October 2019

GCC Corporate Earnings – H1 2019

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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.

Saudi Arabia

- In H1 2019, Saudi Arabia corporate earnings registered the highest decline among GCC countries. On an aggregate basis they decreased by 24.3%.
- Commodities sector earnings that is the second largest contributor of total earnings after banks in Saudi Arabia was the main contributor in the decline in total earnings. Commodities sector registered a fall in earnings of 61.8% in H1 2019 compared to same period last year. Earnings of banking sector remained muted as it only grew by a meagre 1.3%.
- Interestingly, Saudi telecom sector which is the third largest contributing sector in earnings registered a remarkable growth of 25% in H1 2019.
- We expect Saudi Arabia's full year earnings to decline by 6.1% in 2019 as lower oil prices and lower oil production drag economic activity in the Kingdom.

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.

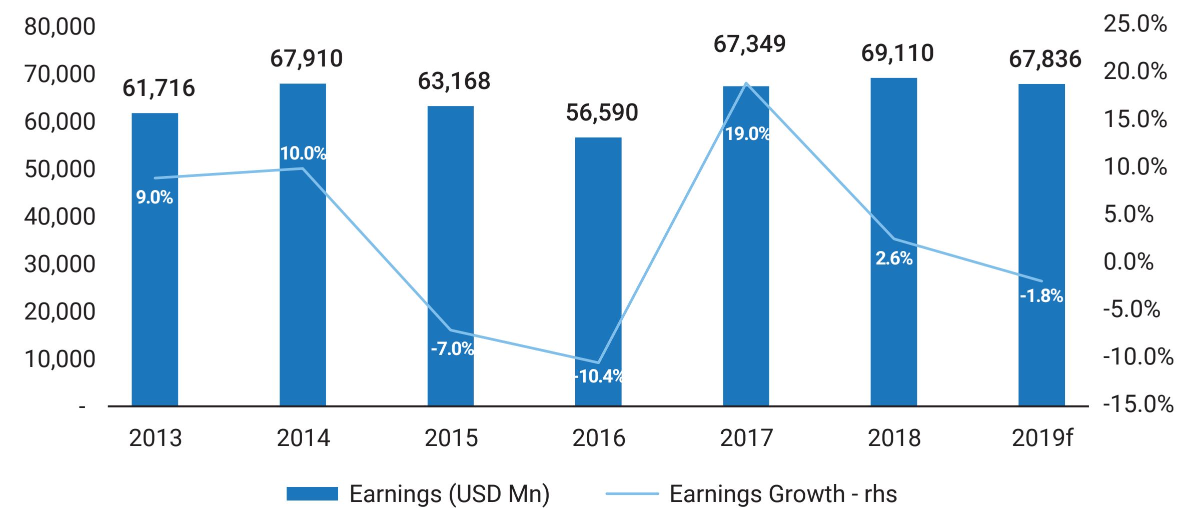
United Arab Emirates

- The banking sector performed well with earnings growth of 9.8% in H1 2019, however real estate sector earnings were declined by 32%.
- On an overall basis, U.A.E companies recorded a decline of 8.5% in earnings during H1 2019 however we expect them to be better with a moderate growth of 2% for the full year 2019.

Qatar

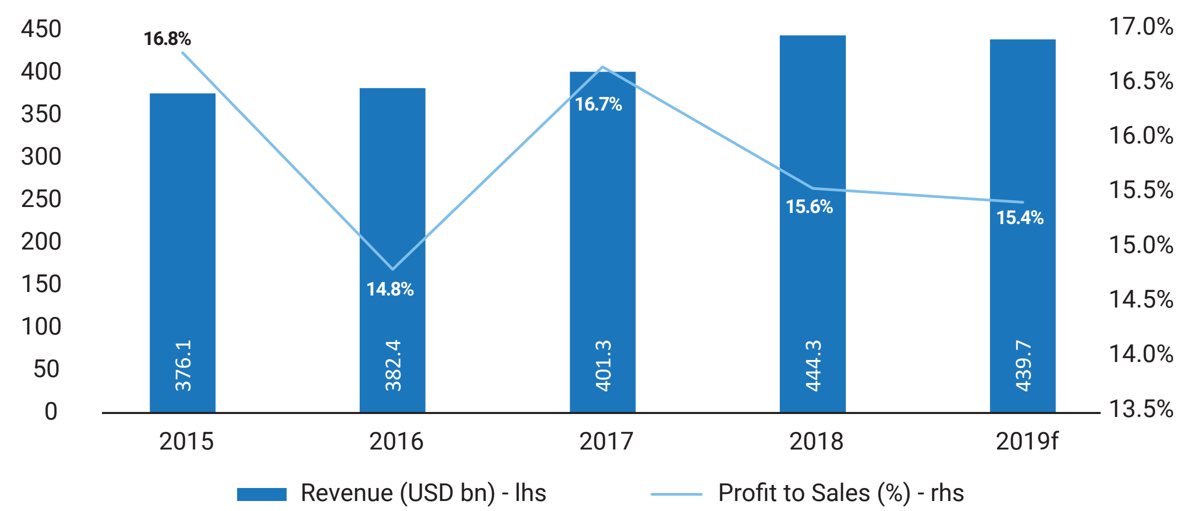
- For Qatar, corporate earnings decreased by 6.4% in H1 2019.
- Conglomerates and Real estate sectors witnessed fall in earnings by 42.9% and 23.7% respectively during H1 2019. While, Telecom and Banking sector remained strong with earnings growth of 24.6 and 5.4% respectively.
- Qatar is expected to 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: Revenue Trend – GCC



