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INVESTOR RETURN

Requirements in the GCC

2024

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A Deep Dive into GCC Investor Return Requirements

Amid Interest Rate Hikes and Global Pressures

Najla M. Al Shirawi
Chief Executive Officer

190
respondents

SICO has always been committed to providing insights that transcend the surface, and our latest report, the third edition of our Investor Return Requirements in the GCC, is no exception. The report draws feedback from a survey of key players in the GCC investment ecosystem, capturing the pulse of investor expectations.

As we tread through a period of global inflationary pressures and interest rate hikes, investors across the GCC are recalibrating their strategies. The intersection of these two forces significantly impacts asset classes, altering the terrain for investments in ways that demand a closer look.

Survey takers were once again asked to share their opinions on the returns they require from different asset classes, such as listed equities, government bonds, real estate, private equity, and cash deposits, as well as their expectations regarding economic performance across the GCC in 2024. This year, we gathered diverse viewpoints from 190 respondents across the GCC.

As we head into the new year, we find ourselves faced with a new set of challenges. Across the globe, weak growth forecasts have been witnessed, with the IMF lowering its expectations to 3.0% which is well below the historical average of 3.8% (2000-2019). Global inflation is forecast to decline from 6.9% in 2023 to 5.8% in 2024, and to continue to fall steadily due to tighter monetary policy aided by lower international commodity prices.

Across all asset classes, the pervasive concern is inflation, closely followed by interest rates and economic recession. In terms of geographies, investors are most optimistic about the economic performance in Saudi Arabia, the UAE, and Qatar, most likely due to ongoing mega events and giga projects in those countries, which is great news for SICO as we strengthen our foundation in Saudi Arabia through our subsidiary SICO Capital, a full-fledged investment bank, and as we leverage the IPO boom in the Emirates through our subsidiary, SICO Financial Brokerage in the UAE.

Equally important to providing visibility on market dynamics through these annual surveys is being able to translate these results into products that meet the needs of GCC investors. As an asset manager, broker, market maker, and investment bank, it is crucial for us to understand what products to offer, at which prices, and in which markets.

Our report does more than just present data; it offers a glimpse into the collective wisdom of the GCC's investment community, and is a reflection of the underlying themes that shape the choices and decisions that will chart the course for the region's financial future. We are grateful to all of our respondents who took the time to share their valuable opinions with us. As we continue to navigate these dynamic markets, we remain committed to providing you with the insights you need to make informed decisions in this ever-changing environment.

"As we tread through a period of global inflationary pressures and interest rate hikes, investors across the GCC are recalibrating their strategies."

Changing Expectations Amid Inflationary Pressures

We surveyed a group of C-suite executives, investment and fund managers, business owners, and institutional investors in the GCC on their requirements regarding investor returns for various asset classes.

Survey results summary

Minimum Unleveraged Required Return by Asset Class in the GCC (based on the majority of responses)

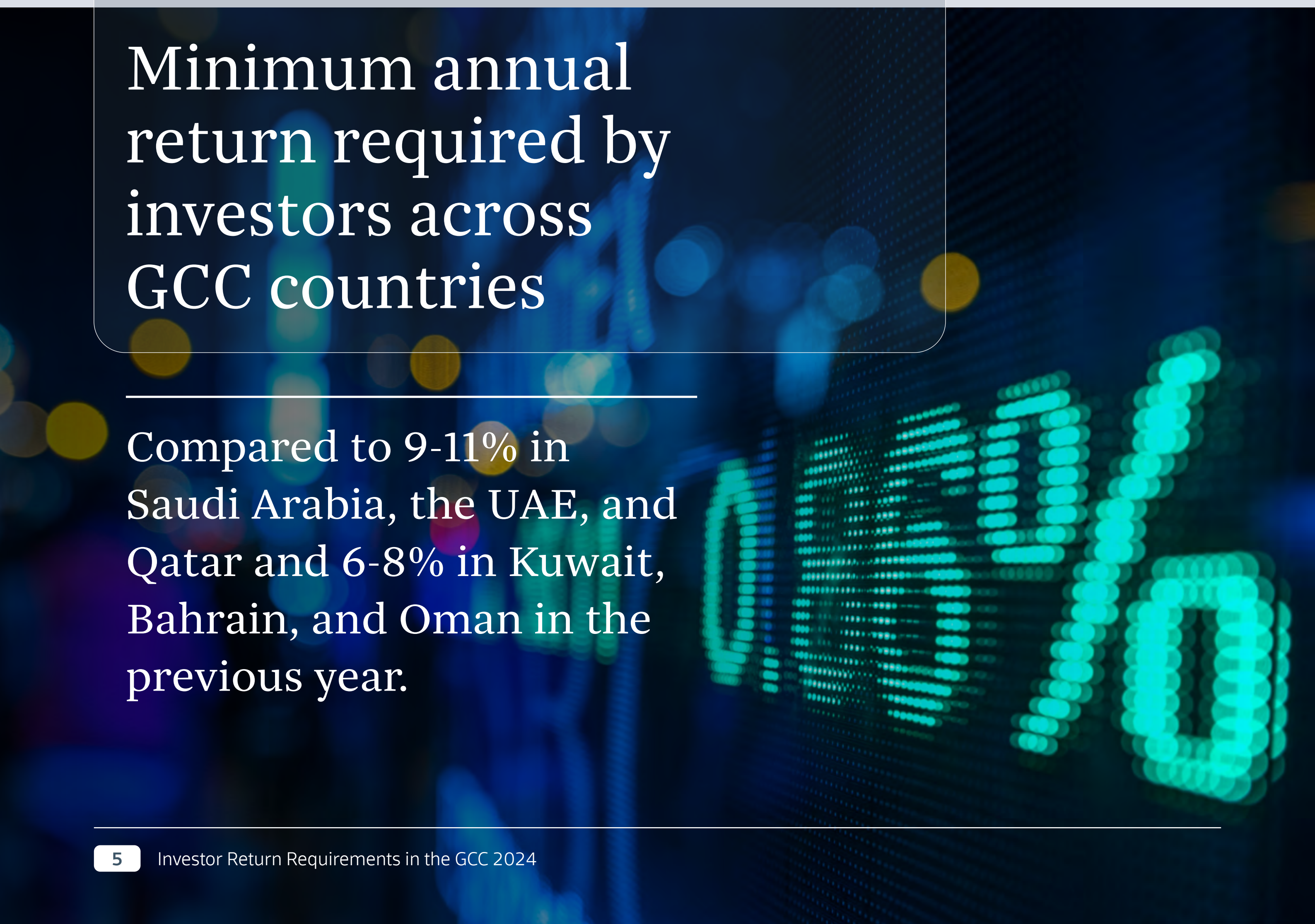
Asset Class	Saudi Arabia	UAE	Qatar	Kuwait	Oman	Bahrain
Listed Equities	9-12%					
10-Year USD Government Bonds	6%		5%	6%		7%
Real Estate	7-10%					
Private Equity	≥16%		13-15%	≥16%		
Cash Deposits	5-6%					

Note: We have extended the return range in the survey this year, bringing it up to >20% from >14% last year, due to investor preference and higher requirements amid inflationary pressures.Year-on-year comparison may not be meaningful for certain asset classes due to the range change.

