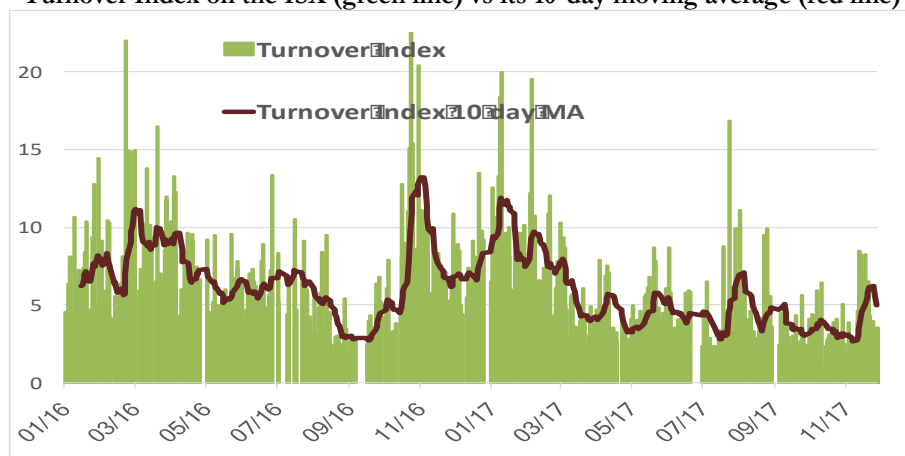


Market Review: Tentative Recovery

Ahmed Tabaqchali, 29 November 2017

The dog days of the summer extended from October into the first 10 days of November, as the 40 day Arba'een pilgrimage came to an end, with continued declines in turnover and prices. This pattern was sharply reversed as buying interest drove prices and turnover significantly higher. The market, as measured by the RSISUSD Index, was up almost +10% by mid-month, with daily turnover almost doubling on the up days as the chart below shows, before settling in at +4.3% as the buying activity subsided.

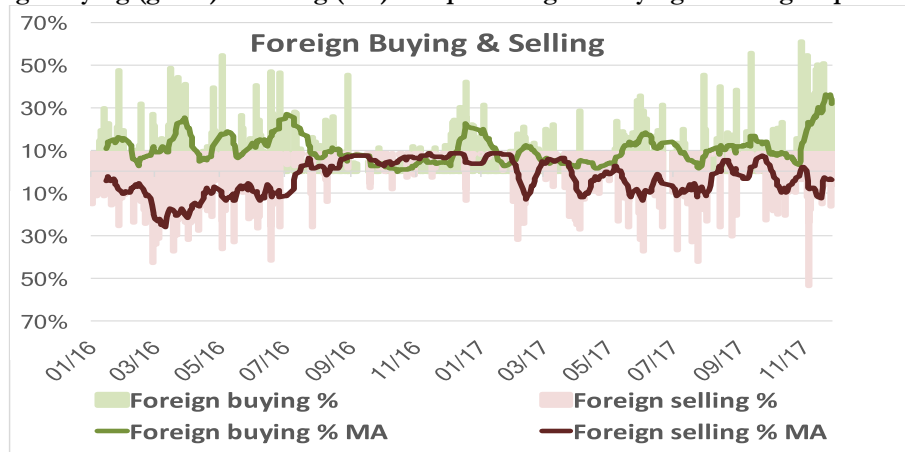
Turnover Index on the ISX (green line) vs its 10-day moving average (red line)



(Source: Iraq Stock Exchange (ISX), Asia Frontier Capital (AFC))

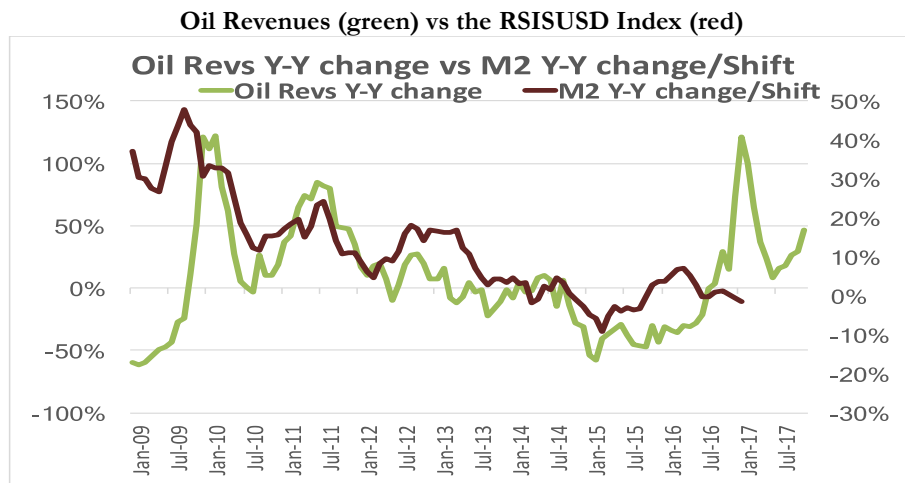
The driver of the turnaround was a modest recovery in liquidity as the dividends that banks announced earlier in the summer were reinvested. Importantly, a revival in foreign buying, partly a re-investment of dividends and partly fresh inflows, accounted for most of the buying and the subsequent market recovery (see chart below). In addition to the high-quality banks that announced dividends of up to 11% (at time of announcement), mobile operator Asiacell (TASC) declared a 14% dividend. Its valuations are equally attractive, as those of [the high-quality banks](#), in that it is trading at under 2x trailing 12 months EV/EBITDA. Much like the banks, these attractive valuations come with improving fundamentals as the company begins its recovery from the triple whammy that the ISIS conflict brought: A loss of the third of the country accompanied by subscriber losses and higher operating costs, decreasing ARPU's (average revenue per user) that accompanied the roll out of 3G in 2015, and finally weakened consumer spending made worse by the introduction of VAT on SIM cards in 2016.

Index of foreign buying (green) & selling (red) as a percentage of buying & selling respectively on the ISX



(Source: Iraq Stock Exchange (ISX), Asia Frontier Capital (AFC))

The first visible beneficiary of the recovery in oil prices has been the country's foreign reserves, which increased to USD 49.0bn by end of November vs USD 45.2bn at end of 2016, and IMF's estimates of USD 41.5bn by end of 2017. However, money supply is yet to follow given the observed time lag of about 7-9 months as the chart below shows: it shifts the Y-Y percentage change in M2 back by 9 months vs the Y-Y percentage change in oil revenues. Arguably, the changed dynamics of the oil market, with a likely medium-term range of USD 55-60/bbl for Brent, should result in a sustainable positive effect on the economy, as the recovery in foreign reserves would be followed by a recovery in money supply and eventually the broader economy.



*(Source: Iraq Stock Exchange (ISX), Central bank of Iraq, Iraq's Ministry of Oil, AFC)
(M2 as of Sep. with AFC est.'s for Oct., Oil revenues as of Oct. with AFC est.'s for Nov.)*

The improvement in liquidity in the broader economy will eventually filter down the equity market but are not there yet. This is evidenced by observing that, the recovery in the market's turnover, impressive as it was for the up days, is still in the very early stages of recovery as seen through average daily turnover for the month. While up +28% from the extreme lows of the last two months, is still is at only 85% of the average daily turnover YTD, which in turn is low to start with. All of which underscores the opportunity to acquire attractive assets that have yet to discount a sustainable economic recovery, as both local and foreign activity are still low. The prospects of the economic recovery following the ISIS conflict are discussed in recent research piece by the author as a non-resident fellow at the Institute of Regional and International Studies (IRIS): "[Iraq's Economy after ISIS: An Investor's Perspective](#)"

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