



July 19, 2013

In the first half of 2014, the US pursued its economic recovery, the ECB stood firmly by its monetary stimulus, the Arab world remained rattled by conflicts and Lebanon remained stuck between its political deadlock and its economic slowdown. The following details how the global, regional and Lebanese stock markets reacted to these broad themes.

In the US, the Standard and Poor's 500 Index (S&P 500) grew by 6% to 1,960.23 points in the first half of 2014 (H1 2014) indicating that US stocks have kick-started this year on a strong note. The only monthly downturn of the S&P 500 was recorded in January when the gauge shed a monthly 4% amidst concerns over the effect of a harsh winter on the economy and the repercussions of the Russia-Ukraine conflict. The following 5 months, the index kept posting upturns ranging from 2% to 4% depending on how upbeat the economic data turned out to be. Overall, the broad picture for the US economy is a bright one with unemployment shrinking to a six-year low of 6.1% in June and with a slowly yet-surely rebounding residential real-estate market.

The Euro Stoxx 50 ended the month of June at 3,228.24 points, 4% above December 2013's close of 3,109 points. After a 3.1% monthly drop in January, the gauge grew by 4.5% in February, registered minor upturns in March, April and May to finally shed 0.5% in June. The meager Eurozone growth remains insufficient to ease concerns over low inflation or to reduce unemployment, compelling the European Central Bank to pursue its monetary stimulus, a move welcomed by stock market investors.

As for Arab bourses, the top three performers were Egypt, Dubai and Bahrain with respective gains of 20.34%, 17% and 14.31%. In June, Egypt decided to loosen restrictions (limits on daily share price movements) imposed on its bourse since the 2011 uproar, a sign of recovering confidence in the country. The Egyptian bourse could also be revived in the period to come if the bid led by billionaire Naguib Sawiris and Beltone Financials for a stake in EFG Hermes pulls through.

On the Beirut Stock Exchange (BSE), the BLOM Stock Index (BSI) rose by 6.24% over the first six months of the year to end the month of June at 1,221.87 points. The volume and value of traded shares increased by 47% and 55% y-o-y to reach 26.49M and \$206.01M, respectively.

The BSE, as always, was highly influenced by the country's political divisions, security incidents and social outcry. The movements of the BSI are described in the graph below in the light of the most prominent events taking place during H1 2014.

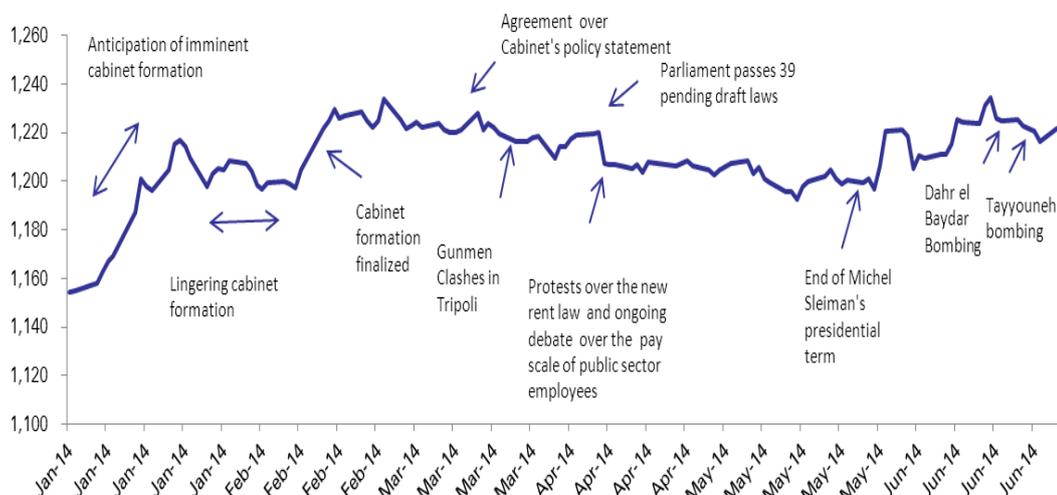
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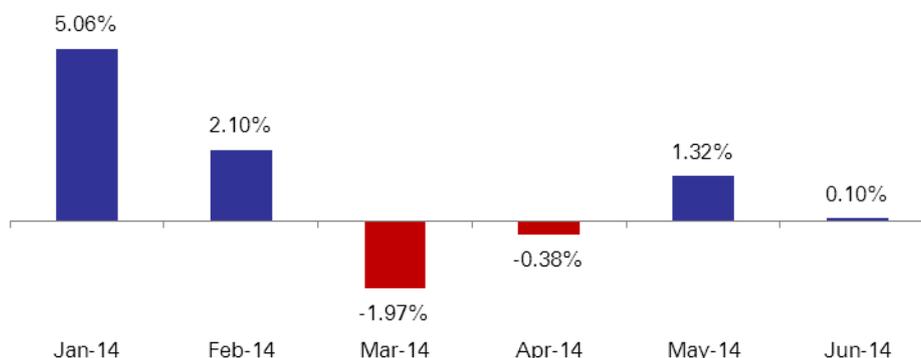
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Daily Movements of the BLOM Stock Index in H1 2014



Source: Blominvest Research Department

Monthly Changes in the BLOM Stock Index



Source: Blominvest Research Department

Investors were upbeat in January as an imminent cabinet formation was awaited. Accordingly, the BSI posted a 5.06% monthly upturn during that month, hovering around the level of 1,200 points.

However, as delays and lack of consensus among political parties intensified, the cabinet formation lingered, pulling investor sentiment down. The BSI was then fluctuating around the 1,190 points rather than the 1,200 points. It wasn't until the long overdue cabinet formation materialized in February that the BSI trended upwards again, posting its second monthly upturn of the year of 2.10% in February.

