



Gulf Research Center  
Knowledge for All

# GCC Stock Markets Managing the Crisis

Eckart Woertz



Gulf Papers

Gulf Research Center  
187 Oud Metha Tower, 11th Floor,  
303 Sheikh Rashid Road,  
P. O. Box 80758,  
Dubai, United Arab Emirates.  
Tel.: +971 4 324 7770  
Fax: +971 3 324 7771  
E-mail: info@grc.ae  
Website: www.grc.ae



---

---

**“GCC Stock Markets: Managing the Crisis”** first published February 2007 in Dubai, United Arab Emirates, by the Gulf Research Center, as part of the GRC *Gulf Papers* Series.

© Gulf Research Center 2007

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the Gulf Research Center.

**ISBN 9948-434-34-X**

The opinions expressed in this publication are those of the author(s) alone and do not state or reflect the opinions or position of the Gulf Research Center.

“

By publishing this *Gulf Paper*  
the *Gulf Research Center* (GRC) seeks  
to contribute to the enrichment of  
the reader's knowledge out of the  
Center's strong conviction that  
*knowledge is for all..*

”



***Abdulaziz O. Sager***

Chairman  
Gulf Research Center

# About the Gulf Research Center

---

---

The **Gulf Research Center (GRC)** is an independent research institute located in Dubai, United Arab Emirates (UAE). The **GRC** was founded in July 2000 by Mr. Abdulaziz Sager, a Saudi businessman, who realized, in a world of rapid political, social and economic change, the importance of pursuing politically neutral and academically sound research about the Gulf region and disseminating the knowledge obtained as widely as possible. The **Center** is a non-partisan think-tank, education service provider and consultancy specializing in the Gulf region. The **GRC** seeks to provide a better understanding of the challenges and prospects of the Gulf region.



# About Gulf Papers

---

*Gulf Papers* are reviewed bilingual academic occasional papers that analyze, assess and build forecasts on the developments of different issues in the GCC countries at the domestic, intra-GCC, GCC-Arab, regional or international levels and from a political, social, economic, and cultural perspective. *Gulf Papers* welcomes academic contributions in the form of research and studies in both Arabic and English by GCC and non-GCC scholars and experts specialized in Gulf affairs.





# Contents

---

Executive Summary.....	7
Reasons for the GCC Stock Market Corrections 2006.....	8
Current Status of GCC Stock Markets .....	12
Liquidity: Too Much and Too Little .....	15
Investor Education and Media Code of Conduct.....	18
Regulatory Bodies and Corporate Governance .....	19
State Dominance and Lack of Free Float.....	21
Family Enterprises Going Public?.....	23
Attraction of International Institutional Investors.....	25
Sector Distribution.....	28
Wider Capital Markets: Bonds, Loans and Securitization .....	31
Conclusion .....	35

## Executive Summary<sup>1</sup>

- High liquidity and speculative exuberance led to overvaluations at the GCC stock markets in comparison to other emerging markets and subsequent corrections in 2006.
- Collective exuberance seems to be a trait of financial markets since time immemorial, but it could have been reined in partially by better investor education of banks and a more considered approach of some media.
- In the absence of a free floating currency, interest rate hikes to curb liquidity are not an option in the GCC, but liquidity could have been limited by stricter controls on lending. On the supply side, more IPOs in the early stages of the boom and a developed bond market would have reduced the mismatch of too much money chasing too few stocks.
- After the corrections, GCC countries now have valuations in line with other emerging markets. Some markets like Kuwait, Bahrain and, to a lesser extent, the UAE even offer a considerable discount.
- International institutional investors have started to notice and are ready to enter the market. This could lead to a welcome professionalization of the market and could provide fresh liquidity, which has dried up. But there are still considerable legal and bureaucratic impediments for foreign market participants.
- There are still only a few domestic institutional investors. Experiences in other countries have shown that the development of pension funds and insurance companies and the encouragement of saving schemes by the state would be crucial.
- Corporate governance codes and market transparency need further improvement. Apart from awareness campaigns this includes law enforcement and market infrastructure like market makers.

---

1- Paper for Second GCC Capital Market Forum, March

- A number of IPOs would be needed to broaden the market, increase free floats and increase the number of sectors. Family enterprises and huge state majority stakes in many companies would be natural candidates. As the still brisk IPO market tends to draw away liquidity from the secondary market, a gradual and considerate approach will be necessary.
- Stock markets are part of a wider system of financial intermediation. A further development of bond markets to facilitate long term project financing and portfolio diversification as well as better access to credit for small and medium enterprises would be beneficial.

## **Reasons for the GCC Stock Market Corrections 2006**

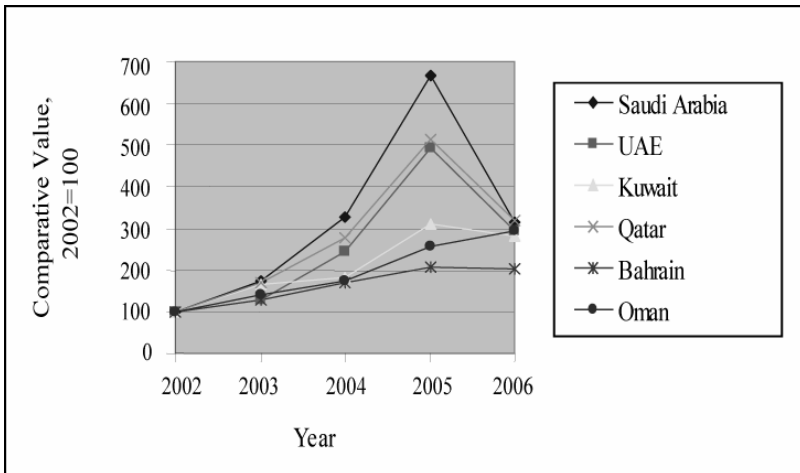
Until February 2006 the GCC stock market hype had acquired all the characteristics of a mania, ordinary people were ready to give up their jobs to speculate on credit, and valuations were extraordinary high in comparison to other emerging markets, price/earnings ratios were as high as 50 and price/book ratios as high as 12.<sup>2</sup> Profit growths that would have justified such lofty valuations could rationally not be expected. Despite considerable non oil sector dynamics that have developed, GCC stock markets are dominated by banks and traditional sectors; high tech companies with first mover advantages and corresponding potential of profit growth are absent. Falls of up to 50 percent thereafter in Saudi Arabia, the UAE and Qatar and on a much more modest scale in markets that had been less glamorous and more reasonably valued like Kuwait (see chart) brought not only personal hardships for the crowds of hapless investors but also raised important questions about capital market developments and possible spillover effects into the real economy. The two GCC countries with less

---

2- Eckart Woertz, GCC Stock Markets at Risk (Gulf Research Center: Dubai, 2006); HSBC, Gulf Weekly, November 27, 2006. The comparable emerging market figures at that time were 13 (P/E) and 2.1 (P/B).

hydrocarbon endowments, Bahrain and Oman, remarkably showed a much more balanced development of their capital market and avoided the pattern of exuberance and ensuing corrections of their GCC peers.

### *GCC Stock Markets Y-o-Y Performance*



Source: Gulf Business

The overvaluation of stocks was the obvious reason for the stock market corrections in the GCC; there is no other single and sudden event like an oil price slump or a political crisis one could link to it. If overvaluation has been the cause of the corrections, naturally one needs to ask what propelled stock prices beyond a reasonable fundamental base, in order to avoid a repetition of mistakes in the future. Two major – and one minor – reasons can be identified:

Super abundant liquidity

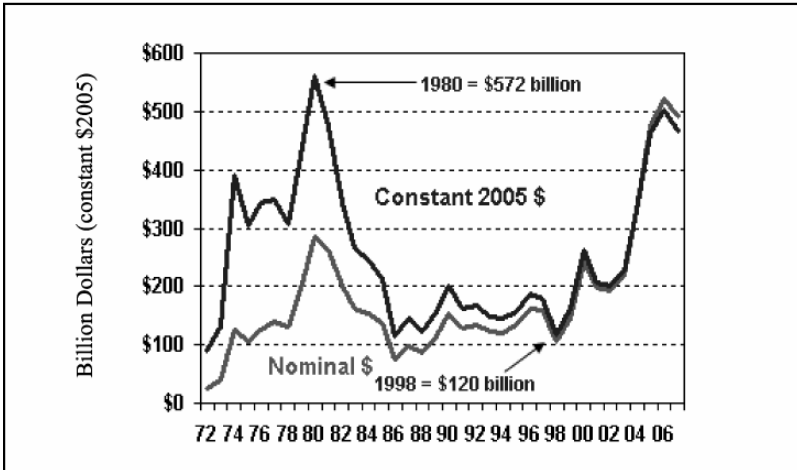
Irrational exuberance and herd behavior

(Limited:) Lack of corporate governance and profit quality

Liquidity was the single most important factor. It is no coincidence that the GCC stock market hype set in after it became obvious that oil had left its trading range around \$25, where it had traded for most of

the 1980s and 1990s. Oil revenues have skyrocketed and the GCC countries have accumulated a bigger current account surplus in 2006 than even China. But although oil revenues certainly helped, about three quarters of the liquidity growth came from the expansion of credit.<sup>3</sup> Outstanding private sector credits roughly doubled between 2002 and 2006 and the rise in 2005 was particularly high.

