GCC set for a Mega IPO year

S&P affirms stable outlook for Kuwait

March 2018

Research Highlights
GCC Economic and Market Commentary for February, 2018

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M.R. Raghu, CFA, FRM
Head of Research
+965 2224 8280
rmandagolathur@markaz.com

Rajesh Dheenathayalan, CFA
Manager - Research
+965 224 8000 Ext: 4608

Ajay Samuel
Research Analyst
+965 224 8000 Ext: 4625

Kuwait Financial Centre K.P.S.C "Markaz"

P.O. Box 23444, Safat 13095, Kuwait
Tel: +965 2224 8000
Fax: +965 2242 5828

During February 2018, oil prices dropped by 4.7% to close below USD 66/bbl, despite the improved compliance levels of OPEC members towards production cuts. The broader S&P GCC Composite Index fell by 2.5% during February 2018, in-line with most of the GCC markets which declined.

The global markets retreated after a strong showing in the previous month. MSCI World index and U.S (S&P 500) lost 4.3% and 3.9%, respectively for the month. The U.S market suffered the worst week in two years during the start of February after a sell-off triggered by a Department of Labour report stating that wages were growing faster than expected. U.S markets, however, rallied back only to fall again at the end of the month as the new Fed chairman Jerome Powell's comments did little to appease investors' inflation fears.

Saudi Arabia and the UAE are set to lead the way for IPOs in 2018 as nearly 30 GCC companies are expected to go public. The positivity witnessed in 2017 is anticipated to continue through to 2018 as companies seek to capitalize on the growth potential of the capital market.

Saudi Arabia's cabinet has approved a new bankruptcy law, in an attempt to attract more foreign investments into the country and encourage SME growth. Though the finer details are still unknown, the revised framework is expected to strengthen the legal infrastructure for companies to confront financial difficulties efficiently.

Nasdaq Dubai launched their first index based futures contracts, linked to DFM's General Index and ADX's main share index, the ADI. The launch of the futures is expected to help increase liquidity, attract international investments and provide a framework for hedging.

Creditors rejected the latest proposal from Dana Gas to restructure the USD 700 mn sukuk contracts that the latter refused to redeem. The company offered to redeem 10% of the sukuk in cash and roll over the rest at an annual profit of 4%. The proposal was rejected as creditors wanted more favourable terms.

Saudi Arabia is working with HSBC, JPMorgan and Mitsubishi UFJ Financial Group on refinancing its existing USD 10bn syndicated loan. S&P affirmed its "AA/A-1+" long-term and short-term foreign and local currency sovereign credit ratings for Kuwait with a stable outlook for the gulf state. The stable outlook is a reflection of Kuwait's strong public and external balance sheets backed by sizeable financial assets. S&P also projected Kuwait's economic growth to hover around 3% annually between 2019 and 2021.

OPEC is closing in on its goal of reducing oil inventories held by industrialized nations to their five-year average, the original target of a supply-cutting pact with Russia and others. The OPEC is reducing output by 1.2 million barrels per day based on the pact with Russia and other non-OPEC producers.

GCC Market Commentary

Performance of GCC markets was negative as evidenced by S&P GCC Index which closed 2.5% lower for the month. Bahrain followed by Kuwait (weighted index) was the region's top performers gaining 1.4% and 0.5%, respectively during February. All the other indices barring Oman were negative with Qatar and Dubai losing the most, closing 5.99% and 4.43% lower than the previous month. GCC market reflected the sentiments of the international markets as major global indices closed lower for the month. Trading volumes have also been lower due to the subdued interest shown by foreign and institutional investors.

GCC IPO rush – Saudi Arabia and UAE set to lead the way

The year 2018 is expected to be of significance for IPOs in the GCC region with Saudi Arabia and UAE playing a major part in it. Nearly 12 companies from Saudi Arabia and 9 companies from UAE could potentially be floating and listing their shares on the respective exchanges. As oil prices are on the path to redemption, liquidity in the market is expected to rise thereby triggering several companies to list their shares.

Nearly 30 companies are expected to go public in the GCC, with the majority listing themselves on the local market while a few big names contemplate the possibility of listing on their global counterparts. One of the major IPOs in the pipeline is that of Saudi Aramco. The progress has been sluggish lately as there have been ongoing talks regarding the selection of appropriate market exchange that could enable successful listing of an IPO of such magnitude.

