Rasmala Investment Bank Ltd.

MENA & Palestine Outlook

February 2014

Contents

MENA Market Performance

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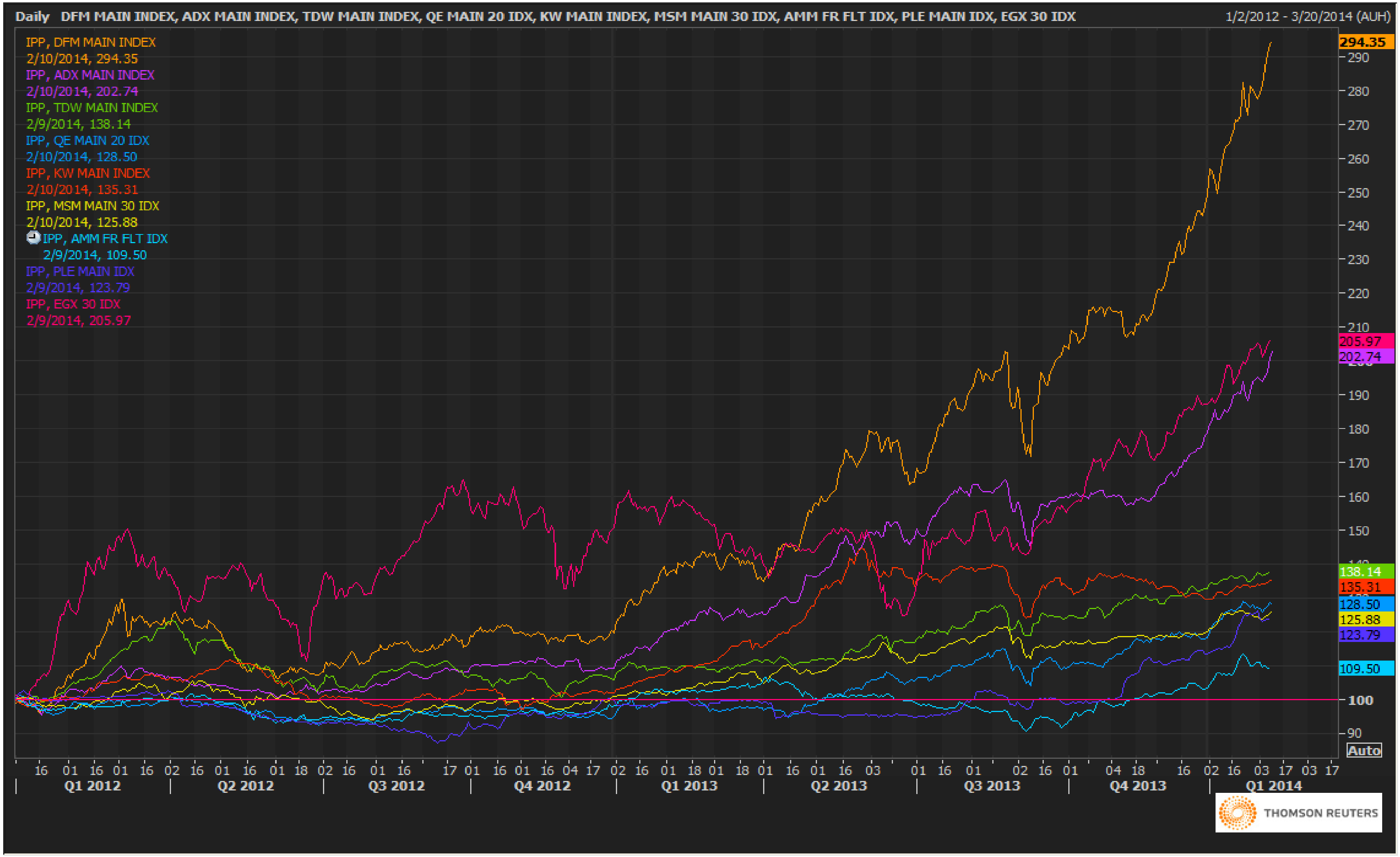

