

## GCC Corporate Earnings Report : Q1-2020

June - 2020

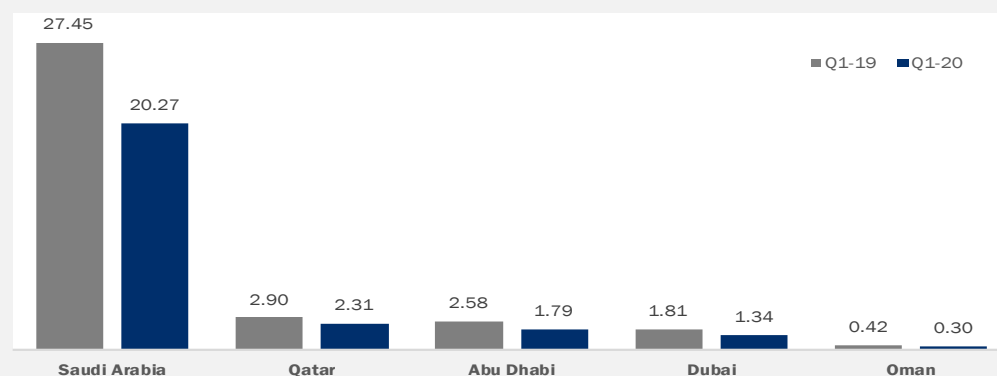
### GCC net profits decline by over 25% in Q1-20 led by Energy, Bank and Material stocks...

Earnings reported by companies listed on GCC exchanges remained scant for Q1-2020 because of the Covid-19 crisis, as companies were given exemption to file quarterly earnings. A majority of the companies listed on Kuwait and Bahrain exchanges did not file their quarterly earnings, whereas in the UAE, the number of companies that reported earnings were little more than 50% of the 113 listed stock in the two exchanges. Companies listed on Saudi Arabia, Qatar and Oman formed the bulk of the earnings reported during the quarter as almost all the listed companies in these exchanges released their Q1-2020 results. **Aggregate profits for the companies that reported earnings declined by 25.8% y-o-y in Q1-20 to reach USD 26.1 Bn as compared to USD 35.2 Bn in Q1-19. In terms of q-o-q performance, earnings declined by 10% during the quarter.**

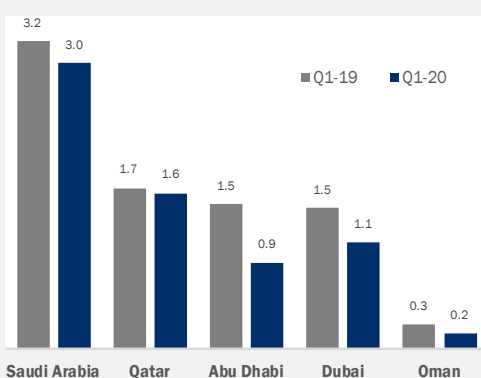
**The decline in earnings was broad-based as all of the five exchanges reported a y-o-y decline during the quarter.** Saudi Arabian companies reported the biggest absolute decline in earnings that fell by USD 7.2 Bn or 24.3% y-o-y to reach USD 20.3 Bn as compared to USD 27.5 Bn during Q1-19. Companies in Oman and Qatar were next with a decline of 28.3% and 20.4%, respectively. The decline in earnings in Abu Dhabi and Dubai were close to 30% but a bulk of the companies, especially large-cap real estate names in Dubai were yet to disclose their quarterly results.

**In terms of sector performance, Energy stocks once again led the y-o-y declines posting USD 5.77 Bn or 25.6% fall in earnings that reached USD 16.7 Bn during Q1-2020. Banks were next with a decline of USD 1.4 Bn or 16.5% to reach USD 6.8 Bn whereas Material stocks reported an aggregate loss of USD 111.2 Mn during Q1-2020 as compared to a profit of USD 1.1 Bn during Q1-19.**

