

Amlak and Tamweel Merger

A tale of two lenders

Analysis of the full implications of the press coverage charting the merger of regional mortgage companies Amlak and Tamweel.



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Background

The UAE and the Gulf as a whole are not immune to the global economic crisis. Gulf states are moving on all fronts to save its financial and real estate sector from the decline due to the global economic recession. In this study, we chose to focus on home and property finance in specific out of the financial services industry.

Abu Dhabi is clearly arming the Federal Government with new powers, and access to capital, to fill the void left by the implosion of global capital markets. This interventionism may have been prompted by an emergency situation in Amlak, the largest Islamic home-finance firm, whose decisions to freeze lending would have caused enormous damage to an already fragile property sector.

The UAE announced merging Amlak, Tamweel, Real Estate Bank and Industrial Bank to create Emirates Development Bank. The new bank will have access to federal funds and will strengthen the nation's home finance sector. Abu Dhabi established the Abu Dhabi Finance Company with the participation of 5 major local companies: Mubadala Development Company, Abu Dhabi Commercial Bank, ALDAR Properties, Sorouh and the Tourism Development and Investment Company (TDIC). The UAE also began to bail out Dubai's rattled lenders, consolidate its financial sector and cap a building spree.

Islamic banking can no longer claim immunity from the global financial crisis now. The industry escaped the immediate fallout from the crisis as its ban on interest and its lack of structured products prevented it from investing in the assets that turned toxic for conventional banks.

Dubai's property boom has underpinned the growth of the Islamic finance sector in the UAE, but as prices fall, the banks are expanding their retail services and considering fresh areas of business. The central bank of the UAE caps the property exposure of traditional financial institutions at 20% of deposits. Islamic banks are an exception to this rule. There are 3 Islamic banks in Dubai; Dubai Islamic Bank, Dubai Bank and Noor Islamic Bank, as well as 2 Islamic mortgage lenders; Amlak and Tamweel. Moody's says that it is important to allow secondary exposure, such as funding that has been provided to building industry suppliers and construction firms.

While financial institutions have experienced a dramatic fall in business relating to stock market listings and mergers and acquisitions, one unheralded business line is thriving: cash management services. The demand for cash management services has increased in line with the growth of multinational corporations, and provides a

steady chunk of group revenues at so-called universal banks such as Citigroup and HSBC.

Amlak

Established in 2000, Amlak Finance PSJC has transformed into a public entity in 2004 and is currently the largest publicly held Islamic finance company in the UAE, with its estimated shareholders as of May 2007 reaching 35,755. Amlak Finance is the first specialised home finance provider in the UAE and continues to be a leader in the industry by retaining the biggest market share according to released financial reports in 2007. In addition, Amlak is considered the largest finance company among the publicly traded companies in the UAE.

The primary activity of the company is offering medium to long-term financing solutions for residential and commercial properties in a number of emirates in the UAE. Whilst real estate finance remains Amlak's core business, the home finance provider is constantly developing innovative products to meet customers' demands and market conditions through offering Islamic financing solutions, real estate management, and the management of sales and selling on behalf of developers as well as offers complete solutions for major real estate developers.

Tamweel

Established in March 2004, Tamweel has now financed property worth over AED 11.5 billion. Today it provides a whole range of Sharia-compliant products. In July 2006, Tamweel moved to a PJSC structure with overwhelming demand subscriptions exceeded the required amount by 485 times.

In this study, we take an in-depth look at the media coverage of Amlak and Tamweel as well as their stock performances up to their stocks' suspension to correlate the effect of their media coverage with their stock performance.

Media Coverage

Topic	Clippings	AVE		
	Count	Newspaper	Magazine	Website
Amlak	243	\$564,712.06	\$416,817.49	\$84,500
Tamweel	199	\$481,811.09	\$286,024.72	\$42,250
Topic	Impressions		Coverage Size	
	Newspaper	Magazine	Newspaper	Magazine
Amlak	14416675	1745520	14973 cc	94.15 pages
Tamweel	11992100	1674330	12937 cc	73.41 pages

Amlak and Tamweel were monitored in UAE media in the period of 15 November to 15 December 2008. Amlak was featured in 243 clippings while Tamweel was featured in 199 clippings. Amlak scored almost double what Tamweel did in terms of magazine and website AVE's, while it had a slightly higher newspapers' AVE. Amlak also scored higher in terms of impressions and coverage size for both newspapers and magazines.

