



Investor Return Requirements in the GCC

Fourth Quarter 2021

Providing Insights into a Dynamic Investment Landscape

As a regional pioneer in sell-side research, SICO provides a diversified and expanding institutional client base with some of the highest-quality research products in the GCC. With a long-standing direct presence in the Gulf, we take deep pride in our ability to provide top-quality and insightful macro and strategy research coverage for all six GCC countries.

Our extensive coverage of all key sectors and every major listed company in the GCC has enabled our world class team of research analysts to develop unique and comprehensive expertise in the region. Aside from high-quality research coverage, the team provides a number of value-added services, including unique corporate access, and high-level insights into economic trends and investor sentiment across the region.

After nearly two years of living with COVID-19 and the steep economic challenges and volatility that came along with it, we set out to provide some clarity and insight into the return expectations of CEOs, CFOs, investment managers, and fund managers in the GCC, as well as institutional investors representing a mix of GCC enterprises and multinational companies, including both listed and private companies.

Through our inaugural 'Investor Returns Assessment Survey', we gauged market participants' economic outlook and required return expectations across GCC countries and across asset classes including stocks, government bonds, real estate, private equity, and cash deposits. We believe that a proper understanding of investor returns requirements will allow investment banks and asset managers like ourselves to deliver the right products to investors at the right time with the right return profile across asset classes. We also believe that tracking investor returns provides an important pulse on the various economies.



Najla M. Al Shirawi
Chief Executive Officer

The survey was conducted to gauge the market participants' economic outlook and required return expectations across GCC countries.

As investor return expectations change over time, we reason that surveying market participants directly as we have done here is the best way to monitor these changes. The current alternative? Extrapolating returns from global benchmarks (as regional data benchmarks currently lack the history and asset class diversity required) and applying subjective estimates to 'localize' the final results.

While this is the first survey of its kind for SICO, our ultimate objective is to repeat the survey annually to serve as a point of reference providing empirical data and analysis for regional investor sentiment and expectations.

Additionally, and as an illustrative example, with our investment banking valuing transactions on a regular basis — be it to underwrite initial public offerings, merge two or more entities, sell a stake in a private company, or raise funding for any investment —

investor return expectations are a critical input to the valuation process and the accuracy of such input is key to better and fairer valuation results.

The responses to our first annual 'Investor Returns Assessment Survey' have also shown that investors' economic outlook is generally positive over the next 12 months for Saudi Arabia, Qatar, UAE, and Bahrain. This news is heartening for SICO as we are rooted in Bahrain, have offices in the UAE, and push forth with our expansion into Saudi Arabia. SICO Capital, our newly acquired Saudi subsidiary, is a full-fledged capital markets services provider offering a wide suite of products and services that cater to an aspirational and growing client base in KSA.

We hope that you find the results of the survey to be an insightful and useful tool in helping develop the financial markets of our region.

77%

responded with a positive economic forecast for Saudi Arabia.

53%

responded with a positive economic forecast for our home market of Bahrain.

Najla M. Al Shirawi
Chief Executive Officer



Cautious Optimism as Region Adjusts to the New Normal

Survey Results Summary

We surveyed a group of C-Suite executives, investment and fund managers, and institutional investors in the GCC on their expectations regarding investor returns for various asset classes. **In most of the GCC markets more than half of the respondents conveyed a generally positive outlook.**

“Investors are most bullish on Saudi Arabia, Qatar, the UAE, and Bahrain over the next 12 months.”

