

# THE LEBANON BRIEF

ISSUE 827

Week of 01 – 06 July, 2013



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# TABLE OF CONTENTS

<b>FINANCIAL MARKETS</b>	<b>3</b>
Equity Market	3
Foreign Exchange Market	5
Money & Treasury Bills Market	5
Eurobond Market	6
<b>ECONOMIC AND FINANCIAL NEWS</b>	<b>7</b>
Assets at the Central Bank Slip by 1.33% to \$76.90B	7
Commercial Banks Consolidated Total Assets Grew to \$156.61B in May	7
BoP Registers a \$148.7M Deficit up to May 2013	8
Trade Deficit Expands to \$7.19B Up to May 2013	8
Airport Passengers Increased 7.8% y-o-y in H1 2013	9
Beirut Hotel Occupancy Rate Falls to 59% y-o-y in May	9
Insurance Premiums Rise by 20% to \$382.33M in Q1 2013	10
<b>CORPORATE DEVELOPMENTS</b>	<b>11</b>
Bank Audi Issues Preferred Shares Class G and Class H	11
SPAR International to Enter Lebanese Market in 2014	11
<b>FOCUS IN BRIEF</b>	<b>12</b>
Exploring the Lebanese Wine Industry	12

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# FINANCIAL MARKETS

## Equity Market

### Stock Market

	5/7/2013	28/6/2013	% Change
BLOM Stock Index*	1,140.50	1,145.14	-0.41%
Average Traded Volume	32,218	55,600	-42.05%
Average Traded Value	\$539,110	\$697,491	-22.71%

\*22 January 1996 = 1000



Activity on the Beirut stock exchange (BSE) remained weak over the past week as eyes were mostly fixated on the parliamentary session and its legitimacy as well as the cabinet formation that remains pending in the absence of a political consensus.

The BLOM stock index (BSI) slid for the second consecutive week, losing 0.41% to settle at 1,140.50 points, 2.44% lower than it was by the beginning of 2013. This negative performance on the BSE was reflected in low volume of trades, with the daily average volume reaching 32,218 shares worth \$539,110, below the last week's daily average trades of 55,600 shares amounting for \$697,491. The market capitalization went up by \$188.27M to reach \$9.09B on Friday as 2.25M preferred shares related to Bank Audi were listed on the bourse.

### Banking Sector

	Mkt	5/7/2013	28/6/2013	%Change
BLOM (GDR)	BSE	\$8.65	\$8.65	0.00%
BLOM Listed	BSE	\$8.25	\$8.25	0.00%
BLOM (GDR)	LSE	\$8.55	\$8.50	0.59%
Audi (GDR)	BSE	\$6.39	\$6.38	0.16%
Audi Listed	BSE	\$6.10	\$6.18	-1.29%
Audi (GDR)	LSE	\$6.15	\$6.57	-6.41%
Byblos (C)	BSE	\$1.52	\$1.50	1.33%
Byblos (GDR)	LSE	\$70.00	\$70.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$1.95	\$1.95	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.84	\$1.84	0.00%

The majority of regional equities closed in the green with the Jordanian bourse and the BSE being the only two losers for the week. Jordan Stock Exchange was the worst performer posting 0.97% weekly losses. Egypt continued to be the biggest winner recording a weekly surge of 13.86% recovering from its previous losses. Thursday session, the first session after Morsi's ousting, witnessed high levels of trading as optimism reigned among investors in the market.

Political tensions and security concerns weighed negatively on investors sentiment driving Lebanese equities down with the BSI faring worse than all its regional peers. The S&P AFE40 and the S&P Pan Arab Composite LargeMidCap gauges rose by 2.04% and 2.02% on a weekly basis to stand at 58.06 points and 119.21 points, respectively. Furthermore, MSCI Emerging Index edged up by a weekly 0.29% to reach 922.1 points.

	Mkt	5/7/2013	28/6/2013	% Change
Banks' Preferred Shares Index *		104.27	104.19	0.08%
BEMO Preferred 2006	BSE	\$100.10	\$100.10	0.00%
Audi Pref. E	BSE	\$101.00	\$101.00	0.00%
Audi Pref. F	BSE	\$100.20	\$100.20	0.00%
Audi Pref. G	BSE	\$100.00	\$100.00	0.00%
Audi Pref. H	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 09	BSE	\$101.00	\$100.50	0.50%
Bank of Beirut Pref. E	BSE	\$25.60	\$25.60	0.00%
Bank of Beirut Pref. I	BSE	\$25.40	\$25.40	0.00%
Bank of Beirut Pref. H	BSE	\$25.50	\$25.50	0.00%
BLOM Preferred 2011	BSE	\$10.12	\$10.12	0.00%

\* 25 August 2006 = 100

## Real Estate

	Mkt	5/7/2013	28/6/2013	% Change
Solidere (A)	BSE	\$11.29	\$11.21	0.71%
Solidere (B)	BSE	\$11.06	\$11.21	-1.34%
Solidere (GDR)	LSE	\$10.90	\$10.95	-0.46%

