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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1H 2021

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GCC Bond Markets – Key Takeaways - 1

Structure of the presentation

This GCC Bond Chart Book provides a comprehensive review of the bond market performance in 1H 21 (Chapter I), the trends in GCC dollar bond issuances (Chapter II) and finally the bond valuations compared mostly with other emerging market peers (Chapter III and Chapter IV).

Global and emerging bond markets performance

Global fixed income markets recorded marginal returns in the first half of 2021, impacted by the volatility in the DM government bond yields and inflation concerns. The reflation trade was the dominant theme in the first quarter of the year, leading to surge in UST yields. As a result, EM bonds came under pressure in the first quarter. However, the reflation trade started to taper in the second quarter with peak growth concerns and possibility of early central bank exit weighing on the sentiment. As a result, the second quarter saw reversals of the first quarter performance of fixed income assets. Long-term UST yields partially recovered their previous losses in the second quarter. As a result, EM bonds also staged a partial recovery in the second quarter. However, on a year-to-date basis, EM bond return remained in the negative territory.

GCC bonds performance

Within regional EM performance, EM EMEA was an outlier, the only region which recorded positive returns of the clear winner, (Page 6). In the GCC, dollar bonds performed well with the continued recovery in oil prices and gradual re-opening of economies and ease of lockdown restrictions. Contrary to the last year’s trend, there was evidence of increased appetite for the low-rated sovereigns like Oman and Bahrain, triggered by the search for yield amidst the risk-on environment. Rising oil prices also spurred interest for these sovereigns given their heavy reliance on oil. Oman was the best performer in the first half, posting returns of almost 5%, recovering last year losses (Page 6). Meanwhile, high-quality sovereigns of Qatar and Saudi Arabia came under pressure, recording negative returns in the first half of the year. GCC sovereign CDS spreads tightened in the first half, narrowing more than the EM average levels, as increase in oil prices improved the outlook. Oman and Dubai were amongst the top countries within emerging markets to record the largest tightening of 5yr sovereign CDS spreads in 1H 2021 (Page 9). In corporate bond markets, Middle East corporate spreads also continued to tighten and are now trading near the pre-pandemic levels. GCC corporate spreads also continued to narrow with the recovery in oil prices (Page 10).

GCC Bond Markets – Key Takeaways - 2

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GCC issuance activity

GCC bond issuances was mainly driven by corporate borrowers in the first half. As expected, sovereign borrowers tapped the bond market with lower issuance sizes compared to last year. Sovereign bond issuances totalled USD16bn in the first half of the year. (Page 15). Within sovereign bond issuance, Saudi was the largest issuer of bonds, but tapped the bond market with relatively lower issuance of USD5bn. Oman borrowed USD4.5bn in the first half, reaching our 2021 issuance forecast. We do not expect more USD denominated bond issuances from Oman in the second half of the year with the country most likely to have reached its 2021 issuance goal. Elsewhere, UAE raised an aggregate of around USD4bn in the first half, with Emirate of Abu Dhabi issuing USD2bn and the remaining coming from the Emirate of Sharjah. Qatar and Kuwait were the two countries with no borrowings in the first half.

In the second half of the year, we do not expect major sovereign bond issuances as most GCC sovereigns aim to cut expenditure. We could possibly see more issuances coming from Bahrain and Saudi in the coming year. (Page 16).

Contrary to the trend seen in sovereign bond markets, corporate borrowers have been very active so far this year. Corporates have taken advantage of the low borrowing rates, improving economic outlook and stable oil prices to tap the bond market with corporate bond issuances already reaching the 2020 level (Page 17). Major corporate deals of 1H 2021 included Saudi's Aramco USD6bn bond issuance at the top followed by ADNOC pipeline investors Galaxy's raising USD4bn (Page 18). GCC banks also continued to tap the bond market, targeting Additional Tier 1 issuance in order to boost their Tier 1 capital. Senior bond issuances from banks have been relatively subdued this year on the back of strong liquidity levels

Unlike sovereigns, we expect more corporate borrowings in the second half with corporates taking benefit of the low borrowing costs to the full extent in anticipation of forthcoming central bank policy normalisation.

ADCB Investment Strategy Fixed Income stance

We continue to remain selectively overweight on high -quality GCC sovereign bond markets. Our key takeaway is: high-quality GCC paper has shown resilience and will be more favored compared to other emerging markets given the quality and better rating of the sovereigns. In addition, 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 (Page 26-27).

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Chapter I: GCC bond market performance in 1H21

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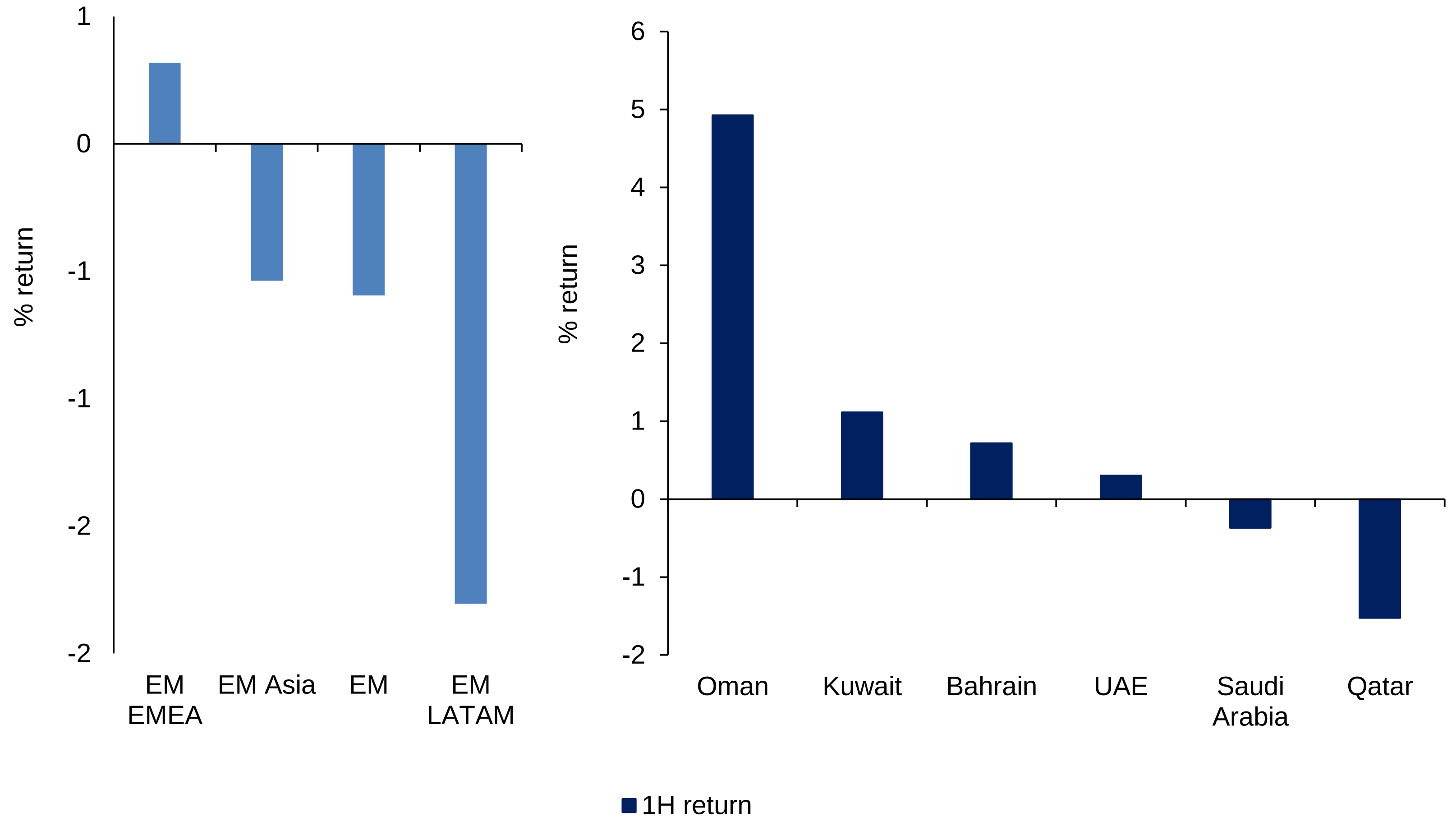
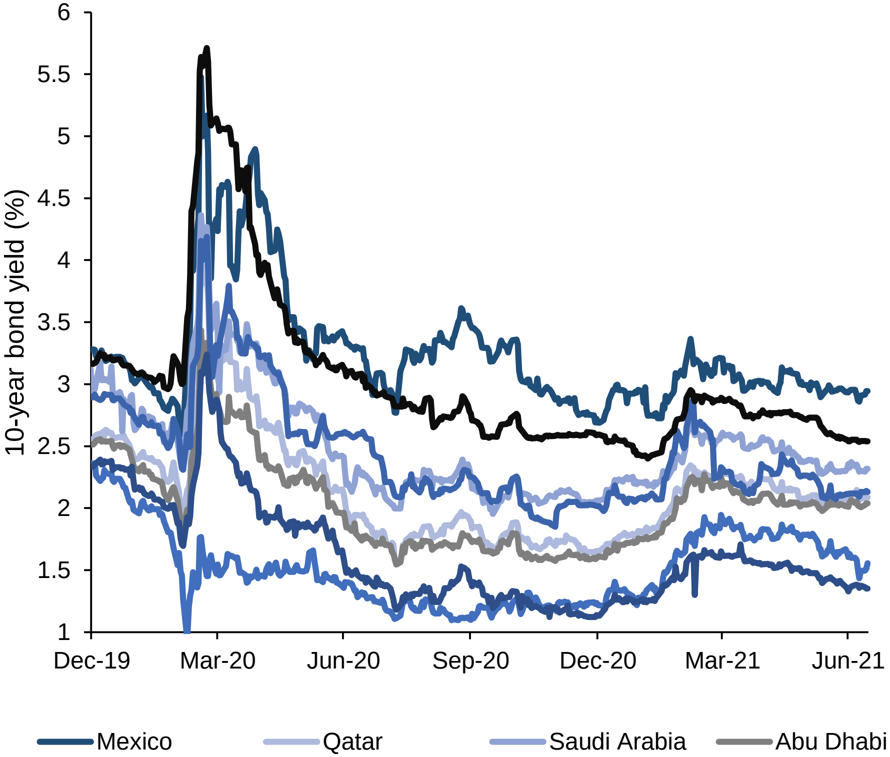
GCC countries: US dollar bond performance versus EM indices



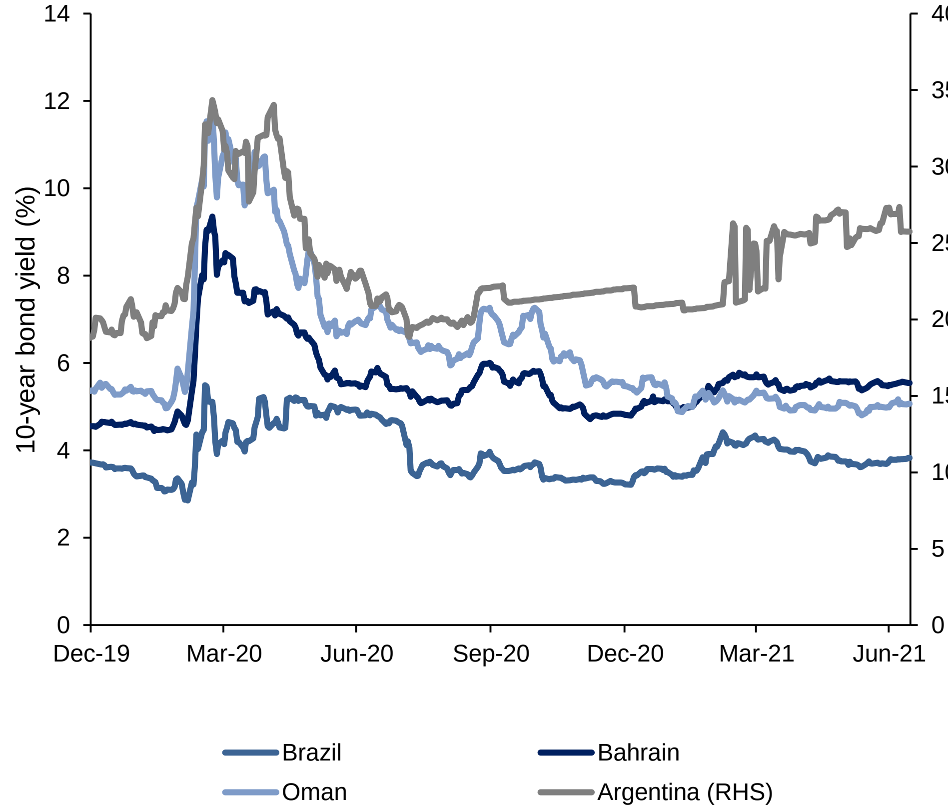
Source: Bloomberg, Barclays indices, ADCB

GCC Sovereign: 10-year dollar bond yield performance

Better quality GCC sovereigns yields have traded in line with EM peers



Bahrain and Oman bond yields back to 2020 starting levels



Source: Bloomberg, ADCB

GCC Sovereign: 30-year dollar bond yield performance

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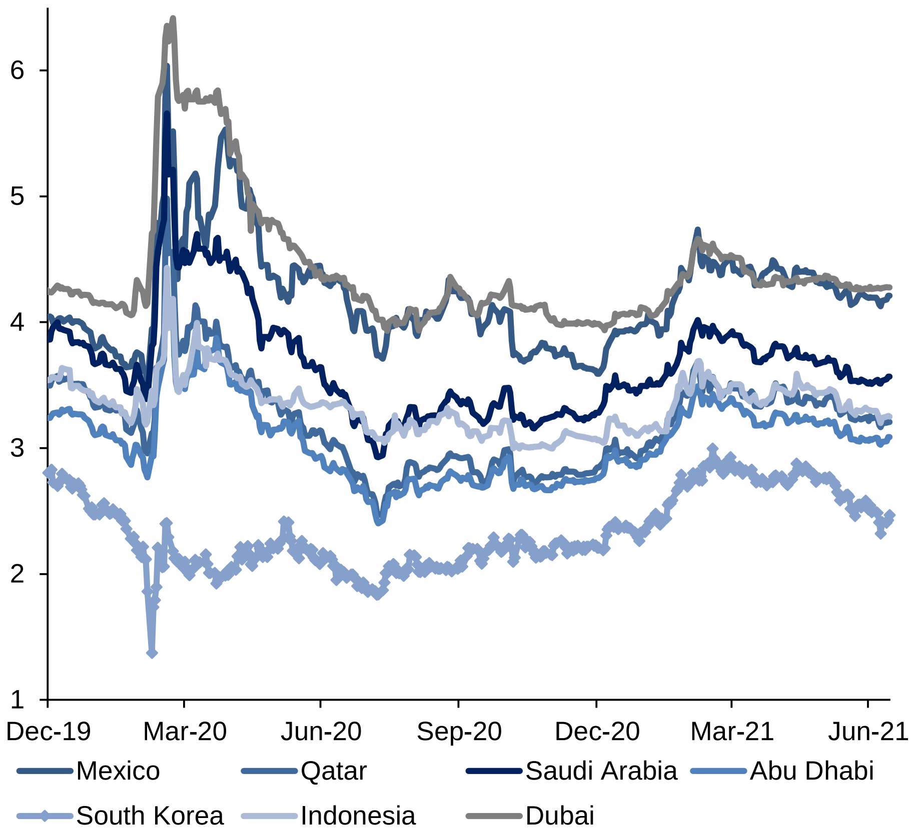
Dubai is trading at attractive levels versus its EM peers



Search for yield pushed Oman and Bahrain bond yields lower

Source: Bloomberg, ADCB

GCC CDS performance versus EM

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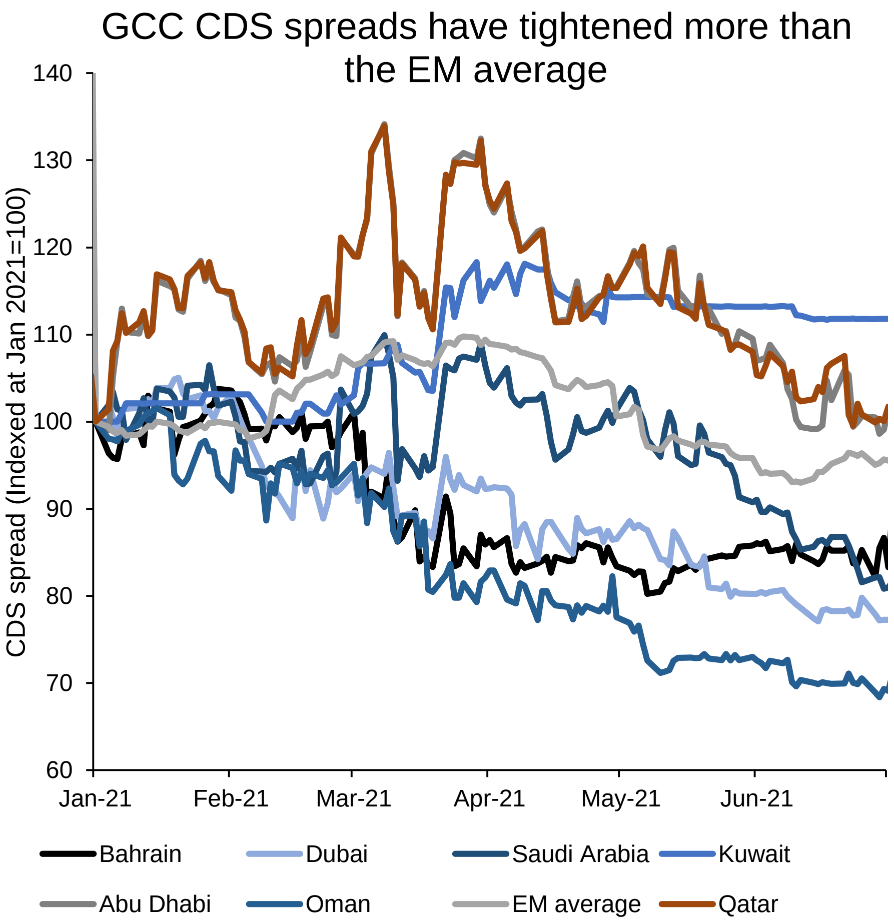

