

GCC Stock Markets – A Tepid February

Performance of stock markets diverge

March 2019

Research Highlights

GCC Economic and Market
Commentary for Feb, 2019

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After a fabulous January where S&P GCC Index zoomed by nearly 7%, the month of February marked a pull back where the index retreated by 1%. At market level, some continued their upward trajectory (UAE, Bahrain and Kuwait) while others (KSA, Qatar and Oman) pulled back from their earlier rally. Globally, easing of U.S. China trade concerns and the prospect of reaching a trade deal buoyed the equity performance. In the FOMC meeting, U.S. Fed reiterated its stand to keep the interest rates on hold, which added further impetus to the rally. As a result, U.S. S&P 500 index extended its gain for the year to 11.1%. China's Shanghai A-Share index surged by 13.8% in February as conducive policy environment, easing concerns pertaining to trade war and improving sentiments resulted in increased inflows. Emerging markets continued the strong momentum during the month of February, retracing back by more than half from the decline in 2018. Brent crude also increased as the production cut led by Saudi Arabia and falling exports from Venezuela provided support.

We see the following four ideas as key developments during the month of February:

1. Boursa Kuwait Privatization

Boursa Kuwait was recently upgraded to Emerging Market status by FTSE with similar inclusions by MSCI and S&P DJI Indices expected in 2019. The inclusion reflects upon the various reforms that were taken by Capital Market Authority over the years. In a closed bidding process to privatize the Boursa Kuwait, a Consortium comprising of listed companies along with international market operator Athens Stock Exchange (ATHEX), have been awarded the bid for a 44% equity stake. Consortium partners will closely cooperate with the CMA and Boursa Kuwait towards the implementation of the common strategic goals. Post the deal, the new shareholding of Boursa Kuwait would include 6% stake by PIFSS, and remaining is likely to be sold to public through an IPO.

2. Low P/E Stocks – Search for Bargains in GCC Universe

With the economic recovery underway we have identified the list of companies that are undervalued as indicated by the low P/E ratio and may be a worthy addition in an investor's portfolio particularly those belonging to banking and real estate sector. The Real Estate sector especially in the UAE, seem to be undervalued with most of the companies trading at a P/E ratio which is lower than General Index which in itself is trading much lower than the P/E of the regional benchmark, S&P GCC index.

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3. Will permanent residency attract more investment in UAE'S real estate sector?

Real estate & construction sector that includes contribution from construction & building, accommodation & food services activities and real estate activities accounts for over 16% in the total GDP of UAE. The UAE property sector is expected to attract new wave of investors owing to the various initiatives introduced by the government. This includes the 10 year visas for expats, five year visas for retirees and 100% ownership for foreign businesses. The 5-year retiree visa for expats targets people over the age of 55 with real estate investments of AED 2mn or AED 1mn in savings or AED 20,000 monthly income to consider UAE as their long-term investment destination.

GCC Market Commentary

GCC Market Trends – Feb 2019

	M. Cap (USD Bn)	Last close	2018 %	Feb'19 %	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P GCC	893.6	113	8.4	-1.0	5.8	0.085	N.A	14.8	2.0	3.4
KSA	536.1	8,493	8.3	-0.8	8.5	0.043	2,350.24	16.5	1.9	3.7
Qatar	135.4	10,112	20.8	-5.7	-1.8	0.067	222.94	13.4	1.4	4.3
Abu Dhabi	139.5	5,138	11.7	1.8	4.5	0.070	210.26	12.6	1.3	4.9
Kuwait	97.5	5,825	7.8	0.5	3.0	0.027	25.79	14.1	1.3	3.7
Dubai	71.6	2,636	-24.9	2.7	4.2	0.075	192.52	7.2	0.9	5.9
Bahrain	22.8	1,413	0.4	1.5	5.6	0.053	1.11	9.4	0.8	4.8
Oman	12.8	4,144	-15.2	-0.5	-4.1	-0.012	2.39	9.0	0.8	7.2

