Hyundai shipbuilding stocks plunge on dismal forecast

Shipbuilder to issue new stocks to shore up finances

SEOUL: Shares in Hyundai Heavy Industries plunged by more than a quarter yesterday after the world's largest shipbuilder by sales announced a plan to issue new stocks in a bid to shore up its ailing finances.

The South Korean firm has struggled amid an industry-wide slump in recent years, as global demand slowed and competition from China intensified while overcapacity slashed prices.

Hyundai announced on Tuesday the plan to raise 1.3 trillion won ($1.2 billion) by issuing new shares-a move that would dilute share values-and to list Hyundai Oilbank, its refining unit, on a local stock market next year. It also released on Tuesday a grim earnings forecast for this year, in which its sales would be more than halved to 15.3 trillion won from 39.3 trillion won in 2016, before falling further to 13.6 trillion won in 2018.

The forecast also flagged operating profit of 46.9 billion won for 2017 — a significant decrease from 1.6 trillion won a year ago-sparking concerns over its overall finances.

The news sent Hyundai shares plummeting 29 percent, close to the daily limit of 30 percent, to finish at 96,900 won in Seoul, while the share price of its subsidiary Hyundai Mipo Dockyard also fell by 16 percent. Hyundai Heavy Industries said the capital raised by the share increase and the initial public offering of the refinery unit would be used to cover operating costs as well as for research and development.

'Big Three' under pressure

South Korea's so-called "Big Three" shipbuilders including Hyundai, Daewoo and Samsung Heavy Industries were once hailed as a major driver of the country's export-reliant economy-the world's 11th largest. But they have been forced to shed tens of thousands of jobs and sell assets in recent years as a slump in oil prices and global economic slowdown sapped demand for tankers and container ships.

Overcapacity, regional rivalry and the emergence of cheaper Chinese shipbuilders have also squeezed profit margins. Daewoo Shipbuilding & Marine narrowly avoided collapse this year by a $2.6-billion lifeline from state-run lenders. Samsung Heavy also announced earlier this month a plan to raise about $1.4 billion in a sale of new shares after flagging bigger-than-expected operating losses for this year and the next. Tuesday's annual earnings forecast by Hyundai suggests the firm racked up operating loss of at least 361 billion won in the fourth quarter, said Hwang Eo-Yeon, shipbuilding analyst at Seoul-based Shinhan Investment.

"The grim announcement by Hyundai, on top of the bad news from Samsung, will worsen investor sentiment over the industry for a while," Hwang said, slashing the outlook on Hyundai from "buy" to "neutral".

Yoo Seung-Woo, analyst at SK Securities, said the rising price of global steel sheets-a key component to build ships-further dealt a blow to the industry suffering from falling orders, describing shipbuilders' losses as "inevitable".

Samsung earlier this month also blamed the recent price hike of steel sheets as a reason for falling profit margin."Hyundai's latest announcement confirmed growing concerns that have been brewing among investors," Yoo said, adding it would be "unavoidable" for Hyundai to post operating losses throughout next year. —AFP

ULSAN, South Korea: This file photo shows a view of the Hyundai Heavy Industries shipyard in Ulsan. —AFP

CBK partners with AccorHotels to give outstanding offer

KUWAIT: In collaboration with the AccorHotels Series, The Commercial Bank of Kuwait (CBK) announced an outstanding offer for its clients, namely CBK MasterCard holders, who would get three nights for the price of two only.

Notably, AccorHotels is one the largest hotel series in the world including over one hundred hotels in the Middle East and Egypt such as Ibis Fairmont, Raffles, Novotel, Swissotel, Pullman and Sofitel.

The offer will be valid in all AccorHotels in the Middle East including those in Egypt, Kenya and Seychelles. Interested CBK clients will use their CBK MasterCards to book three nights for the price of two in any of the hotels. The offer will be valid up till March 31, 2018 and the last day for booking will be March 27, 2018.

Gulf Bank announces winners of Al-Danah daily draws

KUWAIT: Gulf Bank held its Al-Danah daily draws on 17 December 2017 announcing the names of its winners for the week of 17 December - 21 December 2017. The Al-Danah daily draws include draws every working day for two prizes of KD 1,000 per winner.

The winners are:

(Sunday 17/12): Ghadire Mutlaq Dughaim Al-Khalidi, Wedad Abdulrahman Alhashem

(Monday 18 /12): Mohammad Abdulaziz Mehalhel Al-Yassen, Ali Adel Mohammad Al Matrook

(Tuesday 19/12): Yasmeen Mohammad Hussain Almousa, Sulaiman Fahed Alshafi Almahboob

(Wednesday 20/12): Khaled Saleem Sultan Al-Salem, Kazem Abdalla Malalla Hasan

(Thursday 21/12): Jawad Ali Almousa Almuhammad Ali, Mahmoud Youssef Alebraheim

Gulf Bank's Al-Danah 2017 draw lineup includes daily draws (2 winners per working day and each receive KD1,000). Al-Danah's final draw for KD 1 millionn will be held on 11 January 2018 whereby the Al-Danah millionaire will be announced. Gulf Bank encourages you to increase your chances by depositing more into your Al-Danah account, immediately from any local bank, using the new ePay (Self-Pay) service, which is available on Gulf Bank's Online and Mobile Banking.