Amlak's Messages	# of Clippings
Is an Islamic Mortgage Lender	3
Bailed out by Federal government	18
Hiked interest rates on new mortgages by up to 2%	3
Part of those who established the Colliers Price Index	6
Shares suspended until merger details are out	15
Signed agreement with Emcredit	3
Stopped lending	18
Tightened lending criteria	3
To merge with Tamweel	114

Tamweel's Messages	# of Clippings
Is an Islamic Mortgage Lender	3
Bailed out by the Federal government	18
Issues real estate report	3
Shares suspended until merger details are out	15
Tightened lending criteria	3
To merge with Amlak	117

In terms of messages, Amlak and Tamweel shared the vast majority of all messages. However, Amlak portrayed a greater number of messages. Amlak's messages were on Amlak as a company, on the government bailing it out, on hiking its interest rates on new mortgages by 2%, on being a part of those who established the Colliers Price

Index, on its shares being suspended until merger details are released, on signing an agreement with Emcredit, on tightening lending criteria then on freezing lending altogether and finally on its merger with Tamweel and 2 other institutions.

Tamweels' messages were on Tamweel as a company, on the government bailing it out, on issuing a real estate report, on its shares being suspended until merger details are released, on tightening lending criteria and finally on its merger with Amlak and two other financial institutions.

	Amlak	Tamweel
Message Type		
Manifest	183	159
Latent	0	0
PR Influence		
PR	120	123
Non PR	63	36
Reputation Driver		
Positive	9	0
No Driver	135	141
Negative	39	18

All mentions on Amlak and Tamweel were manifest (direct). Despite Amlak having greater coverage, Tamweel had greater coverage in terms of press releases than Amlak did, as Tamweel had 123 press releases' clippings while Amlak had 120. Amlak had 9 positive reputation drivers, 39 negative reputation drivers and 135 messages which are void of reputation drivers, while Tamweel had 18 negative reputation drivers and no positive reputation drivers. It had 181 messages which were void of reputation drivers.

Stocks Performance



While Amlak experienced the beginning of a drop around 20 June 2008, Tamweel experienced the beginning of its drop around 20 July 2008. As the focus is on November to correlate media coverage with stocks performance, it is interesting to highlight that both Amlak and Tamweel had its worst stock performance in November. A big dip for both occurred from the 4th of November until the 20th of November.



Looking into their media coverage starting from the 3rd of November, it is easy to find correlation. News articles on Amlak and Tamweel being months away from sending a formal request to the Central Bank for approval of their proposed merger began coming out then, followed by news on the status of mortgage funds being in trouble. The reduction in the availability of mortgage appears to have had impact on the UAE's real estate market. Various real estate brokers indicate that some transactions have been canceled midway through the process due to a lack of willingness by mortgage providers to extend sufficient financing. More conservative valuation of properties suggest that Amlak and Tamweel could witness slower growth in their mortgage books. This was also followed by reports on serious lack of liquidity in the market to privately fund property development.

A positive spin could've been the goal to offset the negative news and hence the big dip in their stocks. Amlak's signing of an agreement with Emcredit, which came out on the 8th of November, could've been circulated more. News on Amlak and Tamweel's merger, which was already out in the media before November, could've taken a positive angle, which would've had a positive impact on their stocks.

Conclusion

The financial services sector is in great turmoil. Merger & Acquisition seems to be the proposed savior. It is too early at this stage to predict the success or lack of, of this strategy. However, it seems clear that without the merger, a freeze in financing facilities would be the result, which will have a substantial adverse effect on many sectors and particularly the real estate sector.

As for Amlak and Tamweel and their media coverage, the merger PR was not handled properly. The focus was on the lack of information and on the underlining issues, which resulted in the merger. The lack of information left room for a lot of uncertainty. As a result, markets fill the gaps with bad news. The media is a powerful tool which can go both ways. At times of turmoil, proper utilization of media becomes absolutely vital.