Press Release

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Working capital performance remains a challenge for companies in the Middle East

Working Capital metrics have weakened each quarter since the oil price decline in Q4 2014, leading to additional strain on liquidity, according to PwC's latest study

PwC's 2017 Middle East Working Capital Study reveals that working capital performance has deteriorated across key economies in the region with the exception of the United Arab Emirates (UAE). Overall working capital performance in the Middle East has decreased by a further 9 days (7%) in 2016 bringing the total decline to 14 days (11%) since 2014 with lower oil prices being cited as one of the main reasons for the decline.

The squeeze in working capital was initially felt by small sized companies in 2015, continuing through to 2016 according to our findings. The study also reveals that the liquidity pressure has since spread to mid-market and large companies which also experienced rapid deterioration of their working capital throughout 2016. Interestingly, our study shows that very large companies have continued to outperform their smaller peers in 2016 by exercising their size dominance and adhering to better working capital management practices.

Mihir Bhatt, Director, PwC Middle East and the report's lead author said:
"The study mirrors the situation that we see on the ground when working with our clients. Leading companies are tackling their working capital challenges head on, and are able to outperform their peers regardless of sector".

When we look at the regional performance in more detail, our study shows that while the Kingdom of Saudi Arabia (KSA) working capital deteriorated for 6 consecutive quarters since Q3 2015, Kuwait has relatively the weakest net working capital (NWC) performance across key economies with circa 30% deterioration from 2014 to 2016.

While the UAE and KSA are the largest economies in the region, they also have the largest (on average) invested working capital days in our survey. This likely reflects the industry mix of companies surveyed but also suggests potential opportunities for significant working capital release.

In addition to the cash benefits received from better working capital management, leading working capital performers have shown better KPIs across all key financial metrics such as revenue growth, EBITDA margin and return on capital employed, demonstrating the impact of working capital efficiency extends well beyond cash.

Working capital and cash management is an increasing focus for boards, management teams and shareholders. However, the general level of awareness is still relatively low in the Middle East, which is reflected in our study results. Macroeconomic factors are putting increasing levels of stress and uncertainty on Middle East businesses - working capital and cash management are central to this but they also play to the growth agenda.

Mihir **added:**
"We are having numerous discussions with our clients about how they could improve their liquidity through better management of working capital. Releasing cash from working capital is one of the cheapest forms of financing and our clients are starting to see the value it can bring to shareholders. Now the topic is more often about how it can be done, not why it should be done".

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Link to the study
http://www.pwc.com/m1/en/publications/working-capital.html

About the study
In our 2017 Middle East Working Capital Study we have reviewed the working capital performance of more than 400 companies over a 3 year period. The countries covered include Bahrain, Egypt, Jordan, Kingdom of Saudi Arabia, Kuwait, Oman, Qatar and United Arab Emirates.

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