MARMORE
MENA INTELLIGENCE

MARMORE BULLETIN

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KUWAIT Remittance INDUSTRY

P14

NO MORE EASY BUSINESS

GULF BOND ISSUES

P16

WHAT'S FUELLING THE APPETITE?

GCC Corporate Earnings

P20

HOW HAVE THEY FARED?

FEATURED INTERVIEW

P04

MANAF A. ALHAJERI
Chief Executive Officer,
Kuwait Financial Centre "Markaz"

Expert Speaks

P10

Dr. R. Seetharaman
CEO, Doha Bank

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CONTENT

P16

What's fuelling appetite for
Gulf bond issues?

P04 **Featured Interview**

Manaf A. Alhajeri
Chief Executive Officer,
Kuwait Financial Centre "Markaz"

P14

Kuwait Remittance Industry
No More An Easy Business

FOREWORD

MR RAGHU
Managing Director
Marmore MENA Intelligence

Innovation is vital for enhancing Kuwait's sustainable prosperity. In keeping with that theme, this edition of Marmore Bulletin opens with an interview of Mr. Manaf Al-Hajeri Chief Executive Officer (CEO), Kuwait Financial Centre "Markaz". Mr. Manaf shares his views on how to use knowledge effectively in terms of bringing about desired outcomes across both the private and the public sectors.

This edition also features Dr. R. Seetharaman, CEO of Doha Bank, as part of the Expert Speaks column. Dr. Seetharaman shares his insights on the Qatari banking sector, especially in the light of the latest regional developments. Also, he gives us a deeper view on how Doha Bank intends to sustain its innovative streak and international growth.

As part of capturing evidence on how various technological trends are impacting specific industries, the Kuwait Remittance Industry is analyzed in terms of its successes, strengths and the gathering threats.

In recent times, the GCC is witnessing renewed interest and surge in bond issues. Our snapshot on the development allows one to take a granular peek at the trend and the potential ramifications for the larger economic picture. Meanwhile, the subsequent GCC Corporate Earnings section provides the review of the earnings scenario for listed companies in the GCC region .

The Book Review section will leave one with much to cheer in terms of its emphasis on how a change in perspective is all that is needed to catch a ray of optimism towards success. Closing off, the edition's Marmore Chart Pack will provide regular update on key metrics and indicators from across the region. Thank you and we look forward towards your continuing patronage.

FEATURED INTERVIEW with

Manaf A. Alhajeri

Chief Executive Officer,
Kuwait Financial Centre "Markaz"

A successful transition from the Frontier Market to the Emerging Market requires Kuwait to continuously develop and innovate financial markets. This will also provide the platform to one day emerge within the Developed Market but until then, we should expect to experience continued volatility across our home equity and debt capital markets.

Q: Please reflect on Kuwait's unique assets with respect to why it is suitable for promoting economic innovation?

Kuwait is a relatively young country, which has been there for a little more than three centuries. However, our roots go way beyond that as a part of the Arabian peninsula which dates back to ancient civilizations and define our cultural diversity.

The Kuwait of today is a country that is recognized internationally for being one of the largest exporters of oil worldwide. Kuwait's evolution first started in the 1930's when oil was discovered and in the 1940's and 1950's when the city of Kuwait was planned with a modern layout. During the early 1960's we had our independence and the constitution was written, resulting in the creation of the Kuwaiti parliament. Since then, the state has developed another priceless asset, democracy.

Free speech, expression of ideas, accountability and transparency form the guiding principles for the people of Kuwait, attributes that have been guarded over the years. These have also manifested themselves in various aspects of our daily lives whether it is the parliament of Kuwait, education, technology, sports or governance at the corporate board level. It is a country that is highly outspoken and everywhere you go people are forthright, expressing themselves with passion and creativity. These distinct cultural characteristics act as a cornerstone for a stable country governed by specialized institutions, which gives the State an advantage when it comes to the rule of law and enforcement of contracts. These are very crucial elements to attract foreign investors who look for an environment where their rights could be protected by the law.

Q: Please elaborate on the main regional business trends, and how they will impact Kuwait's economy. Also, comment on Markaz's strategy in line with that.

Our economy is largely reliant on government spending and capital expenditure on PPP projects that are mainly executed by international contractors as opposed to involving local EPC companies. This, unfortunately, has not allowed transferable skills and operating experience to build within Kuwaiti management teams and professionals. A fresh approach is required based on the developmental requirements of the country and only by adopting this can Kuwait transition successfully to emerging markets and eventually developed markets. Until then we will continue to see a degree of volatility in our capital markets. Markaz has continuously innovated within the market and pioneered many investment products since its establishment in 1974. For example, Markaz established the first domestic mutual fund in Kuwait (Mumtaz) and the first money market fund (Idikhar) in 1999. If you look at the options trading platform, which Markaz introduced through Forsa Financial Fund, we structured a system that would create call options, the first in the Middle East. The fund was publicly traded on the stock market and very popular, even among retail investors.

The real estate funds, which distribute income on a consistent basis, are another success story. Markaz manages one of the best-performing and largest real estate funds in Kuwait, Markaz Real Estate Fund (MREF) with KD 80 million (USD 270 million). Over the last few years, there has been a lot of renewed interest in stable financial instruments that distribute steady income. Markaz has an innovative and successful distribution partnership with Gulf Bank of Kuwait and Ahli Bank of Kuwait for these products. Overall, our strong internal systems and controls have enabled the effective structuring, operations and distribution of not just our REITs, but all our mutual funds.

Q: Please reflect on Markaz efforts to consistently outperform the relevant benchmarks on its equity funds and managed portfolios.

Markaz has an interesting structure as a financial institution spanning both investment banking and asset management. Our organization encompasses a diverse set of profit centers and asset classes, with most of them delivering a proven and strong track record of financial returns.

Markaz is very well known for real estate both within the GCC and in international markets such as Europe and US where we have had a presence since the 1980's. Within Kuwait, Markaz continues to manage part of the National Real Estate portfolio, owned by the Kuwait Investment Authority (KIA), with a maximum value of KD 250 million. We are also well known within the GCC for international equities with a top down approach of asset allocation. Selected managers invest on behalf of our clients with strategies that diversify industry and geographic risks in order to optimize financial returns.

The diversity of Markaz's profit centers has emerged from our knowledge and operating experience in the GCC, international equities and real estate. This multiplicity of asset classes has helped us navigate through the recent volatile environment of oil prices and geopolitical challenges. Every year we reposition ourselves in context of dynamic market conditions to identify the best opportunities possible for our clients and our principle investments.

Q: Markaz recently achieved the Global Finance 'Best Investment Bank Award – 2018'. Please explain how did Markaz achieve this?

Investment banking is a core and a long established part of Markaz, with an outstanding track record of successful execution. From a capital markets perspective, we advise companies on the initial listing and offering of equity, convertible and debt securities and then on subsequent follow on offerings over time. This allows our clients to align their capital structures to match their long term strategic objectives. From an advisory perspective, providing advice on mergers and acquisitions and restructurings are key service offerings to companies and family offices. The acquisition of majority positions or minority investments enable corporates to derive future growth plans, while restructurings and disposals often allow over levered balance sheets to be realigned. The ultimate objective of our investment banking business is to optimize value for our client's shareholders.

Markaz has been presented with the Global Finance 'Best Investment Bank Award – 2018' based on series of criteria including market share, number and size of deals, quality of service and advice, structuring capabilities, innovation, pricing, after-market performance of underwritings and overall market reputation.

Over the years, we have received many awards from other prestigious organizations including Euromoney, Global Investor Magazine and Banker Middle East, not just for investment banking but also our asset management business. However, the most treasured prize is that of the trust of our clients and partners. An example of this is the fact that Markaz is the only company that manages portfolios of the KIA in both equity and real estate, as opposed to one of those asset classes or the other. This clearly represents a high degree of confidence in Markaz' ability to deliver results within an environment of business trust and ethics.

Q: How is Markaz supporting the creation of an entrepreneurial frame of mind in Kuwait?

One of the key pillars of successful entrepreneurship is knowledge and we as an organization are very much known to be research driven. This fundamental approach has always been part of the DNA of Markaz. Over the years, we have realized that there is tremendous appetite in Kuwait and the broader region generally for useful information from which to base business decisions

As a result of this mindset, we created a subsidiary called Marmore, a research and data company based in Chennai, India. When Marmore was launched, our primary focus was on capital markets linked research but we quickly realized that our clients' requirements spanned across multiple industries and sectors. With enquiries from our clients asking for our opinion on such diverse topics, we decided to build and expand our research capabilities to cater for these broader client needs.

