SHUAA CAPITAL psc

Emaar Economic City (4220.SE)

Dubai on the Red Sea

Equity Research **Initiation Coverage**

April 15th, 2008

Current Price:	SAR 20.25	**Country:**	Saudi Arabia
Fair value Target:	SAR 34.07	**Sector:**	Real Estate
Recommendation:	BUY	**Exchange:**	Saudi Stock Exchange (Tadawul)

Sector Coverage Team

Roy Cherry
+9714 3199 767
rcherry@shuaacapital.com

Lara Hourani
+9714 3199 687
lhourani@shuaacapital.com

Anju Govil
+9714 4283 523
agovil@shuaacapital.com

- Emaar Economic City (EEC) is a Saudi Arabian real estate development company established in 2006 by Dubai-based Emaar Properties and listed on the Saudi Arabian Stock Exchange (Tadawul) in the same year. EEC is a single purpose company exclusively responsible for the development of King Abdullah Economic City.

- With a land bank measuring 168 mn sqm in plot area and 144.75 mn sqm in BUA, EEC is potentially the largest developer of real estate in the Gulf region. EEC's land bank exceeds the combined total of Gulf land owned by Jabal Omar, Dar Al Arkan, Emaar Properties (equity adjusted), Aldar Properties and Sorouh Real Estate.

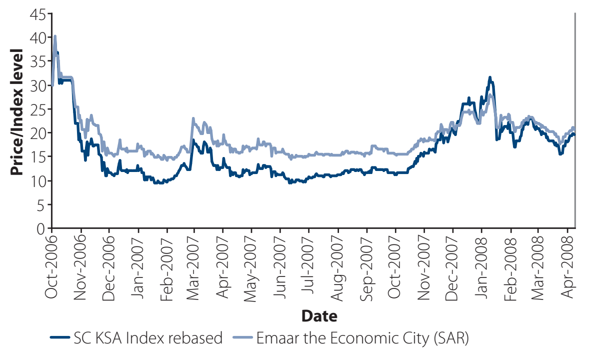
- We arrived at a weighted indicative NAV per share estimate of SAR 55.62. In comparison, the EEC stock closed at SAR 20.25 today which implies that the stock is trading at a 63.6% discount to the weighted indicative NAV per share estimate.

- We initiate coverage on EEC with a BUY recommendation. Our fair value target of SAR 34.07 per share implies an upside potential of 68% to the current share price of SAR 20.25. Our fair value target is based on the weighted result from three DCF valuation scenarios which consider the potential failure of the project and two levels of potential success.

Year	Net profit (SAR '000)	BV (SAR '000)	EPS (SAR)	BVPS (SAR)	RoAE	P/E (x)	P/BV (x)
Dec-12	1,658,653	10,496,498	1.95	12.35	17%	10.38	1.64
Dec-11	858,015	9,262,845	1.01	10.90	9%	20.06	1.86
Dec-10	224,574	8,829,830	0.26	10.39	3%	76.65	1.95
Dec-09	88,747	8,605,255	0.10	10.12	1%	193.95	2.00
Dec-08	33,940	8,516,508	0.04	10.02	0%	507.15	2.02
Dec-07	26,283	8,482,568	0.03	9.98	0%	654.89	2.03

52-week high (SAR)	28.00
Number of shares ('000)	850,000
Free Float	30%
Market Cap (SAR '000)	17,212,500
Market Cap (USD'000)	4,589,633
Div. Yld 2007 (%)	-

Emaar Economic City performance vs. SC KSA Index



Contents

Investment highlights

• Emaar Economic City (EEC) is a Saudi Arabian real estate development company established in 2006 by Dubai-based Emaar Properties and listed on the Saudi Arabian Stock Exchange (Tadawul) in the same year. EEC is a single purpose company exclusively responsible for the development of King Abdullah Economic City.

• The development is situated in Saudi Arabia, which is the Middle East's largest economy and the largest oil exporter in the world enjoying a growing current account surplus in an increasingly liberalized economic environment. It is also a country in which demand for housing and all other real estate has been fuelled by pyramid shaped demographics, increasing wealth, economic activity and improving financial infrastructure.

• With a land bank measuring 168 mn sqm in plot area and 144.75 mn sqm in BUA, EEC is potentially the largest developer of real estate in the Gulf region. EEC's land bank exceeds the combined total of Gulf land owned by Jabal Omar, Dar Al Arkan, Emaar Properties (equity adjusted), Aldar Properties and Sorouh Real Estate.

• Complementing the land bank are other strategic components/government granted rights such as the sea port, industrial zone and the economic city status.

• EEC aims to sell around 44% of its 144.75 mn sqm of BUA land bank as serviced land plots to third party developers. A further 18% is expected to be developed and sold as residential, retail and office units. The remaining 38% will primarily be utilized to generate recurring cash flows from: Land on long-term lease to industrials, investment properties (retail, office and hotels/resorts) and concession fees from the sea port operator.

• Projected 2008 revenue is SAR 402 mn compared to no revenues to date; by 2009 we expect revenues to reach SAR 954 mn before escalating all the way up to SAR 6.38 bn in 2012. As a result, the estimated CAGR of revenues is 100% for the period between 2008 and 2012, which is high due to the expectation that the next five years represent the take-off stage.

• EEC's EBITDA is projected to move into black in 2009 when the company is expected to generate an EBITDA of SAR 66.5 mn followed by SAR 297.5 mn in 2010, reaching the five year peak of SAR 1.86 bn in 2012. We expect 2011 to see the first contribution from the company's hotels & resorts JVs and from concession fees on the initial phase of the DPW operated sea port at KAEC.

• EEC is projected to record SAR 33.9 mn in 2008 net profits compared to SAR 26.3 mn in 2007, followed by SAR 88.7 mn in 2009 and SAR 224.6 mn in 2010 on the back of a higher EBITDA. Net profits are expected to expand at a CAGR of 164% before they reach their five-year peak in 2012 of SAR 1.66 bn.

• We arrived at a weighted indicative NAV per share estimate of SAR 55.62. In comparison, the EEC stock closed at SAR 20.25 today which implies that the stock is trading at a 63.6% discount to the weighted indicative NAV per share estimate.

• We initiate coverage on EEC with a BUY recommendation. Our fair value target of SAR 34.07 per share implies an upside potential of 68% to the current share price of SAR 20.25. Our fair value target is based on the weighted result from three DCF valuation scenarios which consider the potential failure of the project and two levels of potential success.

Company Overview

Emaar Economic City (EEC) is a Saudi Arabian real estate development company established in 2006 by Dubai-based Emaar Properties (Emaar, EMAR.DU) and a number of Saudi Arabian investors. EEC is a single purpose company exclusively responsible for development of the King Abdullah Economic City (KAEC) project on a 168 mn sqm land plot on the Red Sea coast and within Saudi Arabia's most populous region (the western region). In terms of built-up area (BUA), the land bank is estimated to total 144.75 mn sqm. (KAEC is located in Saudi's most populous region)

With an authorized share capital of SAR 8.5 bn, comprising 850 mn shares of nominal value of SAR 10 each, EEC underwent an IPO, offering 30% of its shares on the Saudi Stock Exchange (Tadawul) in July 2006.

Although the master developer for KAEC will be EEC, the project will benefit from the combined expertise of the Saudi Arabian General Investment Authority (SAGIA), as an overall supervising authority, and the backing of Emaar, the leading regional real estate developer – a facilitator and a field specialist.

KAEC will evolve over 17 years to become the size of Dubai today

To put KAEC in a regional perspective, it is, in essence, a city/project planned to evolve over the next 17 years to become the size of Dubai today. The development is situated in Saudi Arabia, which is the Middle East's largest economy and the largest oil exporter in the world enjoying a growing current account surplus in an increasingly liberalized economic environment. It is also a country in which demand for housing and all other real estate has been fuelled by pyramid shaped demographics, increasing wealth, economic activity and improving financial infrastructure.

A full city in the making....

Benefitting from a strategic location within Saudi Arabia, the city offers the prospect to devise a multi-faceted strategy targeting a variety of opportunities presented by immediate surroundings of its arena of operations and the competitive advantages in Saudi possession, such as lower cost of energy. Talk about economic zones or cities is typically associated with specific and narrow strategies, often focused on a niche or one core competitive advantage, leading to one or, at best, two dimensional creations. With KAEC this is not the case, and if it were it would have been close to impossible to envision reaching the target population of 1.5-2 mn. KAEC is effectively a full city in the making - and not just an industrial cluster.

...located in proximity to densely populated Makkah, Madinah and Jeddah

The first achievement on the path to create KAEC was to locate it on the Red Sea and in the vicinity of the strategically significant Western region on Saudi Arabia's Western coast. Three unique Saudi cities are located either in or around this region. Together they have around 8 mn inhabitants forming the most populous area in Saudi Arabia. Two of the cities around KAEC have a unique global appeal, especially to the world's Muslim population: The Holy Cities of Makkah and Madinah. Makkah alone attracts an estimated 10 mn visitors annually, who come to perform the Umrah[1] and the annual Hajj[2]. Saudi Arabia's second largest city and commercial heart, Jeddah, is located around 100 km south of KAEC.

Will create more room for expansion

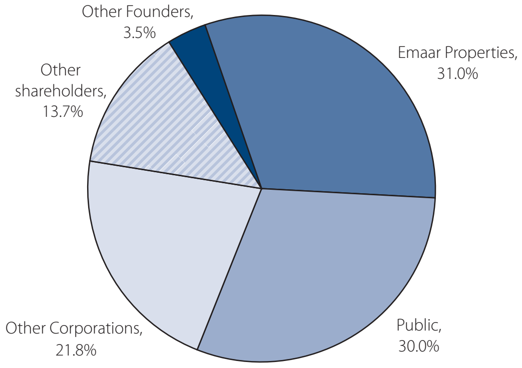
SAGIA's aim with KAEC and the chosen location is to provide Saudi Arabia and this rapidly expanding domestic region with an additional catalyst and create more room for expansion. EEC's objective is to utilize the support by SAGIA, its large land bank, and the growing demand for housing, industrial zones, commercial space and port capacity to create shareholder value.

1 *Umrah is the optional pilgrimage that can be performed anytime of the year by the world's Muslims, except during the Hajj period.*
2 *Hajj can only be performed during the last days of the month of Ramadan and is, at least, once in a life-time duty to any Muslim.*

Shareholding structure

Emaar of Dubai is the largest shareholder in EEC to date. Emaar is also the region's largest property developer in terms of market capitalization.

Shareholding Structure



Source: EEC website, Zawya, SHUAA Capital

Strategy

Strategy aimed at turning this project into a full city

EEC's primary strategic objective is to develop the KAEC project into a prosperous city with homogenous components that will blend together and make KAEC a home, a place for work and a holiday destination. In other words, core of the strategy is the challenge of bringing it all together and successfully turning this project into a city. As we have already mentioned, KAEC is a project the size of Dubai in the making. The vision being pursued has more in common with Dubai than mere target size. In all, not a small endeavor by any measure.

By leveraging Saudi's inherent advantages and infrastructure development

The core aspects of EEC's strategy revolve around the following major factors:

- Economic city status facilitates 100% foreign ownership of business and property within KAEC's boundaries with SAGIA providing a one-stop shop and, therefore, a substantial reduction in red-tape.
- Leverage on Saudi Arabia's energy cost advantage to attract energy intensive industries such as aluminium, steel and plastics. Saudi Arabia offers some of the lowest prices in the world to its industries on natural gas feedstock and electricity.
- Establishment of a port to attract industries and facilitate their growth and trade.
- Encourage the establishment of a logistics hub around the port and industrial area that benefits from exemptions on import duties for goods intended for re-export.
- Use the economy and the job opportunities created by the industrial and port initiatives to facilitate establishment of companies with supporting services, and to channelize part of the growing real estate demand in Saudi Arabia into KAEC.
- Complement the above with a higher education area supported by the Saudi Arabian authorities.
- Position KAEC as a tourist destination and transit point for Saudis and foreigners. KAEC is located on the Red Sea, next to Makkah and Madinah, which attract around 10 mn Umrah and Hajj pilgrims annually.
- A more liberal social environment.

Industrial zone and sea port to be the initial momentum triggers

To get the ball rolling, the company's strategy places the initial focus primarily on attracting business activity and creating job opportunities with the aim to plant the seeds from which demand for housing, commercial and other properties and services will be derived. As a result, the company's current center of attention is the industrial zone and the sea port, with the first leasable plots expected to be handed over to industrialists in 2008, and the sea port expected to commence operations in 2010-2011.

The first industrial plants are expected to be operational in 2009, just after the first residential units are expected to be ready. EEC recently signed a memorandum of understanding (MoU) with Dubai Ports World (DPW) for development and operation of a 20 mn TEU capacity port. This will be gradually followed-up with office, retail and hotel components.

MoU signed for aluminium smelter plant set to become the world's largest

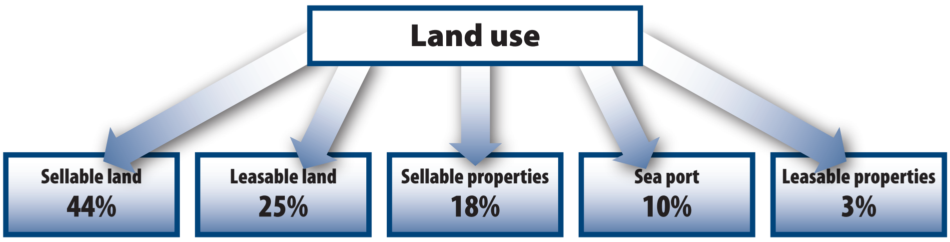
EEC and SAGIA plan to leverage on Saudi Arabia's energy advantage and attract energy intensive industries, where electricity is largest cost component, to KAEC's industrial area. To date, this has resulted in the signing of an MoU with Emirates Aluminium (EMAL), which is a joint-venture (JV) between Dubai Aluminium (Dubal) and Mubadala Development Company[3] (Mubadala) for the establishment of an aluminium smelter with an initial capacity of 0.7 mn tons per annum starting 2010. The plan is to eventually increase that capacity to around 1.4 mn tons per annum, making it the largest aluminium plant in the world. According to EEC, the planned initial investment from EMAL is estimated to be around SAR 18.4 bn.

In addition, EEC and SAGIA plan to encourage plastics conversion and light manufacturing facilities to set-up operations in KAEC's Plastics Valley in the industrial zone – both are identified as key growth drivers for the Saudi economy. The SAR 37 bn Petro-Rabigh integrated refining and petrochemicals complex, located in the vicinity of KAEC, is expected to provide feedstock for KAEC's industrial activities.

Business Model

44% of BUA land bank to be sold as serviced land plots to other developers

EEC aims to sell around 44% of its 144.75 mn sqm of BUA land bank as serviced land plots to third party developers. A further 18% is expected to be developed and sold as residential, retail and office units. The remaining 38% will primarily be utilized to generate recurring cash flows from: land on long-term lease to industrials, investment properties (retail, office and hotels/resorts) and concession fees from the port operator.



Source: EEC, SHUAA Capital
Note: The master plan for a project of this size can become subject to partial revisions and amendments which may impact the allowed density and floor area ratio. Land bank size in BUA terms would, in such a case, change accordingly.

EEC to invest in utilities initially

In addition, the company plans to invest in the utilities (electricity, water and district cooling) required by KAEC through JVs with specialized service providers. Initially, the company is expected to take on around 50% of such investments to encourage and facilitate the overall plan, only to gradually reduce its participation in subsequent stages of utilities investment. The idea is that EEC has to lead the way in the beginning to encourage private investors; however, as the city begins to emerge and the risk-reward perception of private investors change, the company will not need to be as involved.

EEC could also be the chosen telecom and pay-TV service provider

Although not evident at this stage, in our view it is highly likely that EEC could gain the exclusive right to provide fixed-line, Internet and pay-TV services within KAEC. This has been the modus operandi (MO) of EEC's 'parent' company Emaar, which established its own telecom and pay-TV service provider, Sahm Technologies, with exclusive rights in Emaar's developed communities. Today, Sahm has become part of DU, the recently established Dubai-based telecom company. DU holds the exclusive rights to provide the above services to all free zones sponsored or owned by the Dubai government.