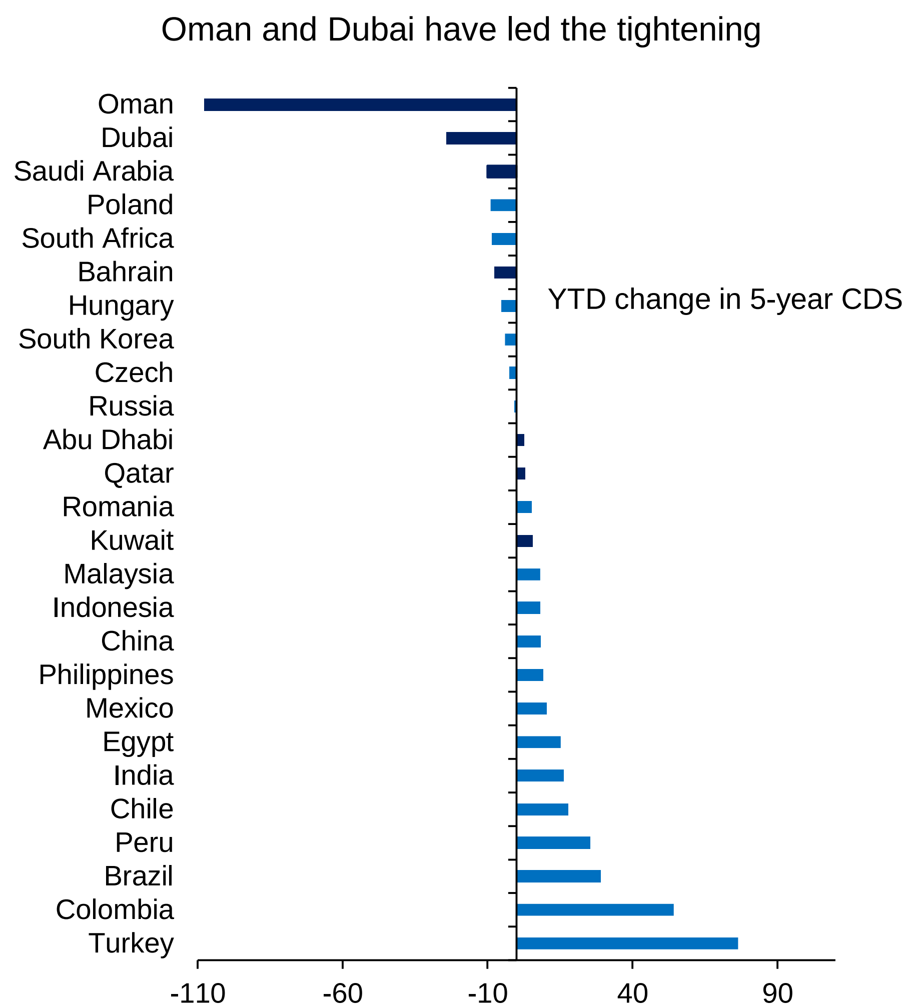

Source: Bloomberg, ADCB

GCC corporate bond performance

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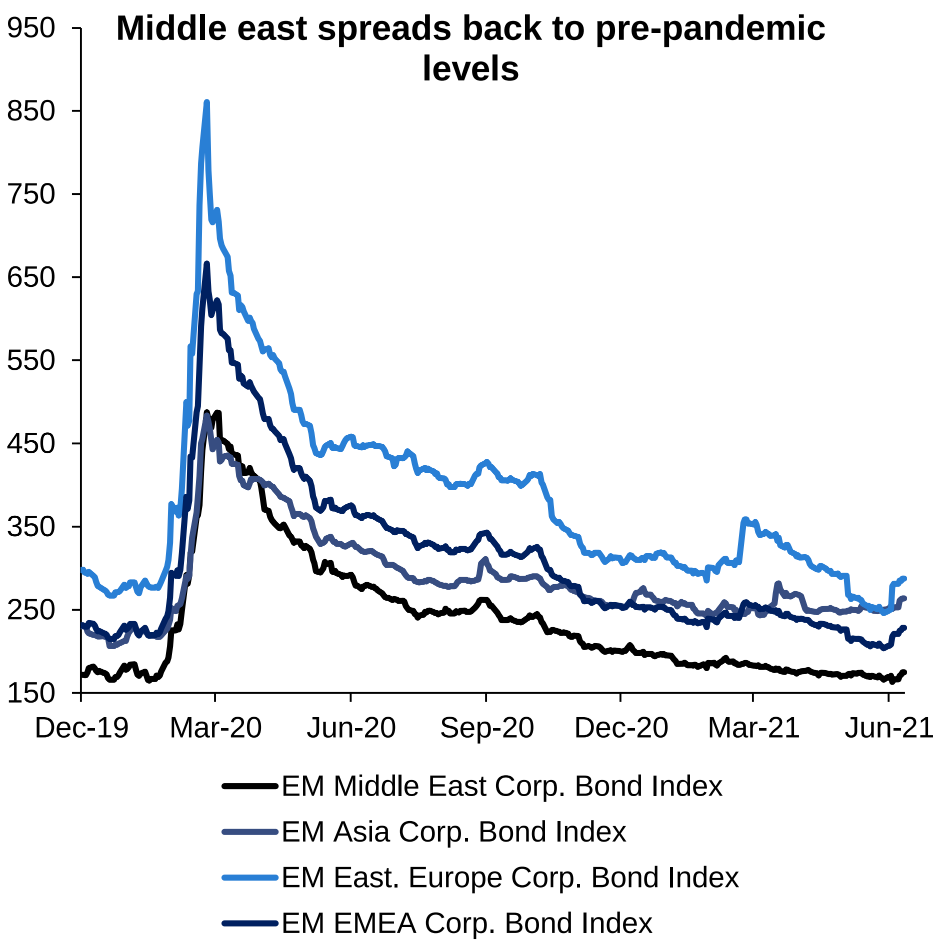

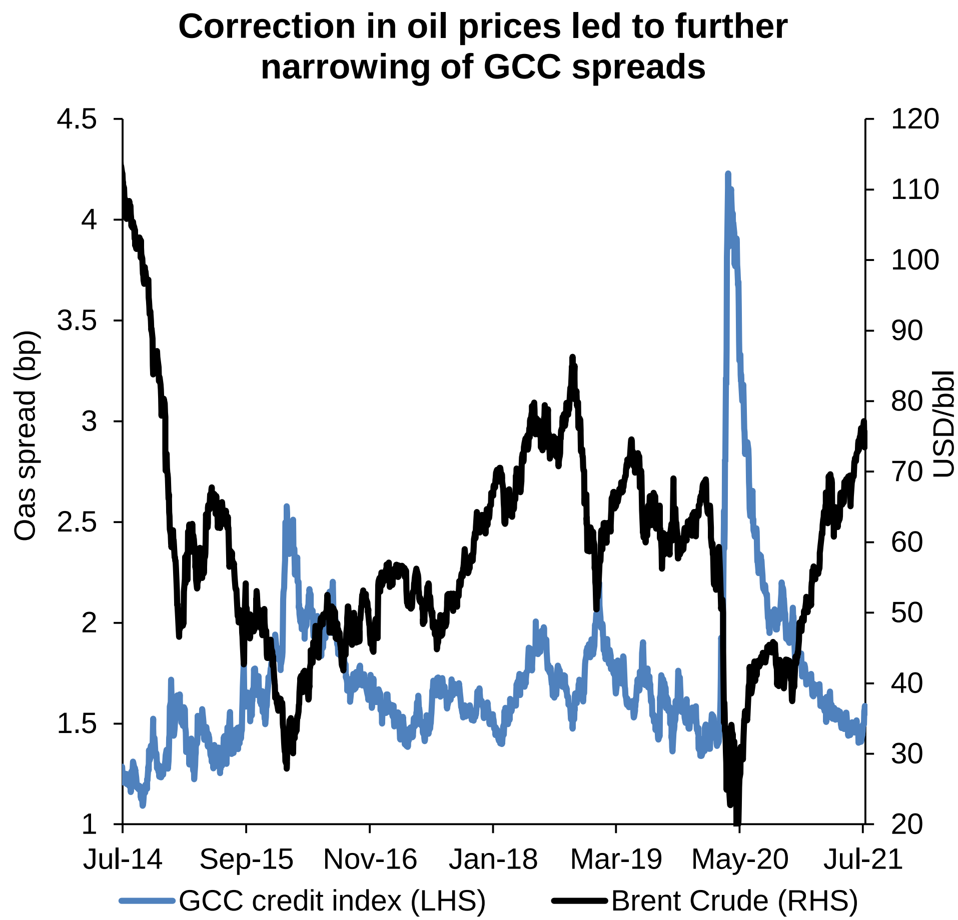

Source: Credit Suisse Indices, Bloomberg Barclays Indices, Bloomberg, ADCB

Chapter II: Primary market bond issuances in GCC

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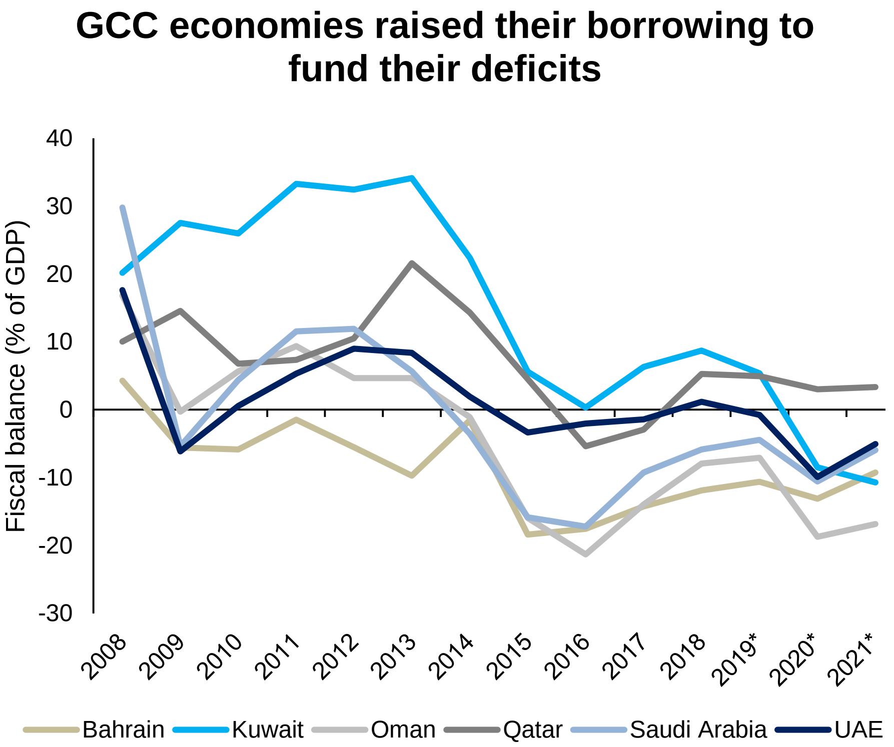
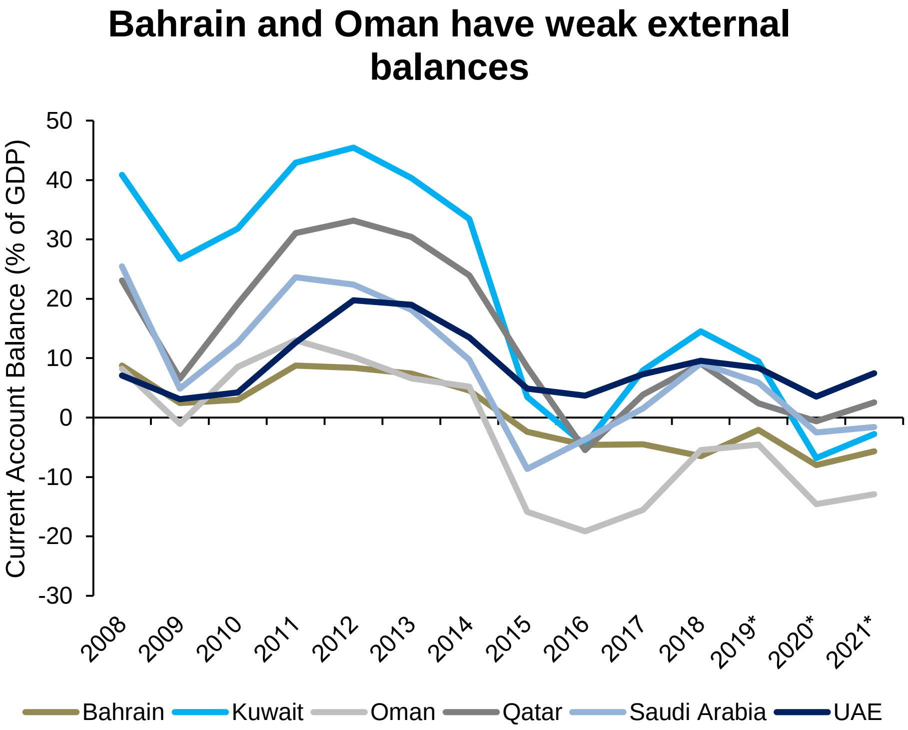
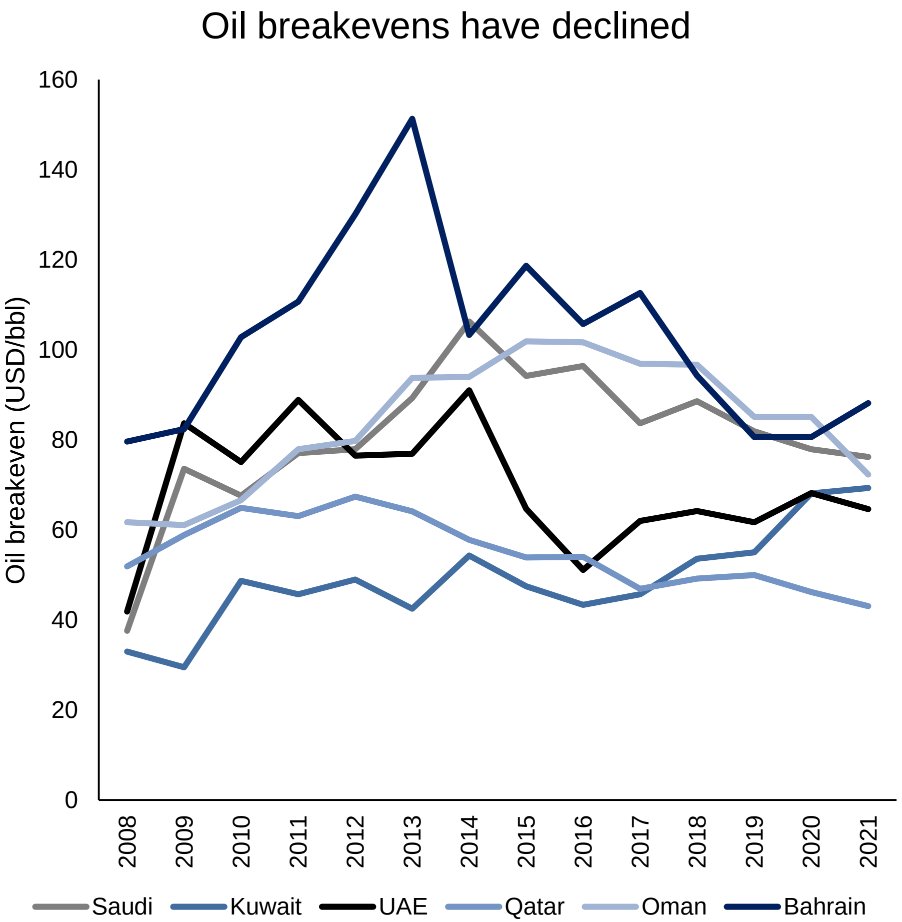
GCC economies fiscal deficits to stabilize in 2021

