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MARKAZ

GCC Stock Market Outlook 2020
P 18

GCC Fixed Income Outlook 2020
P 29

January 2020

GCC Market Outlook 2020

Rank	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10Y Returns (CAGR)
1	Qatar 24.8%	Oil 13.3%	Dubai 19.9%	Dubai 107.7%	Qatar 18.4%	Abu Dhabi -4.9%	Oil 52.4%	Oil 17.7%	Qatar 20.8%	Kuwait 23.7%	Kuwait 1.2%
2	Oil 21.6%	Qatar 1.1%	Abu Dhabi 9.5%	Abu Dhabi 63.1%	Bahrain 14.2%	Kuwait -14.1%	Dubai 12.1%	Bahrain 9.1%	Abu Dhabi 11.7%	Oil 22.7%	Abu Dhabi 0.7%
3	S&P GCC 12.8%	KSA -3.1%	KSA 6.0%	Kuwait 27.2%	Dubai 12.0%	Bahrain -14.8%	Oman 7.0%	Kuwait 5.6%	S&P GCC 8.4%	Bahrain 20.4%	Qatar 0.7%
4	KSA 8.2%	S&P GCC -8.2%	Oil 3.5%	KSA 25.5%	Abu Dhabi 5.6%	Oman -14.8%	Abu Dhabi 5.6%	KSA 0.2%	KSA 8.3%	Dubai 9.3%	KSA -3.1%
5	Oman 6.1%	Abu Dhabi -11.7%	S&P GCC 3.2%	S&P GCC 25.0%	KSA -2.4%	Qatar -15.1%	KSA 4.3%	S&P GCC -0.5%	Kuwait 5.2%	S&P GCC 8.3%	S&P GCC -4.3%
6	Kuwait -0.7%	Oman -15.7%	Kuwait 2.1%	Qatar 24.2%	S&P GCC -2.5%	Dubai -16.5%	S&P GCC 4.2%	Abu Dhabi -3.3%	Bahrain 0.4%	KSA 7.2%	Oil -4.9%
7	Abu Dhabi -0.9%	Kuwait -16.4%	Oman 1.2%	Oman 18.6%	Oman -7.2%	KSA -17.1%	Kuwait 2.3%	Dubai -4.6%	Oman -15.2%	Abu Dhabi 3.3%	Bahrain -6.4%
8	Bahrain -1.8%	Dubai -17.0%	Qatar -4.8%	Bahrain 17.2%	Kuwait -13.4%	S&P GCC -17.4%	Bahrain 0.4%	Oman -11.8%	Oil -19.5%	Qatar 1.2%	Oman -6.5%
9	Dubai -9.6%	Bahrain -20.1%	Bahrain -6.8%	Oil -0.3%	Oil -48.3%	Oil -35.0%	Qatar 0.1%	Qatar -18.3%	Dubai -24.9%	Oman -7.9%	Dubai -7.5%

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1. Executive Summary

Table 1.1: GCC Stock Market Expectations 2020

Title	KSA	Kuwait	Abu Dhabi	Dubai	Qatar	Oman	Bahrain
Economic Factors	Neutral	Positive	Positive		Positive	Neutral	Negative
Valuation Attraction	Neutral	Neutral	Positive	Positive	Neutral	Positive	Positive
Earnings Growth Potential	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Neutral
Market Liquidity	Positive	Neutral	Negative	Negative	Negative	Negative	Negative
Overall Market View	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Negative

Source: Marmore Research; Economic factors have been considered for UAE as a whole

Our outlook for GCC Equity market for 2020 is neutral amidst expectation of oil prices remaining around 2019 levels, in the range of USD 61-65 per barrel[1] and moderate improvement in corporate earnings and non-oil sector growth supported by government spending. The outlook is based on evaluation of the countries across four key parameters – economic factors, valuation attraction, corporate earnings growth potential and market liquidity.

Economic conditions in the Gulf region are expected to moderately improve in 2020. As muted oil price outlook indicates lower oil GDP growth, GCC governments' expansionary spending is expected to aid non-oil economic growth while global economic conditions also seem conducive. Government finances are expected to be strained given the lower oil price outlook and proposed government spending plans. Fiscal position has weighed on the economic outlook for Saudi Arabia, Oman and Bahrain.

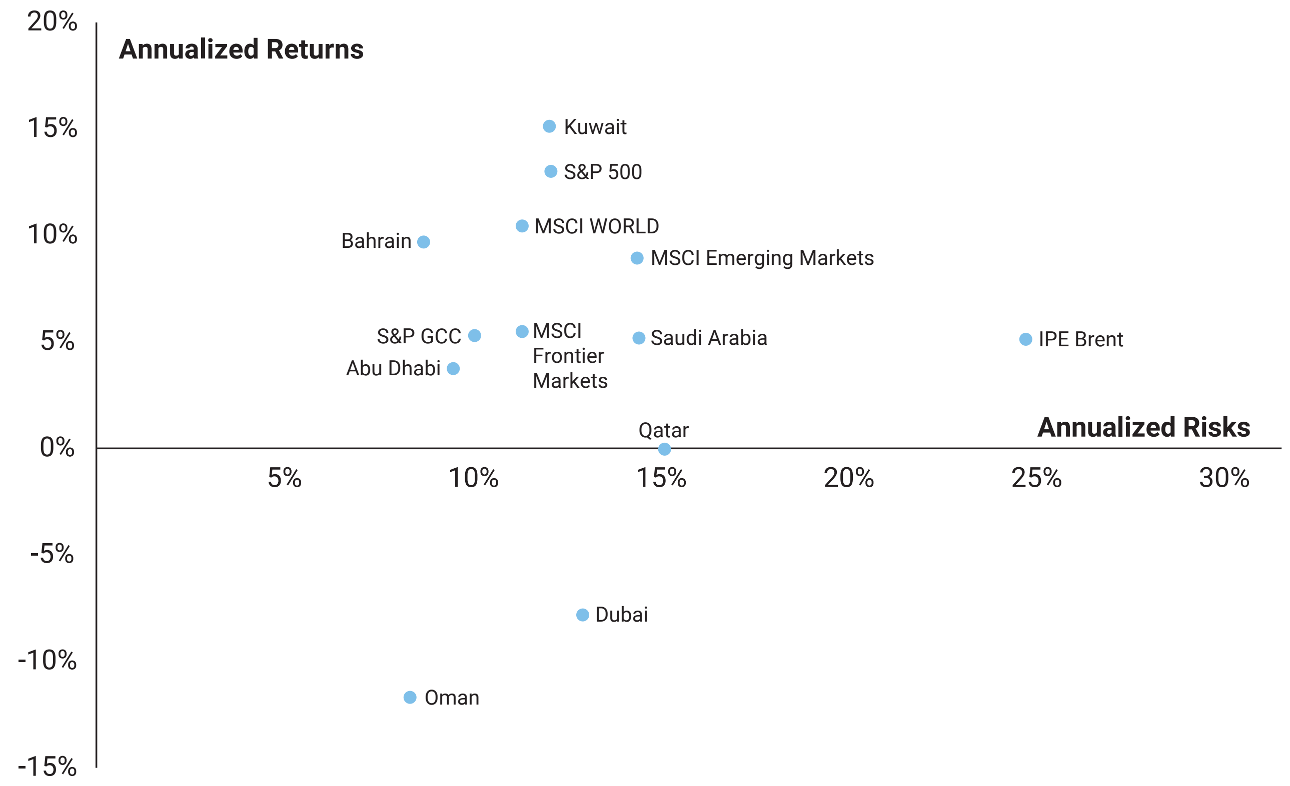
Growth in the overall corporate earnings for GCC countries is expected to be modest for 2020. Banking sector is well placed to support corporate earnings growth. While expectations of profit realization and credit growth remain, profitability might be under slight pressure because of lower interest rates. Real estate and construction could perform slightly better in 2020 given the measures taken by different stakeholders and the proposed government spending. Commodities are expected to perform moderately better with phase one of U.S-China trade deal agreed upon and decisive U.K elections supporting quicker resolution of Brexit issue.

[1] Source: Estimations by U.S. Energy Information Administration (EIA), Goldman Sachs, JP Morgan and S&P Global

From a valuation perspective, apart from Saudi Arabia, Kuwait and Qatar, rest of the GCC markets seem attractive. For Saudi Arabia, with earnings growth tending towards negative in 2019, higher P/E seems to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco despite. Following Kuwait's MSCI upgrade scheduled for May 2020, it is also expected to post a higher P/E with increased fund inflows. Liquidity levels in Kuwait have increased while Saudi Arabia, which boasts of higher liquidity levels compared to its GCC peers, was able to maintain its liquidity at 2018 levels. Liquidity in other markets are low, and almost flat from 2018 values.

At the start of 2019, we were positive on Kuwait and UAE and neutral on Saudi Arabia and Qatar. Except UAE, other markets had moved in line with our expectations. Kuwait markets have gained 23.7%. This strong performance was mainly because of the capital market reforms, S&P index inclusion and expectation of inclusion in the MSCI Emerging Markets Index. UAE's performance has been neutral with Dubai posting higher gains than Abu Dhabi. Banking sector has supported gains in Dubai markets. Despite the government's stimulus package of USD 13.61 billion, Abu Dhabi markets have realized modest gains at 3.3% and an earnings growth of 1.7% for the first nine months of 2019. Saudi Arabia has gained 7.2%. This seems to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco despite weaker earnings. Qatar has gained modestly in line with our expectation on the back of weak earnings growth. This low growth has followed gains of 20.7% in 2018.

Figure 1.1: 3-Yr Risk-Return Profile of Equity Indices (2016 - 2019)



Source: Reuters Eikon, Marmore Research

As we step into 2020, the outlook for GCC fixed income asset class looks promising. High positive yields, better risk-adjusted returns, currencies that are pegged to USD and improving credit quality on back of rising oil prices augur well for their improving stance. On the other hand, investors are wary if the increasing oil prices could lead to a sense of complacency on the reforms front. Alternatively, prudent fiscal management measures for Oman and Bahrain would be watched keenly. The region is geopolitically volatile and continues to witness attacks and counterattacks, on key targets including oil infrastructure and facilities. The recent air strikes by U.S has further escalated the prevailing tensions in the region and has ratcheted up geopolitical premiums.

2. How our 2019 predictions fared?

The year 2019 was characterised by average oil price at levels lesser than that of 2018, fears of global slowdown, uncertainties over U.S–China trade war and Brexit and interest rate cuts by most Central Banks. In addition to these, weakness in real estate and commodity markets, OPEC+ production cuts, market reforms and index inclusions were the prime market drivers in GCC.

Table 2.1: Stock Market Predictions in 2019 vs. Actual Performance

Country	Marmore expectations in 2019	Actual Performance
Saudi Arabia	Neutral	7.2%
United Arab Emirates	Positive	9.3% (Dubai) 3.3% (Abu Dhabi)
Kuwait	Positive	23.7%
Qatar	Neutral	1.2%

Source: Reuters

At the start of 2019, we were positive on Kuwait and UAE and neutral on Saudi Arabia and Qatar. Except UAE, other markets moved in line with our expectations. Kuwait markets have improved by 23.7%. This strong performance was mainly because of the capital market reforms, S&P index inclusion and announcement of inclusion in the MSCI Emerging Markets Index. UAE performance has been neutral with Dubai posting higher gains than Abu Dhabi. Banking sector has supported gains in Dubai markets. Despite the government's stimulus package of USD 13.61 billion, Abu Dhabi markets have realized modest gains at 3.3% and an earnings growth of 1.7%.

Saudi Arabia has gained 7.2%. This seems to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco despite weaker earnings. Qatar has gained modestly in line with our expectation on the back of weak earnings growth. The year 2019 had muted returns after gains of 20.65% in 2018.

3. Looking Back at the Most Significant Events of 2019

Regional Events

Drone Attack

Drones attacked two of the major oil facilities in Saudi Arabia - Abqaiq processing plant (capacity 7 million barrels per day, mbpd) and Khurais oil field (production capacity of 1.5mbpd), on September of 2019. Subsequently, oil prices rocketed upwards, with Brent, surging as much as 20% in the opening trade to reach over USD 71 /bbl registering its highest intraday percentage gain since the Gulf War in 1991. The attack has halted production of almost 5.7million barrels per day (mbpd) or 50 percent of its daily production or 5 percent of global supply.

Saudi Aramco

- **Bond issuance** - In May of 2019, Saudi Arabian Oil Company raised USD 12 Billion with the help of its first ever-international bond issuance in the month of April. Aramco marketed a U.S. dollar-denominated debt issue split into five tranches with maturities ranging from three to thirty years. The bond received overwhelming demand from investors, as the company recorded orders of over USD 100 Billion. Demand for the bond was the largest ever recorded for any emerging market bond, surpassing order book value of more than USD 52 Billion for Qatar's $12 billion deal in 2018, USD 67 Billion for Saudi Arabia's first international sovereign bond offer in 2016 and USD 69 Billion orders for Argentina's USD 16.5 Billion sovereign bond in 2016 .

- **Initial Public Offering** – After years of preparations, in December of 2019, Saudi Aramco floated 1.5% (0.5% to local retail shareholders and remaining 1% expected to be taken largely by Saudi institutions and funds in the region), of its outstanding shares in a bid to raise USD 25.6 billion in capital from the open markets, making it the world's biggest initial public offering. The company received total bids of USD 119 billion and has a 15% greenshoe option during first 30 days of its trading. The final price of its shares were set at 32 riyals (USD 8.53), valuing the company at USD 1.7 trillion.

MSCI Inclusion

Morgan Stanley Capital International (MSCI), a leading provider of global capital market indices, announced on June 25, 2019 that it would reclassify Kuwait as an emerging market, subject to availability of omnibus account structures and same National Investor Number (NIN) cross trades for international investors before the end of November 2019. The conformation came on December that nine Kuwaiti stocks are poised to enter into the MSCI EM index by May 2020 on a one-step inclusion with a pro-forma weightage of 0.5%. Kuwait will therefore become the fourth GCC nation following the UAE, Qatar and Saudi Arabia to become part of the MSCI EM indices. Kuwait's MSCI inclusion follows previous Emerging market upgrades by FTSE, S&P and J.P. Morgan. In May of 2019, we also saw the official inclusion of Saudi Arabia's stock market into the MSCI emerging market index.

Boursa Kuwait Privatization

On 14th February 2019, Kuwait's Capital Market Authority (CMA) privatized Kuwait Stock Exchange, Boursa Kuwait, by offering 44% of the shares to a consortium of private investors. CMA also conducted an initial public offering of its 50% in Boursa Kuwait. Boursa Kuwait's shares were offered to Kuwaiti nationals between October 1 and December 1. The IPO generated strong investor interest, with 83,000 Kuwaitis signing up to subscribe for shares. The offer for shares in the operator of the country's stock market was oversubscribed by more than 8.5 times. After the IPO, Boursa Kuwait will be 94% owned by citizens and the private sector, while the Kuwaiti government, through the Public Institution for Social Security, will have the remaining 6%.

Kuwait improves in Competitiveness and Ease of Doing Business Rankings

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. 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 in 2019.

Saudi market regulator facilitates listing of foreign companies

In October of 2019, Saudi Arabia introduced measures to facilitate the entry of foreign issuers to the Saudi stock market and encourage investment in NOMU, the country's secondary market. The Saudi main stock exchange, Tadawul, opened to foreign investors in 2015. The kingdom has since introduced a raft of reforms to attract overseas share buyers and issuers as part of efforts to lure foreign capital and diversify the oil-dependent economy.

ADNOC's Murban crude futures

In November of 2019, Intercontinental Exchange (ICE), an operator of global exchanges & clearinghouses and provider of data and listings services, announced that it would launch a new exchange, ICE Futures Abu Dhabi (IFAD). The exchange will host the world's first futures contracts based on Abu Dhabi National Oil Company's

(ADNOC's) Murban crude oil. IFAD and ICE Murban futures are slated for launch in early 2020, subject to regulatory approvals, and will seek to rival well-established light crude oil benchmarks WTI and Brent. The new contract will create an alternative benchmark to the most commonly used Middle East standard, the Dubai/ Oman benchmark operated by the Dubai Mercantile Exchange (DME) and traded on CME's electronic platform. The development of Murban futures could shake up the pricing of oil in the region.

Tadawul 30 Index

In January of 2019, the Saudi Stock Exchange (Tadawul) and MSCI partnered to develop a joint tradable index that can be used as a base for financial products including Derivatives and ETFs. The index is called MSCI TADAWUL 30 INDEX (MT30). The MSCI TADAWUL 30 (MT30) Index represents the performance of approximately the 30 largest & most liquid securities listed in the Saudi equity market. Moreover, securities' weight will be capped at 15% Capping Threshold to minimize dominance of large securities in the Index.

UAE and KSA Digital Currency Project

In January of 2019, the United Arab Emirates Central Bank (UAECB) and the Saudi Arabian Monetary Authority (SAMA) announced in a joint statement the launch of the common digital currency project 'Aber', which will be used in financial settlements between the two countries through Blockchains and Distributed Ledgers technologies. The use of the currency will be restricted to a limited number of banks in each state. In case that no technical obstacles are encountered, economic and legal requirements for future uses will be considered.

Global Events

The U.S.-China Trade War

The tariff war continued to be the center of attention in 2019. Negotiators continued to meet, and on October 11, reached a tentative agreement on a Phase 1 deal. However, the agreement has failed to clarify some of the major differences between the two economic superpowers, suggesting that 2020 could be turbulent on the trade front.

