

Iraq stock market finds favour



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Thursday, September 22, 2011 As of 11:27 AM

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BUSINESS | SEPTEMBER 22, 2011, 4:27 A.M. ET

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BY NIKHIL LOHADE

DUBAI—With most Middle East stock markets having been dragged down by the turmoil unleashed by the Arab spring and a sputtering global economy, some adventurous fund managers have started exploring opportunities in the tiny Iraqi market.

The Iraqi Stock Exchange, or ISX, says its main market index has surged some 65% so far this year, making it one of the world's best-performing markets. Though many doubt the accuracy of the ISX's main index, fund managers who follow the country agree that Iraqi share prices have risen about 15% in 2011—still outperforming most global peers.

Investors have been attracted by the relative political stability following the formation of Prime Minister Nouri al-Maliki's coalition government last year, as well as the promise of higher oil revenues and the reconstruction of the economy. The International Monetary Fund estimates that Iraq's economy will grow at 9.6% this year and likely expand by 12.6% in 2012.

"Foreign buying has picked up in the past 18 months or so with inflows estimated at about \$130 million in this period," said Shwan Ibrahim Taha, chief executive at Baghdad-based Rabee Securities, one of the largest brokerages in the country and a prime broker for several foreign investors.

"The fact that it is one of the best performing markets this year, with further potential upside as the economy develops, is definitely whetting investor appetite," he said.

The Iraqi bourse's gains this year compare well to the performance of other indices in the region. Saudi Arabia, the Middle East's biggest market, is down some 7% so far this year. Egypt, the most open market in the region, has dropped 38% in the wake of the January revolution that toppled former President Hosni Mubarak.

With a market capitalization of about \$4 billion, and daily turnover of about \$2 million, the ISX is one of the smallest markets in the region. Even after its sharp falls this year, Egypt has a market capitalization of about \$56 billion.

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Investing in the Iraqi market is still complicated and risky. The ISX lists about 85 companies across sectors such as banking, insurance, services, industry and agriculture. But only about 30-40 stocks are actively traded, and only a smaller number are liquid enough for investors to buy or sell without disrupting the price, according to Sherif Salem, a fund manager at Abu Dhabi-based Invest AD, which has an Iraq-focused fund with about \$20 million in assets under management.

Iraq's \$115 billion economy continues to be dominated by the oil sector, which provides over 90% of government revenue and 80% of foreign-exchange earnings. But the country's major energy companies aren't listed, depriving investors of one of Iraq's most attractive sectors.

This leaves Iraq's banking sector as the dominant component on the index, accounting for about 70% of market turnover. However, the shares of several Iraqi banks have been subject to lengthy trading suspensions this year because of the regulator's policy of halting trade while institutions are involved in market-sensitive activity such as bonuses or rights issues. Many Iraqi banks have also been seeking new capital this year.

Mr. Salem at Invest AD said that transparency is an issue that has put off investors, though he expects this to improve. Companies are allowed almost six months to disclose their quarterly financial reports, and even when issued the reports in general contain limited information. "This will likely improve with time, and can be overcome if one has a typically longer term view of say five years," he said.

Mr. Salem said he also hopes that liquidity will improve once more companies list. At least three telecom firms are expected to go public this year, though their plans have been delayed, mostly due to concerns about liquidity. The companies—Zain Iraq, a unit of Kuwait-based Zain Group; Asiacell, a unit of Qatar Telecom; and Korek Telecom, in which France Telecom and Kuwaiti logistics company Agility own around 44%—are all expected to list at least 25% of their shares under the terms of licences issued in 2007.

"We need more companies...The next 18-24 months are likely to see a lot more action on this front," said Mr. Taha of Rabee. He said liquidity is a concern but added that the situation is getting better as about six Iraq-specific funds have been set up. Several more are also investing in the market as part of their broader frontier market mandates.

While investing in Iraq's stock market carries risks similar to those associated with any young emerging market—including lack of transparency and bureaucratic hurdles—security remains a big concern, especially among fund managers who visit the country regularly.

Violence is down across Iraq from its peak in 2006 and 2007, but concerns remain as the deadline approaches for the U.S. to withdraw its troops from the country by the end of the year. Some investors, though, are ready to take that risk for now.

"Iraq has continued to stumble along a slow and bumpy path towards improved institutions. But with oil revenues buoyant, and production volumes set to increase, we still think the risk-reward trade-off is acceptable," said Gabriel Sterne, a London-based analyst at investment bank Exotix.