GCC Pre & Post COVID-19 Market Analysis Report

Q4, 2020

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CAPITAL

About Ento Capital

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Our products & services include DPMs, real estate funds, equity & money market funds, Islamic finance products, private equity, M&A, capital restructuring, company valuation, arranging finance and feasibility studies.

Ento Capital Management team has more than 65 years of combined experience with proven track record. The team has been working together for more than eleven years and during the period successfully launched various mutual funds including real estate, equity & Murabaha funds with combined asset under management of more than USD2.6 billion. In addition, they have structured, restructured & established many financial companies & successfully arranged financing of more than USD900 million for various funds/projects.

Legal Disclaimer:

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Foreword

This analysis and report have been constructed through Ento Capital which is a DFSA regulated financial firm with headquarter in DIFC, Dubai, UAE. The objective of this report is to highlight the Pre & Post COVID-19 impact on GCC market and the implications for economic development and how could it affect the economy disruption, and its financial impact on firms and financial markets.

The GCC Pre & Post COVID-19 Report | Q4 2020 has been prepared to help the readers assess the unprecedented impact of COVID-19 on the GCC markets. COVID-19 has brought about structural changes in the way we conduct business, while also impacting the social fabric. Certain sections of the economy have come under extreme stress because of these changes. Respective governments have announced sizeable fiscal and monetary packages to help the economies tide through these uncertain times.

The report aims to help the reader wade through this complex assessment of impact on the GCC economies and the business environment. Even before COVID spread, global slowdown has cast a spell on crude oil prices making it a double whammy for the GCC economies which have a higher reliance on crude exports. Amidst these dark clouds, silver lining in terms of new opportunities have emerged. We have tried to capture some of these emerging opportunities for the region.

Post COVID, the business rules are being rewritten with a special focus on scaling up technology to reach and serve the customers. The pandemic has also presented an opportune time for regulators and policy makers to draft new regulatory reforms. These measures will go a long way in making the region more competitive. As economies shift their reliance away from crude oil, the fundamental reform measures are expected to give the financial markets a much-needed boost to attract more Assets Under Management.

Overall, our Pre & Post COVID-19 report contributes to our understanding of the economic impact of COVID-19 on GCC business ecosystem. We believe the economic effect will in part depend on how the public act in response to the virus. Public reaction could allow the disease to spread more quickly and widely, or it could create unnecessary costs.

Executive Summary

This report is an attempt to provide a clear view of the changing dynamics of the GCC markets. The report has been broadly divided between two key themes – pre COVID realities and the post COVID impact.

Global GDP growth has been slowed down in both Global and GCC markets. Trade tensions between major economies triggered a decline in global trade volumes which led to reduced crude offtake and crude price crash as manufacturing activity globally started contracting. As sentiments in financial markets took a bearish turn, gold became an attractive investment option as can be seen from the fund flows into the asset class which accelerated further post COVID with both prices and fund flows at all-time highs. Global and regional financial markets benefitted from the liquidity created by interest rate cuts announced by many Central Banks around the world to counter the slowdown. Global assets under management (AUM) grew by 15% to USD 89 trillion in the year ended 2019, with GCC AUM also set to grow in the coming years. Global sukuk issuances rose by 6% in 2019 and is expected to remain a favoured means of financing for regional sovereigns and businesses alike.

Major GCC markets saw high returns in 2019, driven by higher banking earnings and passive flows from index inclusions. The year 2019 saw a record-breaking IPO of Saudi Aramco, which raised USD 25.6 billion, being one of the highest proceeds in the world till date.

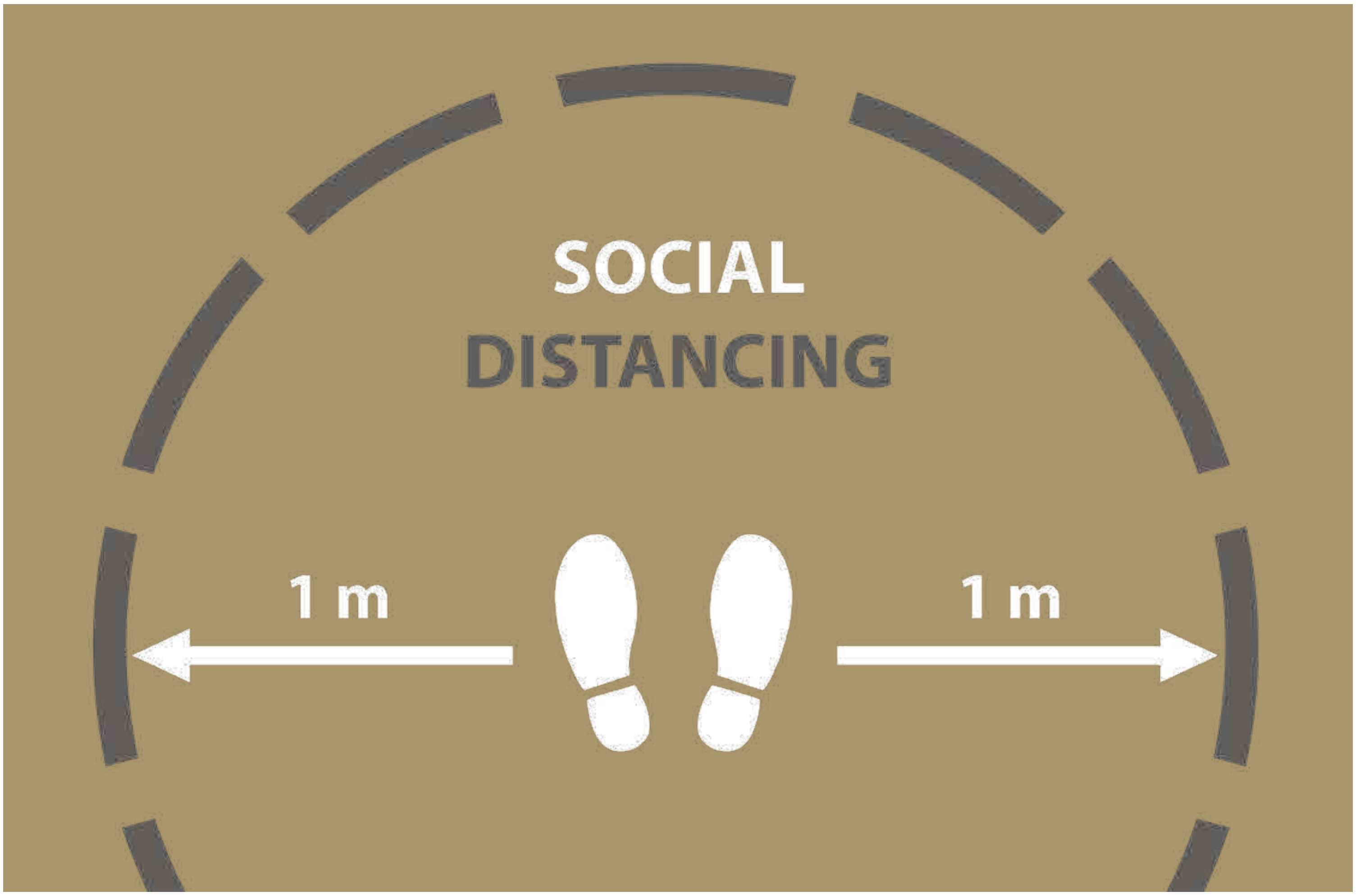
The COVID-19 impact was majorly felt in the GCC from early March, as markets continued to slide along with the unprecedented drop in oil which was precipitated by the expected halt in demand following lockdowns. GCC real estate industry suffered record decline in REIT prices. However, there has been a surge in demand for warehousing spaces to cater to the exponential growth in e-commerce needs in a post COVID world. Governments in the region acted swiftly to counter the economic challenges presented by COVID as well as oil prices.

GCC markets saw a recovery by June 2020 with a bounce back in oil due to gradual demand restoration around the world. Healthcare, food processing and food retail, transportation and warehousing sectors saw the swiftest recoveries. Newer tech in the healthcare space is expected to provide numerous opportunities like E-hospitals, telemedicine to name a few while garnering additional capital inflows for further strengthening the healthcare ecosystem in the region. On the credit side, banking sector is under temporary stress due to lower interest rates, higher provisioning and delinquencies. We might see some resurgence in bank consolidation activities as soon as business environment stabilises. Banking sectors' investment in digitisation and E-banking is yielding great results during the especially difficult operating environment.

Fiscal balances of the GCC economies are set to improve as oil is in the recovery mode, with the OPEC+ countries also set to start producing at higher levels starting August.

The focus for the governments in the region is on economic and regulatory reforms along with the long-term objective of diversification away from petrochemicals. GCC governments are increasingly pushing for public private partnerships, thereby providing ample of opportunities for the investors in the region. Foreign ownership limits have been amended through the region while new bankruptcy laws have also been introduced, making the region extremely competitive. GCC countries have posted improved performances on the Ease of Doing Business Index.

Sectors like healthcare, pharmaceuticals, agriculture and food security, petrochemicals, fintech, logistics and supply chain, education and credit offer rich opportunities especially in the context of post COVID world. Preventive medicine, need for more hospital beds, mandatory insurance is set to drive the demand for investment in the healthcare facilities. PPP opportunities are replete in this space. Complementary to that, the pharma sector is expected to double in size by 2028 due to urbanization, ageing population, and a rise in chronic lifestyle-related diseases. The pandemic has compelled the GCC markets to work on food security. GCC is making continuous efforts to support local producers help explore innovative farming methods given the natural resource constraints. The sector has a strong policy backing to accelerate the pace of



development. For the petrochemicals industry, demand for fertilizer (urea) and healthcare products is strong with ethane-based products remaining resilient. Fintech is an over-arching driver of innovation and efficiency across multiple sectors through the GCC. Logistics and supply chain is one of the sectors that is slated to experience strong growth through proliferation of E-commerce in the region. Additionally, the sector has been very agile and has responded to the pandemic challenges successfully. This sector has reported great strides in more efficient solutions systems and hence has seen steady inflow of investments. Lastly, education sector offers immense opportunities with the structural shift to E-learning and increase in course offerings carried through the internet. Apart from E-learning, the traditional educational set-up is also slated to expand given the expected continuous increase in the below 15 population in the region. This report aims to offers some rich insight on the opportunities.

GCC is at the cusp of rapid changes as it evolves into a more resilient and diversified economic bloc which in the coming years is expected to translate into higher economic growth.

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Pre COVID-19 Global Capital Market Performance (2019 to Pre COVID-YTD)

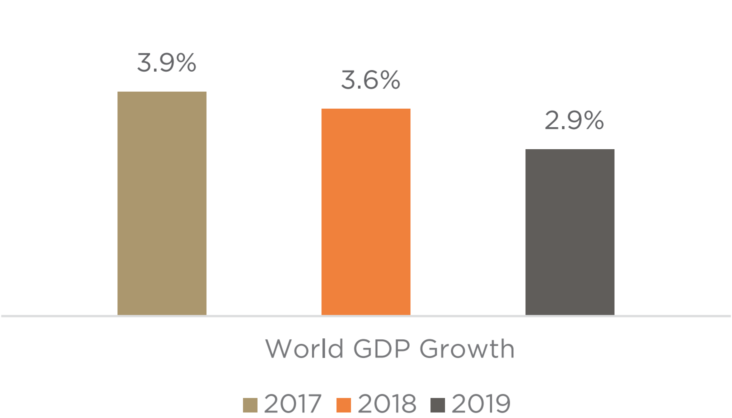
Macro Factors

Various factors influenced global economics in 2019 including trade wars, and easing monetary measures across markets.

Global GDP

Myriad of factors contributed to the lower real GDP growth of 2.9% in 2019 including trade policy uncertainty, geopolitical tensions and stress in the key emerging markets. The end of year saw some positive indications that global growth may be bottoming out. Several economies continued easing their monetary policies in the second half of 2019.

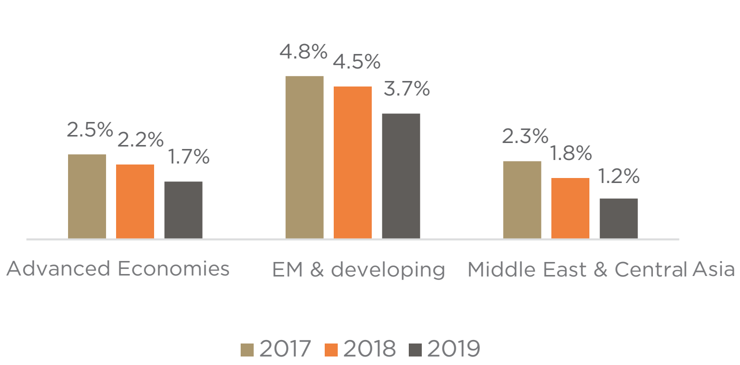
Global Real GDP Growth



Source: IMF, World Economic Outlook, April, 2020 and Qatar Planning and Statistics Authority

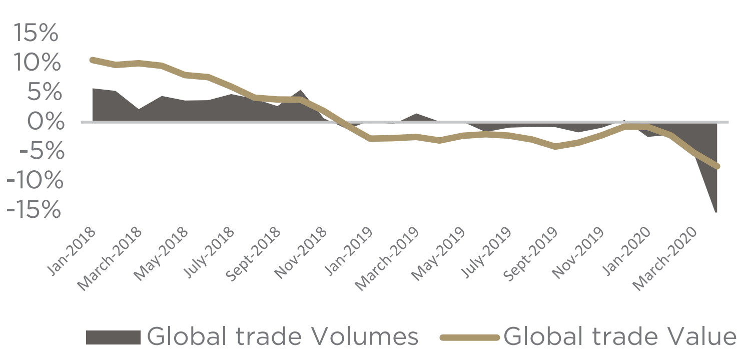
Both volume and value of global trade saw declining trends in 2019, which exacerbated during the trade war period. YoY growth trend rebounded in Jan-2020 around the time when trade war concerns were slightly cooling off. Total value of global trade in FY2019 was USD 1,192 billion versus trade worth USD 1,224 billion in FY2018, a decline of 2.7%. Global trade was also effected by lower oil prices in general through 2019.

GDP Growth of Developed and Emerging Markets



Source: IMF, World Economic Outlook, April, 2020 and Qatar Planning and Statistics Authority

Global Trade % Change, YoY



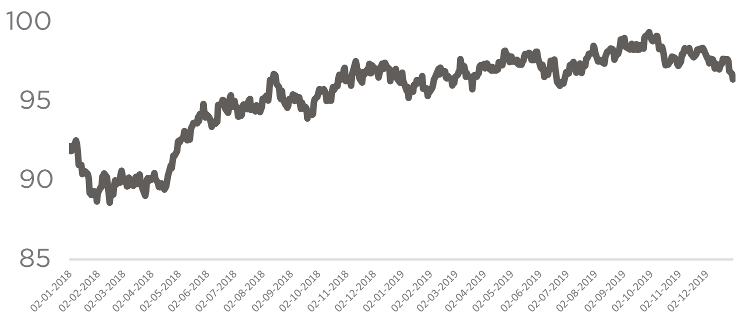
Source: Netherlands Bureau for Economic Policy Analysis

Markets in recent years have been majorly trending upwards, with rising yields and returns

FX and Gold Markets:

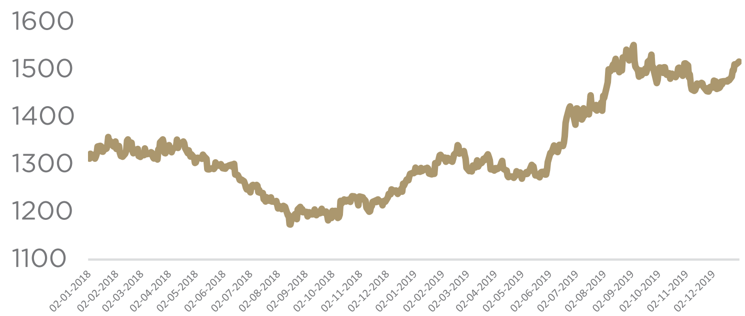
The Fed's rate cuts helped support not only the domestic US markets, but also provided benefits to the bond markets of emerging economies. This also added impetus to gold, which saw a strong first half in 2019, followed by a fall till the rate cuts arrived. Overall supply increased by 2% during the year. 2019 also saw Gold returns at a staggering 18.3%, one of the best performing asset classes during the year.

