MENAinFocus

NBK CAPITAL

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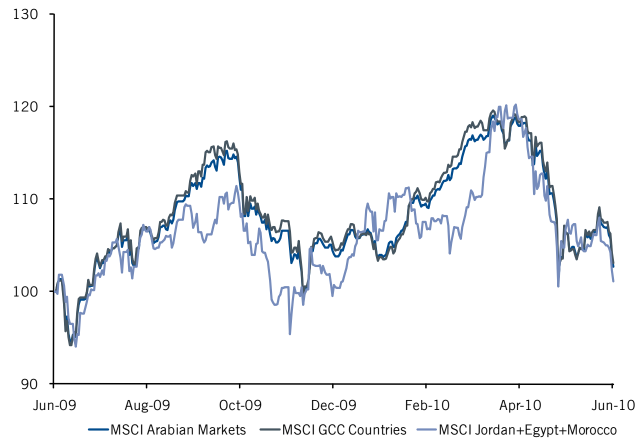
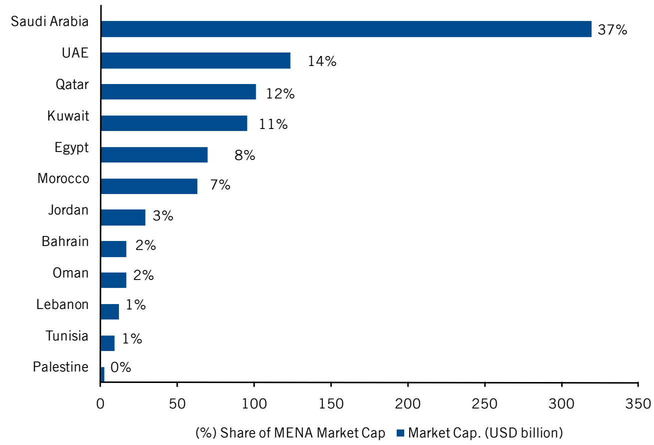
Rebased Performance of Regional Indices



MENA Market Caps



Inside This Issue

In Focus 1: The Egyptian Residential Real Estate Sector

We introduce our views about the Egyptian residential real estate sector. First, we provide a brief background on the Egyptian housing market, followed by an analysis of the secular drivers of future growth in this market. Finally, we provide descriptions and comparative valuation metrics of three major publicly traded Egyptian real estate developers, TMGH, PHDC, and SODIC. Our key findings are as follows: 1) the Egyptian real estate sector remains healthy in the near-to-intermediate term, given solid demand from the upper-middle/middle-income bracket; 2) longer-term demand growth will depend on improved affordability of units along with increased penetration/usability of mortgage products; and 3) given the companies' attractive relative valuations, TMGH, PHDC, and SODIC present favorable opportunities to play the sector.

By: Bobby Sarkar

In Focus 2: Syrian Mobile Market: Gauging the Opportunity

Regional and international mobile operators have time and again expressed interest in entering the Syrian mobile market. Although the Syrian telecommunications market is one of the most tightly regulated markets in the Middle East, it offers potential for substantial growth given its duopoly structure, a relatively large population with low penetration rates, and high ARPU levels versus both regional and global peers. In this section, we attempt to shed light on key factors such as market regulations, competitive evolution, service affordability, and operational profitability, in order to assess the attractiveness of the Syrian mobile market to foreign telecommunication operators.

By: Alok Nawani

Summary of Performance of MENA Indices

INDEX	Index Level as of 30-Jun-10	52-Week High	52-Week Low	% Change				Market Cap (USD billions)	Trailing	
				% below 52-Week High	% over 52-Week Low	1-Mth Period	YTD		PE	PB
REGIONAL										
MSCI Arabian Mkts	457	530	421	-13.7%	8.6%	-3.3%	-1.1%	879	12.9	1.7
MSCI GCC Mkts	399	463	365	-13.8%	9.4%	-2.9%	-1.3%	673	12.7	1.6
MSCI Jordan, Egypt & Morocco	1,063	1,264	989	-15.9%	7.5%	-6.2%	0.7%	162	14.3	2.3
GCC										
MSCI Bahrain	257	434	255	-40.8%	0.9%	-10.9%	-22.8%	17	11.5	1.0
MSCI Kuwait	553	715	516	-22.7%	7.2%	-8.9%	0.9%	95	13.8	1.5
MSCI Oman	836	930	706	-10.1%	18.3%	-0.7%	-0.4%	17	11.6	1.8
MSCI Qatar	615	680	507	-9.5%	21.4%	2.1%	1.1%	101	10.3	2.1
MSCI Saudi Domestic	388	451	331	-13.9%	17.2%	-0.9%	-0.3%	320	15.0	2.0
MSCI UAE	190	297	178	-36.0%	6.6%	-7.5%	-17.0%	123	10.2	1.0
OTHER MENA										
MSCI Egypt	1,244	1,577	1,042	-21.1%	19.4%	-8.3%	-1.7%	70	11.2	1.7
MSCI Jordan	278	329	270	-15.3%	3.0%	-0.3%	-11.5%	29	19.2	1.8
MSCI Morocco	414	441	344	-6.0%	20.4%	-1.7%	12.5%	63	17.3	3.9
MSCI Lebanon	1,066	1,200	991	-11.2%	7.5%	-2.8%	-4.4%	12	8.6	1.1
MSCI Tunisia	1,414	1,457	1,160	-3.0%	21.9%	-3.0%	10.5%	9	15.9	2.0
Palestine SE	516	533	479	-3.2%	7.8%	4.9%	4.6%	2	9.6	1.4

IN FOCUS 1

THE EGYPTIAN RESIDENTIAL REAL ESTATE SECTOR

Executive Summary

While the Egyptian property market is fundamentally poised to outperform regionally, developers need to shift their focus to the "growth pockets" of the middle/upper-middle segments. It is our impression that Egypt's real estate market is generally viewed with optimism by investors and end-users alike. While the country's demand profile has undergone a significant change due to economic turmoil in the Middle East and North Africa (MENA) region, the Egyptian market retains an inherent unmet need for affordable housing. Our thesis concerning the Egyptian residential real estate market can be summarized as follows:

- **Favorable demographics create a real need for housing in Egypt, as opposed to the speculative growth seen in other countries, such as the United Arab Emirates (UAE).** Boasting a well-diversified economy with strong domestic consumption, Egypt recorded a relatively robust real gross domestic product (GDP) growth of 4.7% in FY2008-2009 (the overall GDP growth for the MENA region was 2.4%, with some nations, such as the UAE, dipping into a recession). Moreover, economic growth is expected to remain decent at around a 5-6% clip in the foreseeable future, according to the International Monetary Fund (IMF). Egypt is a populous country, with close to 80 million people, and its population growth is forecasted to exceed the 2% mark going forward. With more than 250,000 marriages among the young urban populace every year and considering Egyptians' strong desire to eventually own their own homes once married, the fundamental underpinnings for residential real estate growth remain strong.
- **The significant growth seen in the residential market has mostly been concentrated on the high-end segment.** With 97% of the population living on just 4% of Egypt's land mass and the resultant extreme congestion levels in downtown Cairo, residential developments have proliferated in new suburbs east and west of Cairo over the last five years or so. However, Egyptian and Gulf Cooperation Council (GCC) developers have mostly targeted the affluent class (the richest 20% of the population hold about 42% of the income). Thus, we believe the key demographic segments of middle-to-high-middle-income consumers have largely gone untapped in the past.
- **After three to four years of strong growth in prices, we believe the high-end residential real estate segment (more than EGP 1.5 million/unit) is approaching saturation levels.** Overall property prices in Egypt fell by 10%-20% (subject to location) during 2009, mainly driven by declining prices in the high-end segment. We also believe that off-plan sales, especially within the luxury upscale market, were hit the hardest last year. On the other hand, some forecasts indicate that upper-middle and middle segments actually saw some price stickiness in 2009.
- **Residential demand in the low-to-mid-income segment should become the "sweet spot" for real estate growing forward.** Industry sources indicate that most of Egypt's population falls in the low-to-mid-income category. The low end is mostly served by public (government-funded) developers given the low margins seen in this segment. Many private developers are now shifting their focus toward the upper-middle segment and could eventually be expected to tap the mid-end segment (prices starting around EGP 0.5 million per unit). As stated previously, new marriages, coupled with affordability, could be the first trigger for housing demand. As families multiply, we believe the sheer lack of space becomes the second fundamental driver for affordable two- to three-bedroom housing units. In our opinion, property developers will strive to capitalize on these trends going forward.

