

Corporate earnings

Kuwait: Banks and consumer sector's strength offset by weakness elsewhere

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The financial results of companies listed on the Kuwait Stock Exchange (KSE) for 2015 were disappointing. Strong performances by the banking and consumer sectors were offset by weakness in the telecoms and oil and gas sectors. The unimpressive results went largely unnoticed by the market, which continued to be driven largely by oil prices.

The earnings of 101 Kuwaiti-listed companies totalled KD 1.2 billion in 2015, down 3.5% compared to 2014. Moreover, reported losses bounced back, totalling KD 122 million, which is an increase of 41% compared to 2014. The number of loss-making companies edged up to 22 from 20.

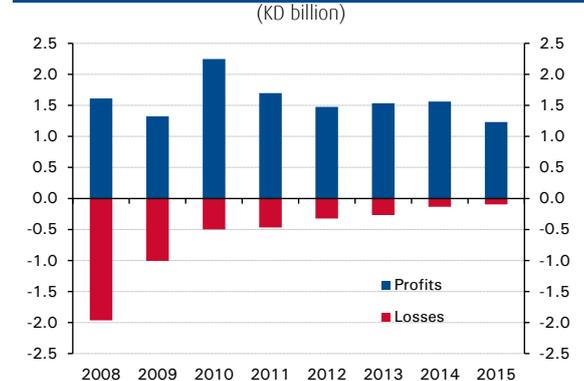
Banks were the primary drivers of growth, with the banking sector's profits up a good 7% y/y. Banks benefitted from an improving operating environment and healthy growth in credit. With such results, bank profits continued to dominate the listed corporate sector with a 57% share of total earnings. Their share increased by 13 percentage points compared to 2014 as the contribution of the telecoms sector dropped.

Few other sectors saw their profits rise compared to the same period last year. The consumer sector was the second largest contributor to growth. The strong results of the consumer sector were broad-based, with almost all consumer companies seeing healthy growth in profits. The results are in line with the robust growth seen in household debt and consumer spending for most of 2015. Insurance was another sector that saw a notable increase in profits, with all reporting companies registering healthy growth. However, this sector remains too small to have any significant impact on the aggregates.

Almost all other sectors saw profits decline in 2015. Telecommunications companies pulled corporate profits down as earnings shrank by 20%. The two largest telecoms companies saw notable declines in profits. The sector has seen intensifying competition eat into profit margins, including competition from non-traditional providers. Some operators have also recorded foreign exchange losses related to exposure in North Africa and other markets. Meanwhile, the oil & gas sector saw aggregate earnings go into negative territory. This coincided with a large decline in average oil prices of around 45% in 2015 compared to 2014. However, the sector is relatively small and has limited impact.

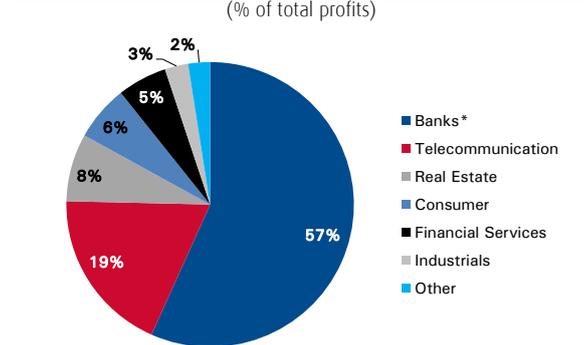
The real estate sector was another main contributor to weakness. The sector's total profits retreated by 15% y/y, with the declines spread across a handful of companies. Of course, following a record 2014, the real estate market cooled off in 2015 on the back of falling oil prices and growing economic concerns. Non-bank financial services companies were also worse off in 2015, with profits declining 13% y/y. Again, declines were recorded across the board. The sector had been slowly recovering over the past couple of years, but the poor performance of Kuwaiti and regional equities in 2015 appeared to weigh on the portfolios of

Chart 1: Total profits (KD billion)



Source: Kuwait Stock Exchange

Chart 2: Kuwait sector contribution (% of total profits)



Source: Kuwait Stock Exchange

Table: Profits by sector

(KD million)	Net profits		Growth % y/y
	2014	2015	
Banks*	633	679	7.3
Telecommunications	280	224	-20.1
Real Estate	108	92	-14.7
Financial Services	77	67	-13.2
Consumer Services	26	48	81.4
Industrials	52	32	-39.8
Consumer Goods	15	28	79.6
Insurance	9	21	122.8
Technology	19	15	-20.9
Healthcare	1	3	235.6
Basic Materials	4	-4	...
Oil & Gas	15	-6	...
Total	1,242	1,199	-3.5

Source: Kuwait Stock Exchange

* Adjusted for NBK's consolidation of Boubyan Bank.

investment companies. A decline in the total profits of the industrial sector also pulled down the corporate sector, with profits for industrials retreating a notable 40%. However, unlike the real estate and non-bank financial sectors, the decline in the industrial sector was largely skewed by a significant loss at one particular company.

The less-than-impressive corporate earnings announcements were not unexpected, so the impact on stock prices was minimal. The KSE, like all other GCC stock markets, continued to be driven primarily by the movement of oil prices.

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