Asset classes performance softened owing to economic growth concerns

Rating: MARKETWEIGHT

GCC Fixed Income Outlook

GCC debt issuances started off at a weak pace in 1Q23 mainly due to the ongoing macro-economic volatilities and tightening of monetary policy. Primary bond and sukuk issuance in the GCC fell from USD 36.3 Bn in 1Q22 to USD 28.3 Bn in 1Q23. In addition, the number of primary debt issuances also declined from 76 in 1Q22 to 62 in 1Q23. The GCC GDP growth is anticipated to outpace global growth in FY2023 as project market activity is projected to boost fixed-income issuances in the area. The average annual GCC bond issuance stood at USD 80 Bn in FY2022 and it is expected to grow to USD 85 Bn by the end of FY2023. Green and sustainable bond issuance is also likely to pick up in 2023 as the government continues to prioritise the green economy. The green and sustainable issuances totalled USD 8.5 Bn over 15 deals, up from USD 605 Mn in 2021, owing to continuous participation from banks and government-related entities.

The appetite for the GCC bonds market remained subdued over the month. Similarly, the 5-year sovereign CDS spread remained in a narrow range and tightened in almost all the GCC countries except Bahrain and Dubai. The 10-year sovereign USD bond yield rose across the GCC countries. The growth in the oil and non-oil sectors enabled the GCC countries to post significant GDP growth in 2022. According to the UAE's Ministry of Economy, the country surpassed its economic growth expectations and recorded a growth of 7.6% in 2022. The growth in the economy was mainly fuelled by the increase in the oil sector which rose 10.1% and the non-oil sector which grew 6.6% in 2022. It is expected to grow 3.9% and 4.3%, respectively in 2023 and 2024 according to the central bank of UAE forecast. The seasonally adjusted UAE Purchasing Managers' Index (PMI) rose from 55.9 in March 2023 to 56.6 in April 2023. The expansion in the index is underpinned by strong growth in new orders that rose to the highest level since November 2021, owing to the improving market condition and rising client demand due to strong sales. KSA economy grew 3.9% in 1Q23 due to the strong growth in the country's non-oil sector. Non-oil sector witnessed a robust growth of 5.8% in 1Q23 while oil sector recorded 1.3% growth in 1Q23. Similarly, KSA PMI rose from 58.7 in March 2023 to 59.6 in April 2023 due to robust expansion in business activity in the non-oil sector. New orders increased at the quickest rate since September 2014, as stronger local demand outweighed a marginal decline in exports. According to the IMF, Qatar's medium-term growth rate is anticipated to reach 4-4.5%. Qatar general budget witnessed a budget surplus of QAR 19 Bn in 1Q23. The Country's non-oil sector expanded 6.7% while the oil sector grew 1.5% in 1Q23. Recently, Fitch Ratings also revised its outlook on Oman's banks over expectation that the banks will achieve a solid lending growth and profitability in 2023 owing to their improved operating conditions and reasonable credit fundamentals. In addition, Saudi Arabia raised USD 6 Bn from issuance of the dollar denominated Sukuk. The Sukuk was offered in 6-year tranches worth USD 3 Bn at 80 bps over US treasuries and 10-year tranche worth USD 3 Bn at 100 bps over US treasuries. The UAE government also issued a T-Sukuk worth AED 1.1 Bn to boost the local currency bond market and the Islamic economy. The T-Sukuk will be issued in 2/3/5-year terms at first, followed by a 10-year sukuk.

Gold Outlook

Gold Price hovered around USD 2,000 per ounce in a tight range during the second half of April due to the uncertainty of a rate hike by the Fed. During the first half of May, gold prices crossed a crucial resistance zone and traded above USD 2,000 per ounce whereas in the other half, gold prices struggled to cross the previous resistance zone due to the delay in the US debt ceiling deal. In the first week of May, gold prices stood steady above USD 2,000 per ounce as investors awaited Fed's decision on monetary policy. Fed hiked the interest rates by 25 bps and hinted at a pause in interest rate hikes leading to a rally in gold prices. Gold prices inched higher in the following week due to a decline in the value of the dollar and fears of economic uncertainty attributable to the US debt ceiling stand-off. After that, the prices remained steady awaiting US inflation data. During the second half of the month, gold prices fell slightly and traded in a narrow range awaiting the resolution of the US debt ceiling negotiations. Later, the gold prices eased further during the last week of May 2023 over the slow progression of the US debt ceiling deal and the decline in odds of the interest rate cut by the Fed. However, an overnight decline in Fed treasury yields somewhat supported the gold prices. We expect the gold prices to stay capped in the forthcoming period.

Oil Outlook

Oil prices declined in the month of April 2023 due to the strengthening of dollar and fears of interest rate hike by the Fed. Oil prices continued to decline in May. In the first week of May 2023, oil prices declined due to weaker Chinese data owing to decline in manufacturing activity and the expectation of an interest rate hike by Fed. The oil prices dropped to the lowest level since 2022 to USD 72.33. The US Fed increased interest rates by 25 bps to 5.25% on 3 May 2023. OPEC and its allies implemented the voluntary output cut at the start of the month which somewhat supported the oil prices. After that, oil prices traded in a narrow range as investors awaited US inflation data. Oil prices were supported during the mid-month of May owing to strong demand for fuel from the US whereas uncertainties over the US debt ceiling and renewed fears of the US banking system crisis capped the oil prices. Later, oil prices edged higher as the US was likely to resume buying oil for the Strategic Petroleum Reserve (SPR) whereas wildfires in Canada increased supply worries. The US announced to purchase of 3 Mn bpd of oil for SPR. However, crude oil prices lacked direction and clear signs of strong oil demand. Oil prices traded in a narrow range due to concerns over the US debt ceiling. Furthermore, in the last week of May, oil prices reached USD 78.36 Mn bpd as Saudi energy Minister warned of OPEC+ output cut. The drawdown of US crude oil further supported oil prices. Oil prices further inched higher on 30 May 2023 as the US reached the debt ceiling.

OPEC and its allies started implementing the output cut at the beginning of the month. Venezuela's oil production is expected to increase by the end of 2023. On the other hand, India and China are key buyers of Russian crude oil after the EU’s ban. The US carried a large drawdown of oil during the end of the month. IEA expects the world oil demand to increase 2.2 Mn bpd in 2023 owing to a recovery in Chinese demand whereas world oil supply is expected to decline over OPEC+ production cuts. Multiple events unfolding on the demand and supply front will continue the volatility in oil prices with a downward bias in the near term.

Top picks for 2023

Name	Sector	Price	Mid YTM	Rating*
ALDAR 3.875% 2029	Real Estate	95.09	4.83	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	85.60	9.46	Ba2/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	93.60	4.79	A1/NA/A+
BGBKKK 5.749% PERP	Bank	91.92	8.37	NA/NA/NA
SIB 5% PERP	Bank	96.91	7.00	NA/NA/NA
ALMARA 4.311% 2024	Food and Beverages	99.11	5.60	Baa3/BBB-/NA
GENHLD 4.76% 2025	Investment Co.	100.24	4.69	A1/NA/A
REITDU 9.5% 2024	Real Estate	94.98	13.65	NA/NA/NA
ADIBUH 7.125% PERP	Bank	100.49	7.98	B1/NA/NA
OTELOM 5.625% 2023	Telecom	100.25	5.94	Ba2/NA/BB+
INTLWT 5.95% 2039	Power Generation and Water Utility	98.40	6.14	Ba1/NR/BBB-

*Source: Bloomberg, * Moody’s, S&P and Fitch*

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Content:

MENA credit outlook

GCC bonds and sukuk issuance decline 22% in 1Q23 to USD28.3 Bn

According to a research report by Markaz, primary debt issuances in the GCC recorded the slowest start in three years during 1Q23. The total value of Bonds and Sukuk issuances in the region amounted to USD 28.3 Bn, a 22.1% decrease compared to the same period in 2022. There were 62 primary debt issuances in 1Q23, down from 76 issuances in 1Q22. Saudi-based issuers led the market, raising USD 21.3 Bn, followed by the UAE with USD 5.6 Bn. Sovereign issuances accounted for 60.2% of the total, while conventional issuances dominated at 81.4%. The US dollar was the most used currency for issuances.

UAE's Islamic treasury sukuk received bids worth USD 2.26 Bn and a subscription of 7.6 times

The UAE Ministry of Finance, in collaboration with the Central Bank of the UAE, announced the results of the first auction of the dirham-denominated Islamic Treasury Sukuk (T-Sukuk). The auction, with a benchmark size of AED 1.1 Bn, received bids worth AED 8.3 Bn, resulting in an oversubscription of 7.6 times. The final allocation was AED 550 Mn for both the two-year and three-year tranches with a total issuance of AED 1.1 Bn. The T-Sukuk will be listed on Nasdaq Dubai secondary market and subsequent periodic auctions are planned as part of the 2023 issuance plan. The Sukuk will be issued initially with a tenure of 2/3/5 years; followed by a 10-year tenor at a later date.

CBK allocates issuance of bonds and securitization at USD 1.1 Bn

The Central Bank of Kuwait announced the issuance of bonds and Tawarruq valued at KWD 340 Mn (approximately USD 1.1 Bn). According to a statement from the bank, the first issuance amounts to KWD 240 Mn (about USD 792 Mn) with a six-month term and a return rate of 4.375%. The second issuance is valued at KD 100 Mn (about USD 330 Mn) with a one-year term and a return rate of 4.50%. Earlier, on May 8, the Central Bank of Kuwait allocated the issuance of bonds and securitization worth KWD 320 Mn (about USD 1.05 Bn) for a three-month term.

UAE's Aldar to issue USD 500 Mn 10-year green sukuk

Aldar Investment Properties, a subsidiary of Abu Dhabi's leading developer Aldar Properties, launched a USD 500 Mn 10-year green Islamic bond, or sukuk. The sukuk's initial price guidance was set at 185 basis points over US Treasuries. The proceeds from the issuance will be utilized for financing or investing in eligible projects under Aldar's Green Framework. The order book surpassed USD 2.2 Bn, the sukuk was launched at a spread of 150 basis points over US Treasuries. HSBC, Standard Chartered Bank, and several other banks appointed as joint coordinators, lead managers, and book-runners. Aldar previously stated its intent to tap the debt market opportunistically, boasting a comfortable liquidity position. The surge in Islamic debt issuance reflects a growing desire to tap into a wider investor base and meet the demand for a limited asset class in the Gulf region.

Bahrain's Nogaholding launched USD 750 Mn 10-year Islamic bond

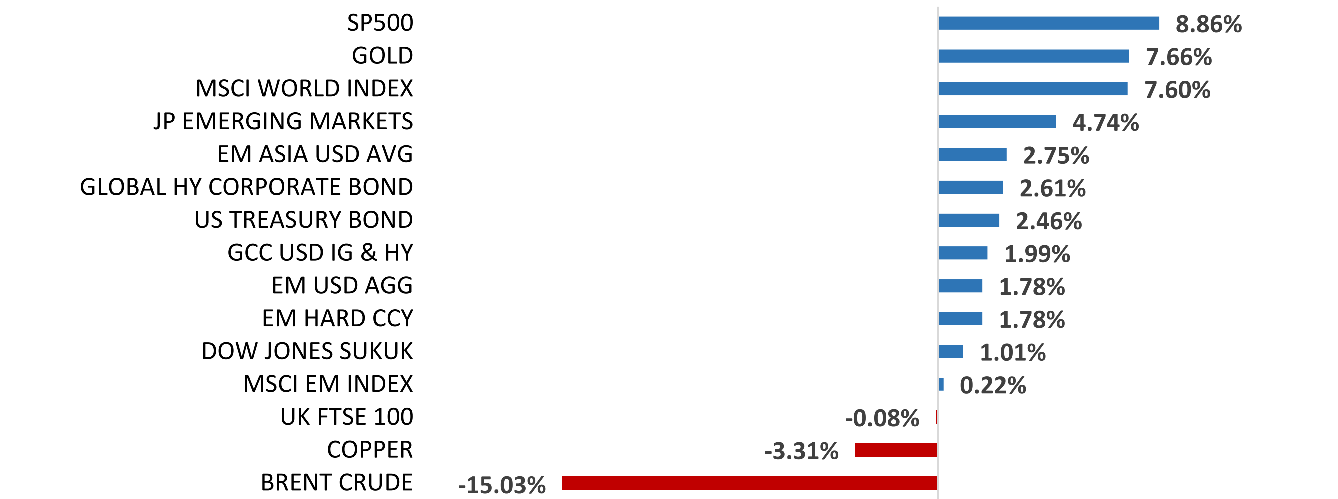
Bahrain's state oil holding firm Nogaholding launched a USD 750 Mn 10-year Islamic bond, or sukuk, with strong demand leading to pricing below initial guidance. The order book reached over USD 3.75 Bn prior to the launch, enabling the Company to offer a yield of 6.625% instead of the initially indicated 7.25%. Nogaholding, owned by the government of Bahrain, reported a significant increase in net profit in FY2022. Joint lead managers and book-runners for the bond issuance are Bank ABC, Citi, FAB, HSBC, JP Morgan, and the National Bank of Bahrain. Other Gulf issuers also took advantage of favourable market conditions, with Aldar Investment Properties selling a USD 500 Mn green sukuk.

Global Asset Performance

The table below summarizes the performance of a few key equity and debt indices and commodity price performance. After recording negative performance during 2022 and all asset classes' performance reversed during YTD 2023 due to early signs of easing inflation, it led them to record a positive return. Although the return softened in May 2023 owing to early signs of an easing of economic growth and tight monetary policy adopted by global central banks. Except S&P 500 all indices recorded a decline in May 2023 on a MOM basis. Other equity indices recorded a decline in May 2023, while FTSE generated a loss on a YTD basis due to a decline in commodity prices. Gold prices also softened amid uncertainty about the US debt deal, however, the performance is expected to improve owing to a likely pause in interest rates. All bond indices recorded a loss on a MOM basis including sovereign, investment grade and high yield. MSCI Emerging Market Index generated a positive return however it lagged MSCI World Index. Prices of commodities namely Copper and crude oil fell in May 2023 due to the easing of economic growth in China.

In the bond market, emerging market and global high-yield bond indices recorded the best performance with JP Emerging Market, EM Asia USD average and Global High Yield bond indices recording a gain of 4.74%, 2.75%, and 2.61% respectively on a YTD basis. While GCC USD Investment Grade and High Yield and Dow Jones Sukuk index recorded a gain of 1.99% and 1.01%, respectively on a YTD basis. Return on US Treasury Bond Index softened on a YTD basis and rose 2.46% on a YTD basis as the Fed hiked interest rate by 25 basis points in May 2023.

Figure 1: Global Asset Performance (YTD%)

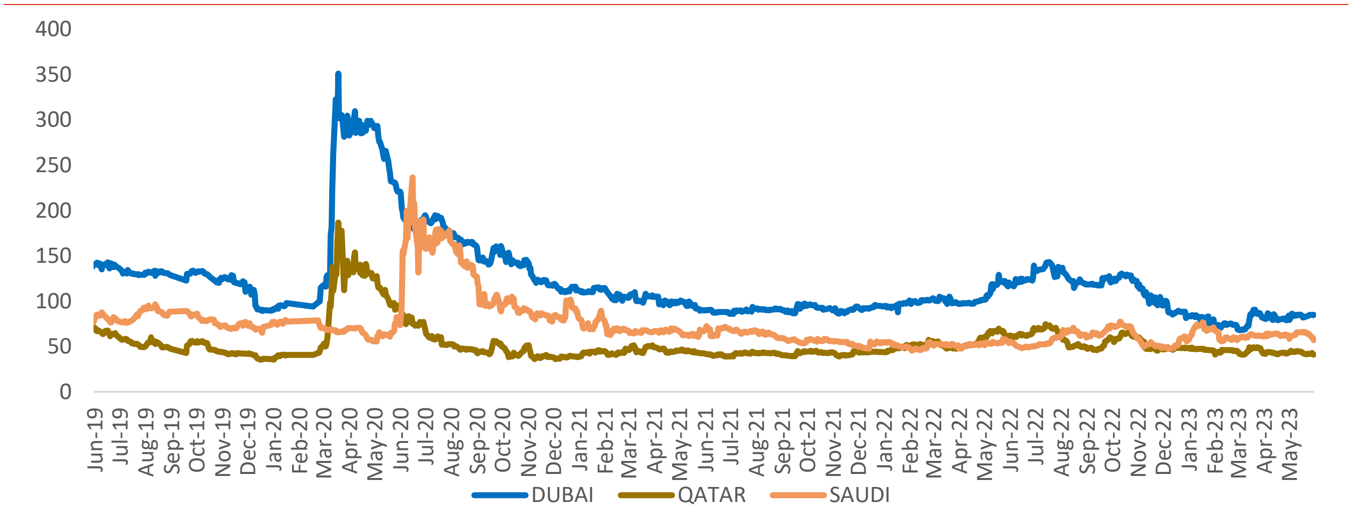


Source: Bloomberg

5-Year CDS

The 5-year CDS spread tightened across majority of the GCC countries expect KSA and Dubai. Kuwait recorded the highest decline in the 5-year CDS spread on a MOM basis in May 2023 followed by Abu Dhabi, Qatar and Oman. While Dubai recorded the highest increase in CDS spread on a MOM basis which rose 7.8% followed by 3.3% increase the CDS spread of KSA.

