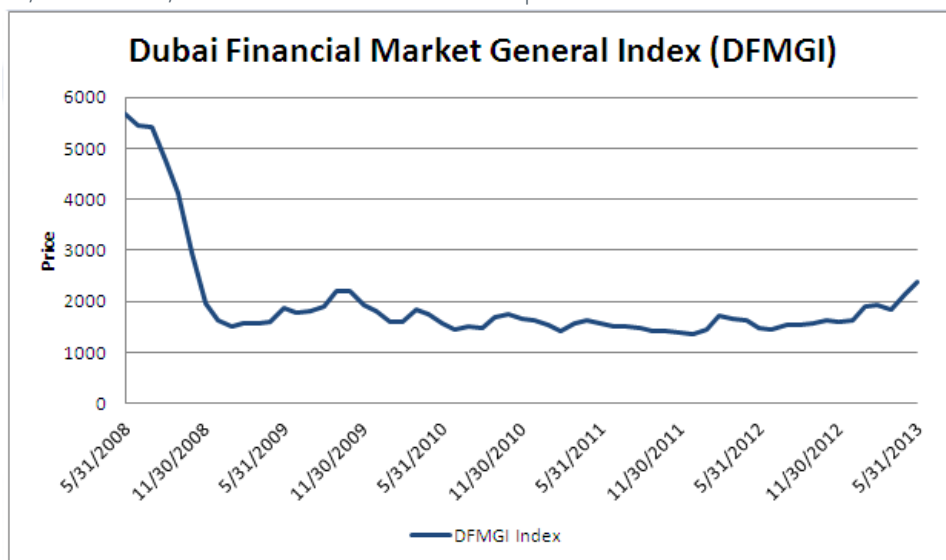


# QATAR, UAE: THE BALLGAME IS STILL IN THE EARLY INNINGS

07/03/2013

Conventional wisdom holds that a stock or [ETF](#) that runs up 19% not even six full months into the year may be due for a pullback. Nearly triple those returns – up to 53% – over the same time span, and the chorus calling for price retrenchment is likely to grow louder. Throw in the fact that the best news may already be priced in, and it appears even more logical that these securities would be prime candidates for a dip. Some investors may be viewing stocks in Qatar and the United Arab Emirates that way. The marquee news event expected to affect stocks in both nations has come and gone, as index provider MSCI announced on June 11, 2013, that Qatar and UAE, on their fifth try, earned promotions from frontier market to emerging market status. [The Qatar Exchange Index](#) is up 19% year-to-date<sup>1</sup> and the [Dubai Financial Market General Index](#) is up almost 53.1%.<sup>2</sup> So stocks in Dubai and Qatar have generated average returns of 36% this year and, the MSCI upgrade is priced in. Time to pack it in and look for opportunities elsewhere, right? Perhaps not. Consider the following: Qatar's benchmark index (DSM) closed at around 9,430 on June 17, 2013. Nearly five years ago, it closed at around 12,500. The Dubai Financial Market General Index (DFMGI) closed at just below 2,400 on June 17, 2013. On June 23, 2008, the index opened for business at around 5,600.

