



بنك الإمارات دبي الوطني
Emirates NBD

Sukuk Note

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Relative Value in Sukuk

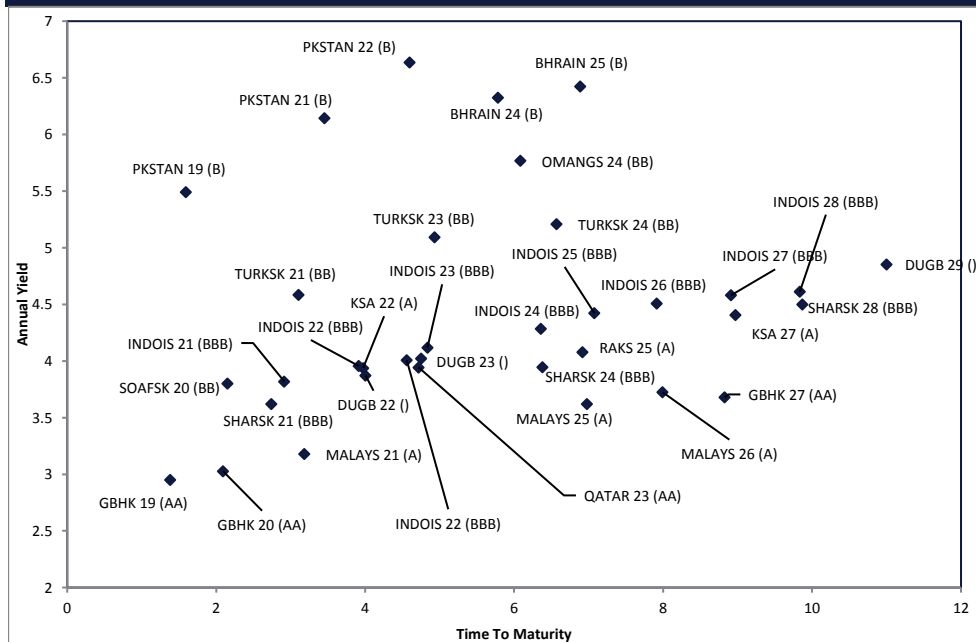
The US Federal Reserve left benchmark interest rates unchanged last month, though futures implied probability of a rate hike in June is almost 100%. Boosted by solid economic data releases, UST yield curve shifted upwards last month with some steepening in the shorter end of the curve. Yields on 2yr, 5yr, 10yr and 30yr treasuries closed the month of April at 2.49% (+22bps m/m), 2.80% (+24bps m/m), 2.95% (+21bps m/m) and 3.12% (+15bps m/m) respectively.

Rising benchmark yields caused substantial losses for sukuk portfolios globally. Total return on Markit iBoxx Emirates NBD USD Sukuk index for the month of April was a loss of -0.64%. Excluding the benefit of coupon collection, the return on index would have been a loss of -0.99%. That said, this compares favourably with total loss of -1.02% on emerging market USD denominated bonds index during the same period.

Looking at current yields, following relative value observations are made:

- 1) In the sovereign sector :
 - a) B rated PKSTAN 22s at yield of 6.64% appear cheap compared with PKSTAN 21s at yield of 6.14% for same risk albeit with one year longer tenure.
 - b) KSA 22s, rated A, appear cheap at yield of 3.94% compared with INDOIS 22s, rated BBB, at yield of 4.0%.

