonds and Sukuk Market - 2018

The GCC Bonds and Sukuk market includes GCC Sovereign and Corporate Issuances and does not include CBLIs.

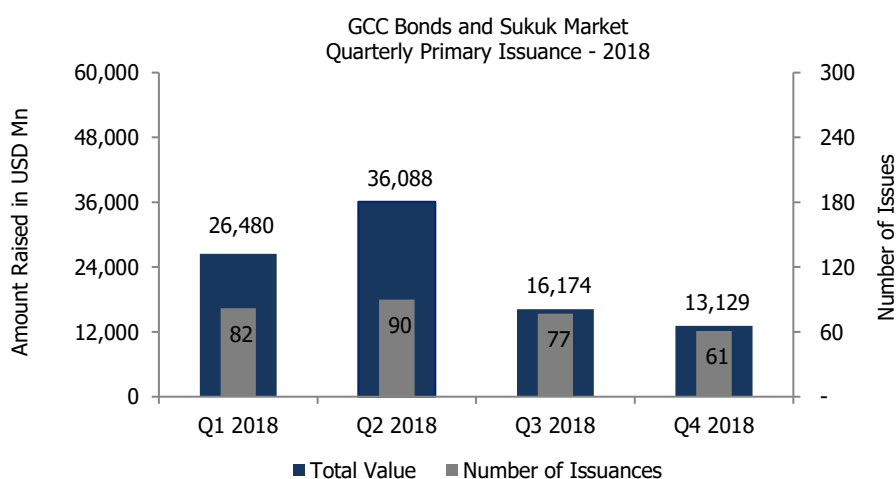
- *GCC Sovereign Issuances:* Issued by GCC governments in local or foreign currencies for financing purposes.
- *GCC Corporate Issuances:* Issued by GCC corporate entities including Financial Institutions (FIs) and Government Related Entities (GREs).

During 2018, the total value of primary issuances in the GCC Bonds and Sukuk market amounted to USD91.87 billion, representing a decline of 11.89% over USD104.26 billion raised in 2017. However, the number of issuances increased from 280 in 2017 to 310 issuances in 2018, an increase of 10.71%. The average size per issue decreased from USD372 million in 2017 to USD296 million in 2018.



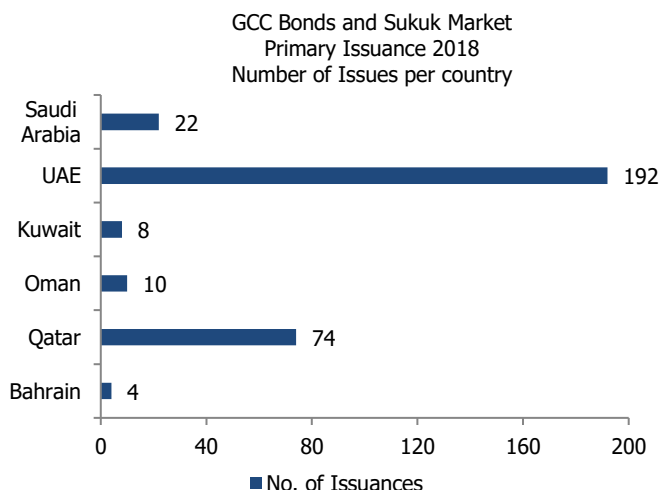
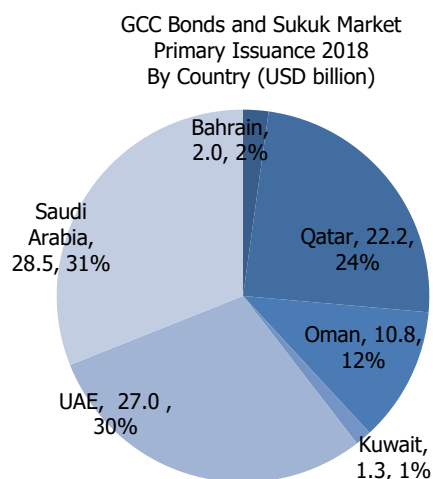
Source: Bloomberg, Zawya, Markaz Analysis

On a quarterly basis, the second quarter of 2018 recorded the highest value of issuance with USD36.09 billion raised through 90 issuances as Qatar and Saudi Arabia tapped international and local debt markets. Primary issuances were most subdued during the fourth quarter with USD13.13 billion raised through 61 issuances.



### Breakdown by Country

Saudi Arabia based issuers were the leading GCC Bond and Sukuk issuers in 2018, raising a total of USD28.51 billion through 22 issues and representing 31% of the total value raised in the GCC, followed by UAE with 30% and Qatar with 24%. In terms of the frequency of issuances, UAE maintained its dominant position with 192 issuances (61.9% of total).