3 *Mubadala is one of the Abu Dhabi government's investment arms. The company owns, among others: 35% of Piaggio Aero Industries, 17% of Aldar Properties, 17% of Tabreed, 17% of Spyker NV, 8.1% of Advanced Micro Devices and 5% of Ferrari.*

Overview of Saudi Arabia's Economy

Saudi economy in early stages of high growth cycle is encouraging private sector to participate

Saudi Arabia is the dominant regional economy accounting for around 25% of gross national Arab product and boasting of the largest oil reserve in the world. The country's economy is in the early stages of a high growth cycle. Unlike previous oil booms with single engine economic growth relying on increased government spending, this time around growth is being powered by multiple-engines. The government is adopting initiatives encouraging the private sector to join the economic growth drive and to further accelerate the momentum.

Supported by a massive infrastructure spending program

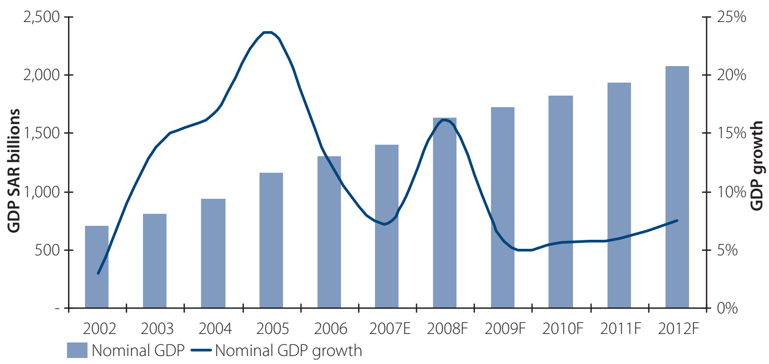
Unlike the conservatism that dominated Saudi Arabia's fiscal policy in recent years, the government today is embarking on a massive spending program focused mainly on infrastructure projects. The spending program, however, is sustained not just by high oil prices but also by the build-up of foreign assets providing a buffer in case there is an unlikely contraction in oil prices.

High nominal GDP growth

CAGR of projected GDP is around 8% from 2008 to 2012

The Saudi economy recorded strong GDP growth between 1999 and 2007, and is expected to add more momentum in 2008, followed by a slightly slower pace of growth in the run-up to 2012. In nominal terms, the Saudi economy expanded with an estimated CAGR of 15% between 2003 and 2007. As a result, total nominal GDP is estimated to have exceeded SAR 1,400 bn in 2007, compared to SAR 806 bn in 2002. The CAGR of GDP is projected to be around 8% from 2008 to 2012.

Saudi Arabia's Nominal GDP 2002-2012



Source: SHUAA Capital

World's energy needs 50% higher in 2030 than today

According to the International Energy Agency (IEA), the world's energy needs will be more than 50% higher in 2030 than today, and the share of world supply coming from OPEC members will rise from 42% to 52% - ensuring the upward pressure on oil prices.

Backed by sustained high oil prices and growing conviction of the strategic need to diversify the economy, the government is embarking on a massive spending program focused predominantly on infrastructure projects across the country.

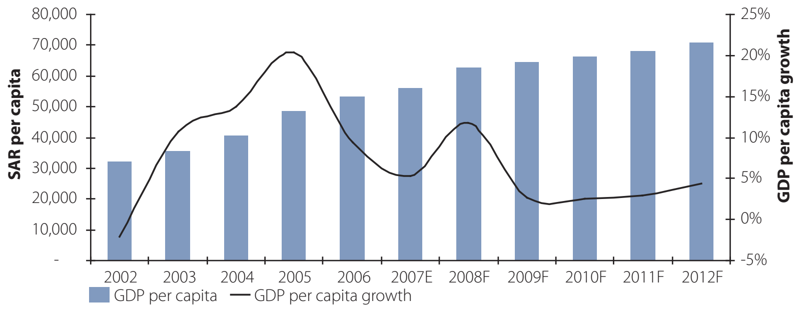
Current account surplus led 2007 capital expenditure budget to be more than double of 2005

The current account surplus of most GCC countries continues to expand on the back of increasing oil prices. In Saudi Arabia, the current account surplus rose from SAR 340 bn in 2005 to SAR 358 bn in 2006. The rising surplus, in turn, has led to the total capital expenditure budget for 2007 being raised to SAR 140 bn, more than double the 2005 outlay. Much of this will be directed towards improving basic infrastructure, such as roads, water, power and sewerage.

GDP per capita to exceed SAR 71,000 by 2012

Rising GDP per capita
GDP per capita is expected to have almost doubled from 2002 to 2007, reaching SAR 56,100 compared to SAR 32,100. The resulting CAGR for the period is around 12%. We expect the same to exceed SAR 71,000 by 2012 on the back of high GDP growth powered by oil revenues, growing economic liberalization and diversification, increasing private sector participation and foreign direct investments.

Saudi Arabia's GDP per Capita 2002-2012



Source: SHUAA Capital

Investing for Diversification: Projects in Saudi Arabia

Public-private partnerships evident in a massive number of new projects

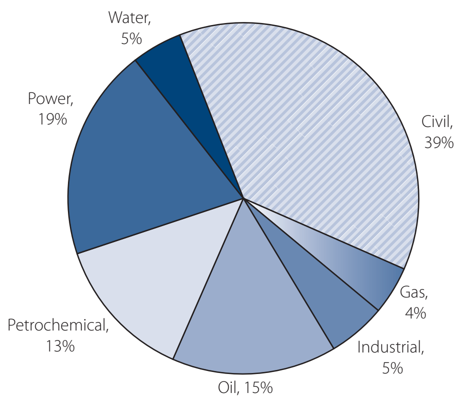
The current economic boom can be distinguished from previous expansions in one major aspect: In the last few years GCC governments have been prudent with their windfall; saving and investing wisely. A massive number of projects are currently underway or under-planning for the next decade through an impressive level of public and private investment, and more significantly, through public-private partnerships. Several characteristics of these investments set them apart from their predecessors:

- Firstly, most are viable projects with a fair share of private sector participation.
- Secondly, they build on the crucial comparative advantage that the country enjoys in terms of low-cost energy.
- Thirdly, they are being developed to diversifying the economy in a sustainable manner, and, in the long run, freeing it from its overwhelming oil dependence.
- Lastly, these investments are feeding into a wide range of industries, ensuring wide-spread diversification and vertical integration.

Civil sector takes lion's share at 39% of total projects at around SAR 3.2 tr

Our most recent estimates value the total amount of investment projects at around SAR 3.2 tr (USD 862 bn), with the civil sector taking the lion's share at 39% of total projects. The civil sector includes all infrastructural and road building, as well as residential and recreational projects. The power industry came in second at 19%, followed by the oil and petrochemical industries with 15% and 13% respectively. This reflects the kingdom's intention to exploit the advantage of its abundant natural resources by strengthening this down-stream sector.

Breakdown of Saudi Arabia's SAR 3.2 tr in Announced Projects



Source: Proleads, SHUAA Capital

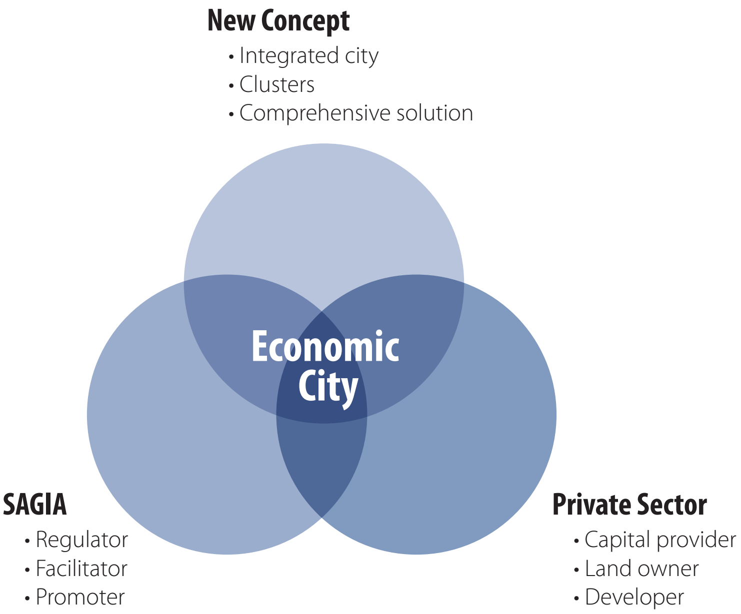
Economic cities: A recipe for growth

SAGIA to translate government's strategic directive into operational plan

SAGIA is taking the lead role in translating the strategic directives, given by the Saudi government to diversify and power the Saudi economy, into an operational plan. In doing so, SAGIA devised the economic cities concept. The objectives of the economic cities concept are to:

- Promote balanced regional development.
- Achieve economic diversification.
- Create jobs and upgrade competitiveness.

Components of Economic Cities



Source: SAGIA

The plan is to develop six economic cities around the kingdom. Four have already been launched; two more have been announced and approved but information surrounding them is currently extremely scarce. What we know at this stage is that these two cities will be located in Tabouk and in the Eastern Province.

6 economic cities to be economic stimuli triggering sustained and diversified growth

The six economic cities are designed to be economic stimuli throughout the country. The comparative advantage of low-cost energy, abundant petrochemical resources, and shared infrastructure will be the main drivers of growth and job creation for these cities. Clustering of businesses, human capital, and complementary industries will be another driver, allowing these industries to fully exploit the potential of their value chain. As well-integrated business havens, SAGIA would equip these cities with, through private and public partnership, a modern state of the art infrastructure.

The geographic strategic locations of the cities, both in the kingdom and in the region, combined with the development of logistical hubs such as port facilities and rail roads, will be a significant advantage. For example, the port being planned at KAEC is expected to become one of the largest in the region. Lastly, SAGIA has promised smoother bureaucracy for these cities such as a one-stop bureaucracy shop for all clearances and paper-work, an attractive regulatory environment, and better communication channels between investors and residents on the one hand, and government ministries and municipalities on the other.

Source: SAGIA, SHUAA Capital
Note: Details are currently not available on the size and components of the Tabouk Economic City and the Eastern Province Economic City.

KAEC has potential to create 1 mn jobs and be home to 1.5-2 mn residents

King Abdullah Economic City, Rabigh near Jeddah, is the single largest private sector project in the region with a total land plot area of 168 mn sqm, which generate a built-up area of 144.75 mn sqm. It has the potential to create one million jobs and be home to 1.5-2 mn residents. The city will include a sea port, an industrial zone, a central business district, a hotel & resorts area as well as an educational zone and residential communities.

Knowledge Economic City, Madinah, will be developed on 4.8 mn sqm and attract some SAR 25 bn (USD 6.7 bn) worth of investments. The city will comprise of various complementary zones including a technology and knowledge-based industry zone, a campus for medical research and life sciences, an integrated medical services zone, a retail zone, and a business district. The project is expected to add 20,000 new jobs to the region.

Jazan Economic City, will cover over 100 mn sqm and include a seaport, an industrial zone and a commercial business district. Residents will benefit from public facilities such as hospitals and schools, as well as other academic and vocational training institutions. Total investment size is estimated at SAR 100 bn (USD 27 bn). The new city's industrial zone, which represents more than two-thirds of the project, will accommodate heavy industries such as oil refinery, an integrated petrochemical complex, a copper refinery and smelter, and an aluminium complex. It will also cater to the region's growing agricultural sector with food processing and cutting-edge agri-tech producers.

Prince Abdulaziz Bin Mousaed Economic City, in Hail will be a hub for logistical and transportation services, supply chain centres, in addition to an agro-industrial zone, and mining and processing industries.

Walking the talk…

The demographic reality in Saudi Arabia, the strategic significance of economic diversification to safeguard long-term national interests and the enhanced spending ability of the government as long as oil prices are above the USD 40 level, are key drivers behind Saudi Arabia's desire to move into high gear now.

SAGIA's objective is to turn Saudi into one of world's top-10 most competitive economies

The growing determination by the Saudi government to place the country's economy on a launch pad is evident from the growing liberalization and reform initiatives, which led the World Bank to recognize Saudi Arabia as one of the top reformers in the world in 2007, and the best place to do business in the Middle East. SAGIA, with its objective to turn Saudi Arabia into one of the world's top-10 most competitive economies, played a pivotal role in this achievement.

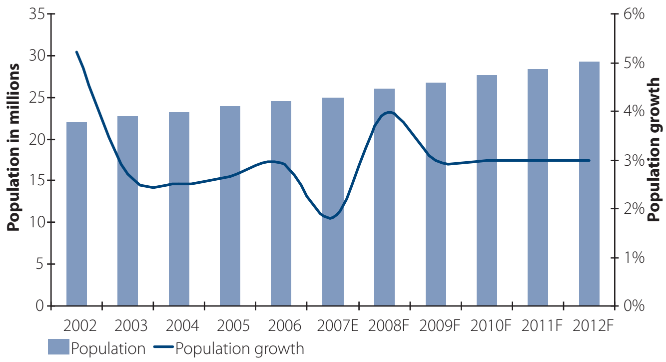
Growing Demand for real estate

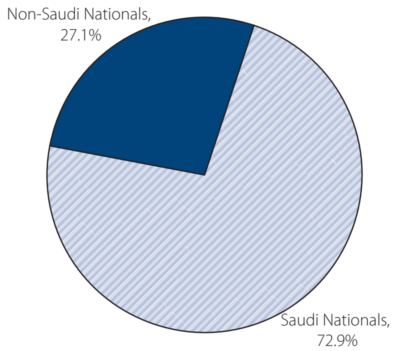
Young and growing population

Saudi population to grow at CAGR of 3.2% from 2007 to 2012…

Saudi Arabia's population is estimated to total at least 25 mn inhabitants in 2007, recording a CAGR of almost 2.5% between 2002-2007. We expect the Saudi population to exceed 29 mn by 2012, resulting in a CAGR of 3.2% from 2007 to 2012. This compares well with a global population growth rate in 2007 of 1.2%. Overall, developed countries posted a 0.1% growth compared to 1.5% in the less developed.

Saudi Arabia's Population 2002-2012





Source: SHUAA Capital, Ministry of Economy

…high by international standards

In other words, the Saudi population growth rate, although significantly lower than that of the UAE and Qatar, is considered high by international standards. However, we would like to stress that unofficial information is putting the Saudi population growth rate at even higher levels.

..and comprised primarily of locals/nationals

Unlike the UAE and Qatar, the Saudi population is comprised primarily of locals/nationals rather than expatriates. In the UAE around 80-90% of the population is made up of expatriates, while in Saudi Arabia non-nationals amount to a relatively low 27%.

Population of 50 mn by 2050

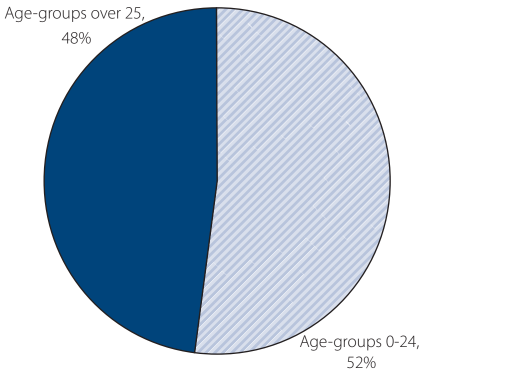
According to the Population Reference Bureau (PRB, 2007), the Saudi population is projected to double by 2050 and reach almost 50 mn. In comparison, the developed part of the world is projected to see a 3% growth over the same period, while the less developed is expected to expand by 57%.

Almost 40% of the population is below 15 years

UN (2006) population data indicates that around 52% of the Saudi population is below the age of 25 years. In comparison, only 34% are below the age of 25 in the USA.

More importantly, around 38% of the population of Saudi Arabia is younger than 15 years and 2% is over 65 years. In contrast, 17% of the population, in what the PRB defines as the more developed world, is below 15 years and 16% are estimated to be above 65 years.