*OPEC Net Oil Export Revenues, 1972-2007*



Source: EIA

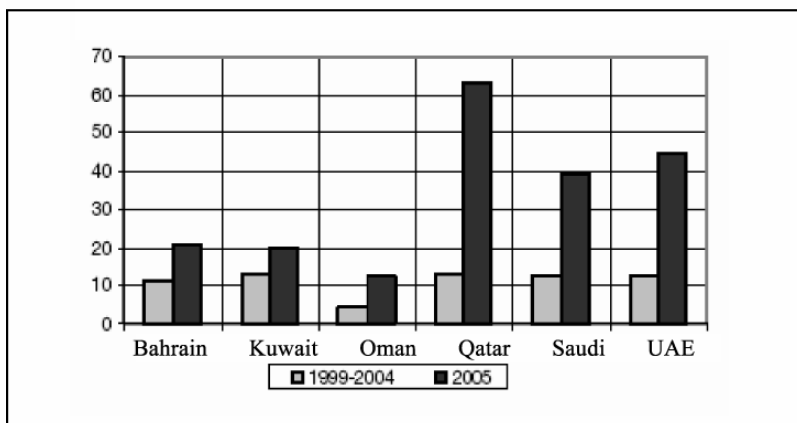
Certainly, only a part of this lending can be directly attributed to the stock market (e.g. margin lending), but rating agencies are concerned that a considerable part of consumer and commercial credits have been redirected into stock investments. Bad loans are usually given during good times. Many banks did not have the tools to assess credit risk adequately and credit bureaus have been absent until recently. Thus,

---

3- About three quarters of the 17.2 percent increase in Saudi money supply in 2004, for example, has been attributed to an expansion of domestic lending to consumers and businesses, see SAMBA, "The Saudi Economy at Mid-Year 2005," Research Paper (August 2005).

margin requirements have been too lax and loans have been given out too easily. This rising liquidity met a market that was rather illiquid: The lack of listed stocks, low free floats and limited alternative assets like bonds led to a lot of money chasing few stocks. This was illustrated by ridiculous IPO oversubscription of up to 800 times.

*Private Sector Credit Growth (percent)*



Source: Institute for International Finance (IIF), Summary Appraisal Gulf Cooperation Council Countries, Washington, August 15, 2006

Stock market crashes are as old as stocks themselves. One of the oldest market crashes occurred in the Netherlands in the 1630s during the "Tulip Mania," when speculation drove up the price of tulip bulbs to unsustainable levels.<sup>4</sup> Even mature and well regulated markets are not immune from it, as the Nasdaq bubble in 2000/2001 in the US has shown. Thus, one may argue that market crashes belong to modern capitalism and its cyclical development, as stock markets reflect an economic base and mirror the rise and decline of the real economy – with some amplification. But still there is a strong rationale to curb the

4- For a classic on early stock market crashes in history, see Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds* (Boston: 1956, original 1841), available at: <http://www.litrix.com/madraven/madne001.htm>

worst exaggerations of such market swings. The GCC stock markets are dominated to roughly 90 percent by retail investors who are usually more prone to emotional investment behavior than institutional investors like mutual funds and insurance companies. At the same time investor education by banks and media could have been better. Anecdotal evidence suggests that banks were ready to encourage leveraged investments by giving out credits rather than explaining involved risks and making sure that the customers have understood them (e.g. by customer formulas and surveys). The media, on the other hand, could have delved into the problem with more depth and rigor; instead, uncritical repetition of company statements has been more common than critical op-ed pieces.

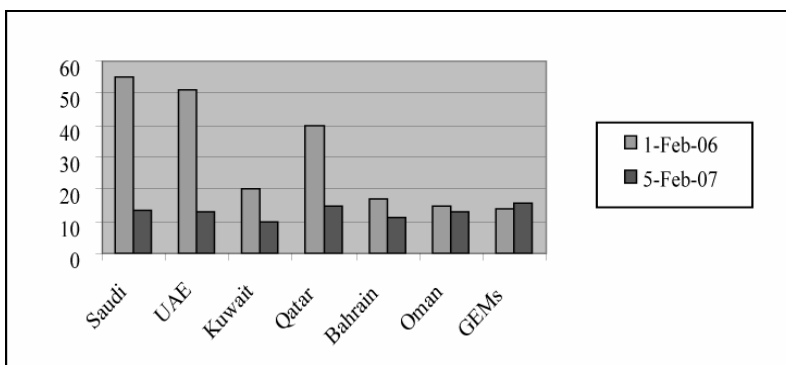
Finally, underdeveloped corporate governance and transparency affected the market as well, though it certainly ranked less in importance than abundant liquidity and herd behavior in explaining the GCC stock market corrections. Although there has been concern about unrealized book profits and unearned stated profits of projects not yet finished, there has not been a major fraud case or spectacular bankruptcy case so far. Valuations were simply so high that stocks were ready to fall even without such disappointments. Anecdotal evidence suggests that insider trading occurred frequently and it is in fact not punishable yet according to many stock market laws in the region. Such incidents certainly contributed to market dynamics on the way up as well as on the way down and have shaken confidence in the market. But, once again, they are not sufficient to explain the overvaluations that led to the crash. These were mainly caused by abundant liquidity and herd behavior.

## **Current Status of GCC Stock Markets**

Once high valuations have been reached, major corrections can occur even as the real economy booms. The example of China in 2004-5 has

shown this already,<sup>5</sup> and the case of the GCC is similar. It was neither caused by a crisis in the real economy nor did it trigger one. Oil inflows and a continuous investment boom in the real economy have cushioned the impact. It is thus decidedly different from the Asian crisis of 1997/98, when current account deficits led to currency devaluations and stock market corrections, which in turn exacerbated the critical condition of the real economy. Although the corrections have taken their toll, one has to acknowledge the rapid development of the GCC markets over the last few years. The number of listed companies has increased considerably. In some cases it more than doubled as in Kuwait and UAE, while in Saudi Arabia and Bahrain the number increased only modestly. Thus, although market capitalization and turnover have taken a hit, especially if it is taken into consideration that they spread out now over a bigger number of listed companies, they are still much higher than in the recent past and constitute a nascent broad-based capital market that was non-existent only five years ago (see table in annex).

#### MSCI P/E Levels\*



Source: HSBC, Bloomberg

\*Note: MSCI Indices are adjusted for foreign inclusion factor/ free floats. General market P/E's can differ.

5- Nomura Bank , "The Great Arabian Bubble. Red Alert," Research Paper (June 20, 2005), p. 6.

Due to the correction, valuations of GCC stocks have come down from their outrageous overvaluation one year ago and are now in line with valuations of other emerging markets. The average P/E ratio of MSCI general emerging markets (GEM) is 15.5, thus some GCC markets like Kuwait even offer a considerable discount with free float adjusted P/E ratios of only 9.8 and 11 respectively.<sup>6</sup>

GCC stocks now are sufficiently backed by earnings and do not carry higher risks than stocks of other emerging markets. They are not equally underpinned by assets, as their price/book valuation ranges mostly between 2.5 and 4 and is still slightly higher than the emerging markets average, though way below the exaggerations of one year ago, when it reached over 12 in the case of Saudi Arabia. As the region continues to enjoy attractive margins and as investors tend to focus on valuation of earnings rather than valuation compared to assets unless there is an acute crisis, the GCC has become attractive and international investors have started to notice.<sup>7</sup> They are still not allowed to invest in all markets and often face bureaucratic barriers of entry, but there is a noticeable rise in interest. Foreign investors could add professional know-how and liquidity to the market, which has dried up recently. Turnover has sunk considerably because of the valuation losses and lack of interest. Thus, big investors often do not find enough liquidity if they want to take on positions in smaller markets like Bahrain, Oman and Qatar – the oil generated liquidity is still there but does not find its way to the stock market any more. The individual retail investors seem to have capitulated as the sell-offs in November/ December 2006 have shown. An increased perception of geo-political risk and oil price decreases may have played a role, but only the capitulating fervor of leveraged retail investors can explain the renewed occurrence of downward momentum. Apart from some late fallout of the stock market corrections on non performing loans

---

6- The unadjusted general market P/E for March 5 was 14.4 for Kuwait and 11.8 for Bahrain. See also HSBC, *Gulf Weekly*, February 5, 2007, p. 18.

7- Deutsche Bank, "An Oasis of Opportunity," *Middle East Strategy*, December 4, 2006.

of banks that might show with a time lag in Q1 2007 the risk of the GCC markets have considerable potential due to continued oil inflows and investments in the real economy. Thus, one can say that contrary to the desperate mood of GCC retail investors who burnt their fingers, the situation of the stock market is not bad at all. There are though some issues that have to be addressed in order to avoid both the mistakes of the past and the committing of new ones.

## **Liquidity: Too Much and Too Little**

High oil prices and a steep rise in lending led to the liquidity that flowed unchecked into the stock and real estate markets. This in turn led to overvaluations and the ensuing corrections. The means in the GCC to curb this liquidity have been limited. The most common means used by authorities to cool down markets, i.e. a tightening of monetary policy, is not currently an option for the GCC countries, as they have pegged their currencies to the US dollar and thus have to follow the interest rate moves of the Fed in Washington. Other central bank measures such as curbs on lending and increase of bank reserves with the central bank are comparably weaker tools. A lot of the oil wealth remains dollar denominated and stays offshore, still there is enough inflow to cause a problem. An option to reduce liquidity in the market would be the sterilization of foreign money inflows through the issue of bonds. But the GCC bond markets have so far remained heavily underdeveloped, with only Bahrain and Qatar having issued Eurobonds. There is no established benchmark yield curve for government bonds that could give orientation to an equally underdeveloped and illiquid corporate bond sector.

