

# GCC Risk Premium – H1 2020

A Toolkit for Corporate  
Financiers



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# Why purchase the report?

- **COVID-19 Impact:** Our latest Equity Risk Premium values incorporate the impact of COVID-19.
- **3 Approaches:** Robust analysis of Equity Risk Premium of GCC countries using three different approaches. Sovereign ratings approach, Equity market Implied and CDS spread based methods.
- **6 GCC Nations:** Equity Risk Premium calculated for all the six member countries of the GCC region
- **Risk Evolution:** Trend on risk premium provided for all the six countries to better understand the risk evolution in these markets.

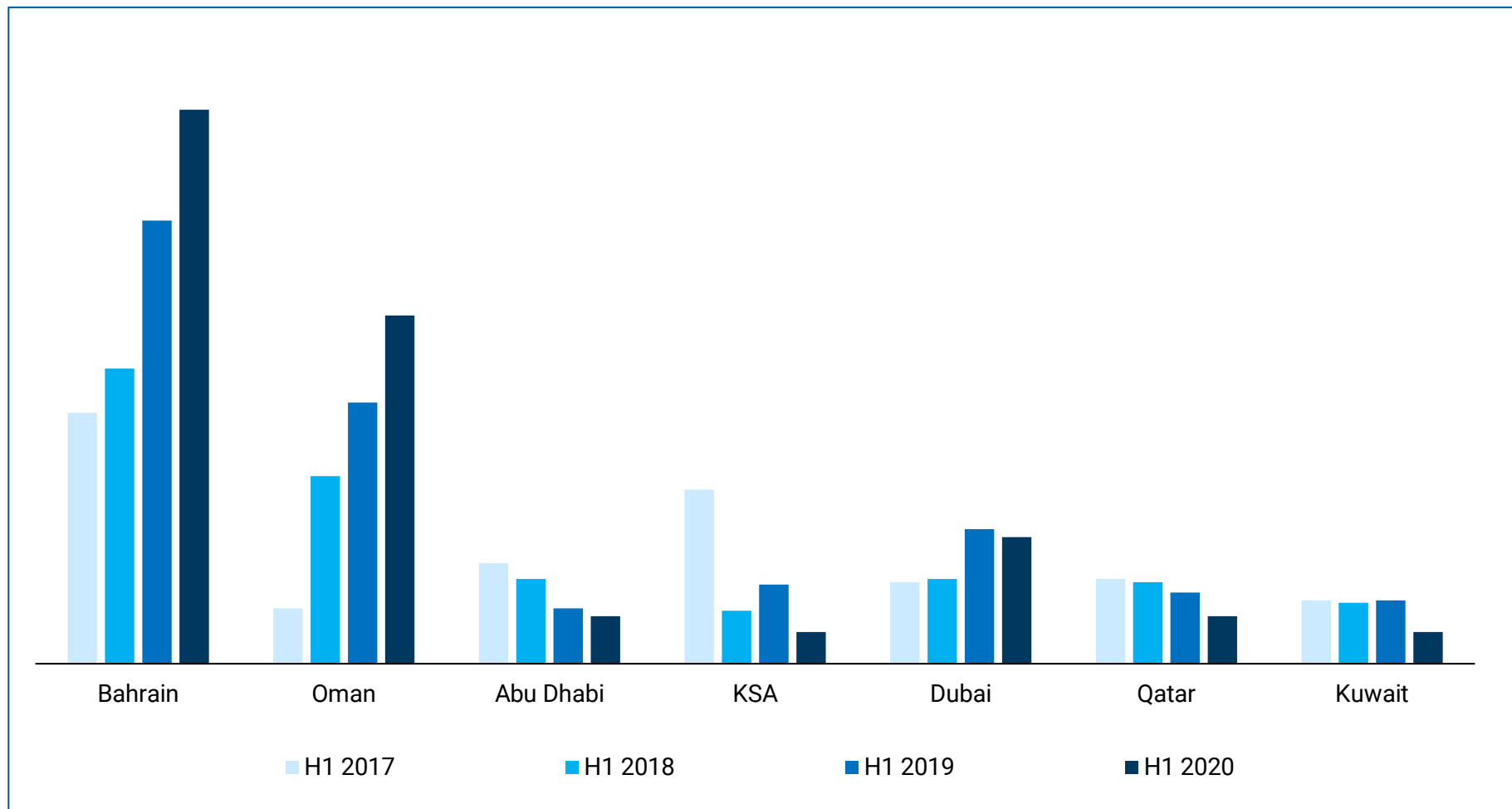
# Importance of Cost of Capital in the current environment

1. Cost of capital represents the opportunity cost of financial capital, primarily debt and equity, invested in an enterprise. Opportunity cost is what is given up as a consequence of an investment decision
2. Opportunity cost' is also referred to as 'hurdle cost' or 'discount rate', and is of primary importance in valuation and helps investors in identifying the right company or project to invest.
3. In reality, not much effort is invested in calculating cost of capital; while a significant amount of time is focused on forecasting uncertain future cash flows.
4. Improper capital cost assumptions could lead to type-I error (accepting projects that do not add shareholder value) or type-II error (rejecting projects that add shareholder value).

