



July 1st, 2016

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The first months of 2016 were somehow positive for the Lebanese economy. In the budding months of 2016, no major security events were recorded. Moreover, the municipal elections were held and the country was busy with the campaigning of traditional political parties but also by that of a new wave of civilians from various backgrounds and professions, still unacquainted with the political scene, but looking to make a change in their respective regions.

On the downside, the political status quo lingered yet again. The presidential seat is still vacant at the time of writing with no indications on a near-term resolution. The new US restrictions on Hezbollah transactions handled by any foreign institution spurred much controversy in the country as well.

In terms of security events, Lebanon suffered two hits. BLOM Bank's headquarters were hit by a bomb that luckily left behind only material damage. Later in June, in the border Christian town of Qaa, eight suicide bombers attacked in a two-wave strike one before dawn and one later at night.

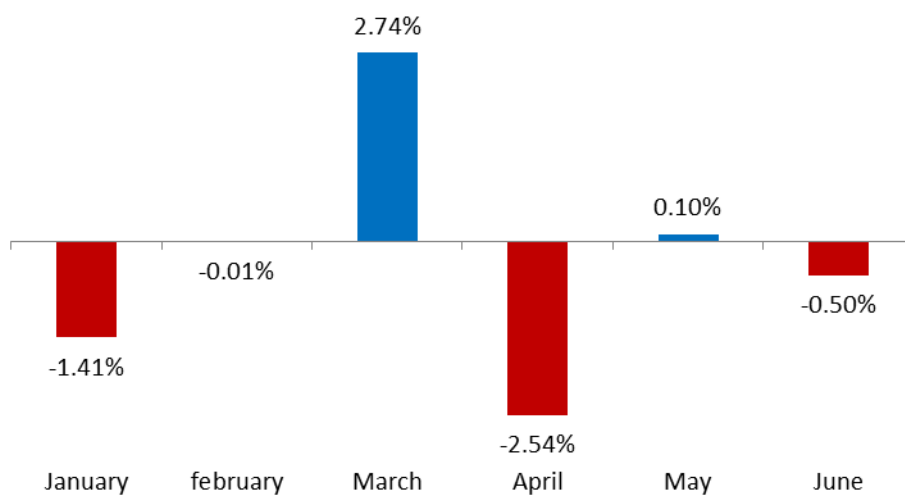
Unfortunately, the performance of the stock exchange in the first half of 2016 (H1 2016) indicated that negative investor sentiment prevailed yet again. The BLOM Stock Index (BSI) recorded a 1.69% decline over H1 2016 to 1,149.79 points compared to 1,169.52 points at the end of December 2015. The market capitalization, fell by 1.76% to \$9.55B at the end of June compared to \$9.72B at the end of December 2015.

Performance of the BLOM Stock Index in H1 2016



Source: Blominvest Research Department

Monthly Changes in the BLOM Stock Index



Source: Blominvest Research Department

The only positive upturns registered by the BSI in H1 2016 were during the months of March and May. Interestingly, during both of these months, the BSE calendar was filled with banking sector news. During the month of March, big Lebanese banks, [BLOM](#) and [Byblos](#) announced the distribution of dividends to their shareholders while, Bank Audi's [Turkish](#) and [Egyptian](#) subsidiaries released their 2015 financial statements in which they registered higher profits. During the month of May, [Bank of Beirut announced its capital increase](#) as well as its [dividend distribution](#), [Byblos bank announced that it completed the acquisition of 99.18% of the shares of Banque Pharaon & Chiha](#).

Accordingly, the first half's best performers were all banking stocks. BLC's listed shares grew from \$1.70 at the end of December 2015 to \$2.77 at the end of June 2016. BLOM's listed and GDR shares added 5.43% and 3.28% to end the first half at \$9.91 and \$10.07, respectively. Audi's listed shares also grew by 2.48% to \$6.20.