There has been a tremendous rise of credit in the region, and outstanding loans approximately doubled over the last four years. As bad loans are normally given in good times this has led to worries about overexposure of banks to certain risk factors. International credit rating agency Moody's has listed three main areas of concern: The rapid growth in lending, the exposure to the booming real estate and construction sector and the high exposure to the capital markets,

which is not so much in direct investments or margin lending, but lending secured by equity holdings and indirect exposure in the form of personal and commercial loans that have been diverted to the capital markets during the stock market hype. The negative impact of the stock market crash in the GCC countries on these exposures may only show with a time lag towards the end of 2006 and could cloud the impressive growth in profits that has taken place and led to continuous rating upgrades in 2006.<sup>8</sup>

Moves to implement lending caps and establish credit bureaus to enhance market transparency show that the regulatory authorities are concerned as well. In 2006 the credit bureau Emcredit was established in the UAE to allow for exchange of bank data in order to facilitate credit transparency and avoid overborrowing.<sup>9</sup> Other ad hoc measures after the crash had adverse effects though, like the decision of the UAE central bank to increase the limit for margin lending from already high 70 percent to 80 percent. Rather than being a viable long-term strategy this measure rather hinted at the magnitude of leveraged investment positions that had to be “legalized” by laxer margin restrictions. The ad hoc measures taken up in Saudi Arabia equally bore witness to pressures to act rather than long-term planning. Investments by resident foreigners of Saudi Arabia in the local stock market and stock splits were allowed in the hope that the price of a single share becomes more appealing to a small retail investor. Both measures were set up to increase liquidity and stabilize a badly shaken market, but could hardly be regarded as foresighted long-term planning in a sustainable growing market.<sup>10</sup>

While overburdening liquidity and lack of deep capital markets led to the overvaluations of the GCC stock markets, after the corrections, lack of liquidity has sometimes become an issue,

---

8- Moody's Investor Service, “Arabian Gulf Banking: Stable to Positive Rating Outlooks Amid Concerns over Rapid Loan Growth and Possible Asset Bubbles,” *Special Comment*, May 2006.

9- Gulf News, November 11, 2006.

10- “Why Foreigners Won't Buy Saudi Stocks,” Arab News, April 17, 2006.

especially on days of IPOs, when some investors sell positions in the secondary market to free capital for the still brisk IPO business. There were 23 IPOs in 2006 in the GCC with an overall value of \$7.5 billion – a considerable increase from \$5.6 billion in 2005. The nine largest IPOs (see table) raised \$5.2 billion alone.<sup>11</sup> Oversubscriptions are still widespread, though they declined by 39 percent on average in 2006. Two IPOs, Saudi International Petrochemical Co. and Saudi retailer Fawaz Al Hokair even opened below their offering price in 2007, thus signaling a more sober market than in the past.

*Top GCC IPOs in 2006*

<b>Issuer</b>	<b>Country</b>	<b>Sector</b>	<b>Size (\$mn)</b>	<b>Oversubscription</b>
Al Rayan Bank	Qatar	Financial Services	1.134	7
Emaar Economic City	Saudi Arabia	Real Estate	680	2.8
Saudi International Petrochemicals Co.	Saudi Arabia	Oil & Gas	660	1.5
du	UAE	Telecom & IT	660	167
Albaraka Banking Group	Bahrain	Financial Services	582	1.4
Dubai Financial Market	UAE	Financial Services	449	300
Kingdom Hotel	Saudi Arabia	Travel & Tourism	397	14
Fawaz Abdulaziz Al Hokair and Co.	Saudi Arabia	Consumer Goods	352	1.8
Ithmaar Bank	Bahrain	Financial Services	338	3
<b>Total</b>			<b>5,251</b>	

Source: Zawya IPO Monitor

Thus, liquidity is still in the region but it does not find its way to the stock markets so easily. The smaller markets like Bahrain, Oman and Qatar, in the meantime, have a market capitalization and liquidity

11- Gulf Business, Vol. 11, no. 10, February 2007, p. 51.

that makes them unattractive to big institutional investors as they would have difficulties in buying and selling big positions.<sup>12</sup> It will be crucial to walk the thin line of avoiding mistakes of the past on the one hand and not choking a badly shaken market on the other. For IPOs that will mean choosing a considerate approach and spreading them out over time, so they do not hurt the secondary market. In the end the liquidity is still there as long as oil prices remain on elevated levels. It just needs to be attracted by quality stocks, sound valuations and good corporate governance.

## **Investor Education and Media Code of Conduct**

Investor education and the influence of media on the market have been weak in the young GCC stock markets. Only the markets in Kuwait, Oman and Bahrain have longer histories, as they were founded in 1962, 1988 and 1989 respectively. The other markets are very young; in the UAE they were founded in 2000 and in Qatar in 1997. The biggest stock market in the GCC is also its youngest one: Saudi Arabia was founded in 2001.<sup>13</sup> Thus an equity culture could hardly develop. A collective investor memory that knows that markets not only go up and involve considerable risks have been rare. An exception was Kuwait, which saw the “greatest market bubble ever” in 1982 when the informal Souk Al Manakh crashed.<sup>14</sup> As investors are more seasoned, Kuwait not surprisingly avoided the worst excesses in overvaluation and speculation in the recent GCC stock market hype and is still the most attractively valued market in the region.

---

12- Deutsche Bank, op. cit.,

13- Hawkamah, The Institute for Corporate Governance/Institute of International Finance (IIF), Comparative Survey of Corporate Governance in the Gulf Cooperation Council – An Investor Perspective, Task Force Report (September 2006), p. 7.

14- See Frank Veneroso, "Recollections of the Greatest Market Bubble Ever..., Memories of the Souk al Manakh," available at: [www.gold-eagle.com/gold\\_digest\\_98/veneroso060198.html](http://www.gold-eagle.com/gold_digest_98/veneroso060198.html) ; Felix Pomeranz, "The Collapse of the Souk Al-Manakh: A Chronicle," available at: <http://islamic-finance.net/islamic-ethics/article-13/article13index.html> .

Investor education by banks and the media has been insufficient in the events that led up to the crisis. Banks that informed customers about risks were rarer than sales agents offering speculation on credit because they thought the party would last forever. And among journalists, uncritical repetitions of company statements have been more common than in-depth analytical reports. But even when they did they could not be sure to find an audience, as the emotionally-driven retail investors of the GCC markets preferred to rely on the latest rumor mongering from friends rather than informing themselves thoroughly. But things change and considerable improvements have been made. In the UAE and Oman, campaigns for investor education have been launched and a number of local publications have increased the journalistic quality, while international media and banks have become increasingly aware of the booming GCC region and are covering it.

## **Regulatory Bodies and Corporate Governance**

Lack of corporate governance did not directly cause the GCC stock market corrections in 2006. Still, better regulations and more transparency are badly needed. Clear and reliable reporting and investor relations, enforcement of margin requirements and prevention of insider trading are cases in point. The improvement of corporate governance in the Arab financial markets is the mission of Hawkamah, a non-profit institute located in the Dubai International Financial Center (DIFC).<sup>15</sup> It has started a host of activities in 2006 and increased awareness of the problem considerably. It also published the first Corporate Governance Survey of the GCC in cooperation with the Equity Advisory Group of the Institute of International Finance (IIF), a series of reports which have been done by the IIF in other emerging markets like Brazil, South Africa and Turkey before. The IIF, an association of worldwide banks, targets five broad areas in its reports:

---

15- See [www.hawkamah.org](http://www.hawkamah.org) .

Minority shareholder rights

Structure and responsibilities of the Board of Directors

Accounting and auditing

Transparency of ownership and control

Regulatory environment

The GCC region still shows ample potential for improvement in these areas. Even the better positioned countries like Kuwait and Oman show a compliance rate of only 70 percent with IIF standards, while UAE and Qatar at the lower end only attain 40 and 35 percent respectively. The dominance of state ownership in most of the big companies is not conducive for rights of minority shareholders, there is a lack of independent directors on the board of directors, in the case of government companies it is mainly government representatives and in family enterprises it is the family and close friends. In both cases there is insufficient disclosure of potentially conflicting interests. Insider trading and decision making detrimental to minority shareholders are an often occurrence. As books are often kept for the taxman who is enforcing accounting principles and as the GCC states rarely tax enterprises, the standards of accounting and auditing are equally underdeveloped in the GCC countries with their young stock markets. Finally, with the exception of Oman, regulatory authorities in the GCC lack sufficient power to ensure actual enforcement of rules and regulations. Many of the GCC regulatory authorities also still lack full independence from third parties like the state or the respective stock markets (see table on opposite page).

Notable progress has been made though. Many GCC countries have drafted corporate governance codes or have included such requirements in Capital Market and Commercial Company legislation. Enforcement of rules and ad-hoc regulations has also seen some improvement. In the UAE, for example, regulators suspended IPOs of companies that had just been founded and that did not have a history of at least two years of successful operations. Thus, a potential flooding of the market with shell companies, as witnessed in the Kuwaiti Souk Al Manakh in 1982, has been avoided.

