Beirut Stock Exchange: H1 2015 Performance Review

BLOMINVEST BANK

While major financial markets today are considered to be free-floating, dictated almost unconditionally by demand and supply, there exists ample evidence of monetary authorities playing primary roles in swaying market activity. The stand-out economic factor influencing global markets this year has been the bearish trend in oil prices. On the other hand, central banks play their part in market manipulation via monetary policy decisions. Divergent central bank monetary policies yield varying results on their respective markets. Currently, the U.S. looks toward interest rate policy normalization, Europe and Japan advance their quantitative easing (QE) programs, and many emerging markets lower interest rates to stimulate growth.

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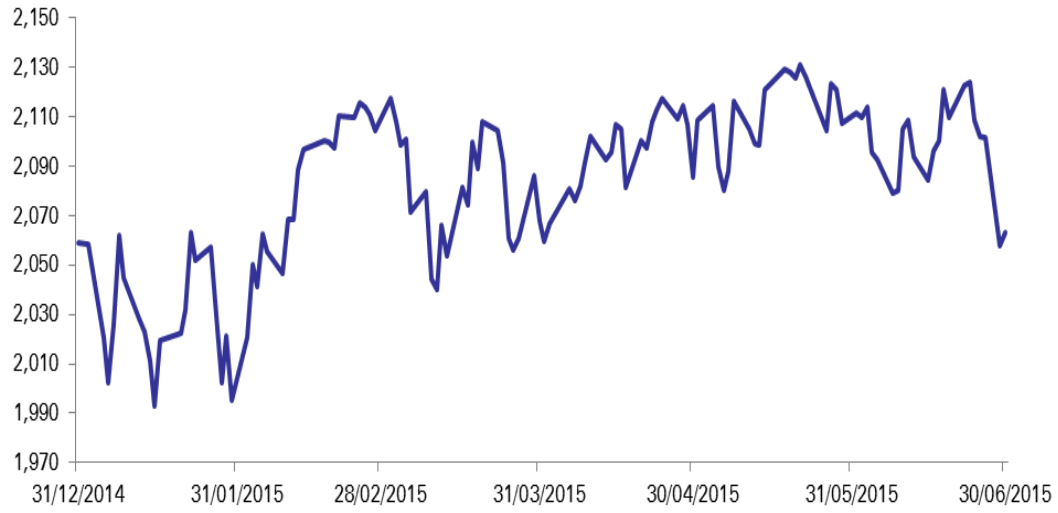
The U.S. stock market took a breather relative to most global peers while still posting positive returns. U.S. stocks displayed modest gains as investors struggled with uncertain global growth, oil price volatility and the timing of the Federal Reserve's impending interest rate hike. The Standard and Poor's 500 Index (S&P 500) ticked up marginally by 0.20% since year-start, to 2,063.11 points end of June 2015, compared to 2,058.90 points end of 2014. The dollar strength in the face of monetary easing elsewhere in the world helped keep a lid on U.S. share prices.