Reuters

- The **massive government spending** programs and **expansionary budgets** were the key driver for regional economies in the past few years; 2014 appears to be a year of mixed fortunes in our view. While government spending and infrastructure build-up continues in Qatar; UAE is increasing its own spending momentum. At the same time, we are now seeing early signs of slowing government spending in Saudi Arabia and Oman.
- The **non-oil GDP growth** will average around 5.8% across GCC with Qatar leading the way with a non-oil economic growth of over 10%.
- In **Egypt**, most of the growth in the post June 2013 period has been a reflection of a decline in the risk free rate , USD 12 billion in aid from the Gulf countries and the hope of a better political and governance environment. Completion of the timely road map and restoring security would allow the market to continue its ascend during 2014
- **Credit growth** has continued to remain healthy and is expected to remain in the double digit with domestic consumption spending remaining the key to progress.
- While the performance of the markets in 2013 has **improved sentiment overall**, the compelling drivers in the new year would remain linked to the tangible growth prospects of the corporates as well as the changes in their profit distribution policies.
- The **earnings growth prospects** are generally good, although some consumption related slowdown in the earnings of Saudi companies could limit the overall potential.
- Prospects of **enhanced geopolitical outlook** on the back of the recent thaw between Iran an the 5+1 countries.
- An **increased re-allocation towards regional equities** could be expected after the recent jitters in emerging markets.

MENA Market Fundamentals

Market	2013 EPS Growth	2014 EPS Growth	Forward P/E	Dividends Yield
Dubai	33.9%	14.7%	15.2x	1.8%
Abu Dhabi	12.0%	8.0%	12.9x	3.0%
Saudi Arabia	7.0%	23.0%	15.0x	2.0%
Qatar	11.9%	8.4%	13.0x	4.0%
Oman	7.0%	4.4%	11.2x	4.0%
Kuwait	4.7%	12.6%	17.7x	2.1%
Jordan	-2.0%	7%	16.8x	3.3%
Palestine	22.0%	11.3%	12.2x	4.1%

Reuters, Bloomberg, Rasmala investment Bank

MENA Thematic Preferences

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- We prefer stocks driven by **domestic demand in healthcare** and services sectors.
- Stocks which could be **beneficiary of expansionary fiscal and loose monetary** policies, selective exposure on banks.
- Companies that are underpinned by **demographics and rising population**, which support sustained future demand.
- Stocks with **direct and in-direct exposure to increased government spending** on infrastructure.
- Companies involved in the core sectors of **energy and oil and gas**.
- Consistent focus on less covered companies/sectors and search for potential catalysts for growth.
- Less reliance on **sectors highly sensitive to exodus of foreigners in Saudi Arabia**; selective in exposure to commodities producers.
- Tilt towards high yield, **companies with sustainable cash flows and increasing payouts**.

Buoyant Fundamentals – Conducive for Growth

- Qatar; Saudi and UAE, in our view, offer a higher potential for growth with strong GDP growth. Moreover, **higher capex outlay growth for UAE and Qatar** should further enhance their growth profile going forward relative to other countries. Despite robust GDP growth outlook for KSA; its capex outlay is projected to decline in 2014.

- Overall Government Budgets supported by **high oil prices** continue to focus on increasing capex on education, healthcare, infrastructure – roads, ports, airports and housing.

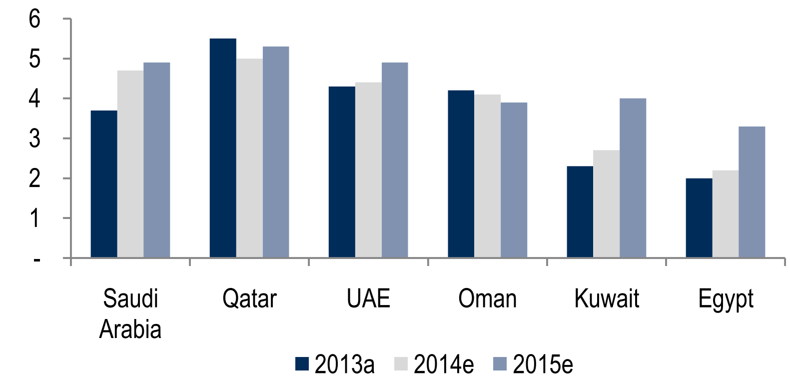
- Saudi Arabia's Budget for 2014 indicates a decline in **investment expenditure of 13% in Saudi Arabia** (vs. increase of 7.5% in 2013) while total expenditure expected to increase by 4% vs. 19% jump in expenditure in 2013. **Oman's 2014 budget indicates a capex growth of 1.75% in 2014 while total expenditure** is expected to increase by 5% vs. 28% jump in total expenditure in 2013.

- Qatar is expected to report a higher non-oil economic growth with public spending picking up and project pipeline gaining momentum.

