



بنك الإمارات دبي الوطني
Emirates NBD

Sukuk Note

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Emirates NBD iBoxx Sukuk Index Update

Last month the US Federal Reserve revised its dot plot to indicate no more interest rate hikes in the US in 2019. In addition, the tone of the Fed talk has decidedly become quite dovish which caused the UST yield curve to shift downwards. Yields on 2yr, 5yr and 10yrs US treasuries closed the month of March at 2.26% (-29bps, m/m), 2.23% (-33bps, m/m) and 2.40% (-35bps, m/m) respectively.

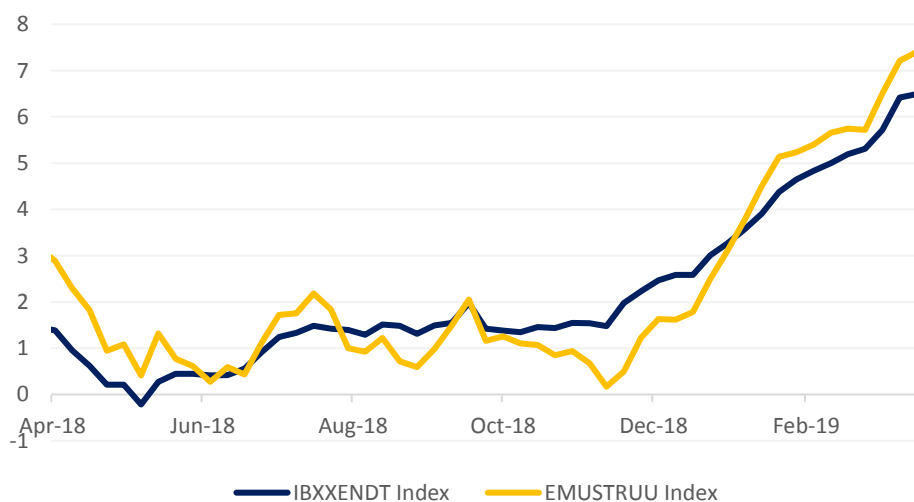
The steep decline in benchmark yields facilitated substantial gains in bonds and sukuk portfolios. The total return on Emirates NBD Markit iBoxx USD Sukuk index in March was a gain of 1.29% of which +0.96% came from capital gains and remainder from coupon collection.

With exclusion of securities of less than one year to maturity and inclusion of several new securities such as the Al Marai sukuk in the recent past, the sukuk index characteristics have changed slightly.

Currently there are 107 issues totalling circa \$100 billion in amount outstanding compared with 100 issues amounting to \$93 billion in March last year. Circa 73% is investment grade with issuance from UAE (24%), Saudi Arabia (18%) and Indonesia (16%) dominating the universe.

Total return on Emirates NBD Markit iBoxx sukuk index was a small gain of +0.26% last year compared with a loss of -2.5% on EM bond index. YTD performance of the sukuk universe still remains above that of conventional bonds which is attributed to higher credit ratings and shorter duration in sukuk portfolio compared with conventional counterparts.

Sukuk generally outperform conventional bonds



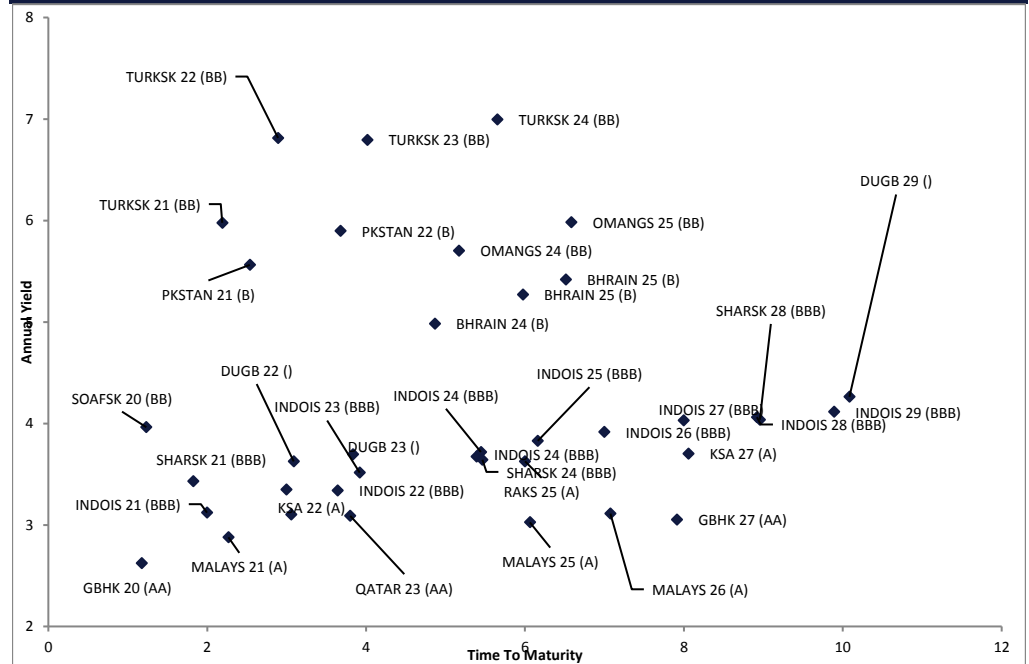
Source: Emirates NBD Research, Markit

Based purely on trading yields on various sukuk as at the end of March, following relative value observations are made:

