KAMCO Research

GCC Corporate Earnings Report - 2018

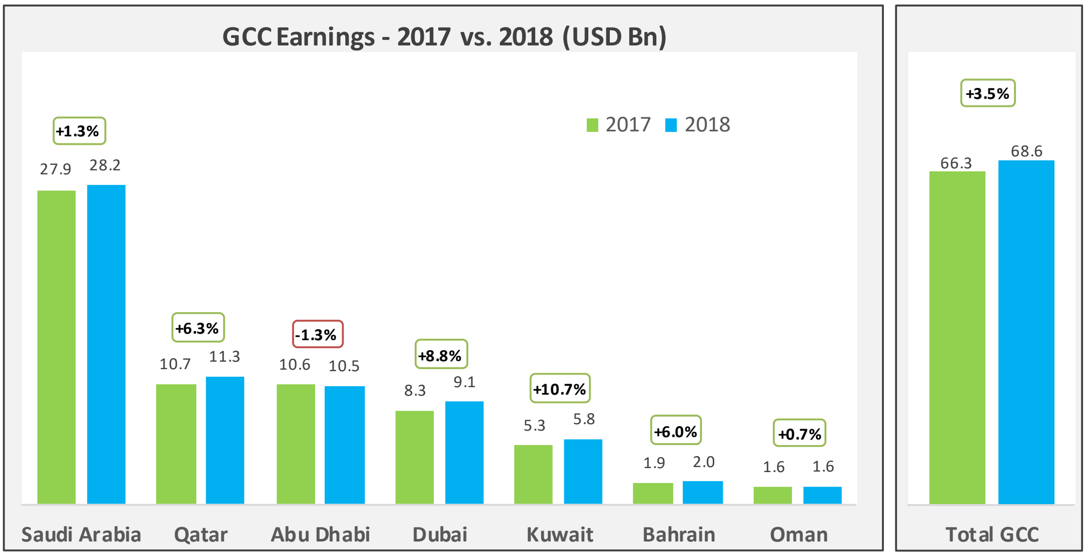
April - 2019

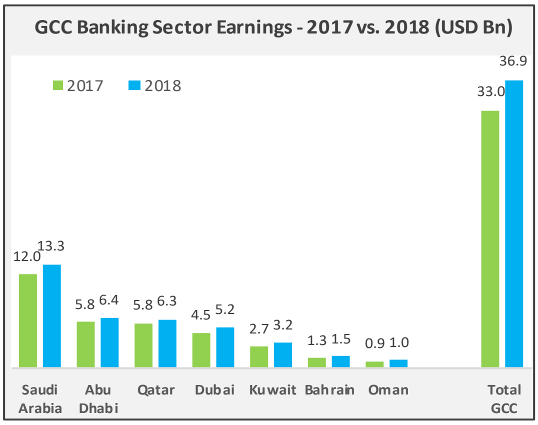
GCC net profit up 3.5% in 2018 buoyed by Banks, Materials and Telecom sectors...

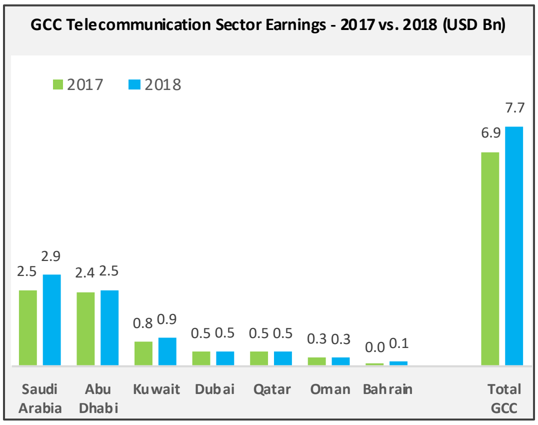
Total earnings for GCC-listed companies increased 3.5% in FY-18 to USD 68.6 Bn from USD 66.3 Bn in FY-17. *Aggregate earnings for Boursa Kuwait saw the biggest y-o-y increase at 10.7% to reach USD 5.8 Bn. Saudi Arabia's Tadawul, which made up 41.2% of the GCC's total FY-18 net profits, increased its earnings 1.3% to USD 28.2 Bn compared to its FY-17 earnings of USD 27.9 Bn. ADX was the only GCC market which reported a y-o-y slide in net profits for FY-18, recording a decline of -1.3% to USD 10.5 Bn. Earnings during the year was buoyed by robust FY-18 results from the three biggest sectors by market capitalization; Banking, Telecom and Materials which increased 11.8%, 13.5% and 11.6%, respectively.*

DFM posted the biggest net profits increase in absolute terms in the GCC during the year recorded at USD 9.1 Bn on the back of double-digit growth from the Banking and Real Estate sectors. Qatar followed Dubai as the second biggest contributor to the increase in net profits for the GCC markets. *Qatar Stock Exchange's FY-18 net profit rose 6.3% to USD 11.3 Bn compared to USD 10.7 Bn in 2017. This growth was primarily led by strong growth in Qatari Banking sector earnings which increased by 8.7% followed by the Capital Goods sector which recorded an earnings growth of 34.4%.*

In terms of sectors at the GCC level, large-cap sectors including Banks, Materials and Telecom were the main force behind the rise in FY-18 net profits. *GCC banks' net profit for FY-18 rose 11.8% to USD 36.9 Bn from USD 33 Bn in FY-17. The banking sector in each of the GCC markets reported double digit increase in FY-18 with the only exception of Qatari banks which reported a slightly smaller growth of 8.7%. On the other hand, earnings for the GCC Material sector rose 13.5% to USD 10.1 Bn reporting the second highest net contribution in real terms by sector in the GCC markets. However, the sector was dominated by Saudi Arabia with the Kingdom accounting for more than 90% of the sector profits.*







Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Faisal Hasan, CFA
Head - Investment Research
+(965) 2233 6907
faisal.hasan@kamconline.com

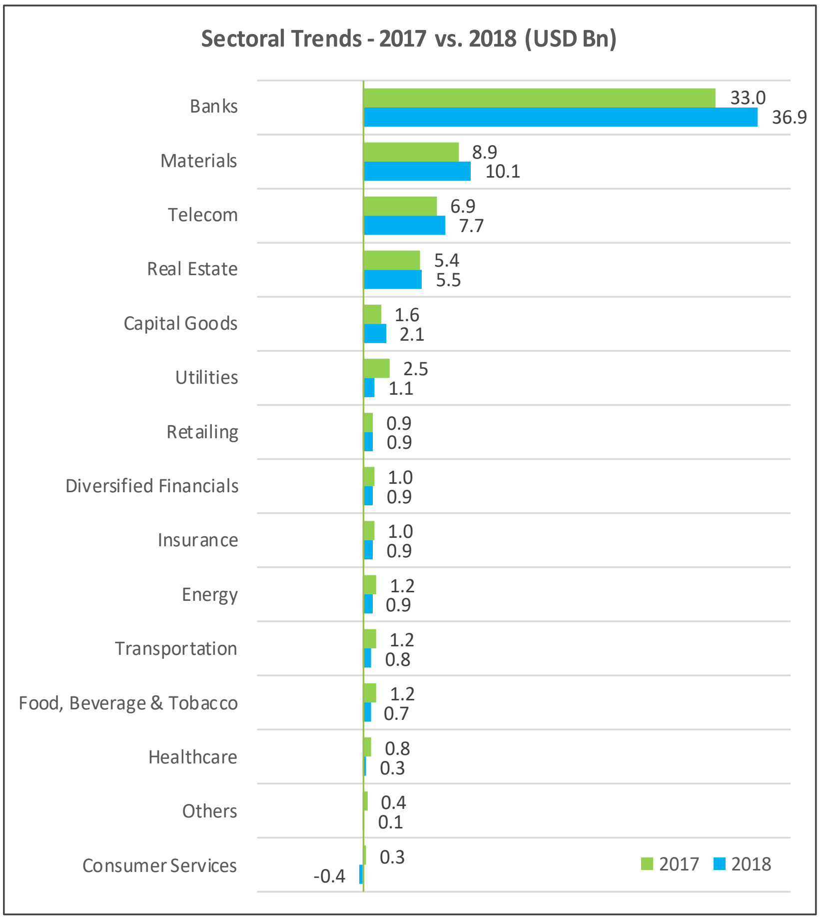
Junaid Ansari
Vice President
+(965) 2233 6912
junaid.ansari@kamconline.com

Mohamed Ali Omar
Analyst
+(965) 2233 6906
mohamed.omar@kamconline.com

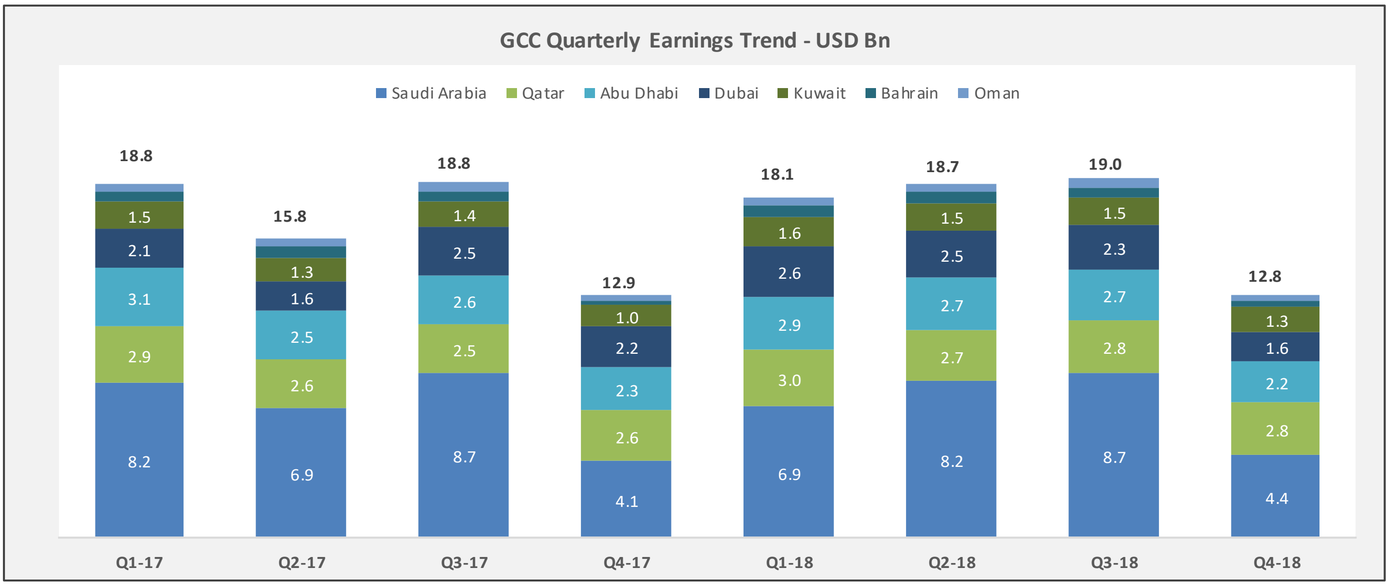
Vineetha K. Yeluri
Analyst
+(965) 2233 6913
vineetha.geddam@kamconline.com

Among the six biggest sectors in the GCC market by market capitalization (Banking, Materials, Real Estate, Telecom, Capital Goods and Utilities) only one sector, the Utilities sector, reported a decline in earnings for FY-18. The GCC Utilities sector reported 56.2% fall in FY-18 net profits to USD 1.1 Bn from USD 2.5 Bn in FY-17 the biggest fall in real term net profits by sector in GCC. Saudi Electricity Co contributed the greater share of the decline in profits of the sector with 74.5% tumble in FY-18 profits to USD 468 Mn from USD 1.8 Bn in FY-17. However, the GCC Consumer Services sector reported the biggest loss by sector in net profits for FY-18 with a total loss USD 367.6 Mn in FY-18. This was mainly driven by DFM's DXB Entertainments which reported a FY-18 loss of USD -687.7 Mn.