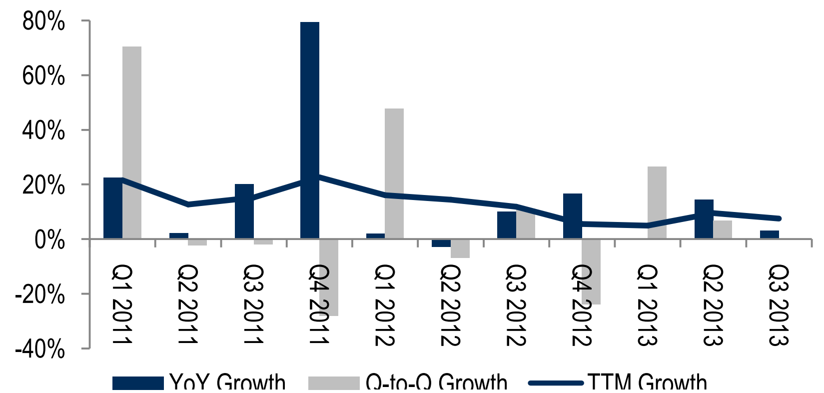
- Oil prices keeping above the budgeted levels and current account surpluses underpin strong fiscal positions of most of the governments.

- The growth in the earnings of companies during 2013 reflect a pick up in Saudi Arabia and a slowdown in Oman.

GCC Real GDP Growth Expectations (EIU)



GCC Market Earnings Growth



Banking Sector Expectations

- **Loan growth continued to remain healthy in Qatar and KSA posting double digit YTD growth of 11.9% and 12.1% respectively** (as of November 2013); but it slowed down from last year's growth of 26% for Qatar and 17% for KSA. A similar trend was seen in Oman where credit growth slowed down to 6.3% YTD (as of November 2013) vs. 14% in 2012. Credit growth in the **UAE** is on the uptrend with 9M13 YTD credit growth at 7.2% vs. 2.6% for 2012.

- Corporate sector in KSA continued to be the highest contributor to growth while Qatar saw a change in trend with corporate sector leading growth as against public sector in 2012. We believe pick-up in corporate and personal demand in Qatar to be the major key positive trend indicating increase in sustainable demand on the back of government spending. Moreover, we opine commercial momentum to continue its revival in the UAE.

- Credit growth outpaced deposit growth in both KSA and Qatar but lagged deposit growth in UAE and Oman. **LTD ratio** remains healthy for KSA and UAE at 82% and 90% respectively; but seems a bit stretched for Qatar and Oman at 113% ad 100% respectively. However, strong government support to banking system continues to keep us bullish on Qatar while improving industry dynamics make us optimistic on UAE. We continue to remain cautious on Kuwait.

- We foresee short term pressures on Saudi banks on the back of labor exodus in KSA and rising costs due to localization and Omani banks due to restrictive regulatory changes.

- **Asset quality** has improved across the region in 2013 but we expect it to deteriorate in 2014 in Saudi banks **but remain optimistic for Qatari and UAE** banks while Kuwaiti banks continue to have the tendency to surprise negatively.

- **NIM's** have started to show signs of stabilization in KSA and Qatar while they are improving in the UAE. On the other side, Omani banks are expected to experience increased NIM pressure going forward.

- In our view, the best strategy to play banks in 2014 would be to **overweight Qatar and UAE;** underweight Oman and Kuwait; and to remain selective in Saudi Arabia.

