



بنك الإمارات دبي الوطني  
Emirates NBD

## Credit Weekly

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# GCC Credit Weekly

US Treasury curve recorded bear steepening during the week as expectations of higher inflation from continued economic growth and pending tax reforms gained momentum. Yields on 2yr, 5yr, 10yr and 30yr treasuries rose to 1.65% (+3bps), 2.05% (+7bps), 2.40% (+8bps) and 2.88% (+9bps) respectively. Synchronized global growth led to yields across the Atlantic also increase with 10yr Gilts and Bunds closing at 1.34% (+9bps) and 0.41% (+7bps) respectively.

With little catalyst for change in the credit spreads, cash corporate bonds in the developed world moved down in price in sync with the higher benchmark yields. US corporate bonds were down by nearly 1% though YTD return still remains at a healthy 5.01%.

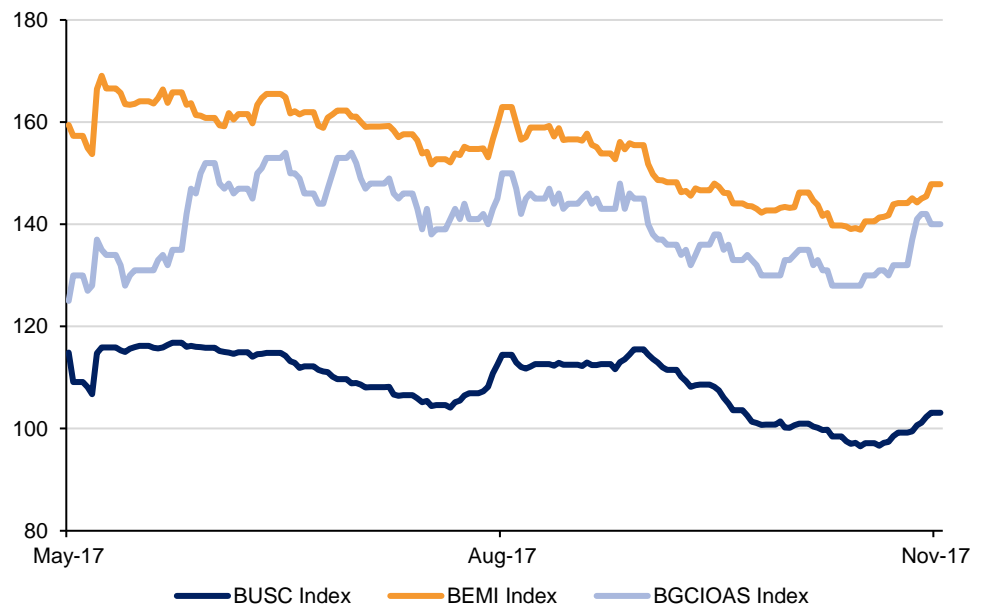
Despite oil prices stabilising at higher levels, GCC bonds suffered from uncertainties surrounding the corruption purge in Saudi Arabia and increasing geopolitical tension in the region. And rising benchmark yields added to the woes. Barclays GCC bonds index closed the week with yield at 3.58% (+11bps) and option adjusted credit spread at 140bps, 3bps higher on the week. Steepening UST curve translated in longer dated bonds underperforming the shorter tenured ones. Also longer dated bonds tend to be held more by the international investors than the local GCC books and as result generally are more volatile than the shorter dated bonds and sukuk.

The news about and around the corruption purge in Saudi Arabia remained at the centre stage. Though it is hard to estimate the economic impact of the ongoing events on the Saudi economy as yet, sentiment on bonds from KSA became slippery. KSA 47s dropped more than four points in price to \$98.67 and YTW to 4.73% (+26bps w/w) compared with ADGB 47s at price of \$97.43 (-\$2.03 w/w) and YTW 4.28% (+12bps). CDS levels on GCC sovereigns increased by an average 3bps to 14bps. 5yr CDS spreads on Abu Dhabi, Kuwait and KSA were at 67bps (+4bps), 71bps (+4bps) and 105bps (+14bps w/w) respectively.

The big news of the week was S&P cutting rating on Oman from BB+ to BB with stable outlook stating that large twin deficits, financed predominantly through external borrowing are eroding Sultanate's net asset position and the country is likely to become net external fiscal debtor by 2020. Also per capita GDP growth is likely to be negative 1.5% during 2017-2020 period. Oman's external revenues have reduced as a result of its voluntary reduction in oil production by about 30k barrels per day. Bonds from Oman sovereign and GREs fell with OMAN 47s falling more than three points to \$99.87 and YTW of 6.51% (+23bps w/w). Mazoon Electricity that recently had a strong debut in the secondary market closed down by a point to \$99.72 and YTW at 5.24% (+9bps w/w).