Saudi Arabia's Demographics by Age-group



Source: UN Population Division, World Population Prospects, 2006 Revision

Very young population in need of jobs and homes in near future

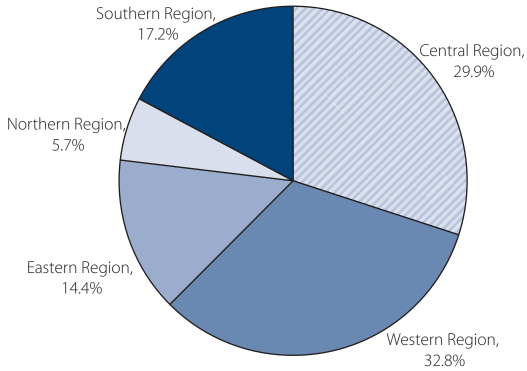
In short, this demographic reality means that Saudi Arabia has a very young population which will be in need of jobs and homes in the near future. The concept of economic cities, such as KAEC, is one of the major initiatives that have been taken by the government to boost the economy, create jobs and deliver a proportion of the required new homes.

The region surrounding KAEC is the most populous

The largest population centre in Saudi Arabia is the western region, followed by the central region. The western region is home to Islam's two holiest cities, Makkah and Madinah. In addition, it is the location of KAEC and Jeddah, Saudi Arabia's commercial hub and second largest city.

In other words, KAEC is located in the most populous area of Saudi Arabia and the one that is expected to be the largest source of demand for real estate in future.

Saudi Arabia's Population by Region



Source: Saudi Arabia's Central Department of Statistics

Introduction of the new mortgage law

Demand is expected to be stimulated further by the new mortgage law, which is due to be introduced in 2008. The new law should boost the ability of Saudi residents and Saudi-based expatriates to buy homes by allowing establishment of mortgage firms and, therefore, increasing the availability of home finance products.

New mortgage law to help 55%-60% of population living in rented homes become owners

Around 40-45% of Saudi residents own their own home, the remainder of the population resides in rented properties. However, the main concern is not the current status but rather the one that is gradually emerging on the back of the demographic reality and the accelerating population growth in the kingdom. In the absence of a mortgage law and home finance products, the proportion of home owners could very well see significant dilution.

With property prices on the rise, the old habits of buying in cash are becoming less common and even impossible for many of the new families that are expected to be formed over the next two decades. It is in this context that the significance of the mortgage law is best placed.

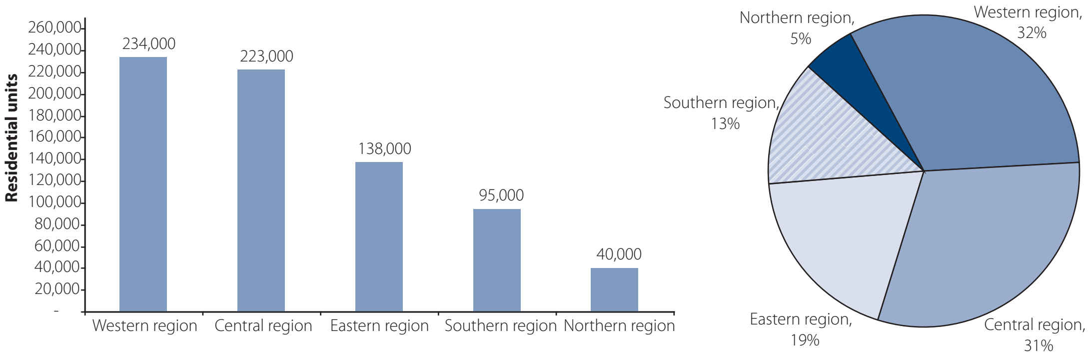
Demand for residential units is on the rise

Saudi to need an average of 130-140,000 residential units per annum

Based on the Population Reference Bureau's expectation that the Saudi population is going to double by 2050, the country would need around 5.5-6 mn new residential units over the next 43 years if we assume the average household size for the period to be 4.5. This converts into an average of 130-140,000 residential units per annum, excluding replacement demand.

The Saudi Arabian government's most recent five year development plan estimates the country will need around 730,000 residential units between 2005 and 2009. This converts into an average of almost 145,000 units per annum, including around 20,000 units in replacement demand.

Expected Residential Demand by Region 2005-2009



Source: Eighth Development Plan, Ministry of Economy and Planning.

Demand from KAEC's geographic area

An estimated 32% of the total demand in Saudi Arabia is expected by the government to come out of the western region, which is the location of KAEC and three major cities:

Jeddah, which is Saudi Arabia's second largest city and arguably the commercial hub of the kingdom.
Makkah, the holiest city and the pilgrimage destination for one of the world's largest religions, Islam. Makkah is also home to some of the world's most expensive real estate.
Madinah is the home town of Prophet Muhammad (PBUH) and site of his burial, consequently the second holiest Islamic city.

Projected housing demand in KAEC's target area is 6.5 times the city's planned supply

Assuming everything else remains the same, this would mean that KAEC's geographic area has demand for almost 1.8 mn residential units in the run up to 2050, and around 234,000 units during the period of the Eighth Plan. In comparison, EEC's master plan includes around 275,000 residential units developed by EEC and third-party developers (who acquire serviced land from EEC).

Absorbing surplus from capacity constrained urban areas

A key objective for the government with KAEC is to enhance the ability of this area of Saudi Arabia to absorb the growing demand and also provide additional investment opportunities supported by incentives to create new jobs and attract people to this new city. The demand that is expected to be generated out of the demographic reality and the population growth cannot be absorbed by current infrastructure and the urban plans in the region's existing cities.

Demand pressures led to 10% rise in house prices last year

The growing demand for residential property in Saudi Arabia is starting to show an increased impact on house prices, which are estimated to have increased by around 10% last year. Despite this increase, residential real estate units in Saudi Arabia exchanged hands for square meter prices in the range of SAR 3,500-20,000. Low-income housing units are available for around SAR 3,500-6,000 per sqm, meanwhile apartments with premium finishing and in prime locations sell for around SAR14,000-20,000 per sqm.

Ageing office stock and rising rents

95% occupancy & rising rentals indicate huge demand in office segment

The Saudi Arabian office segment is characterized by domination of secondary and tertiary grade office space and high occupancy rates. The largest markets for office space are the two major cities of Riyadh and Jeddah, where occupancy rates are estimated to be in the region of 95%. Both cities have recorded rental rate growth rates of 10-15% annually over the past five years.

Unlike Dubai, most office space developed as investment property

We estimate that prime office space sells for around SAR 20,000 per sqm. However, to date the vast majority of office space is not being offered for sale on a unit basis, instead most office space is developed as part of an investment property portfolio. This is different from Dubai, where companies have numerous options to acquire a full floor or less of office area.

Rental rates in Riyadh and Jeddah are in the range of SAR 1,000-1,500, depending on the quality of the property. It is, however, fair to say that even the upper-end of the supply is typically well below international standards for office properties. Few exceptions exist, such as Kingdom Tower in Riyadh, but these rare properties typically fetch rates of around SAR 2,500-3,000, when available.

Upper grade office space in Riyadh and Jeddah

Detail	Estimate
Selling price (SAR/sqm)	20,000
Rent (SAR/sqm/year)	1,000-1,500
Average 5 year Annual increase	10-15%
Occupancy	95%

Source: SHUAA Capital, Colliers International

Economic growth further pushing demand for office space

Demand for office properties is coming from the accelerating pace of economic growth in Saudi Arabia, the growing need to 'update' the ageing stock and develop well defined business districts. Moreover, the expected emergence of new cities such as KAEC, is expected to further diversify the sources/locations of demand for office space.

Improving hotel market

10 mn tourist arrivals in 2007

International tourism arrivals in Saudi Arabia increased by around 150% over the past ten years, to reach an estimated 10 mn in 2007. Most visitors to Saudi Arabia are from other Muslim countries and religious tourism accounts for around 65% of all international inbound tourism into the country. The second largest group of visitors are business related.

Higher occupancy in hotels

According to the most recent data on the Saudi hotel market by HVS International, Riyadh's quality hotels achieved an average occupancy rate of 70% in 2006, up from 62% the year before. Occupancy rates in Jeddah increased by 3% to reach 64% during the same period. Similar growth rates in occupancy were recorded in both Makkah and Madinah, the two holiest cities in Islam.

Riyadh and Jeddah Hotel Indicators

Indicator	Riyadh	Jeddah
ADR (SAR)	530	515
RevPAR (SAR)	375	326
GOPPAR (SAR)	296	259
Occupancy	70%	64%

Source: HVS International, SHUAA Capital

Rising RevPAR

Meanwhile, average daily room rates (ADR) increased by an impressive 29% in Riyadh to reach an estimated SAR 530. The increase in the average rate, together with the strong improvement in occupancy, led to a 47% expansion of revenue per available room (RevPAR) to SAR 375.

The Jeddah quality hotel market's performance was less impressive, while ADR decreased by 5% to reach SAR 515, a RevPAR decline was offset by the occupancy rate increase.

Undersupplied retail segment

0.6 sqm per capita GLA in Riyadh & Jeddah falls below 1 sqm in Dubai and Abu Dhabi

The Saudi Arabian retail property market is undersupplied relative to the neighboring markets of Abu Dhabi and Dubai, despite the lower spending capability of the populous. Gross leasable area (GLA) per capita in Riyadh and Jeddah is around 0.6 sqm per capita in each of the cities, up from around 0.3 sqm in 2000. In comparison, the GLA per capita stands at around 1 sqm in Dubai and Abu Dhabi City (not the emirate), with Dubai expected to see that figure more than doubling over the next three years. All in all, Riyadh is estimated to have 2.5 mn sqm of GLA versus 2.1 mn sqm in Jeddah, according to Colliers International.

Mall based retail space in Riyadh and Jeddah

Detail	Estimate
Rent (SAR/sqm/year)	1,500-3,000
Average 5 year Annual increase	15-20%
Occupancy	98%

Source: SHUAA Capital, Colliers International

Rental rates increasing by 15-20% annually since 2005

Mall occupancy rates are high, with the major shopping centres enjoying an estimated occupancy rate of 98%. Rental rates are reported to have increased by 15-20% annually since 2005. The rental scale for mall located retail properties in Riyadh and Jeddah is estimated to be in the range of SAR 1,500-3,000 per year and per sqm.

Unlike Riyadh, Jeddah is a primary transit point for the millions of pilgrims that visit Makkah and Madinah, and should, therefore, be able to support a higher GLA per capita than the capital city.

The Project – King Abdullah Economic City

Designed to become one of Saudi Arabia's largest and most modern city

As per the master plan generated by EEC for King Abdullah Economic City (KAEC), the project will evolve over the next 17 years to become one of Saudi Arabia's largest and most modern city. The city plan includes residential areas, shopping malls, hotels & resorts, an education zone, a central business district, industrial area, a hajj terminal and a sea port. It is estimated that once completed the city will have around 1.5-2 mn residents and approximately 1 mn jobs supporting its and the surrounding region's sustainability and prosperity.

In a country short on cities with adequate urban planning

KAEC will offer a well planned city based on one coherent master plan taking into consideration modern requirements of people and businesses. The plan includes developing well defined residential and commercial districts including a central business district with a financial Island. To better understand the significance of these qualitative aspects and the competitive advantage they provide to EEC, one must know that Saudi Arabia, like many other regional countries, is short on cities with adequate urban planning.

Last but not least, KAEC is expected to offer a more liberal lifestyle and social environment that should act as a catalyst for demand and form another unique selling proposition (USP) for this emerging city.

Land bank size and price

In total, EEC holds 168 mn sqm of land plot area on which KAEC is being built. Based on a floor area ratio (FAR) of just over 0.85, the total land bank size in terms of BUA is estimated at 144.75 mn sqm. A key reason behind this lower FAR is the fact that the current master plan includes around 63 mn sqm of plot area as open space. In addition, the KAEC development is of relatively low density.

EEC's land bank

Detail	Estimate
Land bank (plot area/sqm)	168,000,000
Floor area ratio	0.86
Land bank (BUA/sqm)	144,750,000

Source: EEC, SHUAA Capital

Offers low density on land acquired at SAR 26 per sq m

Although the land was acquired by EEC rather than granted by the Saudi government, the price at which it was bought is as close as you can get to a grant. EEC paid an estimated total of SAR 3.78 bn which translates into almost SAR 26 per sqm of BUA. Most of the land bank was acquired from the Saudi Navy and, to a lesser degree, from other private owners. The process was facilitated by SAGIA.

Land bank use

The company plans to make use of its land bank in five different ways:

- Land developed for sale
- Land developed for long-term lease
- Properties developed for sale
- Properties developed for lease and hotels
- Port generating concession fees

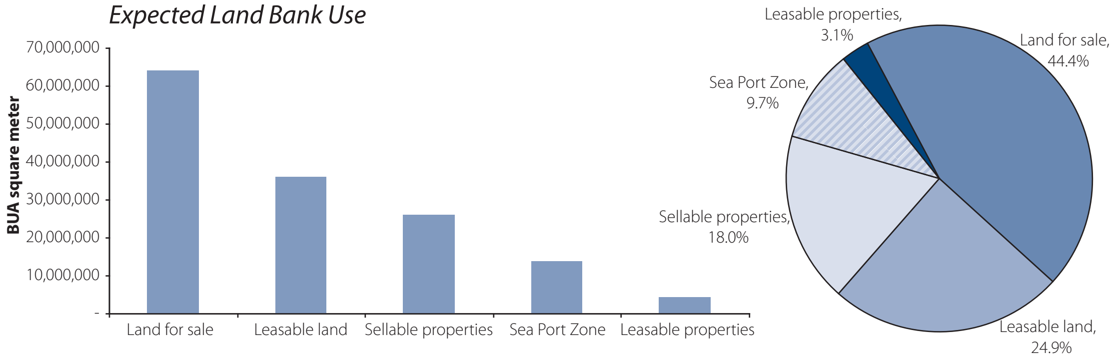
Land plots sold will be designated for specific uses

EEC's operational strategy aims to sell around 44% of the land bank to third-party developers, as serviced land, over the course of the project's lifetime. Unlike raw land, serviced or developed land includes primary and secondary infrastructure. Third party developers have to adhere to the master plan. Plots will be sold with a pre-determined core function, which means that land plots would be designated for a specific role, for example: residential, office, retail or education use.

Signed MoU with DPW to create one of the largest ports worldwide

According to EEC's master plan, an estimated 25% of the land bank has been allocated to the industrial zone for long-term lease to industrial companies. 18% of the land bank is intended for development by EEC into sellable properties, dominated by residential units. A further 14 mn sqm or almost 10% of the total BUA, is allocated to the sea port and the hajj terminal. According to the recently signed MoU with Dubai Ports World (DPW), the port is slated to become one of the largest in the world. With a planned capacity of 20 mn TEU's, the port would become the largest port on the western coast of the Arabian Gulf and the largest on the Red Sea.

Expected Land Bank Use



Source: EEC, SHUAA Capital

The execution risk and our approach

Planned completion date of 2024 appears difficult

According to the company's guidance, the objective is to complete the development of the entire KAEC by 2024. Our view is that the sheer magnitude, uniqueness of this endeavor and potential complications associated with creating a city from scratch could render this exercise to be a more time consuming undertaking attaching lower probability to the 100% success scenario.

To create a Dubai on the Red Sea in 17 years, as per the company's plans, is certainly not impossible, but it is a sizeable venture. Despite the fact that KAEC is not a planned capital city, the project background and ambitions are comparable to those behind the development of Washington, Brasilia, Canberra and Islamabad. All these cities prove that it is indeed possible, but the question is to what extent and in what time?

