

August 2020

Pandemic Resistant GCC Stocks



Research Highlights:

Analysis of Stocks that withstood the Covid-19 shock in GCC stock markets.

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Executive Summary

2020 has been a difficult year for GCC Stock markets and companies. The benchmark index, S&P GCC Composite has lost 15% for the year till date¹ despite a recovery in the past two months. In the midst of the pandemic, a minority of GCC Companies have outperformed the index. They tend to be in sectors considered essential like consumer non-cyclicals (comprises of food and retail businesses), utilities, healthcare, telecom etc. Many of the companies in these sectors have seen their revenues and net income increase in the first quarter of this year over last year. All of these sectors are driven by consumption and not dependant on the vagaries of the business cycle. In addition, sectors like consumer non-cyclicals cover consumer-oriented businesses like food and retail. Companies in the utilities and telecom sector also benefited due to their essential nature and many GCC organizations instituting 'working from home' arrangements. The lockdowns imposed in the GCC have not affected them and have instead resulted in increased revenue in the first half of 2020 for these Companies.

Table 1.1: Top 5 Pandemic Resistant Companies in the GCC

Company	Country	Market Cap. (USD million)	Market Cap. added in 2020 (USD million)	Economic Sector	YTD gain (in %)
International Holding Company	UAE	16,316	13,241	Con. Non-Cyclicals	431%
Ezdan Holding Group	Qatar	10,329	5,849	Real Estate	131%
Abu Dhabi National Energy Co.	UAE	35,511	19,562	Utilities	123%
Abdullah Al Othaim Markets	KSA	2,784	828	Con. Non-Cyclicals	42%
Savola Group Company SJSC	KSA	6,671	1,780	Con. Non-Cyclicals Cyclicals	36%

Source: Refinitiv; As on July 29, 2020; Note: Companies with market capitalisation greater than USD 1 billion have been considered.

Companies that were negatively impacted by the COVID-19 market drawdown have been mostly concentrated in sectors like financials, real estate, energy, industrials and basic materials. Financials sector includes banks, insurance and real estate investment firms all of whom have been hit hard by the COVID-19 crisis. Energy sector includes mainly Oil and gas companies who have been impacted by the oil price crash. Basic materials sector consists mainly of companies in the cements, construction materials and chemicals. Industrials sector consists of logistics, infrastructure, aviation and manufacturing companies.

¹ As on July 29, 2019

Table 1.2: Top 5 Companies in the GCC by YTD losses (in %)

Company	Country	Market Cap. (USD million)	Market Cap. added in 2020 (USD million)	Economic Sector	YTD gain (in %)
Emaar Development PJSC	UAE	2,265	(2,004)	Real Estate	-47%
Burgan Bank KPSC	Kuwait	1,526	(1,080)	Financials	-41%
Rabigh Refining & Petrochem	KSA	2,995	(2,065)	Energy	-41%
Gulf Bank KSCP	Kuwait	1,892	(1,125)	Financials	-37%
Abu Dhabi Comm. Bank	UAE	9,680	(5,323)	Financials	-35%

Source: Refinitiv; As on July 29, 2020; Note: Companies with market capitalisation greater than USD 1 billion have been considered.

Consumer non-cyclicals stocks have gained the most

The Consumer non-cyclicals sector is the biggest winner with five of the top 10 companies with the highest percentage gains for the Year Till Date (YTD) from the sector. The Company with the highest YTD gains of 431% - Abu Dhabi based International Holdings Company (IHC) - belongs to this sector. Current business interests of IHC include fish farming and processing (which comprises 50% of total revenues), installation and repair of air conditioning and real estate financing. Other major gainers in the sector are Savola Group Company, Abdullah Al Othaim Markets Co, Saudia Dairy and Foodstuff Company, all of which are based in Saudi Arabia and listed in the Tadawul Stock exchange.