Banking Sector Expectations

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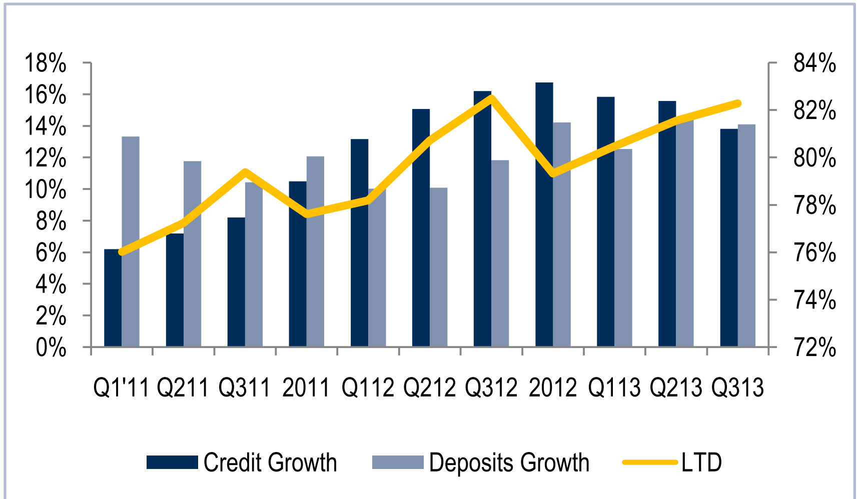
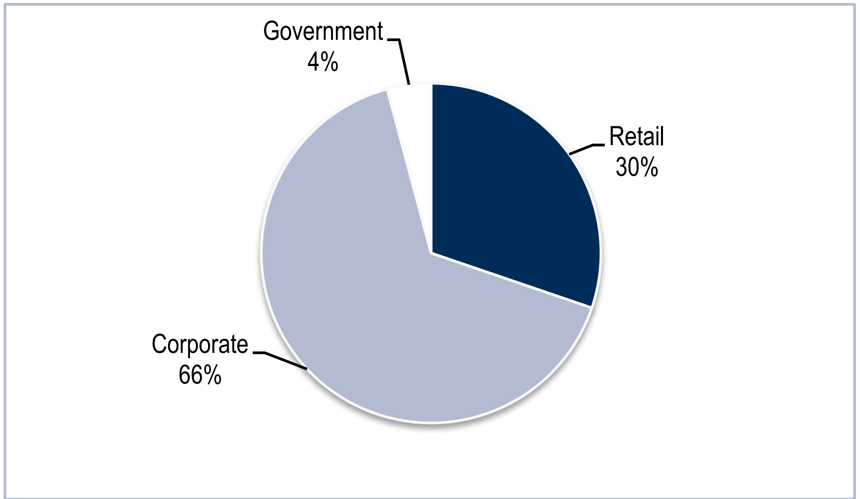
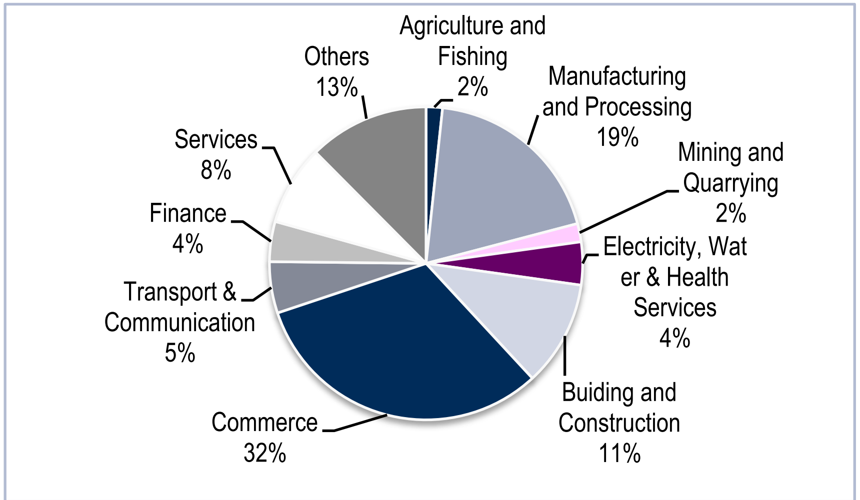
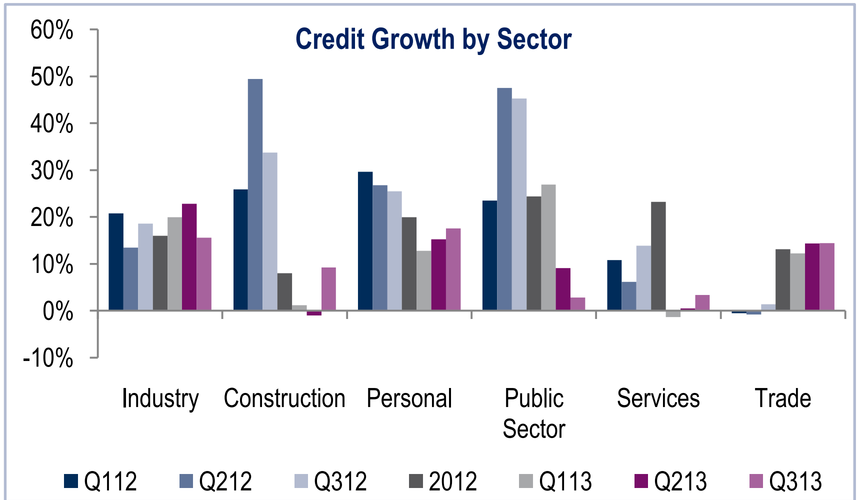
Saudi Arabia – Banking Sector Overview: 2nd Largest Banking Sector in terms of Assets









