

GCC Corporate Earnings Report : Q1-19

May - 2019

GCC aggregate earnings falls 4.7% as Banks and Telcos fail to offset decline in most other sectors...

Total earnings for GCC-listed companies decreased 4.7% y-o-y in Q1-19 to USD 17.0 Bn from USD 17.9 Bn in Q1-18. All GCC markets barring Kuwait and Dubai witnessed a decline in Q1-19 earnings. Bahrain Bourse saw the biggest y-o-y decline in earnings by 20.8% to reach USD 485.4 Mn and also the second largest net profits drop in absolute terms after Saudi Arabia. Q1-19 net profits of Saudi Arabian listed corporates, which made up 36.9% of aggregate GCC quarterly profits, declined 9.2% to USD 6.3 Bn.

In terms of sectors at the GCC level, three of the top 5 largest sectors by market cap including Materials, Real Estate and Capital Goods recorded double digit decline in their Q1-19 net profits resulting in decline in aggregate quarterly profits for the GCC during Q1-19. On the other hand, the Banking and the Telecommunications Services sectors saw single digit growth in Q1-19 net profits that only partially offset the decline in aggregate earnings.

The Banking sector represented 58% of the total GCC earnings in Q1-19. All six countries of the GCC saw their Banking sector earnings surge in Q1-19 recording a y-o-y growth of 9.1% to reach USD 10.0 Bn for the region. Dubai's Banking sector witnessed the biggest percentage increase in y-o-y profits for Q1-19, reporting a 17.4% jump in net profits followed by Saudi Arabia with a growth of 9.1%. The top three banks in the GCC, QNB, FAB and NCB, recorded a combined profit growth of 4.5% during the quarter.

The Utilities sector was one of the biggest drags on overall profitability during the quarter lead by Saudi Arabian utility names, particularly Saudi Electricity Company which saw its y-o-y losses increase to USD 397 Mn in Q1-19 as compared to USD 323.7 Mn in Q1-18. **The GCC Materials sector also reported declining profitability that reached USD 1.6 Bn in Q1-19 as compared to USD 2.8 Bn in Q1-18.** Saudi Arabia's Material sector lead GCC pack in terms of Q1-19 net profit fall in absolute terms. SABIC saw its net profits fall from USD 1.5 Bn in Q1-18 to USD 908.6 Mn Q1-19, a fall of nearly USD 560 Mn in absolute terms.

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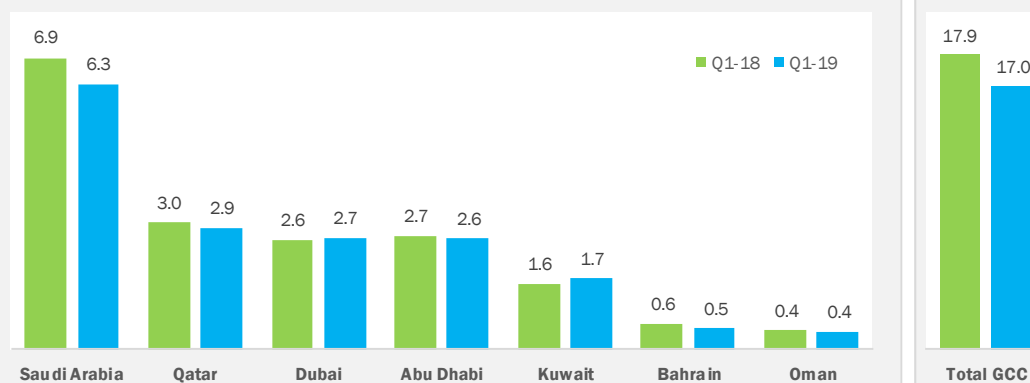
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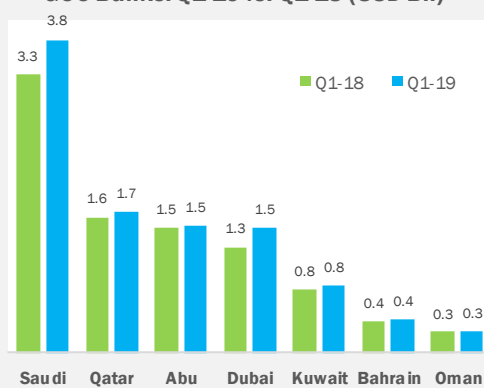
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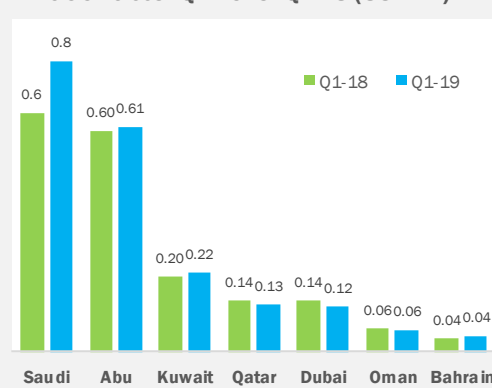
GCC Corporate Earnings : Q1-19 vs. Q1-18 (USD Bn)



