MENA CREDIT RESEARCH

April 2024

Persistent inflation impacted the performance of risky assets

Sector Weighting:
MARKET WEIGHT

GCC Fixed Income Outlook

Global Sukuk issuance grew 10% YOY to USD 867 Bn in 1Q24. The combined issuance from the GCC, Malaysia, Indonesia, Türkiye, and Pakistan, across various currencies, amounted to USD 56.8 Bn in 1Q24. According to Fitch Ratings, the growth in sukuk issuance globally is primarily attributed to funding and refinancing needs, diversification efforts, developmental objectives in debt capital markets, and lower interest rates. However, the potential changes in Sharia requirements, geopolitical uncertainties, and heightened oil prices pose risks. Global Sukuk issuance is further anticipated to maintain its upward trend throughout the remainder of 2024, albeit at a slower rate than 1Q24.

Global issuance remained strong in April 2024. Bond and sukuk issuance reached USD 5.0 Bn, supported by robust demand from the sovereign wealth fund of Abu Dhabi. The Abu Dhabi Sovereign Wealth Fund emerged as the primary issuer, issuing its first treasury bonds across three maturities since 2021. The tranche included an issuance of USD 1.75 Bn maturing in 5 years with a coupon rate of 4.875%, USD 1.5 Bn maturing in 10 years with a coupon rate of 5.0%, and another USD 1.75 Bn issuance maturing in 30 years with a coupon rate of 5.5%. The issuance received significant investor interest, showcasing the emirate's dedication to its economic development strategy. Rating agencies S&P and Fitch assigned a credit rating of 'AA' to the bonds.

Amidst all this, the Fed latest policy meeting was scheduled on 30 April 2024 and it opted to maintain interest rates at their current levels for the sixth time in a row. In addition, the Fed maintained its expectations of three interest rate cuts by the end of FY2024. As a result of the Federal Reserve's decision to maintain interest rates, the 10-year bond yields grew across all GCC countries owing to growth in US 10-year treasury yield. The 5-year CDS also expanded across all the GCC countries. The non-oil sectors in the UAE and KSA exhibited robust growth, with the PMI remaining above the threshold of 50, indicating expansion. The UAE PMI eased from 57.1 in February 2024 to 56.9 in March 2024, primarily due to disruptions in shipping in the Red Sea leading to supply constraints. However, the new orders sub-index grew from 60.4 in February 2024 to 61.5 in March 2024. In KSA, the non-oil PMI stood at 57.0 in March 2024 from 57.2 in February 2024, driven by robust growth in output. The output sub-index grew from 61.5 in February 2024 to 62.2 in March 2024, driven by new orders, especially in the manufacturing industry. The new orders sub-index grew from 62.2 in February 2024 to 64.0 in March 2024. According to the UAE Ministry of Economy, the tourism sector’s contribution to the national economy of the UAE is projected to grow to USD 64 Bn in 2024. Saudi Arabia’s experienced a 1.8% YOY decline in GDP in 1Q24 primarily due to ongoing challenges in the oil sector, which negatively impacted overall economic growth. However, Saudi Arabia’s economy is expected to expand by 4.4% in 2024, driven by strong growth in non-oil activities. Oman's GDP real GDP grew 1.3% YOY to OMR 38.3 Bn in 4Q23 primarily due to an increase in oil activities, which grew 0.4% YOY to OMR 12.4 Bn in 4Q23. According to Qatar's finance ministry, the country reported a budget surplus of USD 384 Mn in 4Q23. Fitch Ratings recently upgraded Qatar's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA' from 'AA-' with a Stable outlook. The change in rating is supported by the Country's large sovereign net foreign assets (SNFA) and a flexible public finance structure.

Gold Outlook

After a strong rally in gold prices in March 2024, the gold prices continued upward momentum in April 2024 and ended 2.5% higher at USD 2,286.25 per ounce on 30 April 2024. Prices continued to register higher highs on a continued basis suggesting positive bias. The prices rallied owing to the weakening of the US dollar and lower bond yield coupled with the Fed's expectations of interest rate cuts. The prices during the first week started on a positive note and ended c. USD 100 per ounce higher at USD 2,329.75 per ounce due to the moderation of US inflation in February which increased bets of Fed's interest rate cuts in June 2024. The depreciating US dollar and lower treasury yield further extended the rally in gold prices during the following week coupled with the Fed's chairman's comments on policy rates after the release of data on US inflation and jobs. During the mid-week, escalating tensions in the Middle East due to Iran's attack on Israel drove the demand for bullion, resulting in higher gold prices. In addition, concerns about the Middle East conflict extending to other regions supported the gold prices to a monthly high and a new all-time high of USD 2,391.93 per ounce on 19 April 2024. After that, gold prices edged lower due to an increase in treasury yield coupled with diminishing fears of further escalation of the Middle East conflict. Moreover, investors awaited US economic data for further clarity on the Fed's interest rate cuts. During the end of the month, a steady US dollar moderated the bullion's appeal resulting in a decline in gold prices.

Oil Outlook

Oil prices increase for the third consecutive month to end marginally higher at USD 87.86 per barrel in April 2024. Prices rebounded during the end of March 2024 due to a decline in US crude and gasoline inventory and the expectation of tight supply owing to ongoing supply cuts by OPEC+. Oil Prices increased in the first week of April 2024 due to the escalation of geopolitical concerns and the spread of Israel - Hamas war to Iran. In addition, higher than expected decline in US crude inventory also supported the oil prices. Moreover, OPEC+ decided to keep its output policy steady. Oil prices stayed range-bound in the following week owing to the likely chances of an in the Middle East Conflict. Oil prices declined after mid-month owing to Iran's attack on Israel, weakening of global demand, and fading prospects of US interest rate cuts. The following week, prices rebounded due to an unexpected decline in US inventory and supply disruption worries. Oil prices moderated by the end of the month owing to ceasefire talks between Israel and Hamas.

Top picks for 2024

Name	Sector	Price	Mid YTM	Rating*
ALDAR 3.875% 2029	Real Estate	92.35	5.56	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	88.58	9.51	Ba3/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	91.98	5.39	A1/NA/A+
BGBKKK 5.749% PERP	Bank	99.79	8.73	NA/NA/NA
SIB 5% PERP	Bank	98.12	7.87	NA/NA/NA
GENHLD 4.76% 2025	Investment Co.	98.84	5.56	A1/NA/A
REITDU 9.5% 2024	Real Estate	99.01	13.20	NA/NA/NA
INTLWT 5.95% 2039	Power Generation and Water Utility	96.33	6.36	Baa3/NR/BBB-

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

FAB أبوظبي الأول للأوراق المالية SECURITIES

Content:

MENA credit outlook

Dubai Aerospace Enterprise signed a five-year loan worth USD 749 Mn with Emirates NBD

Dubai Aerospace Enterprise (DAE) Ltd signed a five-year loan of AED 2.75 Bn (USD 749 Mn) with Emirates NBD. The loan will be utilized for general corporate purposes and upcoming funding requirements.

NEOM intends to raise USD 1.3 Bn with the sale of its debut sukuk

Saudi Arabia's NEOM megaproject is scheduled to launch its first Saudi riyal Islamic bond offering with plans to raise SAR 5 Bn (USD 1.3 Bn) to finance USD 1.5 Tn worth of construction projects in a modern city. The sale is anticipated to take place in the second half of the year, with the timing and offering size influenced by market conditions. NEOM recently secured a SAR 10 Bn loan from a consortium of Saudi banks and raised SAR 3 Bn to fund Sindalah, a luxury tourism island off the Red Sea.

QCB issued sukuk and government bonds of USD 1.27 Bn

The Qatar Central Bank (QCB) launched QR 4.65 Bn in government bonds and sukuk with two, three, five, and seven-year tenors. The bids submitted amounted to QR 13.95 Bn. The treasury bills were issued at varying rates for different tenors.

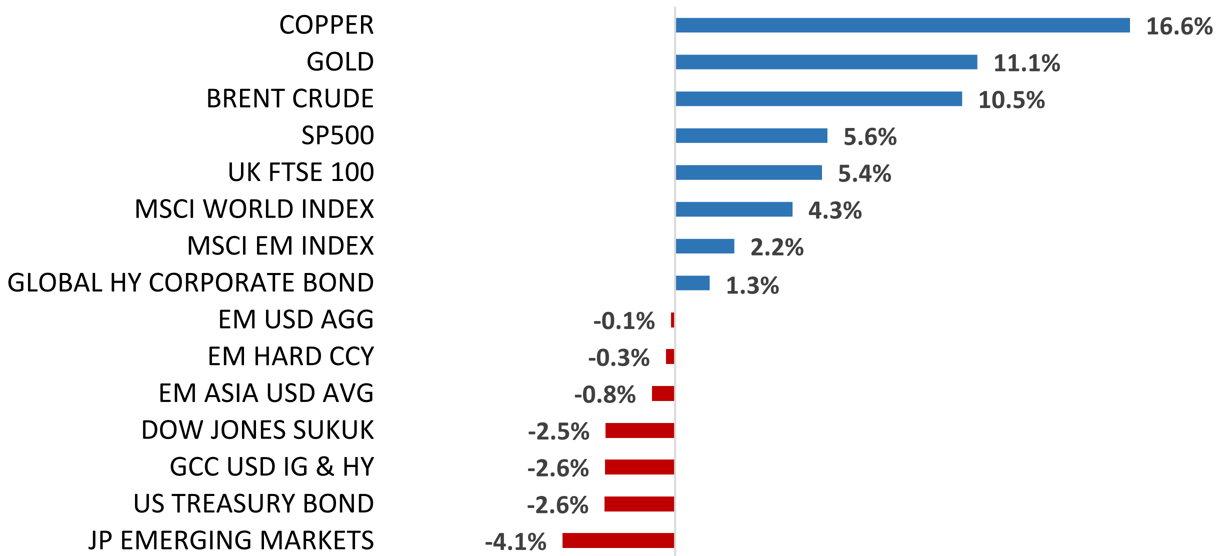
Kuwait International Bank employs banks for the sale of AT1 sukuk

Islamic lender Kuwait International Bank hired banks for the planned sale of additional tier 1 Sukuk. Standard Chartered Bank and Citi will be joint global coordinators while ADIB, Al Dawli Invest, Bank Of Sharjah, DIB, Emirates NBD Capital, FAB, Kamco Invest, Mashreq, and SMBC Nikko will work as joint lead managers and bookrunners.

Global Asset Performance

The table below summarizes the performance of key equity and debt indices along with commodity price performance. Almost all asset classes generated negative returns during the month except the Copper, Gold, UK FTSE 100, and MSCI EM Index. The performance of the commodities stood strong during the month. Copper grew strongly, 12.3% MOM during the month, followed by Gold, which grew 1.8% MOM primarily due to fear of escalation of geopolitical conflict in the Middle East. Energy prices rose marginally compared to the previous month and grew 11.1% on a YTD basis in April 2024. The equity returns also remained subdued as only the UK FTSE 100 grew 2.6% MOM during the month, mainly due to the positive performance of energy and commodity companies. MSCI EM index grew 0.4% MOM, mainly attributable to the strong performance of the Chinese equities. US S&P 500 declined 4.3% during the month mainly due to the pressure on valuations caused by rising bond yield and an uptick in US inflation data. MSCI World Index also declined 3.8% during the month due to the negative performance of the US, European, and Japanese stocks. The performance of all the bond indices also remained negative during the month primarily due to rise in yields.

Figure 1: Global Asset Performance (YTD%)

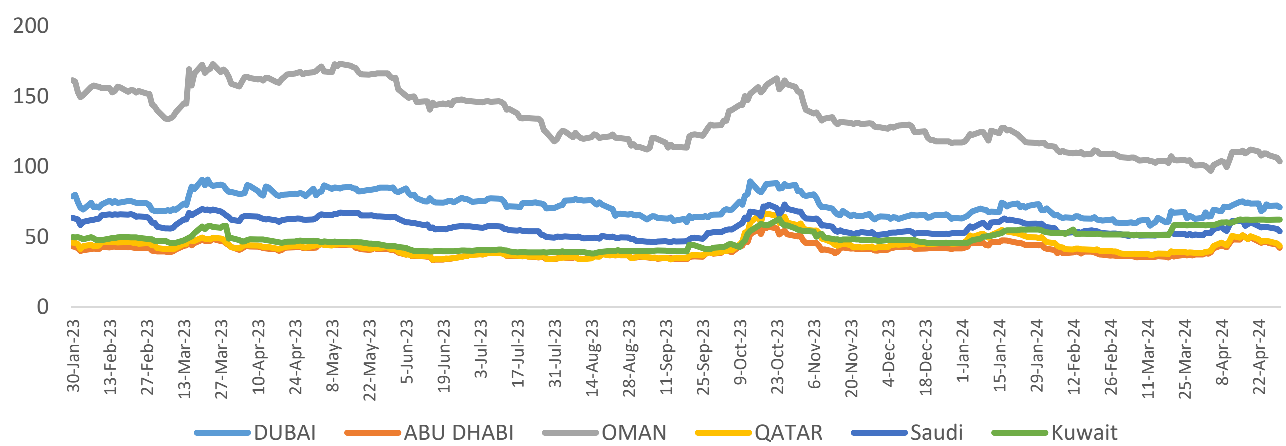


Source: Bloomberg

5-Year CDS

The 5-year CDS spread grew across all sovereign nations in April 2024. Dubai recorded the largest growth in the 5-year CDS spread on a MOM basis in April 2024, followed by Qatar, Dubai, Abu Dhabi, Kuwait, Saudi, and Oman. The growth in CDS spread is mainly a result of an increase in bond yields.

Figure 2: GCC Countries- 5 Year CDS



Source: Bloomberg

Sovereigns	DUBAI	ABU DHABI	Oman	QATAR	Saudi	Kuwait
MTD (%)	13.11%	12.76%	3.00%	13.08%	4.55%	6.90%

Banking Sector

Al Salam Bank fully acquired KFH-Bahrain

Bahrain-based Al Salam Bank signed an agreement with the Kuwait Finance House to acquire KFH’s stake in KFH Bahrain, a Kuwaiti subsidiary of KFH Group. The final agreement, subject to regulatory approvals, will see Al Salam Bank take full control of KFH-Bahrain. The Bank stated that a comprehensive plan will be established to smoothly combine the pertinent operations of the two banks after the acquisition is concluded.

