



2012 Outlook

The World Is A Different Place





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Summary

Views for 2012





GCC in 2012 – Robust Macro Fundamentals

- ❖ Economic activity in the GCC countries has improved following a period of historically high Oil prices. Though downside risks remain for oil prices in the short-term, consensus points to strength in the medium to long-term.
- ❖ In addition to the positive effect of stable oil prices, and expansionary fiscal policy, medium-term economic growth will be fueled by population growth and rapidly-increasing domestic labor supply.
- ❖ The large fiscal surpluses are being channeled into infrastructure spending, thus providing sustainable growth impetus to the non-Oil sector, that analysts suggest will grow at a healthy rate through 2011-12.
- ❖ Proactive and expansionary fiscal policies by GCC governments have been prodding the economy upwards, while aiding economic growth in the private sector.
- ❖ The GCC countries are better prepared for a deterioration in the external environment, as banks' liquidity continues to improve and deleveraging progresses steadily.
- ❖ Reform efforts have been moving ahead across the region. The privatization program in Kuwait and the new liberalization reforms in Qatar, UAE and Oman could be strong catalysts.
- ❖ With political stability providing structural strength, and the outlook for Oil prices generating enough thrust to sustain growth momentum, the region could leverage extensively on its robust fiscal surpluses to nurture growth during the medium-term.





GCC in 2012 – Overshadowed By Global Markets

- ❖ In the backdrop of a weak outlook on the pace of the global economic recovery, and low visibility on the direction of global markets, GCC equities are unlikely to witness an earnings-led recovery during 1H 2012.
- ❖ Overall direction of the GCC equity markets will largely be determined by movement in oil prices. Volatility is likely to increase as markets try to gauge risk and react appropriately.
- ❖ Amongst sectors, the focus will remain on industries geared towards servicing local economies. Business segments with stable cash flow and steady dividends are expected to outperform in a volatile market.
- ❖ Consumer plays, that include the Telecoms and Retail sectors, are likely to emerge as winners, backed by healthy demographic trends and stable business models.
- ❖ The Petrochemicals sector is likely to remain out of favor in the short-term, due to softening growth in commodity demand and prices. With the robust spending plans remaining largely in place, the Banking sector will experience robust credit growth, particularly in Saudi Arabia and Qatar.
- ❖ The GCC credit markets have absorbed a reasonable amount of primary market issuance. Though the GCC markets are expected to see positive flow of funds due to the economic stability, better credit fundamentals and better yield as compared to DM, they shall continue to be influenced by global cues.
- ❖ In the GCC, we prefer the more defensive credits, primarily out of Qatar and Abu Dhabi, and we see better value amongst quasi-sovereigns, given the attractive spread pick-up over sovereigns.





GCC Equity Markets – Country Views

Saudi Arabia

- Strong emphasis on infrastructure expenditure to drive medium-term economic growth
- Oil production could slowdown as global demand weakens and exports from Libya improve
- Bank earnings likely to improve on decline in provisions and improvement in credit growth
- Despite near-term worries, Petrochemical sector could be a strong medium-term driver

UAE

- GDP is forecast to rise in 2011, driven by Oil prices and recovery in trade & tourism
- UAE is considered a 'safe haven' amidst the political turmoil across the Arab world
- Dubai's debt problems remain a drag on overall sentiment, with elevated risk perception
- Credit growth is still weak. Asset growth would be modest, gaining traction during 1H 2012

Kuwait

- Strength in oil prices is a key positive; Oil contributes ~96% of public revenues
- Deleveraging in financial sector is likely to keep non-oil growth relatively low
- Credit growth recovery continues at a slow pace; Meanwhile Banks struggle with high NPL
- Lack of key catalysts and uncertainty over CMA regulations lowers outlook for capital markets





GCC Equity Markets – Country Views

Qatar

- IMF expects Qatar to be one of the fastest growing economies in the world during 2011-12
- Economic growth is largely underpinned by additions to gas production capacity in 2011
- However, growth rate will slow down as growth in new capacity declines
- Qatar's political systems remained unchallenged during the 'Arab Spring'

Oman

- Oman avoided prolonged social unrest through timely measures taken to satisfy protestors
- However, social measures undertaken are likely to put strain on government budget
- Infrastructure development is likely to remain a core area of focus in the medium-term, aiding Bank asset growth

Bahrain

- Social unrest is a setback to Bahrain's ambitions of being the regional financial hub
- GDP growth is expected to slowdown to in 2011 as economic recovery is interrupted by social unrest
- Sharp drop-off in tourist arrivals due to unrest to cause a discernible impact on economy





GCC Equity Markets – Sector Views

Petrochemicals

- Long-term industry fundamentals are intact with demand supply dynamics in favor of higher volumes and improved margins
- Middle East Petrochemical stocks have rallied strongly during 1H 2011, on the back of higher oil prices and improved earnings
- Softening growth in commodity demand and prices, will slow down the momentum in Petrochemical stocks in the short term

Banking

- Sector fundamentals have improved following traction in credit growth and lower provisions
- Fee income and other revenues have remained subdued due to the current financial turmoil
- NIMs have improved overall, though they might remain under pressure in certain countries

Consumer

- Retail theme in Saudi Arabia leverages on the attractive demographic profile
- Population growth, rising disposable income, and low penetration levels create opportunities
- The sector is a defensive play against economic fluctuations



GCC Equity Markets – Sector Views

Real Estate & Construction

- GCC ex-UAE is still riding the uptrend of a robust infrastructure cycle
- Projects with committed financial backing and sustained economic impact set to continue
- Saudi construction boom will drive listed Developers and Cement companies
- In Real Estate, we see potential in Saudi Arabia and Qatar where demand is steady and upcoming supply is less risky for industry fundamentals

Telecom

- Despite high penetration levels, GCC demographic profile is still attractive for mobile operators
- Significant potential as GCC data segment is growing at faster than peer rates
- Faster connectivity and higher bandwidth should boost data segment
- Despite stringent restrictions, VOIP remains a challenge that could stifle ARPUs
- The sector is back in favor as a defensive play amidst the market volatility





Global Economics

Macro Fundamentals





Developed Markets – Low Visibility

- ❖ The IIF expects growth in Developed Market (DM) economies to average at ~2.5% in 2011-13. Estimates in both the U.S. and Euro-area have been revised downwards in the backdrop of the European debt crisis and the U.S. credit downgrade.
- ❖ Underlying fundamentals point to a recession in the Euro-area and Japan, while growth in the U.S. is likely to falter due to weakening consumer spending, slower private credit growth and persistent unemployment levels.
- ❖ Nevertheless, fears of a recession have abated in the U.S. following recent data. Business confidence has stabilized since dropping sharply in June '11, while labor data shows robust private sector job growth.
- ❖ Inflationary expectations are expected to remain well-anchored in the U.S. and Euro-area.
- ❖ Over the short term period, monetary policy is unlikely to influence real economic activity as policy rates continue at historical low levels.
- ❖ Other headwinds to global economic growth include anemic credit expansion amidst widespread market uncertainty and rising financial instability.
- ❖ In addition, firm oil prices along with high unemployment rates and labor market rigidities represent added growth hurdles.



