

February 2018
Fixed Income Research

GCC Bonds and Sukuk Market Survey 2017 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 2017

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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 USD174.17 billion was raised in the GCC Aggregate Bonds and Sukuk market during 2017, an increase of 3.96% over USD167.54 billion raised in 2016. Out of which, USD69.90 billion was raised by the GCC Central Banks local issuances (CBLI) whereas USD104.26 billion was raised by GCC sovereign and corporate issuances.

GCC Aggregate Bonds and Sukuk Market
Primary Issuance 2017
USD Mn



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

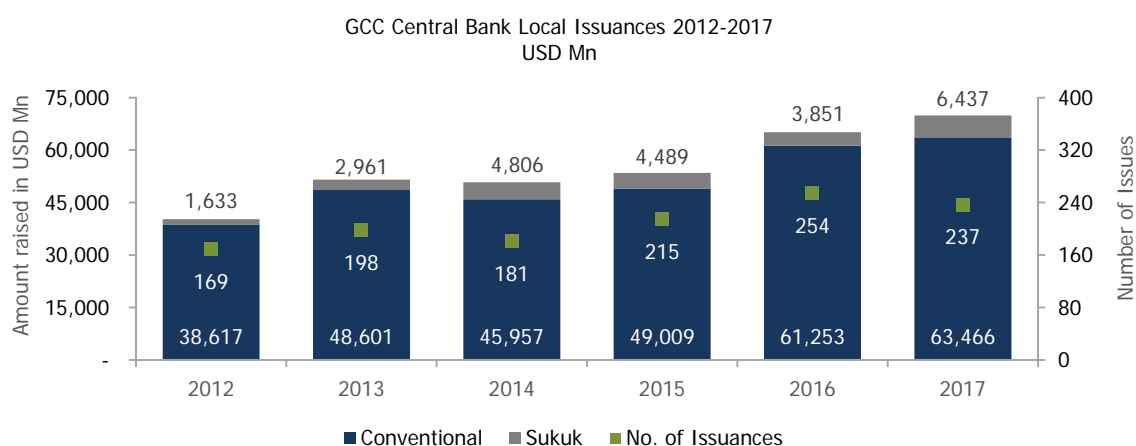
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GCC Central Banks Local Issuances 2017¹

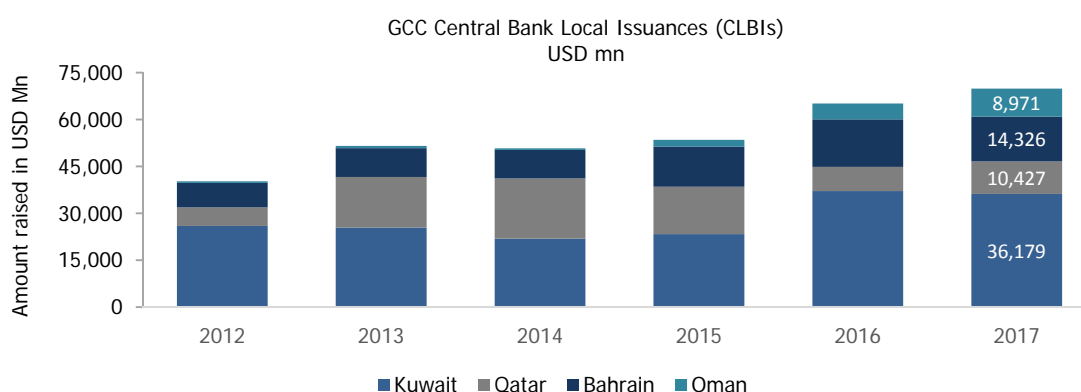
- *GCC Central Banks Local Issuances ("CBLIs") include Treasury bills, notes, bonds and sukuk denominated in local currencies and issued, by GCC central banks, primarily to regulate the level of domestic liquidity.*
- *The only publically and regularly available information of such issuances are from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

A total of USD69.90 billion was raised through GCC Central Banks Local Issuances (CBLIs) during 2017 through 237 issuances, a growth of 7.37% from USD65.10 billion raised during previous year through 254 issuances. Conventional issuances totaled to USD63.45 billion making up 90.7% whereas sukuk's totaled to USD6.43 billion, making up 9.3% of the GCC CBLI's.



Source: Central Bank Websites, Markaz Analysis

During 2017, Central Bank of Kuwait (**CBK**) continued to be the leading issuer among GCC Central Banks with 70 issues raising KWD10.93 billion (USD36.18 billion), lower by 3.8% as compared to KWD11.35 billion (USD37.13) billion it raised in 2016. Similar decline was recorded for Central Bank of Bahrain (**CBB**) which raised BHD5.39 billion (USD14.33 billion), lower by 5.9% from previous year. Central banks of Oman (**CBO**) and Qatar (**CBQ**) increased their issuances in 2017, raising OMR3.45 billion (USD8.9 billion) and QAR37.94 billion (USD10.43 billion) respectively and posting an increase of 77.1% and 35.7% as compared to 2016.



