



# Qatar Capital Market

**An overview of the country's capital market and its future in a globalized economy**

## **Doha Securities Market**

The number of companies listed on the Doha Securities Market (DSM) grew from 22 companies in 2000 to 32 companies in 2005, and the total market capitalization grew from QR 188 Billion in 2000 to QR 317.2 Billion over the same period. With such a phenomenal track record and robust economic growth coupled with excellent corporate results, few could predict that it would tumble from an all time high of 12,892.76 points to 7,110 points in less than a year. This represents a drop of almost 45% and it has hit home to all DSM investors, large and small. There were some positive developments in 2005, such as new listings and rights issues. The DSM authorities played a significant role in facilitating the IPO process and encouraging newly established companies to list on the DSM. In the past year, three new IPOs

took place, two were listed in 2005 and the third, Barwa Real Estate Company, was listed in 2006. Perhaps one of the most significant was the decision to open the market to Non-Qataris. This also allowed tailored regional funds to invest in the DSM, and for the first time a Qatar based fund targeted at the expatriate population was launched by Amwal. In addition, the amendments to the DSM's rules and regulations played a vital role in the development of market surveillance, bringing with it greater and more measurable protection to all market participants. It also aided the preservation of market integrity as a whole. The DSM regulators also restricted the daily ceiling floor limit to 5% in order to dampen market volatility. This limit was later increased to 10% indicating a greater confidence in the market by both the regulators and investors.

The first half of 2006 has been very exciting. The DSM Index has bounced back from 7,110 to 7,921.3 as of the end of first week of August 2006, and two recent moves by the authorities have helped stabilize the market. The first was to allow companies to buy back their shares. The second was to change the daily limit on stocks. Qatar Central Bank has also played a role in stabilizing the market by allowing banks to grant short term loans for local IPOs. So far in 2006, there have been three new IPOs, namely Al-Rayyan Bank, Gulf Cement Company and the private placement IPO of First Finance. Investors are hopeful that several more IPOs are in the pipeline for the second half of 2006 and early 2007. Gulf Commercial Bank and Qatar Clay Bricks are two that are expected. The current year high for the DSM Index stands at 11219.98 since the beginning of

## Qatar will continue to look towards the debt markets to fund a substantial portion of its gas-based industrial projects

January 2006. The DSM Index has shown signs of stability and has marched up close to the 8,000 mark. This has been a sign of reassurance to many investors. There are many indications that the Index will see positive growth during the second half of the year. Many investors and fund managers have been injecting money into the market, increasing the average number of daily transactions 10 fold over 2004.

The authorities should be commended on the major steps that have been taken to consolidate the financial and economic structure in Qatar with the aim of benefiting economic development and improving Qatar's investment climate. The DSM has spent the past few years setting regulatory guidelines and policies in place to further increase investor awareness and to attract foreign investment to the country. These guidelines provide the basis for best practice transparency, dissemination of information, education and research.

### Qatar Financial Centre (QFC)

In May 2005, Qatar Financial Centre was inaugurated creating a national & regional centre for international financial institutions and multi-national companies. The Qatar government has committed to investing US\$130 billions of dollars in projects across all major sectors over the next 5-7 years. There are ample opportunities for businesses to generate new revenue streams in Qatar, and there are particularly attractive opportunities for financial services companies.

Since its inception the Qatar Financial Centre Regulatory Authority (QFCRA) has already granted authorization to nine institutions and there are many more applications in the advanced stages of the approval process.

There are a number of advantages that companies benefit from through being part of QFC. The main advantage is the large volume of banking and financial business transactions taking place in Qatar, and the added benefit of being able to say the company is located in a jurisdiction with an independent regulatory authority that ensures the highest international standards.

### Economic Growth

While the economic policy will remain focused on the development of Qatar's

natural gas reserves, increasing efforts have been made in attracting foreign investment to the non-energy sector. Qatar has been supporting the growth driven by the gas industry by investing substantially in the development of infrastructure and communications. This will continue as substantial budget surpluses have been recorded. This budget surplus is expected to grow with rising oil prices and a growing increase in energy export volumes.

Qatar's GDP is expected to increase by 7.9% in 2006 and 8.9% in 2007. Although import spending, which rose by 83% in 2005 has been offset by high oil revenues, Qatar's budget surplus is expected to reach US\$ 12.6bn in 2006 and US\$ 9.7bn in 2007.

Average inflation was at an historical high of 8.8% in 2005, and is expected to reduce slightly to 6.2% in 2007. This is compared to a 1.7% average inflation rate between 1999 and 2003. This dramatic increase can be attributed to the huge increase in demand for housing.

### Debt Market:

The GCC bond market, including Qatar, is still underdeveloped when compared to the traditional bank and equity financing avenues. The lack of demand, an illiquid market and current high oil revenues make it less attractive for regional governments to issue debt in order to finance projects or fiscal deficits. On the other hand, regional and local companies have had easy access to equity financing throughout the boom of the stock markets. Needless to say, the debt market is characterized by a lack of benchmarks, limited variety of issues, and illiquid market conditions.

Bonds fulfill an important function in any economy. They provide long-term financing for companies and governments alike and offer investors an important alternative to equities. Until recently, the Qatar stock market has given investors excellent returns. But given the recent decline in the stock market and the heavy losses many have suffered, this scenario has created an appetite for investing money in the Qatar debt market, where bonds and sukuks alike have been in the limelight.

Qatar issued USD 2.4 Billion in sovereign bonds during mid-1999/2000 to finance liquefied natural gas projects and in

September 2003 a USD 700 Million Islamic Trust Certificate (Sukuk) was issued. At the same time, Qatar Central Bank (QCB) has conducted seven issuances on behalf of the Ministry of Finance since mid-1999, totaling over USD 3 Billion dollars. Subscriptions were restricted to local banks except for the last issue, which was made available to insurance, investment companies and semi-government enterprises. Aside from the first issue, revenues of all issues were used to redeem the previous issuances. Bonds might be less flamboyant but are safer than stocks and offer a more predictable cash flow which is crucial for balancing portfolios and providing steady returns. With the debt market expected to grow, the imminent improvement of efficient settlement methods, clearing and custodial services, as well as an ever improving regulatory framework will certainly appeal to foreign investors looking for greater regional diversification for their respective portfolios.

### Expectations

We expect Qatar's capital market to become more advanced over the next few years as a growing number of local and regional companies will look to list on the DSM or be licensed by the QFC to operate in Qatar.

It is widely expected that Qatar will continue to look towards the debt markets to fund a substantial portion of its gas-based industrial projects especially as work on several new LNG "super trains" and large petrochemical projects begins. Private companies have also been actively seeking alternate avenues of financing through various debt instruments, recent announcements by Qatar Real Estate Investment Company and National Leasing Company to issue Sukuks having been encouraging. There will be a growing number of mergers and acquisitions taking place in Qatar as well as more joint ventures being created and an increasing number of private equity and pre-IPO offerings. These transactions will need to be facilitated by professional asset management and investment banking firms that have the capacity to handle large scale projects, specialized financing, and surplus liquidity. ■