Moody's and Kuwait credit rating

AL-SHALL WEEKLY MARKET REPORT

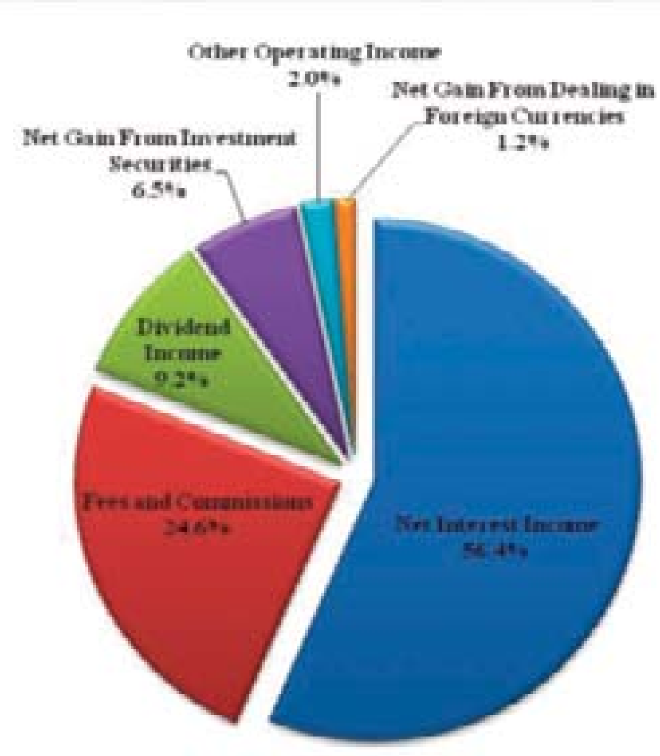
KUWAIT: We said repeatedly in our previous reports that reading any economic report by foreign institutions, public or private, about Kuwait, should be aware of that report's aim. They are important reports if we can derive conclude their useful content. But giving them more than they deserve or stripping them of any significance is our problem and an inherent weakness in our abilities. Three weeks ago, "Moody's" Credit Rating issued a report on Kuwait which is good report within its purposes. It fixed Kuwait's sovereign rating at Aa2, with a changed future outlook from negative to stable. The audience of that report is Kuwait's current and, more importantly, the potential lenders. The report's content advises the potential creditor to lend Kuwait because it is capable of meeting its obligations towards it. This means a better negotiating position for Kuwait from the perspective of lowering the borrowing cost. Most of the established classification bases depend on two variables. The first is the holding of oil prices after their collapse in early 2016 and the second is the volume of Kuwait's sovereign fund. With rising oil prices the fiscal deficit declined and the sovereign fund is able to cover longer years. In other words, that credit rating, true to its name, means Kuwait is secured if it is lent according to credit terms it required so far, and is able to fulfill its obligations.

We believe that any reading beyond that understanding is misleading. The report is not a testament to the efficiency of Kuwait's financial and economic policies whose quality is governed by their sustainability over the long term; nor is it a vote of confidence on the sagacity of its reform policy as stated in the Government's statement. An example of the accuracy such conclusion is that Kuwait's rating report coincided with issuing lowering the Chinese credit rating although China has achieved real economic growth for the first quarter of this year by 6.9 percent. The official growth data was issued after only 17 days of the end of that quarter despite its mammoth economy of about $11.2 trillion. That is an evidence of awareness and efficiency. It is worth mentioning that China does not need a certificate of its prudent economic performance. And downgrading its credit rating came due to its high debts in an economy with centralized administration. In other words, its classification came contrary to its economic performance.

Local market

China didn't care much for that rating because most of its credit needs are met by the local market and to procure local goods and services. Its $3 trillion sovereign fund remains as contingency reserve. Our purpose is to emphasize that the Kuwait's fiscal policy is unsustainable and that increasing public spending by about 5.3 percent for the current fiscal year compared with the preceding year, despite all promises of restraining public spending, means that its size will exceed KD 35 billion by 2030 when the oil market will be unable to provide its one third. Likewise, Kuwait's economic policy is unsustainable. It is currently unable to accommodate indigenous workforce while the economy is supposed to provide some 400,000 jobs for Kuwaitis by 2030 which is almost impossible if its economic policy continues as is. Feeling satisfied by a false reading of a credit rating report followed by a devastating deluge of populist laws and decrees, parliamentary or governmental, serves only to accelerate the collusion speed with the wall, i.e. expediting the dangerous consequences of reaching the inability stage to meet the basic needs of the people.

