GCC retail sports a wider smile

Dubai-based Alpen Capital's 'GCC Retail Industry' report, released recently, sees retail sales in the GCC growing to $284.5 billion by 2018 (2013-18 CAGR= 7.3%), with sales of supermarkets/hypermarkets reaching $59.3 billion in this five-year period (CAGR= 9.2%). RetailME presents the investment bank's research findings, which give a country-wise overview of the retail industry and its key sub-segments - supermarkets/hypermarkets, luxury retail and airport retail - analysing the growth drivers and challenges influencing its development

The growth of modern retail formats such as hypermarkets and supermarkets is transforming the structure of the retail industry in the GCC region, says Sameena Ahmad, managing director, Alpen Capital. She sees the key drivers of this positive momentum being rising disposable incomes resulting from strong economic growth, the diverse mix and young demographic of a growing population, changing consumption patterns and the increasing penetration of international retail players.

Ahmad says the mid-term outlook into the next decade is optimistic, given the expected influx of tourists into the region as the Gulf gears up to host events such as the World Expo 2020 and FIFA 2022, which should create diverse opportunities for existing and new retailers.

Mahboob Murshed, managing director of Alpen Capital, adds that investors find the GCC environment relatively safe because of its socio-political stability and the initiatives of regional governments to diversify their economies and promote market friendly policies. He points out that challenges remain but M&A activity in the sector is picking up pace in recent times, with deals involving the region's leading retailers including the Savola Group, Damas International, LuLu Group and Al Meera Consumer Goods Co.

GDP per capita (based on PPP) of all of the GCC countries is higher than most developed economies, with Qatar, the UAE and Kuwait having the highest GDP per capita in the region (see Exhibit 1), largely attributable to a large inflow of petrodollars over the years coupled with a relatively small population base. Hence, growth drivers of the global retail industry have been shifting from advanced to developing countries, with international retailers from the US and Europe expanding and increasing their presence in the region to compensate for muted growth in their home markets.

Four GCC countries viz the UAE, Kuwait, Saudi Arabia and Oman have been ranked among the most attractive retail destinations among 30 developing countries worldwide by A.T. Kearney's Global Retail Development Index (GRDI) 2014 (see Exhibit 2). The rankings are based on evaluating four parameters – market attractiveness, country risk, market saturation and time pressure (which is an indicator of the long-term sustainability of a country's retail market as a function of modern retail sales volume, retail sales area and development of the economy).

The UAE has consistently risen in the GRDI ranking - up three notches from its 2010 rank to No 4 among the most lucrative retail markets globally in 2014. International retailers find the UAE retail market safe for expansion. Kuwait follows in eighth place, while Saudi Arabia maintains its 16th place for the second consecutive year and Oman, although a smaller market, also holds on to the 17th place for the second year. This growing attention to the GCC region underlines the need to modernise its retail industry structure to cater to fast-changing consumer behaviour.

In 2013, the GCC had more than 108 million sqft of retail space, with GLA (gross leasable area) steadily increasing in the region, especially in Saudi Arabia and the UAE. Modern retail formats such as supermarkets and hypermarkets are also penetrating at a faster rate, replacing traditional shops. These formats are welcomed in a region where shopping at malls is a source of recreation, considering the limited avenues of entertainment. Air-conditioned malls also make shopping more convenient in the hot climate compared to open markets.

In 2013, the modern retail sales area in the region was 57 million sqft, the UAE accounting for 40.4%, followed by Saudi Arabia at 35.8%. Other countries in the region are also gradually adopting modern retail formats.

Political instability in the Middle East is a concern but the GCC countries have so far remained largely immune, maintaining social and political stability through high social spending and political reforms. High operating overheads and aggressive competition from local, regional and international players do pose challenges for retailers to stay profitable and sustain growth. But with most parts of the region still underserved, expansion of their product offerings and service quality gives them the competitive advantage to exploit the untapped market potential to reap benefits.

The UAE retail market

The UAE is the most developed retail market in the GCC region, with GDP (at constant prices) growing 5.2% y-o-y in 2013, supported by its infrastructure and oil sectors, the latter accounting for 33% of its economic wealth. Unlike some other nations in the region, the UAE's free-market economy makes it easy to do business. Hence, mostly retailers choose the country to enter the GCC market.

Retail sales growth was estimated at 7.6% y-o-y, reaching $52.1 billion in 2013 - 9.0% of GDP (see Exhibit 3). Strong retail sector growth was driven by higher disposable incomes from high oil prices and low inflation, large infrastructure projects, growing consumer confidence and increasing tourism in the country. The composition of retailing in terms of food and non-food sales has been largely the same over the last few years, with food sales accounting for 40-42% of total retail sales.

