



بنك الإمارات دبي الوطني
Emirates NBD

Equity Note

21 June 2018

Aditya Pugalia
Director, Financial Markets Research
+971 4 609 3027
adityap@emiratesnbd.com

Khatija Haque
Head of MENA Research
+971 4 230 7803
khatijah@emiratesnbd.com

www.emiratesnbdresearch.com

Saudi Arabia – An important milestone

MSCI confirmed that it will be including Saudi Arabia in the MSCI Emerging Markets index. The index provider said that the decision follows the implementation of a number of regulatory and operational enhancements which effectively increased the access to international institutional investors.

The fine print

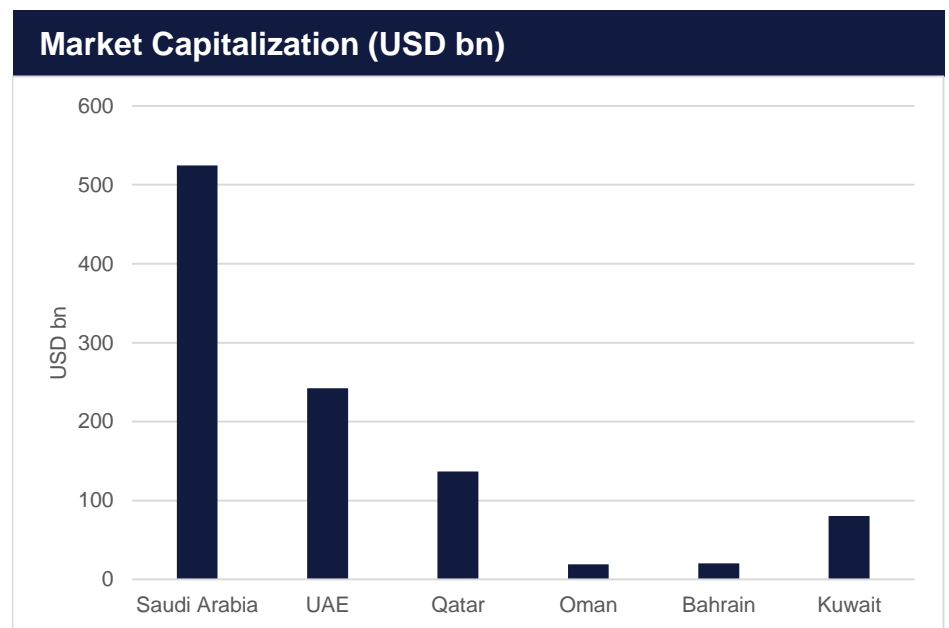
Saudi Arabian equities, on a pro forma basis, will have an approximate weight of 2.6% in the MSCI EM index with 32 securities. It will be a two-step inclusion process with the first one coinciding with the May 2019 semi-annual index review and the second one as part of the August 2019 quarterly index review.

The stocks and details of companies which will be included in the index are attached at the end of this document.

Importance

Size

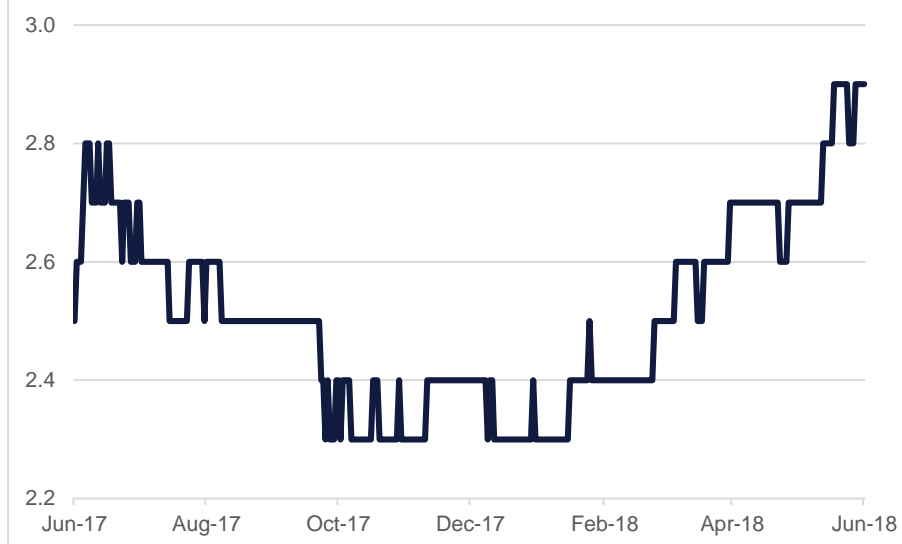
Saudi Arabia, with a market capitalization of USD 524bn, is by far the largest equity market in the GCC. In fact, the market capitalization is bigger than the combined market cap of all other GCC equity markets.