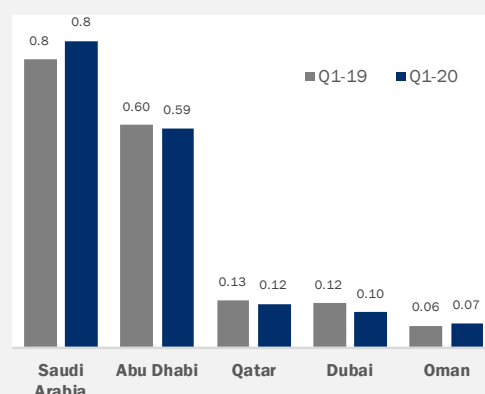
GCC Corporate Earnings : Q1-19 vs. Q1-20 (USD Bn)



GCC Banks: Q1-19 vs. Q1-20 (USD Bn)



GCC Telcos: Q1-19 vs. Q1-20 (USD Bn)



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

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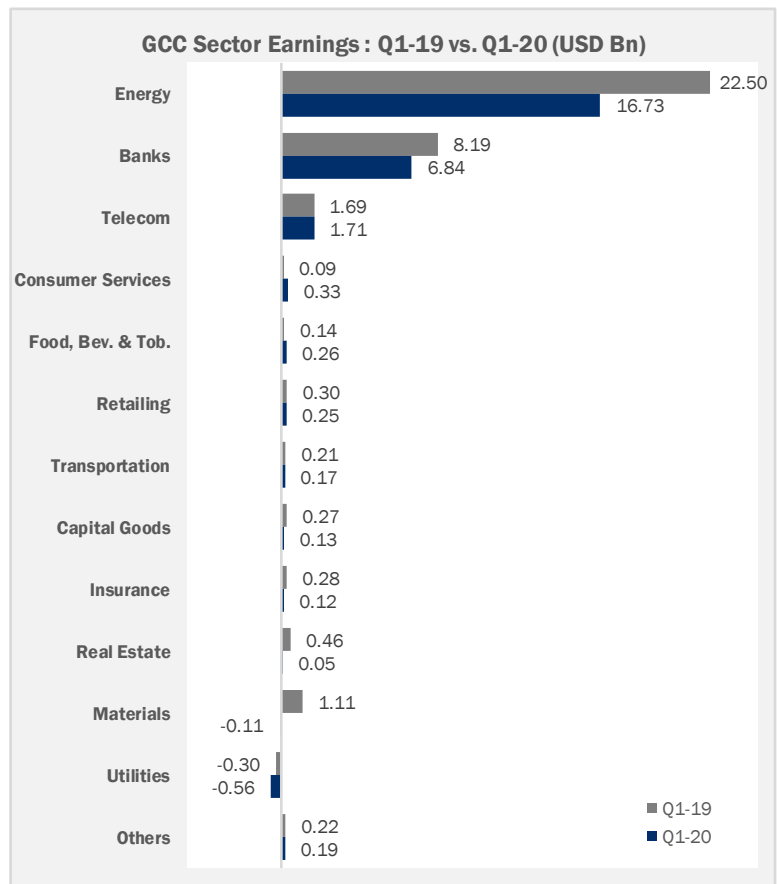
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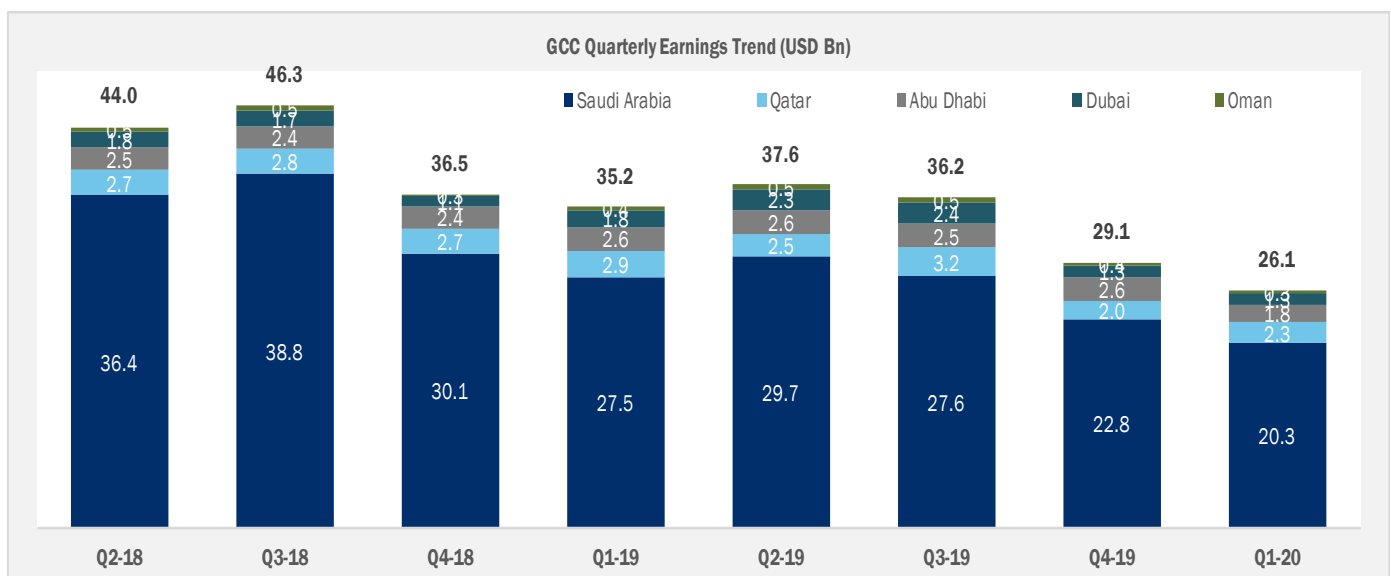
The decline in earnings for the Energy sector came primarily on the back of the historic decline in oil prices during the quarter that pushed down earnings across the board. Both crude oil and natural gas prices remained low during the quarter and touched decades low. Aramco's earnings declined by USD 5.3 Bn y-o-y, and reflected the rout in oil prices. Around 9 out of 13 energy companies reported y-o-y decline in earnings during the quarter. In the Materials sector, SABIC reported the biggest drop in earnings to report a loss of USD 253 Mn during Q1-2020 vs. a profit of USD 908.6 Mn during Q1-19 due to a fall in volume and selling prices.