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

The S&P GCC composite index, recorded a bullish start for the year with a January gain of 6.8%. It however wiped out some of these gains in February (-1.0%) closing the month with YTD gain of 5.8%. The performance of various indices diverged during the month with Dubai being the leading gainer, surging by 2.7% while Qatar index was 5.7% down for the month. Abu Dhabi, Bahrain and Kuwait also ended the month positively, gaining 1.8%, 1.5% and 0.5% respectively. Saudi Arabia's Tadawul and Oman's Muscat exchange accompanied Qatar exchange, registering a decline of 0.8% and 0.5% 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	Annual
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%	-2.5%
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%	-17.4%
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%	4.2%
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%	-0.5%
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%	8.4%
2019	6.8%	-1.0%											5.8%*

Source: Reuters | *YTD

Kuwait's market continued its steady start for the year in February. Oil and Gas sector was the key contributor rising by 5.9% during the month. Among the blue chips, Agility emerged to be the best performer in Kuwait, gaining 6.1% during the

month. Boubayan Bank on the other hand wiped out its gain in previous month as it declined by 5.9% during February. The bank received the approval from CMA to raise capital by 15.75% by issuing shares. National Bank of Kuwait on the other hand extended YTD returns to 4.8% and continue to benefit from restrictions on foreign ownership cap of 49% on domestic banks being lifted.

Dubai index's strong performance was driven by growth in earnings by banking sector. This is in stark contrast to a forgettable year of 2018 when the Dubai index declined by nearly one fourth. Among blue chip companies, First Abu Dhabi bank went up by 7.8% YTD post registering yoy growth of 32% in net income. Emirates NBD also registered a growth of 20% in net profits pushing the stock price up by 6.9% YTD. Qatar on the other hand had a remarkable year in 2018 but it lost the momentum in 2019 and was the top declining market among GCC nations in the month of February. Ezdan Holding was the worst performer, declining by 16.8% among the blue chip companies. The heavyweight, Qatar National Bank that has a market cap of over 36% of the total market cap in the country also declined by 4.9%

Saudi Arabia index cooled off in February, after outperforming its GCC peers and the Emerging market index during previous month. Saudi Arabia is in the process of introducing regulation to allow companies from other Gulf countries to list on its stock market. Nasdaq Dubai also launched futures trading based on FTSE Russell's Saudi Arabia equity indexes that tracks a group of 46 Saudi Arabian companies.

Global Market Commentary

Global Market Trends – February 2019

Equity	Last close	MTD%	YTD%
S&P GCC	113	-1.0	5.8
MSCI World	2,086	2.8	10.7
S&P 500	2,784	3.0	11.1
MSCI EM	1,051	0.1	8.8
MSCI FM	948	0.4	4.7
Commodities			
IPE Brent	66	6.7	22.7
Gold	1,313	-0.6	2.3

Source: Reuters

Globally, easing of U.S. China trade concerns and the prospect of reaching a trade deal buoyed the equity performance. In the FOMC meeting, U.S. Fed reiterated its stand to keep the interest rates on hold, which added further impetus to the rally. As a result, U.S. S&P 500 index extended its gain for the year to 11.1%. Trump also indicated towards extension of deadline of increasing tariffs on Chinese goods, citing significant progress across various key topics.

China market dominated the equity indices across the globe delivering spectacular returns to investors. Optimism surrounding trade relationship with U.S and stable yuan contributed to the positive sentiments. Average daily foreign inflows to China's Shanghai A share index reached a record high of over CNY 4bn (Chinese yuan) during the month of February with market surging by 13.8%. ChiNext, an independent market that offers platform for tech heavy and innovative enterprises registered its best month till date, surging by 25.1%.

Oil markets continued the strong rally for the second month in a row after a subdued performance in last quarter of 2018. Oil prices rose by 6.7% during the month. Oil price movement remains volatile however the production cuts led by Saudi Arabia and the falling exports from Venezuela pushed the price upwards as rise in production elsewhere fell short of balancing the market. Goldman Sachs predicts Brent crude oil price to touch \$70-\$75 price range during the year as the market is expected to further tighten in the coming months. The year-end targets are however at \$60 per barrel.

