MENA House views

Fourth Quarter, 2017

Al Mal Capital
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Fund Manager View

While we continue to see very interesting opportunities across markets in the Middle East, the region remains out of investors' radar mainly due to the lack of visibility on oil prices and geopolitical concerns. We believe that interest from investors should pick up as the oil market stabilizes and as Saudi Arabia gets closer to inclusion into the MSCI/FTSE Emerging Market indices in the first half of 2018. Our flagship **MENA Equity Fund continues to perform well with a year to date performance of +13.86%** (as of the 4th of October), outperforming the benchmark by +10.03%.

Allowing women to drive in **Saudi Arabia** might sound trivial for many, but we do see it as an important milestone towards economic diversification. To our opinion, the Kingdom's biggest asset is its human capital and having half of the population idled has hampered economic growth.

In the **UAE** Dubai is still accounting for most of the economic activity this year. In Abu Dhabi, weak public spending is weighing down on the capital's economic activity. However, the Emirate, which is one of the highest rated sovereigns (AA rating) raised USD 10 billion in bonds recently and approved AED 1.2 billion of infrastructure projects. After three years of stagnating government expenditures, it seems now to be a good time to increase spending. This bodes well for 2018.

The **Qatari** crises in getting less and less attention from its neighbors and does not seem to end anytime soon. Nevertheless, the economic pressure is real and the government started to liquidate some of its international assets to shore up its banking sector in the face of deposit drawdown, especially from GCC countries.

Signs of recovery are very promising in **Egypt**. We start to see a recovery in foreign investments into T-bills, an increase of remittances from Egyptians living abroad, a recovery in tourism and most importantly a large investment drive in infrastructure projects. True, there remain some major challenges such as high inflation, low savings rates, low capex, low productivity gains, stagnant income, more borrowing and debt monetization, etc. However, 2018 could very well be the inflection point for Egypt as the benefits **of devaluation** are starting to bear fruits. One of the most visible improvement is the 48% decrease in the trade deficit after a 14% surge in exports and a 30% drop in imports.

We reiterate our positive stance on MENA Equities for this year, and believe that 2018 will be supported by the Saudi MSCI/FSTE Emerging market upgrade and government budget expansion.

Country Views

Saudi Arabia: Wind of Change

Opportunities

- The **largest population in the GCC** (32mn) with an average age of 25 still represents a significant consumption power.
- The **National Transformation plan** should strengthen the fiscal and economic outlook over the longer term.
- **Strong Oil and FX** reserves ($484 billion as of end of July, 2017) should support transition over the medium term.
- **MSCI and FTSE inclusion** over the medium term.
- **Large debt capacity** (31% of GDP as of 2016 and expected to reach 50% of GDP by 2021) to support budget deficit.
- **Third largest oil reserves** globally after the United States and Russia.

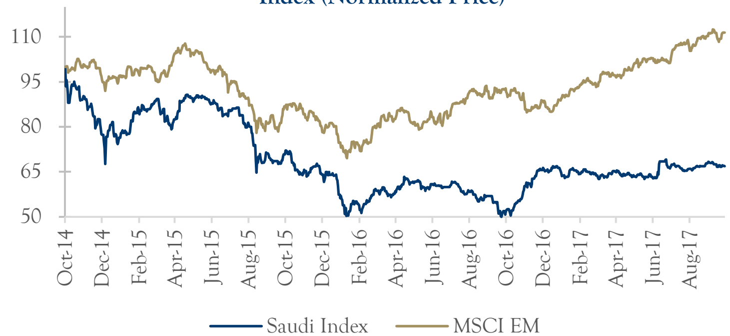
Challenges

- High **dependency on oil** (30% of GDP & 81% of government revenues).
- Scarcity of **skilled local labor**.
- **Margin compression** as a result of Saudisation and subsidy reforms.
- **Geopolitical tensions** with Iran and direct engagement in Yemen and Syria.

Key Macro Indicators

Indicator	*2014*	*2015*	*2016*	*2017*	*2018*
Real GDP Growth (%)	*3.7*	*4.1*	*1.4*	*0.4*	*1.3*
CPI (Average)	*2.7*	*2.2*	*3.5*	*3.8*	*5.1*
Population (Millions)	*30.8*	*31.0*	*31.7*	*32.4*	*33.0*
Budget Deficit (% GDP)	*-3.4*	*-16.3*	*-13.5*	*-11.8*	*-11.0*
Gross Debt (% GDP)	*1.6*	*5.0*	*12.4*	*15.6*	*19.1*
Reserves (USD Billions)	*766.8*	*669.0*	*554.4*	*692.5*	*700.5*
Current Account (% GDP)	*9.8*	*-8.7*	*-3.9*	*1.5*	*2.0*

Saudi Arabian Index Performance versus MSCI Emerging Markets Index (Normalized Price)



Our Take

Allowing women to drive in Saudi Arabia might sound trivial for many, but we do see it as an important milestone towards economic diversification. To our opinion, the Kingdom's biggest asset is its human capital and having half of the population idled has hampered economic growth.

Reforms, efficiency improvement and priority spending can not happen overnight. After consultation with the IMF, the Saudi government has been slowing down austerity measures. We are pleased with this move. Going forward, there will be more painful but necessary reforms which will weigh on growth. That being said, we also expect some positive catalysts such as major IPOs (e.g Saudi Aramco) and the MSCI/FTSE emerging market index inclusion.

In terms of sectors, we like **Insurance** (Motor), **Education** and see a lot of value in **Transportation**.

Key Market Metrics (2017)

Metric	*P/E*	*P/B*	*DY*	*RoE*	*ND/EBITDA*
Current	14.4x	1.5x	3.5%	11.1%	0.2x
10 Years Average	16.9x	2.0x	3.3%	12.5%	0.7x
10 Years High	23.6x	4.0x	4.6%	19.7%	1.1x
10 Years Low	10.2x	1.3x	2.0%	9.1%	0.1x

** Source: Bloomberg, REIDIN and AMC A.M. Estimates*

United Arab Emirates: Focus on Dubai

Opportunities

- Subsidy reforms and decreased spending has allowed the UAE to significantly improve investment outlook in the country.
- EXPO 2020, along with continued development of attractions, will result in sustainable growth in tourism (est. 20 million visitors by 2020). Total projects award is expected to reach USD 3bn in 2017.
- Tourism was 8.7% of 2016 GDP, with expected growth rate of 5.4% / year over the next 10 years, in line with the Dubai Plan 2021, and Abu Dhabi Vision 2030.
- Disciplined and swift fiscal adjustments, prior to the slump in oil prices, resulting in decreased dependence on oil revenue. Aim is to reduce oil contribution to GDP to 20% by 2021, from ~30% currently.
- The largest financial buffers at USD1.26 trillion in SWFs.

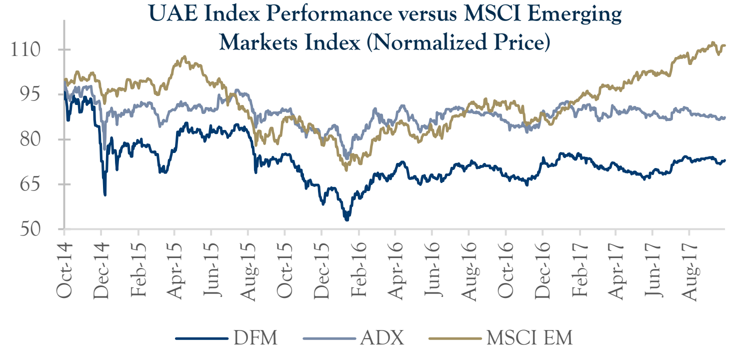
Challenges

- Even though it is the most diversified economy in the UAE, the oil sector still accounts for 30% of GDP.
- Further fiscal reforms in the UAE, i.e. subsidy reforms, Emiratization, have the potential to slow down economic growth.
- Continued fiscal drain in Abu Dhabi.
- Geo-political tensions in the region, along with the UAE's strategic alliance with Saudi Arabia (Syrian war, Yemen war, opposing Iran), may challenge tourism, trade and international finance in the UAE.

