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# GCC Region – Cost of Capital

Valuation | Investment Banking  
Restructuring | Transaction Services  
Transaction Tax | Risk Advisory

NOVEMBER  
**2024**

# EXECUTIVE SUMMARY

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We are pleased to publish our research report on Cost of Capital (“CoC”/“WACC”) for Diverse Industry Sectors in the Gulf Cooperation Council Region (“GCC Region”/“GCC”).

Through this Report, we wish to present to you the current dynamics for capital cost which are playing out in the markets in different industries and sectors in the GCC Region. The sample size for our study has been deduced by analyzing around 8-10 largest companies in eight of the major sectors in GCC region.

The GCC region's cost of capital across various sectors reflects diverse economic factors and risk profiles, as shown by sector-specific WACC metrics. Needless to mention, the ongoing war situation in the region has deeply impacted and escalated the cost and the risk associated with doing business.

The Consumer Goods sector generally shows stability, reflecting steady consumer demand and relatively lower risk. In contrast, to the global telecommunications sector which exhibits heightened volatility, likely due to regulatory pressures, evolving technology costs, and infrastructure investments, this sector in GCC seems to be mature as reflected in stable CoC. Retail maintains moderate capital costs but faces pressures from intense competition and shifting consumer preferences, adding a level of risk that impacts overall financing costs. Hospitals demonstrate heightened operational and financial diversity, particularly between public and private entities which influence the CoC. Construction and Energy sectors, capital-intensive by nature, face distinct challenges from high fixed costs and dependency on long-term financing, while Energy is further influenced by regional geopolitical dynamics and global commodity prices.

We hope this endeavor in bringing out the Cost of Capital analysis for GCC Region helps give an insight into the risk profile, capital budgeting and similar dynamics associated with each of the Eight largest economic sectors in the region.



**Rajeev R. Shah**  
Managing Director & CEO

# SECTOR-WISE ANALYSIS OF COST OF CAPITAL IN GCC



## Banks

11.1% (Ke)\*



## Insurance

8.6% (Ke)\*



## Healthcare

8.6%



## Energy

7.3%



## Consumer Goods

8.0%



## Retail

9.3%



## Telecommunication

8.1%



## Construction

9.7%

**01**

**Cost of Capital Study**

**05**

**02**

**Sectoral Analysis**

**09**

**Banks 11**

**Insurance 12**

**Healthcare 13**

**Energy 14**

**Consumer Goods 15**

**Retail 16**

**Telecommunication 17**

**Construction 18**

# CONTENTS

A background image showing several coins scattered on a wooden surface. Some coins are in sharp focus, while others are blurred in the background. The lighting is soft, highlighting the metallic texture of the coins.

# 01

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## COST OF CAPITAL STUDY

# METHODOLOGY FOR ESTIMATING COST OF CAPITAL IN GCC

- The listed companies are filtered as per sectors enlisted in the previous slide. The respective data related to Debt, Beta and Market Cap have been sourced from Capital IQ.
- Capital Asset Pricing Model (CAPM) states that the equity investors in addition to risk free rate demands a premium for bearing the extra risk of enterprise operations. This additional risk is Equity Risk Premium (ERP). ERP depends upon Beta which measures how risky a particular company is relative to the market.
- The cost of equity (Ke) is derived by using the CAPM as follows:

$$K_e = R_f + \beta * (R_m - R_f) + \alpha$$

Where:  $R_f$  = the current return on risk-free assets

$R_m$  = the expected average return of the market

$(R_m - R_f)$  = the average risk premium above the risk-free rate that a “market” portfolio of assets is earning (ERP)

$\beta$  = the beta factor, being the measure of the systematic risk for this type of equity investment