The situation was then reversed during the months of March and April. During this period, the country witnessed tensions in Tripoli, conflict between the opponents and advocates of the new rent law as well as social outcry regarding the pay scale of public sector employees which remains unresolved at the time of writing this article. Some positive political developments occurred such as the agreement over the cabinet's policy statement and the concluding of 39 pending draft laws in the rare occasion where Parliament managed to convene. In spite of these optimistic events, the BSI shed a monthly 1.97% in March and 0.38% in April.

During the month of May, the BSI recovered by a monthly 1.32%. Throughout this period the index remained quite stable, as investors adopted a wait-and-see approach, monitoring the repeated attempts to elect a new President and as the country benefitted from a relatively stable security scene.

In the month of June, the index's 0.10% upturn was the lowest in H1 2014. On the political front, President Michel Sleiman's term was through, with no agreement over his successor. On the security front, relative stability was short-lived since the country was rattled by the car bombings in Dahr el Baydar and Tayyouneh. These incidents are bound to negatively impact overall market sentiment and therefore the BSI. The extent of this impact remains to be seen in the period ahead.

Another way to examine the BSI is through the Relative Strength Index (RSI) which is a momentum indicator, measuring the speed and change of price movements. When the RSI hits the 70-mark, the index is overvalued but when the RSI hits the 30-mark, the index is undervalued. Coinciding with the anticipation of the cabinet formation and market optimism the RSI hit the 70-mark in January.

We also incorporated available July figures and noticed that the RSI hit the 30-mark. This means that the magnitude of recent losses in the index exceeded that of recent gains. Two turn of events can be envisaged: The RSI could slip further below the 30-mark or the RSI could climb back up indicating a regained momentum. As we have clearly demonstrated, the coming movements will remain tightly linked to political, economic and social developments in the country.

Relative Strength Index (RSI) for BSI



Source: Blominvest Research Department

By the end of June 2014, 28 stocks were listed on the BSE with a market capitalization of \$9.79B at the end of June 2014 compared to \$8.90B at the end of June 2013. In H1 2014, 200,000 BEMO Bank preferred shares class 2006 were de-listed, 350,000 Bank BEMO preferred shares 2013 were listed and 476,260 additional Audi GDR shares were listed. After these activities, the total number of listed shares on the BSE amounted to 1,497,406,084 in H1 2014.

Banking stocks accounted for 74% of total traded value or \$152.98M in H1 2014, the real estate sector accounted for 25% of traded value or \$51.14M while the industrial and retail sectors combined represented a minor share of less than 1%.

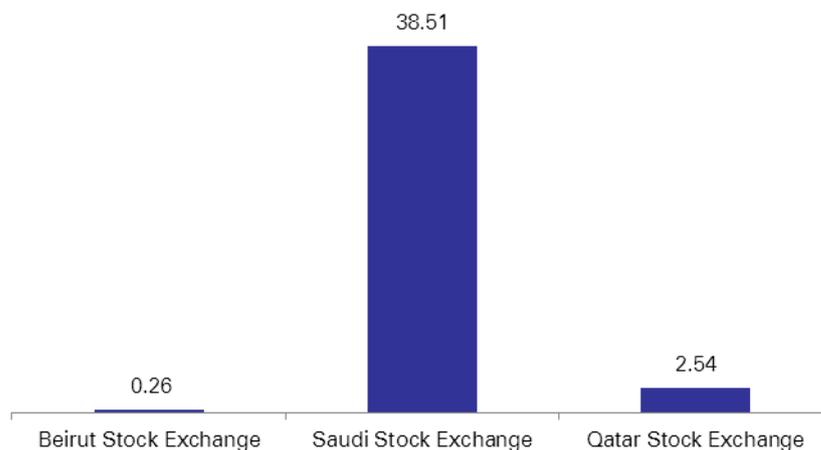
In terms of stocks, the top performers were Solidere A and Solidere B which added 21.18% and 22.50% to end H1 2014 at \$13.39 and \$13.50, respectively. BLOM's GDR and Listed shares followed with respective gains of 6.59% and 6.67% to reach \$9.38 and \$8.80.

In the first six months of the year, the bottom performers were Rymco with a 23.14% downturn to \$2.69, CimENTS Blancs Nominal shares with a 15.12% drop to \$2.75 and Audi's preferred E and F shares which shed 2.44% each to end H1 2014 at the same price of \$100.00.

The BLOM Preferred Shares Index (BPSI) slid from 105.19 points at the end of December 2013 to 104.33 points at the end of June 2014. Byblos' preferred 08 and 09 shares slid by 0.69% and 1.08% to \$100.30 and \$100.40, respectively. Bank of Beirut's preferred E and I shares slid by 1.92% and 1.16% to end H1 2014 at the same price of \$25.50.

In conclusion, the variations of volume and value on the BSE should be regarded with caution since the number of listed stocks and overall market depth are low. However, recent claims state that the BSE can witness greater activity, attract a broader range of investors and offer more financing for private sector companies, if it is privatized. Currently, the volume of traded shares on the BSE is frail in comparison with other stock markets in the region.

Total Traded Volume on MENA Stock Exchanges in H1 2014 (In Billions)



Source: Bloomberg, Official MENA Stock Exchanges Publications

Although increasing activity on the BSE may hold great benefits, it remains a problematic issue in Lebanon where most of the large companies are family-owned businesses. Due to their substantial size, these companies are eligible for bank loans and therefore rule out raising funds through becoming a publically listed company. In addition, initial public offerings (IPOs) may bring about capital dilution and may impose more scrutiny on the activities, investments and strategy of the newly listed company. Aside from equity dilution and more transparency requirements, one should not omit that the shakiness of the Lebanese political, economic and social scene remains the major deterrent to IPO activity.

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