



Your Investment Reference

THE LEBANON BRIEF

ISSUE 791

Week of 01 - 06 October, 2012



ECONOMIC RESEARCH DEPARTMENT
Rashid Karame Street, Verdun Area
P.O.Box 11-1540 Beirut, Lebanon
T (01) 991784/7 F (+961) 1 991732
research@blominvestbank.com
www.blom.com.lb

TABLE OF CONTENTS

FINANCIAL MARKETS	3
Equity Market	3
Foreign Exchange Market	5
Money & Treasury Bills Markets	5
Eurobond Market	6
ECONOMIC AND FINANCIAL NEWS	7
BdL Assets Climb 9.34% Y-o-Y to \$77.4 Billion	7
Commercial Banks' Assets at \$147B in August	7
Balance of Payments Deficit Reaches 1.84 Billion up to August 2012	8
Lebanon's Trade Deficit Widens 19% up to August 2012; South Africa Becomes Lebanon's Main Export Destination	8
Consumer Confidence Index Nudges Up in September 2012 despite Sustained Annual Decline	9
Hotel Occupancy rate at 63% by end of July	9
CORPORATE DEVELOPMENTS	10
Credit Libanais Net Profit Rose 5.3% y-o-y in H1 2012	10
Bank of Beirut to Redeem Class D Preferred Share	10
FOCUS IN BRIEF	11
A Decade of Lebanese History through the Eyes of Solidere's Stock	11

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.

FINANCIAL MARKETS

Equity Market

Stock Market

	05/10/12	28/09/12	% Change
BLOM Stock Index*	1119.39	1115.56	0.34%
Average Traded Volume	163,264	207,298	-21.24%
Average Traded Value	1,232,267	1,358,281	-9.28%

*22 January 1996 = 1000



Banking Sector

	Mkt	05/10/12	28/09/12	% Change
BLOM (GDR)	BSE	\$7.80	\$7.80	0.00%
BLOM Listed	BSE	\$7.40	\$7.40	0.00%
BLOM (GDR)	LSE	\$7.90	\$7.95	-0.63%
Audi (GDR)	BSE	\$5.95	\$5.52	7.79%
Audi Listed	BSE	\$5.39	\$5.50	-2.00%
Audi (GDR)	LSE	\$5.90	\$5.90	0.00%
Byblos (C)	BSE	\$1.49	\$1.50	-0.67%
Byblos (GDR)	LSE	\$79.00	\$79.00	0.00%
Bank of Beirut (C)	BSE	\$18.90	\$19.00	-0.53%
BLC (C)	BSE	\$1.90	\$1.90	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.99	\$1.99	0.00%

	Mkt	05/10/12	28/09/12	% Change
Banks' Preferred Shares Index *		\$106.08	\$105.32	0.72%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.20	\$10.00	2.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$102.30	\$102.30	0.00%
Byblos Preferred 09	BSE	\$103.20	\$103.10	0.10%
Bank of Beirut Pref. D	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. E	BSE	\$25.80	\$25.80	0.00%
BLOM Preferred 2011	BSE	\$10.17	\$10.17	0.00%
Bank of Beirut Pref. H	BSE	\$26.10	\$25.70	1.56%

* 25 August 2006 = 100

The BLOM Stock Index (BSI), Lebanon's leading index, increased by 0.34% this week to reach 1,119.39 points, resulting in a 4.87% loss since year start. Market capitalization advanced by \$30M to \$8.85B while the average daily traded volume was 163,264 shares worth \$1,232,267 lower than last week's 207,298 shares valued at \$1,358,281.

The Lebanese benchmark outperformed the S&P AFE40 Index which added 0.26% to reach 110.83, but it failed to beat the MSCI Emerging Index which added 0.72% reaching 1005.52 points, as well as the S&P Pan Arab Composite LargeMidCap Index which added 0.52% to settle at 54.50 points. Egypt's stock exchange was the worst performer over the week having lost 2.73% while Dubai's stock exchange witnessed the best performance advancing by 3.69%.

The banking sector dominated the market accounting for 76.2% of total value traded while the real estate sector captured the remaining 23.8%. Audi GDR rose 7.79% to close at \$5.95 while Audi Listed dropped 2% to reach \$5.39. Byblos lost 0.67% to end the week at \$1.49 and Bank Of Beirut dropped 0.53% to \$18.9. On the other hand, the preferred shares index rose 0.72% driven by the 2% increase in Audi preferred shares D closing at \$10.2 and the 1.56% rise of BOB Preferred shares H to \$26.10. Byblos preferred shares 09 also saw a slight addition of 0.10% to \$103.2. In London, BLOM GDR fell 0.63% to end the week at \$7.9.

