Vijay Harpalani, assistant fund manager at Al Mal Capital, says he has been fortunate to have experienced both bull market and bear market cycles in a short period of time. Lee Hoagland / The National

Trader profile: GCC governments unlikely to scale back spending

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November 23, 2014 *Updated: November 23, 2014 07:35 PM*

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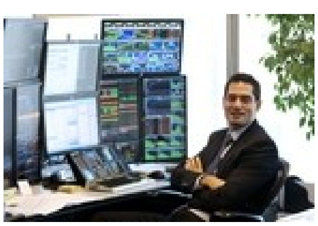

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Vijay Harpalani, assistant fund manager at Al Mal Capital, says Mena countries are unique and each requires a different investment approach.

What is the asset class and geography you are focused on?

We are a Mena-focused asset manager and I am involved in managing long-only equity funds and fixed-income mandates. I started my career in 2006 during the bull market phase, and I have been fortunate to have experienced both bull market and bear market cycles in a short period of time. Although Mena appears to be one region, each geography requires a different investment approach. My investment process is based on a combination of top-down and bottom-up approach.

What is the outlook for the medium term in your opinion?

The global macroeconomic picture does not make a very exciting read, with too many unknowns. The US Fed has discontinued pumping liquidity into the system. The possibility of the euro zone going into deflation is a head

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major concern as the ECB does not have the flexibility to make prompt decisions and has limited options at its disposal. GDP growth in China is likely to be lower than what it was in the past decade. As for the Mena region, the sharp decline in crude oil prices has built a consensus that it is likely to impact growth. I would like to differ here. If we look at the GCC, countries such as Saudi Arabia, Kuwait, the UAE and Qatar have built huge sovereign reserves over the past several years because of high oil prices. So I believe that governments in the GCC may not curtail their spending in the near future in response to low oil prices, as much of that spending relates to building infrastructure and creation of employment opportunities which is critical for non-oil economic growth. In the medium term I expect volatility to continue in the regional markets. Economic growth momentum, specifically in the UAE and Qatar, is likely to be sustained. In Saudi Arabia, the recent stock market correction provides an opportunity to accumulate fundamentally strong companies at reasonable valuations.

What are the main risks (either upside or downside) to the outlook?

Key downside risks are increases in interest rates earlier than anticipated; prolonged deflation in the euro zone; substantial fall in oil prices below budget break-even price of most GCC countries and worsening of regional geopolitical situation.

What is the best investment at the moment in your opinion?

I am positive on the healthcare and consumption sectors in the region. Companies operating in these sectors offer good opportunities in the long term. Companies with an excellent management team, scalable business model, strong free cash flow-generating capability and conservative capital structure within these sectors should do relatively well.

What was the best investment you were ever involved in?

My best investment decisions came from the consumer and healthcare sectors in Saudi Arabia last year. The country was going through a tough transition phase because of implementation of the Nitaqat programme to provide employment and improve living standards of Saudi nationals, which also meant increasing their disposable incomes. Using the top-down approach we focused on demographic themes such as consumption and health care. Within these sectors, my best picks were Al Othaim and Dallah Healthcare, which generated returns of over 75 per cent and 55 per cent, respectively, in less than a year. Al Othaim was a play on Saudi Arabia's underpenetrated grocery sector that was available at attractive valuations and had a scalable business model. Dallah was a private healthcare provider with aggressive expansion plans and a very clear strategy.

What was the worst?

In the later part of this year I moved out of consumer and healthcare sectors as I was not comfortable with extremely demanding valuations. There was more money to be made in these sectors and I missed out by exiting early.

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