Quarterly result announcements so far have been better than expected. Abu Dhabi's TAQA reported 3Q loss of 194 million vs loss of 524m in the pcp, largely benefiting from reduced financing costs on the back of lower debt. Emaar malls reported 6% increase in 9m profit to AED 1.5 billion on revenue of AED 2.5 billion ( 5% higher on pcp). Nevertheless reacting to the benchmark yield increases EMAARM 24s closed the week with a 5bps increase in yields to 3.84% even though Z-spread tightened 1bp to 164bps.

### GCC vs EM IG bonds and US IG Bonds – OAS history (bps)



Source: Bloomberg, Emirates NBD Research

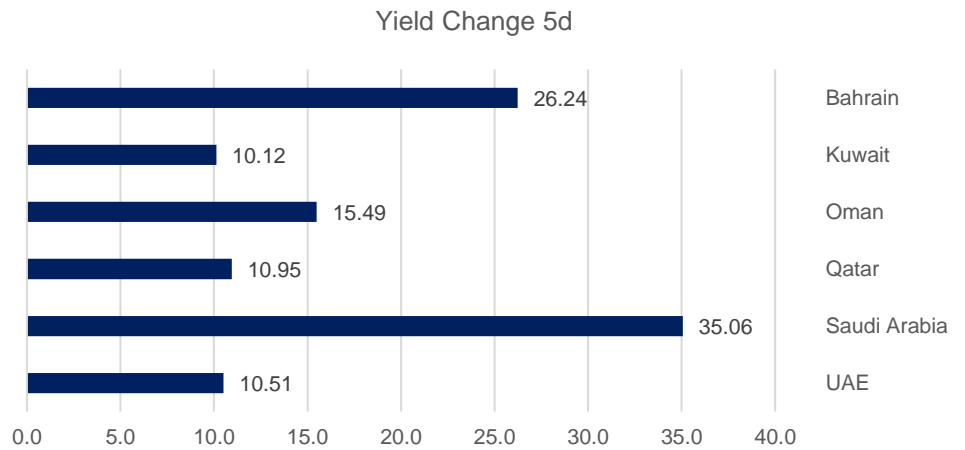
Emirates Group announced 1H result reflecting 77% increase in profit to AED 2.3 billion on a 6% increased revenue to AED 49.4 billion. Higher profit is attributed to capacity optimization and efficiency initiatives, easing of strong U.S. dollar, and steady business growth. However, given the rising oil prices, airline bonds were under scrutiny. Also Emirates has capital expenditure coming up with plans to order about 36 new A380s. EMIRAT 23s, the amortising sukuk, closed with Z-spread rising 6bps to 171bps and YTW at 3.79% (+7bps).

Continuing in the airline space, EA Partners bonds were one of the worst performers in the region, falling another four points or so during the week as resolution to problems at Air Berlin and Alitalia remain unresolved. EAPART 20s closed with YTW at 19.18% (+240bps during the week).

## Primary Market

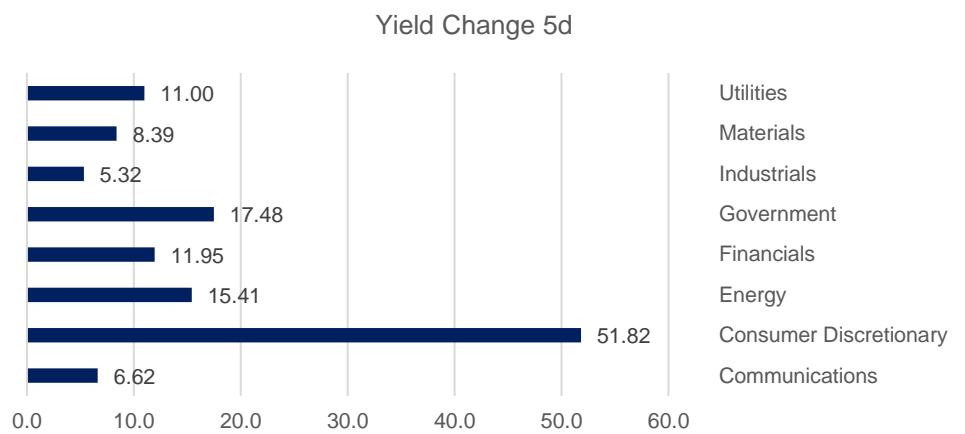
Frequent issuer Emirates NBD tapped the bond market again, raising \$750 million via 5yr bond at MS+125bps, circa 10bps tighter than the initial guidance. Also Emirates Sembcorp Water (rated A2 (p)) by Moody's has mandated banks for a possible \$400 million amortising deal that may surface this week. In the bank loan space, Burgan Bank is in talks to refinance upcoming \$350 million facility for additional 3 years.

## GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

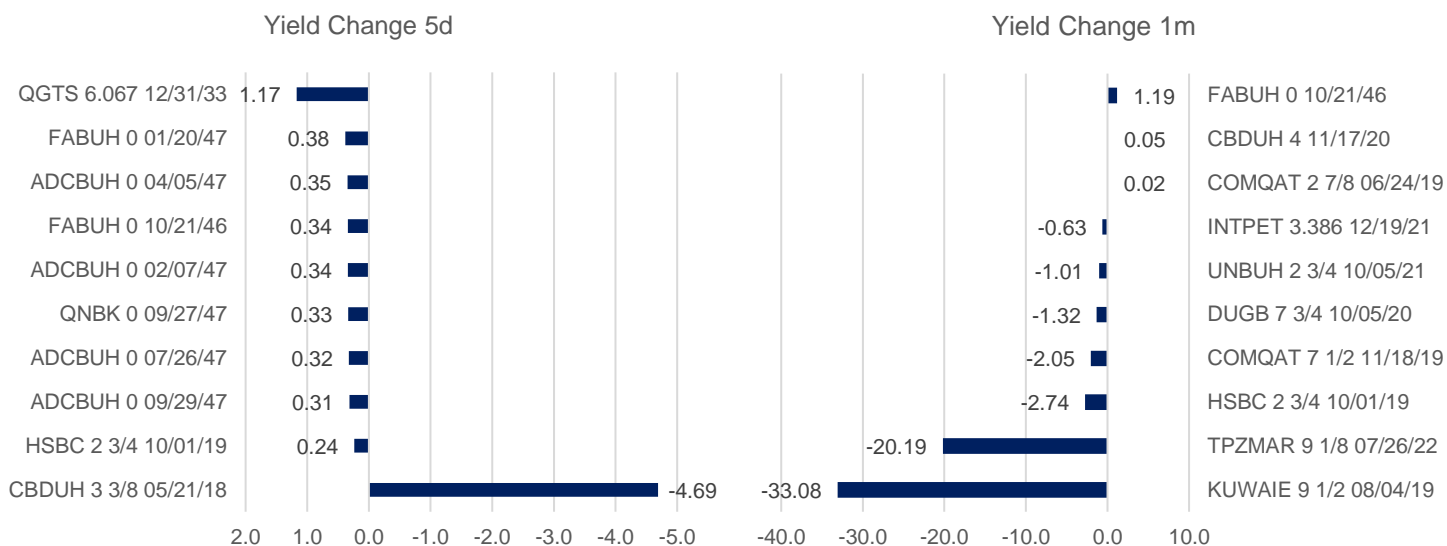
## GCC Bonds – Yield To Workout Change by BICS Sector



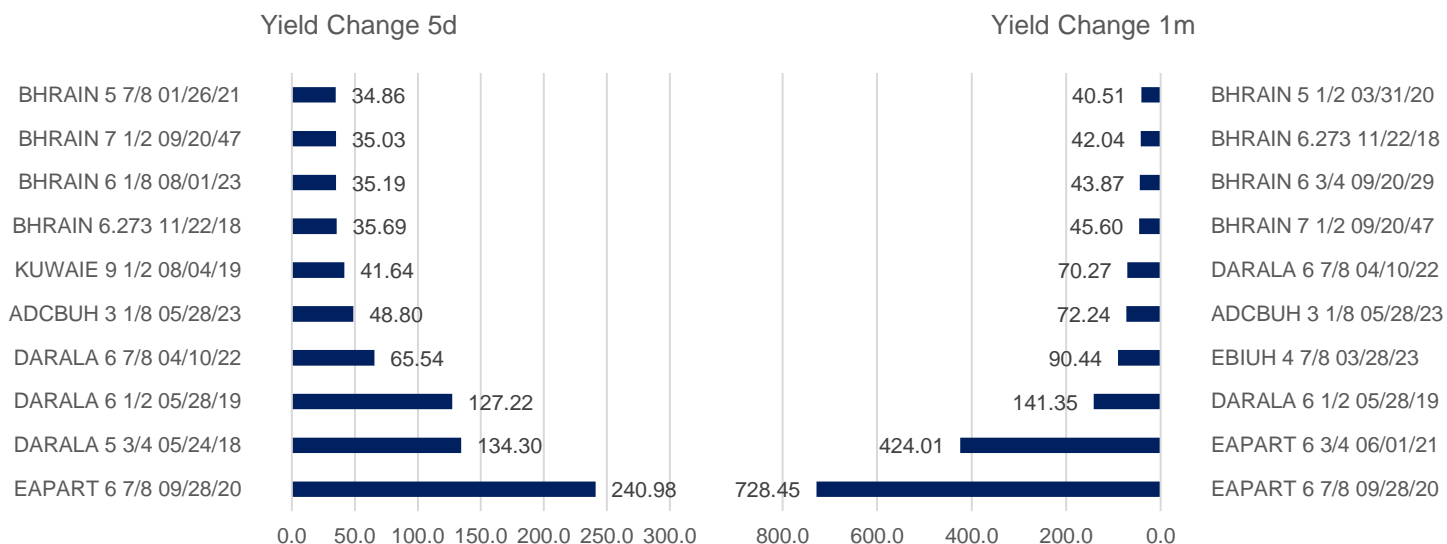
Source: Bloomberg, Emirates NBD Research