Five reasons why the Al-Danah account is the best:

1) Kuwait's single biggest yearly cash prize of KD 1 million and the largest international bank prize according to Guinness World Records

2) Kuwait's biggest quarterly cash prizes, up to KD500,000

3) Two winners of KD1,000 every working day

4) The most chances to win

5) Only Bank that transfers your chances to win from the previous year to the current year.

NBK Economic Report

Non-oil growth propels UAE's GDP growth

KUWAIT: The UAE economy continues to perform better than many of its Gulf peers, with relatively high levels of diversification benefitting its capacity to cope with lower oil prices, alongside continued political stability. We see GDP growth picking up from 2.2 percent in 2017 to around 2.6 percent and 3.4 percent in 2018 and 2019, respectively, well above the regional average.

Growth in the oil sector will remain capped in 2018 by the extension in OPEC production cuts and possibly stricter compliance with the agreement. The UAE has so far lagged its GCC peers in terms of compliance and has vowed to continue to cut oil output to meet its commitment. Crude output stood at 2.92 million b/d in October, a compliance level of 67 percent against a target of 2.87 million b/d under the agreement.

Oil sector activity is projected to gradually rise from 2019 onwards. Despite the output cuts, the UAE continues to invest in expanding its oil production capacity in anticipation of higher demand. ADNOC, the state-owned oil firm, recently extended concessions at the Upper Zakum offshore field, its biggest oil field, to expand its output capacity by around 350,000 b/d to 1 million b/d by the year 2024. This is projected to increase the UAE's overall production capacity from around 3.2 million b/d currently to 3.5 million b/d. Furthermore, in a bid to diversify further from pure crude production, ADNOC has pledged to invest around $110 billion over the next five years in international downstream projects and to develop Abu Dhabi's unconventional gas infrastructure. It aims to start producing unconventional gas by 2030. ADNOC has also recently sold 10 percent of its fuel-retailing unit to help finance its expansion projects, raising around $0.9 billion.

In neighboring Dubai, the Emirates National Oil Company (ENOC) is also eyeing a $1.1 billion expansion of its refinery in Jebel Ali. The expansion is scheduled to be ready by the fourth quarter of 2019 and increase production from 140,000 b/d to 210,000 b/d.

Meanwhile, non-oil activity is on track to perform reasonably well in 2018 and 2019, thanks to further gains in the tourism and construction sectors, especially with the Expo 2020 event in Dubai drawing nearer. The latter should help offset the continued weakness in the real estate sector, where prices remain under pressure. We expect non-oil growth to rise from 3.3 percent in 2017 to 3.7 percent next year and 4.0 percent in 2019.

There are still a number of downside risks. A further dip in oil prices could lead to the government pursuing more aggressive fiscal consolidation. Furthermore, interest rates are likely to rise, potentially squeezing liquidity and dampening growth in investment spending. An escalation of the Qatar crisis may also affect growth. Qatar is not a major contributor to the UAE's trade and tourism sectors, but tensions could affect investor sentiment.

Growth in Dubai

Real GDP in Abu Dhabi fell 0.9 percent y/y in 2Q17, mainly on the back of a 1.9 percent y/y drop in oil output. Non-oil GDP was flat during the same period, weighed down by fiscal consolidation efforts. However, with consolidation set to ease and infrastructure projects gathering steam in 2H17, non-oil growth is expected to gradually improve into 2018. GDP growth in Dubai has so far fared better, at 3.2 percent y/y in 1Q17.

Dubai's important hospitality and construction sectors are performing well. The number of passengers passing through Dubai International Airport came in at a record high of 23 million in 3Q17. Construction activity continues to be supported by preparations for the Expo 2020 event. Over $8 billion has been allocated to Expo-related projects, including for buildings, metro expansions, roads and bridges and Dubai has reportedly already invested up to half of that total amount so far. As of November 2017, the total level of awarded projects in Dubai was up 17 percent y/y at $302 billion. Over 2018 and 2019 an additional $107 billion worth of projects are expected to be awarded.

Table 1: Key economic indicators

		2016	2017f	2018f	2019f
Nominal GDP	USD bn	349	383	407	435
Real GDP	% y/y	3.0	2.2	2.6	3.4
- Oil	% y/y	3.8	-0.3	0.2	1.2
- Non-oil	% y/y	2.7	3.3	3.7	4.0
Inflation	% y/y	1.6	2.5	4.0	3.0
Budget balance	% of GDP	-4.3	-3.4	-2.0	-1.8

Source: Official sources, NBK estimates

Dubai's property prices

Following almost two years of falling prices amid tighter regulations, rising housing supply and risk aversion, residential property prices in Dubai appear to have largely stabilized in 2017. According to Asteco, the prices of both apartments and villas were unchanged in Q3, though still down by 4 percent y/y and 3 percent y/y, respectively. However, downward pressures on prices are projected to persist in the near-to-medium term due to higher housing supply and further shifts in demand toward the more affordable housing sector. The value of real estate transactions has continued to trend lower in 2017.