Source: Central Bank Websites, Markaz Analysis

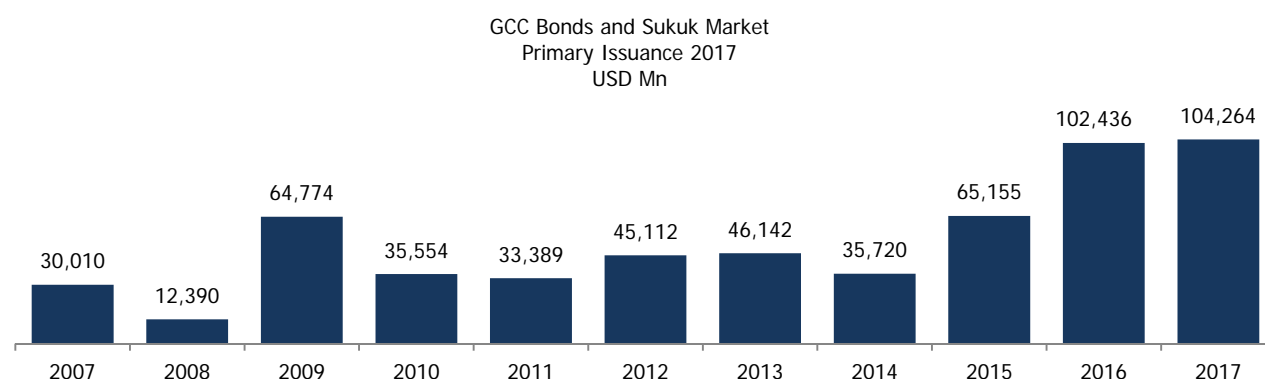
¹The data published by Central Bank of Kuwait, has started to include data from Tawarruq operations along with other central bank issuances starting April 2016. Tawarruq is an instrument of monetary policy used to regulate liquidity with Islamic banks.

GCC Bonds and Sukuk Market - 2017

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

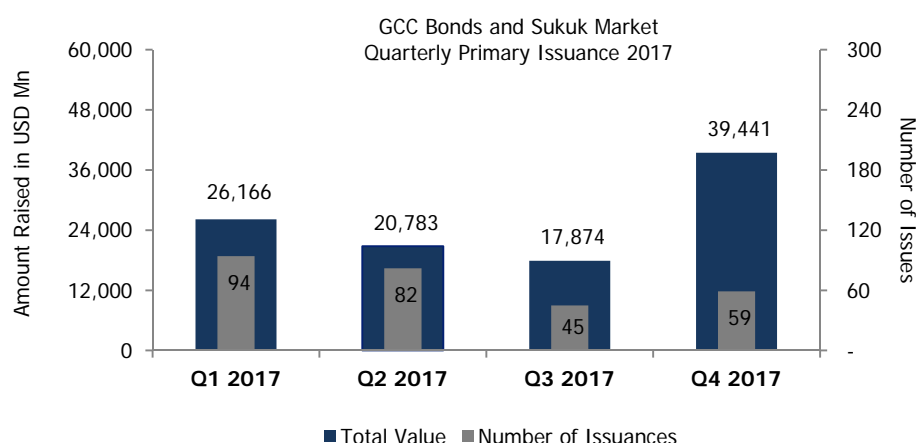
- *GCC Sovereign Issuances: Bonds and Sukuk issued by GCC governments in local or foreign currencies for financing purposes.*
- *GCC Corporate Bonds: Bonds and Sukuk issued by GCC corporate entities including Financial Institutions (FIs) and Government Related Entities (GREs).*

The total value of primary issuances in the GCC Bonds and Sukuk market during 2017 reached USD104.26 billion, representing an increase of 1.78% over USD102.44 billion raised in 2016. The number of issuances decreased from 309 in 2016 to 280 issuances in 2017, a decline of 9.39% while the average size per issue increased by 12.3% from USD332 million in 2016 to USD372 million in 2017.



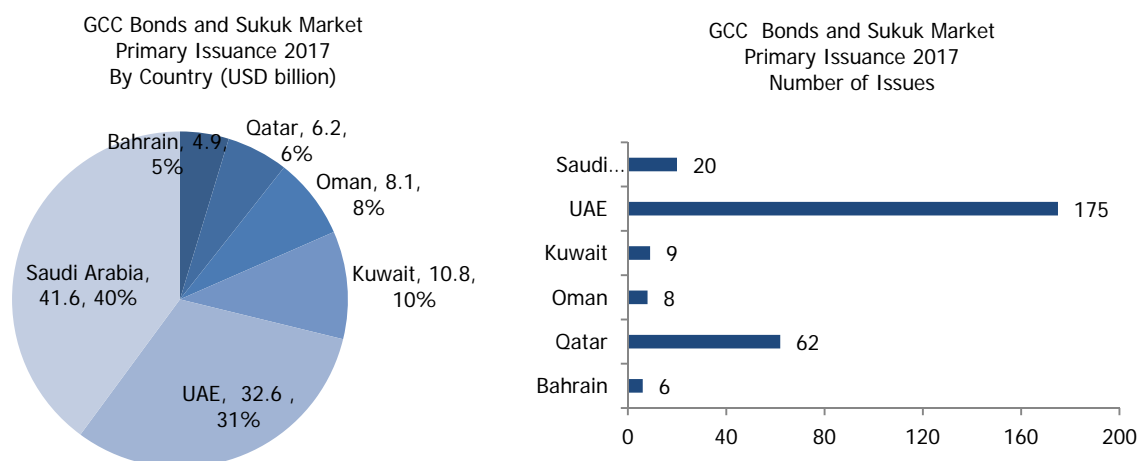
Source: Bloomberg, Zawya, Markaz Analysis

On a quarterly basis, the fourth quarter of 2017 recorded the highest value of issuance with USD39.44 billion raised through 59 issuances as the sovereigns tapped international and local debt markets. Primary issuance during the third quarter was the most subdued as USD17.87 billion was raised through 45 issuances.



Breakdown by Country

Saudi Arabian issuers were the leading GCC issuers in 2017, raising a total of USD41.60 billion through 20 issues and representing 39.9% of the total value raised in the GCC. In terms of the frequency of issuances, UAE maintained its position as the dominant issuer with 175 issuances (62.5% of total).



Source: Bloomberg, Zawya, Markaz Analysis

The total value of Saudi Arabia sovereign and corporate issuances during 2017 was 7.8% lower than 2016 due to lower value of domestic sukuk issuances.

UAE issuers raised USD32.61 billion during 2017, up by 35% as compared to USD24.3 billion raised in 2016. UAE issuances represented 31.30% of the GCC market versus 23.7% in 2016.

