



MARKETS



## Worried About a Global Markets Meltdown: Try Iraqi Stocks

Companies listed on the frontier market are up 10% this year as investors bet on post-Islamic State economic recovery

By Isabel Coles and Ali Nabhan

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BAGHDAD—Iraq's stock market, tucked behind blast walls in an upscale part of Baghdad, is defying the violent swings that have struck the global markets this year.

Shares of companies listed on the frontier market are among the world's top performers in the first quarter as investors bet on the country's economic recovery following the defeat of Islamic State. The three-year war destroyed parts of the country's infrastructure, leaving many businesses struggling.

As the government seeks to rebuild the war-ravaged country with the help of foreign aid and investments, investors are buying up shares of Iraqi companies they expect to benefit the most from those efforts—from banks and industrials to telecommunications firms and hotels.

The Iraq Stock Exchange benchmark ISX index is up about 10% this year, ahead of other similar frontier markets that are up 0.6%, according to index provider MSCI Inc., MSCI -0.72% placing it among the top 10 markets globally. Those gains come even as many other stock markets have been hard hit by worries of an imminent bear market after a multiyear bull run.

Iraq's market missed out on that cycle, losing about 60% of its value over the past three years since Islamic State militants took over around one third of the country in 2014. That drop also coincided with a steep fall in the price of oil, the government's biggest revenue earner.

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—Grant Felgenhauer, principal of Euphrates Advisors

"Iraq today resembles other early-stage markets—like post-Soviet Russia and others—that ended up performing well for investors," said Grant Felgenhauer, principal of Euphrates Advisors, which manages the Euphrates Iraq Fund. The fund has \$130 million invested in the Iraqi stock market and is up more than 31% in the first quarter of 2018, according to Mr. Felgenhauer.

"You've got very cheap assets, very few foreign investors, misunderstood politics and a wave of oil liquidity coming into a very small capital market. The pieces are falling into place for good things to happen," he said.

With a market capitalization of around \$10 billion, the Iraqi bourse is relatively small compared with other similar frontier markets such as Argentina and Vietnam and even regional markets such as Saudi Arabia and Kuwait. Just over 100 companies are listed on the stock market, accounting for an average daily turnover of around \$1 million to \$2 million.

A frontier market is generally thought to be a developing country that is much smaller than what many index compilers classify as an emerging market.

As security in the Iraq improves and oil stabilizes at relatively higher prices, investors are focusing again on the country's economy.

Iraq's gross domestic product is forecast to grow by 3% in 2018, after contracting last year, according to the International Monetary Fund. That growth is expected to increase once Iraq receives the tens of billions of dollars its allies have committed to help finance the country's reconstruction and development, which the World Bank estimates will cost \$88 billion.

At an investment conference in February, Baghdad showcased more than 150 projects—from hospitals and factories to airports and resorts—receiving pledges worth as much as \$30 billion in aid, investments and loans. Prime Minister Haider al-Abadi has vowed to reduce corruption and red tape to attract more investors and boost the private sector.

“We are in the very early stages of recovery,” said Ahmed Tabaqchali, the chief investment officer of Asia Frontier Capital’s AFC Iraq fund. He decline to say how much the fund has invested in the Iraqi market.

Baghdad’s stock exchange, like most other Middle East markets, is dominated by local investors who tend to buy and sell shares with a short-term outlook.

But foreign investments have increased in recent months. The number of foreign funds invested in the stock market has increased to 50 in 2018 compared with 30 last year, accounting for around 20% of the market, said the head of the stock exchange, Taha Ahmed al-Rubaye. He declined to give the value of their investments.

Foreign investors have long eyed frontier markets such as Iraq for relatively higher growth compared with developed markets, but remain cautious about the wider challenges that come with them—from outdated or opaque legislation to unreliable trading and banking systems.

Iraq also faces other risks including the reemergence of the insurgency that could disrupt the country’s redevelopment plans. A parliamentary election in May will be keenly watched.

“A dysfunctional non-oil economy,” is another problem, said Suha Najjar, founder of Akkadia Partners, a boutique investment bank with a focus on Iraq.

Mr. Rubaye said officials are taking steps to improve the market’s attractiveness to foreign investors, for instance by asking for the appointment of a custodian bank to guarantee transactions.

Some stocks, meanwhile, are rallying. Baghdad Soft Drinks, a PepsiCo Inc. bottler and leading consumer company, has gained 56% this year. Asiacell is up 67% as the telecom company regains subscribers lost in areas controlled by Islamic State.

“We are looking with optimism at what’s taking place in the stock market and the economy,” said Shwan Ibrahim Taha, chairman of Rabee Securities, one of the biggest brokers in Iraq.

“But really Iraq needs to work very hard,” he added.

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