THE INTERVIEW WITH Shehab Gargash has barely begun when the founder and chairman of Daman Investments leans forward conspiratorially on his chair.

"I know what you're going to ask," he smiles. "A lot of people have been asking me the same question. Will we delay our IPO based on what has happened in the UAE stock market over the last few weeks?"

Few would hold it against Gargash if he did put off his longstanding aim of listing 55 percent of one of the UAE's most successful non-bank financial services firms in the first quarter of this year. Ever since 2009, going public has been a target for Daman Investments, a company set up by Gargash in 1998 to focus on three key areas: brokerage, asset management and venture capital.

However, after a stellar 18 months, volatility hit UAE markets in June, following the Arabtec fiasco, and the Abu Dhabi and Dubai bourses tracked the oil price downwards in the last few months of last year. Since Daman reconfirmed its intention to list in the first three months of 2015 on 3 November, the Dubai Financial Market (DFM) has shed 17.5 percent of its value (at one point declining by as much as 34 percent).

It hardly looks like the ideal environment in which to go public, but — if anything — Gargash appears to be relishing the opportunity.

"We are going full force on our IPO," he says. "We think it is a more challenging and difficult environment than it was, let's say, three months ago, but we will never perfectly time the market.

"We are going to work on the assumption that when all is said and done, we have a conducive environment in which we will work. So if you go four weeks earlier or four weeks later is not an issue — but we are going ahead."

▲ Dubai's economy has rebounded strongly since a debt crisis in 2009. However, the last few months have seen a significant fall in the stock market, and property sector growth slow considerably.

▲ The Dubai Financial Market ended 2014 up on the previous year, but well down from its May high.

Shehab Gargash on...

The UAE economy

Forget about oil prices, forget about conflict, forget about little momentary issues. The big picture is: if you are doing business in the Middle East, where will you go? The UAE is the place where you will go, no matter what your business, whether you're an investor, a trader, a merchant, a retiree — whatever it is, if you are in the Middle East you will have some sort of UAE angle to your life, to your business — and I think ultimately you will get the cycles, but ultimately what will win the day is the position of the UAE."

An hour spent with Gargash, a gregarious and entertaining interviewee, is an instructive one. Few financiers have a better grip on what is making local markets tick than the Daman boss, and fewer still are prepared to give an honest opinion about some of the recent goings-on at the UAE's exchanges.

Judging by the recent performance of Daman, it would appear that the chairman has every right to be confident. Of the group of UAE investors who originally helped set up the company 17 years ago, none have opted to cash out via the IPO. The reasons for that become clearer as Gargash gives some idea of Daman's recent performance. According to a third-party valuation recently conducted, Daman is now worth "approaching $250m", Gargash says, a figure that has roughly doubled since June 2012, when the firm was valued at $120m as part of the sale of a 22.7 percent private placement in the firm.

In Daman's last full financial year (April 2013 to March 2014), the chairman says the firm recorded an AED35m ($10m) profit, a figure was roughly double the profits posted in the previous year (AED18m). And in the six months to September 2014, the company's profits matched those of the full preceding year.

When asked what is driving those results, Gargash turns to the three services his company provides to its clients.

"On the venture capital side, we have launched a couple of initiatives," he says. "One of which [an investment in the Rosewood Hotel in Dubai] kicked in last year, the second of which — an unannounced infrastructure one, kicks in this year."

The private equity (PE) market is making something of a comeback in the Middle East, following a barren period after the global financial crisis during which investors lost out heavily. By November last year, the total value of PE funds raised in the Middle East and North Africa (MENA) region had reached \$1.98bn, a healthy rise on the \$1.23bn recorded in all of 2013, according to Zawya. However, that's still only a small part of a global industry that is worth an estimated \$3.5 trillion.

Gargash says that the opportunities for PE players are plentiful, but it remains hard to exit those investments. Furthermore, due to civil war and unrest in the post-Arab Spring countries, the geographical target area has shrunk.

"It's not yet an efficient space in the Middle East," he adds. "The big issue with PE is, really, that you are working on a case-by-case basis. There isn't a formula as there would be in Europe, America or Asia. Over here, you're still peeling the onion skins in order to get to the core of things.

"[It just needs] more players, a more populated space, more institutional players, more structure to it, possibly more regional interest in private equity opportunities — we've seen some of those come from time to time, but it's still not enough.

"Even with the presence of some very capable companies like Abraaj, it's still not enough and there's just not enough activity happening."

There's more positive news on the asset management side, where some of Daman's funds have been making the most of the rapid upswing in Gulf equities over the course of the last couple of years. In October, the company announced that its Daman Fifth Fund, launched in 2010, had seen a 202 percent gain in its performance in the year to date, outperforming the DFM three times over. The fund paid out a dividend of AED100 per share in the third quarter, equating to an annualised dividend yield of 40 percent.

▲ Shehab Gargash founded Daman Investments in 1997.

