

GCC Corporate Earnings Report : Q2-19

August - 2019

GCC aggregate net profit slides 14.7% led by Saudi Arabian Materials and Banking sectors...

Total earnings for GCC-listed companies dropped 14.7% y-o-y in Q2-19 to USD 15.8 Bn from USD 18.5 Bn in Q2-18. Although only three of the six GCC markets recorded a decline in Q2-19 earnings, **Saudi Arabia's 37.1% decrease in Q2-19 was enough to drag the whole GCC markets earnings down.** Saudi Arabia saw the biggest decline among the GCC markets with its total profits sliding USD 3.0 Bn to reach USD 5.1 Bn in Q2-19 down from USD 8.1 Bn in Q2-18. The Kingdom represented 32.2% of the GCC profits in Q2-19. Qatari and Bahraini companies also witnessed y-o-y declines in earnings during Q2-19 to the tune of 8.7% and 11.2%, respectively. **On the other hand, UAE, Kuwait and MSM-listed companies saw their Q2-19 net profits rise as compared to the corresponding quarter in the previous year.**

In terms of sectors at the GCC level, **three of the top five largest sectors by market cap including the Materials Sector, the Real Estate Sector and the Capital Goods sector recorded steep double-digit declines in their Q2-19 net profits** resulting in an overall decline in aggregate quarterly profits for the GCC during Q2-19. **On the other hand, the Banking and Telecom sector's 3.5% and 15.5% growth in profits during Q2-19, respectively, failed to offset the overall decline at the GCC level.** Profits for the Utilities sector also witnessed a steep drop of 40% during the quarter.

GCC earnings also declined during 1H-19 as compared to 1H-18 by almost 10% with total net profits reaching USD 32.8 Bn as compared to USD 36.4 Bn in 1H-18. Oman closely followed by Dubai were the best performing markets with total 1H-19 earnings growth of 9% and 8.8%, respectively, while Kuwait reported a earnings growth of 4.7%. **On the other hand, Saudi Arabia recorded a decline of 24.3% during 1H-19 with aggregate profits of Saudi-listed companies reaching USD 11.3 Bn as compared to USD 14.9 Bn during 1H-18.** Qatar reported the second-biggest drop in earnings in absolute terms during 1H-19 by USD 362 Bn to reach USD 5.4 Bn vs. USD 5.7 Bn during 1H-18.

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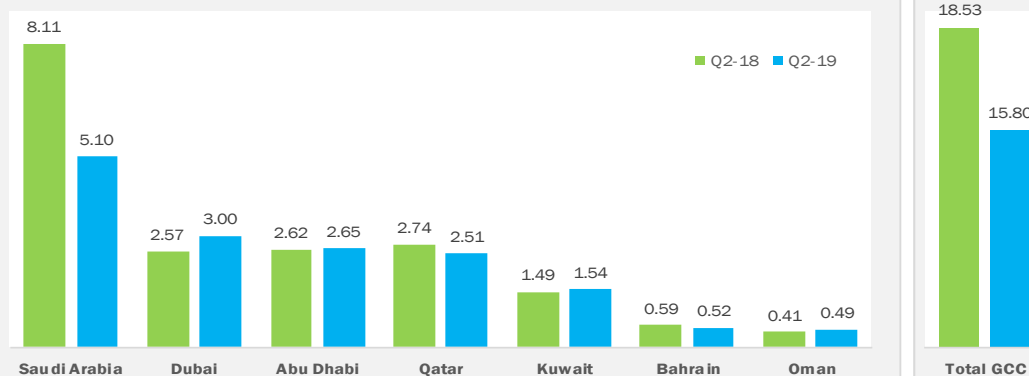
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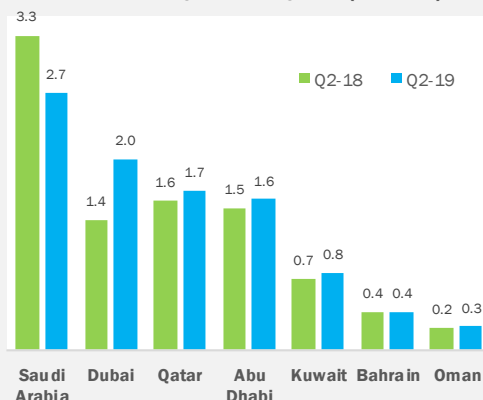
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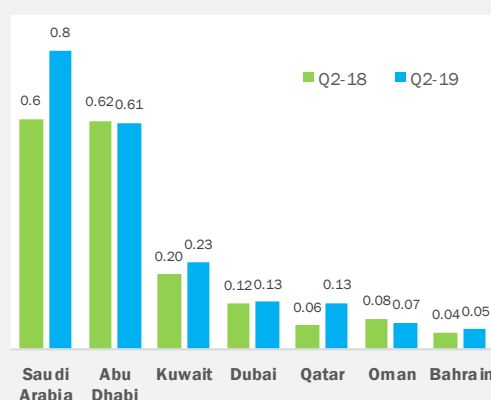
GCC Corporate Earnings : Q2-19 vs. Q2-18 (USD Bn)