Inflation to trend upwards in 2018

After trending downwards for most of 2017, consumer price inflation is forecast to rise in 2018. Latest figures showed inflation edging up from 0.8 percent y/y in August to 1.1 percent y/y in September as inflation in the food and housing components both gained some traction. We see inflation climbing from 2.5 percent in 2017 to 4.0 percent in 2018 on the back of new taxes including the 5 percent VAT. The VAT, which is due to be levied from 1Q18, is expected to add some 2 percent to inflation for one year. Given the relatively decent growth outlook, we see inflation moderating only to around 3.0 percent in 2019, as the initial impact of the VAT wears off.

Fiscal balance

The fiscal balance will gradually improve, but stay in modest deficit at around 2 percent of GDP in 2018 and 2019. Oil revenues remain relatively weak and the pace of fiscal consolidation is easing, as Dubai's government gradually increases spending on construction projects in the run-up to Expo 2020. Nonetheless, fiscal adjustment and reform is proceeding, with the establishment of the Federal Tax Authority, subsidy cuts and the introduction of various fees and taxes. Efforts have also been made to rely more heavily on the private sector for implementation of some projects. October saw the introduction of an excise tax levied on tobacco, energy drinks (both 100 percent) and fizzy drinks (50 percent). It is expected to raise around $2 billion (0.5 percent of GDP) in annual fiscal revenue and follows a similar move in Saudi Arabia in June. Furthermore, the UAE will be one of the first GCC nations to implement VAT. At 5 percent, the tax is expected to generate $5 billion in revenues, or 1 percent of GDP.

To avoid relying solely on foreign reserves to finance the country's public deficit, Abu Dhabi issued $5 billion in sovereign bonds in April 2016, its first issuance since 2009. But there has been no new sovereign debt issued since. The UAE is in the process of finalizing a federal debt law, which will allow the federal government to issue bonds as well. Supported by the relatively stable economic and political environment, yields on Dubai and Abu Dhabi five-year government debt have remained fairly low and steady over the past year, tracking US Treasuries. As of end-November, yields on Abu-Dhabi's bonds were little changed year-to-date at 2.54 percent, while yields on Dubai's debt were down 28 bps at 3.05 percent. (Chart 8.) Alongside Kuwait, the Abu Dhabi government enjoys the strongest long-term credit ratings in the GCC.

CA surplus

The current account surplus is projected to marginally expand in 2018 and 2019, on the back of more stable oil export receipts and as non-oil export growth gathers pace, thanks to a gradual improvement in external demand. We expect the current account surplus to rise from an estimated 3.4 percent of GDP in 2017 to 3.9 percent by 2019..

Loan growth remains weak

Loan growth has fallen to multi-year lows against a backdrop of moderate economic growth, interest rate hikes, higher risk aversion in the climate of lower oil prices and tighter lending rules. In October, lending growth stood at just 0.9 percent y/y, weighed down by ongoing weakness in private sector credit growth and a continued decline in lending to government-related entities. The central bank's latest credit sentiment survey (3Q) showed a continued tightening in lending standards, especially for small to medium enterprises, but also points to an improvement in credit growth in the near-to-medium term.

In contrast, deposit growth was a solid 6-7 percent y/y through 2017, as higher oil revenues have helped prop up government deposits. Consequently, broad money (M2) growth has eased slightly, but remains reasonable. Given the recent trends in credit and deposit growth, the loan-to-deposit ratio stood at 99 percent in October, versus 104.5 percent a year earlier. After injecting about $9 billion into the banking system earlier this year to ease liquidity constraints, the central bank began withdrawing liquidity from the banking system in July, following improvements in deposit growth. Some $6 billion (around 0.8 percent of gross bank assets) in excess liquidity was removed from the system between July and September.

Interbank rates continued to trend upwards in 2017, following three additional 25 bps hikes in the policy rate following hikes in the US federal fund rate. With the US policy rate scheduled to rise twice in both 2018 and in 2019 and UAE rates expected to follow suit, interbank rates are expected to climb higher still. Major UAE banks have gradually returned to modest levels of profitability in 2017. Indeed during the first nine months, net profits among major banks were up a solid 6.5 percent y/y, a major improvement compared to the 7.5 percent y/y decline witnessed a year earlier. The merger of First Gulf Bank and the National Bank of Abu Dhabi earlier in 2017 spurred talks of further mergers in the still-crowded banking industry. According to recent reports, two of the UAE's smallest banks, the Bank of Sharjah and Invest Bank, are currently in merger talks.