FAB أبوظبـي الأول للأوراق المالية SECURITIES

MENA CREDIT RESEARCH

December 2024

Post-Election Trade Policy Uncertainty Weighs on Asset Performance

Sector Weighting: **MARKET WEIGHT**

GCC Fixed Income Outlook

The GCC bonds and Sukuk issuance remained stable during 4Q24. According to Bloomberg data, the aggregate bond and Sukuk issuance in grew 57.3% to USD 182.7 Bn 2024 (mid-December) from USD 116.2 Bn in 2023. In addition, Fitch expects the GCC debt capital market to remain robust in 2025, as it recorded an increase of 11% to USD 1 Tn in 2024. US Fed is likely to cut rates by 125 bps from 4.25% to 3.50% by 4Q25. This move is likely to be followed by most of the GCC central banks as their currencies are pegged to the US dollar. As a result of this, a favourable funding environment will be created in the debt capital market of the GCC region which will boost the demand for bonds and Sukuk issuance.

The number of bond issuances in GCC slowed down in December 2024, indicating a drop compared to the previous month. Bond and sukuk issuance recorded USD 1,250 Mn solely by the Central Bank of Bahrain (CBB) during the month. The CBB International Sukuk Programme Co. issued the entire Sukuk with a coupon rate of 5.9% with the maturity of 8 years till 2032. However, there was a significant growth in bond and Sukuk issuances during 2024. Total GCC bond issues rose 69.7% to USD 102.7 Bn in 2024 compared to USD 60.5 Bn in 2023. Sukuk issuances also saw a healthy growth of USD 80.0 Bn in 2024 compared to USD 55.7 Bn during 2023.

During the latest policy meeting held in the December 2024, the US Fed lowered interest rates for the third consecutive time by 25 bps, following a 25-bps reduction in November 2024 and 50-bps reduction in September 2024. As a result, the target interest rate range has been lowered to 4.25–4.50%, demonstrating the Fed's continued dedication to reaching its two objectives of price stability and maximum employment. The Central banks in GCC region also cut their interest rates, with the UAE, Saudi Arabia, Bahrain, Kuwait, and Oman all reducing the benchmark rates by 25 bps, while Qatar cut its rate by 30 bps. US 10-year treasury yields reached over 4.50% during December 2024. As a result, the 10-year bond yields rose across all GCC countries. In addition, the 5-year CDS also widened across all the GCC countries. The non-oil business activity performed well in both UAE and KSA, with the non-oil PMI remaining well above 50 in both countries in November 2024, the same as in October 2024. The UAE Purchasing Managers’ Index (PMI) increased slightly from 54.1 in October 2024 to 54.2 in November 2024. The stronger growth in new business orders was driven by robust demand, which in turn led to another uptick in economic activity. The CBUAE revised the UAE’s GDP growth to 4% supported by strong economic performance and strategic initiatives like the Treasury Bonds and Islamic Sukuk programmes. The seasonally adjusted KSA PMI rose from 56.9 in October 2024 to 59.0 in November 2024, marking the fourth consecutive monthly growth. The non-oil business activity in KSA grew at the fastest rate since July 2023. The growth is mainly attributable to the strong demand in new orders, coupled with accelerated upturns in purchasing activity and staff recruitment. The KSA GDP grew 2.8% YOY in 3Q24, primarily due to the expansion of 4.3% YOY in non-oil business activities. The KSA GDP is projected to grow moderately at 1.1% in 2024 owing to a 6.1% decline in the oil sector because of extended cuts in oil production. However, the country’s non-oil sector is expected to grow strongly 4.6% during 2024. According to the World Bank, the GCC region is likely to grow 1.6% in 2024 and strongly 4.2% in 2025-2026, driven by expansion in the non-oil sector. The general outlook for the GCC region is supported by ongoing diversification and reform efforts, which establish the non-oil sector as a crucial contributor to future growth. Oman’s real GDP grew 1.9% in 2Q24. The country’s trade balance recorded a surplus of OMR 6.1 Bn in 9M24, rising 8% YOY. Oman's GDP is expected to grow 3.2% in 2024, highlighting resilience amidst global and regional challenges. Qatar’s GDP growth is expected to average 4.1% between 2025 and 2029. The country’s GDP growth is expected to be 2.4% in 2025, 5.2% in 2026 and 7.9% in 2027. Kuwait’s economy is anticipated to contract 2.8% in 2024 due to cuts in oil production. However, the economy is expected to recover due to strong growth in the non-oil sector. The country’s real GDP is projected to grow 2.6% in 2025.

Gold Outlook

Gold prices fell 0.7% MOM for the second consecutive month, settling at USD 2,624.4 per ounce on 31 December 2024. In the first week of December, gold prices declined marginally, owing to a stronger US dollar and profit booking by investors. Moreover, gold prices were further weighed down by fading expectations of aggressive rate cuts in the medium term amid stronger-than-expected payroll data. However, prices were supported by People's Bank of China's (PBOC) news of resuming purchases following a 6-month pause. The following week, China's vow to ramp up policy stimulus to support economic growth supported gold prices. Geopolitical tensions escalated as the Israeli military hit two Syrian navy facilities and strategic weapon storage points while South Korea's police raided the presidential office over martial law, resulting in a further rise in gold prices to a month high. Furthermore, expectations of another interest rate cut also supported the prices. However, gold prices corrected during the third week, attributable to an increase in the US dollar and treasury yields on expectations of a slower pace of rate cut in 2025. The US dollar index stood at the highest level in the last two years. Consequently, in the fourth week, gold prices remained unchanged due to thin liquidity during the holiday season. Gold prices marginally rose during the end of the month due to a weaker US dollar. Gold witnessed the best year in the decade with more than 27% gain in 2024 driven by persistent geopolitical tension and central bank policy easing.

Oil Outlook

Brent Crude oil prices rose 2.3% MOM to USD 74.64 per barrel on 31 December 2024. In the first week of December 2024, oil prices declined as OPEC+'s extension of output cuts highlighted weak demand. Despite OPEC+ extending its production cuts until December 2026, concerns over weak demand kept prices under pressure, resulting in a 2.5% decline for the week. In the following week, geopolitical tensions and optimism surrounding fiscal stimulus measures in China drove prices higher, outweighing weak demand signals from China and Saudi Aramco's price cuts for Asian buyers. During the mid-month, oil prices declined due to weak Chinese economic data and the Federal Reserve signalling slower interest rate cuts in 2025. Oil prices rebounded in the final week of December fuelled by the U.S. inflation data, growing oil demand in India, optimism over China stimulus plans, and anticipated fall in U.S. crude inventories.

Content:

MENA credit outlook

Emirates REIT refinanced Sukuk with a new USD 205 Mn

Emirates REIT successfully issued a new USD 205 Mn Sukuk to refinance its existing Sukuk maturing in 2028. The new issuance carries a profit rate of 7.5%, with a step-up to 8.25% commencing in the fourth year. Fitch Ratings assigned a BB+ rating to the new Sukuk, reflecting the issuer's credit profile. HSBC was selected as the lead arranger for the transaction. Emirates REIT also announced a significant reduction in its outstanding debt by USD 190 million, further strengthening its financial position.

Saudi Awwal Bank completed the sale of AT1 Sukuk

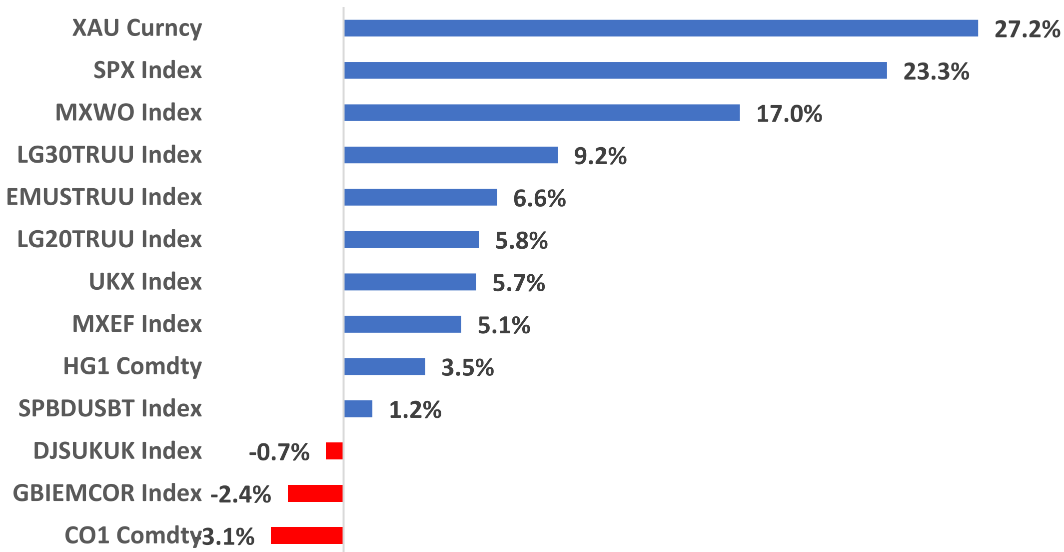
Riyadh-based Saudi Awwal Bank (SAB) successfully finalized the issuance of its riyal-denominated Additional Tier 1 Sukuk through a private placement. The issuance comprises two tranches: the first tranche, valued at SAR 3.65 Bn, offers a fixed return of 6.07%, while the second tranche, amounting to SAR 350 Mn, is issued at a floating rate tied to the 3-month SAIBOR + 1.34%, with returns payable quarterly. The bank holds an A2 rating with a stable outlook from Moody's and a BBB+ rating with a stable outlook from Fitch Ratings.

Global Asset Performance

The table below summarizes the performance of key equity and debt indices along with commodity price performance. All asset classes except Brent Crude oil recorded a decline during the month. Brent Crude oil prices rose 2.33% during the month owing to geopolitical tensions, optimism surrounding fiscal stimulus measures in China, and growing demand in India. The performance of other commodities declined during the month. Copper prices fell 1.32% MOM in December 2024 while gold prices declined marginally 0.71% MOM, primarily due to an increase in the US dollar and treasury yields on expectations of a slower pace of rate cut in 2025 partially offset by escalation of geopolitical tension. Equity market witnessed a lacklustre performance in December 2024. MSCI Developed markets fell 2.68% MOM in December 2024 mainly due to a 2.5% MOM decline in the US S&P 500 index and the weakening of momentum in European markets due to uncertainties regarding future trade policies and attractive returns from fixed-income securities. UK FTSE index fell 1.38% MOM in December 2024. MSCI Emerging Markets marginally declined 0.29% in December 20240 a decline in Indian markets partially offset by a growth in Chinese and Taiwan equities. Japan markets recorded a strong MOM increase of 4.4%. Additionally, the performance of all the bond indices contracted in December 2024 due to an increase in long-term bond yields that led to a decline in bond prices along with a sell-off in the bond market owing to policy uncertainty caused after the re-election of the US president.

FAB SECURITIES أبوظبي الأول للأوراق المالية

Figure 1: Global Asset Performance (YTD in FY2024)

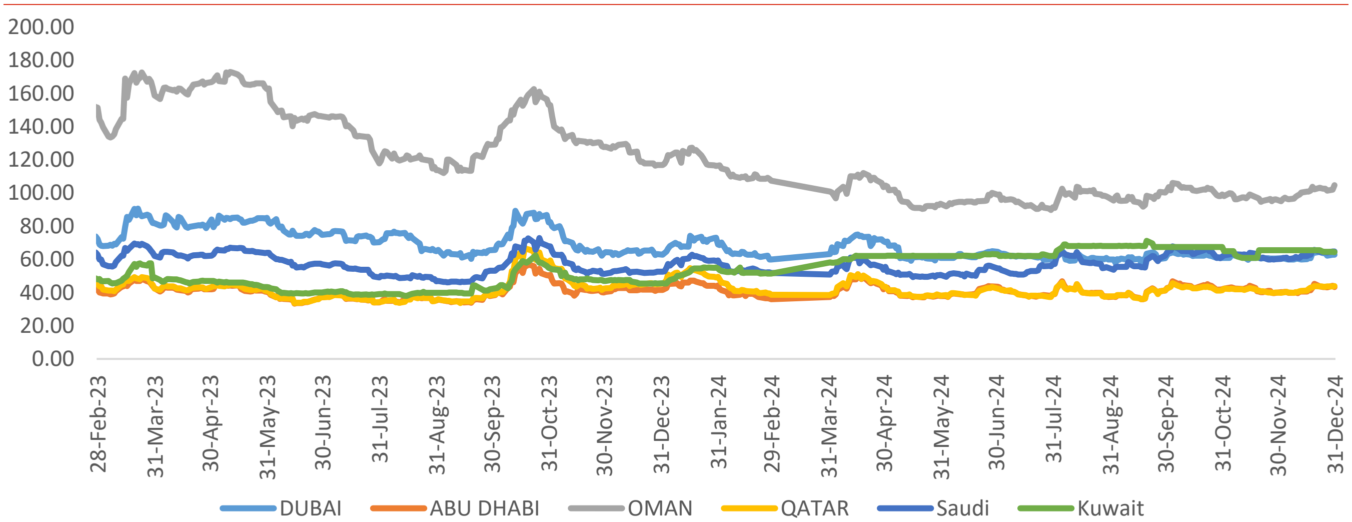


Source: Bloomberg

5-Year CDS

The 5-year CDS spread declined across all sovereign nations in December 2024 except Kuwait. Qatar recorded the highest increase on a MOM basis in December 2024, followed by Oman, Abu Dhabi, Saudi Arabia and Dubai. Kuwait's CDS spread contracted 1.71% MOM in December 2024.

