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KUWAIT

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Non-oil sector drives growth forecasts

An uptick in non-oil sector will augur well for the Kuwaiti economy which is characterised by two major structural imbalances–heavy dependence on oil production and dominance of the public ownership

KCCI chairman Muhammad Al-Saqer

With the rebound in crude prices on the back of rising geopolitical tensions surrounding Russia and Ukraine, Kuwait's hydrocarbon exports (90 per cent of total merchandise exports) will continue to remain an important source of revenue. However, it is non-oil activity that is driving growth forecasts of one of the world's largest oil producers and exporters economy.

According to National Bank of Kuwait, the country's non-oil sector recovery continued in the final quarter of 2021 (4Q21), primarily driven by robust consumer spending, real estate, stock market activity as well as pick up in the projects market.

The bank in its latest quarterly economic brief (February 2022) estimated that the improvement in both oil and non-oil fundamentals could see headline Gross Domestic Product (GDP) growth accelerate to 7 per cent in 2022 from around 1.0 per cent (estimated) in 2021.

Likewise, data from a report on the most important statistical indicators that reflect the achievements made by Kuwait in its developmental process, indicated that the contribution of the non-oil sector amounted to 65.8 per cent of the GDP in 2020, while the contribution of non-oil revenues to the total government revenues reached 16.5 per cent in 2020 compared to 11.4 per cent in 2015.

"Sustainable development is one of the most important economic trends followed by Kuwait, which constantly seeks to diversify its production base and national income sources," pointed out the report issued by the Statistical Centre for the Gulf Cooperation Council (GCC-STAT) to coincide with Kuwait's celebration of its 61st National Day on February 25.

World Bank in its report predicted that Kuwait's economy is set to grow by 5.3 per cent in 2022, followed by a 3 per cent growth the next year. According to Kuwait's Central Statistical Bureau, Kuwait's nominal GDP for 2020 was $118.8 billion. In 2021, the Central Bank of Kuwait announced that Kuwait's GDP had contracted 9.9 per cent in 2020 from 2019 mainly due to sharp decrease in oil prices.

KEY CHALLENGES

An uptick in non-oil sector will augur well for the Kuwaiti economy which is characterised by two major structural imbalances – heavy dependence on oil production and dominance of the public ownership, industry analysts said.

"Kuwait has struggled over the years to implement a two-pronged development strategy – diversifying the country's economic base away from the oil sector and promoting private sector development," a paper titled `Diversifying a resource-dependent economy: private–public relationships in the Kuwaiti economy' published on Journal of Economic Structures noted.

In fact, Kuwait economy's heavy dependence on oil and domestic consumption, and slow progress in the implementation of Kuwait Vision 2035 and the economic diversification plans, are largely seen as the main long term challenges.

The oil industry and government sector dominate the economy, with crude oil reserves estimated at nearly 101.5 billion barrels, or approximately 7 per cent


A file photo of Kuwait Catalyst Company's plant in Kuwait

of the world's reserves. The oil industry accounts for over half of GDP and 90 per cent of government export revenues. With oil the main natural resource, oil refining, and downstream petrochemical processing are the dominant industries. Non-petroleum manufacturing and agricultural sectors are limited, consisting of a switch-gear manufacturer for power sub-stations, and factories for building materials, furniture, and food packaging.

Kuwait imports most of its capital equipment, foods, manufacturing equipment, and consumer goods. Two-way trade is limited to a few international partners. Almost half of the country's imports originate from China, the US, the UAE, Japan, and Germany, while over 50 per cent of Kuwait's export earnings are attributable to South Korea, China, India, Japan, and the US.

DIVERSIFICATION PROGRESS

Launched in 2017, objectives of Kuwait Vision 2035 include upgraded infrastructure and diversification of the economy away from oil. It is focused on economic reform designed to empower the private sector and transform Kuwait into a regional trade and investment hub. However, the majority of government-funded projects move slowly.

"The third development plan 2020-2025 was launched to meet these goals but implementation has been slow. Large financial assets underpin Kuwait's economic resilience, but these assets alone cannot substitute for the fiscal and structural reforms that would offset the risks of lower oil prices, low oil demand in the future, and rising marginal cost of production. Such reforms include non-oil revenue mobilisation, enhancing human capital, and reforming economic governance to invigorate private sector-led development," World Bank in its country analysis of Kuwait noted.

"Non-oil growth is stalled due to short-term challenges related to the fallout from the coronavirus pandemic, and structural problems such as the lack of a dynamic private sector, compounded by political barriers to structural reform," it added.