Today, Marmore's research and consulting platform extends beyond the corporate world with assignments that have shaped Kuwait's SME policies, the direction of the Supreme Council for Planning and Development and other leading institutions. We have also forged exciting alliances both in Kuwait and overseas that speak to the broader concerns of economic diversification, including support for SMEs.

Q: What practical steps will be feasible for SME's development in Kuwait?

Markaz is proud to be associated with the Kuwait Foundation for the Advancement of Science (KFAS) on many strategic policy initiatives and in particular with regards to the SME knowledge economy. For example, Marmore has played an important role in oil and gas policy research through its collaboration with IFRI, the internationally renowned French think tank that is well known for energy and policy studies as well as geopolitical analysis.

Although it has taken more time than expected, we are now starting to see the oil and gas industry open up to the private sector with Kuwaiti companies being increasingly active. However, we do believe there are tremendous opportunities not only for the private sector in general but also for entrepreneurs to contribute to the oil and gas sector. Unless greater access is provided to entrepreneurs, they will continue to focus on operating in micro projects in for example the consumer retail sector.

Q: How can international collaborations support economic innovation and diversification in Kuwait?

As a country we need to actively build on the basic business model of import-export and create partnerships that create long lasting value. Markaz has succeeded in building many such partnerships, but we are particularly proud of what we have achieved with General Electric under the new KDIPA law. In the first year of KDIPA, we partnered with General Electric to create the first simulation center for power turbines that would not only be sold to the Ministry of Electricity of Kuwait but also to neighboring countries. The resulting GE Kuwait Technology Center (GEKTC) has now been established as a regional center of excellence that attracts professional trainees from across the region's power sectors.

In the near future, Kuwait needs to cultivate more partnerships similar to the GEKTC initiative through KDIPA, which play an exciting role in facilitating the integration of international firms in Kuwait. During the Kuwait Investment Forum 2018, many high profile companies attended and generated interesting opportunities for international companies to consider having a presence in Kuwait. This would also facilitate a greater alignment of strategic interests across borders and encourage economic innovation in Kuwait.

Q: What challenges do you think investors in Kuwait might have to factor or contend with?

There are two main challenges associated with the deal flow of infrastructure projects. Firstly, the size of projects that are coming to the market are relatively small to attract foreign investors.

Secondly, given the complexity of the projects, the implementation process timelines tend to extend over years and progress can be uncertain especially during periods of oil price volatility.

At times, Kuwaiti stakeholders tend to assign greater importance to the international community rather than the local participants who also have a key role to play. Without the local commitment to projects, overall funding would be negatively impacted as foreign capital funding is closely and understandably linked to Kuwaiti investment appetite. Tremendous funding resources do exist within Kuwait and together with the strong fiscal position of the government, provide a viable platform for investors seeking to deploy capital in the country. The strategic vision for Kuwait has been clearly defined but the challenge remains in the execution.

Expert Speaks

__Dr. R. Seetharaman,__ CEO of Doha Bank shares his views on Qatar banking sector, recent political crisis and it's impact on Qatari banks.

Q: Has the straining of diplomatic relations between Qatar and some nations in the region affected the prospects of Qatari banks? Has the system been able to recover from the initial outflows?

Recently Fitch Ratings has revised the Outlooks of all nine rated Qatari banks to Stable from Negative. This action follows the revision of the Qatari sovereign's Outlook to Stable from Negative and affirmation of the country's Long-Term IDR at 'AA-' and reflects Fitch's view that Qatar has successfully managed the economic blockade. Public sector liquidity injections have stabilised the banking sector and stemmed the outflow of non-domestic funding which happened immediately after the blockade. Qatar's banking system needs no further support from the central bank and sovereign wealth fund as the decline in non-resident liabilities of lenders have subsided, according to the International Monetary Fund (IMF).

Q: At the peak of the crisis, what was the impact on Qatari banks in terms of capitalization levels, private sector credit growth and non-resident deposits?

The private sector credit growth was close to 1% YTD till June 2017. Qatar's Net International Reserves dropped 30% in June and we noticed minor fluctuations in Local and foreign currency deposits immediately after the crisis. However by end of 2017 Qatar Banking Sector had an overall deposit growth more than 13%.

Q: How is the implementation of IFRS 9 shaping the Qatari banking eco-system?

Qatari Banks compliance with IFRS 9 has been reflected in the first quarter financials of 2018. IFRS 9 has enabled banks to realign their business models focusing on capital planning, provisioning, pricing and product mix evaluation, leading to more prudent lending and investing.

> Qatar's banking system needs no further support from the central bank and sovereign wealth fund as the decline in non-resident liabilities of lenders have subsided, according to the International Monetary Fund (IMF).

Q: Qatar's central bank relaxed a cap on bank loans exceeding deposits (introduced in 2014) and reportedly plans to change the definition of deposits to include long-term debt instruments. What long-term impact will this have?

This is a positive development since the Banks will migrate towards long term funding sources in the form of debt instruments, it would also reduce the Asset- Liability maturity gap and improve the cash flow predictability for the Banks in general. As a consequence the cost of deposits may reduce due to reduction in the volatility of the short term funds.

Q: How are Qatari banks leveraging disruptive trends like Fintech, Internet of Things (IoT), block chain, artificial intelligence (AI), etc.?

QCB's had launched new strategy would need to ensure that fintech firms are enhancing the financial system. Block chain has mainly potential in cross border payments and some of the Qatari Banks are exploring the same.

Q: The explosive growth in digital finance like payments and peer-to-peer lending has brought renewed attention to Cryptocurrencies. What is your opinion on this unconventional asset class that defies strict definitions?

Cryptocurrencies can play a role in digital segment however it has to be regulated. In Qatar the central bank explained that in order to ensure the safety of the financial and banking system, all banks operating in the country are not allowed to deal in any way with this currency or exchange it with any other, or open accounts to deal with it or send or receive any money transfers for the purpose of buying or selling this currency.

Q: The banking world will have to be ready for a transformation of its human capital in light of the massive changes sweeping the sector. Are you re-evaluating the competency frameworks of your human capital?

Doha Bank is evaluating the technology trends coming up in the Banking sector as part of its change management and transformation program and the impact on intellectual capital is also part of this framework.

Q: Doha Bank is cited in Qatari media as playing an important role in Qatar's financial inclusion programs especially in terms of supporting the SME sector. Can you speak about your experiences on the subject?

The government in Qatar had played a significant role in supporting and promoting SMEs by way of mandating institutions such as Qatar Development Bank and through them launching a specialised credit guarantee program under their indirect lending program, called 'Al-Dhameen', which encourages commercial banks in Qatar to lend financial support to Qatari SME by way of guaranteeing 75% -85% of the principal outstanding to new as well as existing entities. Doha Bank was one of the earliest signatories to this program and we have made major progress in promoting startups through this program. This program has helped SMEs overcome the obstacles usually faced by startups such as lack of capital, lack of collateral security and absence of a financial history. Doha Bank's Tatweer provided financing, credit and debit cards, trade finance and electronic banking for its SME customers. We will also take into consideration the Qatar Central Bank's financial inclusion strategy and see how we can fit into the same.

Q: Your recent branch openings in India and reports of such developments afoot in Canada have found space in the media. What is behind this strategy of expansion into markets like India and Canada?

Doha Bank will leverage on Qatar- India bilateral relationships and global footprint to provide solutions to its customers from Chennai branch. The Chennai branch, India will enhance synergies amongst Qatar, India and Doha Bank Global network. Canada can play a vital role in Qatar's diversification.

No More Easy Business

Kuwait Remittance Industry

Money exchange business in Kuwait dates back to 1942 and since then the industry has grown to be a $16 billion dollar industry with more than 40 players. Marmore estimates the industry size to grow to $17 billion by 2020. This is not surprising given the large expat population (70% of the total population) mainly from India, Egypt, Pakistan, Bangladesh and Philippines. Restrictions on what foreigners can own and invest in, crowds out investment opportunities for expatriates in Kuwait. Thus, expats are more inclined to repatriate funds to their respective home countries for investments than explore opportunities for local investments.

While the going has been good for the industry, the growing remittance out of the country is a serious draw on the current account balances of Kuwait. Kuwait is now among the top 10 countries in terms of remittance outflows. There is a perception that it is a leakage of wealth and hence should be brought down.

