

Perspectives



المال كابيتال
Al Mal Capital

August 2019

Special focus on Dubai and the UAE



UAE Equity Markets:
A rally built on
increasingly solid
foundations

Investment Theme:
China-UAE ties are
about more than oil

Hot Topic:
Expo 2020 Dubai

Investment Strategy:
Time to be positioned
for a rebound of UAE
equities

Contents

UAE Equity Markets:

A rally built on increasingly solid foundations Page 2

Investment Theme:

China-UAE ties are about more than oil Page 8

Hot Topic:

Expo 2020 Dubai Page 14

Investment Strategy:

Time to be positioned for a rebound of UAE equities Page 22

Welcome to the 28th edition of Perspectives.

The U.S equity large-cap S&P 500 Index and the technology-heavy Nasdaq Composite Index surged to record highs at the end of July buoyed by positive earnings reports and a dovish stance by the Federal Reserve. But at the time of our writing, investors' sentiment is turning more negative as U.S-China Trade war risk is coming back with a vengeance.

In this edition, we take a step back from international markets to focus on UAE prospects and Dubai in particular. While the DFM (Dubai Financial Markets) index has been lagging meaningfully the broader S&P Pan Arab index over the last 3 years, our 2019 bullish stance could well be vindicated. Indeed, as of the end of July, the main Dubai index has gained 15% year to date, outperforming other regional indices such as the Tadawul index and the ADX.

In the first section, we look in more details at Dubai and UAE equity performance in 2019 and share the view that this rally is built on increasingly solid foundations. The investment theme of the month is about the China-UAE ties as a three-day visit to China in late July by Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed has again shown the importance of this gradually deepening bilateral relationship. A wide range of economic sectors across the UAE could benefit from the UAE-China ties for many years to come.

In the "Hot Topic" section, we shed light on the Dubai Expo 2020, which is expected to have an incredibly positive impact on the UAE while acting as a catalyst to energize retail, leisure, hospitality and consumer businesses in the country.

In the last part of this edition, we re-visit the bullish investment thesis we developed in our January 2019 outlook and share our top picks within UAE equity markets.

We hope you will enjoy this issue.

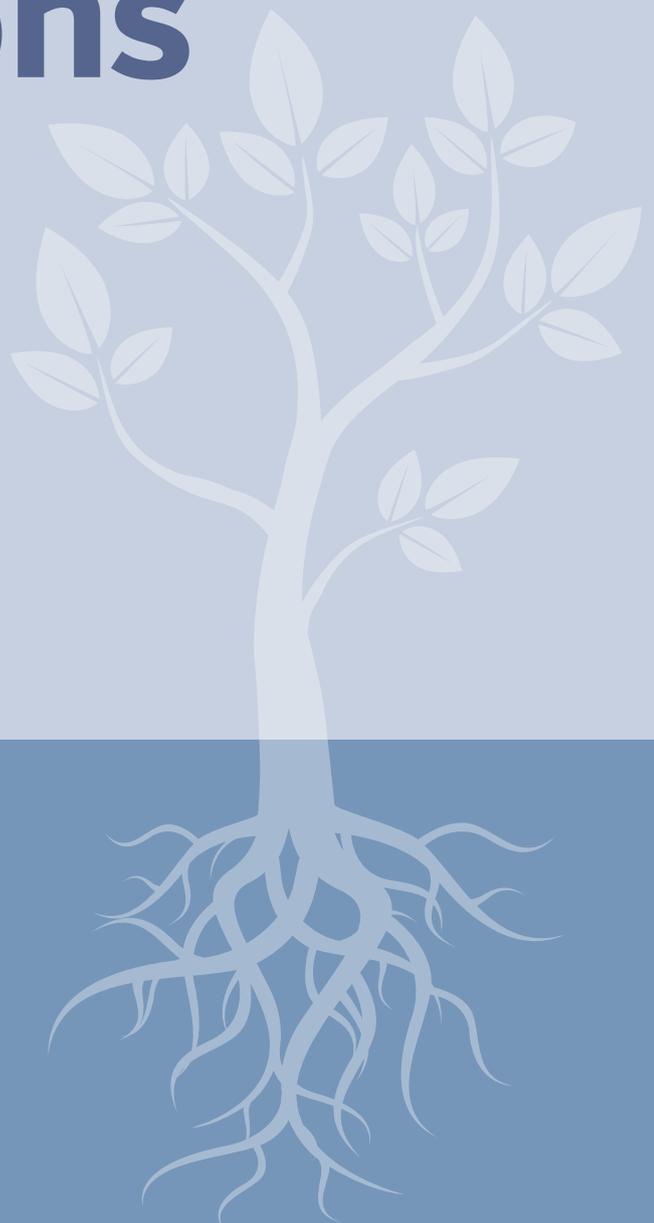
Disclaimer. This document is provided to you by Al Mal Capital PSC ("AMC") for informational purposes only, and contains proprietary information that may not be publicly distributed to, or used by you, or any third parties without AMC's prior written consent. All figures and numerical representations appearing in this document have not been audited and any references to AMC and returns are indicative only. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made by AMC as to its accuracy or completeness. AMC and any of its affiliates make no guarantee, assurance, or representation what so ever as to the expected or projected success, profitability, return, savings, performance, result, effect, consequence, or benefit (either legal, regulatory, tax, financial, accounting, or otherwise) of any instrument, product, strategy or service described here in this document.

UAE Equity Markets: A rally built on increasingly solid foundations

Through the first half of 2019,
the UAE's PMI averaged

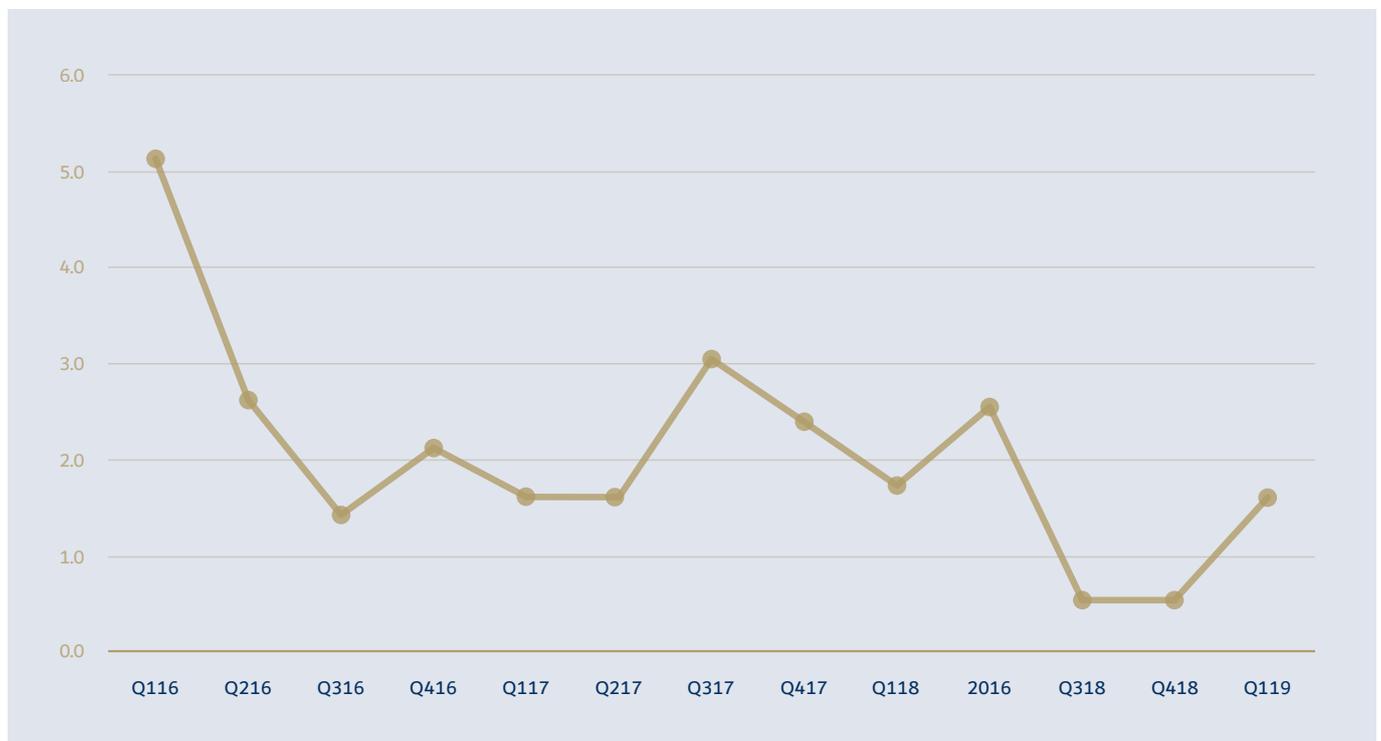
56.7

compared to 55.9 in the same
period of 2018



UAE equity markets have rallied strongly since the middle of May, which we attribute in part to the increasingly positive macroeconomic backdrop. At the global, regional and local level, there have been several encouraging trends unfolding over the past several months which underpin our view that the business cycle turned a corner at the end of 2018, and that more positive news will be in store in H2 and 2020.

