SHUAA CAPITAL psc

Monthly Stock Pick Monitor

Equities Strategy

May 5th, 2008

Strategy Team

Walid Shihabi
+9714 3199 750
wshihabi@shuaacapital.com

Ahmad Shahin
+9714 3199 742
ashahin@shuaacapital.com

Jafar Shami
+9714 3199 522
jshami@shuaacapital.com

April proved to be the best month for regional equities to-date in 2008, as the SC GCC index gained 9% on the back of strong gains recorded by the largest markets in the region, including the UAE, Saudi Arabia and Qatar. As we had anticipated, Q1 08 earnings season managed to drag back the focus of investors to the underlying fundamentals of the markets, and away from the global turmoil that had gripped markets for most of the year. The average performance of the region's markets was however in-line with that of global emerging markets for the period, as the MSCI EM Index recorded a gain of 8.4% for the period. Our optimal portfolio benefitted well from the turn in sentiment, as it managed to significantly outperform both the SC GCC Index and the MSCI GCC Index for the month, with indicative gains of close to 15%. Key to this strong performance were the stellar gains recorded by Arabian Pipes, on the back of strong Q1 08 earnings, and the new record highs achieved by Arabtec Holding following a string of positive news flows. The two most recent additions to our optimal portfolio, Tamweel and DP World, also contributed to the outperformance with gains of 17.4% and 18.9% respectively, both well ahead of the 9.4% gain recorded by the SC UAE Index for the period. The portfolio was however penalized by the absence of stocks listed in Qatar, which proved to be the best performing market in the region for April, as well as what in retrospect seems to have been an early exit for Galfar Engineering, which gained over 20% for the month. We present our optimal portfolio for May below:

Optimal portfolio

	Company	Market	Industry	Closing price	Performance		Valuation			Earnings CAGR 06 - 08'	Market cap USD '000	Recommended weight
				(Lcl currency)	1 month	12 months	PE 07	PE 08 e	P/B			
1	Emaar Properties	DFM	Real Estate	11.75	4.4%	8.8%	10.9	10.8	2.4	13.5%	19,507,045	10.0%
2	Arabtec	DFM	Construction	16.00	32.2%	262.0%	19.4	16.4	9.3	106%	2,605,594	10.0%
3	Saudi Cable Company	Tadawul	Electrical Equipment	81.50	7.2%	115.9%	22.9	15.4	10.1	66.6%	1,847,826	10.0%
4	Aldar Properties	ADSM	Real Estate	11.85	13.9%	115.1%	14.2	8.3	3.4	63.0%	7,515,842	10.0%
5	Tamweel	DFM	Mortgage Finance	8.08	17.4%	125.1%	17.9	10.0	4.4	130.0%	2,200,376	10.0%
6	SABIC	Tadawul	Petrochemicals	147.75	5.7%	23.1%	16.4	16.0	6.5	14.0%	118,231,528	10.0%
7	Arabian Pipes	Tadawul	Pipe Manufacturing	115.00	30.7%	125.5%	28.8	23.9	6.2	42.0%	966,258	10.0%
8	Almarai	Tadawul	Dairy Products	144.50	5.3%	90.8%	23.6	18.9	5.2	33.7%	4,289,235	10.0%
9	Emaar Economic City	Tadawul	Real estate Development	22.50	11.4%	35.4%	-	-	2.2	29.0%	4,987,997	10.0%
10	Qatar National Bank	DSM	Banking and Finance	232.00	8.4%	19.8%	20.3	13.8	3.7	35.3%	13,969,564	10.0%
	Average						**19.38**	**14.84**		47%		

** Based on estimated figures*

Optimal Portfolio vs. Benchmark Indices	Optimal Portfolio	SC GCC	MSCI GCC Countries Index	Relative Performance	
				vs SC GCC	vs. MSCI GCC
1 month performance	14.9%	9.0%	9.5%	5.9%	5.4%
Performance since Inception	64.5%	26.0%	19.7%	38.5%	44.9%

Core themes:

The banking sector makes a reappearance in our optimal portfolio for May, as we add Qatar National Bank to the list, representing our top pick for a Qatar banking play. We also add Emaar Economic City (EEC), following our highly favorable view expressed in our initiation of coverage on the stock in April, and the substantial implied upside to the current market price. The two replace Global Investment House, which has achieved our medium-term return targets and may suffer going forward from a highly charged and temperamental political environment in Kuwait. We also drop DP World from our optimal list due to achieved returns in April and in-line (rather than consensus beating) FY 07 results.

