استراتيجية الاستثمار في منطقة الشرق الأوسط وشمال أفريقيا للعام ٢٠١٠ : في زمن التقلبات، التركيز على الأسهم ذات القيمة و/أو النمو المرتفع

العودة الى الانتعاش بدأت تنعكس في الاسواق:

لما كان كل عام يمر عبر موسم أو موسمين من الاستثمار، شهد العام 2009 أربعة منهم. بدأنا هذا العام مع غيوم داكنة جدا أشارت الى كساد اقتصادي كبير. الا أن الأمور بدأت في التحسن ابتداء من مارس لننتقل الى ركود ومن ثم العودة الى النمو خلال الربع الرابع. وقد استجابت الأسواق لهذا التحول الحاد في معنويات المستثمرين من خلال ارتفاع مؤشر مورغان ستانلي العالمي بنسبة 22.85% منذ بداية العام.

نتوقع تقلب في الاسواق في عام 2010 :

إن صندوق النقد الدولي يتوقع حدوث انتعاش في الاقتصاد العالمي بنسبة 3.1 ٪ خلال العام 2010، غير أن الطريق ليس واضحا بعد لعملية نهوض سهلة. فعلى الرغم من أن اقتصاد الولايات المتحدة (الذي كان بمثابة إشارة بدء هذه الازمة المالية العالمية) بدأ يظهر بعض علامات النمو ، الا أن أسواق العمالة والسكن لا تزال تعاني. ولا يزال الاقتصاد يعمل تحت تأثير السياسات المالية والنقدية التوسعية، حيث تشكل الحكومة في الولايات المتحدة الرافعة الاساسية للاقتصاد في حين لا يزال المستهلكين والشركات في مرحلة تصحيح ميزانيتهم العمومية. كما يتم استبدال ديون القطاع الخاص بديون القطاع العام وهنا تشكل المؤشرات المرتفعة للدين العام عنصرا رئيسيا لعدم الاستقرار في عام 2010.

نتوقع اتجاها تصاعدياً لأسواق منطقة الشرق الأوسط وشمال أفريقيا (MENA) في عام 2010:

على الرغم من أن المشكلة بدأت في الولايات المتحدة، غير أن منطقة الشرق الأوسط كان تأثرت بشدة من جراء هذه الأزمة حيث تراجع مؤشر MSCI Arabia بنسبة تزيد على التراجع في مؤشر SP500 بالاضافة الى تسجيل انتعاش أبطأ من ذلك الذي حصل في الأسواق النامية وبعيدا جدا» عما حصل في الأسواق الناشئة.

في أثناء الأزمة ، أظهرت أسواق الشرق الأوسط وجود ارتباط قوي مع الأسواق المالية العالمية حتى أكتوبر 2009. في حين أن الأسواق الدولية واصلت اتجاهها التصاعدي خلال الربع الرابع من عام 2009 ، غير أن أسواق الشرق الأوسط أخذت بالهبوط مع تسجيل درجة ارتباط سلبي وصل الى 0.30-. ويعود ذلك الى أن أسواق المنطقة قد تأثرت ببعض القضايا الداخلية ذات الصلة بتداعيات الأزمة المالية العالمية على اقتصاداتها المحلية: من بين هذه القضايا تعثر احد أكبر المجموعات العائلية في المملكة العربية السعودية (آل سعد، والقصيبي)، وإعادة هيكلة ديون «دبي العالمية» من خلال سيناريو الهبوط الصعب الذي أخذ الأسواق على حين غرة. نحن نعتقد أن هذا الأداء الضعيف في السوق يعود الى تراجع ثقة المستثمر الذي نتوقع أن يعود ليبحث عن نقاط دخول جديدة في عام 2010.

أساسيات منطقة الشرق الأوسط وشمال أفريقيا لا تزال قوية مما يخفف من احتمال الركود في عام 2010:

أحين أن قضية أعادة هيكلة ديون «دبي العالمية» لا تزال من أهم البنود العالقة في 2010، الا أن ذلك يجب أن لا يحجب الأنظار عن الأساسيات القوية للمنطقة خصوصا» وأن سوق الإمارات (دبي وأبو ظبي) لا يشكل سوى 7.43 ٪ من مؤشر MSCI Arabia، حيث تبلغ حصة المنطقة 22 ٪ من احتياطي النفط العالمي و13 ٪ من حصة الانتاج العالمي للنفط، مما سيساعد على نمو اقتصاد المنطقة بوتيرة أسرع من الاقتصاد العالمي والبلدان المتقدمة. نحن نتوقع لهذا النمو أن يكون مدعوما» بقوة من جراء الارتفاع الحالي لأسعار النفط ، والتراكم الكبير للثروة السيادية ، بالاضافة الى السياسات الاقتصادية الداعمة. وهنا نرى انه نظرا للتوقعات الايجابية على صعيد الاقتصاد

الكلي، ورخص الاسعار نسبيا في الاسواق، وضعف الأداء في الربع الرابع من عام 2009 ، فإننا نعتقد أن أسواق منطقة الشرق الأوسط وشمال افريقيا في وضع مناسب للتقدم في عام 2010.

لعام 2010 نركز على الإدارة الفعالة للمحفظة الاستثمارية ونفضل «ألفا» على «بيتا»:

ان دراسة متعمقة لأداء أسواق المنطقة تظهر تمايزا» عاليا» بين اداء البلدان والقطاعات خلال عام 2009. ففي حين تقدم السوق السعودي بنسبة 27.4 ٪، راوح السوق القطري مكانه (1.0 ٪)، وتراجع السوق الكويتي بنسبة 9.9 ٪. من جهة أخرى تقدم قطاع البتروكيماويات بنسبة تفوق 70 ٪ في حين أظهر قطاع التشييد والبناء تراجعاً ملحوظاً.

بالنسبة لعام 2010 ، فإننا نتوقع أن الأداء سيختلف بين البلدان والقطاعات مع محاولة بعض الدول/القطاعات اللحاق بالركب، في حين ستحافظ بعض الاسواق على تقدمها في عام 2010. لذلك نحن نعتقد أن الإدارة الفعالة سوف تكون الاساس لتحقيق عائد استثماري مرتفع في عام 2010. هناك الكثير من الفرص الاستثمارية المتاحة في أسواق الشرق الأوسط وشمال افريقيا أمام مديري الاستثمار الذين يعولون على معرفتهم العميقة للسوق ووجود بيئة مؤاتية لتوزيعات الأرباح.

نحن ننصح في الاستثمار في السعودية وقطر في حين نتطلع الى أداء قوي لقطاع البنوك والتشييد والبناء وقطاع الشحن. وفي اختيار الشركات نركز على شراء الاسهم ذات القيمة و/او النمو المرتفع مع تفضيل الاسهم ذات المردود النقدي المرتفع.

شركة	بلد	قطاع	النمو المتوقع للارباح 2009 - 2010	مكرر الربحية 2010 م	هدف الاستثمار
سامبا	السعودية	البنوك	24%	8.77	قيمة
بنك قطر التجاري	قطر	البنوك	2%	8.80	قيمة
صناعات قطر	قطر	بتروكيماويات	20%	10.90	قيمة
انابيب	السعودية	بناء و تشييد	200%	12.66	نمو
اتصالات قطر	قطر	اتصالات	5%	6.70	قيمة
ناقلات	قطر	نقل بحري	155%	9.60	نمو
ماريدايف	مصر	لوجيستية	37%	9.30	نمو
سابك	السعودية	بتروكيماويات	107%	15.26	نمو
اميانتيت	السعودية	تشييد وبناء	20%	12.00	قيمة
صروح	الامارات العربية المتحدة	عقارات	116%	4.00	قيمة

المصدر: عوده كابيتال

MENA Equity Strategy - 2010

Active Management to Dominate in 2010

January 8, 2010

Equity Research

equity.research@audicapital.com

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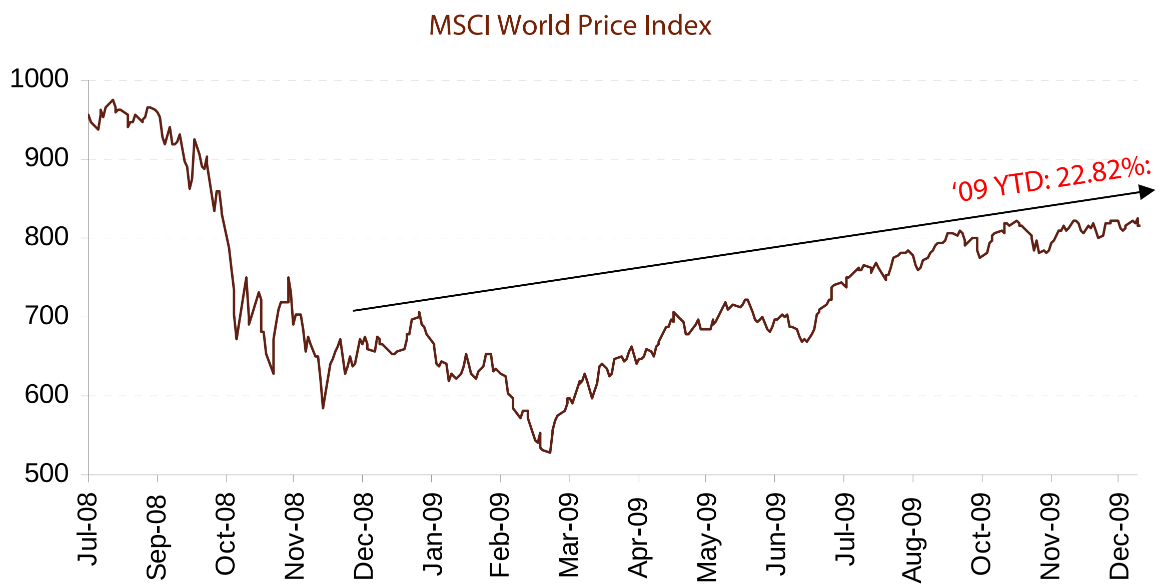
What a difference a year makes?

- It all started in the US: After a record four straight quarters of declines, the economy returned to growth in the July-to-September period.

- US economy went through a wild ride this year. In the first three months, it shrank at a pace of 6.4 percent -- its worst downhill slide in 27 years. Then the recession eased in the second quarter, with the economy dipping at a pace of just 0.7 percent. A return to growth in the third quarter (+2.2%) signaled the end of the worst and longest recession since the 1930s.



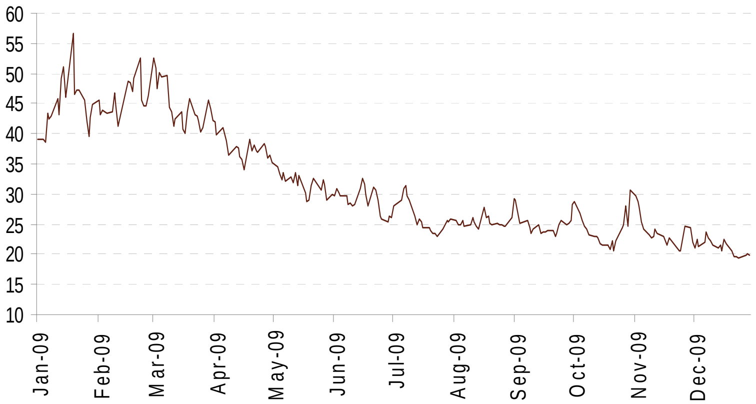
Source: Bloomberg. As of Dec 30, 09

- From Depression → Deep Recession → Recession → Recovery: All in one year

Economic Indicators have improved

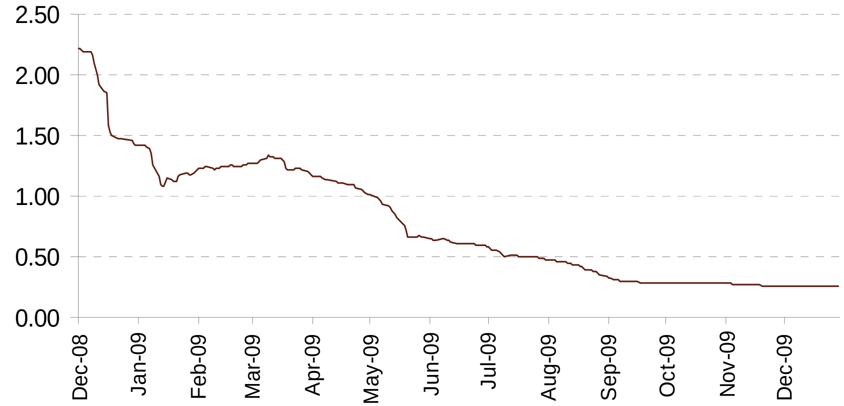
- Volatility is back to normal levels, banks are lending each other at low rates, credit spreads have narrowed sharply, and consumer confidence has improved.
- Risk appetite has increased reflecting improved confidence in capital markets, as evidenced by normal rates.

