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May 2019

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FIRST TAKE

Saudi Arabia opens up Islamic bonds to retail investors



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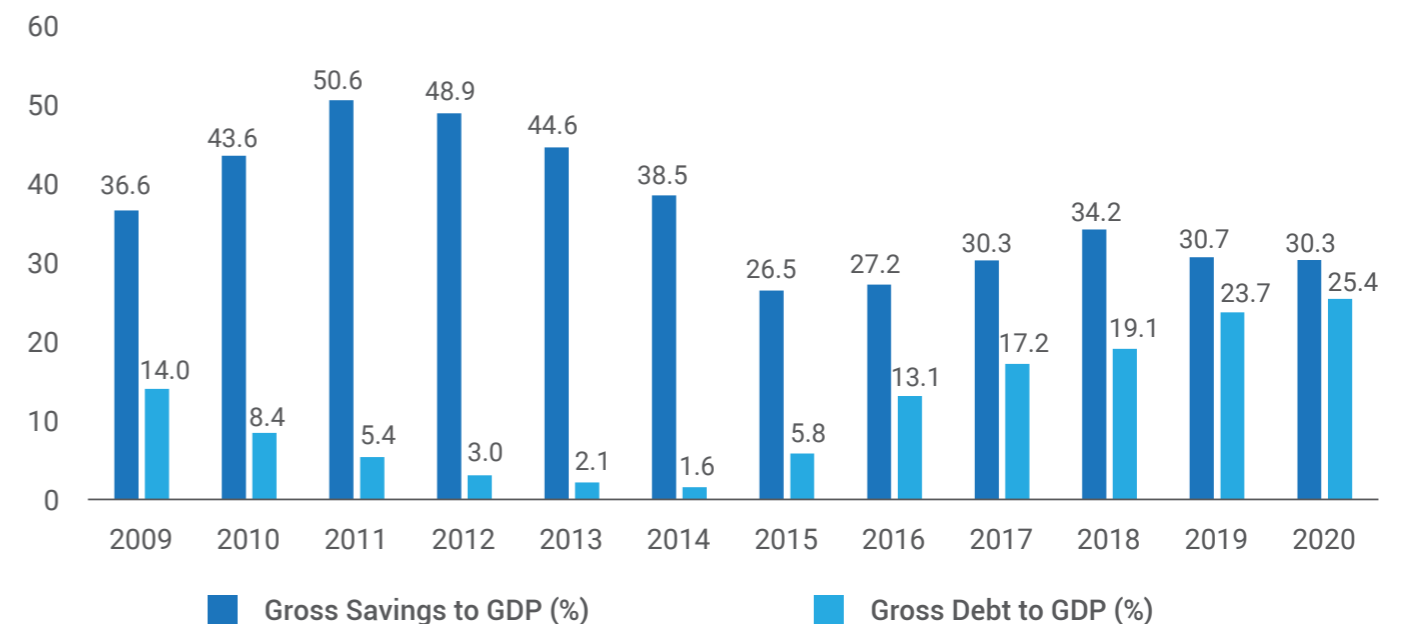
HIGHLIGHTS

- The Debt management office (DMO) - Ministry of Finance has reduced the par value of sukuk (Islamic bonds) issued by government to SAR 1,000 (USD 267) from SAR 1mn earlier. The step has been taken to encourage wider participation of retail investors by facilitating them with greater access to the bond market.
- The lower par value will enable finance industry to create wide range of products suiting different investment needs of retail investors with varied maturity profiles that can replace bulk repayment of principal and interests in millions with more evenly spread payments that can provide smoothened cash flow profiles for borrowers.
- Similarly in 2018, The Securities Commission of Malaysia took measures to attract retail investors' in sukuk market and widen the range of products over and above plain vanilla bonds. The investment ticket size for bonds was reduced to USD 2,410 from approx. USD 1mn. Prior to this, Bursa Malaysia also introduced Exchange traded bonds and sukuk in 2013. However, it managed to list only 3 retail sukuk that have consistently underperformed. One of the reason behind this might have been a significant gap between bid-ask spread (close to 1%¹) and brokerage fees, thereby reducing the bond yields.
- Within GCC region Saudi Arabia is the first nation to introduce the new measures. In comparison to Malaysia the bid-ask spread is lower in Saudi Arabia. However low yields in a market where retail investors' participation is close to 70% in equity market that offers high alpha, investing in bonds may be less attractive. Further, investors may not be well informed due to scarce information and transparency on various aspects of investing in bond market.
- Currently, bid yield on 1-yr deposit rate is at 2.8% while yield for a 5-yr sukuk issued by government stood at 3.7%. Risk-free nature of the sovereign debt may entice retail investors to consider this as part of their savings and investment options.
- The finance minister highlighted that Saudi Arabia aims to increase saving schemes as it will not only help people in better planning for health, education and retirement but also support country's economic growth through wider funds available for investment.
- The Capital Market Authority (CMA) along with Tadawul and DMO has also announced a reduction in fees on new offerings and annual registration charges and lower trading commissions to promote debt trading on the secondary market. The move is expected to come with a regulatory framework that will safeguard the interest of investors and ensure that participants are made aware of the risks involved.
- This is part of Saudi Vision 2030 which aims to reform, modernize and broaden the capital market. Earlier government had raised the limit of foreign ownership in various sectors to attract greater investments. The efforts over the years have resulted in Saudi Index inclusion in FTSE emerging market index. Saudi Arabia is also set to join MSCI index as well later during the year.

¹ <https://www.theedgemarkets.com/article/cover-story-opening-doors-retail-investors>

- The gross government debt stood at USD 150bn in 2018, out of which 46% is dollar denominated and rest is in Riyals, according to DMO. The gross debt to GDP ratio has increased from 1.6% in 2014 to 19% in 2018. This is expected to increase to 23.7% in 2019 and is forecasted to reach as high as 37.5% by 2024 (IMF).
- In its budget for the year 2019-20, Saudi Arabia estimates a deficit of SAR 131bn equivalent to 4.2% of GDP. The revenues are projected at SAR 975bn riyals with SAR 662bn coming from oil. Saudi Arabia plans to issue bonds worth nearly SAR 120bn (USD 32bn) in 2019 to aid the financing of the fiscal deficits by tapping the international market, according to its Finance Minister.
- Saudi Arabia has already seen strong interest from investors and has issued USD 7.5bn in sovereign bonds in 2019 which was oversubscribed more than 3.5 times.

Debt to GDP on a rise, while Savings still remain lower



Source: IMF

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about marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making.

Our aim

Advocate intellectual research on MENA economics, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- » A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- » Markaz research activities commenced in 2006
- » Marmore established in 2010 to intensify the research activities
- » Publishes research reports and provides consulting services

published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.

consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- » Industry market assessment (market size, competitors, regulations)
- » White label reports (industry reports, company newsletters, periodic research)
- » Databases (competitors' information, target clients insights)
- » Company valuation (buy/sell side advisory)
- » Due diligence / Business evaluation
- » Feasibility studies (market and financial)
- » Business plans
- » C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- » Step 1: Requirement and scope analysis
- » Step 2: Proposal submission
- » Step 3: Project initiation
- » Step 4: Fieldwork / research
- » Step 5: Analysis & reporting
- » Step 6: Review & approval
- » Step 7: Report submission / presentation

**RESEARCH
PROVIDER
OF THE YEAR**



**KNOWLEDGE
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