As for the real estate sector, Solidere Class A added 1.11% to \$12.75 and class B also slightly rose by 0.32% to \$12.58. On the London Stock Exchange, Solidere GDR advanced 6.64% to \$13.49.

In the industrial sector, no trading occurred and shares prices for Holcim and Ciment Blancs remained stable.

Real Estate

	Mkt	05/10/12	28/09/12	% Change
Solidere (A)	BSE	\$12.75	\$12.61	1.11%
Solidere (B)	BSE	\$12.58	\$12.54	0.32%
Solidere (GDR)	LSE	\$13.49	\$12.65	6.64%

Finally, cautious sentiments are still taking over the market scene, and trading still occurs within narrow intervals excluding some cross trades. Investors remain in a waiting mode until the political and security scenes unfold, with no rush to buy or sell appealing on the stock exchange.

Manufacturing Sector

	Mkt	05/10/12	28/09/12	% Change
HOLCIM Liban	BSE	\$15.51	\$15.51	0.00%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$3.05	\$3.05	0.00%

Funds

	Mkt	05/10/12	28/09/12	% Change
Beirut Preferred Fund	BSE	\$102.80	\$102.80	0.00%
BLOM Cedars Balanced Fund Tranche "A"	-----	\$6,705.34	\$6,694.67	0.16%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,080.66	\$5,074.11	0.13%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,092.75	\$5,084.65	0.16%
BLOM Bond Fund	-----	\$9,788.90	\$9,788.90	0.00%

Retail Sector

	Mkt	05/10/12	28/09/12	% Change
RYMCO	BSE	\$2.20	\$2.20	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

Tourism Sector

	Mkt	05/10/12	28/09/12	% Change
Casino Du Liban	OTC	\$565.00	\$565.00	0.00%
SGHL	OTC	\$4.50	\$4.50	0.00%

Foreign Exchange Market

Lebanese Forex Market

	05/10/12	28/09/12	%Change
Dollar / LP	1502.50	1502.00	0.03%
Euro / LP	1960.05	1951.76	0.42%
Swiss Franc / LP	1617.84	1613.33	0.28%
Yen / LP	19.22	19.43	-1.08%
Sterling / LP	2438.98	2445.92	-0.28%
NEER Index**	103.33	103.34	-0.01%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

The exchange rate between the Lebanese Pound and the US dollar slightly broadened on the local exchange market this week to \$/LP 1,501 - \$/LP 1,504 with a mid-price of \$/LP 1,502.5, from \$/LP 1,502 last week. Foreign assets (excluding gold) at the Central Bank had decreased by a monthly 0.5% to \$35.09 billion by the end of September 2012, while the dollarization rate of private sector deposits remained slightly below 65% by the end of August 2012, compared to 66% in December 2011.

Nominal Effective Exchange Rate (NEER)



The euro made some headway this week after European Central Bank Chief Mario Draghi restated the bank's commitment to preserve the Eurozone. The single currency also gained support from improving economic indicators in both Europe and the US, namely with the latter country's requests for jobless benefits rising less than expected. By Friday October 5, 2012, 12.30 pm Beirut time, the euro had added 0.42% from the previous week to €/\$ 1.3002 causing the dollar-pegged Lebanese Pound to depreciate to €/LP 1,960.05, from €/LP 1,951.76. The Nominal effective exchange rate (NEER) remained almost unchanged at 103.33 points.

Money & Treasury Bills Markets

Money Market Rates

	05/10/12	28/09/12	Change bps
Overnight interbank	2.75	2.75%	0
BDL 45-day C	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

Treasury Yields

	05/10/12	28/09/12	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

Broad money M3 increased by LP51B (\$33.83M) during the week ending September 20 to reach LP154,705B (\$102.62M). Accordingly, M3 increased by 7.47% y-o-y and 5.55% from end of December 2011. M1 fell during the week by LP51B (\$33.83M) due to a LP126B (\$83.58M) drop in money in circulation, while demand deposits rose by LP75B (\$49.75M). Total deposits (excluding demand deposits) advanced by \$67.43M as term and saving deposits in LP increased by \$46.43M, and deposits denominated in foreign currencies climbed by \$21M. As for the dollarization rate of broad money, it remained unchanged at 58.39%. The overnight interbank rate on funds in LBP stood at 2.75% during the month of July, according to the Association of Lebanese Banks.