Figure 2: GCC Countries- 5 Year CDS



Source: Bloomberg

Sovereigns	DUBAI	ABU DHABI	Oman	Kuwait	Qatar	Saudi
MTD (%)	3.70%	8.38%	8.88%	-1.71%	9.56%	7.72%

Banking Sector

Koc Holding stated it is not in discussion about the sale of its Yapi Kredi stake to QNB Group

Koc Holding stated that it is not in discussion for the sale of its stake in Yapi Kredis shares to QNB group. Koc further clarified that it will keep evaluating alternatives for its portfolio and may also remain open to engaging with relevant parties as opportunities arise.

Corporate Sector

Spimaco scraps its deal to acquire Osmopharma

Saudi Pharmaceutical Industries and Medical Appliances Corporation's (SPIMACO) plan to acquire a majority stake of 68% in Swiss pharmaceutical company Osmopharm through a share swap and cash arrangement has been halted. Sigma Pharmaceuticals Industries (Sigma), a key stakeholder in the agreement, terminated the transaction after the parties failed to secure the required regulatory approvals by the deadline of 30 November 2024.

UAE ADNH Catering to raise its stake in Compass Arabia to 50%

UAE ADNH Catering plans to increase its stake by 20% in its Saudi JV, Compass Arabia, which currently stands at 30%. This development will give ADNH Catering a controlling stake of 50% along with Al-Rushaid Petroleum Investment Company, which holds the remaining stake. The transaction is expected to be finalized by 1Q25, after which Compass Arabia is set to undergo rebranding. This strategic initiative aims to expand ADNH Catering's operations across diverse business segments and regions in Saudi Arabia, further solidifying its presence in the Kingdom.

DP World Begun Maritime Construction at USD 1.2 Bn Port in Senegal

DP World, in collaboration with British International Investment, has begun maritime construction on the USD 1.2 Bn Port of Ndayane in Senegal. The phase 1 of the project involves the development of an 840m quay and a 5 km channel capable of accommodating the world's largest container ships with an expected annual capacity of 1.2 Mn TEUs. In addition, phase 2 of the project will witness the construction of 410 m quay, which is expected to further enhance the port capabilities. The advanced, high-capacity port is set to significantly contribute to trade and economic growth in Senegal.

ACWA Power applies to capital increase to Gulf Kingdom's stock market authority

ACWA Power submitted a formal application to the Kingdom's stock market authority to raise its capital as part of its strategy to meet ambitious investment goals. The Company plans to increase its paid-up capital by SAR 7.125 Bn through a rights issue by offering shares to existing shareholders at discounted prices. The Company intends to raise the capital raise to support its extensive renewable energy projects and advance its global green energy initiatives.

AD Ports Group refinanced and expanded the revolving credit facility to USD 2.125 Bn

AD Ports Group successfully refinanced and expanded its revolving credit facility from USD 1 Bn to USD 2 Bn, with tranches denominated in AED and USD. The refinancing is set to enhance the interest margins and extend the facility's maturity from 2026 to 2028, with an option for further extension until 2030. The new facility was significantly oversubscribed, receiving commitments amounting to 2.5 times the facility size, reflecting strong demand from local, regional, and international banks.

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 affirmed **Oman**'s credit rating at BB+ and revised its outlook from stable to positive. Fitch cited improved public and external finances, including a reduction in government debt-to-GDP, lower net external debt, improved balance sheet, fiscal prudence, and stronger sovereign foreign assets as the factors driving the revision in 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. On 02 September 2024, Moody's Investors Service upgraded Oman's credit outlook from stable to positive while affirming the long-term issuer and senior secured ratings at Ba1. The upgrade is mainly attributed to continued improvement in the country's debt metrics coupled with higher energy prices and prudent fiscal management. Over the past two years, the country successfully reduced its debt without having to sell its financial assets, enhancing the prospects of maintaining fiscal strength at a level that could support a higher credit rating. S&P Global Ratings affirmed Oman's long-term foreign and local currency sovereign credit ratings at 'BBB-' with a stable outlook. It affirmed the short-term ratings on Oman at 'B' to 'A-3' while it revised the transfer and convertibility assessment from 'BBB-' to 'BBB'. The rating upgrade is attributable to deleveraging balance sheet of the Omani government and several state-owned enterprises (SOEs) coupled with the commitment of the authorities to advance its longer-term structural reform agenda to solidify its economy.
- S&P Global Ratings affirmed **Bahrain**'s credit rating outlook at 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 stable outlook 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) remained unchanged at 'A+' by Fitch Ratings, with a 'Stable' outlook. The key reasons for the rating 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 affirmed Saudi Arabia's credit rating outlook at stable, noting the kingdom's continuous progress in economic diversification coupled with the strong growth of its non-oil sector. According to a statement, Moody's maintained the sovereign's rating at Aa3, the fifth-highest rating citing the country's efforts to diversify the economy away from oil. S&P Global Ratings maintained Saudi Arabia's positive outlook

owing to the Government's efforts to solidify the non-oil economy through reforms and investments. It affirmed its 'A/A-1' long- and short-term foreign and local currency unsolicited sovereign credit ratings.

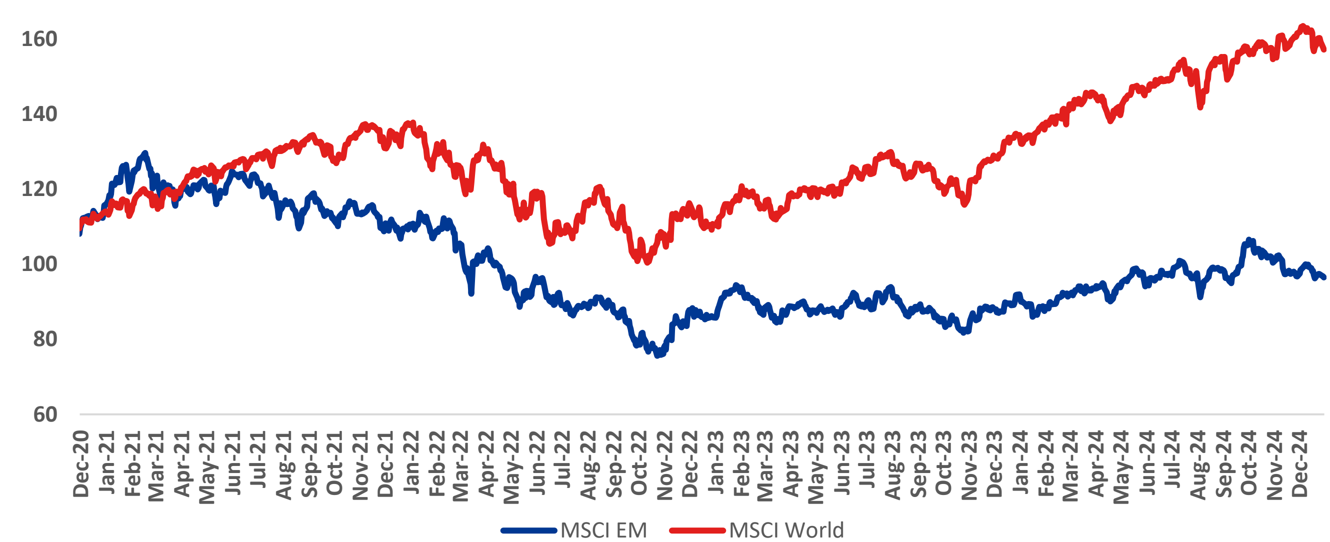
- In January 2024, Moody's maintained **Qatar**'s Long-Term Foreign-Currency Issuer Default Rating (IDR) at Aa2. The rating is attributed to significant improvements in Qatar's fiscal metrics during 2021-2023. Moody's anticipates that the improvement in Qatar's debt burden and debt-service metrics from 2021 to 2023 will continue into the medium term. Fitch Ratings has affirmed Qatar's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA' with a Stable outlook. The 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	Aa3	STABLE	Au	POS	A+	STABLE
Oman	Ba1	POS	BBB-	STABLE	BB+	POS
Bahrain	B2	STABLE	B+	STABLE	B+	STABLE

Global Markets

The MSCI Developed Markets (DM) Index experienced a 0.1% QOQ decline in 4Q24 but recorded a strong growth of 19.2% in 2024 driven by strong growth in US equities coupled with solid returns from the "Magnificent Seven" AI stocks. European economy witnessed a weak momentum with MSCI Europe excluding UK recording a 3.6% QOQ decline in 4Q24. On the other hand, the MSCI Emerging Markets (EM) Index recorded a 7.8% QOQ decline in 4Q24 but grew 8.1% in 2024. The downturn in emerging markets was primarily attributed to disappointing performance in China, where falling property prices and diminishing consumer confidence significantly affected market sentiment. Among significant equity markets, Japanese equities distinguished themselves as the top performers for the year 2024, achieving a return of 20.5%. Despite the challenges faced in December, the MSCI DM Index outperformed the MSCI EM Index in 2024. The MSCI DM Index reported 19.2% growth in 2024, while the MSCI EM Index reflected a moderated return of 8.1%. The S&P 500 demonstrated robust growth, increasing 25.0% in 2024. Better-than-expected corporate earnings and positive economic indicators, including a decline in inflation rates, drove this impressive performance. Additionally, investor optimism regarding potential Federal Reserve policy easing further enhanced market confidence. UK equities also exhibited a solid gain of 9.5% in 2024 as the economy continued to recover from the lows experienced in 2023. Nevertheless, the overall growth of the MSCI DM Index was somewhat tempered by declines in European equities, which faced challenges from high energy costs, restrictive regulations, and weak export demand in the manufacturing sector, compounded by government-subsidized competition from China. The MSCI Europe ex-UK Index recorded a 3.6% QOQ decline during 4Q24. In contrast, Japanese equities displayed positive performance, with the TOPIX index rising 5.4% QOQ in 4Q24. Chinese equities also experienced marginal growth of 0.8% MOM in December 2024, buoyed by more cohesive policy measures and significant stimulus efforts. These initiatives were vital in driving a rally in the latter half of the year, resulting in a commendable 19.8% return for Chinese equities in 2024. Furthermore, other emerging markets, including India and Taiwan, showed strong performance, contributing to the overall return for the MSCI Emerging Markets (EM) Index in 2024.

