

# Q3 09 Earnings Preview

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Equity Research

*In this publication, we lay out our Q3 09 estimates for a group of selected companies within our coverage universe, alongside the rationale and assumptions behind these forecasts.*

Banks	Net Op. Income	Loan Loss Provisions	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Abu Dhabi Commercial Bank (in AED mn)	1,345	-407	350	420	295	18.7%	-16.6%
Dubai Islamic Bank (in AED mn)	913	-144	441	426	450	-2.1%	3.5%
First Gulf Bank (in AED mn)	1,335	-252	829	850	775	7.0%	-2.5%
National Bank of Abu Dhabi (in AED mn)	1,717	-278	966	651	907	6.6%	48.5%
Union National Bank (in AED mn)	569	-107	286	345	273	4.9%	-17.0%
Samba Financial Group (in SAR mn)	1,738	-80	1,192	1,203	1,243	-4.1%	-0.9%
SABB (in SAR mn)	1,342	-206	711	711	676	5.1%	0.0%
Qatar National Bank (in QAR mn)	1,402	-77	1,081	1,146	1,057	2.3%	-5.6%
Commercial Bank of Qatar (in QAR mn)	610	-66	381	523	333	14.3%	-27.2%
Mortgage Companies	Operating Profit	Provisions	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Tamweel (in AED mn)	48	(85)	(37)	186	(35)	-6.1%	N/A
Amlak Finance (in AED mn)	11	(84)	(71)	177	(66)	-8.4%	N/A
Financial Services	Fee Income	Operations Profit	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
EFG - Hermes (in EGP mn)	228	53	175	156	176	-0.6%	12.3%
Global Investment House (in KWD mn)	6	(12)	(25)	21	(29)	14.5%	N/A
Dubai Financial Market (in AED mn)	95	58	81	221	128	-36.7%	-63.2%
Transportation and Logistics	Sales	EBIT	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Aramex (in AED mn)	491	59	47	34	50	-6.7%	37.6%
Agility (in KWD mn)	418	42	38	35	38	1.0%	9.3%
Air Arabia (in AED mn)	598	69	129	214	90	43.3%	-39.9%
NSCSA (in SAR mn)	343	72	102	282	108	-5.6%	-64.0%
Gulf Navigation (in AED mn)	79	2	4	44	4	-6.0%	-91.9%
Utilities	Sales	EBIT	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Tabreed (in AED mn)	198	53	20	15	19	3.9%	31.2%
Dana Gas (in AED mn)	401	123	34	26	392	-91.3%	30.8%
TAQA (in AED mn)	4,902	1,533	273	723	136	100.9%	-62.2%
Petrochemicals	Sales	EBIT	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
SABIC (in SAR mn)	26,617	5,357	3,078	7,239	1,805	70.6%	-57.5%
SAFCO (in SAR mn)	665	424	464	1,830	480	-3.5%	-74.7%
Industries Qatar (in QAR mn)	2,696	782	888	2,588	1,219	-27.1%	-65.7%
Consumer and Retail	Sales	EBIT	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Almarai (in SAR mn)	1,579	402	360	294	287	25.2%	22.4%
Savola (in SAR mn)	N/A	N/A	260	158	213	22.3%	64.4%
Jarir (in SAR mn)	589	95	91	88	72	25.5%	2.8%
Heavy Industries	Sales	EBIT	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Saudi Cable Company (in SAR mn)	706	69	52	92	47	9.7%	-43.9%
Arabian Pipes (in SAR mn)	86	7	4	27	11	-61.6%	-85.1%
El Sewedy Cables (in EGP mn)	2,694	227	193	252	177	8.9%	-23.7%
Telecommunications Sector	Sales	EBITDA	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Etihad Etisalat (Mobily) (in SAR mn)	3,270	1,158	684	539	675	1.3%	26.7%
Saudi Telecom Company (in SAR mn)	13,007	5,599	2,925	3,013	2,990	-2.2%	-2.9%
Etisalat (in AED mn)	7,296	4,706	2,241	2,107	2,415	-7.2%	6.4%
DU (in AED mn)	1,352	262	66	31	58	13.7%	108.2%
Zain (in KWD mn)	611	278	90	87	79	14.0%	3.0%
Real Estate and Construction	Sales	EBITDA	Net Income				
	Q3 09E	Q3 09E	Q3 09E	Q3 08A	Q2 09A	QoQ change	YoY change
Emaar Properties (in AED mn)	1,871	463.6	425.6	1,508	(1,284)	N/A	-71.8%
Aldar Properties (in AED mn)	669	(61.7)	317.8	759.5	253.9	25.2%	-58.2%
Arabtec Holding (in AED mn)	1,984	275.3	170.2	255.4	183.9	-7.4%	-33.3%
Drake & Scull International (in AED mn)	504.8	72.7	79.5	N/A	86.6	-8.1%	N/A

