



بنك الإمارات دبي الوطني
Emirates NBD

Sukuk Note

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Anita Yadav
Head Fixed Income Research
Tel: +9714 230 7630
anitay@emiratesnbd.com

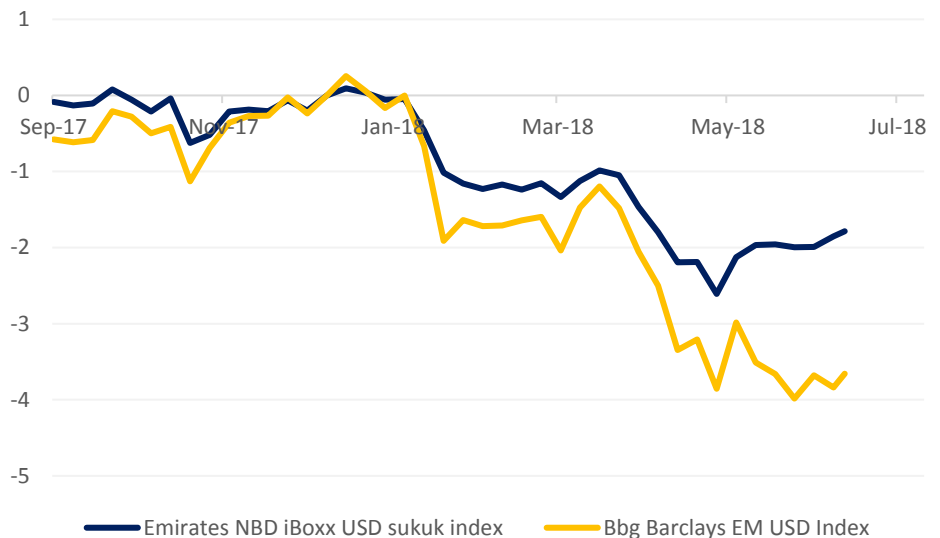
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Global Sukuk Outperforming Conventional Bonds

Continued bid for safe haven assets amid increasing trade tensions fuelled demand for US treasuries, thereby causing yield on longer dated USTs to fall last month while the shorter dated yields increased in response to the Federal Reserve raising its target rate by 25bps to the 1.75% to 2.00% range last month. Yields on 2yr, 5yr, 10yr and 30yr treasuries closed the month of June at 2.53% (+6bps m/m), 2.74% (-1bp m/m), 2.86% (-4bps m/m) and 2.99% (-6bps m/m) respectively. Falling benchmark yields provided a constructive platform for USD denominated bonds and sukuk portfolios, however widening credit spreads were a head wind.

Against this backdrop, year-to-date return on global sukuk portfolio was better than that on conventional bonds while volatility was relatively lower. Even though global sukuk have not remained unscathed amid general sell off in EM securities in the recent weeks, they have noticeably outperformed their conventional bond counterparts. Total return on Emirates NBD Markit iBoxx sukuk index was a small gain of +0.1% last month compared with a loss of -0.34% on EM bond index.

Total return on EM bonds vs sukuk



Source: Emirates NBD Research, Bloomberg

Sukuk Universe continues to grow on all fronts

International sukuk market not only continues to grow in size but has also made considerable progress on all fronts in recent years.