CBOE Volatility Index



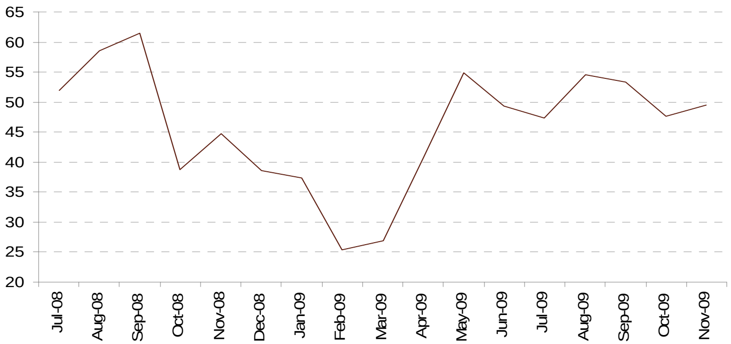
Source: Bloomberg,. As of Dec 30, 09

LIBOR – 3 Months



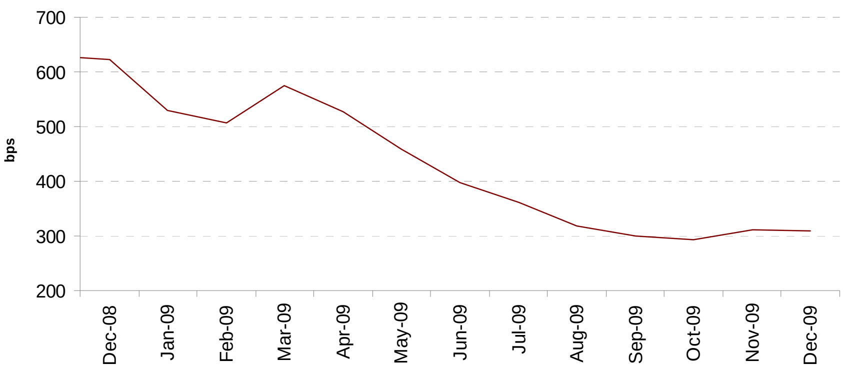
Source: Bloomberg,. As of Dec 30, 09

US Consumer Confidence



Source: Bloomberg,. As of Nov' 30, 09

Credit Spreads (Moody's Baa Index vs. 10 Yr Treasury)



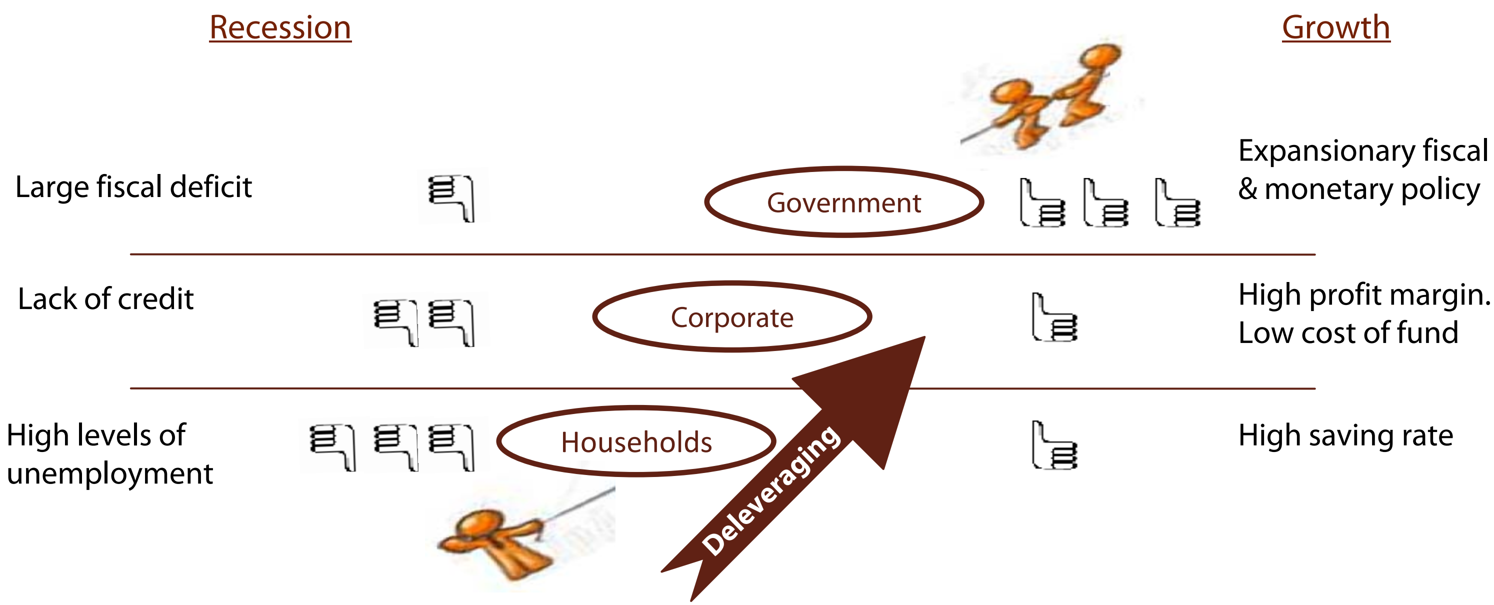
Source: Bloomberg,. As of Dec 30, 09

Key Milestones in 2009

- Coordinated G20 efforts: Global crisis of such a scale can not be faced without coordinated efforts from all major economies.
- TARP (Extended till October 2010), while most banks are repaying it.
- Fiscal Stimulus ($787 billion): the impact will be mostly felt in 2010.
- Relaxed Monetary policy: low interest rate environment and aggressive extraordinary liquidity measures.
- Low Mortgage Rates to help support the housing markets through major purchases by the FED of MBS.
- Stress testing banks to prevent any systemic risk similar to Lehman's collapse, followed by successful recapitalization, which gave a very positive catalyst from the capital markets.

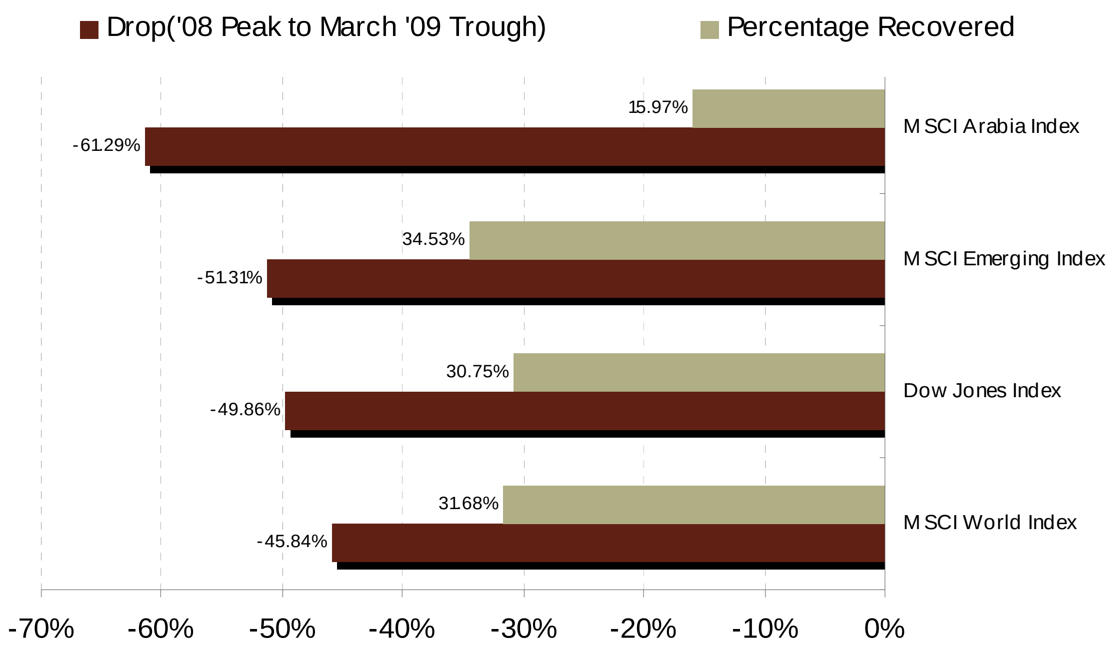
US Economy in 2010

- Government is leading the way, while businesses and consumers are still struggling.
- This is resulting in a modest GDP growth of only **3.0%** in 2010, which is relatively low in a post-recession environment.
- Leverage is shifting from the private to the public sector.



Recovery has already been priced in…

- Valuation has shifted from attractive to neutral



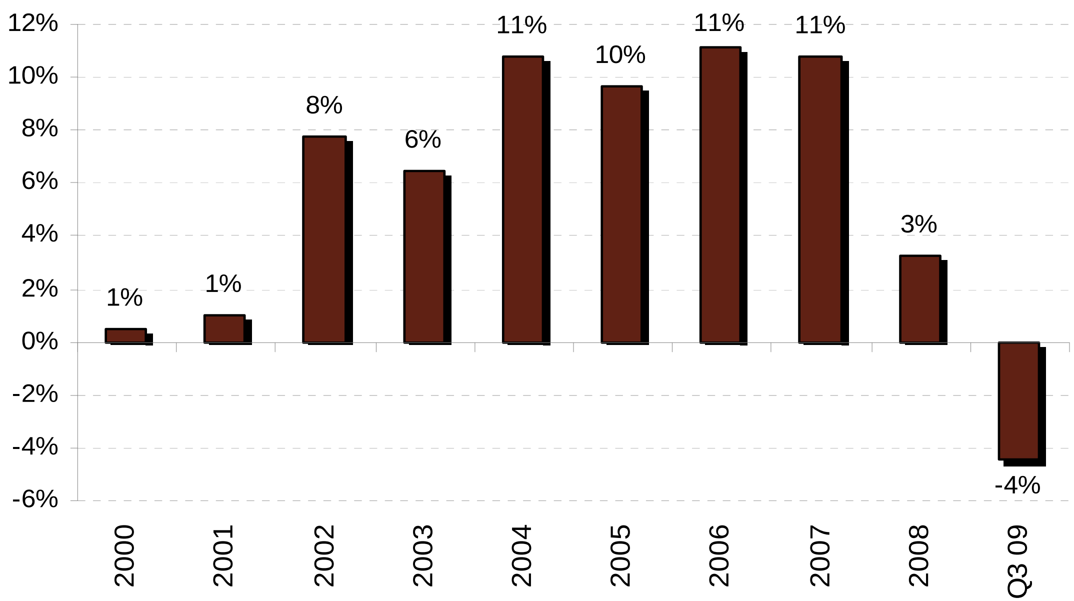
Source: Bloomberg. As of Dec 31, 2009

- The Dow Jones Index has dropped by 49.86% from a level of 13,058.20 (2008 year-high on 2/5/2008) to a level of 6,547.05 on 9/3/2009; (a drop of 6,511.15 index points). Since then is has rallied by 3,917.88 index points (30.75% of 2008 year-high level) to reach a current level of 10,428.05

But Credit is still tight

- Credit flow to companies slowed down sharply with much stricter lending criteria.
- Creating a big room for disintermediation.
- Capital markets are active with active corporate issues and major capital increase transactions.

US Commercial Banks – Total Loans Growth (Yearly % Growth)

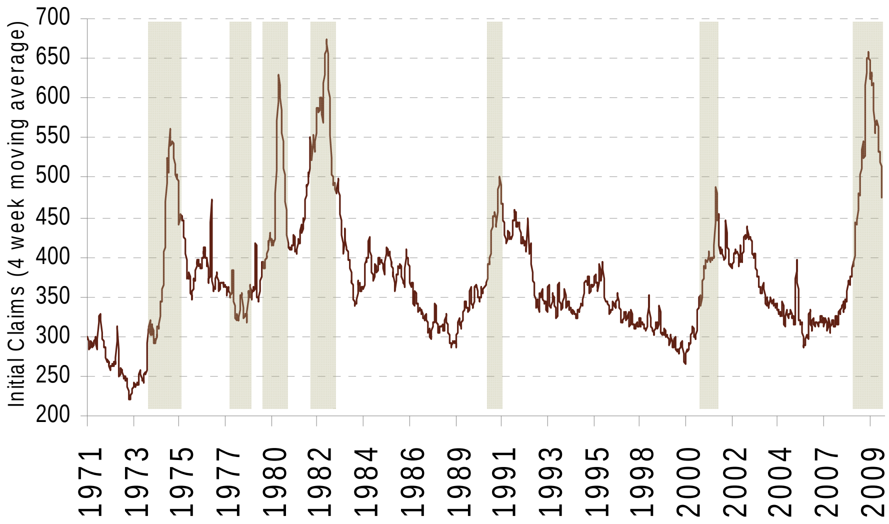


Source: US Federal Reserve. As of Sep 30, 09

…with Unemployment still suffering

- Unemployment is starting to show some signs of stabilization with improvements to follow.
- New jobless claims have fallen steadily since this spring as layoffs have slowed from exceptionally high levels earlier this year. But claims remain above the level that would indicate the economy is adding jobs.
- Even as claims are falling and the economy has started growing, the unemployment rate is continuing to rise to reach 10.2 percent in October, the highest level in more than 26 years.

