

BIENVILLE MACRO REVIEW

The GCC: Diversifying from Energy?

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THE GCC: DIVERSIFYING FROM ENERGY?

Summary

- **The economies of the Gulf Cooperation Council (GCC), which include Qatar, United Arab Emirates, Bahrain, Kuwait, Oman and Saudi Arabia, have been in a strong growth phase over the past several years**
- A consequence of strong economic growth has been expanding budget and current account surpluses, the latter resulting in the accumulation of **high levels of international reserves**
- Because many GCC nations have achieved net creditor status, they have **substantial capacity for stimulating their respective economies through domestic spending**, even in the event of an oil price decrease
- In an attempt to diversify their economies away from the petroleum industry, the GCC nations have recently converted their large pool of domestic savings into high levels of domestic investment (i.e., infrastructure and education). As a result, the **non-energy share of GDP will continue to increase**, diversifying their respective economies over the next several years
- **Despite this strong economic performance, the stock markets of the GCC have lagged global peers over the course of the recent global recovery.** The underperformance can be attributed to several factors largely related to the geopolitical turmoil in the Middle East, including the ongoing chaos in Egypt, Libya, and most recently, the civil war in Syria. This has unfairly tarnished the GCC markets, where no member country has experienced widespread political turmoil. Possibly in recognition, the GCC equity markets have bounced in 2013
- Because the GCC is supported by domestic sources of capital, rather than a reliance on international capital inflows, their stock markets have historically exhibited a low correlation to a number of other markets such as the S&P 500, the price of oil and the broader Emerging Markets Index
- **The continued growth from both external and domestic factors will likely keep the GCC story strong in spite of fluctuations in the price of oil**



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The Gulf Cooperation Council is a regional trade bloc of six nations in the Arabian/Persian Gulf. Saudi Arabia is the largest and most important nation, however, all are U.S. allies. Despite a precarious geographic position (between Iran, Syria, Egypt, Yemen, and Iraq), the GCC countries have exhibited remarkable political stability over the past thirty years ...

Despite the Arab Spring protests in 2011, and civil wars that rocked the surrounding region (e.g., Libya and Syria), there was comparatively little disturbance in the GCC....

Gulf Cooperation Council Countries



Source: fanack.com



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A snapshot of the GCC shows that despite having a relatively small population and high levels of GDP-per-capita, their economies are growing rapidly...

Snapshot of the GCC Member Countries

Country	Population	GDP	GDP growth (2012)
Saudi Arabia	26.5mm	\$600bn	6.8%
United Arab Emirates (U.A.E.)	5.31mm	\$359bn	3.9%
Oman	3.1mm	\$76.5bn	5.0%
Kuwait	2.65mm	\$173.4bn	5.1%
Qatar	3.1mm	\$183.1bn	6.6%
Bahrain	1.3mm	\$27.0bn	3.9%
Total:	41.96mm	\$1,419bn	5.2% (Avg.)