Creating different scenarios with varying probabilities

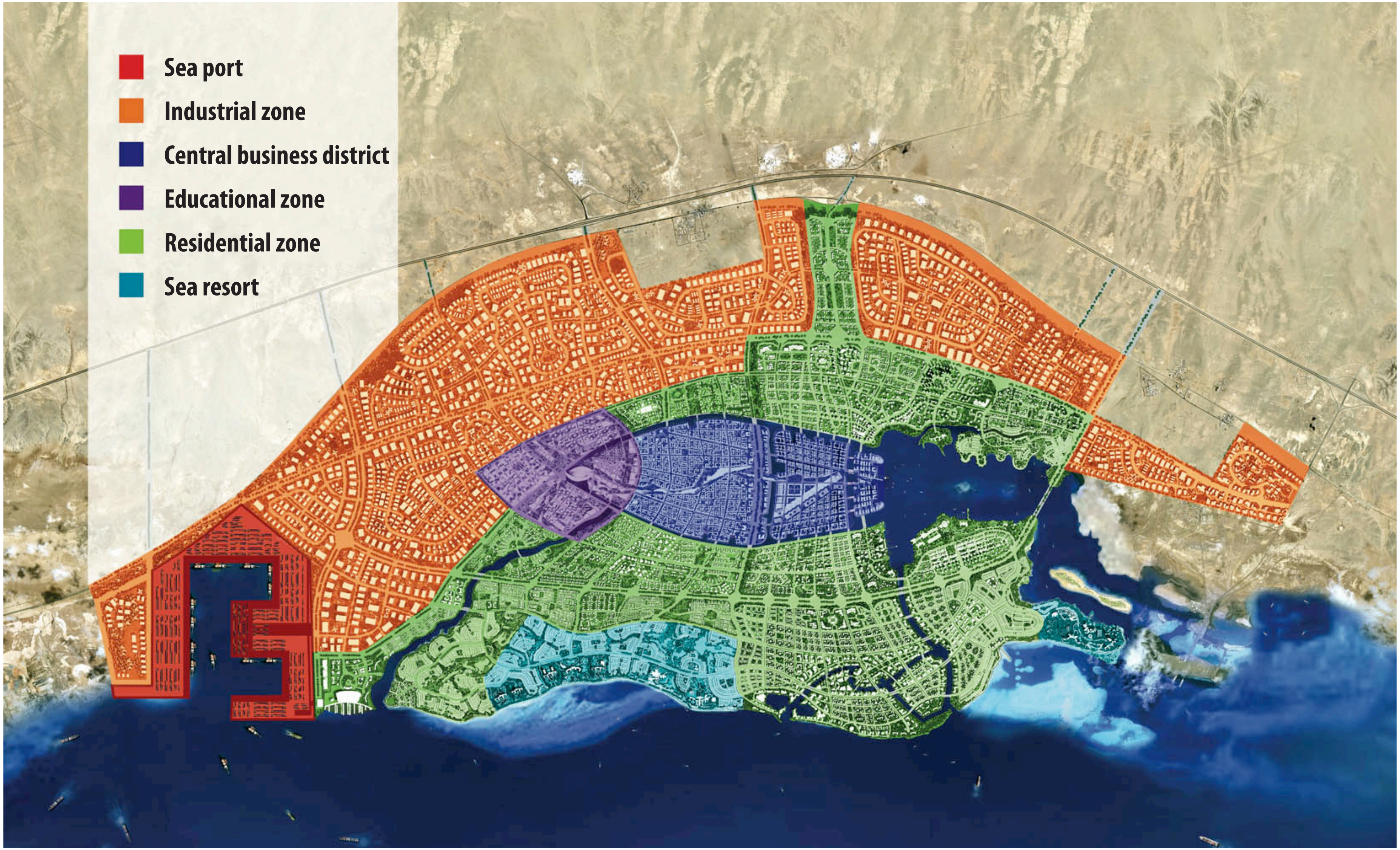
Although KAEC will not benefit from the 'push' associated with moving all government institutions and offices to the city as a new capital city would, it has been granted strong government support and strategic assets in a fast growing economy with an increasing demand for real estate. But will this city create enough jobs for 1.5-2 mn people to move in? And if it does, will EEC and SAGIA pull it off in 17 years?

Essentially, either failure or any of two varying degrees of success

As a result, we extended the development time-line to 2028, almost 21 years from today, and most importantly, we opted to apply a scenario analysis on the KAEC development. The scenarios are essentially either failure or any of two varying degrees of success. In short, the scenarios revolve around whether KAEC is going to be a 'city' or a 'town' by 2030.

In the following sections we will describe and analyze the five different methods through which the company plans to deploy its land bank and in the process generate value. Although our financial projections stretch from 2008-2030, the following sections will focus on the next five year period which is not subject to the scenarios because it is the most visible period today and the smallest development phase/period in our projections. The years from 2013-2030 will be subject to a scenario analysis in our valuation section.

Map of King Abdullah Economic City



Land developed for sale

Analyzing the next five years

EEC plans to develop and sell an estimated 64 mn sqm of serviced land in KAEC. This amounts to 44% of the total land bank in terms of BUA. Developers buying these plots will have to comply with the guidelines of EEC's master plan in their property designs and development.

To date, the company has not started selling land; the intention is to hold back until H2 08 when the first residential units are expected to be delivered. The objective behind this approach is to achieve higher selling prices compared to selling from the very beginning when KAEC had no track-record. This is not to say that by H2 08, KAEC would have a much longer track-record, but what we know is that the residential units launched by EEC in H2 07 sold for an average of SAR 7,500 per sqm. In Q1 08, EEC launched comparable units for SAR 10,000 per sqm.

Characterized by staggered land sale to unlock acquired value

The company believes that by initiating the positioning of KAEC and coupling that with progress in sales prices of residential properties away from the initial "discount" toward the "real value" will allow the company's serviced land plots to command higher selling prices. Essentially, the company aims to boost the KAEC investment case for third party developers before offering land for sale. This is, to an extent, an approach similar to that of Aldar Properties (Aldar) in the UAE, which only started land sales on Al Raha Beach once it had made considerable progress in the development and unit sales.

Zoned and phased infrastructure development work

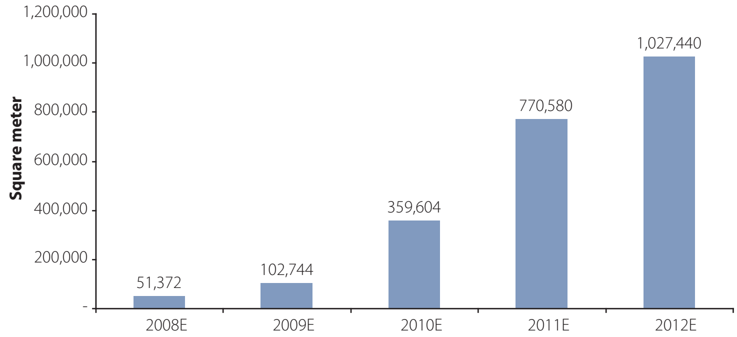
The infrastructure development work will be zoned and phased. The company will undertake land development of a section rather than all of its land bank while selling land and developing its own sellable and leasable properties in the same area before moving on to the next zone. The company is currently developing the land in the Bay La Sun project area with infrastructure expected to be ready in Q4 08, when EEC delivers its first residential units there.

Sellable land from 2008-2012

Development costs to be 15% higher than management guidance

We expect the company to develop an estimated 2.7 mn sqm of BUA for sale over the next five years. We estimate average starting cost of land in KAEC to be SAR 800 per sqm of BUA, vs. a starting selling price of SAR 1,500. Management guidance indicated that the cost of developing infrastructure would be in the region of SAR 700 per sqm, including the SAR 26 per sqm of purchase price. However, our view is that actual costs are likely to be higher. Consequently, we applied a 15% cost premium on the guidance.

Total Completed BUA of Sellable Serviced Land per annum by EEC 2008-2012



Source: EEC, SHUAA Capital

We estimate that the average selling price will start at SAR 1,500, which would be at a discount between 32% to 57% to Jeddah's land prices. Land is estimated to be selling in the range of SAR 2,200-3,500 per sqm of BUA in Jeddah, with prices expected to rise further. Land in the southern part of Jeddah's corniche, which is the city's up-market district, sells for prices in the range of SAR 2,800-3,500 per sqm of BUA.

Land price assumptions

Detail	Estimate
Estimated EEC selling price (SAR/sqm of BUA)	1,500
Estimated land price in Jeddah (SAR/sqm of BUA)	2,200-3,500
KAEC land price discount to Jeddah	32-57%

Source: SHUAA Capital

Land sale price to witness gradual rise

Land prices are expected to gradually escalate in both Jeddah and KAEC over the coming years on the back of rising demand for real estate, growing public sector encouragement and private sector investment participation relative to previous years. In KAEC's case, the argument is re-enforced by the planned inclusion of one of Saudi Arabia's largest industrial parks, one of the largest regional ports, superior master/urban planning relative to other cities and unique selling propositions such as a more liberal social environment.

In terms of price escalation, we assume that prices will increase by 10% annually over the next five years. Meanwhile, we expect construction costs to increase at a rate of 7% annually over the same period. Saudi Arabia has, over the past five years, recorded an inflation rate of around 3% annually; in 2007 inflation came in at around 4%. Initial 2008 data indicates a doubling in the rate of inflation to around the 7-8% level. However, we expect Saudi Arabia to wrap-up 2008 with an inflation rate of around 7%.

Construction cost to rise by 7% taking inflationary pressures into account

Going forward, we project that the inflation rate will decline to reach an average of 5% for the period from 2008 to 2012. Yet, we expect construction costs to appreciate at higher pace. Hence, we applied a 7% construction cost increase on land development in the five years between 2008 and 2012.

Properties developed for sale

Properties to be developed for sale by EEC fall in either one of the following three segments:

- Residential
- Retail
- Office

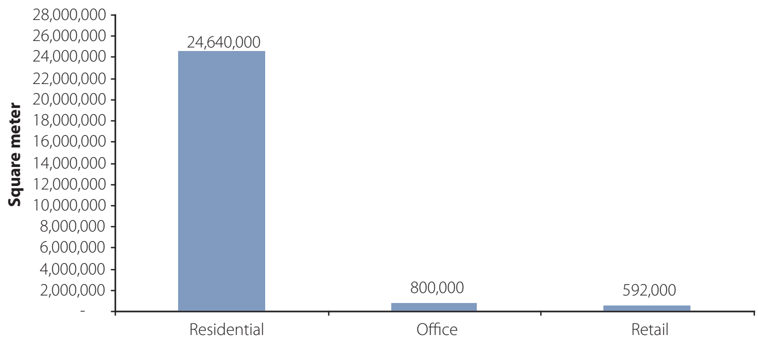
Company has around 21 mn sqm of NSA to develop

Based on the current master plan, we estimate that the company has around 26 mn sqm of BUA to develop 20.8 mn sqm of net sellable area (NSA) across the above three segments, based on a building efficiency ratio (BER) of 80% for both residential and office space and 70% for retail.

Residential segment to consist of only sellable properties

The largest share, by far, is the residential, followed by the office and retail segments. Almost 95% of the planned NSA is residential, around 5% is planned to be office and retail space. However, unlike EEC's plans for the residential segment, which is made up of only sellable properties, retail and office will also form part of the company's investment property portfolio.

BUA Breakdown by Segment of Total Planned Sellable Properties by EEC



Source: EEC, SHUAA Capital

20% of retail and 50% of office space sellable

While EEC plans to sell all of its residential developments, sellable retail and office space accounts only for 20% and 50% respectively of total area developed. The balance will be held in EEC's investment property portfolio to generate recurring cash flows and contribute to long-term earnings sustainability. Consequently, the above chart excludes the leasable retail and office components.

The first deliveries

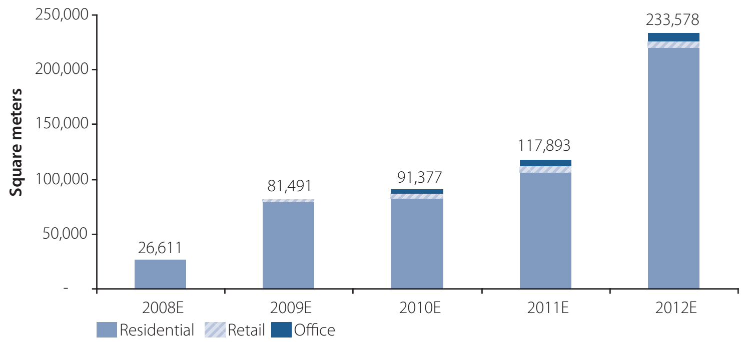
NSA developed by 2012 is only 2.5% of total net area

EEC, which is still on the take-off strip and has yet to deliver any property, is expected to deliver around 0.55 mn sqm of NSA by 2012, of which 94% is residential. While this NSA makes up around 2.5% of the total net area planned for development by ECC for sellable and leasable purposes, it is the equivalent of around 60% of UAE-based Union Properties' (UPRO.DU) MotorCity project and around 40-50% of the Jabal Omar (4250.SE) Development's net area.

First 200 apartments scheduled for delivery in late 2008

A total of around 200 apartments are scheduled for delivery in late 2008, making them the first delivered sellable properties in EEC's short history. The pace of property development is expected to pick up during 2008 and accelerate on the way up to 2012, when almost 0.23 mn sqm of NSA are expected to be delivered or around 42% of the total for the period.

Breakdown of Completed NSA per annum by EEC 2008-2012



Source: EEC, SHUAA Capital

Residential

During H2 07 the company launched a total of 540 pre-dominantly sea facing residential units out of which around 430 units were reported sold by end of 2007. This is despite the fact that a significant component was launched only in December that year.

Launch price in 2008 record 33% gain over end-2007 prices

The first batch of units were launched in September 2007 for a price of SAR 6,500 per sqm, they sold out in three days. By December the same year, the average price had increased by 15% up to SAR 7,500 per sqm. The first launch of properties in 2008 started in late March, the new price for similar property in the same area is, on average, SAR 10,000, per sqm which equates to a 33% gain over end-2007 prices.

Prices to receive further boost as economic activity takes hold in KAEC

In comparison, sea facing apartments in Jeddah are reportedly selling in the range of SAR 14,000-16,000 per sqm. In other words, sea view apartments in KAEC are selling at a discount of up to 38% compared to prices in Jeddah. The reason is simply that KAEC is not an obvious choice for home, yet. As progress becomes more visual and tangible for the average home buyer and jobs start to get created, KAEC property prices should receive a boost. Placing this in the context of the general momentum in Saudi Arabia, the growing demand for residential units and the support behind KAEC makes the case even stronger.

However, we have to keep in mind that the current price of SAR 10,000 per sqm is for apartments located in a sea facing area. EEC has yet to launch any residential units in other areas, consequently this is the equivalent of the average price now, based on a limited sample.

Average price to stay around the SAR 10,000 for 2008 and 2009

Going forward, we expect EEC to launch properties that are located more inland at a discount to prevailing prices for sea facing apartments at that point in time. As a result we have assumed that the current average price which is based on a limited sample, will get diluted by new units launched at lower prices in less attractive locations. This will, in our view, dilute the growth in the average price and lead the average price to stay around the SAR 10,000 for 2008 and 2009 before beginning to add 10% annually in the run-up to 2012. Meanwhile, construction costs are forecasted to continue increasing at the pace of 7% annually till 2012.

Residential unit price assumptions

Detail	Estimate
Estimated EEC average selling price now (SAR/sqm of NSA)	10,000
Estimated average selling price in Jeddah* (SAR/sqm of NSA)	14,000-16,000
KAEC average property price discount to Jeddah	29-38%

Source: SHUAA Capital
*Note: *= We are referring to the average selling price of sea facing units and those located more inland but of comparable quality and property class.*

Retail

The company is developing the retail components of the KAEC development in-line with progress in its residential properties. However, unlike the residential component, no retail units have been offered for sale as yet. The company will also hold on to around 50% of its retail developments as part of its investment property portfolio. Data in this section only refers to the sellable proportion.

Small retail components within residential communities during the first stage

EEC has yet to launch any major retail project and, most likely, EEC will only offer small retail components within its residential buildings/communities during the first stage. Major retail developments, such as malls in the 100,000 net sqm range are expected to be launched beyond 2012. While we have assumed that retail units will sell with an average premium of 40% on residential space, we expect their development cost to be the same. In comparison, Jeddah retail space goes for up to 2x the price of residential space in the same area.