The Real Estate sector in the GCC accounted for the fourth largest share of net income and market cap. The sector has caused significant volatility in equity markets in the UAE due to continued oversupply in several segments of the market. That said, Dubai continues to be the key driver of profitability for the sector recording a net profit growth of 20% to reach USD 3.6 Bn, or almost two-thirds of the sector's profitability in the GCC. On the other hand, Qatar recorded the biggest profitability drop of 27.7% followed by Kuwait at 25.1%.



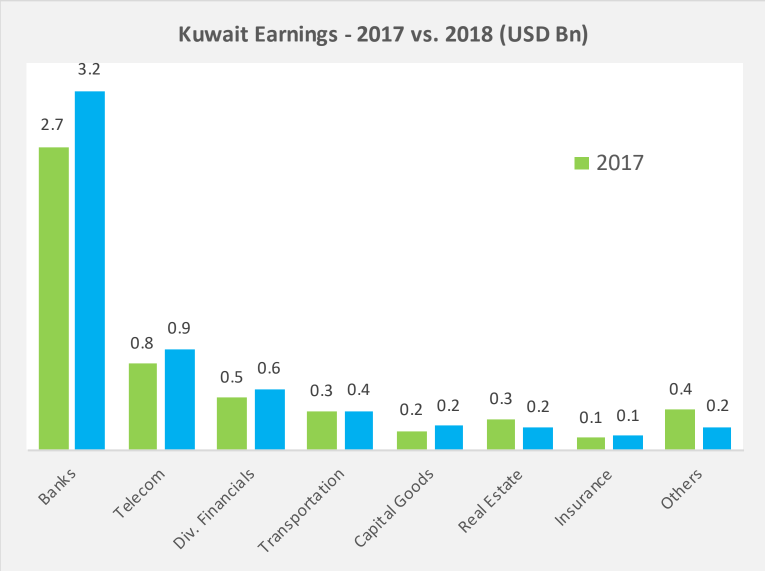
In terms of quarterly earnings, Q4-18 earnings for the GCC exchanges declined slightly y-o-y by 0.7% and reached USD 12.8 Bn as compared to USD 12.9 Bn during Q4-17. Dubai reported the biggest y-o-y drop in earnings during Q4-18 at 28.9% followed by Oman and Abu Dhabi that recorded declines of 15.7% and 5.6%, respectively. Earnings growth for the rest of the GCC markets were positive with Kuwait recording the biggest y-o-y growth of 24.1% followed by Bahrain at 8.5%. Earnings growth in Saudi Arabia and Qatar were also positive at 7.8 and 4.8%, respectively. Banks once again buoyed the earnings during the quarter as the banking sector on all the seven GCC exchanges posted positive y-o-y earnings growth during Q4-18. Bahraini banks topped the y-o-y earnings growth chart posting an increase of 30% followed by Kuwait at 19.5% growth, while Saudi Arabia and Abu Dhabi posted earnings growth of 15% and 17%, respectively. On the other hand, quarterly earnings pattern in the GCC real estate sector showed wide differences across markets although aggregate y-o-y growth was strong at 28.1%.

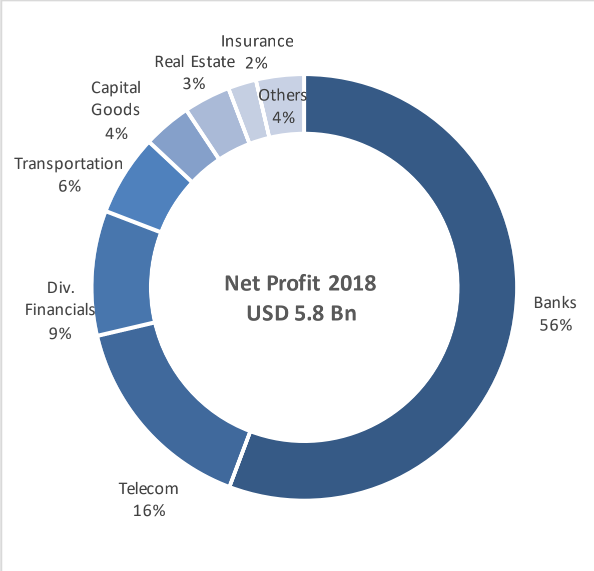


Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Kuwait

Corporate earnings for companies listed on Boursa Kuwait increased by 10.7% during FY-18 to reach KWD 1.8 Bn compared to KWD 1.6 Bn during FY-17. The biggest impact on higher aggregate stock exchange profits came from the Banking sector which recorded 18.3% jump in profits that reached KWD 0.98 Bn in FY-18 net profits from KWD 0.83 Bn in FY-17. Among the banks, NBK reported a net profit of KWD 370.7 Mn during the year, a growth of 15% primarily due to higher net interest income, net income from Islamic financing, and higher fees and commission income. Similarly, KFH reported net profit of KWD 227 Mn for FY-18 up 23.5% from KWD 184 Mn from the previous year. KFH's robust performance was attributed to a decrease in the cost to income ratio for the fourth year running, a drop in operating expenses and resulting in an 11.1% increase in net operating income. NBK and KFH contributed 46% of the total banking sector net profits in Kuwait. Furthermore, although relatively small, Warba Bank's profits jumped 71% Y-o-Y profit to KWD 12.7 Mn for FY-18 against KWD 7.45 Mn in FY-17.