Key Macro Indicators

Indicator	2014	2015	2016	2017	2018
Real GDP Growth (%)	3.1	3.8	2.7	1.5	4.4
CPI (Average)	2.3	4.1	1.8	2.8	3.7
Population (Millions)	9.3	9.6	9.9	10.1	10.4
Budget Deficit (% GDP)	5.0	-4.9	-10.8	-8.5	-5.0
Govt. Gross Debt (% GDP)	15.6	18.1	19.3	19.1	19.0
Current Account (% GDP)	10.0	3.3	2.4	3.5	3.9

UAE Index Performance versus MSCI Emerging Markets Index (Normalized Price)



Our Take

The **EXPO 2020 should continue to act as a catalyst over the short term** and related expenditures, along with upcoming attractions, should accelerate growth. In Abu Dhabi, weak public spending is weighing down on the capital's economic activity. However, the Emirate, which is one of the highest rated sovereigns (AA rating) raised USD 10 billion in bonds recently and approved AED 1.2 billion of infrastructure projects. After three years of stagnating government expenditures, it seems now to be a good time to increase spending. This bodes well for 2018.

Banks willingness to lend and demand for loans are paving the way for a recovery. Indeed, a pick-up in business activity, led by the construction, wholesale and retail sectors is supporting loan demand. Real estate price have started to show sign of stabilization after a 25% contraction since late 2014.

We have a higher exposure to **Dubai** and still favor **Healthcare, Logistics and Transportation**.

Key Market Metrics (2017)

Metric	*P/E*	*P/B*	*DY*	*RoE*	*ND/EBITDA*
Current	12.4x	1.3x	4.0%	12.1%	0.7x
10 Years Average	14.2x	1.1x	3.5%	6.9%	1.3x
10 Years High	24.2x	2.0x	7.3%	12.2%	4.6x
10 Years Low	5.1x	0.6x	1.8%	-1.8%	-1.0x

** Source: Bloomberg, REIDIN and AMC A.M. Estimates*

Kuwait: Hidden GEMS

Opportunities

- **Economic reforms** should support the country over the long-term (i.e. VAT and Corporate tax)
- Kuwait has **large financial buffers** (USD 524 billion in its SWF) and to date has not borrowed from local banks, maintaining the sector's liquidity at healthy levels.
- Meaningful progress has been made on key infrastructure projects
- Given low capital spending, **budget deficit is expected to be manageable** at low single digits.
- Inclusion to **FTSE EM secondary index** and potential inclusion in the **MSCI index** in the foreseeable future.
- **Sixth largest oil reserves globally**. Additionally, the lowest oil breakeven prices in the GCC at USD50 per barrel.

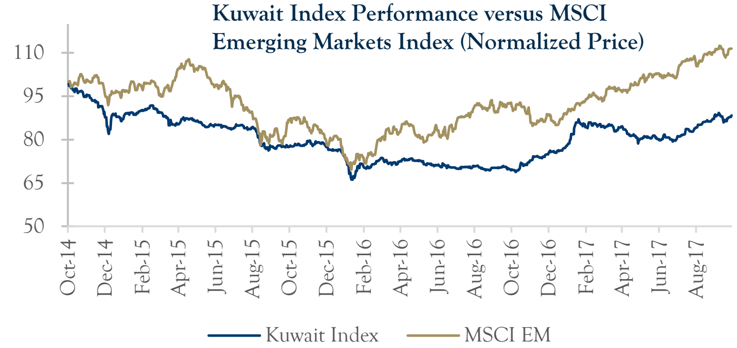
Challenges

- Still a state managed economy with the **highest dependency on oil** (94% of government revenue and 70% of GDP) among GCC countries, which led to a slowdown in project awarded in 2016 (-45%), second only to Saudi Arabia (-63%).
- More than 90% of the work force is in the **public sector**, which further constraint fiscal spending.
- **High concentration of real estate and consumer loans** (60% of loans) in the banking sector.

Key Macro Indicators

Indicator	2014	2015	2016	2017	2018
Real GDP Growth (%)	0.6	2.1	2.5	-0.2	3.5
CPI (Average)	2.9	3.2	3.2	4.2	3.6
Population (Million)	4.0	4.1	4.2	4.3	4.5
Budget Deficit (% GDP)	26.6	1.2	-13.4	-7.8	-6.3
Gross Debt (% GDP)	7.5	11.2	18.6	19.8	22.2
Reserves (USD Billions)	29.3	25.7	26.7	28.0	30.3
Current Account (% GDP)	33.4	5.2	2.7	8.2	7.1

Kuwait Index Performance versus MSCI Emerging Markets Index (Normalized Price)



Our Take

The market had a very strong rally ahead of FTSE Emerging Market Index inclusion. We believe large caps are a crowded traded at this stage and trade at an extended premium to intrinsic value. However, we still find some attractive investment opportunities. On the macro side, the **2015-19 Kuwait Development Plan** is expected to support growth over the medium term; we actually started to see a pick up in projects' awards. Moreover, there are still a lot of leeway to gradually introduce reforms and alleviate the pressure on consumers.

The government spending push should help the banking sector this year, and given the headwinds and higher provisions taken last year, we expect 2017 to be comparatively better. In addition, **higher interest rate** should be supportive to margin. However, we believe current valuations for the banking sector already reflect these factors.

Our favorite sectors are **Education** and **Aircraft Leasing.**

Key Market Metrics (2017)

Metric	*P/E*	*P/B*	*DY*	*RoE*	*ND/EBITDA*
Current	14.0x	1.5x	4.1%	11.1%	2.8x
10 Years Average	26.9x	1.4x	4.4%	5.9%	3.9x
10 Years High	181.2x	1.7x	9.7%	12.6%	8.6x
10 Years Low	13.0x	1.0x	2.3%	-13.2%	2.2x

** Source: Bloomberg, REIDIN and AMC A.M. Estimates*

Qatar: Taking the back seat

Opportunities

- Committed to investing in infrastructure, particularly with the 2022 World Cup deadline.
- Fiscal rationalization continued in 2016 with the central government cutting current expenditure. Public sector companies are increasingly cost conscious.
- CAPEX is still stable (2% growth in 2017 budget) as key projects (Doha Metro, new port and airport expansion) continue to be rolled out.
- Qatar possesses the second strongest position in the GCC following UAE with a net credit position of 105% of GDP in 2016. This is one of the reasons why it has not been downgraded by any of the rating agencies.
- Qatar has also strong financial buffers of around USD320 billion in its Sovereign Wealth Funds and has one of the world highest GDP per capita. It also owns the third highest gas reserves globally.

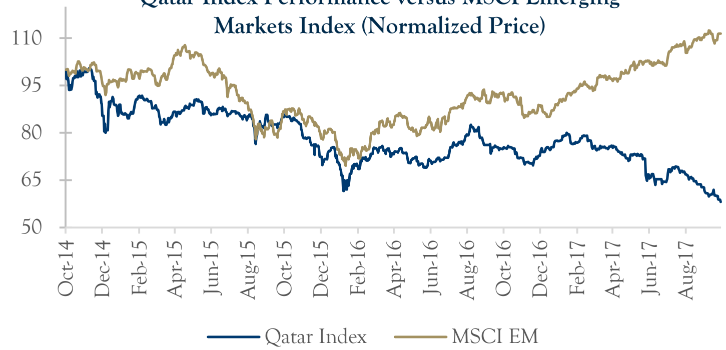
Challenges

- Falling hydrocarbon revenues are pushing the current account balance into deficit.
- Private credit is slow, despite the infrastructure push. With banks' credit-to-deposit ratio already at very high level (140%), credit will eventually have to slow as deposits are now contracting
- Diversification efforts have had limited impact, and we have some concerns that Qatar is building excess capacities ahead of the 2022 World Cup, especially in hospitality and residential real estate
- Isolation by its neighbors might prove to be costly if it lasts for a long period of time.

Key Macro Indicators

Indicator	*2014*	*2015*	*2016*	*2017*	*2018*
Real GDP Growth (%)	4.0	3.6	2.7	3.4	2.8
CPI (Average)	3.4	1.8	2.7	2.6	5.7
Population (Millions)	2.2	2.4	2.6	2.7	2.7
Budget Deficit (% GDP)	18.1	10.3	-2.7	-9.0	-7.0
Gross Debt (% GDP)	32.3	34.9	47.6	50.2	50.8
Reserves (USD Billions)	43.0	37.1	35.0	32.0	31.0
Current Account (% GDP)	24.0	8.4	-2.2	0.7	0.6

Qatar Index Performance versus MSCI Emerging Markets Index (Normalized Price)



Our Take

The Qatari crises in getting less and less attention from its neighbors and does not seem to end any tome soon. Nevertheless, the economic pressure is real and the government started to liquidate some of its international assets to shore up its banking sector in the face of deposit drawdown, especially from GCC countries.