Table 1: List of major IPOs expected in 2018

Issuer Name	Issuer Nation	Exchange of Listing
Senaat	UAE	Abu Dhabi
Abu Dhabi Ports	UAE	Abu Dhabi
Emirates Global Aluminium PJSC	UAE	Dubai
ServeU LLC	UAE	Dubai
Tristar Transport LLC	UAE	Dubai
Mawarid Technology LLC	UAE	Dubai
GEMS Education	UAE	London
VPS Healthcare	UAE	London
One Foods Holdings Ltd	UAE	London
ACWA Power	KSA	Tadawul - KSA
Dar Al Arkan Property management unit	KSA	Tadawul - KSA
Gulf Steel Works Factory Co	KSA	Tadawul - KSA
Marafiq Power & Water Utility Co for Jubail & Yanbu	KSA	Tadawul - KSA
Al Saedan Real Estate Co	KSA	Tadawul - KSA
National Building & Marketing Co JSC	KSA	Nomu - KSA
Shebal Trading Co	KSA	Nomu - KSA
Saudi Aramco	KSA	-
Baladna Farm	Qatar	Qatar
National Life & General Insurance Co SAOC	Oman	Oman
Boursa Kuwait Securities Co	Kuwait	Kuwait

Source: Reuters; Note: List includes only Live IPOs

Positivity is set to continue into 2018 in the IPO market following an improved showing in 2017 compared to the previous year. The number of IPOs in 2017 shot up by more than four times compared to 2016, showing signs of improvement in market conditions. 17 offerings were seen in the year compared to a meagre 4 offerings in 2016. Gross proceeds also surged during 2017, rising to USD 2.95bn from USD 0.68bn witnessed in 2016.

Bankruptcy Law approved by Saudi Arabia's cabinet

Saudi Arabia's cabinet has approved a new bankruptcy law, in an attempt to attract more foreign investments into the country and encourage SME growth. Previously, Saudi Arabia didn't have a single law that set out procedures for businesses which got into financial trouble, creating difficulties for ones seeking to restructure debt. There were limited alternative opportunities for the troubled companies apart from liquidation of assets.

The revised framework will now provide the legal infrastructure for companies in the country to confront financial difficulties efficiently. It will allow indebted corporations to gradually pay off their debts. Details of the framework are not officially known yet. However, an earlier draft created a provision where a debt restructuring deal could go ahead on the approval of at least two-thirds of creditors.

The enactment of a new Bankruptcy law is part of Saudi Arabia's drive to overhaul its economy. It envisions creating an investor-friendly environment to improve the current business climate in the region and bring in more FDI. SMEs, which form an integral part of any economy, have felt the heat amidst tightened economic conditions in the country. They have often struggled to attract credit from banks. The move will now help them receive more credit as banks now feel safer due to the mechanisms in the new bankruptcy law to protect creditors. In addition, the law is also expected to facilitate deals like the impending IPO of Saudi Aramco to go through.

Nasdaq Dubai launches futures contracts

Nasdaq Dubai launched their first index based futures contracts, linked to DFM's General Index and ADX's main share index, the ADI. The launch was in line with Nasdaq Dubai's strategy to deepen its derivatives market as they look at other indices outside the UAE to launch similar products in the future. Nasdaq Dubai also added that they would be creating futures based on regional MSCI equity indices under a licence agreement announced during Oct 2017.

The index based futures contract will allow investors to gain exposure to a basket of 37 prominent companies in the Middle East listed on DFM. The DFMGI tracks diverse companies in sectors including property, banking, telecom, insurance and transport. The launch of the futures is expected to help increase liquidity, attract international investments and provide a framework for hedging.

Creditors reject Dana Gas proposal

Creditors rejected the latest proposal from Dana Gas to restructure the USD 700 mn sukuk contracts that the latter refused to redeem. Earlier, Dana Gas snubbed creditors by not redeeming its maturing sukuk on the grounds that the instruments were no longer Sharia-compliant because of changes in Islamic finance practice. Dana argued that the sukuk's Mudaraba structure, a form of investment management partnership became obsolete after 2007, the time when the company originally issued the debt.

Legal proceedings are ongoing between the two parties in British and UAE courts as talks regarding an out-of-court settlement has not yielded any results. The company offered to redeem 10% of the sukuk in cash and roll over the rest at an annual profit of 4%. The creditors however refused the offer as they wanted to exchange the sukuk on more favourable terms.

Saudi Arabia eyeing to refinance syndicated loan

Saudi Arabia is working with HSBC, JPMorgan and Mitsubishi UFJ Financial Group on refinancing its existing USD 10bn syndicated loan. Saudi Arabia approached banks on Jan 2018 with requests for proposals to refinance its syndicated loan, and also for further U.S. dollar-denominated bond issuance and potential financing backed by foreign export credit agencies. The loan refinancing will include a repricing of the debt facility and a maturity extension, to 2023 from 2021. It will include an Islamic finance tranche using a Murabaha structure, according to a Debt Management Office (DMO) statement.