US Jobless Claims & Recessions



Source: Reuters, Audi Capita,. Dec 2009

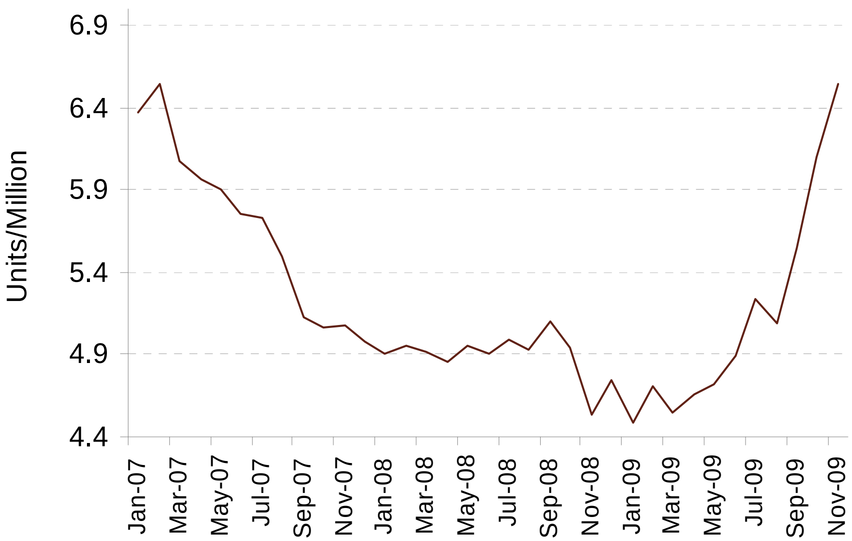
US Unemployment Rate

Source: Bloomberg. As of Dec 2009

..and Housing in need for more time

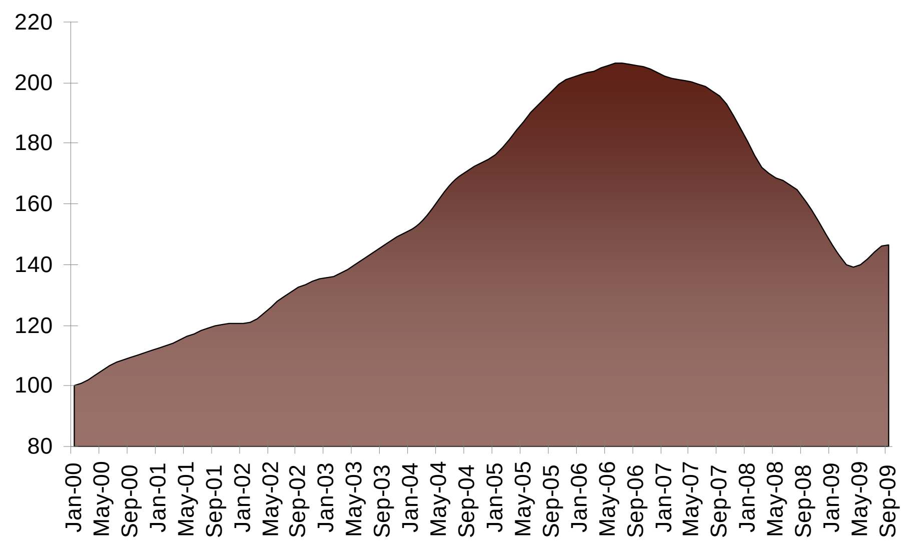
- Housing market is starting to show some signs of improvement, with existing home sales at their highest level since early 2007.
- Housing is becoming more affordable given the drastic drop in prices, the record low in mortgage rates, and the tax incentive from the government.
- Housing is crucial for any solid recovery, since housing comprises around one-third of the household wealth.

US Existing Home Sales



Source: Bloomberg.. As of Nov 30, 2009

S&P/Case-Schiller Home Price Index

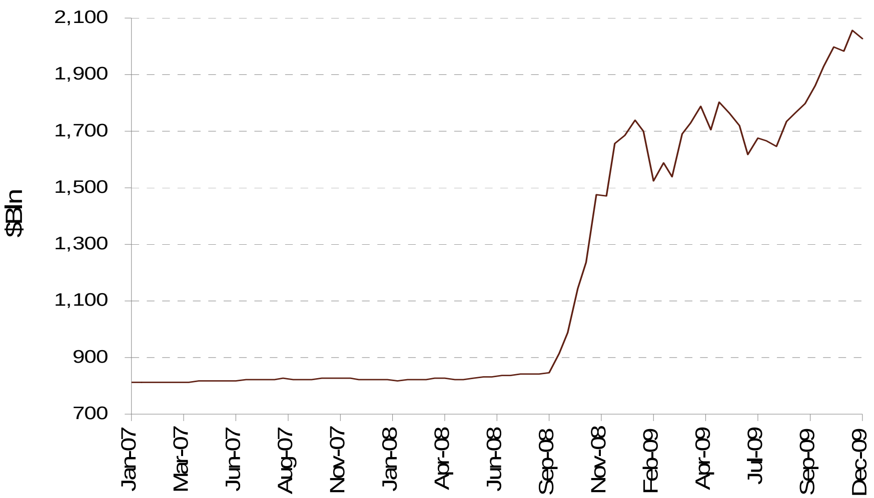


Source: Bloomberg. As of Sep30, 2009

High Levels of Liquidity

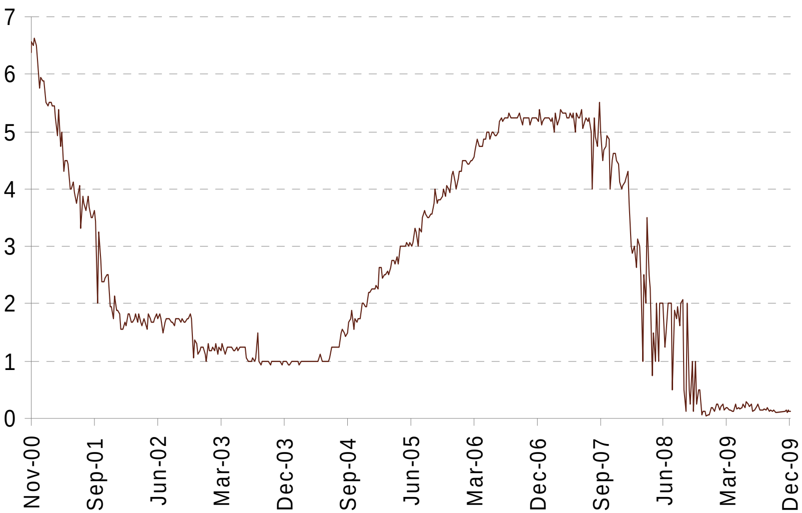
- Too much money + Low interest rates ➔ Asset Reflation.
- In response to zero returns on cash and falling uncertainty, capital is flowing out from cash and searching for yield in risky assets such as equity and bonds.

US Monetary Base



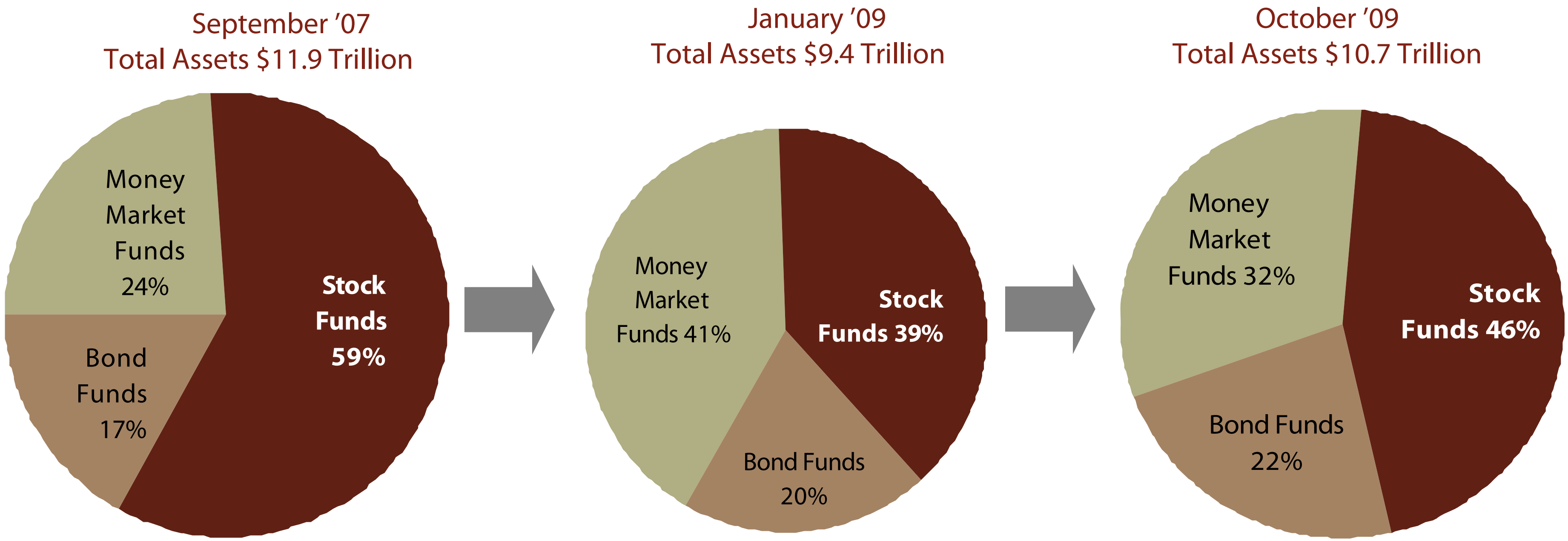
Source: Bloomberg.. As of Dec 28, 2009

FED Funds Rate



Source: Bloomberg.. As of Dec 23, 2009

Change in Asset Classes – US Funds



Source: Investment Company Institute (ICI)

- After a drop from 59% in September 2007 to 39% in January 2009, Money has started to flow back into equity funds to reach a new level of 46% by October 2009. This reflects an increased risk appetite at investors who are searching for high yields in a zero-interest rate environment.

Positive Outlook for 2010, yet we need to manage expectations

- 2009: Markets have gone so far so fast, while the economy is still adjusting the repercussions of such a global financial crisis.
- “The United States economy is struggling against ‘headwinds’ that mean the government must retain the ability to respond to unexpected crises, even as it starts to wind down emergency programs,” Geithner 10/12/2009
- 2010: Modest growth in GDP expected, that is supported by fiscal and monetary policies, where core inflation is not yet a concern.
- Markets have stretched far more than the economy, leaving little room for broad-based market rally similar to the one we saw in 2009.
- Safe ride in the first half that gets bumpy in the second half.
- On the other hand, we see little chance for a correction given the size of liquidity and the positive sentiment in the market.
- Stage is prepared, yet we need to be careful.

2010: What is proper way? From Beta to Alpha…

- While passive investment and indexation worked well in 2009, due to a broad-based rally across all major sectors, the need arises for different investment approach in 2010.
- Active management through proper country/sector allocation as well as proper security selection will be the investment theme governing 2010.
- Country/Sector/Security picking will be the major source of generating positive alpha in 2010.
- Back to basics with focus on fundamentals: growth in operational income, cheap valuation and good dividend yield will be the major criteria.

Key Risks Ahead

- Exit Strategies especially when not coordinated
- Dollar Weakness
- Commodity Bubbles
- Consumer Spending: deleveraging, high savings rate, and high unemployment might prevent consumers from spending.

Questions awaiting answers from 2010

- How solid is the recovery?
- How far can fiscal policy go?
- What is the proper exit strategy?
- What will happen to the USD?

CONTENT

Global Turmoil has taken its toll on MENA markets

- Though the problem started in the US: MENA markets were severely affected by the global crisis, but did not fully join the recovery.

		EMERGING	DJIA	World
1/9/2007 – 1/9/2008	MSCI ARABIA	0.32	-0.14	-0.04
1/9/2008 – 10/3/2009		0.90	0.93	0.95
11/3/2009 – 30/10/2009		0.97	0.94	0.96
1/11/2009 – NOW*		-0.30	-0.72	-0.29

Indices used: MSCI Emerging Index. Dow Jones Industrial Avg. MSCI Emerging Index

Source: Bloomberg. *As of Dec 30, 2009

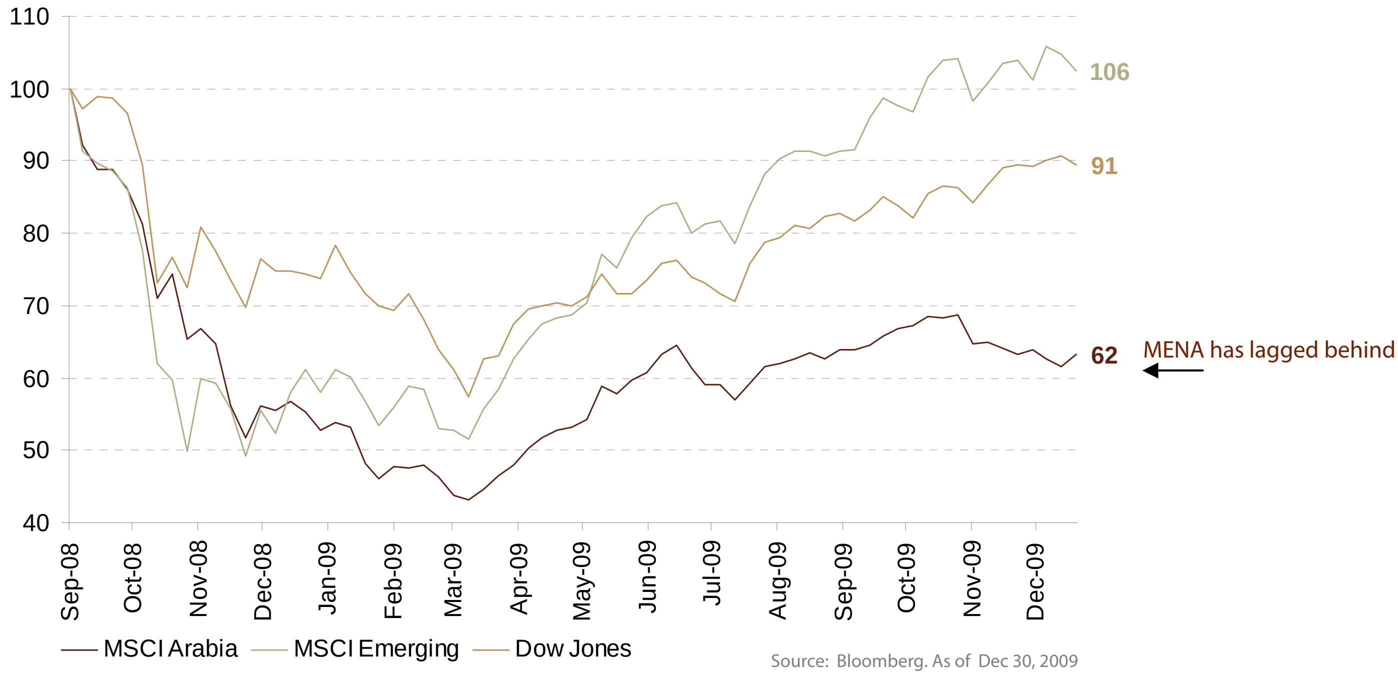
Oct 09-now: -0.30

Source: Bloomberg. As of Dec 30, 2009

- Contagion across markets replaced the notion of country diversification with correlation soaring to record levels between 2008 – Oct 2009. Markets have de-coupled again starting Oct 09; registering a correlation level of negative -0.30.

