

# THE LEBANON BRIEF

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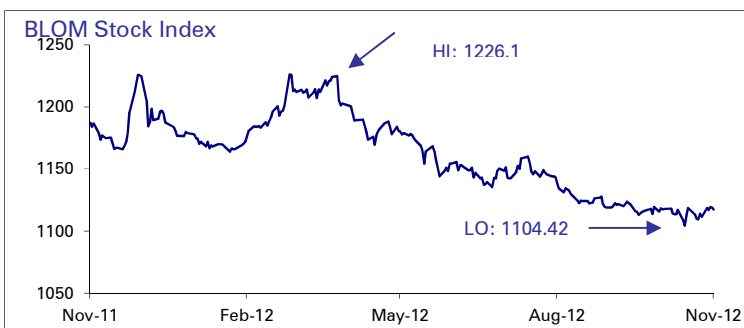
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# FINANCIAL MARKETS

## Equity Market Stock Market

	09/11/2012	03/11/2012	% Change
BLOM Stock Index*	1,117	1,112	0.50%
Average Traded Volume	154,819	36,814	320.54%
Average Traded Value	1,289,765	667,406	93.25%

\*22 January 1996 = 1000



The Lebanese Stock Exchange was relatively more comfortable this week with The BLOM Stock Index (BSI) rising 0.5% to close at 1,117 points on Friday, resulting in 5.05% loss since year start. Nevertheless, activity levels were shy unless for one cross trade on 500,000 shares of Audi Bank that supported the market, leading the average traded volume to 154,819 worth \$1,289,765 compared to 36,814 shares worth \$667,406 last week. Market Capitalization expanded \$44M to reach \$8.83B.

The Lebanese index outperformed the regional benchmark MSCI emerging index, which fell by 0.93% to 995.31 points. However it was outpaced by S&P AFE40 and S&P Pan Arab LargeMidCap indices that climbed by 1.53% and 1.46% to 54.8 points and 111.4 points respectively.

## Banking Sector

	Mkt	09/11/2012	03/11/2012	% Change
BLOM (GDR)	BSE	\$7.80	\$7.80	0.00%
BLOM Listed	BSE	\$7.64	\$7.64	0.00%
BLOM (GDR)	LSE	\$7.90	\$7.90	0.00%
Audi (GDR)	BSE	\$5.94	\$5.80	2.41%
Audi Listed	BSE	\$5.50	\$5.35	2.80%
Audi (GDR)	LSE	\$5.95	\$6.10	-2.46%
Byblos (C)	BSE	\$1.51	\$1.49	1.34%
Byblos (GDR)	LSE	\$79.00	\$79.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$1.90	\$1.90	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.89	\$1.89	0.00%

Regionally, Tadawul's Saudi Arabia realized the best progress among the Arab stock exchanges, rising by 2.22%, followed by Kuwait with an increase of 2.06% and Bahrain at 1.66%. The worst performing markets this week were Dubai and Qatar each falling by 0.35%.

The banking sector captured 77% of total traded value in Beirut, while the real estate sector accounted for the remaining, and a slight activity was seen in the industrial sector. Audi Bank Listed shares gained 2.8% to close at \$5.5, the price at which the cross trade occurred. Audi GDR shares also rose 2.41% to close at \$5.94, and Byblos Bank added 1.34% to end the week at \$1.51. On London stock exchange, Audi GDR lost 2.46% to \$5.95 while BLOM and Byblos remained unchanged. The Preferred shares index edged up 0.03% to close at \$106.27 points following the only move of Byblos Preferred shares 09 to \$103.7, a 0.10% rise.