GCC Banks: Q2-19 vs. Q2-18 (USD Bn)



GCC Telcos: Q2-19 vs. Q2-18 (USD Bn)

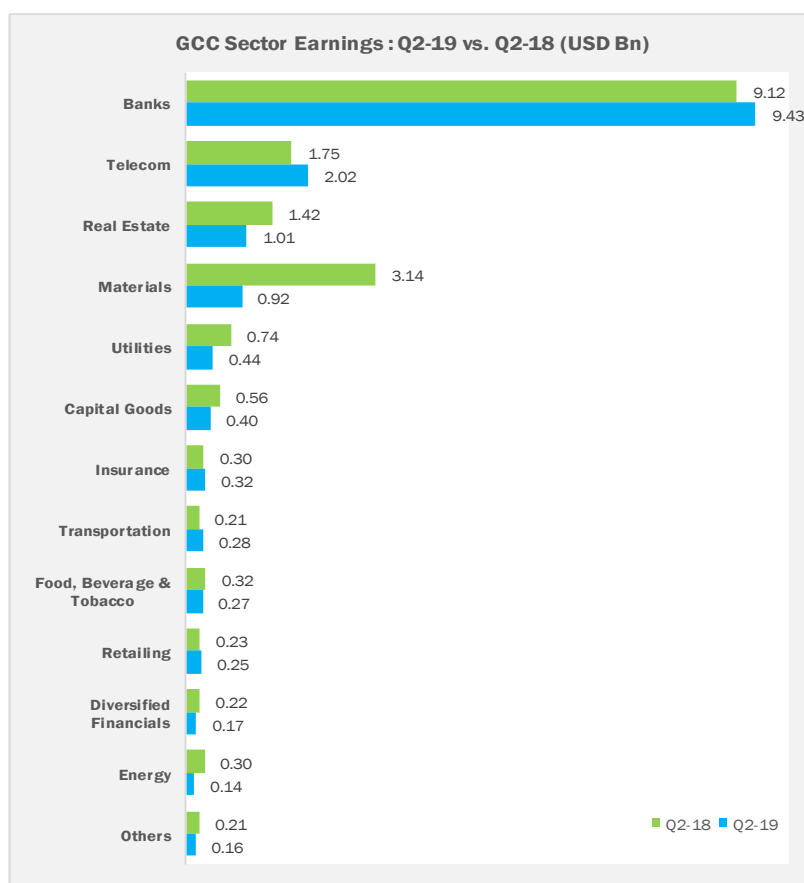


Source : Company Financials, Reuters, Bloomberg, KAMCO Research

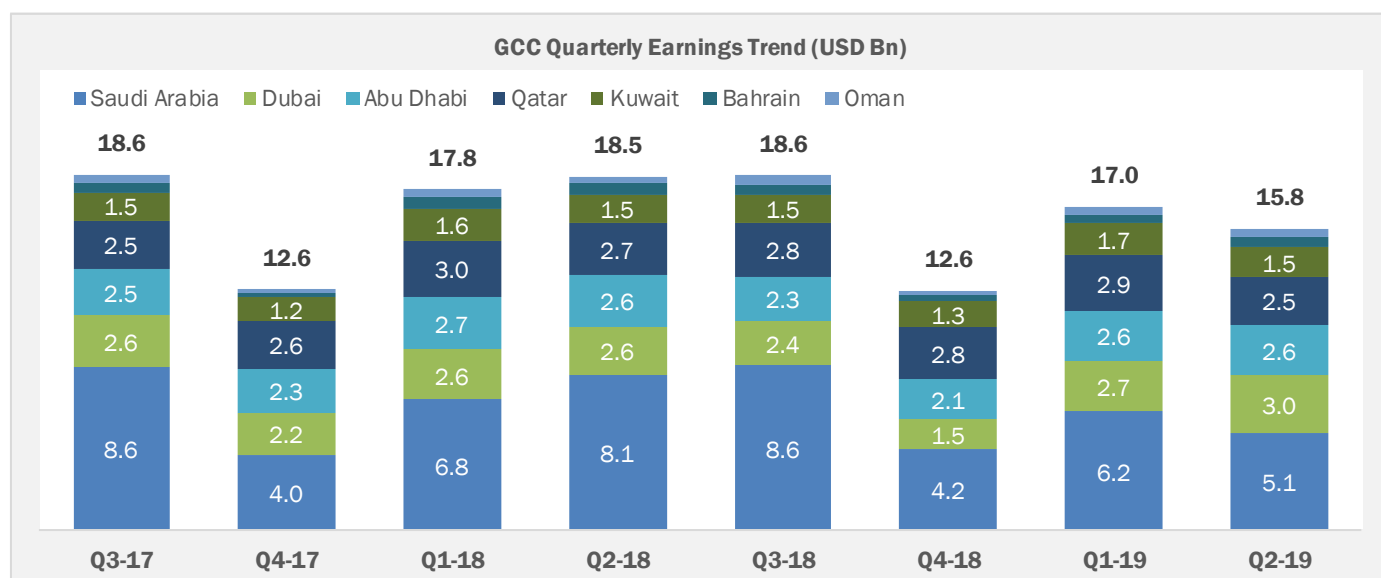
The Banking sector represented 59.7% of the GCC earnings in Q2-19. The sector's y-o-y Q2-19 earnings improved 3.5% to reach USD 9.4 Bn up from Bn 9.1 in Q2-18. However, in terms of sequential growth, profits declined by 4.6% as compared to Q1-19. The q-o-q decline was the steepest in Saudi Arabia at 27.3% while Qatar, Bahrain and Omani banks reported low single digit fall in profits. With the exception of the Saudi Banking Sector, with a profit decline of 18.5% y-o-y to USD 2.7 Bn in Q2-19, all the other remaining five GCC Banking Sectors recorded increases in Q2-19 earnings. UAE's banking sector reported profit growth of more than a quarter. DFM-listed banks posted 47.3% rise in Q2-19 earnings to USD 2 Bn from USD 1.4 Bn in Q2-18, the biggest percentage increase in Q2-19 earnings among the GCC Banking Sectors, while ADX-listed banks posted a net profit growth of 5.8% over the same period. The top three banks in the GCC in terms of Q2-19 net profit were ENBD which recorded a net profit of USD 1.3 Bn, QNB which posted USD 1.0 Bn and FAB which recorded USD 0.88 Bn in profits during the quarter. Profits for the top 10 banks in the GCC stood at USD 7.3 Bn or 78% of the total GCC banking sector profits.