Portfolio Stocks:

Emaar Properties (EMAR.DU)

There were no significant events or news flow in the month of April that could edge the stock towards upside momentum, leaving movement of the stock fully determined by Q1 08 results. Q1 08 results were slightly lower than Q4 07 and Q1 07 results, thereby reinforcing general investor lethargy on the stock. Emaar Properties thus lagged behind the SC UAE Index. We retain the real estate giant in our portfolio for the reason that the stock remains significantly undervalued, and is a viable stabilizing component in our portfolio. In addition, Emaar Properties is at a stage where it has reached a certain level of stability in its revenue streams, and benefits from a very high, and improving, quality of revenues compared to regional peers. Our positive view on subsidiary EEC reinforces our stance on the company at this time.

Aldar Properties (ALDR.AD)

Aldar Properties' Q1 08 results proved stellar, both in terms of headline figures and composition, beating all expectations with a YoY 204% increase in net income and a 159% increase on a QoQ basis. The stream of sales in land and property has significantly contributed to a higher profit margin and bottom line. More significantly, assets grew by 38% ytd. spurred mainly by investment properties, investment properties under development, and developments work-in-progress. This means that there will be higher growths in sales, and also more sustainable recurring revenues. Prospects continue to look bright for Abu Dhabi's premier property developer as it heralds its move away from a start-up status into a high growth cycle. We retain it as a component of our optimal portfolio for May in anticipation of a more convincing market reaction to very positive developments.

Arabtec Holding (ARTC.DU)

The best performer in the UAE market, Arabtec confounded investors with a relay that drove the stock to go up 32% for the month. The performance was driven by a string of positive news including a surprise contract worth AED 10 bn in Russia, proving its ability to penetrate markets outside the UAE, and its developing stature as a world-class engineering and construction company. The contract adds 60% to its current project backlog (without accounting its expected entrance into a JV agreement with a partner). This is in addition to an AED 3 bn contract that was awarded by the Mohamed Bin Rashid Housing Establishment during the same month. We retain the stock within our optimal portfolio for May in anticipation of further positive news flows, particularly related to measures towards easing foreign ownership limits on the stock.

Almarai (2280.SE)

Almarai has underperformed the SC Saudi index for the whole month of April, rebounding only on the first few days of May. This was expected as investor's focus shifted towards stocks that took a beating during the downturn in the last couple of months, during which Almarai was one of the rare stocks that moved upwards. Solid earnings that proved its ability to increase revenues and volumes sold across different product lines reinforce our stance on the only consumer brand in the portfolio.

Arabian Pipes (2200.SE)

The best performer in our portfolio, Arabian Pipes was a great play on the Q1 earnings theme that drove our picks of last month. Net income grew by 60% on a YoY basis, which continued along the high growth rates in the company's performances. The stock moved up 69% since we included it in our portfolio, making it one of our star picks. However, we continue to believe that there is further medium-term upside on the stock, as investors gradually acknowledge the earnings growth expectations inherent in the stock.

Saudi Cables (2110.SE)

While Q1 08 results were somewhat lower than our expectations, they proved positive on a number of fronts. Net profits recorded a healthy 22% increase YoY, while more importantly the company managed to increase margins despite the significant rise in copper prices. A production capacity increase of 30% will be added to the total capacity by Q4 08, which should further enhance margins, increase revenues, and reinforce the likelihood of the company meeting our full-year estimates. The story remains very much intact.