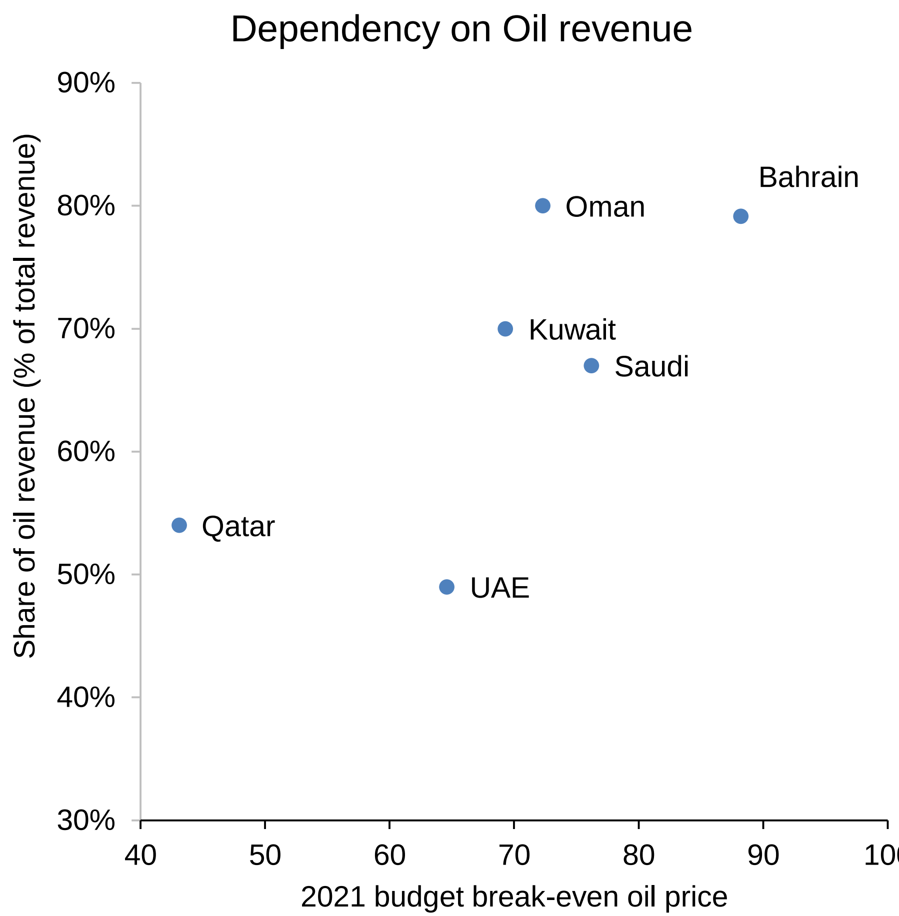




**IMF estimates*
Source: IMF, ADCB

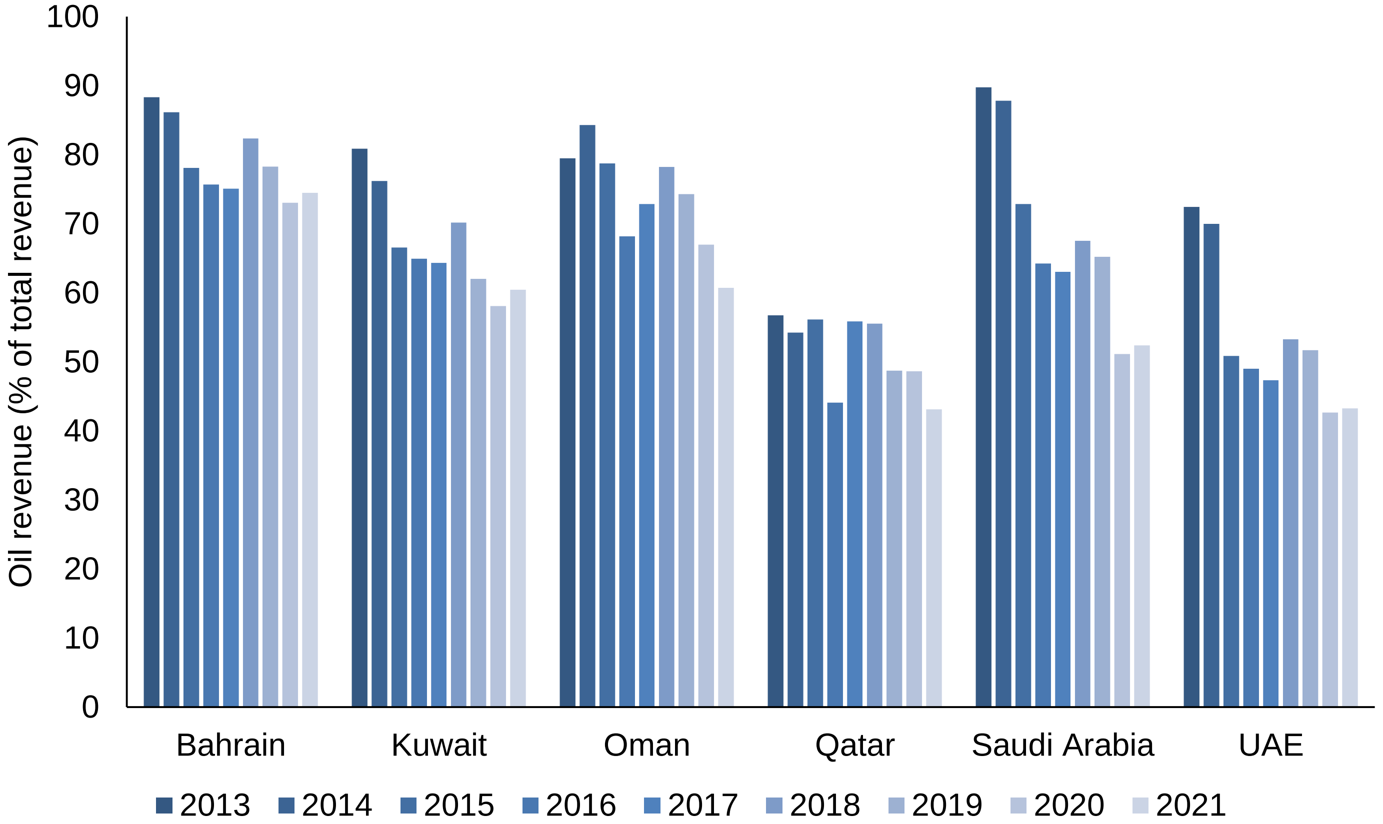
Dependency on oil has reduced, but remains significant





Source: IIF, Bloomberg, ADCB

More diversification needed



Note: 2020 and 2021 are IIF estimates Source: IIF, ADCB

Sovereign dollar bond issuance has dropped in 2021

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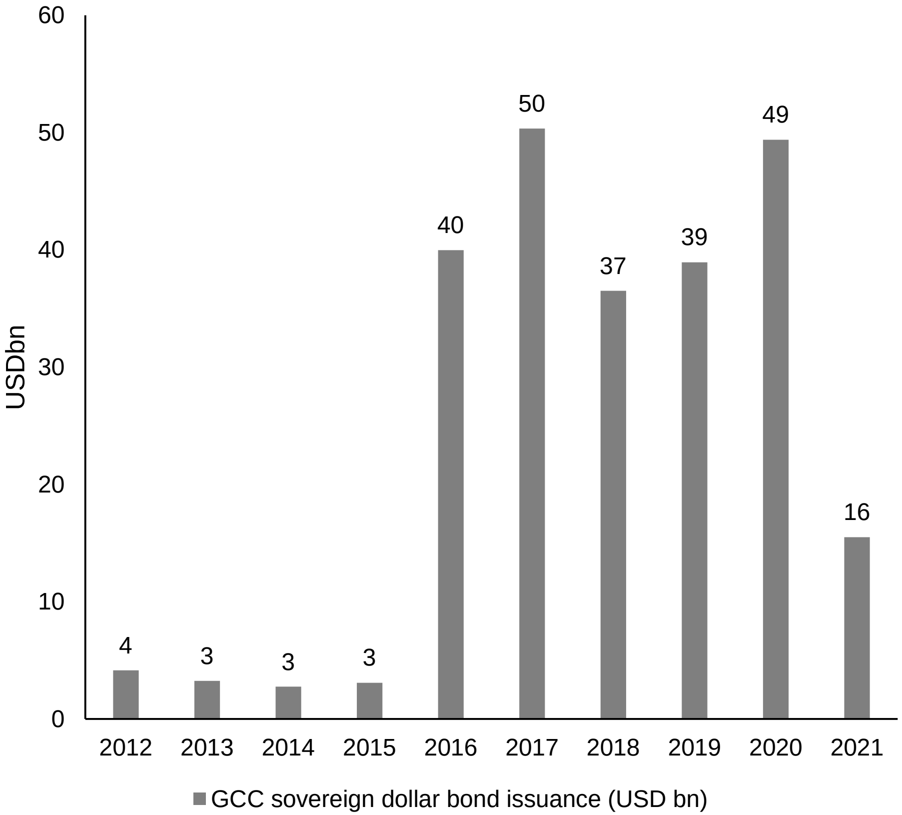
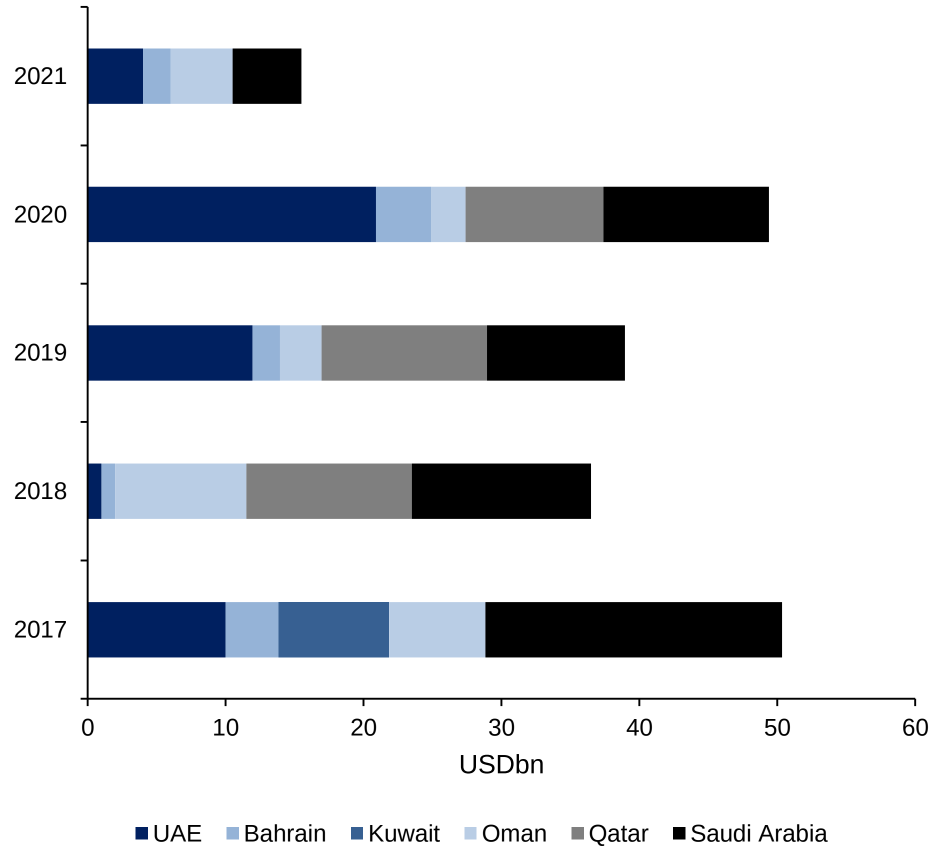
Sovereign dollar bond issuance has been lower so far in 2021

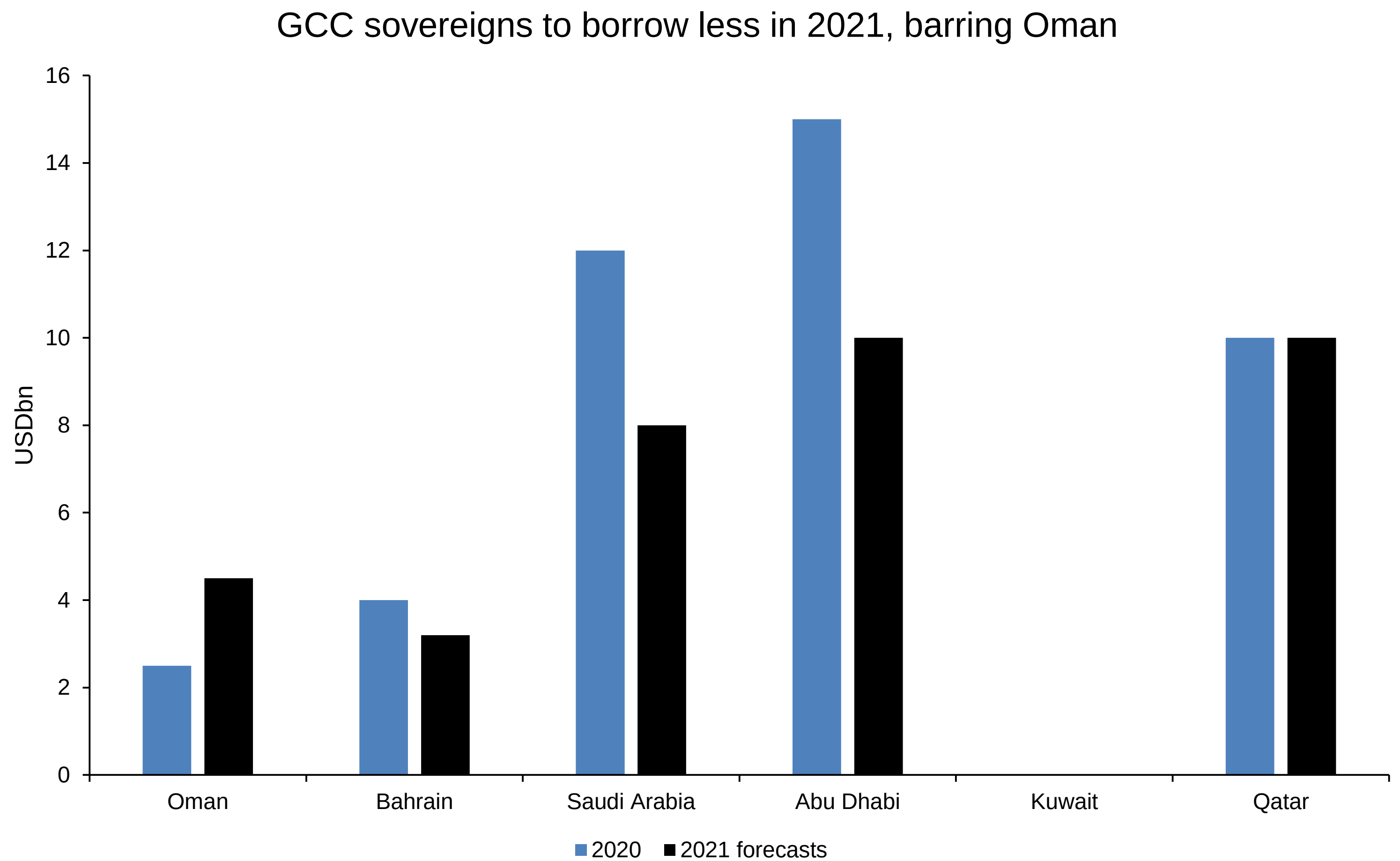


Saudi Arabia led the issuance



Source: Bloomberg, ADCB

GCC sovereigns to borrow less in 2021



Source: Bloomberg, ADCB

Corporate issuances reaching 2020 levels

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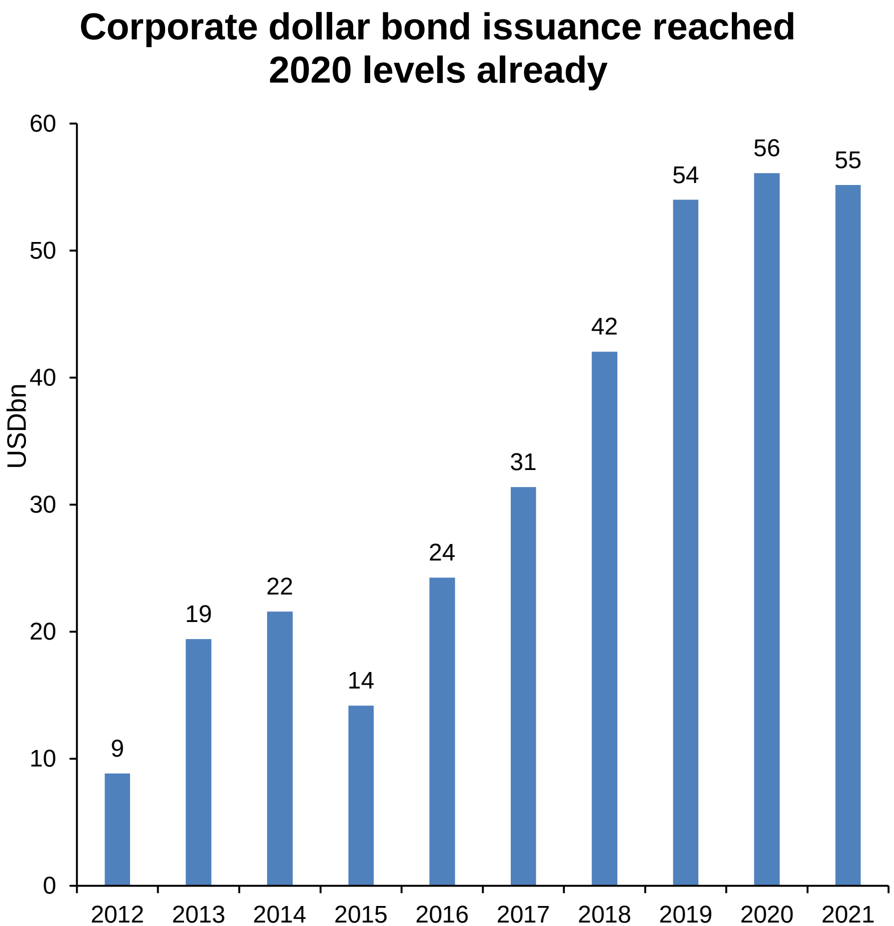