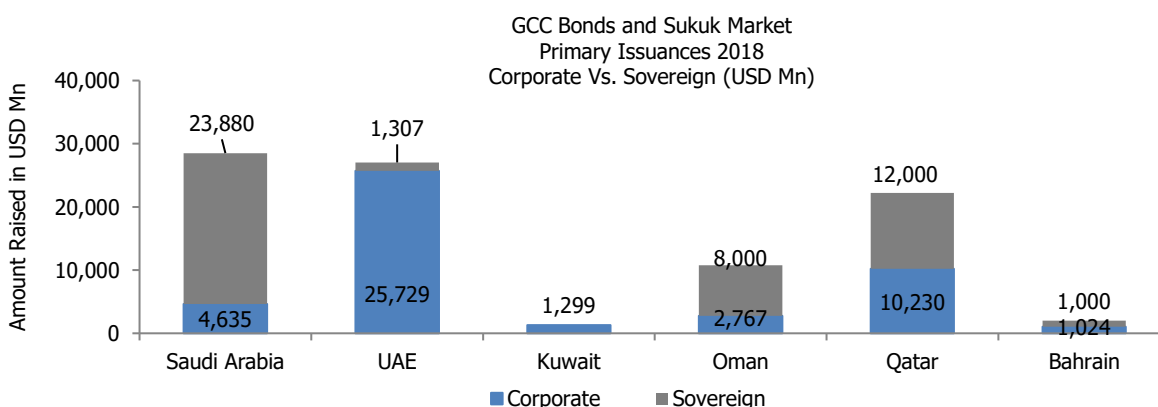
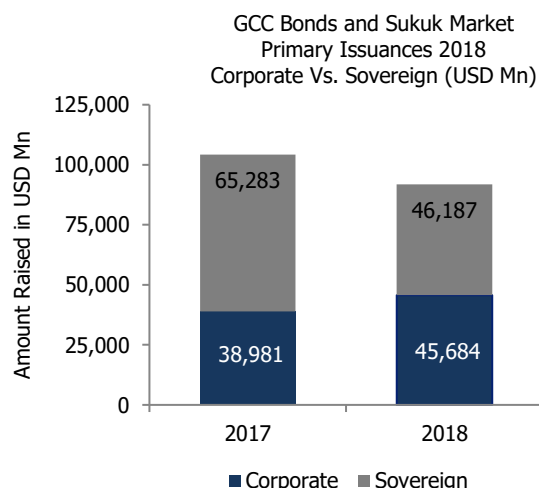
Source: Bloomberg, Zawya, Markaz Analysis

Compared to the previous year, Saudi Arabia issuances in 2018 were 31.4% lower, while UAE based issuers, which raised USD27.04 billion, were also down by 17.2%. Effects of the regional crisis appeared to subside as the Qatari primary issuances increased by 259.7% with total value of USD22.23 billion compared to USD6.18 billion raised in 2017. Omani issuances raised a total of USD10.77 billion recording an increase of 32.6% over last year whereas Bahraini issuances raised USD2.02 billion, 58.7% lower as compared to 2017. Kuwaiti issuances totaled USD1.30 billion and recorded a decline of 88% from 2017.

### Sovereign Vs. Corporate

The total value of GCC Sovereign issuances declined by 29.25% during 2018 to reach USD46.19 billion. However, total value raised by corporate entities in 2018 increased by 17.19%, to USD45.68 billion in 2018.

Saudi Arabia Government raised USD23.87 billion out of which USD10.88 billion (SAR48.78 billion) was through domestic bonds and USD13 billion through US Dollar denominated Bonds and Sukuk. Government of Qatar issued bonds totaling to USD12 billion with maturities of 5, 10 and 30 years. Oman and Bahrain also raised USD8 billion and USD1.00 billion respectively. Kuwait government was the only sovereign entity not tapping the international debt markets in 2018.

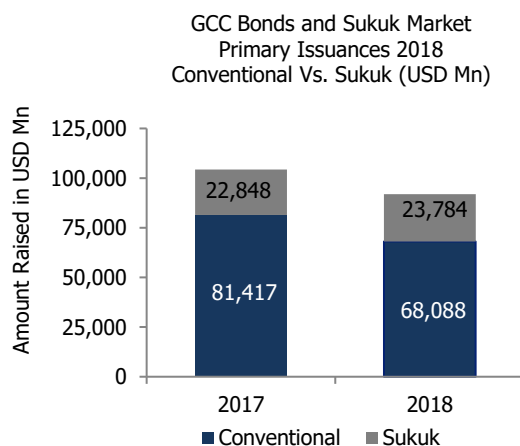


Source: Bloomberg, Zawya, Markaz Analysis

### Conventional Vs. Sukuk

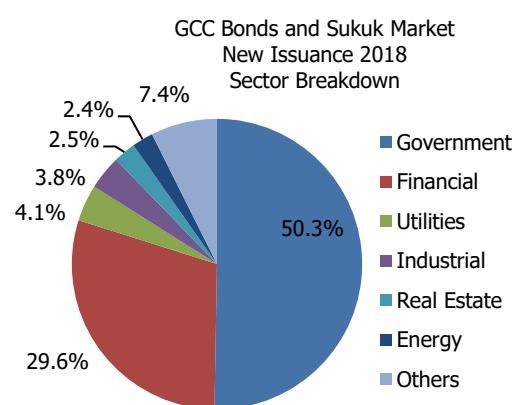
Conventional issuances continued to dominate the mix of primary GCC Bonds and Sukuk market, raising USD68.09 billion and representing 74.11% of the total issuances. However, such issuances were 16.4% lower versus last year.