- 1) In the sovereign sector :
 - a) KSA 22s, rated 'A' trading at yield of 3.10% look cheap compared with MALAYS 21s rated A, trading at yield of 2.88% with less than one year differential in maturity tenure.
 - b) DUGB 22s, unrated but with estimated credit quality in the high BBB rating category, trading at yield of 3.62% appear cheap compared with INDOIS 22s, rated BBB, at yield of 3.34%, particularly as maturity tenure on INDOIS is higher at 3.64 yrs vs 3.09 yrs for DUGB 22s. Similarly DUGB 23s at yield of 3.84% appear cheaper than

- c) OMANGS 24s, rated BB, at yield of 5.70% are trading cheaper than BHRAIN 24s at yield of 4.98%, particularly given three notches credit rating differential between the two. Similarly OMANGS 25s at yield of 5.98% vs yield of 5.42% on BHRAIN 25s look cheap.
- d) RAKS 25s, rated A, at yield of 3.62% look cheaper than similar rated MALAYS 25s trading at yield of 3.02%.

Sovereign Sukuk Universe

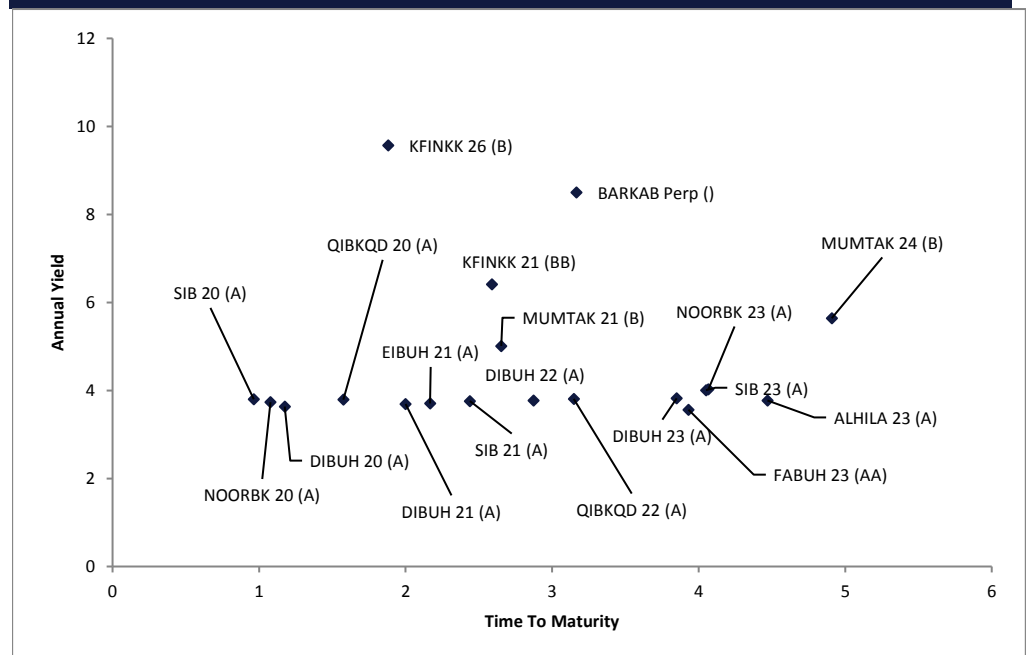


Source: Emirates NBD Research, Markit

2) In the financial space:

- a) AA rated FABUH 23s at yield of 3.56% look cheap compared with DIBUH 23s at 3.82% for three notches differential in credit quality.

