

20.10.2008 The Issue

- 08 Kerala attracts UAE investors to special economic zones
- 32 Days of cheap money are gone, says DIB chief
- 40 Stocks surge but profit taking reduces gains

The Talk

“I have not heard of any correction or decrease in prices in the realty market

SALEM ALMOOSA CHAIRMAN,
FALCONCITY OF WONDERS P10



The Numbers

OIL (Brent crude)	DIRHAM/POUND	DIRHAM/EURO	DUBAI Index	ABU DHABI Index
→ \$69.60	→ 6.464	→ 5.033	0.37% ↑	2.38% ↑

24/7

LEADING NEWS

Short-term outlook for IPOs

■ Momentum of initial public offerings in the region slows down due to global crisis ■ Worldwide, Q3 saw 159 IPOs compared to 440 in 2007's third quarter

DUBAI Karen Remo-Listana

The number of initial public offerings (IPOs)

being launched in the region is likely to fall sharply in the short term in reaction to the global financial meltdown, said analysts.

But companies that have already decided to go public are likely to proceed with their plans in due course, they said.

The value of IPOs in the UAE, Saudi Arabia, Kuwait, Qatar, Bahrain and Oman almost doubled to \$11.7 billion (Dh43bn) in the first three quarters of this year compared with last year's figure of \$5.9bn. This momentum, however, is under threat as more and more firms delay their plans to go public.

"Definitely the IPOs will decline in the short term because of the negative sentiment but they will pick up in the long term," Phil Gandier, Managing Partner at Ernst & Young Consulting told *Emirates Business* at a conference yesterday.

Abu Dhabi-based Al Qudra Holding in March delayed what would have been the UAE's second-largest IPO less than two weeks after announcing it would start raising \$1bn. Emirates Post has also postponed an IPO it had planned for this year, citing "current market conditions".

Future Pipe Industries Group restructured its loan facility and ended up borrowing \$165 million from around 12 banks after ditching an IPO in May at the last minute also due to unfavourable market conditions.

Abu Dhabi-based Gulf Capital has postponed its IPO for the next 18 months because of the volatile markets.

Gulf Capital CEO Karim El Solh, said: "I don't think it is a good idea to gravitate towards the national markets. Right now and in the next 18 months things are a bit unclear. There are lots of volatilities so I don't think it is the optimum time."

The negative sentiment in other markets has been more pronounced. BTA Bank, Kazakhstan's biggest bank by assets, will delay its plan to sell shares in London next year because it says the markets are not "suitable". Russian Railways is delaying IPOs for two of its subsidiaries planned for this year until at least 2011, due to poor market conditions.

Qantas Airways, Australia's largest carrier, delayed plans for an initial sale of a minority stake in its frequent flyer unit because of "heightened market volatility".

In addition, analysts and banking sources said that Prada and fellow Italian fashion designer Ferragamo were likely to delay listings into 2009 because of the market turbulence.

Globally, IPO activity in terms of number has been much lower in Q3 of 2008 (159 deals) compared with Q2 of 2008 (267 deals) and dropped significantly compared with Q3 of 2007 (440 deals), figures from Ernst & Young showed.

Gandier told the forum: "Total capital raised in Q3 of 2008 was lower (\$13.1bn) than Q2 of 2008 (\$38.2bn) and significantly lower than Q3 of 2007 (\$59.1bn).

"The number of IPOs in the third quarter of this year was the lowest since the first quarter of 2003. The number of IPOs is 40 per cent fewer than the second quarter of 2008 and 64 per cent fewer than third quarter of 2007." The amount of capital raised in the third quarter of this year was the lowest since the third quarter of 2003, he added.

Gandier attributed the sharp decline in the number of IPOs to the impact of turbulent financial markets, overall market uncertainty and the slowdown of many of the world economies. "Lack of investor confidence is a key driver in the reduction in number of IPOs," he said.