Dollar Index



Source: Thomson Reuters Eikon, Desk Research

Gold Price / Index

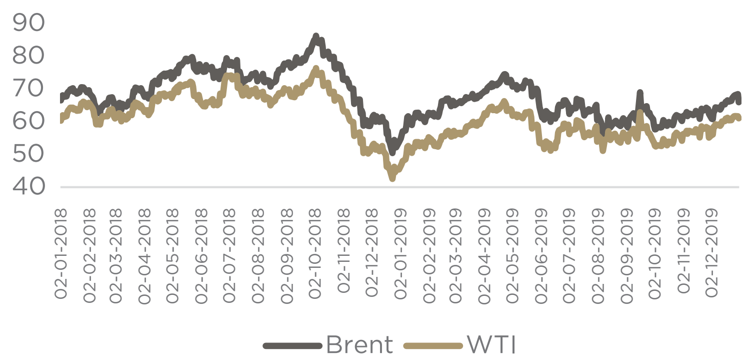


Source: Thomson Reuters Eikon, Desk Research

Energy Markets:

Oil markets tapered off from 2018 levels led by overall supply jump from the US shale producers. The biggest contributors to supply growth also include producers such as Brazil, Iraq, Norway, the UAE and Guyana. Overall demand remained robust, though slowing from China, but remains strong from India

Brent Crude and WTI



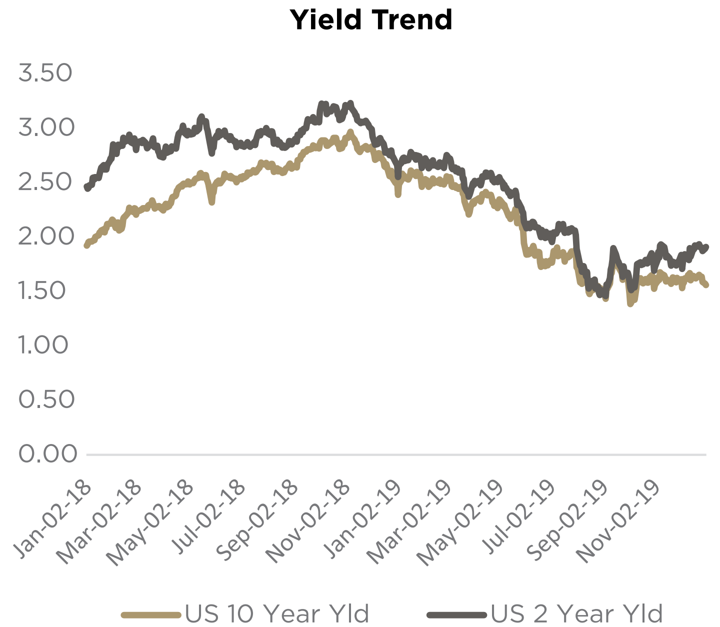
Source: Thomson Reuters Eikon, Desk Research

Public Markets

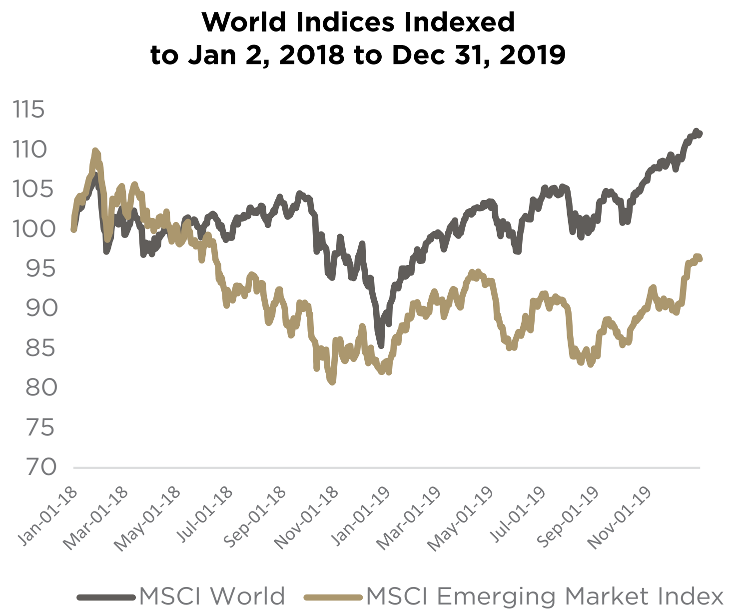
Global markets benefited greatly from Fed's rate cuts, easing political tensions as markets added USD 17 trillion in 2019

Global Market Capitalization and returns

Fixed Income markets remained resilient, with spreads tightening in mid-June 2019 (10 year and 2 year) but saw some widening as the 10-year yields was up for the rest of the year. The Bloomberg Barclays Global Aggregate Bond Index saw a 6.81% return for 2019.



Source: Thomson Reuters Eikon, Desk Research



Source: Thomson Reuters Eikon, Desk Research

Emerging market sovereigns were the biggest winners globally, closing 2019 with a gain of 8.1%. Emerging market debt saw yields above 5% for both USD-denominated and local-currency issues alike, mainly benefiting from the increase in risk appetite coupled with a weakening US Dollar.

Global stock markets were running sky high in 2019, adding ~USD 17 trillion in total value, according to Deutsche Bank calculations. The value of global equities had surpassed USD 85 trillion. The jump in world markets can mainly be seen funneling through the US, with the S&P 500, Dow Jones Industrial Average and Russell 2000 all rising more than 20% in 2019.

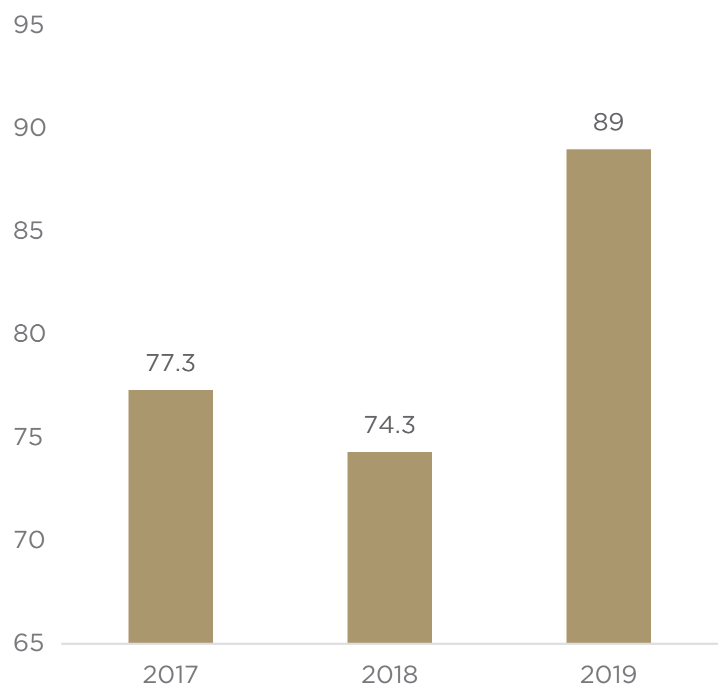
Asset Management Industry

2019 AUMs soar, along with a year full of new records, despite recessionary fears

Global Asset Management:

In 2019, total assets under management (AUM) grew by 15%, to USD 89 trillion. Retail clients were the fastest-growing segment (19% YoY) while institutional client assets grew by 13%. Among others. North America, led the globe with 19% or USD 7 trillion growth in value due to a combination of strong consumer spending, historically low unemployment, and quantitative easing.

Global AUM (in USD Tn)



Source: BCG

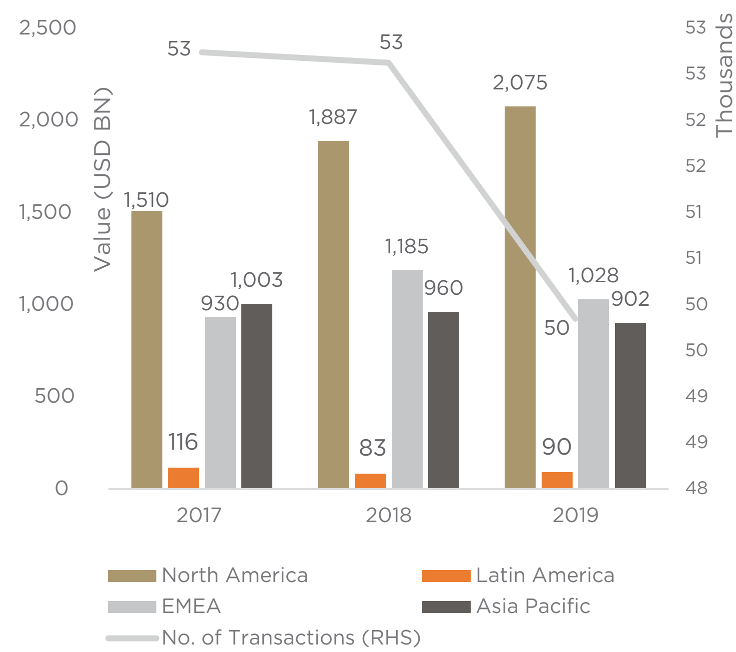
M&A and Private Equity

After a strong 2018, the global M&A market slowed down a bit. Despite this, 2019 has been a year for mega deals (>USD 10 billion), which accounted for 31% of the total volume for 2019.

North America stood out by having a share of 36 out of the 47 megadeals of 2019.The largest deal in 2019 amounted to USD 74 billion where Bristol Myers acquired Celgene Corp.

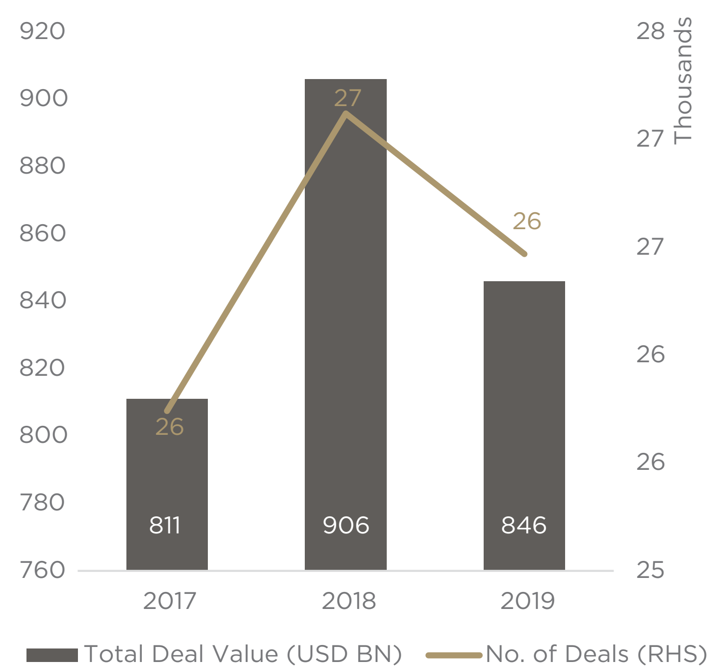
Despite negative macroeconomic cues, the private equity market has flourished, outperforming the public equity markets. The year was full of buyouts and North American buyout market had its best fundraising in 2019. Blackstone undertook the largest LBO in 2019 of GLP Pte Ltd amounting to USD 18 billion.

Global M&A Deals Vol and Value by Region



Source: Dealogic

Global PE Deals (Value and Vol)



Source: Bureau Van Dijk

IPOs, Bonds and Sukuks

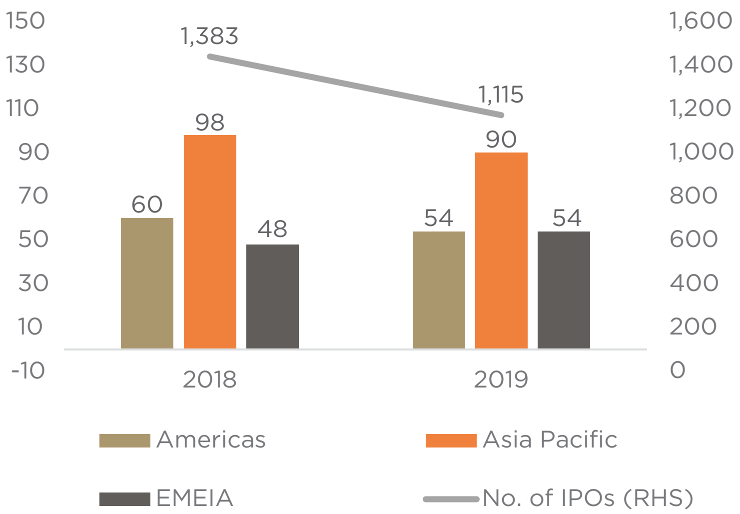
2019, A year full of new records, despite recessionary fears

IPOs and Sovereign Issues

Volumes and proceeds, both were low in the global IPO market due to geopolitical tensions between countries. EMEIA markets saw 4 mega IPOs including the largest IPO till date of Saudi Aramco amounting USD 26 billion.

The technology sector dominated the global IPO market in 2019.

Global IPOs (Value and Vol)

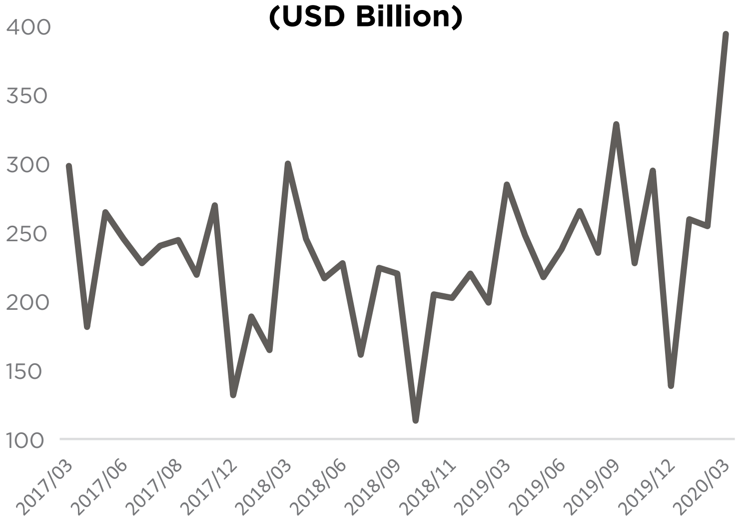


Source: EY

Corporate Issuances

A total of USD 7.148 trillion worth of bonds were sold to investors globally in 2019, the second highest volume of the decade. The green bond market grew manifold in 2019 as compared to 2018 and reached a record high of USD 225 billion, with EU having the largest share.

Global Corporate Bond Issuances (USD Billion)

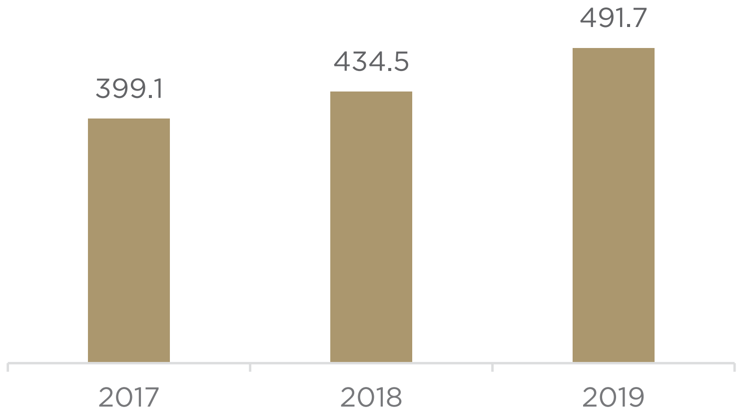


Source: Thomson One

Global Sukuks Issuances:

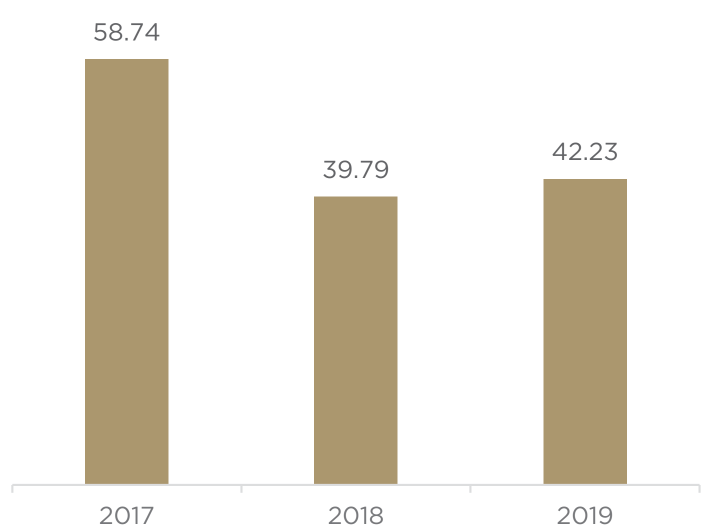
Issuance of sukuk with maturity of more than 18 months from Malaysia, GCC, Indonesia, Pakistan and Turkey rose by 6% in 2019. Saudi Arabia dominates the overall issuance of sukuks at 38.5% followed by UAE (16.2%), Indonesia at 14.3% and Malaysia at 10.7%. Of the total issuances, investment grade accounts for 83% and remaining for speculative grade.