Telecoms reported one of the best profit improvements during Q2-19 with Abu Dhabi and Oman being the only markets that reported y-o-y decline in profitability. Profits for Qatari telcos almost doubled during the quarter as compared to Q2-18 while Saudi Arabian telcos reported 29.6% profit growth. In Kuwait, the sector recorded a net profit growth of 16% y-o-y and 8% q-o-q.

GCC Materials Sector witnessed 70.7% y-o-y decline in Q2-19 net profits that reached USD 0.92 Bn down from USD 3.14 Bn, the biggest decline in Q2-19 earnings among the GCC sectors. The biggest three loss-making companies in the GCC Materials Sector were in Saudi Arabia, namely, National Industrialization Co which posted a loss of USD 75.4 Mn in Q2-19, followed by Saudi Kayan and Saudi Arabian Mining with quarterly losses of USD 72.8 Bn and USD 65 Bn, respectively.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Kuwait

Kuwaiti companies reported a net profit growth of 3.6% that reached USD 1.54 Bn in Q2-19 compared to USD 1.48 Bn during Q2-18. The biggest impact on higher aggregate stock exchange profits came from the Banking sector which recorded a profit growth of 9.4% reaching USD 817.3 Mn in Q2-19 from USD 747.3 Mn in Q2-18. Among the Banks, NBK reported a net profit of USD 334.4 Mn during the second quarter, a growth of 9.9% primarily due a 31% y-o-y drop in provisions. Similarly, CBK reported a net profit of USD 29.2 Mn for Q2-19 compared to a loss of USD 13.28 Mn of the corresponding period driven by increase in bank's operating profit including allowances which stood at USD 191.4 Mn, total loans by 9%, operating revenue by 8% y-o-y in 1H-19. KFH reported a Q2-19 net profit growth of 9.4% y-o-y that reached USD 184.9 Mn.

Kuwait Corporate Earnings : Q2-19 vs. Q2-18 (USD Bn)



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

Telecoms also recorded positive earnings growth during Q2-19 with a y-o-y increase of 16% to reach USD 232.6 Mn. This surge was mainly attributable to Ooredoo's almost three-fold increase in net profit that reached USD 28.0 Mn in Q2-19 compared to USD 10.11 Mn in Q2-18. Earnings for the telco were supported by strong customer base, revenues and EBITDA. In addition, profits for Zain was up by 10% reaching USD 165.6 Mn in Q2-19 as compared to USD 150.3 Mn supported by EBITDA which increased y-o-y to USD 581.9 Mn.

On the other hand, key sectors that reported decline in net profits during the quarter included Real Estate, Capital Goods and Diversified Financials. The Real estate sector was the main contributor for dragging the profitability of the exchange. The sector reported a 50.6% y-o-y drop in net income that reached USD 41.3 Mn in Q2-19 as compared to USD 83.7 Mn in Q2-18. Abyaar Real Estate Development posted one of the biggest drop in profitability reporting a loss of USD 64.9 Mn for Q2-19 compared to a profit of USD 0.3 Mn during Q2-18. The company attributed losses to sale of stake in a land plot. In the Diversified Financial sector, Al Madar Finance & Investment Company posted a net profit of USD 0.28 Mn in Q2-19 against USD 38.6 Mn in Q2-18, while First Investment Company registered a loss of USD 10.7 Mn compared to a profit of USD 2.8 Mn in Q2-18.