Table 2.1: Impact of Covid-19 on the different sectors

Sectors impacted negatively due to Covid-19 (YTD losses of 20% or more)	Sectors impacted positively due to Covid-19 (YTD gains of 5% or more)
Financials (Banks, Insurance)	Consumer Non-Cyclicals (Food and Retail)
Real estate	Healthcare
Energy(Oil & Gas)	Utilities
Industrials (Logistics, Infra, Aviation & Mfg.)	Telecom
Basic materials (Cements, Construction materials, Chemicals)	
Consumer Cyclicals(Tourism, Speciality Retail, Entertainment)	

Source: Marmore Research

Table 2.2: Top 20 Companies in the GCC by YTD gains (in %)

Company	Country	Market Cap. (USD million)	Market Cap. added in 2020 (USD million)	Economic Sector	YTD gain (in %)
International Holding Company	UAE	16,316	13,241	Con. Non-Cyclicals	431%
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Company	Country	Market Cap. (USD million)	Market Cap. added in 2020 (USD million)	Economic Sector	YTD gain (in %)
Savola Group Company SJSC	KSA	6,671	1,780	Con. Non-Cyclicals Cyclicals	36%
Saudia Dairy and Foodstuff	KSA	1,556	317	Con. Non-Cyclicals Cyclicals	26%
Al Meera Consumer Goods	Qatar	1,039	198	Con. Non-Cyclicals Cyclicals	24%
Al Khalij Commercial Bank	Qatar	1,581	286	Financials	22%
Wahat Al Zaweya Investment	UAE	1,826	296	Real Estate	19%
Damac Properties Dubai	UAE	1,433	209	Real Estate	17%
Mouwasat Medical Services	KSA	2,720	373	Healthcare	16%
Qatar Gas Transport	Qatar	4,192	555	Energy	15%
Bupa Arabia Coop. Insurance	KSA	3,744	467	Financials	14%
Qatar Aluminum Manufacturing	Qatar	1,361	164	Basic Materials	14%
Dallah Healthcare Company	KSA	1,054	118	Healthcare	13%
Vodafone Qatar	Qatar	1,486	139	Telecom	10%
Almarai Company	KSA	14,319	1,120	Con. Non-Cyclicals -Cyclicals	8%
Etihad Etisalat Company	KSA	5,554	421	Telecom	8%
Kuwait Telecommunications	Kuwait	1,370	85	Telecom	7%
Company for Coop. Insurance	KSA	2,693	137	Financials	5%

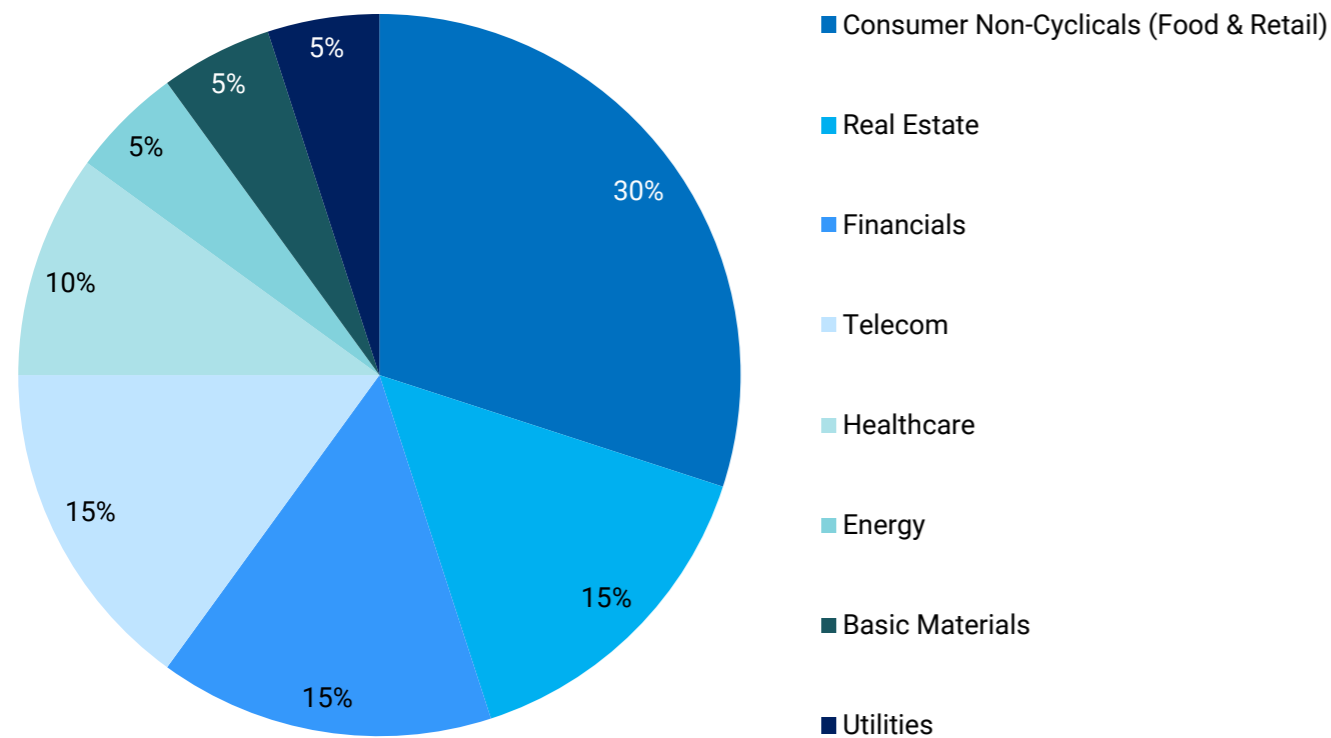
Source: Refinitiv; As on July 29, 2020; Note: Companies with market capitalisation greater than USD 1 billion have been considered.