GCC Banks: Q1-19 vs. Q1-18 (USD Bn)



GCC Telcos: Q1-19 vs. Q1-18 (USD Bn)



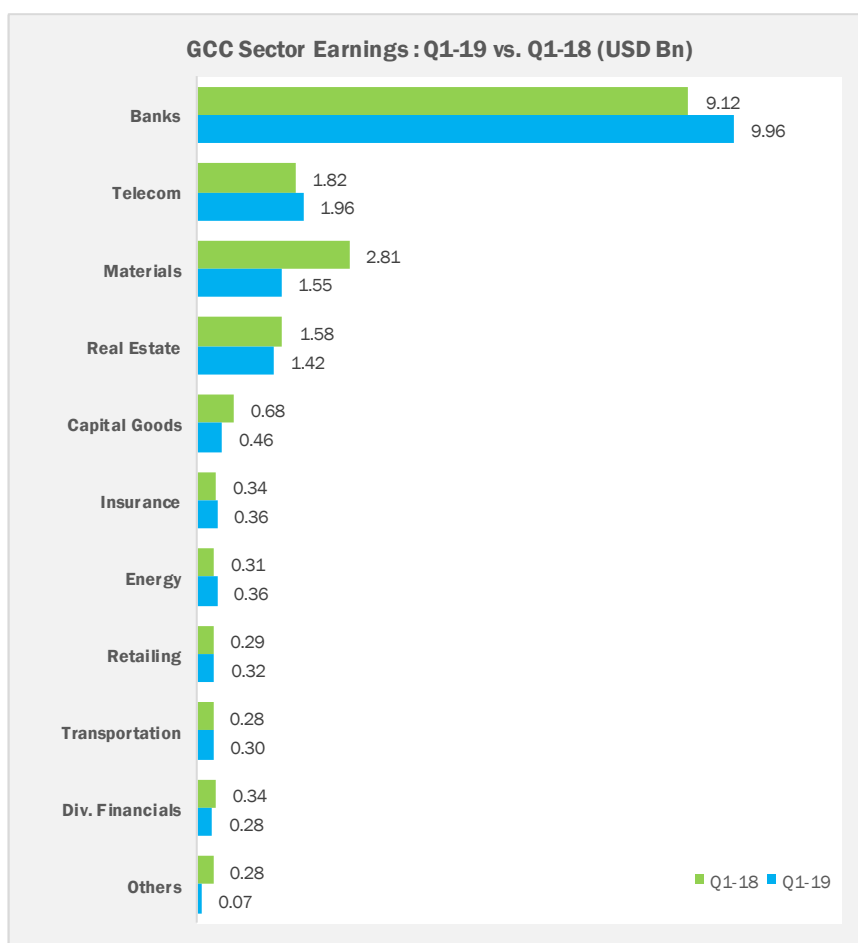
Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Among the six biggest sectors in the GCC market by market capitalization (Banking, Materials, Real Estate, Telecom, Capital Goods and Utilities) only two sectors, Banking and Telecoms, managed to grow earnings during Q1-19 as compared to corresponding quarter in 2018. The share of profit by the aforementioned sectors remained in line with last years at around 88%.