UAE Non-Oil AECI, % year-over-year



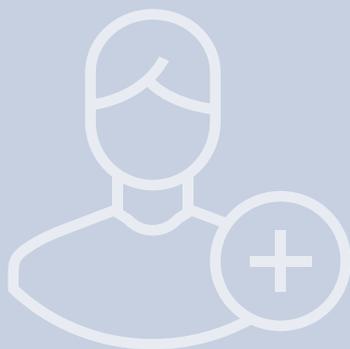
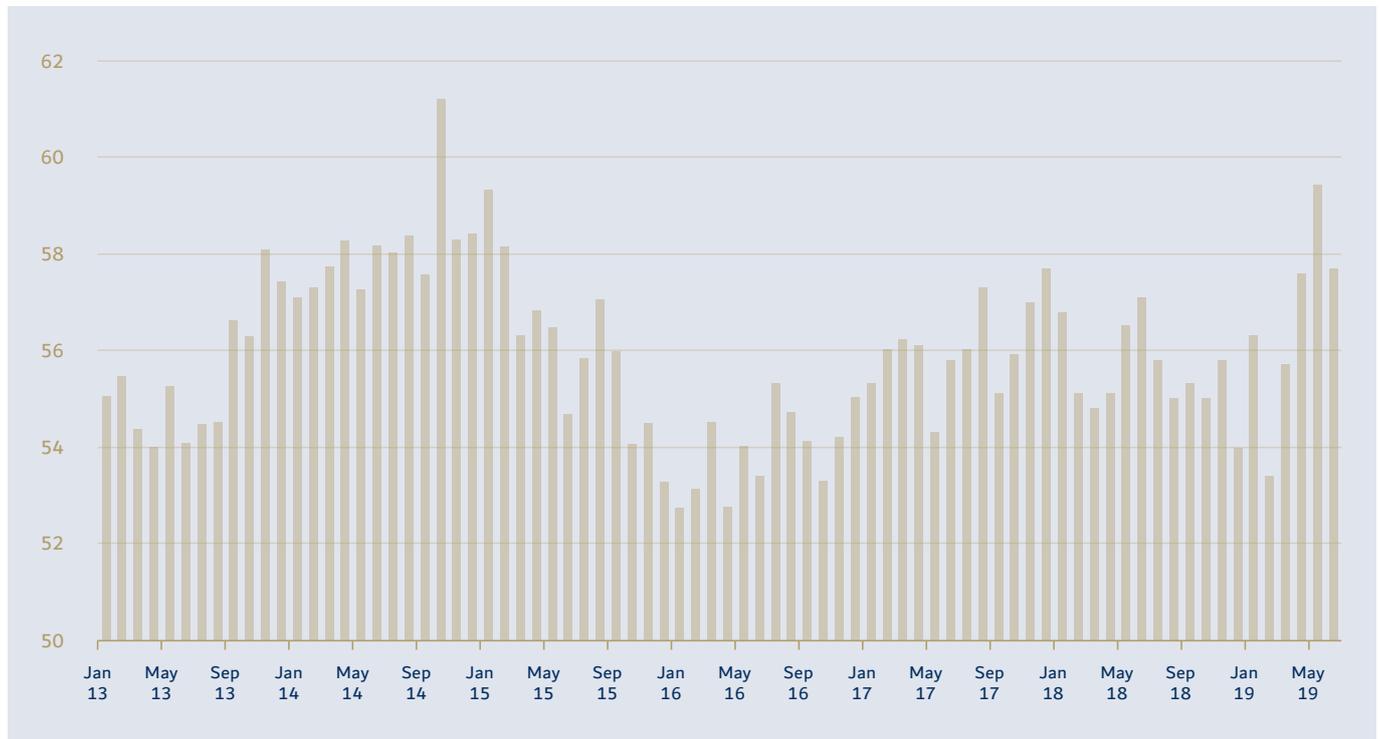
The central bank's official Augmented Economic Coincident Indicator (see chart above), which is designed as a proxy for GDP, showed growth in the non-oil economy of 1.6% y/y in Q1 2019, representing the fastest pace of expansion in three quarters. Although this rate of growth is still below historical averages, we are more inclined to base our increasingly optimistic macro outlook on the UAE on more up-to-date variables that are suggesting a further acceleration in domestic demand materialized through Q2.

Many Signs Point to Stronger Growth...

One of the clearest indications of how the UAE's non-oil economy appears to be turning a corner is found in monthly survey data such as the Purchasing Managers' Index (PMI) (see chart on the next page). Through the first half of 2019, the UAE's PMI averaged 56.7 (any reading above 50 signals expansion), compared to 55.9 in the same period of 2018. In

May moreover, the PMI hit 59.4, which was the second-highest level in the survey's history. The Dubai Economy Tracker (produced by the same firm that releases the PMI data) has painted a similar picture, with strong readings through June suggesting that in the second quarter of this year, the emirate's economy expanded at the fastest pace since early 2015.

UAE Purchasing Manager's Index



There have also been some positive signs in the employment market since the start of 2019. Given the elastic nature of the workforce, job growth is often seen as a critical element to the wider macroeconomic picture (more so than in other countries with relatively stable rates of short-term population growth). In the first quarter of this year, total employment rose by 1.2% q/q, indicating growth in overall employment of 59.9k, and bringing the total domestic labor force to 5.05mn (this data, provided by the central bank, covers workers in the private sector). In fact, Q119 represented the first quarter in this data series in which every industry added jobs relative to the previous quarter.

The Financial Sector will be Key to a Broad-Based Recovery...

A key factor in driving a faster economic recovery this year and next will be the extent to which the local credit cycle continues to accelerate. As of June, total loans and advances were expanding at a rate of 4.3% y/y, compared to 3.4% and 3.0% in June of 2018 and 2017 respectively. The Q2 Credit Sentiment Survey (see chart below) published by the central bank in July highlighted how demand for business loans in particular was continuing to expand, while there was also some encouraging news found in the consumer lending section of the survey, as it showed an increase

in demand for car loans in the UAE for the first time since the fourth quarter of 2017. Global factors will come into play in helping to drive faster credit growth in the UAE in H2 following the U.S. Federal Reserve's decision to cut interest rates by 25bps on 31 July, which resulted in the UAE Central Bank following suit and reducing its key policy rate by the same extent. The interest rate cut is a relief for most UAE banks as they are able to target cheaper deposits hence lower funding costs and due to longer asset durations their loan books are slower to reprice.

UAE Business & Consumer Lending Questionnaire, Net Balance



Consolidation has been a dominant theme throughout much of the wider economy for the past several years, but particularly within the domestic financial sector. The merging of several commercial banks has been somewhat overdue due to the already overbanked nature of the domestic market, however Dubai's role as an increasingly important regional and global financial center has been highlighted in the performance of the DIFC. Through the first six months of the year, the center saw an expansion in the number of registered companies of 14% y/y (to 2,289), while total employee headcount rose a further 660 to 24,000. Despite recent weakness in the regional economy, Dubai is still well positioned for the long term due its crucial role as a financial hub along the growing South-South trade route.

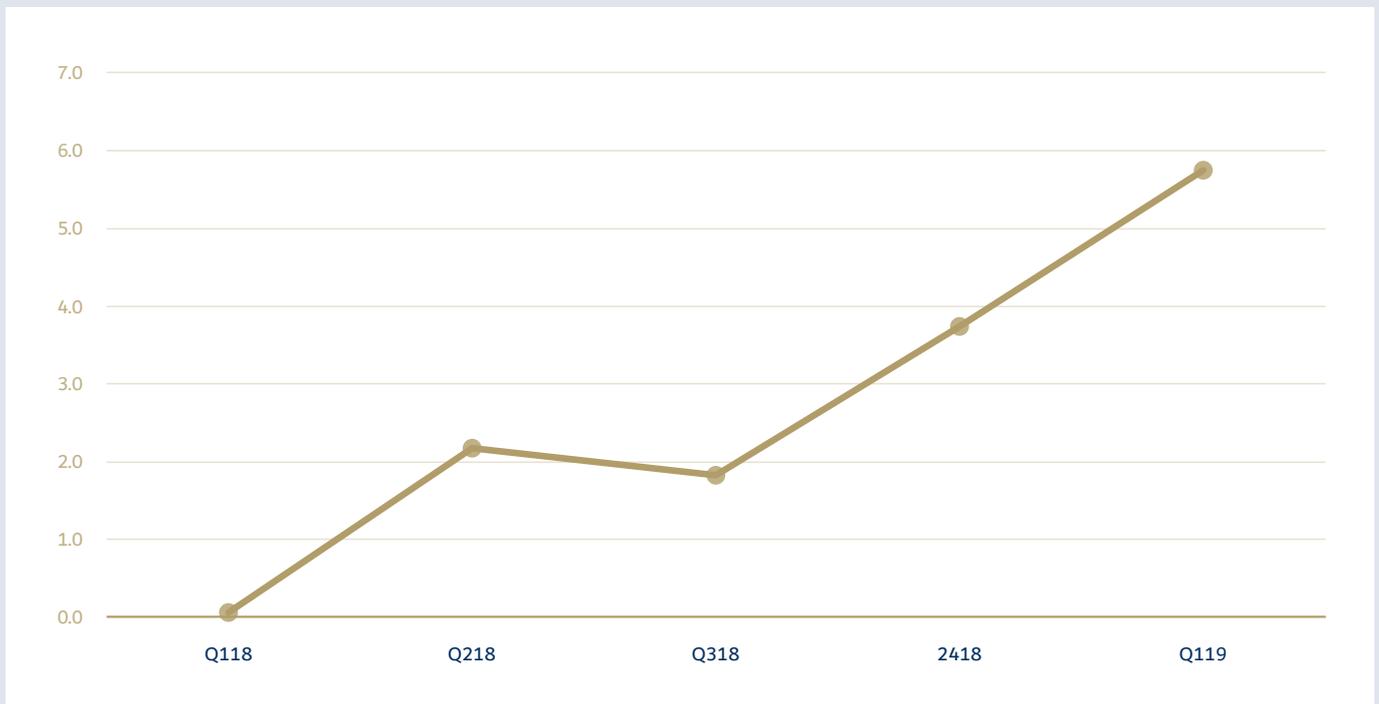
Reforms Set to Boost the Long-Term Outlook...