However, this may be beginning to change with Kuwait Vision 2035 set to transform the country into a centre for finance and trade, led by a rejuvenated private sector, more public-private partnerships and a higher level of infrastructure spending.

According to the GCC-STAT report, Kuwait seeks to develop the investment climate, attract foreign direct investment (FDI) as an important source of financing development activities and to increase the role of the private sector in supporting economic growth. In this context, the total FDI balance increased during the past years to $45.7 billion by the end of 2020, compared to $42.8 billion in the previous year, with an increase of 7 per cent.

The World Bank report too, emphasises that the economic growth underscores the contribution of high oil prices to the national budget of the country, and the importance of developing the private sector and human capital for achieving sustainable economic growth.

Towards that, chairman of the Kuwait Chamber of Commerce and Industry (KCCI) Muhammad Al-Saqer recently said that the private sector, with its various commercial and industrial companies and institutions, is a major contributor to the Kuwaiti economy and many development sectors, stressing the importance of the private sector in the comprehensive development in Kuwait, strengthening the sector's income, economy and government efforts in general, specifically in the health area.

OUTLOOK

Further, as per a risk assessment by Coface for Trade, a reference in credit insurance and risk management, recovery is expected to be gradual.

"In line with the opening up of the economy, private consumption (about 40 per cent of GDP) reached almost a decade-high level in 2021. It should continue expanding in 2022 as well, but at a slower pace because of the maturing recovery and fading base effect," Coface said in its country risk report on Kuwait.

"Exports will become the key contributor to growth. Indeed, oil production will rise by nearly 13 per cent in 2022 after falling in 2020 and 2021 consecutively due to the OPEC+ agreement," it predicted.

Due to the lack of economic diversification, trends in the oil sector will continue to be determinant for the Kuwaiti economy. Thanks to the rise in oil prices and increased global hydrocarbon demand, net exports will support growth in 2022, the report estimated.

Investments (20 per cent of GDP) will inch up in 2022 on the back of the completion of several refineries, such as the Al-Zour refinery project, and LNG import facilities. Other construction projects, such as the development of Sheikh Jaber Al-Ahmad Al-Sabah Causeway, within Kuwait's 2035 Vision programme will also sustain investments.

Government spending will also edge up in 2022, in line with higher oil prices and national savings (30 per cent of GDP), which will alleviate pressure on the government to restrain expenditure, like cutting the public sector wage bill or introduce revenue measures such as a 5 per cent VAT, Coface report added. ■

Agility unit breaks ground on new logistics facility in Kuwait

The project was awarded by PAHW in September last year to S2, which was established to develop the Sabah Al-Ahmad Logistics Industrial park, one of the largest multi-purpose industrial projects in Kuwait

S2 for Development of Lands and Real Estate Company, a subsidiary of Agility Public Warehousing, one of the world's leading logistics companies, broke ground on South Village, a new logistics and crafts area in Sabah Al Ahmad City, in Kuwait.

As per the deal, S2 will develop the first integrated logistics, crafts and services area in South Village, using world-class standards and deploying the latest technologies in a commercial and crafts area of 1.28 million sq m.

The project was awarded by Public Authority for Housing Welfare (PAHW) in September last year to S2, which was established to develop the Sabah Al-Ahmad Logistics Industrial park, one of the largest multi-purpose industrial projects in Kuwait.

The ceremony, held under the patronage of Mubarak Zaid Al Arou, the Minister of State for Housing and Urban Development, at Sabah Al Ahmad City was attended by senior officials from PAHW and other government authorities.

Hadeel Abdullatef Bin Naji (left) and Abdullatef Al Ateeqi at the event

Hadeel Abdullatef Bin Naji, Deputy Director General for Investment Affairs and Private Sector Projects at PAHW, said the ceremony was a culmination of the work on important feasibility studies related to the South Village investment opportunity, including approvals and commencement of the project.

She pointed out that PAHW, through its work with the private sector, had achieved its objective of activating Public Private Partnerships (PPP) and shifting its role to that of organiser rather than designer, financier, and implementer of the project.

"This will advance the government's development goals by shifting the administrative and financial burden from the public sector to the private sector, while maintaining the highest standards for the quality of the project, which is intended to attract foreign investment to Kuwait, stated Bin Naji.

She said this project will have a direct, positive impact on individuals and society as it will provide them homes, creating jobs and add space for small and medium businesses, a vital and productive segment of Kuwait's economy.