Size of the loans has not been determined as it would depend on how much the kingdom plans to raise through international bond issuances and sale of local currency sukuk. The syndicated loan of USD 10bn procured in 2016 was followed by a USD 17.5bn debt issuance in the same year. Saudi Arabia further tapped into the international markets in 2017 with the issuance of both conventional and Islamic bonds.

Table 2: List of International Sovereign issuances by Saudi Arabia in 2017

Issue Date	Issue Size (USD Bn)	Tenor (in Years)	YTM[1]	Type
9/27/2017	4.9	10	3.76%	Bond
9/27/2017	4.5	30	4.66%	Bond
9/27/2017	2.9	5	3.01%	Bond
4/20/2017	4.5	10	3.63%[2]	Sukuk
4/20/2017	4.5	5	2.68%[2]	Sukuk

Source: Reuters, sukuk.com; Note: 1 – YTM as of 25th Feb 2018, 2 – Denotes profit rate

S&P affirms Kuwait's Outlook

S&P affirmed its "AA/A-1+" long-term and short-term foreign and local currency sovereign credit ratings for Kuwait with a stable outlook for the gulf state. The stable outlook is a reflection of Kuwait's strong public and external balance sheets backed by sizeable financial assets. S&P also projected Kuwait's economic growth to hover around 3% annually between 2019 and 2021.

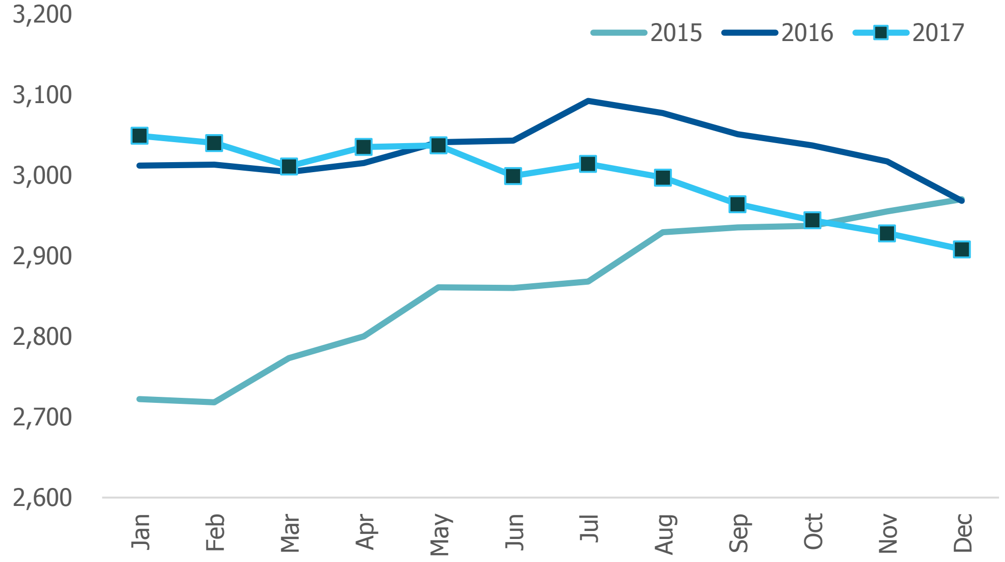
A mild rebound in oil prices along with public investment programs are expected to be key growth drivers for the economy. Fiscal consolidation measures are also expected through to 2020 with the anticipated introduction of VAT and a cap on government spending which includes subsidy cuts. Banking metrics also send a positive signal as they enjoy a strong capital base with required cash adequacy.
However, S&P raised concerns over Kuwait's undiversified economy as it derives about 60% of its GDP, more than 90% of exports, and about 90% of its fiscal receipts from hydrocarbon products. Oil production cuts to meet OPEC targets, have had a big impact on Kuwait's growth in 2017. Despite the concerns, the agency expects Kuwait's

strengths to offset the risks caused by its undiversified economy and rising geopolitical tensions.

OPEC closing in on targets

OPEC is closing in on its goal of reducing oil inventories held by industrialized nations to their five-year average, the original target of a supply-cutting pact with Russia and others. Oil stocks in developed OECD economies, which were 340 million barrels above the five-year average in Jan 2017, were just 74 million barrels above that level last month.