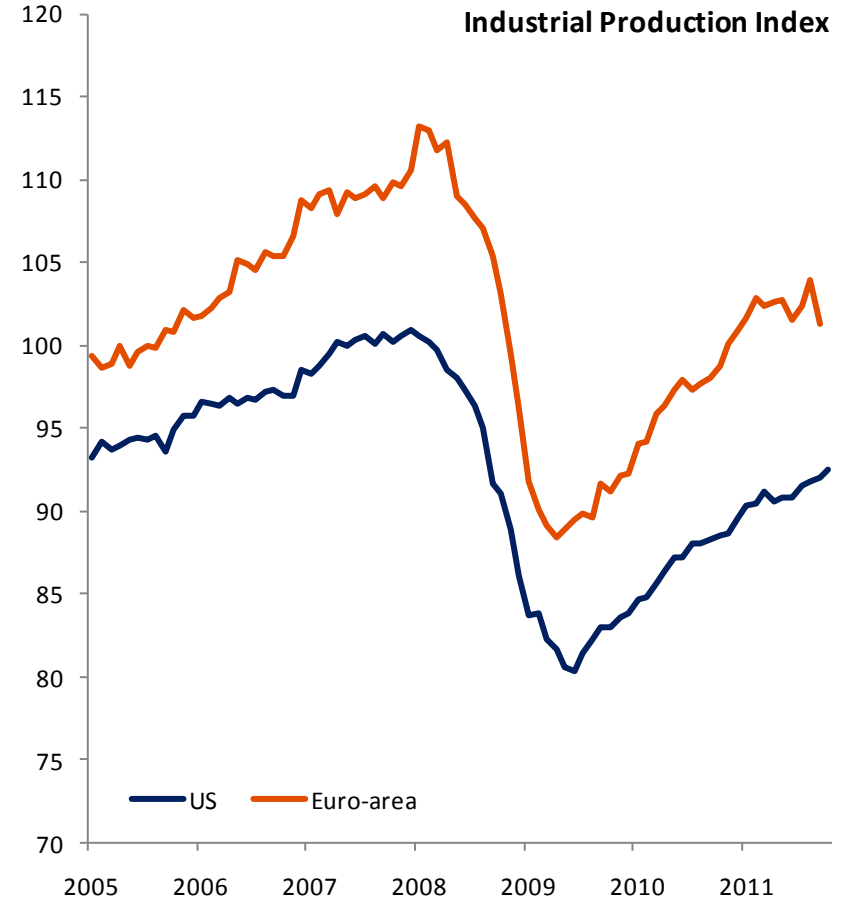
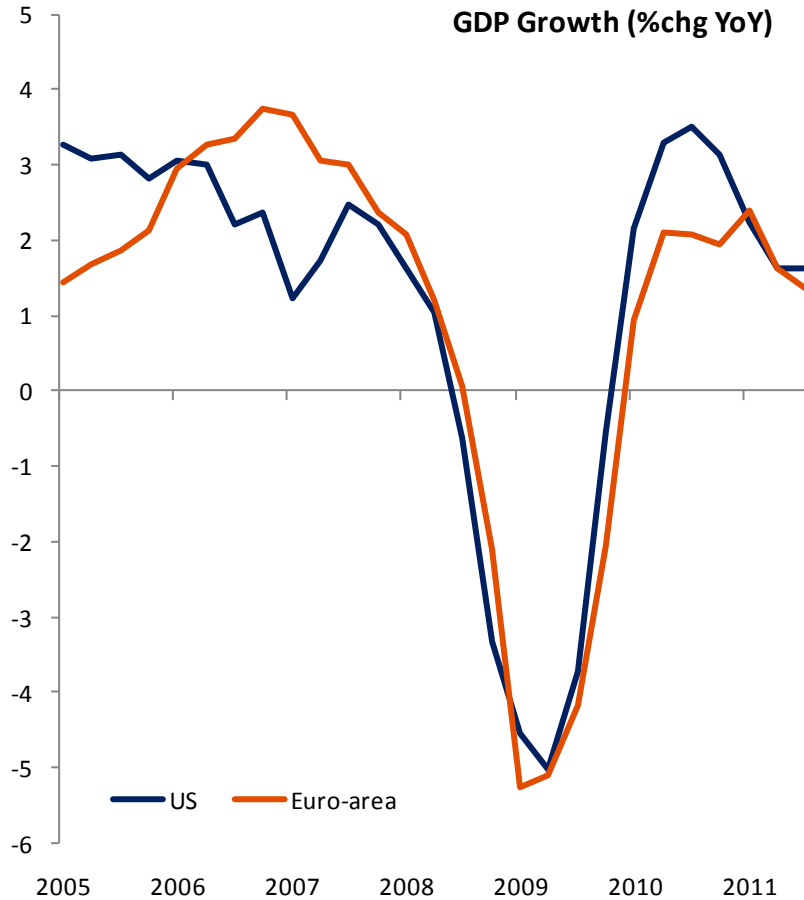
Developed Markets – Euro area Crisis Deepens

- ❖ The economic outlook for the Euro-area continues to be subject to high uncertainty and intensified downside risks.
- ❖ The IIF has lowered its forecasts for the region, and are factoring in “a period of stagnation for 2012 as a whole” with quarterly contractions in Q4 2011 and 1H 2012.
- ❖ The revised forecasts have been based on assumptions that “policy actions shall contain the sovereign debt crisis and that restructuring in the Banking sector will avoid large-scale disruptions”.
- ❖ The ECB reduced its key interest rates by a further 25bps to 1.25% in Nov ‘11, as it sees price, cost and wage pressures continuing to moderate while inflation is expected to remain at ~2% at least till mid 2012.

GDP Forecasts for Euro-area (% chg YoY)	2011	2012	As of
IMF	1.6	1.1	Sep '11
OECD	2.0	2.0	Jun '11
ECB	1.4 - 1.8	0.4 - 2.2	Sep '11
European Commission	1.6	1.8	Sep '11
Bloomberg Consensus	1.7	1.0	Oct '11
IIF	1.5	0.0	Oct '11

Source: IIF, GIC Research

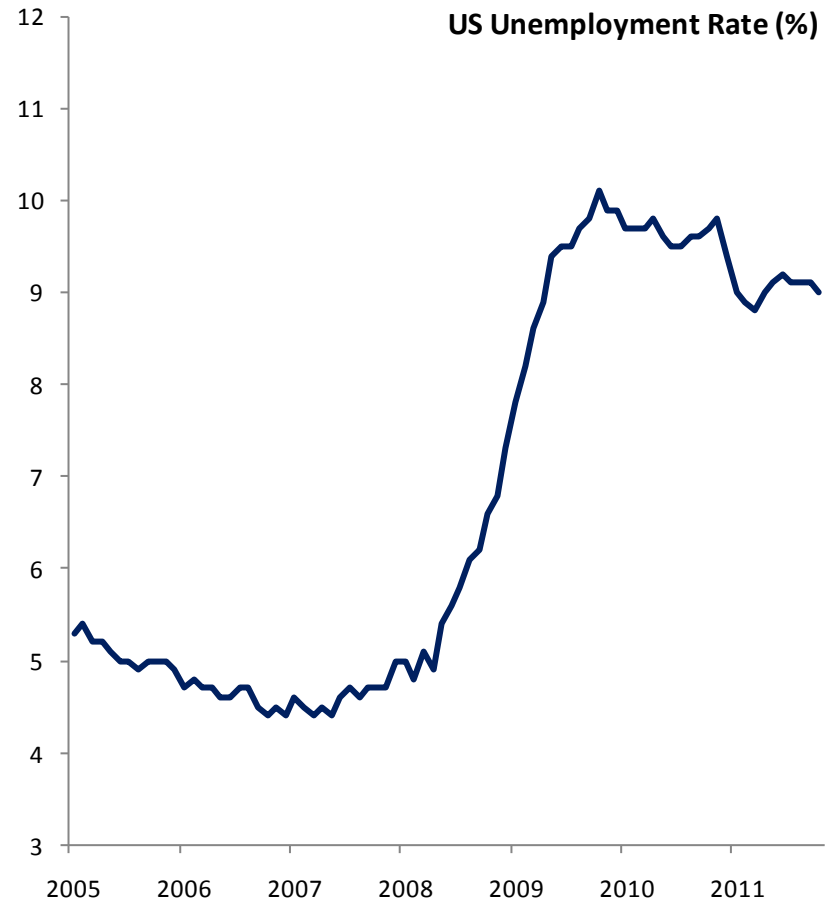
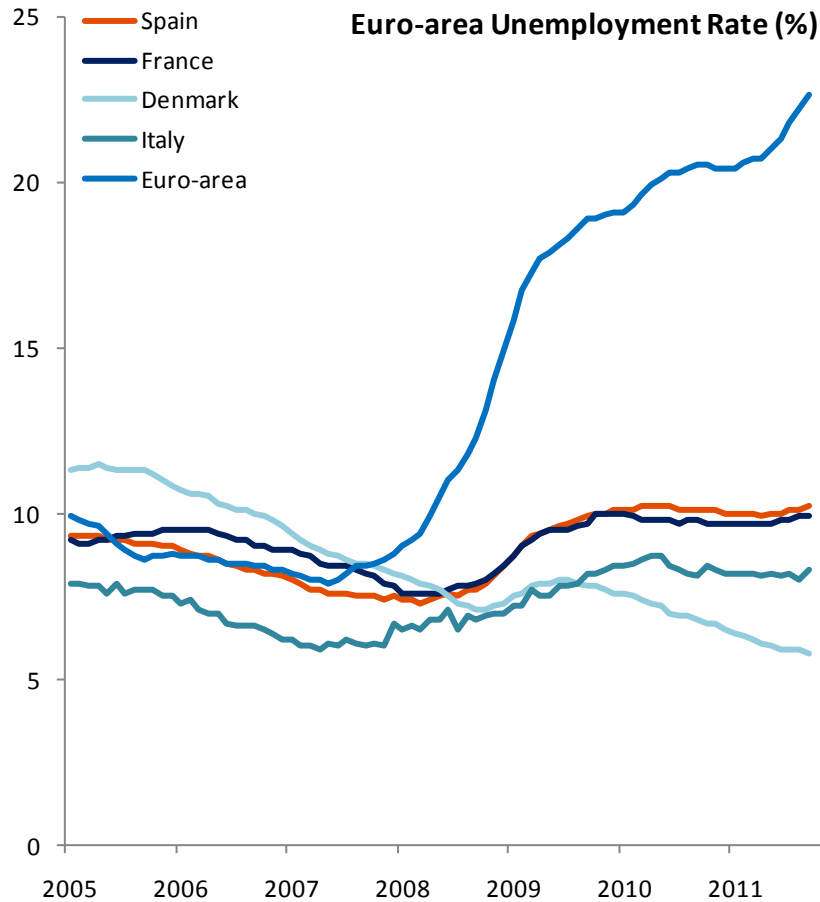
Developed Markets – GDP Growth Loses Traction