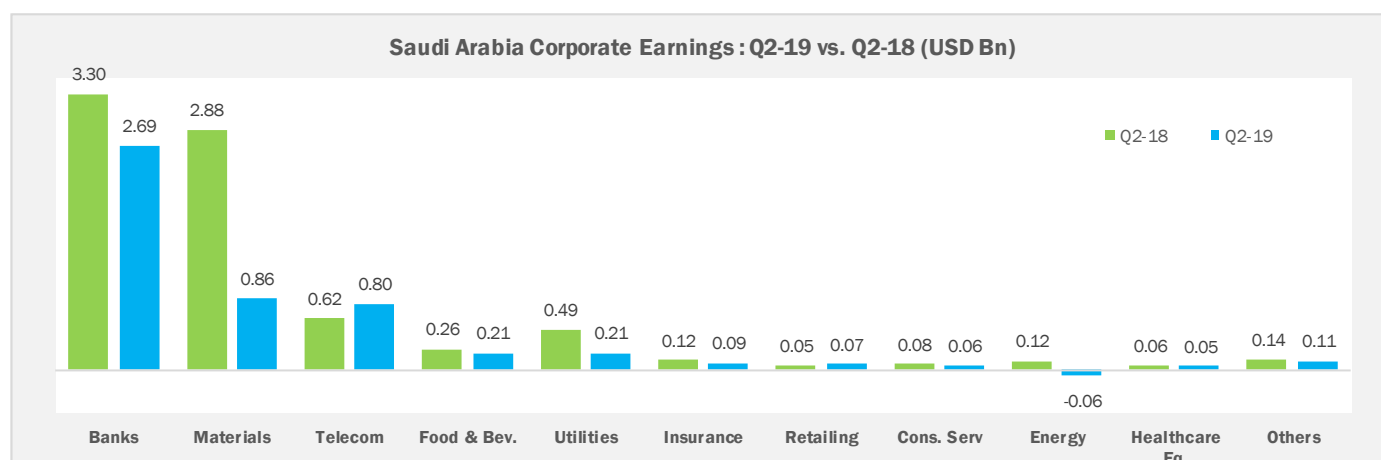
Saudi Arabia

Aggregate net profits for Saudi Arabian companies witnessed a steep decline of 37.1% to USD 5.1 Bn in Q2-19 against USD 8.1 Bn in Q2-18. In terms of sector performance, 11 out of the 19 sectors on the exchange reported decline in profitability during the quarter. The decline was primarily led by a plunge in profits for the Materials sector that declined by 70% to USD 856.9 Mn as compared to USD 2.9 Bn during Q2-18. Profits for the Banking sector also declined by almost a fifth while other major sectors like Utilities, Food Beverage & Tobacco, Consumer Services and Energy all reported fall in profits during the quarter. On the other hand, the Telecom, Retailing, Transportation and Real Estate sectors reported a growth in profits during the quarter that partially offset the overall decline.

Within the Materials sector, SABIC reported a 68% drop in profits due to lower chemical prices that led to a 17% decline the company's topline. Also, 15 out of the 42 companies in the sector that previously reported profits in Q2-18, reported losses during Q2-19. Saudi Kayan reported a loss of USD 72.8 Mn during Q2-19 as compared to a profit of USD 234.3 Mn during Q2-18. Another petrochemical giant, Yanbu National Petrochemicals, reported a profit decline of 61.5% reaching USD 84.3 Mn as compared to USD 218.9 Mn during Q2-18.

In the Banking sector, Riyadh Bank reported a 41.2% increase in the net profit that reached USD 399.8 Mn in Q2-19 on the back of high fee and commission income. Bank Al-Bilad Bank reported 11% increase in the profits which grew USD 73.5 Mn in Q2-18 to USD 81.2 Mn supported by increase in the total operating income by 14% and increase in net income from investment and finance activities. Also, Alinma bank registered a net profit of USD 180.1 Mn in Q2-19 from USD 165.6 Mn up by 9%

The transportation sector recorded a 32.1% jump in Q2-19 net profits to USD 48.3 Mn from USD 36.5 Mn. Saudi Industrial Services Co. (SISCO) contributed the largest increase in the net profits with a y-o-y growth of 77.2% to reach USD 5.68 Mn on the back of higher income from ports amid improved volumes and tariffs.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