Global Sukuk Outstanding Values (USD Billion)



Source: Fitch Ratings

Sukuk Issuances (USD Billion)



Source: Fitch Ratings

04

Pre COVID-19 GCC Capital Market Performance (2019 to Pre COVID-YTD)

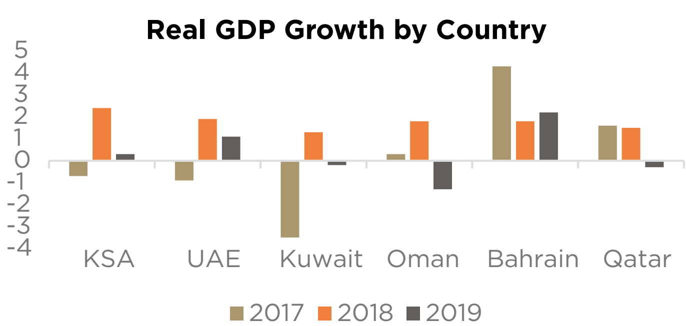
Macro Factors

In a nutshell, 2019 remained sluggish with lagging oil and gas prices, non-oil sector growth and subdued real estate prices.

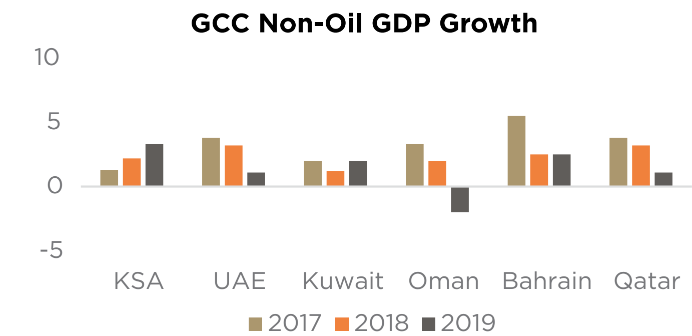
GCC nations witnessed slowdown in 2019

Global oversupply concerns for crude and natural gas led to fall in the commodity prices, subsequently impacting the exports as gas producers (Oman, UAE and Qatar) also lost market share to emerging gas exporters. Oil production levels changed very little since 2018 in GCC region and even in non-OPEC member countries (Bahrain, Oman and Qatar), as OPEC led agreement on crude oil production cuts was extended in July 2019. Declining real estate prices also negatively influenced private investment and the consumption of durable goods. Broad money growth rate in the region stayed well below the peak achieved in 2014.

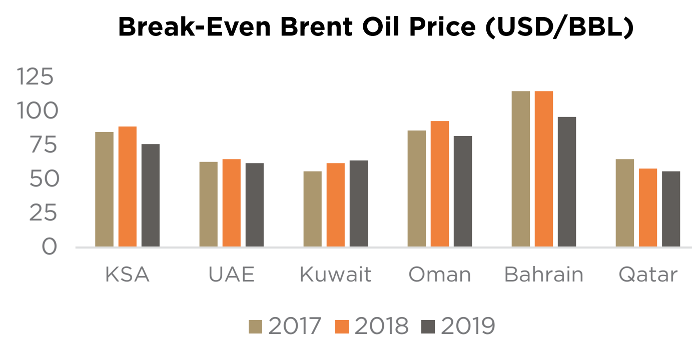
However, signs of improvement were visible for KSA and UAE due to improvement in domestic demand in the later part of the year. PMI for KSA remained in the expansionary zone through 2019. Fiscal and external balances deteriorated, tracking energy sector performance. Debt levels increased in the region as some countries resorted to debt markets to finance fiscal deficits. Nations like Oman and Bahrain remained most exposed over debt sustainability concerns.



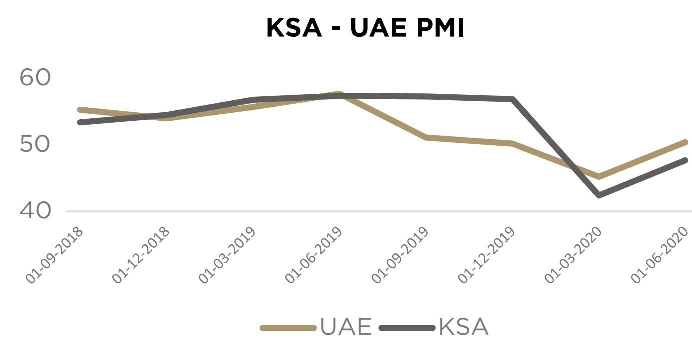
Source: Fitch Ratings



Source: Fitch Ratings



Source: Fitch Ratings



Source: HIS Markit & Markit Economics

Public Markets

Major GCC markets saw high returns in 2019, driven by higher banking earnings and passive flows from index inclusions.

GCC Market Capitalization and Returns

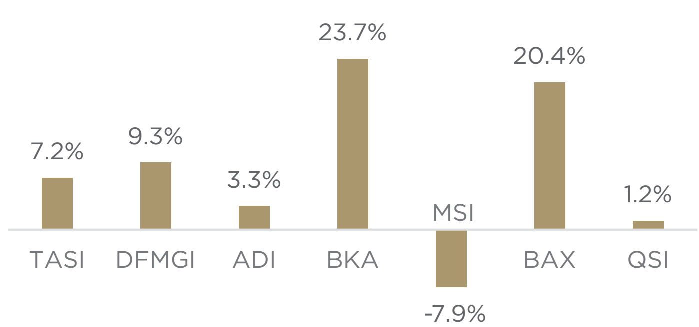
GCC markets remained buoyant through 2019, with Kuwait seeing maximum returns, mainly driven by passive inflows towards its inclusion to the MSCI Index.

Other indices also remained steady with companies reporting positive results amid a backdrop of geo-political tensions in the region, and overall volatility in oil prices.

The Banking sector was one of the key beneficiaries during the period with gains of close to 36% in 2019. The cement sector also saw a sharp rebound driven by increase in selling price across the region. However, oil and allied segments saw a downward trend as demand for petrochemical products was significantly outpaced by supply, leading to drop in prices.

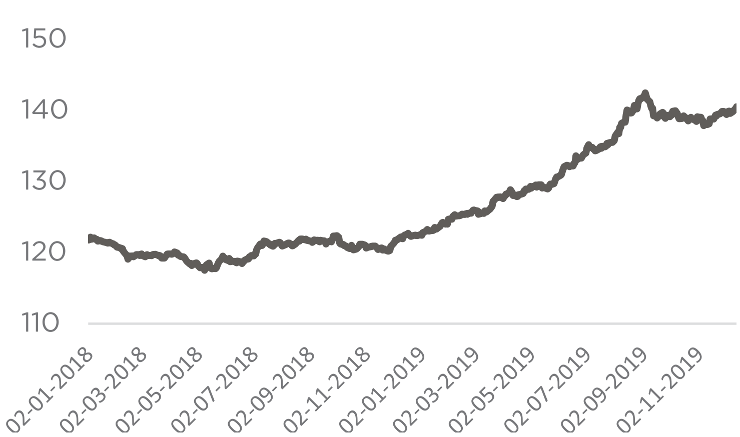
GCC bonds aided impetus to overall financial markets as the S&P GCC bond index trended upwards through 2018 and 2019.

GCC Index Returns in 2019



Source: Thomson Reuters Eikon, Desk Research

S&P GCC Bond Index



Source: Standard & Poor's

Bond issuances

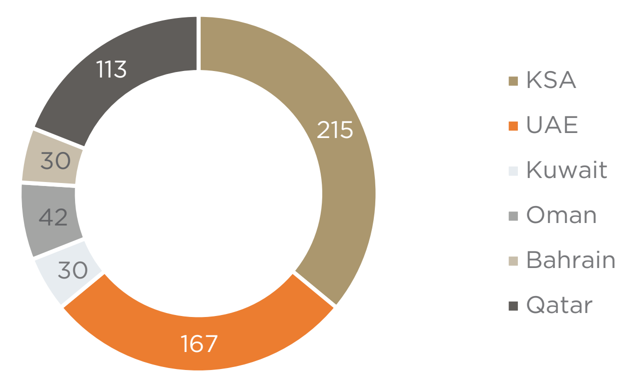
Tadawul shines throughout the year; conventional bonds remain first choice.

Sovereign/Corporate Issuances

Dubai became the largest centre for sukuk listings by value. IDB Trust Services Ltd. issued sukuks totalling USD 2.6 billion in Q4 of 2019 including green sukuks. KSA issued sukuks worth USD 1.18 billion for 5-year and 10-year tenures in Q4 2019.

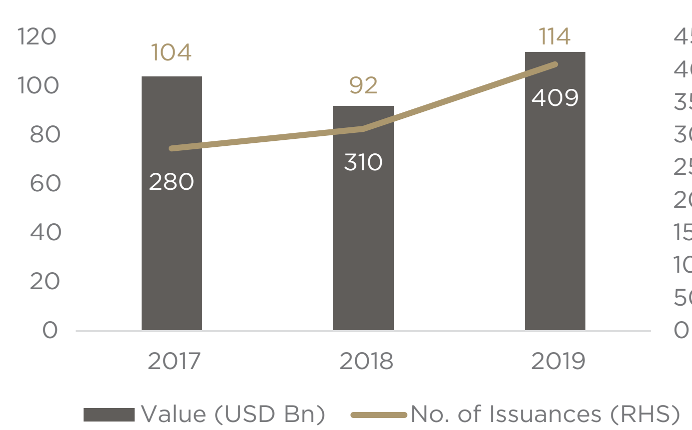
Issuance of conventional bonds remains to be the first choice in the GCC markets with USD 85 billion worth of such issuances in 2019, a 25% rise from 2018. The year 2019 was one where corporate issuances exceeded sovereign issuances in value and increased by 34% YoY reaching a total of USD 61 billion in 2019. The largest single issue of Sukuk during 2019 was by Government of Saudi Arabia worth USD 2.6 billion.

GCC Bonds and Sukuk Market - 2019 (USD BN) Outstanding Amount



Source: Bloomberg

GCC Bonds and Sukuk Market - Primary Issuances



Source: Bloomberg

Asset Management Industry

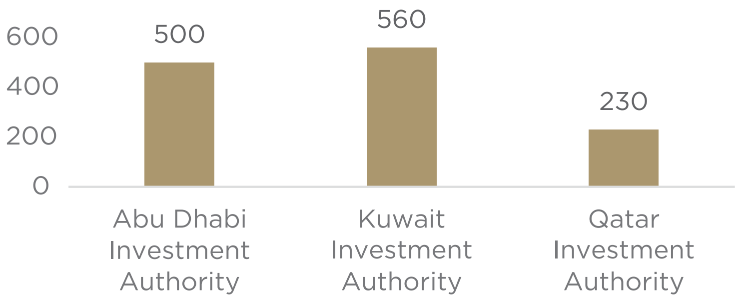
Economic diversification plans of GCC, change in investment legislatures to attract more investors and increase the AUM in the GCC region.

It is estimated that GCC Asset Managers had USD 260 billion assets under management (AUM) at the end of December 2018. Saudi Arabia had the largest asset allocation, just short of half of the total AUM. Followed by Kuwait, Bahrain, United Arab Emirates, Qatar and Oman. It is also estimated that close to USD 200 billion are invested through separately managed accounts, with the remained invested through collective investments.

GCC Asset Managers have exposure to traditional asset classes, with allocations to alternative asset classes, mainly real estate.

Sovereign Wealth Funds account for a very large portion of the AUM in the region.

Sovereign Wealth Fund – Foreign AUM (USD BN estimated) – 2019



Source: Fitch

Additionally, global asset managers are also increasing their presence in the region, but currently occupy only close to 4% of the assets under management in the region.

Improvement in investment legislature, improvement in transparency and diversification from oil-dependent economies will further drive then growth in terms of multi-asset investment options while also attracting additional investments in the region.

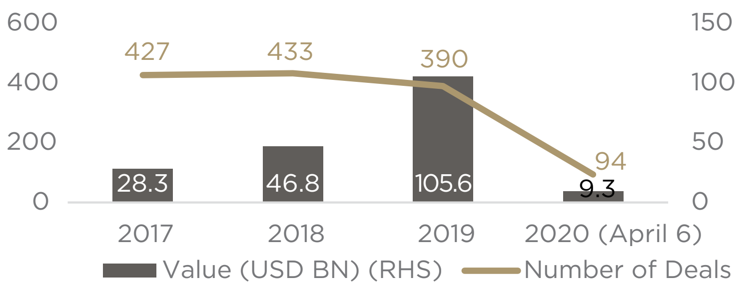
M&A and IPO Activity

M&A activity saw strong growth in 2019 and more than doubled than 2018.

M&A

Inspite of a fall in the number of deals, GCC M&A activity by value grew at 125% supported mainly by Saudi Aramco's 70% acquisition of SABIC. More than 90% transactions completed in 2019 were by GCC acquirers with UAE, Kuwait and Saudi Arabia being the most active players in the M&A market. Saudi Aramco bought a 70% stake in SABIC for USD 69 billion, making this one of the largest deals in the global chemical industry. There were a few notable transactions in GCC M7A market in Q1-20, with UAE's logistics sector - Port and Free Zone acquiring 20% stake in its subsidiary, DP World for USD 2.7 billion.

GCC M&A Deals (Vol and Value)



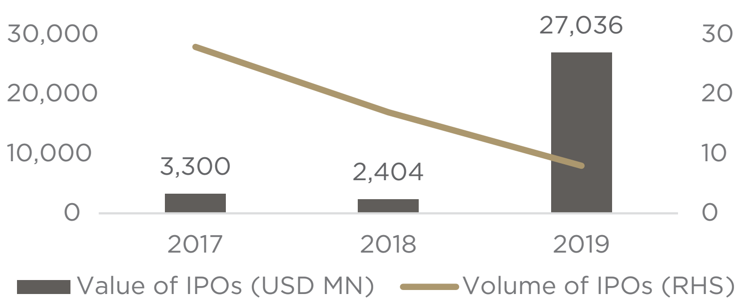
Source: IMAA

IPOs

2019 saw a record-breaking IPO of Saudi Aramco, which raised USD 25.6 billion, being one of the highest proceeds in the world till date.

Tadawul was the most active IPO market in GCC, both in terms of number of listings and value of issue. Tadawul has recently announced, that it will soon allow the listing of foreign companies on its exchange. Two UAE-based companies were listed on the London Stock Exchange in 2019. State-owned Oman Oil Company is reported to be in the process of seeking an IPO to list up to 25% of its shares.

GCC IPO Deals (Vol and Value)



Source: PwC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05

COVID-19

Impact on GCC

Immediate Impact on Indicators

The COVID-19 impact was majorly felt in the GCC from early March, as markets continued to slide along with the unprecedented drop in oil which was precipitated by the expected halt in demand following lockdowns.

Immediate Market Reaction

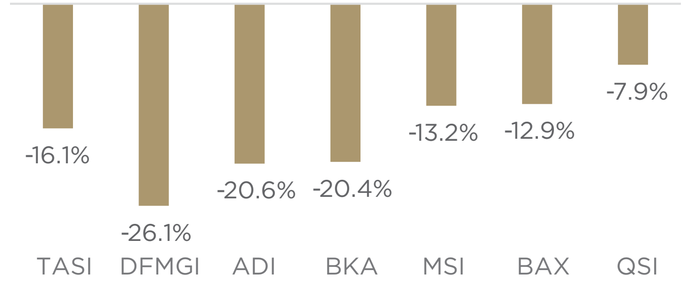
The news of the pandemic saw knee-jerk reactions across the globe, with the GCC region being no exception. Markets were seen to slide since early March 2020 with indices dropping as much as 26% in the first two weeks following the initial downtrend. UAE and Kuwait appeared to be the first to be hit with each dropping beyond 20%.

