



Your Investment Reference

# THE LEBANON BRIEF

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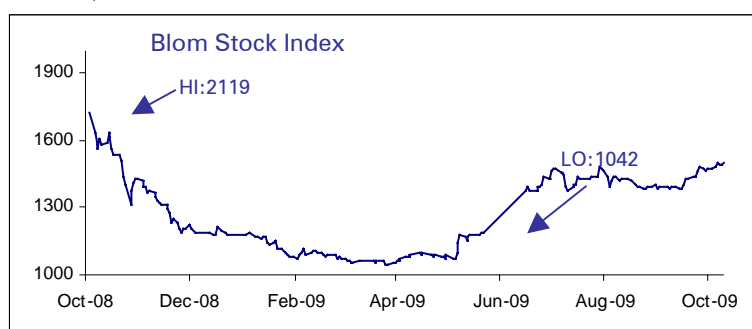
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# FINANCIAL MARKETS

## Equity Market Stock Market

	09/10/2009	02/10/2009	% Change
BLOM Stock Index*	1503.15	1477.05	1.77%
Weekly Traded Volume	922,034	964,416	-4.39%
Weekly Traded Value	19,113,931	20,577,032	-7.11%

\*22 January 1996 = 1000



## Banking Sector

	Mkt	09/10/09	02/10/09	% Change
BLOM (GDR)	BSE	\$83.05	\$84.25	-1.42%
BLOM Listed	BSE	\$82.00	\$81.00	1.23%
BLOM (GDR)	LSE	\$85.00	\$84.00	1.19%
Audi (GDR)	BSE	\$73.40	\$71.55	2.59%
Audi Listed	BSE	\$64.80	\$62.00	4.52%
Audi (GDR)	LSE	\$75.10	\$72.90	3.02%
Byblos (C)	BSE	\$1.90	\$1.90	0.00%
Byblos Priority	BSE	\$1.90	\$1.86	2.15%
Byblos (GDR)	LSE	\$90.00	\$90.00	0.00%
Bank of Beirut (C)	BSE	\$18.30	\$18.50	-1.08%
BLC (C)	BSE	\$1.60	\$1.60	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$4.55	\$4.25	7.06%

	Mkt	09/10/09	02/10/09	% Change
Banks' Preferred Shares Index *		102.15	102.06	0.09%
BLOM Preferred 2004	BSE	\$101.00	\$101.00	0.00%
BLOM Preferred 2005	BSE	\$101.50	\$101.50	0.00%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$100.60	\$100.40	0.20%
Byblos Preferred 08	BSE	\$98.00	\$98.00	0.00%
Bank of Beirut Pref. C	BSE	\$25.96	\$25.84	0.46%
Bank of Beirut Pref. D	BSE	\$25.77	\$25.77	0.00%

\* 25 August 2006 = 100

Lebanon's BLOM stock index rallied 1.77% this week towards its highest level in almost a year to close at 1503.147 points. Moreover, the Beirut stock exchange (BSE) regained its normal activity with the turnover ratio rebounding to 9.4% from last week's 4%, due to the better political climate prevailing locally and in the region. In details, 3 stocks rose from each one that fell on the BSE in sessions where real estate stocks took 84% of the total value of Lebanese stocks traded in both the Lebanese and UK markets.

Lebanon's real estate Giant, with a 41% stake of the Beirut stock exchange's total market capitalization, were the driving force behind the rally. Both Solidere stocks beat the BSI performance with the A class surging 2.78% to \$25.9 and the B class climbing 2.88% to \$25.7. As for Solidere GDR in London, it rose 4.8%, outperforming its Lebanese counterpart at \$26.2.

Moreover, financial stocks followed suit with the BLOM Lebanese banking index adding 0.11% this week to 3,155 points, yet under-performing both BLOM MENA Banking index and the S&P Global Financials that went up a respective 0.18% and 4.50%.