### *Regulatory Structure in GCC Countries*

<b>Country</b>	<b>Regulatory Structure</b>
Bahrain	The Bahrain Stock Exchange (BSE) is an autonomous organization that regulates itself. Its Board of Directors is made up of representatives from the Bahrain Monetary Authority, Ministry of Commerce, and Ministry of Finance.
Kuwait	Kuwait Stock Exchange (KSE) is an independent financial institution. The Market Committee within the KSE regulates the exchange. Kuwait does not have an independent regulator.
Oman	In 1998, Oman became the first GCC country to establish a separate regulatory body — the Capital Market Authority (CMA). The CMA regulates the Muscat Stock Market.
Qatar	Doha Securities Market (DSM) has been regulated by the Qatar Financial Markets Authority (QFMA) since 2005. QFMA is an independent regulatory agency.
Saudi Arabia	Tadawul, Saudi Arabia's stock market, was established in 2001 and is an independent organization. In 2003, the government created the Capital Markets Authority (CMA), which regulates the Tadawul. CMA is a government organization, but has financial, legal, and administrative independence.
UAE	The Emirates Securities & Commodities Authority (ESCA) was established in 2001 to regulate the Abu Dhabi Securities Market (ADSM) and the Dubai Financial Market (DFM). ESCA is a government organization, but has financial, legal, and administrative independence.  ADSM is a legal entity of autonomous status with financial and managerial independence. DFM is a public institution having its own independent corporate body.

*Source:* Hawkamah, The Institute for Corporate Governance/ Institute of International Finance (IIF), *Comparative Survey of Corporate Governance in the Gulf Corporation Council – An Investor Perspective*, Task Force Report, September 2006, p. 5.

## **State Dominance and Lack of Free Float**

Limited number of listings and lack of free float of existing listings are a problem of the young GCC stock markets. They are dominated by a few big companies, which have the state as a majority shareholder,

while most of the larger private enterprises are family owned and not listed. The same is true for the biggest state companies, namely the oil sector. Thus the largest 20 or so companies in each of the GCC countries are not listed at all (e.g. Saudi Aramco and other national oil companies, Dubai Holding, Alba, Dubal, Airlines, ADIA, KIA and other investment bodies).<sup>16</sup> On the other hand among the listed company, the largest 10 companies in each country make up between 50 percent and 80 percent of market capitalization. The GCC stock market bubble of 2005/2006 would probably not have reached such lofty proportions if too much money had not chased so few stocks. Equally, one underlying problem that led to the occurrence of the Souk Al-Manakh crash in Kuwait in 1982 were lengthy registration procedures and the withholding of shares of companies bailed out in 1977 by government authorities, which caused a lack of available stocks in the official market in comparison to the ample liquidity, thus giving way to the speculative excesses on the unofficial Souk Al-Manakh. It has thus been argued, that increased privatization on the one hand and going public of private family enterprises on the other hand would lead to broader markets and higher free floats, which would be beneficial for the further development of GCC stock markets.

In most of the bigger companies of the GCC, the respective state holds a majority stake (e.g. Sabic, Saudi Telecom, Saudi Electricity, Emirates Bank, around 70 percent each). In others, it holds a substantial minority position (e.g. Emaar, 30 percent). At the same time the hydrocarbon sector, which on average accounted for 47 percent of the nominal GDP of GCC countries in 2005<sup>17</sup> is not even listed. The national oil companies are not only the most important companies for the GCC economies; they also belong to the “most valuable” category internationally. Financial Times in collaboration

---

16- OECD, “Ownership Structures in MENA Countries: Listed Companies, State-Owned, Family Enterprises and some Policy Implications,” Working Paper 2005, available at: <http://www.oecd.org/dataoecd/26/2/35402110.pdf>

17- Institute for International Finance (IIF), Summary Appraisal Gulf Cooperation Council Countries, Washington, August 15, 2006, p. 3.

with McKinsey has identified Saudi Aramco as the most valuable company worldwide with an estimated value of \$781 billion; Kuwait Petroleum Corporation comes fifth on the same list with an \$378 billion estimated value.<sup>18</sup> While the oil sector would certainly offer quality shares, it is questionable whether control of such strategic assets should be left to market forces, as this could potentially lead to foreign influence once the markets open up.

## Family Enterprises Going Public?

While the biggest companies in the GCC are state-owned, the huge realm of small and medium enterprises (SME) is dominated by family-owned private sector companies. Some of these companies have reached the size of big conglomerates. The Olayan, Al-Futtaim, Kanoo and Zamil groups of companies are cases in point. Family members hold key executive positions in these firms and the family mostly holds full ownership. Family enterprises elsewhere in the world have gone public and often the respective families do not retain a majority stake anymore. Examples are Wal Mart (38 percent family ownership), Ford (40 percent) or BMW (47 percent).<sup>19</sup> Usually, family members do not have an exclusive grip on executive positions anymore in such enterprises, nor do they rank prominently on the boards of these companies. They mostly confine themselves to a controlling role in the background; in some cases like the German Haniel Group this is even outspoken policy. In the GCC, such a trend has not been observed so far. Shuaa Capital is one of the few examples of a family enterprise subsidiary in the UAE (Al Ghurair) that has gone public and there are a couple of other examples in Saudi Arabia (e.g. Al Rajhi Bank, Al Abdullatif Industrial Investments) and Kuwait (e.g. Sultan), but

---

18 - "Private vs. Public," *Financial Times*, December 14, 2006, available at: <http://www.ft.com/cms/s/965bc3fc-8b9e-11db-a61f-0000779e2340.html>

19- Others would be Fiat (30 percent), Peugeot (42 percent) and Carrefour. For a detailed list of the 250 biggest family enterprises in the world, see: <http://www.familybusinessmagazine.com/topglobal.html>

generally that has remained the exception.<sup>20</sup> The advantage of trust within established family relationships is valued higher than the advantages of increased corporatization and going public, namely enhancement of the available talent pool and accountability and easier access to financing from the capital markets. Instead financing via retained earnings and sometimes banks still remains the rule and GCC family enterprises are reluctant to give up unlimited control and succumb to the increased accountability standards that come with a public listing, like quarterly reports and the appointment of independent directors to the supervisory board. On the other hand, GCC family enterprises mostly follow broad business interests in conglomerate-like structures; the specialization on core competences, which is usually more appealing to stock market investors, is not very common so far. The initiative of the Dubai International Financial Exchange (DIFX) to reduce the minimum free float for its IPOs to 25 percent from the current 55 percent at the bourses in Dubai and Abu Dhabi could be appealing to such family enterprises, as they would not need to give up their majority stakes, but so far there has not been corresponding listings and it remains to be seen whether the initiative will prove successful.

One reason for the relative reluctance of private companies to enter the stock market may be attributable to their relative distance from the capital markets in general. Astonishingly, access to loans from banks is difficult for many companies, despite the huge credit growth that has taken place in the region, which has been apparently mainly directed to a selected minority of large companies and consumer financing. The World Bank has deplored a disconnect between the financial sectors and the real private economy in Middle Eastern countries.<sup>21</sup> While on

---

20- United Nations/ Economic and Social Commission for Western Asia (ESCWA), *Responding to Globalization. Stock Market Networking for Regional Integration in the ESCWA Region*, (New York: 2003), p. 39, available at:

<http://www.escwa.org.lb/information/publications/edit/upload/grid-03-37.pdf>

21- World Bank, "Middle East and North Africa. Economic Developments and Prospects 2006: Financial Markets in a New Age of Oil," available at: <http://siteresources.worldbank.org/INTMENA/Resources/MENA-EDP2006.pdf>, pp. 50.

the macro level a reasonably high degree of financial intermediation of about 60 percent of GDP can be observed,<sup>22</sup> it is only few large companies that profit from it, while the majority seems to rely on retained earnings: About 75 percent of company financing in MENA countries stems from this source and only 12 percent from the banking sector, while the corresponding figure for high income countries stands above 20 percent. In Saudi Arabia, for example, less than 40 percent of companies reportedly have an overdraft facility with a bank and only slightly more than 20 percent have a loan from a bank.<sup>23</sup> More access to the capital markets could certainly facilitate the expansion and modernization drive of many companies in light of increased opening up and competition in the wake of the WTO process. But before thinking about family enterprises going public or issuing bonds, the natural first step would be improving the cooperation with the financial sector on the very basic level of loan facilities in many cases.

## **Attraction of International Institutional Investors**

International institutional investors have played a crucial role in the development of emerging markets worldwide. In GCC countries they could also contribute to a professionalization of the marketplace and add liquidity, which has dried up after the dominant segment of retail investors lost interest following the corrections in 2006. In 2005, when valuations were high, international investors were rather uninterested in the GCC markets, as the Qatari experience has shown: Qatar's stock market first staged a rally in anticipation of being opened up to foreigners in April 2005, and then saw a correction once it became clear that foreigners were not interested in buying at the inflated

---

22- This is the average of Middle Income Countries and slightly below the 84 percent average of High Income Countries. Ibid.

23- Ibid.

valuations.<sup>24</sup> Now this has changed, as valuations have come in line with other emerging markets after the corrections in 2006.<sup>25</sup> But foreign investors have only limited access to the GCC stock markets; this is especially true for institutional investors who are not based within one of the GCC countries. Markets are either closed completely to them as in Saudi Arabia or they have only limited access.<sup>26</sup> The lack of free float in the GCC and the concomitant lack of liquidity do not make the GCC markets attractive either. The MSCI indices, which function as a benchmark and radar for international investors only take the free float into consideration and thus the GCC countries attract comparably less attention. Even if markets are nominally open, international investors can face various bureaucratic hurdles like difficulties in setting up custodian accounts and the like.