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

Saudi Arabia

Saudi Arabia witnessed the highest decline in corporate earnings of over 24% in H1 2019 among GCC countries. Corporate earnings during the period declined largely due to drop in earnings in its commodities, and financial services sectors.

Saudi Basic Industries Corporation (SABIC), the largest company by market cap in the region reported a net profit of USD 1.47bn in H1 2019, a 55% decline year-on-year. The global economic slowdown and the simultaneous decline in petrochemical prices as a result of increase in supply resulted in lower prices of products which ultimately affected the bottom line.

Al Rajhi Bank, the largest bank in Saudi Arabia by market cap reported a net profit of USD 1.38bn for the first six-month period of 2019, 8.3% higher y-o-y. The growth is attributed to increase in operating income from yield income. The net profit margins improved by 55 basis points to 5.2% y-o-y as the bank focused more on mortgage income and higher investment portfolio balances. The net income of National Commercial bank was the highest among banks in Saudi Arabia for the first half of 2019 amounting to USD 1.46bn, a growth of 14.6% from the same period in 2018. Higher fees and commission income and simultaneous lowering of expenses contributed to the positive growth. Loans and advances rose 3.8% in the first six-month period of 2019 while customer deposits grew 3.1% for the same period in comparison to previous year. In the same period, Saudi banks in general have benefited from higher interest rates and a distribution of loans to support housing and government-related projects.

Saudi Telecom Co. (STC), the second-largest listed company in Saudi Arabia and the region by market capitalization, reported a net profit of USD 1.5Bn in H1 2019, a 11.3% rise y-o-y. For the first half of 2019, the company revenue reached USD 7.2bn, an increase of 6.1% y-o-y. The rise was attributed to operating efficiencies. As part of its growth strategy, STC officially launched the 5G network services in Saudi Arabia and have made it available to customers with more than 600 5G sites in the country.

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.

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.

United Arab Emirates

UAE's overall earnings shrinked by 8.5% during H1 2019, mainly due to continued underpoerformance of real estate sector. Real Estate sector's earnings growth contributes the most after banking sector to overall corporate earnings in UAE. Weak commodity prices also contributed to lower profitability. UAE banks on the other hand, registered the highest growth among its regional peers, with a growth rate of 9.7% in H1 2019 compared to same period a year ago.

First Abu Dhabi bank (FAB), the largest bank by market cap and assets in UAE posted H1 2019 net profit of USD 1.7bn, a growth of 4.5% over the comparable period year ago. Total customer deposits also increased by 7% y-o-y to USD 126bn. Net interest margin declined by 24 basis points to 2.21% mainly due to the deployment of surplus funds into the ECB in order to generate profit through the swap markets.

Emirates NBD delivered a strong set of results with net profit of USD 2.0bn in H1 2019, up 49% y-o-y driven by strong asset growth and higher fee income. The results also include a oneoff gain on disposal of a stake in Network International worth USD 0.6bn. Net interest income increased by 10% y-o-y while Non-interest income surged by 20% y-o-y as a result of higher foreign exchange revenue and growth in investment banking activities.

Earnings in real estate sectors slumped on the back of a weak economic environment with negative sentiment impacting activity levels and sales realizations. The construction industry was plagued by delayed cash cycle leading to significant losses which resulted in sharp drop in earnings by 39%. Emaar Properties, Dubai's largest listed real estate player, reported a 52% gain in H1 2019 revenue to USD 2.57bn while net profit declined by 3.7% to USD 847mn. Rising supply from new developments and modest demand dragged down property prices in Dubai. As of Jun, 2019, the sales backlog amounted to USD 13.4bn that will be recognised into revenues over the course of next four years.