	Mkt	09/11/2012	03/11/2012	% Change
Banks' Preferred Shares Index *		\$106.27	\$106.24	0.03%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.20	\$10.20	0.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$102.60	\$102.60	0.00%
Byblos Preferred 09	BSE	\$103.70	\$103.60	0.10%
Bank of Beirut Pref. D	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. E	BSE	\$26.00	\$26.00	0.00%
BLOM Preferred 2011	BSE	\$10.17	\$10.17	0.00%
Bank of Beirut Pref. H	BSE	\$25.94	\$25.94	0.00%

\* 25 August 2006 = 100

## Real Estate

	Mkt	09/11/2012	03/11/2012	% Change
Solidere (A)	BSE	\$12.21	\$12.25	-0.33%
Solidere (B)	BSE	\$12.20	\$12.30	-0.81%
Solidere (GDR)	LSE	\$12.19	\$12.46	-2.17%

In the real estate sector, Solidere A shares experienced sharp moves starting the week high at \$12.42 then closing at its lowest on Friday at \$12.21, closely tracked by Class B which lost 0.81% to \$12.2 by the end of the week.

## Manufacturing Sector

	Mkt	09/11/2012	03/11/2012	% Change
HOLCIM Liban	BSE	\$15.56	\$15.51	0.32%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$3.30	\$3.05	8.20%

In the industrial sector, demand was expressed on Holcim shares that gained 0.32% to close at \$15.56 and Ciments Blancs shares that jumped 8.2% to close at \$3.3.

## Funds

	Mkt	09/11/2012	03/11/2012	% Change
Beirut Preferred Fund	BSE	\$103.00	\$103.00	0.00%
BLOM Cedars Balanced Fund Tranche "A"	----	\$6,742.41	\$6,744.58	-0.03%
BLOM Cedars Balanced Fund Tranche "B"	----	\$5,108.74	\$5,110.44	-0.03%
BLOM Cedars Balanced Fund Tranche "C"	----	\$5,120.91	\$5,122.56	-0.03%
BLOM Bond Fund	----	\$9,837.15	\$9,859.37	-0.23%

Finally, the stock market sentiments remain fragile in Beirut however mood seems to be calmer. Worries linger around the possible actions of the government regarding the public sector payscale. Meanwhile increasing hopes appear in the horizons stemming from the prospects of oil and gas extraction from the Lebanese costs and their projected benefits on the overall economy.

## Retail Sector

	Mkt	09/11/2012	03/11/2012	% Change
RYMCO	BSE	\$2.20	\$2.20	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

## Tourism Sector

	Mkt	09/11/2012	03/11/2012	% Change
Casino Du Liban	OTC	\$565.00	\$565.00	0.00%
SGHL	OTC	\$4.50	\$4.50	0.00%

## Foreign Exchange Market

### Lebanese Forex Market

	09/11/2012	03/11/2012	%Change
Dollar / LP	1508.00	1506.50	0.10%
Euro / LP	1921.16	1941.51	-1.05%
Swiss Franc / LP	1592.37	1608.34	-0.99%
Yen / LP	18.99	18.78	1.12%
Sterling / LP	2408.53	2426.92	-0.76%
NEER Index**	104.76	103.95	0.78%

\*Close of GMT 09:00+2

\*\*Nominal Effective Exchange Rate; Base Year Jan 2006=100

\*\*The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

### Nominal Effective Exchange Rate (NEER)



Sustained demand for US dollars continued to drive the currency higher against the Lebanese Pound on the local exchange market to \$/LP 1,506 - \$/LP 1,510 with a mid-price of \$/LP 1,508, compared to \$/LP 1,506.5 last week. Foreign assets (excluding gold) at the Central Bank had increased by a monthly 0.16% to \$35.15 billion by the end of October 2012, while the dollarization rate of private sector deposits continued to hover around 65% by the end of September 2012, compared to 66% in December 2011.

Europe's single currency remained under pressure this week as the region's central bank (ECB) failed to ease concerns over Greece and Spain, and kept interest rates at record lows, signaling its weak expectations for a recovery this year. This outlook was cemented by reports of sliding industrial output across the region. The US dollar on the other hand gained following the re-election of President Obama, although US stocks ended lower as attention turned towards the looming fiscal cliff. By Friday November 09, 2012, 12:30 pm Beirut time, the euro closed at a two-month low of €/ \$ 1.2774 down by 1.05% from the previous week. The dollar-pegged Lebanese Pound thus appreciated to €/LP 1921.16, from €/LP 1941.51. The Nominal effective exchange rate (NEER) added 0.78% to 104.76 points.