Kuwaiti issuances totaled to USD10.83 billion representing 10.4% of the market as compared to USD4.52 billion raised in 2016 or 4.4% of the total market.

Omani issuances raised a total of USD8.12 billion through 8 issues representing 7.8% of the market. The issuances were 37.8% above USD5.89 billion raised in 2016.

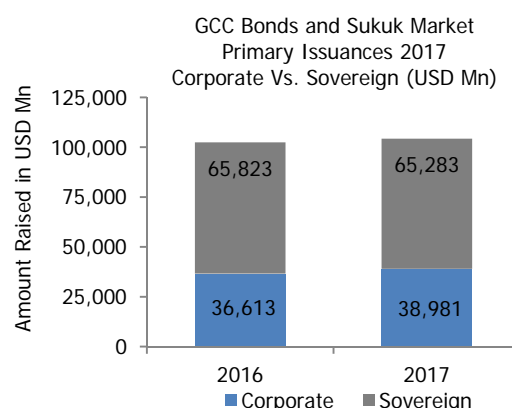
Qatari entities raised USD6.18 billion from 62 issuances making up 5.9% of the market. Effects of the regional crisis were apparent as the Qatari primary issuances dropped by 67.8% compared to USD19.22 billion raised in 2016. Qatar was the only GCC sovereign entity not tapping the international bond markets in 2017.

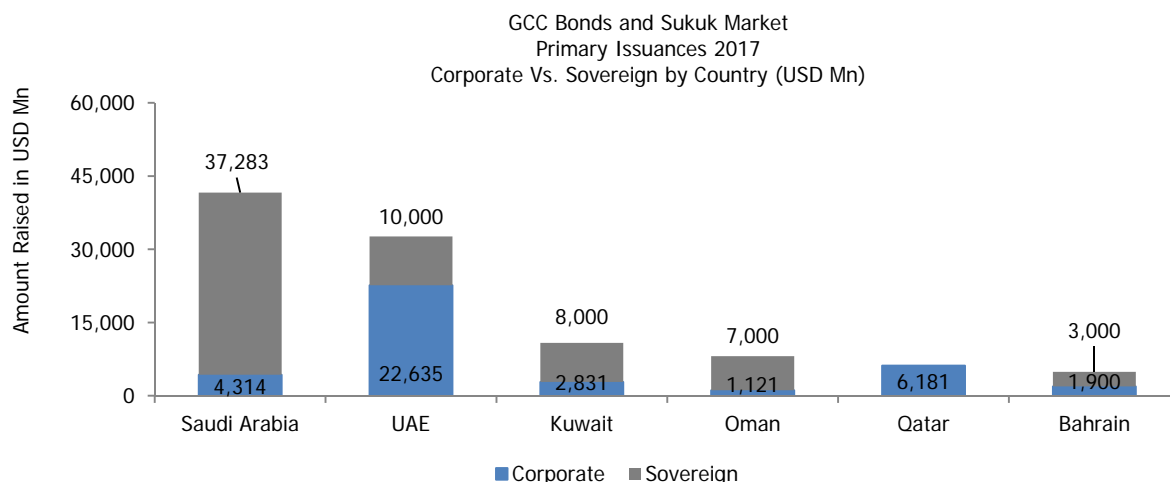
Bahraini entities represented 4.7% of the total issuances, raising USD4.90 billion through 6 issuances.

Sovereign Vs. Corporate

Even with Qatar government staying out of the sovereign debt market in 2017, total value of GCC Sovereign issuances matched its record size of last year with a total of USD65.28 billion through 29 issuances, making up 62.6% of the GCC bonds and Sukuk market. Total value raised by corporate entities in 2017 increased by 6.46%, to USD38.98 billion in 2017 from USD36.61 billion in 2016. However, the frequency of corporate issues dropped from 284 issuances in 2016 to 251 in 2017.

Saudi Arabia Government raised a total of USD37.28 billion out of which SAR58.45 billion (USD15.78 billion) through domestic bonds and USD 21.5 billion through US Dollar denominated Bonds and Sukuk. Government of Abu Dhabi issued bonds totaling to USD10 billion with maturities of 5, 10 and 30 years. The year was also instrumental for the Kuwaiti debt market as the Kuwaiti Government issued its debut Euro-dollar bonds in March raising USD3.5 billion through five-year bonds at a coupon of 2.75% and US\$4.5bn through ten-year bonds at a coupon of 3.75%. Oman and Bahrain also raised USD7 billion and USD3 billion respectively.



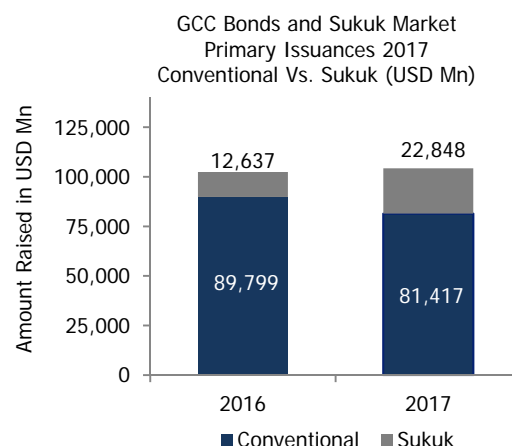


Source: Bloomberg, Zawya, Markaz Analysis

Conventional Vs. Sukuk

Conventional issuances continued to dominate the mix of primary GCC Bonds and Sukuk market, raising USD81.42 billion and representing 78.08% of the total issuances. However, such issuances were 9.3% lower versus the last year.

