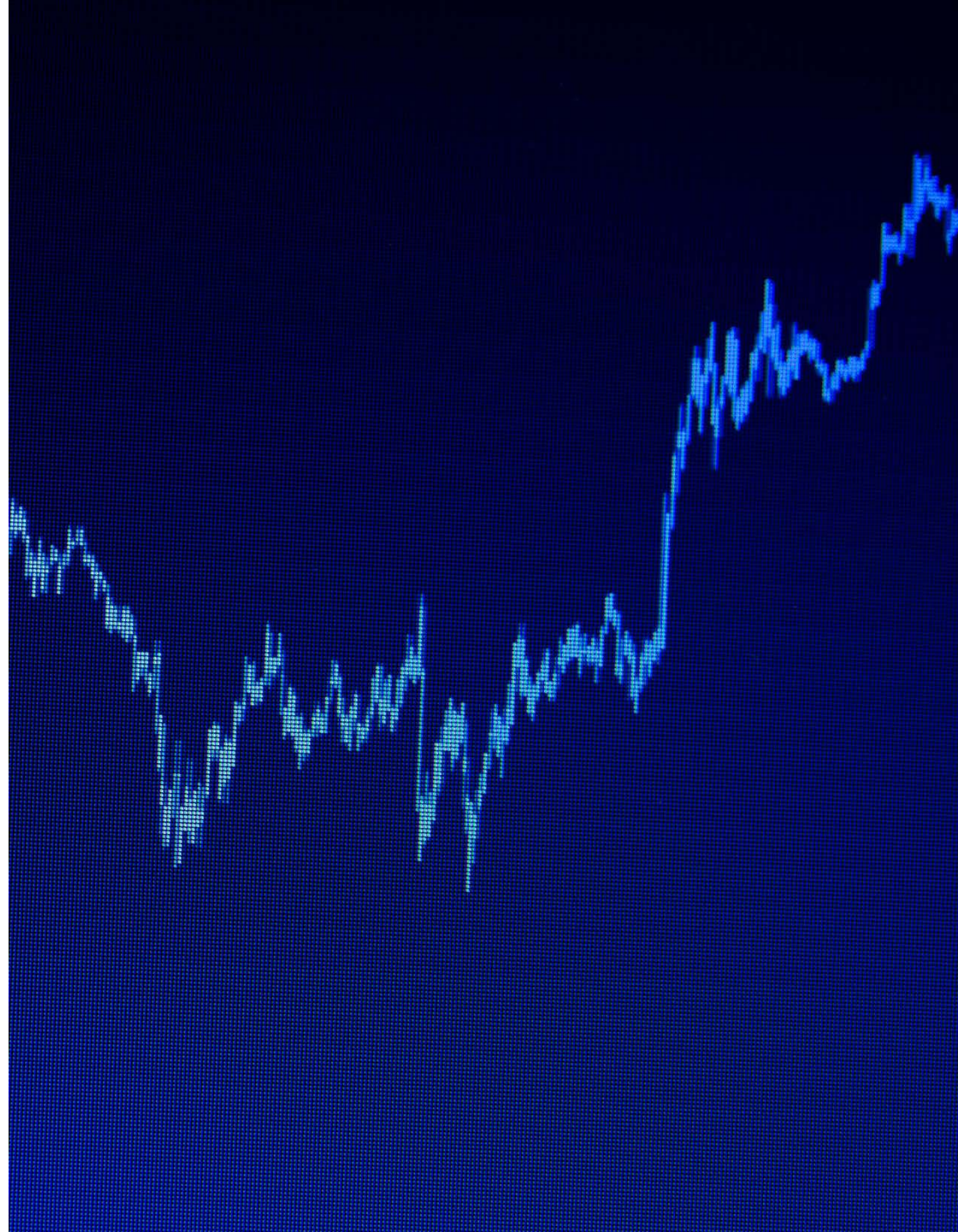


GCC Capital Markets Review

October 2020



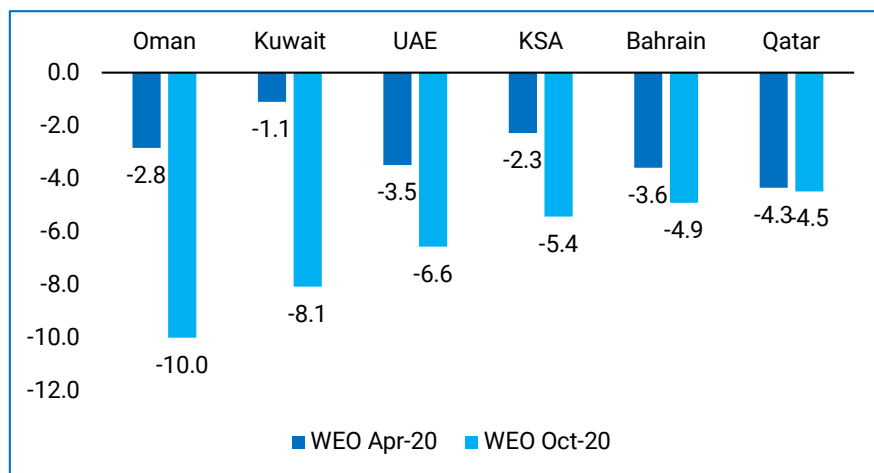
Market Commentary, October 2020

- Most GCC equity markets ended the month in red as weak earnings and dim economic outlook pressured markets.
- Kuwait markets were flat, with the Kuwait All Share index registering a minor loss of 0.04% in October. Among Kuwait sectors, Industrials was the top gainer, rising 2.4%, while technology index saw the biggest decline, down 4.8% for the month. Among blue chips, Mobile Telecommunications (Zain) gained the most at 2.1%, while National Bank of Kuwait lost 2.9% for the month. NBK reported a 38% y-o-y drop in net profit for Q3 2020, hit by higher provisioning for bad debt and economic slowdown caused by the pandemic. Kuwait All Share Index's PE ratio was at 13.4 by the end of the month. Market liquidity in October as indicated by the average daily traded value has increased by 19% over previous month to USD 197million.
- Regionally, the S&P GCC composite index lost 2.8%, with all markets except Abu Dhabi ending the month in negative territory. Abu Dhabi gained 3.1% for the month. Saudi Arabian equity market lost 4.7% in