## Money & Treasury Bills Markets

### Money Market Rates

	09/11/2012	03/11/2012	Change bps
Overnight Interbank	2.75%	2.75%	0
BDL 45-day CD	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

### Treasury Yields

	09/11/2012	03/11/2012	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

Broad money M3 grew by LP366B (\$242.79M) during the week ending October 25 to reach LP155,877B (\$103.4B). As a result, M3 increased by 7.56% y-o-y and 6.35% from end of December 2011. M1 rose during the week by LP330B (\$218.9M) as money in circulation went up by LP94B (\$62.35M), while demand deposits advanced by LP236B (\$156.55M). Total deposits (excluding demand deposits) climbed by \$23.79M due to a \$41.79M rise in term and saving deposits in LP, while deposits denominated in foreign currencies declined by \$18M. As for the dollarization rate of broad money, it edged down by 15 basis points on a weekly basis to 58.08%. The overnight interbank rate stood at 2.75% during the month of August, according to the Association of Lebanese Banks.

In the TBs auction held on November 01, the Ministry of Finance raised LP245B (\$162.52B) through the issuance of Treasury Bills. Demand was mainly observed on the 36M paper that accounted for 84.97% of total demand, while the 12M and 24M papers captured 10.17% and 4.86% respectively. During the auction, the average discount rate for the 12M paper and the average coupon rate for the 24M, 36M papers stood at 5.08%, 5.84% and 6.5% respectively. To note that the MoF continues to undertake all accepted bids.



## Eurobond Market

## Eurobonds Index and Yield

	08/11/2012	02/11/2012	Change	Year to Date
BLOM Bond Index (BBI)*	109.100	109.080	0.02%	-1.66%
Weighted Yield**	5.00%	4.98%	2	22
Weighted Spread***	440	430	10	34

\*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

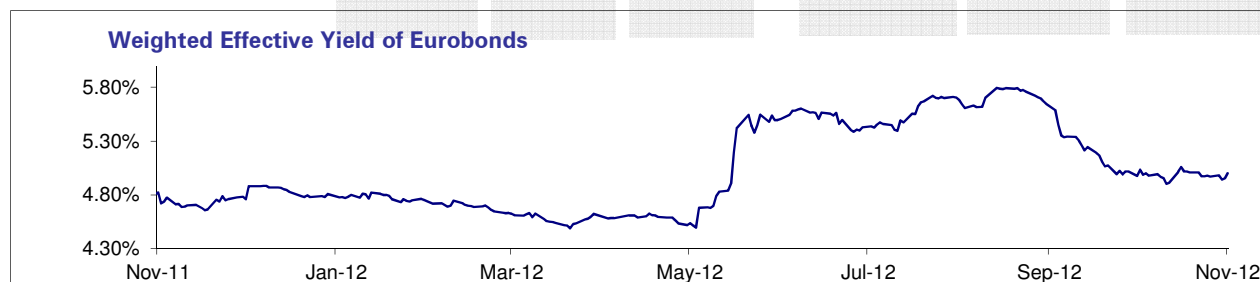
\*\* The change is in basis points

\*\*\*Against US Treasuries (in basis points)

