



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Weekly

Stronger than expected employment data out of the US boosted risk appetite last week, thereby causing the UST yield curve to shift upwards. Yield on 2yr, 5yr, 10yr and 30yr USTs closed the week higher at 2.34% (+8bps), 2.31% (+7bps), 2.50% (+9bp) and 2.90% (+9bps) respectively. Across the pond, despite the weakening growth outlook, yield on Eurozone sovereign bonds also closed higher with 10yr Bund and Gilt yields closing the week up at 0.004% (+7bps w/w) and 1.11% (+11bps) respectively.

Notwithstanding the rising benchmark yields, GCC bonds had a constructive week with average yield on **Barclays GCC bond index** tightening 4bps to 4.03%, fuelled by 13 bps tightening in credit spreads to 163 bps on the back of stability in oil prices.

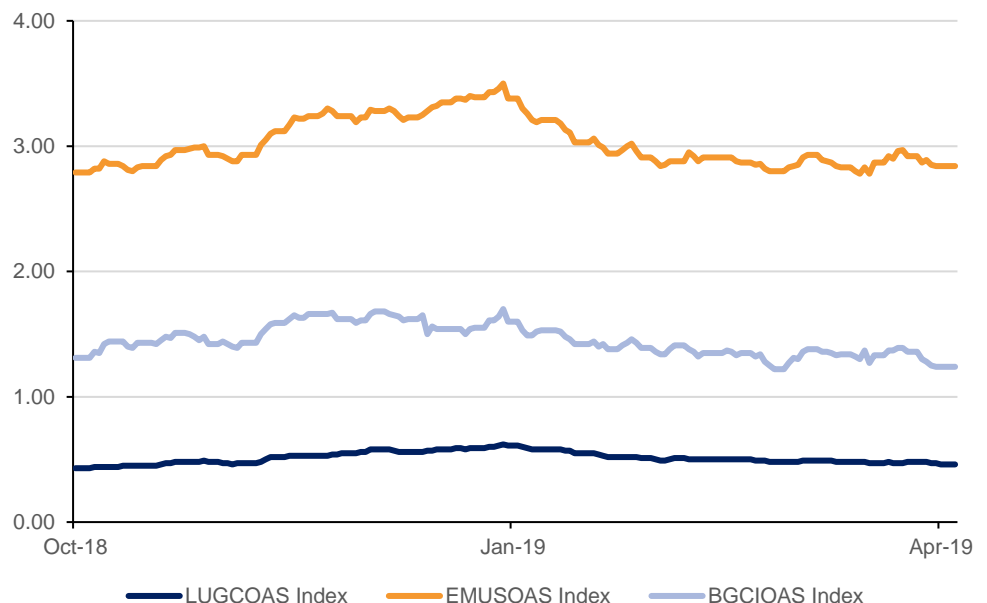
Oil prices have had constructive few weeks, rising 3% last week with Brent crude crossing the USD 70 / b mark. 2H 2019 points towards a tight oil market with possible elimination of waivers to US sanction on Iran output. That said, now that President Trump feels secure from impeachment, his politically popular intervention in the oil market is likely to be even stronger and more frequent with a call on Saudi output to increase.

Boosted by ramped up oil production in the second half of last year, **Saudi Arabia** reported 4.5% q/q GDP growth in the 4th quarter of 2018. S&P affirmed the sovereign's rating at A-/stable which is two notches lower than Moody's and Fitch at A1 and A+/ stable respectively. Credit protection on Saudi became cheaper with 5yr CDS spread dropping 6bps to 80bps last week.

Most key developments of last week were in the banking sector. Media reports surfaced about **First Abu Dhabi Bank** considering acquiring or merging with **Abu Dhabi Islamic Bank**. The possibility can not be ignored given the common shareholder, and if manifested, the deal could see positive benefits for **ADIB** credit curve given the higher credit rating on **FAB** (Aa3/stable, AA-/stable) versus those on ADIB (A2/stable, A+/stable). The merger would create a lender with \$236.7 billion in assets, putting it just ahead of Qatar National Bank with \$235.9 billion and make it the largest bank in the Middle-East. Yield (to next call) on ADIB perp contracted 19bps to 5.41% in response.

Also **Emirates NBD** confirmed plans to acquire Turkey's Denizbank for 15.48 billion lira (\$2.75 billion) from Sberbank, subject to regulatory approvals. Yield on EBIUH 6.375% perps widened 9bps to 4.80% last week.