October followed by Dubai, which lost 3.8%. Saudi Arabia's merchandise exports dropped by 36% during the first eight months of the year. S&P downgraded Oman for the second time this year to B+, citing weakening of its public sector finances.
- Among the GCC blue chip companies, National Commercial Bank (Saudi Arabia) increased by 5.1% in October supported by a 24% y-o-y increase in net profit for Q3 2020 and its binding merger agreement with Samba Financial Group. Ezdan Holding (Qatar) lost 12.8% followed by Emirates NBD Bank (UAE), which decreased by 10.8% in October. Emirates NBD Bank's net profit for Q3 2020 slumped by 69% y-o-y.
- Oil prices closed at USD 37.5 per barrel at the end of October 2020, posting a monthly loss of 8.5%. While OPEC's assurance that the worst is over for oil, supply disruptions in Norway and Gulf of Mexico, Russia's openness to consider extension of supply cuts for longer supported prices during the month, spike in COVID-19 cases in U.S and Europe, renewed lockdown restrictions in Europe and increase in Libyan oil exports pushed prices down towards month end.

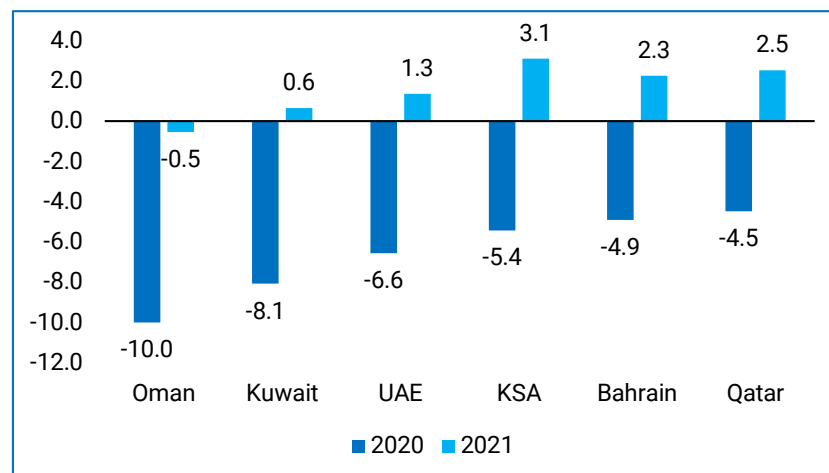
IMF forecasts steeper fall in GCC countries' GDP