Net-net, we believe that substantial growth opportunity exists in the middle-to-high-middle residential segment. Current estimates (from industry sources, including Colliers International) are that the demand-supply gap in the middle segment exceeds 200,000 units this year. However, we believe that real estate affordability and mortgage penetration (Egypt is still primarily a cash market) need to improve substantially in the longer term for the market to reach its full potential.

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The Current State of Affairs

Egypt retains strong fundamental real estate drivers, but the "sweet spot" of growth has shifted to the high-middle/middle/low end of the residential market. Most industry experts believe Egypt is approaching saturation levels in the high-end or luxury segment. In a rush to build for the rich and the wealthy, the need for housing for the middle class has mostly gone unmet over the past few years. Going forward, we believe that better prospects for growth exist below the luxury segment. We will explain our views in more detail later, but first we will briefly describe the current state of the housing market.

The past: Buoyed by strong and accelerating economic growth from 2006 to 2008, the Egyptian real estate market expanded rapidly until last year. Beginning in 2004, sales of vast plots of land to property developers on the outskirts of Greater Cairo have allowed the city to expand from its congested core to the new suburbs of east and west Cairo. This decentralization and construction boom have led to the creation of new cities, such as 6th of October and New Cairo, which have already attracted a significant residential population. However, real estate activity has mostly targeted affluent domestic consumers, Egyptians living abroad, and GCC buyers looking for a second home or an investment.

The present: Moderate economic growth has crimped the high-end market, with supply expected to almost match demand this year. Diminished buyer appetite for the maturing high-end or upmarket segment was well established last year. This was most easily evidenced by the revenue performance of Talaat Moustafa Group (TMGH), Palm Hills Developments (PHDC), and Six of October (SODIC). These companies recorded significantly lower net contract/net off-plan revenues last year, although sequential trends did improve for the most part from 2H2009. Overall, property prices in Cairo and adjoining suburbs fell by 10%-20% (subject to location) during 2009, but this was mainly driven by declining prices in the high-end segment. We also believe that off-plan sales, especially within the luxury upscale market, were hit the hardest last year. On the other hand, some forecasts indicate that upper-middle and middle segments actually saw some price stickiness in 2009. We note that the Egyptian property market fared much better than that in other locales, such as Dubai, for the following reasons: (1) the Egyptian economy has managed to grow even through the global/regional downturn; (2) demand has mostly been driven by domestic purchasers and not expatriates, resulting in some stability; (3) buyers in the high-to-high-middle segment have historically purchased property on a cash basis, limiting the need to "dump" units in order to repay a mortgage; (4) secondary market transactions have been limited because banks do not allow purchasers to secure financing to acquire off-plan properties; and (5) developers have introduced schemes such as flexible financing, extended payment periods, and unit modification (for example, offering smaller units). In Figures 1-1 and 1-2, we lay out industry expectations concerning the near-to-intermediate-term supply and some current price/rent characteristics of the Egyptian market.

Figure 1-1: New Residential Units Expected in the Near-to-Intermediate Term*

Name	Developer	Units in Phase 1	Expected Completion
Madinaty	Talaat Moustafa Group	4,800	2009 onwards
Uptown	Emaar	370	2010 onwards
Casa	Palm Hills Development	1,190	2011
Eastown/Westown	SODIC / Solidere	820	2012-2014
Mivida	Emaar	208	2012
Allegria	SODIC	541	2013
Cairo Festival City	Al Futtaim	172	2013
Hyde Park/Centre Ville/Concorde	DAMAC	1,100	2013

**Expected supply, but delays are possible, especially in the high-end segment, as developers adjust to market conditions.*

Source: Jones Lang LaSalle

Figure 1-2: Prices/ Rents and Potential Rental Yields

District	Sale Price (EGP/M^2)	Rent (EGP/M^2/Month)	Potential Rental Yield
New Cairo	5,000-12,000	40-60	6-10%
6th of October	3,000-8,000	30-55	8-12%
Zamalek	8,000-15,000	50-75	6-8%
Maadi	3,000-6,000	40-60	12-16%
Heliopolis	4,000-6,500	30-45	8-9%
Mohandessin	4,000-7,000	25-45	8%
Nasr City	2,000-4,500	20-30	8-12%

Source: Jones Lang LaSalle, November 2009

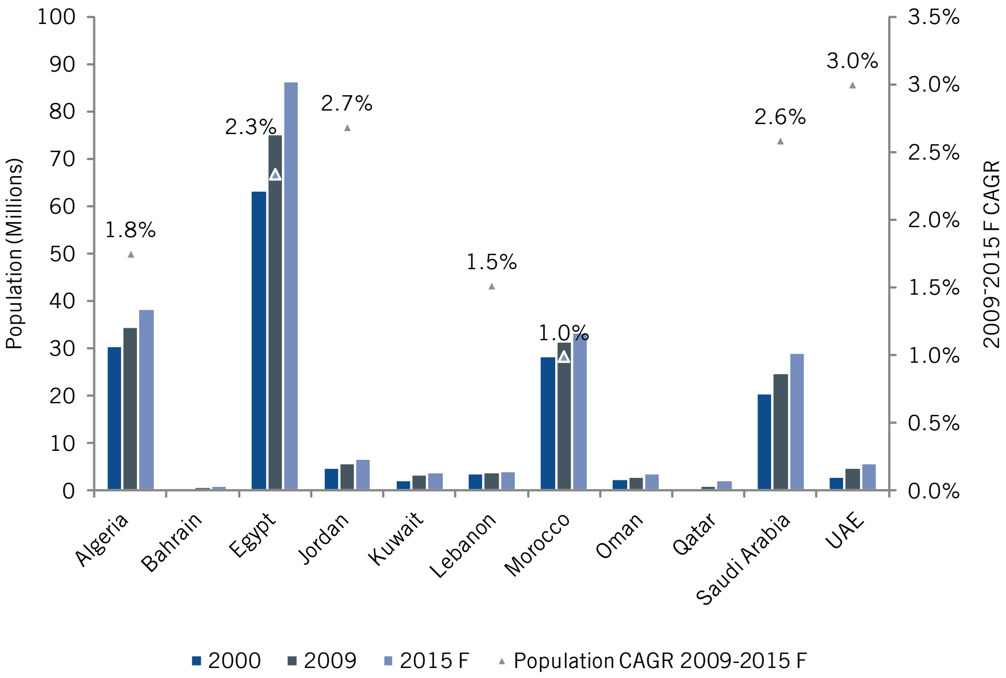
The Future: Secular Drivers Exist, but Developers Need to Shift Their Focus from the High-end Segment

We expect a resumption of growth, but with a mix shift toward the middle/upper-middle segments. Below, we discuss the specifics underlying our somewhat bullish view of the Egyptian residential real estate market. Particular focus is on the potential growth prospects for more affordable housing.

