



STRATEGY NOTE

- Rebalance in favour of Dubai and Egypt:** We narrow our exposure to Saudi Arabia in favour of Dubai and Egypt. With a Dubai World agreement seemingly imminent, we add two high-quality stocks which we see benefitting from a short-term re-rating of the Dubai market. With the Egyptian market now looking cheaper following a sharp correction in mid-March, we also add another Egypt name.
- Add Ezz Steel:** We recommend buying Ezz Steel at the start of a cyclical upturn in global steel prices. We think that global iron ore prices will rise at least 50% when a new contract is agreed, and note that rising coking coal and scrap prices favour Ezz Steel over producers in Turkey (the main source of Egyptian steel imports). We believe that the market is currently underestimating the speed and magnitude of the rise in global steel prices, and major improvements in Ezz Steel's margins in 2011.
- Add Orascom Telecom:** OT's shares have fallen 19% since the tax dispute with the Algerian authorities began in mid-November 2009. We believe a significant trigger for a positive share price performance will be either the sale of Djezzy, OT's Algerian operation, or a resolution of the dispute (less likely). A sale would highlight that OT's other assets are undervalued. We expect that Djezzy will be sold for at least 5.5x EBITDA, and OT currently trades at 4.7x 2010e EBITDA. We are aware of short-term pricing pressures, as new rights issue shares become tradable, but consider downside risks to be limited.
- Add Emaar Properties:** Dubai has already rallied 12.9% from its 3 March 2010 low, but we believe some upside remains. We prefer Emaar as a high quality name, with little exposure to Dubai World, positive earnings progression over the year, increased geographic diversification, and potential support from an Indian IPO. Finally, as a bellwether stock for the market, we expect shares in Emaar to reflect the ongoing improvement in sentiment from on Dubai World debt. The shares trade at 3.4x 2010e and 9.6x 2011e P/E.
- Add Depa:** Depa is the market leader in the fragmented interior contracting industry, exposed to the final leg of the real estate cycle. Its Dubai exposure is falling: only 33% of its backlog Dubai-related, falling to 19% by 2013. We believe the market is neglecting the favourable shift in the company's working capital and cash conversion cycle, which is expected to fully bear fruit by 2012. In addition, the mid-April merger between Nasdaq Dubai and DFM, and the re-denomination of the shares from USD into AED should lead to a substantial improvement in liquidity leading to positive share price performance. The shares trade at 6.5x 2010e and 5.3x 2011e P/E.
- Remove YANSAB, Amiantit, Arabian Cement and El-Sewedy Cables:** Fundamentally, we continue to like these names. However, at this stage in the cycle we prefer to keep our exposure to Saudi Arabian blue chips. We believe trading activity will continue to see a relative shift towards large cap names from small and mid cap ones, as the Saudi market re-rates over the course of the year. We like El-Sewedy Cables' exposure to regional infrastructure spending, but see no catalysts for short-term outperformance.

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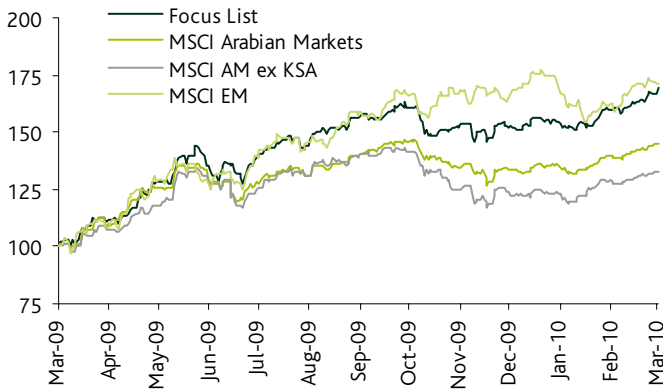
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Figure 1: MENA Focus List
Prices and fair values in local currency

Ticker	Company Name	Country	Rating	Price 23 Mar	Perf. Since Last Rebal.	FV	Upside	M Cap (USD mn)	ADVT* (USD mn)	2009a	P/E 2010e	2011e	EPS Growth 09-10e	10-11e	Yield 2010e
ESRS.CA	Ezz Steel	Egypt	Buy	19.4	N/A	25.1	30%	1,911	3.1	131.6	16.6	8.2	691.4%	101.9%	0.0%
ORTEq.L	OT	Egypt	Buy	5.1	N/A	7.7	52%	5,330	9.8	9.5	11.3	10.0	-16.0%	13.2%	2.2%
NSGB.CA	NSGB	Egypt	Buy	32.5	8.3%	43.0	32%	1,969	0.4	7.2	7.5	6.6	-3.8%	14.4%	3.5%
SKPC.CA	Sidi Kerir	Egypt	Buy	14.0	26.2%	15.8	13%	1,332	1.1	10.1	8.1	8.6	25.7%	-5.7%	11.7%
1120.SE	Al-Rajhi	Saudi	Neu.	81.5	9.8%	74.7	-8%	32,600	21.8	19.0	17.4	15.0	9.2%	15.8%	2.9%
1211.SE	Maaden	Saudi	-	19.0	13.1%	-	-	4,687	17.3	44.2	-	-	-	-	-
COMB.QA	CBQ	Qatar	Buy	74.4	23.0%	113.5	53%	4,429	6.0	11.1	9.6	7.7	15.0%	24.5%	8.2%
IQCD.QA	Industries Qatar	Qatar	Buy	113.2	7.7%	140.0	24%	17,116	5.8	16.8	13.7	10.1	22.3%	36.1%	2.7%
EMAR.DU	Emaar	UAE	Buy	3.8	N/A	5.9	55%	6,258	41.6	68.3	3.4	9.6	1896%	-64.2%	0.0%
DEPA.DI	Depa Limited	UAE	Buy	0.7	N/A	1.2	74%	418	0.2	6.6	6.5	5.3	0.2%	22.9%	3.8%

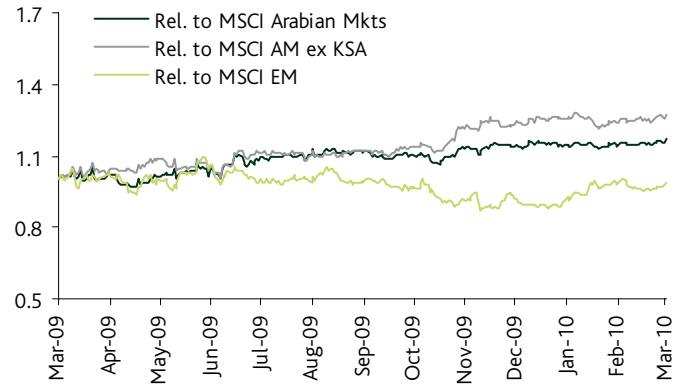
*ADVT = Average daily value traded, based on last 3-months trading activity
Source: Reuters, Zawya, company data, and EFG Hermes estimates

Figure 2: MENA Focus List vs Benchmark Indices



Source: Reuters, EFG Hermes

Figure 3: MENA Focus List Relative Performance



Source: Reuters, EFG Hermes

Figure 4: Performance

	1 month	3 month	52 Weeks
MENA Focus List	5.5%	10.3%	69.0%
MSCI Arabian Markets	4.1%	8.6%	44.5%
MSCI AM ex KSA	4.2%	9.4%	32.9%
MSCI Emerging Markets	7.3%	-1.5%	70.9%

MSCI figures as of 22 March 2010

Source: Reuters, EFG Hermes estimates

Focus List Description: 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. The removal of any company from the list does not necessarily equate to a negative fundamental view on the shares.

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