

January 2020:
GCC Fixed Income Research

Markaz Research is available on
Bloomberg
Type “MRKZ” <Go>

Authors:

Rasha A. Othman

EVP - Capital Markets & Fixed Income
+965 2224 8000 Ext.: 1113
rothman@markaz.com

Ali Ramadan

Analyst
+965 2224 8000 Ext.: 1108
aramadan@markaz.com

Abdulaziz Al-Roumi

Assistant Analyst
+965 2224 8000 Ext.: 1164
aroumi@markaz.com

Kuwait Financial Centre “Markaz”

P.O. Box 23444, Safat 13095, Kuwait
Tel: +965 2224 8000
Fax: +965 2242 5828
markaz.com

GCC Bonds and Sukuk Market Survey 2019 Highlights

Terminology and notes to consider before reading this report:

- **GCC:** Gulf Cooperation Council
- **GCC Bonds and Sukuk market includes:**
 - **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 Central Bank Local Issuances (CBLIs):** refers to issuances by GCC Central Banks which include Treasury Bills, Notes and Bonds offerings mostly aimed at regulating levels of domestic liquidity.
- 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.

Executive Summary:

The Primary GCC Bonds and Sukuk market witnessed a record year in 2019, with an all-time high total of USD 114.172 billion raised through Sovereign and Corporate issuances and representing a 24% increase from 2018. Issuances of Conventional bonds continue to be the preferred type of primary issue within the GCC market with USD 85.078 billion worth of issuances in 2019 – a 25% increase from the previous year, whilst Sukuk issuances continue to demonstrate healthy growth year-on-year with USD 29.094 billion worth of issuances – an increase of 22% from 2018.

As of 31 December 2019, the value of outstanding GCC Bonds and Sukuk issuances amounted to USD 596.651 billion, with Saudi Arabia accounting for 36% of outstanding GCC issuances. In terms of market performance, the S&P MENA Bond and Sukuk Index posted a noteworthy total return of 13.47%. Moreover, 5-Year Sovereign CDS spreads narrowed across all GCC countries during 2019, where the most significant YoY change witnessed was Qatar with -56% change.

GCC Central Banks (CLBIs), which are primarily aimed at regulating levels of domestic liquidity and are issued in local currency, raised a total value of USD 63.814 billion in 2019.

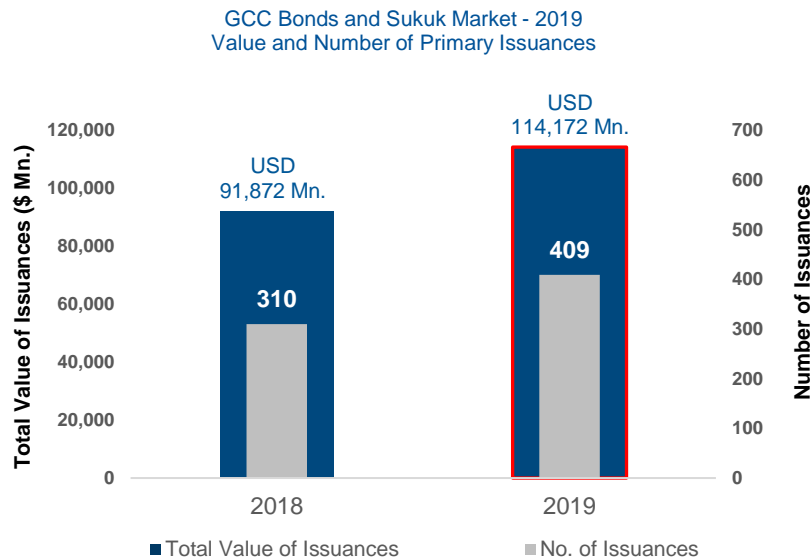
Keywords: GCC, Gulf Cooperation Council, Bonds, Sukuk, Debt Primary Issuances, Fixed Income, Debt Capital Markets

1. GCC Corporate and Sovereign Bonds and Sukuk Market

GCC Bonds and Sukuk Market includes GCC Sovereign and Corporate Issuances. (Please refer to detailed definition at the beginning of this report).

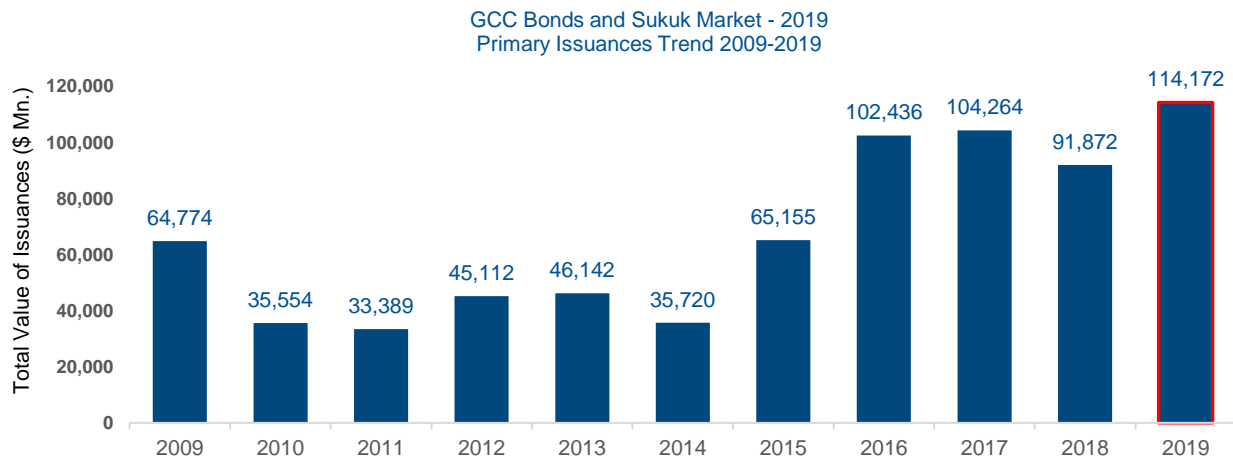
1.1. Primary Issuance

GCC Bonds and Sukuk primary issuances amounted to USD 114.172 billion during 2019, which represents an increase of 24% from the USD 91.872 billion raised during 2018. The total number of primary issuances also witnessed a substantial increase during 2019 with 409 primary issuances compared to 310 primary issuances during 2018.