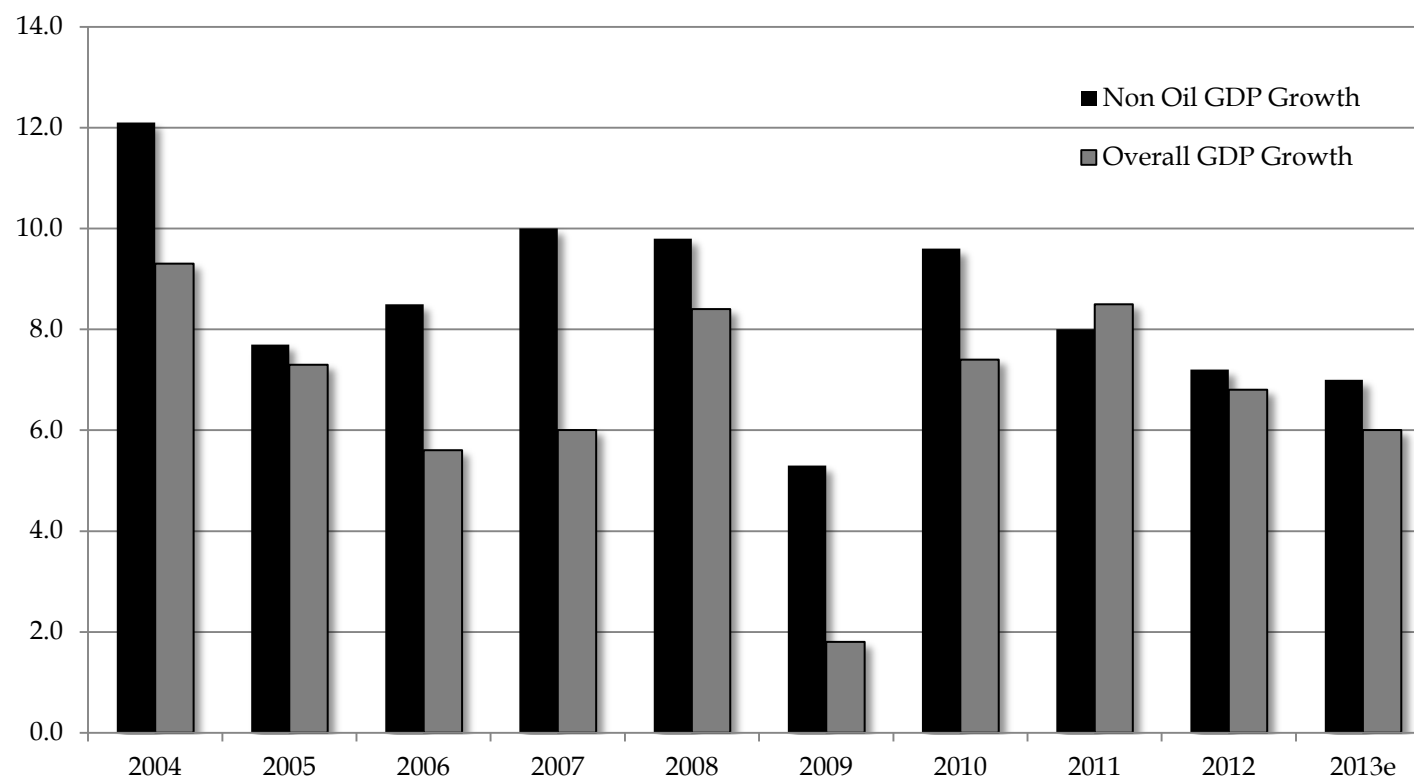
Even with large amounts of unskilled labor, these countries are economic powerhouses, with a regional GDP per capita around \$35,000...



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With the increased consumption and infrastructure investment, non-oil GDP growth has outpaced overall growth nearly every year of the past ten in major economies like Saudi Arabia...

Saudi Arabia GDP Growth Comparison



Source: CDSI, Bloomberg Bienville Capital Management, LLC



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As GCC countries spend their oil surpluses and seek to diversify their growth profile away from energy, a staggering amount of infrastructure spending has been announced for the coming several years...

Included in the infrastructure spending is billions of dollars in airport and shipping port upgrades, as well as real estate and oil & gas construction...

Ongoing GCC Roads & Rail Spending

Category	Amount (\$USD)
Saudi Arabia	77bn
United Arab Emirates (U.A.E.)	58bn
Oman	14bn
Qatar	55bn
Bahrain	2.5bn
Kuwait:	13bn

Source: Zawya ,Bienville Capital Management, LLC



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The Saudi Arabian government, along with private partners, has announced massive infrastructure spending out of the desire to make the country world class. Below are but a small sample of the estimated \$300-400bn in projects over the next five years.....

Sample Saudi Infrastructure Projects

Projects	Amount (\$USD)	Completion Date
KAEC Seaport	20bn	2020
Airport Upgrades	11.2bn	2018
Riyadh Subway	22bn	2018
Haramin High Speed Rail	29bn	2017