One concern is that the UAE market is getting saturated and overcrowded, yet the retail industry continues to lure new players and brands. Take the example of Marka, which was set up in 2014 to introduce new retail and F&B concepts. It found its initial public offering, launched in April 2014 to raise part of its start-up capital, oversubscribed 36.5 times, netting it about $75

Exhibit 1: GDP Per Capita (based on PPP) Comparison – 2013

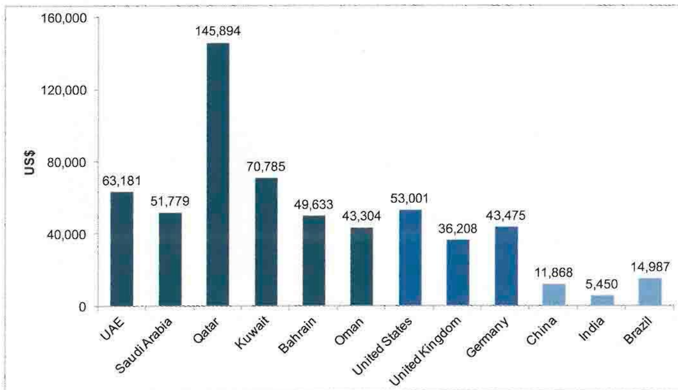


Exhibit 2: Comparison of the GCC Countries* on Different GRDI Parameters

Countries	Market Attractiveness (0: Low 100: High)	Country Risk (0: High 100: Low)	Market Saturation (0: High 100: Low)	Time Pressure (0: Low 100: High)	GRDI Score	2014 Rank
UAE	98.5	82.3	17.5	43.8	60.5	4 ↑
Kuwait	78.8	72.6	32.9	31.7	54.0	8 ↑
Saudi Arabia	72.3	67.3	29.5	27.4	49.1	16 ↔
Oman	75.1	79.1	27.0	11.1	48.1	17 ↔

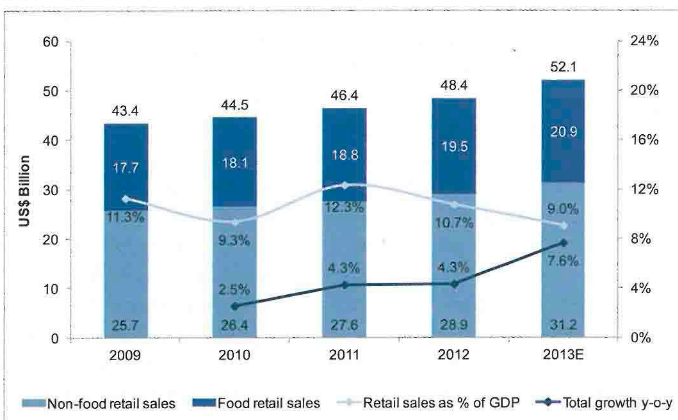
Source: A.T. Kearney GRDI 2014

Note: ↑ Indicates increase in ranking from the previous year

↔ Indicates same rank as in the previous year

** Bahrain and Qatar do not form a part of GRDI 2014*

Exhibit 3: Size of Retail Sales in the UAE



million. With its shares listed on the Dubai Financial Market, Marka became the first retail company in the country to be publicly traded. Taking the inorganic route to growth, it recently announced the acquisition of the sports goods retailer Retailcorp UAE LLC, a subsidiary of Istithmar, for around $60 million.

The modern retail sales area in the UAE was around 22.6 million sqft in 2013, the highest across the GCC region. Availability of quality retail space, however, remains limited in comparison to demand, leading to an uptrend in rental costs across the country. Upcoming retail construction projects are expected to counter this dearth of retail space.

Dubai and Abu Dhabi are the major retailing hubs of the UAE. Dubai is the second most popular retail destination globally after London, new trade licences issued between 2010 and 2013 increasing 8% annually and its retail space per 1,000 people at 14,849 sqft being the highest in the world. The city accounted for about 55-65% of the country's retail sales in 2013, The Dubai Mall and Dubai Shopping Festival alone attracting 35 million visitors annually to the country. The emirate's geo-strategic location and its advanced infrastructure and logistics facilities make it the ideal location for companies to base their wholesale and retail trade operations for serving the regional markets, its transformation into a smart city boding well for the retail industry.

Abu Dhabi is the second largest destination for retailers and consumers in the UAE. The emirate displays strong growth potential, significantly

"The modern retail sales area in the Kingdom in 2013 was around 20.4 million sqft and the number of retail outlets stood at 41,000 in 2013.