The secret to that fund's success, says Gargash, is agility. It invests in both fixed-income and equity markets in the Gulf, as well as commodities. In its early years, during the financial crisis, it focused on GCC fixed-income arbitrage opportunities, before switching back towards UAE equities as the local markets gathered pace.

"Our market is not very deep and not very broad, so your choices are fairly limited," the chairman says. "So the Daman Fifth Fund is a product that is geared towards driving an opportunity, rather than asset allocating on a middle-of-the-road basis. And that's what's enabled us to excel with that fund; it's the ability to pick the next asset class and be heavily weighted with it."

Shehab Gargash on...

The Arabtec episode

I am extremely angry about that incident. And like all investors who are angry, I do not think we handled it correctly as a market generally. Whether it's the investors, whether it's the company, definitely, whether it's the regulator. Overall it is an episode that will not shine in the history of the UAE economy. We will come across such episodes and the one thing that I hope we have done is learn our lesson from it. Time will tell whether we have learned a lesson from it. The Arabtec incident certainly showed the shortcomings of a market such as ours. And it had happened before with other companies several times. And perhaps this time it's fresh in our mind. Perhaps the size of it was bigger than previous incidents with other companies. But it really is an episode of greed and lax regulation. It's a shame."

202%

The performance gain of the Daman Fifth Fund in the first half of the firm's financial year.

▲ Last year saw a steady flow of IPOs return to the market, after a five-year hiatus in which local firms showed a preference for listing in London.

In terms of the brokerage side, Daman has benefited from vastly increased trading volumes on both the DFM and the Abu Dhabi Securities Exchange (ADX), about double in 2014 from what they were the previous year. As a brokerage, of course, Daman makes money from both a rising and a falling market, so its 2014 performance reflected that, Gargash says.

One move that would make life much simpler would be a long-awaited merger between the ADX and the DFM. Last week, the UAE's economy minister, Sultan Bin Saeed Al Mansouri, said that the government would prefer that the merger took place, although it was a matter of the owners of the bourses themselves to agree on. Given that the ADX is wholly owned by the Abu Dhabi government, and the DFM is 80 percent owned by a subsidiary of the Dubai sovereign wealth fund, any decision is likely to be based on politics.

4.5%

The UAE's GDP growth forecast for 2015, according to the IMF.

However, Gargash doesn't think that a merger would have a major effect in the way the country is seen by international investors. Instead, it will make life much simpler for a company like Daman, which is a major brokerage player on both bourses.

"We can say whatever we want to — ultimately the economics of it point towards having it done," he says. "As political decisions go, when it does happen, if it does happen, it will happen overnight.

"It is logical to have a single market, the whole world is heading towards less rather than more markets. I think it's more a matter of simplifying our life than a dramatic change in the stature of the UAE as a country market."

What will make a difference to the way the world sees the Gulf exchanges is the arrival of Saudi Arabia, which is expected to open up to foreign investors in the first half of this year. In general terms, Gargash says "we are just at the starting line" in terms of the importance that local bourses will play on the emerging markets equities scene, especially given last year's upgrade of both the UAE and Qatar by MSCI.

"We are seeing [overseas] people who know are companies and our dynamics and our results better than you or I do," he adds. "It used to be very specialised peripheral Middle Eastern specialists, it's now more generalist funds and generalist investors who are paying attention and reading up on the region. And we are seeing increased volumes of activity from an increased number of investors into our markets."

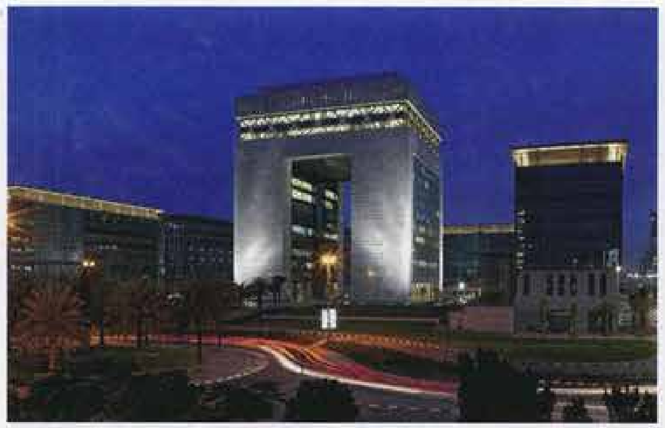
That said, the recent volatility in Gulf markets has been an unwelcome development. In 2014, the DFM and the ADX closed up 12 percent and 6 percent respectively, although the exchanges dropped 23 percent and 11 percent in the last quarter due to the slide in the oil price. Last year also saw a steady flow of IPOs return to the market, after a five-year hiatus in which local firms showed a preference for listing in London.

In October, Emaar Malls Group raised \$1.58bn via its IPO on the DFM, a move that was followed by two listings from Amanat and Marka, 'greenfield' start-ups with no revenue history. Both were heavily oversubscribed, but both also saw their stock suffer — in line with the rest of the market — in the last quarter. Dubai developer Damac Properties, which listed on the DFM last week, also saw its stock value drop on its opening couple of days.

