



October 2019

UAE Corporate Earnings – H1 2019

*Earnings decline in H1 2019;
expected to moderate for full year 2019*



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Report Highlights

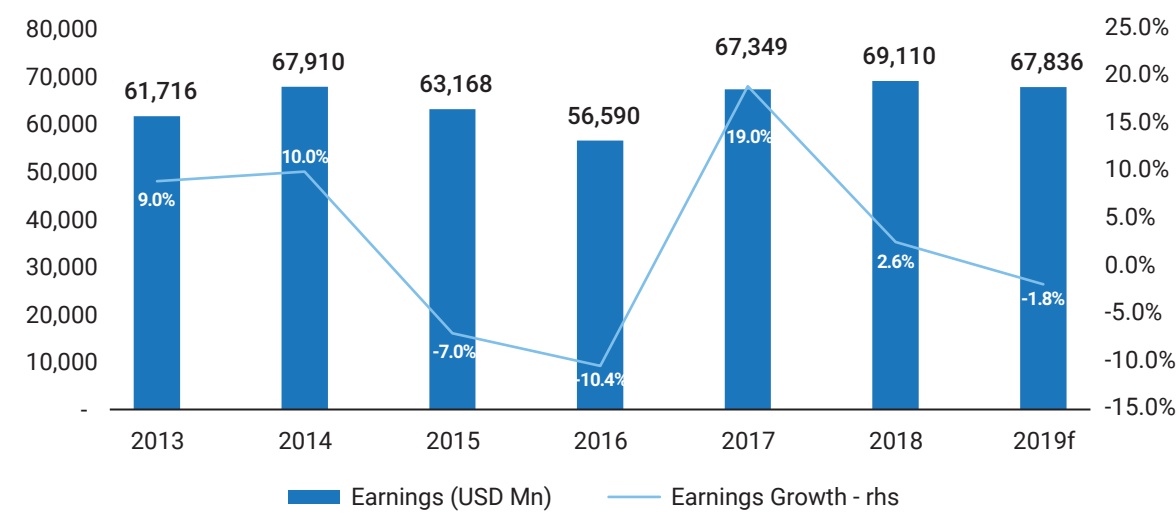
GCC

- GCC corporate earnings for the H1 2019 declined by 13.3% when compared with the same period for 2018.
- This was despite 4.5% growth in earnings of banking sector in H1 2019.
- Majority of sectors registered a decline in earnings, with commodities sector leading the rest with a decline of 57.8% followed by earnings for conglomerates which declined by 46.4% in H1 2019.
- Going ahead, for the full year, we expect GCC earnings to remain subdued and decline by 1.8% as consumer and business sentiments remain weak amidst concern of economic slowdown globally and rising geopolitical tensions in the region.

United Arab Emirates

- The banking sector performed well with earnings growth of 9.8% in H1 2019, however real estate sector earnings were declined by 32%.
- On an overall basis, U.A.E companies recorded a decline of 8.5% in earnings during H1 2019 however we expect them to be better with a moderate growth of 2% for the full year 2019.

