

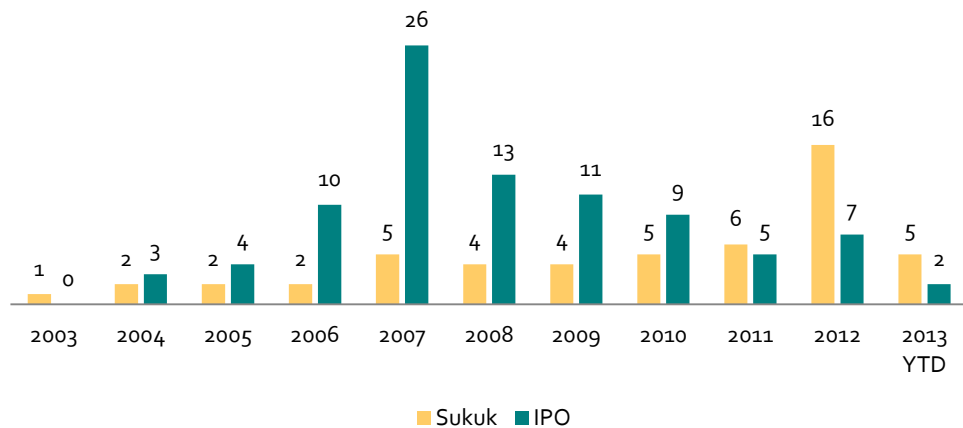
Sukuk Market in Saudi Arabia

1. An overview of the Saudi sukuk market

The Kingdom of Saudi Arabia (KSA) has been witnessing unprecedented economic growth supported by expansionary fiscal and monetary policies. The Kingdom resorted to aggressive expansionary initiatives to counter the global financial crisis and the Arab Spring. The impact of the policies is reflected in the headline GDP numbers. In its April 2013 World Economic Outlook report, the IMF estimates that KSA's GDP in 2012 grew 6.8% and would increase 4.4% in 2013. Also, the IMF estimates inflation to have fallen to 2.86% in 2012.

Factors such as increasing government spending, reforms initiatives, a low interest rate environment and high liquidity are conducive for a vibrant Islamic debt capital market in the country. Also, with investors shunning equity during the past few years due to volatility, equity capital raising activity has slowed down drastically over the last three years. Hence, corporates are increasingly tapping the debt market, especially Sukuk, to fund expansion plans. In addition, a low interest rate regime has reduced the attractiveness of conventional deposits, but is making Sukuk an alluring investment alternative.

Figure 1. KSA Sukuk issuances & IPOs since 2003



Source: Islamic Finance Information Services (IFIS), Zawya. Note YTD-22.04.2013

Domestic and International sukuk markets have distinct characteristics

Saudi sukuk can be categorized into two markets: domestic issuances denominated in SAR and international issuances predominantly denominated in USD. Each market has its own trends and features and, hence, we have decided to analyze them separately. As institutions prefer issuing sukuk in local currency due to high liquidity in the Kingdom, this report mainly focuses on the domestic market. A few companies have issued international sukuk, and this is covered in section 1.2.

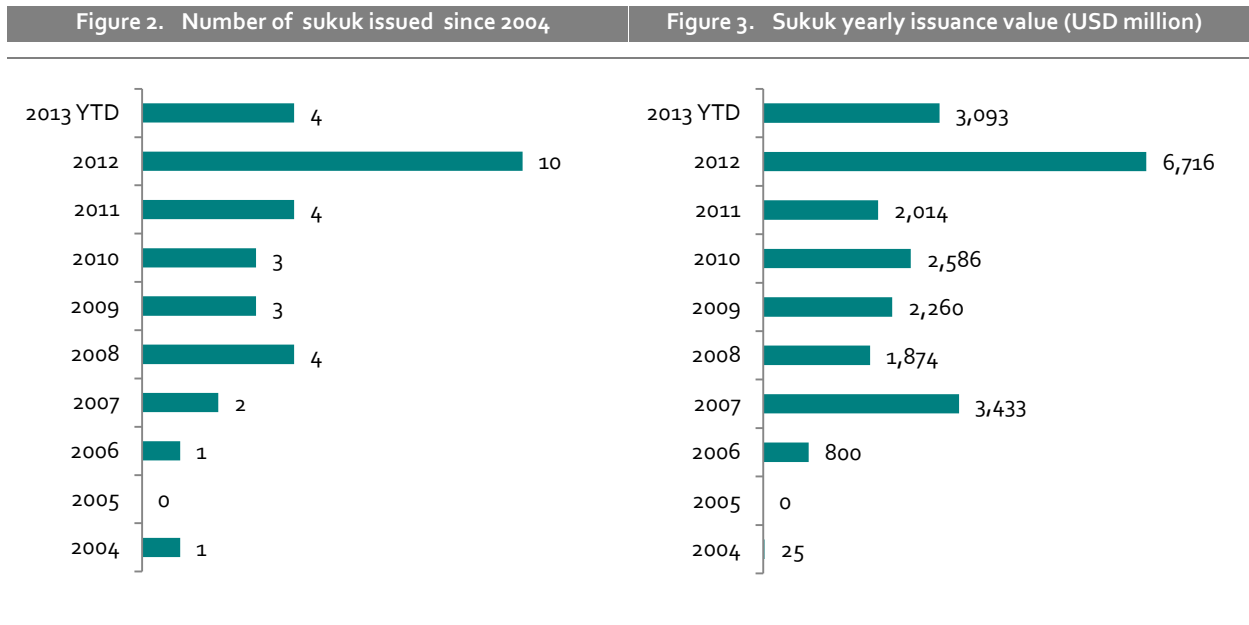
1.1. Historical trend in domestic issuances

The trends observed in domestic issuances are given below.

1.1.1 Number of issues and issuance value

Saudi Arabia’s domestic sukuk market is relatively new, with infrequent issuances in the initial years. The market was steady during 2008–11, with three to four issuances per annum totaling around USD2 billion. In 2012, the market grew rapidly, with 10 sukuk issuances with an aggregate value of USD6.7 billion. This trend seems to be continuing into 2013, with four issuances valued at over USD3 billion so far.