Sukuk raised USD23.78 billion, 4.10% higher as compared to USD22.85 raised in 2017 and represented a share of 25.89% of the market in 2018.



### Breakdown by Sector

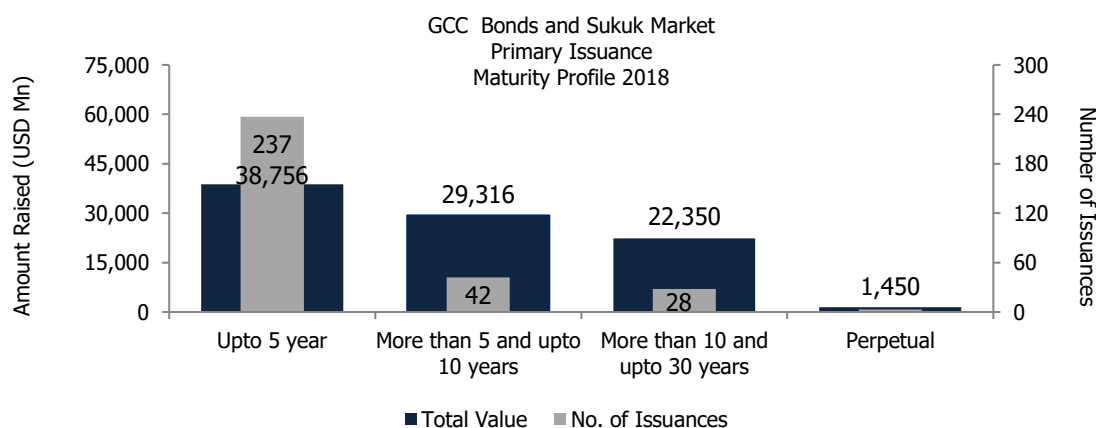
A total of USD46.19 billion were raised by the Government sector in 2018 with 26 issues as compared to USD65.28 billion issued in 2017; It represented 50.3% of the GCC bonds and sukuk market in 2018 and followed by the financial sector which raised USD27.20 billion representing 29.6% of the market as compared to USD22.97 billion in 2017. The Financial sector also led market in terms of the number of issuances, with 227 issues.



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

### Maturity Structure

Bonds with maturity of up to five years dominated the GCC market, raising a total value of USD38.76 billion through 237 issues and representing 42.2% of the market in terms of value. Issuances with maturities of more than 5 years and up to ten years raised USD29.32 billion, representing 31.9% of the market. The maturity term of more than 10 and up to thirty years contributed 24.3% or USD 22.35 billion over 28 issues whereas perpetual issues represented 1.6% or USD1.45 billion over 3 issues.



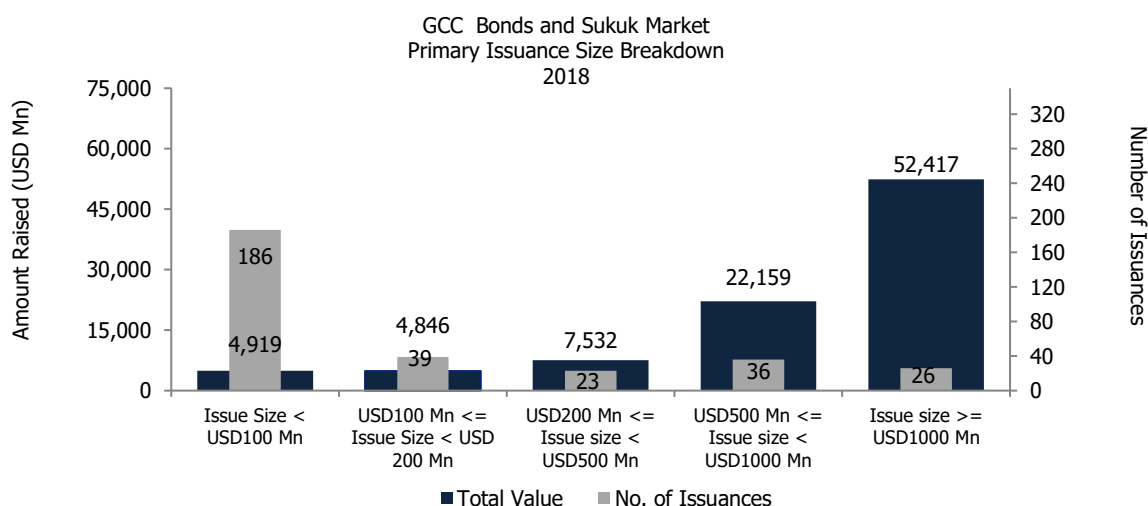
Source: Bloomberg, Zawya, Markaz Analysis

## Size

During 2018, GCC primary issuances ranged in size from USD0.77 million to USD6.0 billion. Issuances with principal amounts greater than or equal to USD1.0 billion raised the largest amount with USD52.42 billion, representing 57.1% total value issued. However, the frequency of issuance was maximum for issuance sizes under USD100 million with 186 issuances, representing 60% of the overall number of issuances.

The largest conventional Bond was the USD6 billion Government of Qatar bonds due 2048, whereas the largest Sukuk was the USD2 billion Saudi Arabia government sukuk due 2023.