While a cyclical turnaround appears to be increasingly taking shape, what is more encouraging is perhaps the strengthening in the UAE's longer-term outlook that has materialized alongside the implementation of some of the most notable economic reforms that we have seen in several years. The introduction of longer-term visas and a 'Gold Card' of permanent residency for select investors and highly skilled workers is but one example

of how authorities are willing to implement new policies in areas which were previously believed to be 'off limits'. It is also notable how the UAE's efforts are increasingly focused on attracting and retaining foreign labor in the economy, which contrasts with several other states in the region where the focus in recent years has been on prioritizing raising employment levels of nationals at the expense of expats.

Perhaps more importantly, in early July it was announced that the UAE government had decided to allow 100% foreign ownership of mainland companies operating in 13 sectors (and 122 'activities'). A full list of sectors is not yet available, however so far we know that industries such as agriculture, transport, and hospitality are among those included. While foreign investors have historically had the option of full company ownership via operating in one of the UAE's many free zones, this reform – similar to the new residency policies – underscores a desire to attract greater levels of foreign investment and entrepreneurship throughout the economy.

Abu Dhabi Real GDP Growth, % year-over-year



Along similar lines, Abu Dhabi recently announced the establishment of an USD145mn venture capital fund known as the "Ghadan Ventures Fund" which is tasked with increasing the availability of financing to start-ups in the emirate, as well as to attract fund managers to set up in the capital. This fund forms part of the broader USD50bn stimulus package which Abu Dhabi announced last year in an effort to boost the local

economy. Alongside the reduction in a host of government registration and license fees in recent months, it is clear that at the start of H219 authorities are focusing on stimulating domestic spending and investment, which is an effort that we expect to eventually filter through to the broader economy. (see chart above).

Supply Growth Results in Stronger Competition...

One of the main engines of local economic growth in recent years amidst the regional slowdown has been the construction and real estate sectors, as developers stepped up their domestic investments ahead of Expo 2020. Those efforts have now resulted in a strong supply pipeline of new properties, particularly within the residential real estate as well as

hospitality sectors. The inevitable result has been that prices and margins look set to remain under pressure in the short term, although seen from the angle of the resident who rents his accommodation, or the overseas tourist considering a vacation in the UAE, these trends should also help stimulate stronger demand (see chart below).

Dubai Residential Sale Prices, (AED/SQM)



One of the main engines of local economic growth in recent years amidst the regional slowdown has been the construction and real estate sectors, as developers stepped up their domestic investments ahead of Expo 2020.

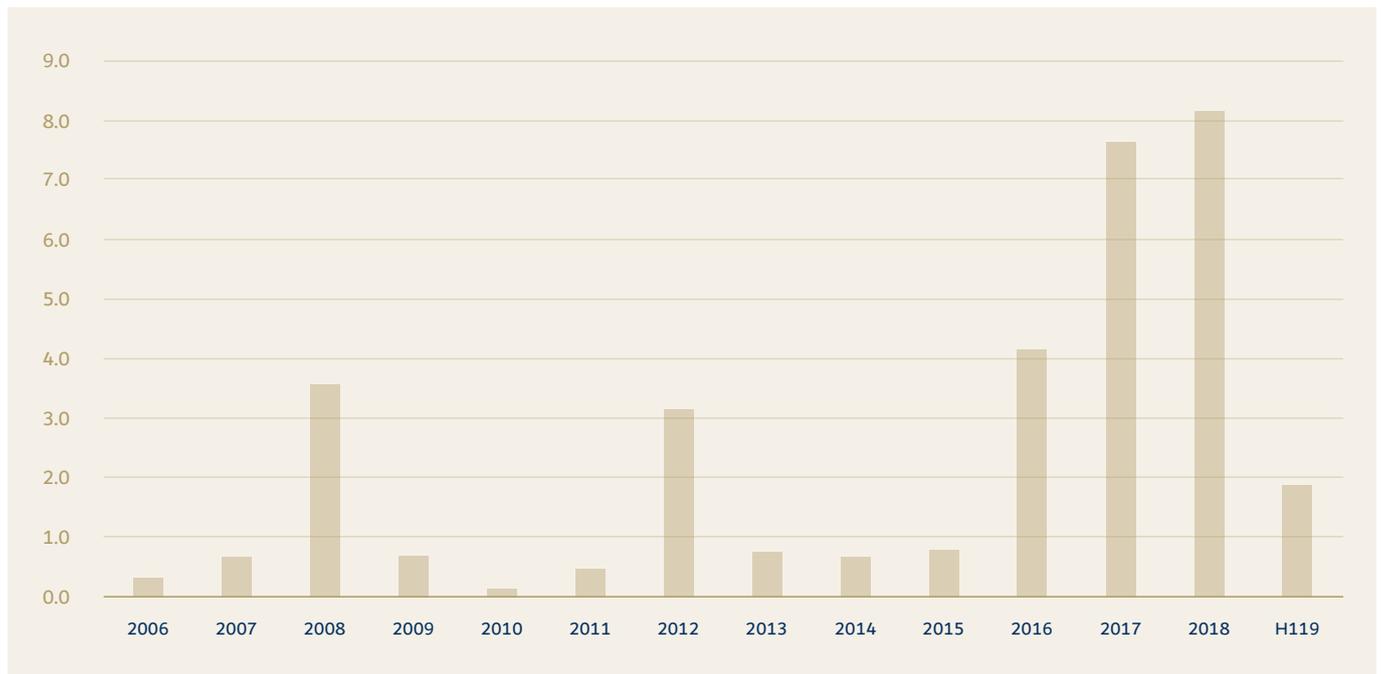
Investment Theme: China-UAE ties are about more than oil

A three-day visit to China in late July by Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed has once again thrown the spotlight on the burgeoning ties between Beijing and the UAE.



Similar to last July when President Xi Jinping came to the UAE – which was the first visit by a Chinese leader to the Gulf country in 29 years – a wide range of investment deals and partnership agreements were announced throughout the trip. The importance of this gradually deepening bilateral relationship between the UAE and China cannot be overstated, as the implications are likely to be felt across a wide range of economic sectors for many years to come.

Value of Chinese Investment & Construction Contracts in UAE since 2006 by Year, USDbn



Since 2006, the combined value of Chinese investment in the UAE, as well as construction contracts awarded to Chinese firms, stands at USD32.8bn, with USD17.6bn of that having materialized since the start of 2017 through until the end of H1 2019 (see chart above). Not surprisingly, the majority of this has been directed towards the energy sector (USD17.0bn), and this is a figure which is only likely to grow as the crown prince's visit saw the

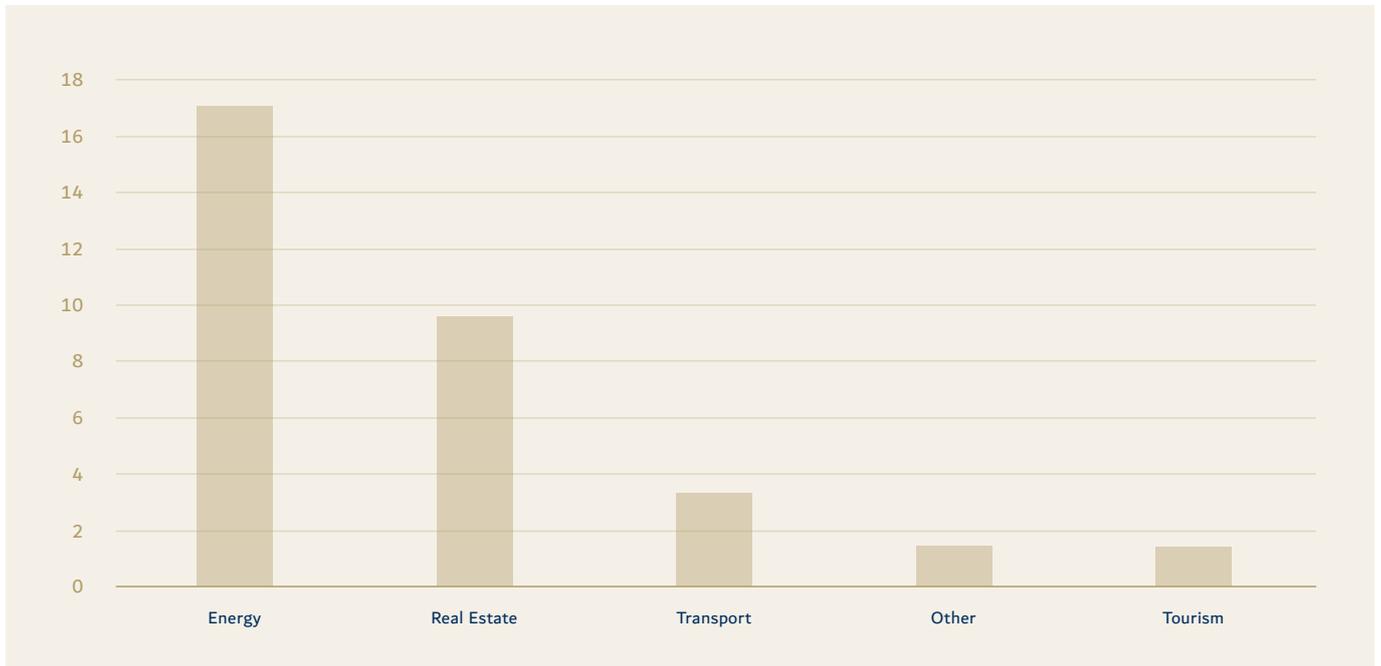
Abu Dhabi National Oil Company sign an USD12bn partnership framework with China's Wanhua Chemical Group for collaboration in the downstream sector, according to ADNOC (see chart on the next page). These investments and construction contracts within the energy sector are not directed entirely at hydrocarbons however, as many are in fact related to UAE-based projects focused on developing the local coal industry.