Aggregate net income for listed banks reached one of the lowest on record during Q1-2020 after declining by 16.5% y-o-y to reach USD 6.8 Bn. The decline was primarily on the back of fall in net incomes for Omani and UAE-based banks that recorded y-o-y declines of 36.2% and 33%, respectively, whereas banks in Saudi Arabia and Qatar reported mid-single digit declines. Overall impairment charge during the quarter stood at USD 3.5 Bn, an increase of 7.9% as compared to previous quarters USD 3.2 Bn. The impairment charge in Q1-2020 was one of the highest aggregate for the four countries led by an almost 50% increase in impairments for UAE-listed banks that reached USD 2.1 Bn during the quarter. Within UAE, six out of twelve banks reported higher impairment charge during Q1-2020 with ADCB reporting the biggest jump in impairment charge that reached USD 505 Mn vs. USD 182 Mn during Q4-19. ENBD's impairment charge was also up by USD 155 Mn to reach USD 692 Mn in Q1-2020.

Earnings for the telecom sector were almost flat y-o-y during Q1-2020 although 6 out of 10 telcos reported a decline in earnings. Nawras reported the biggest percentage drop in earnings during the quarter with a decline of 25.7% followed by Du which reported the biggest absolute drop in earnings of USD 25.7 Mn or -21% to reach USD 96.7 Mn. These declines were completely offset by higher earnings reported by STC which reported a 5.9% increase in earnings and Etisalat which reported 93.7% y-o-y increase in profits during Q1-2020.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Note : The chart only includes companies that have declared Q1-2020 results in Saudi Arabia, UAE, Qatar and Oman.

## Saudi Arabia

Aggregate net profits for Saudi Arabian listed companies witnessed a steep decline of 26.2% to reach USD 20.3 Bn in Q1-20 against USD 27.5 Bn in Q1-19. Out of the top three sectors of the exchange namely Energy, Banks, and Telecom, only the Telecom Sector reported an increase in profitability during the quarter.