The pandemic news and rapid implementations of lockdowns in key demand centers such as China and the United States led to a steep fall in oil prices during the same period, creating a double whammy for oil dependent nations and in turn, translating to high uncertainty over economic factors. The hardest hit sectors were Finance and Insurance, Accommodation & food services, Construction and Real Estate.

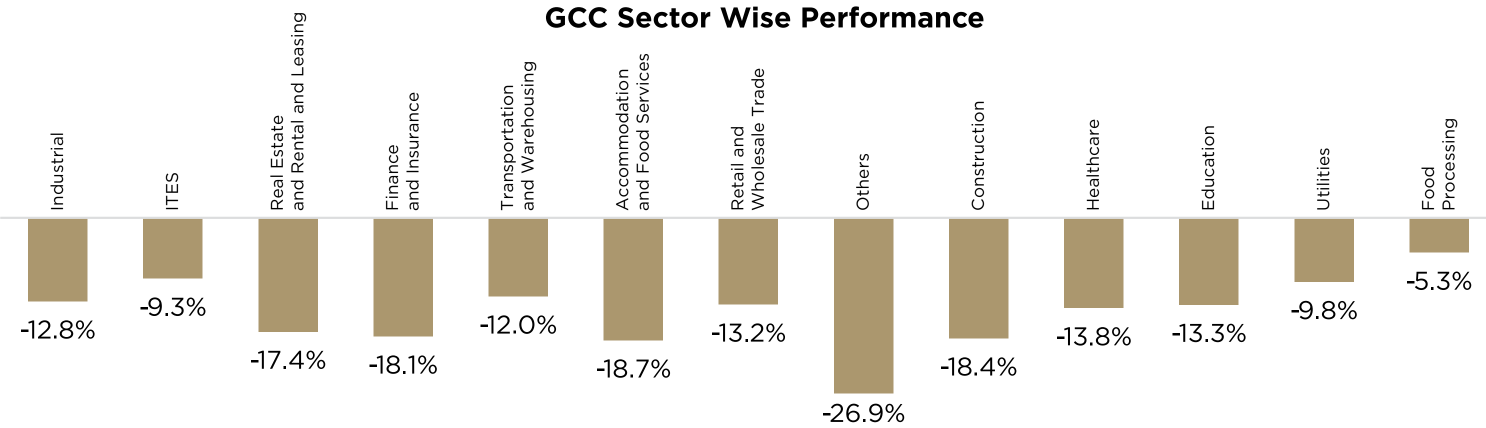
Key Indicators

Source: Thomson Reuters Eikon, Desk Research

GCC Indices Returns Between March 5, 2020 and March 19,2020

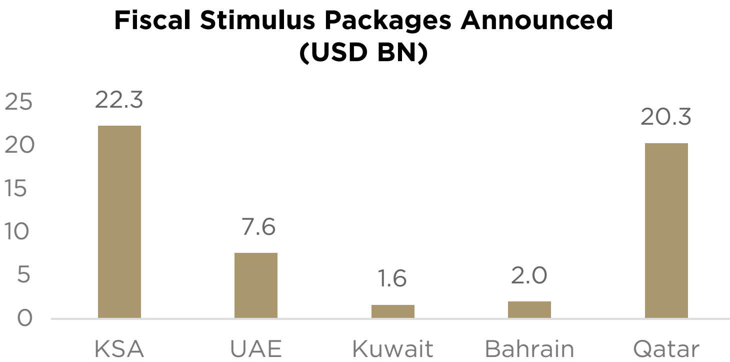


Source: Thomson Reuters Eikon, Desk Research



Government Response and Welfare Initiatives

Governments around the region have extended rapid support to businesses through the cash stress by extending deferment and waivers of government dues, through providing interest free loans, injecting liquidity in the system and support for wage payment.



Source: Aggregate of fiscal policy responses as mentioned in Policy Tracker by IMF, last updated July 10, 2020, Desk Research

Measures undertaken by Saudi Arabia:

- SAR 9 billion to be used from the unemployment insurance fund to provide wage benefits to private sector companies who retain their Saudi staff (April 3)
- SAR 0.9 billion for the further betterment of private sector along with temporary electricity subsidies to commercial, industrial and agricultural sectors (April 15)
- Initiatives totaling SAR 3.7 billion were announced by Saudi Industrial Development Fund to support 536 private sector industrial enterprises
- Package to the tune of SAR 70 billion announced to particularly support private sector SMEs and other affected sections, by either waving off or by deferring various dues, including tax payments (March 20)

Measures undertaken by UAE:

- AED 1.5 billion announced by the government of Dubai towards reduction in government fees, to provide additional water and electricity subsidies and simplify business procedures
- Govt unlocked AED 16 billion with the aim to support private sector by lowering various government fees and accelerating existing infrastructure projects
- AED 9 billion announced by the government of Abu Dhabi towards the ongoing “Ghadan-21” fiscal stimulus program
- To further support private sector, stimulus package of AED 1.5 billion was announced on July 11, 2020 extending some of the initiatives announced in the first stimulus package for an additional three months until the end of September 2020. All financial guarantees for construction activities related to commercial licenses will be refunded and payments of financial dues to contractors will be expedited

Measures undertaken by Kuwait:

- The government allocated additional KD 500 million to support the measures undertaken to curb the spread of COVID-19
- Government fees on selected sectors to be removed if savings are passed on to customers
- Full unemployment benefits to nationals will continue to be provided
- Long-term loans to SMEs will be provided at concession through joint financing from the SME fund and banks

Measures undertaken by Oman:

- Suspension of municipal taxes and some government fees (till end-August)
- Rents for companies in industrial zones (for the next three months)
- Reduction of port and air freight charges
- Deferring loan servicing for borrowers of Oman Development Bank and SME support fund for six months (March 19)
- Program of interest-free emergency loans to assist some segments of affected entrepreneurs (June 23)
- Deferral of tax payments by 3 months for businesses, certain tax exemptions and waving rent payments
- The Public Authority for Consumer Protection (PACP) launched an initiative called Sallat al Khair, helping families with a weekly grocery kit containing essential commodities

Measures undertaken by Bahrain:

Stimulus of BD 560 million, covering April – June includes:

- Salaries of private sector Bahraini employees from the unemployment fund
- Covering utility bills for Bahraini individuals and companies (extended till September 2020)
- Exemption from municipalities' fees for Commercial entities
- Exemption of tourist facilities from tourism fees
- Rent to the government to be exempted for industrial and commercial entities
- Size of the liquidity fund to be doubled to support SMEs
- Redirecting Tamkeen programs to support affected companies and restructuring of all debts issued by Tamkeen (March 17) (further extended on June 29)
- Cabinet has authorized the Minister of Finance and National Economy to withdraw up to BD 177 million from the general account
- An additional BD 5.5 million for the betterment of lower income families (April 8)

Additional measures include:

- 50% salaries of Bahrainis working in the most affected sectors to be covered for July – Sep
- Work permit fees to be reduced by 50% and wave off for the most affected sectors for further three months

Measures undertaken by Qatar:

- For the upliftment of private sector, government announced a stimulus package of QAR 75 billion, which includes exemption from customs duty for six months for heavily impacted sectors including food and medical goods. These sectors were also exempted from paying water & electricity charges (March 16)
- Logistics areas and small and medium industries are exempt from rent payments for six months
- Migrant workers who are in quarantine or undergoing treatment will receive full salaries

06

Investment Landscape Post COVID-19

Market Impact and Recovery

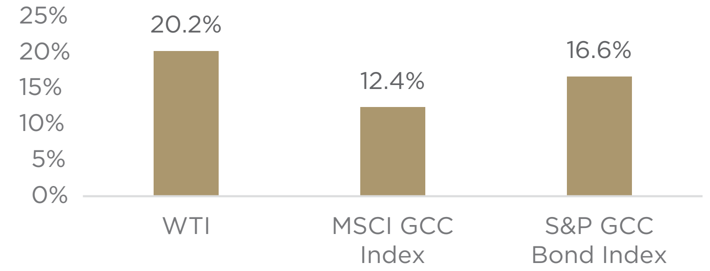
Markets have seen a strong recovery due to improved consumer sentiment, oil bounce-back and outperformance of certain specific sectors.

Most indicators recover

Following the immediate drop and imposition of lockdown across the GCC region, opportunities emerged in sectors which have been active during the lockdown such as consumer staples, food processing, and healthcare.

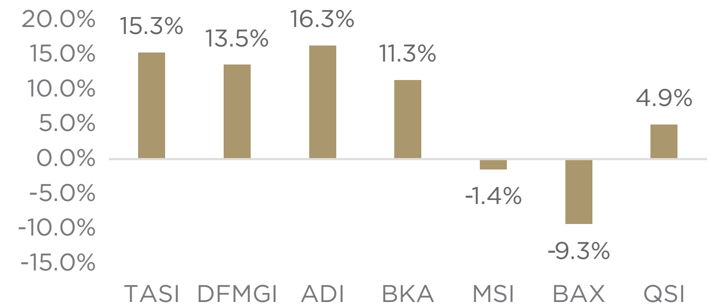
Overall, most markets have quickly recovered over the following period, along with other market indicators. This is largely driven by recovery in oil post OPEC+ cuts, which has improved investor sentiment across the region. The aforementioned sectors have seen a much quicker recovery in the following months and as such, have become the preferred segments for investment.

Key Indicators Between March 19, 2020 and Dec. 31, 2020



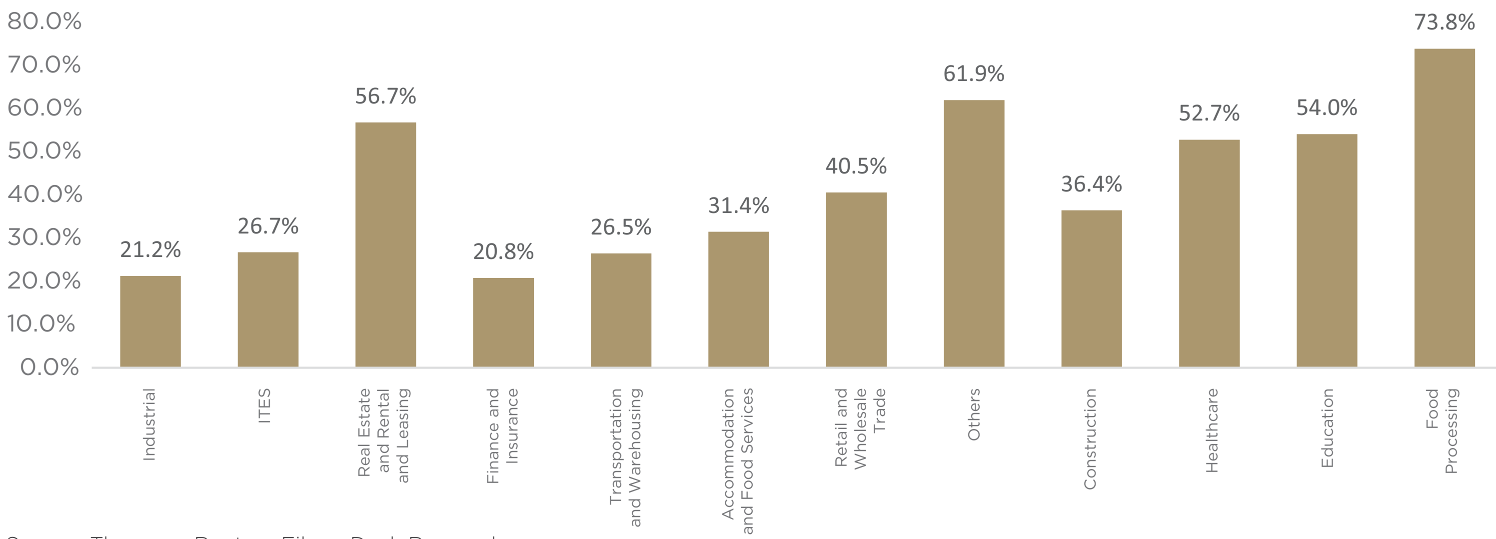
Source: Thomson Reuters Eikon, Desk Research

GCC Indices Returns Between March 19, 2020 and Dec. 31, 2020



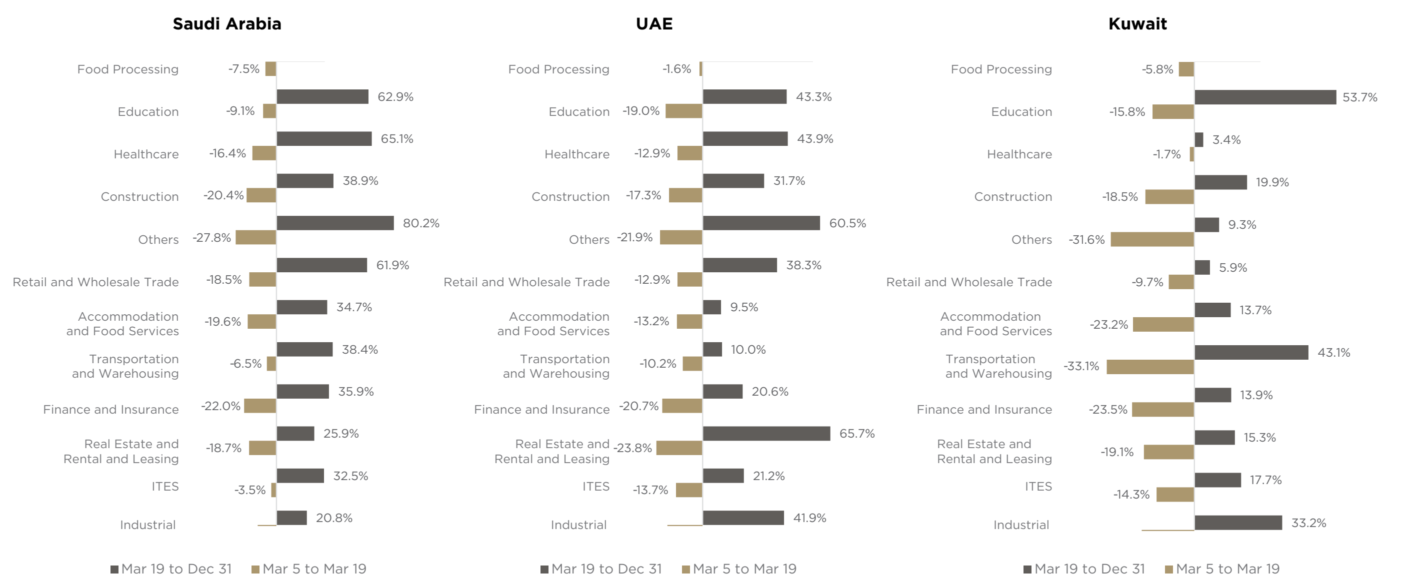
Source: Thomson Reuters Eikon, Desk Research

GCC Sector Wise Performance



Source: Thomson Reuters Eikon, Desk Research

Recovery by Sector in Key GCC Countries



Source: Thomson Reuters Eikon, Desk Research

Emerging Sectors amid the Pandemic

In Healthcare space, novel segments like Telemedicine are expected to gain traction given the behavioral change due to COVID-19.

Healthcare and Telemedicine:

Forced by the limits that COVID-19 has exerted, Telemedicine has been gaining traction in the GCC. With social distancing becoming the norm, telemedicine has become an important part of healthcare solutions, where patients can seamlessly access medical care ranging from diagnostics and treatment to online prescriptions, right from the comfort of their homes.

UAE's Mulk Healthcare launched Middle East's first E-hospital in July 2020. The Mulk E-Hospital is a downloadable app offering myriad healthcare services, including initial doctor-consultation.

Mulk E-Hospital offers quality healthcare services from a pool of international experts in each domain of medicine.

Similarly, Mubadala Healthcare, through its remote care application is treating hundreds of COVID-19 patients through telemedicine & home visits.

Telemedicine, thus, proves to be very effective, at least for non-emergency and non-life-threatening cases and is beneficial for both patients and healthcare providers in terms of saving time and cost.

Middle East healthcare platform Vezeeta raised $40M Series D led by Gulf Capital (February 2020). Vezeeta is a digital healthcare through which patients can discover and book medical appointments and health services. Similarly, Okadoc also raised $10M in the month of February.

In GCC, Medtech companies are playing key role in the telemedicine domain. The use of artificial intelligence is expected to add $182 billion to UAE's economy by 2035.

Technological growth in E-Health in KSA:

Seha app, designed to provide online medical consultation services from MOH's accredited doctors in all specialties, was downloaded 650,000 times in 2019 compared to 500,000 in 2018.