- IMF in its recent World Economic Outlook (October 2020) has revised GDP forecasts for GCC countries downwards from its April forecast, citing deeper-than-expected impact of lockdowns on mobility and weak global growth.
- For GCC as a whole, IMF expects GDP to contract by 6% in 2020 and to grow by 2.3% in 2021. Non-oil GDP is expected to contract by 5.7% mainly due to collapse of service sector caused by a decline in domestic and external demand. Oil GDP is expected to contract by 6.2% on the back of production cuts based on OPEC+ agreements caused by sluggish oil demand.
- The revision has been steepest for Oman and Kuwait. For Saudi Arabia, the current forecast is less steeper than the 6.8% fall forecasted by IMF in June 2020. GCC countries other than Oman are expected to return to growth in 2021.
- Except UAE, all GCC countries are also expected to post negative fiscal balance in 2020 and 2021. Oil prices in 2021 are expected to be stagnant in the range of USD 40-50 per barrel. Fiscal break oil price for all GCC countries except Qatar is estimated to be higher than this range.

Revision of Real GDP Growth Forecasts 2020



Real GDP Growth Forecasts for 2020 and 2021



Steep cut in project spending could depress Kuwait's oil output

- Oil majors around the world have announced plans to cut their expenditure bills on the back of drastic fall in oil prices driven by lockdowns to curb COVID-19.
- Kuwait had also announced plans to slash spending in its oil sector by around KD 700million from KD 3.7billion (USD 12.2billion) to KD 3billion (USD 9.9billion) during the 2020-2021 fiscal year due to a sharp rise in the country's budget deficits. State operator, Kuwait Petroleum Corporation (KPC) plans to decrease its five-year capital spending by 25% to KD 19.8billion (USD 65billion).
- The means to cut spending included cancellation or postponement of projects and plans to merge KPC's subsidiaries. The projects cancelled so far include a USD 1.5billion utility-scale solar power plant and a USD 400million oil project at the northern Ratqa field.
- In the context of approval of KPC's financing plan by Council of Ministers, Kuwait's Public Debt Management Committee had suggested three different scenarios to rationalise capital spending.
 - KD 20 billion, with a spending period of 16 years
 - KD 18 billion, with a spending period of 15 years
 - KD 14 billion, with a period of spending for 20 years
- This would trim KPC's capital spending to nearly KD 4billion (USD 13.2billion). This compares with KPC's base estimate of capital spending at KD 27.7billion for a five-year spending period with bonds comprising of 50% of the total financing plan.
- The reduction in spending as proposed by the Debt Management Committee could reportedly result in current crude oil production of 2.8 million bpd, which is estimated to be worth KD 11billion, dropping to 1.8 million bpd at the end of the five-year plan. Consequently, it might lead to cancellation of contracts and in turn result in decline in state's oil revenues by KD 20.4billion during the period of the five-year plan.

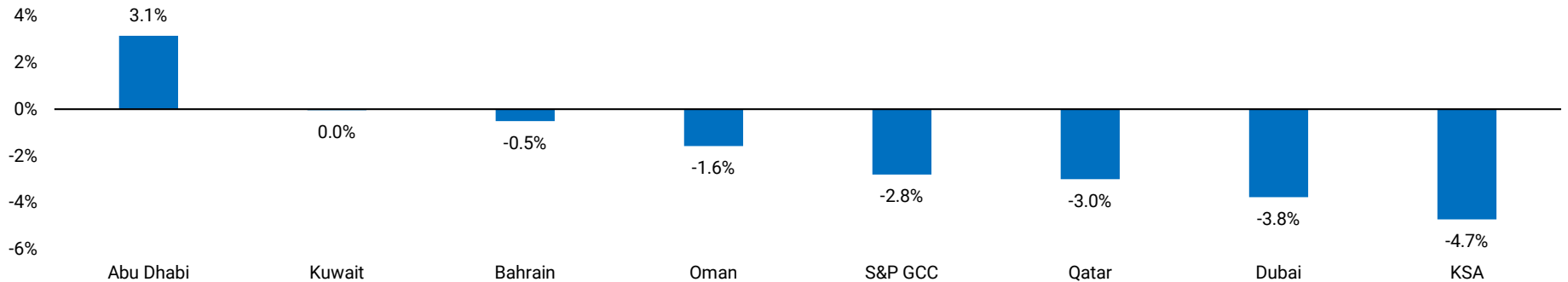
NCB-Samba Merger: A Saudi Mega Bank in the making