- Not all GCC countries have instruments that can be considered risk-free, either due to the absence of sovereign bond issuances or the presence of default risk. To estimate the risk-free rate ( $R_f$ ) for these countries, we used the U.S. 10-year Treasury yield as a base, adjusting it for the inflation differential between the U.S. and the respective countries (based on IMF forecasts) and incorporating a country risk premium (as per Damodaran's July 2024 data)
- $R_m - R_f$  which is ERP, is adopted from Damodaran-July 2024 data for respective GCC countries.
- $\beta$  (Beta) has been regressed over a historical period of five years.
- Cost of Debt ( $K_d$ ) for the selected companies within each sector is calculated as the proportion of their respective interest payments relative to the total interest-bearing debt. For calculating post-tax  $K_d$ , we have assumed effective corporate tax rate of 10% across GCC.
- WACC is calculated by assigning respective weights of Debt and Market Cap to  $K_d$  and  $K_e$ .
- The total sample entries are plotted on a normal distribution bell curve to represent the median  $K_e$  and WACC of the respective sectors.

**Disclaimer** This report has been prepared solely for information purposes and does not necessarily purport to be a complete analysis of the topics discussed. It has been based on information available in the public domain which we believe to be reliable, but we have not independently verified those sources and we do not guarantee that the information in the report is accurate or complete.

Any views expressed in the report reflect our judgment at this date and are subject to change without notice. Statements that are forward-looking involve known and unknown risks and uncertainties that may cause future realities to be materially different from those implied by such forward-looking statements. Advice we give to clients in particular situations may differ from the views expressed in this report. No investment or other business decisions should be made based on the views expressed in this report.

# COST OF EQUITY ANALYSIS

## GCC Region Cost of Equity Overview

The cost of equity (Ke) across various sectors in the GCC region provides critical insights into the risk perception and return expectations for investors. By analyzing the Ke of diverse companies within sectors such as banks, insurance, healthcare, energy, consumer goods, retail, telecommunication, and construction several key trends and observations emerge that shape the overall investment outlook for the region.

### > Sectorial Disparities and Risk Perceptions

The range of cost of equity across sectors in the GCC reflects the differing risk perceptions investors associate with various industries. Sectors with more predictable cash flows, such as Insurance and Telecommunications, exhibit generally moderate Ke levels, indicative of relatively stable operating environments. For instance, the Ke for companies in these sectors mostly falls between 6% to 10%, implying that investors expect relatively moderate returns due to lower volatility and risk.

In contrast, sectors such as Consumer Goods, Construction, and Retail show wider Ke spreads, ranging from 6% to 20%. This variation suggests that while some companies within these sectors are perceived as stable, others may face higher operational or market risks. This could be attributed to factors such as market competition, supply chain volatility, consumer demand uncertainty, and exposure to external economic shocks. The Construction sector, for example, exhibits a particularly high Ke at the upper range (20%), indicating that investors are pricing in significant risk—likely due to large capital requirements, regulatory challenges, and long project cycles that make returns uncertain.

### > Influence of Economic Diversification in the GCC

The GCC region has been undergoing significant economic transformation driven by diversification away from oil dependency, which affects sector-specific cost of equity. As governments in the region encourage investment in non-oil sectors, industries such as Telecommunication, Healthcare, and Construction are poised for growth, but at varying risk levels.

For instance, the Telecommunications sector generally shows a Ke between 7% and 9%, signaling steady expected returns amid the growing demand for digital services and infrastructure across the region. However, certain companies stand out with a high Ke, indicating higher risks possibly tied to competitive pressures or operational inefficiencies.

# COST OF EQUITY ANALYSIS

## ➤ Sensitivity to Market and Regulatory Factors

Sectors that are highly regulated, such as Banking, Healthcare, and Energy, demonstrate moderate to high  $K_e$  reflecting a balance between market stability and regulatory challenges. Banks, for example, consistently report  $K_e$  ranging from 9% to 12%, which suggests that while the sector benefits from a well-established regulatory framework, external factors such as interest rate policies, macroeconomic shifts, and geopolitical dynamics introduce elements of risk.

Similarly, in the Energy sector, the  $K_e$  varies from 7% to 11%, reflecting ongoing investor sensitivity to global oil prices, energy demand fluctuations, and the regional shift towards renewable energy sources.