SABIC (2010.SE)

The announcement of SABIC's Q1 08 results were met with some disappointment by investors, as the company posted a 10% earnings growth YoY, representing the lowest quarterly growth in two years. The stock managed to gain around 6% for the period compared to gains of over 10% by the Saudi market. The reported earnings were adversely affected by rising feedstock prices and a slowdown in demand from USA and Europe, clearly encroaching on its US subsidiary. However, investors seem to have overlooked the underlying growth in production and sales volumes, and the fact that the slowdown in the West was more than offset by a surge in demand from Asia and especially China, which should continue to drive price trends. SABIC's 70% stake in SAFCO, which rallied over 26% in April as it saw its Q1 08 profits increase by 150% on the back of record fertilizer prices, is also a positive factor.

Tamweel (TAML.DU)

Tamweel reported a 249% YoY growth in Q1 08 earnings, driven mainly by growth in income from core operations such as income from Islamic and financing assets, and also complemented by income generated from sales of land. The results reaffirm our positive expectations for impressive FY 08 results, and underpin the strong performance recorded by the stock in April. The story remains viable and we envision continued momentum on the stock as there remains significant value on the table, and the potential for a further earnings surprise in Q2 08.

Additions

Emaar Economic City (4220.SE)

We include Emaar the Economic City in our portfolio for May, thereby initiating our recommended exposure to the real estate sector in Saudi Arabia. EEC is the real estate company that is developing King Abdullah Economic City on the Red Sea, one of the most ambitious projects to ever come out of the Kingdom of Saudi Arabia, which will include massive residential developments, complemented by a special economic zone, industrial areas, and one of the largest ports. Although the company did not commence full operations yet, EEC owns a land bank of 168 mn sqm making it the largest land bank owner in the GCC. The estimated NAV per share alone is SAR 55.62 vs. the current price of 22.5. The project is fully backed by a cash-rich Saudi government keen on making this project a success. In addition, the company will be developing properties in a residential market that has one of the biggest housing shortages in the region. These are all factors contributing to our positive outlook on the company, and to our belief in the significant upside potential of the stock.

Qatar National Bank (QNBK.QA)

We add Qatar's largest commercial bank to our optimal portfolio for May, representing the first commercial bank to be added to our optimal portfolio since October 2007. Qatar's banking sector benefits from the regions highest anticipated growth rates, while trading at undemanding 2008 multiples, on par with peers in the UAE and Saudi Arabia, and surprisingly lower than peers in Kuwait. First quarter earnings have confirmed that the pace of asset growth remains very much intact. We believe that the size of QNB's balance sheet, as well as the generally favorable position it enjoys in Qatar's projects market makes it among the key beneficiaries of Qatar's ongoing growth storey, and the top banking pick in the country. The fact that the banking sector lagged the market's rally in April is more reason for inclusion at this point, as we believe that the sector may attempt to catch up in this month.

Exclusions

Global Investment House (GLOB.KW)

It was a good month for Global, as the stock managed to record impressive 12.8% gains in a flat market, with the company's reported Q1 08 earnings growing by more than 50%, driven by an overall growth in all its key operating lines. With target medium-term gains achieved, we decide to drop the stock from our optimal portfolio. In addition, the Kuwaiti Parliament has yet to ratify the abolishment of the Capital Gains Tax on foreigners, which was one of the key drivers of our choice to incorporate some exposure to Kuwait. And although we still believe in the potential of the investment bank, the turmoil in the Kuwaiti political scene adds unnecessary risk on any Kuwaiti equity. We prefer to get our exposure on the financial sector through a banking stock in Qatar at this point, which has proven to be an environment that enjoys both more stability and higher growth.

DP World (DPW.DI)

Solid (although not stellar) FY 07 results, as well as a stream of positive news flows helped push DP World stock above the USD 1.00, a price not reached since the end of January, and representing total gains of over 18% for the month. Although we believe the company remains well below its fair value, we are dropping the stock from our portfolio as we do not anticipate another significant rally in the foreseeable future due to the lack of anticipated catalysts. We would have preferred consensus beating numbers by the company, as that could have preserved the momentum on the stock, although a decision to initiate a stock buyback program (although highly unlikely this year) could bolster the stock.