



بنك الإمارات دبي الوطني  
Emirates NBD

## Sukuk Note

10 June 2019

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# Relative Value: Emirates NBD iBoxx Sukuk Index

Interest rates in the US were left unchanged at the FOMC meeting in early May, however, rising trade tensions and weakening global economic data have decidedly turned the market dovish. Treasury yields moved substantially lower last month. Yields on 2yr, 5yr and 10yrs US treasuries closed the month of May at 1.92% (-38bps, m/m), 1.91% (-39bps, m/m) and 2.52% (-38bps, m/m) respectively.

The generous decline in benchmark yields facilitated strong performance by USD denominated bonds and sukuk. The total return on the Emirates NBD Markit iBoxx USD Sukuk index in May was a gain of 0.67% of which 0.35% came from capital gains and the remainder from coupon collection. Year-to-date the index has recorded total return of 5.66%

Two new securities, SDHMK 2022 and STCAB 2029 were added to the index last month while the INVCOR 2020 got excluded owing to it becoming less than one year to maturity.

Currently there are 109 issues totalling circa USD 104 billion in amount outstanding with the average rating remaining at A-.

### Sukuk index characteristics

	31-May-19	31-Dec-18	31-May-18
Number of Issuers	65	62	63
Number of Issues	109	103	101
Nominal outstanding	USD 103 bn	USD 97 bn	USD 94 bn
Average rating	A-	A-	A-
Average Duration	4.49	4.54	4.66
Average Z-Spread	198	218	192
average Yield to worst %	4.05	4.79	4.64
Price Return MTD	0.383%	0.397%	-0.404%
Price Return QTD	0.711%	-0.306%	-1.388%
Price Return YTD	3.407%	-3.686%	-3.454%

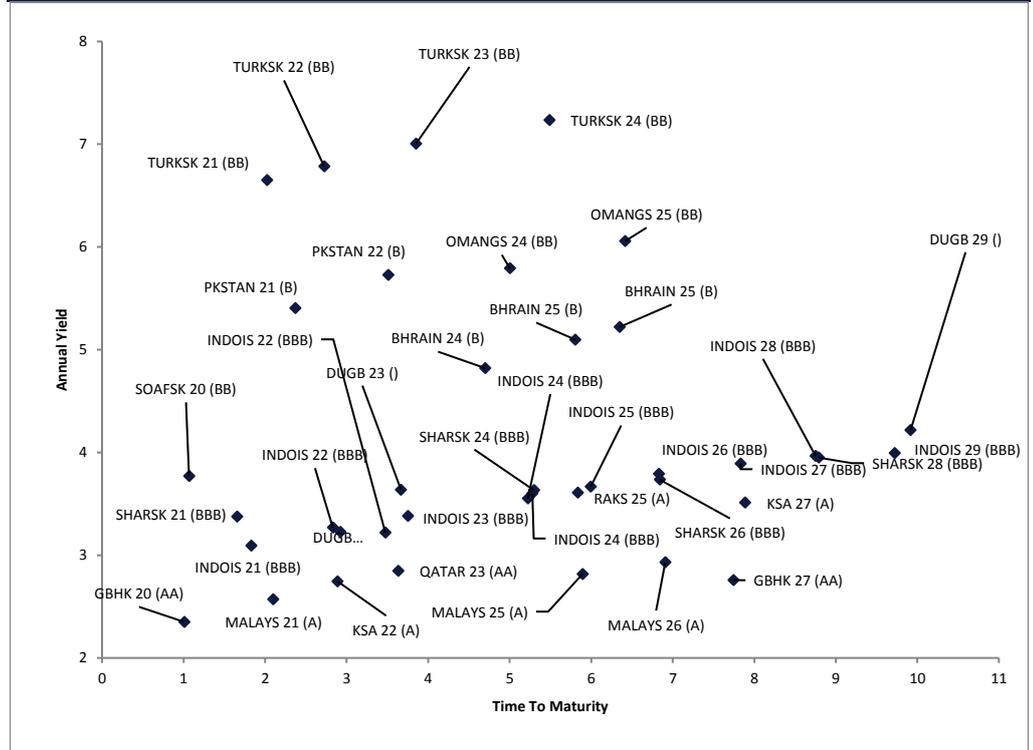
Source: Emirates NBD Research, Markit

Based purely on trading yields on various sukuk as at the end of May, the following relative value observations are made:

- 1) In the sovereign sector :
  - a. TURKSK 21s, rated BB, trading at yield of 6.65% appear cheaper than PKSTAN 21s that are rated two notches lower at B and trading at yield of 5.40%.
  - b. DUGB 29s, unrated but with estimated credit quality in the high BBB rating category, trading at yield of 4.21% appear cheap compared with INDOIS 29s, rated BBB, at yield of 3.99%.

