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Looking beyond oil: Middle Eastern equity

The Middle East markets, and more specifically the Gulf Co-operation Countries' (GCC) equity markets, have been growing in popularity with global investors in the past couple of years. This is unsurprising given the region's market capitalisation in excess of US$1trn and double digit growth in GDP. In addition, the GCC has seen sustainable corporate profitability, which has directed global investors' attention to a previously untapped and developing market, made even more enticing in the face of rising oil prices and volatile conditions in major global financial markets.

Linking the record highs in the energy sector with economies of high dependence on oil revenue, it is natural to anticipate the potential growth these emerging markets lend the global investor. However, why would investors enter the equity markets of the region if the oil exposure serves a portfolio's asset allocation profile? More specifically, why has the Kuwait equity market been highlighted as a representative to the GCC region and therefore the ideal component of a diversified portfolio?

Sulaiman T. Al-Abduljader, vice president, Coast Investment and Development Company

Currently the Saudi market is restrictive to foreign stock ownership, while the Oman and Bahrain markets are relatively small and illiquid: representing 6% of the total market capitalisation in the region. The UAE and Qatar markets are relatively young, having both been in operation for around a decade. The Kuwait stock market is the second largest in the region (after Saudi Arabia) and the oldest, having been established in 1983.

The earnings multiple in Kuwait recorded 13.04 with a dividend yield of 3.91%, while the GCC aggregate was 15.62 and 2.51%, respectively. In addition, what may surprise investors is the petroleum and chemicals sector only represents 5% of the total market capitalisation of the Kuwait stock market.

Consider three of the top ten constituents of the Kuwaiti index: the largest listed company in Kuwait is Zain – once a local wireless service provider, it is now a telecoms conglomerate with a market capitalisation of $26bn operating in seven Middle Eastern countries, 15 sub-Saharan African countries and has over 16,000 employees, serving 51 million active customers. Zain is considered one of the leading telecoms companies in the region and is on its way to becoming a global leader by 2011. Another example is financial services company, Kuwait Finance House, with market capitalisation of $22bn and operations in Kuwait, Bahrain and Malaysia, and investment activities on four continents. In the logistics sector, Agility is now a global company with more than 32,000 employees and over 550 offices in 100 countries around the world.

Once fuelled by local petro-dollar spending, Kuwaiti listed companies, covering a variety of sectors, have successfully penetrated other markets and given the exchange a diversified portfolio of businesses no longer reliant on the oil sector and its market volatility.

The effect of such diversity is it offers global pension portfolios access to a market which has performed well when compared to the major financial market indices and which is proven to enhance the risk/return profile of a portfolio.