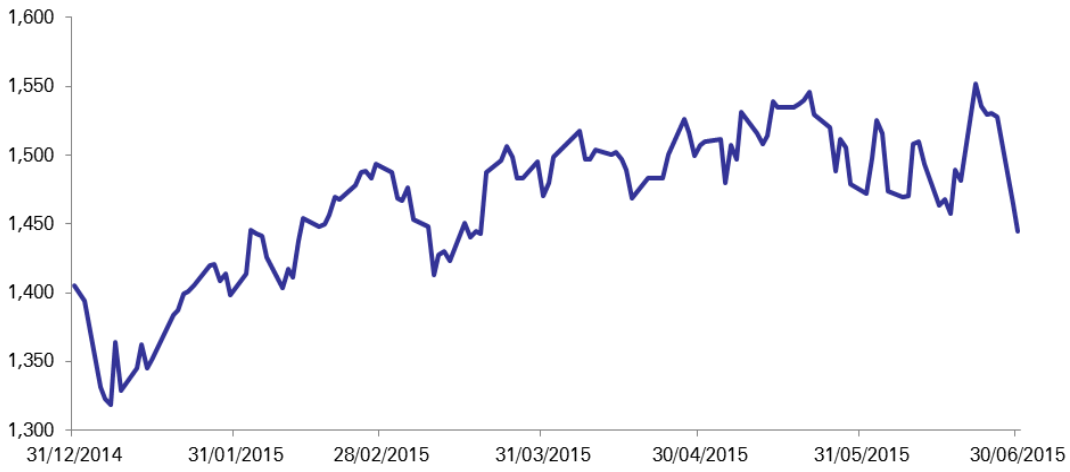
S&P 500 Index



Source: Reuters

European stocks powered ahead, boosted by improving economic data, falling oil prices and an aggressive new stimulus program launched by the European Central Bank. Signs of a brighter economic outlook emerged in the form of accelerating retail sales, rising export activity and improved credit availability for businesses and households. Much of the optimism was attributed to the start of the ECB's €60B/month bond-buying initiative, which is designed to encourage lending and stimulate economic growth. Despite renewed strains emanating from Greece that it might exit the Eurozone, the Euro Stoxx 50 Index enjoyed double-digit y-t-d gain, increasing 10.25% from 3,146.43 points end of 2014, to 3,468.90 points in June 2015. The drop in the euro over the past few months has helped fuel appetite for European stocks, as investors bet the lower currency will spark a corporate resistance after years of stagnating profits.

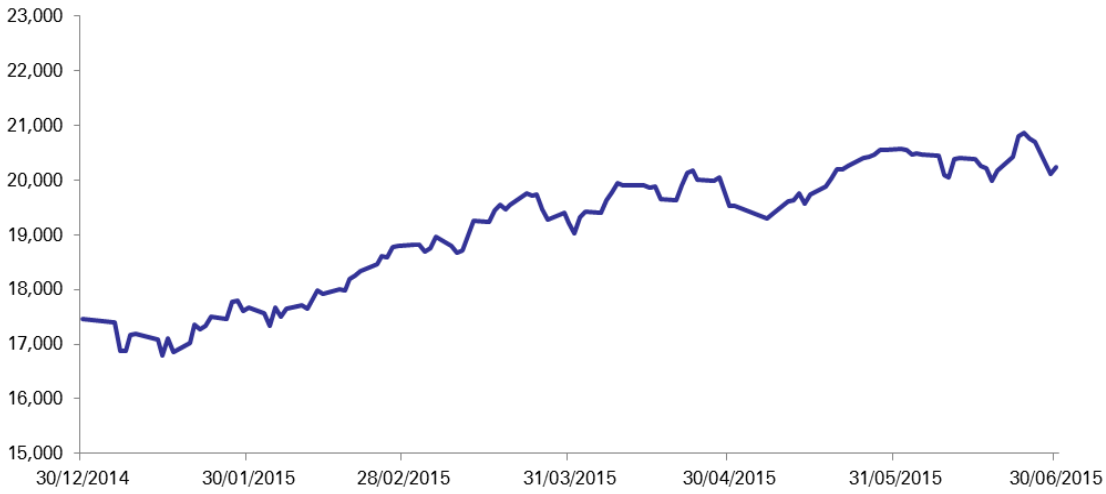
Euro Stoxx 50 Index



Source: Reuters

Similarly, equities rallied in Japan, bolstered by Bank of Japan's unconventional monetary policy. Supported by the QE-induced fall of the Yen, the Nikkei 225 Index swelled 15.96% y-t-d to 20,235.73 points end of H1 2015, relative to 17,450.77 points end of 2014. Strong corporate earnings and optimism that companies would begin raising dividends also contributed to the improvement of stocks in Japan.