- National Commercial Bank (NCB), Saudi Arabia's biggest lender and Samba Financial Group (Samba) have signed a binding merger agreement. The merged bank, with assets worth USD 223billion, would be GCC's third-biggest banking entity after Qatar National Bank and First Abu Dhabi Bank (UAE). The merger deal was reported to be under discussion in June 2020.
- Under NCB-Samba merger deal, Samba shareholders will receive 0.739 newly issued NCB shares in exchange for each Samba share they hold. This is in the lower end of the earlier announced band of 0.736-0.787 shares. This translates to SAR 28.45 for each Samba share, valuing it at approximately SAR 55.7billion (USD 14.8billion). This corresponds to a 23.7% premium to Samba's closing price prior to the signing of the initial agreement in June 2020.
- The merger is expected to be accretive to earnings per share for both the banks. The transaction is expected to unlock about SAR 800million (USD 213million) annually fully phased in cost synergies after integration. This amounts to approximately 9% of the combined cost base.
- The merged bank would have a market share of about 32% by assets and 33% by deposits. The merged entity is expected to be mainly corporate lending focussed with corporate lending comprising 67% of loan book.
- After the merger, Samba's assets and liabilities would be transferred to NCB and Samba would cease to exist. Samba's existing shareholders will own 32.6% and NCB's shareholders will own 67.4% of the merged bank. The major shareholders of the merged entity would be Saudi Public Investment Fund (37.2%), Saudi Public Pension Agency (7.4%) and General Organisation for Social Insurance (5.8%).
- While NCB- Samba merger deal has been a culmination of NCB's merger efforts since 2018, it assumes significance as banks seek to gain cost and operating efficiencies to handle pressure on their margins amidst COVID-19 and a low oil price environment.

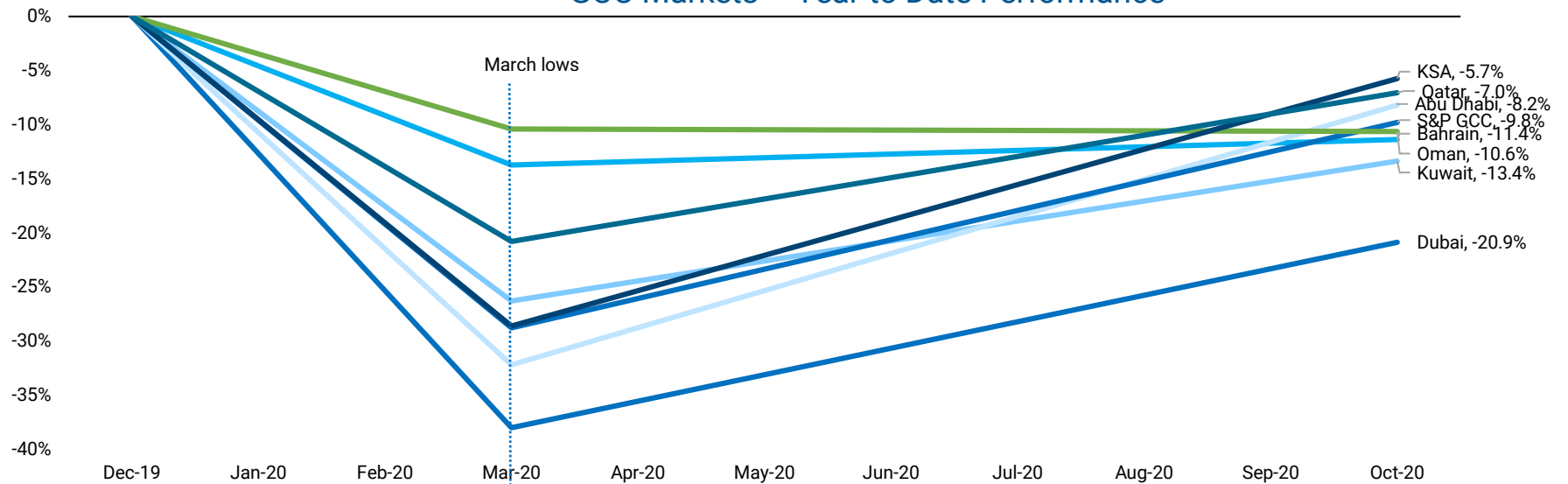
Read more on our first take report, [NCB-Samba Reach Merger Deal](#)