Brexit Upends British Politics

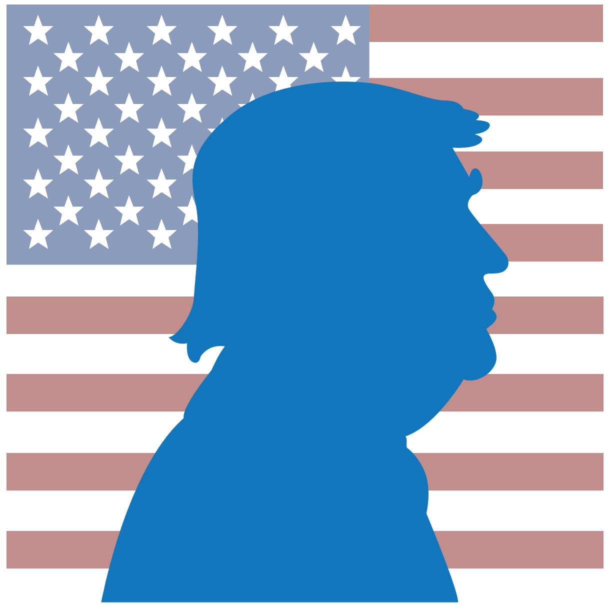
The United Kingdom ended 2019 with clarity about Brexit, but the year was marked by a turbulent journey. 2019 started with the country facing a March 29 deadline for leaving the European Union (EU). The then Prime Minister Theresa May couldn't persuade the House of Commons to approve the deal she struck with the EU. Theresa May was forced to delay Brexit until October 31, and then resigned after the House of Commons voted down her deal for the third time in a row. Boris Johnson from the Conservative Party then became the next Prime Minister on July 24. He tried a variety of debatable tactics to push the deal through Parliament before the October 31 deadline but failed to reach consensus. Forced to extend the withdrawal deadline to January 31, 2020, Johnson calls for a snap election. British voters reward the Conservative Party with their biggest victory in more than three decades. On December 20 2019, the Parliament voted overwhelmingly to exit the EU by January 31.

Yield Curve inversion

In 2019, the yield curve briefly inverted, meaning, the 2-year US Benchmark yield was higher than the 10-year Benchmark yield. A series of interest rate hikes by the Federal Reserve in 2018 raised expectations of a recession. Those expectations eventually led the Fed to walk back the interest rate increases. The belief that interest rates would fall proved to be correct, and bond investors profited.

Fed Rate Cut

The Federal Reserve cut interest rates three time in 2019 as the US economy showed signs of slowing amid the ongoing trade disputes and weak global growth. Overall, the Fed lowered the Fed Fund rate by a total of 75 basis points this year, resulting in a target range of between 1.50% and 1.75%. Federal Reserve Chairman Jerome Powell strongly suggested that the Fed would hold rates steady for the near future, given the Fed's economic outlook of moderate economic growth, a strong labor market and inflation growing at around 2%. In the final meeting of the year in December, the Fed left interest rates unchanged and reiterated that it would stay on hold through 2020.

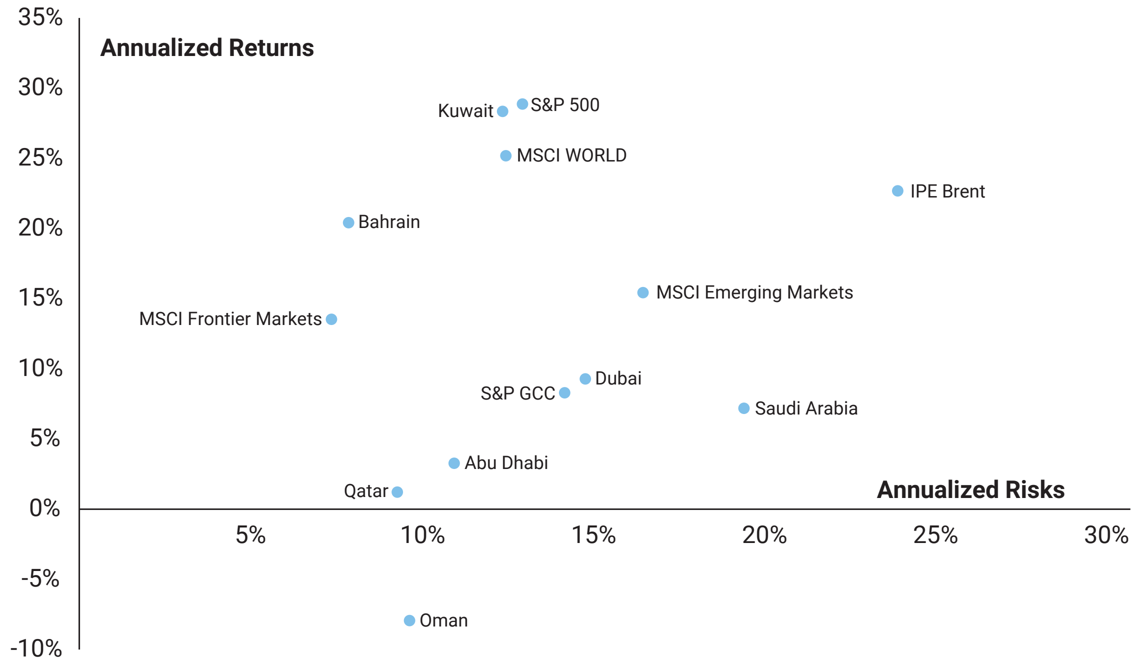


The U.S. House Impeaches President Donald Trump

Progressive Democrats began 2019 pushing for President Trump's impeachment. An anonymous whistle-blower alleged in August that Trump was using the power of his office to pressure Ukrainian President Volodymyr Zelensky into investigating Democratic frontrunner Joe Biden and his son. On September 24, Speaker of the House Nancy Pelosi launched a formal impeachment probe against Donald Trump. The House voted on October 31 to hold public hearings, which opened in mid-November. On December 18, the House voted along party lines to approve two articles of impeachment, abuse of power and obstruction of Congress. The issue will now move to the Senate, which the Constitution gives the sole responsibility of holding a trial to determine whether the President should be convicted and removed from office.

4. GCC country-wise Performance Analysis -2019

Figure 4.1: Asset Classes: Risk-Return Profile 2019



Source: Reuters Eikon, Marmore Research

Saudi Arabia

Table 4.1: Saudi Arabia – Snapshot

Index Name	TASI Index
Last Close (Dec 31, 2019)	8,389
2019 Change (%)	7.2%
P/E TTM	17.9
Dividend Yield	3.95%
Listed Companies	199
No of Large Cap Companies	17
No of Mid Cap Companies	34
No of Small Cap Companies	149
Market Capitalization (Dec-2019) (USD Bn)	2,406
Turnover Ratio (Dec-2019)	45%

Source: Reuters Note: Turnover is a measure of stock liquidity calculated by dividing the value of shares traded over a period by the average market cap for the period.

The Saudi Tadawul index has gained 7.2% in 2019. Consumer services sector index gained most at 34%. Listing of Saudi Aramco has been the event of the year in the Saudi Arabian stock market. The company garnered a valuation of USD 1.71 trillion, lesser than the USD 2 trillion expected by the Saudi government. The lower valuation was against the backdrop of lower average oil price levels compared to 2018 and investor concerns over drone attacks on Saudi oil facilities. However, the stock briefly reached the sought after USD 2 trillion valuation on its second trading day.

Corporate earnings for first nine months of 2019 registered a drop of about 24.1%. Telecommunication and banks posted modest gains. Earnings growth in telecommunication has been supported by increase in volume. Strong loan growth had helped the banks post profits amidst declining interest rates. Construction has bounced back after registering a dip in 2018. Commodities, Utilities and Real Estate have reported weak earnings. Weakness in the commodities sector is attributed to slower global growth and weaker oil prices. Utilities earnings have dipped because of decrease in volume. Real estate has been hit by drop in property prices.

United Arab Emirates

Table 4.2: United Arab Emirates (UAE) – Snapshot

<table>
<tr><th>Index Name</th><th>Dubai Index</th><th>Abu Dhabi Index</th></tr>
<tr><td>Last Close (Dec 31, 2019)</td><td>2,765</td><td>5,076</td></tr>
<tr><td>2019 Change (%)</td><td>9.3%</td><td>3.3%</td></tr>
<tr><td>P/E TTM</td><td>6.8</td><td>12.8</td></tr>
<tr><td>Dividend Yield</td><td>4.3</td><td>4.9</td></tr>
<tr><td>Listed Companies</td><td colspan="2">130</td></tr>
<tr><td>No of Large Cap Companies</td><td colspan="2">10</td></tr>
<tr><td>No of Mid Cap Companies</td><td colspan="2">16</td></tr>
<tr><td>No of Small Cap Companies</td><td colspan="2">104</td></tr>
<tr><td>Market Capitalization (Dec-2019) (USD Bn)</td><td colspan="2">221</td></tr>
<tr><td>Turnover Ratio (Dec-2019)</td><td colspan="2">11%</td></tr>
</table>

Source: Reuters

Dubai stock index has gained 9.3% in 2019. Banking and Insurance sector indices have performed well in the year gaining around 27% and 22% respectively on the back of better profit numbers. Plagued by increasing supply, falling prices and shrinking profits, real estate sector index ended the year in negative territory, with a decline of 9.8%. Of the blue chips, Emirates NBD Bank has posted an annual stock return of 52% supported by strong earnings over the first nine months of 2019.

Abu Dhabi index gained modestly with 3.3% in 2019. Increase in foreign ownership limits seems to have aided stock gains. Amongst blue chips, First Abu Dhabi Bank's stock gained by 7.5% supported by increase in foreign ownership limits and good earnings growth. But the gain had been stunted as its representation had not been increased in the MSCI Emerging Markets Index after relaxation of its ownership limits.

In the corporate earnings front, for the first nine months of 2019, UAE Banking sector has posted healthy gains at 16%. Non-interest income has contributed to the earnings growth[2]. Construction sector posted a decline of 75% in earnings for the same period. Decrease in revenue, delay in project handovers, weakness in real estate have contributed to the decline.

Qatar

Table 4.3: Qatar – Snapshot

Index Name	Qatar Index
Last Close (Dec 31, 2019)	10,426
2019 Change (%)	1.2%
P/E TTM	14.5
Dividend Yield	4.10%
Listed Companies	47
No of Large Cap Companies	8
No of Mid Cap Companies	10
No of Small Cap Companies	29
Market Capitalization (Dec-2019) (USD Bn)	146
Turnover Ratio (Dec-2019)	12%

Source: Reuters

Qatar Stock Index saw modest growth of 1.23% in 2019. Top gainer for the year was Consumer Goods and Services at 26.6%. Banks and Financial Services sector gained 9.3% supported by good earnings growth. Real Estate has decreased the most with a decline of 30% with the sector experiencing falling prices and increasing supply.

Corporate profits dropped by 6.6% on for the nine month period ending September 2019. Telecommunications posted highest earnings growth at 18%. This was driven by cost efficiency and slight increase in revenue. Industrial Conglomerates sector reported about 47% decline in earnings citing weak demand for petrochemicals and steel. Banking sector has posted a 6% growth in profits.

[2] Moody's Investors Service Middle East Limited.

Kuwait

Table 4.4: Kuwait – Snapshot

Index Name	Kuwait Price Index
Last Close (Dec 31, 2019)	7,255
2019 Change (%)	23.7%
P/E TTM	15.1
Dividend Yield	3.38%
Listed Companies*	163
No of Large Cap Companies	10
No of Mid Cap Companies	25
No of Small Cap Companies	128
Market Capitalization (Dec-2019) (USD Bn)	120
Turnover Ratio (Dec-2019)	22%

*Source: Reuters; *Auction market not included*

Kuwait emerged as the top performer amongst its GCC peers in 2019, with a return of 23.7%. This strong performance was mainly because of the capital market reforms, S&P index inclusion and expectation of inclusion in the MSCI Emerging Markets Index. Relaxation of foreign ownership restrictions in banks has also aided in fund inflow.

Market liquidity has increased significantly to almost twice the levels of 2018. In addition to fund inflows following index inclusions and reforms, major IPOs like that of Boursa Kuwait and Al Zour have aided this increase.

Corporate earnings have seen a growth of 1.0% for the first nine months of 2019 when compared to the same period last year dragged down by the financial services. The dip in financial services has been attributed to higher provisioning. Banking and telecommunications have been relatively strong performers. Of the large cap companies, Boubyan bank continues to be the leading performer registering a growth of 11% for the first nine months in 2019, with its assets growing at 18%.

In terms of stock return, amongst blue chips, Kuwait Finance House (KFH) has the highest return at 46%. Progress in its ongoing merger with Ahli United Bank, which is expected to increase KFH's profit considerably and strong earnings growth, which was at 12.7% for the nine month ending September 2019, have helped it in its strong performance.

[3] KFH Analysts Conference

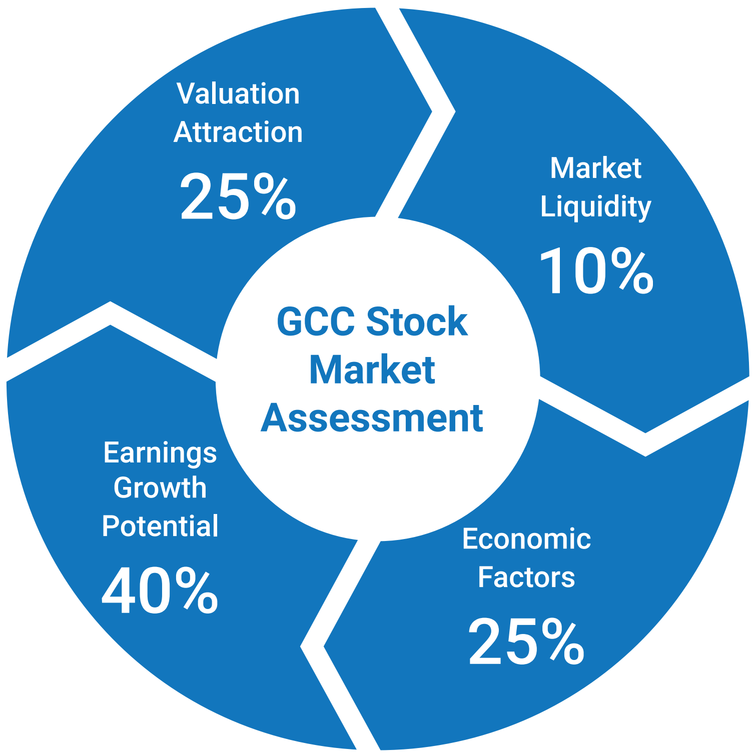
5. GCC Stock Market Outlook 2020

Economic conditions in the Gulf region are expected to moderately improve in 2020. Oil prices are expected to be around 2019 levels, in the range of USD 61-65 per barrel . GCC governments' expansionary spending could boost economic growth while global economic conditions also seem conducive.

The outlook for Saudi Arabia, Abu Dhabi, Kuwait and Qatar stock markets is neutral based on modest performance on macroeconomic parameters, earnings growth potential and the attractiveness of valuations. Outlook for Dubai is positive supported by expectation of earnings growth. Oman and Bahrain are affirmed with a negative outlook because of less favorable economic factors and muted earnings potential.

We base our analysis on a set of four factors, which we believe will influence and impact market performance. We have assigned weights to each of these factors based on our assumption about the degree of influence it would have on the stock market performance as a whole in 2020.

Figure 5.1: Four – Forces Framework



Source: Markaz

[4] Source: Estimations by U.S. Energy Information Administration (EIA), Goldman Sachs, JP Morgan and S&P Global

Economic Parameters

i. Economic Growth

Table 5.1: Real GDP Growth (in %)

Real GDP Growth	KSA	Kuwait	UAE[5]	Qatar	Oman	Bahrain
(2009-2014 Avg.)	4.1	1.4	2.9	9.4	4.4	3.7
(2015)	4.1	0.6	5.1	3.7	4.7	2.9
(2016)	1.7	2.9	3.0	2.1	4.9	3.5
(2017)	-0.7	-3.5	0.5	1.6	0.3	3.8
(2018)	2.4	1.2	1.7	1.5	1.8	1.8
(2019 e)	0.2	0.6	1.6	2.0	0.0	2.0
(2020 f)	**2.2**	**3.1**	**2.5**	**2.8**	**3.7**	**2.1**

Source: IMF

Table 5.2: Real Oil GDP Growth Rates (in %)

	KSA	Kuwait	UAE	Qatar	Oman	Bahrain
(2009-2014 Avg.)	2.1	4.0	2.6	10.4	1.4	0.4
(2015)	5.3	-1.7	5.2	-0.6	4.5	-0.1
(2016)	3.6	3.9	2.6	-0.9	3.4	-0.1
(2017)	-3.1	-7.2	-2.8	-0.7	-2.1	-0.7
(2018)	3.1	1.2	2.8	-0.3	4.7	-1.3
(2019 e)	-3.1	-0.8	1.5	0.4	-1.1	1.0
(2020 f)	**1.7**	**3.1**	**1.4**	**1.8**	**5.0**	**0.2**

Source: IMF

Table 5.3: Real Non-Oil GDP Growth Rates (in %)

Real Non-OilGDP Growth	KSA	Kuwait	UAE	Qatar	Oman	Bahrain
(2009-2014 Avg.)	6.5	6.6	6.3	12.6	7.0	7.4
(2015)	3.2	4.2	5.0	8.5	4.8	3.6
(2016)	0.2	1.4	3.2	5.3	6.2	4.3
(2017)	1.3	2.1	1.9	3.8	2.4	4.9
(2018)	2.2	1.2	1.3	3.2	-0.7	2.5
(2019 e)	2.7	2.5	1.6	3.4	1.0	2.2
(2020 f)	**2.5**	**3.0**	**3.0**	**3.6**	**2.5**	**2.5**

Source: IMF

[5] Macroeconomic data provided by IMF for UAE as a whole.