## ➤ GCC as an Investment Destination

Overall, the GCC region continues to offer attractive investment opportunities across a wide range of sectors. However, the varying  $K_e$  levels across these sectors indicate that investors must be judicious in their capital allocation decisions, balancing the trade-offs between higher expected returns and the underlying risk factors. As regional economies progress in their diversification efforts, sectors with traditionally higher risks may offer outsized returns, making the GCC a dynamic and evolving market for investors.





# 02

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## SECTORAL ANALYSIS



# INTERPRETATION OF CHARTS

All the major 8 sectors have been represented by the Normal Distribution working in the ensuing slides whose interpretation is given below –

## Normal Distribution Curve Interpretation

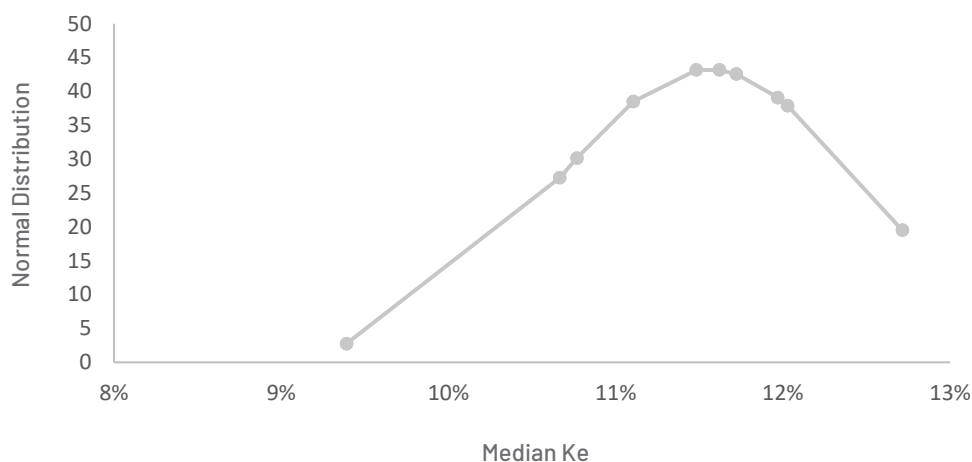
The total sample entities are plotted on a normal distribution bell curve to represent the median Ke and WACC of the respective sectors. Ke/WACC is represented on the X-Axis and Normal Distribution working on the Y-Axis.





# BANKS

Cost of Equity



## Representative Companies

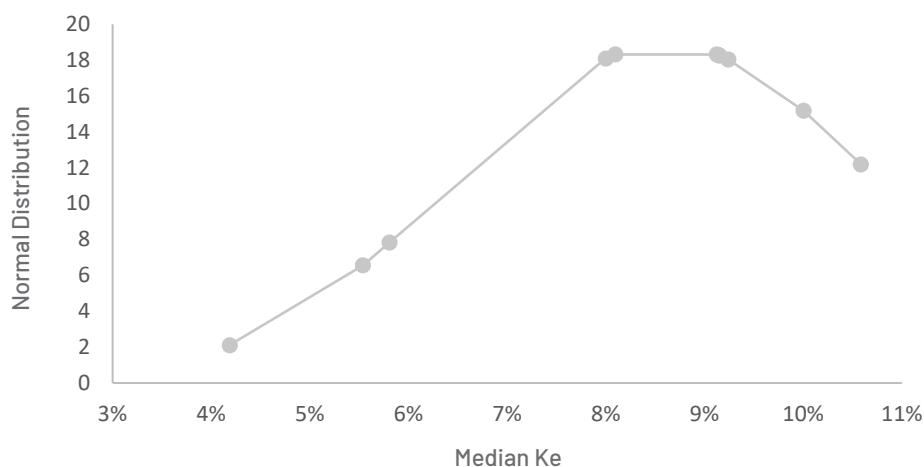
			
			
			

After analyzing the above companies, the median Ke of the sector is around 11.1%.