Exhibit 4:

Size of Retail Sales in Saudi Arabia

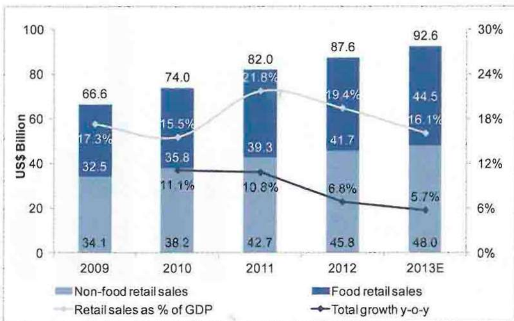
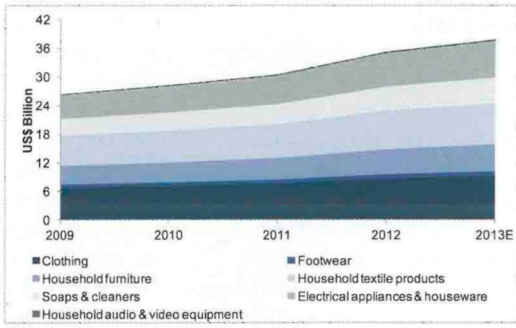


Exhibit 5:

Consumer Goods Demand Composition in Saudi Arabia



ramping up its retail offerings. The market is driven by government initiatives to boost the hospitality and tourism sectors by creating synergies through public-private partnerships. Rising per capita income and a growing expatriate population further aid the growth of the retail sector. A number of large malls such as the Galleria and World Trade Centre were launched in 2013. The opening of Yas Mall in November 2014 was well-timed to benefit from the tourist inflow on account of the Abu Dhabi Formula 1 race scheduled that month. These and other new malls in the pipeline are expected to boost to Abu Dhabi's retail offerings and sales.

The UAE's homegrown retail brands are also expanding their footprint across the GCC region and beyond, setting off the next wave of retail sector growth. Another trend fuelled by the busy lifestyle of people is the opening of convenience stores in commercial towers. The country is also witnessing a spending surge in the construction, tourism and hospitality sectors in anticipation of the upcoming Expo 2020, which augurs well for the retail industry and could lead to a spurt in the number of retail sector employees in the UAE.

The Saudi Arabian retail market

Saudi Arabia is the largest economy and the biggest retail market in the GCC region. The country harbours one of the youngest and fastest-growing consumer bases in the world, enhancing its appeal for retailers. Its GDP (at constant prices) grew at 4.0% y-o-y in 2013 due to government spending and revenue from the oil sector, which contributed 47.4% to its nominal GDP that year.

Retail sales grew 57% in 2013 to an estimated $92.6 billion, 16.1% of GDP (see Exhibit 4). The volume growth, however, slowed during the year due to the falling impact of the stimulus measures implemented in the past and reduced overall demand following the departure of a million expatriates from the country.

Food remains the largest retail sub-sector in the Kingdom but the demand for consumer goods, particularly white goods, textiles, footwear and furniture, has also been high since 2011 due to a strong economy and the government's expansionary fiscal policies (see Exhibit 5). The consumer goods market was valued at $37.8 billion in 2013. The sector is mainly driven by rising employment, the government's programme to build 500,000 new affordable homes, and limited entertainment avenues in the country.

Saudi Arabia is one of the pioneers in adopting modern retail formats and setting up the required infrastructure to support growing demand, driven largely by its young population, rising disposable income and increasing consumer confidence. The modern retail sales area in the Kingdom in 2013 was around 20.4 million sqft and the number of retail outlets stood at 41,000 in 2013. The entry of international retailers through local partnerships is making the market competitive but it is still fragmented, with the top five players controlling only a 10.6% market share.

Nevertheless, Saudi Arabia is still under-served in terms of modern retail area per capita, which is among the lowest in the region. There are less than 1,000 modern trade outlets in the country, which has around 30 million inhabitants. Further, a relatively low GDP per capita compared to the neighbouring countries hinders the growth of luxury retail brands, capping further investments from these brands and restricting the market to the major cities. Unemployment among the youth, one of the highest in the world, is another concern while the retail supply chain infrastructure is also in need of an upgrade. However, increased government and private sector investments could help overcome these challenges, creating employment opportunities and enhancing people's spending power.

The Qatari retail market

Qatar has one of the highest GDP per capita in the world, largely depending on its hydrocarbon sector for revenue growth. The country's GDP (at constant prices) grew 6.5% y-o-y in 2013 on the back of its strong oil and gas sector revenue, supplemented by a significant contribution from its non-hydrocarbon sector. Qatar exhibited strong resilience to the global crisis and the socio-political unrest that took place in some parts of the Middle East on its way to becoming a balanced economy with diversified growth across multiple sectors.

Qatar is one of the fastest growing retail markets in the GCC region, its retail industry strengthened by a boom in its infrastructure sector, government development and welfare spending, a growing affluent class and expatriate population and surging demand for retail brands. International retailers are attracted to the country by these favourable demographic trends.

Most of Qatar's retail activities are concentrated in Doha, with modern retail space per 1,000 people averaging more than 2,150 sqft, which is expected to rise as the country plays host to the FIFA World Cup in 2022. At current prices, the retail trade, restaurants and hotel sector showed 15.8% y-o-y growth to $12.5 billion in 2013 (see Exhibit 6), with the fast–growing population and large infrastructure projects supporting above 10% growth since 2011.

