



بنك الإمارات دبي الوطني
Emirates NBD

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Emirates NBD iBoxx Markit USD Sukuk Index: Relative Value

Last month, the UST yield curve shifted upwards as economic data remained strong and the US Federal Reserve appeared committed to follow through on its projection of three rate hikes this year. Yields on 2yr, 5yr and 10yr US treasuries closed the month at 2.16% (+27bps), 2.54% (+32bps) and 2.72% (+32bps). With such material movements in the benchmark yield curve, it is no surprise that bond portfolios generally had a month of negative returns.

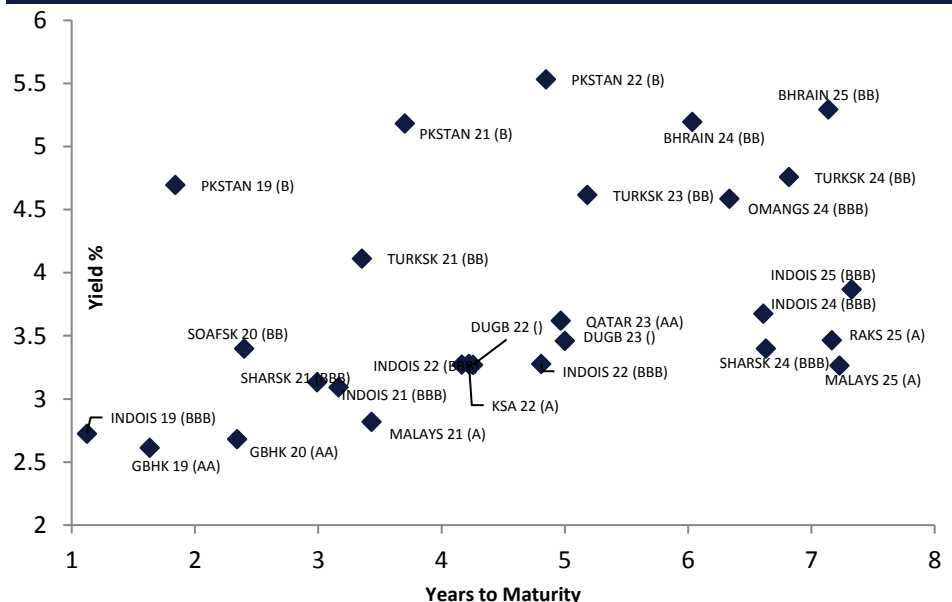
Total return on Emirates NBD iBoxx Markit USD Sukuk index for the month was a loss of 0.27%. Excluding the benefit of coupon collection, the capital loss on the index would have been 0.60%.

Looking ahead, we expect return on sukuk investments this year to be constrained by the continuing increase in US rates, although some respite may come from tightening of credit spreads. Oil has now spent more than a quarter at the above \$60/b mark and likely to hold ground during the year. There are little doubts about global growth being synchronised across the developed and emerging markets. Also rating agencies are reporting more positive outlook changes than negatives ones and expect default rates to remain low. In this environment, appetite for credit risk remains well anchored and may support some tightening of credit spreads.

Looking at current yields we make following relative value observations:

- 1) In the sovereign sector :
 - a) With Bloomberg composite rating of 'BB', TURKSK 21s at yield of 4.11% appear cheap compared with similar rated South Africa's SOAFSK 20s at 3.40% even though maturity of TURKSK is longer by a year.
 - b) KSA 22s, rated A, at yield of 3.28% appear cheaper than INDOIS 22 at yield of 3.27% given several notches lower rating of INDOIS at BBB.
 - c) QATAR 23s, rated AA, at yield of 3.62% are trading cheaper than DUGB 23s (unrated) at yield of 3.46% and also INDOIS 22s at yield of 3.27%.