# INSURANCE

Cost of Equity



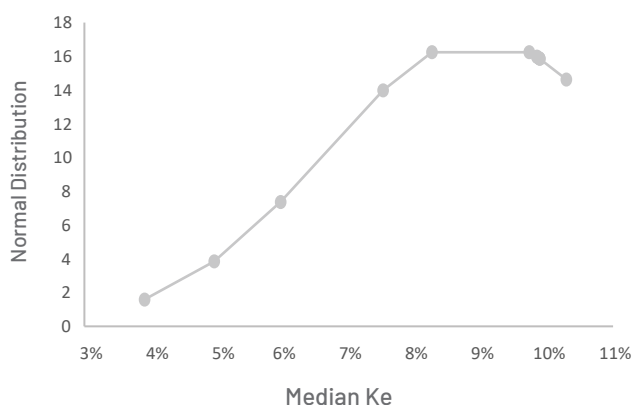
## Representative Companies

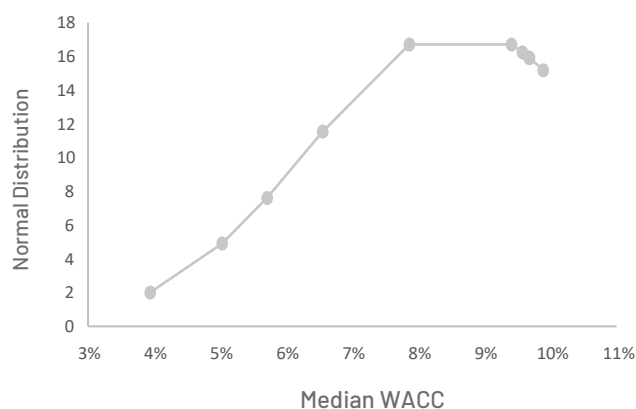
After analyzing the above companies, the median Ke of the sector is around 8.6%.

# HEALTHCARE

**Cost of Equity**



**WACC**



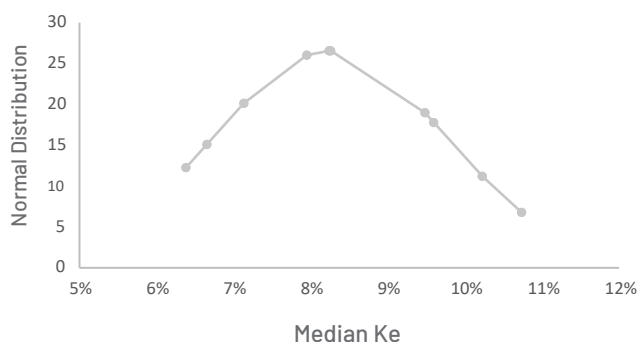
## Representative Companies

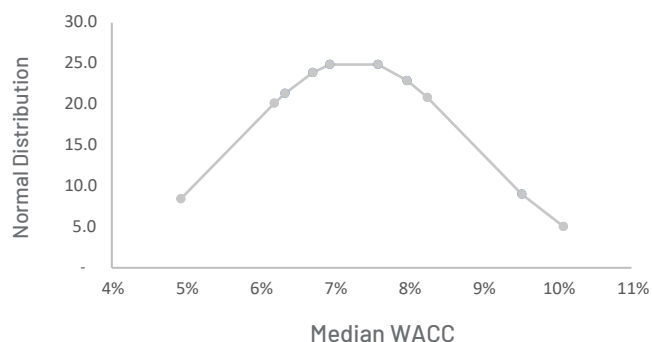
After analyzing the above companies, the median Ke and WACC of the sector is around 9.0% & 8.6% respectively.