Other sectors with representation in the top 20 are other consumer-oriented sectors like Healthcare, Telecom and Utilities. With COVID-19 being a health crisis, listed healthcare companies have done well and both the companies in the sector are based in Saudi Arabia, which has seen nearly 300,000 cases of COVID-19. Companies in the telecom sector, which has been seen falling margins due to increased competition prior to COVID-19, has benefited due to increased call and data usage as a result of many GCC citizens working from home during the lockdown periods. In the utilities sector, Abu Dhabi National Energy Company, majority owned by the UAE Government is the only one to make the top 20 list and gained 123% YTD because of a favourable deal with Abu Dhabi Power, another government owned utility, which lead to its credit rating upgraded by three notches. Utilities companies in other countries have not made the list because they are either not listed or are loss making as in the case of Saudi Electric company due to increased subsidies.

The only company in the energy sector in the top 20 is Qatar Gas Transport with a gain of 15% YTD. Its business being primarily in transportation of oil and gas and not on oil exploration and refining may explain its gain when the oil prices have crashed.

There are a few companies in the financial sector in the top 20, however most are in the insurance business and the only bank to feature in the top 20 is Qatar's Al Khalij Commercial Bank. There are three real estate companies in the top 20 with Qatar's Ezdan Holding in the second position overall outperforming the industry and the market as well, despite the real estate industry being severely hit by the crisis.

Figure 2.1: Sector-wise distribution of the top 20 Companies by YTD gains



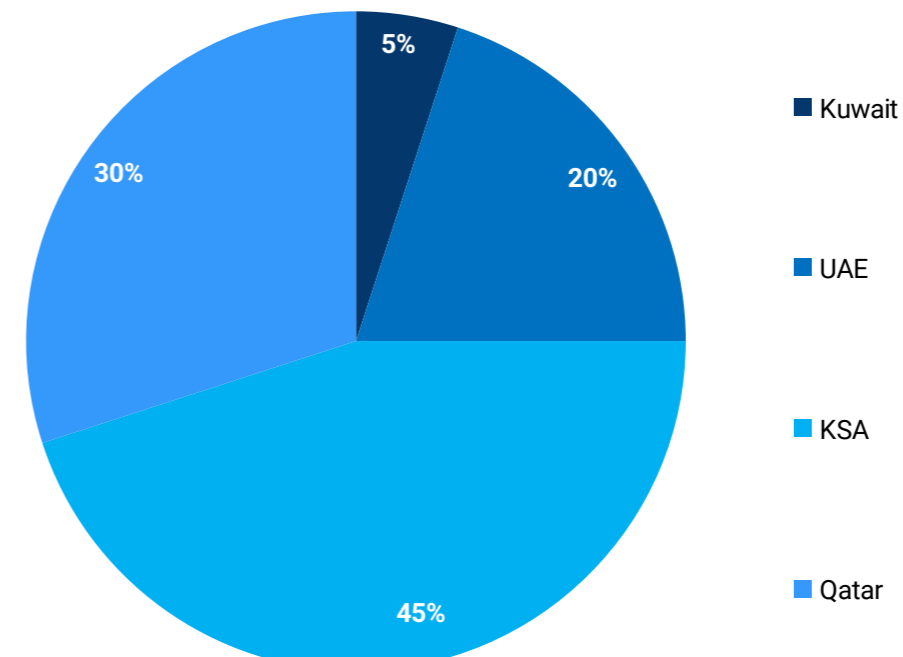
Source: Refinitiv; As on July 29, 2020

Chapter 3

Saudi Arabian companies dominate the list of top 20 companies by gains

Saudi Arabia has the most number of the companies (9) making YTD gains in the GCC. This is because of the presence of many listed companies in the consumer non-cyclicals (food & retail), telecom and healthcare sectors in Saudi Arabia. Since Saudi Arabia also has the highest population in the GCC and has a number of large cap listed companies in these sectors. On the other hand, the number of Kuwaiti companies is low because of the relatively small size of the retail and consumption sectors in Kuwait and also the number of companies listed in the stock exchanges is low for these sectors.