Sovereign Sukuk universe

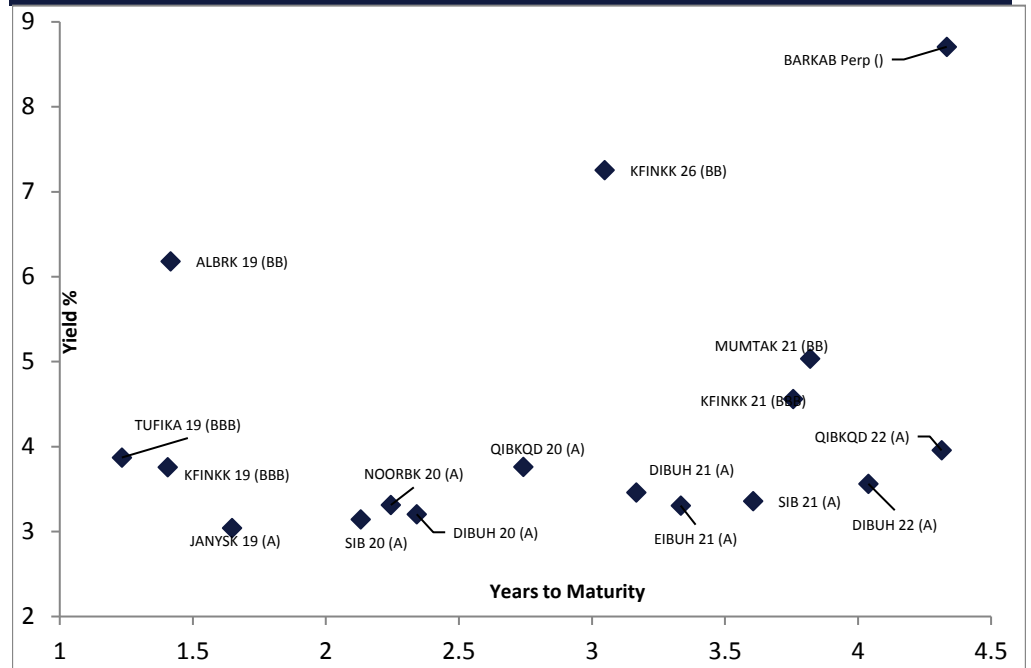


Source: Emirates NBD Research, Markit

2) In the Financial space:

- a) SIB 20s with composite rating of 'A' at yield of 3.14% appear more expensive than similar rated NOORBK 20s at yield of 3.31% even though Noor Bank has one month longer tenure.
- b) KFINKK 26s, rated BB, with a call date in February 2021, trading at yield of 7.25% are trading cheaper than similar rated MUMTAK 21s at yield of 5.03%.

Financial sukuk universe

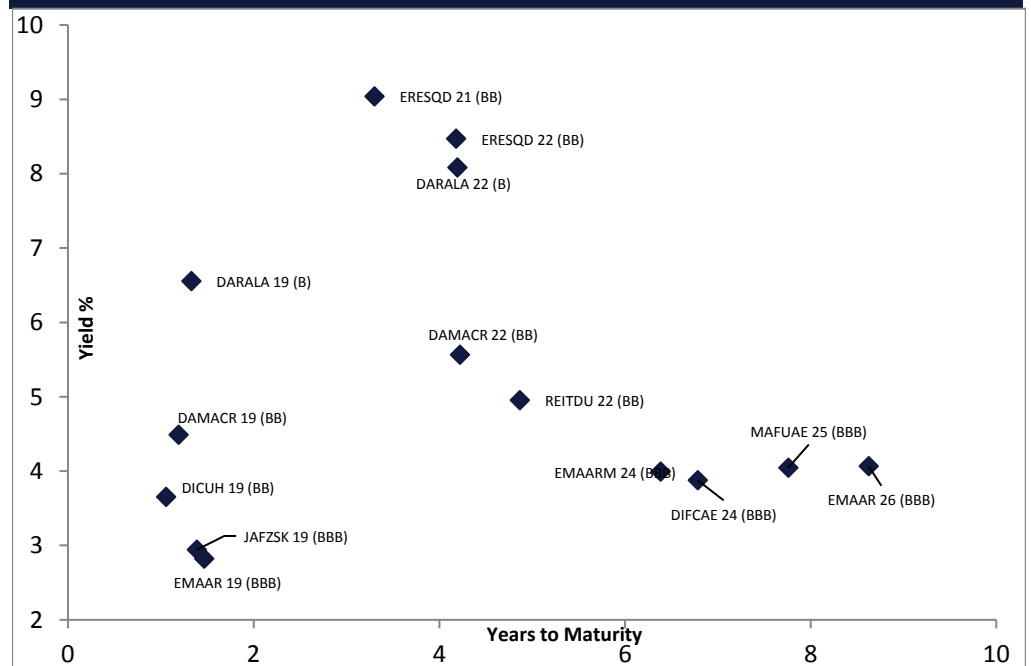


Source: Emirates NBD Research, Markit

3) In the real estate sector:

