

Mena Strategy

No upgrade, not a big surprise, but bad for sentiment

MSCI has announced that its UAE and Qatar indices will remain under review for potential upgrade to EM status. The decision comes as no big surprise to us, but it has dashed any hope, however small, of a boost to sentiment and trading volumes.

Our Buy recommendations in the UAE and Qatar

Name	Rec.	Mkt cap (US\$bn)	Price	TP	Up-/downside
Dana Gas	Buy	0.93	0.52	0.81	55%
Drake & Scull	Buy	0.50	0.84	1.15	37%
Etisalat	Buy	20.49	9.51	12.89	36%
Q-Tel	Buy	5.99	148.90	187.58	26%
Industries Qatar	Buy	20.22	133.90	164.00	22%
Abu Dhabi Islamic Bank	Buy	2.04	3.16	3.83	21%
First Gulf Bank	Buy	6.57	16.10	19.14	19%
Vodafone Qatar	Buy	1.74	7.47	8.86	19%
Comm Bank of Qatar	Buy	5.71	84.00	98.44	17%
Emaar Properties	Buy	4.60	2.77	3.00	8%
Qatar National Bank	Buy	26.35	150.70	147.24	-2%

Prices as of close of 14 December 2011.

Source: Bloomberg, Rasmala

MSCI to continue to review the classification of the MSCI UAE and Qatar indices

MSCI has announced that the UAE and Qatar indices will retain their Frontier Market status and remain under review for potential reclassification to Emerging Market status as part of the 2012 Annual Market Classification Review. This decision comes as no big surprise to us, as the investor feedback we have gathered on a potential upgrade over the past few months is in line with the concerns voiced by MSCI. Opinion was divided only on whether the UAE would be upgraded or not. However, the announcement has dashed any hope, however small, of a much-needed boost to sentiment and trading volumes from the upgrades.

UAE – closer to an upgrade than Qatar

MSCI said international institutional investors gave it very positive feedback on the introduction and seamless functioning of the new delivery versus payment (DVP) model in the UAE. However, investors continue to stress on their significant concerns about the effectiveness of this new framework to fully safeguard their assets, in particular, in case of failed trades. MSCI also said market participants see the potential introduction of regulations that allow securities borrowing and lending agreements and short selling as a possible way to resolve these issues. The UAE's Securities and Commodities Authority recently published regulation drafts on these topics.

Qatar – foreign ownership limits are the issue

Stringent foreign ownership limits (FOLs) remain a major investor concern in Qatar. (The maximum FOL is 25% of freefloat.) The country has announced no change to FOLs, but MSCI said that its reclassification of the Qatar index is conditional on a meaningful rise in FOLs that increases room for foreign investments. Similar to the UAE, MSCI said investors were positive on the introduction of the new DVP model but had the same concerns too.

Our stock picks in the UAE and Qatar

Irrespective of any upgrade, we continue to recommend a number of stocks in the UAE and Qatar markets, where we see strong upside potential from a fundamental point of view. In Qatar, we reiterate our Buy recommendations on Commercial Bank of Qatar (CBQ), Industries Qatar, Qatar Telecom, Qatar National Bank and Vodafone Qatar. In the UAE, we have Buy recommendations on Abu Dhabi Islamic Bank, Dana Gas, Drake & Scull (DSI), Emaar, Etisalat and First Gulf Bank. CBQ and DSI are among our top picks in the region.

Analyst

Hans Zayed
+971 4 424 2795
hans.zayed@rasmala.com

Important disclosures can be found in the Disclosures Appendix.

Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.

Disclosure Appendix

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report is prepared by Rasmala Investment Bank Limited ("RIB"). RIB is regulated by the Dubai Financial Services Authority ("DFSA"). RIB products or services are only made available to customers who RIB is satisfied meet the regulatory criteria to be a "Professional Client", as defined under the Rules and Regulations of the Dubai International Financial Centre ("DIFC").

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimates on a fundamental analysis of a company's future prospects, after having taken perceived risks into consideration. We have conducted reasonable research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that RIB believes to be reliable, we have not independently verified such information thus it may not be accurate or complete. RIB does not represent or warrant, either expressly or impliedly, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by RIB or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith.

Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any securities referred to in the report. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

RIB is not registered with the U.S. Securities and Exchange Commission, or any U.S. state authority, as a broker-dealer or investment advisor. This report has not been approved, disapproved or recommended by the U.S. Securities and Exchange Commission, any state securities commission in the United States, the securities commission of any non-U.S. jurisdiction or any other U.S. or non-U.S. regulatory authority. None of these authorities has passed on or endorsed the merits or the accuracy or adequacy of this report.

RIB and its group entities (together and separately, "Rasmala") does and may seek to do business with companies covered in its reports. As a result, users should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Rasmala and its respective employees, directors and officers shall not be responsible or liable for any liabilities, damages, losses, claims, causes of action, or proceedings (including without limitation indirect, consequential, special, incidental, or punitive damages) arising out of or in connection with the use of this report or any errors or omissions in its content.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.