In 2019, all countries except Bahrain and Qatar are seeing lower growth rates than 2018. This is mainly because of lower real oil GDP growth rates. The average oil price in 2019 at $64.16 per barrel was lower than average price of $71.69 per barrel in 2018. This coupled with decrease in production in line with OPEC+ agreement have caused drop in real oil GDP growth in Saudi Arabia, Kuwait, UAE and Oman. Saudi Arabia has been further hit by the attacks on its oil facilities and deeper than agreed production cuts. Qatar and Bahrain had registered growth with recovery in oil production.

Oil price outlook for 2020 is modest with estimations ranging between USD 61-65 per barrel. IEA and OPEC project increase in global oil supply and a dip in demand. The slowdown in growth in U.S shale production seems to be a positive aspect. The production cuts deepening announced by the OPEC might help stabilize prices. However, doubts on continuation of cuts post March 2020 and full compliance by member nations are risks associated with it. That said, relaxation in production cuts might help the countries boost production and thereby revenue. Against this background, oil GDP is expected to grow modestly across GCC countries.

Non-oil sector in GCC countries is expected to grow with continued thrust from the respective governments. Through the year, with U.S Fed implementing rate cuts, GCC central banks have reduced policy rates at different degrees. U.S Fed has also signalled on holding rates at current levels in 2020. Lower rates could boost credit growth, thereby increasing overall growth. In the global front, there are green shoots in the form of decisive U.K elections results that increase chances of conclusion of a Brexit deal and agreement on phase 1 of U.S.-China trade deal. These developments pave way to better growth prospects for all GCC countries in 2020.

UAE's GDP in 2020 is expected to be supported by tourism and hospitality sectors benefitting from Dubai Expo 2020. Efforts taken by the UAE government and Dubai Land Department (DLD) to stabilize real estate sector should also pay off. The projected increase in Oman's GDP for 2020 is also attributed to increase in gas production and the Government's Tanfeedh program that is expected to boost growth across sectors. Increase in Qatar's GDP is projected on the premise of increase in LNG production with the its Barzan natural gas facility going live and increase in service sector activity as FIFA World Cup draws closer.

ii. Inflation

Table 5.4: Inflation

Inflation, annual change (%)	KSA	Kuwait	UAE	Qatar	Oman	Bahrain
(2009-2014 Avg.)	3.4	3.8	1.3	0.5	2.7	2.2
(2015)	1.3	3.7	4.1	1.8	0.1	1.8
(2016)	2.0	3.5	1.6	2.7	1.1	2.8
(2017)	-0.9	1.5	2.0	0.4	1.6	1.4
(2018)	2.5	0.6	3.1	0.2	0.9	2.1
(2019 e)	-1.1	1.5	-1.5	-0.4	0.8	1.4
(2020 f)	**2.2**	**2.2**	**1.2**	**2.2**	**1.8**	**2.8**

Source: IMF

Apart from Kuwait, Oman and Bahrain, other countries have experienced deflation in 2019. As the effect of rise in prices due to VAT implementation wore off, reduced consumer spending after implementation of VAT, decline in house rental prices, drop in fuel and utility prices have caused the deflation.

Rate cuts through 2019 by the GCC Central Banks, better growth prospects, and expectations of subsidy cuts have contributed to higher inflation projections in 2020. According to IMF, inflation projections for Qatar and Oman for 2020 are based on their implementation of VAT.

iii. Fiscal Balance

The performance on fiscal balance front is mixed among GCC countries. Fiscal balance has weakened in KSA, Kuwait and UAE in 2019. It has improved in Qatar, Oman and Bahrain. Lower average oil price in 2019 than that in 2018, oil production cuts in line with OPEC+ agreements have weighed down on the revenues of the GCC countries.

Compared to its GCC peers, Kuwait enjoys a fiscal surplus. However, we see the gap narrowing in 2020. Compulsory transfers to Future Generation Fund and subsidies seem to weigh on its balance sheet. Qatar sees an increase in fiscal surplus through revenue from imposition of excise duty on tobacco etc and increased Liquified Natural Gas (LNG) production.

In Saudi Arabia, deficit has widened and is expected to widen further in 2020. Increased government spending towards Vision 2030, decrease in oil production would contribute to widening deficit in spite of increase in revenues because of introduction of VAT and other consolidation measures.

UAE is estimated to post deficits as the government plans spending across sectors. Bahrain, while sporting a high deficit compared to its peers, sees the gap narrowing supported by reforms like introduction of VAT and voluntary retirement scheme for public sector workforce.

The fiscal balance across GCC is expected to worsen in 2020. Less optimistic oulook over oil prices, thereby a lower revenue growth and increased government spending have led to increased deficit projections for 2020. Introduction of VAT, prudent government spending by reducing revenue expenditures such as subsidies and wage bills and increasing capital expenditure would help GCC countries maintain good fiscal health in the long run.

Table 5.5: Fiscal Balance

Fiscal Balance, as % of GDP	KSA	Kuwait	UAE	Qatar	Oman	Bahrain
(2009-2014 Avg.)	4.1	29.3	3.2	12.5	3.8	-5.0
(2015)	-15.8	5.6	-3.4	4.5	-15.9	-18.4
(2016)	-17.2	0.3	-2.0	-5.4	-21.3	-17.6
(2017)	-9.2	6.3	-1.4	-2.9	-14.0	-14.2
(2018)	-5.9	8.7	1.2	5.3	-7.9	-11.9
(2019 e)	-6.1	6.7	-1.6	7.0	-6.7	-8.0
(2020 f)	**-6.6**	**3.8**	**-2.8**	**6.9**	**-8.4**	**-8.1**

Source: IMF

iv. Current Account Balance

Table 5.6: Current Account Balance

Current Account Balance (% of GDP)	KSA	Kuwait	UAE	Qatar	Oman	Bahrain
(2009-2014 Avg.)	15.2	36.8	12.0	24.1	7.1	5.8
(2015)	-8.7	3.5	4.9	8.5	-15.9	-2.4
(2016)	-3.7	-4.6	3.7	-5.5	-19.1	-4.6
(2017)	1.5	8.0	7.3	3.8	-15.6	-4.5
(2018)	9.2	14.4	9.1	8.7	-5.5	-5.9
(2019e)	4.4	8.2	9.0	6.0	-7.2	-4.3
(2020 f)	**1.5**	**6.8**	**7.1**	**4.1**	**-8.0**	**-4.4**

Source: IMF

Lesser revenue receipts on oil exports because of lower expected oil prices and lower projected demand has led to narrowing of current account balances across GCC countries. Saudi Arabia's current account is to narrow further in 2020 with expected increase in imports with pick up in non-oil growth. Lower remittance outflows because of Saudization drive helps it post a surplus. Kuwait is expected to see an increase in its refined products export. UAE maintains a healthy current account balance with expectations of increase in exports of oil from capacity improvement in Abu Dhabi and increase in service exports aided by tourism boost on the back of Dubai Expo 2020. Qatar exports are expected to rise once the Barzan natural gas facility comes online in 2020, helping it post a surplus in spite of lower expected energy prices.

v. Gross Debt

Table 5.7: Gross Debt

Gross Debt (% of GDP)	KSA	Kuwait	UAE	Qatar	Oman	Bahrain
(2009-2014 Avg.)	5.8	4.6	18.6	30.5	5.4	34.7
(2015)	5.8	4.7	18.7	35.5	15.5	66.0
(2016)	13.1	10.0	20.2	46.7	32.7	81.3
(2017)	17.2	20.7	20.0	49.8	46.4	88.2
(2018)	19.0	14.7	19.1	48.6	53.4	94.7
(2019e)	23.2	15.2	20.1	53.2	59.9	101.7
(2020 f)	**28.4**	**17.4**	**20.3**	**48.0**	**63.9**	**106.9**

Source: IMF

Being oil dependent economies, the GCC governments turn to debt markets and draw from reserves to finance their expenditure in times of lower oil prices. Since oil price crash of 2014, the countries have seen increasing levels of debt to GDP ratios. In 2019, with average oil price lower than 2018, there has been an increase in debt levels across countries. Oman and Bahrain have increased the most at about 7 percentage points.

Saudi Arabia has budgeted a wider fiscal deficit for 2020, compared to 2019. This is likely increase its debt levels as it raises debt to bridge its fiscal deficit. Though Qatar's debt has increased in 2019, expectation of a budget surplus in 2020 with increased oil and gas production and reduction in public spending as projects for 2022 FIFA World Cup come to a close have led to lower debt level projections for 2020.

Oman has been hit hard by double whammy of lower oil prices and OPEC+ production cuts. The Government of Oman has said that post the 2014-2016 oil price crash, it has had no option but to borrow to fund major development projects. Debt levels have been consistently growing. With price of oil expected to be at levels below its fiscal break even, debt levels are expected to increase.

Bahrain has the highest debt to GDP ratio among GCC peers, though it has implemented some reforms like introduction of VAT, voluntary retirement scheme for public sector workforce. S&P revised outlook to stable citing reforms undertaken and the aid extended by its neighbors. Lower oil price expectations and delay in implementing further reforms would mean elevated debt levels in the near future.

Central bank of all GCC countries had cut interest rates in 2019, almost in tandem with U.S. Fed rate cuts. This lower interest environment might bring in more issues in the fixed income market in 2019. With lower oil prices outlook and governments keen on spending to expand the non-oil sector, the debt levels of GCC countries is likely to increase. However increase in capital expenditure and decrease in revenue expenditure would help them build stronger economies in the long term and gradually reduce debt levels.

Table 5.8: Economic Parameters Summary 2020

Overall Scores	KSA	Kuwait	UAE	Qatar	Oman	Bahrain
Economic Growth	Positive	Positive	Positive	Positive	Positive	Positive
Inflation	Positive	Positive	Positive	Positive	Positive	Positive
Fiscal Balance	Negative	Positive	Positive	Positive	Negative	Negative
Current Account Balance	Neutral	Positive	Positive	Positive	Negative	Negative
Gross Debt	Positive	Positive	Positive	Neutral	Negative	Negative
Qualitative Assessment	Neutral	Positive	Positive	Positive	Neutral	Negative

Source: Marmore Analysis

Earnings Potential

Growth in the overall corporate earnings for GCC countries is expected to be moderate at 6.5% for 2020. Earnings during the first nine months of 2019 fell by 10.1% when compared to the same period in 2018. We estimate the earnings to fall by 2.8% for the full year 2019, with the expectation of better performance in Q4. The negative growth follows two consecutive years of positive growth. Despite the expectations of an expansionary policy from major GCC economies, the consolidation of oil prices at the levels of USD 61-65 per barrel in 2020 is expected to a negative trigger for the economy. Growth in corporate earnings for Saudi Arabia, the region's largest economy is expected to be moderately positive in 2020 supported by banks and real estate but weighed down by commodities. Qatar is expected to be the leader among GCC countries with earnings growth of 8.2% in 2020, driven by the banking sector.

In 2019, earnings performance across countries is mixed. Saudi Arabia has posted decline in profits because of underperformance of commodities and real estate sectors. Qatar has also seen decline in earnings with all sectors except banking and financial services seeing negative growth. Earnings growth in Dubai has been supported by banks. Commodities sector has helped boost earnings in Abu Dhabi. Kuwait, Oman and Bahrain see moderate growth in earnings.

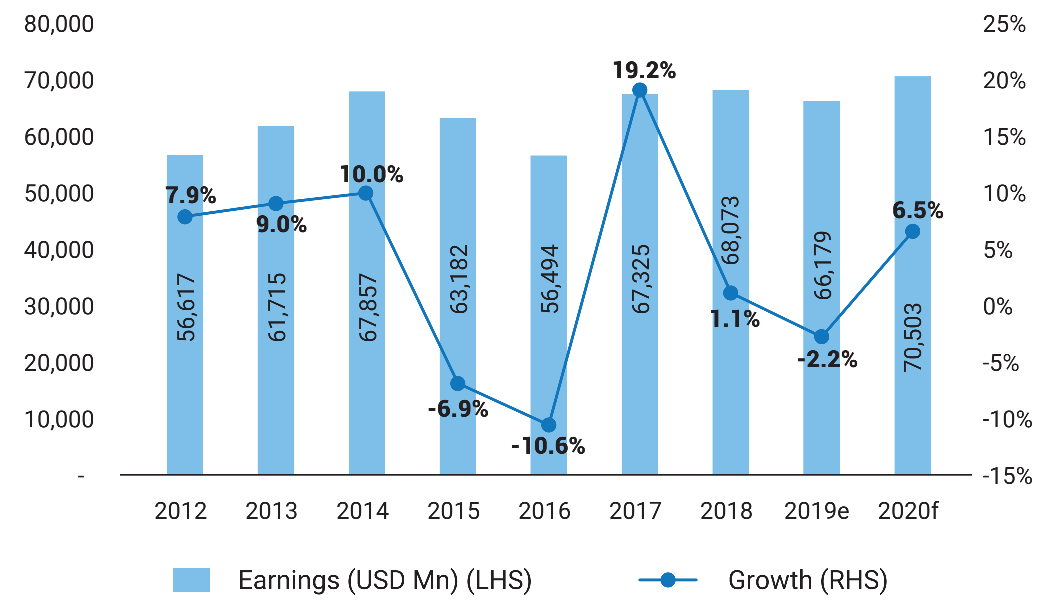
Over the years, banks have contributed to roughly half of the total corporate earnings in the GCC by sector. The outlook for GCC banks seems moderate for 2020. Regional infrastructure projects, such as UAE Expo 2020, World Cup Qatar 2022 and the Saudi National Transformation Program, will support capital spending by the Governments and therefore facilitate credit growth in 2020. GCC banks also enjoy surplus liquidity and strong capital buffers. However, interest rate cuts through 2019 is expected to pressurize banks' profitability. The underperformance of real estate sector might also have a negative impact as banks might have to provide higher provisioning.

Real estate sector earnings have been affected by declining property prices amidst increasing supply. An example would be a reported dip in property prices in Dubai to 7-year low in November 2019. However, lower prices seem to boost demand as transaction volumes had gone up. Supply is also expected to moderate with developers holding back launches. Against this backdrop, real estate is expected to perform slightly better in 2020.

With a poor show in 2018, construction has performed better in 2019 driven by sector's rebound in Saudi Arabia. Increased government spending, increase in project awards in 2019, continuation of affordable housing programs point to growth in the sector in 2020. However, other GCC countries have posted a decline in the construction sector's earnings. Weakness in real estate market, payment delays and project stagnation due to lower oil prices are some issues plaguing the sector. With the governments' expansionary spending, the sector is expected to post modest growth in 2020.

With muted global growth outlook, U.S-China trade war and Brexit uncertainties, commodities have underperformed in 2019. With phase one of trade deal agreed upon and decisive U.K elections supporting quicker resolution of Brexit issue, commodities are expected to perform better in 2020.

Figure 5.2: Earnings and Growth in GCC region, 2012- 2020 (USD Mn)



Source: Marmore Research

Table 5.9: Earnings Growth Summary

Earnings Growth	KSA	Kuwait	Abu Dhabi	Dubai	Qatar	Oman	Bahrain	Overall GCC
2015	-12.4%	-5.9%	-1%	1%	-4.7%	-1.1%	-7.7%	-6.9%
2016	-3.7%	9.2%	-61%	-32%	-11.2%	-5.3%	13.8%	-10.6%
2017	9.4%	12.8%	226%	79%	-1.3%	-15.3%	-2.3%	19.2%
2018	-4.2%	10.6%	-2%	2%	8.3%	2.2%	-3.2%	1.1%
2019e	-15.6%	1.5%	3%	27%	-6.2%	10.0%	8.2%	-2.8%
2020f	7.1%	3.6%	4%	10%	8.2%	0.7%	2.9%	6.5%
Qualitative Assessment	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Neutral	

Source: Reuters, Marmore Analysis

Valuation Attractiveness

We have used P/E, P/B and dividend yield to rank the attractiveness of the individual GCC stock market.

Table 5.10: Valuation Parameters Summary

P/E (TTM)	KSA	Kuwait	Abu Dhabi	Dubai	Qatar	Oman	Bahrain
2015	13.0	17.3	10.8	8.5	10.8	9.1	8.7
2016	14.7	16.9	10.8	9.2	14.8	10.1	9.7
2017	15.3	14.6	11.1	9.2	12.7	11.0	8.7
2018	14.8	15.7	12.2	7.1	14.3	9.2	8.6
2019	17.9	15.1	12.8	6.8	14.5	8.1	11.1
P/E (TTM)							
2015	1.6	1.3	1.4	1.2	1.6	1.2	0.9
2016	1.7	1.2	1.4	1.3	1.6	1.2	0.8
2017	1.7	1.1	1.5	1.2	1.2	1.0	0.8
2018	1.7	1.3	1.3	0.9	1.4	0.8	0.8
2019	2.1	1.5	1.4	0.9	1.4	0.7	1.0
Dividend Yld. (TTM)							
2015	4.4	3.2	4.9	4.7	4.9	5.3	5.3
2016	4.1	4.5	5.6	4.7	3.9	5.1	4.2
2017	4.1	3.7	5.5	5.2	4.8	5.9	5.1
2018	4.0	3.5	5.2	6.2	4.2	6.7	5.7
2019	4.0	3.4	4.9	4.3	4.1	7.2	4.4
Qualitative Assessment	Neutral	Neutral	Positive	Positive	Neutral	Positive	Positive

Source: Reuters; Marmore Research

Apart from Saudi Arabia, Kuwait and Qatar, rest of the GCC markets have positive rating from a valuation perspective. For Saudi Arabia, with earnings growth tending towards negative in 2019, higher P/E seem to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco. Following Kuwait's MSCI upgrade scheduled for May 2020, it is also expected to post a higher P/E with increased fund inflows. Oman, Bahrain and UAE seem attractive with lower P/E values.

