



# Capital Markets Review

حجم ال Volume	سعر البيع Offer Rate	سعر الافتتاح Opening Price	شركة Company
0000	000000	000000	AUC(\$)
0000	000000	000000	BISB
0000	000000	000000	BSB.SA
0000	000000	000000	BBK
0000	000000	000000	NBB
0000	000000	000000	BSB
0000	000000	000000	ABC(\$)
0000	000000	000000	BCFC
0000	000000	000000	TAIB.A(\$)
0000	000000	000000	BMP

December 2005 Issue 7

Published by the Bahrain Monetary Agency (BMA)

## Inside

### Page 2

Press announcement rules  
Agreement with TOCOM

### Page 3

Bahrain is financial center of future  
Sukuk market seeing robust growth  
GCC stock market bubble?

### Page 4

Nass family firm listed  
Jawad shares on offer  
Ithmaar Bank plans IPO  
Banader is listed

### Page 5

GCC IPOs: 'Hot' property

### Page 6

Equity markets: Surging ahead

### Page 7

BMA licence for investment advisory  
Investors' Guide

### Page 8

Money market  
Debt market  
BSE highlights  
Financial sector fact sheet

### Editor

Indira Chand, BMA

E-mail: [capitalmarkets@bma.gov.bh](mailto:capitalmarkets@bma.gov.bh)

### BMA Contact:

Director  
Capital Markets Supervision Directorate  
Bahrain Monetary Agency  
P.O.Box 27, Manama  
Kingdom of Bahrain  
Tel: +973 17547909  
Fax: +973 17532957  
Website: [www.bma.gov.bh](http://www.bma.gov.bh)

## Investment business rulebook on the way

The Bahrain Monetary Agency (BMA) is finalizing work on part of a new regulatory and supervisory framework for investment business licensees.

The framework will comprise Volume 4 of the BMA Rulebook, which the Agency has been progressively issuing since 2004. The BMA is intending to issue Volume 4 by mid-2006.

A consultation on part of the investment business framework has been concluded in December 2005. The consultation explained the background to the project; outlined its proposed structure and coverage; and consulted on five draft modules of the proposed rulebook. These modules relate to regulations on authorization, capital requirements, external auditors and accounting standards.

Several other consultations, on other components of Volume 4, are scheduled to take place over the next six months.

"The Bahrain Monetary Agency is pursuing a programme of enhancements to Bahrain's regulatory and supervisory framework for the financial services sector, following the expansion in August 2002 of the BMA's regulatory responsibilities," said Mr. Ahmed Abdul Aziz Al Bassam, Director, Licensing & Policy, at the BMA.

"One of the projects under way is to develop a more comprehensive regulatory and supervisory framework for investment business licensees."

This project, which is linked to changes separately being implemented in a new licensing framework under development by the BMA, will allow a much wider range of investment business activities to be licensed, as well as provide for stronger regulation, in line with international standards.

This should further facilitate the growth and development of investment business activities in a sound and prudent manner, said Mr. Al Bassam.

In the case of Volume 4, the Authorisation Module proposes three different sub-categories of investment firm, depending on the precise range of activities undertaken, as follows:

Category 1 investment firm licensees would have the ability to deal in financial instruments as principal (the key activity defining this category). They would also have the ability to undertake all other regulated investment activities;

Category 2 investment firm licensees would be authorised to undertake all regulated investment activities, with the exception of dealing in financial instruments as principal. In other words, they would be allowed to hold client money, but would not be allowed to act as principal in client transactions or act as a market maker; and

Category 3 investment firm licensees would neither be allowed to trade as principal, nor hold client money. They would only be allowed to undertake the activities of "arranging deals in financial instruments" and/or "advising on financial instruments".

The three-way categorisation is based on the nature of the risks posed to investors (and the financial system) inherent in the activities allowed under each. Prudential requirements would be tailored accordingly.

"We will begin implementing the Authorisation module as soon it is finalised," said Mr. Al Bassam.

The proposed rules also provide for investment firms to operate on a fully Shari'a compliant basis, in which case certain specific requirements would apply. Conventional investment firms would be allowed to undertake Shari'a compliant transactions, but could not otherwise hold themselves out as an "Islamic investment firm", unless all their operations were conducted in accordance with Shari'a principles.

The proposed requirements are broadly consistent with existing approaches to the licensing of investment business firms, but are more comprehensive in terms of the conditions for granting a license and in the range of investment activities that can be undertaken (and require a licence from) the BMA.