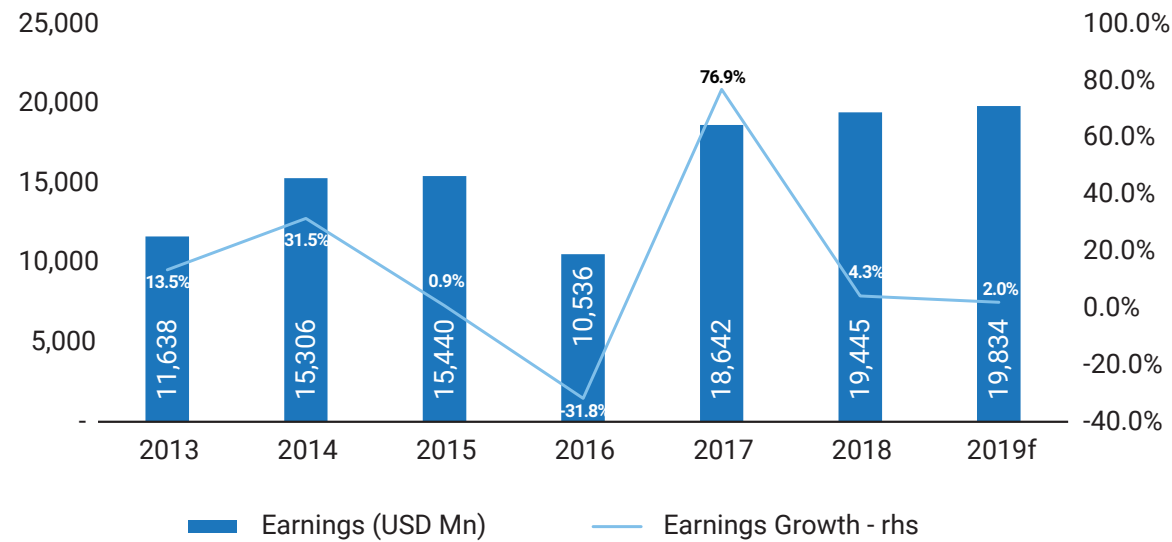
Figure 1.1: Earnings Trend – GCC



Source: Reuters Eikon, Markaz Research

H1 2019 GCC Corporate Earnings¹

Figure 1.2: Earnings Trend – UAE



Source: Reuters Eikon, Markaz Research

GCC Corporate earnings declined by 13.3% during first half of 2019 when compared to the same period year ago. Barring Kuwait and Oman all other GCC countries registered a decline in corporate earnings for the first six months of 2019. Corporate earnings increased by 7% and 2% respectively for Oman and Kuwait. Saudi Arabia registered the worst decline in corporate earnings among GCC nations, tumbling by 24.3% for H1 2019. The drag in corporate earnings of Saudi Arabia primarily came from the fall in earnings of commodities sector that declined by more than half for H1 2019 compared to same period in previous year. Apart from Saudi Arabia, UAE and Qatar declined by 8.5% and 6.4% respectively. Across countries Telecom and Banking sector were the only two sectors that showed some resilience to economic slowdown in the region and registered single digit growth of 6.5% and 4.5% respectively.

Table 2.1: Earnings Growth (yoy) - Country-wise Trend (2019)

| Positive growth | Negative growth |
|------------------------------|----------------------|
| Oman (9.5%) | Saudi Arabia (-6.1%) |
| Kuwait (4.4%) | Bahrain (-6.8%) |
| UAE (2.0%) | Qatar (-2.8%) |
| Aggregate GCC (-1.8%) | |

Source: Marmore research

The oil price recovery in the beginning of the year was wiped off as growing concern surrounding trade war affected the business and consumer sentiments and lowered the aggregate demand for oil globally. Low oil prices will mean that fiscal requirements will remain at large in the region. Various infrastructure projects that were planned still remain yet to be awarded. The planned projects worth over USD 2.5tn across GCC remain yet to be awarded. Lower activity in private sector primarily due to softening of real estate prices and economic slowdown globally continue to adversely impact the earnings growth in GCC region.

Table 2.2: GCC Earnings Growth (yoy) – Sectoral Trend (2019)

| Positive growth | Negative growth |
|------------------------------|----------------------|
| Construction related (33.0%) | Commodities (-26.2%) |
| Telecom (7.9%) | Real estate (-10.3%) |
| Conglomerates (5.8%) | Others (-3.9%) |
| Banks (3.7%) | |
| Financial services (2.6%) | |
| Utilities (1.8%) | |

Source: Marmore research

¹ Report considers earnings available as of 16th September, 2019 on Reuters; we have considered net income before extraordinary items as earnings.

The consolidated top-line for GCC corporates declined at a rate of 2.6% in H1 2019. We expect it to slightly improve with full year earnings for 2019 down by 1%. Profit margins that stood at 15.6% for 2018 is likely to come down marginally to 15.4% for 2019. Banks will continue to dominate the profit margins leaderboard with a margin of 32.5% for 2019, an improvement from 32.1% seen in 2018.

Table 2.3: GCC Revenue growth (yoy) - Sectoral Trend (2019)

| Positive growth | Negative growth |
|------------------------------|----------------------------|
| Construction related (42.0%) | Conglomerates (-15.3%) |
| Telecom (4.9%) | Commodities (-13.3%) |
| Banks (2.4%) | Utilities (-10.0%) |
| Others (0.4%) | Real estate (-0.7%) |
| | Financial services (-0.7%) |

Source: Marmore research

United Arab Emirates

UAE’s overall earnings shrunked by 8.5% during H1 2019, mainly due to continued underperformance of real estate sector. Real Estate sector’s earnings growth contributes the most after banking sector to overall corporate earnings in UAE. Weak commodity prices also contributed to lower profitability. UAE banks on the other hand, registered the highest growth among its regional peers, with a growth rate of 9.7% in H1 2019 compared to same period a year ago.