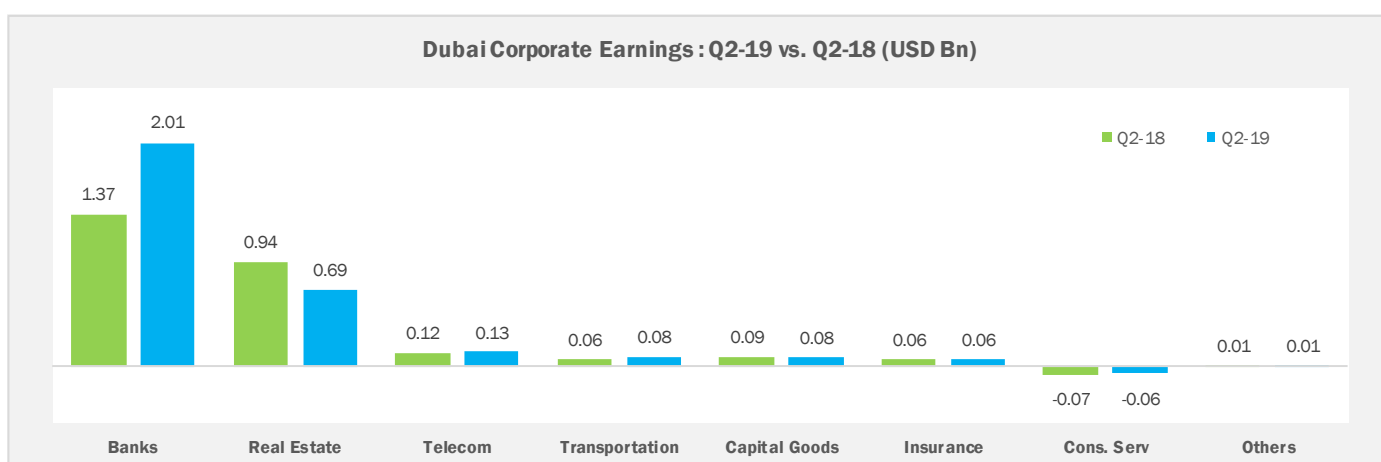
Real Estate sector's Q2-19 earnings witnessed strong gains of 31.3% y-o-y to reach USD 46.9 Mn compared to USD 35.7 Mn in the Q2-18. Jabal Omar Development Company reported a net profit of USD 7.93 Mn in Q2-19 versus net losses of USD 39.4 Mn in Q2-18 driven by higher revenue from selling residential and hotel units.

The Q2-19 earnings of United Electronics Company in the Retailing sector jumped 58.9% y-o-y to USD 19.3 Mn from USD 12.1 Mn of Q2-18 on the back of higher sales that led to higher margins. On the other hand, Al Hokair reported almost 50% jump in profits, while Al Hassan Ghazi Ibrahim Shaker lowered losses during Q2-19. The overall impact was a 30.7% increase in the sector's profitability.

Net profit for the Telecom sector increased by 29.6% y-o-y to USD 804 Mn in Q2-19 as compared to USD 620.6 Mn during Q2-18. STC's higher revenues resulted in 16.5% increase in net profits that reached USD 759.3 Mn for Q2-19 compared to USD 651.6 Mn in Q2-18. On the other hand, both Zain KSA and Mobily reported profits during Q2-19 as against losses during Q2-18. Zain KSA reported profits of USD 34.7 Mn for Q2-19 versus a loss of USD 10.0 Mn in Q2-18 backed by an 11% y-o-y rise in revenues as well as a decrease in cost as CITC royalty fees decreased from 15 percent to 10 percent.

Dubai

Net profits for Dubai-based companies recorded a significant rise of 16.5% in Q2-19 to reach USD 3.0 Bn compared to USD 2.6 Bn in Q2-18. In terms of sectors, the Banking Sector was largest contributor to the overall profits of the exchange representing almost two thirds of the Exchange's profits, while the Real Estate Sector suffered the largest decline in profits.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