In what was considered a simple and growing business is now facing some obstacles. The business is prone to volatility in line with oil price and this induces uncertainty in terms of predicting future business growth. For e.g., the remittance grew by an annualized rate of 14% between 2010 and 2013 (on the back of strong oil price), however the growth turned negative during 2014, thanks to a falling oil price.

But the most important obstacle is the talk about imposing a tax on remittance hoping that this will bring down the overall money remitted out of Kuwait. The Parliamentary Committee of Kuwait has approved bills for imposing tax on remittance of expatriates based on their income level. Upon approval of the Kuwait government, it could become a law, making Kuwait the first in the GCC region to impose remittance tax. Such a tax dissuades knowledge workers from pursuing a longer stint in Kuwait, creating a shortfall in supply of high skilled talents. This could be counterproductive for Kuwait, as it plans to transform itself into a Knowledge based economy. The impact will also be felt by businesses operating in Kuwait in the form of higher salaries and wages to avail expat services. While there is divided opinion as to whether the remittance tax will be a reality, the fact that it is being actively debated induces another element of uncertainty into the business model of the industry.

A non-contentious way of reducing remittance is to bring down the share of foreign labour in the total population. However, the need to augment non-oil GDP growth and rapid urbanization will necessitate large-scale investment in infrastructure, which in turn will only increase the need for foreign labour than reducing them. This should be positive for the remittance industry provided the government-spending trend plays out as expected. Adoption of technology in building construction and other areas can reduce foreign labour, which can be negative for the industry.

The competition from banks also poses a threat to money exchange companies. Given the growing size of the remittance business in Kuwait, it is not surprising that it has caught the interest of banks. Banks have developed their own facilities to tap the market – frequently in the form of a dedicated remittance arm.

While the gross remittances are growing, the profitability has declined over the years due to intense competition and cost pressures.

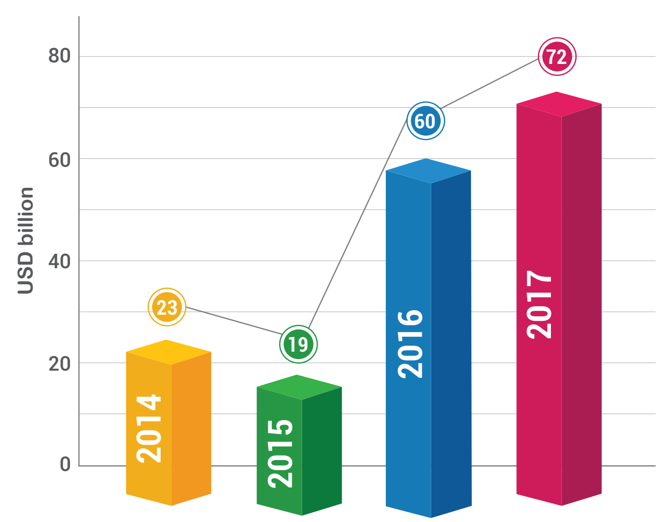
In summary, oil price volatility, threat of remittance tax, pressure to reduce foreign labor, and competition from banks will test the endurance of this age old industry. However, the need for rapid economic growth and infrastructure spending will spell hope. Thus, while it will be a growth industry, it will no more be an easy business.

Gulf Bond Issues

What's fuelling appetite for Gulf Bond issues?

The bond market in the GCC region saw bond issuances to the tune of USD 70 bn, an all-time high issued amount in the year 2017[1]. The first quarter of 2018 has already seen issuances worth USD 16.8 bn, mostly by Oman (39% approx) and Qatar National Bank (22% approx.). Oman has managed to sell its largest ever sovereign bond worth USD 6.5 bn in face of multiple downgrades in credit ratings from companies like Moody's and Fitch in 2018. All of these show that although there exist certain challenges for GCC bonds, there is a growing demand for them from investors across emerging and developed markets. With the expectation that 2018 will also see a strong issuance of bonds, let us look at some of the reasons that are fuelling the appetite for Gulf bonds in the bond market.

GCC USD Issuances



Source: ENBD AM, Bloomberg
Note: Includes issuances of USD 250 mn and above. Contains both sovereign and corporate issuances

[1] https://www.thenational.ae/business/markets/strong-appetite-for-gcc-credit-forecast-for-2018-1.699843

INCREASED INTEREST FROM FOREIGN INVESTORS

GCC bond markets have seen a surge in foreign investment in the last two years. More than 75% of the issued bonds (mainly the sovereign bonds) in 2017 were comfortably absorbed by non-GCC investors. This can be seen when a USD 750 mn bond issued by National Bank of Kuwait had 57% as U.S. investors, followed by 26% Middle East investors, 13% European and 4% Asian investors in May, 2017. This is in stark contrast when the same bank issued an USD 700 mn bond which had 43% as Middle East investors and only 2% as U.S. investors in 2015. The Oman bond also saw 93% of investors as non-GCC. Investors who couldn't avail sovereign bonds due to non-availability caused by increased demand, subscribed to bonds issued by the regional banks and corporate issuers. This increase in investment is backed by improved macro fundamentals in the region supported by the gradual increase in the oil price, translating into improved credit profiles of local companies (Jebel Ali Free Zone was upgraded from B2 to B1, Dubai Electricity and Water Authority was upgraded to a stable outlook with a Baa3 rating) and government.

