



Valuation Newsletter

Quarterly update – Q2 2021

Third edition

Capital market pulse

Aug 2021

Foreword

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

Global and GCC markets have continued to witness growth trends as the general outlook remains positive as governments are committed to support businesses to thrive. Though many countries have eased their travel restrictions, the delta variant of COVID 19 could dampen government efforts in this direction for the time being.

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 30 June 2021
- Risk free rate movement from 30 June 2020 to 30 June 2021 in major GCC countries and the U.S.
- CRP movement from 30 June 2020 to 30 June 2021 in major GCC countries and the U.S.
- Inflation forecasts for the 5 years ending 2025 in major GCC countries and the U.S.
- Trends in GCC sector multiples for leading listed companies from 31 March 2021 to 30 June 2021

Like previous versions, we have looked at **Banks, Telecom, Real estate, Hospitality , Healthcare sectors and additionally in this edition we have also added Insurance and Consumer finance sector thereby covering most of the BFSI 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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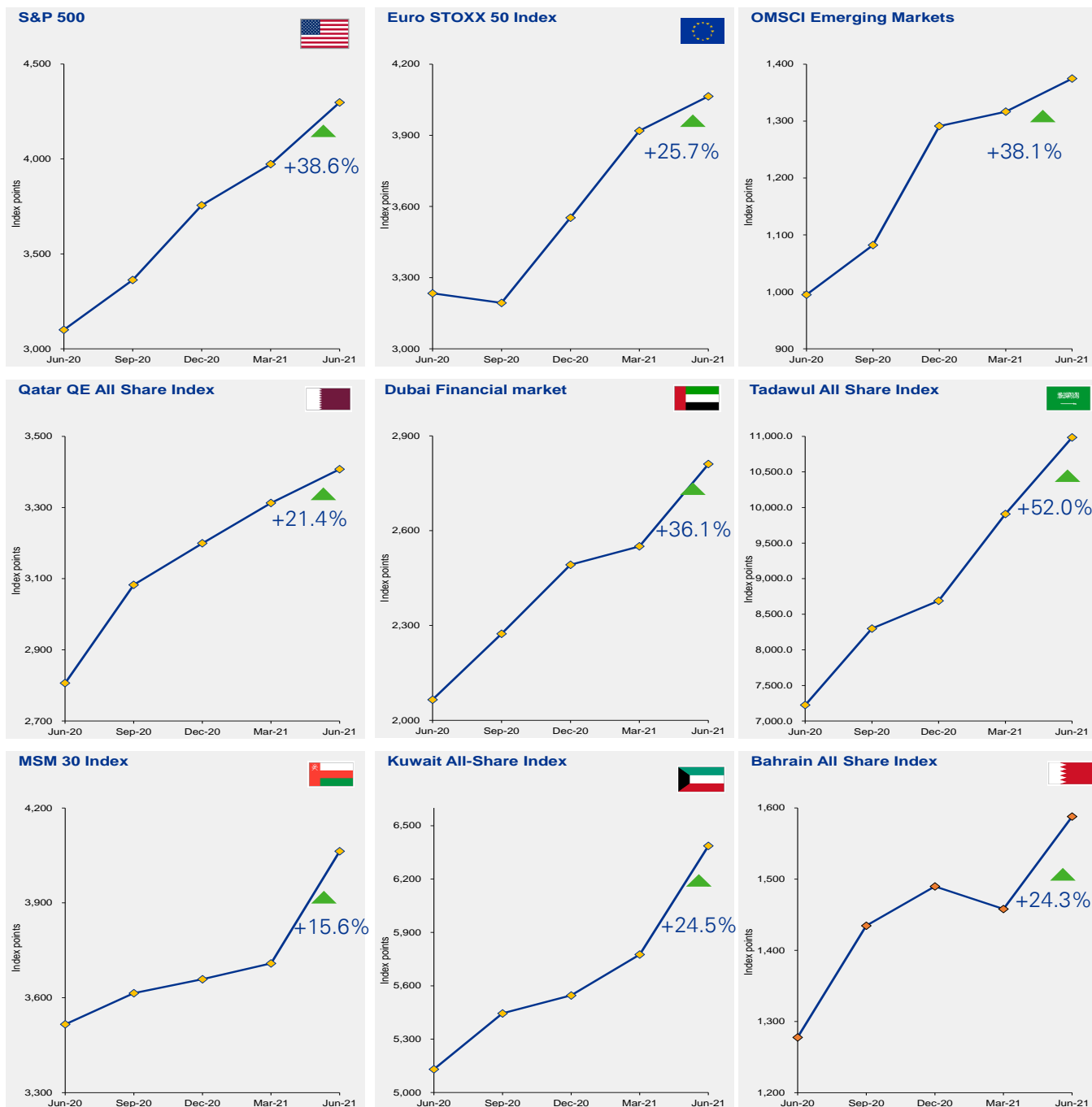
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Disclaimer: As the markets have been volatile some sector multiples would reflect extremities and hence readers are advised to use their discretion, judgment while considering these multiples for their analysis and decision-making purposes.