In details, Audi bank's stocks took 71% of the total banking shares' trading value this week with Audi listed bouncing 4.52% to \$64.8 whereas Audi GDR gained 2.51% to \$73.4. Worth noting that the stock price fell during the week after FFA private bank initiated coverage of Audi Saradar Group with a "hold" recommendation at a value of \$73.9. BLOM bank shares on the other hand, recorded a mixed performance as its listed shares rose 1.23% to \$82 at a time when the GDR price lost 1.48% to \$83.1 on a very low volume. In international markets, both Audi and BLOM GDR advanced a respective 3% and 1.19% to close higher than their prices in Lebanon at \$75.1 and \$85. Moving to Lebanon's third biggest lender, Byblos, both its priority and common shares closed at \$1.90 with the former inching 2.15% higher while the latter adding 1.06%.

## Real Estate

	Mkt	09/10/09	02/10/09	% Change
Solidere (A)	BSE	\$25.90	\$25.20	2.78%
Solidere (B)	BSE	\$25.72	\$24.97	3.00%
Solidere (GDR)	LSE	\$26.20	\$24.99	4.84%

In the manufacturing sector, Holcim shares dropped 11% to \$14.25 on a corrective move to its last week's upward trend.

## Manufacturing Sector

	Mkt	09/10/09	02/10/09	% Change
HOLCIM Liban	BSE	\$14.25	\$16.00	-10.94%
Ciments Blancs (B)	BSE	\$2.10	\$2.10	0.00%
Ciments Blancs (N)	BSE	\$1.90	\$1.90	0.00%

Looking forward, activity on the Beirut stock exchange is likely to receive a fresh dose of confidence after successful meetings between the Syrian president and the Saudi King that is likely to be positively reflected on the local political scene.

## Funds

	Mkt	09/10/09	02/10/09	% Change
Beirut Preferred Fund	BSE	\$105.30	\$105.30	0.00%
BLOM Cedars Balanced Fund Tranche "A"	-----	6191.82	6159.1	0.53%
BLOM Cedars Balanced Fund Tranche "B"	-----	5672.23	5642.26	0.53%

## Retail Sector

	Mkt	09/10/09	02/10/09	% Change
RYMCO	BSE	\$3.15	\$3.15	0.00%
ABC (New)	OTC	\$19.00	\$19.00	0.00%

## Tourism Sector

	Mkt	09/10/09	02/10/09	% Change
Casino Du Liban	OTC	\$395.00	\$395.00	0.00%
SGHL	OTC	\$6.00	\$6.00	0.00%

## Foreign Exchange Market

### Lebanese Forex Market

	09/10/09	02/10/09	%Change
Dollar / LP	1507.5	1507.5	0.00%
Euro / LP	2219.79	2193.56	1.20%
Swiss Franc / LP	1461.89	1450.36	0.79%
Yen / LP	16.9	16.87	0.18%
Sterling / LP	2405.52	2397.53	0.33%

\*Close of GMT 09:00+2

### International Forex Market

	09/10/09	02/10/09	% Change
Euro / Dollar	1.4725	1.4551	1.20%
Sterling / Dollar	1.5957	1.5904	0.33%
Dollar / Swiss Franc	1.0312	1.0394	-0.79%
Dollar / Yen	89.2012	89.3598	-0.18%
NEER Index**	91.49	92	-0.55%

\*\*Nominal Effective Exchange Rate; Base Year Jan 2006=100

\*\*The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

In the local exchange market, the US dollar remained oversupplied as the almost double yielding (3.5% vs. 7%) Lebanese Pound deposits continued to attract funds. The local exchange rate between banks has for some time now stabilized at the \$/LP1500.25-\$/LP1501.75 level with a mid price of \$/LP1501. Banque du Liban (BdL) maintained its intervention by purchasing the excess of the US currency from the market, thereby filling its foreign reserve coffers. By the end of September, BdL's foreign assets had reached \$25.68B.

