GCC Stock Markets – Riding on global euphoria!

Kuwait and Saudi Arabia clock 12% YTD

April 2019

Research Highlights
GCC Economic and Market Commentary for Mar, 2019

www.markaz.com
www.emarmore.com

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

Rajesh Dheenathayalan, CFA
Manager - Research

Arnav Singh
Analyst

Kuwait Financial Centre K.P.S.C "Markaz"

P.O. Box 23444, Safat 13095, Kuwait
Tel: +965 2224 8000
Fax: +965 2242 5828

Performance of GCC equity markets improved during the month of March with Kuwait being the top performer, followed by Saudi Arabia. Qatar remained flat while Oman and Dubai continued to retract. Globally, China's Shanghai index surged sharply, becoming the leading performer for the year as conducive policy environment, easing concerns pertaining to trade war and improving sentiments resulted in increased inflows. Emerging markets continued the strong momentum during the month of March, particularly India reported healthy gains. Brent crude also increased as the production cut led by Saudi Arabia and falling exports from Venezuela provided support.

We see the following three ideas as key developments during the month of March:

1. **High dividend yield stocks – Search for consistent source of income**
   With the economic recovery underway we have identified the list of top 10 companies in the GCC that rank high in terms of dividend yield. . Dividend yields needs to be compared with the risk free rate to determine if a stock is attractive enough over a Bond investment.

2. **Is upgrade of Tadawul inducing higher foreign investor participation?**
   On the anticipation of Tadawul being upgraded by FTSE Russell, MSCI and S&P Dow Jones (S&P DJI) indices, foreign investors are looking to increase their investments in the Saudi Stock Exchange. Foreign investors have been a net buyer since December 2018, as the net traded value by foreign investors in 2019 (upto 27th March) is at SAR 8.2billion (USD 2.18 billion).

3. **Assessing Boursa Kuwait Liquidity**
   There has been consistent efforts on the part of CMA and Boursa Kuwait to implement reforms and privatise the exchange, which has resulted in improvement in liquidity particularly post mid-2017. The liquidity is higher by 89% currently, as compared to the lows of June 2017. Recent inclusion in FTSE Russel, and probable upgradation to emerging markets by MSCI should augur well for the exchange. However, structural reforms are also needed to be carried out to attract investments and increase liquidity further.

GCC Market Commentary

GCC Market Trends – Mar 2019

	M. Cap (USD Bn)	Last close	2018 %	Mar'19 %	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P GCC	893.6	116	8.4	2.5	8.4	0.081	**N.A**	14.8	2.0	3.4
KSA	554.4	8,816	8.3	3.8	12.6	0.035	2,956.50	17.3	2.0	3.7
Qatar	134.4	10,107	20.8	0.0	-1.9	0.065	295.21	13.4	1.4	4.3
Abu Dhabi	138.4	5,075	11.7	-1.2	3.2	0.071	173.08	12.7	1.3	4.9
Kuwait	103.9	6,331	7.8	8.7	12.0	0.026	38.99	13.6	1.3	3.4
Dubai	72.0	2,635	-24.9	0.0	4.2	0.069	168.14	7.2	0.9	5.3
Bahrain	22.8	1,413	0.4	0.0	5.7	0.059	1.38	9.4	0.8	5.0
Oman	12.4	3,984	-15.2	-3.9	-7.9	-0.017	1.86	8.8	0.7	7.5

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

After a sluggish performance seen in the month of February, the S&P GCC composite index recorded a bullish move in March, closing the month with a Month to Date (MTD) return of 2.5%, taking the overall 2019 YTD return up to 8.3%. Kuwait was the star performer for the month (MTD of 8.7%) followed by Saudi Arabia (MTD 3.8%). Qatar and Dubai ended the month on a flat note, whereas, Oman recorded negative returns of -3.9% respectively.

