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This move will make the PSE the first of its kind in the Arab World. The Dubai Exchange, for example, is listed but as a ‘public joint-stock company’, mostly owned by the government. Until now, although the PSE is a regulated market, there has been a potential conflict of interest with PADICO being a listed company and the majority shareholder of the exchange. ‘It is in the interest of PADICO and the PSE to go public for credibility, and to be an example of transparency, governance and corporate conduct’ Aweida explained. ‘The closer we can be to the standards set by the World Federation of Exchanges, the better. Our long-term strategic objective is to become a full WFE member’ he added.

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Industry: Arab Concrete Products (ACPC), Arab Company for Paint Products (APC), Palestine Poultry (AZIZA), Birzeit Pharmaceuticals (BPCI), Golden Wheat Mills (GMC), Jerusalem Cigarette (JCC), Jerusalem Pharmaceutical (JPH), Palestine Plastic Industrial (LABAEN), The National Carton Industry (NCI), The Vegetable Oil Industries (VOIC).

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Investment: Arab Investors (ARAB), Al-i-Timan for Investment & Development (IID), Jerusalem Real Estate Investment (JREI), Palestine Development & Investment (PADICO), Palestine Investment & Development (PID), Palestine Industrial Investment (PHC), The Palestine Real Estate Investment (PRICO), Union Construction and Investment (UCI).

About PSE

- The PSE, was established in 1996 as a private shareholding company to promote investment in the Palestinian Territory. The PSE has been trading since early 1997. In February 2010, the PSE began the process to become a listed public shareholding company.
- The headquarters are in Nablus, a city in the north of the West Bank. There is a representative office in Ramallah, in central West Bank.
- The PSE operates under the supervision of the Palestinian Capital Market Authority and in accordance with Securities Law No. (12) 2004 and its bylaws.
- There are no restrictions on foreign investment at the PSE, unless the by-laws of the listed companies themselves state otherwise.
- Dividends, capital gains and interest are all exempt from tax. All activities related to buying and selling securities are exempt from stamp duty.
- HSBC Middle East provides global custody services to interested foreign clients.
- Companies listed on the PSE are subjected to standardised information disclosure requirements, including quarterly financial reports.
- There are currently 28 listed companies on the PSE.
- Trading is from Sunday to Thursday with pre-opening from 09.45 – 10.00, opening at 10.00, trading from 10.00 – 12.00, pre-closing from 12.00 – 13.00 and closing at 13.00.
- For further information see: http://www.p-s-e.com/PSEWEBSite/english/Default.aspx

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In 2008, the Al Quds index dropped only 16%, which compares well to the 55% losses in the Morgan Stanley index of Arab markets, and 54% losses in the Morgan Stanley index of emerging markets. In 2009, despite ongoing political instability, the Al Quds Index increased 11.62%, to reach 493.00 points at the end of the year, compared to 441.86 points at the end of 2008. The Index peaked at 557.3 on 23 March 2009.

Foreign Investment

Foreign Direct Investment (FDI) into the Palestinian Territory fell from an average of $85m per year in the 1990s to $29m in 2008. While growth in the West Bank was over 7% last year, the IMF representative for the Palestinian Territory, Dussama Kanaan, told the Bulletin that the broader political situation and associated restrictions on the economy continue to deter investors. In addition, the Palestinian Territory suffers from an image problem. It gets more media coverage than anywhere else in the world, yet often the images are politically focused and negative, and do not represent the true picture for potential investors. The CEO of the PSE, Ahmad Aweidah, hopes to change this.

The PSE visit to London is one in a series of roadshows that aim to attract new investments into Palestinian listed companies and increase awareness of the market. The targets are institutional investors, the Palestinian Diaspora and foreign investors more generally.
The highest market capitalisation. Volume) occurs in the investment sector, while services has investment, industry and services. The heaviest trading (by volume) occurs in the investment sector, while services has investment, industry and services.

The best performing stocks in 2009 were: Palestine Poultry (90% increase), Palestine Industrial Investment (76%); Palestine Electric Company (53%); Arab Real Estate Establishment (50%); and Al Guds Bank (34%).

Key Ratios

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Ratio (%)</td>
<td>26.23</td>
<td>31.94</td>
<td>33.7</td>
</tr>
<tr>
<td>Price Earnings Ratio (x)</td>
<td>16.86</td>
<td>13.59</td>
<td>10.68</td>
</tr>
<tr>
<td>Earning Per Share ($)</td>
<td>0.19</td>
<td>0.19</td>
<td>0.2</td>
</tr>
<tr>
<td>Return On Market Capitalisation (%)</td>
<td>0.06</td>
<td>0.07</td>
<td>0.09</td>
</tr>
<tr>
<td>Return On Equity (%)</td>
<td>0.17</td>
<td>0.13</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Brokers

There are 10 approved brokers at the PSE: Jordan & Palestine Financial Investment Company, United Securities Company, Target Investment & Securities Company, Al-Watanieh Securities Company, Globalcom Financial Services Company, Saham Financial Trading & Investments Company, Lotus Financial Investments Company, Al-Wasata Securities Company, Navrast Financial Investments Company and the Arab Investment Group (which was approved in 2009). Three of these account for around 60% of all traded values in 2009. One brokerage firm alone traded $267.9m in 2009 (representing 28% of total value traded).

