

# Iraqi stocks a longer term opportunity, says AFC

**SIGNIFICANCE:** Ongoing political instability remains a formidable hurdle in restarting the Iraq's economy. The Iraq Stock Exchange (ISX) may offer significant growth potential for investors in the longer term, however.

## ON THE GROUND

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— Ahmed Tabaqchali, Asia Frontier Capital

## IMPACTS

**SOCIAL:** Iraq's largely unbanked youth represents a vast potential market for the financial industry.

**POLITICAL:** The Iraq Stock Exchange has been courting investors over the last year and has made significant technical upgrades.

**BUSINESS:** Investors willing to tolerate volatility could be rewarded handsomely for staying in the market for the longer term.

## FULL BRIEFING

**On March 16, Asia Frontier Capital Ltd. (AFC) announced a new Iraq Fund focused on the country and its emerging stock exchange. AFC stands as an example of how investors could find long-term opportunities in the country's reconstruction, after a decade and a half of conflict. The stock market, which has so far impressed AFC with its management, may be one such entry point for foreign investors.**

The Iraq Stock Exchange (ISX) has been seeking investors internationally since it upgraded (<http://www.monitorglobaloutlook.com/Briefings/2014/05/exclusive-baghdad-erbil-have-stock-exchange-agreement>) its Nasdaq software to the company's "X-stream Trading" platform (<http://www.iraq-businessnews.com/tag/isx/>). However, an outburst of militant violence since then – as the Islamic State seized large swathes (<http://www.monitorglobaloutlook.com/Briefings/2014/08/Iraq-s-Sunni-militants-likely-to-be-long-term-threat>) of the country's north – has stifled nascent investor interest.

However, AFC's Ahmed Tabaqchali, chief investment officer for the AFC Iraq Fund, sees potential for significant growth over a seven to 10-year time horizon, despite current volatile conditions (<http://www.thenational.ae/business/markets/investors-play-a-long-game-for-bargains-in-strife-torn-iraq>). The case of post-conflict reconstruction in other countries, such as Sri Lanka, points to potential for double-digit growth rates, he argues, adding that getting in on the ground floor now could be key.

"The damage done over the last 35 years is incredible, and it will take a lot just to fix it, let alone make it right," he tells Monitor Global Outlook. "That's a massive opportunity in almost all sectors, but you have to be patient and you have to be realistic."

Another draw, Mr. Tabaqchali says, is the relative ease of investing in the ISX. "In terms of stock markets, it's one of the easiest to invest in, and that's very encouraging," he says. "As an investor, often you have difficulty putting your money in or getting it out, it might be taxed, and you may not get your currency back. But so far, Iraq is straightforward." Registering an investment account, for example, can be done in a day, according to Tabaqchali.

Iraq's demographics are another reason to bet on the country, says Tabaqchali. When the country's youth bulge makes the transition from cash to bank accounts, financial institutions, which currently account for about 85 percent of trading on the index, stand to make significant gains, he argues.

Auxiliary services for the oil and gas industry are another potential growth area, according to Tabaqchali. Many fields in both southern Iraq and Kurdistan are still underdeveloped, offering opportunity for local oil and gas services firms.

Investment inflows into Kurdistan are further evidence of the potential for the rest of Iraq, assuming the government can achieve a modicum of political stability in the medium term, according to AFC. Firms based in the United Arab Emirates have been particularly active in the Kurdistan Regional Government, including undisclosed investments by Emaar Properties Group, Dana Gas, and the Dhabi National Energy Company, PJSC (TAQA).

At the moment, the ISX is tiny, with market capitalization of just \$7.4 billion (<http://asiafrontiercapital.com/afc-iraq-fund/country-universe.html>) – equivalent to a market-cap-to-GDP ratio of 4 percent. By comparison, the rest of the region ranges from 25 percent to 90 percent, with Gulf countries on the higher end, and Levantine countries on the lower end, of that spectrum.

Eighty-three companies (<http://www.isx-iq.net/isxportal/portal/companyGuideList.html>) trade on the ISX, including banks, insurance providers, industrial firms, hotels, telecom, and agriculture. Tabaqchali estimates that there are about 5,000 active investors currently engaged in the exchange.



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Photo: Mohammed Ameen/Reuters

## OTHER IMPACTS

### COMPANIES

- Emaar Properties
- Iraq Stock Exchange

## INDUSTRIES

- Finance and Insurance

## RISKS

- Commodity price fluctuation
- Sabotage / Infrastructure attacks
- Political paralysis