Kuwait Investment Climate

Thursday, 01 April 2010 00:13

Kuwait Investment Climate, Bayan Investment Company, Chairman and Managing Director, Faisal Ali Al-Mutawa

We are living in a very difficult investment climate in Kuwait these days. Kuwait stock market is depressed and so are Kuwait investment companies stock prices. Over 90% of land in Kuwait is owned by Kuwait and this makes it difficult to start any projects because its too difficult to obtain and licensing is nearly impossible. With no real investment opportunities available in the private sector we hope with the new plan things will open up and Kuwait investment climate becomes better.

Interview with Faisal Ali Al-Mutawa, Chairman and Managing Director of Bayan Investment Company

---

New niche markets are expanding in areas such as government bonds in developing countries, emerging markets such as China, gold, and real estate in developed markets. Given all of this temptation what should a smart investor do about new niche markets that are growing very quickly?

That is the million dollar question!! There are always productive and good investment opportunities that can be looked in to. But markets mostly overshoot on both sides: when they go up and when they go down. Markets work with greed and fear. We are greedy by nature when markets go up and become fearful when markets go down and that is why you see the big and sharp movements in stock markets. Sometimes markets go up and down without proper justifications. Throughout history it is mentioned that there have always been seven good years followed by seven bad years, thus, it is cyclical. The wise investor is the one who isn't overwhelmed by the quick movements of ups and downs. Following the crowd is not always correct when making investments. It is not easy not to follow this direction or the other when you see people making lots of money, it is natural that people want to make more money and do the same thing. But later on you can find that all of a sudden the crowd has changed direction and the opportunity has gone. Because of these types of decisions 98% of people aren't rich, if it was easy, most people would have been rich long time ago. There is no clear trend that tells you how to make the right decisions, it is a combination of many things together. Some people may call it luck, others may call it intelligence, perhaps it can be called coincidence but I think it's a combination of all these things together. Bubbles in markets are always there and eventually they will burst. One of the reasons of this crisis is bubble bursting.

Personally, where would you invest, where do you see the future?

I really do not know. I know that there are opportunities; because to live we have to spend and to spend we have to buy and to buy there is somebody who sells and makes money. This is a chain reaction. Crises create opportunities, but the problem with this particular one is the scarcity of financing. It's very difficult to get any new financing for a new project at the moment. There hasn't been any incentive funds to revitalize our economy in Kuwait and the five year plan that has just been approved by the government and parliament will take quite some time to have an effect on the economy, that is, if it is implemented at all in timely manner as planned.

You mentioned that "there are so many opportunities here in Kuwait but only if the government takes the cap off and lets us compete." In your opinion what measures need to be taken by the government to facilitate your operations and when do you see this happening?

The problem here in Kuwait is that the government owns most of the assets and services in our local economy. There are some sectors that I cannot understand why the government is still running and I think that these sectors need to be privatized immediately. Through privatization you will create a lot of opportunities for the private sector to invest in the domestic market. To do this, however, you need the banking system to be able to finance these projects, but the banks are injured because of their toxic assets. You cannot get any payment from the government unless you get a bank guaranty and the banks are hesitant to provide it. So the system is jammed and the economic plan will not run smoothly. Interest rates are high in Kuwait and should be definitely reduced and this would help financing. In this business there is nothing without risk, and calculated risks should not be rejected outright. I am an optimist and I hope things will change, as we are a boutique country which is very rich. If it is well managed then things will turn around very quickly in Kuwait and we will be very prosperous with a vibrant economy and a strong private sector.

How would you characterize Bayan Investment's investment strategy and how does it differ compared to your competition?

We are living in a very difficult investment environment in Kuwait these days. The stock market has lost 50% of its value or equivalent of KD 30 Billion since the financial crisis started. Over 90% of land is owned by the government and this makes it difficult to start any project because it's too difficult to obtain land, and if you get the land, getting the permit to build a project on it is extremely difficult. With no real investment opportunities available in the private sector we hope with the new plan things will open up. I won't believe this plan until I see it done, but I hope it will really be implemented, at least a good part of it. When we see an opportunity that we are attracted to, of course we will try to get involved in it, but like I said Kuwait and the GCC environments are very difficult to invest in at this time.

How would you define your biggest challenge?

The biggest challenges are investment opportunities and finding the financing for these opportunities. The opportunities challenge is not in our hands to fix because we need the government to open up its policies in Kuwait. Although Kuwait is financially very strong and has a lot of liquidity we have not made the right decisions yet but I hope things will get better soon.

How will you try to resolve these challenges?

We are always talking to the banks but first we need the right opportunity to arise. If the opportunity isn't there, it isn't good to talk to the banks. When assets continue to decline banks become hesitant to finance again due to reduced collateral value, as it is no longer enough to cover the liabilities. I don't really blame the banks because they are in business for profit. The government should purchase these toxic assets through what is called the "repo system" so the banks can improve and extend their financing and then the wheel will turn again. So the banks can repurchase their assets back from the government and probably at a profit. The best example is Kuwait government's purchase of city bank shares where they sold it back with huge profit.

What would be the ideal opportunity?

When the privatization law is approved the government run services and some of their assets should go to the private sector. When we are asked to bid and come up with ideas, this will be a great sign to begin. Another sign is an amended Build Operate and Transfer (B.O.T) law, because the present law doesn't meet the private sector's requirements to bid. If the law changes and become friendly to private sector there will be many opportunities to consider.

What are you working at the moment?

We haven't started anything new. We are trying to supervise what we have now and tackle those problems that exist there so we can survive and rise again. We still have financing challenges on our existing projects and we are still paying loan on maturity. Investment companies are shrinking in size because they still have things to pay off while they are not generating any new income.

Why do you think the government is holding back on all of these initiatives?

I think it is a matter of bad management. They have handled our economy very poorly and this is why we are still in a mess and lagging behind a lot.

In the countries you develop in can you seek financing?

Yes, and we are doing that in Bahrain. Also we are trying to do this in Abu Dhabi as well but the financing is taking much longer than we expected. In other countries you cannot list yourselves on the stock market until you have started operations and we have not been able to do this yet.

How do you address corporate social responsibility with the investments you make and internally?

We are very aware of our social responsibility and have always tried to help those in need whenever we could. We have participated in many projects; also we have helped the American St. Jude's hospital in Lebanon, and worked with American University of Kuwait and Kuwait University, among other things.

What is the message you would like to get across about Bayan Investment Company and Kuwait?

Modern free governments give their economies the utmost priority but unfortunately the Kuwaiti government has not made the economy a priority. With proper planning alongside courageous decisions we can turn Kuwait into a very prosperous country. If the country opens up, Bayan Investment Company will have a lot of opportunities to prosper with the country as well. We cannot prosper while other suffer but I am hopeful sooner or later (but hopefully sooner) the country will open up.

< Prev Next >

[Back]

Related articles:

- Kuwait Asset Management(2010-03-31)
- Islamic Fund in India, Kuwait Investments(2010-03-26)
- Kuwait Islamic Investment Banking, Muthanna Investment Company(2010-03-24)
- Kuwait Investment Partner(2010-03-24)
- Kuwait Investment, Global Investment House(2010-02-10)

Add comment

Name (required)