## Manufacturing Sector

	Mkt	5/7/2013	28/6/2013	% Change
HOLCIM Liban	BSE	\$14.81	\$16.27	-8.97%
Ciments Blancs (B)	BSE	\$3.23	\$3.23	0.00%
Ciments Blancs (N)	BSE	\$3.24	\$3.24	0.00%

## Funds

	Mkt	5/7/2013	28/6/2013	% Change
BLOM Cedars Balanced Fund Tranche "A"	----	\$6,942.85	\$6,901.17	0.60%
BLOM Cedars Balanced Fund Tranche "B"	----	\$5,059.45	\$5,027.88	0.63%
BLOM Cedars Balanced Fund Tranche "C"	----	\$5,273.14	\$5,241.49	0.60%
BLOM Bond Fund	----	\$9,724.12	\$9,724.12	0.00%

## Retail Sector

	Mkt	5/7/2013	28/6/2013	% Change
RYMCO	BSE	\$3.50	\$3.50	0.00%
ABC (New)	OTC	\$33.00	\$33.00	0.00%

## Tourism Sector

	Mkt	5/7/2013	28/6/2013	% Change
Casino Du Liban	OTC	\$480.00	\$480.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

The banking sector remained the biggest contributor on the BSE this week, grasping 57.3% of total traded value. Audi Bank gained through its listed shares that increased 0.16% to close at \$6.39 but lost 1.29% through its GDR shares that stood at \$6.10. Byblos bank added a weekly 1.33% to reach \$1.52.

BLOM preferred shares index (BPSI) showed a positive performance during the week edging up by 0.08% to close at 104.27 points. Byblos Preferred shares class 09 gained 0.50% to settle at \$101.00.

On the London Stock Exchange, the GDRs of BLOM Bank rose by 0.59% to reach \$8.55, while those of Audi and Solidere edged down by a weekly 6.41% and 0.46% to close at \$6.15 and \$10.90, respectively.

The Real Estate sector, represented by Solidere, captured around 42.2% of total value traded during the week. The company's A shares grew by 0.71% to close at \$11.29, while the class B slid 1.34% to reach \$11.06.

As for the manufacturing sector, Holcim Liban edged down by 8.97% to end the week at \$14.81.

In summary, security developments remain a defining factor in investment sentiment over the coming period, until the emergence of other elements related to the cabinet formation or the postponed parliamentary session.

## Foreign Exchange Market

### Lebanese Forex Market

	5/7/2013	28/6/2013	%Change
Dollar / LP	1,512.50	1,512.50	0.00%
Euro / LP	1,941.21	1,967.44	-1.33%
Swiss Franc / LP	1,572.11	1,594.23	-1.39%
Yen / LP	15.07	15.24	-1.12%
Sterling / LP	2,260.35	2,299.24	-1.69%
NEER Index**	116.25	114.70	1.35%

\*Close of GMT 09:00+2

\*\*Nominal Effective Exchange Rate; Base Year Jan 2006=100

\*\*The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

### Nominal Effective Exchange Rate (NEER)



## Money & Treasury Bills Market

### Money Market Rates

	5/7/2013	28/6/2013	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

### Treasury Yields

	5/7/2013	28/6/2013	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

The weekly demand on the US dollar remained stable as the range at which banks exchanged the currency sustained the same range of \$/LP 1,510.5 - \$/LP 1,514.5 with a mid-price of \$/LP1, 512.5. Foreign assets (excluding gold) at the Central Bank stood at \$37.17B as of end June 2013, 1.12% higher than end of May's \$36.76B. Meanwhile, the dollarization rate of private sector deposits stood at 65.4% in May compared to 65.1% in April.

During the past week, the dollar's advance was fueled by the positive US Labor department report. The latter indicated that the economy created 195,000 additional jobs in June, hence increasing the attractiveness of holding American assets. Moreover, June's hourly earnings grew the most since July 2011, thus weathering the strains of the federal budget cuts on demand.

By Friday July 5th, 2013, 12:30 pm Beirut time, the euro closed at €/ \$ 1.29 down by 1.33% from last week. As for the dollar-pegged LP, it appreciated to €/LP 1,941.21 from €/LP 1,967.44 recorded on Friday June 28th. The Nominal effective exchange rate (NEER) rose by 1.35% over the cited period to 116.25 points, while its year-to-date performance stood at 11.98%.

During the week ending June 20th, broad Money M3 grew by LP176B (\$117M), to reach LP161, 847B (\$107.36B). M3 growth rate reached 7.12% on a year-on-year basis and 2.48% from end of December 2012. As for M1, it narrowed by LP113B (\$75M) since currency in circulation decreased by LP87B (\$57.71M) and demand deposits decreased by LP26B (\$17.25M). Total deposits (excluding demand deposits) registered a LP289.49B (\$192.03M) expansion, due to the LP9B reduction in term and saving deposits in LP and the \$198M upturn in deposits denominated in foreign currencies. During the period 13-20 June, the broad money dollarization rate grew by 12 basis points to reach 58.93% compared to its previous level of 58.81%. According to the Central Bank, the overnight interbank rate stood at 2.75% by the end of April 2013.

