



Valuation Newsletter

Quarterly update – Q4 2021

Fifth edition

Capital market pulse

Feb 2022

Foreword

We are delighted to publish the fifth edition of KPMG's quarterly Valuation newsletter. This report provides market data analysis and industry participants with succinct trends, key sector multiples across the GCC.

According to the latest issue of the IMF, overall real GDP growth for the GCC is projected at 2.5 percent in 2021. This growth is led by the revival of global oil demand & international oil prices, strong policy responses to limit the initial spread of the virus, supportive policies have contributed to a partial rebound in non-oil sectors, and continuing efforts by the GCC countries to diversify their economies.¹

In this Newsletter, we provide a selection of key financial market data,

- Comparison of global indices
- Stock market trends of major global and regional indices for the 12 months ended 31 December 2021
- Risk free rate movement from 31 December 2020 to 31 December 2021 in major GCC countries and the U.S
- CRP movement from 31 December 2020 to 31 December 2021 in major GCC countries and the U.S.
- Inflation forecasts for the 5 years ending 2026 in major GCC countries and the U.S.
- Trends in GCC sector multiples for leading listed companies from 30 September 2021 to 31 December 2021

We have looked at **Banks, Telecom, Real estate, Consumer Finance and Insurance Sector** in this version of the Newsletter. This newsletter provides fixed-point observation data for the market multiples of major GCC markets.



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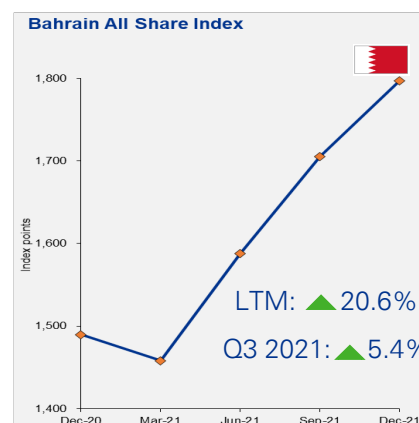
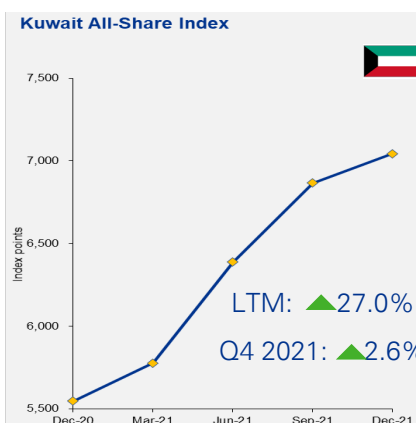
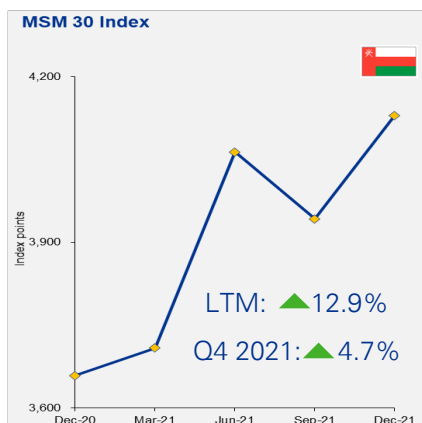
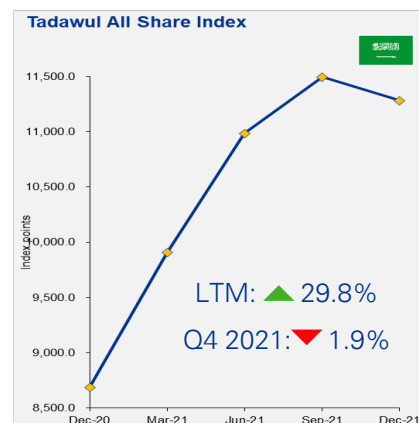
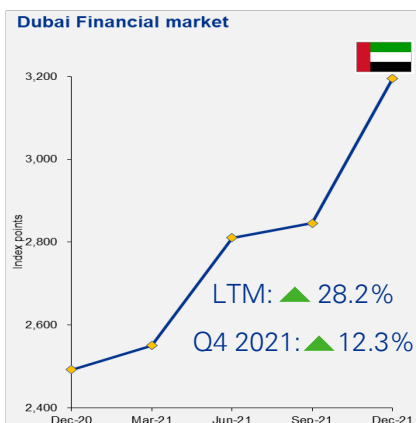
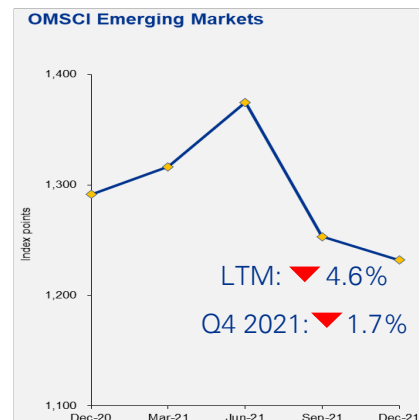
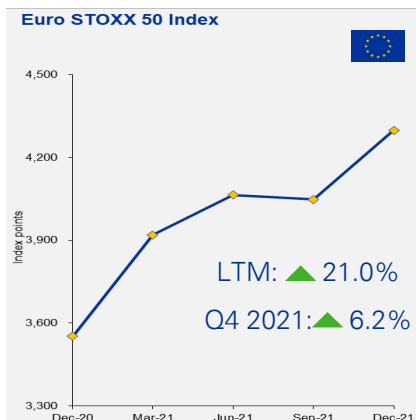
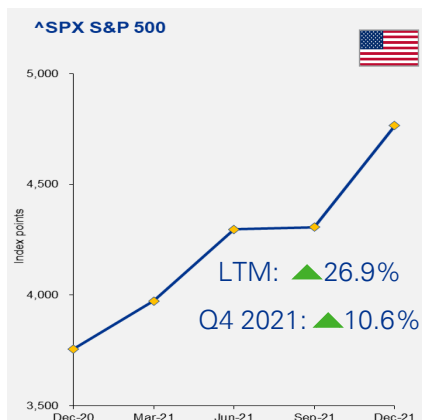
Disclaimer: As the markets have been volatile some sector multiples would reflect extremities and hence readers are advised to use their discretion, judgment while considering these multiples for their analysis and decision-making purposes.