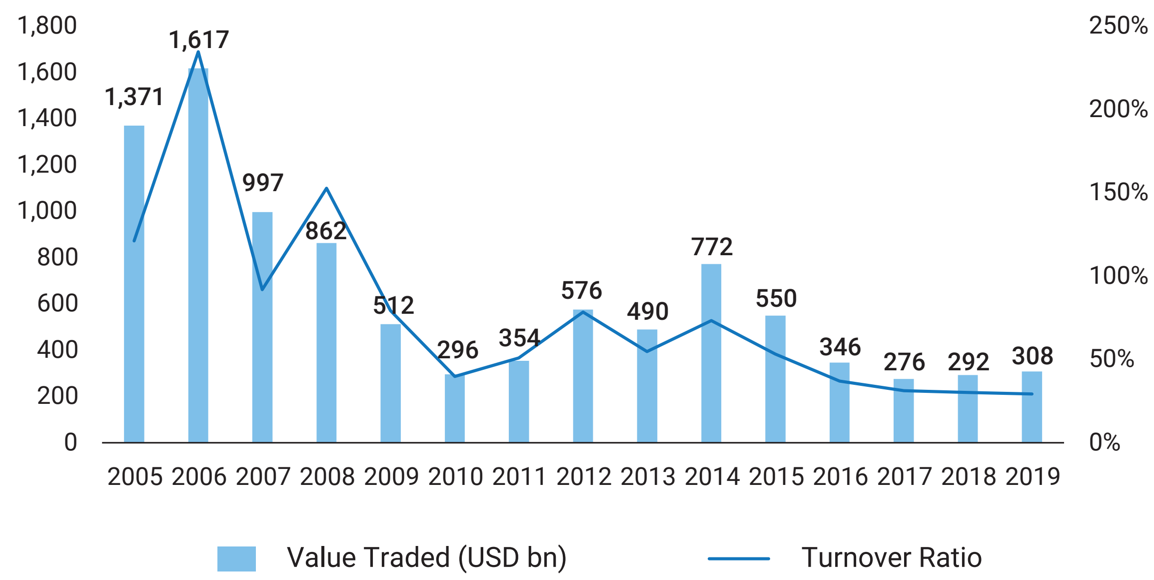
In terms of P/B ratio, Dubai's (0.9x) P/B ratio is lower compared to Saudi Arabia, Kuwait, Qatar and Abu Dhabi, making it more attractive. Oman and Bahrain also appear attractive with lower P/B ratios despite factoring in the weakness of their economies. GCC markets offer higher dividend yields in the range of 3.5% to 7.1%

Market Liquidity

Liquidity levels in Kuwait have increased considerably in 2019. Index inclusions and expectations of upgrade to MSCI EM indices have contributed to the increase in market liquidity. MSCI upgrade for Kuwait would further increase inflows into the market in 2020. Saudi Arabia, which boasts of higher liquidity levels compared to its GCC peers, was able to maintain its liquidity at 2018 levels. Liquidity in other markets are low, and almost flat from 2018 values.

GCC countries have been making constant efforts to improve market liquidity. Some notable ones this year are relaxation of foreign ownership limits in Saudi Arabia and UAE and 10-to-one stock split for companies on the exchange by Qatar. These measures would take time to reflect on the liquidity levels. From a liquidity angle, the outlook remains negative for all GCC stock markets other than Saudi Arabia and Kuwait, which have been assigned a neutral rating.

Figure 5.3: Value traded (in USD bn) and Turnover Ratio (in %), 2005-2019



Source: Reuters

Table 5.11: Stock Market Turnover Ratio (value traded/market cap)

	KSA	Kuwait	Abu Dhabi	Dubai	Qatar	Oman	Bahrain
2014	103%	22%	33%	114%	29%	25%	3%
2015	89%	12%	14%	45%	13%	10%	1%
2016	60%	11%	10%	36%	9%	10%	2%
2017	46%	20%	9%	29%	14%	12%	4%
2018	48%	14%	7%	19%	13%	10%	4%
2019	45%*	22%	8%	16%	12%	12%	3%
Assessment	Positive	Neutral	Negative	Negative	Negative	Negative	Negative

*Source: Reuters; Marmore Research; * Turnover Ratio has been calculated excluding Saudi Aramco*

Overall Ratings

Table 5.12: Overall Market View for GCC region

Title	KSA	Kuwait	Abu Dhabi	Dubai	Qatar	Oman	Bahrain
Economic Factors	Neutral	Positive	Positive		Positive	Neutral	Negative
Valuation Attraction	Neutral	Neutral	Positive	Positive	Neutral	Positive	Positive
Earnings Growth Potential	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Neutral
Market Liquidity	Positive	Neutral	Negative	Negative	Negative	Negative	Negative
Overall Market View	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Negative

Source: Markaz Research; Economic factors have been considered for UAE as a whole

6. GCC Fixed Income Outlook 2020

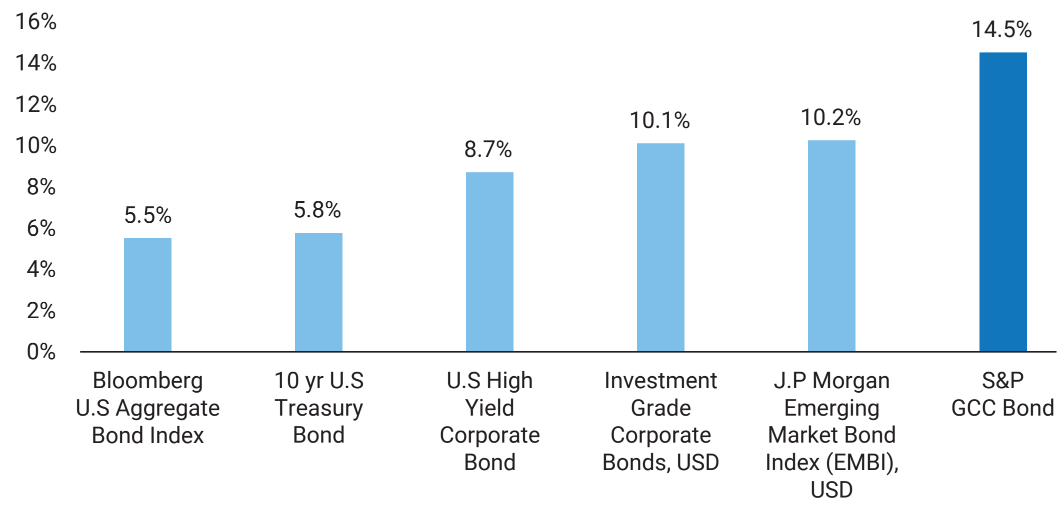
GCC fixed income market, as represented by S&P GCC Bond Index, had its best year in 2019 as it registered a return of 14.5%, outperforming all other fixed income markets. S&P GCC Bond index, which measures the performance of U.S. dollar denominated, investment-grade bonds issued by GCC countries comprises of 125 issues with an aggregate outstanding market value of USD 213.8 billion[6].

Key Themes

Monetary easing spurs rally

Supportive monetary environment, wherein the U.S. Fed changed its earlier tightening stance and lowered its benchmark interest rate not just once but thrice, each time by 25 basis points (bps) to a new target range of 1.50% to 1.75% from an earlier value of 2.25% to 2.50%, contributed to dropping yields and lifted the price of most USD-denominated assets. Further, a statement from U.S. Fed Chairman that he would hold the interest rates steady for the near future spurred a rally. S&P GCC Bond Index that had a yield of 4.22% at the start of the year, ended at 2.98% (Dec 31, close). Interest rates and yields are directly related; while, yields and bond prices are inversely related. However, the outperformance of S&P GCC bonds by 440bps against Investment Grade corporate bonds and by 430bps against Emerging Bonds despite the largely stagnant oil prices could be due to the inclusion of GCC bonds, sovereign and quasi-sovereign issues, into the J.P Morgan Emerging Bonds Index (J.P EMBI).

Figure 6.1: GCC bonds outperforms other fixed income categories in 2019



Source: Reuters, S&P; Data as of Dec 31, 2019

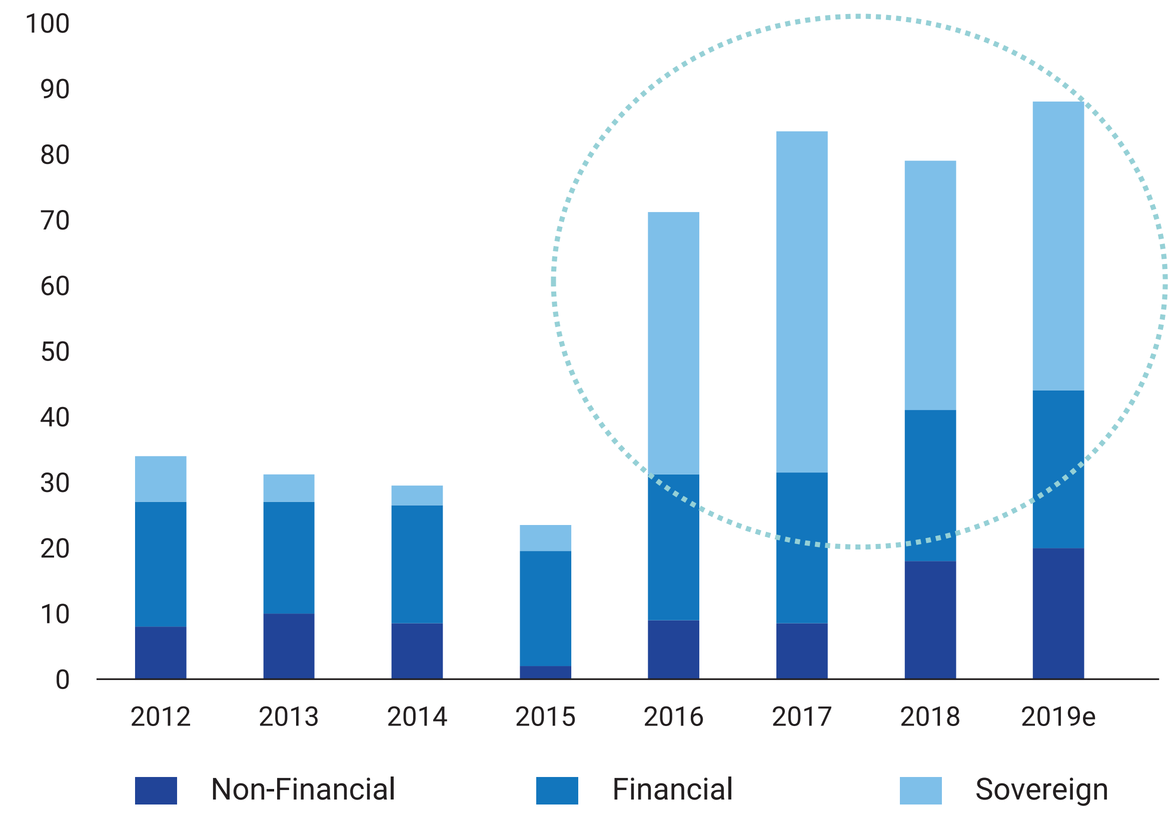
[6] S&P GCC Bond Index, November 2019 factsheet

Benchmark inclusion drives capital inflows

Debt issues from Saudi Arabia, United Arab Emirates, Kuwait, Qatar, and Bahrain were included in the widely followed J.P Morgan Emerging Market Bond Index in a phased manner from January 31 to September 30, this year[7]. The inclusion increases the weightage of GCC countries to 13.8% from the existing weight of 2.6%. With approximately USD 360 billion of assets benchmarked to the index, the move could have resulted in fresh capital flows to the tune of USD 40 billion into GCC debt (read more, GCC's inclusion in J.P Morgan's EMBI: The "Hurray" moment).

Foreign capital flows into GCC debt accelerated in 2016 as the GCC sovereigns to bridge the widening fiscal deficits following the fall in oil price started tapping the international markets with Eurobond issues[8]. Consequently, sovereign debt began to dominate the issuance and it led to robust capital inflows that were greater than those attracted by the GCC equity market. Interestingly, Saudi Arabia, Kuwait, Qatar, Bahrain and Oman together account for over a quarter of all new debt issued by emerging market countries in each of the last three years (2016-2018)[9].

Figure 6.2: Sovereigns dominated the Eurobond Issuance from GCC region



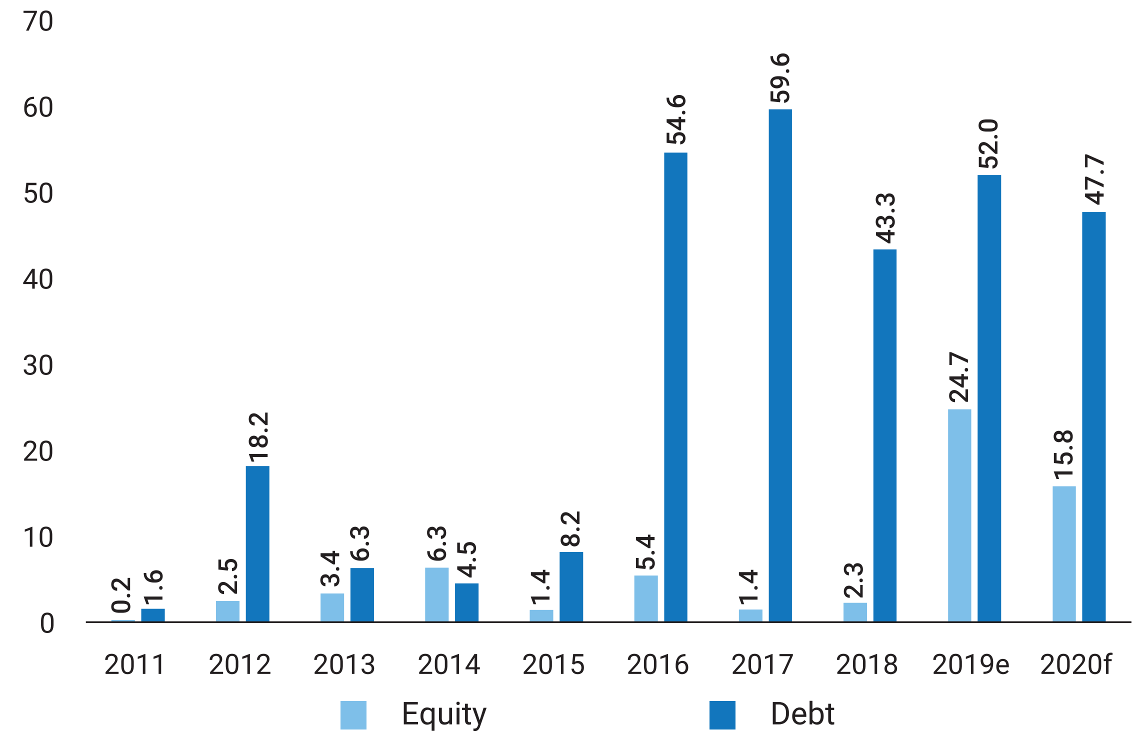
Source: Bloomberg, IIF; Data up to November 2019; Note: values in USD billion.

[7] Oman is already part of J.P EMBI

[8] Eurobond issuances are bond issuances that is distributed/marketed internationally across multiple countries.

[9] Reuters

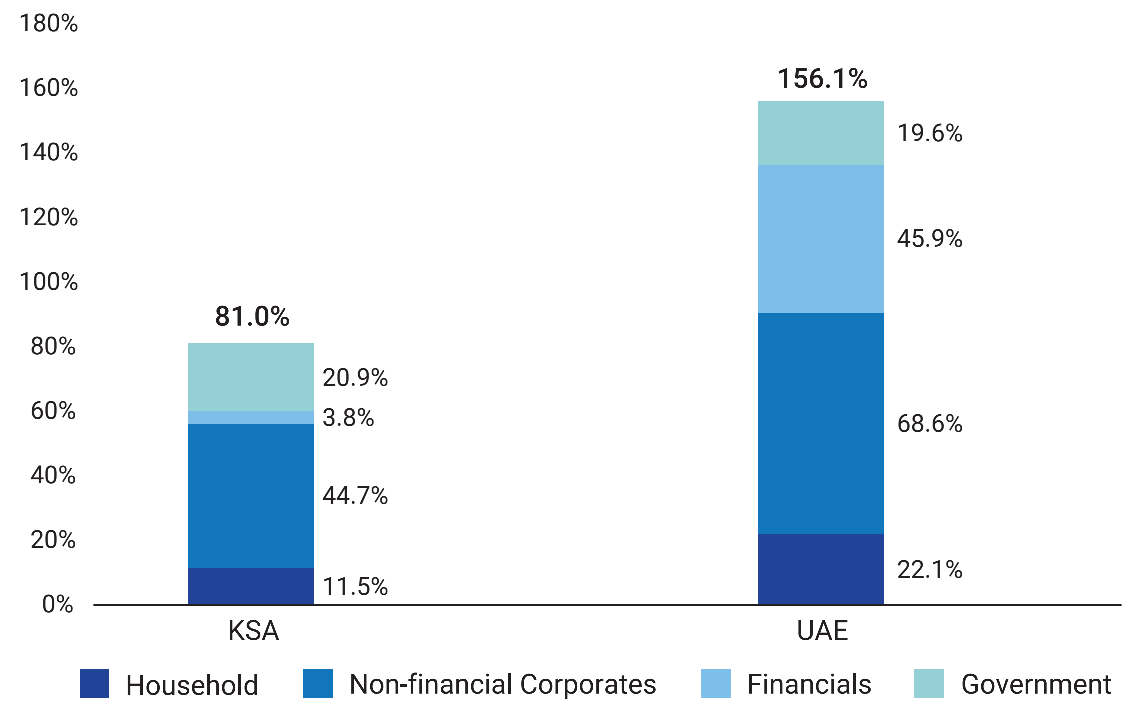
Figure 6.3: Debt trumps equity in garnering capital, GCC non-resident capital inflows



Source: IIF; Note: values in USD billion.

