Moody's maintains negative outlook for UAE banks

CAPITALS: The outlook on the banking system of the United Arab Emirates (UAE) remains negative as a result of the country's weak operating environment and the significant challenges facing the emirate of Dubai in particular, says Moody's Investors Service in a new Banking System outlook on the UAE.

The negative outlook expresses the rating agency's expectations for the fundamental credit conditions in the UAE banking system over the next 12 to 18 months.

"UAE banks faced significant asset quality problems in 2009, but their capital levels and good core profitability have allowed them to absorb losses without significantly undermining their creditworthiness," says John Tofarides, Analyst at Moody's Middle East in Dubai and the lead author of this new report.

Although systemic support provided by the UAE's federal government has eased the banks' financial challenges, asset quality pressures stemming primarily from Dubai will continue to weigh negatively on Moody's outlook for UAE banks.

"Overall, the operating environment remains difficult, with low economic growth and investment, weak demand for loans, as well as investor confidence issues which are curtailing the banks' ability to access low cost, wholesale funding," says Tofarides.

This is why UAE banks did not engage in any material new lending in 2009, with the exception of some retail and infrastructure and government-related lending, mainly in Abu Dhabi. Indeed, the expected loan growth for 2010 is at a low of 4-7 percent (projected to be around 6-13 percent in Abu Dhabi and 0-5 percent in Dubai), compared to the Compound Annual Growth Rate (CAGR) 37 percent recorded from 2002 -2008.

Moody's new report says that asset quality among UAE banks will remain under pressure this year. Dubai World's recent restructuring is central to defining problem loans that pose significant asset quality challenges to the UAE banking system.

As of 2009, problem loans (excluding Dubai World) comprised around 4.9 percent of total loans. "As Moody's recently commented, problem loans could more than double by 2010 to around 9.5 percent to12.5 percent of gross loans, taking into account the Dubai World restructuring", says Tofarides.

In this difficult environment, Moody's says that UAE banks' profitability also remains under pressure. Although all UAE banks have been increasing their collective loan loss provisions in order to create satisfactory buffers, they will - for the foreseeable future - probably need to continue to provide against persistent asset quality pressures, thus depressing their bottom line.

On a positive note, UAE banks have high capitalization levels by international and regional standards (the Tier 1 capital ratio of 14.5 percent at 2009) and this is a relative strength when viewed in the context of the high risk for loan losses. Having stress-tested the capitalization levels of the rated banks for additional losses, the rating agency concludes that the rated banks are currently appropriately rated to absorb losses based on Moody's economic assumptions and expectations.

Moody's considers the liquidity position of UAE banks to be satisfactory, and would expect additional funding support from the federal government, if required. In 2009, UAE banks managed their liquidity by curtailing loan growth, and they are continuing this approach in 2010 by extending new lending on a very selective basis. However, competition for domestic deposits has increased, while market funding continues to remain unattractively priced for the majority of rated banks.

Overall, Moody's believes that the over-supply of properties, particularly in Dubai, is not conducive to a quick economic recovery nor to an improvement in the operating environment that would allow for an easing of pressures on the banking sector in the near term.

It will take time before considerable excess supply in the real estate market can be absorbed by growth in demand and for the virtuous circle of improved cash flows, wealth creation and rising collateral values to resume. Until issues in the real estate markets are resolved, Moody's expects that investor concerns will remain and, as a result, will continue to weigh negatively on the cost of market funding for UAE banks. -Reuters

Saudi Telecom eyes steady overseas expansion

CAPITALS: Saudi Telecom (STC) is looking to build on its international expansion with deals that will bring operational synergies and value for money.

"We are on a trail of rational expansion, but we are not looking just for financial investments but assets that make operational sense in South Asia, Middle East and North Africa," said Ghassan Hasbani, Chief Executive of STC's International division.

"This is where our current footprints exist today and where there are potential markets that would complement our current footprint," he told Reuters in an interview.

Hasbani's division manages in excess of $7 billion worth of foreign assets acquired by STC in the last three years.

Like other Gulf telecom operators, STC, the Arab world's largest telecom company by market value with over 100 million subscribers calculated on a consolidated group basis, has expanded overseas after losing its monopoly at home.

In 2007, it spent $3 billion to take a 25 percent stake in Maxis, Malaysia's biggest mobile operator, in a deal that opened markets in Malaysia, Indonesia and India.

STC paid about $3.5 billion in 2008 for a 35 percent stake in Oger Telecom which controls Turk Telecom and a 26 percent stake in Kuwait's third mobile phone license.