Monthly returns heat-map of S&P GCC Composite index

S&P GCC	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	3.40%	3.70%	2.70%	2.80%	3.20%	-7.40%	8.10%	6.40%	-1.40%	-6.80%	-10.90%	-4.40%	-2.6%
2015	2.80%	4.40%	-6.90%	10.10%	-2.30%	-3.50%	0.10%	-13.20%	-1.10%	-2.70%	-2.30%	-2.40%	-17.3%
2016	-10.70%	3.70%	1.90%	5.70%	-5.10%	1.10%	-0.10%	-1.20%	-3.90%	2.20%	7.90%	4.20%	4.3%
2017	1.60%	-0.80%	-1.50%	-0.40%	-1.40%	3.20%	-0.40%	0.90%	-0.60%	-2.70%	-1.50%	3.40%	-0.4%
2018	5.30%	-2.50%	3.40%	2.90%	-0.40%	1.10%	2.20%	-2.50%	0.20%	0.10%	-2.00%	0.70%	8.5%
2019	6.80%	-1.00%	2.30%										8.2%

Source: Reuters

Gaines for the Kuwait stock market accelerated in the month of March as they continued its positive trend for the third consecutive month this year. Kuwait registered a gain of 8.7% in March as investors positively registered the news that MSCI proposed to reclassify the MSCI Kuwait Index from Frontier to Emerging Markets as part of the 2019 Annual Market Classification Review. Among the blue chips, Kuwait Financial House (KFH) emerged to be the best performer, with MTD gains of 11.7%. Boubyan Bank and National Bank of Kuwait also registered substantial gains of 11% and 8.1% respectively. Kuwait banking stocks benefited greatly as restrictions on foreign ownership cap of 49% on domestic banks were lifted.

Saudi Arabia's stock exchange, the Tadawul, was officially included in two major international indexes in March, namely, the FTSE Russell and S&P Dow Jones' emerging markets indices. The inclusion marks a continuation of efforts by the

Saudi kingdom to open up its market to international investors. The inclusion is expected to bring in around USD 15 billion of passive inflows across the indices. The Saudi Arabian Tadawul index gained 3.8% in the month of March, registering a considerable positive movement from the negative returns of -0.8% witnessed last month.

The Dubai Financial Market General Index ended the month on a flat note and Abu Dhabi index registered a MTD return of -1.2% for the month of March. Among blue chip companies, Emirates NBD continued its rally from last month with a MTD return of 6.8%. On the other hand, First Abu Dhabi Bank, Emirates Telecommunications, and DP World gave negative returns of 0.4%, -1.1%, and 0.1% respectively in March. Qatar stock markets were flat in the month of March. Among the blue chip companies, Ezdan Holding continued to be the worst performer, further declining by -23.8% in March. Oman was the worst performing market among its GCC peers with a MTD return of -3.9%.

Global Market Commentary

Global Market Trends – March 2019

Equity	Last close	MTD%	YTD%
S&P GCC	116	2.5	8.4
MSCI World	2,108	1.0	11.9
S&P 500	2,834	1.8	13.1
MSCI EM	1,058	0.7	9.6
MSCI FM	947	-0.1	4.6
Commodities			
IPE Brent	68	3.6	27.1
Gold	1,292	-1.6	0.7

Source: Reuters

Global Equities continued to offer positive returns, however, the pace of growth seems to have slowed down. This was evidenced by MSCI World index which increased by just 1% for the month of March. The trade war continues to loom over global growth, however we do see some progressive dialogue between US and China as they work their way to a potential conclusion. Brexit on the other hand has seen no constructive move forward as the UK parliament continues to fail in passing the Brexit draft.

The US S&P 500 index saw gains of 1.8% in March with YTD gains now at 13.1%. However, growth forecasts for the US economy depicts a negative outlook as the Federal Reserve voted to hold interest rates steady and shaved its growth forecast. Moreover, the 3 month and 10 year yield curves also inverted for the first time since the 2007-08 market crash, signalling signs of a potential an upcoming recession.

Indian markets dominated the equity indices across the globe delivering MTD returns of 7.82% to its investors. However the volatility in the markets are expected to be high as the largest democracy in the world prepares for its national elections in the month of May. The Chinese markets continued to offer positive returns with a 5.1% gain in March, taking the YTD gains up to a staggering 24% in 2019. The

Chinese markets could see further growth upwards as the government has announced stimulus measures of nearly USD 300 billion, which include tax cuts and infrastructure spending, as the country lowered its economic growth target range.

