GCC Companies Brace For A Storm

Impact Of Trade Tensions And Weaker Oil Prices

S&P Global Ratings

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April 29, 2025

This report does not constitute a rating action

Key Takeaways

- Trade tensions are threatening what have been favorable global credit conditions for most borrowers. Market volatility and increasing investor risk aversion pose the most imminent risks to credit.
- S&P Global Ratings has lowered its Brent and West Texas Intermediate (WTI) oil price assumptions by US$5 per barrel for the rest of 2025 because we believe that that the oil market could be oversupplied.
- Despite their diversification efforts, Gulf Cooperation Council (GCC) countries' economic growth remains highly correlated with oil prices.
- GCC companies will therefore probably see contagion from a decline in oil prices and a global economic slowdown rather than from the tariffs themselves.
- The outlook bias for rated GCC companies remains stable, with 61% of companies rated investment-grade.
- Nevertheless, capital expenditure (capex) requirements are high due to strong government spending and projects like Vision 2030. At the same time, refinancing needs are meaningful and geopolitical risk still looms.
- We don't expect GCC companies to remain unaffected for long, but the timing and effects of the contagion will vary by sector.

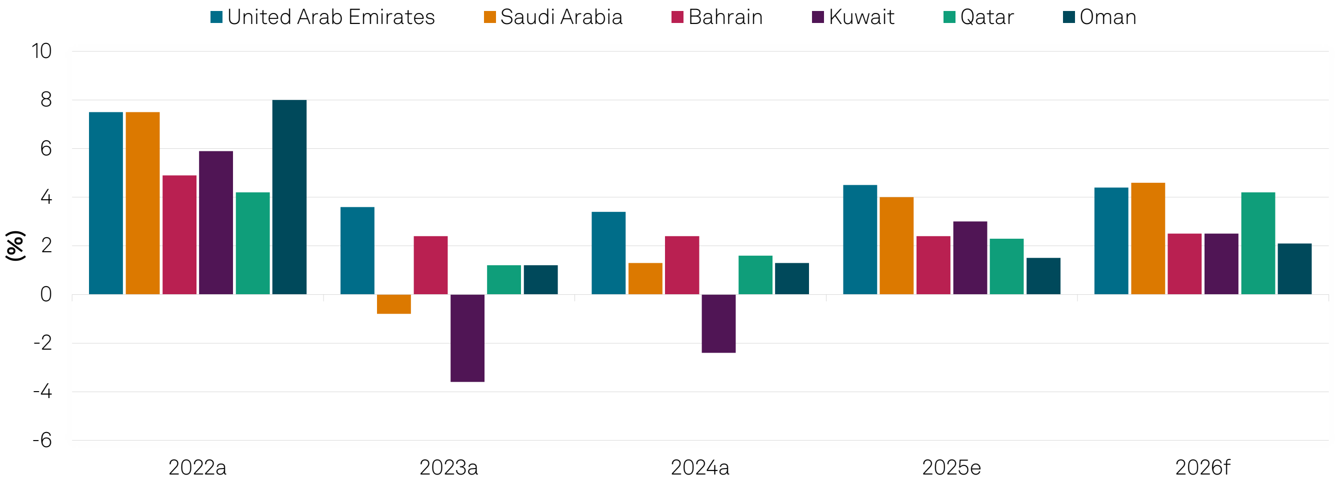
Contents

Economic Growth | Oil price fluctuations could have an impact

- The pause on most tariffs has not eliminated trade tensions. For now, we believe that economic growth in the GCC countries will remain stable despite our assumption of lower Brent and WTI oil prices of $65 per barrel (/bbl) and $60/bbl, respectively, for the remainder of 2025.
- We revised the outlook on Bahrain to negative as weaker oil prices, ongoing market volatility, and weaker financing conditions could put further pressure on the government's public finances and increase its interest burden, approximately 29% of government revenue, one of the highest levels among our rated sovereigns.
- The significant investment plans of the other GCC countries focusing on diversifying their economies away from oil supports GDP growth momentum, although some of these plans may be delayed due to lower oil prices.

GCC -- Real GDP growth by country

We expect average real growth of 2%-4% in 2025-2026



Source: S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

List of GCC sovereign ratings

Saudi Arabia*: A+/Stable/A-1

Abu Dhabi (Emirate of): AA/Stable/A-1+

Sharjah (Emirate of): BBB-/Negative/A-3

Ras Al Khaimah (Emirate of): A/Stable/A-1

Qatar: AA/Stable/A-1+

Kuwait : A+/Stable/A-1

Oman: BBB-/Stable/A-3

Bahrain: B+/Negative/B

Source: S&P Global Ratings. *Unsolicited ratings.

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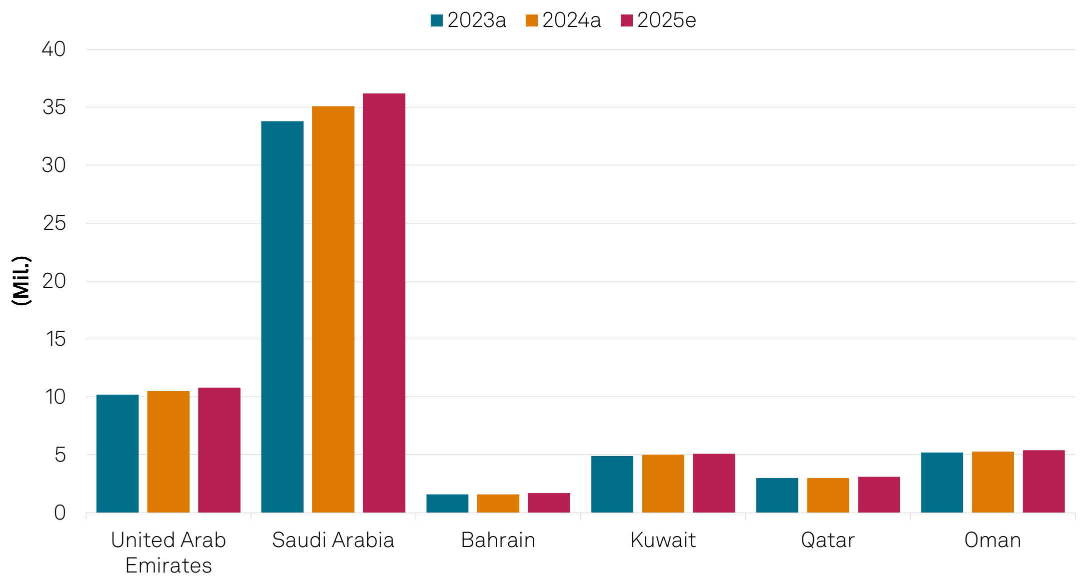
Economic Conditions | Still supportive

