Saudi Arabia pulls down GCC Equities, Kuwait bucks the trend

Kuwait follows U.S. Fed rate cut for the first time in 2019

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Research Highlights
GCC Economic and Market Commentary for October, 2019

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GCC markets extended their losses for the third consecutive month in October, after the sell-off in Saudi Arabia. However, Kuwait bucked the trend by posting a gain of 0.7%. The decline in Saudi stocks during the month was fuelled by Fitch's downgrade of the country's credit rating due to increased geopolitical risk and the circulation of uncertain news over Saudi Aramco's IPO date. Global markets remained largely positive, with the U.S. equity markets touching record highs after the U.S. Fed decided to cut interest rates for the third time in 2019.

We see the following issues as key developments during the month of October:

1. **Kuwait Telecom Industry – Driving digital transformation –** The Telecom industry, being highly disruptive and competitive in nature, provides both problems and opportunities for Kuwaiti Telecom operators. With disruptive developments such as 5G in the horizon, operators will have to rediscover and modify their business models to sustain their customer base and emerge profitable in challenging operating conditions.

2. **Kuwait improves in Competitiveness and Ease of Doing Business Rankings -** Kuwait has been undertaking several reforms in the past few years to improve its competitiveness on a global level and make its business environment conducive for companies to operate successfully. As a result, Kuwait's rankings in global indices have shown a notable improvement.

3. **How does remittance cost in the GCC stack up with other regions?** GCC countries are well known to be some of the highest remitters in the world during recent years. Compared to other regions, the total cost of remittance in GCC countries is observed to remain much lower than other regions. These low charges could potentially add to the attractiveness of the GCC as a destination of choice for highly skilled expats.

GCC Market Commentary

GCC Market Trends – October 2019

Index	M. Cap (USD Bn)	Last close	2018 %	Oct - 19	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P GCC	-	108	8.4	-2.6	1.0	0.125	N.A	14.8	2.0	3.4
Saudi Arabia	485.1	7,744	8.3	-4.3	-1.1	0.065	723.9	16.3	1.8	4.1
Qatar	142.3	10,189	20.8	-1.7	-1.1	0.098	14.9	14.2	1.4	4.2
Abu Dhabi	141.8	5,108	11.7	1.0	3.9	0.092	30.6	12.8	1.4	4.9
Kuwait (All Share PR)	107.4	5,717	5.2	0.7	12.6	0.013	72.1	13.4	1.4	3.7
Dubai	78.7	2,747	-24.9	-1.2	8.6	0.122	48.7	6.8	0.9	4.5
Bahrain	25.1	1,523	0.4	0.4	13.9	0.045	1.9	10.3	0.9	4.6
Oman	13.1	4,000	-15.2	-0.4	-7.5	-0.010	5.3	8.3	0.7	7.1

Source: Reuters, Zawya, Note: * Average Daily Value Traded ** - 3-year daily return correlation with S&P 500 index

S&P GCC composite index fell by 2.6% for the month due to the weakness in Saudi markets. Abu Dhabi was the best performer in October, gaining 1.0%, followed by Kuwait and Bahrain, whose indices increased by 0.7% and 0.4% respectively. Saudi Arabia, Dubai, Qatar and Oman ended the October in negative territory, with their indices decreasing by 4.3%, 1.2%, 1.7% and 0.4% respectively.

Monthly returns heat-map of S&P GCC Composite index

S&P GCC	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	3.4%	3.7%	2.7%	2.8%	3.2%	-7.4%	8.1%	6.4%	-1.4%	-6.8%	-10.9%	-4.4%	-2.6%
2015	2.8%	4.4%	-6.9%	10.1%	-2.3%	-3.5%	0.1%	-13.2%	-1.1%	-2.7%	-2.3%	-2.4%	-17.3%
2016	-10.7%	3.7%	1.9%	5.7%	-5.1%	1.1%	-0.1%	-1.2%	-3.9%	2.2%	7.9%	4.2%	4.3%
2017	1.6%	-0.8%	-1.5%	-0.4%	-1.4%	3.2%	-0.4%	0.9%	-0.6%	-2.7%	-1.5%	3.4%	-0.4%
2018	5.3%	-2.5%	3.4%	2.9%	-0.4%	1.1%	2.2%	-2.5%	0.2%	0.1%	-2.0%	0.7%	8.5%
2019	6.8%	-1.0%	2.8%	4.4%	-5.6%	2.5%	1.1%	-5.8%	-0.7%	-2.6%			1.0%

