

THE LEBANON BRIEF

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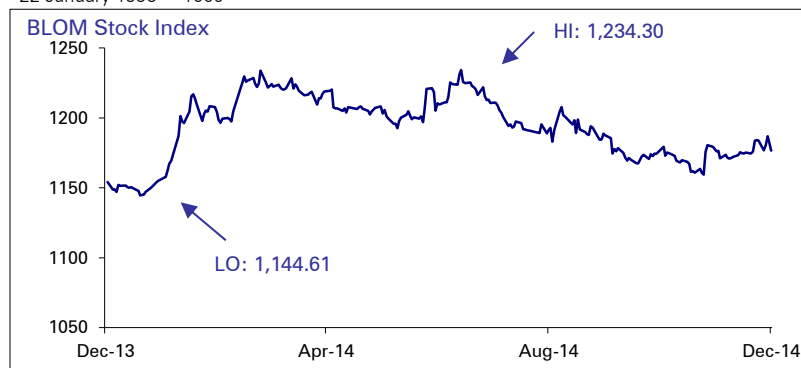
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FINANCIAL MARKETS

Equity Market Stock Market

	05/12/2014	28/11/2014	% Change
BLOM Stock Index*	1,176.62	1,183.90	-0.61%
Average Traded Volume	85,447	58,498	46.07%
Average Traded Value	661,163	693,898	-4.72%

*22 January 1996 = 1000



Banking Sector

	Mkt	05/12/2014	28/11/2014	% Change
BLOM (GDR)	BSE	\$9.60	\$9.60	0.00%
BLOM Listed	BSE	\$8.75	\$8.80	-0.57%
BLOM (GDR)	LSE	\$9.50	\$9.50	0.00%
Audi (GDR)	BSE	\$6.50	\$6.35	2.36%
Audi Listed	BSE	\$6.22	\$6.34	-1.89%
Audi (GDR)	LSE	\$6.61	\$6.41	3.12%
Byblos (C)	BSE	\$1.64	\$1.62	1.23%
Byblos (GDR)	LSE	\$76.50	\$76.50	0.00%
Bank of Beirut (C)	BSE	\$18.39	\$18.39	0.00%
BLC (C)	BSE	\$1.70	\$1.70	0.00%
Fransabank (B)	OTC	\$22.00	\$22.00	0.00%
BEMO (C)	BSE	\$1.75	\$1.73	1.16%

	Mkt	05/12/2014	28/11/2014	% Change
Banks' Preferred Shares Index *		105.53	105.62	-0.09%
Audi Pref. E	BSE	\$102.20	\$102.20	0.00%
Audi Pref. F	BSE	\$102.00	\$101.00	0.99%
Audi Pref. G	BSE	\$101.50	\$101.50	0.00%
Audi Pref. H	BSE	\$101.00	\$101.00	0.00%
Byblos Preferred 08	BSE	\$101.30	\$101.30	0.00%
Byblos Preferred 09	BSE	\$101.60	\$103.00	-1.36%
Bank of Beirut Pref. E	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. I	BSE	\$25.75	\$25.75	0.00%
Bank of Beirut Pref. H	BSE	\$26.00	\$26.00	0.00%
BLOM Preferred 2011	BSE	\$10.20	\$10.20	0.00%
BLC Pref A	BSE	\$103.00	\$103.00	0.00%
BLC Pref B	BSE	\$100.00	\$100.00	0.00%
BLC Pref C	BSE	\$100.00	\$100.00	0.00%
Bemo Preferred 2013	BSE	\$100.90	\$100.90	0.00%

The Beirut Stock Exchange regressed this week, as the BLOM Stock Index (BSI) recorded a weekly 0.61% downturn to close at 1,176.62 points after the security situation deteriorated again following battles in north of Lebanon.

The average traded volume went up from 58,498 shares worth \$693,898 to 85,447 shares worth \$661,163. As for the market capitalization, it narrowed by \$60.72M since last week to \$9.83B.

Despite the decrease, the BSI still managed to outperform its regional peers. The Morgan Stanley Emerging Markets Index (MSCI), the S&P AFE40 Index and the S&P Pan Arab Composite Large Midcap Index posted declines of 2.54%, 2.66% and 2.07% to 986.91 points, 65.51 points and 140.44 points, respectively.

In the Arab World, the BSI was outperformed by the stock markets in Egypt, Jordan and Tunisia, whose bourses posted increases of 1.42%, 0.86% and 0.02% to respective 9458.57 points, 2145.85 points, and 4981.97 points.

Meanwhile, OPEC's decision to maintain oil production levels has kept prices low, and in turn dictated another poor week for most Arab financial markets. The two worst performers were Dubai and Muscat, due to Saudi Arabia exporting oil at prices up to \$2 per barrel cheaper than their Emirati and Omani counterparts (with respective drops of 7.19% and 5.19%). Qatar also suffered from low oil prices, with the stock market losing 4.37%.

Back to the BSE, the banking sector contributed around 59.87% of total traded value and was followed by the real estate sector with a share of 40.13%.

In the banking sector, Byblos listed shares, BEMO listed shares and Audi GDR shares increased by 1.23%, 1.16% and 2.36% to respectively close at \$1.64, \$1.75 and \$6.50. On the other hand, Audi listed shares and BLOM listed shares lost a weekly 1.89% and 0.57% to \$6.22 and \$8.75.

Real Estate

	Mkt	05/12/2014	28/11/2014	% Change
Solidere (A)	BSE	\$11.41	\$11.65	-2.06%
Solidere (B)	BSE	\$11.36	\$11.73	-3.15%
Solidere (GDR)	LSE	\$11.60	\$11.45	1.31%

Manufacturing Sector

	Mkt	05/12/2014	28/11/2014	% Change
HOLCIM Liban	BSE	\$15.00	\$15.00	0.00%
Ciments Blancs (B)	BSE	\$3.75	\$3.75	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

The BLOM Preferred Stock Index (BPSI) also weakened, posting a 0.09% downturn to 105.53 points, as Byblos preferred shares 2009 lost 1.36% to \$101.60. In contrast, Audi preferred shares class "F" gained 0.99% to \$102.00.

On the London Stock Exchange (LSE), the Global Depository Receipts (GDRs) of Solidere and Audi increased by 1.31% and 3.12% to \$11.60 and \$6.61, respectively.