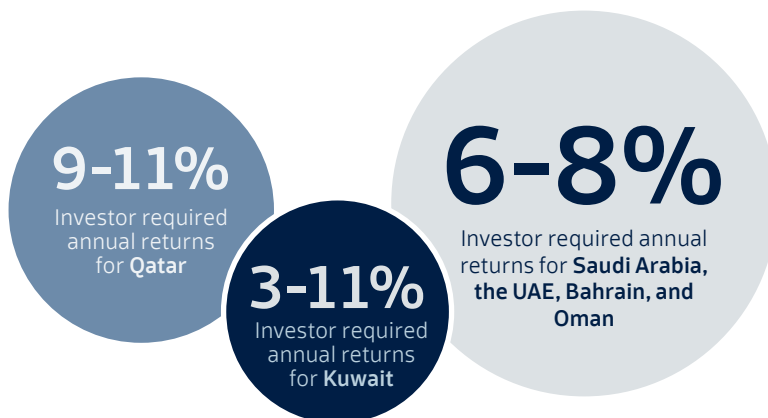
Minimum Unleveraged Returns Required by Asset Class in the GCC

| Asset Class | Saudi Arabia | UAE | Qatar | Kuwait | Oman | Bahrain |
|----------------------|--------------|-------|-------|--------|-------|---------|
| Listed Equities | 6-8% | | 9-11% | 3-11%* | | 6-8% |
| USD Government Bonds | 3-5% | | | | | 6-8% |
| Real Estate | 6-8% | 9-11% | | 6-8% | 9-11% | 6-8% |
| Private Equity | Over 14% | | | | | |
| Cash Deposits | Under 3% | | | | | ≤3% |

*an equal number of respondents selected 3-5%, 6-8%, and 9-11% for Kuwait

Minimum Unleveraged Returns Required by Asset Class

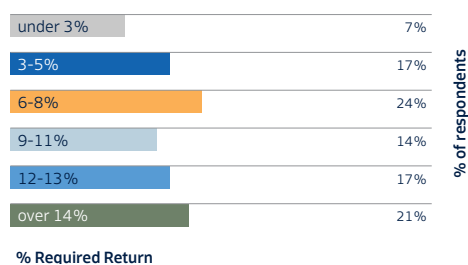
Listed Equities



Some measure of investor confidence is returning as reflected by the recent and upcoming IPO activity in KSA and the UAE. The listing of companies like “STC solutions” and “ACWA Power” in KSA as well as “ADNOC Drilling” and “YAHSAT” in UAE are a positive sign.

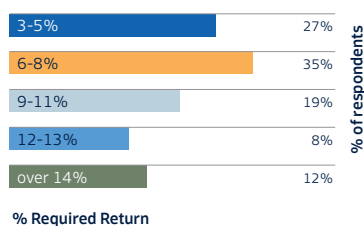
Investor required annual returns for listed equities over the next 12 months, including dividends & capital gains

Saudi Arabia

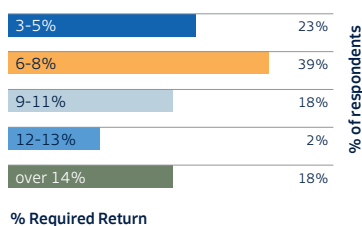


The upward trend in initial public offerings is expected to continue with recent reports of a higher-than-usual volume of requests at the Saudi Capital Market Authority which recently reported reviewing over 40 applications from companies looking to list on the Saudi Exchange.