¹Link to full report: [Economic Prospects and Policy Challenges for the GCC Countries - 2021 \(imf.org\)](https://www.imf.org/en/Publications/WP/Papers/2021/01/01/Economic-Prospects-and-Policy-Challenges-for-the-GCC-Countries-2021)



Financial market indicators

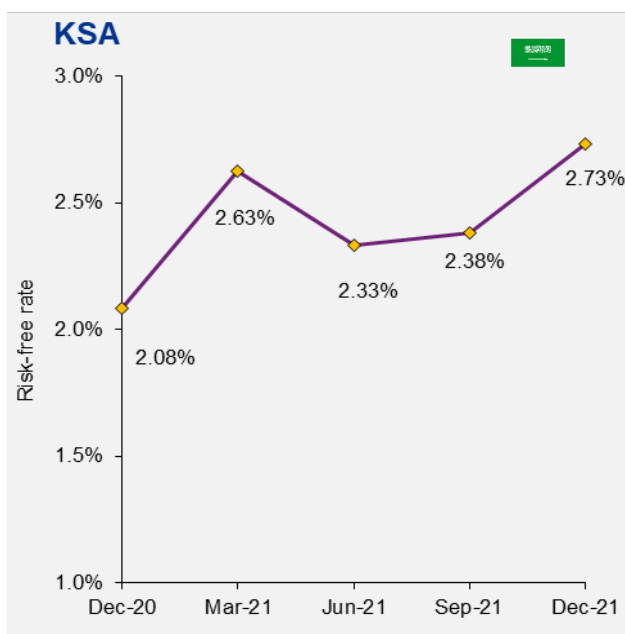
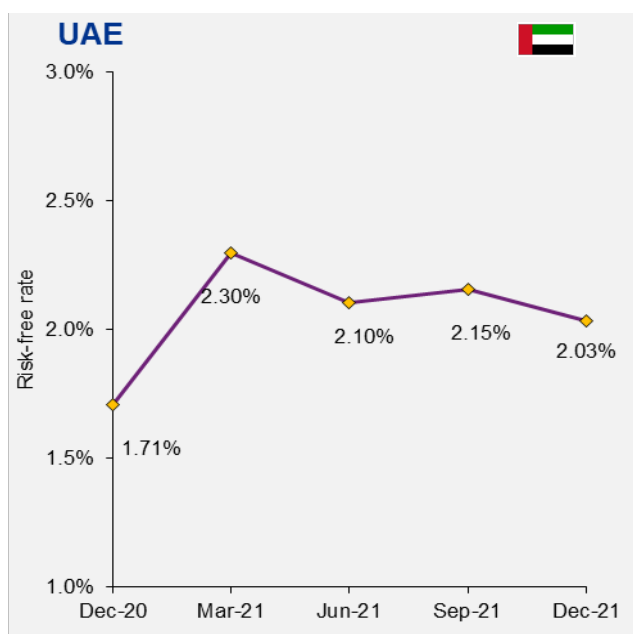
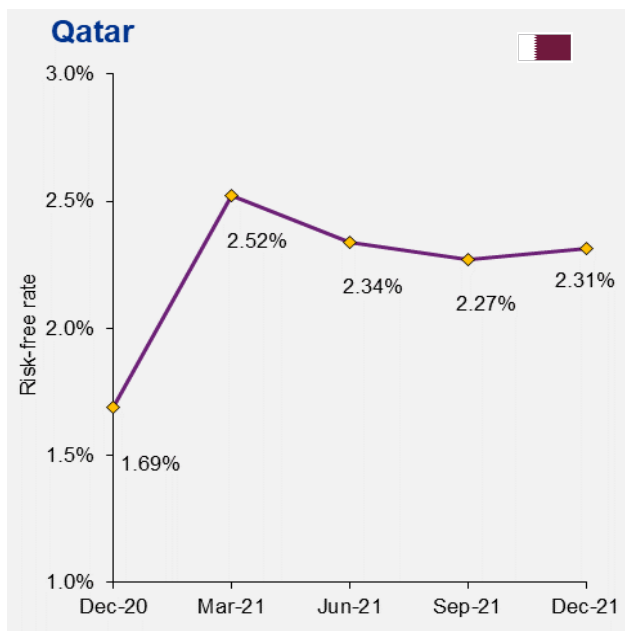
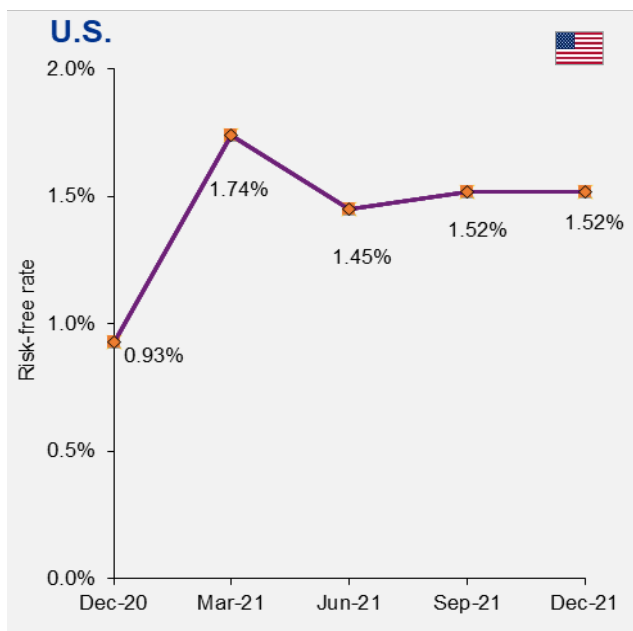
The **earning growth** for Q3 2021 and **strong consumer spending** in holiday season has helped the **S&P 500 index gain 10.6%** in **Q4 2021**. Similarly, the **Euro Stoxx 50 increased** in December 2021 **by 6.2%**. The MSCI EM failed to perform in 2021 mainly because of the poor performance of China equities. Other markets like Turkey, Brazil and South Korea also remained dull this year which dragged the emerging market index down. However, for GCC countries **recovery in global oil demand, increase in international oil prices** and **modest inflation forecast** kept the market momentum positive in general.



Risk-free rates

The Risk-free rate can generally be categorized into **two components** that compensate investors, the **first** for **expected inflation** and the **second** for **deferred consumption**. **Though no investment is truly risk free, in practice**, yield on long-term debt instruments issued by **presumably financially healthy governments** are considered to be risk free.

Risk-free rate of the **U.S.** has been **unchanged** from Sep 21 to Dec 21. GCC countries echoed similar sentiment as well except Saudi Arabia where risk free rate increased from 2.38% in Sep-21 to 2.73% in Dec-21.



Note: We have used the yield of nearest 10 years USD denominated government bond available. Further, to determine the risk-free rate specific to the GCC countries in their local currency a long term inflation differential adjustment over long term US inflation rate will have to be added.