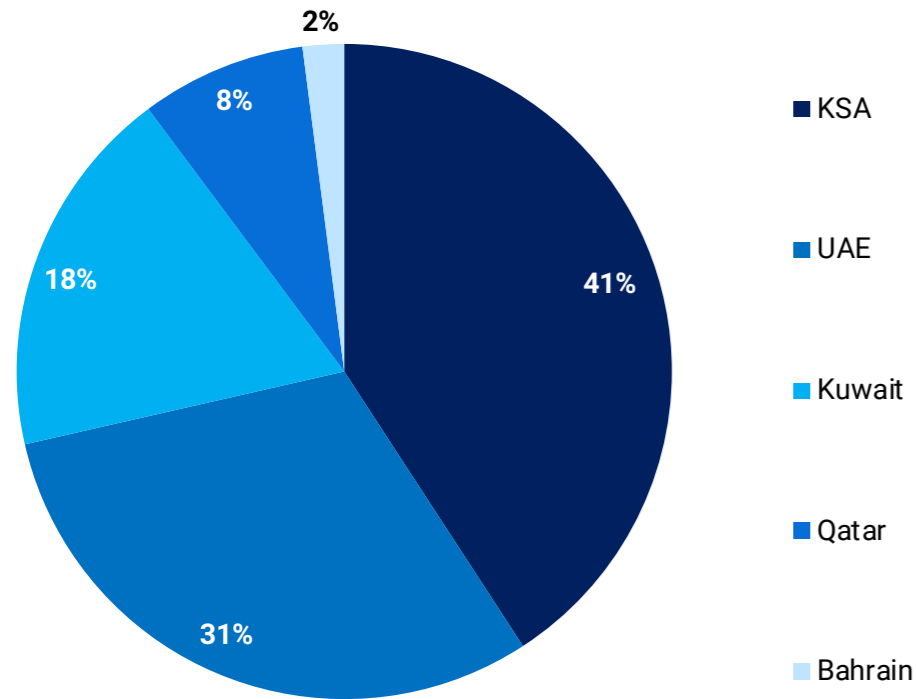
Figure 3.1: Country-wise distribution of top 20 Companies by YTD gains



Source: Refinitiv; As on July 29, 2020

Saudi Arabian companies again dominate the list of top 50 losers mainly because it hosts the most number of listed companies that have market cap greater than USD 1billion due to it being the largest GCC economy by quite some distance. UAE has a high share of the companies in the most affected sectors like real estate and financials. This is especially true for Dubai that has seen an oversupply of real estate financed by UAE banks, which are both affected by the Covid-19 slowdown.

