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Top 30
Most Valuable Non-Banking Companies in GCC

The What of VAT
Decoding the enigma

What transpired in 2016
Marmore Research Roundup

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Marmore Research Highlights

Marmore Roundup 2016

2016 proved to be a year of momentous developments in the GCC making Marmore's research desk very busy. Saudi Arabia launched its 'Vision 2030' program in April 2016; and followed it up with one of the biggest international sovereign issuance in 2016 worth $17.5 bn. The plunging oil prices have brought to the fore the importance of economic diversification. Introducing Value Added Tax (VAT) is a step in the direction of reducing the dependence on oil revenues and broad-basing revenue structure, and it dominated the news for a while in 2016.

Marmore has tracked key global and regional developments through the year, reflecting on the impact on the GCC of various events. For e.g., the record number of projects awarded in Kuwait is yet to show a real impact on the economy The oil price oscillations throughout the period also had an impact on remittances flowing out of Saudi Arabia. Industries such as brokerage and mortgage displayed a series of ebbs and flows, delineating new emerging trends in the respective industries.

Emergent global trends too had a vital impact on several sectors in the GCC. For e.g., the impact of Fintech in the region is becoming evident across several segments of the economy. Even as corporate earnings margins for GCC companies are stagnating, encouragement can be taken from the fact that the governments are pursuing various funding options vigorously in order to increase investments in critical areas to encourage economic diversification. Companies in the GCC are following various trajectories towards pursuing economic value even as they realize that it is important for them to increase their profits over the coming years in order to be sustainable.

2016 demonstrated that the paradigm of lower oil prices has altered the fiscal landscape of GCC countries as the prized fiscal surplus registered in previous years has flipped into deficits. Between 2016 and 2017, GCC countries are expected to post a fiscal deficit of USD 302bn. A surge in sovereign debt issuances is expected in the wake of burgeoning deficits.

The year of 2017 will see the GCC expand upon various economic growth and reform policies initiated in 2016. At Marmore, we are confident of capturing relevant themes and enable our readers, users and clients up to speed.

MR Raghu,
Managing Director,
Marmore Mena Intelligence

Have a great 2017!

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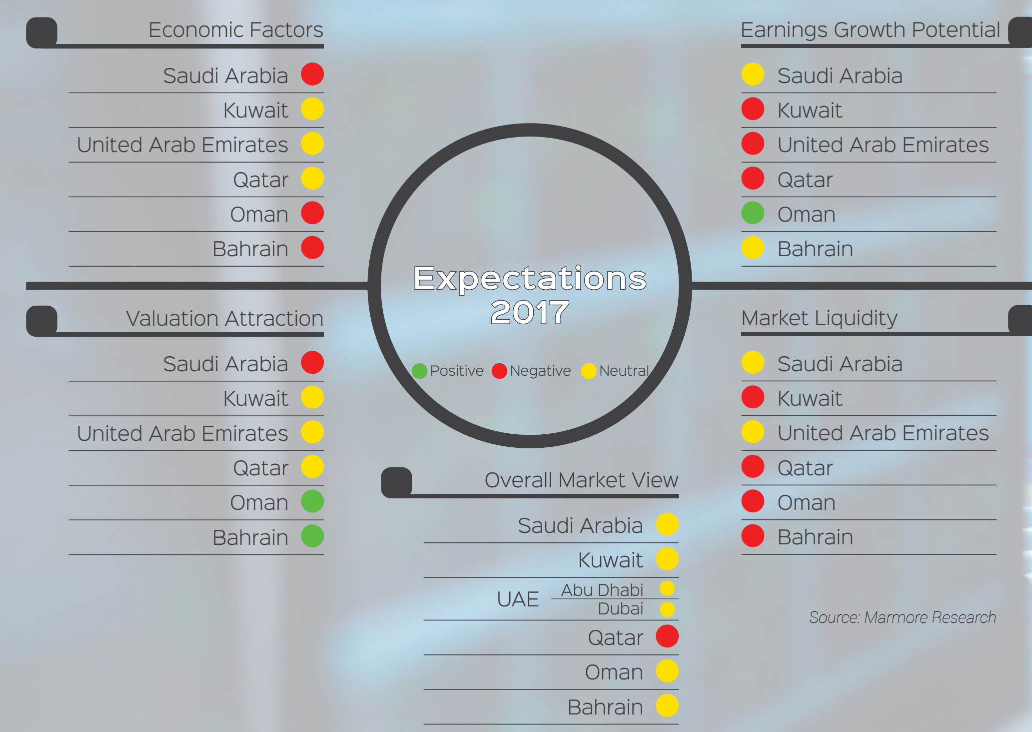
GCC Stock & Debt Market

OUTLOOK 2017



Source: Marmore Research

At the beginning of 2016, we were positive on UAE while being neutral on Saudi Arabia, Kuwait and Qatar. UAE (especially Dubai) was the outperformer in GCC markets which was in-line with our expectations. Saudi Arabia stock market also returned positive helped by the recovery in oil prices towards the end of the year. Kuwait and Qatar ended the year flat. The overall S&P GCC index returned 9.5% in 2016 with better performance coming in the second part of the year. Despite over 50% rise in oil prices, investors seemed to take a wait and watch position before investing in the stock markets. This could be on account of poor corporate earnings growth and lower capital expenditures by GCC governments.

Economy

Qatar is expected to have the highest non-oil GDP growth rate (5.2% for 2017) in the region on account of the spending on infrastructure projects. In the recent budget, USD 25 Bn or 47 percent of the budget is earmarked for the completion of projects related to FIFA 2022. As of November 2016, Kuwait has awarded close to $12 Bn worth of contracts. Close to 58% of the projects awarded has been from the non-oil sector. Kuwait is in a favourable position when it comes to fiscal and current accounts. Overall we are Neutral on Kuwait, UAE & Qatar while Negative on the rest of the GCC on economic factors.

OVERALL, WE HAVE NEUTRAL VIEW ON GCC STOCK MARKETS WITH THE EXCEPTION OF QATAR ON WHICH WE HAVE A NEGATIVE VIEW.

Earnings

Growth in the overall earnings for GCC countries is expected to be flat at 0.3% for 2017 as GCC governments cut down on budget and welfare spending. Economic heavyweights of the region – Saudi Arabia, Kuwait and Qatar saw their corporate earnings decline by 3.6%, 3.4% and 7.8% respectively while that of UAE remained flat during 2016. Oman's earnings witnessed a turnaround in 2016 and grew by 5.5%. 2017 could perhaps be seen as a year for consolidation and GCC corporates adjusting themselves to the new normal.

Valuation

Stock market returns for the GCC region, in 2016, with the exception of the UAE were either flat or marginally negative. As a result of this the stock valuation levels have drifted away from the fundamental values. For instance, Price-to-earnings multiple for Saudi Arabia currently stands at 17.5x followed by Kuwait at 17.1x, and, in comparison with other major GCC markets such as UAE (P/E 12.2x) and Qatar (P/E 13.5x) they are trading at a premium. As a result we are negative on Saudi stock market from a valuation stand point while we remain neutral on Kuwait, UAE and Qatar. We are positive on Oman and Bahrain on account of higher dividend yields of 5% and 6% respectively.

Market Liquidity

GCC stock markets have had some of the lowest levels of turnover in 2016 clocking in a turnover ratio at 34% despite the emerging market status of Qatar and UAE. Even the recovery in oil price during the 2nd quarter failed to increase the interest of investors in the region. Poor earnings growth in many of the key sectors, especially banks, did not augur well for improving the liquidity in the stock markets. We are Neutral on Saudi & UAE while Negative on the rest from liquidity point of view.

GCC DEBT MARKET OUTLOOK 2017

The prolonged period of low oil prices has put a strain on government budgets across the region, exposing the dependence that GCC economies have on oil revenues. Saudi Arabia, Oman and Bahrain have all scrambled to raise funds through bond issuances to compensate for the fall in oil revenues. Their sovereign rating was also downgraded in 2016 on back of widening fiscal balance and sluggish economic growth. However, Saudi Arabia with its "A1" rating remains in the investment grade while Oman (BBB-) and Bahrain (BB – Junk) have lower ratings. The ratings downgrade has had a visible impact on the pricing of the bonds. KSA had to pay 185bps over the 10 yr US treasury bond while Oman had to pay 320bps over the 10 yr treasury bond. GCC governments should carefully consider their borrowing and investment decisions while maintaining significant liquidity buffers for protecting themselves against shor-term funding risk. Saudi Arabia, Kuwait, Qatar and UAE have significant headroom for borrowing as they have very little public debt outstanding. There is room for taking on more debt, however, it should be done only after careful considerations of the implications of building up debt and the impact of borrowing on domestic liquidity, credit, and central bank reserves. We expect GCC governments to cumulatively issue over USD 74 billion of debt in 2017.