Funds

	Mkt	03/12/2014	27/11/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,397.62	\$7,350.39	0.64%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,291.14	\$5,256.27	0.66%
BLOM Cedars Balanced Fund Tranche "C"		\$5,618.54	\$5,582.67	0.64%
BLOM Bond Fund	-----	\$9,587.89	\$9,587.89	0.00%

In the real estate sector, Solidere shares classes "A" and "B" halted their two-week improvements, and revealed weekly losses of 2.06% and 3.15% to \$11.41 and \$11.36, respectively.

Looking forward, we expect the Lebanese stock market to continue its downward trend throughout the coming week, negatively affected by renewed battles between the army and enemy militant forces.

Retail Sector

	Mkt	05/12/2014	28/11/2014	% Change
RYMCO	BSE	\$3.32	\$3.32	0.00%
ABC (New)	OTC	\$27.00	\$27.00	0.00%

Tourism Sector

	Mkt	05/12/2014	28/11/2014	% Change
Casino Du Liban	OTC	\$330.00	\$360.00	-8.33%
SGHL	OTC	\$7.00	\$7.00	0.00%

Foreign Exchange Market

Lebanese Forex Market

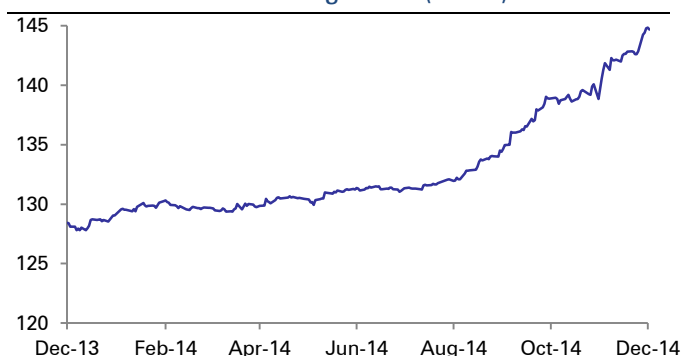
	05/12/2014	28/11/2014	% Change
Dollar / LP	1,513.50	1,512.00	0.10%
Euro / LP	1,864.78	1,876.39	-0.62%
Swiss Franc / LP	1,550.61	1,561.04	-0.67%
Yen / LP	12.52	12.76	-1.88%
Sterling / LP	2,362.86	2,368.13	-0.22%
NEER Index**	144.68	142.87	1.27%

*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.

Nominal Effective Exchange Rate (NEER)



Money & Treasury Bills Market

Money Market Rates

	04/12/2014	27/11/2014	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

	04/12/2014	27/11/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.35%	5.35%	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

Demand for the dollar increased over the prior week as reflected by the Lebanese pound's peg against the dollar that went from \$/LP 1,510-1,514 with a mid-price of \$/LP 1,512, to \$/LP 1,513-1,514 with a mid-price of \$/LP 1,513.5, this week. Foreign assets (excluding gold) at the Central Bank dropped a monthly 0.37% from \$38.87B at end-October to \$38.73B by end-November. Meanwhile, the dollarization rate of private sector deposits stood at 65.87% in September compared to 66.13% in December 2013.

As economists expect an accelerated job growth in the U.S., the dollar rose against the Euro. The euro weakened against the dollar by 0.62%, ending the week at €/ \$ 1.2370.

After the OPEC meeting, the price of gold overshot, reaching a weekly minimum of \$1,167.04/ounce. However demand for the precious metal rebounded, where its price went up from \$1,191.25/ounce last Thursday to \$1,205.32/ounce this week.

By Friday December 5th, 2014, 12:30 pm Beirut time, the dollar-pegged LP appreciated against the euro going from €/LP 1,876.39, the prior week, to €/LP 1,864.78. The Nominal effective exchange Rate (NEER) gained 1.27%, weekly, to 144.68 points, where its year-to-date gain reached 12.10%.

During the week ending November 20, 2014, broad Money M3 increased by LP 244B (\$162.17M), to reach LP 175,348B (\$116.32B). M3 growth rate reached 6.49% year-on-year and 4.64% since year start. In contrast, M1 decreased by LP 144B (\$95.28M) due to the drop in money in circulation by LP 102B (\$67.66M) and demand deposits by LP 42B (\$27.86M), respectively.

Total deposits (excluding demand deposits) jumped by LP 388.12B (\$257.46M), given the rise in deposits denominated in foreign currencies and term and saving deposits in domestic currency by \$151M and LP 162B, respectively. Over the above mentioned period, the broad money dollarization increased from 58.86% to 58.90%. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of September 2014.

In the TBs auction held on the 27th of November 2014, the Ministry of Finance raised LP 487.51B (\$323.39M), through the issuance of bills maturing in 1Y, and 2Y and 3Y notes. The highest demand was achieved on the 3Y notes that took a share of 94.15%, while the 1Y bills and 2Y notes accounted for 4.30% and 1.55%, respectively. The 1Y bills yielded 5.08%, while the average coupon rate for 2Y and 3Y notes stood at 5.84% and 6.50%, respectively. Maturing T-bills exceeded new subscriptions by LP 23.60B (\$15.66M).

Eurobond Market

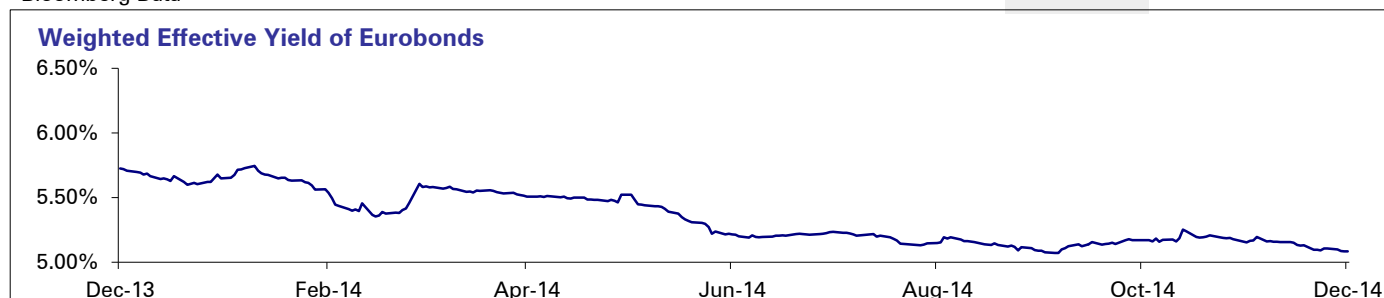
Eurobonds Index and Yield

	04/12/2014	27/11/2014	Change	Year to Date
BLOM Bond Index (BBI)*	108.528	108.474	0.05%	2.73%
Weighted Yield**	5.08%	5.11%	-2	6
Weighted Spread***	359	365	-6	-71