Figure 3: MSCI World and Emerging Market Index Historical trend



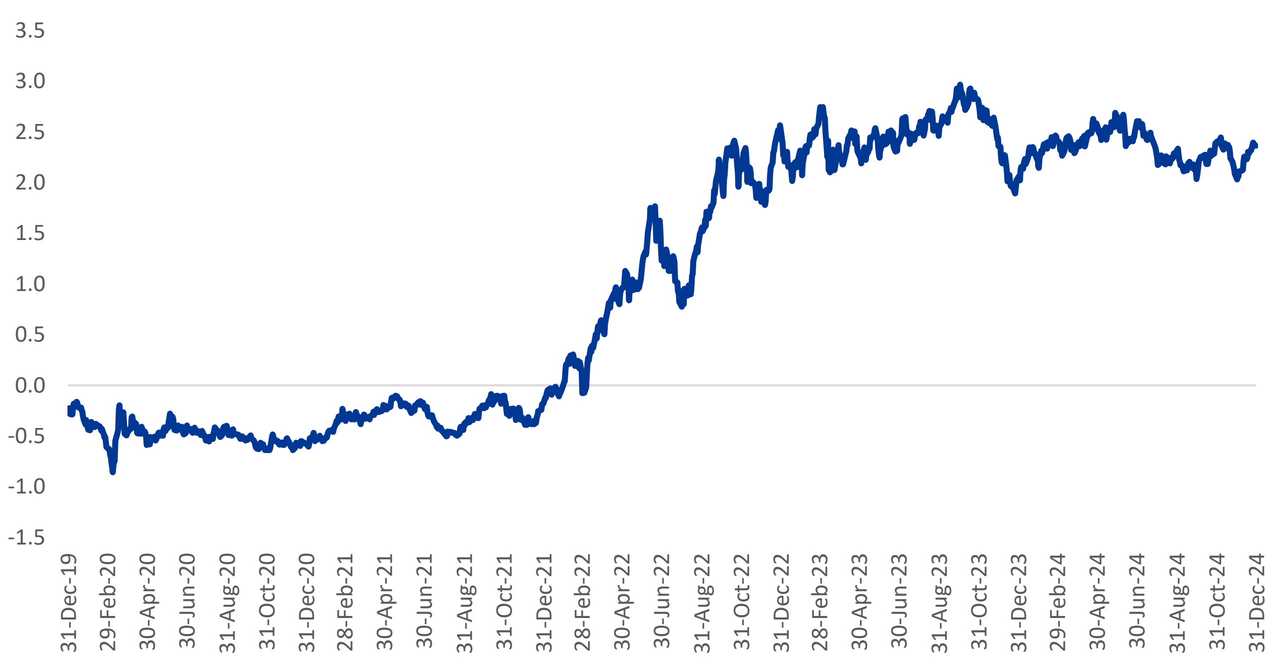
Source: Bloomberg

Yield on 10-year government

Figure 4: US 10-year government yield

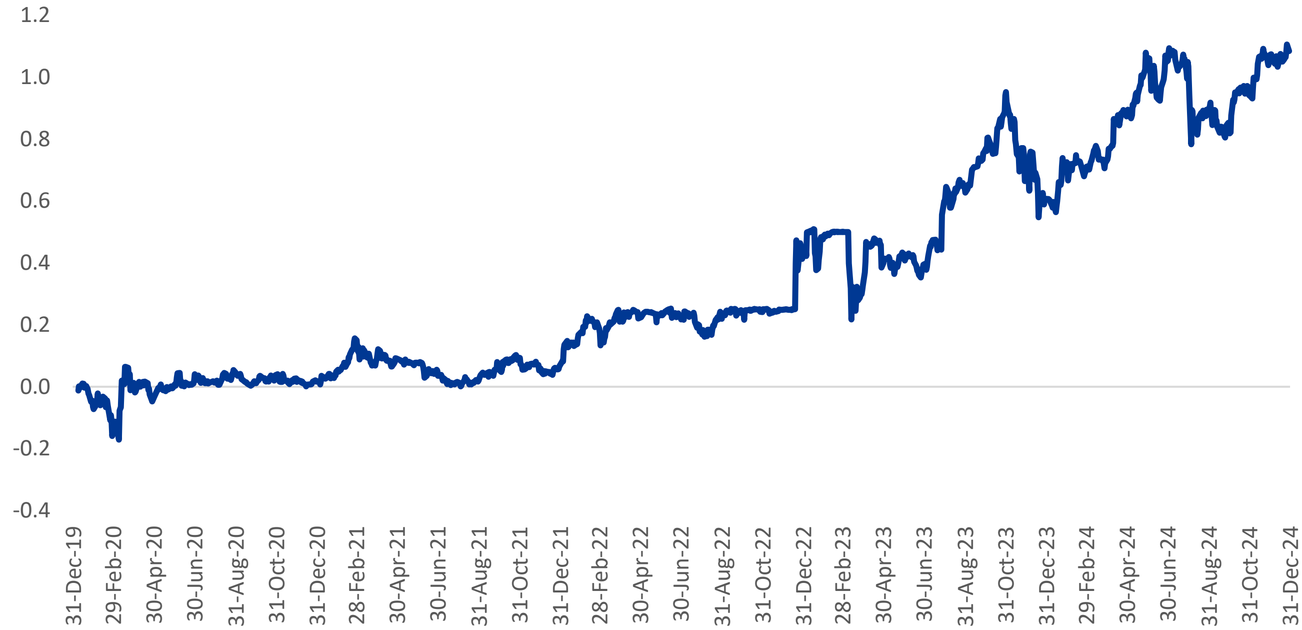
Source: Bloomberg

Figure 5: Germany 10-year government yield



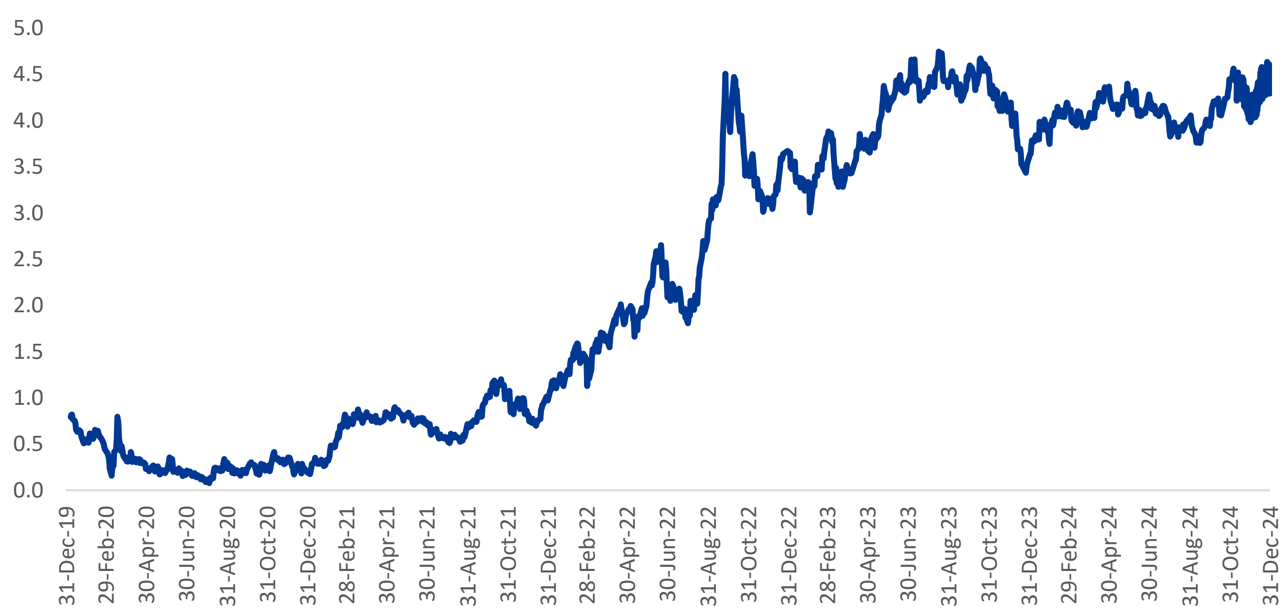
Source: Bloomberg

Figure 6: Japan 10-year government yield



Source: Bloomberg

Figure 7: UK 10-year government yield

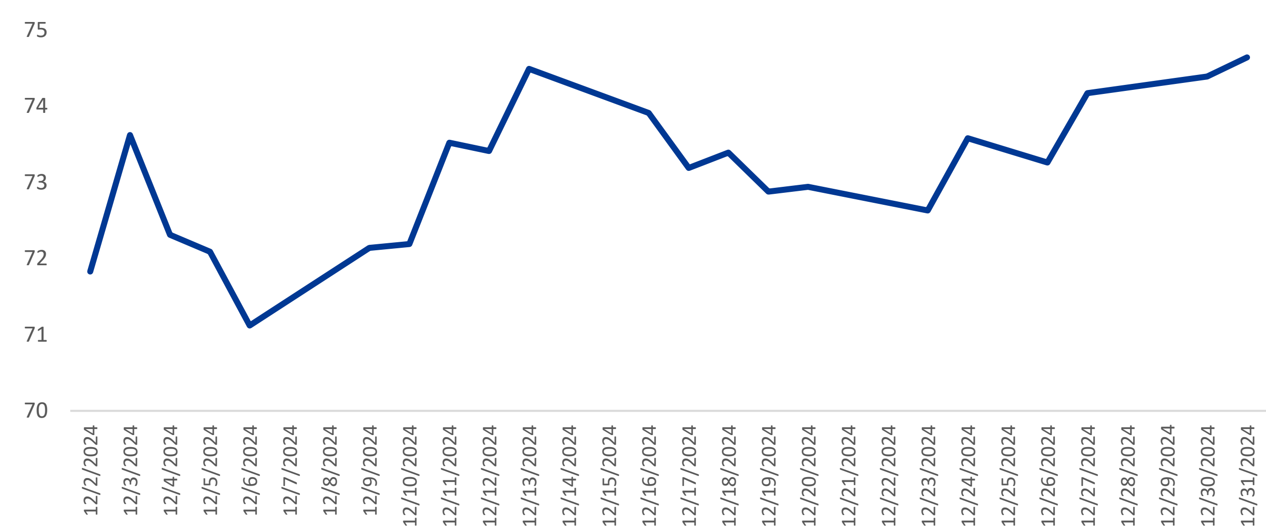


Source: Bloomberg

Oil Outlook

Brent Crude oil prices rose 2.3% MOM to USD 74.64 per barrel on 31 December 2024. In the first week of December 2024, oil prices increased initially due to the strong factory activity in China but ended with a weekly decline as OPEC+'s extension of output cuts highlighted weak demand. OPEC+ extended its first production cut to April 2025 and postponed the unwinding of cuts until September 2026. Despite OPEC+ extending its production cuts until December 2026, concerns over weak demand kept prices under pressure, resulting in a 2.5% decline for the week. In the following week, geopolitical tensions, particularly following the overthrow of Syria's President al-Assad and optimism surrounding fiscal stimulus measures in China drove prices higher, outweighing weak demand signals from China and Saudi Aramco's price cuts for Asian buyers. During the mid-month, oil prices declined due to weak Chinese economic data and the Federal Reserve signalling slower interest rate cuts in 2025 despite supply concerns linked to U.S. sanctions on Russia and Iran. Oil prices rebounded in the final week of December fuelled by the U.S. inflation data, which raised expectations for interest rate cuts, growing oil demand in India, optimism over China stimulus plans, and anticipated fall in U.S. crude inventories. Additionally, oil prices inched up at the end of the month due to expansion in China's manufacturing activity.

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

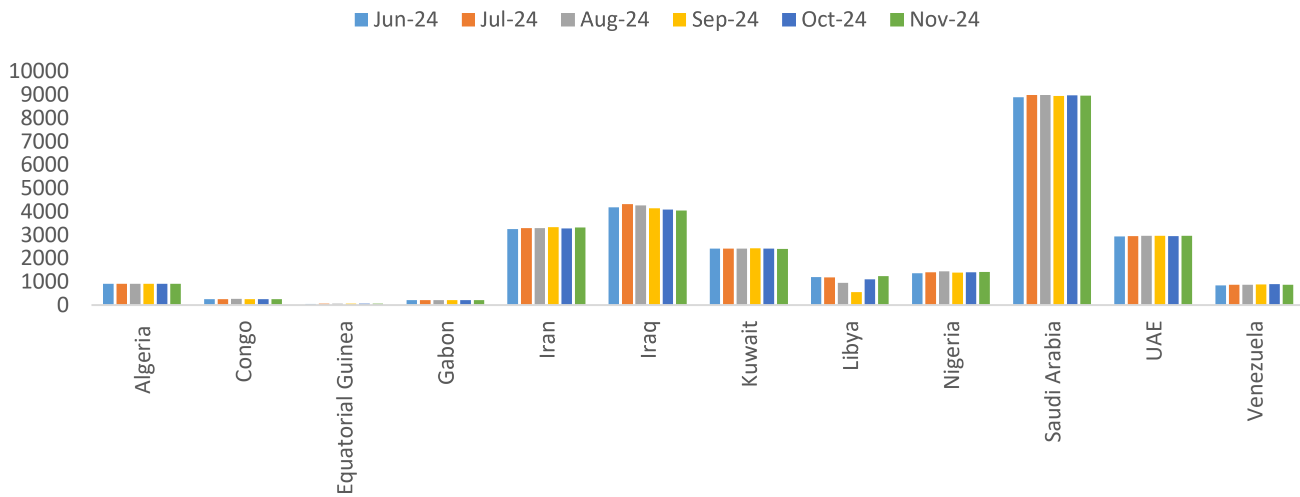


Source: Bloomberg

OPEC Production

Total Brent crude oil production from the OPEC-12 countries increased 103 thousand barrels per day (bpd) MOM, reaching 26.7 Mn bpd in November 2024. Six out of the 12 OPEC members reported production increases during the month. Libya led with the largest gain, rising 141 thousand bpd MOM, followed by Iran, which saw an increase of 37 thousand bpd MOM in November 2024. Nigeria's oil output grew 14 thousand bpd MOM in November 2024 while Algeria recorded a growth of one thousand bpd MOM. Moreover, UAE and Equatorial Guinea witnessed a production rise of four thousand bpd each in November 2024. Conversely, Iraq's output fell the most by 46 thousand bpd MOM in November 2024, while Venezuela recorded a decline of 20 thousand bpd MOM. Kuwait's output decreased 11 thousand bpd in November 2024 while both Congo and Saudi Arabia recorded decreases of 10 thousand bpd each. Additionally, Gabon's production decreased 1 thousand bpd MOM in November 2024.