On September 27, the Ministry of Finance (MoF) raised LP30.75B (\$20.39M) through the issuance of Treasury Bills. The 3M paper took 78.31% of total subscriptions, while the 60M and 6M papers captured 17.51% and 4.19% of total demand respectively. The average discount rate for the 3M and 6M papers were unchanged at 4.39% and 4.87% respectively, with the average coupon rate for the 60M paper also steady at 6.74%. To note that the MoF continues to undertake all accepted bids.

Eurobond Market

Eurobonds Index and Yield

	05/10/12	28/09/12	Change	Year to Date
BLOM Bond Index (BBI)*	109.390	109.140	0.23%	-1.40%
Weighted Yield**	5.02%	5.06%	-4	24
Weighted Spread***	443	447	-4	37

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

** The change is in basis points

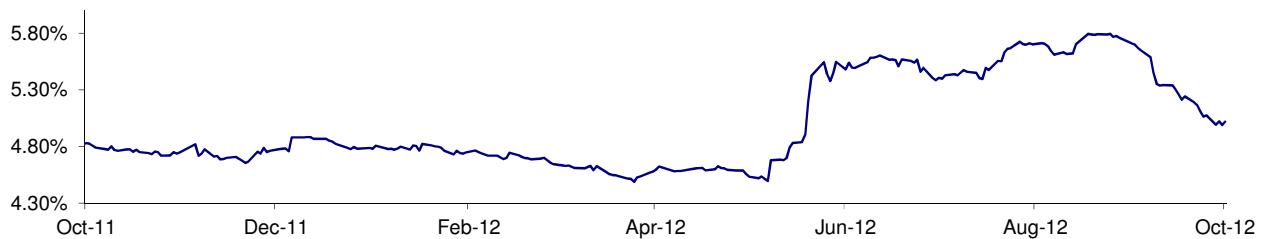
***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	05/10/12 Price*	28/09/12 Price*	Weekly Change%	05/10/12 Yield	28/09/12 Yield	Weekly Change bps
2013, Mar - 9.125%	102.93	103.00	-0.07%	2.12%	2.26%	-14
2013, Jun - 8.625%	104.38	103.25	1.09%	2.23%	3.97%	-173
2014, Apr - 7.375%	106.88	106.25	0.59%	2.70%	3.16%	-46
2014, May - 9.000%	107.94	108.88	-0.86%	3.72%	3.20%	52
2015, Jan - 5.875%	104.50	104.50	0.00%	3.78%	3.80%	-2
2015, Aug - 8.500%	112.50	112.25	0.22%	3.79%	3.90%	-12
2016, Jan - 8.500%	112.50	112.75	-0.22%	4.36%	4.30%	5
2016, May - 11.625%	122.50	122.50	0.00%	4.73%	4.76%	-3
2017, Mar - 9.000%	116.50	117.00	-0.43%	4.83%	4.73%	10
2018, Nov - 5.150%	100.75	100.00	0.75%	5.00%	5.15%	-14
2020, Mar - 6.375%	104.50	104.50	0.00%	5.62%	5.63%	0
2021, Apr - 8.250%	116.50	116.50	0.00%	5.77%	5.77%	0
2022, Oct - 6.100%	102.25	102.50	-0.24%	5.80%	5.77%	3
2024, Dec - 7.000%	107.00	106.50	0.47%	6.17%	6.23%	-6
2026, Nov - 6.600%	102.75	102.50	0.24%	6.30%	6.33%	-3

- Mid Prices ; BLOMINVEST bank

Weighted Effective Yield of Eurobonds



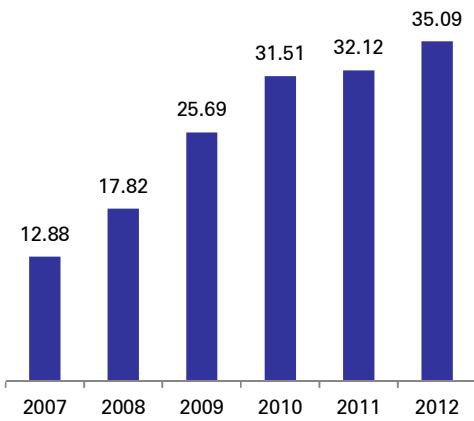
The Eurobond market continued to advance during the week ending October 5, 2012. Excluding Eurobonds that mature in 2013, prices picked up across the maturity curve driving the BLOM Bond Index (BBI) up by 0.23% to 109.39 points. The portfolio's average weighted yield narrowed 4 basis points (bps) to 5.02% after having dropped to 4.99% in mid-week trading, while the spread against the US benchmark yield fell to 443 bps. Investors in Lebanese debt instruments remained generally optimistic, following a successful local-currency denominated debt issuance in September, and ahead of an expected Eurobond issuance this month. In comparison, the JP Morgan emerging markets' bond index increased by 0.8% from last week.