We see the following four ideas as key developments during the month of February:

1. Boursa Kuwait Privatization

Founded in 1983, Boursa Kuwait is one of the oldest stock exchanges in the GCC region. Led by various reforms over the years, Boursa Kuwait was recently upgraded to Emerging Market status with inclusion in FTSE Emerging All Cap Index with similar inclusions by MSCI and S&P DJI Indices expected in 2019.

After taking control of the Kuwait stock exchange in 2016, the Capital Markets Authority (CMA) introduced several measures to reform the capital market, which includes implementing T+3 settlement, relaxing listing rules, delisting companies deemed unsuitable for public investment and at the same time planning an IPO for the bourse itself.

CMA offered a tender to privatise the capital shares of Boursa Kuwait Securities Company. It also set the privatization percentages between 26% and 44% for Kuwait listed companies, along with an international market operator.

In a closed bidding process organised by the CMA, in February 2019, the Consortium comprising of listed companies Arzan Financial Group (ARZAN), First Investment Company (FIC), National Investments Company (NIC), along with international market operator Athens Stock Exchange (ATHEX), have been awarded the bid for a 44% equity stake in Boursa Kuwait. The Consortium offered 237 fils (€0.69) per share for the stake purchase, taking into consideration the future value of then privately managed bourse. This offer is about 172% higher compared to an offer of 138 fils per share by a consortium led by Commercial Bank of Kuwait which also included Boursa Madrid.

Based on Athens Stock Exchange press release, ATHEX's participation in Boursa Kuwait's equity stake is 0.8%, representing an investment of approximately €1 million. The total value of the transaction is expected to be around KD 18.9million.

Amount paid by the Consortium

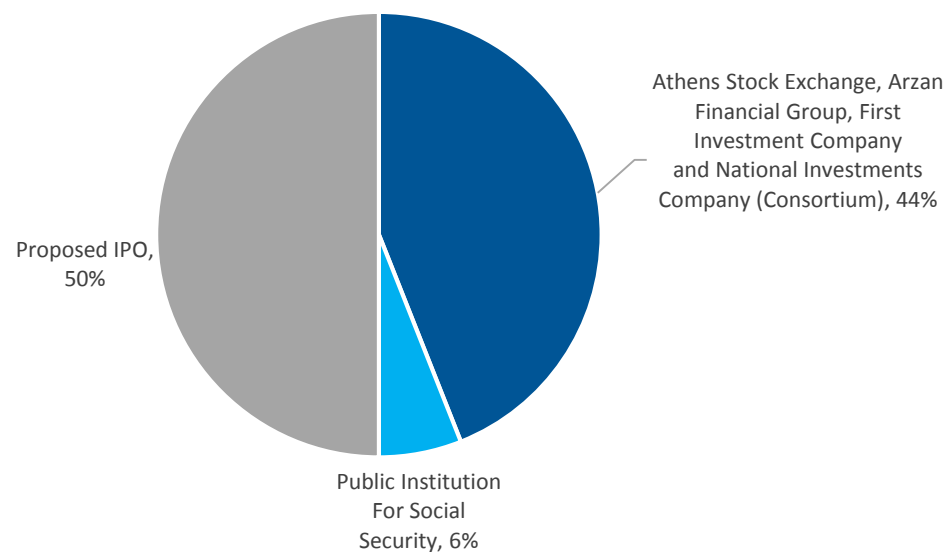
Athens Stock Exchange stake	0.80%
Amount (EUR mn)	1.0
Per share price (EUR)	0.69
Total shares bought (0.8% stake) (in mn)	1.4
Total outstanding shares (mn)	181.2
% shares bought by the consortium	44%
Total shares bought by the Consortium (mn)	80
Price per share paid (fils/share)	237
Amount paid (KD mn)	18.9

Source: Athens stock exchange, Marmore

Consortium partners will closely cooperate with the CMA and Boursa Kuwait towards the implementation of the common strategic goals. The Consortium intends to introduce a number of new products, services and systems that will be beneficial in increasing the capital inflow from both domestic and international investors.