## Banks

### Abu Dhabi Commercial Bank (ADCB.AD)

Despite showing strong operating performance, ADCB's bottom line was largely affected by a surge in loan loss provisioning expenses in Q2 09, mirroring asset quality deterioration. In Q3 09, we expect the bank to continue building up its provisioning cushion - particularly in light with its reported AED 2.2bn exposure to the Saudi family conglomerates. We expect the bank's Q3 09 cost of risk to be similar to that of Q2 09, with the major provisioning adjustments to be booked in Q4 09. In addition and despite a foreseen pressure on net interest spread, we see the bank's top line continuing to capitalize on the growing contribution of its Malaysian associate, supported by gains on investments and derivatives portfolios. All in all, ADCB's Q3 09 net income is forecasted at AED 350mn, up 18.7% QoQ, the strongest sequential rise amongst Abu Dhabi peers.

### Dubai Islamic Bank (DISB.DU)

After strong funding inflow in Q2 09 and two conservative quarters marked with extreme cautiousness on the lending side, we expect Dubai Islamic Bank to restart growing its loan book in Q3 09 at 3.1% QoQ. Affected by a large exposure to Dubai's real estate sector, we naturally expect an increase in NPLs during the period yet with a provision cover remaining low c. 60%. Despite tightening net interest spreads, the bank's revenues will be supported by higher investment gains in light with the recent market rally. All in all, we are forecasting a bottom line of AED 441 mn for Q3 09, down 2.1% QoQ yet up 3.5% YoY.

### First Gulf Bank (FGB.AD)

In Q3 09, we expect FGB to continue to surprise the market by delivering a strong top line supported by outstanding margins. Gains on investments and derivatives should partly offset an expected pressure on the bank's fee business, yet translating to a non-interest income down 6.0% QoQ. Flexibility of the cost base will, in our view, allow the bank to contain its cost-to-income ratio at around 19%. On the provisioning front, we believe NPLs/ Gross loans will increase from 1.1% as of June-end 09 to 1.4% at September-end, with coverage ratio maintained above 150%. This will translate to provisioning expenses of AED 252mn for the quarter, almost similar to the charge taken in Q2 09. Ultimately, we expect FGB to post a 7.0% QoQ net earnings growth in Q3 09 reaching AED 829mn.

### National Bank of Abu Dhabi (NBAD.AD)

After robust increase in customer deposits during Q2 09, we expect NBAD's deposit base to record limited growth in Q3 09, especially given the additional liquidity provided through the recent 5-year USD 850mn bond issuance. In parallel, we expect loan book to expand by 3.1% QoQ, resulting in a loans-to-deposits ratio of 113% (vs. 111% in Q2 09). Moving to the income statement, the bank's major revenue source, net interest income, is estimated to remain above the AED 1bn mark despite a slight sequential interest margin contraction. While some pressure can be expected on the bank's fee business, we do not see significant changes affecting other revenue streams. Therefore, we forecast the bank's net operating income to increase 4.2% QoQ to AED 1,717mn. Continuing cost control should help maintain Q3 09 cost-to-income ratio at c. 26.0%, while cost of risk is expected to be similar to that of Q2 09. We forecast NBAD's Q3 09 bottom line to reach AED 966mn implying a 6.6% QoQ increase.

### Union National Bank (UNB.AD)

Abu Dhabi's conservative lender is expected to report a 4.9% QoQ bottom line growth in Q3 09 reaching AED 286mn. In our view, the bank will benefit from the combined effect of 1) a marginal net interest income growth, coupled with 2) the recovery of investment returns, and 3) the absence of fair value losses on investment properties, after AED 56mn losses booked over H1 09. While balance sheet growth will be limited, we expect

a deterioration in asset quality - inline with local peers - with NPLs/ Gross loans reaching 1.5% vs. 1.3% in Q2 09 and a provision cover maintained above the 110% mark.