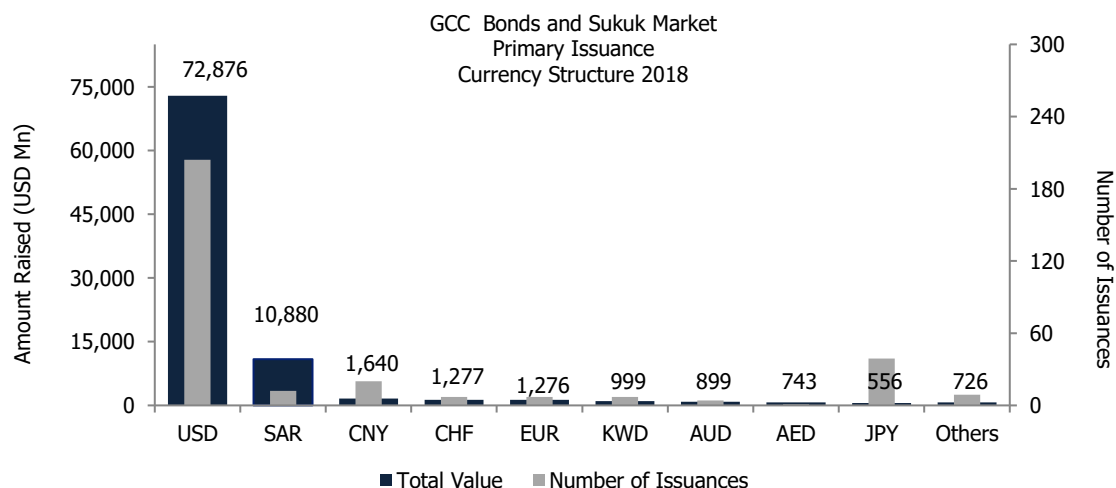
The largest corporate bond was the 3yr Qatar National Bank bonds raising USD1.5 billion followed by Saudi Basic Industries bonds, Dubai Islamic Bank bonds and DP World bonds raising USD1 billion each. Saudi Electricity Company issued the largest corporate Sukuk raising USD1.2 billion with a tenor of 10 years.



Source: Bloomberg, Zawya, Markaz Analysis

## Currency Structure

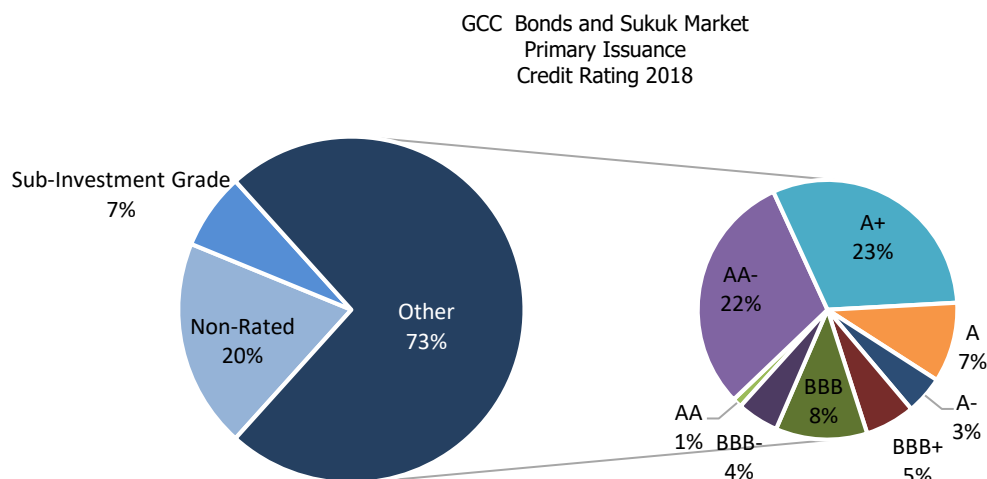
US Dollar denominated issuances led the GCC Bonds and Sukuk market during 2018, raising USD72.87 billion and representing 79.32% of the market. Saudi Riyal denominated issuances followed raising USD10.88 billion (SAR48.78 billion) and representing 11.84% of the market.