Since 2006, the combined value of Chinese investment in the UAE stands at USD32.8 billion.

USD 32.8 billion

INVESTMENT THEME

Value of Chinese Investment & Construction Contracts in UAE since 2006 by Sector, USDbn



The Relationship isn't all about Oil...

The growing relationship between the UAE and China is not, as many would expect, simply a case of the latter attempting to secure its long-term energy needs from the former. True, oil accounts for the largest share of UAE exports to China.

However, trade data shows this relationship to be more complicated, as the UAE actually runs a large trade deficit with China (i.e. implying significantly higher imports relative to exports) (see chart below).

UAE Net Trade Balance with China, USDbn



In fact, the USD22.7bn trade deficit that the UAE ran with China in 2018 was the largest bilateral trade deficit that the Gulf economy ran with any other country in the world last year, with the second largest being the U.S. at USD18.1bn. It is rare for such a large exporter of hydrocarbons to run a trade deficit with China – for comparison, Saudi Arabia posted a bilateral trade surplus with the country of USD17.3bn in 2018 – however it highlights the important role that the UAE plays in importing Chinese goods throughout the wider region.

Real Estate Investment is set to Expand...

Over the past year there has been a clear push to attract stronger Chinese investment into the local real estate market, from both the public and private sector. Indeed, the Dubai Land Department, for example, has already opened several representative offices across China, as has property developer Emaar. These efforts appear to be paying off, as Chinese investors in 2018 were amongst the top sources of capital for the emirate's property market, behind traditional heavyweights of India, the UK and Pakistan. As demonstrated in North America, Australia and parts of Asia over the past decade, Chinese investment into the residential real estate sector can often be a 'game changer' for property markets in select cities,

as the surge in demand pushes prices higher.

One of the highest-profile announcements from the Crown Prince's visit to China was an agreement signed by Emaar to help develop an USD11bn project at the Beijing Daxing International Airport. The project is expected to take 10 years to complete (the airport itself is set to open this September), and will include residential as well as leisure facilities. The importance of the growth in bilateral ties between the UAE and China is highlighted in this development, as it allows for UAE-based corporates which have traditionally focused and earned the majority of their revenues from local markets to begin expanding their international presence and finding sources of untapped demand overseas.

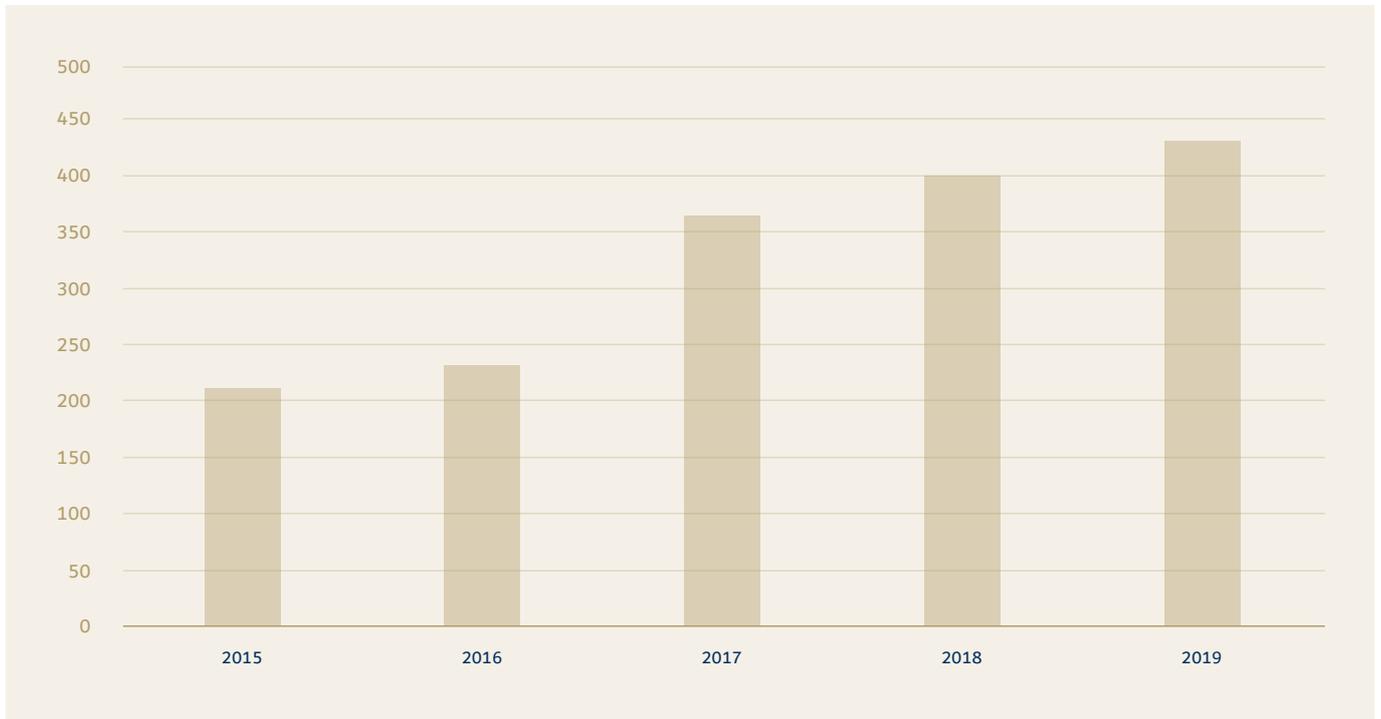
China an Increasing Important Source Market for Tourists...

The tourism sector is another area that is already realizing significant benefits from the increasingly close relationship between the UAE and China. The decision in 2016 to grant Chinese citizens visa-free travel to the UAE has helped make the Asian country an increasingly important source of foreign visitors, with total arrivals to Dubai in 2018 nearly doubling to 857k from 450k in 2015. Between January-May 2019

moreover, the amount of Chinese tourists to Dubai increased by a further 7.9% y/y, compared to flat growth in visitor arrivals for the wider sector. Tapping into this large and growing source market will be crucial for the local tourism and hospitality sector in the coming years, as China has become the most powerful market for outbound tourists in the entire world (see chart on the next page).

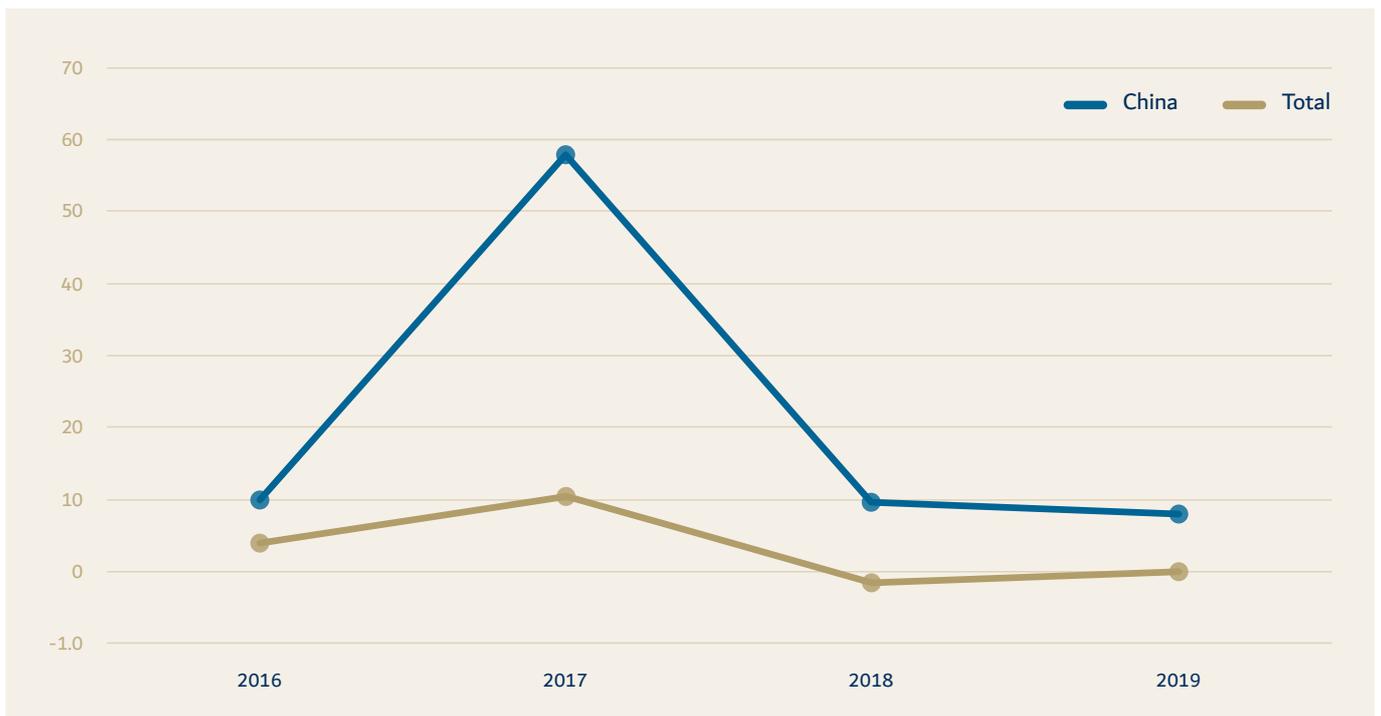
INVESTMENT THEME

Chinese Tourists to Dubai, January-May, thsds



Similar to the real estate sector, UAE-based hospitality and tourism firms are also set to expand their presence in China in the years to come. Indeed, previously it was announced that Jumeirah Group had signed management contracts with hotels in Guangzhou and Hangzhou, which are set to open before the end of 2020 (Emiratis were granted visa-free travel to China in late 2017), see chart below.