Financial market indicators

Major indices around the world **continue to be on the recovery path**. Widespread **increase in various government vaccine programs, efficient COVID-19 testing measures, improved containment measures** rather than **complete lockdown** are **backing the global economy**. However, outlook will depend on the impacts of emerging **delta variant of the Coronavirus** and **country's ability to deal with it**.

The Qatar Financial Markets Authority (QFMA) issued a **rulebook¹** and **allowed listing in main and secondary market without having to go for IPO**. This move is expected to have a favorable impact on the **Qatari capital market**.



Source: <https://www.qfma.org.qa/English/MediaCenter/News/Pages/news155.aspx> (1) Effective 1 April 2021

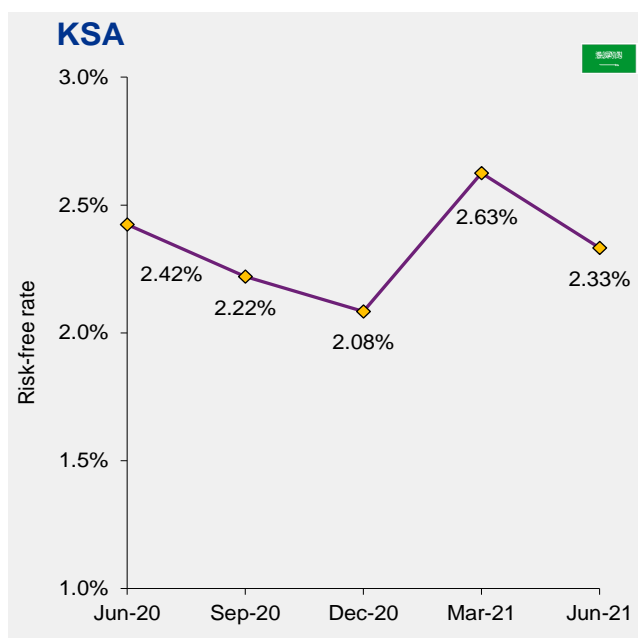
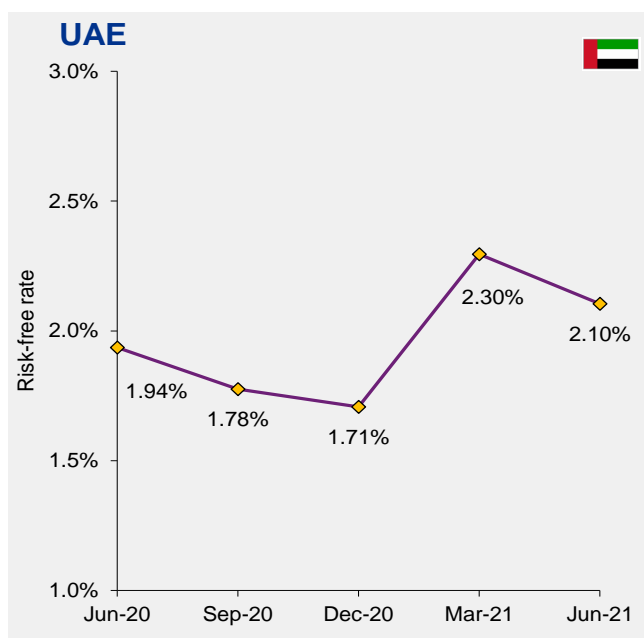
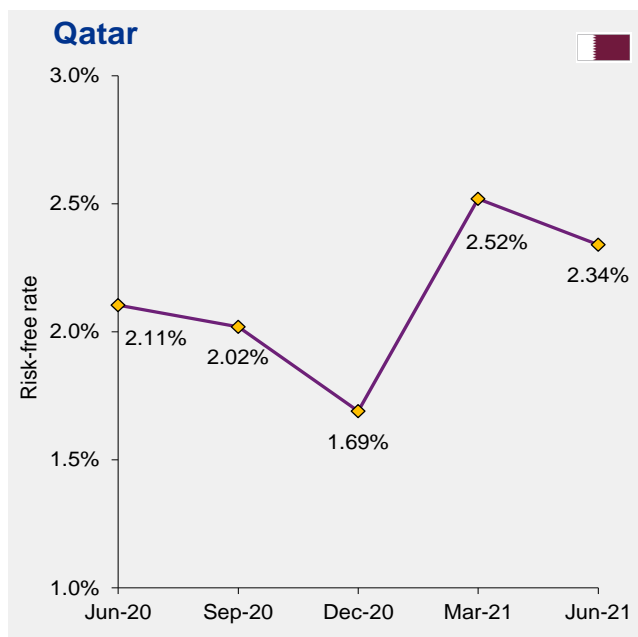
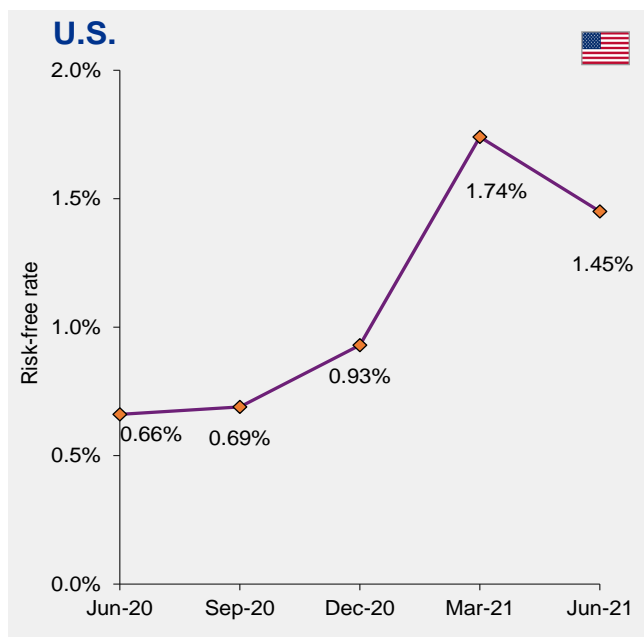