"The BMA has engaged and will continue to engage the industry in the development of this Rulebook," said Mr. Al Bassam.

## Rules on media statements

**T**he Bahrain Monetary Agency (BMA) has set strict rules relating to press announcements made by publicly listed companies.

The rules require companies to issue public announcements to the media through an authorized spokesperson; set internal policies related to the dissemination of information; and take action to avoid publication of unattributed information in the media.

The rules are contained in a BMA Circular issued to all listed companies and financial services providers last month.

The Circular was necessitated following a number of instances of publication of unattributed financial information, including financial

results, of listed companies.

“Such a situation poses many potential risks for companies and investors and, therefore, the Agency requires all listed companies to adhere to the rules of good practice,” says the Circular.

Companies should ensure, to the extent of their control, that all announcements are attributed by a newspaper/publication to an identified person in the company who is duly authorized to make such announcements.

Companies are required to lay down internal policies, disseminated to all staff, regarding the preparation and dissemination of news related to the company. Listed Companies are also required to issue all public announcements on company official

letterhead paper and duly signed by an authorized person.

In cases where incorrect information is published, the company is required to issue an official correction via denial or clarification to the concerned newspaper/publication. A copy of such correction should also be sent simultaneously to the Bahrain Stock Exchange (BSE).

The Circular, issued on 20th November 2005, became effective immediately upon issuance and all companies are required to abide by the rules detailed in it.

The BMA and the BSE reserve the right to suspend trading and/or take disciplinary action against companies that do not comply with the BMA requirements.

## BMA pact with Tokyo exchange

**T**he Bahrain Monetary Agency (BMA) and The Tokyo Commodity Exchange (TOCOM), the world’s leading bullion and energy exchange, have signed a Memorandum of Understanding (MoU) aimed at developing cooperation between the two institutions.

The agreement was signed in Tokyo in November 2005 by H.E. Rasheed Mohammed Al Maraj, Governor of the BMA, and Mr. Masaaki Nangaku, Chairman of TOCOM.

The MoU provides a formal framework for a cooperative relationship between the BMA and TOCOM. The two institutions intend to develop an institutional framework to enable financial institutions, brokers and others in Bahrain to conduct transactions on the TOCOM that comply with the requirements of the Shari’a, Commodity Exchange Law of Japan and the general rules of the Exchange.

Based on the MOU, TOCOM and the BMA will engage in sharing the Exchange documentation and obtaining approval from BMA’s Shari’a Advisory Board to designate the TOCOM as the BMA’s approved and preferred trading house for oil exchange transactions conducted in accordance with Shari’a requirements.

“We are delighted to enter into this agreement with The Tokyo Commodity Exchange (TOCOM),” said Mr. Al Maraj, following the signing of the MoU.

“We are keen to work closely with TOCOM and co-operate in developing commodity based contracts that are in line with Shari’a principles.”

Mr. Nangaku said, “It is an honor for TOCOM to establish

such a partnership with the Bahrain Monetary Agency (BMA).”

“Since the creation of TOCOM in 1984, one of TOCOM’s missions has been to contribute to the development of the global and Asian marketplace. We are very much delighted to having this opportunity to cooperate with BMA to further expand the scope of this mission by making TOCOM markets available to financial institutions in Bahrain.” Bahrain is the leading international financial center in the Middle East region, he pointed out.

The BMA is seeking to develop Shari’a compliant products, which enable Islamic financial institutions to trade in various types of commodities listed on the TOCOM. The assets of the global Islamic banking industry are currently estimated to exceed US\$250 billion.

TOCOM hopes the alliance with the BMA, which enjoys a reputation of being the most innovative and highly regarded regulator in the Middle East, will promote market growth by attracting new market participants from Bahrain with the support of the BMA, and will strengthen TOCOM’s position as the provider of benchmark prices to the world market, and expand the trading of commodities by Islamic financial institutions.

TOCOM is the largest commodity futures exchange in Japan, and also the world’s third largest in the area of commodity futures. The exchange lists 10 commodities: crude oil, gasoline, kerosene, gas oil, gold, silver, platinum, palladium, aluminum and rubber futures contracts.



## Bahrain wins prestigious award

**B**ahrain has won a prestigious award in recognition of the country's leadership status as a key international financial center.

The Kingdom has been named winner in the Middle East & Africa category for the Financial Centres of the Future Awards 2005 by the UK-based *The Banker* magazine, a sister publication of the *Financial Times*.

The awards, presented for the first time this year, celebrate the jurisdictions that have made the greatest strides in terms of growth and infrastructure in the past year. The awards have been published in the December 2005 issue of *The Banker*.