MENA lagged Emerging markets & Decoupled from Developed Markets

- Will MENA markets catch up in 2010?



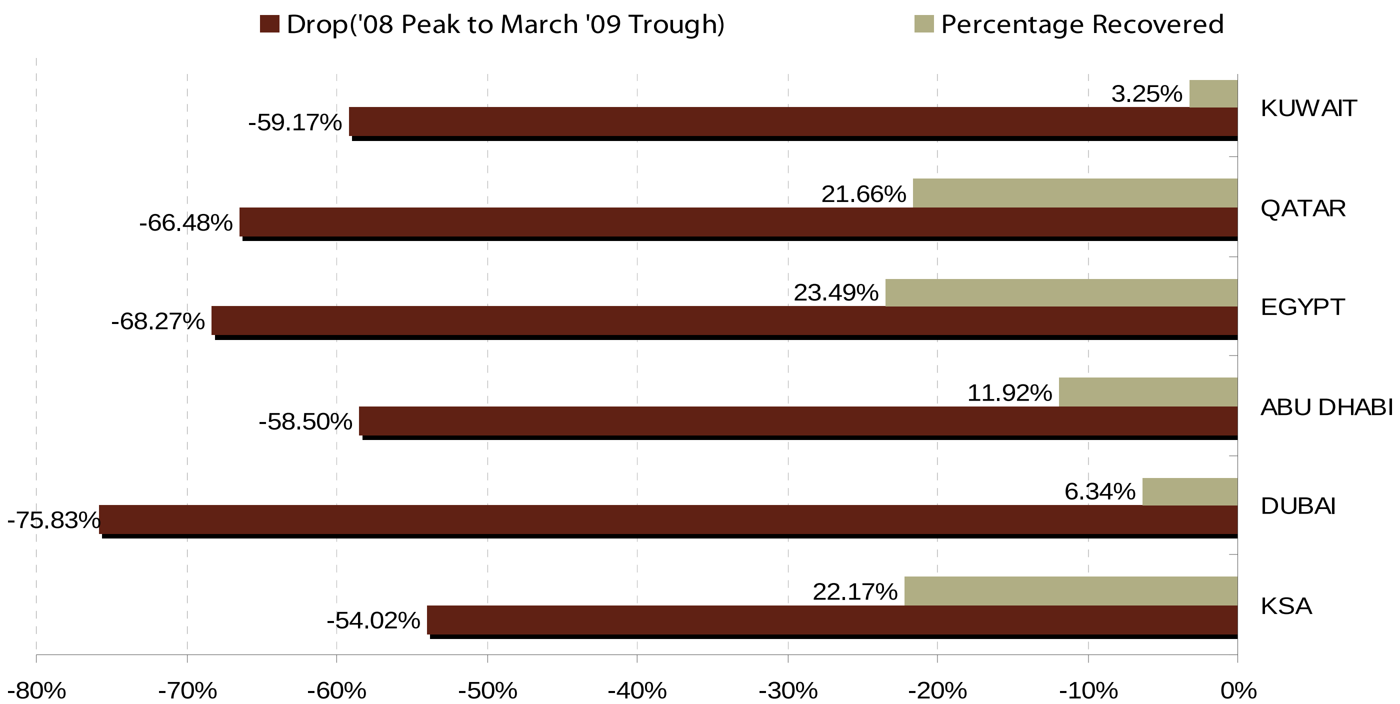
Source: Bloomberg. As of Dec 30, 2009

	MSCI Arabia Index	MSCI Emerging Mkts Index	Dow Jones
Sep 08 - Now	-37.90%	5.67%	-8.62%
YTD '09	17.80%	82.05%	23.87%

As of Dec 30, 2009

MENA Markets in 2008 & 2009

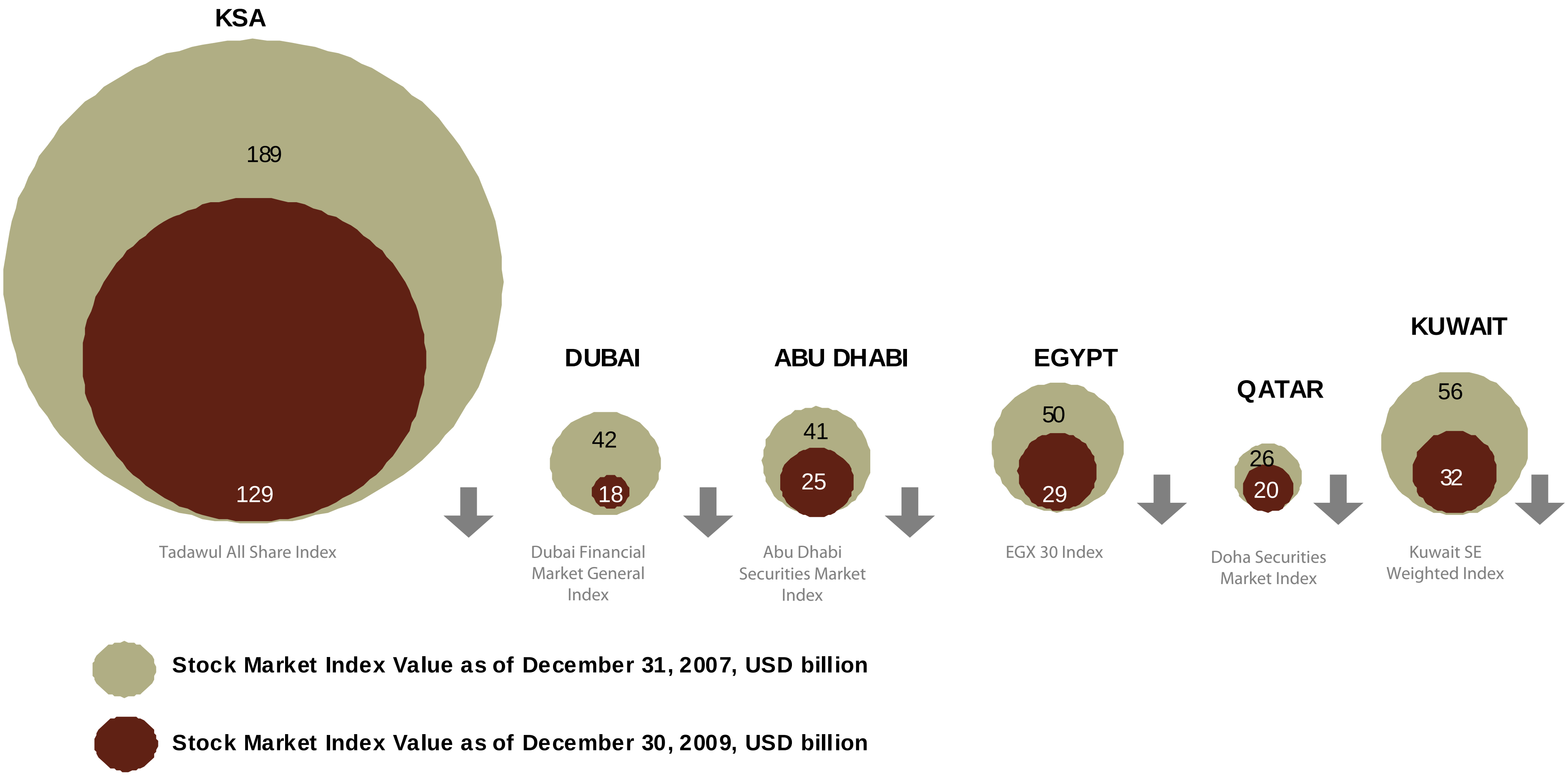
- MENA markets are not one single block.
- Fundamentals differentiate country performance with Dubai lagging way behind.



Source: Bloomberg. As of Dec 30, 2009

- MENA markets have witnessed severe losses with not a single market registering a full recovery.

Massive Erosion of Wealth



Source: Bloomberg. As of Dec 30, 2009

With drastic repercussions on the Economy

- Tight debt markets and restricted credit policies by the banks in the MENA region have resulted in major problems for corporations that wanted to revolve their maturing debt in 2009.

- KSA: Default of major family conglomerates resulting in a major shock to the Saudi banking sector as well as all major banks in the region.

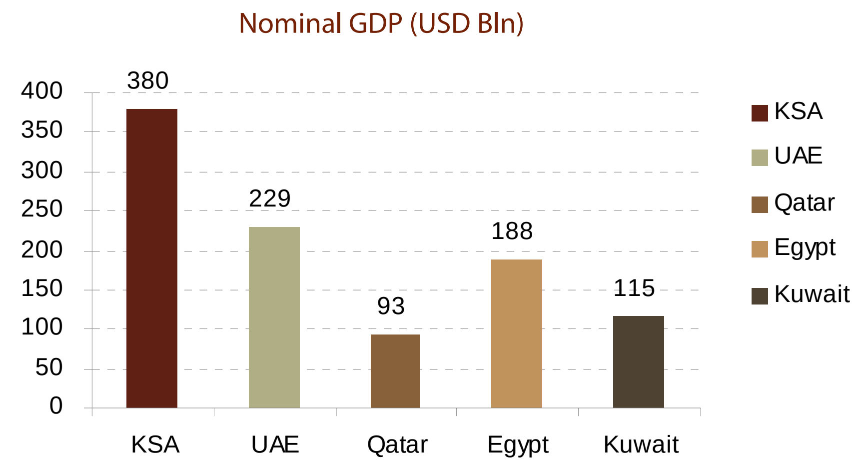
- Until today the case of Saed and Al-Ghosaibi (major family conglomerate) has not been settled yet, nor the exact exposure has been determined.

- “Deleveraging Dubai through a Hard-landing scenario”: The “Standstill” agreement and the way Nakheel 09 bond was paid back has resulted in major shock to UAE markets with the negative effects rippling into all MENA markets.

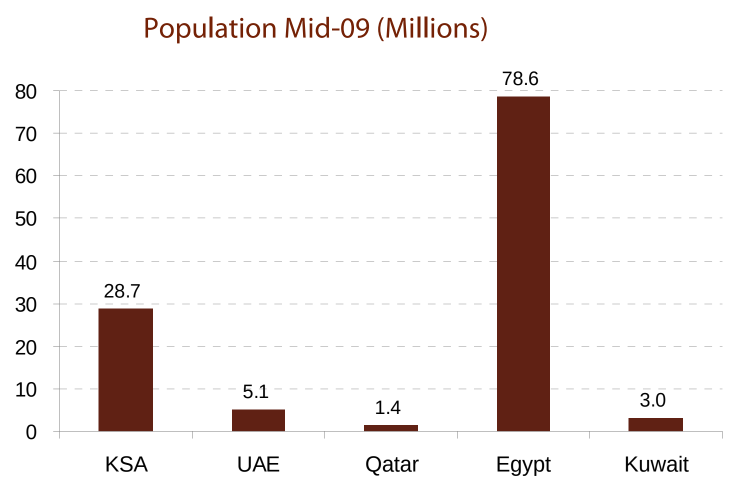
- Today Dubai World is struggling to restructure $26 billion of debt through bilateral standstill agreements with no clear proposal put on the table yet.