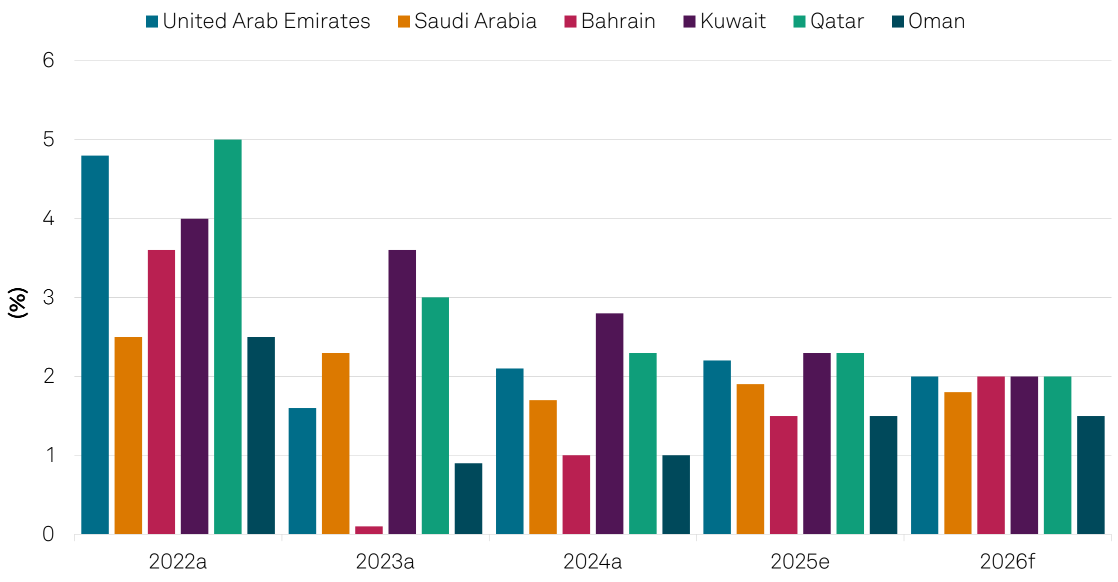
- Average inflation in the GCC region is trending toward 2% in 2025, down from about 4% in 2022. However, trade tensions could increase inflation globally.
- Population trends remain positive for the United Arab Emirates (UAE) and Saudi Arabia as we see a significant number of expatriates moving to these regions, especially to Dubai and Riyadh.

GCC -- Population size by country



Source: S&P Global Ratings.

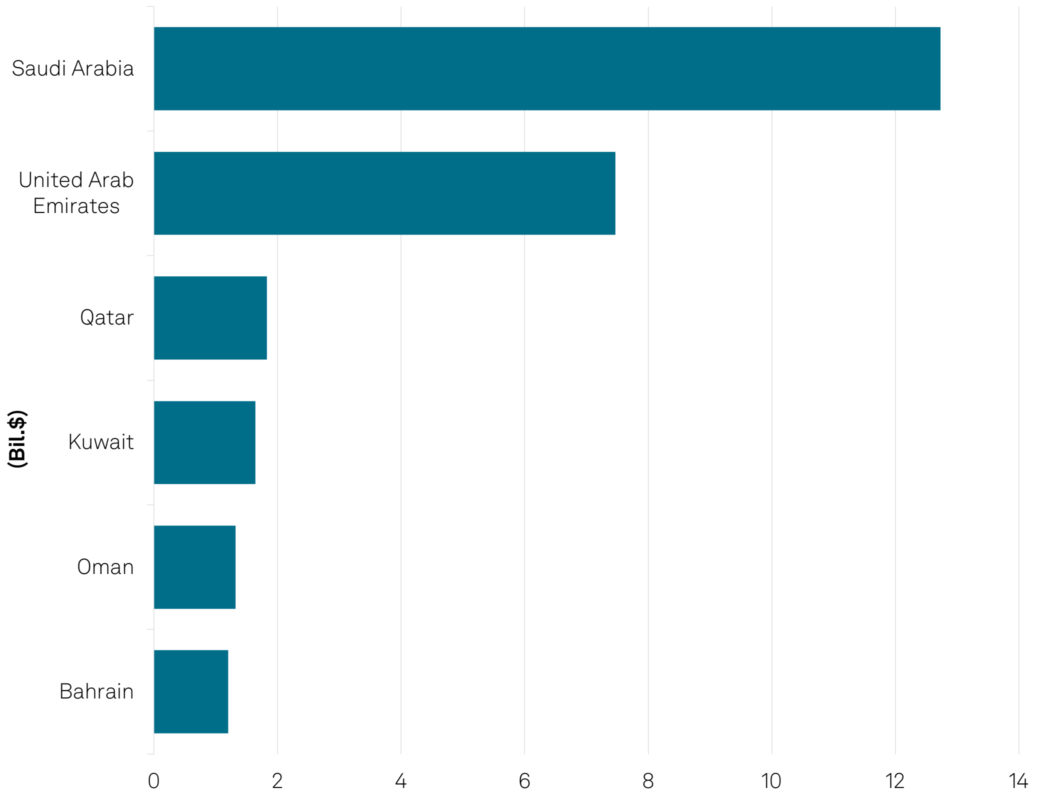
Consumer Price Index (CPI) growth



Source: S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Impact Of Tariffs | Tariffs are not the main problem for rated GCC companies

U.S. imports from GCC -- 2024



Sources: United States Census Bureau, International Trade Commission charts by Nasser Saidi & Associates.