Source: Factset, DataStream, GIC Research



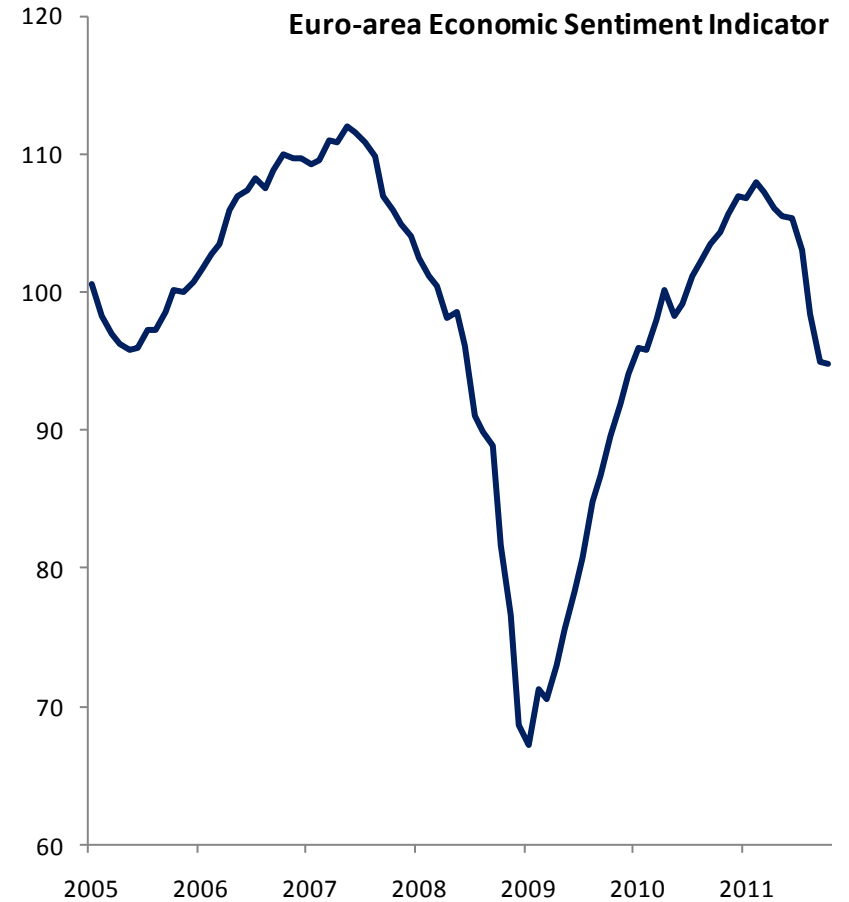
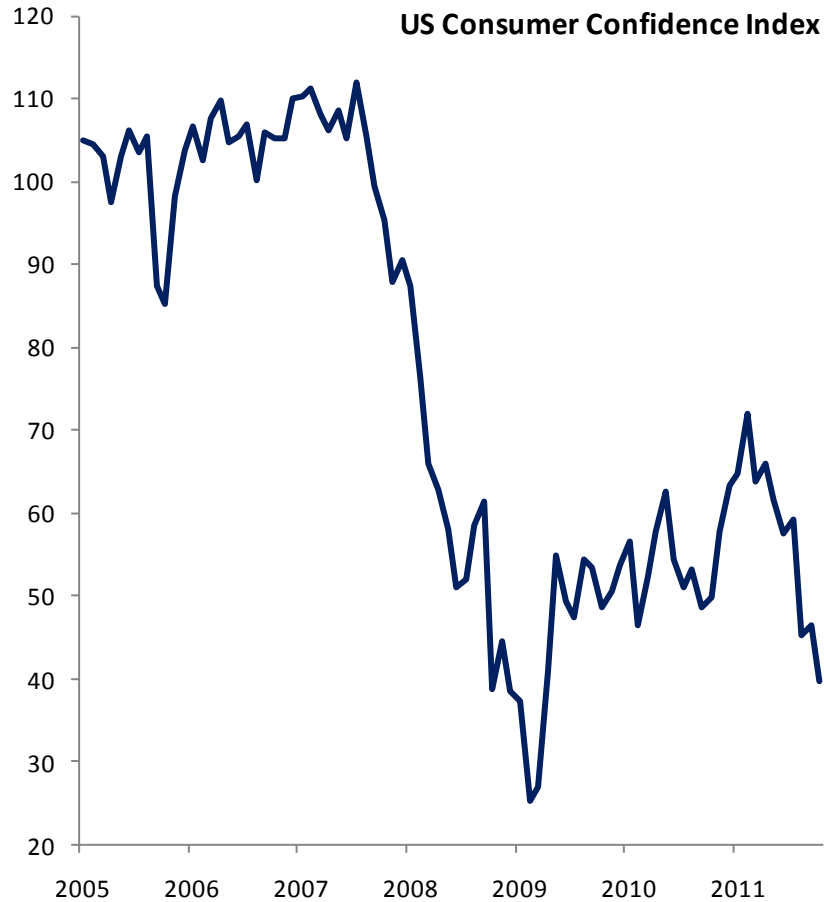
Developed Markets – Unemployment Remains a Concern



Source: Factset, GIC Research



Developed Markets – Sentiment Takes a Beating



Source: Factset, GIC Research





Emerging Markets – Surviving The Turmoil

- ❖ Emerging Market (EM) Economies are very likely to outpace their DM counterparts in terms of economic growth during 2012.
- ❖ The IIF forecasts growth in EM economies to average at ~6.5% in 2010-12 with Emerging Asia continue to lead the global growth rebound, with the consequence that inflation rates will remain elevated.
- ❖ Strong economic growth and recent commodity price increases, have raised inflationary fears for much of the EM world, especially Asia and Latin America, where rising property prices and domestic liquidity have put significant upward pressure on inflation rates.
- ❖ Emerging Asia has led the global growth rebound during 2011, as domestic demand has filled some of the void left by the sharp decline in exports. However, there are concerns that slowdown in DM economies will have a prolonged impact on exports from Asian economies.
- ❖ Emerging European countries are witnessing quick pace of growth, given the fact that Balance Sheet distress in these countries is lower than Euro-zone counterparts.
- ❖ Good macroeconomic policy fundamentals, ample policy support, favorable external financing conditions, and strong commodity revenues have aided growth in Latin American economies.