Source: Reuters

Earlier during the month, investor sentiments in Saudi markets were affected by Fitch Agency's decision to downgrade Saudi Arabia's credit rating from A+ to A citing the escalation of Geopolitical risks. Furthermore, the circulation of news regarding the potential date for the IPO of Saudi Aramco triggered a selloff close to the end of the month as investors liquidated their holdings in other equities to make room for the much awaited share sale of Saudi Aramco. Consequently, Saudi markets fell during October and wiped out their yearly gains, closing the month with YTD losses of 1.1%.

Kuwait's All Share Index snapped its two-month losing streak, registering gains of 0.7% during October. Kuwait's improvement in Global Competitiveness and Ease of doing business rankings contributed to the positive sentiment, helping to rebound. Among Kuwait's Blue Chip companies, Zain and Agility emerged as the biggest gainers, outperforming their banking peers. Zain and Agility's shares gained 5.0% and 4.3% respectively in October. Consumer Services was the best performing sector in Kuwait, rising by 6.0% for the month while Consumer Goods was the worst performer, losing 6.4%. Despite a muted performance in October, Banking sector stocks remained the best performers in YTD 2019, with Boursa Kuwait's banking index registering yearly gains of 12.6% as of October end.

GCC Blue Chip companies excluding Kuwait, Masraf Al Rayan and First Abu Dhabi Bank were the top gainers for the month with their share prices rising by 5.9% and 1.2% respectively.

Global Market Trends – October 2019

Equity	Last close	MTD%	YTD%
S&P GCC	108	-2.6	1.0
MSCI World	2,234	2.5	18.6
S&P 500	3,038	2.0	21.2
MSCI EM	1,042	4.1	7.9
MSCI FM	945	0.6	4.4
Commodities			
IPE Brent	60.2	-0.9	12.0
Gold	1,513	2.8	18.0

Source: Reuters

The performance of Global equity markets were largely positive with the MSCI World Index gaining 2.5%. The U.S. juggernaut continued to roll as the S&P 500 extended its gains to 21.2% for YTD 2019, after a rise of 2.0% in October. The S&P 500 touched record highs on Oct 30th, after the U.S. Fed decided to cut its policy rates by 25 basis points to the range of 1.50% to 1.75%. However, the Central Bank also signaled that it may pause in its easing cycle. Concerns surrounding the conclusion of a Brexit deal affected U.K.'s markets, with the FTSE 100 index closing 2.2% lower during October. Emerging markets had a positive month, with the MSCI EM posting monthly gains of 4.1%.

Oil markets simmered down after the volatility witnessed in recent months, trading at a narrow range of between USD 56-62 per barrel during October. Oil prices closed at USD 60.2 per barrel at the end of October, which is 0.9% lower than September. Renewed optimism surrounding the progression of the U.S.-China trade deal have temporarily eased concerns on the demand side. However, OPEC continued to slash its demand forecast for the third month running, citing weaker than expected demand emanating from Asia Pacific and North American region.

Kuwait Telecom Industry – Driving digital transformation

The Telecom sector by nature is a highly competitive and disruptive sector that undergoes constant evolution. In the early eighties, Kuwait was an early bird in adopting telecommunication technology compared to its peers in the GCC, and also led the way with the establishment of Mobile Telecommunication Company (Zain), the first telecommunication company in the region. Notably, Kuwait was also one of the earliest adopters of internet in the region. This could be attributed to the tendency of Kuwait's population in adopting new technologies faster than other regional markets due to high spending per capita, higher literacy rate and large young, tech-savvy population. According to Kuwait's Telecom regulator Communication and Information Technology Regulatory Authority (CITRA), 99.6% of Kuwait's population is covered by LTE (a 4G mobile communications standard) mobile network and 99.7% of households in the country have access to the internet.

