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The Valuation Premium of the Common Stocks of Islamic Financial Institutions

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The study examines the valuation premiums paid by investors for the common stocks of Islamic financial institutions in the United Arab Emirates (UAE). The UAE stock markets, during the period 2001–2005, were dominated by financial institutions which counted for 58% of all listed stocks. The study employs the price to book and the price to sales valuation multiples. Valuation by price to book value is more relevant and accurate for financial firms due to the high liquidity of their assets. It is found that there is a strong clientele preference for Islamic stocks despite the modest financial performance achieved in comparison with other financial institutions and insurance companies. The clientele preference in the UAE, measured by higher valuation premium, is for Islamic financial institutions first followed by commercial banks and last by traditional insurance companies and financial services companies.

Keywords: [Islamic financial institutions](#); [valuation](#); [clientele preference](#)

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