Even though the government is trying to find solutions and new import destinations, it will anyway be at higher costs. While valuations are starting to become more attractive after the strong correction, with no clear solution insight things markets could stay under pressure.

Telecom sector is the only one we find attractive at this stage given the strong free cash flow generation and deep value.

Key Market Metrics (2017)

Metric	*P/E*	*P/B*	*DY*	*RoE*	*ND/EBITDA*
Current	11.6x	1.4x	4.6%	12.7%	3.0x
10 Years Average	12.7x	1.9x	4.3%	16.2%	2.1x
10 Years High	18.7x	3.8x	7.6%	28.1%	3.1x
10 Years Low	6.9x	1.2x	1.7%	9.5%	0.3x

** Source: Bloomberg, REIDIN and AMC A.M. Estimates*

Oman: Maintaining a thin Balance

Opportunities

- Capital inflows are helping to a large extent to level the current account deficit. Foreign reserves are stable at US20 billion.
- The banking system is highly capitalized and still profitable. Better liquidity position versus other GCC countries has led to a negligible rise in interbank rates.
- Decline in oil has emphasized the need for diversification and increasing the role of the private sector.
- Oman is currently the cheapest market in the GCCs

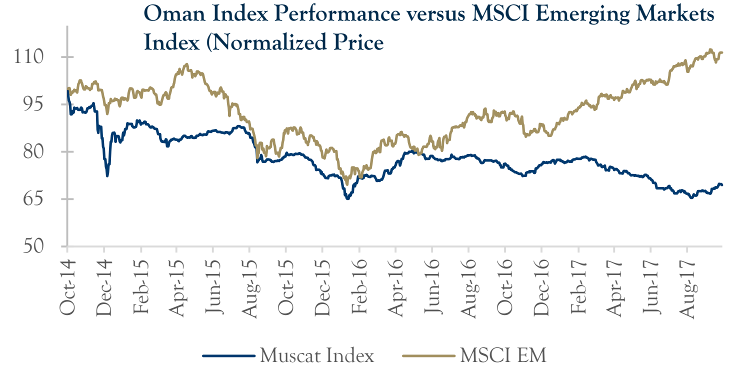
Challenges

- High dependence on oil (it used to account for 85% of government revenues) and lower reserves compared to other GCC countries have forced the government to cut spending aggressively. SWF holding are only at USD24 billion.
- With Government spending used to account for 55% of GDP, growth is expected to remain muted. Non-Oil GDP growth is expected to slow to 4%.
- Despite robust spending cuts, it still has the highest fiscal deficit in the GCC at high double digits (-20%).
- Liquidity is expected to tighten further as deposits fall and government borrowing crowds-out the private sector.

Key Macro Indicators

Indicator	*2014*	*2015*	*2016*	*2017*	*2018*
Real GDP Growth (%)	2.5	4.2	3.1	0.4	3.8
CPI (Average)	1.0	0.1	1.1	4.1	3.0
Population (Millions)	3.7	3.8	4.0	4.1	4.2
Budget Deficit (% GDP)	-1.6	-20.4	-19.7	-17.1	-13.9
Gross Debt (% GDP)	4.9	15.3	34.3	38.5	41.2
Reserves (USD Billions)	16.0	17.2	18.1	18.0	18.0
Current Account (% GDP)	5.8	-15.5	-15.5	-12.3	-11.1

Oman Index Performance versus MSCI Emerging Markets Index (Normalized Price



Our Take

With oil prices stabilizing above USD50.0 per barrel Oman is getting a breathing space. Nevertheless, with the current double digit twin deficit, foreign reserves are not enough to guarantee the USD peg in the foreseeable future. The government is forced to cut spending aggressively. At USD 18.5 billion FX reserves and 35% Debt-to-GDP, options are limited. After cutting subsidies and raising taxes we believe more pain will be felt over the medium term.

Almost all sectors got affected by increasing taxes, telecom royalties and energy subsidies. Even though huge steps have been taken, increasing taxes by only 3% might not be enough. With current oil prices and little fire power thing might get worse.

We have been waiting for this market to get cheaper before getting exposure. Patience is a virtue and we are finally going through some interesting opportunities. We just initiated a position within the Telecom sector.

Key Market Metrics (2017)

Metric	*P/E*	*P/B*	*DY*	*RoE*	*ND/EBITDA*
Current	11.5x	1.0x	5.1%	10.2%	0.9x
10 Years Average	11.9x	1.7x	4.4%	14.4%	-0.1x
10 Years High	18.6x	3.9x	6.3%	29.5%	1.3x
10 Years Low	7.4x	1.0x	2.9%	8.9%	-1.2x

** Source: Bloomberg, REIDIN and AMC A.M. Estimates*

Egypt: Looks Promising

Opportunities

- Egypt's potential **population size and political significance** on the back of regional tensions can't be ignored. It is an indispensable ally for the GCC in balancing Turkish and Iranian regional influences.
- Authorities are **setting the house in order** – spending cuts, structural reform initiation, tax and subsidy reforms.
- **High interest rates** will keep on attracting foreign investors post devaluation. Foreigners own ~USD17.0 billion of T-bills vs. USD50mn before devaluation.
- **Privatization of state-owned companies**, starting with petroleum and banking sectors, should support both the market and the government.
- **Discovery of gas** will turn the country into a net exporter by 2019.
- Recovery in tourism and remittances (+40% Y-o-Y)

Challenges

- **Extremely high youth unemployment** (over 40%) and rampant inflation (30% post devaluation).
- **External debt** reaching 37.6% as the end of 2016 compared to 13.6% in 2015.
- **Lower oil prices** have reduced oil export revenues by half, yet oil imports bill has barely fallen from 2014 levels. This is due to a continued rise in import volumes. Net oil bill is weighing on the current account balance.
- **The ripple effect after the devaluation will take some time to settle**. High inflation and an adjustment period for spending habits might take longer than anticipated.

Key Macro Indicators

Indicator	2014	2015	2016	2017	2018
Real GDP Growth (%)	2.9	4.4	4.3	3.5	4.5
CPI (Average)	10.1	11.0	10.2	22.0	16.9
Population (Millions)	86.7	89.0	90.2	92.3	94.4
Gross Debt (% GDP)	85.1	88.5	97.1	100.4	95.2
Current Account (% GDP)	-0.8	-3.7	-5.6	-5.3	-3.9

Egypt Index Performance versus MSCI Emerging Markets Index (Normalized Price)

Our Take

There are signs of recovery in Egypt and this market looks very promising. We started to see a recovery in foreign investments in T-bills, remittances from Egyptians living abroad, a recovery in tourism and most importantly a huge investment drive in infrastructure projects. The major challenges of high inflation, low savings rates, low capex, low productivity gains, stagnant income, more borrowing and debt monetization are still there. However, 2018 could very well be the inflection point for Egypt as the benefits of devaluation are starting to bear fruits. One of the most visible improvement is the 48% decrease in the trade deficit after a 14% surge in exports and a 30% drop in imports

The security situation is still one of the biggest risks, but post devaluation developments are very encouraging.

We see unique "deep value" opportunities within **rig operators, contactors, consumers, outsourcing** companies and **industrials**

Key Market Metrics (2017)

Metric	*P/E*	*P/B*	*DY*	*RoE*	*ND/EBITDA*
Current	10.9x	1.9x	2.6%	15.7%	0.0x
10 Years Average	37.1x	1.5x	3.0%	6.6%	-0.3x
10 Years High	365.4x	2.1x	6.6%	19.3%	0.4x
10 Years Low	11.8x	1.0x	1.3%	-13.8%	-1.1x