Eurobonds Lebanese Government

Maturity - Coupon	04/12/2014 Price*	27/11/2014 Price*	Weekly% Change	04/12/2014 Yield	27/11/2014 Yield	Weekly Change bps
2015, Aug - 8.500%	103.328	103.321	0.007%	3.45%	3.60%	15
2016, Jan - 8.500%	105.308	105.364	-0.053%	3.65%	3.67%	3
2016, May - 11.625%	110.907	111.072	-0.149%	3.77%	3.75%	-1
2017, Mar - 9.000%	110.602	110.665	-0.057%	4.11%	4.12%	1
2018, Jun - 5.150%	101.651	101.582	0.068%	4.65%	4.67%	2
2020, Mar - 6.375%	105.038	105.032	0.006%	5.27%	5.28%	0
2021, Apr - 8.250%	114.794	114.706	0.077%	5.47%	5.49%	2
2022, Oct - 6.100%	102.359	102.199	0.157%	5.73%	5.75%	3
2023, Jan - 6.000%	101.477	101.295	0.180%	5.78%	5.81%	3
2024, Dec - 7.000%	106.798	106.742	0.052%	6.13%	6.14%	1
2026, Nov - 6.600%	103.198	103.13	0.066%	6.23%	6.23%	1
2027, Nov - 6.75%	104.176	104.104	0.069%	6.29%	6.30%	1

*Bloomberg Data



Lebanon's Eurobonds showed a minor progress for the second week in a row, where the BLOM Bond Index (BBI) increased slightly by 0.05%, to settle at 108.53 points, with a 2.73% gain since year start. The 5Y yield on the Lebanese Eurobonds gained 1 basis point (bp) to 5.12%, while that of 10Y steadied at 6.12%.

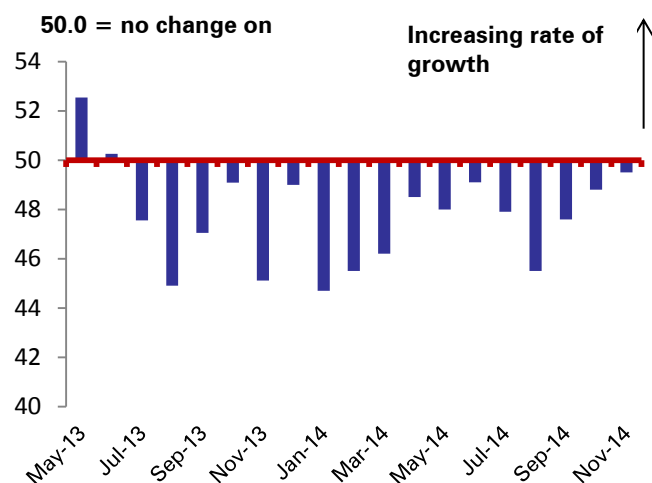
As the strengthening economic recovery in the U.S. drove up yields on treasuries and as a stock-market boom in China pulled all the funds, demand on emerging market bonds diminished. This pushed the JP Morgan Emerging Countries' bond index down by 0.83% to 676.48 points.

In the U.S, demand for treasuries faded as economists predict that employment growth would progress in December. Hence, 5Y and 10Y yields added 3 bps and 1 bp to 1.59% and 2.25%, respectively. Correspondingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmark narrowed by 2 bps and 1 bp to 353 bps and 387 bps, respectively.

In Lebanon, the 5Y CDS was almost stable going from 351-381 bps to 350-380 bps this week. Meanwhile the 5Y CDS of Dubai and Saudi Arabia went up from 171-178 bps and 56-66 bps to 175-185 bps and 65-75 bps, respectively. Internationally, the 5Y CDS of Turkey dropped from 165-169 bps to 156-159 bps, while that of Brazil stood at 156-159 bps compared to last week's quote of 153-155 bps.

ECONOMIC AND FINANCIAL NEWS

PMI Historic Levels



Source: Markit, BLOMinvest Bank

PMI Reached 17-Month High at 49.5 Points in November

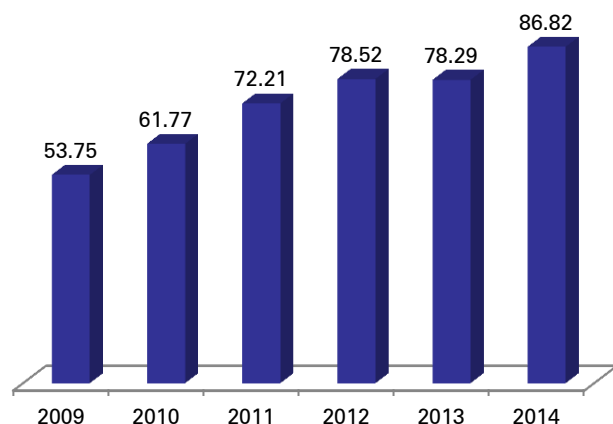
Contraction in the private sector's economy eased to its most marginal level in November, with BLOM PMI recording very close to the neutral mark of 50 points separating economic contraction from growth. The indicator's improvement has been consistent in the past three months, affirming the slowing rate of contraction of the Lebanese private sector's economy.

November's improvement came on the back of a slower fall in companies' output and the rise of their exports for the first time since April.

Mr. Marwan Mikhael, head of Research at Blominvest bank affirmed that "All sub-indices (of the PMI) showed an increase in the number of surveyed businesses that had no change from the previous month" emphasizing the stabilizing situation among Lebanese companies. Mr. Mikhael also noted that "this advancing trend is expected to continue if no negative surprises occur on the political and security scenes."