- **Overall, the population should continue to grow at an annual rate exceeding 2%, creating the need for additional housing.** According to the Central Agency for Public Mobilization and Statistics (CAPMAS), Egypt has the highest population in the region with more than 78.68 million people. This figure is marginally larger than the IMF's 2010 estimate of 78.23 million. Egypt's population grew at a rate close to 2% per annum between 2000 and 2009, despite numerous government-sponsored family planning efforts to limit growth. By 2015, the IMF estimates Egypt's population will exceed the 86 million mark, which would be a 2.3% annual average growth rate.

A large and growing population provides the impetus for real estate demand in Egypt

Figure 1-3: Population and Population Growth Estimates for Select MENA Countries



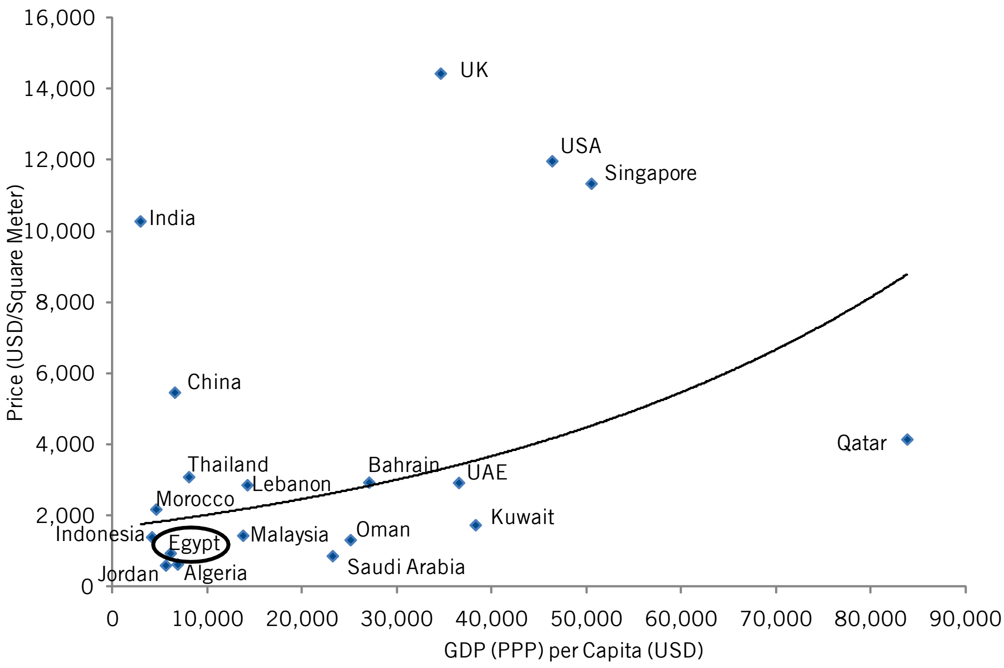
Source: IMF

- **Egypt's economic growth prospects remain bright.** While Egypt's economy has fared relatively better than other regional economies, the country's real GDP saw a slower growth rate in FY2008-2009 (ending June). Egypt's real GDP growth rate fell to 4.7% in FY2008-2009 versus growth rates above 7% in FY2006-2007 and FY2007-2008. However, current forecasts call for a recovery in the country's economic growth rate, with the IMF forecasting real GDP growth rates of 5% and 5.5% in FY2009-2010 and FY2010-2011, respectively. Growth is expected to further increase to 6.5% in FY2014-2015.
- **Roughly 2% of the total population gets married every year, which should drive the need for housing in the future.** (1) Egypt has a relatively young population, which is expanding. According to the Egypt State Information Service, approximately 48% of the Egyptian population is between 15 and 45 years old. Furthermore, this population is expected to grow at an annual average exceeding 2% in the foreseeable future. (2) According to CAPMAS, there are roughly 660,000 marriages in Egypt annually, with close to 90% of those getting married in the household head age range of 20-35 years. Moreover, about one third of the current marriageable population is currently unmarried. (3) In addition, around 43% of the population lives in urban areas. *Using basic "back-of-the envelope" math, one can easily figure out that this could translate into a demand for more than 250,000 units on an annual basis in urban areas.* However, several important caveats limit unit demand growth:
  - **Caveat I: Housing mobility remains somewhat lackluster.** According to the United States Agency for International Development's (USAID) Housing Study for Urban Egypt, marriages were cited as the key reason for increased housing demand, followed by size-related requirements. However, only about 4% of the households surveyed changed units annually, while 19% moved every five years. We suspect this low mobility is due to a lack of availability of affordable housing and market distortions due to rent controls (more details will follow later).
  - **Caveat II: Affordability remains elusive, which in our view is probably the biggest impediment to housing demand growth.** As seen in Figure 1-4, Egypt compares favorably in terms of pricing, with an aggregated sale price average for apartment units in Cairo at USD 926/square meter (in 1Q2010, according to Colliers International). However, the relative attractiveness of prices has to be weighed against the low GDP (on a purchasing power parity, or PPP, basis) per capita. Moreover, what the figure below does not reflect is the substantial inequality of income distribution in Egypt. According to the World Bank, the top 20% of Egypt's population receives around 42% of the country's income. Industry sources indicate that Egypt's mass population is concentrated in the low- to mid-income category, which typically finances its real estate purchases with cash from savings/income. Egypt is somewhat similar to the markets of Jordan, Morocco, and Algeria, which are all characterized by sound intrinsic demand fundamentals but relatively low PPP per capita.
  - **Caveat III: Rent controls distort demand patterns.** The old rent law, active in Greater Cairo and Alexandria, tends to limit demand. Rents paid under the old rent law are significantly below rents paid by new renters (according to the USAID survey, 61% of renters paid only EGP 50 or less per month under the old law, with a median rent of EGP 30 per month). These rental contracts can be bequeathed once under current regulations (with some constraints) and have an active secondary market. Therefore, the old rent law tends to dampen demand for new housing. In contrast, new renters, who are comparatively few in number, have the highest housing mobility.
  - **Caveat IV: Structural issues related to employment and real income growth also need to be resolved in the longer term to enhance demand.** A high unemployment rate of more than 8% for the educated population is leading to low-quality income and is hampering the real estate growth potential in the country. Jobless individuals are less likely to get married and seek new housing. In addition, inflation still remains fairly high at close to 10% per annum (as of May 2010), resulting in limited savings and stressed expenditures.

The bottom line is that a growing young population with a decent marriage rate will drive secular demand for incremental housing. *Net-net, although some deterrents to demand growth do exist, ample opportunity remains for an uptick in the high-middle/middle segments in the near-to-intermediate term.* However, the above-mentioned market inefficiencies or structural issues need to be resolved for demand growth to reach its full potential in the long run.