** Source: Bloomberg, REIDIN and AMC A.M. Estimates*

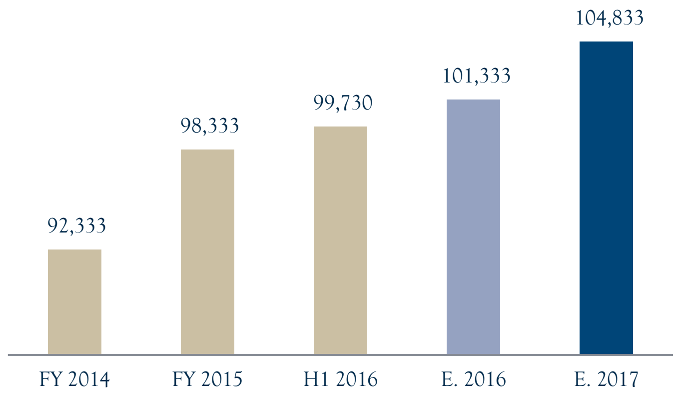
Thematic views

UAE

Opportunities

- The UAE is the second largest economy in the Arab world and possess one of the strongest financial buffers (around USD 1.26 in Sovereign Wealth Funds) and fiscal stance.
- EXPO preparations should keep the city vibrant for the next five years. Infrastructure, Hospitality and Real Estate projects should stimulate growth. The total economic impact of hosting the event is estimated at USD 28.8 billion which is material when measured against Dubai's real GDP of USD 98.4 billion, growing by 3.2% in 2017.
- The cost of constructing the Expo site and related infrastructure is USD 6.9 billion. EXPO 2020 is expected to attract 25 million visitors from across the globe and create 277,000 jobs for the Emirate, with 40% in the travel and tourism sector, and 30% in the construction sector.
- Dubai is expected to grow at an average of 4-5% over the next five years, nearly double the growth rate of other GCC countries. Dubai government is expected to run a budget deficit of 0.6% in 2017.
- The main sectors that will directly benefit from the Expo are real estate, construction, and retail/hospitality

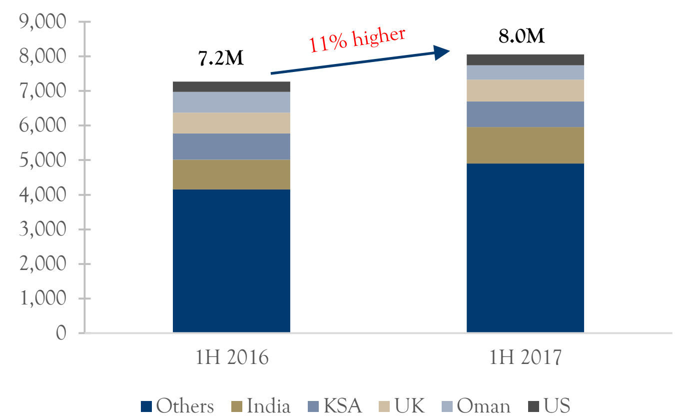
Total Hotel Room Keys Supply in Dubai



Projects	Completion Date	Cost (AED Billion)	Expected Number of visitors
Dubai Parks & Resorts	October, 2016	10.5	Over 5 million during full year
IMG Amusement Park	August, 2016	1.0	4.5 Million in first year
The Dubai Canal	Early 2017	2.0	-
The Dubai Opera	August, 2016	1.2	-
Dubai Metro Extension	Early 2020	10.6	-
Jumeirah Central	N/A	73 .0	-

** Source: Bloomberg, Al Mal Estimates*

Total Dubai tourism



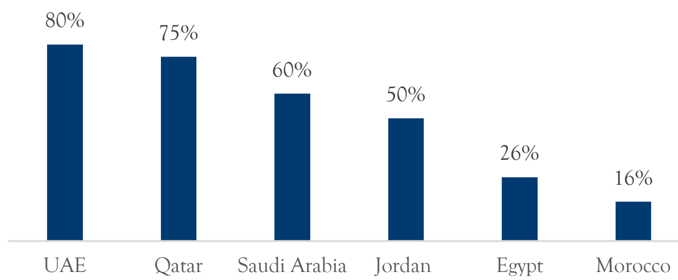
Why the Middle East and Why Now?
Ecommerce

Saudi Arabia & UAE

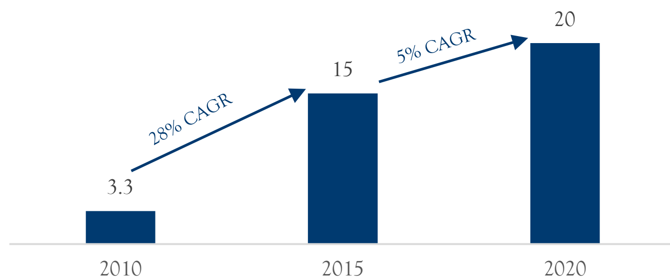
Opportunities

- The region is still at its very early stages when it comes to e-commerce and growth potentials are huge. E-commerce accounts for a meagre ~3.0% of total retail sales in the region and expected to reach 15% in a decade.
- In the Middle East over the last decade e-commerce has grown by 1500% supported by one of the world highest internet penetration rates (above 70% in the GCC).
- There are 110 million internet users in MENA with 30 million already shopping online. Current total market size is estimated at ~ USD15.0 billion with the UAE being the biggest market with ~USD2.5 billion last year, growing at 20% annually. Euro monitor is expecting the market size to reach USD41.5 billion in MENA by 2020.
- The region have seen a lot of developments on the e-commerce front recently from larger investors. Mohammad Al Abar Emaar Properties chairman along with the Saudi Investment Fund are preparing to launch one of the region's biggest online platform for e-commerce (noon.com) this year, along to Amazon buying Souq.com. These new platforms are trying to capture more market share as 90% of e-commerce goes to non-MENA platforms.
- Sales through electronic devices has grown by 52% in the GCC countries versus 31% in the United States

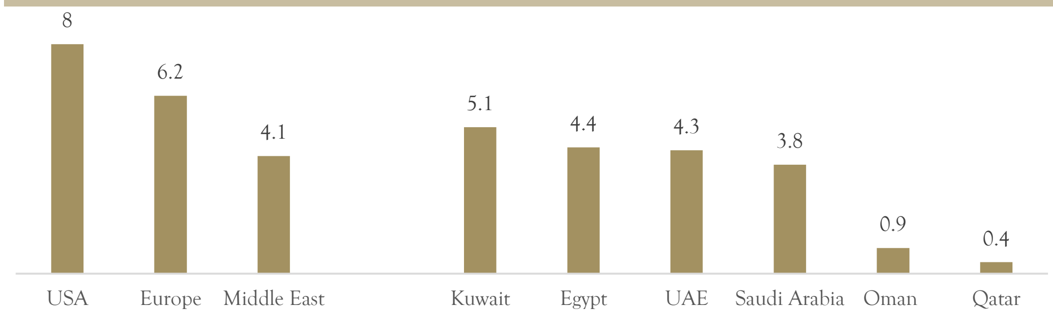
Smart Phones Penetration



Ecommerce market in GCC will reach USD 20bn by 2020

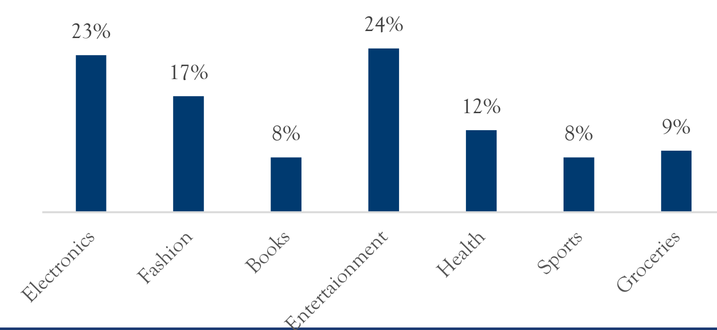


Contribution of Middle East's digital economy is low compared to developed nations



** Source: Bloomberg, Al Mal Estimates*

Online Shopping is gaining traction in all segments



Saudi Arabia

Opportunities

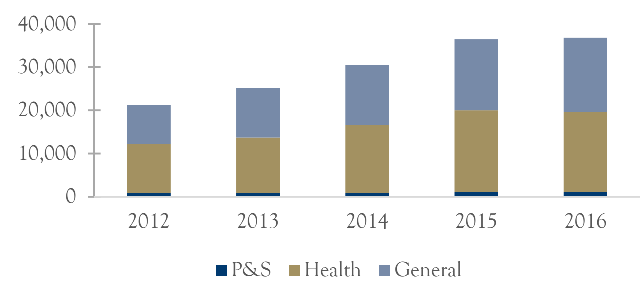
- At 1.4% of GDP, insurance penetration in Saudi Arabia is amongst the lowest in the region as well as globally. We believe a young and growing population remains the key driver for sustained double-digit growth over the medium term.
- The Saudi Arabian market is the second-largest after UAE in the GCC, representing 33.5% of regional GWP in 2015. Mandatory health and motor insurance regulations launched by the government have fuelled demand for insurance products in the country, and are likely to remain the key driver for industry growth in the medium term.
- Enforcement of mandatory lines –motor insurance will remain the key driver in the short to medium term. As per Industry experts estimate only 45% of the cars are covered by insurance
- The strong enforcement push by the regulator has seen the penetration level of medical insurance rise significantly over the past five years. However biggest opportunity lies in the enforcement of medical insurance on Saudi nationals working in the private sector, where roughly 40-45% of the individuals do not have health insurance.