- c) KSA 27s at yield of 3.51% are trading cheaper than MALAYS 26 trading at 2.93% for similar credit rating and sensitivity to oil prices.

### Sovereign Sukuk Universe

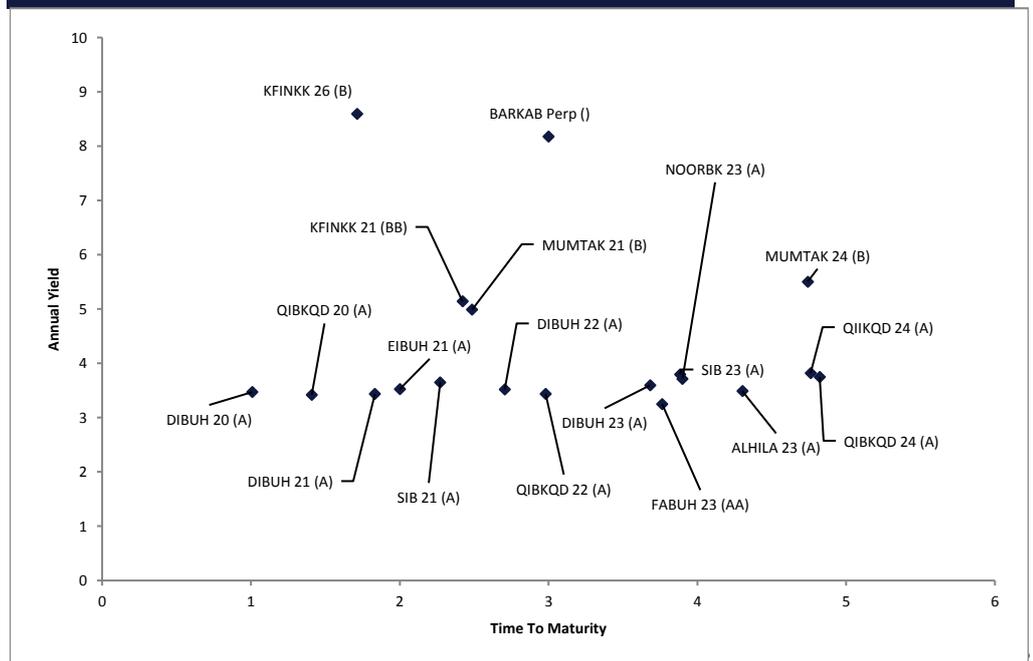


Source: Emirates NBD Research, Markit

### 2) In the financial space:

- a) Credit quality and trading yields on issuers in the financial space are concentrated in a narrow band and reflect minimal value dislocations. That said, DIBUH 23s, rated A are trading at a yield of 3.60% compared with similar rated NOORBK 23s at yield of 3.71%. The yield on these bonds would likely converge if the current merger discussion between the two closes successfully.