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Risk-free rates

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. decreased** from March 21 to June 21 primarily due to **slower than anticipated pace of economic recovery** and the **anxiety about the fast-moving delta variant** of the coronavirus. GCC countries echoed similar sentiments.



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

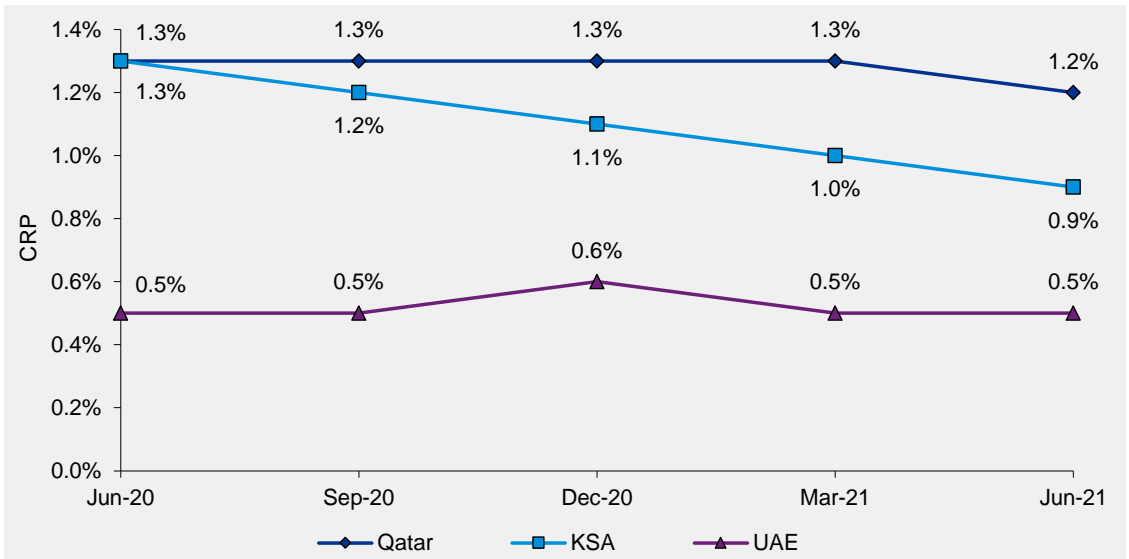


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Country risk premium (CRP)

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.

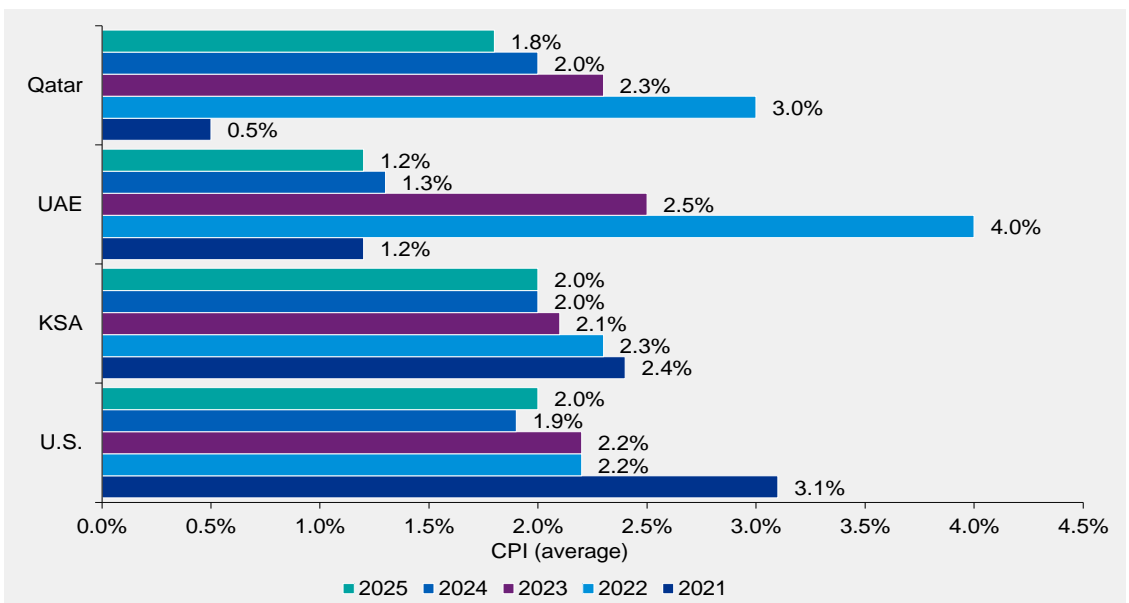
Major GCC countries CRP from **June 20 to June 21** are indicated in the below chart. **Decline in KSA CRP** has been due to the **improved KSA country rating**.