Figure 2: GCC Countries- 5 Year CDS



Source: Bloomberg

Sovereigns	DUBAI	QATAR	SAUDI	ABU DHABI
MTD (%)	7.79%	-2.76%	3.30%	-3.59%

Banking sector

DIB to acquire 25% of stake in Turkey Digital Bank

Dubai Islamic Bank (DIB), one of the largest Islamic financial institutions in the UAE, the board of directors approved acquiring a 25% stake in a newly established digital banking group located in Turkey. This acquisition is integral to DIB's strategy to expand its presence internationally. The specific name of the digital bank in Turkey and the exact value of the acquisition are yet to be disclosed by DIB, pending regulatory approval.

EIIC acquired an additional 7.6% stake in Abu Dhabi Islamic Bank

The National Holding Arm's strategic investment company, Emirates International Investment Company LLC (EIIC), acquired a 7.6% stake in Abu Dhabi Islamic Bank (ADIB) from Mubadala Investment Company. The acquisition will increase EIIC's ownership in ADIB to 47%, representing EIIC's robust growth potential as the second-largest Islamic lender in terms of its assets. EIIC owns interest across banking, asset management, real estate, hospitality, and fintech, as well as the food and agriculture sector.

Sharjah Asset Management increases its shareholding in the Bank of Sharjah

Sharjah Asset Management Company, an investment arm of the Sharjah Government, raised its ownership in the Bank of Sharjah from the current 17.16% to around 40% as part of a capital enhancement strategy. The Bank of Sharjah approved a capital increase of USD 218 Mn, bringing the total to USD 816 Mn, with the aim to strengthen its financial position and facilitate future growth prospects. The bank received approval from the UAE Central Bank and the Securities and Commodities Authority to issue 800 Mn new shares at par.

Central Bank of Egypt divests stake in United Bank

The Central Bank of Egypt is planning to fully divest its stake in the United Bank as a part of its government's stake sale program. To facilitate this process, the bank has appointed Barclays Bank PLC as its international financial advisor. It will work with CI Capital Investment Banking as the local financial advisor, to carry out their respective mandates.

Oman's Ahli Bank is likely to the accept offer from Ominvest to acquire the entire share capital

Oman's Ahli Bank is likely to approve an offer it received from Ominvest, an investment company, to acquire the bank's entire share capital. Upon acceptance, Ominvest intends to merge Ahli Bank with Oman Arab Bank. The offer is being presented by a group of companies which includes Ominvest, Arab Bank, and additional investors. The acquisition will be financed by the group members using their own funds, and it is regarded as a positive foreign direct investment for Oman. The proposed offer is a cash payment of USD 0.48 per share, which is a higher price than Ahli Bank's recent market value.

Bank Dhofar presented a revised non-binding merger proposal to Ahli Bank

In the revised non-binding merger proposal, Ahli Bank shareholders have the option to receive up to 25% of their consideration in cash, while the remaining amount can be paid through newly issued Bank Dhofar shares. However, Sharia-compliant juristic shareholders or their subsidiaries will receive the entire consideration in cash due to legal limitations. Bank Dhofar intends to finance the cash component using its existing liquidity and capital resources, supplemented by contributions from its current shareholders. The proposed merger is subject to regulatory approvals and requires the consent of both Bank Dhofar and Ahli Bank's boards of directors and shareholders.

Sohar International Bank and HSBC Bank Oman agree on a merger deal

The board of directors of Oman's Sohar International Bank and Bank Dohfar agree on a merger proposal based on the terms and conditions approved in November 2022. Both entities will continue to operate independently until the merger is complete. Also, the banks called separate extraordinary general meeting of shareholders to approve the deal. HSBC Oman agreed to merge with Bank Dhofar in November 2022. HSBC Oman is valued at 1.0x book value and consideration will be paid through Sohar International shares or in cash, not exceeding 70% of the total consideration.

SAMA granted license to two BNPL companies

The Saudi Central Bank (SAMA) granted license to Spotii and Madfu Buy Now Pay Later (BNPL) companies to start operation in the Kingdom. The two entities will provide financing to customers to purchase products or services from merchants without incurring financing cost. The central banks aims to attract a new segment of investors and companies to the sector which can add value at the same time maintain complete adherence to regulatory and supervisory guideline to the sector.

Fiscal Breakeven Oil Price

The fiscal breakeven oil prices grew in FY2023, particularly in Saudi Arabia, Kuwait, and Bahrain due to decline in crude oil and gas production partially offset by limited government spending cuts. Kuwait's fiscal breakeven saw the highest rise from USD 56.7 in FY2022 to USD 66.3 in FY2023. Saudi Arabia and Bahrain fiscal breakeven rose to USD 75.1 per barrel and USD 129.1 per barrel, respectively in FY2023 from USD 73.3 per barrel and USD 127.6 per barrel in FY2022. While Qatar, Oman, and UAE recorded a decline in break-even oil price in FY2023. UAE recorded the highest decline in break-even oil price from USD 63.9 per barrel in FY2022 to USD 54.8 per barrel in FY2023. Qatar break-even oil price fell from USD 48.1 per barrel in FY2022 to USD 41.5 per barrel in FY2023 followed by a decline in Oman which fell from USD 70.9 per barrel in FY2022 to USD 66.4 per barrel in FY2023.

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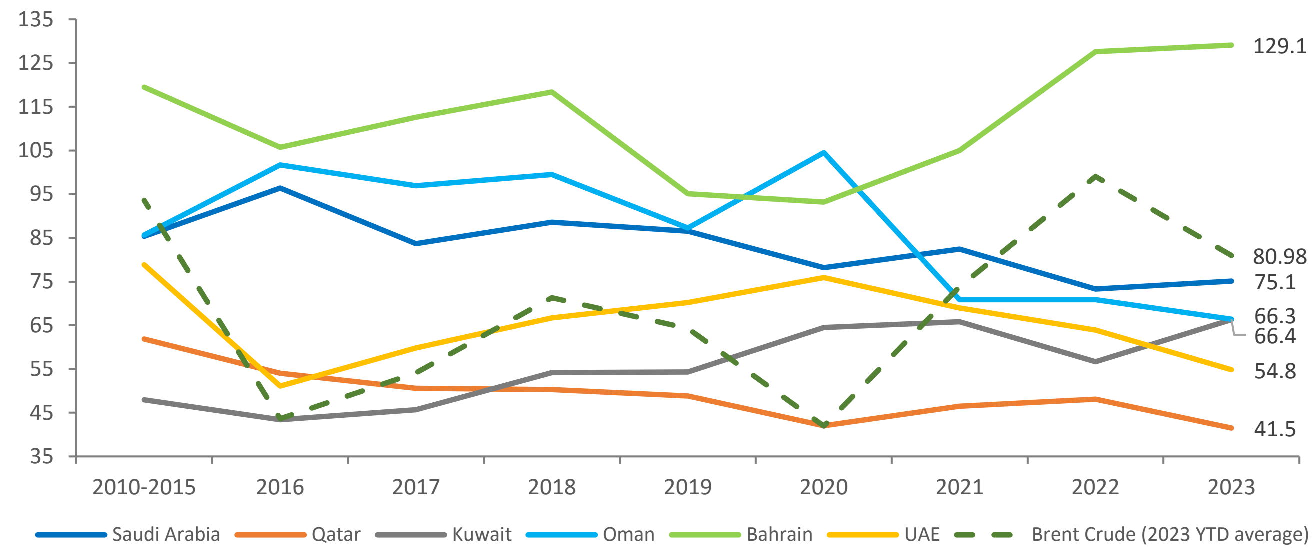
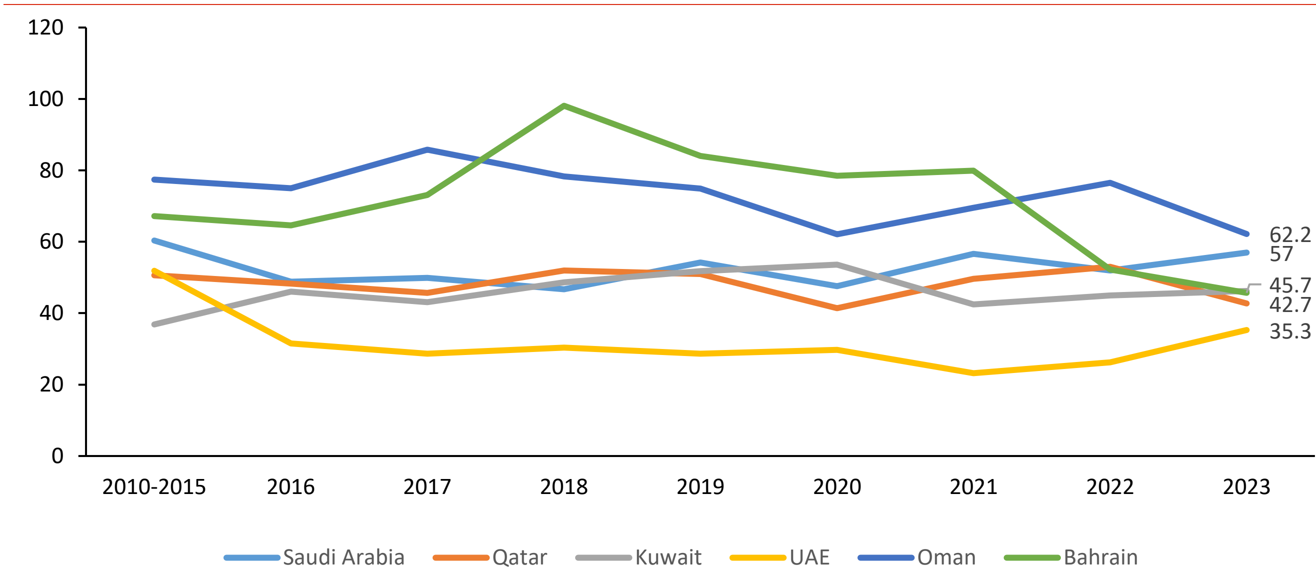
Figure 3: Fiscal Breakeven Oil Price (USD/bbl)



Source: Bloomberg

Figure 4: External Breakeven Oil Price (USD/bbl)



Source: Bloomberg

Corporate Sector

ADNOC Gas signed LNG supply deal with TotalEnergies unit for USD 1.2 Bn

ADNOC Gas plc, a subsidiary of ADNOC, signed a three-year supply agreement of USD 1.2 Bn with TotalEnergies Gas and Power Limited for the export of liquefied natural gas (LNG). The deal will involve the supply of LNG to various global markets and will strengthen TotalEnergies' LNG portfolio, particularly in Asian markets. ADNOC Gas has access to a significant portion of the UAE's natural gas reserves and supplies over 60% of the country's gas needs. The three-year contract is expected to commence in 2023.

Gulf Navigation sells petrochemical tanker to pay debts, improve liquidity

Dubai-based ship operator Gulf Navigation Holding sold its petrochemical tanker Gulf Mishref as part of expansion and fleet modernisation plans. The proceeds shall be used to pay off debts and improve liquidity. The vessel, operating in the spot market, was not tied to long-term contracts. The company's general assembly approved its auditors' report for 2021, and no dividends will be distributed for the fiscal year ending in December 2022.

AD Ports Group expands fleet; Khalifa Port to Enhance Shipping and Logistics Capabilities

Abu Dhabi-based AD Ports Group is set to expand its fleet with the acquisition of five bulk carriers and three crude oil tankers with a total investment of AED 955 Mn (USD 260 Mn). This strategic move aligns with the Group's global expansion objectives and aims to strengthen its shipping division. The bulk carriers will facilitate the transportation of general and dry bulk cargo, while the crude oil tankers will support international oil transport. The acquisitions form part of AD Ports Group's broader expansion strategy and collaborative partnerships within the shipping and offshore oil sectors. In addition, AD Ports Group announced plans to expand Khalifa Port in Abu Dhabi by incorporating drydock services. The expansion will broaden the range of port and marine logistics services offered at Khalifa Port, including vessel repairs and maintenance, to better cater to existing clients and attract new ones. The introduction of drydock services will address the growing demand from regional and international clients and contribute to AD Ports Group's target of increasing the handling capacity at Khalifa Port by 2030.

Saudi Arabia's Jamjoom Pharma plans IPO on Saudi Exchange

Jamjoom Pharmaceuticals Factory Company, based in Saudi Arabia, announced its intention to proceed with an IPO on the Saudi Exchange's main market. The Company plans to sell 21 Mn of its existing shares, equivalent to 30% of its issued share capital. JP Morgan Saudi Arabia and Saudi Fransi Capital are serving as financial advisers for the IPO, joined by AlRajhi Capital as underwriters and book-runners. The institutional book building will begin on May 15, 2023, with a retail subscription period from May 3, 2023, to June 1, 2023, and the price range will be announced, and the final shares allocation will be made on 7 June 2023. Morabaha Marina Financing Company in Saudi Arabia plans to offer 30% of its shared capital through an IPO on the Saudi Exchange.

GEMS Education's potential sale stall over valuation

The discussion between Dubai-based GEMS Education and potential buyers ADQ and Aldar Properties stalled overvaluation, with GEMS seeking a valuation of USD 6 Bn. Bloomberg reports that GEMS Education may consider inviting other bidders or potentially listing its business. While the discussions have not officially ended and it could be potentially restarted at a later date. GEMS Education, owned by Sunny Varkey, operates 63 schools with over 130,000 students in the MENA region, with a consortium led by CVC Capital Partners acquiring a 30 % stake in 2019.

Saudi's PIF signed deal to buy a stake in Middle East Paper

The sovereign wealth fund of Saudi Arabia, known as the Public Investment Fund (PIF), entered into a non-binding memorandum of understanding (MoU) with Middle East Paper Company (MEPCO) to acquire a significant minority stake. The PIF will subscribe to MEPCO's newly issued shares at a price of SAR 31.5 per share (USD 8.4), pending regulatory approvals. The acquisition aligns with PIF's strategy to diversify the country's oil-dependent economy and increase investments in domestic companies.

Alpha Dhabi buys majority stake in ADX-listed hospitality firm for USD 199 Mn

Alpha Dhabi Holding, a subsidiary of Abu Dhabi's International Holding Co, acquired a 36.4% stake in the National Corporation for Tourism and Hotels for AED 730 Mn (USD 199 Mn). The acquisition positions Alpha Dhabi as the largest shareholder in the ADX-listed National Corporation for Hotels and Tourism. The move aligns with Alpha Dhabi's strategy to expand its presence in the UAE's hospitality, lifestyle, and tourism sector. The acquisition strengthens its portfolio and supports its vision to build an integrated and premier hospitality and F&B portfolio.

ADNOC's Logistics Unit plans to increase number of shares offered in the IPO

Abu Dhabi National Oil Company (ADNOC) plans to increase the number of ordinary shares offered in the IPO of its logistics arm, ADNOC L&S. ADNOC will increase the shares offered in the IPO from 15% of the total issued capital to 19% of the issued capital. The size of the offering was increased due to strong investor demand. Furthermore, assuming that all the shares in the offering are sold, the total amount of the offering will be between AED 2.80 Bn (USD 762 Mn) to AED 2.83 Bn (USD 769 Mn). Additionally, several companies including Al Seer Marine Supplies & Equipment Co PJSC, National Marine Dredging Co PJSC, Alpha Oryx Ltd., and Abu Dhabi Pension Fund will be the major cornerstone investor in the IPO.

Q Holding, an ADX-listed company, signed contracts for USD 1.9 Bn housing project

Abu Dhabi-based company Q Holding secured two agreements with the Abu Dhabi Housing Authority (ADHA) to develop housing projects valued at AED 7 Bn (USD 1.9 Bn). The contracts involve the planning and execution of housing projects in Al Samha situated north of Abu Dhabi and West Baniyas, which are planned to be finished in 4Q23 and 2Q27. The project's scope includes the construction of 1,742 residential villas for citizens, along with essential infrastructure, landscaped areas, public amenities and services, mosques, and commercial buildings.