Source: Bloomberg, Markaz Analysis

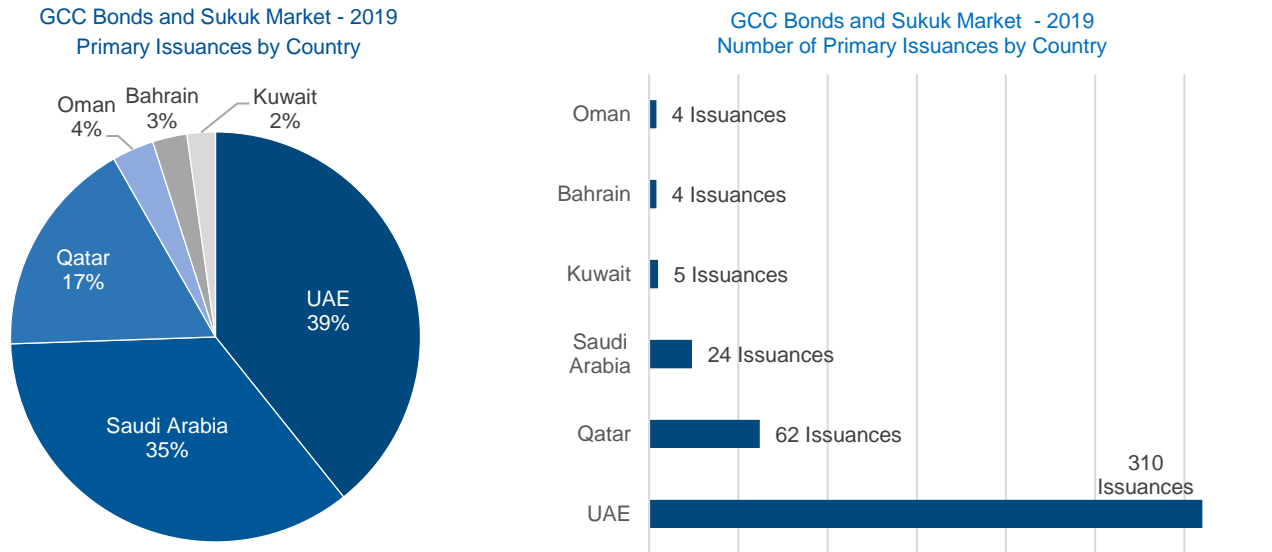
Historically, 2019 represents a record year for the GCC primary Bonds and Sukuk market, where it witnessed the highest value and number of primary issuances – an evidence of the growing importance of debt capital markets within the region.



Source: Bloomberg, Markaz Analysis

1.1.1. Geographical Allocation

UAE entities were the leading issuers in the GCC during FY2019, raising a total of USD 44.818 billion (FY2018: USD 27.037 billion), representing 39% of the total value of primary GCC Bonds and Sukuk issuances. The UAE also maintains its dominant position in terms of frequency of primary issuances with 310 issuances, constituting 76% of the number of GCC primary issuances in FY2019.



Source: Bloomberg, Markaz Analysis

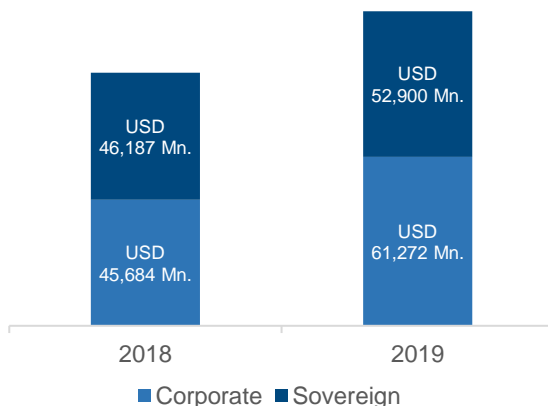
Saudi Arabian entities were the second largest issuers by value in the GCC during FY2019 amounting to USD 40.200 billion (FY2018: USD 28.515 billion), constituting 35% of the total value of GCC primary issuances. Saudi Arabia was also the third most frequent issuer with 24 primary Sovereign and Corporate debt issuances.

Qatar entities were the third largest issuers in terms of value within the GCC in FY2019 with USD 19.729 billion (FY2018: USD 22.230 billion). Qatar was the second most frequent issuer with 62 primary Sovereign and Corporate debt issuances.

Kuwaiti entities raised a total of USD 2.550 billion (FY2018: USD 1.299 billion) through 5 Corporate issuances, representing only 2% of the total value of primary GCC Bonds and Sukuk issuances in 2019.

1.1.2. Sovereign vs. Corporate

GCC Bonds and Sukuk Market - 2019
Primary Issuances: Sovereign vs. Corporate



Source: Bloomberg, Markaz Analysis

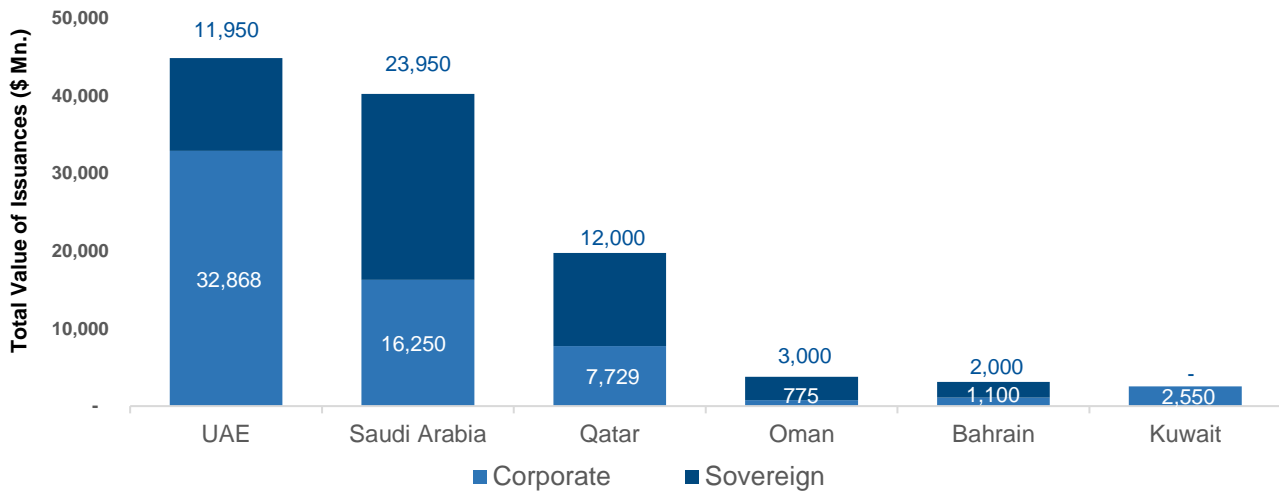
2019 was a noteworthy year for GCC Corporate issuances, where Corporate primary issuances exceeded Sovereign issuances in terms of value.

Total GCC Corporate primary issuances increased by 34% during 2019 to reach USD 61.272 billion (FY2018: USD 45.684 billion).

The GCC country with the greatest value of Corporate issuances was the UAE, whereas the greatest single Corporate issuance during 2019 was by Saudi Arabian Oil. Co. (ARAMCO) – three issuances with an issue size of USD 3 billion each.

Total GCC Sovereign issuances increased by 15% during 2019 to reach USD 52.900 billion (FY2018: USD 46.187 billion). The GCC country with the greatest value of Sovereign issuances is Saudi Arabia. Qatar was the second largest issuer of Sovereign Bonds and Sukuk, where it raised USD 12.000 billion.

GCC Bonds and Sukuk Market - 2019
Primary Issuances: Sovereign vs. Corporate by Country



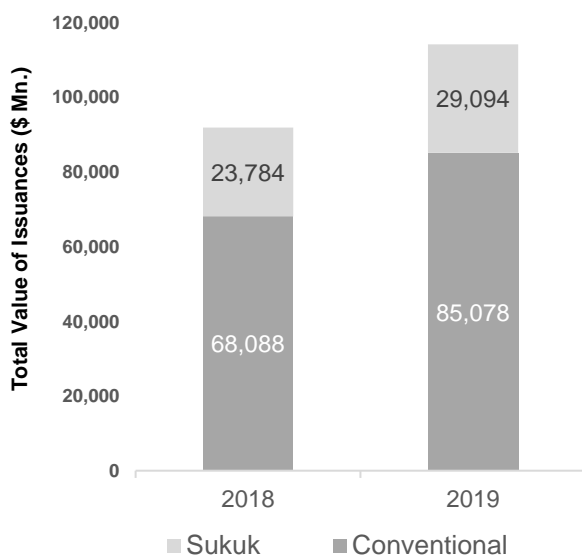
Source: Bloomberg, Markaz Analysis

In 2019, the largest single Sovereign issuances was by the Government of Qatar – a Conventional bond issue of USD 6 billion.