Table 2.4: UAE Earnings growth (yoy) - Sectoral Trend (2019)

| Positive growth | Negative growth |
|-----------------------------|-----------------------------|
| Others (9.0%) | Financial services (-12.0%) |
| Construction related (8.0%) | Real estate (-12.0%) |
| Banks (4.0%) | |
| Commodities (2.0%) | |
| Telecom (2.0%) | |
| Utilities (2.0%) | |

Source: Marmore Research,

Note: Conglomerates sector had negative earnings in 2018 therefore growth can’t be calculated.

First Abu Dhabi bank (FAB), the largest bank by market cap and assets in UAE posted H1 2019 net profit of USD 1.7bn, a growth of 4.5% over the comparable period year ago. Total customer deposits also increased by 7% y-o-y to USD 126bn. Net interest margin declined by 24 basis points to 2.21% mainly due to the deployment of surplus funds into the ECB in order to generate profit through the swap markets.

Emirates NBD delivered a strong set of results with net profit of USD 2.0bn in H1 2019, up 49% y-o-y driven by strong asset growth and higher fee income. The results also include a oneoff gain on disposal of a stake in Network International worth USD 0.6bn. Net interest income increased by 10% y-o-y while Non-interest income surged by 20% y-o-y as a result of higher foreign exchange revenue and growth in investment banking activities.

Earnings in real estate sectors slumped on the back of a weak economic environment with negative sentiment impacting activity levels and sales realizations. The construction industry was plagued by delayed cash cycle leading to significant losses which resulted in sharp drop in earnings by 39%. Emaar Properties, Dubai’s largest listed real estate player, reported a 52% gain in H1 2019 revenue to USD 2.57bn while net profit declined by 3.7% to USD 847mn. Rising supply from new developments and modest demand dragged down property prices in Dubai. As of Jun, 2019, the sales backlog amounted to USD 13.4bn that will be recognised into revenues over the course of next four years.

Appendix

Large cap shares form the top 82.7% of the total market capitalization in UAE, while mid cap and small cap form 10% and 7.3% respectively.

Table 3.1: Summary of Top 20 companies by M. Cap in Saudi Arabia

| Rank | Company Name | M Cap (USD bn) | H1-2019 | |
|------|--|-------------------|-------------------|--------------------|
| | | | Revenue growth | Earnings growth |
| 1 | First Abu Dhabi Bank | 45.5 | 2.3% | 4.5% |
| 2 | Emirates Telecommunications Group Co | 39.0 | -1.3% | 3.1% |
| 3 | Emirates NBD Bank | 19.9 | 35.2% | 49.1% |
| 4 | Emirates Islamic Bank | 14.8 | 10.4% | 38.7% |
| 5 | Abu Dhabi Commercial Bank | 14.4 | 11.6% | -0.1% |
| 6 | DP World | 11.6 | 31.9% | 6.1% |
| 7 | Dubai Islamic Bank | 9.6 | 16.4% | 14.1% |
| 8 | Emaar Properties | 8.9 | -3.9% | -3.7% |
| 9 | Emirates Integrated Telecommunications Company | 7.0 | -5.3% | -5.4% |
| 10 | Emaar Malls | 6.8 | 5.9% | 2.5% |
| 11 | Abu Dhabi Islamic Bank | 5.3 | 6.1% | 5.8% |
| 12 | Aldar Properties | 4.6 | 14.7% | -8.3% |
| 13 | Emaar Development | 4.5 | -10.8% | -23.9% |
| 14 | Mashreqbank | 3.6 | 96.1% | 116.9% |
| 15 | Commercial Bank of Dubai | 3.0 | 13.7% | 25.0% |
| 16 | National Bank of Fujairah | 2.5 | 9.4% | 15.1% |
| 17 | International Holding Company | 2.5 | 47.8% | -39.6% |
| 18 | National Bank of Ras Al Khaimah | 2.1 | 7.1% | 29.0% |
| 19 | Dubai Financial Market | 2.0 | -9.5% | -21.4% |
| 20 | Invest Bank | 1.9 | -39.8% | na |

Source: Reuters Eikon, Marmore Research,

Note: Company ranked 20 incurred losses therefore earnings growth can't be calculated.

Authors

M.R. Raghu CFA, FRM, FCMA

Head of Research

+965 2224 8280

rmandagolathur@markaz.com

Rajesh Dheenathayalan, CFA

Manager - Research

+965 224 8000 Ext : 4608

RDheenathayalan@markaz.com

Arnav Singh

Analyst - Research

+965 2224 8000 Ext: 4624

Asingh@e-marmore.com

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For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait. **Email:** research@markaz.com ; Tel: 00965 1804800; Fax: 00965 22450647.