Figure 1-4: Residential Real Estate Prices per Square Meter versus 2009 GDP Per Capita

While affordability remains reasonable relative to other regions, substantial room for improvement exists given the income disparity in Egypt



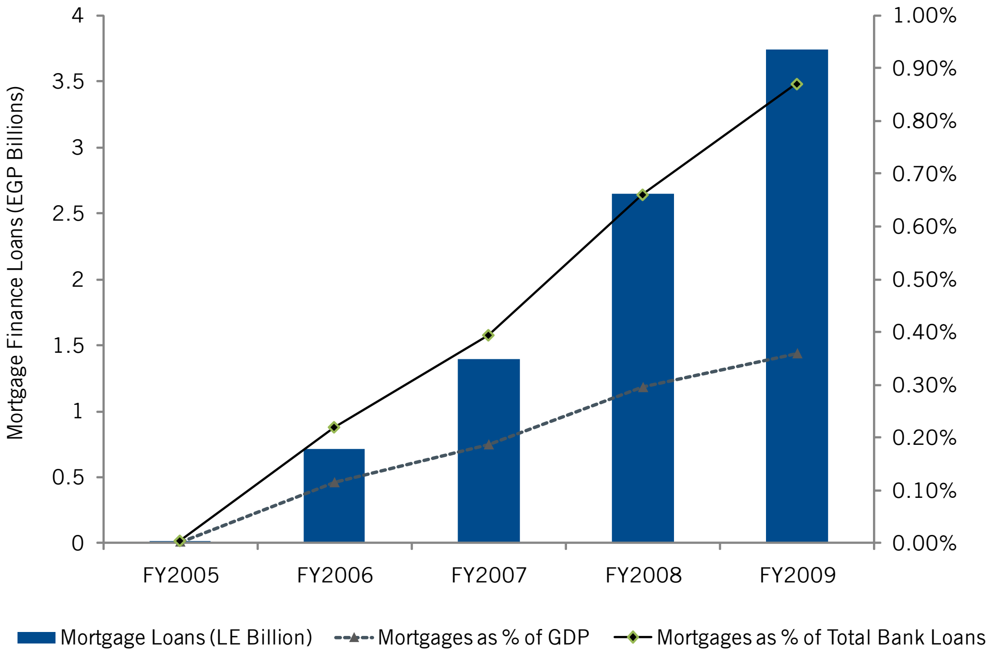
Sources: GDP per capita from IMF, price information from Colliers International, www.globalpropertyguide.com, www.numebo.com, and industry sources

- **The socio-cultural need to eventually own a dwelling is a key structural trait of the Egyptian housing market and should drive growth in the longer term.** As mentioned previously, the local real estate market is driven mostly by real demand for housing. We are also of the opinion that, among the urban populace, home ownership and/or long-term leasing is preferred over short-term rentals. In fact, housing mobility is most prevalent among people renting under the new rent law as they seek better opportunities over time. For the most part, we think that households tend to view a house purchase as an investment for future generations. This is a key facet of Egyptian culture. While this was mostly achieved in the past by purchasing land, in the past few years off-plan programs have become a viable alternative for parents buying homes for their children. Generally speaking, it also appears that the younger urban population, once married, seeks to eventually own their own homes, again benefitting from off-plan programs offered by most developers.
- **While the housing market is currently a predominantly cash market, gradual development of the mortgage finance market should foster increased longer-term growth in the middle-to-low-income segment.** As previously stated, Egypt primarily remains a cash market as buyers in the luxury/high-middle segments have almost exclusively used cash to finance real estate purchases. This has proved a blessing in disguise during the downturn, allowing for some price stability. However, as the USAID survey indicates, there is immense potential to tap into the mid-income urban population segment as this segment seeks to avail themselves of the mortgage finance option. The government, for its part, has heavily promoted mortgages

since 2005. Thus, mortgage lending has grown significantly in the recent past, but still remains a very small portion of overall GDP, bank loans, and the Egyptian property market (see Figure 1-5). The mortgage product has so far failed to attract the masses, owing to high interest rates of approximately 12-13%, confined loan maturities of 12-13.5 years, and relatively unappealing loan-to-value (LTV) ratios that are hovering around 55%. For the high-to-upper-middle segment customers, mortgages still remain a distant second option given their proclivity to use cash, inability to secure mortgage financing in the off-plan market, and flexible payment options offered by developers. However, as the focus of private (i.e., non-government) developers shifts more toward the middle of the housing segment, mortgages could become an increasingly viable alternative in the intermediate-to-long term. However, we do concede that this will happen only when mortgage restrictions are removed and/or terms improve. Hence, we believe better legislation and a friendly investment environment will be crucial to further stimulate mortgage demand.

Mortgage finance growth has been substantial but has not yet had an impact

Figure 1-5: Egypt Mortgage Finance Trends*



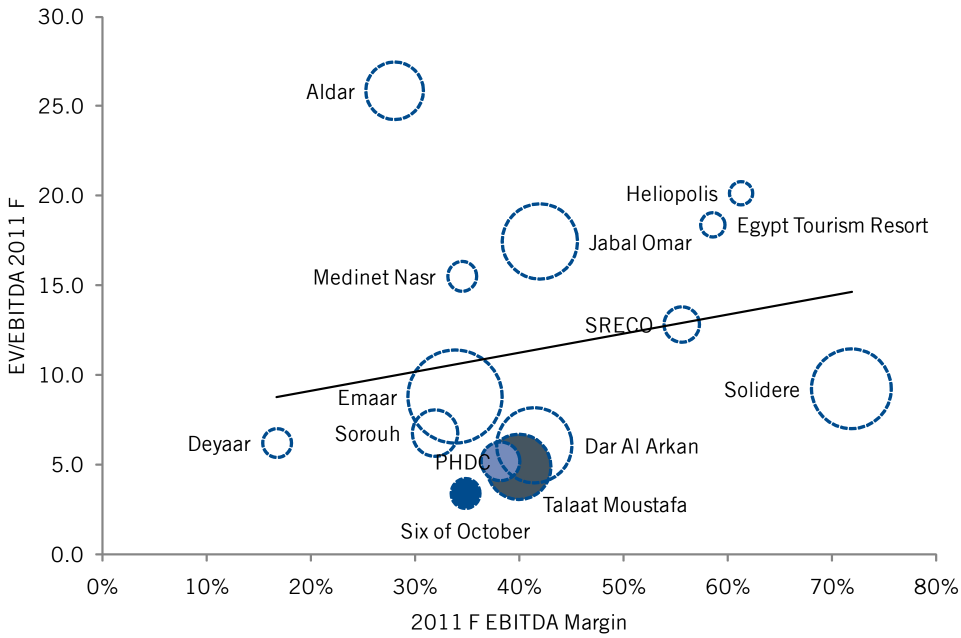
**Egypt's fiscal year is from July to June. Sources: Central Bank of Egypt, IMF, CAPMAS, and Egypt's Ministry of Investment*

Peer Comparison: Value Below the Trend Line

In terms of Egyptian real estate stocks, we highlight the attractive multiples of TMGH, PHDC, and SODIC. Below is our valuation matrix, which highlights the comps within our peer group. Each of these developers is expected to post robust EBITDA margins for 2011 and is currently trading at discount versus regional averages (2011F P/E 10.8x and EV/EBITDA 11.5x).

Figure 1-6: Real Estate Company Valuation Trend Line Analysis*

All three Egyptian real estate stocks offer attractive EBITDA margins at below average EV/ EBITDA multiples



**Prices are as of July 05, 2010. Source: Bloomberg*

Figure 1-7: Real Estate Company Valuations*

TMGH, PHDC, and SODIC compare favorably to regional peers

Company Name	Country	YTD (%)	MCap. (USD MM)	2011 F EBITDA Margin	2011 F ROE	2011 F P/E	2011 F EV/EBITDA
Emaar Properties	UAE	-20.2%	5,108	34%	8%	7.0	8.8
Solidere - A	LEBANON	-6.1%	3,720	72%	16%	10.6	9.3
Dar Al Arkan Real Estate	KSA	-18.5%	3,297	41%	15%	4.6	6.1
Jabal Omar Development	KSA	-2.7%	3,285	42%	9%	20.9	17.4
TMG Holding	EGYPT	-0.4%	2,447	40%	10%	5.0	4.9
Aldar Properties	UAE	-45.8%	1,895	28%	8%	3.6	25.9
Sorouh Real Estate	UAE	-28.9%	1,258	32%	9%	7.2	6.8
Palm Hills Developments	EGYPT	-17.0%	856	38%	25%	4.4	5.2
Saudi Real Estate	KSA	-10.3%	741	56%	4%	20.7	12.8
Medinet Nasr Housing	EGYPT	0.9%	500	35%	40%	20.2	15.5
Six of October Development	EGYPT	-0.1%	509	35%	18%	5.5	3.4
Deyaar Development	UAE	-46.4%	489	17%	4%	5.2	6.2
Egyptian for Tourism Resorts	EGYPT	9.6%	336	59%	4%	17.7	18.4
Heliopolis Housing	EGYPT	-12.7%	321	61%	32%	18.4	20.2
Average				**42%**	**14%**	**10.8**	**11.5**

**Prices are as of July 05, 2010. Source: Bloomberg*

We provide brief descriptions of TMGH, PHDC, and SODIC below.