Private Medical Insurance – Potential Market Size

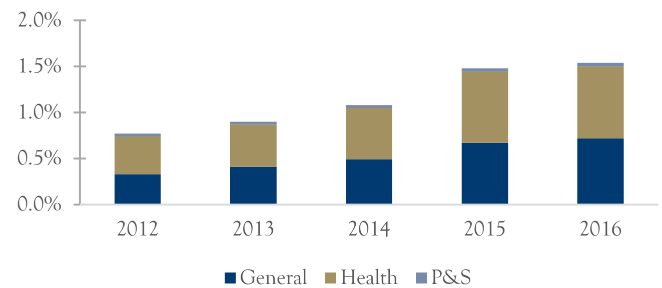
	Saudi	Expats	Total
Population	21.1	10.4	31.5
Mandated : Private Sector	5.64	9.06	14.7
Covered	3.1	7.9	11
Insured	2.5	1.2	3.7
% Covered of Mandated	56%	87%	75%
Public Health	15.47	1.35	16.82

** Source: Bloomberg, Al Mal Estimates*

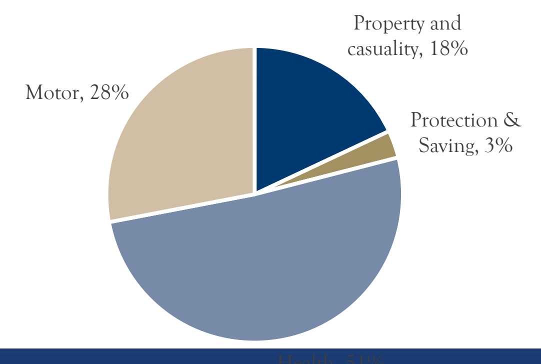
Evolution of GWP



Insurance penetration as % of GDP



Gross written premium breakdown by segments



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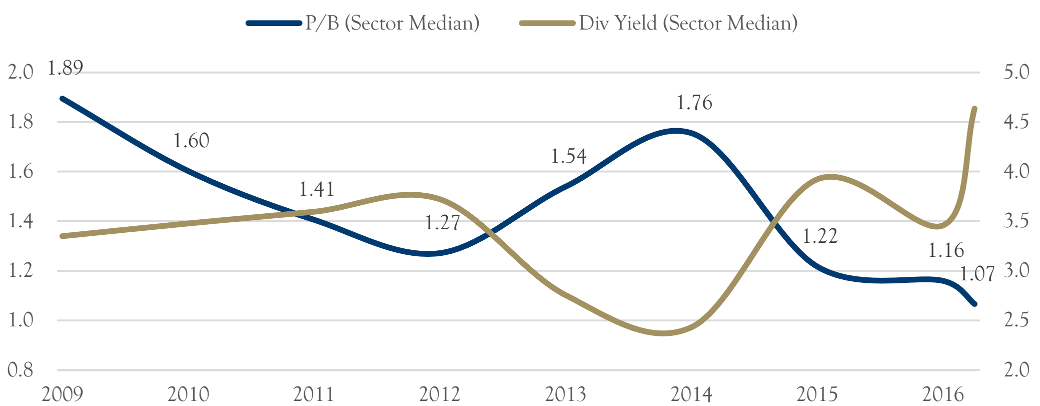
Saudi Arabia

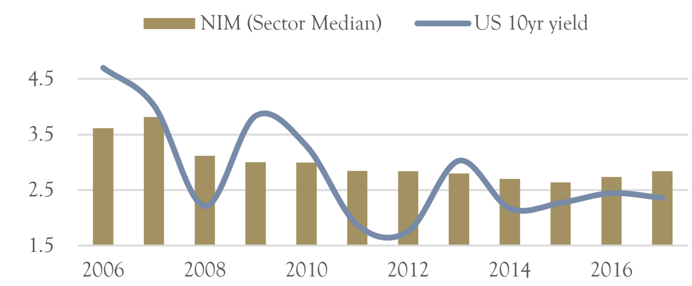
Opportunities

- Saudi Banks are a big beneficiary of rising rates – since a large part of their deposit base is interest free and as such do not see increase in cost of funding, whereas yield on loans gradually move up. This is very prominent in case of Al Rajhi Bank that has a non-interested bearing base close to 95% of its total deposits.
- The current median Price-to-Book ratio at 1.1x is the lowest it has been in more than a decade – much lower than the 1.9x post the global financial crisis and a tad below the bottom in 2012 on account of Saad & Al Gosaibi default. A very positive sign has been Banks doubling their H1-2017 dividends, which was inaugurated by National Commercial Bank and followed by most other banks. Yield of 4.2% is attractive & ROE of 18% higher than the 5 year average.
- Banks are more like a black box as we do not know who they are lending to and how much risk are they taking. Therefore, we like banks that maintains a nice balance between their credit and sales culture, and at the same time large enough to control their cost culture. A clear reflection of a healthy culture is the bank's payout ratios and usually banks with higher payout ratios are more comfortable with their loan book, future profitability and capital base. Therefore the recent dividend hike in Saudi is a very positive signal. NCB & Rajhi are also a play on Saudi Arabia being upgraded to FTSE & MSCI EM Indices, owing to their large weights.

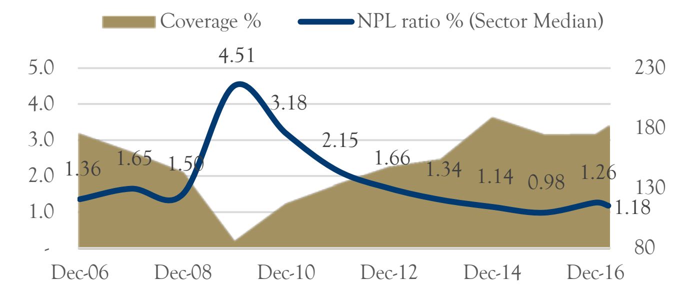
Inexpensive valuation



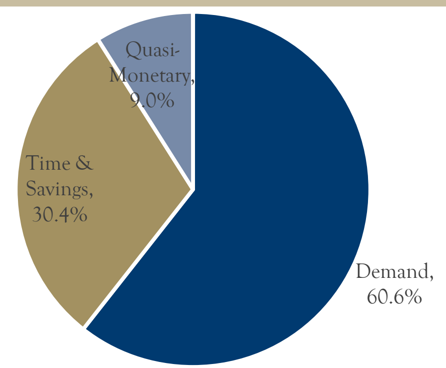
Sensitivity of Net Interest Margins (%)