OVERALL RATINGS

Saudi Arabia – Neutral

Saudi Arabia is entering an interesting phase now. It is undertaking a number of reforms which are aimed at reducing the fiscal burden and increasing the employment opportunities for its youngsters. These reforms could cause some slowdown in the economy as the citizens adjust themselves to a new normal. Insurance sector continues to grow in the country despite the slow down and is expected to continue in 2017 while construction related companies could suffer as government increases scrutiny on projects. Consumption could take a hit as a result of reform measures which is why we have given a neutral rating for Saudi Arabia.

UAE – Neutral

Dubai is looking to continue its spending on account of the Expo 2020 as most of the infrastructure projects enter the final phase of the building process by early 2018. Areas like tourism, finance, hospitality, trade should continue to grow in 2017. Abu Dhabi, on the other hand, has been prudent even during boom times and has comfortable reserves to tide through 2017. Despite this, the global market for oil is expected to remain subdued. Real estate, one of the main drivers of UAE's growth could take a hit in 2017 as sales are stagnating. As a result, we expect UAE to be neutral in 2017.

Qatar – Negative

Qatar is an interesting case. On the one hand the government is spending on account of the 2022 FIFA world cup and targets a budget breakeven while on the other hand the financial sector of the country has suffered the most owing to government drawdowns. Telecom sector has been performing well in Qatar and is expected to continue it in 2017. Banking could take a hit as lower deposits could hamper credit growth. Valuations have not gone down in line with fundamentals which is why we are negative on the Qatari market.

Kuwait - Neutral

Kuwait has seen lot of positive signals going for it during 2017. Its project awards market is witnessing a turnaround as a number of projects were awarded in 2016. The project awards trajectory has been quite positive. Banks in the region are better placed compared to its GCC peers and are likely to perform well in 2017 while real estate could suffer negatively owing to stagnant sales, price declines and negative sentiment. The market is fairly attractive and there are some capital market reforms that are on cards that is expected to augur well for the market.

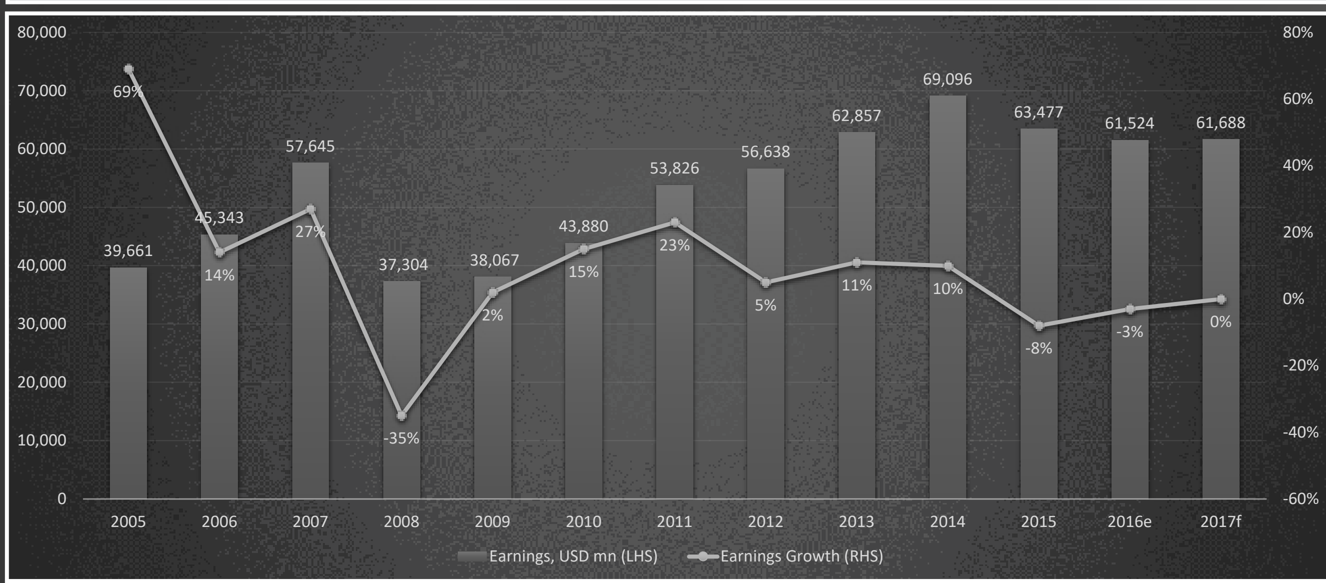
GCC Corporate Earnings

Corporate earnings to remain flat in 2017.

Lower Oil prices, liquidity squeeze and sedate global growth led to decline in GCC corporate earnings during the first nine months of 2016 (9M16), compared with the corresponding period a year back. Corporate earnings in 9M16 fell by 6.3% over the same period in 2015. With the exception of Oman, which registered a growth of 9%, all other countries recorded negative growth. Total earnings for GCC corporates in 9M16 came in at USD 40bn, supported by growth in telecom and financial services sector, as contribution from international markets and favorable exchange movements supported their bottom line. Earnings in banking sector were negative, due to falling deposits, while earnings in real estate, commodities, and construction related sectors contracted as the fall in oil prices was increasingly felt across non-oil sectors.

In 2016, Saudi Arabia, Kuwait and Qatar are expected to witness earning's decline of 3.6%, 3.4% and 7.8%, respectively, while that of UAE will remain flat. Oman remains as an exception to the overall trend of the GCC, and is expected to witness a growth of 5.5% in 2016, highlighting the resilience of the sector. Growth in the overall earnings for GCC countries is expected to be flat at 0.3% for 2017 as GCC governments cut down on budget and welfare spending. The year 2017, could perhaps be seen as a year for consolidation, as the GCC corporates adjust themselves to the new normal. Bank earnings are forecast to be flat, as credit growth moderates, while telecom, financial services and construction related sectors are projected to improve, as economic and market reforms improve investment climate in the region.

Earnings Trend – GCC – Long-Term (USD mn)



Source: Reuters Eikon, Markaz Research

Construction related sectors were the most promising sector in 2016 returning 55% despite the austerity measures that most of the GCC governments undertook during the year. A part of the reason for the performance in construction related sector has been the lower base effect and losses that were incurred in 2014. UAE and Qatar's governments have been investing in the infrastructure space in order to prepare themselves for the Expo 2020 and FIFA 2022 respectively. Stabilizing oil prices are expected to play a bigger role in bringing about stability to the region. Construction related sectors' earnings are projected to grow at 11.1% during 2017, while Financial Services (excl. banks) earnings continue their positive run in 2017, rising by 4.8%. Commodities markets are witnessing a weak demand, due to slowing demand in China and other key commodity markets across the globe.

Saudi Arabia

Saudi Arabia witnessed a decline of 5% in net earnings in 9M16, compared with the same period a year back. Earnings declined for all sectors, except financial services. The highest decline in earnings were witnessed in the real estate (-46%) and conglomerate (-37%) sectors. We estimate full year earnings to decline by 4% in 2016, and a further 2% in 2017, due to fall in earnings of commodities, banking and construction-related sectors.

Kuwait

Kuwait witnessed a decline of 14% in net earnings in 9M16, with financial services, real estate, and conglomerates declining by 59%, 44% and 20%, respectively. Telecom was the only exceptions in Kuwait, as their earnings bucked the declining trend, and rose close to 4%. For 2016 full year, Kuwaiti corporate earnings are expected to fall by 3.4%, due to moderate growth in banking and telecom sector, but are estimated to rise by 0.8% in 2017, on the back of improving credit growth, and positive performance in telecom markets, in line with other GCC peers.

UAE

Earnings for UAE companies witnessed a decline of 4.5% in 9M16 (YoY basis) owing to low oil prices, sluggish economy and poor performance of real estate companies. Commodities sector declined 32% during the period, as fall in oil prices, affected commodity prices. Real estate and construction-related sectors improved, despite stagnant sales, while earnings in financial services improved by 20%. We expect UAE corporate earnings to rise by 1%, as credit growth improves, and earnings expand in real estate and construction sector. However, earnings in 2017 is estimated to decline by 3.5%, as credit growth will be subdued, and real estate expansion stagnates.