TMGH: Originally a family-owned business, Talaat Moustafa Group is now one of Egypt's largest leading real estate developers. The company is the largest publicly traded Egyptian real estate stock in terms of market cap and has a large current backlog of EGP 24 billion. TMGH also has an extensive land bank of 50 million square meters. The company's activities include real-estate development, construction, and construction material trading, although the former is the primary focus. Community complexes are TMGH's forte, and the company's portfolio includes three completed community complexes and seven projects in the pipeline. Targeting the middle and upper-middle classes, TMGH has remained consistently profitable and has recorded an average EBITDA margin of >20% in the last 12 quarters. The stock currently trades at a significant discount compared to TMGH's peers, despite a 2011F EBITDA margin of 40% (2011F P/E and EV/EBITDA of 5.0x and 4.9x, respectively). We note that the company is currently embroiled in a lawsuit regarding TMGH's purchase of land related to the Madinaty project, which could have significant implications for the company's future revenue and fair value.

PHDC: With one of the largest land banks in Egypt (roughly 49 million square meters), Palm Hills Developments has a valuable pipeline of projects. While previously targeting mostly the high-end segment, PHDC adapted to the softening real estate market in 2009 by expanding the company's focus to include upper-middle- and middle-income consumers. The company has a backlog of roughly EGP 10 billion and is likely to register an EBITDA margin of 38% in the coming year (similar to TMGH). In terms of 2011F multiples, the stock trades at a P/E of 4.4x and an EV/EBITDA of 5.2x, both significantly below regional comps.

SODIC: Six of October for Development and Investment develops, invests, and manages real estate properties. The company focuses on high-end residential projects and is well positioned in the commercial and retail segments in Egypt. In 2008, SODIC acquired a company called El Yosr for Projects and Agriculture Development in order to increase the company's land bank by 15%. The company is currently developing its residential project Allegria, in addition to the Sheikh Zayed City's Eastown and Westown projects co-developed with Solidere International. We like SODIC for its successful and economically viable developments as well as its pipeline of projects for 2010. Off-plan sales, although they exist, remain lackluster. In fact, SODIC's strategy does not focus solely on off-plan sales but rather on semi-finished property sales to attract buyers in the relatively muted real estate market. The stock trades at a 2011F P/E and EV/EBITDA of 5.5x and 3.4x, respectively, with an expected EBITDA margin of 35%, much in line with the company's Egyptian peers.

Figure 1-8: Selected Major Real Estate Projects

There is a healthy pipeline of Egyptian real estate projects

Project/Developer	Value (USD MM)	Location	Area (MM m²)	Housing Units	Completion	Details
Sheikh Khalifa Bin Zayed City/Emaar Misr	100	Sheikh Zayed City, Cairo	2.2	12,000	2011	Targets mid/low income; project includes mosques, educational, recreational, sports, & entertainment facilities
Cairo Festival City/Al Futtaim Group	9,000	New Cairo City	3	481	2020	Five-district development: residential, retail, and three business districts; includes a festival center with shopping, entertainment, & educational areas, an automotive park, two hotels, residential villas, & a hospital
Barwa New Cairo/ Barwa Real Estate Company	9,000	Berger Hill, East Cairo	8.4	40,000	2021	A four-phase project: villas, three hotels, residential & commercial buildings, medical facilities, schools, mosques, parks, retail shopping areas, & town center
Cairo Financial Center	730	Cairo	0.75	N/A	P 1: 2010 P 2: 2013	Overlooking the Citadel fortress, the two-phase development will include: Phase 1: 16-screen cinema complex, office & retail space, & parking area; Phase 2: retail space, exhibition & conference center, a hotel, a health club, & parking area
Hyde Park/Damac Properties	7,000	New Cairo City	4.7	3,000	P 1: 2011 P 2: 2012	A community development with attached & detached villas, country club, & surrounding landscaping; 80% of the project's area is dedicated to green space
Marassi/Emaar Misr	1,740	Sidi Abdulrahman & Alamein	6.25	N/A	P 1: 2010 End: 2013	A seven-district development including hotels, villas, a marina, a golf course, hospital and health-care facilities, retail areas, & a six-km beachfront
Mivida/Emaar Misr for Development Company	1,000	New Cairo City	3.8	5,000	P 1: 2012 End: 2016	A community development including houses, offices, healthcare, business & hospitality facilities, schools, retail space, & business & central parks
Cairo Expo City	N/A	Cairo	0.7	N/A	P 1: 2011 End: 2012	Designed by Zaha Hadid and Buro Happold, the project includes a conference/exhibition facility, two hotels, a shopping mall, office space, an underground garage, restaurants, & other facilities
CityStars	2,500	Sharm El Sheikh	7.5	N/A	2018	A five-phase project with infrastructure developments throughout construction; project includes hotels, residential units, commercial space, retail outlets, cinemas, & schools
Dream Farms/ Egyptian Kuwaiti Co. for Dev. and Inv.	26,200	South of Cairo	3	655	2011	Project includes residential and industrial cities, universities, hospitals, schools, health care centers, two supermarkets, & two mosques
Grand Heights/ KUWADICO	1,000	Sixth of October City	3.7	N/A	2015	An array of residential units spread across an area of several islands; in December 2008, the project was renamed "Grand Heights" from "October Hills"
Egypt Eastown/ Solidere	1,600	Sheikh Zayed City, Cairo	0.858	2,200	2017	SODIC plans to develop downtown Kattameya in this two-phase project including office & residential units, hotels, retail outlets, entertainment facilities, parks, & public squares
Egypt Westown/ Solidere	2,400	Sheikh Zayed City, Cairo	1.2	2,800	2017	Five residential neighborhoods with townhouses & apartments, office units, retail outlets within a mall, entertainment facilities, & hotels
Madinaty/Talaat Moustafa Group	14,000	Northeast of Cairo	33.6	120,000	P 2&3: 2011 End: 2032	A residential, entertainment, & commercial community including villas, hotels, exhibition halls, educational, medical, entertainment and shopping faculties; a road network is planned to link Madinaty to the external highways

Source: Zawya

IN FOCUS 2

SYRIAN MOBILE MARKET: GAUGING THE OPPORTUNITY

Purpose

Regional and international mobile operators have time and again expressed interest in entering the Syrian mobile market. Although the Syrian telecommunications market is one of the most tightly regulated markets in the Middle East, it offers potential for substantial growth given its duopoly structure, a relatively large population with low penetration rates, and high average revenue per user (ARPU) levels versus both regional and global peers. In this section, we attempt to shed light on key factors such as market regulations, competitive evolution, service affordability, and operational profitability, in order to assess the attractiveness of the Syrian mobile market to foreign telecommunication operators.

Overview of the Syrian Mobile Market

Regulatory Brief

Prior to 1975, matters relating to all forms of communications were handled by the Public Establishment for Post and Communications (PEPC). However, in 1975, the PEPC was dissolved, and the government-owned Syrian Telecommunications Establishment (STE) was appointed as the authority on all matters relating to the telecommunications market in Syria. A governmental decree in 1997 gave STE a monopoly over all forms of mobile and fixed-line telecommunications. In 2003 and mid-2009, there were plans, at the governmental level, to establish an independent regulatory body. However, these plans are yet to materialize, leaving the STE as the only authoritarian body dealing with regulatory issues such as tariff proposals, service quality, numbering, etc.