Rating Outlook

- Abu Dhabi's Long-Term Foreign-Currency Issuer Default Rating (IDR) has been confirmed by Fitch Ratings at 'AA-' with a Stable Outlook. The 'AA-' grade reflects Abu Dhabi's excellent fiscal and external metrics, as well as a high GDP per capita, which are offset by the country's substantial reliance on hydrocarbons, a weak but developing economic policy framework, and low governance indices when compared to peers. The government debt of Abu Dhabi is among the lowest among Fitch-rated sovereigns, while sovereign net foreign assets are among the greatest. Lastly, Moody's assigned Aa2 rating to the UAE government with a stable outlook. This is a testament that depicts the success of the nation's financial and economic vision and policies, and the strength and stability of its economic, financial and credit sectors.
- Moody's Investors Service upgraded Oman's ratings and maintained a positive outlook, citing the country's improved fiscal surplus and spending discipline. The Government of Oman's issuer and long-term senior unsecured ratings were upgraded from Ba3 to Ba2, along with an upgrade to the government's senior unsecured medium-term note program rating. Fitch Ratings revised Oman's outlook from stable to positive, citing improvements in key fiscal parameters such as government debt/GDP and the budget surplus. Higher oil prices and fiscal changes prompted the revision, as well as a reduction in external financing constraints compared to prior years, even though external funding needs remain substantial. The sovereign's long-term foreign and local currency Issuer Default Ratings were likewise confirmed at BB by Fitch. Meanwhile, the BB ratings suggest a high chance of default, particularly if a business or economic conditions deteriorate over time; yet, business or financial flexibility remains, allowing for the service of financial commitments. Hydrocarbon revenue increased by a third, owing to a 28% increase in Oman's average fiscal oil price, and presumably accounted for more than half of the budget deficit reduction. The administration has made headway on its medium-term fiscal strategy, which calls for balancing the budget and reducing government debt to 61 % of GDP by 2025.
- S&P Global Ratings confirmed Bahrain's credit rating and maintained a positive outlook owing to the government's efforts to implement reforms to boost the non-oil revenue and increase the current account surplus. The positive outlook is also supported by the stability of the financial sector and the potential for larger current account surpluses. The rating agency expects the Bahrain government to implement fiscal reforms to reduce the fiscal deficit and is likely to receive support from other GCC sovereigns. S&P Global Ratings reaffirmed Bahrain's short-term foreign and local currency sovereign credit ratings at 'B+/B' with a positive outlook.
- Fitch Ratings has affirmed Kuwait's long-term foreign-currency issuer default ratings, or IDR, to 'AA-' with a stable outlook. This is due to the Gulf state's fundamental issues being worsened by continued political limitations on decision-making. Since 2017, the Gulf state has been debating debt legislation, demonstrating the slowness with which decisions are made. Kuwait's debt is expected to climb to about 50% of GDP after the debt law is approved, according to the credit rating agency, up

from the current 10%. The Kuwaiti administration has been attempting to adopt new public debt legislation to alleviate the country's liquidity constraints, but the bill has been continually blocked by parliament.

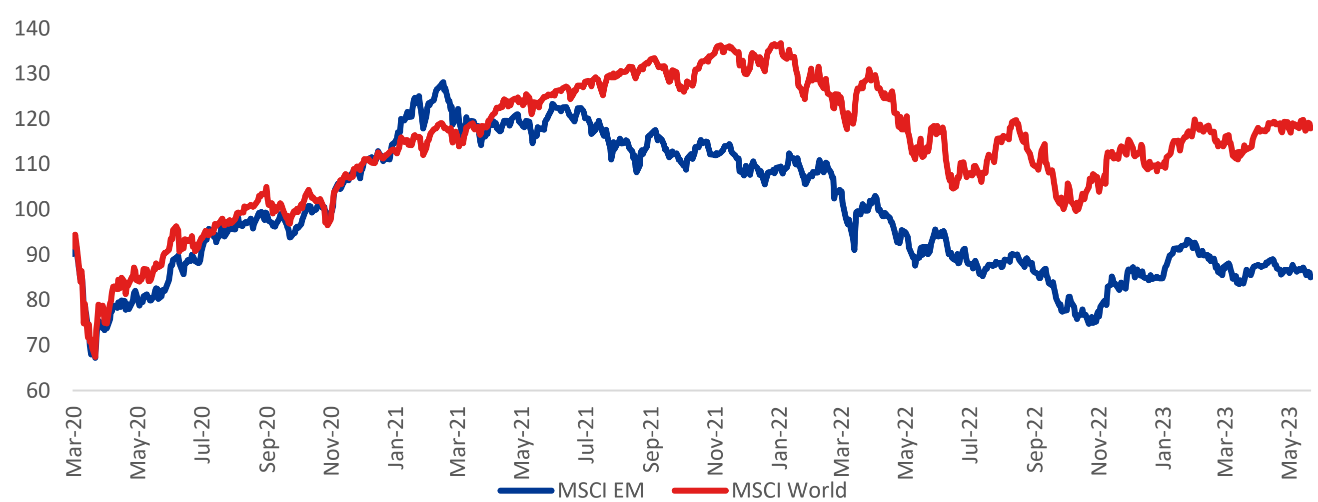
- Saudi Arabia's Long-Term Foreign-Currency Issuer Default Rating (IDR) has been upgraded to 'A+' by Fitch Ratings, with the Outlook changed to 'Stable'. The key reasons for the rating upgrading are improvements in the sovereign balance due to increased oil revenue and the fiscal structure. According to Fitch's proprietary SRM, Saudi Arabia has an 'A+' rating on the Long-Term Foreign-Currency (LT FC) IDR scale. Moody's Investors Service also lifted Saudi Arabia's credit rating outlook from stable to positive, noting the kingdom's capacity to reverse much of last year's debt growth. According to a statement, Moody's confirmed the sovereign at A1, the fifth highest rating.

Particulars	Moody's		S&P		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
UAE (Abu Dhabi)	Aa2	Stable	AA	Stable	AA	Stable
Kuwait	A1	Stable	A+	Stable	AA-	Stable
Qatar	Aa3	Positive	AA	Stable	AA-	Positive
Saudi Arabia	A1	Positive	Au	Stable	A+	Stable
Oman	Ba2	Positive	BB	Positive	BB	Positive
Bahrain	B2	Stable	B+	Positive	B+	Stable

Global Markets

Both MSCI World and Emerging Market traded in a narrow range during the month of May 2023 due to a likely pause in the interest rate hike by the Fed and other central banks. As a result, both developed and emerging markets recorded positive return on a YTD basis. However, MSCI World/Developed Market Index continued to outperform MSCI Emerging Market Index by a wide margin. MSCI World Index generated a solid return of 7.6% while MSCI Emerging Market generated a positive return of 0.2% on YTD basis. In May 2023, both MSCI World Index and Emerging Market fell 1.2% and 1.9%, respectively on MOM basis. The MSCI world index fell mainly due to decline in Europe and UK partially offset by the strong performance in Japan and marginal growth in US. The inflation rose marginally in US in April 2023; however, this rise is temporary and likely to reverse in the next month. In addition, growth in auto sales, housing sales, and employment numbers painted a healthy outlook for second quarter GDP growth in US. However, Europe continued to face pressure due to a slowing down of demand and a decline in consumer confidence impacting equities. On the other hand, UK equities were pressured by the decline in commodity prices. The emerging market index generated a negative return as Chinese macro data softened after growing strongly in the first quarter 2023 partially offset by a better performance in 2023. China's imports declined 7.9% while industrial production rose 5.8% YOY in April 2023. This number is compared against the previous quarter last year when the China was under lockdown. China recorded a decline in manufacturing activity for the first time, primarily due to a decrease in new business and employment. The Caixin PMI (Purchasing Managers' Index) dropped from 50.0 in March 2023 to 49.5 in April 2023, while the official factory PMI declined from 51.9 to 49.2 during the same period. The Chinese economy is expected to improve in 2023 owing to an easing of the restrictions expected to provide a boost to economic activity.

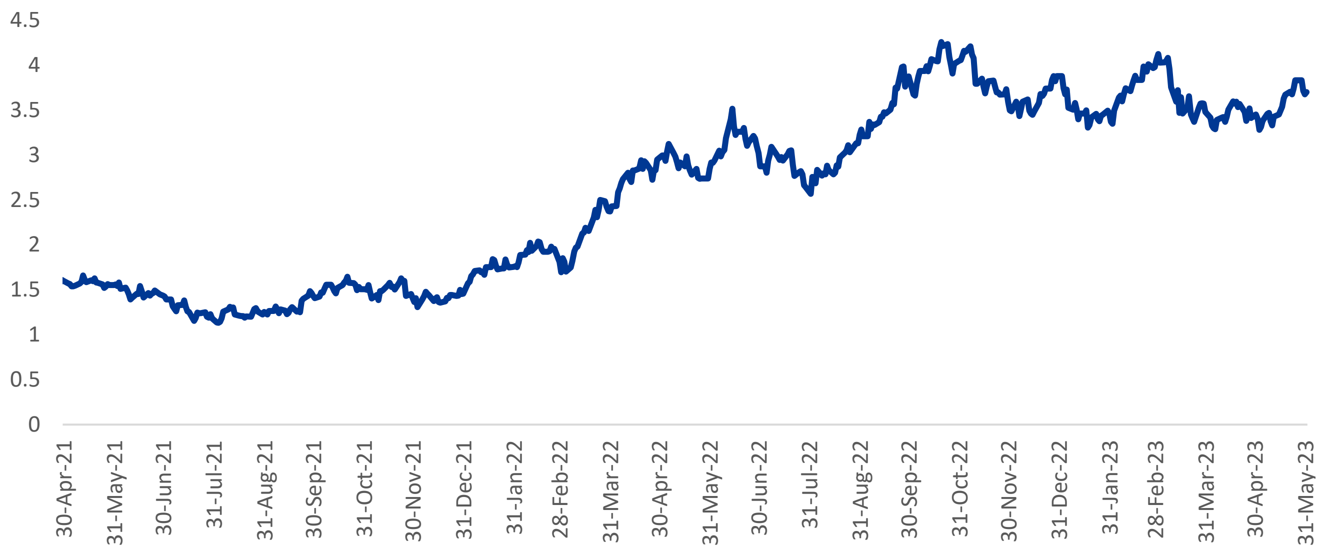
Figure 5: MSCI World and Emerging Market Index Historical trend