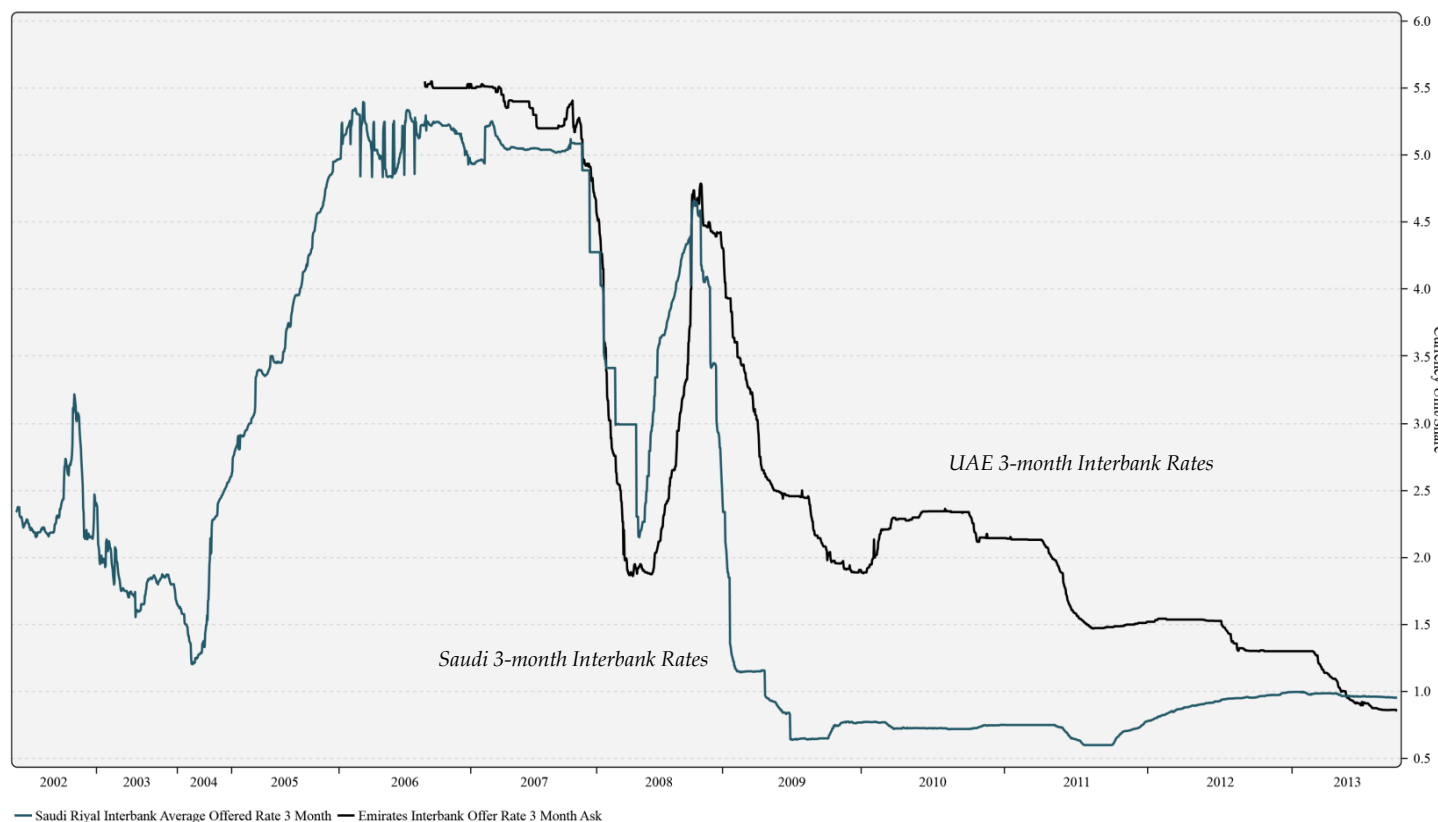


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All GCC nations peg their currencies to the U.S. Dollar, effectively importing U.S. monetary policy. Therefore, interest rates in Saudi and the U.A.E. have declined to low levels, well below nominal and real growth rates, which encourages spending and investment...

This low interest rate picture, which is likely to remain, should continue to encourage growth in the region...