## Lebanese Government Eurobonds

Maturity - Coupon	08/11/2012 Price*	02/11/2012 Price*	Weekly Change%	08/11/2012 Yield	02/11/2012 Yield	Weekly Change bps
2013, Mar - 9.125%	102.63	102.81	-0.18%	1.07%	0.98%	9
2013, Jun - 8.625%	104.44	104.25	0.18%	1.18%	1.69%	-52
2014, Apr - 7.375%	107.75	107.50	0.23%	1.81%	2.05%	-24
2014, May - 9.000%	109.00	108.50	0.46%	2.70%	3.10%	-40
2015, Jan - 5.875%	104.75	104.50	0.24%	3.58%	3.71%	-14
2015, Aug - 8.500%	112.50	112.50	0.00%	3.64%	3.67%	-3
2016, Jan - 8.500%	112.38	112.38	0.00%	4.29%	4.32%	-2
2016, May - 11.625%	122.50	122.50	0.00%	4.58%	4.61%	-3
2017, Mar - 9.000%	116.50	116.50	0.00%	4.75%	4.77%	-2
2018, Nov - 5.150%	100.50	100.25	0.25%	5.05%	5.10%	-5
2020, Mar - 6.375%	104.75	104.75	0.00%	5.57%	5.58%	0
2021, Apr - 8.250%	116.13	116.00	0.11%	5.80%	5.82%	-2
2022, Oct - 6.100%	101.63	101.00	0.62%	5.88%	5.96%	-8
2024, Dec - 7.000%	106.75	106.50	0.23%	6.20%	6.23%	-3
2026, Nov - 6.600%	101.94	101.50	0.43%	6.39%	6.44%	-5

• Mid Prices ; BLOMINVEST bank



The Eurobonds market ended Thursday on a negative note as the BLOM Bond Index (BBI) slightly retracted 0.02% to 109.1 points, affected by the general gloomy environment in the country that has shied away investors from taking active positions on either equity or Eurobonds markets. The portfolio's average weighted yield widened 2 basis points to 5% and the spread between average Eurobond yield and the US treasury yields expanded 10 basis points to 440 bps.

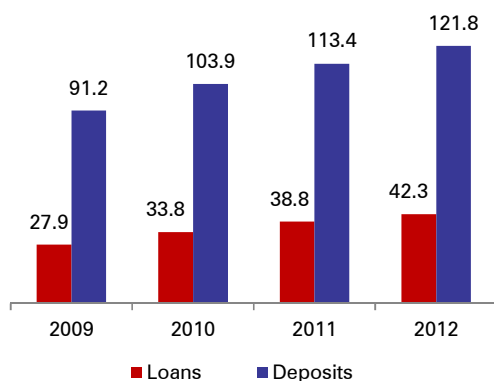
In comparison, the JP Morgan Emerging Market Bond Index increased 0.62% this week. The US fixed income gained back its appeal and interrupted last weeks' recovery of equity markets conveyed by positive economic reports. Investors sought refuge in the Safe Assets after the re-election of President Obama reinforced expectations that the Federal Reserve would keep monetary policy super-accommodative for some time to come. Election result also raised some concerns about the extent and impact of fiscal divergences over the US Budget, between Democrats who hold a majority in the Senate and the Republicans who control the US House of representatives.

Lebanon's credit default swap for 5 years (CDS) slightly enhanced to 404-429 bps against 407-445 bps last week. Dubai and Saudi Arabia's 5-yr CDS quotes remained flat at 235-245 bps and 75-82 bps respectively. Brazil CDS quotes declined to 101-104 bps from 108-111 bps while Turkey's improved to 149-152 bps from 158-161 bps last week.