Post the deal, the new shareholding of Boursa Kuwait would include 44% stake with the Consortium, 6% stake by the Public Institution for Social Security (PIFSS), and remaining is likely to be sold to public through an initial public offering (IPO) process. According to CMA, the IPO is expected to take place in the last quarter of 2019 or at the beginning of 2020.

Boursa Kuwait shareholding



Source: Marmore

2. Low P/E Stocks – Search for Bargains in GCC Large cap Universe

GCC stock markets are dominated by large caps that account for 73.4% of the total market cap. Being index movers, they normally attract attention both from domestic and foreign investors.

In our analysis, we have used the price to earnings ratio which is one of the most widely used metrics to arrive at a stock's valuation. P/E ratio can be used to determine whether a stock is under or overvalued by comparing with the P/E of other stocks/industry or other relevant benchmarks.

Out of the entire universe of large cap stocks (59 stocks) in the GCC region, we have shortlisted 10 large cap companies (Market Capitalization greater than USD 3 billion) that have the lowest P/E ratio. In this list, we see that there are 7 companies from UAE, and one each from Oman, Saudi Arabia, and Qatar. Also we notice that all of these 10 companies either belong to the Real Estate or the financial sector.

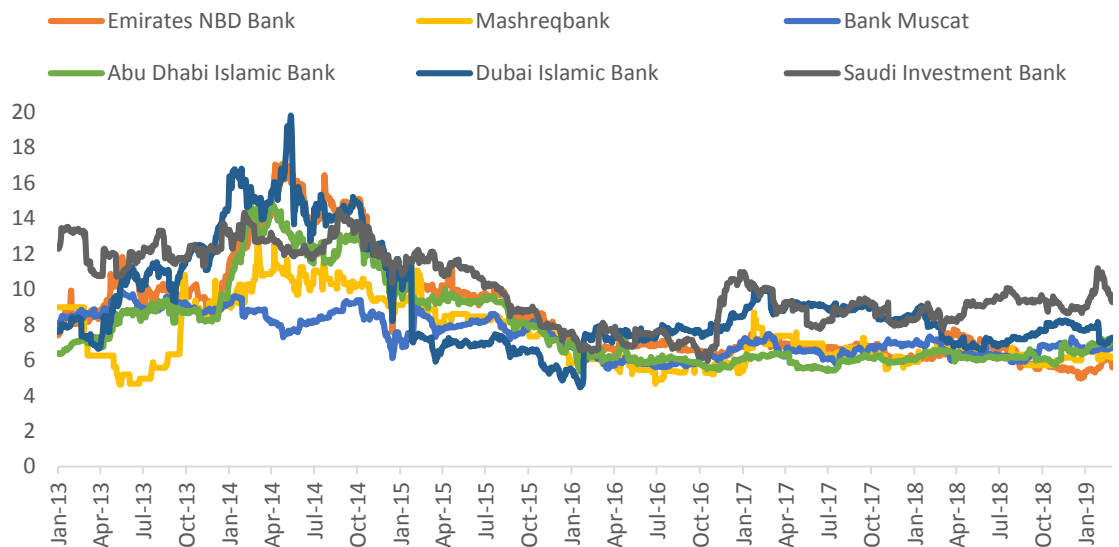
GCC Large Cap Bargain Stocks

Company	Country	Mkt Cap (USD Bn)	Sector*	P/E	Dividend Yield	Stock Performance (CAGR 2013-18)	Earnings Growth (CAGR 2013-18)	ADTV 52 Weeks (USD Mn)
Emaar Development**	UAE	4.3	Real Estate, (21.3)	5.1	-	-12.3%	42.2%	2.45
Emirates NBD Bank	UAE	15.4	Banking, (12.3)	6.0	3.9%	7.0%	25.3%	2.37
Emaar Properties	UAE	9.3	Real Estate, (21.3)	6.1	-	-6.0%	18.0%	9.69
Mashreq Bank	UAE	3.4	Banking, (12.3)	6.2	5.6%	-1.8%	2.7%	0.03
Bank Muscat	Oman	3.1	Banking, (12.3)	6.7	7.3%	-5.2%	3.4%	1.87
Abu Dhabi Islamic Bank	UAE	4.4	Banking, (12.3)	7.0	6.1%	-1.5%	11.5%	1.53
Dubai Islamic Bank	UAE	9.3	Banking, (12.3)	7.2	6.7%	2.8%	24.9%	5.73
Aldar Properties*	UAE	3.8	Real Estate, (21.3)	8.4	6.7%	-10.3%	-7.3%	3.67
Saudi Investment Bank	KSA	3.7	Banking, (12.3)	9.5	-	-4.0%	2.5%	3.0
Barwa Real Estate Company*	Qatar	4.1	Real Estate, (21.3)	9.8	6.4%	6.0%	-4.7%	3.28

