



October 2019

# Saudi Arabia Corporate Earnings – H1 2019

*Earnings decline by 24.3% in H1 2019;  
bearish outlook for full year 2019*



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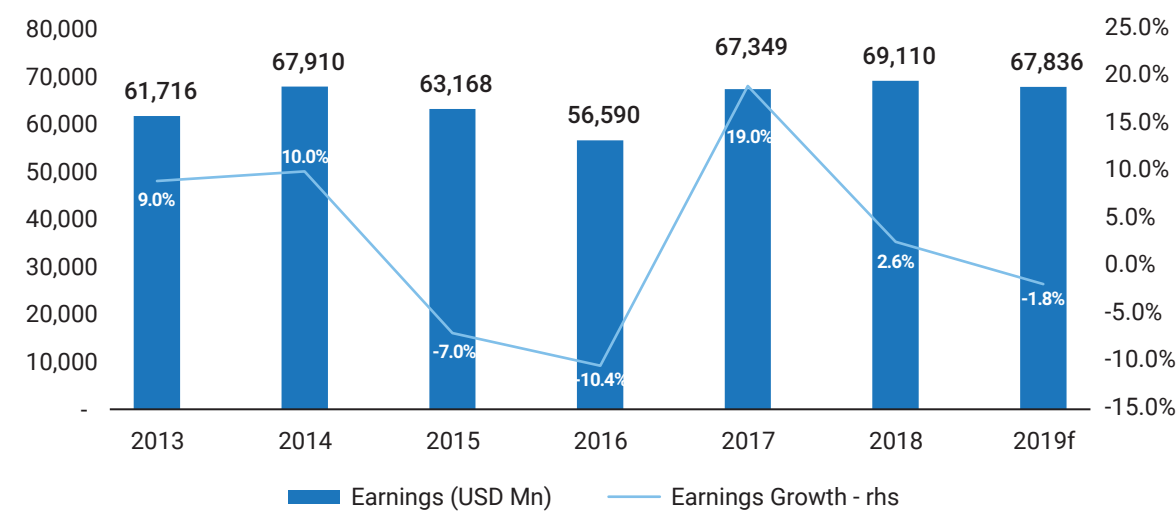
GCC

- 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.

Saudi Arabia

- In H1 2019, Saudi Arabia corporate earnings registered the highest decline among GCC countries. On an aggregate basis they decreased by 24.3%.
- Commodities sector earnings that is the second largest contributor of total earnings after banks in Saudi Arabia was the main contributor in the decline in total earnings. Commodities sector registered a fall in earnings of 61.8% in H1 2019 compared to same period last year. Earnings of banking sector remained muted as it only grew by a meagre 1.3%.
- Interestingly, Saudi telecom sector which is the third largest contributing sector in earnings registered a remarkable growth of 25% in H1 2019.
- We expect Saudi Arabia’s full year earnings to decline by 6.1% in 2019 as lower oil prices and lower oil production drag economic activity in the Kingdom.