Minimum Unleveraged Required Return by Asset Class in the GCC

Listed Equities

9-12%



Minimum annual return required by investors across GCC countries

Compared to 9-11% in Saudi Arabia, the UAE, and Qatar and 6-8% in Kuwait, Bahrain, and Oman in the previous year.

Listed Equities

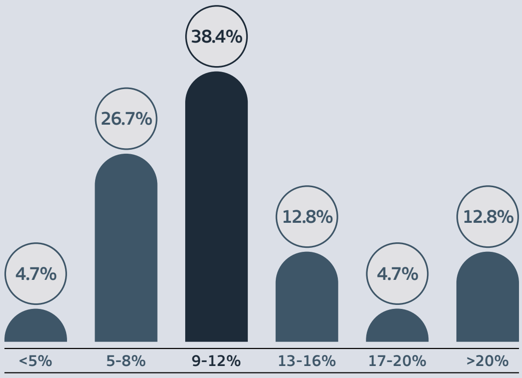
GCC capital markets have been witnessing strong investor confidence overall, with Saudi Arabia and the UAE outperforming the market. Notable listings within Saudi Arabia and the UAE include the ADNOC Logistics, ADNOC Gas, ADES, Lumi and SAL IPOs.

The range of returns currently required for Saudi Arabia, the UAE, and Qatar remained between 9-12% for 2024 versus 9-11% in 2023. Meanwhile, for Kuwait, Oman, and Bahrain, current return requirements moved significantly higher to range from 9-12% compared to 6-8% in the prior year.

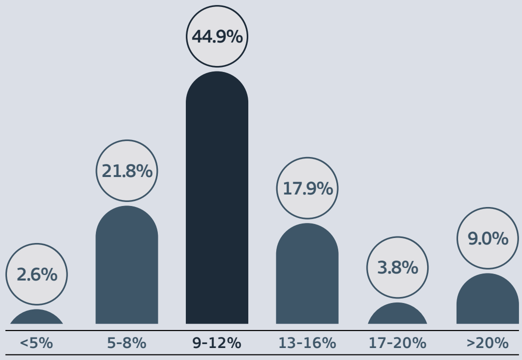
Minimum Investor Annual Returns Currently Required for Listed Equities, Including Dividends and Capital Gains

Percentage of Respondents | *Percentage of Required Return*

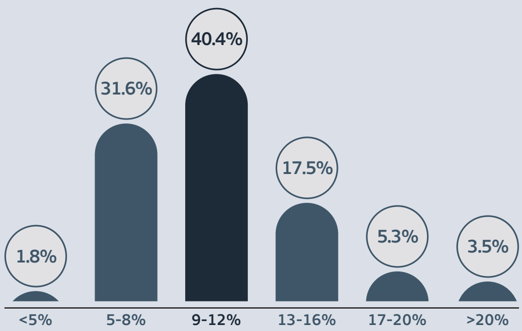
Saudi Arabia



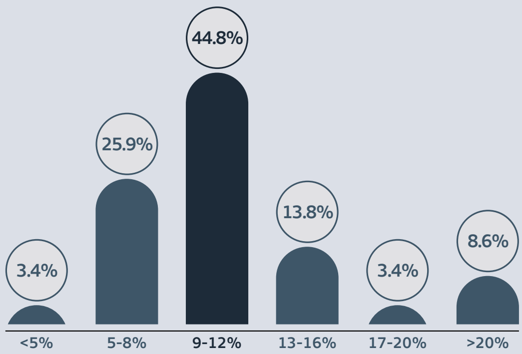
UAE



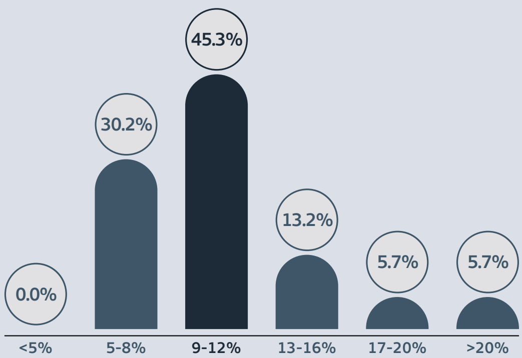
Qatar



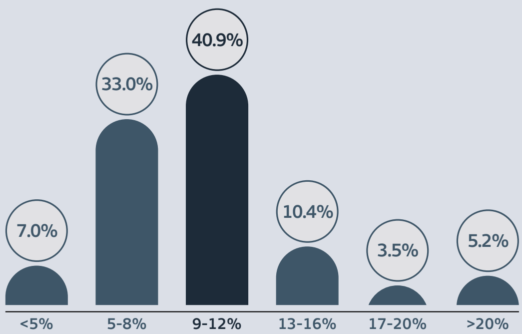
Oman



Kuwait



Bahrain



Nishit Lakhotia
Head of Research

"Interest rates are considerably high as we near the end of the Fed tightening cycle. This is affecting the risk return expectations of each asset class and brings in its own share of volatility. This report aims to dissect the current expectations against this backdrop and assess the change year-on-year on returns from each asset class."

Minimum Unleveraged Required Return by Asset Class in the GCC

10-Year USD Government Bonds

Investors currently require minimum annual returns of

5%

Qatar

6%

Saudi Arabia, the UAE, Oman, and Kuwait

7%

Bahrain

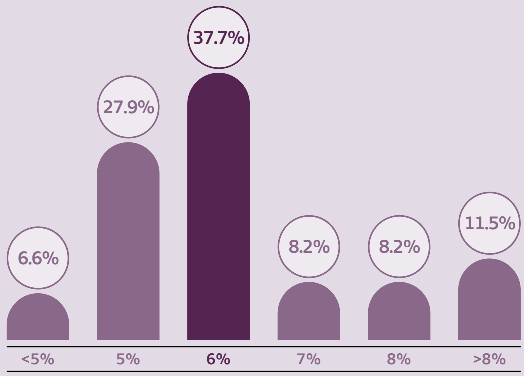
10-Year USD Government Bonds

Required returns for GCC countries currently range from 5-7%, with investors requiring the highest return in Bahrain at 7%. The majority of respondents indicated that return expectations in Saudi Arabia, the UAE, Oman, and Kuwait stand at 6%, while requirements for Qatar are the lowest at 5%. Required return expectations are higher in Saudi Arabia, the UAE, and Kuwait this year relative to last year. More than 30% of respondents indicated a requirement of a 6% return in Saudi Arabia, the UAE, and Kuwait in this year's survey.