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

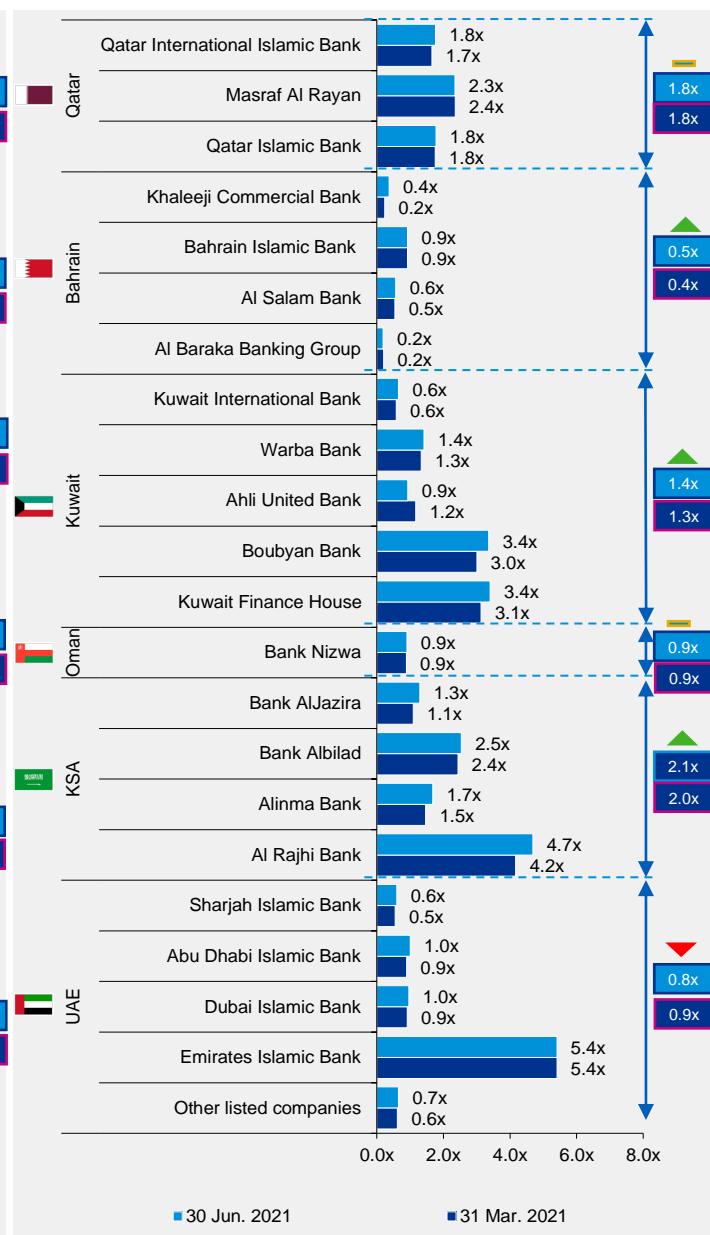
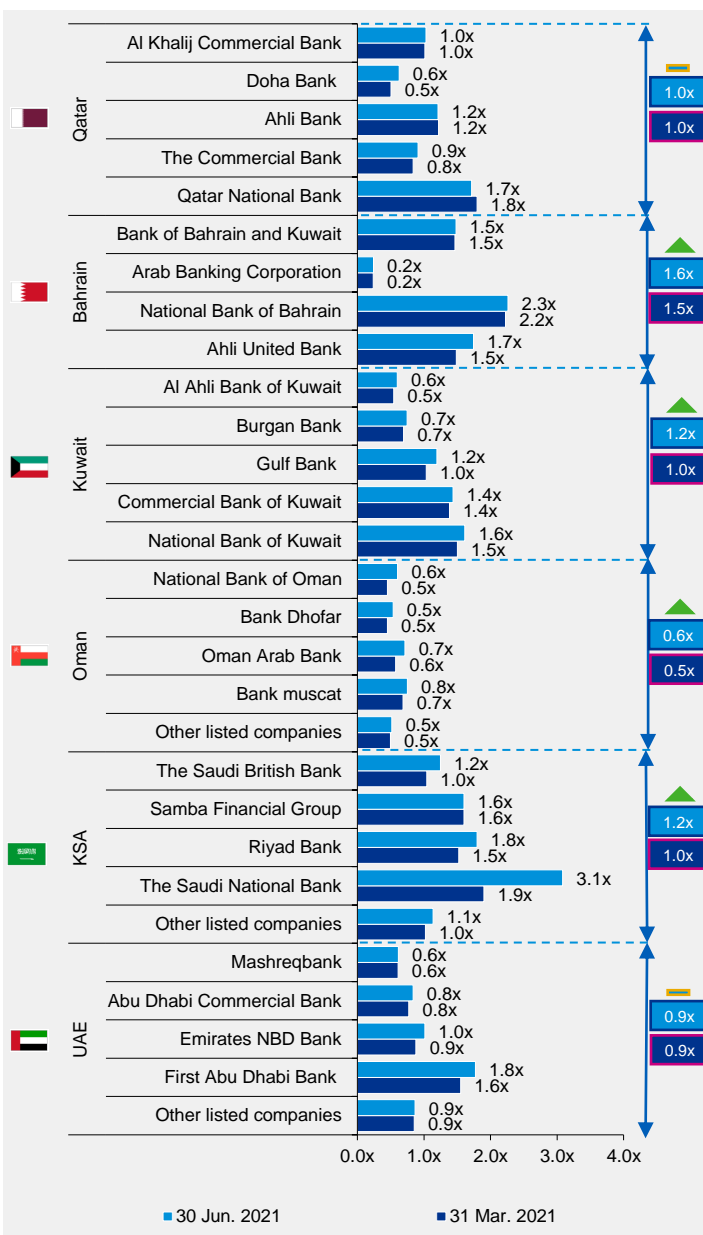


