

Palestine: Dividends strike higher notes and returns

Mr Ahmad Aweidah is leading the Palestine Exchange (PEX) which operates in a challenging environment due to political and economic difficulties. He has proven that capital markets might serve well to the needs of corporates and investors even under dire straits. Below are his frank answers to our questions.



Ahmad Aweidah
CEO of Palestine Exchange

How does Palestine stand up for its capital markets? Please provide a brief overview of domestic market underpinnings.

The Palestine Exchange (PEX) has modern regulations for disclosure, trading, listing, membership, and settlement of disputes.

Our regulator, the Palestine Capital Market Authority (PCMA) was established in 2004. It has obtained IOSCO full membership and keeps its legislation as per best practice in line with international standards. Palestine has a robust banking sector which supports a sound Palestinian capital market. The investment environment is liberal and there are no capital gains or dividends distribution taxes.

The exchange has a diversified base of 49 listed companies in five sectors: banking and financial services; insurance; investment; industry; and services. The grand majority of those companies are profitable with average dividend yield

and P/E for the last five years of 6.28% and 13.85% respectively.

The technology used plays a vital role in having a stable and efficient capital market. Our trading, Depository and Surveillance systems are provided by NASDAQ OMX. We invest continuously in our IT infrastructure and that's why we didn't have any failure in trading or CDS over the last eight years.

Our listed companies are obliged to follow the international financial Reporting Standards (IFRS) in preparing their financial statements and the presence of the international big four accounting companies in Palestine helps in improving the quality of financial reporting.

Finally the friendly environment vis-à-vis foreign investors, as there are no currency exchange or capital movement restrictions and no restrictions on foreign ownership. I believe these are the attractive factors of Palestine's capital market.

PEX is the only exchange in MENA with sole private ownership. How would you define the merits and challenges for this particular aspect?

The merits of being a private sector exchange include:

- The ability to create an entity in accordance with international best practice while being shielded from government bureaucracy and political meddling.
- Separating the supervisory side, (the CMA, government), from the execution side, (the PEX, private sector), enhances the regulatory role of the CMA as one branch of the public sector isn't merely supervising another. Private sector exchanges tend to understand the needs of the business sector and the listed companies and can act more forcefully against stifling regulation or inhibiting taxation laws.
- Management flexibility, the exchange as a private sector entity is able to change managerial, organizational and technological structures while attracting top professional talent.
- Better transparency due to legal and governance requirements unimpeded by political meddling.
- Obtaining investor confidence at home and abroad by leveraging the private sector's good reputation and relatively constant abilities.

And the challenges can be summarized as:

- The hesitation of some business groups to list their companies on an exchange that could be controlled by a rival investment company. In reality, any potential conflict of interest in this regard can be alleviated by a competent and powerful market regulator to ensure full transparency in the exchanges operations and governance.
- Being a for-profit-company, the exchange might be tempted to focus on the business side rather than the regulatory side and engage in a race to the bottom in terms of listing quality and trading standards. Again, the reality is different, owners of an exchange company are well aware that credibility and confidence play a critical role in attracting listings and trading (and therefore revenues); probably more so had the exchange been government owned with little regard for profitability or economic feasibility. Here again, the presence of a competent regulatory

authority helps in balancing business versus quality requirements.

- Enforcing laws might be easier if the exchange is within the public sector (government exchanges rarely argue back with the regulator).

You have delivered a sustainable row of listings over the recent years. We wonder how the investors respond to IPOs?

We managed to list 15 new companies over the last five years three of which were established through IPOs and the response at that time was great; all three offerings were oversubscribed. I believe an IPO's success, in any case, depends upon the nature of the company, its future prospects and its IPO marketing budget.

Some of the global and emerging stock markets around the world are criticized due to poor dividends policy. PEX is one of the rare good examples here. What is your silver bullet?

PEX is blessed with its profitable listed companies. The grand majority of our listed companies have been profitable in 2014, about two-third of those companies distributed dividends in both cash and stocks of about USD 171m. I think dividend payment is a sign of a healthy financial position of a company and a way to reward the company's shareholders and keep them engaged and interested in its stock.