Oil markets have continued the rally for the third straight month in 2019 as Brent Crude prices rose by an additional 3.6% to USD 68.4 during the month of March. Oil prices have found support from efforts by the OPEC and non-affiliated allies like Russia, to trim output and prices are expected to rise further. On top of U.S. sanctions, Venezuela is experiencing massive power cuts, which has crippled its oil industry further pushing the prices higher.

We see the following three ideas as key developments during the month of March:

1. High dividend yield stocks – Search for consistent source of income

Dividend yield measures the amount of cash dividends paid out to shareholders relative to the market value per share. It is computed by dividing the dividend paid per share by the market price per share. Paying out dividend is typically a characteristic of a value company that is usually in the maturity stage and may represent a substantial share of a company's profit. These companies may have limited alternative use of investing the cash. Comparing dividend yield of a company to the average of the industry and peers is a useful way for investors to gauge the attractiveness of a company before investing. Dividend paying stocks provides attractive investment for all type of investors and particularly suits the objective of retired investors as it is relatively safer source of generating consistent income. Dividend yield is compared with risk free rate i.e. government bond yields. If the dividend yield is higher than the bond yield, investor is likely to prefer investing in the dividend yielding stock over bonds.

Top 10 Dividend Yielding stocks in GCC

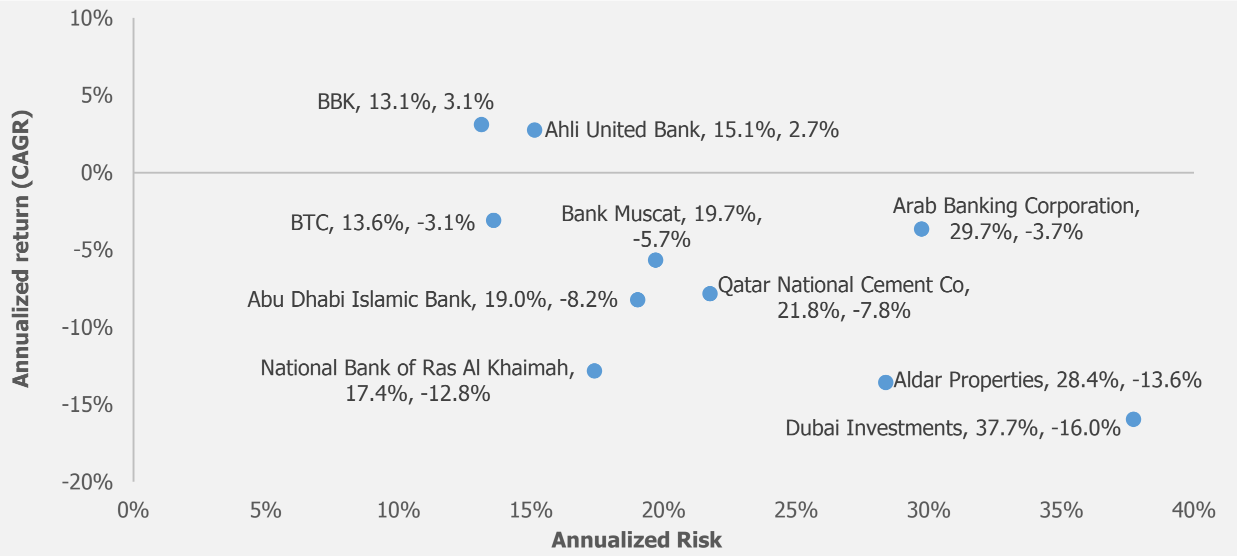
Company	Country	Market Cap (USD Bn)	Dividend Yield (5-yr avg.)	10-yr bond yield	Spread (bps)
Bahrain Telecommunications Company (BTC)	Bahrain	1.4	9.24%	6.14%	310
Bank of Bahrain and Kuwait	Bahrain	1.2	6.95%	6.14%	81
National Bank of Ras Al Khaimah	UAE	2	6.71%	3.27%	344
Ahli United Bank	Bahrain	6.9	6.57%	6.14%	43
Arab Banking Corporation	Bahrain	1.4	6.53%	6.14%	39
Abu Dhabi Islamic Bank	UAE	4.4	6.27%	3.27%	300
Bank Muscat	Oman	3.2	6.15%	6.14%	1
Dubai Investments	UAE	1.6	5.79%	3.27%	252
Qatar National Cement Co	Qatar	1.3	5.43%	3.62%	181
Aldar Properties	UAE	4.1	5.22%	3.27%	195