GCC Conventional Banks

Median Price-to-book multiple remain constant at 0.9x in March 2021 & June 2021

GCC Islamic Banks

Median Price-to-book multiple increased from 1.1x to 1.2x from March 2021 to June 2021



Price refers to market capitalization plus preferred equity as on 30 June 2021 and 31 March 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.

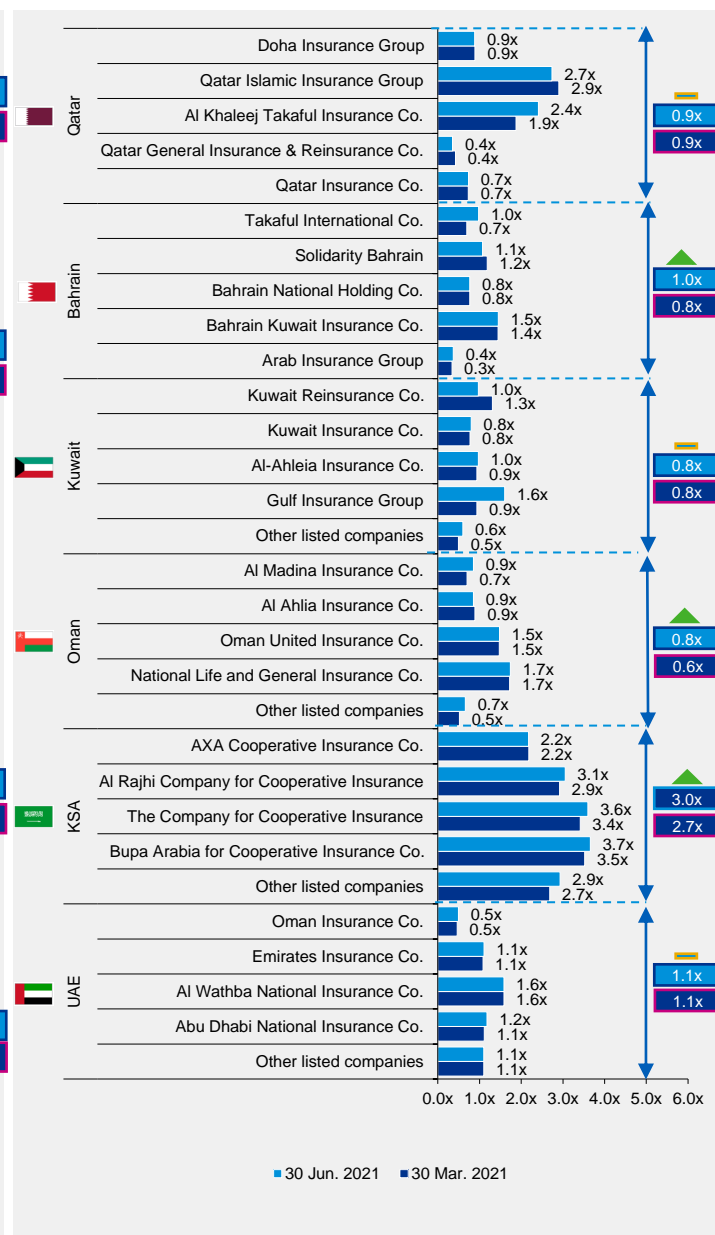
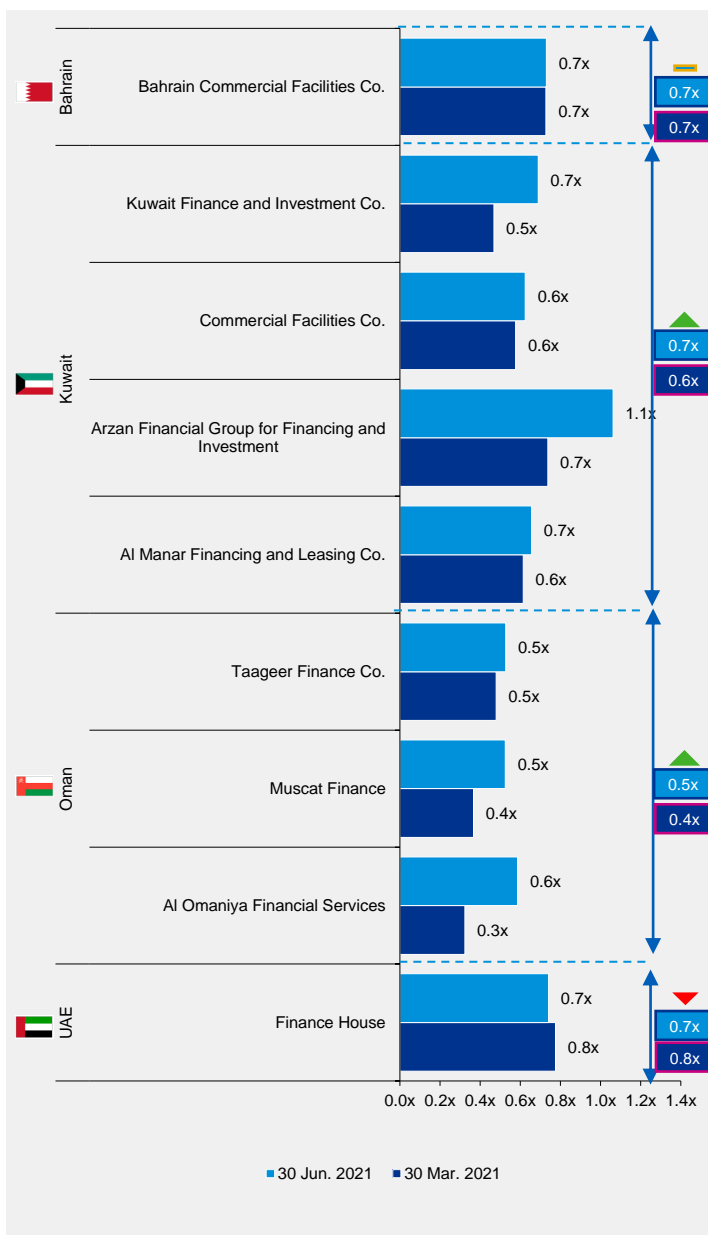
- Median P/BV multiple as of 30 June 2021
- Median P/BV multiple as of 31 March 2021
- ▲ Increase in multiple, ▼ Decrease in multiple, ▬ No change in multiple