GCC vs EM IG bonds and US IG bonds – OAS history (%)



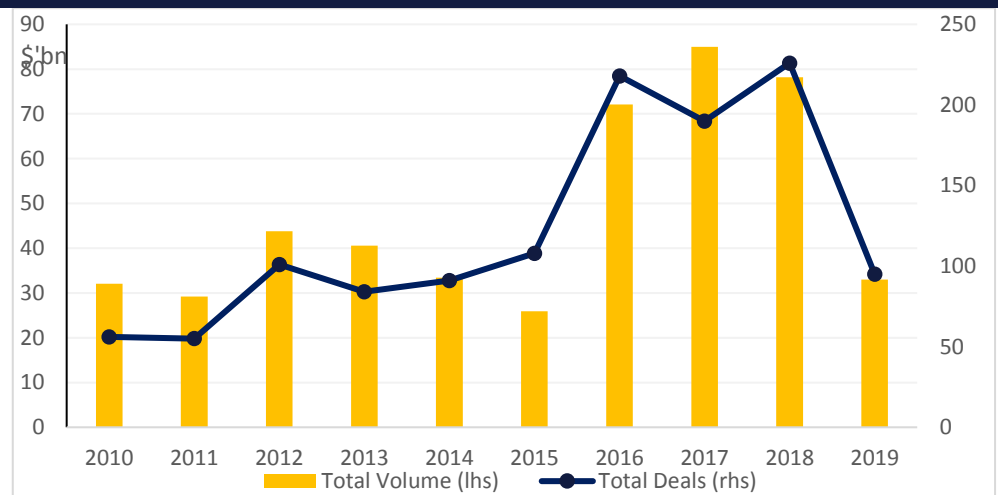
Source: Bloomberg, Emirates NBD Research

This week, news surfaced about **Dubai Islamic Bank**, rated A3 and A by Moody's and Fitch respectively, possibly looking at buying **Noor Bank**, rated A by Fitch. The acquisition would create a lender with \$75 billion in assets, however, discussions are at an early stage and may not lead to a deal. Currently DIBUH 23s are trading at yield of 3.52% and NOORBK 23s are trading at 3.92%. The bonds may see yield convergence should the merger deal eventuate.

Fitch revised the outlook on **Kuwait Energy's** CCC rating to Positive from Evolving following the completion of the acquisition of the company by Hong Kong-listed United Energy Group Ltd (UEG). The Rating Watch on the company's USD250 million bond due in 2019 rated 'CCC'/Recovery Rating 'RR4' has also been revised to Positive from Evolving. Credit quality of the combined entity is likely to be few notches better than the current CCC. While ultimate fate of KUWAIE 19s is yet to be decided, yield tightening is inevitable.

In the primary market, **National Bank of Ras Al Khaimah**, rated Baa1/BBB+ by Moody's and Fitch respectively, priced 5yr, \$500 million, Reg S bond at MS+185bps, circa 20bps tighter than the initial guidance.

GCC Bonds and Sukuk – New Issue (USD' bn)

