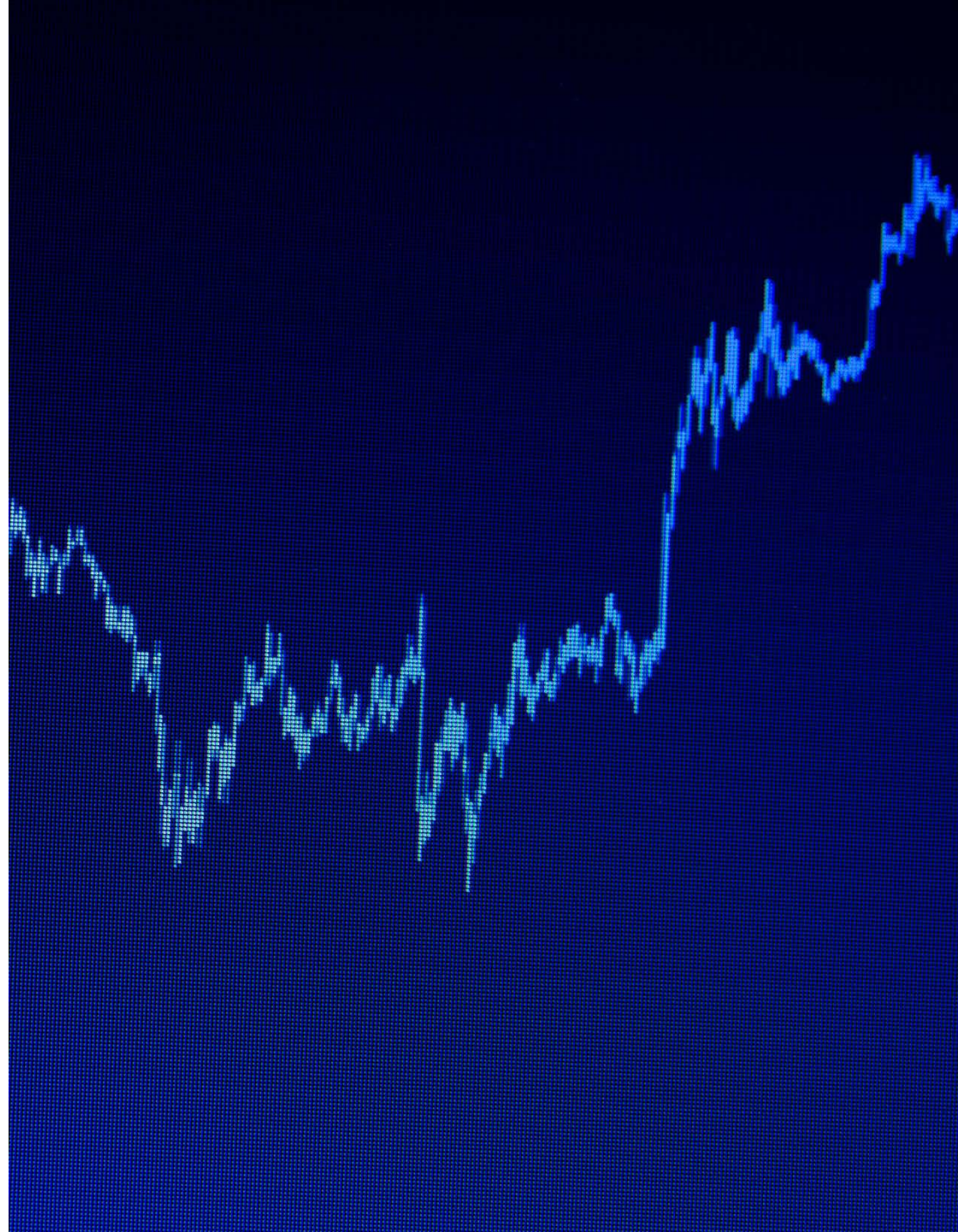


GCC Capital Markets Review

September 2020



Market Commentary, September 2020

- Most GCC equity markets were positive in September, despite concerns of economic recovery amid threat of second wave of COVID-19 and fall in oil prices.
- Kuwait markets were positive, with the Kuwait All Share index registering a gain of 2.9% in September. On 29th September 2020, the Kuwait All Share index fell by as much as 3.4% during trading but trimmed the losses to 2.2% at trade close. The fall was due to concerns over the condition of the Emir's health, whose demise was confirmed later in the day. Among Kuwait sectors, insurance was the top gainer, rising 8.3%, while consumer goods index saw the biggest decline, down 3.6% for the month. Among blue chips, Kuwait Finance House (KFH) gained the most at 5.6%, followed by Agility Public Warehousing gaining 5.3%, while Mobile Telecommunications (Zain) lost 2.7% for the month. Kuwait All Share Index's PE ratio was at 13.1 by the end of the month. Market liquidity in September as indicated by the average daily traded value has increased by 44% over previous month to USD 165 million
- Regionally, the S&P GCC composite index gained 2.5%, with all markets except Abu Dhabi and Oman ending the month in positive territory. Saudi Arabian equity market gained 4.5% in September followed by Bahrain, which gained 3.9%. Saudi Arabia has partially lifted travel bans since mid-September and plans to scrap all travel restrictions for citizens on January 1, 2021. The country's economy contracted by 7% in Q2 2020, with the non-oil sector contracting by 8.2% and oil sector contracting by 5.3%.
- Among the GCC Blue Chip companies, Ezdan Holding (Qatar) increased by 38.4% in September. FTSE Russell has upgraded the company from its midcap index to large cap index. Abu Dhabi National Energy Company (UAE) decreased by 6.1% in September.
- The performance of global equity markets was negative, with the MSCI World Index losing 3.6% in September, on the back of concerns over economic recovery due to threat of second wave of COVID-19 and fading stimulus measures. U.S. (S&P 500) declined by 3.9% in September, led by losses in tech stocks. The UK (FTSE 100) markets lost 1.6% for the month. Eurozone economies have renewed some lockdown restrictions due to spike in COVID-19 cases. Emerging markets decreased by 1.8% for the month.
- Oil prices closed at USD 41.0 per barrel at the end of September 2020, posting a monthly loss of 9.6%. Persisting COVID-19 fears, renewal of some lockdown restrictions in the Eurozone and expectation of lower oil imports by China have led to fall in prices.

