

Doing Business in the Arab Region: Market Structure, Challenges, Opportunities and Trends



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Why to do business in this region?

The Arab Region, with a GDP of 2.57 Trillion US \$ and with a population of 392 Million, is one of the most youthful regions in the world. 28% of the population is aged between 15 and 29 and has a median age of 22 years compared to a global average of 28.

The Arab region holds more than 43 percent of the world's total proven oil reserves, and more than a quarter of the world's total proven gas reserves.

Market Structure of the Arab Federation of Exchanges (AFE) Members:

18 Arab Exchanges, 4 CSDs, 34 Financial Services Institutions (Affiliated Members), with 1,117 Billion \$ of Market Capitalization and 420 Billion \$ trading value in 2016.

9 of the Exchanges are owned by the public sector, 5 are joint stock companies, 4 are in process of privatization and more than 1,500 companies are listed on those exchanges.

Challenges facing the Arab Exchanges:

- Low Turnover Velocity with an average of 37.62%.
- High dependence on oil prices.

The reasons lying behind the lack of liquidity on the Arab Markets are mainly due to the absence of: covered short selling, securities borrowing and lending, derivatives and practically an absence in Market Making.

Opportunities:

- Very good fundamentals: you can find in this region several companies benefiting at the same time from PE Ratio below 8, price to book value below 1, with a Dividend Yield higher than 5%. While the average of PE Ratio for the S&P 500 Index Companies is higher than 26.
- Most of the Arab countries have their local currencies pegged to the US dollar.

Trends:

- After having the UAE, Qatar and Egypt classified as Emerging Markets, the Kingdom of Saudi Arabia is in the process of being upgraded to an Emerging Market in the near future.

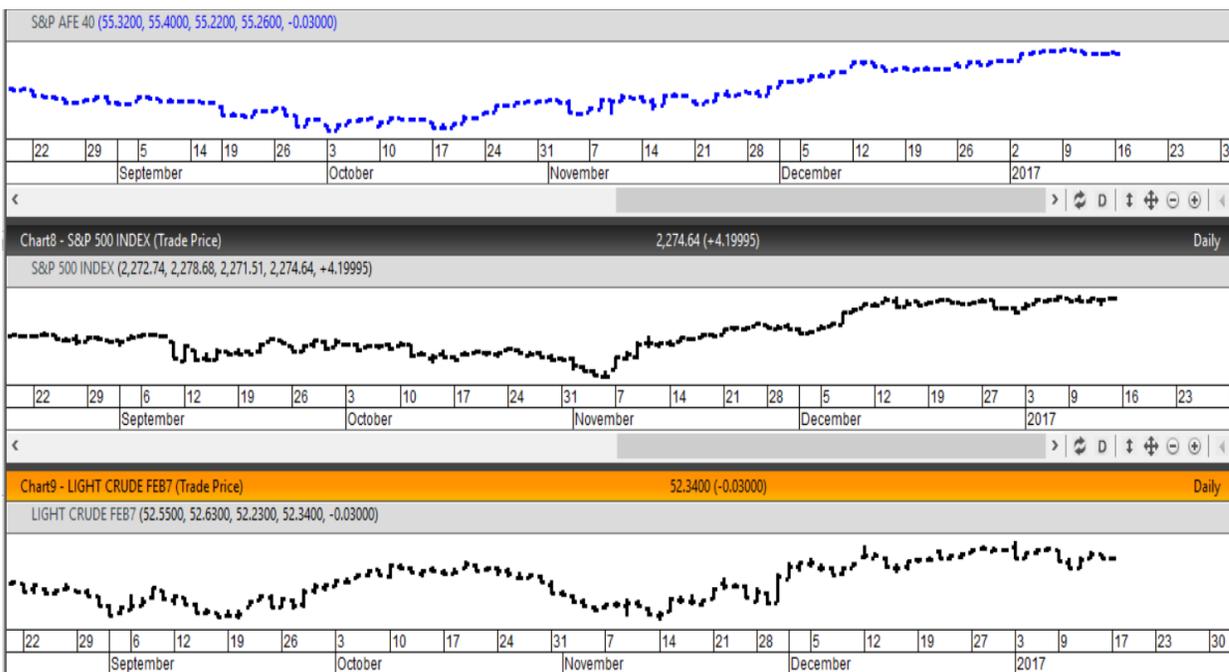
- Abu Dhabi Securities Exchange allowed recently Short-selling. Other Arab exchanges are on the tube.
- Several Arab Exchanges are now considering adding derivatives to their markets.
- Most Arab Stock Exchanges are moving to T+2 settlement cycle (for ease of operations with the internationals)
- The XBRL (eXtensible Business Reporting Language) is already implemented in Saudi Stock Exchange, Dubai Financial Market, Abu Dhabi Securities Exchange and many other Exchanges are now in the process of acquiring XBRL system.
- Most of the Arab Exchanges are already open to the foreign investors; more flexibility will come in the next couple of years.
- Most of Gulf economies are moving toward diversifying their economy sectors, trying to rely less on their oil resources.

Is it the time to invest in the Arab Exchanges?

- It goes without saying that the Arab Market are highly correlated to the oil prices, while oil prices are now stabilizing with a slight positive expectations.
- It was proven that the Arab Markets have been highly correlated as well to the U.S Markets except when the price of oil was falling sharply. Expectations are still positive on the U.S Markets at least till May 2017.
- We are observing recently a low correlation between the geopolitical situation in the region and the Arab Markets trends, due to the fact that the limitations of military conflicts are already known.

Thus, if any investor is looking for good fundamental opportunities and is assuming that the oil price will be stable or positive and has good expectations on the U.S Market, it might be a good opportunity for him to monitor with interest the Arab Markets nowadays.

S&P AFE 40 / S&P 500 / Light Crude



Source: Thomson Reuters