Qatar

Qatar earnings fell by 11% in 9M16. Qatar's net earnings growth was affected by the fall in real estate (-49%) and commodities (-25%). Telecommunications and construction-related sectors witnessed an increase in earnings during the period, at 36% and 11%, respectively. We expect full 2016 earnings to decline 8% for Qatar, despite continued thrust on infrastructure developments and relatively better credit growth expectations than its GCC peers, and 2017 to remain flat, as infrastructure developments for the world cup take center stage.

30 Most Valuable Non-Banking Companies in GCC

Identifying the most valuable companies in a region can be done in many different methods. However it is important that the selection is based on financial performance and quantitative methods. For selecting the 30 most valuable non-banking companies in GCC, we used three parameters: Return on Equity (ROE), Debt-to-Equity (D/E) and average profit after tax (PAT) growth percentage for the past three financial years with weightage of 40%, 40% and 20% respectively. These parameters were applied after weeding out companies that had lower free float market capitalization (less than 65%) and companies that incurred loss in any of the past three financial years. Financial services and banks are not considered as their leverage ratios are higher due to their business model and comparison with companies in other sectors would be misleading.

ROE is one of the important parameters that is used to evaluate the strength of the company as well as the return the company generates for the equity holders. ROE is also a measure of efficiency of functioning of the company. Debt to equity (D/E) indicates the leverage and thereby the risk the company faces due to its capital structure. As D/E ratio is a comparative measure, we have ranked the companies based on the measure to indicate companies that are less risky and have durable business models compared to other companies in GCC. PAT growth percentage is considered as it is important for the companies to increase their profits over the years in order to be sustainable.

Top 30
Most Valuable Companies

Top 30 most valuable companies have been weighted on the three parameters and ranked based on the quality score. Jarir marketing with its low leverage of 0.03 and average annual PAT growth percentage of 13% registered an astonishing ROE of 57.86%. This indicates that the company operates with minimum risk and yet has generated better returns for the equity holders. Net profit of Jarir marketing increased by 11% in 2015 compared to its net income in 2014 mainly due to increase in revenue from the retail segment. In 2014, the company reduced its debt to equity ratio to 0.1 and in 2015 it was further brought down to 0.03 as the company repaid its long term debt with the excess cash it generated.

Similarly companies such as Arabian Cement Company, Medicare group and Taiba holdings registered average annual PAT growth percentage of 67%, 68% and 80% respectively. The top 5 most valuable companies have maintained D/E ratio lesser than 0.1 (except Al Tayyar Travel Group).

Al Tayyar Travel Group Holding, despite having a D/E ratio of 0.37 had registered a higher ROE of 34.1% and its average PAT growth percentage was 16% due to which it ranked 4th among the most valuable companies in GCC.

Medicare group's net profits surged by 316% from USD 12 Mn in 2012 to USD 50 Mn in 2015. The surge in profits were mainly due the business expansion of Medicare group and thereby higher revenue generated from core operations increased.

Saudi Cement Company (SCC), one of the largest cement manufacturers in Middle East, reduced its D/E ratio from 0.3 in 2011 to 0.22 in 2015. SCC repaid most of its long term debt with retained earnings as a part of the corporate strategy determined in 2011. SCC has also streamlined its operations and improved its operational efficiencies. However, increasing labor expenses due to Saudization led to decline in net margins from 53% in 2014 to 48% in 2015. Yanbu cement has one of the best operational efficiency among the cement companies in GCC. It has continuously expanded its capacity since 2008, in anticipation of increased demand. With low costs of operations, the company's average PAT grew at 4% and with D/E ratio of 0.04, the company generated ROE of 22.29%.

Snap Shot of Most valuable companies in GCC

Company Name	Country	Sector	Free float market cap (in USD mn)	Category[1]	ROE	D/E	PAT Annual average growth rate (2012-2015)	Annualized 5 year returns
Jarir Marketing	KSA	Consumer Cyclicals	2,748	Mid	57.86	0.03	13%	24%
Arabian Cement Co	KSA	Basic Materials	1,282	Mid	18.82	0.09	68%	18%
Medicare Group	Qatar	Healthcare	653	Small	17.84	0.07	67%	49%
Al Tayyar Travel Group Holding Co	KSA	Consumer Cyclicals	1,497	Mid	34.10	0.37	16%	28%
Taiba Holding Co	KSA	Financials	825	Small	11.11	0.00	80%	26%
Advanced Petrochemical Co	KSA	Basic Materials	1,970	Mid	29.19	0.43	33%	18%
Saudi Cement Co	KSA	Basic Materials	2,317	Mid	29.43	0.22	-5%	14%
Yanbu Cement Co	KSA	Basic Materials	1,401	Mid	22.29	0.04	4%	15%
Widam Food Co	Qatar	Consumer Non-Cyclicals	302	Small	26.96	0.22	-1%	33%
Dubai Investments	UAE	Industrials	1,998	Mid	29.19	0.26	87%	30%
Saudi Public Transport Co	KSA	Industrials	383	Small	13.98	0.08	47%	22%
Qatar Fuel	Qatar	Energy	2,454	Mid	18.34	0.00	2%	11%
Aldrees Petroleum and Transport Services Co	KSA	Energy	374	Small	23.55	0.42	15%	12%
Yamama Cement Co	KSA	Basic Materials	1,334	Mid	17.26	0.00	15%	5%
Al Meera Consumer Goods Co	Qatar	Consumer Non-Cyclicals	834	Small	11.37	0.06	24%	43%
Eastern Province Cement Co	KSA	Basic Materials	543	Small	14.43	0.00	-3%	-1%
Arriyadh Development Co	KSA	Financials	654	Small	16.42	0.24	13%	16%
Aramex	UAE	Industrials	1,207	Mid	14.41	0.16	9%	14%
Saudi Pharmaceutical Industries and Medical Appliances	KSA	Healthcare	770	Small	11.69	0.11	14%	11%
Aldar Properties	UAE	Financials	5,440	Large	13.33	0.30	27%	5%
United Wire Factories Co	KSA	Consumer Cyclicals	289	Small	14.15	0.00	-13%	0%
Emirates Integrated Telecom	UAE	Telecom	7,842	Large	24.80	0.57	0%	21%
National Medical Care Co	KSA	Healthcare	479	Small	15.08	0.24	9%	-13%
Abdullah Al Othaim Markets Co	KSA	Consumer Non-Cyclicals	788	Small	22.45	0.58	10%	23%
Etisalat	UAE	Telecom	44,874	Large	19.83	0.31	15%	19%
Emaar Properties	UAE	Financials	12,282	Large	11.48	0.35	30%	20%
United International Transportation Co	KSA	Industrials	424	Small	22.37	0.72	15%	21%
Saudi Chemical Co	KSA	Healthcare	733	Small	16.00	0.37	-5%	14%
Northern Region Cement Co	KSA	Basic Materials	534	Small	10.25	0.58	46%	-9%
Mazaya Qatar Real Estate Development	Qatar	Financials	279	Small	8.41	0.43	35%	8%

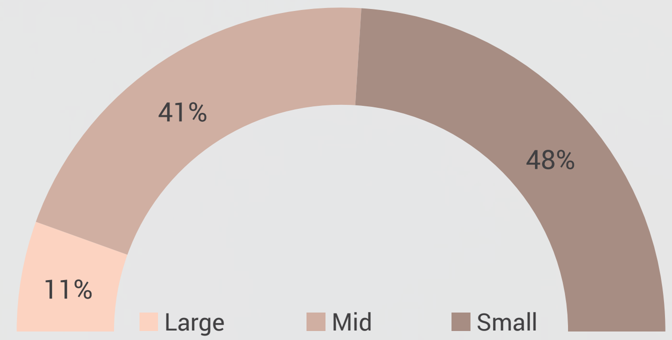
Source: Reuters, Marmore Analysis

[1] *Large = > USD 3 Bn; Mid = < USD3 bn and > USD 1 bn; Small = < USD 1 bn*

Analysis of 30 valuable companies

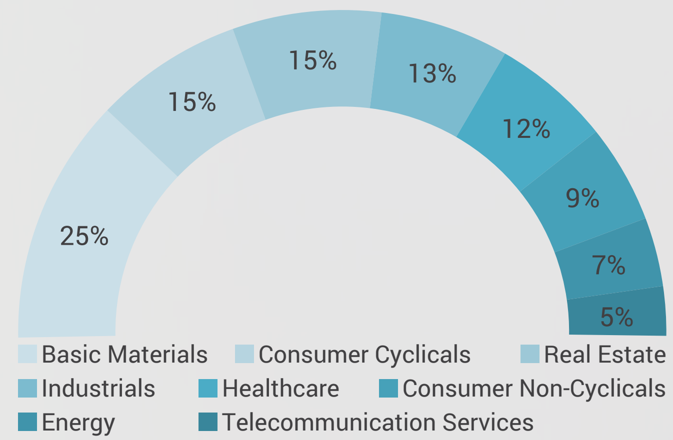
KSA companies constitute 66% of the top 30 most valuable companies followed by UAE and Qatar with 17% weightage each. None of the companies from Oman and Bahrain featured in the top 100 list as most of them had lesser free float compared to the companies in the larger markets such as KSA, UAE and Qatar. Though four large cap Kuwaiti companies were in the top 100 list, three of the companies were banks and the other company, Mobile telecommunications (Zain), had negative average PAT growth rate.