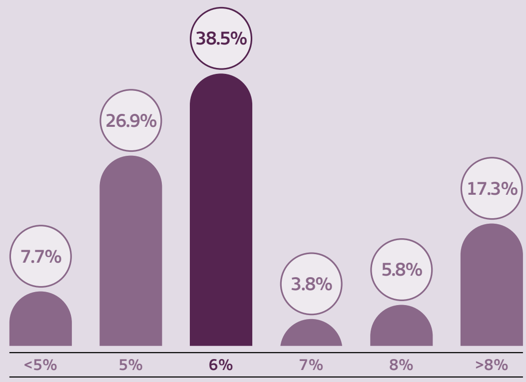
Investor Annual Returns Currently Required for 10-Year USD Government Bonds, Including Coupons and Held to Maturity

Percentage of Respondents | *Percentage of Required Return*

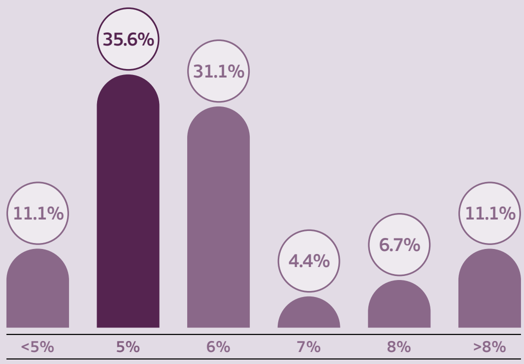
Saudi Arabia



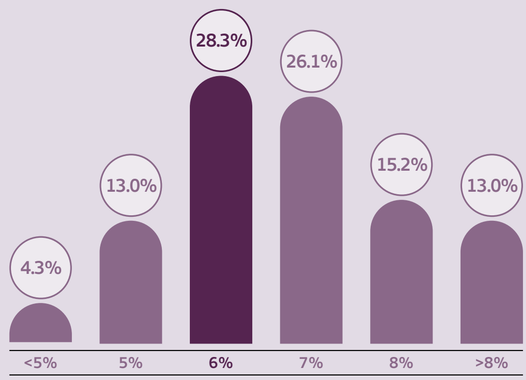
UAE



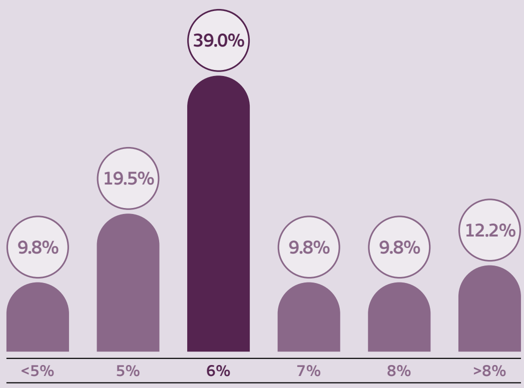
Qatar



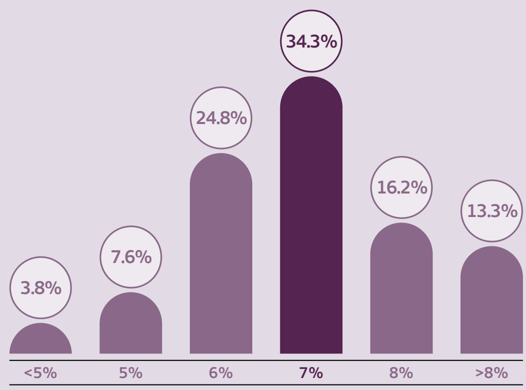
Oman



Kuwait



Bahrain



Ali Marshad

Head of Fixed Income Asset Management

"Amidst current market conditions, the GCC fixed income landscape presents a rare investment opportunity with historically high yields.

The average GCC bond now yields 6.5%, a significant increase from 2.5% just a few years ago, driven by a unique convergence of pandemic-induced factors such as elevated inflation and interest rates.

This exceptional environment, influenced by rating upgrades, robust oil prices, currency pegs, stable economies, and GCC governments' diversification efforts, makes investing in the region's 10 to 30-year maturity investment grade bonds and short-term high yielders particularly attractive."