Source: Investing.com

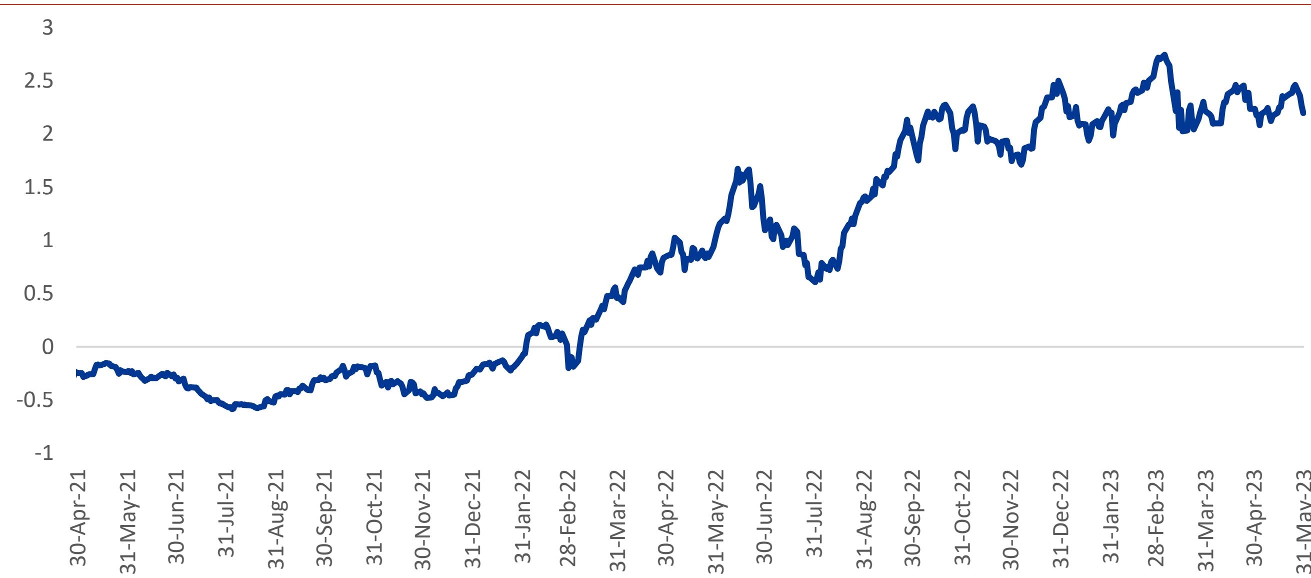
Yield on 10-year government

Figure 6: US 10-year government yield



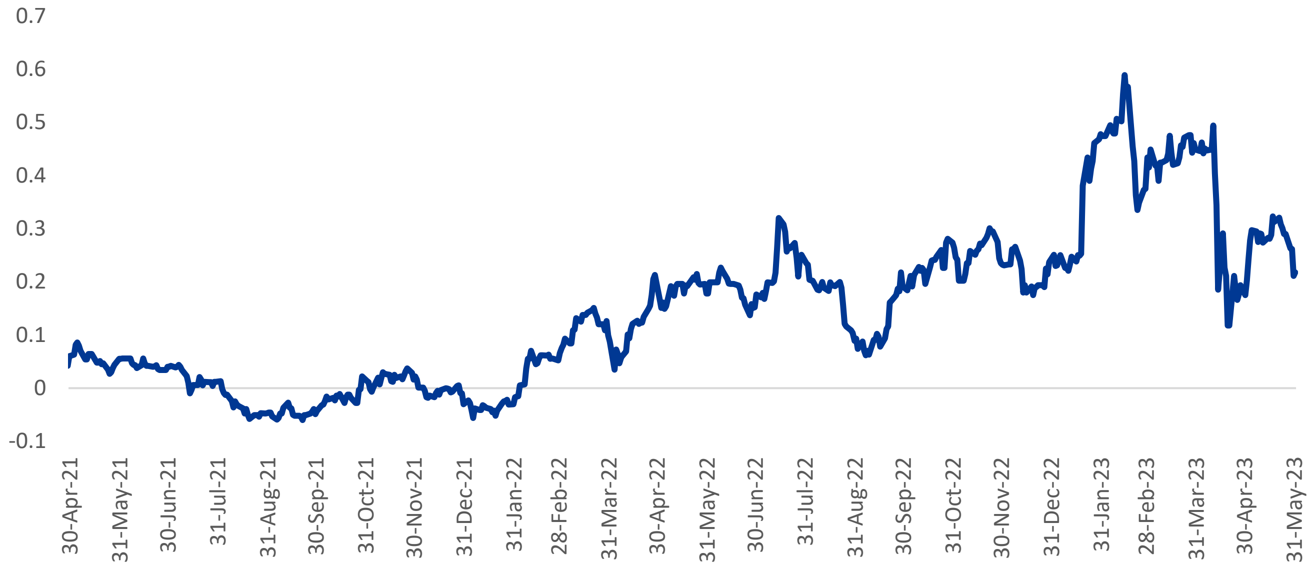
Source: Bloomberg

Figure 7: Germany 10-year government yield



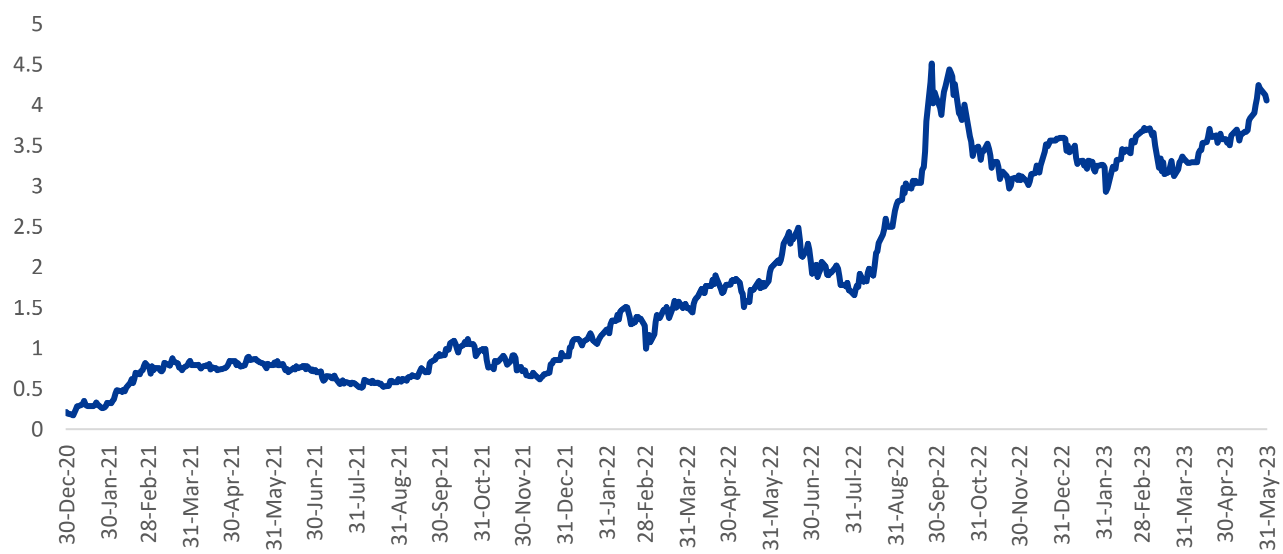
Source: Bloomberg

Figure 8: Japan 10-year government yield



Source: Bloomberg

Figure 9: UK 10-year government yield



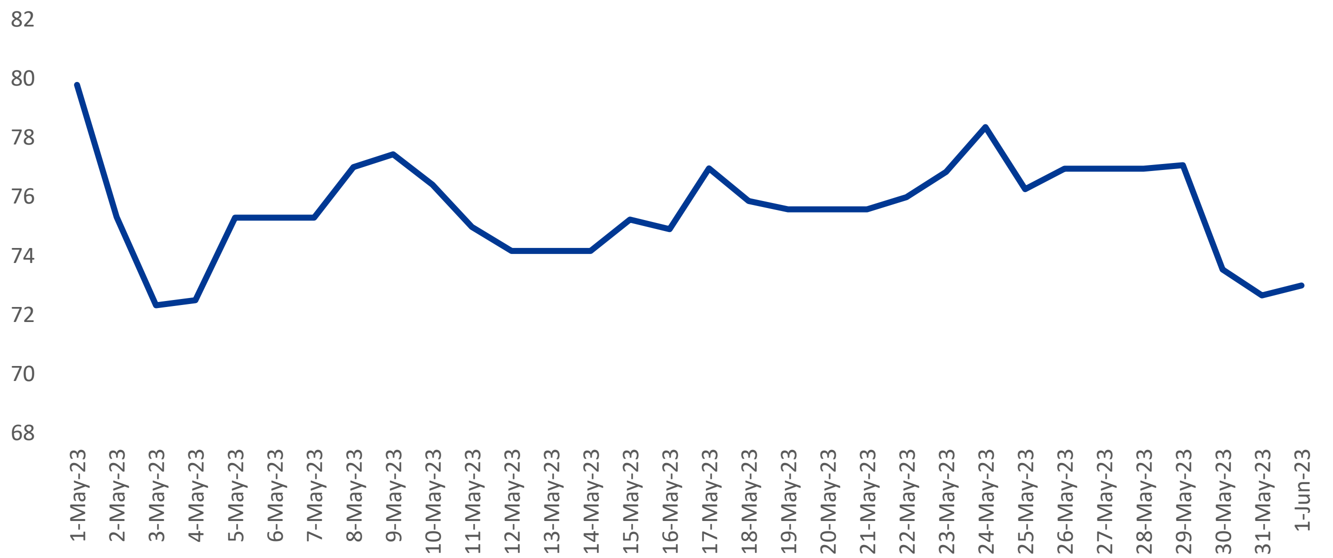
Source: Bloomberg

Oil Outlook

Oil prices declined in the month of April owing to the strengthening of the dollar and fears of further interest rate hikes by the Fed. The prices further continued to soften in the month of May. Oil prices declined during the first week of May 2023 due to weak economic data from China driven by a decline in manufacturing activity coupled with the expectation of a US interest rate hike. The prices reached the lowest point in the month of USD 72.33 per barrel and the lowest level since 2022. The US Fed increased interest rates by 25 bps to 5.25% on 3 May 2023. In addition, OPEC and its allies started to implement the voluntary output cut of 1.16 Mn barrels per day at the start of the month somewhat providing support to the oil prices. After that, crude oil prices traded in a narrow range as investors awaited US inflation data. Oil prices were supported during the mid of May driven by strong demand for fuel from the US while uncertainties over the US debt ceiling and renewed fears over turmoil in the US banking system capped the oil prices. Later, the oil prices edged higher as the US is likely to resume buying oil for the Strategic Petroleum Reserve (SPR) and wildfires in Canada increased supply worries. The US announced to purchase 3 Mn barrels of oil for SPR. However, crude prices lacked direction and clear signs of strong oil demand from emerging and developed markets. The prices traded in a narrow range also due to concerns over the US debt ceiling. In the last week of May, oil prices rose and reached USD 78.36 Mn per barrel as the Saudi Energy Minister warned of further OPEC+ output cuts. Oil prices were further supported by the drawdown of US crude oil inventory. Furthermore, oil prices inched higher on 30 May 2023 as the US reached the debt ceiling deal.

OPEC and its allies started to implement the voluntary output cut of 1.16 Mn barrels per day at the beginning of the month. On the other hand, Venezuela's oil production is expected to increase 1.17 Mn barrels per day by the end of the year. However, India and China are the key buyers of Russian crude oil since the ban of the European Union. The US carried out a large drawdown of 12.5 Mn barrels per day during the end of the month. IEA expects the world oil demand to increase 2.2 Mn barrels per day in 2023 owing to a recovery in Chinese demand. On the other hand, IEA estimates the world oil supply to decline over the OPEC+ production cuts. The multiple events unfolding on the demand and supply front will lead to continued volatility in the oil prices with a downward basis in the near term

Figure 10: Brent Crude Oil Prices (USD per barrel)

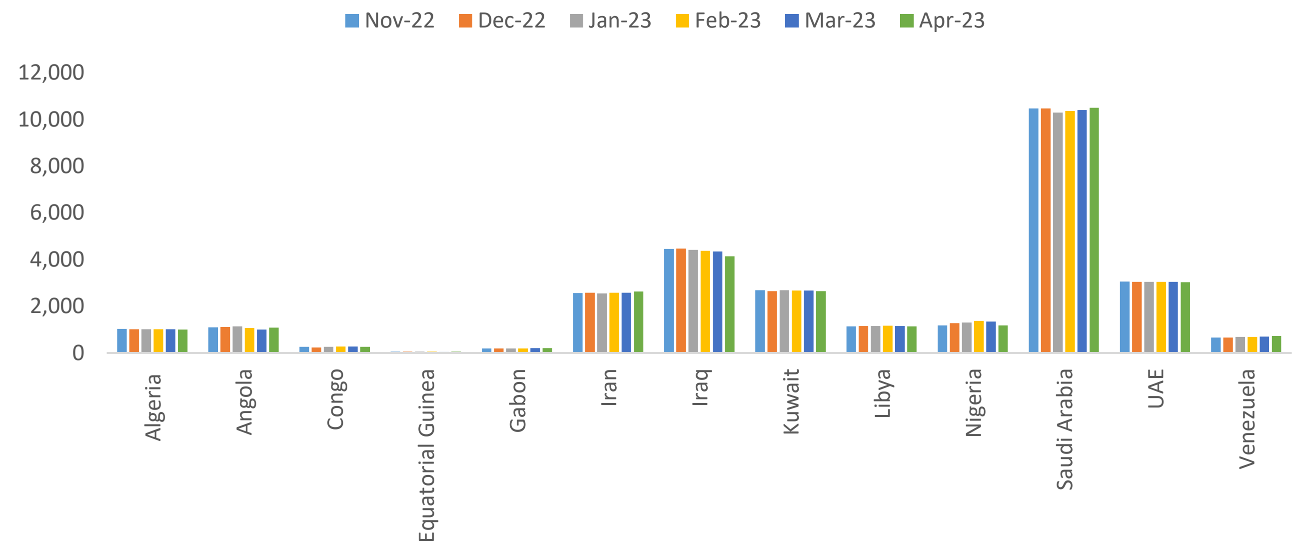


Source: Bloomberg

OPEC Production

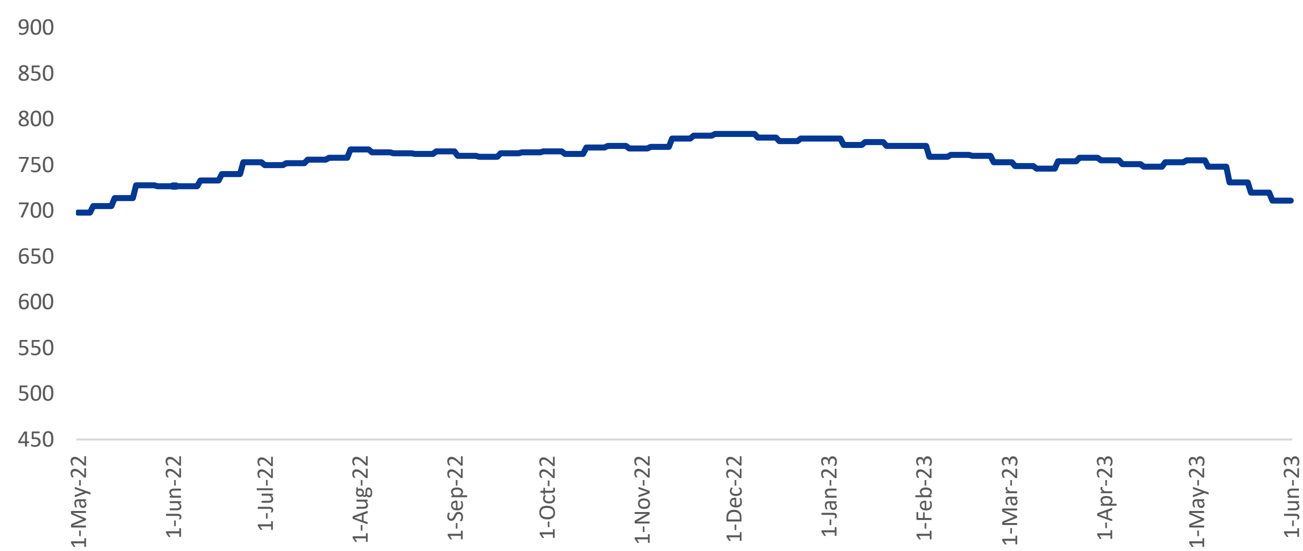
OPEC-13 crude oil production declined 188 thousand barrels per day (bpd) MOM to an average of 28.81 Mn bpd in April 2023. Most of the OPEC-13 countries witnessed a decline in oil production during April 2023. Eight out of 13 countries recorded a MOM decline in oil production in April 2023. Iraq and Nigeria witnessed the largest decline in production in April 2023. Iraq recorded the largest decline of 203 thousand bpd MOM in April 2023 followed by Nigeria with a decline of 170 thousand bpd MOM. Kuwait's production declined 26 thousand bpd MOM in April 2023 whereas Libya and UAE's production declined 24 and 10 thousand bpd MOM respectively. Saudi Arabia recorded the largest rise of 95 thousand bpd MOM during April 2023 followed by Angola with 79 thousand bpd, Iran with 48 thousand bpd, and Venezuela with 24 thousand bpd MOM. Furthermore, Equatorial Guinea's production rose by 12 thousand barrels bpd MOM in April 2023. Saudi Arabia remained the largest producer of oil out of the OPEC-13 countries with a total production of 10.5 Mn bpd in April 2023.

Figure 11: OPEC Crude Oil Production



Source: OPEC

Figure 12: Oil Rig Count



Source: Bloomberg

FAB أبوظبي الأول للأوراق المالية SECURITIES

Credit Strategy

Top picks for 2023

Name	Sector	Price	Mid YTM	Rating
ALDAR 3.875% 2029	Real Estate	95.09	4.83	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	85.60	9.46	Ba2/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	93.60	4.79	A1/NA/A+
BGBKKK 5.749% PERP	Bank	91.92	8.37	NA/NA/NA
SIB 5% PERP	Bank	96.91	7.00	NA/NA/NA
ALMARA 4.311% 2024	Food and Beverages	99.11	5.60	Baa3/BBB-/NA
GENHLD 4.76% 2025	Investment Co.	100.24	4.69	A1/NA/A
REITDU 9.5% 2024	Real Estate	94.98	13.65	NA/NA/NA
ADIBUH 7.125% PERP	Bank	100.49	7.98	B1/NA/NA
OTELOM 5.625% 2023	Telecom	100.25	5.94	Ba2/NA/BB+
INTLWT 5.95% 2039	Power Generation and Water Utility	98.40	6.14	Ba1/NR/BBB-

Source: Bloomberg

We continue to remain OVERWEIGHT on ALDAR, KWIPKK, ARAMCO, SIB, ALMARA, GENHLD, REITDU, ADIBUH, INTLWT, and OTELOM.

Implications on Securities Recommendations

Bond Particulars	Call	Ask Price	Yield	1M return	3M Return	YTD Return	12M Return
TAQAUH 6.5% 2036	MW	115.83	4.88	0.32	2.13	0.37	-4.28
DIFCAE 4.325% 2024	MW	98.40	5.49	-0.47	-0.47	0.06	-3.02
EMIRAT 4.5% 2025	MW	98.93	5.71	0.17	NA	0.51	-1.02
SECO 5.5% 2044	MW	98.73	5.60	-4.12	-4.83	-5.21	-3.52
ADGB 4.125% 2047	MW	88.36	4.95	-1.67	1.51	-0.52	-10.42
DPWDU 6.85% 2037	MW	109.61	5.84	-2.67	-2.00	2.56	0.19
ETISLT 3.5% 2024	OW	98.12	5.39	-0.23	0.11	-0.09	-2.02
INTLWT 5.95% 2039	OW	98.40	6.15	1.14	4.15	4.60	NA
OTELOM 5.625 %2023	OW	100.25	4.94	0.02	-0.15	0.16	-0.73
ADIBUH 7.125% PERP	OW	100.49	5.39	0.22	-0.32	-0.68	-3.06
ARAMCO 3.5% 2029	OW	93.60	4.76	-1.13	2.37	1.60	-4.84
KWIPKK 4.5% 2027	OW	85.60	9.15	-1.60	-2.71	0.37	0.02

ALDAR 3.875% 2029	OW	95.09	4.78	-0.47	1.79	3.05	-2.38
REITDU 9.5% 2024	OW	94.98	13.23	1.72	NA	-1.21	NA
GENHLD 4.76% 2025	OW	100.24	4.66	0.17	0.54	2.02	NA
ALMARA 4.311% 2024	OW	99.11	5.53	-0.10	-0.10	0.07	-2.02
SIB 5% PERP	OW	96.91	6.61	0.06	-1.28	-1.05	-3.85
BGBKKK 5.7492% PERP	OW	91.92	11.84	2.53	-2.82	3.49	-3.98

Source: Bloomberg

**ALDAR 3.875% 2029 was issued on November 2019. Its 12-month return will be calculated in November 2020.*

ALDAR 3.875% 2029: Initiated with OVERWEIGHT rating

We initiated coverage on Aldar Properties PJSC's (Aldar Properties) 3.875% senior unsecured Sukuk maturing in October 2029 with an OVERWEIGHT rating. The Sukuk is trading at USD 94.71 with a yield of 4.88% when held until maturity (redemption at par) with a modified duration of 5.58. The Sukuk also enjoys an investment-grade rating of 'Baa1' by Moody's.

- Aldar Properties is a leading real estate developer, with the highest market cap of AED 37.74 Bn, in Abu Dhabi. Apart from being a reliable government contractor, the company developed many innovative projects, such as Yas Island's F1 circuit and the Gate Towers in Shams Abu Dhabi. Demand for Abu Dhabi's real estate is robust, and the government supports it in terms of home purchasers. The current market has a good supply, and investors are confident in investing in quality projects in prime locations. Aldar diversified its operation and acquired SODIC in Egypt in FY2021. SODIC is a leading Egyptian real estate company with a strong track record of 25 years, having a land bank of 16 Mn sqm across 3 geographies in Egypt.
- Mubadala Investment Company, a Sovereign wealth fund of the Abu Dhabi government, owns a 25.1% stake in Aldar. Alpha Dhabi Holding owns a 28.4% stake through its related companies Sublime Commercial Corporation, Sogno Two, and Sogno Three Sole Proprietorship LLC. Aldar Properties is an important strategic partner to the government, having completed several large-scale infrastructure projects and developments in UAE.
- Aldar Properties (Aldar) released its financial results for the full year of FY2022, announcing revenues of AED 11.2 Bn, up 31% YOY with a gross profit of AED 4.7 Bn, up 31% YOY, and a net profit of AED 3.1 Bn, up 35% YOY, demonstrating the resilience of Aldar's diversified business model. Aldar EPS rose 24.7% YOY to AED 0.368 in FY2022, demonstrating consistent long-term shareholder value growth.
- Aldar's strong financial results were driven by the strong performance of Aldar Development and Aldar Investment's recurring income portfolio. The strong growth in the investment business is driven by a rapid recovery in the investment property, hospitality, and leisure business. The backlog of the development business nearly doubled to AED 14.4 Bn in 2022 as a result of record sales and project launches, in addition to strong contributions from SODIC, offering strong revenue visibility

over the period of next two to three years. Additionally, Aldar already sold 86% of its launched development project pipeline in the UAE as of FY2022. The Project Management business revenue backlog increased to AED 64.8 Bn, led by the addition of new projects valued at AED 35.6 Bn in FY2022. Aldar Investment's AUM reached AED 32 Bn in FY2022 as a result of strategic acquisitions and capital deployment. The occupancy rate in the investment property business reached 92% in 2022, and the acquisition of ADGM towers supported the Company's revenue. Aldar's hospitality and leisure business recovered, owing to a robust recovery in the tourism sector in FY2022. The Company entered the Dubai market through a JV with Dubai Holding and plans to launch three developments over 3.6 Mn sqm of land. Aldar also purchased Al Fahid Island, a 3.4 Mn sqm island positioned between Saadiyat and Yas Island. Aldar Investment deployed capital amounting to AED 7.4 Bn and Aldar Development deployed AED 4.1bn in FY2022.

- The company completed a USD 1.4 Bn long-term investment with Apollo Global Management. The investment consists of a USD 500 Mn land JV between Aldar Properties and Apollo that will diversify the Company's funding source, a USD 500 Mn investment in non-call 15 Hybrid Perpetual Notes to Aldar Investment Properties priced at 5.625%, and a USD 400 Mn equity investment in Aldar Investment Properties LLC (AIP) at 100% of NAV. A considerable revenue backlog, along with a robust project pipeline and diverse revenue sources, supports the Company's long-term revenue visibility
- Liquidity position remains healthy with AED 7.6 Bn worth of free & subsidiary cash and AED 4.0 bn of undrawn bank facilities. The Company has no debt due for maturity in 2023 and AED 0.03 bn in 2024

KWIPKK 4.5% 2027: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Kuwait Projects Company (KIPCO)'s 4.5% senior unsecured bond maturing in February 2027 with an OVERWEIGHT rating. The bond is trading at USD 86.84 with a yield of 8.85% when held until maturity (redemption at par) and has a modified duration of 3.41. The bond is issued at the holding company level, so the debt service obligations would be met through the cash balance available with KIPCO and the dividends it receives.