Within international exchange markets, the single currency headed for its 14 month high against the US dollar as central banks across both continents maintained their benchmark rates with the Euro zone area ahead of the US by an average of 80 basis points. All things equal, the Euro attracted more depositors and hence appreciated against the greenback in the midst of a global rally in capital markets. Consequently, the US currency retreated and ended the week at \$/€1.47, down by 1.20% from last week's \$/€1.45. The dollar-pegged Lebanese Pound followed suit and depreciated to LP/€2,219 from LP/€2,193 reached the previous week.

The Nominal Effective Exchange Rate (NEER) reflected the dollar's losses, edging down by 0.55% to 91.49 from last week's 92. Furthermore, its year to date performance deteriorated to -2.60%, from last week's -2.05%. This reveals that imported products are still relatively more expensive than last year.

## Money & Treasury Bills Markets

### Money Market Rates

	09/10/09	02/10/09	Change bps
Overnight Interbank	3.25%	3.25%	0
BDL 45-day CD	4.40%	4.40%	0
BDL 60-day CD	4.89%	4.89%	0

### Treasury Yields

	09/10/09	02/10/09	Change bps
3-M TB yield	4.83%	4.87%	-4
6-M TB yield	6.12%	6.16%	-4
12-M TB yield	6.34%	6.34%	0
24-M TB coupon	6.98%	6.98%	0
36-M TB coupon	7.64%	7.64%	0
60-M TB coupon	8.20%	8.28%	-8

The Lebanese money market remained liquid and stable this week, preserving the overnight interbank rate at its level of 3.25%. Nevertheless, broad money aggregate M3 witnessed its first weekly decline for the first time since the end of January 2009. It lost LP99B (\$65.7M) to settle at LP1118,315B (\$78.48B) by the week ending September 24, 2009. Nevertheless, its year to date performance is still at 14% whereas its yearly gain is 18.23%. The weekly drop came as a result of a \$148M decline in deposits denominated in foreign currencies that offset the \$105M growth in LP deposits.

The October 1st Treasury Securities auction resulted in a surplus of LP269B (\$179M), as the Lebanese central bank issued LP297B (\$197M) worth of TBs whereas only LP23B (\$15M) matured. In details, the auction was held across 3M, 6M and 60M TBs where subscriptions amounted to LP292B (\$194M), with a bid to cover ratio of 98%. Active TB subscribers such as commercial banks, the BdL and public entities diversified their portfolios by weighing the most on short term 6M papers that grabbed a 44% stake while the rest were divided between 3M T-Bills and 60M T-Bonds. As yields are continuously falling since November 2008, the portfolio's weighted return lost a weekly 97bps to 6.48% weighed by lower yielding short-term maturities of TBs.

## Eurobond Market

## Eurobonds Index and Yield

	09/10/09	02/10/09	Change	Year to Date
BLOM Bond Index (BBI)*	108.03	107.464	0.53%	14.06%
Weighted Yield**	5.83%	5.98%	-15	-365.3
Weighted Spread***	400	418	-18	-425

\*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

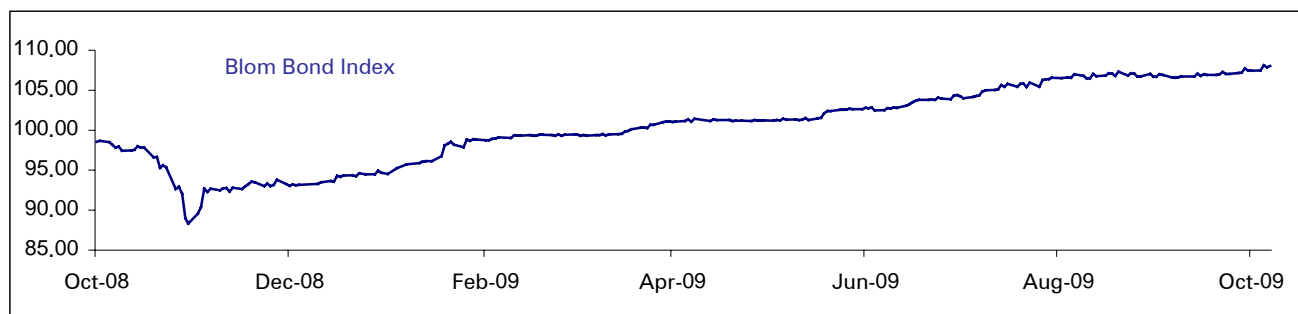
\*\* The change is in basis points

\*\*\*Against US Treasuries (in basis points)