Source: Capital IQ, U.S. Treasury

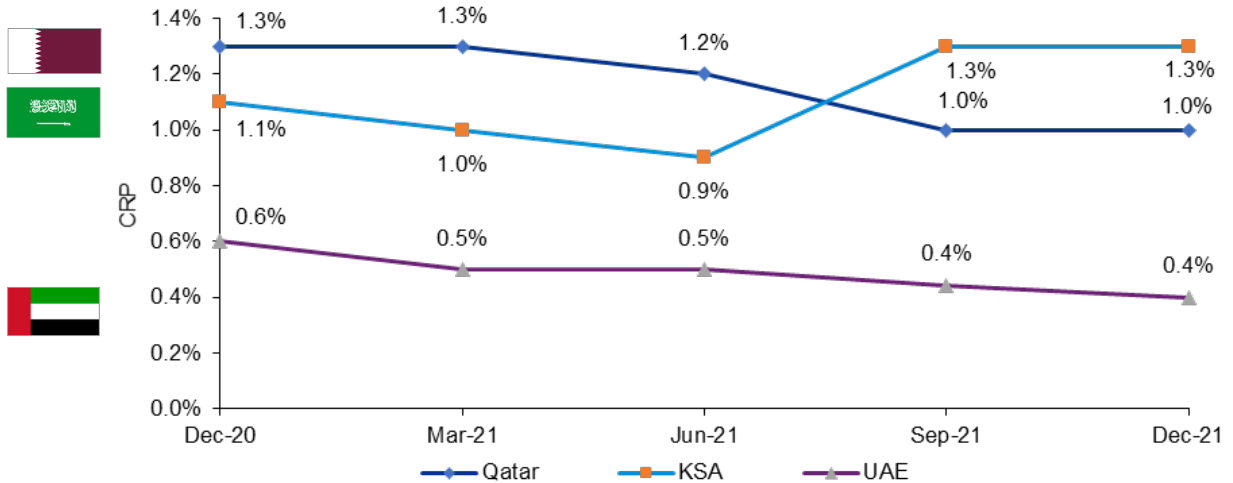


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Country risk premium (CRP)

CRP is the **additional return demanded by investors to compensate them for the higher risk associated with investing in a foreign country**, compared with investing in the domestic market.

Major GCC countries CRP from **December 20 to December 21** are indicated in the below chart ¹.

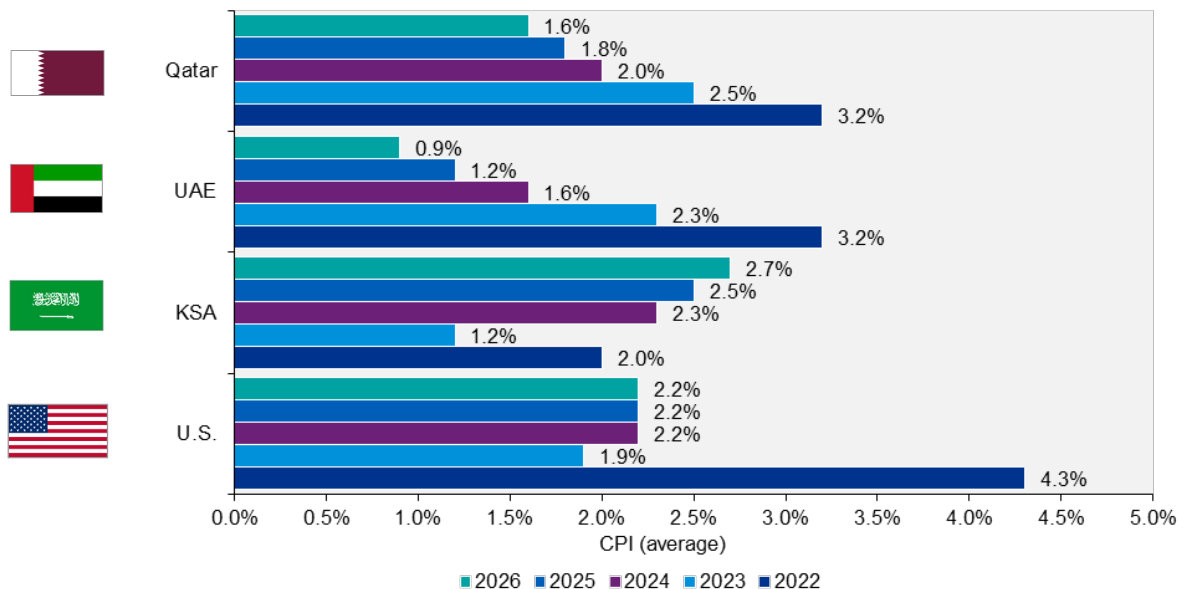


¹ CRP for Saudi Arabia increased in September 2021 due to re-evaluation of bond pairing, The Saudi Arabia USD bond [XS1508675417, maturity date - Oct 2026] was replaced by a new Saudi Arabia USD bond [US80413TAH23, maturity date – April 2030]

Source: KPMG CRP study

Inflation forecast

Inflation forecast for a country **can be used as long-term growth rate of the country for terminal value calculation**. We have considered **consumer price index ('CPI')** that examines the **weighted average of prices** of a basket of consumer goods and services.