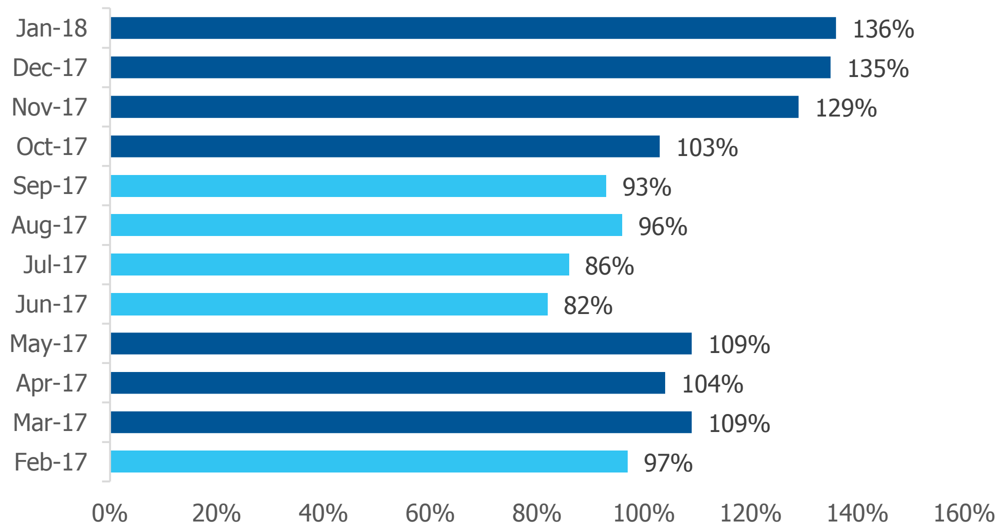
Figure 1: OECD commercial oil inventory (in million barrels)



Source: Reuters, EIA; Note: Values denote end-of-period inventory levels

The Organization of the Petroleum Exporting Countries is reducing output by about 1.2 million barrels per day as part of its deal with Russia and other non-OPEC producers. The pact began in January 2017 and will run until the end of 2018.

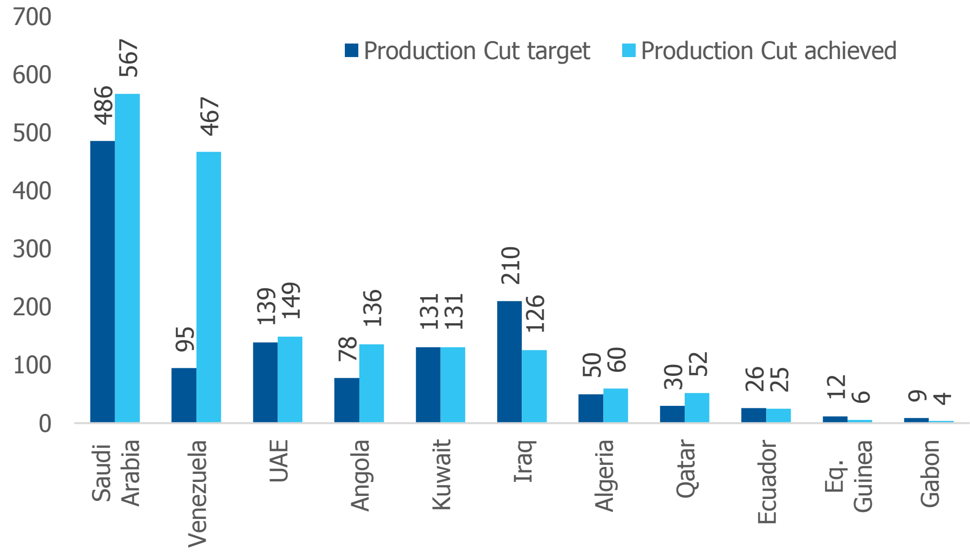
Figure 2: OPEC members' compliance to production cut targets



Source: OPEC Estimates, Bloomberg

Among OPEC members, Saudi Arabia, Venezuela, UAE, Angola, Kuwait, Algeria and Qatar met their targets for production cuts in the month of January. Iraq, the second largest producer of oil among OPEC members has failed to achieve its target on every occasion in the past 13 months. Russia, responsible for the majority of non-OPEC cuts in production, has consistently had a compliance level of above 90%. For Venezuela, the production decline was more a case of insufficient investments, payment delays to suppliers and U.S. sanctions than adherence to OPEC's agreements.

