

Corporate earnings

Kuwait: Corporate earnings were soft in 2016, but improved in second half

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The financial results of Kuwaiti exchange-listed companies for 2016 reflected the softness seen in business activity especially in the first half of the year. The corporate sector has felt the heat of the current low oil price environment with signs of weakness more prevalent in real estate, consumer and non-bank financial sectors. Profit announcements may have weighed on Kuwaiti equities in recent weeks, especially after a remarkable start to the year.

Earnings of listed corporates were flat on the year. The aggregate profits of 155 reporting companies, out of a total of 168 Kuwaiti companies listed on Boursa Kuwait, totaled KD 1.5 billion, up a mere 0.6% year-on-year (y/y). There was a rise in reported losses, which reached KD 173 million, up 5.5% y/y, though the number of loss-making companies dropped. However, earnings improved during the second half of the year on an overall pick-up in sentiment brought about by a rebound in oil prices.

Low oil prices have taken a toll on the performance of corporates as the operating environment proved more challenging. Since oil price took a downturn in 2014, the revenues of a sample of 92 companies dropped. In 2016, revenues of these companies totaled KD 7.6 billion, down 2.5% y/y. However, business activity should be on track to recover as non-oil growth is expected to pick up slightly in 2017 driven by investment and government capital spending.

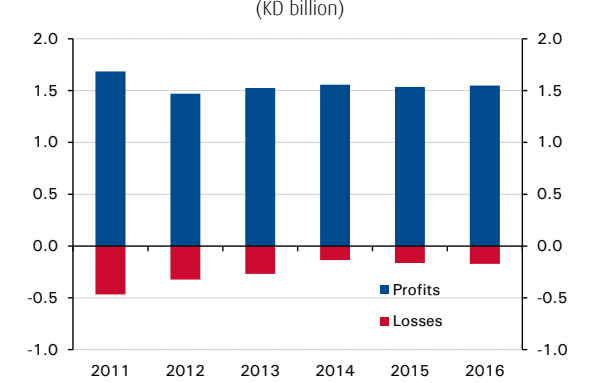
The industrial sector was the main contributor to profit growth in 2016. Profits for this sector were KD 181 million, up 49% y/y. The increase in profits was primarily due to a reversal in a large loss incurred in 2015 by one of the companies. Results were mixed among other companies within the sector.

Banks also helped offset declines at other sectors. Bank profits totaled KD 733 million, up 5.5% y/y. Most banks contributed to profit growth in the sector with only two banks seeing declines in bottom lines. The gains came primarily on the back of a decline in provisions and moderate growth in net interest income.

Real estate companies accounted for most of the weakness in profits, with sector earnings down by 28% y/y. The decline was broad-based; over half of the sector saw profits down on the year and 11 companies reported losses compared to nine in 2015. Indeed, low oil prices have hurt the real estate market in Kuwait, with 2015 and 2016 seeing a sharp decline in activity and a notable price correction. The value of sales was reduced by a quarter in 2016, while NBK's real estate price indices were off by 6-13% y/y during the year, though they now appear to be stabilizing.

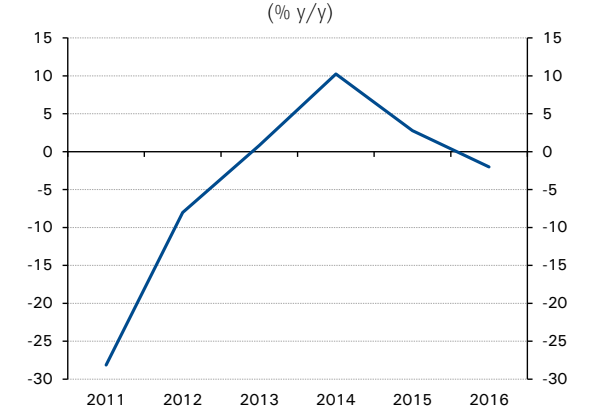
Consumer companies also weighed on corporate profit growth as sector earnings dropped 27% y/y. While a big loss at one of the companies was primarily behind the drop, more than half of the companies in the sector saw a decline in profits compared to 2015. The

Chart 1: Profits and losses (KD billion)



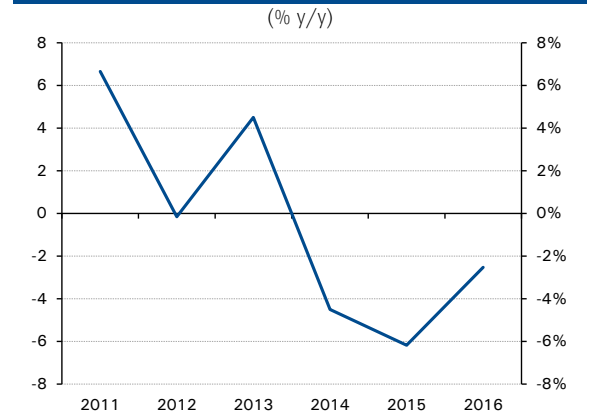
Source: Boursa Kuwait

Chart 2: Profits (% y/y)



Source: Boursa Kuwait, *Same company profits

Chart 3: Total revenues (% y/y)



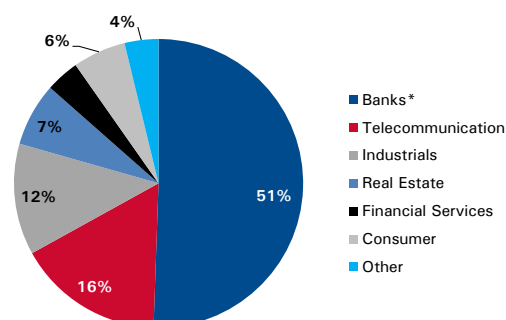
Source: Thomson Reuters Eikon, *Sample of companies

decline in the consumer sector's profitability serves as a further confirmation of a normalizing sector as seen in other data such as consumer spending, imports of consumer goods, confidence indicators and household debt.

Non-bank financial companies were also a main contributor to the overall weakness. Sector profits retreated by 33% y/y and again weakness was prevalent across the sector with 14 companies reporting losses and more than 40% seeing declines in profits compared to 2015. 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.

Profit announcements may have put some downward pressure on equity prices. Boursa Kuwait saw a strong rally in January with the value-weighted index advancing 12.4% on the month. Reported earnings didn't seem to support the rally and the index gave up some of its gains to end the quarter up 9.3%.

Chart 4: Profits by sector



Source: Boursa Kuwait

Table: Profits by sector

(KD million)	Net profits		Growth
	2015	2016	% y/y
Banks*	694	733	5.5%
Basic Materials	20	21	1.4%
Consumer Goods	67	69	1.9%
Consumer Services	50	17	-65.2%
Financial Services	82	55	-33.3%
Healthcare	1	11	775.0%
Industrials	121	181	49.3%
Insurance	35	25	-29.5%
Oil & Gas	6	-6	-199.4%
Real Estate	142	103	-27.8%
Technology	4	5	24.6%
Telecommunications	218	238	9.0%
Total	1,441	1,450	0.6%

Source: Boursa Kuwait

* Adjusted for NBK's consolidation of Boubyan Bank.

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