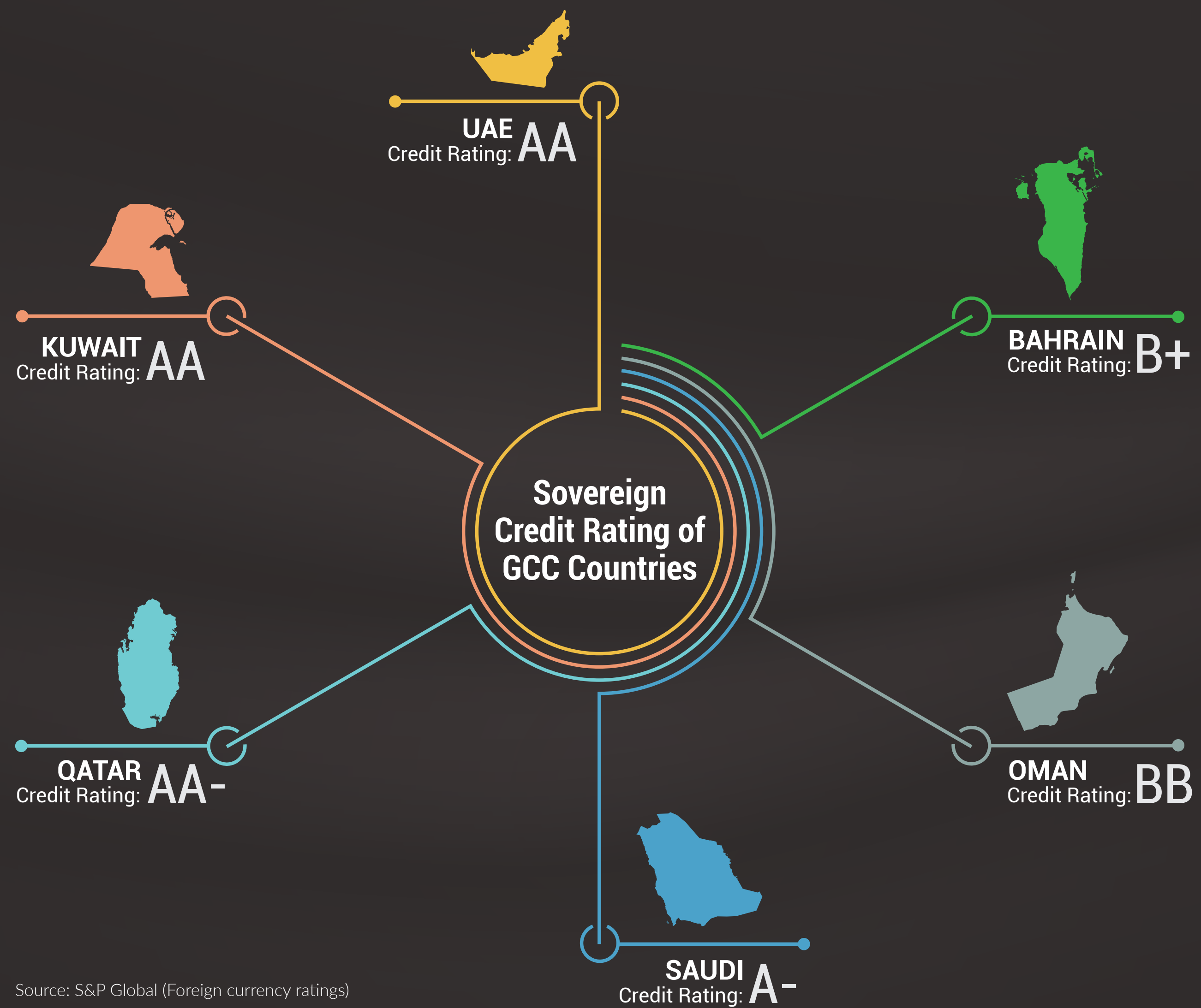
IMPRESSIVE PERFORMANCE BY GCC BONDS

With an approximate 12% share in Bloomberg Emerging Market Investment Grade Bond Index, GCC bonds have occupied centre stage in the debt market landscape. Stable credit profiles, low debt levels and rising oil prices have increased the appetite for GCC bonds. Further, the bonds are priced attractively with yields that are higher than that of their similarly rated peers. For instance, Saudi Arabia 30yr bond maturing in 2047 yields 30bps higher at 5.07% than Indonesian bond (30yr, 4.78%) which has a lower credit profile compared to KSA[2]. Similarly, Qatar debt due in 2028 has a yield of 4.45% as compared to 4.15% compared to a Mexico bond with same maturity period and having a lower rating compared to Qatar[3]. The region also offers a mix of credit rating for wider investment opportunities – from 'AA' rating of Kuwait and Abu Dhabi to 'BBB-'of Oman. One primary reason for higher yield is due to the risk premium associated with the GCC bonds for heightened political risk. Among major developed economies like Europe (almost 60% of sovereign bonds) and Japan[4] have negative yields and investors are looking for bonds with positive yields, which is driving the demand for GCC bonds. Benchmark eligibility has also contributed to higher performance of the bond.

US RATE HIKE

With the U.S. fed signalling that they would raise interest rate three times in 2018, governments and corporates in the GCC will be looking down to take advantage of the current lower interest rates by issuing more number of bonds in the market. If there is a rate hike, the central banks of the region will be under pressure to raise interest rates. This will raise the yield rate of the bonds. The issuers will like to lock down the borrowing cost at the current rate which will benefit them greatly and hence they are likely to increase the issuance of bonds as soon as possible to raise capital in order to fulfill their current and future capital requirement.

[2,3] https://businessweekme.com/2018/04/19/bonds-gulf-safe-place-hide/
[4] https://www.investing.com/rates-bonds



Source: S&P Global (Foreign currency ratings)

IMPROVED STRUCTURAL REFORMS

For sometimes now, GCC countries have begun implementing structural reforms. Some of these changes include developing independent regulatory, statistical, budgeting and auditing bodies for public sectors. Increased transparency and accountability with trade liberalization and prudent principles for public debt management and creating an environment that shall facilitate ease of doing business. This will lead to increased investor confidence in the regional bond market. This will also bring about a wide range of economic benefits that would ultimately result in better credit ratings and translate to lower cost of borrowing for the issuers.

A recent milestone achieved to develop domestic debt market, is the listing of more than 200 bn riyals of government and sukuk bonds in the stock market by KSA. This will help in the secondary bond market, bridge fiscal deficit for the country and reduce reliance on banks for debt. It will also help in making transparent benchmark prices for bonds in KSA.

STABLE CDS SPREAD

With most countries in GCC having a decreasing or stable CDS, the outlook on bond market looks positive. A stable CDS spread shows that the investors are focusing more on the positives in the market including the rise in oil price, increased interest by foreign investors and diversification in non-oil economies instead of risks associated with GCC bonds especially the geopolitical ones. This somewhat compensates for the increase in the interest rates.

CONCLUSION

Factors such as increased foreign investment, impressive performance by bonds and improved structural reforms augur well for strong interest and surging investor appetite for bond issuance from the GCC region. However, there are certain concerns that might impede the growth of issuances. Primary among them is the absence of regional harmony which has increased credit market volatility. Embargo on Qatar and anti-corruption measures in KSA have caused shock, leading to widening of CDS spreads. Subsequent fed rate hikes by the U.S. would also pose as a headwind. While the bond market ended on a positive note in 2017, the above issues need to be addressed to continue the strong performance in 2018.

GCC Corporate Earnings

How have they fared?

GCC corporate earnings increased by 16% for the full year in 2017 compared to 2016. UAE, Kuwait and Saudi Arabia were the three countries in the GCC region to register positive earnings growth in 2017 growing by 62%, 10% and 9%, respectively. On account of low base effect, UAE posted a full year earnings growth of 62% in 2017. Saudi Arabia's earnings growth was largely helped by the positive momentum in its non-oil sectors, such as banking, telecommunications and utilities. Kuwait was largely helped by the positive performance in the commodities sector and its real estate sector.

On an aggregate basis, commodities, banking and construction related sector were top performers, with earnings growing at 29%, 9% and 6%, respectively. The recovery of the oil prices and improved interest margins helped the commodities and banking sector companies to post higher profitability. The improved profitability reported by the construction sector companies, can be attributed to lower base, as several companies reported losses during 2016.

Source: Reuters Eikon, Markaz Research

Saudi Arabia

Saudi Arabia witnessed 9% increase in its overall earnings during 2017 largely prompted by the earnings increase in its commodities and telecommunications sector. Saudi Arabia's commodities and telecom sector witnessed 28% and 23% increase in its earnings respectively in 2017 compared to 2016. The banking sector witnessed a 9% gain in earnings and all the banks in the country witnessed positive earnings growth during 2017 compared to 2016. Construction related and real estate sectors slumped on the back of a weak economic environment with negative sentiment impacting activity levels and sale prices. The construction industry was plagued by delayed cash cycle leading to significant losses and as a result the earnings fell by 59%.

UAE

UAE's overall earnings gained by 62% during 2017. In Q4, 2016 Abu Dhabi National Energy (Taqa) registered a loss of USD 4bn on account of impairment of assets which dragged the overall earnings for UAE in 2016 to USD 11.4bn. On account of low base effect, UAE's full year earnings improved substantially. UAE banks increased their earnings by 21% during 2017 while the other two major sectors of the economy – telecom and real estate posted 2% and 28% decline in earnings during the same period.

Kuwait

Kuwait witnessed 10% increase in earnings during 2017 compared to 2016. The improved earnings were supported by growth in the financial services, real estate and commodities sectors. Kuwait's banking sector witnessed 1% decline in its earnings during 2017 owing to marginal recovery in the credit growth. Telecommunications and construction sector, were other prominent sectors, which witnessed a decline of 2% and 6% respectively in 2017. The telecommunications sector's earnings declined from USD 788mn in 2016 to USD 769mn, while the constructions sector's reduced earnings was USD 211mn in 2017

Qatar

All of the Qatar's sectors with the exception of banking, utilities and commodities witnessed decline in their earnings during 2017. Banking, utilities and commodities witnessed a gain of 5%, 4% and 2%, respectively during 2017. The ongoing diplomatic crisis appears to have impacted the earnings across sectors. However, support from the government and recovery of oil prices shielded the banking and commodities sector profitability to some extent.

Looking Ahead

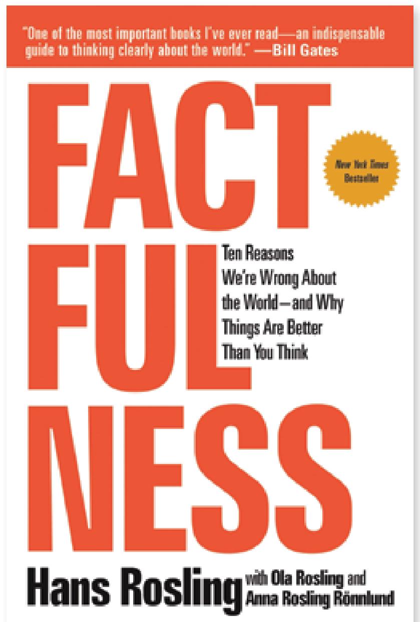
We expect GCC corporate earnings to expand by 4% in 2018 over 2017 and reach USD 69.4Bn by the end of the year. The GCC governments are set to embark on an expansion mode following a year of fiscal consolidation and several austerity measures. Economic heavyweights of the region – UAE and Saudi Arabia are expected to see their corporate earnings increase by 4% and 7%, while earnings in Kuwait are expected to remain flat at 1%. The earnings for Qatar and Oman are expected to expand by 3%, while, Bahrain contract by 1%, during 2018.