Mawid app which enables patients to book their appointments in primary healthcare centers in coordination with the concerned departments, clocked 26 million appointments in 2019 as against 8 million in 2018.

Tataman app provides protection and healthcare for citizens and residents referred to domestic isolation or quarantine; to maintain their safety and enhance their recovery procedures.

Healthcare projects:

- King Abdullah Bin Abdulaziz Medical Complexes in Riyadh & Jeddah - Project cost: USD 6.8 billion
- King Khalid Medical City, Dammam, completion: Est. 2020 - Project cost: USD 1.27 billion
- King Faisal Medical City, Asir, completion: 2021 - Project cost: USD 1.06 billion
- Medical City for Rehabilitation and Treatment, Riyadh, completion: TBC - Project cost USD 346.6 million
- King Fahad Medical City Expansion, Riyadh completion: TBC - Project cost USD 14 billion

In a bid to ease the burden of healthcare expenditure, GCC governments are providing stimulus to private players through public-private-partnership models. The region has witnessed a high volume of activities in the recent past including M&A deals, cross border acquisitions, several intra-regional deals in order to offer integrated services and increase the market share. The regional healthcare players are also looking to grow inorganically to further diversify their offerings. According to sources, the region is also likely to show high interest in acquiring stakes in Long-Term & Post-Acute Care (LTPAC) and home healthcare services.

GCC region has an estimated 161 healthcare projects under development with a combined value of USD 53.2 billion, which upon completion are anticipated to add more than 40,326 beds to the existing capacity. GCC medical tourism market is anticipated to reach USD 28 billion by the end of 2024.

Food & Beverages (F&B):

Restrictions on movement hit the Food & Beverages (F&B) sector hard. According to Google Mobility report, retail & recreation index for GCC countries is 15% below, compared to the baseline on an average (data as on December 6, 2020). Loss in Hotels, Restaurants & Cafes (HORECA) segment of F&B, which accounts for 30% of the entire sector, is going to be mitigated by growth in retail segment which accounts for the remainder of the sector. It is expected that retails' share will accelerate up to 90% from 70%, propelled by spur in household consumption, bulk-buying, long-shelf-life of F&B products and panic buying in case of a second wave of the pandemic.

Within the F&B sector, Quick Service Restaurants (QSR) are gaining huge traction. It has become popular especially among the younger generation due to its varied offerings, including low-cost food options and speed of services. F&B clusters are fast emerging in the GCC region providing a good investment avenue given their popularity and fast adoption.

Credit landscape - Impact on Banking, Driver of Growth

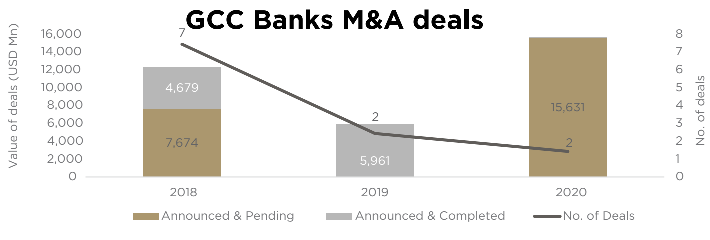
Banking sector is exposed to both credit risk as well as interest rate risk, in face of rising competition with consolidation emerging as one of the viable solutions.

Two main challenges that GCC Banking could face include Revenue Compression due to falling rates and Credit Quality.

Revenue compression – Interest rates were already falling in the months leading up to COVID. As part of COVID policy responses, the rates were further reduced to support the GCC economies in these challenging times. In the short-term, rate hikes are not expected, thus also contributing to bringing the GCC banking revenue growth under pressure.

Credit quality – As various deferment schemes draw to a close, we expect to see an increase in provisioning and non-performing loans. Additionally, prime sectors of the GCC economies namely real estate, oil & gas and petrochemicals are going through turbulent times, the effect of which will be felt on banking sector's profitability.

Consolidation in face of increasing competition – Consolidation in the banking sector in the GCC is well-known and is something that would gain renewed importance, especially in these challenging times. Benefits including more robust capital adequacy, higher lending room, cost synergies in the face of rising competition, higher market penetration and reducing profits would be the main motivating drivers behind bank consolidation.



Source: Thomson Reuters, Desk research

Although the region is adequately capitalised, it is still exposed to a very important macroeconomic factor which affects the region – oil. This coupled with the temporary deferment programs introduced by various central banks drawing to a close would also add to the credit quality pressures in addition to the existing stressed economic conditions due to COVID disruptions. Resultantly, banks could incorporate stringent credit underwriting norms and be selective with their economic sector exposure depending on the structural or temporary impact of COVID. However, state governments have introduced liquidity boosts to support banks through these uncertain times.

GCC Real Estate Industry

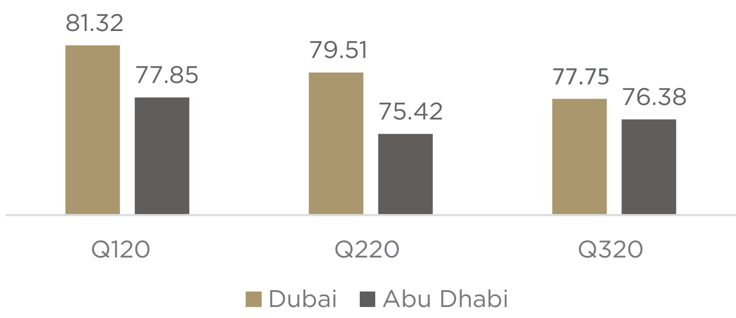
COVID has affected the number of deals and value of transactions but is now showing signs of promising stability and positive reversal in trend. Warehousing segment is expected to continue performing well.

Current state of Real Estate market in GCC

The pandemics impact on the GCC real estate industry was felt with combined transacted value in the most active real estate markets in the GCC - Saudi Arabia and Dubai falling by 47.3% YoY during Mar-2020 & Apr-2020, while number of transactions dropped by 46% YoY over the same period. Investors are still cautious around the off-plan transactions in anticipation of a decline in future prices and are turning towards to the current real estate stock. Increase in share of off-plan transactions would provide a strong signal as to the sectors structural recovery.

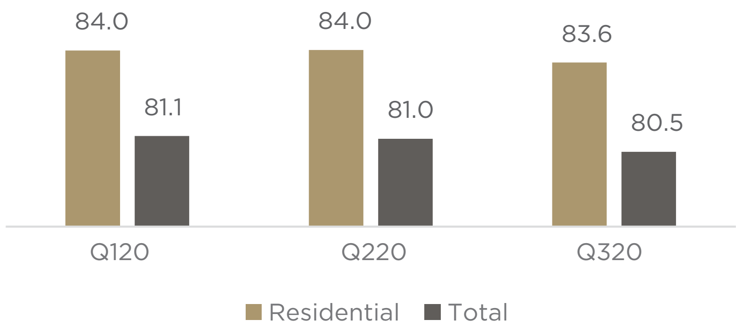
Real estate transactions in GCC declined YTD at the end of October by 4% YoY to USD 72.1 BN from USD 75.5 BN same period last year in 2019 till October 2020. Supply side tightening should help in arresting the declines in prices and volumes. Residential real estate seems quite close to a cyclical recovery aided by government efforts in the region. Demand for Industrial places continues to see a rise driven by e-commerce, logistics, pharma, cloud kitchens. On the other hand, demand for retail spaces is the weakest as retailers enter into omni-channel expansion. Real estate public securities have recovered along with broader markets from the lows experienced in March. Saudi Arabia's Tadawul REIT Index has recovered returned 2.1% for FY2020 compared to an 1.7% fall for the S&P GCC Composite index. Developers are making supply side adjustments due to lower demand and pre COVID oversupply worries in certain regions This would help in providing cyclical stability for the sector.

UAE Residential PE Price Index (100=2014)



Source: Reidin

KSA PE Price Index (100=2014)



Source: KSA GSTAT

Private Equity Market

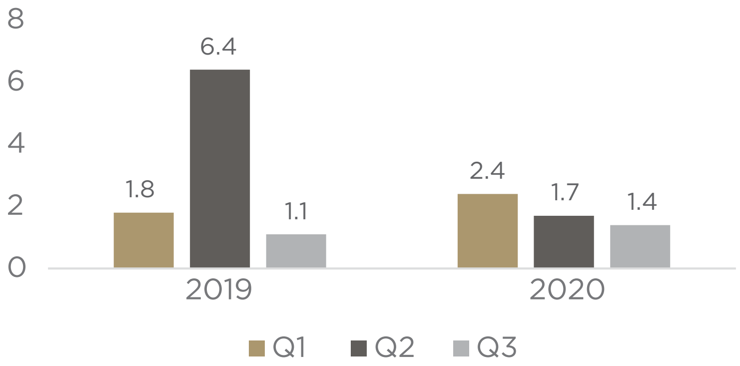
Tech investments have hit a purple patch backed by recent successes in the region. Tech sector and online retail sectors have garnered investors' attention.

Initially GCC countries used to deploy their funds in overseas markets due to limited scope in their region, however, since the last decade many new investment avenues have opened in the region. Private Equity as an asset class has been gaining popularity. Fund-raising ticket size in the region has been at an average of USD 1 billion over the past five years. There were 12 Middle East private equity buy-out deals in 2019 as against 16 in 2018 however, the aggregate value of deals in 2019 rose to USD 1.5 billion compared to USD 600 million in 2018 mainly led by USD 1 billion buy-out of Dubai-based Gems Education. Private equity entry investments totalled USD 5.5 BN till Q3 2020.

Tech sector has currently seen a lot of traction with milestone deals like Uber acquiring Careem, Webjet acquiring 'Destinations of the World' and Amazon acquiring Souq.com. Gulf Capital has deployed funding to the tune of Dh1 billion into technology-focused firms. Investcorp Holding BSC, one of the biggest PE & alternative asset manager in the Middle East is actively looking out for deals after successfully exiting L'Azurde, Leejam Sports and BinDawood Holdings through public listing on Tadawul. The company is also looking for the fourth IPO of a Saudi company - Theeb Rent-a-Car.

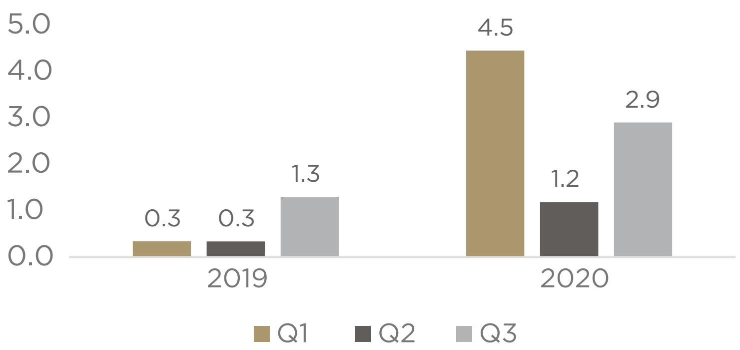
Considering the size of the GCC economy and its leading investor base, there is a huge scope for expansion and investment into PE. Top ten institutional investors in the Middle East have more than USD 3.71 trillion of combined assets under management. A lot can be done by channelizing those investments into Middle Eastern assets which will help build the local private equity ecosystem.

Aggregate deal value of PE entry transactions (USD BN)

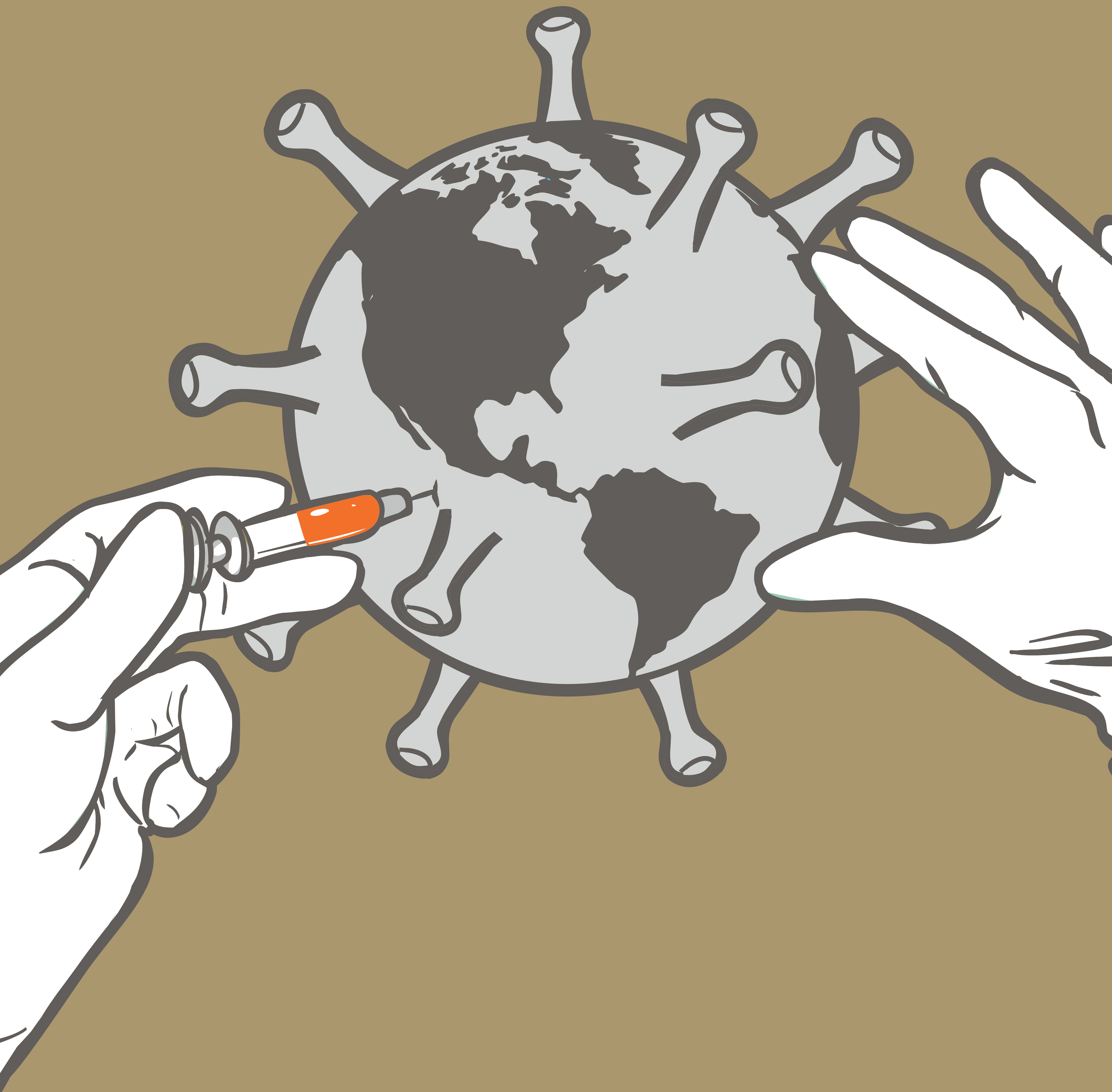


Source: S&P Global Market Intelligence

Aggregate deal value of PE exit transactions (USD BN)



Source: S&P Global Market Intelligence



07

Emerging Economic Scenarios Post COVID-19

Oil Markets

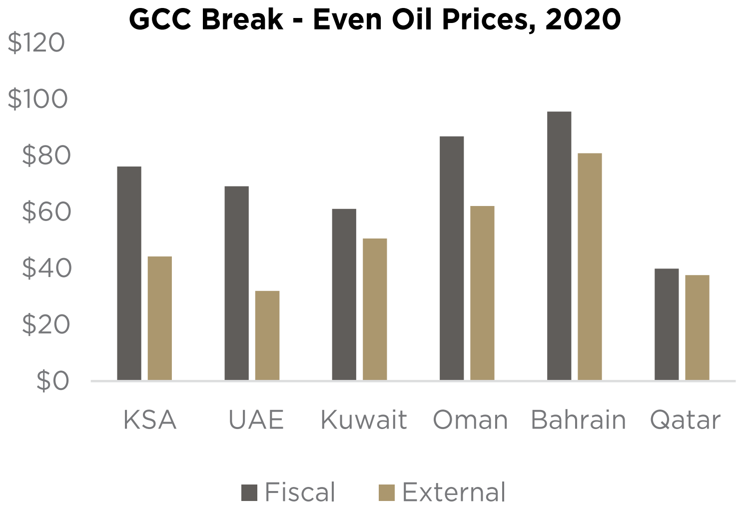
GCC states seem to be in recovery mode with WTI crude oil price rising from average of $18 in April to $45-50 by end of 2020. Optimism from vaccine rollout continue to lend support to prices. Second wave of infections and slower than anticipated vaccinee roll out can hamper oil demand recovery.

