SHUAACAPITAL PSC

Monthly Stock Pick Monitor

Equities Strategy

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Strategy Team

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Despite another negative month across global equities with the MSCI EM Index dropping 9% and most GCC markets following suit, February proved to be a prosperous month for our equity basket. Our optimal portfolio gained a massive c. 18% last month, clearly outperforming the SC GCC Index and the MSCI GCC Index which recorded losses of c. 7% and c. 11%, respectively. Our overexposure to UAE equity markets-which was the main factor behind our portfolio's underperformance in January-paid off this time as the composite UAE component of our portfolio gave us returns in excess of 26% for the month, significantly outperforming the SC UAE Index's 16% gain over the period. With the exception of First Gulf Bank, all UAE components of our portfolio ended the month in the black with our only double weighted pick, Etisalat, gaining c. 30%. The star of the month however, was Arabtec, which recorded a whopping 100% gain in February. The strong performance of UAE equities came on the back of an AED 16bn cash injection into the Abu Dhabi banks, by the Abu Dhabi Government as well as the Dubai Government's announcement of a USD 20bn bond program of which USD 10bn had been fully subscribed for by the Central Bank of the UAE.
The Saudi component of our portfolio suffered a different fate from its UAE counterpart, losing c. 5% in February. That said, it still managed to significantly outperform the TASI which fell c.12%. Qatar Gas Transport's debut also proved prosperous for our portfolio as it gave us c. 20% returns, clearly outperforming the DSM Index which dropped c. 15%.

Optimal portfolio

	Company	Market	Industry	Closing price	Performance		Valuation			Earnings CAGR	Market cap	Recommended
				(Lcl currency)	1 month	12 months	PE 08	PE 09E	P/B	07 - 09'	USD '000	weight
1	Etisalat	ADX	Telcommunications	12.40	29.8%	-39.9%	9.0	8.3	3.09	12.0%	15,442,151	10%
2	Arabtec	DFM	Construction	1.52	100.0%	-74.7%	1.9	1.8	1.31	44.0%	247,606	10%
3	Industries Qatar	DSM	Petrochemicals	68.40	-2.4%	-55.3%	5.2	-	2.75	7.0%	465,997	10%
4	Aldar Properties	ADX	Real Estate	2.31	13.8%	-76.1%	1.7	2.0	0.77	40.0%	1,410,106	10%
5	First Gulf Bank	ADX	Banking and Finance	7.50	-8.5%	-65.9%	3.4	3.4	1.02	24.0%	3,071,370	10%
6	Air Arabia	DFM	Transportation	0.94	2.5%	-55.2%	8.6	7.8	0.87	41.0%	1,156,823	10%
7	Qatar Gas Transport	DSM	Shipping	19.5	19.6%	-37.4%	51.8*	-	1.88		2,481,282	10%
8	Aramex	DFM	Logistic and Transportation	1.08	20.0%	-61.6%	8.8	7.3	1.02	21.0%	296,480	10%
9	Etihad Etisalat (Mobily)	Tadawul	Telecommunications	33.90	5.9%	-27.6%	11.3	13.3	4.01	33.0%	5,861,333	10%
10	Almarai	Tadawul	Dairy Products	146.00	2.5%	7.7%	16.0	16.0	4.78	28.0%	3,706,667	10%
	Average						**6.24**	**6.27**				

** figures are based on estimated FY 08 earnings*

Optimal Portfolio vs. Benchmark Indices	Optimal Portfolio	SC GCC	MSCI GCC Countries Index	Relative Performance	
				vs SC GCC	vs. MSCI GCC
1 month performance	17.5%	-6.5%	-10.7%	24.1%	28.2%
Performance since Inception	-34.7%	-51.9%	-56.6%	17.1%	21.9%

Core themes:

Our expectations in February's Monthly Stock Pick Monitor of a strong performance on the Abu Dhabi Exchange materialized this time as the ADXGI climbed c. 11% in February, massively outperforming all other GCC benchmarks, including Dubai's. We also noticed confidence returning slightly to investors as traded values in the UAE in February more than doubled compared with January 09 and December 08 figures. Further, we saw less volatile movements in the broader market (with some exceptions, namely DFM and Arabtec stocks) and less contagion of global equities. We believe UAE markets will continue to outperform in March on the back of the recent federal government support of the economy. Further, we believe our picks will witness more investor interest due to high dividend yields many of them are offering. However, a defensive outlook is still vital at these times. That said, we decide to remove Saudi Cables from our list this month due to the absence of any drivers on the stock for the time being, even though it still trades at a discount to our fair value. We also choose to include Industries Qatar due to its attractive dividend yield of 12% and its off-take agreements with trading partners that gives the stock somewhat of a defensive play compared to its peers. Finally, we choose to remove the double weighting on Etisalat after its strong rally in February.

Portfolio Stocks:

Etisalat

Our favorite stock last month paid off handsomely. Etisalat, recorded a gain of c. 30% in February on the back of its H2 08 cash dividend announcement. The cash dividend proposal, which implied a 6% dividend yield at the time enticed investors to the stock and caused it to rally by 20% in one week's trading. We believe the stock will continue its positive movement but choose to remove the double weighting after its stellar performance last month.