KSA’s sukuk issuances almost tripled in 2012 compared to 2011



Source: IFIS. YTD-22.04.2013

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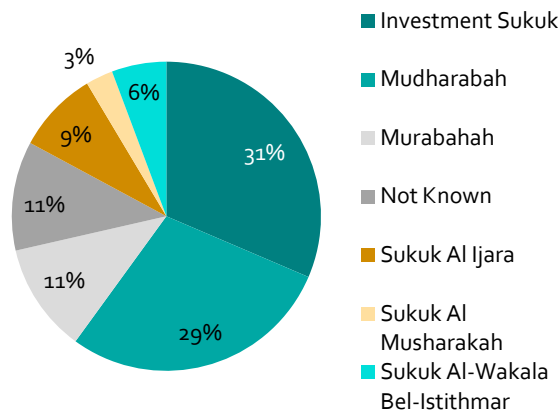
1.1.2 Type of structures and listing of sukuk

Issuers prefer private placements over public listing on the exchange

Different structures have been used over the years, with Investment Sukuk and Mudharabah being the most prominent, each accounting for approximately 30% of sukuk issued so far. Prior to 2011, Investment Sukuk was the most popular structure among issuers. Recently, issuers have started preferring the Mudharabah based structure.

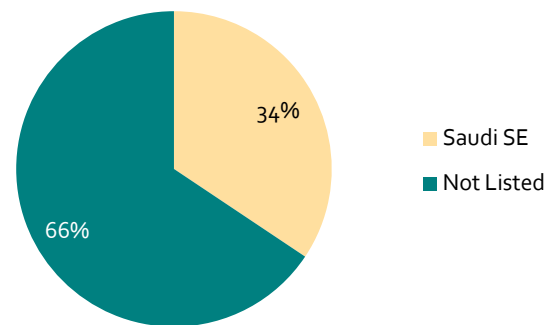
In terms of listing, domestic issuers have preferred private placements rather than public issuances, with roughly a third of issuances listed on Saudi Arabia's stock exchange, Tadawul. Prior to 2011, there were more public issuances, with 50% of sukuk being listed. However, since 2011, there have been just four public issuances out of 18 (approximately 20%). With some of the earlier issuances being redeemed early, there are just eight sukuk currently listed on Tadawul.

Figure 4. KSA Sukuk breakdown by Structure



Source: IFIS

Figure 5. KSA Sukuk breakdown by Listing



Source: IFIS

1.1.3 Sukuk pricing and tenure

Sukuk pricing spreads widened during the credit crisis, but have been tightening more recently

Identifying trends in sukuk pricing is difficult, as they depend on many factors including credit standing of the issuer, tenure of the sukuk, investor demand, and market liquidity, and there have not been a large number of sukuk to analyze. However, we could make a few observations. For example, most domestic sukuk have been issued on a floating rate basis (i.e., Saibor plus a spread), except the GACA & SBG sukuk (which were on a fixed rate basis). Another trend is that

the earlier issues (pre-2008) had spreads around 40–50bps, which widened to around 150–200bps during the credit crisis period of 2008–10. More recently, sukuk have been issued at spreads close to 100bps. In 2012, there were three issuances by banks— SABB issued in March, SHB in November and BSF in December—with the spread above SAIBOR reducing in each case, indicating a gradual tightening of spreads. There appears to be plenty of liquidity in the Saudi Arabian market, with corporates such as Al-Marai, Tasnee and Savola being able to issue at pricing similar to banks.

The trends we see in the tenure are related to the type of issuer and the period it is issued. For example, prior to 2011, although issuances had longer maturity (10 or 20 years), they had embedded call options, which gave the issuer the right to redeem after 5 years. Investors viewed these sukuk as essentially 5-year instruments, and some of these sukuk have since been redeemed early as expected. Generally, 5 years appear to be the “sweet-spot” for sukuk worldwide. We observed that Saudi Arabian issuers have recently pushed the maturity, with a number of 7-year sukuk coming to the market, perhaps due to demand from investors. The issuer that goes against this trend is Saudi Binladen Group, which issued a number of short-term sukuk with maturities of 1 year or less. More recently, sukuk have been used to finance projects such as GACA, Satorp and Sadara that have maturities of 10 years or above. We observe that leasing/installment companies are entering the market for example, AJIL and Saudi ORIX with tenure of 3 years.

1.2. Historical trend in international issuances

There have been 20 sukuk issuances since 2003, amounting to over USD12 billion. In 2012, sukuk worth more than USD4 billion were issued. Some of the key issuers like IDB Trust Services Limited have been tapping the international sukuk market for a long period of time. Earlier Dar Al-Arkan was a prominent issuer. Saudi Electricity Company has been issuing sukuk recently, the prominent ones being four sukuk tranches in 2012 and 2013 collectively raising USD3.75 billion.

There are two distinct features of international sukuk. Firstly, almost all sukuk had a rating either at the issuer level or the issuance itself. This helps investors, who are unfamiliar with Saudi-based entities, to participate. Secondly, apart from a few issuances, most international sukuk were listed on various exchanges globally. This, too, helps investors if they wish to trade the sukuk.

The “sweet-spot” for sukuk tenure has been increasing from 5 years to 7 years in the last couple of years

Over USD12 billion worth of international sukuk have been issued in KSA since 2003

Foreign currency sukuk tend to be rated and listed to attract international investors

In terms of types of structures, Sukuk Al Ijara is the most popular for international issuances, although Sukuk Al-Wakala Bel-Istithmar was also used in the past.

On the pricing front, international issuances tend to be fixed rate issuances ranging from 100Bps to 400Bps depending on the issuer and the maturity. The popular tenure for international issuances has been 5 years, although IDB has also issued 3-year instruments. More recently, SEC has been issuing longer-dated tranches. It issued sukuk with 5 and 10-year maturities in 2012 and 10 and 30-year tenures in 2013. Demand for sukuk carrying long tenures like 30 years reflects a very high degree of confidence in the issuer amongst investors.