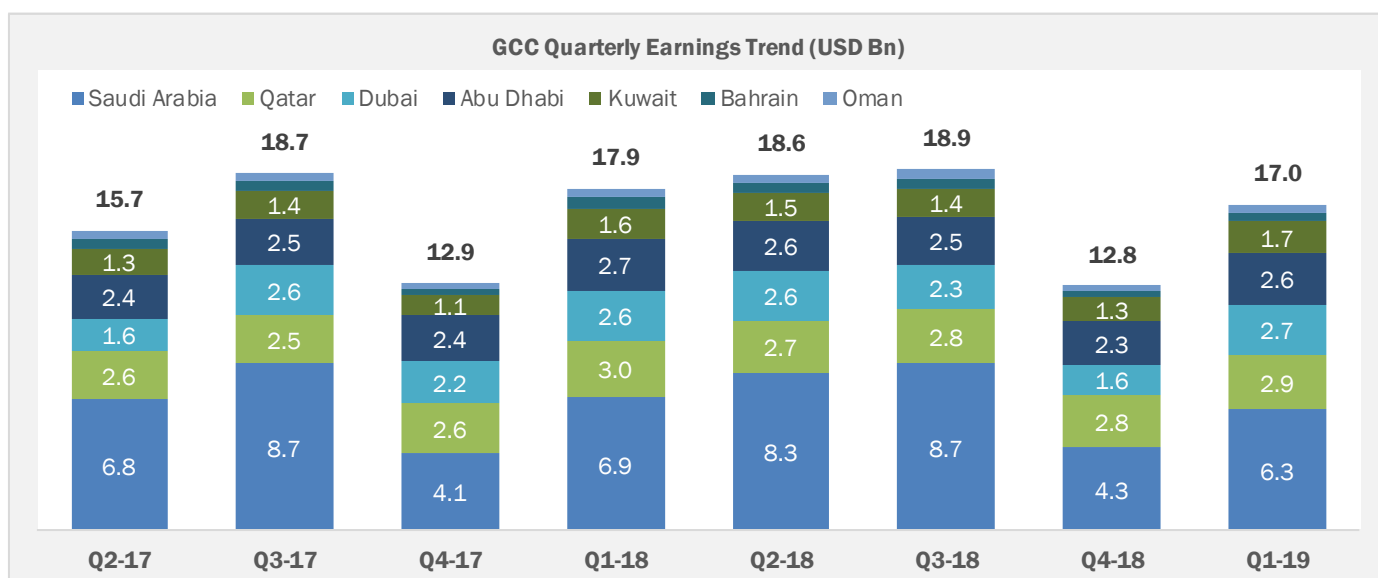
The biggest decline was recorded in the Utilities sector with an aggregate loss of USD 295 Mn in Q1-19 as compared to a lower aggregate loss of USD 185 Mn during Q1-18. Profits for the sector was once again dragged down by Saudi Electricity Company which reported a loss of USD 397 Mn in Q1-19 as compared to a slightly lower loss of USD 323.7 Mn during Q1-18. Five out of the 13 companies in the GCC utilities sector posted losses during the quarter.

The GCC banking sector accounted for the lion's share of the aggregate earnings at 58% followed by a distant second Telecom sectors at 11.5%. In the GCC Banking sector, out of the 64 banks that reported earnings, merely 16 posted a y-o-y decline in earnings during the quarter. The share of top 10 banks in quarterly profits of the sector stood at 60%, almost in line with the share during Q1-18. The performance of companies in the Telecom sector was mixed during the quarter however, higher y-o-y profits from STC, Etisalat and Zain pushed the overall profits for the sector.

The Real Estate sector in the GCC accounted for the fourth largest share of net income. The sector continues to cause volatility in equity markets in the UAE due to continued oversupply in several segments of the market. During the quarter, Qatar was the only significant market where real estate companies recorded growth in profits. Dubai continues to account for the bulk of sector profits, but after recording a growth in profit in 2018, Dubai's real estate sector earnings declined 12.5% during Q1-19.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