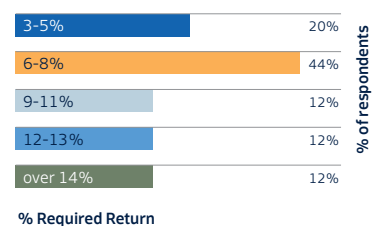
UAE



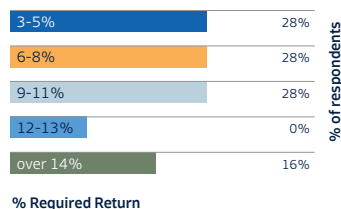
Bahrain



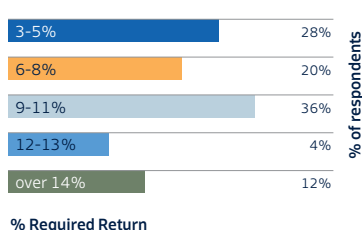
Oman



Kuwait



Qatar



Minimum Unleveraged Returns Required by Asset Class

USD Government Bonds

6-8%

Investor required
annual returns for
Bahrain and Oman

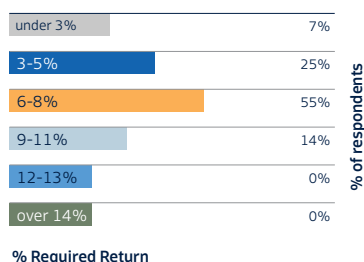
3-5%

Investor required annual
returns for **Saudi
Arabia, Kuwait, the
UAE, and Qatar**

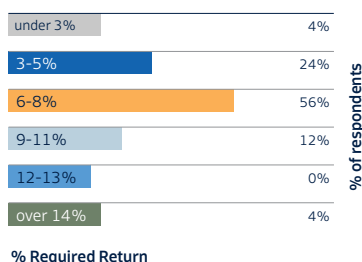


Investor required annual returns for 10-year USD government bonds over the next 12 months, including coupons & held to maturity

Bahrain



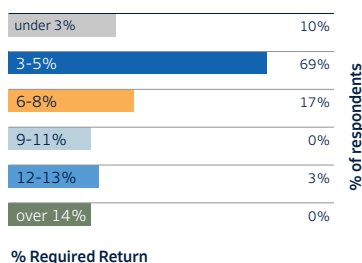
Oman



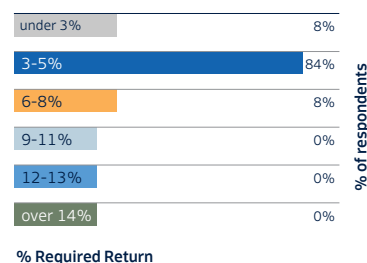
A sustained recovery in oil prices could help GCC countries bridge their budget deficit, likely leading to lower bond issuance requirements.

Despite the oil price recovery, a tepid economic environment could still require public sector impetus (through borrowing) in order to rebound.

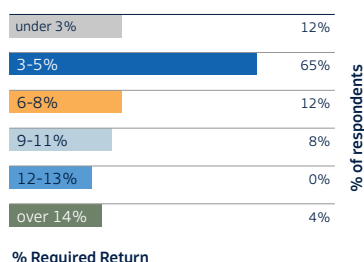
Saudi Arabia



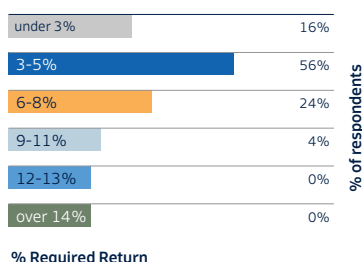
Kuwait



UAE



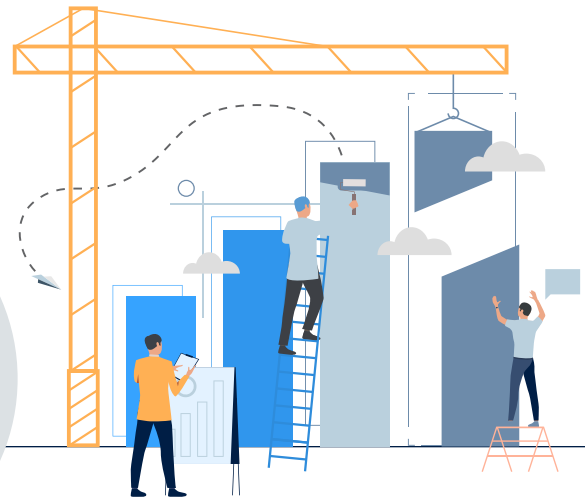
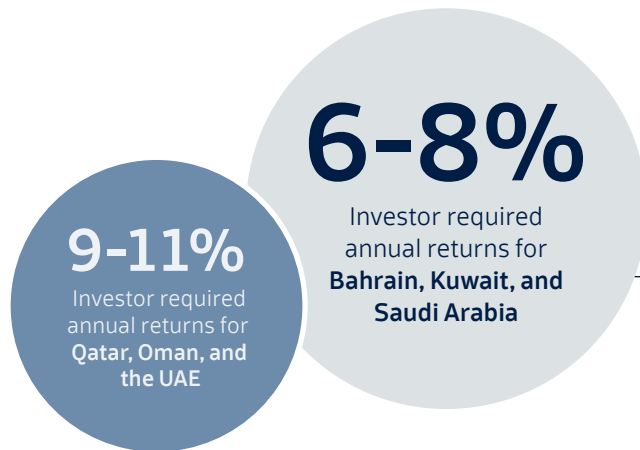
Qatar