Figure 3: OPEC members' production cut Jan 2018 (in 000s of bbl. /day)



Source: OPEC Estimates, Bloomberg

Introduction of Oil futures in China Exchange

China is all set to foray into the crude futures market as it plans to introduce a new crude based futures contract, set to trade in the Shanghai International Energy Exchange. China, the world's biggest crude importer is looking to stake its claim over the trillions traded every year on oil futures. The decision to introduce the oil futures is in line with their vision to create a new crude benchmark envisaged years ago. Currently, WTI futures are used to derive physical crude prices in the US markets and the Brent benchmark is being used to price crude elsewhere.

As the current international benchmarks are based on the US dollar, the introduction of these contracts will allow Chinese traders to lock in the prices and pay in local currency. These Yuan denominated contracts are therefore expected to promote the usage of China's currency in global trade, which is one of China's long term objectives. In addition, these contracts would also be open to foreign traders since the Exchange is registered in Shanghai's free trade zone. Yuan, which is used in only about 2% of global payments, could emerge as an alternative for the US dollar in the long run for payments related to oil.

If the futures contract gains traction among international traders and companies, it could shift some control over pricing to the Chinese players. From the perspective of Gulf countries, this scenario would be heavily unfavourable to them as it could hand the leverage over pricing to one of their major importers. However, liquidity in the local market and the influence of local currency remain as potential concerns for the futures to become global markers.

Oil Markets

Oil price lost 4.7% for the month and ended below USD 66/bbl, despite the improvement in production cut compliance of the OPEC members. S&P raised its average price assumptions for Brent to USD 60/bbl for 2018, citing factors such as continuation of OPEC cuts, supply disruptions, synchronized economic growth with solid oil demand, decline in crude inventory and a weakening dollar for the change. Oil prices were supported by Saudi Arabia's announcements that their production would be well below output caps with exports averaging below 7mn bpd. Furthermore, they also hope that OPEC and its allies would be able to relax production curbs next year and create a permanent framework to stabilize oil markets after the current production cut deal ends. As per the discussion between OPEC members and its allies, the global markets are expected to rebalance between Q2 and Q3 of 2018 as supply glut has been dissipating quicker than anticipated. It is in line with several indicators denoting tighter supply, including Brent crude briefly surging above USD 70 a barrel and the fall of oil stockpiles in developed nations.

Appendix

MENA Market trends

Index	M. Cap (USD Bn)	Last close	2017 %	Feb'18 %	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P Pan Arab Index~	100.6	139	-4.4	-1.5	0.0	0.111	N.A	13.02	1.16	4.84
Saudi Arabia	467.5	7,419	0.2	-3.0	2.7	0.115	903	15.11	1.68	3.98
Qatar	101.4	8,653	-18.3	-6.0	1.5	0.097	45.9	12.66	1.20	4.88
Abu Dhabi	134.0	4,598	-3.3	-0.1	4.5	0.104	31.9	11.63	1.26	6.01
Kuwait Price	96.5	6,773	11.5	1.3	5.7	0.024	21.1	14.75	1.24	3.81
Kuwait Wt.ed	96.5	414	5.6	0.5	3.1	0.017	21.1	14.75	1.24	3.81
Dubai	84.1	3,244	-4.6	-4.4	-3.7	0.099	60.5	9.29	1.11	5.35
Egypt	50.2	1,528	32.0	2.1	6.3	0.043	49.3	13.95	2.17	2.26
Morocco	71.9	13,143	6.4	0.5	6.1	0.047	-	20.94	2.93	3.24
Jordan	22.1	4,262	-1.5	3.6	6.3	0.029	7.43	14.24	1.28	4.74
Bahrain	22.7	1,370	9.1	1.4	2.9	0.030	4.03	9.89	0.83	5.24
Oman	14.0	5,003	-11.8	0.1	-1.9	0.086	4.95	10.99	0.88	5.68

Source: Reuters, Zawya,

*Note: * Average Daily Value Traded ** - 3-year daily return correlation, ~ S&P Pan Arab Composite Large Mid Cap Index*

Global Market Trends – February 2018

Equity	Last close	MTD%	YTD%
MSCI World	102	-2.5	2.6
S&P 500	2,118	-4.3	0.7
MSCI EM	2,714	-3.9	1.5
MSCI FM	1,195	-4.7	3.2
Commodities			
IPE Brent	66	-4.7	-1.6
Gold	1,318	-2.0	1.2

Source: Reuters

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For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait; Email: research@markaz.com ; Tel: 00965 1804800; Fax: 00965 22450647.

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marmore-mena
marmoremena
+965 2224 8280
@marmoremena
marmoremena
info@e-marmore.com

e-marmore.com