Minimum Unleveraged Required Return by Asset Class in the GCC

Real Estate

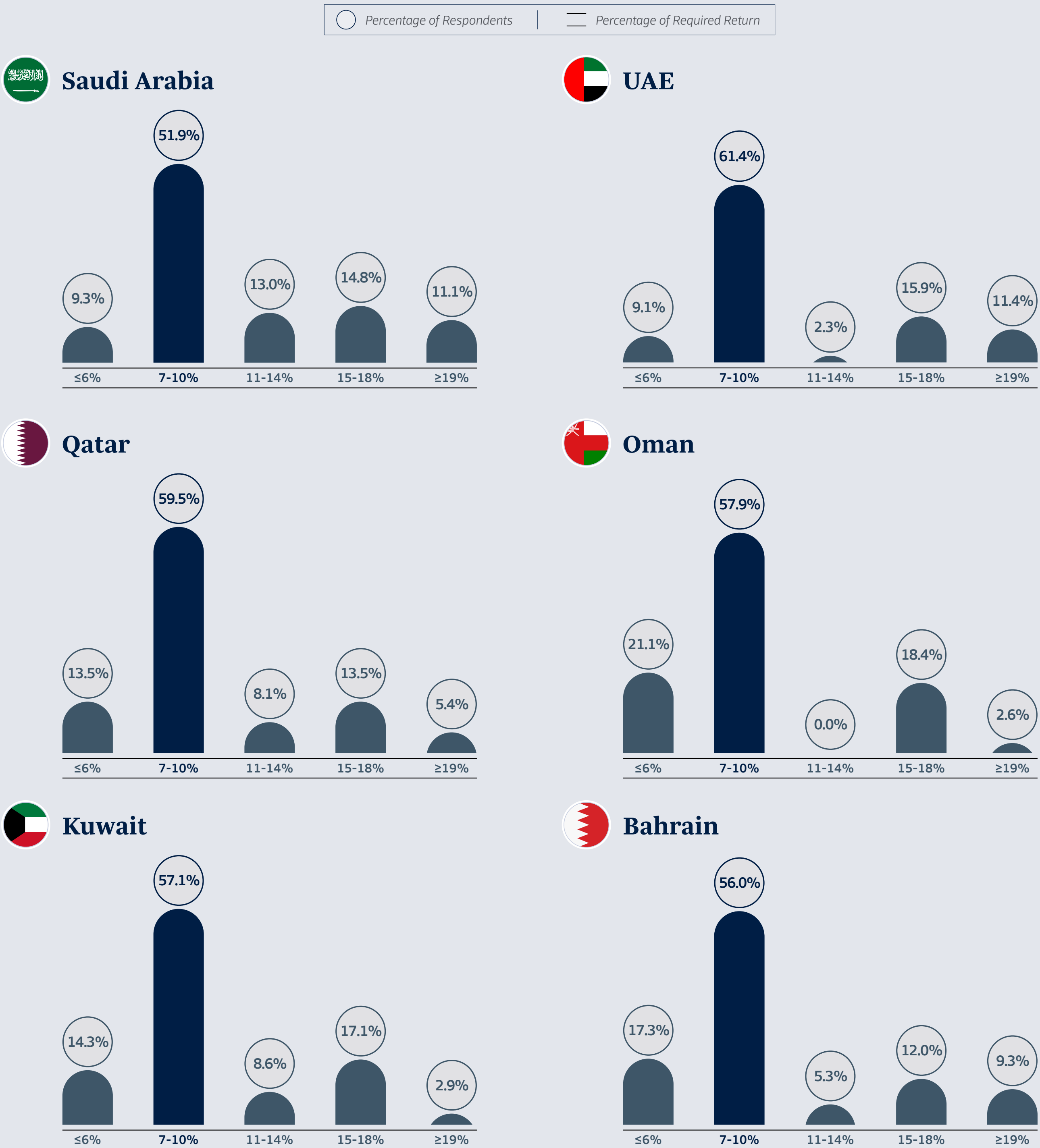
7-10%

Investors' annual returns currently required for real estate investments across all GCC countries.

Real Estate

In the dynamic landscape of real estate investments in the GCC countries, the current required returns serve as a crucial metric reflecting the attractiveness and stability of the real estate market. As of the latest assessment, spanning the diverse economies of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE, the required returns for real estate investments have been observed to range between 7-10%. This figure remains consistent with the rates recorded in the previous year, suggesting a certain level of stability and resilience in the regional real estate sector.

Investor Annual Returns Currently Required for Real Estate, Including Total Distributions and Capital Gains



* Note that the range intervals have changed for this asset class on a year-on-year basis.

Wissam Haddad

Head of Investment Banking and Real Estate

"With higher borrowing costs stemming from higher interest rates, leveraged buyouts in private equity, and acquisition finance for assets like real estate that usually use high loan-to-value multiples, become less lucrative resulting in a slower-paced acquisition environment. Renting generally becomes a more attractive option to buying, as investors hold back in the hope and anticipation of lower rates.

At the time of writing, the Fed was generally perceived to have concluded its increasing interest rates policy, but 'higher rates for longer' had become priced into US-Dollar denominated markets, generally putting downward pressure on debt-heavy asset valuations and upward pressure on the US-Dollar vis-à-vis other lower interest rate currencies."

Minimum Unleveraged Required Return by Asset Class in the GCC

Private Equity

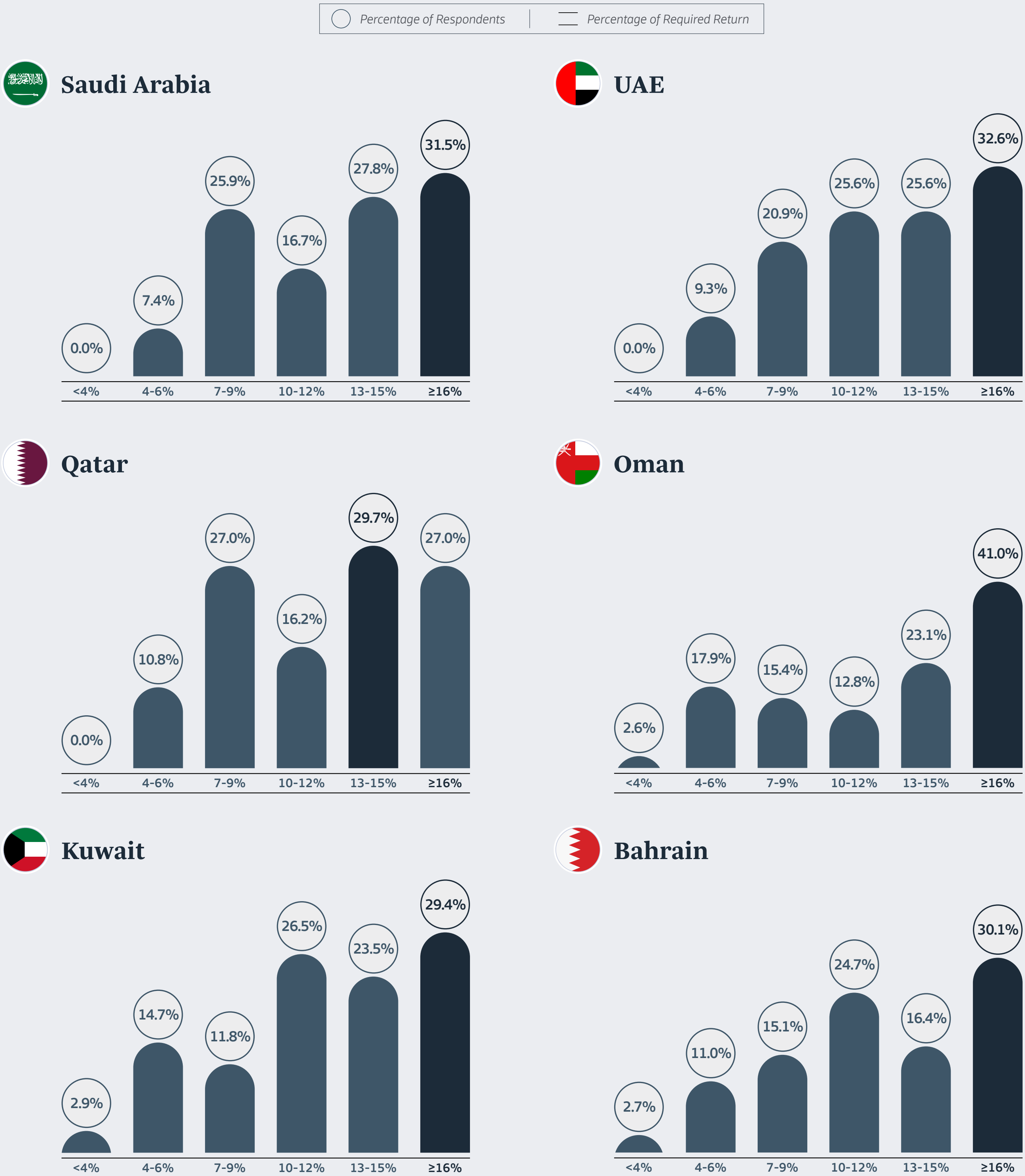
≥16%

Investors' annual return requirements for private equity across all GCC countries, with the exception of Qatar.

Private Equity

Currently, required returns for private equity across all GCC countries, with the exception of Qatar, stand at or above 16%. On a year-on-year basis, private equity required returns across all GCC countries were above 14% last year. Note that we extended the range on the higher end this year, accordingly year-on-year comparison is not very meaningful for this asset class.