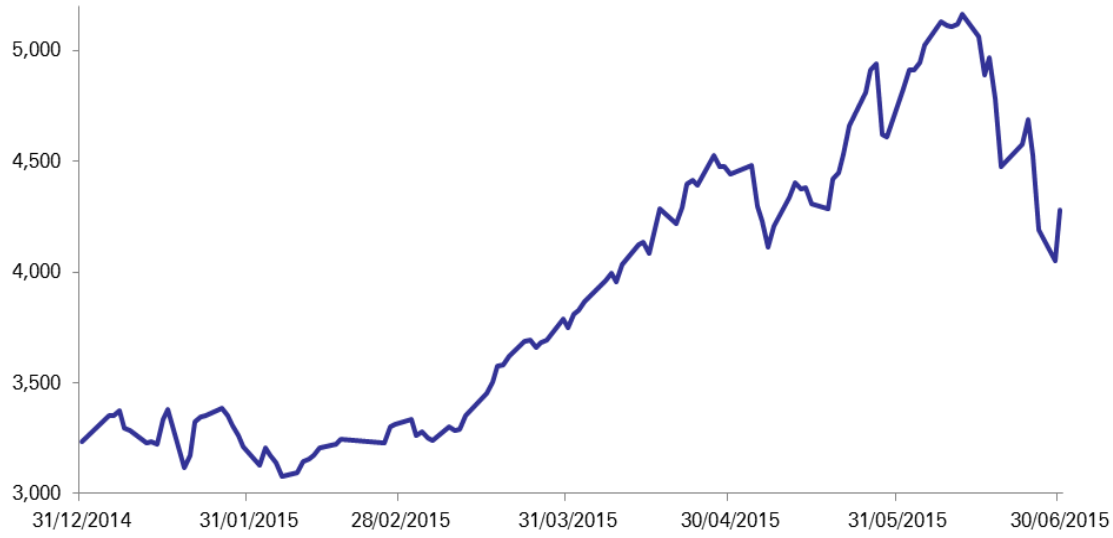
Nikkei 225 Index



Source: Reuters

Despite the shock that the Chinese stock market faced in mid-June 2015, the Shanghai Composite Index managed to post a 32.23% y-t-d growth to 4,277.22 points end of H1 2015. Weak economic conditions did not deter investors from pumping their money in the bourse, until the index reached its 52-week high of 5,166.35 points on the 12th of June, thereby causing China's asset bubble to burst. This resulted in the 29% decrease in the gauge from the peak on the 12th of June to end July at 3,663.73 points.

Shanghai Composite Index



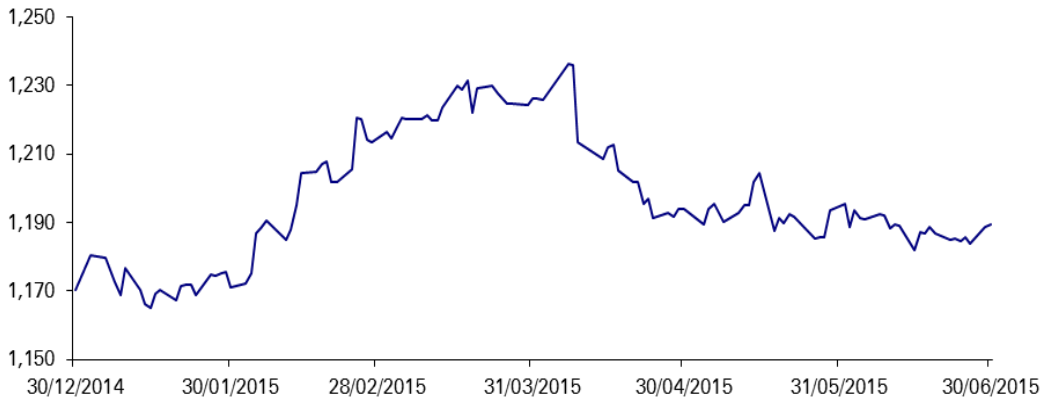
Source: Reuters

In the Arab world, Tunisia's Stock Exchange was in the lead, with a 12.36% gain since year-start. Four years after Tunisia sparked off the Arab spring uprisings, the country's stock market is reaping the benefits of political stability, steps toward reform, and declining oil prices. In 2013, Tunisia signed a 2-year deal with the IMF, agreeing to follow certain economic policies such as keeping its deficit under control, making its foreign exchange market more flexible.