Growth, % y/y, Tourists to Dubai, January-May



Financial Integration is not to be Overlooked.

China's growing importance to the UAE is not simply found in its role as a source of tourists, direct investment or demand for energy, but also as a source of capital. This was underscored as recently as June when it was announced that Emirates National Oil Company (ENOC) had secured an USD690mn loan from a consortium of Chinese lenders. Recent years have seen the rapid deepening in financial integration between the two economies, highlighted by the launch of a renminbi clearing center in the UAE in 2017 (operated by Agricultural Bank of China). The Dubai International Financial Center also hosts China's four largest banks, as well as the regional headquarters of large corporations including PetroChina, Shanghai Electric Investment and ZTE Corporation.



Hot Topic: Expo 2020 Dubai



Ever since Dubai was granted the rights to host Expo 2020 back in 2013, several discussions by local officials about the event have led to believe that its impact on Dubai's economy will be quite significant. Expo 2020 Dubai is a global mega event that aims to celebrate innovation, entertain an international audience, promote development and foster global cooperation. It will be the first world expo to be hosted in the MENASA (Middle East, North Africa and South Asia region) and will run from October 2020 until April 2021. As an Expo host, the UAE has high prospects to benefit from improved international reputation. Tickets are priced at affordable prices starting at AED120 for single-day pass and AED260 for a three-day past. Bundles packages sold by authorised ticket resellers will be offered for international travellers.



Over 70% of visitors are expected to be comprised of international travellers from outside the UAE, which is the largest proportion in the history of world expos. An estimate of 190 countries are expected to participate in the mega event.

The impact of Expo 2020 on Dubai will come in three different phases:

- Pre-Expo: November 2013 (when Dubai won the bid to host the Expo) until October 2020 (when the Expo opens)
- During-Expo: October 2020 until April 2021
- Legacy: May 2021 until December 2031

Each of these phases are expected to generate jobs and economic activities of various kinds, according to a report by EY.

The Pre-Expo phase is expected to have a Gross Value Added (GVA) impact of AED37.7b. The key economic impact is to be felt in the construction sector at an estimate of 68%. Other sectors that are likely to feel impact are transport, storage, communication, events organizations and business services. Approximately 20% (AED 4.7b) of the on-site spending is expected to be focused toward the SME sector. In terms of jobs, an average of 37,000 FTE jobs per annum are likely to be added. Out of these, an average of 27,600 Full-time Equivalent (FTE) jobs per annum will most likely be in the construction sector.

Top sectors by total GVA*

-  Construction **AED 25.7b**
-  Events organisation and business services **AED 7.0b**
-  Transport, storage and communication **AED 2.2b**

During the Expo the economic influence of this phase is likely to arise from forecasted visits of 25 million to the site, as well as the maintenance of the site. Specifically, visitor expenditure and operational spending resulting in an expected GVA impact of AED22.7b. Around 39% of this GVA impact will stem from the restaurants and hotel sector. Additionally, other sectors that are likely to feel substantial impact comprise of the events and business services sector. Approximately 20% of the on-site spending is expected to be focused toward the SME sector. Additionally, this period is expected to support 94,400 FTE jobs out of which 51,100 FTE jobs (54%) are expected to be in the restaurants and hotels sector.

In the final phase, the Expo site is anticipated to convert into District 2020, a large, mixed-used development. More than 80% of the Expo built environment is planned to be converted into District 2020, which is strategized to eventually expand into a city covering over four hectares of area. Tenants that have confirmed include Accenture and Siemens, facilitating a focus on innovation and technology, with a series of firms expected to follow suit. The Dubai Exhibition Centre (DEC) is similarly expected to be a key facility in this site. The key economic drivers of this period are largely expected to be the development and operational activities of District 2020 as well as the incremental impact of the development of the DEC. This period will most likely support an average of 53,800 FTE jobs per annum. Approximately 87% of this impact is likely to be represented in the events organization and business services sector.

Top sectors by total GVA*

-  Restaurants and hotels **AED 8.9b**
-  Events organisation and business services **AED 7.7b**
-  Transport, storage and communication **AED 2.2b**

Top sectors by total GVA*

-  Events organisation and business services **AED 54.2b**
-  Retail **AED 2.5b**
-  Restaurants and hotels **AED 2.0b**

Total contribution (November 2013 to December 2031)

Overall, Expo 2020 is expected to contribute AED123b to the economy while attracting 25million visitors and 190 country participants. Visitor expenditure is expected to be the key driver of the economic contribution. Additionally, the event is likely to generate around 905,200 FTE jobs which excluded an estimated 30,000 volunteers.

From 2013-31, Expo 2020 and its legacy are likely to contribute

AED 122.6b gross value added (GVA)



to the UAE's economy.*

At its peak level of activity (During Expo), the impact is expected to be equivalent to 1.5% of the UAE's annual gross domestic product (GDP).

Expo 2020 and its legacy are also expected to support

c.905,200 full-time equivalent (FTE) job-years



in the UAE from 2013-31.

This is equivalent to **c.49,700 FTE jobs** per annum in the UAE.*

AED 40.1b gross is expected to be invested in

infrastructure and other assets



for Expo 2020.*

Most of the infrastructure is likely to be retained for future use.

Expo 2020 will run from

October 2020 to April 2021

Economic impacts will be felt before, during and after these dates.



Expo 2020 is expected to attract

25 million visits and 190 country participants



As an Expo host,

the UAE is likely to benefit from improved international profile and reputation.

DXB

Pre-Expo (2013-20)

During-Expo (2020-21)

Legacy (2021-31)

Impact over time in the UAE

Total GVA **AED 37.7b**

Average **37,500 jobs** supported per annum

Total GVA **AED 22.7b**

94,400 jobs supported per annum

Total GVA **AED 62.2b**

Average **53,800 jobs** supported per annum

Non-Quantifiable Impacts

Some non-quantifiable impacts of the event are enhanced business relations developed during the expo, better reputation of the UAE as a place to invest (FDI), do business and work, improved trade relations between participating countries and finally, improved international profile of UAE as a tourist destination.

Industry Specific Impacts



1. Economy

Even though Dubai's economic growth slowed to 1.9% last year, it is expected to increase this year to 3% and grow further in 2020 to 3.7%, according to Emirates NBD Research. In addition, the government expects foreign investments to reach AED50 billion next year from a 15-20% gain during this year.

Following the spike in the economy during 2020, growth is forecasted to ease to 2.8% in 2021. Expo 2020, by itself, is expected to add another AED23 billion to GVA. "The quantifiable elements of the legacy that Expo 2020 Dubai will create between May 2021 and 2030 has been estimated at Dh62 billion," DED forecasts. "An important aspect is the direct boost it will give to the small and medium enterprises, who are expected to receive close to Dh5.2 billion in new business up to April 2021 when the event ends". The expected 25 million visitors during Expo 2020 are evidently emulating on the economy charts of Dubai, which result in an increase in hotel business, retail, transportations, communication, catering and facilities essential to the making of Expo 2020.



2. Real Estate and Hospitality

With the influx of visitors of the Expo, the requirement for apartments, buildings, office halls and event areas is obvious which gives rise to new opportunities to real estate developers, especially in the hospitality sector. According to the World Travel & Tourism Council's Travel & Tourism UAE Economic Impact report,

"The total contribution of the travel and tourism sector to UAE's GDP was an impressive Dhs164.7 billion which translates to 11.1% of the total GDP in 2018. A figure expected to rise by 4.9% annually by 2027. Dubai alone witnessed 15.92 million international overnight visitors in 2018". Even though hotel occupancies are already high in Dubai owing to its tourism industry, Expo 2020 is expected to require an additional 50,000 rooms in over 200 properties of all categories from budget through to luxury, according to a report by Deloitte. The scope of this impact will also reach neighbouring cities who will absorb a percentage of this demand, specifically Abu Dhabi. Apart from the incomplete projects, there are approximately 60,000 properties scheduled for delivery in 2019. However, only 33,000 projects that are 80-99% close to being completed are expected to enter the market this year, according to Fäm Properties.