BDL's Total Assets by November

(in \$B)



Source: Bdl

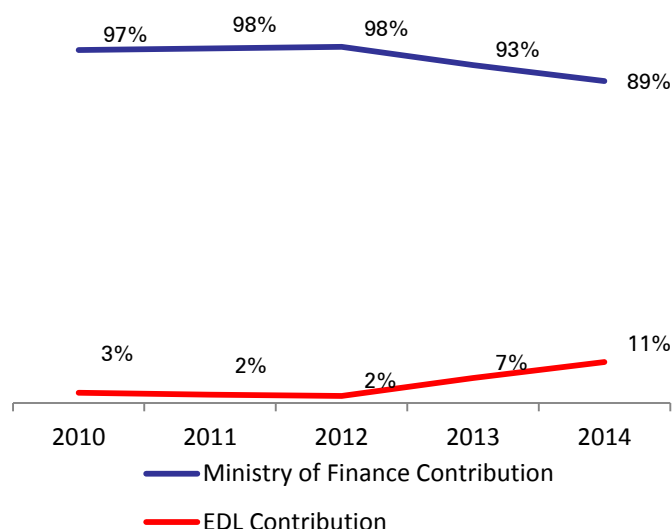
BDL's Total Assets Inched up by 0.71% to \$86.82B by November

The Central Bank's (BDL) balance sheet revealed a 0.71% monthly rise in total assets to stand at \$86.82B by end of November, 2014.

The bank's foreign assets ticked down by 0.37% to \$38.73B, and loans to the local financial sector dropped by 1.89% to \$3.90B. Meanwhile its securities portfolio widened by 2.43% to \$13.92B. Gold reserves increased by 1.11% from October, to \$10.93B.

On the liabilities side, financial sector deposits grew by 0.47% month-on-month to \$67.40B. Similarly, public sector deposits inched up 0.37% to \$6.80B by end of November.

Contribution of EDL and Ministry of Finance MoF in the Total Oil Bill by May 2014



Source: Ministry of Finance

Transfers to EdL Decreased to \$707.80M by May

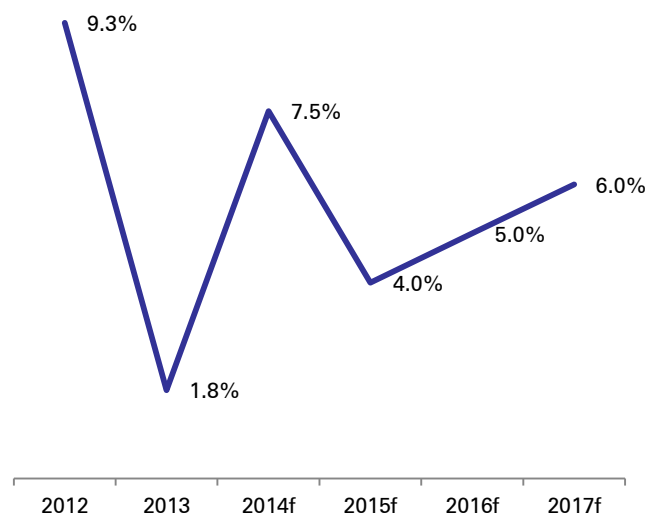
Transfers to EdL for the first five months of 2014 revealed a 19% year-on-year (y-o-y) decline to \$707.80M. This drop was primarily due to the 17% y-o-y decrease in payments to fuel oil and gas oil suppliers KPC and Sonatrach to \$698.59M.

In detail, the imported quantity of gas oil covering consumption for the period between May and November 2013 and paid for between January and May 2014 declined by 18%, while payments for fuel oil covering the same respective periods slightly inched up by 0.12%. The weighted average price per barrel of crude oil displayed a 0.12% decrease in price to \$109.64 for payments made in the period between January and May 2014.

By May 2014, EdL contributed 2.80% of the total oil bill of \$719.07M compared to a lower contribution of 2.30% in the total oil bill of \$863.02M for the same period in 2013.

During the first five months of 2014, transfers to EdL represented 18.6% of the government's primary expenditures, posting a decrease from the 21.0% share for the same period in 2013.

Historical and Forecasted Growth of Passenger Car Sales



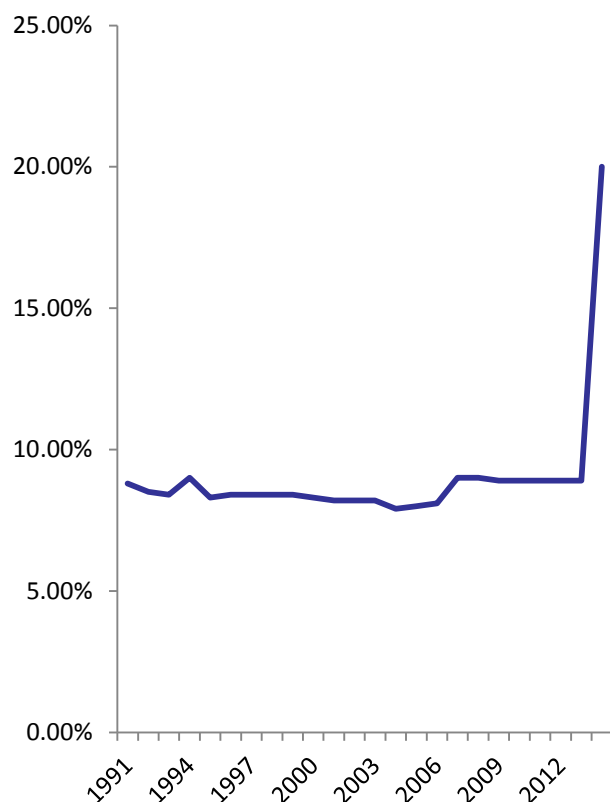
Source: BMI

New Passenger Cars Forecasted to Grow by 7.5% Yearly by 2014

Given that Lebanese new passenger car sales inched up by 8.0% year-on-year over the first 10 months of 2014, to stand at 32,084 cars by October, Business Monitor International (BMI) expects passenger car sales to reach 38,817 units by end of 2014. Hence, sales growth is forecasted to be 7.5% by end of 2014, compared to a 1.8% by end of 2013. However, total vehicle imports, new and used, through the Port of Beirut went down by 17.8% y-o-y to reach 64,748 units. This could indicate that demand growth for vehicles might drop in 2015. Therefore, BMI projects passenger car sales growth to be lower than 2014, increasing by a yearly 4.0% in 2015, where it would reach 40,369 cars by December 2015.

Nevertheless, due to the tough economic conditions challenging Lebanon, it is expected that small cars, priced below \$15,000, would continue to take around 90% of new car sales. Moreover, the lack of organized public transport and the strong competition between brands are also causes that drive Lebanese consumers to opt smaller cars. Therefore, luxury cars, priced above \$100,000, only account for about 3.5% of the total market.