Kuwait's Telecom market consists of three major service providers. Zain is the market leader, having a customer market share of 37% in 2018. Zain is followed closely by Ooredo and Viva, which account for 32% and 31% of Kuwait's customer base in 2018. Kuwait is the most profitable market for the Zain group, having the highest Average Revenue per User (ARPU) among group companies. It also has the highest EBIDTA margins among Kuwaiti operators at 35% in 2018. The EBIDTA margins of Kuwaiti operators across the industry have fallen in the past two years due to intense price competition. The evolving nature of the telecom industry has led to a greater need for capacity building and maintenance, which has also led to margin contraction. The ARPU (Average Revenue per User) across operators has also witnessed a decline in the past few years. The Declining ARPU has been a global phenomenon that has strained the top and bottom line of telecom operators worldwide. However, the ARPU of Kuwaiti Telecom operators is much higher than the MENA average of approx. USD 9 (KD 2.7) and the Global average of USD 10 (KD 3).

Key Operating Metrics of Kuwait Telecom Service Providers

	Zain Kuwait	Ooredoo Kuwait	Viva
Customers Market Share	37%	32%	31%
Customers (000s)	2,606	2,311	2,952
Revenues (KD Mn.)	334	242	288
EBITDA (KD Mn.)	116	55	78
EBITDA %	35%	23%	27%
ARPU (KD)	7.9	5.7	-

Source: Zain, Ooredoo and Viva Annual Reports 2018

The next big disruption that is expected to affect the telecom sector is the adoption of 5G technology. The technology has attracted widespread interest as it is much faster, smarter and more efficient than 4G. Although mainstream adoption is expected to take some time, telecom operators need to be prepared in terms of physical infrastructure so that they are well positioned to capitalize when the eventual transition from 4G to 5G takes place. As of now, very few devices support 5G technology. With 5G being capital intensive, telecom operators in Kuwait will have to modify their business models to stay competitive and profitable. In addition to the physical infrastructure, appropriate regulations and a clear policy framework are required to allow a smoother transition.

In 2018, Kuwait concluded the auction for the spectrum in the band of 2.6 Hz and 3.5-3.6 GHz, which primarily caters to 5G. Zain announced in May 2019 that its network is fully ready for the commercial launch of 5G, becoming the first operator to do so in the region. Subsequently, the company launched the services in June for its post-paid customers. Kuwait's other major operators Ooredoo and VIVA followed Zain soon after its announcement and started offering their own 5G services.

Tougher operating environment, pressurized profit margins, expected increase in competition and resulting price wars may hit the Kuwaiti telecom sector in the future. The business dynamics in the Telecom industry has evolved within a short period of time from being voice-driven to data -driven, and is currently moving towards a model that is focused on developing a digital ecosystem by providing digital services to customers. In a world that has been exhibiting rapid progress in digital adoption, the telecom industry is expected to see disruptive developments like 5G within shorter cycles compared to what is being observed in other industries. Therefore it becomes imperative for Telecom operators in Kuwait to continue to rediscover and modify their business models to sustain a strong customer base and emerge profitable in challenging operating conditions.

Kuwait improves in Competitiveness and Ease of Doing Business Rankings

Kuwait has been undertaking several reforms in the past few years to improve its competitiveness on a global level and make its business environment conducive for companies to operate successfully. These reforms, which were undertaken in collaboration with several government entities, were in accordance with the National Vision 2035 and its developmental goals. In recognition of these positive developments, World Economic Forum and World Bank awarded better rankings for Kuwait in their latest iteration of Global Competitiveness Index and Ease of doing business Index respectively.

Kuwait was the biggest improver among MENA countries in the Global Competitiveness Index (GCI) 2019 based on the report issued by World Economic Forum. Kuwait advanced eight places to reach the 46th rank out of 141 countries, as compared to its 54th rank out of 140 countries. Out of the 103 components under the 12 GCI pillars in 2019 report, Kuwait witnessed an improvement in 45 components, whereas 14 components remained stable. Kuwait continued to maintain the top rank in the macroeconomic stability pillar.

Kuwait's performance in the Twelve Pillars of the GCI 2019

GCI pillars		2019 Rank	2018 Rank	YoY Change Rank
Overall		**46**	**54**	**8**
Enabling Environment	1. Institutions	65	57	-8
	2. Infrastructure	66	61	-5
	3. ICT adoption	37	62	25
	4. Macroeconomic stability	1	1	0
Human Capital	5. Health	12	38	26
	6. Skills	77	79	2
Markets	7. Product market	51	69	18
	8. Labour market	101	120	19
	9. Financial system	34	48	14
	10. Market size	54	54	0
Innovation Ecosystem	11. Business dynamism	94	96	2
	12. Innovation capability	108	103	-5