## Lebanese Government Eurobonds

Maturity - Coupon	09/10/09 Price*	02/10/09 Price*	Weekly Change%	09/10/09 Yield	02/10/09 Yield	Weekly Change bps
2009, Dec - 7.000%	100.88	100.88	0.00%	1.74%	2.27%	-53
2010, Mar - 7.125%	101.75	101.75	0.00%	2.59%	2.80%	-21
2011, May - 7.875%	105.75	105.75	0.00%	4.12%	4.16%	-4
2011, Aug - 7.500%	105.88	105.88	0.00%	4.08%	4.11%	-3
2012, Mar - 7.500%	106.00	106.00	0.00%	4.85%	4.87%	-2
2012, Sep - 7.750%	106.88	106.88	0.00%	5.16%	5.18%	-2
2013, Mar - 9.125%	111.13	111.13	0.00%	5.50%	5.52%	-2
2013, Jun - 8.625%	109.88	109.88	0.00%	5.62%	5.63%	-1
2014, Apr - 7.375%	104.63	104.63	0.00%	6.18%	6.19%	-1
2014, May - 9.000%	111.00	111.00	0.00%	6.19%	6.20%	-1
2015, Aug - 8.500%	108.25	113.63	-4.73%	6.76%	6.99%	-23
2016, Jan - 8.500%	108.50	108.13	0.34%	6.81%	6.88%	-7
2016, May - 11.625%	123.75	123.38	0.30%	7.05%	7.12%	-7
2017, Mar - 9.000%	112.25	111.75	0.45%	6.87%	6.95%	-8
2021, Apr - 8.250%	107.00	106.75	0.23%	7.34%	7.37%	-3

- Mid Prices provided by BLOMINVEST bank

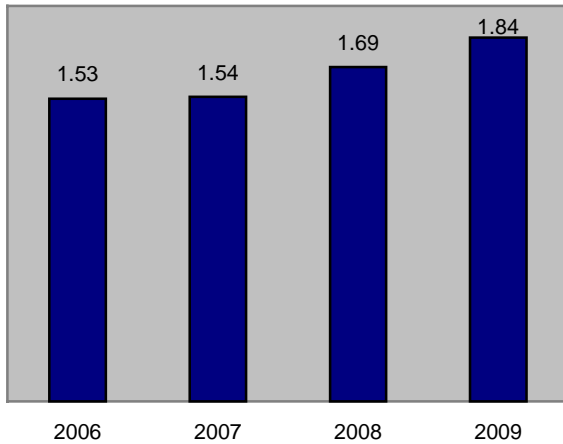


Given their relative high returns, Lebanese eurobonds are still attracting local as well as international investors. Hence, the BLOM bond index (BBI) advanced towards its highest level since the end of June 2003 to 108.105 points on Wednesday before ending the week at 108.03 points. On a weekly basis, the Lebanese eurobonds' benchmark inched 0.53% higher, but still under-performing the JP Morgan emerging bond index that gained 1.87% to 467.52. As for the spread between the Lebanese and the US benchmarks, it narrowed by 18bps to 400bps with the US yield curve shifting up on one hand while the Lebanese weighted effective yield dropping on the other.