Sharia-compliant STC Bank is expected to launch by year-end

The Saudi Central Bank (SAMA) and approved the transformation of stcpay into STC Bank through the release of the beta version. The digital payment division of the STC Group in Saudi Arabia announced the public accessibility of this beta version by year-end, which is only available to selected customers who will be able to switch from an stc pay digital wallet to an STC Bank account during the beta launch. Along with additional banking services, an additional International Bank Account Number (IBAN) will be assigned from STC Bank.

Abu Dhabi Islamic Bank (ADIB) is in discussions to acquire a minority stake in an Indonesian lender for USD 1.1 Bn

Abu Dhabi Islamic Bank (ADIB) is considering to purchasing a minority stake in Indonesia’s top Islamic lender, Bank Syariah for USD 1.1 Bn aligned with its objective to leverage the rapidly expanding market for these services in Southeast Asia. Abu Dhabi Islamic Bank (ADIB) is also exploring the option to acquire a 15% share of Bank Syariah Indonesia (BSI) from Bank Rakyat Indonesia (BRI).

Emirates Islamic completed its debut financing facility worth USD 500 Mn

Emirates Islamic, a Shariah-compliant lender with headquarters in Dubai announced its first syndicated financing facility worth USD 500 Mn. The three-year term facility complies with Shariah principles as a commodity Murabaha term financing facility, and the proceeds will be utilized for Shariah-compliant general corporate funding. Emirates NBD Capital Limited, HSBC Bank Middle East Limited, and Standard Chartered Bank were the global coordinators and authorized lead arrangers and book-runners.

Abu Dhabi National Insurance acquired 51% stake for USD 133 Mn in Allianz Saudi Fransi Insurance

Abu Dhabi National Insurance Co. (ADNIC) acquired 51% stake in Allianz Saudi Fransi Cooperative Insurance Co. for SAR 499 Mn (USD 133.1 Mn). The deal was completed at a weighted average price of approximately SAR 16.31 per share, and customary transaction expenses. ADNIC's strategy to expand into the Saudi Arabian market aligns with the surge in M&A in the GCC insurance industry between 2021 and 2023.

Network International received a Stored Value Facility (SVF) license from the UAE Central Bank

Dubai-based Network International has received its stored value facility (SVF) license from the Central Bank of the UAE, enabling it to issue stored value products, which includes any non-cash facility through which a customer pre-pays money. The payment solutions company said in a statement that it can now enable its partners and customers to support prepaid card issuing and wallet provisioning.

Corporate Sector

Aramco and Hyundai collaborate for the development of Saudi Gas plant project worth USD 2.3 Bn

Aramco partnered with Korean construction firm Hyundai E&C to develop construction on its Jafurah Phase II Utilities, Sulfur & Export Facilities Package 2 Project in Saudi Arabia. The project consists of facilities for gas processing from the Jafurah gas field as well as additional facilities for sulfur recovery which will be completed by October 2027. The project is a follow-up to the Saudi Jafurah Gas Treatment Facility Project, which was completed in 2021.

Microsoft to acquire a minority stake in G42 for USD 1.5 Bn

Microsoft is set to invest USD 1.5 Bn in UAE-based tech firm G42 for a minority stake and become a part of its board of directors. The former will also collaborate with Microsoft to promote the creation of a fund worth USD 1 Bn for developers to advance AI skills in the region of UAE and beyond. The partnerships aims to deliver advanced AI solutions with Microsoft Azure in a range of industries and markets across the Middle East, Central Asia, and Africa.

Alpha Dhabi Holding and ADQ established a strategic alliance

Alpha Dhabi Holding is set to divest 49% of its subsidiary Alpha Dhabi Construction Holding (ADCH), to ADQ. ADH will retain a 51% shareholding in ADCH, focusing on the construction sector in a strategic partnership with ADQ. The agreement will strengthen the position of ADCH as a leader in the industry and a major contributor to the growth of the UAE through the combined skills and expertise of ADCH and ADQ. The UAE construction market is expected to grow to over $50 billion by 2029, with Abu Dhabi's construction industry growing by 14.3% and contributing AED25 billion to the Emirate's GDP in Q3 2023.

TAQA is in discussions with Naturgy shareholders of Spain

Abu Dhabi’s TAQA is in talks with three largest stakeholders of Spanish energy firm Naturgy, including Criteria and two private equity funds, to consider a full takeover bid. Criteria owns a 26.7% stake in Naturgy, while GIP and CVC each own around 20%. TAQA is also in talks with CVC and GIP about a possible acquisition of their shares, but no agreement has been reached with Criteria Caixa, CVC, or GIP.

E7 Group signed multiple new contracts worth USD 17.7 Mn across the Middle East and Africa

Abu Dhbai-listed E7 Group secured several contracts with a total value of AED 65 Mn (USD 17.69 Mn) to support its growth in Africa and the Middle East region. The contracts include security solutions and commercial printing, with two new contracts in Africa worth over AED 25 Mn. Additionally, E7 Printing secured several contracts worth AED 40 Mn for large-scale outdoor printing, textbooks, magazines, and promotional material. The group recently announced the signing of three new contracts worth AED 12.9 Mn across Africa and Latin America for the provision of technologically advanced electronic identification and driver's licenses.

AD Ports group signs an agreement with ADNOC Distribution

AD Ports Group announced a strategic agreement with Adnoc Distribution. The agreement is declared to expand its business remit to global marine lubricant distribution. The ports cluster will use its advanced infrastructure to distribute high-demand, global standard lubricants to customers in the UAE, to broaden its global distribution footprint. The partnership aims to create new opportunities in the marine lubricants market, enhancing the value to partners and stakeholders.

Marsa LNG project’s final investment decision (FID) declared by TotaLEnergies and OQ

French energy company TotalEnergies and Oman National Oil Co. have announced the final investment decision for the Marsa LNG project, a 1 Mn tonne capacity LNG project. The alliance intends to function as an export terminal and bunkering facility. TotalEnergies and Oman LNG entered a Sale and Purchase Agreement (SPA) with Oman LNG to offtake 0.8 Mtpa of LNG for 10 years starting from FY2025. The Company is also in discussion with OQ Alternative Energy is on a joint renewables project to supply Marsa LNG. OQ Alternative Energy and TotalEnergies will own 51% and 49% stake in the business respectively.

AD Ports Group plans to invest USD 251 Mn in Luanda multipurpose port

AD Ports Group signed a concession agreement of 20 years to operate the Luanda multipurpose port terminal in Angola and plans to invest USD 251 Mn to modernize the facility. The agreement was signed with Angola-based logistics and transport companies Unicargas and Multiparques. The modernization project is expected to be completed in 3Q26. AD Ports will acquire an 81% stake in a joint venture to operate the Luanda terminal and a 90% stake in another joint venture to serve the facility and the Angolan logistics market. The terminal will be upgraded to handle more than 76% of the country's container and general cargo volumes.

Flynas will launch an IPO in FY2024

Saudi Arabia's low-cost carrier Flynas announced a launch date for its Initial Public Offering (IPO) later this year. Goldman Sachs Group, Morgan Stanley, and Saudi Fransi Capital have been hired to handle the listing. Moreover, the airline is also considering an order of 30 widebody aircraft to expand its network. Flynas reported a 32% annual increase in revenue to reach SAR 6.3 Bn (USD 1.68 Bn) in 2023, confirming annual profits since 2015.

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 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 nation's financial and economic vision and policies' success and the strength and stability of its economic, financial and credit sectors.
- Fitch upgraded **Oman's** credit rating to BB+ from BB with a stable outlook. The upgrade is driven by a decline in debt-to-GDP ratio, improved government spending, and rise in oil prices. The upgrade is based on the premise that Oman is using oil revenues to pay down debt, extend its maturity, use fiscal restraint to mitigate external risks, and forecast higher oil prices by Fitch. Oman's gross debt declined to 40% of GDP in 2022 from 60% in 2021, and Fitch expects gross debt to further decline to 36% of GDP in 2023 and will remain stable at 35% in 2024 and 2025. Oman also reported a budget surplus of OMR 1.144 Bn (USD 2.97 Bn) and repaid OMR 1.1 Bn loans in 1Q23. Earlier Moody's Investors Service upgraded Oman's ratings for the second consecutive time to Ba1 in 2023 with a stable outlook. The upgrade is mainly attributable to a decline in public debt, an improvement in the indicator of the government's ability to bear the additional debt, channeling additional revenue to pay off public debt, controlling spending, and improving financial revenue. The rating was upgraded from Ba2 to Ba1 in December 2023.
- S&P Global Ratings revised **Bahrain's** credit rating outlook from positive to stable due to the expectation of government measures to reduce the budget deficit and the possibility of receiving extra support from other Gulf Cooperation Council (GCC) member countries if needed. The revision of the outlook to stable is attributed to the rating agency's expectation of larger fiscal deficits from 3% to 4% of the GDP between 2023 and 2026, as compared to its earlier projection of 2% to 3% mainly due to increased spending on social subsidies, capital expenditure and debt servicing. S&P Global Ratings affirmed Bahrain's short-term foreign and local currency sovereign credit ratings at 'B+/B' with a stable 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.

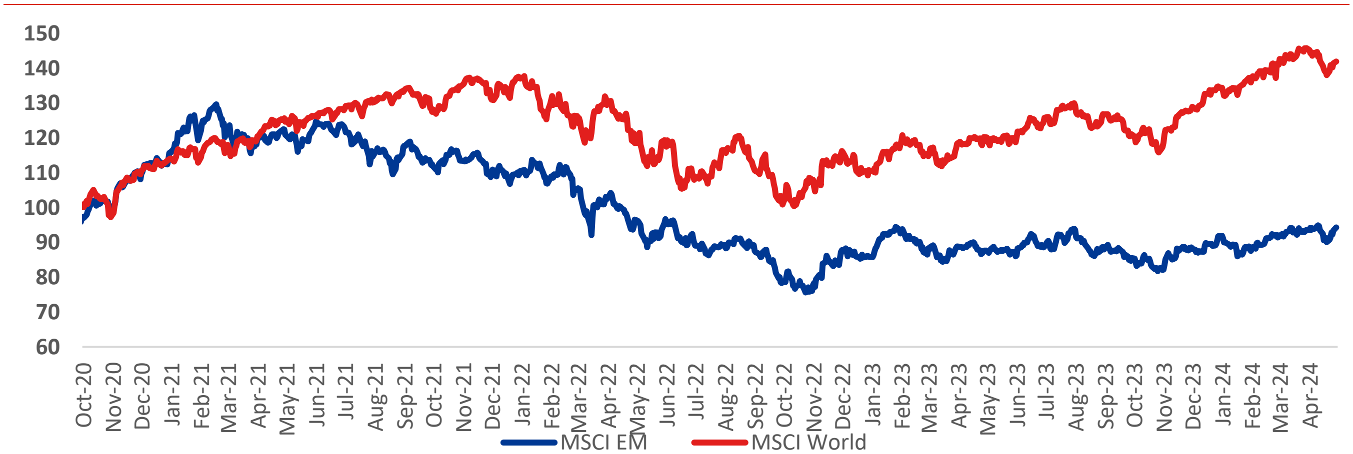
- **Saudi Arabia's** Long-Term Foreign-Currency Issuer Default Rating (IDR) has been upgraded to 'A+' by Fitch Ratings, with the Outlook changed to 'Stable'. The key reasons for the rating upgrading are improvements in the sovereign balance due to increased oil revenue and the fiscal structure. According 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.
- In January 2024, Moody's upgraded **Qatar's** Long-Term Foreign-Currency Issuer Default Rating (IDR) to Aa2 from Aa3. The upgrade was attributed to significant improvements in Qatar's fiscal metrics during 2021-2023. Moody's anticipates that the improvement in Qatar's debt burden and debt-service metrics from 2021 to 2023 will continue into the medium term. Fitch Ratings has recently upgraded Qatar's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA' from 'AA-' with a Stable outlook. The change in rating is supported by the Country's large sovereign net foreign assets (SNFA) and a flexible public finance structure. Further, Qatar is expected to maintain a fiscal surplus, averaging around 4.5% of GDP over the medium term. The country's government debt is also projected to fall below 30% of GDP by 2028.

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	Aa2	STABLE	AA	STABLE	AA	STABLE
Saudi Arabia	A1	POSITIVE	Au	STABLE	A+	STABLE
Oman	Ba1	STABLE	BB+	POSITIVE	BB+	STABLE
Bahrain	B2	STABLE	B+	STABLE	B+	STABLE

Global Markets

After recording a strong performance for the previous five months, the MSCI Developed Market Index (DM) declined in April 2024. Conversely, the MSCI Emerging Market (EM) sustained its upward momentum, largely driven by the strong performance of Chinese equities. However, the MSCI DM Index continued to outperform the MSCI EM Index on a YTD basis. On a 2024 YTD basis, the MSCI DM index recorded a positive return of 5.6%, while the MSCI EM experienced a positive return of 2.6%. On a MOM basis, MSCI DM fell 2.6% while the MSCI EM recorded a positive growth of 0.8% in April 2024. The MSCI World Index posted a negative return primarily due to the negative performance of the US, Europe, and Japanese stocks. On the other hand, the UK FTSE share posted 2.5% growth in April 2024, driven by the positive performance of energy and commodity companies. The US S&P 500 index marked the weakest performance among developed markets, with a 4.1% MOM decline in April 2024. The negative performance of US stocks is mainly attributable to the pressure on valuations caused by rising bond yields, along with an uptick in US inflation data. This has prompted concerns within the market that the central banks may delay policy easing, contrary to earlier expectations. European stocks outperformed US stocks, yet the MSCI Europe ex-UK index declined 1.5% MOM in April 2024. Despite challenges such as prolonged high interest rates and geopolitical risks, improved growth prospects and inflation dynamics in the region supported the performance of European stocks. Japanese stock declined 0.9% MOM in April 2024. The widening gap in interest rates between Japan and other developed markets exerted downward pressure on the yen and raised concerns among investors about the threat of imported inflation dampening domestic demand. However, the Japanese index continued to outperform the other indices as it grew 17.1% on the 2024 YTD basis. Chinese equities recorded positive performance during the month, driven by the higher exposure to commodities stocks and growing investor attention towards undervalued stocks. On the other hand, emerging markets like South Korea and Taiwan, except India, recorded a marginal decline during April 2024.

