

Corporate earnings

Kuwait: Strong bank results offset by weakness in other sectors

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The financial results for the first nine months of 2015 (9M15) of corporates listed on the Kuwait Stock Exchange (KSE) were disappointing. Strong performance by the banking sector was offset by weakness in the telecom and non-bank financial services sectors. The unimpressive results failed to provide any stimulus to the market.

Earnings of 166 Kuwaiti listed companies totalled KD 1.23 billion, down 2% compared to 9M14. Nonetheless, reported losses continued to shrink, declining by 12% year-on-year (y/y) in 9M15 to KD 52 million. However, the number of loss-making companies increased to 38 from 28.

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 continued to dominate the listed corporate sector with a 46% share of total earnings. Their share increased by four percentage points in 9M15 as the contribution of the telecom sector dropped.

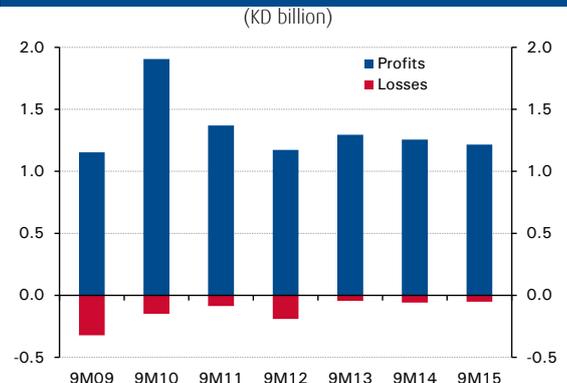
Several other sectors saw their profits increase compared to the same period last year. The insurance sector was the second largest contributor to growth followed by the industrial and real estate sectors. The strong results of the insurance sector were broad based, with almost all insurance companies seeing healthy growth in profits. However, in the case of the real estate sector, the aggregate figure masked more widespread weakness in the sector. The growth in the sector's earnings was driven almost entirely by a large gain at one company. By contrast, the weak results by other companies are largely in line with the slowdown seen in the real estate market in 9M15.

Telecommunication companies pulled corporate profits down as earnings shrank by nearly a quarter. The two largest telecom companies saw notable declines in profits. The sector has seen intensifying competition eat into profit margins including competition from non-traditional providers. Some operators have also seen foreign exchange losses related to exposures to North Africa and other markets. The oil & gas sector also saw its aggregate profits decline notable, with the sector breaking even during 9M15. This coincided with a large decline in oil prices of around 50% between 9M15 and 9M14. However, the sector is relatively small and has limited impact.

Non-bank financial services companies were the second largest contributor to the weakness in corporate earnings. The sector had been slowly but surely showing signs of recovery in the past couple of years. But poor performance by Kuwaiti and regional equities in 9M15 appeared to weigh on the portfolios of investment companies. More than 75% of reporting companies saw earnings decline y/y.

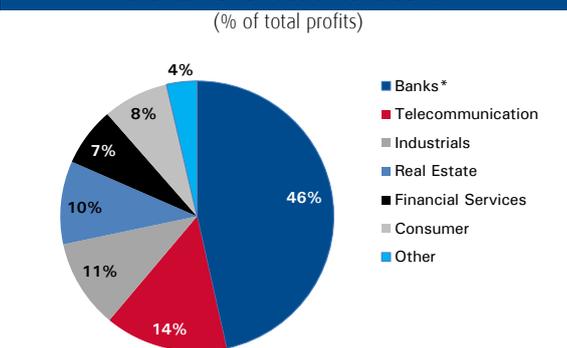
The announcements of corporate earnings didn't seem to have much effect on stock prices. The KSE indices didn't see any significant moves throughout the reporting period.

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
	9M14	9M15	% y/y
Banks*	507	573	13.0
Telecommunications	236	179	-24.1
Industrials	122	131	7.1
Real Estate	115	123	6.7
Financial Services	133	86	-34.9
Consumer Goods	55	59	7.8
Consumer Services	33	37	10.2
Insurance	18	29	64.5
Basic Materials	18	6	-67.2
Oil & Gas	8	0	-101.4
Healthcare	6	6	0.6
Technology	4	3	-25.4
Total	1,256	1,232	-1.9

Source: Kuwait Stock Exchange

* Adjusted for NBK's consolidation of Boubyan Bank.

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