BookReview

Reviewed by:
Rajesh Dheenathayalan, CFA
Manager, Marmore

FACTFULNESS

By Hans Rosling



Ten Reasons We're Wrong About the World – and Why Things Are Better Than You Think

Humans have a tendency to overlook, disregard and often be bored with stories of everyday incremental progress. On the contrary, they have a disproportionate amount of focus on negative narratives for which the current media provides sufficient fodder. While, we are faced with problems such as terrorism, refugee crisis, crony capitalism, climate change and environmental concerns that are real dangers and warrants our attention. The feeling that things are often bad and more likely to get worse, as often portrayed in media, is misleading and has made most of us cynics.

"Most Western employees in large multinationals and financial institutions are still trying to operate according to a deeply rooted, outdated and distorted world view"

In Factfulness, Hans Rosling makes a compelling case that calls for radically revising our perceptions of the world. The book begins with 13 questions, multiple-choice types, which tests our understanding on various contemporary topics such as climate change, educational attainment, healthcare developments, population distribution and poverty levels. Apparently, the questions when posed to participants of the World Economic Forum (WEF), 2015 in Davos, comprising influential political and business leaders, academic researchers, U.N. officials and journalists fared worse than chimps. On an average, the scores were less than 33%.

"This ignorance is not an accident. Everyone seems to get the world devastatingly wrong. Not only devastatingly wrong, but systematically wrong"

The author reasons out that our brain is susceptible to misinformation and that we are hardwired to make swift decisions without much thinking. The book is devoted to unravelling ten such instincts that prevents us from seeing the world factfully, thus masking our ability to appreciate the real progress, which we have achieved so far. These include straight line thinking (tendency to believe that trends rarely change), fear factor (instinct that makes us scary about disease or disasters), size (numbers on a standalone basis portray an impact that could be different on a relative context) amongst others.

About The Author

Hans Rosling was a Swedish physician, statistician and a public speaker. He was the co-founder and chairman of Gapminder Foundation, that developed information visualization software for animation of statistics.

For instance, when we hear a news that flooding has claimed 14 lives we immediately feel that the governments are not doing enough. However, considering things from a historical perspective, we have progressed enormously to deal with natural disasters. Tremendous improvements has been achieved in detecting weather patterns and in developing, advanced warning systems using satellite imagery because of which numerous lives has been saved than they used to be in the past.

"We imagine division where there is just a smooth range, difference where there is convergence, and conflict where there is agreement"

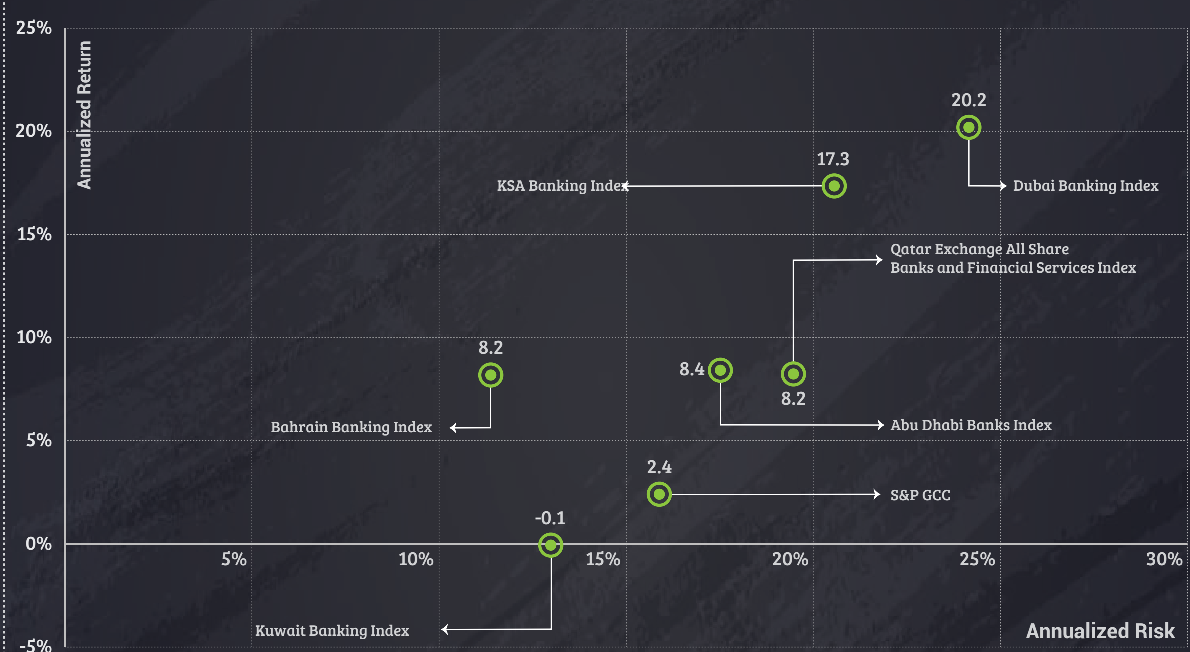
The author recollects the fact that when Bangladesh became independent in 1972, its women had on an average seven children, and lived on average 52years. Currently, they live on an average for 73years and have two children with significant improvements in child mortality rate. Several families have also come out of poverty, they receive more years of education, access to healthcare is better, and children are well fed. Things have got better, not because of individuals but through establishment of proper institutions and well-planned systems. Numerous people working together day after day, over the long-term has brought about incremental changes that is hardly noticed or reported in the media. When people to refer him as an optimist, the author detests and prefers to be referred as a 'possibilist', who neither hopes without reason, nor fears without reason, and constantly resists the overdramatic world view.

The books reiterates the fact that has often been discussed in behavioral economics - most of us base our decisions primarily on intuitions and generalizations that are either distorted or completely wrong, rather than on actual data and facts. Our thought process is hard wired in a way that arrives at swift conclusions without much thinking. While, we may not be able to dissect all available data to arrive at a rational decision every time, understanding our natural biases shall be helpful in arriving at better decisions. Even more so, for executives and policy makers whose decisions have the ability to influence many lives.

The book is a product of years of research, yet the author has successfully ensured that the narrative is light and is not overbearingly academic in nature. It is filled with interesting data points, charts and pictures and presents the complex world in a simple, easy to understand manner.

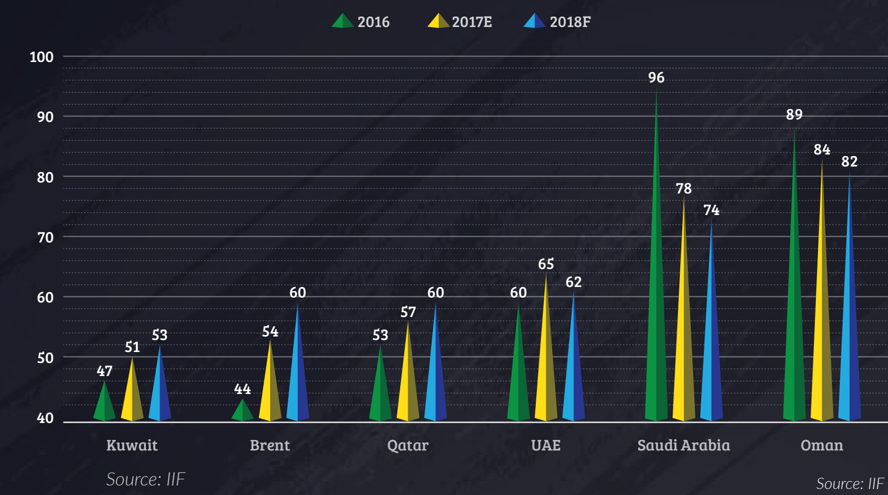
Banking Sector - Risk Return Metrics

(April' 2013 - March' 2018)