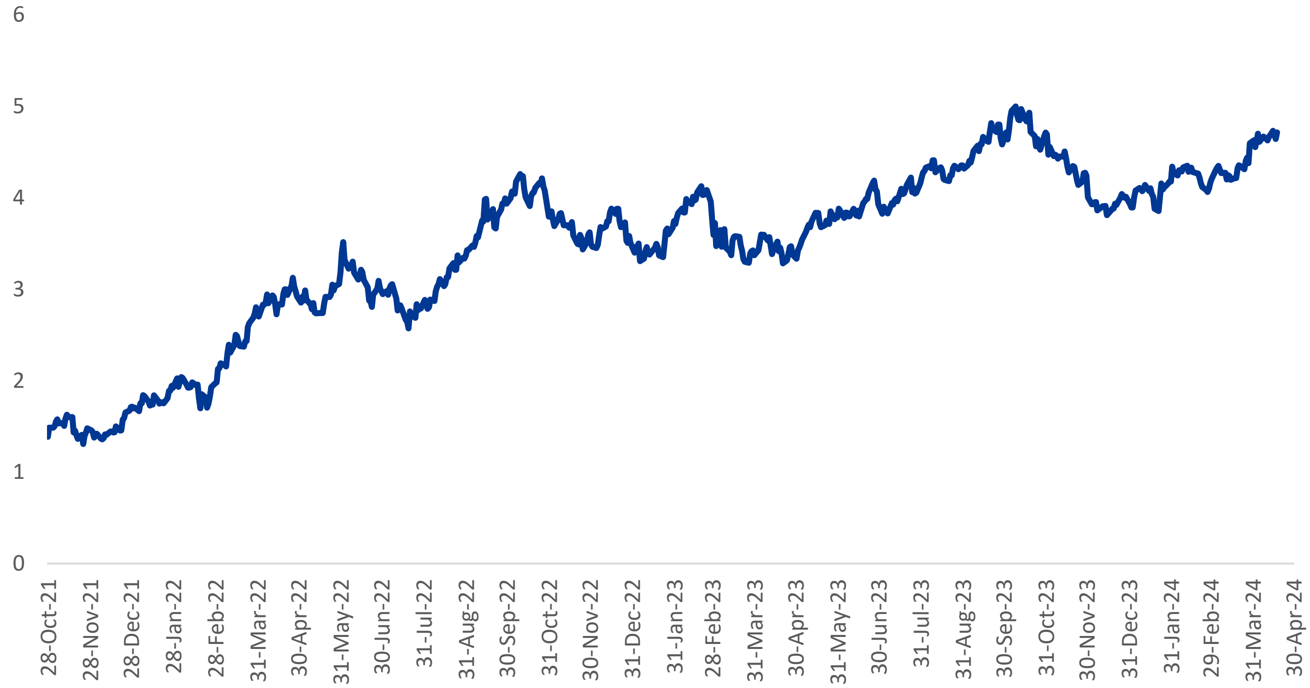
Figure 3: MSCI World and Emerging Market Index Historical trend



Source: Bloomberg

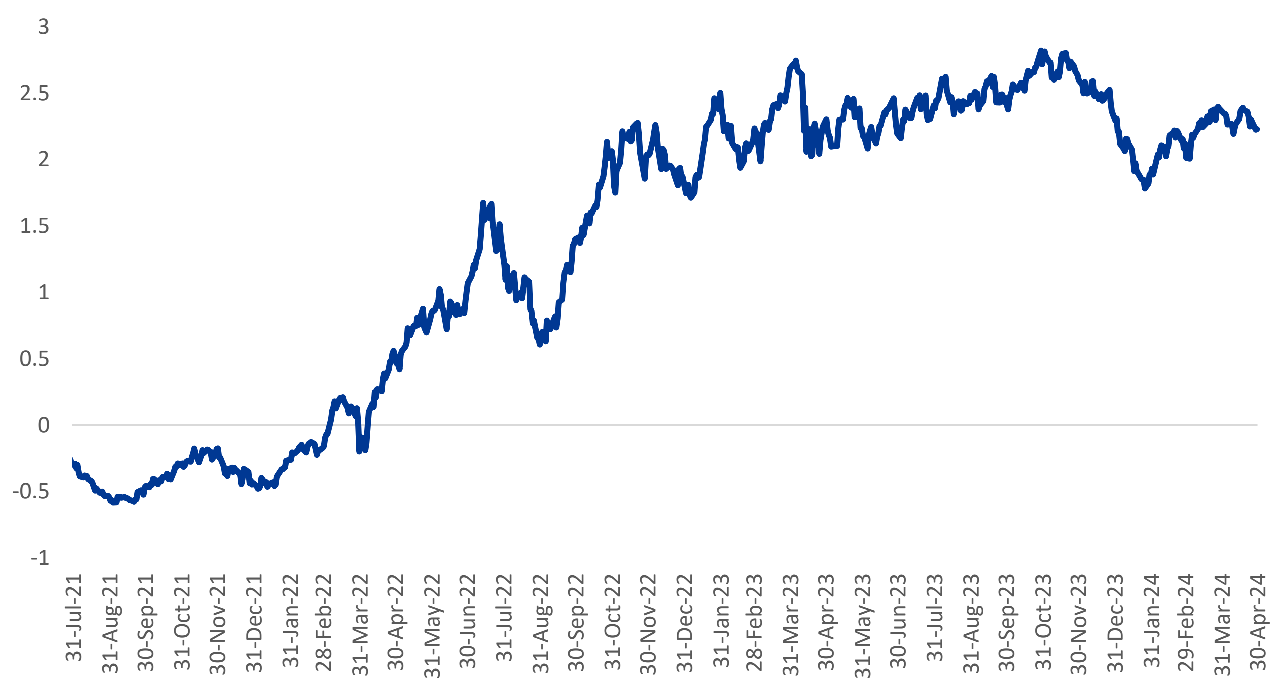
Yield on 10-year government

Figure 4: US 10-year government yield



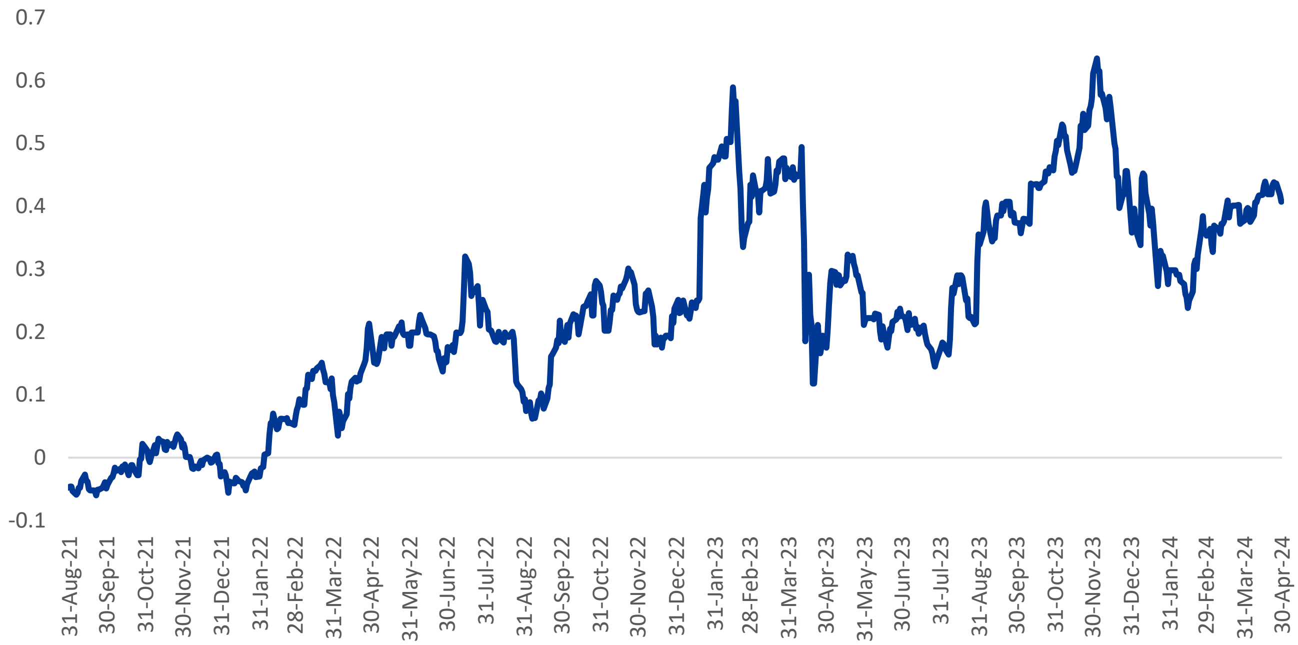
Source: Bloomberg

Figure 5: Germany 10-year government yield



Source: Bloomberg

Figure 6: Japan 10-year government yield



Source: Bloomberg

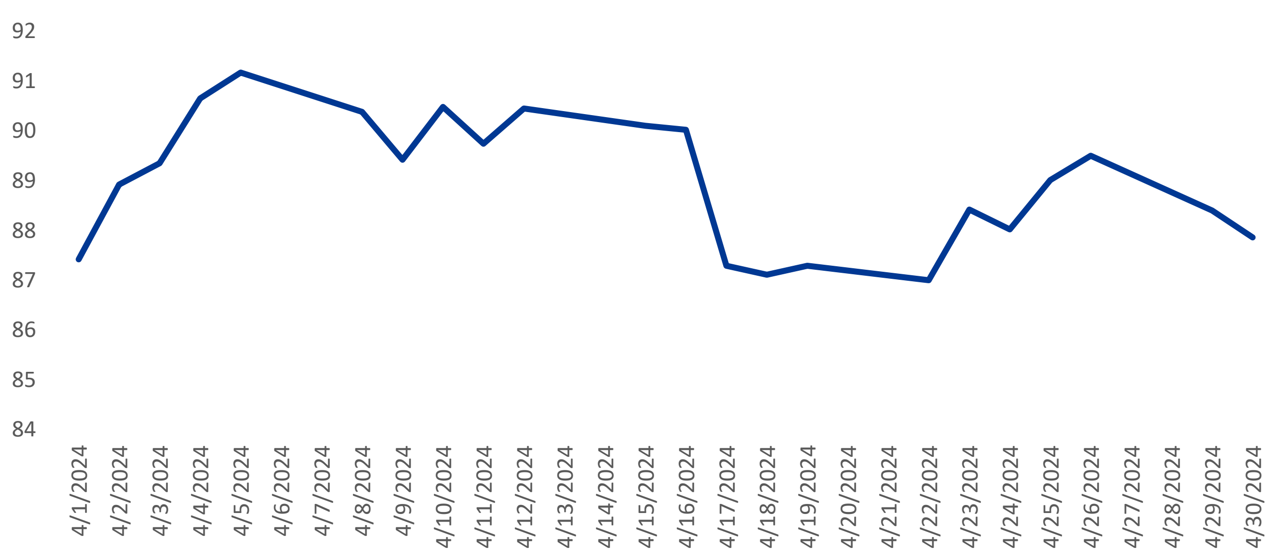
Figure 7: UK 10-year government yield

Source: Bloomberg

Oil Outlook

Oil prices continued to gain for the third consecutive month to end marginally higher at USD 87.86 per barrel in April 2024. Oil prices rebounded during the end of March 2024 due to a decline in US crude and gasoline inventory and expectations of tight supply owing to ongoing supply cut by OPEC+. Oil prices increased in the first week of April 2024 owing to escalating geopolitical concerns as Ukraine attacked Russian refineries resulting in a cut in fuel supply in addition, further escalation of the Israel-Hamas war to Iran increased bets of tight supply. Likewise, higher than expected decline in US crude inventory also supported the oil prices. Moreover, OPEC+ decided to keep its output policy steady as oil prices reached USD 90 per barrel. Oil prices remained range-bound in the following week owing to the likely chances of an increase in the Middle East Conflict. Oil prices fell after the mid-month attributable to Iran's attack on Israel coupled with concerns of global demand due to the weak economy in China and fading prospects of US interest rate cuts. Moreover, the US reinstated oil sanctions on Venezuela while the EU is planning to impose new curbs on Iran. Oil prices traded in a narrow range during the rest of the week. In the following week, prices rebounded due to an unexpected decline in US inventory and settled higher owing to worries of supply disruption. Furthermore, oil prices moderated by the end of the month, owing to the ceasefire talks between Israel and Hamas partially offset by the US inflation data which dimmed the expectations of interest rate cuts.