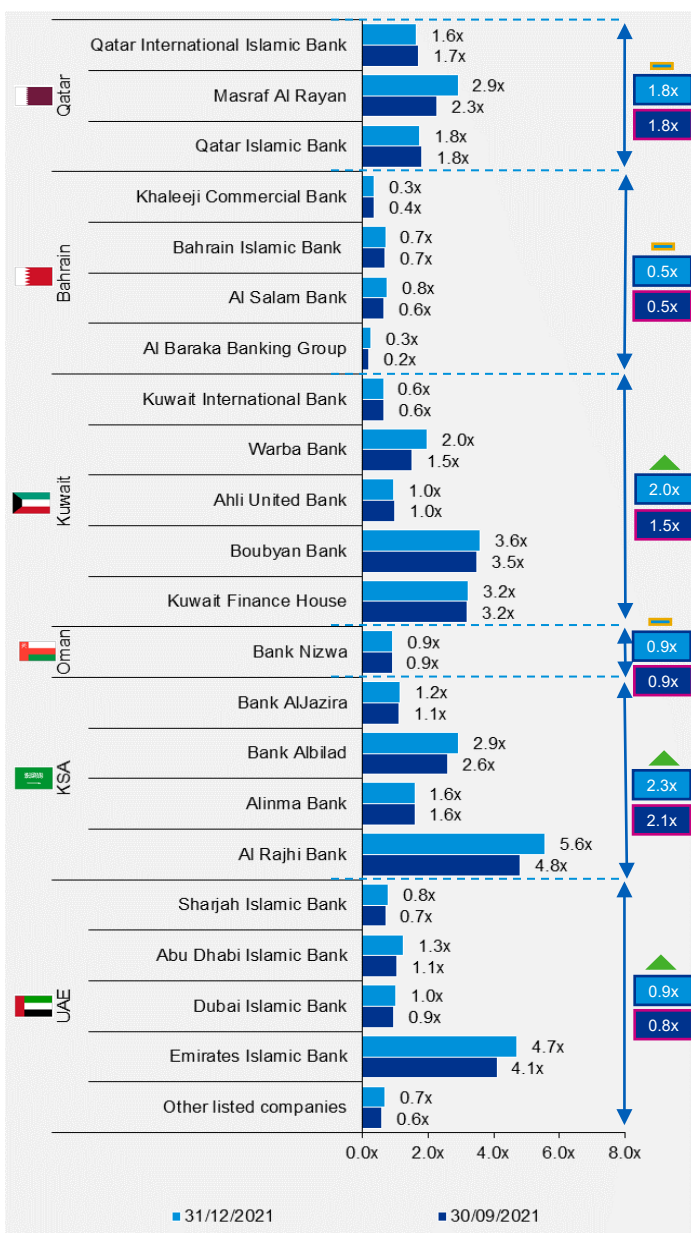


Source: EIU, latest available forecasts



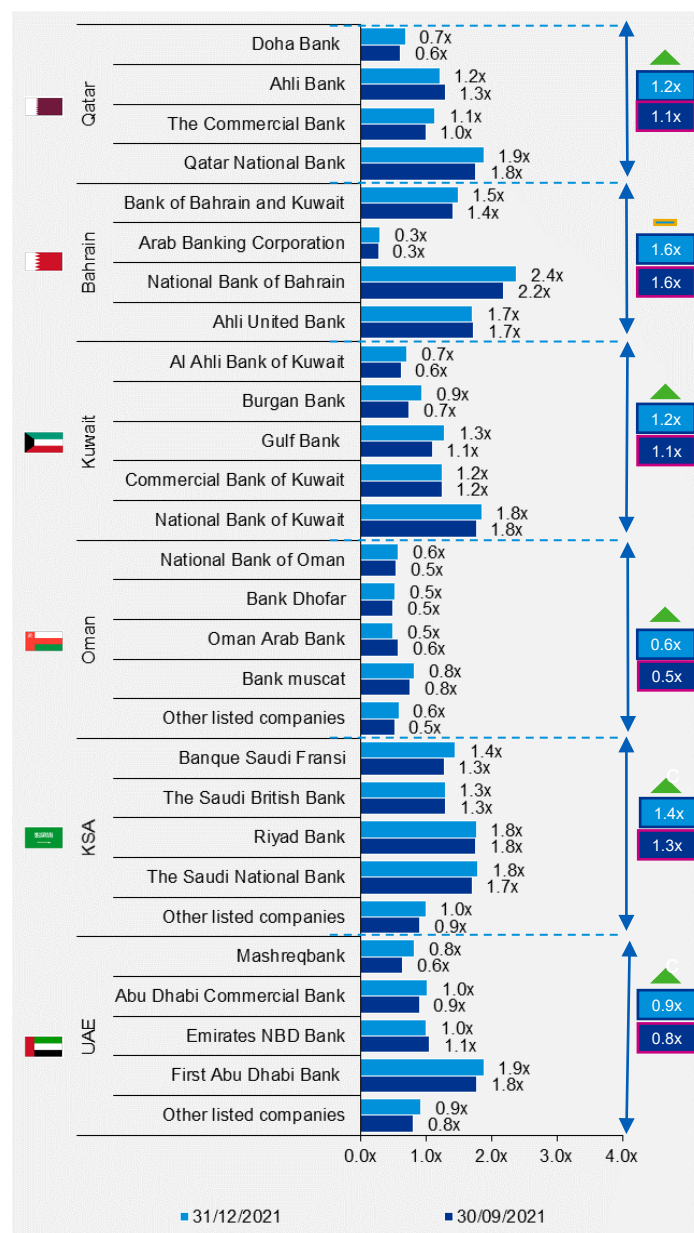
GCC Islamic Banks

Median Price-to-book multiple remain unchanged, 1.0x from Sep 2021 to Dec 2021



GCC Conventional Banks

Median Price-to-book multiple remain unchanged, 0.9x from Sep 2021 to Dec 2021