After Expo 2020, Dubai will be depending on their District 2020 project Dubai's Smart City initiative, Abu Dhabi's Economic Vision 2030 and the Happiness Index to push the legacy effect which is expected to drive the real estate market. The increase in supply of properties will most likely drive household prices down in terms of rental spaces as well as sales. Furthermore, the government's efforts of implementing relaxed rules on property possession, the extended visas and expectantly a lower entry point for secondary property mortgages are crucial initiatives to incentivise investment while allowing the UAE to maintain the growth created by the tourism boost after the Expo ends. This also opens new and inviting investment prospects for investors as increase in supply of properties offers a wide choice in prices, location and offers to investors. Additionally, high ROI, easy payment plan, post-handover instalments and no property tax significantly add to the expected growth in the real estate investment market. "This trend we've seen of surging supply without a huge demand to match it is the main driver making Dubai more affordable. In addition, [with] the new legislation that has been brought in and the government's vision to boost the economy and bring more expats into Dubai will stimulate the real estate sector," according to Property Finder. However, the real estate companies operating in the UAE are currently facing challenges that have reduced their profits and revenue in the first quarter of 2019.

According to Mubashir statistics, "Net profit of the real estate companies in the Emirati markets amounted to AED 3.12 billion in Q1-19, down 19% from AED 3.86 billion a year ago. Union Properties the top decliner in terms of quarterly profits which plunged 99% to AED 1.7 million, followed by Damac Properties that posted a 94% drop in profits for Q1-19 and recorded AED 31.1 million. Emaar Properties has reported the largest profits in Q1-19, which reached AED 1.74 billion on the back of a growth in its revenue that amounted to AED 5.89 billion." The statistics showed total revenue of the UAE's property firms retreated by 5.34% to AED 12.23 billion in the three-month period ended 31 March, compared to AED 12.92 billion in Q1-18. It is evident that there is no balance between supply and demand in the real estate market of UAE but are projected to be revived the implementation of the Expo 2020 projects.



Even though Dubai's economic growth slowed to 1.9% last year, it is expected to increase this year to 3% and grow further in 2020 to 3.7%, according to Emirates NBD Research. In addition, the government expects foreign investments to reach AED50 billion next year from a 15-20% gain during this year. Following the spike in the economy during 2020, growth is forecasted to ease to 2.8% in 2021.



3. Finance and Financial Advisory

During and after the Expo 2020, if not already, the financial landscape of UAE has already been directly and indirectly impacted to and from the country. As a result of increased real estate projects, capital projects, and growing infrastructure needs, an increase of opportunities in advisory and execution in these sectors are expected to rise. Consecutively, for companies that have not yet invested in the Middle East this, this is an opportunity to venture into the market, thus putting Dubai in a prominent position in the business world.



4. Retail

Dubai had previously topped the list of global cities with the highest international overnight visitor spend for three years in a row with total visitor spending amounting to AED 109 billion in 2017. Over the next five years, visitor spending is expected to reach over. Taking the impact of 2020 into consideration, spending within the UAE's travel and tourism sector is expected to rise steadily over the next five years and reach over AED 206 billion in 2022, according to a report by Dubai Chamber. Additionally, companies like Emaar Malls will positively benefit in terms of revenues from tenant rent. Emaar Malls derives around 75% of its revenue from rent, according to Global Research. This rent is split into base rent and net turnover rent. During 2020, base rent will remain constant however, turnover rent which is based on percentage of tenant sales is expected to escalate due to the increase in tourists.



5. Transport and Logistics

RTA's direct contribution to the Expo 2020 consists of fifteen kilometres of new rail lines, a AED3.5 billion project with the purpose of improving road access near the Expo 2020 site, road improvements near Dubai International Airport, nine hundred new taxis, over six hundred new buses and fourteen bus stations. Furthermore, RTA increased road capacity through the airport road project and expect to handle 95 million passengers travelling through the airport in 2020. Additionally, companies like Uber and Careem will also benefit from the Expo as tourists might prefer private taxi services to commute around the city due to easier access. In terms of the logistics, Expo 2020 seems to be driving a boom in the sector. For the event, 56% of the contracts have gone to SMEs and 26,000 companies from around 150 countries are involved in the event. "When foreign companies get contracts in the UAE, they need professional support of logistics specialists with wide local and international networks to move their set-up and equipment to the Gulf country," said Shailesh Dash, chairman of Dubai-based Gulf Pinnacle Logistics. Contractors of Expo 2020, which is extraordinarily big in magnitude, therefore rely on reputable and experienced logistics players to become their strategic and operational partners," he added. The increase in momentum of Expo 2020 preparations has ranked UAE in the first place in the region and third globally on the 2019 Agility Emerging Markets Logistics Index. Furthermore, DP World forecasted that the number of items it handles is expected to double by 2020 to hundred million packages, containers and suitcases. "Logistics is witnessing a business boom, when other sectors are observing slow growth," stated Rodney Viegas, the CEO of Abdulmuhsen Shipping LLC (AMS) and So Safe Logistics LLC. "Expo 2020 is expected to drive the logistics and supply chain segment even further and cement the UAE's position as a global leader in logistics," he added.



6. Airlines

In the coming years, the airline sector which currently contributes 15% to UAE's GDP, is forecasted to account for 20% of the economy as regional carriers Etihad Airways, Emirates, Flydubai and Air Arabia carry out the expansion of their global connectivity, capacity and frequencies while governments of various emirates continue working on AED85 billion investment on aviation and tourism infrastructure. In order to prepare for the anticipated jump in visitor traffic due to Expo 2020, governments are spending billions on upgrading and expanding airports and tourism infrastructure. Consecutively, the country's four major carriers are attempting to expand in various foreign markets. As a result, the aviation industry is expected to contribute around AED200 billion to the economy by 2020 while providing approximately 750,000 jobs, according to recent industry estimates. Furthermore, after its expansion is complete, Dubai's second airport Al Maktoum is expected to become the world's largest. In line with International Air Transport Association projections, Boeing expects, "5.2% growth in traffic over the next 20 years, supported by a 4.9% increase in total regional fleet size." Additionally, the size of the Middle East market is forecasted to be worth \$660 billion in two decades, with the four UAE carriers to make up majority of it.



7. Telecom

Etisalat and Expo 2020 Dubai have collaborated to provide 5G network that offers the most advanced telecom and digital services to the expected 25 million visitors., including supporting forecasted 300,000 users on peak days. The 5G network will support smart tickets, tech-enabled volunteers, dynamic crowd management, smart food-ordering, 4k security cameras, dynamic information on pavilions, etc. According to Etisalat's CTO – Intelligent Connect, Expo 2020 Dubai, "Etisalat's network and infrastructure will be ready to provide the service as soon as the 5G mobile handsets are available in UAE. We are aiming to build 1,000 5G towers across the UAE during 2019 to enable 5G coverage". Once majority of 5G deployments are implemented by 2020 on a global level, the industry estimates display a projection of 1.5 billion 5G subscriptions by 2025. Another very plausible impact on the region's telecom companies like Etisalat and Du is a spike in temporary or short-term sims and data packages for the influx of tourists expected for the event.

Potential Risks

Overbuilding for the Expo stands as the greatest potential risk Dubai could face. This could negatively impact the government-related entities (GREs) by hindering their capability to repay the debts they incurred for Expo 2020. According to Capital Economics, these debts stand at approximately AED220b, almost 50% of Dubai's GDP. Another risk that may arise is over-capacity. As per Moody's warning on March 12, loan losses at banks could increase over the next year as increasing interest rates and declining real estate prices will put borrowers in an unpleasant situation. It has also been observed that Dubai banks are getting involved in large infrastructure and

real estate projects post Expo 2020 at an increasing rate, with these segments acquiring 20% of total lending. According to IMF, "Sustaining strong growth after Expo 2020 and the fiscal stimulus will require capitalizing on new growth drivers that are decoupled from oil prices, and this in turn will require the authorities to build on their ongoing structural reform momentum,". A few other situations that UAE should look to mitigate are stopping the public sector from squeezing out private sector firms by reducing the size of the public sector, dealing with the enlarged labour market by reforming it, and lastly, making the local financial market strong.

Overbuilding for the Expo stands as the greatest potential risk Dubai could face. This could negatively impact the government-related entities (GREs) by hindering their capability to repay the debts they incurred for Expo 2020.



Conclusion

We all hope for the legacy effect to work its magic in terms of integrating the development of additional vibrant business districts while incorporating retail and leisure into the well-established international travel destination, Dubai. However, potential risks like overbuilding and maintaining the level of attraction of these developments could pose as a challenge to the retail and hospitality sectors. These need to be mitigated through careful planning that will boost future visitors for generations to come. Nevertheless, Dubai being Dubai, is

taking all the appropriate steps required to attract more expats and achieve abundant demand to meet boosted supply. The country positioning itself as a startup entrepreneurial hub, the 10-year visa legislation and new foreign-owned company rules are all associated with the goal of real estate developers to fill homes. We conclude that there is no doubt that Expo 2020 will have an incredibly positive impact on the UAE while acting as a catalyst to energize retail, leisure, hospitality and consumer businesses in the country.

Investment Strategy: Time to be positioned for a rebound of UAE equities



The Dubai Financial Market General Index was down 27% last year, and was as such one of the worst performing emerging markets index in 2018. The local stock market peaked in 2014 (the year of MSCI EM inclusion) and is down 53% from the highs. Property prices have been declining as well. Since the peak in 2014 overall prices are down 26%. The average price/sq ft is down from AED 1,950 to AED 1,380. Apartment rents in Dubai are down more than 40% from their mid-2014 peaks.

Indeed, regional turmoil and tax changes have been weighing on real estate and retail sectors as a series of government reforms in recent years haven't been translating into an immediate revival of Dubai's economy. And the recovery of oil prices which started in 2017 has failed to boost confidence in a city which is indirectly sensitive to petrodollars.