Kuwait issued no Sovereign Bonds or Sukuk during 2019, whereas Kuwaiti Corporate issuances amounted to 5 issuances with a total value of USD 2.550 billion.

1.1.3. Conventional vs. Sukuk

GCC Bonds and Sukuk Market - 2019
Primary Issuances: Conventional vs. Sukuk



Source: Bloomberg, Markaz Analysis

Conventional bonds are still the preferred type of primary issuances in the GCC, where the total amount raised through Conventional bonds amounted to USD 85.078 billion in FY2019, an increase of 25% from the reported amount raised of USD 68.088 billion in FY2018.

The largest single issue of Conventional bonds during 2019 was by the Government of Qatar – USD 6 billion.

GCC Sukuk issuances in FY2019 amounted to USD 29.094 billion, an increase of 22% from the reported value of USD 23.784 billion in FY2018.

The largest single issue of Sukuk during 2019 was by the Government of Saudi Arabia - USD 2.620 billion.

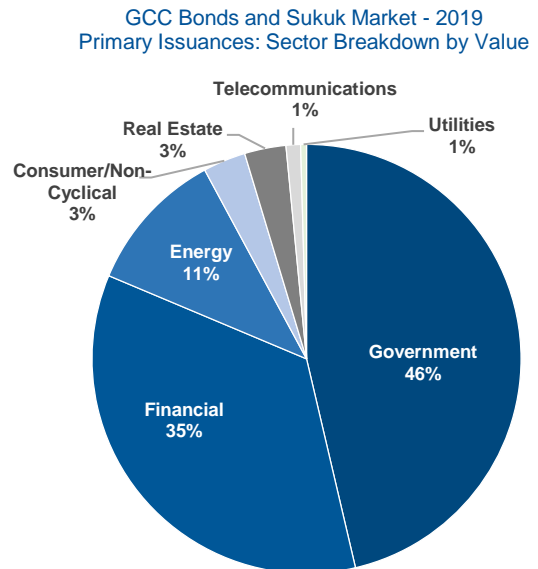
1.1.4. Sector Allocation

A total of USD 52.900 billion was raised by the Government sector in FY2019, constituting 46% of the total value of GCC primary issuances through 25 issuances.

The second largest contributing sector to the total value of GCC primary issuances was the Financial sector with issuances worth a total value of USD 39.962 billion, constituting 35% of total issuances.

The Energy sector was the third largest contributing sector, with a total value of USD 12.325 billion through 6 issuances in FY2019.

The Financial sector led the market in terms of the number of issuances during 2019 with 362 primary issuances, followed by the Government sector with 25 issuances.



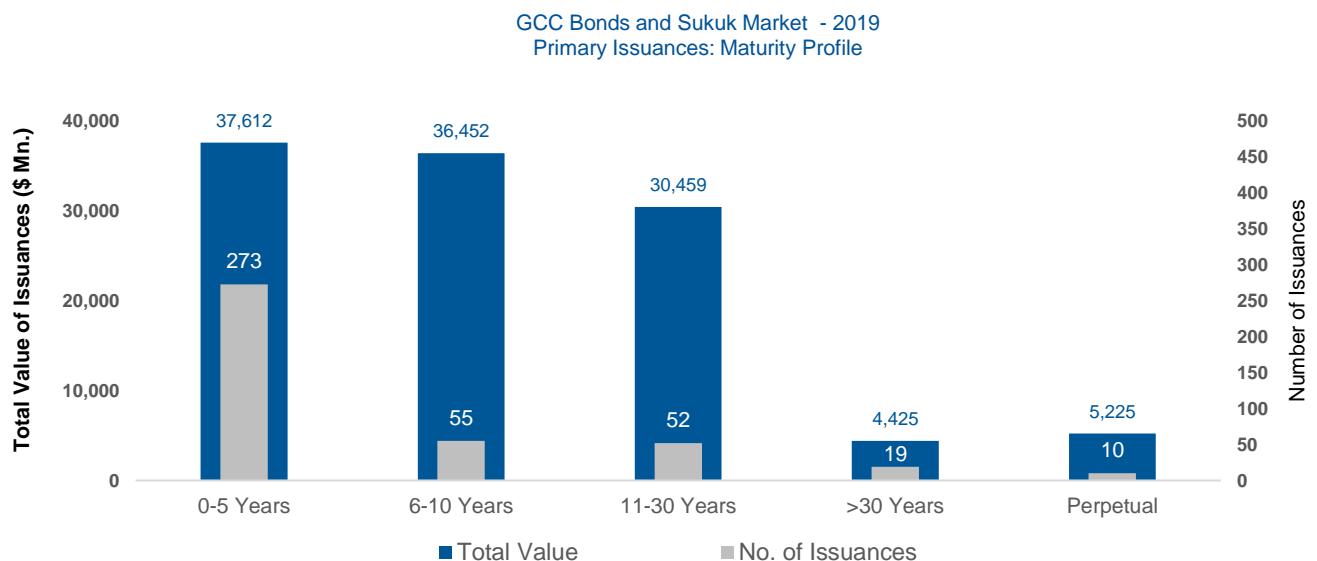
Source: Bloomberg, Markaz Analysis

1.1.5. Maturity Profile

In 2019, GCC Primary issuances with 0-5 year tenors slightly dominated the GCC debt capital markets by total value raised, amounting to USD 37.612 billion through 273 issuances.

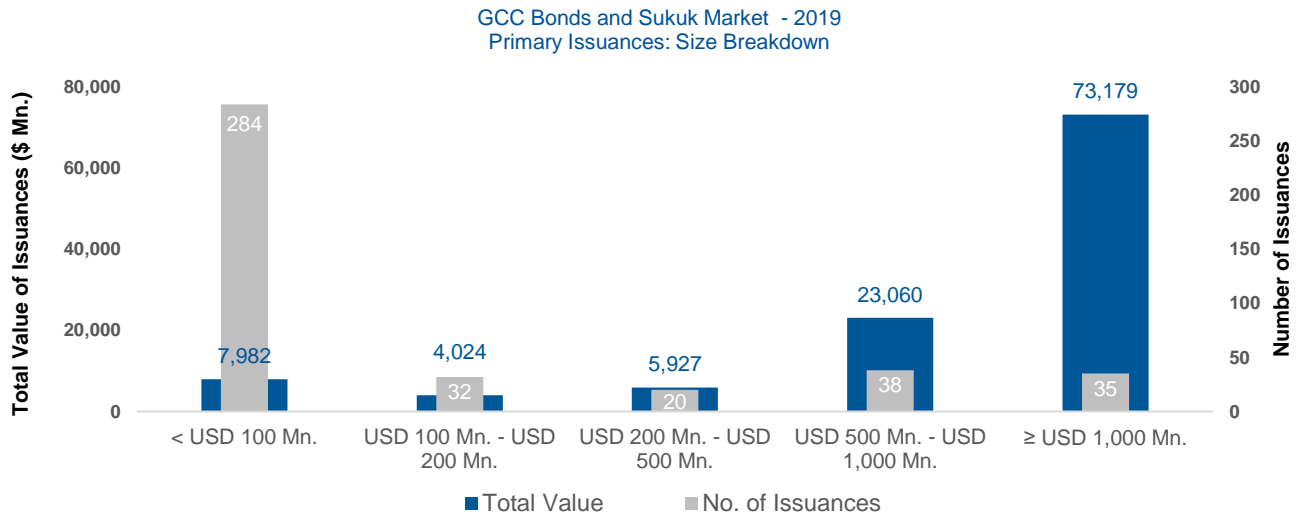
Issuances with 6-10 year tenors came in second, raising total value of USD 36.452 billion through 55 issuances in FY2019. Moreover, primary issuances with 11-30 year tenors raised a total value of USD 30.459 billion through 52 issuances.