## ECONOMIC AND FINANCIAL NEWS

### Commercial Banks' Deposits & Loans

Up to September, \$B



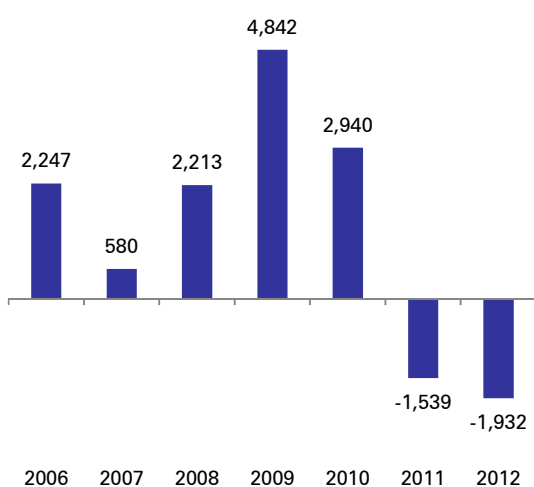
Source: BDL

### Commercial Banks' Assets to \$148 Billion by September

The consolidated balance sheet of the Lebanese commercial banks advanced for the second month in a row in September, expanding by 0.9% to reach \$148 billion. The annual growth recorded 7.18%, less than the pre-2011 double digits rates, but signaling the banks' capacity to overcome internal political pressures and spillovers from neighboring war torn Syria. Resident and non-resident private deposits rose by 5.2% since year start to attain \$121.8 billion, following the same trend of last year, while similar loans raced by 7.4% to reach \$42.3 billion, however at a slower pace compared to 2011's growth of 11%. Loans to deposits ratio stood at 34.7% compared to 34.2% last September. The dollarization of deposits remained flat at 65% whereas the loans' dollarization rate slightly fell from 79% in January to 77% in September. Claims on the public sector reached \$ 30 billion by September, as Lebanese treasury bills added a monthly 2% to \$17 billion and Eurobonds diminished by a monthly 1.86% to \$12.8 billion.

### Balance of Payments

Up to September, \$M



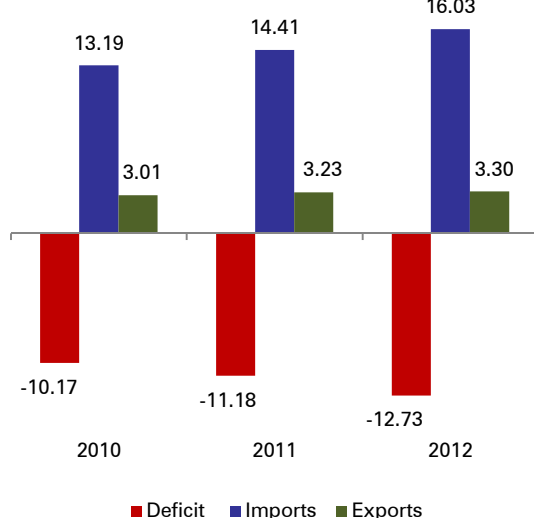
Source: BDL

### Balance of Payments Deficit Widens 25% annually to \$1.93 Billion up to September

The monthly deficit in Lebanon's balance of payments (BoP) narrowed to \$92.2 million in September from \$497million in August, data released by the Central Bank (BdL) showed on Monday. This was likely due to the marked improvement in foreign portfolio investment during the month, with the Eurobond market recording strong gains in September following a severe slide in the previous two months. September thus saw the smallest outflow in net foreign assets (NFA) since June, in a year when the BoP came at a deficit in eight of the nine reported months. In the first three quarters of 2012, the BoP deficit remained acute at \$1.93 billion, more than 25% higher than the deficit recorded during the same period in 2011. The \$2.7 billion NFA outflow from commercial banks hugely outweighed the \$768 million NFA inflow into BdL. In brief, Lebanon continued to struggle with low external receipts, especially from tourism, which usually help cover its serially negative trade account. In the first eight months of 2012, the trade deficit had widened by almost 20% annually to \$11.6 billion due to the rising volume of mineral imports as well as the surging oil prices. Likewise, the crisis in Syria and its domestic manifestations kept tourism and investment figures subdued this year, with the number of tourists to Lebanon up to September sliding by 15% y-o-y, and the number of refund transactions, a proxy for tourist spending, dropping 22% y-o-y.