Retail unit price assumptions

Detail	Estimate
Estimated EEC average selling price (SAR/sqm of NSA)*	14,000
Estimated average selling price in Jeddah (SAR/sqm of NSA)	20,000-25,000
KAEC average property price discount to Jeddah	30-44%

Source: SHUAA Capital
*Note: *= EEC has not launched any sellable retail space to date. This is our assumptions of the potential selling price.*

Office

Business district to be developed with a time lag…

The development of the business district is expected to commence in 2008, 12-18 months after the construction starts for the first residential and retail units. The objective behind this time lag is to allow for a critical mass of companies to reach an operational stage in KAEC's industrial zone and for a small community/town to be ready.

…At 20% premium over residential space

We anticipate that offices will sell at a premium to the residential units on a per square meter basis, with comparable development costs. As a result, the company is expected to enjoy higher margins on the commercial space than on the residential. We estimate that office space will sell at a premium of no less than 20% over residential space.

Office unit price assumptions

Detail	Estimate
Estimated EEC average selling price (SAR/sqm of NSA)*	12,000
Estimated average selling price in Jeddah (SAR/sqm of NSA)	16,000-20,000
KAEC average property price discount to Jeddah	25-40%

Source: SHUAA Capital
*Note: *= EEC has not launched any sellable office space to date. This is our assumptions of the potential selling price.*

Accounting for properties developed for sale

Revenues recognized based on the percentage of completion method

EEC is using the same approach as Emaar when it comes to accounting for the sale of developed properties. This means that the company will recognize revenue on the basis of the percentage of completion method, subject to two conditions:

- Construction exceeding the 20% mark of property completion.
- Payments received from the property buyer exceed 20% of total sales price.

The result is that during the initial stage of a specific properties' development, sales generated will not be recognized as revenue. Hence, there is an initial time-lag followed by a 'sudden' recognition of 20% of total sales adjusted for completion.

Properties developed for lease and hotels

Investment properties to be developed by EEC fall in either one of the following four segments:

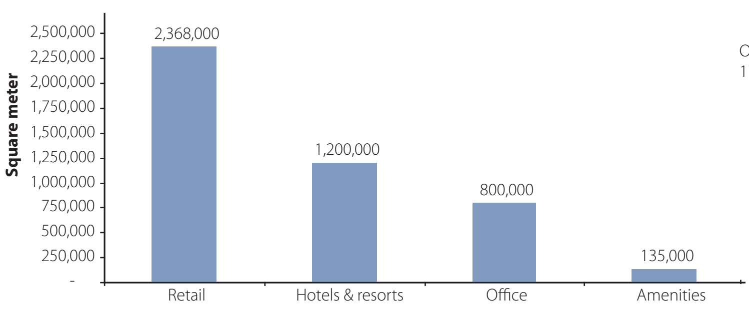
- Retail
- Office
- Amenities
- Hotels & resorts

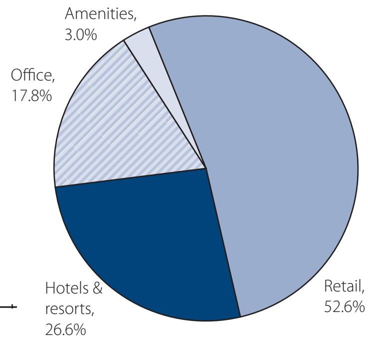
EEC has allocated around 4.5 mn sqm of BUA for its investment property, including hotels and resorts, which could potentially generate around 2.4 mn sqm of NLA of retail, office and amenities. In addition to the NLA, this area could hold around 12,000 hotel rooms.

Initially, amenities space to be developed by EEC

The majority of total BUA slated for developing EEC's investment property portfolio is planned to be retail space, followed by hotels & resorts, office and amenities. By amenities we are referring to police & fire stations, government buildings, mosques, hospitals, primary & secondary schools among others. EEC plans to develop such 'facilities or service centres' during the initial stage; however, in the medium and long-term, the company aims to sell most of the land slated for amenity space to the relevant parties, such as the authorities, hospital and school operators for them to develop.

BUA Breakdown by Segment of Total Planned Leasable Properties and Hotels by EEC



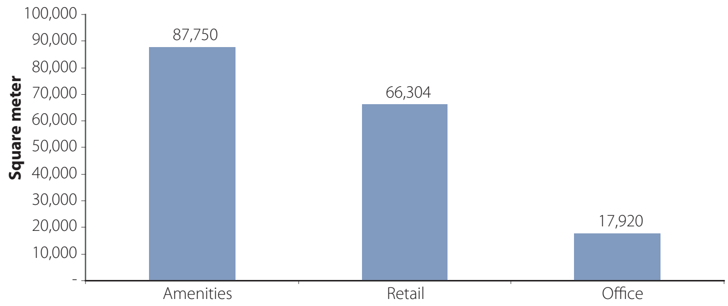


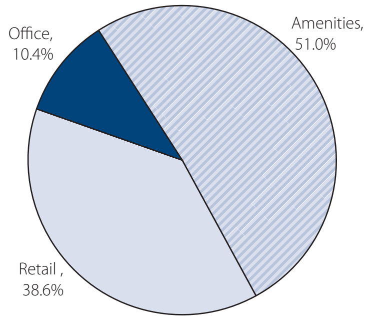
Source: EEC, SHUAA Capital

The next five years of leasable property

Over the next five years we expect EEC to develop an estimated 172,000 sqm of NLA and 360 hotel rooms. Over 50% is expected to be amenities, in other words buildings for police stations, mosques, clinics, schools and other government buildings. (EEC to develop around 172,000 sqm of NLA and 360 hotel rooms in next 5 years).

Breakdown of Expected Completed NLA by 2012





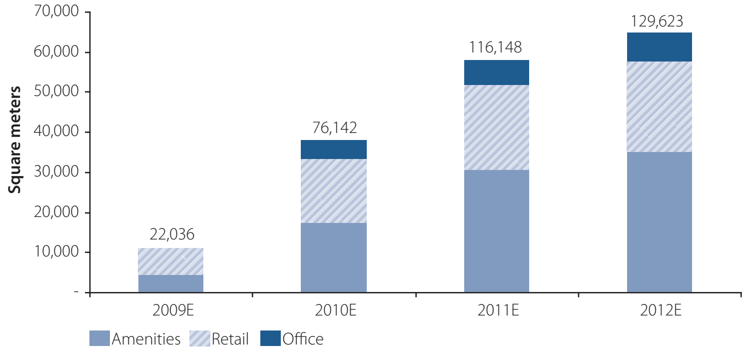
Source: EEC, SHUAA Capital

First retail unit delivery in 2009 & first operational office in 2010

Keeping in mind that the first residential units will be delivered in late Q4 08, we expect the company to complete the required initial amenities no later than Q1 09. In addition, we expect EEC to complete the first retail unit delivery in 2009.

With regards to office space, 2010 is expected to be the year when the first few companies would have started to get their operations up and running in the industrial zone, according to management guidance. This makes sense given that the first leasable land plots in the industrial zone are due for delivery in H2 08, and another 12-24 months for most companies to develop their properties and factories. We will discuss and analyze in greater detail the leasable land business, in the next section of this report.

Annual Breakdown of Completed NLA 2009-2012



Source: EEC, SHUAA Capital

First hotel to be completed by 2011

In addition to the leasable properties, the company is expected to develop around 360 hotel rooms in KAEC over the next five years. We anticipate that the first hotel will be completed by 2011, with around 110 rooms followed by another hotel in 2012 with 250 rooms. The rationale is that by 2011-2012, the development momentum at KAEC would have gathered speed, leading to more real estate development by EEC and third party developers; businesses being established in the industrial zone; the port commencing operations, and government activities in KAEC expanding, creating a need for business hotels.

Estimated rental and occupancy rates of leasable properties

We consider, at this stage, the amenities being developed by EEC to be a 'must do' service to establish the viability of the city's initial phase. Consequently, we have adopted an annual rental rate of SAR 350 per sqm with an initial occupancy of 65% for the first amenities in 2009, and a net yield of nil. Down the road, we expect the investment case to improve as the city begins to emerge and results in the growth of third party investors seeking to develop hospitals, schools and other amenities in KAEC.

EEC to offer amenities at nil net yield initially to ensure viability of the concept

Government related buildings are expected to be developed in this initial phase and leased out to the various authorities almost at cost. As the city expands and moves into high gear, we expect this to change and the government to buy land for its buildings and complexes or alternatively `commission' EEC to develop the required buildings for the authorities to take up on long-term lease basis.

KAEC retail and office rents assumed to be at a discount to Jeddah rates

Retail rents in prime shopping streets in Jeddah are reported to be in the region of SAR 1,100-2,250 per sqm. We have assumed a blended rent of SAR 900 per sqm in KAEC, which is almost 20% lower than the lower-end of the rental range for Jeddah based retail units. In addition, we are assuming limited supply combined with an occupancy rate of 60% initially, with a gradual increase to around 80%.

Retail unit rental assumptions

Detail	Estimate
Estimated average EEC rental rate (SAR/sqm of NLA)*	900
Estimated average rental rate in Jeddah (SAR/sqm of NLA)	1,100-2,250
KAEC average rental rate discount to Jeddah	18-60%
Assumed starting occupancy	60%
Assumed occupancy by 2012	80%

Source: SHUAA Capital
*Note: *= EEC has not launched any leasable retail space to date. This is our assumptions of the potential rental rate.*

Although quality will be superior

Major Saudi cities generally lack international grade office space and well defined central business districts, something EEC plans to turn into its favor by developing a product that is rare in Saudi Arabia. Even in the cities where prime office properties exist, such the Faysaliah and Kingdom in Riyadh, they exist almost in isolation rather than as part of a complete and coherent business district.

Office unit rental assumptions

Detail	Estimate
Estimated average EEC rental rate in 2010 (SAR/sqm of NLA)*	800
Estimated average rental rate in Jeddah in 2008 (SAR/sqm of NLA)	940-1,500
KAEC average rental rate discount to Jeddah	15-47%
Assumed starting occupancy	70%
Assumed occupancy by 2012	80%

Source: SHUAA Capital
*Note: *= EEC has not launched any leasable office space to date. This is our assumptions of the potential rental rate.*

We assume an estimated rental rate for EEC's office space starting from SAR 800 per sqm of NLA in 2010 with a starting occupancy of 70%. In comparison, Jeddah office space is going for around SAR 940-1,500 per sqm and per annum with rents increasing by around 10-15% annually over the last three years, although it is of a significantly lower grade than the planned properties by EEC.

Hotels and resorts

EEC to develop only 12,000 keys of total 20,000 hotel room planned

EEC envisions around 20,000 hotel rooms in KAEC by the time the city is completed, out of which it plans to develop around 12,000 keys and the balance is expected to be developed by third party developers who would have acquired land from EEC.

Mostly in joint ventures

The plan is to develop all of planned 12,000 EEC's hotel and resort rooms in joint-ventures with other developers or hotel operators. In the period between 2008 and 2012, the company is expected to develop around 360 rooms, mainly in the form of business hotels to cater to the expected increase in business visitors to KAEC. The first EEC developed resorts are expected in 2014 and 2016.

The degree of success of the project could see number of rooms exceeding projections

Of course, the number of hotels and rooms expected over the next five years could potentially exceed our estimate. However, that will depend on the progress across the KAEC development and the degree of growth in home buyers, new business establishments and progress in granting exceptional liberties to KAEC as a free zone and a more relaxed social and entertainment spot in Saudi. At this stage and in the absence of detailed hotel property development data, we have opted to not exceed this level. We have to also keep in mind that a proportion of sold land will be used to develop third-party hotels and resorts, some of which could be ready before 2012.

For our income assumptions, we elected to use the gross operating profit per available room (GOPPAR) of Jeddah hotels as our main indicator. Unlike other hotel performance indicators, GOPPAR takes into account profits from the hotels ancillary services, such as food and beverage sales. The GOPPAR for Jeddah hotels is based on a 64% occupancy rate and was, according to the most recent market data, the equivalent of SAR 281 per room in 2006, which leaves considerable scope for performance improvement.

Discounting Jeddah's GOPPAR by 35% yields income per room of SAR 192 for KAEC

To bring the 2006 Jeddah GOPPAR up to an estimated 2007 level, we made a 5% upward adjustment to the figure which we then discounted by 35%. The discount is made up of 20% to compensate for the fact that KAEC is a travel and business destination in the making as opposed to an established destination, and 15% for non-direct hotel expenses. The outcome was an estimated income per room for KAEC in 2007 of SAR 192, which was adjusted for a minimal 3% annual increase upto the date of the first hotel opening.

Our estimates for the hotel development costs are based on HVS International's most recent survey on cost of development in the USA. We selected from the sample, hotels and brands common in the region's top tier four and five star categories. Based on this exercise we reached a development cost per key of SAR 938,125, excluding land. A cost which we subjected to a 7% annual increase during the initial five year period, to adjust for increasing cost of materials and growing contractor margins on the back of the expected construction boom in Saudi Arabia.

With estimated development cost per key of SAR 938,125, rising at 7% p.a.

Development costs in the USA are probably higher than in Saudi Arabia. However, this is, in our view, compensated for by the fact that regional hotel rooms in the top categories typically offer more spacious and better equipped rooms than their US counterparts, so we called it even.

Estimated Hotel Development Costs in 2007

All figures in SAR	Development cost range (excl. land)			Furniture, fixture & equipment		
	Lower	Upper	Average	Lower	Upper	Average
Crowne Plaza Hotel	326,250	603,750	465,000	37,500	67,500	52,500
Crowne Plaza Resort	382,500	652,500	517,500	45,000	86,250	65,625
Hilton	423,750	720,000	571,875	75,000	101,250	88,125
JW Marriot	645,000	1,027,500	836,250	75,000	90,000	82,500
Le Meridien	386,250	1,098,750	742,500	67,500	131,250	99,375
Sheraton	386,250	918,750	652,500	67,500	131,250	99,375
Average	**425,000**	**836,875**	**630,938**	**61,250**	**101,250**	**81,250**
Development cost per room						**938,125**

Source: HVS International, SHUAA Capital

Accounting for leasable properties and hotels

Properties developed for lease and hotels are collectively referred to as investment properties by us, regardless of the accounting standards' definition, which typically considers hotels as part of property, plant and equipment (PP&E) because of their ancillary services. Investment properties with significant ancillary services, such as most hotels, have to be booked on the balance sheet in the Plant, Property & Equipment (PP&E) line using the cost model, and be subject to depreciation rather than the fair value model according to IAS 40. We typically comply with the latter.

No fair value gains on investment properties to be booked on company's income statement

Either way, EEC is adopting the cost model on all 'investment properties' and everything is subject to depreciation. Currently Saudi Arabian standards do not allow for utilization of the fair value model. Consequently, we will not be seeing any fair value gains on investment properties being booked on the company's income statement in the absence of a regulatory change.

Land developed for long-term lease

An industrial zone with almost 36 mn sqm of land

With its 36 mn sqm of land in BUA terms, the industrial park is KAEC's single largest component. The objective is to gradually develop parts of the land area and lease it out on long-term basis to industrial companies. EEC would essentially be delivering serviced land that is, land equipped with infrastructure. The leasing company would stand for the development of any plant or property it needs.

To date, the company has managed to attract a number of investments/tenants to KAEC, including two 'flagship' names: Total and Dubai Aluminium. Satlub, a JV between Total and the Saudi Al Zahid business group signed an MoU with EEC in December 2007 on building a lubricants blending facility in KAEC with an initial annual production capacity of 35,000 metric tons (MT). Satlub's objective is to target both the largest Arab market for lubricants, Saudi Arabia, and the African continent through KAEC.