Investor Annual Returns Currently Required for Private Equity, Including Total Distributions and Capital Gains



Minimum Unleveraged Required Return by Asset Class in the GCC

Cash Deposits

5-6%

Investors’ annual returns requirements on cash deposits across all GCC countries.

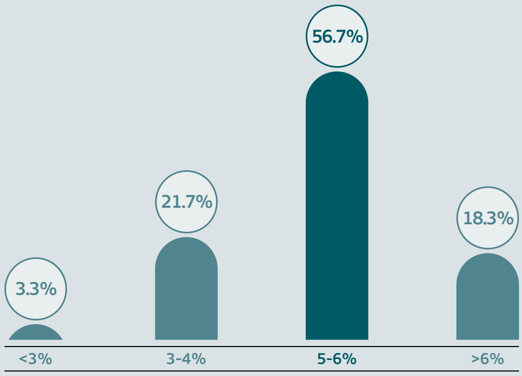
Cash Deposits

For all GCC countries, required returns on cash deposits (in local currencies) are currently between 5-6% versus above 3% last year. Again, the year-on-year comparison is not applicable owing to the range extension in this year's survey.

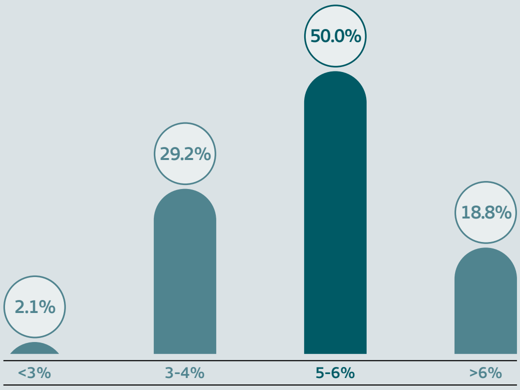
Investor Annual Returns Currently Required for Cash Deposits in Local Currency, Including Interest and Profit