After dropping below the 300bps support level last week, Lebanon's credit default swaps for 5 years surpassed the new resistance limit during this week's sessions before scaling back to close at 273-297bps. Given Lebanon's current risk profile, its CDS fares in line with Arab states like Dubai at 290-305bps, but lower than Bahrain at 133-166bps. Moving to regional emerging markets, Turkey's risk premium eased to 176-180bps, whereas Brazil's default cost fell to 115-116bps. As for developed economies, credit default swaps (CDS) for 5 years hit their deteriorating peak by February, 2009 with the UK at 175bps, US at 100bps, Germany at 92bps and Japan at 120bps. Since then, their respective CDS fell to 42-48bps, 18-24bps, 17-22bps and 41-55 bps.

## ECONOMIC STATISTICS & INDICATORS

### Lebanon's Fiscal Deficit up to August (\$B)

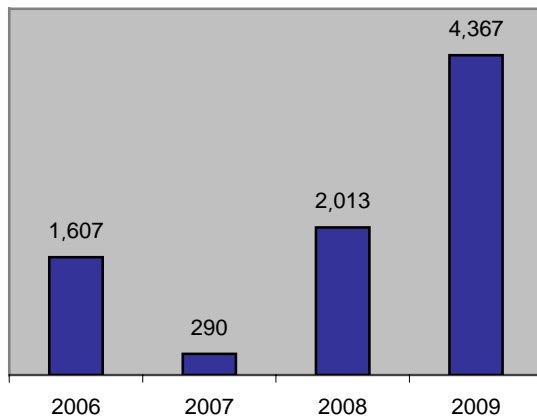


Source: Ministry of Finance

### Lebanon's Fiscal Deficit at \$1.84B up to August 2009

Lebanon's fiscal deficit widened by 8.88% during the first eight months of 2009 to reach LP 2.77 trillion (\$1.84B) compared to the same period a year earlier, according to the ministry of Finance. However, the deficit grew at a slower pace than the 2008/2007 same period of 9.7%. This came as revenues surged by 26.5% to LP 8.57 trillion (\$5.68B), with both Tax and non Tax revenues rising 30% higher. At the same time, expenditures gained 22% to LP 11.35 trillion (\$7.53B). Moreover, the increase in the fiscal deficit is mainly due to a rise in both debt servicing and EDL transfers since the primary balance recorded a surplus of \$647M this year against \$563M registered a year earlier. In details, the government spent 421 billion pounds (\$280M) more in the first eight months of 2009 on interest payments as compared with the same period last year. As for Electricite du Liban (EdL) subsidies, they are still draining on the Treasuries' resources and remain a major structural problem to be tackled by the incumbent government as they surged 11.5% to LP1.7 trillion (\$1.14B) compared to the same time scale in 2008.

### Balance of Payments up to August (\$M)

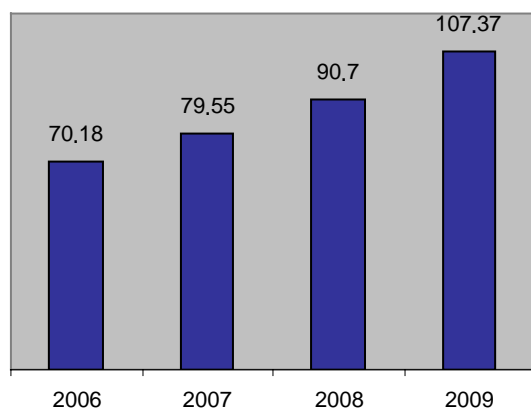


Source: BdL

### BoP Surplus at \$4,367M up to August 2009

Lebanon's Balance of Payment (BoP) hit a surplus of \$4.4B in the first eight months of 2009, an all time high level since 1990, with a year on year rise of 26.2%. On a monthly basis, the BoP recorded a surplus of \$1,019M for the fifth consecutive month in August compared to a surplus of \$402M in the same month last year. The surplus was boosted by the tourist season that reached its peak in August, leading to a positive change in both BdL and commercial banks' net foreign assets. Although the former achieved a positive balance, it dropped by around 26% to \$784M from last August as BdL's foreign currency assets grew at a slower pace of 3.6% between July and August 2009 compared to an increase of 6.7% a year earlier. As for the latter, it recorded its third positive balance this year in August with a surplus of \$235M compared to a \$655.8M deficit a year ago.