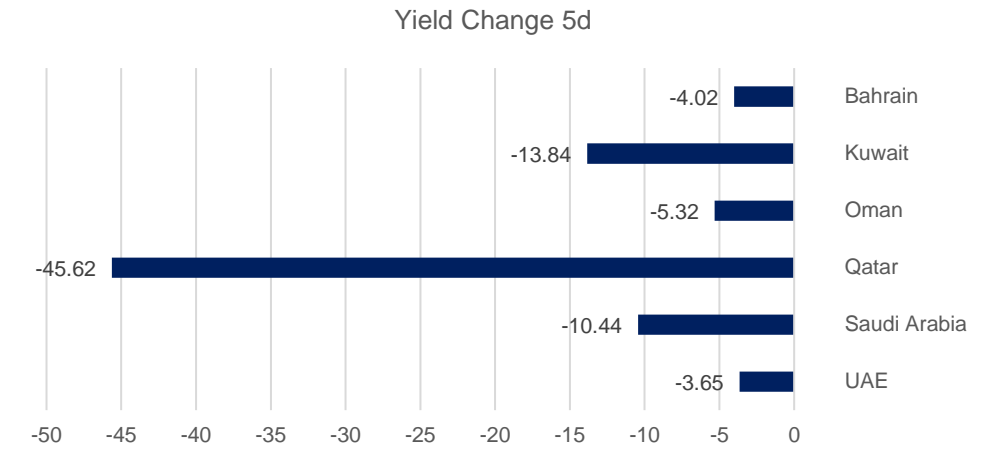


Source: Bloomberg, Emirates NBD Research

Looking ahead, the most topical new debt raising will be from Saudi's oil giant, **Aramco**, rated A1/A+ (Moody's/Fitch), which is in the market this week with a \$10 billion offering. Early investor interest indicate nearly \$30 billion in orders already. Investors expect the deal to get upsized and price very close to the Saudi sovereign curve, if not tighter. Few credit facts from Aramco's prospectus are as below:

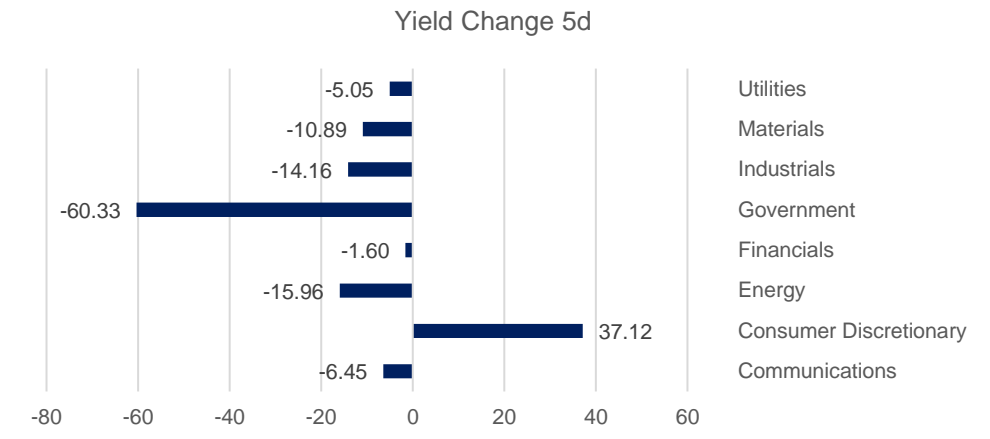
- Aramco pumped 10.3 million barrels of crude a day in 2018. Total liquids production of 11.6 million barrels a day last year was more than 20% greater than the combined production of Exxon, Chevron Corp., Total SA, Royal Dutch Shell Plc. and BP Plc.
- In total, Aramco has 226 billion barrels of reserves, enough for another 52 years of production at the maximum capacity of 12 million barrels a day.
- Aramco, at some of its bigger fields, has an average lifting cost of \$2.80 a barrel, less than half the costs of nearest rival Equinor ASA of Norway and a fifth of Exxon Mobil Corp.'s.
- Aramco paid \$52 billion in dividends to the Saudi government last year.
- Working back from earnings and dividends paid by Aramco, the company's valuation is to be closer to \$1.2 trillion if investors judge Aramco by the same metrics as other giant oil companies. However depending on what discount rate is used and what reserve and production estimates are made, the valuation could easily be higher or lower than this.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