The pandemic has engulfed the world with dual shock of health and economic crisis. This is especially taxing for the Gulf nations given their oil reliant and social spending economies.

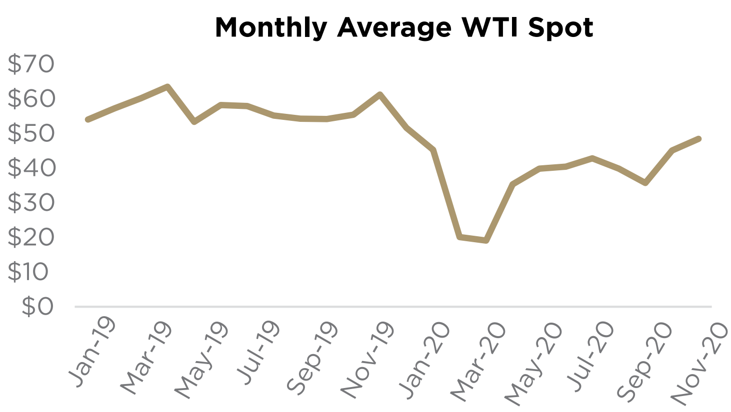
Oil consumption fell by almost 10 million barrels per day (mb/d) in 2020 to 90.3 mb/d, a 10% fall from 2019 due to restriction in movement and slump in the aviation sector. According to IEA estimates, 2021 demand forecast was revised down by 170 kb/d. This is mainly because of another downgrade in jet fuel / kerosene demand which will account for 80% of the overall shortfall in demand in 2021 vs 2019.

Global oil supply rose 1.5 mb/d in November to 92.7 mb/d as the US recovered from hurricane shut-ins and Libya production coming back into the market. November compliance rate with the OPEC supply agreement was 102%. The OPEC+ countries are easing their existing cut of 7.7 mb/d in December to 7.05 mp/d by March 2021 in the backdrop of weak oil demand and second wave of lockdowns.

Even as oil recovered to 10-month high of $50 on back of optimism surrounding economic rebound from early stages of vaccine roll-out, there exists downside risks due to signs of second round of lockdowns in some countries, potentially curbing oil demand. As per the OPEC+ agreement, 500,000 barrels were added in January 2020 with a further increase of 75,000 barrels in February. This is set to be followed by an increase of 120,000 barrels in March. Oil price however increased after Saudi Arabia announced voluntary production cuts of 1 mb/d in February and March thereby lending support to oil prices.



Source: CSIS, IMF



Source: Reuters

Tax Reforms

VAT regime emerges, some relaxations provided due to COVID-19

To maintain fiscal stability and deal with falling oil prices, the countries plan to raise funds through taxation.

KSA - KSA has tripled its value-added tax rate to 15% from 5% in July 2020 amid a series of fiscal reforms though the pandemic pressures. The Kingdom has exempted real estate transactions from VAT and instead has implemented a new Real Estate Transaction Tax (RETT) at 5%. Custom duties increased from June 10, 2020 with a rise ranging from 0.5% to 15%. After a waiver of penalties on taxes were further extended till September 2020 from June 2020, the government has now extended them till 31st December 2020.

UAE - The United Arab Emirates, one of the only other countries in the trade bloc that has implemented VAT, has announced it would not be increasing the VAT rates. In Dubai, the government introduced a 20% refund on customs duties paid on imported goods and cancelled the bank guarantee required to clear goods.

Oman - Oman has announced that it will introduce the VAT system from April 2021 with a standard rate of 5%. Certain tax relief measures were announced by the Oman Tax Authority ("TA") on 8 July, 2020, in relation to the due dates for tax payment in the year 2020. Oman Tax Authority announced a nine-month extension for tax payment and suspension of the addition to tax till 31 September 2020 from 30 June 2020 earlier.

Qatar - Qatar's new tax management system 'Dhareeba', through which taxpayers can file their returns went live on 1st November, 2020. Qatar had implemented VAT on January 1, 2020. The General Authority of Customs (the GAC) has exempted food and medical commodities from customs duties for a period of six months, effective 23 March, 2020. The GAC has implemented this directive by suspending customs duties for 905 listed items at Al Nadeebe customs clearance system. The Qatari tax authority has extended the corporate income tax filing deadline for FY 31 December, 2019 from 30 April, 2020 to 30 August, 2020.

The Kingdom of Saudi Arabia and the United Arab Emirates introduced excise tax on sugar sweetened beverages on 1 December, 2019. Oman Tax Authority also announced the introduction of excise tax on sugar sweetened beverages at 50%, from 1 October, 2020.

Privatization & Access to Capital Markets

This is the opportune period for the GCC countries to protect and improve the business environment while pushing forward with sustainable reforms, taking the region to a next level of transformation.

Privatization:

In recent times both developed and emerging economies have reaped benefits from Public–Private Partnerships & Privatization. Events like decline in oil prices & large budget

deficits have set diversification and privatization as the top priorities. Saudi Arabia's Saudi Vision 2030, has set public–private partnerships and privatization as one of its key priorities.

Benefits:

Privatization can help the governments off-load a huge chunk of capital expenditure. Additionally, it can unlock sizeable amount of revenues from the sale of public assets and divert those funds towards value-additive sectors and can further bolster economic growth. This in turn, provides local and international investors access to fast growing GCC markets.

A few recent notable privatization deals through the GCC region:

- Abu Dhabi sold a USD 10.1 billion stake in its natural-gas pipeline to a group of six investors including Global Infrastructure Partners, Brookfield Asset Management Inc. and Singapore's sovereign wealth fund
- Saudi Arabia completed first phase of state mills privatization
- Saudia Medical Services Company, a subsidiary of Saudi Arabian Airlines was privatized in February
- Boursa Kuwait Securities Company was privatized in December 2019
- State Grid Corporation of China acquired a 49% stake in Oman Electricity Transmission Company

Access to capital markets:

- GCC countries are undertaking prudent steps to open up their economies by attracting foreign investments. Infusion of foreign funds via capital markets has proven to be one of the effective ways of addressing this problem. Inclusion of Saudi Arabia and Kuwait in emerging market indices like FTSE, S&P and MSCI augurs well for increasing foreign inflows into the GCC region. MSCI has reclassified the Kuwaiti exchange to Emerging Markets and has added 7 stocks to MSCIEM index. Qatar has been added to the MSCI EM in 2014. These events act as milestones in deepening GCC capital markets as domestic companies will be able to garner funds at relatively cheaper rates from the large pool of investors.
- The sale of public assets through share-issue privatization and the reduction of government ownership in currently listed assets will also help strength GCC capital markets
- In order to attract foreign investments, Saudi Arabia relaxed the 49% foreign ownership limit in shares of listed companies whereas UAE allowed up to 100% foreign ownership.

There are incredible investment opportunities for investors with different risk appetites, to invest in the growth and diversification stories of the GCC economies. COVID has also led to the emergence of new investment opportunities, as GCC governments will aim to balance their fiscal math especially now, given the necessity for higher public spending.

COVID Vaccine Tracker

Economies around the world are experiencing a sliver of hope as they are gearing up for mass vaccination drives. Vaccinations with strong 95% success rate are being approved and adopted for the vaccination drives.

COVID-19 vaccines approved by major countries

Many countries have started approving COVID-19 vaccines for use and more than 13 MN doses across 33 countries have already been administered. A total of 8.25 BN doses from all companies have been booked globally.

1. **Pfizer/BioNTech - USA/Germany -** The company plans to produce 1.3 BN doses in 2021. As per companies claim that trials have shown this vaccine to be 95% effective. The vaccine has been approved for emergency use in EU, US, Canada and the UK and the Middle East.
2. **Moderna - USA -** Moderna expects to have made 100 mn does globally in Q1'21. The vaccine has been approved for emergency use in Canada and US. The company claims that trials have shown this vaccine to be 95% effective. The company plans to produce 600 mn doses of the vaccine by 2021.
3. **AstraZeneca/Oxford - England -** The vaccine saw bookings for 3 BN doses even before any late-stage study results, which is twice as many as other candidate. The company claims that trials have shown this vaccine to be 70% effective. India and UK have approved the vaccine for emergency use.
4. **Sinopharm - China -** After getting an early approval in late August, China has approved its first vaccine for general use after trials showed 79% efficacy in December.

GCC Countries Approving Vaccines for Emergency Use:

- **Saudi Arabia -** Has approved and launched its vaccination drive in December as it receives batches of Pfizer - BioNTech vaccine. Registrations for receiving the jab are already underway through the state health app – Sehhaty. Saudi Arabia has reported over 360,000 cases.
- **UAE -** UAE has started its vaccination drive after its approval of Sinopharm, Pfizer and BioNTech Vaccine. The Sinopharm vaccine can be transported and stored at normal refrigerated temperatures. Pfizer vaccines based on RNA technology requires deep-freeze facilities. Over 214,000 people in the UAE have tested positive for the virus since the start of the outbreak.
- **Kuwait -** Kuwait has started administering Pfizer – BioNTech vaccine. Over 151,000 people in Kuwait have tested positive for the virus since the start of the outbreak.
- **Bahrain -** Bahrain has started its vaccination drive after its approval of Sinopharm, Pfizer and BioNTech Vaccine. Over 93,000 cases have been reported till date in the country.
- **Oman -** Oman has started administering Pfizer – BioNTech vaccine. Over 1,29,000 people in Oman have tested positive for the virus since the start of the outbreak.
- **Qatar -** Qatar has started administering Pfizer – BioNTech vaccine. Over 1,44,000 people in Oman have tested positive for the virus since the start of the outbreak.

08

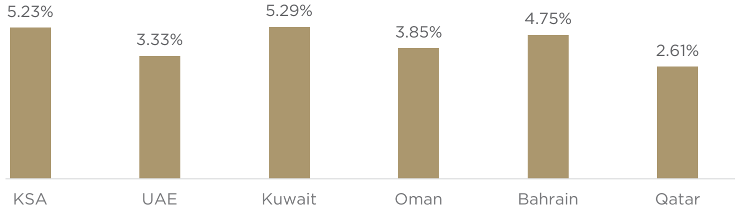
Post COVID-19 Opportunities

Healthcare Sector

PPP, KSA & UAE demand, Mandatory Insurance and preventative medicine to drive growth.

All six GCC member states have implemented laws or they in the process of implementing mandatory health insurance coverage for residents and foreign visitors. Consequently, this has created an opportunity in the healthcare space, right from capex needs for capacity expansion, for improvement of cutting-edge medical services, specialized surgical procedures, as well as the need for qualified medical professionals. As per an industry estimate, there were only 3.1 nurses per 1000 inhabitants in UAE, and 5.2 in KSA; compared to 8.4 nurses in UK and 9.9 in the US. The current healthcare expenditure (CHE) in the GCC is expected to reach USD 104.6 billion by 2022.

Current Health Expenditure (% of GDP)



Source: Worldbank

In view of the anticipated rise in the number of patients and ageing population, the GCC may require a collective bed capacity of 118,295 by 2022, indicating a demand for 12,358 new beds. Saudi Arabia is likely to witness the largest requirement at over 7,500 new beds with Kuwait's requirement of additional 7,762 beds, followed by the UAE at more than 2,000 new beds. The GCC has over 700 healthcare projects worth USD 60.9 billion under various stages of development. Bahrain's private healthcare sector is growing by leaps and bounds, as the number of facilities increased from 500 to 800.

Apart from this, the investments in preventative medicine is extremely crucial for the region, for example GCC countries spend only USD 31 to USD 131 per capita per year on preventive care. That compares with roughly USD 400 to USD 500 per capita in Western countries. For example, GCC countries diabetes rates are close to 2.5x higher than the world average and hence diabetes prevention and early diagnosis can gain traction.

Increase in Public- Private Partnership (PPP) opportunities are replete in this space, as this aligns with privatization and diversification action-plans of the GCC nations. Medical tourism is another promising bet, with Dubai and Abu Dhabi being the front-runners in the GCC space.

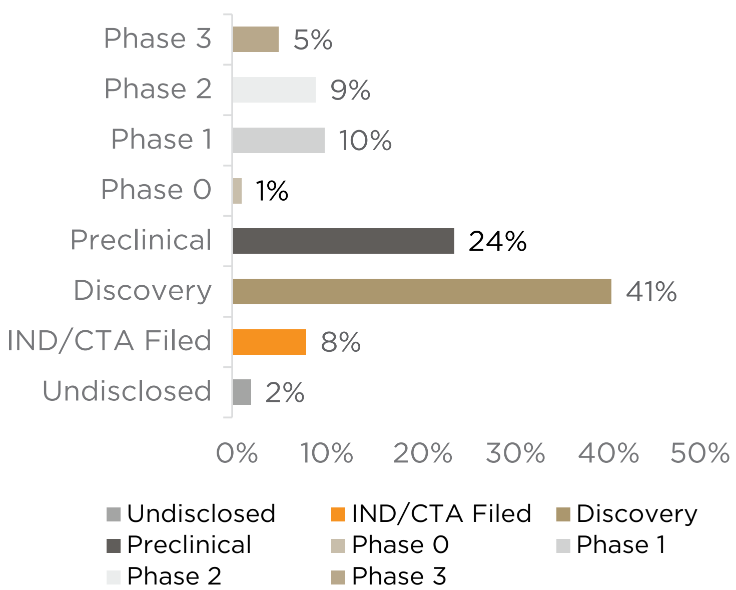
Pharmaceuticals

The responsibility of finding and distributing vaccines will help GCC countries open doors or level up.

With the outbreak of the pandemic, the pharma industry is going to evolve rapidly in a different way. The most important question vexing world administrators is finding a viable medicine for the novel corona virus.

Global Data's Analysis of the Emerging Disease Landscape report published on 24 April 2020 states that there are around 300 therapeutic drugs in the pipeline at various stages of their development cycle up from 100 a month ago. About 24% of these drugs are in phase 1 to 3 of their development cycle, which include clinical trials. From repurposing existing drugs to finding new indications the R&D activities undertaken by the pharma sector has been commendable. The pharmaceutical sector in the Arabian Gulf is expected to double from USD 13.9 billion in 2018 to USD 25.7 billion in 2028 bolstered by urbanisation, ageing population and rise in chronic lifestyle-related diseases.

Break down of COVID-19 Therapeutic Pipeline
by stages of development



Source: GlobalData, Pharma Intelligence Centre, accessed April 21, 2020

The sustained drop in oil prices that started in June 2014 has made economic diversification in GCC states imperative which resulted in initiative like Saudi Arabia's Vision 2030 and the Dubai Industrial Strategy 2030. GCC governments are committed to develop their in-house pharmaceutical production to meet the growing demand and become self-reliant. Various incentive provided by the governments like reduced taxes, import tariffs etc. attract investment from multinational drug makers. Huge scope lies for both generic and innovative manufacturers in this region. A few notable examples-

- **Felix Pharmaceutical Industry** plans to develop a pharmaceuticals complex in Salalah Free Zone, Salalah, Dhofar, Oman covering an area of 110000 sqm. The complex will produce more than 100 compound drugs
- Bahrain signed financing deal of USD 266 million for the construction of the King Abdullah Medical City hospital which is anticipated to commence its operations by the beginning of 2022

Industrial Sector – Agriculture & Food Security

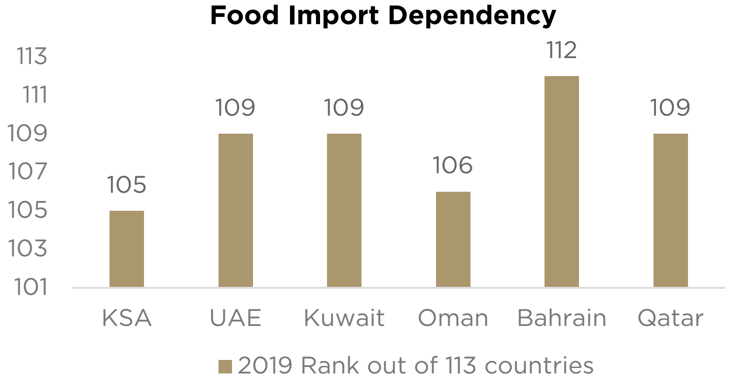
Aiming for food security in the region, ample investment opportunities for the sector supported by government initiatives.