### **Samba Financial Group (1090.SE)**

After an unusual customer deposit rally witnessed in Q2 09, we expect Samba's deposit base to show some volatility in Q3 09 translating to a 2% QoQ drop to SAR 135.4bn. This will be associated with (i) a 3.2% increase in loan portfolio - given the bank's significantly low loans-to-deposits ratio at an estimated 67.0% as of September-end 09 and (ii) a net decrease in the bank's substantial cash position. Similarly to local peers, net special commission income will undergo a marginal spread contraction and is expected to drop by 13bps QoQ. On the other hand, non-interest income is expected to lose 9.0% QoQ, mostly as a result of weaker market-related activity during Q3 09. Following preliminary positive news surrounding Saad/ AHAB Groups debt settlement to local lenders, we assumed Samba will be relaxing its provisioning policy in Q3 09 translating into a 18.0% QoQ reduction in provision charges. Accordingly, Samba's Q3 09 bottom line is forecasted to land at SAR 1,192mn (-4.1% QoQ; -0.9% YoY).

### **SABB (1060.SE)**

In Q3 09, SABB's earnings should be marked by a drop in net special commission income after it benefited from a non-sustainable reduction in funding costs in the previous quarter. At the same time, non-interest revenues will be, in our view, impacted by a slow down in the bank's fee business inline with a stable balance sheet. On the provisioning front, and capitalizing on a historical over conservative credit risk policy and on the news of Saad Group's debt restructuring, we expect the bank to relax Q3 09 provisioning expenses by 34% QoQ, while still delivering the best asset quality ratios amongst local peers. All in all, we estimate SABB Q3 09 net earnings to reach SAR 711mn, up 5.1% QoQ and almost flat YoY.

### **Qatar National Bank (QNBK.QA)**

We believe QNB's Q3 09 performance will continue to prove the bank's overall resilience, in addition to exhibiting the continuous prudent lending approach, slowdown in customer deposits growth and slight decrease in net interest spread. In addition, we expect non-interest income being hit by the non recurrence of dividend proceeds, which as of H1 09 represented almost 20% of this revenue stream. As a result, QNB's Q3 09 net operating income is forecasted at QAR 1,402mn, almost flat QoQ. Regarding asset quality, we expect limited pressure on the bank's NPLs during the quarter due to its strong involvement in government related businesses. Therefore and counting on controlled operating costs during the period, we forecast QNB's bottom line to reach QAR 1,081mn for the three-month period ending September-end 09 (+2.3% QoQ; -5.6% YoY).

### **Commercial Bank of Qatar (COMB.QA)**

After contracting in H1 09, we expect CBQ's deposit base to pick up during Q3 reaching QAR 31.5bn by September-end 09 (+4.9% QoQ), matched by an estimated 2.3 % loan expansion. Q3 09 net interest spread is expected to contract under the weight of higher funding costs, leading to a 9.9% QoQ decrease in net interest income at QAR 393mn. On the other hand, non-interest income is expected to drop 17.4% mainly on low dividend receipts. While we expect cost-to-income ratio to be maintained at c. 27%, cost of risk is expected to retreat on the back of a more relaxed provisioning policy compared to Q2 09, implying a net charge of QAR 66mn for Q3 09 (down from QAR145mn the previous quarter). Consequently, CBQ Q3 09 bottom line is forecasted at QAR 381mn (+14.3% QoQ; -27.2% YoY).

## Mortgage Companies

### Tamweel (TAML.DU) and Amlak Finance (AMLK.DU)

As of Q3 09-end, Tamweel and Amlak shares are still being suspended from trading, a status quo that reflects lack of developments/ transparency regarding their restructuring. Furthermore, we believe the quarter will not bring significant changes to the companies' operating performance. Nonetheless, further loan book deterioration is expected, hence necessitating additional provisioning to weigh on bottom line figures. As such, both Tamweel and Amlak are expected to continue reporting losses in Q3 09 at a negative AED 37mn and AED 71mn respectively.