Dubai problem in proper Perspective

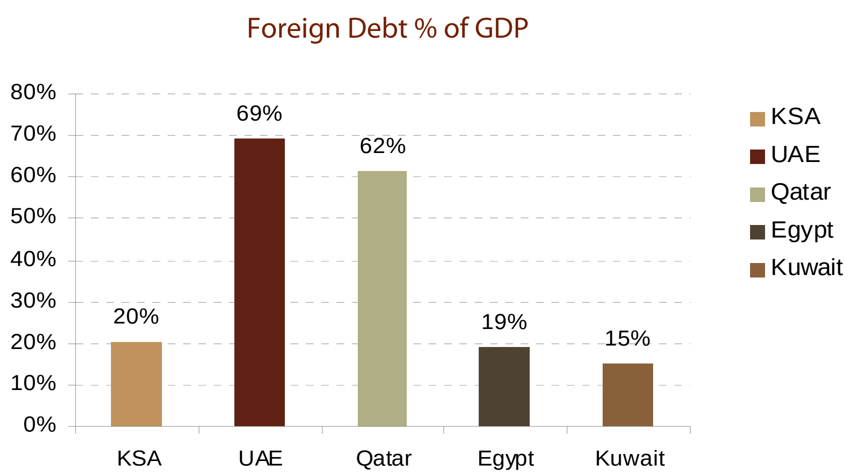
- Though the restructuring of Dubai debt is a major concern for all investors in the region and should not be underestimated, the issue need to be put in proper perspective.
- The negatives from Dubai should not overshadow the positive fundamentals of other countries in the MENA region, given that Dubai constitutes only 7% of the MSCI Arabia and contributes to less than 7% of the GDP of the MENA region.



Source: IMF WEO, Oct 2009



Source: Population Reference Bureau, 2009



Source: IMF WEO, Oct 2009

MENA markets are cheap in relative terms

- Despite a major drop in earning in 2009 that was lead by large provisions taken by the banking sector and drastic reduction in petrochemical and commodity prices especially during early 2009, the relative valuation of the MENA remains attractive.
- Given the positive outlook for oil prices, and the supportive expansionary fiscal and monetary policies, we expect earnings in 2010 to rebound by at least 25% offering attractive investment opportunities, when markets react to reflect such strong fundamentals.

	Trailing PE	PE 2010	YTD %
KSA	15.5	12.9	27.4%
Qatar	14.7	12.2	1.0%
Kuwait	11.2	10.2	-9.9%
Egypt	13.3	11.0	33.9%
Dubai	11.9	10.7	10.0%
Abu Dhabi	9.2	8.36	14.7%

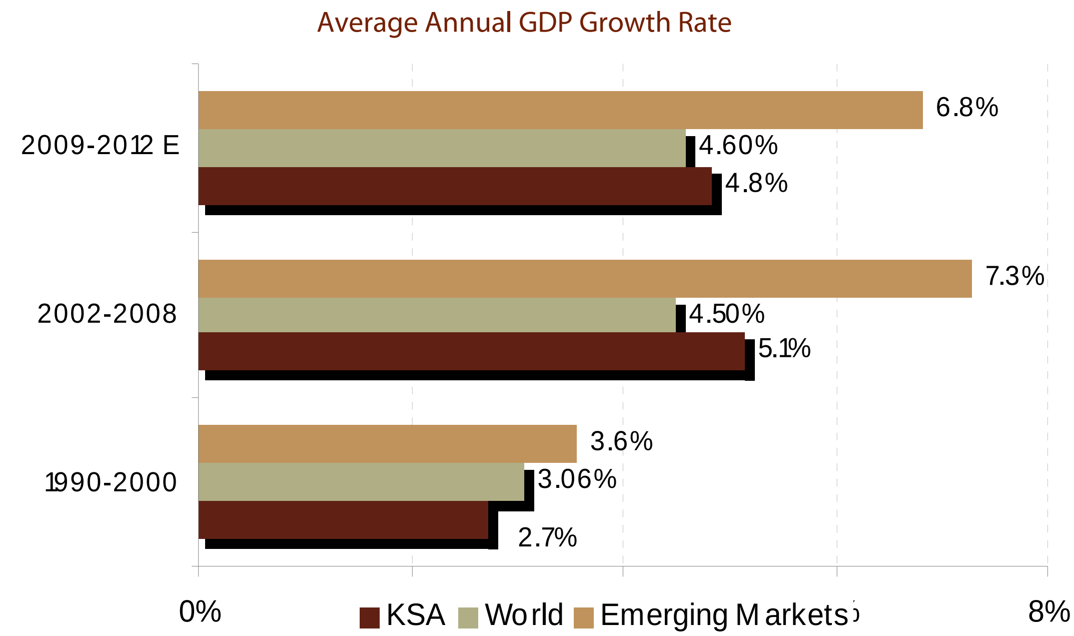
Source: Bloomberg, Audi Capital Estimates. As of Dec 30, 2009

	Trailing PE	PE 2010	YTD %
USA	16.6	14.8	20.1%
MSCI EM Mkts Index	19.2	12.7	76.9%
Brazil	21.0	13.3	82.6%
Russia	17.0	8.6	128.6%
India	23.2	17.0	81.0%
China	34	14.3	79.9%

Source: Bloomberg, JP Morgan. As of Dec 30, 2009

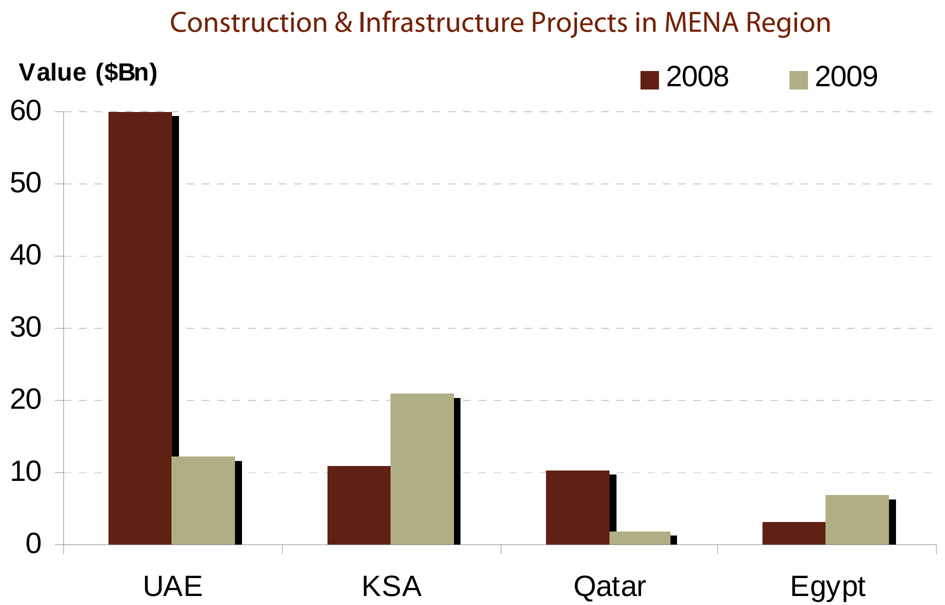
..MENA Fundamentals unleashed

- MENA is rich with large oil and gas reserves
- Positive outlook for oil
- Relatively aggressive GDP growth rates
- Relaxed fiscal policy
- Huge expenditures on Infrastructure projects



Source: IMF Data, Oct 2009

..MENA Fundamentals unleashed



Source: MEED, Nov 09

- UAE witnessed a major pullback in the size of projects which is attributed to the crash in real estate and as access to credit has been restricted in 2009.
- On the other hand, projects in KSA are still expanding in size where a major contribution comes from the plan championed by King Abdullah to build six new cities throughout the country. These cities together will have four times the geographical area of Hong Kong, three times the population of Dubai, and an economic output equal to Singapore’s.

Enough Cash to weather storms

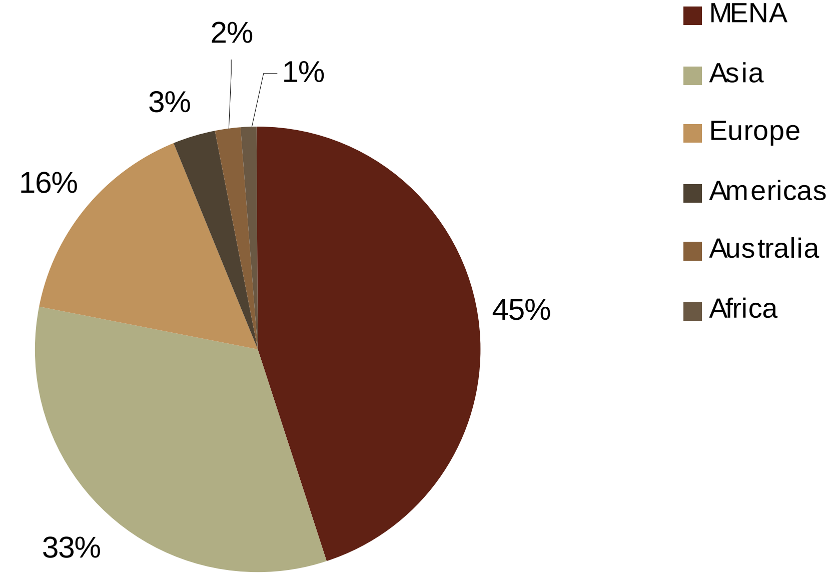
- During the last decade MENA has managed to accumulate huge amounts of foreign reserves.

- This provides MENA governments with major cushion to manage any emerging crisis.

A Sample from 2009:

- UAE paid fully $4.1 billion of Nakheel in December.
- Abu Dhabi provided a total of $20 billion support to Dubai when needed.
- QIA has participated in the capital increase of most Qatari banks when needed.
- Qatar authorities bought the real estate portfolios and the domestic equity portfolios at favorable terms from commercial banks.
- Regional sovereign funds have intervened several times in the stock markets.
- KSA has spent a total of $130 billion in 2009 and plans to spend a similar amount in 2010.
- Kuwait is launching a $62 billion plan in 2010.

Sovereign Funds Market Share by Region ($4.2 Trillion)



Source: MEED, IFSL Nov 09

CONTENT

The Saudi Economy - 1

- KSA is the largest economy in MENA region.
- Most powerful player in the global oil market with a 22% share of global oil reserves and 13% share of global oil production.
- Oil is key driver for the economy, supported by the current positive outlook.
- Massive investment spending underway: around $500 billion between 2008-2012.

	2009	2010E	2011E	2012E
Oil price Forecasts ($/barrel)*	59.80	75.90	88.00	107.80
KSA GDP Growth Rate (%)**	-0.88	4.04	4.28	4.81
Global GDP Growth Rate (%)**	-1.06	3.10	4.19	4.44

Source: Bloomberg, IMF, Dec 2009

The Saudi Economy -2

- Ample room for counter-cyclical fiscal policies given the high level of fiscal reserves that were accumulated during the previous 6 years.
- Prudent and conservative monetary policy.
- Strong population growth reaching around 3% with favorable demographics.

Saudi Arabian Monetary Agency (SAMA) Foreign Reserves

Source: SAMA, September 2009

The Saudi Economy -3

- Record budget in 2009 and then in 2010.
- Government is confirming its expansionary fiscal policy with massive investment on infrastructure and education.

(Billions SAR)	2009 Budgeted	2009 Actual	2010 Budgeted
Revenues	410	505	470
Expenses	475	550	540
Deficit	**65**	**45**	**70**

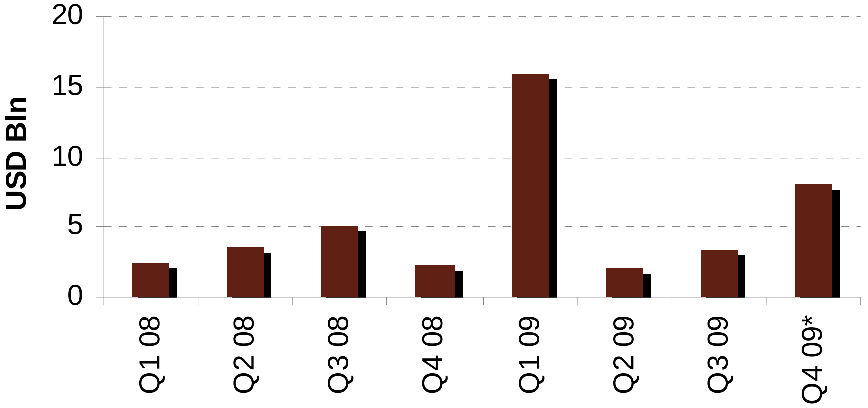
Source: SAMA, December 2009

- "Undoubtedly, the huge figures in the budgets over the last two years, is evidence of the confidence the leadership has in the outcomes of the economy and its ability to accommodate more, despite the shrinkage being witnessed in the global economy", Dr. Muhammad Al-Jasser, Governor of SAMA.

The Saudi Economy -4

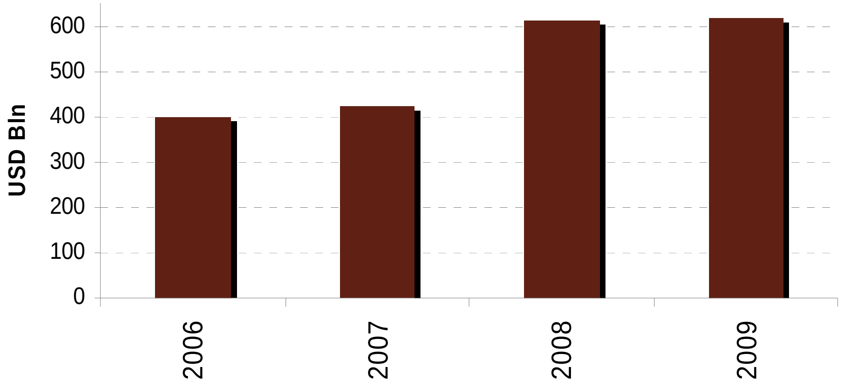
- Fiscal spending on infrastructure projects has counterbalanced some of the pullback by the private sector spending.
- Total value of projects in KSA has not changed from 2008 to 2009.
- Many projects that were shelved in 2009 are coming back on the table in 2010.