Boursa Kuwait's stock surges on its trading debut – Has privatization been a success?

- Boursa Kuwait surged more than 10 times in its trading debut on September 14th as it became only the third publicly traded exchange in the Middle East. Share prices rose as high as 1,210 fils and closed the day at 1,055 fils after being priced at 100 fils during the IPO last year.
- As a part of the IPO, 50% of the company's shares were sold to Kuwaiti Nationals. This followed the 44% stake sale to a consortium of domestic and international investors in February 2019. The remaining 6% is owned by the government making it the first Kuwait government entity to successfully undergo privatization.
- The successful listing will provide a fillip to the privatization drive of the Kuwait Government as it looks to boost non-oil revenues. The significant gains accrued by private Kuwaiti investors in the listing will help generate more interest in subsequent privatization of state-owned enterprises.
- The sale is a part of a wider divestment programme by the government that will see 40 state assets privatized over the next 20-30 years, In 2016 the government announced that 60% of public sector companies will be privatized, with the private sector allowed to acquire shares of up to USD 9bn.
- However, past privatization plans have often stalled in Kuwait such as the unsuccessful sale of Kuwait Airways in 2013. One of the reasons for the failure was the high cost of existing employment arrangements as Kuwaiti parliamentarians sought to protect jobs in the future privatized entities.
- This is likely to be an issue in subsequent privatizations as the new management would want to streamline costs including employee expenses. Boursa Kuwait stock likely benefited due to it being a more tech-oriented company without significant labour costs. So this is too soon to judge the success of the privatization drive, though this is undoubtedly a good start.

Flurry of Bond issuances - How are GCC countries placed?

- 2020 has seen bond issuances totaling USD 42 billion so far by GCC governments as they try to raise funds in the market to plug record deficits due to the oil price crash and the COVID-19 crisis.
- GCC Sovereign yields have come down since the market selloff in March at the height of the crisis. Currently, 10-year yields for Kuwait Government bonds stands at 1.54% (a fall from 2.37%, 2020-start) while that of Saudi Arabia, Abu Dhabi and Qatar stand at 1.80% , 1.93% and 1.95% respectively.
- Qatar, Abu Dhabi and Saudi Arabia were able to successfully issue debt in April even when yields were higher than current yields. They are well placed to issue new debt when the need arises.
- However, Kuwait has not been able to issue new debt due to the public debt law not being passed by the parliament. After a debut Eurobond issuance in 2017, Kuwait's public-debt law lapsed, rendering the government unable to issue new bonds.
- Bahrain and Oman, the GCC members with below-investment grade ratings have also seen their 10-year yields decrease since March despite multiple downgrades by rating agencies. Oman's came down from 12% on March 19 to 7.28% on September 28. Bahrain's yields decreased from 7.3% on May 11 to 6% on September 28.
- Following Bahrain's successful USD 1 billion sukuk issue and USD 1 billion in 12 year bond at 5.45% yield this month, Oman is planning to come up with a USD 3 or 4 billion issuance.
- Expectation of support from other GCC members have meant that Bahrain and Oman have seen lower yields compared to other countries with similar sovereign ratings and are consequently better placed to issue more debt.

How deep is the impact of COVID-19 on the GCC aviation industry?

- Aviation has been hit hard by COVID-19 related lockdowns and travel restrictions. According to IATA, revenue of airlines in GCC is expected to decline by 56% in 2020 and while the passenger numbers are expected to drop by 54%.
- The number of flights in middle east region had reached their lowest point in April 2020, dropping by 92% relative to early January 2020. As of late July, the number of flights were 70% lower than January 2020, indicating roadblocks in recovery.
- Airlines are resorting to various measures such as reducing workforce numbers, offering unpaid leaves to staff, focusing on cargo transportation etc. to tide over the crisis. Etihad Airways has announced COVID-19 insurance to boost demand. Government measures to support the industry include capital injection in Qatar Airways and Emirates Airlines by their respective governments and Saudi Arabia's fee waiver for slot coordinated airports.
- Persisting travel restrictions particularly in international travel, limited capacity flights, quarantine requirements, hesitation of passengers to travel due to COVID-19 fears would continue to weigh down the industry. The threat of second wave of COVID-19 and subsequent lockdown restrictions also remain.
- Measures such as ensuring liquidity, reducing fixed costs, tailoring processes for the COVID-19 world are important as the industry navigates through the crisis.