KIPCO is one of the largest holding companies in MENA, with its consolidated assets growth of 12% to KD 11.4 Bn (USD 37.2 Bn) in FY2022, and sustained through multiple economic cycles, making consistent dividend payments for the last 17 years until FY2021. Members of the Kuwaiti ruling family remain KIPCO's shareholders since FY1988, through Al Futtooh Holding Company K.S.C. (AFH), and currently own a 44.9% direct holding. AFH supported KIPCO in all business activities, including treasury share repurchases, capital raising, and reduction in dividends.

- KIPCO's total revenue from operations increased 47% from KD 721 Mn (USD 2.35 Bn) in 2021 to KD 1.06 Bn (USD 3.5 Bn) in FY2022 mainly due to healthy performance from commercial banking, asset management & investment banking, and industrial & logistics partially offset by a decline in insurance, media & satellite services, and hospitality & real estate segment. The rise in revenue was also due to the continued exceptional performance of core firms. KIPCO completed its merger with Qurain Petrochemical Industries, expanding its portfolio to encompass additional areas such as energy, food, healthcare, and logistics. KIPCO expressed its interest in exploring investment opportunities in high-growth potential sectors such as food, healthcare, and education, and its portfolio will serve as a platform for the efforts and pave the way toward the company's future vision.

- The company's operating profit from continuing operations before provisions and directors' remuneration increased to KD 317 Mn in FY2022, up from KD 134 Mn in FY2021. Provisions for credit losses and investments were reported at KD 34 Mn in FY2022, down from KD 74 Mn in FY2021.
- The company recorded an increase in net profit to KD 25.2 Mn (USD 82.3 Mn) for FY2022, up from KD 17.5 Mn (USD 57.1 Mn) in FY2021. During FY2022, earnings per share climbed 15% YOY to KD 6.9 fils (USD 2.3 cents).
- KIPCO's Board recommended not to distribute dividends for FY2022 to ensure liquidity, timely repayment of debt maturing in the near term and pursue new investment opportunities. This also ensures the company maintains its credit profile and rating position.
- KIPCO is rated as BB- with a negative outlook from S&P and a BB stable outlook rating from Fitch. According to Fitch, KIPCO's liquidity is tight and possesses re-financing risk for the company which is manageable due to the company's proven track record and established relationship with financers and banks. In addition, ownership of Kuwait's royal family will also help in managing this risk. The recently completed acquisition will increase the company's gross assets and diversify dividend streams from multiple sectors.
- KIPCO with KD 286.4 Mn of debt maturing in FY2023 and it held cash and cash equivalents of KD 140 Mn at the parent company level

ARAMCO 3.5% 2029: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Saudi Aramco's 3.5% bond maturing in April 2029. The bond is trading for USD 91.43 and offers a yield of 5.15%. We believe the bond offers an attractive yield for A1-rated security (limited by sovereign rating), considering it has characteristics of an 'AAA' rated company, supported by robust profitability, market leadership, significant cash flows visibility and low debt levels.

- Saudi Aramco is the world's largest integrated oil & gas company. The company generated a net profit of USD 161 Bn in FY2022, making it one of the highest profits generating public companies in the world. Aramco achieved a record financial performance in FY2022, as oil prices rose owing to rising global demand and geopolitical tension. The firm maintained its long-term objective of increasing capacity and competence across the value chain with the goal of addressing energy security and long-term viability. Aramco expects oil and gas to be crucial for the foreseeable future; yet, the risks of underinvestment in the industry are substantial, contributing to rising energy costs. Aramco embarked on the largest capital investment program in its history in order to utilize its unique advantages at scale and be part of the global solution. The company's priority is to increase oil, gas, and chemical products while also investing in innovative lower-carbon technologies that have the potential to reduce emissions. Total revenue from operations rose from USD 359 Bn in FY2021 to USD 535 Bn in FY2022.

- According to Fitch's latest credit rating, the rating agency assigned Long-Term Foreign & Local Currency of Saudi Aramco at 'A' with a positive outlook. Aramco standalone credit rating stood at 'AA+', higher than Saudi Arabia's rating, given its low debt levels, market leadership, and strong profitability. Both agencies Moody's and Fitch assigned Aramco a long-term issuer rating of 'A1' and 'A', respectively.
- In FY2022, Aramco's net income grew by 46.5% to a record USD 161.1 Bn, up from USD 110 Bn in FY2021. The rise in net income is due to increased crude oil prices, higher volume sold, and improved refined product margins. In FY2022, free cash flow reached an all-time high of USD 148.5 Bn, up from USD 107.5 Bn in FY2021. Aramco continues to prioritize a strong balance sheet, with a negative gearing ratio of 7.9% by the end of FY2022, decreasing from a positive gearing ratio of 12.0% in FY2021
- Aramco declared a dividend of USD 19.5 Bn in 4Q22, which will be paid in 1Q23. The dividend rose 4% QOQ and is consistent with the Company's dividend policy, which aims to offer a sustainable and progressive dividend. In addition, the Board of Directors proposed that eligible shareholders receive one bonus share for every ten shares held, subject to the approval at the Extraordinary General Assembly. The Company strives to maintain a stable and rising dividend in accordance with prospects, as well as to develop underlying free cash flow and create long-term value through investments in accessible opportunities.
- Aramco spent USD 37.6 Bn on capex in FY2022, up 18.0% from FY2021. Aramco anticipates to spend USD 45.0 Bn to USD 55.0 Bn on capex in FY2023, including external investments, with capex growing until the middle of the decade. In February 2022, Aramco also concluded an energy infrastructure deal which resulted in a consortium of investors led by BlackRock Real Assets and Hassana Investment Company purchasing a 49% stake in a newly established subsidiary, Aramco Gas Pipelines Company (AGPC) for USD 15.5 Bn
- The Company has USD 52.5 Bn debt due for expiration in FY2023-24, however it has enough liquidity to meet the requirement

BGBKKK 5.749% PERP: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Burgan Bank's 5.749% Jr. subordinated perpetual Additional Tier 1 (AT1) bond currently trading at USD 88.25. The bond has a yield of 8.47% with a duration of 1.12. Its loan book is diversified with exposure to Kuwait and international operations in multiple sectors. The top ten customers comprise 26% of gross loans and advances in FY2022.

- Burgan Bank is one of the leading conventional banks in Kuwait in terms of total assets and listed on Boursa Kuwait. The Bank has the network of 127 branches and 284 ATMs. The Bank is majorly owned by KIPCO Company with a stake of 64.3%
- Burgan Bank Group's revenues remained stable at KD 232.1 Mn in FY2022 as compared to KD 234.7 Mn in FY2021. Burgan Bank reported a net profit of KD 52.1 Mn despite the geopolitical turmoil and hyperinflationary accounting (IAS 29) losses of KD 24.6 Mn on its Turkish subsidiary. The net profit

rose 15% in FY2022, primarily due to increase in net interest income growth of 15% YOY and a decline in cost of risk by 69.8% YOY. Net interest income increased by 15% to KD 147.5 Mn in FY2022 from KD 128.2mn in FY2021, owing to a 30-basis point increase in net interest margins to 2.4%. Fees and commissions income rose 16% over the previous year, showing strong contributions from various lines of business. Operational expenses grew 13% to KD 107 Mn due to the inflationary environment and increased costs associated with current investments in the digital banking platform. For the FY2022, the cost-to-income ratio stood at 46.1%. Total credit provisions charge declined significantly from KD 84.6 Mn in FY2021 to KD 25.3 Mn in FY2022 due to improvement in economic environment

- The Bank's non-performing loan ratio rose marginally from 1.7% in FY2021 to 1.9% in FY2022. In 2022, the loan loss coverage ratio without collateral remained strong at 206%. Burgan's Capital Adequacy Ratio stood at 16.8%, compared to the regulatory requirement of 12.5%. The Group maintains high liquidity levels, with a liquid coverage ratio (LCR) and net stable funding ratio (NSFR) of 151.2% and 110.1%, respectively, as of FY2022, substantially above the minimum regulatory requirement of 90%
- The Board of Directors approved a cash dividend of 8 fils per share, in addition to a 5% bonus share distribution, subject to shareholder approval at the Annual General Meeting
- Fitch Ratings affirmed Burgan Bank's rating at "A" Outlook-Stable. Moody's assigned a credit rating of "Baa1" with a Stable Outlook and S&P Global also assigned a rating of "BBB+" with a Stable outlook

SIB 5% PERP: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Sharjah Islamic Bank's (SIB) 5.0% Jr. subordinated perpetual (AT1) bond. The bond offers a yield of 7.25% currently trades at USD 98.16 with a duration of 2.14 years.

- Moody's Investor Service recently downgraded the local and foreign currency long-term issuer ratings of Sharjah Islamic Bank PJSC (SIB) to Baa2 from Baa1. The outlook of the long-term issue rating is revised from Stable to Negative. The rating agency mainly revised the rating on the security in September 2022 due to a decline in the Bank's asset quality and expects it further decline due to sector concentration. The profitability will be further pressured due to an increase in financing growth and capitalization will further create earnings volatility. S&P Global Ratings upgraded SIB's long-term issuer credit rating to 'A-' from 'BBB-,' backed by the bank's strong relationship with the Government of Sharjah and expected stable business and financial profile over the next two years. The agency also expects the bank's asset quality to remain resilient and sufficient capitalization.
- Sharjah Islamic Bank's (SIB) net profit rose 26.6% to AED 651 Mn in FY2022 mainly due to an increase in funded and non-funded income partially offset by a decline in operating expenses and provisions. Total operating income also rose 12.7% to AED 1,609 Mn in FY2022 due to 10.9% in net funded income and 18.8% growth in non-funded income. In line with the bank's prudent credit management approach the provisions rose 28.3% to AED 314 Mn in FY2022. Non-performing loans rose from 4.8% in FY2021 to 6.0% in FY2022 with a stage 2 ratio of 7.8%.

- SIB's total assets grew 7.6% to AED 59.1 Bn in 2022. While net advances rose 5.7% to AED 30.7 Bn in 2022. The Bank's liquid assets amounted to AED 14.1 Bn, representing 23.9% of total assets in 2022. The Bank's customer deposits rose marginally 2.7% to AED 39.5 Bn in 4Q22. However, total equity declined 0.8% to AED 7.6 Bn in 2022. The bank's liquidity ratio remained solid for prospects, reaching AED14.1 Bn, or 23.9% of total assets, up from AED14.3 Bn, or 26.1% of total assets, at the end of the previous year. The bank's financing-to-deposits ratio hit 77.6%, indicating the strength and stability of its liquidity position.

ALMARA 4.311% 2024: Maintain OVERWEIGHT rating

We maintain OVERWEIGHT on Almarai's 4.311% Sukuk maturing in March 2024. The Sukuk is trading for USD 99.097 with a yield of 5.388% when held till maturity (redemption at par). The current price provides a good entry point for a Sukuk with a duration of 0.885 years. The Company generated robust revenue and profitability growth in the past with a dominant market share in dairy products.

- Almarai is the largest integrated consumer food producer in the Middle East, offering more than 650 products. The company's recorded an increase in annual revenues driven by a growth in revenue from Jordan, Egypt, Saudi Arabia and Kuwait. The company debt reduced from SAR 9.7 bn in FY2021 to SAR 9.5 Bn in FY2022. The Company's finance cost will increase due to higher benchmark rates. In addition, the company is expected to incur heavy capex in the next two years for the expansion of the poultry segment
- Almarai generated a total revenue of SAR 18.7 Bn in FY2022 with a total net income of SAR 1.8 Bn. The Dairy & Juice segment contributed 53% of Almarai's total revenue, followed by poultry 16%, bakery 13%, Foods 14%, and other activities 4%. The expansion in the food category and the reopening and normalization of schools supported the growth in volumes in FY2022.
- The high prices of feed (corn and soya) and dairy commodities, as well as the increased transportation and packaging costs, led to a 21% increase in the cost of sales. Growth in operating profit is lower than revenue growth rate due to higher feed cost, alfalfa cost and packaging cost. Net profit grew in line with operating profit despite an increase in benchmark interest rates
- In FY2022, Almarai's investment in working capital stood at 19% of revenue in FY2022 as compared to 16% in FY2021. Capex declined 2.2% to reach SAR 1.334 Bn. As a result, the company's free cash flow fell 40.6% to SAR 1.842 Bn in FY2022. The current CAPEX is only attributed for maintenance purposes
- Operating cash flow fell 21.9% to SAR 3.8 bn due to investment in working capital and higher zakat expenses
- Almarai is provided an investment grade credit rating of Baa3 by Moody's and BBB- by S&P with stable outlook

GENHLD 4.76% 2025: Maintain OVERWEIGHT rating

We maintain OVERWEIGHT on Senaat's 4.76% Sukuk maturing in December 2025. The Sukuk is trading for USD 99.70 and has a yield of 4.87% when held till maturity (redemption at par). Arkan Building Materials Company PJSC completed the acquisition of Emirates Steel Industries PJSC ("Emirates Steel") and issued share capital from its majority shareholder, General Holding Corporation PJSC ("SENAAT"), on October 6, 2021, in exchange for the issuance of 5.1 Bn new ordinary shares in the Company. Emirates Steel became a direct 100% subsidiary of the Company, and SENAAT's ownership in Arkan increased from 51% to 87.5% of its issued share capital as a result of this transaction.

- Overall Group revenues in FY2021 reached AED 3,022.2 Mn, up from AED 828.7 Mn in FY2020, with Emirates Steel contributing AED 2,232.9 Mn since its acquisition.
- As of December 31, 2021, the Group's total assets were AED 12.1 Bn, up from AED 3.3 Bn in December 2020, and the value of shareholders' equity was AED 7.2 Bn, up from AED 1.7 Bn in December 2020.
- The Long-Term Issuer Default Rating (IDR) of General Holding Corporation PJSC (Senaat) has been affirmed by Fitch Ratings at 'A' with a Stable Outlook. SenaatSukuk Limited's senior unsecured notes were similarly affirmed at 'A' by Fitch. Senaat's strong relations with the Abu Dhabi government are reflected in the rating, which is based on the Government-Related Entities Rating (GRE) Criteria.

REITDU 9.5% 2024: Maintain OVERWEIGHT rating

We maintain OVERWEIGHT on Emirates REIT's 9.5% Sukuk maturing in December 2024. The Sukuk is trading at USD 90.90 with a yield of 16.07% when held till maturity (redemption at par). Over the years Emirates REIT has been showing promising occupancy rates. The company properties are diversified among commercial, educational, and retail sectors. The highest percentage of the portfolio goes to the commercial where they see the value.

- As Dubai's real estate market rebounds from the effects of the COVID-19 outbreak, the REIT continues to observe strong growth. For the year ending December 31, 2021, the company's EBITDA increased by 59.04% to USD 46.6 Mn, compared to the same period in FY2020. The year ended with a net profit of USD 63.1 Mn, compared to a net loss of USD 242.9 Mn in FY2020.
- Net property revenue climbed 7.69% to USD 56 Mn as of the year ending December 31, 2021. Total property expenditures fell 11.11% to USD 12.5 Mn as of December 2021, compared to the same period a year ago, as the REIT continued to focus on cost reduction.
- The occupancy in the portfolio increased by 2.8 % to 71.8% as of December 31, 2021, owing to the successful conclusion of ongoing lease negotiations since the end of FY2021, the occupancy has reached 81.0% as of March 31, 2022, a 12.1% increase compared to December 31, 2020. The portfolio's total number of tenants increased from 307 as of December 31, 2020, to 327 as of December 31, 2021, whilst the WALE remains over 7.1 years as of December 31, 2021
- In FY2021, the REIT recorded a net reversal on estimated credit losses of USD 5.2 Mn, compared to a charge of USD 6.8 Mn in the same period of FY2020, owing to partial recovery from one of its

tenants. The fair value of investment property appreciated 6.8% YOY, to close at USD 737.1 Mn compared to FY2020 at USD 690.3 Mn resulting in an unrealized gain of USD 44.7m in FY2021.The NAV per share increased by 28.3% over FY2021 and is equal to USD 0.95 per share as of December 31, 2021.

- As of December 31, 2021, the market value of the office portfolio totalled USD 504.1 Mn and, the market value of the retail portfolio totalled USD 57.1 Mn.

ADIBUH 7.125% PERP: Maintain OVERWEIGHT rating

We maintain OVERWEIGHT on Abu Dhabi Islamic Bank's (ADIB) 7.125% Jr. subordinated perpetual (AT1) bond. The bond's current yield is at 8.44% and is currently trading at USD 100.74 The bond received a credit rating of B1 from Moody's. The bond offers a fixed coupon rate of 7.125 until the next call date 09/20/23 with a modified duration of 0.51.