The modern retail sales area was around 4.3 million sqft in 2013, with the increasing number of hypermarkets and supermarkets giving a boost to modern retail concepts. Infrastructure - both housing and retail - is growing rapidly but the country needs to register 5% annual population growth if it is to balance supply and demand in its retail market.

The Kuwaiti retail market

Kuwait has one of the highest GDP per capita in the GCC region, second only to Qatar. However, political uncertainty in the country resulted in GDP (at constant prices) declining 0.4% y-o-y in 2013. The hydrocarbon sector contributed an estimated 64% to its nominal GDP that year, underlying the need for Kuwait to pursue economic diversification. The government is already undertaking initiatives in this direction to augment revenue from non-oil sectors. It launched its five-year plan in 2010 to strengthen the private sector, focusing on investments in infrastructure. It also amended its laws to introduce the National Fund for Small and Medium Enterprises in 2014 to aid growth of the retail sector.

Kuwait's retail industry plays a key role in driving its non-oil sector growth. The wholesale and retail trade was $5.8 billion in 2013 or 3.3 % of GDP at current prices (see Exhibit 7). The industry registered 11.9% y-o-y growth that year after declines in 2011 and 2012 due to political factors.

Exhibit 6: **Size of Retail Trade in Qatar**

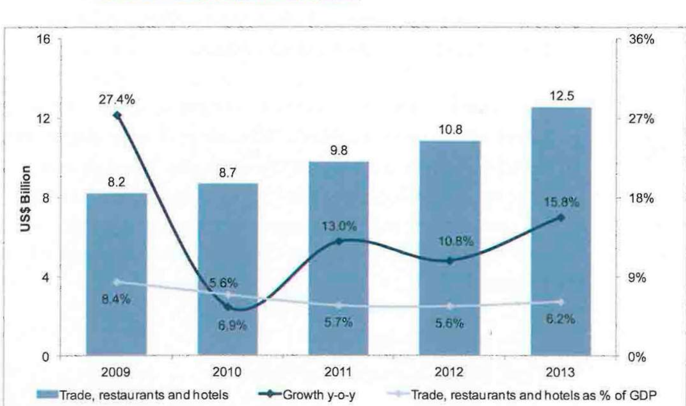
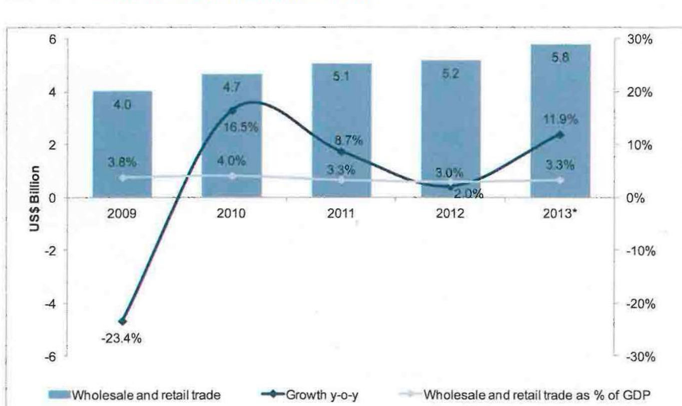


Exhibit 7: **Size of Retail Trade in Kuwait**



Urbanisation, the continuing influx of expatriate workers, a rising population of young and affluent citizens and the growth of the tourism and hospitality sectors were the factors providing a foundation for expanding the retail sector.

The country's high GDP per capita makes it a major hub for global luxury brands such as Chanel, Burberry, Louis Vuitton, Prada and Christian Dior. Modern retail concepts and formats are gaining popularity in the country, which had a modern retail sales area of around 4.3 million sqft in 2013, with the non-food retail market characterised by a growing number of large shopping malls.

On the flip-side, the unorganised retail sector still drives the bulk of grocery sales in Kuwait. Furthermore, the country's retail industry is closely monitored by the government, with stringent censorship laws keeping retailers of books, films, records, clothing, artwork and music at bay, prompting the exits of Virgin Megastore and Dubai-based record distributor Music Master from the market in 2012.

The Bahraini retail market

Bahrain is one of the most diversified economies of the GCC region, with only a quarter of its income generated by the oil sector. However, unlike most of its GCC neighbours, the country was affected by the Arab Spring for a prolonged period, its retail trade stagnating in 2011 and recovering moderately in 2012. The recovery saw GDP (at constant prices) growing at 5.3% y-o-y in 2013, on the back of high oil prices, rising government spending and infrastructural development. Retail trade grew 3.6% y-o-y to reach $1.3 billion or 4.0% of GDP at current prices (see Exhibit 8).

The Bahraini retail market is the smallest in the region due to its small population and the lowest GDP per capita. However, rising consumer confidence is leading to increased spending, laying the ground for transforming the retail market. Increasing interest from international players and the development of new retail formats such as malls are also contributing to this transformation of the industry landscape. Modern retail sales area in the country touched around 1.1 million sqft in 2013.