Lebanon's credit default swap for 5 years (CDS) was last quoted between 432-468 bps, down from 447-477 bps last week. In regional economies, Dubai and Saudi Arabia 5-year CDS quotes ended the week at 284-294 bps and 85-95 bps respectively. In emerging Turkey and Brazil, 5-year CDS quotes closed at 151-154 bps and 112-114 bps, respectively.

ECONOMIC AND FINANCIAL NEWS

BdL Foreign Assets (Excluding Gold)

By September-End (\$B)



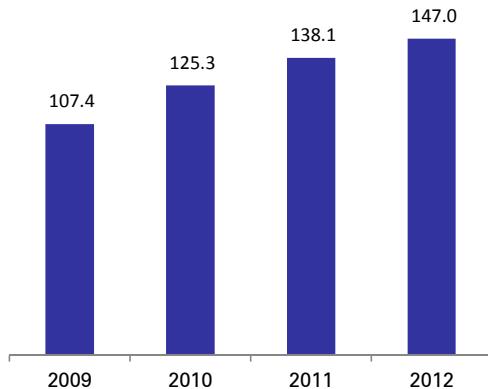
Source: BdL

BdL Assets Climb 9.34% Y-o-Y to \$77.4 Billion

Total assets at Lebanon's Central Bank (BdL) reached \$77.38 billion by end of September 2012, recording a 2.1% increase from the previous month and a 9.34% jump from September 2011, figures released by BdL showed this week. BdL's foreign assets (excluding gold) diminished by a monthly 0.5% to \$35.09 billion, while the value of gold reserves expanded 7.3% to \$16.42 billion, as the international price of gold closed at \$1771 per ounce by the end of September, compared to \$1690 per ounce a month earlier. BdL's Securities portfolio added \$407.3 million or 3.69% of its August value, reaching \$11.45 billion, as the Central bank continued, along with commercial banks, to purchase new debt issuances by the Lebanese government. On the liabilities' side, financial sector deposits slid by 0.6% m-o-m to \$53.5 billion, while public sector deposits increased by a monthly 2.3% to \$5.93 billion. Currency in circulation outside BdL slipped 1.9% to reach \$2.16 billion.

Commercial Banks' Assets

In August (\$B)



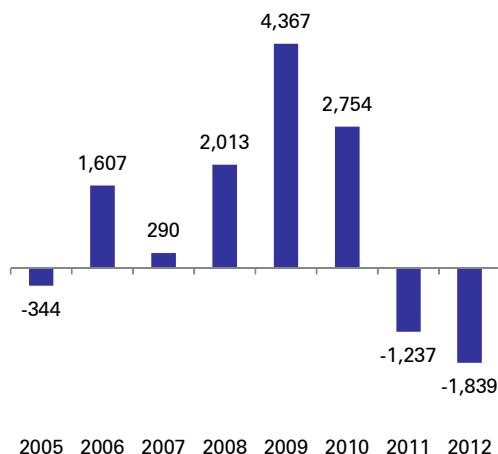
Source: BdL

Commercial Banks' Assets at \$147B in August

The consolidated balance sheets of commercial banks grew by 1% in August to reach \$147B, resulting in a 6.52% annual growth compared to a 10% realized in August 2011. Resident and non-resident private sector deposits expanded by an annual 7.27% to attain \$121B and by 4.71% since beginning of the year. Claims on resident and non-resident private sector followed a faster pace realizing a 5.96% up rise since beginning of year to reach \$41.7B. The dollarization rate of deposits stood at 65% compared to 67% in Aug 2011 while the dollarization rate of loans to private sector fell from 79% to 77% as regular incentives to lend in local the currency are put to place. Loans/deposits ratio ended August at 34.44% noting that its hike this year was in May at 35.23%. Claims on the public sector rose by an annual 8% to \$29.8B as both Treasury Bills rose by 9.8% to \$16.7B and Eurobonds by 5.8% to \$13B.