Saudi and UAE 3-month Interbank Rates



Source: Macrobond

Source: Macrobond, Bloomberg Bienville Capital Management, LLC

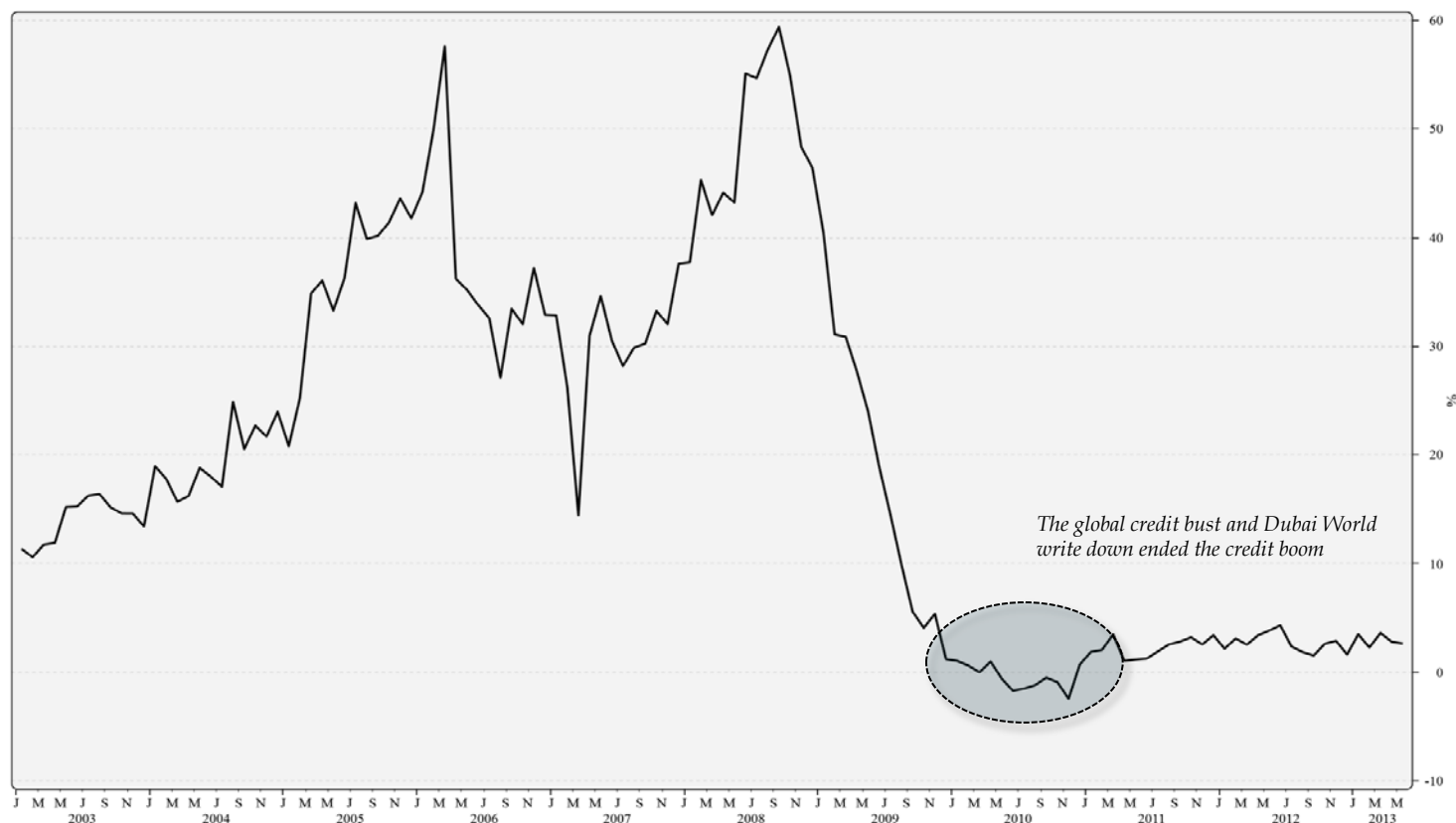


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The GCC experienced a large credit boom over the past decade, most prominently in the United Arab Emirates. This ended with dual shocks: the global financial crisis in 2008, and the Dubai World default in 2009. GCC regional economies have fully deleveraged after experiencing several years of virtually no loan growth...

Dubai World was a government holding company for its various businesses (mainly real estate), which ran out of money in 2009. Both Dubai World and the city state were in trouble. Eventually, both restructured their debts and received bailouts...

