

Corporate earnings

Kuwait: Banks drive earnings growth in 1H15, amid weakness elsewhere

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Financial results for corporates listed on the KSE revealed strong growth in banking, real estate and financial services sectors during the first half of 2015, though overall results were more mixed.

Weakness in telecommunication and oil and gas companies offset the robust growth seen in other sectors. As a result, aggregate profits were up an unimpressive 5.6% with no noticeable impact on equity prices.

Earnings of 169 Kuwaiti listed companies totalled KD 868 million. Earnings' growth appears to have moderated somewhat from the stronger results seen in 1H14. Nonetheless, reported losses continued to shrink, declining by 42% y/y in 1H15 to KD 29 million. The number of loss-making companies was steady.

Banks were the main driver of growth with the sector's profits up a solid 13% y/y. Banks benefitted from an improving operating environment and healthy growth in credit. With such results, bank profits continue to dominate the listed corporate sector with a 41% share of total earnings. Their share increased by three percentage points in 1H15 as the contribution of the telecom sector dropped.

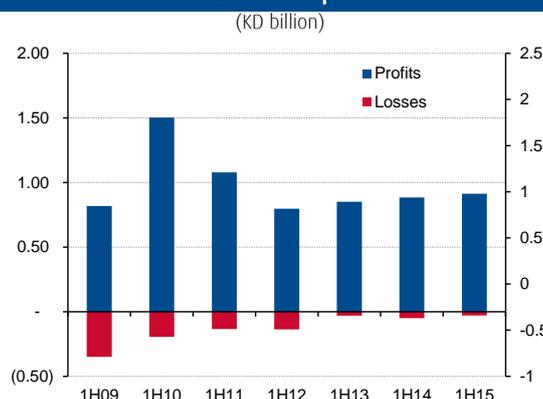
The real estate sector was the second main contributor to growth in earnings. The sector's profits were up a notable 32% y/y totalling KD 96 million. Again, the aggregate figure did not represent the actual performance of the sector. More than 60% of the reporting companies saw a decline in profits in 1H15 compared to 1H14. The growth in the sector's earnings was driven almost entirely by a big gain at one company. Meanwhile, the modest results by other companies seem to be in line with the slowdown seen in the real estate market in 1H15.

Non-bank financial services companies were also a main driver for growth in earnings. Sector profits totalled KD 93 million, up a strong 43% y/y. However, a closer look at the performance of the sector reveals a more modest recovery. Less than half of the sector's reporting companies saw positive growth in profits. The aggregate positive figures for the sector were driven by big loss reversals at a few companies. Meanwhile, the number of companies reporting losses increased to 13 in 1H15 from 9 in 1H14. Poor performance by Kuwaiti and some regional equities in 1H15 appeared to weigh on the portfolios of investment companies.

Telecommunication companies pulled corporate profits down as earnings shrank by nearly a third. The two biggest companies in the sector saw notable declines in profits. Meanwhile, the oil & gas sector was another sector that saw a decline in aggregate profits in 1H15 compared to 1H14 as oil prices dropped more than 50% between the two comparable periods.

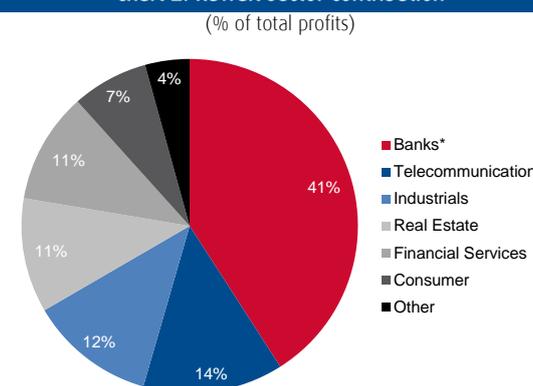
The announcements of corporate earnings didn't seem to have much effect on stock prices. The KSE indices didn't see any significant moves throughout the reporting period.

Chart 1: Total profits



Source: Kuwait Stock Exchange

Chart 2: Kuwait sector contribution



Source: Kuwait Stock Exchange

Table: Profits by sector

(KD million)	Net profits		Growth % y/y
	1H14	1Q15	
Banks	315	355	12.9
Telecommunications	172	117	-31.8
Industrials	94	105	11.8
Real Estate	73	96	31.6
Financial Services	71	93	43.4
Consumer Goods	40	42	4.5
Consumer Services	18	22	19.2
Insurance	13	19	48
Basic Materials	6	6	5.8
Oil & Gas	12	5	-60.8
Healthcare	5	5	0.7
Technology	3	3	-10.9
Total	822	868	5.6

Source: Kuwait Stock Exchange

* Adjusted for NBK's consolidation of Boubyan Bank.

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