



بنك الإمارات دبي الوطني  
Emirates NBD

## Sukuk Note

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# Relative Value in Sukuk

The US Federal Reserves raised benchmark interest rates by 25bps last month to 1.50% - 1.75% range and retained its projection of only two more rate hikes this year even though GDP growth and inflation expectations were revised slightly upwards. Overall messaging from the Fed was not as hawkish as expected and although sentiment remains fickle, it provided some short-term support to bond and sukuk markets via lowering of the benchmark UST yield curve. Yields on 2yr, 5yr, 10yr and 30yr treasuries closed the month at 2.27% (+2bps m/m), 2.56% (-8bps m/m), 2.74% (-12ps m/m) and 2.97% (-15bps m/m) respectively.

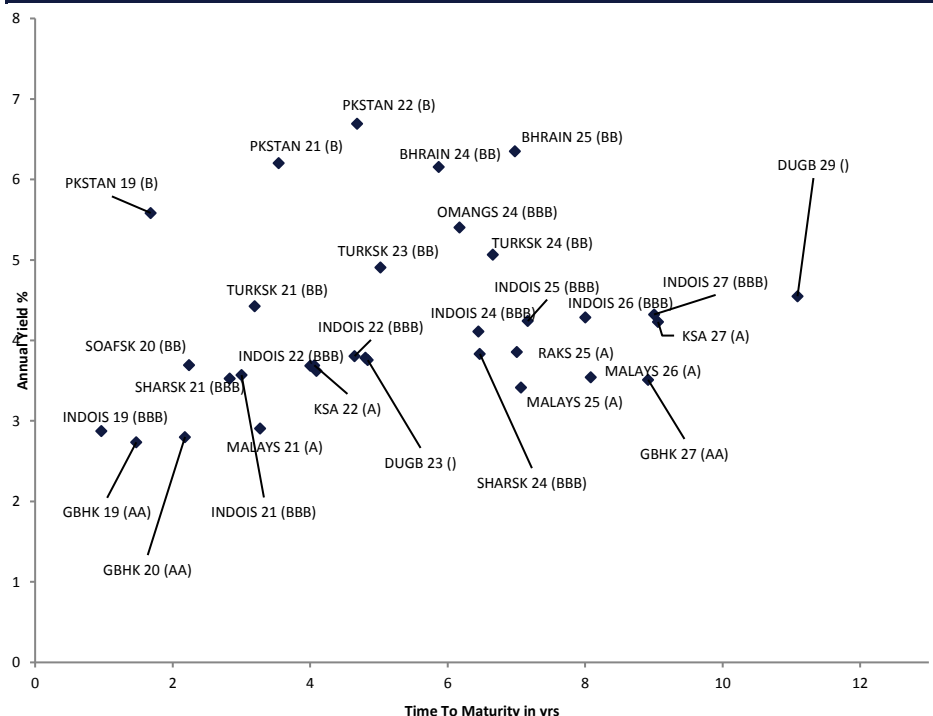
Consequently, sukuk portfolios did well. Total return on Markit iBoxx Emirates NBD USD Sukuk index for the month was a gain of 0.08%. Excluding the benefit of coupon collection, the return on index would have been a loss of -0.25% as a result of the interest rate hike during the month.

Despite solid economic growth and 10% increase in oil prices during the month, sukuk market generally suffered from pressures exerted by a) large new supply; b) fears of trade wars being more negative for EM markets than the DM markets, c) fears of capital outflow from EM bonds as yields rise in the DM world; and d) negative rating trend. During the month, yield on average GCC sukuk universe increased by 9bps to 4.47%.

Looking at current yields, we make following relative value observations:

- 1) In the sovereign sector :
  - a) OMANGS 24s, rated BBB, at yield of 5.40% appear cheaper than lower rated TURKSK 24s at yield of 5.06%, particularly given TURKSK's longer duration and recent one notch rating downgrade from Baa2 to Baa3 by Moody's.
  - b) AA rated, GBHK 19s at yield of 2.73% appear cheap compared with INDOIS 19s that are rated nearly six notches lower at BBB with yield of 2.87%.
  - c) KSA 22s, rated A, appear cheap at yield of 3.69% compared with INDOIS 22s at yield of 3.69%.
  - d) RAKS 25s, rated A, issued by the Emirate of Ras-Ai-Khaima, trading at yield of 3.86% appear cheaper than similar rated MALAYS 25s at yield of 3.41% despite slightly higher term to maturity of MALAYS.