## Financial Services

### EFG-Hermes (HRHO.CA)

Despite speculation over lower trading values and market share contraction, EFG-Hermes brokerage revenue is expected to expand sequentially in Q3 09, boosting the investment bank's overall fee income by 4% QoQ to EGP 228mn. This, coupled with further control of operating expenses is expected to command a 57% QoQ hike in operating profit. However weakened by lower investment income, EFG-Hermes Q3 09 net profit is expected to remain flat QoQ at EGP 175mn. However, we note that it is difficult to assess the effect of the devaluation of the Egyptian currency vs. USD witnessed during the quarter hence we have disregarded foreign exchange differences from our quarterly estimate.

### Global Investment House (GLOB.KW)

Despite the positive outlook that Global's management relayed on its debt restructuring, nothing material was revealed within the quarter. While asset management will remain the main contributor to the company's revenues, Global's investment income is expected to be hit by the deterioration in the Kuwaiti equity market during Q3 09. As such, and despite an already robust provision cushion, we still forecast the bank's net income in negative territory at KWD 25mn versus a loss of KWD 29mn in Q2 09.

### Dubai Financial Market (DFM.DU)

Following the summer seasonal drop in traded values, DFM's Q3 09 fee income is expected to show a 31% sequential decline to AED 95mn which will lead to an estimated 37% QoQ drop in net profit to AED 81mn. However, should DFM engage in heavy investment selling during the quarter (an item difficult to forecast on quarterly basis), this could prove to be an upside to our quarterly net income forecast.

## Transportation and Logistics Sector

### Aramex (ARMX.DU)

Aramex has proved its resilience to the global economic downturn. The factors that proved to be a nightmare to everyone were bliss to Aramex; the change in the product mix and ability to preserve efficiency boosted profitability through improving margins. The margin improvement will likely not be a sustainable trend in the longer term; as the market recovers the product mix will vary whereby lower margin business will grow again at a faster pace. Furthermore costs, including staff cost, will eventually have to be adjusted especially that no major improvements have been made to staff compensation this year. We expect the third quarter to follow the trend of the first two quarters of the year, and to witness a substantial increase in net profits compared to last year. We forecast net profits to reach AED 46.6 mn in Q3 2009 implying a 37.6% increase YoY but a 6.7% decrease QoQ, with net margin at 9.5% compared to 6.2% in Q3 08 and 10.3% in Q2 09.

### Agility (AGLT.KW)

Agility benefited from the change in product mix as well. In Q2 09, their global integrated logistics (GIL) dropped by 15%, however revenues from Defense and Government Services (DSG) have increased slightly by 4%, partially offsetting the drop in GIL's revenues. More importantly the increase in DGS contribution to revenues resulted in enhanced margins; where gross margins and net margins reached 37.8% and 9.2% compared to 35.0% and 7.6% in Q2 08 respectively. We expect the same trend in Q3 09. We forecast net profits to reach KWD 38.4 mn compared to KWD 35.1 mn during the same period last year and compared to KWD 38.0 mn in Q2 09, with net margin at 9.2% compared to 7.5% in Q3 08 and 9.2% in Q2 09.

### Air Arabia (AIRA.DU)

The airline business has been suffering from the drop in passenger traffic, however, globally LCC have witnessed an increase in load factors while conventional carriers witnessed a drop in load factors, signaling a shift in passenger traffic. We believe that Air Arabia has and will continue to benefit from this trend. The fundamentals of the company are solid, the cash position is lucrative, and the supporting economic factors solidify their position as the leading LCC in the region and make them as one of the most profitable globally.

During 2009 Air Arabia witnessed an increase in passenger traffic onboard, however we saw that globally and including Air Arabia yields have been under pressure. We believe that Air Arabia will continue to experience further pressure on yields during the third quarter coupled with slight improvement in load factors and margins. We believe that load factors will increase in Q3 09 to reach 81% compared to the 79% level in Q2 09.

Historically, the third quarter has been the best performing quarter of the year for Air Arabia, especially in terms of margins and load factor. This year we also expect the company to do better than Q2 2009 and achieve a net income of AED 128.5 mn, implying a 43.3% increase QoQ, however a decrease of 39.9% YoY. We have been conservative in our assumptions of yield on the basis of our expectations of lower load factor compared to the 87% level in Q3 2008.

### NSCSA (4030.SE)

We forecast a slight drop in Q3 09 earnings compare to last quarter, as crude tankers' spot freight rates continue to be under pressure due to the mismatch between the demand and supply of tonnage (Q3 averaging USD 23,100 per day compared to USD 27,700 day in Q2 2009), similarly utilization as well as rates of other types of vessels continue to drop. The picture might be brighter in Q4 2009 with the winter season and with hopes of increased demand for crude oil, which would result in an increase in rates and utilization.