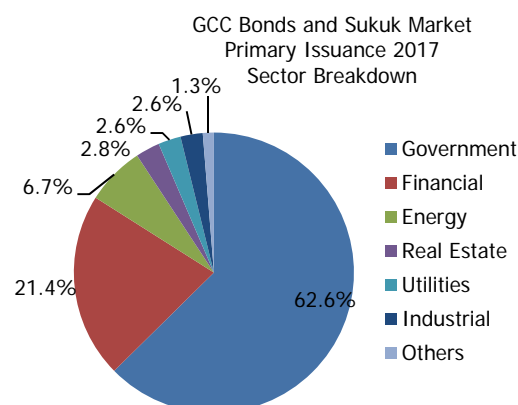
Sukuk raised USD22.85 billion, 81% higher as compared to USD12.63 raised in 2016 and represented a share of 21.91% of the market in 2017.



Breakdown by Sector

A total of USD65.28 billion were raised by the Government sector in 2017 with 29 issues, and representing 62.6% of the market, as compared to USD65.82 billion issued in 2016. Financial sector stood second, raising USD22.29 billion in 2017 and representing 21.4% of the market as compared to USD24.91 billion in 2016.

The Financial sector also led market in terms of the number of issuances, with 227 issues.

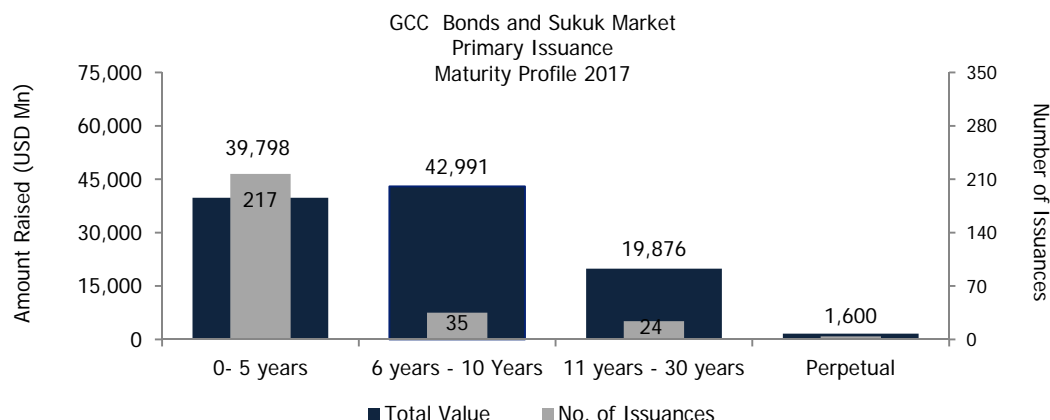


Source: Bloomberg, Zawya, Markaz Analysis
*Other sectors include Diversified and Oil & Gas,

Maturity Structure

The maturity term five to ten years continued to dominate the GCC market, raising a total value of USD42.9 billion through 35 issues and representing 41.2% of the market in terms of value.

However, issuances with maturities of 5 years or less increased to USD39.79 billion representing 38.2% of the market as compared to USD11.93 billion in 2016 representing 11.4%. Issuances with maturity term ten to thirty years contributed 19.1% or USD 19.87 billion whereas perpetual issues represented 1.5% or USD1.6 billion over 4 issues.



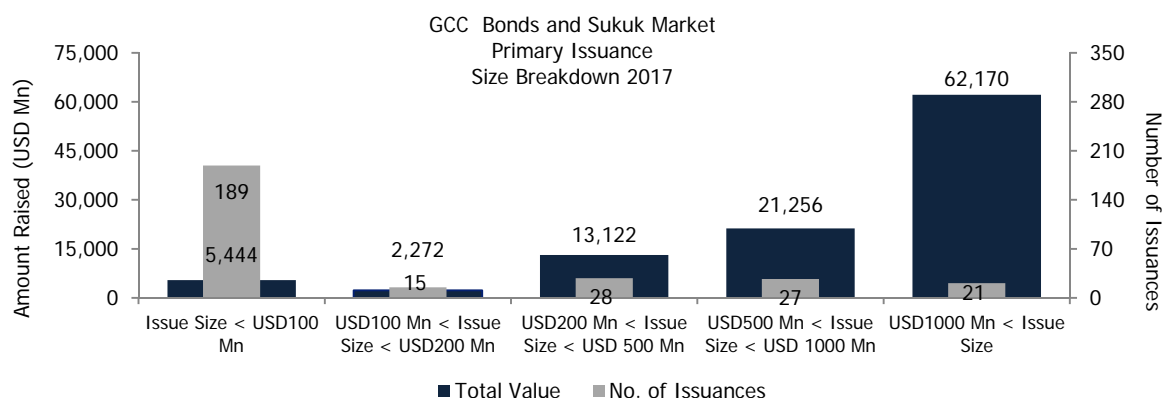
Source: Bloomberg, Zawya, Markaz Analysis

Size

During 2017, primary issuances ranged in size from USD0.65 million to USD5.0 billion. Issuances with principal amounts greater than or equal to USD1.0 billion raised the largest amount with USD62.17 billion, representing 59.63% total value issued. However, the most frequency in issuance was for issuance sizes under USD100 million with 189 issuances, representing 67.5% of the overall number of GCC issuance.

The largest conventional Bond and the largest Sukuk were both issued by Saudi Arabia government raising USD5 billion and USD4.5 billion respectively.