Banking Sector Expectations

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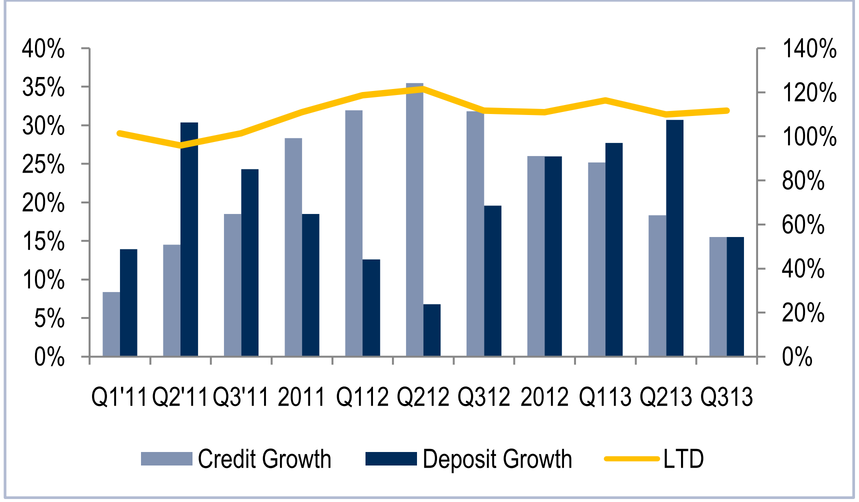
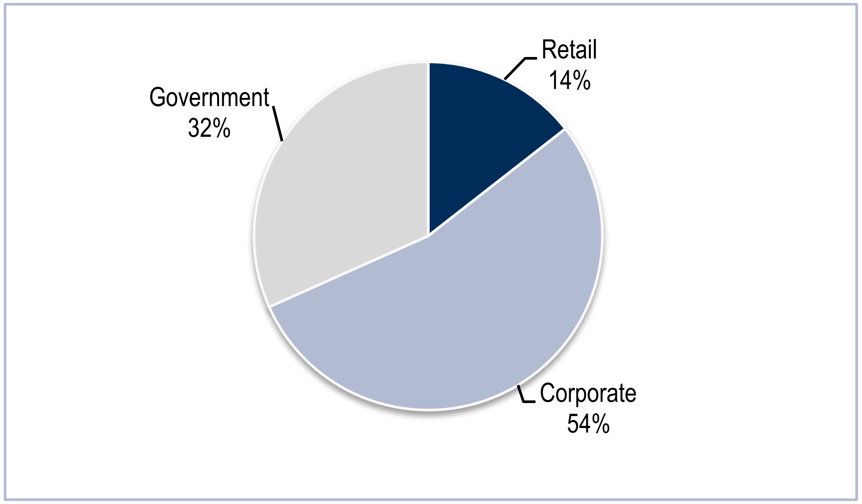
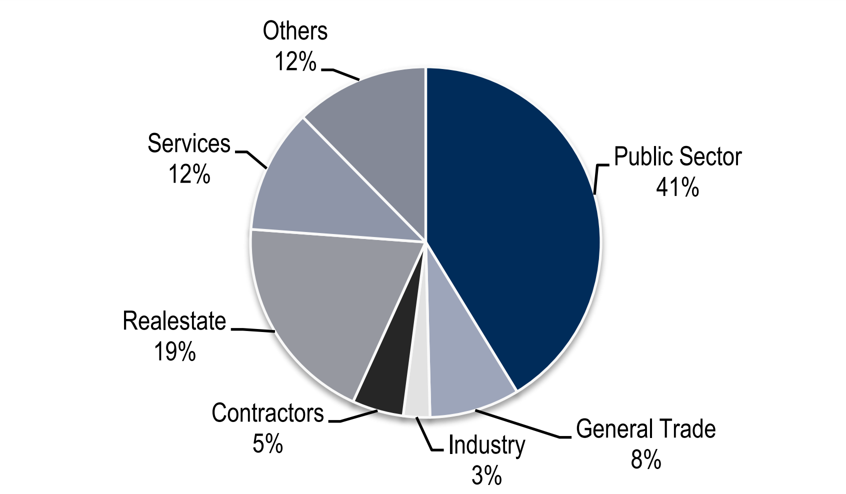
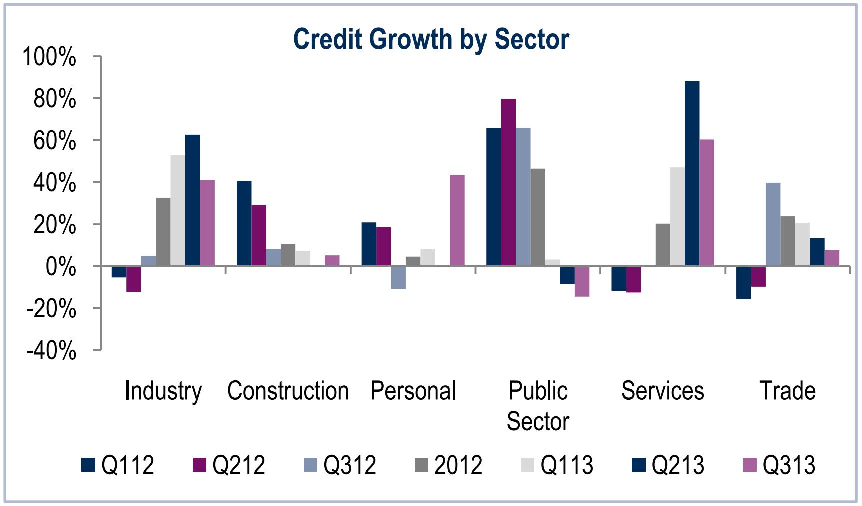
Qatar – Banking Sector Overview: Outlook Positive