Although the long-term bond yield is likely to be on an upward trend driven by US-led tapering of quantitative easing (QE) and the high likelihood of a US rate hike in the near term, yields are still at the lower end of their historical range.

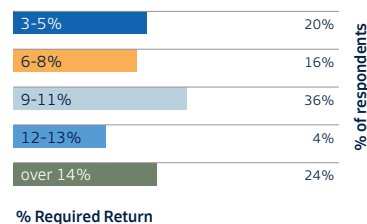
Minimum Unleveraged Returns Required by Asset Class

Real Estate

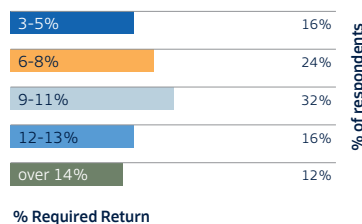


Investor required annual returns for real estate over the next 12 months, including total distributions & capital gains

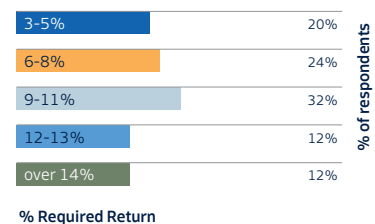
UAE



Qatar

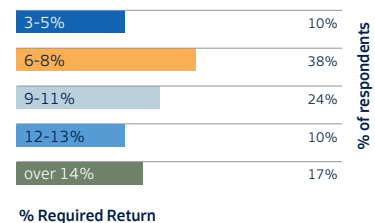


Oman

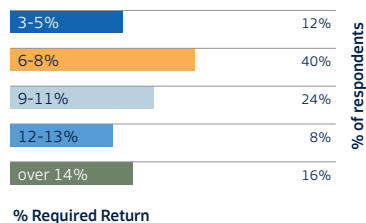


Investors still view real estate as a safe investment option with higher returns required in Qatar, Oman and the UAE. Real estate in the UAE appears to have bottomed out, meaning a higher likelihood for acceleration in capital values as well as rental rates.

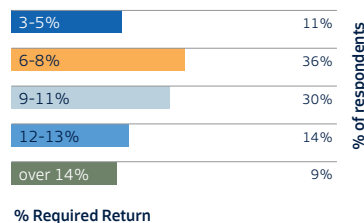
Saudi Arabia



Kuwait



Bahrain



Similar to the UAE, Saudi real estate prices have seemingly bottomed out with the Riyadh region leading the recovery. Incremental supply from social housing projects are likely to keep real estate inflation in check over the medium term in Saudi Arabia.

Minimum Unleveraged Returns Required
by Asset Class

Private Equity

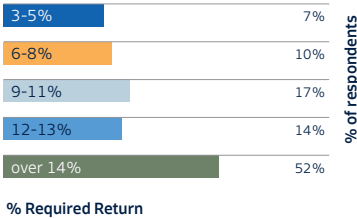
Over 14%

Investor required annual
returns across the GCC

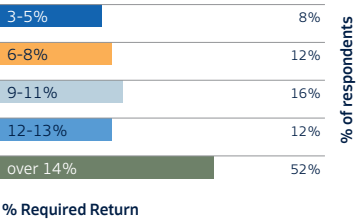


Investor required annual returns for private equity over the next 12 months, including total distributions & capital gains