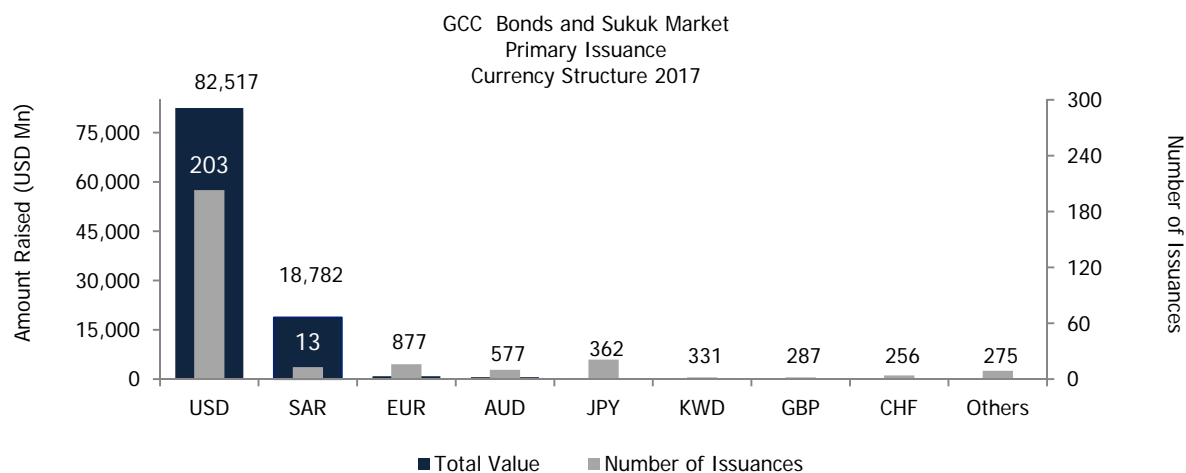
The largest bond issuance by a corporate borrower, was a 30yr bond issued by Abu Dhabi Crude Oil Pipeline Co. raising USD2.2 billion and bearing a coupon of 4.60% followed by UAE based Dubai Aerospace Co. and Bahrain based Oil and Gas Holding Co. raising USD1 billion each. The largest corporate Sukuk was sold by Saudi Aramco for SAR11.25 billion (USD3 Billion) with a tenor of 7 years.



Source: Bloomberg, Zawya, Markaz Analysis

Currency Structure

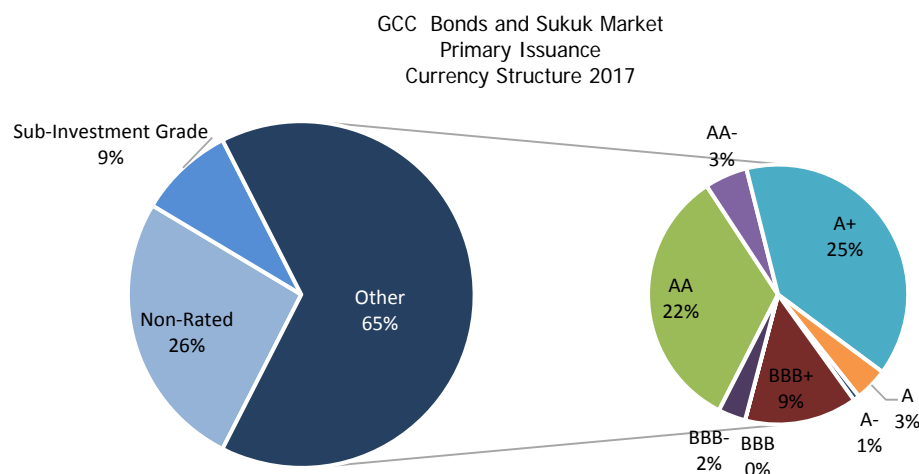
US Dollar denominated issuances led the GCC Bonds and Sukuk market during 2017, raising USD82.52 billion and representing 79.14% of the market. Saudi riyal denominated issuances followed raising USD18.78 billion and representing 18.01% of the market.



Source: Bloomberg, Zawya, Markaz Analysis

Credit Rating

In terms of value, a total of 73.27% 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 65.23% in 2016. Of those rated, 87.94% issues had investment grade ratings while the rest were sub-investment.

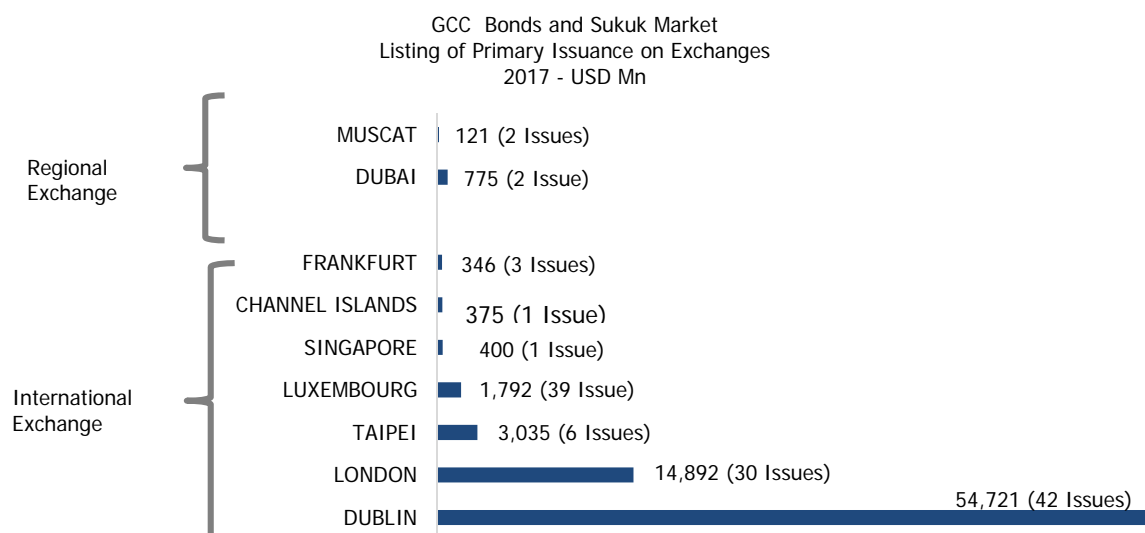


Source²: Bloomberg, Zawya, Markaz Analysis

² 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.