2. Demand and supply drivers of Sukuk in Saudi Arabia

2.1 Alternative source of funding for issuers

Over the years, sukuk have emerged as an attractive alternative source of funding for issuers. In addition to bank lending which has been the traditional source of funding, corporates are increasingly looking at sukuk for funding their capital requirements. Also they help in enhancing the corporate profile of the issuers as people get to know about the company issuing a sukuk. Further, owing to limited issuance and high demand from investors, issuers tend to benefit in terms of attractive pricing.

2.2 Attractive Sharia-compliant investment option

Following the global credit crisis, interest rates have come down to near zero levels in developed economies. Government and central bankers in many developed and emerging economies also rolled out fiscal and monetary stimuli to counter the effects of the global financial crisis. This has helped them fight recessionary threats. Another consequence of this is the huge liquidity overhang that is translating to capital inflow into various asset classes. Equity market sentiment has been weak since the financial crisis took toll on the global economy. Also post crisis, Gulf States have become more wary of investing in the West—the place where they traditionally parked most of their petrodollars. All these factors have created a favorable environment for fixed income securities, including sukuk.

Financial institutions, especially banks, have investment portfolios as part of their assets on their balance sheet. The three broad categories are: securities available for sale, securities held for trading, and securities held to maturity. In search of avenues more profitable than interbank liquidity placements, there are a few alternatives available for these financial institutions,

International issuances tend to be on fixed rate basis

Increased investor demand for sukuk is resulting in attractive pricing for issuers

Banks are increasingly finding sukuk an attractive investment option

making sukuk an attractive investment option. As there are a limited number of issues available for investment, these institutions tend to purchase sukuk and keep them in their books under the held-to-maturity portfolios. Another significant factor is the adoption of Basel II and Basel III framework for capital adequacy that has made it mandatory for banks to shore up their capital base. Given the attractive propositions that sukuk offer, we believe banks and other financial institutions would be encouraged to increase their exposure to sukuk, thereby increasing demand.

2.3 Increasing infrastructure and industrial investments

Financing of projects using sukuk is one of the key drivers of the market's growth. In February, the KSA government announced plans to spend a record SAR820 billion in 2013, up 19% from the SAR690 billion budgeted for 2012. Some of these are likely to be allocated for infrastructure development projects which might lead to more sukuk issuance in the future.

Corporates are planning large capital investments. KSA remains the largest project market in the GCC region. Contracts worth USD50 billion were awarded in 2012. Participants at the Saudi Mega Infrastructure Projects (MIP-2012) Summit held in September 2012 anticipate anywhere between USD60 billion to USD80 billion worth of contracts to be awarded this year. Saudi Bin Laden Group and Saudi Oger are two of the biggest groups in KSA with an estimated USD40 billion worth of contracts under execution. Prominent projects in the pipeline are Saudi Aramco's Jizan refinery and Sadara Chemical Company's USD20 billion petrochemical project. We believe the companies will look at sukuk as an option to fund some of these expansion plans.

2.4 Banks' inclination to lend mostly for short term

Traditionally, equity funding and bank credit have been the primary sources of long-term financing for companies in Saudi Arabia. However, the investor appetite for equities has reduced following the poor performance of stock markets. In addition, majority of bank lending in KSA has been short term in nature.

Bank credit in KSA has been increasing over the past few years. Total bank credit rose from SAR775.34 billion in 2010 to SAR897.62 billion in 2012. However, the percentage of long-term financing has been hovering around 25% for the last 10 years.

Corporates are increasingly looking at sukuk as a viable option for long-term financing in addition to bank lending. Saudi Aramco-Total Refining and Petrochemical's SAR3.75 billion

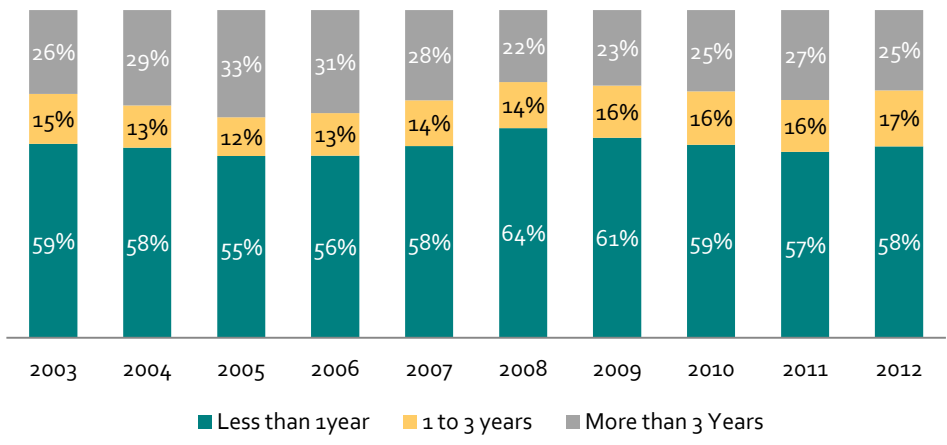
The private sector
awarded projects worth
USD50 billion in 2012

Majority of bank lending in
KSA is short term in nature

Long-term bank credit, as a proportion of total credit, continues to hover around 25%

(USD1 billion) SATORP sukuk, issued in September 2011 to partly finance the USD14 billion Jubail refinery project, is one such example. The sukuk, which had tenure of 14 years, was over-subscribed almost 3.5 times. The longer tenure of recent issues is primarily ascribed to the fact that they are used to finance long-term projects.

Figure 6. Bank credit maturity profile



Source: SAMA

Passage of the Mortgage Law is expected to provide further impetus to the sukuk market

In addition, the recent passage of mortgage law by KSA in July 2012 paves the way for creation of mortgage companies and their activities. Given the current demographics, at least 1.5 million new housing units may be needed in coming years. This will provide impetus for mortgage financing, and we believe the sukuk capital market will benefit from this through securitization of mortgage portfolios.

3. Recent sukuk issues and those in pipeline

Saudi Arabia’s domestic sukuk market can be divided into two periods. Prior to 2011, there were a small number of issuers doing repeat issuances (for example, SABIC, SEC, SHB). By 2011, awareness about sukuk increased, resulting in a significant growth in the market. This section examines recent issuances from the perspective of issuers and investors, and also looks at sukuk in the pipeline.