- Petrochemical prices has rallied during the last quarter of 2013 supported by better global economic outlook. Basic chemicals, Ethylene and Propylene prices have increased by 9% and 2.6%, respectively, Q-o-Q, while Styrene prices were down 5.8% Q-o-Q. During 2013 basic chemicals prices have increased by 10% on average backed by strong demand from China, which was also 10% higher. Naphtha prices have increased by 2.8% Q-o-Q and 4.0% during 2013 .

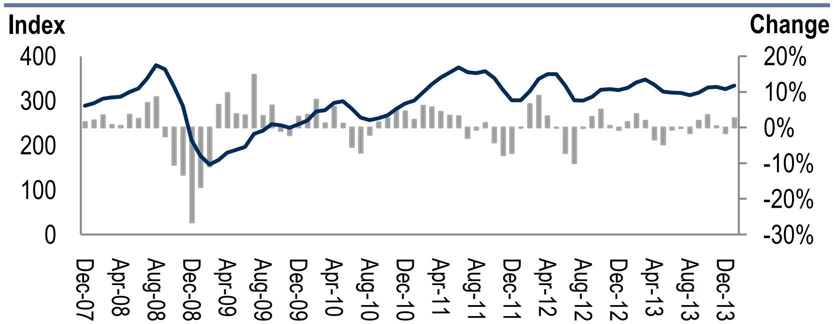
- The dynamics of the sector have became favorable as a result of **improved global outlook and stable oil prices** which has, in turn, stabilized feedstock prices. Globally, sales of petrochemicals are expected to grow by 5% and given a historical total leverage of 2.3x EPS should grow by around 10% to 18%. EPS growth should also be supported by margin expansion as oil prices are expected to ease by 4%. We are positive on YANSAB as the commencement of dividends distribution should support the stock going forward. SABIC will remain a play on relatively better global outlook and SIIG, Sahara and Tasnee has a common driver of an increase in their capacities.

- On the other hand, global fertilizers prices are expected to stay weak and upside potential will be capped after china slashed its seasonal export tariff (from 150% to 77% and now 15% plus 40RMB a ton), record crops yield for corn and soybeans and more supply from IQCD, Ma'aden and Algeria . Urea and Ammonia prices have increased by 3.6% and 1.9%, respectively, Q-o-Q, but plunged by 12.5% and 28.2% in 2013.

Sector Statistics

Forward P/E	11.9
Forward EV/EBITDA	9.8
Forward D/Y	4%

ICIS Petrochemical Index



Healthcare Sector Expectations

- Demand for healthcare in the GCC has been growing at a faster pace than the current capacity. The upsurge of insured persons in the GCC owes to the **introduction of mandatory health insurance coverage** which is fuelling the demand for private hospitals.

- In late 2013, Dubai adopted the compulsory health insurance scheme to cover all residents and citizens in Dubai which should be fully implemented over three years period.

- Qatar, meanwhile, adopted the same project during summer 2013. The national health insurance scheme will be mandatory for all Qatari citizens, expatriates and visitors.

- Many private healthcare providers should benefit from those catalysts such as NMC and MEDICARE in the medium term. However, we think that the recent increase in share prices for both stocks have largely accounted for the incremental benefits of those announcements. Al Noor Hospital, on the other side, has limited presence in Dubai despite its interest in increasing its network to Dubai (mainly via acquisitions).

- In Saudi Arabia , the healthcare sector is expected to show strong growth in the future on the back of factors like (i) rising prevalence of infectious and lifestyle diseases, such as obesity and diabetes, (ii) growing population demands for health care services, (iii) continuous generalization of the compulsory health insurance for all nationals and expats, (iv**) increasing government spending on health sector**. The government incentives for the private sector (soft loans) are encouraging health providers to expand rapidly to meet the intensifying demand.

- Nevertheless, Saudi Healthcare providers are witnessing heightened competition and shortage of skilled doctors, which represent the major challenges to hospitals.

- We expect Saudi healthcare companies to report double digit growth in 2014 driven by the ongoing expansions.

