

Corporate earnings

Kuwait: Corporate earnings up on strong investment gains

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Listed Kuwaiti companies saw a notable rise in profits in the first half of 2017; however, weak revenue growth continued to indicate softness in business activity. The financial sector was the main contributor to growth as investment gains, especially earlier in the year, boosted companies' bottom lines. Meanwhile, results in other sectors, including consumer companies, reflected a more lackluster operating environment. Profit announcements seemed to have a positive impact on market sentiment, with the general index up 6.4% during the reporting period.

Earnings of listed corporates were up 16% y/y during the first half of the year. The aggregate profits of 150 reporting companies, out of 158 Kuwaiti companies listed on Boursa Kuwait, rose to KD 883 million. There was also a significant drop in aggregate losses, declining by 50% y/y to KD 25 million; the number of loss-making companies fell from 38 in 1H16 to 34.

The financial services sector benefited from the stock market rally earlier in the year. Boursa Kuwait has since given up some of these gains but the value-weighted index was still up 5% in 1H17. Non-bank financial service companies with large exposures to the local market made strong gains on their investment portfolios. Total profits for this sector tripled compared to 1H16 to KD 93 million. The strong results of the sector were broad-based. The number of loss-making companies dropped notably compared to 1H16 with 70% of reporting companies seeing an improvement in earnings.

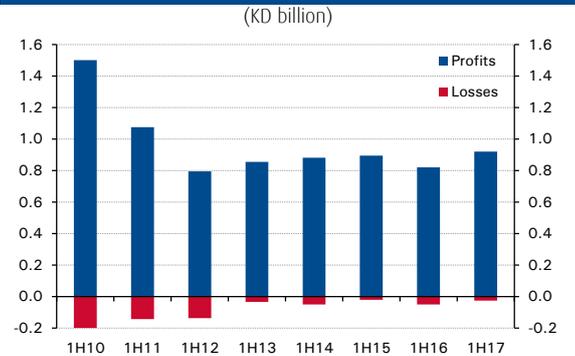
Banks were the second largest contributor to profit growth in 1H17. Profits for the sector rose a good 8.4% to KD 375 million. Most banks contributed to the growth, with only two banks seeing declines in earnings. While growth came primarily from investment gains, net interest income also supported the sector's profitability.

Industrial companies were another main contributor to profit growth. The sector's profits were up 18% in 1H17. Gains from the sector were also broad-based with 65% of the companies seeing positive growth in earnings.

Results were mostly mixed across the remaining sectors, with weakness stemming from the consumer sector. Profits for the consumer sector were down 15% y/y, with more than half of the companies seeing declines in earnings. The weakness seen in the sector's profitability serves as further confirmation of a moderating trend in the sector, something seen in other data such as consumer spending, imports of consumer goods, confidence indicators and household debt.

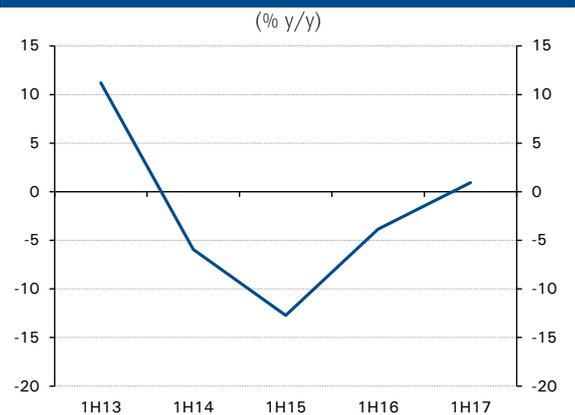
The strength of investment income masked continued weakness in revenues. A sample of 73 non-bank listed companies saw an increase of just 1% y/y in total revenues. Subdued revenue growth is a reflection of a challenging business environment still faced by some sectors represented in the bourse.

Chart 1: Profits and losses



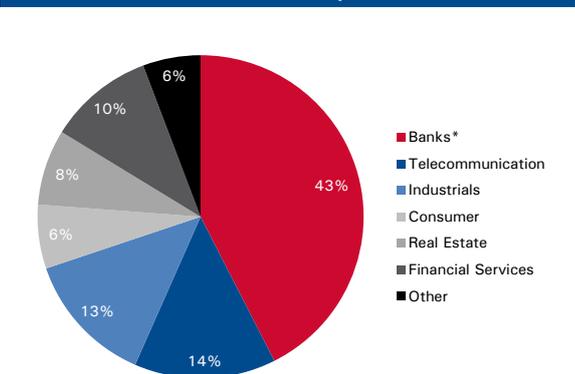
Source: Boursa Kuwait

Chart 2: Total revenues



Source: Thomson Reuters Eikon, *Sample of companies

Chart 3: Profits by sector



Source: Boursa Kuwait

Profit announcements seemed to have a positive impact on equity prices. The value-weighted index advanced 6.4% during the reporting period.

Table: Profits by sector

(KD million)	Net profits		Growth
	1H16	1H17	% y/y
Banks*	346	375	8.4%
Basic Materials	9	16	74.1%
Consumer Goods	39	37	-3.7%
Consumer Services	27	19	-29.1%
Financial Services	24	93	293.9%
Healthcare	5	7	33.6%
Industrials	99	117	17.7%
Insurance	14	21	44.7%
Oil & Gas	7	6	-17.1%
Real Estate	62	67	7.2%
Technology	6	1	-75.0%
Telecommunications	122	124	1.9%
Total	760	883	16.1%

Source: Boursa Kuwait

* Adjusted for NBK's consolidation of Boubyan Bank.

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