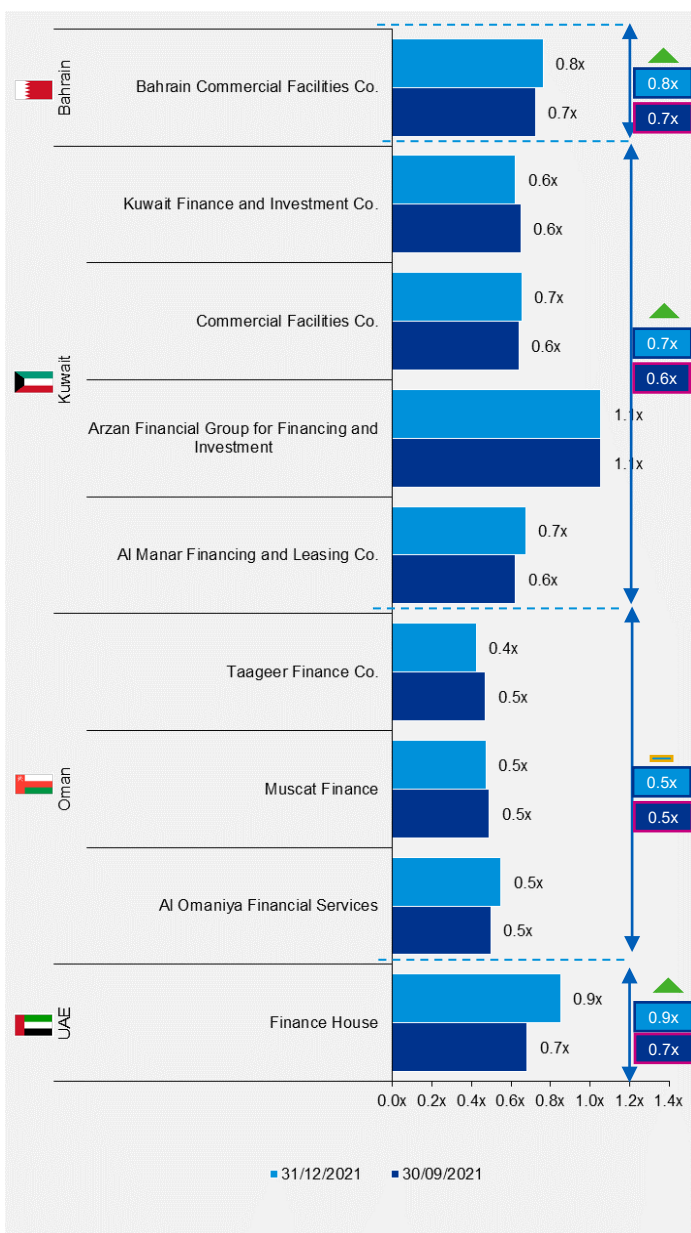


Price refers to market capitalization plus preferred equity as on 31 Dec 2021 and 30 Sep 2021. Book value refers to equity to parent company. Certain companies would have been excluded from the above chart as these would have reflected outlier multiples as of the date of preparation of the newsletter.