Figure 8: Brent Crude Oil Prices (USD per barrel)

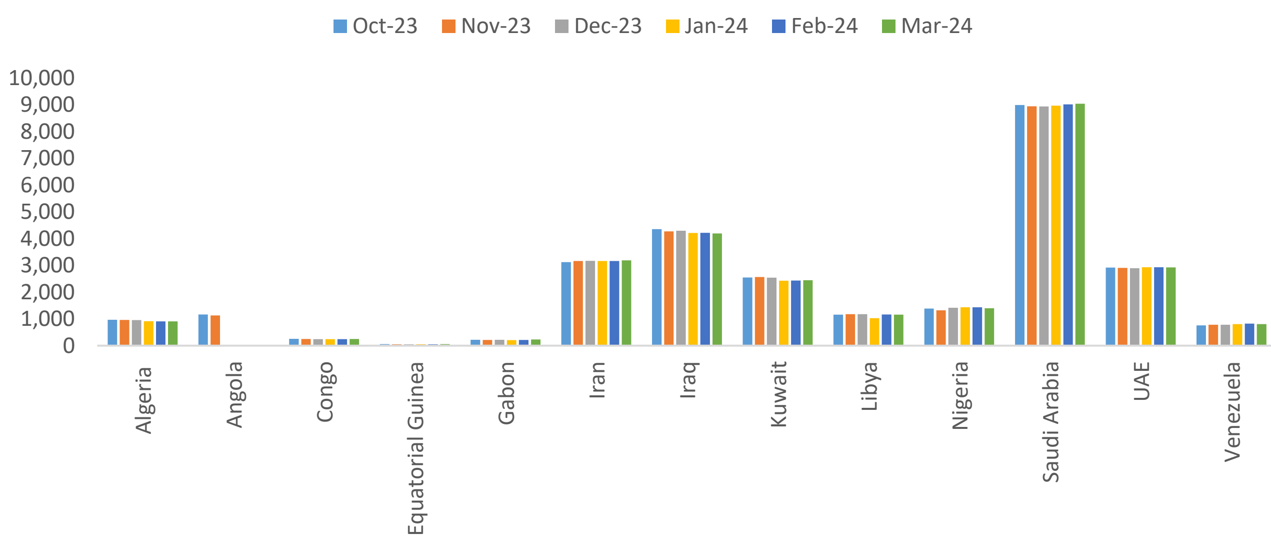


Source: Bloomberg

OPEC Production

OPEC-12 crude oil production rose by 3 thousand barrels per day (bpd) MOM to an average of 26.6 Mn bpd in March 2024. Seven out of the 12 OPEC countries recorded a MOM increase in oil production during January 2024. Iran witnessed the highest increase of 27 thousand bpd MOM, followed by Saudi Arabia with an increase of 20 thousand bpd MOM in March 2024. Gabon and Kuwait's crude oil production rose 15 and 12 thousand bpd, respectively in March 2024 while Equatorial Guinea, Congo and Algeria also witnessed an increase of six, five, and one thousand barrels per day, respectively. On the other hand, Nigeria's crude oil production fell the most by 39 thousand bpd MOM, followed by Iraq with a decline of 23 thousand bpd MOM in March 2024. Similarly, Venezuela's crude oil production reduced by 13 thousand MOM during March 2024 whereas UAE and Libya witnessed an increase of six and two thousand bpd MOM, respectively. Saudi Arabia continues to be the largest oil producer, with a total production of 9.0 Mn bpd in March 2024.

Figure 9: OPEC Crude Oil Production

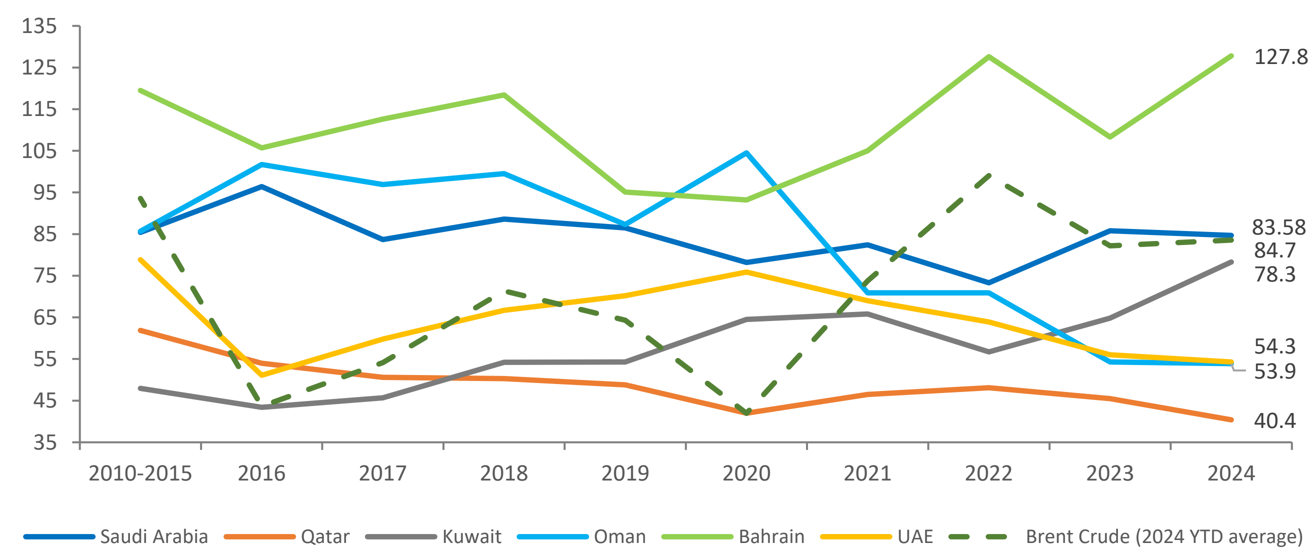


Source: OPEC

Fiscal Breakeven Oil Price

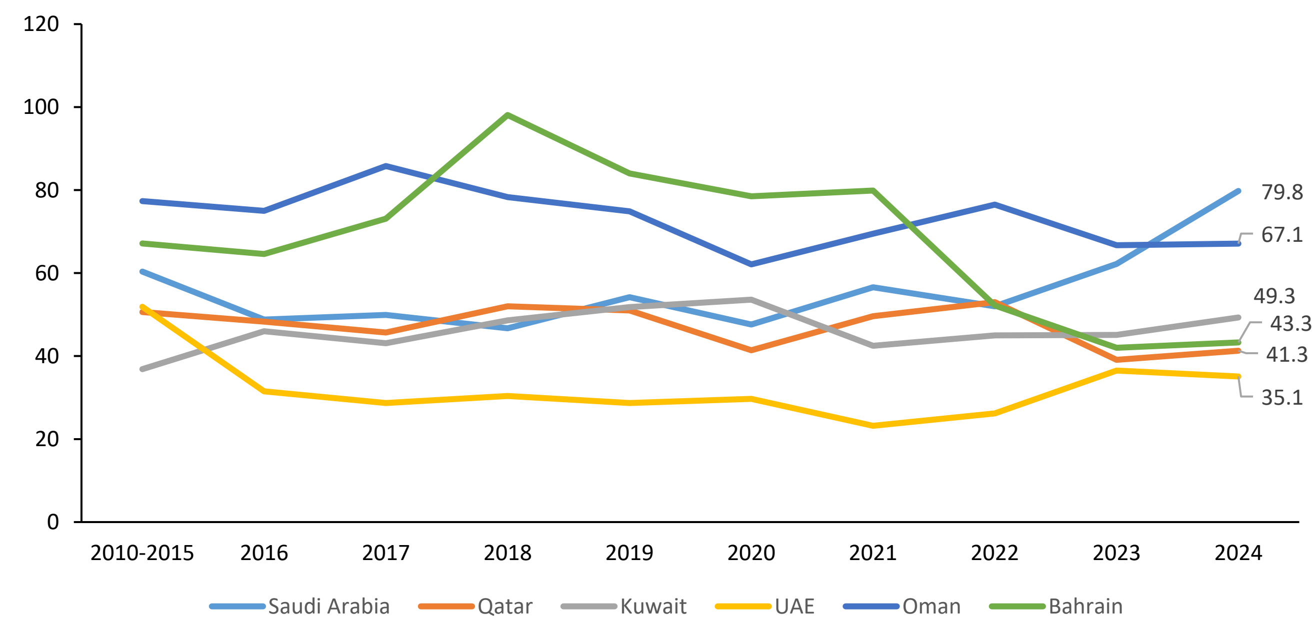
The overall fiscal breakeven oil prices declined in FY2024, except in Kuwait and Bahrain. Bahrain's fiscal breakeven saw the highest rise from USD 108.3 per barrel in FY2023 to USD 127.8 in FY2024. Kuwait fiscal breakeven rose from USD 64.8 per barrel in FY2023 to USD 78.3 per barrel in FY2024, while Saudi Arabia, Qatar, Oman, and UAE recorded a decline in break-even oil price in FY2024. Qatar recorded the highest decline in break-even oil price from USD 45.5 per barrel in FY2023 to USD 40.4 per barrel in FY2024. Saudi Arabia break-even oil price fell from USD 85.8 per barrel in FY2023 to USD 84.7 per barrel in FY2024 followed by a decline in Oman, which fell from USD 54.3 per barrel in FY2023 to USD 53.9 per barrel in FY2024. UAE's break-even oil price also fell from USD 56.0 per barrel in FY2023 to USD 54.3 per barrel in FY2024.

Figure 10: Fiscal Breakeven Oil Price (USD/bbl)



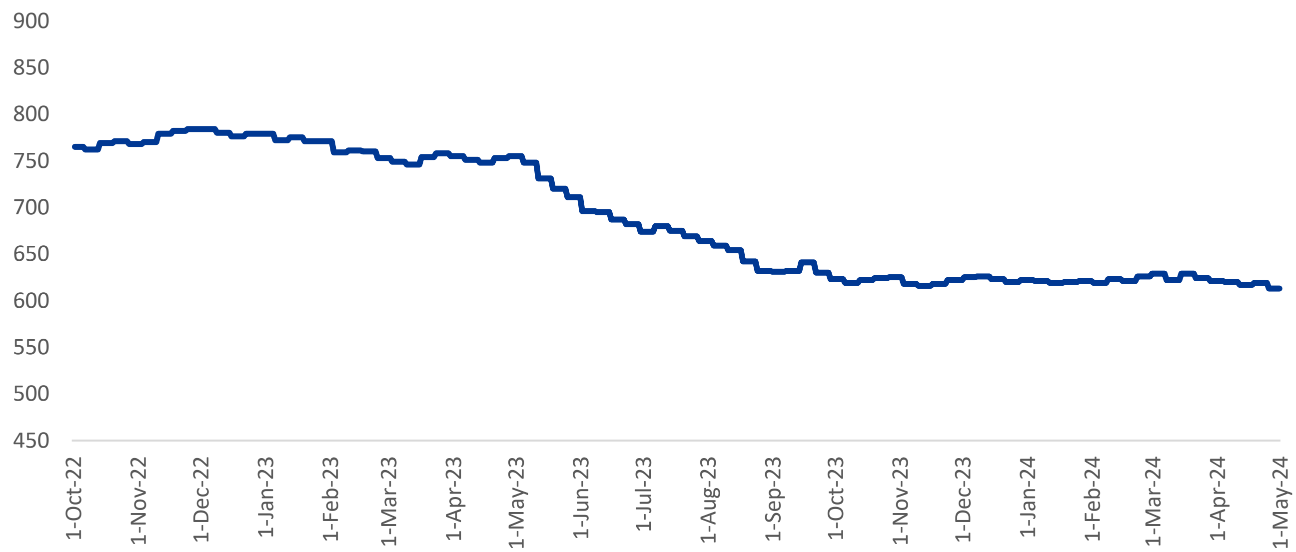
Source: Bloomberg

Figure 11: External Breakeven Oil Price (USD/bbl)



Source: Bloomberg

Figure 12: Oil Rig Count



Source: Bloomberg

Credit Strategy

Top picks for 2024

Name	Sector	Price	Mid YTM	Rating
ALDAR 3.875% 2029	Real Estate	92.35	5.56	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	88.58	9.51	Ba3/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	91.98	5.39	A1/NA/A+
BGBKKK 5.749% PERP	Bank	99.79	8.73	NA/NA/NA
SIB 5% PERP	Bank	98.12	7.87	NA/NA/NA
GENHLD 4.76% 2025	Investment Co.	98.84	5.56	A1/NA/A
REITDU 9.5% 2024	Real Estate	99.01	13.20	NA/NA/NA
INTLWT 5.95% 2039	Power Generation and Water Utility	96.33	6.36	Baa3/NR/BBB-

Source: Bloomberg

We continue to remain OVERWEIGHT on GENHLD, KWIPKK, ALDAR, and Aramco while assign MARKET WEIGHT ratings on REITDU, BURGAN BANK, INTLWT, and SIB.