H1 2016's worst performers were real estate shares and industrial shares. Solidere A and B shares lost 15.46% and 15.45% to close at \$9.35 and \$9.36, respectively. CimENTS Blanc's Bearer shares declined from \$3.90 at the end of December to \$3.00 at the end of June 2016.

On the regional level, aside from a few exceptions, most stock exchanges were down. Tunis and Dubai were the only bourses that registered an upturn in H1 2016: The Tunisian bourse grew by 4.91% while the Dubai stock exchange gained 5.08%. Meanwhile, the worst performer was the Bahraini bourse with an 8.02% decline, followed by a 5.96% drop for Saudi's Tadawul and a 5.22% slide for the Qatari stock exchange. The reform plan announced by Mohammad bin Salman spurred a very short-lived boost on the Saudi Bourse and investors were still concerned with the ripples low oil prices are having on the economy. As for Dubai's stock exchange, it is important to note that the increase in H1 2016 only recuperates a fraction of around 20% of losses suffered by the index in the previous half.

On a global level, major stock markets weren't all that green either. The Japanese economic recovery is still weak and the IMF slashed its GDP growth forecasts for country in 2016 and 2017. Accordingly, the Nikkei dropped by 18.17% over H1 2016. On the day the leave campaign won in the UK, the index fell by 7.92% in one session. With the frail economic recovery in Europe and with all the uncertainty revolving around the Brexit, the Euro Stoxx 50 recorded a double-digit loss of 10.13% over H1 2016. The day the Brexit campaign won, the Euro Stoxx fell by 6.70%. As for the US, the S&P 500 registered a minor upturn of 1.45% over H1 2016 amidst a weak global economy and mixed economic data for the US economy.

Looking back at the Beirut Stock Exchange, it is not a highly liquid and deep market. The volume and value of traded shares during H1 2016 reached 41.37M and \$367.80M compared to 25.72M and \$220.83M in H1 2015. In Saudi Arabia per example, 6 billion shares were traded solely in the month of July. In this context there is a need to develop capital markets in Lebanon as detailed in [Towards capital markets development: issues and challenges](#)¹

The presence of an authority whose goal is to regulate and develop Lebanese capital markets is essential. The Lebanese Capital Markets Authority (CMA) implemented many regulations since its creation to increase transparency and protect investors. According to Dr. Saade Chami, the CMA's secretary general, "Adopting internationally acceptable regulatory framework that is adequately monitored and properly enforced is the first step towards developing the capital markets in Lebanon."

Moreover, a nuance must be made in regards to the CMA's dual mandate. The objectives of regulating and developing capital markets are complementary. Dr. Chami added that "The discussion as to whether markets development or markets regulation should come first is pointless since they go hand in hand. Nonetheless, the CMA is recognizant of the need to strike a good balance between these two core objectives."

Looking ahead, the privatization of the Beirut Stock Exchange and the creation of a new Electronic Trading Platform (ETP) for Small and Medium Enterprises (SME) have been key projects and they are likely to be executed at the same time. First, the BSE has to be registered as a joint stock company and once that's done the ETP can be launched simultaneously. In regards to the ETP, many financial institutions have expressed their interest in bidding for its management and operations. The CMA sent out the proposal for the ETP to all the major financial institutions in Lebanon and comments have been exchanged between the two parties. However, as they are now, listing requirements on the BSE are burdensome and that means that a set of new listing requirements needs to be created for the new ETP.

The CMA's regulations are inspired from international models but are adapted to fit the Lebanese markets. When it comes to implementing new regulations, the CMA gets the help of a World Bank consultant with experience on international capital markets. It is important to constantly revisit implemented regulations for the sake of efficiency and practicality.

¹ BLOMINVEST Bank is now publishing a monthly editorial in THE DAILY STAR newspaper that will be discussing current economic topics and exposing experts' opinions.

The latest article appeared on Wednesday June 08, 2016, entitled "[Towards capital markets development: issues and challenges](#)".

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