Listing

In 2017, 73.3% of GCC Bonds and Sukuk issuances (in value terms), with an aggregate value of USD76.46 billion were listed on exchanges. International exchanges accounted for 99% of such listings while regional exchanges recorded listing of 4 bonds and sukuk in 2017 with a total value of USD0.89 billion. Dublin continues to be the most sought after exchange as it listed 71.39% of all the listed issuances.

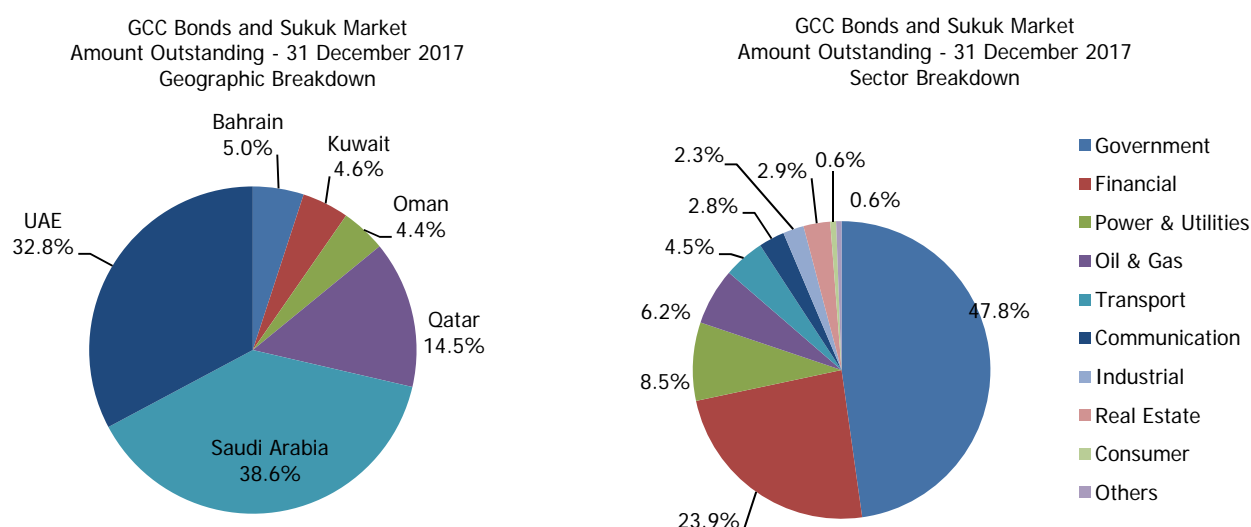


Source: Bloomberg, Zawya, Markaz Analysis

GCC Bonds and Sukuk Market - Amount Outstanding (as of 31 December 2017)

As of 31 December 2017, the total amount outstanding of the GCC Bonds and Sukuk was USD425.68 billion.

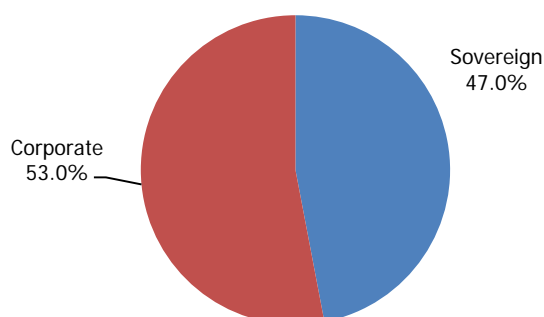
According to geographical distribution, Saudi Arabia issuances accounted for the largest share with USD164.21 billion or 38.58% of the total amount outstanding followed by UAE issuances, representing 32.8% or USD139.63 billion.



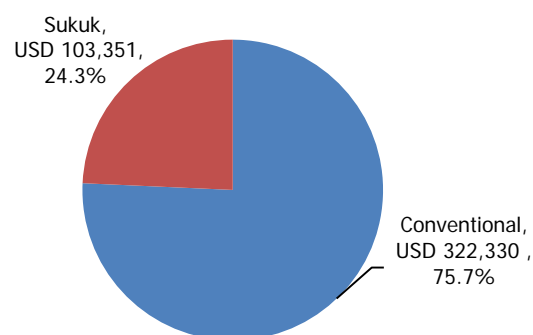
In terms of sector allocation, Government issuances represented the largest share with total amount outstanding at USD203.39 billion representing 47.8% of outstanding market. Financial institutions stood next, representing 23.9% with USD101.64 billion in total amount outstanding.

Conventional issues accounted for 75.72% of the total amount outstanding, totaling USD322.33 billion whereas Sukuk's represented 24.28% of the amount outstanding or USD103.35 billion. Corporate issuances constituted 52.2% of the total amount outstanding with USD225.58 billion versus the Sovereign issuances which represented 47.8%.

GCC Bonds and Sukuk Market
Outstanding Issuance - 31 December 2017
Sovereign Vs. Corporate



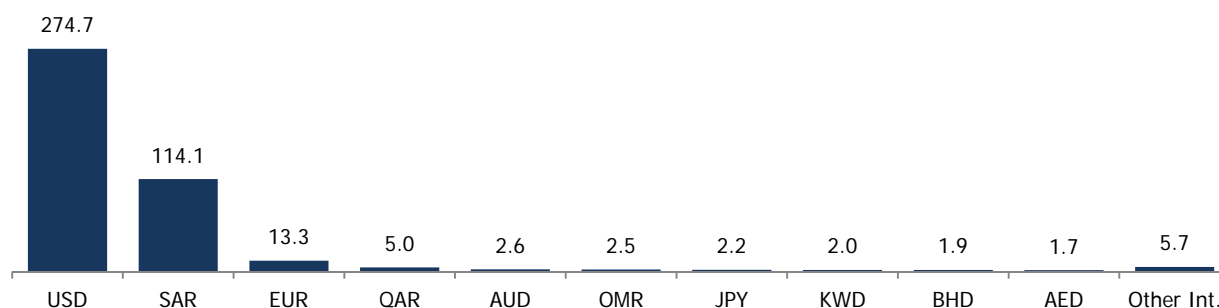
GCC Bonds and Sukuk Market
Amount Outstanding - 31 December 2017
Issuance Type



Source: Bloomberg, Zawya, Markaz Analysis

US Dollar denominated issuances comprised 64.53% of total amount outstanding with USD274.7 billion, followed by Saudi Riyal denominated issuances which represented 26.80% or USD114.1 billion.