Another issue is the lack of a market infrastructure on international levels. In the absence of market makers, who balance supply and demand, by stepping in with their own money, if necessary, and give bid and ask quotations, GCC markets suffer from a lack of predictable immediacy. Investors cannot be sure that their orders will be executed at the right price in the right time, like they are used to in other international markets. On the other hand, the absence of a derivative market means that neither hedging of risks nor short selling is possible. The latter not only offers the opportunity to profit from falling markets it also gives market forces the opportunity to counterbalance red hot passion on the side of market bulls. During the recent GCC stock market hype short selling could have prevented the worst exaggerations. So far, there is no derivative market in the GCC, and it remains to be seen if the plans of the DIFX to introduce such contracts will succeed and lead to a broader market in this field.

---

24 -Shuaa Capital, "The Party's over....," *Insight Gulf Capital Markets* (May 2005), available under: [www.shuaacapital.com/shuaacapital/uploads/publications/SHUAA \(SHUAA%20Capital%20INSIGHT\)\(1646\).pdf](http://www.shuaacapital.com/shuaacapital/uploads/publications/SHUAA%20Capital%20INSIGHT%20(1646).pdf) .

25- Deutsche Bank, op. cit.

26- Saudi Arabia opened its market in 2006 only to resident foreigners. Non-residents can only buy mutual funds, not single stocks.

The opening up of the market to foreign investors and the growth of domestic institutional investors (e.g. mutual and pension funds) will be important to add more sober views to the market.

*Restrictions of Foreign Ownership Level in each GCC Country*

Country	GCC Investors	Exceptions for GCC Investors	International Investors
Saudi Arabia	49%	0% for banks	0%
UAE	0-49%	0-40% for banks	Same as GCC based investors
Kuwait	49%	40% for banks and insurance companies	Same as GCC based investors
Qatar	25%, after deduction of government stake	None	Same as GCC based investors
Bahrain	100% in general	A minority of companies do not allow any GCC-based ownership or have a 25% limit	49%
Oman	25-70%	None	Same as GCC based investors

Source: MSCI

It remains to be seen how the advent of specifically designed economic cities in the region will contribute to the international attraction of the GCC capital markets. On the one hand modern regulatory environment are certainly an advantage on the other hand the interconnection with the local markets has been underdeveloped so far. Trading at the most advanced project, DIFC-based DIFX, has lagged behind expectations so far. Instead of the envisaged 25 listings in the first year, there have been only seven secondary listings, and on most of the days there is no turnover whatsoever in the respective securities.<sup>27</sup> With DIFC, Bahrain Financial Harbor

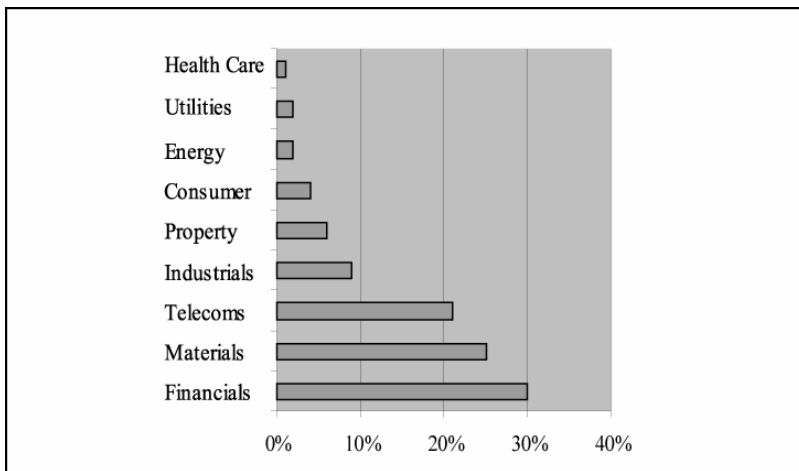
27- "Who Will Market DIFX?" *The Business Corridor*, no. 17, September 3, 2006.

(BFH), Qatar Financial Center (QFC) and King Abdullah Economic City north of Jeddah there are four specifically designed financial zones in existence or in the process of being built. While some specialization niches exist – QFC targets, for example, mainly local energy projects – a certain oversupply in these financial service centers seems to be obvious. More concentration and cooperation would be advantageous. After all, the size of the GCC economies is not so big that their capital markets could acquire the attention of international investors easily, if they continue to be as dispersed as they currently are. The Arab Securities Agency which was launched in November and aims at a greater unification of the region's capital markets might be a first step to remedy this situation.<sup>28</sup>

## Sector Distribution

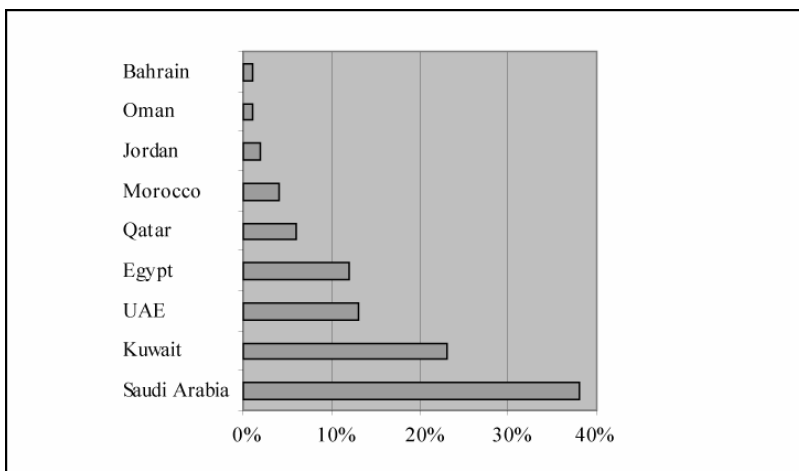
GCC stock markets show a striking overrepresentation in sectors like banking, materials (e.g. petrochemicals, cement, fertilizer) and telecom, while others like technology are absent. The following graphs and tables show the composition of the MSCI Arabian markets index, which adjusts the market capitalization of stocks for the Foreign Inclusion Factor, that is the free float of a stock that is available for investments by foreigners from other GCC countries. For the same reason, the MSCI index does not include Saudi Arabian banks as non-Saudi nationals are not eligible to invest in them (for their non-weighted market capitalization, see table in annex).

### *MSCI Arabian Markets Sector Breakdown*



Source: MSCI

### *MSCI Arabian Markets Country Breakdown*



Source: MSCI

*Market composition: Split of MSCI Arabian Markets*

	Consumer	Energy	Financials	Property	HealthCare	Industrials	Materials	Telecoms	Utilities	TOTAL
KSA	8%	2%	3%		1%	4%	53%	24%	5%	100%
UAE		4%	40%	45%	1%	5%	5%			100%
Morocco	2%	5%	23%			15%	19%	35%		100%
Bahrain			51%					49%		100%
Egypt	10%		19%		1%	19%	9%	42%		100%
Jordan		4%	76%		6%		8%		5%	100%
Kuwait	1%	1%	64%			8%	8%	19%		100%
Oman			41%				21%	38%		100%
Qatar		7%	48%			31%		7%	7%	100%

Source: MSCI

Note: MSCI does not include Saudi banks in their index as they are non-investable for non-Saudis

The energy sector is virtually absent in the GCC stock markets, which is somehow surprising in the oil-rich region. It is attributable to the stance of leaving this strategic industry firmly in the hands of the respective states. The focus on financials and properties is particularly striking in the UAE. Saudi Arabia shows a strong presence in the materials sector with its huge petrochemical and other heavy industries (Sabic, Saudi Cement, Safco etc.). Besides that, the strong presence of state-owned telecom giants in each country is remarkable. Most of the turnover concentrates in a few big companies like Sabic, Emaar and Kuwaiti Mobile Telecom, as the table in the annex shows. A wider distribution of sectors by further IPOs would be beneficial for the GCC stock markets. As the first state owned airline in the region, Air Arabia has announced its intention of going public, with the Emirate of Sharjah retaining 45 percent of the shares. The IPO of Saudi Arabian Airlines has been announced for 2006/7 as well. With the planned IPO of Maaden in the third quarter of 2007, the first mining company in the Gulf will go public.<sup>29</sup> Although not announced, it has been repeatedly argued that IPOs from other state-owned enterprises like Emirates Airline or Dubal would make sense as well. In the field of family enterprises a couple of them have announced IPO for 2007 like Halwani Brothers, Al Sawani Group and Damas Jewellery, although most of the common names remain largely absent and a general drive of family enterprises towards the stock market cannot be observed yet.

