October 2019

Qatar Corporate Earnings – H1 2019

Earnings decline by 6.4% in H1 2019; downtrend to extend for 2019

www.markaz.com

Table of Contents

Chapter 1

Report Highlights

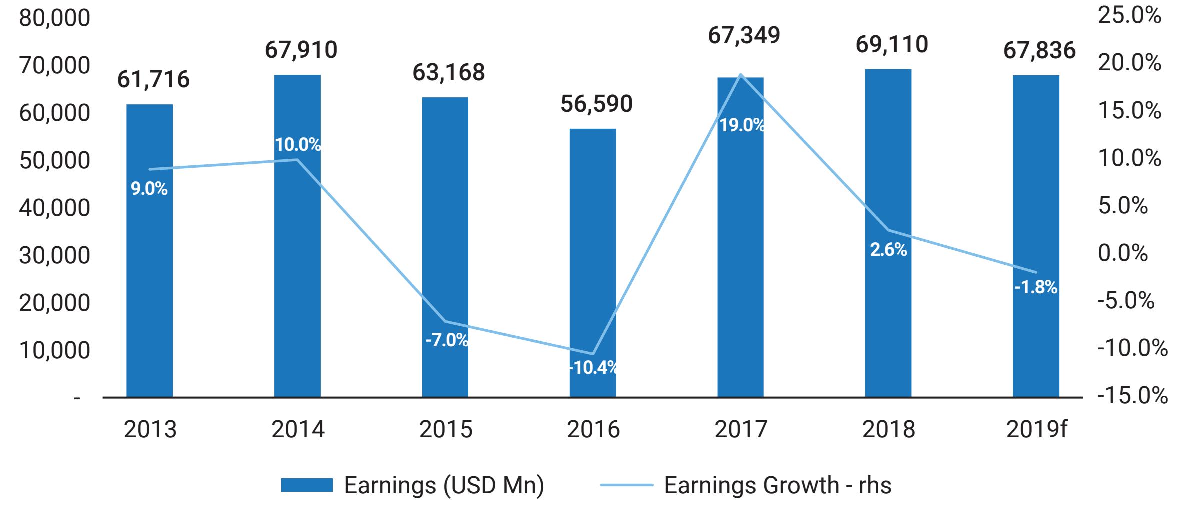
GCC

- GCC corporate earnings for the H1 2019 declined by 13.3% when compared with the same period for 2018.
- This was despite 4.5% growth in earnings of banking sector in H1 2019.
- Majority of sectors registered a decline in earnings, with commodities sector leading the rest with a decline of 57.8% followed by earnings for conglomerates which declined by 46.4% in H1 2019.
- Going ahead, for the full year, we expect GCC earnings to remain subdued and decline by 1.8% as consumer and business sentiments remain weak amidst concern of economic slowdown globally and rising geopolitical tensions in the region.

Qatar

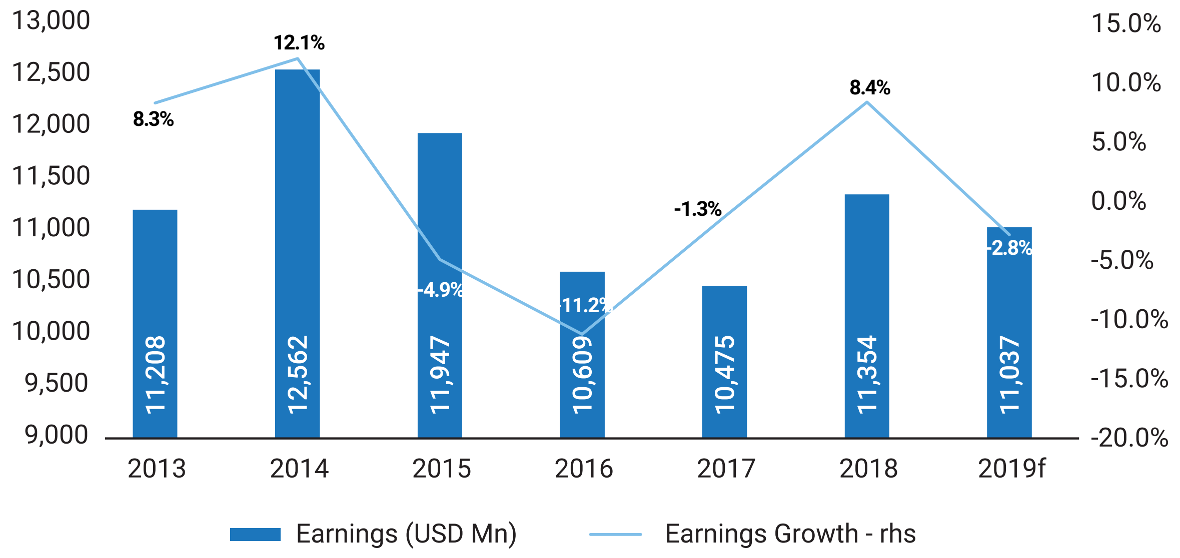
- For Qatar, corporate earnings decreased by 6.4% in H1 2019.
- Conglomerates and Real estate sectors witnessed fall in earnings by 42.9% and 23.7% respectively during H1 2019. While, Telecom and Banking sector remained strong with earnings growth of 24.6 and 5.4% respectively.
- Qatar is expected to register a decline of approximately 2.8% in earnings for the full year 2019.