- Net income increased 54.0% to AED 3.6 Bn in FY2022. The increase in net profit reflects the company's excellent underlying performance, which was aided by a 22.9% increase in total operating income to AED 6.8 Bn compared to the previous year. Revenues increased due to higher benchmark rates and robust growth in the customer base driving advances growth by 26% to AED 112.2 Bn in FY2022. The operating expense grew lower than revenue boosting pre-provisioning profit 34.8% to AED 4.4 Bn. Impairments declined 19.4% YOY to AED 769 Mn due to improvement in the economic outlook.
- The Bank's net income was partially offset by 5.6% rise in operating expenses due to investments in digitization to achieve cost synergies along with strong growth in the customer base, whereas the cost-to-income ratio improved 573 bps to 34.9% due to higher operating income. ADIB's balance sheet stood strong with 23.1% YOY rise in total assets, driven by a 26.0% YOY growth in net advances while customer deposits rose 26.0% YOY as compared to FY2021. The capitalization remained healthy with a total CAR of 17.2% in FY2022.
- ADIB launched various new products in FY2022 to grow its market share and diversify its revenue segment through a wide range of product offerings to maximize shareholder value. ADIB focuses on a solid digitization plan to grow its customer base and build a new strategy to provide comprehensive financial solutions for SMEs to support their short-term and long-term goals.

OTELOM 5.625% 2023: Maintain OVERWEIGHT rating

We remain OVERWEIGHT on OTELOM 5.625% 2023 secured bond with expected price appreciation from the current price of USD 100.203 with a yield to maturity of 5.78%. The company 'Ba3 'was assigned by Moody's and a rating of 'BB' was assigned by Fitch with a positive and stable outlook, respectively.

- The Group's overall revenue for FY2022 stood at OMR 2,682.8 Mn, up 10.2% YOY from OMR 2,408.3 Mn in FY2021.The Group's revenue includes revenue from Zain Group's acquired businesses, which reported revenues of OMR 2,129 Mn. Revenue from the domestic operation rose from OMR 531.4 Mn in FY2021 to OMR 565.5 Mn in FY2022 due to growth in revenue from mobile post-paid and fixed broadband partially offset by a decline in prepaid revenue. The company's customer base grew by 3% in FY2022, while Zain group's customer base was up by 7% in 2022. Total operating costs rose from OMR 1,267.5 Mn in FY2021 to OMR 1,305.3 Mn in FY2022. The increase in cost of sales is mainly due to an increase in royalty charges for fixed businesses from 7% in FY2021 to 10% in FY2022 as well as higher costs for devices and modems.

- The Group made an after-tax profit of OMR 278.9 Mn, up from OMR 233.6 Mn in FY2021. After adjusting for minority interest, the net profit for the period is OMR 91.3 Mn, up 35.3% from OMR 67.5 Mn in FY2021. The growth in net profits was due to the revenue growth in Mobile postpaid (11.2%) and fixed broadband services (3.3%), currency depreciation and cost optimization steps undertaken.
- The Board declared a final dividend of 55 bz per share, and an interim dividend of 5 bz per share for FY2023, which is subject to approval by shareholders at the annual general meeting.
- The domestic subscriber base (including mobile and fixed businesses) rose from 3.208 Mn in FY2021 to 3.216 Mn (excluding Mobile Resellers) With mobile resellers, the total user base reached 3.8 Mn. Omantel's capex in the domestic business rose 37.7% to OMR 84 Mn in FY2022 owing to continued investments in 5G services and 4G expansion in Oman.
- Omantel did two major transactions in the year 2022, first, the sale of the 2,519 tower sites for USD 494 Mn in cash and second, the IPO of Pearl REIF by selling 136.7 Mn investment units at OMR 0.112 per share price. Omantel monetized its headquarter building located in Madinat Al Irfan-Muscat through IPO. The proceeds from these asset sales will be used to pay off the company's debt. After completion of this transaction, the Company's domestic net debt declined from OMR 717 Mn in FY2021 to OMR 669 Mn in FY2022 with a net debt to EBITDA ratio of 2.2x in FY2022 and interest coverage ratio of 4.4x.
- Omantel is majority-owned by the Oman government (51%) and Oman is expected to extend financial support to Omantel when required. Oman has a strong domestic presence in the prepaid and postpaid mobile segment and over the years has a leading market share in the country's mobile and fixed markets. Omantel's strategic diversification strategy and unique geographical presence aided the company to become the sector leader and one of the main wholesale providers serving telecom operators and content providers locally and globally

INTLWT 5.95% 2039: Maintain OVERWEIGHT rating

We remain OVERWEIGHT on APMI One's 5.95% bond maturing in May 2039. The bond is trading at USD 95.43 with a yield of 6.44% if held till maturity (redemption at par). The bond has a modified duration of 7.64. The Bond has a credit rating of BBB- from Fitch and Ba1 from Moody's both with a stable outlook.

ACWA Power Management and Investments One Ltd (APMI One) is wholly owned subsidiary of Acwa Power Company. ACWA Power Co. develops, operates, and invest in power generating and desalinated water production plants in Saudi Arabia. The company was established in FY2004 in KSA and expanded throughout the years to operate in 12 countries. The first expansion plan took place in FY2008-FY2010 in Oman and Jordan, then from 2012 to 2014, the company expanded in Morocco, South Africa, and Turkey. The final expansion was in UAE, Egypt, Bahrain, Vietnam, Ethiopia, and Uzbekistan from FY2015 to FY2020.

- Five large-scale new renewable projects have been added to the advanced development fleet (+3,500 MW) which will increase the renewable energy capacity to 14.8 GW by FY2021, accounting for 35% of the portfolio. The Company has 64 assets (in operation, under construction, or in advanced development) with a total investment cost of SAR 251.7 Bn, generating 42.7 GW of electricity producing 6.4 Mn cubic meters of desalinated water per day.
- The Company agreed to sell its 32% effective investment in SQWEC, an oil-fired facility with 850 MW of power and 212,000 cubic meters' water desalination capacity in the Kingdom of Saudi Arabia, on September 7, 2021. The sale reduced the diversification of APMI One cash flow. In order to offset the impact of lost cashflows from SQWEC, ACWA Power increased the stake in RAWEC that forms part of APMI One bondholder security and cashflows from 37% to 80%. While this offsets the cashflow impact of the sale of SQWEC, it results in greater concentration at RAWEC, for which we view the offtaker as of lower credit quality than for others in the portfolio. The issuer APMI One is a Special Purpose Company, incorporated under the laws of DIFC, which is 100% owned by ACWA Power Projects. However, APMI One is not the only entity ACWA Power Projects has its hands on. Below is the effective percentage share of ACWA Power in the listed entities as of 30th June FY2020:

- 30% in Shuaibah Water & Electricity Co. (SWEC), Contract Initiated in 1Q10 for 20-yr PWPA.
- 32% in Shuqaiq Water & Electricity Co. (SqWEC), Contract Initiated in 2Q11 for 20-yr PWPA.
- 30% in Shuaibah Expansion Project Co. (SEPCO), Contract Initiated in 4Q09 for 20-yr WPA.
- 74% in Rabigh Arabian Water & Electricity Co. (RAWEC), Contract Initiated in 2Q08 & 2Q16 for 25-yr WECA. However, in 2018 RAWEC pledged 37% of its stake leaving ACWA Power Projects with a current stake of 99% in RAWEC.
- 40% in Rabigh Electricity Co. (RABEC), Contract Initiated in 2Q13 for 20-yr PPA.
- 20% in Jubail Water & Power Co. (JWAP), Contract Initiated in 3Q10 for 20-yr PWPA.
- 100% in International Barges Co. for Water Desal. (BOWAREGE), No active Contract was leaving ACWA Power Projects with 100% ownership. All the assets were disposed of as scrap or fully impaired in 2019 Books.
- 22.5% in Hajr for Electricity Production Co. (HEPCO), Contract Initiated in 2Q16 for 20-yr PPA.
- In FY2020 APP increased its stake by 4.99% by acquiring Samsung C&T's share in Hajr Electricity Production Company, increasing its shares from 17.5% to 22.5%. The acquisition will strengthen the position of APP as the second-ranked shareholder after the Offtaker Saudi Electricity Company (SEC).
- 100% in First National Holding Co., which own 99% ownership in First National O&M Co. (NOMAC), NOMAC went through a restructuring that led to all the assets and liability, (Not including Rabigh Power Company (O&M)), under APP to be transferred to First National Holding Co.

- APP filed its zakat and tax returns for all the years till FY2021. APP's position with the ZATCA had been finalized till FY2014. APP obtained a ZATCA assessment for FY2018 in FY2020, with an increased zakat liability of SAR 31 Mn. The revised zakat liability was closed out at SAR 1.3 Mn. APP obtained a ZATCA evaluation for the years 2015 to 2017 in April 2021, with an additional zakat liability of SAR 39.7 Mn. APP filed an objection with the Tax Violations and Dispute Resolution Committee ("TVDRC") of the General Secretariat of Tax Committees ("GSTC"). During FY2022, the TVDRC issued a judgment partially in favor of APP, reducing the liability to SAR 11.3 Mn. After that, the ZATCA filed an appeal with the Tax Violations and Dispute Appeal Committee ("TVDAC") against the TVDRC verdict. The TVDAC is yet to review the case.
- NOMAC filed zakat returns for all years up to FY2021. During the years FY2008 to FY2012 and FY2013 to FY2016, the Firm received two zakat assessments from the ZATCA. The TVDAC ruled in favor of the company for the years FY2008 to FY2012. During the years FY2013 to FY2016, the TVDAC ruling resulted in a zakat liability of SAR 4.5 Mn. NOMAC, on the other hand, is in the midst of filing a reconsideration application in response to the TVDAC verdict.
- Financial details as of FY2022 for ACWA Power are listed below:
  - ACWA Power reported operating income before impairment loss and other expenses rose 13.5% to SAR 2,614 Mn in FY2022, higher than SAR 2,303 Mn in FY2021. The growth in the profit is driven by projects achieving initial as well as commercial operation after 2021, higher contribution from development and construction management services for projects that achieved financial close during the year, and lower project development cost, provision and write-offs in 2022 as compared to 2021. Recognition of liquidated damages and insurance recovery, and higher employee long-term incentive plan expenses also added to the higher variance. Some factors partially offset the growth, included the reversal of an impairment loss of SWEC, lower contribution from projects with extended outages, higher maintenance costs in some plants, and higher corporate expenses.
  - Adjusted net profit for FY2022 was SAR 1,575 Mn, 32%, higher than SAR 1,194 Mn of FY2021. ACWA Power reported net profit for FY2022 rose 103% to SAR 1,540 Mn from SAR 759 Mn in FY2021. In addition to higher operating income before impairment loss and other expenses, the growth was largely driven by lower impairment loss, higher other income, higher profit from discontinued operations, and higher net loss attributable to non-controlling interests (NCI) which were partially offset by higher finance charges mainly due to Rabigh 3 coming into operations and higher finance cost on Sukuk, higher Zakat and tax charge.
  - In FY2022, due to refinancing of project debt at RAWEC project debt rose from SAR 2,863 Mn (USD 763 Mn) to SAR 5,231 Mn (USD 1,395 Mn), resulting in lenders to APMI One being subordinated to a higher level of debt at the project level with lower coverage ratios at RAWEC, and a smaller buffer to lock-up covenants
  - ACWA Power reported a cash balance of SAR 4,297 Mn at the parent level in FY2022. The Company’s debt stood at SAR 13.1 Bn in FY2022 with a net leverage ratio of 2.12x

- ACWA Power, through APMI One, partially bought back bonds with a pre-amortization aggregate principal amount of SAR 1,502.7 Mn (USD 400.7 Mn) at a discount through a tender offer during FY2022. The Company recorded a gain of SAR 74.8 Mn on the buyback, net of the proportional share of the unamortized transaction cost associated with the bond's issue, which is shown as other income on the consolidated statement of profit or loss. The debt has an outstanding balance of SAR 1.5 Bn as of 31 December 2022.

Bond Yield charts (%)

