October 2019

Kuwait Corporate Earnings – H1 2019

Banking and Telecom support earnings growth in H1 2019; expected to remain positive for 2019

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Report Highlights

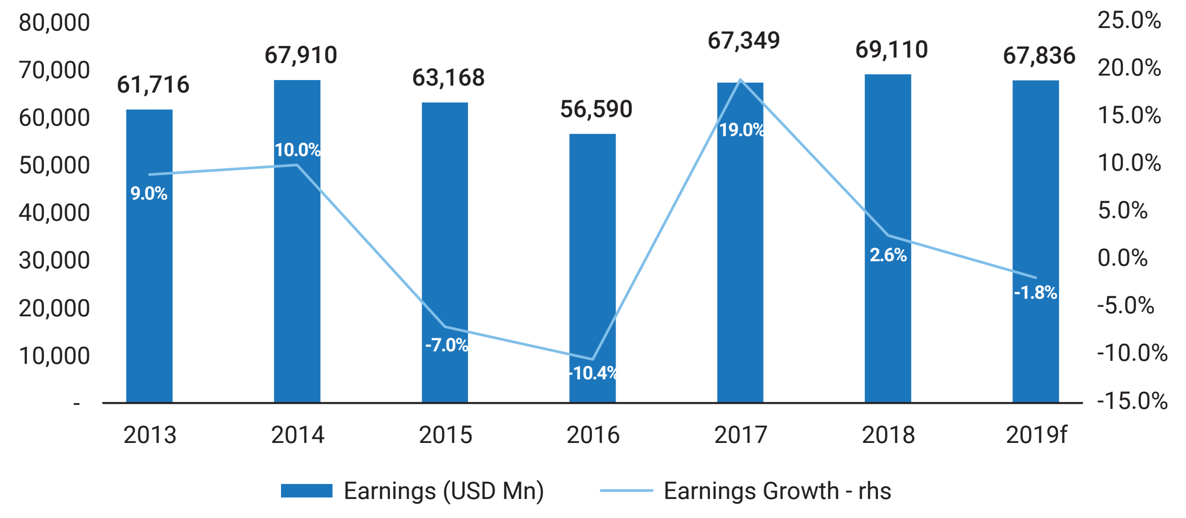
GCC

- 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.

Kuwait

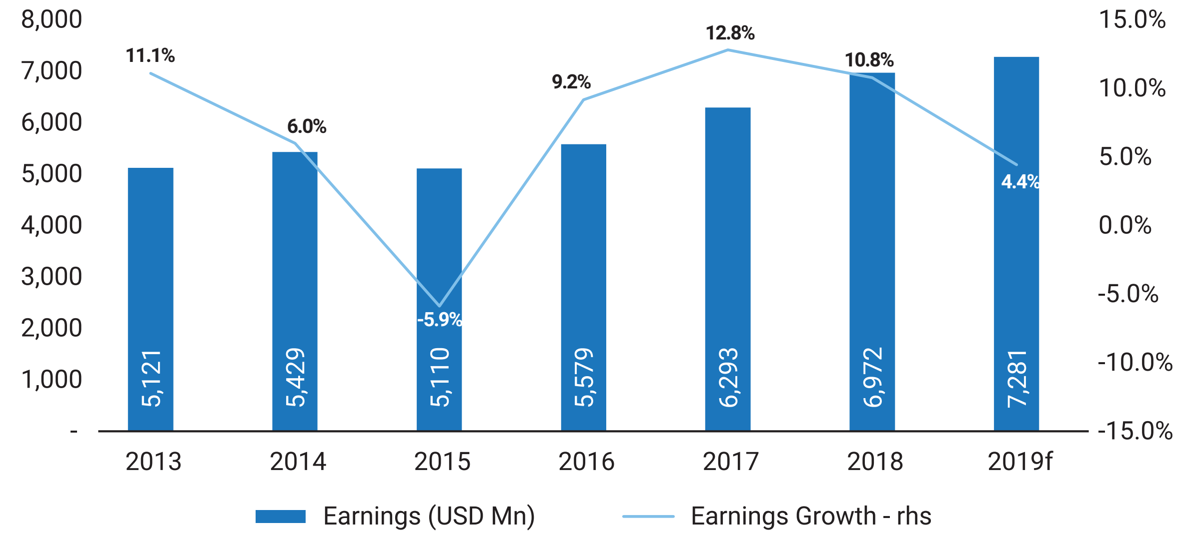
- Kuwait corporate earnings grew by 2% in H1 2019 from same period last year.
- Banks, Telecom and Conglomerates sectors contributed in the positive earnings growth while real estate and construction related activities and commodities sector registered a decline in earnings.
- For the entire year 2019, we expect earnings to grow by 4.4 % in 2019, due to continued overall growth momentum.