## **Wider Capital Markets: Bonds, Loans and Securitization**

Beside regulatory issues, the stock market crashes have shown that the GCC does not have a developed bond market, and in comparison to traditional bank and equity financing it appears to be a pale

---

29- For further examples, see *Zawya IPO Monitor* at [www.zawya.com](http://www.zawya.com)

shadow.<sup>30</sup> It was not only the lack of listings and free floats that led to the liquidity boom bust scenario that unfolded in 2005/2006, it was also the lack of other asset classes. Had there been a developed bond market it could have absorbed parts of the liquidity that otherwise focused solely on the stock markets. With a more diversified capital market the current high oil revenues put the region's governments in a comfortable position. They do not need to issue debt in order to finance fiscal deficits. Corporations, on the other hand, have had easy access to equity financing during the boom of the stock markets. Thus, the market is characterized by a lack of benchmarks, a limited variety of issues and low liquidity. Recently some bigger sukuks and floating rate notes of companies and banks have been issued (e.g. DP World, Emirates Airlines, Islamic Development Bank, Mashreqbank, Emirates Bank International, Abu Dhabi Commercial Bank, Sabic, Saudi British Bank). But longer maturities are absent and, on the government side, only Qatar and Bahrain have issued Eurobonds, but not enough to form a benchmark all across the yield curve. Dubai pioneered into the Asset Backed Securities (ABS) market by securitizing mortgages from the Palm Jumeirah project in 2005. But many legal issues surrounding ABS (e.g. property laws, true sale) are still in the process of being sorted out and somehow the deal only took off because the issue was fully guaranteed by deposited fixed income securities in London in addition to the Jumeirah Palm mortgages.

Thus, the development of a GCC bond market will first of all need a government bond market, corporate bond markets will then follow suit. The ABS markets have a chance to develop once the former two have taken off and after legal issues have been clarified. All this will need a corresponding market infrastructure: Auctioning of new issues and liquid secondary markets with the participation of banks, market makers and emerging institutional investors like insurance companies and pension funds. Currently the GCC bond markets are an illiquid buy and hold market, and often one can get

---

30- "Towards a GCC Bond Market," *Gulf News*, April 25, 2006.

better prices for GCC bonds in Hong Kong and London than in the GCC itself. Working settlement and clearing procedures which are compatible with international standards (e.g. Euroclear) and a surrounding rating culture which makes the involved credit risk transparent and accessible would also be a necessity. Once a bond market is in place, a market for interest rate derivatives should follow suit to provide hedging instruments. The latter remains an important desideratum for the stock market too and it remains to be seen whether plans of the Dubai International Financial Exchange (DIFX) to establish such a local derivative market will prove successful. The GCC governments currently do not need to issue debt to finance budget deficits. Neither do Hong Kong and Singapore, but both countries are issuing bonds across the yield curve to provide a benchmark for their corporate bond sector. The GCC countries should do the same and they should consider centralizing their efforts by doing it via a supranational institution backed by their governments. Thus, the market would have more depth and strength than if each single GCC country would issue its own bonds. The GCC countries should also consider strengthening their ties to the Asian Financial markets by investing in Asian Eurobonds and attracting Asian investors to the nascent GCC bond market. This is especially true for Malaysia, which has a thriving Islamic Banking and sukuk market. But astonishingly, ties between Malaysia and GCC countries are underdeveloped because no consensus about common investment criteria and clearing procedures has been achieved yet. The joint project of the Dubai Financial Services Authority (DFSA) and the Malaysian Securities Commission, to remove regulatory barriers to Islamic Finance transactions between the DIFC and Malaysia is therefore an important initiative.<sup>31</sup> It was announced in August and could lead to the development of more cross border ties with Asian capital markets. The acquisition of a 40 percent stake in Malaysia's oldest Islamic Bank, Bank Islam, by Dubai Investments Group in June hints at the same direction. Should

---

31- "DFSA Announces Major Islamic Finance Initiative with Malaysia," available at: <http://www.financeinislam.com/news/25>

a unified GCC currency become free floating by 2015 as has been recently suggested by UAE Central bank governor Al Suwaidi, more domestic bond issues besides dollar and euro denominated bonds will be needed. The issue of a dirham denominated Eurobond for the first time by Abu Dhabi Commercial Bank, which is clearable by international settlement procedures (e.g. Clearstream), is therefore an important step.<sup>32</sup> Overall, a GCC bond market is not only part and parcel of a successful development of the local capital markets; it is also a necessity for the region's economic development at large. In the absence of a free floating currency and an autonomous interest rate policy in the GCC it would also give the monetary authorities an important tool in steering the money supply via open market operations.

Ultimately, such moves will strengthen the equally nascent insurance and pension fund sector in the GCC, which is in need of bond investments to fine tune its assets with its liabilities. So far about 90 percent of the capital markets turnover is attributable to retail investors and high net worth individuals and a more solid institutional investor base is desirable. The insurance industry in the region is growing by up to 20 percent annually from a low statistical base. Besides commercial insurance growth potential is expected in life and health insurance, a sector which often encounters religiously motivated reluctance. The exponential growth of the market for Islamic insurances (Takaful) may counter such reluctance; its premiums are expected to rise from currently \$2 billion to \$7.4 billion in 2015.<sup>33</sup> The insurance market in Saudi Arabia received a shot in the arm in October by a new insurance law, which will end the monopoly of the National Company for Cooperative Insurance (NCCI). About 13 new insurance companies will enter the market.<sup>34</sup> In the UAE, an important step was taken with the establishment of an Insurance Commissioner office, which will be operational in the first

---

32- "ADCB Launches First Dirham-Eurobond Issue," *Gulf News*, October 13, 2006.

33- Dow Jones Newswire, October 11, 2006.

34- *Arab News*, Oct. 11, 2006.

quarter of 2007. It will function as a regulatory body and try to foster better governance and risk management of an industry, which is still nascent and in need of a more professional approach.<sup>35</sup>

## Conclusion

Valuations of GCC stock markets have come down after the corrections in 2006 and are now at reasonable levels in line with other emerging markets. Foreign institutional investors have noticed and are showing an increasing appetite to enter the market, while local institutional investors are likely to get a shot in the arm with the development of the regional insurance and mutual fund sectors. Major risks for local markets persist in the case of leveraged investment positions, possible lower oil prices, corrections in the real estate markets of smaller GCC countries (e.g. UAE) and the political risk associated with the Iranian nuclear stand off. For a balanced future development, improved corporate governance and a more diversified spectrum of sectors and asset classes will be necessary. For the latter, increased free floats and reduced government shares as well as IPOs of existing (family) enterprises will be necessary, besides the development of a local bond and derivatives market. After a sound footing is achieved, the main challenge will be to channel enough liquidity into these newly emerging securities without causing the speculative exuberance of the past.

---

35- "UAE to Leash Insurance Sector," *Gulf News*, October 14, 2006.

*Annex Top Stocks in each GCC MSCI index, January 22, 2007*

Company	Sector	Unadjusted market cap (USDm)	Market cap* (USDm)	3M avg. daily turnover (USD'000)	PE (trailing 2005x)	Price (local currency)	FIF limit for GCC-based institutional investors*
<b>Saudi Arabia</b>							
SAUDI BASIC IND CORP	MATERIALS	62,992	19,047	79,633	14.1	94.5	30%
SAUDI TELECOM CO	TELECOM	39,861	11,998	33,157	12.4	74	30%
SAUDI ELECTRICITY CO	UTILITIES	14,442	2,888	33,613	35.9	12.8	20%
SAFCO	MATERIALS	5,386	2,639	17,262	20.4	101	49%
SAVOLA	CONSUMER	4,149	2,045	26,277	10.3	42.3	49%
YAMAMAH SAUDI CEMENT CO	MATERIALS	2,925	1,433	12,596	16.6	79.3	49%
SOUTHERN PROVINCE CEMENT	MATERIALS	2,812	1,408	2,839	16.6	76.8	49%
SAUDI CEMENT	MATERIALS	2,726	1,336	3,619	16.8	99.3	49%
SAUDI IND INVEST GROUP	MATERIALS	2,115	1,029	17,405	17.3	34.5	49%
YANBU CEMENT	MATERIALS	1,960	960	3,236	14.7	70	49%
NATL INDUSTRIALIZATION	INDUSTRIALS	2,874	949	25,204	21.3	48.5	49%
NATIONAL SHIP/SAUDI ARAB	ENERGY	1,764	854	31,237	11.6	20.5	49%
MAKKAH CONS	INDUSTRIALS	1,571	770	38,315	35.7	35.3	49%

Company	Sector	Unadjusted market cap (USDm)	Market cap* (USDm)	3M avg. daily turnover (USD'000)	PE (trailing 2005x)	Price (local currency)	FIF limit for GCC-based institutional investors*
CO FOR COOPERATIVE INS	FINANCIALS	1,366	671	10,236	13.2	102	49%
ARABIAN CEMENT	MATERIALS	1,364	668	9,289	13.7	84.5	49%
SAHARA PETROCHEMICAL CO	MATERIALS	1,270	622	12,576	10.7	32.3	49%
ALMARAI CO	CONSUMER	2,040	614	19,096	17	75.3	30%
MEDICAL APPLIANCES	HEALTH CARE	772	378	37,824	33.1	52	49%
TAIBAH	FINANCIALS	763	374	17,362	25.7	22.8	49%
ASEER	FINANCIALS	980	343	26,830	15.3	46	35%
<b>UAE</b>							
EMAAR PROPERTIES	FINANCIALS	20,583	10,085	93,734	14.2	12.3	49%
NATL BANK OF ABU DHABI	FINANCIALS	7,966	1,991	771	11.6	23.6	25%
ABU DHABI COMM BANK	FINANCIALS	6,568	1,642	2,261	10.5	6	25%
UNION NATL BK/ABU DHAB	FINANCIALS	2,987	1,195	370	8.6	7	40%
AMLAK FINANCE	FINANCIALS	2,083	1,021	12,285	62.3	5.1	49%
DUBAI ISLAMIC BANK	FINANCIALS	6,764	947	8,770	26.1	8.2	15%
DANA GAS	ENERGY	2,369	829	4,026	0	1.5	35%