### Commercial Banks Total Assets in August (\$B)



Source: BdL

### Commercial Banks' Profits at \$747M up to August 2009

The consolidated profits of commercial banks in Lebanon dropped by 7.72%, or by an amount of \$62M, to \$747M in the first eight months of 2009, compared to the same period in 2008, as banks maintained a high level of liquidity during the global credit crisis. On the other hand, the banking sector in Lebanon continued to show solid balance sheets as commercial banks' combined assets registered a monthly increase of \$2B in August to reach \$107.37B, adding 18.4% from a year earlier. In details, on a monthly basis, total loans provided to the private sector inched 0.5% up to \$27.1B of which 85% were denominated in foreign currencies. Furthermore, commercial banks continued to finance the public sector's debt by increasing their stake in government debt. Hence, total claims on the public sector grew by 2% in August from the previous month to \$26.8B extending their year on year rise to 10.6%. With respect to private sector deposits at commercial banks, they increased 1.84% from July this year and 19% from August 2008 to \$89.3B. Non resident private sector deposits increased by around 4% from July to \$14.85B as expatriates and foreign investors consider Lebanese banks safe for their capitals. Moreover, the dollarization rate of deposits fell to 66% in August, its lowest level since 2000, from 72.9% a year ago because depositors continued to switch their savings to the local currency on higher yields.

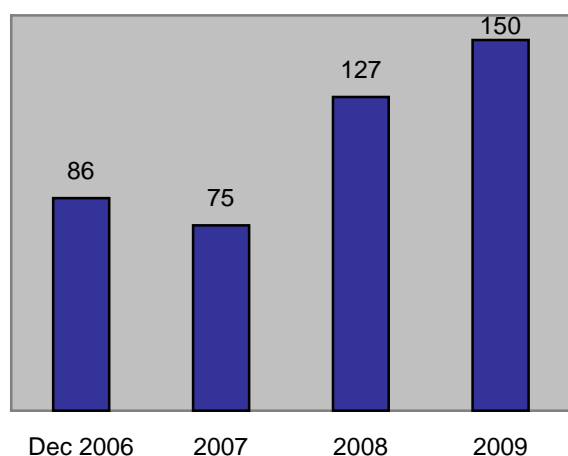
## ECONOMIC AND FINANCIAL NEWS

### Aid Contribution up to September 2009

Contributors	(\$M)	Contributors	(\$M)
EIB	217.1	Oman	7
Italy	29.94	China	1.2
European Commission	65.49	IFAD	0.2
World Bank	74	AMF	64
Kuwait	6.35	KSA	75
Greece	4.25	Germany	15.9
AFESD	20.3	Islamic Dev.Bank	15.5
USAID	101.2	EU	2.84

Source: Ministry of Finance

### Consumer Confidence Index in September



Source: Araa' Research & Consultancy Company

### Total Aid to Lebanon Beyond \$800M in 2009

Lebanon received around \$4M in aid during the month of September, raising the total to \$800.7M since year start, according to the aid coordination newsletter of the Ministry of Finance. In details, Italy distributed an additional grant of Euro 2.8M (\$4M) to the Council for Development and Reconstruction for the rehabilitation of the Saoufar bridge. This brings Italy's total contribution in this regard to Euro 7M (\$10M). Worth noting, that Italy's pledge at the Stockholm Conference in 2006 is valued at Euro 38M (\$55M) of which \$30M has been distributed to date. Moreover, Southern Beirut municipalities signed a funding deal with the Kuwaiti Fund for Arab Economic Development to finance four education and healthcare projects. These will be funded from the \$300M grant that the Kuwaiti fund pledged at the Stockholm Conference in 2006

