

Monthly Stock Pick Monitor

Equities Strategy

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Strategy Team

Mahdi H. Mattar, Ph.D.

+9714 3199 839

mmattar@shuaacapital.com

Ahmad M. Shahin

+9714 3199 742

ashahin@shuaacapital.com

Jafar Shami

+9714 3199 522

jshami@shuaacapital.com

In line with April's performance, GCC markets continued their strong performance as the SC GCC and the MSCI GCC Indices gained 12.0% and 12.8% respectively since our last publication. Throughout the month, we witnessed a constant increase in investor appetite towards our markets, with positive sentiment dominating globally. GCC markets were given another confidence boost after a strong rally in oil, which saw it gain c. 30% as it traded close to the psychologically important USD 70/bbl level, which in turn, led to the region's outperformance relative to the MSCI Emerging Market Index's c. 10% over the same period. All in all, GCC average daily traded values witnessed a whopping 55% gain in May versus the levels seen in April. Last month's performance reinforces our belief, which we mentioned in our last publication, of what appears to be a change in market dynamics to what seems more like the beginning of a bull market rather than a bear market rally.

Even though our portfolio was partially weighted towards defensive stocks, it still managed to capture much of the upside this month as our high-beta component stood out. Our portfolio extended a net gain of 13.4%, outperforming both the SC GCC Index and the MSCI GCC Index. The Qatari component was once again the most beneficial to our portfolio as it gained c. 21% over the period, and outperformed the DSM General Index's 19% move. Our UAE component also proved rewarding, extending gains north of 16%. We note, however, the UAE component slightly underperformed the SC UAE Index's gain of c. 17%, which was inflated by the stellar performances of market heavyweights Emaar Properties, Emirates NBD and DP World as the recorded respective gains of 57%, 27% and 23%.

Once again, our portfolio was punished by a defensive Saudi component as we failed to see any profit taking materialize on the Tadawul. Our Saudi component posted a 2.5% decline over the period while the Tadawul managed to end 4.3% in the black. On that note, we present our portfolio for June below.

Optimal portfolio

	Company	Market	Industry	Closing price (Ld currency)	Performance			Valuation			Earnings CAGR 07 - 09'	Market cap USD '000	Recommended weight
					1 month	Performance Ytd	2008 Performance	P/E 08	P/E 09	P/B			
1	Etisalat	ADX	Telcommunications	10.60	6.0%	29.0%	-49.1%	8.8	8.8	2.6	12.0%	20,756,420	18.2%
2	Arabtec	DFM	Construction	3.02	28.5%	33.6%	-51.5%	3.8	3.6	1.7	44.0%	984,040	9.1%
3	Industries Qatar	DSM	Petrochemicals	123.80	23.8%	22.9%	-28.1%	9.4	12.3	3.7	7.0%	18,715,813	9.1%
4	Aldar Properties	ADX	Real Estate	4.80	23.1%	23.1%	67.6%	3.6	6.2	0.8	40.0%	3,371,174	9.1%
5	First Gulf Bank	ADX	Banking and Finance	12.60	19.4%	39.7%	-55.2%	5.8	6.9	1.1	24.0%	4,720,065	9.1%
9	Etihad Etisalat (Mobily)	Tadawul	Telecommunications	36.60	-2.9%	18.1%	-46.2%	12.2	10.5	2.6	33.0%	6,831,818	9.1%
7	Qatar National Bank	DSM	Banking and Finance	129.00	18.3%	-5.0%	-6.1%	10.6	2.2	2.3		10,677,169	9.1%
8	Aramex	DFM	Logistic and Transportation	1.25	6.8%	58.0%	-71.3%	11.3	9.7	1.2	21.0%	453,276	9.1%
10	Almarai	Tadawul	Dairy Products	144.50	-2.0%	5.5%	14.2%	17.3	14.4	4.4	28.0%	4,200,021	9.1%
6	Air Arabia	DFM	Transportation	1.06	12.8%	19.1%	-54.8%	12.0	9.6	0.9	41.0%	1,347,692	9.1%
	Average							8.19	7.52				

Optimal Portfolio vs. Benchmark Indices	Optimal Portfolio	SC GCC	MSCI GCC Countries Index	Relative Performance	
				vs SC GCC	vs. MSCI GCC
1 month performance	13.4%	12.0%	12.8%	1.4%	0.6%
YTD Performance	29.5%	15.5%	16.9%	14.1%	12.6%
2008 Performance	-49.4%	-51.8%	-55.1%	2.4%	5.7%
Performance since Inception	-7.3%	-29.9%	-35.4%	22.6%	28.0%

Core themes:

Our markets appear to be witnessing trends similar to the ones of the years 2005 and 2006, where the majority of market players are regional ones that are constantly shifting between GCC markets; booking profits and moving on to the next 'untapped' market at the time. This appears more apparent within the UAE markets and we believe we are starting to see local funds make the switch from the Dubai Financial Market (DFM), which made a gain of 22.4% over the concerned period, to the Abu Dhabi Exchange (ADX), which clearly underperformed with what seems to be a humble 8.2% increase. Furthermore, even though we believe we are in longer term upward trend, we also strongly expect some profit taking activity to take place in the short term.