Among the top 30 most valuable companies, there are only four large cap companies from UAE, two each from the real estate and telecommunications sector. There are 10 mid cap companies and 16 small cap companies, mainly from the basic materials and consumer non-cyclicals sector respectively.



Top 30 Most Valuable Companies, Market Cap Classification
(Share based on weightage)

Source: Reuters, Marmore Analysis



Top 30 Most Valuable Companies - Sector Allocation*

**Sector Allocation is based on the stock weightage*

Source: Reuters, Marmore Analysis

Portfolio of top 30 most valuable companies is well diversified in terms of sector allocation.

Stock market performance of 30 most valuable companies in GCC

Out of the top 30 most valuable companies, 27 companies registered positive average annualized returns during the same period. Only 3 companies i.e, National Medical Care Company, Northern Region Cement Company, and Eastern Province Cement Company stocks registered negative CAGR of 13%, 9% and 1% respectively during 2011-2015.

Medicare Group and Al-Meera were the companies that registered maximum returns (5 year CAGR) of 49% and 43% during the same period. Medicare Group, Qatar registered an average PAT growth of 67% during 2013-2015 and the return on equity (ROE) in 2015 was 17.84%. Foreign investors invested heavily in the stock in 2015 as they felt the outlook for the company was positive with its strong fundamentals apart from the positive outlook for the sector in Qatar. Al-Meera consumer goods (Qatar) has expanded its operations in the past and witnessed increase in sales in 2015. The average PAT growth percentage was 24% (2013-2015) and the ROE was 11.7% in 2015. The company has planned for major expansions in the coming years and has attracted investors from Qatar and GCC[2].

On performing a back-test for a portfolio consisting of the top 30 companies, it can be seen that they have outperformed the S&P GCC index by 175% during the period 2011 and 2015. Financials sector accounts for 51.6% of the weightage in S&P GCC index. Poor performance of the financial sector companies with heavyweights such as National Commercial Bank, Qatar National bank, Al Rajhi Banking, Samba Financial group and National Bank of Kuwait in the index led to the poor performance of the S&P GCC index.

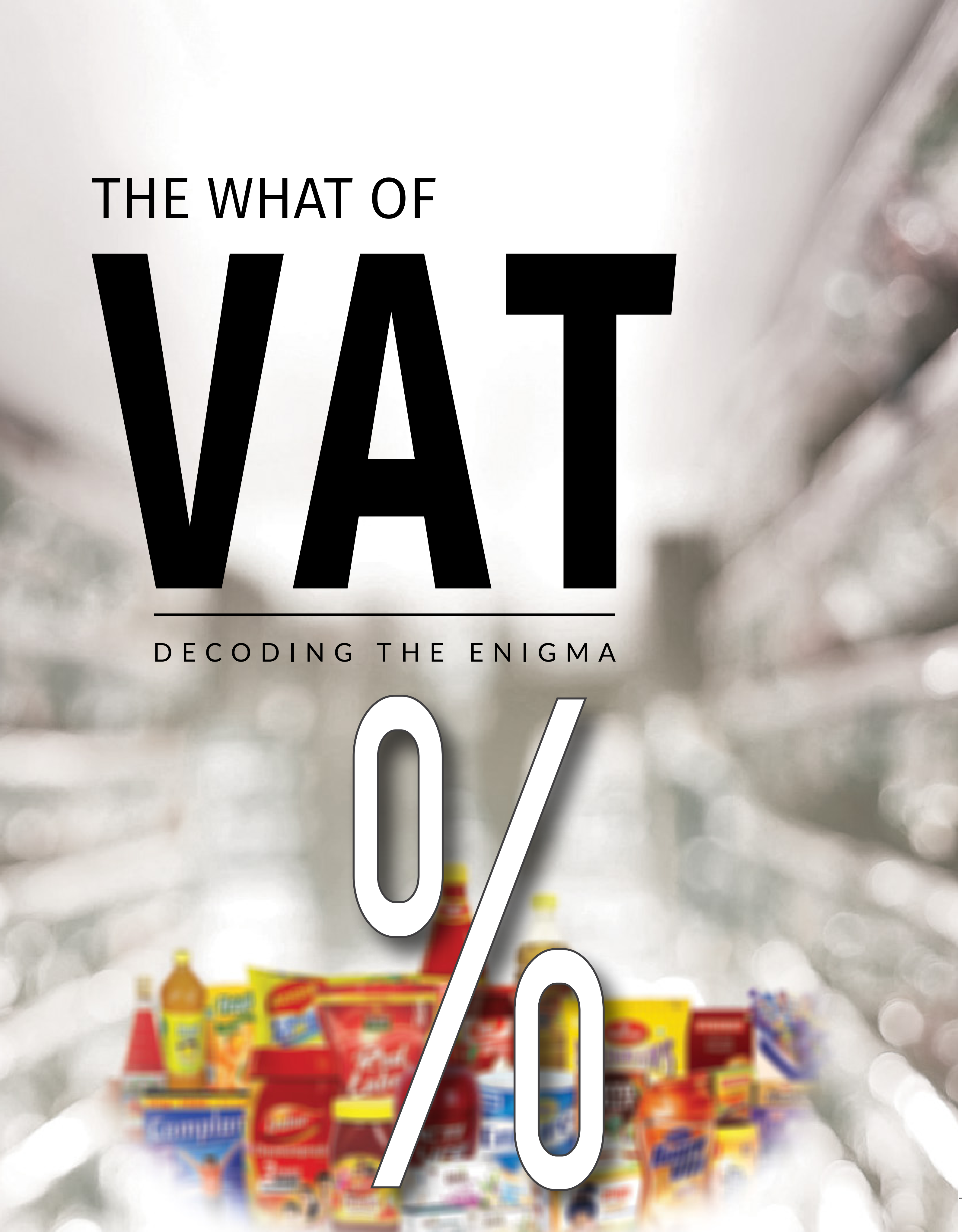
As evidenced from the analysis and the back-testing, screening and selecting most valuable companies based on fundamentals might yield better returns in the long term (5-years) in stock markets. These companies have a sustainable business model that fosters growth. However, it is important to note that in hindsight, it is easy to come up with such a portfolio and success of even a valuable company in the stock market is not certain due to extraneous factors that impact stock prices.

Value of $1 investments made in start of 2011

Index	2011	2012	2013	2014	2015
S&P GCC	$0.92	$0.95	$1.18	$1.15	$0.95
Portfolio of top 30 most valuable companies	$1.27	$1.62	$2.51	$3.03	$2.70

Source: Reuters, Marmore Analysis

[2] *Reuters, Peninsular Qatar*



THE WHAT OF VAT

DECODING THE ENIGMA

DECODING VAT AND ITS IMPACT ON GCC ECONOMIES AND PRIVATE SECTOR.