Arabtec

After losing 71% of its value in January, Arabtec recovered most of it last month. The stock closed the month with a whopping 100% gain. This followed a rollercoaster ride that saw the stock record gains as high as 163% for the month before retreating to these levels. The stellar performance came on the back of Arabtec's FY 08 net profits. The company recorded profits of AED 945 mn for the year, which meant Q4 08 profits came in at AED 184.8 mn, down 28% QoQ and 4% YoY. Even though these results came below our estimates as well as consensus estimates, they managed to put a stop to all rumors surrounding the company's performance and enticed investor buying into it. Arabtec also just announced a new joint venture with Saudi Bin Ladin group to set up a construction company in Saudi Arabia. Arabtec will own 45% of the entity which will give it access to the massive Saudi market. We believe this latest announcement will bode well for the stock this month.

Aldar Properties

An announcement of increasing dividends by 25% failed to have the desired effect on the stock, but Aldar Properties still managed to increase c. 14% in the month. Investor sentiments were positive towards the company, which announced that it will shift its focus of new projects to mid-ranged residential projects, a segment that is underserved in the Abu Dhabi market. In the midst of projects being put on hold, the company announced an encouraging milestone, with the completion of 60% of Yas Island. We expect the positive momentum to be carried forward onto March.

First Gulf Bank

First Gulf Bank continued with its downward movement with a decrease of 8.5%, and the stock was the only UAE component in our portfolio to have recorded a negative movement last month. The stock underperformed the ADX, as investors shied away from exposure to the banking sector. We see this as driver for the stock, as we believe it will catch up with the rest of the market especially after the capital injection (and the implied support) from the Abu Dhabi government. The bank also is one of the best performers in the sector in terms of the quality of the loan portfolio and the growth rates of its core banking operations.

Aramex

Aramex again managed to outperform the benchmark indices, with an increase of 20% in its share price. This is in line with our expectation for the stock, which managed to report a 21% increase in its FY 08 net income. Another attractive factor for investors is its healthy cash position which is close to AED 300 mn. We continue to retain this pick in our portfolio and identify it as one of the most attractive shares in UAE, if not the region.

Mobily

Mobily's share managed to outperform the Saudi benchmark for the third consecutive month. In an increasingly competitive environment in Saudi Arabia, the company is relentless, continuously launching new products such as the 3G iphone. The company is also moving swiftly ahead with its broadband services, increasing the subscribers to 300,000 since its launch. As such, the company continues to be one of the most dynamic and fastest growing companies in the telecom sector in the region, and it remains an important component in our portfolio.

Air Arabia

Air Arabia's share rose 3%, disappointing given that the SC UAE went up by 16%. The share reached AED 1.02, before dropping to the current level. The stock still holds significant value. The company defied consensus estimates with a growth of 45% in its net income, a significant increase that proves the company's healthy prospects especially within the current economic conditions. Air Arabia still possess a healthy cash position.

Almarai

Almarai proved its resilience again this month with a rise of 2.5% in its share price, while the Tadawul dropped 12%. The company is the only one in our portfolio to have recorded a positive rise in its share price since last year, a massive achievement given the global crisis that has hit equity markets all over the world. An important development last month was its announced joint venture with the global giant Pepsico, 'International Dairy and Juice Ltd', that is expected explore opportunities in Southeast Asia, Africa, Middle-East, outside of Almarai's GCC turf. The company will remain in our portfolio especially in the current volatile condition as it is one of the most compelling defensive stocks in the region.

Qatar Gas Transport

Last month's addition rose 20%, a massive outperformance compared to the DSM which dropped 15%, and our belief in the stock was thus vindicated. There is still a long way to go for the stock, which is one of the most attractive stocks in the region, with a very clear and visible outlook. The company's performance is tied to that of the Qatari economy, which is expected to grow 11% in real terms. The company's revenue stream can be forecasted for the next 25 years, since its LNG tankers are already chartered for that long. Qatar Gas Transport is a pure play on the Qatar gas industry and definitely a stock to watch.

Exclusions

Saudi Cable

In a bad month for the Tadawul, Saudi Cable was one of the worst performers. The company's stock price dropped 24%, compared to the Tadawul's 12% drop. The fundamentals of the company are still solidly viable, and the company will stand to benefit from Saudi Electricity's capital expenditure. Saudi Cable might be one of the companies that have been oversold, but until their Q1 09 earnings announcement, the company lacks a driver to renew the interest of investors. With that, we remove Saudi Cable from our list. The recent overselling that took place in Saudi Arabia and Qatar offers us with a wide variety of solid companies that are extremely undervalued. As such, we replace Saudi Cable with another company that we believe will present a bigger case of strong rebound

Additions:

Industries Qatar

The cash-rich, cost-privileged basic and intermediate commodity producer has sheltered its petrochemical sales volumes from declining through different off-take agreements with trading partners. With provisions (already taken in Q4 08 and wiping-off the steel segment results) behind, a recovery in petrochemical and fertilizers prices, coupled with a slight pick-up in domestic steel demand - in line with continued real estate development in Qatar - should reflect positively on IQ's results. Further, the stock's current dividend yield of c.12% could entice investor buying.