MENA STRATEGY

Focus List Change: Add Air Arabia, Remove Arabtec & IQ

11 JANUARY 2009

The MENA Focus List is a collaborative effort between the research and sales departments at EFG-Hermes and comprises our top investment ideas across the MENA region – including stocks that are currently not covered by research. Stocks on the Focus List have an investment horizon of up to six months while performance is benchmarked against the MSCI Arabian Markets index. The list itself is reviewed on a weekly basis, though changes can be applied on an as needed basis and as frequently as opportunities permit, with stock picks themselves based on both fundamental and technical factors. From time to time, changes may be made to the Focus List to take advantage of stocks where we see greater near-term triggers to outperformance. Therefore the removal of any company from the list does not necessarily mean a negative fundamental view on the shares.

- **Add Air Arabia:** We believe Air Arabia (AED0.90, LTFV AED1.62, Acc. / Acc.) is well placed to benefit from the current downturn as the dominant low-cost carrier in an under-penetrated market. We expect the continuation of higher than expected load factors and tumbling fuel costs to lead to another strong quarter to end the year – indeed, we believe our forecasts for 4Q2008 could be exceeded. Given the company's operational strengths and practices, the further potential upside from the success of its existing operations, and any additional hubs/acquisitions (the company currently holds a net cash balance of AED2 billion, or c.50% of market cap), we believe Air Arabia is well placed to become a leading carrier in the region. We feel the share offers considerable value to investors as oil prices continue to fall.

- **Remove Arabtec:** The recent cancellation of Arabtec's (AED2.04, LTFV AED13.69, Buy / Buy) project is likely to weigh negatively on investor sentiment. We believe the cancellation, which amounts to 5% of backlog, reflects difficulties related to the client. We also expect Arabtec's forthcoming results to be robust. Nevertheless, under the current negative environment for Dubai real estate, we expect the cancellation of a government-related contract to result in a short-term negative reaction, especially given the recent 50% rally in the shares. We remain long-term buyers and will look to revisit the shares at a later date.

- **Remove Industries Qatar:** Given the collapse in energy and commodity prices over the past quarter, we anticipate weak results to be reported by IQ (QAR90.5, LTFV QAR111.8, Acc. / Buy). We believe shares will offer attractive entry opportunities later in the year, especially since the company's diversified financial profile will allow it to benefit from any upturn in a single product or market.

- **Performance of the Focus List:** Since inclusion, Arabtec has underperformed the benchmark index, though the rally in the last week of December temporarily brought performance in line with the index. Meanwhile IQ has more or less moved in line with the benchmark. Nevertheless, the Focus List has outperformed the MSCI Arabian Markets Index since its formal launch by a substantial 17%, though in absolute terms this still translates into a return of -14% (please see Figure 1).

STRATEGY NOTE

MENA Focus List Table

RIC	Company Name	Country	Rec (ST/LT)	Price* 8-Jan	Perf. Since Last Rebalance	LTFV	Upside (%)	M Cap (USD m)	Avg Daily Val Trad (USD m)	P/E 07a	P/E 08e	P/E 09e	EPS growth 07-08e	EPS growth 08-09e	Yield 2008e
AIRA.DU	Air Arabia	UAE	Acc. / Acc.	0.9	N/A	1.6	72%	1,194	9.0	8.9	8.9	7.7	-0.9%	15.8%	2.8
4240.SE	Al Hokair	Saudi	-	34.0	25%	-	-	634	3.6	13.4	-	-	-	-	-
COMI.CA	CIB	Egypt	Buy / Buy	36.7	32%	51.9	41%	1,976	4.6	9.8	7.4	6.5	31.4%	13.5%	3.1
EMOB.CA	Mobinil	Egypt	Buy / Buy	134.5	23%	217.7	62%	2,477	3.3	8.0	7.6	7.5	5.6%	1.3%	11.9
OCIC.CA	OCI	Egypt	Buy / Buy	142.5	-24%	310.4	118%	5,563	13.1	7.8	6.4	6.1	22.0%	4.5%	7.7
QEWC.QA	Qatar Elec. & Water	Qatar	Buy / Buy	93.0	17%	166.0	78%	2,556	3.0	15.1	12.4	12.3	21.7%	0.9%	4.0
2110.SE	Saudi Cables	Saudi	-	29.7	4%	-	-	602	24.0	8.0	-	-	-	-	-
7010.SE	Saudi Telecoms	Saudi	Buy / Buy	54.0	-10%	101.0	87%	28,792	12.1	9.0	8.0	7.7	11.6%	4.1%	10.2
ETEL.CA	Telecom Egypt	Egypt	Buy / Buy	15.4	16%	23.2	51%	4,832	3.9	11.0	8.8	7.0	25.1%	26.6%	7.5