Figure 13: ALDAR 3.875% 2029

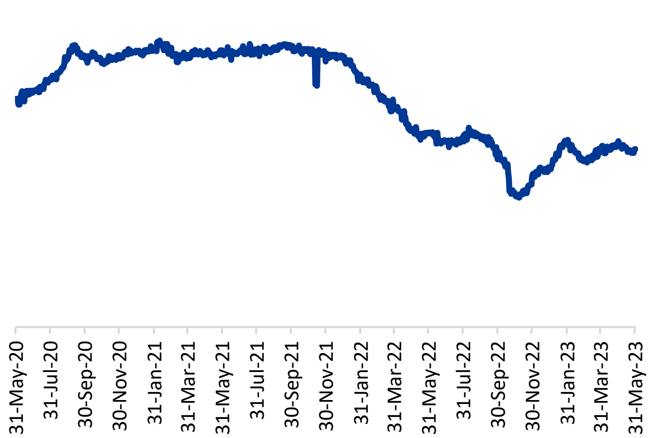


Figure 14: KWIPKK 4.5% 2027

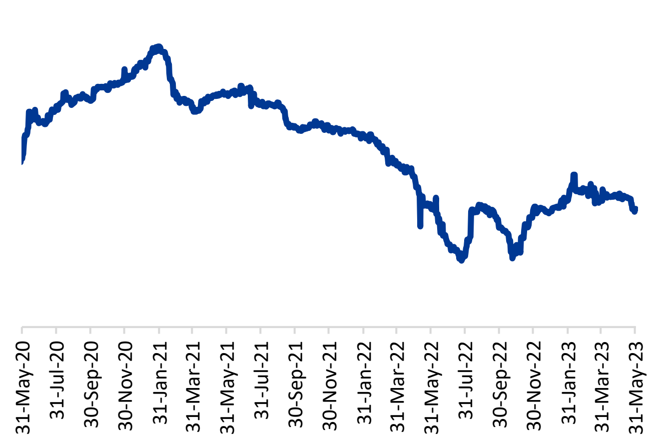


Figure 15: ARAMCO 3.5% 2029

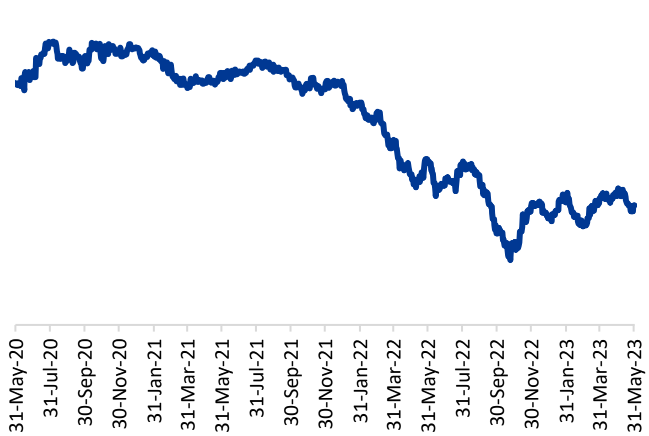


Figure 16: SIB 5% PERP

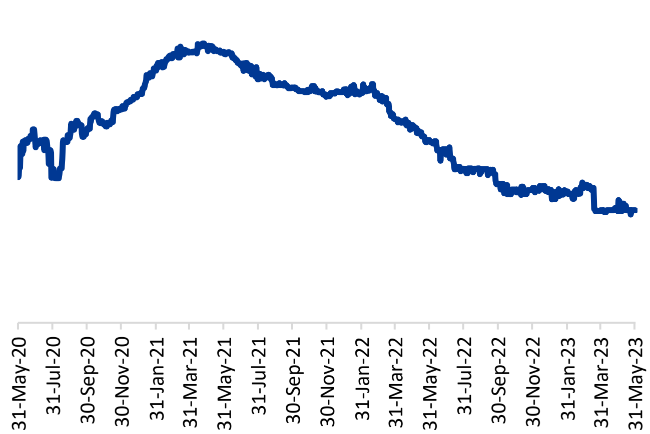


Figure 17: GENHLD 4.76% 2025

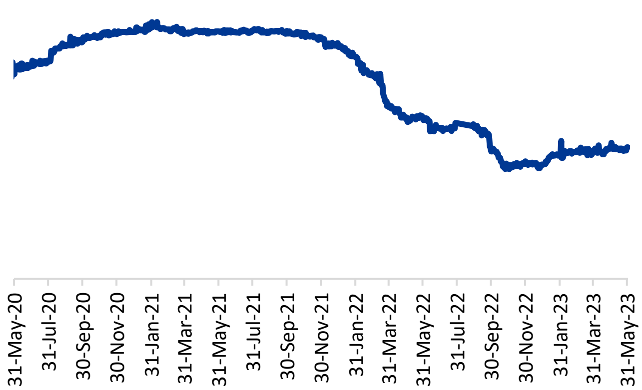


Figure 18: REITDU 9.5% 2024

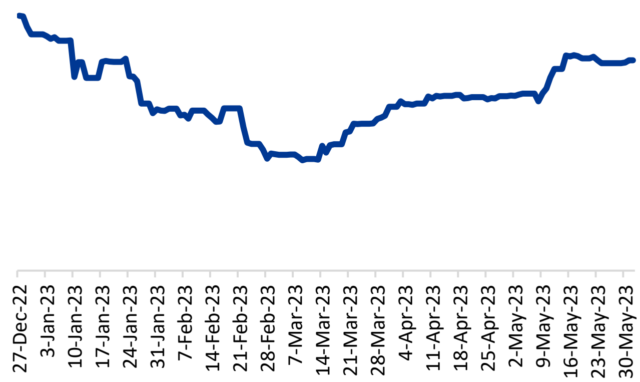


Figure 19: ADIBUH 7.125% PERP

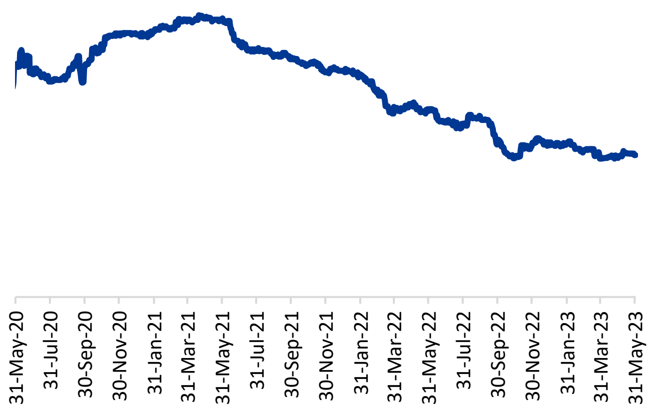


Figure 20: OTELOM 5.625% 2023

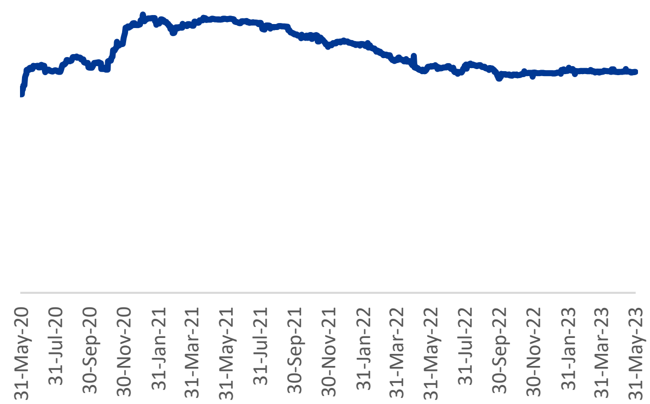


Figure 21: INTLWT 5.95% 2039

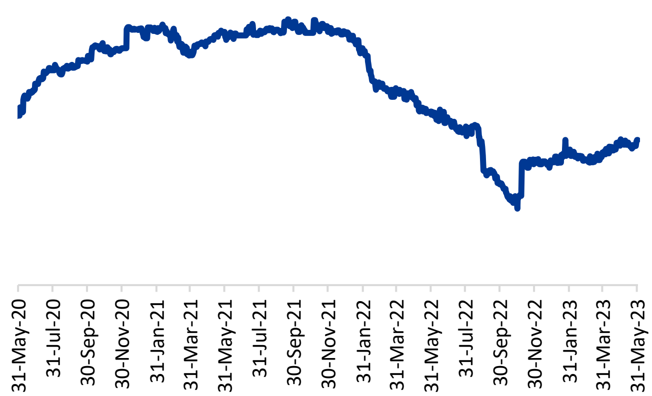


Figure 22: BGBKKK 5.749% PERP

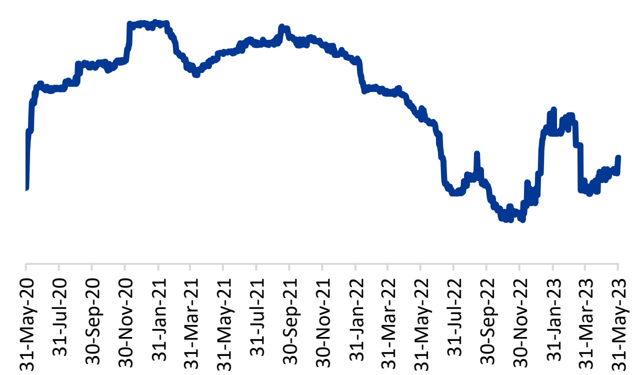
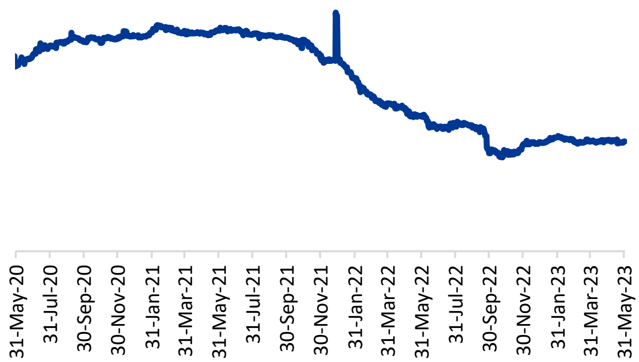


Figure 23: ALMARA 4.311% 2024



Source: Bloomberg

Key Market Indicators

Particulars	Price/Yield	YTD (% change)	MOM (% change)
Brent crude	73.00	-15.03	-7.96
US dollar index	104.30	0.75	2.10
10Y Treasury yield	3.67	NA	NA
2Y Treasury yield	4.44	NA	NA
10Y German bund yield	2.28	0.26	0.26
10Y Japan bond yield	0.42	-0.20	-0.20
Bloomberg UAE Composite USD Liquid index	131.20	2.04	-0.67

Source: Bloomberg

Sovereign Highlights

UAE

New Food processing plants will boost UAE food security

Three food processing plants worth USD 272 Mn will be constructed in Abu Dhabi's Khalifa Economic Zones (KEZAD) to enhance the UAE’s food security. The KEZAD Group signed a lease agreement with Al Ghurair Foods to establish the plants, including the region's inaugural starch processing facility and one of its largest broiler projects. This partnership signifies the initial phase of Al Ghurair Food’s investment in KEZAD, with the announcement of the third project anticipated later in 2023, thereby creating a new supply market for the UAE. The agreement will support the UAE's food security agenda and enable the KEZAD Group to enhance the domestic food supply.

Dubai witnessed a 17% YOY rise in international visitors

The number of international visitors to Dubai rose 17% YOY to 4.67 Mn in 1Q23. This growth can be attributed to the effective execution of the progressive D33 Agenda, a strategic initiative aimed at doubling Dubai's economy within the next decade and establishing it as one of the top three global cities.

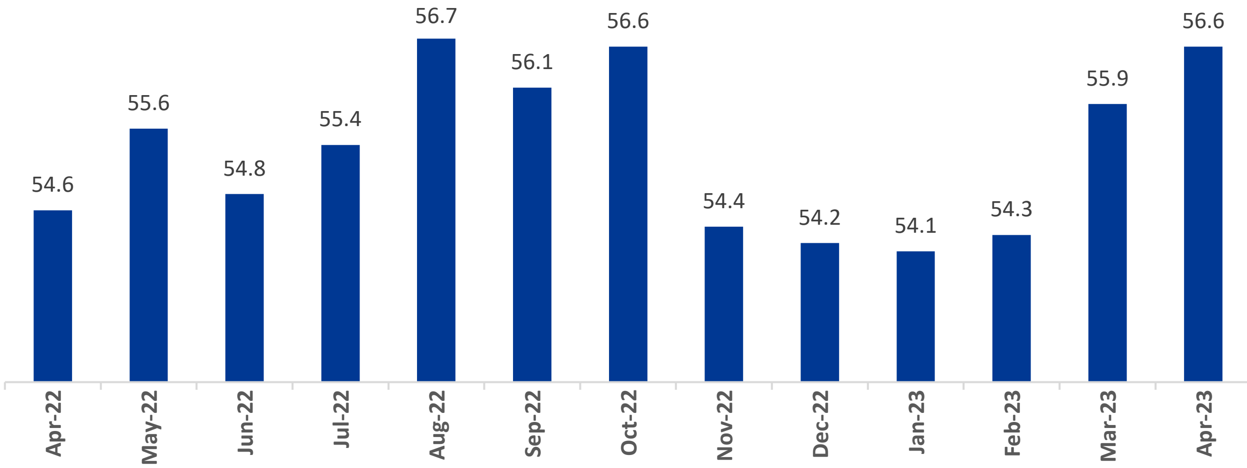
ADQ invested c. USD 4.3 Bn in Egypt since 2014

Abu Dhabi investment and Holding first, ADQ invested c. USD 4.3 Bn in Egypt since 2014 until 2023. According to Mohamed Hassan Alsuwaidi, the Managing Director and CEO of ADQ, several Emirati companies are further planning to increase their investments in key sectors in Egypt. In 2022, ADQ acquired stakes in five Egyptian listed entities, including Commercial International Bank-Egypt (CIB), Fawry for Banking Technology and Electronic Payments, and MISR Fertilizers Production Company (MOPCO).

UAE's non-oil business sector shows strong growth in April amid growth in demand and decline in prices

The non-oil sector of the UAE recorded robust growth in April 2023, primarily fuelled by rising customer demand and stable prices. The seasonally adjusted S&P Global UAE Purchasing Manager's Index (PMI) increased from 55.9 in March 2023 to 56.6 in April 2023. This growth can be attributed to the significant increase in new business inflows. The PMI recorded consistent improvement for the third consecutive month in 2023, indicating a strong expansion in the non-oil economy. The expansion is driven by a notable rise in new orders and a reduction in inflationary pressures.

Figure 24: UAE PMI



Source: S&P Global

Mubadala to invest USD 500 Mn in an USA broadband company

Mubadala, Abu Dhabi's sovereign investor plan to invest USD 500 Mn in USA-based broadband and telecommunication services company Brightspeed. The investment will expand the Company's growing digital infrastructure portfolio. The investment will lead Mubadala to be a shareholder in Brightspeed alongside investment funds managed by affiliates of Apollo Global Management. The investment aims to support Brightspeed's growth strategy in expanding fibre connectivity and promoting digital equity and inclusion in the USA.

Dubai duty-free aims to surpass 2019 sales in 2023

Dubai duty-free targets to surpass USD 2.03 Bn sales in 2023. It also targets to beat its sales record of 2019. In the first four months of 2023, sales already exceeded 2019. Perfumes and cosmetics remained the top-selling category, while the mobile phone category experienced a boost with 33,000 iPhones sold in the first four months of 2023. The market saw an increase in Russian and Chinese tourism numbers, with Chinese traffic expected to grow significantly by the end of 2023.

IMF optimistic about growth in UAE's retail and Service sector

IMF announced UAE and other oil-exporting countries in the Middle East maintained a positive momentum in their retail and service sectors. The IMF attributed this growth momentum due to ongoing reforms, a surge in private investment, and ample liquidity. IMF expects oil exporters in the MENA will record a non-oil GDP growth of 3.7% in 2023. However, the overall regional growth is expected to decline from 5.3% in 2022 to 3.1% in 2023 due to higher interest rates to restore macroeconomic stability, OPEC+ oil production cuts, and decline in global financial conditions. The IMF also highlighted challenges such as high inflation and rising interest rates, which may slow down economic growth during the forthcoming period.

Emirates and Etihad expand cooperation with interline agreement, allowing passengers to depart from different cities

UAE-based airlines Emirates and Etihad entered into an "open jaw" arrangement which allows travellers to book multi-city flight tickets. The arrangement allows the passengers to fly into Dubai or Abu Dhabi and return from another destination served by either airline. The agreement aims to promote tourism in the UAE by offering visitors the opportunity to explore multiple destinations within a single itinerary. The cooperation between Emirates and Etihad signifies their commitment to the UAE's vision of economic diversification and provides a win-win proposition for travellers.

Dubai's non-oil businesses recorded robust growth owing to higher sales and lower costs

Dubai's non-oil private sector businesses witnessed a surge in growth in April 2023, reaching an eight-month high. The PMI for non-oil businesses in Dubai rose to 56.4 in April 2023, up from 55.5 in March 2023, indicating improvement in business conditions. New orders grew at the second-quickest rate in nearly four years, while costs fell, leading to robust growth in sales. The stable cost environment supported companies in expanding their inventories and hiring more employees. Sectors such as travel and tourism and wholesale and retail showed the sharpest upturns, while the construction industry experienced a slowdown in new work.

Dubai's DXB airport forecasts near pre-pandemic passenger levels for 2023

Dubai International (DXB) airport raised its passenger traffic forecast for 2023 to 83.6 million, bringing it close to the levels seen before the pandemic. In 1Q23, DXB recorded a strong performance with passenger numbers surpassing 21.2 million, reaching 95.6% of 2019 levels. The airport connects to 234 destinations, was the busiest international hub globally for the ninth consecutive year in 2022, serving 66 million passengers. The outlook for the remainder of the year is positive. However, cargo traffic declined 23% YOY in 1Q23 and handled 400,015 tonnes.

Alcoa and Emirates Global Aluminium secure major alumina supply agreement

Alcoa and Emirates Global Aluminium (EGA) entered into a multi-year agreement. According to the agreement, Alcoa will become EGA's primary supplier of smelter-grade alumina. The long-term deal will commence in 2024 and last up to eight years, allows EGA the option to procure up to 15.6 Mn metric tonnes of alumina from Western Australia. This agreement represents a substantial portion of Alcoa's annual third-party alumina sales and solidifies its position as EGA's largest third-party alumina supplier.

SAUDI ARABIA

Aramco, PIF and China's Baosteel agree to set up a steel complex in Saudi Arabia

Saudi Arabia's Aramco, Chinese firm Baosteel, and the Public Investment Fund signed an agreement to establish an integrated steel plate manufacturing complex in Ras al-Khair Industrial City. The project aims to enhance domestic manufacturing, localize heavy steel plate production, and create export opportunities, with a target market in Saudi Arabia and the broader MENA region. The facility is expected to have a capacity of 1.5 Mn tonnes per year and will incorporate eco-friendly technologies to reduce CO2 emissions.

Saudi 1Q23 revenue hits SAR 280.9 Bn; expenditure at SAR 283.8 Bn

Saudi Arabia reported revenue of SAR 280.9 Bn, with oil revenue at SAR 178.7 Bn and non-oil revenue at SAR 102.3 Bn in 1Q23. However, actual expenditure surged 29% YOY from SAR 220.4 Bn in 1Q22 to almost SAR 283.9 Bn in 1Q23. The government allocated SAR 52.1 Bn to the education sector, SAR 58.9 Bn to the military sector, as well as social development and health sector received an allocation of SAR 49.6 Bn. The public debt decreased from SAR 990.1 Bn in FY2022 to SAR 962.2 Bn in 1Q23.

Saudi's Kingdom Holding increases stake in UK's Phoenix Group

Kingdom Holding Company (KHC), chaired by Saudi Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud, announced a further investment of SAR 274.2 Mn (USD 73.1 Mn) in Phoenix Group, increasing its ownership to 5%. Additionally, KHC increased its stake in European insurance and asset management company M&G from 5.3% to 6.4% with an additional investment of SAR 228.2 Mn (USD 61 Mn).

Saudi Arabia's economy grew 3.9% in 1Q23 boosted by non-oil activities

Saudi Arabia's economy grew 3.9% YOY in 1Q23 supported by robust growth in non-oil activity which rose 5.8% and oil activities rising 1.3%. However, growth slowed compared to 4Q22, when GDP grew 5.5% YOY. Seasonally adjusted real GDP decreased by 1.3% in 1Q23, primarily due to a decline in oil activities. The IMF projects Saudi GDP to grow 3.1% in 2023, and Saudi Arabia recently announced oil output cuts of 500,00 barrels per day from May 2023 as part of OPEC+ agreements.

Olam Agri's plans to launch USD 1 Bn IPO and dual listing in Singapore and KSA

Olam Group plans IPO of the agricultural unit with a dual listing in Singapore and Saudi Arabia. It plans to raise USD 1 Bn from the IPO. This IPO, the first of its kind with a dual listing, is pending regulatory approval. The IPO process is nearly complete, including global roadshows and securing commitments from anchor investors. Olam's IPO would strengthen Southeast Asia's position as an IPO hub and boost Singapore's IPO activity. Olam is a major agricultural commodity trader with Temasek Holdings and Mitsubishi Corp as its largest shareholders.

Container volumes at Saudi ports surge 13.3% in April 2023

Saudi Ports Authority (Mawani) announced a 13.3% YOY increase in its container throughput to 681,663 TEUs in April 2023. Export volumes surged 16.9% YOY to 208,738 TEUs, while imports saw a slight increase of 3.1% YOY to 208,080 TEUs. Transhipments also experienced a significant growth of 19.7% YOY to 264,845 TEUs in monthly quantity. Cargo numbers at Saudi ports declined 6.6% YOY in April 2023. The ports handled approximately 24.9 Mn tonnes of cargo, including general cargo, dry bulk cargo, and liquid bulk cargo. The Saudi maritime sector is leveraging cutting-edge technologies to establish a world-class logistics platform, aligning with the National Transport and Logistics Strategy (NTLS) and advancing towards sustainability on a global scale.

Saudi's stock market regulator aims 24 listings by the end of 2023

The Capital Market Authority (CMA) of Saudi Arabia plans to accelerate the pace of IPOs with a target of 24 listings by the end of 2023. The CMA aims to support the economy, promote new sectors, and provide funding opportunities. It is also working on the regulatory framework for direct listings on the main market (Tadawul All Share Index) and the listing of special purpose acquisition companies (SPACs). Additionally, the CMA seeks to increase the size of the debt instruments and boost foreign investors' ownership in the market. The CMA aims to achieve an AUM-to-GDP ratio of 27.4% in 2023.