### CCI Drops to 150 in September 2009

The Lebanese Consumer Confidence Index (CCI) for the month of September tumbled to its lowest value since February of this year to reach 150 points. The decrease by 9% from August was mainly attributed to the delay in the formation of a cabinet even though optimistic signs emerged, that nevertheless did little to relieve the Lebanese consumer. That said, the CCI in September was 18.1% higher than last year's 127. In details, the current economic sub-index tumbled 325 points, or 59% from last month to 225 as the month of Ramadan paused the tourism activity witnessed in the months of July and August as most Gulf tourists returned home. Moreover, the personal income index slipped 31% to 186 on a cyclical trend as the consumption needs of families increased with the start of the new academic year. However, for the expected Personal Income and Durable Goods Consumption indices, they kept their upward trend gaining 8% and 38% from August to reach 110 and 180 points respectively. This comes as Lebanese consumers are optimistic about the future economic conditions of the country.

### Bilateral Trade with Russia (\$ '000)

	2005	2006	2007	2008	Up to August 2009
Imports	509,080	260,655	352,347	503,504	308,597
Exports	4,351	8,610	7,919	8,304	806

Source: Lebanese customs

### Moscow Chamber of Commerce to Open in Beirut

The president of the Arab World Chamber of Commerce and Industry (ACCI), Alain Khoueiry, announced that the Moscow Chamber of Commerce plans to open a regional center in Beirut in the beginning of 2010. The center aims to boost the commercial, industrial and cultural ties between Russia and the Arab world. Khoueiry noted that the value of Lebanese exports to Russia totaled only \$800,000 this year, compared to \$ 309M of Russian exports to Lebanon. Thus, the creation of the center is vital to boost bilateral trade between the two countries as well as the region. The center will be based in Beirut due to the favorable legislations that allow the establishment of international companies at a low cost compared to other countries in the region. Moreover, Khoueiry highlighted that the first activity of the center will be the organization of a trade fair for Russian agricultural and industrial products in the beginning of 2010. On his side, the president of the Russian CCI, Sergey Wilyantchenko, added that the Russian real estate company Arex will build a 5 star hotel in Beirut and will execute various other projects in different sectors.

## CORPORATE DEVELOPMENTS

### Arab Finance House Financials (\$M)

	2008	2007	%Change
Total Assets	268	203	32%
Customer's Deposits	125	66	89%
Net Profits	3.2	2	58%

Source: Company Data

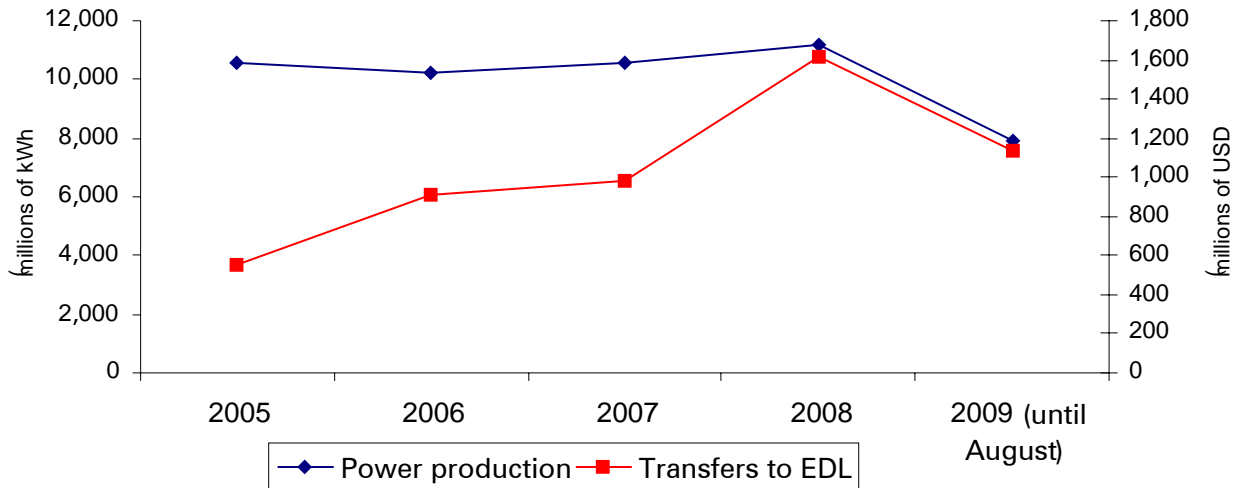
### Best Lebanese Islamic Bank to Arab Finance House