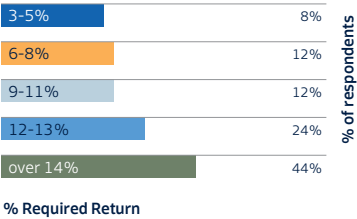
Saudi Arabia



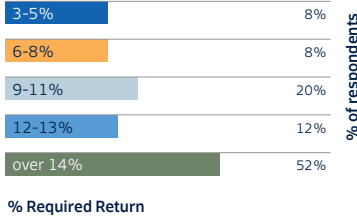
UAE



Kuwait

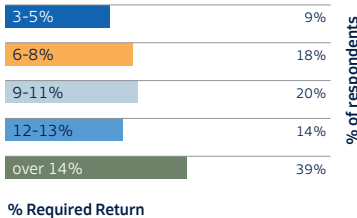


Oman

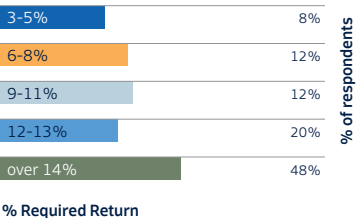


Private equity is the asset
class that required the highest
returns among all asset
classes included in the survey.

Bahrain

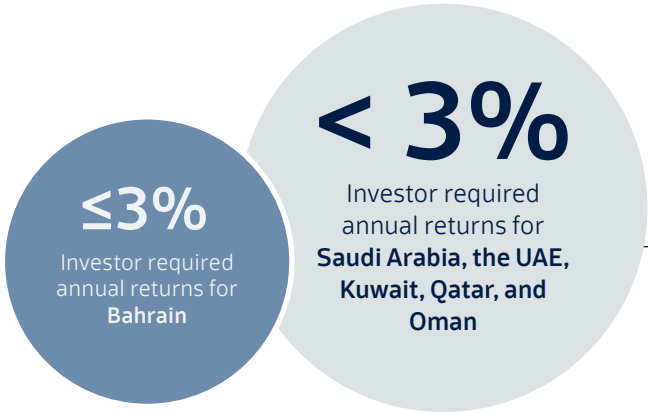


Qatar



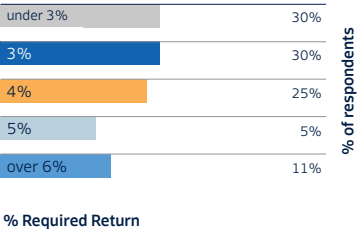
Minimum Unleveraged Returns Required
by Asset Class

Cash Deposits



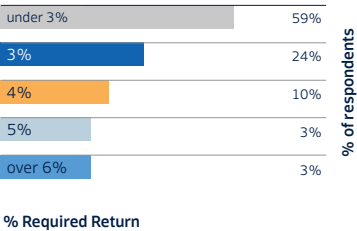
Investor required annual returns for cash deposits in local currency over the next 12 months, including interest & profit

Bahrain

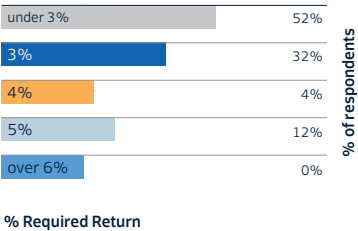


Bahrain was the only country in the GCC where 30% of investors expected returns above 3% on cash deposits.