Figure 1.1: Earnings Trend – GCC



Source: Reuters Eikon, Markaz Research

Figure 1.2: Earnings Trend – Qatar



Source: Reuters Eikon, Markaz Research

H1 2019 GCC Corporate Earnings[1]

GCC Corporate earnings declined by 13.3% during first half of 2019 when compared to the same period year ago. Barring Kuwait and Oman all other GCC countries registered a decline in corporate earnings for the first six months of 2019. Corporate earnings increased by 7% and 2% respectively for Oman and Kuwait. Saudi Arabia registered the worst decline in corporate earnings among GCC nations, tumbling by 24.3% for H1 2019. The drag in corporate earnings of Saudi Arabia primarily came from the fall in earnings of commodities sector that declined by more than half for H1 2019 compared to same period in previous year. Apart from Saudi Arabia, UAE and Qatar declined by 8.5% and 6.4% respectively. Across countries Telecom and Banking sector were the only two sectors that showed some resilience to economic slowdown in the region and registered single digit growth of 6.5% and 4.5% respectively.

Table 2.1: Earnings Growth (yoy) - Country-wise Trend (2019)

Positive growth	Negative growth
Oman (9.5%)	Saudi Arabia (-6.1%)
Kuwait (4.4%)	Bahrain (-6.8%)
UAE (2.0%)	Qatar (-2.8%)
	Aggregate GCC (-1.8%)

Source: Marmore research

The oil price recovery in the beginning of the year was wiped off as growing concern surrounding trade war affected the business and consumer sentiments and lowered the aggregate demand for oil globally. Low oil prices will mean that fiscal requirements will remain at large in the region. Various infrastructure projects that were planned still remain yet to be awarded. The planned projects worth over USD 2.5tn across GCC remain yet to be awarded. Lower activity in private sector primarily due to softening of real estate prices and economic slowdown globally continue to adversely impact the earnings growth in GCC region.

Table 2.2: GCC Earnings Growth (yoy) – Sectoral Trend (2019)

Positive growth	Negative growth
Construction related (33.0%)	Commodities (-26.2%)
Telecom (7.9%)	Real estate (-10.3%)
Conglomerates (5.8%)	Others (-3.9%)
Banks (3.7%)	
Financial services (2.6%)	
Utilities (1.8%)	

Source: Marmore research

[1] Report considers earnings available as of 16th September, 2019 on Reuters; we have considered net income before extraordinary items as earnings.

The consolidated top-line for GCC corporates declined at a rate of 2.6% in H1 2019. We expect it to slightly improve with full year earnings for 2019 down by 1%. Profit margins that stood at 15.6% for 2018 is likely to come down marginally to 15.4% for 2019. Banks will continue to dominate the profit margins leaderboard with a margin of 32.5% for 2019, an improvement from 32.1% seen in 2018.

Table 2.3: GCC Revenue growth (yoy) - Sectoral Trend (2019)

Positive growth	Negative growth
Construction related (42.0%)	Conglomerates (-15.3%)
Telecom (4.9%)	Commodities (-13.3%)
Banks (2.4%)	Utilities (-10.0%)
Others (0.4%)	Real estate (-0.7%)
	Financial services (-0.7%)

Source: Marmore research

Qatar

Aggregate earnings of listed companies in Qatar declined by 6.4% in the first half of the 2019. Real estate, banking and financial services were the only sectors that registered a positive growth of 24.6%, 5.4% and 3.8% respectively. The impact of diplomatic crisis on earnings finally appears to be fading that primarily affected the construction and real estate sector. Government continue to invest on infrastructure related to the hosting the football world cup as well as expansion capacity of natural gas facilities that are soon set to come onstream between 2020 and 2024.