Figure 3.2: Country-wise distribution of the top 20 Companies by YTD losses



Source: Refinitiv; As on July 29, 2020

Chapter 4

Financials, Real estate, Energy companies amongst the biggest losers

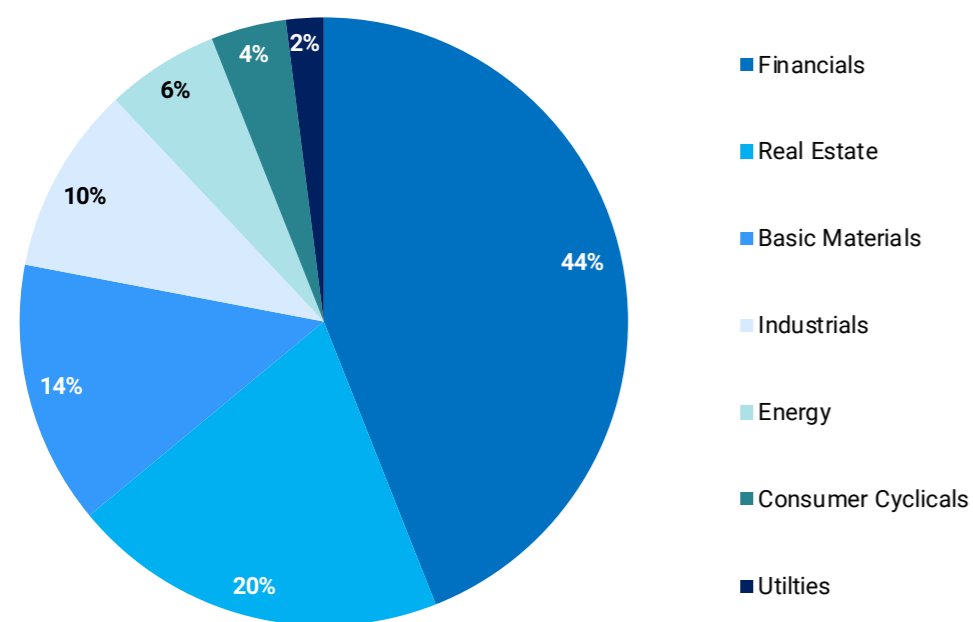
Since all the GCC indices are still negative for the year, there have been more losers than winners in the GCC stock markets this year. The largest losers in percentage terms for the year till date are mostly in financials, energy and basic materials with a few in the consumer cyclicals sector. The COVID-19 crisis has impacted the GCC banking sector the most with many GCC governments mandating a pause in the collection of interest payments. Many GCC Banks have been downgraded by global credit rating agencies as the number of non-performing loans is expected to increase sharply due to COVID-19 and their profits for 2020 are set to fall sharply. Kuwaiti banks especially have been hit hard with two of the top four and six Kuwaiti banks in the top 50.

Real estate has also been hard-hit with many companies in the GCC, particularly in the UAE having seen huge decreases in their share prices. In the second quarter (Apr-June) of 2020, residential sales transactions fell nearly 50% in the UAE compared to the same quarter last year. Commercial real estate has also been affected due to the closure of offices and low occupancies in hotels and many malls being closed due to lockdown. The Dubai based real estate group 'Emaar', has two of its companies - Emaar development and Emaar Properties in the list of top 10 losers. Real estate companies in Kuwait, Saudi Arabia and Qatar are also in the top 50 indicating that the real estate sector in most GCC nations has been hit quite badly.

The Energy sector consists of companies in oil exploration, drilling, refining and marketing. Rabigh Refining & Petrochemical company is a Saudi listed company in the business of refining and marketing of oil and petrochemicals has seen a drop of 41% for the year due to falling oil prices. Qatar Fuel, another company in the refining & marketing business has lost 29% YTD. Dana gas, an integrated oil & gas company based in UAE fell 24%.

In the GCC, the Basic materials sector consists mainly of companies in the cements, construction materials and chemicals. Due to their dependency on the real estate, infrastructure and oil industries, they have seen big falls in their share prices. The other sector in the list is industrials sector, which in the GCC consists of logistics, infrastructure, aviation and manufacturing companies. The largest GCC Company in the sector by market capitalisation, Industries Qatar has fallen 21% for the year, which has led to its market capitalisation reducing by USD 3.6 billion. The company saw its Q1 and Q2 profits for 2020 reduce by 60% due to a severe hit to its steel exports business due to COVID-19.

Figure 4.1: Sector-wise distribution of the top 20 Companies by YTD losses



Source: Refinitiv; As on July 29, 2020

Table 4.1: Top 50 Companies in the GCC by YTD losses (in %)

Company	Country	Market Cap. (USD million)	Market Cap. added in 2020 (USD million)	Economic Sector	YTD gain (in %)
Emaar Development PJSC	UAE	2,265	-2,004	Real Estate	-47%
Burgan Bank KPSC	Kuwait	1,526	-1,080	Financials	-41%
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Gulf Bank KSCP	Kuwait	1,892	-1,125	Financials	-37%
Abu Dhabi Comm. Bank	UAE	9,680	-5,323	Financials	-35%
Ahli United Bank	Bahrain	5,955	-3,258	Financials	-35%
Emaar Properties	UAE	5,068	-2,768	Real Estate	-35%
Dar Al Arkan Real Estate	KSA	2,091	-1,077	Real Estate	-34%
Qatar Insurance Company	Qatar	1,881	-953	Financials	-34%
Mabanee Company	Kuwait	2,090	-992	Real Estate	-32%
Abu Dhabi Islamic Bank	UAE	3,619	-1,711	Financials	-32%