Unemployment Rate Historical Data



Source: World Bank

Lebanon Faces High Unemployment Rate

According to the World Bank, the private sector in Lebanon failed in generating enough jobs to take in the expanding labor force. This drove a rise in unemployment, particularly among young people and women, and to the formation of a large informal economy, concentrated in small, low productive activities.

As it is the case in most countries, young firms and startups are the companies that create the most jobs in Lebanon. Micro-startups, which are firms operating for 4 years or less and with less than 4 workers, accounted for 177% of aggregate net job creation and created about 66,000 jobs in Lebanon between 2005 and 2010. The second largest number of jobs (12,000 jobs) was created by young large firms with 200-999 employees.

However, startup creation is low indicating many barriers to starting a business and competition.

Although a 1% increase in firm productivity in Lebanon raises job creation by 3.9%, most firms do not improve their productivity. This is due to low competition and poor performance in backbone services such as electricity.

To fix these problems and decrease the unemployment rate, the World Bank proposes the following solutions. First, policies that weaken open markets and competition for the sake of a few privileged firms should be reformed. These policies include administrative barriers to firm entry, cumbersome bankruptcy laws, exclusive license requirements to operate in specific sectors, and trade barriers. Moreover, policymakers should reduce the space for discretionary policy implementation and ensure that laws and regulations are enforced equally across firms. Another solution is to create institutions that promote and safeguard competition and equal opportunities for all entrepreneurs. Finally, a process of consultation, inputs and debate between policymakers and citizens should be established.

CORPORATE DEVELOPMENTS

Banque de l'Habitat Company Profile

Date of Establishment	10/01/1977
Ownership	Banks and Insurance companies and Lebanese government
Mission	Lend money to individuals for housing purposes

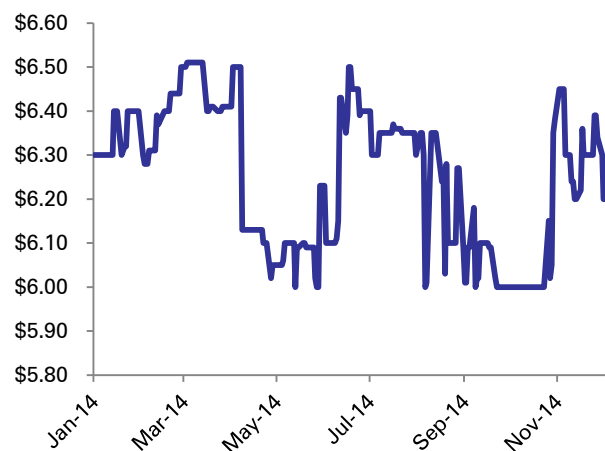
Source: Company Website, BLOMINVEST

Banque de l'Habitat Doubles Capital to LBP 100B

After it was approved by the Central Council of Banque du Liban, Banque de l'Habitat boosted its capital from LBP 50B to LBP 100B by increasing the nominal value of the bank's shares on December 3rd, 2014.

The decision to increase the nominal value of the bank's shares from LBP 8,000 to LBP 16,000 was finalized after being first proposed in the extraordinary general assembly held on the 28th of November, 2013, in addition to the decision on October 9th, 2014, to transfer excess values in legally required reserves and in retained earnings to the bank's capital account.

Performance of Audi Listed Shares



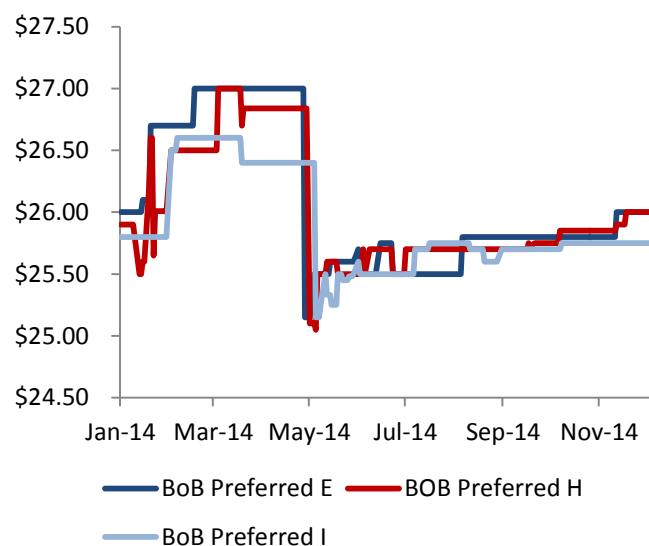
Source: BSE, BLOMINVEST

Bank Audi Increases Nominal Value of its Shares

The Extraordinary General Meeting of shareholders of Bank Audi resolved to increase the bank's capital from LBP 525,769,215,996 to LBP 667,836,186,600, i.e. by an amount of LBP 142,066,970,604 through the increase of the nominal value of each share to become LBP 1,650 instead of LBP 1,299.

Bank of Beirut to Hold Extraordinary General Assembly

Performance of BoB Preferred Shares



Source: BSE, BLOMINVEST

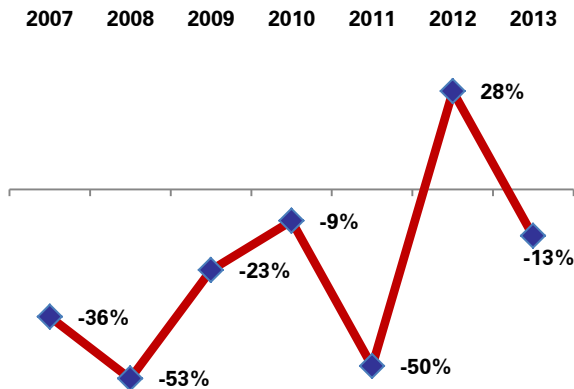
The board of directors of Bank of Beirut invites its shareholders to an extraordinary general assembly at the bank's headquarters located in downtown Beirut, Foch Street. The meeting will take place on the 26th of January 2015 at 12'o'clock and is set to:

1. Check the accuracy of the subscription to the bank's preferred J shares which are set to increase the bank's capital from LBP 100,709,190,000 to LBP 104,759,190,000.
2. Make sure that all the procedures linked to the capital increase have been completed properly.
3. Announce that Bank of Beirut's capital has become LBP 104,759,190,000.
4. Increase the bank's capital by repurchasing and cancelling the BOB Preferred shares F.
5. Other matters.