"Bahrain is the region's leading financial center and the Gulf's longest established commercial and business center. Many years of development and experience give Bahrain a strong reputation as a business and financial center," says the magazine. It notes that Bahrain offers a liberal and low-tax economic environment and is undergoing a series of important political and economic reforms.

The awards, presented in four geographic categories which also included Asia & the Pacific, Western Hemisphere and the Caribbean, were based on a number of criteria, including the rate of growth of the financial services sector; regulatory quality and supervisory standards; infrastructure and business support services; and overall political and economic stability of the jurisdiction.

"The BMA is delighted to be the recipient of the Financial Centres of the Future Award," said Dr Abdul Rahman Saif,

Executive Director, Corporate Services, at the BMA.

"Bahrain's continued development as a mature and sound international financial center is a matter of pride and encouragement for all of us at the BMA, as we strive to ensure that Bahrain maintains its unrivalled reputation. The BMA also strives to maintain its own reputation as the most highly regarded and innovative regulator in the Middle East region."

A cornerstone of BMA's policy has been to implement international best practice to all aspects of financial supervision, he pointed out. In this regard, the BMA continues its work on a major project to review and upgrade, where necessary, the regulatory framework for the entire financial services industry, covering banking, insurance and the capital market. The work on the regulatory framework is matched by a new integrated licensing framework, which the BMA intends to finalise in the coming months.

The BMA complements its role as regulator with market development initiatives, which continue apace. A new Trust Law is currently awaiting implementation and the recently issued takaful (Islamic insurance) framework, which is part of BMA's Insurance Rulebook issued in 2005, is unique. In addition, the BMA continues to pioneer innovative structures for Islamic debt market instruments.

"All this and other BMA initiatives, we hope, will continue to reinforce Bahrain's status as the pre-eminent financial center and ensure the continued expansion of the country's financial services industry," said Dr Saif.

## Sukuk market gains momentum

**T**he appetite for sukuk issuance is growing robustly, says a senior Bahrain Monetary Agency (BMA) official.

A recent trend for corporates to move away from syndicated finance to tapping the sukuk market will considerably deepen and broaden the global sukuk market, said Shaikh Salman bin Ahmed Al Khalifa, Director, Banking Services.

He was speaking during the

'Corporate & Investment Banking Summit' at the World Islamic Banking Conference (WIBC), held in Bahrain from 10th to 12th December 2005.

The event was held under the patronage of HH Shaikh Khalifa Bin Salman Al Khalifa, Prime Minister of Bahrain, and supported by the BMA. It was organised by Middle East Global Advisors (MEGA).

More than 700 delegates from about 30 countries took part in the event, held

under the theme 'Unlocking Market Opportunities: Consolidation, Innovation & Growth'.

"The global sukuk market currently exceeds US\$10 billion with 54 issues already either fully subscribed or announced," said Shaikh Salman.

Bahrain pioneered the sukuk in June 2001 and since then has been playing a pivotal role in shaping and driving the industry forward, he pointed out.

More recently, BMA has pioneered yet another sukuk structure; a short term, tradable Sukuk Al-Ijara of six-months (182 days) maturity. BMA's debut issue of Sukuk Al-Ijara was issued in August 2005.

This initiative in effect completes the long held objective of the BMA of creating a benchmark yield curve for the industry. The BMA issuance now comprises of all sorts of sukuk maturities ranging from 3 months to 10 years. This is a major achievement in the sense that hitherto there was no regional yield curve available.

### GCC stock markets bubble?

**T**he bubble could be about to burst for investors in the Gulf region's stock markets, warned a leading banker during the World Islamic Banking Conference (WIBC).

Some prices may have over-reached themselves and may be susceptible to a sharp downturn, said Mr. Abdulhakeem Alkhayat, General Manager, Kuwait Finance House Bahrain.

"Many companies have P/E (price to earnings) ratios of 30, 45, 50 or 60, which may leave them vulnerable," he said during the WIBC Power Table session.

"The issue is that there are many small investors who are putting their money into the stock markets based on rumour and hearsay without really looking at what they are investing in."

## Nass family firm listed on BSE

**B**ahrain-based Nass Corporation has made history by becoming the first family business to go public on the Bahrain Stock Exchange (BSE).

Family members of the Abdulla Ahmed Nass (AA Nass) & Sons Company divested part of their shareholding in the business group, paving the way for the establishment of Nass Corporation, which was listed on the BSE on 22nd November 2005.