- GCC countries could be subject to a 10% tariff on imports to the U.S. Certain products like aluminum and steel could be subject to 25% tariffs.
- Despite the oil and gas sector being exempt from the new tariffs, the baseline tariff could, in theory, disrupt the supply chains of some GCC companies--particularly chemicals companies and some of their end markets such as packaging or industrial goods.
- For now, we do not anticipate that rated chemicals producers will see a direct material financial impact as their diversified asset bases will allow them to reroute volumes to other regions.
- Some rated chemicals producers could even benefit over the short term, as Middle Eastern products could replace a portion of U.S. petrochemical exports (such as polyethylene).
- In the medium-to-long term, slower global GDP growth could translate into reduced global end-market demand for chemicals and industrial goods.

Oil Prices | Near-term prices are under pressure

- Economic and trade tensions will likely lower demand for oil in 2025, adding to the risk of oversupply.
- Any reintroduction of OPEC supply beyond what has been announced for May 2025 will therefore likely aggravate the global supply surplus.
- Moderate reported global inventory levels are currently the only supportive factor for oil demand.

Brent oil price movements over 2015-2025

Source: S&P Global Ratings.

S&P Global Ratings' oil and natural gas price assumptions

S&P Global Ratings' price deck published on April 10, 2025

	WTI ($/bbl)	Brent ($/bbl)	Henry Hub ($/mmBtu)	TTF ($/mmBtu)
Rest of 2025	60	65	3.8	14
2026	65	70	4.3	12
2027	65	70	4.3	10
2028 and beyond	65	70	4.3	10

bbl--Barrel. WTI--West Texas Intermediate. HH--Henry Hub. TTF--Title Transfer Facility. mmBtu--Million British thermal units. Note: Prices are rounded to the nearest $5/bbl and 25 cents/mmBtu. Source: S&P Global Ratings.

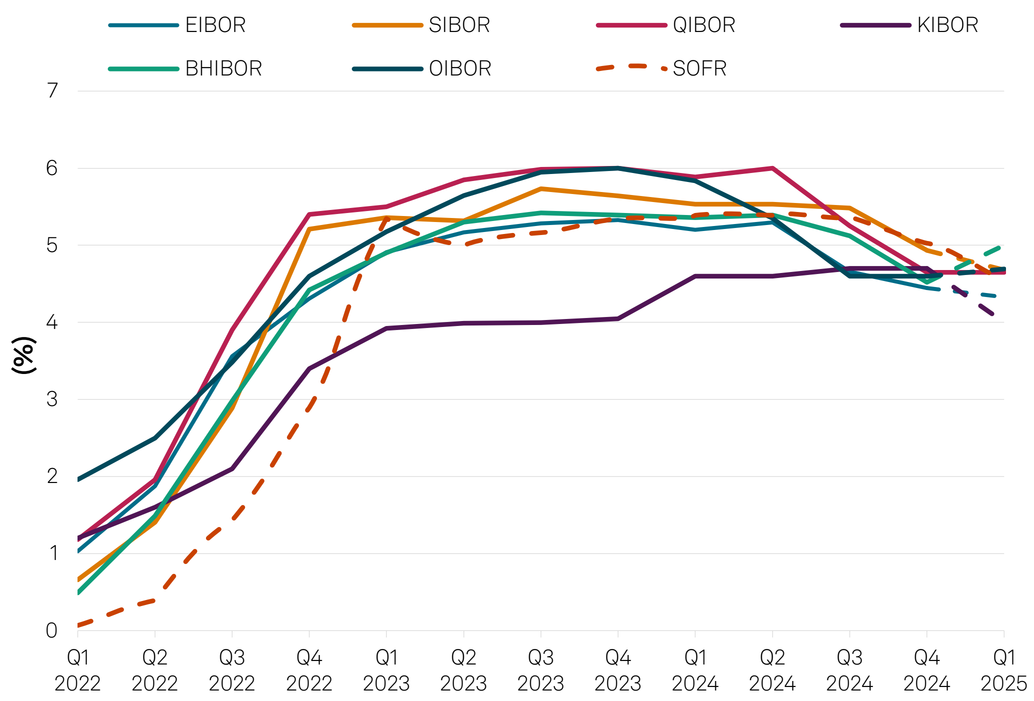
Geopolitics | Supply chains and market sentiment are under threat

- Global geopolitical risks are, in our view, at their highest level in decades, posing a serious threat of economic disruption. Tensions in the Middle East continue, raising the risk of a wider conflict, which could disrupt the global oil market.
- In an extreme scenario, a supply shock due to a potential temporary closure of the Strait of Hormuz would drive oil prices higher, but also disrupt oil exports and raise funding costs.
- Any investment outflows from the region may lead to significant volatility in the financial markets.
- So far, rated GCC companies have been able to manage the escalated cost and time of rerouting goods to avoid the Red Sea without having a significant impact on their margins, sometimes even passing the additional cost on to the customer.
- Sectors that could see a severe impact if geopolitical pressures escalate and regional and nonregional allies are drawn into the conflict are hospitality, tourism, airlines, real estate, and consumer goods.
- Furthermore, this could have a significant impact on population trends, especially in the UAE, where most residents are expatriates.

Interest Rates | Set to remain elevated for longer

- The U.S. Federal Reserve's interest-rate path remains uncertain, given the opposing effects of the tariffs--inflationary pressures and the impact on demand.
- S&P Global Ratings expects that the Fed will lower its policy interest rate by just 25 basis points this year. At the same time, widening spreads could keep all-in financing costs elevated.
- Given the pause on tariffs and despite the uncertainty, we anticipate that several GCC companies will access the market during the next available window to refinance looming debt maturities and growing capex.