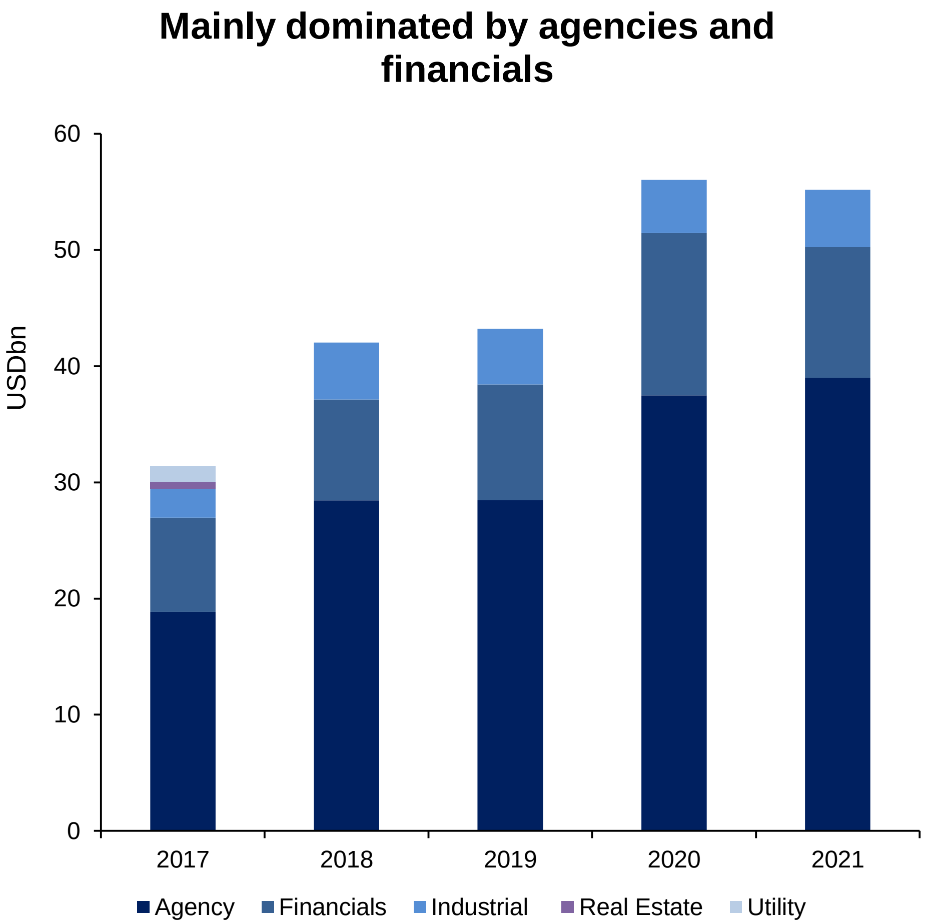

Source: Bloomberg, ADCB
Bloomberg classification used for corporates

Major corporate dollar bond deals in 1H 2021

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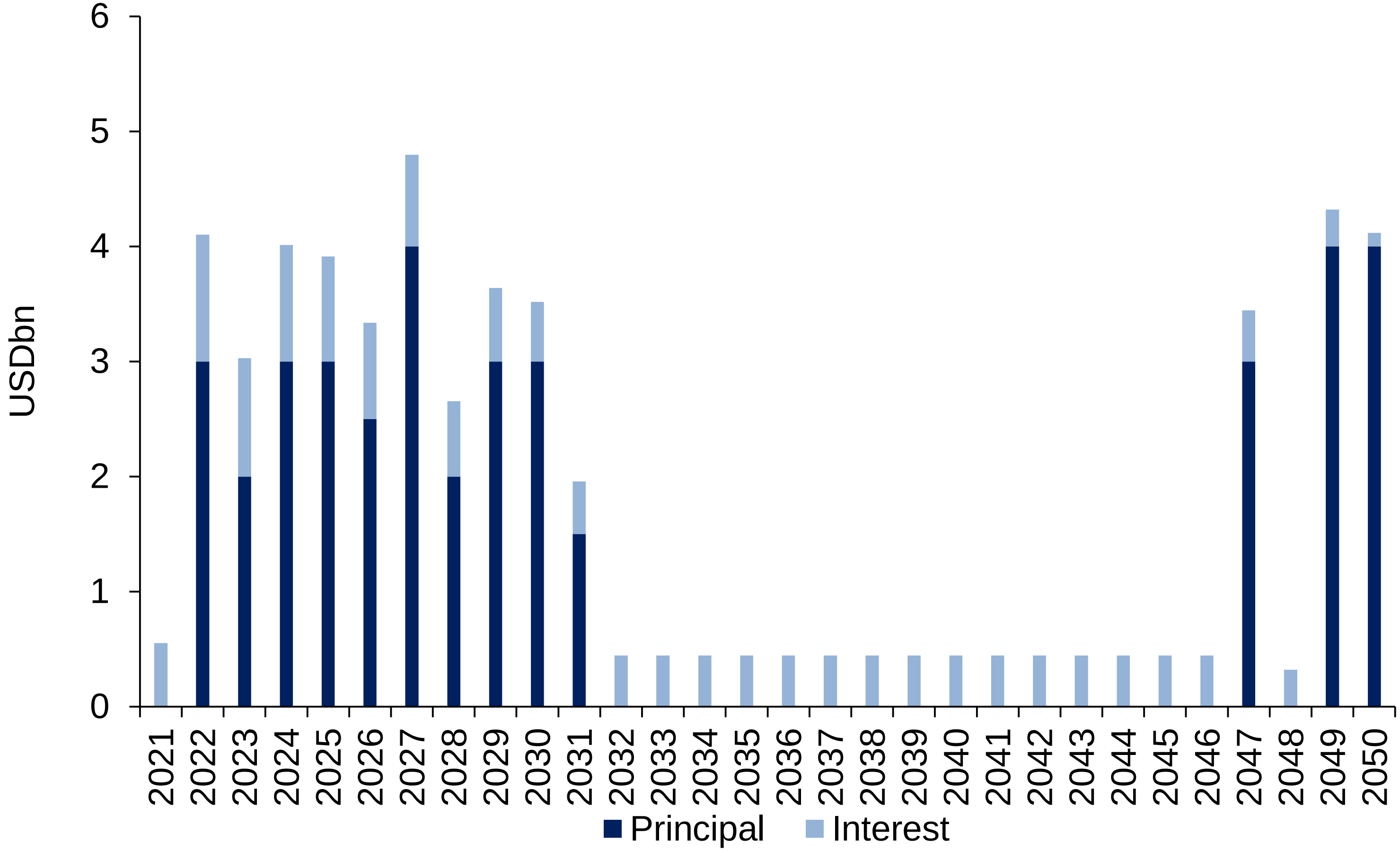
Corporate Issuer	Bloomberg Ticker	Sector	Country	Amount Issued	Coupon	Maturity	Maturity Type	Issue Date	Moody Rtg^	Priced at issue (spread, bp)*
SA Global Sukuk Ltd	ARAMCO	Agency	SA	3000	2.69	6/17/2031	CALLABLE	6/17/2021	A1	T+120
Galaxy Pipeline Assets Bidco Ltd	ADGLXY	Industrial	AE	2170	2.94	9/30/2040	SINKABLE	2/18/2021	Aa2	T+178
SA Global Sukuk Ltd	ARAMCO	Agency	SA	2000	1.60	6/17/2026	CALLABLE	6/17/2021	A1	T+85
Galaxy Pipeline Assets Bidco Ltd	ADGLXY	Industrial	AE	1750	2.16	3/31/2034	SINKABLE	2/18/2021	Aa2	T+134
NCB Tier 1 Sukuk Ltd	NCOMBK	Agency	SA	1250	3.50	-	PERP/CALL	1/26/2021	-	-
Abu Dhabi National Oil Co	ADNOUH	Agency	AE	1195	0.70	6/4/2024	CONVERTIBLE	6/4/2021	Aa2**	-
QNB Finance Ltd	QNBK	Agency	QA	1000	1.38	1/26/2026	AT MATURITY	1/26/2021	Aa3	M+95
Ooredoo International Finance Ltd	QTELQD	Agency	QA	1000	2.63	4/8/2031	AT MATURITY	4/8/2021	A2	T+103
SA Global Sukuk Ltd	ARAMCO	Agency	SA	1000	0.95	6/17/2024	CALLABLE	6/17/2021	A1	T+65
Abu Dhabi Ports Co PJSC	ABDPOC	Agency	AE	1000	2.50	5/6/2031	CALLABLE	5/6/2021	A1**	T+110
DAE Funding LLC	DUBAEE	Agency	AE	1000	1.55	8/1/2024	CALLABLE	6/22/2021	Baa3	T+140
MDGH GMTN RSC Ltd	MUBAUH	Agency	AE	1000	3.40	6/7/2051	CALLABLE	6/7/2021	Aa2	M+139
DIB Sukuk Ltd	DIBUH	Financial Institutions	AE	1000	1.96	6/22/2026	AT MATURITY	6/22/2021	A3	M+110
KFH Tier 1 Sukuk Ltd	KFHKK	Financial Institutions	KW	750	3.60	-	PERP/CALL	6/30/2021	-	T+263
Emirates NBD Bank PJSC	EBIUH	Agency	AE	750	4.25	-	PERP/CALL	5/27/2021	A3	T+316
OQ SAOC	OMAOIL	Agency	OM	750	5.13	5/6/2028	AT MATURITY	5/6/2021	Ba3**	T+378
Abu Dhabi National Energy Co PJSC	TAQAUH	Agency	AE	750	2.00	4/29/2028	CALLABLE	4/29/2021	Aa3	T+80
Abu Dhabi National Energy Co PJSC	TAQAUH	Agency	AE	750	3.40	4/29/2051	CALLABLE	4/29/2021	Aa3	T+113
Emirates NBD Bank PJSC	EBIUH	Agency	AE	750	1.64	1/13/2026	AT MATURITY	1/13/2021	A3	M+115
Emirates Development Bank PJSC	EMDEBK	Agency	AE	750	1.64	6/15/2026	AT MATURITY	6/15/2021	Aa3**	-
DAE Funding LLC	DUBAEE	Agency	AE	750	3.38	3/20/2028	CALLABLE	1/20/2021	Baa3	T+275
NBK Tier 1 Financing Ltd	NTBKKK	Financial Institutions	KW	700	3.63	-	PERP/CALL	2/24/2021	Baa3	T+288
Equate Petrochemical BV	EQPTRC	Agency	KW	700	2.63	4/28/2028	CALLABLE	4/28/2021	Baa2	T+140
CBQ Finance Ltd	COMQAT	Financial Institutions	QA	700	2.00	5/12/2026	AT MATURITY	5/12/2021	A3	M+115
Fab Sukuk Co Ltd	FABUH	Agency	AE	660	1.41	1/14/2026	AT MATURITY	1/14/2021	Aa3	M+90

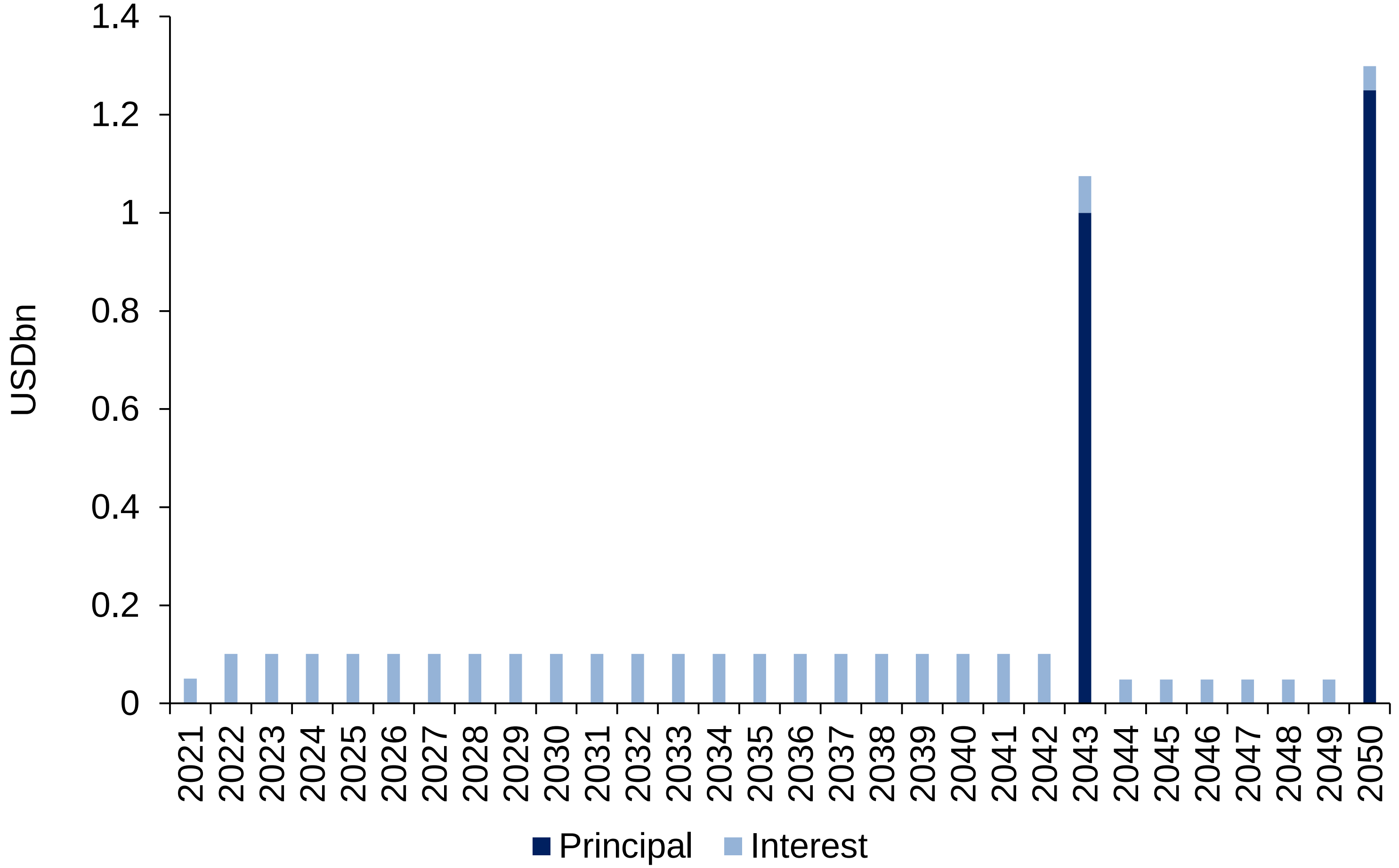
*Note: Deals of only amount issued greater than USD250m are shortlisted, *Priced at issue indicated as spread over Treasury (T) or as mid-swap spread (M) , Bloomberg sector classification has been used, **Rated by Fitch rating (Moody's rating equivalent has been used)*