### Financial sukuk universe

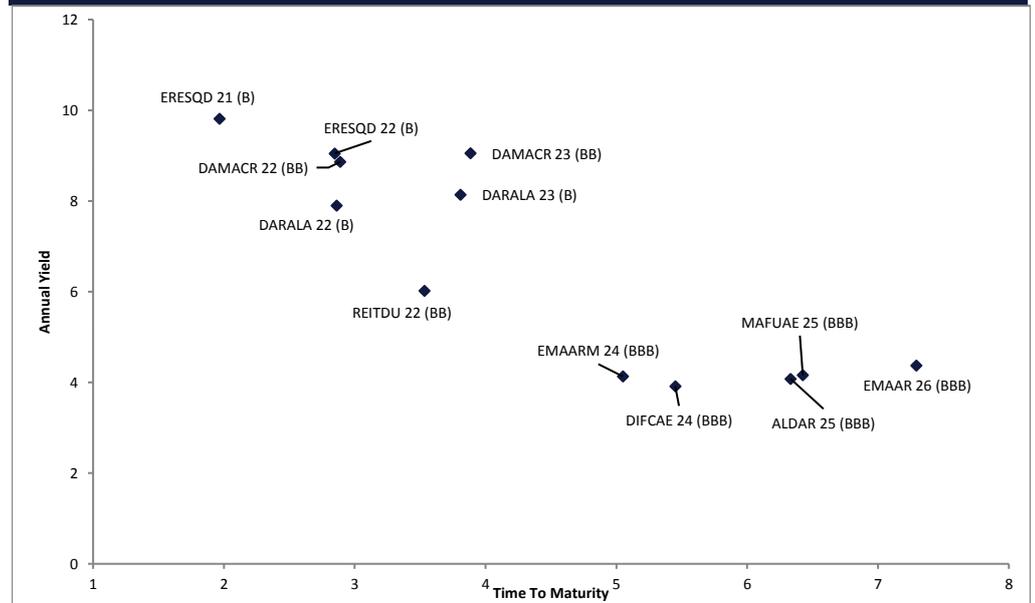


Source: Emirates NBD Research, Markit

3) In the real estate sector:

- a) DARALA 23s with B credit rating and trading at 8.13% yield appear expensive compared with DAMACR 23s trading at yield of 9.05% despite stronger credit rating of DAMAC at BB.
- b) EMAARM 24s, rated BBB, at a yield of 4.13%, appear cheaper than longer duration and BBB rated DIFCAE 24s at yield of 3.91%.

### Real Estate sukuk universe

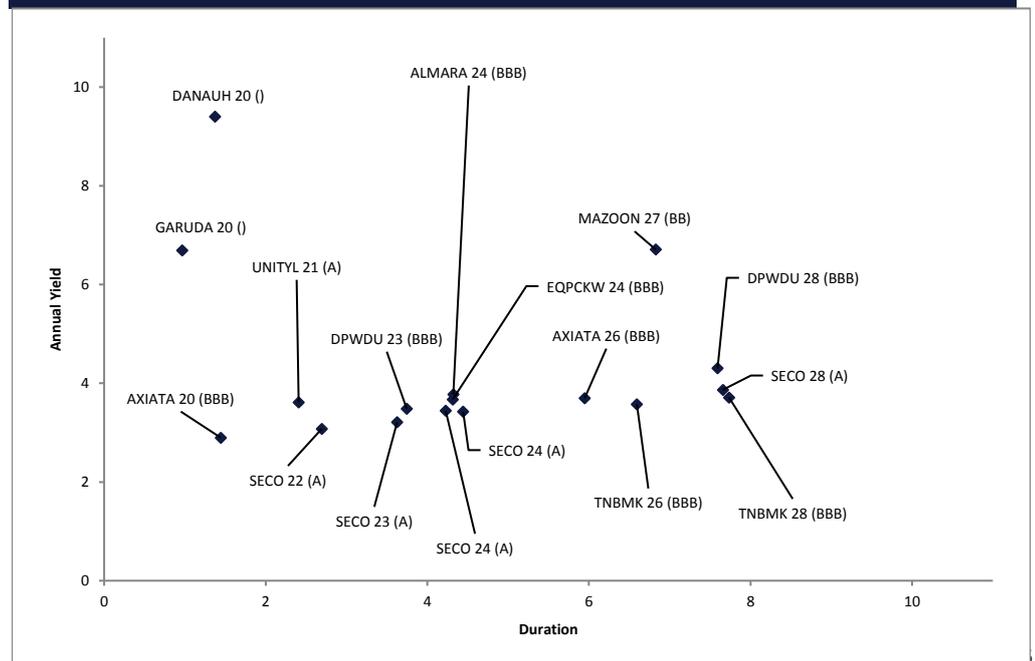


Source: Emirates NBD Research, Markit

4) In the corporate space:

- a) ALMARA 24s rated BBB and trading at yield of 3.77% appear cheaper than similar rated and similar tenured EQPCKW 24s trading at yield of 3.67%.
- b) BBB rated DPWDU 28s at a yield of 4.30% for duration of 7.59 years appear cheaper than similar rated TNBMK 28s at yields of 3.71% with higher duration of 7.73 years.

### Corporate sukuk universe



Source: Emirates NBD Research, Markit

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