Comfortable Asset Quality



High share of CASA deposits



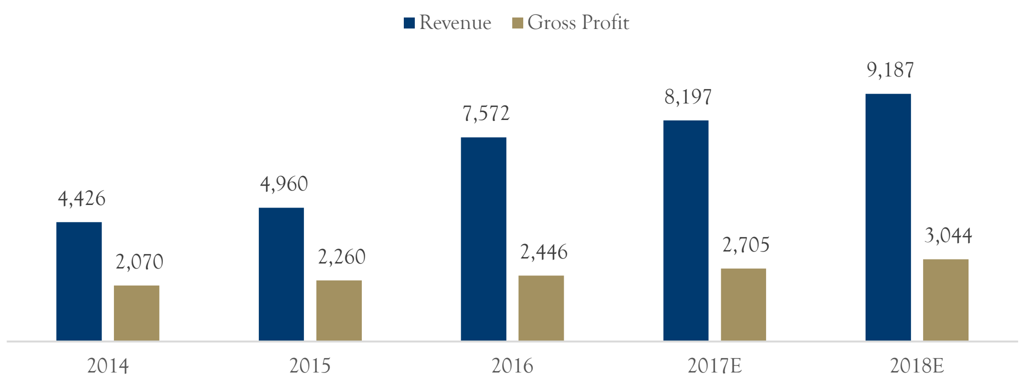
* *Source: Bloomberg, Al Mal Estimates*

Saudi Arabia & UAE

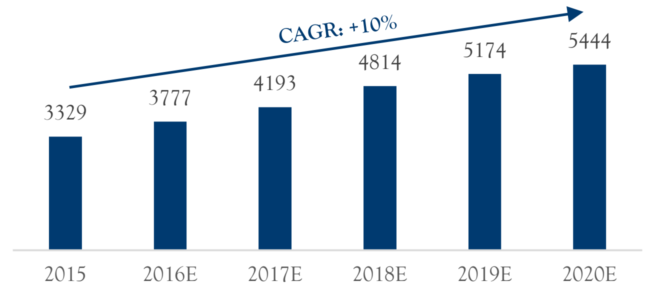
Opportunities

- **Demographics:** As life expectancy grows with continuing medical advancements made and generational movement taking place, there is a growing ageing population with various medical issues, as incidence of lifestyle diseases is on the rise.
  - According to Dubai Health Authority, Emiratis over the age of 60 will see a steep increase, doubling from present levels, in the next 20 years
  - Over the next decade, a quarter of the population in KSA will move into the >45 age bracket
- **Favorable Supply/Demand Dynamics:** Hospitals should maintain the upper hand due to insufficient supply for the foreseeable future.
- **Public sector / Privatization**: Public sector is determined to shift the healthcare burden onto the private sector. The Saudi National Transformation Plan aims to increase private contribution to healthcare from 25% to 35% by 2020
- **Key Catalysts:**
  - Expansion of private insurance through a national plan, targeting all residents
  - Margins for listed healthcare companies rank amongst the highest globally, as demand growth increases and lower penetration by healthcare providers
  - 3 to 4 million Saudi family members of private sector employees are required to obtain insurance.

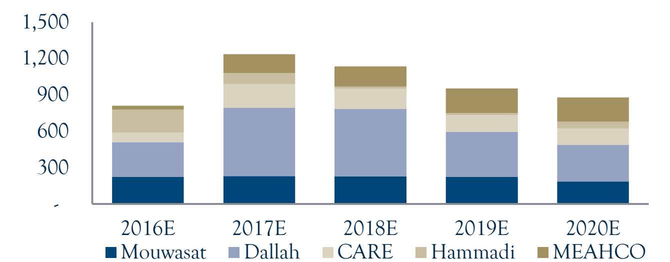
Financials for KSA Listed Companies -2014 to 2018E (SAR, Bn)



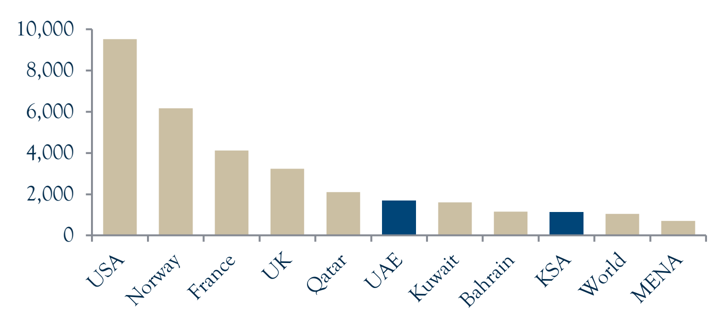
Bed Capacity for KSA Listed Companies



CAPEX for KSA Listed Companies (SAR, Mn)



Per Capita Healthcare Expenditure (USD)



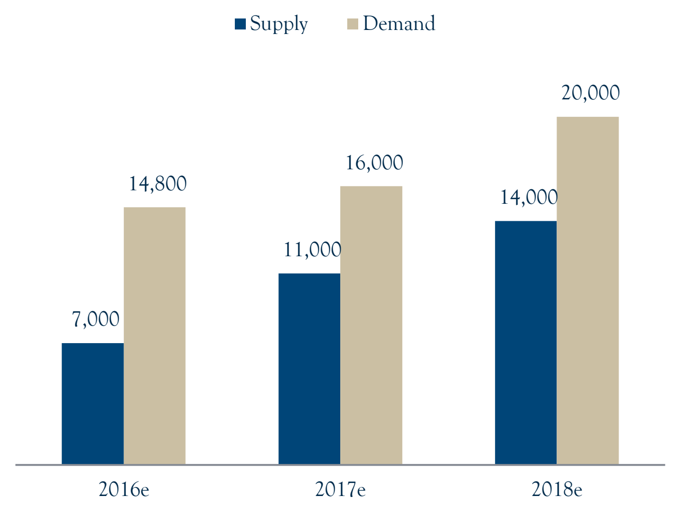
* Source: Bloomberg, Al Mal Estimates

UAE

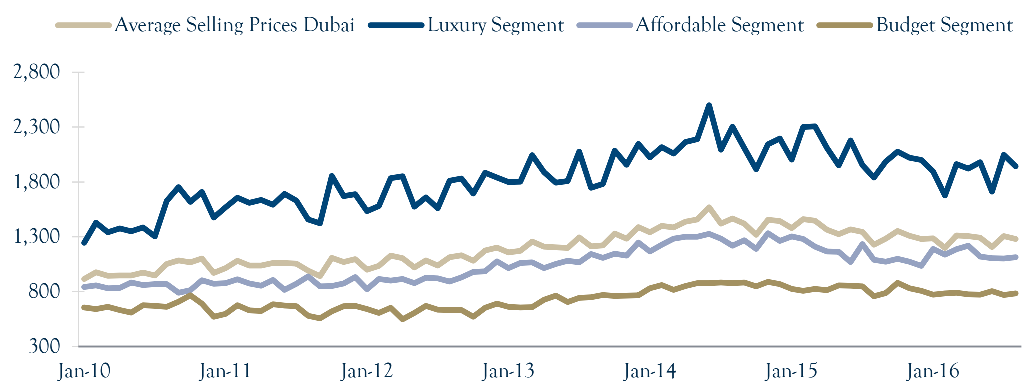
Opportunities

- With **5% growth in population** growth and addressable market, demand is outpacing supply by e.10K units/year till 2018
- **Prices are also mostly flat for the year** (+0.3% YTD) in both Dubai and Abu Dhabi. We do not expect to see major swings.
- **Developers have been able to sell a large number of units**, with Emaar taking share from the rest of the Dubai market. Aldar has also gained market share and is one of the latest developers launching and selling units in Abu Dhabi.
- **Mortgage activity continues to be strong** and is a higher representation of total sales. This is an indicator of market maturity (less risk of bubbles). Also, more sales are being concluded by UAE residents, hence reducing the legacy 'hot money' that hurt the market in 2008-2010.
- The real estate market is a proxy to the economy in the UAE, especially Dubai. Dubai property market is stabilizing, based on prices and new off-plan sales. Developers have been able to sell a relatively large number of units, with Emaar taking share from the rest of the market. We like large developers with increasing recurring income that can directly benefit from increased economic activity.

Dubai RE Market, Demand Vs. Supply

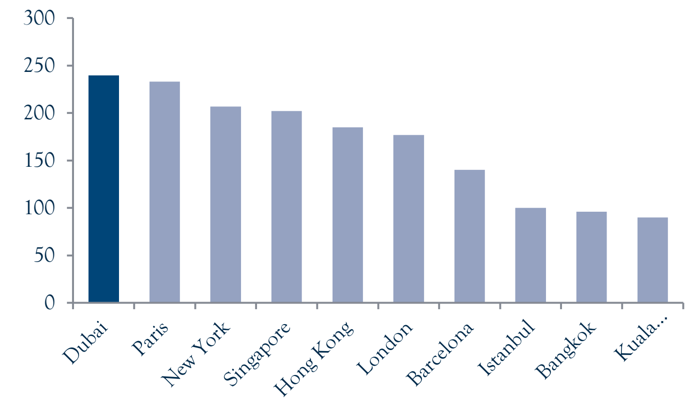


Average Transaction Prices in Dubai M-o-M (AED per SQFT.)