On the other hand, the Egyptian Bourse recorded the biggest y-t-d decline. The decision of postponing the application of the 10% capital gains tax for 2 years and its positive vibes on the Egyptian stock market failed to boost the performance of the country's benchmark index. In fact, the security turbulences that the country encountered drove the EGX30 down by 6.22% y-t-d in the first six months of 2015. However, to improve the benchmark index, the Egyptian bourse stated a plan to reduce the required free float for new companies to be listed on EGX30, starting August 1. In details, the new equal-weighted index will include the top 50 listed companies in terms of liquidity.

As for Lebanon, the Beirut Stock Exchange (BSE) showed a mild recuperation, as the political and security situation acted as a headwind on investors' sentiment. The BLOM Stock Index (BSI) gained 1.63% y-t-d to end H1 2015 at 1,189.31 points, compared to 1,170.26 in December 2014. The volume of traded shares dropped from 28.10M shares worth $173.73M in H1 2014, to 25.72M shares, however at a higher value of $220.83M.

BLOM Stock Index



Source: BLOMINVEST Research Department

30 stocks were listed on the BSE, end of H1, 2015 with the number of outstanding shares edging up 3.86% y-o-y to 1.56M shares. This was due to the listing of 50M Audi common shares in September 2014, 4,762,000 Bank of Beirut (BoB) Priority 2014 shares in October 2014, and 3M BoB Preferred shares class "J", in February 2015.

Of the total traded value, the banking sector grasped the lion's share of 79.29%, followed by the real estate sector and the industrial sector, with respective stakes of 20.59% and 0.12%. RYMCO, the only listed company belonging to the retail sector, witnessed no trades in 2015.

The top performing shares in the banking sector were BLOM common shares, whose price surged 11.36% since the end of 2014, to $9.80. The common shares of BEMO and of Audi followed, recording rises of 8.57% and 3.83% y-t-d to $1.90 and $6.23, respectively.

On the other hand Audi GDR shares and BLC preferred shares class "A" were the worst performers in the banking sector, shedding 8.50% and 2.91% to $6.03 and $25.5, respectively. In addition, Bank of Beirut Preferred shares classes "E" and "H" lost 2.86% each, to end H1 2015 at the same price of $25.5.

In the real-estate sector, Solidere shares classes "A" and "B" gained 1.41% and 0.53% to $11.48 and $11.40, respectively.

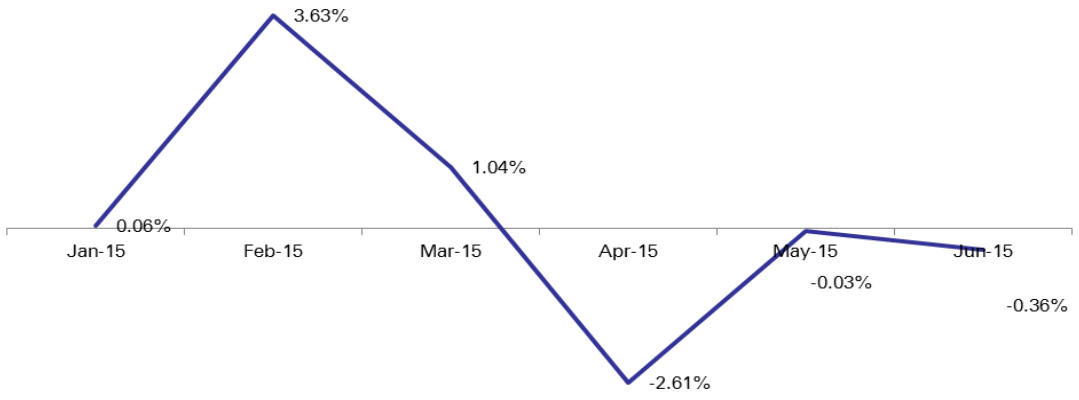
In the industrial sector, HOLCIM shares and Ciments Blancs bearer shares dropped 0.33% and 19.47% to $15.20 and $3.02, respectively. Ciments Blancs nominal shares were not traded in 2015.