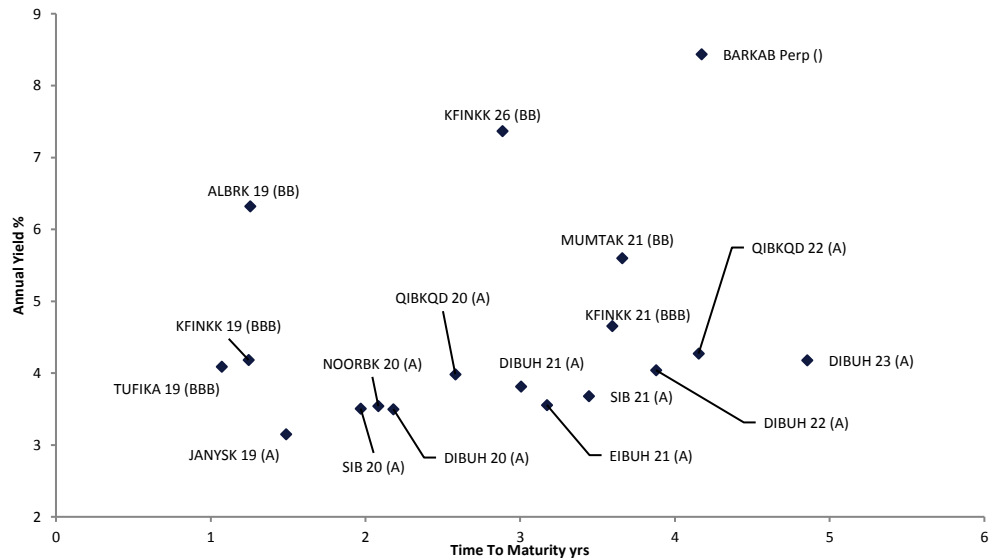
### Sovereign Sukuk Universe



2) In the Financial space:

- a) QIBKQD 20s with composite rating of around 'A' at yield of 3.98% are trading cheaper than similar rated DIBUH 20s at yield of 3.50% and NOORBK 20s at yield of 3.54%, reflecting the pressure on Qatar based issuers from the continued diplomatic rift between the GCC members.
- b) KFINKK 19s, rated BBB, trading at yield of 4.18% look cheaper than similar rated TUFIKA 19s at yield of 4.09%.