In January 2001, the STE awarded two 15-year build-operate-transfer (BOT) contracts to the Syrian-owned Drex Technologies and Investcom (a telecommunications investment conglomerate) for USD 35 million in spectrum fees and an annual fee of USD 50,000 per MHz on the GSM 900 and GSM 1800 frequency bands. The licenses had an effective commencement date of February 14, 2001.

Under the terms of the BOT agreements signed by the two operators:

- The operators were required to achieve 90% population coverage within the first year and 95% within the second year, with both operators committed to installing capacity for 850,000 subscribers each.
- The BOT agreement included a seven-year exclusivity period, during which a third license could not be issued by the STE.
- Revenue sharing (with the STE) was defined at 30% of revenues for the first three years, 40% of revenues for the next three years, and 50% of revenues during the remaining term of the BOT agreement.
- None of the operators had the authority to set tariffs. Operators were required to jointly submit tariff proposals to the STE for approval.

Furthermore, the Syrian mobile operators were also expected to pay to the STE 20% of the costs to build-out the fixed-line infrastructure for service upgrades and coverage expansion. In early 2008, the STE was quoted as having plans to invest over USD 1.45 billion into its fixed-line operations over a span of five years (until 2013), which will see through the installation of 4 million lines and help STE achieve 100% coverage in terms of its fixed-line network.

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In December 2008, the mobile operators entered into negotiations with the STE to convert their existing BOT contracts into traditional licenses. The aim behind these talks was to reduce the heavy revenue share imposed by the existing BOT agreements. However, the original BOT contracts remain intact to date, with MTN Syria describing the current situation as a “pending opportunity to convert the current BOT contract into a freehold license.”

Media reports in mid-2009 cited the potential implementation of a new telecommunications law, which was expected to lead to:

- Creation of an independent regulator.
- The STE being structured into an independent commercial operator.
- A new licensing regime for mobile operators.
- The issuance of a third mobile license.

The new telecommunications law is yet to materialize, and progress remains to be seen on any of the highlighted issues. However, we note that MTN Syria expects the implementation of the new telecoms law and the issuance of a third mobile license to take place in 2010.

Competitor Profiles

Syriatel – Syriatel was established by Drex Technologies, a consortium of Syrian businessmen led by Rami Makhlouf (with 75% ownership) and Egypt-based Orascom Telecom (with 25% ownership). In July 2003, Orascom Telecom divested its holding in Syriatel in return for its initial investment of USD 10 million. Subsequently, the stakes held by various members of Drex Technologies have also been divested to regional investment houses. The current shareholders of the firm are Al Mashreq Investment Fund (59.83%), Ihab Bin Mohammed Al Maklouf (14.66%), Rami Bin Mohammed Al Makhlouf (5%), and other investors (20.51%).

MTN Syria – Investcom and Tele Invest Ltd. (a Lebanon-based telecommunications investment conglomerate) jointly owned 75% and 25%, respectively, of the subject entity, initially known as “Spacetel.” Subsequently, in 2004, the company was re-branded under “Areeba Syria.” In 2007, Investcom sold its 75% stake in the company to Africa’s MTN Group at which point the company came to be known as “MTN Syria.” The company is currently owned by the MTN Group (75%) and Tele Invest Ltd. (25%).

Market Penetration and Subscriber Split

Mobile penetration levels in Syria have grown from 16% in 2005 to 46% in 2009, with the overall subscriber base having grown at a CAGR of 33% to 9.35 million over the same period. However, when we compare mobile penetration in Syria to countries with similar GDP per capita, we find that the Syrian mobile market notably lags behind both global and regional peers. In 2005 and 2009, Syria's penetration rates remained, on average, 18%–19% below the global and regional peer group average.

Figure 2-1 – Syria Mobile Penetration versus Regional and Global Peer Group

Penetration levels notably below global and regional peers

Country	2005	2006	2007	2008	2009
Global Peer Group					
Indonesia	17%	25%	37%	55%	67%
Swaziland	19%	24%	33%	45%	55%
Turkmenistan	2%	4%	8%	21%	38%
Ukraine	64%	106%	111%	112%	112%
Armenia	16%	33%	62%	86%	91%
Global Peer Average	**24%**	**38%**	**50%**	**64%**	**72%**
Regional Peer Group					
Jordan	54%	75%	87%	98%	111%
Morocco	42%	51%	63%	71%	80%
Eygpt	18%	24%	40%	54%	75%
Iraq	17%	33%	43%	60%	69%
Sudan	6%	12%	21%	30%	42%
Regional Peer Average	**27%**	**39%**	**51%**	**63%**	**75%**
Syria	**16%**	**24%**	**34%**	**38%**	**46%**

Sources: Informa and NBK Capital

We believe this differential can be largely accredited to the heavily regulated competition and relatively expensive pricing levels. While the Syrian mobile market was liberalized in 2001 with the award of two BOT contracts, the market has yet to become truly competitive. As per the terms of the BOT agreements, both operators are expected to submit joint proposals for new tariff revisions and other promotional offerings to the STE. This has limited price competition to a great extent. Overall, tariff levels have also not declined very rapidly on a secular basis, as has been observed in other more competitive regional and global mobile markets (see our discussion on ARPU on the next page).

Syriatel's subscriber base grew at a CAGR of 36% between 2005 and 2009 and reached 5.1 million. Currently, Syriatel remains the market leader, with a market share of 55% at the end of 2009. MTN Syria, on the other hand, saw its subscriber base grow at a CAGR of 30% over the same period and held a market share of 45% at the end of 2009.

Figure 2-2 – Market Share Evolution

(000's)	2005	2006	2007	2008	2009
Total Market Subscribers	2,975	4,569	6,519	7,609	9,349
Annual growth (%)	52%	54%	43%	17%	23%
Market Share (%)					
Syriatel	51%	51%	52%	53%	55%
MTN Syria	49%	49%	48%	47%	45%
Marginal Market Share (%)					
Syriatel	41%	52%	55%	61%	59%
MTN Syria	59%	48%	45%	39%	41%

Sources: Informa and NBK Capital

Syriatel consistently in the lead

While Syriatel has always been the market leader, over the recent past, the company has been able to increase its lead further via a more aggressive capture of net additional subscribers between 2006 and 2009. However, more recently, MTN Syria has been gaining traction on marginal market shares. This was achieved by targeting the youth segment and providing it with mini-usage packages. Furthermore, MTN Syria introduced per-second billing in 2009, while Syriatel still continues to offer its services on a per-minute basis.

ARPU

Perhaps one of the biggest positives for the Syrian mobile market are its notably higher ARPU levels when compared to peers with similar GDP per capita levels. Between 2005 and 2009, the Syrian mobile ARPU declined at a CAGR of 11% to USD 19. This compares to a regional and global peer group CAGR decline of 14% and 28%, respectively, over the same period. Furthermore, on an absolute level basis, the 2009 ARPU in Syria of USD 19 stands at a 72% premium versus its regional peer group and at a 129% premium to its global peer group.