The decline in Q1-20 earnings was mainly driven by a plunge in profits in the Energy Sector which declined by 25.7% to USD 16.6 Bn as compared to USD 22.3 Bn during Q1-19. Profits for the other key sectors like Utilities, Materials and Transportation also declined during the quarter. On the other hand, Food & Beverages and the Retailing Sector reported a growth in profits during the quarter that partially offset the overall decline. Oil giant Aramco reported a net profit decline of 23.7% during Q1-20 primarily led by lower crude oil prices, coupled with declining refining and chemical margins which was partially offset by a decrease in production royalties, mainly resulting from lower crude prices, and a decrease in crude royalty rates from 20% to 15%.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

In the Banking Sector, Riyadh Bank reported a marginal decline of 0.6% in the net profit that reached USD 393.6 Mn in Q1-20 compared to USD 395.9 Mn in Q1-19 on the back of higher operating expenses, impairment charges for credit losses and other financial assets. National Commercial Bank reported a 2.1% y-o-y increase in net profit to USD 755.6 Mn in Q1-20 as compared to USD 740 Mn in Q1-19.

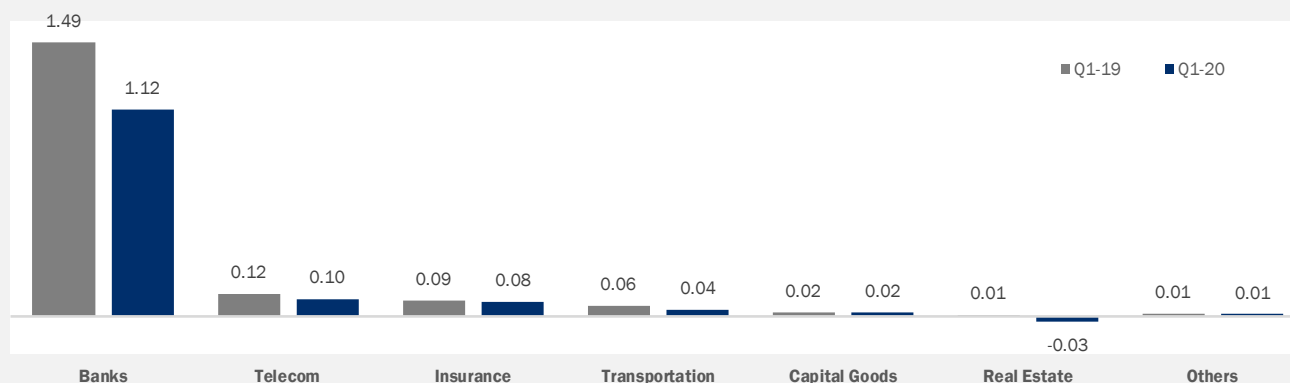
Net profit for the Telecom sector surged by 6.6% y-o-y to USD 830.8 Mn in Q1-20 as compared to USD 779.7 Mn during Q1-19. STC reported a 5.9% y-o-y increase in net profits that reached USD 776.5 Mn. Zain KSA profits tumbled 18.6% to reach USD 28.1 Mn for Q1-20 versus a profit of USD 34.5 Mn in Q1-19. On the other hand, Mobily which turned profitable in 2019, the company achieved a net profit of USD 34.7 Mn in Q1-20, against a profit of USD 17.9 Mn in Q1-19 up by 93% supported by a revenue growth of 12.5% attributed to the continued growth of the subscriber's base.

In the Material Sector, Southern Province Cement Co.'s Q1-2020 net profit rises 53% to USD 48.9 Mn versus USD 32.0 Mn in Q1-19 led by increase in higher revenue of sales by 33.63%, higher domestic sales volume by 27.5%, and rise in export sales by 48.6%. Qassim Cement Co. reported a net profit of USD 29.6 Mn for the Q1-2020, a rise of 98.5% y-o-y, buoyed by higher sales volumes and average selling prices.

## Dubai

Net profits for Dubai-listed companies (those who announced their Q1-20 results) declined 25.8% to USD 1.3 Bn in Q1-20 against USD 1.8 Bn in Q1-19. The decline came primarily from the double digit fall of Q1-20 net profits for large cap sectors on the exchange. Banking sector net profits fell 24.7% to USD 1.1 Bn, however, only half of the 12 companies in the Banking sector announced their Q1-20 net profits. Emirates NBD announced the largest Q1-20 net profits among the banks at USD 566.1 Mn as against USD 746.8 Mn during Q1-19, registering a y-o-y fall of 24% in profits attributed to higher impairment charges. Dubai Islamic Bank posted the second largest Q1-20 net profits among the banks with USD 302.6 Mn in Q1-20 against USD 363.8 Mn in Q1-19.