Emerging Markets – Resilient Growth

GDP Growth

(% chg YoY)	2009	2010	2011f	2012f
DEVELOPED MARKETS	-4.1	2.7	1.3	1.3
United States	-3.5	3.0	1.8	1.9
Euro Area	-4.2	1.7	1.5	0.0
Japan	-6.3	4.0	-0.4	2.5
Other DM	-3.0	2.6	1.6	2.1
EMERGING MARKETS	1.6	7.2	6.2	5.9
Latin America	-2.4	6.2	4.2	3.7
Argentina	-2.6	9.2	6.5	4.4
Brazil	-0.6	7.5	3.5	3.3
Mexico	-6.1	5.4	3.9	3.6
Emerging Europe	-5.8	4.5	4.5	3.7
Russia	-7.8	4.0	4.2	4.0
Turkey	-4.8	9.0	7.5	4.0
Asia/Pacific	6.8	9.1	8.0	7.9
China	9.2	10.4	9.4	9.0
India	8.0	8.5	7.5	8.0
Africa/Middle East	0.9	4.3	4.6	4.1
WORLD	-2.2	4.4	3.3	3.3

Growth in Exports

(% chg YoY)	2009	2010	2011		
			Q1	Q2	Q3
Emerging Asia	-15.5	32.4	28.1	24.7	33.7
China	-16.0	31.3	26.4	22.0	20.5
India	-3.5	32.4	42.2	48.5	53.2

Dependence on Exports

	Exports to EU (% of Total)	Exports to US (% of Total)	Total Exports (% of GDP)
Emerging Asia	10.6	11.3	41.9
China	14.8	18.0	27.1
India	14.6	10.7	14.5

Concerns remain that a double-dip recession in DM economies could trigger a collapse in exports from Asian countries, and cause a slowdown in economic activity across the region

Source: IIF, GIC Research

Emerging Markets – Rising Inflationary Pressure

- Resilient economic growth has been fuelling inflation in EM economies
- While Governments have hiked rates to offset the excessive liquidity in the system, the effect of rising commodity and food prices has compounded the effect
- Persistently high inflation has impacted growth, and threatens to slow down the pace of investment inflows into most EM economies

Consumer Price Index

(% chg YoY)	2009	2010	2011f	2012f
DEVELOPED MARKETS	0.6	1.4	2.4	1.4
United States	1.5	1.2	3.3	1.2
Euro Area	0.4	2.0	2.0	2.0
Japan	-2.1	-0.3	-0.1	-0.1
Other Mature	1.4	2.8	4.0	2.3
EMERGING MARKETS	5.0	6.2	6.1	5.7
Latin America	6.2	8.1	8.3	8.6
Argentina	17.4	22.9	23.7	29.1
Brazil	4.3	5.9	6.5	5.5
Mexico	3.6	4.4	3.1	3.9
Emerging Europe	6.8	6.8	6.0	6.1
Russia	8.8	8.8	7.2	7.5
Turkey	6.5	6.4	8.1	7.6
Asia/Pacific	3.6	5.3	5.3	4.2
China	1.9	4.6	5.4	4.0
India	10.4	9.7	6.5	4.8
Africa/Middle East	5.8	5.3	5.8	6.2
WORLD	2.1	3.2	3.9	3.2

Source: IIF, GIC Research



GCC Economics

Macro Fundamentals





GCC Macro – Benefiting From High Oil Prices

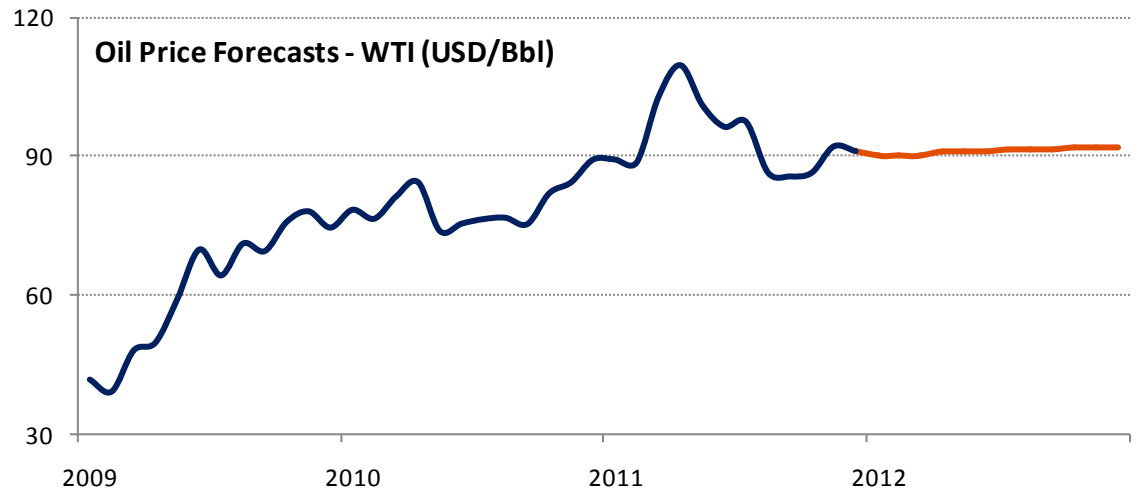
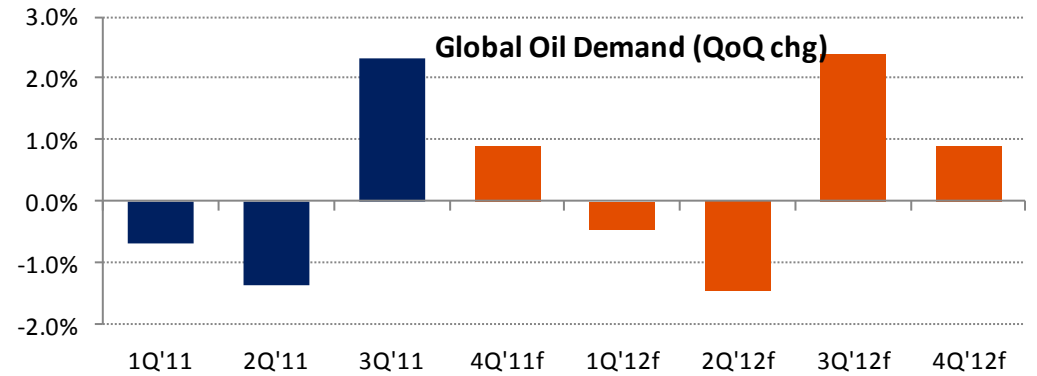
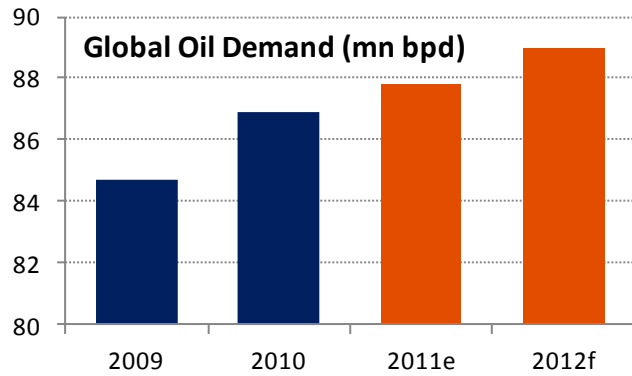
- ❖ Economic activity in the GCC countries has improved following a period of historically high Oil prices
- ❖ Brent crude has averaged at ~USD 115/Bbl during 2011, significantly above the budget forecasts of all GCC governments, thus promising healthy fiscal surpluses at the end of the year.
- ❖ Though downside risks remain for oil prices in the short-term, consensus points to strength in the medium to long-term.
- ❖ The IMF expects the combined external current account surplus for the GCC countries, to increase from USD 163bn to 279bn.
- ❖ The large fiscal surpluses are being channeled into infrastructure spending, thus providing sustainable growth impetus to the non-Oil sector, which the IMF expects to grow at 4.5% in 2011-12.
- ❖ Proactive and expansionary fiscal policies by GCC governments have been prodding the economy upwards, while aiding economic growth in the private sector.
- ❖ Aggressive monetary easing measures, including low interest rates and reduction of compulsory reserve requirements, remain accommodative for fiscal expansion.
- ❖ The GCC countries are better prepared for a deterioration in the external environment, as banks' liquidity continues to improve and deleveraging progresses steadily.