- Median P/BV multiple as of 31 December 2021
- Median P/BV multiple as of 30 September 2021
- ▲ Increase in multiple, ▼ Decrease in multiple, ▬ No change in multiple

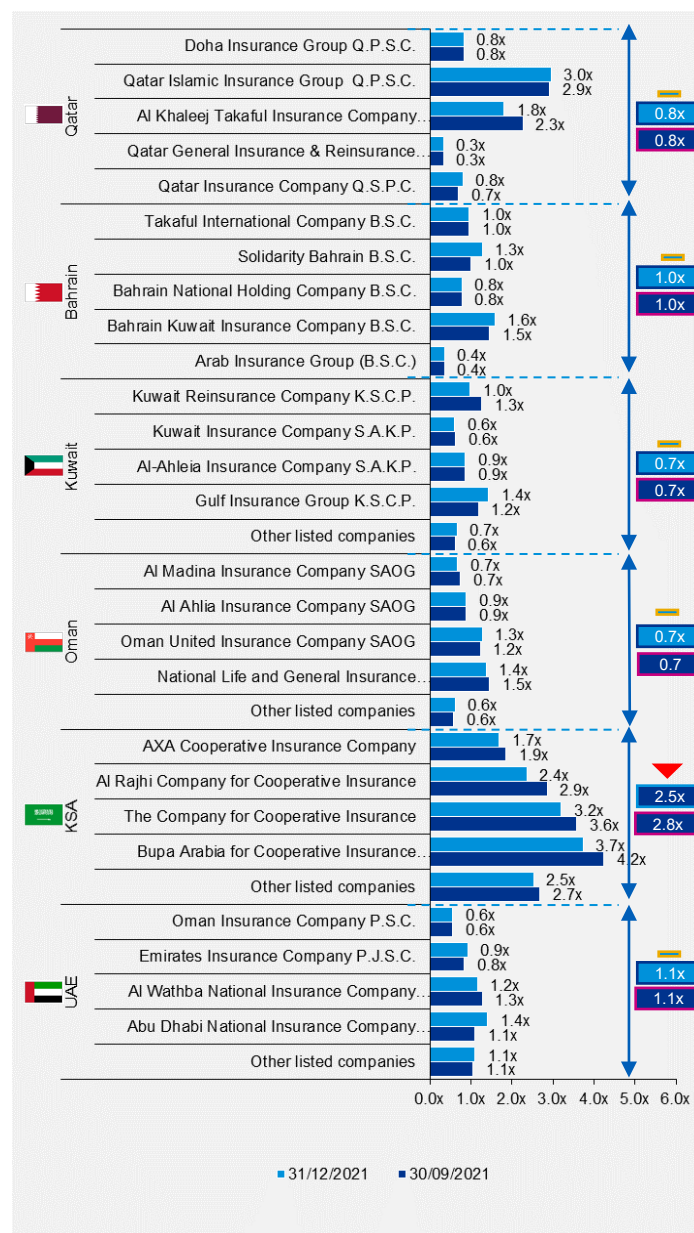
GCC Consumer finance

Median Price-to-book multiple increased from 0.6x to 0.7x from Sep 2021 to Dec 2021