## Trade Deficit, Imports and Exports

Up to September, \$B



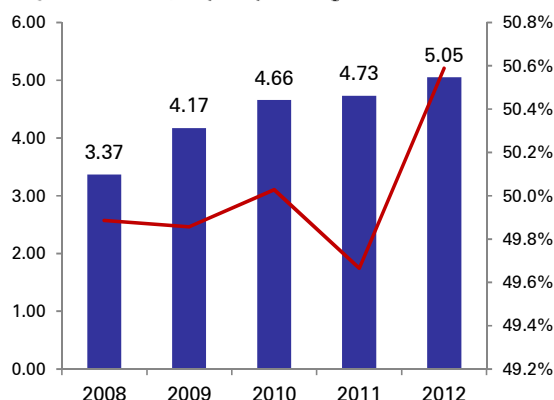
Source: Lebanese Customs

## Trade Deficit at \$12.7B by September

Trade deficit reached \$12.7B during the period going from January to September, widening by 14% compared to a year earlier, according to data published by the Lebanese Customs. Imports rose 10% to \$16B against a 14% growth of exports to \$3.3B. The largest cash drains on Lebanon's import bill were Mineral Products (which include oil) representing 28.7% or \$4.6B and growing by a large 66% compared to Jan-Sep 2011, in line with the hikes in fuel prices, illegal imports from Syria and the recording of large imports by EDL from last year into the month of February this year for administrative reasons. Following were Machinery and Electrical Equipment at 9.8% of total imports, cumulating to \$1.5 B by September, then Chemical Products at 8.2% or \$1.3B. Pearls and Precious Metals, which have gained the most value as a transformative industry in Lebanon, represented 7.7% or \$1.2B, declining by 22% compared to the first 3 quarters of 2011. As for exports, they were led by Pearls and Precious Metals, with \$1.3B or 40% of total exports. Following were Machinery and Electrical Equipment which represented 11% reaching \$364M yet declining by 9% yoy, and Base Metals which accounted for 10% falling by 26% to \$326M. Prepared Food & Beverage represented 8.8% mounting by 36% to total \$288M by the end of September. Note that wood exports increased 33% and Art and Antiques climbed 26% indicating the flourishing of selected small industries, meanwhile Paper exports retracted by 13%. Main exporting countries to Lebanon between Jan and September were the United States at 13% or \$2B, China and Italy at 8% or around \$1.3B, Germany at 6% or \$904M and Turkey at 5% or \$738M. Main importing countries from Lebanon for the same period were South Africa at 20% or \$664M, Switzerland at 12% or \$388M, KSA at 8% or \$272M, UAE at 8% or \$269M and Syria at 6% or \$194M.

## Total Airport Passengers and Percentage of Departures

Up to October, airport passengers in millions



Source: Rafiq Hariri International Airport

## Airport Passengers Reach Record 5.05 Million up to October 2012

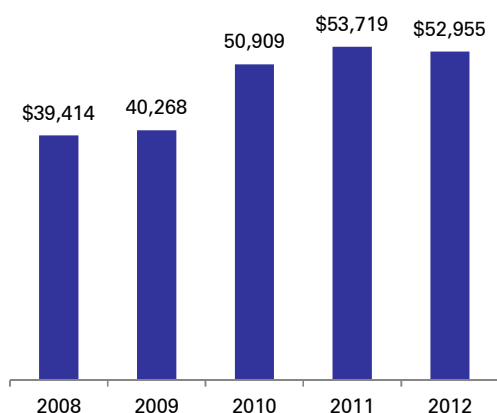
The number of Airport passengers rose 6.75% year-on-year to 5.05 million passengers during the first 10 months of 2012, while having increased by 1.6% annually in the previous year, according to data from Rafiq Hariri International Airport. Total arrivals increased by 4.87% y-o-y to 2.45 million, departures sprung up by 8.7% y-o-y to 2.56 million, while the number of passengers making transitory stops at Lebanon's airport declined by 9.15% y-o-y to 44,337. In October alone, passenger numbers rose 5.45% from October 2011 to 473,114, but remained the lowest since May this year. Arrivals and departures climbed by 3.6% and 7.93% respectively, whereas the number of transit passengers dropped by one-third from October last year to 2,856.