GCC Equity Market performance, October 2020

GCC Markets - Monthly Price Performance

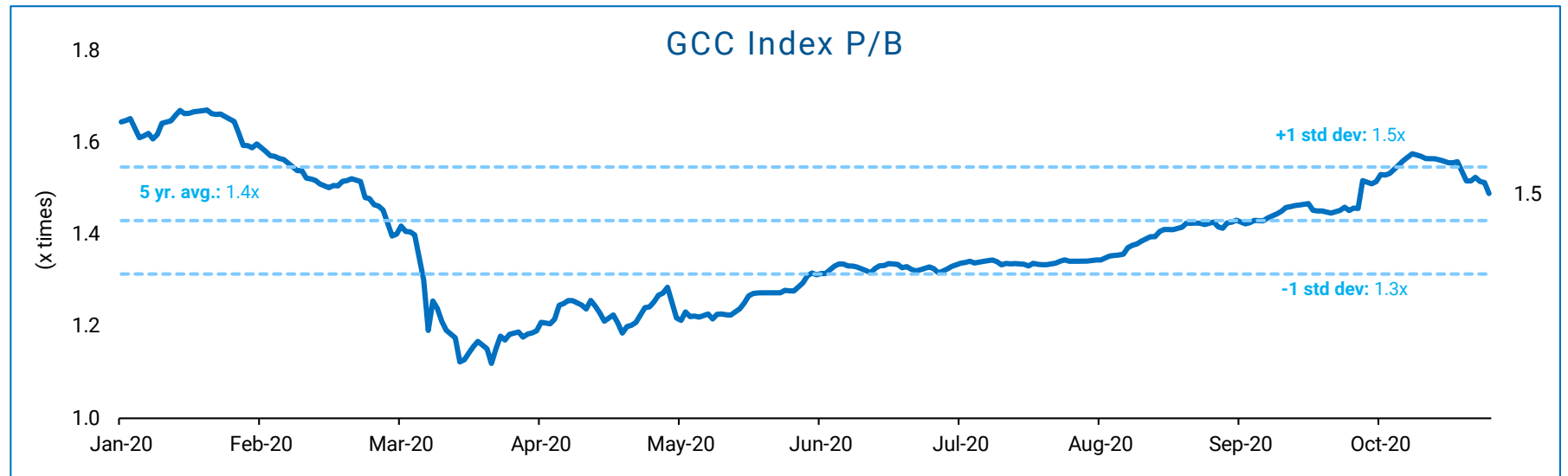
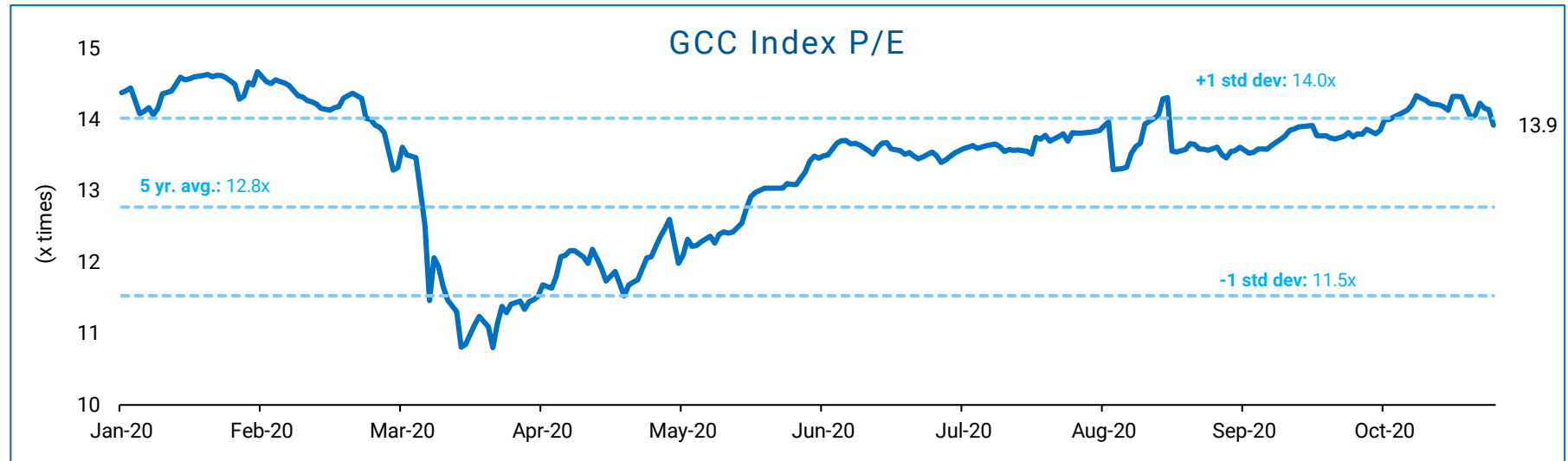