The sector largely depends on tourism, the majority of tourists coming from neighbouring Saudi Arabia, with the annual Grand Prix event also drawing visitors. The non-food retail segment contributes significantly to total retail sales in Bahrain.

Post Arab Spring, the country is seeing greater political stability and gradually generating investor interest, this strong potential bringing in luxury retailers such as Gucci, Saks Fifth Avenue and Burberry, in addition to other foreign retailers such as the French retail chains Géant and Carrefour. Regional hypermarket giant LuLu is also scheduled to open three hypermarkets by end-2015.

Exhibit 8: **Size of Retail Trade In Bahrain**

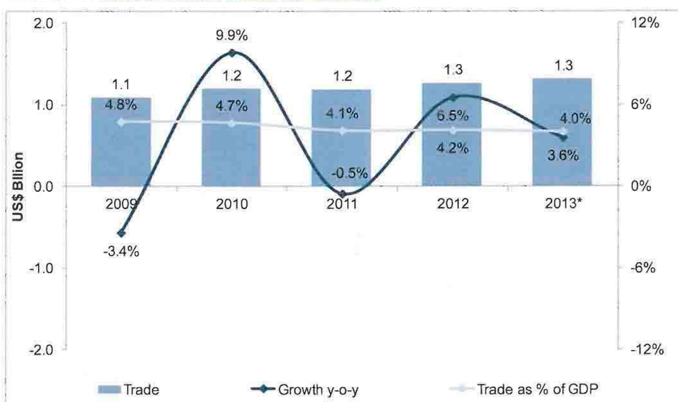
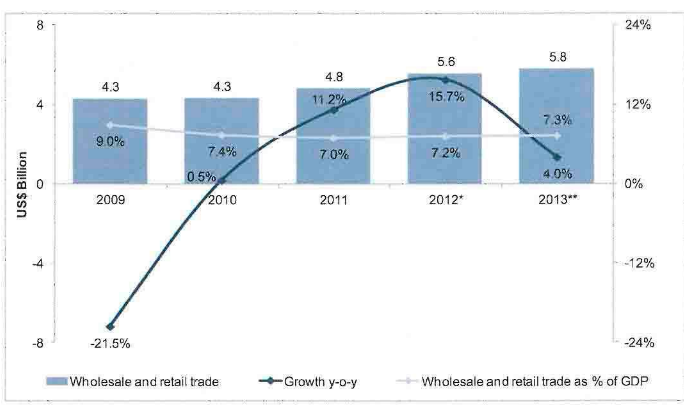


Exhibit 9: **Size of Retail Trade in Oman**



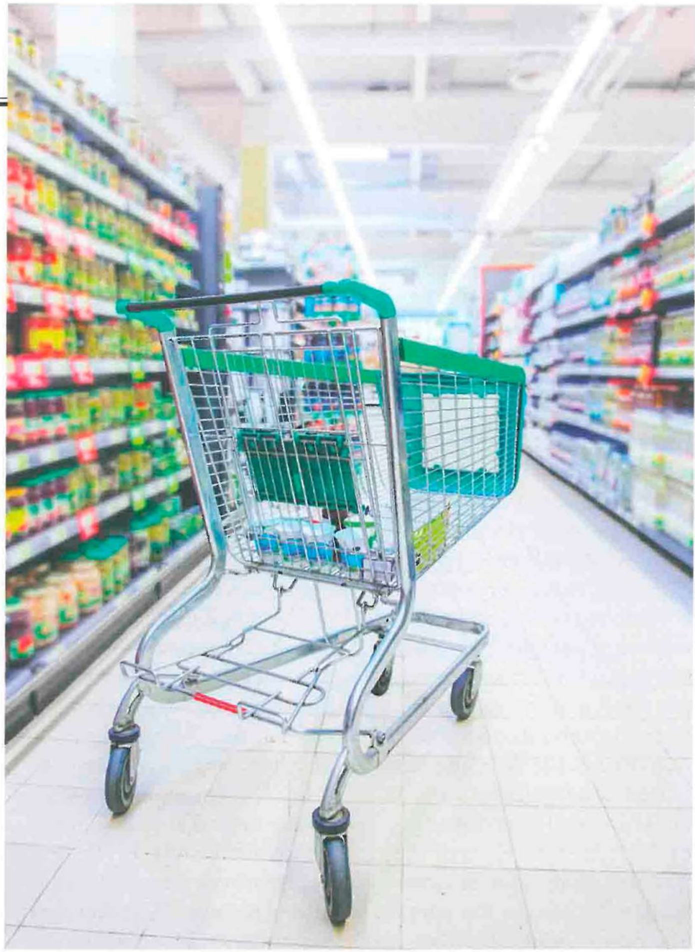
The Omani retail market

Oman has a small population and one of the lowest per capita GDP among GCC countries, although it is home to many high net worth individuals. Its retail industry is driven by political stability and increasing disposable income, low market saturation, the growing appeal and awareness of international trends and the rising number of tourists and expatriates in its workforce.