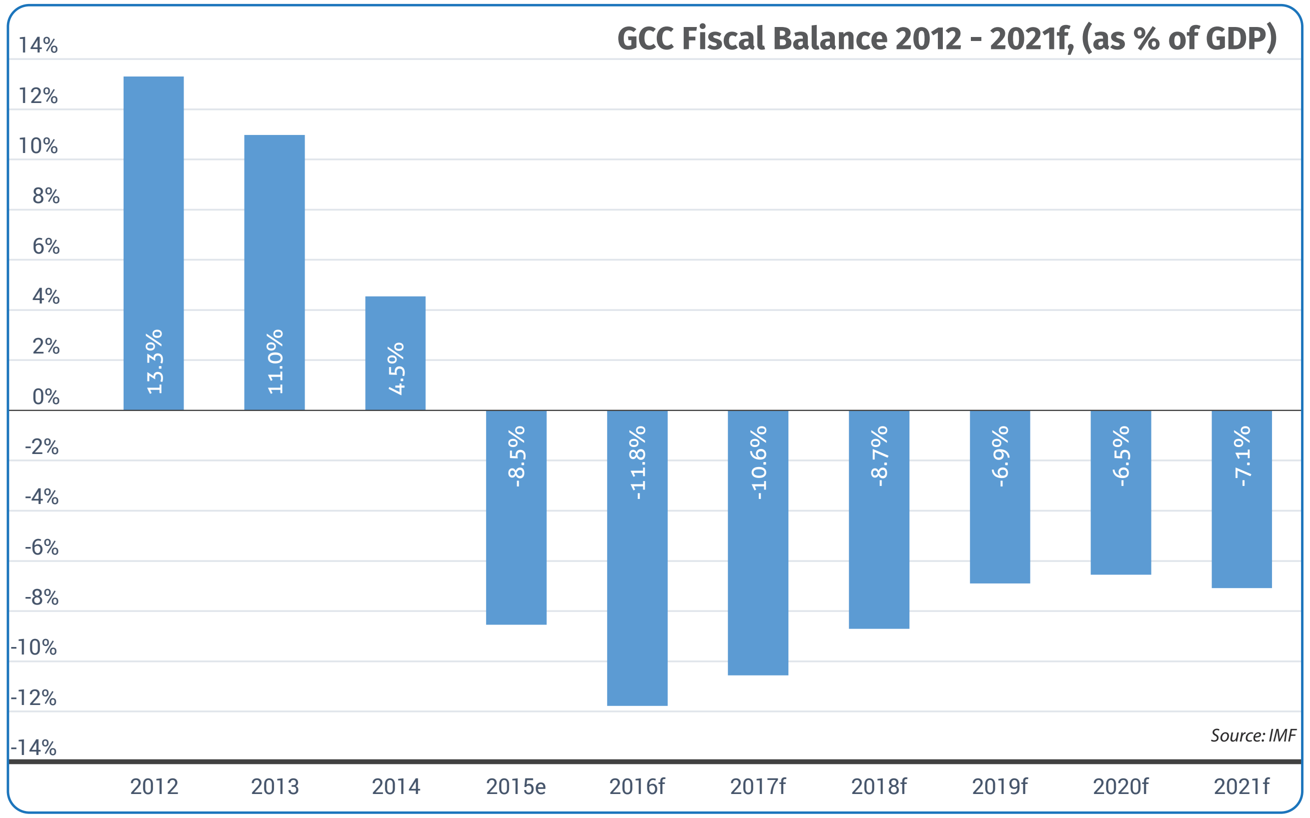
The plunging oil prices have brought to the fore the importance of economic diversification in the GCC in order to reduce dependence on just one source of income i.e. oil. Introducing VAT is a step in the direction of reducing the dependence on oil revenues and broad-basing revenue structure. Thus, many analysts and experts are hailing the impending VAT regime across the GCC as a step in the right direction in terms of guiding the economic transition process.

Despite the wide ranging impact that the VAT can have, it is not a very well understood topic. This study attempts to simplify some of the complexities behind the concept of VAT. VAT is in place in more than 160 countries around the world. Simply put, VAT is a tax paid when goods and services are bought. VAT is often described as a tool of targeted taxation, as well, as it allows differential rates for different segments and products.

VAT can also be more elaborately defined. As the name indicates, it is a tax introduced on the value firms add to a product as it travels through the value chain. The value added is the gap between the price of input and that of output. VAT will crucially have a deep impact on businesses especially small businesses. Firms will need keener supervision and diligence when it comes to accounting to ensure that the correct amount of tax is determined. Compliance overheads may increase. For the tax administrators in the government agencies, effective enforcement will demand greater planning and project implementation skills.

According to the IMF estimates, the potential revenue from the implementation of 5%-rate VAT is almost 1.6% of GDP for GCC countries. The GCC countries have been discussing the possibility of VAT for quite some time now. With the current oil price volatility, the urgency in planning and implementation has come to the fore. The GCC member states have announced that they would implement VAT between 2018 and 2019. It is notable that VAT rates and structures differ substantially across nations. Usually, they tend to be more complex in countries with a tradition or legacy of high dependence on indirect taxes; and lower in those nations that adopted VAT more recently to supplant revenue losses from trade liberalization.

According to the IMF, lower VAT rates (3–5 percent) are found in the Asia/pacific region (e.g., Japan, Singapore, and Taiwan); while higher rates (20–25 percent) tend to be found in Western Europe (e.g.,



Denmark, Norway, and Sweden). The general trend is that nations have started with low VAT rates and incremented them over time in line with revenue requirements and the experience gained in the system by both tax administrators and tax-payers. It is widely expected in the GCC that some exceptions to VAT may apply mainly fueled by socio-economic policy considerations. For instance, some items may be subject to VAT at 0% (zero-rated), like basic food. Areas such as healthcare and education are very likely to be exempt from VAT, too. However, the general consensus is that VAT leads to higher levels of inflation.

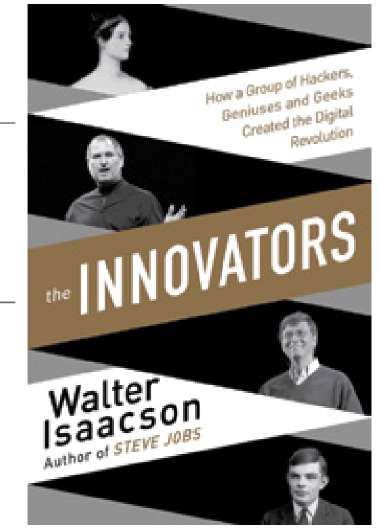
VAT may pose uncertainties in terms of GCC tourist inflow. For foreign tourists who spend in the GCC, the VAT in the GCC could become a case of double taxation, considering that tourists who purchase goods in the GCC could also liable to pay import taxes once they travel back to their native countries. Thus, there are also suggestions that implementation of VAT should be in phases and that certain consumer goods should be exempted.

Also, the move to exclude SMEs or companies below a specified income slab will help in safeguarding small businesses from the large documentation and reporting requirements that a system like VAT mandates.

Moreover, businesses may not have to register if they only deal in goods and services that are not subject to VAT. Yet, it is important to note that across the GCC, finalizations have not yet been declared with respect to minimum turnover standards or the businesses that will be excluded, with respect to SMEs. Meanwhile, how the capital markets react to VAT will largely depend on the slab applied. Capital markets can be affected in numerous ways that is difficult to predict now. For instance, cash transfers made as part of real estate deals could come under higher slabs, which could have a less favorable impact on companies specializing in the sector.

BookReview

Rakesh Khanna, CFA
Analyst, Marmore



The Innovators

How a Group of Hackers, Geniuses, and Geeks Created the Digital Revolution

By Walter Isaacson

Computers and Internet have revolutionized the way we interact with the real world and they remain as the most important inventions of the 20th century. When confronted with the question of who invented either, many of the answers would be a blank stare. The truth is both these inventions exist today as a result of collaboration of a number of individual geniuses who worked on bettering each other's ideas and building upon them. Collaboration and the creativity that it inspires forms the overarching theme of this book.

> "Progress comes not only in great leaps but also from hundreds of small steps."

Collaborative creativity is something that has not had much of an attention in the book sphere as much as individual success stories have. We have books on individual geniuses – Steve Jobs, Elon Musk, Nikola Tesla, Jeff Bezos who have transformed and are still transforming the digital and real world under our feet. But, very little has been written on the collective geniuses of people whose work has largely been done outside of the media spotlight. This books makes an effort to bring these hackers, programmers and geniuses to the lime light.

The book divides itself into sections such as – Programming, transistor, microchip, video games, internet, software, the web, and chronicles the contribution of various engineers who have developed and shaped them in the way we see it today. Innovation needs teamwork and when people from seemingly different fields of work meet together towards achieving a common goal, the result is innovation. The author quotes the instance of Ada Lovelace, daughter of the famed poet Lord Byron, and her collaboration with Charles Babbage which gave birth to the world's first computer, the differential engine. In fact, Ada Lovelace, wrote the very first algorithm for computing Bernoulli numbers making her the world's first computer programmer. The author further elaborates on the contributions of women by introducing us to Grace Hopper, Jean Jennnings, France Bilas and Betty Snyder—four brilliant computer programmers who put their skills to best use during World War II.