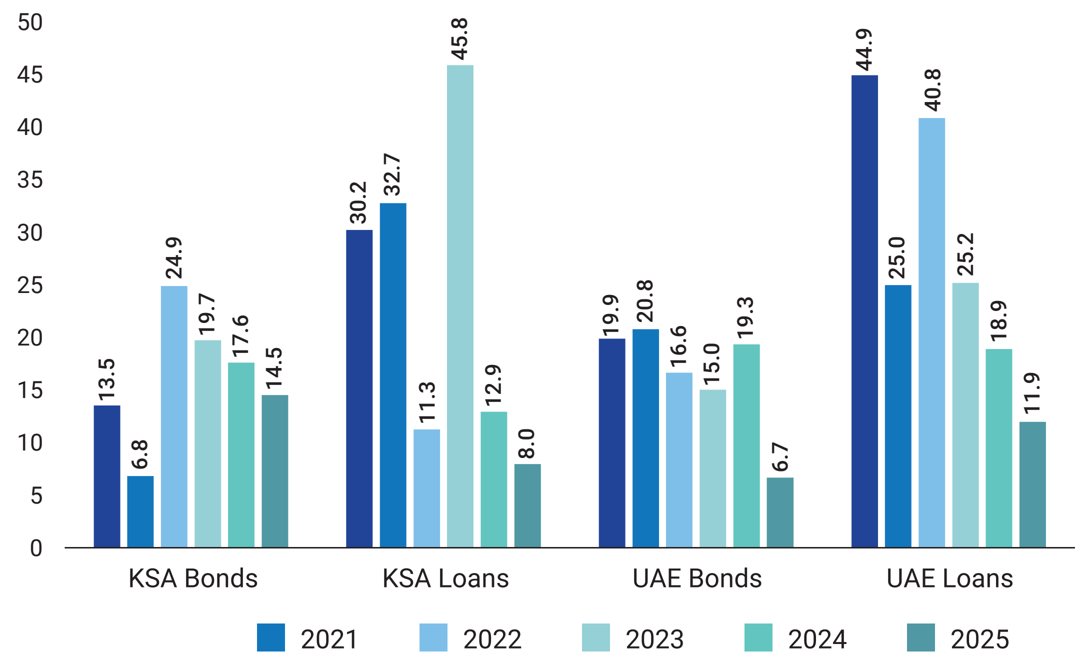
On an average, in the past four years (2016-19), GCC bond markets witnessed an inflow of USD 50 billion. For 2020, IIF expects the capital inflows to continue spurred by continued Eurobond issuances, as oil price remains lower than the fiscal breakeven price for most GCC countries.

Figure 6.4: Saudi Arabia and UAE, Debt level (as GDP per cent)



Source: BIS, IIF

Figure 6.5: Upcoming bond redemption and loan maturities



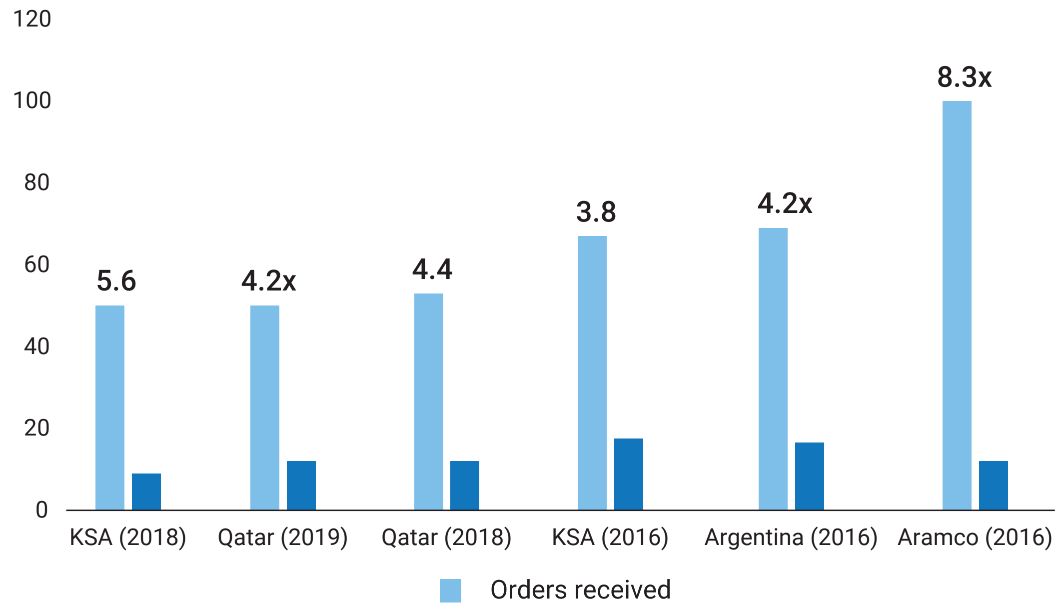
Source: IIF; Note: Values are provided in USD billion

The rising prominence of GCC debt could be understood from the enthusiasm showed by global investors for the Aramco bond issue.

Aramco bond had a stellar debut

As a precursor to the Aramco IPO, Saudi Aramco tested the international waters with its inaugural debt issue. Aramco marketed a U.S. dollar-denominated debt issue worth 12 billion split into five tranches with maturities ranging from three to thirty years. The debt issue generated tremendous enthusiasm among investors and went on to become the most oversubscribed emerging market debt offering in the financial history (Bloomberg).

Figure 6.6: Aramco inaugural debt offering turned out to be the most oversubscribed EM issue



Source: Reuters, Bloomberg, Marmore Research; Note: values in USD billion.

The demand was robust that Aramco was able to borrow at rates lower than the Saudi Arabian government, an event that is unprecedented in the fixed income world. 10-year bond that raised USD 3 billion for Aramco was priced 12.5bps lower than similar-maturity debt of Saudi Government and only 105bps higher than 10-year U.S treasury. Investor demand continued even after the listing of bonds as the yields contracted.

What to expect in 2020?

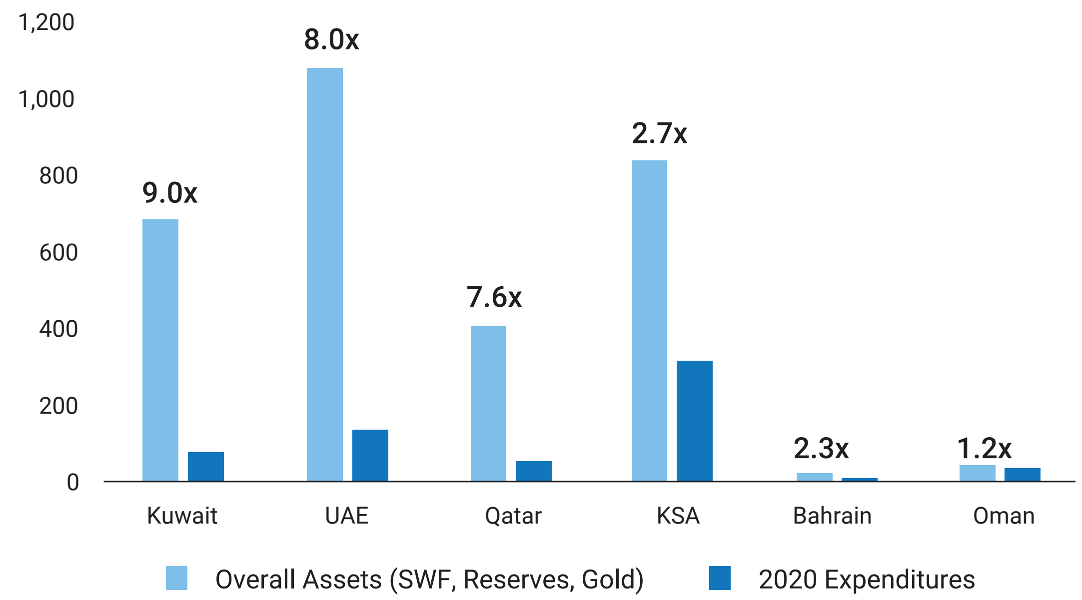
Low to negative yields in developed market could fuel buying frenzy in emerging market bonds

Since the global financial crisis of 2008 that led central banks worldwide to lower interest rates, the price of bonds have been steadily rising globally. Consequently, lowering the yields that investors could expect. Continued buying frenzy led bonds to become so pricey that pockets of European bond markets started witnessing negative yields in 2010. For instance, the yields of German sovereign bonds with 10-year maturity breached the zero-mark and went into the negative territory. The phenomenon has continued and as of December 2019, over USD 12 trillion of bonds trade with yields below zero. With interest rates continuing to be low and bond yields turning negative, investors could lap up emerging and frontier market bonds, including those issued by the GCC countries – essentially those that offer large positive yields.

GCC issues also offer highest risk-adjusted-returns underpinned by strong fundamentals

GCC sovereigns, especially Kuwait, UAE and Qatar have surplus reserves in the form of Sovereign Wealth Funds (SWFs) and command ratings on par with those of developed market countries. Moreover, compared to their annual expenditures, their coverage remains high providing cushion for investors.

Figure 6.7: Reserves & Expenditure Coverage



Source: IIF, Marmore Research; Note: Values in USD billion

Note: Expenditure coverage computed as ratio of overall reserves (SWF, foreign reserves and gold) to estimated expenditures in 2020.

Table 6.1: GCC Bonds offer the highest risk-adjusted returns

Category	Annualized Return, 3 years	Annualized Risk, 3 years	Risk-adjusted Returns
S&P GCC Bond	**6.42%**	**3.85%**	**1.67**
U.S High Yield Corporate Bond	5.81%	4.23%	1.37
Investment Grade Corporate Bonds, USD	4.42%	4.04%	1.09
Bloomberg U.S Aggregate Bond Index	2.92%	3.35%	0.87
J.P Morgan Emerging Market Bond Index, USD	4.44%	6.12%	0.73
10-year U.S Treasury Bond	2.39%	5.28%	0.45

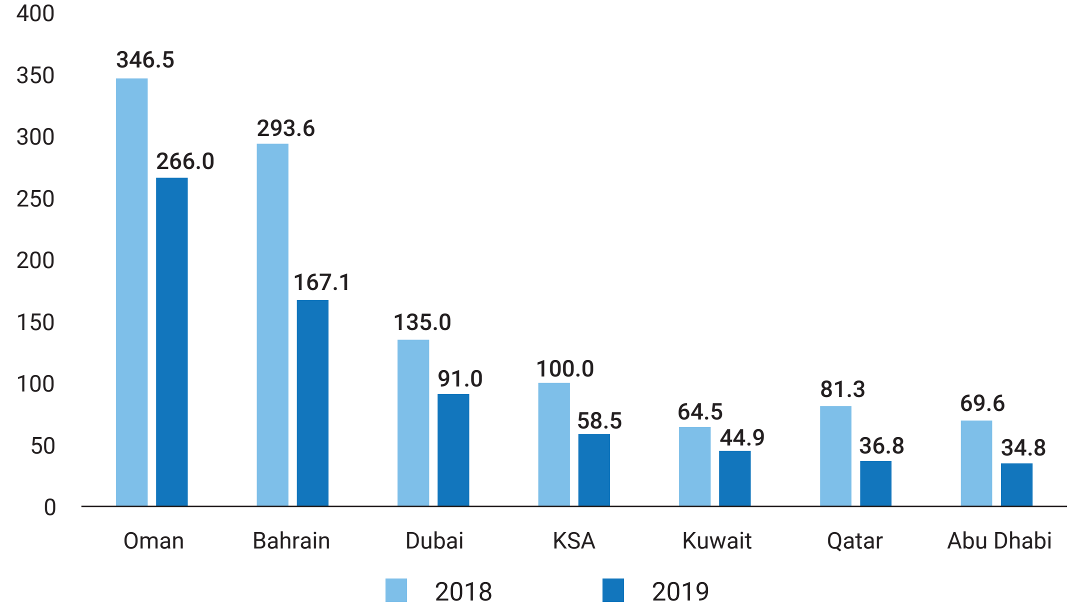
Source: S&P, Blackrock, Marmore Research

As a result, GCC issues offer much higher yields compared to their similar rated peers, leading to better risk-adjusted returns for the investors.

Sovereign default risk has eased

With strong fundamentals in place and a currency that is pegged to U.S Dollar for all GCC Countries except Kuwait[10] – GCC countries neither suffer from taper tantrums or currencies crisis that typically haunt emerging market investors. Moreover, global risks like Eurozone debt crisis, U.S – China trade war or Brexit have limited impact on the credit profile of GCC countries. As a result, despite the geopolitical events in the Middle East region, sovereign risks as perceived by the CDS spreads have fell in 2019.

Figure 6.8: Risk as measured by Credit Default Swap (CDS) spreads for the year have fallen



Source: Reuters; Value shown in basis points (bps)

[10] Kuwait is pegged to a basket of currencies in which U.S dollar is dominant

Final Word

De-escalation of trade tensions, better growth indicators for 2020 and benign inflation would continue to provide favorable support for GCC fixed income asset class. Interest rates, that closely track U.S Fed movements, are on hold for time being and in the worst case might only rise marginally. With GCC governments having consolidated their balance sheets in the past two/three years, could pursue expansionary budgets in 2020 to kick start economic growth. Inclusion of GCC bonds in J.P Morgan EMBI could attract international investor's interest and help lower borrowing costs.

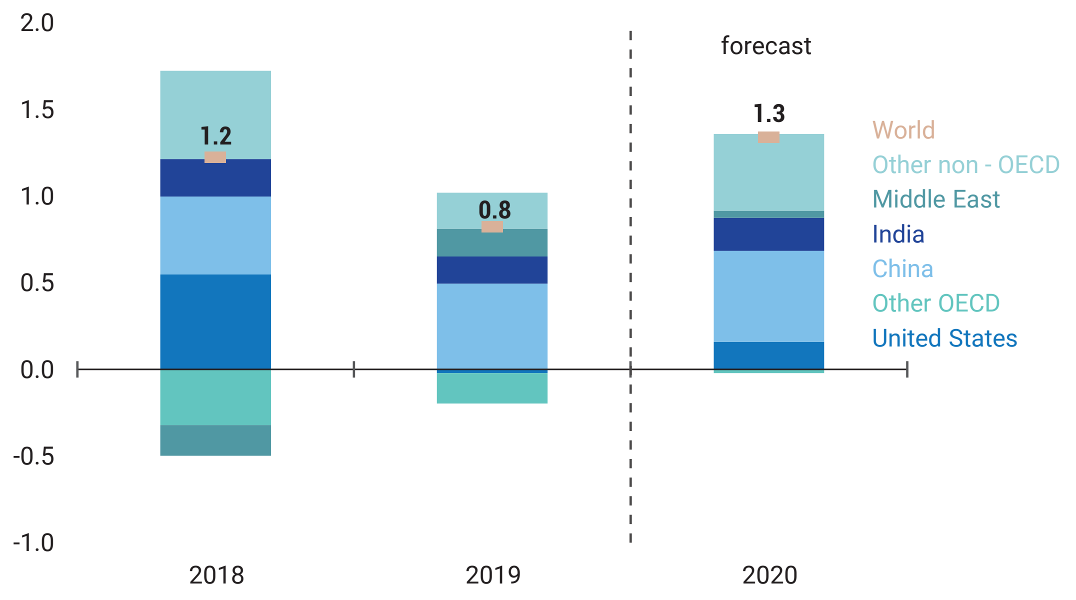
As we step into 2020, the outlook for GCC fixed income asset class looks promising. High positive yields, better risk-adjusted returns, currencies that are pegged to USD and improving credit quality on back of rising oil prices augur well for their improving stance. On the other hand, investors are wary if the increasing oil prices could lead to a sense of complacency on the reforms front. Alternatively, prudent fiscal management measures for Oman and Bahrain would be watched keenly. The region is geopolitically volatile and continues to witness attacks and counterattacks, on key targets including oil infrastructure and facilities. The recent air strikes by U.S has further escalated the prevailing tensions in the region and has ratcheted up geopolitical premiums.

7. Oil Outlook 2020

Spot price of Brent crude averaged USD 64.2/barrel (bbl) in 2019 with the market largely balanced in terms of demand and supply. In 2019, global supply slightly declined as Organization of Petroleum Exporting Countries (OPEC) maintained and continued with their production cuts while global demand for oil grew at its slowest pace since 2011 (EIA). The market witnessed bouts of volatility induced by various geopolitical events such as the drone attacks on Aramco facilities (read more, Crude Awakening) and U.S. air strikes. U.S air strikes increased the uncertainty surrounding potential disruptions to oil production facilities and shipping routes in Middle East adding up geopolitical risk premiums to the pricing. In December 2019, the market witnessed upward pressure in pricing as OPEC members agreed to deepen their production cuts and the long brewing U.S. China trade war tensions eased. The first phase of the trade deal was signed in January 2020.

For 2020, EIA expects oil demand to increase by 1.3million barrels per day (mbpd) while supply is set to increase by 1.6mbpd, as a result global inventories could rise by 0.3mbpd. Supply growth is set to rise in countries that are not part of the OPEC such as the U.S., Canada, Norway and Brazil. Non-OPEC producers are set to add a supply of 2.6mbpd in 2020 while the OPEC production restraint is set to reduce the 1.0mbpd, resulting in a net supply of 1.6mbpd for 2020.