Figure 1.1: Earnings Trend – GCC



Source: Reuters Eikon, Markaz Research

Figure 1.2: Earnings Trend – Kuwait



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

Kuwait

Kuwait witnessed a 2% increase in earnings during H1 2019 compared to previous year. The improved earnings were primarily supported by the growth in the profitability of banking and telecom sector. Kuwait's banking sector witnessed a growth of 2% in its earnings owing to continued recovery in credit growth and improving consumer and business confidence. Telecom sector earnings grew by 10.2%, highest among various sectors. Higher government spending will continue to provide support to non-oil sector while planned investment of over USD 115bn over next five years in oil production capacity will boost the revenues from hydrocarbons.

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

Positive growth	Negative growth
Conglomerates (15.0%)	Commodities (-9.0%)
Construction related (10.0%)	
Telecom (10.0%)	
Real estate (8.0%)	
Banks (4.0%)	
Others (3.0%)	
Financial services (2.5%)	

Source: Marmore research

National Bank of Kuwait and Kuwait Financial House posted positive earnings growth of 12.5% and 9.4% respectively in H1 2019. Among the telecom players, Zain posted a positive growth of 13.1%. While VIVA Kuwait witnessed a decline of 16.1% in earnings.

National Bank of Kuwait (NBK) reported net profits of USD 690mn for the H1 2019, with strong growth in domestic as well as international operations. The share of international operations reached 26% in H1 2019, up from 24% at the end of 2018. The increase in earnings was driven primarily by strong growth in credit lending and cost control measures.

Kuwait Financial House, the largest Islamic bank in Kuwait, achieved profit of USD 355mn in H1 2019. Finalization of various projects and divestments led to an increase in investment income for the bank to USD 101mn. As a result, the share of investment income to operating income reached 15.4% from 7.6% last year. Credit growth is picking up pace in Kuwait supported by the Central bank's monetary policy which has been much more reluctant in raising interest rates. Consumer spending is also on the rise and with the large pipeline of government projects, corporate lending is set to gather momentum and support banks growth.

Zain Kuwait generated a consolidated revenue of USD 2.7bn, up 61% y-o-y, while consolidated EBITDA for the period increased by 109% y-o-y to reach USD 1.2bn, which implies EBITDA margin increased to 44% as of H1 2019 from 39% at the end of 2018. The consolidation of Zain Saudi Arabia into Zain Group resulted in an additional revenue of USD 1.1bn and USD 506mn in EBITDA during H1 2019. Further, the adoption of new accounting standard in 2019 resulted in a benefit to EBITDA of USD 121mn, and an increase in net income of KD USD 11mn. The group saw an increase in data revenue by 114% y-o-y, supported by the expansion of its 4G LTE networks and the launch of 5G commercial services in Kuwait, coupled with various data monetization initiatives. Data revenues now represent 36% of the Group's consolidated Revenue, up from 35% at the end of 2018.

Appendix

Large cap shares form the top 58.8% of the total market capitalization in Kuwait, while mid cap and small cap form 22.7% and 18.5% respectively.

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

Rank	Company Name	M Cap (USD bn)	H1-2019 Revenue growth	H1-2019 Earnings growth
1	National Bank of Kuwait	20.5	1.3%	11.5%
2	Kuwait Finance House	16.0	-0.3%	12.1%
3	Mobile Telecommunications Company	8.1	59.7%	11.5%
4	Boubyan Bank	5.4	3.5%	11.1%
5	Agility Public Warehousing Co	4.4	1.6%	6.7%
6	Commercial Bank of Kuwait	3.3	7.1%	59.2%
7	Gulf Bank	2.8	-2.5%	-11.3%
8	Burgan Bank	2.6	-17.3%	-12.0%
9	Mabanee Company	2.6	17.0%	11.2%
10	Ahli United Bank	2.2	-11.3%	5.1%
11	Al Ahli Bank of Kuwait	1.6	2.9%	16.9%
12	Kuwait Projects Company Holding	1.4	-0.5%	11.6%
13	Boubyan Petrochemical Company	1.3	176.9%	71.3%
14	Warba Bank	1.3	16.6%	23.8%
15	Human Soft Holding Company	1.3	6.3%	17.6%
16	Kuwait Telecommunications Company	1.2	-7.3%	-16.9%
17	National Mobile Telecommunications Co	1.2	-9.9%	40.0%
18	Qurain Petrochemical Industries Company	1.1	15.0%	39.7%
19	National Industries Group Holding	1.1	8.5%	71.4%
20	Al-Maidan Clinic for Oral Health Services Company	1.0	17.0%	29.2%

Source: Reuters Eikon, Marmore Research

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