

Corporate earnings

Kuwait: The 1Q17 rally in Kuwaiti equities boosted corporate earnings

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The financial results of Kuwaiti exchange-listed companies for 1Q17 show a notable rise in profits. Strong investment gains primarily by the financial services sector were the main contributor to growth. Meanwhile, results in other sectors, mainly consumer companies, reflect a more lackluster business environment. Despite the strong figures, profit announcements did not appear to have much impact on stock prices, with equities continuing to slip after the 1Q17 rally.

Earnings of listed corporates were up a strong 20% y/y. The aggregate profits of 136 reporting companies, out of a total of 156 Kuwaiti companies listed on Boursa Kuwait, rose to KD 474 million. There was also a significant drop in aggregate losses which came in at KD 8.9 million, down 66% y/y as the number of loss-making companies fell by a third to 24.

The financial services sector benefited from the stock market rally in 1Q17. Boursa Kuwait's value-weighted index advanced 9.3% during the quarter, which saw financial services companies with large exposures to the local market make strong gains. Total profits for this sector quadrupled compared to 1Q16 reaching KD 56 million. The strong results of the sector were broad-based. More than half of the loss-reporting companies in 1Q16 saw loss reversals in 1Q17 and more than 60% of profitable companies in both periods saw strong growth in net income.

The industrial sector was the second largest contributor to profit growth in 1Q17. Profits for this sector were KD 68 million, up 29% y/y. Most industrial companies saw healthy profit growth with only one company reporting a loss in 1Q17 compared to three in 1Q16.

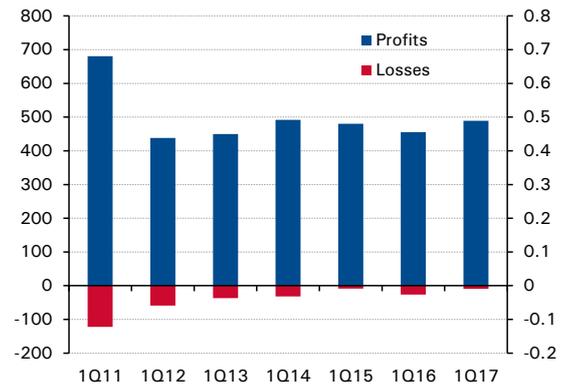
Bank profit rose a decent 6.6% to a total of KD 190 million. Most banks contributed to the growth with only one bank seeing a sharp drop in earnings. Growth was primarily in core income and boosted by investments gains.

The consumer sector was one of the weakest in 1Q17. Total profits were KD 34 million, down 5.6% y/y with almost half of the companies seeing declines in profitability. The decline in consumer sector 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.

The strength of investment income during the quarter masked continued weakness in revenues. A sample of 37 non-bank listed companies saw a drop of 2.5% y/y in total revenues. Negative revenue growth is a reflection of the softness we continue to see in business activity.

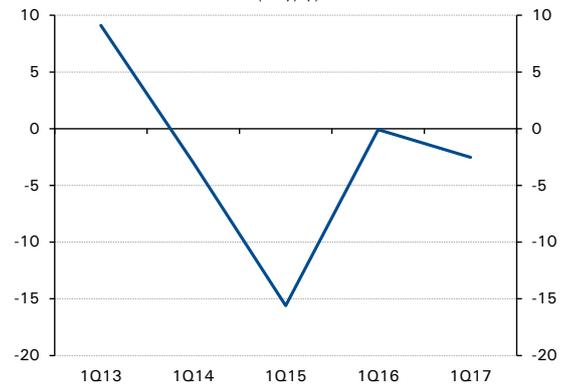
Profit announcements did not appear to have much impact on equity prices. Despite the overall strong numbers, a sample of 11 companies announced profits which were on average 3% lower than expectations. The value-weighted index retreated 3.5% during the reporting period.

Chart 1: Profits and losses (KD billion)



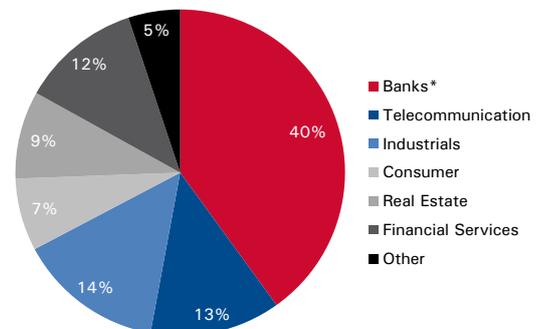
Source: Boursa Kuwait

Chart 2: Total revenues (% y/y)



Source: Thomson Reuters Eikon, *Sample of companies

Chart 3: Profits by sector



Source: Boursa Kuwait

Table: Profits by sector

(KD million)	Net profits		Growth
	1Q16	1Q17	% y/y
Banks*	178	190	6.6%
Basic Materials	1	5	821.5%
Consumer Goods	24	23	-0.3%
Consumer Services	13	11	-17.1%
Financial Services	14	56	297.6%
Healthcare	2	2	20.2%
Industrials	53	68	28.8%
Insurance	12	12	4.5%
Oil & Gas	4	4	11.2%
Real Estate	35	41	18.7%
Technology	5	0	-92.5%
Telecommunications	57	61	5.8%
Total	396	474	19.8%

Source: Boursa Kuwait

* Adjusted for NBK's consolidation of Boubyan Bank.

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