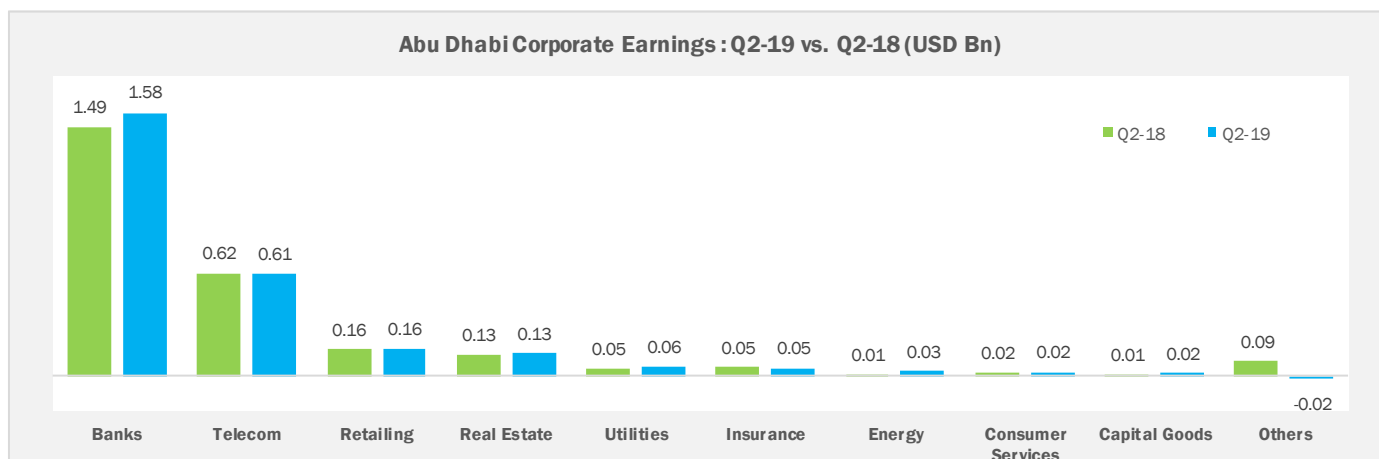
The Banking sector's Q2-19 net profits jumped 47.3%, the largest percentage increase among the GCC Banking Sector, to reach USD 2 Bn from USD 1.4 Bn during Q2-18. Emirates NBD, Dubai's largest lender, led the Banking Sector in both in absolute profits and percentage increase of profits with 80% surge in Q2-19 profits that reached USD 1.3 Bn compared with USD 0.7 Bn in Q2-18. The main reason for the surge in the banks' earnings was higher-than-expected gains on the partial sale of the banks stake in Network International which was recently listed on the FTSE 250 Index.

In the Real Estate Sector, all six companies saw their Q2-19 net profits decline with the overall sector's Q2-19 earnings falling 26.8% to USD 0.69 Bn down from USD 0.94 Bn in Q2-18. Amongst the real estate companies, Union Properties was the only company that posted a loss of USD 22.9 Mn during Q2-19 compared with a profit of USD 6.7 Mn in Q2-18 mainly due to a fall in revenue from contracts with consumers.

The Transportation Sector was the second largest contributor in terms of absolute net profits in the Exchange after the Banking Sector. Air Arabia posted the biggest Q2-19 net profits increase in the sector. The company's profits surged 82.3% to USD 54.6 Mn in Q2-19 compared with USD 29.9 Mn in Q2-18. The airline's strong second quarter financial results were due to solid growth in passenger demand.

Abu Dhabi

Abu Dhabi based companies saw a marginal 0.8% y-o-y increase in their Q2-19 net profits recorded at USD 2.64 Bn compared to USD 2.62 Bn during Q2-18. All the top five largest sectors by market cap except the Telecommunication Sector reported higher Q2-19 earnings. The Banking Sector was the largest contributing sector in the exchange representing 59.7% of the exchange's Q2-19 profits. The Banking Sector's Q2-19 net profits improved 5.8% to USD 1.58 Bn compared to USD 1.49 Bn during Q2-18. First Abu Dhabi Bank, the largest bank in the UAE, led the banks in terms of absolute profits posting Q2-19 net profits of USD 877 Mn an increase of USD 44 Mn from Q2-18 net profits. The higher net profits for the bank was due to revenue growth coupled with cost control and flat operating costs. Invest Bank was the only loss-making bank dragging profits for the overall sector with a loss of USD 20.1 Mn in Q2-19. Nevertheless, the bank lowered its losses as compared to Q2-18 when it reported Mn 37.2 USD.



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

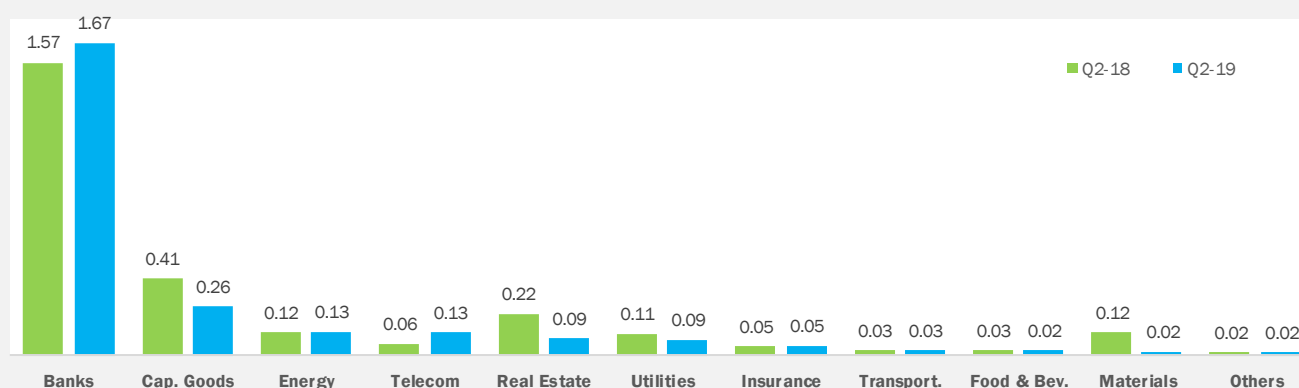
On the other hand, the Diversified Financial Sectors was the largest loss-making sector in the exchange in Q2-19 with Waha Capital being the only loss-making company among the sectors three companies. The company made USD 33.86 Mn loss in the second quarter of 2019 compared to USD 36 Mn profit in the similar period of 2018. Waha Capital's losses were attributed to losses made by the company's Private Investment Business and the reassessment and settlement of the value of AerCap shares.