GCC Macro – Potent Risks Around The Corner?

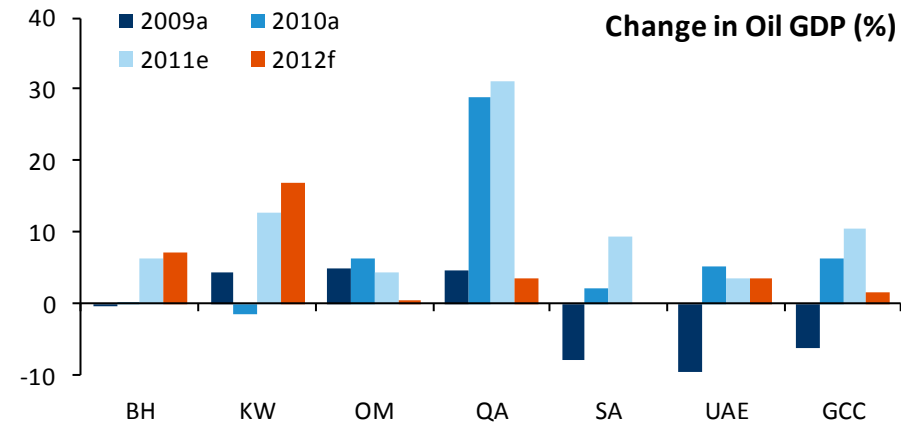
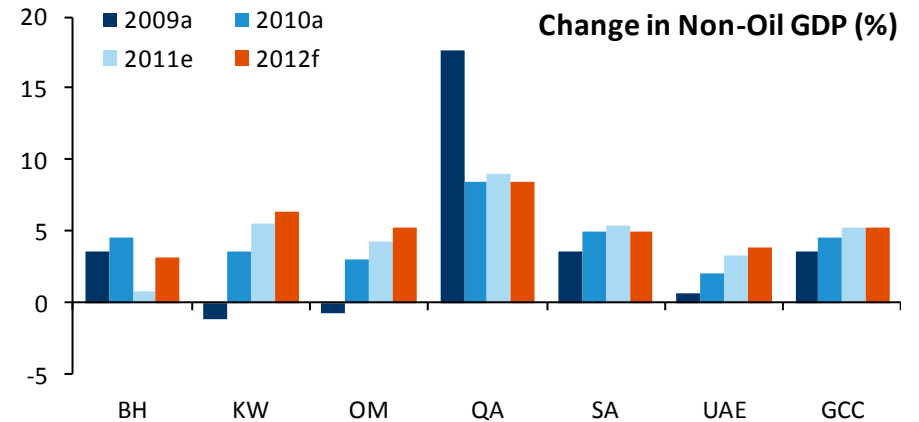
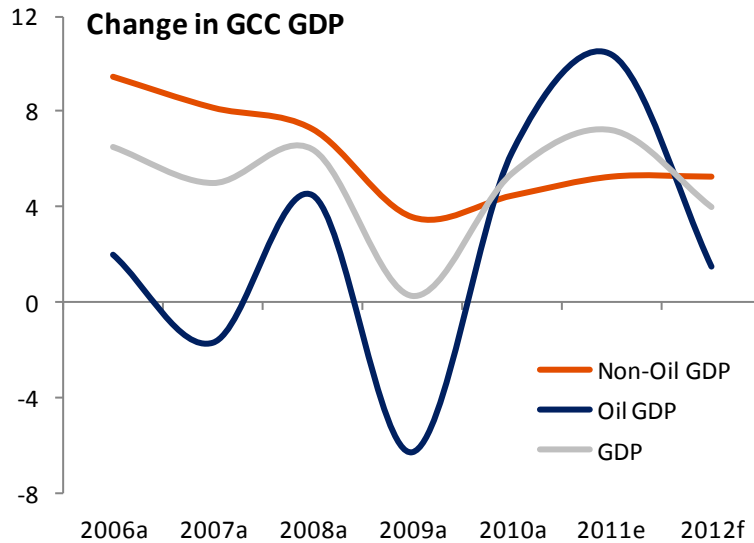
- ❖ However, there are some significant risks that could lower the visibility of sustained growth for the GCC economies.
- ❖ Further downside in the global economic outlook, fueled by the contagion effect of sovereign debt issues in Europe, could pressure Oil prices in the medium-term.
- ❖ Such a slowdown in DM economies could easily spill over into the EM economies, which are key trading partners for GCC countries. Already, weakness has been felt in the Petrochemicals sector in the GCC, which have been affected by a sharp slowdown in demand from DM and EM economies alike.
- ❖ Though the negative impact of the social unrest in the wider MENA region was largely contained within the GCC countries, tensions remain high and retain the potential to escalate within a short period of time.
- ❖ One key consequence of the ‘Arab Spring’ has been the unprecedented social largesse by GCC governments to address perceived social demands. This along with the large spending plans, have raised the break-even Oil prices for most GCC governments, thus threatening the robust fiscal balances.
- ❖ Headline inflation is in check in most countries, though imported inflation still remains a concern on account of FX volatility. However, core inflation, excluding energy and food prices, remains supportive to the region’s growth.

GCC Macro – Healthy Growth In Global Oil Demand



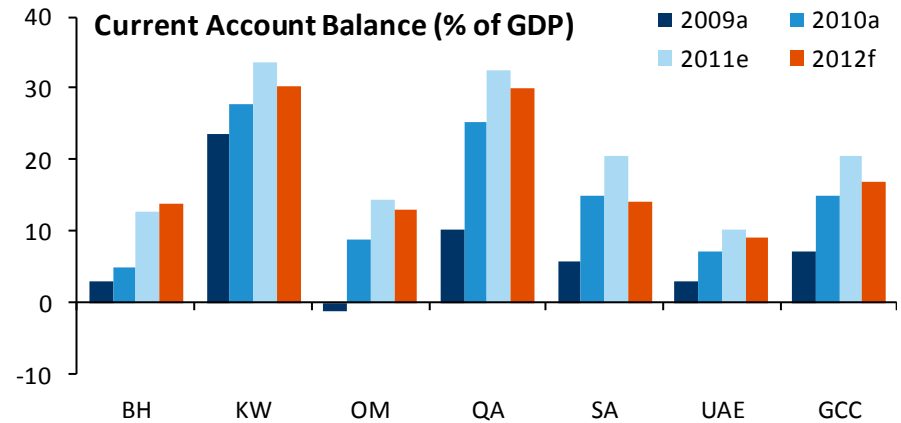
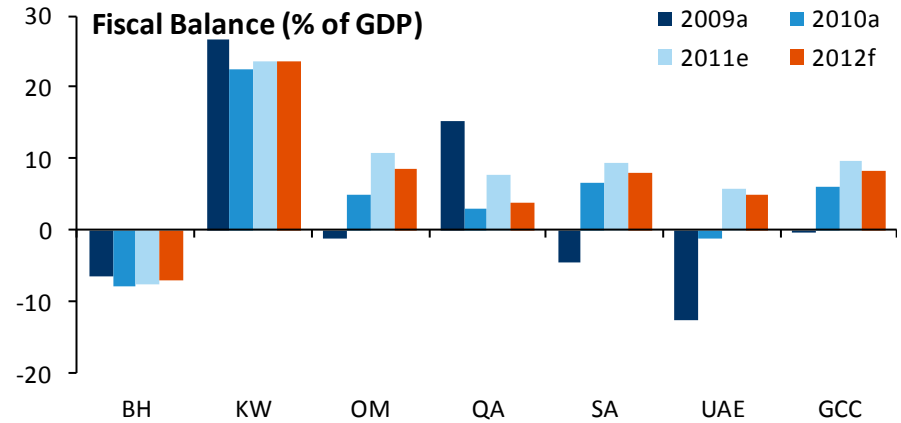
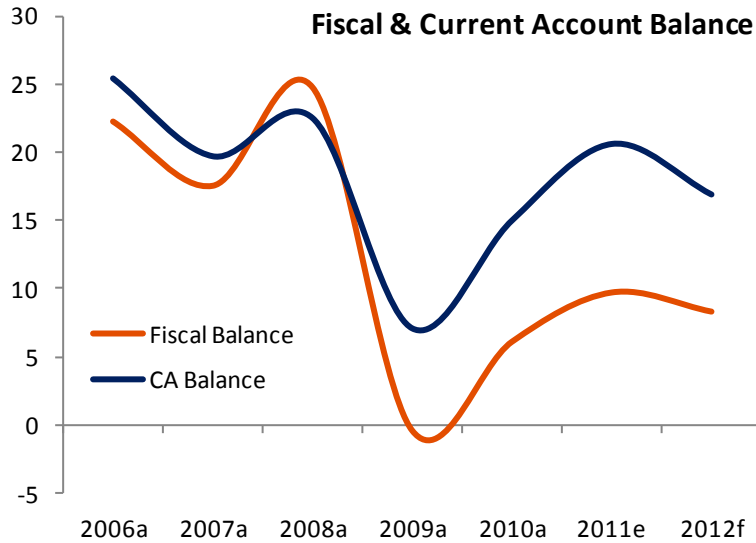
Source: EIA – Short-term Energy Outlook;
OPEC – Oil Market Report (Nov '11) , GIC Research