## Cleared Checks Reach \$52.96B up to September 2012

## Value of Cleared Checks

Up to September, \$M



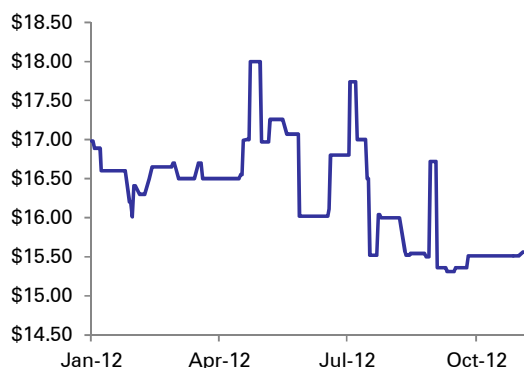
Source: ABL

The value of checks cleared by Banque du Liban was slightly influenced by geopolitical and domestic instabilities in the first three quarters of 2012 sliding by only 1.42% y-o-y to \$52.96 billion. The number of cleared checks was 9.72M almost unchanged from the number cleared during the same period last year. The value of checks denominated in foreign currencies dropped by 2.7% y-o-y to \$41.96B, while the value of checks denominated in Lebanese pounds increased 3.7% to \$11B. The dollarization rate of checks thus stood at 79.23% compared to 80.3% recorded in September 2011. Moreover, the value of returned checks dropped by 5.76% y-o-y to \$1.15B, representing 2.17% of the total value of checks. For the month of September alone, the value of cleared checks fell by 8.12% y-o-y to reach \$5.81B as the value of checks denominated in foreign currencies retreated by 11.6% to \$4.58B, whereas checks denominated in LP were still only valued at \$1.23B despite the 7.55% annual increase.

## CORPORATE DEVELOPMENTS

### Holcim Liban Calls for Ordinary General Assembly

#### Holcim Stock Performance in 2012



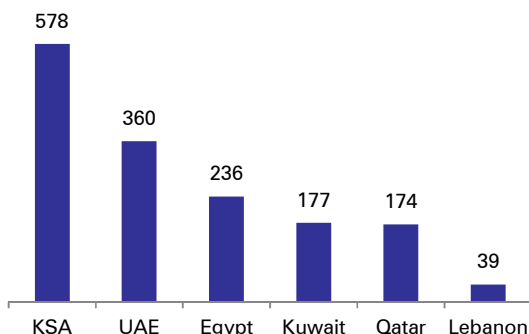
Source: BSE, Blominvest Research Department

Holcim (Liban) S.A.L. invites the shareholders to attend an Ordinary General Assembly that will be held on Wednesday December 12, 2012 at 10:00 a.m., at Le Royal Hotel – Dbayeh. The Lebanese cement producer had released last month its financial results for the first half of 2012 revealing a decline in net profits to LP13.7B (\$9.09M) from LP30B (\$19.9M) in the same period last year.

## FOCUS IN BRIEF

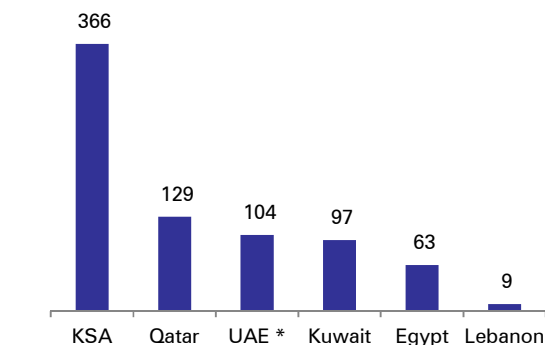
### At The "Frontier" Of Lebanon's M&A Potential

2011 GDP at Current Prices, \$B



Source: IMF

Market Capitalisation, \$B, 31/10/2012



\*UAE include Abu Dhabi and Dubai Bourses

Source: Reuters

It might seem anecdotal to pitch Lebanon as a market for mergers and acquisitions. Be it in terms of the number or the size of deals, Beirut wouldn't make it to the top of any decent league table. Excluding financials, only 10 deals were closed in the past five years, according to Zawya's database. Examples include Qatar First Investment Bank's acquisition of shares in Al Rifai, the nuts and crackers producer, France's Unibel's investment in Biomass Holding, and Khoury Home's deal with Hokayem Bros, both retailers.