Sovereign Sukuk Universe



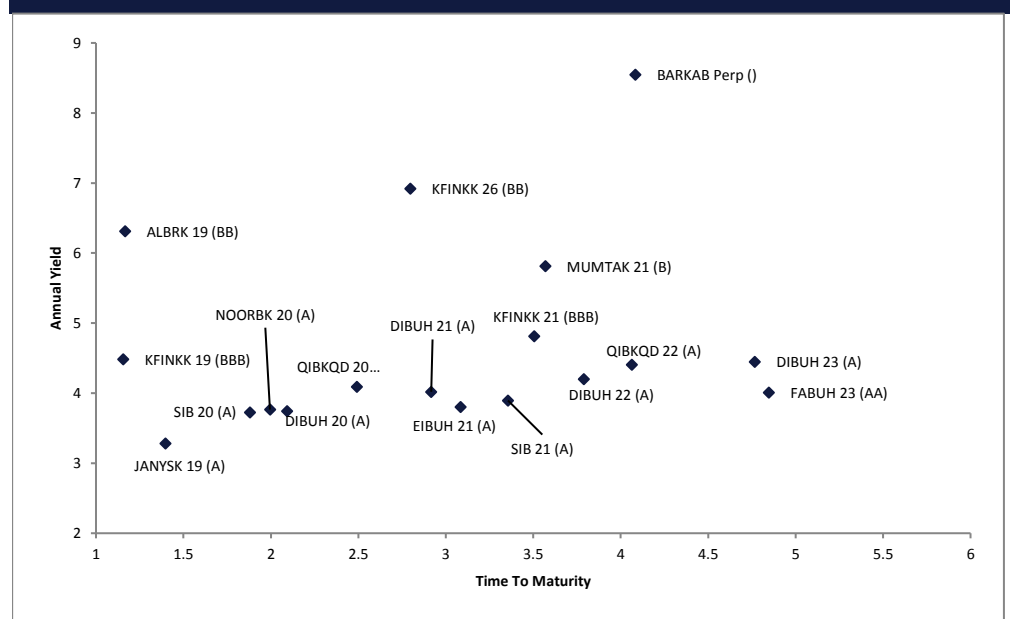
Source: Emirates NBD Research, Markit

- 2) In the Financial space:

- a) DIBUH 21s rated 'A' at yield of 4.02% appear cheaper than similar rated SIB 21s at 3.89%, particularly since maturity on DIB is shorter at 2.9 years vs 3.4yrs on SIBUH.
- b) JANYSK 19s rated 'A' at yield of 3.2% appears rich compared with similar rated SIB 20s and DIBUH 20s at yield of 3.73% and 3.75% even though tenure on the later ones is longer by about six to eight months.

- c) Qatari bonds such as QIBKQD 20s and 22s, continue to trade at a discount to similar rated peers in view of the continuing diplomatic rift with its neighbours.