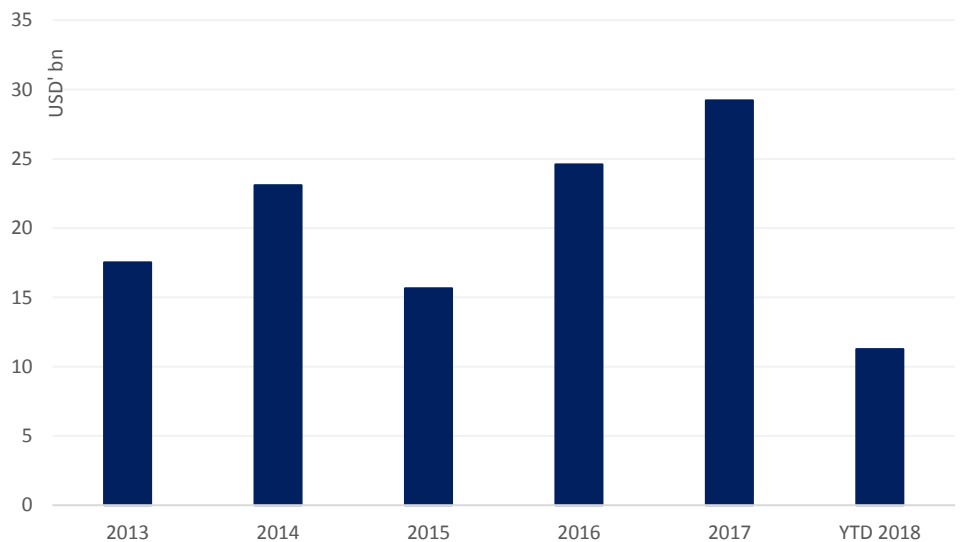
- Sukuk structures have evolved to allow issuance of securities on the back of intangible assets such as customer airtime usage or travel miles instead of just physical building and equipment assets.
- Sector diversification has increased to include utilities, airlines, telecom, sovereigns, banks etc.
- Currency diversification has increased to include SAR, KWD, BHD, RMB, PKR etc.
- Liquidity in the secondary market has increased as deal sizes have become bigger and major indices providers have begun to include sukuk in their debt indices.

- Sukuk are increasingly being appreciated by the international development institutions such as IMF as they are seen to be promoting risk sharing and promoting socially responsible way of investing.
- While lack of standardisation remains an issue, international organisations such as AAOIF’s efforts are being recognised and central banks are increasingly working towards more synchronised way of regulating Islamic products.

Primary Market in Sukuk Remains Healthy

Rising oil prices have reduced the need for sovereigns in oil exporting countries (which traditionally have been the biggest issuers of sukuk) to raise debt via sukuk, which in turn has slowed the pace of new issuance in the sukuk universe. However, some of this impact is being cushioned by new issuers from likes of Pakistan and some issuers out of Africa entering this space.

