

Kuwait's investors demand more depth

While Dubai quickly captures the attention of most investors looking at the Middle East region, other financial centres are moving to build sustainable market frameworks that will support further investment activity. *Caroline Allen* talks to Kuwait's Coast Investment Company.

Al markets in the Gulf Co-operation Council (GCC) region experienced a volatile start to 2008, although less than most other emerging markets. But the recent gatherer has been Kuwait, which was the only one in the GCC to post a positive return over the first quarter of the year, of 13.8%.

Established investment firms in the country – there are now some 25 listed and non-listed entities -- are calling for the financial authorities to bring the market up to international standards to give investors confidence to engage further. Sulaiman T Al-Abduljader, vice president of the corporate finance and investment services group at Coast Investment and Development Company, Kuwait, says the market is maturing. Local investors want to broaden their horizons, while foreign investors are keen to increase exposure to local markets.

Diversification

Kuwait's macro economic backdrop has been improving due to the surge in oil revenues, but also to the government's long term strategic plan of diversification away from energy revenues. This had its historical roots back in 1952, with the setting up of the first shareholding company, National Bank of Kuwait. In 1982, the Kuwait Investment Authority (KIA) took over the management of the country's assets from the Ministry of Finance. The KIA now manages two funds: the General Reserve Fund and the Future Generations Fund. The foresight to set aside such reserves proved itself in 1990 after the Iraq invasion destroyed 700 Kuwaiti oil wells, and oil revenues dried up overnight. The KIA was able to draw down \$80 billion to ensure the country's financial stability.

Although climbing from a low base, the Kuwait stock market is up 600% since 2000. Long a favoured

destination for Saudi and other GCC funds, it has delivered double digit gains each year since 2002, with the exception of a mild correction in 2006. The peak in GDP growth was in 2003, when it surged past 17%. Although dominated by banks and telecoms stocks, the local market, capitalised at around \$300 billion, counts some 200 securities. A series of new asset managers has been granted licences. Coast's Sulaiman expects further expansion among product providers, followed, inevitably, by a period of consolidation. "There is more room in specialised asset management but each group is looking to where its expertise is, to exploit niches in the market," he says.

Kuwait reported a fiscal surplus for the eighth year in a row at the end of 2007. A significant development of the market framework was a new fiscal regime introduced in December last year. Capital gains tax was slashed from 55% to 15%, and removed entirely for stock investments. The result has been a leap in investor interest. "We are now seeing brokers, investment advisors, research mandates and other interests coming through," said Sulaiman.

The composition of Kuwait's local investor base is about 30% high net worth individuals, 40% institutional clients and 30% retail players. There is a nascent pension fund business and a maturing mutual fund sector, characterised by long-only strategies. "But locals are tired of long only products, they want more sophisticated options," observes Sulaiman. "The institutional investor base is also expanding and we want to reach global players. We want to become a financial intermediary between the East and West, offering financial intelligence and committed capital. We talk the language of global investors, and use products they know and like."

The firm has a history of innovation. Started in 1975, Coast was listed in 1989 on the Kuwait Stock Exchange, but has been growing rapidly since 2002. With paid-up capital of \$230 million and assets under management

Coast's Sulaiman T. Al-Abduljader



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of some \$3 billion, it is engaged in private equity, asset management and real estate investment activity, both locally and internationally. It runs the Coast Investment Fund, the Coast Pearl Fund and the FTSE Coast Kuwait 40 tracker.

Like many GCC asset managers, Coast leans more towards a private equity-style investment process than the institutional models of more established markets. It works with investment partners, trying out structures and processes with its own funds first before inviting clients to join in. "We have survived and learned over 35 years in the business," comments Sulaiman. "Most other firms in the region are not more than 10 years old." He says each deal is structured depending on the needs of the client. "Some prefer to invest via private equity and strategic funds, others are more opportunistic, or conservative and want protection against the downside."

In January 2007 Coast signed a collaboration agreement with the FTSE Group, the global index company, to collaborate on a new custom equity index for the Kuwait market. The FTSE Coast Kuwait 40 contains equities listed on the Kuwait Stock Exchange, and uses the globally recognised Industry Classification Benchmark (ICB) as the basis for its stock classification. The deal brought international index standards to the Kuwait market, providing international and domestic investors with tools to assist with benchmarking, analysis and the creation of derivatives. Further initiatives, notably the creation of dedicated exchanges traded funds (ETFs) are likely.

In June, Coast announced it had booked a profit of 5.7 million Kuwaiti dinars (\$21.5 million) from selling an investment in a non-listed Kuwaiti company. The investment was sold for a total of KWD8.25 million and the sum will be settled in three instalments through the rest of the year. Among Coast's other subsidiary holdings are four real estate companies, a stake in ZAIN, a mobile telecoms company which has just bought Celtel and a majority stake in the Kuwait German Holding Company, a \$400 million company targeting small to medium private equity investments in Germany and Europe.

Sulaiman says that one of the major challenges for investors in the region now is inflation, which has surged from 3.1% in 2006, through 5% in 2007. He notes that the Kuwaiti monetary authorities are talking measures to hold inflation, swelled mostly from rising food costs rather than wage inflation, within delineated bands. But with some astute macro-economic support from central authorities, the funds sector is set to flourish. **FA**

KSE	YEAR 2006	YEAR 2007	% CHANGE
Number of Listed Companies	180	197	9.44
Total Market Capitalization (USD m)	107,259	210,830	96.19
Volume of Traded Shares (Shares m)	37,657.99	70,438	87.05
Value of Traded Shares (USD m)	59,897	128,012	113.72

Source: Kuwait Stock Exchange