# ENERGY

Cost of Equity



WACC



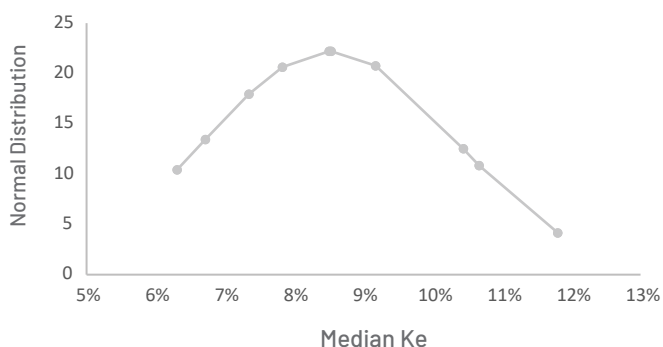
## Representative Companies

			
	 <small>Independent Petroleum Group K.S.C.P.</small>		
	 <small>شركة برفان لحفر الآبار Burgan Company for Well Drilling</small>		

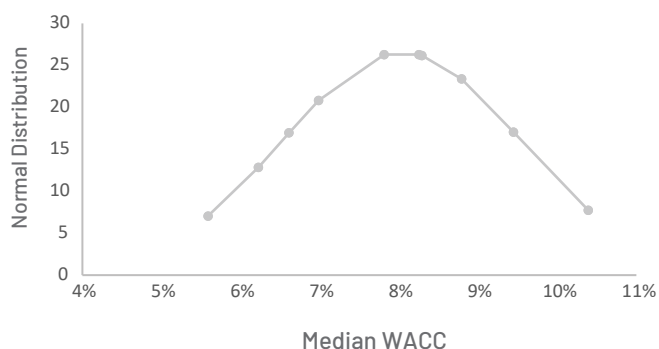
After analyzing the above companies, the median Ke and WACC of the sector is around 8.3% & 7.3% respectively.

# CONSUMER GOODS

Cost of Equity



WACC



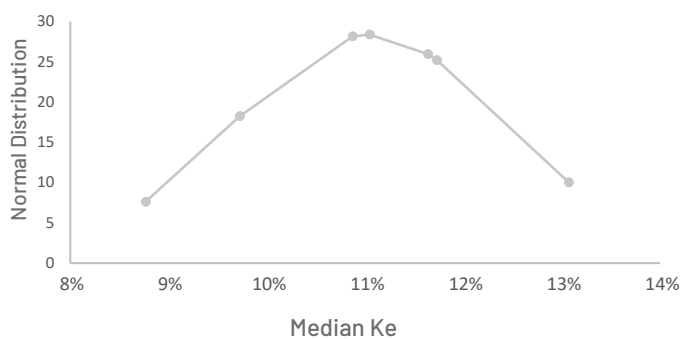
## Representative Companies

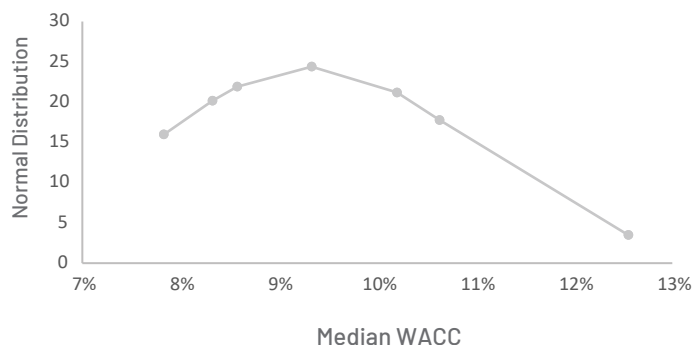
After analyzing the above companies, the median Ke and WACC of the sector is around 8.5% & 8.0% respectively.