Regarding the preferred shares, the BLOM Preferred Shares Index (BPSI) lost 1.15% to end H1 2015 at 104.71 points. BEMO preferred shares 2013 were the only preferred shares to record a gain since the beginning of 2015, adding 1.20% to $101.20. The preferred shares of Audi class "E", of BLC classes "B" and "C", and that of Bank of Beirut preferred "J" saw no change in their prices.

Looking at the monthly performance, the BSE fared better in the first quarter of 2015 than in the second quarter. In details, the BSI saw monthly gains of 0.06%, 3.63%, and 1.04%, in January, February, and March, respectively. Optimistic expectations tend to prevail at the start of a calendar year, and can explain the slight upturn in market performance over the first month. Moreover, security stability and the positive earnings results of listed banks for 2014 allowed the BSI to stay on its bullish trend. In addition, the CMA announced during Q1, that it will authorize the launching of an electronic market for digital trading. This electronic exchange will be run by the BSE if the government privatizes the bourse. If not, the online bourse will be independent and owned by the private sector.

Market conditions soured in April due to significant political and security turbulences. As a result of more increased focus on developments in Qalamoun (region on the border between Lebanon and Syria) between Syrian government forces and rebel factions, the BSI witnessed a 2.61% decrease in April. The downward trend continued in May and June, though at a slower pace, declining by 0.03% and 0.36%, respectively.

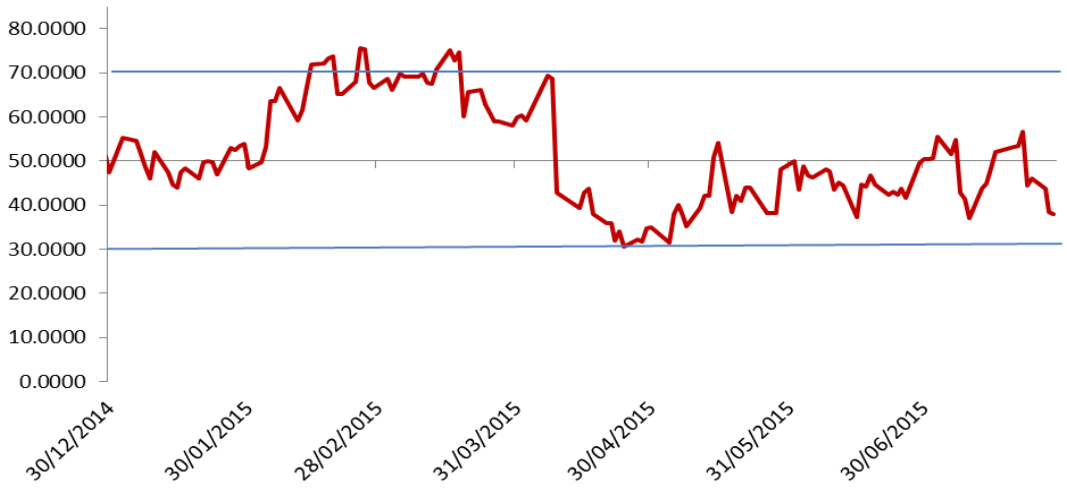
BLOM Stock Index Monthly Performance



Source: BLOMINVEST Research Department

Looking forward, the BSI is expected to improve slightly at the end of July, if listed banks released positive financial results for H1 2014. However, this progress would not last, unless solutions emerge on the political front. Another way to predict the trend of the BSI for the rest of the year is examining the Relative Strength Index (RSI). The RSI, a momentum indicator measuring the speed and change of price movements, shows when the index is overvalued (when it hits the 70-mark) or undervalued (when it hits the 30-mark). In Q1 2015, the RSI surpassed the 70-mark, after banks recorded positive financial performance for fiscal year 2014. In April, the RSI hit the 30-mark, however without crossing it, due to security uprisings. In the coming months, the BSI is expected to continue its sideways movement, unless developments concerning the presidential vacuum emerge, boosting investors' sentiment.