Source: Bloomberg, Zawya, Markaz Analysis

## Credit Rating

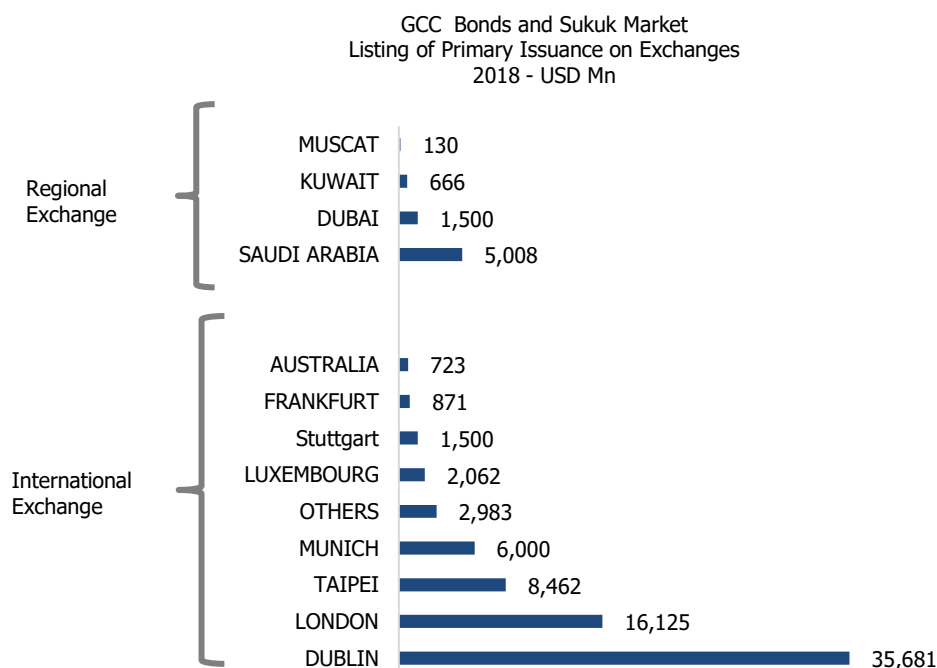
In terms of value, a total of 80.47% of GCC bond and Sukuk market issuances were rated by either one or more of the following Rating Agencies: Standard & Poor's, Moody's, Fitch, and/or Capital Intelligence as compared to 73.27% in 2017. Of those rated, 91.15% issues had investment grade ratings while the rest were sub-investment.



Source<sup>1</sup>: Bloomberg, Zawya, Markaz Analysis

## Listing

In 2018, a total of 88.9% of GCC Bonds and Sukuk issuances (in value terms), with an aggregate value of USD81.71 billion were listed on exchanges. International exchanges accounted for 91.1% of such listings while regional exchanges recorded listing of 12 bonds and sukuk in 2018 with a total value of USD7.3 billion. Dublin continues to be the most sought after exchange as it listed 43.67% of all the listed issuances.

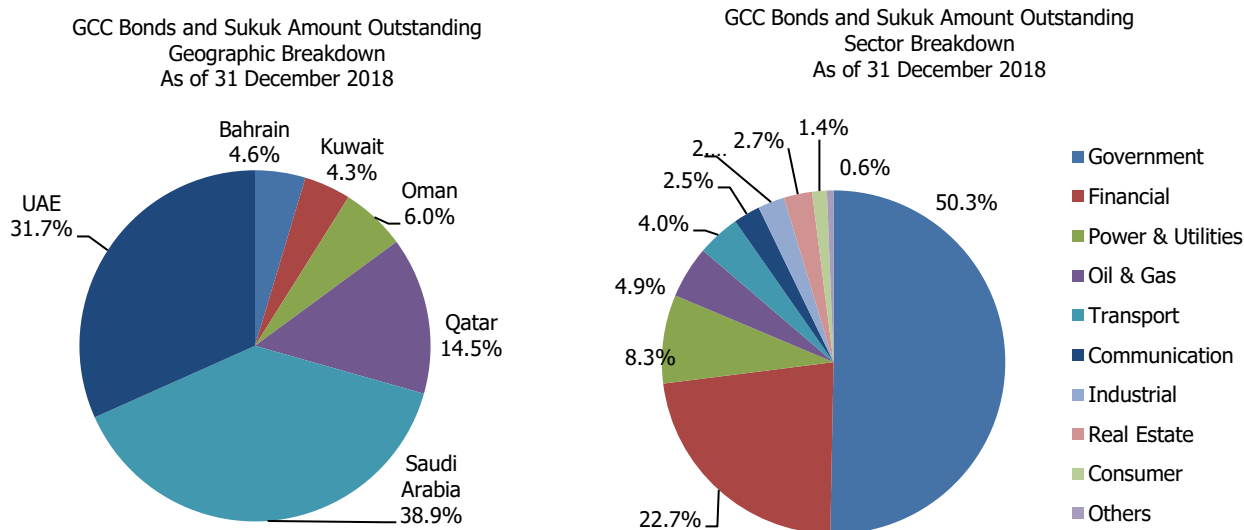


Source: Bloomberg, Zawya, Markaz Analysis

<sup>1</sup> For Chart Presentation S&P ratings have been used. If an entity is rated by other agencies and not S&P, the highest rating is considered and then corresponded to the S&P equivalent rating in the chart.

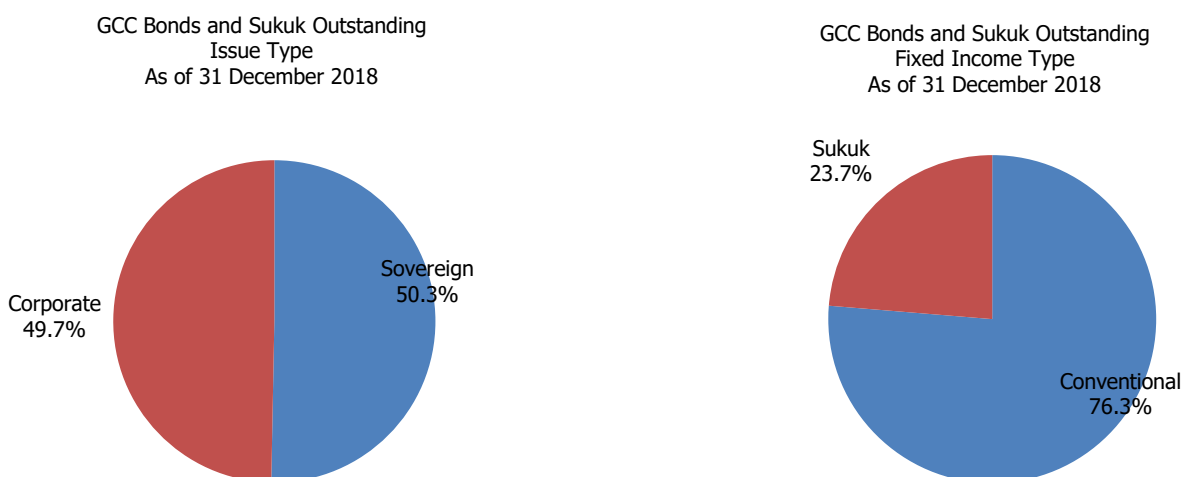
### GCC Bonds and Sukuk Market - Amount Outstanding (as of 31 December 2018)