Figure 7.1: Annual change in demand (in mbpd)



Source: EIA

Demand is set to raise in 2020 as new petrochemical plants in China, U.S and the Russia are set to come on stream. Further, the recent rule from International Maritime Organization (IMO) that calls for lowering of the maximum sulfur content in marine fuel oil form earlier 3.5 per cent to 0.5 per cent could shift demand from residual fuel towards less energy-dense distillate. This could increase the volume of consumption and add about 0.1mbpd. China, despite its decelerating GDP, would increase its consumption supported by new petrochemical plants that are set to come on-stream in 2020. Oil consumption remains strong in India that together with China would account for over half of the demand growth in 2020. China and India would add 0.5mbpd and 0.2mbpd, respectively in 2020.

In 2019, U.S. crude oil production increased by 1.3mbpd to an average of 12.2mbpd with most growth coming from the Permian region of Texas and New Mexico. Production growth in the U.S. seems to be moderating compared to the earlier growth of over 2mbpd in 2018. For 2020, U.S. crude production could average 13.3mbpd, as a result, U.S. that so far had been a net importer of crude oil could turn to be a net exporter of crude oil and petroleum products by 0.8mbpd in 2020.

Production from oil fields lying in the neutral zone shared between Kuwait and Saudi Arabia, which has been offline since 2014, would soon resume and could reach maximum production level by 2021. However, production offsets elsewhere would keep the overall production level unchanged. The move would increase the spare capacity of OPEC to 2.0mbpd that could effectively alleviate any upward pressure on pricing due to unforeseen production disruptions. As a result, expectations for 2020 remain modest in the range of USD 58 to 65/bbl (EIA).

Table 7.1: Brent spot price calls for 2020

Institution	Brent Price (USD/bbl)
World Bank	58.0
Goldman Sachs	63.0
J.P. Morgan	64.5
EIA	65.0

Source: Various

8. Insights

GCC Capital Market Reforms in 2019

United Arab Emirates

100% foreign ownership

In July of 2019 state news agency WAM reported the UAE cabinet has approved 122 economic activities across 13 sectors eligible for up to 100% foreign ownership. The federal government will leave it up to individual sheikdoms to decide the ownership percentage in each activity according to their circumstances. The new rules essentially lift a federal requirement that has long capped foreign ownership in local companies at 49%. The change frees the country's seven emirates to open up their industries to foreign investors, many of whom demand full control over their operations. The sectors where up to 100% foreign ownership will now be permitted include:

1. Renewable energy
2. Space
3. Agriculture
4. Manufacturing industry
5. Transport and storage
6. Hospitality and food services
7. Information and communications
8. Professional, scientific and technical services
9. Administrative and support services
10. Education activities
11. Healthcare
12. Art and entertainment
13. Construction

Abu Dhabi

Dual Listings in UAE and Saudi Arabia

In February of 2019, Abu Dhabi Securities Exchange (ADX), agreed to be the sole entity responsible for clearing UAE securities traded in Saudi Arabia, as part of efforts to strengthen bilateral cooperation in the dual listing of securities in Saudi and UAE financial markets. ADX signed a memorandum of understanding with the Securities Depository Center Company in Saudi Arabia, which wholly owns the Tadawul stock exchange in the kingdom. Under the deal, ADX will exclusively provide custody, registration, clearing and settlement services for UAE securities traded on the Tadawul. Dual listings can help attract capital from a broader range of markets and increase a publicly traded company's visibility to a greater number of investors.

Payit digital wallet

Abu Dhabi Securities Exchange (ADX) has partnered with First Abu Dhabi Bank (FAB) to distribute cash dividends to its registered investors electronically through the bank's digital wallet, payit. The digital wallet will empower users to manage their stock exchange requirements through the "ADX Digital Wallet" powered by payit.

Dubai

Multiple Investors Number Service

On October 2019, Dubai Financial Market started issuing Multiple Investors Number (NINs) for its investors as of October 2019, provided they meet eligibility criteria set by DFM. The new service will enable investors to better manage their ownership and investment portfolios by segregating ownerships between their main NIN and additional NIN with the same or different custodians. The new initiative also allows investors to transfer ownership amongst their multiple investor numbers.

Dubai Financial Market launches Sharia index

On October 2019, Dubai Financial Market, launched the Dubai Financial Market Sharia Index. The index is the first index of its kind in the UAE and highlights the DFM's efforts to attract more Islamic investments, and is seen as a step forward by providing market participants with a benchmark to measure the performance of Sharia-compliant listed securities and to take their investment decisions accordingly.

Loss making firms

On October 2019, new measures were introduced to improve oversight of loss-making companies. Companies reporting losses of 20% or more of their issued share capital will be more closely monitored by the Dubai Financial Market exchange and will be classified and colour-coded on the exchange's website, making them easier to identify. Companies incurring losses of 50 per cent or more of their capital need to submit a detailed plan to handle the situation with a definite period, apart from listing the main causes of their poor performance.

MyAccount service

In September 2019, the Dubai Financial Market launched myAccount service, an electronic account that enables investors to seamlessly transfer dividends amounts to their iVESTOR Card accounts, bank accounts as well as to pay for IPOs and Right Issues subscription.

Foreign Ownership Limit

In September 2019, the Dubai Financial Market (DFM) launched the enhanced Foreign Ownership limits (FOL) webpage, providing market participants with real time FOL info every two minutes during the trading session about the actual and a new column for available ownership limits to own or to trade.

Saudi Arabia

Updated index methodology

On December 2019, the Saudi Stock Exchange announced that it updated its index methodology for the development and management of Tadawul equity indices. According to the updates,

- "Free Float Shares Calculation Methodology" has been revised with regards to Non-Free Float Shares owned by a Government Entity (ownership is 5 percent and more), restricted shares, companies share buy-back, controlling ownerships, and shares held by members of the board of directors.
- New rule for "Fast Entry", whereby shares of significantly large IPOs are included in TASI at the close of the 5th trading day.
- Index capping for TASI with a 15% threshold to reduce dominance of larger companies on the index performance so that the weights of all index constituents remain under a set capping threshold. Any constituent whose index weight reaches or exceeds the threshold will be capped in accordance with the set limit.

Data Services and Indices for Sukuk and Bonds Market

On November 2019, IHS Markit, a world leader in critical information, analytics and solutions, announced plans to form a partnership with the Saudi Stock Exchange, to jointly develop data services and indices to enhance liquidity and assist investors in accessing Riyal-denominated Sukuk and Bonds Market. Through the partnership, market data from Tadawul will be connected with the bond pricing expertise at IHS Markit and, in turn, construct and administer benchmark indices, beginning with Government Sukuk.

Saudi market regulator facilitates listing of foreign companies

On October 2019, the Saudi Stock Exchange (Tadawul) announced allowing foreign companies to list on Tadawul upon the Capital Market Authority approval of amended Listing Rules, including provisions related to foreign listing. Foreign companies will be subject to the same listing, disclosure and governance requirements as Saudi listed companies, and foreign shares will be traded on the Saudi Exchange.

Relaxation of ownership limits for foreign investors

In June of 2019, Saudi Arabia relaxed a 49% limit for foreign strategic investors in shares of listed companies, aiming to attract higher foreign funds. There will now be no minimum or maximum ownership limit, although the owners must hold the shares for two years before they can sell. While the CMA has removed the cap, limits by other regulators or a company's own rules still apply.

Tadawul Structural Changes to Nomu Parallel Market for Small-and Medium-sized Enterprises

In February of 2019, the Saudi Stock Exchange (Tadawul) announced a series of structural changes to Nomu, a parallel equity market with lighter listing requirements that serves as an alternative platform for companies to go public, and the investment in this market is restricted to Qualified Investors. The changes are aimed at supporting the growth, development and sustainability of the market, increasing the number of listed companies on Nomu and enhancing the market liquidity. The structural changes were implemented in two phases, the first one in Q1 2019, and the second in Q2 2019.

Changes in the first phase include:

- Provisions to allow direct listings on Nomu Parallel Market without an IPO;
- Requirements for issuers to report financial earnings on a semi-annual basis instead of quarterly based reporting;
- Streamlining the process for issuers to transition from the Parallel Market to the Main Market;
- Establishing access mechanisms by applying minimum liquidity threshold, reducing normal trade threshold, and
- Introducing Nomu Capped Index.

Changes to be rolled out in the second phase include:

- Listing Close Ended Funds and REITs on Nomu,
- Introducing volatility guards and
- Introducing independent research

Tadawul 30 Exchange

In January of 2019, the Saudi Stock Exchange (Tadawul) and MSCI partnered to develop a joint tradable index that can be used as a base for financial products including Derivatives and ETFs. The index is called MSCI TADAWUL 30 INDEX (MT30). The MSCI TADAWUL 30 (MT30) Index represents the performance of approximately the 30 largest & most liquid securities listed in the Saudi equity market. Moreover, securities' weight will be capped at 15% Capping Threshold to minimize dominance of large securities in the Index.

Kuwait

Phase III Implementation

Kuwait's market development project aims for the implementation of regulatory and operational enhancements in the Kuwaiti equity market. Phase III of Market Development was initiated in 2019 in a two-phase implementation process. First installment deals with products such as short sale, off-market trading and improving the fund-trading platform. The second installment includes changes in cash settlement through Delivery Versus Payment (DvP)-2 system, applying Central Counter Party (CCP), qualifying brokers, trading on margin by qualified brokers, repurchase agreement (repo), and dividing client's accounts into subaccounts and numbering them.

Omnibus account structures and same NIN cross trades

Morgan Stanley Capital International (MSCI), a leading provider of global capital market indices, announced on June 25, 2019 that it would reclassify Kuwait as an emerging market, subject to availability of omnibus account structures and same National Investor Number (NIN) cross trades for international investors. By December of 2019, market accessibility enhancements were introduced by the Kuwaiti authorities that allowed international institutional investor to benefit from omnibus account structures and same National Investor Number cross trade capabilities. With the fulfilment of these prerequisites, MSCI Inc. decided to reclassify the MSCI Kuwait Indexes to Emerging Markets status as part of the May 2020 Semi-Annual Index Review in one step.

Oman

Takaful Regulation

In December of 2019, the legislative framework for Takaful products and the companies operating in this sector was finalised with the issuance of the Takaful Regulation by Oman's Capital Market Authority. The issuance specified six months for the companies to adjust their position from the date the regulation, which came into force on December 23, 2019.

Takeover and Acquisition Regulations

In May of 2019, Capital Market Authority issued an Administrative Decision protecting Takeover and Acquisition Regulations for public joint stock companies listed on the Muscat Securities Market (MSM). The regulation aims to regulate takeover and acquisition processes limited to no more than 25% of the shares of pubic joint stock companies and controlling percentages in the company. The guidelines are aimed at providing protection for shareholders and in the interest of fair, transparent and equitable treatment of all the parties. It also provides for an exit in cases of acquisition.

New Commercial Companies Law

The new law came into effect from April 1, 2019, and the old Commercial Companies Law, enacted in 1974, will now cease to exist. Some of the key structural highlight are as follows:

- Limited liability companies can now be incorporated with a single natural person or corporate shareholder.
- The new law conferred on CMA the whole powers to regulate the public joint stock companies since establishment, and supervise their work to ensure they conduct business in accordance with sound administrative rules to protect the shareholders.
- It copes with the recent developments in financial industry including providing Islamic finance products such as sukuk and Islamic investment funds.
- Holding company will take the form of a joint stock company unlike the previous situation where the holding company had the options to be a limited liability company or a joint stock company.
- With regard to professional firms, the law includes a new Article on the professional firms such as accounting and law firms.
- It also organises all the procedures for establishment of public joint stock companies and reduces the terms required for this.

Qatar

Centralised Shariah board

In December of 2019, Qatar, which is poised to become a leading Islamic finance hub in the GCC region, initiated plans to establish a centralised Shariah board with an aim to enhance consistency and integrity in the sector. Plans are also afoot in strengthening the regulations in Islamic finance to support Chinese Renminbi-denominated Islamic capital market products such as sukuk.

Investment Promotion Agency

On July of 2019, Qatar formed a high-level committee to attract more investments from different parts of the world. The Investment Promotion Agency (IPA) will work to further attracting foreign direct investment (FDI) in line with objectives set out in the Qatar National Vision 2030. As part of its mandate, the Agency will aim to be a single and complete source for investment solutions in Qatar by attracting FDI in all of the country's priority sectors. The entity will also pursue targeted, sector-specific investment promotion agendas and coordinate investment promotion and marketing activities with key stakeholders, as well as develop policy advisory.

Bahrain

Electronic Fund Transfer System

In May of 2019, Bahrain Clear, a fully owned subsidiary of Bahrain Bourse and a clearinghouse licensed by Central Bank of Bahrain, signed a cooperation agreement with BENEFIT, the leading electronic transactions company, under which Bahrain Clear will join the Electronic Fund Transfer System (EFTS). The agreement allows investors, brokers, custodians and issuers to pay fees and commissions of all services provided by Bahrain Clear, efficiently and in a secure manner. Throughout the agreement, BENEFIT seeks to provide ancillary services for the financial sector in the Kingdom of Bahrain.

Smaller Tick Size Framework

In May of 2019, Bahrain Bourse announced the implementation of a new tick size framework, aimed to unify all categories of listed financial instruments (excluding Debt and T-bill securities). The new tick size aims to revitalize companies with lower market capitalization and help incentivize investors due to narrower market spreads. The framework is designed to mitigate investors risk in the event of price drops and limit excessive disruption to the market. Investors will also be able to place orders with smaller fractions, which will enable investors to mitigate risks.

Short Selling and Securities on Loan

In March of 2019, as part of the efforts to develop the financial sector in the Kingdom of Bahrain and in line with international best practices, the Central Bank of Bahrain issued regulations with respect to short selling and giving securities on loan. The Resolution encompasses controls and procedures pertaining to lending, borrowing and short selling of eligible securities, the obligations of the related parties, and refers to guidelines and instructions necessary to implement the requirements of this Resolution.

UN's Sustainable Stock Exchanges Initiative

In February of 2019, Bahrain Bourse officially joined the United Nations Sustainable Stock Exchanges initiative to demonstrate its voluntary commitment to promoting sustainable and transparent capital markets in cooperation with listed companies and other related stakeholders. The UN's SSE initiative is a peer-to-peer learning platform that focuses on sustainable disclosure of environmental, social and governance factors, which can affect a company's ability to execute its business strategy and create value.

Saudi Aramco IPO Overview

Aramco's genesis can be traced back to 1933, when Standard Oil of California discovered oil in the desert sands of Saudi Arabia. Texaco and Chevron formed the Arabian American Oil Company (Aramco) shortly thereafter in order to develop oil fields in the country. The Saudi Government, which had been gradually buying Aramco's assets, nationalized the company in 1980 and effectively gave it full power over all Saudi reserves and production. The company was renamed Saudi Aramco in 1988. The reason Aramco today is the most valuable company in the world is because of these oil reserves, which the company controls.

In 2018, estimates suggest that Aramco had in excess of 330 billion barrels of oil and gas in its reserves, equivalent to a quarter of all of the world's reserves, and almost ten times those of Exxon Mobil, its closest competitor in market cap, among oil companies. To add to the appeal, oil in Saudi Arabia is close to the surface and cheap to extract. Therefore, production costs are low enough to break even at USD 20-25 per barrel, which is well below the USD 40-50 breakeven price that many other conventional oil producers face.

The edge enjoyed by the company in both quantity and costs have manifested in its financials. Aramco produced 13.6 million barrels of oil & gas per day in 2018, reporting revenues of USD 355 billion for the year, on which it generated operating income of USD 212 billion and net income of USD 111 billion. Aramco's net income for the first half of 2019 however decreased by 11.5% to USD 46.8 billion as compared to USD 53.02 billion in the same period of 2018. According to the company, the fall in profits was mainly due to a decrease of 4% in the average realized price of crude oil from USD 69 per barrel to USD 66 per barrel and an increase in purchases, producing and manufacturing costs, and depreciation and amortization costs. Nevertheless, the company continues to enjoy its position as the most profitable company in the world.

Table 8.1: Saudi Aramco Income Statement

USD Billion	2017	2018	% Change	H1 2018	H1 2019	% Change
Revenues	224.13	315.24	40.65%	148.77	146.86	-1.28%
Other income related to sales	40.05	40.70	1.64%	18.91	17.02	-9.98%
Total Revenue	**264.18**	**355.94**	**34.74%**	**167.68**	**163.88**	**-2.26%**
Cost of Revenue, Total	86.39	120.97	40.03%	(55.56)	(58.93)	6.07%
Gross Profit	**177.79**	**234.97**	**32.16%**	**112.12**	**104.95**	**-6.39%**
Total Operating Expense	108.73	143.03	31.55%	66.46	71.12	7.01%
Operating Income	**155.44**	**212.91**	**36.97%**	**101.22**	**92.77**	**-8.35%**
Net Income Before Taxes	155.05	212.77	37.23%	101.23	92.49	-8.63%
Provision for Income Taxes	79.15	101.70	28.49%	48.21	45.59	-5.43%
Effective Tax Rate	51%	48%		48%	49%	
Net Income After Taxes	**75.90**	**111.07**	**46.34%**	**53.02**	**46.90**	**-11.54%**

Source: Saudi Aramco

Saudi Arabia is one of the 20 largest economies, in terms of GDP, but it derives almost 80% of that GDP from oil. The Saudi budget has been largely dependent on the cash flows it collects from Aramco, in the form of royalties and taxes. However, under the vision of Crown Prince Mohammed Bin Salman, the oil-rich kingdom is looking beyond oil in order to diversify its economy. The crash in crude oil prices that began in 2014 has left the country with gaping budget deficits and while oil prices have recovered since, the Crown Prince has set out to reinvent the Saudi economy by the year 2030 under his plan called the Vision 2030. In order to assist the Kingdom to finance projects and facilitate the process of achieving the goals and targets of Vision 2030, the Crown Prince announced, in January 2016, the idea to float shares of Aramco in the open markets.