The divestment was effected through a two-stage process, which comprised a private placement, followed by a public issue of shares.

Nass Corp, with a paid-up capital of BD20 million (\$53 million), is Bahrain's first regional family-owned conglomerate operating in the construction sector

to go public. It was formed from the construction, contracting and other related businesses of the Nass Group.

The private placement, which was oversubscribed, attracted five GCC-based business groups, a majority of them diversified business entities, which have taken a 24% share of Nass Corp. The share offer, which was available to the public in Bahrain and the GCC, offered 25% of the company's shares. The founding shareholders retain a majority shareholding of 51% in Nass Corp.

The listing of Nass Corp was a remarkable event in Bahrain's capital market, said Mr. Fouad Rashid, Director of the BSE. He hoped that this success would motivate other companies to follow the same step.

Securities & Investment Company (SICO) were the Lead Managers and Financial Advisors for the issue. KPMG Corporate Finance were the Co-Financial Advisors.

"The next exciting event for Nass Corp investors will be cross listing the company's ordinary shares on another GCC stock exchange sometime in the next few months," said Mr. Hesham Al Saie, Head of Corporate Finance at SICO.

Earlier, Mr. Abdulla Ahmed Nass, head of the Nass family, said the decision to go public was taken some years ago, with the family strongly believing that the public ownership route is the best way to ensure a positive future for the group.

## Ithmaar plans IPO

**B**ahrain-based investment bank, Ithmaar Bank, has announced plans for an Initial Public Offering (IPO), following the completion of its private placement of US\$50 million, which has raised its paid-up capital to US\$200 million.

Ithmaar now proposes to reconstitute itself as a Bahrain shareholding company, issuing an additional 150 million shares through one of the largest IPOs by any investment bank in Bahrain, and listing itself on the Bahrain Stock Exchange (BSE) and another major GCC stock exchange.

The IPO proceeds will be used partly to recapitalize subsidiaries and affiliates, enabling them to fully exploit profitable opportunities in their respective markets.

"The net proceeds of the private placement and IPO will be used by Ithmaar to pursue its ongoing expansion and diversification strategy in the growing investment banking sector in Bahrain and the region," said Mr. Khalid Abdulla Janahi, Chairman, Ithmaar Bank.

"While already a well established bank with operations across the Middle East, Europe and Asia, the funds raised will help Ithmaar to pursue further growth and establish itself as a truly competitive investment bank in the region."

The IPO is planned for the first quarter of 2006. Shamil Bank of Bahrain has been appointed the Lead Issue Manager and Financial Advisor for the IPO while KPMG has been appointed as the Co-Financial Advisor.

## Banader goes public

**T**he Bahrain Stock Exchange (BSE) also saw the listing, in November 2005, of Banader Hotel Company.

Earlier, Bahrain-based Banader came out with an initial public offering (IPO), which offered 60% of the company's capital of BD15 million (US\$39.8 million) to investors. The company is building a 4-star hotel and furnished apartments that will become operational by 2007-end. They will be managed by a well-reputed and specialized hotel management firm.

## Jawad shares on offer

**B**ahraini retail fashion group, Jawad International Fashion, launched, in December 2005, its sale of 10 million shares to the public.

The share offer for the subsidiary of Bahrain-based Jawad Business Group (JBG) closes on 8th January 2006. The nominal value of each share is 100 fils, while the offer price is BD1.100 (US\$2.915).

"We are eager to open up JIF stock ownership to the public and look forward to further expansion in the region," said Mr. Faisal Jawad, Chairman and Chief Executive officer of JIF. It is the stated policy of JIF to distribute 75% of the net profits every year in dividends. The company will be listed on the Bahrain Stock Exchange (BSE) in January 2006.

Receiving banks for the issue are Ahli United Bank, Bahrain Islamic Bank and Standard Chartered. The lead manager and financial advising firm for the transaction is Khaleej Finance and Investment (KFI). Share registrar is KPMG and allocation registrar is Jawad Habib and Company.

Upon completion of the share offer, the public company will be owned 51% by JBG, 9% by Khaleej Fashion Franchises and 40% by members of the public. JIF was incorporated by JBG in mid-2003 to operate several international fashion brands, including BHS, Mango, Adams, Shoe City and Hush Puppies throughout the GCC region. It currently operates 48 outlets in the region.