Financial sukuk universe

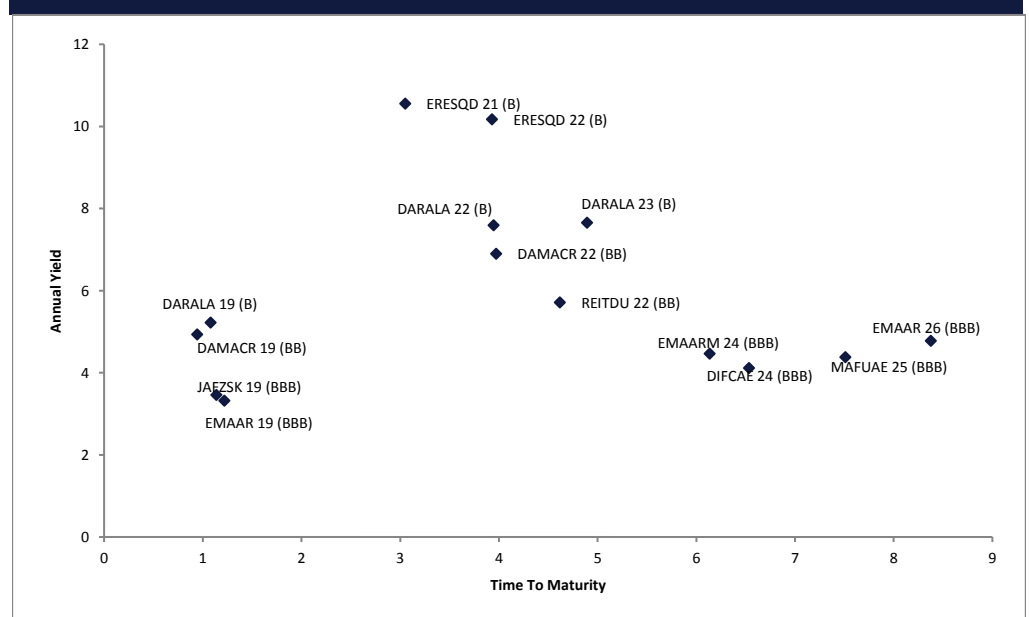


Source: Emirates NBD Research, Markit

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:

- For less than one year extension in maturity, DARALA 23s at yield of 7.66% appear expensive than DARALA 22s at yield of 7.60%.
- DAMAC 22s, rated BB, at yield of 6.90%, appear cheaper than similar rated REITDU 22s at yield of 5.71% given that both are exposed to Dubai real estate sector and duration on REITDU is higher than that on DAMAC 22s.

Real Estate sukuk universe



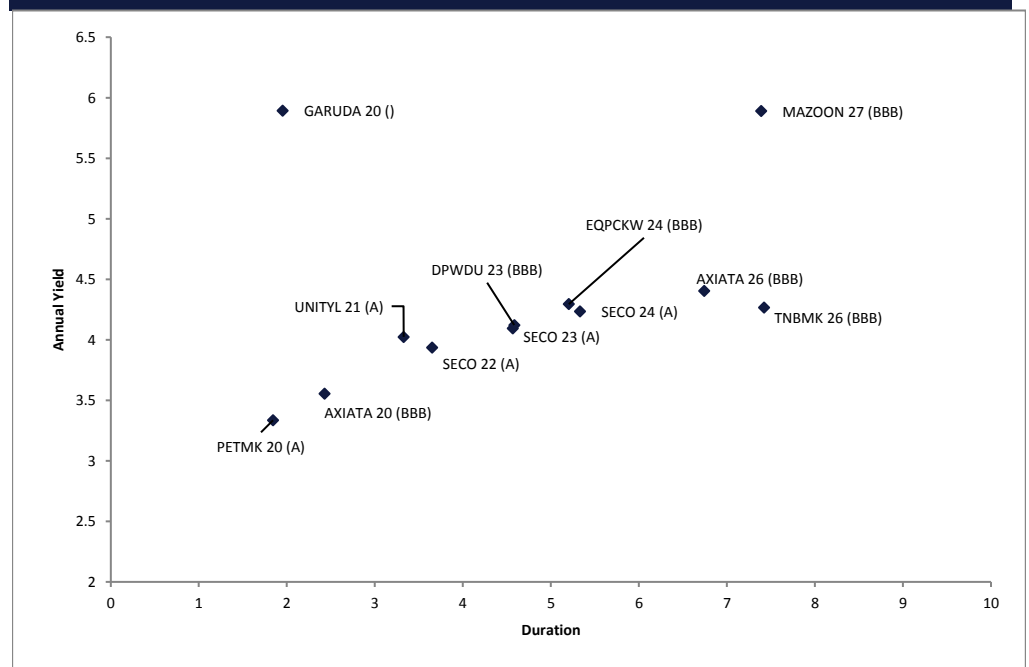
Source: Emirates NBD Research, Markit

- c) ERESQD 21s at yield of 10.56% are trading cheaper than ERESQD 22s at yield of 10.17% despite the longer duration of the later.
- d) For similar credit rating of BBB, EMAARM 24s at yield of 4.47% look cheaper than DIFCAE 24s at yield of 4.16%. However, we note that the spread differential between the two has continued to increase from 10bps in March to 31bps 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 5.89% in view of INDOIS 21s trading at yield of 3.81%. 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 5.89%, a BBB rated utility, appear cheap compared with similar rated utility issuer, TNBMK 26s at yield of only 4.27%.

Corporate sukuk universe



Source: Emirates NBD Research, Markit

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