

The Case for Enhanced Disclosure and Forward Guidance in the GCC

The capital markets landscape in the Gulf Cooperation Council (GCC) has evolved significantly, driven by economic diversification and increasing investor participation. However, a critical aspect that remains underdeveloped is the practice of disclosure, particularly forward guidance.

\$4.0 trillion

Market cap of 829 actively traded GCC equities.

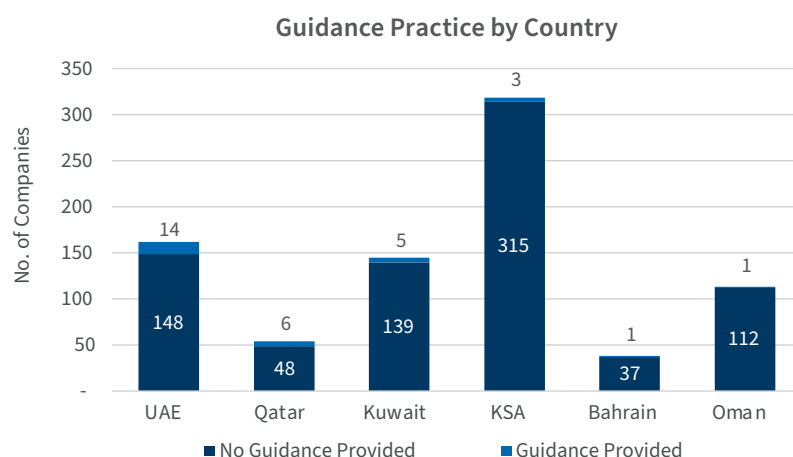
4%

Of these companies provide guidance, representing 12% of the total market cap.

Source: Bloomberg data & FTI analysis

Based on Bloomberg data¹ as of September 30, 2024, only 30 out of 829 actively traded companies in the GCC provide guidance, highlighting a substantial gap. This article advocates for companies to adopt full, fair and consistent disclosure of financial information to increase transparency, engender informed investor expectations, and enhance coverage and liquidity by attracting greater interest from investors and analysts.

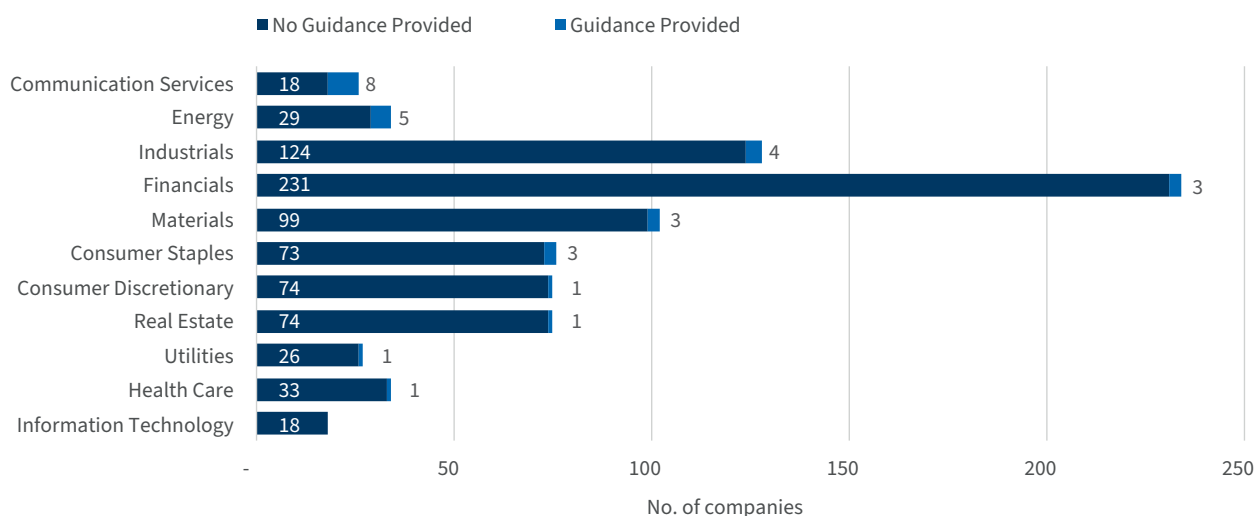
Current Landscape of Guidance Practices



Source: Bloomberg data & FTI analysis

This data reveals a notable disparity in guidance practices across GCC countries, despite the limited nature of these practices. The UAE leads in absolute terms, while Qatar excels relative to its market size. However, the overall figures highlight a systemic issue within the region.

Guidance Practice by GICS² Sector



Source: Bloomberg data & FTI analysis

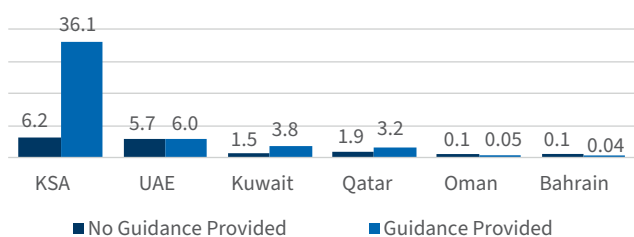
The overall picture suggests that while certain sectors like Communication Services and Energy are making strides in providing forward guidance, the majority of sectors remain hesitant. The Financials sector, despite being the largest in terms of the number of listed companies, shows particularly low adoption of guidance, which may inhibit deeper engagement with institutional investors, who typically demand more transparency in financial reporting.