Perpetual issuances represented 5% of the total value of issuances in FY2019, where they were all issued by GCC banks.



Source: Bloomberg, Markaz Analysis

1.1.6. Issue Size Profile



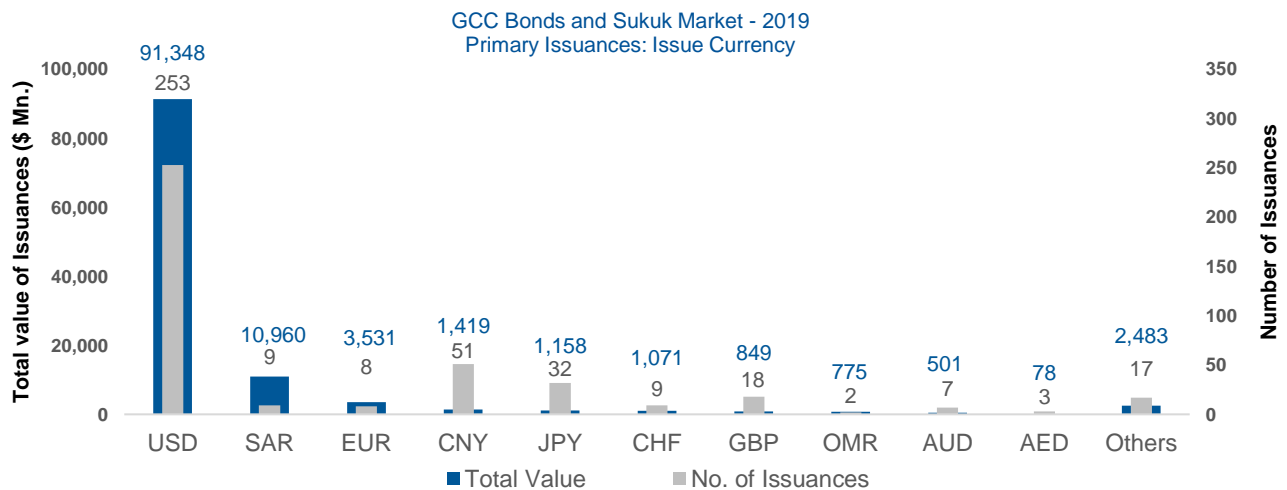
Source: Bloomberg, Markaz Analysis

During FY2019, primary issuances ranged in issue size from USD 5 million to USD 6 billion. Issuances with principal amounts of USD 1 billion or greater raised the largest amount, totaling USD 73.179 billion through 35 issuances in FY2019 and representing 64% of the total amount issued in the GCC.

The most frequent issue size was issuances under USD 100 million, where there were 284 issuances raising a total amount of USD 7.982 billion in FY2019.

The largest Conventional bond issued in 2019 was by the Qatari Government, where it raised USD 6 billion with a 30-year tenor issued in USD, whereas the largest issuer of a Sukuk bond was the Saudi Government, raising a USD 2.620 billion in Saudi Riyal (SAR) with a 12-year tenor.

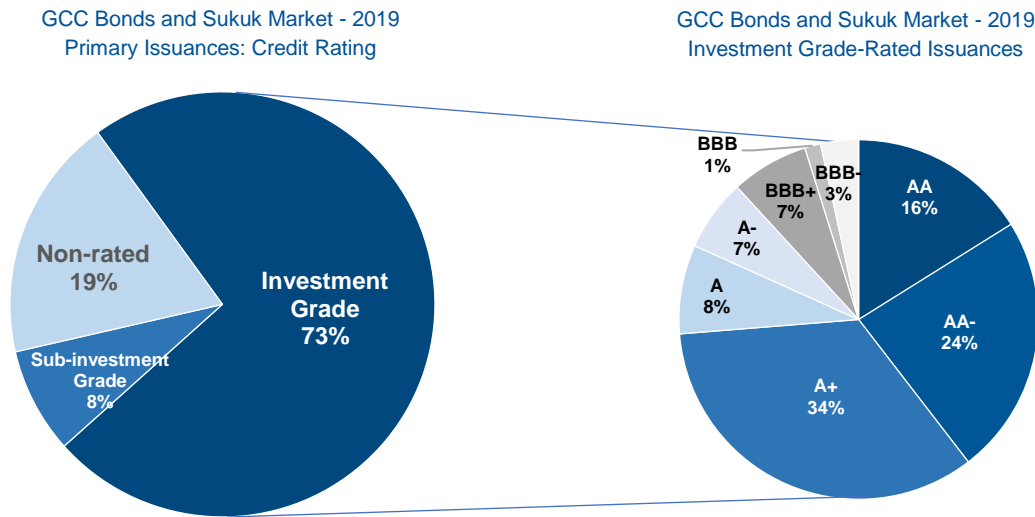
1.1.7. Currency Profile



Source: Bloomberg, Markaz Analysis

US Dollar-denominated issuances led the GCC Bonds and Sukuk market in 2019, raising a total of USD 91.348 billion through 253 issuances, representing a substantial 80% of the total value raised in primary issuances in the GCC. The second largest issue currency was the Saudi Riyal (SAR), where issuances in SAR raised a total of USD 10.960 billion through 9 issuances, largely dominated by the Saudi Government.