GCC Insurance

Median price-to-book multiple remain unchanged, 1.3x from Sep 2021 to Dec 2021

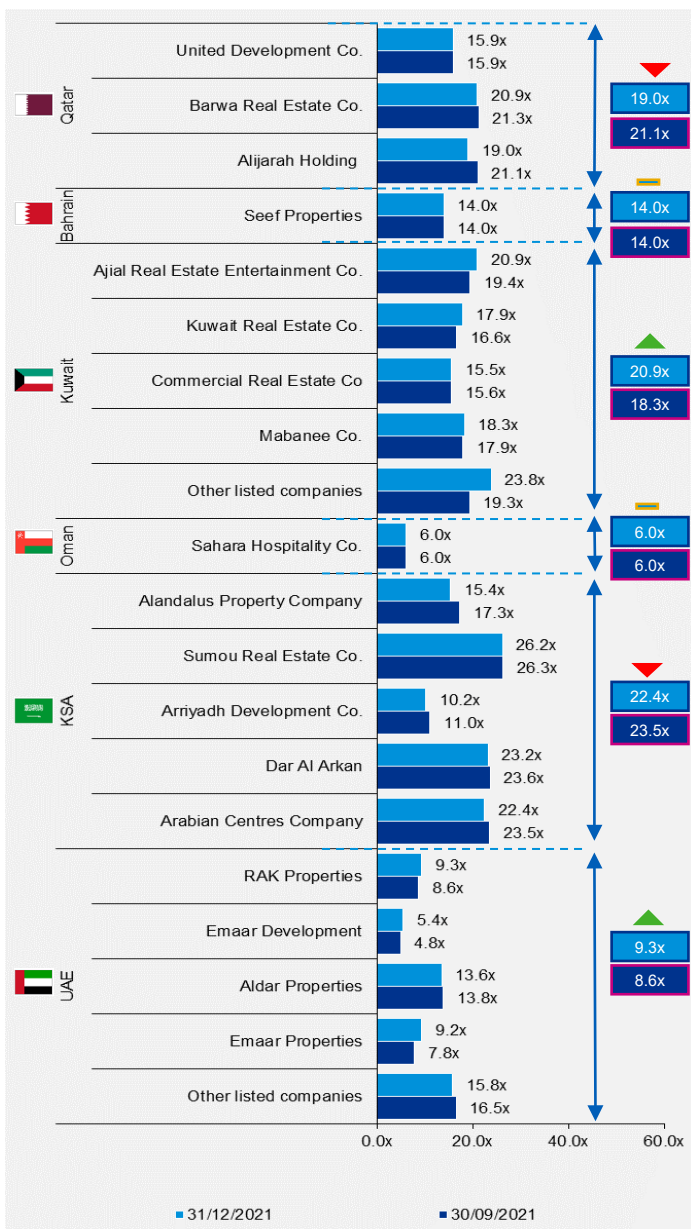


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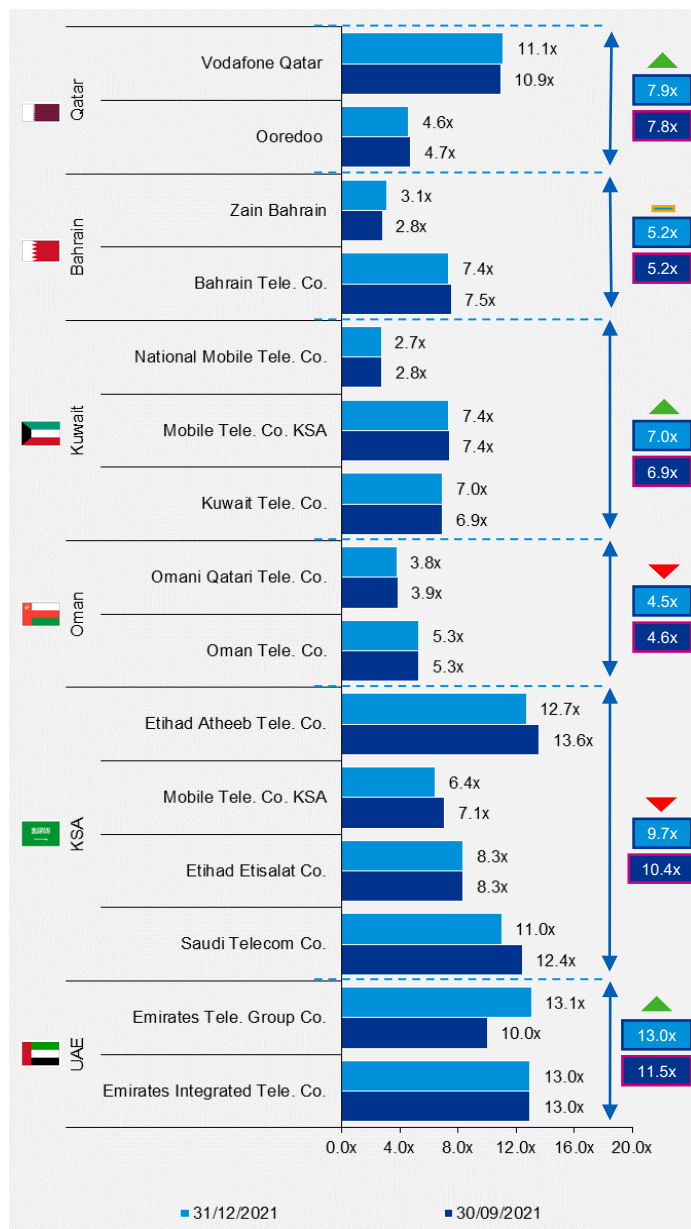
GCC Real estate

Median EV/EBITDA multiple decreased from 17.0x to 16.9x from Sep 2021 to Dec 2021



GCC Telecom

Median EV/EBITDA multiple remain unchanged, 7.4x from Sep 2021 to Dec 2021



*"Tele." refers to telecommunication. * EV refers to enterprise value and EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortization. Certain companies would have been excluded from the above chart as these would have reflected outlier multiples as of the date of preparation of the newsletter.

*Real estate includes Real estate management and development companies. Telecom includes Diversified telecommunication services and Wireless telecommunication services

Light blue bar: Median EV/EBITDA multiple as of 31 December 2021

Dark blue bar: Median EV/EBITDA multiple as of 30 September 2021

▲ Increase in multiple, ▼ Decrease in multiple, ▬ No change in multiple



Contact us

We hope that you find the newsletter of interest and value. In case you wish to seek any further information or desire to evaluate the value of your business, please do not hesitate to contact the authors mentioned below.



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