The Energy sector recorded the highest growth of profits in all the sectors of the Bourse due to the higher Y-o-Y oil prices resulting in a net profit growth of two-thirds to reach KWD 24.5 Mn compared to KWD 15.1 Mn in the same period in 2017. This was mainly driven by NAPESCO which reported a net profit of KWD 11.8 Mn in FY-18 a 17.7% increase from FY-17.

The Diversified Financials sector declared the third biggest net profit increase in real terms in the Bourse after the Banking and Telecom sectors, reporting FY-18 net profits KWD of 167.4 Mn a 16.9% rise from FY-17's net profits of KWD 143.2 Mn. Noor Financial Investment Co. recorded a 774.9% jump in profits to KWD 25 Mn from KWD 2.84 Mn in FY-17 driven mainly by settlement of loans with two local banks and a realized gain on partial sale of associate. Furthermore, Al Madar Finance & Investment Co posted net profit of KWD 14.8 Mn for FY-18 from a loss of KWD 2.18 Mn from the previous year, the increase in the profits for FY-18 is driven by the increase in sales coupled with gains on sale of investment property.

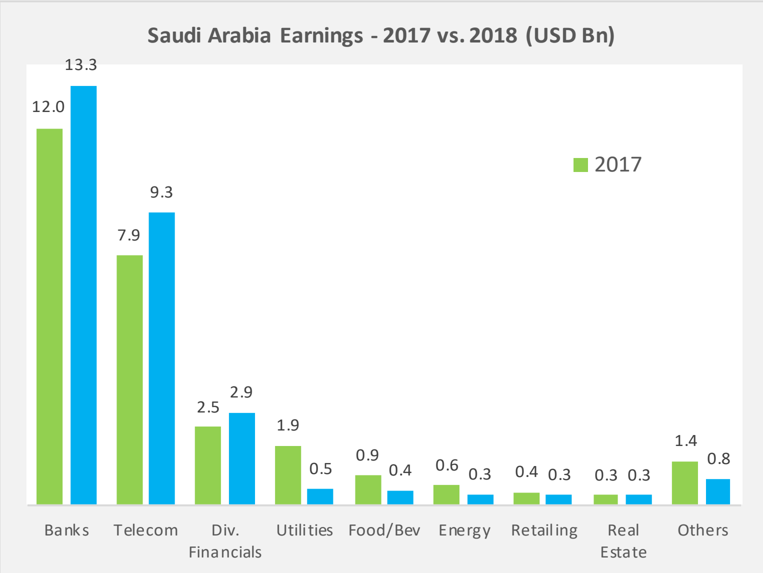
In the Telecom sector, the second largest sector in the Bourse by market capitalization, FY-18 net profits increased 17% to KWD 275.8 Mn. This was mainly due to Zain that recorded a net profit growth of 23% primarily related to contributions from Zain KSA.

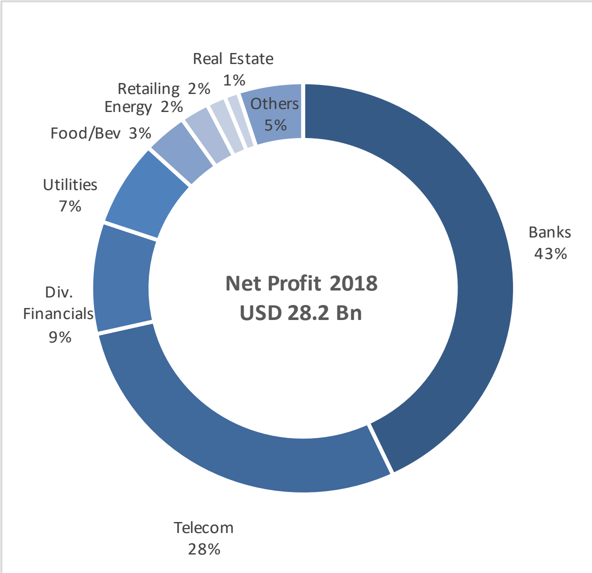
Saudi Arabia

Aggregate net profits for companies listed in Saudi Arabia increased by 1.3% to SAR 105.8 Bn in 2018 against SAR 104.4 Bn in FY-17. Banking sectors outperformed other sectors as the biggest contributor to net profits during the period by recording a net profit of SAR 50.0 Bn. Al-Rajhi Bank reported FY-18 net profit of SAR 10.3 Bn up by 12.9% from FY-17, driven by higher total operating income, net special commission income, and income fees from banking services. On the other hand, NCB, the biggest bank in the Kingdom, reported a net profit increase of SAR 10.7 Bn in 2018, an increase of 8.8% as compared to the previous year.

The Materials sector, the second biggest sector by market capitalization on the exchange, was the second biggest gainer witnessing 17.2 % increase in the total net profits to SAR 34.8 Bn compared to SAR 29.6 Bn during the previous year. SABIC reported a 16.8% Y-o-Y jump in 2018 net profit to that reached SAR 21.5 Bn attributed by Increased production and sales volumes supported by higher y-o-y oil prices.

While the fourth-quarter net profit declined 12.4 percent to SAR 3.2 Bn, due to a decline in average selling prices and lower profit share from associates and joint venture companies.