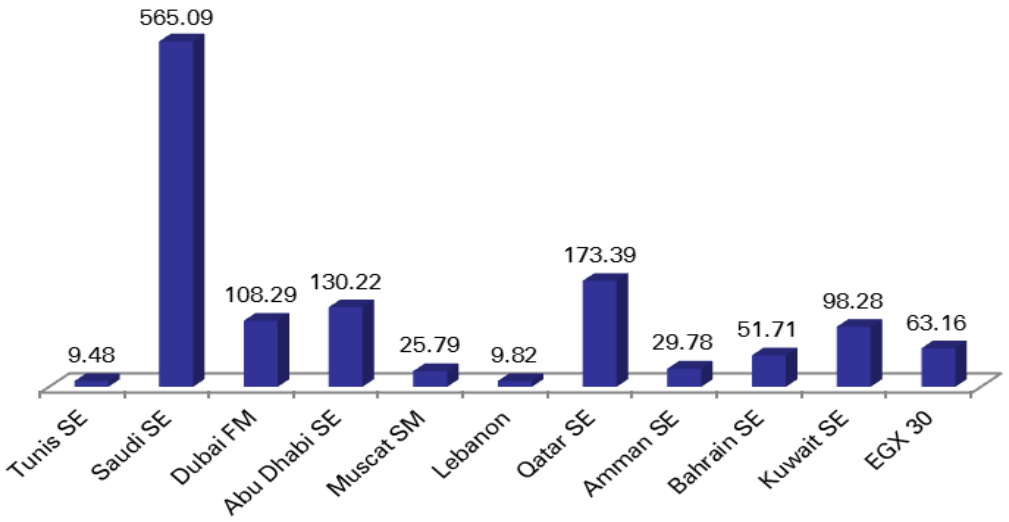
RSI for the BSI



Source: BLOMINVEST Research Department

Looking at the market capitalization of the BSE compared to the MENA region, it is the smallest after Tunis, at $9.82B.

Market Capitalization ($B, as of end July 2015)



Source: Zawya, BLOMINVEST Research Department

Many steps can be taken to improve the Liquidity of the BSE. For instance, privatizing the Beirut Stock Exchange would provide incentive for the shareholders to increase activity because it would be run as a for-profit business. Turning the BSE into a privately held company would make it more efficient in attracting local and regional companies to list on the BSE.

Other options to increase supply on the stock exchange include listing government-owned companies, as well as creating incentives for family-owned companies to list. This could be done through tax incentives, such as providing a tax waiver.

Moreover, there is a need to change an entrenched culture which is focused on short-term financing secured by banks. This would in no way adversely affect the work of commercial banks. In fact, well-developed capital markets would complement and support the activities of banks and vice versa.

Laws and regulations should change to encourage the creation of pension funds, which are the major investors in most stock exchanges.

Separating the stock exchange management and the regulating authority on one hand, and privatizing the stock exchange on the other, would have a great importance on Lebanon's Bourse. Splitting regulation from management reinforces market transparency and widely opens the market to institutional investors especially when the control is performed by an independent administrative authority with undisputed credibility. As for handing the market management to the private sector, it certainly develops the market activity by increasing the number of issuers and diversifying the financial instruments. Moreover, corporatization brings in new technologies such as stock trading on electronic communication networks, provides a level playing field, thereby encouraging competition and facilitates mergers with other exchanges reinforcing the market capitalization.

In this context, the creation of the CMA was an important step towards developing and regulating the stock exchange. The CMA has started to issue regulations aimed at increasing transparency and protecting investors. But more is awaited regarding the issuance of circulars aimed at developing the stock markets in capitalization and depth.

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