



Markets Outlook

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INVEST AD

شركة أبوظبي للاستثمار
Abu Dhabi Investment Company

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Focus

Q4 results signal better times for Saudi banks and UAE developers

With the fourth-quarter earnings results season just finished, it is clear that the performance and prospects of listed companies across the Arabian Gulf are diverging, with healthcare providers, entertainment and tourism companies, and some property developers likely to do relatively well, while construction firms and many banks are struggling.

In Saudi Arabia, healthcare companies, and retail banks in general reported stronger fourth results. Banks in Saudi Arabia saw some credit growth in 2016, and at the end of the year many resumed lending to contractors, which had been hit by payment delays. The sector reported an aggregate 5.4 percent increase in 2016 net profit, despite higher provisions, mainly for loans to the construction sector. Saudi banks are likely to continue to perform well this year, especially if liquidity conditions continue to improve. And in a rising interest-rate environment, they should see net interest margins widen, as their funding is largely made up of individual customer deposits – and these types of deposit rates can usually be held down while lending rates rise.

In the UAE, where funding is largely through the wholesale market or from corporate deposits, banks will see less of a benefit from the widely expected further rise in benchmark interest rates this year. Although UAE bank results broadly beat expectations, it is clear that credit growth is weak and non-performing loans are on the rise. While deposits grew across the board quarter-on-quarter, the loan book contracted by around 2 percent at a couple of UAE banks. Non-performing loan ratios ranged from 2.3 percent at First Gulf Bank to 3.9 percent at Dubai Islamic Bank, and 9.1 percent at Emirates Investment Bank, prompting a rise in provisions across the sector.

Meanwhile, we can expect the leading UAE developers, such as Emaar, to achieve better earnings this year. Emaar reported a 56 percent increase in fourth-quarter net profit, boosted by higher revenues from property developments as well as the performance of its malls and hospitality businesses.

However, construction companies in the region continue to see their margins squeezed, and are suffering from reduced spending on physical infrastructure. Exceptions to this may be contractors that are heavily involved in delivering Dubai Expo and Qatar World Cup.

UAE entertainment and tourism companies – such as Dubai Parks and Resorts, Emaar Malls, and DXB Entertainments – will benefit from greater local and regional visitor growth numbers in 2017. With Legoland and Bollywood Parks Dubai open, the emphasis this year is on the full opening of all rides at Motiongate Dubai.

Plans for international amusement park company Six Flags to open in the UAE in 2019 at the Dubai Parks and Resorts destination alongside additional hotels create further investment opportunities for 2017 – especially after recent share price correction.

Emaar malls, which recently announced a 13 percent year-on-year increase in net profits, has prime exposure to the increasing tourist numbers in Dubai. The company is looking to expand the Dubai Mall retail space this year by around 15 percent, and at current valuations of 15.7x earnings, which is a 15 percent discount to emerging market peers, this offers an attractive dividend yield of 3.7 percent.

With crude oil forecast to fluctuate in the US\$ 50 to US\$ 60 range – about double the lowest level hit in early 2016 – regional

economic activity and liquidity conditions should gradually improve. GCC fiscal deficits are expected to narrow slightly to an aggregate of 6.5 percent of GDP in 2017, with governments prioritizing spending on sectors that have a direct beneficial impact on the lives of local populations.

Companies involved in healthcare, education, and social and human capital development should do well. Saudi Arabian healthcare companies such as Al Mouwassat, and Al Hammadi should benefit from this spending, while NMC Health should continue to grow through bolt-on acquisitions and organic growth, as demand for specialized medical services increases.

Mohammed Al Hashemi is the executive director of Invest AD Asset Management PJSC. The article was originally published in The National on March 02, 2017.

Equities

GCC

Sentiment in GCC markets remains cautiously optimistic, with investors generally confident that the pressures exerted on the corporate sector by fiscal consolidation are easing. Companies are continuing to make structural changes to adjust to a period of relative austerity and earnings are expected to approach a trough over the next few months.