Percentage of Respondents | *Percentage of Required Return*

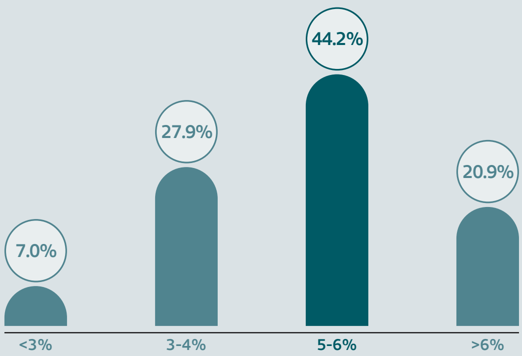
Saudi Arabia



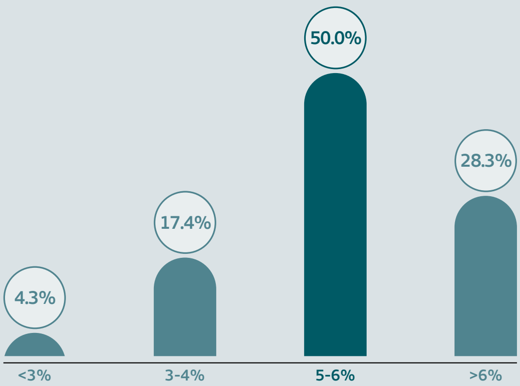
UAE



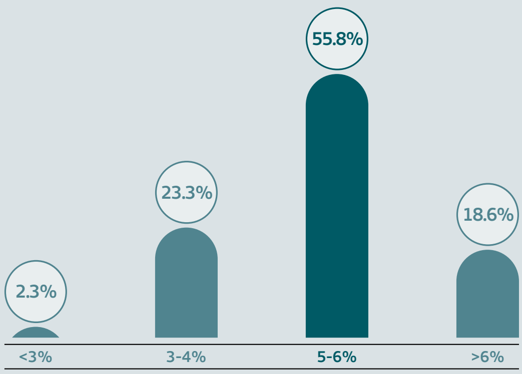
Qatar



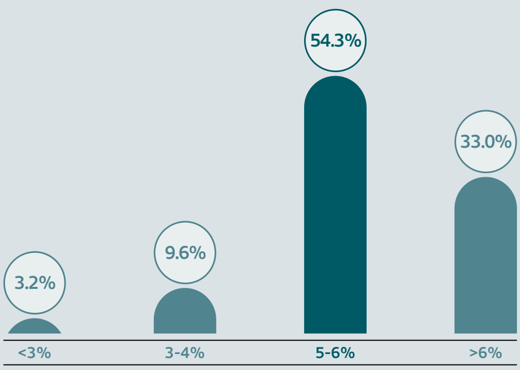
Oman



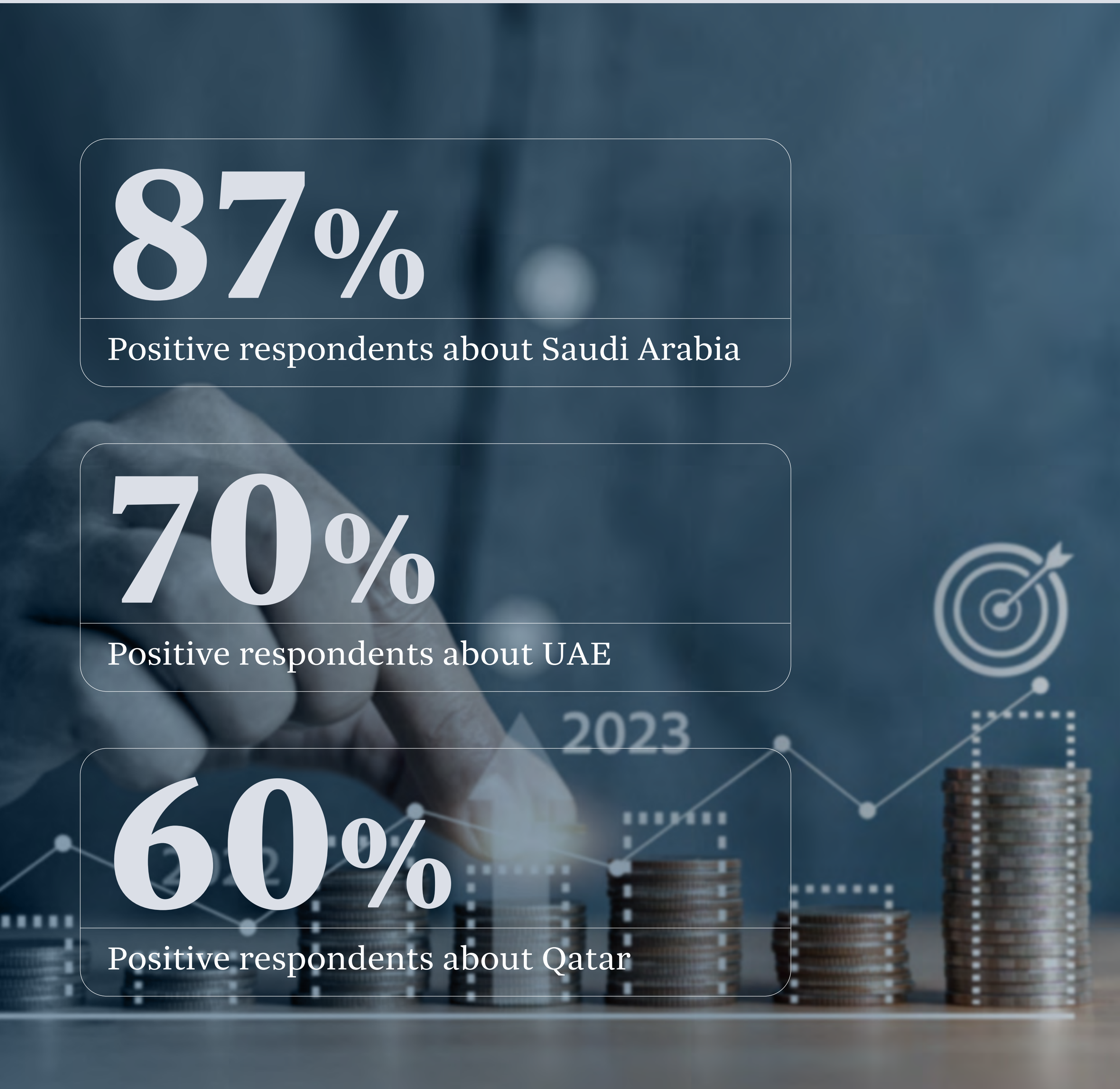
Kuwait



Bahrain



Economic Outlook



87%

Positive respondents about Saudi Arabia

70%

Positive respondents about UAE

60%

Positive respondents about Qatar

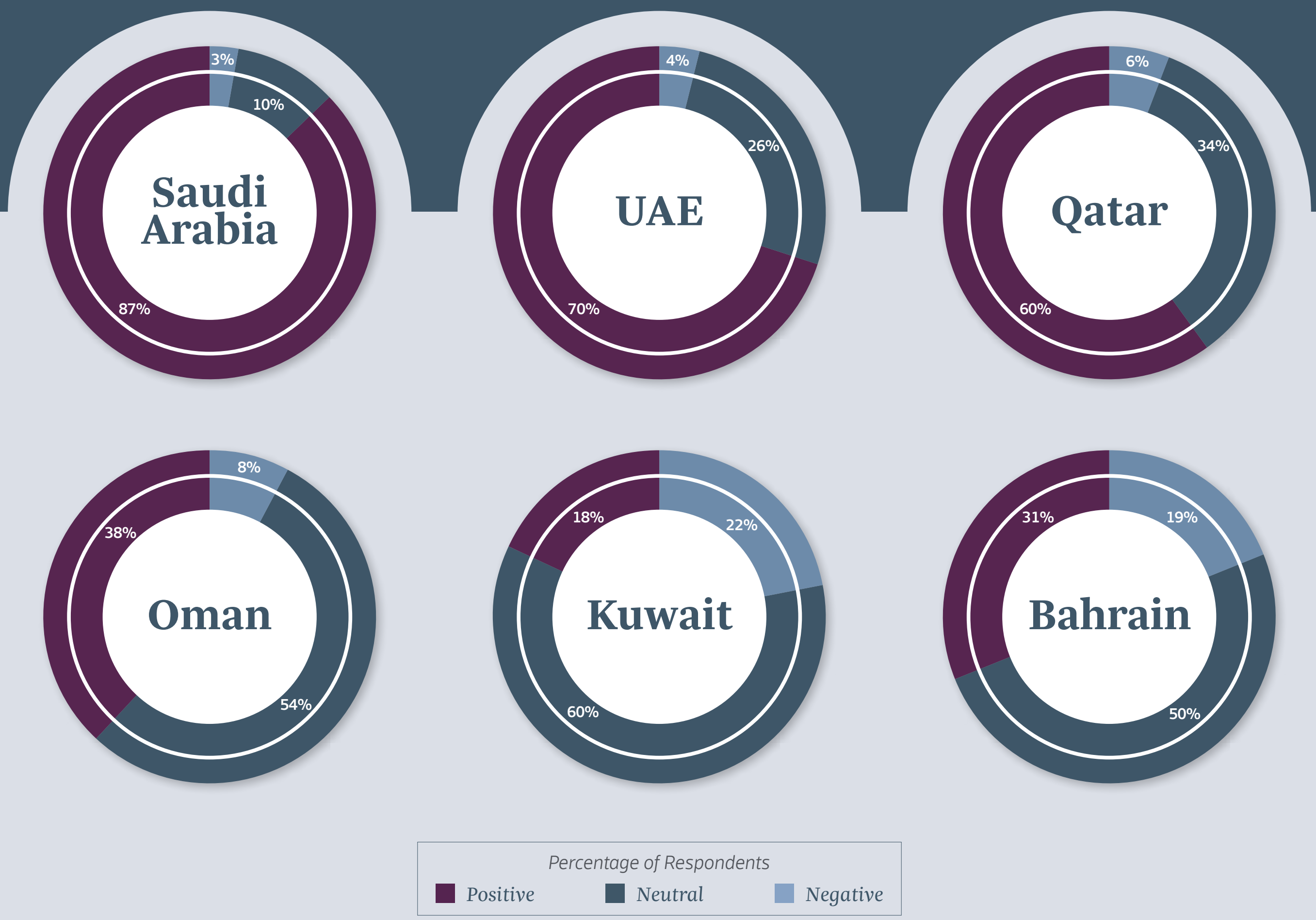
Economic Outlook

Market participants remain broadly optimistic of Saudi Arabia, the UAE, and Qatar, while the positive sentiment in Oman has increased this year. Participants are largely neutral for Kuwait, Bahrain, and Oman. The positive outlook on Saudi Arabia can be attributed to the Kingdom's economic resilience, an extensive list of projects in the pipeline, proactive investments from the PIF, and the private sector's participation in giga projects. Adding to the positive sentiments is the expansionary budget, despite the voluntarily reduction of oil production beyond OPEC+ agreement likely aiding oil price stability and abating downward pressures.

In the UAE, we have been observing a pickup in IPOs, increased tourism and consumer spending, the steady implementation of economic reforms, and robust activity in real estate, allowing investors to look forward to a strong year ahead. Economic growth in the first half of the year in both Dubai and Abu Dhabi has been robust, with tourism numbers exceeding pre-Covid levels.