We forecast Q3 09 results to reach SAR 101.6 mn implying a 64.0% drop YoY and a c. 6% drop QoQ. We expect that the last quarter of the year to be better than previous quarters, however the mismatch between demand and supply of tonnage will remain, resulting in rates to end the year on the average at substantially lower levels than 2008, reinforcing the trends we saw since January.

#### **Gulf Navigation (GNAV.DU)**

Given the market outlook discussed above (please refer to NSCSA), we forecast a 6.0% drop QoQ and a 91.9% drop YoY in GNAV earnings to reach AED 3.6 mn in Q3 2009, as a result of the changes in the industry fundamentals. GNAV's chemical carriers chartered out on long term basis to SABIC will allow it to cushion the declining spot charter rates, and likely help hold margins. We remain highly cautious on the company until we see signs of recovery in the sector.

## **Utilities**

#### **Tabreed (TABR.DU)**

We expect Tabreed's revenues to increase by 7% sequentially, mainly driven by higher chilled water revenues on the back of capacity addition and a warmer weather during the quarter. Except for contracting revenues, which are forecasted to witness a 31% QoQ drop, other segments' revenues are also expected to pick up compared to their Q2 09 levels. Depreciation expenses will slightly increase as new plants came on stream, leading to a minor QoQ drop of the EBIT margin from 28% in Q2 09 to 27% in Q3 09. Finance expenses are expected to rise as new loans were issued during Q3, bringing net margin slightly down from 11% in Q2 09 to 10% in Q3 09.

#### **Dana Gas (DANA.AD)**

During Q3 09, average crude prices improved by about 16% over their Q2 09 levels. This coupled with higher gas production in Egypt (on the back of new discoveries) and a forecasted higher condensate production in Kurdistan should drive Dana's total revenues up by 32% QoQ. EBIT is expected to improve over its Q2 09 negative levels since non-recurring items (such as impairment of assets, write-offs and transaction expenses) are not expected to rematerialize. During Q2 09 the company reported a significant loss on investment property, which we do not foresee to recur in Q3 09. Net income will however drop back to Dana's normalized levels, from its unusually high Q2 09 level, which was inflated by a one-off gain (gain on the sale of 10% interests in Pearl Petroleum).

#### **TAQA (TAQA.AD)**

We expect TAQA's revenues to increase by 12% QoQ, mainly lifted by higher oil & gas revenues on the back of sequentially higher crude prices. As a result, EBIT margin is forecasted to improve to 31% in Q3 09 compared to 23% in Q2 09, despite slightly higher forecasted operating expenses. During Q2 09, TAQA incurred a significant AED 253mn gain in fair value of derivatives and about AED 112mn foreign exchange losses. While it is difficult to forecast these numbers on a quarterly basis, we assumed that these items to normalise during Q3 09 and estimate the quarter's profit after taxes and minorities at AED 273mn. This leaves room for Q3 results to wildly deviate our net profit estimate.

## Petrochemicals

### SABIC (2010.SE)

We expect SABIC Q3 09 results to exhibit sequential revenue and bottom-line expansion, with an estimated SAR 26.6 bn in revenues (+12% QoQ) and SAR 3.1 bn in net income (+71% QoQ). Our forecasts are underpinned by 1) a better petrochemical products pricing environment (up an average 10-15% in Q3 09 vs. their Q2 09 levels), 2) slightly higher steel prices (up 5% in Q3 vs. Q2), and 3) continued recovery of SABIC Innovative Plastics (SIP) performance (still expected loss-making, yet likely to a lesser extent than in H1 09) as volume pick-up and utilization rates increase. We expect limited sequential upside from new operations such as the MEG unit of SHARQ (50% owned by SABIC), and a small sequential downside on the fertilizer segment on the back of flattish average urea and ammonia pricing in Q3 09 vs. Q2 09 but likely reduced demand volumes from India. Our forecasts do not include any potential further SIP-related goodwill impairment, which we view as a Q4 09 or Q1 10 event, if it was to occur.