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.

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.

Oman

Oman witnessed the highest growth in aggregate earnings across region. Earnings grew by 7% for H1 2019 in comparison to year ago period. Growth in Banking and financial services sector lifted the overall earnings growth in Oman. These two sectors combined accounted for nearly 62% of aggregate earnings in H1 2019.

The largest lender in Oman, Bank Muscat accounted for nearly half of the profitability of banking sector in Oman. The earnings for H1 2019, grew by 4.4% to USD 243mn. The bank's asset remains concentrated to corporate business which accounted for 36.4% of total assets with a contribution of 43.1% to the net profit. Deposits were concentrated to retail depositors which accounted for 41% of the total deposits.

Bahrain

Bahrain's corporate earnings registered a decline of 21.1% in H1 2019, only behind Saudi Arabia in terms of percentage decline. Like other countries in GCC, banking sector of Bahrain accounts for the highest share in earnings. For H1 2019, earnings of banking sector declined by 5.8% to USD 1bn. Financial services was the only sector which registered a growth in earnings for the period under consideration.

Ahli United Bank B.S.C. (AUB) reported a profit attributable to its equity shareholders of USD 377.5mn for the first six months of 2019. The growth in income came from higher net interest income as a result of growth in loans and investments. The net profit increased by 5.6% as compared to the H1 2018. Cost to income ratio stood at 26.5% an improvement of 40 basis points.

Chapter 3

Looking Ahead

We expect GCC corporate earnings to fall by 1.8% for the full year 2019 as compared to 2018 to reach USD 67.8bn. The growing concern of global economic slowdown amidst trade war between U.S. and China will continue to adversely impact the growth in GCC nations as well. Further rising geopolitical risks in the region doesn't bode well for the growth in corporate earnings. Volatility in oil prices and a slower fiscal consolidation could weigh on fiscal balances in oil-exporting countries and hurt the business and consumer sentiments for an elongated period. Lower product prices amidst abundant supply will keep the pressure on earnings of corporates operating in commodities sector.

However, regional mega infrastructure projects ranging from UAE Expo 2020, World Cup (FIFA) Qatar 2022 and the Saudi National Transformation Program will ensure capital spending by the Governments and hence facilitate some momentum to credit growth during the second half of 2019. Construction related sectors could see a turnaround. UAE and Qatar's governments are increasing their investments in the infrastructure space in order to prepare themselves for the Expo 2020 and FIFA 2022 respectively. Banking sector is likely to maintain moderate growth in earnings seen during the first half of 2019. Among all sectors, telecom sector is expected to register the highest percentage growth in earnings for 2019 as revenue from data usage grow rapidly while telecom players continue to strategically invest on expanding their 5G as well as 4G LTE network.

Appendix

Large cap shares form the top 78.6% of the total market capitalization for the GCC area, while mid cap and small cap form 12.1% and 9.3% respectively.

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

Rank	Company Name	M Cap (USD bn)	H1-2019 Revenue growth	H1-2019 Earnings growth
1	Saudi Basic Industries Corporation	70.6	-14.0%	-54.7%
2	Saudi Telecom Company	53.3	6.1%	11.3%
3	Qatar National Bank	49.1	3.6%	3.9%
4	First Abu Dhabi Bank	45.3	2.3%	4.5%
5	Emirates Telecommunications Group Co	39.0	-1.3%	3.1%
6	Al Rajhi Banking & Investment Corporation	38.7	12.7%	8.3%
7	National Commercial Bank	33.7	5.6%	14.5%
8	Saudi Electricity Company	22.6	-4.1%	-
9	National Bank of Kuwait	20.4	1.3%	11.5%
10	Emirates NBD Bank	19.9	35.2%	49.1%
11	Industries Qatar	18.2	-23.5%	-41.8%
12	Riyad Bank	18.0	21.9%	69.6%
13	Saudi British Bank	16.1	9.9%	-52.5%
14	Kuwait Finance House	15.7	-0.3%	12.1%
15	Emirates Islamic Bank	14.8	10.4%	38.7%
16	Abu Dhabi Commercial Bank	14.5	11.6%	-0.1%
17	Samba Financial Group	13.9	9.1%	-16.0%
18	Saudi Arabian Mining Co	13.1	22.3%	-
19	Almarai Company	12.4	3.1%	-8.7%
20	DP World	12.2	31.9%	6.1%

Source: Reuters Eikon, Marmore Research
Note: Companies ranked 8 and 18 incurred losses for H1 2019

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