3.1 Types of issuers

Recent sukuk issuances indicate that more issuers are interested in this market as a means of raising funds.

GACA issuance of USD4 billion sukuk is one of the largest sukuk issuance in KSA

In the first quarter of 2012, the General Authority of Civil Aviation (GACA) issued a SAR15 billion (USD4 billion) sukuk to finance the expansion of the King Abdulaziz International Airport in Jeddah. This 10-year sukuk is guaranteed by the Ministry of Finance and approved by the Saudi Arabian Monetary Agency (SAMA). This sukuk partly filled the void of sovereign issuances to act as a benchmark.

Banks played a key role in the surge in sukuk issuances recently. In April 2011, Al-Jazira Bank issued a SAR1 billion (USD267 million) sukuk with a 10-year maturity but redeemable after 5 years. This was followed by three issuances in 2012: SABB's SAR1.5 billion (USD400 million) issuance for 5 years; Saudi Hollandi Bank's SAR1.4 billion (USD373 million) issuance for 7 years (with a 5-year call); and Banque Saudi Fransi's SAR1.9 billion (USD507 million) issuance for 7 years. Banks continue to display increasing interest, with several other banks announcing their intentions to issue in future.

Issuance of sukuk with longer tenure has picked up in 2011–12

Activity in project-related sukuk has been gaining momentum. Apart from the GACA and SATORP sukuk mentioned earlier, in April 2013, Sadara, a joint venture between Aramco & Dow Chemical, closed a SAR7.5 billion (USD2 billion) sukuk. Proceeds from this issuance would be used to fund the company's USD20 billion Sadara Petrochemical project. The sukuk has a 16-year amortizing tenure and is listed on Saudi Arabia's stock exchange.

Corporates are increasingly entering this market. In July 2011, SIPCHEM issued a SAR1.8 billion (USD480 million) sukuk with a maturity of 5 years. In 2012, Al-Marai, National Industrialization Company (Tasnee) and Olayan Group issued a sukuk each followed by Savola Group & Al-Marai again issuing a sukuk in 2013.

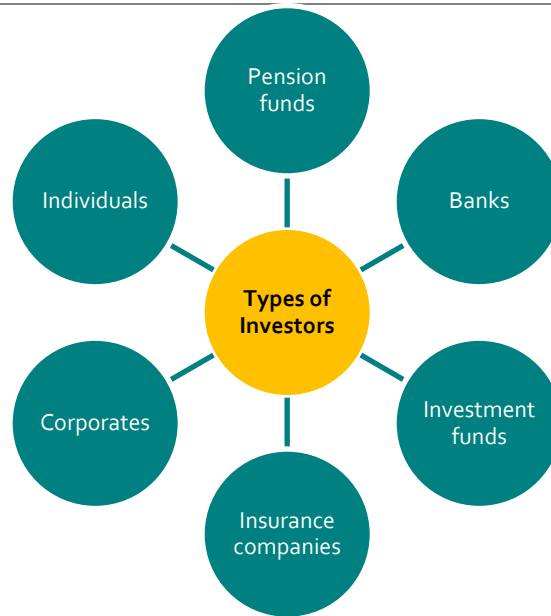
Presently, Corporates and Leasing companies are key segments issuing sukuk

Leasing companies have also started issuing sukuk, but for much smaller sizes and shorter maturities. In April 2012, AJIL issued a SAR500 million (USD133 million) sukuk, followed by Saudi ORIX, which issued a SAR240 million (USD64 million) sukuk.

3.2 Types of investors

Potential investors for sukuk can be broadly categorized into six types, each with its own requirements and investment criteria. Even within a category, the individual needs of the investor may differ and, hence, it is not easy to generalize. As there is very little public information about investors, much of this is assumed, but there are trends that we observed in the market.

Figure 7. Type of Investors in KSA's sukuk market



Source: Saudi Hollandi Capital

Pension Funds & banks
have been the most active
investors in sukuk recently

- Pension Funds & Wealth Funds – These are usually government owned and tend to participate in most issues. Pension funds have long-term liabilities and typically prefer longer-dated sukuk to match assets with liabilities. There are several wealth funds in KSA with specific purposes related to public service such as education, employment, and health. These funds are sometimes interested in sukuk, but may have more specific requirements depending on availability of capital for investments.
- Banks – They also tend to be very active investors in sukuk. They typically invest through the Treasury department for their investment book. Banks prefer rated or well-known issuers due to their internal investment criteria, though they may consider other issuers if supported by their corporate banking departments. Banks also have their own Shariah Boards, so the structure is important as it may not be acceptable to all scholars.
- Investment Funds – Fund managers can invest in sukuk for their mutual funds or discretionary portfolios. However, since liquidity is a concern for fund managers, they prefer to invest in sukuk that are either short-dated or have an active secondary market.
- Insurance Companies – This is another potential group of investors, but they have strict investment criteria to satisfy internal guidelines and those set by the regulator.

Fund managers prefer
short dated maturities
due to lack of liquidity in
longer tenures

- Corporates – Companies that have excess cash tend to participate in sukuk issuances to diversify their investments. This is not a wide group of potential investors and may be selective in the issuances they participate in.
- Individuals – These are high net worth individuals and family offices. It is a broad category of investors and is difficult to generalize. It ranges from those unfamiliar with the sukuk market to quite sophisticated investors with experience of a wide variety of investments. However, most of them seek higher yields, as they compare different asset classes to decide where to invest.

As awareness amongst the investor community grows, more investors are likely to participate in the market.

3.3 Sukuk issuances in pipeline

The sukuk pipeline for 2013 is strong, with several issuances announced and rumored.

The USD 3.2 billion GACA Guaranteed Senior Sukuk (II) is prominent among the announced sukuk. This would be a SAR-denominated second tranche of issuance by GACA. The second major issuance would be a USD800 million sukuk by ACWA Power International. Al Aqeeq Real Estate Development Company has also announced Al Aqeeq Sukuk worth USD187 million.