Financial sukuk universe

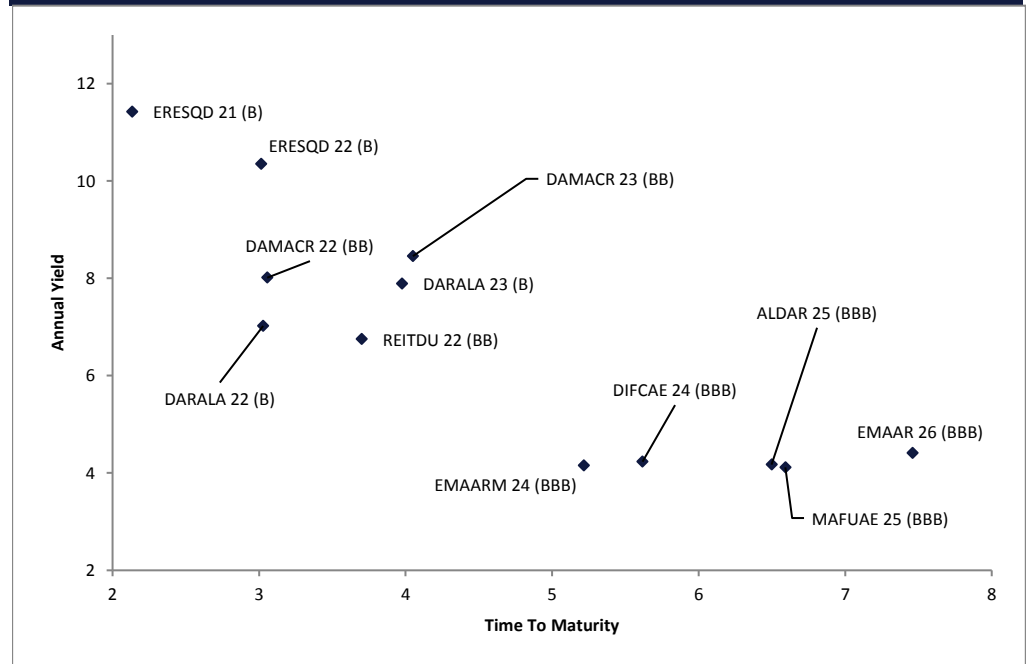


Source: Emirates NBD Research, Markit

3) In the real estate sector:

- DAMAC 23s, rated BB, at yield of 8.45%, appear cheaper than lower rated DARALA 23s at yield of 7.89%.
- ERESQD 22s at yield of 10.35% look cheaper than DARALA 22s at yield of 7.02%, particularly in view of shorter maturity tenure on ERESQDs.

Real Estate sukuk universe

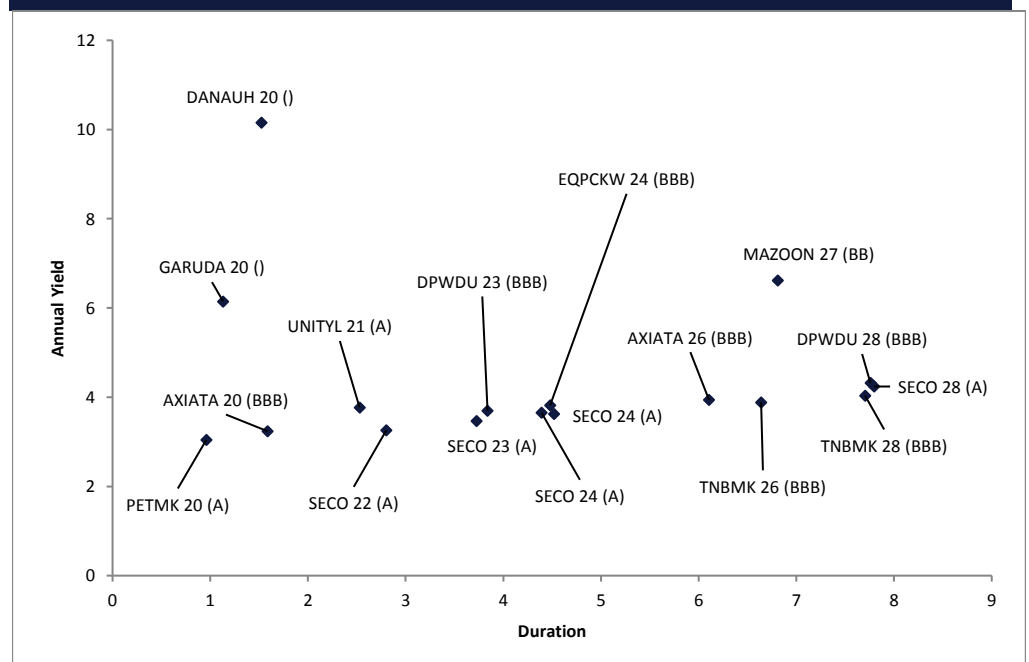


Source: Emirates NBD Research, Markit

4) In the corporate space:

- SECO 28s, rated A, at yield of 4.24% look cheap compared with BBB rated DPWUDU 28s and TNBMK 28s at yields of 4.31% and 4.04% respectively.

Corporate sukuk universe



Source: Emirates NBD Research, Markit

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