"The development of the integrated logistics and crafts area in Sabah Al-Ahmad's South Village aims to enhance the logistics and crafts sectors in line with Kuwait's 2035 vision, which is intended to diversify the country's economy and strengthen local industry through partnership with the private sector," she stated.

Speaking at the ceremony, S2 General Manager Abdullatef Al Ateeqi said this event underscores the importance of PPPs in developing mega-economic projects that are national priorities.

"The South Village development will enhance the overall business environment, using private-sector expertise to bring world-class standards to large projects that serve Kuwait's logistics and crafts sectors, which will in-turn contribute to lower costs on consumers. Today, I am happy to report that we are ahead of schedule on the project, with 5.9 per cent of the first phase completed to date since last October," he added.

It is a forward-looking government initiative that will create a new logistics and crafts center in the south of the country.

The project is critical to Kuwait's economic diversification and desire to offer private-sector incentives, support small businesses, create job opportunities, expand prosperity, and develop the coun-

PAHW's blueprint of the upcoming new logistics and crafts area in Sabah Al Ahmad City in Kuwait try's available land and resources. Technology and sustainability are an integral part of South Village's strategy and are essential elements in the design of the village.

South Village is a forward-looking government initiative that will create a new logistics and crafts center in the south of the country. The project is critical to Kuwait's economic diversification and desire to offer private-sector incentives, support small businesses, create job opportunities, expand prosperity, and develop the country's available land and resources.

Technology and sustainability are an integral part of South Village's strategy and are essential elements in the design of the village.

Al Ateeqi said: "South Village will be the first logistics and crafts city that incorporates the latest technologies such as a district cooling initiative, a first of its kind in Kuwait, to help lower energy costs and reduce waste."

South Village will adopt the smart solutions that help make services, logistics and crafts complexes secure, comfortable, efficient, and green. It will feature increased management efficiency, decreased operational costs, a better service experience, and stronger security while generating less energy waste. ■

Agility's 2021 net profit surges to $3.2bn

Agility: robust performance

AGILITY, a leader in supply chain services, infrastructure, and innovation, has reported a full-year 2021 net profit of KD977.4 million ($3.2 billion), an increase of 2,250 per cent over the same period in 2020, on the back of an one-time gain of almost KD 1 billion on the sale of a unit.

Announcing the results for the 12-month period ending December 31, 2021, Agility said this growth was mainly due to a robust performance by its portfolio of businesses and also a one-time gain of almost KD1 billion from the sale of its core commercial logistics business, Global Integrated Logistics (GIL), to DSV, the world's third-largest freight and logistics provider, in exchange for 19.3 million shares in DSV.

Agility is now the second-largest shareholder in DSV with an 8 per cent stake, it added.

The Kuwaiti group said the Ebitda too increased 13.2 per cent to KD109 million, and revenue grew 22.1 per cent to KD486.2 million.

Much of the revenue came from the sale of its core commercial logistics business, Global Integrated Logistics (GIL), to DSV, the world's third-largest freight and logistics provider, in exchange for 19.3 million shares in DSV.

As a result, Agility reported a one-time gain of almost KD1 billion and is now the second-largest shareholder in DSV with an 8 per cent stake.

Moving forward, Agility's business profile can be divided into two segments: controlled and non-controlled businesses.

- Controlled: Agility continues to own and operate the businesses that have historically generated 80 per cent of company profits; these businesses are "controlled" by Agility. Of these, the five most financially material companies are Agility Logistics Parks, Tristar, National Aviation Services, UPAC, and Global Clearinghouse Systems.
- Non-Controlled: In addition, Agility holds minority stakes in businesses through its investments in both established sectors and ventures in freight, real estate, e-commerce enablement, ESG technology and other digital technologies. Agility's stake in DSV represents the largest of those investments. These are "non-controlled" businesses. The collective value of these investments today represents 57 per cent of the company's assets.

On the solid performance, Agility Vice Chairman Tarek Sultan said: "Our 2021 performance was exceptional. In addition to a significant one-time gain from the GIL sale, our portfolio of businesses performed well, returning to pre-Covid profitability levels. We will be looking to accelerate growth in these businesses as they contribute to our core operations and Ebitda."

Sultan pointed out that the DSV transaction and the sale of GIL fundamentally changed the structure of the company and reset the baseline for the continuing operations.