> "But the main lesson to draw from the birth of computers is that innovation is usually a group effort, involving collaboration between visionaries and engineers, and that creativity comes from drawing on many sources. Only in storybooks do inventions come like a thunderbolt, or a light bulb popping out of the head of a lone individual in a basement or garret or garage."

The author lists the three essential ingredients for innovation – a remarkable idea, execution and business mind. He drums home his point by going to the lives of inventors who had the former two and not the latter resulting in their contributions being restricted to history museums or lengthy patent disputes as it happened in the case of Mauchly and Atanasoff. The former went on produce the world's first fully electronic computer, ENIAC; while Atanasoff's invention languished in the basement and he got his limelight only in 1971 when a judge ruled in favor of Atanasoff for invention of the computer.

> "When part of this ecosystem was lacking, such as for John Atanasoff at Iowa State or Charles Babbage in the shed behind his London home, great concepts ended up being consigned to history's basement. And when great teams lacked passionate visionaries, such as Penn after Mauchly and Eckert left, Princeton after von Neumann, or Bell Labs after Shockley, innovation slowly withered."

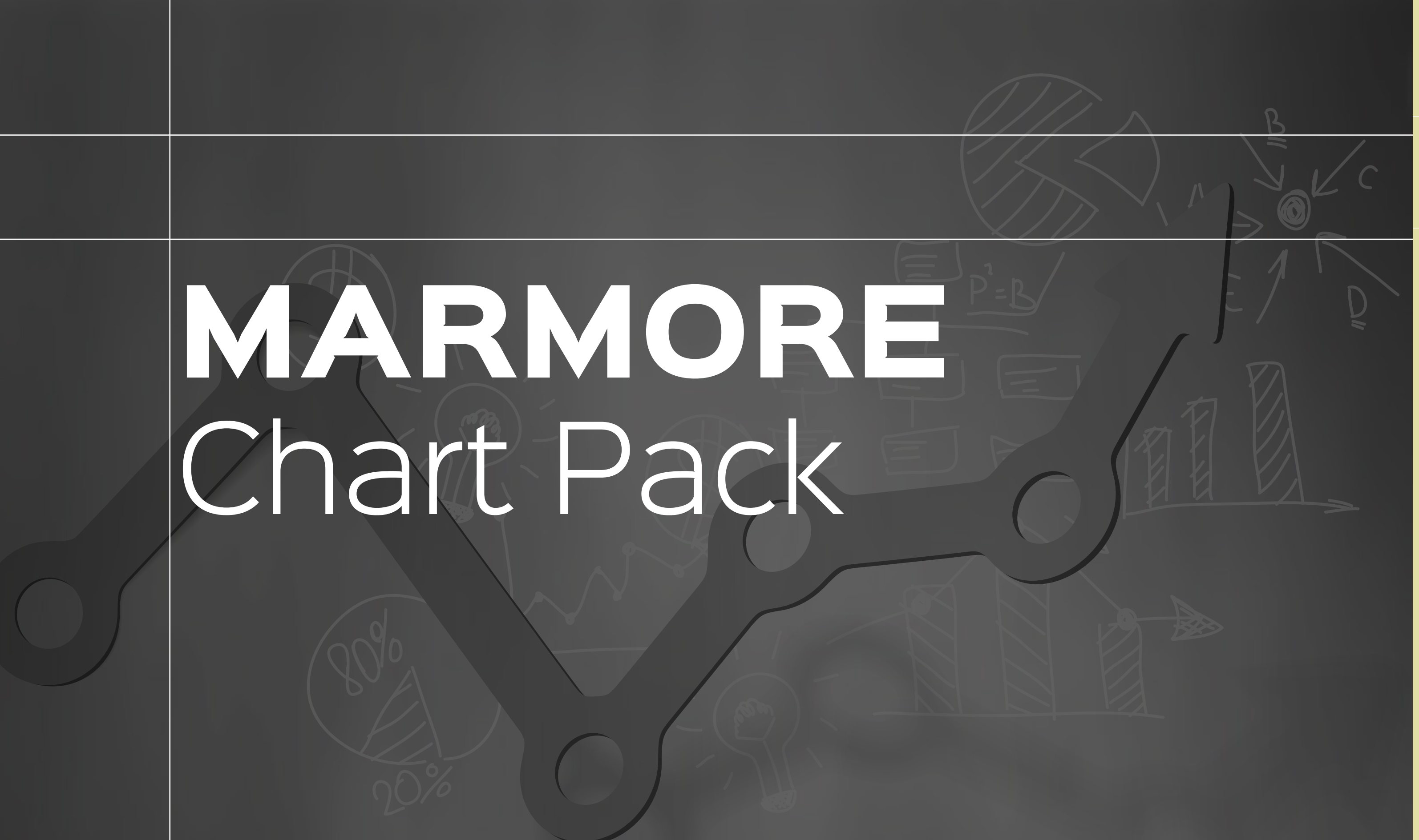
The emphasis in this book is repeatedly on how teamwork is necessary for innovation to sparkle and this remains a key take away for companies looking forward to inspire their employees.

> "The tale of their teamwork is important because we don't often focus on how central that skill is to innovation."