Among sukuk rumored to enter the market, the most prominent one is Ahmed Salem Bugshan (ASB)'s USD100 million sukuk, which is expected to have a 5-year tenure. The sukuk is likely to offer a semi-annual return of 105 bps over the 6-month US dollar LIBOR. Proceeds would be utilized to fund the expansion of existing projects, including a mega-steel plant and a real estate project.

A pipeline worth over USD4.3 billion is slated for 2013. This is over and above the already completed over USD5 billion of issuance in the first four months of the year. The variety of issuances, from quasi-sovereign, financial sector, project related, corporate and leasing companies, has been aiding growth of the sukuk market. Rising demand, high liquidity and fewer issuances are making sukuk an issuer's market.

GACA Guaranteed Senior Sukuk (II) most prominent issuance in pipeline

Sukuk worth USD4.3 billion are currently in the pipeline in KSA

4. Key challenges for the Saudi sukuk market

4.1 Interpretation of Shariah rules not adequately standardized

Lack of standardization of shariah rules is an area of concern

Interpretation of the Shariah rules is not adequately standardized yet. This impedes development of the sukuk market, as Islamic scholars may interpret the Shariah rules differently, leading to inconsistent views on what is acceptable to investors.

Sheik Muhammad Taqi Usmani, President of the Shariah Council of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), released a paper entitled "Sukuk and their Contemporary Applications" in November 2007. This was controversial in nature, but raised pertinent questions on the structuring of sukuk to differentiate it from conventional bonds. AAOIFI is now gaining wide support and has been a binding force in overcoming the challenges faced in interpreting Shariah rules. So far, AAOIFI standards have been adopted by the Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria. Authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have also issued guidelines based on AAOIFI's standards. The other well-recognized institutions following AAOIFI norms are Bahrain-based International Islamic Financial Market (IIFM), Malaysia-based Islamic Financial Services Board (IFSB), and Gulf Bond and Sukuk Association (GBSA).

GCC nations are gradually accepting AAOIFI standards

4.2 Credit rating

Most institutional investors, including some government-backed ones, do not invest in unrated debt instruments. Credit rating of issuances has become important for financial institutions since the adoption of Basel II framework for capital adequacy. Credit rating also enables issuers to secure better pricing, increase tenures and attract more investors.

In terms of issuances so far, majority of the International issuances tend to be rated, which has not been the case with SAR denominated issuances. Most of the international issuances tend to be rated as for international investors credit rating is a pre-requisite. In case of domestic issuances the need for credit rating was not severely felt as the issues received good investor response due to ample liquidity conditions, well known issuers, high investor demand and fewer issuances. As different types of issuers enter the market, credit rating will become important to ascertain the quality of issuance.

Credit rating enables investors to ascertain the quality of issuance

4.3 Issuance costs

The overall cost of issuance is a concern for issuers, as they weigh up the benefits of tapping the capital market versus traditional bank financing. Key costs embedded in the pricing include legal and accounts/auditors fees, arranger's fees, credit rating expense, registration and listing fees, and the cost of translating documents. Documentation and structuring costs have come down as products are becoming more standardized, but remain relatively high. Also, costs will reduce if issuers do repeat issuances using the same structure and documentation where applicable. Currently, with ample liquidity in the market, total cost to issue a sukuk (i.e., issuance cost plus sukuk coupon) is relatively low. However, if liquidity was to become scarce, issuance costs will become important.

4.4 Established yield curve

One of the main challenges facing the sukuk market is the absence of a comparable benchmark in the form of a yield curve. However, this is undergoing a change. Saudi Arabia issued its first government-backed sukuk in January 2012, The USD4 billion GACA sukuk has helped set a benchmark for pricing of conventional and Islamic bond issues going forward. Sovereign issuances not only provide investors with much needed pricing benchmark but also act as anchor securities for portfolio management and secondary trading. The Malaysian market, also considered the most liquid, is supported by frequent issuances by the government and its central bank. Such quasi-government-backed issuances will drive demand going forward.

4.5 Saudi secondary Sukuk/bond market remains shallow and illiquid

In June 2009, KSA became one of the first GCC nations to establish a sukuk and bond trading platform. Total value of sukuk traded on Tadawul aggregated SAR446 million in 2012. There were only 20 transactions recorded. Just seven sukuk traded during the year. This low liquidity in the sukuk market has been a constraint in attracting institutional and retail investors to the sukuk market. Factors that could improve the trading volume are: increased sovereign issuances (which help establish the yield curve and provide an anchor), rating of sukuk, and transparency in issuance and pricing. Educational programs for corporates and institutions by regulators and the exchange would also increase the number of issuers and investors.

Legal fees, arranger's fees, credit rating expense, registration and listing fees are the major issuance costs

A benchmark yield curve is essential for growth of the sukuk market

Low liquidity in listed sukuk is a key challenge for the market's growth

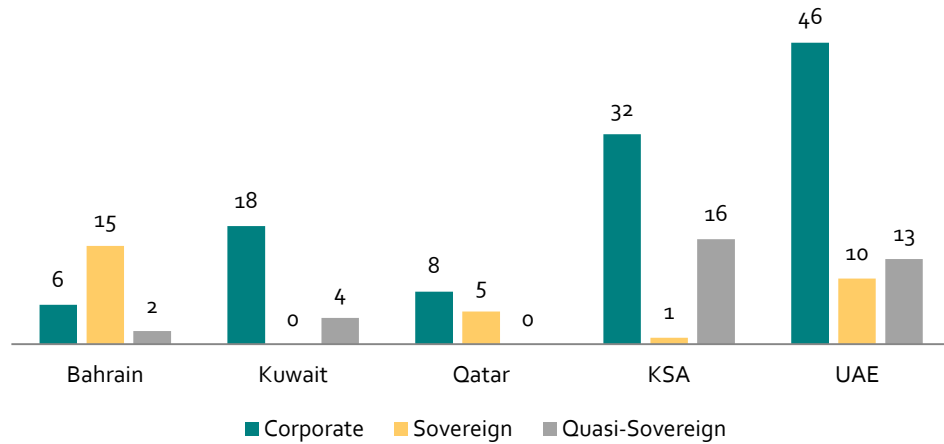
5. Comparison with GCC

UAE is the overall leader in sukuk issuances followed by KSA

In this section, for our analysis, we have excluded all sukuk with less than one year tenure in GCC countries, as they represent a different market more akin to commercial paper, which is yet to gain foothold in KSA.