Abu Dhabi Sovereign Dollar Debt Maturity Profile



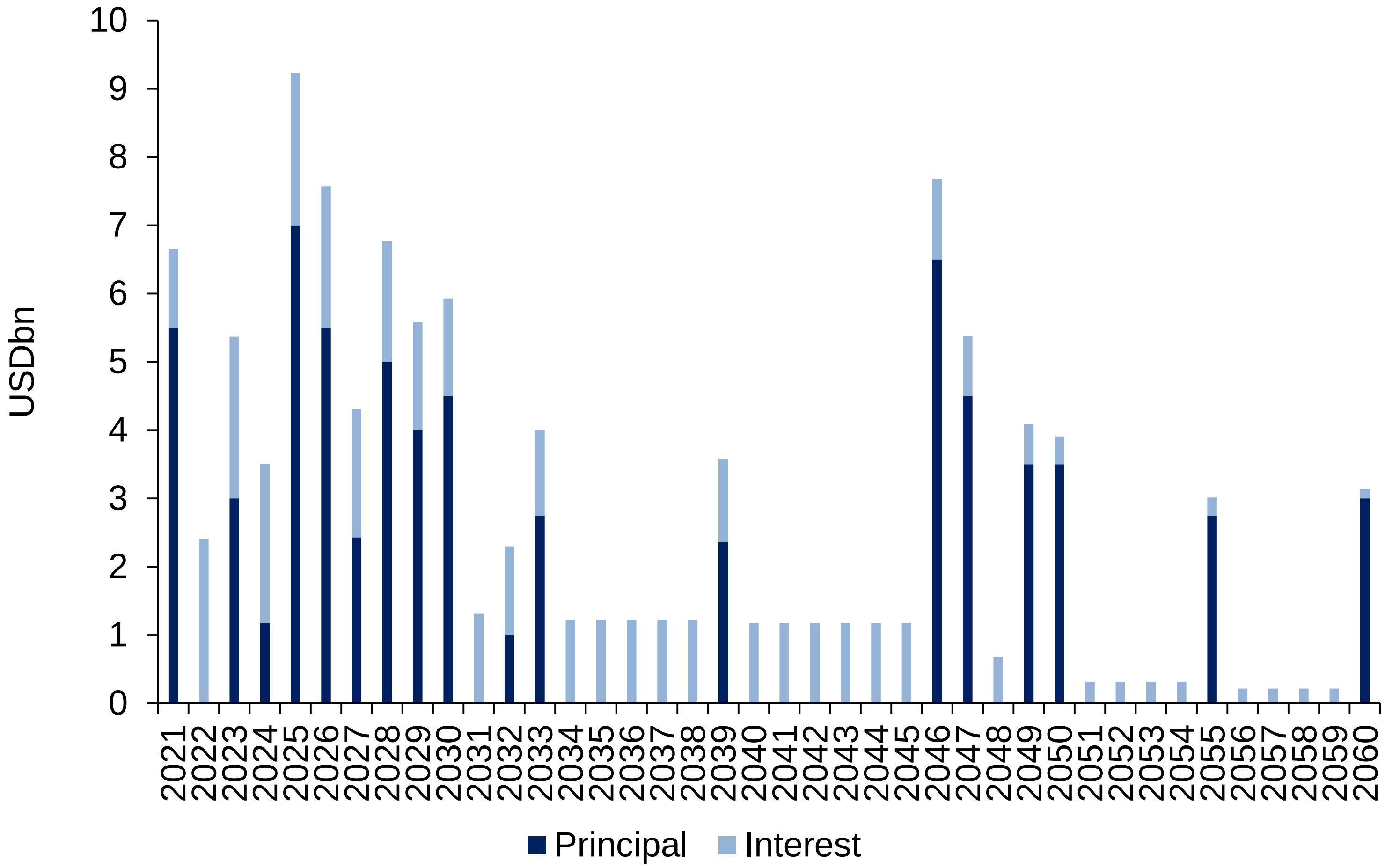
Source: Bloomberg, ADCB

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

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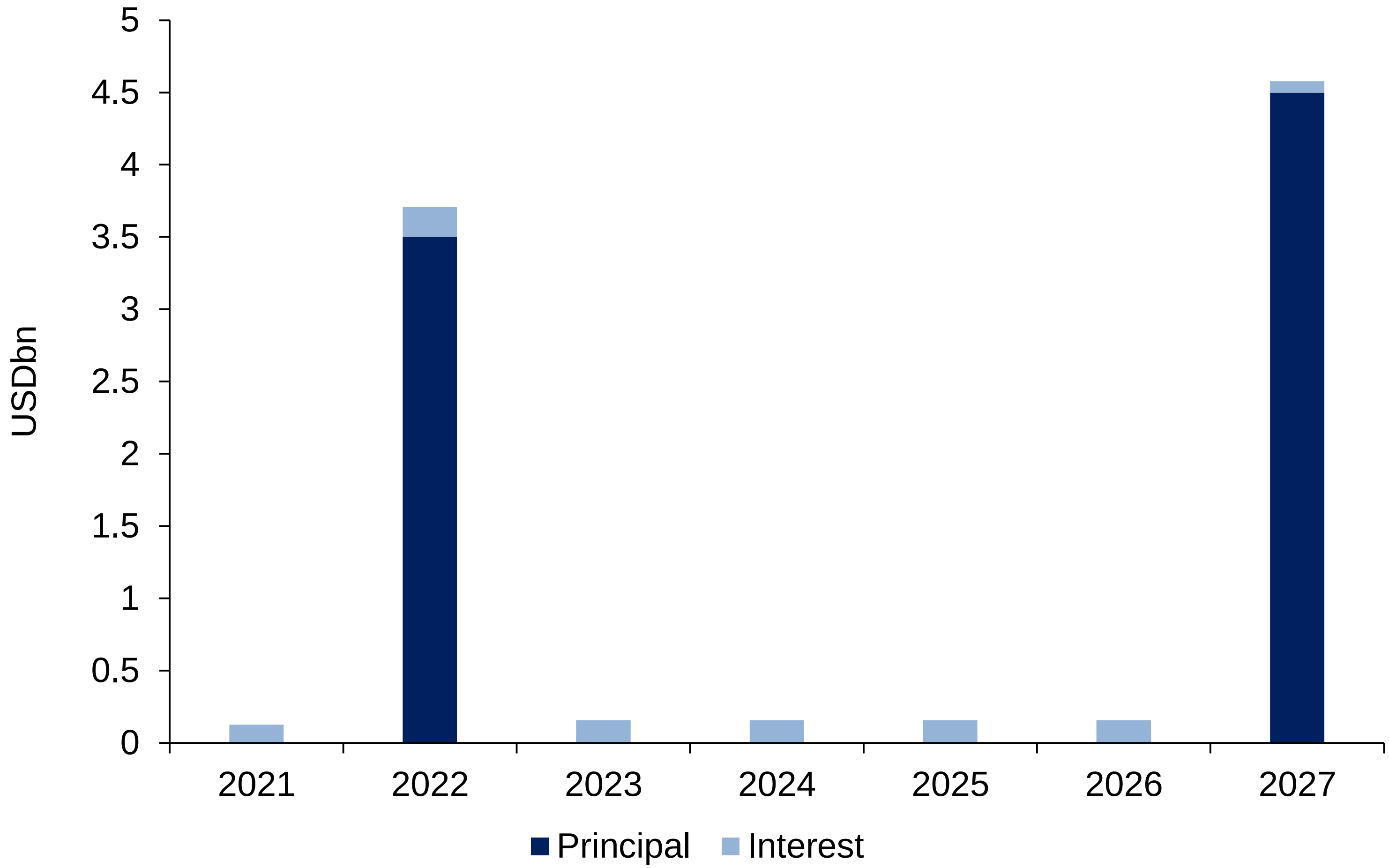
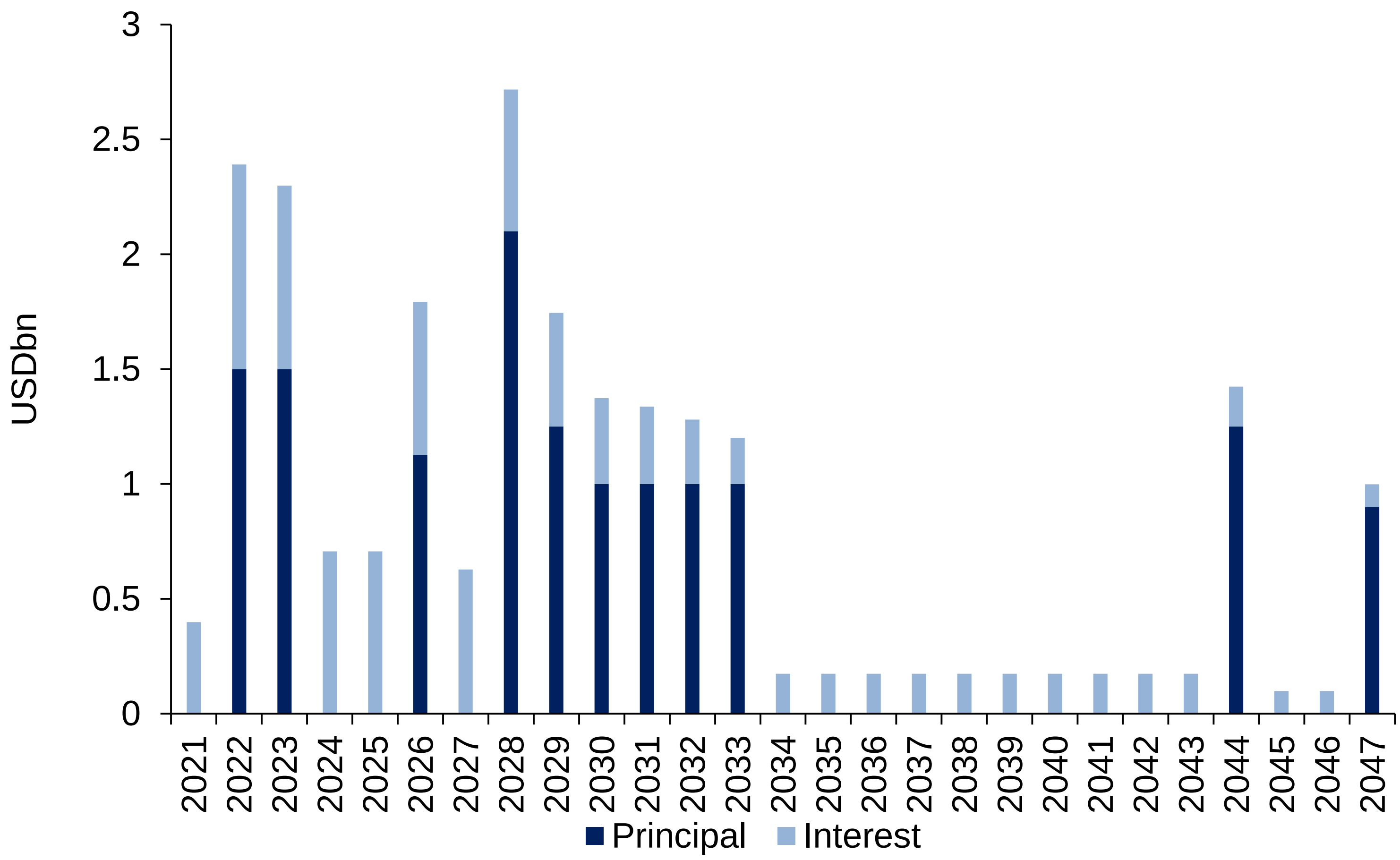


Source: Bloomberg, ADCB

Bahrain Sovereign Dollar Debt Maturity Profile



Source: Bloomberg, ADCB

Oman Sovereign Dollar Debt Maturity Profile

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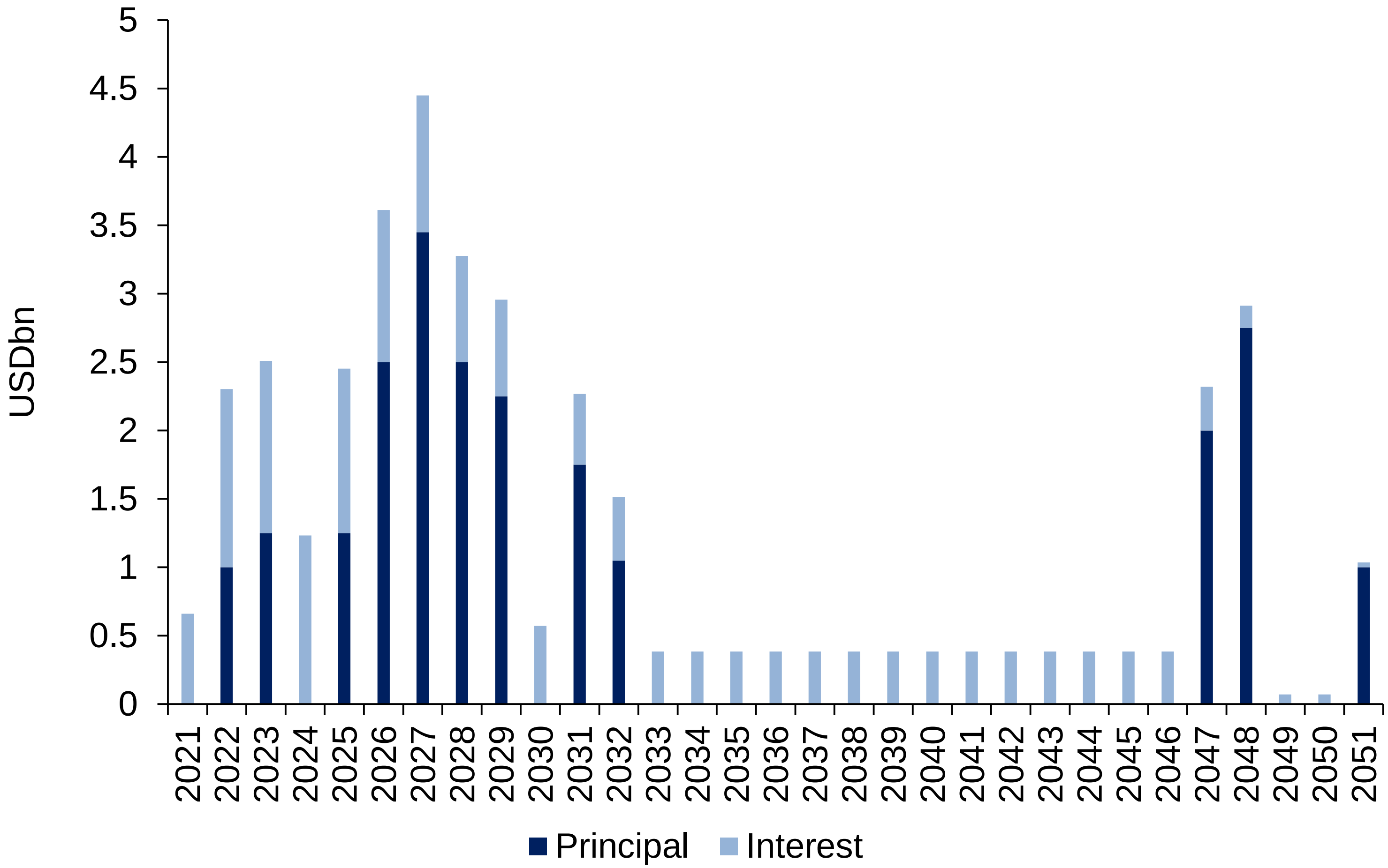
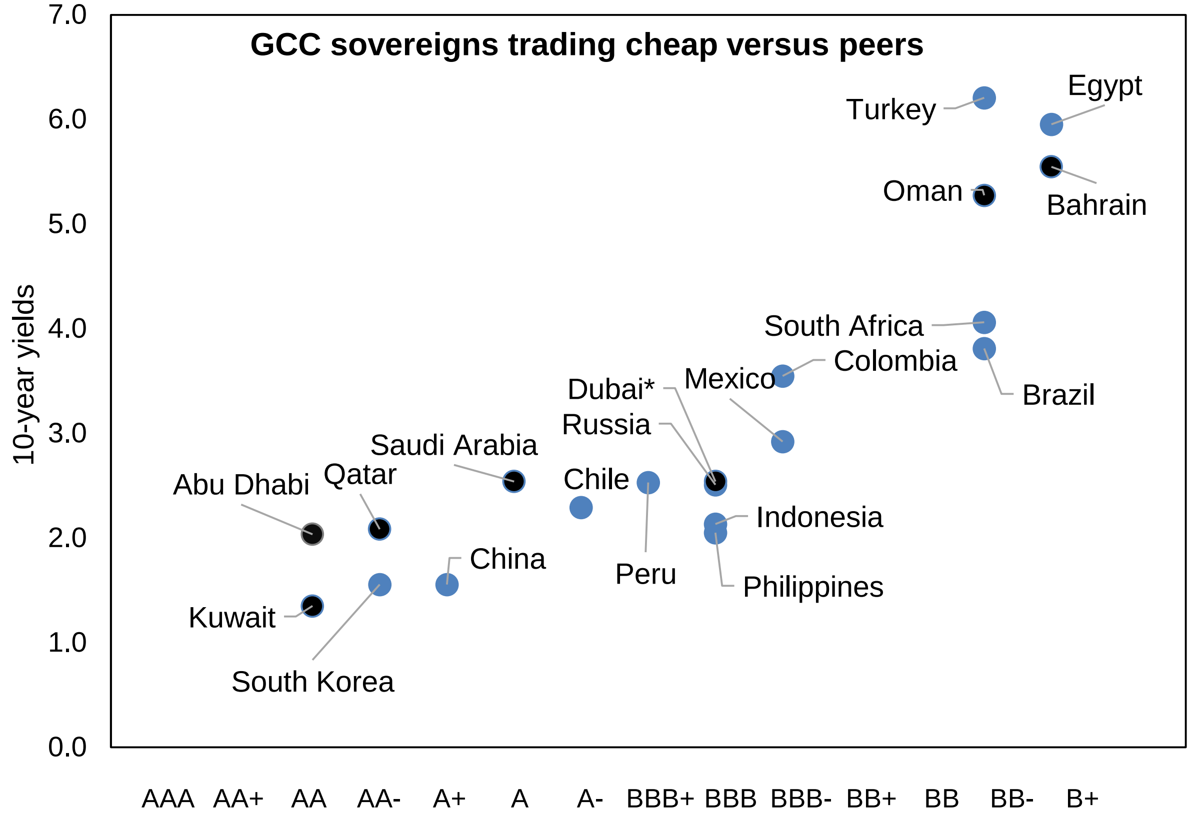


Source: Bloomberg, ADCB

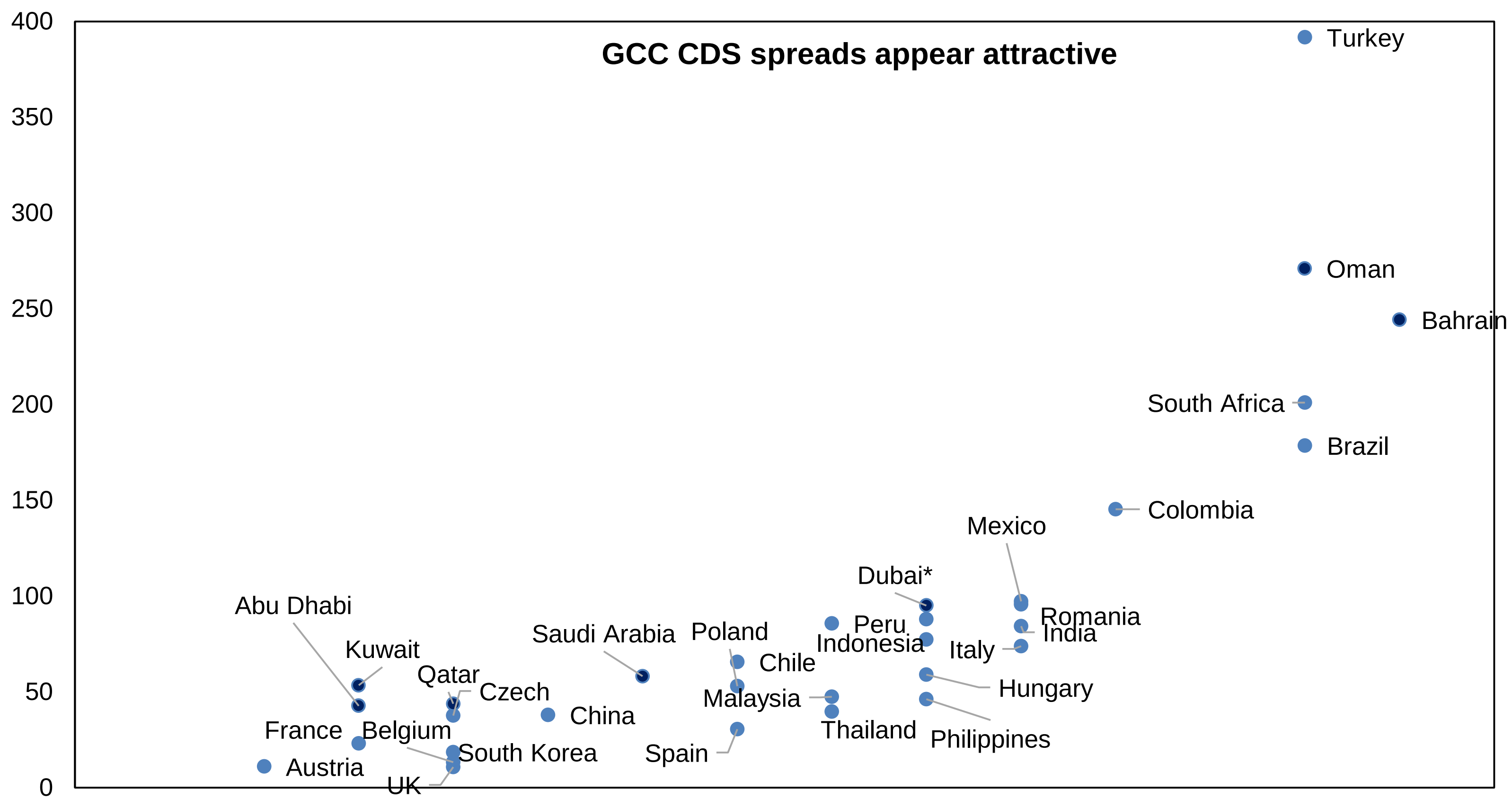
Chapter III: Credit rating valuation

GCC sovereigns vs EM peers- 10yr segment



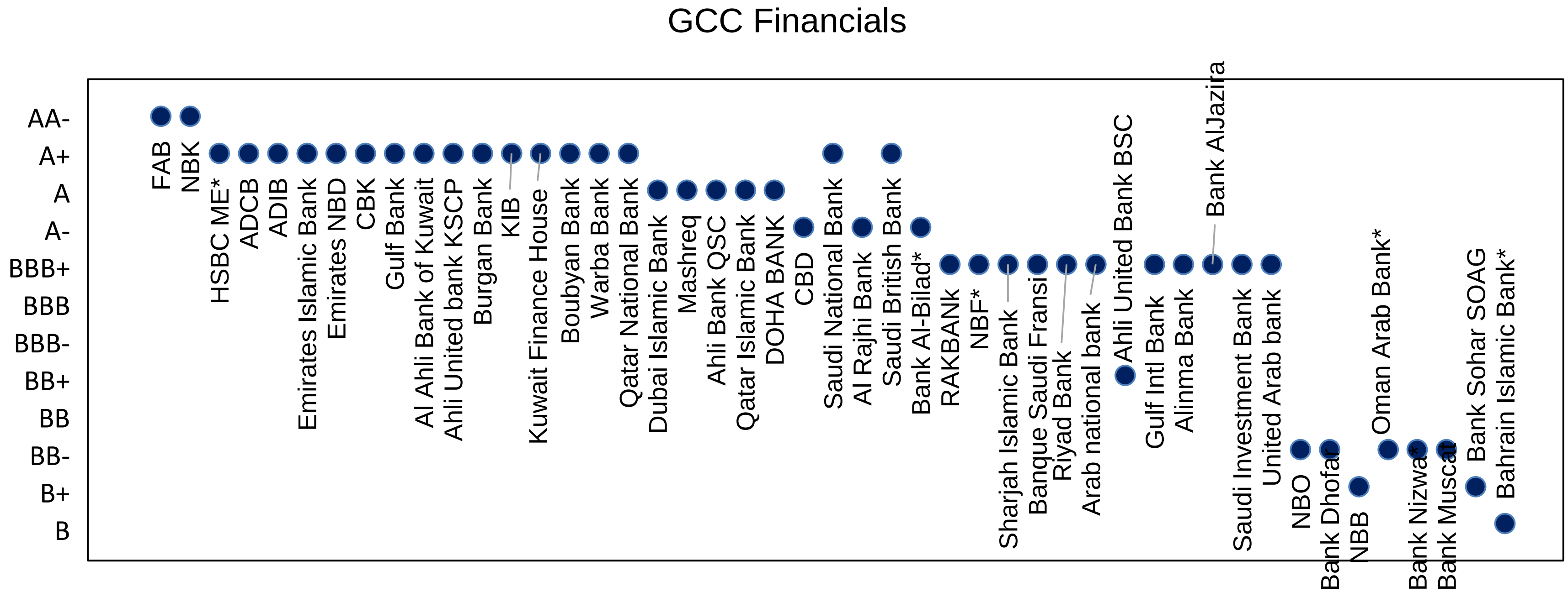
*Note: The ratings refer to Fitch ratings, * DEWA credit rating used as a proxy for Dubai credit rating, data as of 11th July 2021*
Source: Bloomberg, ADCB