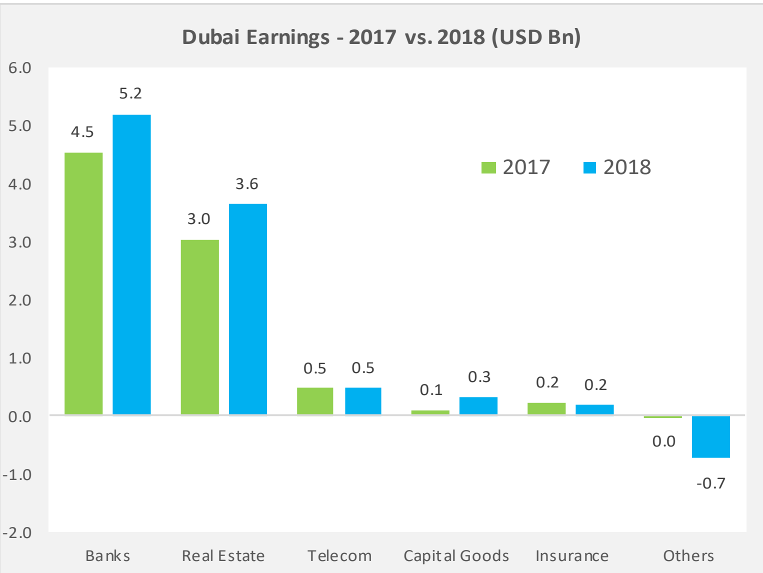


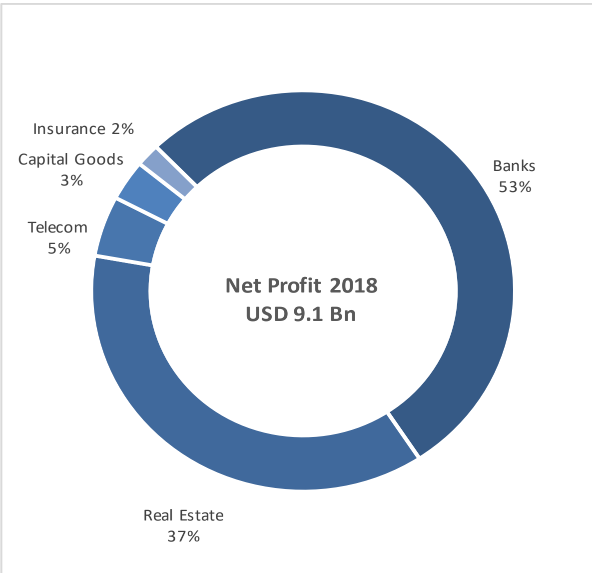
The Telecom sector, with four listed companies, witnessed a net profit increase of 19.4% despite two telcos reporting losses during the year. The increase in profits reported by STC supported the sector with a net profit of SAR 10.8 Bn in 2018, up 7.6% y-o-y, on the back of higher revenue. Meanwhile, Zain KSA also reported multifold increase in net profits that reached SAR 332.4 Mn for FY-18 compared to SAR 11.5 Mn a year earlier. The results for Zain KSA were bolstered by a SAR 404 million savings on access charges and government licensing charges, in addition to higher other revenues and higher finance income.

The Capital Goods sector was the biggest loss-making sector on the exchange, posting a FY-18 loss of SAR -660.7 Mn compared to a loss of SAR -134.3 Mn in FY-17. Six of the twelve companies in the Capital Goods sector reported losses during FY-18. The Utilities sector also reported a steep decline in profits during the year primarily led by 74.6% drop in Saudi Electricity's bottom-line that reached SAR 1.8 Bn from SAR 6.9 Bn in FY-17. The drop in net profits was attributed to higher finance charges and a 37.9% drop in electricity connection fees. Overall, profits for the Utility sector dropped 73.4% in FY-18 to SAR 1.9 Bn from SAR 7 Bn in FY-17.

Dubai

Despite recording its worst fourth quarter earnings in two years, the 2018 earnings for companies listed on DFM grew 8.8% to 33.3 Bn AED. Amongst the major sectors, Banks, Real Estate & Construction and Telecom sectors contributed to the rise in profitability of the exchange.





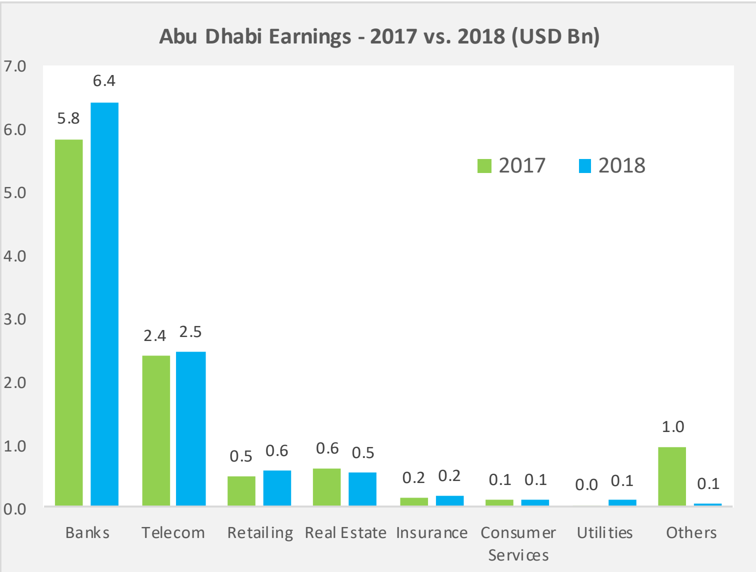
Banks saw their profitability go up 14.7% y-o-y in FY-18, led by Emirates NBD and Dubai Islamic Bank. Emirates NBD reported a better-than-expected rise in FY-18 profits registering profits jump of 20.3% to AED 10 Bn due to increase in net interest income, loan growth and improvement in margins. Dubai Islamic Bank's FY 2018 profits increased 13.8% to nearly 4.9 Bn AED. The significant rise in profitability was attributed to top line income growth of the bank due to core business enhancement as well as optimal cost management.