After a few years of preparation, in December of 2019, Saudi Aramco finally decided to float 1.725% of the Company's outstanding shares (0.725% to local retail shareholders and remaining 1% expected to be taken largely by Saudi institutions and funds in the region), or about 3.45 billion shares. The company raised USD 29.4 billion, after receiving total bids of USD 119 billion, making it the world's biggest initial public offering. The final price of its shares were set at 32 riyals (USD 8.53), valuing the company at USD 1.7 trillion.

Table 8.2: Largest International IPOs

Country	Year	Deal Size (USD Bn.)
Saudi Aramco*	**2019**	**29.4**
Alibaba	2014	25.0
SoftBank	2018	23.5
ICBC H	2006	21.9
AIA Group	2010	20.5
Visa	2008	19.6
NTT DOCOMO	1998	18.4
General Motors	2010	18.1
Enel Group	1999	17.4
Facebook	2012	16.0
Deutsche Telekom	1996	13.0

Source: Gulfnews.com

**Estimated IPO price based on offer price of SAR 32 for 1.5% of total shares*

However, this value fell short of the USD 2 trillion valuation envisioned by the Saudi government for Aramco, underscoring its plans to use the company as a tool for diversifying the kingdom's crude-reliant economy. The lower valuation came amid concerns from overseas investors about the security of energy assets after a devastating drone attack on its facilities in Shaybah in August 2019, which not only caused a 54% reduction in oil production, but also cost billions of dollars to the company.

Saudi Arabia abandoned its plans to market Aramco shares outside the kingdom and its Gulf neighbours, believes it could achieve their desired target by relying on demand from retail investors domestically. To bring this to fruition, the company has committed on paying at least USD 75 billion in dividends in 2020 and to maintaining these dividends through 2024. Beyond 2024, dividends will revert to their normal discretionary status, with the board of directors determining the appropriate amount. Additionally, each eligible retail investor who continuously and uninterruptedly holds offer shares for 180 days from and including the debut date on Tadawul will be entitled to receive one bonus share for every ten allocated offer shares, up to a maximum of 100 bonus shares. The Saudi government also instructed banks to lend for the IPO adding to the list of measures taken to make the company look more attractive to domestic investors.

The energy giant debuted on Riyadh-based stock exchange (Tadawul) on 11 December. Day 1 witnessed high trading activity and investor interest as the stock rallied 10%, closing the day at a price of 35.20 riyal, subjected to trading restrictions of the Tadawul exchange that places a limit of 10% movement in the stock price in a day. The shares continued to trade at a premium in the following days ultimately breaching the USD 2 trillion on 16 December. However, share prices have regressed from its peak as the momentum on investor euphoria took a step back.

Figure 8.1: Saudi Aramco Stock Performance

*Source: Reuters / *As on 29th December 2019*

The Aramco stock acts more like a dressed-up bond where dividends will remain the primary form of return to the shareholders and there will be little price appreciation. Even if the price of oil went up, the upside will be limited for Aramco investors. The royalty structure on oil were reset ahead of the IPO and will vary, depending on the oil price, starting at 15% if oil prices are less than USD 70/barrel, increasing to 45% of the incremental amount, if they fall between USD 70 and USD 100, and becoming 80%, if the oil price exceeds USD 100/barrel.

Issues to look out for post the Aramco IPO:

As the long awaited IPO finally ends, Aramco will now have all the traits of a publicly traded company, from board of directors to annual meetings and disclosure of all the financial statement requirements. These formalities, though, should not obscure the fact that shareholders will have no say in company operations. The Saudi government has been open about this, stating in its prospectus "the Government will continue to own a controlling interest in the Company after the Offering and will be able to control matters requiring shareholder approval. The Government will have veto power with respect to any shareholder action or approval requiring a majority vote, except where it is required by relevant rules for the government." The government therefore has absolute control of the company and a regime change could cause upheaval.

The reason behind the majority control of the government lies in the fact that it would be difficult and perhaps even dangerous to even consider allowing a company, which can be viewed as a proxy for the country, to be exposed to the risks of the corporate world. A hostile corporate takeover of the company would be a direct threat to the nation as a whole. The bottom line is that an investor in Aramco will be more of a capital provider than regular shareholders, and therefore will have little or no say in corporate decision making.

Keeping aside the fact that Aramco has a few holdings and joint ventures outside of the Kingdom of Saudi Arabia, the company is almost entirely dependent on Saudi Arabia due to its corporate mission. A conventional oil company that is over dependent on a specific country can try to diversify it country specific risk by exploring for oil or buying reserves in other countries. Aramco however does not enjoy this luxury. Finally, the Middle East has had more than its fair share of turmoil, terrorism and war, and the recent attacks on Aramco oil installation is a reminder to the ever-present threat that lurks in the region.

For further insights, read our comprehensive report on Saudi Aramco's mega IPO - **Saudi Aramco Valuation**

9. Five Key Questions to ponder upon as we move into 2020

1. How did all Asset Classes have double-digit returns despite the doom and gloom in 2019?

Performance of major asset classes in 2019 seemed too good to be true especially with the backdrop of trade risks, potential slowdown in global economic growth, sluggish manufacturing sector, geopolitical risks and a likely recession. Investors who bought anything and everything made money during the year, with all major asset classes posting double-digit returns. What we witnessed during the year was the glaring disconnect between equity returns and economic growth. Global economic growth fell to its lowest since the global financial crisis in major economies like U.S., Europe and China as weak manufacturing sector performance and geopolitical uncertainties weighed in on Capex.

Three key themes could explain what led to such a divergence between macroeconomic fundamentals and asset class returns in 2019. First would be the dovish U-turn of the U.S. Fed, cutting policy rates thrice during the year in addition to its balance sheet expansion, pumping liquidity into the markets after mid-September. Likewise, other major central banks around the world were also receptive to market sentiments, lowering their interest rates. The stimulus offered by Central Banks pushed up the prices of all asset classes simultaneously. Second would be the sell-off close to the end of 2018, where almost every asset class were beaten down. The escalation of tensions due to trade war and fears of how it would affect global growth resulting in almost all major asset classes posting negative returns. With valuations dropping down and the U.S. Fed changing its stance, the rebound was more or less inevitable, with the sell-off in 2018 probably inflating the point to point return between the start and end of 2019. Third reason would be the de-escalation of trade tensions between the U.S. and China close to the end of 2019, as both countries agreed a phase one interim trade deal, allaying fears over global growth. With the U.S. elections coming up, investors believe that the trade risks would be on hold for the near term, as they started pricing in the premise that U.S. President Donald Trump would not prefer to face the elections with the markets and economy in a bad shape, which would derail his chances of reappointment. The performance of safe haven assets such as Gold should not come as a surprise for as recessionary alarm bells kept ringing throughout the year with signals such as weakening growth in major economies and the Treasury yield curve inversion spooking investors.

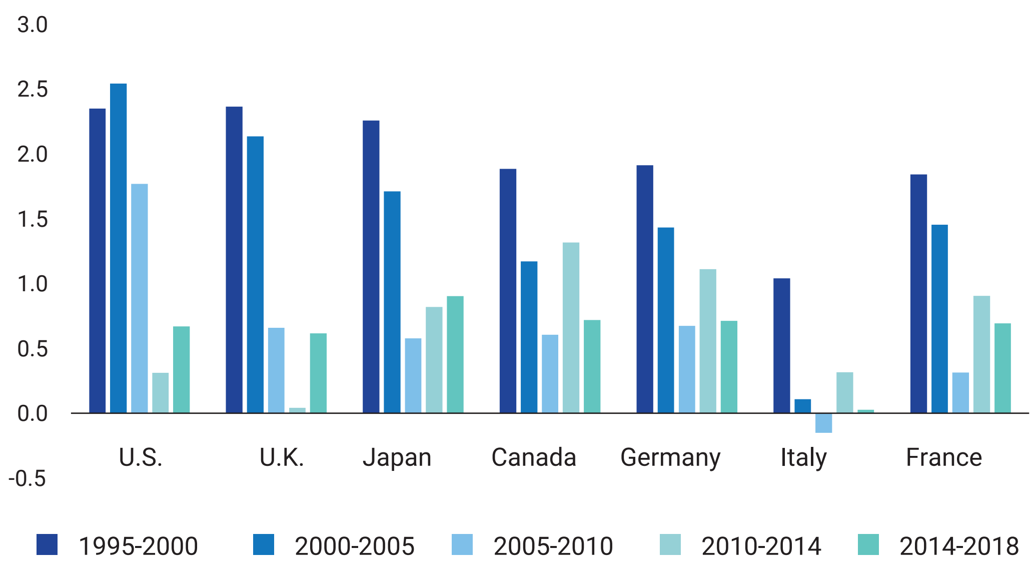
2. How far can Central Banks go before monetary policy becomes ineffective?

Central Banks across the globe have been surprisingly receptive of market expectations during the year and have exhibited their willingness to be supportive to keep the economic expansion going. In the past few decades, Central Banks have been over-reliant on monetary policy to stimulate the economy and stimulate growth. For instance, the U.S. Fed have cut their fed rates thrice during 2019 and provided liquidity in the repo market. This has become go-to solution for Central Banks. Consequently, we are currently in a low interest rate environment, with unconventional monetary policy tools being exhausted. The U.S. during its rate hike cycle in 2018 could not get its rate beyond 2.5 percent, and has now cut the rates back down to 1.75 percent. Generally, the U.S. Fed has reduced interest rates by close to 5 percentage points as a reaction to recession. In today's scenario, that would translate to an interest rate of -3.25 percent if the U.S. Fed had to initiate a similar response. This scenario looks highly unlikely and highlights the issue at hand, which is that Central Banks have run out of room to use interest rates as a reaction to a possible recession. GCC Central Banks tend to follow the monetary policy adopted by the U.S. Fed as their currencies are pegged to the U.S. dollar (except Kuwait). Kuwait has a current policy rate of 2.75 percent and faces a similar issue as that of other Central Banks around the world. The case is similar for other GCC countries, where the response needs to come from the fiscal side rather than the monetary side. When the next downturn would arrive is up for debate right now, with the markets changing their expectations every year. But one thing that is certain at this point is that the traditional options that the Central Banks have been using is slowly running out of room.

3. Is technology actually boosting productivity?

We are currently in the midst of Industry 4.0, otherwise known as the fourth industrial revolution where rapid advances in technology are revolutionizing the way in which businesses work. Technology was and is being touted as something that would make processes more efficient, thereby being a key enabler to improve productivity.

Figure 9.1: Labor Productivity growth in Major economies by GDP per hour worked (in %)



Source: OECD

However, what has happened in reality is quite the opposite. Despite major technological innovations in every domain, productivity has either declined or stagnated in the past decade.

Productivity has deep economic and social implications. According to Boston Consulting Group's Yves Morieux, productivity changes are closely tied to standards of living. For instance, if productivity grows by 3 percent every year, the standard of living of each generation doubles. On the contrary, if the growth in productivity is 1 percent every year, standard of living takes three generations to double, which would effectively mean that the current generation are worse off economically and socially than their predecessors.

Theoretically, an improvement in technology used in business processes must improve efficiency and translate to better productivity. But in reality, there are other external factors that could affect this relationship. Firstly, technological disruption is by nature disruptive, which means that there is a significant amount of time required to train people and allow them adapt to the change. The introduction of technological improvements like robotics or a new software tool may improve efficiency, but the phase of adoption partly offsets the time saved. In addition, as we move towards digitizing all our services, cyber threats and data breaches have become a more pronounced challenge. There is a flipside to innovation as well. As much as we see innovations to boost productivity, we also see ones that kill them. Social media, internet videos and videogames become distractions at the workplace and kill the benefits attained by process improvements. A study conducted by management consulting firm Bain & company states that executives receive more than 30,000 external communications every year during the 2010s, which is thrice as much as the average in the 1990s. Rise of smartphones have also had a negative effect across age groups, as people tend to get more distracted than before. Beyond the impact on productivity, these distractions also have an impact on quality of life.

Some economists also believe that the innovations in today's business are not as path breaking as something like the invention of electricity or the steam engine. The economic impact of today's innovation are much less in comparison, which could be one of the reasons why we do not see any drastic improvements in productivity despite new technology. Maybe the potential of technology to raise productivity is still largely untapped, but as things stand, it has to be said that productivity has only declined. Technology has made the world smarter, but we need to ensure that we are smart in using it.

4. Climate Change, Push for clean energy, EVs – Will Oil demand ever pickup?

Environmentalists have been sounding alarm bells pertaining to climate related issues for a while now and have strongly advocated a move towards more environmentally sustainable practices to preserve the planet. Despite Climate change and Global Warming being longstanding concerns, the voices calling for action to curb these threats have strengthened in recent times with more people joining the cause after witnessing the occurrence of adverse events across the globe. The recent bushfires in Australia is a prime example of what we could expect to see if we do not address the climate change issue at hand. The magnitude of the crisis is so large that it has burned more than twice the area that was affected by Amazon's 2019 fires and California's 2018 fire combined.

As events such as the Australian bushfires continue to unfold, it will only further strengthen the calls for immediate action to restrict the usage of fossil fuels and move towards clean energy. With the trade war already causing the demand for oil to drop, intensifying concerns around climate change could mean that demand is expected to gradually trend downwards. Or even worse, we could already be at the peak of oil demand, meaning that the only way forward is down. The issue is still at debate with executives from large oil corporations believing that oil demand is yet to peak and there might be a potential upside of close to 25% than the current levels in terms of demand, with the share of oil in the global energy mix could remain the same until 2040. Yet, their actions do not seem to suggest so. On an aggregate level, the top five global oil companies have sharply reduced their capital expenditure in the past five years. Shell, BP and Chevron, three of the largest oil companies have invested billions in renewables through the acquisition of renewable energy providers and investment in clean energy solutions. These actions could be indications that Oil companies have already braced themselves for the structural change in the energy markets. Predictions made by oil industry consultants and organizations like the International Energy Agency diverge in terms of period. The consensus outlook suggests that peak demand could plateau until 2030 and then trend downwards. However, radical measures could derail these projections. The Oil industry is one that required heavy investments. If these favourable returns cannot be generated from these investments, we could see companies gradually reducing investments.

Experts earlier predicted that the emergence of electric vehicles could materially eat into the demand for oil by the 2030s. However, the threat of electric vehicles could hit oil much earlier than anticipated. Apart from new entrants like Tesla, major automobile manufacturers have started rolling out their electric models and have set ambitious targets to alter their product line-up to consist of 50% electric models by as early as 2023. Even emerging markets like China and India have set lofty targets to adopt electric vehicles by providing subsidies due to issues such as pollution. Changes are being executed from a regulatory perspective as well. Increasing pressure on a political front have also forced the hand of governments across the world to enact stringent emission norms. The Paris Climate Accord, which was signed in 2016, now demands for countries to submit their action plans now to reduce emissions in the next ten years.

OPEC has been trying to keep oil prices high by restricting supply. Other geopolitical events have also driven prices up intermittently. However, from a demand perspective, we could be very close or even at the peak with issues such as climate change, global warming and pollution posing stiff challenges to oil.

5. Is the global economy truly in late cycle?

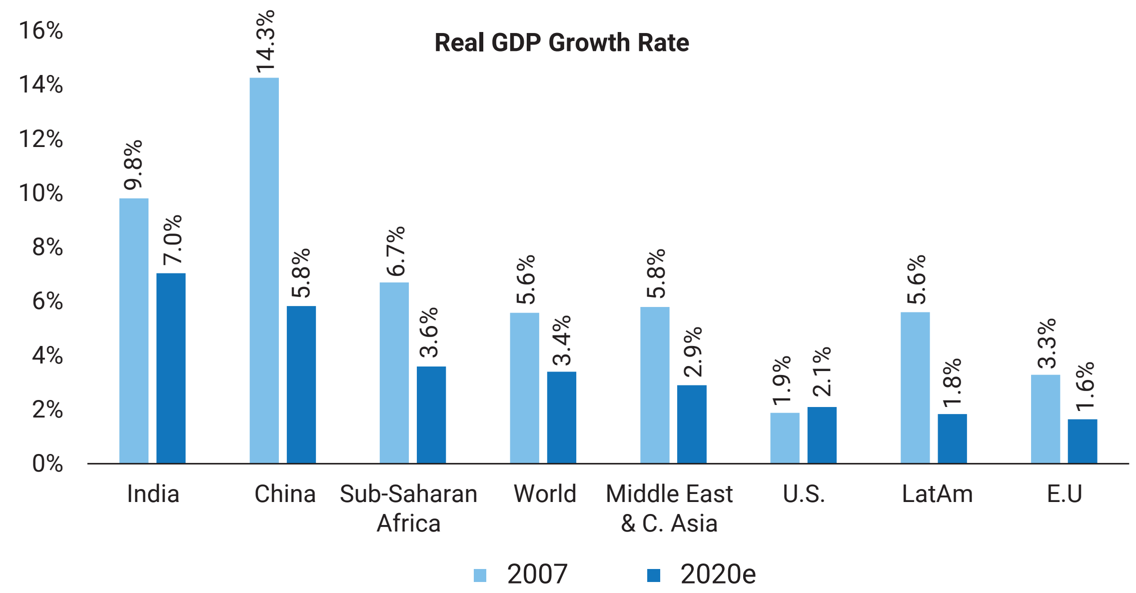
The popular belief among investors is that the global economy is at late cycle territory after continuous expansion following the global financial crisis. While their logic holds well in most parts, there were similar thoughts in 2018 that suggested we were in late cycle and could be heading into a recession in 2019. Markets were selling off in December of 2018 with trade war, Brexit and the fed rate hikes being key risk factors. What turned out was contrary to expectations with major asset classes registering healthy gains. As we head into 2020, investors are now much more certain that we are in late cycle. There are, however, certain counterarguments that suggest that we may be in mid or even early cycle. Key economic variables have fallen out of sync, with some resembling late cycle while the rest suggesting otherwise. In the U.S., even as we move into the 11th year of expansion, job data released close to the end of the year indicate that we might not be at full employment levels. Corporate credit conditions remain strong while household debt have also not peaked, leaving consumption at a healthy state.