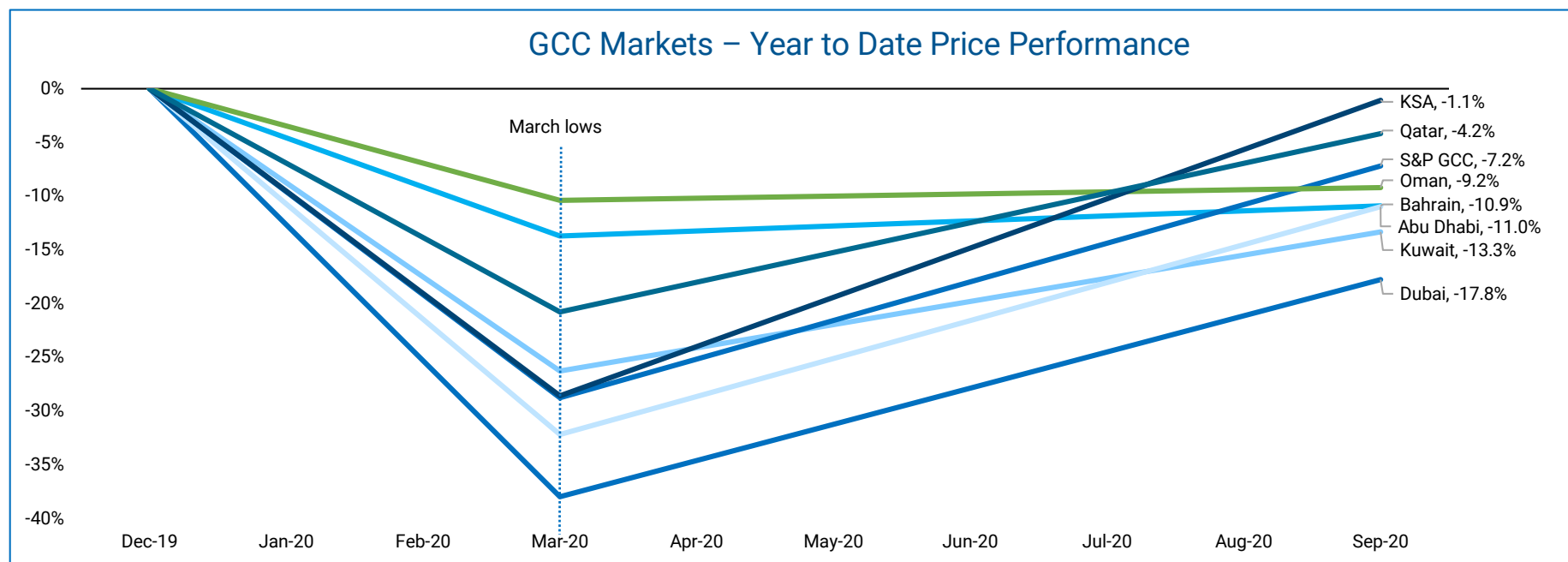
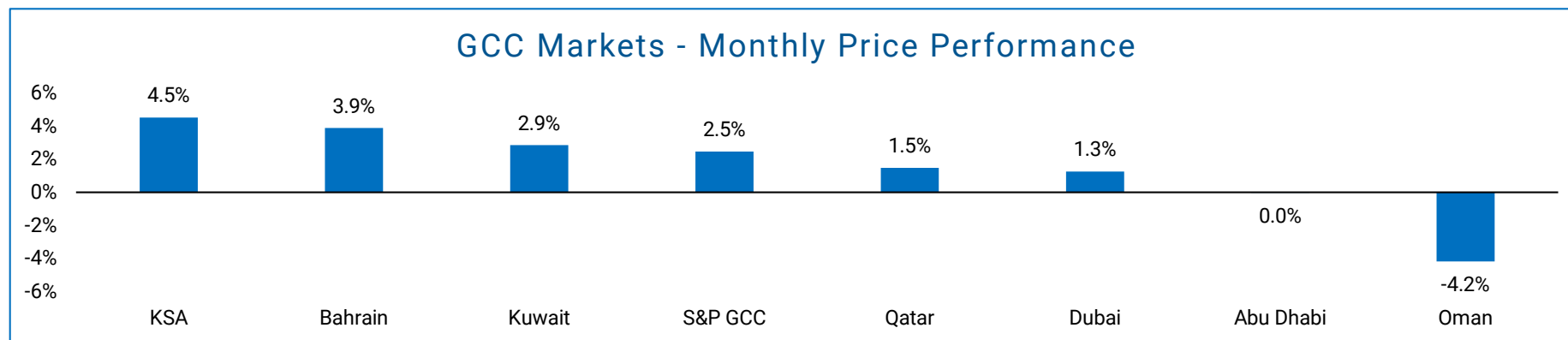
Estimated Impact for Aviation Sector in GCC countries in 2020

	Jobs at Risk	GDP Loss (US\$ billions)
UAE	421,200	-25.9
Saudi Arabia	322,500	-20.1
Qatar	78,400	-3.1
Kuwait	33,100	N.A
Oman	53,400	N.A
Bahrain	13,100	N.A