The regional geopolitical tensions have for sure played their role. Tensions with Iran, the war in Yemen and the embargo on Qatar all contributed to a slowdown in trade, tourism and retail. On the business front, the higher cost of living and tougher enforcement of financial regulation have been weighing on white collar job growth. While the emirate's population has surpassed 3.1 million in 2018, some well-paid executives are moving out of the country and are replaced by less-experienced – and thus lower income - staff.

Lower discretionary spending has hit restaurant and retail as

the city introduced a 5% VAT at the start of 2018.

On the real estate side, chances of any immediate improvement are slim, with Dubai likely to welcome 24,300 new apartments this year plus about 8,500 villas according to the 2018 update on the UAE property market by Asteco. On a more positive note, the cut in rates could be a catalyst to drive purchasing properties as it will lead to lower mortgage rates and lower cap rates, implying higher asset valuations.

Still, there seems to be a silver lining. Indeed, growth is expected to soon turnaround as the IMF is forecasting a rebound in growth from 3.3% in 2018 to 4.1% this year as the city prepares to host World Expo in 2020.

More importantly, one should not forget the secular growth story of the Emirate and his unrivalled role as a regional hub. Below we revisit the Dubai story and explain why we believe it might be time to be positioned for a rebound.



Dubai: a success story like no other.

As governments across the Middle East attempt to diversify away from natural resources and build resilient economies, they should take some lessons from Dubai.

It's a remarkable story.

Dubai is a highly entrepreneurial city with outstanding leadership. In less than a generation, the Emirate has been transformed from a small port into a major center for investment, commerce, and high-end culture. From the outset, Dubai had no other choice than diversify away from oil and has built its growth on two other equally valuable raw materials: imagination and determination.

Dubai's founding visionary was His Highness Sheikh Rashid, who ruled from 1958 to 1990. He inherited a relatively poor Emirate, whose chief asset was the creek, which was used as a trading hub for generations. In 1959 Sheikh Rashid saw the way the tide of globalisation was running and, in a bold move, invested a vast sum to transform the creek into a large, modern port. It was a risky plan which paid off handsomely and was followed by many others, inspired by Sheikh Rashid's "build-it-and-they-will-come" philosophy.

Among them was Dubai International Airport (DIC), built in

1960 with a single runway of compacted sand. This year more than 90 million people will land or take off from DIC. In early January, what has become the world's busiest international airport handled its one billionth passenger.

In the 1970's, His Highness Sheikh Rashid ordered the construction of Jebel Ali, a large container port. While the logic of this project was questioned at that time, Jebel Ali is today the ninth busiest port in the world and handles 15 million containers a year. The port is connected to a tax-free logistics zone which makes it very popular (Jebel Ali Freezone).

But there is more to come. Dubai is completing the Al Maktoum airport right next to Jebel Ali port to create a one of a kind integrated logistics hub connecting the port, warehouses and airport all together. Containers can be unloaded from a ship, segregated into smaller shipments and then on to flights in a matter of hours.



These stories just exemplify Dubai's great long-term vision and leadership.

Few cities have this level of long-term strategic thinking. Dubai is sometimes called the Singapore of the Desert, because, like Singapore, it has experienced enormous state-directed economic growth, and benefits from proactive, visionary leadership that has turned a small city-state with limited natural resources into an important international hub.

Under the leadership of his Highness Sheikh Mohammed bin Rashid Al Maktoum, the Vice President and Prime Minister of the United Arab Emirates (UAE) and ruler of Dubai, major reforms in the UAE's government have been undertaken, starting with the UAE Federal Government Strategy in April 2007. In 2010, His Highness launched the UAE vision 2021 with the aim of making the UAE 'one of the best countries in the world' by 2021. Sheikh Mohammed is responsible for the growth of Dubai into a global city, as well as the launch of a number of major enterprises including Emirates Airline, DP World, and the Jumeirah Group.

Dubai has done a good job of branding itself to attract the foreign investment and labour needed to achieve its growth ambitions. Like New York, Shanghai, and Las Vegas, which have

all enhanced their images through architecture, Dubai conveys its innovation-oriented identity through its cityscape and skyline, which has around 95 skyscrapers above 200 meters, more than any other city except New York and Hong Kong.

Dubai's brand is further strengthened by its political stability, safety, tolerance, cultural diversity, and high standard of living, which are a draw for skilled expatriates from around the world. Moreover, the Emirate appeals to foreign investors with special economic zones that few other states can match. Dubai has also complemented its competitive advantage in attracting high-skill workers and investment with labour policies that also bring in lower-skilled foreign workers to power its growth engine.

Dubai also has the first 3D-printed office building, stunning manmade islands, the World's only (self-proclaimed) "seven-star hotel" (Burj El Arab), the tallest building (Burj Khalifa), shopping malls combined with aquariums, indoor skiing, and skydiving facilities, and many amusement parks. It also hosts the world's most expensive horseraces and other iconic sporting events.

In 2010, HH Sheikh Mohammed bin Rashid Al Maktoum launched the UAE vision 2021 with the aim of making the UAE one of the best countries in the world by 2021.

Two billion people live within a four-hour flight radius of Dubai

so it is unsurprising that it has emerged as a compelling location for visitors and investors alike. For instance, Dubai benefits from being right next door to India. There are over 1,000 flights weekly between the UAE and India and Dubai has been positioning itself aggressively as a place for Indians to go on vacation and bring in their families. New theme parks benefit from all these visitors but also hotels or

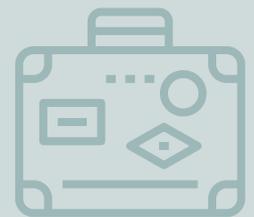
retailers. Take Dubai Mall, for example, which gets 80 million visitors a year and is the most visited mall in the world.

Dubai Tourism said the Emirate is on track to achieve its target of 20 million visitors by 2020. Dubai recorded 15.8 million overnight visitors in 2017 and is the 4th largest visited city in the world with the highest ever tourist spend in the world (see table on the next page).

Top 10 global tourist destination (with average spend per day) – 2017

1	 Bangkok	20 million visitors a year (\$173 per day)
2	 London	19.8 million visitors a year (\$153 per day)
3	 Paris	17.4 million visitors a year (\$301 per day)
4	 Dubai	15.8 million visitors a year (\$537 per day)
5	 Singapore	13.9 million visitors a year (\$286 per day)
6	 New York	13.1 million visitors a year (\$147 per day)
7	 Kuala Lumpur	12.6 million visitors a year (\$124 per day)
8	 Tokyo	11.9 million visitors a year (\$154 per day)
9	 Istanbul	10.7 million visitors a year (\$108 per day)
10	 Seoul	9.5 million visitors a year (\$181 per day)

Among the tourist sources, India comes first with 2.1 million tourists ahead of Saudi Arabia (1.5 million) and the UK (1.3 million). But China (0.8 million; +60% yoy) and Russia (0.5 million; +100% yoy) are among the top tourist sources as well. Dubai hotels recorded steady growth in the first quarter of 2018 with an 87% average occupancy rate.



True, Dubai has the reputation to go through booms and busts.

In 2008, the global financial crisis hit the city-state hard, owing to its exposure to inflated real-estate assets). But Dubai recovered quickly, as evidenced by its bids for events such as the World Expo 2020.

The main reason for Dubai to go through real estate booms and crashes is mainly because of the high supply of land. This is comparable to what American investors face in cities such as Los Angeles or Las Vegas where there aren't any

geographical constraints on building like in New York or San Francisco. Still, as the city expands and traffic gets worse well located property prices go up. Los Angeles is spread out, but certain neighborhoods trade well and continue to get more expensive (e.g Beverly Hills, Santa Monica). The same story is likely to happen in Dubai as areas such as Downtown Dubai and Dubai Marina are expected to appreciate in value over time. Dubai Creek could be next.

Catalysts for recovery



1. Government initiatives: for the UAE Property market, 2019 is expected to be the year when we should see benefits starting to emerge from the many government incentives announced in 2018. These include the publication of 10-year residency visa for investors and certain professionals, a 100% ownership of companies outside free zones as well as the residency visa for retirees, which property markets elsewhere have used to good effect. These initiatives, coupled with other catalysts such as increased federal and local budgets, stimulus packages and reduced cost of doing business are expected to increase investment and play positively on market sentiment;



2. Dubai's budget for 2019: despite low oil price Dubai government is committed to pursue infrastructure spending (the total budget for 2019 is at AED 56.8bn - i.e slightly higher vs last year – of which AED 9.2bn will be in infrastructure spending);



3. More Chinese property buyers: Saudis, Russians and Europeans have been the traditional buyers of real estate in Dubai but Chinese have become one of the largest buyers – Emaar and the other developers are clearly targeting them;



4. Signs of relief on property supply as the two biggest developers (Emaar and Damac) are withholding supply. Damac is sitting on 1,000 units they don't want to sell. They will hold them until the market recovers. Damac has 20% market share and Emaar is probably 50-60% so this is a good sign for supply concerns;



5. Mortgage rates in the UAE are about 4% for 3 year fixed rates and rental yields are 5-6% - Dubai properties are thus becoming an attractive property value play pegged to the dollar;



6. New IPOs are expected to grab the attention of international investors. For instance, Emirates aluminum - the world's 4th largest aluminum producer – is expected to be listed this year. They already hired bankers but the IPO was delayed due to tariff on aluminum import by the U.S



7. Dubai Expo in 2020: EXPO preparations should keep the city vibrant for the next two years. Infrastructure, Hospitality and Real Estate projects should stimulate growth. The total economic impact of hosting the event is estimated at \$33 billion which is material when measured against Dubai's real GDP of \$108 billion (2018). The cost of constructing the Expo site and related infrastructure is USD 11 billion. EXPO 2020 and its legacy is expected to attract 25 million visitors from across the globe and create 905,200 jobs for the Emirate, with 40% in the hospitality, travel and tourism sector, and 30% in the construction sector. The main sectors that will directly benefit from the Expo are real estate, construction, and retail/hospitality. People used to be optimistic about this event, but now nobody cares about it. **At this point it might end up exceeding very low expectations.**



As mentioned in the introduction, the Dubai main equity index is down more than 50% from 2014 peak. The broad Dubai market trades at a very inexpensive P/E of 6.5x with a dividend yield of 6.2%. On this basis, the Dubai equity index is probably among the cheapest in the world. Should the aforementioned catalysts produce some positive impact, the equity price recovery could be meaningful.