Table 2.4: Qatar Earnings growth (yoy) - Sectoral Trend (2019)

Positive growth	Negative growth
Financial services (10.0%)	Conglomerates (-30.0%)
Construction related (6.0%)	Commodities (-14.0%)
Banks (5.0%)	Real estate (-10.0%)
Telecom (3.0%)	Utilities (-5.5%)
Others (3.0%)	

Source: Marmore research

For the H1 2019, Qatar national bank (QNB) the largest lender in the gulf region, registered a growth in net profit of 3.9% amounting to USD 2bn. Loans and advances increased by 5% for the H1 2019, reaching USD 174.3bn. Loan exposures continue to remain concentrated to government and public sector entities which accounted for 37% of the total loans. QNB plans to continue its investment in domestic business to maintain its leading position while expanding its international business to further diversify its geographical exposure as well as profitability.

The revenues of Ooredoo Group, the largest telecom service provider in Qatar, were down by 4% for H1 2019 period to USD 4bn in H1 2019, compared to the same period last year. Whereas, EBITDA grew by 2% to USD 1.7bn during the first half of 2019, reflecting an improvement in the EBITDA margin to 44% compared to 41% for the same period last year. The telecom industry-wide shift from voice to data services, along with economic slowdown and weakening of currency in some of the markets affected the overall performance of the group. The positive impact of adoption of IFRS 16 accounting standard supported the growth in earnings. In addition, the favorable FX environment particularly in the emerging markets helped drive an increase in the net profit by 22% to USD 231mn compared to the same period last year.

Industries Qatar, which dominates the earnings of conglomerate sector in Qatar, posted a net profit of USD 400.9mn in H1 2019, a reduction of 41.8% y-o-y. Sales volumes were down in terms of y-o-y comparison on account of planned periodic maintenance and unplanned outages. Further, tightening trading conditions and the volatile crude oil prices affected the overall demand of various products in addition to the softening of product prices. Deflation in prices also reduced the group's performance by approximately USD 0.16bn. However gradual recovery in prices particularly of polyethylene and steel products ensured partial recovery in product sales during the second quarter of 2019.

Appendix

Large cap shares form the top 84.5% of the total market capitalization in Qatar, while mid cap and small cap form 10.5% and 5% respectively.

Table 3.1: Summary of Top 20 companies by M. Cap in Qatar

Rank	Company Name	M Cap (USD bn)	H1-2019	
			Revenue growth	Earnings growth
1	Qatar National Bank	49.5	3.6%	3.9%
2	Industries Qatar	18.3	-23.5%	-41.8%
3	Qatar Islamic Bank	10.1	2.4%	7.6%
4	Mesaieed Petrochemical Holding Co	9.4	-20.8%	-54.3%
5	Masraf Al Rayan	7.9	0.8%	1.2%
6	Ooredoo	6.5	-4.0%	22.1%
7	Qatar Fuel Company	6.3	2.2%	9.0%
8	Commercial Bank	5.0	0.6%	9.3%
9	Qatar Electricity and Water Company	4.7	-14.9%	-23.7%
10	Ezdan Holding Group	4.6	1.5%	-0.4%
11	Qatar International Islamic Bank	4.0	11.2%	5.5%
12	Qatar Gas Transport Nakilat Co Ltd	3.7	-1.4%	7.1%
13	Barwa Real Estate Company	3.7	-7.5%	-36.6%
14	Qatar Insurance Company	2.8	-4.6%	6.6%
15	Ahli Bank	2.3	91.1%	102.8%
16	Doha Bank	2.2	-2.9%	10.2%
17	Qatar Navigation	2.0	0.4%	6.4%
18	Vodafone Qatar	1.4	1.1%	60.3%
19	Qatar Aluminum Manufacturing Company	1.4	na	-97.7%
20	United Development Company	1.3	2.7%	-13.7%

Source: Reuters Eikon, Marmore Research

Authors

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

Rajesh Dheenathayalan, CFA
Manager - Research
+965 224 8000 Ext : 4608
RDheenathayalan@markaz.com

Arnav Singh
Analyst - Research
+965 2224 8000 Ext: 4624
Asingh@e-marmore.com