International sukuk – new issues



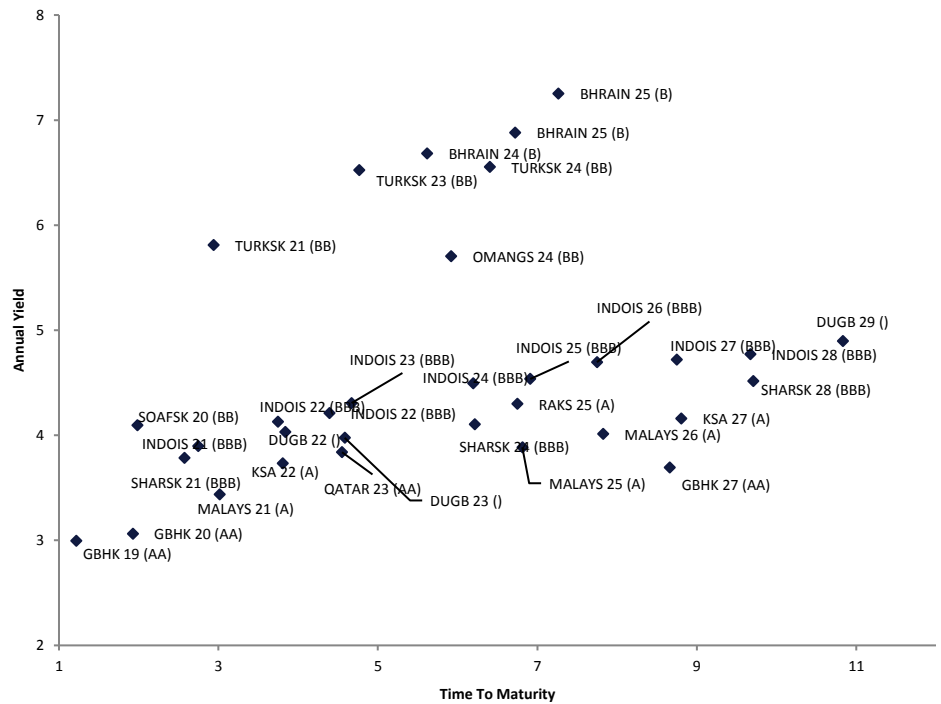
Source: Emirates NBD Research, Markit

Relative Value

Looking at the current trading yield on various sukuk in the Emirates NBD Markit iBoxx USD Sukuk Index that captures international sukuk greater than \$250 million in size and more than one year to maturity, we make following relative value observations:

- 2) In the sovereign space:
 - a) Considering stable outlook on its BB-/B+ rating from Fitch and S&P, Bahrain yield curve looks attractive with yield on Bahrain 25 sukuk exceeding 7.25%.
 - b) With more than two years longer maturity, INDOIS 28s at yield of 4.77% appear expensive compared with INDOIS 26s trading at yield of 4.69%.

Sovereign sukuk universe

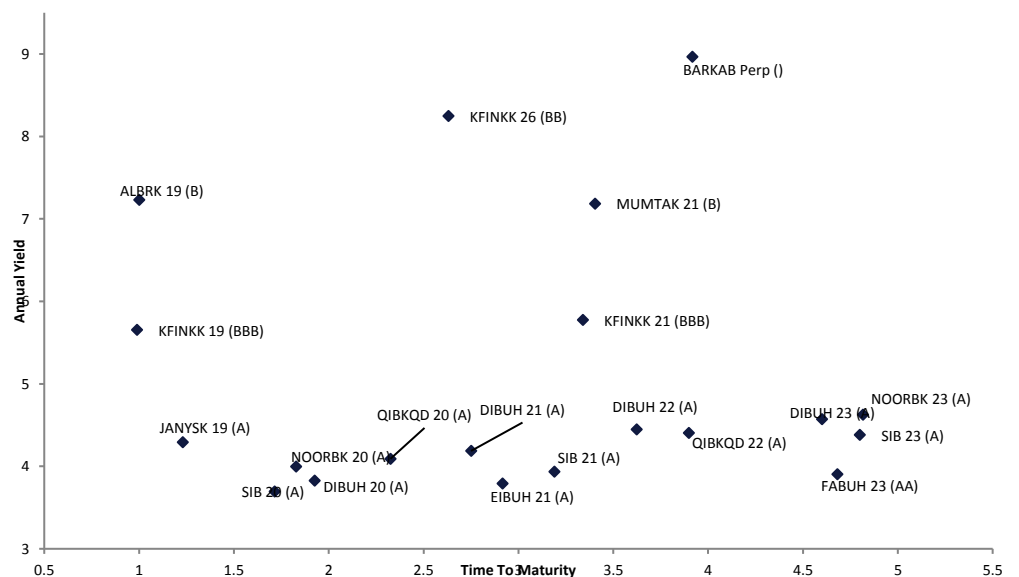


Source: Emirates NBD Research, Markit

2) In the financial space

- a) NOORBK 20s, rated 'A', at yield of 3.99% appear cheaper than similar rated DIB 20s at yield of 3.82%, particularly since tenure on NOORBK is shorter than that on DIB.
- b) DIBUH 21s rated 'A', at yield of 4.19% appear cheaper than similar rated SIB 21s at 3.93%, particularly since maturity on DIB is shorter at 2.7 years vs 3.19yrs on SIBUH.