Palestine– Equity Market Outlook

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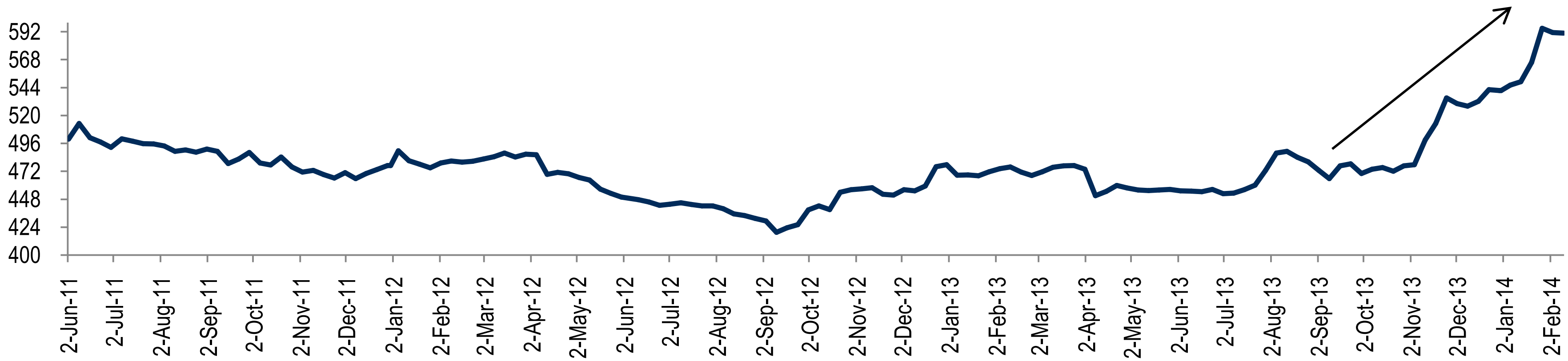
- We sensed more optimism amongst investors and officials this year compared to last year. Despite the challenges, market sentiment is much better as a result of **restarting direct peace talks, less regional tension and stronger corporate results**.

- We are bullish on the Banking sector which benefits from strong SMEs and construction sectors. The Banking sector also benefits from its strong capitalization and room for growth. Private deposits grew by 10.8 percent in 2013. Private sector credit growth still strong at 7.0 percent in 2013. The share of non-performing loans as a share of total loans remains low at 3.3%.

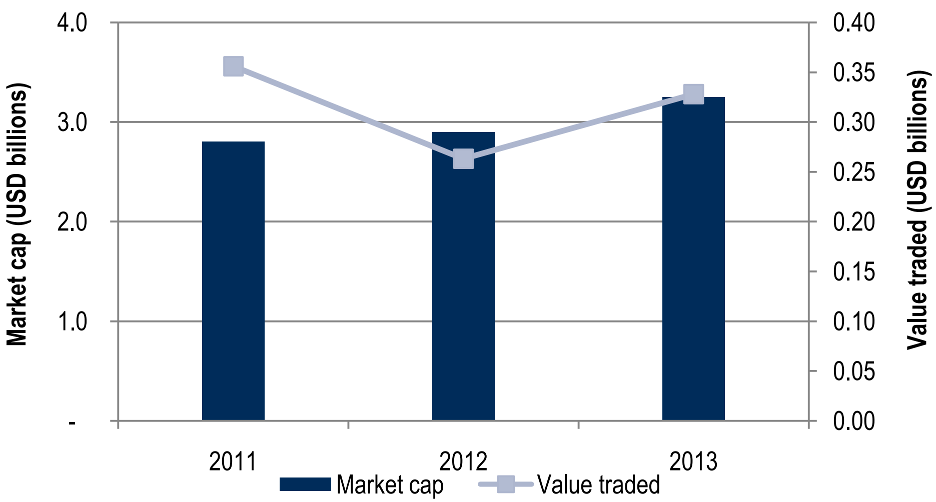
- The Palestinian equity market is trading at an attractive Forward P/E of 12.2x and dividend yield of 3.7%, respectively.

- We are also bullish on the Services/Telecom sector. We like PALTEL and believe that it still offers strong growth prospects on the back of increased data usage in the local market and being awarded a 4G license for its operations in Kurdistan Iraq.