FOCUS IN BRIEF

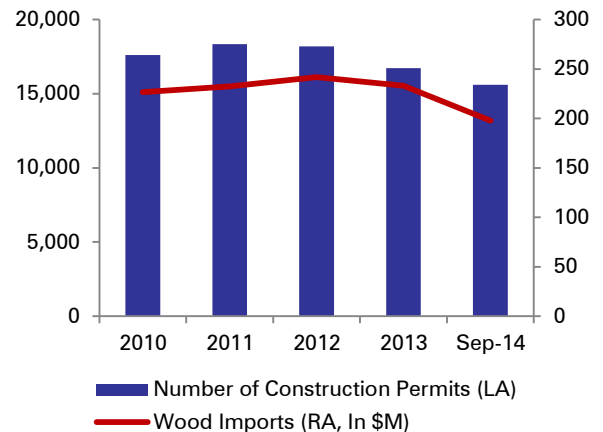
Local and Regional Unrests Saw off the Lebanese Wood Market

Yearly Change of the Rogers International
Commodity Index – Lumber Total Return (In %)



Source: Bloomberg

Construction Activity and Wood Imports



Source: The Lebanese Customs and the Orders of Engineers in Beirut and Tripoli

Shaping earlier civilizations, wood is one of the oldest industries and one of the most valuable and monitored commodities in our modern world. Wood is very well recognized for its many uses starting with the commodity being a source of heat, handmade and art products, as well as being an important construction, floor and furniture material.

Knocking on the timbered gates of the Lebanese wood industry opens doors to the market's critical standing, given its high dependency on imports. Ironically, our ancestors the Phoenicians, the first master shipbuilders, were experts in cedar wood production and design. The era's builders used Tyre's Melqart Temple as a prototype for designing and building Solomon's Temple.

However, the "extremely skilled in cedar wood" society failed at transmitting its legacy and no actual production within the sector is nowadays existing. Contrastingly, finished and semi-finished products are imported to be directly sold and distributed to local wholesalers and retailers or to be transformed and reshaped into new wood products such as furniture, doors, houses etc...

Despite its small market size, wood sector still attract lots of ambitious investors aiming to clutch a market opportunity and realize profits in the small immature market. Given the sector's full reliance on imports, market size is estimated around \$240M. Furthermore, the last ten years rarely saw new entrants to the market that became more rigid with more difficulties and obstacles. The wood market in Lebanon is highly vulnerable to regional shocks, local uprisings and international trends. Noting that companies and households are the end users of wood products, any change in their habits or economic status will directly impact their demand.

Specificities of the Lebanese Wood Market

According to the gathered information from different market players, the wood market in Lebanon is an open market where there is no oligopoly. Several local wood providers and distributors are present in the market with competition occasionally intensifying. However, and even though there is no consensus over wood prices, there is no big price gap between traders as an increase in sales volume due to reduction in prices will lead to a price war. This would not be beneficial for any one of the parties involved, and would result in losses for all of them.

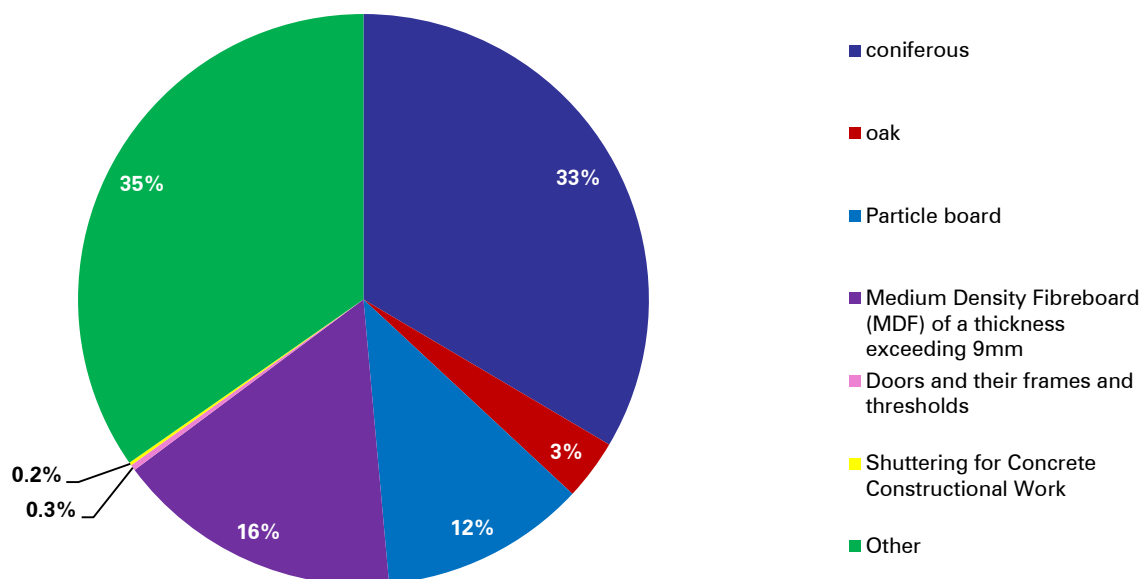
Several providers are present on the field with no accurate statistics on their market shares. However, Jabwood, United Timber Corporation SAL – Sinno, Anklis Timber and ITCO are among the top importers and distributors of timber and wood in Lebanon. According to the majority of market players, those distributors constitute near two thirds of the whole market, while the remaining one third is served by numerous other corporations that are fragmented.

Jabwood is the leader in the market and trades soft woods, hard woods and wood based panels. According to Mr. Mahmoud Jabado, CEO of Jabwood, the company focuses on vertical integration from importing wood products to wholesale activity and retail outlets over 3 different regions. Similarly, Anklis Timber and ITCO also provide the market with similar products and sells to wholesalers all over Lebanon.

Domestic manufacturers of wood based products profit from the government regulation related to wood imports that aim to protect the locally transformed wood products from foreign competition. In details, the government has imposed high tariffs on imports of some wood products that can reach up to 25% for some carpentry woodwork (windows, doors etc...) and 5% for wood charcoal, blockboard, wooden frames etc...According to Ms. Nadine Sinno, P.R. Officer at ITCO, "The legal protection in the trade of finished wood products such as furniture is not enough to let the industry benefit from it. Our advantage is that our sister company Unitco is a vertically integrated timber concern, involved in activities ranging from forest harvesting to delivering finished products to its end customers. We have therefore more leeway on the fixing of prices".