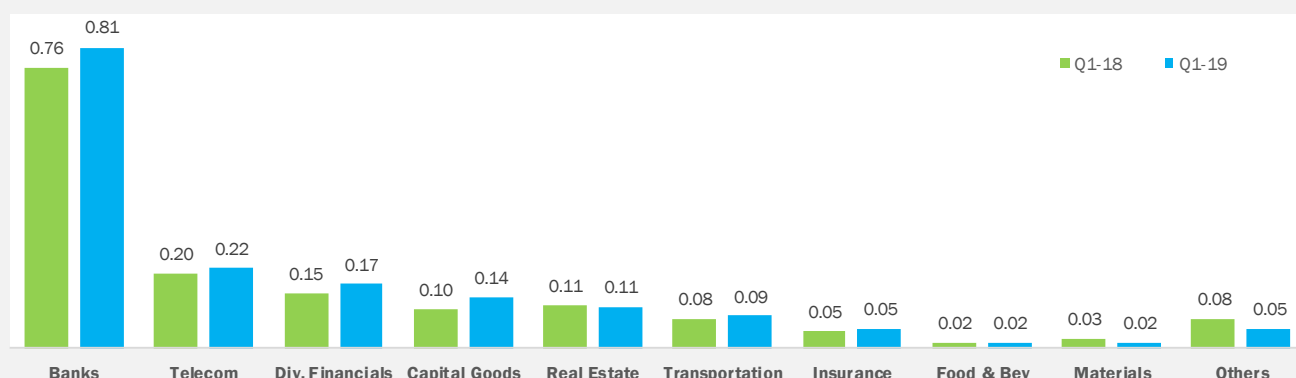


Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Kuwait

Boursa Kuwait-listed companies reported a net profit increase of 6.6% during Q1-19 that reached USD 1.67 Bn compared to USD 1.56 Bn during Q1-18. Among the major sectors Banks, Capital Goods, Diversified Financials, Telecommunication contributed to the rise in profitability of the exchange. The Biggest impact on higher aggregate stock exchange profits came from the Banking sector which recorded a profit growth of 7.4% that reached USD 811.1 Mn in Q1-19 from USD 755 Mn in Q1-18. Five out of the ten listed Kuwaiti banks reported double digit growth in profitability during the quarter while CBK's net profit plunged almost 90% despite flat net interest income led by higher provisions and operating expenses during the quarter.

Kuwait Corporate Earnings : Q1-19 vs. Q1-18 (USD Bn)



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

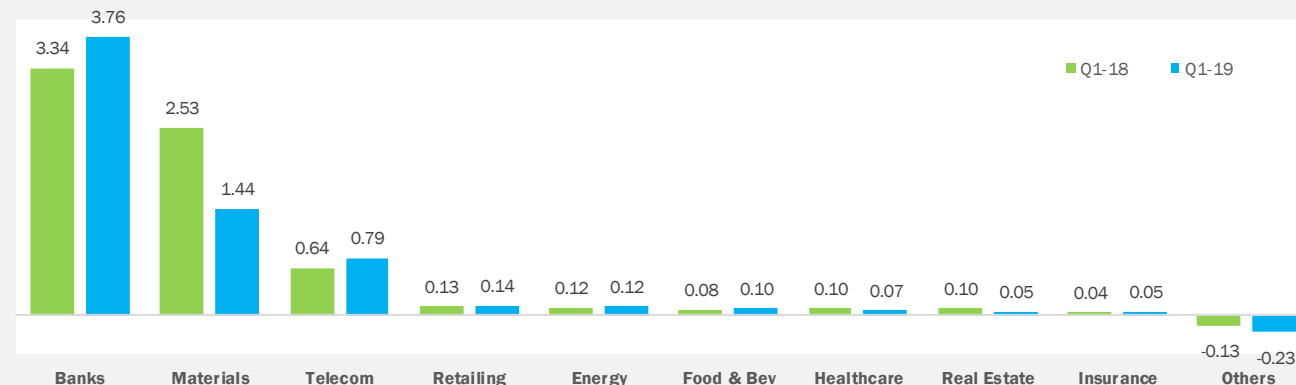
After the Banking sector, the Capital Goods sector was the biggest contributor in terms of earnings growth, led by National Industries Group which reported a 45.7% y-o-y growth in profit in Q1-19. The group's profits reached USD 89.05 Mn supported by a partial divestment of an associate. Gulf Cable and Electrical Industries almost tripled its Q1-19 profits on the back of higher investment income. The Diversified Financials sector recorded a profit growth of 17.1% that reached USD 172.1 Mn in Q1-19 on the back of higher profits recorded by some of the bigger players in the sector.

Telecom earnings also recorded positive earnings during Q1-19 with a growth of 6.3% to reach USD 215.2 Mn. This surge was solely led by Zain that recorded a net profit growth of 15.1% on the back of higher revenues. Meanwhile, the insurance sector saw top five of the eight players recording strong growth in earnings during Q1-19 that was offset by decline in profits for the smaller three players in the sector. The sector profits stood at USD 52.8 Mn in Q1-19, a 15.8% rise from Q1-18. Kuwait Insurance reported an 18.4% y-o-y jump in profits that reached USD 19.4 Mn driven by better operating performance combined with higher investment earning.