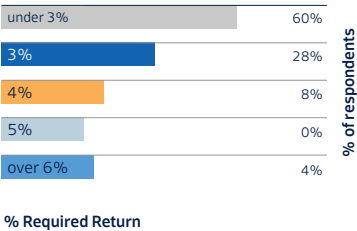
Saudi Arabia



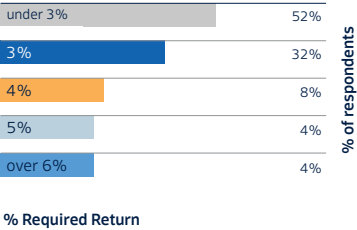
UAE



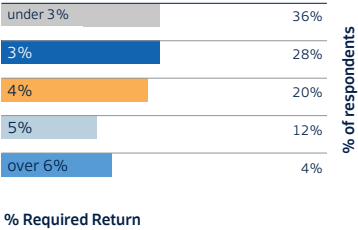
Kuwait



Qatar



Oman



Investors across the GCC require the lowest returns from cash deposits in local currencies, compared to other asset classes surveyed.

Economic Outlook

The ongoing rally in oil prices and the introduction of value added taxes imply **lower than budgeted deficits, positively supporting post pandemic economic spending and rebound**. As a result, governments are expected to have more headroom to stimulate the economy going forward.

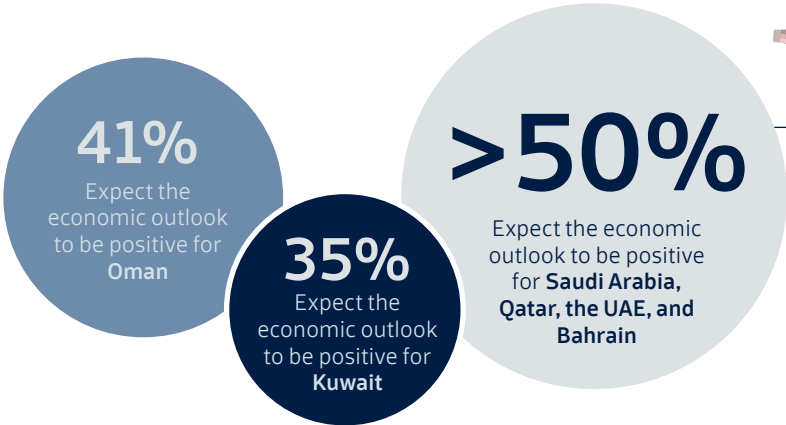
Large regional events such as the recently launched Expo 2020 in Dubai, Qatar's FIFA 2022, and Riyadh Season 2021 could also be an important catalyst to boost consumer spending and tourism related revenues in the region.

Furthermore, improved residency policies and attractive investment incentives should continue to attract foreign direct investments.