In the Telecom sector, DU posted a 21% fall in Q1-20 net profits that reached USD 96.7 Mn from USD 122.4 Mn in Q1-19. DU attributed the decline in profits due to the effect of COVID-19 impact in eroding the telco's revenues.

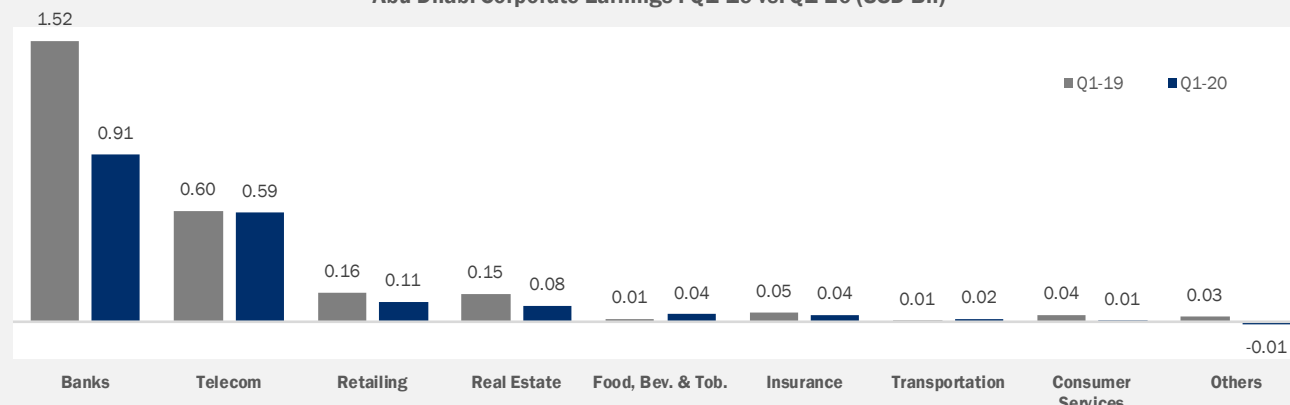
**Dubai Corporate Earnings : Q1-19 vs. Q1-20 (USD Bn)**


Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Q1-20 net profits in the Insurance Sector fell 9.1% to USD 79.2 Mn compared with USD 87.1 Mn in Q1-19. Arab Orient Insurance Group declared the largest net profit among the insurance companies in the quarter with 1.9% rise in profits to USD 45 Mn. Comparatively, National General Insurance posted Q1-20 net loss of USD 4.3 Mn the biggest loss among the insurance companies in the sector.

## Abu Dhabi

Abu Dhabi listed companies (those who announced their Q1-20 results) saw 30.6% drop in their total Q1-20 net profits recorded at USD 1.8 Bn compared with USD 2.6 Bn during Q1-19. In the Banking Sector, where 7 out of the 11 banks declared their Q1-20 results, all the banks except Sharjah Islamic Bank posted fall in Q1-20 profits. Abu Dhabi Commercial Bank posted the largest profits decline among the banks at -82% to reach USD 56.5 Mn as compared to USD 313.7 Mn in Q1-2019. ADCB's drop in profits were attributed to a rise in impairment charges. Similarly, Q1-20 net profits for FAB fell 22.5% to USD 655.7 Mn from USD 845.8 Mn in Q1-19. The fall in Q1-20 profits of the bank was due to lower revenue on the back of rate cuts and higher impairment charges. In the Telecom sector, profits of Etisalat slipped marginally by 1.5% to USD 593.2 Mn in Q1-20 vs. USD 602.3 Mn in Q1-19 although the telco's revenue increased 1%. Of the three companies in the Telecom Sector Etisalat represented over 83.1% of Q1-20 profits.