Real Estate, Consumer Discretionary and Industrials, all sectors with heavy reliance on macroeconomic conditions, are notably lagging. Improving guidance practices in these areas could provide clarity to investors, reduce volatility and help these sectors attract more capital in a competitive global environment.

Guidance and the Importance of Transparency

Investors today are increasingly focused on transparency, which is crucial for informed decision-making. The average daily value traded of companies that provide guidance could be a compelling indicator of the benefits of providing guidance.

Avg. Daily Value Traded 20D³ (USD Million)

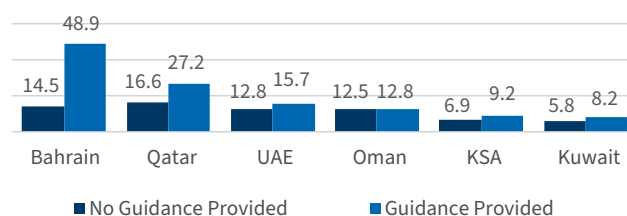


Source: Bloomberg data & FTI analysis

Overall, companies with guidance traded an average of \$8M daily, while companies without guidance averaged \$4M, suggesting that companies with guidance practices tend to have higher trading volumes, and reinforcing the idea that transparency attracts investment.

Similarly, the percentage of float held by institutions provides further insight into investor confidence and the appeal of companies with transparent practices.

% of Float Held by Institutions



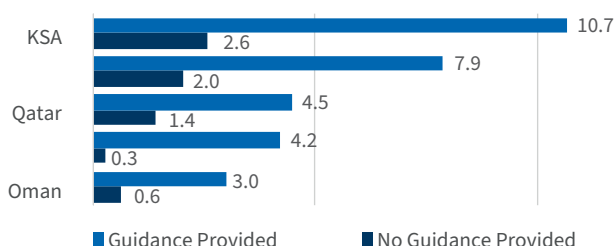
Source: Bloomberg data & FTI analysis

While the above figures suggest that GCC companies prioritizing transparency and guidance tend to attract more institutional investors, the reverse may also be true - institutional investors often demand greater transparency and disclosure to inform their decision-making.

Analyst Coverage and Consensus

Analyst coverage serves as a barometer for investor sentiment and can be significantly influenced by the availability and quality of disclosure.

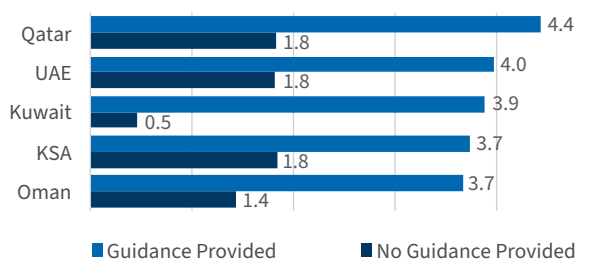
Avg. No. of Analyst Recommendations



Source: Bloomberg data & FTI analysis

Based on the data, it appears that companies with guidance tend to attract more analyst coverage, which could correlate with greater investor interest and market liquidity, this seems to be true for the majority of GCC companies when we look at number of analyst recommendations for each country in conjunction with average daily value traded in the chart shown earlier.

Avg. of Consensus Rating⁴



Source: Bloomberg data & FTI analysis

The stark difference in consensus ratings between companies with and without guidance highlights how adopting guidance can enhance investor confidence. Companies that proactively engage with analysts through transparent disclosure practices are more likely to receive favorable recommendations.

Navigating the Risks of Providing Guidance

When considering the adoption of forward guidance in the GCC, companies must recognize the potential risks, particularly in markets where the practice is still emerging. Introducing guidance for the first time may lead to significant market sensitivity, as any new information could trigger sharp price volatility. Additionally, misalignment between guidance and actual performance could harm investor confidence, especially in a region where expectations around transparency are still evolving. Credibility is also at stake - overly ambitious targets or a failure to meet guidance can undermine trust in management, particularly in a market unaccustomed to such practices. However, by carefully managing these risks, companies can foster greater investor engagement and align themselves with global standards.

In Conclusion

Given the limited practice of forward guidance among companies in the GCC, there is a clear opportunity to improve transparency and strengthen investor confidence. Providing guidance on a set of financial and non-financial metrics that highlight key value drivers and strategic goals not only helps investors navigate the inherent uncertainties in the market but also fosters more informed decision-making. Additionally, introducing forward guidance thoughtfully, by providing a range of potential outcomes and long-term metrics, can enhance coverage and liquidity by attracting more investor and analyst interest. By taking this step, GCC companies can ultimately align themselves with global best practices and enhance their attractiveness to both local and international investors.

¹ Bloomberg data as of September 30, 2024, accessed October 13, 2024.

² GICS: The Global Industry Classification Standard.

³ Average daily value traded for the 20 days preceding the Bloomberg data cutoff on September 30, 2024.

⁴ Aggregated analysts' opinions on a scale from 0-5 (5 highest)

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