In the TBs auction held on June 27th, the Ministry of Finance raised LP 875.12B (\$580.51M) through the issuance of Treasury Bills. The highest demand was witnessed on the 10Year (10Y) notes capturing 85% of total subscriptions while the notes maturing in 1Y, 2Y, 3Y and 8Y seized respective shares of 0.89%, 0.24%, 13.18% and 0.65%. The average discount rate for the 1Y notes registered 5.08% and the yields of the 2Y, 3Y, 8Y and 10Y notes stood at 5.84%, 6.50%, 7.80% and 8.24%. New subscriptions exceeded maturing T-bills by LP455.386B (\$302.08M).



## Eurobond Market

## Eurobonds Index and Yield

	4/7/2013	27/6/2013	Change	Year to Date
BLOM Bond Index (BBI)*	103.890	102.390	1.46%	-4.74%
Weighted Yield**	6.17%	6.45%	-28	115
Weighted Spread***	372	506	-134	-58

\*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

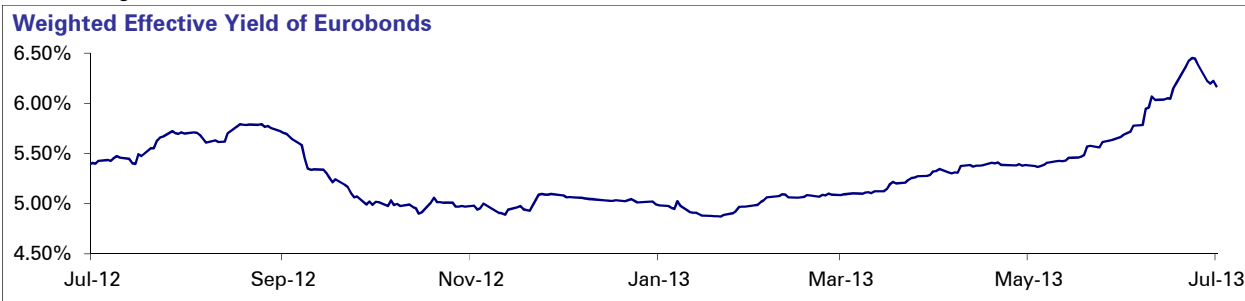
\*\* The change is in basis points

\*\*\*Against US Treasuries (in basis points)

## Lebanese Government Eurobonds

Maturity - Coupon	4/7/2013 Price*	27/6/2013 Price*	Weekly Change%	4/7/2013 Yield	27/6/2013 Yield	Weekly Change bps
2014, Apr - 7.375%	102.10	102.03	0.07%	4.58%	4.74%	-16
2014, May - 9.000%	103.23	103.05	0.17%	4.96%	5.25%	-30
2015, Jan - 5.875%	101.66	101.48	0.18%	4.73%	4.87%	-13
2015, Aug - 8.500%	106.78	106.12	0.62%	5.04%	5.39%	-35
2016, Jan - 8.500%	107.51	107.04	0.44%	5.30%	5.51%	-21
2016, May - 11.625%	116.44	115.88	0.49%	5.33%	5.56%	-23
2017, Mar - 9.000%	110.44	110.00	0.39%	5.83%	5.96%	-14
2018, Jun - 5.150%	97.56	97.44	0.13%	5.72%	5.75%	-3
2020, Mar - 6.375%	97.62	94.29	3.53%	6.82%	7.47%	-65
2021, Apr - 8.250%	108.20	106.15	1.94%	6.87%	7.20%	-33
2022, Oct - 6.100%	95.39	92.33	3.31%	6.78%	7.25%	-47
2023, Jan - 6.00%	93.60	92.56	1.13%	6.93%	7.08%	-16
2024, Dec - 7.000%	100.81	97.80	3.08%	6.90%	7.29%	-39
2026, Nov - 6.600%	95.89	92.41	3.77%	7.08%	7.51%	-43
2027, Nov - 6.75%	96.08	91.28	5.26%	7.19%	7.76%	-57

\*Bloomberg Data



The Lebanese Eurobond market rebounded this week from its retreat since February, mainly on account of the international high supply that dragged prices down. Consequently, low debt prices enhanced local investors' demand for safe assets by end of the week with the BLOM Bond Index (BBI) narrowing its y-t-d losses to 4.74%. The BBI added a weekly 1.46% to reach 103.89 points outperforming the JP Morgan emerging markets bond index that rose by a weekly 0.98% to 620.84 points. The increase was mainly observed in the value of medium and long term government bonds contributing to the drop of their corresponding 5Y and 10Y yields by 3 basis points (bps) and 15 bps to 5.73% and 6.93%, respectively.

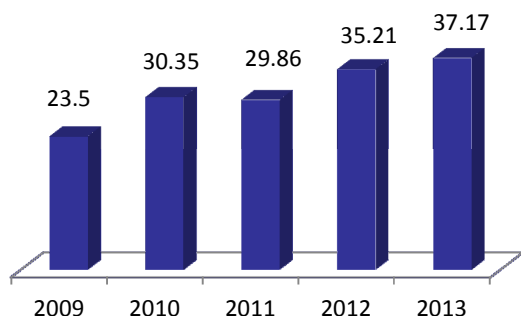
Positive expectations about steady economic growth and good feels about the jobs market in June characterized the U.S market by the end of this week. Accordingly, risk appetites were reinforced on optimism over prospects of an escalating hiring rate in June coupled with a 4 year low unemployment rate of 7.5%. As a result, 5Y and 10 Treasury yields rose by a weekly 4 bps and 3 bps to stand at 1.42% and 2.52%, respectively. The respective spreads between the 5Y and 10Y US bond yields and their comparable Lebanese Eurobond yields narrowed this week by 7 bps and 18 bps to reach 430 bps and 441 bps, respectively.