## GCC IPOs: 'Hot' property

The spurt in IPOs in 2005, with the arithmetic average of post-listing stock price performance (both IPOs and newly listed companies) for the 41 new companies reaching a stratospheric 159%, sums up the optimism prevalent in GCC investor sentiment. The IPOs so far in 2005 have raised over US\$5.5 billion, as compared to US\$3.9 billion raised in 2004. This trend is likely to continue, with the likely IPOs of Barwa Real Estate Co (Qatar), Unicorn Bank (Bahrain), listing of Oger Telecom and the much expected private oil company IPO in Kuwait planned in the next couple of months.

Improved capital market conditions in the region have resulted in growing investor interest in the regional equity markets. Owing to this frenzied activity, the regional indices have, by November-end 2005, expanded significantly, led by the UAE (119.7%), Qatar (109.3%), Saudi Arabia (90.3%), Kuwait (62.7%), Oman (47.4%) and Bahrain (23%). In addition, with liquidity in the markets improving substantially in the past few years, the capital markets are also witnessing increased depths, in terms of the number of new listings as well as growth in overall market capitalization.

Regional governments, led by Saudi Arabia and the UAE, have taken the initiative of placing some of their prized jewels on the primary market through IPOs. Examples include Al Qurain Petrochemical Industries in Kuwait, Qatar Gas Transport Co., Omantel in Oman, Dana Gas and Abu Dhabi National Energy Company in the UAE. Complementing this has been an increased appetite for private sector companies to float their shares on the regional bourses.

Hopes of windfall returns have seen significant oversubscriptions to many of the new listings. This high level of oversubscriptions explains the elevated initial opening price and the subsequent performance of many of the newly listed stocks. This also indicates the abundant liquidity in the market and investors are capitalizing on the much-awaited IPOs of selected companies. But performances varied substantially, ranging from double-digit gains to double-digit losses. In addition to the public participation in their equities, many regional firms

are also opting for private placement of their equities with the help of regional investment firms. In Kuwait, Global Investment House has been instrumental in several private placements over the last few months, so far successfully completing private placements totaling KD132.7 million (US\$454.3 million) during the year. This trend was very much visible across all regional investment markets where large sums of capital were raised through private placements through regional investment firms.

Companies with regional aspirations are also going on the path of cross-border listings, which have also been gaining momentum over the past few years.

GCC countries have learned from the past that it is quite dangerous to rely on the price of oil to fuel capital expenditure and their impressive advances in the diversification of their economies are commendable. We believe that with the improvement in the investment climate, there will be increased IPO activity that will help in retaining and repatriating the huge Arab private wealth invested abroad which is estimated at around US\$1 trillion to US\$1.3 trillion. The governments will lead the way through privatization and the simplification of listing rules and procedures. The region, thus, is poised to be a hot destination for entrepreneurs and business owners to raise funds from the capital market.

We believe that the number of cross-listings will continue to expand in the coming years as companies

continue to restructure their operations and aspire to more regional/international roles. With the current economic environment and resilience of the regional equity markets, we believe the situation is ripe for additional listings in the coming year. We are looking to see family businesses jump on the listing bandwagon, especially in the face of changes brought about by globalization.

*This article has been contributed by Global Investment House, a leading investment banking and asset management firm based in Kuwait and Bahrain.*

*The views expressed in the article are not necessarily those of the BMA.*

The 'hot' capital market in 2005 (not a complete list)