Figure 9: OPEC Crude Oil Production

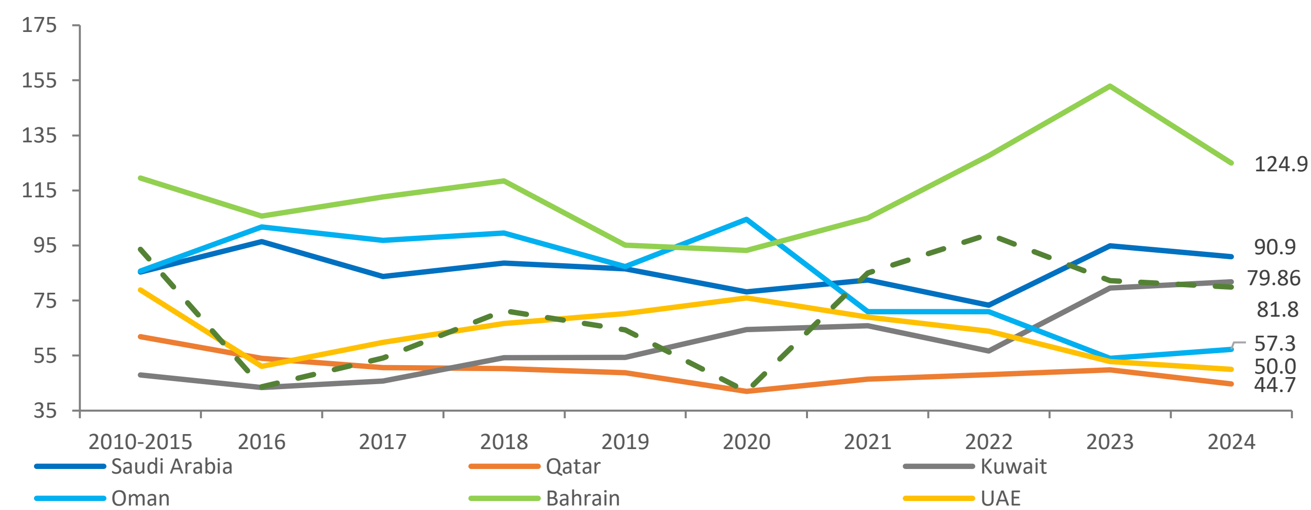


Source: OPEC

Fiscal Breakeven Oil Price

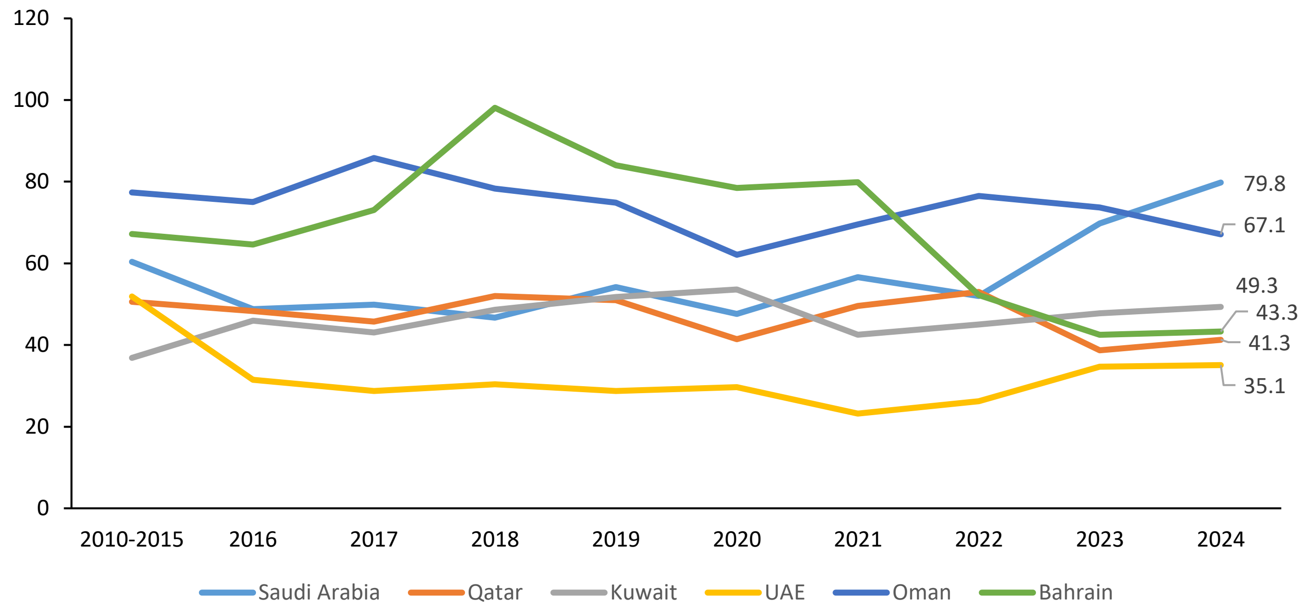
The overall fiscal breakeven oil prices declined in FY2024, except in Oman and Kuwait. Oman's fiscal breakeven grew from USD 54.0 per barrel in FY2023 to USD 57.3 in FY2024 and Kuwait's fiscal breakeven increased from USD 79.6 per barrel in FY2023 to USD 81.8 in FY2024. Saudi Arabia, Qatar, Kuwait, UAE, and Bahrain recorded a decline in break-even oil prices in FY2024. Bahrain recorded the highest drop in break-even oil price from USD 152.9 per barrel in FY2023 to USD 124.9 per barrel in FY2024. Saudi Arabia's break-even oil price fell from USD 94.9 per barrel in FY2023 to USD 90.9 per barrel in FY2024, followed by Qatar, which witnessed a fall from USD 49.8 per barrel in FY2023 to USD 44.7 per barrel in FY2024. UAE's break-even oil prices declined from USD 52.8 per barrel in FY2023 to USD 50.0 per barrel in FY2024.

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



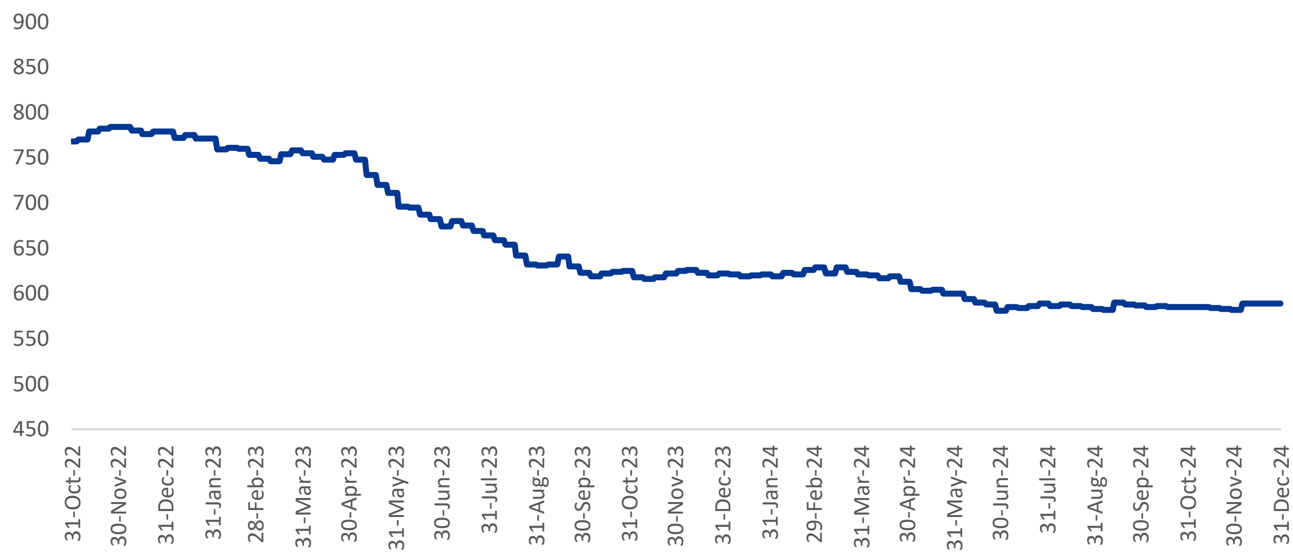
Source: Bloomberg

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



Source: Bloomberg

Figure 12: Oil Rig Count



Source: Bloomberg

FAB أبوظبي الأول للأوراق المالية SECURITIES

Credit Strategy

Current View on Credit Initiation:

Name	Sector	Price	Mid YTM	Moody's/S&P/Fitch
ALDAR 3.875% 2029	Real Estate	94.45	5.25	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	91.91	9.04	B1/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	93.93	5.13	Aa3/NA/A+
BGBKKK 2.75% 2031	Bank	92.35	6.81	NA/NA/BBB+
SIB 5% PERP	Bank	99.38	7.68	NA/NA/NA
GENHLD 4.76% 2025	Investment Co.	99.68	5.16	A1/NA/A
INTLWT 5.95% 2039	Power Generation and Water Utility	98.44	6.15	Baa3/NR/BBB-

Source: Bloomberg

We remain OVERWEIGHT on GENHLD, ARAMCO, KWIPKK, and ALDAR while assigning MARKET WEIGHT ratings on INTLWT, SIB, and BURGAN BANK.

Implications of Securities Recommendations

Bond Particulars	Call	Ask Price	Yield	1M Return	3M Return	YTD Return	12M Return
INTLWT 5.95% 2039	MW	98.44	6.17	-1.63	-1.67	-0.48	0.96
GENHLD 4.76% 2025	OW	99.68	5.12	-0.26	0.01	0.03	0.74
SIB 5% PERP	MW	99.38	6.31	-0.10	-0.35	0.07	1.92
BGBKKK 2.75% 2031	MW	92.35	7.67	-0.69	-0.56	0.05	9.32
ARAMCO 3.5% 2029	OW	93.93	5.10	-1.31	-1.91	-0.21	-0.22
KWIPKK 4.5% 2027	OW	91.91	8.74	-2.74	-2.30	-0.52	3.53
ALDAR 3.875% 2029	OW	94.45	5.20	-1.20	-2.61	-0.06	0.48

Source: Bloomberg

ALDAR 3.875% 2029: Maintain OVERWEIGHT rating

We assign an OVERWEIGHT rating on Aldar Properties PJSC's (Aldar Properties) 3.875% senior unsecured Sukuk maturing in October 2029. The Sukuk is trading at USD 94.45 with a yield of 5.25% when held until maturity (redemption at par) with a modified duration of 4.25. The Sukuk also enjoys Moody's investment-grade rating of 'Baa1' with a stable outlook.

- In Abu Dhabi, Aldar Properties is a leading real estate developer with a market cap of AED 55.9 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 9M24 with a total revenue of AED 16.5 Bn, up 69.0% YOY owing to record highest development sales, solid contribution from recurring income portfolio as well as recent acquisitions. It recorded a gross profit of AED 5.7 Bn, up 42.1% YOY in 9M24, and a net profit of AED 4.6 Bn, up 52.3% YOY, demonstrating the resilience of Aldar's diversified business model. Aldar EPS rose 44.1% YOY to AED 0.493 in 9M24, demonstrating consistent long-term shareholder value growth.

- Aldar's strong financial results are primarily driven by the robust performance of Aldar Development and Aldar Investment's recurring income portfolio coupled with significant contributions from acquisitions. 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 increased from AED 36.8 Bn in 9M23 to AED 48.6 Bn in 9M24 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 8 new developmental projects in 9M24, out of which three projects including Verdes by Haven in Dubai, The Arthouse on Saadiyat Island, and Yas Riva were launched in 3Q24. The Project Management business revenue backlog increased to AED 76 Bn in 9M24, compared to AED 59 Bn in 9M23, with projects worth AED 54 Bn currently under construction. 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 9M24 as a result of strategic acquisitions and robust performance across the core real estate portfolio. Occupancy levels across the investment properties stood at 95% across the Commercial, Retail, Logistics, and Residential properties.
- 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 62.1 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 60.7 Mn sqm, with a gross floor area (GFA) of 8.7 Mn sqm. Meanwhile, in Dubai the land area encompasses 1.4 Mn Sqm. Aldar Education is a leading private education provider in Abu Dhabi with 31 owned and managed schools as of 9M24 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 9.5 Bn worth of free & unrestricted cash and AED 8.4 Bn of undrawn bank facilities in 9M24. The Company's net debt stood at AED 2.1 Bn in 9M24.

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 91.91 with a yield of 9.04% when held until maturity (redemption at par) and has a modified duration of 1.92. 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 from subsidiaries. The Company assets and dividend inflow is concentrated in the three largest entities contributing c. 60% of total asset value.

KIPCO is one of the largest holding companies in MENA, with its consolidated assets growth from KWD 11.9 Bn in 9M23 to KWD 12.7 Bn in 9M24, 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 leading shareholders, through Al Futtooh Holding Company K.S.C. (AFH), and currently own a 31.91% direct holding. AFH supported KIPCO in all business activities, including capital raising, and reduction in dividend in case required.

- KIPCO's total revenue from operations increased 16.7% YOY to KWD 1,091 Mn in 9M24 mainly due to healthy performance from commercial banking, asset management & investment banking, energy, and industrial & logistics, partially offset by a decline in media & digital satellite network services income, hospitality & energy segment income.
- The company's operating profit from continuing operations before provisions rose to KWD 122 Mn in 9M24, up from KWD 108 Mn in 9M23. Provisions for credit losses and investments declined from KWD 29 Mn in 9M23 to KWD 24 Mn in 9M24. Profit before tax increased from KWD 56 Mn in 9M23 to KWD 87 Mn in 9M24.

- The Company recorded an increase in net profit attributable to shareholders from KWD 12 Mn in 9M23 to KWD 13 Mn in 9M24. KIPCO recorded a profit from discontinued operation of KWD 12 Mn in 9M23 compared to nil in 9M24.
- KIPCO cash and bank balance at the parent company level stood at KWD 153 Mn on 30 September 2024 compared to KWD 185 Mn on 30 June 2024.
- Total outstanding debt declined from KWD 1.8 Bn in 9M23 to KWD 1.6 Bn in 9M24.
- KIPCO received a dividend of USD 120 Mn in 1H24 and further expect to receive additional dividend in 2H24.
- Moody downgraded KIPCO's rating from Ba3 to B1 with a negative outlook citing high market value leverage, a weak forecasted interest coverage ratio. Fitch rating also downgraded KIPCO's long-term issuer rating to 'BB'- from 'BB' and revised the outlook from stable to negative citing a further increase in leverage.

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 93.93 and offers a yield of 5.13% with a modified duration of 3.86. The credit rating of the issuer is constrained by the rating of its largest shareholder, the government of Saudi Arabia, given the close link between Aramco and the sovereign. Aramco is assigned a standalone credit rating of 'A+' by Fitch supported by robust profitability, market leadership, significant cash flow visibility and net cash position.