### SAFCO (2020.SE)

With average monthly prices for granular urea and ammonia unchanged in Q3 09 vs. Q2 09, we don't view pricing providing sequential help to SAFCO Q3 09 revenues and earnings. We project SAFCO earnings to decline a small 3.5% from SAR 480 mn in Q2 09 to SAR 464 mn in Q3 09. The main rationale for our forecast is our view that a lighter than expected Indian monsoon season has likely translated into some volume losses for the company. The material expected YoY decline in both revenues and earnings are related to the substantial 60-70% drop in fertilizers prices from their summer 2008 peak.

### Industries Qatar (IQCD.QA)

During Q3 09 average petrochemical (ethylene +34% QoQ; LDPE +10% QoQ), fuel additive (methanol +13% QoQ; MTBE +1% QoQ) and steel (up 5% QoQ) prices improved sequentially while fertilizers prices remained almost flat (ammonia -4% QoQ, urea 0% QoQ). The combined effect of higher prices coupled with forecasted relatively stable sales volumes is expected to bring IQ's revenues up by 16% QoQ. Higher revenues and estimated flat operating expenses are therefore expected to drive EBIT up by c. 19% QoQ. Net income is expected to reach QAR 888mn in Q3 09 compared to Q2 09 "unclean" net income QAR 1.22bn, which included an "unusual" c. QAR 366mn of government compensation over steel price differential.

## Consumer and Retail

### Almarai (2280.SE)

We expect Almarai to post in Q3 09 its best quarter ever in terms of both revenues and net earnings due to conjunction of the Holy month of Ramadan falling this year fully in Q3 and the firm's continued market share gains in the GCC dairy, fruit juice and bakery sectors. We forecast revenues to expand 9.1% QoQ and 13.7% YoY to SAR 1.58 bn, while we call for net income to reach SAR 360 mn (+25.2% sequentially, +22.4% YoY), boosted by 1) increased consumption during Ramadan, 2) a somewhat better input cost environment (conducive for gross margin expansion), and 3) the first-time inclusion of recently acquired Teeba (75% acquired Jordanian company) whose assets are now part of Almarai's 48% owned JV with Pepsico.

### Savola (2050.SE)

We expect Savola to report SAR 260 mn of Q3 09 net income, up 22.3% sequentially vs. SAR 213 mn posted in Q2 09 and 4% above management SAR 250 mn guidance for

the quarter. We believe Savola Q3 09 results will display the benefits stemming from 1) the increased consumption during Ramadan (a booster to its retail division revenues and a volume enhancer for its edible, sugar and packaging businesses) and 2) higher profitability of the Egyptian sugar operations due to a Q2 09 agreement signed with local sugar company Delta Sugar. We expect Savola 29% stake in Almarai to contribute an additional SAR 21 mn to Savola Q3 09 bottom-line vs. its Q2 09 contribution, and the real estate division to have recorded some gains on the back of potential land sales or land transfer during the quarter.

#### **Jarir Marketing (4190.SE)**

We believe Jarir Marketing Q3 09 results will display sequential improvements at both the top line (+3% QoQ) and bottom line levels (+26% QoQ) on the back of the Holy month of Ramadan falling fully in Q3 this year, and energizing demand for home equipment such as computers vs. Q2 levels. However, we believe a conjunction of lower (c. 15-20%) YoY average laptop prices and a double postponement of KSA school season (as a reminder, 88% of 2008 revenues originated from the Kingdom) till mid-October hampered Q3 09 top line expansion - with a Q4 09 catch-up effect expected.

## **Heavy Industries**

#### **Saudi Cable Company (2110.SE)**

We expect Saudi Cable Company (SCC) Q3 09 results to exhibit a 10% bottom-line sequential development from their Q2 09 SAR 47 mn level on the back of 1) expected single digit percentage growth in organic revenues and 2) the first-time consolidation of its 79% percent owned Elimsan Turkish operations. As mentioned in our last communication on SCC, we believe an increasingly competitive GCC cable pricing environment will make the company's 2009 net earnings target of SAR 212 mn increasingly challenging to achieve in our view.

#### **Arabian Pipes (2200.SE)**

We expect Arabian Pipes Q3 09 results, to resemble to Q2 09 results at the top line and bottom line levels in absolute terms given 1) the absence of new major contract wins during the period and 2) a continued deliveries of pipes related to former contracts. We expect Q3 09 net income of SAR 4 mn vs. SAR 11 mn in Q2 09. Our forecasts include lower expected contribution from investment income QoQ (SAR 7 mn in Q2 09 vs. SAR 2 mn projected for Q3 09). We remind investors that Arabian Pipes' investment case upside relies in the company's capacity to secure new, sizeable contracts with customers such as Aramco, events which are difficult to time, yet which we believe are likely to occur within the next six months.