On the other hand, despite fiscal surplus, investors have been neutral about Kuwait due to the political and bureaucratic impediments. In Oman, improving fiscal fundamentals and the government's focus on deleveraging has improved the country's credit risk and rating agencies' outlook on the country, encouraging overall participant sentiment. Bahrain, in addition to having a high breakeven for oil, is undergoing structural reforms to achieve fiscal balance by 2024. Meanwhile, the higher interest rate environment has slowed down demand for credit by both the retail and private sector in Bahrain.

GCC Economic Outlook Over the Next 12 Months



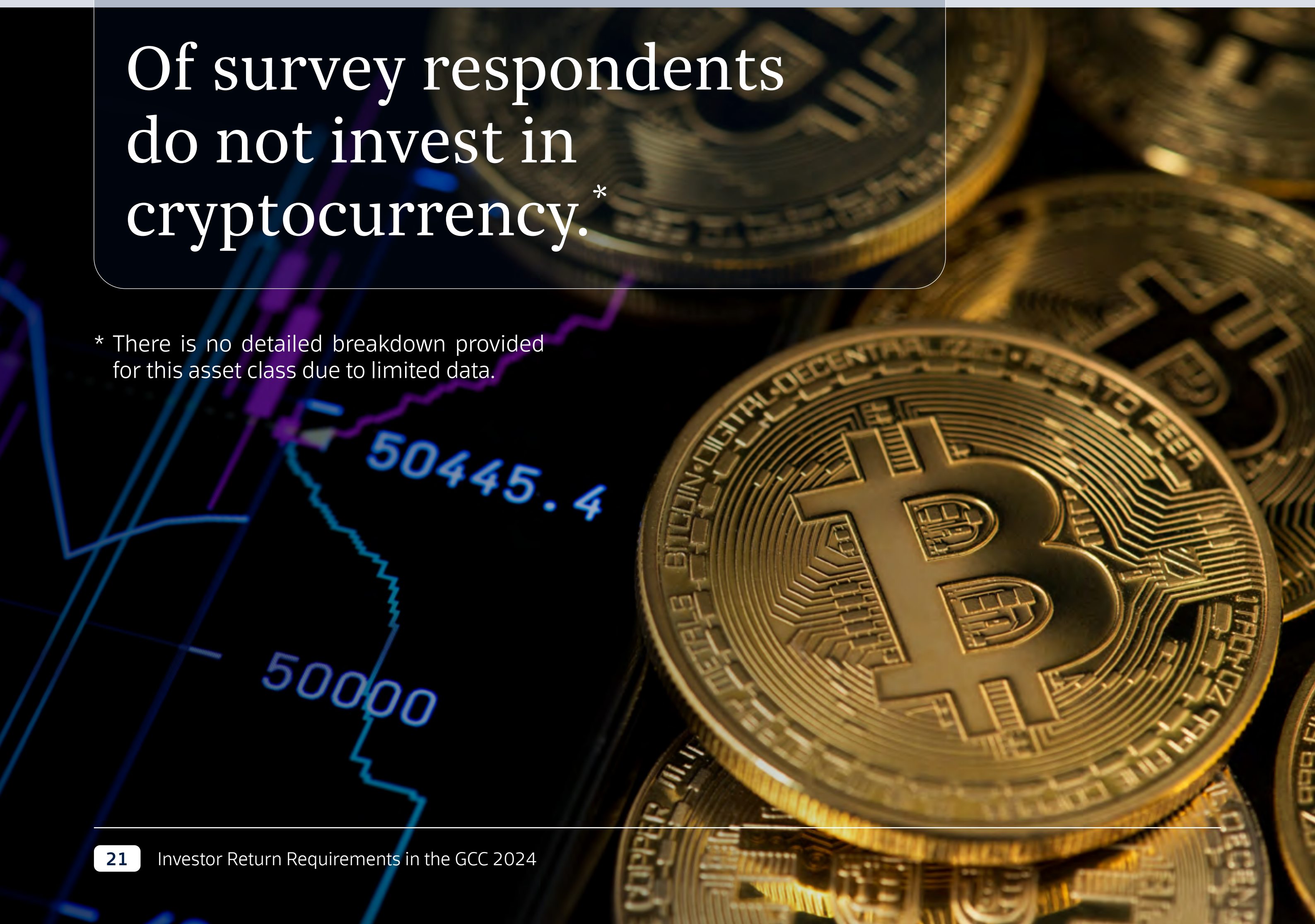
A higher number of respondents are more positive on all GCC countries this year, with the exception of Qatar, where 60% of the respondents are positive over the next 12 months compared to 76% last year.

Cryptocurrency

76%

Of survey respondents do not invest in cryptocurrency.*

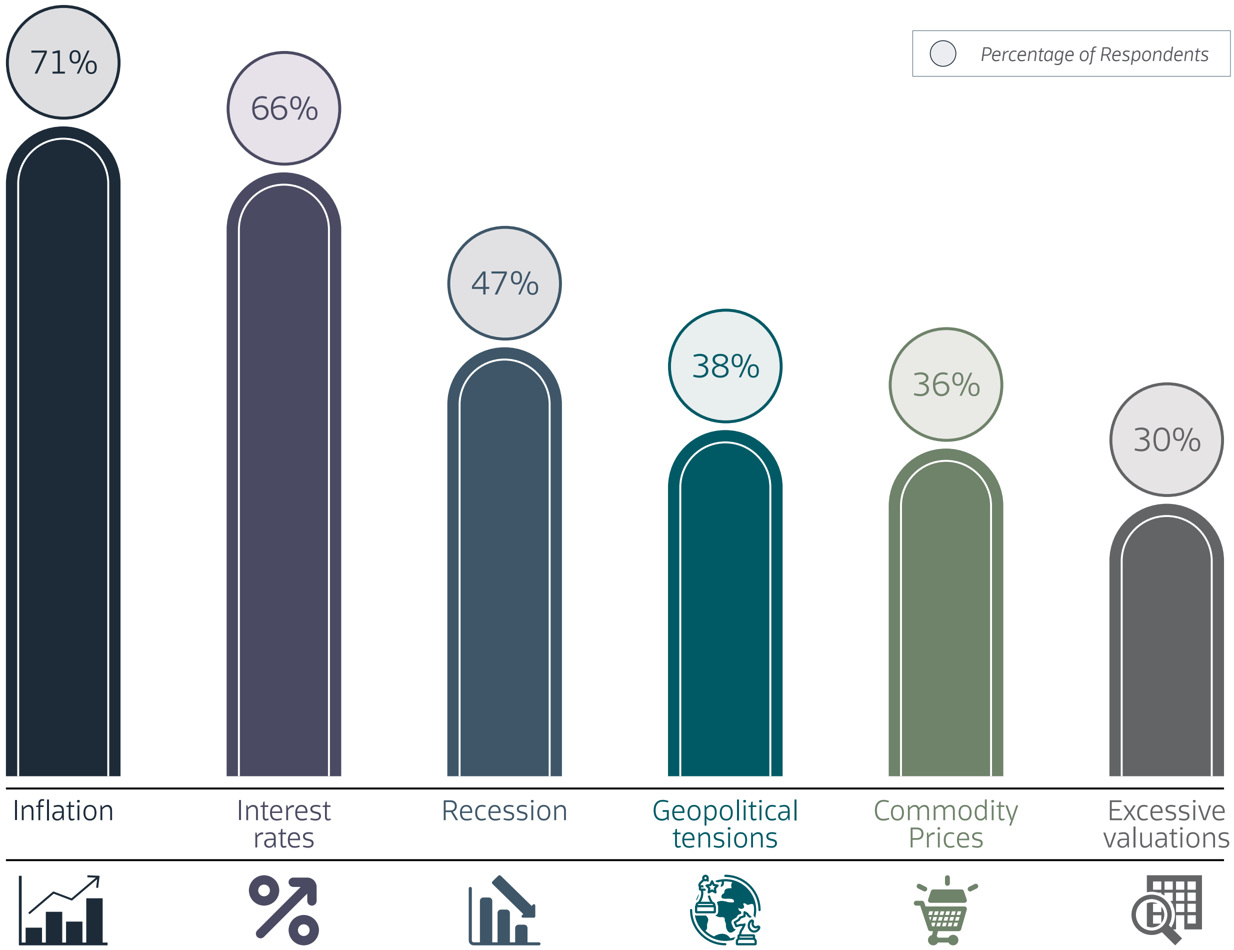
* There is no detailed breakdown provided for this asset class due to limited data.