Implications on Securities Recommendations

Bond Particulars	Call	Ask Price	Yield	1M Return	3M Return	YTD Return	12M Return
INTLWT 5.95% 2039	MW	96.33	6.46	-1.04	-1.50	-1.71	-1.05
REITDU 9.5% 2024	MW	99.01	12.70	-0.18	3.49	4.78	6.30
GENHLD 4.76% 2025	OW	98.84	5.53	-0.26	-0.15	-0.25	-1.20
SIB 5% PERP	MW	98.12	6.74	0.07	0.81	0.87	1.43
ARAMCO 3.5% 2029	OW	99.79	11.84	-0.07	0.94	-0.11	12.65
KWIPKK 4.5% 2027	OW	91.98	5.36	-1.26	-2.34	-3.04	-2.81
ALDAR 3.875% 2029	OW	88.58	9.20	-0.58	0.11	-0.49	2.06
BGBKKK 5.7492% PERP	MW	92.35	5.51	-1.80	-1.96	-2.04	-3.23

Source: Bloomberg

ALDAR 3.875% 2029: Maintain OVERWEIGHT rating

- We assign OVERWEIGHT rating on Aldar Properties PJSC's (Aldar Properties) 3.875% senior unsecured Sukuk maturing in October 2029. The Sukuk is trading at USD 94.10 with a yield of 5.11% when held until maturity (redemption at par) with a modified duration of 5.16. The Sukuk also enjoys an investment-grade rating of 'Baa1' by Moody's.
- In Abu Dhabi, Aldar Properties is a leading real estate developer with the highest market cap of AED 43.17 Bn. 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 17 Mn sqm across three 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 the UAE.
- Aldar Properties (Aldar) released its financial results for FY2023 with a total revenue of AED 14.2 Bn, up 26% along with a gross profit of AED 5.6 Bn, up 24%, and a net profit of AED 4.4 Bn, up 40%, demonstrating the resilience of Aldar's diversified business model. Aldar EPS rose 32.0% YOY to AED 0.486 in FY2023, demonstrating consistent long-term shareholder value growth.
- Aldar's strong financial results were primarily driven by the robust 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 segments. The backlog of the development business nearly doubled to AED 36.8 Bn in 2023 as a result of record sales and project launches, in addition to strong contributions from SODIC, offering healthy revenue visibility over the next two to three years. Additionally, Aldar launched 14 new developmental projects in 2023 along with international expansion in Dubai, Ras Al Khaimah, and the United Kingdom. The Project Management business revenue backlog increased to AED 81.9 Bn, led by the addition of new projects valued at AED 30.3 Bn in FY2023. A considerable revenue backlog, along with a robust project pipeline and diverse revenue sources, supports the Company's long-term revenue visibility. Aldar Investment's AUM reached AED 37 Bn in FY2023 as a result of strategic acquisitions and capital deployment. Occupancy levels across the investment properties stood at 93% across the Commercial, Retail, Logistics, and Residential properties resulting from proactive asset management in FY2023.
- Aldar's hospitality and leisure business recovered, owing to a robust recovery in the tourism sector in FY2023. Aldar Development initiated its international expansion strategy by acquiring the UK

developer London Square, investing in European real estate private credit, and making direct investments in European logistics and self-storage assets. Aldar's landbank is strategically distributed across significant investment zones in Abu Dhabi, Dubai, and Ras Al Khaimah, with a total owned and controlled land area of 65 Mn sqm. Aldar Investment deployed capital amounting to c. AED 3.1 Bn and Aldar Development deployed c. AED 5.9 Bn in FY2023. In Abu Dhabi, the land area spans 63.0 Mn sqm, with a gross floor area (GFA) of 9.6 Mn sqm. Meanwhile, in Dubai, the land area encompasses 2.6 Mn Sqm. The Company broadened its investment portfolio by procuring seven Logistics and Industrial Central acquisitions in Dubai amounting to AED 92 Mn in FY2023. Additionally, an acquisition of Al Maryah Island land in Abu Dhabi for AED 98 Mn during the same period. Aldar Education is a leading private education provider in Abu Dhabi with 31 owned and managed schools primarily across UAE by further acquiring Kent College Dubai and Virginia International Private School by injecting AED 350 Mn in FY2023.

- Liquidity position remains healthy with AED 2.9 Bn worth of free & subsidiary cash and AED 7.5 Bn of undrawn bank facilities. The Company's net debt stood at AED 12.1 Bn in 2023 and further AED 2.2 Bn in 2024 and AED 2.7 Bn in 2025 is due for maturity.

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 88.96 with a yield of 8.92% 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 from KD 11.4 Bn (USD 37.2 Bn) in FY2022 to KD 12.3 Bn (USD 40.0 Bn) in FY2023, 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 23% from KD 1.06 Bn (USD 3.5 Bn) in 2022 to KD 1.29 Bn (USD 4.2 Bn) in FY2023 mainly due to healthy performance from commercial banking, energy, industrial & logistics, and hospitality & real estate partially offset by a decline in media & satellite services and asset management segment. The growth in revenue was also due to the continued exceptional performance of core firms.
- The company's operating profit from continuing operations before provisions declined to KD 157 Mn in FY2023, down from KD 300 Mn in FY2022. Provisions for credit losses and investments were reported at KD 42 Mn in FY2023, up from KD 42 Mn in FY2022.

- The company recorded an increase in profit from the discontinued operation of KD 84.6 (USD 284.6 Mn) in FY2023 as compared to KD 17.8 Mn (USD 57.8 Mn) in FY2022 mainly due to the sale of a 46.32% stake in Gulf Insurance Group (GIG) to Fairfax Financial Holding Ltd.
- The company recorded an increase in net profit from KD 25.2 Mn (USD 82.3 Mn) in FY2022 to KD 30.0 Mn (USD 97.6 Mn) in FY2023. During FY2023, earnings per share declined 26% to KD 5.1 fils.
- KIPCO's Board recommended not distributing dividends for FY2023 to ensure liquidity, timely repayment of debt maturing in the near term, and the pursuit of new investment opportunities. This also ensures the company maintains its credit profile and rating position.
- Moody downgraded KIPCO's rating from Ba2 to Ba3 with a negative outlook. Fitch rating also downgraded KIPCO's long-term issuer rating to 'BB'- from 'BB' with a stable outlook citing high leverage and ongoing portfolio restructuring efforts. Despite these challenges, the outlook remains stable, supported by KIPCO's established track record, diversified portfolio, and stable dividend flows from the portfolio companies.

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 93.16 and offers a yield of 5.06%. 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 Arabian Oil Company is an integrated energy and chemicals company. Aramco's operations are divided into two main segments: Upstream and Downstream. Upstream activities are predominantly centered in Saudi Arabia, while the Downstream sector operates on a global scale. The Upstream segment of the Company is responsible for the exploration, development, production, and sale of natural gas, condensate, crude oil, and natural gas liquids (NGLs). The activities of the downstream section include supply and trading, power generation, retail operations, base oils and lubricants, petrochemicals and refining, and distribution. The reserves of Aramco amounted to 251.2 Bn barrels of oil equivalent in FY2023, consisting of 191.3 Bn barrels of crude oil and condensate, 26.0 Bn barrels of NGL, and 207.5 trillion standard cubic feet of natural gas. The Company manages 541 reservoirs within 144 fields spread across the Kingdom and its territorial waters
- Fitch upgraded a long-term foreign and local currency IDR to 'A+' with a stable outlook in April 2023, reflecting the Company's strong business profile backed by strong control and support from the government. The government is the majority shareholder of the Company, with a direct ownership of 90.19%. Aramco's significant investments in capex and capacity expansion, position the Company for future growth. Additionally, the Company maintains low production costs and substantial reserves, offsetting potential energy transition risks. Aramco boasts an SCP rating of 'AA+' which is three notches above that of the Sovereign's foreign currency rating of 'A+'. The worsening of Saudi Aramco's relative position to local peers would likely lead to a downgrade of rating.

- Total revenue declined 17.6% to SAR 1,653.3 Bn in 2023, mainly due to the lower realized crude oil prices and volumes sold coupled with a decline in chemicals refining margins. Other income related to sales declined 21.7% to SAR 259.4 Bn in 2023. Thus, revenue and other income related to sales fell to 18.1% to SAR 2,266.4 Bn in 2023.
- Royalties and other taxes declined 32.1% to SAR 231.8 Bn in 2023. The operating income dropped 12.0% to SAR 988.1 Bn in 2023 owing to OPEC+ production cuts and challenging economic conditions. The Company's finance income more than doubled to SAR 32.0 Bn in 2023 compared to SAR 14.9 Bn in 2022. Furthermore, Aramco's net profit declined 24.2% to SAR 452.8 Bn in 2023.
- The Company's operating free cash flow fell 31.9% to USD 101.2 Bn in 2023. The decline was primarily caused by a decrease in cash flow from operating activities by 23.0% to USD 143.4 Bn in 2023, which was an outcome of lower earnings partially offset by a favorable change in working capital.
- Aramco introduced a performance-linked dividend (PLD) starting from 3Q23 and anticipates PLD will be computed using 70% of the Company's full-year free cash flow generated in FY2022 and FY2023. The Company paid a PLD of USD 9.9 Bn each in 3Q23 and 4Q23. The Company paid USD 97.8 Bn dividend in 2023 including a base dividend of USD 78 Bn and PLD of USD 19.8 Bn in 2023. In addition, the Board also approved the distribution of USD 10.8 Bn PLD in 1Q24.
- The Company's progress on its Upstream oil and gas projects such as Marjan, Berri, Dammam, and Zuluf crude oil increments are expected to enhance its operational flexibility to capture value from strong global demand. However, Aramco's strategy to boost oil production capacity to 13.0 Mn barrels per day by 2027 is affected due to the OPEC+ cuts.
- Aramco's gearing ratio stood at negative 6.3% in 2023 compared to a negative 7.9% in 2022. The increase in gearing was primarily a result of a decline in net cash position, due to lower operating cash inflows. This positive cash positions further declined due to capital expenditures and dividend payments made during the same period. The interest coverage ratio stood at 106.1x in 2023 compared to 128.8x in 2022. This was primarily due to the decrease in operating income in the recent quarters as a result of lower crude oil prices. Aramco's capex increased 12.2% to USD 42.2 Bn in 2023 and further expects to invest USD 48 – 58 Bn in 2024. Furthermore, lower infill drilling due to directives from the govt. authorities in Saudi will result in a decline in total investment by USD 40 Bn from 2024-2028. The Company's debt declined 26.2% to SAR 290.2 Bn in 2023.

BGBKKK 5.749% PERP: Maintain MARKETWEIGHT rating

We are MARKETWEIGHT on Burgan Bank's 5.749% Jr. subordinated perpetual Additional Tier 1 (AT1) bond currently trading at USD 99.81. The bond offers a yield of 6.56% with a duration of 0.25. Its loan book is diversified with exposure to Kuwait and international operations in multiple sectors.

- 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 126 branches and 297 ATMs as of FY2023. The Bank is majorly owned by KIPCO Company with a stake of 64.3%

- Burgan Bank Group's revenues increased to KWD 265 Mn in FY2023 compared to KWD 232 Mn in FY2022. Burgan Bank reported a net profit of KWD 44 Mn in FY2023 despite the geopolitical turmoil and hyperinflationary accounting (IAS 29) losses of KWD 32 Mn on its Turkish subsidiary. The net profit declined 16.5% in FY2023, primarily due to a decline in net interest income of 8.5%, non-funded income by 8.0%, and a rise in provisions. Net interest income declined 8.5% to KWD 134 Mn in FY2023, owing to a decline in net interest margins from 2.4% in FY2022 to 2.1% in FY2023. Net fees and commissions income fell 8.0% in FY2023 whereas the operating expenses grew 8.6% to KWD 116 Mn due to the inflationary environment and increased costs associated with current investments in the digital banking platform. For the FY2023, the cost-to-income ratio stood at 52.4% compared to 47.0% in FY2022.
- The Bank's non-performing loans rose marginally from 1.9% in FY2022 to 2.0% in FY2023. Provision coverage ratio without collateral remained strong at 220% in FY2023 compared to 206% in FY2022. Burgan's Capital Adequacy Ratio stood at 20.0%, 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% and 117%, respectively, as of FY2023, substantially above the minimum regulatory requirement of 100%
- The Board of Directors proposed a cash dividend of 6 fils per share, in addition to a 5% bonus share distribution for FY2023, 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 MARKET WEIGHT rating

We are MARKET WEIGHT on Sharjah Islamic Bank’s (SIB) 5.0% Jr. subordinated perpetual (AT1) bond. The bond offers a yield of 6.54% currently trades at USD 98.18 with a duration of 1.17 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 30.8% to AED 852 Mn in FY2023 mainly due to an increase in funded and non-funded income and a decline in impairments partially offset by a rise in operating expenses. Total operating income rose 22.7% to AED 1,975 Mn in FY2023 due to a 19.7% growth in

net funded income and 31.9% growth in non-funded income. In line with the bank's prudent credit management approach the provisions rose 29.7% to AED 221 Mn in FY2023. Non-performing loans declined from 6.2% in FY2022 to 5.6% in FY2023 with a stage 2 ratio of 6.0%.

- SIB's total assets grew 11.4% to AED 65.9 Bn in FY2023. While net advances rose 7.7% to AED 33.0 Bn in 2023. The Bank's customer deposits rose 14.4% to AED 45.2 Bn in FY2023. Similarly, total equity increased 6.5% to AED 8.1 Bn in FY2023. The Bank's liquid asset ratio declined from 23.9% in FY2022 to 20.8% in FY2023. The Bank's headline loan-to-deposits ratio stood at 73.1%, which indicates strong room for loan growth in the upcoming period.

GENHLD 4.76% 2025: OVERWEIGHT rating

We assign OVERWEIGHT rating on Senaat's 4.76% Sukuk maturing in December 2025. The Sukuk is trading for USD 98.53 and has a yield of 5.63% 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 6th, 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 31st, 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 MARKETWEIGHT rating

We maintain MARKETWEIGHT on Emirates REIT's 9.5% Sukuk maturing in December 2024. The Sukuk is trading at USD 98.94 with a yield of 12.59% when held till maturity (redemption at par). On 12th December 2022, Emirates REIT refinanced the existing sukuk with a new secured sukuk financing of USD 380 Mn with a two-year maturity. The new sukuk is fully secured with a profit rate of 9% and a maturity date of December 2024, along with a one-year extension option. The refinancing risk for the newly issued sukuk persists as the refinancing was only extended by two years. The principal outstanding on the new sukuk is reduced by USD 20 Mn. The maturity of the sukuk could be extended by one year only if USD 150 Mn is paid out of the outstanding debt and higher interest rates will apply. In case, the Company plans to settle the debt it is required to dispose of assets which will reduce cash flows as existing cash flows are not enough to pay the debt. The total debt outstanding was reduced from USD 462.9 Mn in

FY2022 to USD 440.1 Mn in 9M23. The net investment value of the REIT rose 29% YOY to USD 465 Mn in 9M23 due to a gain in the fair value of investment properties and lower liabilities. The company properties are diversified among commercial, educational, and retail sectors with an occupancy rate of 87.3% in 9M23.

- Emirates REIT recorded a strong growth in net profit 34.2% YOY to USD 92.6 Mn in 9M23. The growth in net profit is mainly attributable to net unrealized gain on revaluation of USD 98 Mn in 9M23 and higher net property income partially offset by higher finance cost.
- Net property income grew 10.8% YOY to USD 45.5 Mn in 9M23 driven by higher rental rates and occupancy partially offset by a 4.3% YOY rise in property operating expenses of USD 9.6 Mn. Total operating profit rose 12.8% YOY to USD 31.7 Mn in 9M23 due to a rise in net property income partially offset by higher fund expenses and a rise in ECL allowance. Despite a decline in the financing, the net finance cost almost doubled from USD 18.6 Mn in 9M22 to USD 35.1 Mn in 9M23 due to high interest rates which impacted the FFO.
- The occupancy across the portfolio rose 5.4% YOY to 87.3% in 9M23 driven by strong growth in the leasing market due to high demand. Meanwhile, occupancy across the Commercial and Retail portfolio grew 8.1% YOY to 79% in 9M23. The Company's weighted average lease expiry (WALE) declined marginally from 6.7 years in 9M22 to 6.4 years in 9M23
- The Company’s Islamic financing reduced by 5.9% YOY to 440.1 Mn in 9M23 owing to refinancing and partial repayment of Sukuk coupled with the drawdown of new bilateral facilities which led to an improvement in Financing to asset value to 44% in 9M23 from 51% in 9M22.