GCC Macro – GDP Growth



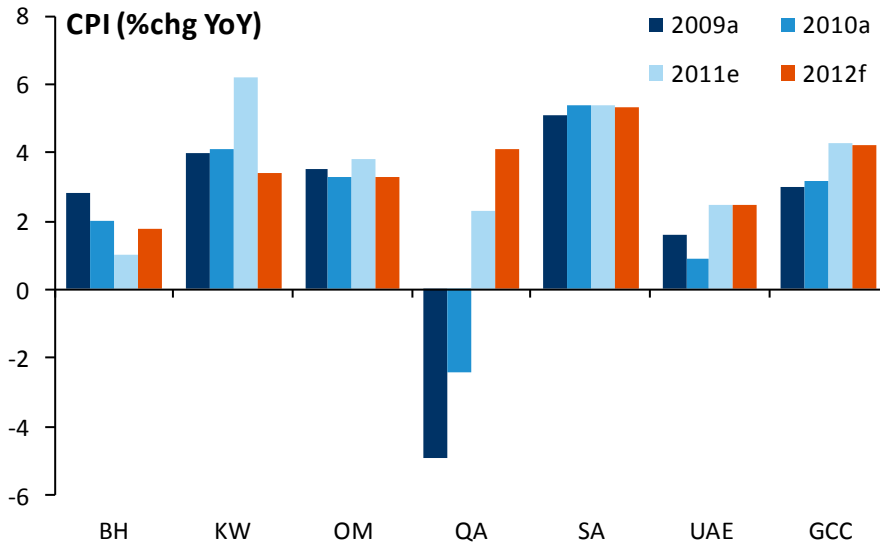
Source: IMF – Regional Economic Outlook ME & CA (Oct 2011), GIC Research

GCC Macro – Fiscal & Current Account Balances



Source: IMF – Regional Economic Outlook ME & CA (Oct 2011), GIC Research

GCC Macro – Inflation Pressures On The Rise



Source: IMF – Regional Economic Outlook ME & CA (Oct 2011), GIC Research

- ⦿ Inflation is on the rise across the GCC, led by higher global food prices and substantial increases in infrastructure build-up throughout the region
- ⦿ Imported inflation still remains a concern on account of the volatility in the EUR, as most GCC currencies are pegged to the USD
- ⦿ Recent spending by GCC governments in terms of social entitlements, wage increases and cash handouts have contributed to a marked increase in private demand, thus stoking inflationary pressure
- ⦿ Saudi Arabia and Kuwait are likely to be the most affected. In the UAE and Qatar, inflationary pressures will remain limited as rents continue to moderate, partly offsetting the impact of rise in food and other items



GCC Equity Markets Overview





GCC Equity Markets – Overview

- ❖ The GCC equity markets opened the year with a positive outlook as oil prices were moving up and the global economic recovery seemed to be a stable path.
- ❖ However, soon after, the equity markets were shocked by the strength and speed at which the ‘Arab Spring’ shook the political landscape, challenging the status quo, and eroding investor confidence.
- ❖ Though the GCC markets witnessed sharp change in direction at the beginning of the crisis, they recovered following quick measures taken by the respective governments, thus shielding the markets from further turmoil.
- ❖ The geopolitical situation kept upward pressure on oil prices, which in turn fed a recovery in equity markets, led by the Petrochemicals sector.
- ❖ However, the positive sentiment remained short-lived as anxiety set-in following mounting evidence that the European debt crisis was spinning out of control, and threatening to arrest the global recovery and even plunge it back into recession.
- ❖ As the crisis spread, its impact on oil prices was gradual but persistent, resulting in the Petrochemicals sector falling out of favor.
- ❖ Investors quickly shifted focus towards defensive sectors and industries that were exposed to local economies including Retail, Consumer, Telecoms and Cement sectors, which in turn outperformed the benchmarks in the latter part of the year.