Company	Sector	Unadjusted market cap (USDm)	Market cap* (USDm)	3M avg. daily turnover (USD'000)	PE (trailing 2005x)	Price (local currency)	FIF limit for GCC-based institutional investors*
FIRST GULF BANK	FINANCIALS	4,425	664	1,544	11.1	13	30%
DUBAI INVESTMENT	FINANCIALS	2,354	471	11,474	8.7	4.4	20%
ARABTEC HOLDING	INDUSTRIALS	745	365	5,738	28.1	5.3	49%
ARAMEX COMPANY	INDUSTRIALS	692	339	3,434	28.6	2.5	49%
GULF CEMENT CO	MATERIALS	671	329	536	9.6	4	49%
NAT'L CENTRAL COOLING CO	INDUSTRIALS	592	290	2,284	44.6	2.1	49%
SHUAA CAPITAL	FINANCIALS	674	270	720	10.9	4.5	40%
GULF PHARM IND-JULPH	HEALTH CARE	282	268	52	18.3	2	49%
SHARJAH CEMENT & IND	MATERIALS	466	228	133	5	3.9	49%
BANK OF SHARJAH	FINANCIALS	984	197	103	5.7	2.7	20%
OASIS INT'L LEASING	FINANCIALS	397	195	378	29.4	9.8	49%
RAS AL KHAIMAH CO	MATERIALS	219	186	95	21.9	0.1	85%
COMMERCIAL BANK INT'L	FINANCIALS	776	155	23	92.2	2.9	20%
<b>Kuwait</b>							
MOBILE TELECOM CO	TELECOM	14,991	7,270	12,221	17.8	3.4	49%
NATIONAL BANK OF KUWAIT	FINANCIALS	14,571	5,828	7,009	18	2.2	40%

Company	Sector	Unadjusted market cap (USDm)	Market cap* (USDm)	3M avg. daily turnover (USD'000)	PE (trailing 2005x)	Price (local currency)	FIF limit for GCC-based institutional investors*
KUWAIT FINANCE HOUSE	FINANCIALS	8,552	3,831	7,858	20.2	2.3	40%
NATL IND GRP HOLD	MATERIALS	4,517	2,213	21,453	5.2	1.2	49%
AGILITY	INDUSTRIALS	3,950	1,935	12,780	7.9	1.4	49%
INVESTMENT DAR	FINANCIALS	3,144	1,540	4,416	7.9	1.3	49%
GULF BANK	FINANCIALS	5,247	1,443	4,752	16.2	1.8	25%
GLOBAL INVEST HOUSE	FINANCIALS	2,332	1,143	3,690	11.1	1	49%
KUWAIT PROJECTS CO HLDGS	FINANCIALS	2,142	1,049	10,392	13.4	0.6	49%
BURGAN BANK	FINANCIALS	2,113	845	5,768	12.4	0.7	40%
KUWAIT REAL ESTATE BANK	FINANCIALS	1,769	806	7,737	51.1	0.7	40%
NATIONAL INVESTMENT CO	FINANCIALS	1,515	742	1,418	8.5	0.8	49%
COMM REAL ESTATE CO	FINANCIALS	1,345	659	2,339	11.5	0.3	49%
NATIONAL REAL ESTATE CO	FINANCIALS	1,102	540	9,642	5.6	0.5	49%
BOUBYAN PETROCHEMICALS	MATERIALS	1,031	505	1,010	14.3	0.7	49%
MABANEE CO SAKC	INDUSTRIALS	890	436	1,914	15.3	0.8	49%
SULTAN CNTR FOOD PRDCTS	CONSUMER	681	384	4,366	10.5	0.5	49%

Company	Sector	Unadjusted market cap (USDm)	Market cap* (USDm)	3M avg. daily turnover (USD'000)	PE (trailing 2005x)	Price (local currency)	FIF limit for GCC-based institutional investors*
AREF INVESTMENT GROUP CO	FINANCIALS	865	346	964	7.1	0.6	40%
FIRST INVESTMENT CO	FINANCIALS	534	345	2,197	15.7	0.5	49%
AAYAN LEASING & INVEST	FINANCIALS	583	343	1,134	7.1	0.4	49%
<b>Qatar</b>							
QATAR INDUSTRIES	INDUSTRIALS	11,209	2,802	4,659	12.9	81.6	25%
QATAR NATIONAL BANK	FINANCIALS	7,065	1,148	1,432	23.3	247.7	13%
QATAR ISLAMIC BANK	FINANCIALS	4,183	1,046	10,212	17.7	127.6	25%
COMMERCIAL BANK OF QATAR	FINANCIALS	3,566	891	2,232	15.9	92.6	25%
DOHA BANK	FINANCIALS	3,086	771	1,651	13.8	90	25%
QATAR TELECOM QSC	TELECOM	6,604	726	1,588	17.7	240.4	11%
QATAR GAS TRAN (NAKILAT)	ENERGY	1,831	458	4,256	126.7	11.9	25%
QATAR SHIPPING CO	UTILITIES	1,593	398	351	21.9	58	25%
AL RAYYAN BANK	FINANCIALS	3,400	374	21,824	0	16.5	11%
QATAR NAT'L NAVIGATION	INDUSTRIALS	1,265	316	1,015	18.1	98.4	25%
QATAR ELECT & WATER CO	UTILITIES	1,973	276	425	10.1	71.8	14%

Company	Sector	Unadjusted market cap (USDm)	Market cap* (USDm)	3M avg. daily turnover (USD'000)	PE (trailing 2005x)	Price (local currency)	FIF limit for GCC-based institutional investors*
QATAR INSURANCE CO	FINANCIALS	1,216	267	807	16.7	104.2	22%
UNITED DEVELOPMENT CO	FINANCIALS	993	248	907	18	33.7	25%
QATAR REAL ESTATE INVEST	FINANCIALS	677	122	1,449	21.7	41.1	18%
QATAR ISLAMIC INSURANCE	FINANCIALS	139	70	2,087	46.6	101.4	25%
<b>Bahrain</b>							
BAHRAIN TELECOM CO	TELECOM	3,008	1,053	147	12.9	1	35%
ITHMAAR BANK	FINANCIALS	792	356	2,025	9.2	2.2	45%
BANK OF BAHRAIN & KUWAIT	FINANCIALS	1,209	302	135	15.2	0.7	25%
ESTERAD INVESTMENT CO	FINANCIALS	201	181	44	21.2	0.9	75%
AL-KHALEEJ DEV CO (USD)	FINANCIALS	171	123	110	6.5	1.2	75%
BAHRAIN ISLAMIC BANK	FINANCIALS	430	120	32	23.6	0.6	25%
<b>Oman</b>							
OMAN TELECOM CO	TELECOM	2,468	621	816	11.9	1.3	25%
NATIONAL BANK OF OMAN	FINANCIALS	1,236	309	289	17	6	25%

Company	Sector	Unadjusted market cap (USDm)	Market cap* (USDm)	3M avg. daily turnover (USD'000)	PE (trailing 2005x)	Price (local currency)	FIF limit for GCC-based institutional investors*
RAYSUT CEMENT CO	MATERIALS	619	247	634	15	1.2	40%
OMAN INTERNATIONAL BANK	FINANCIALS	720	181	374	10.5	3.7	25%
OMAN CEMENT CO	MATERIALS	526	132	364	9.8	6.1	25%
DHOFAR INTL DEVELOPMENT	FINANCIALS	14	122	243	14.3	0.3	70%
OMINVEST	FINANCIALS	212	105	160	19.7	0.6	49%

Source: MSCI

\*FIF is Foreign Inclusion Factor is the free float adjustment factor. It is the amount of stocks open to investments by foreigners from other GCC countries. All MSCI market capitalizations are adjusted for this factor. Saudi banks are excluded from MSCI indexes for the same reason as GCC nationals other than Saudis are not eligible to invest in them.

*Saudi Arabian Banks (not part of MSCI index), January 31, 2007*

		2006	Closing
<b>Company</b>	<b>Market Cap. Mn US\$</b>	<b>P/E</b>	<b>Price</b>
Riyad Bank	8.958	11.5	53.75
Jazira Bank	3.082	5.9	102.75
Saudi Investment Bank	4.508	8.4	70.25
Saudi Hollandi Bank	3.763	14.8	64
Al Bank Al Saudi Al Fransi	10.193	12.7	113.25
The Saudi British Bank	10.675	13.2	106.75
Arab National Bank	7.713	11.6	89
SAMBA Financial Group	19.520	14.1	122
Al Rajhi Banking and Investment	28.530	14.7	158.5
Al-Bilad Bank	2.360	49.7	29.5
Sector	99.303	12.8	

Source: HSBC

*GCC Stock Markets: Historical Development of Turnover, Market Capitalization and Number of Companies*

<b>Year</b>	<b>Turnover Value (\$ bn)</b>	<b>Market cap (\$ bn)</b>	<b>No. of Companies</b>	<b>Index Performance</b>
<b>Saudi Arabia</b>				
2000	17.4	67.9	76	11.3
2001	22.3	73.2	76	7.6
2002	35.7	74.9	68	3.6
2003	159.1	157.3	70	76.2
2004	473.0	305.9	73	84.9
2005	1.103.7	646.0	77	103.7
2006	1.402.8	326.3	86	-52.5
<b>UAE</b>				
2000	0.1	11.0	27	Na
2001	0.4	13.7	27	23.6
2002	1.1	29.9	37	14.5
2003	2.0	39.6	44	32.1
2004	18.2	83.3	53	88.4
2005	140.6	231.4	89	102.9
2006	120.4	168.7	102	-40.3