- 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 centred 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.
- Revenue remained flat at SAR 1.24 Tn in 9M24 compared to 9M23, mainly due to higher crude oil prices largely offset by a decline in the volume of crude oil sold. Revenue from Downstream operation rose 7.0% YOY to SAR 696.8 Bn in 9M24, while revenue from Upstream operation fell 7.6% YOY to SAR 545.6 Bn in 9M24. Other income related to sales declined 15.9% YOY to SAR 128.7 Bn in 9M24 owing to a decline in revenue from Upstream and Downstream operation in 9M24. Thus, revenue and other income related to sales fell from SAR 1.40 Tn in 9M23 to AED 1.37 Tn in 9M24.
- Royalties and other taxes declined from SAR 175.5 Bn in 9M23 to SAR 157.7 Bn in 9M24. Total operating costs rose 6.0% YOY to SAR 771.8 Bn in 9M24 owing to an increase in expenses across all categories partially offset by a decline in royalties and other taxes. The Company's finance income fell to SAR 18.7 Bn in 9M24 compared to SAR 25.7 Bn in 9M23.
- Income before taxes and zakat fell from SAR 685.0 Bn in 9M23 to SAR 609.7 Bn in 9M24 primarily attributed to lower crude oil volume sold, weak refining margins and lower finance and other income partially offset by higher crude oil prices.
- Furthermore, Aramco's net profit declined from SAR 349.9 Bn in 9M23 to SAR 307.1 Bn in 9M24.

- Free cash flow fell from SAR 279.0 Bn in 9M23 to SAR 238.9 Bn in 9M24, primarily attributable to lower earnings partially offset by lower cash paid for the settlement of income, zakat and other taxes coupled with favourable movements in working capital
- Aramco paid a total dividend of SAR 349.5 Bn in 9M2024 including a base dividend of SAR 228.3 Bn and a performance dividend of SAR 121.2 Bn.
- The Company's progress on its Upstream oil and gas projects such as the Dammam project expected to launch in 2H24, Marjan & Berri expected to launch by FY2025, and Zuluf anticipated to launch by FY2026 will 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 FY2027 is affected due to the OPEC+ cuts.
- Aramco's gearing ratio stood at 1.9% in 9M24 compared to a negative 6.3% in 9M23. The increase in gearing was primarily a result of an increase in net debt owing to operating cash inflows partially offset by dividend payments and capital expenditures during 9M24. Aramco's capex amounted to SAR 135.7 Bn in 9M24 compared to SAR 113.4 Bn in 9M23 due to advancements in maintaining crude oil maximum sustainable capacity (MSC) and ongoing development of various gas projects. 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 rose from SAR 290.1 Bn in FY2023 to SAR 303.5 Bn in 9M24.

BGBKKK 2.75% 2031: Maintain MARKET WEIGHT rating

We are MARKETWEIGHT on Burgan Bank's 2.75% Tier 2 subordinated bond, currently trading at USD 92.35. The bond offers a yield of 6.81% and a duration of 1.59. 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 is listed on Boursa Kuwait. The Bank has a network of 125 branches and 290 ATMs as of 9M24. The Bank is majorly owned by KIPCO Company with a stake of 64.3%.
- Burgan Bank revenues increased 5.1% YOY to KWD 165 Mn in 9M24 driven by a 23.1% YOY growth in the net interest income amounting to KWD 112 Mn partially offset by a 19.1% YOY decline in the non-interest income amounting to KWD 53 Mn.
- The net interest margins rose to 2.2% YOY in 9M24 compared to 1.9% in 9M23. Net fees and commissions income fell from KWD 30 Mn in 9M23 to KWD 26 Mn in 9M24.
- Operating expenses increased 12.8% YOY to KWD 96 Mn in 9M24 leading to a cost-to-income ratio of 58.1% in 9M24 compared to 54.3% in 9M23.
- Provision expenses net of recoveries rose stood at KWD 6.7 Mn in 9M23 compared to a recovery of KWD 1.5 Mn in 9M23.
- The Bank reported a net profit attributable to shareholders of KWD 33 Mn in 9M24 compared to KWD 30 Mn in 9M23 due to a higher revenue.
- Loan and advances to customers rose 5.8% YOY to KWD 4.4 Bn in 9M24 which comprises 43% loan to personal, 20% to real estate, 12% to Manufacturing and the remaining to other sectors. Deposit rose 14.2% YOY to KWD 5.0 Bn in 9M24 with a CASA deposit of 28%.
- The Bank's non-performing loans fell marginally from 2.0% in 9M23 to 1.9% in 9M24. Provision coverage ratio increased from 215% in 9M23 to 218% in 9M24. Capital adequacy ratio stood at 19.0%, above the regulatory requirement. The Bank maintains high liquidity levels, with a liquid coverage ratio (LCR) and net stable funding ratio (NSFR) of 150% and 115%, respectively, as of 9M24, substantially above the minimum regulatory requirement of 100%.
- The bank redeemed its USD 500 Mn AT1 bonds in July 2024 as part of its funding strategy under which it issued new USD-denominated AT1 Bonds worth KWD 150 Mn in May 2024.
- Furthermore, Burgan Bank received approval from the Central Bank to acquire United Gulf Bank from United Gulf Holdings.

- Fitch Ratings affirmed Burgan Bank's rating at "A" with a stable outlook. 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 7.68% and currently trades at USD 99.38 with a modified duration of 0.47 years.

- Moody's Investor Service affirmed a long-term issuer rating at Baa2 with a stable outlook and a baseline credit assessment (BCA) at ba2. The rating agency three notch uplift from BCA is owing to the Sharjah Government's high direct and indirect ownership coupled with the UAE government's strong track record of extending support to the banking sector in case of need. 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 with adequate capitalization.
- Sharjah Islamic Bank's (SIB) net profit rose 17.6% YOY to AED 903 Mn in 9M24 mainly due to a growth in consumer demand and benefitting margins coupled with an increase in fee and commission income, decline in the impairment charges amid economic expansion in the UAE. Total operating income rose 14.3% YOY to AED 1,614 Mn in 9M24 due to a 1.7% YOY growth in net funded income to AED 1,104 Mn and 55.7% YOY growth in non-funded income amounting to AED 510 Mn. Non-performing loans declined from 5.6% in FY2023 to 5.2% in 9M24, while provision coverage stood at 95.7% in 9M24. The bank also maintained a healthy capital adequacy ratio of 17.7% and CET 1 ratio of 12.9% in 9M24.
- SIB's total assets grew significantly from AED 65.9 Bn in FY2023 to AED 74.8 Bn in 9M24 mainly due to the growth in net advances, investment securities, and liquid assets, while net advances rose 10.7% YTD to AED 36.6 Bn in 9M24. The Bank's customer deposits rose 6.2% YTD to AED 48.0 Bn in 9M24. CASA deposits accounted for 40.1% of the total customer deposits as of September 2024. SIB's total liquid assets stood at AED 15.6 Bn, representing 20.8% of total assets as of 9M24. The Bank's headline loan-to-deposits ratio stood at 76.2% during 9M24 compared to 73.1% in FY2023.

GENHLD 4.76% 2025: OVERWEIGHT rating

We assign an OVERWEIGHT rating on Senaat's 4.76% Sukuk maturing in December 2025. The Sukuk is trading for USD 99.68 and offers a yield of 5.16% 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 FY2023 reached AED 13,466 Mn, down from AED 13,525 Mn in FY2022, the decline in revenue is attributed to lower revenues from the building materials and Steel industries partially offset by growth in the Food, beverages, and tannery segment.
- Revenue from the Food and Beverages segment increased to AED 4,567 Mn in FY2023 compared to AED 4,072 Mn in FY2022. Revenue from the Steel industry declined from AED 8,565 Mn in FY2022 to AED 8,029 Mn in FY2023. The revenue from Building materials declined to AED 871 Mn in FY2023 from AED 887 Mn in FY2022.
- The EBITDA of the Group reached AED 2,159 Mn in FY2023, up from AED 2,117 Mn in FY 2022. The EBITDA margin increased to 16.04% in FY2023 from 15.65% in FY2022. However, the net profit of the Group declined to AED 1,058 Mn in FY2023 from AED 1,097 Mn in FY2022. The net profit margin also declined to 7.86% in FY2023 from 8.11% in FY2022. The Group earned 8.2% return on equity in FY2023 as compared to 8.8% in FY2022.
- As of December 31, 2023, the Group's total assets stood at AED 20.6 Bn, down from AED 21.0 Bn in December 2022, and the value of shareholders equity was AED 13.3 Bn, up from AED 12.4 Bn in December 2022. The external debt of the Group declined to AED 3.1 Bn in FY2023 from AED 4.9 Bn in FY2022, improving the EBITDA leverage from 3.1x in FY2022 to 1.7x in FY2023. Out of the total debt, AED 489 Mn will mature in FY2024. The consolidated cash and

bank balance declined to AED 1,077 Mn in FY 2023 from AED 1,436 Mn in FY2022 attributed to the investment in working capital.

- 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. Senaat's Sukuk Limited's senior unsecured notes were similarly affirmed at 'A' by Fitch.

INTLWT 5.95% 2039: Maintain MARKET WEIGHT rating

We assign MARKETWEIGHT on APMI One's 5.95% bond maturing in May 2039. The bond is trading at USD 98.44 with a yield of 6.15% if held till maturity (redemption at par). The bond has a modified duration of 7.15. The Bond has a credit rating of BBB- from Fitch and Baa3 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 FY2012 to FY2014, 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.

- Eleven large-scale new renewable projects which aggregate of c.7.1 GW have been added to the portfolio in 2023, which now accounts for 44.5% of the power portfolio. The Company also targets achieving an equal 50/50 portfolio balance between renewables and flexible generation by FY2030. The Company has 81 assets (in operation, under construction, or in advanced development) with a total investment cost of SAR 317.7 Bn, generating 55.1 GW of electricity producing 7.6 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 FY2022. APPs closed its position with the ZATCA until FY2018, however, the assessment is pending for FY2019-22. The Company's subsidiaries and associates received a higher tax assessment from ZATCA, which led to an additional tax liability of SAR 222 Mn (with ACWA Power share of SAR 126 Mn). The Company has recognised provisions of SAR 196 Mn (ACWA Power share of SAR 100 Mn) against this assessment as of 31st December 2023.

Financial details as of 9M24 for ACWA Power are listed below:

- ACWA Power's operating income before impairment loss and other expenses rose 12.5% YOY to SAR 2,365 Mn in 9M24. The increase in operating profit was mainly due to a divestment gain of SAR 402 Mn recognized attributed to loss of control in Bash & Dzhankeldy, partially offset by higher development cost, and general & administrative expense.
- Net profit attributed to the equity holders grew 16.0% YOY to SAR 1,255 Mn in 9M24. The growth in net profit is mainly attributed to higher operating income before impairment loss and other expenses, and higher other income of SAR 104 Mn due to recycling of the hedging reserve upon discontinuation of certain hedging contracts, partially offset by higher zakat and tax expenses, and a rise in impairment and other expenses.
- Adjusted net profit amounted to SAR 1,113 Mn in 9M24 after adjusting impairment loss, debt restructuring Gain, Termination of Project in Africa, and income related to termination of hedging instruments.
- Finance cost fell marginally 0.2% YOY to SAR 1.1 Bn in 9M2424, mainly due to ACWA Guc debt restructuring
- ACWA Power reported a cash & short-term investments of SAR 5.9 Bn in 9M24, at the same levels as FY2023. The Company's debt stood at SAR 24.7 Bn in 9M24.
- ACWA Power's increase in debt is primarily due to an increase in off-balance sheet leverage owing to growth in guarantees related to equity letters of credits & EBL and other equity commitments.
- The Company's corporate borrowing grew marginally from SAR 4,586 Mn in FY2023 to SAR 4,588 Mn in 9M24.

Bond Yield charts (%)