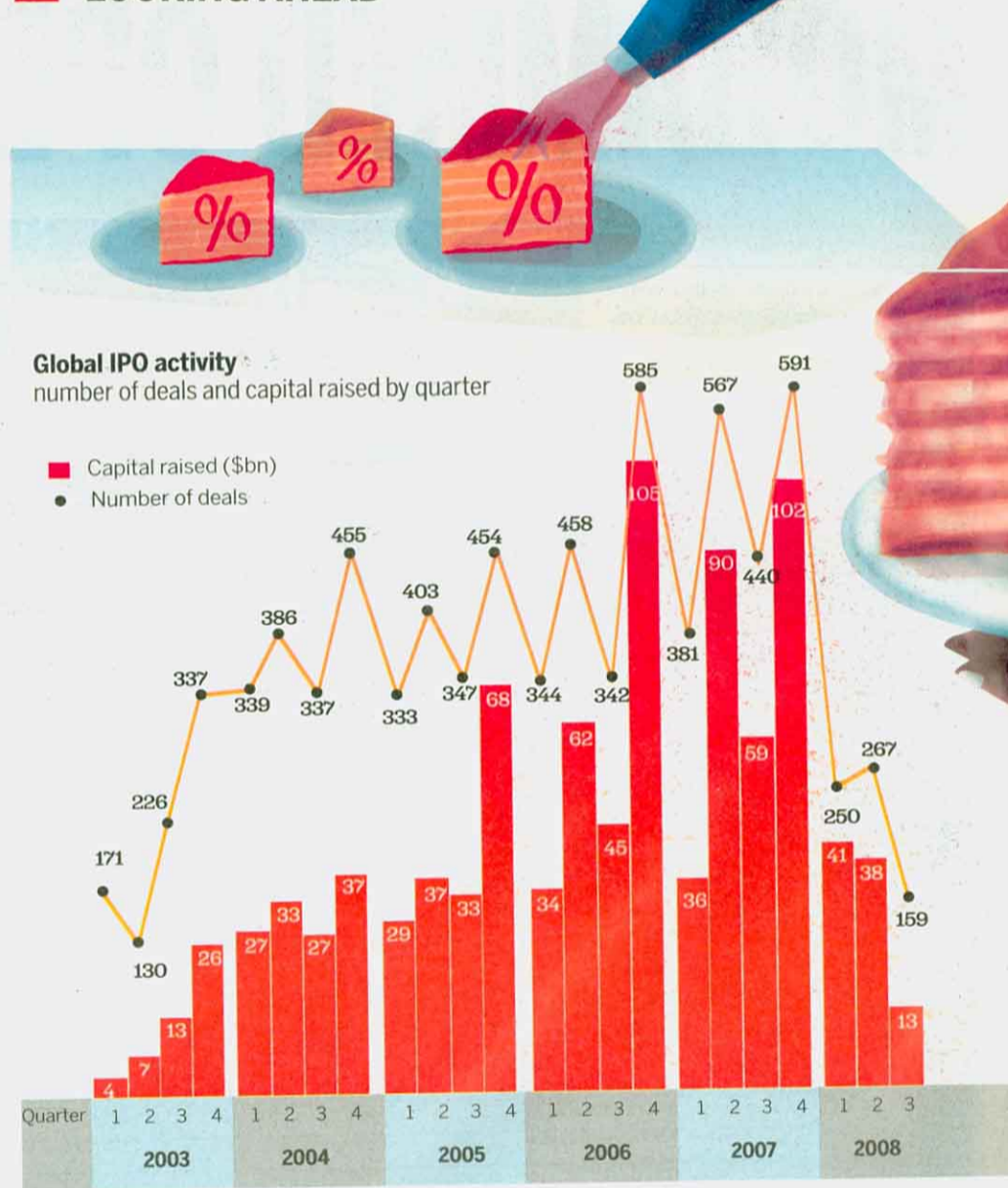
Agreeing that a further slowdown of IPOs can be expected in the short term as a reflection of global conditions, Gundi Royle, Managing Director of Investment Banking at the National Investor, said investors tended to minimise risk during these trying times.

"Equity investors have seen all the gains of the past 12 months wiped out," she added. "The headlines are dominated by crisis talks, so negative sentiment takes over.

"Clients are assessing the increased risk of closing a transaction and possibly lower pricing. On the other hand, debt capital markets are affected by the lack of liquidity which could mean that more businesses would have to look to equity for growth capital."

While many are feeling nervous, there are some who remain optimistic. Sambacapital said it had 11 IPOs in the pipeline and none of

LOOKING AHEAD



German Fernandez

its clients has lost their appetite. "We don't have anything imminent until Q1 of 2009 but none of the IPOs that we are managing are delayed or cancelled," said Imad Mansour, Head of Corporate Investment Banking at Sambacapital. "It takes a company nine to 12 months to prepare for an IPO so many have started that journey already and they are not going to stop in the middle of it."

Imad Ghandour, Chairman of the Information and Statistics Committee at Gulf Venture Capital Association and a Principal at Gulf Capital, shared this positive outlook, saying the IPO pipeline remains healthy.

"According to our research, 151 companies were in the process of going public at the end

of September, a record number since we initiated our IPO research in 2006," he said.