Issuances across GCC have been categorized by type of issuance as corporate, sovereign and quasi-sovereign issuances. Corporate issuances are all issuances that are not sovereign or quasi-sovereign issuances and will include financial sector issuances as well. UAE with 69 issuances leads in terms of overall issuances. KSA is second with 49 issuances.

Figure 8. KSA & GCC Sukuk comparison by type of issuance

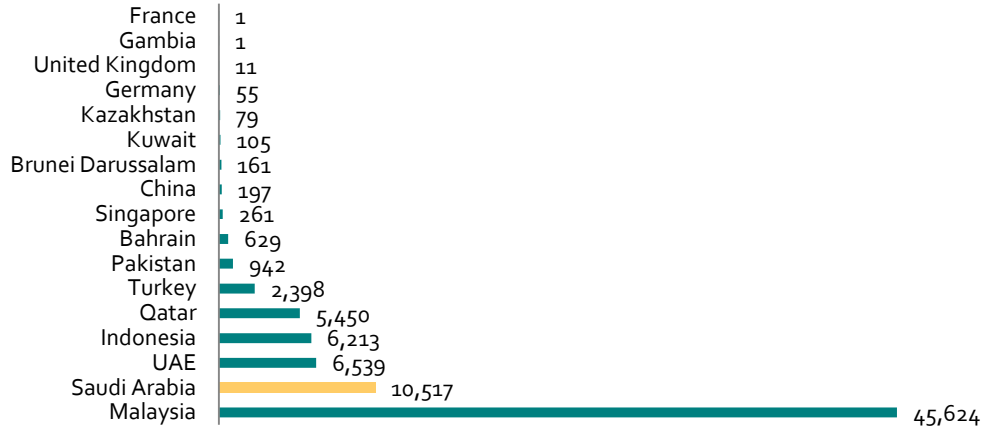


Source: Zawya, IFIS; Note: Oman had no sukuk issuances. Only closed and matured issuances have been considered. Time period considered – January 2003 to April 2013

Malaysia was the global leader in terms of value of issuance for the year 2012

For 2012, in terms of value of issuances, KSA was the leader in GCC and second globally with USD10.5 billion worth of issuance. The global leader in terms of issuance value was Malaysia at USD45.6 billion.

Figure 9. Global Issuance data by value for 2012 (USD million)

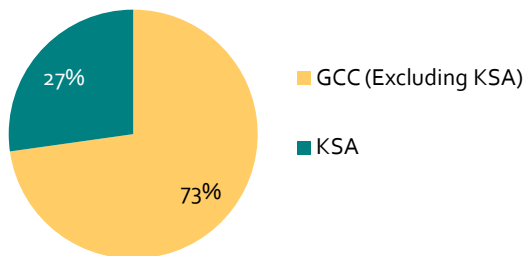


Source: Zawya

For 2012, in terms of value of issuances, KSA was the leader in GCC

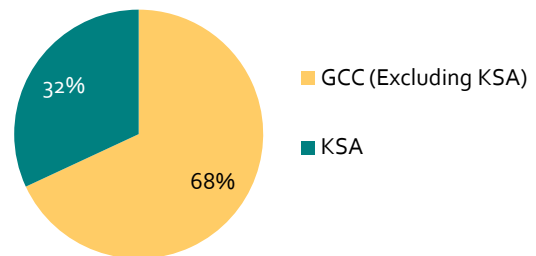
In terms of the number of sukuk issued so far, KSA accounts for nearly 27% of issuances in GCC. In terms of the value, KSA accounts for 32% of sukuk in the region. However, this trend is changing, with KSA being the biggest sukuk issuer in the GCC region for 2012.

Figure 10. Number of sukuk issued in KSA & GCC (%)



Source: Zawya, IFIS

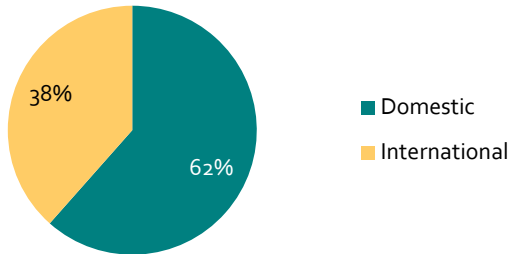
Figure 11. Value of sukuk issued in KSA & GCC (%)



Source: Zawya, IFIS

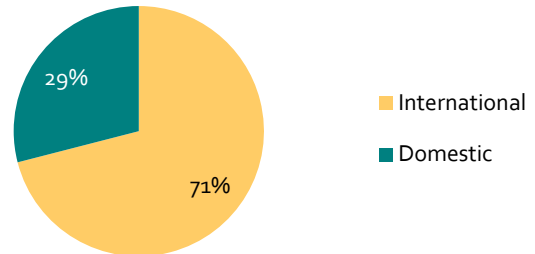
Domestic investors are the most prominent in KSA accounting for 62%. In GCC, International investors are most prominent and account for 71%.

Figure 12. KSA Sukuk breakdown by Market type



Source: Zawya. Note: Based on the number of issues

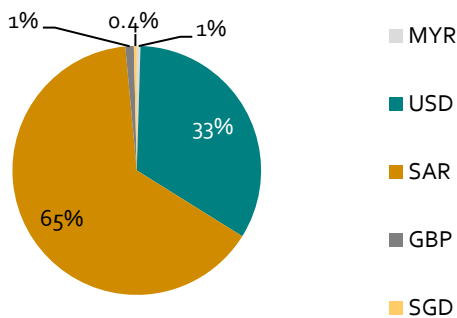
Figure 13. GCC Sukuk breakdown by Market type



Source: Zawya. Note: Based on the number of issues. KSA has been excluded

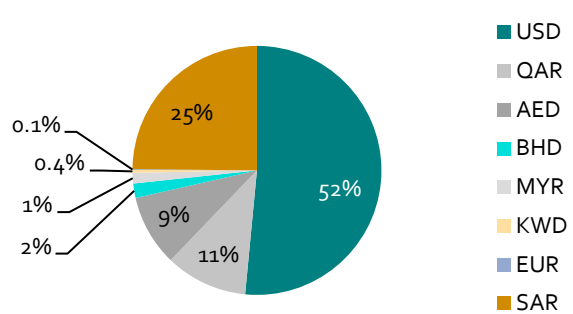
The currency of choice for issuance in KSA is the Saudi Riyal, accounting for 65% of issuances. In GCC, including KSA, USD-denominated sukuk constitute 52% of issuances, followed by SAR (25%).