H1 2020 Performance of select airlines in GCC

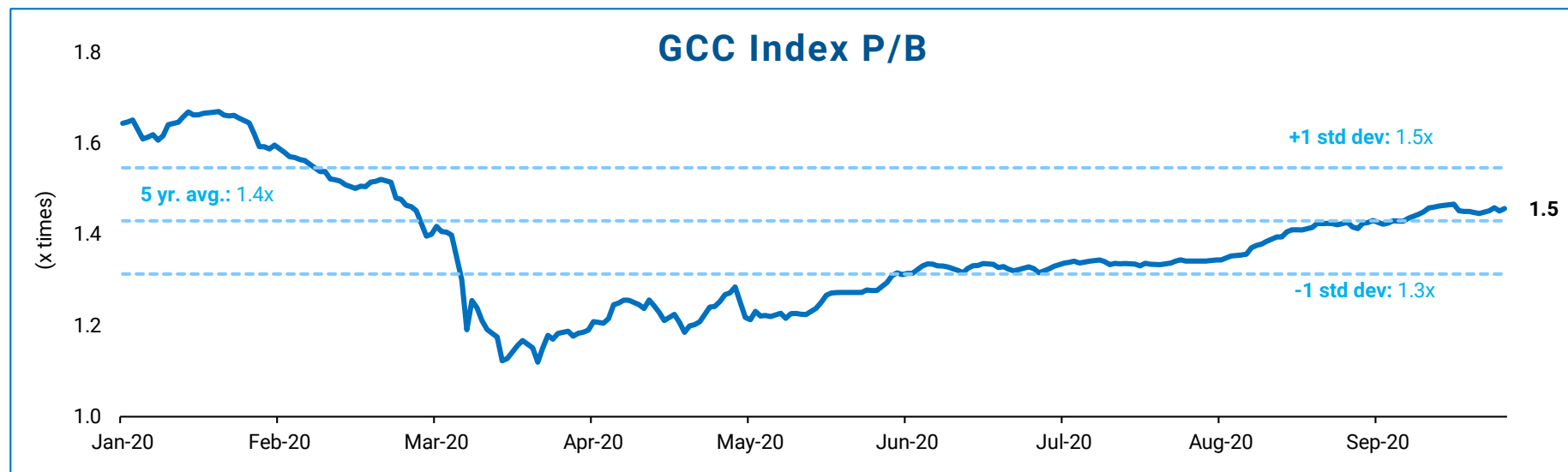
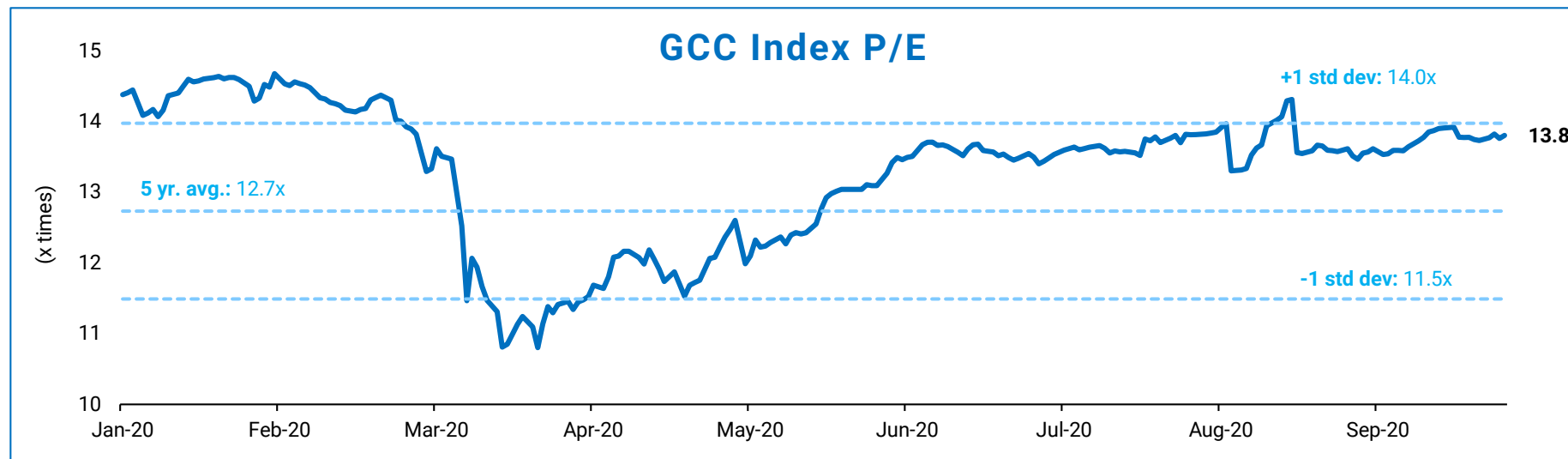
Airlines	Country	Drop in Passenger Number y-o-y	Drop in Revenue y-o-y
Etihad	UAE	58%	38%
Air Arabia	UAE	57%	53%
Jazeera Airways	Kuwait	N.A	44%