As of 31 December 2018, total amount of GCC Bonds and Sukuk outstanding was USD484.02 billion. Saudi Arabia issuances accounted for the largest share with USD188.44 billion or 38.93% of the total amount outstanding followed by UAE issuances, representing 31.7% or USD153.32 billion.



Corporate issuances constituted 49.7% of the total amount outstanding with USD240.56 billion while Sovereign issuances represented 50.3%. Conventional issues accounted for 76.3% of the total amount outstanding, totaling USD369.32 billion whereas Sukuk's represented 23.7% of the amount outstanding or USD114.7 billion.

In terms of sector allocation, Government issuances represented the largest share at 50.3% with an outstanding amount of USD243.48 billion. Financial institutions stood next, representing 22.7% with USD109.86 billion of total GCC Bonds and Sukuk amount outstanding.

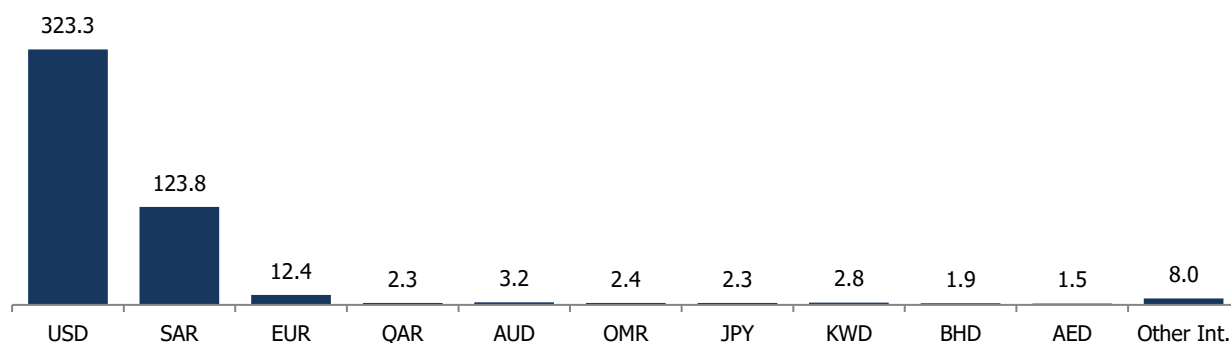


Source: Bloomberg, Zawya, Markaz Analysis

US Dollar denominated issuances comprised 66.78% of total amount outstanding with USD323.3 billion, followed by Saudi Riyal denominated issuances which represented 25.58% or USD123.8 billion.



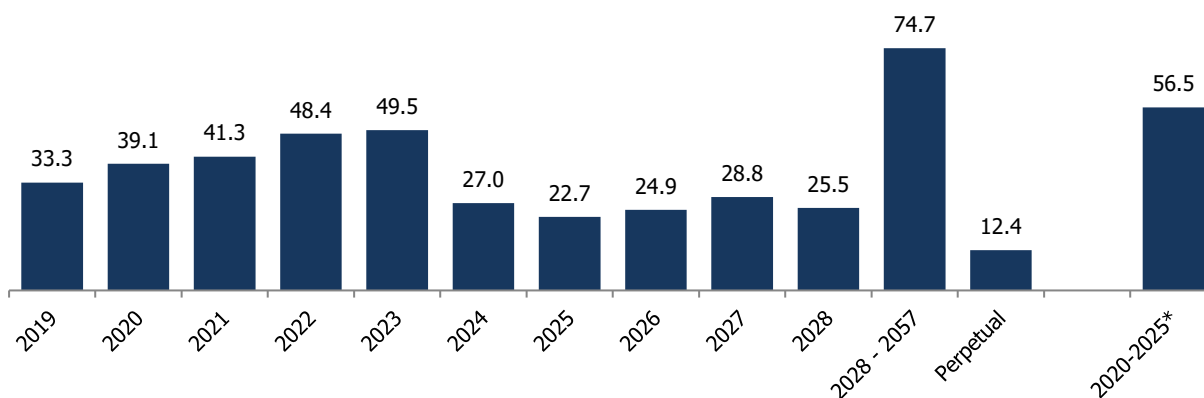
GCC Bonds and Sukuk Market  
Outstanding Issuance  
Currency Breakdown (USD Mn)  
As of 31 December 2018



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

As of 31<sup>st</sup> of December 2018, USD33.3 billion of total GCC bonds and sukuk amount outstanding mature within one year indicating a probable requirement for refinancing to that tune by the corporates and sovereigns in 2019. Issues with maturities of up to 10 years represent 70.32% of the amount outstanding or USD340.41 billion.