Company Listings

In 2009, two new companies were listed: Globalcom Telecommunications Company (October 2009) and the Palestine Islamic Bank (July 2009).

PaTel stock dominates the PSE with over 50% of the market value. PaTel Group is an integrated economic group consisting of the Palestine Telecommunications Company (PaTel), the Palestine Cellular Communications Co. (Jawwal), HADARA (a technology and internet company), HuH (a business solutions company) and PALMEDIA (a multi media service provider). PaTel recently also listed its stock on the Abu Dhabi Stock Exchange in an attempt to attract regional investors.

Disclosure

Disclosure at the PSE is 100%. All of the listed companies disclose the required information within the legal timeframe, including quarterly financial reports. This reflects coordinated efforts by the PSE and PCMA to enhance the disclosure procedures.

Encouraging Investment

In the last few years efforts have been made to promote the Palestinian Territory as an opportunity for investors. A number of investment conferences have been held, in Bethlehem, Nablus, Washington and London. There are plans for a follow up conference in Bethlehem in June this year to focus on small and medium sized enterprises.

There has also been a focus on further improving the regulatory and technical environment for investment. For example the Palestinian Monetary Authority has established a comprehensive credit registry for companies and plans to launch a credit scoring system in spring this year. The Capital Markets Authority has launched a New Code for Corporate Governance.

On the technical side, the PSE has adopted a number of new IT services, including an online system for the instant submission of securities trading (SMART), a new security system and a stock simulation system as part of the PSE’s Investment Education Programme. In 2009, the PSE began issuing investor numbers for shareholders. The PSE also became a partner of the Association of National Numbering Agencies (ANNA). This has enabled the PSE to qualify and issue unique International Securities Identification Numbers (ISIN) to each of the listed equities, thereby improving visibility and efficiency for international investors.

The PSE is also trying to modernise the structure for private sector companies, moving away from a family-owned model to more listed companies. They have shortlisted, and are working with, fifteen family owned companies that qualify as candidates for conversion into public shareholding companies and eventual listing.

Serious efforts are being made to attract investment from the Diaspora, particularly those in Jordan, Chile and the Gulf. The Diaspora is a primary actor to engage at this juncture of the economy and development cycle said Kanaan. In May 2009 the PSE organised a roadshow to Chile, the country with the largest Palestinian Diaspora community (500,000) outside of Jordan. Palestinians have been living in Chile since 1840 and make a significant contribution to Chile’s GDP through owning, for example, the major media groups and six of the eight Chilean banks.

Aweidah told the Bulletin that the roadshow was a tremendous success in terms of changing the communities’ perception about the Palestinian market. ‘They had no idea we had a stock exchange, banks, telephone companies, successful businesses’ he said. 15 Chileans of Palestinian origin subsequently visited the Palestinian Territory in December to follow-up. A mutual fund of $25m has been set up to invest specifically in Palestinian equity on the PSE and approved by the regulator. When it begins operating, any Chilean will be able to buy into the fund. Kanaan told the Bulletin that he is ‘very positive about the PSE’s efforts with the Chilean Diaspora and recent efforts to improve regulations to attract foreign investment.’

The Head of Public Relations and Investor Education at the PSE, Fida Musleh Azar; told the Bulletin that the London Roadshow on the 17-19 March 2009 will attempt to raise awareness about promising investment opportunities and success stories in the Palestinian Territory. ‘We are trying to meet the Palestinian Diaspora in London, but, it is not the same as in Chile, where 95% of investors were Palestinian. The focus in London will be on frontier market funds.’

One of the biggest foreign investors in the PSE is Blakeney Management, a London-based frontier fund, which has been investing since 2007. The PSE hopes to attract similar institutional investors in March, perhaps returning annually to the financial capital since it has the world’s largest concentration of investment funds with an interest in ‘emerging markets’. Aweidah believes there is now interest in the potential of ‘frontier markets’, which are still a few degrees below emerging.

‘There are companies within such markets that have adapted to adverse economic and political conditions and have sound fundamental operations. They are undervalued simply because they are where they are and present a good opportunity for investment growth in the future’ he explained.

The Portland Trust and the Palestine British Business Council are helping the PSE organise the London Roadshow. Further roadshows are planned, including one in New York, one in Jordan this summer and another in the UAE towards the end of the year.

Future Company Listings

In order to increase liquidity and the number of listings, the PSE are encouraging more and more public shareholding companies to list. Four or five new companies are expected to fully list this year. These include Wataniya and APIC (Arabic Palestine Investment Company) which owns Sky Advertising, Senora and UNIPAL among others.

The Palestine Investment Fund (PIF) is a publicly owned investment fund with $800m of assets under management. It is one of the leading long-term investors in the PSE. PIF owns 43% of Wataniya Mobile, the remaining 57% is owned by Qatari based Q-tel. PIF hopes Wataniya will go public before the end of the year, floating 30% on the PSE and offering a good opportunity for institutional investors as well as the general public. Wataniya has had a strong start since launching last
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The Economic Feature

This economic feature is prepared and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org.

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1 See: http://www.unctad.org/sections/ifo_dir/docs/ver09_fd_pse_en.pdf