"STC only started investing about three years ago so we are in growth investments mode. STC is moving into the second stage of its internationalization," Hasbani said.

In South Asia, STC eyed growth opportunities in India, where it already has a presence through its stake in Maxis, which owns a majority stake of Chennai-based Aircel, Hasbani said.

"We are already in the Indian market, there are major investments that will go into India. India is a growing market. There is a very large youthful population that is coming into the telecoms sector now," Hasbani said.

But Indian investment would depend on how the market developed following Aircel's recent acquisition of third generation (3G) and broadband access licenses.

"Before that clarity is in place, it is difficult to think beyond continuing to grow our current investments in India and continuing to invest in infrastructure and services in that market through Aircel," he added.

Hasbani said STC expected the contribution to revenues of overseas operations to grow beyond the current 30 percent in the next three years, driven by favorable demographics and expansion of data and broadband services. -Reuters

EMC shares its financial know-how in road show

Nancy Oteifa
Staff Writer

Sean Lee, Director of Financial Services for EMC Global Verticals (left) speaks with Al Watan Daily journalist. (Al Watan)

KUWAIT: Al Watan Daily held an exclusive interview with Sean Lee the Director of Financial Services for EMC Global Verticals where he talked about their Regional Financial Services Road Show 2010. This 14-days road show is to be lead by the EMC delegation who will be visiting the United Arab Emirates (UAE), Qatar, Saudi Arabia, Egypt, Turkey and Kuwait. EMC Corporation is the world's leading developer and provider of information infrastructure technology and solutions that enable organizations of all sizes to transform the way they compete and create value from their information.

The EMC road show is designed to demonstrate technologies promising to unleash the power of information possessed by the Middle East's financial sector companies, EMC's regional experts said that from an operational risk standpoint, investments made in information integrity yield significant benefits from having increased confidence in decisions made using financial data. Directors of financial institutions depend on information for their decisions, yet the impact of those decisions is not only determined by the experience and know-how of the decision-maker, but also by the accuracy and integrity of the underlying data, according to EMC Corporation, the world leader in information infrastructure solutions.

Can you shed some light on EMC as a company and the services they provide?

Lee: EMC solutions, leveraging cutting-edge information technology and consulting capabilities, improve transactional performance, business continuity, information technology (IT) operational efficiencies, and secure critical information assets throughout the entire financial transaction process while complying with regulatory compliance and fraud mitigation requirements. EMC solutions enable financial institutions to automate business processes by reusing and repurposing their information assets to facilitate the rapid creation of new financial products and services for their valued customers.

What does EMC aim to achieve through conducting this road show?

Lee: The aim of this road show is to share with financial industry professionals, best technology practices and information management solutions designed to improve performance. Through a mix of customers meetings and seminars in the mentioned countries, EMC aspires to share with its audience how the latest information technology trends can help financial institutions optimize their operations, achieve their business objectives, enhance their competitive advantage via improved time to market the launch of new financial products, improve customer communication channels and meet the compliance and governance requirements.

The event was attended by a significant number of EMC customers and prospects, the road show outlined EMC's financial services solutions that can help IT achieve their goals and provide their institutions with a competitive advantage. Various topics were discussed featuring electronic payments, digital services, multi-channel delivery, information security fraud prevention, identity management, remote office branch office strategy, governance, risk and compliance, and IT transformation - the journey to private cloud computing.

EMC technology is responsible for managing data, storing data and organizing data.

What can you say about the Middle Eastern countries after having visited them?

Lee: The fundamental objectives and challenges for financial service companies worldwide are very similar; at the end of the day most companies - especially from a technological perspective - are trying to gain more efficiency out of what they have. They are thinking about innovation and attracting new customers and retaining their existing customers, they are also looking at different ways to extend their information and reach more customers. One of my observations in the Middle East is that this is a very fast growing region and they don't have infrastructure to worry about, it actually allows them to grow faster to where they need to go. Here things are very new and this is a competitive issue in this region compared with other regions.

What are the various EMC solutions for the financial services industry?

Lee: Lately in the last few years we have been focusing a lot on the cards and payment process solutions, looking at how to make that transaction process a lot more efficient for customers. We are also doing a lot of work in digital services, multi channel delivery, allowing the banks to interact with the customers as if the customers are walking into a branch, now they can simulate this entire experience online. We also do a lot of IT transformation projects with the banks. This is the notion of helping our customers to understand what they have and what can be shared and how can they interact with their business unit.