

GCC Risk Premium – H1 2020

A Toolkit for Corporate
Financiers



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Why purchase the report?

- **COVID-19 Impact:** Our latest Equity Risk Premium values incorporate the impact of COVID-19.
- **3 Approaches:** Robust analysis of Equity Risk Premium of GCC countries using three different approaches. Sovereign ratings approach, Equity market Implied and CDS spread based methods.
- **6 GCC Nations:** Equity Risk Premium calculated for all the six member countries of the GCC region
- **Risk Evolution:** Trend on risk premium provided for all the six countries to better understand the risk evolution in these markets.

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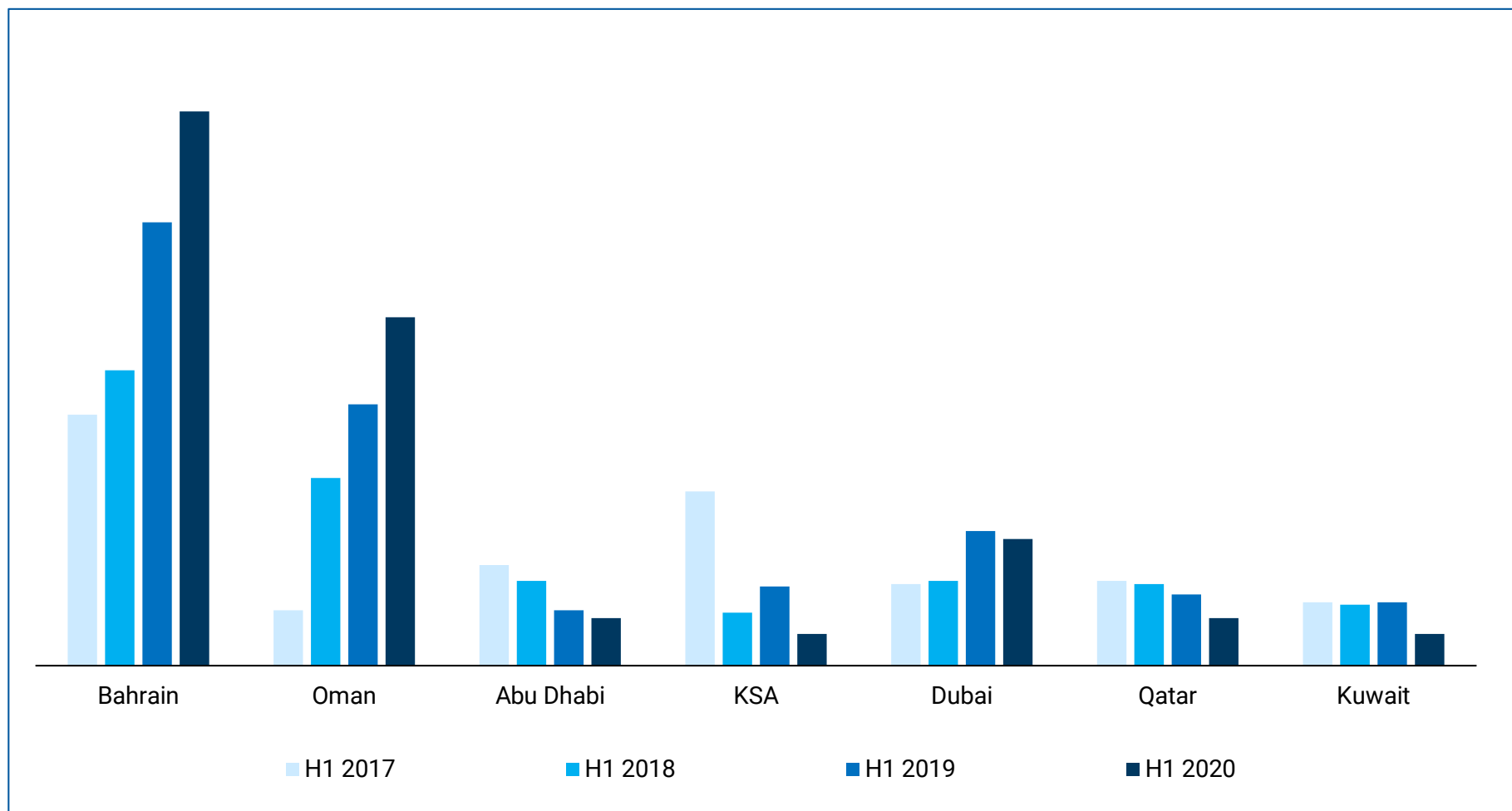
Importance of Cost of Capital in the current environment

