MARMORE
MENA INTELLIGENCE
A MARKAZ المركز Subsidiary

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GCC Risk Premium – H1 2019

A Toolkit for Corporate Financiers

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About Marmore

Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please *click here*)

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, *click here*)

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company.** To learn more, visit www.marmoremena.com

Experience/Qualifications

Marmore is the only regional firm providing niche research based on strong analytics in areas that are less researched. Marmore provides full range of financial market, sector specific and economic and policy researches, as well. The different types of researches are availed based on the client's requirements. It is notable that Marmore research reports have regularly been used by various renowned institutions to better understand the MENA region.

Marmore's strengths can be summarized as follows:

» Consistent track record of quality, in-depth research offerings;

» Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;

» Deep understanding of MENA market and access to wide-ranging database

» Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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RESEARCH PROVIDER OF THE YEAR 2018 GLOBAL INVESTOR (EUROMONEY)

KNOWLEDGE PARTNER SWFI

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Executive Summary

Decrease in Credit Default Swap (CDS) spreads of the GCC countries and fall in the countries' sovereign yields indicate positive investor sentiments. This coupled with expectations of rate cuts by the U.S Fed, fall in 10-year U.S treasury yield have lowered the cost of capital for the GCC countries.

In August 2018, Moody's Investors Service downgraded the long-term issuer ratings of the Kingdom of Bahrain to 'B2' with negative outlook from 'B1' negative outlook. The ratings agency cited increase in liquidity risks, slow implementation of fiscal reforms and high gross borrowing needs of the government as reasons for the downgrade. In October 2018, Saudi Arabia, Kuwait and UAE pledged USD 10 billion financial aid to Bahrain. Following this, the country's rating was revised in December 2018 to 'B2' with stable outlook.

In March 2019, Moody's Investors Service downgraded the long-term issuer and senior unsecured bond ratings of the government of Oman to Ba1 from Baa3. The agency cited that persistently wide fiscal and current account deficits, limited scope for fiscal consolidation because of the government's economic and social stability objectives, and Oman's dependence on external financing as reasons for the downgrade.

CDS spreads for all countries except Oman were lower in H1 2019, compared to H1 2018. The greatest decrease has been for Bahrain mainly owing to the financial support from neighbouring countries. Oman's CDS spread has increased because of rating downgrade.

Cost of capital under the CDS method has decreased for all GCC countries primarily due to the fall in risk-free rates, and in some cases due to the lower CDS spreads for the respective countries.

For GCC countries other than Bahrain and Oman, the cost of capital decreased because of fall in risk free rates as their credit ratings remained unchanged. The 10-year U.S. treasury yield has fallen from 2.85% in Jul-Aug 2018 to 2.00% in Jun 2019 on the back of trade tensions, global growth uncertainties and expectation of easing of rates by the Fed. Cost of capital under the ratings method has increased for Bahrain and Oman compared to H1 2018, because of rating downgrade for both countries.

Cost of capital (under the implied ERP method) increased for most GCC countries when compared to H1 2018 values, except for Dubai and Qatar. Cost of Capital, under the implied ERP method could not be computed for Bahrain as the yield of the sovereign issue is lower than the default spread based on credit rating. This is because of the difference in the perception of the financial aid between the market and rating agencies.

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