Figure 14. KSA Sukuk breakdown by Currency



Source: IFIS. Note: Based on value of issues

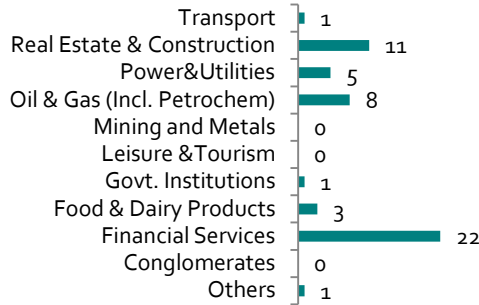
Figure 15. GCC Sukuk breakdown by Currency



Source: Zawya. Note: Based on value of issues

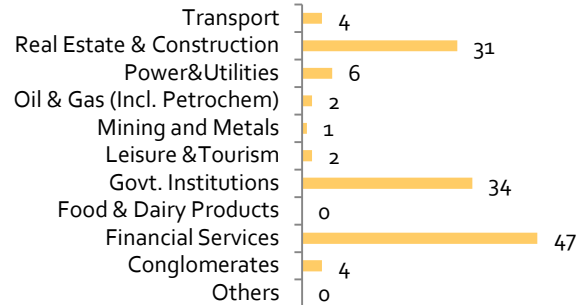
Most issuances in KSA and GCC are by the financial services and real estate sectors. Government institutions are active in GCC unlike KSA.

Figure 16. KSA Sukuk breakdown by Sector



Source: IFIS

Figure 17. GCC Sukuk breakdown by Sector



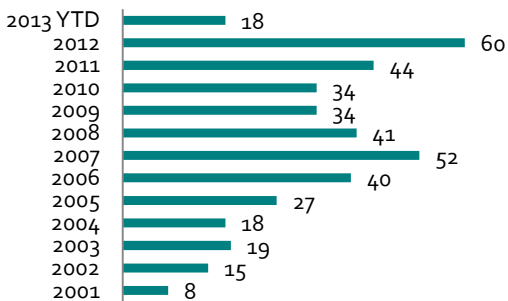
Source: Zawya, IFIS. Note: KSA has been excluded

5.1 Key trends in GCC Sukuk market

Sukuk issuance in GCC reached an all-time high in 2012

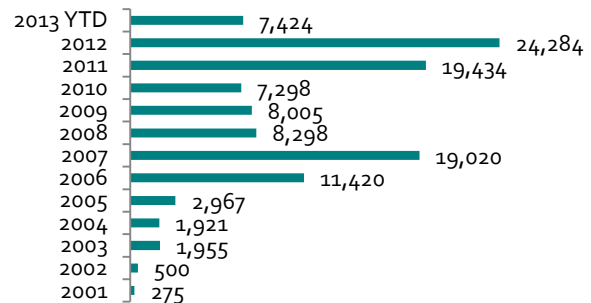
There are three distinct phases in the evolution of the GCC sukuk market. The first phase (2001 to 2007) coincided with the oil boom and global bull market; 44% of all sukuk till date were issued in this period. Only 27% of all sukuk till date were issued in the second phase (2008 to 2010) due to the global financial crisis. The third phase (2011 onwards) has been the best since 2001 in terms of sukuk issuance in the GCC region. There were 60 issuances in the year 2012, the highest so far. Also, the value of issuances touched a new record, breaking 2007 levels by a significant margin. The year 2013 has started with a bang, with 18 issuances already in the first 3 months. This can be ascribed to the huge fiscal push from GCC members, low interest rates, and high and stable crude prices.

Figure 18. Historic issuance data in GCC since 2001



Source: Zawya, Note: YTD – Until March 21, 2013

Figure 19. Issuance value in GCC since 2001 (USD million)



Source: Zawya, Note: YTD – Until March 21, 2013

5.2 Major GCC sukuk

Qatar's USD9 billion sukuk is the largest issue in GCC, followed by KSA's USD4 billion sukuk

UAE has the most number of issuances worth USD1 billion and more in the GCC; it is closely followed by Qatar and KSA. Most sukuk in KSA are issued by corporate; in contrast, sukuk issuance in other GCC nations is usually by the sovereign. However, growth in sukuk likely to be led by KSA and Qatar given that quasi-sovereign issuances are increasing and credit growth is strongest in these countries. The largest sukuk issued so far has been the Qatar Sovereign Sukuk 2014 by Qatar Central Bank in 2011. The USD9 billion sukuk has 3-year tenure and with an Ijarah structure. KSA's USD4 billion GACA Guaranteed Senior Sukuk is the second largest issuance until date. It has 10-year tenure and has Murabaha structure.

