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DW plan 'may bring in Dh17bn new investments'

Broker says sentiment towards UAE bourses is more positive.

By AFP (With additional inputs from Bloomberg)

Billion dirhams is the approximate cash dividends announced by listed companies on Dubai Financial Market and Abu Dhabi Exchange compared with total earnings in 2009 of around Dh33.6bn.

Stock markets in the UAE may receive around Dh17 billion in new investments in the next two months after a positive Dubai World (DW) restructuring plan, said Humam Al Shamaa, Financial Consultant at Al Fajr Securities.



"There is very positive psychological sentiment among investors who will be ready to inject more liquidity in the markets. Listed companies on both the Dubai Financial Market (DFM) and the Abu Dhabi Exchange (ADX) announced cash dividends of an approximate Dh10.9bn compared with total earnings in 2009 of around Dh33.6bn."

"We expect investors will re-inject these dividends into stock markets to increase their portfolios and this will support the uptrend in the markets in the long-term. We estimate that around Dh17bn will be injected into stock markets in the next two months, including dividends, local liquidity and increasing foreign investments," he said.

Al Shamaa explained that the Dubai World plan would lead to payments for banks and contractors and this would free huge liquidity in the real estate sector. "There is relief in the market and we expect new liquidity in the economy in general. There are also high expectations that the property market will be activated and economic activity will grow again. This is increasing expectations that local indices may gain around 20 per cent in the following few weeks."

In another report, Gulfmena Alternative Investments' CEO Haissam Arabi said Dubai stocks may climb 15 per cent in the next two months as government support for state-owned Dubai World boosts earnings in the world's cheapest major equity market.

Dubai said on March 25 it will provide as much as \$9.5 billion (Dh34.89bn) for Dubai World and that creditors of real estate unit Nakheel will get repaid in full if banks accept the restructuring proposal.

The plan will reduce losses at local banks that lent to Dubai World and increase payments to real estate and construction companies such as Emaar and Drake & Scull International, said Arabi. Overseas investors will boost holdings in the next six months after they left the market in 2008, according to Pictet Asset Management.

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"The general trend is upwards, extending all the way into April and May," Dubai-based Arabi said in an interview. "There's momentum building up. On a market level I would not be surprised to see a 10 per cent to 15 per cent rise."

Even after a 16 per cent rally this month in anticipation of government support for Dubai World, the DFM index traded at 6.5 times analysts' 2010 earnings projections, according to data compiled by Bloomberg. That's the lowest level among benchmark equity gauges in the world's 50 biggest markets and compares with an average of 9.8 since Bloomberg began tracking the data in February 2007.

The announcement is "more positive than what people dared hope for," said Oliver Bell, a senior investment manager in London at Pictet Asset Management, which oversees about \$113bn worldwide. Bell said he purchased UAE shares on March 25 for his Middle East and North Africa fund, which outperformed 97 per cent of peers this year. "Funds will now spend time reassessing them on a fundamental basis as opposed to a speculative basis," he said. "The market will be rocky, but I think from here it goes higher."

It is too early to judge whether international money managers will increase their holdings of Dubai stocks because of concern the emirate's real estate slump will curb economic growth, said Mohammed Hanif, Chief Investment Officer at London-based Insparo Asset Management. Dubai property prices have plunged by more than 50 per cent from their peak in 2008.

"The stock market is a function of future growth and profits, not this one particular event," said Hanif, who oversees about \$180 million in the Middle East and Africa at Insparo. "Until we start to see recovery in real estate, a lot of investors will be on hold."

The Dubai World restructuring plan will reduce banks' credit losses and increase their ability to make new loans, boosting profits, said Shuaa Securities' CEO Mohammed Ali Yasin in Abu Dhabi. "Banks are much happier than they were a couple of weeks ago."

Before the March 25 announcement, analysts forecast earnings growth of 16 per cent this year for the 32-company DFM index, Bloomberg data show. That's in line with the 15 per cent earnings growth forecast for the MSCI Frontier Markets Index which trades at 10.6 times earnings estimates, almost twice the level of the Dubai gauge. "Stocks are still trading at cheap valuations," said Ali Taqi, a portfolio manager at A/T Capital Management in Dubai. "It's a good bargain for long-term value-oriented investors."