UAE Loan Growth (YoY)



Source: Macrobond

Source: Macrobond, Bloomberg Bienville Capital Management, LLC

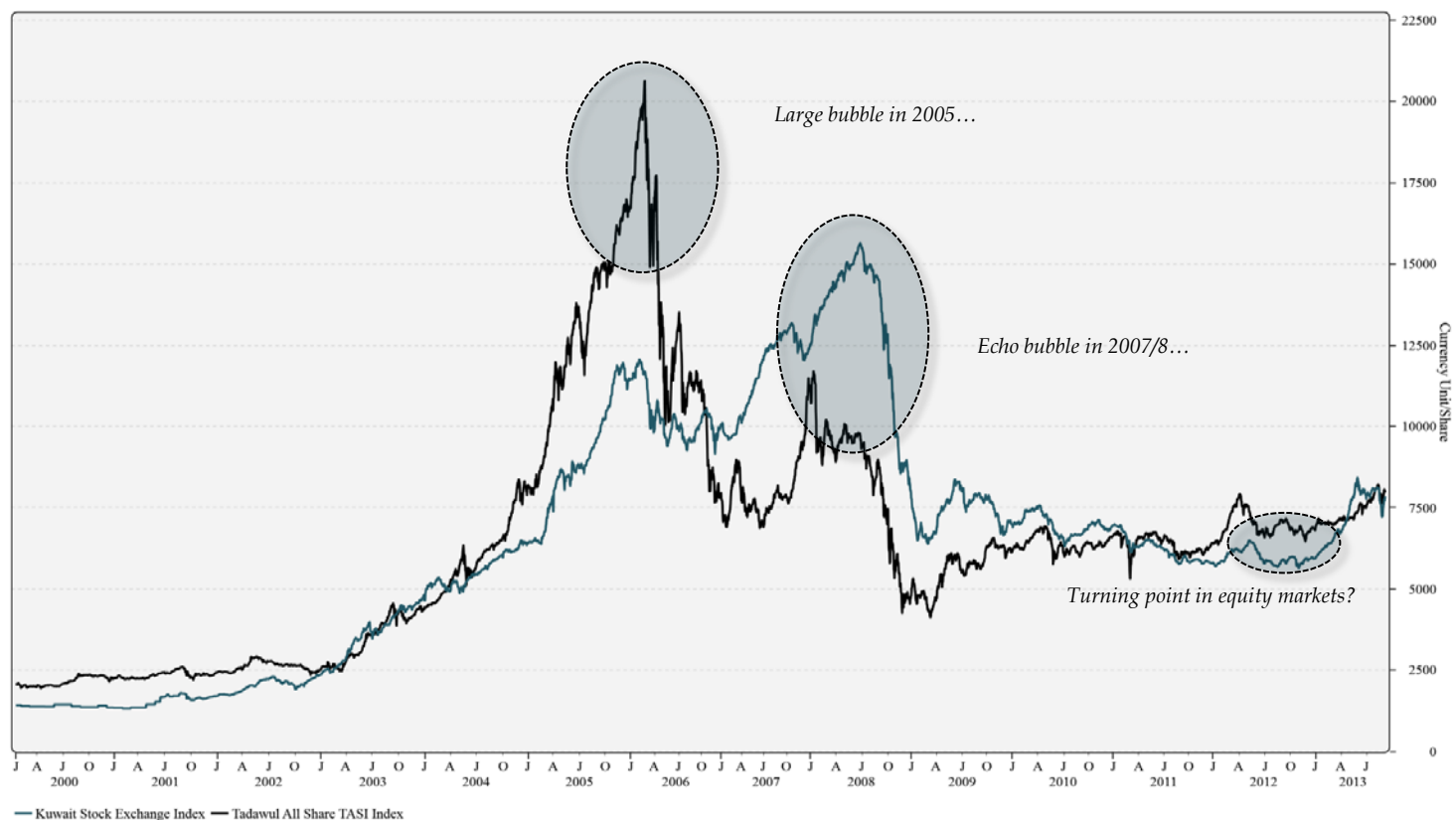


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As a result of the oil boom during the past decade, GCC markets experienced high valuations from 2005-2008. **These valuations have since corrected to much lower levels...**

The GCC markets experienced a multi-year bear market, which appears to have bottomed in 2012....

Kuwait and Saudi Arabia since 2000



Source: Macrobond

Source: Macrobond, Bienville Capital Management, LLC



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The correlation table below illustrates how the major GCC indices have exhibited low correlations with external factors such as oil, the S&P 500 or other emerging markets....