GCC CDS versus ratings



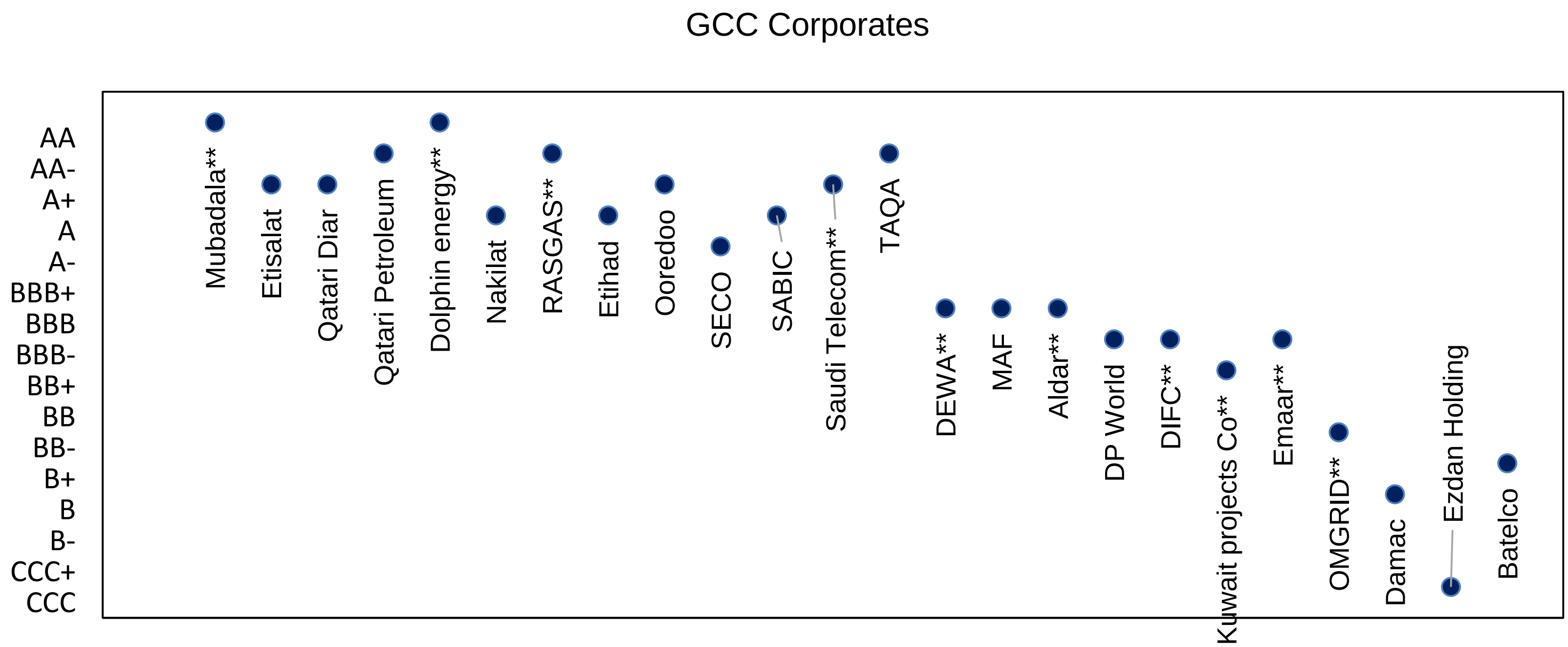
*Note: The ratings refer to Fitch ratings, * DEWA credit rating used as a proxy for Dubai credit rating, data as of 14th July 2021*
Source: Bloomberg, ADCB

GCC Financials credit rating



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

GCC Corporates credit rating



*Note: The ratings refer to Fitch ratings, ** Moody's ratings used as substitute where the corporate/bank not rated by Fitch ratings*
Source: Bloomberg, ADCB

Chapter IV: GCC valuation analysis

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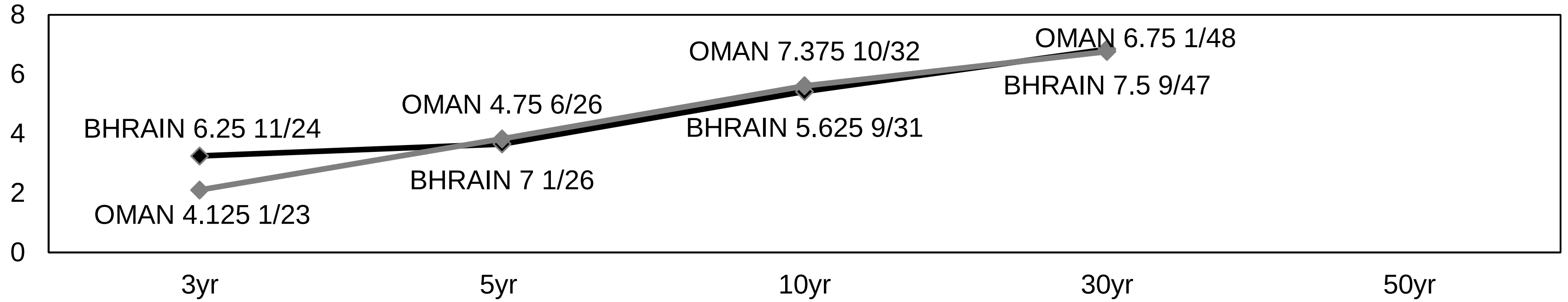
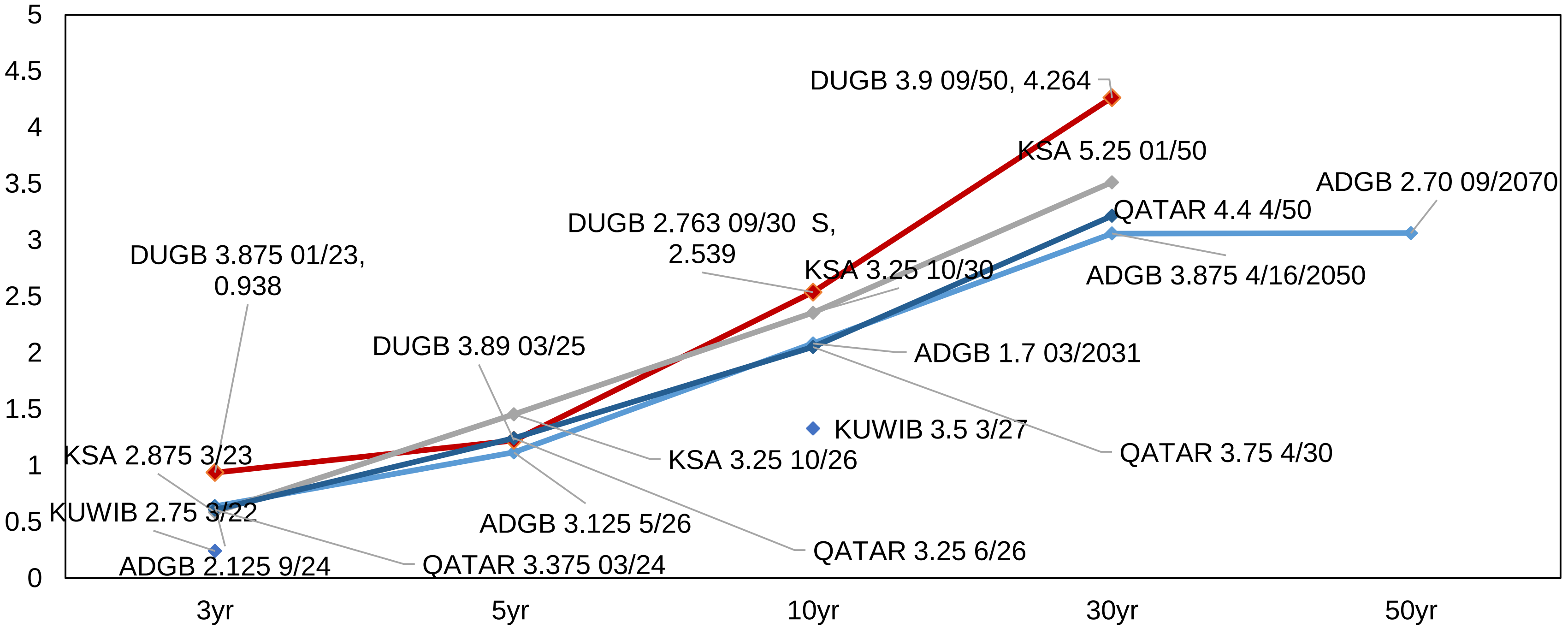
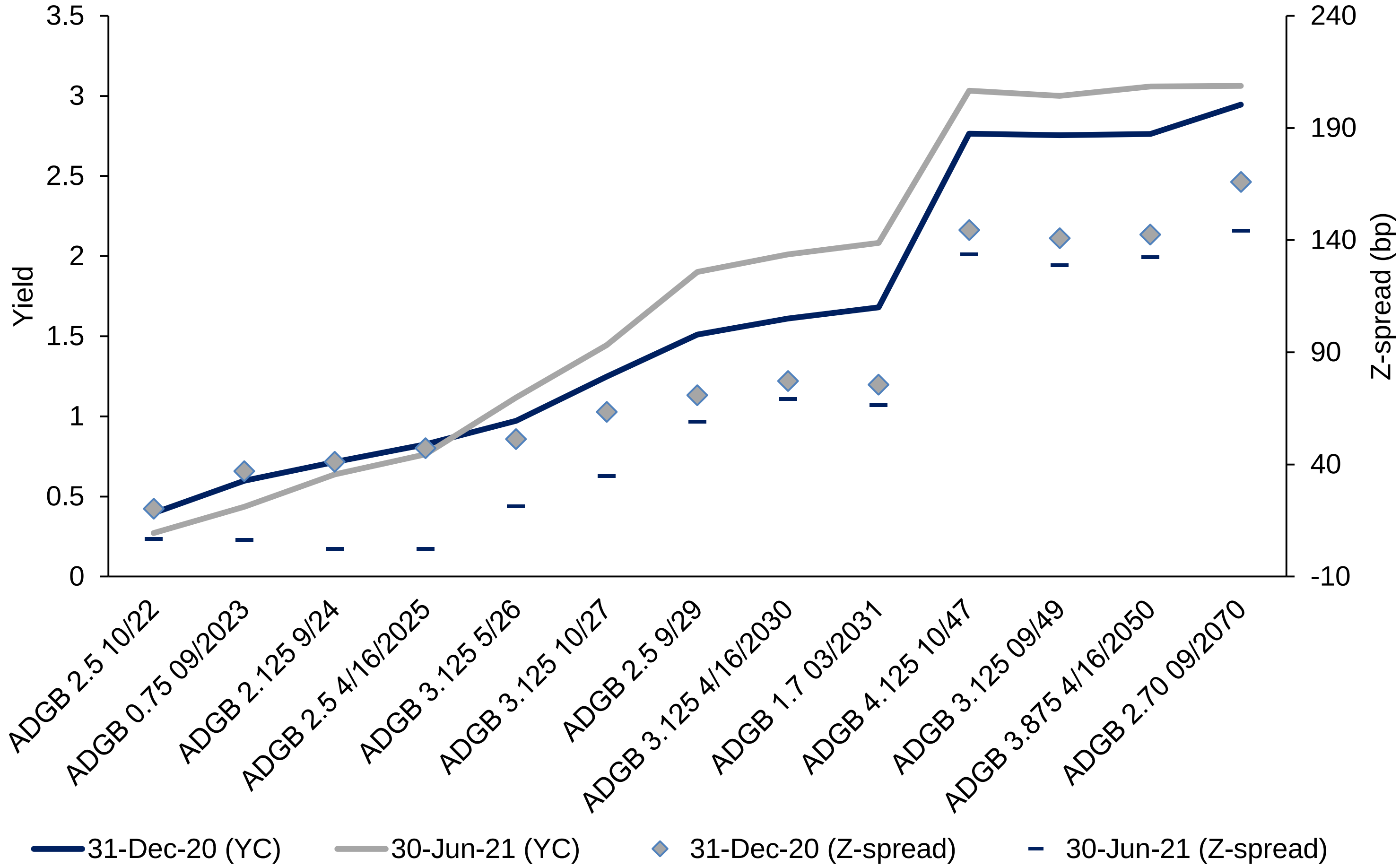
GCC sovereign dollar yield curves





Source: Bloomberg, ADCB, Data as of as of 30th June 2021 Note: S refers to Sukuk

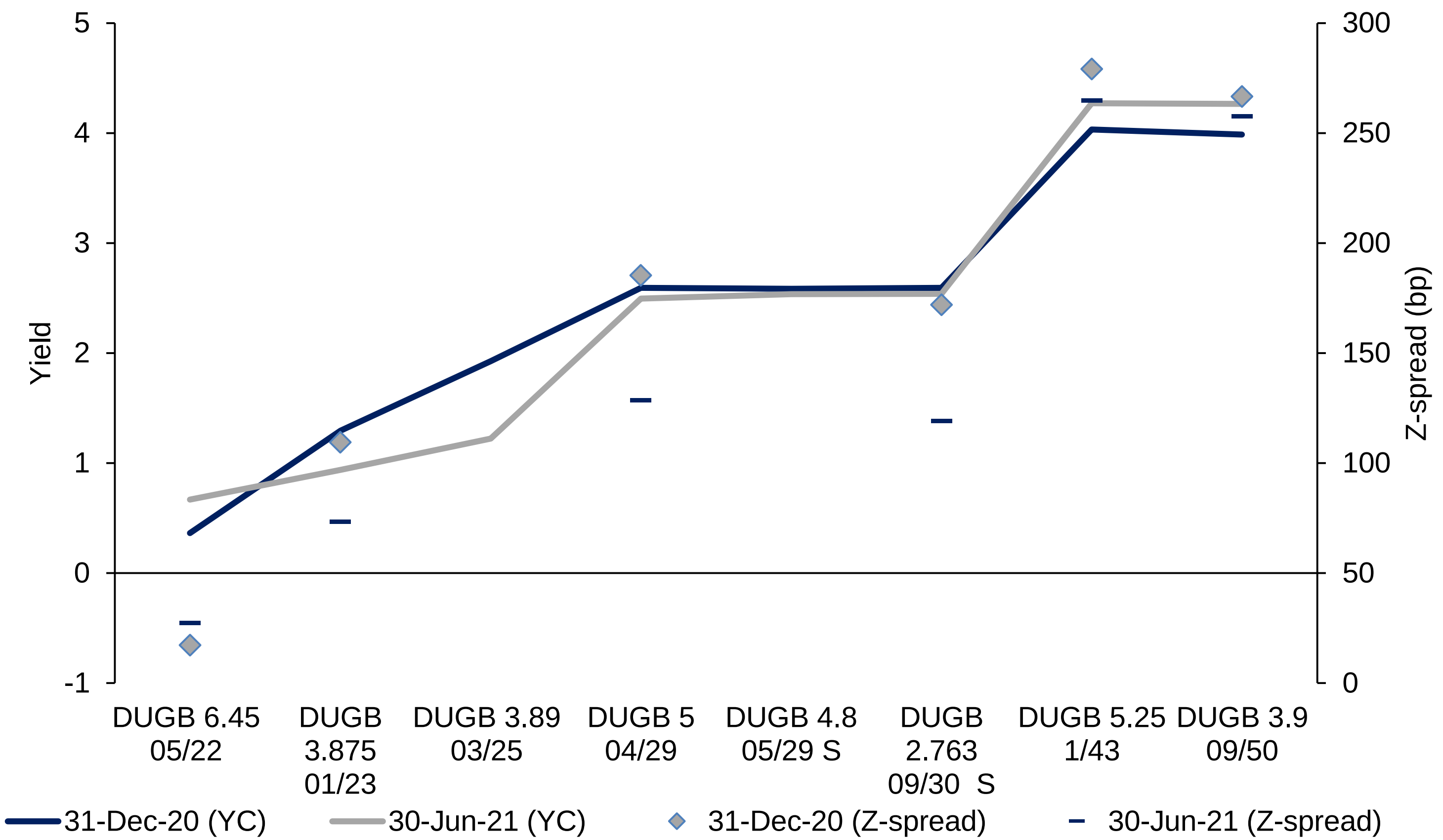
Abu Dhabi z-spread and yield curve (1H 21 change)



*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.*

Source: Bloomberg, ADCB

Dubai z-spread and yield curve (1H 21 change)



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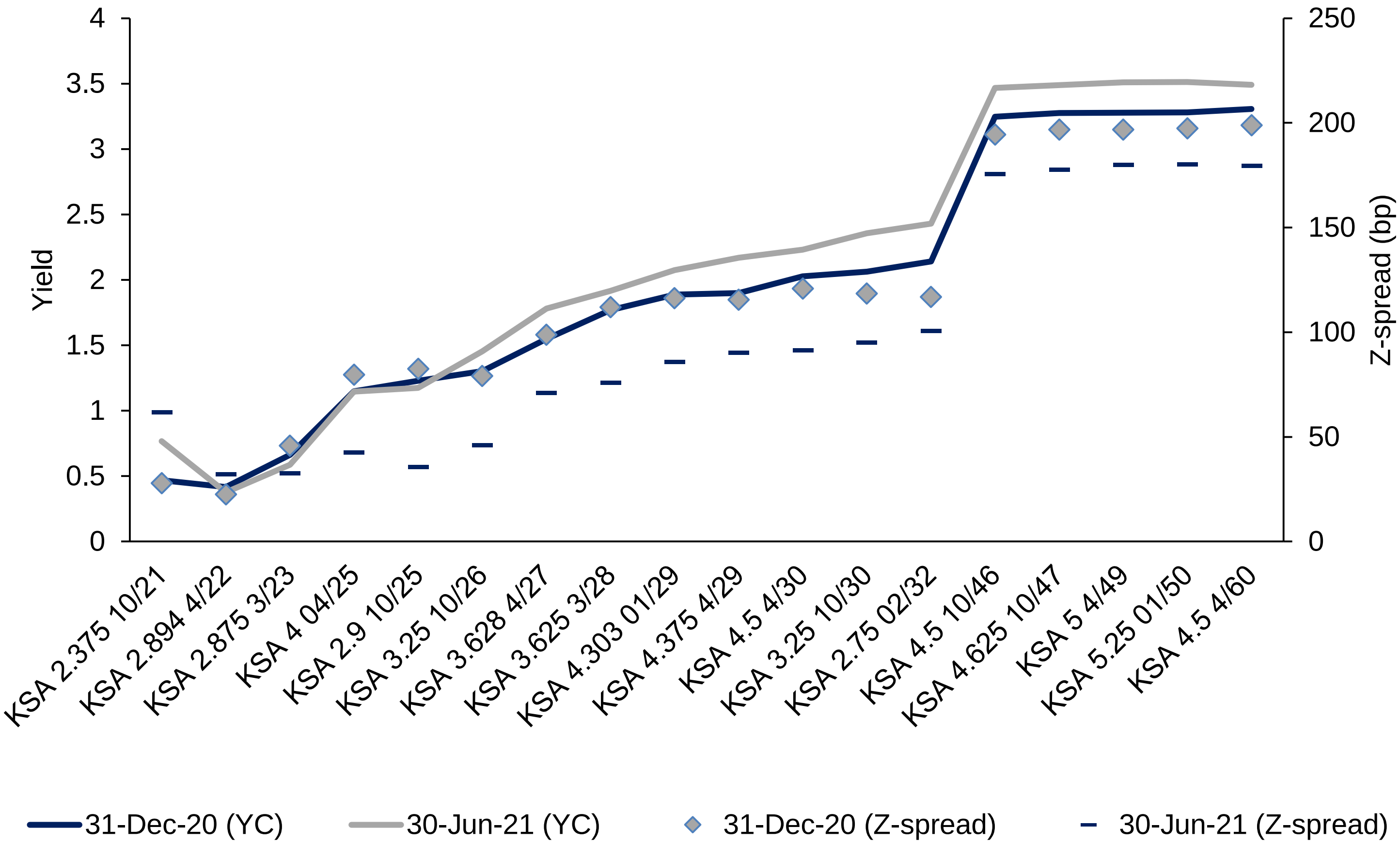
Saudi Arabia z-spread and yield curve (1H 21 change)