Saudi Arabia Unveils Ambitious Plan to Propel Logistics Sector to USD 15.31 Bn by 2030

Saudi Arabia's Ministry of Transport & Logistics Services (MOTLS) announced an ambitious plan to increase the KSA's logistics sector market size to SR 57.4 Bn (USD 15.31 Bn) by 2030, with the aim to establish itself as a global logistics hub. The initiatives are part of Saudi Arabia's Vision 2030 project, which intends to convert the kingdom into a major industrial powerhouse and global logistics center in the first two years by raising SAR 40 Bn (USD 10.64 Bn) and increase the share of non-oil revenue to almost SAR 45 Bn per year by 2030. The plan involves the development of 59 logistics zones, of which 21 are already operational, enhancing cargo capacity and strengthening supply chains. Furthermore, with its unique geographical location connecting three continents, including Europe, Asia, and Africa, Saudi Arabia is poised to become a prominent trade gateway, facilitating the seamless movement of goods across continents.

Saudi Special Economic Zones (SEZs) received investments of SAR 47 Bn

Saudi Arabia's newly established special economic zones received investments of over SAR 47 Bn made across a variety of critical sectors including maritime, mining, industry, logistics, and modern technologies. The total worth of additional investments currently being implemented surpassed SAR 116 Bn. Additionally, the KSA granted license to establish four special economic zones across King Abdullah Economic City, Ras Al-Khair, Jazan, and Cloud Computing SEZ. Further SEZs in Saudi Arabia provide several advantages, including favorable tax rates for companies, exemptions from customs duties on imports, production input, machinery, and raw materials.

QATAR

New business growth accelerates further in Qatar's non-energy private sector

The Qatar Financial Centre (QFC) stated that new business growth in Qatar's non-energy private sector continued to accelerate in April 2023, indicating a stronger improvement in business conditions driven by strong demand for good and services. The latest PMI survey data from the QFC revealed that the headline PMI rose to 54.4 in April 2023, up from 53.8 in March 2023, marking the fifth increase in the last six months. The growth in the PMI was led by a growth in businesses, the employment and purchases of components also had positive direct influence on the growth.

Qatar Energy awards USD 10 Bn EPC Contract for North Field South, expanding LNG production capacity

Qatar Energy, the state-owned energy company, awarded a significant EPC contract worth around USD 10 Bn to a joint venture between Technip Energies and Consolidated Contractors Company. The contract involves the construction of two large LNG trains, each with an 8 MTPA capacity, along with associated facilities for gas treatment, natural gas liquids recovery, and helium extraction and refining. Located in Ras Laffan Industrial City, the North Field South (NFS) project, combined with the North Field East (NFE) project, will boost Qatar's LNG production capacity from 77 MTPA to 126 MTPA.

Qatar’s QIA invested USD 250 Mn in Builder.ai a London-based software company

Builder.ai, a London-based company specializing in AI-powered composable software, secured USD 250 Mn in Series D funding led by the Qatar Investment Authority (QIA). The investment will help in funding its innovation and expand its geographical presence. Along with QIA, both existing and new investors such as Iconiq Capital, Jungle Ventures, and Insight Partners participated in the funding round. Builder.ai successfully raised over USD 450 Mn so far. Further, these fundraising efforts are in line with the strategic objective of the QIA to support and invest in innovative companies that are actively shaping the future of the global economy.

QIA commits USD 1 Bn to enhance the local equity market

The Qatar Investment Authority (QIA) pledged to invest up to QAR 1 Bn (USD 275 Mn) towards market making activity to boost liquidity in the local stock market. This commitment will span five years and encompass 90% of the market capitalization of companies listed on the Qatar Stock Exchange (QSE). QIA intends to enhance price discovery, promote diversity in the country's capital markets, and attract foreign asset managers to Qatar through the successful implementation of this plan. Additionally, the QSE is actively working on attracting more listings, introducing additional ETFs, enhancing ESG disclosures, and expanding derivative offerings to facilitate portfolio diversification and improve investment risk management for investors.

EGYPT

Egypt signs transport investment deal with Japan valued at about USD 700 Mn

Egypt signed a significant investment package valued at USD 734 Mn with Japan to support the country's transportation development plan. The package will contribute to financing of Cairo's metro expansion, which aims to connect Egypt's 6th of October City to the Giza plateau. Japanese investments in Egypt, including the contribution to Cairo's metro expansion, reached USD 3 Bn across over 18 projects aligned with Egypt's sustainable development goals. The deal was announced during a business forum between Egypt and Japan, attended by high-level officials from both countries.

Egypt's non-oil business conditions decline softened in April 2023

The pace of decline in Egypt's non-oil business conditions softened in April 2023 due to a slower fall in demand and easing inflationary pressures. Import controls and high prices, however, continued to weigh on inventories, while continued economic weakness led to the most downbeat outlook in survey's history. The S&P Global Egypt PMI rose from 46.7 in March 2023 to 47.3 in April 2023, the highest level since October last year, signalling a lesser extent decline in business conditions. The survey highlighted notable contractions in activity and sales across the non-oil economy, with weak client demand attributed to high inflation. While the construction industry experienced growth for the first time in ten months, manufacturing, wholesale & retail, and services recorded decline in output and new work.

Fitch downgrades Egypt's outlook to 'B' amidst economic challenges

Fitch downgraded Egypt's outlook from 'B+' to 'B', with a negative outlook. The downgrade is attributed to the country's increasing external financing risk due to financing requirements and constrained external financing conditions. Fitch expressed uncertainty regarding Egypt's ability to meet its external financing needs, citing limited prospects for market access and a lack of market confidence in the Central Bank of Egypt's new exchange rate regime, which hindered foreign currency inflows. The rating action also reflects a significant deterioration in public debt metrics, including a renewed decline in government interest costs/revenue, posing medium-term debt sustainability risks. Moody's Investors Service also warned of rising risks to Egypt's debt affordability and sustainability profile. Last month, S&P Global Ratings also lowered Egypt's outlook to negative and forecasted additional currency depreciation.

Egypt's International reserves rose USD 548 Mn in four months

The Central Bank of Egypt (CBE) announced that Egypt's international reserves reached USD 34.551 Bn in April 2023 recording an increase of USD 548 Mn compared to USD 34.003 Bn in December 2022. The CBE stated that the value of gold in reserves rose to USD 8.031 Bn in April, an increase of USD 705 Mn from December. However, the volume of foreign exchange decreased to USD 26.173 Bn, reflecting a decline of USD 496 Mn. The IMF projects that Egypt's total international reserves held by the CBE will reach approximately USD 80 Bn within the next five fiscal year. IMF documents indicate that foreign reserves are expected to grow to USD 37.1 Bn by the end of June 2023 and USD 79.9 Bn by June 2028.

Egypt's annual inflation surges to 31.5% in April 2023

Egypt's annual headline inflation rate soared to 31.5% in April 2023, as reported by the Central Agency for Public Mobilization and Statistics (CAPMAS). The steep increase was primarily driven by a 53.8% YOY increase in food and beverage prices. Housing, water, electricity, gas, and fuel prices also contributed to the surge, climbing 8.3%. Other sectors experiencing notable price hikes include alcoholic beverages and tobacco (18.4%), healthcare (17.6%), education (7.7%), and transportation (20.3%). Additionally, prices in the restaurants and hotels segment increased by 48% year-on-year, while clothing and footwear prices grew 21.2%. The monthly consumer price index (CPI) recorded a 1.8% month-on-month uptick, reaching 169.6 points in April 2023.

Egypt's Central Bank keeps key interest rates unchanged

Egypt's central bank announced that it would maintain its overnight interest rates, leaving the lending rate at 19.25% and the deposit rate at 18.25%. The decision comes as economic growth slowed in the fourth quarter and international commodity prices showed signs of easing. Despite surging inflation in March, which reached 32.7%, the central bank opted to keep rates steady, citing improvements in the domestic supply chain and a downward revision of key international commodity price forecasts. The central bank raised rates by a total of 1,000 basis points since Russia's invasion of Ukraine in 2022.

Egypt postpones payment for wheat imports due to a currency shortage

Egypt delayed payments for large wheat purchases, due to a scarcity of foreign currency and economic challenges arising from the conflict in Ukraine. Egypt, a major wheat importer, decided to postpone payments for its significant wheat purchases in some cases by months, as the nation struggles with a cash shortfall. Despite the deferred payments, shipments of wheat arrived and were unloaded without any disruptions, ensuring that Egypt's state wheat reserves, essential for subsidized bread production, remain unaffected. In an effort to alleviate the strain caused by the shortage of foreign currency, Egypt's state grains buyer choose to defer the initiation of letters of credit for wheat imports. This currency scarcity has a broader impact on import activities, leading to a general decline in imports across the country.

OMAN

Moody's upgrades Oman's ratings and maintains positive outlook on strong fiscal metrics

Moody's Investors Service upgraded Oman's ratings and maintained a positive outlook, citing the country's improved fiscal surplus and spending discipline. The Government of Oman's issuer and long-term senior unsecured ratings were upgraded from Ba3 to Ba2, along with an upgrade to the government's senior unsecured medium-term note program rating. The rating agency attributed the upgrade to Oman's reduced debt burden and increased debt affordability, mainly due to higher hydrocarbon prices and a windfall in oil and gas revenues. The rating action also applies to Oman Sovereign Sukuk S.A.O.C, a special-purpose vehicle backed by the government.

BAHRAIN & KUWAIT

S&P maintains Bahrain's rating outlook with a positive outlook

S&P Global Ratings confirmed Bahrain's credit rating and maintained a positive outlook owing to the government's efforts to implement reforms to boost the non-oil revenue and increase the current account surplus. The positive outlook is also supported by the stability of the financial sector and the potential for larger current account surpluses. The rating agency expects the Bahrain government to implement fiscal reforms to reduce fiscal deficit and is likely to receive support from other GCC sovereigns. S&P Global Ratings reaffirmed Bahrain's short-term foreign and local currency sovereign credit ratings at 'B+/B' with a positive outlook. The transfer and convertibility assessment remains at 'BB'.

Global Economy

Federal Reserve raised the interest rate by another 25-basis point

The Federal Reserve announced a 25-basis point interest rate hike, marking the tenth consecutive increase since March 2022. However, the Fed also indicated a potential pause in further rate hikes. The decision is driven by the need to assess the consequences of recent bank failures, monitor the resolution of the US debt ceiling political standoff, and closely watch inflation trends. Unlike previous statements, the Fed no longer anticipates additional policy tightening to reach the 2% inflation target. The current interest rate is comparable to pre-financial crisis levels and is considered to be "sufficiently restrictive" in addressing inflation.

China's Manufacturing sector declined in April 2023

China recorded a decline in manufacturing activity for the first time, primarily due to a decrease in new business and employment. This information was recently revealed in a survey conducted by the S&P Global. The Caixin PMI (Purchasing Managers' Index) dropped from 50.0 in March 2023 to 49.5 in April 2023, while the official factory PMI declined from 51.9 to 49.2 during the same period. Additionally, the non-manufacturing PMI decreased from 58.2 to 56.4. The decline in manufacturing activity can be attributed to sluggish market conditions, lower consumer spending, slower growth in production, and a softer pace of purchasing.

US service index grew at a faster rate in April 2023

US service sector experienced a moderate increase in activity in April 2023, according to the report published by the Institute for Supply Management. The PMI rose from 51.2 in March 2023 to 51.9 in April 2023. This growth was primarily driven by an increase in the new order index, which rose to 56.1 in April 2023 compared to 51.8 in March 2023. However, the report also indicated a decline in the business activity index, which decreased from 55.4 in March 2023 to 52.0 in April 2023, suggesting a slower rate of growth in business activity. Further, the employee index decreased to 50.8 in April 2023 from 51.3 in March 2023, a rate above 50 indicates adequate job growth in the sector.

Unemployment rate in Eurozone hits a new record low

The unemployment rate in the Euro Area reached a new record low of 6.5% in April 2023, despite the region experiencing modest economic growth. Eurostat data revealed a decline in the jobless rate from 6.6% in February 2023. Compared to 2022, the number of unemployed individuals decreased 121,000. In the EU27, the jobless rate fell to 14.3% in March 2023 from 14.5% in February 2023. The overall unemployment rate in the EU27 held steady at 6.0% in March 2023. Additionally, the latest Purchasing Manager's survey indicated that employment in the private sector experienced the strongest growth in 11 months, particularly in the service sector, which saw the quickest job growth since July 2007.

ECB raises rate by 25 bps to stem inflation

The ECB raised interest rates by 25 basis points to 3.25% in its fight against inflation and said that it will stop reinvesting cash from maturing debt in its 3.2 trillion Euro Asset Purchase Programme from July. The hike marks a total increase of 375 basis points since July last year, the fastest pace of tightening. The rate hike comes after three consecutive 50 basis point increases and amid a significant drop in loan demand. The ECB's policies are now seen as restricting growth, although the bank provided no guidance on future moves. Inflation has temporarily paused, but underlying price pressures persist, suggesting the need for further rate increases. The ECB is expected to continue raising borrowing costs alongside other central banks, potentially reaching a peak rate of 3.75%.

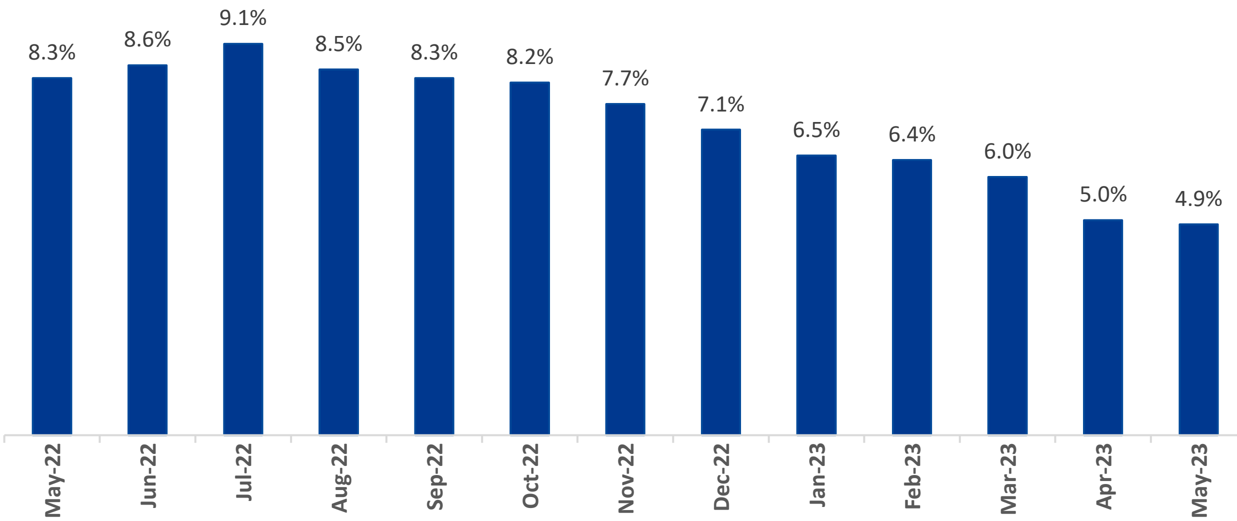
China's services activity grew at a slower pace

China's service sector experienced its fourth consecutive month of growth in April 2023, although at a slower pace, according to the Caixin/S&P Global services PMI. The index for April 2024 stood at 56.4, slightly lower than the previous month's 57.8. This aligns with the official PMI data showing a smaller pace of expansion. Analysts express concerned about easing momentum, citing a partial recovery in domestic consumption and the need for additional policy support. Rising costs for services firms, coupled with limited ability to pass them on to customers, further contribute to uncertainties surrounding the sustainability of the economic rebound. The composite PMI, encompassing both manufacturing and services, decreased to 53.6 in April 2023.

US consumer prices increased 0.4% in April, annual growth slows to 4.9%

Consumer prices in the US rose 0.4% in April 2023, meeting economist expectations, according to a report from the Labor Department. This is followed by a marginal increase of 0.1% in March 2023. The growth was primarily driven by higher shelter prices and a rebound in energy prices, particularly gasoline. However, food prices remained unchanged, as higher prices for food away from home offset lower prices for food at home. Excluding food and energy, core consumer prices also increased 0.4%, reflecting higher prices in various categories. The annual growth rate of consumer prices slightly decreased to 4.9% in April, but it remains well above the Federal Reserve's target. The annual rate of core consumer price growth dipped to 5.5%. The Labor Department is expected to release a separate report on producer price inflation, with expectations of a 0.3% increase in April 2023 with a slowdown in the annual growth rate.

Figure 27: US Consumer Price Index (% Change YOY)



Source: Investing.com

Bank of England raised rates to the highest level since 2008

The Bank of England decided to raise its base rate by 0.25% to 4.5%, the highest level since October 2008. This move comes as the central bank seeks to address the persistent issue of rising inflation, which has been exacerbated by the Russian invasion of Ukraine. UK inflation remained elevated at c. 10% since the summer of 2022; however, the Bank anticipates a swift decline throughout the year, aiming to reach a 2% target by late 2024. The Bank attributed the inflationary pressure due to higher prices of gas and food items like wheat. Notably, the rate increase by the Bank of England followed by a similar action taken by the US Federal Reserve in the first week of May 2023.

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