Lebanon's credit default swap for 5 years (CDS) was last trading between 469-519 bps, tightening from last week's 475-525 bps. In regional economies, CDS quotes in Saudi Arabia and Dubai were last trading at 68-73 bps and 227-244 bps compared to last week's quotes of 74-87 bps and 242-262 bps, respectively. As for emerging economies, CDS quotes in Brazil slightly widened this week from 201-207 bps to 203-207 bps, while Turkey's 5Y CDS narrowed from last week's level of 206-213 bps to 186-191 bps.

## ECONOMIC AND FINANCIAL NEWS

### BDL's Foreign Assets

End June (In \$B)



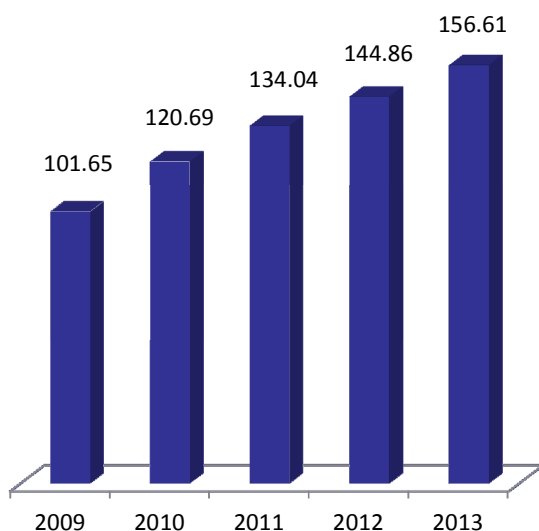
Source: BDL

### Assets at the Central Bank Slip by 1.33% to \$76.90B

Total assets at the Central Bank stood at \$76.90B at end June, 1.33% lower than May but still 0.27% higher since year-start. The asset's fall is solely due to the 14.98% monthly tumble in the value of gold reserves from \$13.05B in May to \$11B in June. In fact, the recent slip in international gold prices was attributed to investors anticipating a wind down of the quantitative easing in the US and therefore a stronger dollar. Aside from the lower value of gold reserves, BDL's other foreign assets and securities portfolio posted monthly upturns of 1.12% and 0.74% to respectively stand at \$37.17B and \$11.69B. On the liabilities side, and in month-ago terms, public sector deposits rose by 12.07% to \$6.32B while financial sector deposits inched up by 0.05% to \$57.85B.

### Commercial Banks' Assets

Up to May (In \$B)



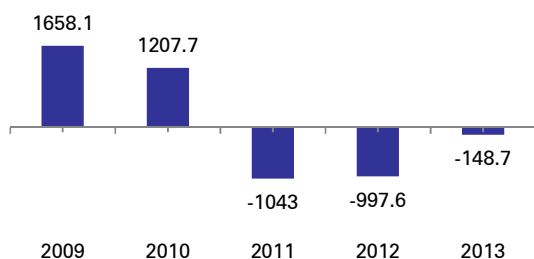
Source: BDL

### Commercial Banks Consolidated Total Assets Grew to \$156.61B in May

Total consolidated assets of commercial banks reached \$156.61B by May 2013, growing by 8.11% year-on-year and by 3% since year start. Claims on the resident private sector, representing 24.9% of total assets, grew by 2.87% y-t-d to reach \$38.93B in May, compared to a faster progression of 4.8% in the same period last year. This slowdown in lending growth mirrors the downward pressures exercised by local and regional tumults on private demand. Lebanese commercial banks' holdings of government securities also rose by 3.66% compared to December 2012, reaching \$32.27B up to May. Nevertheless, commercial banks favored subscribing to Eurobonds rather than treasury bills in local currency as their holdings of T-bills fell by 8.14% since year start to \$16.52B in May while those in foreign currency increased by 19.77% to \$15.67B. Meanwhile, foreign assets, encompassing claims on the non-resident private and financial sectors, tumbled by 4.95% y-t-d to \$24.87 as some banks retreated or reduced the scope of their activity in the countries struck by political uprisings and financial turmoil. As for liabilities, resident private sector deposits increased by 2.68% year-to-May to \$103.61B while the non-resident private sector deposits rose by 9.74% y-t-d to reach \$26.43B. The dollarization rate of private sector deposits increased from 64.9% in May 2012 to 65.4% in May 2013.