Oman's GDP (at constant prices) grew 4.8% y-o-y in 2013 due to strong growth in its hydrocarbon sector, which accounts for 49% of its GDP. Its modern retail sales area was 3.2 million sqft that year, with retailers seeing its market as stable rather than fast growing because of its small economy and relatively low GDP growth.

The country featured for the first time on AT Kearney's GRDI in 2012 at the eighth position, falling to the 17th spot in the 2013 index but maintaining its ranking in 2014, backed by sustained 7% y-o-y growth in retail sales since 2011. Its third position on Knight Frank's Luxury Opportunity Index of 2014, which ranks countries with the fastest growing spending potential in the short and medium term, also sends a positive signal to retailers and luxury brands.

Oman's retail market is characterised by the presence of many large regional and international retailers, with the number of its hypermarkets and supermarkets increasing, although at a slower penetration rate compared to other GCC countries. Among



prominent local players is the Khimji Ramdas Group, which runs more than 50 Khimji's Mart supermarkets across Oman and also manages a chain of welfare markets for the Royal Oman Police. Foreign players like the Lulu Group have a robust hypermarket network across the country, while other major brands such as LVMH, Marks & Spencer and L'Occitane also have a strong presence.

Muscat is the country's retail hub. The size of the wholesale and retail trade at market prices in 2013 was $5.8 billion (see Exhibit 9), contributing 7.3% to GDP. New projects such as the Muscat Grand Mall, Mustafa Sultan complex, The Avenue and Panorama Mall are expected to strengthen the retail sector going forward. The trend of developing smaller malls with an area of 32,000 sqft to 108,000 sqft to cater to communities in their vicinity is also gaining traction and proving to be a key driver of the retail sector.

GCC supermarket/ hypermarket overview

The retail structure in the GCC region is undergoing transformation, driven by social and economic developments. Key factors influencing the market include a growing population comprising a large proportion of expatriates, rising purchasing power, changing consumption patterns, increasing penetration of international retail players and favourable government policies and initiatives.

Such transformation is bringing in modern retail formats such as hypermarkets and supermarkets in growing numbers. These large organised formats appeal to consumers because they offer a variety of products under one roof, a hassle-free shopping experience and other value-added facilities, with hypermarkets being the fastest growing retail channel in the region.

A major focus of hypermarkets and supermarkets is catering to the food retail segment in the GCC. Climatic conditions here are unsuitable for agriculture so the region depends on imports of food to meet demand. This market opportunity has drawn many international food retailers, who bring modern concepts of retail into the region.

The UAE was among the earliest adopters of modern retail formats in the GCC, hence the large hypermarket and supermarket retail format is consequently more mature in the country. With new retail formats such as specialty stores and e-commerce being explored, many major hypermarkets have launched online stores as well.

The real estate boom has also led to the opening of larger numbers of convenience stores and supermarkets in commercial towers, prompting a corresponding change in people's shopping habits. Busy consumers prefer shopping at such stores and supermarkets in their vicinity to meet their daily needs, even as they visit hypermarkets for bulk shopping on a weekly or monthly basis. Direct imports have enabled hypermarket retailers such as Carrefour to offer food at competitive prices. Majid Al Futtaim Hypermarkets and EMKE Group are some of the major grocery retailers in the UAE, with a 20% and 12% market share by value respectively in 2013.

The retail market in the Saudi Arabia has also seen growth in modern formats, although the supermarket model is less developed here since they mostly offer food items, contributing 26% of the food retail sales in the Kingdom in 2013. Hypermarkets, on the other hand, provide a more comprehensive product offering in response to the growing demand for non-food items

Saudi Arabia had 90 hypermarkets in 2013, located in the major cities of Riyadh, Jeddah and Dammam. In addition to hypermarkets, convenience stores, known as 'bakalas', are also showing signs of positive growth, meeting the daily needs of communities in their vicinity and benefiting from the restrictive driving regulations for women in the country.

Shopping at hypermarkets and supermarkets is considered a form of entertainment in the Kingdom due to limited entertainment options and extreme climatic conditions. The Savola Group owns the largest hypermarket and supermarket food retail chain in the country and plans to expand its footprint in the GCC, adding another 100 outlets to the 150 it presently operates across the region by 2020.

Many regional retail players have also tried to explore the online retail format in Saudi Arabia, but met with little success due to lack of awareness and low customer demand. Other contributory factors to the failure of e-commerce retail sites include low internet penetration and low credit card usage.

The hypermarket and supermarket sector is relatively underdeveloped in Qatar but modern retail formats are expected to benefit from the anticipated infrastructural growth in preparation for the upcoming FIFA World Cup 2022. Many international retail players are already targeting the country as a market for these formats, including the Spar Group, which has signed a licensed agreement with the Khimji Ramdas Group to open supermarkets across the GCC region, the major share of this investment directed to Qatar.