In terms of the year ahead, Gargash is predicting an "extremely volatile" first quarter, but that the markets will stabilise before the summer, before resuming the rally that occurred in 2013 and the first half of 2014. Having said that, he also says that the bottom has not yet been reached, and that stability in the oil price — no matter what that is — will be vital.

"I think what is going to win the day is the solid performance of the underlying securities, so if the market is pushed further down because of oil-related and geopolitical jitters, it will be a very good buying opportunity," he says. "I think the IPO market is nervous today, I think it shouldn't be that nervous. By definition IPO markets are more nervous than secondary markets, so we may see less issues than we thought, but I don't think we will see no issues at all. I am optimistic still, and I think there are bargains out there, and we are not talking about 2008 here. We are a much more solid economic proposition than we were in 2008."

One thing the market could well do without is a repeat of the Arabtec fiasco last year. A disagreement between the former CEO of Arabtec, Hasan Abdullah Ismaik, and major shareholder Aabar, threw both the DFM and the ADX into freefall during June, as investors battled rumour and a lack of transparency to try and work out what was going on at the helm of one of Dubai's most heavily traded stocks. Seven months on, many questions about the incident still remain unanswered.



▲ Daman Fifth Fund invests in both fixed-income and equity markets in the Gulf region, as well as commodities.

12%

The Dubai Financial Market's growth over 2014.

Gargash is characteristically forthright about the incident, which he describes as "one that will not shine in the history of the UAE economy".

"It was no secret what was happening there in terms of price manipulation by the management of the company itself, by operators in the market, by punters," he says. "It was a case of throwing the rules to the side. The regulator acted late, possibly without much conviction, also the management of the company was part of the whole fiasco.

"I wouldn't blame everything bad that happened in 2014 on the Arabtec issue, but it was certainly an issue we could have well done without. You would not see the wiping out of a year's profit in seven to ten days because of the oil crisis, if Arabtec had not happened. The reaction to the oil decline would have been much milder had the Arabtec episode not happened."

Right now, the market is waiting for some positive cues, one of which looks likely to be Daman's own IPO. The company is currently working through the approvals process, and Gargash says that the response from potential investors (albeit without a full prospectus and offer in place yet) has been positive. And despite the ostensibly difficult environment, the chairman also says that his company is in a unique position to benefit from low valuations in the market.

"It's a bit of a tougher proposition, because the first thing, I'm sure, that investors would say if I went to them today would be 'are you sure you want to raise money today?' But I think that's a very short-term view of the market. You cannot decide such investment decisions based on a week-by-week performance of the market, you need to have a more holistic view.

"Our fundamentals are solid in the economy, our fundamentals are solid in the stock market — any investor that has that in mind will, I'm sure, see the potential. But once I have gone public, guess what? I can actually deploy that cash at a discount, because this is exactly the business that I am in."

Shehab Gargash on...

The recent 'greenfield' IPOs on the DFM

I think the market should look at everything. We've had selldowns, we've never had selldowns before. So I think that's a very welcome development. We've had bookbuilding, we've never had that before. You need variety. You can't have a cookie-cutter approach to taking companies public. If you have ten companies, there will be ten different reasons why they are going public and each one should be looked at on its own merits. As far as the performance of the issues that have come up — yes, some of them did end up being traded below par, and there's no big problem with that. Ultimately, the market is going to price, so we sold them too expensive? Good for the company, bad for the investors — but it all squares off at the end."

$10m

Daman's profit in its last financial year, a figure it matched the first half of the current year.

▲ Gargash is placing corporate governance at the heart of Daman's new life as a public company.

55%

The share of Daman that will be sold in its IPO this quarter. None of the firm's original shareholders are cashing out.

Daman's decision to go public stems from Gargash's belief that the firm needs to play a bigger role in what is an exceptionally limited field. Home-grown non-bank financial services outfits are few and far between in the UAE. He says that Daman's new status should enable it to attract more money. But it also seems that he is keen for the company to help boost awareness of the Gulf as the next big emerging market, as well as elevating the level of corporate governance in public companies in the UAE.

"Our public corporations do not 100 percent necessarily know what that [corporate governance] means, the amount of trust and the obligations that are upon the management of a public company" he says. "I don't think that culture is prevalent within our market. If I can do just a little bit about elevating our stature as a public company in the eyes of the public, in terms of our ability to comply with a more diligent environment, that will be very satisfactory to me."

Looking past the IPO, Gargash has committed to staying at the helm of Daman for at least five years. During that period, he's hoping to bring a few more leftfield opportunities in the market – after all, the firm was the first to establish a real estate investment trust (REIT) in the GCC in 2006. Naturally, he's keeping his own counsel as to what those opportunities are likely to be, but if Daman's recent results are anything to go by, the firm's future looks bright indeed.