### BDL's Foreign Assets

Up to May (In \$M)



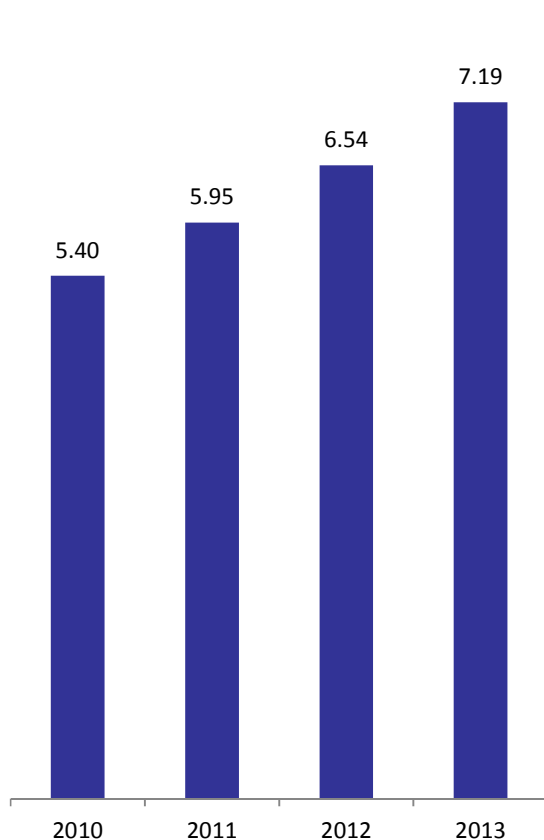
Source: BDL

### BoP Registers a \$148.7M Deficit up to May 2013

Figures released by the Central Bank reveal that Lebanon's Balance of Payments (BoP) registered a deficit of \$148.7M in the first 5 months of 2013, compared to a deficit of \$997.6M for the same period last year. The BoP recorded a deficit of \$130.8M in May alone as a result of a monthly decrease in Net Foreign Assets (NFA) of the Central Bank by \$173.4M not compensated by the increase of \$42.6M in the NFA of the commercial banks. Lebanon's BoP had turned negative starting March 2013 due to the critical political developments that engulfed the country and the region.

### Lebanon's Trade Deficit

Up to May (in \$B)



Source: Customs

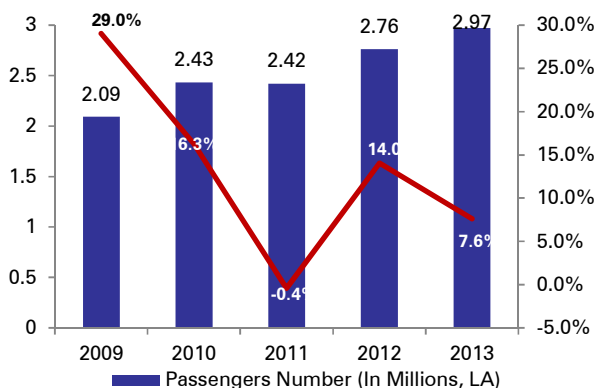
### Trade Deficit Expands to \$7.19B Up to May 2013

Lebanon's trade deficit widened to \$7.19B during the first five months of the year, up by 10.0% from the same period in 2012. When annualized, the trade deficit to GDP ratio reached 39.5% by May 2013 compared to 37.9% in 2012. The change in the balance was the result of a 7.7% yearly increase in exports to \$1.97B and a simultaneous 9.5% yearly growth in imports to \$9.16B. In addition, while exports covered 21.8% of imports in the first five months of 2012, the ratio slightly edged down to 21.5% during the same period of 2013. In details, pearls and precious stones, which grasped 24.5% of total value of exports, decreased in value by 36.1% on an annual basis to reach \$482.20M. Mineral products ranked second among exports, accounting for 14.3% of the total, and rising from \$14.58M by May 2012 to \$282.06M this year. The top export destination was Syria with a share of 17.5% of total exports while South Africa and Saudi Arabia followed with respective shares of 14.5% and 8.4%. On the import side, the value of mineral products increased by 10.5% topping the list of imports and corresponding to 25.4% of the total. In addition, machinery and electrical instruments came in second with a 12.5% stake, adding 34.5% y-o-y while products of the chemical or allied industries made up 9.1% of total imports and rose 11.9% from last year's value. In terms of imports destinations, the U.S.A captured the first place with a stake of 8.9%, tracked by China and Italy with a respective market share of 8.6% and 7.7%. In the month of May alone, Lebanon's trade deficit expanded 11.1% from May 2012 to \$1.43B as imports rose 9.2% to \$1.80B and exports edged up by 2.5% to \$364M. When compared to April the deficit narrowed by a monthly 0.24% as imports fell by \$52.05M, while exports' decrease totaled \$48.59M.



## Airport Passengers

Up to June



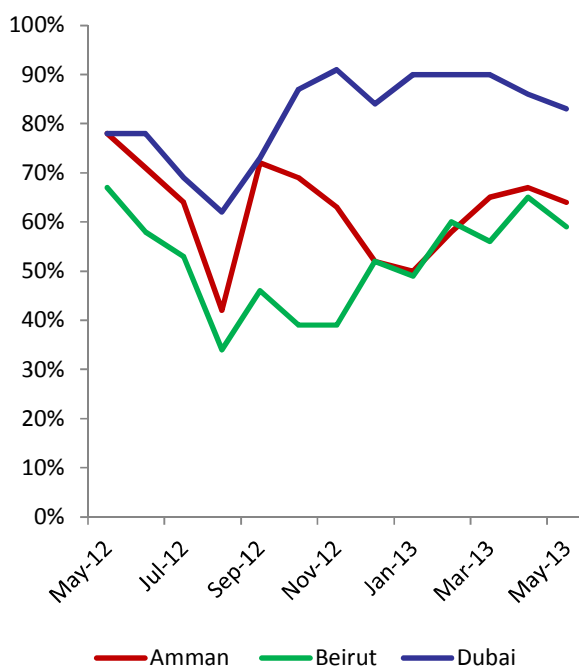
Source: Rafic Hariri International Airport