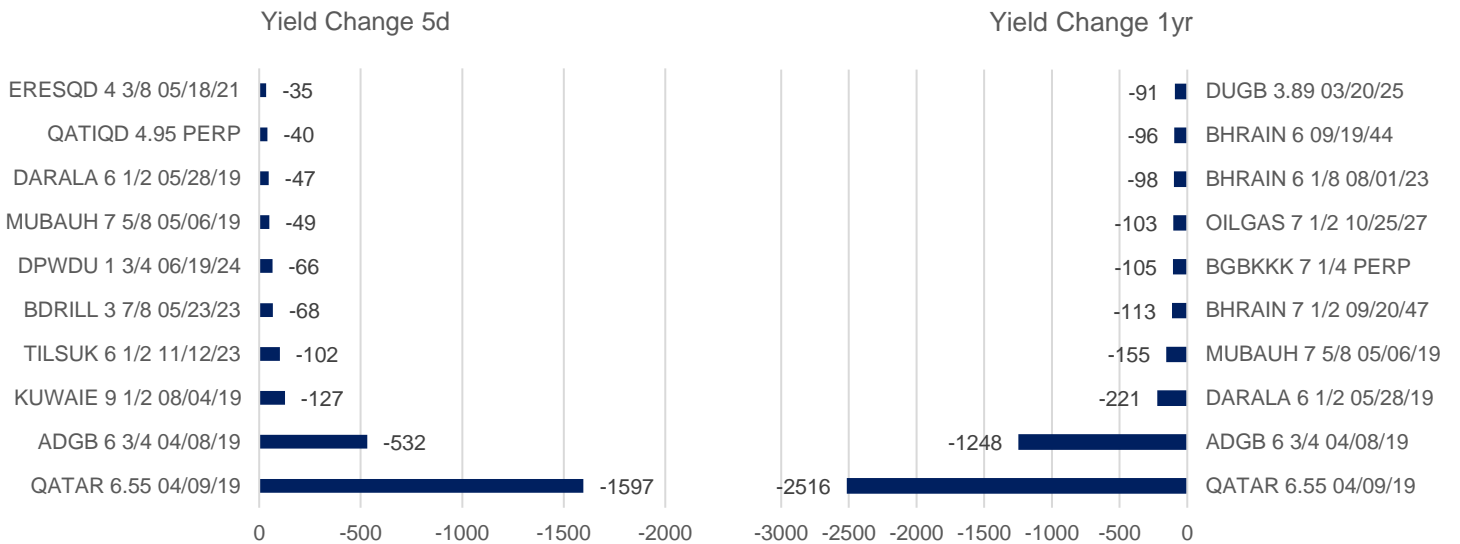
GCC Bonds – Yield To Workout Change by BICS Sector



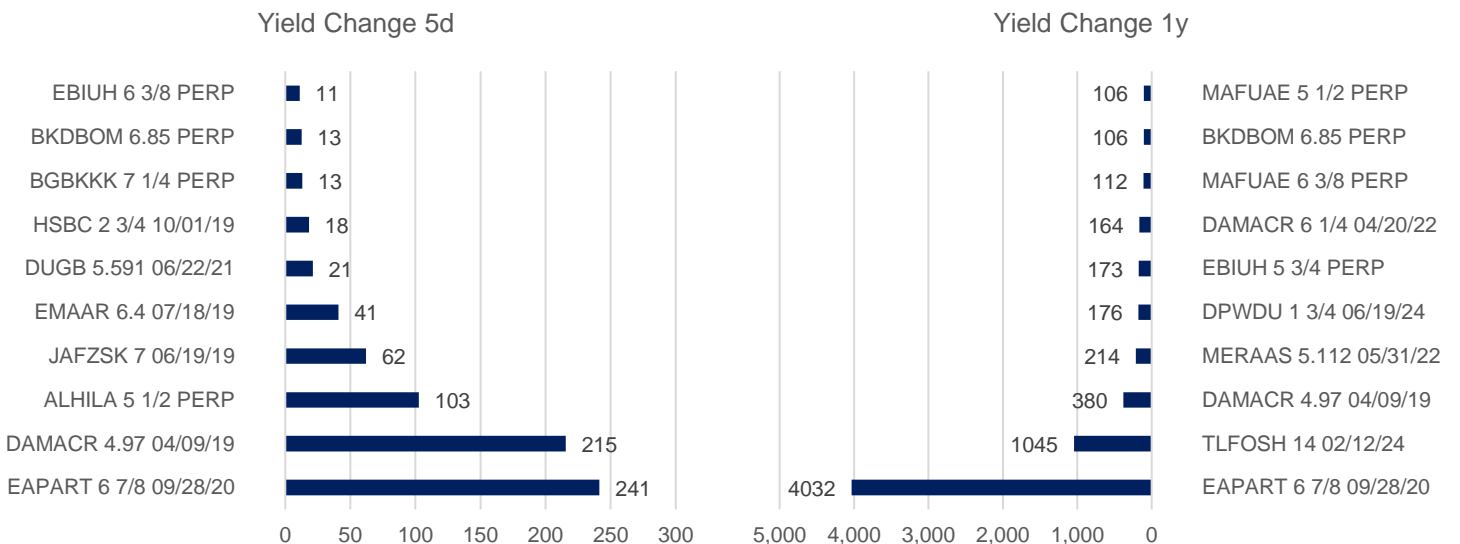
Source: Bloomberg, Emirates NBD Research

Performance

GCC Bonds - Top 10 Yield To Workout Changes



GCC Bonds - Bottom 10 Yield To Workout Changes



Source: Bloomberg, Emirates NBD Research

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