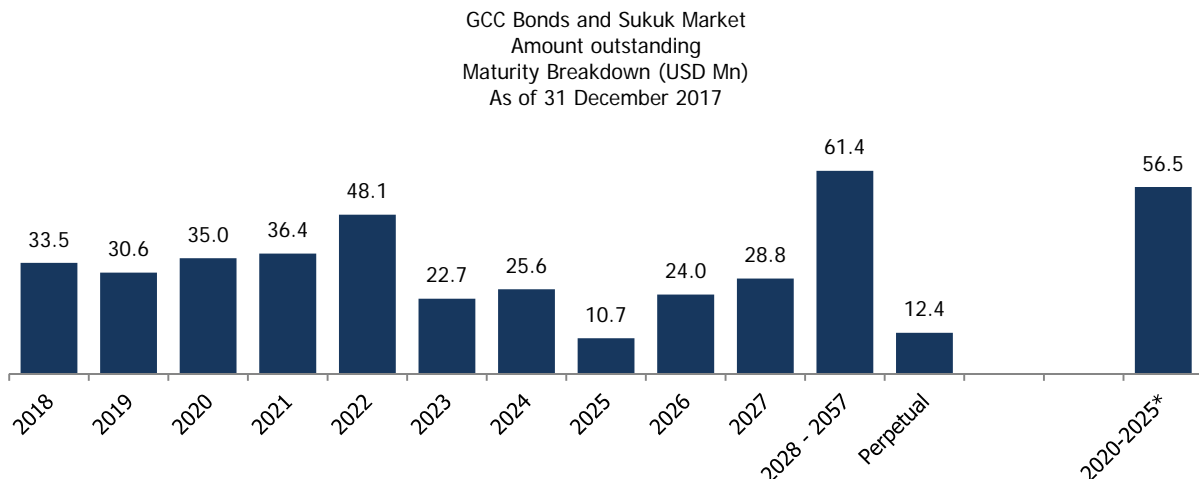
GCC Bonds and Sukuk Market
Amount Outstanding- 31 December 2017
Currency Breakdown (USD Mn)



Note: Others include HKD, SGD, NZD, NOK, MXN, TRY, GBP, CNY, MYR

Source: Bloomberg, Zawya, Markaz Analysis

As of 31st of December 2017, bonds and Sukuk amounting to USD33.5 billion mature within a single year indicating a probable requirement for refinancing to that tune by the corporates and sovereigns in 2018. A total of 69.39% of the amount outstanding or USD295.40 billion are expected to mature during the 10 year period from 2018 to 2027.

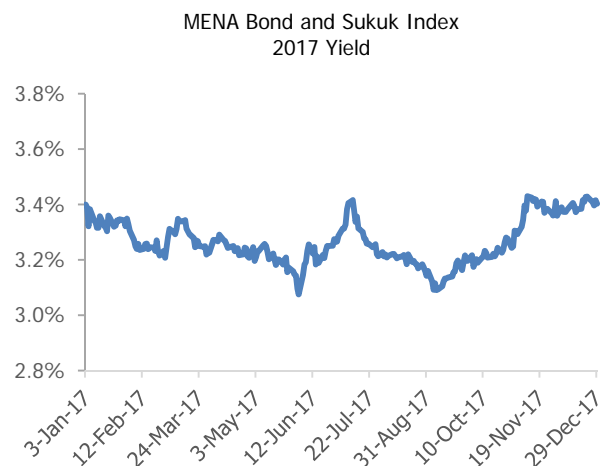
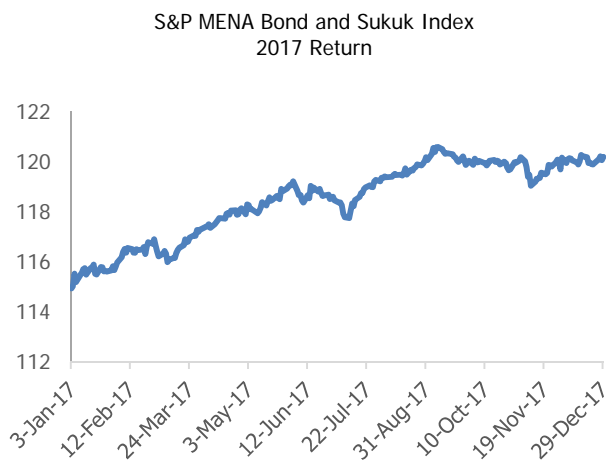


*The Tenor for Saudi Arabian bonds issued in domestic currency is not known and according to sources, is estimated to be 5 to 10 years.
Source: Bloomberg, Zawya, Markaz Analysis

Market Performance

S&P MENA Bonds and Sukuk Index posted a gain of 4.56% (4.003% in 2016) with total return increasing from 114.85 on 31st December 2016 to 120.19 on 29th December 2017. The index recorded the lowest value around the beginning of the year on 3rd January 2017 when it reached 114.94, while it recorded its highest value of 120.59 on 8th September 2017.

Year-on-year, the Index yield increased from 3.38% to 3.40%. The index recorded its minimum yield during the year of 3.08% on 2nd June 2017 while it recorded its maximum yield of 3.43% on 10th November 2017.



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

Credit Default Swaps (CDS)

During 2017, 5Y CDS for Kuwait, Saudi Arabia, Abu Dhabi and Bahrain narrowed, representing a reduced risk of default whereas it widened for Dubai and Qatar.