"The process for listing a company on an exchange is a long one and its alteration means a strategic shift for the company. The current turbulence in the local exchanges has been there for only a few months and I doubt that it has yet resulted in a deep and irreversible impact on investors' appetite."

Even family-owned businesses which have decided to list will not be influenced by a temporary reversal in the market, he said.

"What the industry may witness are some delays in order to list in better times, resulting in less IPOs in the coming few months."

Rami Makhzoumi, President and CEO of

not favourable

Company	Domicile nation	Primary exchange	Issue date	Proceeds (US\$m)
Saudi Arabian Mining	Saudi Arabia	Riyadh	14/7	2,467
China South Locomotive & Rolling Stock	China	Hong Kong, Shanghai	14/8	1,565
Bris Connections	Australia	Australian	30/7	1,119
Starcomms	Nigeria	Nigerian	14/7	551
PT Bayan Resources Group	Indonesia	Jakarta	23/7	528
GT Solar International	US	NASDAQ	23/7	500
SJM Holdings	Macao	Hong Kong	03/7	494
Caja de Ahorros del Mediterraneo	Spain	Madrid	21/7	445
Drake & Scull Middle East	UAE	Dubai Financial Market	21/7	333
Alliances Development Immobilier SA - ADI	Morocco	Casablanca	17/7	276

Source: Dealogic, Thomson Financial, Ernst & Young

FPI Makhzoumi, said: "We expect the global markets' perspective to improve independent of our IPO, that the moves a number of governments are taking will help alleviate the uncertainties that exist today."

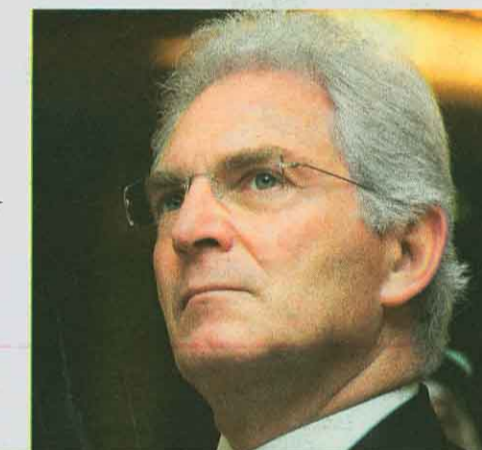
As to timing of its delayed IPO, he said: "We will be evaluating market conditions throughout the coming months, to determine the appropriate period in which it would make sense and be viable both for the investment community and the company. The coming period will be critical to assess in these rather unprecedented times."

Royle said a further slowdown of IPOs could be expected in the short term as a reflection of global conditions. But the out-

look, she said, should lift in the first and second quarters of 2009 as the fundamental problems of the credit crisis in the OECD countries are slowly worked through.

"I am hesitant to change drastically my outlook for IPOs unless there is a fundamental shift in the macro-economic prospects of the GCC," Ghandour added.

Nasser Saidi, Chief Economist at the Dubai International Financial Center, said a host of factors - including liquidity thanks to the region's oozing current account surpluses, opportunities for the region to target more foreign firms and the massive number of family businesses that may go public - guaranteed that the IPO pipeline in the region remained



Nasser Saidi, Chief Economist, DIFC



Rami Makhzoumi, President and CEO, FPI Makhzoumi



Imad Ghandour of Gulf Venture Capital Association



Karim El Solh, Chief Executive, Gulf Capital



Phil Gandier, Managing Partner, E&Y Consulting



Gundi Royle of National Investor

healthy. "The prospects of growth here are based on fundamentals," he said. "One of the major drivers is the government as some government agencies like the public utilities may go for partial privatisation.

"Family businesses are generally financing their projects through internal funding and banking which are both limited."

Saidi said: "There have been delays. But the IPO pipeline is healthy as the market is just waiting until conditions become calmer."

He said while the US and European economies were entering a recession, but the UAE along with the Bric (Brazil, Russia, India and China) countries and other emerging states would continue to grow due to a

strong infrastructure investment, banking and growing demographics.

Despite facing a decline in IPOs, emerging markets continued to drive activity in the IPO market, Gandier said. Developing countries made up 63 per cent of the number of deals globally, whereas developed countries made up 37 per cent. Developing countries raised 76 per cent of the total global capital raised compared to 24 per cent from the developed economies, he added.

According to his presentation, six of the top ten IPOs and 14 of the top 20 IPOs by capital raised were from emerging markets. Bric countries together raised \$3.4bn (26 per cent of total) in 40 deals (25 per cent of total).