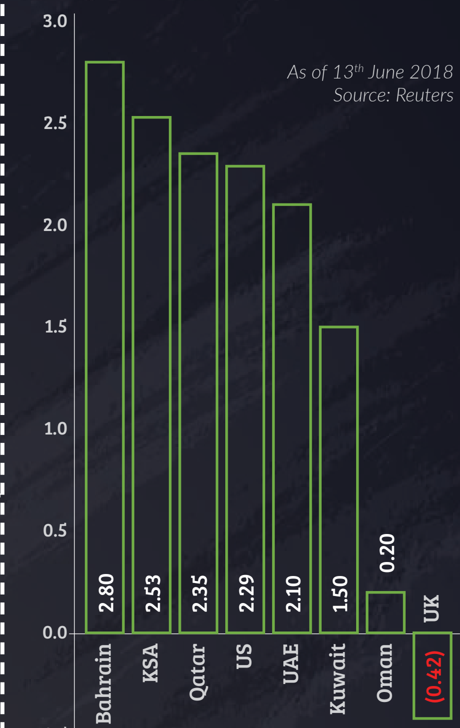


Source: Reuters, Marmore Research

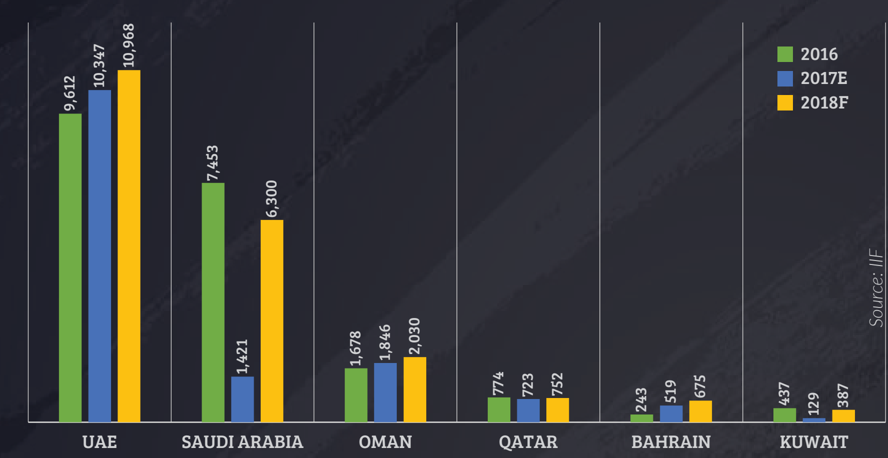
Fiscal Breakeven Oil Price (USD/bbl)



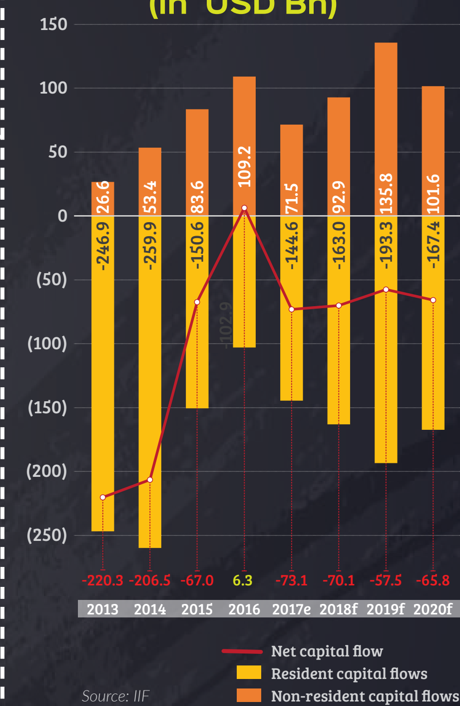
3 Month Deposit Rate (%)



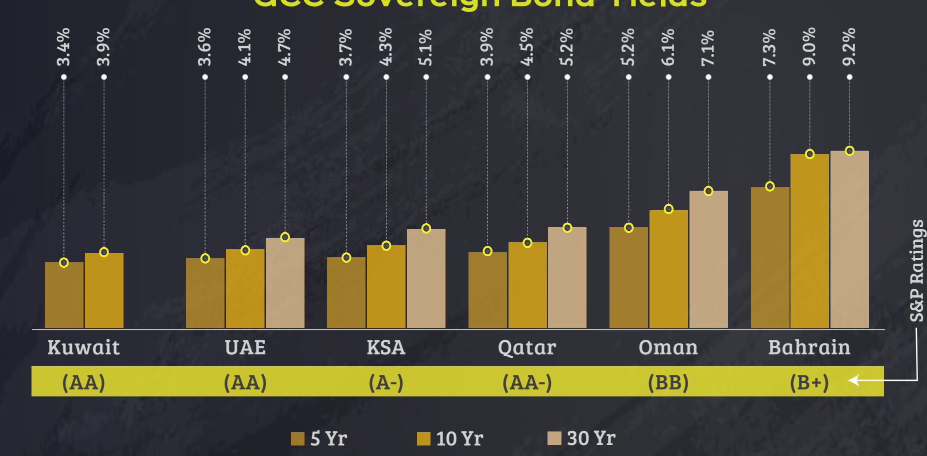
Foreign Direct Investment (In USD Mn)



GCC Capital Flows (in USD Bn)