Issues Concerning Investors

Inflation remains the biggest concern across all GCC countries, followed by interest rates and recession. Logically, the three are interconnected, as inflation risks would imply higher rates for a longer period which could stifle growth and capex within the region triggering recession.

Key Issues Concerning Investors



Survey Background

Objective

SICO's third annual Investor Returns Assessment survey was undertaken by SICO between 11 September and 25 September 2023. Its primary objective is to maintain a pulse on market participants' economic outlook and return expectations across GCC countries and across asset classes, including stocks, government bonds, real estate, private equity, and cash deposits.

Survey Questions

1. **What is your current job title?**

2. **In which country are you currently based?**

3. **What minimum total annual returns, without debt or leverage, would you currently require if you were to invest in: (if you do not invest in certain areas, kindly provide your best estimate) Stocks, 10-Year Government Bond (USD), Real Estate, Private Equity, and Cash Deposits for Bahrain, Kuwait, Saudi Arabia, Qatar, Oman, and the UAE?**

   Response options ranged from < 3%, to over 20%.

4. **Do you invest in cryptocurrency and what level of annualized return would you currently require if you were to invest? (if you do not invest in cryptocurrency, kindly select N/A):**

5. **How do you feel about the economic outlook over the next 12 months for Bahrain, Kuwait, Saudi Arabia, Qatar, Oman, and the UAE?**

   Response options: positive, negative, or neutral.

6. **Which issues are of the most concern to investors now? (Kindly select all that apply)?**

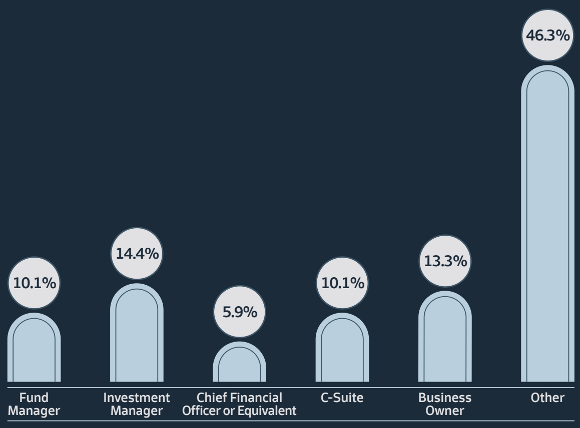
- Inflation
- Commodity prices
- Recession
- Interest rates
- Excessive valuations
- Geopolitical tensions

Mode of Survey

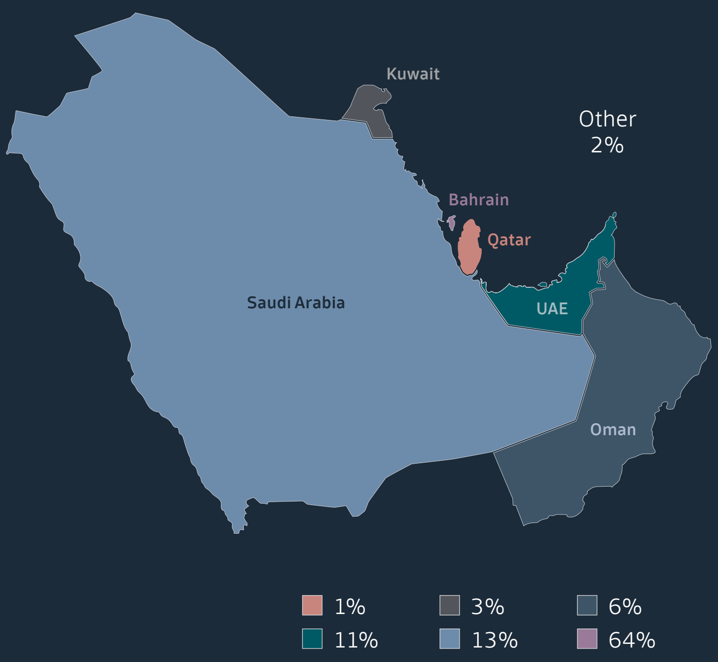
The survey was emailed to participants through a web-based link. The survey could be responded to completely anonymously. Response selections for questions one and two were in the form of radio buttons where only one selection could be made and an "other" box was also provided. Response selections for question three were in the form of drop-down boxes where only one answer could be selected. Respondents were able to provide their answers for the countries and asset classes that are relevant to their investment mandates and field of expertise and were not mandatorily required to those that did not apply to them. Response selections for question four were given in the form of drop-down boxes where only one answer can be selected and a N/A option if they do not invest in cryptocurrency. Response selections for question five were in the form of radio buttons where only one response could be selected per country. Response selections for question six were in the form of radio buttons where any number of responses could be selected. Participants could optionally elect to receive a gift of a USD 25 Amazon gift card.

Respondent Profile

Respondent Profile[1]



Respondent by Country



[1] In the 'other' category of occupations chosen by respondents in the investment survey, these respondents encompassed a wide spectrum of roles, such as Heads of Department, Treasury, and Investment Officers, indicating a strong presence of professionals from the financial and investment sector. Additionally, various roles like Analysts, Consultants, and Brokers were also evident. It is worth highlighting the representation of roles such as Engineers, Pilots, and Diplomats, showing a broader demographic of survey participants with diverse backgrounds and experiences.

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