MENA DATA AT A GLANCE

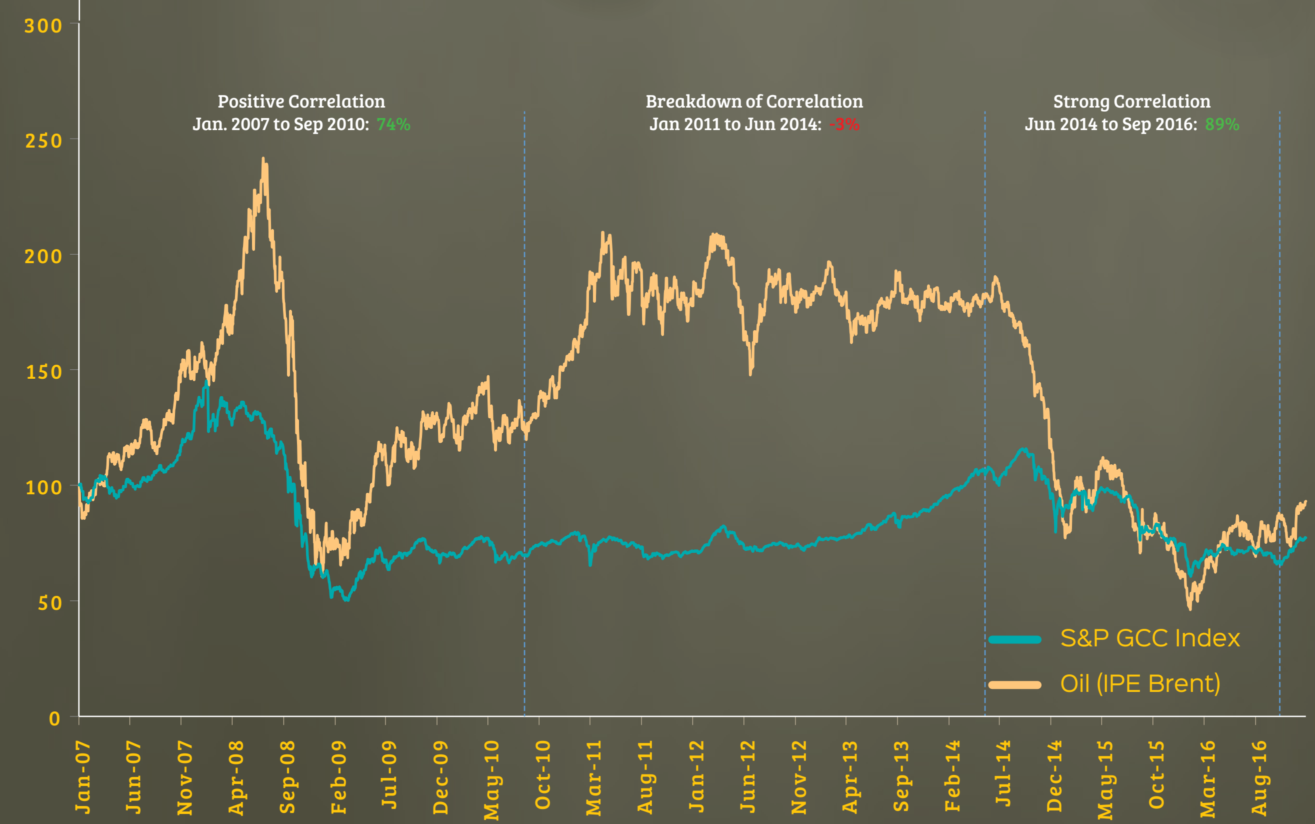
S. No.	Particulars	KSA	Kuwait	UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
1	Nominal GDP (USD bn) (2017f)	672	124	397	177	75	34	350	42	114
2	Real GDP Growth (%) (2017f)	-0.6	2.4	2.8	3.3	2.0	2.0	3.3	4.0	4.1
3	Share of Hydrocarbon GDP (as % of total Nominal GDP) (2017f)	26.3%	40.0%	20.2%	35.7%	34.4%	12.8%	N/A	N/A	N/A
4	Hydrocarbon Revenues (as % of total Governmental Revenues) (2017f)	67.1%	66.1%	53.8%	36.9%	70.1%	73.9%	N/A	N/A	N/A
5	Fiscal Surplus as a % of GDP (2017f)	-8.8%	1.1%	-2.4%	-4.4%	-8.9%	-10.3%	-9.7%	-2.5%	-3.2%
6	Fiscal Breakeven Oil Price (2017f) USD/bbl	77.7	47.7	60	63.4	79.4	92.3	N/A	N/A	N/A
7	Crude Oil Price (Q4 2016) USD/bbl	56.82	56.82	56.82	56.82	56.82	56.82	56.82	56.82	56.82
8	Crude Oil Reserves (End Q4 2015) billion barrels	266.46	101.50	97.80	25.24	5.15	0.12	4.40	0.00	0.00
9	Current Account as a % of GDP (2017f)	-1.6%	-1.6%	4.1%	-2.2%	-9.1%	-0.7%	-4.9%	-7.3%	-2.3%
10	Inflation (%) (2017f), CPI average	2.8%	2.5%	2.9%	1.7%	2.8%	2.7%	17.4%	2.8%	1.5%
11	Population (2017f) in million	32.94	4.53	9.74	2.65	4.50	1.45	89.00	9.53	33.96
12	Unemployment Rate (%) (2017f)	12.0%	2.60%	N/A	0.30%	N/A	N/A	12.7%	13.1%	9.8%
13	Market Cap (Q4 2016) (USD bn)	449	92	203	133	17	19	33	22	57
14	Stock Market Performance (2016)	4.3%	Kuwait Weighted Index: -0.4%	Abu Dhabi index: 5.6% Dubai Index: 12.1%	0.1%	7.0%	0.4%	72.7%	-3.8%	30.5%
15	P/E (Q4 2016)	15	16	ADX-10.8, DFMGi-9.3	15	10	10	8	14	20
16	Ease of Doing Business Rank (Global - 2016)	94	102	26	83	70	66	122	118	68
17	Starting a Business Rank (Global- 2016)	147	173	53	91	149	32	39	106	40
18	Global Competitiveness Index (GCI) Rank (2016-2017)	29	38	16	18	66	48	115	63	70
19	GCI Infrastructure Rank (2016-2017)	31	52	4	18	38	32	96	56	58
20	GCI Health & Primary Education Rank (2016-2017)	51	76	40	27	69	34	89	80	77
21	GCI Higher Education & Training Rank (2016-2017)	46	94	34	30	85	44	112	51	104
22	GCI Innovation Rank (2016-2017)	36	79	21	18	69	42	111	39	86
23	Corruption Perceptions Index (2015, Rankings)	48	55	23	22	60	50	88	45	88

Source: IIF, IMF, Zawya, Reuters, EIA, World Bank, World Economic Forum, Transparency International



MARMORE
Chart Pack

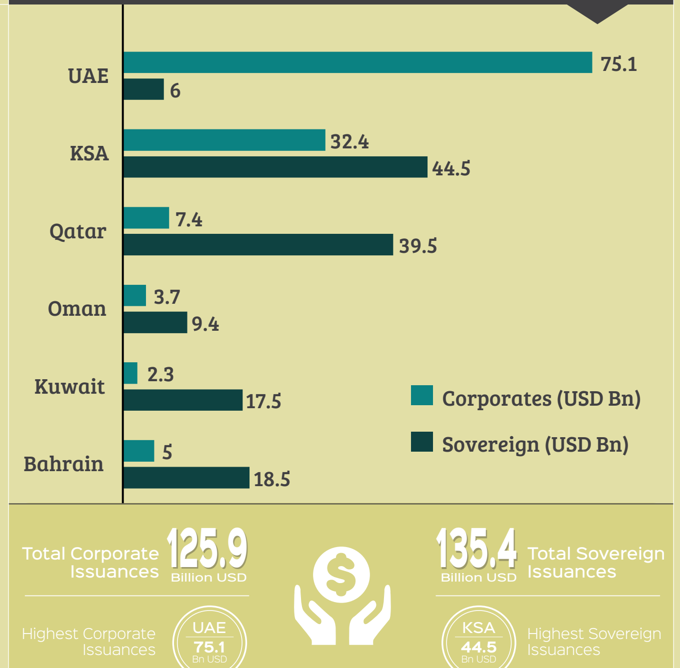
Correlation between S&P GCC Index and Oil (IPE Brent)



Source: Reuters Eikon, Markaz Research

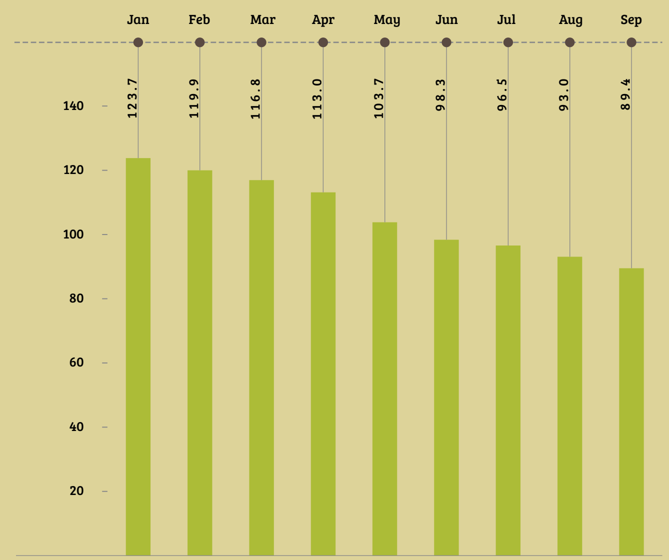
Note: Oil prices & S&P GCC Index have been re-based to 100 as of Jan, 2007. Correlation based on daily price data is computed

Corporate, Sovereign Issuances: Bonds and Sukuk (2011 – 2016)



Source: Reuters,
For Kuwait – Sovereign issuances includes bond issuances of Central Bank of Kuwait and Quasi-Sovereign issuances

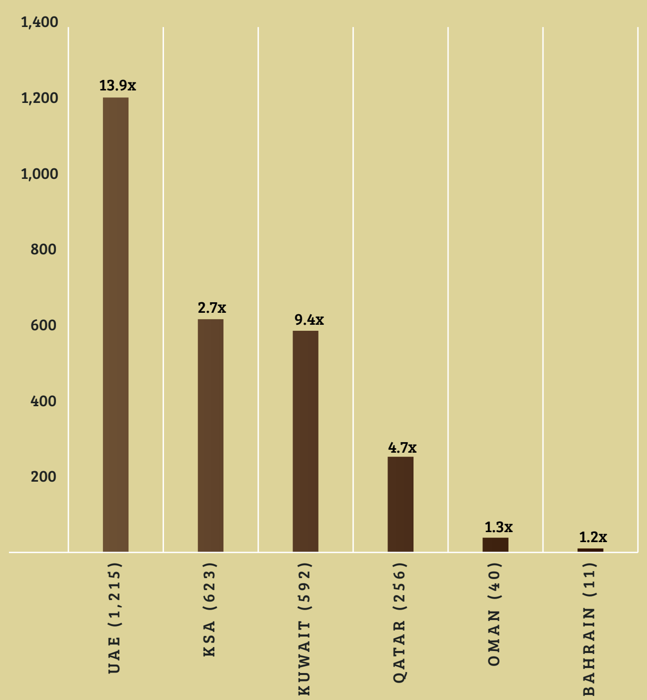
KSA Holdings of US Treasuries



2016 (In USD Billion)