That said, we maintain our concoction of high beta stocks and defensive stocks and render no change to our constituents until we see a calmer mood. We also choose to double weight Etisalat which is one of the more defensive stocks in our portfolio that can also benefit from a potential movement of investor funds into the ADX.

Portfolio Stocks:

Etisalat

Etisalat's stock went up by 6%, slightly underperforming the ADX General Index, which increased by 8.2%. Buying interest was heavily geared towards high beta stocks in the month of May. Thus, the telecom giant did not attract as much buying flow as other stocks in the UAE. We expect a strong outperformance for the stock in June, since it has clearly lagged behind other telecom operators such as Saudi Telecom, Qatar Telecom and Zain Group. In addition, Etisalat will strengthen the defensiveness of the portfolio in preparation of potential profit taking that is growing more imminent after the strong rally we witnessed. Lastly, we believe the stock will move upwards along with the rest of the ADX in case of investor's interest transferring from the outperforming DFM. Valuation remains compelling and the company still enjoys a strong balance sheet with AED 1.6 of net cash per share. As such, we place a double-weighting on Etisalat for the month of June.

Arabtec

Arabtec was the portfolio's best performer for the month, increasing 28.5% in May and settling above the AED 3.0 level. The stock outperformed the 22.4% movement the DFM Index made in the same period. The construction company saw heavy foreign buying, with foreign ownership in the company increasing by approximately 5%. The company managed to add further to its project backlog, winning the AED 1.6 bn National Towers Project in Abu Dhabi via a joint venture with National Projects and Construction. We keep Arabtec in our portfolio as we expect further positive news of the company winning contracts outside Dubai, thereby diversifying its project backlog, while valuations continue to be very attractive for investors.

Aldar Properties

Aldar Properties enjoyed another good month, with its stock rising 23.1%, massively outperforming the ADX. The stock recorded a new high in 2009, reaching AED 4.9 in the penultimate session, before settling at AED 4.8. Confidence in Abu Dhabi's real estate sector and Aldar Properties continues to grow. Significant progress is being made in its developments, especially on both Yas Islands, and Raha Beach, with the Yas Marina nearing completion. We maintain the stock in our portfolio especially in anticipation of a positive movement in the ADX following the surge that took place in the DFM.

First Gulf Bank

First Gulf Bank was another stock in our portfolio that clearly outperformed the ADX, rising 19.4% in May. The bank continued to prove itself as one of the most dynamic banks in the UAE and the region, achieving high balance sheet growth while improving margins and maintaining robust asset quality.

Aramex

Aramex was another pick that recorded a new high for 2009 in the month of May. Its 6.8% increase however massively underperformed the DFM general Index. The defensiveness of the stock worked against it in a bullish month for the DFM. Nevertheless, the company remains one of our top picks in the region and can prove resilient in the case of a market retraction.

Mobily

Mobily underperformed the Tadawul for another month, dropping by 2.9%. The stock was the worst performer in our portfolio, clearly lagging behind the rest of the Saudi market. Nevertheless, the stock remains in our portfolio since it is one of the strongest plays in the regional telecom universe. We anticipate a positive movement in the near term due to the strong momentum in its broadband subscriptions and overall gains in the business and wholesale data services.

Air Arabia

Air Arabia announced its Q1 09 results on 9th May, reporting a net profit of AED 103.4 mn, a 32% increase YoY and 21% higher than our estimate of AED 85.4 mn. Implied net margin came in at 22.3% compared to 20.0% and 23.8% in Q1 08 and Q4 08 respectively. The results were a clear sign of Air Arabia's resilience to the slowdown witnessed. Air Arabia's stock managed to record a gain of 12.8% since our last publication. This came on the back of its strong Q1 results as well as the easing of the Swine Flu scare. We believe the company will continue to attract investors, especially with its cash plus available for sale investments of AED 3.37 bn, which are equivalent to AED 0.72 per share.

Almarai

As was the case with Mobily, Almarai lagged behind the Tadawul, dropping by 2% in the month of May. Nevertheless, we continue to retain Almarai for the same reasons as before; in anticipation of a possible retraction and due to its compelling valuations.

Qatar National Bank

Qatar National Bank enjoyed a stellar month as it increased by 18.3%, slightly underperforming the DSM's 19% increase. The Qatari government continued its support for the Qatari banks, offering to spend USD 4.1 bn in buying the real estate portfolios of Qatari banks at their book price, and providing the banks with an option to buyback their portfolio at a stage. With this measure, Qatari banks are significantly better positioned to face any further repercussions of the global crisis. With that in mind, Qatar National Bank still holds massive value, operating in a robust operating environment.

Industries Qatar

Industries Qatar recorded a gain of c. 23.8% since our last publication, outperforming the Doha market's 19% increase. This move comes after a 17% gain for the stock in April, which shows a large investor appetite towards the stock, especially after the strong move witnessed in oil prices. The company also received a further QAR 365 mn reimbursement from the Qatari government on steel price differential, on top of the initial QAR 800 mn reimbursement. We rest assured that IQ will continue to benefit heavily from its cheap feedstock and long term contracts with its clients and we believe the company will positively surprise the market in its Q2 09 earnings after a strong performance in Q1 09.

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