Source: Reuters | *Figures in bracket is that sector's overall P/E | ADTV – Average daily traded value | ** Data available since 2016

As evident from the above table, while most of the companies have registered growth in earnings none of the companies have provided returns close to what an investor would have expected based on earnings growth.

Historic P/E trend for Banking firms (Since 2013)



Historic P/E trend for Real estate Companies (Since 2013)

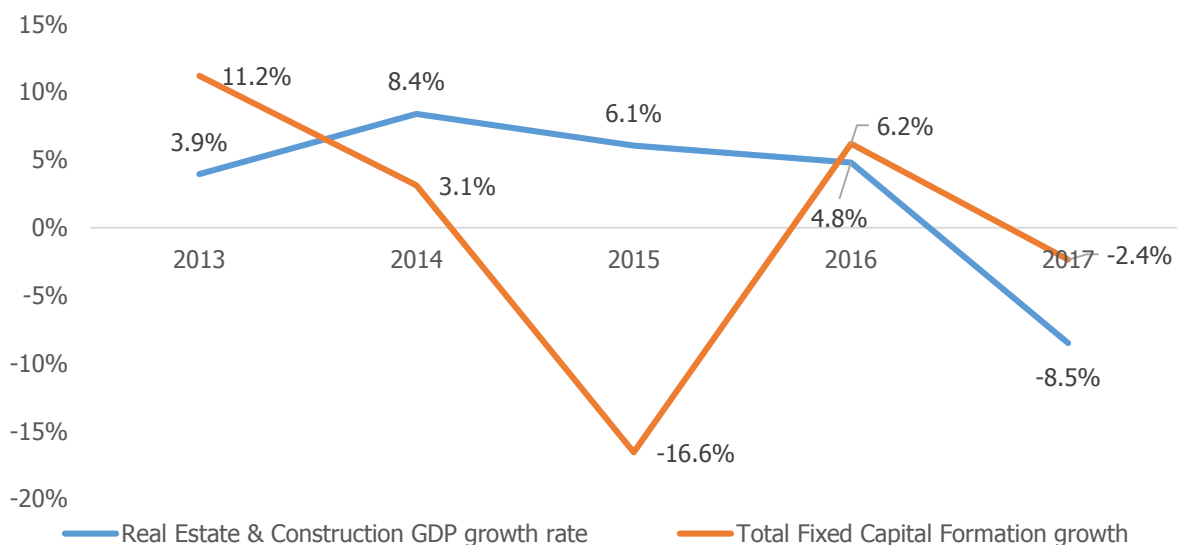


The combined earnings of banking sector in the GCC region has grown by 8.7% CAGR (2013-2018). While earnings for the real estate sector has grown by 6.7% during the same period. If we consider Emirates NBD for instance, the bank has shown a remarkable growth of 25.3% CAGR (2013-2018) in earnings while during the same period the P/E ratio for the bank has been declining. Similarly, Emaar properties has seen an earnings growth of 18.0% during the same period while the stock price has declined by 6% CAGR. The real estate sector especially in the UAE, seems to be undervalued with most of the companies trading at low single digit P/E ratios that are much lower than their benchmarks. This indicates that the sector may offer good investment opportunities particularly in those stocks that have seen a significant growth in earnings without similar growth in their stock price.

3. Will permanent residency attract more investment in UAE'S real estate sector?

Real estate & construction accounts for over 16% in the total GDP of UAE. The economic activity in the real estate & construction sector includes contribution from construction & building, accommodation & food services activities and real estate activities. The sector witnessed a decline in 2017 despite 8.5% growth in terms of real prices for accommodation and food services according to UAE's ministry of economy. S&P Global estimates that the Dubai real estate market would fall by 5-10 percent in 2019.