## Airport Passengers Increased 7.8% y-o-y in H1 2013

The number of airport passengers rose by a yearly 7.8% to 2,974,671 during the first half of 2013 compared to 2,758,372 registered a year earlier, according to statistics published by Rafic Hariri International Airport. Total arrivals augmented by 8.4% to reach 1,513,438, while departures climbed by 9.0% to 1,453,184. Moreover, 8,049 passengers were in transit, 72.3% lower than last year. In June alone, the number of airport passengers increased by 4.1% y-o-y to 571,645 compared to 549,163 recorded in the same month last year. Total arrivals fell 5.2% to 300,227 passengers, whereas departures increased 18.2% to 270,490 passengers. On a monthly basis, airport activity in June improved considerably compared to the previous month posting a 10.8 % progress, boosted by the growth in arrivals and departures number mainly due to the beginning of summer vacation.

## Occupancy Rates

On a monthly Basis (In %)



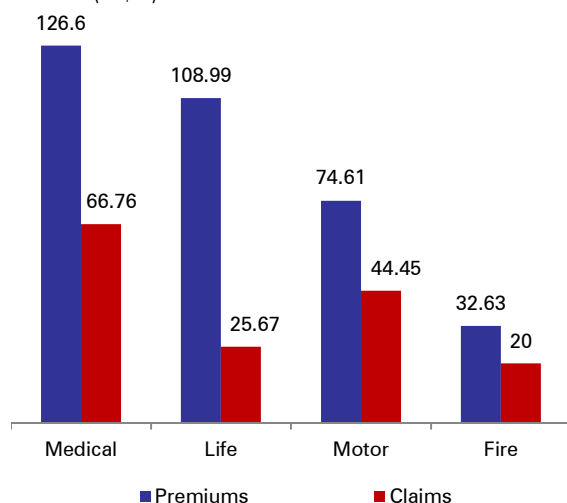
Source: Ernst & Young Middle East Hotel Benchmark Survey Report

## Beirut Hotel Occupancy Rate Falls to 59% y-o-y in May

A new survey published by Ernst & Young (EY) showed that Beirut's hotel occupancy reached 59% in May 2011 compared to 67% recorded last year, mainly hit by a 7.2% y-o-y drop in the inflow of tourists during the month of May following the unstable regional political situation. Arab tourists, who constituted the biggest stake of tourists to Lebanon, kept on declining as GCC countries renewed their Lebanon-travel warnings following security concerns, weighing over the hospitality market's performance. Similarly, Jordan occupancy rate in May recorded a 14 percentage points (p.p) decrease to 64% compared to 78% during the same period in 2012. Jeddah's hotel occupancy rate reached 84.0%, the most elevated rate in the region, followed by Dubai and Abu Dhabi with respective occupancy rates of 83.0% and 80.0%. With respect to revenue per available room (RevPAR) in Beirut, it declined 27.0% to \$98 compared to \$134 in May last year. In addition, the average room rate in Beirut decreased 17.2% y-o-y to \$165, the highest fall amongst the listed Middle East countries. Amman retreated 9.6% to \$155, while Riyadh fell 6.1% to \$218. Conversely, Ghardaqa and Sharm El Shaikh recorded a 63.9% and 37.6% increase to \$41 and \$57, respectively. Egypt's Red Sea resorts maintained the positive trend that kicked off since year start according to EY's publication. In contrast, hotel industry in Cairo went in the opposite direction recording ongoing losses due to the continuous political bickering and instability in the country.

### Collected Premiums versus Claims in Major Insurance Lines

Q1 2013 (In \$M)



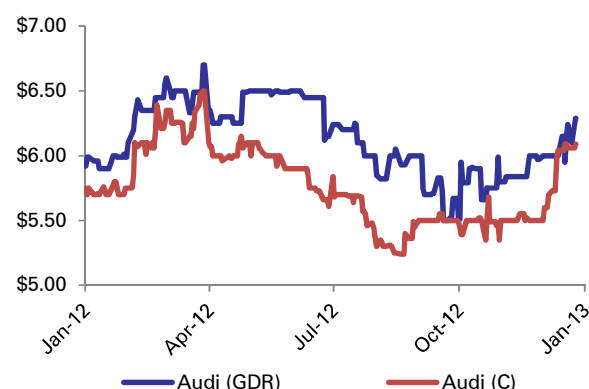
Source: ACAL

### Insurance Premiums Rise by 20% to \$382.33M in Q1 2013

Q1 2013's figures issued by the Association of Insurance companies in Lebanon (ACAL) indicated that 902,834 contracts were issued in the first three months of 2013, equivalent to a 3% y-t-d uptick. The report also reveals a 20% y-t-d increase in total Gross Written Premium to \$382.33M, with medical insurance premiums taking up 33.1% of the total and life premiums accounting for 28.5%. The medical and life lines of business posted the largest y-t-d growths of 27% and 36%, respectively. Meanwhile, the paid indemnities advanced by 18% since year-start to \$166.35M. Medical and motor claims, respectively representing 40.1% and 26.7% of total indemnities, posted respective y-t-d progressions of 13% and 2%. However, the insurance companies' net investment income fell by 14% since year start to reach \$24.77M up to March. This decrease was mainly fueled by the 17% and 13% y-t-d drops in net income from life and motor related investments, which amounted to \$16.36M and \$3.13M in Q1 2013.