GCC Markets – Year to Date Performance



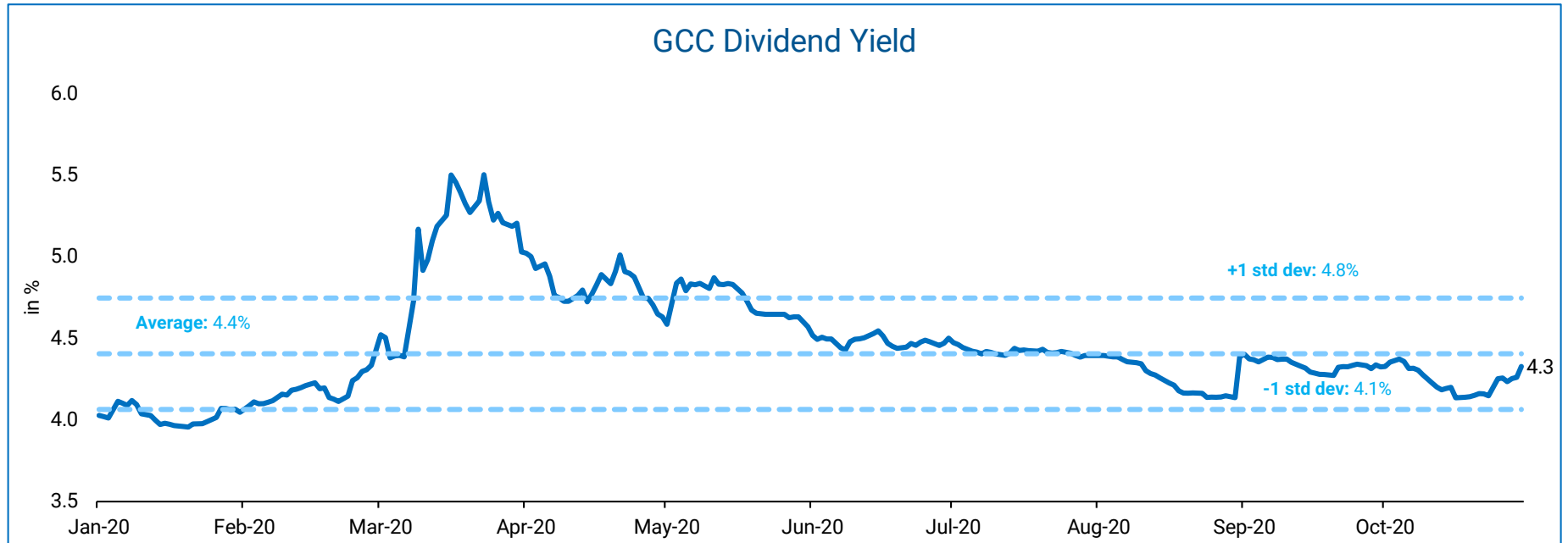
Source: Refinitiv; Data as of October 31, 2020