Source: Bloomberg, Emirates NBD Research

However, when compared to other large emerging markets i.e., India and China, the market capitalization is relatively small. For reference, the market cap of Indian and Chinese equity markets stands at USD 2,185bn and USD 6,741bn respectively.

Saudi Arabia's market cap as a percentage of emerging markets



Source: Bloomberg, Emirates NBD Research

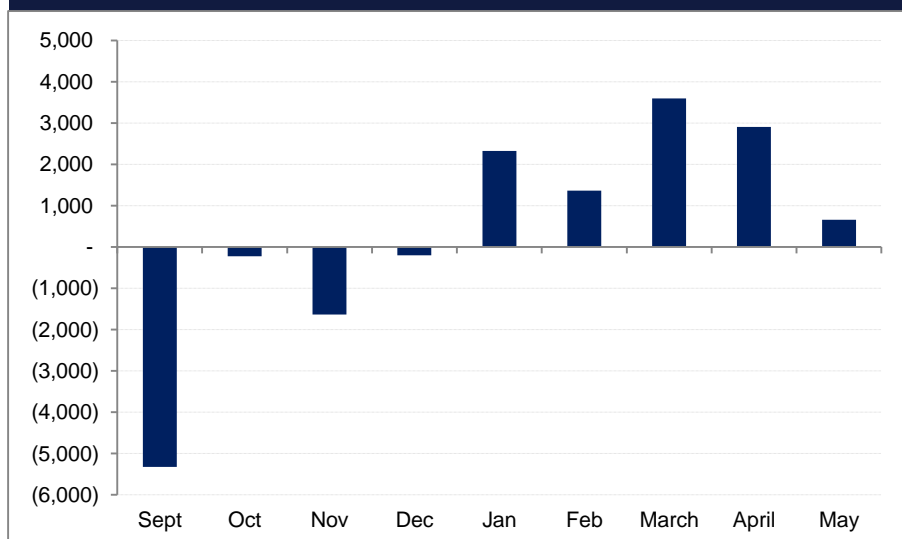
Ownership

The Tadawul is dominated by retail investors. Institutional investors own more than 87% of the total market but account for only c.30% of total trading volumes. The foreign ownership is low at 5% and when adjusted for strategic ownership, the ratio falls further to mere 2%. This is lower than foreign ownership in other GCC equity markets which are part of MSCI EM index i.e., UAE and Qatar. According to market estimates, the foreign ownership could increase to c. 8% over the medium term.

Flows

In anticipation of this decision, the stock market has seen sustained inflows from foreign investors in 2018. The total year to date inflows from foreign institutional investors stands at USD 3.4bn. This translates into roughly 8% of total inflows seen into broad emerging market equity funds so far into 2018.

Tadawul – Foreign investors inflow, net (SAR mn)