## CORPORATE DEVELOPMENTS

### Performance of Audi Listed and GDR shares in 2012



Source: Beirut Stock Exchange, Blominvest Bank-Research Department

### Bank Audi Issues Preferred Shares Class G and Class H

Following the extraordinary general assembly that took place at the Bank's Head office on the 15<sup>th</sup> of April 2013, Bank Audi got the Beirut Stock Exchange's (BSE) approval on the listing, trading and pricing of 2.25M non-cumulative perpetual new preferred shares. In details, the BSE listed 1,500,000 preferred shares Class "G" and 750,000 preferred shares Class "H" on the official market. Both shares have a subscription price of \$100/share that includes a nominal value of LP1,299/share and a premium which makes up the rest of the value. Furthermore, class G shares entitle the holder to receive a dividend up to \$4/share for 2013 and \$6/share for the following years, while the class H shares' dividend is \$4.5/share for 2013 and \$6.5/share for the next years. Trading with the mentioned Preferred Shares is scheduled to start on July 5, 2013. Finally, holders of preferred shares class E and F retain priority to subscribe in the newly issued shares, and according to the percentage of preferred shares they hold in the total share capital of the Bank.

### SPAR International to Enter Lebanese Market in 2014

#### SPAR International's 2012 Key Figures

Retail Sales	\$31.98B
Sales Increase (YOY)	2.80%
Stores	12,332
Sales Area (Square Meters)	6,691,967
Western Europe (% of retail sales)	65%
Southern Africa (% of retail sales)	16.10%
Eastern Europe (% of retail sales)	13.60%
Asia Pacific (% of retail sales)	5.30%

Source: SPAR 2012 Annual Report, Business Monitor International

Along with their positive 2012 results, SPAR International, a Netherlands-based retailer, revealed plans to enter the Lebanese market in 2014 through a partnership with Abu-Dhabi Co-Operative Society (ADCOOPS). The market-entry will translate into the opening of 10 stores over a five-year stretch, a long-term engagement despite the fractured socio-political context. According to Business Monitor International (BMI), the Lebanese mass grocery retail sector offers valid growth potential as sales in this sector are forecasted to post a consistent rise at a Compounded Annual Growth Rate (CAGR) of 7.19% to 2017. The incomer will likely implement express retail formats, suitable for high footfall and transient locations such as airports and petrol stations, operating at extended opening hours and providing a convenient product assortment. The Lebanese convenience segment is judged by BMI as underdeveloped, therefore giving SPAR the advantage of targeting a yet unexploited market-area. BMI pointed at the immature internal trade system, bureaucracy and the Syrian war as the main investment hurdles in Lebanon, while recognizing the UAE based Spinney's and Majid Al Futtaim's Carrefour as SPAR's chief competitors. The international retailer's Middle-East expansion also includes Qatar, Oman and Saudi Arabia.

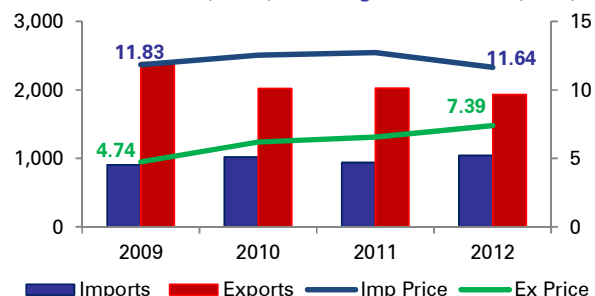
## FOCUS IN BRIEF

### Exploring the Lebanese Wine Industry

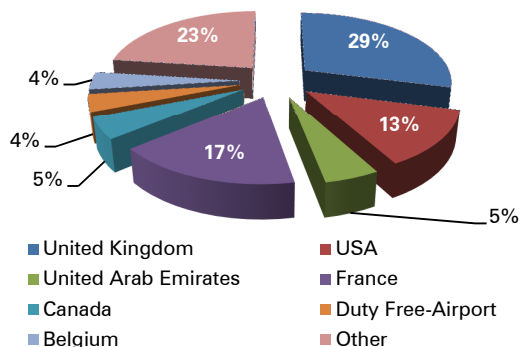
Lebanese Trade Statistics (000's USD)



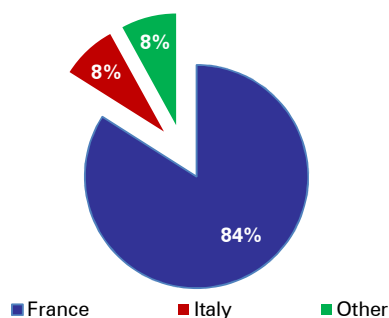
Number of Bottles (000's) – Average Price/Bottle (USD)



Exports by Country - 2012



Imports by Country – 2012



Source: Lebanese Customs

The world produced 28.7 million tons (MT) of wine in 2011 according to latest figures released by the Food and Agriculture Organization (FAO), a specialized agency within the United Nations. Their data show that France, Italy, and Spain combined capture half of the world's wine supply with France alone producing a majority of 6.6 MT, followed by Italy (4.7 MT), and Spain (3.3 MT) during the same period.