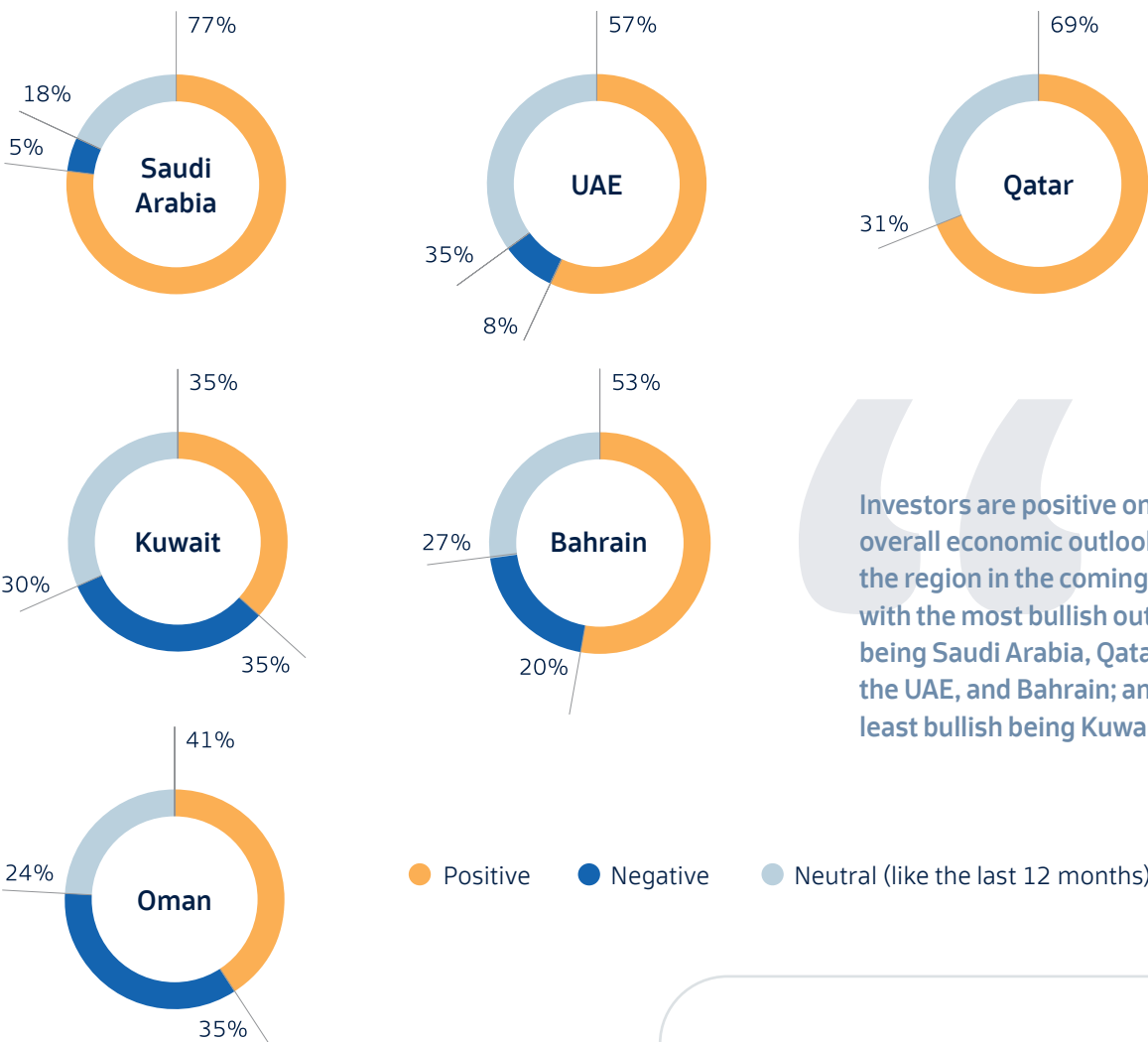
Robust oil prices exceed GCC oil prices in governments' fiscal budgets.