INTLWT 5.95% 2039: Maintain MARKETWEIGHT rating

We assign MARKETWEIGHT on APMI One’s 5.95% bond maturing in May 2039. The bond is trading at USD 97.34 with a yield of 6.31% 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 31st December 2022

FAB SECURITIES أبوظبي الأول للأوراق المالية

Bond Yield charts (%)

Figure 13: ALDAR 3.875% 2029

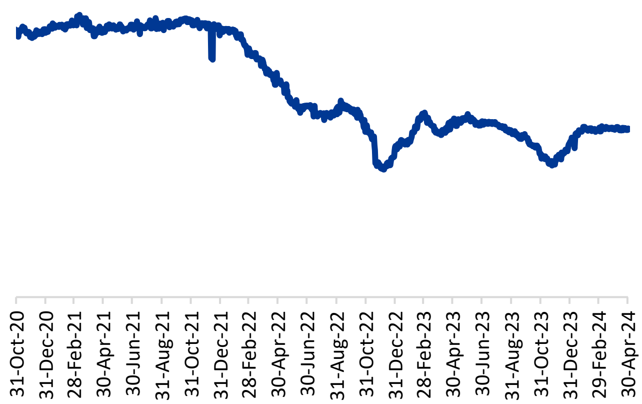


Figure 14: KWIPKK 4.5% 2027

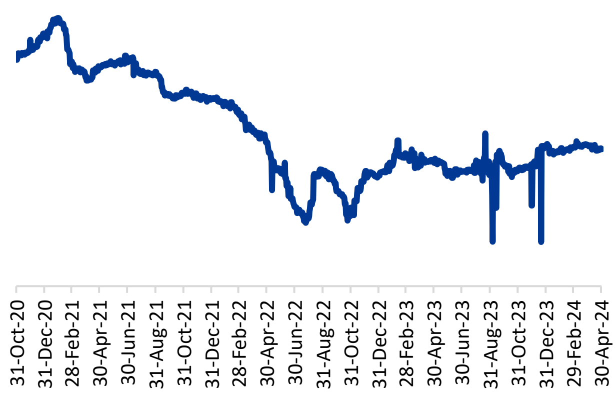


Figure 15: ARAMCO 3.5% 2029

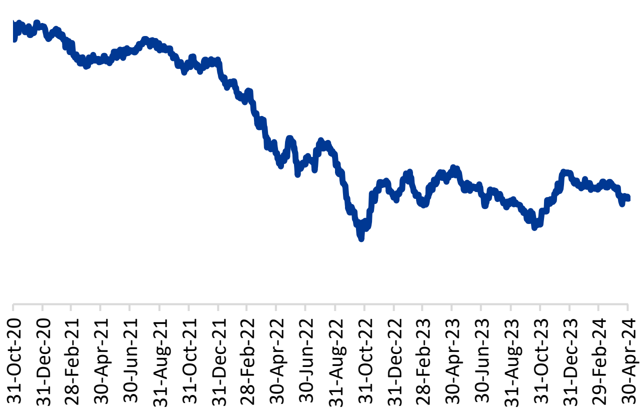


Figure 16: SIB 5% PERP

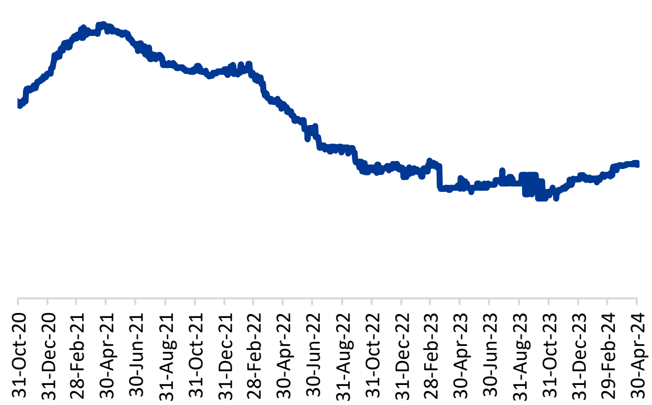


Figure 17: GENHLD 4.76% 2025

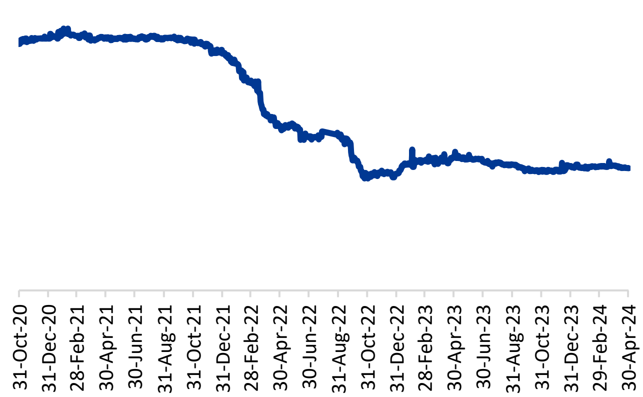


Figure 18: REITDU 9.5% 2024

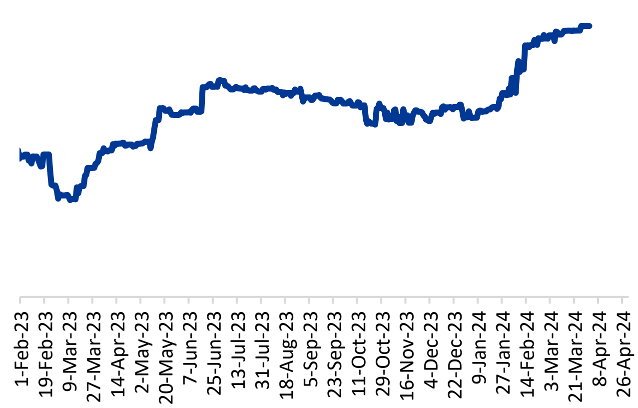
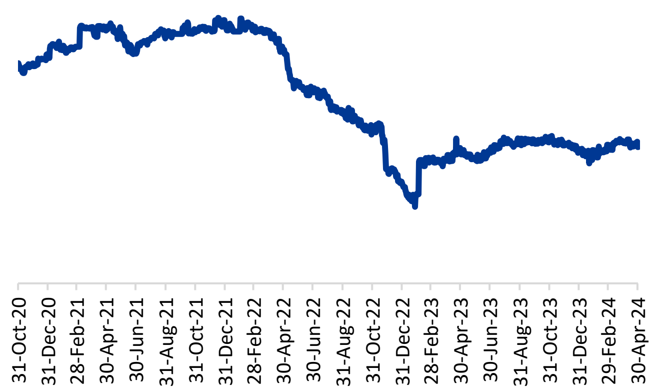
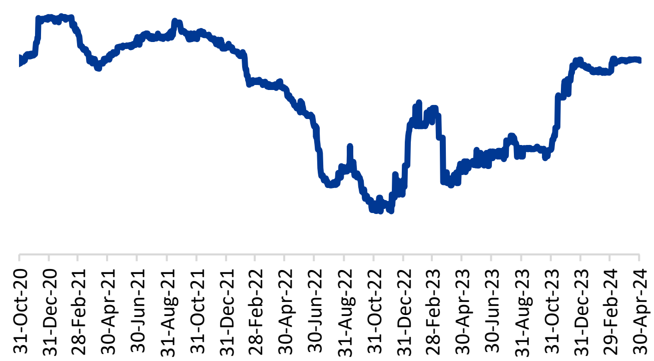


Figure 19: INTLWT 5.95% 2039	Figure 20: BGBKKK 5.749% PERP





Source: Bloomberg

Key Market Indicators

Particulars	Price/Yield	YTD (% change)	MOM (% change)
Brent crude	85.13	10.50	-2.62
US dollar index	106.33	4.93	1.25
10Y Treasury yield	4.69	NA	NA
2Y Treasury yield	5.03	NA	NA
10Y German bund yield	2.58	-2.45	-2.45
10Y Japan bond yield	0.88	NA	NA
Bloomberg UAE Composite USD Liquid index	132.36	-1.95	-1.87

Source: Bloomberg

Sovereign Highlights

UAE

Dnata secured a multi-year Airline deal in the USA with Etihad Airways

Dubai-based dnata signed a multi-year contract with Etihad Airways in USA providing inflight catering to Etihad Airways through its Boston Logan Airport (BOS) facility. The company provides 40 catering and retail services to customers at 12 airports in the US and uplifted 1.6 Bn meals for 8,000 flights in 2022-23.

Lunate acquired 40% stake in ADNOC Oil pipelines

Abu Dhabi-based Lunate, an alternative asset manager acquired 40% stake in ADNOC Oil Pipelines (AOP) from Blackrock and US investor KKR. The acquisition was made through Lunate Long-Term Capital Fund's purchase of a 100% stake in a special purpose vehicle jointly held by BlackRock and KKR.The 17 onshore and 5 offshore pipelines span 806 kms and with a combined capacity of 18 Mn barrels per day.

Spinney’s UAE-based supermarket chain offers 25% stake in its IPO listing

Al Seer Group LLC is offering 900 million shares in Dubai-based supermarket chain Spinneys Holding in an IPO which is set to open on 23rd April for subscription and DFM listing on 9th May. Emirates NBD Bank and Rothschild & Co Middle East Limited will be the lead receiving bank and independent financial adviser respectively. The offer price was set between the range of AED 1.42 and AED 1.53 per share. The company operates 75 premium grocery retail supermarkets under the 'Spinneys', 'Waitrose', and 'Al Fair’ brands in the UAE and Oman, and plans to open its first store in Saudi Arabia in 1H24. The company plans to raise AED 1.37 Bn (USD 375 Mn) at the upper end of the price range. There will be a minimum issuance of 2,000 shares guaranteed for each subscription.

ADQ acquired 49% stake in Plenary Group

ADQ acquired 49% stake in Plenary Group, an infrastructure developer valued at USD 25 Bn based in Australia. The acquisition consists of all of the shares held by Caisse de dépôt et placement du Québec (CDBQ), it will still be a key shareholder in Plenary's independent Americas business and continue to stay invested in the company's Australian assets. The plans for Plenary's expansion in Australia, the Middle East, Asia, the UK, and Europe will be funded by ADQ's capital. The two organizations will collaborate to develop a co-investment platform that will target public and social infrastructure prospects in the Middle East, Central Asia, and the GCC region.

Abu Dhabi raised USD 5 Bn through the issuance of its first treasury bonds since 2021

Abu Dhabi issued bonds worth USD 5 Bn for the first time since 2021 marking one of the biggest emerging market deal of this year. The issuance consisted of a USD 1.75 Bn tranche with a coupon rate of 4.875% maturing in 5 years, USD 1.5 Bn tranche with a coupon rate of 5.0% maturing in 10 years, and USD 1.75

Bn tranche with a coupon rate of 5.5% matureing in 30 years. The rates amount to a spread of 35 basis points over 5-year US Treasuries, 45 basis points over 10-year Treasuries, and 90 basis points over 30-year Treasuries. The issuance was oversubscribed by 4.8 times indicating a robust demand from global investors. The lead managers and underwriters included Abu Dhabi Commercial Bank, Citi, First Abu Dhabi Bank, HSBC, JP Morgan, Morgan Stanley, and Standard Chartered Bank.

ADNOC purchased 1 mln barrels of Iraqi oil

Abu Dhabi National Oil Company (ADNOC) imported oil from Iraq after upgrading its refinery in the UAE to process heavier and cheaper crude oil like Iraqi-grade crude oil to increase exports of its higher priced Murban oil. One million barrels of Basrah crude were delivered to the company's Ruwais refinery from Iraq. This is ADNOC's first purchase of heavier oil from the area, which will boost its premium oil exports.

SAUDI ARABIA

Saudi Arabia‘s unemployment rate fell to 7.7% in 2023

According to the General Authority for Statistics (GASTAT) labor force survey, Saudi Arabia’s unemployment rate dropped to 7.7% in 4Q23 compared to 8.6% in 3Q23. According to the Al Rajhi Capital Research report, the working population’s overall unemployment rate declined to 4.4% in 4Q23 compared to an unemployment rate of 5.1% in 3Q23 marking the lowest rate of unemployment reported since 1999.

Saudi Aramco granted contracts worth USD 7.7 Bn for the expansion of Fadhili gas plant

Saudi Aramco awarded contracts worth USD 7.7 Bn to expand the processing capacity of the Fadhili gas plant to 4 billion standard cubic feet per day along with an additional sulphur production of 2,300 metric tons per day. The expansion is anticipated to be completed by November 2027. The contract was granted to Samsung Engineering, GS Engineering & Construction Corporation, and Nesma & Partners. The expansion will increase Aramco's gas production by more than 60% from 2021 to 2030. Furthermore, Saudi Arabia is considering panning to invest in offshore liquefied natural gas (LNG) projects and bought a minority stake for USD 500 Mn in MidOcean Energy last year for the same.

Saudi Arabia initiates enforcement of the first phase of decisions to regulate the order delivery sector

The Saudi Transport General Authority (TGA) started the enforcement of the first phase of its decisions to regulate the order delivery sector, including obligating non-Saudis employed in delivery applications to join authorized light transport companies in four regions, restricting freelance work to Saudi nationals, enacting laws governing the use of motorcycles for order delivery, and compulsion of uniforms for drivers. The first phase will begin in four regions i.e. Al-Baha, Najran, Jazan, and the Northern Borders Region. The authority has also issued rules to regulate the use of motorcycles, including acquiring an operating card, making sure motorcycles don't carry heavy objects, and abstaining from engaging in prohibited activities by the TGA and the General Department of Traffic. The decisions for the second phase will be revealed before 1 July 2024.