Balance of Payments

Up to August (\$M)



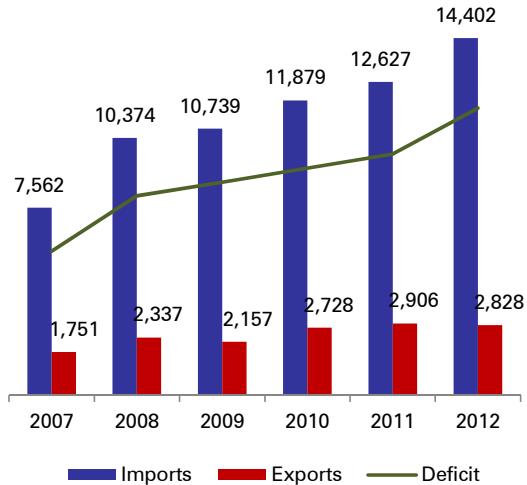
Source: BdL

Balance of Payments Deficit Reaches 1.84 Billion up to August 2012

Lebanon's Balance of Payments (BoP) recorded a deficit of \$1.84 billion during the first eight months of 2012, as flaring regional turmoil and domestic security incidents restricted capital inflows from covering the domestic trade deficit. Net foreign assets (NFA) of commercial banks dropped by \$2.87 billion whereas NFA of the Central Bank (BdL) increased by \$1.03 billion, according to data from BdL. Lebanon's trade deficit had widened by almost 20% to \$11.57 billion in the 12 months to August 2012, after an annual jump in oil prices and additional imports of fuel and diesel, boosted the value of Lebanon's mineral imports by 71% y-o-y. In contrast, customary trails for foreign capital, such as tourism, foreign direct and portfolio investments saw a substantial drop with worsening domestic security. In the month of August alone, the BoP saw a deficit of \$496.7 million, the second largest deficit this year after April. NFA of commercial banks dropped \$616.1 million whereas NFA of BdL rose \$119.4 million. The number of tourists in August plunged 26.7% from the previous month to 114,929 the lowest figure for this month since 2006; noting that Ramadan fell during the first part of the month. Non-residential financial sector deposits diminished 5% to \$5.66 billion.

Lebanon's Exports, Imports and Trade Deficit

Up to August (\$M)



Source: Customs Department

Lebanon's Trade Deficit Widens 19% up to August 2012; South Africa Becomes Lebanon's Main Export Destination

Lebanon's Trade Deficit widened 19% year-on-year to \$11.57 billion during the first eight months of 2012, as the value of imports jumped by 14% y-o-y to \$14.4 billion while exports slid by 2.35% y-o-y to \$2.83 billion, according to data released by the Customs Department. The value of Lebanese Imports continued to be boosted by the 71% annual spike in the value of mineral products to \$4.22 billion, after recording an increase in both, volume purchased and average price. The volume of imported mineral products increased by 32% y-o-y to 5.64 million tons in the first eight months of 2012, while international oil prices rose from \$88.8 per barrel to \$96.5 per barrel between August 2011 and August 2012. The value of imported food products climbed 5.45% y-o-y to \$2.19 billion, while their value expanded 7.25% y-o-y to 1.87 million tons. The value of pearls, precious stones and metals dropped 19.4% y-o-y to \$1.06 billion, falling behind imports of chemical products that remained stable at around \$1.19 billion. Imports of machinery and electrical equipment diminished 1.34% y-o-y to \$1.4 billion. The largest individual source for imported products in the first eight months of 2012 was the US, accounting for 14% of Lebanese imports. Italy, France and Germany followed with 8%, 7% and 6% respectively. With regards to Lebanon's exported products, pearls, precious stones and metals increased by 10% y-o-y to \$1.1 billion up to August 2012, accounting for almost 39% of total exports. Food products came in second increasing by 1.32% y-o-y to \$385 million, followed by exports of machinery and mechanical appliances with a total value of \$327 million. Base metals and articles of base metal came in third with \$280 million, and products of chemical and allied industries were fourth with \$225 million. South Africa became Lebanon's main export destination in August grasping 19% of the total value of shipped products, after taking \$529 million worth of pearls, precious stones and metal exports. Switzerland came in second place with 12% of total exports and was followed by Saudi Arabia and the UAE with 9% and 8% respectively.