GCC Equity Market performance, September 2020



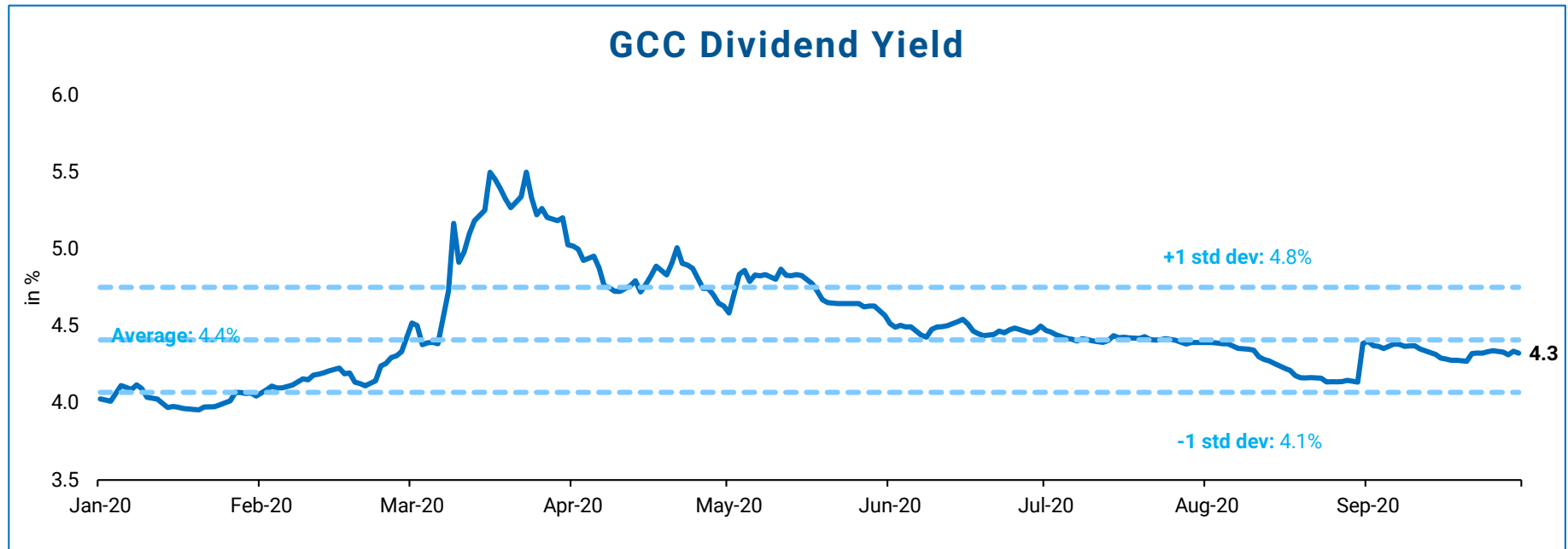
Source: Refinitiv; Data as of September 30, 2020

GCC Equity Market valuation



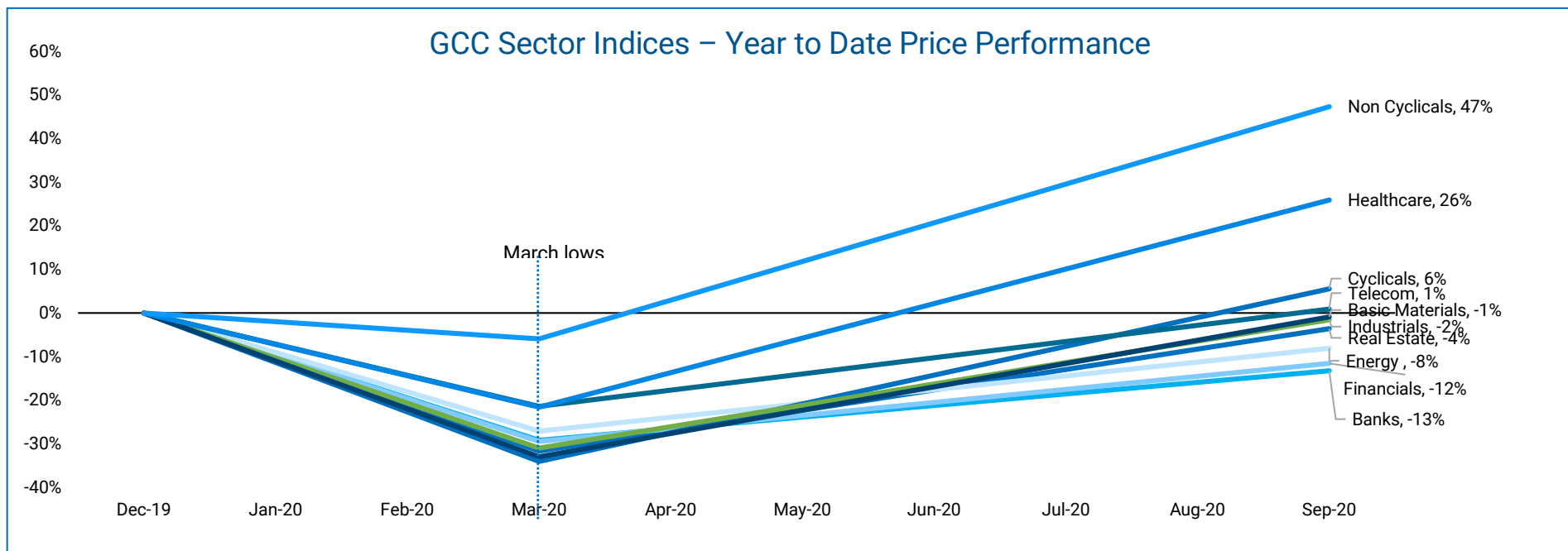
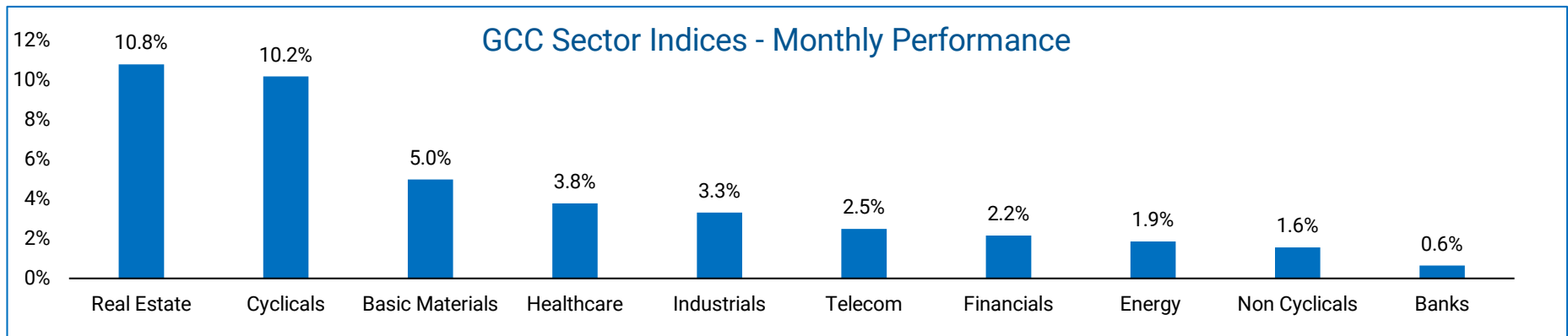
Source: Refinitiv; Data as of September 30, 2020