Kuwait's 5Y CDS dropped 51.89% in 2017 and ended at 53.1 bps, which was the lowest amongst the GCC nations. The investors started to accurately price the sovereign default risk as the country issued its first ever euro dollar sovereign bond in March. Saudi Arabia's 5Y CDS decreased by 19.50% to end at 89.4 basis points. Bahrain's 5Y CDS decreased by 8.95% to 262.6 basis points. Abu Dhabi's 5Y CDS reduced by 1.65% to reach 59.0 basis points while Dubai's 5Y CDS widened by 10.61% to 148.2 basis points. Qatar's 5Y CDS widened by 34.63% to reach 101.0 basis points.

GCC 5-Year Sovereign Credit Default Swaps Spread

	Opening CDS	Closing CDS	Percent Change During 2017
	Basis Points	Basis Points	
Saudi Arabia	111.0	89.4	-19.50%
Abu Dhabi	60.0	59.0	-1.65%
Dubai	134.0	148.2	10.61%
Qatar	75.0	101.0	34.63%
Kuwait	110.4	53.1	-51.89%
Bahrain	288.4	262.6	-8.95%

Source: Bloomberg, Markaz Analysis

Key GCC Sovereign and Corporate Bonds and Sukuk Issuances – 2017

Type	Issuer/Guarantor	Security Description	Country	Subscription Date	Maturity Date	Issue Size (US\$ mn)	Coupon / Profit Rate	Sector	Rating S&P/M/F
Bonds	Saudi Government	KSA 3 5/8 03/04/28	Saudi Arabia	10-Apr-17	4-Mar-28	5,000	3.63	Government	-/A1/A+
Bonds	Kuwait Government	KUWIB 3 1/2 03/20/27	Kuwait	20-Mar-17	20-Mar-27	4,500	3.50	Government	AA/-/AA
Sukuk	Saudi Government	KSA 2.894 04/20/22	Saudi Arabia	20-Apr-17	20-Apr-22	4,500	2.89	Government	-/A1/A+
Sukuk	Saudi Government	KSA 3.628 04/20/27	Saudi Arabia	20-Apr-17	20-Apr-27	4,500	3.63	Government	-/A1/A+
Bonds	Saudi Government	KSA 4 5/8 10/04/47	Saudi Arabia	10-Apr-17	4-Oct-47	4,500	4.63	Government	-/A1/A+
Bonds	Abu Dhabi Government	ADGB 3 1/8 10/11/27	UAE	10-Nov-17	11-Oct-27	4,000	3.13	Government	AA/Aa2e/AA
Bonds	Kuwait Government	KUWIB 2 3/4 03/20/22	Kuwait	20-Mar-17	20-Mar-22	3,500	2.75	Government	AA/-/AA
Bonds	Abu Dhabi Government	ADGB 4 1/8 10/11/47	UAE	10-Nov-17	11-Oct-47	3,000	4.13	Government	AA/Aa2e/AA
Bonds	Abu Dhabi Government	ADGB 2 1/2 10/11/22	UAE	10-Nov-17	11-Oct-22	3,000	2.50	Government	AA/Aa2e/AA
Bonds	Saudi Government	KSA 2 7/8 03/04/23	Saudi Arabia	10-Apr-17	4-Mar-23	3,000	2.88	Government	-/A1/A+
Bonds	Abu Dhabi Crude Oil Pipeline Co.	ADNOUH 4.6 11/02/47	UAE	2-Nov-17	2-Nov-47	2,200	4.60	Energy	AA/-/AA
Bonds	Oman Government	OMAN 6 1/2 03/08/47	Oman	8-Mar-17	8-Mar-47	2,000	6.50	Government	BB+/Baa1/BBB
Bonds	Oman Government	OMAN 5 3/8 03/08/27	Oman	8-Mar-17	8-Mar-27	2,000	5.38	Government	BB+/Baa1/BBB
Sukuk	Oman Government	OMANGS 4.397 06/01/24	Oman	1-Jun-17	1-Jun-24	2,000	4.40	Government	-/Baa1/BBB
Bonds	Bahrain Government	BHRAIN 6 3/4 09/20/29	Bahrain	20-Sep-17	20-Sep-29	1,250	6.75	Government	BB-/BB+
Sukuk	Investment Corporation of Dubai	INVCOR 5 02/01/27	UAE	1-Feb-17	1-Feb-27	1,000	5.00	Financial	-/-/-
Sukuk	Dubai Islamic Bank	DIBUH 3.664 02/14/22	UAE	14-Feb-17	14-Feb-22	1,000	3.66	Financial	-/Baa1/A
Bonds	Oman Government	OMAN 3 7/8 03/08/22	Oman	8-Mar-17	8-Mar-22	1,000	3.88	Government	BB+/Baa1/BBB
Bonds	Dubai Aerospace	DUBAEE 5 08/01/24	UAE	8-Apr-17	1-Aug-24	1,000	5.00	Industrial	BB/Ba3/-
Bonds	Oil & Gas Holding Co.	OILGAS 7 1/2 10/25/27	Bahrain	25-Oct-17	25-Oct-27	1,000	7.50	Energy	-/-/BB+
Bonds	Bahrain Government	BHRAIN 7 1/2 09/20/47	Bahrain	20-Sep-17	20-Sep-47	900	7.50	Government	BB-/BB+
Bonds	First Abu Dhabi Bank	FABUH 0 01/20/47	UAE	20-Jan-17	20-Jan-47	885	0.00	Financial	AA-/Aa3/AA-
Bonds	MDC-GMTN B.V.	MUBAUH 3 04/19/24	UAE	19-Apr-17	19-Apr-24	850	3.00	Financial	AA/Aa2/AA
Sukuk	Central Bank of Bahrain	BHRAIN 5 1/4 03/20/25	Bahrain	20-Sep-17	20-Mar-25	850	5.25	Government	BB-/BB+

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