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Source: Bloomberg, ADCB

Kuwait z-spread and yield curve (1H 21 change)

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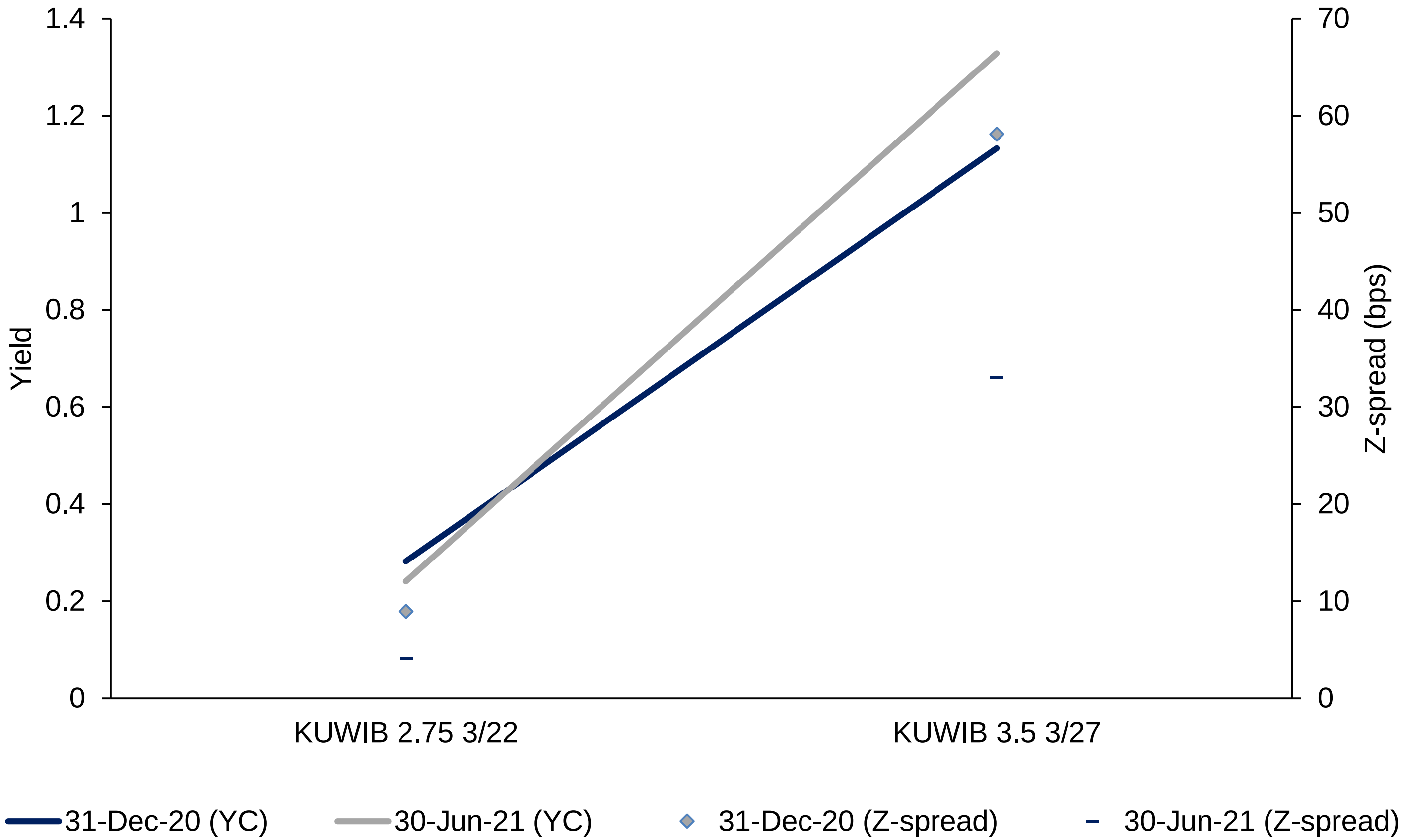

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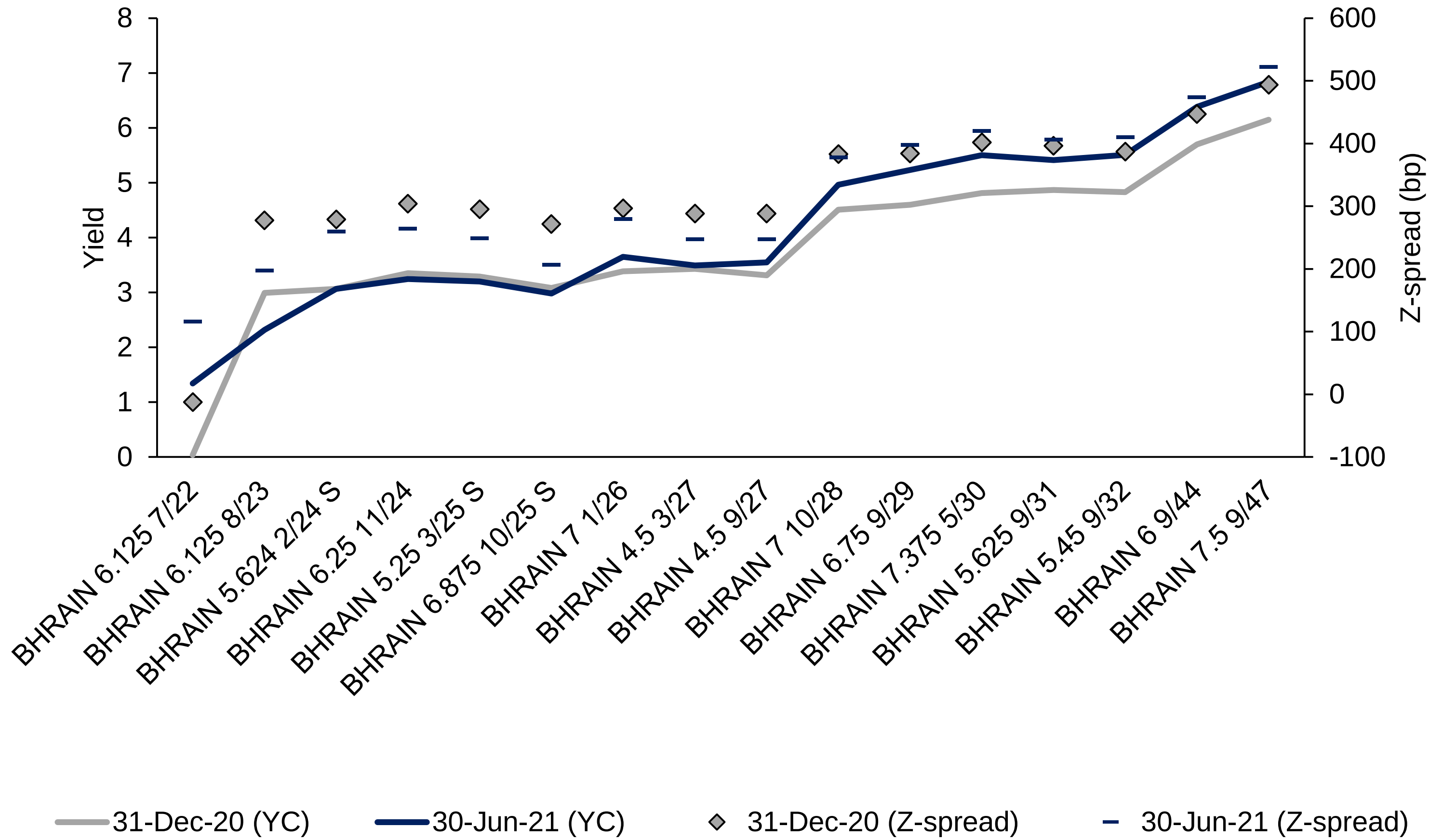
Source: Bloomberg, ADCB

Bahrain z-spread and yield curve (1H 21 change)



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Note: S refers to Sukuk Source: Bloomberg, ADCB

Oman z-spread and yield curve (1H 21 change)

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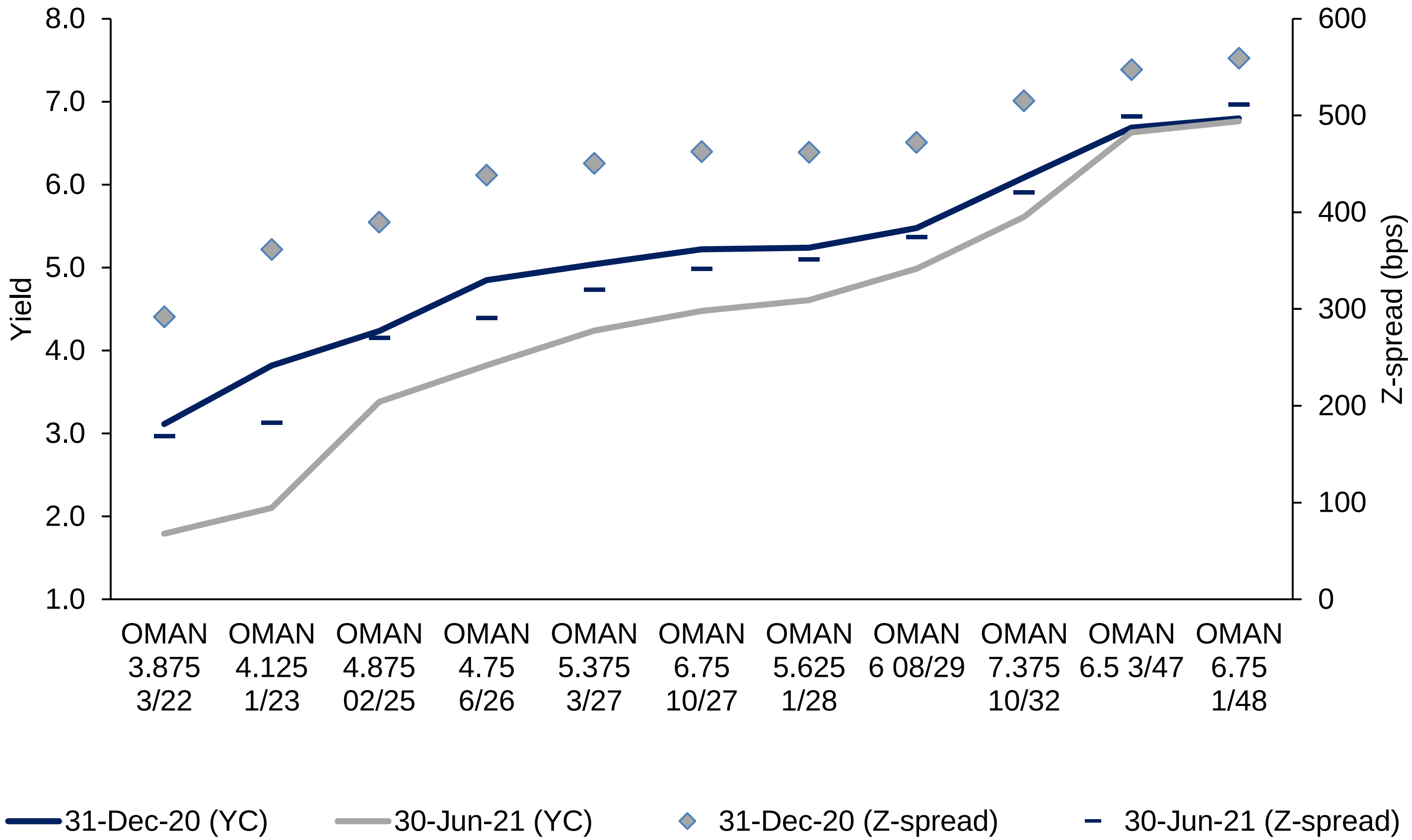

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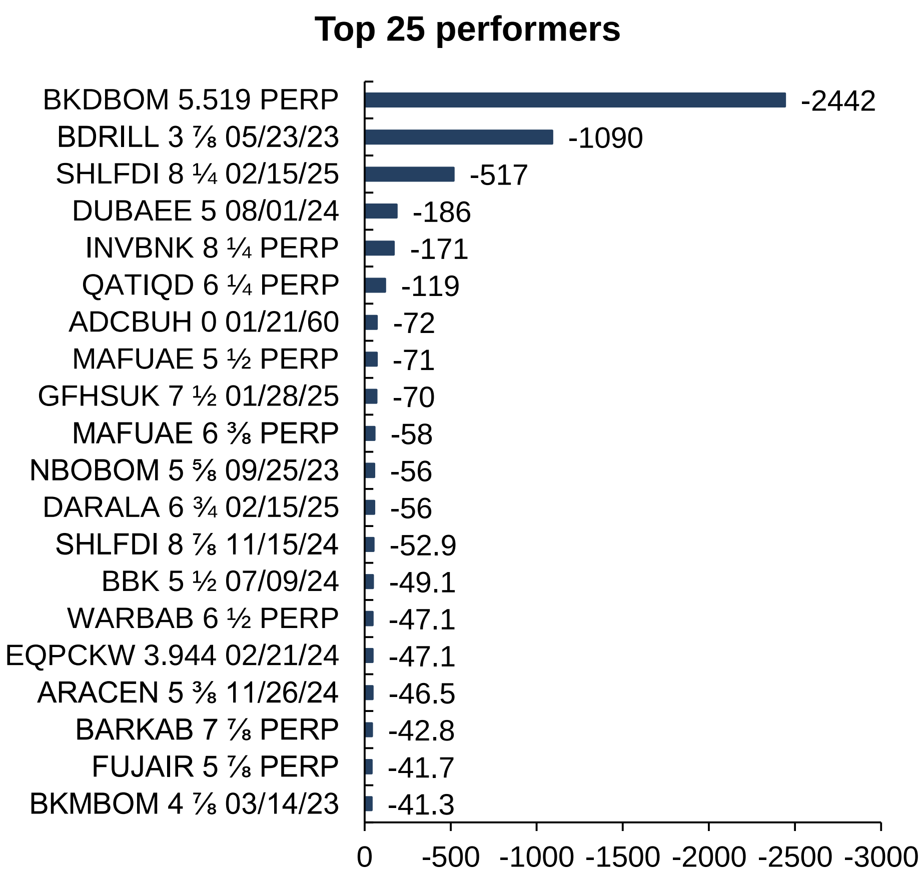
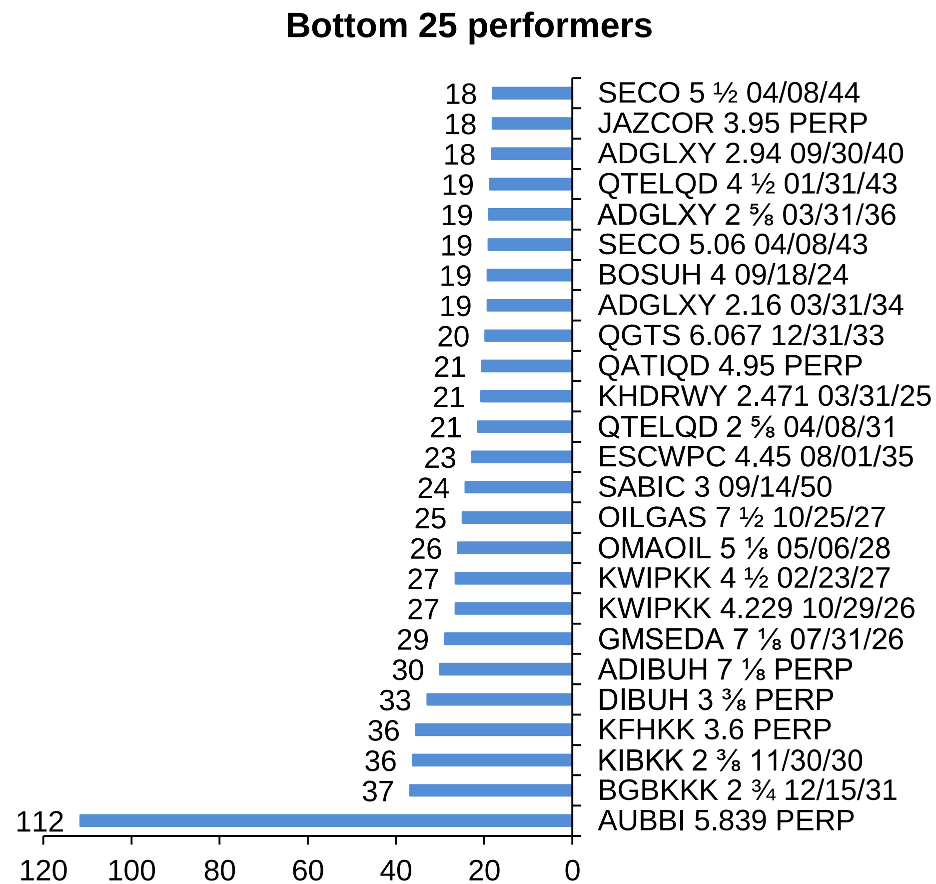
Source: Bloomberg, ADCB

GCC corporate top and bottom performers (spread performance in 1H 21)





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 : change: 31st December 2020 to 30th June 2021, All bonds are dollar denominated and maturing in 2022 or above, "PERP" refers to Perpetual, "Float" refers to floating rate bond
Source: Bloomberg, ADCB

GCC Investment Grade corporates (BBB- rated and above) spread performance in 1H 21