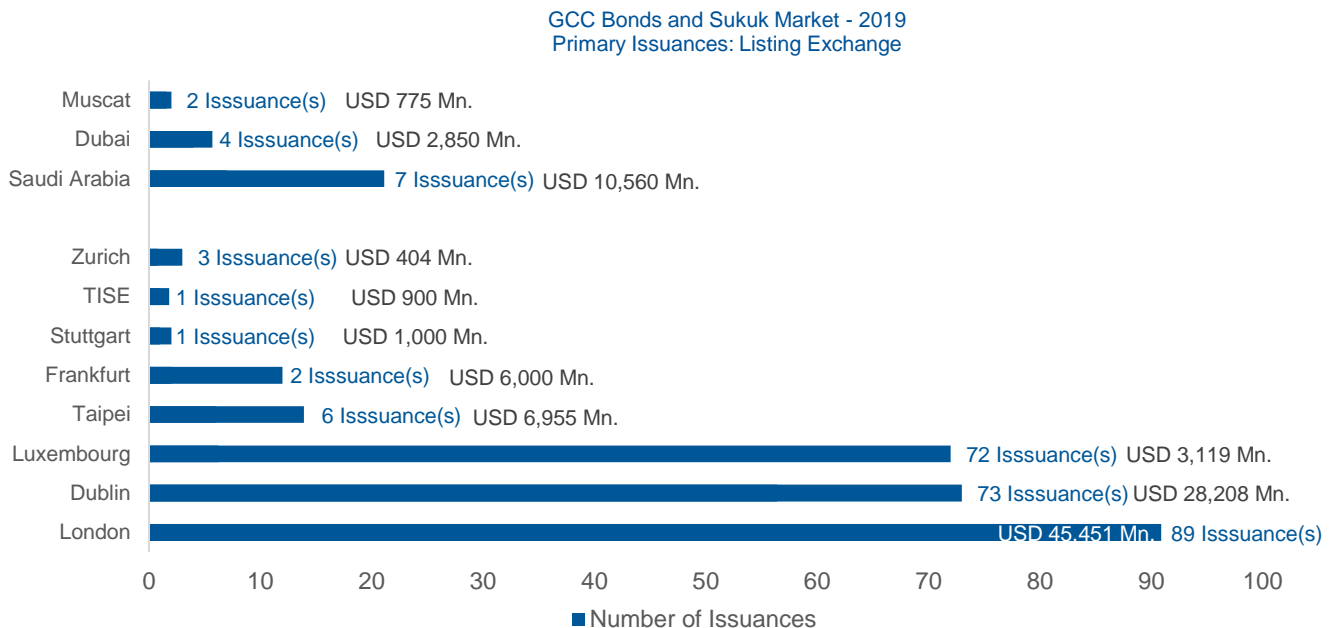
1.1.8. Credit Rating



Source: Bloomberg, Markaz Analysis

In terms of value, a total of 81% of GCC Conventional and Sukuk bonds were rated in FY2019 by either one of the following rating agencies: Standard & Poor’s, Moody’s, Fitch and/or Capital Intelligence, as compared to 80% in FY2018. Issuances rated with an Investment Grade amounted to 73% of the total issuances in 2019.

1.1.9. Listing Exchange



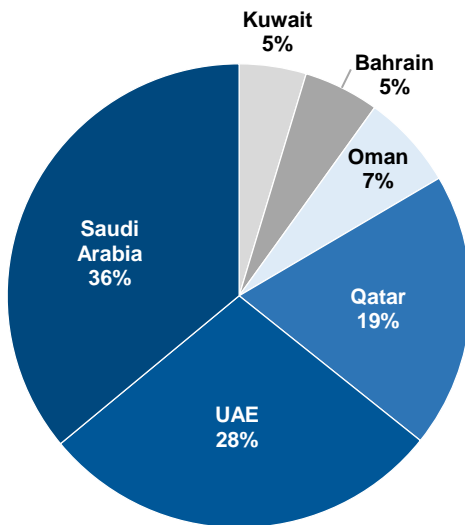
Source: Bloomberg, Markaz Analysis

London has overtaken Dublin in 2019 to be the listing exchange with the greatest traded value of GCC primary issuances, totaling USD 45.451 billion (FY2018: USD 16.125 billion) through 89 issuances. Dublin was the second most popular international exchange market for GCC primary issuances, raising a total of USD 28.208 billion (FY2018: USD 35.681 billion).

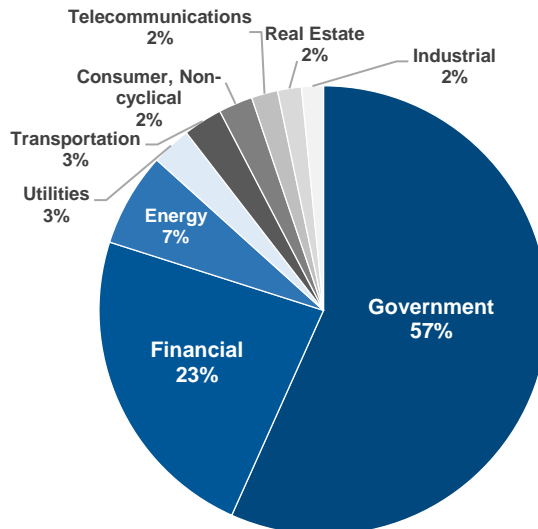
1.2. GCC Bonds and Sukuk Market – Outstanding Amount

As of 31 December 2019, the total amount outstanding of the GCC Bonds and Sukuk was USD 596.651 billion. According to geographical distribution, Saudi Arabia issuances accounted for the largest share with USD 214.854 billion or 36% of the total amount outstanding, followed by UAE issuances with 28% or USD 168.863 billion.

GCC Bonds and Sukuk Market - 2019
Outstanding Amount: Country Breakdown



GCC Bonds and Sukuk Market - 2019
Outstanding Amount: Sector Breakdown

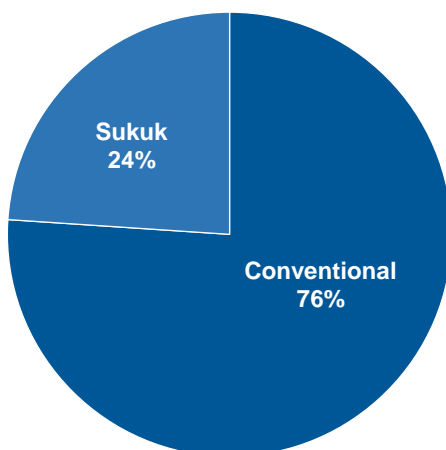


Source: Bloomberg, Markaz Analysis

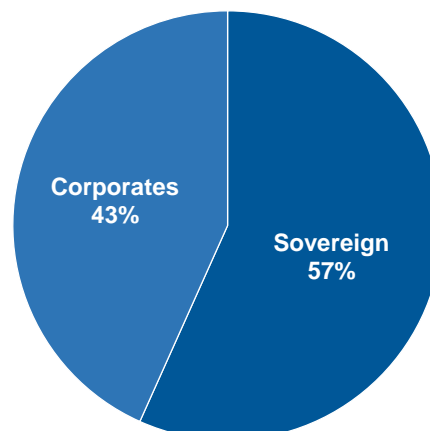
In terms of sector allocation, Government issuances represented the largest share with total amount outstanding at USD 338.317 billion representing 57% of outstanding market. Financial institutions stood next, representing 23% with USD 138.494 billion in total amount outstanding.

Conventional issues accounted for 76% of the total amount outstanding, totaling USD 453.808 billion whereas Sukuk represented 24% of the amount outstanding or USD 142.842 billion. Moreover, Sovereign issuances constituted 57% of the total amount outstanding with USD 338.317 billion versus the Corporate issuances which represented 43%.