GCC Equity Market valuation



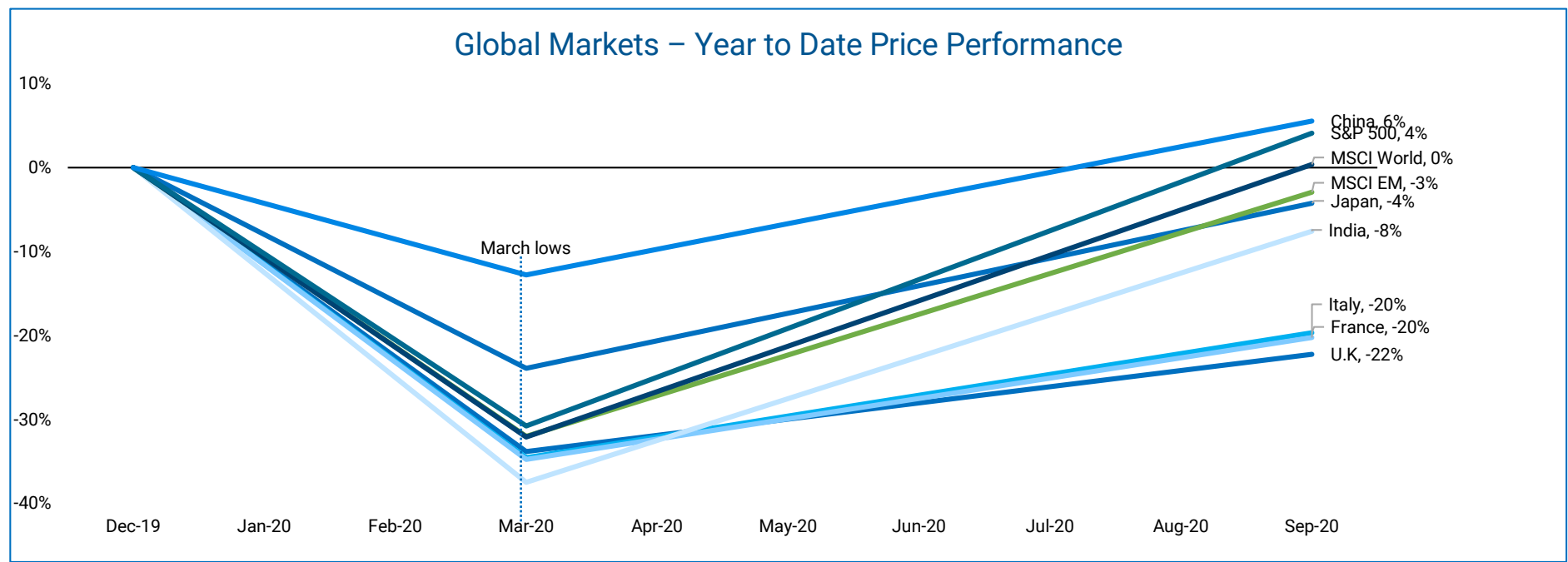
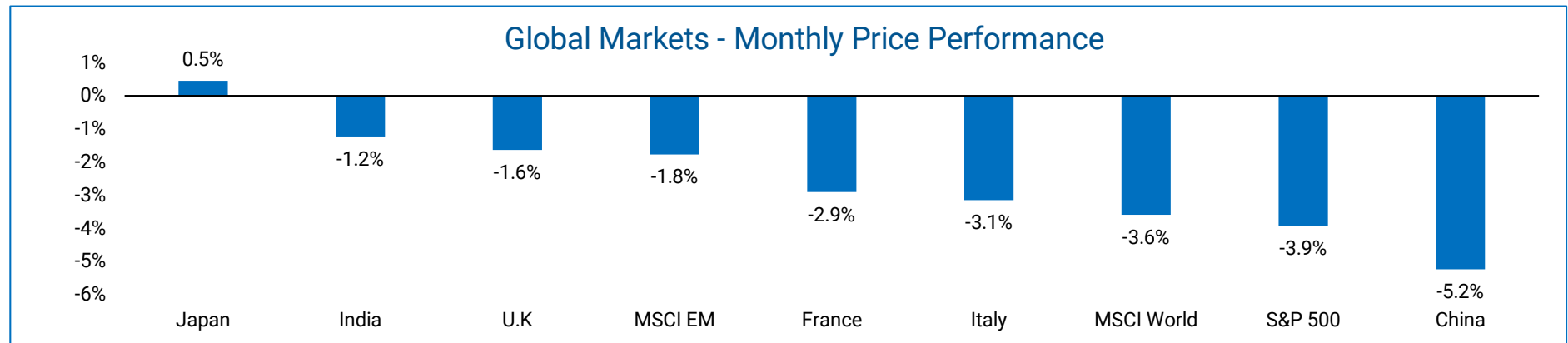
Source: Refinitiv; Data as of September 30, 2020