Consumer Confidence Index

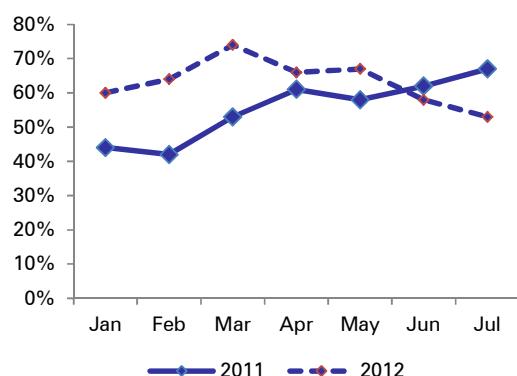


Source: ARA Research & Consultancy

Consumer Confidence Index Nudges Up in September 2012 despite Sustained Annual Decline

The Lebanese Consumer Confidence Index (CCI) published by ARA for Research and Consulting dropped 41% y-o-y to settle at 72 points in September. The indicator was mostly harmed by the severe deterioration of its Current Security sub index level which dropped by a yearly 70% as people were alarmed by neighboring turmoil as well as by repetitive internal security breaches. The 6-month forward looking sub-index was also down by 52%, thus negatively affecting the index. However, the CCI increased by 16% compared to August after active measures were taken by the state to control and follow up on the recent security skirmishes. The 3 current sub-indices of CCI showed improvement on a monthly basis where the Security index went up 65%, the Economic rose by 43% and the Personal Income index by 12.5%. The sub-indicators relating to Economic, and Personal Income remained low and almost unchanged whereas the durable goods consumption indicated a higher confidence by 47%.

Hotel Occupancy Rates



Source: E&Y, BLOMINVEST

Hotel Occupancy rate at 63% by end of July

Hotel occupancy rates recorded 63% for the first 7 months of 2012 compared to 56% last year, according to a study conducted by Ernest&Young. The best rate realized this year was during March at 74% but went down since and ended July at 53%, the lowest level this year. However in 2011, July had seen the best rate among the first 7 month being at 67%. In fact, and while standard touristic inflows to Lebanon have dropped by around 12% so far this year, Syrians citizens fleeing the crisis in their country made up the pseudo-increase in hotel activity. The study of E&Y indicated the Average rent per room to be at \$205 making the Lebanese Capital the 9th most expensive city in the Region compared to a regional average of \$180.8. As for Revenues per room, they witnessed an increase of 6.6% to reach \$130 during the first 7 months against \$122 last year, putting Lebanon at the 11th rank in the Region.

CORPORATE DEVELOPMENTS

Credit Libanais Net Profit Rose 5.3% y-o-y in H1 2012

Credit Libanais Financial Highlights (\$B)

	Jun-12	Dec-11	% Ch
Total Assets	7.5	7.2	4.17%
Net Loans	2.1	2	5.00%
Customer Deposits	6.5	6.3	3.17%
Net Income*	35.6	33.8**	5.33%

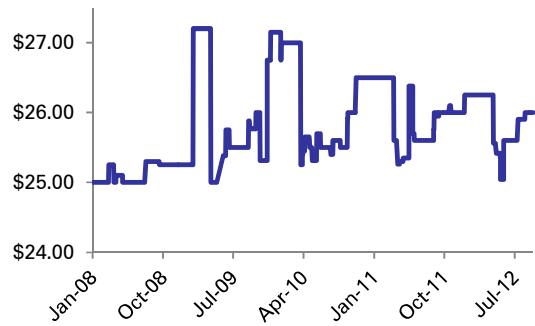
*: in millions of \$

**: up to June 2011

Source: Company Data

Credit Libanais declared a 5.3% increase in net profits for the first half of 2012 to reach \$35.6 million compared to \$33.8 million registered in H1 2011. Net interest income rose by 2% to \$63.3 million, while Net fees and commissions income increased from \$13.3 million to \$17.1 million. With respect to the bank's balance sheet, total assets rose 4.17% from year start to reach \$7.5 billion at the end of June 2012. Net loans and advances stood at \$2.1 billion in the first six months, 5% higher than the \$2 billion recorded in 2011. Customer deposits witnessed an increase of 3.2% to \$6.5 billion.