Modern retail formats currently account for a small share of the Kuwaiti, Bahraini and Omani retail market, presenting huge growth potential. With Bahrain's economy now stabilising, the country is seeing progress in the supermarket and hypermarket format of retailing, which has caught the attention of several prominent players. In 2014, Al Adil Supermarket announced plans to open ten outlets in Bahrain, while Géant opened its second hypermarket in the country after 2001.

The growing urbanisation in the region has put the spotlight on Oman as well, lending a welcome push to the growth of its retail market. The country is gaining the attention of major regional players as retailers transition from the traditional 'souk' format to launching stores in larger shopping malls, with. Qatar's Al Meera Holding purchased the retail assets of Oman's Safeer Stores in November 2012, thus marking its first overseas foray.

GCC luxury retail market overview

The GCC region has always exhibited a healthy appetite for luxury goods. In 2014, Knight Frank's Luxury Opportunity Index ranked the Middle East as the second largest luxury retail destination, after Africa (see Exhibit 10). Qatar, the UAE and Oman hold the top three positions on the index, having the fastest growing spending potential in the short and medium term. Rankings on the index are based on parameters such as the number of luxury retail outlets, premium air travel, air traffic, ability to create wealth and economic growth.

The GCC luxury retail market has registered 5-8% uninterrupted annual growth over the years, even during the global economic meltdown. Factors such as high disposable incomes, increasing exposure to the western world as a result of urbanisation, large expatriate populations and high tourism growth have added lustre to the region as a lucrative market for the top global luxury brand retailers. The high-end fashion and accessories segment represented 40% of GCC luxury retail in 2013, while hard luxury products (such as watches and jewellery) accounted for 35%. The beauty products segment, especially fragrances, accounted for 25% of the market that year (see Exhibit 11).

Dubai is the most popular shopping destination for high net worth individuals, largely from China, Russia and other Asian and Arab countries, accounting for 30% of luxury sales in the Middle East and 60% in the UAE.

Qatar is also a growing market for luxury retailers, driven by one of the highest per capita disposable incomes in the world, with Qatari nationals spending more than $5,000 a month on luxury products. However, despite the presence of many luxury brands in the country, Qataris prefer to shop in Paris, Milan, London, New York and Dubai, impacting luxury sales in the country.

Exhibit 10: **Luxury Opportunity Market Share By Regions**

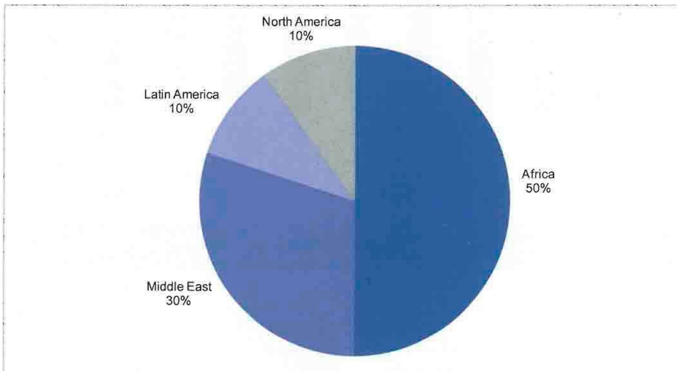
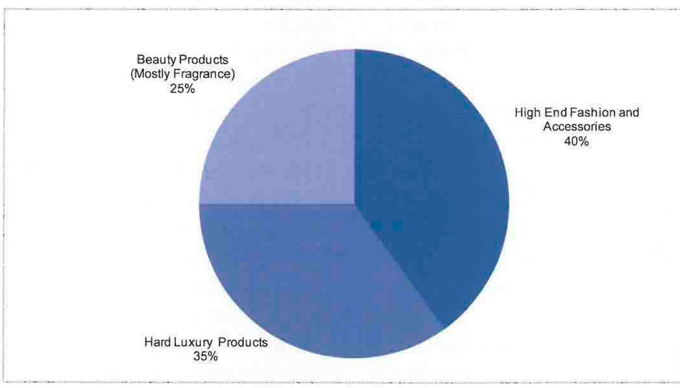


Exhibit 11: **Luxury Products Market Composition in the GCC**



With economic growth, Saudi Arabia's luxury retail market is emerging as the second largest market in the GCC region. The demand for luxury goods in the kingdom is rising in tune with its young and affluent population. Saudi Arabian consumers spent $34.4 per capita on premium perfumes, one of the largest segments in the region, in 2012.

Kuwait's per capita GDP growth is among the highest in the Gulf. The country is also one of the fastest growing luxury retail markets in the region, attracting many investors. However, like consumers across many other GCC nations, Kuwaitis also prefer shopping overseas.