Source: Reuters, Marmore research

Out of the entire universe of large cap stocks (133 stocks) in the GCC region, we have considered the dividend yield in the past five years of the companies (Market cap > USD 1bn) with minimum yield above 4% in at least 3 out of the 5 years. For instance Bahrain Telecommunications Company had the highest dividend amongst the shortlisted stocks for 2018. In this list, we see that there are 4 companies each from UAE and Bahrain followed by Qatar and Oman a piece. Further, banking sector dominate the list with 6 banks while telecom, industrial and real estate sector featuring a company each.

Dividend paying stocks can provide investors with multiple income sources. In addition to dividends, an investor also stand to benefit from the potential upside movement of the stock price. A growth company that pays dividend will therefore often be the most preferred choice for investment by an investor. Sometimes companies may also provide reinvestment option wherein the dividends can be reinvested to buy more shares of the company often at a lower price than current market price.

Risk-return plot (2014-2018)



Source: Reuters, Marmore research

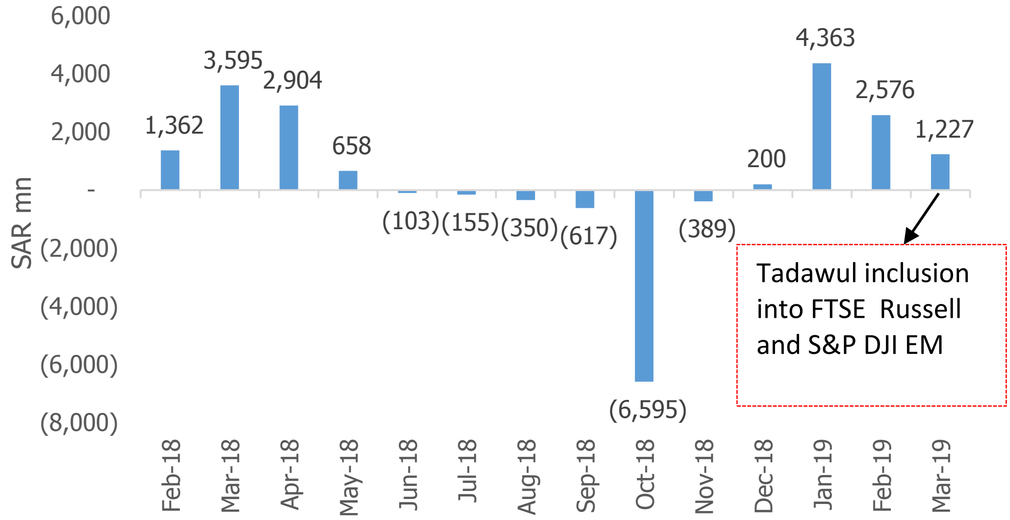
If we consider the 5 year compounded annual returns of the companies, Bank of Bahrain and Kuwait and Ahli United Bank were the two stocks that achieved a positive returns. Negative returns of majority of the stocks in general could be explained by weak economic environment due to oil price crash. The decline in the stock price during the period under study ultimately also contributed in pushing the dividend yields higher.

Although dividend yield may be a good measure to pick stocks for investment and earn superior returns, other fundamentals should also be considered. Going forward, as the economies in the GCC region undergo a turnaround, high dividend yielding stocks could provide investors with additional income source over and above the gains from potential upward price movement.

2. Is upgrade of Tadawul inducing higher foreign investor participation?

On the anticipation of Tadawul being upgraded by FTSE Russell, MSCI and S&P Dow Jones (S&P DJI) indices, foreign investors are looking to increase their investments in the Saudi Stock Exchange. Foreign investors have been a net buyer since December 2018, as the net traded value by foreign investors in 2019 (upto 27th March) is at SAR 8.2billion (USD 2.18 billion).