GCC Consumer finance

GCC Insurance

Median Price-to-book multiple increased ▲ from 0.6x to 0.7x from March 2021 to June 2021

Median price-to-book multiple increased ▲ from 1.3x to 1.4x from March 2021 to June 2021

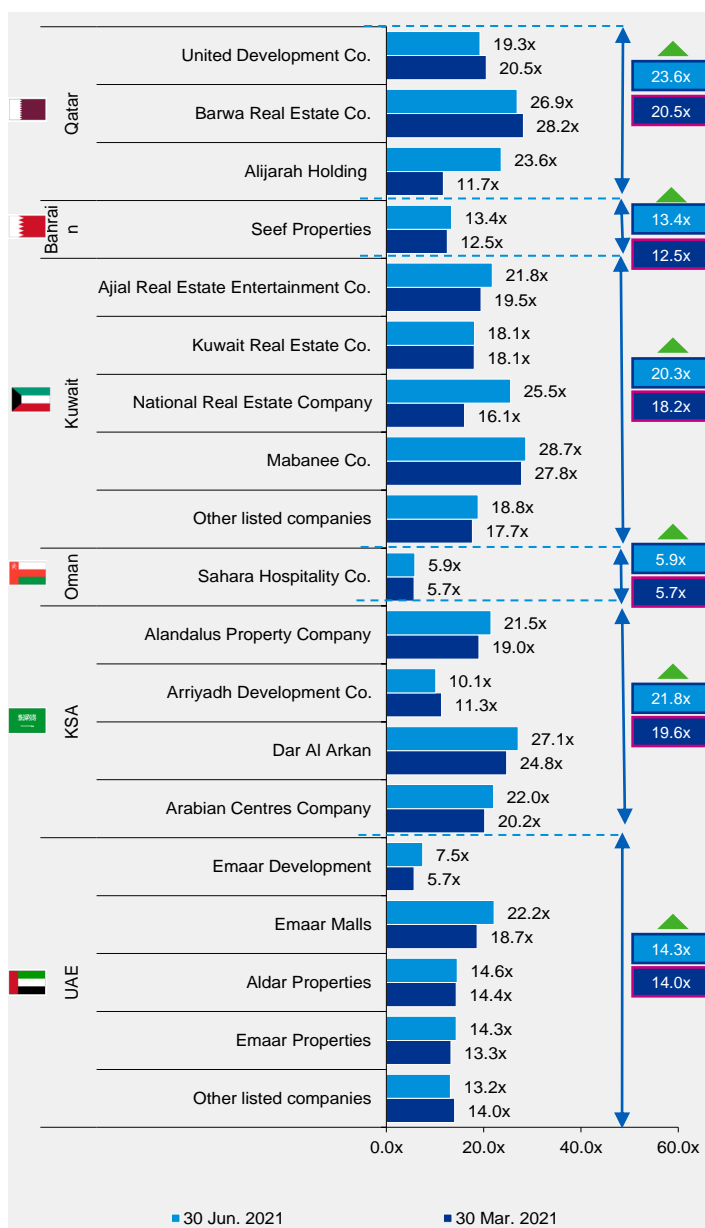


Price refers to market capitalization plus preferred equity as on 30 June 2021 and 31 March 2021. Book value refers to equity to parent company. Certain companies would have been excluded from the above chart as these would have reflected outlier multiples as of the date of preparation of the newsletter.

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

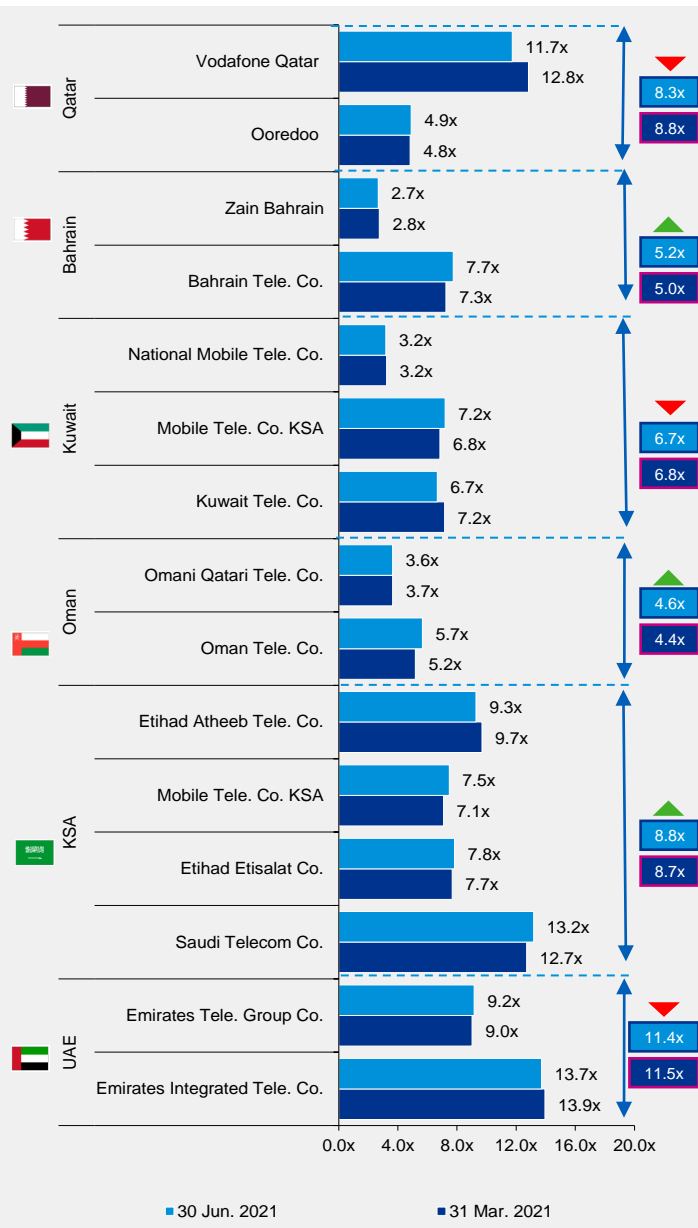
GCC Real estate

Median EV/EBITDA multiple increased ▲ from 16.6x to 18.8x from March 2021 to June 2021



GCC Telecom

Median EV/EBITDA multiple increased ▲ from 7.2x to 7.5x from March 2021 to June 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