Correlation Matrix (Sept. 2001 - Sept. 2013)

	Saudi	Dubai	MSCI EM	S&P	Crude
Saudi Index	1.00	0.27	0.30	0.31	0.20
Dubai General Index	0.27	1.00	0.13	0.14	0.08
MSCI Emerging Markets	0.30	0.13	1.00	0.71	0.32
S&P 500	0.31	0.14	0.71	1.00	0.21
Crude Oil	0.20	0.08	0.32	0.21	1.00

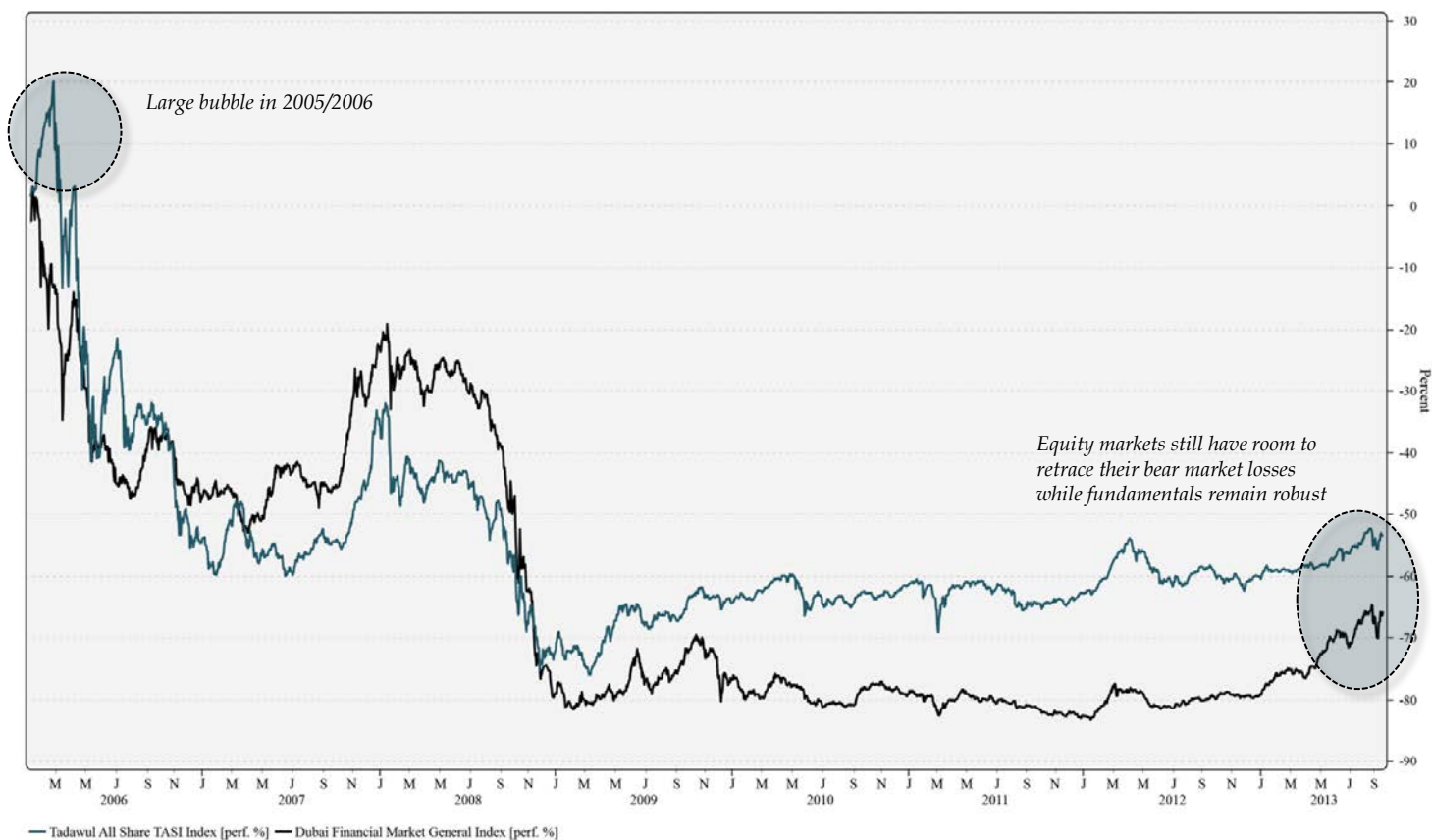
Despite the view that these countries are just derivatives of the oil price, the data suggest otherwise...



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The two largest indices remain far off of their 2005/2006 highs, despite the strong economic growth of the past few years...