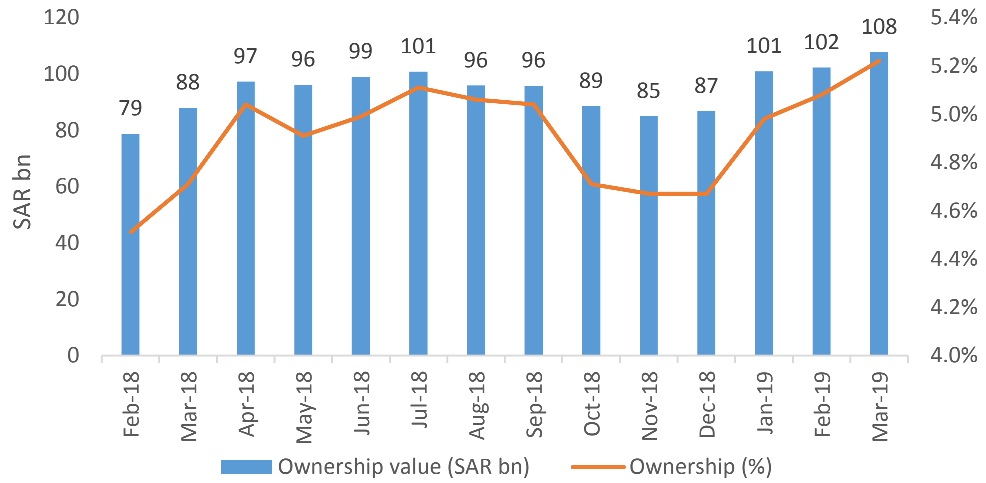
Net traded value by foreign investor



Source: Tadawul, Marmore

In value terms, foreign ownership has increased from SAR 86.8billion in December 2018 to SAR 107.8 billion in March 2019, up by 24% during the period. Foreign ownership in the Saudi stock exchange has increased to 5.22% in March 2019 from 4.67% in end of December 2018. The Foreign ownership for equities is restricted to not more than 10% per foreign institution, with the overall cap being set at 49%. It is expected that post MSCI inclusion of Tadawul, the foreign ownership could go higher from the current levels of 5.22% (March 2019).

Foreign ownership of Tadawul on an increasing trend since December 2018



Source: Tadawul, Marmore

To increase the effectiveness of Saudi capital market, CMA and Tadawul introduced capital market reforms which was implemented over the last two years. This has paved way for index inclusion and attract foreign investments. Liquidity is expected to improve due to investment inflows resulting from index inclusion. On 18th March 2019, first phase of Tadawul's inclusion in FTSE Russell and S&P DJI commenced. Tadawul's inclusion by FTSE Russel would be carried out in 5 tranches with the first 25% split over 10% in March and 15% in April, while the remaining inclusion would be carried out in subsequent review at the quarter end of June and September 2019 and the final review in March 2020. Similarly, S&P DJI would conclude the inclusion in two tranches split over 50% each, based on float-adjusted market capitalisation. MSCI Emerging Market index is expected to include Tadawul in June 2019.

A closer look at the current holding of the foreign investors, particularly equities in which foreign investments are above 5%, reflects that Insurance and Banking are the top industries preferred by the investors followed by retail, healthcare and equipment services, materials and consumer services. The below table ranks industries exposure by the number of companies (not by value of investment).