Issuer	Country	Type	Offering (US\$ mn)	Over-subscribed
Al Khaleej Development Company	Bahrain	IPO	6.0	x 2.65
Nass Corporation	Bahrain	IPO	81.2	x 2.62
Banader Hotels Company	Bahrain	IPO	15.9	x 2.25
Al Qurain Petrochemicals Industries	Kuwait	IPO	337.0	-
Institute for Private Education	Kuwait	Listing	-	-
Excellent Education Company	Kuwait	Listing	-	-
Safwan Trading & contracting Co	Kuwait	Listing	-	-
National Slaughter House Co	Kuwait	Listing	-	-
ISKAN	Kuwait	Listing	-	-
Al-Dar Finance Co	Kuwait	Listing	-	-
Gulf Petroleum Investment Co	Kuwait	Listing	-	-
Gulf Franchising Co	Kuwait	Listing	-	-
Credit Rating & Collection Co	Kuwait	Listing	-	-
Al Deera Holding Co	Kuwait	Listing	-	-
Grand Real Estate Projects Co.	Kuwait	Listing	-	-
Dhofar Power Company	Oman	IPO	25.4	x 9
Oman Telecommunications Company	Oman	Privatization	759.8	x 2.4
Qatar Gas Transport Company	Qatar	IPO	714.3	x 9.5
Dialeh Brokerage and Investment Holding	Qatar	IPO	40.1	x 1.02
Bank Al Bilad	KSA	IPO	400.0	x 4
Al Marai Company	KSA	IPO	614.4	x 4
Saudia Dairy and Foodstuff Company	KSA	IPO	128.7	x 6.5
National Company for Co-operative Insurance	KSA	IPO	-	x 11.5
Al-Marai Dairy and food products Co	KSA	IPO	-	x4
Arab Technical Construction Company	UAE	IPO	-	-
Emirates Foodstuff & Mineral Water Co	UAE	IPO	-	x 8
Emirates Islamic Bank	UAE	IPO	-	-
Emirates and Sudan Bank	UAE	IPO	-	-
Arab International Logistics Company	UAE	IPO	149.7	x 80
Finance House	UAE	IPO	-	x 75
National Bank of Umm Al-Qaiwan	UAE	Listing	-	-
National Bank of Ras-Ai-Khaimah	UAE	Listing	-	-
Jeema Mineral Water Co	UAE	Listing	-	-
Investcom	UAE	IPO	740.9	x 8
Dana Gas	UAE	IPO	560.8	x 140
Taageer Finance Company	UAE	IPO	10.9	x 4.3
Sorouh Real Estate Company	UAE	IPO	374.0	x 176
Aabar Petroleum Investments Company	UAE	IPO	134.8	x 800
RAK Properties	UAE	IPO	299.5	x 57
Aldar Properties	UAE	IPO	170.0	x 448
Abu Dhabi National Energy Company (Taqa)	UAE	Privatization	163.5	-

Source: Zawya.com

## Equity markets: Surging ahead

**G**CC equities continued to power ahead during the September-November 2005 quarter, building on the already impressive gains in the preceding months. Interestingly, 8 of the 10 best performing markets globally this year are Arab/GCC markets. Between the three largest markets in the GCC, the average YTD returns are an impressive 98%.

However, unlike the earlier quarters where oil prices stole the limelight (November 2005 saw oil prices rise 28.3%), December faced a sharp reversal - oil prices fell 21%. Markets however shrugged the negative aside as companies announced sharply improved results in Q3. Corporates across the GCC registered a 61% rise in profits in the quarter (sustaining the growth in the preceding two quarters and dispelling the fears of a slowdown). Average profit growth in the first nine months has been robust at 61%.

### Regional Round-up

Kuwait was the star performer with the KSE Index rapidly crossing the 9000, 10000 and then 11000 barriers to rise 23.1% in the quarter. Kuwait's valuations were attractive, although what drove the sharp performance was the impressive growth in corporate profitability. Profits rose 112% yoy in the quarter (up sharply from 59% in Q2). On average, profits for Kuwaiti companies are up 91% for the first nine months.

Saudi markets rose 9.8% in the quarter as corporates grew 40%. UAE equities inched ahead by 4.1% while Qatar and Oman faced profit taking falling 10.3% and 6.9% respectively despite a strong 60% growth in quarterly profits.

Bahrain similarly saw a quickening of growth in bottom-lines - profits rose an average 37% helping 9-month profits rise 33%. Amongst the top 10 listed Bahraini equities, banks delivered strong results with average profits growing 64%. Investment banks grew 37%. Market heavyweight Batelco continued to face pressure with profits falling 4%. As a result, Bahraini equities rose 7.8% in the quarter and have registered 26.2% gains since the start of 2005.

The quarter saw four new issues hit the market, collectively raising BD62 million (US\$164m). These IPOs, detailed



*This article has been contributed by Mr. Bryan D'Aguiar, Head of Research at Bahrain-based Securities & Investment Company (SICO).*

*The views expressed in the article are not necessarily those of the BMA*

below, helped Bahraini Listed Equities market cap to rise 10.3% over the quarter to US\$17.7 billion:

1. Nass Corporation floated a BD30 million (US\$79.5m) public share issue that was oversubscribed 2.62 times. The share offer was Bahrain's first family-owned (construction) conglomerate to go public.

2. Banader Hotels floated an IPO worth BD6m (US\$15.9m) to finance the construction of a new four star hotel.

profits rose 63% to BD5.1m).

Gulf Finance House (GFH) was the largest gainer amongst the billion dollar Bahraini equities, rising 32%, with 9-month profits rising 93%. The company announced plans to increase capital by 30% through a rights issue priced at US\$1.36 (a 65% discount to market prices). GFH has been appointed financial advisor to a new US\$1.6 billion Energy City project in Qatar.