Performance of Bank of Beirut Preferred Shares Class D



Source: Beirut Stock Exchange

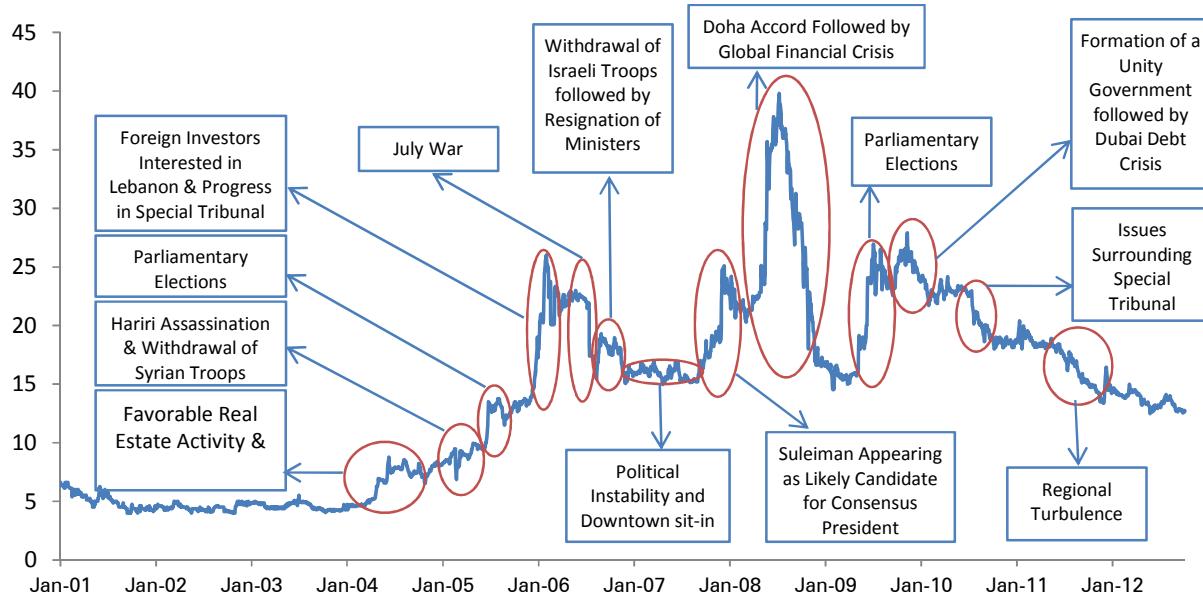
Bank of Beirut to Redeem Class D Preferred Share

The Board of Directors of Bank of Beirut decided to redeem and cancel the Class D Preferred shares, according to the provisions that govern these shares. The redemption date is set to be on December 28, 2012 and the last trading day in these shares in the Beirut stock Exchange will be December 21, 2012.

FOCUS IN BRIEF

A Decade of Lebanese History through the Eyes of Solidere's Stock

Solidere Share Price and Key Events



Source: Reuters, Blominvest Research Department

While it may be difficult to predict where a stock is heading next, a starting point may be to understand what has previously driven a stock or caused it to noticeably fluctuate. When looking at Solidere in retrospect during the past decade, we can see that most of the major movements have been caused by events that occurred on a national, regional and even a global level. Fundamentals of course remain absolutely necessary to determine the long-term trend of a stock, however understanding the short-term drivers can help an investor to be on the right side of the bet as events unfold.

What started off as a boring stock during the first three years transformed into an exciting opportunity that became a barometer for the Lebanese economy and its ability to withstand monumental challenges. The first sign of life appeared in mid-2004 as the dormant real estate sector in Lebanon began to shape up. On average, real estate prices increased by 23% in Beirut as a result of the government taking steps to encourage foreign investment through allowing non-Lebanese the acquisition of a greater percentage of land than previously permitted. Solidere shares surged by 75% from \$4.72 to \$8.25 during 2004, as Arab investors showed serious interest in participating in its projects.

The rallying stock was interrupted in February 2005 by the assassination of Prime Minister Rafik Hariri, leading to a halt in trading on the Beirut Stock Exchange for three days. The stock plummeted by 28% once the trade ban was canceled but quickly recovered as signs of unity across the entire country were beginning to form. This led to mass demonstrations in downtown Beirut demanding the withdrawal of

Syrian troops from Lebanon. Pressured by the Lebanese and the international community, the Syrian withdrawal was completed in April 2005.

In June 2005, Solidere's stock reached a new high of \$13.50, surging 40% in response to the parliamentary elections that were taking place with the March 14 coalition, headed by the late Prime Minister's son Mr. Saad Hariri, winning the majority. This was viewed as a new page in Lebanon's history as for the first time in thirty years, Lebanese would be able to shape their own future without direct interference from foreign powers. Arab investors as well as funds from Europe and the US took notice, and what followed was an unprecedented rally in Lebanese stocks towards the end of the year driven by Foreign Direct Investment flowing into Lebanese equities. Solidere's shares burst from \$14 to \$25 in a matter of 2 months between December 2005 and February 2006. A key driver to this surge was also news of the UN Security Council agreeing to assist Lebanon in the formation of a tribunal to investigate the assassinations that took place since 2004. However, this exceptional spike was short-lived as investors cashed their gains and turned their attention towards the booming Dubai real estate market.