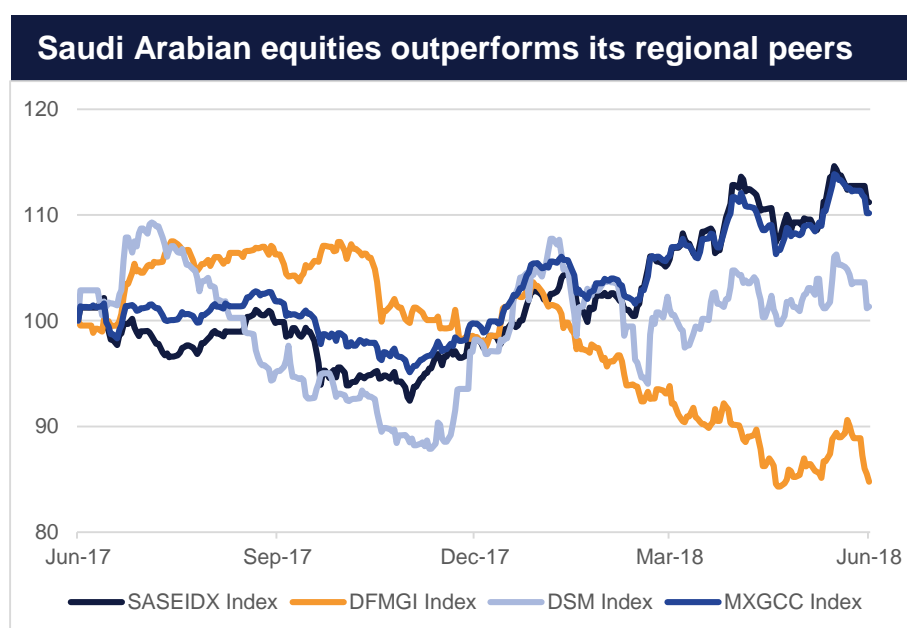


Source: Tadawul, Emirates NBD Research

The inclusion of Saudi equities into the MSCI EM index could trigger passive inflows of c. USD 10bn. To put that into context, the average daily value traded on the Tadawul in 2018 in first five months of 2018 is USD 1.1bn. It is also worth highlighting that as of June 2017, nearly USD 1.7 trillion of assets / funds tracked the MSCI EM index. This included USD 1.3 trillion of active funds and USD 0.4 trillion of passive funds

Performance & Valuations

The Tadawul is the best performing market within the GCC universe with ytd returns of +13.0%. This is relative to +8.0% ytd gain in the S&P Pan Arab Composite index and -5.6% ytd decline in the MSCI EM index.



Source: Bloomberg, Emirates NBD Research

The market is currently trading at 15x 2018E earnings and 13.5x 2019E earnings. This implies a 12% (2018) discount to 5 year average PE multiple of 17x. However, it is trading at a premium to the broader MSCI EM index which is trading at a 2018E PE multiple of 11.8x and 2019E PE multiple of 10.8x. The trailing dividend yield for the Tadawul is 3.7% compared to 2.9% for the MSCI EM index.

From a historical perspective, the UAE and Qatar were trading at 14.2x and 11.4x PE multiples when they were included in the MSCI EM index. The broader EM index at the time was trading at 10.3x PE multiple. It is also worth highlighting that UAE and Qatar equity markets rallied +68% and +48% in the interim period of decision and implementation.

The macro picture

The inclusion of Saudi Arabia in the MSCI EM index marks the culmination of a series of measures over the last few years to open up financial markets for foreign investors. The desire to attract inward investment intensified after the sharp decline in oil prices from 2014 – 2017, which focused greater attention on the need to diversify the Kingdom's economy away from oil, and boost non-oil sector growth. Opening up financial markets for foreign portfolio investment is part of a broader plan to attract funding for economic diversification efforts. Other steps include the creation of the Public Investment Fund and a program to privatise some state-owned enterprises across several sectors of the economy.

We expect Saudi Arabia's economy to return to growth, albeit modest, this year following a recession in 2017. The -0.7% decline in GDP last year was entirely due to the cuts in oil production following the November 2016 OPEC agreement; Saudi Arabia had reduced output by more than required under the agreement which weighed on headline growth. The non-oil sector expanded by 1.0% last year, according to preliminary estimates. We expect both oil and non-oil sector growth to rebound this year, by 0.5% and 2.3% respectively. While households have been faced with higher taxes and cuts to energy and utilities subsidies, the government has provided a cash stipend to the lowest income households, as well as reinstated public sector bonuses to help mitigate some of the impact of the higher living costs on consumers. Overall, central government spending is expected to rise by around 13% this year.

The big picture

The benefits of increased inflows from foreign institutional investors is obvious. However, the intangible benefits of attracting newer set of sophisticated investors should result in improved standards of financial disclosures and corporate governance. It is also possible that there will be a positive impact of Saudi Arabia's inclusion on the broader region given the increased weightage of the overall region in the broader EM index.