"Like most companies, Agility was adversely affected by the Covid pandemic in 2020 and 2021. Looking ahead, despite the challenging market conditions and geopolitical risks, we expect performance of our continuing operations to be strong, and expect our operating results for 2022 to show a minimum of 20 per cent growth compared to this year," remarked Sultan.

"The board and the executive management team of the company continue to be focused on growing and enhancing shareholder value over time, and we are confident that with current M&A initiatives, as well as the different, organic and inorganic growth initiatives that we are working on across the controlled segment entities, we will continue to create value for shareholders in the medium and long term," he added. ■

KPC is Kuwait's most valuable brand, NBK strongest

Valued for the first time, petrochemical company Kuwait Petroleum Corporation (KPC) takes the top spot in Brand Finance Kuwait 10 ranking and ranks ninth across entire Middle East region

Petrochemical major, the Kuwait Petroleum Corporation, has been ranked as the most valuable brand in Kuwait in 2022 by the leading brand valuation consultancy Brand Finance in its latest report.

With its brand valued for the first time at $4 billion, KPC has also been ranked as the ninth most valuable brand across the broader Middle East region.

Every year, Brand Finance puts 5,000 of the biggest brands to the test, and publishes nearly 100 reports. The world's top 150 most valuable and strongest telecoms brands are included in a dedicated national ranking – the Brand Finance Kuwait 10 2022, while the Middle East's top 150 most valuable and strongest brands are included in the Brand Finance Middle East 150 report.

KPC maintained a valuable brand through the pandemic, despite the significant reduction in oil demand during the second half of 2020 and much of 2021. Prior to the pandemic, KPC had long-term plans to increase production from around 2.5 million barrels per day (mbpd) to 4.75 mbpd by 2040. Revised targets of 4 mbpd by 2040 will ensure that the company continues to operate a very strong brand in the global oil market.

KPC's brand architecture is hybrid in nature while its peers in the region and internationally have moved to a branded house approach to build a strong global brand to appeal to their unique set of stakeholders as key enablers of the global transition to renewable energy in the medium to long term while delivering optimal value to their shareholders.

The top order: Kuwait's top 10 brands

The other KPC owned brands that feature in the analysis are; KOC (3rd), KNPC (6th), KUFPEC (7th), Q8, KGOC, KPPC, Kafco, PIC, KOTC, KARO. As part of KPC's long standing strategy to exploit the most value for its hydrocarbon resources it is building the largest refinery in the Middle East (Al Zour refinery) to be managed by KIPIC and has built a leading European petroleum refining and marketing brand in Europe, Q8.

KPC also owns the Kuwait Oil Company (KOC) brand, whose brand value stands at $1.9 billion. KOC has been seeking to manage production expansion in an environmentally and socially responsible manner, and has been recognised within Kuwait for its responsible approach to recovering from Covid-19.

Andrew Campbell, Managing Director Brand Finance Middle East, commented: "Covid-19 caused a significant drop in global oil prices, and current global events are causing a significant rise in global oil prices. KPC and KOC will need to carefully manage relationships with suppliers and customers to ensure that their brand is able to overcome the big changes in supply and demand dynamics when many economies are seeking to reduce oil consumption."

ZAIN COMES SECOND

Just ahead of KOC, Zain (brand value up 8 per cent to $2.4 billion) was the fastest-growing brand amongst the Kuwait top 10 most valuable brands. Zain continues to consolidate its presence in its current markets. It's Brand Value and Strength is based on its strong position in Kuwait, Jordan, Iraq, Bahrain and Sudan while it continues to challenge STC and Mobily in Saudi Arabia. Zain is executing its strategy to be asset light and focus on incremental growth drivers such as the Tamam Fintech arm.

NBK REMAINS STRONGEST

In addition to calculating brand value, Brand Finance also determines the relative strength of brands through a balanced scorecard of metrics evaluating marketing investment, stakeholder equity, and business performance. Certified by ISO 20671, Brand Finance's assessment of stakeholder equity incorporates original market research data from over 100,000 respondents in more than 35 countries and across nearly 30 sectors.

According to these criteria, NBK (brand value down 12 per cent to $1.2 billion) is Kuwait's strongest brand with a brand strength score of 78.2. While NBK did lose some brand value through the pandemic, it still remains the most valuable Kuwaiti bank brand, ahead of Kuwait Finance House and substantially smaller brands Gulf Bank and Boubyan.

"NBK's brand strength is driven by product innovation and providing a reliable and trusted banking service. It delivers on customer needs across all sectors of the economy as it defends its leadership position in Kuwait and seeks to diversify operations internationally," Campbell added. ■