GCC Equity Market valuation



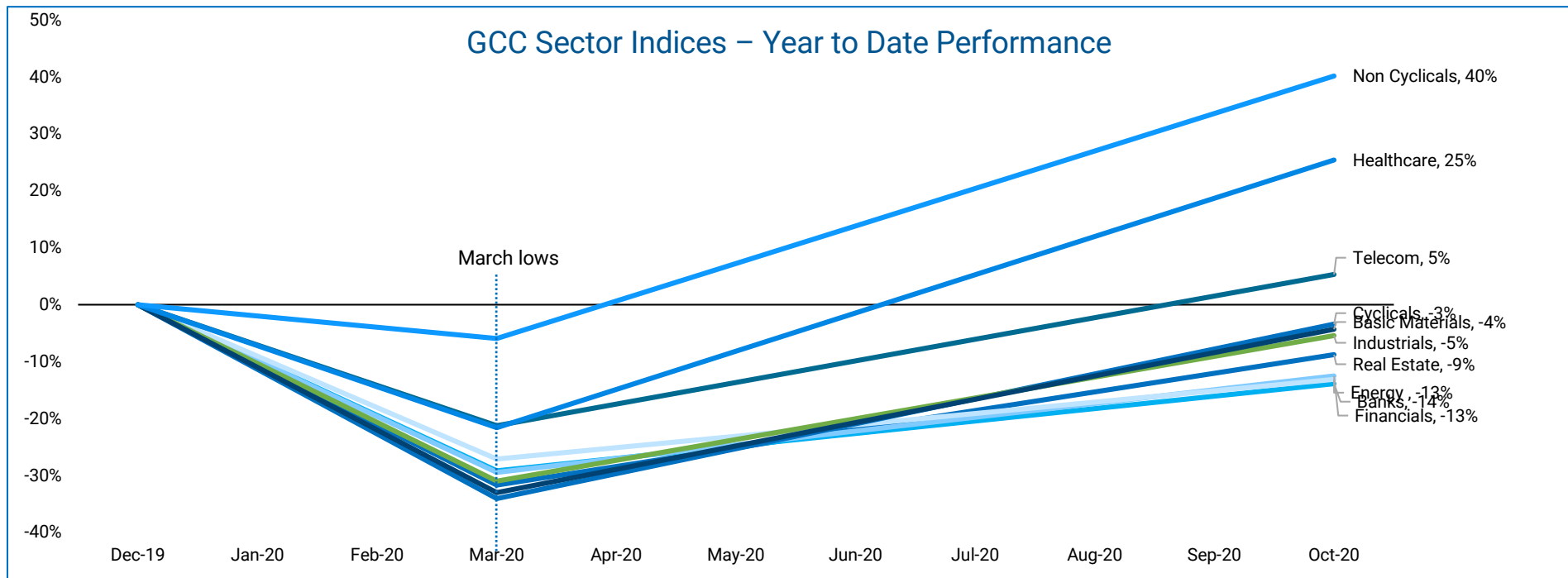
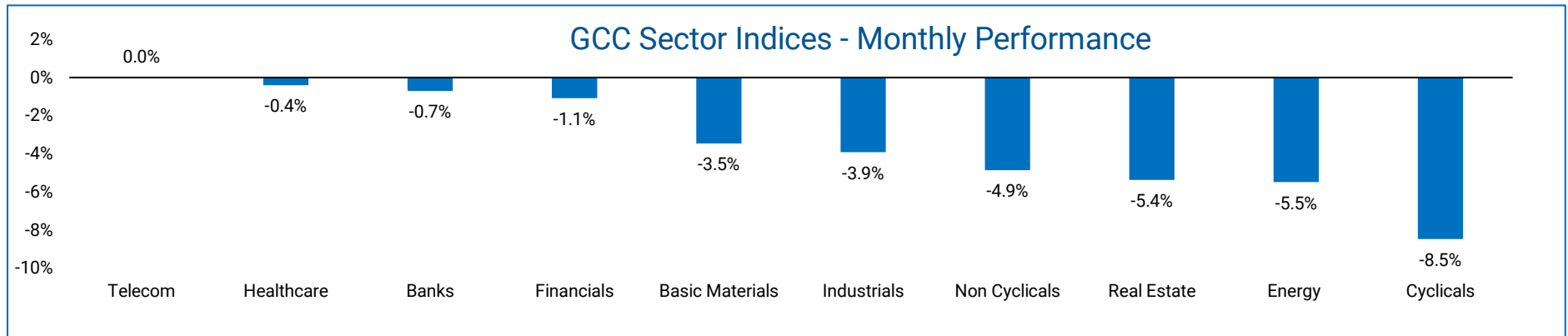
Source: Refinitiv; Data as of October 31, 2020