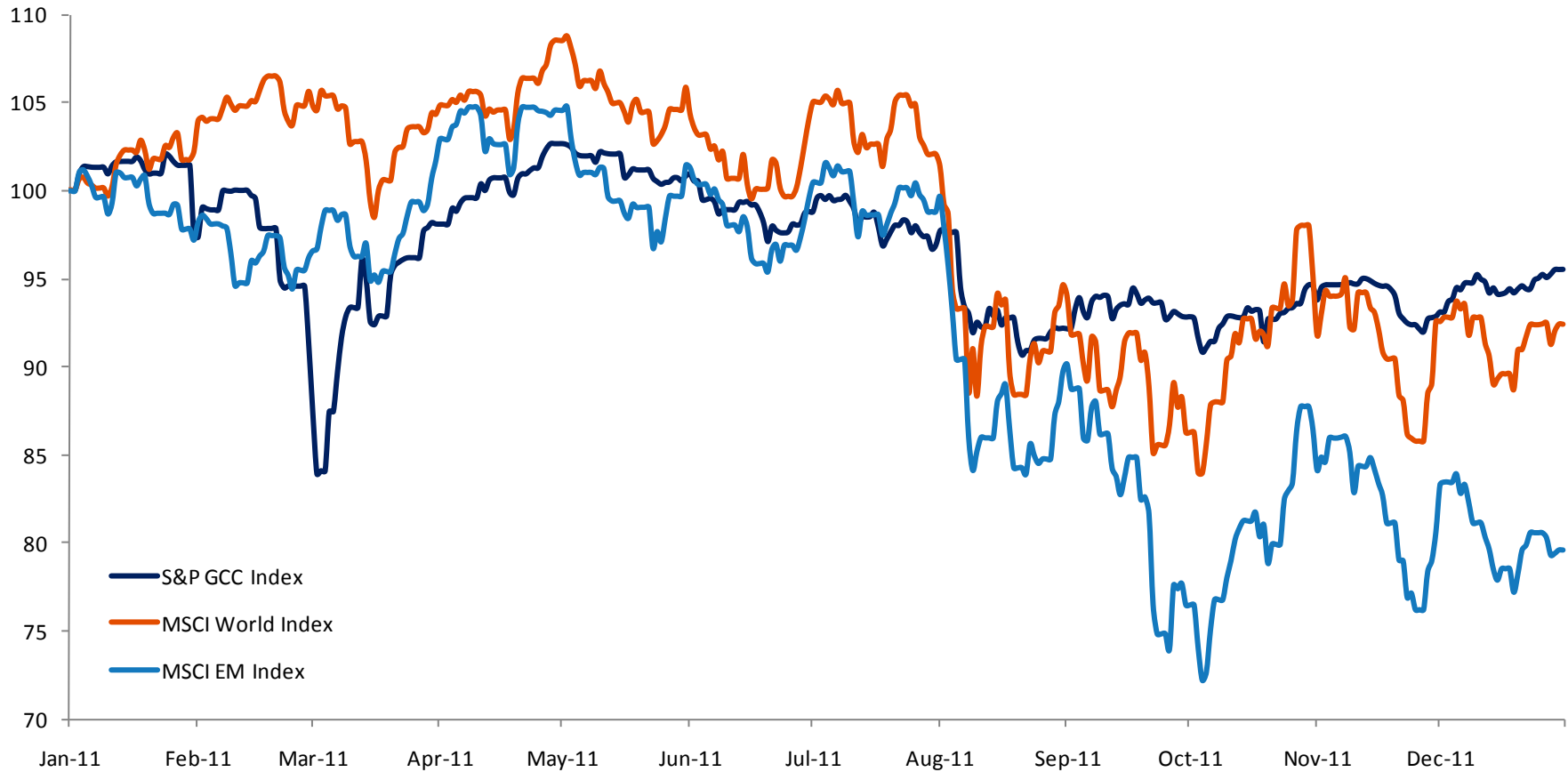


GCC Equity Markets – Outlook

- ❖ With scenarios of weakening global economic outlook gaining increasing credence, an earnings-led recovery is unlikely to happen during 1H 2012.
- ❖ Volatility is likely to increase as markets try to gauge risk and react appropriately. This could potentially create investment opportunities with a medium term horizon.
- ❖ Overall direction of the markets will largely be determined by movement in oil prices. There is consensus among analysts that oil prices are likely to improve in the medium to long-term but downside risks remain in the short-term.
- ❖ Accordingly, the Petrochemical sector will remain a speculative bet in the short term while focus continues on sectors geared towards servicing local economies. Business segments with stable cash flow and steady dividends are expected to outperform in a volatile market.
- ❖ Consumer plays, that include the Telecoms and Retail sectors, are likely to emerge as winners, backed by healthy demographic trends and stable business models.
- ❖ Demand-driven fundamentals for Fertilizer products are expected to remain largely intact.
- ❖ Despite a decline in oil prices, the current levels still remain conducive to the expansionary budget plans of regional governments, and credit growth is expected to remain strong in Saudi Arabia and Qatar, thus supporting earnings from the Banking sector.