** Source: Bloomberg, Al Mal Estimates*

Global ADRs (USD)

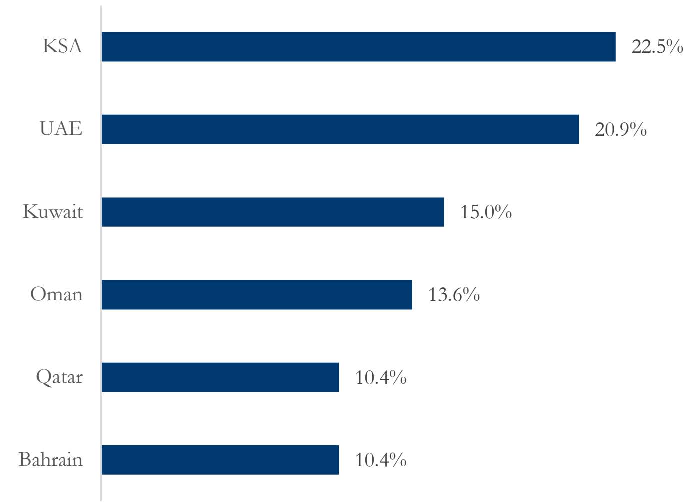


Kuwait

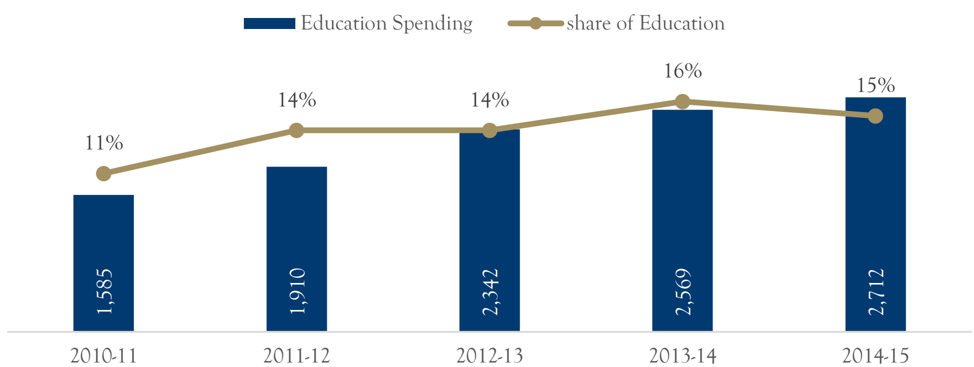
Opportunities

- Nearly a quarter of the country's population is under the age of 14 and c32% is below 25 years of age, building a strong base for Kuwait's higher education sector.
- GCC countries are expected to spend almost USD 150 Bn a year on education to accommodate growing student population that is expected to grow at a CAGR of 1.8% to reach almost 11.3 Mn by 2020.
- Investment in the sector, by both the government and the private sector, totalled at around USD 1.7 Bn over the past few years with over USD 1 Bn worth of projects completed since 2010,
- Students at the secondary level in government schools dropped by an average CAGR of 0.8% over the past three years whereas students in private institutions increased at a healthy rate of 4.6%.
- Given high personal income levels (Kuwait has a large and strong middle class) along with a tax-free environment and benefits (such as free healthcare and education at public schools), the Kuwaiti population has a strong ability to spend on higher education even if there are no scholarships.

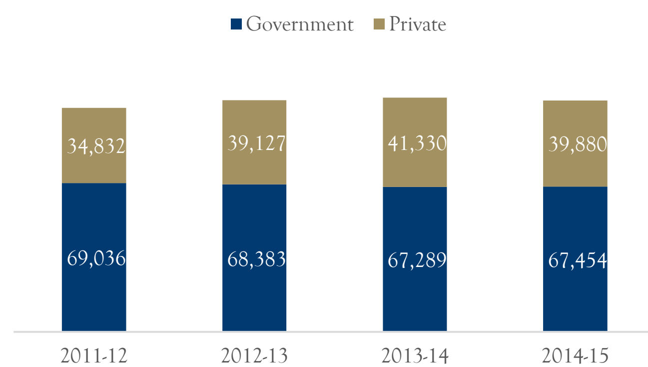
Budgeted spending on Education Sector



Kuwait Budgeted Spending on Education



Number of students (Secondary)



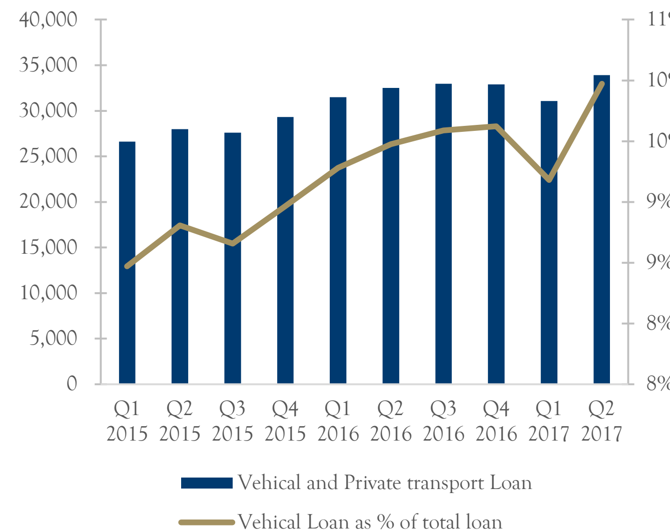
** Source: Bloomberg, Al Mal Estimates*

Saudi Arabia

Opportunities

- A Royal decree is now allowing women to drive in KSA, effective June 2018. The decision came in line with the Saudi Vision 2030 and the NTP, as a way to increase the participation rate of women in the workforce (to 28% by 2020 from 20% currently)
- The Saudi female population has on an average grown by 2.6% every year since 1990 to 13.6mn in 2015. Of the total female population of 13.6mn, 6.9mn are in the age bracket of 20-50 years which will be potential vehicle purchasers.
- **Banking:** Banking sector will be one of the top beneficiary of the ruling. It will increase the retail loan segment as auto loans are expected to increase.
- **Motor Insurance:** The Motor segment premiums account for 33% of total GWP in Saudi Arabia. The number of policies issued has grown from 3.67mn in 2012 to 3.90mn in 2016.
- **Vehicle rentals and used car sales:** They are direct beneficiaries of this decision via increased demand for car rentals

Growth in auto loans

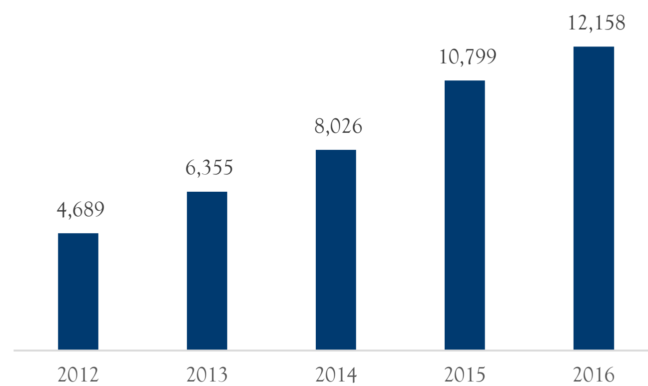


Expected growth in motor insurance policies

	2017	2018	2019	2020	2021
Policies	6.00				
New women policies	-	1.05	0.70	0.70	0.35
Policy renewal (enforcement rate @ 40%)	-	-	0.42	0.70	1.62
Total Womem	-	1.05	1.12	1.41	1.97
% of total	-	15.7%	17.3%	21.0%	27.1%
Drivers (exiting the market)	-	(0.35)	(0.63)	(0.70)	(0.70)
Total Policies	6.00	6.70	6.49	6.71	7.27
Growth (y-o-y)		11.7%	-3.1%	3.4%	8.3%
Cumulative		11.7%	8.2%	11.8%	21.1%

** Source: Bloomberg, Al Mal Estimates*

Motor Segment GWP (SAR mn)



Investment Philosophy, Process & Asset Management Team

Al Mal Capital المال كابيتال

Investment Philosophy

"Simplicity is the ultimate sophistication" Clare Boothe Luce

In markets filled by complexity, keeping things simple is key. *The team's approach is very unique in a space that is filled with long-only managers. At large the team is value oriented and prefers companies that are competitive, innovative and efficient in terms of business. The long investment experience has taught the team that patience is a virtue, so portfolios are built on long-term commitments that aim to anticipate the next 3 to 5 years, not the next quarter. Most importantly, the team invests after a rigorous, qualitative and fundamental analysis is conducted of each potential company. However, in market filled with inefficiencies the team does not shy to be opportunistic.*

Adaptive to Market Conditions

Traditional Investing	AMC MENA Equity
Industry Standard Classification (e.g. Benchmarking) *"Based on business activity or location. Does not tell us what is driving companies"*	Proprietary Classification based on Investment Class exposures *"What is really driving companies"* No Preference to Country, Sector, Style or Size
Based on either Top/Down Allocation or Bottom/Up Selection	Top-Down Thematic Allocation combined with Bottom/Up Selection *"Simply we do both"*
Static Economic Models and fixed stock classifications *"Based on assumptions that hardly change over time"*	Adaptive Markets Models and dynamic stock classifications *"If every thing is changing, so we better do"*

Differentiating Perspective

Traditional Investing	AMC MENA Equity
"The percentage weight in the benchmark 5%"	"Benchmark weight means one thing for us: lower relative risk"
"We are Active Investors, We are under/over weight our benchmark"	Allocation is made irrespective of the benchmark. Benchmark is monitored to understand market convictions and risk only
"We are underweight Financials"	Many stocks have significant financial/investment operations (lease, funding, Equity, Bonds etc.)
"We have a defensive portfolio"	Betas are not stable at all times
"Saudi is risky"	Are we compensated for that Risk and are all companies as Risky?