1. Cost of capital represents the opportunity cost of financial capital, primarily debt and equity, invested in an enterprise. Opportunity cost is what is given up as a consequence of an investment decision
2. Opportunity cost' is also referred to as 'hurdle cost' or 'discount rate', and is of primary importance in valuation and helps investors in identifying the right company or project to invest.
3. In reality, not much effort is invested in calculating cost of capital; while a significant amount of time is focused on forecasting uncertain future cash flows.
4. Improper capital cost assumptions could lead to type-I error (accepting projects that do not add shareholder value) or type-II error (rejecting projects that add shareholder value).

Calculating the Equity Risk Premium

1. **Sovereign rating method:** The equity risk premium ERP of GCC countries are arrived at by taking the U.S market's ERP and adding the default spread based on their credit rating.
2. **CDS Spreads method:** In this method, the CDS spread of a country's bond (adjusted for spread of risk free country) is considered as default spread and added to the U.S market's ERP.
3. **Implied ERP method:** Implied equity risk premium is an alternative approach to estimate risk premiums. Assuming that stocks are correctly priced, if we can estimate the expected cash flows from buying stocks, then we can estimate the expected rate of return on stocks by computing an internal rate of return (IRR). Subtracting out the risk free rate from IRR should yield an implied equity risk premium.

Evolution of Cost of Capital in the GCC



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COVID-19 created uncertainty – What we did to help?



GCC Coronavirus Dashboard

To capture the latest trends of COVID-19 cases and provide meaningful insights GCC Coronavirus Dashboard was prepared with daily frequency



Mobility Report

Lockdowns imposed a typical issue of restricted mobility, this issue was analyzed by a detailed study of impact of mobility restrictions on Kuwait economy



Impact of COVID-19 on venture capital

For one of our client, we did a deep dive study on COVID-19 impact on VC industry



Investment Dashboard

To capture the financial market trends amid COVID-19 GCC Investment Dashboard was prepared with daily frequency



COVID Impact articles

We published several articles covering the impact of COVID-19 on various sectors, economy and policy



Sector Factsheet

To assess the impact of COVID-19 on different sectors in Kuwait, factsheets was prepared



COVID Impact on GCC Automobile report

Marmore also published a report on GCC Automobile updated for COVID-19 impact

Marmore is quick to adopt to changes. Its experienced team is equipped to account for changing business environment and provide actionable research on time.

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today!*

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- Petrochemicals

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- GCC's RODE Stocks
- Most valuable companies in GCC
- GCC High Margin Industries
- GCC Stock Market Outlook

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- Economic Themes Report (multiple)

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- Crowdfunding in GCC – A New and Faster Source of Funding
- Blockchain: More respectable so far than Crypto's
- Kuwait Labor Productivity
- GCC Free trade Zones
- Yes We Can – FDI in Kuwait
- Militarization of GCC
- Kuwait's SME's – Accelerating Economic Diversification
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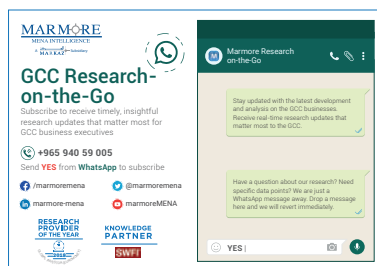


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