Total Operating Incomes in The First Quarter 2017



Trading features at Boursa Kuwait

Kuwait Clearing Company issued its report titled "Trading Volume According to Nationality and Category" from 01/01/2017 to 31/05/2017 published on Boursa Kuwait official website. The report indicated that individuals are still the largest group, their share started to increase and they captured 52.3 percent of total value of sold shares (48.6 percent for the first five months of 2016) and 51.8 percent of total value of purchased shares (44.3 percent for the first five months of 2016). Individual investors sold shares worth KD 1.848 billion and purchased shares worth KD 1.829 billion with a net trading, selling, by KD 19.455 million. The second largest contributor to market liquidity is the clients' accounts (portfolios) which captured 22.2 percent of total value of sold shares (17.4 percent in the same period of 2016) and 21.2 percent of total value of purchased shares (15.4 percent in the same period of 2016). The sector sold shares worth KD 782.561 million and purchased shares worth KD 749.177 million, thus making its net trading, more selling, by KD 33.384 million.

The third contributor, is the corporations and companies sector which captured 19.8 percent of total value of purchased shares (31.3 percent in the same period of 2016) and 18.8 percent of total value of sold shares (25.1 percent in the same period of 2016). The sector purchased shares worth KD 700.400 million and sold shares worth KD 665.362 million with a net trading, more purchasing, by KD 35.038 million. The last contributor to liquidity is the investment funds sector which captured 7.2 percent of total value of purchased shares (9 percent in the same period of 2016) and 6.7 percent of total value of sold shares (8.9 percent in the same period of 2016). This sector purchased shares worth KD 254.390 million and sold shares worth KD 236.589 million, with a net trading, purchasing, by KD 17.801 million.

Boursa Kuwait continues to be a domestic Boursa with the Kuwaiti investors forming the biggest trading group and sold shares worth KD 3.181 billion capturing 90 percent of total value of sold shares (86.7 percent in the same period of 2016) and purchased shares worth KD 3.115 billion, capturing 88.2 percent of total value of purchased shares (86.5 percent in the same period of 2016). Thus, their net trading, the only one selling, scored KD 66.017 million, which is an indicator of a receding confidence of local traders. Other investors' share, out of total value of purchased shares, scored 8.3 percent (9.8 percent in the same period of 2016), and purchased shares worth KD 294.642 million, while their value of sold shares worth KD 245.021 million, 6.9 percent of total value of sold shares (10.2 percent in the same period of 2016). As a result, their net trading, more purchasing, scored KD 49.620 million.

Share of GCC investors, out of total value of purchased shares, formed 3.5 percent (3.7 percent in the same period of 2016), worth KD 123.383 million, while value of sold shares formed 3 percent (3.1 percent in the same period of 2016), worth KD 106.986 million, their net trading, purchasing, by about KD 16.397 million.

Relative distribution among nationalities changed from its previous one and became as follows: 89.1 percent for Kuwaitis, 7.6 percent for traders from other nationalities, and 3.3 percent for GCC traders vis-‡-vis 86.6 percent, 10 percent and 3.4 percent for Kuwaitis, other nationalities and GCC traders respectively in the same period of 2016. This means that Boursa Kuwait remained a local one with the rise in the share of its investors from local traders. However, the turnout is still higher from investors mainly outside the GCC region than from the inside of the GCC region in which an overtrading of individuals is a dominant factor. Number of active accounts between the end of December 2016 and the end of May 2017 rose by 31 percent (compared to a decrease by -12.3 percent between the end of December 2015 and the end of May 2016). Number of active accounts in the end of May 2017 scored 20,445 accounts, 5.4 percent of total accounts, versus 20,208 accounts in the end of April 2017, 5.4 percent of total accounts for the same month, with a rise of 1.2 percent during May 2017.

The future of oil - A different perspective

In an article by "Jessica Shankleman" and "Hayley Warren", to "Bloomberg News Agency" on May 31, 2017, they present a different look for the future demand on oil contrary to the main scenario for "OPEC", "Exxon Mobil", "British Petroleum" and "International Energy Agency (IEA)". The basic scenario for "OPEC" and the big oil companies expect growth in demand for oil from its current level of about 93 million barrels per day to about 109-110 million barrels per day by 2040 while

(IEA) estimates it in a basic scenario by about 103.5 million barrels per day for the same period. However, there are three new factors they believe that will reduce the total demand by 2040 and conclude that a major dilemma will hit large government oil companies in oil-exporting countries. The three factors, according to the article, are efficiency in energy utilization, the technological progress in the transport sector which is responsible for 60 percent of oil consumption, and the switching from oil to clean and alternative sources. In details, (IEA) believes that technological progress in the efficiency of fuel burning for all transport means will reduce demand for oil by about 11.6 million barrels a day. This means that this factor will make the overall demand for oil at about 92 million barrels per day by 2040, i.e. to its current level.