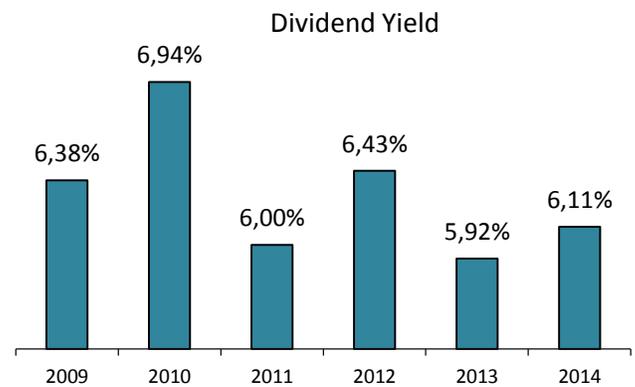
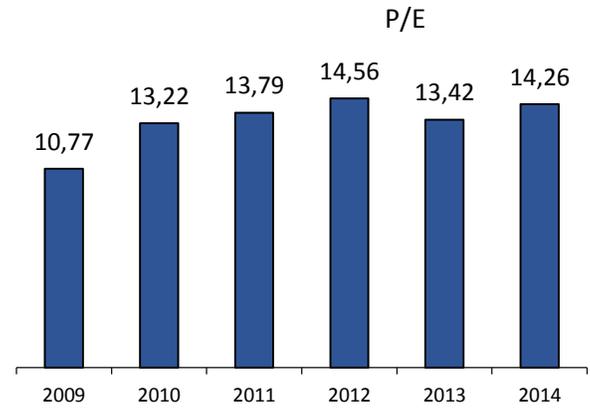
Highlights of the Palestinian capital markets:

- ✓ *No tax for capital gains and distributed dividends*
 - ✓ *Growing number of listed companies*
 - ✓ *High dividend policies*
 - ✓ *Satisfactory PE ratios*
- ✓ *Best practices of regulation and trading rules*
 - ✓ *Reliable Exchange technology*

What are the means to enable the local capital markets to develop further?

Capital markets are correlated with the general economic conditions of a country, from our own experiment, we can say that to develop a capital market you need to have a developed legal environment that protects investors; tax reforms should be taken into account by having a tax free capital market to attract more investors. You also need to liberalize or open the capital market by allowing foreign investments to increase investors base and finally you need to develop the market size by channeling local pensions into the domestic capital market.

Of course having a national code of governance to protect the interest of minority shareholders, strong disclosure rules and regulations to discipline misbehavior will effectively support a local capital market that can efficiently allocate capital to support economic growth.



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Palestine Exchange is the only exchange operator in the country. The core business of the exchange is the cash equity market. There are 49 listed companies with \$3billion market cap value. Most of the equities trade in Jordanian Dinar as some others in USD.

For further info: www.pex.ps

Mutual fund is the best access to Palestine

Rasmala Investment Bank Ltd is a regional investment banking group with offices in the UAE, Oman and Egypt. Rasmala provides investors and clients with access to deal flow and business insight across the key MENA markets including Palestine. Equity Asset Management Team of Rasmala have responded our questions on Palestinian capital markets.



Which capital market products you intermediate most and who are the buyers and sellers?

Rasmala Investment Bank Ltd is a leading regional asset management firm specializing in the management of funds and portfolios across the Arab markets in both Conventional and Shariah Compliant strategies in equities, fixed income and money markets. In this capacity Rasmala handles the following capital market products: fixed income securities, equities and other listed securities. Clients primarily are institutions, insurance companies and collective investment schemes.

Do you think that capital market regulations are conducive to trading efficiency?

We trade in almost all Arab markets and in our experience and considered opinion a well regulated market always results in efficient trading and settlement. This is very important in gaining acceptance with international investors.

Please give us a list of upsides of the Palestinian capital markets.

In our opinion, the clear upsides are the peace initiatives, valuation and divided yield in Palestinian stocks.

And the downsides please.

Downsides are limited. Capitalization and low trade volumes are the only downsides.

Why should an international investor consider investing in Palestinian markets and how?

The hope of reaching a peace deal after the U.S. sponsored efforts have resulted in renewed direct peace negotiations between both sides. This eases investors' concerns and reduces risk premium. Peace negotiations are being presented along with an ambitious economic plan, which is being planned by the Office of Quartet Representative Mr. Tony Blair. The market also benefited from a better global outlook and increased appetite for risk across the globe. GDP growth is still robust and expected to grow in 2015, despite persistent restrictions and increasing political uncertainty. Services and construction sectors are expected to be the main contributors to growth. In addition, any progress in the peace talks represent an upside risk from current levels. Nominal GDP per capita is expected to increase.

The simplest (and recommended) access to the Palestine market is via a suitable mutual fund. The Rasmala Palestine Equity Fund domiciled in Luxembourg is available for subscription by a discerning investor.

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