### Financial sukuk universe

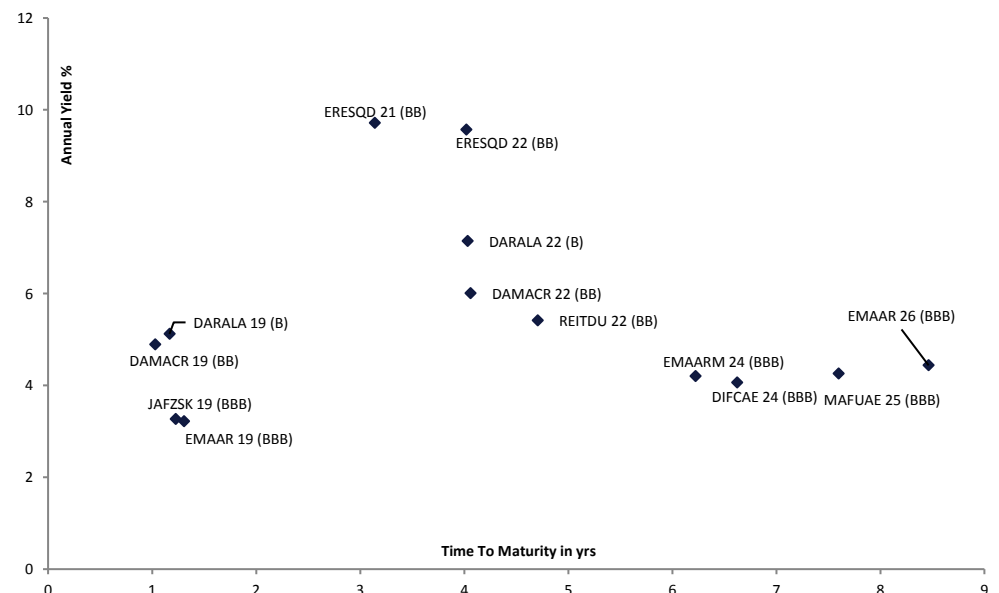


Source: Emirates NBD Research, Markit

3) In the real estate sector, there has been no material change in comparative trading levels of sukuk issuers. The below relative value positions remain largely unchanged:

- a) DAMAC 22s, rated BB, at yield of 6.00%, appear cheaper than similar rated REITDU 22s at yield of 5.42% given that both are exposed to Dubai real estate sector and duration on REITDU is higher than that on DAMAC 22s.
- b) ERESQD 21s at yield of 9.27% are trading cheaper than ERESQD 22s at yield of 9.10% despite the longer duration of the later.

### Real Estate sukuk universe



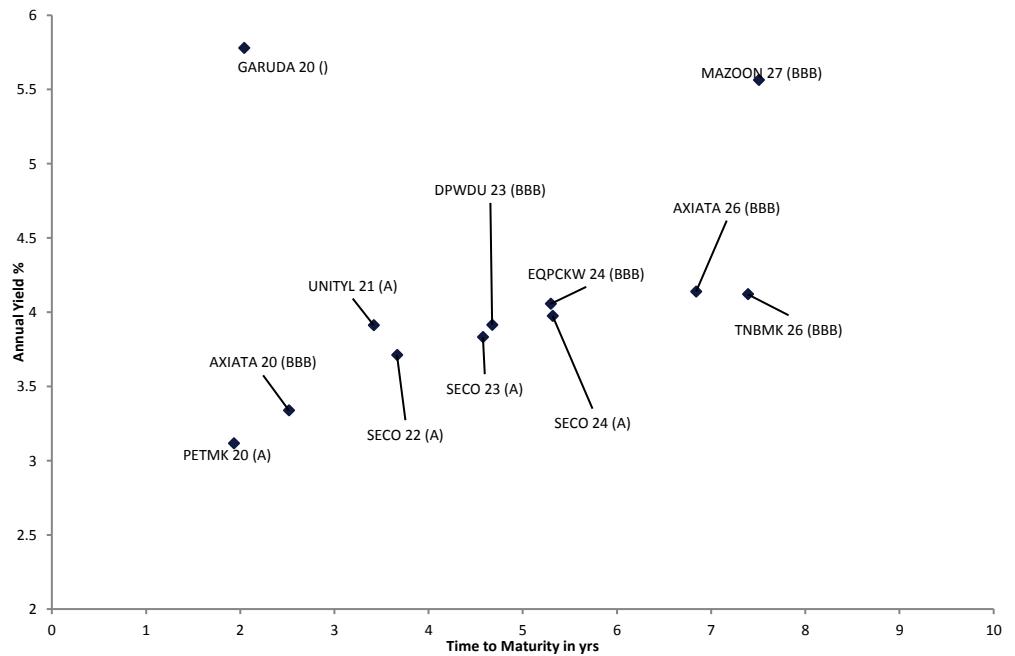
Source: Emirates NBD Research, Markit

c) For similar credit rating of BBB, EMAARM 24s at yield of 4.20% look cheaper than DIFCAE 24s at yield of 4.06% and the spread differential has continued to widen from 10bps last month to 14bps now.

4) In the corporate space:

- a) Garuda 20s, the sukuk issued by the unrated airline owned by the Indonesian government, appear cheap at yield of 5.78% in view of INDOIS 21s trading at yield of 3.57%. Even though there is no government guarantee in place, there is a change of control put in the sukuk documentation if the Government of Indonesia ownership in Garuda falls below 51%.
- b) MAZOOON 27s at yield of 5.56%, a BBB rated utility, appear cheap compared with similar rated utility issuer, TNBMK 26s at yield of only 4.12%.

### Corporate sukuk universe



Source: Emirates NBD Research, Markit

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