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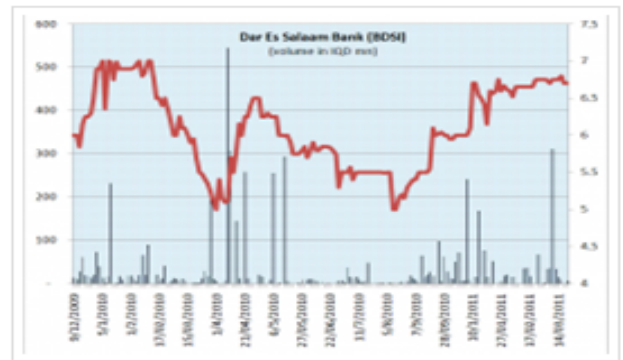
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## Are Iraqi banks a buy?

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On March 11, Rabee Securities came out with the first-ever sector report on ISX-listed companies. The report, which could be thought of as something of a milestone for the Iraqi market, is on the banks—the most heavily weighted sector in terms of both trading volume and market cap.

For me the main takeaway was that the sector is not particularly cheap on a valuation basis. While the analyst does not make this point explicitly, it's hard to come to any other conclusion on the basis of the data presented. Market-cap-weighted average price/book value for the sector works out to 2.6 times, or 1.8 times if you take out HSBC subsidiary Dar Es Salaam Bank (BDSI). Weighted (historic) P/E comes to 66.0 times, or a still-demanding 17.4 times ex BDSI. And while high PE's can sometimes be justified on the basis of high earnings growth, it doesn't look like this is the case here. For the top seven banks (not including Warka), cap-weighted average earnings grew only 16% in 2010.



It's not clear, however, that historic valuations are particularly relevant in this case. As most of the Iraqi banks are still at a very early stage in their development, current book value and prior-year earnings are a poor guide to what these companies will eventually become. Their real value comes from what their franchises will be worth once they have developed regular commercial banking businesses—something that is still basically unquantifiable.

BDSI is a case in point. Annualized net earnings for the first nine months of last year fell 87%, putting it on a P/E of 333 times. Price/book is 7.2. Does this make the stock a sell? Not necessarily. It all depends on what HSBC, which holds a 70% stake, is planning to do with the company.

Unlike most brokerage research of this type, the Rabee report does not include any buy or sell recommendations. It's easy to see why. Based on the banks' historical financial information alone, most of them might be sells. But given the potential for growth in a country where year-end '09 bank-sector credit to GDP was a mere 4.1%, most might be buys.

What's an analyst to do?