**Abu Dhabi Corporate Earnings : Q1-19 vs. Q1-20 (USD Bn)**


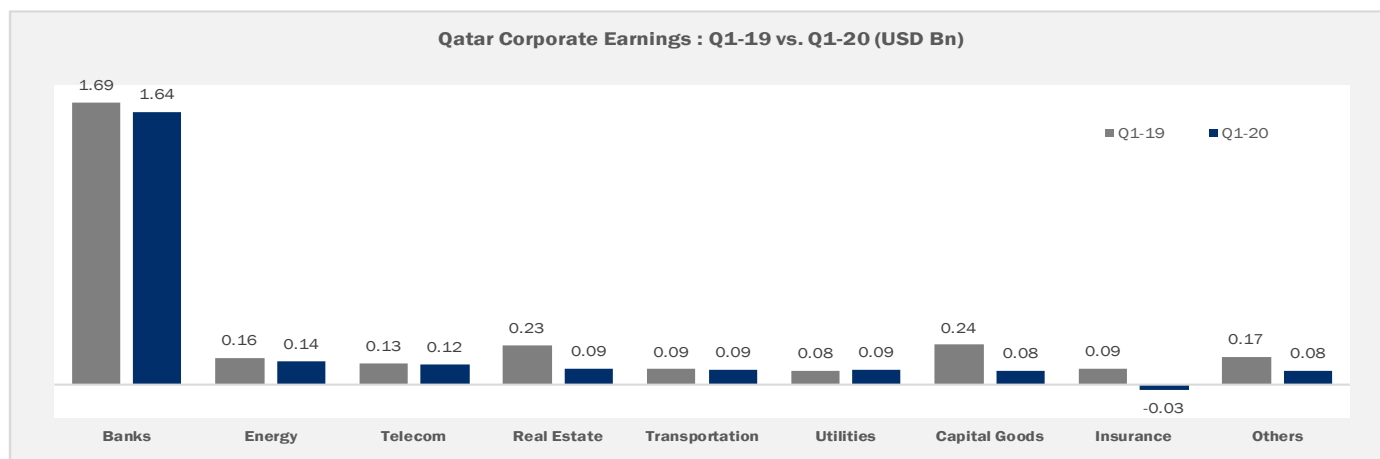
Source : Company Financials, Reuters, Bloomberg, KAMCO Research

In the Retailing Sector, ADNOC Distribution's Q1-20 earnings decreased 30.9% to reach USD 108.8 Mn down from USD 157.4 Mn in the corresponding quarter in 2019. The company attributed the decline in profits to the disruption caused by the response to the coronavirus pandemic.

Of the two companies in the Real Estate sector that have announced their Q1-20 results, Aldar Properties' net profits in Q1-20 totaled USD 81.7 Mn, a 45.7% decline from Q1-19 results. Aldar's decline in profits was attributed to the impact of Covid-19. The company stated that they have introduced a support package worth USD 51.7 Mn to mitigate the impact of the virus.

## Qatar

Total Earnings for Qatari-listed companies declined by 20.4% during Q1-20 to reach USD 2.3 Bn primarily led by decline in profits for key sectors on the exchange. Qatar's Banking sector reported a loss of 3.3% in Q1-20 that reached USD 1.6 Bn accounting for 71% of the overall exchange profits during the quarter. QNB reported flat Q1-20 net profits at USD 980.8 Mn mainly due to an increase in loan loss provisions as a precautionary measure in the light of COVID-19 pandemic. Doha Bank saw a strong growth in its net profit at 5.4% y-o-y to reach USD 89.0 Mn in Q1-2020 compared to USD 84.5 Mn primarily due to 11.3% increase in loans and advances and 17.9% increase in the operating profit. Quarterly net profit for Commercial Bank of Qatar declined by 8.5% to USD 110.5 Mn in Q1-20 compared to USD 120.8 Mn in Q1-19.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