GCC Sectoral performance, September 2020



Source: Refinitiv; Data as of September 30 2020

Global Equity Market performance, September 2020



Source: Refinitiv; Data as of September 30 2020

Monthly Returns and Value of USD 1 Invested

Saudi Arabia

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	6.5%	4.9%	-5.7%	12.0%	-1.5%	-6.2%	0.1%	-17.3%	-1.6%	-3.8%	1.6%	-4.5%	-17.1%	0.83
2016	-13.2%	1.6%	2.1%	9.4%	-5.3%	0.8%	-3.0%	-3.5%	-7.5%	6.9%	16.4%	3.0%	4.3%	0.87
2017	-1.5%	-1.8%	0.4%	0.2%	-2.0%	8.1%	-4.5%	2.3%	0.3%	-4.8%	1.0%	3.2%	0.2%	0.87
2018	5.9%	-3.0%	6.1%	4.3%	-0.6%	1.9%	-0.2%	-4.2%	0.6%	-1.2%	-2.6%	1.6%	8.3%	0.94
2019	9.4%	-0.8%	3.8%	5.5%	-8.5%	3.6%	-1.0%	-8.2%	0.9%	-4.3%	1.5%	6.7%	7.2%	1.01
2020	-1.7%	-7.5%	-14.7%	9.3%	1.4%	0.2%	3.3%	6.5%	4.5%				-1.1%	1.00

Kuwait

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	0.6%	0.4%	-4.8%	1.5%	-1.3%	-1.4%	0.8%	-6.9%	-1.6%	0.9%	0.5%	-3.2%	-14.1%	0.86
2016	-8.9%	1.8%	0.4%	3.1%	0.2%	-0.7%	1.6%	-0.6%	-0.4%	0.0%	2.8%	3.5%	2.4%	0.88
2017	18.9%	-0.7%	3.6%	-2.7%	-0.8%	-0.3%	1.3%	0.6%	-3.1%	-2.5%	-4.9%	3.4%	11.5%	0.98
2018	4.4%	1.3%	-2.1%	-4.0%	-1.3%	3.3%	5.7%	-0.7%	-0.1%	-1.7%	1.3%	-0.6%	5.2%	1.03
2019	2.5%	0.5%	7.4%	0.2%	1.8%	1.8%	4.9%	-2.9%	-4.4%	0.7%	3.7%	6.0%	23.7%	1.28
2020	0.7%	-4.0%	-20.6%	3.2%	0.4%	2.7%	-3.2%	6.6%	2.9%				-13.3%	1.11

Source: Refinitiv; Data as of September 30, 2020

Monthly Returns and Value of USD 1 Invested

Abu Dhabi

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-1.6%	5.1%	-4.7%	4.0%	-2.6%	4.3%	2.3%	-7.0%	0.2%	-4.0%	-2.0%	1.7%	-4.9%	0.95
2016	-5.9%	7.3%	0.9%	3.5%	-6.5%	5.8%	1.7%	-2.3%	0.1%	-3.9%	0.2%	5.5%	5.6%	1.00
2017	0.1%	0.1%	-2.4%	1.8%	-2.1%	0.0%	3.2%	-2.1%	-1.6%	1.9%	-4.4%	2.7%	-3.3%	0.97
2018	4.6%	-0.1%	-0.3%	1.8%	-1.4%	-1.0%	6.6%	2.6%	-1.0%	-0.7%	-2.7%	3.0%	11.7%	1.09
2019	2.6%	1.8%	-1.2%	3.6%	-4.8%	-0.5%	6.8%	-2.9%	-2.1%	1.0%	-1.5%	0.9%	3.3%	1.12
2020	1.6%	-4.9%	-23.8%	13.3%	-2.1%	3.5%	0.4%	5.0%	0.0%				-11.0%	1.00