Index Performance



Market Cap and Value Traded per Annum



Source: Palestine Stock Exchange

Correlation with Regional and International Indices*

	Amman SE	Palestine SE	S&P GCC	MSCI EM	S&P 500
Amman SE	1.00	0.66	0.11	0.75	(0.36)
Palestine SE		1.00	0.16	0.62	(0.34)
S&P GCC			1.00	0.21	0.74
MSCI EM				1.00	(0.12)
S&P 500					1.00

*3 Years, Daily (November 2010 to November 2013)

Al-Quds Index Vs. MENA Country Indices

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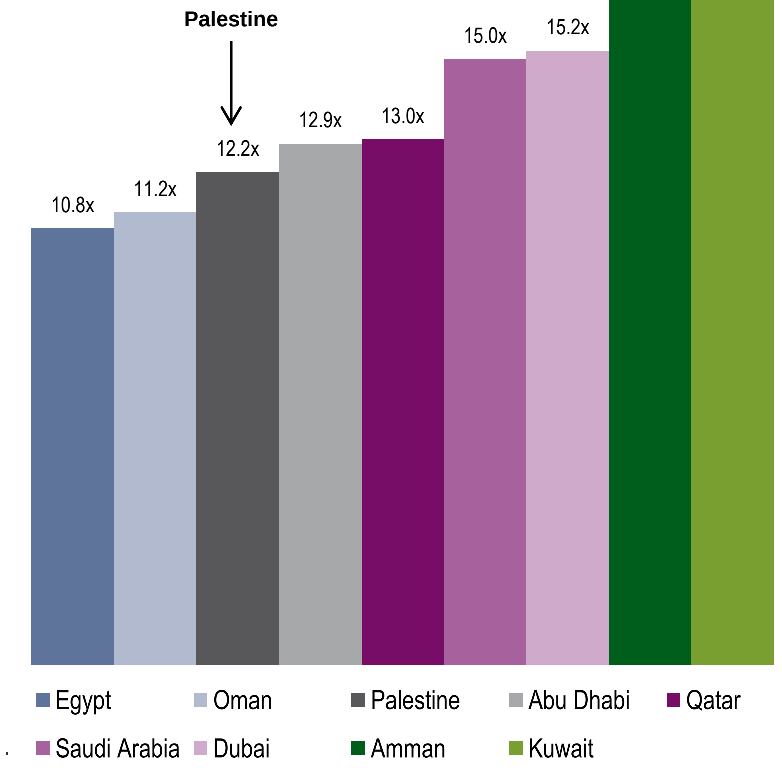
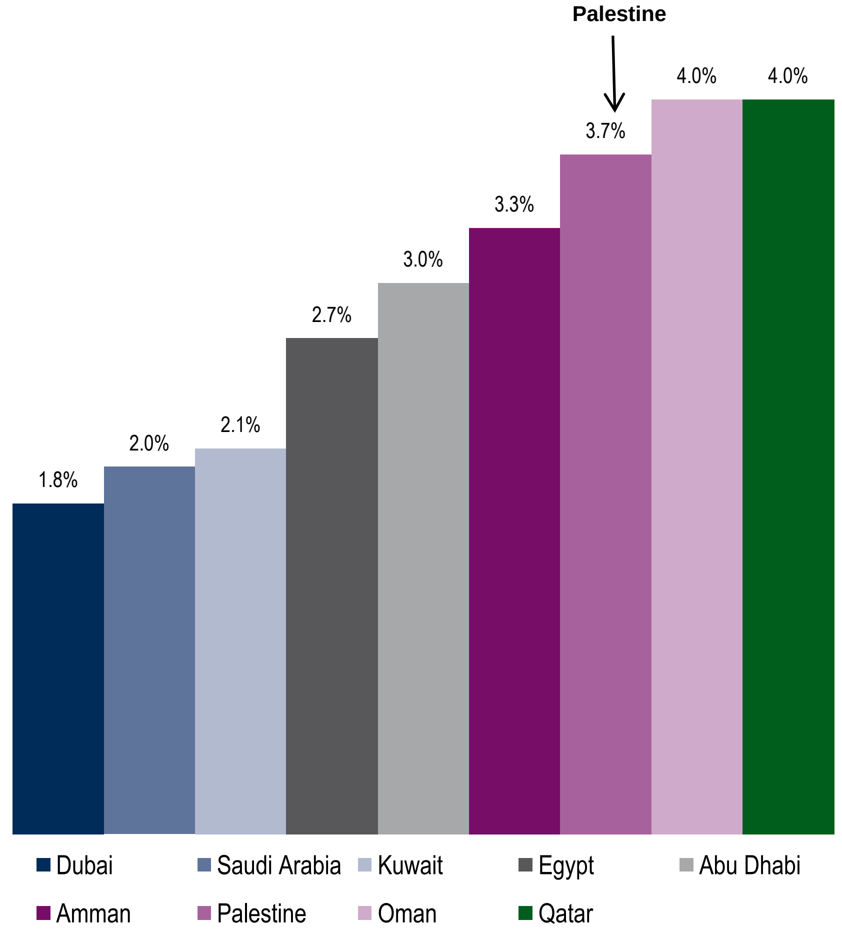
2014 Market P/E Comparison



2014 Dividend Yield Comparison



Source: Reuters, Zawya

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