GCC Bonds and Sukuk Market - 2019
Outstanding Amount: Issue Type

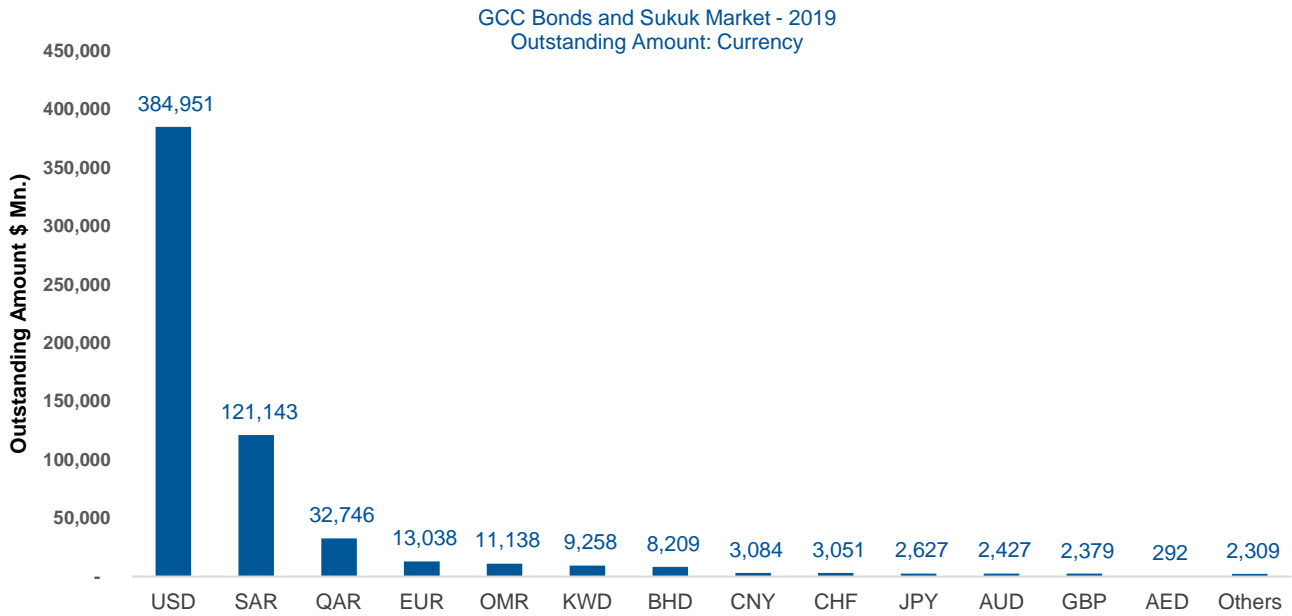


GCC Bonds and Sukuk Market - 2019
Outstanding Amount: Sovereign vs. Corporate



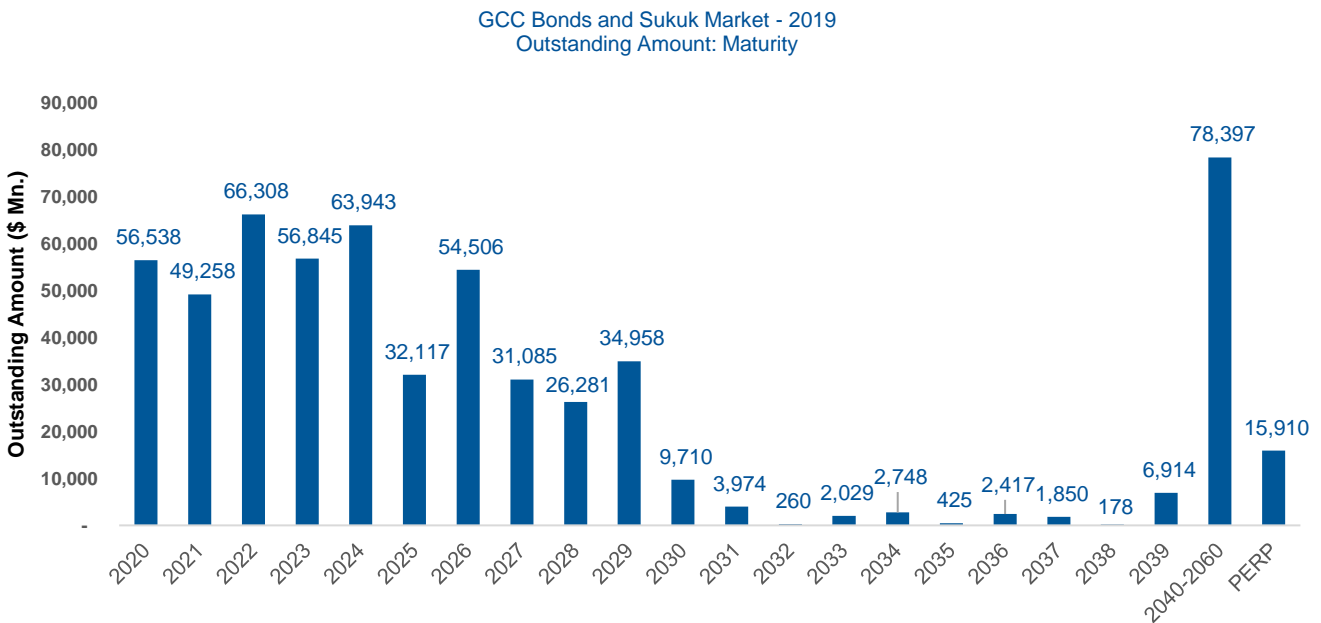
Source: Bloomberg, Markaz Analysis

USD-denominated issuances comprised 65% of total amount outstanding with USD 384.951 billion, followed by Saudi Riyal-denominated issuances which represented 20% or USD 121.143 billion.



Source: Bloomberg, Markaz Analysis

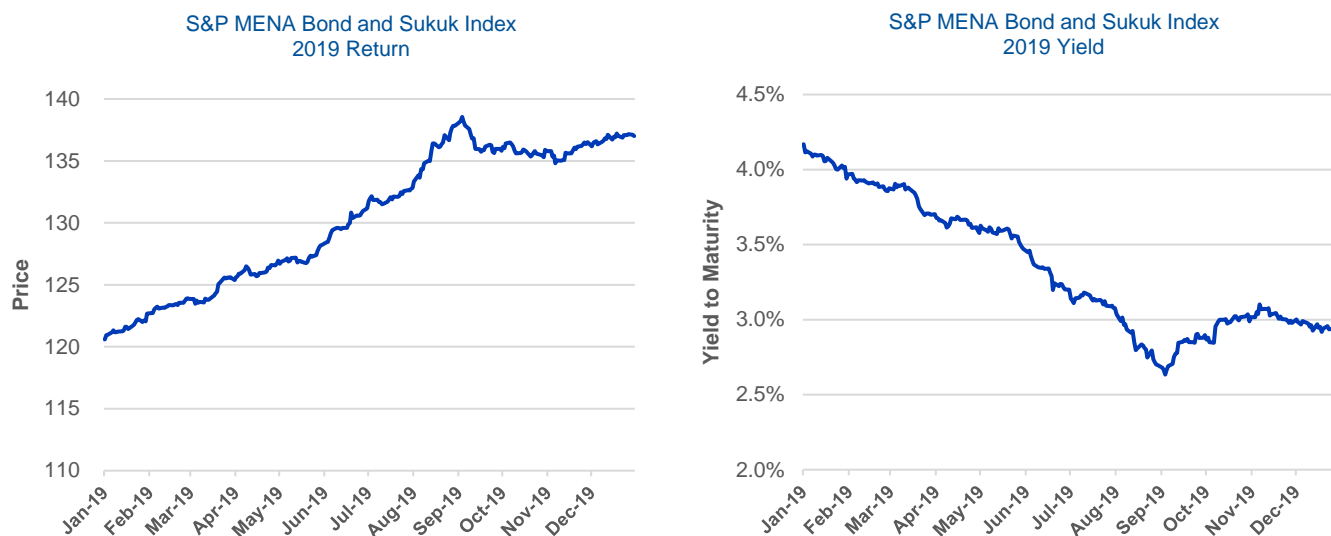
As at 31 December 2019, Bonds and Sukuk amounting to USD 56.538 billion is expected to mature in 2020, indicating a probable requirement for refinancing by Corporates and Sovereign entities. Moreover, within the next decade, 81% of the amount outstanding or USD 481.548 billion are expected to mature during the upcoming 10-year period.