# RETAIL

Cost of Equity



WACC



## Representative Companies

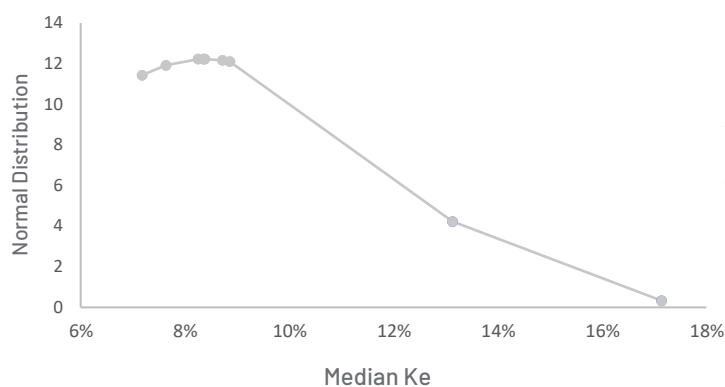
 <p>مكتبة جرير JARIR BOOKSTORE</p>	 <p>United Electronics Company</p>	 <p>ALHOKAIR // الحكير Fashion Retail أزياء الاحذية</p>	 <p>بعضية BAAZEEM TRADING CO.</p>
 <p>Abo Moati أبو معتصم</p>	 <p>BMMI</p>	 <p>ساکو SACO</p>	

After analyzing the above companies, the median Ke and WACC of the sector is around 11.0% & 9.3% respectively.

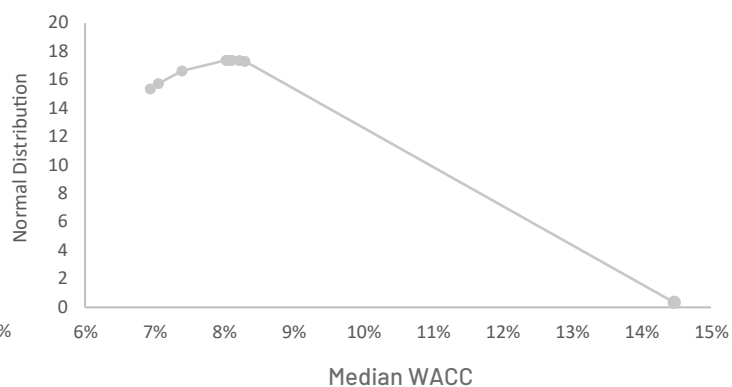


# TELECOMMUNICATION










Cost of Equity



WACC



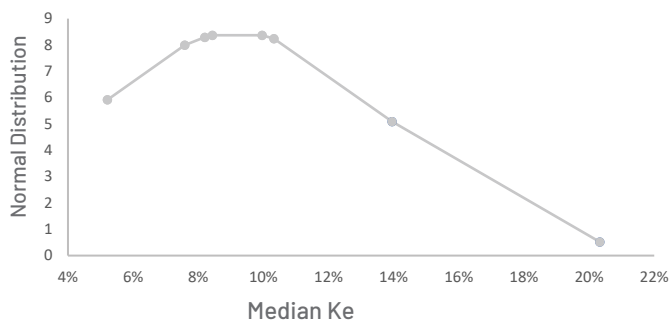
## Representative Companies

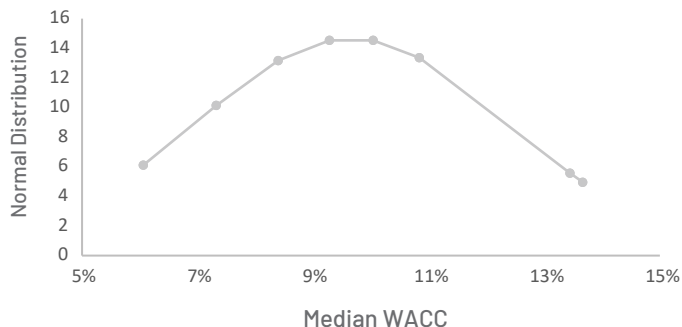
After analyzing the above companies, the median Ke and WACC of the sector is around 8.4% & 8.1% respectively.

# CONSTRUCTION

Cost of Equity



WACC



## Representative Companies

After analyzing the above companies, the median Ke and WACC of the sector is around 9.2% & 9.7% respectively.