Dubai and Saudi Arabia since 2006



Source: Macrobond

Source: Macrobond, Bienville Capital Management, LLC



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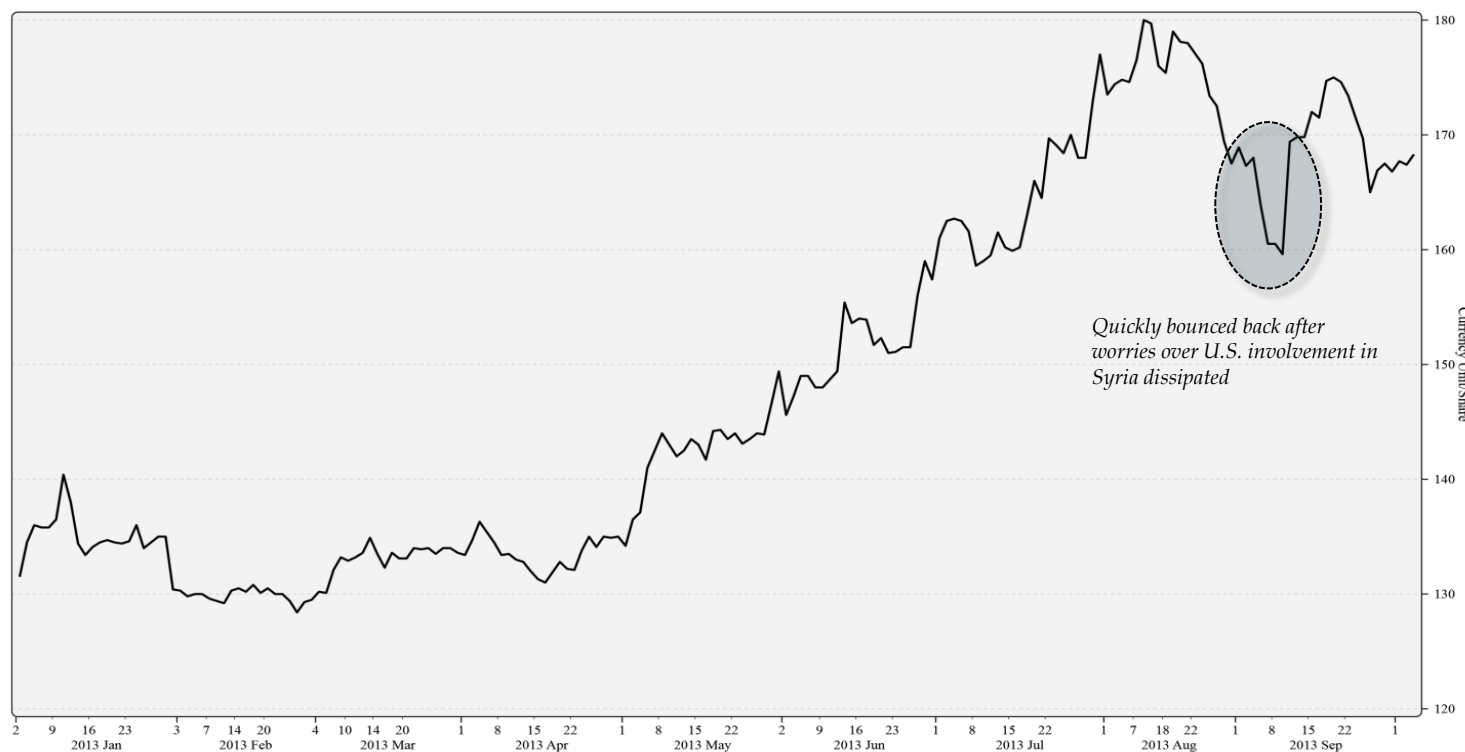
Qatar National Bank, the largest bank in Qatar, is a leading stock in the GCC region. Even after a 25% run this year, it is experiencing superior growth and profitability, and remains attractively priced relative to global banks...

Qatar National Bank

	P/E	Price to Book	Div Yield	Return on Equity	Tier I Capital	EPS Growth
QNB	13.6x	2.3x	3.6%	22.4%	15.0%	15.2%

QNB is a strong franchise and produces a return on equity well over 20%, while being safely capitalized..

By contrast, major developed world banks struggle to have a greater than 15% ROE



Source: Macrobond, Bloomberg, Bienville Capital Management, LLC



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