GCC -- Interbank interest rates versus SOFR

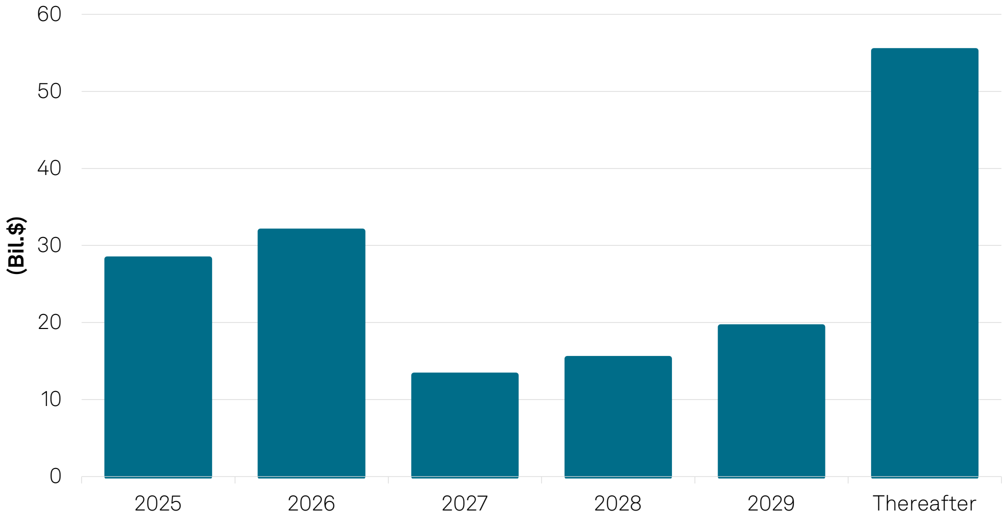


SOFR--Secured Overnight Financing Rate. EIBOR--Emirates Interbank Offered Rate. SIBOR--Saudi Arabian Interbank Offered Rate. QIBOR--Qatar Interbank Offered Rate. KIBOR--Kuwait Interbank Offered Rate. BHIBOR--Bahrain Interbank Offered Rate. OIBOR--Oman Interbank Offered Rate. Source: Central bank websites.

Funding And Refinancing | Needs remain high but manageable

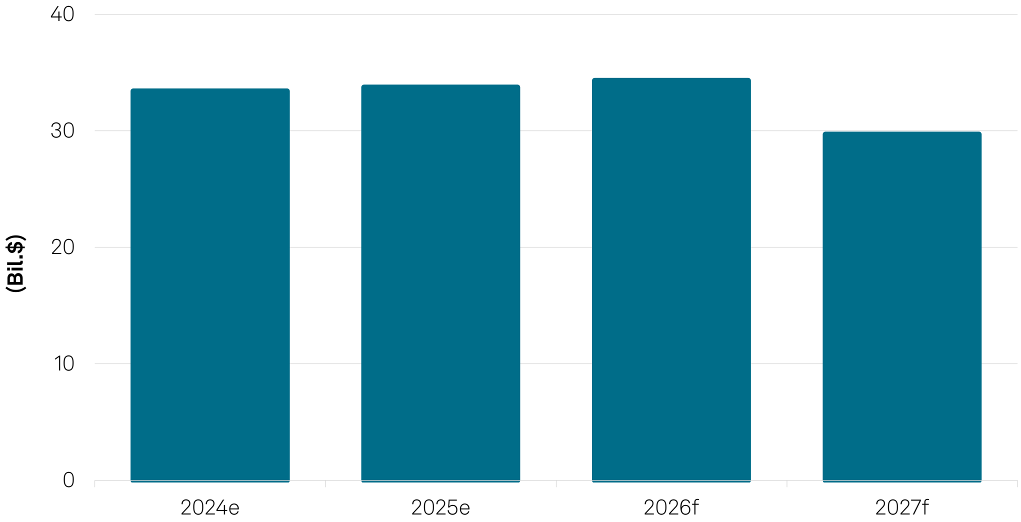
- Rated GCC companies' capex remains elevated at $30 billion-$35 billion annually.
- Most of this relates to Saudi government-related entities (GREs) and Vision 2030-related spending on infrastructure. In addition, companies continue to make substantial investments in oil and gas downstream activities and telecom infrastructure.
- Rated companies that have material near-term debt maturities include Emirates Telecommunications Group Company PJSC, Saudi Electricity Co., Saudi Basic Industries Corp., and EQUATE Petrochemical Co. K.S.C.C. However, the maturities do not pose a risk as these companies have a good track record of refinancing and good banking relationships.

Rated companies' refinancing requirements



Sources: S&P Global Ratings, company reports.

Rated companies' capex needs

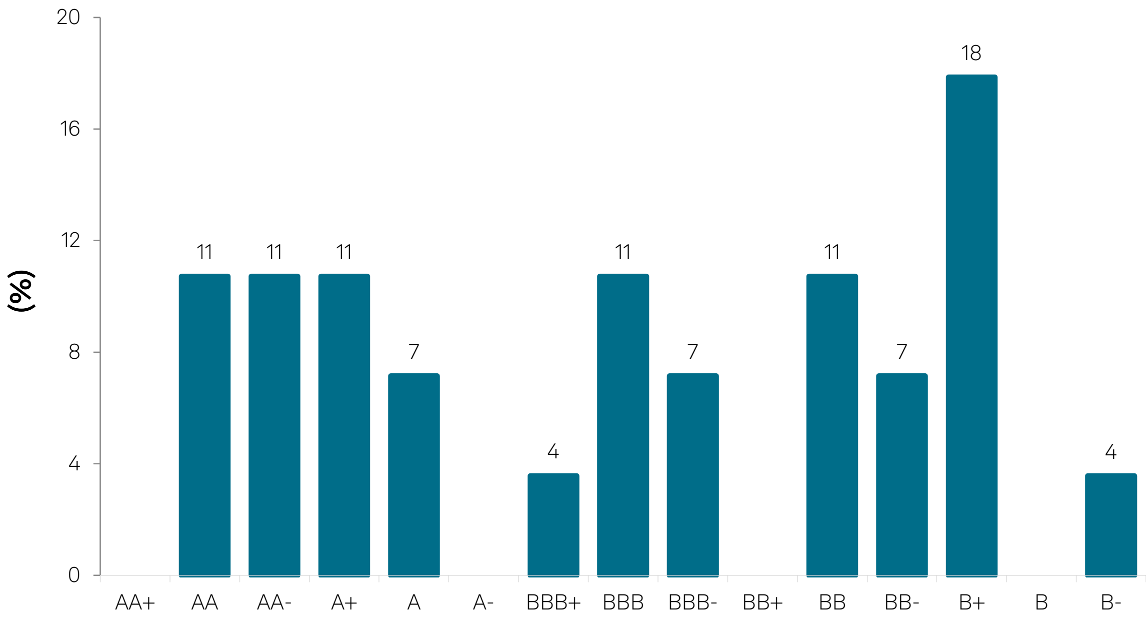


Source: S&P Global Ratings. Data as of April 29, 2025. e--Estimate. f--Forecast.

