TRENDS
The international magazine on Arab affairs

July 08 2015

GCC investors must follow Buffett and his mentor, Graham

In the wake of low oil prices, GCC investors can unlock value and reap dividends by taking a value-investing approach – the Graham-Buffett way, says a financial note.

The region offers a diversity of high-return opportunities across verticals in the non-oil sector, says an analysis note by Arthveda Capital.

Titled *Finding Value in the Gulf Cooperation Council (GCC) Region*, the analysis note prepared by the India-based global alternative investment major says that, given the scale and diversity of the region, there would always be businesses that create superior value if an investor utilizes the right tools.

The note further says that investors focused on the Middle East/GCC market had little to be cheerful about in the past six to eight months.

“The post-2009 recovery has been marred by a dramatic decline in oil prices – the steepest since 2008. The GCC equity market has also been sluggish, yielding a mere 1.6 per cent CAGR in the last ten years,” the note said, adding that the overall outlook for a GCC investor also remained

bleak as instruments such as fixed income funds were not lucrative in the prevailing low interest scenario.
“In addition, the offshore fixed income options such as sovereign bonds can either hold their capital at low yields of less than two per cent, or face risk of capital loss as US Fed rates increase,” the note said, emphasizing that the alternative to such a dull investment scenario is to focus on regional businesses that create value and not at the stock market.

GCC: A highly diversified market
Offering an analytic view to GCC investors on the returns potential from a Smart Alpha value-investing framework, the Arthveda Capital note said that, contrary to the popular belief, the GCC is a highly diversified market with robust non-oil sectors such as real estate, insurance, food production, construction, etc.

“The GCC region currently has a population of more than 49 million growing at a significant four percent annually, along with a combined GDP of $1.6 trillion, with growth rates ranging between four to eight percent. Given the scale and diversity of the region, there would always be businesses that create superior value,” the note said.

Applying the Smart Alpha framework based on the Graham-Buffett way to the S&P GCC Composite Index, the Arthveda Capital analysis note said that the oil and gas sector was in the lowest rung as a potential sector for investments.

The Graham-Buffett way of value investing is based on the principles enunciated by Warren Buffett and his mentor, Benjamin Graham. Under the value-investing framework, investments are done in value stocks that are not necessarily defined as those available at low price-earning ratio or low price-book ratio, but rather those available at a significant discount to their intrinsic value based on a discounted cash flow analysis.

Based on its analysis of the 312 companies in the S&P GCC Composite Index, Arthveda Capital said 85 companies matched the value-investing criteria. Assessment of these criteria is done on the basis of financial risk, business quality and cheap valuation.

Projecting a GCC Smart Alpha index allocation, the analysis note said that financial and industrial sectors led the potential for higher returns at 35 and 29 per cent respectively. Oil and gas surprisingly accounted for a mere one per cent within the value-investing analysis framework, while consumer services were at nine per cent, consumer goods at six, basic material at eight, telecommunications at seven, healthcare at three and utilities at two per cent.