Value of Construction Projects in KSA



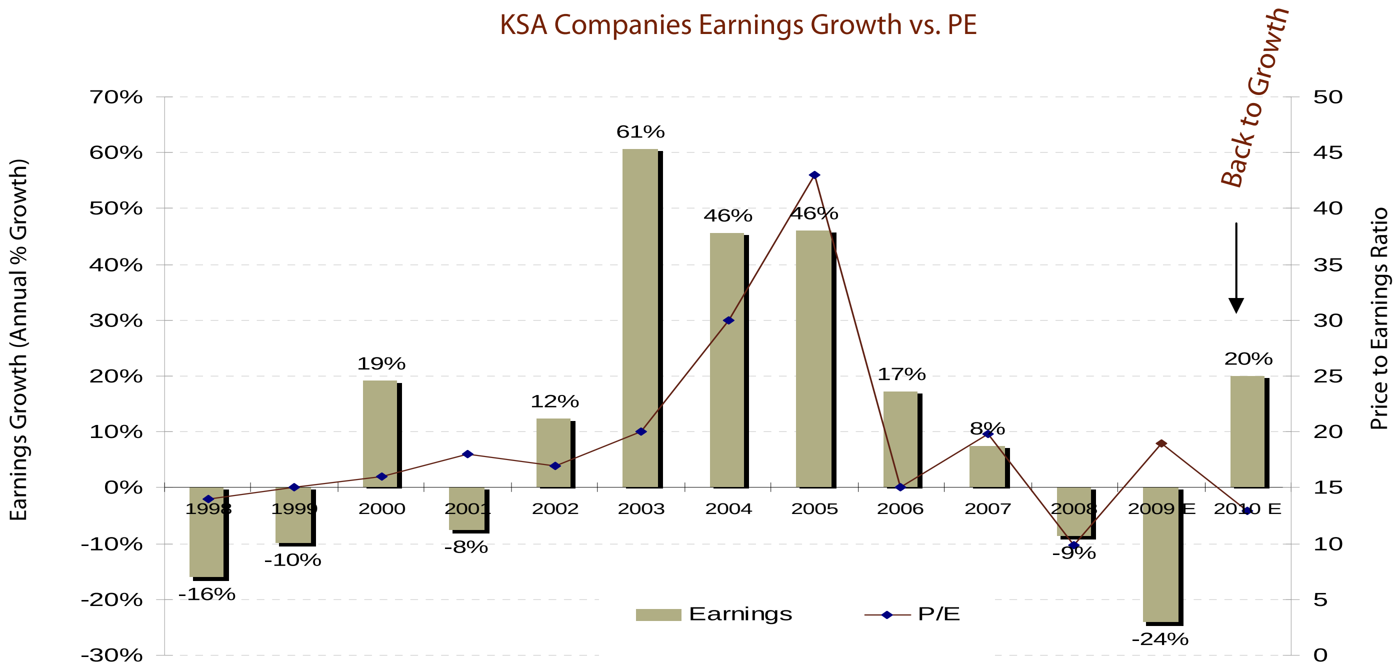
Source: MEED Projects, December 2009

Total Value of All Projects in KSA (Planned or Underway)



Source: MEED Projects, December 2009

KSA Market valuation



Source: Bloomberg, Audi Capital

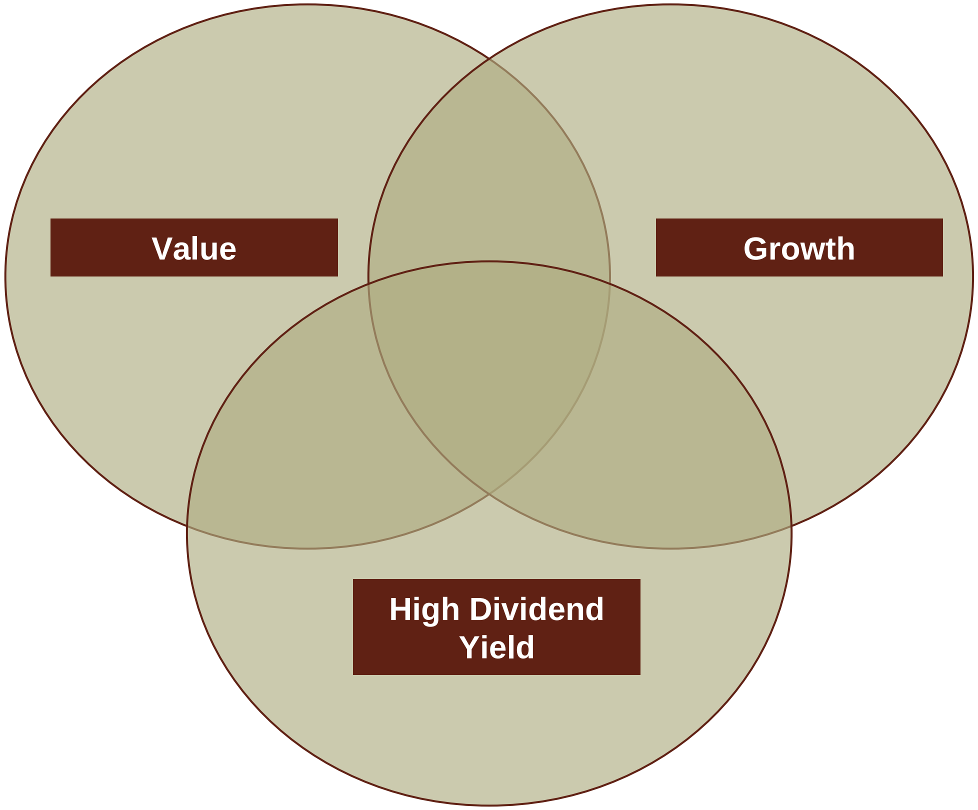
- Earnings in 2009 are highly distorted because of current global crisis
- 9-month Y-o-Y drop of 38.58% in earnings is largely affected by the petrochemical sector
- On a relative basis, 2010 is expected to record a major rebound in markets. We estimate PE 2010 at 12.9
- ➢ Current market PE doesn't properly reflect the actual value of the market

CONTENT

Investment Criteria

We buy stocks that exhibit:

- **Attractive valuation**
  and / or
- **Strong Growth**
  and / or
- **High Dividend Yield**



- Portfolios with all three characteristics tend to outperform over time

Country/Sector Performance in MENA

				2009 YTD Figures				
Market Index	Banking	Industrial	Petrochemicals	Telecom	Construction & Bldg	Cement	Real Estate	Financial Services
KSA	19.01%	48.55%	73.32%	2.99%	-1.91%	36.00%	1.99%	-
Dubai	30.90%	-	-	34.77%	19.35%	-	63.00%	36.54%
Abu Dhabi	33.73%	13.61%	-	30.08%	-45.48%	-24.91%	14.79%	-
Egypt	46.20%	28.09%	-12.22%	16.88%	57.66%	55.73%	80.90%	37.54%
Qatar	0.61%	-	15.01%	33.01%	8.37%	-	5.48%	17.09%
Kuwait	-4.05%	-1.55%	7.03%	11.79%	34.54%	20.99%	-3.89%	-11.82%

Source: Bloomberg, Audi Capital As of Dec,30, 2009

- Despite a broad-based rally, some sectors and countries have lagged others, opening the door for the opportunity of catching up soon.
- Although Qatar recorded the largest GDP growth in 2009, Qatar underperformed KSA, Egypt, and UAE markets.
- Despite the massive government spending on infrastructure related projects in KSA, the Building & Construction sector under-performed the peer sectors in the KSA market.
- Dubai's debt overhang and the recent experience with Nakheel will not be easily wiped from the memories of investors.

Country Diversification

- Correlations have increased during this crisis and country diversification became less of an applicable concept.
- However, when the turbulence lessens, investors will again target markets with solid fundamentals.
- Factors to consider include:
  - Level of economic activity
  - Fiscal and monetary policy
  - Level of public debt
  - Regulatory changes

- In 2010, we believe that Saudi Arabia and Qatar are best positioned to benefit from the economic rebound as these countries provide a comfortable operating environment compared to other countries in the MENA region.

	2010 Estimates*					
Country	GDP Growth (%)	Inflation(%)	PE 2010	Weight in MSCI Arabia	Recommendation	Rationale
KSA	4.3	4.2	12.9	49.09%	Overweight	Largest government expenditures and excess reserves
QATAR	10.7	4.0	12.2	5.88%	Overweight	Continued double-digit growth
KUWAIT	4.6	4.0	10.2	16.67%	Under Weight	Political instability
EGYPT	4.5	8.4	11	8.18%	Equal Weight	Threat of currency depreciation
UAE	2.0	1.0	Abu Dhabi (8.4) Dubai (10.7)	8.96%	Underweight	Dubai debt woes will govern the investment climate.

Source: HSBC, IMF, MSCI Barra Dec 2009

Sector Allocation

- Building and Construction: Massive government spending through expansionary fiscal policy will benefit all companies within this sector, especially after resolving the inventory problems in 2009.
- Banking sector: Having survived several consecutive shocks of different types, the banking sector in the GCC region, mainly KSA and Qatar is expected to rebound benefiting from improved macro-economic conditions and sufficient liquidity in the system which will be translated into increased appetite for granting loans. Also, lower provisioning charges on the loan book as well as on the investment book will act as positive catalysts for banks' earnings.
- Shipping and Logistics: The demand for vessels, whether tankers or containers, is expected to increase as the global economy is moving toward a recovery. The supply, on the other hand, is expected to decelerate for two main reasons: aging fleet and restrictive regulations. Thus, the combined effect will result in an impressive surge in this sector.

Weighting Scheme

Sector	Recommendation	Investment Rationale
Building and Construction	Overweight	Benefits from the expansionary fiscal policy and the huge spending on infrastructure projects
Telecom	Equal weight	Defensive that benefits from organic growth and supportive demographics
Shipping & Logistics	Overweight	Favorable supply/demand dynamics
Banking	Overweight	First beneficiary from GDP growth and well capitalized to weather possible credit shocks
Cement	Equal Weight	High dividend yield
Petrochemicals	Equal weight	Despite an expected oversupply, oil will provide the necessary hedge
Real Estate	Underweight	More damage to come with slow recovery, yet value will be the main driver

Security Selection

Factors to consider

- Strong financials
- Cheap valuations
- Sufficient cash allowing the company to withstand the liquidity squeeze and meet its obligations
- Experienced management

Companies we like the most

Company	Country	Sector	Earnings Growth (09-10) E	PE 10 E	Investment Rationale
Samba	KSA	Banking	24%	8.77	Value
Commercial Bank of Qatar	Qatar	Banking	2%	8.80	Value
Industries Qatar	Qatar	Petrochemical	20%	10.9	Value
Arabian Pipes	KSA	Bldg & Construction	200%	12.66	Growth
Qtel	Qatar	Telecom	5.2%	6.70	Value
Nakilat	Qatar	Shipping	155%	9.60	Growth
Maridive	Egypt	Logistics	37%	9.3	Growth
SABIC	KSA	Petrochemical	107%	15.26	Growth
Amiantit	KSA	Bldg & Construction	20%	12.00	Value
Sorouh	UAE	Real Estate	116%	4.0	Value

Source: Bloomberg, Audi Capital. As of Dec 2009

CONTENT

ARABIAN PIPES

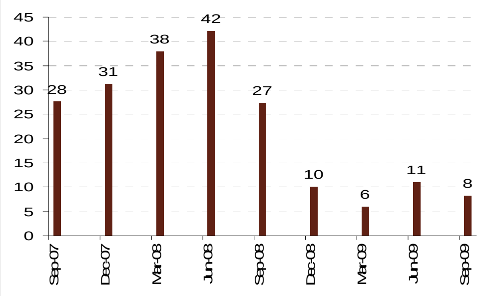
Company Overview

- .Arabian Pipes Co. (APC) specializes in the manufacture and anti-corrosion coating of High Frequency Welded (HFW) pipe, mainly for oil and gas exploration and production purposes. The company's products are also utilized in petrochemical, construction, agricultural, water and sewage applications.
- APC's factory facility located in Riyadh, on an area of 228 K sq. meters. Its annual production capacity is 460K metric tons yearly. APC has started commercial operations of its Jubail facility, which will cater to the larger diameter pipe requirements.

Investment Rationale

- Even with the sharp plunge in oil prices, GCC countries are still taking massive investments in gas and oil sector. For example, Saudi Aramco has allocated a budget of $ 60 billion to implement oil and gas projects until 2014. This will have a positive reflection on APC since a major chunk of its operations comes from this sector.
- Oil prices in late 2009 are showing signs of improvement, following rapid OPEC cuts. Yet a more convincing floor in oil prices will require stability in global equity markets, a reduction in asset market volatility, and resumption in US growth. This stabilization will induce companies, especially those in the oil and gas sector, in the near future to go forward with their delayed plans. This will ensure a good backlog for APC due to its new dimensions of pipe products and huge production of 460K tons of steel pipes.
- APC is trying to diversify its heavy reliance on pipes sales that serve the oil and gas sectors. For that, the company is investing in a new line to produce spiral pipes with a production capacity of 80K tons that target.
- APC realized the importance of Total Quality Management. For that, APC has maintained its certification in compliance with ISO 9001 since 1996 and the right to use the Official API Monogram on manufactured products under the conditions in the official publication of the American Petroleum Institute.