# Calculating the Equity Risk Premium

1. **Sovereign rating method:** The equity risk premium ERP of GCC countries are arrived at by taking the U.S market's ERP and adding the default spread based on their credit rating.
2. **CDS Spreads method:** In this method, the CDS spread of a country's bond (adjusted for spread of risk free country) is considered as default spread and added to the U.S market's ERP.
3. **Implied ERP method:** Implied equity risk premium is an alternative approach to estimate risk premiums. Assuming that stocks are correctly priced, if we can estimate the expected cash flows from buying stocks, then we can estimate the expected rate of return on stocks by computing an internal rate of return (IRR). Subtracting out the risk free rate from IRR should yield an implied equity risk premium.

# Evolution of Cost of Capital in the GCC



## January 2020 GCC Private Equity and Venture Capital Still at its infancy



**Research Highlights:**  
Examining and tracking the Private Equity and Venture Capital landscape by highlighting key industry themes, investment opportunities, their activity and profiling key players.

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## January 2020 GCC Market Outlook 2020

Rank	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10Y Return (CAGR)
1	UAE	UAE	UAE	UAE	UAE	UAE	UAE	UAE	UAE	UAE	UAE	10.1%
2	Qatar	Qatar	Qatar	Qatar	Qatar	Qatar	Qatar	Qatar	Qatar	Qatar	Qatar	9.5%
3	KSA	KSA	KSA	KSA	KSA	KSA	KSA	KSA	KSA	KSA	KSA	8.8%
4	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	8.2%
5	Oman	Oman	Oman	Oman	Oman	Oman	Oman	Oman	Oman	Oman	Oman	7.5%
6	Yemen	Yemen	Yemen	Yemen	Yemen	Yemen	Yemen	Yemen	Yemen	Yemen	Yemen	6.8%
7	Libya	Libya	Libya	Libya	Libya	Libya	Libya	Libya	Libya	Libya	Libya	6.2%
8	Jordan	Jordan	Jordan	Jordan	Jordan	Jordan	Jordan	Jordan	Jordan	Jordan	Jordan	5.5%
9	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon	4.8%
10	Saudi	Saudi	Saudi	Saudi	Saudi	Saudi	Saudi	Saudi	Saudi	Saudi	Saudi	4.2%

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## January 2020 Kuwait Family Business



**Research Highlights:**  
What makes family business in Kuwait succeed? How do they stay in longevity of organization? In our report we explore factors that have been key to their success through various themes including governance structure, succession practices and business strategy.

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## November 2019 GCC Listed Companies with high cash holding – what can one learn?



**Research Highlights:**  
Investing in companies with high cash holdings and comparing them with their sector averages. Further examining key sources of cash flows and efficiency and assessing the relation between high cash and shareholder value.

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## November 2019 Saudi Aramco Valuation



**Research Highlights:**  
To assess the company's value, the cost of capital of its component globally, and strong profitability ratios but partially offset by high liquidity and income taxes and sensitive location is a report with robust valuation.

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## April 2019 GCC Asset Management



**Research Highlights:**  
Analyzing the state of GCC asset management industry in terms of market size, fund performance, regulations and operational challenges.

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## FINTECH FUTURE OF FINANCIAL SERVICES JUNE 2019



**Research Highlights:**  
Research is moving to stay relevant at a time when disruptive trends are reshaping and reshaping the competitive landscape. This report examines the fintech tech scenario in the GCC region.

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## GCC Ride Sharing Sector: Estimating the Market size

**Research Highlights:**  
Presenting the state of sharing economy, ride sharing patterns and a model-based on collaborative technology transformation techniques. The study assesses media and smartphones. This report estimates the ride sharing market in GCC, the existing regulatory framework and estimates the market size based on industry data.

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## August 2019 Consulting in GCC: Understanding the Value Add Time to relate all to implementation



**Research Highlights:**  
The report analyzes the GCC Consulting market and challenges facing the consulting industry and also the opportunities for growth in the industry through this study examines recommendations have been provided for most successful players and consultants.

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