The world's largest aluminium smelter setting-up in KAEC

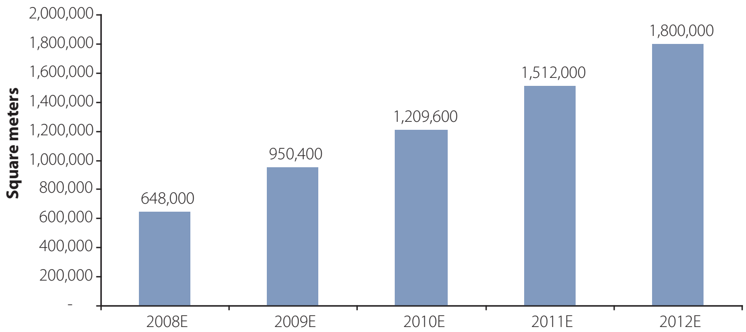
In addition, Emirates Aluminium (EMAL) which is a JV between Dubai Aluminium Limited (Dubal) and Mubadala, signed an MoU with EEC and SAGIA to develop an aluminium smelter plant in KAEC. The smelter is expected to have an initial capacity of 0.7 mn tons per annum starting 2010. The plan is to eventually increase that capacity to around 1.4 mn tons annually, making it the largest aluminium plant in the world.

Five year outlook

6.1 mn sqm of land to be developed for industrial lease by end-2012

We expect the company to complete the development of an estimated 6.1 mn sqm of land for industrial lease by end of 2012. The very first industrial plots are due for handover to clients in late Q4 08 with around 0.65 mn sqm expected to be delivered then. In 2009, an estimated 0.95 mn sqm is expected to be completed and reaching all the way up to 1.8 mn sqm in 2012.

Annual Breakdown of Completed Leasable Industrial Land 2008-2012



Source: EEC, SHUAA Capital

The estimated cost of development is SAR 850 per sqm of BUA for the industrial zone, with an expected initial rental rate of SAR 19 per sqm. Moreover, EEC aims to charge a 12% service charge per annum on the rent. We expect the service charge to cover almost all operating expenses of this part of EEC's business.

Contracts in any of the phases subject to around 2% annual rent increase

The rental rate for new phases is expected to rise rapidly over the next five years as KAEC begins to emerge, companies move into the industrial park and the port approaches commencement of operations. However, signed contracts in any of the phases will be subject to around 2% in annual rent increase. To start with, we assume an occupancy rate of 70% with a gradual increase up to an average occupancy of 85% in 2012.

Rental rate increase for industrial land

Detail	2009	2010	2011	2012
Estimated average EEC rental rate (SAR/sqm of BUA)*	19	22	26	33
Increase		15%	20%	25%

Source: EEC, SHUAA Capital
Note: First plots are due for delivery in Q4 08, we assume lease period starts January 2009. In addition to the rental rate, the lessee has to pay a 12% service charge.

Rents in KAEC vs. other industrial zones

Scarcity of industrial land ensures high rentals

Our understanding is that industrial land in the Arab world's largest economy, Saudi Arabia is a scarce asset. The government supported the establishment of a number of industrial zones in the past, which today enjoy full occupancy and are typically leased for a marginal rate of SAR 2-5 per sqm. One might wonder why anyone would want to pay SAR 19 per sqm when the rate in other Saudi industrial zones is much lower. The answer to that is: try to find a property on the market in those zones, when or if you do, you would typically have to buy the contract from the lessee for millions and probably spend some cash on demolition of existing plant or property. The net result is typically rates inline with those EEC plans to charge. In addition, KAEC promises:

- Reduced red tape and a one-stop shop managed by SAGIA.
- Modern infrastructure with ease of access to one of the main highways in Saudi Arabia.
- Proximity to a major regional port and a railway link, eventually.

The upside evident when compared to rentals in JAFZA

A regional test of our industrial land lease assumptions, confirms their competitiveness and the potential upside. A closer look at the Jebel Ali Free Zone (JAFZA) in Dubai, which has several similarities with the KAEC industrial zone, reveals that land is being leased in a price range equivalent to SAR 20.5-82 per sqm with quay plots being subject to negotiation. The price depends on location, industry type and classified zone. However, it is clear that the average rental rate is much higher than the assumed EEC rates, which indicates a potential upside even to our 2012 rate of SAR 33 per sqm.

2.7% gross yield on phases leased by 2012 and 3.5% thereafter

Based on the assumed rental and occupancy rates, the gross yield for all phases leased by 2012 is estimated to reach 2.7%. The yield for the plots added in 2012, is expected to be around 3.5%. In other words, the average yield is suppressed by the lower average rental rates of the initial phases. Given that plots are leased out on long-term basis, there is limited room for adjustment. We assume only 2% average annual lease rate increase for signed contracts. Typically, industrial plots should generate around 3.5%-5% in yields. Over the lifetime of the project, the impact of initial 'discount phases' should get diluted.

Industrial land assumptions

Detail	Estimate
Estimated average EEC starting rental rate (SAR/sqm of BUA)*	21.3
Estimated rental rate range in JAFZA ‡ (SAR/sqm of BUA)	20.5-82
KAEC rental rate discount (premium) to Jebel Ali Free Zone	(4%)-74%
Assumed starting occupancy	70%
Assumed occupancy by 2012	85%
Expected gross yield in 2012	2.7%

Source: SHUAA Capital
*Note: *= Includes the 12% service charge on the SAR 19 initial rental rate per sqm. ‡= JAFZA (Jebel Ali Free Zone) is located in Dubai, UAE.*

KAEC Port – One of the largest in the region

Port with 20 mn TEU capacity to be a key peg

One of KAEC's most important master plan components is the sea port, which has a planned capacity of up to 20 mn twenty-foot equivalent units (TEU) and the ability to receive the largest of the world's ships. More importantly, it is a component that is expected to attract major industrial companies to KAEC's industrial zone, together with the other advantages presented to private investors by the economic city status.

DPW to operate the port, first phase ready in 2010

EEC announced recently that it had signed a MoU with Dubai Ports World (DPW), which stipulates that the latter will operate the port. In addition, EEC and DPW revealed that a multi purpose cargo terminal will be ready by end of 2010 followed by a 1.6 mn TEU capacity container terminal in mid-2011.

However, EEC and DPW have yet to share the terms of this agreement and the development plan beyond the initial phase.

Likely form of agreement with DPW

A number of ownership structures and formats of management agreements exist in the global port business. However, the starting point for the KAEC port narrows the number of possible options down, in our view, to:

- Concession agreement
- Build, Operate & Transfer (BOT) agreement
- Joint-venture/hybrid of the above

A concession agreement essentially grants the operating company the right to manage the quayside, landside and own the terminal super structure for a pre-determined period of time. The ownership of the land and terminal infrastructure would remain in the hand of EEC. However, in this case there is no infrastructure in place, all there is to it is raw land.

The alternative is to reach a BOT agreement, which stipulates that the port operator be granted the right to develop the plot of land allocated for port operations within KAEC with the right to operate it for a pre-determined period of time.

In return for any such concession/exclusive right of operations limited to a period of time, EEC would be the recipient of either one or a combination of all of the following:

- Variable fee based on TEU throughput[4]
- Flat annual fee regardless of throughput
- Fixed upfront fee

Undecided terms of agreement face diverse options

Another highly likely alternative is that EEC would enter into a form of JV agreement with DPW, where the two parties share the development costs and the returns. Although this would mean that EEC would have to make significant equity contributions and share the risks, this could very well be the most rewarding option for EEC.

Five year outlook

In the absence of sufficient details on the agreement, we decided to utilize a variable concession fee approach based on Jebel Ali Port[5] (JAP) indicators.

DPW's agreement with the government of Dubai, the Concession Owner for JAP, stipulates that the company pay a fixed annual fee to operate the port. The estimated annual cost on DPW for the JAP concession is around SAR 172.5 mn per annum. In 2007 JAP had a capacity of 12 mn TEU and a throughput of 10 mn TEU. This converts into an average of SAR 17.3 per TEU, presently. We subjected the SAR 17.3 per TEU figure to a 3% annual inflation adjustment in the run-up to the planned start of container terminal operations in 2011.

Throughput assumption offers significant upside based on regional demand projections

Based on the announcement made by EEC and DPW, we have assumed that the initial phase will deliver 1.6 mn in handling capacity. During the initial period we assume a utilization rate of 70% and a projected annual throughput of 1.1 mn TEU's . Drewry[6] expects the Middle East region to start suffering from a capacity shortage by 2011/2012 resulting in container handling demand exceeding capacity at 100% utilization by 7% for the region. This means that our throughput assumption offers significant upside, should the port be able to position itself in the market. In the meantime, we are more comfortable with a utilization rate at a discount to established regional ports.

4 *Throughput is the number of TEUs that are handled by the port annually.*
5 *Jebel Ali Port is operated by DPW on concession fee basis, the land is owned by the government of Dubai.*
6 *One of the leading global consulting firms on sea ports.*

The resulting annual concession fee is around SAR 21 mn, generated out of a utilization of around 5% of the total planned capacity of 20 mn TEU's. To put this in perspective, let's assume for a moment that the port would have a capacity of 20 mn TEU's and 100% utilization rate in 2011 with a fee per TEU of SAR 18.8, the port would generate around SAR 375 mn of recurring income from concession fees annually.

From Jebel Ali to KAEC

Jebel Ali Port		KAEC Port - Stage 1	
Estimated annual fee (SAR)	172,500,000	Estimated capacity in 2012	1,600,000
Throughput in 2007	10,000,000	Utilization rate	70%
SAR per TEU	17.3	Throughput	1,120,000
		Estimated annual concession fee now (SAR)	19,320,000
		SHUAA Capital applied annual fee increase	3%
Estimated annual concession fee starting in 2011 for Stage 1 of port (SAR)			21,111,486

Source: DPW, SHUAA Capital

Middle East sea port market

Throughput growth projected at CAGR of 9.6%

The growing regional economies and their increasing trade with the world is expected to fuel Middle East throughput growth in the run-up to 2012, resulting in a projected CAGR of 9.6%. Meanwhile, existing capacity expansion plans are expected to fall short of regional requirements, according to Drewry. In other words, regional demand is expanding at a faster rate than regional capacity, which is expected to create opportunities for new ports, like the one planned in KAEC, and expansion of existing ports.

Supply and demand of Middle East sea port capacity

Middle East	2006	2007	2008E	2009E	2010E	2011E	2012E	CAGR
Throughput	24,111	27,190	30,273	32,992	35,911	39,044	41,794	9.6%
Capacity	31,964	34,414	36,914	38,464	39,014	39,014	39,014	3.4%
Utilization	75.4%	79.0%	82.0%	85.8%	92.0%	100.1%	107.1%	6.0%

Source: Drewry

Based on the above table, throughput/demand is expected to exceed capacity/supply by almost 2.8 mn by 2012, assuming that the actual maximum capacity utilization is 100% and not lower.

However, the growth witnessed in the region coupled with liberalization initiatives in what used to be closed economies is creating stepped supply and demand curves because changes in the prevailing regulatory environment can be drastic and happen almost overnight. Take the Jebel Ali Port for example, which has been a tremendous success for many reasons. Our view is that one of the most important reasons behind this success came out of the "Dubai Catalyst" initiative by the government.

Taking a leaf from Jebel Ali Port's success story promises success for KAEC port as well…

A key component behind the high demand and the rapid expansion of the port was triggered by the establishment of the Jebel Ali Free Zone, which allowed 100% foreign owned entities to set-up operations in the GCC region for the first time. This was a fully owned access point for foreign companies to the region and not just into Dubai, which became Jebel Ali's unique selling proposition. As the regional economies expand, liberalize more and the market grows, new initiatives will come into being like the KAEC port, which will challenge existing exclusivities and, probably, share a growing basket of rewards.

Utilities – Pro bono publico

For a project the size of KAEC the utilities requirements are a major challenge and even more so if the decision is to go for the best technology out there. More importantly, the availability of sufficient water desalination and electricity generation capacity aligned with the development progress is a critical success factor.

….If key components such as water desalination and electricity generation are developed alongside

As we have pointed out before, the success of KAEC is only possible if all the key components, that shape a city, are developed in coordination without leaving a gap too discouraging for potential new residents and companies during the initial phases, the most critical period for the project.

EEC to invest in utilities to override investor's initial risk perceptions

To power and water the rise of this emerging city, EEC has adopted a strategy to participate in utilities investments during the critical initial phases. The company aims to encourage private investors and established utilities operators to invest in the utilities services required in KAEC, by participating in the investment outlay during the initial phases. The underlying assumptions is that the risk perceptions of third party investors will gradually diminish and that the investment case for new utilities investments in KAEC will become more clear and attractive to them and that this, over time, will eliminate the need for EEC's participation in this non-core activity.

A `pro bono publico' approach

In the absence of any detailed guidance on the utilities business and given the fact that there are no operational plants yet, we have opted to use a 'pro bono publico'[7] approach. In other words, we are assuming this will be an investment by EEC for the 'public good', with a return inline with our weighted average cost of capital (WACC). In short, the utilities investments expected to be made by EEC in the initial phases are assumed to not add quantitative value. They will, however, add qualitative value by supporting the off-take of the KAEC project.

7 *Pro bono publico means for the public good.*

Indicative NAV vs. Current share price

EEC has a land bank of 144.75 mn sqm of BUA, which has not been appraised by any third party to date and no land sales have been made that could indicate a market value of land.

What we know at this stage is that the company acquired raw land for the equivalent of SAR 26.1 per sqm of BUA. The most important value additions to the land, post its acquisition by EEC are the rights, the strategic importance that this previously unused plot of land has been granted by the government, and the progress made to date. We are specifically referring to the:

Strategy components and progress to date added value to raw land

- Economic city status, which will allow a more attractive investment environment.
- Right to include a sea port on what is today a private land and a private venture.
- Agreement with DPW on the operation of the KAEC sea port.
- Progress made in sale of launched residential units proving a degree of market appetite.
- Progress in attracting major companies to the industrial zone and the establishment of Petro-Rabigh next door.
- Market positioning of KAEC as a modern city in the making, which will offer job opportunities, better standards of living, and a more liberal social environment.

Combining this progress with the trend of rising land and property prices in Saudi Arabia on the back of rapidly growing demand, we assumed in our projections that EEC would initiate land sales in late 2008 at a price of SAR 1,500 per sqm. The assumed sale price would be at an estimated 32-57% discount to prevailing land prices in Jeddah and, potentially, an even greater discount to prices in Makkah.

In the absence of any land appraisal and land sales, we have opted to explore the potential NAV value per share based on a land value per sqm of SAR 1,200 including infrastructure. This land price is 20% lower than the price we have assumed the company would sell land at in the second half of 2008. As we mentioned earlier, the value of land in a project of this nature will be created by a number of factors including the market positioning of the project, the pace of development, and the sale figures – all contributing towards shaping the perception of third party developers about the potential of this project.

We expect the end of 2008 to see EEC delivering the first residential units and industrial land plots. Moreover, we expect the company to launch the utility services, start work on larger development phases and reveal more details on the agreement with DPW. On top of that, we expect the Saudi government to ratify the new mortgage law. Consequently, the short-time between today and the end of the year can have a significant impact on the value of land. Hence, we assume SAR 1,200 market value now versus SAR 1,500 later this year.

The question we posed ourselves is what would the NAV per share of EEC be if the current market value of land was at a 20% discount to our assumed end-2008 prices, while keeping in mind the execution risk associated with KAEC?

NAV through three high level scenarios

We opted to look at the NAV value through three high-level scenarios. The scenarios revolve around the proportion of land bank for which there are potential buyers. In the bear case scenario we assume the market can only absorb 30% compared to 80% and 100% in the base and bull case scenarios respectively. Once again, we are conducting a high-level analysis here.

The answer to the question we posed ourselves is that with a SAR 1,200 assumed value of land per sqm of BUA and the commitment to develop infrastructure on that land, the net value of land would be SAR 400 per sqm. Only 30% are assumed to be actually sellable under the bear case scenario, which once adjusted for shareholders equity (includes the remaining 70% of land bank at cost), would give an indicative NAV per share of SAR 30.41. Using the same methodology for the base and bull scenarios would yield an indicative NAV per share of SAR 64.47 and SAR 78.10 respectively.