#### **El Sewedy Cables (SWDY.CA)**

We expect El Sewedy Cables Q3 09 results to come out at EGP 2.69 bn at the top line level and EGP 193 mn at the bottom-line level, corresponding to a 21% QoQ improvement in revenues, and to a 9% increase in net income. We remind investors that Q2 09 results included a EGP 43.3 mn provision reversal, so that on an apple-to-apple basis, QoQ net income increase is more significant (c. +42%) than headline numbers suggest. We expect continued pressure on the cable segment gross margin to be evidenced by Q3 09 results. However, we believe that the company net income should gain momentum in Q4 09 as new operations are expected to kick-off during the period and newly set-up ones gradually improve their profitability.

## Telecommunications Sector

### **Etihad Etisalat (Mobily) (7020.SE)**

We expect Mobily to report strong Q3 09 results with revenue of SAR 3,270mn, up 15.4% YoY, EBITDA of SAR 1,158mn, up 18.9% YoY, and net income of SAR 684mn, up 26.7% YoY (+1.3% QoQ). We forecast Q3 09 results to benefit from growth in broadband, postpaid subscribers, wholesale, and geographic expansion across the kingdom. We believe that consensus net profit estimate for 2009 remains low at SAR 2,400mn (Bloomberg) compared to our SAR 2,680mn estimate, leaving room for the company to beat expectations.

### **Saudi Telecom Company (7010.SE)**

We forecast Saudi Telecom to report Q3 09 net profit of SAR 2,925mn, down 2.9% YoY (-2.2% QoQ). We project revenue of SAR 13,007mn in Q3 09, up 2.6% QoQ; however down 3.9% from the same period a year ago. Our EBITDA estimate for Q3 09 is SAR 5,599mn, up 9.0% from Q2 09, but down 13.6% YoY. Q2 09 EBITDA was negatively impacted by higher access charges. Our forecast implies an improvement in EBITDA margin to 43.0% in Q3 09 from 40.5% in Q2 09, yet still below the 46.2% reported in Q1 09. STC will likely record foreign exchange gains in Q3 09 – not factored in our numbers – due to the depreciation of the US dollar against the currencies of its international operations, notably the Turkish Lira (-4% since the end of June 09), and the South African Rand (-4% since June 09). This leaves room for the company to beat our net profit estimate as a result of FX gains. Another item difficult to forecast on quarterly basis is the cost of early retirement, which we assumed at SAR 100mn in Q3 09, compared to the unusually high SAR 444mn in Q2 09.

For both STC and Mobily, we assumed a marginal impact on Q3 09 results from YoY decline in number of visitors/ Umrah pilgrims to the kingdom due to swine flu fears.

### **Etisalat (EDEL.AD)**

We forecast Etisalat to report Q3 09 attributable net profit of AED 2,241mn, up 6.4% YoY yet down 7.2% QoQ. Q3 09 is a seasonally slower quarter which coincides with the summer holidays, in addition to an estimated YoY decline in number of visitors to the UAE this year. Similar to Q2 09, we expect Etisalat to report a QoQ decline in UAE mobile subscribers and fixed-lines, offset by growth in broadband and data services. Our revenue estimate of AED 7,296mn for Q3 09 reflects a 4.3% QoQ decline. We estimate that international operations contributed to 12% of total revenue in the quarter. We forecast an EBITDA of AED 4,706mn, up 2.6% from a year ago.

### **Du (DU.DU)**

We expect Du to report Q3 09 net profit of AED 66mn, more than doubling from last year. We project Q3 09 revenue of AED 1,352mn, a 31.5% YoY increase, but up only 3.2% from Q2 09 to reflect slower seasonality. We factored 80,000 mobile subscriber net additions in the quarter for a total active base approaching 3mn. Our EBITDA estimate is AED 262mn, more than doubling from AED 101mn in Q3 08, and up 9% QoQ. We forecast EBITDA margin to progress to 19.4% in the quarter from 18.4% in Q2 09, driven by efficiencies and a decline in overhead expenses as a percentage of sales.