Saudi Arabia

The total net profit for the companies listed in the Saudi Arabia declined by 9.2% to USD 6.3 Bn in Q1-19 against USD 6.9 Bn in Q1-18. The growth was primarily led by the Banking sector which recorded a profit growth of 12.7% which was partially offset by a profit decline of

Saudi Arabia Corporate Earnings : Q1-19 vs. Q1-18 (USD Bn)



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

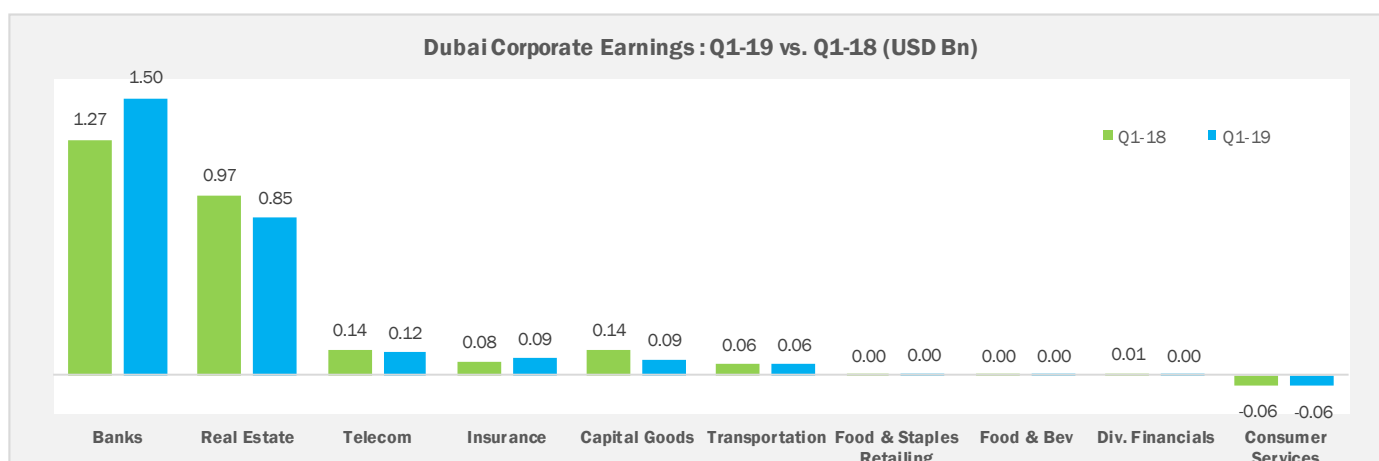
43% for the Materials sector. Aggregate profits for the exchange was also negatively affected by Consumer Durables, Pharmaceutical and Real Estate sectors. Within the banking sector, Riyadh Bank reported an almost 50% jump in net profit that reached USD 438.5 Mn in Q1-19 on the back of higher fee income.

On the other hand, profit decline in the material sector was primarily on the back of a 38.1% drop in profits for SABIC that reached USD 908 Mn in Q1-19 led by lower average selling prices. Furthermore, Maaden posted losses of USD 33.9 Mn in Q1-19, against a net profit of USD 170.1 Mn in Q1-18. The decline was due to low prices of all products and decreased sales volume. Nevertheless, SAFCO reported a 41.4% y-o-y increase in profits during the quarter.

Meanwhile, the Telecom sector also reported higher profits that grew 21.9% primarily on the back of Zain KSA's profits of USD 34.4 Mn in Q1-19 as compared to a net loss of USD 20.6 Mn in Q1-18. A higher topline contributed to the profit growth for the telco. STC's profits also improved by 6.3% y-o-y to reach USD 733 Mn in Q1-19.

Dubai

Net profits for DFM-listed companies recorded a modest rise of 1.4% in Q1-19 to reach USD 2.7 Bn compared to USD 2.6 Bn in Q1-18. In terms of sectors, three out of the five largest sectors; the Real Estate sector, the Telecommunications sector and the Capital Goods sector posted y-o-y decline in net profits. However, the Banking Sector and the Insurance sectors Q1-19 gains in net profits buoyed the overall net profits for the exchange.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

The Banking Sector recorded 17.4% jump in Q1-19 net profits to USD 1.5 Bn, the biggest percentage rise in profits among GCC Banking sectors. Emirates NBD contributed the largest increase in net profits with a sequential and y-o-y growth of 15% to reach USD 746.8 Mn driven by loan growth and stable margins. Meanwhile, Emirates Islamic Bank delivered the largest y-o-y increase in profits that almost doubled in Q1-19 to USD 111.9 Mn up from USD 56.8 Mn in Q1-18. The increase in profitability was attributed to higher funded income, lower cost and balance sheet growth.