Figure 2-3 – Syria Mobile ARPU versus Regional and Global Peer Group

Country (All figures in USD)	2005	2006	2007	2008	2009
Global Peer Group					
Indonesia	8	8	7	5	4
Swaziland	24	20	18	14	12
Turkmenistan	89	75	58	20	11
Ukraine	10	8	7	8	5
Armenia	17	16	15	14	10
Average	**30**	**25**	**21**	**12**	**8**
Regional Peer Group					
Jordan	25	15	16	17	13
Morocco	13	12	12	11	10
Eygpt	15	14	11	9	7
Iraq	21	16	12	13	12
Sudan	25	24	20	14	12
Average	**20**	**16**	**14**	**13**	**11**
Syria Blended ARPU	**30**	**24**	**22**	**21**	**19**

Sources: Informa and NBK Capital

Syrian ARPU levels surpass both regional and global scales

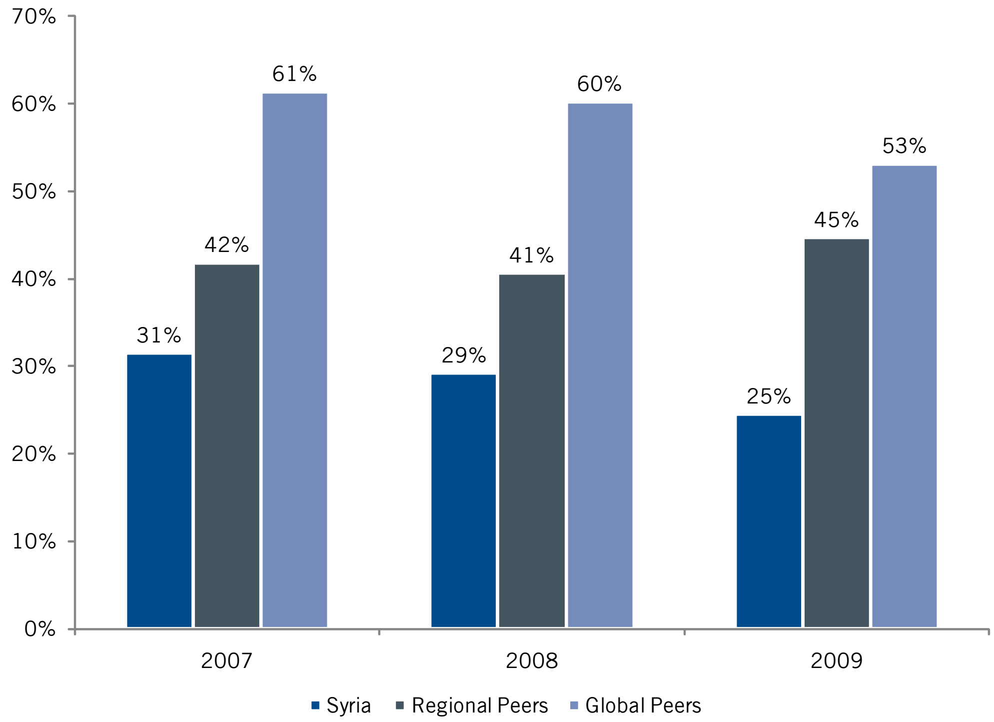
We believe the slower deterioration of the ARPU level is accredited to the strongly regulated tariff competition in the country. Furthermore, the high ARPU premium in Syria can be explained by the fact that the STE was charging royalties at the rate of 40% of total revenues between 2004 and 2006 and at 50% of total revenues thereafter. Hence, it has been in the interest of both the operators and the regulator to maintain tariffs at levels conducive to their profitability.

Profitability

To further illustrate the impact of the high royalty fees charged by the STE, we note that despite relatively higher ARPU levels, the EBITDA margins earned by Syrian mobile operators have been much lower than their peers. The Syrian market's EBITDA margin came in at 25% in 2009, which compares to a regional average of 45% and a global average of 53%.

Royalties weigh down Syrian EBITDA margins

Figure 2-4 – Syria EBITDA Margins versus Regional and Global Peer Groups



Sources: Informa, company financial statements, and NBK Capital

Rationalizing the slow growth

While the Syrian mobile market offers attractive ARPU levels and low penetration levels, this section offers explanations for the relatively low level of market growth observed in Syria so far.

Affordability

The high ARPU levels seen in the Syrian mobile market have two very contrasting implications for market growth. High ARPU levels in Syria leave a great deal of room for high profitability per subscriber, where, despite exorbitant royalties charged by the STE, the operators are still able to generate a 25% EBITDA margin (FY2009). However, high ARPU levels also bring into question the affordability of telecommunication services in Syria.

Syria's 2009 GDP per capita of USD 2,699 is much lower than the MENA wide-average of USD 14,443. Therefore, in order to entice market growth, it is essential that tariffs be set at a level that offers substantial added value at an economical cost. However, we do not find that to be the case in Syria.

When we compare monthly ARPU levels as a ratio of monthly GDP per capita, we find that the 2009 ARPU levels in Syria represent approximately 8% of monthly GDP per capita. This compares with a regional peer group average of 5% for the year 2009. Hence, it is evident that current tariff levels in Syria are fairly expensive relative to the income levels of Syrian consumers.

Affordability of Syrian mobile services – a primary concern

Figure 2-5 – Gauging the Affordability of Syrian Mobile Services versus Regional Peers

Country	FY2009			
(All figures in USD)	GDP/Capita	Monthly GDP/Capita	ARPU	ARPU as % of Income
Jordan	3,766	314	13	4%
Morocco	2,847	237	10	4%
Eygpt	2,450	204	7	4%
Iraq	2,245	187	12	6%
Sudan	1,388	116	12	11%
Average	**2,539**	**212**	**11**	**5%**
Syria	**2,669**	**222**	**19**	**8%**

Sources: IMF, Informa, company financial statements, and NBK Capital

As further evidence, we note that, in June 2009, a group of Syrian mobile subscribers launched a day-long boycott of mobile services in protest against the high tariffs charged by MTN Syria and Syriatel. Syrian consumers argued that mobile service tariffs charged to them should at least be comparable to tariffs in other Middle Eastern countries. We see this tariff imbalance to be a major factor explaining the slow growth in the Syrian mobile market to date and expect that it will continue to be a barrier to future growth unless the issue is tackled.

Exclusivity period

Per the BOT contracts signed between the STE and the two operators in early 2001, the existing mobile operators had an exclusivity period for seven years before the entry of a third mobile operator. This fact deterred the arrival of more competition until 2008. Thereafter, the STE announced its intentions to auction a third mobile license. However, these plans are yet to materialize, and, as a result, competition remains limited.

Heavily regulated competition

Per the terms of the BOT agreements, none of the operators have the authority to set tariffs independently. Operators are required to jointly submit tariff proposals to the STE for approval. This has resulted in a low level of price competition, high overall tariff levels, which have only warranted limited demand for mobile telecommunication services, and hence, slower market growth.

Levies for infrastructure development funding

The Syrian mobile operators are expected to pay to the STE 20% of the costs to build-out the fixed-line infrastructure for service upgrades and coverage expansion. These payouts, coupled with high royalty fees, limit available funding for capacity expansion and service upgrades on the operators' own mobile networks in a region where fixed-to-mobile substitution has been steadily gaining traction.

Expressions of interest

International and regional operators have always been known to have made attempts in the past to enter the Syrian mobile market. Early 2008 saw reports of both Turkcell and Zain seeking a 51% stake in Syriatel. However, these negotiations never materialized into solid transactions. Exact reasons for the impasse on negotiations have not been made clear. November 2008 saw Russian operators, Vimplecom and Megafon, express interest in acquiring a third mobile license in Syria. In April 2009, Etisalat's name was also added to the list of operators interested in acquiring the third Syrian mobile license. As recently as January 2010, Zain announced its intention to either bid for a third mobile license or buy a stake in one of the two existing mobile operators. Furthermore, Qtel has also been rumored to have expressed interest in acquiring assets in the Syrian mobile market. In all instances, any tangible progress has been muted, as has been the case in the past.

Our view of the Syrian opportunity

Overall, we believe the Syrian market is one with substantial growth potential; however, the catalysts for growth are yet to be unleashed. While there have been plans in the past to establish an independent market regulator, progress remains to be observed on that front. The introduction of independent regulators has commonly been followed by tariff reductions and growth in penetration levels. Hence, we believe a stronger commitment to the introduction of a new regulator is the need of the hour.