Figure 13: ALDAR 3.875% 2029

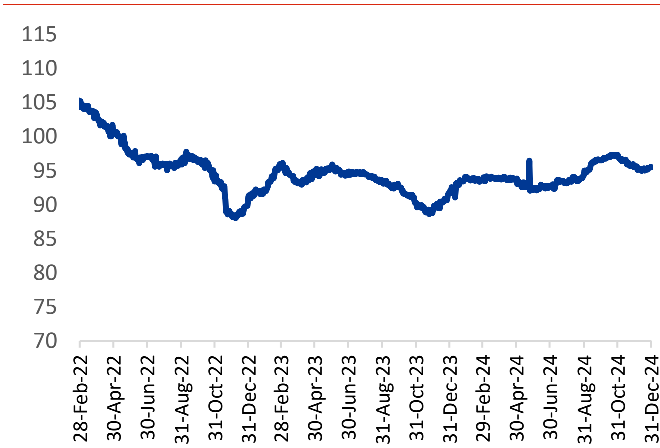


Figure 14: KWIPKK 4.5% 2027

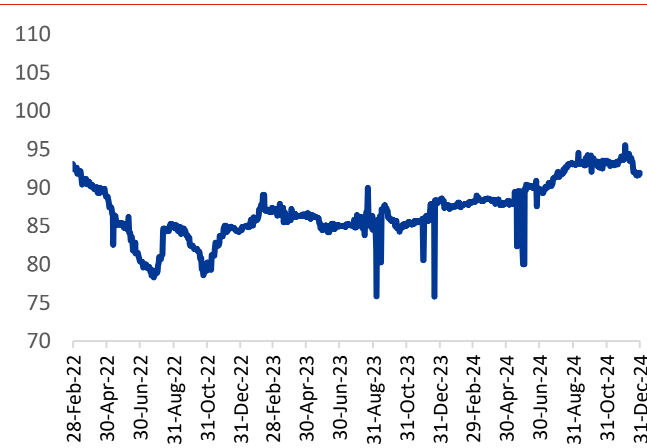


Figure 15: ARAMCO 3.5% 2029	Figure 16: SIB 5% PERP

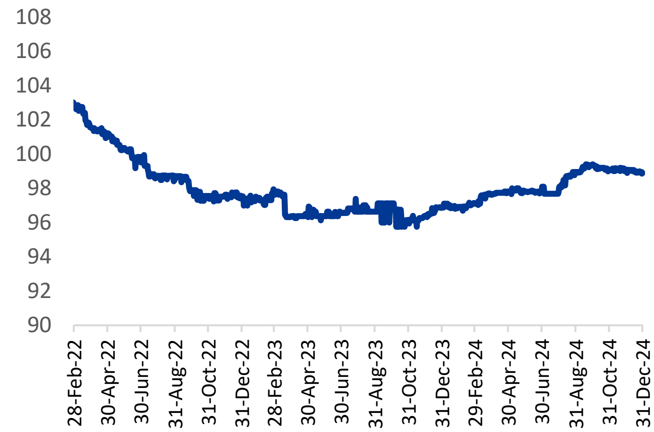
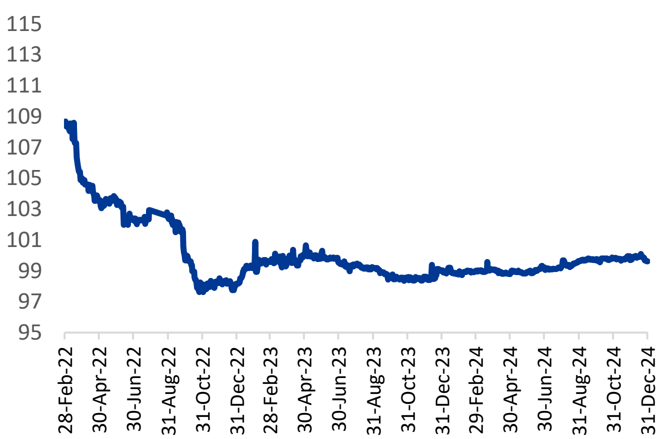
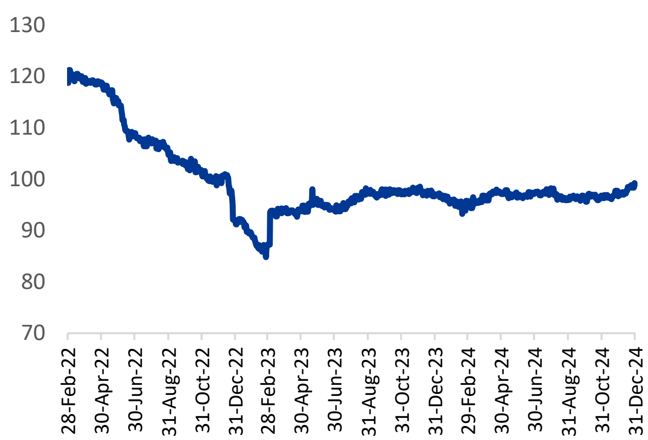


Figure 17: GENHLD 4.76% 2025	Figure 18: INTLWT 5.95% 2039





Source: Bloomberg

Key Market Indicators

Particulars	Price/Yield	YTD (% change)	MOM (% change)
Brent crude	76.11	1.97	7.02
US dollar index	108.07	-0.38	1.90
10Y Treasury yield[1]	4.62	0.69	0.40
2Y Treasury yield[1]	4.27	0.02	0.12
10Y German bond yield[1]	2.45	0.34	0.28
10Y Japan bond yield[1]	1.12	0.48	0.05
Bloomberg UAE Composite USD Liquid index	138.34	-0.24	-1.67

Source: Bloomberg, [1] in Basis point

Sovereign Highlights

UAE

Abu Dhabi-based MAIR Group will list on ADX next month

MAIR Group, an Abu Dhabi-based investment firm, will list on the Abu Dhabi Securities Exchange (ADX) in December 2024. The company is active in sectors like food retail and commercial real estate and operates over 100 stores in the UAE under the brand names ADCOOP and SPAR. The retail sector is performing well in the Gulf region and helps diversify the economy away from oil. The amount of stock shareholders and employees plan to sell through direct listing remains undisclosed.

ADNOC Gas awarded Bab Gas Cap FEED contract to an Australian firm Worley

ADNOC Gas awarded the Front-End Engineering and Design (FEED) contract to Worley, an Australian company for new gas processing facilities at its Bab Gas Cap (BGC) project in Abu Dhabi. The project design includes the development of gas processing and conditioning units, dehydration units, acid gas, natural gas liquid (NGL) and sulphur recovery units, and CO2 capture units expanding the current processing capacity of ADNOC Gas by 20%, or above 1.8 Bn standard cubic feet daily.

UAE's non-oil PMI stood strong at 54.2 in November 2024

S&P Global's seasonally adjusted non-oil PMI marginally increased to 54.2 in November 2024 from 54.1 in October 2024. Expansion in non-oil activity was mainly driven by an increase in new orders which rose due to competitive pricing whereas higher sales further increased outstanding work. However, confidence in the business activity remained subdued due to pricing pressures.

CYVN Holdings will take over McLaren's automotive business

CYVN Holdings, an Abu Dhabi-based investment firm has signed a deal to acquire the automotive business of McLaren, a British supercar maker. CYVN Holdings signed an agreement with Mumtalakat, Bahrain's sovereign wealth fund to acquire McLaren's automotive business and secure a non-controlling stake in McLaren's racing unit. CYVN aims to build a smart mobility platform by investing in "global industry leaders".

UAE and Egypt firms plan to build a tourism resort in Morocco

Egyptian billionaire group Samih Sawiris and UAE investors together plan to build a large tourism resort on the Western Atlantic coast in Morocco to boost the country's tourism industry. Morocco's Competition Council received a proposal from the consortium including Orascom Investment, Al Nowais Group, and Eastern Investment. The Egyptian-UAE alliance plan to acquire SAEMOG, a Moroccan company that oversees the Essaouira Mogador coastal project. The project aims to renovate the existing hotel, build three beachfront hotels, and develop a shopping and entertainment area in Mogador village.

UAE will levy a minimum top-up tax of 15% on large multinational companies from next year

The United Arab Emirates will impose a 15% minimum top-up tax (DMTT) on large multinational companies operating in the country starting in January 2025. As part of the OECD's global minimum corporate tax agreement having 136 signatories, DMTT will ensure a minimum of 15% from large MNCs. It applies to companies with combined global revenue of USD 793.5 Mn or more in at least two out of the four financial years preceding the ones in which the tax becomes effective.

Moody's assign A1 credit rating to AD Ports Group

AD Ports Group received an A1 credit rating with a stable outlook from Moody's Ratings for the first time on account of strong financial performance and growth prospects along with recognition of its flagship assets in Abu Dhabi, Khalifa Port, and KEZAD, mounting infrastructure assets, and resilient business model. AD Ports Group's A1 long-term issuer rating indicates the company's Baseline Credit Assessment (BCA) of Baa2 and the Abu Dhabi Government majority ownership via ADQ.

Dubai's annual CPI inflation rate accelerated to 3.0% in November 2024

Dubai's annual CPI inflation rate reached 3% YoY in November 2024 from 2.4% in October 2024 which is the fastest annual price growth rate since August 2024, according to Emirates NBD Research. The headline annual inflation remained at 3.3% on average over the YTD, which is the same as in 2023. On MOM basis, inflation rose to 0.5% in November 2024 from 0.2% in October 2024. Transport inflation was at negative 4.3% YoY in November 2024 compared to negative 10.6% in October 2024 and housing prices remain unchanged from the previous month at 7.2% YOY in November 2024.

Saudi Arabia

Nice One Beauty plans to raise USD 322 Mn through IPO

Nice One Beauty, Saudi Arabia's leading beauty care e-commerce platform, aims to raise USD 322 Mn through IPO, offering 34.6 Mn shares that account for 30% of the share capital. The price range for the IPO is set at SAR 32 to SAR 35 per share. The deal includes the sale of 29.1 Mn ordinary shares by existing shareholders and the issuing of new shares of 5.5 Mn through a capital hike.

Saudi Arabia's non-oil activity rose due to strong demand in November 2024

Saudi Arabia's non-oil business activity increased in November 2024 owing to robust demand, growing at the fastest rate since July 2023. The seasonally adjusted Riyad Bank Saudi Arabia Purchasing Managers' Index increased to 59.0 in November 2024 from 56.9 in October 2024. The PMI remained well above the 50.0 mark for the fourth consecutive month. New orders increased due to a growing customer base and higher investment spending in November 2024 along with a healthy growth in output.

Saudi Arabia awarded solar tenders to France's EDF and TotalEnergies during French president's visit

EDF Renewables and TotalEnergies plan to build three solar parks totalling 1.7 gigawatt (GW) in Saudi Arabia, of which EDF Renewables will build two solar parks of 1.4 GW. Saudi Power Procurement Company signed 25-year power purchase agreements with these French companies. Saudi Arabia aims to build 130 GW of renewable capacity by 2030 while these agreements were awarded on a build-own-operate model in the fifth renewable tender round.

PIF's Neo Space Group will acquire geospatial business of Airbus Defence and Space

Neo Space Group (NSG) owned by PIF will complete the acquisition of UP42, a next-generation earth observation digital platform launched by Airbus in 2019. The deal will further strengthen NSG's strategic role in providing Earth Observation (EO) services in Saudi Arabia. UP42 platform solves real-world geospatial problems to deliver value to its customers across agriculture, urban planning, real estate, disaster management, infrastructure monitoring, etc.

Saudi Arabia recorded GDP growth of 2.8% in 3Q24

According to GASTAT, Saudi Arabia's GDP grew 2.8% on YOY basis in 3Q24. The seasonally adjusted real GDP grew 0.9% YOY, and non-oil activities rose 4.3% YOY during the same period. Government activities grew 3.1% YOY while oil activities recorded a marginal growth of 0.05% YOY. Overall, most economic activities reported positive growth rates on an annual basis in 3Q24.

Saudi's PIF launched Adeera, a new hospitality brand

Public Investment Fund (PIF) launched Adeera, a new hospitality brand to operate and manage hotels while maintaining the highest international standards. PIF plans to build a world-renowned Saudi hotel brand through Adeera. The launch of a new firm is likely to boost the tourism sector in Saudi Arabia serving different categories of visitors from mid-range to ultra-luxury segments. It will also unlock new business opportunities in the local private hospitality sector while enhancing local talent and expertise.

Saudi Arabia's inflation rate rose to 2% in November 2024

According to GASTAT, Saudi Arabia's Consumer Price Index (CPI) increased to 2% on annual basis in November 2024 from 1.9% in October 2024. The rise in inflation is driven by an increase in housing, water, electricity, gas, and other fuels by 9.1%, and an increase in personal goods and services by 2.7%, while transport costs decreased 2.5% in November 2024. Despite an increase, Saudi Arabia's inflation rates remained low among the G20 countries.

Saudi Global Ports tapped banks before a potential IPO

PIF-backed Saudi Global Ports (SGP) has tapped banks ahead of its potential IPO. The firm hired Goldman Sachs and HSBC for the IPO. SGP is a joint venture between the Public Investment Fund and Singapore's PSA International and might raise about USD 1 Bn through its IPO.

Qatar

QatarEnergy signed a long-term agreement with Shell for the delivery of LNG to China

QatarEnergy has signed a long-term agreement with Shell, an oil and gas company to supply three million metric tons per annum of liquefied natural gas (LNG) for delivery to China. China, the world's largest LNG importer, brought in 71 Mn metric tons in 2023. Qatar, the third-largest global LNG exporter after the U.S. and Australia, has exported 73 Mn metric tons of LNG this year.

Qatar's economy recorded growth of 0.8% in 2Q24

Qatar's economy recorded a real GDP growth rate of 0.8% during 2Q24, compared to 2Q23. The GDP estimates for 2Q24 reached around QR 177 Bn compared to the revised estimates of QR 175.6 Bn for 2Q23. The mining and Quarrying sector's nominal gross value added (GVA) decreased by 1.0% to QR 72.83 Bn, while the Non-Mining and Quarrying sector's nominal GVA increased by 1.8% to QR 121.41 Bn. Real GVA for Non-Mining activities grew by 2.8%, while Mining activities saw a 2.6% decline.

Qatar announced the state budget for 2025

The State of Qatar announced its budget claiming the total expected revenues for the fiscal year 2025 to be QR 197 Bn representing a decrease of 2.5% from total budget revenues of 2024. The country remains conservative in its approach while estimating oil and gas revenues at QR 154 Bn, taking an average oil price of USD 60 per barrel. On the other hand, the total expenses amount to QR 210.2 Bn, an increase of 4.6% compared to 2024. The expected deficit of QR 13.2 Bn in 2025 will be covered through domestic and external debt instruments as required.

Bahrain

The central Bank of Bahrain will issue a seven-year USD 1.2 Bn Sukuk

The Central Bank of Bahrain (CBB) will issue a seven-year USD 1.2 Bn sukuk on behalf of the government which will be listed on the London Stock Exchange with a maturity date of June 05, 2032 and a fixed coupon rate of 5.875%. Dubai Islamic Bank, First Abu Dhabi Bank, JP Morgan, KIB Invest, Mashreqbank, National Bank of Bahrain, and Standard Chartered Bank are the joint lead managers for the deal.