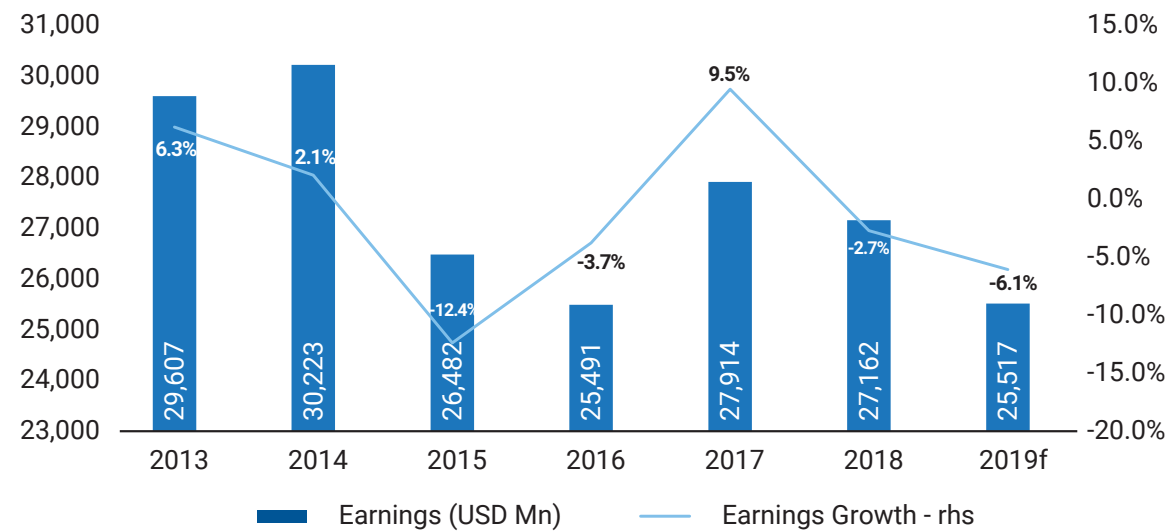
Figure 1.1: Earnings Trend – GCC



Source: Reuters Eikon, Markaz Research

## H1 2019 GCC Corporate Earnings<sup>1</sup>

Figure 1.2: Earnings Trend – Saudi Arabia



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%)
<b>Aggregate GCC (-1.8%)</b>	

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

<sup>1</sup> 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

### Saudi Arabia

Saudi Arabia witnessed the highest decline in corporate earnings of over 24% in H1 2019 among GCC countries. Corporate earnings during the period declined largely due to drop in earnings in its commodities, and financial services sectors.

**Table 2.4: Saudi Arabia Earnings growth (yoy) - Sectoral Trend (2019)**

Positive growth	Negative growth
Telecom (14.0%)	Commodities (-27.0%)
Real estate (6.0%)	Others (-10.0%)
Banks (3.0%)	Utilities (-10.0%)
Financial services (3.0%)	

Source: Marmore research

Saudi Basic Industries Corporation (SABIC), the largest company by market cap in the region reported a net profit of USD 1.47bn in H1 2019, a 55% decline year-on-year. The global economic slowdown and the simultaneous decline in petrochemical prices as a result of increase in supply resulted in lower prices of products which ultimately affected the bottom line.

Al Rajhi Bank, the largest bank in Saudi Arabia by market cap reported a net profit of USD 1.38bn for the first six-month period of 2019, 8.3% higher y-o-y. The growth is attributed to increase in operating income from yield income. The net profit margins improved by 55 basis points to 5.2% y-o-y as the bank focused more on mortgage income and higher investment portfolio balances. The net income of National Commercial bank was the highest among banks in Saudi Arabia for the first half of 2019 amounting to USD 1.46bn, a growth of 14.6% from the same period in 2018. Higher fees and commission income and simultaneous lowering of expenses contributed to the positive growth. Loans and advances rose 3.8% in the first six-month period of 2019 while customer deposits grew 3.1% for the same period in comparison to previous year. In the same period, Saudi banks in general have benefited from higher interest rates and a distribution of loans to support housing and government-related projects.

Saudi Telecom Co. (STC), the second-largest listed company in Saudi Arabia and the region by market capitalization, reported a net profit of USD 1.5Bn in H1 2019, a 11.3% rise y-o-y. For the first half of 2019, the company revenue reached USD 7.2bn, an increase of 6.1% y-o-y. The rise was attributed to operating efficiencies. As part of its growth strategy, STC officially launched the 5G network services in Saudi Arabia and have made it available to customers with more than 600 5G sites in the country.

# Appendix

Large cap shares form the top 83.3% of the total market capitalization in Saudi Arabia, while mid cap and small cap form 9.9% and 6.8% 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	Saudi Basic Industries Corporation	69.6	-14.0%	-54.7%
2	Saudi Telecom Company	52.9	6.1%	11.3%
3	Al Rajhi Banking & Investment Corporation	38.5	12.7%	8.3%
4	National Commercial Bank	33.1	5.6%	14.5%
5	Saudi Electricity Company	21.7	-4.1%	-210.8%
6	Riyad Bank	16.8	21.9%	69.6%
7	Saudi British Bank	16.4	9.9%	-52.5%
8	Samba Financial Group	13.7	9.1%	-16.0%
9	Saudi Arabian Mining Co	12.5	22.3%	-132.1%
10	Almarai Company	12.4	3.1%	-8.7%
11	Banque Saudi Fransi	9.7	0.9%	-9.0%
12	Arab National	9.0	6.5%	18.5%
13	Saudi Arabia Fertilizers Co	8.8	-13.0%	10.5%
14	Alinma Bank	8.0	13.6%	12.0%
15	Yanbu National Petrochemicals Company	7.8	-18.9%	-51.3%
16	Kingdom Holdin	7.3	3.5%	-18.3%
17	Jabal Omar Development Co	6.5	21.0%	na
18	Jarir Marketing Company	4.8	14.8%	5.5%
19	Bank Albilad	4.7	15.1%	15.2%
20	Etihad Etisalat Company	4.6	14.0%	na

Source: Reuters Eikon, Marmore Research

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