Scenario based NAV estimate per share

Detail (SAR)	Bear	Base	Bull
Land bank (BUA/sqm)	144,750,000	144,750,000	144,750,000
% of land market can absorb	30%	80%	100%
Assumed selling price now per sqm	1,200	1,200	1,200
Cost of land development & acquisition per sqm	(800)	(800)	(800)
Estimated value of land per sqm	400	400	400
Estimated total value of scenario adjusted sellable land bank	17,370,000,000	46,320,000,000	57,900,000,000
Add: Shareholders equity	8,482,568,000	8,482,568,000	8,482,568,000
Total adjusted NAV	25,852,568,000	54,802,568,000	66,382,568,000
Number of shares	850,000,000	850,000,000	850,000,000
NAV per share	30.41	64.47	78.10
Current share price	20.25	20.25	20.25
Current price discount to NAV	-33%	-69%	-74%
Weight by scenario	30%	60%	10%
NAV contribution per share by scenario	9.12	38.68	7.81
Implied scenario weighted NAV per share			**55.62**
Implied current share price discount to NAV			**-63.6%**

Source: EEC, SHUAA Capital

NAV implies current share price at discount of almost 64%

To arrive at one indicative NAV per share estimate we applied a weighting on each of the scenarios, with the base case scenario given 60%, and 30% and 10% to the bear and bull cases respectively. As a result, we arrived at a weighted indicative NAV per share estimate of SAR 55.62. In comparison, the EEC stock closed at SAR 20.25 today which implies that the stock is trading at a 63.6% discount to the weighted indicative NAV per share estimate.

SWOT – Analysis

Strengths	Weaknesses
• Strong relationship with SAGIA. • Backed by one of the largest real estate developers globally and the most experienced and reputable regionally: Emaar Properties. • Holds a land bank the size of Emaar Properties', Aldar Properties, Sorouh Real Estate's, Dar Al Arkan's and Jabal Omar's combined land banks in the GCC.	• The location has no economy and is developing a city from scratch without any proven precedence. • Despite the solid experience in real estate development provided by the backing of Emaar Properties to EEC, neither side has the experience of creating a city and an economy. • Distant completion time line increases uncertainty and operational risks.
Opportunities	**Threats**
• Growing demand for real estate in Saudi Arabia. • Saudi Arabia's first mortgage law in 2008, which should boost the capability of the demand base to acquire property. • KAEC is located in the region that is expected to be the largest source of demand for real estate • Granted a license by the government of Saudi Arabia to establish a sea port with a potential handling capacity of 20 mn TEU's . • SAGIA to provide one-stop-shop services, which will reduce bureaucracy and facilitate the establishment of new business, attract investments, jobs and demand for real estate to KAEC.	• Failure to incentivize a critical base of companies to set up base and trigger a self sustaining cycle of human migration. • Competition from other emerging cities and industrial clusters. • Execution risks due to shortage of labor and rising construction costs. • Failure to coordinate development of various key aspects dampening investor's nascent interest. • Geopolitical instability in the Gulf region.

Source: SHUAA Capital

Financial Analysis and Forecasts

EEC is potentially the largest developer of real estate in the Gulf region

With a land bank of 144.75 mn sqm in BUA, EEC is potentially the largest developer of real estate in the Gulf region. EEC's land bank exceeds the combined total of Gulf land owned by Jabal Omar, Dar Al Arkan, Emaar Properties, Aldar Properties and Sorouh Real Estate.

Company recorded a net profit in 2007 for the first time

Until H1 07, the EEC story was just a nice story. This is, however, starting to change as EEC's activities on the ground pick up pace and sales begin to steam ahead. The shift from the start-up era is gaining momentum and the company recorded a net profit in 2007 for the first time, but without any operating revenues. The change is expected to gain additional ground in 2008, when EEC is expected to start recognizing revenue from property sales.

Revenues

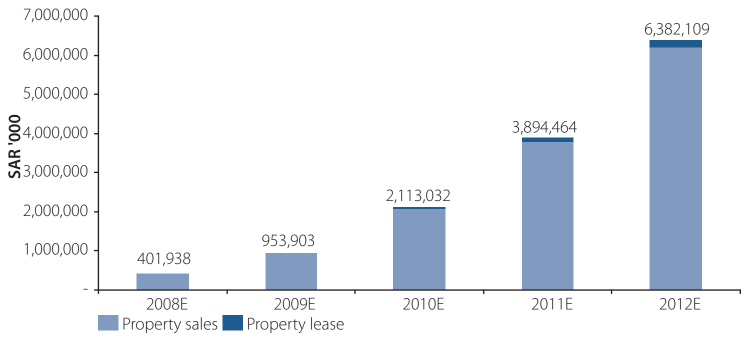
First revenues property and land sale expected in 2008

As we have mentioned before, EEC has yet to recognize any operating revenue. We expect this reality to change starting 2008, when the company is anticipated to begin recognizing revenue from property sales and, to a lesser degree, from land sales. The first revenues from rental/leasable properties are expected in 2009, by then the first leasable industrial land plots, rental retail properties and amenities would have been handed over.

Estimated CAGR of revenues is 100% for 2008 -2012

Our projected 2008 revenue is SAR 402 mn compared to no revenues to date; by 2009 we expect revenues to reach SAR 954 mn before escalating all the way up to SAR 6.38 bn in 2012. As a result, the estimated CAGR of revenues is 100% for the period between 2008 and 2012, which is high due to the expectation that the next five years represent the take-off stage.

EEC's Revenue 2008-2012

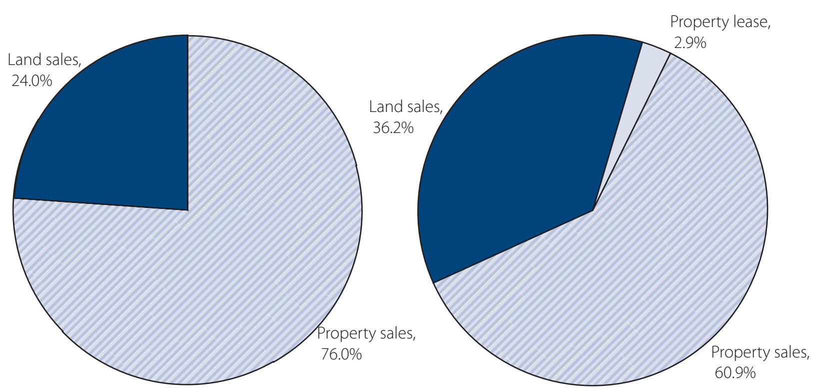


Source: EEC, SHUAA Capital

76% of projected 2008 revenue to come from property sales

Around 76% of the projected revenue in 2008 is expected to come from property sales with the balance generated from land sales. By 2012 property sales are expected to be contributing 61% of revenues followed by 36% from land sales and almost 3% from property lease.

Breakdown of EEC's Revenues 2008 and 2012



Source: EEC, SHUAA Capital

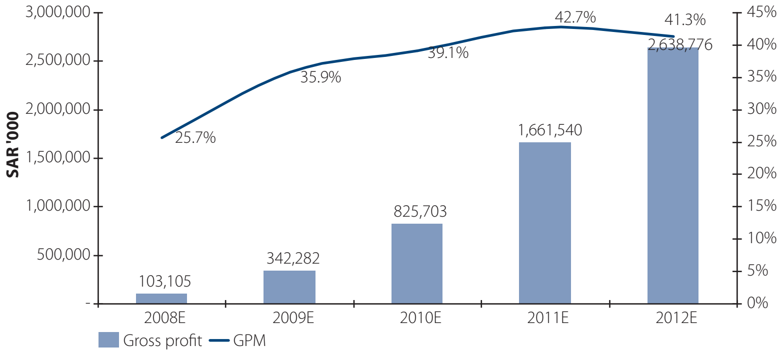
These revenue projections exclude revenue from hotels & resorts, the port and from utilities, which we record below the gross profit line net of expenses. EEC's hotel & resorts business is expected to be run on JV basis, consequently, it is recorded as income from JV. The port is expected to generate concession fees, to which no direct costs have been assumed. Utilities have been treated as an investment, where EEC holds a maximum of 50% stake in initial ventures with the partner holding the balance and managing the business, reported below EBIT.

Gross profits

Gross profits projected to reach SAR 103.1 mn in 2008

We expect EEC to report its first gross profit in 2008 on the back of revenue recognition from realized property sales and land sales. Gross profits are projected to reach SAR 103.1 mn in 2008, SAR 342.3 mn in 2009 before climbing all the way up to SAR 2.64 bn in 2012.

EEC's Gross Profit and GPM 2008-2012



Source: EEC, SHUAA Capital

GPM expected to appreciate to 42.7% in 2011 before dropping to 41.3% in 2012

The gross profit margin (GPM) is expected to appreciate from 25.7% in 2008 to 42.7% in 2011 before it drops to 41.3% in 2012. The primary reasons behind the GPM increase include the growing contribution of land sales and leased properties, both of which enjoy higher margins than property sales. While the estimated GPM for total property sales between 2008 and 2012 is around 34%, it is 52% for land sales and 67% on leasable properties. In comparison, Emaar Properties' GPM on property sales and land sales were 34% and 79% respectively in 2007.

Leasable land will enjoy higher margins as most operating expenses will be covered by service charge

Saudi based Arriyadh Development Company (ADC) pulled off a GPM of around 62% on a portfolio of mainly Saudi commercial properties in 2007. Unlike ADC, EEC's portfolio consists mainly of leasable land over the next five years. Leasable land will enjoy much higher margins, since most of the operating expenses will be covered by the service charge that EEC is expected to levy on the tenants on top of the rent. However, these higher margins do not mean higher yield on cost of development. In fact, the yield is projected to be around 2.7%, which is low by regional standards. If we strip out the leasable land from the equation, EEC's projected GPM for the period would land on 46%.

EBITDA

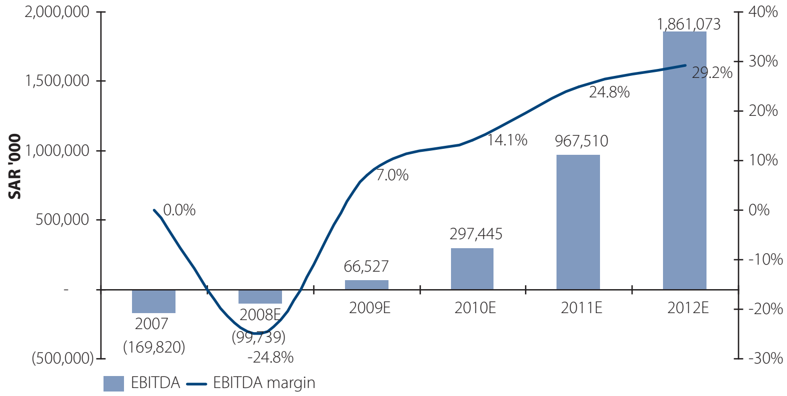
Rising SG&A means negative EBITDA in 2008

Despite that, we expect EEC to start reporting gross profits in 2008 - we are projecting a negative EBITDA in 2008. The reason behind this outcome is a continued rise in the company's selling, general and administrative expenses (SG&A). We expect SG&A to swell to new levels due to the company's expanding activities and projects, which will require EEC to increase spending on project marketing and beef up its organization.

Which moves into black in 2009 & peaks at SAR 1.86 bn in 2012

EEC's EBITDA is projected to move into the black in 2009 when the company is expected to generate an EBITDA of SAR 66.5 mn followed by SAR 297.5 mn in 2010 before the five year peak of SAR 1.86 bn is reached in 2012. We expect 2011 to see the first contribution from the company's hotels & resorts JVs and from concession fees on the initial phase of the DPW operated sea port at KAEC. Other operating income is projected to contribute around 1.5% of 2012 EBITDA. The bulk of the income generating capacity of the port and hotels is expected post 2012, as the number of hotel rooms grow and the port capacity and utilization rates expand.

EEC's EBITDA and EBITDA Margin 2008-2012

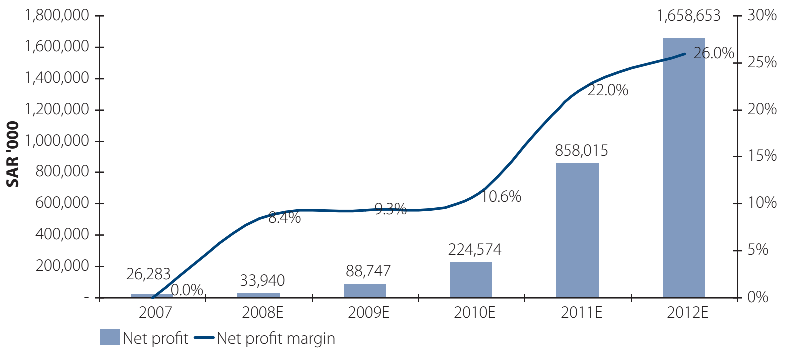


Source: EEC, SHUAA Capital

Net profits

EEC recorded its first profitable year in 2007, with net profits coming in at SAR 26.3 mn primarily on the back of Islamic profit on cash deposits (un-deployed IPO proceeds), which contributed SAR 206.7 mn in that same year.

EEC's Net Profits and NPM 2007-2012



Source: EEC, SHUAA Capital

Moving into 2008 and 2009, we expect EEC's bottom-line to record limited growth relative to the growth in revenues as SG&A expenses continue to absorb generated gross profits due to the increasing number and size of project launches and the expansion of the labour force. Existing accounting standards do not allow for the capitalization of project marketing expenses, at the same time, the percentage of completion method employed for property sales by EEC imposes a 20% hurdle rate both on completion and received payments before revenues can start to be recognized on the income statement.

EEC's bottom-line to initially record limited growth relative to the growth in revenues in 2008-09

Consequently, there is a time-lag between the time of project launch/start of marketing campaign/commencement of sales and the start of revenue recognition. Meanwhile, the company has to record the expenses associated with the selling and marketing without being allowed to record the revenues, until they reach the hurdle rates. This reality is more obvious in a company like EEC which has yet to start recognizing revenues. However, once revenue recognition gains speed and more projects are launched, the perceived "make or break" impact on net profits is erased.

Also because of reduction in Islamic profit on cash deposits starting 2009

In addition, we expect the recent decline in interest rates/profit rates to lead to a reduction in Islamic profit on cash deposits starting in 2009, when the 12 months term deposit, which holds most of EEC cash balance, reaches maturity and, consequently, leads to a reduction in the existing 4% profit rate to prevailing market rates which are below 3%. Moreover, we expect the company's cash balance to drop by around 40% in 2009, as cash deployment in development work picks up pace. This will further reduce Islamic profits on cash deposits, which are expected to come down to SAR 84.6 mn in 2009 from SAR 149.9 mn in the preceding year.

Net profits to peak in 2012

EEC is projected to record SAR 33.9 mn in 2008 net profits followed by SAR 88.7 mn in 2009 and SAR 224.6 mn in 2010 on the back of a higher EBITDA. Net profits are expected to expand at a CAGR of 164% before they reach their five-year peak in 2012 of SAR 1.66 bn.

IPO- proceeds, Cash and debt

The IPO of EEC generated a total of SAR 8.5 bn based on a SAR 10 per share and 850 mn shares. The company utilized around SAR 3.78 bn of the proceeds to acquire a land plot area of 168 mn sqm (144.75 mn sqm of BUA). A small proportion of the land was contributed in return for shares.

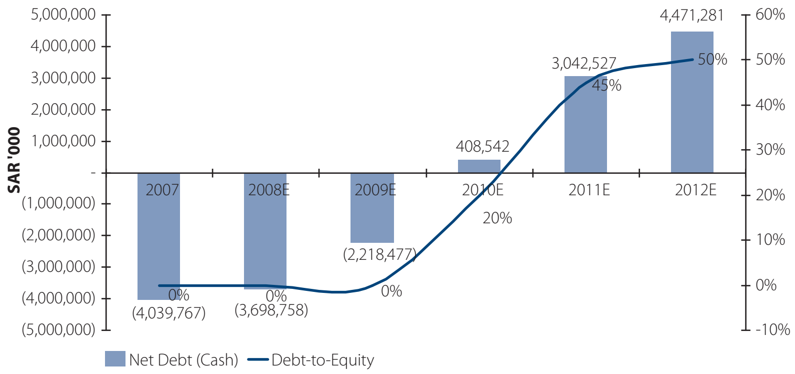
EEC closed 2007 with a cash balance of SAR 4.04 bn

EEC wrapped up 2007 with a cash balance of SAR 4.04 bn, out of which the company kept SAR 3.4 bn under the long-term investments line in non-current assets. The remaining SAR 639.8 mn stayed in cash and bank balances. In our projections and for the sake of presenting the company's real cash position, we have moved back the SAR 3.4 bn to the cash and bank balances line in current assets starting 2008.