Saudi Arabia's non-oil PMI marginally declined to 57.0 in March 2024

Saudi Arabia's non-oilprivate sector continue to grow in March 2024, driven by robust demand and new customers. The Riyad Bank Saudi Arabia PMI stood at 57.0 in March 2024 compared to 57.2 in February 2024, recording the highest output levels recorded in six months. Most firms witnessed a rise in new business volumes as running new orders rose significantly in March. Employment increased moderately, and non-oil private sector firms saw a decline in cost inflation despite a rise in input prices.

ADES and Arabian Drilling's Offshore rig contracts were suspended leading to a decline in share price

ADES Holding Company and Shelf Drilling decided to halt operations temporarily on their contracted offshore rigs. Arabian Drilling is in talks with Saudi Aramco regarding contract suspensions of up to 12 months for three of its offshore rigs. ADES Holding Company mutually agreed to a 12-month suspension of operations on five out of the 33 offshore jack-ups that are now in use in Saudi Arabia. One of the rigs of ADES will be stationed in Thailand, and the other is waiting for a further promising prospect in the area. Arabian Drilling has considered a possible downsizing in the offshore segment.

Riyad Bank is considering IPO and listing of Riyad Capital

Riyad Bank is considering to list Riyad Capital, its subsidiary on the Saudi Exchange. Riyad Bank and Riyad Capital will collaborate to decide the IPO's size, structure, and other details. The Saudi government and the Public Investment Fund hold 10.39% and 21.75% stake respectively in Riyad Bank.

The Industrial Production Index of Saudi Arabia decreased by 7.7% in February.KSA's Industrial Production Index (IPI) witnessed a 7.7% YoY decline in February 2024 attributable to a drop in mining, quarrying, and manufacturing activity. According to data released by GASTAT, the Saudi IPI decreased from 112.09 points in February 2023 to 103.44 points in February 2024 compared to the base year 2021.

The World Bank raised Saudi Arabia's economic growth forecast to 5.9%

The World Bank revised Saudi Arabi's FY2025 economic growth to 5.9% compared to the previous forecast of 4.2% in January 2024. However, it revised KSA's FY2024 forecast from 4.1% to 2.5%. Moreover, World Bank expects KSA's non-oil private sector to grow 4.8% in FY2024 attributed to the expansionary public finance policy. Additionally, the bank projected that Saudi Arabia's per capita GDP to increase 0.5% in FY2024 compared to 2.8% decline in FY2023.

Manara Minerals considers acquiring a stake in Zambian copper mines

Manara Minerals Investment Co., a joint venture between the Saudi Arabian Mining Company and the Public Investment Fund, consider to bid for a shareholding in Zambian copper mines. Up to 30% of the company's mines in Zambia are available for sale, together with those of Rio Tinto Group. Approximately half of First Quantum's copper revenue and output in 2023 came from the Zambian mines. Saudi Arabia is preparing to invest c. USD 1 Bn in the Pakistani copper-gold mine Reko Diq, to diversify from the conventional oil and gas economy.

Saudi Ajlan & Bros intends to make an investment of USD 1.5 Bn in Ras Gamila

Ajlan & Bros Holding is planning to raise USD 1.5 Bn in initial funding to develop tourism projects in Ras Gamila, Egypt. In a letter to the Egyptian government, the company proposed to develop ten four- and five-star hotels featuring 3,000 rooms in the first phase. Furthermore, Ajlan and Bros made a bid to acquire businesses under the initial public offering (IPO) program of Egypt, anticipating that negotiations would be finalized in six months.

Aramco is in negotiations for the acquisition of a 10% shareholding in Hengli Petrochemical in China

Saudi Aramco is negotiating with Hengli Group in China to acquire a 10% share in Hengli Petrochemical Co., Ltd. The acquisition is in line with Aramco's plans to expand its downstream presence entering high-value markets, develop its program to convert liquids into chemicals and acquire long-term contracts for the supply of crude oil.

Saudi PIF and STC aim to establish the largest telecom tower entity in the region

Public Investment Fund (PIF) signed a sale and purchase agreement (SPA) with STC for the sale of a 51% stake in Telecommunication Towers Company Limited (TAWAL) with the aim to merge with PIF'subsidiary Golden Lattice Investment Co. (GLIC). PIF and STC will own a 53.99% and 43.06% stake respectively in the new company under which it will operate a managed and owned portfolio of 30,000 towers across five different countries.

NEOM secured a facility worth USD 2.67 Bn from nine local banks

NEOM, the mega project of Saudi Arabia secured a revolving credit facility of SAR 10 Bn (USD 2.67 Bn) from nine local banks to pursue its construction plans. NEOM said in a statement that the facility will fulfil short-term funding requirements. Saudi National Bank, Riyad Bank, and Saudi Awwal Bank were the lead arrangers. Al Rajhi Bank, Alinma Bank, Arab National Bank, Bank Albilad, The Saudi Investment Bank, and Bank AlJazira were among the other participating banks. The SAR 23 Bn financing deal for the NEOM Green Hydrogen Company, which was signed by NEOM and its partners, is followed by the new RCF.

Ma'aden and the Mosaic company enter into a subscription and share purchase agreement

A share purchase and subscription deal was signed between US-based Mosaic Company and Saudi Arabian miner Ma'aden under which the former will sell its complete shareholding in Ma'aden Wa'ad Al Shamal Phosphate Co. (MWSPC) to Ma'aden in exchange for recently issued Ma'aden shares. Ma'aden's shareholding in MWSPC will increase to 85%, and Mosaic will sell its 25% stake in MWSPC in exchange for 111 million shares in Ma'aden. Through the agreement, Ma'aden will gain control over Mosaic's marketing rights in the MWSPC joint venture, resulting in an annual increase in the volume of phosphates. It is anticipated that the deal will further strengthen Ma'aden's commercial position in the marketing and distribution of phosphate fertilizers, which encompasses a global network of operations to cater to major fertilizer markets and sales offices.

Oman

S&P revised Oman's outlook to 'Positive' from 'Stable'

S&P Global Ratings revised Oman's outlook from stable to positive attributable to improvement in the government's balance sheet. Moreover, S&P maintained Oman's 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings and assigned a 'BBB-' transfer and convertibility assessment. With a budget surplus of 2.6% of GDP in 2023 and a decline in net government debt to 2.4% from 7.7% in 2022. In an effort to grow the non-hydrocarbon private sector, the government is also restructuring the state-owned enterprises (SOEs) sector in order to minimize its regulatory role and attract foreign direct investment.

Oman's debt capital market dropped to USD 44 Bn in 2023 due to government repayments

Oman's debt capital market (DCM) decreased by 7% YOY to USD 44 Bn in 2023 primarily due to the government pre-paying more debt using budget surplus from high oil prices according to Fitch ratings. Sukuk's share in the outstanding debt capital market mix increased from 18% in 2022 to 21.1% in 2023. The Sultanate's debt capital market is in its early stages, but the government implemented initiatives to stimulate growth. Sukuk issuance expanded by 231% YOY to USD 1.2 Bn, while bond issuance fell by 56% YOY to USD 4.8 Bn.

Oman LNG signed a gas supply deal of 10 years with Botas Petroleum

Oman LNG and Turkey's Botas Petroleum Pipeline Corporation signed a sales and purchase agreement under which Oman LNG is to deliver one Mn metric tons of LNG annually for ten years beginning in 2025. Through the deal, Oman LNG and Botas aim to leverage the collaboration and Oman's position as a dependable and trustworthy LNG supplier.

Qatar

Qatar witnessed a 53% growth in tourist arrivals in February 2024

Qatar Tourism witnessed significant increase in international visitors with a 53% surge in February compared to the same period last year. The country witnessed 596,000 international visitors in February 53% rise from 389,000 in February 2023. The nation's tourism objectives aim to welcome six Mn visitors by 2030 and boost the industry's GDP contribution from 7% to 12%. Qatar's standing as a top travel destination around the world is further strengthened by the growing tourism collaboration among GCC member countries. Qatar Airways' extensive connectivity and visa-free access for citizens of 102 countries further support its tourism sector.

EGYPT

Egypt’s inflation is anticipated to stay high in the short term

Egypt's inflation to remain high in the near future, with an average of c. 25.5% and 15.25% at the end of the year. the IMF approved a USD 8 Bn financial support program for Egypt on Friday. Egypt's growth is expected to slow to 3% in 2024 but recover to about 4.50% in FY2024-25. The IMF also approved a $35 billion investment deal by Abu Dhabi Developments Holding Company in Ras El-Hekma, with the Egyptian authorities committing to save a significant portion of the proceeds in gross international reserves.

The non-oil business conditions in Egypt continue to worsen

Egypt's non-oil private sector business conditions continued to decline in March. The latest Purchasing Managers' Index (PMI) report increased throughout the month to 47.6 from 47.1 in February. Businesses claimed that unstable currency markets reduced consumer demand and raised costs, but that recent policy changes decreased the impact of input price inflation in March, allowing for a slower increase in output prices. Moreover, businesses experienced strain from the currency issue in March, which followed a decline in US dollar inflows in February and a severe decline in Suez Canal activity as a result of the Red Sea situation.

The foreign debt of Eqypt increased by USD 3.5 Bn in 4Q23

Egypt’s foreign debt rose by USD 3.5 Bn in 4Q23 to USD 168.0 Bn, equivalent to 42.4% of GDP. Over the last ten years, Egypt increased its foreign borrowing four times while funding various state initiatives. The Finance Minister of Egypt predicted GDP to expand by 4.2% the following year and 2.8% in the fiscal year ending in June. The IMF projects 3.0% GDP growth in FY2024.

Egypt aims to raise USD 1.5 Bn through government offerings in 2024

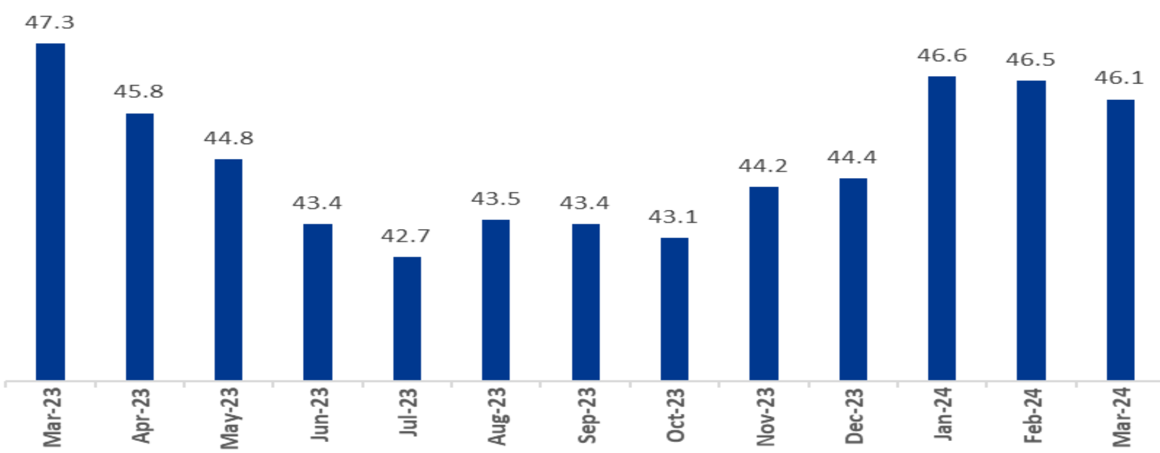
Egypt aims to raise funds worth USD 1.5 Bn in 2024 from government offerings according to the Minister of Planning and Economic Development. The government established a comprehensive plan for the Downtown region, including the old headquarters but the state will still own the buildings. However, the minister stated that the businesses would be permitted to utilize these state-owned properties. Egypt is planning to sell a stake in the wind farms in Zafarana and Jabal Al-Zeit to a strategic investor. After being assessed by international advisors, the finalization of the offer is anticipated to take place in three to four months.

Global Economy

Manufacturing activity in the Eurozone declined the most in the last three months

The eurozone manufacturing sector recorded the most significant drop in output in the last three months in March 2024 despite positive momentum in output, new orders, and optimistic business sentiment. The manufacturing PMI index fell to 46.1 in March 2024 from 46.5 in February 2024. Although the pace of decline was softest since April 2023. The new orders continued to decline however at the softest pace since April 2023. The businesses reduced the purchase of input and preferred to utilize existing stocks. In addition, the delivery time of supplies was reduced to the shortest since September 2023. The producers further made inroads into the backlog of their work and incomplete orders fell to the slowest since February 2023. Furthermore, the decline in the workforce was moderate and remained unchanged from the last year.

Figure 21: Eurozone Manufacturing PMI

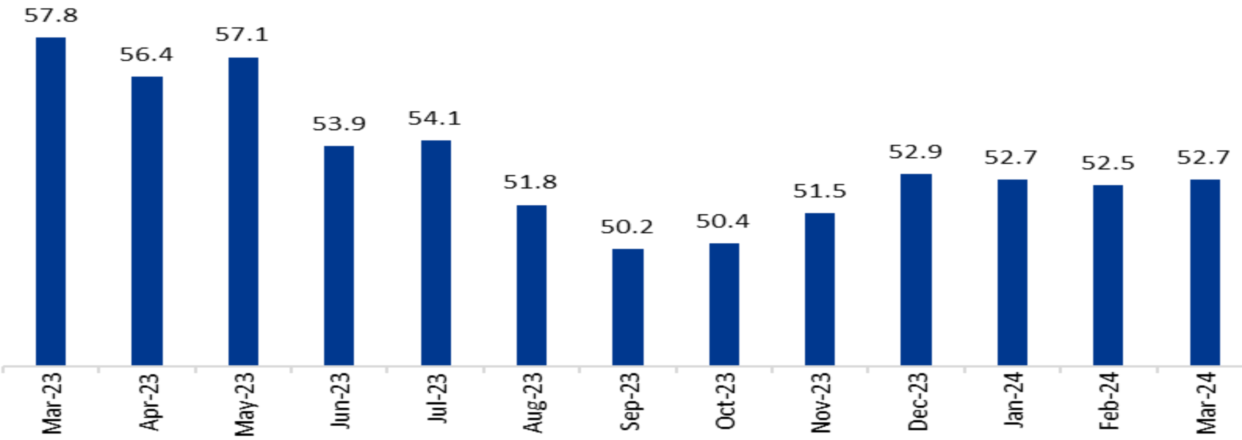


Source: CAPIQ

China's service sector logged faster growth

According to a survey of S&P Global, the Chinese services sector expanded rapidly in March 2023 amid growth in new business and improving confidence. The Caixin service sector PMI rose to 52.7 attributed to an increase in Services activity for the fifteenth consecutive month. The export business showed the strongest growth in nine months as a result of improved demand conditions and promotional initiatives. However, the country experienced a decline in employment for a second consecutive month as capacity pressures dropped. Inflation of average input prices decreased relative to the series average reducing the momentum of increase in output prices. Thus, the private sector activity showed the strongest growth since May 2023. Consequently, service providers were optimistic about the level of business in the upcoming 12 months.