Bahrain's treasury bills of USD 186 Mn got oversubscribed by 129%

The demand for Bahrain's short-term government securities remains vast, with its latest treasury bills getting oversubscribed by 129%. The issue was made by the Central Bank of Bahrain, which has a weighted average interest rate of 5.68%, a value of USD 186.2 Mn, and a maturity of three months.

Kuwait

Combined Group submitted the lowest bid for Kuwait's local gas project

Combined Group Contracting Company (CGCC) submitted the lowest bid, valued at USD 63.5 Mn, for the Kuwait Jurassic gas project. A confirmation letter from Kuwait Bourse awarding the contract has not yet been received. The project, commissioned by state-owned Kuwait Oil Company (KOC), involves external works for Jurassic gas production facilities in North Kuwait, including a feeding pipeline network.

Kuwait's government will impose a tax rate of 15% on multinational companies

The Kuwaiti Cabinet permitted a law imposing a 15% tax rate on multinationals with more than one country or state business. The decision was made to curb the practice of tax evasion and prevent the transfer of tax revenues to other nations. The new taxation law is as per global tax standards and will be effective from January 01, 2025.

EGYPT

Egypt's non-oil private sector declined more slowly in November 2024 as per PMI

Egypt's non-oil private sector declined at a slower pace in November 2024 as indicated by the PMI of 49.2 compared to 49.0 in October 2024, inching towards the 50.0 threshold that separates expansion from contraction. However, the index continued to indicate a marginal downturn in the business environment as output declined and new orders slowed across the non-oil sector in November 2024. Manufacturing saw modest gains, offsetting declines in other sectors. Employment dropped for the first time in four months, while input prices rose at their slowest rate since July 2024.

Egypt will sell stakes in at least 10 state-backed companies in 2025

Egypt plans to sell stakes in at least 10 state-owned companies in 2025, including military-affiliated enterprises. Companies like petroleum distributor Wataniya, ChillOut convenience stores, Safi mineral water, and Silo Foods for Food Industries will be listed or offered through partnerships. Wataniya may go public by mid-2025. Other entities to be sold include Egypt's Gabal El Zeit wind power station, Chemical Industries Development and Alamal Alsharif Plastics, AlexBank, and Banque du Caire. United Bank debuted on the Egyptian Exchange, raising EGP 4.57 Bn.

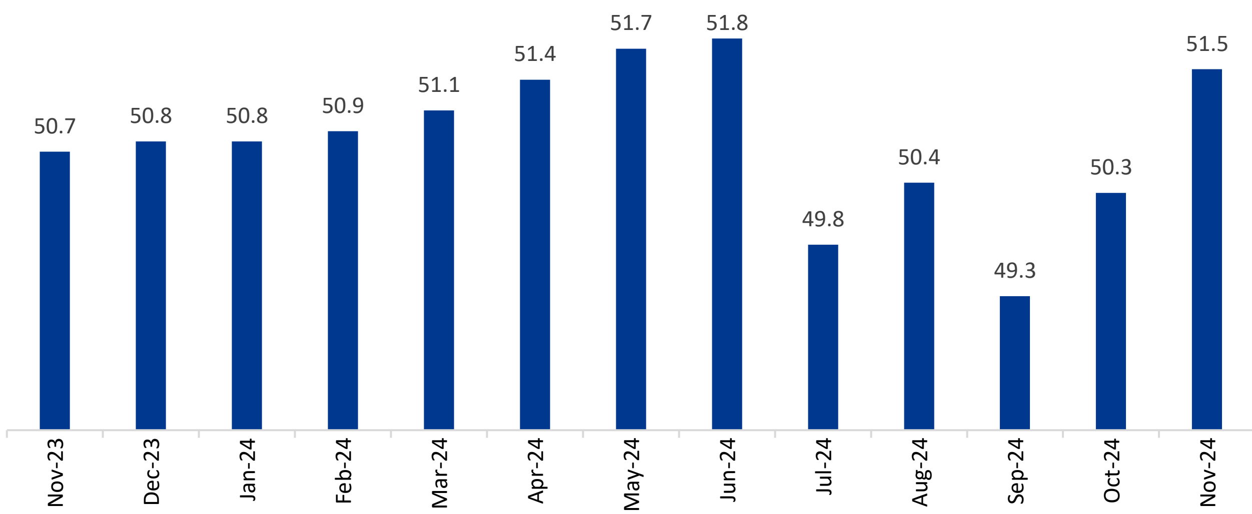
FAB أبوظبي الأول للأوراق المالية SECURITIES

Global Economy

China's Manufacturing PMI rose in November 2024

China's manufacturing sector witnessed expansion in November 2024 as indicated by a PMI level of 51.5, compared to a PMI level of 50.3 in October 2024. The growth in the manufacturing sector was driven by new order inflows, which remained the fastest in three-and-a-half years, supported by a renewed increase in export orders. Improving demand conditions, new product launches and hoarding following the US election caused the rise in new business opportunities, leading to increased production levels.

Figure 19: China Manufacturing PMI

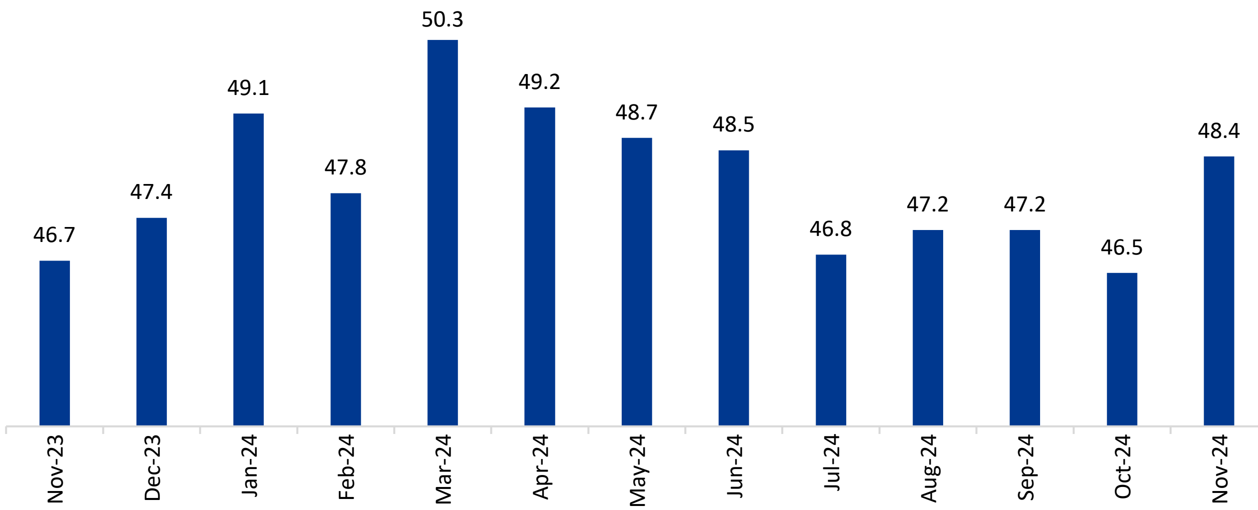


Source: CAPIQ

US Manufacturing PMI grew faster than expected, however, the contraction persists

The US Manufacturing sector recorded a PMI of 48.4 in November 2024, compared to 46.5 in October 2024. However, it remained below 50, indicating contraction, according to the Institute for Supply Management (ISM). The jump is driven by new orders whose index reached 50.4 in November 2024 from 47.1 in October 2024. The production and employment indexes also increased to 46.8 and 48.1 in November 2024 from 46.2 and 44.4 in October 2024, respectively. Meanwhile, the prices index fell to 50.3 in November 2024 from 54.8 in October 2024, indicating a modest growth in raw materials prices.

Figure 20: US Manufacturing PMI

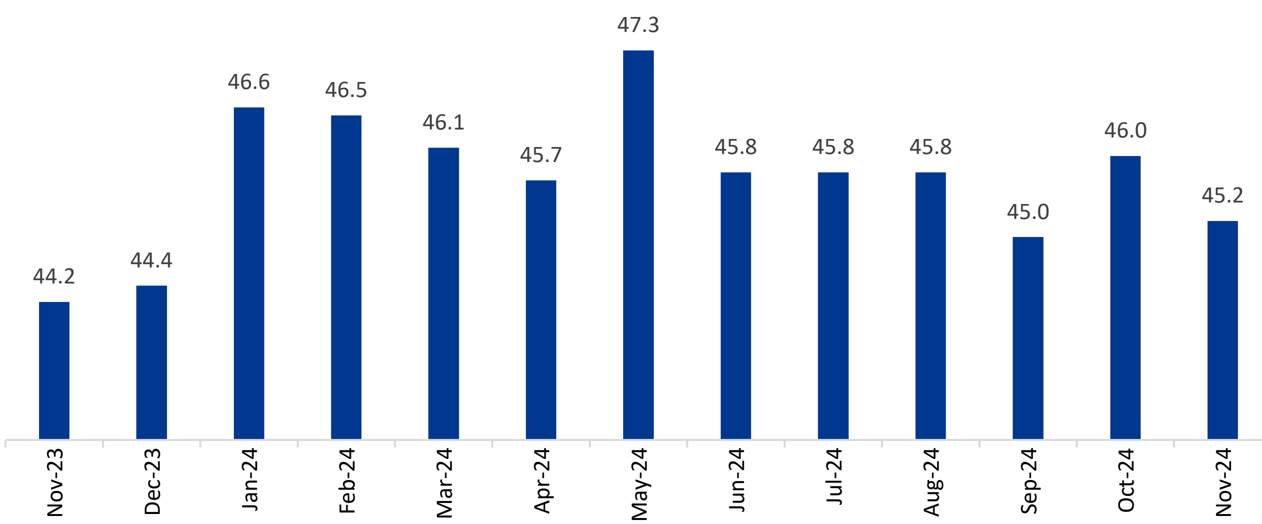


Source: CAPIQ

Eurozone manufacturing sector contracted in November 2024

Eurozone manufacturing activity further contracted in November 2024 due to a substantial decline in factory orders, production, purchases, and inventories. The final HCOB factory Purchasing Managers' Index declined to 45.2 in November 2024 from 46.0 in October 2024 as new orders fell rapidly with no sign of recovery. This continues the ongoing trend of declining new business, now lasting over two and a half years. Employment opportunities have also contracted steeply since August 2020. Worsening demand conditions forced companies to reduce purchasing activity and pre-production inventories.

Figure 21: Eurozone Manufacturing PMI

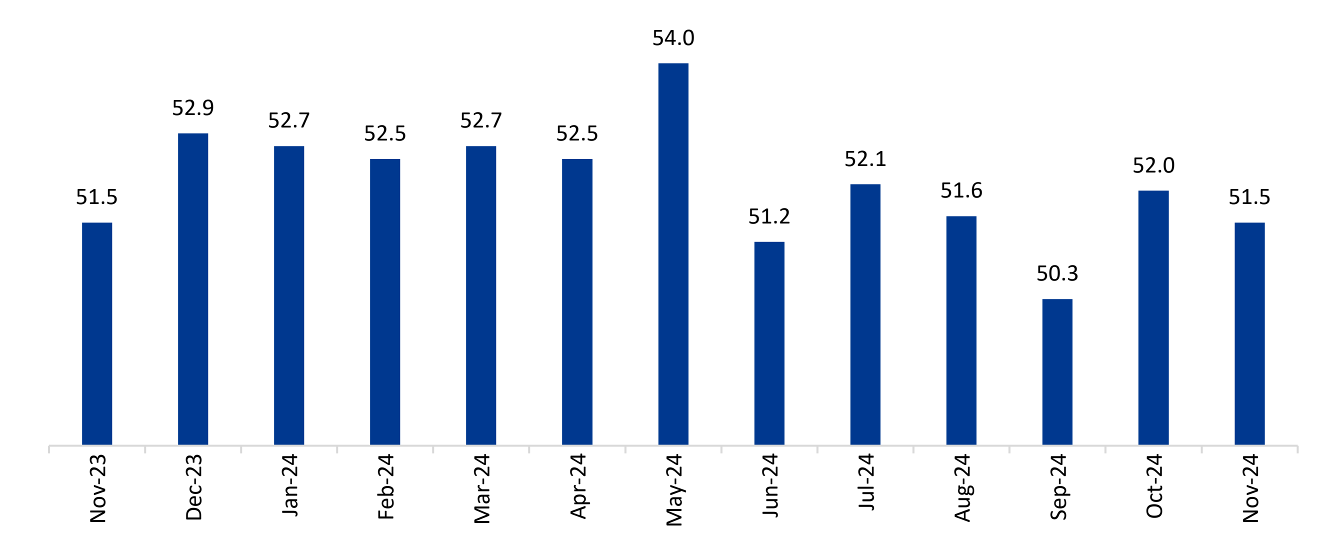


Source: CAPIQ

China's service sector witnessed slow growth in November 2024

China's services sector expanded at a slower pace in November 2024 due to slower growth in new business and exports. The Caixin/S&P Global Services PMI index eased to 51.5 in November 2024 from 52.0 in October 2024. The rate of growth in new business remained below average. Export business growth rose higher than overall new business; however, the growth rate remained moderate. Despite moderate growth, the order backlog rose for the fourth consecutive month in November 2024 resulting in job creation in the services sector.