As previously mentioned, wood companies in Lebanon mainly import semi-finished and finished products. Coniferous wood that is renowned as softwood tops the list of Lebanese wood imports with a 33% of the total. Softwood is mostly used for construction purposes and furniture crafting. Medium Density Fibreboard (MDF) of a thickness exceeding 9 mm followed with a 16% stake of total wood imports. MDFs are used mainly for the furniture industry, packaging material, in the door industry etc...

Breakdown of Wood Imports in Terms of Volume (In %)



Source: the Lebanese Customs

Particle board, which is a composite material pressed and manufactured from wood chips) takes the third place with almost 12% of total wood imports to Lebanon. Particle boards are best used to make furniture, install cabinets, add home accents, roofing and flooring and even sound proofing. It is also famous for being inexpensive and easy to work with. Oak wood or Hardwood stood fourth with a slight 3% share of total wood imports and can be found in decks, fine furniture and cabinet making.

Given the country's considerable reliance on wood imports, Lebanon suffers an ongoing structural deficit on its wood trade balance. In this context, trade deficit stood at \$212.50M in 2013, widening from 2012's deficit of \$220.98M. Exports reached 19,626 tons worth \$20.57M in 2013 comparing to 18,346 tons worth \$20.80M. At the same time, Lebanon imported 383,686 tons worth \$233.07M of wood products in 2013, compared to the 404,248 tons imported in 2012 priced at \$241.78M. Accordingly, imports were about eleven times the value of exports, while the exports cover ratio stood at 8.8% in 2013 barely changing from the 8.6% recorded in 2012.

Arab countries are the main destination countries of Lebanese wood exports, with Iraq standing first. Trade agreements between the latter and Lebanon were of a great benefit to the wood sector that almost exported 28% of its total exports to its Iraqi trade partner. Saudi Arabia comes second (around 17% of total exports), while Jordan almost imports 11% of the Lebanese wood products.

Between 2010 and 2013, wood exports dwindled mainly due to the spillover effects from the neighboring Syrian crisis that has heavily weighed on trading activity. Thus, wood exports posted a decrease of 6.0% over the mentioned period to stand at \$20.57M by the end of 2013. In this context, Mr. Jabado stated that "2013 was one of the darkest years in the wood market's history as it was heavily impacted by the Syrian war that disrupted transit routes hampering wood exports towards Syria itself, Jordan and Iraq".

Main Drivers of the Lebanese Wood Industry

With no accurate statistics available, assessing the market's performance and status remain challenging and not fully precise.

The activity of the real estate and construction sectors is the main internal factor to determine the wood market's performance. Besides tourism, those two sectors are the most to suffer from the shaky situation of the country, directly impacting the wood industry. The considerable impact resides in the fact that most wood products are either used as building materials or as furniture and kitchenware. Accordingly, any loss of investment appetite in the real estate sector will narrow the number of projects to be built thus deteriorating demand for wood materials.

On the external front, and due to their high inventory levels, the Lebanese wood suppliers have to bare the declining international prices as well as the changes in exchange rates. In details, and contrastingly with some other industries, one of the operating requirements of wood providers is to always keep their inventory levels sufficient to promptly satisfy orders. For this purpose, several companies are heavily investing in their warehouses such as Anklis Timber or planning to open new warehouses such as ITCO. This could be distressing at times when global wood prices are on a declining trend or exchange rates fall. In details, traders will be forced to sell their inventories at lower prices than cost prices, in case of a persistent bearish trend.

Wood Industry over the past 7 years

Between 2007 and 2010, the wood market underwent the negative effect of the global financial crisis of 2008 that was more than offset by the real estate booming demand.

On one side, global prices witnessed a considerable slump of around 20% that was followed by the deterioration of lumber prices. This was reflected in the performance of Rogers International Commodity Index - Lumber (total return) that tumbled at a CAGR of 31.3% between 2006 and 2011. In Lebanon, several wood importers suffered the falling international prices of wood and were obliged to liquidate their inventories at lower prices. Unfortunately, several wood traders were also pushed out of business. However, this opened doors to new investment opportunities in times where real estate and construction activities were witnessing a booming period.

On the other side, 2007-2010 was a prosperous period for the Lebanese economy and real estate. Lebanon managed to avoid the global financial crisis, recovered from the Israeli war of 2006 and ended the presence of Syrian troops in April 2005. The real estate market was characterized by a pent-up demand with real estate transactions jumping by a yearly 11.3% in 2010. This has more than counterbalanced the declining wood prices hence increasing demand for wood. In this context, the 4.2% growth in construction permits during 2011 was mirrored by a 2.6% annual growth in wood imports to \$232.55M.

Stepping to 2011-2012, wood prices started to stabilize and real estate supply adapted to the previously increasing demand.

First, international wood prices started showing timid increases to rise at a CAGR of 3.5%. Worth noting that the United States of America (USA) tops the list of countries producing timber and ranks fourth in the world in terms of wood exports. Accordingly, the negative repercussions of the financial crisis in the USA directly impacted the global wood industry in 2007-2008. However, efforts to recover from the crisis seemed to finally bare fruits in 2013, even though at a slow pace.

Second, the Lebanese real estate demand was hindered starting late 2011 due to the eruption of the Arab Spring, the emergence of the war in Syria and the fragile domestic situation that continued through 2013. However, real estate supply improved during 2011-2013 as it took time to adapt to the high real estate demand levels reached between 2007 and 2010. In addition, and noting that construction permits are usually issued six months after applications are filed, numerous building projects were initiated in 2012 which explains the 4.0% y-o-y rise in wood imports in 2012 to \$241.78M.

2013 was the beginning of the downturn in the wood industry. The market started revealing signs of deterioration, highly influenced by the persisting political stalemates that were governing the country, the slowing economic growth and the security developments on the local and regional fronts. The sluggish performance in the real estate market, where construction permits and real estate transactions respectively declined by nearly 8.1% and 16.9% y-o-y, was reflected on the wood market that posted a 3.6% downtick in the value of Lebanon's wood imports to \$233.07M.