GCC Equity Market valuation



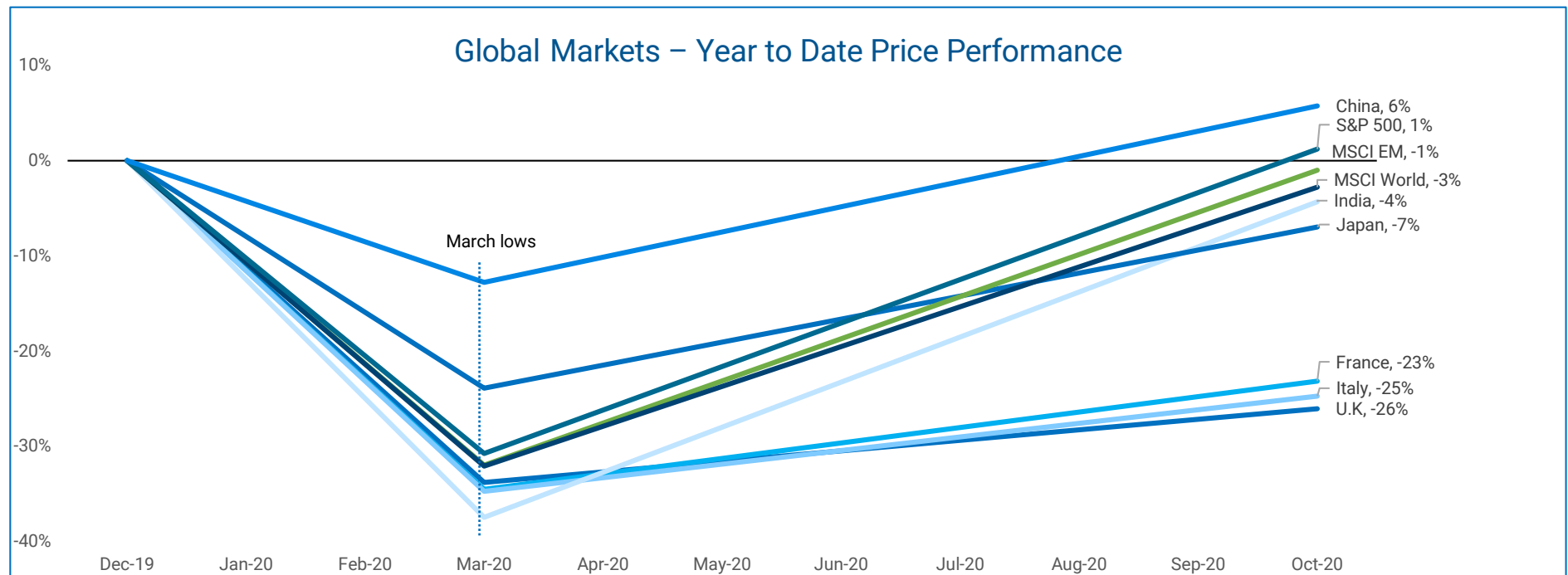
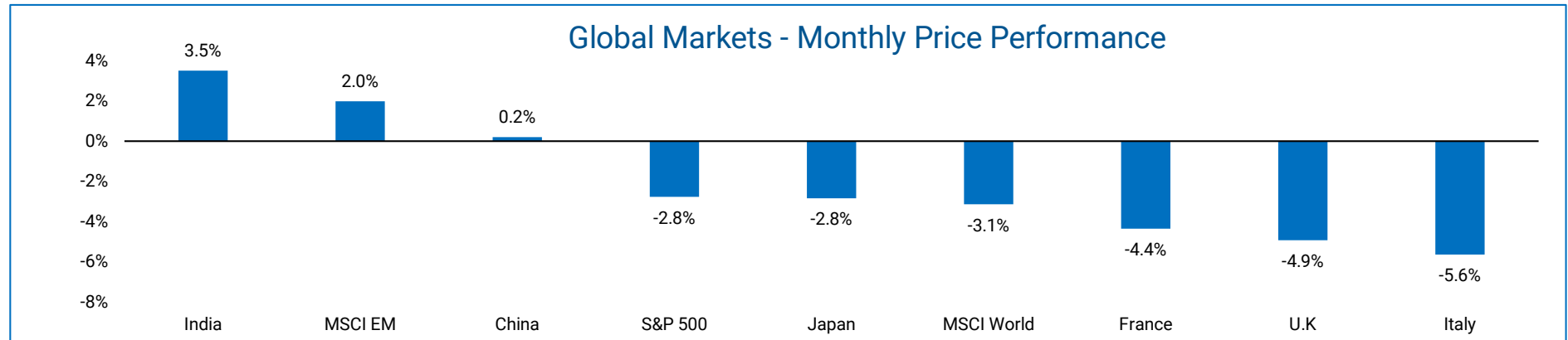
Source: Refinitiv; Data as of October 31, 2020

GCC Sectoral performance, October 2020



Source: Refinitiv; Data as of October 31, 2020

Global Equity Market performance, October 2020



Source: Refinitiv; Data as of October 31, 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%	-4.7%			-5.7%	0.95

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%	0.0%			-13.4%	1.10

Source: Refinitiv; Data as of October 31, 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%	3.1%			-8.2%	1.03

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%	-3.8%			-20.9%	0.58

Source: Refinitiv; Data as of October 31, 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%	-3.0%			-7.0%	0.79

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%	5.7%	-4.2%	-1.6%			-10.6%	0.56

Source: Refinitiv; Data as of October 31, 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%	-0.5%			-11.4%	1.00

Source: Refinitiv; Data as of October 31, 2020

THANK YOU

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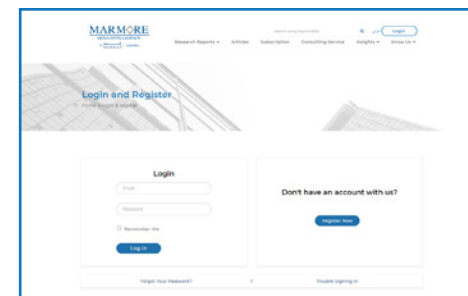
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