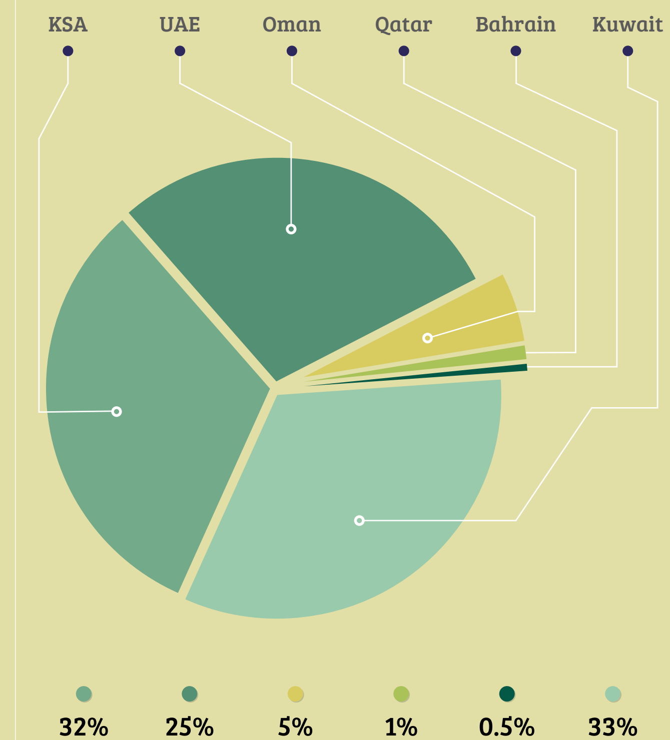
Source: US Department of Treasury

Fiscal Buffers (USD bn) & Expenditure Coverage



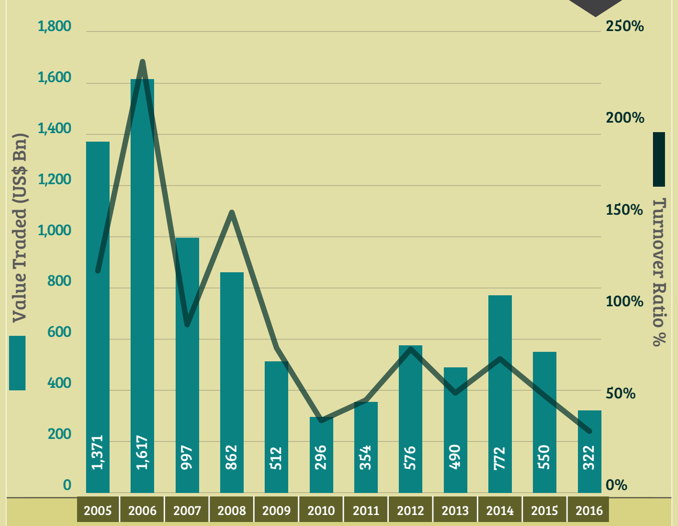
Source: *SWF Institute, Marmore Research*
Note: *Expenditure coverage computed as ratio of current reserves to budgeted expenditures in 2016*

GCC Investments in US June 2015 (USD Bn)



Source: US Department of Treasury

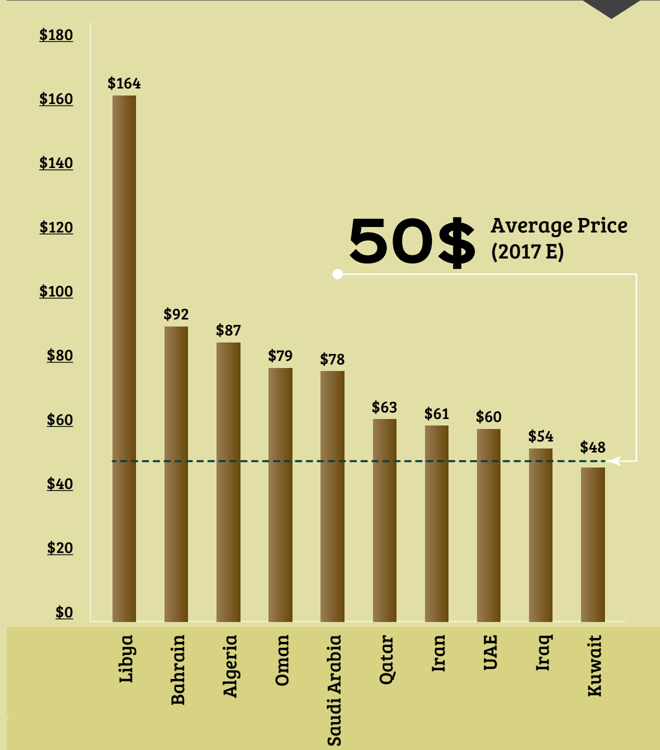
GCC Value Traded and Turnover Ratio (2005 - 2016)



Value Traded in 2006 Billion USD **1617** **235%** Turnover Ratio in 2006

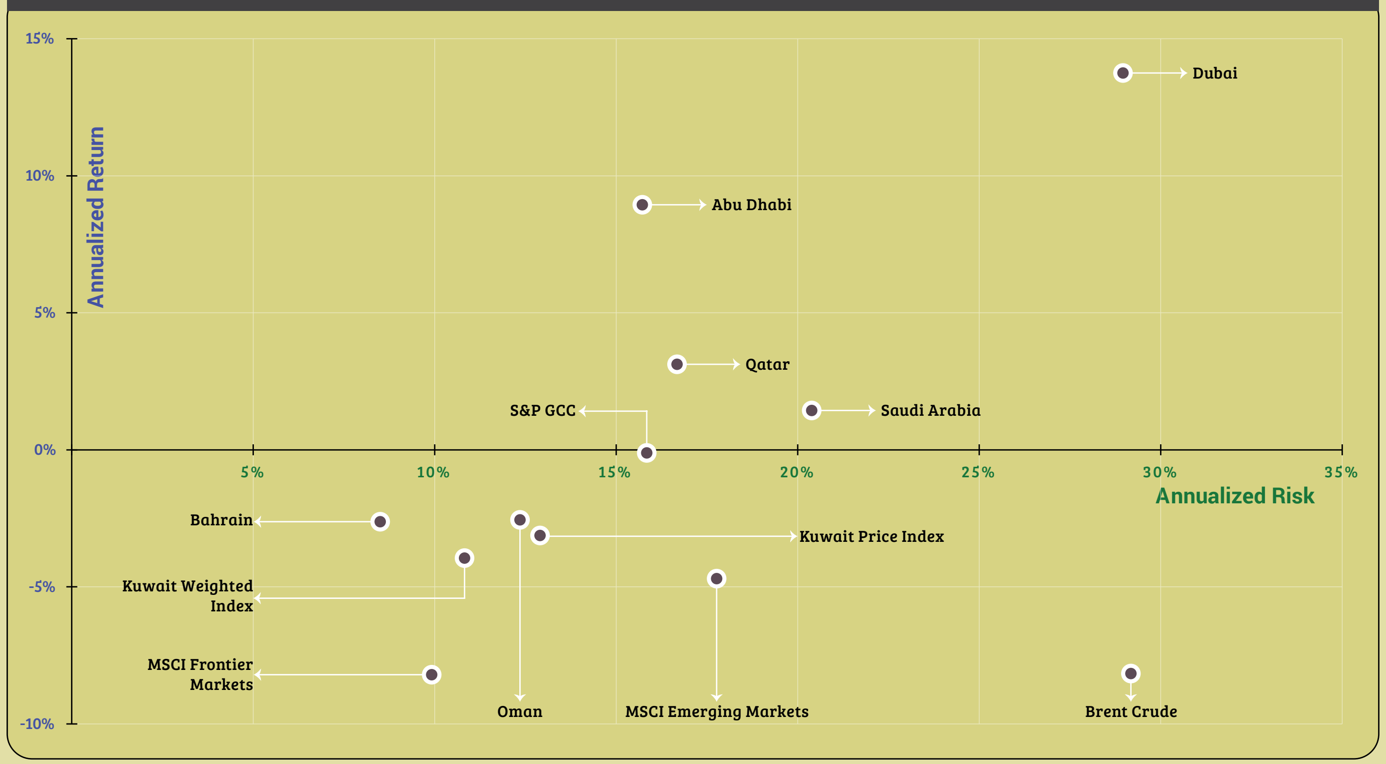
Source: Zawya

OPEC Fiscal Break Even Price (2017)



Source: IMF Regional Outlook, October 2016

Risk Return Graph (2011 - 2016)



Source: Reuters Eikon, Markaz Research