Source: World Bank Global Competitiveness Report 2019; Rank is out of 141 countries

Kuwait improvement was more pronounced in the following pillars:

- **ICT adoption** (2019 rank, 37 vs 2018 rank, 62) – Kuwait's improvement was backed by the improvement in Mobile cellular subscriptions from 124% to 179%, and the increase in internet users from 78.4% to 99.6% of the population.
- **Health** (2019 rank, 12 vs 2018 rank, 38) – Kuwait gained 26 spots as healthy life expectancy rate improved from 68.2 years to 70.7 years.
- **Financial system** (2019 rank, 34 vs 2018 rank, 48) – Sound financial conditions helped Kuwait improve by 14 spots. This was possible with improvements in domestic credit to private sector and a substantial increase in market capitalization.
- **Product Market** (2019 rank, 51 vs 2018 rank, 69) and **Labor Market** (2019 rank 101 vs 2018 rank 120) pillars, also witnessed considerable improvements in ranks.

The improvement seen in Kuwait's position in the GCI 2019 coincides with a similar improvement announced in the Ease of Doing Business Index 2020. The Doing

Business Team at the World Bank Group announced that Kuwait for the first time joined the group of top 10 improvers in the Ease of Doing Business Index 2020 out of 190 economies included in the Doing Business report, thanks to a comprehensive reform program over the past year. Kuwait was the seventh largest improver advancing 14 places from a rank of 97 in 2017/18 to 83 in 2018/19.

Economies are selected based on the number of reforms and on how much their ease of doing business scores have improved. The doing business report ranks countries based on distance to frontier (DTF), a score that shows the gap of an economy to the global best practice. The choice of the most improved economies is then determined by the largest improvements in the ease of doing business score among those with at least three reforms. This global index covers 10 key components that represent various dimensions of business regulatory environment for domestic enterprises. Kuwait's improvement was noticed in the following aspects:

- **Starting a business**
  Kuwait made starting a business easier by merging procedures to obtain a commercial license and streamlining online company registration.
- **Dealing with construction permits**
  Kuwait made dealing with construction permits easier by streamlining its permitting process, integrating additional authorities to its electronic permitting platform, enhancing interagency communication, and reducing the time to obtain a construction permit.
- **Getting electricity**
  Kuwait made getting electricity easier by digitizing the application process, streamlining connection works and meter installations, and using a geographic information system to review connection requests.
- **Registering property**
  Kuwait made property registration easier by streamlining the inspection and registration processes. Kuwait also improved the quality of its land administration system by publishing official service standards on property transfers.
- **Getting credit**
  Kuwait improved access to credit information by guaranteeing borrowers the legal right to inspect their credit data and offering credit scores as a value-added service to banks and financial institutions.
- **Protecting minority investors**
  Kuwait strengthened minority investor protections by providing a 21-day notice for general assembly meetings.
- **Trading across borders**
  Kuwait made trading across borders easier by improving the customs risk management system and by implementing a new electronic clearance system

Almost all the GCC peers, except for UAE, have demonstrated a performance improvement with Saudi Arabia landing on the top of the top ten improvers list amongst the 190 countries compared in this report, whereas Bahrain was the fourth largest improver.

The underlying significance of these improvements is that it directly and indirectly contributes to making Kuwait's investment climate more attractive and supports the attainment of the national vision 2035 and its developmental goals. With business procedures now more simplified in Kuwait, the state will be able to lure foreign investment, pushing it closer towards its goal of becoming an attractive destination for foreign companies.

How does remittance cost in the GCC stack up with other regions?

Cost of remittance varies across GCC countries and is dependent both on the source and destination. Based on the average remittance cost across MTOs, it is observed that operators involved in transferring money from Qatar and Saudi Arabia have the highest remittance costs while that of Kuwait and the UAE have the lowest cost. For instance, the average cost of remittance of USD 200 from Qatar to India stands at 3.9% while that of Kuwait to India is 1.9%. Certain bilateral corridors involving Kuwait and the UAE have some of the lowest remittance costs in the world. In spite of having a relatively high remittance cost, both Saudi Arabia's and Qatar's remittance costs fall well below the global average cost of 7%. There is significant variation observed even among MTOs as well. In the case of remittance from Qatar to Bangladesh, one operator charges as low as 1.02% while another operators charges 12.42%.

Bilateral Remittances and costs – GCC outflows to major receivers (USD Mn.)

