

Corporate earnings

# Kuwait: 1Q16 corporate earnings signal softening across the board

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The financial results of companies listed on the Kuwait Stock Exchange (KSE) for 1Q16 were disappointing. Low oil prices seem to have taken a toll on the corporate sector with signs that nonoil activity is cooler than it would have been, had oil prices remained above \$100. Signs of softness were prevalent in most sectors but more pronounced in non-bank financial services and real estate. Meanwhile, profit announcements seemed to have minimal effect on stock prices, which have been largely driven by an improvement in oil prices.

The earnings of 151 listed Kuwaiti companies totaled KD 427 million in 1Q16, down by 7% from 1Q15. Reported losses were also up, totaling KD 12.8 million, up by 48% year-on-year (y/y). The number of loss-making companies also increased to 27 from 20.

Banks contributed most to the decline in total profits, with the sector's bottom line down by 8.5% y/y. However, the decline was primarily due to a one-time gain on the sale of an asset at one bank in 1Q15. Excluding this exceptional 2015 gain, bank profits show a decent 6% y/y rise; but even after the adjustment, profits of all listed companies would still show a 1% y/y decline.

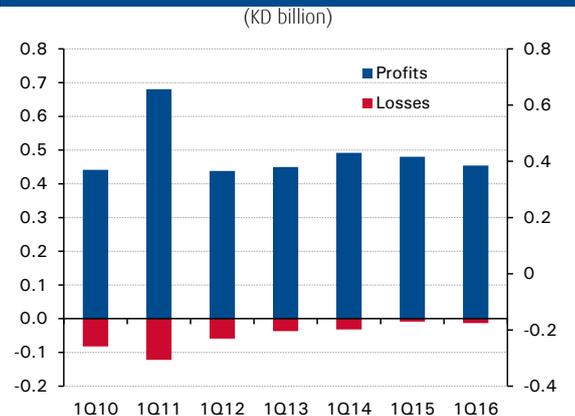
Banking results were mixed, with some banks registering double-digit growth just as others saw notable declines in earnings. Nonetheless, banks continued to show resilience given the current environment of low oil prices and concerns in Kuwait and the region that economic growth might be moderating. Indeed, asset growth remained healthy despite some moderation while asset quality continued to improve.

Earnings of non-bank financial services and real estate companies signaled more genuine vulnerabilities. The poor performance of Kuwaiti and regional equities in 1Q16 appeared to weigh on the portfolios of investment companies. As a result, financial services companies saw profits decline by 36% y/y. Declines were broad-based, with more than half of reporting companies seeing profits down and nine showing losses compared to four in 1Q15. Real estate companies suffered a similar fate in 1Q16 as oil price volatility appeared to weigh on the real estate market, and activity declined 18% y/y. Nearly half of the reporting companies saw profits decline while total sector profits were down 27% y/y. Eight companies suffered losses compared to five in 1Q15.

Even the more resilient consumer sector showed signs of softening. Profits of consumer services and consumer goods companies dropped by 5% and 2% y/y, respectively. Half of the companies in the sector saw declines in profits.

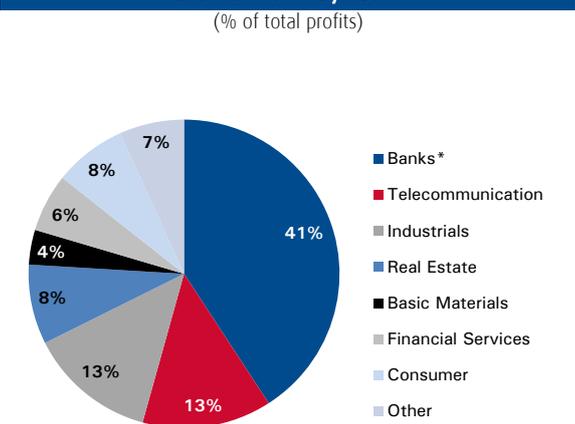
Meanwhile, results of most of the other sectors were far from impressive. The oil and gas sector saw the biggest jump in profits, but the increase was primarily due to a restructuring of debt into capital at one company. Meanwhile, the telecom sector continues to face a challenging environment as intense competition from within the sector

Chart 1: Total profits



Source: Kuwait Stock Exchange

Chart 2: Profits by sector



Source: Kuwait Stock Exchange

Table: Profits by sector

(KD million)	Net profits		Growth
	1Q15	1Q16	% y/y
Banks*	190	174	-8.5
Telecommunications	54	57	6.1
Industrials	56	57	1.3
Real Estate	49	36	-26.5
Financial Services	40	26	-35.7
Consumer Goods	19	19	-1.8
Basic Materials	16	16	-5.3
Insurance	14	13	-7.6
Consumer Services	14	13	-4.5
Oil & Gas	1	7	391.4
Technology	1	5	327.4
Healthcare	3	3	21.1
Total	459	427	-7.0

Source: Kuwait Stock Exchange

\* Adjusted for NBK's consolidation of Boubyan Bank.

and from non-traditional providers eats into profit margins.

**The impact of profit announcements on stock prices was relatively muted.** The KSE, like all other GCC stock markets, continued to be driven primarily by the movement of oil prices which have recovered by more than 70% from their January low. As of May 25<sup>th</sup> closing, the KSE value-weighted index was up 1% on the quarter in line with regional markets.

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