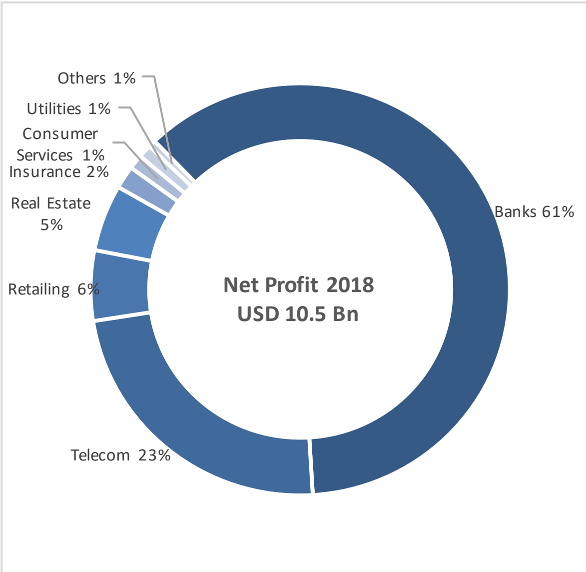
After the Banking Sector, the Real Estate & Construction sector was the biggest contributor in terms of earnings growth, led by Emaar Development and Emaar Properties which registered profits of AED 3.9 Bn and AED 6.1 Bn respectively. Emaar Development recorded a growth in net profit of 42% during FY-18, owing to record sales of AED 4.2 Bn in the fourth quarter of 2018.

DFM's 2018 Q4-18 profits declined 28.9% y-o-y to AED 5.7 Bn registering the exchange's lowest fourth quarter earnings since quarter four of 2016. DXB Entertainments posted the biggest Q4-18 loss in DFM that reached AED 1.79 Bn in Q4-18 and a full year overall loss of AED 2.5 Bn.

Abu Dhabi

The total net profit for listed companies on the Abu Dhabi Stock Exchange for FY-18 decreased –1.3% to AED 38.5 Bn compared to FY-17 profits of AED 39.1 Bn. Furthermore, Q4-18 profits of the exchange decreased 5.6% to AED 8.1 Bn. The Energy Sector and the Services Sector contributed to the fall and dragged ADX's FY-18 net profits down. In the Energy Sector, Dana Gas declared the biggest company loss in ADX, reporting a loss of AED 681 Mn for 2018, compared with a net profit of AED 304.8 Mn for 2017. Majority of Dana Gas' loss stemmed primarily from higher loss of production at the Zora field in the UAE. Meanwhile, Gulf Medical Projects recorded the largest profits drop in the Services Sector with a y-o-y decline of 92.1% to AED 113.2 Mn in FY-18.



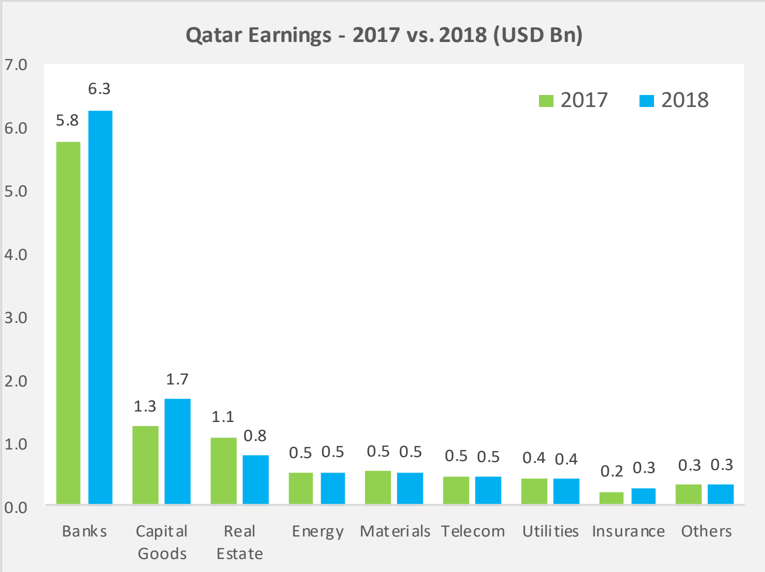


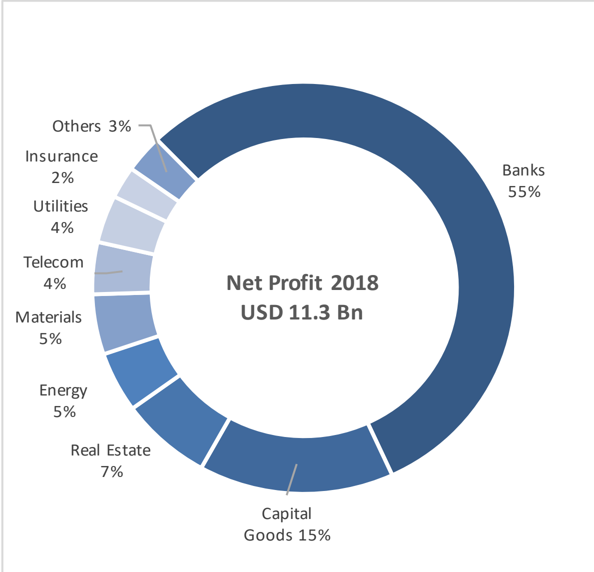
That said, a number of large-cap sectors of the exchange such as the Banking and Insurance Sectors saw their FY-18 profits improve. The Banking Sector's FY-18 profits jumped over 10% to AED 23.7 Bn with First Abu Dhabi Bank and Abu Dhabi Commercial Bank leading the way. Full year 2018 profits of First Abu Dhabi Bank, the UAE's largest bank, increased 10% to AED 12.0 Bn due to cost to income ratio improvement and reduction in post-merger operating expenses. Furthermore, Abu Dhabi Commercial Bank posted FY-18 net profit of AED 4.84 Bn up 13% from FY-17 net profit attributing to robust increases in net interest income, Islamic financing income and lower impairment charges.

