Iraq stocks poised for a rebound as ISIS loses grip

The old saying that you should invest when there is “blood on the streets” could not be more telling than in the case of Iraq. The Iraq equity market has suffered under the extreme tensions linked to ISIS and has fallen by 55 percent over the last 3 years. But macroeconomic indicators show signs of a turnaround and rising oil prices together with a weakened ISIS is likely to lift undervalued Iraq stocks higher, according to Henrik Kahm, portfolio manager of the FMG Iraq Fund.

“In 2008 we did our first investment in Iraq as the market has doubled during this time period.”

Since bottoming out in May, the Iraq stock market has recovered and FMG’s internal models have been bullish since the summer.

“In May of this year we released a strategic report saying that Iraqi stocks were near bottoming out, on May 29, Iraq stock had its lowest valuation point ever. Since then there has been an upward movement in Iraq stocks, although with a lot of volatility.”

Kahn admits to the fact that the media picture of Iraq is not helping when investors are considering frontier investment opportunities. He is however convinced that the market has reached a low-point and that interest will return.

“Mosul will be the trigger. With local investors becoming more positive, more money will also flow to the market. Limited volumes can move the market a lot given that it is illiquid.”

“In a longer term perspective, we see valuations at extreme lows given that many of the listed companies are in relatively good shape. Iraq is producing 5 million barrels of oil per day and that is a lot given the size of the country.”

Even though there are no listed oil companies, the commodity plays an important role for the overall financial conditions. Now fact that investors expect oil prices to stabilize in the area of 50-70 USD per barrel rather than hovering around 20 USD , this makes a significant difference for investor appetite going forward”.

“Kahm argues that the recent pick up in valuations expresses just how quickly things can turn around in the Iraq equity markets.” – “We saw that in October when stocks in Mosul Bank, a banking group that has obviously been a big loser following the attacks on the city, gained almost 200 percent in a short time period. Dynamics can change quickly and this time I think for the better.”

Kahn says that there are alternative ways of getting exposure to Iraq, for example through the bond market or through off-shore listed companies such as the Norwegian oil company DNO, however focusing on locally listed stocks provides for another dynamic, he says.

“Today you can buy Pepsi in the U.S. at 23 times trailing P/E, the corresponding number for Baghdad Soft Drinks, an emerging market Pepsi play where the underlying market is growing, is 8.”

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