Issuer Credit Ratings | In a strong position

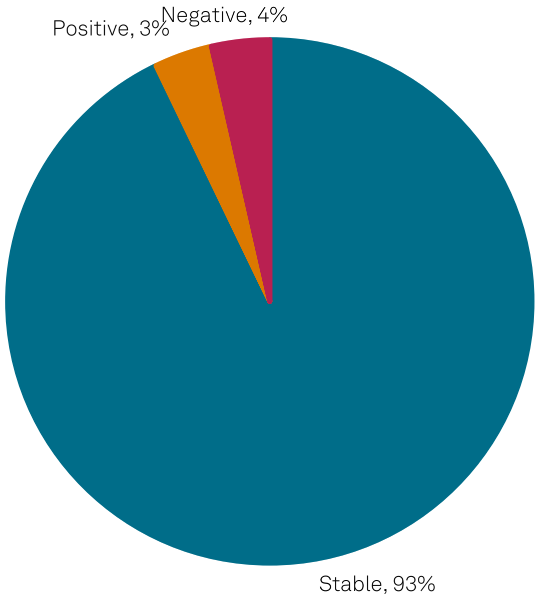
- We rate 61% of the portfolio investment-grade.
- We expect rating stability as rated companies should be able to manage macroeconomic pressures along with high capex needs and interest rates.

GCC companies' rating distribution



Source: S&P Global Ratings. Ratings as of April 29, 2025.

GCC companies' outlook distribution by country

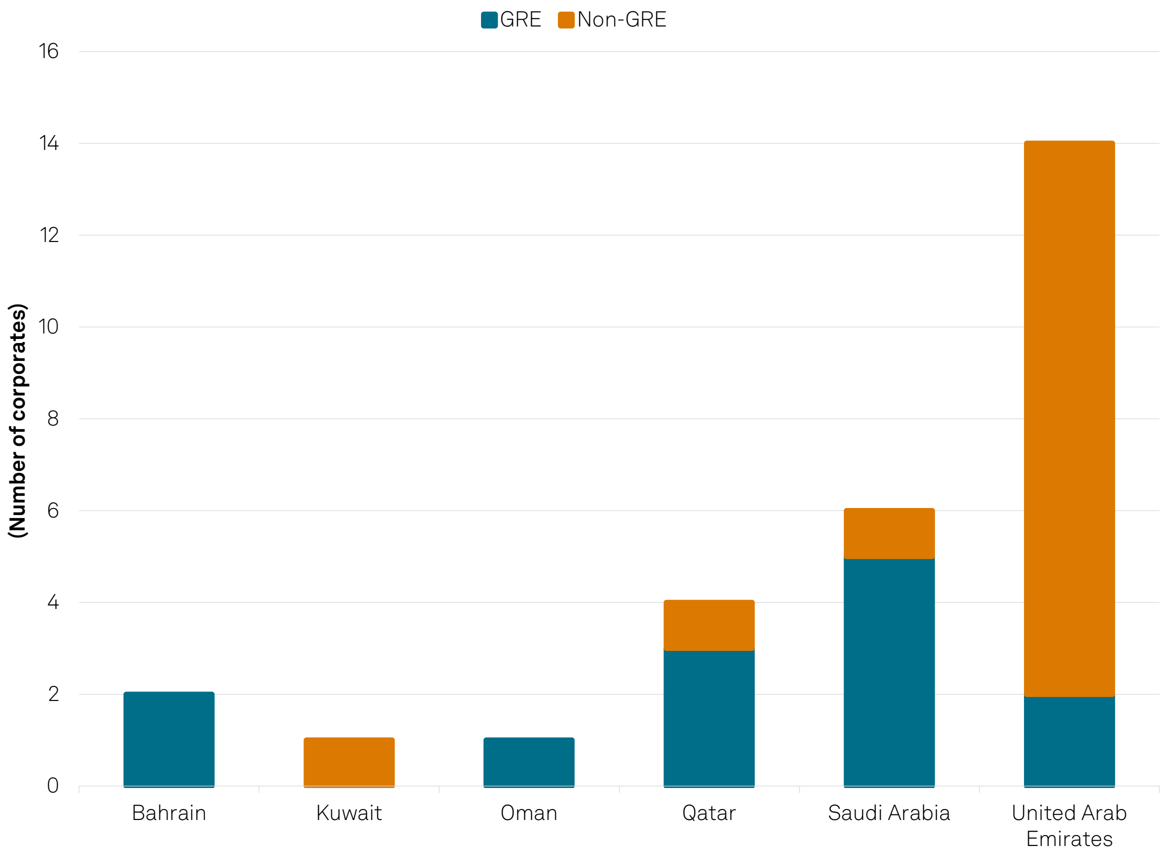


Source: S&P Global Ratings. Ratings as of April 29, 2025.

Government Influence | Supportive of GCC companies' credit quality

- 46% of the companies in our rated portfolio are government-related entities (GREs) whose credit quality remains tied to their highly rated sovereigns.
- Linkage with the government provides these companies from zero to six notches of uplift from the stand-alone credit profile.
- We recently raised our rating on Saudi Arabia to 'A+' from 'A' and this led to the upgrade of several GREs.
- Similarly, in April 2025, we revised our outlook on Bahrain to negative due to lower oil prices. This led to the same action on one Bahraini GRE.
- We expect GREs to receive timely extraordinary support if they require it, and this could take financial or nonfinancial forms.
- GREs often operate in a favorable environment, for example, with access to cheap feedstock, easy access to financing, favorable regulatory frameworks, and strong government contracts.