### **Zain Group (ZAIN.KW)**

We estimate Zain will achieve revenues of KWD 611mn in Q3 09 up 3% QoQ. We believe top line growth will be driven by continued momentum in Sudan and the contribution of one extra month from Paltel.

We expect a sequential EBITDA margin improvement of 70 bps to 45.5% as a result of the implemented restructuring program. Net income is expected to climb 14% over Q2 09 to

reach KWD 89.8mn; however, we acknowledge the difficulty to ascertain realized foreign exchange losses/gains on a sequential basis which at extremes could impact our net income estimate by a range of +/- 8%.

While we anticipate a meaningful improvement in Zain's results in Q3 09, we believe any near term catalyst will remain anchored to M&A prospects. The announcement by the Kharafi consortium to invite minority shareholders is a positive (for shareholders owning less than 300,000 shares as of September 6th). However, we believe uncertainty remains regarding the buying consortium overshadowing the concretization of the deal.

## Real Estate and Construction

### Emaar Properties (EMAR.DU)

With earnings likely to have come off the roller coaster ride instigated by the unfortunate US operations, Emaar Properties' (Emaar) net earnings are expected to land on AED 425.6mn in Q3 09, reversing the AED 1.3bn loss in Q2 09. With the Dubai real estate market in a standstill, there are no major developments with regards to new property launches and real estate transaction volumes - Emaar will rely on the growing strength of its solid investment property portfolio and recognition of past property sales being recognised on handover. However, with the company providing no guidance on planned quarterly property handovers - the revenue from property sales remains a tough call. We estimate total revenues of AED 1.87bn, out of which around AED 1.2bn is expected from property sales based on the handover of an estimated 430 units in Q3 mainly in downtown Dubai and Arabian Ranches. Emaar's rental portfolio is expected to post QoQ growth of 15% on the back of rising occupancies especially in Dubai Mall and Dubai Marina Mall. Rental revenues posted a 36.3% QoQ in the second quarter of 2009. We expect the performance of the company's hotels to remain largely flat QoQ after a slow summer and in spite of business picking up around late Ramadan and the Eid holidays.

### Aldar Properties (ALDR.AD)

We expect Aldar Properties' (Aldar) Q3 09 performance to broadly resemble that of the previous quarter, with one exception, the return of land sales. The negotiations for these land sales have been going on since Q2 09, however, we believe a transaction has most likely materialised over the past quarter. This will be a positive development indicating the first signs of life returning to the Abu Dhabi real estate market. With the expected land sales, recognition of property sales revenue fuelled by further handovers in Al Raha Gardens and rental revenues we project Aldar's top-line will land on AED 668.9mn in Q3 09. The star of the quarter is expected to be the familiar face of fair value gains on investment properties - we forecast AED 300.0mn booked in Q3 09 compared to AED 274.5mn in Q2 09, and a quarterly average of AED 597.2mn in H1 09. To sum up, we expect AED 317.8mn in net profits for the quarter, up 25.2% QoQ yet down 58.2% YoY.

### Arabtec Holding (ARTC.DU)

Arabtec Holding's (Arabtec) performance, which picked up pace in Q2 09 after coming off-balance during the turbulent days of Q1 09, is expected to witness some deceleration rather than acceleration instigated primarily by 1) slower completions in the summer months; 2) lower activities during the Holy month of Ramadan; and 3) the less than full deployment of the shifted resources to Saudi Arabia. We expect revenues to record AED 1.98bn which is slightly lower than the AED 2.05bn recorded in the previous quarter. We expect the company to be more conservative in Q3 compared to the past quarter and build-in higher contingencies into recognised direct costs. All in all we expect the company's bottom line to decrease by 7.4% QoQ to reach AED 170.2mn resulting in a net profit margin of 8.6%, 39bps lower than Q2 09 margins.

**Drake & Scull International (DSI.DU)**

We expect Drake and Scull International (DSI) to report Q3 09 net profits of AED 79.5mn, down 8.1% QoQ on the back of a slight decline in revenues, margins inline with Q1 09 and lower net interest income. The slower construction activity during summer months and the Holy month of Ramadan, will in our opinion slow down the revenue growth trend that DSI has been experiencing - with revenues for the quarter expected to come in at AED 504.8mn, slightly below Q2 09. We do not expect the 1.7 percentage points increase in Q2 09 EBITDA margins to be sustainable - leading us to expect Q3 09 margins resembling the first quarter of 2009.

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