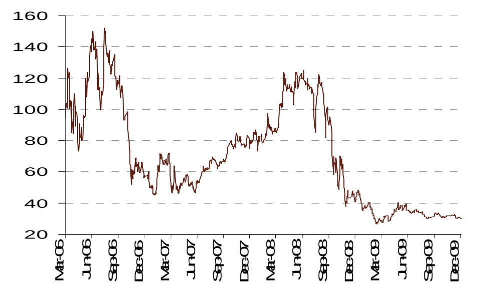
Quarterly Earnings (SAR million)



Stock Data

Price (SAR)	30.30
Market Cap (USD mn)	245.5
Free Float	86%
Av. Monthly Liquidity (USD mn)	338
52-week High (SAR)	124.75
52-week Low (SAR)	26.60
PB	1.34
Dividend Yield 09	NA
PE 09 E	6.12

Stock Performance (SAR)



Sources: Company data and Audi Capital estimates

COMMERCIAL BANK OF QATAR

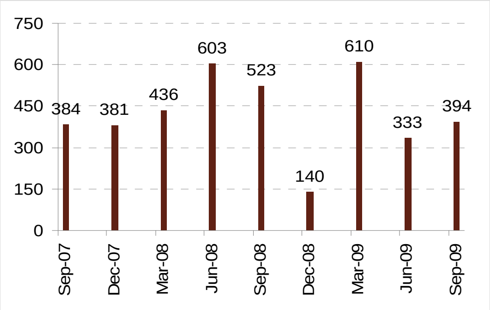
Bank Overview

- Commercial Bank of Qatar is the second largest bank in Qatar controlling an estimated market share of around 17% of total banking assets. CBQ has two significant international associates, a 35% stake in National Bank of Oman (NBO) and a 40% stake in the UAE's United Arab Bank (UAB).
- CBQ is well known for its strong corporate banking franchise though it is more popular in the private sector rather than the public sector like in the case of QNB. The bank is aiming at consolidating its position in the corporate banking sector that currently represents 77% of the bank's loan portfolio. Also, in the retail banking CBQ has started broadening its retail banking operations where it plans to compete on the quality of services rather than on pricing.

Investment Rationale

- Good asset quality indicators: The bank's loan quality is acceptable with non-performing loans representing only 1.04% of gross loans and they are fully provided for.
- The bank is operating at good efficiency levels with a cost efficiency ratio of 25.8% as of Q3 09.
- CBQ is well capitalized with a revised Capital adequacy ratio of 12.20% compared to the 10% minimum set by the central bank.
- Though we believe that Qatar National Bank is a more defensive choice within the Qatari banking sector since it is the largest bank in Qatar and having the safest exposure in terms of loan book, we recommend to add Commercial Bank of Qatar as the valuation is already discounting the probable deterioration in its asset quality and the stock is trading at a 25% discount to its peer QNB.
- Risk to our investment: With the contraction in the bank's deposits base, the bank's liquidity position has weakened resulting into a loans to deposit ratio of around 100% in Q3 09.

Quarterly Earnings (QAR million)



Stock Data

Price (QAR)	61.60
Market Cap (USD mn)	3,664
Free Float	88%
Av. Monthly Liquidity (USD mn)	178
52-week High (QAR)	88.70
52-week Low (QAR)	38.10
PB	1.22
Dividend Yield 09	11.36%
PE 09 E	8.25

Stock Performance (QAR)

Sources: Bank data and Audi Capital estimates

INDUSTRIES QATAR

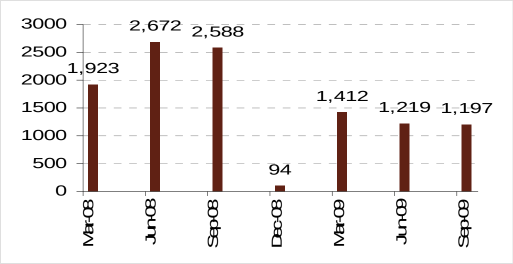
Company Overview

- Industries Qatar (IQ), incorporated in 2003, is one of the largest integrated industrial holding companies in Qatar and the GCC. Qatar Petroleum holds a 70% stake in IQ.
- The IQ group is comprised of four companies, Qafco, Qapco, Qasco and Qafac, whose operations are focused in the fertilizer, petrochemical, steel and fuel additives markets, respectively.
- Revenues from steel operations accounted for 39% of total revenues for 2008; fertilizers, petrochemicals and fuel additives contributed 31%, 20% and 10%, respectively.
- In terms of profits, steel operations contributed the least to IQ's total profits for 2008 as this business division is the only unit in the IQ group that does not have a sustainable cost advantage. In turn, profits generated from the fertilizer and petrochemical business units accounted for 48.3% and 37.7%, respectively, of total profits for 2008.
- Its oldest operating unit Qafco, established in 1969, had considerably assisted IQ in the past years in achieving record sales and profits. Qafco, as well as Qapco, receive gas supplies from Qatar Petroleum at a rate ranging from $1.5-2.0/MMBTU. Yara, one of the world's leading fertilizer producers, has a 15% stake in Qafco.
- IQ's total production capacity for 2009 is estimated to be around 8 million tons.

Investment Rationale

- With crude oil prices projected to increase to an average of USD 79.5/bbl and USD 88.0/bbl in 2010 and 2011, respectively, demand for biofuel feedstocks is expected to grow in line. Consequently, cereal, oilseed and sugar prices are projected to rise, exerting upward pressure on fertilizer prices. Furthermore, urea prices have lately shown signs of strength with granular urea prices rising by almost 30% from their 2009 low of USD 240/ton.
- The petrochemical industry has also already shown signs of a recovery, with the IPEX, as of December 2009, recording a gain of 57.5% from its low in February 2009.
- Embarking an aggressive expansion in capacity across all its units, it is projected that IQ will witness an annual increase of around 25% and 20% in 2010 and 2011, respectively. The increase in output amid an improved pricing environment from current levels, coupled with a significant low cost position, will fuel IQ's earnings growth in the future.

Quarterly Earnings (QAR million)



Stock Data

Price (QAR)	114.0
Market Cap (USD mn)	17,223
Free Float	15.60%
Av. Monthly Liquidity (USD mn)	260.7
52-week High (SAR)	127
52-week Low (SAR)	60.8
PB	3.50
Dividend Yield 09	7%
PE 10 E	10.88

Stock Performance (QAR)

Sources: Company data and Audi Capital estimates

MARIDIVE GROUP

Company Overview

- Established in 1978, Maridive & Oil Services (MOS) is one of the largest oil and gas services companies in the region. The company offers services related to oil and gas exploration and production, such as construction, maintenance, salvaging, transport and supply of materials.

- The mother company, Maridive & Oil Services (MOS), owned controlling positions in three companies: Maridive Offshore Oil Services "Maritide" (99.5%), Maridive Offshore Projects "MOP" (100%), and Valentine Maritime "Valentine" (75%). Both MOP and Valentine currently operate in the Offshore Construction Services segment, and contributes more than 70% in the group revenues. MOS and Maritide operate in the Offshore Support Vessels segment and contribute about 30% in the total group revenues.

Investment Rationale

- MOS offers oil and gas related construction and maintenance services. Thus the company generates revenues not only from assisting new projects but also from maintaining existing ones.

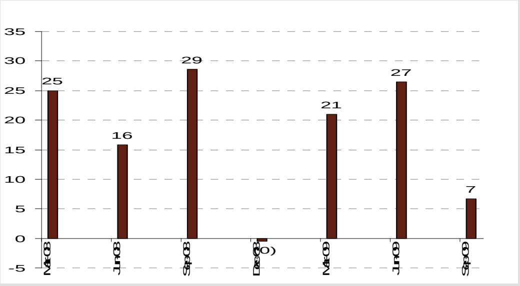
- Despite that its contracts are usually of short term nature, MOS has secured some long term contracts both inside and outside Egypt. The most important are a 2-year, USD 400 million contract with Aramco in KSA and a USD 180million project in India.

- The company, which currently operates in the MENA, South Asia, Mexico and Africa, is seeking new markets mainly in Russia and Australia.

- The industry in which MOS operates is very capital intensive. This serves as a good barrier to entry that protects the company from new candidates that may wish to enter the market especially in the case of an oil booming economy.

- The company's vessels are enhanced with advanced specifications (Dynamic Positioning, for example). In addition, the company invests in its human resources (captains and engineers) via sponsoring their calibers to get licensed with international certificates. This gives the company a competitive advantage over its competitors.

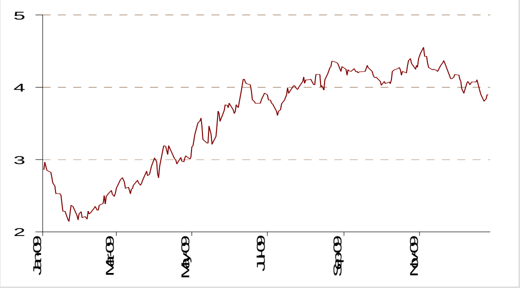
Quarterly Earnings (USD million)



Stock Data

Price (USD)	3.9
Market Cap (USD mn)	998,4
Free Float	26.24%
Av. Monthly Liquidity (USD mn)	11,70
52-week High (USD)	4.55
52-week Low (USD)	2.15
PB	814.5
Dividend Yield 09	5.64%
PE 09 E	12.58

Stock Performance (USD)



Sources: Company data, Bloomberg and Audi Capital estimates

NAKILAT

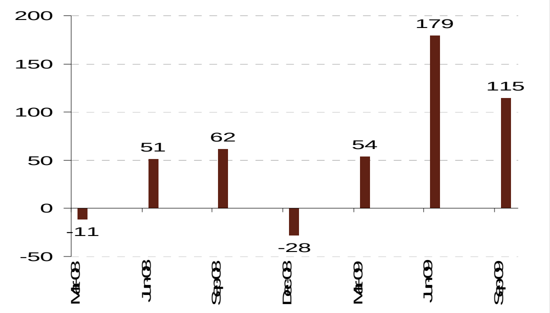
Company Overview

- Established in 2004, Nakilat, also known as Qatar Gas Transport, is becoming an integral part of the Liquefied Natural Gas (LNG) supply chain for the State of Qatar, by transporting LNG from Qatar to global markets. Nakilat is following a strategy to build a huge fleet of LNG vessels which is expected to reach 56 vessels, by 2010.
- Nakilat will totally own 27 out of these 56 vessels, and partially own the remaining ones, with an ownership percentage of 43%, on average. Moreover, Nakilat transports Liquefied Petroleum Gas (LPG) a complementary source of energy.

Investment Rationale

- Qatar is increasing its natural gas production from 56 million tons in 2008 to 77 million tons in 2011. In addition, it owns 14.4% of the total proven natural gas reserve. This reserve, which is mainly located in the North Field, will assure a long lasting production of natural gas.
- Nakilat is the main company in Qatar that transports LNG from the country to the rest of the world, mainly North America, Europe and South Asia.
- Nakilat is following an aggressive expansion plan to increase its LNG fleet size. Thus, the company is expected to acquire 56 LNG and 4 LPG vessels by 2012.
- All the vessels are long term chartered. This will assure the company a constant stream of revenues, regardless of the volatility in the shipping spot rates.
- The company has launched a ship yard project to construct and maintain ships and offshore structures. Construction of the first marine vessel is expected to start in mid-2010.
- Qatar Gas Transport has entered into an interest rate swap allowing it to transfer a part of its variable rate loans into fixed rate. By doing this, the company is trying to match its revenues with its costs, and thereby decreasing its risk.

Quarterly Earnings (QAR million)



Stock Data

Price (QAR)	24.1
Market Cap (USD mn)	3,603
Free Float	50%
Av. Monthly Liquidity (USD mn)	224.6
52-week High (QAR)	27.70
52-week Low (QAR)	14.20
PB	2.78
Dividend Yield 09	NA
PE 09 E	36.36

Stock Performance (QAR)

Sources: Company data, Bloomberg and Audi Capital estimates

QATAR TELECOM

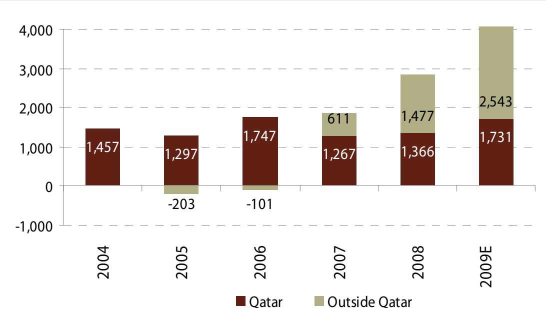
Company Overview

- Qatar Telecom (Qtel) operates and manages fixed and mobile telecommunication networks, and internet services across the Middle East, Africa, and Asia. Qtel was Qatar's sole fixed and mobile telecom operator. On September 15, 2008, Qatar's telecom regulatory authority issued a second GSM mobile and fixed license to Vodafone Qatar. Vodafone Qatar started operations officially in early July 2009.
- Qtel aims to be one of the top 20 telecom companies in the world by 2020. It has expanded its operations in the past two years through significant acquisitions. These include 51% of Wataniya, a Kuwait-based subsidiary, and 65% of Indonesian-based Indosat. Qtel's geographic presence broadened from 2 countries in 2006 to 21 countries of business interest as of the end of 2009.