Dubai

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-2.6%	5.2%	-9.1%	20.3%	-7.2%	4.2%	1.4%	-11.6%	-1.9%	-2.5%	-8.5%	-1.7%	-16.5%	0.83
2016	-4.9%	8.1%	3.6%	4.1%	-5.1%	-0.1%	5.2%	0.6%	-0.9%	-4.1%	0.9%	5.1%	12.1%	0.94
2017	3.2%	-0.3%	-4.1%	-1.9%	-2.2%	1.6%	7.1%	0.1%	-2.0%	2.0%	-5.9%	-1.5%	-4.6%	0.89
2018	0.7%	-4.4%	-4.2%	-1.4%	-3.3%	-4.8%	4.8%	-3.9%	-0.2%	-1.8%	-4.2%	-5.2%	-24.9%	0.67
2019	1.5%	2.7%	0.0%	5.0%	-5.3%	1.5%	9.8%	-5.5%	0.8%	-1.2%	-2.5%	3.2%	9.3%	0.73
2020	0.9%	-7.2%	-31.6%	14.4%	-4.0%	6.2%	-0.7%	9.5%	1.3%				-17.8%	0.60

Source: Refinitiv; Data as of September 30, 2020

Monthly Returns and Value of USD 1 Invested

Qatar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-3.1%	4.6%	-5.9%	3.9%	-1.0%	1.3%	-3.4%	-1.9%	-0.9%	1.2%	-13.0%	3.4%	-15.1%	0.85
2016	-9.1%	4.3%	4.9%	-1.8%	-6.4%	3.6%	7.3%	3.6%	-5.0%	-2.5%	-3.7%	6.6%	0.1%	0.85
2017	1.5%	1.0%	-2.9%	-3.1%	-1.6%	-8.8%	4.2%	-6.4%	-5.5%	-1.8%	-5.5%	10.5%	-18.3%	0.69
2018	8.0%	-6.0%	-0.9%	6.3%	-2.5%	1.6%	8.9%	0.6%	-0.7%	5.0%	0.6%	-0.6%	20.8%	0.84
2019	4.1%	-5.7%	0.0%	2.7%	-1.0%	1.8%	0.5%	-2.6%	1.3%	-1.7%	-0.4%	2.7%	1.2%	0.85
2020	0.2%	-9.1%	-13.5%	6.8%	0.9%	1.7%	4.1%	5.1%	1.5%				-4.2%	0.81

Oman

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	3.4%	0.0%	-4.9%	1.4%	1.0%	0.6%	2.1%	-10.5%	-1.4%	2.4%	-6.4%	-2.6%	-14.8%	0.85
2016	-4.2%	4.2%	1.3%	8.7%	-2.2%	-0.6%	1.2%	-1.9%	-0.2%	-4.3%	0.1%	5.4%	7.0%	0.91
2017	-0.1%	0.1%	-4.0%	-0.7%	-1.7%	-5.6%	-1.8%	0.6%	1.7%	-2.5%	2.0%	-0.2%	-11.8%	0.80
2018	-1.9%	0.1%	-4.6%	-0.9%	-2.6%	-0.8%	-5.1%	1.9%	2.8%	-2.7%	-0.2%	-2.0%	-15.2%	0.68
2019	-3.6%	-0.5%	-3.9%	-1.0%	-0.3%	-1.3%	-3.2%	6.5%	0.3%	-0.4%	1.6%	-2.0%	-7.9%	0.63
2020	2.5%	1.3%	-16.5%	2.6%	0.1%	-0.8%	1.5%	-4.2%					-9.2%	0.57

Source: Refinitiv; Data as of September 30, 2020

Monthly Returns and Value of USD 1 Invested

Bahrain

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-0.2%	3.5%	-1.7%	-4.1%	-1.9%	0.3%	-2.6%	-2.4%	-1.8%	-2.0%	-1.4%	-1.4%	-14.8%	0.85
2016	-2.4%	-0.7%	-4.0%	-1.8%	0.1%	0.6%	3.3%	-1.2%	0.7%	-0.1%	2.2%	3.9%	0.4%	0.86
2017	6.8%	3.5%	0.5%	-1.5%	-1.2%	-0.7%	1.4%	-1.9%	-1.5%	-0.5%	0.5%	3.7%	9.1%	0.93
2018	1.4%	1.4%	-3.8%	-4.6%	0.6%	3.6%	3.6%	-1.5%	0.0%	-1.8%	1.1%	0.6%	0.4%	0.94
2019	4.0%	1.5%	0.0%	1.5%	0.0%	2.6%	5.2%	-0.9%	-1.1%	0.4%	0.2%	5.5%	20.4%	1.13
2020	2.9%	0.2%	-18.7%	-3.0%	-3.1%	0.6%	1.0%	7.0%	3.9%				-10.9%	1.01

Source: Refinitiv; Data as of September 30, 2020

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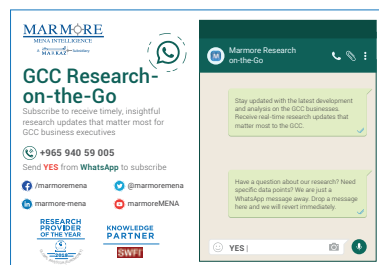


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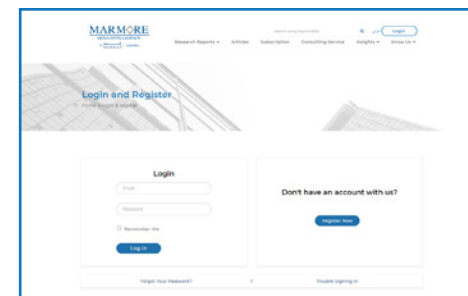
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