Qatar

Total earnings for Qatari-listed companies increased by 6.3% during FY-18 to reach QAR 41.2 Bn compared to 38.7 Bn in FY-17. Earnings for the Banking Sector made up over 55% of the total earnings of the exchange. Banking Sector in Qatar has been on an uptrend since the past few years led by higher lending for the development of infrastructure as the country prepares to host the FIFA World Cup in 2022. The sectors net profits rose 8.7% to QAR 22.8 Bn in FY-18 compared to QAR 21 Bn in FY-17.

Commercial Bank of Qatar's reported an impressive 175.5% Y-o-Y increase in the net profit which stood at QAR 1.6 Bn. The Banks operating profit increased by 5.9% to QAR 2.3 Bn for the year ended 31 December 2018, compared to QAR 2.2 Bn achieved in 2017. Total operating expenses was down by 11.5% to QAR 1.2 Bn compared to QAR 1.3 Bn in 2017. The bank's costs reductions were primarily driven by lower staff and administrative expenses. Similarly, QNB reported a net profit of QAR 13.8 Bn for FY-18, compared with QAR 13.1 Bn in 2017. The bank's loans and advances as well as customer deposits increased by 5% in 2018.



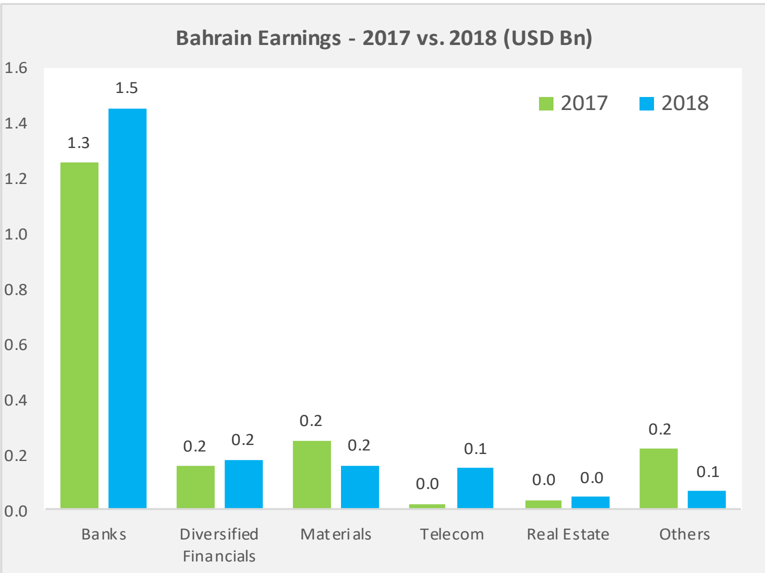


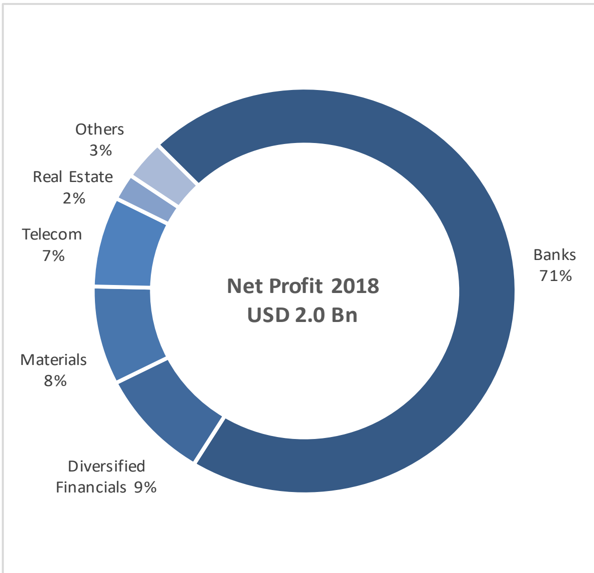
The Capital Goods sector reported the second biggest relative earnings increase of 34.4% for FY-18 to reach QAR 6.1 Bn as compared to QAR 4.6 Bn for the previous year. Net profits of Industries increased more than 50% to reach QAR 5.0 Bn in FY-18 driven by increased product prices and sales volumes. The firm has reported QAR 11.73 Mn in revenues in 2018, compared to QAR 8.31 Mn in the prior year.

On the other hand, the Real Estate sector, the third largest sector by market capitalization on the exchange, reported a decline of 27.7% in FY-18 net profits falling to QAR 2.9 Bn. The sectors net profitability was dragged down by the tumbling of FY-18 net profits of Ezdan Holding group which declined 74% to QAR 433.3 Mn from QAR 1.7 Bn in FY-17.

Bahrain

Total net profit for companies listed on Bahrain Bourse increased 6% in FY-18 to reach BHD 771.3 Mn compared to BHD 728 Mn in FY-17. Similarly, in Q4-18, total net profits of the bourse also saw 8.5% rise to nearly BHD 122.8 Mn from BHD 113.2 Mn in Q4-17. Each of the two major sectors which represented over 80% of the total FY-18 earnings saw double digit percentage increase in their y-o-y profits. Commercial Banks saw FY-18 profits rise by 15.8% to BHD 547 Mn from BHD 472.9 Mn in FY-17.