- a) DARALA 22s, with an estimated composite credit rating of 'B' at yield of 8.08% appear more expensive than higher rated Ezdan Holdings' ERESQD 22s at yield of 8.47%.

Real Estate sukuk universe

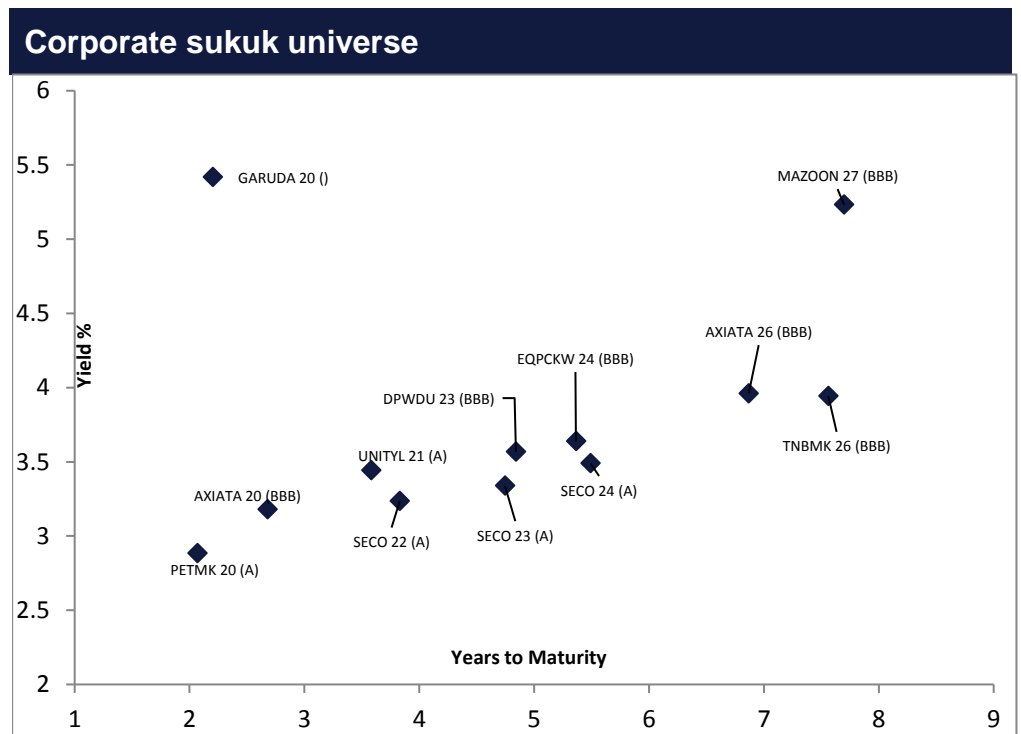


Source: Emirates NBD Research, Markit

b) For similar credit rating of BBB, EMAARM 24s at yield of 3.99% are cheaper than DIFCAE 24s at yield of 3.87%, particular given the recent revision of outlook on DIFCAE's rating to negative by S&P. That said, we note that DIFCAE is indirectly owned by the Dubai Govt.

4) In the corporate space:

- a) Garuda 20s, the unrated airline owned by the Indonesian government, appear cheap at yield of 5.42% in view of INDOIS 21s trading at yield of 3.09%. 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 falls below 51%.
- b) MAZOOK 27 at yield of 5.23%, a BBB rated utility, appears cheap compared with similar rated utility issuer, TNBMK 26s at yield of only 3.94%



Source: Emirates NBD Research, Markit

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