Food security and opportunities

The pandemic has compelled the GCC markets to work on developing and strengthening international food supply-chains and also expanding the breadth of countries from which GCC imports. Additionally, GCC is also making a continuous effort to support local producers and help explore innovative farming methods given the constraints around arable land and freshwater resources, non-viability of open-field agriculture due to extremely high temperatures during summer.

GCC countries are making substantial foreign investments for producing food directly intended for GCC markets. Examples include the agreement between KSA's SALIC (Livestock company) and UAE's Al-Dahra Holding USD 1.33 billion dollar agreement to develop lands for food production in the Black Sea region.

Food Import Dependency



Source: Global Food Security Index 2019, Economist Intelligence Unit

Other innovative opportunities in local production:

a. Joint venture between Emirates Flight Catering and US-based Crop One in the largest vertical farm in the world at a cost of USD 40 million, spanning over 130,000 sq. ft, and would produce 2.7 tons of leafy vegetables while using 99% less water than outdoor fields

b. Rice farming on a pilot basis using underground drip-irrigation systems This venture is going to be followed by cultivating coffee and wheat

c. Dubai fish farm producing 10,000 to 15,000 kilos of salmon every month

Additional policy backing –

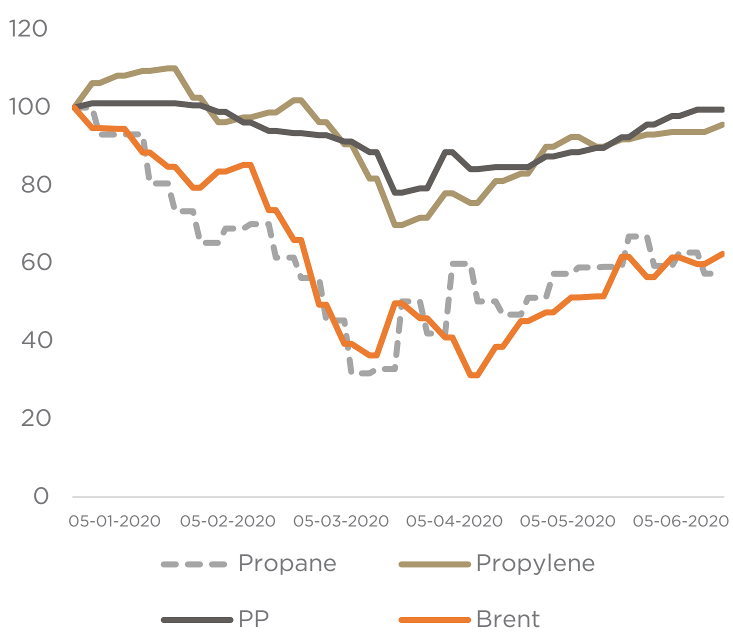
1. In 2019, KSA unveiled programs worth over USD 1.78 billion to boost production, processing and marketing of fruit, fish, livestock and Arabic coffee, and the systematic cultivation of rain-fed crops. KSA also plans to increase the organic production by 300% by 2030 with an investment worth SR 750 million.
2. Oman government has brought Oman flour mills, livestock, fisheries and food International under its ambit and are added to an already existing downstream agri-food value chain companies creating a very strong growth opportunity not only directly in farming, but allied sectors like agri-tech, fertilizers, seeds, supply-chain opportunities.
3. Abu Dhabi government launched a Dh1 billion fund (Ghadan 21 programme) to provide aid to the growth of agritech start-ups in the country.

Industrial Sector – Petrochemicals

Demand for fertilizer (urea) and healthcare products have been strong, Ethane based products remained resilient.

The GCC petrochemical industry has experienced pressure from COVID-19 pandemic, a disrupted Chinese market, and reduction in demand due to slowdown in end-user industries. However, demand for fertilizers and products used for healthcare and sanitization has seen a growth in demand.

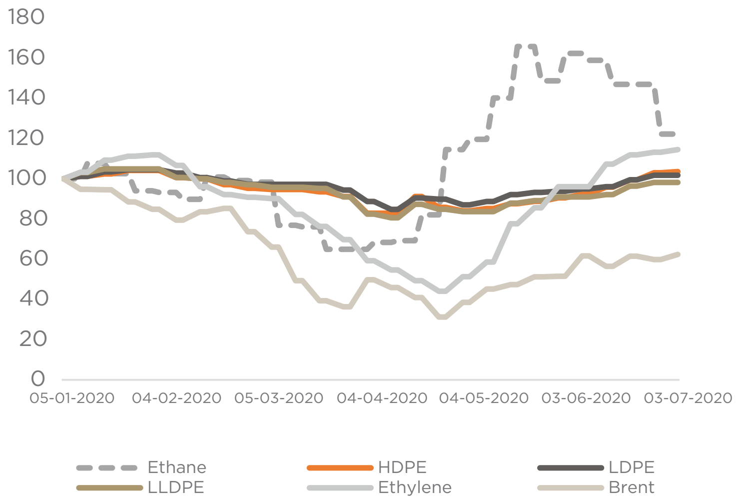
Propane and Propane-Based Products



Source: Thomson Reuters, Desk Research

Prices for healthcare products has remained moderate while prices for fertiliser have started to recover. Demand for oil and petrochemicals is projected to be back by Q3-2020.

Ethane and Ethane-Based Products



Source: Thomson Reuters, Desk Research

Overall demand supply dynamics in the petrochemical space was slightly different than the oil markets. Feedstock Propane prices mirrored the decline in oil, but Ethane prices saw a lower drop. On the other hand, end products such as HDPE, LDPE, LLDPE and PP remained resilient during the entire first half of 2020. Through the recovery in oil has been steady and gradual, Ethane has seen a tremendous increase, which along with ethylene have been the best performing commodities in the rebound. One of the key drivers for the rise in Ethane has been the tighter supply as the global oil rig count lowered amid the lockdown phase between March and June 2020.

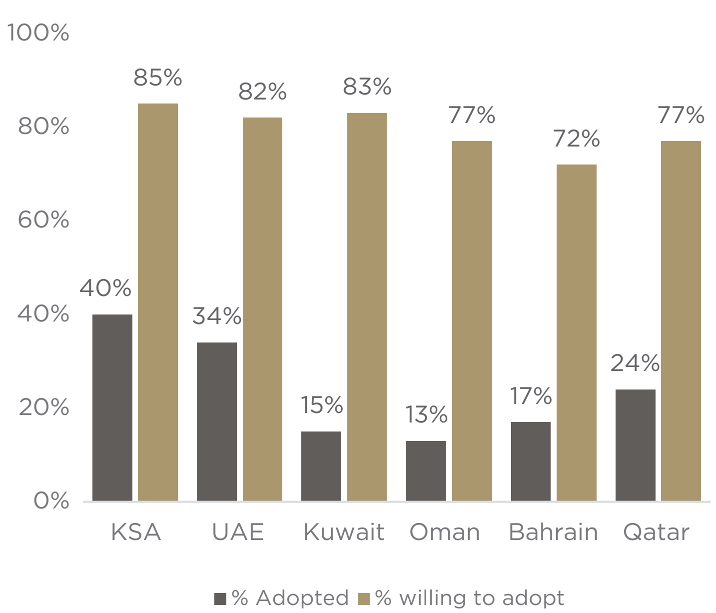
According to estimates by Gulf Petrochemicals and Chemicals Association (GPCA), investments in GCC Chemicals have exceeded USD 140 billion in first 10 months of 2019 through joint ventures and mergers and acquisitions. Additionally, Saudi Arabia has been trying to attract foreign investments in the petrochemical sectors as a part of its Vision 2030 program. Saudi Aramco's IPO will pave the way for further downstream investments separate to its already massive slate of new projects. Saudi Aramco is looking to convert about 2m-3m billion barrel per day of crude oil directly into petrochemical products. Saudi Aramco has begun executing the acquisition of 70% of shares of Saudi Basic Industries (SABIC) worth USD 69 billion from Kingdom's Public Investment Fund.

Financial Technology (Fintech)

Fintech has multiple applications and will be an important innovation driver in the backdrop of structural changes due to COVID.

Fintech is the next big driver to lead the change in banking, wealth management, payments infrastructure, insurance, credit disbursements, and various other parts of the ecosystem. GCC market participants are in the exploratory phase and have two views: one to internally develop FinTech offerings and capabilities, or to follow a 'hang back approach' till there is some certainty on the way forward. However, banks are deploying FinTech solutions to fill certain capability gaps which can be scaled up gradually. The region is set to experience an uptick in the use of FinTech platforms and services as consumers shy away from physical offerings in the backdrop of ongoing global COVID-19 outbreak, which has accelerated FinTech's take-up. Government bodies are pushing for more developments in the sector and are partnering with private companies to help set up a sound ecosystem so that fintech-oriented start-ups flourish. Bahrain's national digital wallet BenefitPay experienced a staggering growth of 1,257% in the number of remittances through its Fawri+ service during the month of March 2020, worth ~BHD103 million (USD 273 million).

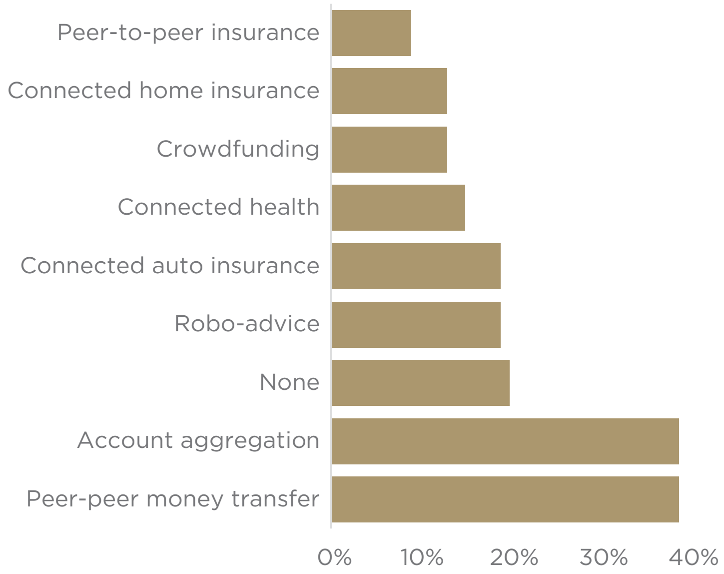
Adoption Level in GCC



Source: Deloitte

Businesses are increasingly opting FinTech apps. If one word is used to describe how many fintech innovations have affected traditional trading, banking, financial advice, and products, it's 'disruption'.

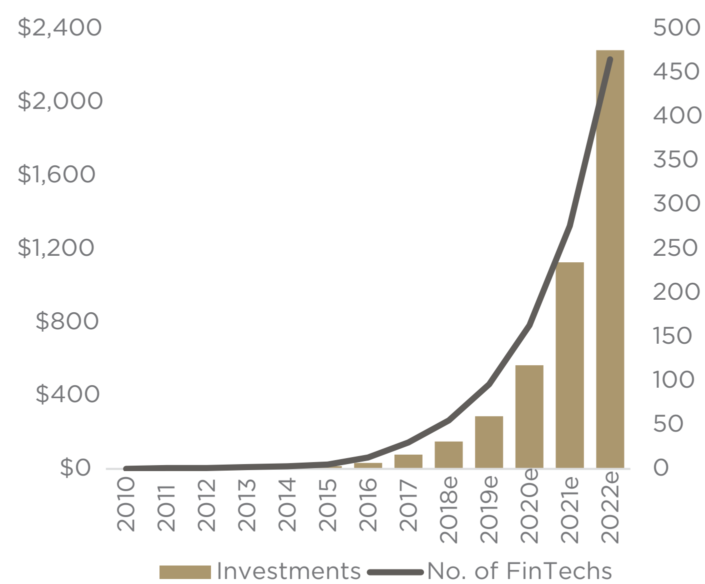
Solutions Used



Source: Deloitte

Some of the most active areas of fintech innovation include: Digital cash, Blockchain technology, Smart contracts, Open banking, Insurtech, Regtech, Robo-advisors, Underbanked services, Cybersecurity etc.

Venture Capital Investment into Middle East FinTech Companies



Source: DIFC FinTech Hive and Accenture

FinTech plays a pivotal role in the future of financial services industry in the region where penetration is meagre. There is a huge scope for both regional and international FinTechs to tap on the growing fintech market when it comes to digital banking and payment space.

Logistics & Supply Chain

Logistics and supply chain is slated to experience strong growth through proliferation of E-commerce in the region. Additionally, the sector has been very agile and has responded to the pandemic challenges successfully.

The COVID-19 pandemic has stalled most economic activities in GCC and all over the world as lockdowns and curfews came into effect. Logistics as a sector is struggling to overcome the disturbance in supply chain, uncertain market conditions and emerging global recession. The total shareholder return for leading global logistics service providers for those within the GCC fell -25% in Q1 2020. The transport sector, one of the key elements of Logistics has been equally impacted. However, it has remained agile in keeping essential goods and workers moving. With required investments and real time tracking of demand and supply, transportation can play a crucial role in the recovery efforts.

MENA region is expected to witness trade decline of 10% during the year under an optimistic scenario as compared to most regions across the globe which are expected to decline between 12-17%.

Rescue mission:

With digitization proving to be the new requisite across the sectors, logistics and supply chain service providers are constantly working towards automation. At the end of April, DP world - a logistics company based in Dubai, launched a new online logistics tools and services, covering sea, land, and air shipping around the world. Its acts as an enabler for freight forwarders and businesses to book shipments of cargo from and to anywhere in the world.

The company was also instrumental in creating Digital Freight alliance, an online association to connect all freight forwarders globally on one platform.

Similarly, Agility- a global logistics company headquartered in Kuwait, worked together with government in creating digital dashboards to track inventory levels. It also played a key role in enhancing supply chain, conducted a demand planning assessment and did a study on managing warehouse needs in order to meet food security requirements.

E-commerce

In the region, E-tail is growing at a rate of USD 8 billion per annum driven by two key players, Amazon and Noon. Leading the pack is the electronics segment with a 65% share, which experienced some stress in the past year but was showing optimistic signs of recovery. Followed by electronics are the grocery and fashion segments together having a share of 27-30%.

Along with E-tail, food deliveries segment is gaining speed, touchin USD 1 billion in UAE and KSA each. With a 70% market share, Talabat and Zomato are driving the UAE market. While in KSA, Hunger Station leads the market with more than 70% share.

E-tail market in Kuwait is valued at USD 500 million and at USD 1 billion when combined with Oman and Bahrain markets.

The logistics sector supporting the ecommerce industry in the GCC is valued at USD 1.4 billion and is expected to grow by 2.5 times to USD 3.5 billion in the next five years. Cheap crude oil in GCC is driving growth for the logistics sector.

The closure of shopping malls and stores as part of lockdowns imposed since March — restrictions that are now slowly being lifted to varying degrees across the region has compelled a large segment of the consumer population to shop online.

An EY survey conducted in the first week of May found that 92 percent of consumers in the UAE and Saudi Arabia had changed their shopping habits, with 52 percent terming the change “significant.”

The UAE is also a leading emerging market player in the logistics industry as the country ranks first in the Gulf region and third globally after China and India, according to the latest Emerging Markets Logistics Index.

E-commerce players in Kuwait through in-house logistics have captured the majority of the market share in terms of the total number of shipments in the year (analysis based on 2017 data). Generally, logistics companies in Kuwait prefer to manage operations on their own which has resulted in the supremacy of this segment. On the other hand, it was witnessed that international E-commerce companies prefer to outsource logistics to 3PL companies to avoid the obstacles in establishing their own operations.

The E-commerce logistics industry of the Kuwait has major players such as Aramex, DHL and FedEx covering around majority of the market share in 2017. These companies were witnessed to compete on parameters such as shipping points, coverage area, delivery assistance (last mile) and others.

Two Bahrain based logistics and supply chain providers, MVC Global and Cox Logistics launched “SmartHub”, a first-of-its-kind logistics warehouse for pharmaceuticals and food, serving the GCC markets and being headquartered in Bahrain. This platform is based on blockchain techn with smart contracts for customs clearances and fee payments, IoT sensors, Fintech capabilities for supply chain finance and cross border payments.

According to industry analysis, Bahrain offers distinct cost advantages with cost savings of 30-40% on set-up and operating costs.