The second factor or the widespread use of electric cars and even the auto-driven vehicles -without a driver- reduce demand by about 5.2 million barrels per day bringing the total demand by 2040 to about 87 million barrels per day, less by about 6.5 percent than its current level. And the major negative impact would be to the third factor, or switching to alternative energy sources, including natural gas. This factor may cause the loss of overall demand on oil by about 13.5 million barrels per day by 2040 cutting down about 30 million barrels per day from (IEA's) expected level of demand in its basic scenario. The bottom line is that there are some who believe that the overall demand on oil, even if it increased in the next few years, would lose about 20 million barrels per day from its level this year and would range between about 73 million barrels per day by 2040. This means that growth in oil demand will be negative.

The foregoing shows that the development model adopted by Kuwait over 70 years of oil age which always aims at diversifying income sources has failed. Kuwait is currently more reliant on oil than any other former time. The essential difference between the past and the future is that demand on oil scenarios in the past were in cycles only to end by dominating the positive growth on the negative while future scenarios began betting on the end of an era when oil took the lead for energy sources, ie the end of the oil age. This may take decades but the level of demand and its low prices will not yield income that guarantees political, economic and financial stability. We mentioned in a paragraph of this report risks of uncontrolled fiscal policy supported by the two decision-making authorities: the Executive and the legislature. Continuing financial chaos puts the future of most citizens at stake. Their future is in the hands of these two authorities and the past few weeks proved that responsibility is beyond their concern.

CBK financial results

The Commercial Bank of Kuwait (CBK) announced results of its operations for the first quarter of the current year, which indicate that the bank's net profits, -after tax deductions-, scored about KD 813 thousand, compared with KD 7.8 million in the same period 2016, reflecting a drop in profits by about KD 7 million, or by 89.5 percent. This drop in the net profits is due to the rise in total provisions by 36.7 percent. Nevertheless, the bank achieved profits prior to deducting provision in the amount of KD 28.95 million, rising by KD 401 thousand, or by 1.4 percent, compared with KD 28.55 million. Therefore, the dominating influence is the rise in provisions.

Total operational incomes increased by KD 1 million, or by 2.7 percent, and scored KD 39.3 million compared with KD 38.2 million in the same period 2016. This resulted from a rise in the item of net gain from investment securities by KD 2.4 million and scored KD 2.6 million, (representing 6.5 percent of total operational incomes) versus KD 204 thousand (0.5 percent of the total). Item of net interests income rose by KD 761 thousand and scored KD 22.2 million, compared with KD 21.4 million. While item of net gain from dealing in foreign currencies decreased by KD 1.8 million and scored KD 463 thousand compared with KD 2.3 million.

Total operational expenses of the bank increased lower value than the rise in total operational income, with KD 621 thousand and scored KD 10.3 million, compared with KD 9.7 million in the same period of 2016. Total provisions increased by KD 7.6 million, or by 36.7 percent, and scored KD 28.1 million, compared with KD 20.6 million. Therefore, the net profit margin dropped to 2.6 percent, compared with 26.3 percent in the same period 2016.

	31/03/2017 (Thousand KD)	31/03/2016 (Thousand KD)	Change Value	Change %	
Total Assets	4,268,373	4,147,403	120,970	2.9%	↑
Total liabilities	3,651,149	3,587,875	63,274	1.8%	↑
Equity attributable to the equity holders of the bank	616,437	558,499	57,938	10.4%	↑
Total Operating Revenues	39,258	38,236	1,022	2.7%	↑
Total Operating Expenses	10,305	9,684	621	6.4%	↑
Provision	28,134	20,575	7,559	36.7%	↑
Taxation	6	210	(204)	-97.1%	↓
Net income	813	7,767	(6,954)	-89.5%	↓
Ratios					
**Return on Average Assets (ROA)	0.1%	0.8%			↑
**Return on Average Equity Relevant To The Bank Shareholder (ROE)	0.5%	5.5%			↑
**Return on Capital (ROC)	2.2%	22.0%			↑
*Earnings per share (EPS) – (Fils)	0.5	4.7	(4.2)	-89.4%	↓
Closing price – (Fils)	430	440	(10)	-2.3%	↓
* Price to Earnings Per Share Multiplies (P/E)	215	23.4			
Price to Book Value Multiplies (P/B)	1.0	1.1			

* Indicators Ended March 31, 2017 on an annual basis
** Calculated based on the average rate of the financial data at the end of December 2016 and 31 March 2017

Total bank assets scored KD 4.268 billion, a rise by 3.5 percent, compared with KD 4.125 billion in the end of 2016. It increased by 2.9 percent if compared with the total assets in the first quarter of 2016, that scored KD 4.147 billion. Item of cash and short-term funds increased by KD 135.7 million or by 24.4 percent and scored KD 692.6 million (16.2 percent of total assets) versus KD 556.9 million (13.5 percent of total assets) in the end of December 2016, it also increased by 10.8 percent when compared with the same period of 2016, when it scored KD 625.4 million (15.1 percent of total assets). While loans and advances portfolio dropped by KD 16.5 million, or by 0.7 percent, and scored KD 2.234 billion (52.3 percent of total assets) compared with KD 2.250 billion (54.6 percent of total assets in the end of December 2016).