Alternatively, there are also arguments against the conventional way of classifying economic cycles. With the services sector forming a much bigger part of the economy now, the comparison between cycles of previous decades might not be a straightforward one. Typically, in the manufacturing side, when supply gets ahead of demand, inventory starts piling up. In order to balance inventory levels, production is scaled back, resulting in a down cycle or a growth slowdown. Once status quo is regained, production is resumed, starting an upcycle. On the service side, the same phenomenon does not hold good because demand is much steadier and the act of balancing inventory is absent. Scaling down employees on an interim basis would not be a cost-effective solution due to high rehiring costs. As a result, without the presence of a financial crisis that results in a massive layoff, the chances of producing two quarters of negative growth, which is a sign of recession, is very rare in a service driven economy. Considering the current scenario where the manufacturing sector is bottoming out and the services sector moves steadily, we could possibly be at the mid cycle rather than a late cycle, with the manufacturing downturn already behind us. With the U.S. Fed and other Central Banks pumping in more liquidity to avert a slowdown that could already be behind us, we could see financial assets moving further up. In addition, fading risks of trade tensions and Brexit could mean that we are likely to be at the mid stage of a recovery than heading into an economic downturn.

10. Global Economic Outlook 2020

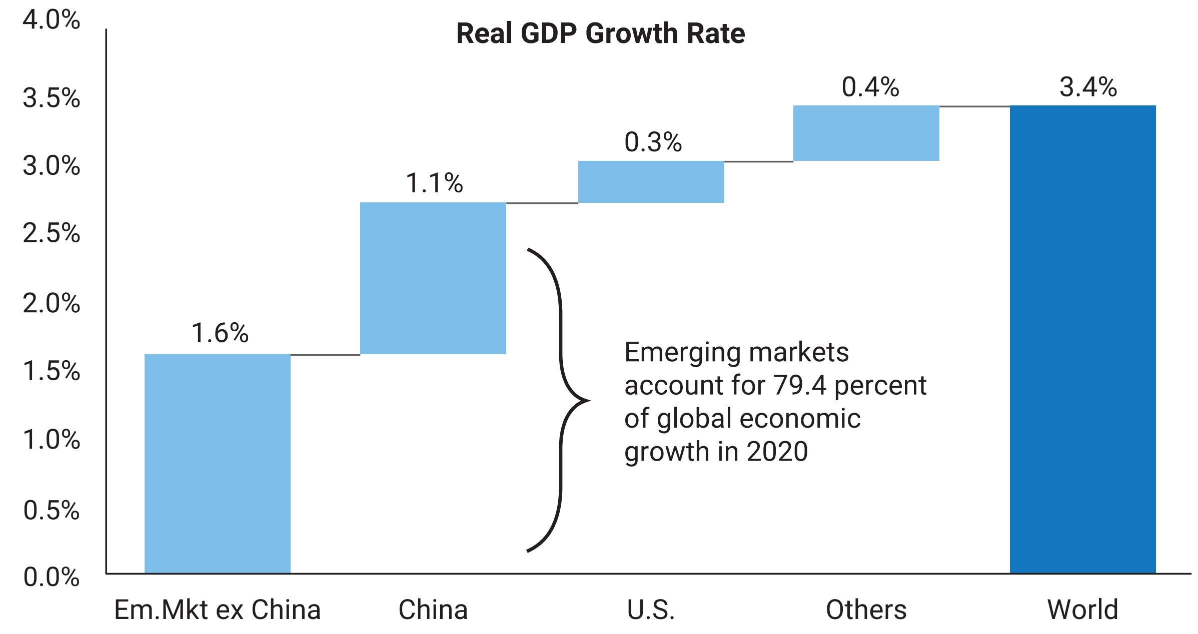
Global growth has fell sharply since the fall out of 2008 Global Financial Crisis (GFC). Real GDP growth for the world that stood at 5.6 per cent in 2007 (a year before the crisis) is expected to be at 3.4 per cent in 2020 (IMF). The impact has been broad-based with all regions witnessing lower growth. The impact is profound in economies that have been experiencing financial stress (European Union, E.U), political instability (Latin America, LatAm) and macroeconomic pressures (Middle East and Central Asia). Even in emerging economies, including China, economic activity has considerably softened.

Figure 10.1: Global economic growth has eased significantly since the Global Financial Crisis



Source: IMF, October 2019

Figure 10.2: Emerging markets expected to account for over 75 per cent of global economic growth in 2020



Source: IMF WEO, October 2019

Global economic growth, measured in real GDP terms, for 2019 is expected at 3.0 per cent, lowest since the 2008/09 Global Financial Crisis (GFC). Elevated geopolitical tensions, Brexit fears and trade wars persisted throughout 2019 that further increased uncertainty and took a toll on corporate investments, business confidence and international trade. Monetary policy provided the much-needed support with the U.S. Fed changing its stance in 2019 and reduced interest rates, which largely provided support for financial markets.

Going ahead, for 2020, the global economic growth is forecasted to slight pick pace and register a growth of 3.4 per cent with emerging market economies expected to account for 79.4 per cent of the global growth in 2020[11].

Global investors would keenly watch outcome of U.S. Presidential elections 2020. Survival of Republican Trump for another term could embolden him further and we could witness continuation of erratic foreign policies. On the other hand, victory for Democrats could lead to higher taxation and lower profits for corporates. Democratic candidates have also been pitching for greater regulations of tech companies and higher minimum wage levels.

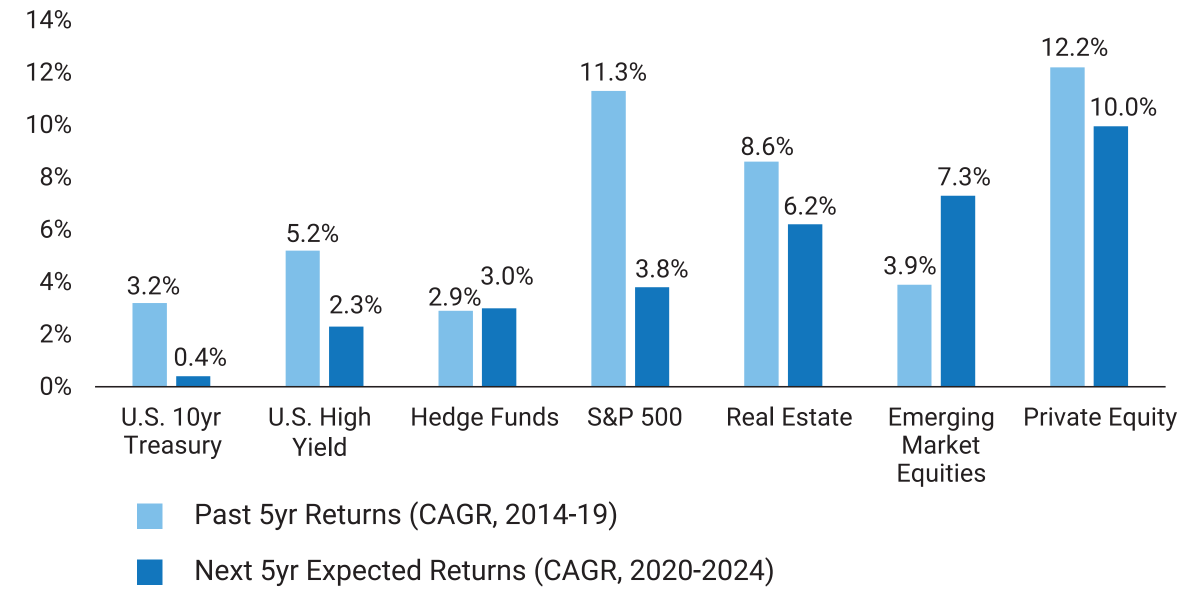
Quantitative easing measures by European Central Bank (ECB) has pushed yields into the negative territory. The recent signing of first phase of the traded deal between U.S. and China would be a welcome relief for European economies, as over 40 per cent of their GDP comprises of exports. Revival of international trade would augur well for their economies. With 'Brexit' a certainty, avoidance of 'no-deal' Brexit would be watched out for.

[11] IMF

China continues to transition from an export-driven manufacturing economy towards consumption and services-driven economy. China is keen to ensure that they stick with the 5 to 6 per cent growth plan. Despite the trade wars and elevated anti-globalization sentiment China continues to push ahead with reforms and is advancing its capabilities in technology intensive industries such as artificial intelligence, robotics and advanced manufacturing. Elsewhere, India and Indonesia continue to press ahead with reforms and recovery in their economies could prove supportive for global growth.

With interest rates so low and economic growth expectations tepid, return expectations for various asset classes remain moderate compared to their past returns. This might drive investors to take additional risks as they seek higher returns.

Figure 10.3: Return expectations remain moderate for most asset classes



Source: KKR Global Macro & Asset Allocation; Data as of October 2019

11. Appendix

Table 11.1: Yearly Asset Class Returns in the past decade

Rank	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10Y Returns (CAGR)
1	Qatar 24.8%	Oil 13.3%	Dubai 19.9%	Dubai 107.7%	Qatar 18.4%	Abu Dhabi -4.9%	Oil 52.4%	Oil 17.7%	Qatar 20.8%	Kuwait 23.7%	Kuwait 1.2%
2	Oil 21.6%	Qatar 1.1%	Abu Dhabi 9.5%	Abu Dhabi 63.1%	Bahrain 14.2%	Kuwait -14.1%	Dubai 12.1%	Bahrain 9.1%	Abu Dhabi 11.7%	Oil 22.7%	Abu Dhabi 0.7%
3	S&P GCC 12.8%	KSA -3.1%	KSA 6.0%	Kuwait 27.2%	Dubai 12.0%	Bahrain -14.8%	Oman 7.0%	Kuwait 5.6%	S&P GCC 8.4%	Bahrain 20.4%	Qatar 0.7%
4	KSA 8.2%	S&P GCC -8.2%	Oil 3.5%	KSA 25.5%	Abu Dhabi 5.6%	Oman -14.8%	Abu Dhabi 5.6%	KSA 0.2%	KSA 8.3%	Dubai 9.3%	KSA -3.1%
5	Oman 6.1%	Abu Dhabi -11.7%	S&P GCC 3.2%	S&P GCC 25.0%	KSA -2.4%	Qatar -15.1%	KSA 4.3%	S&P GCC -0.5%	Kuwait 5.2%	S&P GCC 8.3%	S&P GCC -4.3%
6	Kuwait -0.7%	Oman -15.7%	Kuwait 2.1%	Qatar 24.2%	S&P GCC -2.5%	Dubai -16.5%	S&P GCC 4.2%	Abu Dhabi -3.3%	Bahrain 0.4%	KSA 7.2%	Oil -4.9%
7	Abu Dhabi -0.9%	Kuwait -16.4%	Oman 1.2%	Oman 18.6%	Oman -7.2%	KSA -17.1%	Kuwait 2.3%	Dubai -4.6%	Oman -15.2%	Abu Dhabi 3.3%	Bahrain -6.4%
8	Bahrain -1.8%	Dubai -17.0%	Qatar -4.8%	Bahrain 17.2%	Kuwait -13.4%	S&P GCC -17.4%	Bahrain 0.4%	Oman -11.8%	Oil -19.5%	Qatar 1.2%	Oman -6.5%
9	Dubai -9.6%	Bahrain -20.1%	Bahrain -6.8%	Oil -0.3%	Oil -48.3%	Oil -35.0%	Qatar 0.1%	Qatar -18.3%	Dubai -24.9%	Oman -7.9%	Dubai -7.5%

Source: Reuters Eikon, Marmore Research;

Table 11.2: Blue Chips Performance

Companies	Country	Sector	M. Cap (USD Mn)	Last Close	2019 (%)	P/E	P/B	Div. Yield (%)
Saudi Arabian Oil Co	KSA	Energy	18,79,599	29.6	-	19.57	6.79	-
SABIC	KSA	Materials	75,104	93.9	-19%	29.41	1.68	4.71
STC	KSA	Telecom	54,282	101.8	11%	17.79	3.33	5.92
Al Rajhi	KSA	Financials	43,591	65.4	15%	15.17	3.32	4.20
NCB	KSA	Financials	39,392	49.3	3%	13.84	2.20	4.30
First AD Bank	UAE	Financials	45,074	15.2	8%	14.00	1.59	4.89
Emirates Telecom	UAE	Telecom	38,739	16.4	-4%	15.74	3.19	4.91
Emirates NBD Bank	UAE	Financials	22,358	13.0	52%	5.27	1.00	3.06
AD Comm. Bank	UAE	Financials	15,003	7.9	-3%	9.57	1.02	6.03
DP World	UAE	Financials	10,873	13.1	-23%	8.14	0.97	3.47
NBK	Kuwait	Financials	23,049	1,070.0	35%	17.88	1.96	3.20
KFH	Kuwait	Financials	18,682	811.0	46%	22.79	2.84	2.36
Zain	Kuwait	Telecom	8,572	600.0	34%	12.22	2.04	5.28
Boubyan Bank	Kuwait	Financials	6,104	641.0	28%	32.10	2.88	1.13
Agility	Kuwait	Industrials	4,762	818.0	17%	16.37	1.30	1.69
QNB	Qatar	Financials	52,247	20.6	6%	13.42	2.07	2.96
Industries Qatar	Qatar	Industrials	17,086	10.3	-23%	19.19	1.84	5.83
Qatar Islamic Bank	Qatar	Financials	9,952	15.3	1%	13.12	1.78	3.27
MesaieedPetrochem	Qatar	Materials	8,663	2.5	67%	36.67	2.17	3.48
Masraf Al Rayan	Qatar	Financials	8,159	4.0	-5%	13.80	2.21	5.05

Source: Reuters

Table 11.3: Mid Cap Performance

Companies	Country	Sector	M. Cap (USD Mn)	Last Close	2019 (%)	P/E	P/B	Div. Yield (%)
Jabal Omar Dev.	KSA	Real Estate	6,727	27.2	-21%	-	2.64	-
Emaar Malls	UAE	Real Estate	6,484	1.8	2%	10.25	1.34	5.52
Bank Albilad	KSA	Financials	5,379	26.9	23%	16.52	2.22	-
ADIB	UAE	Financials	5,330	5.4	38%	8.83	1.07	5.20
Jarir Marketing	KSA	Consumer Discretionary	5,298	165.6	9%	19.91	11.91	4.73
Etihad Etisalat	KSA	Communication Services	5,132	25.0	51%	81.44	1.39	-
Rabigh Refining	KSA	Energy	5,059	21.7	14%	80.05	1.71	-
Savola	KSA	Consumer Staples	4,890	34.4	28%	-	2.46	-
Qatar Elec & Water	Qatar	Utilities	4,862	16.1	-13%	13.30	1.89	4.88
Aldar Properties	UAE	Real Estate	4,624	2.2	35%	9.84	0.70	6.57

Source: Reuters

Table 11.4: Small Cap Performance

Companies	Country	Sector	M. Cap (USD Mn)	Last Close	2019 (%)	P/E	P/B	Div. Yield (%)
Aramex	UAE	Industrials	1,423	3.6	-17%	10.48	2.12	4.71
National Central Cooling	UAE	Industrials	1,420	1.9	11%	11.91	1.08	5.14
Aamal Company	Qatar	Industrials	1,407	0.8	-8%	13.96	0.65	7.50
Vodafone Qatar	Qatar	Commn. Services	1,347	1.2	-26%	32.52	1.09	4.46
Taiba Investments Co	KSA	Real Estate	1,333	31.2	2%	59.91	1.34	5.66
Al Khalij Comm. Bank	Qatar	Financials	1,296	1.3	14%	7.41	0.69	5.86
Saudia Dairy& Foodstuff	KSA	Consumer Staples	1,239	143.0	42%	19.38	3.27	2.85
Damac Properties	UAE	Real Estate	1,224	0.7	-51%	23.45	0.32	-
Qatar Aluminum	Qatar	Materials	1,197	0.8	-41%	-	0.76	-
Leejam Sports Co	KSA	Consumer Discretionary	1,133	81.1	38%	22.14	6.24	1.87

Source: Reuters

Authors

M.R. Raghu CFA, FRM, FCMA
Head of Research
+965 2224 8280
rmandagolathur@markaz.com

Shishir Goenka
Senior Manager - Research
+965 2224 8000 Ext: 4633
sgoenka@markaz.com

Rajesh Dheenathayalan, CFA
Manager - Research
+965 2224 8000 Ext: 4608
RDheenathayalan@markaz.com

Ajay Samuel
Senior Analyst
+965 2224 8000 Ext: 4625
ASamuel@markaz.com

Chirag Popat
Analyst
+965 2224 8000 Ext: 4632
CPopat@e-Marmore.com

Aparna K.S.
Analyst
+965 2224 8000 Ext: 4634
ASrinivasan@markaz.com

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