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# GCC Listed Companies with high cash holding – what can one learn?



## Research Highlights:

Analysing companies in GCC with high cash holdings and comparing them with their sectoral averages. Further examining key sources of cash inflows/outflows and assessing relation between holding high cash and shareholders return.



# About Marmore



## Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please [click here](#))

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, [click here](#))

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company.** To learn more, visit [www.marmoremna.com](http://www.marmoremna.com)

## Experience/Qualifications

Marmore is the only regional firm providing niche research based on strong analytics in areas that are less researched. Marmore provides full range of financial market, sector specific and economic and policy researches, as well. The different types of researches are availed based on the client's requirements. It is notable that Marmore research reports have regularly been used by various renowned institutions to better understand the MENA region.

*Marmore's strengths can be summarized as follows:*

- » Consistent track record of quality, in-depth research offerings;
- » Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;
- » Deep understanding of MENA market and access to wide-ranging database
- » Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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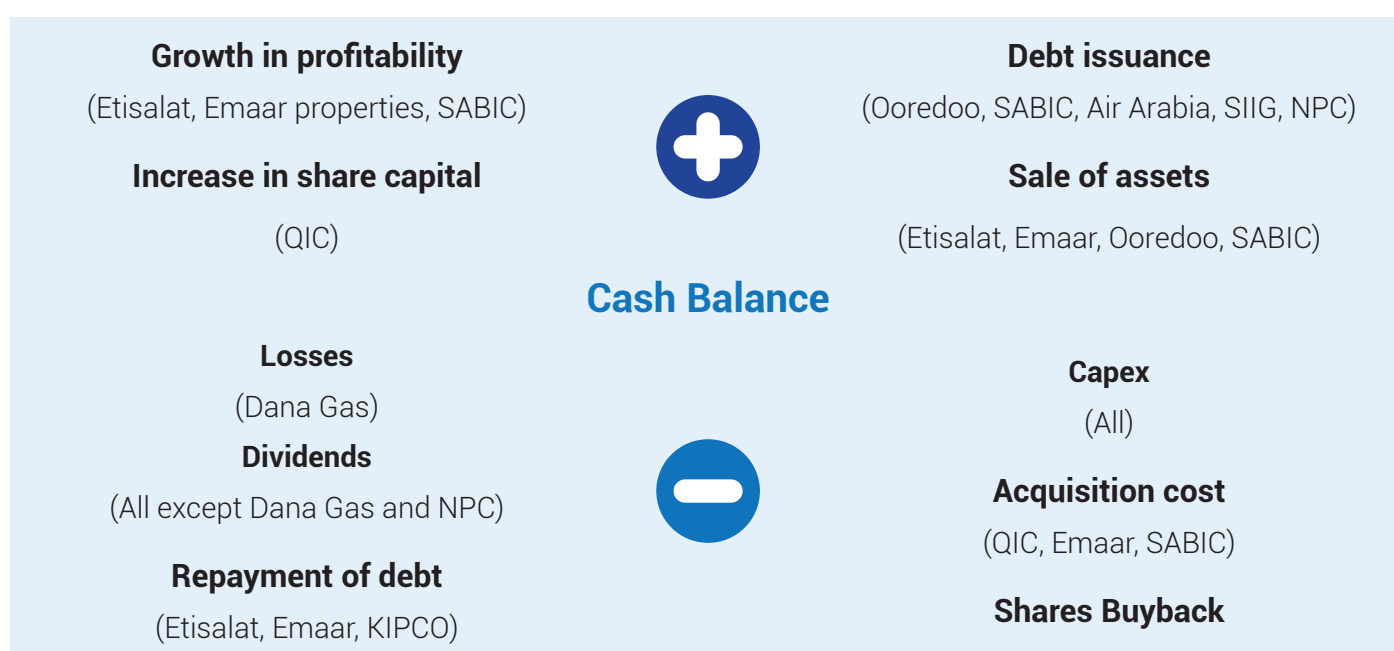
# Executive Summary

Investors look at various parameters to understand and evaluate a company's attractiveness. One such item in the balance sheet is the level of cash that a company holds. If the cash balance has been consistently growing it might be a good indicator that the company is performing well and is therefore able to accumulate cash reserves on its balance sheet. However, it is essential to determine the cause behind growth in cash flow and reason for holding high cash balance before concluding whether it is good or bad for the company and its shareholders.

During uptrend in economic conditions, companies may often deplete its cash reserves in order to expand rapidly. However, this may leave organization with little cash to deal with economic downturn and may force them to resort to cost cutting measures or borrowings. Cash rich companies in this regard can utilize its cash reserves to cover its expenses and fall in revenues during economic slowdown and be cash ready when economic conditions improve.

Growth in profitability, share capital issuance, increase in debt and sales of assets are some of the key reasons for surge in cash holdings, whereas business losses, capital expenditure, dividend payments, repayment of debt, acquisitions and shares buyback could reduce the cash holdings for a company. In our coveted list, capital expenditure was the primary source of cash outflows, followed by consistent dividends payment. In contrast, growth in profitability, debt issuance and sale of assets were the leading sources of cash inflows for the companies in the coveted list.

## Breakup of key sources of change in cash flow (2014- H1'19)



Source: Marmore research | Note: Dana gas only paid dividend for FY 2017 | KIPCO is a holding company therefore investments in associates and subsidiaries are considered as part of capex

The level of cash balance varies across sectors and therefore the sector in which a company operates in must also be taken into consideration while evaluating whether the company is maintaining adequate level of cash reserves. Sectors such as oil and gas, industrials, telecom require high capital expenditures as they continuously invest in equipment and inventory, and may struggle to maintain desired cash balance.

Further it is important to recognize that sectors that are cyclical in nature such as manufacturing may have high cash reserves in order to comfortably navigate through the cyclical downturns.

On the downside, a persistently high cash balance could be a warning signal and may raise questions in the mind of investors as to why the resources are kept idle and not being put to judicious use. Holding cash has an opportunity cost too as it can contribute in higher returns for the shareholders if invested in the projects that can generate high returns on equity.

In addition, money sitting unused can be used for range of purposes right from clearing high interest-bearing debts, buying back shares, making acquisitions, dividend payments to shareholders etc.

In this report we evaluate GCC's cash leaders i.e., companies in GCC with very high levels of cash. We also explore sources/reasons that caused them to be the cash leaders. We also explore how these cash leaders have performed and draw a link between high cash holding and shareholder returns.

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