Gulf Pharmaceutical Industries Co, in the Pharmaceuticals Sector, also contributed to the overall drag on Q2-19 net profits for the exchange. The company suffered losses of USD 25.8 Mn in Q2-19 compared with a USD 8.5 Mn profit in Q2-18. The losses of the company were attributed in sales decline led by continued challenges in Saudi Arabia and other primary markets of the company. The company's topline was also impacted due to a temporary ban of its exports by the Saudi Food and Drug Authority in Sep-18.

Qatar

Total Earnings for Qatari-listed companies declined by 8.7% during Q2-19 to reach USD 2.5 Bn primarily led by fall in profits of the Capital Goods, Real Estate and Materials sectors. Banks continued to outperform other sectors with a 6.7% rise in the net profit that reached USD 1.67 Bn in Q2-19, accounting for 66.8% of the overall exchange profits during quarter. QNB reported a 3.76% y-o-y increase in Q2-19 that reached USD 1.45 Bn primarily due to 5% increase in loans and advances. Quarterly net profit for Doha Bank more than doubled y-o-y to reach USD 57.9 Mn in Q2-19 compared to USD 24.5 Mn in Q2-18 supported by total assets which registered a growth of 13.3% following 5% increase in loans and advances, while customer deposits increased by 7.2%. Similarly, Commercial Bank of Qatar reported a net profit of USD 138.1 Mn in Q2-2019 up by 11.7% compared to USD 123.7 Mn in Q2-2018 on the back of higher operating profit which grew 6.9%.

Qatar Corporate Earnings : Q2-19 vs. Q2-18 (USD Bn)



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

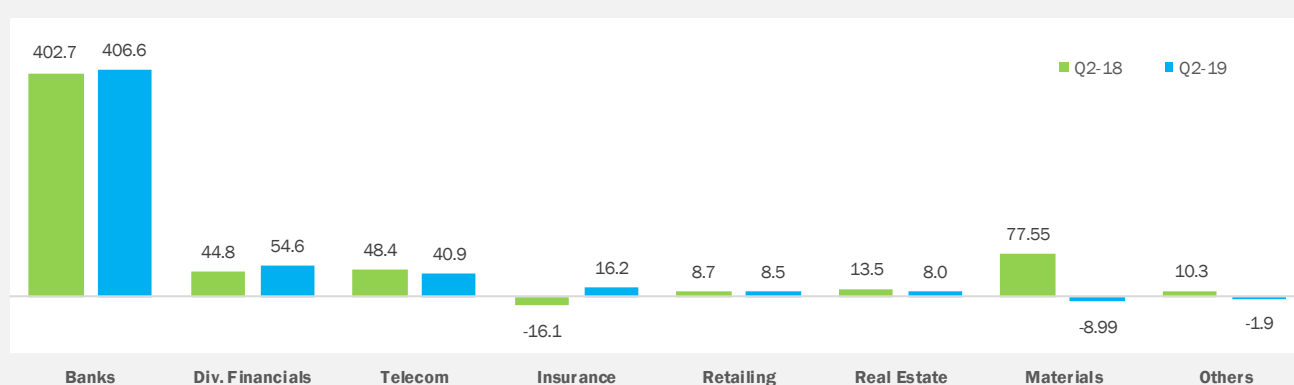
The Qatari telecom sector witnessed strong gains with net profits almost doubling y-o-y in Q2-19 to USD 125.05 Mn compared to USD 64.3 Mn in Q2-18. Ooredoo's net profit grew almost two folds to USD 115.5 Mn in Q2-19. Ooredoo Qatar's EBITDA margin showed a healthy improvement y-o-y, rising to 57% compared to 51% for 1H 2018. Vodafone Qatar recorded a net profit growth of 60.3% from USD 13.8 Mn in 1H-18 to USD 21.4 Mn in 1H -19. Quarterly net profit for Vodafone Qatar stood at USD 9.4 Mn in Q2-19 compared to USD 8.5 Mn in Q2-18 with a rise of 10.6% mainly driven by higher EBITDA which increased by 26% to USD 8.5 Mn.