There are obvious reasons for the scarcity of transactions so far: the size of the economy, to start with. Lebanon's USD 42 billion GDP is only a fraction of the region's output, which is dominated by Saudi Arabia's USD 652 billion GDP followed by the UAE's USD 386 billion. Moreover, the very notion of an investment banking culture is dwarfed when measured against the role of mainstream commercial banking activities in the country.

To put it simply, the Beirut stock exchange's entire capitalization is a mere 21% of the country's GDP, while total deposits reach a record 291% of the country's annual wealth creation. This reflects the tendency of corporations to rely on plain-vanilla lending and depositing instead of going up the balance sheet for more sophisticated financing schemes.

Finally, more often than not, business owners - typically long-established families of Levantine traders - would be extremely sensitive with control and ownership issues. Families consider potential dilutions induced by M&A transactions to be the first step on the road to losing an asset built through at least two generations.

Despite these fundamental factors hindering the development of a decent M&A market in Lebanon, the nation is not condemned to remain Lilliputian. New trends could unfold into supporting drivers of the M&A market; we believe four of these trends are worth mentioning:

First, the most "macro" trend that might spur GDP growth is the expected exploitation of Lebanon's offshore hydrocarbon reserves. Although commercial exploitation is not foreseen before six to seven years, the massive impact such a remote event might have justifies its inclusion in this list. Just one of several offshore fields located in the southwest corner of Lebanon's waters could contain 12 trillion cubic feet of gas, with a potential market value of USD 36 billion. If this is confirmed, Lebanon's M&A activity might well come of age, triggered by massive investments, soaring public expenditures and booming consumption.

Second, ongoing efforts to revive financial markets in Lebanon have led to the promulgation of Law 161 in August 2011, which among others provides for the privatization of the Beirut stock exchange, and the creation of a Financial Markets Authority, similar to the American SEC or British FSA. An enhanced stock market provides better valuation benchmarks and

a potential exit route for M&A transactions, while a specialized regulatory authority encourages M&A activity by mitigating legal and regulatory risk. A draft law on preferred shares issuance is in the pipeline, adding a flexible tool to the financing options of corporations.

Third, management succession and inheritance issues are increasingly pressuring family owned businesses and groups. Simply put, heirs multiply in family businesses typically established in Lebanon around the 1950s and 1960s, i.e. a couple of generations ago. Owning a business, controlling it, managing it, investing in it, cashing out or diversifying away from it, etc. might generate significant conflicts of interests among those descendants.

Potential antagonisms might quickly become more threatening than the control preoccupation mentioned above. Opening up the capital brings many advantages in such situations: a strengthened financial capacity, an increased footprint, price and liquidity for the shares, implementation of corporate governance best practice, etc.

Fourth, besides Lebanon's decent participation in debt markets through its issuance of sovereign Eurobonds, the country might increasingly appear on the international investors' radar as a destination for M&A and public equity investments: it all comes down to the words "Frontier Markets". These smaller, less sophisticated markets compared to the famous Emerging ones offer the much sought-after advantage of "decorrelation".

Ironically enough, when in relative terms a country's market capitalization is tiny, and it lacks depth and liquidity, its stock market behavior is decorrelated from the international benchmark indexes of the likes of the DJIA or the FTSE. In other words, a frontier market is a safe-haven for investors battered by the global financial crisis that has infected every investable market place.

While one shouldn't expect to see Lebanon becoming the next big thing in M&A anytime soon, a prudent observer might definitely believe that something is in the making.



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