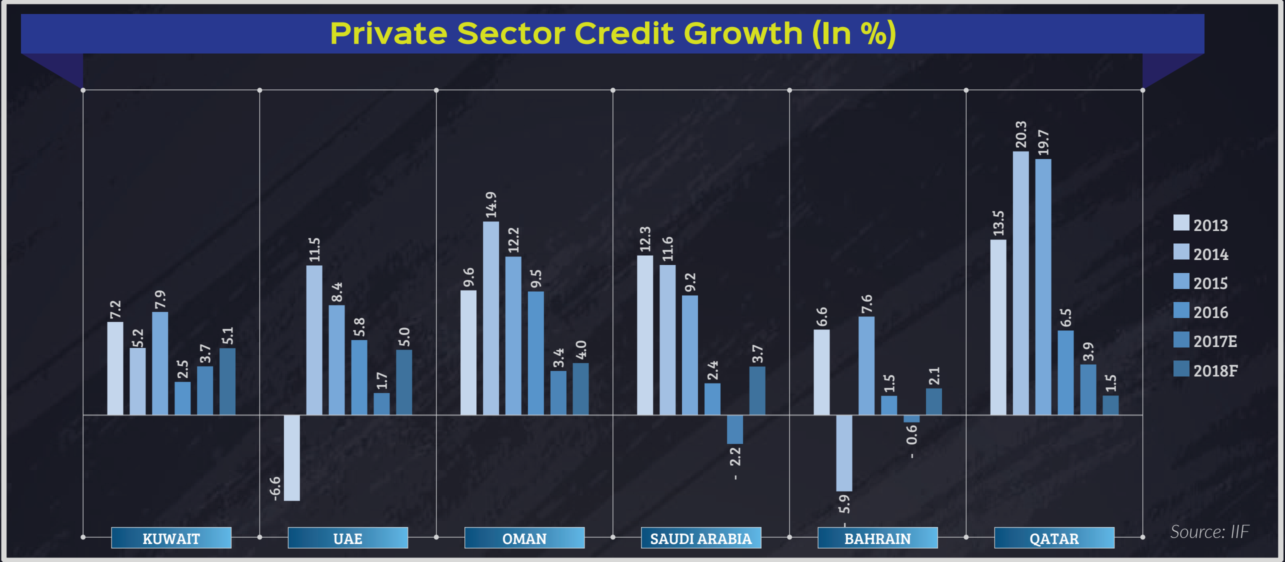


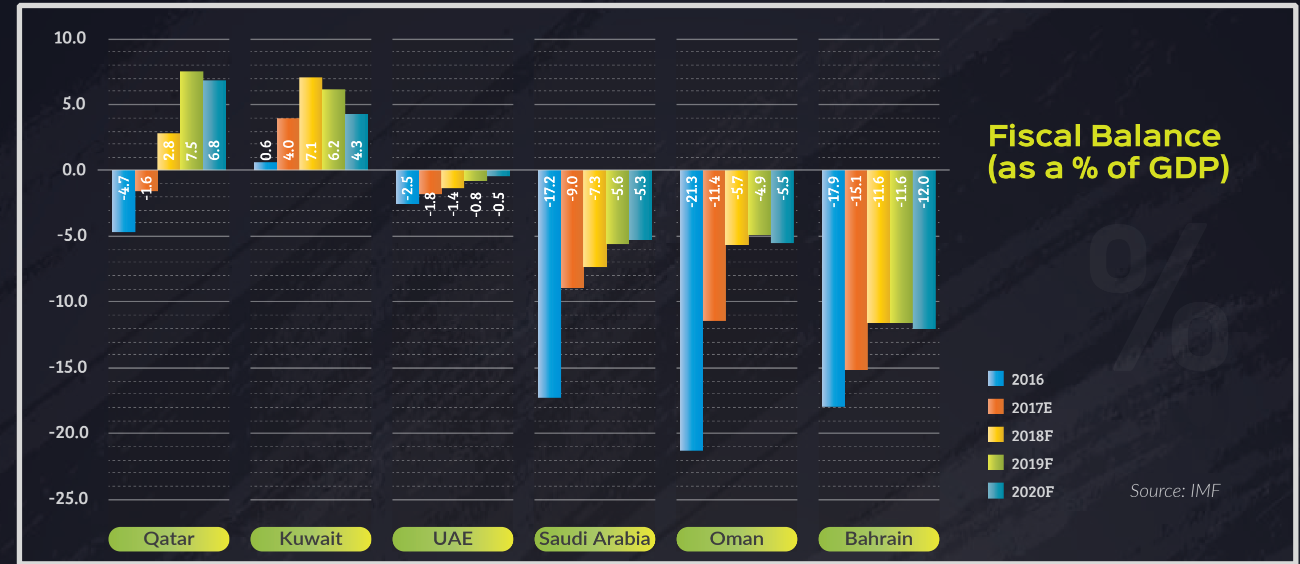
GCC Sovereign Bond Yields

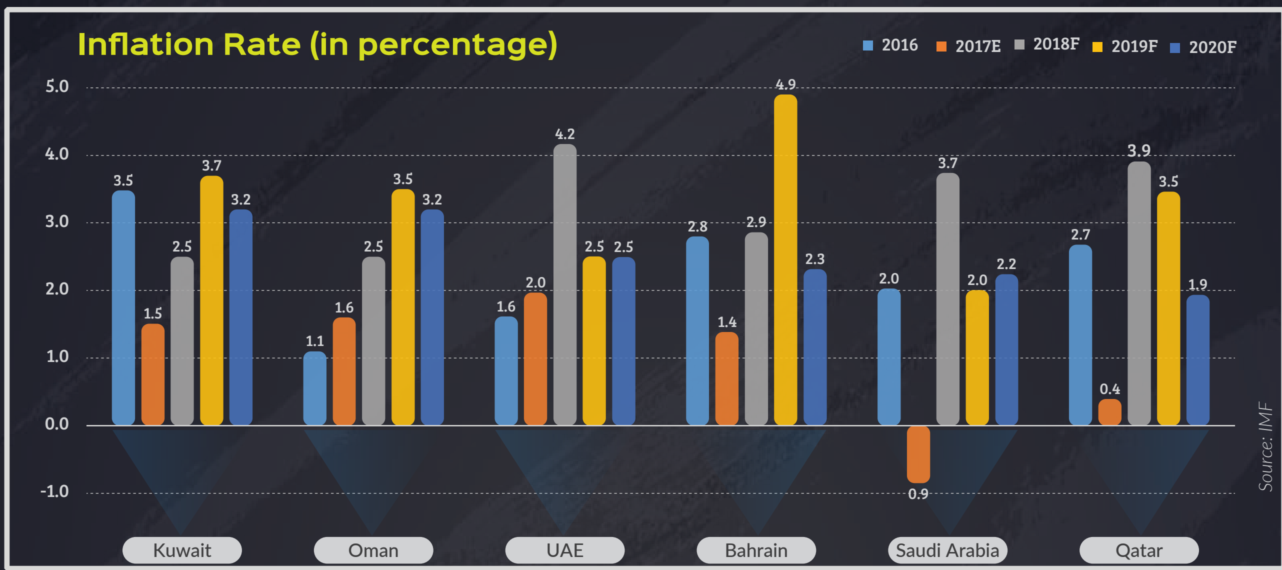


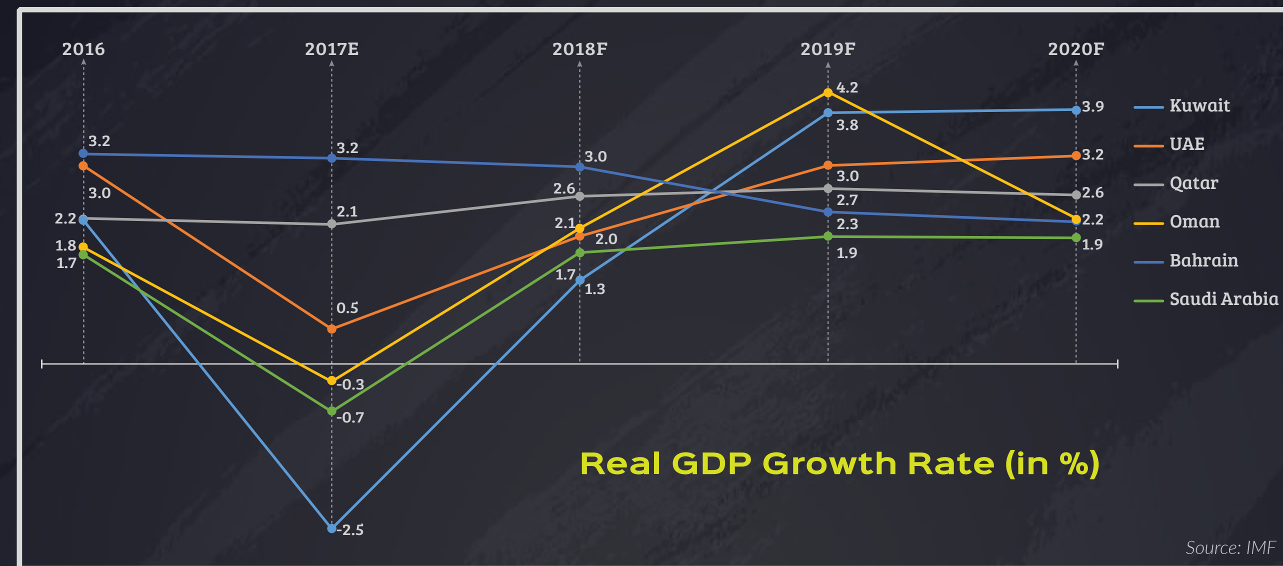
Source: Reuters, Marmore Research

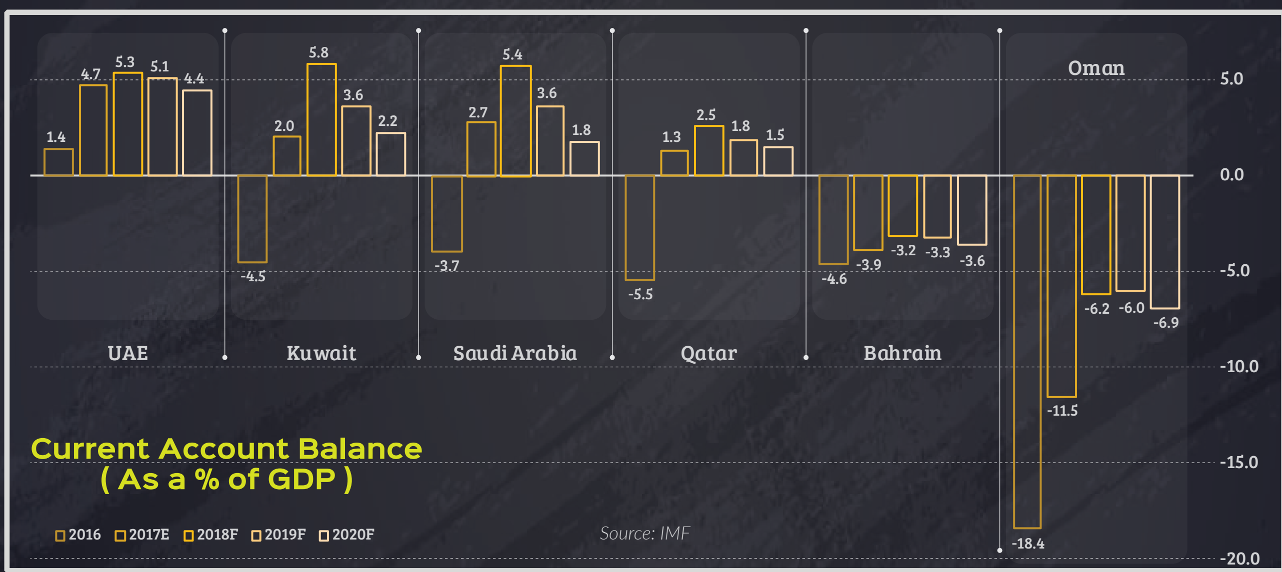
Note: Regulations in Kuwait (which are being amended) doesn't permit issuance of 30 yr bond currently