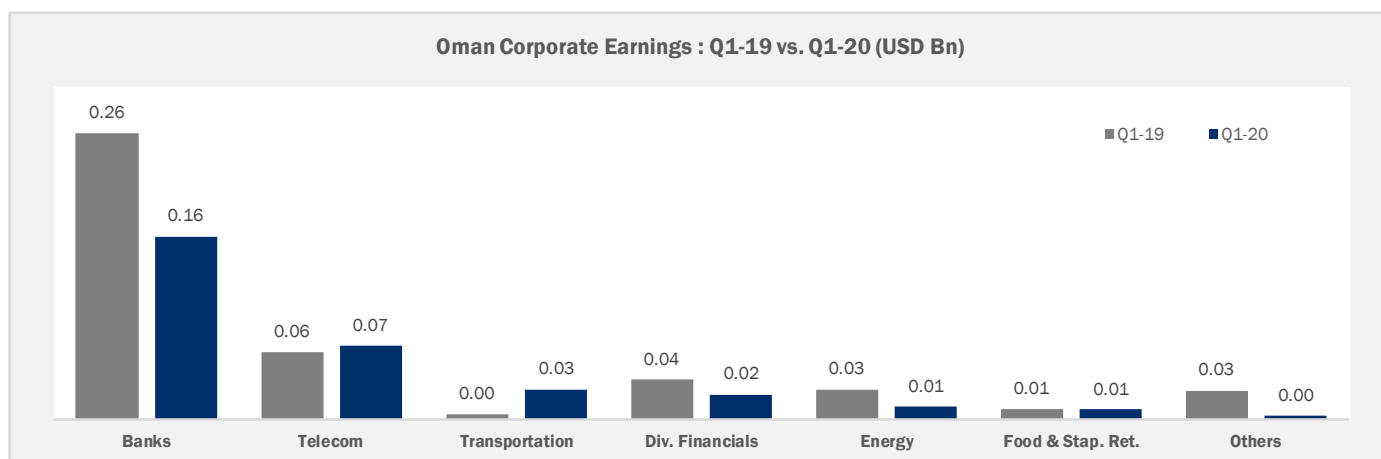
The Qatari Telecom sector also witnessed a decline of 6.3% y-o-y in Q1-20 to reach USD 119.4 Mn compared to USD 127.5 Mn in the Q1-19. Ooredoo recorded a net profit of USD 106.2 Mn in Q1-20 compared to USD 115.5 Mn in Q1-19, down by 8%. Q1-20 net profit for Vodafone Qatar stood at USD 13.2 Mn compared to USD 12 Mn in Q1-19, a rise of 10% y-o-y.

In the Energy sector, Qatar Fuel Company (WOQOD) recorded a net profit of USD 62.1 Mn in Q1-20 recording a decline of 31% y-o-y which was partly attributed to the market slow down prompted by COVID-19 spread and partly to supply and demand factors. Nakilat recorded a net profit growth of 18.3% in Q1-20 to reach USD 76.7 Mn mainly due to the commencement of the second phase of its fleet management transition from Shell International Trading and Shipping Company.

Meanwhile, Industries Qatar posted a net profit of USD 56 Mn in Q1-2020 compared to a profit of USD 185.1 Mn in Q1-19 down by 70%. The decline in profitability was attributed to several external factors including the global pandemic situation, significant weaker oil prices and a general decline in demand owing to slowdown in GDP.

## Oman

Total net profits for listed companies in Oman in Q1-20 decreased 28.3% to USD 301.2 Mn compared with USD 419.9 Mn in Q1-19. The Banking Sector, the biggest sector in the exchange by market cap, saw its Q1-20 net profits decline 36.2% to USD 164.3 Mn down from USD 257.6 Mn in Q1-19 while the second biggest sector by market cap, the Telecom Sector, saw its Q1-20 profits rise by 8.2% to USD 65.8 Mn. The Energy sector, also saw its profits tumble by 59.2% during Q1-20 to reach USD 11 Mn.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

In the Banking Sector, Bank Muscat posted a 27.4% drop in profits that reached USD 86.4 Mn as compared to Q1-19 profits of USD 119.0 Mn. The bank cited tough market conditions because of the disruption of COVID-19 including increasing in operating expenses for the fall of Q1-20 profits. Comparatively, HSBC Bank OMAN posted the largest loss among the banks in Q1-20 recording USD 11.6 Mn down from USD 21.1 Mn in profits in Q1-19. The losses were mainly due to increase in expected credit losses and the deterioration of the macro-economic environment due to the impact of COVID-19.

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