GCC rating distribution by country

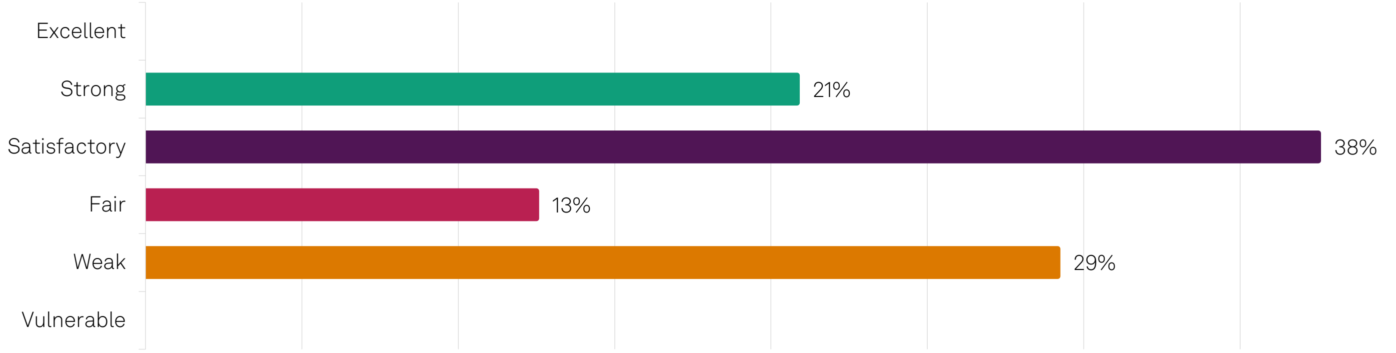


Source: S&P Global Ratings. Ratings as of April 29, 2025. GRE--Government-related entity.

Stand-Alone Assessment | Well-positioned

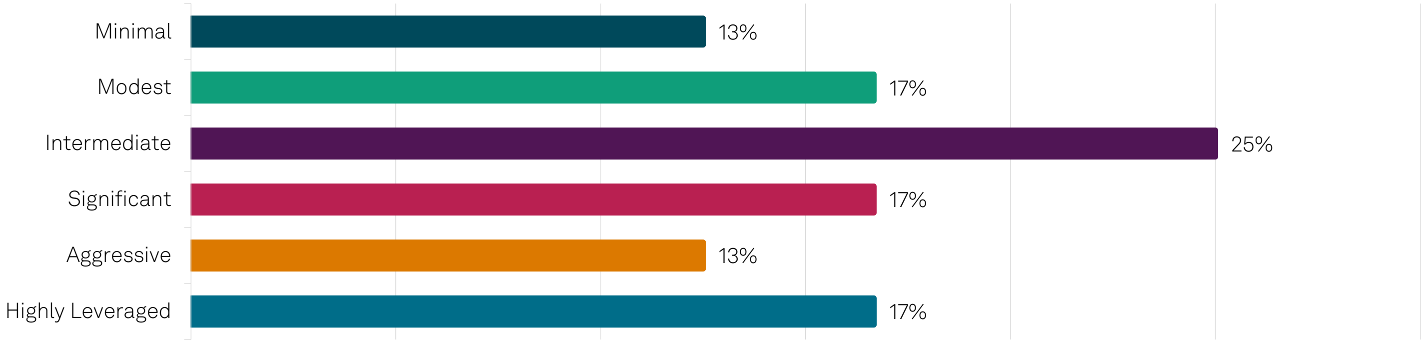
- If we exclude the uplift from government or group support, many rated GCC companies' credit quality remains strong.
- 59% of the companies have a strong or satisfactory business risk profile, suggesting that their businesses are in a good position to generate cash flows.
- 30% of the companies have a financial risk profile of aggressive or highly leveraged, reflecting high leverage and strained cash flows on the back of high capex or dividends.
- These companies remain on our watch list as they are vulnerable to market volatility, refinancing risks, and high interest rates.
- Key sectors at risk are oilfield services, transportation, and certain real estate segments.

Business risk profile breakdown



Source: S&P Global Ratings. Ratings as of April 29, 2025.

Financial risk profile breakdown



Source: S&P Global Ratings. Ratings as of April 29, 2025.

Corporate Sector Trends

Oil And Oilfield Services | Trade tensions add to volatility and oversupply

Integrated oil and gas

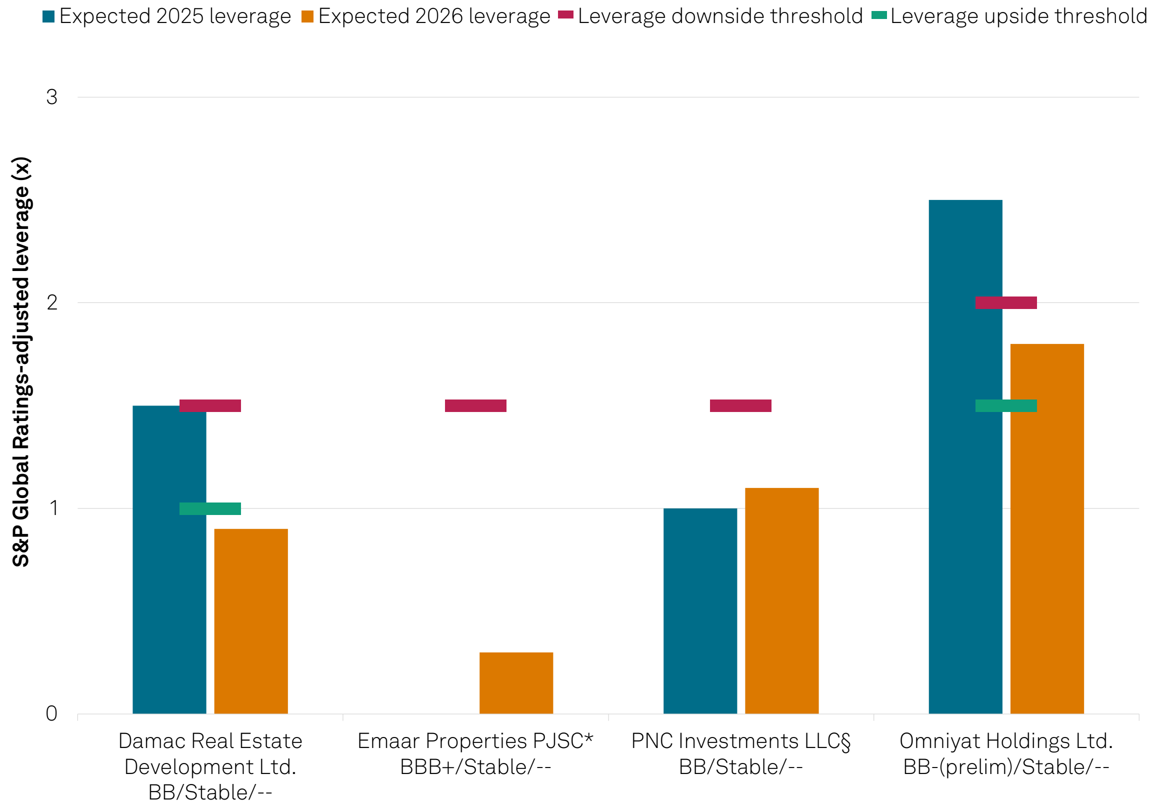
- Integrated national oil companies (NOCs) in the GCC region are well placed to weather the impact from lower oil prices thanks to their strong balance sheets, low cost of production, and vertical integration.
- We expect the NOCs to play a central role in their sovereigns' economic diversification plans through their investments in alternative energy, petrochemicals, retail, and trading.
- Still, we expect NOCs to allocate around 60%-80% of capex to exploration and production.
- Refining margins will remain low in 2025 because of weaker demand and continuous capacity additions.
- The oil market is sensitive to physical risk in the Strait of Hormuz.
- The credit quality of the rated NOCs in the region is aligned with that of their respective sovereigns, namely, QatarEnergy (AA/Stable/--) with Qatar and Energy Development Oman (BBB-/Stable/--) with Oman.