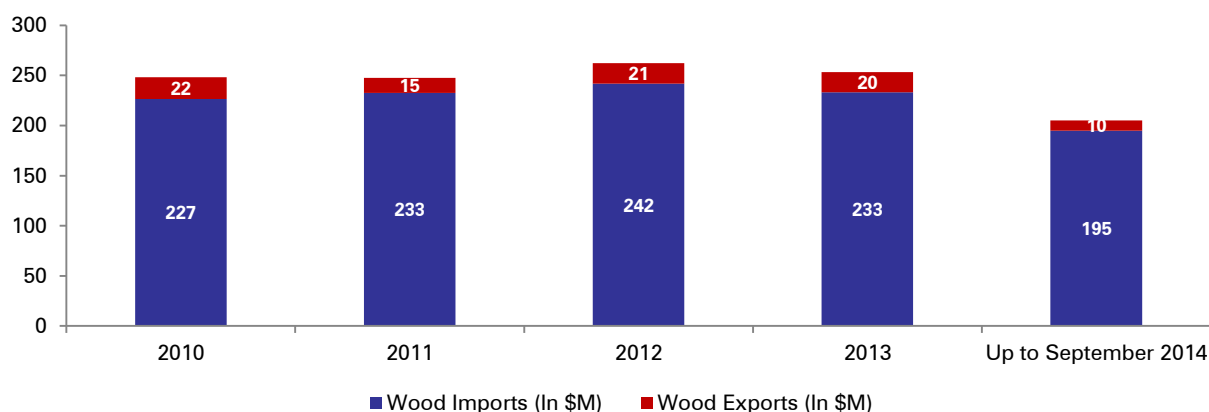
Consequently, demand for real estate properties faltered in 2013 severely impacting the wood industry in the country. Real estate consultant, RAMCO, stated that Beirut residential projects completed in 2013 showed that 277 new apartments remained unsold in 2013 compared to 217 units completed during the course of 2012. Unsold apartments in 2013 represented an 81,773 SQM of built-up residential area worth \$437.58M.

In another context, wood traders mainly importing from European countries saw their losses broadening due to the weakening of the euro against the dollar. Worth noting that Lebanon mainly imports wood products from Romania (around 20% of the total) followed by Russia and China that posted a similar stake of 12% of total wood products. This was directly linked to the wood importers strategy as they are usually keen on retaining in their inventories adequate level of wood products in order to instantly meet customers' orders. Accordingly, the price of products bought in euros decreased, negatively impacting numerous market players mainly due to their large existing stock of imported wood products.

On another note, Tripoli constitutes the heart of the Lebanese wood industry hosting the majority of timber warehouses. The security developments that lingered in the northern region of the country hindered activity within the wood market. In details, the transportation of products was interrupted each time roads were closed leading to delays in delivery. As for Jabwood, the company's proximity to the security incidents threatened the working force's security and wellbeing.

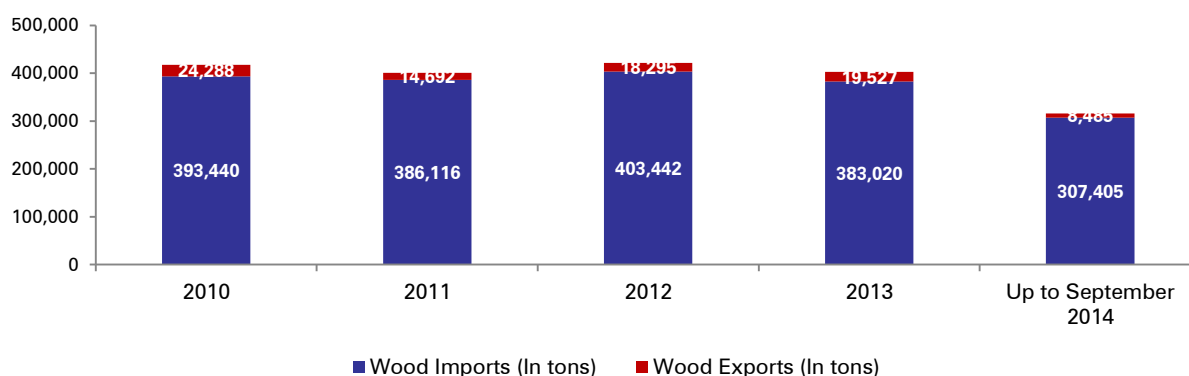
Lebanese wood traders therefore were facing challenging obstacles in 2013 to liquidate their products as security developments in Tripoli and Syria severely hit the transportation of products to both the domestic and Arab market. The majority of companies were having trouble in maintaining their profits and many of them sold at a loss. Some of the frailest wood companies went bankrupt leaving space to other players to survive and satisfy the formers' demand. However, some other companies have made strategic partnerships allowing them to ship directly to the Levant and the Gulf. This is for instance the case of ITCO who ships to clients in the Middle East, the Gulf and the Far East.

Value of the Lebanese Wood External Activity



Source: Lebanese Customs

Volume of the Lebanese Wood External Activity



Source: Lebanese Customs

What about 2014 and the coming period?

The first half of 2014 showed bright results when it comes to real estate activity, while the second half embedded a bunch of security and political developments overshadowing H1's progress. Up to September 2014, wood imports stood at \$195M, up from \$179.82M recorded a year earlier.

While evaluating the performance of the wood sector in 2014, dissimilar answers were provided. According to Ms. Sinno, "2014 has been a better year than 2013". However, Mr. Jabado claimed that 2014 showed no improvement from 2013 but witnessed a stop and go activity.

The Lebanese wood sector will remain highly impacted by the economic and political situation of the country. As for 2014, BLOMINVEST Research department estimates total imports of Lebanon's wood products to improve compared to the previous year to possibly settle at \$256M. Jabwood is currently postponing any future plan of expansion and has consolidation objectives. However, and besides opening new warehouses, Ms. Sinno revealed that ITCO has plans to expand but the company is "waiting for the outcomes of the regional political situation".

Finally and despite the several challenges faced over 2013 and 2014, the Lebanese wood sector is still able to survive thanks to the strong fundamentals and the high level of expertise of the existing players. Hopes remain high about a flourishing Lebanese building materials industry once the war in Syria ends and the reconstruction phase begin there. The demand for wood products in Syria will be then satisfied by imports from neighboring countries, mainly Lebanon and Jordan.

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