Solidere's stock held steady around \$22 for a few months until the devastating July war with Israel took toll. It shed most of the gains it earned during the beginning of the year, falling by 27% from \$22 to \$16 but quickly surging back to \$19 on the withdrawal of Israeli troops. This recovery was again short-lived as political factions were disagreeing on the makeup of the government, with several ministers resigning and marking the start of a 10-month sit-in in downtown Beirut. Solidere's stock hovered around \$16 between December 2006 and September 2007 due to this political stalemate. However, following the end of President Emile Lahoud's term, search for a consensus president began surfacing as the central issue that may resolve the situation. Elections to fulfill this requirement were repeatedly postponed for a few months, however Solidere's stock rallied during this period as the light at the end of the tunnel became visible with General Michel Suleiman emerging as the likely candidate. When he was agreed upon in principle by the opposing parties, Solidere's stock soared from \$19 to \$25 between November 20 and December 10. However, elections continued to be postponed chipping away from these gains until the Doha Accord finally took place, through which General Michel Suleiman was elected as President on May 25, 2008.

During the weeks of May 2008 leading up to the Doha Accord, as hopes for agreement across the opposing parties began rising, so did Solidere's market valuation. Its share price repeatedly broke its all-time high rising aggressively by 56% from \$22.84 near the end of April to \$35.7 on May 22, 2008. The stock registered several double-digit daily gains and on May 22, soared by the maximum 15% that's allowable on the Beirut Stock Exchange before trading is halted. During the weeks that followed, the stock continued its rally as President Suleiman reappointed Mr. Fouad Siniora as Prime Minister and the National Unity Government was formed on July 11, 2008. Solidere's stock closed that day at its second all-time high of \$38.86, preceded only by the closing on July 7 of \$39.80, just a few days before Unity Government was formed.

After such a historic rise, Arab investors felt the stock may have over-reacted on the positive news and was due for a correction. Afterall, the company's market capitalization had almost doubled in a 4-month period between March 10 and July 11 in 2008. The stock price began its downward drift as Arab and International investors unloaded some of their positions, but the big shock came at the end of September when stock markets around the world began reacting to the US credit crisis. Solidere's stock sank by 20% during a week's period from \$28.73 on September 30 to \$23.27 on October 7. While Lebanon's local economy was immune to the crisis, investors became cautious closing their positions in order to compensate for losses made elsewhere in their portfolios. The loss in share value persisted well into November bringing the stock price back to pre-Doha levels.

What followed during the first half of 2009 was a period of calm characterized by a wait-and-see approach, as investors everywhere were avoiding equities. On the local front in Lebanon, this persisted until the parliamentary elections successfully concluded in June 09, 2009. Solidere's stock bounced back up even as the global markets were still near-bottom, surging by 50% between May 1 and June 10. During the 4 months that followed, challenges in forming a new government persisted reflecting poorly on the stock. Finally, on November 09, 2009, Mr. Saad Hariri, Lebanon's new Prime Minister, successfully formed a Unity Government which drove another rise in the stock. These gains were again short-lived due to external shocks. On November 25, news of Dubai's massive debt and its ability to repay what it owes captured everyone's attention. Investors became fearful of Arab stocks and retreated back to the safety of bonds. In Solidere's case, they were happy to do so as they reaped some of the impressive gains registered in November.

During 2010, share performance was relatively uneventful and disappointing, sliding from \$24 to \$18.5 over the year. Most of the loss was recorded during the summer as tensions over the Special Tribunal for Lebanon were in the spotlight. As for 2011 and 2012, share performance was again dictated by external events gradually declining from \$18.5 to \$12.75 over the 21-month period. A key driver has been the turmoil in Syria and fears of spilling over to Lebanese territories. This has prompted Arab investors to remain on the sidelines until the situation clears up, leaving a potential opportunity for those willing to step in early.

**Research Department:**

Maya Mantach

maya.mantach@blominvestbank.com

Malak Hawa

malak.hawa@blominvestbank.com

Walid Sayegh

walid.sayegh@blominvestbank.com

Issa Frangieh

issa.frangieh@blominvestbank.com

Gaelle Khoury

gaelle.khoury@blominvestbank.com

Marwan Mikhael

marwan.mikhael@blominvestbank.com



Your Investment Reference