Figure 22: China Service Sector PMI

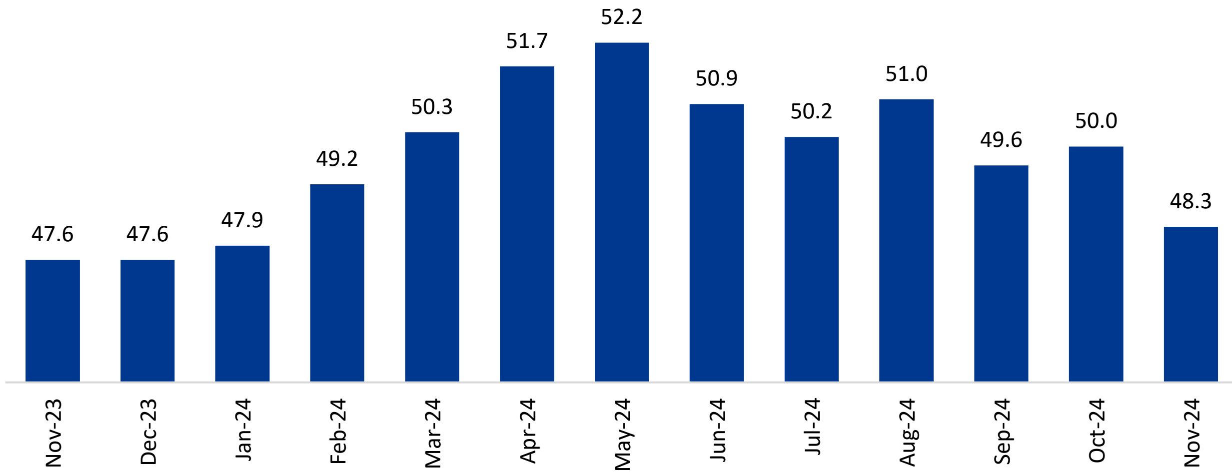


Source: CAPIQ

Eurozone private sector fell back into contraction

As business activity fell the most since January amid a renewed decline in service output, the eurozone private sector re-entered the contraction phase in November 2024. The HCOB final composite output index fell from 50.0 in October 2024 to 48.3 in November 2024. The fall in overall activity is driven by the services sector which registered the first decline since the beginning of the year. In addition, the factory activity declined for the twentieth consecutive month, the longest declining streak since the beginning of the year. The HCOB services PMI fell to 49.5 in November 2024 from 51.6 in October 2024. All three big economies namely Germany, France and Italy registered a decline in business activity.

Figure 23: Eurozone Composite PMI

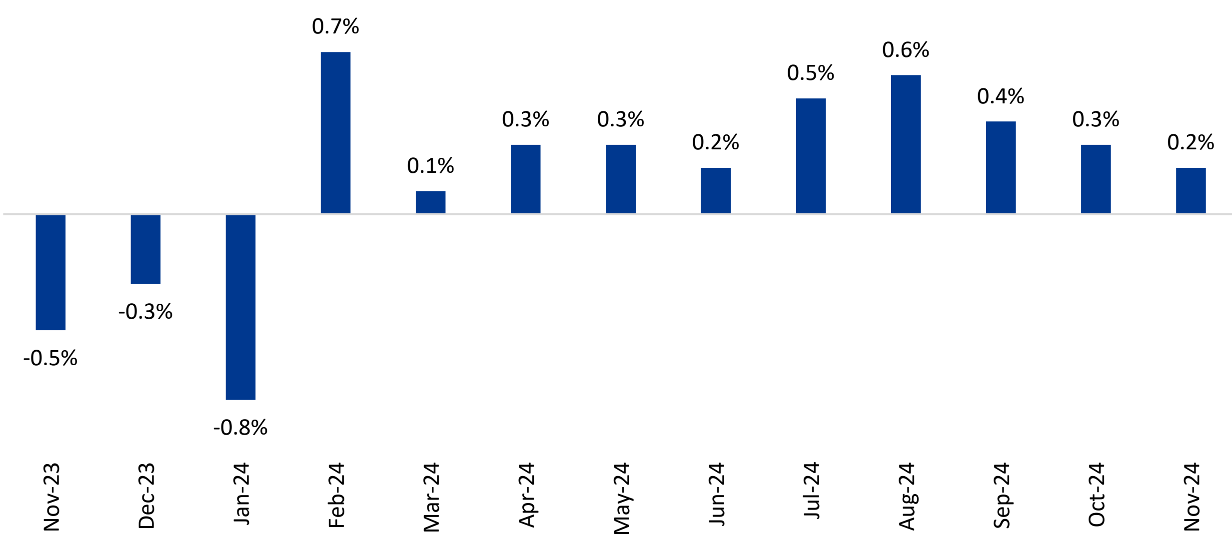


Source: CAPIQ

China's inflation eased to a five-month low in November 2024, PPI too declines

China's consumer inflation unexpectedly weakened to a five-month low in November 2024 and the continued fall in producer prices suggests that the number of measures taken by the government to prop the economic growth showed little impact. The consumer price index rose 0.2% YOY in November 2024, lower than the estimate of 0.5%. The index recorded a growth of 0.3% YOY in October 2024. The marginal growth in inflation is due to an increase in food prices which rose 1%. Pork and fresh vegetable prices surged 13.7% and 10.0%, respectively in November 2024. Core inflation which excludes food and energy prices rose 0.3% in November 2024 compared to 0.3% in October 2024.

Figure 24: China's Consumer Price Inflation

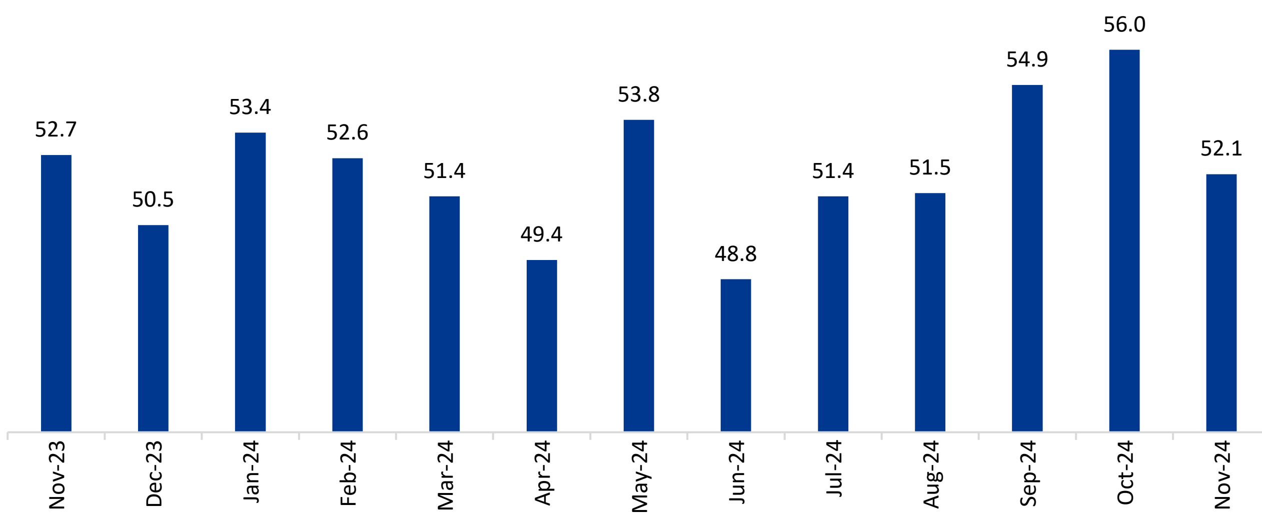


Source: CAPIQ

US service sector growth slowed more than expected in November 2024

The US service sector growth decelerated more than expected, with a services PMI of 52.1 in November 2024, down from 56.0 in October 2024 due to a decline in business activity and new orders. The business activity index fell from 53.7 in November 2024 to 57.2 in October 2024 and the new orders index fell to 53.7 in November 2024 from 57.4 in October 2024. The employment index also slumped to 51.5 in November 2024 from 53.0 in October 2024, indicating a slight slowdown in job growth in the service sector. The price index rose slightly to 58.2 in November 2024 from 58.1 in October 2024.

Figure 25: US Service Sector PMI

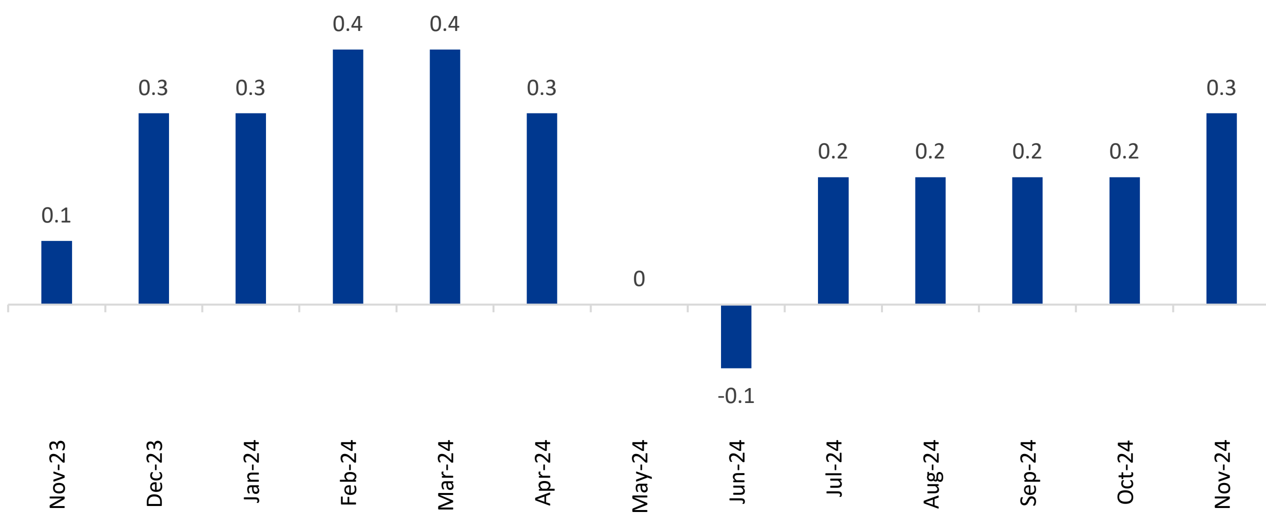


Source: CAPIQ

US consumer price index rose 0.3% MOM in November 2024

The US consumer price index rose 0.3% MOM in November 2024, in line with estimates. In the previous month, the prices rose 0.2% MOM in October 2024. The annual growth rate of consumer inflation reached 2.7% in November 2024 from 2.6% in October 2024. The monthly growth in consumer price inflation is driven by higher shelter, food and energy prices. Shelter costs rose 0.3% MOM accounting for nearly 40% of the advance of the headline index followed by 0.4% and 0.2% MOM growth in food and energy prices, respectively in November 2024. Core inflation excluding food and energy prices rose 0.3% MOM in November 2024 in line with the growth in the previous three months and in line with estimates.

Figure 26: US CPI (MOM)



Source: CAPIQ

European Central Bank lowered deposit rate to 3%

The European Central Bank (ECB) lowered its key policy rate by 25 basis points, which aligns analyst estimates. The deposit rate is reduced by 25 bps to 3%. The primary refinancing rate was lowered to 3.15%, and the marginal lending facility rate to 3.40%. ECB policymakers will base their interest rate decision in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission.

Swiss National Bank cut its benchmark rate by 50 bps

The Swiss Central Bank reduced its policy rate by 50 bps to 0.5% to curb the value of the appreciating Swiss Franc. The bank lowered its rate four times this year, will continue to monitor the situation closely, and will adjust its policy to ensure price stability in the medium term. The bank reduced its inflation projections to 1.1% from 1.2% for 2024 and 0.3% from 0.6% for 2025. The central bank lifted its inflation outlook for 2026 from 0.7% to 0.8%.

Central banks in the GCC region reduced cut interest rates in line with the US Fed

Most Gulf Cooperation Council (GCC) central banks reduced their interest rates after the US Federal Reserve lowered the benchmark rate to a range between 4.25% and 4.50% for the third consecutive time. Since the currencies are pegged to the US dollar, most GCC central banks track the Fed's policy rate moves. The Central Bank of the UAE cut its overnight deposit rate to 4.40%. Saudi Arabia SAMA lowered its repo and reverse repo rates to 5% and 4.50%, respectively. Qatar's central bank reduced its deposit, lending, and repo rates to 4.60%, 5.10%, and 4.85%, respectively. The Central Bank of Bahrain cut its base rate on overnight deposits by 25 bps to 5.00% from 5.25%. The monetary authority of Oman cut its repo rate by 25 bps to 5%.

US Fed cut interest rates by 25 bps, estimates fewer rate cuts in 2025

The Fed lowered the federal funds rate range to 4.25% from 4.50% to support the dual goals of maximum employment and a 2% inflation rate over the longer run. The Fed announced its latest projections, predicting rates will be 3.75% to 4.0% by 2025, compared to the 3.25% to 3.50% forecast in September 2024. This indicates only two rate cuts will be made next year compared to the four cuts previously forecasted. The Fed will adjust the target range for the federal funds rate after assessing incoming data and the evolving economic outlook.

US GDP grew more than previously estimated at 3.1% in 3Q24

The US GDP growth rate revised upward from 2.8% to 3.1% for 3Q24. This reflects a modest acceleration in GDP growth from 3.0% in 2Q24. The slightly faster GDP growth in the third quarter primarily reflected an acceleration in exports, consumer spending, and federal government spending, partially offset by a downturn in private inventory investment, a more significant decrease in residential fixed investment and an acceleration of imports.

FAB SECURITIES أبوظبي الأول للأوراق المالية

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