SAR 8 bn to be invested in investment property and utilities by 2012

The continued development work on leasable industrial land, investment properties and utilities is expected to be the main consumer of cash over the next five years. Based on our projections, EEC will invest an estimated SAR 8 bn in the above between 2008 and 2012, with leasable industrial land being the destination for around 50% of those investments.

EEC's Net Debt (Cash) and Debt-to-Equity 2007-2012



Source: EEC, SHUAA Capital

Implies need for additional funding 2010 onwards

We do not expect EEC to require additional cash in 2008 and 2009. However, the company will need to start looking for additional funding starting 2010, when we project the debt-to-equity ratio to reach 20% before climbing all the way up to 50% by 2012.

Valuation

Fair value target of SAR 34.07

We Initiate coverage on Emaar Economic City (EEC) with a BUY recommendation based on a fair value target of SAR 34.07 per share, implying a 68% upside potential to the current price of SAR 20.25 per share.

Our fair value target is a weighted average of three valuation scenarios

Our fair value target is a weighted average of three DCF based valuation scenarios. We opted to use three scenarios to reflect the potential valuation impact of 'success' and 'failure' of the KAEC project.

The DCF was based on a forecast period from 2008 to 2030 and a terminal value. The weighted average cost of capital (WACC) used is 9.3%, based on a cost of equity of 9.3% and a cost of debt of 5.0%. The cost of equity was based on a risk free rate of 4.3%, an equity risk premium of 5.0% and an industry beta of 1.0. To calculate the terminal value we used a terminal growth rate of 3%.

Scenario Analysis

`What if' scenario analysis is focused on the period post 2012

As we mentioned previously, a project like KAEC is associated with considerable execution risk which could tilt the valuation of EEC in either direction. Despite the fact that EEC is developing KAEC in the most important region in Saudi Arabia and with the backing of the Saudi government, KAEC will, in no way, be a simple endeavor. We are not talking about the development of a new neighborhood in an existing city. EEC is practically creating a new city in what currently appears to be in the 'middle of nowhere'.

In other words, this is not simply a development of real estate to meet growing domestic demand, but rather EEC, together with SAGIA, is developing a new economic catalyst with a real estate component. At the heart of this project is the ability to knit together all components that create a city into KAEC in a reasonably seamless way. A key success factor will be the creation of jobs; most people will only move to KAEC if they can make a living there. SAGIA and EEC are working closely together to encourage the establishment of new businesses and they have done reasonably well so far. However, with an optimistic target of 1.5-2 mn residents and 1 mn jobs in KAEC by the mid-2020's, the pace needs to start picking up.

Our scenarios consist of a bear, base and bull scenario. As a figure of speech, they attempt to answer 'the what if' KAEC ends up being a 'town' rather than a 'city'. Their impact is focused on the period post 2012, which is less visible to us and the most critical given that over 90% of the planned development activities takes place then.

Bear case with a weighting of 30% suggests EEC achieves 30% of KAEC's targets

The bear case scenario assumes that EEC and SAGIA will fail, relative to its ambitious target, to attract enough and the right companies and jobs to make KAEC a home for 1.5-2 mn people. In this scenario, we assume that EEC will be able to achieve only 30% of its KAEC targets/vision, which would have a corresponding impact on the demand for real estate property. Based on the bear case scenario, the fair value target would land on SAR 15.71. We have assigned a 30% weighting to this scenario.

Base case with a weighting of 60% suggests EEC achieves 80% of KAEC's targets

Our base case assumes that EEC will succeed in achieving 80% of its plans for KAEC. Despite the fact that this scenario assumes EEC will not achieve its full ambition/plan for KAEC, we consider this a successful outcome. Effectively, this scenario means that KAEC will be a prosperous city with around one mn residents. The base case scenario generates a fair value target of SAR 40.57. We placed the highest weighting on this scenario, 60%.

Bull case with 10% weighting assumes a complete success

The bull case is the most optimistic and assumes that KAEC will be a complete success, inline with the company's plans. Under this scenario KAEC will be home to 1.5-2 mn residents and be able to develop its land bank fully and sell/lease all the zones as per the current master plan. Naturally, this scenario produces the highest fair value target, SAR 50.13. This scenario was given the lowest weighting, 10%.

Scenario based fair value per share

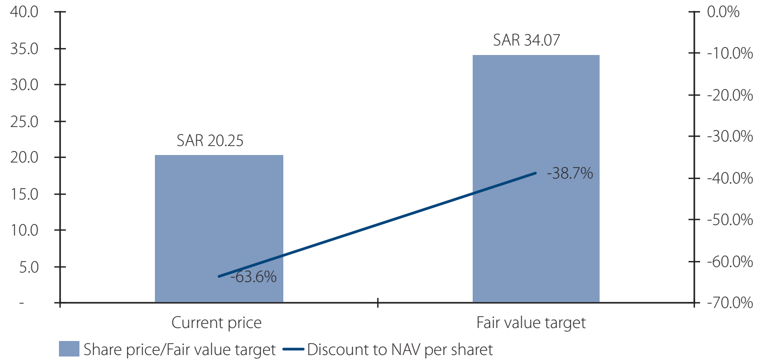
Detail	Bear	Base	Bull
Fair value target per share	15.71	40.57	50.13
Weighting	30%	60%	10%
Fair value target contribution per share by scenario	4.71	24.34	5.01
Scenario weighted fair value target per share			**34.07**
Price as at 15/04/2008			**20.25**
Upside/(downside) to current share price			**68%**

Source: SHUAA Capital

Indicative NAV per share vs. fair value target

Based on our high-level NAV analysis, which resulted in an indicative NAV per share of SAR 55.62, the implied discount to NAV of our fair value target would be 39%.

Discount to NAV: Current Share Price vs. Fair Value Target



Source: SHUAA Capital

Financials

Consolidated Balance Sheet

Year to December	2007	2008E	2009E	2010E	2011E	2012E
Current assets						
Cash & bank balances	639,767,000	3,698,757,514	2,218,477,229	1,357,423,773	1,125,753,554	776,968,271
Land held for development	17,962,000	17,962,000	17,962,000	17,962,000	17,962,000	17,962,000
Recievables & pre-payments	19,178,000	129,612,368	140,906,714	654,536,541	1,430,538,300	2,039,270,870
Total current assets	**676,907,000**	**3,846,331,882**	**2,377,345,943**	**2,029,922,314**	**2,574,253,854**	**2,834,201,141**
Non-current assets						
Long-term investments	3,400,000,000	-	-	-	-	-
Land	3,775,808,000	3,760,704,768	3,738,049,920	3,707,843,456	3,670,085,376	3,613,448,256
Investment properties	-	714,869,442	1,826,328,846	3,451,850,857	5,581,463,733	7,479,434,215
Development properties	658,304,000	145,593,036	267,098,942	481,874,437	704,450,877	1,033,225,014
Investments in utilities	-	88,687,500	304,364,063	687,827,344	839,765,625	839,765,625
PP&E	237,358,000	262,821,766	456,885,667	645,539,704	692,347,917	744,773,116
Total non-current assets	**8,071,470,000**	**4,972,676,512**	**6,592,727,438**	**8,974,935,799**	**11,488,113,529**	**13,710,646,226**
Total assets	**8,748,377,000**	**8,819,008,393**	**8,970,073,381**	**11,004,858,113**	**14,062,367,383**	**16,544,847,367**
Current liabilities						
Payables	264,493,000	104,834,320	27,640,949	213,724,209	395,238,175	743,860,346
Advances from customers	-	193,285,770	327,645,594	175,938,668	203,502,096	8,640,915
Short-term Islamic loans	-	-	-	264,894,886	625,242,036	787,237,349
Total current liabilities	**264,493,000**	**298,120,090**	**355,286,542**	**654,557,762**	**1,223,982,306**	**1,539,738,609**
Non-current liabilities						
EOSB	1,316,000	4,380,384	9,531,635	19,399,798	32,501,898	47,599,135
Long-term Islamic loans	-	-	-	1,501,071,020	3,543,038,203	4,461,011,642
Total non-current liabilities	1,316,000	4,380,384	9,531,635	1,520,470,818	3,575,540,101	4,508,610,777
Total liabilities	**265,809,000**	**302,500,474**	**364,818,177**	**2,175,028,580**	**4,799,522,408**	**6,048,349,386**
Total equity	**8,482,568,000**	**8,516,507,919**	**8,605,255,204**	**8,829,829,532**	**9,262,844,975**	**10,496,497,981**
Total liabilities & shareholders equity	**8,748,377,000**	**8,819,008,393**	**8,970,073,381**	**11,004,858,113**	**14,062,367,383**	**16,544,847,367**

Source: EEC, SHUAA Capital

Consolidated Income Statement

Year to December	2007	2008E	2009E	2010E	2011E	2012E
Property sales	-	305,615,117	728,907,446	1,255,044,516	1,874,414,449	3,886,955,895
Land sales	-	96,322,500	211,909,500	815,851,575	1,923,078,713	2,310,258,560
Property lease	-	-	13,086,537	42,135,816	96,971,238	184,894,189
Total revenue	**-**	**401,937,617**	**953,903,483**	**2,113,031,907**	**3,894,464,399**	**6,382,108,644**
Cost of property sales	-	(247,460,162)	(497,611,167)	(862,002,638)	(1,255,434,863)	(2,570,572,064)
Cost of land sales	-	(51,372,000)	(109,936,080)	(411,710,620)	(943,993,635)	(1,112,653,831)
Cost of lease	-	-	(4,074,408)	(13,615,578)	(33,495,437)	(60,106,457)
Total direct costs	**-**	**(298,832,162)**	**(611,621,655)**	**1,287,328,836)**	**(2,232,923,935)**	**(3,743,332,352)**
Gross profit	**-**	**103,105,455**	**342,281,828**	**825,703,071**	**1,661,540,464**	**2,638,776,292**
Income from hotel & resort JV's	-	-	-	-	2,067,110	9,205,528
Income from concession fees	-	-	-	-	5,277,871	21,269,822
SG&A	(169,820,000)	(202,844,406)	(275,754,376)	(528,257,977)	(701,375,672)	(808,178,356)
EBITDA	**(169,820,000)**	**(99,738,951)**	**66,527,452**	**297,445,094**	**967,509,773**	**1,861,073,286**
Depreciation on investment property	-	-	(15,050,831)	(40,271,277)	(44,038,376)	(91,259,353)
Depreciation on PP&E	-	(3,019,194)	(18,608,867)	(31,462,278)	(37,027,392)	(41,470,679)
EBIT	**(169,820,000)**	**(102,758,145)**	**32,867,754**	**225,711,539**	**886,444,005**	**1,728,343,253**
Islamic profit rate on cash	206,678,000	149,896,921	84,673,614	46,646,892	42,216,765	29,576,702
Profit expense on Islamic loans	-	-	-	(17,519,018)	(68,039,257)	(98,253,326)
Income from investments in utilities	-	-	5,718,750	19,031,719	52,160,873	86,283,903
Legal Zakat	(10,575,000)	(13,198,857)	(34,512,833)	(49,296,804)	(54,766,943)	(87,297,527)
Net profit	**26,283,000**	**33,939,919**	**88,747,285**	**224,574,329**	**858,015,443**	**1,658,653,006**

Source: EEC, SHUAA Capital

Key Ratios

Year to December	2007	2008E	2009E	2010E	2011E	2012E
Growth						
Revenues	N/A	N/A	137%	122%	84%	64%
Gross profit	N/A	N/A	232%	141%	101%	59%
EBITDA	N/A	N/A	N/A	347%	225%	92%
Net Income	N/A	29%	161%	153%	282%	93%
Equity	0%	0%	1%	3%	5%	13%
Assets	1%	1%	2%	23%	28%	18%
Margins & Profitability						
Gross profit margin	0%	26%	36%	39%	43%	41%
EBITDA Margin	N/A	-25%	7%	14%	25%	29%
Net profit Margin	N/A	8%	9%	11%	22%	26%
RoAE	0%	0%	1%	3%	9%	17%
RoAA	0%	0%	1%	2%	7%	11%
Leverage						
Net Debt (Cash)	(4,039,767,000)	(3,698,757,514)	(2,218,477,229)	408,542,133	3,042,526,685	4,471,280,720
Debt-to-Equity	0%	0%	0%	20%	45%	50%
Valuation						
Number of ordinary shares ('000)	850,000,000	850,000,000	850,000,000	850,000,000	850,000,000	850,000,000
EPS	0.03	0.04	0.10	0.26	1.01	1.95
BVPS	9.98	10.02	10.12	10.39	10.90	12.35
P/E	654.89	507.15	193.95	76.65	20.06	10.38
P/BV	2.03	2.02	2.00	1.95	1.86	1.64

Source: EEC, SHUAA Capital

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Research

Head of Research

Walid Shihabi
+9714 3199 750
wshihabi@shuaacapital.com

Chief Economist & Strategist

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Strategy and Economics

Ahmad Shahin
+9714 3199 742
ashahin@shuaacapital.com

Jafar Shami
+9714 3199 522
jshami@shuaacapital.com

Sahar Tabaja
+9714 4238 532
stabaja@shuaacapital.com

Commercial Banks and other Financial Services

Walid Shihabi
+9714 3199 750
wshihabi@shuaacapital.com

Sofia El Boury
+9714 4283 533
selboury@shuaacapital.com

Ghida Obeid
+9714 4283 536
gobeid@shuaacapital.com

Data

Ahmad Shahin
+9714 3199 742
ashahin@shuaacapital.com

Heavy Industries and Utilities

Walid Shihabi
+9714 3199 750
wshihabi@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

Hala Fares
+9714 4283 539
hfares@shuaacapital.com

Telecommunications, Media and Technology

Simon Simonian, CFA
+9714 3199 763
ssimonian@shuaacapital.com

Jessica Estefane
+9714 3199 834
jestefane@shuaacapital.com

Consumer, Retail and Pharma

Laurent-Patrick Gally
+9714 4283 544
lgally@shuaacapital.com

Transportation and Logistics

Kareem Z. Murad
+9714 3199 757
kmurad@shuaacapital.com

Rasha Hamdan, CFA, FRM
+9714 4283 525
rhamdan@shuaacapital.com

Real Estate, Construction and Construction Materials

Roy Cherry
+9714 3199 767
rcherry@shuaacapital.com

Lara Hourani
+9714 3199 687
lhourani@shuaacapital.com

Chief Technical Analyst

Nabil Effat, CFTe, MSTA
+9714 3651 862
neffat@shuaacapital.com

Design

Jovan Ruseski
+9714 3199 759
jruseski@shuaacapital.com

Financial Editor

Anju Govil
+9714 3199 523
agovil@shuaacapital.com

Regional Sales

Mohamad Bleik
+9714 3199 773
mbleik@shuaacapital.com

Elias Bakhazi
+9714 3199 732
ebakhazi@shuaacapital.com

Faisal Rajeh
+9714 3199 794
frajeh@shuaacapital.com

International Sales

Nadine Haddad
+9714 3199 733
nhaddad@shuaacapital.com

Saad Tayara
+9714 3199 765
stayara@shuaacapital.com

Rabah Abu Khadra
+9714 3199 826
rkhadra@shuaacapital.com

Sam Quawasmi
+9714 3199 873
squawasmi@shuaacapital.com

Equity Advisory

Fares Mechelany
+9714 3199 745
fmechelany@shuaacapital.com

Nadeem Outry
+9714 3199 744
noutry@shuaacapital.com

Bassel Barbir
+9714 3199 635
bbarbir@shuaacapital.com

Jad El-Hakim
+9714 3199 822
jhakim@shuaacapital.com