## Performance

### GCC Bonds - Top 10 Yield To Workout Changes



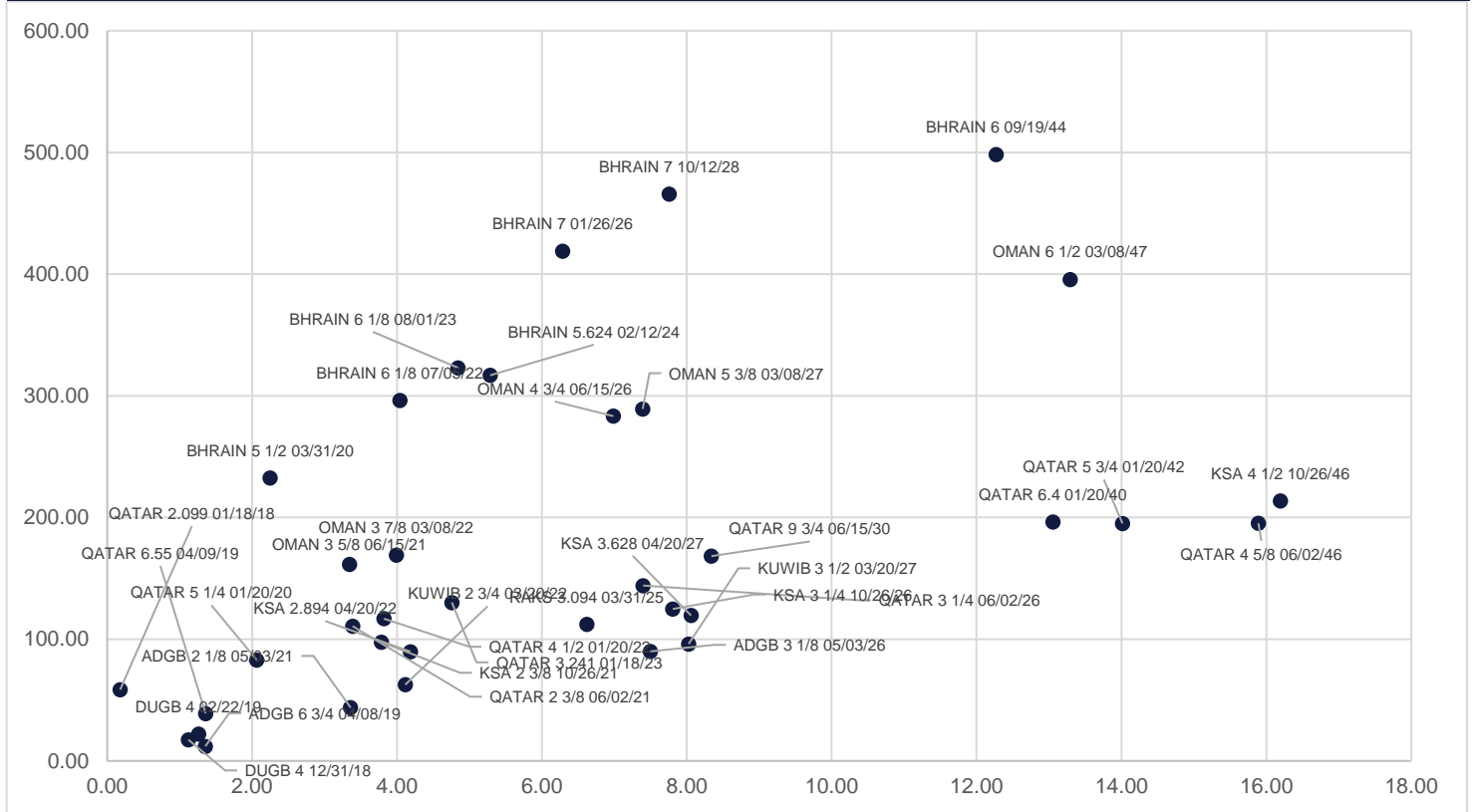
### GCC Bonds - Bottom 10 Yield To Workout Changes