It however decreased by 2.7 percent if compared with the same period of 2016, when it scored KD 2.296 billion (55.4 percent of total assets). Percentage of total loans and advances to the total deposits scored 64 percent compared with 66.9 percent. Figures indicate that the bank's liabilities (without calculating total equity) increased by KD 129.7 million, or by 3.7 percent, and scored KD 3.651 billion, compared with KD 3.521 billion in the end of 2016. It rose by KD 63.3 million, or by 1.8 percent, if compared with the total in the end of the first quarter of last year. Percentage of total liabilities to total assets scored 85.5 percent compared with 86.5 percent.

Results of analyzing the bank's financial statements calculated on annual basis indicates that all profitability indexes dropped compared with the same period 2016. Average return on equities relevant to the bank shareholders (ROE) dropped to 0.5 percent compared with 5.5 percent. Likewise, the average return on the bank's assets (ROA) decreased to 0.1 percent versus 0.8 percent. The average return on the bank's capital (ROC) decreased to 2.2 percent versus 22 percent. (EPS) dropped to 0.5 fils, compared with 4.7 fils for the same period of 2016. (P/B) scored 1 times compared with 1.1 times.

Weekly performance of Boursa Kuwait

The performance of Boursa Kuwait for last week was less active compared to the previous one, where all indexes showed a decrease, the traded value index, the traded volume index, number of transactions index, and the general index. AlShall Index (value weighted) closed at 378 points at the closing of last Thursday, showing a decrease of about 5.9 points or about 1.5 percent compared with its level last week, while it increased by 15 points or about 4.1 percent compared with the end of 2016.

The following tables summarize last week's performance of Boursa Kuwait

Description	Week 23	Week 22	Diff
	08/06/2017	01/06/2017	%
Working days	5	5	
AlShall index (35 Companies)	378.0	383.9	-1.5%
Boursa Kuwait index (price)	6,783.4	6,813.2	-0.4%
Value Trade (KD)	34,532,176	54,495,981	
Daily average (KD)	6,906,435	10,899,196	-36.6%
Volume Trade (Shares)	185,982,515	298,961,420	
Daily average (Shares)	37,196,503	59,792,284	-37.8%
Transactions	8,211	10,518	
Daily average (Transactions)	1,642	2,104	-21.9%

Most Active Sectors & Companies		
Description	Value Traded	% of Total
Sectors	KD	Market
KUWAIT FINANCE HOUSE	4,995,157	14.5%
AHLI UNITED BANK B.U.C	4,182,018	12.1%
AGILITY PUBLIC WAREHOUSING COMPANY	3,477,848	10.1%
NATIONAL BANK OF KUWAIT	3,338,065	9.7%
MOBILE TELECOMMUNICATIONS COMPANY K.S.C	2,038,088	5.9%
Total	18,031,177	52.2%
Description	Value Traded	% of Total
Sectors	KD	Market
BANKS SECTOR	14,105,690	40.8%
INDUSTRIALS SECTOR	5,734,016	16.6%
FINANCIAL SERVICES SECTOR	4,757,481	13.8%
REAL ESTATE SECTOR	3,061,159	8.9%
TELECOMMUNICATIONS SECTOR	2,650,982	7.7%

ALSHALL INDEX	Week 23	Week 22
	08/06/2017	01/06/2017
Increased Value (# of Companies)	6	18
Decreased Value (# of Companies)	22	11
Unchanged Value (# of Companies)	7	6
Total Companies	35	35

	Company Name	THU	THU	DIFF	CLOSE	DIFF
		08/06/2017	01/06/2017	%	2016	%
1	The National Bank Of Kuwait	397.2	403.3	(1.5)	362.9	9.5
2	The Gulf Bank	192.6	194.2	(0.8)	195.0	(1.2)
3	Commercial Bank Of Kuwait	310.5	323.7	(4.1)	349.7	(11.2)
4	Al-Ahli Bank Of Kuwait	203.0	199.7	1.7	196.4	3.4
5	Kuwait International Bank	255.3	258.4	(1.2)	214.7	18.9
6	Ahli United Bank	413.6	418.4	(1.1)	361.0	14.6
7	Burgan Bank	314.9	315.9	(0.3)	283.4	11.1
8	Kuwait Finance House	1150.8	1164.3	(1.2)	1172.1	(1.8)
	Banking Sector	400.6	406.0	(1.3)	379.3	5.6