SHUAA Capital Publishes Saudi Vision 2009

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Riyadh, Saudi Arabia – 24 February 2009: SHUAA Capital, the leading financial services institution in the GCC, has today published its Saudi Vision 2009. The report provides an in-depth market outlook for 2009 with a special focus on the banking, petrochemicals, and telecom sectors as well as stock briefs for 35 Saudi Arabian companies. In addition, the 100 page report also analyses Saudi markets throughout 2008.

Mr. Omar Al Jaroudi, Chief Executive Officer of SHUAA Capital Saudi Arabia, said: "Our Saudi business has had a strong start since its launch last year and our in-depth research capability gives our clients a significant advantage in navigating this dynamic market. Our research includes macro, sector and company specific analysis offering both domestic and international investors coverage of 80 percent of the Tadawul's market capitalisation. He added that research is increasingly becoming essential for both local investors as well as international investors who can now access the Saudi market through TRSs. Shuaa Capital is in a position to offer investors regular and up to date research which, coupled with state of the art local as well as regional execution capabilities, makes SHUAA's offering a unique one."

Dr. Mahdi Mattar, Head of Research and Chief Economist of SHUAA Capital reported: "We believe the Kingdom's current financial and economic challenges are cyclical and not structural in nature. We predict flat growth for the Kingdom in 2009, with real GDP growing at around 0.33%. This number is heavily skewed by the drop in hydrocarbon real GDP due to the decrease in the production levels of the hydrocarbon sector. The non-hydrocarbon sector will grow in 2009 by 3.9%, slightly slower than the 4.4% growth in 2008.

On corporate earnings, Dr. Mattar commented: "We believe that the Saudi market has priced in a gloomy outlook along with a limited pick up in demand for its petrochemical exports. With current market valuations at an all time low, we expect the recovery in the Saudi equity market not to be gradual but sharp and forecast a 30 percent upside in the Tadawul All Share Index (TASI) benchmark in 2009. While it is difficult to predict the timing of these forecasts, we expect the recovery to take place during the second half of the year and to be in the form of a rally after a period of range-bound volatile trading. He added: "Signs of global economic relief are likely to be the main driver for the Saudi market in 2009. Any indication of a possible recovery is expected to increase demand for oil and petrochemicals and put upward pressure on commodity prices. This will clearly have a positive effect on investor sentiment and should set the stage for a recovery."

On issuance Dr. Mattar commented: "Although we believe the Saudi Arabian market in 2009 will witness less activity in terms of IPOs as compared to 2008, we believe it will continue to rank top for IPO issuance in the Middle East region. However, we do not expect to see any further offerings from the downstream oil industry for the time being, as the harsh drop suffered by oil and other commodity prices makes such ventures less attractive. However, some companies in sectors that are currently deemed less desirable such as real estate and the downstream oil industry, which might need to raise capital, would probably revert to private placements. We anticipate a significant increase in number of such deals throughout the year."

SECTOR REVIEW

Banking

Real GDP growth in Saudi is estimated to slow down to around 0.33 percent in 2009, after recording a growth of 4.2 percent in 2008. Nominal GDP is forecasted to post a 24 percent year-on-year decline in 2009, mainly due to precipitous decline in oil prices, as well as oil production cuts. Overall, these trends support our assessment of slower growth and squeezed profitability for Saudi banks. Our expectations for deposits and loan growth for 2009 stand at a conservative 11.1 percent and 9.3 percent, respectively. We see strong upside potential should oil prices recover and the Saudi Arabian Monetary Agency (SAMA) further relaxes current regulations. Despite looking low in absolute terms, these numbers, relative to GCC peers, will likely be marginally stronger as we see Saudi Arabia providing the best investment climate in the region for the medium term.

The expected slowdown in lending activity does not deter our belief that the banking sector will be able to endure this global downturn given the healthy supervisory framework and strong government support. Going forward, we believe this sector will report slower growth than in previous years due to 1) higher funding costs and tighter margins, 2) more pronounced risk aversion on the lending front, 3) difficult recovery in brokerage revenues given a volatile market and rising competition from foreign investment banks, and 4) higher provision charges.

Petrochemicals

We believe depressed petrochemicals demand levels of the fourth quarter of 2008 will continue into 2009. However, anecdotal evidence suggests that demand is slowly recovering from its depressed levels; ethylene spot prices have picked up in January and early February, partly helped by the idling of some crackers. We believe clients of petrochemical companies are slowly reducing their inventory to relatively low levels, and Chinese buyers are progressively returning into market following their Chinese New Year – a period of total economic inactivity. Both are minor positives for short-term demand levels, which, we believe, are likely to be reflected somehow in the second quarter results of Saudi petchem companies.

In the medium-term (beyond the second quarter of 2009), we believe petchem demand levels and the magnitude of any demand recovery will be highly dependant upon global economic activity, as well as, specifically 1) sustained level of Chinese imports, 2) resurrection within the automotive and construction industries, especially in North America and Western Europe. We note that tight supply market conditions might occur for some polymers products, which might, in turn, provide some support for the price of the commodities themselves. Unless the global economic activity is truly stabilized, which will be reflected in a recovery in hydrocarbon prices, the petrochemical sector as a whole might face difficult times, including the Saudi producers.

Telecom

The growth of the telecom sector in Saudi Arabia accelerated to 15 percent year-on-year in 2008, from 10 percent in 2007. Factoring in slower economic growth in 2009, we expect the telecom sector, led by the mobile and broadband (fixed and wireless) segments, to deliver high single digit growth with a possibility to surprise us with a low double digit growth. Based on our assumptions, Saudi Arabia's active mobile penetration reached approximately 125 percent in 2008. We believe the market has room to grow towards a 145 percent active mobile penetration rate by 2010.

We expect the tremendous growth in the broadband segment since 2007 to continue over the next few years. High-speed internet penetration almost doubled between 2007 and 2008, from 2.9 percent to 5.3 percent of the population – a level still well below that of OECD countries.

Given the current economic situation combined with the steep decline in oil prices, we believe that the Saudi government will defer any decision related to revising the royalty rate charged to telecom operators. Hence, a potential cut in government revenue share from 15 percent to 10 percent for mobile services, following the entry of the third operator, has been postponed to 2010 or later.

Contrary to recent media reports, we don't expect a fourth fully fledged mobile license in Saudi Arabia. The only possibility, in our view, is the issuance of a MVNO (Mobile Virtual Network Operator) license. However, we believe the CITC, before considering awarding such license, will take its time to watch the evolving dynamics of the 'new three players' market.