Source: Bloomberg, Markaz Analysis

1.3. GCC Bonds and Sukuk Market – Market performance 2019

The S&P MENA Bond and Sukuk Index posted a total return of 13.47% during 2019 (FY2018: 0.38%, FY2017: 4.65%, FY2016: 4.00%), where the index price increased from 120.66 on 31st December 2018 to 137.10 on 31st December 2019. The index recorded its lowest value on the 2nd January 2019 where it reached 120.59, whereas the highest value recorded during 2019 was on the 4th September 2019 reaching 138.55.



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

The index yield decreased from 4.17% at start of 2019 reaching to 2.94% at the end of the year. The maximum yield recorded on the S&P MENA Bond and Sukuk Index during 2019 was 4.17% on 2nd January 2019, whereas the minimum yield recorded was 2.63% on 4th September 2019.

1.3.1. Credit Default Swaps (CDS)

During 2019, the 5-Year sovereign CDS spreads for all GCC countries narrowed, where the most significant YoY changes witnessed were Qatar, Saudi Arabia and Kuwait with 56%, -47% and -45%, respectively. At the end of 2019, the GCC country with the lowest 5-Year CDS spread was Kuwait, whereas the highest was Oman.

Kuwait and the Emirate of Abu Dhabi still maintain the highest sovereign credit ratings among peers in the GCC region.

GCC 5Y Sovereign CDS Spread and Credit Rating - 2019

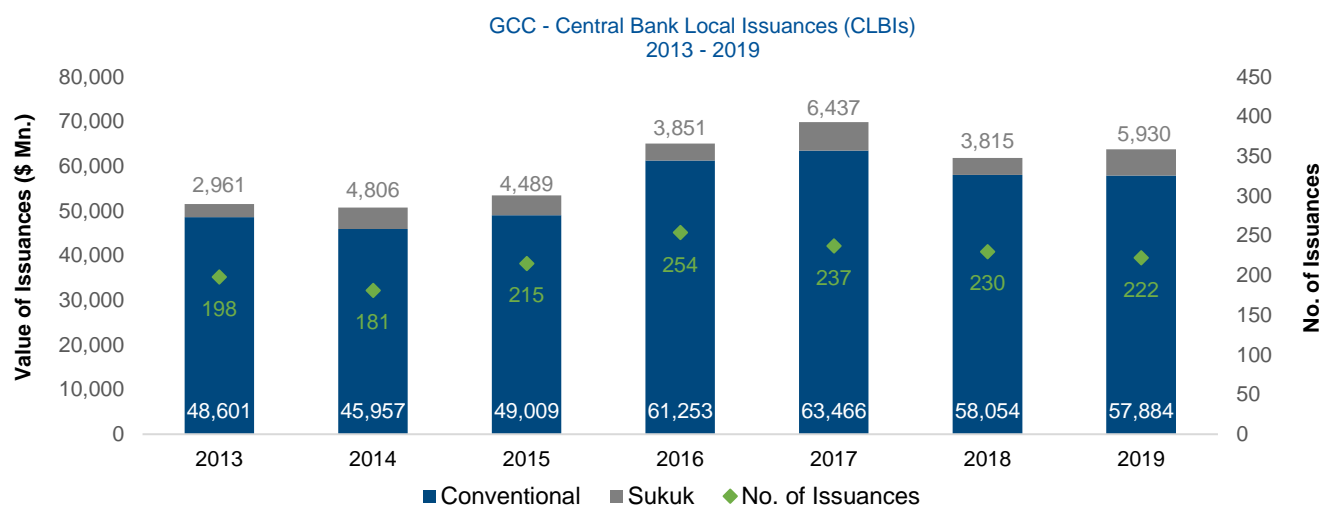
Country	31/12/2018	31/12/2019	YoY% Change	Sovereign Credit Ratings		
	CDS (Bps)	CDS (Bps)		S&P	Moody's	Fitch
Abu Dhabi	57.99	36.75	-37%	AA	Aa2	AA
Bahrain	315.46	186.18	-41%	B+	B2	BB-
Dubai	134.43	96.75	-28%	-	-	-
Kuwait	71.30	39.47	-45%	AA	Aa2	AA
Oman	347.43	248.10	-29%	BB	Ba1	BB+
Qatar	85.23	37.28	-56%	AA-	Aa3	AA-
Saudi Arabia	107.12	57.10	-47%	A-	A1	A

Source: Bloomberg, Markaz Analysis

2. Central Bank Local Issuances (CLBIs)¹

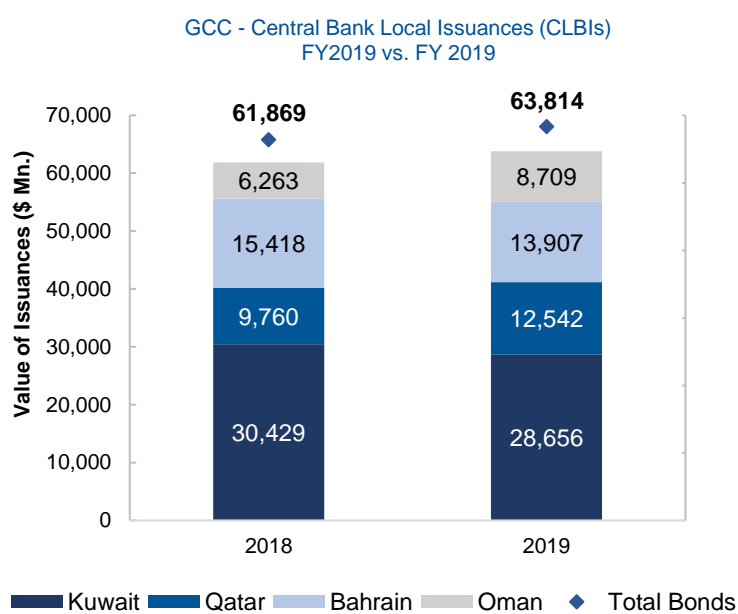
Note: GCC Central Banks Local Issuances (referred to as “CLBIs”) are comprised of issuances by GCC Central Banks primarily to regulate levels of domestic liquidity, and are largely issued in local currency. The local issuances of GCC Central Banks consist of the following: Treasury Bills, Notes, Bonds and Sukuk

This section is dedicated to issuances by the following GCC Central Banks: Central Bank of Bahrain (CBB), Central Bank of Kuwait (CBK), Central Bank of Oman (CBO) and Central Bank of Qatar (CBQ). The aforementioned GCC Central Banks are the only ones to provide regular and publicly available information on such issuances.