# Services

## Valuation

- Business & Equity Valuation
- Valuation of Brands, Goodwill, Other Intangible Assets & Intellectual Property
- Valuation of Financial Securities, Instruments & Derivatives
- Valuation of Industrial Assets and Plant & Machinery
- Valuation of Real Estate
- Valuation of Infrastructure Assets & Specialized Assets
- Purchase Price Allocations (PPA) for Mergers & Acquisition (M&A)
- Impairment Studies for Tangible Assets
- Impairment Studies for Cash Generating Units, Intangible Assets & Goodwill
- Mines, Mineral Advisory and Valuation
- Valuation of ESOPs and Sweat Equity
- Valuation for Tax, Transfer Pricing and Company Law Matters
- Fairness Opinions
- Valuation under Insolvency & Bankruptcy Code (IBC)
- Determination of Swap Ratio under Mergers and Demergers
- Valuation of Inventory / Stocks and Debtors / Receivables
- Litigation and Dispute Valuation Services

## Restructuring

- Turnaround Advisory and Business Transformation
- Outside NCLT – Restructuring Services
- Insolvency Professional services under IBC, 2016
- Interim Management Services
- Process Improvement and Financial Restructuring
- CRO (Chief Restructuring Officer) Services
- Priority and Interim Funding
- Process Advisors
- Pre-Pack and Cross Border Insolvency
- Advisor to Committee of Creditors
- Preparation of Resolution Plan and Information Memorandum
- Independent Bid Evaluation and vetting of Resolution Plans
- Operational Turnaround Advisory

## Transaction Tax

### Deal Tax Advisory (Strategic, IBC, PE/VC)

- Tax Due-Diligence
- Tax Structuring
- Deal Negotiation Review
- Transaction Documentation Review
- Post-Deal Integration

### Corporate Restructuring

- Group Restructuring
- Financial/Capital Restructuring

### Succession Planning

### Holistic Implementation Support

- Merger/Amalgamation
- Demerger/Spin-off
- Capital Reduction
- Share Buyback
- Business Transfers
- Liquidation/Wind-up

## Investment Banking (Category 1 Merchant Bank)

- M&A Advisory:
  - Sell Side & Buy Side
  - Domestic & Cross Border
- Partner Search, Joint Ventures & Strategic Alliances
- Government Disinvestment & Privatization
- Fund Raising - Equity, Mezzanine, Structured Finance & Debt (Corporate & Project Finance)
- Distressed Investment Banking - One-Time Settlement, Priority and Interim Funding, Rescue Financing, and Buyouts
- Capital Market Advisory

## Transaction Services (Due Diligence)

- Buy side due diligence; Closing due diligence
- Review of vendor due diligence report from buyer's perspective
- Vendor due diligence; Vendor assistance
- Advice on transaction documents - share purchase (SPA), business transfer (BTA), IBC related
- Assistance in deal negotiation
- Project / business risk assessment which includes review of key technical aspects of the project / business
- Setting up and managing dataroom

## Risk Advisory

### Business Risk Advisory Services

- Internal Audit Outsourcing & Co-sourcing
- Business Process Improvement Studies
- Implementing ERM Framework
- SOX / IFC Controls Advisory
- Agency for Specialized Monitoring (ASM)
- Automated Segregation of Duties Review
- Compliance Monitoring Framework
- Digital Transformation
- Third Party Risk Assessment
- IA Staff Augmentation Support Services

### Information Technology Risk Advisory Services

- Cyber Vulnerability Management
- ISO Advisory & Certification Assistance
- Data Privacy & Protection
- Cyber Threat Management
- Compliance Advisory
- Business Continuity Planning

### Process Risk Advisory Services

- Techno Economic Feasibility Studies & Viability Assessment
- Lender's & Investor's/Independent Engineer Services
- Chartered Engineers Opinion & Certification

## Dispute & Litigation Support

- Valuation Services
- Damages & Loss of Profit Analysis
- Independent Expert testimony
- Anti-trust & Competition Advisory
- Post-Acquisition Disputes, Joint Venture & Shareholder Disputes
- Civil & Construction Disputes, Real Estate Disputes
- Intellectual Property Rights Dispute



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