UAE Real Estate & Construction activity growth rate



Source: UAE Ministry of Economy Report 2018

Job creation in Dubai has taken a hit and existing employment is set to fall further in key sectors. With a loss of over 20,000 jobs in white-collar categories like services and communications in 2018, there is a decline in rents, in both residential and commercial real estate segment. Persistent supply and the resultant demand-supply imbalances have caused a decline in rents by 15% in 2018.

While the Government has responded with a slew of measures to support the real estate market, the impact of policies are expected to play out over the long-term. Some of these measures are the introduction of the 10 year visas for certain professionals, five year visas for retirees and 100 percent ownership for foreign businesses.

The 5-year retiree visa for expats targets people over the age of 55 with real estate investments of AED 2mn or AED 1mn in savings or AED 20,000 monthly income to consider UAE as their long-term investment destination. The decision to allow 100% foreign ownership of onshore companies is expected to benefit the manufacturing and services sectors. This will in turn directly increase the demand in the real estate market, in terms of office space, residential units and hospitality for business travelers as well as retail spending.

Further, initiatives like dual licensing that allows companies to qualify for more relaxed licenses is now being implemented in Abu Dhabi. This will create more opportunities within Abu Dhabi, increasing the demand for office space and

housing. The reforms would attract and retain human capital, which will boost the investment and population growth, thus supporting the economic diversification process.

The leasing rates in the office, retail and apartment markets all rely on increasing economic activity to create demand for business properties and apartments for expatriate workers. With the legislations providing a long term legal clarity, expatriates who earlier opted to rent property in the UAE could now consider buying both commercial and residential property.

However, for the residential segment, the legislative measures by UAE government related to visas will gradually add support to the residential demand. With the government's policy reforms and a higher oil price, there exists the possibility of recovery of the real estate sector.

Appendix

MENA Market trends

Index	M. Cap (USD Bn)	Last close	2018 %	Jan'19 %	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P Pan Arab Index~	106.7	136	-7.6	1.1	5.7	0.062	N.A	13.3	1.28	4.70
Saudi Arabia	536.1	8,493	8.3	-0.8	8.5	0.067	2350.2	16.5	1.90	3.67
Qatar	135.4	10,112	20.8	-5.7	-1.8	0.043	222.9	13.4	1.35	4.33
Abu Dhabi	139.5	5,138	11.7	1.8	4.5	0.070	210.3	12.6	1.34	4.91
Kuwait All Share	97.5	5,231	7.8	0.5	3.0	0.027	25.8	14.1	1.26	3.73
Dubai	71.6	2,636	24.9	2.7	4.2	0.075	192.5	7.2	0.90	5.90
Egypt	44.0	1,421	11.1	4.7	11.2	0.073	713.6	12.8	1.93	4.36
Morocco	60.2	11,137	-8.3	-1.9	-2.0	0.058	N.A	17.4	2.58	4.14
Jordan	22.1	3,920	-5.7	1.2	3.7	0.003	N.A	14.2	1.28	4.74
Bahrain	22.8	1,413	0.4	1.5	5.6	0.053	1.11	9.4	0.85	4.79
Oman	12.8	4,144	15.2	-0.5	-4.1	-0.012	2.39	9.0	0.76	7.18

Source: Reuters,

Note: * Average Daily Value Traded ** - 3-year daily return correlation with S&P 500, ~ S&P Pan Arab Composite Large Mid Cap Index

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about marmore

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Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making.

Our aim

Advocate intellectual research on MENA economics, businesses and financial markets and provide customized, actionable solutions.

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- » A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- » Markaz research activities commenced in 2006
- » Marmore established in 2010 to intensify the research activities
- » Publishes research reports and provides consulting services

published research

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- » Step 4: Fieldwork / research
- » Step 5: Analysis & reporting
- » Step 6: Review & approval
- » Step 7: Report submission / presentation

**RESEARCH
PROVIDER
OF THE YEAR**



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