Receiver →	Bangladesh		India		Pakistan		Philippines	
Sender ↓	Remittance flow (USD Mn.)	Average Remittance Cost (%)	Remittance flow (USD Mn.)	Average Remittance Cost (%)	Remittance flow (USD Mn.)	Average Remittance Cost (%)	Remittance flow (USD Mn.)	Average Remittance Cost (%)
Bahrain	190	1.8	1,336	1.7	303	2.0	224	N.A.
Kuwait	700	1.7	4,587	1.9	1,062	1.3	922	1.7
Oman	277	2.4	3,250	3.0	401	2.2	109	N.A.
Qatar	438	3.8	4,143	3.9	481	3.0	1,301	3.3
KSA	3,252	2.5	11,239	3.5	5,781	4.0	3,686	3.5
UAE	2,413	1.2	13,823	1.9	5,670	1.9	4,109	1.7

Source: World Bank; Note – Average Remittance cost is for sending USD 200, Average remittance cost is for Q1 2019 & Remittance flow is for 2017 (latest available), N.A. – Not Available

GCC countries have often featured among the biggest remitters in the world over the years, thanks to high demand for foreign labor, competitive wages, restrictions on asset ownership and a nearly tax-free environment. 'Remittances' generally refers to money sent from foreign-born individuals in a country to others abroad. The remittance market in the GCC is substantially big with Saudi Arabia, UAE, Kuwait and Qatar contributing to a large part of the global remittance outflows and consistently featuring among the top 10 countries in terms of outflows during the past few years.

Monetary remittances to developing nations has witnessed a sharp rise over the last few years and are now, behind foreign direct investment, the second largest source of external financial flows to developing countries. Ideally, with the increase in remittance volumes and improvements in technology should reduce the remittance costs. However, when compared to the growth in remittance flows, the rate at which remittance costs have reduced has been much slower.

As most migrant workers who remit money back to their home countries belong to the low and middle income group, the cost of remittance becomes a critical component that needs to be taken into consideration. A very high cost of remittance would eat into the amount sent back home and potentially lead to the development of alternative channels or parallel black markets for remittance.

The cost of remittance has two components i.e. the remittance fee and the exchange rate spread and can vary depending on the country to which the transfer is done. The remittance fee for receiving, processing and paying out the cash transfer is collected from the sender by the sending agent. The exchange rate spread is the difference between the retail foreign exchange rate that the Money Transfer Operator (MTO) charges the sender and the more favourable wholesale foreign exchange rate that the MTO actually pays. The fee and the exchange rates differ based on the MTOs and the banks and lower charges are used as a key factor to attract more senders to use their remittance services.

In 2015, member states of the United Nations decided to adopt policies called Sustainable Development Goals (SDGs), which aimed to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. According to the SDG, member countries are expected to work towards reducing the remittance cost to a target of 3% by 2030. However, as of Q1 2019, the average cost of sending USD 200 to Low and Middle Income countries stood at 7%, which is more than double of the SDG target. Regionally, Sub-Saharan Africa, had the highest average cost at 9.3% during the same period.

The South Asian region, which comprises of India, Bangladesh, Pakistan and several other countries had the lowest average remittance cost amongst different regions, at 5.2% as of Q4 2018. Lower remittance costs could be attributed to high volumes, competitiveness among MTOs and the deployment of technology. These countries are among the highest remittance receivers from GCC countries. Similarly, Philippines, which also sees a high inflow from GCC countries had the lowest fees in the East Asia and Pacific Region.

Remittance has been a very profitable business for Exchange companies operating in the GCC region. For instance, based on the cost of remittance and the respective proportion of remittances across different corridors, the revenue generated by exchange companies in Kuwait stood at KD 59.1 mn in 2018, growing from KD 38.3 mn in 2012 at a CAGR of 7.5%. Their Net Profits for 2018 stood at KD 18.4 mn, also growing at a CAGR of 7.5% since 2012.[1]

Despite accounting for the variations among different operators and the relatively higher costs in economies like Qatar and Saudi Arabia, the overall remittance charges in the GCC remain in line or much lower than current global levels and the SDG target for 2030. These low charges could potentially add to the attractiveness of the GCC as a destination, which is something that GCC governments have been working upon through the initiation of reforms like permanent residence and long-term visas.

[1] Central Bank of Kuwait Statistics

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