In the Energy sector, Qatar Fuel Company (WOQOD) recorded a net profit of USD 60.8 Mn for Q2-19 up by 9.6% y-o-y compared to USD 55.5 Mn. The higher profits were attributable to the increase in sales and reduction of General and Administrative expenses. Nakilat recorded a net profit of growth of 5.2% in Q2-19 to reach USD 65.8 Mn mainly led by the acquisition of two additional LNG carriers and one Floating Storage Regasification Unit in 2018 and increased volume of projects at Nakilat's Erhama Bin Jaber Al Jalahma Shipyard facility.

Bahrain

Total net profits for Bahraini companies declined 11.2% in Q2-19 to USD 524 Mn from USD 590 Mn in Q2-18. Among the largest sectors

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



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

by market cap only the Banking sector saw its Q2-19 net profits increase while the rest recorded a decline in their Q2-19 earnings.

Bahrain Bourse's Material Sector recorded the biggest Q2-19 loss by sector. Both companies that made up the Materials Sector recorded Q2-19 losses with Aluminum Bahrain (ALBA) recording the largest Q2-19 loss in the Bourse. The company posted Q2-19 loss of USD 8.8 Mn compared with a profit USD 77.2 Mn in Q2-18. The decline in profitability was attributed to a 21% fall in price of aluminum as recorded by the London Metal Exchange.

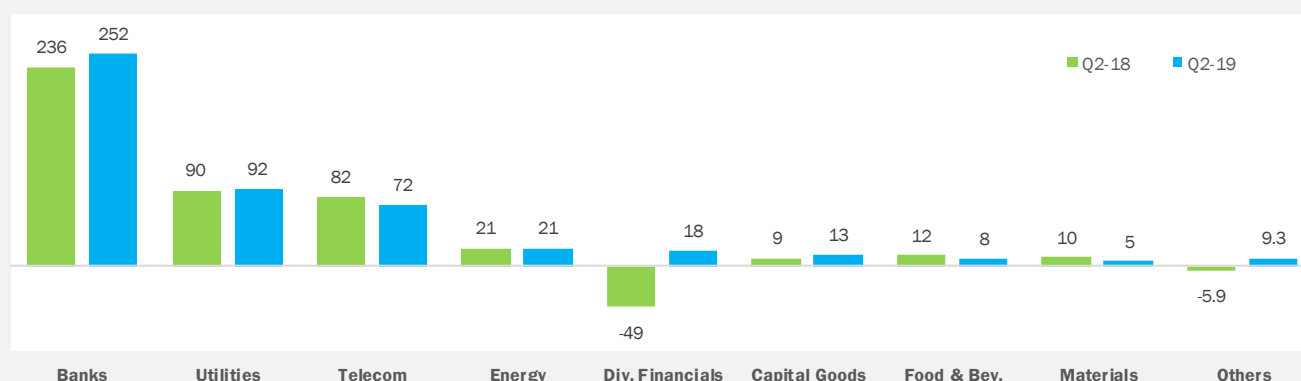
In the Banking Sector, one of the only two sectors which saw its Q2-19 net profits rise in the Bourse, Al Salam Bank Bahrain lead profit growth with a 65.5% jump in its Q2-19 net profits to USD 18 Mn up from USD 10.9 Mn in Q2-18. National Bank of Bahrain and BBK also witnessed their Q2-19 earnings increase by 15% and 10.4% to USD 6.8 Mn and USD 5 Mn, respectively.

Oman

Omani companies witnessed the biggest y-o-y growth in quarterly net profits during Q2-19 with a surge of 20.9% to reach USD 490 Mn compared with USD 405.4 Mn in Q2-18. The Banking Sector, the biggest sector in the exchange by market cap, saw its Q2-19 net profits rise 6.9% to USD 252 Mn up from USD 235.9 Mn in Q2-18 while the second biggest sector by market cap, the Utilities Sector, saw its Q2-19 profits rise 1.7% to USD 91.8 Mn.

In the Banking Sector, HSBC Bank Oman lead with the largest Q2-19 increase in absolute profits at USD 28.9 Mn or 53% y-o-y compared with USD 18.9 Mn in Q2-18. Increasing operating income combined with optimization of operating expenses were attributed to the bank's strong result. Similarly, other banks in the sector such as Bank Muscat, Bank Nizwa and Bank Muscat also posted improved Q2-19 net profits, contributing to the overall increase in profits of the exchange during Q2-19.

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



Source : Company Financials, Reuters, Bloomberg, KAMCO Research

The Utilities Sector followed the Banking Sector as the second largest Q2-19 earnings contributor in the Exchange. In terms of increases of absolute net profits and percentage increase of profits Sembcorp Salalah lead the way followed by Al Suwadi Power. Sembcorp Salalah witnessed 24.8% rise in Q2-19 earnings to USD 12.4 Mn up from USD 9.9 Mn in Q2-18, while Al Suwadi Power reported a 14.3% increase in Q2-19 profits that reached USD 19.8 Mn up from USD 17.3 Mn in Q2-18.

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