Oilfield services

- The oilfield services (OFS) sector remains heavily exposed to global spending by exploration and production companies.
- OFS companies' tendering activity is likely to decline if oil prices remain under pressure, prompting NOCs to reconsider their capex plans.
- OFS companies usually have high leverage, and, in a weaker oil price environment, could face liquidity and refinancing constraints.
- For drillers, announced suspensions in Saudi Arabia in 2024 following the pause in capacity increases has led to service providers looking outside the Kingdom for contracts.

Dubai Residential Real Estate | Oversupply could moderate demand

Rating headroom



*Rating upside for Emaar Properties is remote as its financial risk profile is modest. §Rating upside for PNCI depends on its business prospects more than its financial metrics. Source: S&P Global Ratings.

- Demand for residential real estate will likely remain strong in 2025, supported by government initiatives such as visa reform, which has led to population growth.
- We could expect a price correction after 12-18 months due to a potentially significant increase in new supply, but we expect that the degree of correction will be moderate compared with previous downturns.
- Revenue backlogs for most developers are at a peak, providing good predictability and low leverage over the next two years.
- Yet construction capacity constraints, which are not uncommon, could affect the delivery of new properties.
- Real estate prices have seen double-digit growth over the past two years. Most developers are therefore likely to see better profitability in 2025-2026 as they recognize revenue from projects that they sold at higher prices.
- More established developers will be able to withstand a materially negative impact from weaker sales and market sentiment thanks to their sound financial positions.
- Our preliminary rating on Omniyat Sukuk 1 Ltd. is forward-looking as we expect the company's financial metrics to improve in 2026 on the back of higher revenues.

Real Estate | Cautious optimism in an evolving landscape

Rating headroom

*Private Department's financial risk profile assessment is the highest possible at highly leveraged and rating downside would be triggered if interest coverage was less than 1.0x. Source: S&P Global Ratings.

- We are optimistic about the outlook for the UAE and Saudi Arabia in 2025-2026. We anticipate strong demand thanks to factors such as population growth, strong tourism, and changing consumer preferences.
- The sector is also facing challenges, including oversupply risks and evolving retail formats that could weigh on rental rates and real estate landlords' profitability amid high capital spending.
- Majid Al Futtaim Holding LLC benefits from comfortable rating headroom, supported by healthy liquidity and EBITDA and cash flow generation.
- On the other hand, we expect this year to be challenging for Arabian Centres Co. due to peak capex, refinancing needs, elevated dividends, and a temporarily lower gross leasable area (see "Non-Renewal Of Dhahran Mall Lease Will Test Arabian Centres Co.'s Ability To Deleverage," published Feb. 18, 2025.
- Overall, we expect elevated capex as mall developers continue to expand and enhance their offerings.