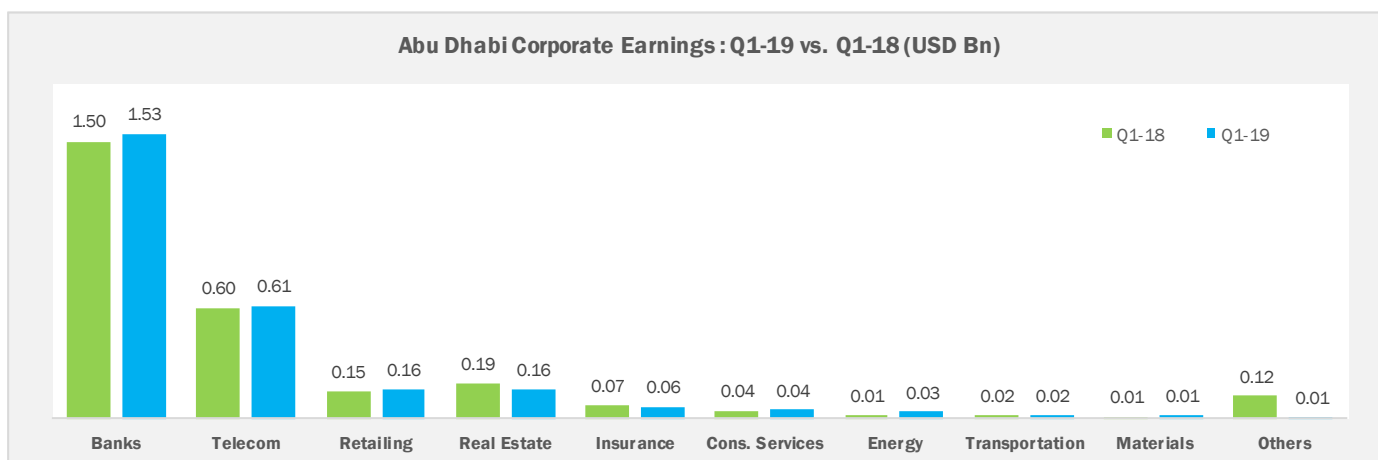
Real Estate sector's Q1-19 earnings dropped 12.5% to USD 851.4 Mn down from USD 973.5 Mn in Q1-18. Damac Properties' Q1-19 profits fell 94% to USD 8.5 Mn compared with USD 131.8 Mn in Q1-18 due to challenging market marred with oversupply and declining pricing. Furthermore, Union Properties Q1-19 profits fell 99% to just over USD 475 Thousand from USD 49.7 Mn in the similar period in 2018 because of rising financing costs and investment losses due to its ongoing restructuring.

Abu Dhabi

The total net profit for listed companies on the Abu Dhabi Stock Exchange for Q1-19 decreased 2.6% to USD 2.6 Bn compared to Q1-18 profits of USD 2.7 Bn. The Diversified Financial sectors and the Real Estate sector were the main contributors which dragged down the exchanges' Q1-19 net profits. Moreover, other large market cap sectors such as the Banking Sector and the Telecommunications Services sector only managed to deliver modest increases in Q1-19 profits of 2.4% and 2.1%, respectively.

In the Diversified Financial Sector, Waha Capital posted a loss of USD 15.7 Mn for Q1-19 compared with a profit of USD 29.2 Mn during

Q1-18. The company suffered a loss of USD 45.1 Mn in its private investments mainly driven by the adjustment and reassessment of the value of its AerCap Holdings recoverable amount.



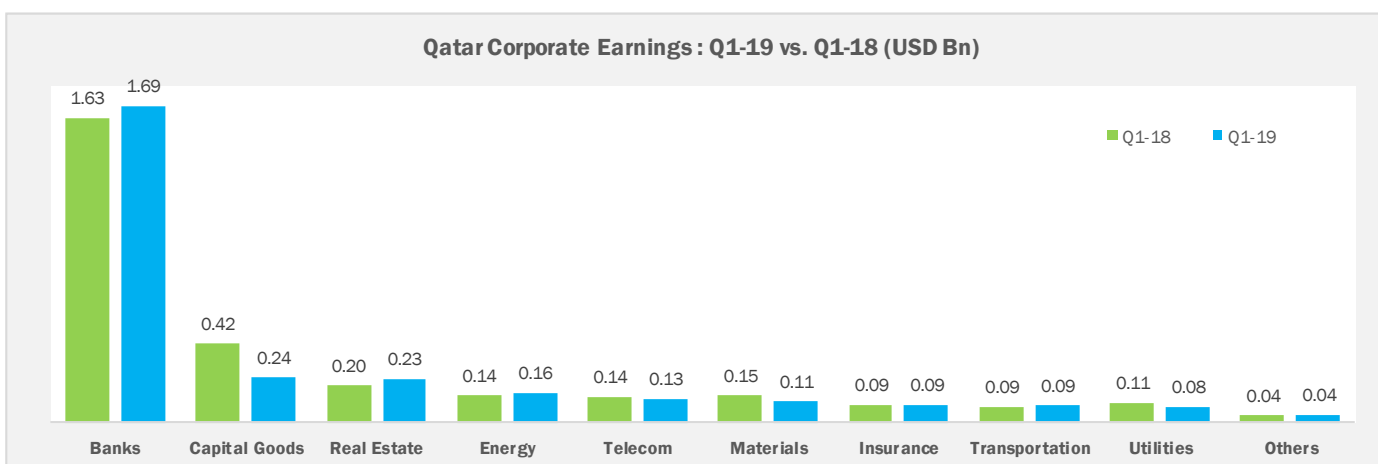
Source : Company Financials, Reuters, Bloomberg, KAMCO Research