Source: Reuters, EFG-Hermes estimates. (Note: Prices are in local currency)

Fahd Iqbal
+971 4 363 4004
fiqbal@efg-hermes.com

Simon Kitchen
+20 2 3332 1129
skitchen@efg-hermes.com

Hanzada Nessim
+971 4 363 4019
hnessim@efg-hermes.com

Ahmed Difrawy
+20 2 3332 1144
adifrawy@efg-hermes.com

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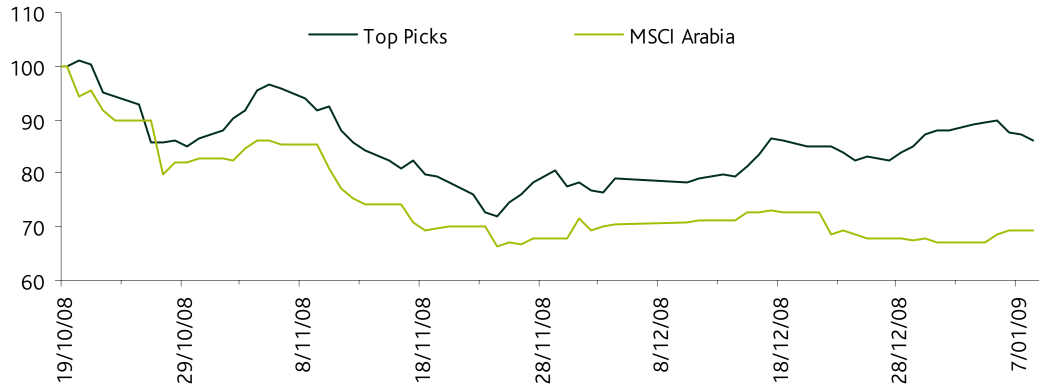
Figure 1: Performance of MENA Focus List vs MSCI Arabian Markets Index



Source: Reuters

EGYPT SALES TEAM
Local call center 16900
Int'l call center +20 2 33 33 94 00
cc-hsb@efg-hermes.com

Head of Western Institutional Sales
Mohamed Ebeid
+20 2 33 32 1054
mebeid@efg-hermes.com

Local Institutional Sales
Amr El Khamissy
+20 2 33 32 1045
amrk@efg-hermes.com

Head of GCC HNW Sales
Ahmed Salem
+20 2 33 32 1078
asalem@efg-hermes.com

UAE SALES TEAM
call center
+971 4 306 9333
uaerequests@efg-hermes.com

Western Institutional Sales
Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

Head of GCC Institutional Sales
Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

Gulf HNW Sales
Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

UAE Retail Sales
Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM
call center
+800 123 4566
ksa-callcenter@efg-hermes.com

Head of KSA Brokerage
Hesham Khalil
+9661 211 3040
hkhalil@efg-hermes.com

Head of KSA Sales
Mohsen Mansour
+9661 211 3008
mohsenm@efg-hermes.com

RESEARCH MANAGEMENT
Cairo General + 20 2 33 38 8864
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research
Eiji Aono
+971 4 363 4006
eaono@efg-hermes.com

Head of Egypt Research
Wael Ziada
+20 2 33 32 1154
wziada@efg-hermes.com

Head of Publ. and Distribution
Rasha Samir
+20 2 33 32 1142
rsamir@efg-hermes.com

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CONTACTS AND STATEMENTS

Background research prepared by [EFG-Hermes UAE Limited, EFG-Hermes KSA, EFG-Hermes Holding SAE]. Report prepared by EFG-Hermes Holding SAE (main office), 58 Tahrir Street, Dokki, Egypt 12311, Tel +20 2 33 32 1140 | Fax +20 2 33 36 1536 which has an issued capital of EGP 1,939,320,000.

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