GCC Bonds and Sukuk Market  
Outstanding Issuance  
Maturity Breakdown (USD Mn)  
As of 31 December 2018

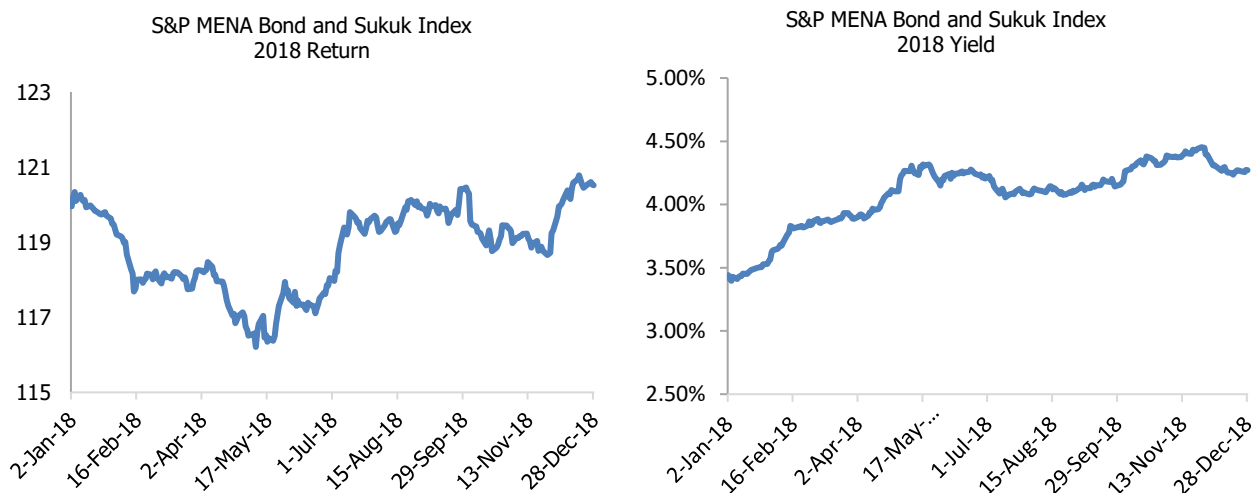


\*The Tenor for Saudi Arabian bonds issued in domestic currency is not known and according to sources, is estimated to be 5 to 10 years.  
Source: Bloomberg, Zawya, Markaz Analysis

## Market Performance

S&P MENA Bonds and Sukuk Index posted a gain of 0.39% (4.56% in 2017, 4.00% in 2016 and 1.55% in 2015) with the total return on the Index increasing from 120.19 on 31<sup>st</sup> December 2017 to 120.66 on 31<sup>st</sup> December 2018. The index recorded the lowest value on 9<sup>th</sup> May 2018 when it reached a value of 116.21. The highest value of 120.78 was recorded on 18<sup>th</sup> December 2018.

The Index yield increased from 3.44% on 31<sup>st</sup> December 2017 to 4.26% on 31<sup>st</sup> December 2018. The minimum yield of 3.40% was recorded on 4<sup>th</sup> January 2018 while the Index recorded the maximum yield of 4.45% on 26<sup>th</sup> November 2018.



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

## Credit Default Swaps (CDS)

During 2018, 5Y CDS for Kuwait, Saudi Arabia, Abu Dhabi and Bahrain widened, whereas it narrowed for Dubai and Qatar.

Saudi Arabia's 5Y CDS increased 15.44% in 2018 and ended at 103.2 bps which. Kuwait's 5Y CDS increased by 13.51% to end at 60.3 basis points but continued to remain the lowest among all the GCC nations. Bahrain's 5Y CDS increased by 2.64% to 269.5 basis points. Abu Dhabi's 5Y CDS increased by 8.29% to reach 63.9 basis points while Dubai's 5Y CDS narrowed by 15.78% to 124.8 basis points and Qatar's 5Y CDS narrowed by 19.20% to reach 81.6 basis points.

### GCC 5-Year Sovereign Credit Default Swaps Spread

	Opening CDS	Closing CDS	Percent Change During
	Basis Points	Basis Points	2018
Saudi Arabia	89.4	103.2	15.44%
Abu Dhabi	59.0	63.9	8.29%
Dubai	148.2	124.8	-15.78%
Qatar	101.0	81.6	-19.20%
Kuwait	53.1	60.3	13.51%
Bahrain	262.6	269.5	2.64%