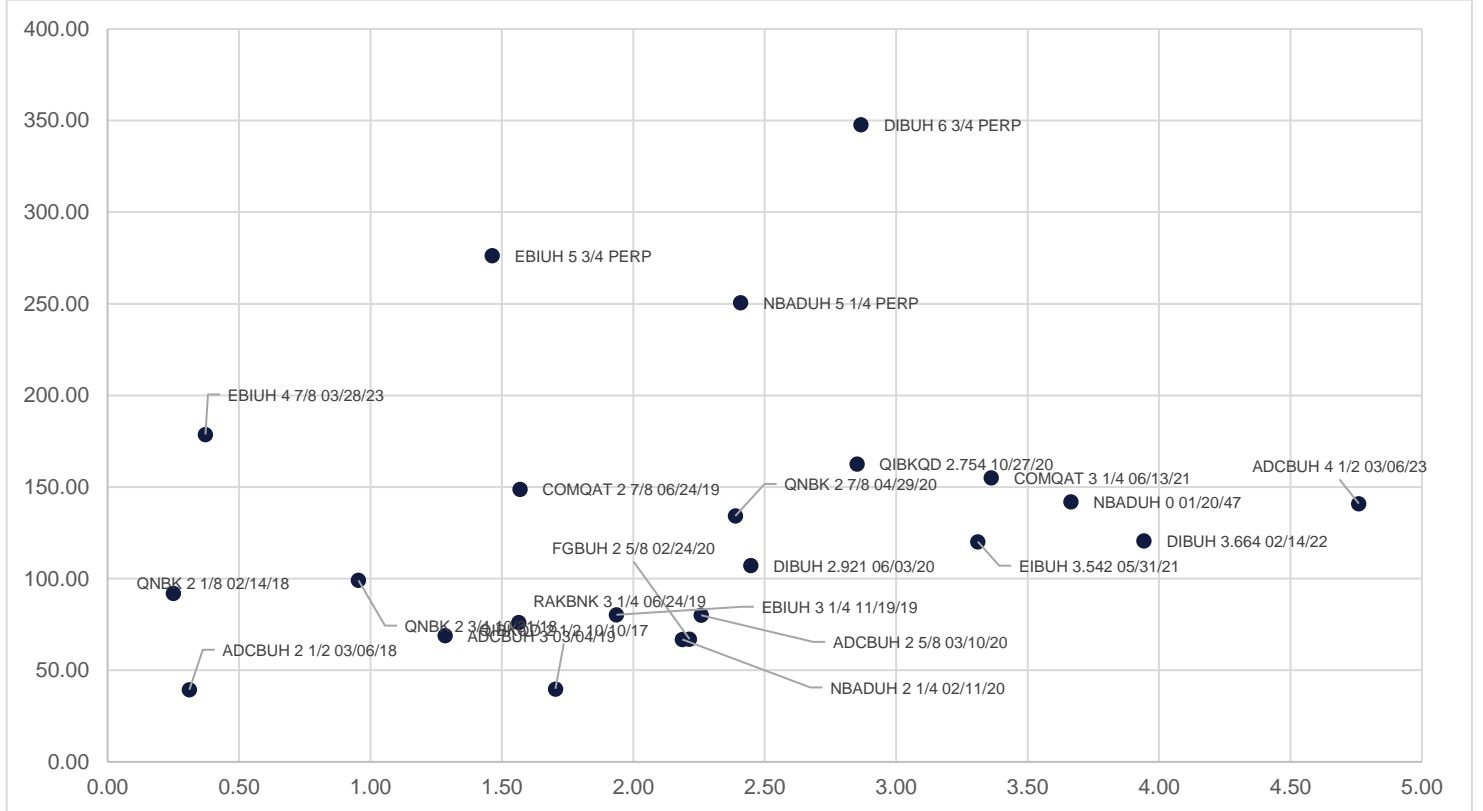
Source: Bloomberg, Emirates NBD Research

# Relative Value

## Sovereigns



## Banks



Source: Bloomberg, Emirates NBD Research

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