

Corporate earnings

Kuwait: Softer corporate earnings in first half of 2016

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Kuwait's publicly listed companies reported a decline in earnings for the first half of 2016, reflecting a notable deterioration in corporate performance.

The decline in oil prices, by dampening sentiment, could be weighing on bottom lines, even as the domestic economy appears to be weathering the low price environment relatively well; nonoil growth in 2016 is around 4-5% by our estimates. Softness pervaded most sectors but was most pronounced, no surprise, in nonbank financial services and real estate. The disappointing earnings results did little to help equity performance in recent weeks, as Kuwaiti stock prices continued to underperform regional markets.

Earnings of listed corporates declined by 9.1% year-on-year (y/y) compared to the year before.

The aggregate profits of 151 reporting companies, out of a total of 173 Kuwaiti companies listed on the Kuwait Stock Exchange (KSE), declined to KD 782 million in 1H16. Profit growth would still show a 6.7% y/y decline even after making an adjustment for a large one-time gain recorded in 1Q15 by one of the banks. The decline in the first half of 2016 was slightly more pronounced than that reported for 1Q16. Also, total reported losses rose to KD 34 million, an increase of 62% y/y. The number of loss-making companies increased to 34 from 30.

Real estate companies contributed most to the decline in total profits as sector earnings declined by more than a third.

The earnings of 35 real estate companies were down by 36% y/y. This has coincided with a sharp decrease in activity in the real estate market, where the value of sales was down by a notable 23% y/y in 1H16. Fourteen companies suffered aggregate losses of KD 8.7 million, more than double the figure in 1H15. Thirteen companies reported decline in their profits compared to a year before.

The nonbank financial services sector was also a main contributor to weakness.

The poor performance of Kuwait and regional equities early on in 2016 appeared to weigh on the portfolios of investment companies. As a result, eleven companies in the sector suffered aggregate losses of KD 16.2 million. Ten companies saw their profits decline compared to 1H15. With 18 of the sector's companies yet to announce results, losses for the sector are likely to be worse.

Banks also helped pull earnings down as profits dropped by 4.3% y/y, though the decline was largely due to a one-time event.

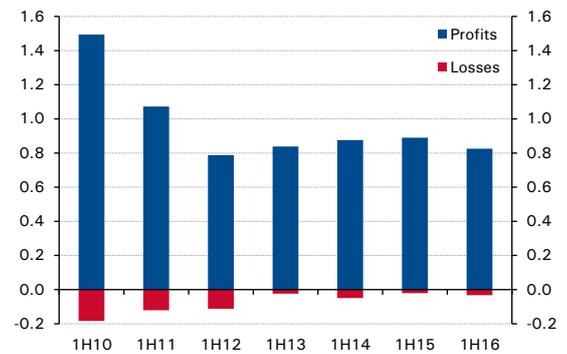
If the large gain on an asset sale reported in 1Q15 is excluded, bank profits would show a small increase of 2% y/y. Individual bank results were more mixed, with some registering double-digit growth just as others saw notable deterioration. Nonetheless, banks continued to show resilience given the current environment and concerns in Kuwait and the region that economic growth might be moderating. Indeed, asset growth remained relatively healthy despite some slowdown, while asset quality continued to improve.

Even the consumer goods and services sectors, which tend to be more resilient, showed signs of softening.

Profits of the sectors were

Chart 1: Total profits

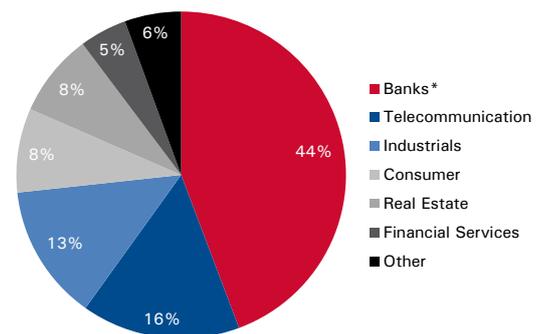
(KD billion)



Source: Kuwait Stock Exchange

Chart 2: Profits by sector

(% of total profits)



Source: Kuwait Stock Exchange

flat and only half of the companies saw rises in profits. This coincided with some softness in the consumer sector as a whole, with moderating growth in consumer spending, led by underperforming sales of larger ticket items and durable goods.

Meanwhile, results in other sectors were hardly more impressive.

Telecom companies, the second largest contributor to corporate earnings, continued to face a challenging environment as intense competition from within the sector and from non-traditional providers ate into profit margins. While total profits for the sector were up by 3.8%, this was mainly on the back of a bounce from foreign exchange losses incurred last year. Technology and oil & gas sectors saw strong growth driven by gains at a few companies. Both sectors remain too small to have any significant impact on the aggregates.

The impact of profit announcements on stock prices was relatively muted. The KSE continued to be driven by international factors, especially oil prices, interest rates and international markets. As of 17 August, the KSE value-weighted index was up a mere 0.4% quarter-to-date (qtd) and continued to underperform regional markets.

Table: Profits by sector

(KD million)	Net profits		Growth % y/y
	1H15	1H16	
Banks*	362	346	-4.3
Telecommunications	117	122	3.8
Industrials	105	105	0.0
Real estate	100	64	-35.8
Financial services	69	36	-47.1
Consumer goods	42	38	-10.0
Consumer services	24	27	13.4
Insurance	22	16	-24.4
Basic materials	9	11	26.4
Oil & gas	5	7	53.6
Technology	1	5	336.3
Healthcare	5	3	-29.4
Total	860	782	-9.1

Source: Kuwait Stock Exchange

*Adjusted for NBK's consolidation of Boubayan Bank

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