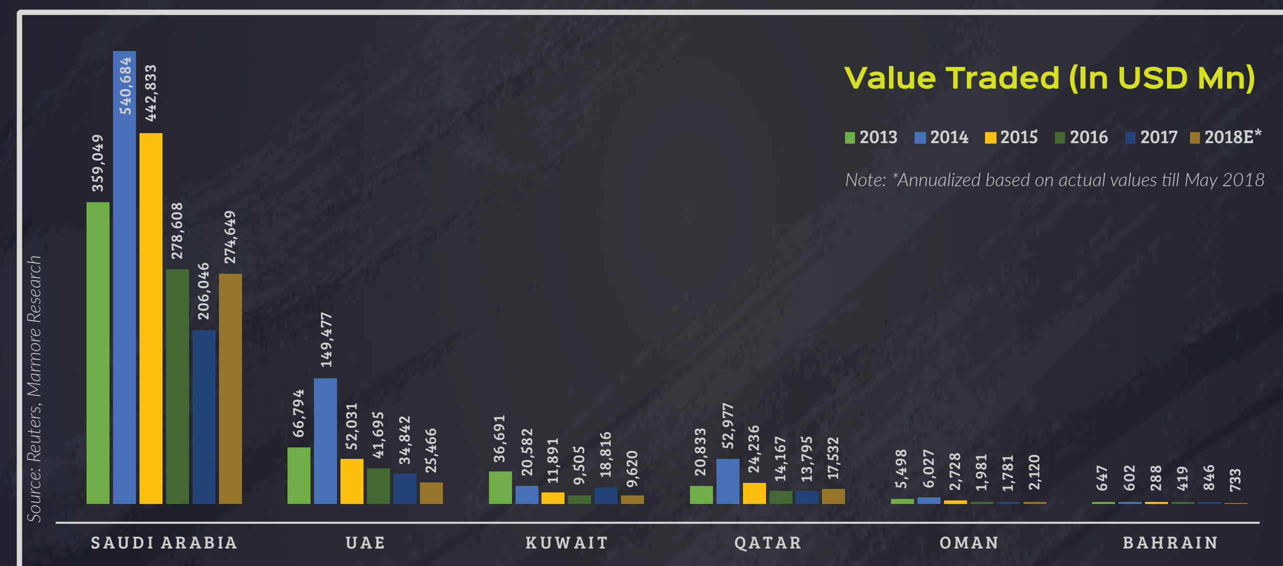

Private Sector Credit Growth (In %)
KUWAIT 7.2 5.2 7.9 2.5 3.7 5.1
UAE -6.6 11.5 8.4 5.8 1.7 5.0
OMAN 9.6 14.9 12.2 9.5 3.4 4.0
SAUDI ARABIA 12.3 11.6 9.2 2.4 -2.2 3.7
BAHRAIN 6.6 -5.9 7.6 1.5 -0.6 2.1
QATAR 13.5 20.3 19.7 6.5 3.9 1.5
2013
2014
2015
2016
2017E
2018F
Source: IIF


Fiscal Balance (as a % of GDP)
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
-25.0
Qatar -4.7 -1.6 2.8 7.5 6.8
Kuwait 0.6 4.0 7.1 6.2 4.3
UAE -2.5 -1.8 -1.4 -0.8 -0.5
Saudi Arabia -17.2 -9.0 -7.3 -5.6 -5.3
Oman -21.3 -11.4 -5.7 -4.9 -5.5
Bahrain -17.9 -15.1 -11.6 -11.6 -12.0
2016
2017E
2018F
2019F
2020F
Source: IMF


Inflation Rate (in percentage)
2016 2017E 2018F 2019F 2020F
5.0
4.0
3.0
2.0
1.0
0.0
-1.0
Kuwait 3.5 1.5 2.5 3.7 3.2
Oman 1.1 1.6 2.5 3.5 3.2
UAE 1.6 2.0 4.2 2.5 2.5
Bahrain 2.8 1.4 2.9 4.9 2.3
Saudi Arabia 2.0 0.9 3.7 2.0 2.2
Qatar 2.7 0.4 3.9 3.5 1.9
Source: IMF


2016 2017E 2018F 2019F 2020F
Kuwait
UAE
Qatar
Oman
Bahrain
Saudi Arabia
3.2 3.0 2.2 1.8 1.7
3.2 2.1 0.5 -0.3 -0.7 -2.5
3.0 2.6 2.1 2.0 1.7 1.3
4.2 3.8 3.0 2.7 2.3 1.9
3.9 3.2 2.6 2.2 1.9
Real GDP Growth Rate (in %)
Source: IMF


UAE 1.4 4.7 5.3 5.1 4.4
Kuwait -4.5 2.0 5.8 3.6 2.2
Saudi Arabia -3.7 2.7 5.4 3.6 1.8
Qatar -5.5 1.3 2.5 1.8 1.5
Bahrain -4.6 -3.9 -3.2 -3.3 -3.6
Oman -18.4 -11.5 -6.2 -6.0 -6.9
5.0
0.0
-5.0
-10.0
-15.0
-20.0
Current Account Balance
(As a % of GDP)
2016 2017E 2018F 2019F 2020F
Source: IMF


Value Traded (In USD Mn)
2013 2014 2015 2016 2017 2018E*
Note: *Annualized based on actual values till May 2018
SAUDI ARABIA 359,049 540,684 442,833 278,608 206,046 274,649
UAE 66,794 149,477 52,031 41,695 34,842 25,466
KUWAIT 36,691 20,582 11,891 9,505 18,816 9,620
QATAR 20,833 52,977 24,236 14,167 13,795 17,532
OMAN 5,498 6,027 2,728 1,981 1,781 2,120
BAHRAIN 647 602 288 419 846 733
Source: Reuters, Marmore Research

MENA DATA AT A GLANCE

S. No.	Particulars	KSA	Kuwait	UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
1	Nominal GDP, 2019f (USD Bn)	759.2	140.1	427.8	193.9	85.6	39.7	na	44.8	129.0
2	Real GDP Growth, 2019f (%)	1.9	3.8	3.0	2.7	4.2	2.3	5.5	2.7	4.0
3	Fiscal Surplus/Deficit, 2019f (as % of GDP)	-5.6	6.1	-0.8	7.5	-4.9	-11.6	na	na	na
4	Current Account, 2019f (as % of GDP)	3.6	3.6	5.1	1.8	-6.0	-3.3	-3.9	-7.9	-3.5
5	Fiscal BEP, 2019f (USD/bbl)	77.9	48.1	64.8	44.5	71.7	110.6	na	na	na
6	Crude Oil Production, 2019f (mbpd)	10.15	2.83	3.02	0.62	1.02	0.20	na	na	na
7	Crude Oil Domestic Consumption, 2019f (mbpd)	4.07	0.53	1.56	0.37	0.15	na	na	na	
8	Natural Gas Production, 2019f (mbpd)	2.33	0.25	1.05	4.29	0.79	0.38	na	na	na
9	Inflation, 2019f (%)	2.0	3.7	2.5	3.5	3.5	4.9	13.0	2.5	2.0
10	Population, 2019f (millions)	33.7	4.7	10.8	2.8	4.4	1.5	99.2	7.5	35.6
11	Market Cap (USD bn) (as of H1, 2018)	492	96	207	118	14	21	41	22	61
12	Stock Market Performance (H1, 2018)	7.5%	9.2%	"Dubai: -18% Abu Dhabi: 11%"	14.6%	-11.8%	0.6%	-7.1%	-1.7%	-9.6%
13	P/E (as of H1, 2018)	14.9	14.8	"Dubai: 7.5 Abu Dhabi: 10.8"	13.2	9.5	8.8	11.3	14.2	16.8
14	Ease of Doing Business Rank (June 2017)	92	96	21	83	71	66	128	103	69
15	Starting a Business Rank (June 2017)	135	149	51	89	31	75	103	105	35
16	Global Competitiveness Index (2017-2018)	30	52	17	25	62	44	100	65	71
17	GCI Infrastructure (2017-2018) Out of 137	29	64	5	13	36	33	71	58	54
18	GCI Health (2017-2018) Out of 137	64	54	40	38	46	42	87	68	88
19	GCI Higher Education & Training (2017-2018) Out of 137	43	95	36	37	71	39	100	63	101
20	GCI Innovation (2017-2018) Out of 137	40	103	25	21	76	45	109	46	94
21	Ethics & Perception (2017-2018) Out of 137	21	64	3	5	26	22	55	35	56

Source: Reuters, IMF, IIF, World Economic Forum