<b>Year</b>	<b>Turnover Value (\$ bn)</b>	<b>Market cap (\$ bn)</b>	<b>No. of Companies</b>	<b>Index Performance</b>
<b>Kuwait</b>				
2000	4.4	21.6	86	2.8
2001	12.1	28.2	88	28.8
2002	22.7	35.8	95	24.1
2003	55.1	61.5	108	63.9
2004	51.8	75.2	125	11.9
2005	97.6	142.1	158	66.4
2006	59.2	143.8	180	-9.2
<b>Qatar</b>				
2000	0.2	8.2	22	8.0
2001	0.4	9.0	23	42.9
2002	0.9	10.6	25	37.3
2003	3.2	26.7	28	56.6
2004	6.4	40.4	30	47.6
2005	28.3	87.1	32	83.5
2006	20.5	60.9	36	-37.5
<b>Bahrain</b>				
2000	0.24	6.6	39	-14.5
2001	0.19	6.6	43	-2.7
2002	0.21	7.6	41	0.3
2003	0.27	9.7	44	27.4
2004	0.46	13.5	45	32.1
2005	0.71	17.4	47	22.7
2006	1.31	21.1	50	-1.9
<b>Oman</b>				
2000	0.6	5.1	113	Na
2001	0.4	4.5	119	-24.4
2002	0.6	5.2	127	26.2
2003	1.5	6.6	139	42.1
2004	1.9	7.6	166	23.8
2005	3.6	12.7	176	44.4
2006	2.3	12.9	179	14.5

Source: Gulf Business, Vol. 11 ,No.10, February 2007

## About the Author

---

---

**Eckart Woertz** is Program Manager Economics at the Gulf Research Center (GRC) in Dubai/ UAE and has extensive experience in equity and fixed income trading for German banks and UAE financial institutions. He holds an MA in Middle Eastern Studies and a PhD in Economics from Friedrich-Alexander University Erlangen-Nuremberg, where he conducted research about structural adjustment politics in Egypt and the role of trade unions. In February 2005, he published "The Role of Gold in the Unified GCC Currency", where he predicted a long-term bull market in the precious metal. In his GRC publication "GCC Stock Markets at Risk", he warned at the beginning of 2006 about a possible stock market crash in the GCC. His main interests are global and regional capital markets, gold and commodity markets, and the social impact of structural adjustment policies. He can be contacted at [eckart@grc.ae](mailto:eckart@grc.ae)

# GRC Publications

---

---

## Books Published by GRC

Unfulfilled Potential: Exploring the GCC-EU Relationship	Edited by Christian Koch	ISBN 9948-424-30-1
Discovering the Arabian Gulf: Canada's Evolving Ties with the GCC States	Robert J. Bookmiller	ISBN 9948-432-18-5
A Window of Opportunity Europe, Gulf Security and the Aftermath of the Iraq War	Christian Koch & Felix Neugart	ISBN 9948-424-73-5
Gulf Yearbook 2005-2006	Gulf Research Center	ISBN 9948-432-22-3
Gulf Yearbook 2004	Gulf Research Center	ISBN 9948-400-93-3
Gulf Yearbook 2003	Gulf Research Center	ISBN 9948-400-26-7
Constitutional Reform and Political Participation	Gulf Research Center	ISBN 9948-432-53-3
Dynamic Alliances: Strengthening ties between the GCC and Asia	Gulf Research Center	ISBN 9948-432-81-9
Gulf States: Counterterrorism - Laws and Treaties	Mustafa Alani	ISBN 9948-432-61-4
Green Gulf Report	Gulf Research Center	ISBN 9948-432-69-X
Defense and Regional Security in the Arabian Peninsula and Gulf States, 1973-2004 (An Annotated Bibliography)	J. E. Peterson	ISBN 9948-432-02-9
E-Learning in Social Sciences and Humanities	Group of Authors	ISBN 9948-432-65-7
Youth and Environment Research	Group of Authors	ISBN 9948-432-67-3

**Research Papers:** Peer-reviewed bilingual research papers and studies written by specialists in Gulf issues. The research papers are comprehensive in character and meant to open the door for more specialized Gulf studies.

GCC- EU Military and Economic Relations	Elizabeth Stevens	ISBN 9948-400-30-5
GCC- US Relations	Gregory Gause	ISBN 9948-400-36-4
GCC-EU Relations: Past Record and Promises for the Future	Giacomo Luciani & Tobias Schumacher	ISBN 9948-400-37-2
Political Reform in the Gulf Cooperation Council States	Hasanain Tawfeeq Ibrahi	ISBN 9948-424-95-6
Israel's New Friendship Arch: India, Russia and Turkey	P. R. Kumaraswamy	ISBN 9948-424-46-8
Gulf Cooperation Council Relations with the Commonwealth of Independent States (CIS)	Marat Terterov	ISBN 9948-432-04-5
Political Participation and Stability in the Sultanate of Oman	Joseph A. Kéchichian	ISBN 9948-424-97-2
Gulf Cooperation Council Relations with Russia	Elena Suren Melkumyan	ISBN 9948-424-63-8
Realignments within the Gulf Cooperation Council	Bogdan Szajkowski	ISBN 9948-424-77-8
Political Reform Measures from a Domestic GCC Perspective	Abdulaziz Sager	ISBN 9948-424-55-7
Gulf Cooperation Council Relations with Australia	Patricia Berwick	ISBN 9948-400-55-0
Gulf Cooperation Council and the European Union Military and Economic Relations	Elizabeth Stephens	ISBN: 9948-400-30-5
Environmental Situational Assessment for the GCC Countries	Frederic Launay	ISBN: 9948-432-16-9

**Yemen Studies:** A peer-reviewed bilingual series that includes academic studies and research on Yemeni political, economic, social, defense and security affairs.

The Yemeni Parliamentary Elections	Ahmed Abdul Kareem Saif	ISBN 9948-400-77-1
------------------------------------	----------------------------	--------------------

**Gulf Papers:** Present the findings of a series of workshops conducted by the Gulf Research Center within the framework of the 'Gulf Studies Program' individually or in cooperation with leading peer research centers. Bringing together area specialists, each series of workshops tackles a specific issue with the aim of reaching a common understanding on a specific issue in the region and presenting a set of recommendations.

Back to the Developmental Future: (Re)Empowering the Gulf's City-System	Bruce Stanley	ISBN 9948-424-16-6
Dubai Emirate and Australian Relationships	Patricia Berwick	ISBN 9948-400-85-2
Obstacles facing the Industrial Establishments In Sohar Industrial Estate, Oman	Adil Hassan Bakheet	ISBN 9948-400-85-2
The Role of Gold in the unified GCC currency	Eckart Woertz	ISBN 9948-424-28-X
A Euro-Denominated Oil Bourse in Iran: Potential Major Force in the International System?	Robert E. Looney	ISBN 9948-432-83-5
GCC Stock Markets at Risk	Eckart Woertz	ISBN 9948-432-55-X
Indian Labor Migration to the Gulf Countries	Prakash C. Jain	ISBN 9948-432-85-1
EU-GCC Relations: Dynamics, Patterns & Perspectives	Gerd Nonneman	ISBN 9948-434-12-9
Internet, Telecom Sector Liberalization and Civil Liberties in the Gulf Region	Rachele Gianfranchi Rym Keramane	ISBN 9948-432-95-9

Europe's Role in the Gulf: A Transatlantic Perspective	Roberto Aliboni	ISBN 9948-434-00-5
The Arab Gulf States: Further Steps towards Political Participation	J. E. Peterson	ISBN 9948-434-18-8
Back to the Developmental Future: (Re)Empowering the Gulf's City-System	Bruce Stanley	ISBN 9948-400-03-8
EU-Gulf Political and Economic Relations: Assessment and Policy Recommendations	Abdullah Baabood	ISBN: 9948-434-23-4

**Gulf Theses:** The Center has catalogued a growing collection of MA and PhD theses beginning as early as the mid-1970s to the present day. The GRC is also committed to publishing and translating exceptional theses relevant to the Gulf.

Sea Change: Alan Villiers and the Subversion of the Arabian Travel Narrative	Grace Pundyk	ISBN 9948-424-97-2
Institutional Change in Saudi Arabia	Nicole Stracke	ISBN 9948-424-67-0
Iran and the GCC states: Prospects for Long Term Regional Security in the Gulf	Nicholas Stivang	ISBN 9948-434-04-8
EU-GCC Relations: A Study in Inter-Regional Cooperation	Abdullah Baabood	ISBN 9948-424-69-7

# Order form

Quantity	ISBN	Title
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

send your order to the following address:

Gulf Research Center  
187 Oud Metha Tower, 11th floor  
303 Sheikh Rashid Road  
P.O. Box: 80758, Dubai- United Arab Emirates

Name: ..... Organization: .....

Address: ..... P.O. Box: .....

Postal Code: ..... Tel. .... Fax: .....

E-mail: .....

Tel.: +971 4 324 7770

Fax: +971 4 324 7771

E-mail: sales@grc.ae

Our website: www.grc.ae