Source: Bloomberg, Markaz Analysis

Key GCC Sovereign and Corporate Bonds and Sukuk Issuances – 2018

Type	Issuer/Guarantor	Security Description	Country	Subscription Date	Tenor (Years)	Maturity Date	Issue Size (US\$ mn)	Coupon Rate	Sector	Rating S&P/M/F
Conventional	STATE OF QATAR	QATAR 5.103 04/23/48	Qatar	23-Apr-18	30	23-Apr-48	6,000	5.10	Government	AA-/Aa3/AA-
Conventional	KINGDOM OF SAUDI ARABIA	KSA 4 04/17/25	Saudi Arabia	17-Apr-18	7	17-Apr-25	4,500	4.00	Government	-/A1/A+
Conventional	KINGDOM OF SAUDI ARABIA	KSA 5 04/17/49	Saudi Arabia	17-Apr-18	31	17-Apr-49	3,500	5.00	Government	-/A1/A+
Conventional	KINGDOM OF SAUDI ARABIA	KSA 4 1/2 04/17/30	Saudi Arabia	17-Apr-18	12	17-Apr-30	3,000	4.50	Government	-/A1/A+
Conventional	STATE OF QATAR	QATAR 4 1/2 04/23/28	Qatar	23-Apr-18	10	23-Apr-28	3,000	4.50	Government	AA-/Aa3/AA-
Conventional	STATE OF QATAR	QATAR 3 7/8 04/23/23	Qatar	23-Apr-18	5	23-Apr-23	3,000	3.88	Government	AA-/Aa3/AA-
Conventional	SULTANATE OF OMAN	OMAN 6 3/4 01/17/48	Oman	17-Jan-18	30	17-Jan-48	2,750	6.75	Government	-/Baa2/BBB-
Sukuk	KINGDOM OF SAUDI ARABIA	KSASUK 3 1/4 01/24/23	Saudi Arabia	24-Jan-18	5	24-Jan-23	2,532	3.25	Government	-/-/-
Conventional	SULTANATE OF OMAN	OMAN 5 5/8 01/17/28	Oman	17-Jan-18	10	17-Jan-28	2,500	5.63	Government	-/Baa2/BBB-
Sukuk	KINGDOM OF SAUDI ARABIA	KSA 4.303 01/19/29	Saudi Arabia	19-Sep-18	10	19-Jan-29	2,000	4.30	Government	-/A1/A+
Sukuk	KINGDOM OF SAUDI ARABIA	KSASUK 3.4 04/25/23	Saudi Arabia	25-Apr-18	5	25-Apr-23	1,907	3.40	Government	-/-/-
Conventional	KINGDOM OF SAUDI ARABIA	KSASUK 3 1/2 07/25/23	Saudi Arabia	25-Jul-18	5	25-Jul-23	1,891	3.50	Government	-/-/-
Conventional	QATAR NATIONAL BANK	QNBK 0 05/31/21	Qatar	31-May-18	3	31-May-21	1,500	3.66	Financial	A/Aa3/A+
Sukuk	SULTANATE OF OMAN	OMANGS 5.932 10/31/25	Oman	31-Oct-18	7	31-Oct-25	1,500	5.93	Government	-/Baa3/BB+
Conventional	QATAR NATIONAL BANK	QNBK 0 02/12/20	Qatar	12-Feb-18	2	12-Feb-20	1,388	3.16	Financial	-/Aa3/A+
Conventional	SULTANATE OF OMAN	OMAN 4 1/8 01/17/23	Oman	17-Jan-18	5	17-Jan-23	1,250	4.13	Government	-/Baa2/BBB-
Sukuk	SAUDI ELECTRICITY CO	SECO 4.723 09/27/28	Saudi Arabia	27-Sep-18	10	27-Sep-28	1,200	4.72	Utilities	-/A2/A
Sukuk	DUBAI ISLAMIC BANK	DIBUH 3 5/8 02/06/23	UAE	6-Feb-18	5	6-Feb-23	1,000	3.63	Financial	-/A3/A
Conventional	QATAR NATIONAL BANK	QNBK 0 02/07/20	Qatar	7-Feb-18	2	7-Feb-20	1,000	3.14	Financial	-/Aa3/-
Sukuk	GOVERNMENT OF SHARJAH	SHARSK 4.226 03/14/28	UAE	14-Mar-18	10	14-Mar-28	1,000	4.23	Government	BBB+/A3/-
Sukuk	KINGDOM OF BAHRAIN	BHRAIN 6 7/8 10/05/25	Bahrain	5-Apr-18	7	5-Oct-25	1,000	6.88	Government	-/-/BB
Conventional	ABU DHABI NATIONAL ENERGY	TAQAUH 4 7/8 04/23/30	UAE	23-Apr-18	12	23-Apr-30	1,000	4.88	Utilities	-/A3/A
Conventional	DP WORLD	DPWDU 5 5/8 09/25/48	UAE	25-Sep-18	30	25-Sep-48	1,000	5.63	Consumer	-/Baa1/BBB+
Conventional	SAUDI BASIC INDUSTRIES	SABIC 4 10/10/23	Saudi Arabia	10-Oct-18	5	10-Oct-23	1,000	4.00	Industrial	A-/A1/-
Conventional	SAUDI BASIC INDUSTRIES	SABIC 4 1/2 10/10/28	Saudi Arabia	10-Oct-18	10	10-Oct-28	1,000	4.50	Industrial	A-/A1/-
Sukuk	DP WORLD	DPWDU 4.848 09/26/28	UAE	26-Sep-18	10	26-Sep-28	1,000	4.85	Consumer	-/Baa1/BBB+

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