The GCC's Economic Outlook Over the Next 12 Months



GCC Economic Outlook over the next 12 months



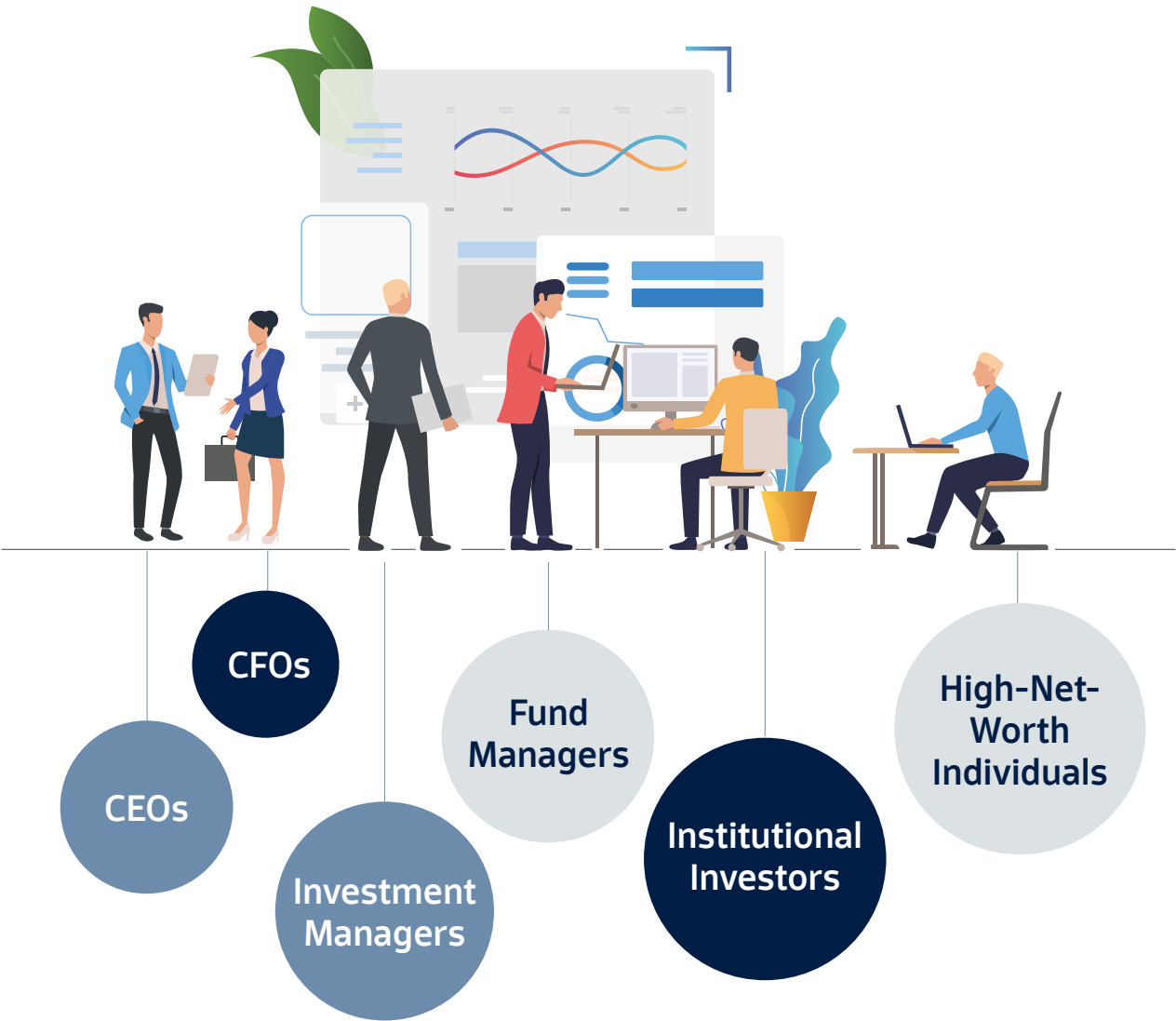
Investors are positive on the overall economic outlook of the region in the coming year, with the most bullish outlook being Saudi Arabia, Qatar, the UAE, and Bahrain; and the least bullish being Kuwait.

Survey Background

The inaugural Investor Returns Assessment Survey was conducted by SICO between July and August 2021 to gauge market participants' economic outlook and required return expectations across GCC countries and different asset classes including: Listed Equities, Government Bonds, Real Estate, Private Equity, Cash Deposits.

Profile of Respondents

There were a total of 44 survey respondents.



The institutional participants represented a mix of GCC enterprises and multinational companies, including both listed and private companies.

Mode of survey

A questionnaire was sent out to respondents in an electronic format through a survey link.

The answer selections were in the form of drop-down boxes where only one answer could be selected. Respondents could provide their answers for the countries and asset classes that are relevant to their investment mandates and field of expertise.

The Questionnaire

The following two questions were prepared with a range of answers in a multiple-choice format.

Question #1

What minimum total annual return, without debt or leverage, would you currently require if you were to invest in:



Listed
Equities



Government
Bonds



Real
Estate



Private
Equity



Cash
Deposits

Options ranged from $\leq 3\%$, to over 14%

If respondents did not invest in certain areas, they were asked to provide their best estimates.

Question #2

**How do you feel about the economic outlook over the next 12 months?
Positive, Negative, or 'Just like the last 12 months'?**

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