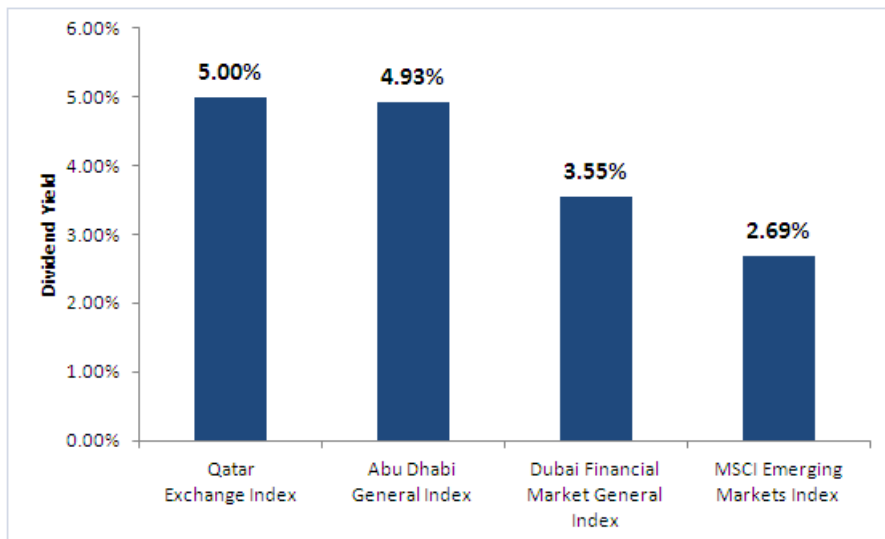


Source: Bloomberg, 5/31/2008-5/31/2013.

Past performance is not indicative of future results.

**Dividends, Too** It is not just the potential for a return to pre-crisis highs that make Qatari and UAE stocks attractive. As of early June 2013, Qatari stocks traded at just 12 times earnings, with an impressive 5% [dividend yield](#).<sup>3</sup> Despite often being overlooked as investors focus on geopolitical issues in the region, companies in the [Gulf Cooperation Council \(GCC\)](#) are sturdy dividend payers. For example, both Emirates Integrated Telecomm (Du) and Emirates Telecom Corporation (Etisalat) stocks recently rose, with Du doubling its payout.<sup>4</sup>

**Yield Comparisons at Index Level**



Source: Bloomberg, as of 5/31/2013.

Past performance is not indicative of future results.

*For definitions of terms and*

*indexes, visit our [Glossary](#).* **Foreign Inflows: Another Catalyst** While estimates vary, foreign inflows to Qatar and UAE are expected to increase now that the pair has been upgraded to emerging markets status. HSBC estimated the two countries could see a combined \$800 million in near-term inflows, while BNY Mellon puts the number as high as \$3 billion.<sup>5</sup> Arguably more interesting is the question which countries will be the major contributors of foreign inflows to Qatar and UAE. Forty-three percent of private capital flowing into UAE comes courtesy of other emerging markets, with 15% coming from India, 10% from Russia and 7% from China, but just 13% of inflows come by way of developed markets.<sup>6</sup> On the domestic front, in an effort to diversify its economy (and in preparation of hosting the 2022 World Cup), Qatar is planning infrastructure spending of \$200 billion over the next decade. Dividends, increased foreign inflows and infrastructure largess are among the catalysts that indicate the Qatar/UAE investment story is still in its infancy. <sup>1</sup>

Source: Bloomberg data - Qatar Exchange Index (<http://www.bloomberg.com/quote/DSM:IND>). <sup>2</sup>Source: Bloomberg data - Dubai Financial Market General Index (<http://www.bloomberg.com/quote/DFMGI:IND>). <sup>3</sup>Source: Sherine El Madany, "Qatar Index at Highest Since September 2008 on Valuation Allure," Bloomberg, June 9, 2013. <sup>4</sup>Source: Jeremy Schwartz, "Middle East Countries Diverge From Traditional Emerging Markets," WisdomTree, May 24, 2013.

<sup>5</sup>Source: Isaac John, "UAE, Qatar to See \$3 Billion Inflow Surge," Khaleej Times, June 10, 2013. <sup>6</sup> Source: Trade Arabia News Service, "UAE Sees Big Foreign Capital Inflow," May 20, 2013.

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## **DEFINITIONS**

**The Qatar Exchange Index** : A capitalization-weighted index comprising the 20 most highly capitalized and liquid companies traded on the Qatar Exchange.

**Dubai Financial Market General Index** : A free float-adjusted market capitalization-weighted price index comprising stocks of listed companies.

**Dividend yield** : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**Gulf Cooperation Council (GCC)** : A political and economic union of the Arab states bordering the Persian Gulf and located on or near the Arabian Peninsula.