Investment process
Overview

Al Mal Capital
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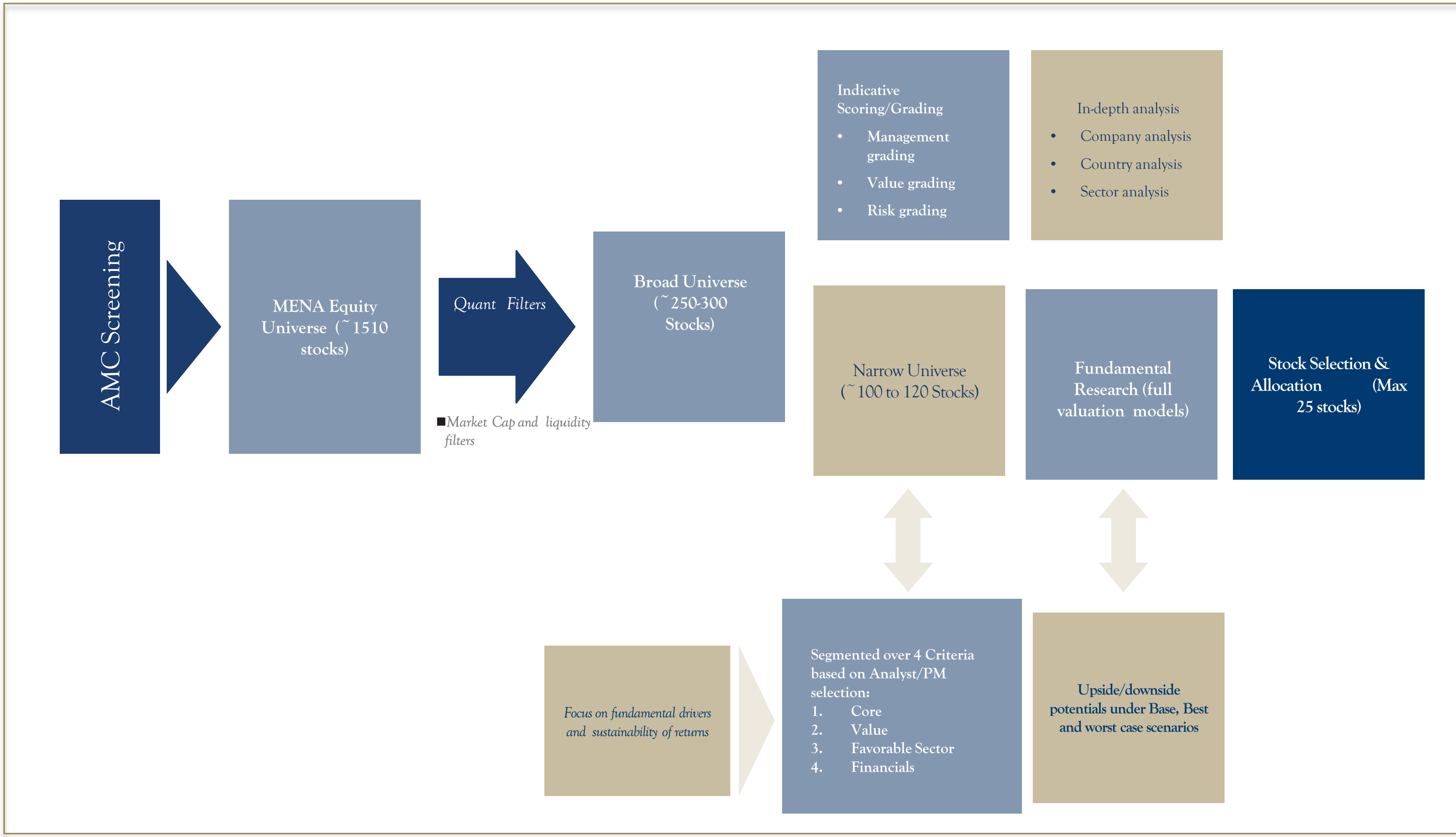

Empirical evidence verified that changes in risk premium could explain much of the volatility of asset prices in the short term (i.e. volatility of P/E multiple), however, profits and dividend policy should be the main determinant of prices over the long term. Our strategy will capitalize on short term risk premium volatility, while keeping an eye on long term returns.

Asset Management Team

A team of professionals with decades of experience

Charles-Henry Monchau, CFA, CMT, CAIA
Managing Director|CIO
Investment Management

Charles-Henry joined Al Mal as Managing Director - Head of Investment Management. Charles was previously SEO / Head of Asset Management at SHUAA Capital and brings more than 20 years of experience in international multi-asset investing. Before moving to the UAE, Charles was heading the Asset Allocation Team for the Europe & Middle East at Deutsche Bank (2014-2016). Based in Geneva, he was in charge of a team of 25 portfolio managers running around USD 10bn in discretionary mandates. Prior to Deutsche Bank, Charles was Regional CIO for EFG Private Bank (2010-2013) and held various senior portfolio management and buy-side research roles at Rothschild Bank AG in Zurich (2009-2010), Lombard Odier in Paris and Geneva (2001-2009) and BNP Paribas in Geneva and Nassau (1995-2001). He is also an adjunct professor in Finance at the International University of Geneva and HES Kalaidos Romandie. Charles has an Executive MBA from Instituto di Empresa (Madrid & Shanghai) and a MSc in Finance (University of Geneva). He is also a CFA, CMT, CAIA and CIIA Charterholder.

Marwan Haddad, CFA
Lead Fund Manager | Analyst
MENA Equity

Marwan came from SHUAA Capital (Dubai) with +11 years of experience in investment management. At SHUAA he was responsible for leading the investment process on MENA equities, generating new investment ideas, conducting fundamental research and actively managing portfolios. Prior to joining SHUAA he was working at Rasmala Investment Bank in DIFC as a Portfolio Manager since 2010. At Rasmala, Marwan was at the center of transforming Rasmala's MENA Equities offering from funds of funds model to a stock selection model, launching the Arabia Market Growth Fund in early 2011, and GCC Islamic Equity Fund in June, 2013. He started his investment career at Awraq Investment and then Global Investment House after he completed a Master of Business in Finance from Sydney University in Australia. He is also a CFA Charterholder.

Vrajesh Bhandari, CFA
Senior Portfolio Manager| Analyst
MENA Equity

Coming with 13 years of experience in MENA Vrajesh will be leading our research efforts across the MENA markets. Vrajesh joined from A/T Capital in DIFC, where he was responsible for researching MENA equities & help manage the investment funds & portfolios. He has a wide-ranging experience in asset management & investment research focusing on Middle Eastern & Frontier markets. He has previously worked for GHOBASH Group, a family office in Dubai as a Sr. Investment Analyst where he managed a team overseeing the prop book invested in various asset classes. Prior to that, he worked on the sell side in the Equity Strategy team at HSBC (India) covering global markets. He started his career at Evalueserve, India as a Research Associate. Vrajesh has an MBA & a MSc in Finance from ICFAI Business School, India. He holds the CFA charter since 2007

Sanat Sachar

Equity Research Analyst

MENA Equity

Sanat joined Al Mal Capital in 2015 as Analyst. Sanat brings a fresh prospective to the team because of his diverse background.

He has worked on various deals during his summer internship with PwC in Dubai. Sanat has also interned with Citibank in Dubai, where he worked with the retail operations team of the bank. Prior to pursuing his post graduate program, he had worked with Portiviti Consulting, India in the area of software development.

He has earned his MBA in Finance from Indian Institute of Management, Indore and a Bachelors in Technology from Jamia Hamdard University, New Delhi, India. Sanat has passed Level 3 of the CFA Program and awaiting charter.

Aida Talaat

Senior Product specialist

Aida joined Al Mal Capital in 2015 as Wealth Management Officer. Aida helps in generating new business by screening International Fund Managers to add to Al Mal range of products. Prior to joining Al Mal Capital, Aida was a Trade Finance specialist at Invest Bank. She has also worked in Corporate Customer Service with HSBC.

Aida holds a Bachelor's of Arts from Ain Shams University, Egypt.

Al Mal Capital

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