Equity Research | 05 September, 2010

Quant Analysis – Quarterly Update

Dividend Picks Portfolio Rebalancing

Eiji Aono
Head of Equity Research
e.aono@ncbc.com

Please read the **"Important Information"** section at the end of this document.

2Q10 Dividend Picks Portfolio Performance

- Over the last 3 months (since 09 June 2010), the Dividend Picks Portfolio has risen 2.6%, while the TASI lost 0.1%.
- The Dividend Picks Portfolio has declined 1.7% over the last 12 months, while the TASI has risen 5.9%.

Exhibit 1: 2Q10 Dividend Picks Portfolio Performance**

Ticker	Company	Price* SAR	Market Cap (SAR mn)	Div. Yield - 09 (%)	PE TTM	Return (%)**
4300.SE	Dar Al Arkan	10.8	11,610.0	9.3%	6.1	-13.9%
3050.SE	Southern Cement	66.5	9,310.0	7.5%	13.4	0.7%
2090.SE	Gypsum	29.2	924.7	8.6%	13.3	-5.8%
7010.SE	STC	38.1	76,200.0	7.9%	8.3	7.0%
3040.SE	Qassim Cement	66.8	6,007.5	9.0%	10.2	1.8%
2230.SE	Saudi Chemical	46.0	2,909.0	8.7%	8.8	10.6%
2020.SE	SAFCO	140.0	35,000.0	8.6%	16.7	17.0%
2340.SE	AlAbdullatif	30.1	2,445.6	11.6%	13.8	3.1%
				Average return portfolio		2.6%
				TASI		-0.1%

Source: Reuters, NCBC Research

*As of 31/08/2010

** from 09 June 2010 to 31 August 2010

3Q2010 Dividend Picks Portfolio Construction

- The Dividend Picks Portfolio construction is based on the latest dividend yield with filters for liquidity and earnings (see Appendix for details).
- SADAFCO and Saudi Steel Pipes (SSP) have been added to the portfolio this quarter, replacing Southern Cement and AlAbdullatif.

Exhibit 2: 3Q10 Dividend Picks Portfolio Construction

Ticker	Company	Price* SAR	Market Cap (SAR mn)	Div. Yield - 09 (%)	ROE (TTM %)	PE TTM
4300.SE	Dar Al Arkan	10.8	11,610.0	9.3%	14.5	6.1
3040.SE	Qassim Cement	66.8	6,007.5	9.0%	32.4	10.2
2270.SE	**SADAFCO**	**33.7**	**1,095.3**	**8.9%**	**35.6**	**5.3**
2230.SE	Saudi Chemical	46.0	2,909.0	8.7%	26.1	8.8
2020.SE	SAFCO	140.0	35,000.0	8.6%	32.8	16.7
2090.SE	Gypsum	29.2	924.7	8.6%	13.6	13.3
1320.SE	**SSP**	**24.2**	**1,233.1**	**8.3%**	**14.2**	**13.1**
7010.SE	STC	38.1	76,200.0	7.9%	22.5	8.3

Additions for the current quarter

* As of 31/08/2010

Source: Reuters, NCBC Research

Appendix I: Dividend Picks methodology

- We create a portfolio of high dividend yield stocks which also pass a number of valuation screens including liquidity position, capital structure, financial performance and valuation
- The beginning portfolio has been created as of May 2005, taking 2005 as the base year. The majority of dividends are distributed in March–April, therefore most of the stocks become ex-dividend by the end of April. We have taken this ex-dividend state as the starting point
- We create a new portfolio every three months (in Feb, May, Aug and Nov). The portfolios have been screened against the following criteria and filters:
  - *Qualification criterion:* Every quarter the top quartile of high dividend yield stocks is selected. We maintain a flexible number for the stocks in the portfolio but target 8-10 names every quarter.
  - *Screening filters:* The filters used are Market Capitalization to remove small-cap bias, Debt/Equity Ratio for leverage, ROE-TTM to gauge financial performance and P/E Ratio as a valuation factor. All the stocks are ranked according to the given filters individually. The bottom 20-30 stocks in each criteria are filtered out. Among the stocks identified by high dividend yield, the stocks which pass all the subsequent filters are included in final portfolio
- The portfolio is re-balanced equally every quarter with the total portfolio (including dividends received) rolled over for the next quarter.

Thank You

IMPORTANT INFORMATION