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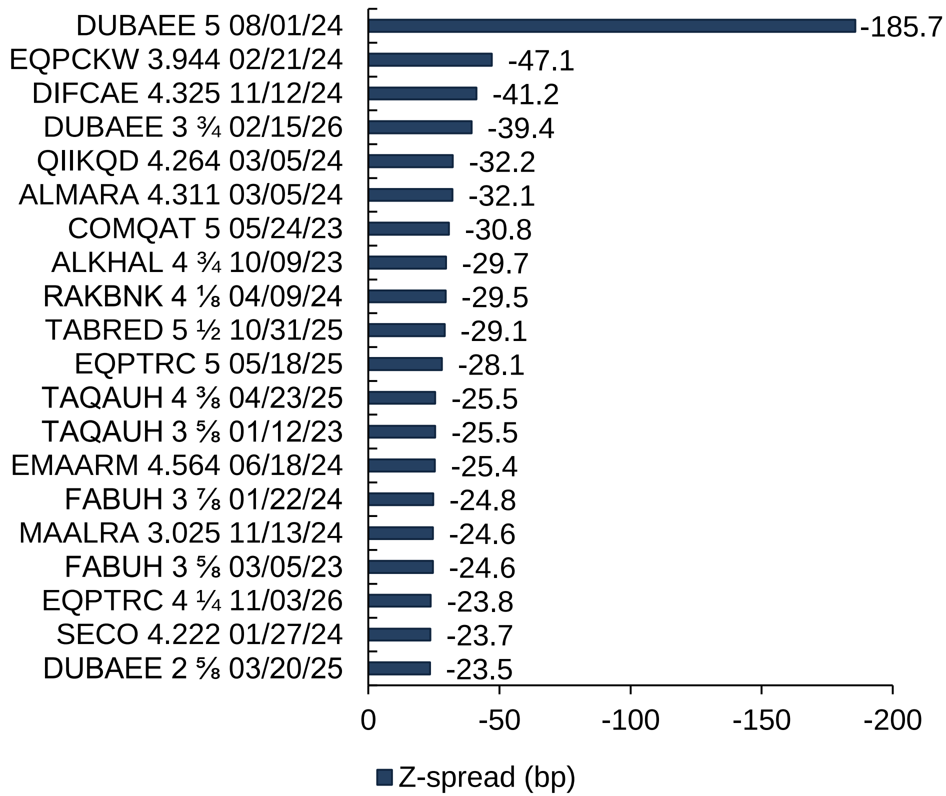
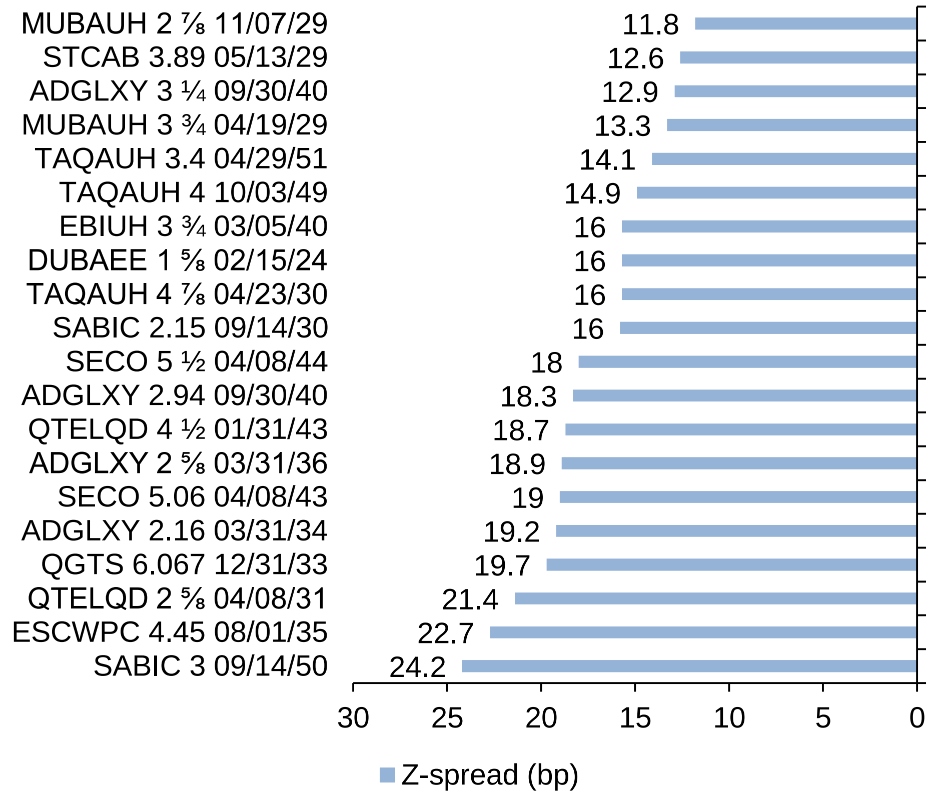
Top 20 performers..



..Bottom 20 performers



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Source: Bloomberg, ADCB

GCC High Yield corporates (rated BB+ and below only) spread performance in 1H 2021

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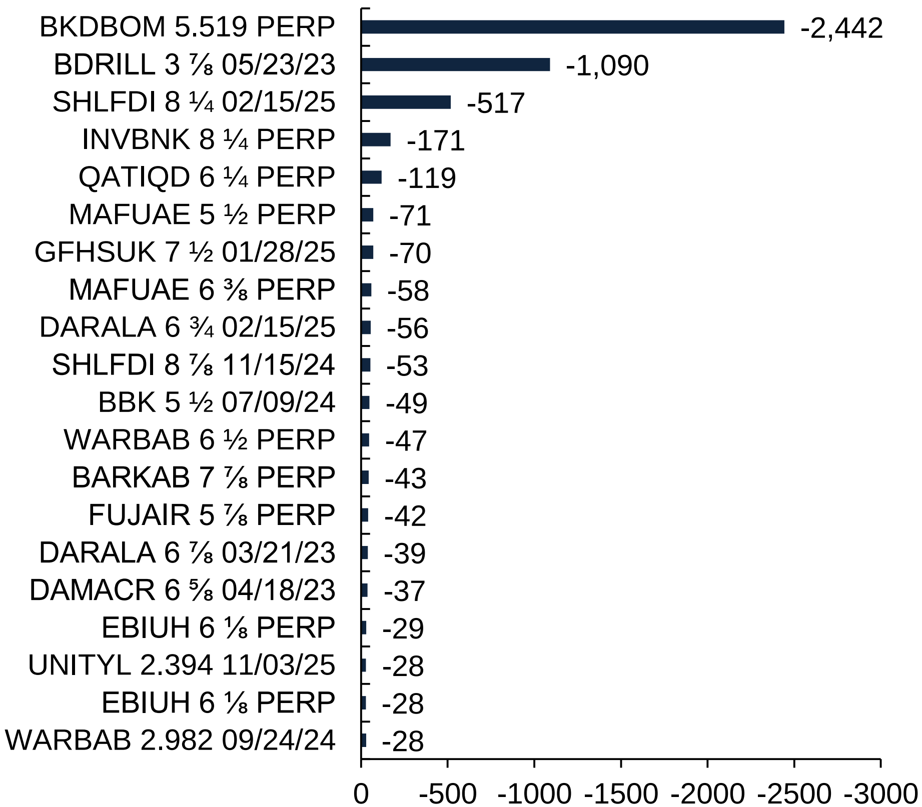
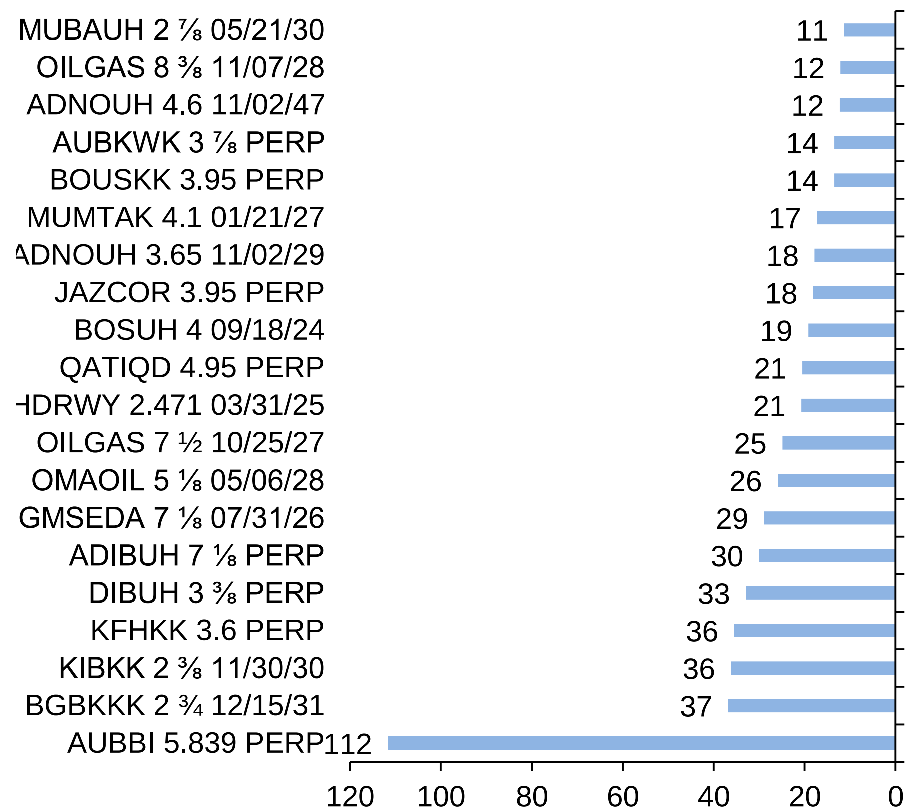
Top 20 performers



Bottom 20 performers



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Source: Bloomberg, ADCB

GCC financials (spread performance in 1H 21)

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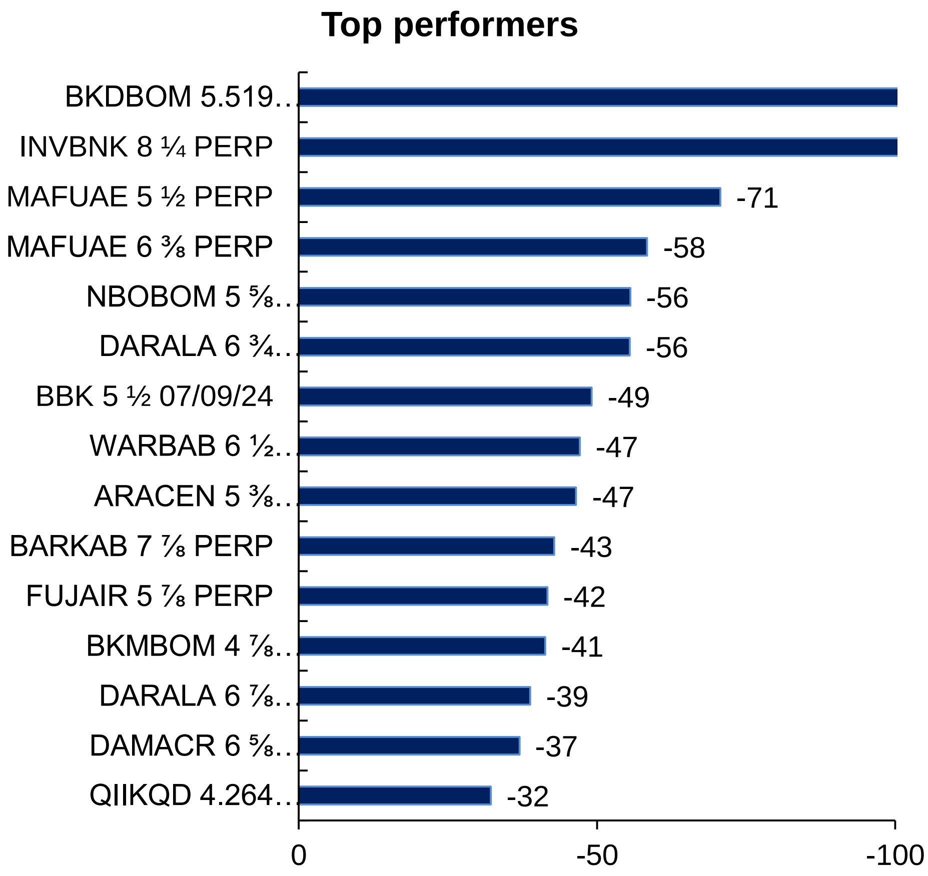

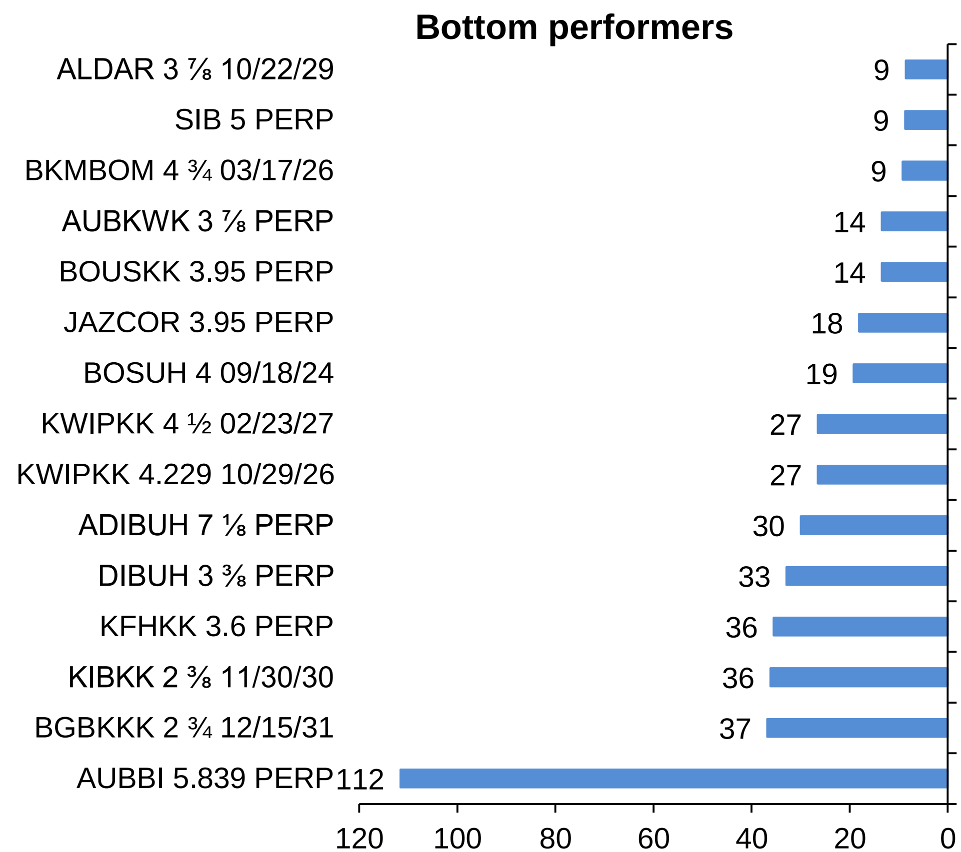

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Source: Bloomberg, ADCB

UAE financials (spread performance in 1H 21)

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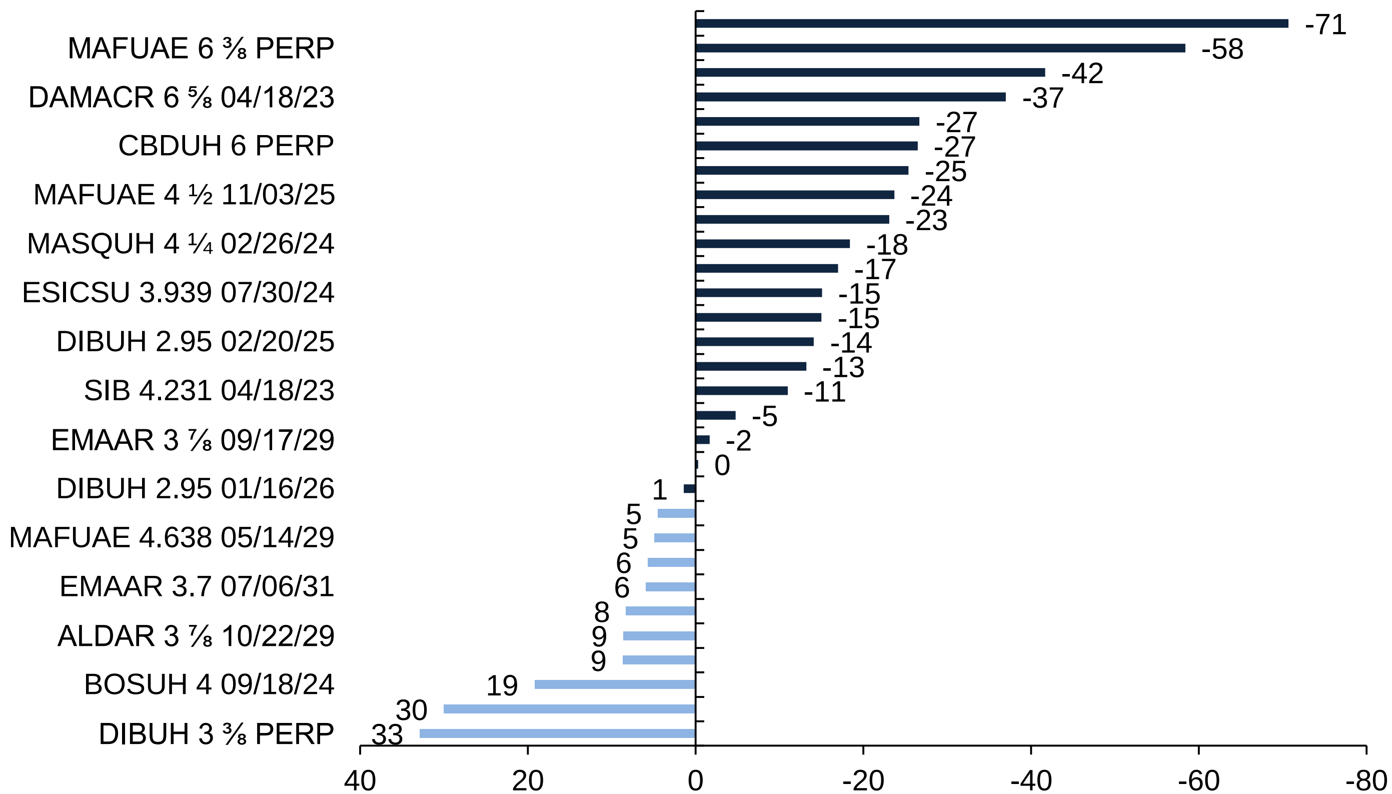

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Source: Bloomberg, ADCB

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