The Real Estate sector was the second largest contributor of the fall in profits of the exchange with profits declining by 18% y-o-y to USD 156.9 Mn in Q1-19 as compared to USD 191.5 Mn in Q1-18 largely led by Aldar Properties' 17.3% drop in earnings.

In the banking space, National Bank of Ras Al Khaimah posted the biggest percentage increase in Q1-19 profits at 32% to reach USD 73.4 Mn. First Abu Dhabi Bank also recorded growth in profits but at a modest pace of 4% to reach USD 845.9 Mn.

Qatar

Net profit for Qatari-listed companies declined during Q1-19 by 4.1% y-o-y to reach USD 2.88 Bn primarily led by fall in profits for the capital goods sector that almost halved during the quarter. Banks continued to outperform other sectors with a 4.0% rise in the net profit to reach USD 1.69 Bn in Q1-19, accounting for 58.8% of the overall exchange profits during the quarter. QNB reported a 4% y-o-y increase in Q1-19 that reached USD 980 Mn. Quarterly net profit for Qatar Islamic Bank grew by almost 10% y-o-y to reach USD 188.2 Mn in Q1-19 compared to USD 171.7 Mn in Q1-18.



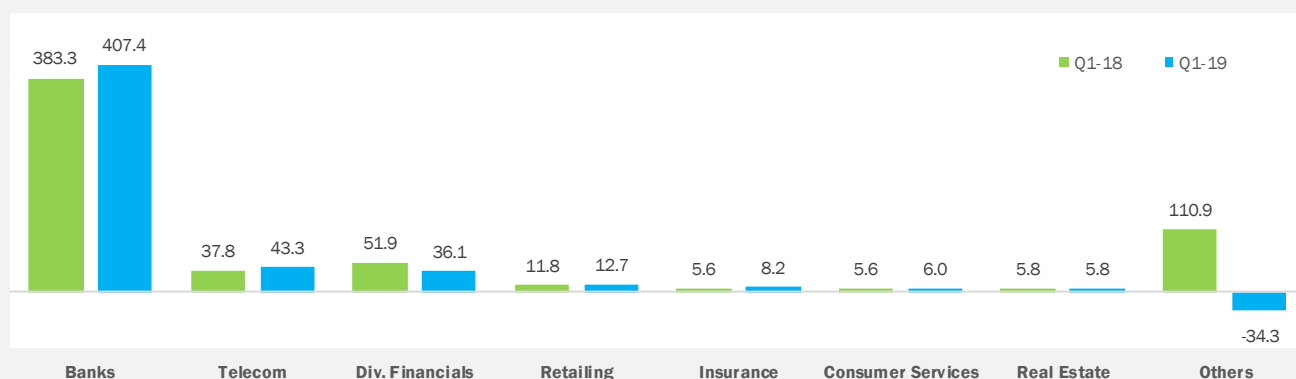
Source : Company Financials, Reuters, Bloomberg, KAMCO Research

The Qatari Real Estate sector witnessed strong gain in net profits that grew 18.5% y-o-y in Q1-19 to USD 233 Mn compared to USD 197 Mn in the Q1-18, contributing 8.1% of the overall net profitability in Q1-19. Ezdan Holding's net profit grew almost three times to USD 74.8 Mn in Q1-19. The Energy sector, which consists of 3 companies, recorded a profit growth of 11.6% y-o-y to reach USD 161.5 Mn in Q1-19. Nakilat recorded a net profit growth of 9.1% in Q1-19 to reach USD 64.8 Mn mainly led by the acquisitions of two Liquefied Natural Gas (LNG) carriers and one Floating Storage Regasification Unit (FSRU) in 2018, and higher volume of projects at Nakilat's ship repair facility.