■ Median EV/EBITDA multiple as of 30 June 2021

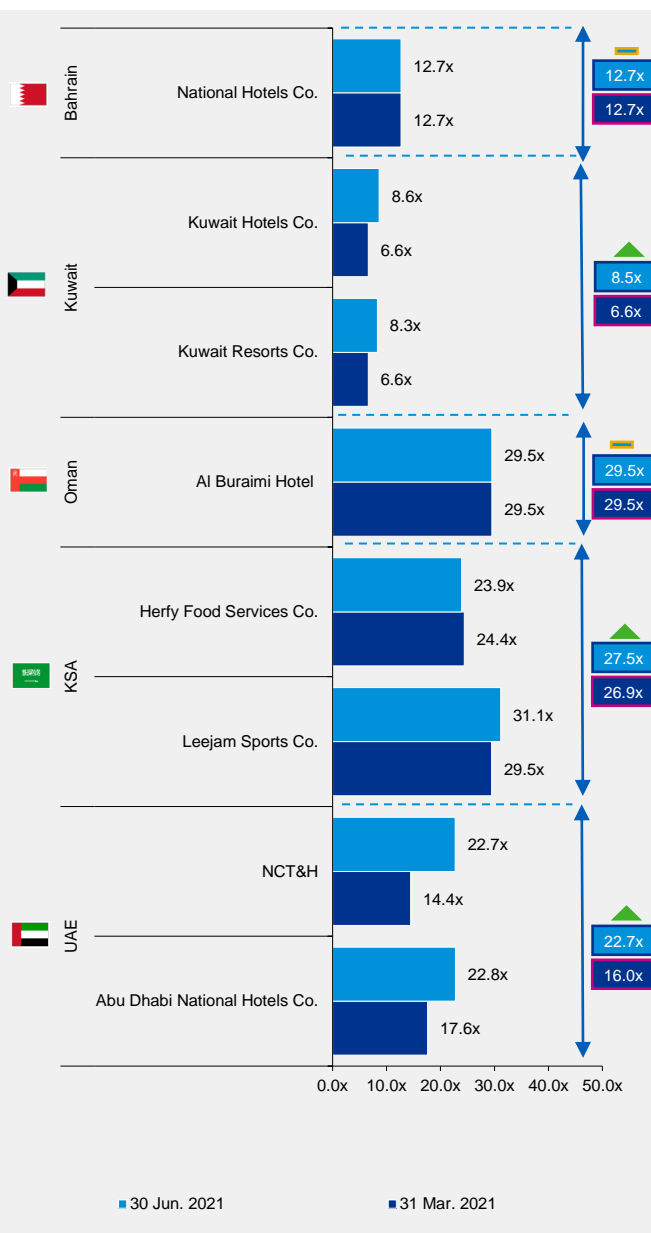
■ Median EV/EBITDA multiple as of 31 March 2021

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



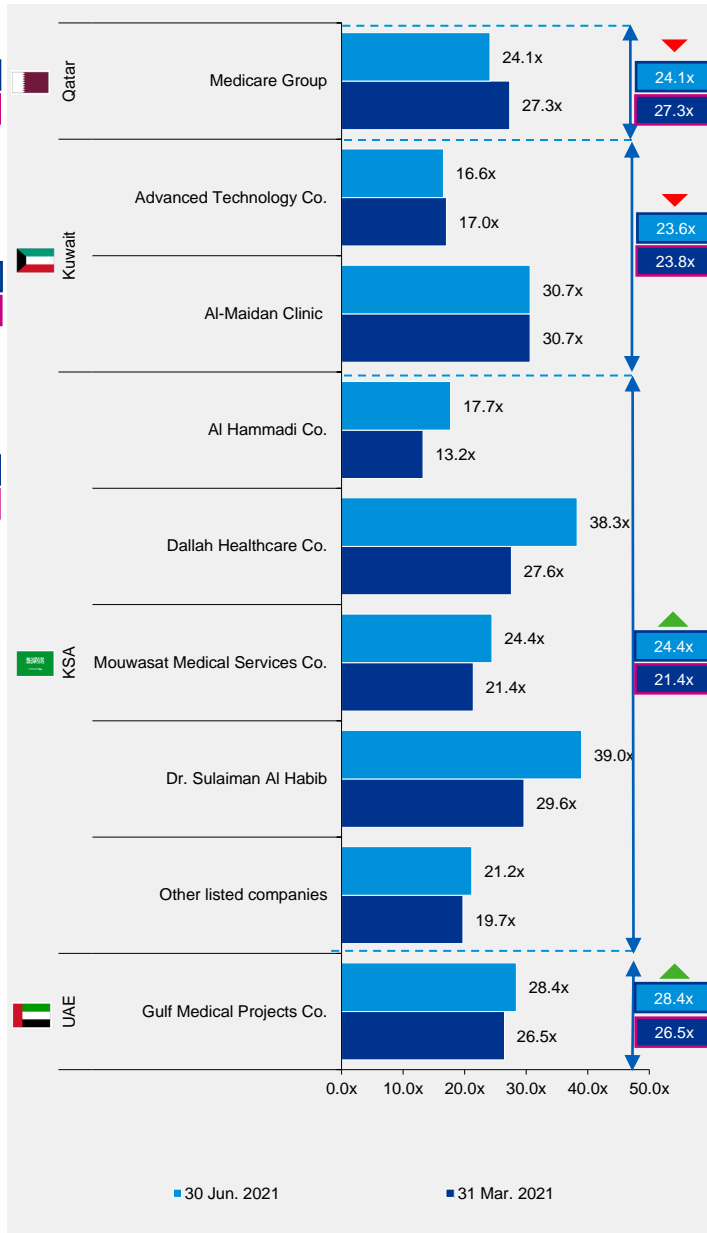
GCC Hospitality

Median EV/EBITDA multiple increased ▲ from 16.0x to 22.7x from March 2021 to June 2021



GCC Health care

Median EV/EBITDA multiple increased ▲ from 22.4 to 24.4x from March 2021 to June 2021



* 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. *Under **hotels, Restaurants and Leisure**, no listed company in Qatar. *Under **health care providers and services**, no listed company in Oman and Bahrain.

*Hospitality includes Hotels, restaurants and leisure. *Health care includes Health care providers and services

■ Median EV/EBITDA multiple as of 30 June 2021

■ Median EV/EBITDA multiple as of 31 March 2021

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



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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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