While no official wine output data exists for Lebanon, FAO estimated production to be near 14,200 tons of wine in 2011, ranking it as the 45th largest wine producer in the world with 0.05% of global supply. Lebanon's standing comes as no surprise given that winemaking dates back several thousands of years and that the country's "terroir" (geography, geology, and climate) is ideal for industry growth.

Customs data show Lebanon to be a net exporter of wine and estimates its market size at \$26.4 million for 2012. Imports which amounted to \$12.1 million are composed of still wine (red, white, rose) 66% and sparkling such as champagne 34%. Meanwhile exports of \$14.3 million primarily represent still wine with sparkling accounting for only 2.5%. In terms of tonnage and quantity, imports amounted to 1,193 tons or 1.04 million bottles and exports to 1,959 tons or 1.93 million bottles during 2012.

Since 2011, customs data has revealed a new trend of higher export values at lower quantities. The International Organization of Vine and Wine (IOV) has identified this drift as a global phenomenon. Higher input costs alongside a greater impact of global warming have driven production prices upwards. In Lebanon, export values increased by 6% and 8%

during 2011 and 2012, while tonnage fell 3% and 6% respectively. In addition, the average price of an exported bottle has been following an upward trend from \$4.74 in 2009 to \$7.4 in 2012, with the greatest jump taking place in 2010 to \$6.2. These higher prices are mainly due to increasing input costs, the majority of which (excluding grapes) is imported by local wineries.

Lebanon exports the majority of its wine to Europe, primarily UK and France. In 2012, UK maintained its position as the largest importer of Lebanese wine, representing 29% of total exports. France and the US followed with 17% and 13% and the UAE remained the largest Arab importer with 5% share of total exports.

The three largest wine exporters in Lebanon are Ksara, Kefraya, and Chateau Musar. Founded in 1857 by Jesuit priests, Ksara is the oldest and largest winery in Lebanon. Ksara estimated its 2012 exports at 1 million bottles, the equivalent of half of total exports. Meanwhile, Kefraya and Chateau Musar follow, each claiming to export close to 0.5 million bottles. Higher exports have been accompanied with a deceleration in wine imports. Contrary to global trends, Lebanon has been paying less for greater quantities of wine. Import value increased by 1.2% in 2012 while tonnage rose 6.7% and the number of imported bottles grew 10.6%. The average price for an imported bottle fell 8% from \$12.72 in 2011 to \$11.64 in 2012. The reason behind this drop is attributed to the decrease in taxes levied on imported wines through Lebanon's adoption of the Euromena Accords. The agreement which aims at the reciprocal phasing out of taxes imposed on wine between Lebanon and Europe has granted the latter easier access to Lebanese markets.

Lebanon imports the greatest number of wine bottles from France which accounted to its usual 84% share of total imports in 2012. Italy typically comes in second with its customary 8% market share.

Aside from the 1 million bottles in imports, the leading trio of wineries competes over local production. From a total estimated 6 million bottles circulating the market (including imports), Ksara's share nears 1.8 million bottles. The most popular bottle produced by Ksara is the Reserve Du Couvent which it claims to have sold over 700 thousand bottles in 2012. Following Ksara, Kefraya's is estimated to sell between 1 to 1.2 million bottles locally. Kefraya's flagship Les Breteches are estimated by the company to have sold in excess of 750 thousand bottles.

As for Chateau Musar, only 25% of production (0.2 million bottles) is sold to the local market. Its most popular wine which goes by the same name as the winery is estimated to have sold over 150 thousand bottles in 2012. Meanwhile the remaining 1.8 million bottles sold in the local market are divided amongst 40 wineries, each of which produce between 20-50 thousand bottles a year.

With only five wineries since 1993, many Lebanese have recently entered the market with the hopes of exporting to the foreign Lebanese diaspora. In 2011, CEO of Nissan-Renault Carlos Ghosn teamed up with major wine distributors Debbane amongst other investors to launch Ixsir at an estimated investment outlay of \$10 million. Despite the high entry costs, operating production costs are relatively low, making the investment appealing in the long run. Production costs of a bottle of wine may vary according to the duration it is stored, labor cost, packaging but on average costs are typically low and may range between 10-25% of retail value.

The future success of the Lebanese wine industry dictates a shift in production towards high quality wines. Unable to compete in mass production, Lebanon should establish itself as a niche market catering to a sophisticated wine audience. In addition, local wineries should capitalize on trade agreements such as those which are signed with Europe to penetrate foreign markets at competitive prices. Meanwhile, the growth in production for local consumption remains limited to the number of tourists visiting Lebanon, a factor that is directly related to the country's political stability.



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