In order to spur growth, it is essential that competition is allowed to flourish in a fashion that would eventually benefit the consumer. We reiterate that affordability of mobile services is a key factor curbing the market's growth potential. Limiting the price elasticity on mobile services are the tight regulations on tariff approvals. A regulatory structure more conducive to dynamic pricing would go a long way in terms of promoting competition and market growth, while also making mobile services more affordable. Although, following the implementation of such measures, ARPU declines can naturally be expected to accelerate, we note that the 72% premium in Syrian ARPU levels versus regional peers (per 2009 figures) is indicative of substantial leeway for growth.

Given a population of 20.4 million, and a penetration rate of only 46% (versus a regional peer group average of 71%) at the end of 2009, we believe that there is certainly enough room for a third operator to enter the Syrian market. However, the caveat remains that, currently, mobile operators deal with a high level of revenue sharing (50% of revenues) and pay infrastructure levies (20% of fixed-line infrastructure development), which leaves relatively little room for optimizing profitability or retention of excess funds for re-investment into the native Syrian mobile infrastructure. A potential solution to this issue could be to offer a traditional mobile license to attract a new entrant, whereby revenue sharing could be set at lower than current levels. This, however, would imply that current BOT agreements with existing mobile operators would also need to be amended in order to place all competitors on an equal footing. Overall, we believe it would be beneficial for the organic development of the market to grant current and potential mobile operators some relief in terms of royalties and infrastructure levies.

COMPANIES IN FOCUS (PRICES AS OF JUNE 30, 2010)

Sector	Country	Currency	Closing Price	Date of last Report	12-Month Fair Value	Recommendation	PE			PB		
							T12M	2010	2011	Latest	2010	2011
Banking												
Abu Dhabi Commercial Bank	UAE	AED	1.52	28-Apr-10	1.70	Hold	na	6.2	3.3	0.4	0.3	0.3
Arab National Bank	Saudi Arabia	SAR	40.30	20-Apr-10	51.20	Accumulate	11.4	11.2	10.3	1.8	1.6	1.5
BankMuscat	Oman	OMR	0.791	15-Apr-10	0.93	Accumulate	21.4	10.8	9.1	1.5	na	na
Banque Saudi Fransi	Saudi Arabia	SAR	43.20	18-Apr-10	49.30	Accumulate	12.8	11.5	10.1	2.0	1.8	1.6
The Commercial Bank of Qatar	Qatar	QAR	66.50	23-Jun-10	92.80	Buy	11.4	10.3	8.5	1.3	1.2	1.2
First Gulf Bank	UAE	AED	15.00	22-Apr-10	19.40	Hold	5.9	6.0	4.8	0.9	0.8	0.7
National Bank of Abu Dhabi	UAE	AED	10.95	28-Apr-10	13.30	Accumulate	8.0	7.4	5.8	1.2	1.1	1.0
Qatar National Bank	Qatar	QAR	134.60	05-May-10	157.50	Accumulate	11.8	10.0	9.0	2.7	2.2	1.9
Riyad Bank	Saudi Arabia	SAR	28.10	12-Apr-10	34.10	Accumulate	12.9	12.9	10.8	1.5	1.4	1.3
Samba Financial Grp.	Saudi Arabia	SAR	57.00	18-Apr-10	60.60	Hold	11.4	10.9	10.0	2.2	2.0	1.7
The Saudi British Bank	Saudi Arabia	SAR	42.00	14-Apr-10	51.10	Accumulate	16.6	12.4	9.8	2.3	2.0	1.8
Union National Bank	UAE	AED	2.82	28-Apr-10	3.60	Accumulate	5.2	5.0	4.2	0.6	0.6	0.5

Sector	Country	Currency	Closing Price	Date of last Report	12-Month Fair Value	Recommendation	PE			EV/EBITDA		
							T12M	2010	2011	T12M	2010	2011
Cement												
Oman Cement Co.	Oman	OMR	0.689	25-Apr-10	0.88	Buy	8.5	11.0	9.3	8.0	9.0	7.5
Ras Al Khaimah Cement Co.	UAE	AED	0.68	21-Feb-10	1.06	Hold	7.2	14.6	13.0	4.3	6.7	6.3
Raysut Cement Co.	Oman	OMR	1.401	11-May-10	1.44	Hold	10.1	12.0	10.9	8.6	9.0	8.3
Qatar National Cement Co.	Qatar	QAR	75.10	26-Apr-10	84.50	Hold	8.7	10.2	10.2	7.9	9.7	9.7
Real Estate												
Salhia Real Estate Co.	Kuwait	KWD	0.238	Under Review			9.9	na	na	9.5	na	na
Telecommunications												
Bahrain Telecommunications Co.	Bahrain	BHD	0.565	21-Apr-10	0.700	Accumulate	7.9	7.4	7.2	5.2	5.3	5.2
du	UAE	AED	1.96	31-May-10	2.55	Accumulate	26.5	21.2	15.2	8.9	7.1	5.4
Etihad Etisalat Co.	Saudi Arabia	SAR	47.90	21-Apr-10	58.00	Accumulate	10.3	9.6	8.6	7.9	7.2	6.5
Egyptian Company for Mobile Svcs	Egypt	EGP	166.05	05-Jul-10	194.00	Accumulate	8.4	10.3	11.4	4.5	4.7	4.6
Jordan Telecom Grp.	Jordan	JOD	5.15	10-May-10	4.57	Hold	12.7	12.4	12.2	5.7	5.5	5.4
Oman Telecommunications Co.	Oman	OMR	1.156	13-May-10	1.800	Buy	7.2	8.5	8.8	4.1	4.0	4.0
Qatar Telecom	Qatar	QAR	163.30	25-Apr-10	205.00	Buy	7.0	6.2	7.0	4.0	3.8	3.6
Saudi Telecom	Saudi Arabia	SAR	37.70	Under Review			7.4	na	na	5.0	na	na
Telecom Egypt	Egypt	EGP	15.60	08-Jun-10	20.10	Buy	9.1	10.5	11.2	5.7	5.9	6.2
Wataniya	Kuwait	KWD	1.760	25-Apr-10	2.240	Buy	8.1	11.1	11.5	4.7	4.1	4.0
Transportation & Logistics												
Agility	Kuwait	KWD	0.315	Under Review			2.4	na	na	1.9	na	na
Air Arabia	UAE	AED	0.86	09-May-10	1.15	Buy	10.0	8.8	9.2	7.9	5.5	4.2
Aramex	UAE	AED	1.54	02-May-10	1.91	Accumulate	11.9	11.6	10.0	6.9	6.7	5.9
DP World	UAE	USD	0.44	28-Apr-10	0.57	Accumulate	24.7	21.3	15.4	11.5	10.0	8.9
Jazeera Airways	Kuwait	KWD	0.104	Under Review			nmf	na	na	nmf	na	na
Others												
Almarai	Saudi Arabia	SAR	190.75	20-May-10	219.00	Accumulate	19.4	16.2	14.7	15.9	13.8	12.3
Dana Gas	UAE	AED	0.66	23-Jun-10	1.01	Buy	28.5	33.8	8.1	26.9	8.3	4.6
Lecico	Egypt	EGP	12.91	13-Jun-10	16.95	Buy	6.7	6.8	6.0	4.6	4.4	4.0
Qatar Electricity and Water Co.	Qatar	QAR	103.80	10-Jun-10	131.00	Buy	11.1	9.2	7.8	14.3	12.8	11.1
Savola	Saudi Arabia	SAR	35.00	03-Jun-10	41.00	Buy	15.2	13.7	13.8	13.2	11.8	10.9
The Sultan Center*	Kuwait	KWD	0.14	25-May-10	0.27	Buy	18.4	12.6	18.7	11.1	8.5	9.2

*Adjusted

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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