Source: Bloomberg, GCC Central Banks websites, Markaz Analysis

A total of USD 63.814 billion was raised through GCC Central Banks Local Issuances (CBLIs) during FY2019 through 222 issuances, an increase of 3% from USD 61.869 billion raised through 230 issuances during the same period last year. Conventional issuances totaled to USD57.884 billion making up 90.71% whereas Sukuk totaled USD 5.930 billion, making up 9.29% of the GCC CBLI’s in 2019.



Source: Bloomberg, GCC Central Banks websites, Markaz Analysis

During FY2019, the Central Bank of Kuwait was the leading issuer among GCC Central Banks with 37 issues raising KWD 8.710 billion (USD 28.656 billion), lower by 5.83% as compared to KWD 9.140 billion (USD 30.429 billion) raised in FY2018. Central Bank of Qatar increased their issuances in FY2019, raising QAR 46.450 billion (USD 12.542 billion) vs. QAR 35.705 billion (USD 9.760 billion) in FY2018. Central Bank of Bahrain decreased their issuances in FY 2019, raising BHD 5.248 billion (USD 13.907 billion) vs. BHD 5.798 billion (USD 15.418 billion) in FY 2018. An increase was recorded for Central Bank of Oman which raised OMR 3.350 billion (USD 8.709 billion) in FY2019 vs. OMR 2.408 billion (USD 6.263 billion) during the same period last year.

¹ The 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.

Appendix 1: Key GCC Sovereign and Corporate Bonds and Sukuk Issuances in 2019

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 4.817 03/14/49	Qatar	14-Mar-19	30	14-Mar-49	6,000	4.82	Government	AA- /Aa3/AA-
Conventional	SAUDI INTERNATIONAL BOND	KSA 4 3/8 04/16/29	Saudi Arabia	16-Jan-19	10	16-Apr-29	4,000	4.38	Government	-/A1/A+
Conventional	STATE OF QATAR	QATAR 4 03/14/29	Qatar	14-Mar-19	10	14-Mar-29	4,000	4.00	Government	AA- /Aa3/AA-
Conventional	ABU DHABI GOVT INT'L	ADGB 3 1/8 09/30/49	UAE	30-Sep-19	30	30-Sep-49	4,000	3.13	Government	AA/Aa2u/AA
Conventional	SAUDI INTERNATIONAL BOND	KSA 5 1/4 01/16/50	Saudi Arabia	16-Jan-19	31	16-Jan-50	3,500	5.25	Government	-/A1/A+
Conventional	SAUDI ARABIAN OIL CO (ARAMCO)	ARAMCO 4 3/8 04/16/49	Saudi Arabia	16-Apr-19	30	16-Apr-49	3,000	4.38	Energy	-/A1/A+
Conventional	SAUDI ARABIAN OIL CO (ARAMCO)	ARAMCO 3 1/2 04/16/29	Saudi Arabia	16-Apr-19	10	16-Apr-29	3,000	3.50	Energy	-/A1/A+
Conventional	SAUDI ARABIAN OIL CO (ARAMCO)	ARAMCO 4 1/4 04/16/39	Saudi Arabia	16-Apr-19	20	16-Apr-39	3,000	4.25	Energy	-/A1/A+
Conventional	ABU DHABI GOVT INT'L	ADGB 2 1/2 09/30/29	UAE	30-Sep-19	10	30-Sep-29	3,000	2.50	Government	AA/Aa2u/AA
Conventional	ABU DHABI GOVT INT'L	ADGB 2 1/8 09/30/24	UAE	30-Sep-19	5	30-Sep-24	3,000	2.13	Government	AA/Aa2u/AA
Sukuk	SAUDI GOVT SUKUK	KSASUK 4.1 02/20/31	Saudi Arabia	20-Feb-19	12	20-Feb-31	2,620	4.10	Government	-/-
Sukuk	KSA SUKUK LTD	KSA 2.969 10/29/29	Saudi Arabia	29-Oct-19	10	29-Oct-29	2,500	2.97	Government	-/A1/A
Sukuk	SAUDI GOVT SUKUK	KSASUK 4.64 04/24/49	Saudi Arabia	24-Apr-19	30	24-Apr-49	2,466	4.64	Government	-/-
Conventional	SAUDI INTERNATIONAL BOND	KSA 2 07/09/39	Saudi Arabia	9-Jul-19	20	9-Jul-39	2,260	2.00	Government	-/A1/A
Conventional	OMAN GOV INTERNTL BOND	OMAN 6 08/01/29	Oman	1-Aug-19	10	1-Aug-29	2,250	6.00	Government	-/Ba1/BB+
Sukuk	SAUDI GOVT SUKUK	KSASUK 3.9 01/23/29	Saudi Arabia	23-Jan-19	10	23-Jan-29	2,092	3.90	Government	-/-
Conventional	STATE OF QATAR	QATAR 3 3/8 03/14/24	Qatar	14-Mar-19	5	14-Mar-24	2,000	3.38	Government	AA- /Aa3/AA-
Conventional	SAUDI ARABIAN OIL CO (ARAMCO)	ARAMCO 2 7/8 04/16/24	Saudi Arabia	16-Apr-19	5	16-Apr-24	2,000	2.88	Energy	-/A1/A+
Sukuk	SAUDI GOVT SUKUK	KSASUK 4.01 03/27/34	Saudi Arabia	27-Mar-19	15	27-Mar-34	1,510	4.01	Government	-/-
Conventional	MDGH - GMTN BV	MUBAUH 3.7 11/07/49	UAE	7-Nov-19	30	7-Nov-49	1,500	3.70	Financial	-/Aa2/AA
Sukuk	SAUDI TELECOM CO	STCAB 3.89 05/13/29	Saudi Arabia	13-May-19	10	13-May-29	1,250	3.89	Communications	A-/A1/-
Conventional	SAUDI INTERNATIONAL BOND	KSA 0 3/4 07/09/27	Saudi Arabia	9-Jul-19	8	9-Jul-27	1,130	0.75	Government	-/A1/A
Conventional	FIRST ABU DHABI BANK PJS	FABUH 0 04/16/22	UAE	16-Apr-19	3	16-Apr-22	1,100	3.55	Financial	AA- /Aa3/AA-

Disclaimer:

This report has been prepared and issued by Kuwait Financial Centre K.P.S.C. (Markaz), which is regulated by the Capital Markets Authority and the Central Bank of Kuwait. The report is owned by Markaz and is privileged and proprietary and is subject to copyrights. Sale of any copies of this report is strictly prohibited. This report cannot be quoted without the prior written consent of Markaz. Any user after obtaining Markaz permission to use this report must clearly mention the source as “Markaz”. The report is intended to be circulated for general information only and should not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction.

The information and statistical data herein have been obtained from sources we believe to be reliable but no representation or warranty, expressed or implied, is made that such information and data is accurate or complete, and therefore should not be relied upon as such. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinion of Markaz and are subject to change without notice. Markaz has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn.

This report may not consider the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors are urged to seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and to understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security’s price or value may rise or fall. Investors should be able and willing to accept a total or partial loss of their investment. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily indicative of future performance.

Kuwait Financial Centre K.P.S.C. (Markaz) may seek to do business, including investment banking deals, with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of Markaz, Markaz has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to Markaz’s own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or Markaz’s website shall be at your own risk.

For further information, please contact ‘Markaz’ at P.O. Box 23444, Safat 13095, Kuwait; Email: research@markaz.com; Tel: 00965 1804800; Fax: 00965 22450647.