A number of recent Q4 and annual earnings announcements put the UAE in the spotlight. Results from large companies were more or less in line with expectations, and the few misses were in a number of cases driven by one-off charges. Most banks continued to report sub-par growth in their loan books as well as rising risk-related costs. In general the outlook for banks is mixed. SME and retail loan risks are likely to decline in the coming quarters and funding pressures are easing, but the cost of funding should still be watched closely in 2017. In our view net interest margin and loan growth will remain relatively flat this year, and banks will also be coping with IFRS-related issues.

We remain positive on the valuations of key companies in the real estate and property development sector, which we feel have adequately priced in the headwinds that continue to affect rental and sale prices. With Q4 results announcements behind us, market direction and sentiment will depend largely on liquidity trends and international developments. Liquidity events such as the FTSE rebalancing in March will drive regional investor positioning and hence market movements.

Market data as of February 24, 2017

| Country/Region | Closing price | MTD | YTD | 3M | 1Y | 3Y |
|---------------------------------------|---------------|--------|--------|---------|---------|---------|
| S&P GCC | 168.71 | -0.42% | 1.85% | 7.50% | 21.71% | -10.09% |
| S&P Frontier BMI | 99.41 | 0.79% | 7.87% | 10.71% | 15.32% | -8.45% |
| S&P Pan Arab | 158.24 | -0.20% | 2.14% | 7.72% | 20.73% | -9.44% |
| MSCI Emerging Markets | 943.52 | 3.08% | 9.52% | 10.73% | 31.72% | 7.16% |
| MSCI World Total Return | 5,103.42 | 2.26% | 5.36% | 7.37% | 20.88% | 16.99% |
| MSCI EFM Africa Ex S.A. | 424.34 | -1.72% | -0.18% | 4.10% | 1.02% | -25.59% |
| Total return in local currency (MSCI) | | | | | | |
| MSCI UAE | 145.91 | 0.05% | 5.51% | 12.61% | 20.84% | -2.36% |
| Saudi Arabia | 1,878.83 | -1.21% | -2.12% | 3.84% | 22.37% | -14.43% |
| MSCI Kuwait | 1,643.18 | -1.58% | 11.79% | 15.38% | 23.07% | -10.52% |
| MSCI Qatar | 865.29 | 0.03% | 5.55% | 13.57% | 15.65% | -8.69% |
| MSCI Oman | 1,694.47 | 0.51% | -2.10% | 4.01% | 9.94% | -5.86% |
| MSCI Bahrain | 233.41 | 5.77% | 20.34% | 21.51% | 25.24% | -35.93% |
| Total return in USD (MSCI) | | | | | | |
| MSCI Egypt | 182.54 | 10.74% | 11.38% | 17.94% | 14.91% | -12.22% |
| MSCI Turkey | 345,253.43 | 13.56% | 11.40% | 13.83% | -2.90% | -6.19% |
| MSCI Jordan | 248.98 | 3.24% | 2.78% | 5.17% | 3.51% | -18.91% |
| MSCI Lebanon | 0.47 | 0.30% | -0.12% | -2.66% | 11.32% | 1.88% |
| MSCI Morocco | 33.72 | -6.85% | 0.25% | 9.86% | 29.56% | 16.41% |
| MSCI Botswana | 67.86 | 3.27% | 1.61% | 0.67% | -15.54% | -28.09% |
| MSCI Ghana | 376.40 | -4.30% | -5.45% | -14.05% | -26.87% | -66.64% |
| MSCI Kenya | 15.94 | 2.28% | -8.34% | -12.41% | -5.91% | -3.55% |
| MSCI Mauritius | 25.27 | 0.13% | 2.28% | -0.33% | 5.22% | -18.49% |
| MSCI Nigeria | 1.57 | -7.73% | -7.84% | -3.40% | -28.87% | -58.57% |
| MSCI Tunisia | 674.86 | 2.11% | 3.61% | 3.67% | -4.85% | -16.91% |
| MSCI South Africa | 100.11 | 4.08% | 7.89% | 12.85% | 32.96% | 3.04% |
| S&P Zambia | 102.33 | 10.85% | 8.99% | 12.25% | 0.06% | -47.18% |

Source: Bloomberg