How to play the recovery?

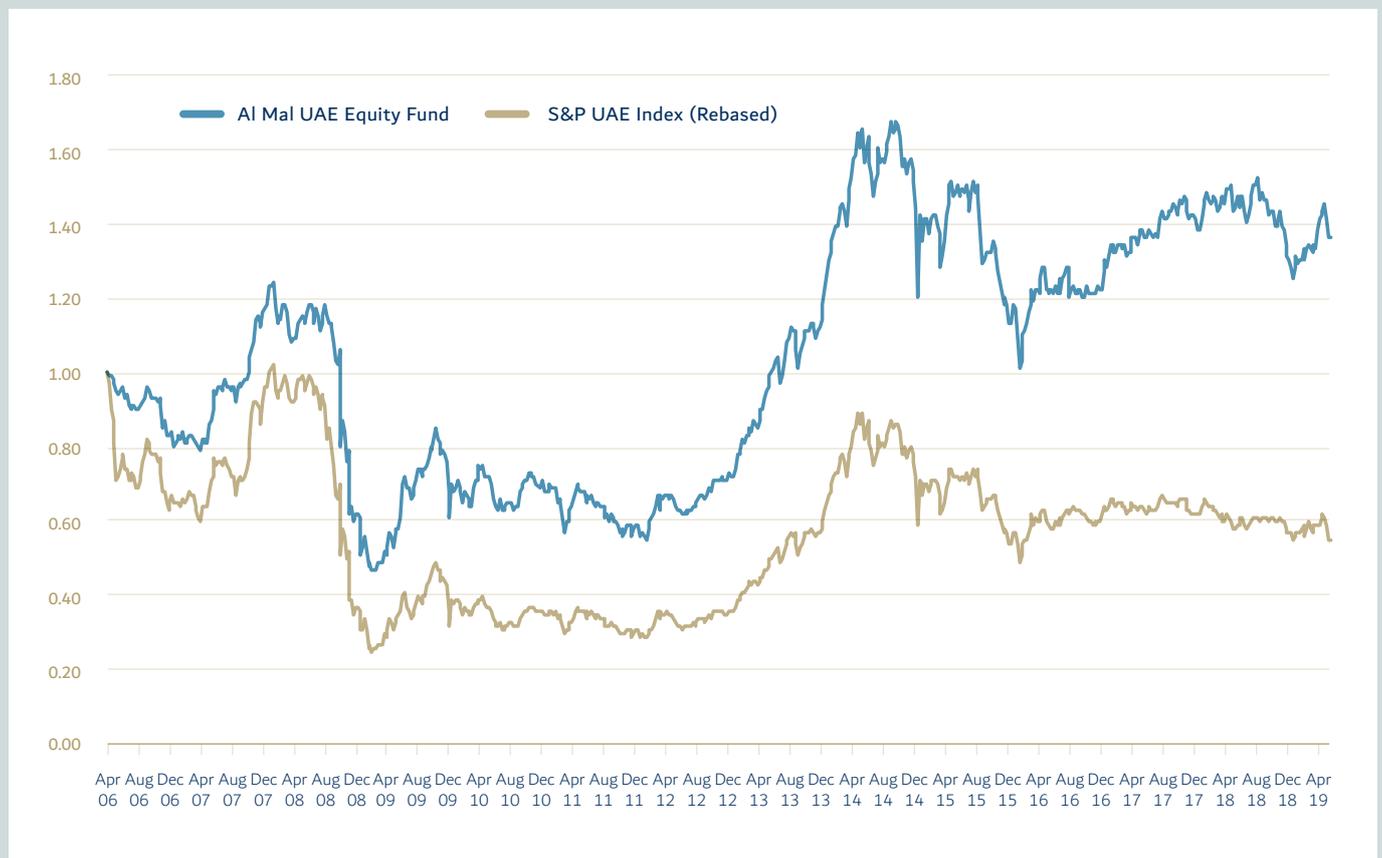
Some deep value opportunities: Below, we share with our readers some individual stocks which offer deep value and which are poised to benefit from a recovery in Dubai and the rest of the UAE equity markets.

Company	Sector	Mcap (\$m)	PE	PB	TTM DY	ROE	Business Description
Emirates NBD	Financials	17,023	5.9	1.1	3.5%	18.1%	Emirates NBD PJSC conducts banking and financial service activities. The Bank's business segments include corporate and institutional, retail, and private banking. Emirates NBD also offers treasury services and Islamic banking products, with headquarters in Dubai, United Arab Emirates.
Emaar Malls PJSC	Real Estate	6,768	10.3	1.4	5.2%	13.0%	Emaar Malls PJSC is real estate development company. The company specializes in developing shopping malls, retail spaces, hotels and resorts, commercial properties, and entertainment plazas. Emaar Malls provides full service project completion as well as management services.
Abu Dhabi Commercial Bank PJSC	Financials	16,139	10.0	1.6	5.4%	16.3%	Abu Dhabi Commercial Bank PJSC attracts deposits and offers retail and commercial banking services. The Bank offers project and trade finance, car, real estate and other consumer loans, private banking and investment advice, real estate management services, sponsors credit cards, and offers letters of credit.
DP World Ltd	Industrials	12,865	10.2	1.1	2.8%	11.6%	DP World PLC operates as a port operator. The company operates marine terminals and handles cargo containers. DP World serves customers worldwide.
Emirates Integrated Telecommunications Co PJSC	Communication Services	6,547	13.2	3.0	6.7%	22.4%	Emirates Integrated Telecommunications Co PJSC provides a range of telecommunication services. The company offers mobile and fixed telephony, broadband connectivity and television services to individuals, homes, and businesses. EITC operates throughout the UAE, and has headquarters in Dubai, United Arab Emirates.
Aramex PJSC	Industrials	1,654	10.8	2.5	4.0%	21.9%	Aramex PJSC (formerly Arab International Logistics) provides transportation services. The company invests in the freight, express, logistics and supply chain management business through acquiring and owning stakes in one or more existing companies in the Middle East, particularly in the UAE.
Air Arabia PJSC	Industrials	1,359	9.1	1.0	0.0%	10.0%	Air Arabia PJSC offers budget airline services. The company flies within the Middle East and to destinations in Europe, North Africa and South Asia.
NMC Health PLC	Health Care	5,839	18.3	4.5	0.8%	20.9%	NMC Health PLC is a diversified health care company. The company is engaged in business sectors ranging from health care, trading, and information technology. NMC Health has a wide network of hospitals, medical centers, and pharmacies worldwide.
National Central Cooling Co PJSC	Industrials	1,294	11.3	1.0	5.4%	9.6%	National Central Cooling Co PJSC is an Abu Dhabi based utility company. The company provides the design, financing, construction and operation of district cooling facilities for the supply of chilled water to air conditioning systems for commercial, military, residential and government customers.
Ras Al Khaimah Ceramics	Industrials	399	7.9	0.6	9.2%	6.9%	Ras Al Khaimah Ceramics manufactures ceramic products. The company produces floor and wall tiles, toilets, sinks, bidets, bathtubs and related accessories.

Another way to play the recovery of Dubai DFMGI (Dubai Financial Market Global Index) is through a fund.

The Al Mal UAE Equity fund was launched in 2006 and has the strongest and longest track-record of its universe. Since inception, the fund is up +47.1% against -38.5% for the index. The fund is invested into Al Mal equity teams' 10 strongest convictions.

Al Mal UAE equity fund



FINAL WORDS

As highlighted in this publication, UAE equities - Dubai in particular – have performed strongly since the start of the year but it seems that there is still room for more upside. Dubai stocks had been the cheapest among emerging markets and several catalysts should help propel prices higher.

In addition to beta exposure, allocating selectively to alpha opportunities within UAE equity markets can improve further portfolio returns. This is precisely our mission at Al Mal: provide our clients with market exposure but also the best alpha opportunities in a market where inefficiencies can be exploited.

While our forecasts and views are always subject to changes, our commitment to serve our clients is not.

We remain at your full disposal for any specific issues you would like to discuss, so please do not hesitate to contact us.



Asset Management Team

Charles-Henry Monchau, CFA, CMT, CAIA
Managing Director – Asset Management
charles.monchau@almalcapital.com

Vrajesh Bhandari, CFA
Senior Portfolio Manager – MENA Equities
vrajesh.bhandari@almalcapital.com

Tamara Tannir, CFA
Senior Portfolio Manager - MENA Equities
tamara.tannir@almalcapital.com

Ridhima Dudi
Analyst - MENA Equities
ridhima.dudi@almalcapital.com

www.almalcapital.com