Company	Country	Market Cap. (USD million)	Market Cap. added in 2020 (USD million)	Economic Sector	YTD gain (in %)
Dubai Islamic Bank	UAE	7,452	-3,411	Financials	-31%
Emirates NBD Bank	UAE	15,358	-7,000	Financials	-31%
Riyad Bank SJSC	KSA	13,439	-5,760	Financials	-30%
Saudi British Bank	KSA	13,325	-5,687	Financials	-30%
Air Arabia	UAE	1,436	-610	Industrials	-30%
Arab National Bank	KSA	7,695	-3,264	Financials	-30%
First Abu Dhabi Bank	UAE	31,754	-13,320	Financials	-30%
Qatar Fuel Company	Qatar	4,431	-1,821	Energy	-29%
Saudi Investment Bank	KSA	2,628	-980	Financials	-27%
National Commercial Bank	KSA	28,718	-10,679	Financials	-27%
National Bank of Kuwait SAKP	Kuwait	16,714	-6,087	Financials	-27%
Saudi Kayan Petrochemicals	KSA	3,256	-1,184	Basic Materials	-27%
Orascom Construction PLC	UAE	1,026	-365	Industrials	-26%
Makkah Construction	KSA	2,487	-870	Real Estate	-26%
National Bank of RAK	UAE	1,607	-561	Financials	-26%
Emaar The Economic City SJSC	KSA	1,607	-558	Real Estate	-26%
Warba Bank KSCP	Kuwait	1,003	-344	Financials	-26%
Seera Group Holding	KSA	1,313	-438	Con. Cyclicals	-25%
Fawaz Abdulaziz	KSA	1,075	-358	Con. Cyclicals	-25%
Saudi Industrial Inv. Group	KSA	2,165	-715	Basic Materials	-25%
National Industrialization Co.	KSA	1,837	-603	Basic Materials	-25%
Emaar Malls PJSC	UAE	4,890	-1,595	Real Estate	-25%
Dana Gas PJSC	UAE	1,381	-446	Energy	-24%

Company	Country	Market Cap. (USD million)	Market Cap. added in 2020 (USD million)	Economic Sector	YTD gain (in %)
Saudi Research Group	KSA	1,256	-401	Industrials	-24%
Ahli United Bank KSCP	Kuwait	1,747	-557	Financials	-24%
United Development Co	Qatar	1,123	-355	Real Estate	-24%
Alinma Bank	KSA	7,807	-2,332	Financials	-23%
Kuwait Finance House	Kuwait	14,237	-4,243	Financials	-23%
Saudi Electricity Company SJSC	KSA	17,465	-5,000	Utilities	-22%
Saudi Airlines Catering Company SJSC	UAE	1,754	-494	Industrials	-22%
Emirates Islamic Bank	UAE	11,577	(3,194)	Financials	-22%
Industries Qatar	KSA	13,431	(3,648)	Industrials	-21%
Aluminium Bahrain	Kuwait	1,243	(331)	Basic Materials	-21%
Arabian Centres Company SJSC	Qatar	2,926	(766)	Real Estate	-21%
Banque Saudi Fransi	KSA	9,674	(2,507)	Financials	-21%
Yanbu Cement Company SJSC	Kuwait	1,272	(330)	Basic Materials	-21%
Aldar Properties	KSA	3,682	(942)	Real Estate	-20%
Saudi Cement Company	KSA	2,297	(563)	Basic Materials	-20%
Saudi Arabian Mining Company SJSC	UAE	11,718	(2,856)	Basic Materials	-20%

Source: Refinitiv; As on July 29, 2020; Note: Companies with market capitalisation greater than USD 1 billion have been considered.

Chapter 5

Conclusion

Most of the companies that have made gains are diversified or in defensive sectors like consumer non-cyclicals, telecom and utilities. Some of the companies now have premium valuations due to a huge run up in their share prices as fund managers have shifted their allocation from financials and energy stocks to consumer facing stocks. The non-oil sectors like real estate have been hit hard by the global nature of the crisis especially in the UAE, which has a number of real estate companies listed on the stock exchanges. GCC indices with their weightage more on financials, real estate and energy stocks have seen bigger falls. An example is Kuwait All Share index in which financials comprise a significant weightage and Dubai stock exchange, which has disproportionate weightage on real estate and financials. In addition, GCC stock exchanges are under-represented in the leading sectors on a global level such as semiconductors, pharmaceuticals, technology and over-represented in the sectors like banking, financials, real estate and energy, which have underperformed globally.

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