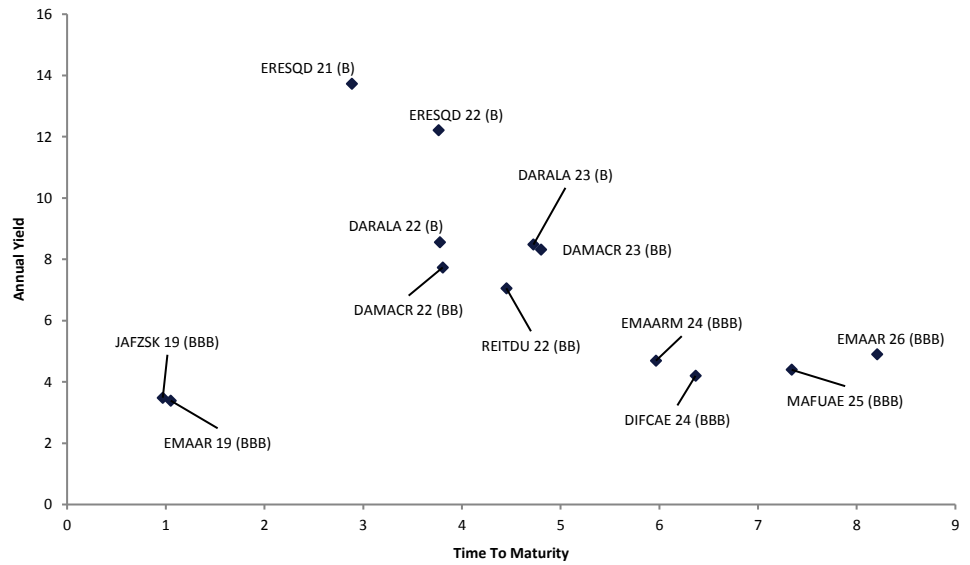
Financial sukuk universe



Source: Emirates NBD Research, Markit

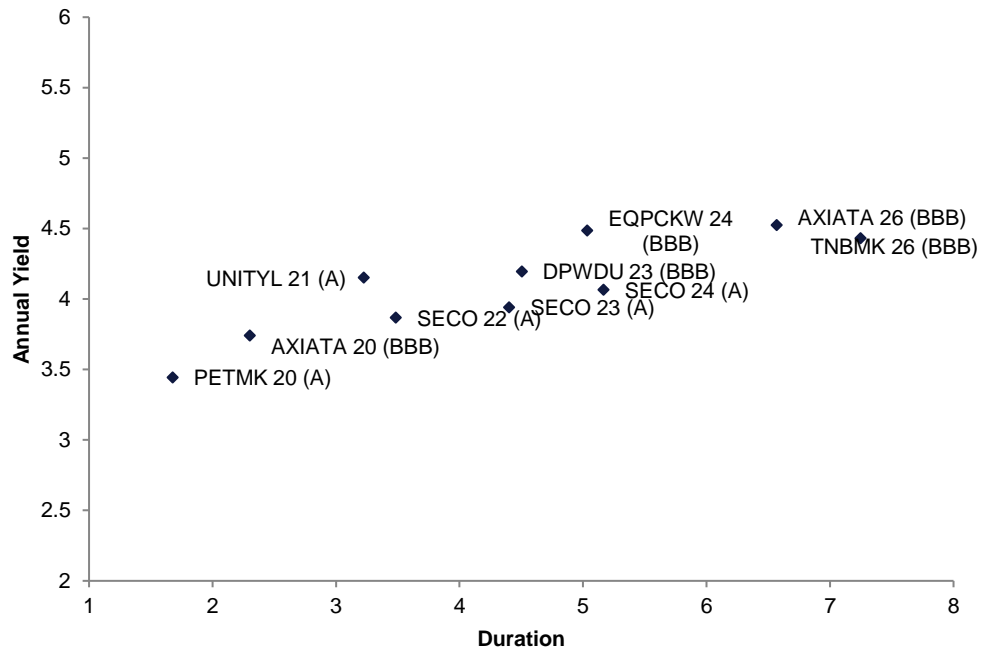
3) In the real estate and corporate sectors, there has been no material change in the relative trading levels of various sukuk.

Real Estate sukuk universe



Source: Emirates NBD Research, Markit

Corporate sukuk universe



Source: Emirates NBD Research, Markit

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Director - Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
Hessaalkh@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com