Investment Rationale

- According to the International Monetary Fund (IMF), Qatar has witnessed and will continue to witness the strongest rates of GDP growth in the region and in the world, reaching an estimated peak of 18.5% in 2010.
- Qtel's overseas expansions include countries with attractive characteristics, namely a high population paired with low broadband penetration rates. This is the case in particular for Indonesia, Algeria, and Tunisia, for which the ITU indicated 2008 broadband rates per population of 0.13%, 0.85%, and 2.2% respectively. The mobile penetration rates of 66%, 72%, and 90% respectively of these markets are also lower than those of comparable emerging countries.
- Qtel has a diverse revenue base, segmented across 21 countries with a total of 53.4 million customers as of September 2009 from 16.4 million in 2007. In the first nine months of 2009, more than 70% of the company's revenues were generated from overseas subsidiaries.
- The company is trading at an attractive PE of 7.84 compared to average peers of around 10. It has a dividend yield of 6.7%.
- Qatar Telecom is 55% owned by the Qatar Investment Authority and 10% by the Abu Dhabi Investment Authority , signifying that it is supported by financially strong parties.

Segmented Net Income (QAR million)



Stock Data

Price (QAR)	145.10
Market Cap (USD mn)	6,043
Free Float	25%
Av. Monthly Liquidity (USD mn)	3.8
52-week High (QAR)	150.90
52-week Low (QAR)	134.70
PB	1.49
Dividend Yield 09	6.7%
PE 09 E	7.28

Stock Performance (QAR)

Sources: Company data and Audi Capital estimates

SAMBA FINANCIAL GROUP

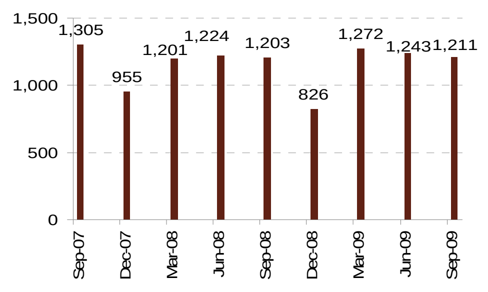
Bank Overview

- With total assets of SAR 184.10 billion as of Q3 09, Samba Financial Group (Samba) is one of the largest banks in Saudi Arabia, with an estimated share of around 14% of the country's total banking assets.
- Despite its relatively limited branch network of 65 branches, the bank has a well-established domestic franchise and a strong brand recognition capturing 12.7% of the Kingdom's loans.
- Samba has a particularly leading position in the corporate banking and project finance sectors. Due to its size and its solid balance sheet, the bank has a competitive advantage over most of its local and regional peers in accessing the big-ticket transactions in corporate and project finance, the two drivers of banking growth over the past two years.
- Through its investment arm Samba capital, Samba is also well-positioned as a provider of investment banking services.

Investment Rationale

- Balance sheet mix remains liquid: Samba has a liquid balance sheet, reflected in its loans to deposits ratio of 60.6% in Q3 09. This healthy liquidity position is expected to continue in the coming years with the loans to deposits ratio forecasted to hover around the 64% placing the bank in a better position to benefit from the next cycle of lending growth.
- De-risking the balance sheet: The overall investment book now has around 60% domestic exposure, a substantial increase from the 43% reported in 2007. While there is still a significant amount of "available for sale" securities at 36% of the portfolio, with corporate securities representing almost 15% of these, the mark-to-market write-downs incurred in 2008 have largely addressed the investment book issues.
- Profitability should provide a cushion: Despite the expected high provisioning at SAR 700 million in 2009, resulting in a 1.46% increase in profitability, the bank can sustain additional unforeseen hits by other large groups before the need to tap into the bank's capital arises.
- Samba is currently trading at levels corresponding to an estimated PE ratio of 10.06 for 2009 and 8.76 for 2010.

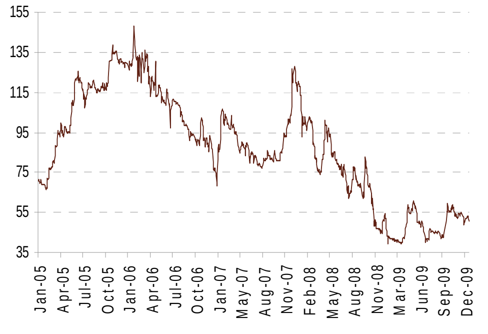
Quarterly Earnings (SAR million)



Stock Data

Price (SAR)	50.50
Market Cap (USD mn)	12,117
Free Float	50.59%
Av. Monthly Liquidity (USD mn)	320
52-week High (SAR)	120.33
52-week Low (SAR)	39.30
PB	2.09
Dividend Yield 09	3.27%
PE 09 E	10.91

Stock Performance (SAR)



Sources: Bank data and Audi Capital estimates

SABIC

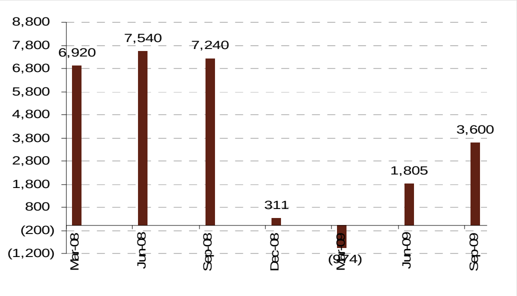
Company Overview

- Sabic is one of the world's largest petrochemical producers and urea exporters. It is the largest steel producer in the Middle East and the single largest producer of methanol in the world. The company's total production for 2008 reached 56.5 million tons.
- SABIC is 70% owned by the Saudi Arabian government, with the majority of its members on Board being representatives of the government.
- Around two-thirds of the production volume is made in Saudi Arabia, with the remainder of its assets in Asia, Europe and North America.

Investment Rationale

- The petrochemical industry has already shown signs of a recovery, with the IPEX, as of December 2009, recording a gain of 57.5% from its low in February 2009. With crude oil projected to trade around an average of USD 79.5/bbl and USD 88.0/bbl, for 2010 and 2011, respectively, and with a correlation coefficient of 0.90 between the IPEX and crude oil prices, the IPEX is projected to show a Y-o-Y average growth of 30.2% in 2010 and 6.3% in 2011.
- The restocking of inventories, which were depleted during the economic turmoil period, has begun amid concerns that petrochemical prices might increase further on expected higher energy costs. This has resulted in consumption creeping back up.
- SABIC enjoys an unmatched price advantage for its feedstock. The feedstock price advantage is of material significance as feedstock costs represent more than half of the total production costs of petrochemical products. Furthermore, there are various initiatives underway in the Kingdom to provide additional supplies of ethane to the domestic petrochemical players and it seems highly likely that the current price offered of $0.75/mmbtu will persist at this level beyond 2012
- SABIC's capex has averaged 2.14x depreciation since 1989: This drove a CAGR in sales of 26.7%. Its long-term capex program will see production capacity nearly triple to about 130 million tons by 2020. Major expansions (Yansab, Sinopec and Sharq) have started to become operational.
- Asia is the major market for SABIC, accounting for c40% of 2008 sales. With key economies, such as China, showing strong signs of growth, SABIC is better placed than peers to leverage any recovery.

Quarterly Earnings (SAR million)



Stock Data

Price (SAR)	82.50
Market Cap (USD mn)	66,000
Free Float	22.71%
Av. Monthly Liquidity (USD mn)	3,210
52-week High (SAR)	84.75
52-week Low (SAR)	34.10
PB	2.39
Dividend Yield 09	1.8%
PE 10 E	15.26

Stock Performance (SAR)

Sources: Company data and Audi Capital estimates

SOROUH REAL ESTATE

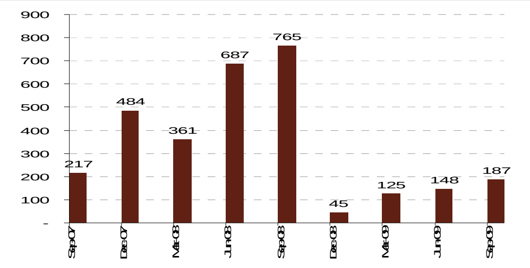
Company Overview

- Sorouh is Abu Dhabi's second largest real estate developer in terms of land bank, behind Aldar. It was established in September 2005, it is listed on Abu Dhabi exchange and is a constituent of the Abu Dhabi index.
- The company's activities include real estate developments, property management and related services. Its projects are highly concentrated inside and around central Abu Dhabi city.
- The company has exposure to different segments of real estate including residential, commercial, retail and hospitality. It has gained and continues to build up critical experience in master-planning and development.

Investment Rationale

- Although Abu Dhabi has not been immune from the economic downturn, it is relatively well-positioned to weather the current recession given its abundant natural resources of oil which play a vital role in the emirate's economy.
- Sorouh is a large-scale real estate developer in Abu Dhabi with a diversified project portfolio where the majority of its projects strategically located within central Abu Dhabi city.
- Amid the current liquidity squeeze, the company has the financial resources needed to bid on rewarding projects making it well positioned to benefit from the real estate market slump. The company's net cash positions stands at AED 2 billion as of September 30, with a D/E ratio of 60% giving it a strong financial capabilities to fund its ongoing projects. Sorouh's financial stability will enable it to take advantage of distressed opportunities and making it poised for growth as soon as the market recovers.
- Given Sorouh's business model which is geared more towards land sales and the resulted early recognition of sales, the company enjoys a healthy balance sheet with quality of earnings. The company did not recognize any gains on revaluation of investment properties and hence retained earnings are not inflated by the revaluation gains.

Quarterly Earnings (AED million)



Stock Data

Price (AED)	2.60
Market Cap (USD mn)	1,770
Free Float	68.20%
Av. Monthly Liquidity (USD mn)	33.96
52-week High (AED)	2.66
52-week Low (AED)	2.59
PB	1.07
Dividend Yield 09	4.62%
PE 09 E	4.00

Stock Performance (AED)

Sources: Company data, Bloomberg and Audi Capital estimates

SAUDI ARABIAN AMIANTIT

Company Overview

- Amiantit has grown and developed into a major diversified industrial group with core business activities that contain: manufacture and sale of pipe systems, ownership and sale of pipe technologies, the provision of water management consultancy and engineering services, manufacture and supply of polymer products.

- Amiantit serves municipal, civil engineering, industrial, energy, and agricultural markets worldwide, supporting global infrastructure development. It comprises thirty pipe system manufacturing plants, six technology companies, four materials suppliers, and eight supply and engineering subsidiaries, in a number of countries around the globe. In addition, an extensive sales and service network caters for the needs of customers in more than 70 countries around the world.

Investment Rationale

- KSA 2010 budget realized building new roads of 6,400 Kilometer. Also, the budget boosted expenditures on water infrastructure by almost a third from 2009 budget. This issue will benefit companies, including Amiantit, that deal with infrastructure.

- KSA needs much of infrastructure developments to cope with the growth and upgrade its existing infrastructure. For that, the Kingdom has pledged to spend US$ 400 Billion in the coming years.

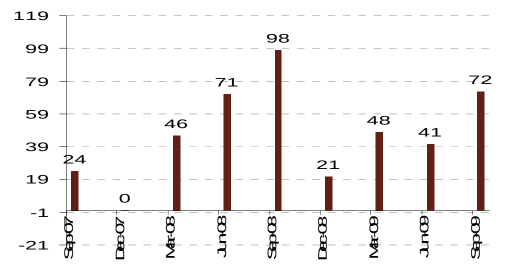
- Amiantit manufactures many kinds of pipes. It specializes in glass reinforced pipes which has many characteristics over the ordinary pipes.

- Amiantit has diversified its geographical presence in a way to be close from their client and reduce the high transportation costs that will incurred to move if they where in another region.

- Amiantit has started to implement plans to restructure its operations in a way to withdraw from non-profitable plants. Being efficient in its operating expenses has been successful till now to turn the net loss to net income.

- Amiantit realized the importance of Total quality Management. For that, Amiantit has maintained its certification with ISO standards.

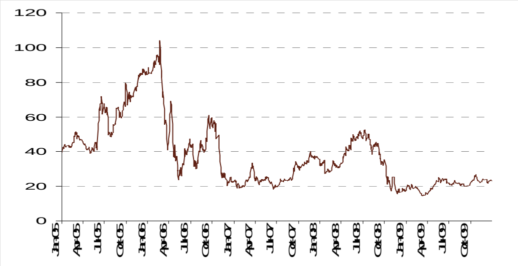
Quarterly Earnings (SAR million)



Stock Data

Price (SAR)	23.050
Market Cap (USD mn)	710
Free Float	31%
Av. Monthly Liquidity (USD mn)	24
52-week High (SAR)	26.70
52-week Low (SAR)	14.35
PB	1.76
Dividend Yield 09	2.17%
PE 09 E	10.49

Stock Performance (SAR)



Sources: Company data, Bloomberg and Audi Capital estimates

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