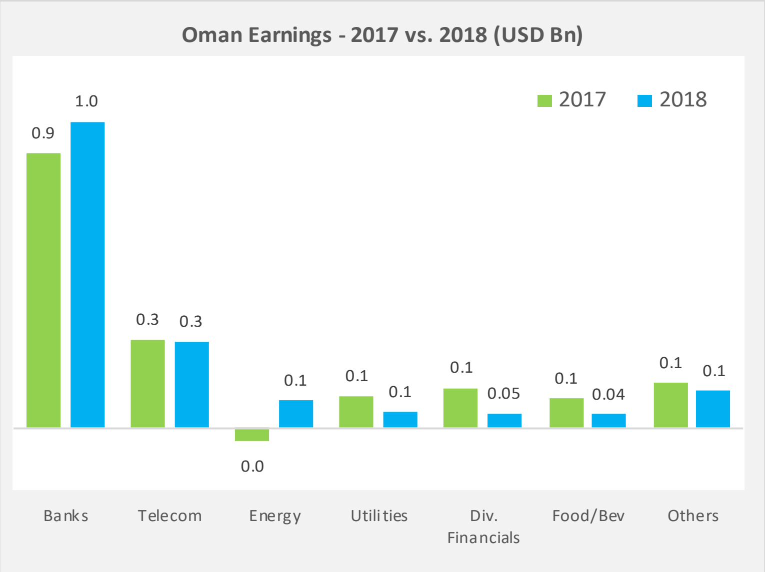


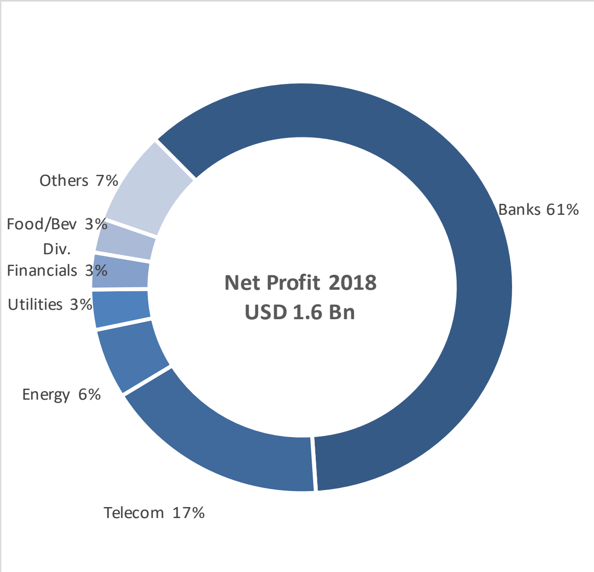
This growth was mainly driven by Ahli United Bank, as the bank reported a net of BHD 262.8 Mn in 2018, representing a rise of 12.6% as compared to the net profit of BHD 233.3 Mn in 2017. Increase in operating income and repricing and re-positioning of the bank's loan portfolio was attributed to the rise in profits.

In the Telecom Sector, FY-18 profits increased more than 6x, the highest percentage increase by sector in the Bahrain Bourse. The Sector included Batelco which posted the largest net profits in absolute terms for FY-18 on the Bourse. Batelco announced multifold increase in its net profits for 2018 that reached BHD 50.1 Mn compared to BHD 3.5 Mn in 2017. Strong revenues was boosted by double digit year over year growth in fixed broad band and strong performance of Batelco's operation in Bahrain, Jordan and Maldives.

Oman

Companies listed on the Muscat Securities Market reported almost flat y-o-y profits in FY-18 that reached OMR 620 Mn despite a 15.7% fall in Q4-18 profits. The biggest sector of the exchange, the Banking Sector, saw their full year 2018 earnings increase by 11.6%, lifting the rest of the market. The Banking Sector, which represented over 61.2% of the total FY-18 profits of the exchange, saw its annual FY-18 profits increase by OMR 39.3 Mn in real terms. Driven primarily by big banks such as HSBC Bank Oman and financial companies such as OMINVEST, which posted profit increases of 64% and 46.5% respectively. HSBC Bank Oman declared OMR 31.4 Mn in FY-18, the highest net profit increase in absolute terms, compared to OMR 19.1 Mn in FY-17 the increase being primarily driven by a 14.1% growth in revenues benefiting from rising interest rates. Moreover, net profits for Ominvest grew 46.5% to OMR 30.52 Mn from OMR 20.8 Mn in 2017 due to strong performance from its major subsidiaries such as Oman Arab Bank and National Life & General Insurance Co.





In the Telecom Sector, Ooredoo Oman reported the largest net profit increase in absolute terms of the sector. The company posted FY-18 profits of approximately OMR 42 Mn up 35% from FY-17 profits of OMR 31.1 Mn. Ooredoo's higher FY-18 profits were attributed to growth in revenues and lower depreciation.

Disclaimer & Important Disclosures

__KAMCO__ is authorized and fully regulated by the Capital Markets Authority ("__CMA, Kuwait__") and partially regulated by the Central Bank of Kuwait __("CBK")__

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest , legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, KAMCO did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

KAMCO Ratings

KAMCO investment research is based on the analysis of regional and country economics, industries and company fundamentals. KAMCO company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

- ***Outperform:** Target Price represents expected returns >= 10% in the next 12 months*
- ***Neutral:** Target Price represents expected returns between -10% and +10% in the next 12 months*
- ***Underperform:** Target Price represents an expected return of <-10% in the next 12 months*

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. KAMCO policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by KAMCO's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to KAMCO clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by KAMCO and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. KAMCO has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which KAMCO is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

KAMCO Investment Company (DIFC) Limited ("KAMCO DIFC") is regulated by the Dubai Financial Services Authority (DFSA). KAMCO DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA licence. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.'

Risk Warnings

Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

Conflict of Interest

KAMCO and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of KAMCO may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. KAMCO may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other KAMCO business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of KAMCO's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

No Liability & Warranty

KAMCO makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. KAMCO will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.

KUWAIT | UAE

KAMCO Investment Company
Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq
P.O. BOX : 28873, Safat 13149, State of Kuwait
Tel: (+965) 1852626 Fax: (+965) 22492395
Email : kamcoird@kamconline.com
Website : http://www.kamconline.com