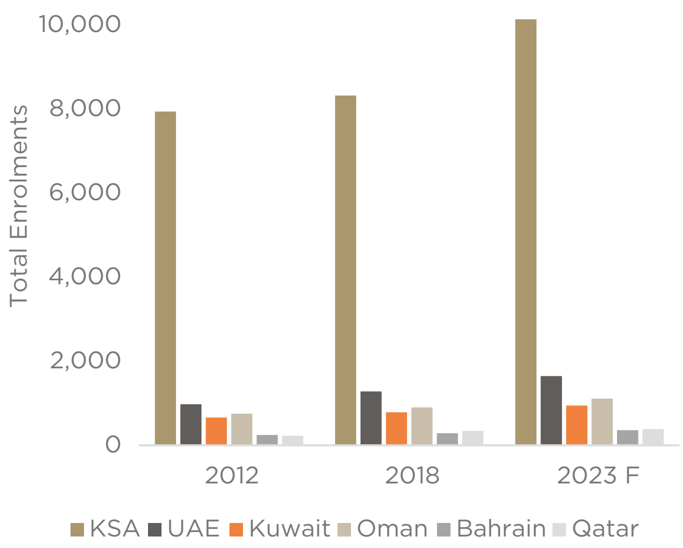
Additionally, Bahrain was awarded the 16th place, climbing six spots on the 2019 Agility Emerging Market Logistics Index.

Education

Increasing population, income, government spending and demand by expats make education the best bet. Augmented and virtual reality (AR/VR) are key trends that could drive the E-learning sector.

The GCC education sector offers significant growth opportunity with total enrolments in schools growing at a CAGR of 4.1% over 2018- 23, outpacing the CAGR of 1.7% registered over the past six years.

GCC Enrolment Trends

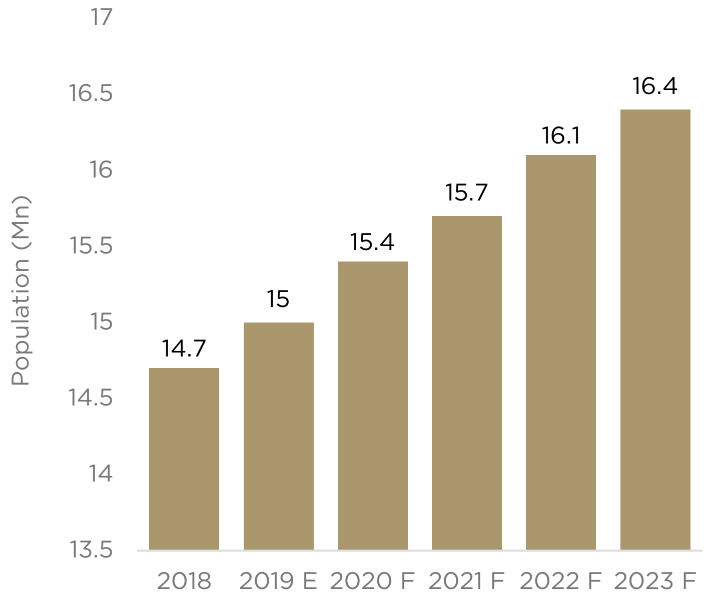


Source: UNESCO, Statistics authorities of respective. countries

Strong demographics, need for quality education coupled with government impetus on raising education spending is expected to drive sector growth in future. KSA and UAE account for 81% of the enrolments in GCC which contribute in the growth of the sector.

As part of the Vision 2030, the KSA aims to increase the number of students enrolled in private schools from 13% in 2018 to 25% by 2030. Furthermore, rise in share of Saudi private schools is expected to result in an additional requirement of 800,000 new seats in the sector by 2030.

GCC Population Below 15 years (MN)



Source: IMF, World Bank

Segment-wise, pre-primary sector is estimated to grow at fastest pace, at a CAGR of 7.7% during 2018-23. This is expected to be driven by improvement in Gross Enrolment Ratio (GER) as expatriate population grows and nationals' preference shift towards pre-primary schooling.

Noteworthy projects in sector include the Saudi government's commitment to build around 1,500 nursery schools by 2020 under the King Abdullah project as well as build 60 schools in Jeddah and Makkah.

The GCC population is estimated to grow at a CAGR of 2.3% during 2018-23 to reach 63.6 million, out of which an estimated 16.4 million or 26% are expected to be below the age of 15. The demand for foreign schools and universities to set up campuses across GCC is expected to be driven by the expatriate community which prefers private schools offering international curricula.

E-learning

The E-learning market in GCC is forecasted to grow at a CAGR of 14.0% during 2018-2022 driven by the pandemic, huge government investment and rapid adoption of online education and E-learning by educational institutes and corporate organizations.

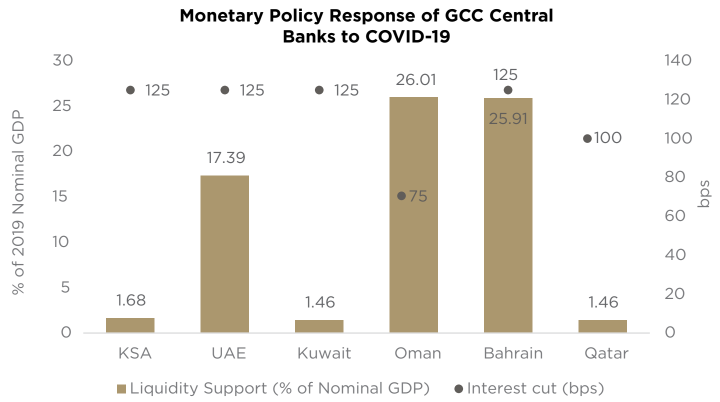
Saudi Arabia holds the largest market share of over 35% in the region followed by the UAE with over 21% of the market.

Technology has revolutionized teaching and learning. Lectures and seminars no longer have to be confined to the classroom. Augmented and virtual reality (AR/VR) are key trends that could drive the E-learning sector forward in the next couple of years.

The UAE government, considering the pandemic, announced that E-learning would continue until the end of the current academic year, over 1.2 million school and university students across the UAE entered their virtual classrooms on March 22, 2020.

Financing Availability - Liquidity Response to COVID-19

GCC central banks have undertaken measures including liquidity injections to support stressed cash positions across businesses, lowering repo rates and reserves and capital requirements in some for aiding banking ALM.



Source: Marmore

KSA -

a. On March 14, announced SAR 50 billion package to SMEs

b. Reduced policy rates twice in March by a combined 1.25 pp to 0.5 and 1 percent, respectively

UAE -

a. Reduced its policy interest rate twice by a combined 125 basis points so far

b. Halved reserve requirements from 14% to 7%

c. Zero interest rate collateralized loans to banks

Kuwait -

a. Reduced interest rates on all monetary policy instruments by 1 pp

b. Reduced banks' capital adequacy requirements by 2.5 percentage points, to 10.5

c. Mandated banks to provide SMEs loans at a maximum interest rate of 2.5%

Oman -

a. On March 18, announced liquidity of OR 8 billion (USD 20.8 billion)

b. Increase in lending ratio by 5%

c. Reduction in interest rate on repo by 75 bps to 0.5%

Bahrain -

a. On March 17, the Central Bank provided liquidity to banks by up to BHD 3.7 billion (USD 10 billion or 28 percent of GDP)

b. Reduced CRR for retail banks from 5% to 3%

c. Requested banks for deferral of repayments for 6 months without interest or penalty

Qatar -

a. Lowered policy rates by 100bps to 1 percent

b. The lending rate has been reduced by 175 bps to 2.5 percent

c. Repo rate has been reduced by 100 bps to 1.5 percent

09

Regulatory Changes

Future of Regulation

Improved performance of regional economies in Ease of Doing Business index and implementation of various bankruptcy laws will pave the way for inflow of investments to the region.

GCC countries carried out a record 35 new reforms to improve the ease of doing business more than double the reforms carried out in the previous 12-month period. Three GCC countries - KSA, Bahrain and Kuwait were among the top 10 improvers in the World Bank's Doing Business 2020 report as the economies made more reforms than ever. Saudi Arabia was the world's most improved in the annual ranking of the "ease of doing business" in 190 countries with total of eight new reforms. UAE stood at 16th place with an ease of doing business score of 80.9 out of 100, defending its place as the strongest performer overall in the region. Bahrain (43rd), with nine reforms, led both the region and the world in number of reforms implemented. Oman jumped 10 spots to rank at the 68th position on the list by making key changes in importing and exporting mechanism. Kuwait's ranking jumped from 97 in 2019 to 83 in 2020, earning a spot in the top 10 improvers for the first time with seven reforms. Qatar (77th) created a one-stop shop, eliminating five procedures and lowering property transfer time by 11 days.

The new bankruptcy laws in GCC countries came into effect on the following dates:

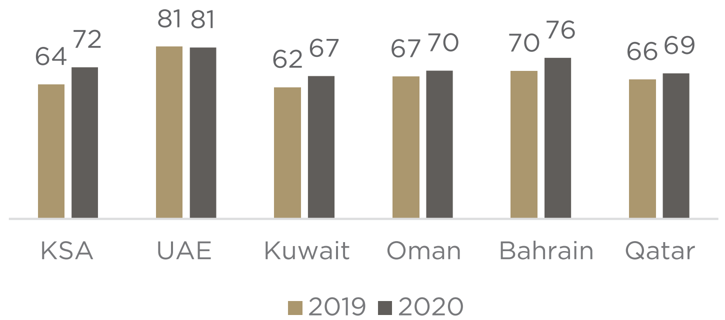
KSA	-	Bankruptcy Law, September 2018
UAE	-	Insolvency Law, January 2020
Oman	-	Bankruptcy Law, July 2020
Bahrain	-	Bankruptcy Law, December 2018

The new bankruptcy laws will provide both the borrower and the creditor proper redressal channels and mechanisms.

These structural changes in bankruptcy laws through the region will help bolster the percentage of local and foreign investments in the GCC market.

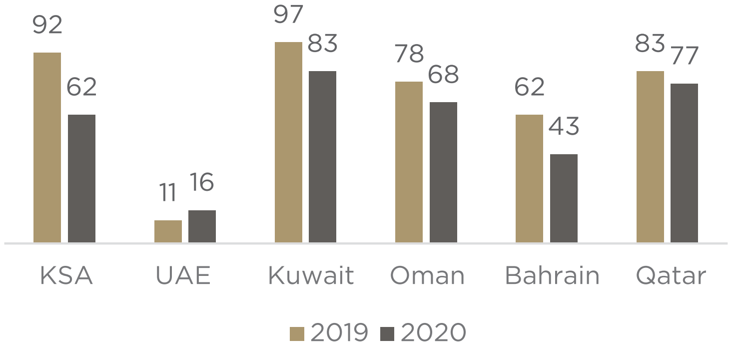
Under the new laws parties involved can now mediate through a court-approved process, have an opportunity to re-evaluate their financials, fulfil the pending obligations to creditors and continue their operations. The new regimes have a rescue focus, with new procedures available to debtors experiencing financial difficulties. The general belief is that the new law will be mutually beneficial for local and expat residents, and the banks.

Ease of Doing Business Scores (Out of 100, 100 = Best)



Source: World Bank Doing Business Report 2020

Ease of Doing Business Rank (Rank 1-190, 1 = Best)



Source: World Bank Doing Business Report 2020

FDI Norms Amendments

GCC set to become the next 'global investment hub'

KSA - According to the law on FDI which came into effect in 2020, foreigners are now allowed to invest in all sectors of the economy (100% FDI), except for specific activities on a 'negative list' (oil and mining sector, some services, etc.). Foreign investors are no longer required to have local partners in a number of sectors and may own property for company activities. They are allowed to repatriate their company money and can sponsor foreign employees, subject to certain criteria in accordance with the Nitaqat (Saudization) programme. In order to facilitate investments in the Kingdom, the Saudi Arabian General Investment Authority (SAGIA) has set up an Investment Services Centre (ISC). The ISC must decide to grant or refuse a license within 30 days of receiving an application from an investor.

UAE - In March 2020, the UAE Cabinet issued Cabinet Resolution containing the full FDI Positive List and the requirements for establishing FDI companies in the UAE mainland. FDI norms were relaxed in 122 business activities (allowing 100% FDI), ranging from agriculture, manufacturing and services sectors like renewable energy, space, agriculture, manufacturing, etc.

This includes the minimum capital requirement for each activity, the Emiratisation thresholds, and the specific conditions for certain business activities.

In the latest bid to attract foreign investment, the UAE has overhauled foreign ownership rules in respect of commercial companies in the UAE. Requirement of 51% ownership of a UAE national in locally set-up companies has been removed (except for certain strategic sectors). New decree should help in increasing investment from international private equity and venture capital firms, while improving the ease of doing business in the UAE.

Oman - The new investment law in Oman, Foreign Capital Investment Law (FCIL) became effective from January 2020. It allows 100% foreign investment (previously 70%) for all activities except 37 activities specified in the negative list. These activities include translation and interpretation services, bespoke tailoring, laundry services, taxi operating services, rehabilitation centres, etc. The new law guarantees that the investment project can't be expropriated, except in accordance with the provisions of the expropriation law in public interest and in such a case fair compensation has to be provided without delay.

Qatar - In January 2019, Qatar Foreign Investment law became effective. The New Law allows foreign investments up to 100 percent ownership in all economic sectors subject to the specific legislations regarding commercial activities carried out by Non-Qataris and as determined by the executive regulations of the New Law excluding certain activities like banking, insurance and other sectors. Foreign ownership in listed companies on Qatar Exchange has been increased to a maximum of 49% subject to the approval of the Ministry of Commerce & Industry. Non-Qatari investment projects may be exempted from income tax in accordance with the procedures and regulations stipulated in the Income Tax Law and also the custom duties on import of machineries.

Additional changes: Introduction of 'Golden Residency Visa' that allows you to stay for a period of 5-10 years against the earlier 2-year period in order to attract investors across GCC countries.

10

Conclusions

In light of the pandemic, there have been extensive shifts in overall business and economic environment, mainly due to the large extent of connectivity across regions and their inter-dependent supply chains.

Capital markets have essentially factored in the recovery aspect leading to the relatively quicker bounce back across global exchanges. The historic volatility in oil prices now seems to be tapering off as the world gears up for a post pandemic world. The pandemic has drawn back focus on to sound fundamentals, as companies having robust margins and steady cash flows amid the pandemic have seen significant appreciation post the initial drops in March 2020.

Saudi Arabia has recovered quicker than other GCC markets, driven by staples, healthcare and insurance sectors. The banking sector is still a red herring given the low interest rate environment, but governments have ensured that ample liquidity is available for a speedy recovery across the business landscape.

It has also revealed excellent investment opportunities in sectors such as education, healthcare and other specialized sectors with new innovations in telemedicine, online education and AR and VR learning, along with investment avenues in acquiring assets as the GCC nations look towards privatization.

The coming years bode well for all participants in capital markets, with a number of IPOs planned in the region as well as a strong deal making trend given some business are available at attractive valuations for cash rich private equity firms. The introduction of derivatives in KSA will also add a new dimension to the trading landscape. Few of the GCC countries are relaxing foreign investment and ownership norms, thereby increasing the investments flowing into the region in the non-oil allied sectors.

GCC markets are expected to witness volatility due to the uncertainty regarding the path of recovery of the economies, at least in the short-term. GCC governments have rolled out various fiscal and monetary stimulus packages which have benefitted the consumers and businesses alike. Governments are bound to tap the sukuk and bond markets in the face of widening deficits. Recent updates of resumption of diplomatic ties and opening of trade borders with Qatar by the neighbouring GCC countries also seem to be positive.

GCC nations have begun with their first round of inoculation drives with Pfizer-BioNTech, Sinopharm vaccines being approved. All the GCC nations have swiftly acted to approve and set up supply-chains for swift mass vaccination against the infection. Major economies around the world are at similar stages of their vaccination drives. Continuance of such rapid and effective inoculation would pave the return to normalcy and would further strengthen and accelerate the pace of economic recovery. Corporates around the GCC have benefited from lower interest rate environments as many have refinanced their debts at lower cost. While the government and banks have extended support for credit growth by lower reserve requirements, providing zero-cost funding programmes to stimulate demand and growth.

Therefore, even though the current times are highly uncertain, with second wave of lockdowns in a few countries, there has been a lot of progress towards setting up the right infrastructure to fight the effects of the pandemic on an on-going basis as well as to set the stage for recovery and growth. The GCC nations are diligently executing their diversification objectives to insure themselves against such future black swans and make their economies more robust.

11

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