MSCI Saudi Arabia index - Constituents

| Name | Price (SAR) | Market Cap (SAR mn) | Price Change (ytd, %) | BEst P/E (BF 12m) | BEst P/B (BF 12m) | BEst Div Yield (BF 12m) |
|------------------------------|----------------|------------------------|--------------------------|----------------------|----------------------|----------------------------|
| Advanced Petrochemicals Co | 52.20 | 10,273 | 14.43 | 13.99 | 3.07 | 5.62 |
| Al Rajhi Bank | 85.20 | 138,450 | 32.84 | 13.21 | 2.55 | 5.34 |
| Al Tayyar Travel Group | 26.40 | 5,535 | -2.40 | 10.05 | 0.85 | 5.42 |
| Alinma Bank | 21.28 | 31,920 | 11.85 | 13.50 | 1.46 | 4.19 |
| Almarai Co | 58.80 | 58,800 | 10.31 | 25.16 | 3.73 | 1.46 |
| Arab National Bank | 32.00 | 32,000 | 32.00 | 9.49 | 1.26 | 4.18 |
| Bank Albilad | 23.58 | 14,148 | 16.51 | 12.92 | | 3.48 |
| Banque Saudi Fransi | 32.20 | 38,812 | 17.06 | 9.62 | 1.15 | 4.54 |
| Bupa Arabia For Cooperative | 89.90 | 7,192 | -3.49 | 12.60 | 2.50 | 3.72 |
| Co For Cooperative Insurance | 72.00 | 9,000 | -24.03 | 18.15 | 3.35 | 2.59 |
| Dar Al Arkan Real Estate Dev | 11.36 | 12,269 | -24.97 | 31.13 | 0.64 | |
| Emaar Economic City | 12.10 | 10,285 | -11.24 | | | |
| Etihad Etisalat Co | 18.90 | 14,553 | 26.84 | | 1.07 | |
| Jarir Marketing Co | 176.00 | 15,840 | 19.89 | 16.71 | 8.78 | 5.17 |
| National Commercial Bank | 47.80 | 143,400 | 34.79 | 12.37 | 2.40 | 3.32 |
| National Industrialization C | 21.16 | 14,154 | 33.54 | 11.07 | 1.42 | |
| Rabigh Refining And Petroche | 28.20 | 24,703 | 73.33 | 13.23 | 1.99 | 0.87 |
| Riyad Bank | 15.64 | 46,920 | 25.30 | 10.78 | 1.21 | 5.02 |
| Samba Financial Group | 30.60 | 61,200 | 31.27 | 11.09 | 1.40 | 5.48 |
| Saudi Airlines Catering Co | 89.20 | 7,314 | 12.49 | 14.52 | 5.44 | 6.12 |
| Saudi Arabian Fertilizer Co | 60.00 | 25,000 | -6.25 | 18.45 | 3.47 | 4.64 |
| Saudi Arabian Mining Co | 56.40 | 65,902 | 8.90 | 38.21 | 2.31 | 0.02 |
| Saudi Basic Industries Corp | 125.80 | 377,400 | 22.49 | 16.48 | 2.11 | 3.92 |
| Saudi British Bank | 29.85 | 44,775 | 10.00 | 9.92 | 1.26 | 4.99 |
| Saudi Cement | 50.20 | 7,681 | 8.16 | 16.68 | 2.65 | 6.16 |
| Saudi Electricity Co | 21.74 | 90,582 | 3.62 | 20.69 | 1.17 | 3.29 |
| Saudi Ind Investment Group | 28.00 | 12,600 | 47.76 | 10.93 | 1.62 | 3.86 |
| Saudi Kayan Petrochemical Co | 14.48 | 21,720 | 34.13 | 14.47 | 1.34 | |
| Saudi Telecom Co | 86.40 | 172,800 | 26.46 | 16.53 | 2.63 | 4.68 |
| Savola | 38.70 | 20,665 | -0.91 | 24.59 | 2.22 | 2.75 |
| Southern Province Cement Co | 41.60 | 5,824 | -14.43 | 15.81 | 1.77 | 5.39 |
| Yanbu National Petrochemical | 72.80 | 40,950 | 25.21 | 14.67 | 2.28 | 5.82 |

Source: MSCI, Bloomberg, Emirates NBD Research

Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.

Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O. Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Director, Financial Markets Research
+9714 609 3027
adityap@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielrich@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
Hessaalkh@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patrickc@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com