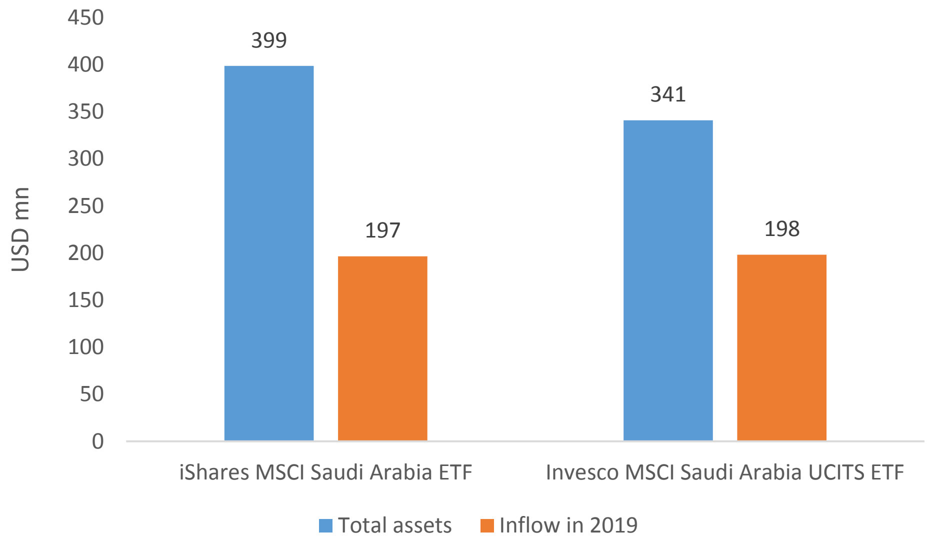
Foreign investors' ownership by more than 5%

Rank	Industry	# of companies
1	Insurance	19
2	Banks	6
3	Retailing	4
3	Healthcare & Equipment services	4
5	Materials	3
5	Consumer services	3
7	Energy	2
8	Transportation	1
8	Capital Goods	1
8	Food & Beverages	1

Source: Tadawul, Marmore

On a separate note, catching up with the trend of increased foreign investor participation in Tadawul, ETFs of Saudi Arabia has also garnered substantial investor interest in 2019. The total new inflow in iShares MSCI Saudi Arabia ETF has increased by 97% (27th March, 2019) and for Invesco MSCI Saudi Arabia UCITS ETF has increased by 138% (27th March, 2019) since the start of 2019. The total increase in absolute terms has been close to USD 200million, showcasing renewed interest of investors in Saudi Arabia ETFs post inclusion by the major benchmarks tracking emerging markets.

Saudi Arabia ETFs getting bigger



Source: Reuters, Marmore

Capital market reforms has led to the inclusion of Saudi stock exchange in the major emerging market indices, which has helped renew foreign investor interest in Tadawul. The inclusion which is set to occur in phases, will gradually result in further uptick in foreign investor participation, which augurs well for Saudi stock exchange. Saudi based ETFs are also garnering new funds, which again is a reflection of the investor confidence towards Tadawul. Emerging market funds accounted for only 0.11% Saudi stocks in their portfolio by the end of December 2018, which is expected to improve post inclusions.

3. Assessing liquidity of Boursa Kuwait

Over a period of few years, Kuwait stock exchange has been through a series of transformations, which includes Boursa Kuwait taking over Kuwait Stock Exchange (KSE), implementation of capital market reforms in three phases, inclusion in renowned emerging markets indices and privatisation of the bourse. This augurs well for an exchange which is trying to improve market participation of various stakeholders and in turn induce higher liquidity. In February 2019, a consortium led by Kuwait's National Investment Co, Arzan Financial Group, First Investment and the Athens stock exchange (ATHEX) won a tender to acquire 44% stake in Boursa Kuwait , while about 50% will be launched through IPO and remaining 6% to be retained by Public Institution for Social Security. The above move is aimed to boost capital inflows and liquidity on the exchange and to increase its appeal to international investors. These are early days, post the deal, and hence too early to evaluate a potential impact. However, Boursa Kuwait would certainly gain from the expertise of a foreign exchange (ATHEX) and would look to increase its offering to attract investors and liquidity.