The biggest Lebanese Islamic Bank, Arab Finance House (AFH), has been awarded by Global Finance as the best Islamic financial institution in Lebanon for 2009 for the second consecutive year. The general manager and member of the board of the AFH, Fouad Matragi received the prize on the fringes of the annual meetings of the International Monetary Fund (IMF) and the World Bank held in Istanbul. AFH bank is recording tremendous performance and expanding its dominance of the Lebanese Islamic banking sector with a market share of 60%. Moreover, the bank recorded in 2008 a net profit increase of 58% to 3.2M and a total assets growth of 32% to \$268M.

## FOCUS IN BRIEF

## Lebanon's Interim Power Solution

## Power Production and Transfers to EdL



Source: BdL, Ministry of Industry

According to the Ministry of Energy (MoE), the demand for electricity increased by 10 % on an annual basis this summer, to 2,450 megawatts (MW). In parallel, the maximum production was around 1,500 MW and even sometimes less because of the frequent breakdowns of power plants. As a result, the power deficit of Lebanon was around 950 MW or around 38 % of the total electricity demand.

Yet, in spite of the high deficit, the rationing of power did not increase due to three factors: the good level of last winter's precipitations which enabled the State to activate hydraulic power plants, the channeling of electricity from Egypt and the government's decision for a fair power distribution across the country.

Nevertheless, Ministry of Energy projections show that in 2011, the power deficit will widen to 1,200 MW or 46 % of the demand because of the decrease in production due to power equipment depreciation and increasing demand for electricity consumption resulting from demographic growth. Accordingly, the power deficit will reach 1,700 MW or 58 % of demand.

As a consequence, and to avoid blackouts which are detrimental to the economic well being of the country, Lebanon must increase its electricity production to meet the constant growth of demand. This requires the State to build up new power plants, and taking into consideration that the privatization of Electricité du Liban (EdL) is far fetched given the vested political interests.

The construction of a new power plant needs at least 5 years, according to experts at the MoE and could last even more given the legislative bureaucracies, funding, location, tendering, etc. In order to avoid a power crisis next summer which could result in two or three extra hours of electricity rationing, Prime minister Fouad Siniora and the Minister of Energy, Alain Tabourian decided to acquire reciprocating generators which are widely used across the world, especially in France, the United-Kingdom, the Bahamas and Spain.

This project will cost around 350 million dollars and will be funded by the government's budget, unless a foreign donor would accept to provide the needed funding. In either scenario, this operation requires a parliamentary vote to authorize the deal, knowing that the Parliament has not convened for months because of the current political deadlock.

It is worth mentioning that the generators will have a maximum capacity of 350 MW and will be installed over a period of six months to one year after their acquisition, in the plants of Zouk, Jiyye and Hreyche. To date, five companies have shown interest in this project, including the Lebanese firm Sakr, Caterpillar, Man and Wärtsilä .

The selected company will cooperate with the government based on an EPC (Engineering, Procurement and Construction) contract which is a form of Public-Private Partnership (PPP). In this scheme, the State will fund the initial investment, i.e. the acquisition of the engines whereas the private company will handle installation and maintenance for a period of 25 years. The two parties will agree on the prices of the kilowatt (KW) and on the maintenance cost.

The acquisition of these generators will help solve the problem of electricity in the short term. But in the longer run, other measures have to be taken to ensure the power stability of Lebanon. For instance, the State will have to build new power plants, diversify the sources of energy (knowing that the utilization of natural gas in the Deir Ammar plant will enable EDL to save more than 200 million dollars per year), reduce technical losses, provide incentives in the reduction of demand for economic and environmental reasons and restructure Electricité du Liban.



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