Bahrain

Total net profits for companies listed on Bahrain Bourse decline 20.8% in Q1-19 to USD 485.4 Mn compared to USD 612.6 Mn in Q1-18. The two largest sectors by market cap, the Banking sector and the Telecommunications Services sector both recorded robust increases in Q1-19 net profits. However, this was primarily undone by the loss in the Capital Goods sector. Aluminum Bahrain declared Q1-19 loss of USD 42 Mn compared with its USD 90 Mn profits in Q1-18. The company's turn from profit to loss was attributed largely by the impact of higher alumina prices on top of a challenging market.

Bahrain Corporate Earnings : Q1-19 vs. Q1-18 (USD Mn)



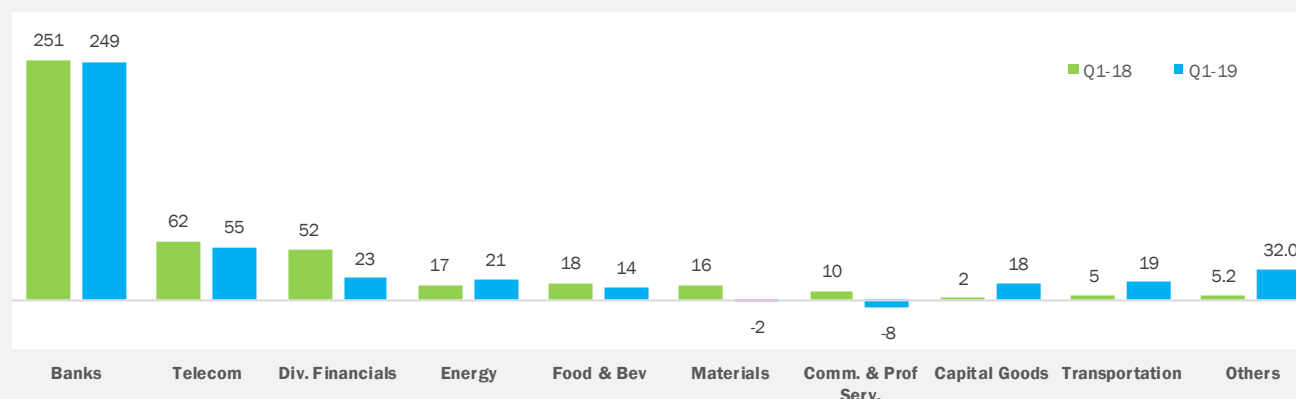
Source : Company Financials, Reuters, Bloomberg, KAMCO Research

On the other hand, Bahrain Bourse's Banking sector and the Telecommunications sector, the two largest sectors of the exchange by market cap, saw their Q1-19 net profits rise 6.3% and 14.8%, respectively. The Banking sectors Q1-19 earnings increased by 6.3% to USD 407.4 Mn from USD 383.2 Mn in Q1-18. Al Ahli United Bank was the largest earnings contributor of the sector for the quarter in terms of absolute net profits. The bank reported a net profit of USD 192.9 Mn for Q1-19 compared to USD 174.7 in Q1-18 due to growth in operating income which was mainly driven by an increase in net interest income attributed to growth in loans.

Oman

Total net profit for companies listed in the MSM exchange fell 3.7% to USD 421.6 Mn in Q1-19 compared to USD 437.8 Mn in Q1-18. The biggest sector of the exchange, the Banking sector only saw its Q1-19 net profits rise 2.8% to USD 257.6 Mn while the Diversified Financial sectors total net profits for Q1-19 fell 46.5% to USD 28.1 Mn down from USD 52.5 Mn in Q1-18, dragging the rest of the market down.

Oman Corporate Earnings : Q1-19 vs. Q1-18 (USD Mn)



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

In the Diversified Financial sector, Dhofar International Development and Investment Holding Co. posted the USD 7.5 Mn loss in its Q1-19 results, the biggest loss in the sector, followed by Gulf Investment Services Co which also registered a loss of USD 4.4 Mn. Dhofar International Development and Investment Holding Co's loss was attributed to a combination of increase in interest expenses and bank charges and unrealized loss of financial assets. The Utilities sector was the only sector with an overall aggregate loss in the exchange. Phoenix Power Co reported the largest Q1-19 loss in the sector recording USD 12.6 Mn in the red for the quarter down from USD 14.3 Mn loss in Q1-18.

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