Figure 22: China Service sector PMI

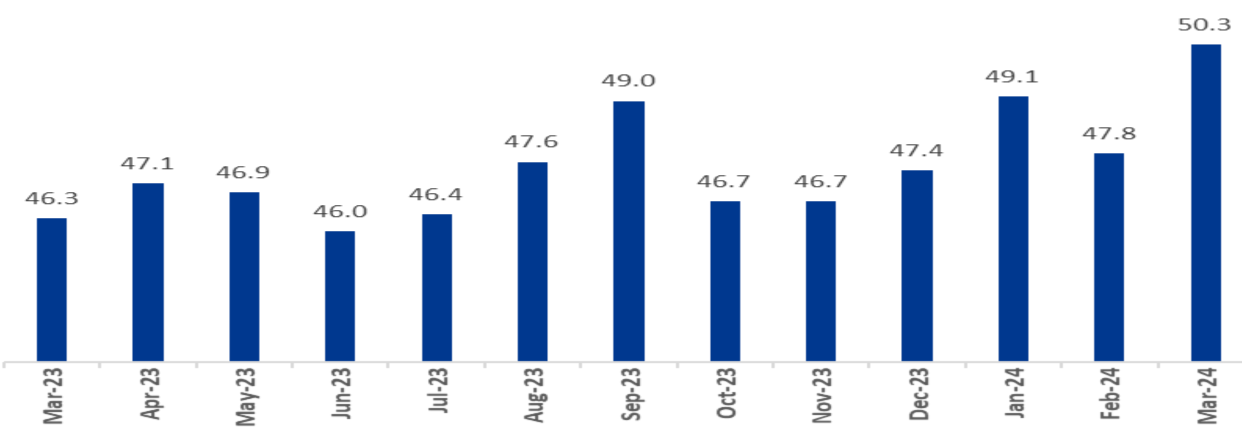


Source: CAPIQ

US Manufacturing Index indicates growth for the first time since September 2022

The Institute for Supply Management (ISM) reported the manufacturing activity with its manufacturing PMI increased from 47.8 in February to 50.3 in March. The unexpected increase led to the index returning to expansion territory for the first time since September 2022. The production index surged to 54.6 while the new orders index also returned to the expansion territory. The employment index rose to 47.4, although the reading below 50 suggests employment contracted for the sixth month in a row. The prices index also jumped to 55.8, as commodity-driven costs remain unstable.

Figure 23: US ISM Manufacturing PMI

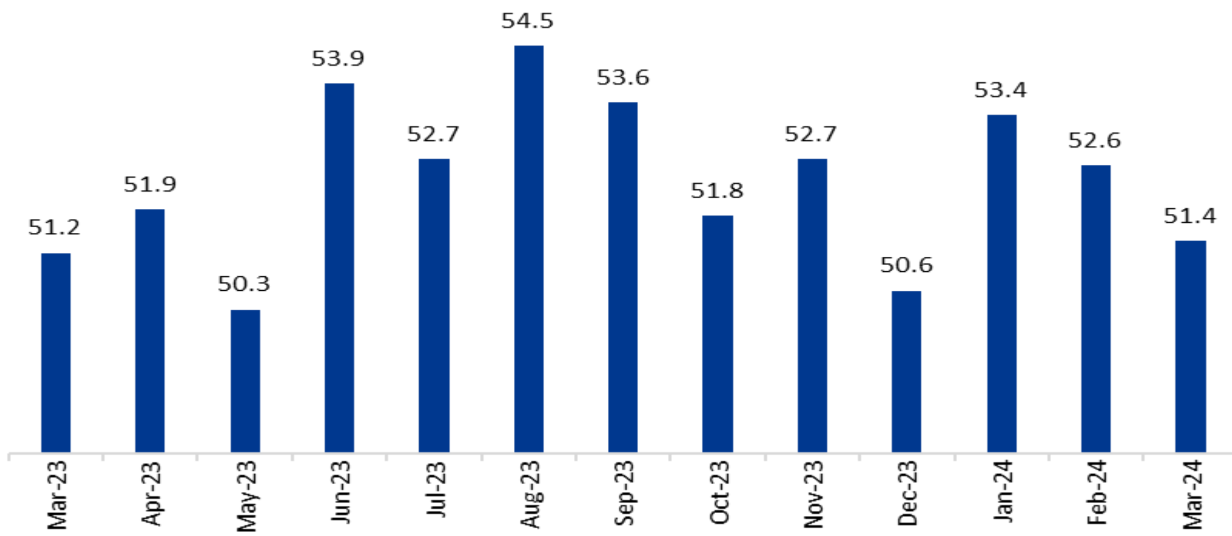


Source: CAPIQ

The growth of the US service sector unexpectedly declines in March

The Institute for Supply Management (ISM) reported a slowdown in the US Service Sector in March with the service PMI declining from 52.6 in February to 51.4 in March, lower than the economist's forecasts of 52.7. The decline in growth reflected a slowdown in the growth momentum of new orders as the new orders index dropped from 56.1 in February to 54.4 in March. The ISM reported modest growth in US manufacturing activity, with the manufacturing PMI jumping to 50.3 in March from 47.8 in February.

Figure 24: US Services Sector PMI

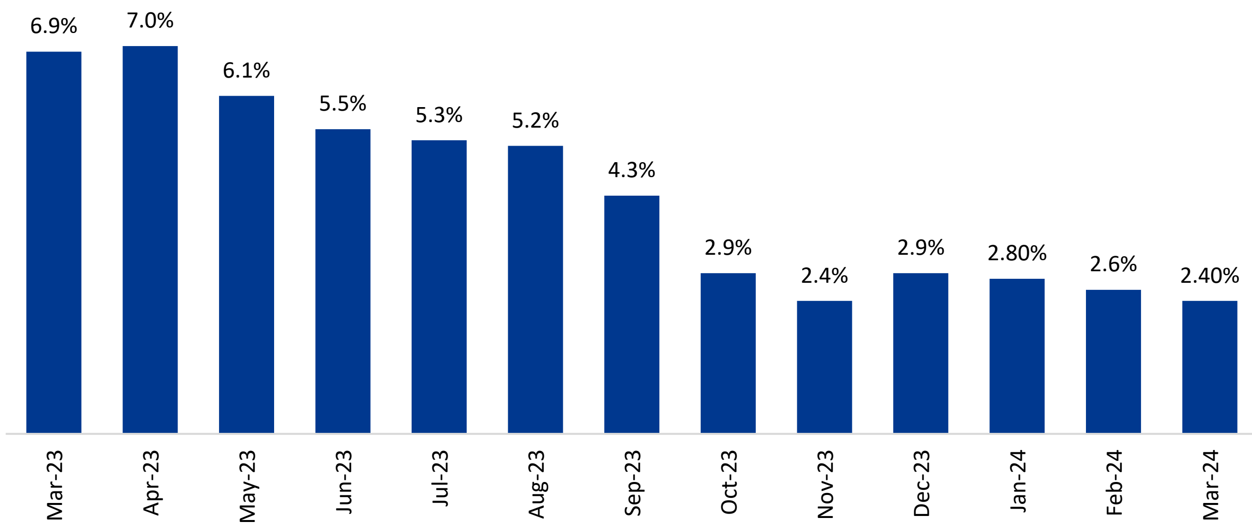


Source: CAPIQ

Softness in Eurozone Inflation raises the possibility of an interest rate cut during June

Eurozone consumer price inflation and growth in core inflation softened during March potentially leading to an interest rate cut by the European Central Bank during June 2024. The harmonized index of consumer prices increased 2.4% annually in March 2024 slower than the 2.6% rise in February 2024. Moreover, core inflation which excludes volatile food and energy prices, softened from 3.1% in February 2024 to 2.9% in March 2024. During the last meeting in June 2024, the ECB left the refinancing rate unchanged at 4.50% however the comments from policymakers suggest the central bank plans to lower the rate in June 2024.

Figure 25: Eurozone Consumer Price Index (CPI) YoY



Source: CAPIQ

Eurozone private sector recovered in March

The euro area private sector expanded in March, halting a contraction that began last June, according to S&P Global's final survey results. The HCOB composite output index increased from 49.2 in February 2024 to a ten-month high of 50.3 in March 2024. The services PMI index rose to 51.5 in March 2024 from 50.2 in February 2024. The services sector expanded for the second straight month and the strongest growth since June 2023. However, the rebound in the services industry was partially offset by a decline in manufacturing activity.

China's inflation dropped 1.0% in March 2024

China’s National Bureau of Statistics reported a 1.1% decrease in consumer prices in March, slightly below forecasts. Inflation increased by 0.1% annually, falling short of forecasts of a 0.4% increase and decreasing from 0.7% in the preceding month. Producer prices were down 2.8% on year basis matching previous forecasts.

Fed officials are not confident that inflation is heading downwards to 2% on a sustainable basis

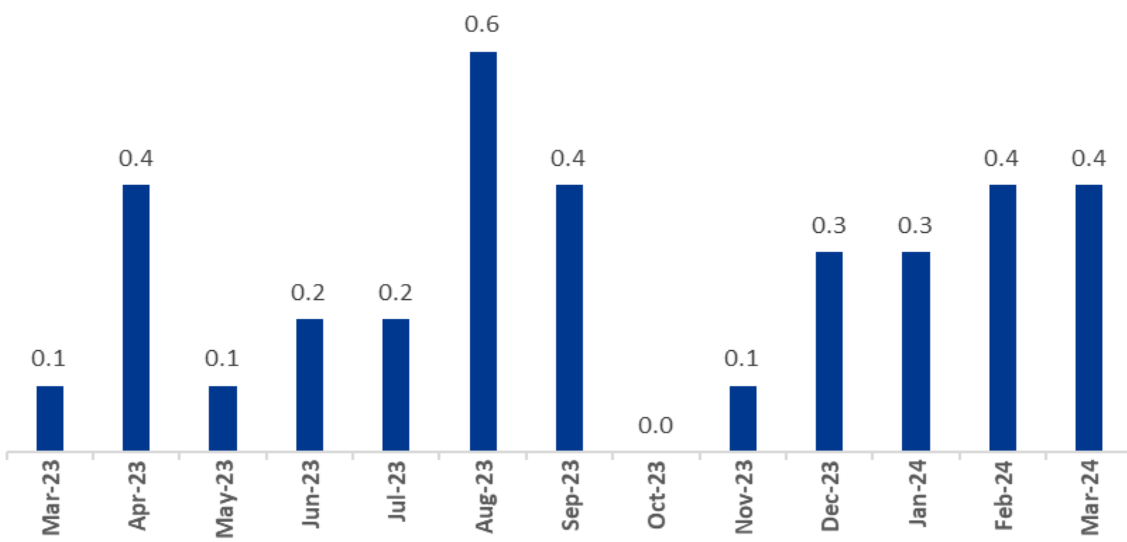
According to the minutes of its latest monetary policy meeting, the Federal Reserve policymakers are not convinced that the inflation is steadily declining to 2%. The Core and headline Inflation in January and February were firmer than anticipated but Fed officials need more confidence regarding softening of inflation before deciding to cut interest rates. Moreover, the Labor Department report showed a more than-predicted rise in US consumer prices during March 2024. The ongoing geopolitical risks could lead to intense supply bottlenecks or expensive shipping costs which could push prices higher. Hence, the

Fed maintained the target range at 5.25 to 5.50% for the federal funds and suggested that rates could fall to 4.50-4.75% range end of FY2024.

Consumer prices in the US rose more than anticipated in March 2024

The Labor Department released a report which reflected the continued growth in prices of shelter and gasoline in the US driving inflation more than expected in March 2024. On a MOM basis, consumer price inflation rose 0.4% in March 2024 compared to 0.3% in February 2024. The price of shelter rose 0.4% and gasoline prices grew 1.7% MOM accounting for more than half of the monthly increase in March inflation. The core inflation excluding the price of food and energy rose 0.4% for the third consecutive month. The annual core inflation rose to 3.5% in March 2024 compared to 3.2% in February 2024.

Figure 26: US CPI (MOM)



Source: CAPIQ

China's GDP Increases 5.3% YOY in 1Q24

China's GDP grew by 5.3% in 1Q24, surpassing the forecasted growth rate of 4.8%. The GDP rate increased from 1.0% over the preceding three months to 1.6% in the current quarter. Retail sales grew by 3.1% in March, while industrial production expanded by 4.5%. However, house prices fell by 2.2%, and the jobless rate remained at 5.2%, down from 5.3% in the previous month.

FAB Securities Contacts:

Research Analyst			
Ahmad Banihani	+971-2	-6161629	ahmad.banihani@Bankfab.com
Sales & Execution			
Trading Desk Abu Dhabi Head Office	+971-2	-6161777	Online Trading Link
	+971-2	-6161700/1	
Institutional Desk	+971-4	-5658395	
Sales and Marketing	+971-2	-6161703	
Customer Service			
Abu Dhabi Office	+971-2	-6161600	Online Trading Link