Figure 20. Largest sukuk issuances since 1996

Issuer Name	Country	Subsc. Date	Issue Size (USD million)
Qatar Central Bank	Qatar	17-Jan-11	9,064
General Authority of Civil Aviation	Saudi Arabia	10Jan12 - 15Jan12	4,000
Nakheel Development Limited	UAE	Deco6 - 14Deco6	3,520
Dubai Customs	UAE	14Jan06 - 23Jan06	3,500
Aldar Funding Limited	UAE	8-Mar-07	2,530
Saudi Basic Industries Corporation	Saudi Arabia	11Jul07 - 25Jul07	2,133
Jafz Sukuk Limited	UAE	11Nov07 - 20Nov07	2,042
SoQ Sukuk A QSC	Qatar	11-Jul-12	2,000
SoQ Sukuk A QSC	Qatar	11-Jul-12	2,000
Saudi Electricity Company	Saudi Arabia	10-May-10	1,867
Saudi Electricity Company	Saudi Arabia	6-Jul-09	1,867
DP World Sukuk Limited	UAE	Jun07 - 02Jul07	1,500
Qatar Central Bank	Qatar	1-Jun-10	1,373
Saudi Basic Industries Corporation	Saudi Arabia	26-May-08	1,333
Saudi Electricity Company	Saudi Arabia	30Jun07 - 11Jul07	1,333
Saudi Electricity Global SUKUK Co.	Saudi Arabia	28-Mar-12	1,250
Dubai DOF Sukuk Limited	UAE	28-Oct-09	1,250
Dubai Sukuk Centre	UAE	01Jun07 - 13Jun07	1,250
ANKA'A Sukuk Limited	UAE	25-Aug-11	1,035
Sukuk Funding (No.2) Limited	UAE	17-Jun-08	1,021

Source: Zawya

6. Conclusion

The sukuk market in Saudi Arabia has seen tremendous growth last year, with over USD10 billion in new issuances. This has catapulted KSA to second position, after Malaysia, in terms of global sukuk issuances in 2012.

In the beginning of 2012, GACA set the much needed benchmark for the market with the first sovereign issuance. This was followed by issuances from a number of banks and corporates, enabling the sukuk market to sustain the momentum.

Demand for sukuk from different classes of investors remains strong, with several issues being oversubscribed. Sukuk issuers have been able to achieve favorable pricing due to ample liquidity in the Kingdom. We expect the growth momentum in the sukuk market to continue, as evident from the issuance activity in the first four months of 2013; Saudi Arabia has witnessed over USD5 billion issuances so far this year. The momentum is estimated to remain strong, with another USD4 billion in the pipeline comprising high-quality corporate and quasi-sovereign issuances. We believe the Saudi Arabian sukuk market will see sustained growth, driven by favorable market conditions and growing awareness among investors and issuers.

7. Appendix

7.1 KSA Sukuk Data- Domestic issuances since 2011

Figure 21. KSA sukuk issuances since 2011 (SAR Denominated only)

Date	Issuer	Amount (SAR Million)	Tenure	Maturity
Apr-13	Sadara	7,500	16y	Apr-29
Mar-13	Al-Marai 2	787	7Y	Mar-20
Mar-13	Al-Marai 2	513	5Y	Mar-18
Mar-13	SBG 5	1,300	2.5Y	Sep-15
Jan-13	Savola	1,500	7Y	Jan-20
Dec-12	Saudi ORIX	240	3Y	Dec-15
Dec-12	BSF	1,900	7Y	Dec-19
Nov-12	SHB 3	1,400	7NC5	Nov-19
Aug-12	SBG 4	1,000	1y	Aug-13
Jun-12	Olayan	650	5Y	Jun-17
May-12	Tasnee	2,000	7	May-19
Apr-12	AJIL	500	3Y	Apr-15
Mar-12	SABB	1,500	5Y	Mar-17
Mar-12	Al-Marai 1	1,000	7Y	Mar-19
Jan-12	GACA	15,000	10y	Jan-22
Oct-11	Satorp	3,750	14y	Oct-25
Jul-11	SBG 3	1,000	1y	Jul-12
Jul-11	Sipchem	1,800	5Y	Jul-16
Apr-11	Al-Jazira	1,000	10NC5	Mar-21

Source: IFIS, Saudi Hollandi Capital

7.2 KSA Sukuk Data- International issuance since 2011

Figure 22. KSA sukuk issuances since 2011 (International issuance only)

Date	Issuer	Currency	Amount (USD million)	Tenure	Maturity
Apr-13	Saudi Electricity Global Sukuk Co. 2	USD	1,000	10y	Apr-23
Apr-13	Saudi Electricity Global Sukuk Co. 2	USD	1,000	30y	Apr-43
Oct-12	IDB Trust Services Limited	USD	500	5Y	Oct-17
Oct-12	IDB Trust Services Limited	USD	300	3Y	Oct-15
Aug-12	IDB Trust Services Limited	GBP	162	3Y	Aug-15
Jun-12	IDB Trust Services Limited	USD	800	5Y	Jun-17
May-12	BSF Sukuk Limited	USD	750	5Y	May-17
Mar-12	Saudi Electricity Global SUKUK Co.	USD	1,250	5Y	Mar-22
Mar-12	Saudi Electricity Global SUKUK Co	USD	500	10y	Mar-17
Jan-12	IDB Trust Services Limited	GBP	156	5Y	Jan-17
May-11	IDB Trust Services Limited	USD	750	5Y	May-16
Feb-11	IDB Trust Services Limited	GBP	94	5Y	Feb-16

Source: IFIS

7.3 KSA Sukuk Pipeline- Announced and Rumored

Figure 23. KSA Sukuk Issuances – Announced and Rumored

Status	Issuer Name	Currency	Subsc. Date	Issue Size (USD million)	Margin	Tenure
Announced	Riyad Bank	-	-	-	-	-
Announced	National Commercial Bank	-	2013	-	-	-
Announced	ACWA Power International	-	2013	800	-	-
Announced	Saudi Arabian Mining Company	-	2013	-	-	-
Announced	General Authority of Civil Aviation	SAR	2013	3,199	-	-
Announced	Al Aqeeq Real Estate Development Co.	SAR	2013	187	-	-
Announced	Kingdom Holding Company	SAR	2013	-	-	-
Rumored	Deutsche Gulf Finance	-	2013	-	-	-
Rumored	Ahmed Salem Bugshan (ASB)	-	2013	100	6 months LIBOR + 125 bps	5 Years
Rumored	Arab Petroleum Investments Corporation	-	2013	-	-	-
Rumored	Saudi Basic Industries Corporation	-	2013	-	-	-
Rumored	National Industrialization Company	-	2013	-	-	-
Rumored	The National Shipping Company of Saudi Arabia	-	2013	-	-	-
Rumored	Dar Al Arkan Real Estate Dev. Co.	-	2013	-	-	-

Source: Zawya ; Note: Data as of April 24, 2013

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