

Mission accomplished: Auerbach signs Rabee deal

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Christian Murray, Bakyt Azimkanov

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In 1998, Shwan Ibrahim Taha, a money manager for Franklin Templeton in Dubai, decided to buy Rabee Securities, an Iraqi brokerage firm. Taha, an Iraqi who had left Baghdad for the US when he was 19 years old, was motivated by two reasons. The first was his deep desire to invest in the future of the country where he was raised. The second was the price.

That he was able to snap up what he considered a bargain was because of the country's bleak political outlook. Sure enough, at the end of 1998, the "Desert Fox" US-led bombing campaign in the country began, seven years after the end of the first Gulf War and five years before the start of the second.

Taha's 1998 investment in Rabee has plenty of upside now. The foreign military presence in Iraq is nearing its end, and the nation has much better economic prospects. Security is improving and an open regulatory framework is in place, allowing foreigners unfettered access and the ability to repatriate their gains overseas.

That set the scene for last week's exclusive agreement signed between Taha's company and Auerbach Grayson, a New York-based institutional investment firm. Rabee will provide research coverage and execution services on companies listed on the Iraq Stock Exchange (ISX). In return, Auerbach will showcase these reports to its American clients and provide Rabee with order flow.

The agreement makes Auerbach the only company outside Iraq that is able to market and sell Iraqi stocks in the US. The timing is good since the ISX is aiming for the 94 companies listed on the exchange to be traded electronically by the end of June – through the OMX system, developed by the Nasdaq OMX Group.

A big step

For Taha, the deal is a big step towards developing an international network. "Auerbach will help us get our name in front of many institutions," he said, adding "Auerbach is an

established firm that people are familiar with as opposed to being viewed as some firm in Iraq that people don't know much about."

Taha has deep roots in the US, Turkey and the Middle East. He arrived in the US in 1986 to go to Case Western University in Cleveland, and stayed on to begin an MBA at George Washington University in 1991, amid the first Gulf War. Two jobs later, he joined Franklin Templeton as a fund manager, and was sent to Dubai to open an office before being relocated to manage money in Istanbul.

Taha became a client of Jonathan Auerbach while working in Turkey. This relationship continued when Taha went on to manage a hedge fund for George Soros. While there, Taha cemented strong relationships within Turkish business circles. He later married Ipek Nur Cem in 2001, the daughter of Ismail Cem, the former foreign minister of Turkey.

Two years later, Rabee Securities closed when the Baghdad Stock Exchange (as it was then known) was dissolved during the US-led invasion that started the second Gulf War in 2003. The exchange was reconstituted a year later in a closed-down restaurant in Baghdad – although it has since relocated.

No illusions

While conditions are much better today, Auerbach and Taha are under no illusion that convincing foreigners to invest on the Iraqi market is going to be easy. There are many obstacles to success.

"Iraq's stock exchange is about the size of Mongolia's, even smaller than Mauritius's," said Jonathan Auerbach, whose firm provides its institutional clients with access to 128 world markets. The ISX has a market cap that is approaching US\$3bn, with trading volumes of about US\$9m a week.

"It's still in its embryonic stage," said Taha. The biggest Iraqi companies – mainly banks – would be deemed micro-caps in the US: Dar Es Salaam Investment Bank has a market cap of US\$238m; Credit Bank of Iraq has a market cap of US\$203m and Bank of Baghdad's is US\$146m. And there is very little liquidity.

But some big foreign investment companies are nibbling nonetheless. HSBC has a 70% stake in Dar Es Salaam Investment Bank, while United Gulf Bank owns a 41% stake in the Bank of Baghdad. However, many companies do not appear to have large foreign ownership stakes.

But this is likely to change. "Iraqi assets will find demand from Europe, and I would not discount their popularity among Asian investors too," said Stuart Culverhouse, chief economist at Exotix, an investment banking boutique specialising in emerging and illiquid markets. Russians are also observing the latest developments in Iraq's markets and would not rule out Iraqi securities.

The Auerbach/Rabee deal has also come on the back of an uptick in Iraq's only outstanding Eurobond, a US\$2.7bn 5.8% due January 2028. It was quoted last week at 66.20–67.45 for a yield of 10.343%–10.120%, equivalent to 669.6bp over US Treasuries. Just two months ago, they were at just above 50, yielding 13.25%. The country is also planning to sell US\$3bn of local bonds.

Taha's aim is to grow the business by channelling foreign investments through his firm on to the market. The firm will provide research on about 30 of the 94 companies listed on the stock exchange. According to Taha, these effectively account for the whole market.

But the firm's research reports are only as good as the information to which its analysts have access. "Some firms provide very detailed reports that are published quarterly," said Taha. "Other companies publish quarterly but don't publish much at all." A company's accounts are verified by certified accountants but, according to Taha, there is an element of trust involved.

It can also be tough for Taha to co-ordinate meetings between Iraqi companies and foreign investors. With foreigners often worried about security, they usually prefer to meet in Turkey, one of only two countries (the other is Syria) that Iraqis can enter without a visa.

Rabee does not provide formal buy, sell or hold recommendations. It primarily provides a flavour of what a company does, how big it is, whether it is cheap or expensive, as well as publishing data from its accounts. Auerbach is seeking reports on companies that offer good valuations, and will present these firms to clients as one of many investment vehicles to consider.