BMMI clocked the highest fall with a 17% correction to BD1.160, despite winning a large US\$175m contract, while Batelco was the second largest loser falling 11% on disappointing results.

Amongst other notable developments, the Bahrain Government approved a new real estate holding company (Bahrain Real Estate Investment Company) with a capital of BD500m (US\$1.3 billion) that will be floated and listed on the BSE.

The government will own 60% of the shares of the new company, with 40% to be offered to the public.

### Outlook

Typically Q4 is the quarter with mixed corporate performance and significant corporate action announcements. We expect markets could be choppy with year ending considerations and expectations running high. Bahraini markets in particular are going to have a number of IPOs in the coming quarters (Jawad Intl Fashion, Ithmaar Bank, Al Baraka Banking Group, Al Salam Bank, Unicorn Investment Bank, Tourism Holding Company, etc). This and other large IPOs in Saudi are likely to put some pressure on the market as Saudis are big investors in Bahrain equities.

The table above shows Saudi (P/E of 35.1x), UAE and Qatar (trading at 23-25x forward P/E multiples) at one end of the valuation spectrum, while Bahrain, Kuwait and Oman (at 12-14x multiples) are at much more reasonable levels. Technical factors aside, Bahrain's P/E at 12.9x forecasted earnings is attractive relative to peers (especially given its 3.3% dividend yield).

### Regional Summary

(data as on 22 Dec)

	Mcap US\$ bn	P/E CY05E	P/BV CY04	Divid Yield	PAT Gr%	Returns YTD^
					3Q-05 9M-05	
GCC	1,127	26.2	8	1.3	61%	92.6
Saudi Arabia	651	35.1	10.1	1.1	40%	98.8
UAE	217	23.4	8.8	0.9	87%	109.3
Kuwait	133	13.9	4.9	2.4	112%	85.2
Qatar	85	25.6	7.1	1.6	66%	68.5
Bahrain#	28	12.9	2.1	3.3	37%	26.2
Oman	13	12.5	3.4	2.3	62%	43.3

\* includes cross listed equities

# Universe excludes non-Bahrain equities

^ Returns as on 30-11-05

3. Bahrain National Holdings raised BD6m (by way of a rights issue) to finance the company's planned investments in new projects including a 30% stake in a new car financing entity, National Finance House, as well as a stake in a Saudi-based insurance company.

4. BMB Investment Bank also got re-listed in September after a 15-month suspension in trading due to its capital re-organisation plans (US\$52.33m in new capital was injected into the bank).

### Key Market Movers

Al Khaleej Development was the biggest mover, gaining 61% in the quarter, after the stock got listed on the Kuwait Stock Exchange and an earnings guidance that forecasted a trebling of net earnings in 2005 to more than US\$12m. In addition, the company was reported to be close to signing a BD600m (US\$1.6 billion) deal with the Government of Bahrain to develop the Bahrain Industrial Harbour project.

Bahrain Islamic Bank also posted an impressive 52% gain in its share price as its Q3 profits jumped 141% (9-month

## Licence for investment advisor

The Bahrain Monetary Agency (BMA) has granted a licence for an Islamic investment advisory/consultancy firm specializing in structuring Islamic commodity funds.

The BMA has also granted a licence for the establishment of an Islamic broking company, which will enable liquidity clearing in the region.

The investment advisory/consultancy firm will be established by professional investors in Islamic funds. The proposed firm plans to offer technical support relating to the structure and acceptability of trade and commodity transactions in compliance with Shari'a principles.

"The BMA remains committed to supporting the advancement of Islamic financial services and enable the industry to capitalize on the tremendous opportunities opening up in the wider Middle East region," said Mr. Ahmed Al Bassam, Director, Licensing & Policy, at the BMA.

On its part, the BMA continues its pioneering work in devel-

oping Islamic debt market instruments. The BMA also continues to work on a number of market development issues, including a new licensing framework, which will provide additional flexibility to financial institutions wishing to do business in and from Bahrain.

The Global Islamic Clearing Company (GICC) is being established as a joint venture between Bahrain-based Islamic Finance Consultants (IFC) and UK-based financial services firm, Dawnay Day Global Investment.

The GICC will undertake Islamic assets facilitation and liquidity clearing from its base in Bahrain. Currently, liquidity management by Islamic banks is largely transacted through commodity murabaha contracts via brokers in London. With the establishment of the GICC, Islamic banks in Bahrain and the region will be able to manage their wholesale and retail liquidity more efficiently in the regional time zone.

