

Sukuk popularity increasing in Qatar

QATAR

By Amjad Hussain

The appetite for Sukuk in Qatar has been on the rise, with US\$3.1 billion raised through eleven issuances of Sukuk in the first half of 2013.

The political turmoil in Egypt continues to have an effect on Qatari financial institutions with large exposure in that country. S&P recently downgraded the stand-alone credit profile of Qatar National Bank (QNB) from 'a-' to 'bbb+', citing QNB's acquisition of Nationale Société Générale Bank (NSGB) and the weak operating environment in Egypt. S&P however did also affirm QNB's 'A+' long-term and 'A-1' short-term counterparty credit ratings with a stable outlook.

The balance sheet of Qatar's Islamic banks is expected to grow to US\$100 billion by 2017 (up from US\$54 billion at the end of 2012) on the back of a surge in demand for local credit to finance government infrastructure and investment projects. The Islamic banking sector in Qatar has grown more quickly than the banking sector as a whole over the past few years as a result of the government's supportive measures, including the prohibition on Islamic windows for conventional banks.

Particularly between 2006-12, Qatar's Islamic banks grew their domestic loans and resident deposits by an average compound growth rate of 46% and 40%, respectively, versus 31% and 23% for the entire banking system, with conventional banks losing significant market share over the past few years. Consequently, the market share of Qatar's Islamic banks of domestic credit increased from 13% in 2006 to 25% at the end of 2012, while the share in resident deposits increased from 13% to 28% during the same period.

According to QNB's Qatar Economic Insight 2013, it is expected that Qatar's banking sector capitalization will comfortably meet the requirements of the introduction of Basel III. The Qatar Central Bank (QCB) last month sent a draft circular to banks on new Basel III capital rules which included requirements for the issuance of instruments such as hybrid bonds.

This would be particularly relevant for banks looking to boost their capital: such as Commercial Bank which has reportedly picked two banks to arrange a bond issue, and Doha Bank which is reportedly looking to sell a hybrid instrument as part of its plans to increase capital by 50%.

In other major project developments, the Qatar Electricity and Water Company (QEW) has signed a US\$450 million financing agreement for Qatar's RAF A2 Desalination Plant. Barwa Bank, Masraf Al Rayan and Qatar Islamic Bank (QIB) will each provide US\$90 million under an Islamic facility tranche totaling US\$270 million as well as Islamic hedging. Additionally, Qatar Islamic Bank will act as mandated lead arranger, Islamic facility agent and Islamic security trustee. The transaction will introduce a share of Islamic hedging under the form of a commodity-based profit rate swap for the first time in a project finance deal in Qatar.

Qatar's Islamic banks are expected to access the debt capital markets more in the next few years and raise longer-term funding as the contractual maturity of the deposits collected by these banks is very short-term, whereas the lending tenors are substantially longer. Accessing the debt capital markets more frequently should diversify Qatari Islamic banks' funding profiles. About 65% of the Islamic banks' total balance sheet is funded by customer deposits, whereas another 18% is funded through shareholders' equity.

Credit off-take has been slow as there have been some delays in awarding large projects in the beginning of this year and the Qatar Central Bank has been urging Qatari banks to diversify their lending portfolios. It is expected however that credit growth will accelerate in 2014 as the major infrastructure projects for the Qatar 2022 FIFA World Cup commence. The participation of two Qatari Islamic banks (Barwa Bank and QIB) in a US\$580 million financing of the construction of the major segment of Qatar Rail's Doha metro project is a sign of things to come. ☺

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