

Opinion **Baghdad**

Iraqi stockpickers see a silver lining as public mood darkens

Despite challenges, fund managers eye potential for returns in the thinly traded exchange

CHLOE CORNISH

A policeman stands guard as Iraqis see in the new year in Baghdad © AFP

Chloe Cornish YESTERDAY

[Baghdad](#) saw in 2019 with sparkling fireworks and customary volleys of merry gunfire. The showers of bullets falling back to earth reportedly injured at least 10 — an inauspicious start to a new year in the war-scarred capital of nearly 10m people.

Jubilation has leaked away since Iraq's security forces [wrested control of its territory](#) back from the Sunni jihadist group Isis in 2017.

Elections last spring eventually brought a new [government](#) but that has since suffered political stalemate. Mass protests over infrastructure failures and corruption wracked the south in the summer. Guerrilla attacks by Isis continued in the north, where thousands remain homeless after the devastation of 2014. Some 6.7m people still need humanitarian assistance and swaths of cities are in ruins.

The public mood is darkening. In a [poll](#) conducted between August and October, 78 per cent of Iraqis surveyed said the country was going in the “wrong direction”.

For an alternative perspective on this dismal landscape, it helps to talk to people who have a fiduciary duty to look for bright spots. They are Iraqi stock pickers, a small cadre mostly managing family office money.

Years of losses playing the thinly traded Iraq stock exchange have forced many investors to throw in the towel. The Iraq stock index has lost nearly 50 per cent of its value since the end of 2015. Yet, with the dogged buoyancy of Charles Dickens's Mr Micawber, some are still scouring listed companies, with names like Iraqi for Tufted Carpets and Al Mosul for Funfairs, for opportunities. Iraqi-listed equities are high risk but cheap and, last year, at least two hopefuls got some proof that they're not crazy.

Take Ahmed Tabaqchali, a former London stockbroker and chief investment officer of Asia Frontier Capital's Iraq Fund. Despite Iraqi stocks nosediving during 2018, he eked out a 3.65 per cent return. It's the first year the fund has made money since it opened in 2015, with the

hope that after Isis invaded Mosul things could only get better.

Mr Tabaqchali lists the challenges, from dependence on oil exports to endemic corruption and high unemployment. Perhaps worse still for an investor, “Our system is a socialist communist system. It’s hostile to business generally.” But he believes the rising value of some blue-chip companies in which he invests signals nascent economic recovery.

“Things are definitely looking up for Iraq,” says Mr Tabaqchali with winning enthusiasm. “Equity markets are not about perfection.”

For example, [Asiacell](#), Iraq’s first nationwide telecoms provider, had a [good year](#) as displaced residents of Mosul, one of Asiacell’s biggest markets, reconnected to its network. Baghdad Soft Drinks, licensed to bottle and sell Pepsi products in Iraq, also saw [earnings rise](#) sharply and has invested in a new factory in Basra. Their market outperformance helped drive investor returns.

“You couldn’t be an investor in Iraq unless you’re fundamentally optimistic,” admits Grant Felgenhauer of Euphrates Advisors. He says his fund has some \$114m invested in Iraqi stocks, making them the biggest foreign whale on the tiny Baghdad stock exchange. Last year was their best since 2013, returning just under 12 per cent. Yet despite some strong earnings, the Iraqi stock index closed the year [down 15 per cent](#). “Volumes are low, the valuations are low,” Mr Felgenhauer says. “You’d think the state was on the brink of collapse. Whereas in my view, Iraq now has the best outlook in the post-Saddam era.”

Although political infighting has prevented consensus Prime Minister Adel Abdul Mahdi from finalising his cabinet, Mr Felgenhauer’s optimism stems from the appointment of technocrats to the key energy and oil ministries. “On every metric,” he says, “history tells us this is the moment the most money can be made.”

Is he right? The [International Monetary Fund predicts](#) Iraq will see 6.5 per cent gross domestic product growth in 2019, ahead of a regional average of 1.9 per cent. But fluctuating oil prices, which directly affect the state budget, could either support or hinder growth.

More importantly, deaths from violence are on a downward trend. In Baghdad, the anti-blast walls that jammed traffic are gradually coming down. The optimists could yet be vindicated.

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