The Bahrain operation of GICC will provide a platform in the region for Islamic banks to interact, raise and place funding, said Mr. Al Bassam.

### Investors' Guide

(at Nov-end 2005)

Company	Symbol	Closing Price (Dec-end 04)	Closing Price (Nov-end 05)	Change %	PE Ratio (x)	Dividend Yield (%)	P/BV (x)	ROE (x)
All prices in BD except where stated 1BD = US\$2.65								
National Bank of Bahrain	NBB	1.002	1.005	0.30	19.20	3.98	2.80	14.57
Bank of Bahrain & Kuwait	BBK	0.725	0.705	-2.76	15.50	4.96	2.52	16.27
Ahli United Bank	AUB	US\$0.82	US\$0.97	18.29	23.67	2.76	2.52	10.65
Bahrain Islamic Bank	BISB	0.354	0.631	78.25	43.09	1.90	3.03	7.02
The Bahraini Saudi Bank	BSB	0.149	0.142	-4.70	37.69	0.00	5.62	14.92
Arab Banking Corporation	ABC	US\$12.77	US\$13.00	1.80	11.93	3.86	0.70	5.89
United Gulf Bank	UGB	0.224	0.341	52.23	15.96	4.11	2.47	15.48
Bahrain Commercial Facilities Co.	BCFC	0.800	0.940	17.50	14.00	4.26	3.03	21.62
United Gulf Industries Corporation	UGIC	0.125	0.145	16.00	7.55	0.00	1.41	18.73
TAIB Bank	TAIB	US\$1.12	US\$1.26	12.50	28.65	0.00	0.76	2.64
Shamil Bank of Bahrain	Shamil	US\$1.80	US\$1.65	-8.33	12.94	5.14	1.28	9.91
Esterad Investment Co.	Esterad	1.015	1.700	67.49	16.57	2.65	3.34	20.14
Gulf Finance House	GFH	US\$1.84	US\$3.90	111.96	31.10	1.95	7.12	22.89
Al Khaleej Development Co.	Tameer	**	US\$1.67	N/AP	47.54	2.40	3.60	7.57
Bahrain Kuwait Insurance Co.	BKIC	0.460	0.461	0.22	15.04	4.34	1.50	9.95
Al-Ahlia Insurance Co.	Ahlia	0.370	0.450	21.62	14.67	2.78	2.02	13.77
Takaful International	Takaful	0.247	0.285	15.38	308.13	0.00	2.44	0.79
Arab Insurance Group	ARIG	US\$1.25	US\$1.340	7.20	9.96	0.00	1.18	11.89
Bahrain National Holding Co.	BNH	0.380	0.360	-5.26	12.65	4.72	1.54	12.18
Bahrain Ship Repairing and Eng. Co.	BASREC	1.450	1.508	4.00	23.98	2.98	0.97	4.07
Bahrain Cinema Co.	Cinema	0.772	1.275	65.16	14.64	1.96	1.93	13.18
General Trading & Food Processing Co.	TRAFCO	0.510	0.450	-11.76	13.06	3.33	1.41	10.78
Bahrain Maritime & Mercantile Int. Co.	BMMI	1.560	1.160	-25.64	8.82	4.31	3.51	39.86
Bahrain Telecommunications Co.	BATELCO	1.018	1.161	14.05	14.06	4.31	3.87	27.54
Bahrain Car Park	CPark	0.184	0.198	7.61	11.77	5.05	1.30	11.01
Bahrain Duty Free	DutyF	1.260	1.580	25.40	20.01	2.85	3.04	15.19
Bahrain Flour Mills	BFM	0.305	0.388	27.21	11.03	3.87	0.61	5.54
Delmon Poultry	Poultry	0.303	0.300	-0.99	16.44	5.00	0.75	4.54
Bahrain Hotels	BHotel	0.451	0.450	-0.22	13.90	5.56	1.80	12.96
National Hotels	NHotel	0.280	0.310	10.71	18.35	2.90	0.91	4.89
Bahrain Tourism Co.	BTC	0.302	0.300	-0.66	12.89	4.00	0.99	7.69
Bahrain Family Leisure Co.	Family	0.089	0.112	25.84	38.34	0.00	1.06	2.76
Banader Hotel Co.**	Banader	-	0.065	-	N/A	0.00	N/A	N/A
Nass Corporation**	Nass	-	0.600	-	12.02	1.10	6.89	41.82

\*Not meaningful

\*\*Became public in Feb 05