Bahrain and Oman have comparatively smaller luxury retail markets, mainly because of their small populations and relatively low disposable income levels. Nevertheless, Oman's presence on the 2014 Luxury Opportunity Index has attracted major luxury retailers to the country.

GCC Airport retail market overview

The Middle East garnered $3.9 billion in airport duty free sales in 2013, with leading airports in the GCC accounting for the lion's share of this market. International tourist arrivals in the Gulf touched 31.6 million in 2013, at 5.3% CAGR from 2004 (see Exhibit 12), outpacing the global average of 4.1% over the same period (see Exhibit 13).

The region expects a spurt in international tourist arrivals

Ritu Manoj Jethani / Shutterstock.com

as it consolidates its position as a business and leisure tourism hub, and as the niche MICE (Meetings, Incentives, Conferences and Exhibitions) segment sees healthy growth. Upcoming events such as Expo 2020 and FIFA World Cup 2022 are seen as major drivers of the tourist inflow into the region, which, in turn, will fuel the airport retail sales.

The region's geographical location, large expatriate population and its emergence as a popular shopping destination have favourably positioned its duty free retail market, the strongest performers being Dubai, Qatar and Abu Dhabi duty free retails.

Dubai is the most attractive tourist destination in the region with annual events such as the Dubai Shopping Festival and the Dubai Racing World Cup. In 2013, Dubai Duty Free (DDF) accounted for 5.1% of the global airport duty free business and about 3% of the total global duty free travel retail sales. Its share in Middle East airport sales is 45.7%, making it the largest airport retail entity in the region.

DDF's sales rose 11.4% y-o-y to $ 1.8 billion in 2013, the addition of Concourse A dedicated to the Emirates airline fleet and the opening of the passenger terminal at Dubai World Central's Al Maktoum International Airport contributing to this healthy growth. Cosmetics and fragrance formed DDF's highest selling segment, with $289 million in sales.

Passenger traffic at Dubai International Airport grew over 15% to 66.4 million in 2013 and, together with Dubai World Central, the two airports are projected to handle 108.3 million passengers in 2018.

Abu Dhabi Duty Free is also

Exhibit 12: International Tourist Arrivals in the GCC

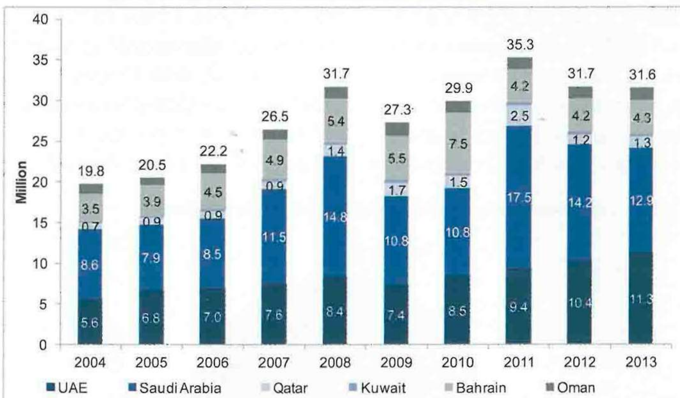


Exhibit 13: Comparison of International Tourist Arrivals (Million)

Region	2004	2013	CAGR
Global	755	1,080	4.1%
GCC	19.8	31.6	5.3%

a major airport retail entity in the UAE, with passenger traffic at Abu Dhabi International Airport growing 12.4% to 16.5 million in 2013 and contributing to the 13% rise in sales to $248 million. The company went on to achieved record sales of $132.8 million in the first half of 2014, an increase of 11.5% compared to the same period last year, the total number of transactions during the period crossing 2 million, 12.8% higher y-o-y. The airport is expected to handle 20 million passengers in 2014, signalling robust growth in airport retail sales.

Qatar Duty Free, the second largest duty free operator in the region, has shown strong double-digit annual growth over the last several years, with passenger traffic at Doha International Airport growing 10.0% to 23.2 million in 2013. The country expects high inflows of passengers as the FIFA World Cup 2022 nears and new infrastructural facilities become operational, helping sustain double-digit growth of airport retail sales going forward. Hamad International Airport (HIA) started its operations in April 2014, enhancing Qatar's connectivity and adding opportunities for retail. Qatar Duty Free has opened a new retail outlet at HIA to benefit from the anticipated passenger growth.

Bahrain Duty Free has been impacted by political instability in the country in the past, which also led to the cancellation of the Formula One Grand Prix in 2011. However, the company clawed its way back to partial recovery in 2012. The following year, passenger traffic at Bahrain's airport was affected again when Bahrain Air discontinued operations due to financial difficulties. Bahrain Duty Free sales dropped 5.3% y-o-y to $69.1 million in 2013. Thereafter, a stable political environment has benefited the market, with passenger traffic through the airport registering 10.8% growth in the first nine months of 2014 and duty free sales growing 8.6% to $54.9 million. Recovering sales are expected to help sustain the country's airport retail market. ■