Chemicals | Healthy balance sheets and strong margins support rating headroom

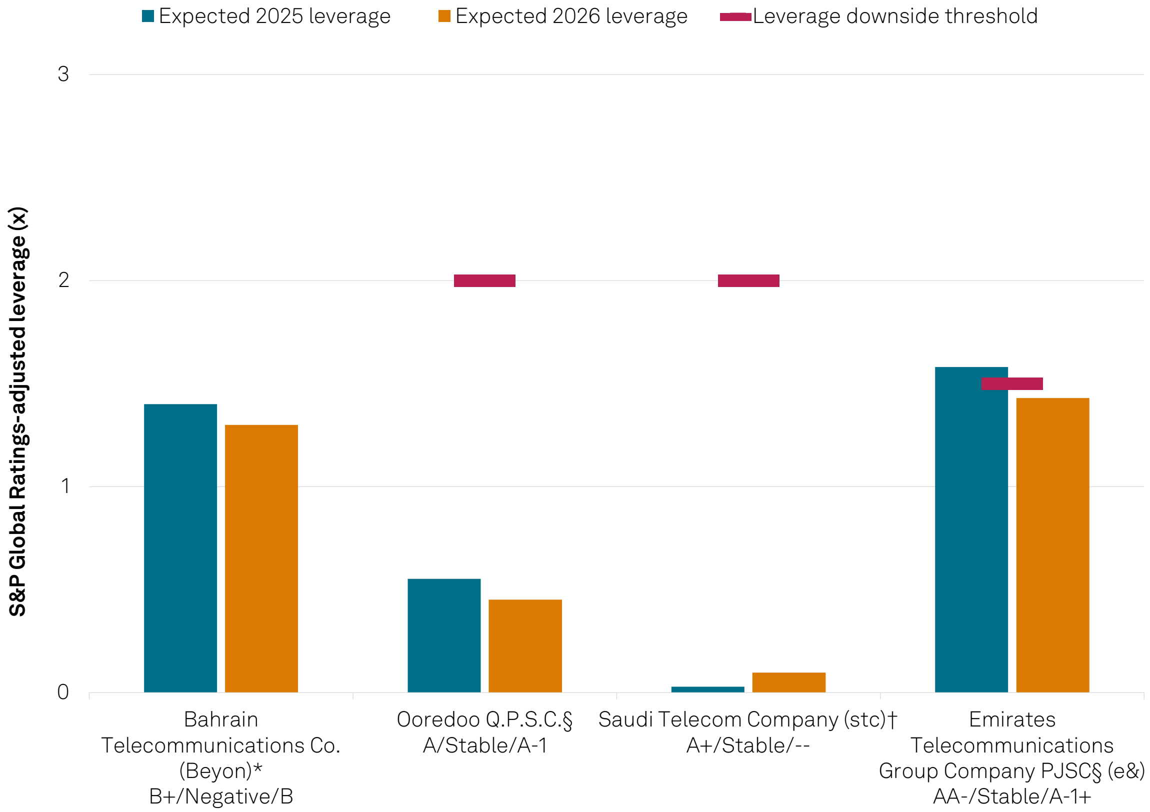
Rating headroom

*Rating upside for SABIC would come from a sovereign upgrade along with an improved stand-alone credit profile. §IQ is debt free. Rating upside would come from a sovereign upgrade. FFO--Funds from operations. Source: S&P Global Ratings.

- Continuing soft demand and oversupply across most petrochemical companies' value chains will limit their ability to increase revenue significantly in 2025.
- Fertilizer prices will improve modestly in 2025, driven by limited Chinese urea exports and robust demand across several regions, especially Brazil and India.
- GCC chemicals producers benefit from comfortable rating headroom, supported by healthy balance sheets.
- GCC chemicals players will continue benefitting from access to competitively priced feedstock, leading to an advantageous cost position and above-average profitability, especially compared to players in Europe or Asia.
- We anticipate that most rated chemicals players will increase their spending over the next 12 months, investing in low-carbon capacities and capitalizing on long-term global demand for chemicals.

Telcos | Strong performance but capex needs are elevated

Rating headroom



*Rating upside and downside for Beyon depend on the sovereign rating. §Rating upside for e& and Ooredoo is limited. †Rating upside for STC would come from a sovereign upgrade along with an improved stand-alone credit profile. Source: S&P Global Ratings.

- GCC telcos are seeing saturation in their mature domestic markets, with mobile penetration above 100%. They are therefore looking abroad to diversify their revenue sources.
- Over the past 12-18 months, we have seen e& and Saudi Telecom Co. announcing expansions of their core telco activities, particularly in Europe. These will take the form of bolt-on acquisitions, as well as financial investments.
- At the same time, telcos are making significant investments in non-telco businesses, which could include cybersecurity, cloud services, internet of things, artificial intelligence, data centers, licensed digital banks, or just e-wallets.
- We therefore project that capex will remain meaningful at 14%-16% of revenue for rated GCC telcos.
- Leverage should remain low, although e&'s headroom is limited due to recent transactions, but we expect it to recover to below 1.5x in 2026.

Corporate Sector Coverage

GCC Companies Ratings List

Rated corporate entities in the GCC region as of April 29, 2025

Issuer Name	Foreign Currency Ratings	Outlook	Country	Analyst Name
ADNOC Murban RSC Ltd.	AA	Stable	United Arab Emirates	Jagtiani Bhalla, Sapna
Mamoura Diversified Global Holding PJSC	AA	Stable	United Arab Emirates	Giulia Filocca
QatarEnergy	AA	Stable	Qatar	Juili Pargaonkar
Emirates Telecommunications Group Company PJSC	AA-	Stable	United Arab Emirates	Kusumaningsih-Jeanmaire, Ananita
Industries Qatar QSC	AA-	Stable	Qatar	Shweiky, Fares
Nakilat Inc.	AA-	Stable	Qatar	Roymedhi, Bedanta
Saudi Basic Industries Corp.	A+	Stable	Saudi Arabia	Shweiky, Fares
Saudi Electric Co.	A+	Stable	Saudi Arabia	Davydov, Mikhail
Saudi Telecom Company	A+	Stable	Saudi Arabia	Roig Ramon, Alexandre
Gulf Cooperation Council Interconnection Authority	A	Stable	Saudi Arabia	Vinot, Emeline
Ooredoo Q.P.S.C.	A	Stable	Qatar	Oueidat, Rawan
Emaar Properties PJSC	BBB+	Stable	United Arab Emirates	Jagtiani Bhalla, Sapna
EQUATE Petrochemical Co K.S.C.C.	BBB	Stable	Kuwait	Shweiky, Fares
Fertiglobe PLC	BBB	Stable	United Arab Emirates	Shweiky, Fares
Majid Al Futtaim Holding LLC	BBB	Stable	United Arab Emirates	Shweiky, Fares
Almarai Company	BBB-	Positive	Saudi Arabia	Shweiky, Fares
Energy Development Oman SAOC	BBB-	Stable	Oman	Jagtiani Bhalla, Sapna
Damac Real Estate Development Ltd.	BB	Stable	United Arab Emirates	Roymedhi, Bedanta
PNC Investments LLC	BB	Stable	United Arab Emirates	Shweiky, Fares
Taghleef Industries Holdco Ltd.	BB	Stable	United Arab Emirates	Roymedhi, Bedanta
Arabian Centres Company	BB-	Stable	Saudi Arabia	Shweiky, Fares
Omniyat Holdings Ltd.	BB- (prelim)	Stable	United Arab Emirates	Roymedhi, Bedanta
Bahrain Mumtalakat Holding Co.	B+	Stable	Bahrain	Olivia K Grant
Bahrain Telecommunications Co.	B+	Negative	Bahrain	Oueidat, Rawan
FIVE Holdings BVI Ltd.	B+	Stable	United Arab Emirates	Roymedhi, Bedanta
Ittihad International Investment LLC	B+	Stable	United Arab Emirates	Sanchez, Lina
Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC	B+	Stable	United Arab Emirates	Roymedhi, Bedanta
Shelf Drilling Holdings Ltd.	B-	Stable	United Arab Emirates	Okasmaa, Edouard

Source: S&P Global Ratings.

Related Research

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- Saudi Arabia Ratings Raised To 'A+' On Sustained Socioeconomic And Capital Market Reforms; Outlook Stable, March 14, 2025
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