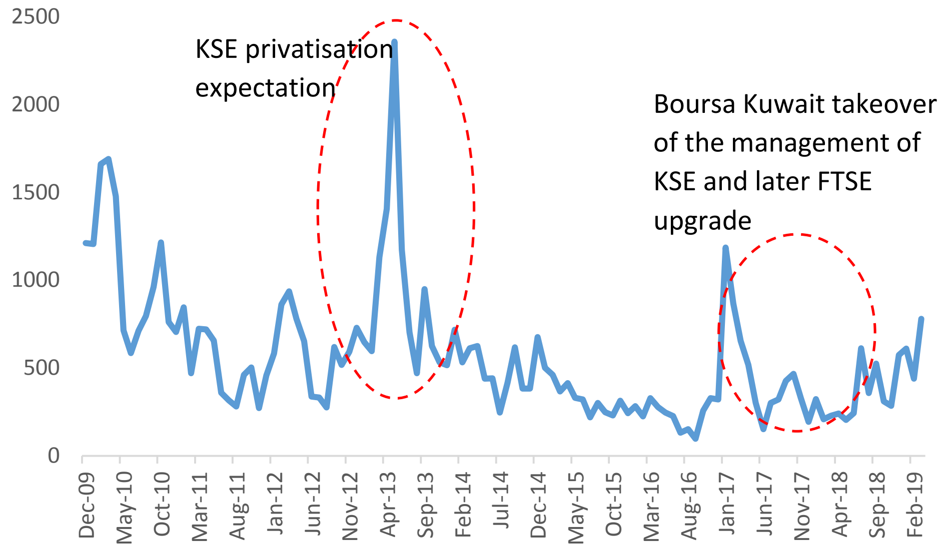
The reforms initiated by Capital Markets Authority and Boursa Kuwait began to bear fruits as they prompted major index providers across the globe to reconsider the Kuwait's market classification. These reforms included introduction of T+3 settlement cycle for both local and foreign investors (May 2017) and a delivery versus payment (DvP) system (April 2018). Within a span of two years, Kuwait was upgraded to an emerging market by FTSE, S&P and J.P Morgan. In addition, Boursa Kuwait is in contention for a potential reclassification by MSCI in 2019. Benefitting from the above, Boursa Kuwait liquidity from the lows of June 2017, has improved by 89% (3 month rolling average basis). The increase in liquidity is more observable during the last four months starting December 2018.

Monthly value traded trends (liquidity)

	2017	2018	2019	Change (2018 vs 2017)	2019 vs 2018
January	1,172,885,029	327,821,019	610,442,301	-72%	86%
February	857,520,325	210,278,712	438,458,859	-75%	109%
March	654,430,408	228,885,650	779,784,237	-65%	241%
April	517,362,120	240,788,859		-53%	
May	297,058,997	204,779,748		-31%	
June	149,630,345	242,156,590		62%	
July	302,122,837	580,853,923		92%	
August	321,189,214	340,715,584		6%	
September	425,998,786	511,387,588		20%	
October	465,858,173	309,839,687		-33%	
November	329,152,140	284,811,358		-13%	
December	197,443,612	574,464,321		191%	
Total	**5,690,651,985**	**4,056,783,038**		**-29%**	

Source: Reuters

Boursa Kuwait total value traded (KD million)



Source: Reuters

A study of liquidity trends since December 2009 shows two major spikes (as shown in the above chart), KSE witnessed peak liquidity in May 2013 induced by both local and foreign investment, on an expectation that the exchange will be privatised. Liquidity again begun to rise from April 2016 onwards post Boursa Kuwait taking over management of KSE and introducing 1st reform by May 2017. Subsequently in September 2017, FTSE Russel upgraded Kuwait from frontier market to secondary emerging market. Post FTSE upgrade, the liquidity position has been on an upward trajectory and the exchange liquidity from the lows of June 2017 is gradually progressing higher.

Boursa Kuwait segmented the market into three broad categories (Premier, Main and Auction) in an attempt to revamp and infuse 'fresh liquidity'. Premier Market, which comprises of 19 stocks witnessed most of the action as it contributed to 80% of the market liquidity.

The first eleven months post segmentation shows that premier market is the major beneficiary of the jump in liquidity and accounts for 80% of total value traded. Efforts should be made to broad base the liquidity to main market as well.

Post segmentation (April 2018 to March 2019)

Premier Market	
Overall Liquidity (KD)	4,126,326,301
(as % of overall liquidity)	*80%*
Number of Companies	19
Overall Market Cap (KD mn)	22,735
(as % of overall market cap)	*72%*

Main Market	
Overall Liquidity (KD)	1,051,910,597
(as % of overall liquidity)	*20%*
Number of Companies	145
Overall Market Cap (KD mn)	8,983
(as % of overall market cap)	*28%*

Source: Boursa Kuwait and Marmore

Disclaimer

For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait; Email: research@markaz.com ; Tel: 00965 1804800; Fax: 00965 22450647.