

Corporate earnings

Kuwait: Corporate earnings better than expected, though they remain soft

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The financial results of Kuwaiti exchange-listed companies continued to signal some softness, though performance did appear to surprise on the upside. The corporate sector has felt the heat of the current low oil price environment with signs of weakness more prevalent in non-bank financial services and real estate. However, profit announcements seemed to surprise on the upside with stocks making good gains since the reporting period commenced. Equities have also been supported by a generally improved sentiment brought about by the sale of Americana to a UAE investor.

Earnings of listed corporates declined by 6% year-on-year (y/y). The aggregate profits of 166 reporting companies, out of a total of 171 Kuwaiti companies listed on Boursa Kuwait, declined to KD 1.1 billion in the first nine months of 2016 (9M16). Profit growth would still show a 4.2% y/y decline even after making an adjustment for a large one-time gain recorded in 1Q15 by one of the banks. Losses also grew; reported losses rose to KD 82 million, an increase of 59% y/y, while the number of loss-making companies was stable at 40. However, earnings results appeared to improve in 3Q16 compared to the first half of the year.

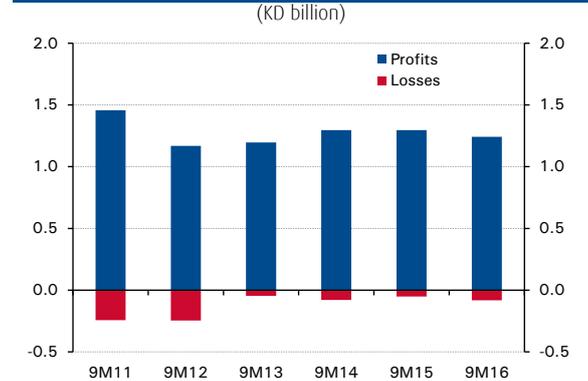
The large decline in oil prices since the middle of 2014 has clearly hurt the performance of corporates as the operating environment proved more challenging. Total revenues for a sample of 130 listed companies saw a decline of 2.7% y/y for 9M16. This is the second consecutive year of declines in total revenues (Chart 3). However, business activity should be on track to recover as nonoil growth is expected to pick up slightly in 2017 driven by investments.

Non-bank financial services accounted for most of the decline in profits, with sector earnings down by 69% y/y. The poor performance of GCC equities earlier in 2016 appeared to weigh on the portfolios of investment companies. Also, low volumes in the local bourse likely weighed on the sector's commission income. As a result, 14 companies in the sector suffered aggregate losses of KD 53 million. Of the 41 companies that announced 9M16 results, 27 saw their profits decline compared to 9M15.

Real estate companies were also a main contributor to weakness. Total sector profits retreated 28% y/y and the decline was broad-based; around 60% of reporting companies saw profits down on the year and 15 reported losses compared to 11 in 9M15. This coincided with a sharp decrease in activity in the real estate market and a notable price correction. The value of sales was down 27% y/y in 9M16 and NBK real estate price indices are off by 13-16% y/y.

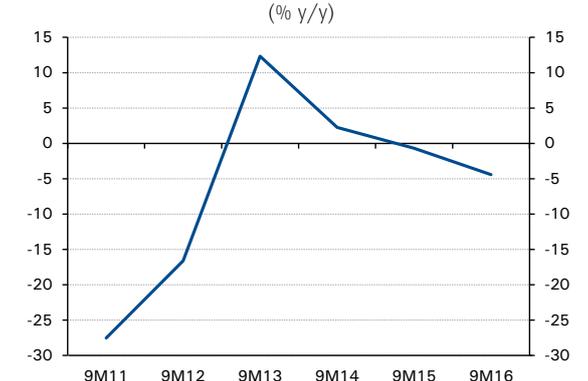
Bank results were mixed with some registering double-digit growth just as others saw notable declines in earnings. On a sector level, profits were off 0.5% y/y in 9M16. However, on an adjusted basis, total sector profits were up 3.9% y/y as banks continued to show resilience in the current low oil price environment and amid concerns in Kuwait and

Chart 1: Profits and Losses



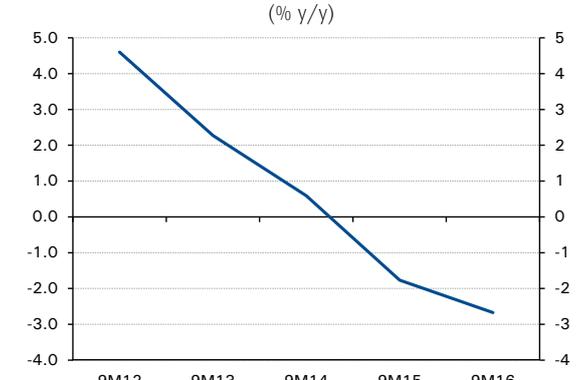
Source: Boursa Kuwait

Chart 2: Profits



Source: Boursa Kuwait, *Same company profits

Chart 3: Total Revenues



Source: Boursa Kuwait, *Sample of companies

the region that economic growth might be moderating.

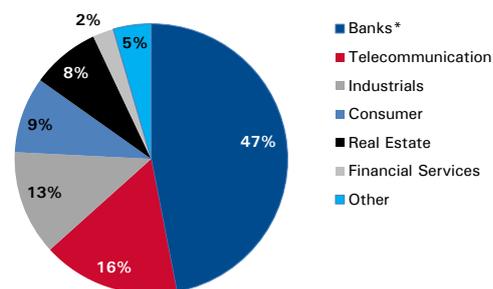
The consumer sector was the main contributor to growth despite coming off its more robust performance of the previous few years.

On aggregate, profits of consumer services and consumer goods sectors increased by 11% and 10% y/y, respectively. However, more than half of the companies in these sectors saw declines in profits.

Profit announcements seemed to have surprised on the upside.

Bursa Kuwait's value weighted index is up 4.7% since the end of September. A sample of 11 blue chip companies announced net profits 19% above the mean analyst estimates. Out of this sample, only two companies saw negative earnings surprises. Also, the acquisition of a controlling stake in Americana by a UAE investor gave market sentiment a major boost.

Chart 4: Profits by sector



Source: Bursa Kuwait

Table: Profits by sector

(KD million)	Net profits		Growth
	9M15	9M16	% y/y
Banking*	540	537	-0.5
Telecommunication	180	186	3.6
Industrials	136	143	5.3
Financial services	91	28	-69.0
Real estate	129	93	-27.8
Consumer services	35	39	11.4
Consumer goods	59	65	9.9
Insurance	29	19	-35.8
Oil & gas	0	5	...
Basic materials	8	16	112.5
Healthcare	6	5	-25.0
Technology	3	7	105.9
Total	1,216	1,143	-6.0

Source: Bursa Kuwait

* Adjusted for NBK's consolidation of Boubyan Bank.

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