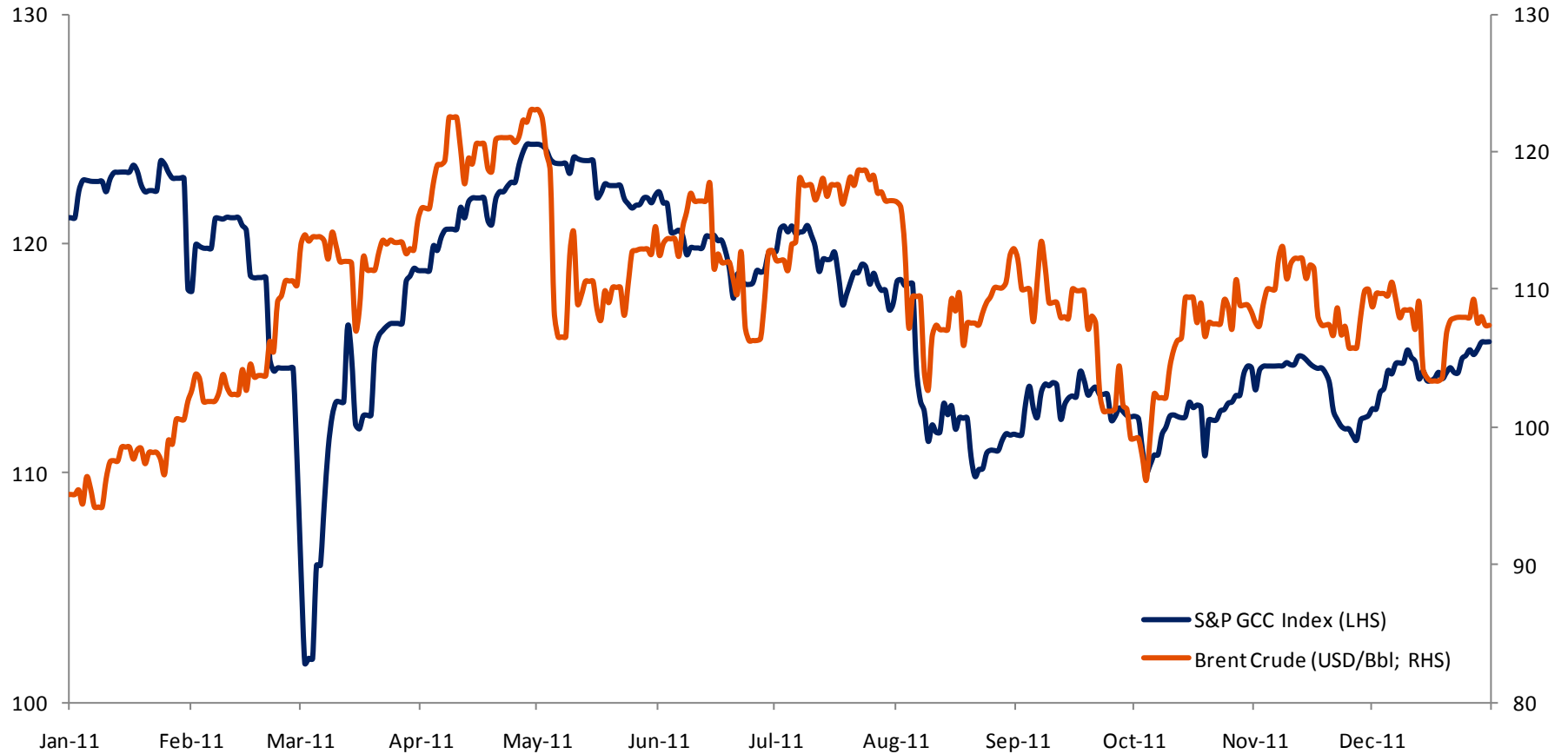
GCC Equity Markets – The Rise & Fall



Source: Bloomberg, GIC Research



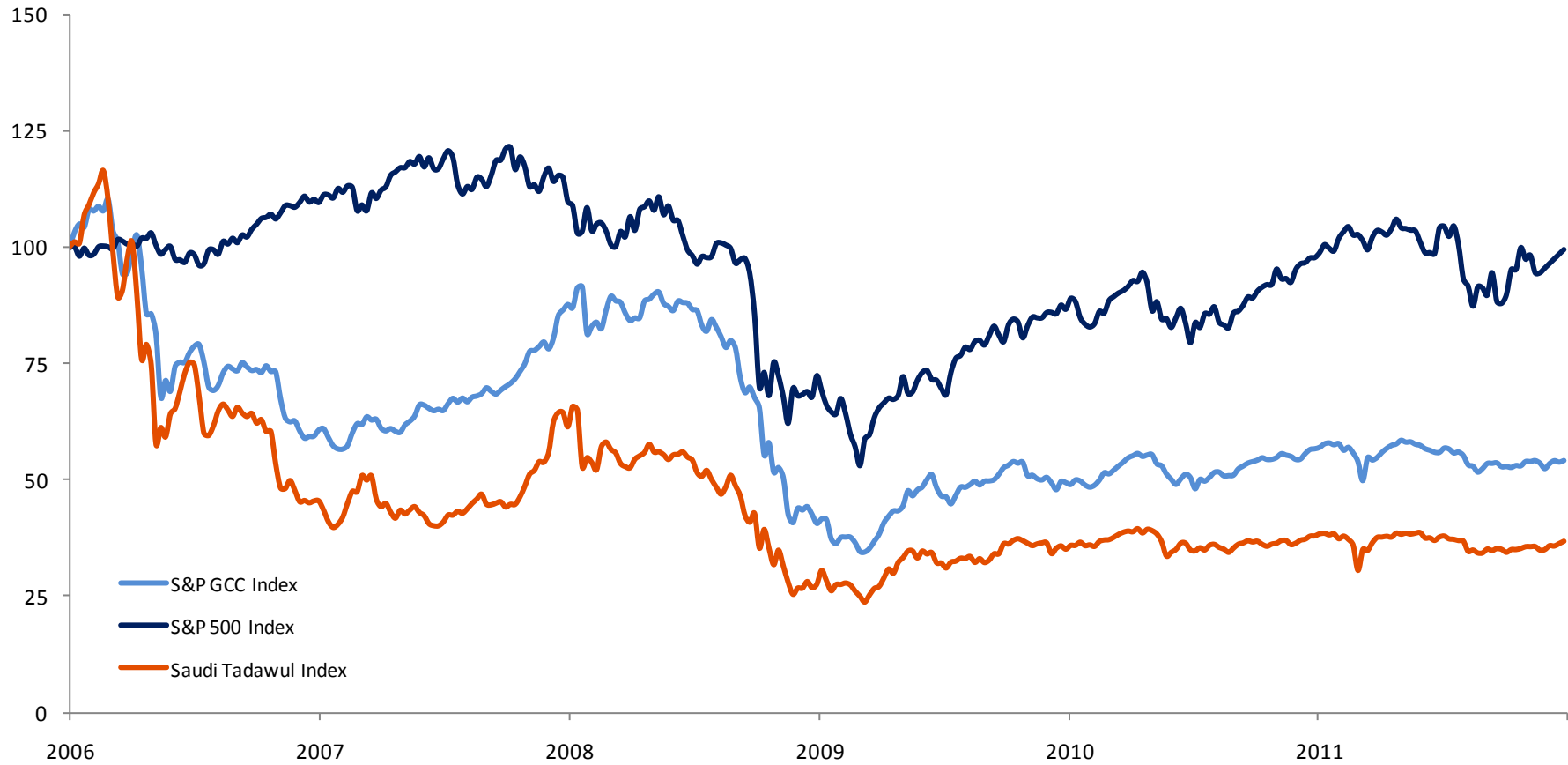
GCC Equity Markets – Correlation To Oil Prices



Source: Bloomberg, GIC Research



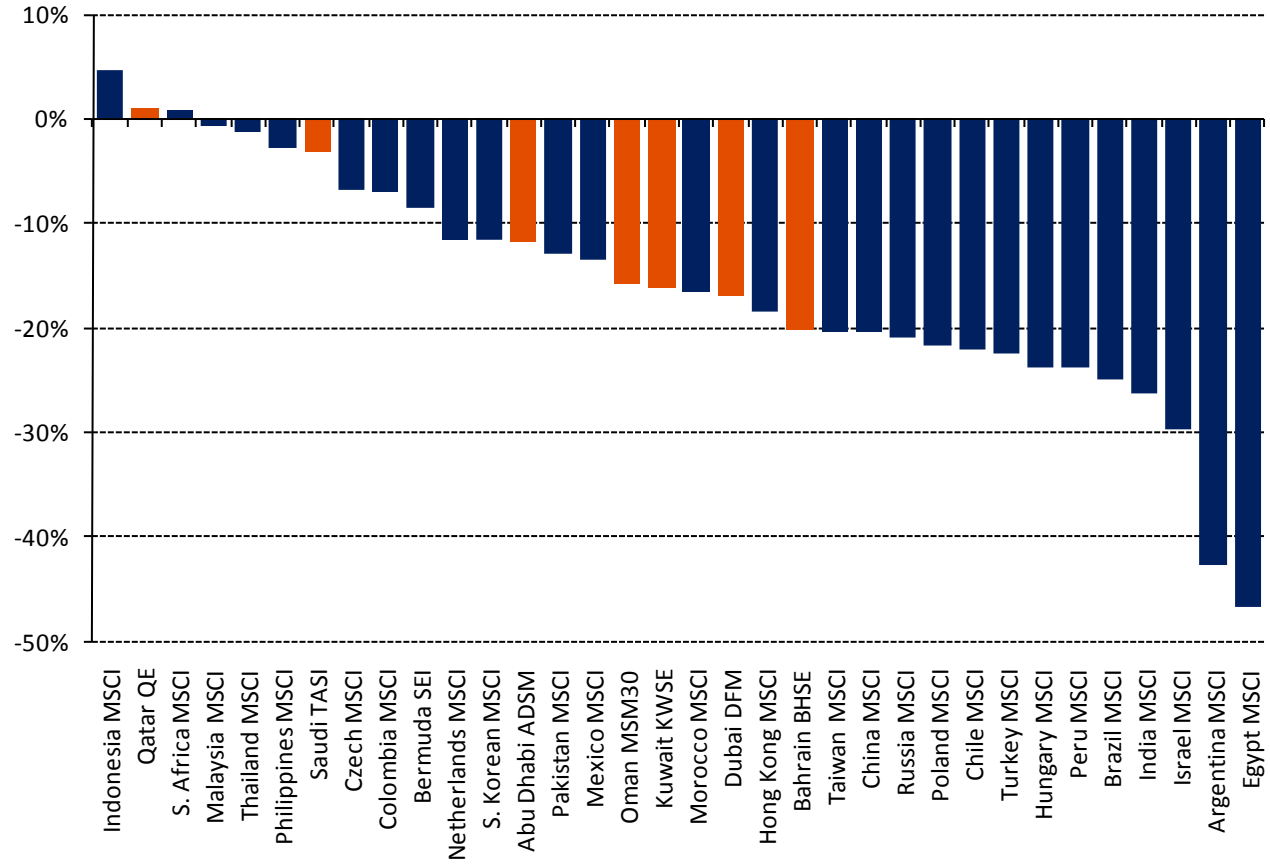
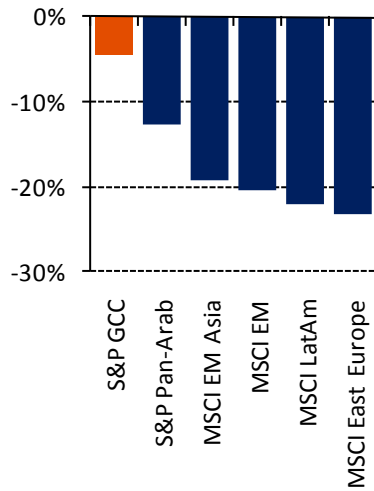
GCC Equity Markets – Long term Perspective



Source: Bloomberg, GIC Research

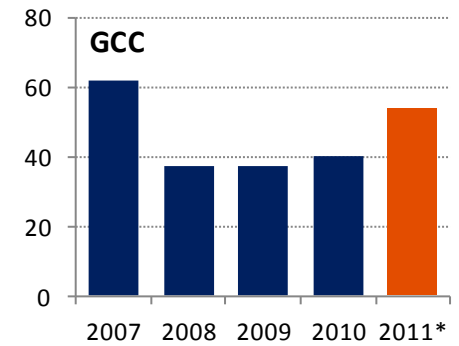
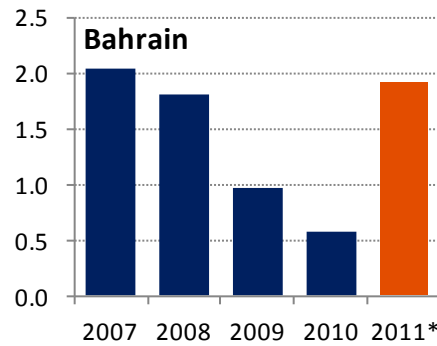
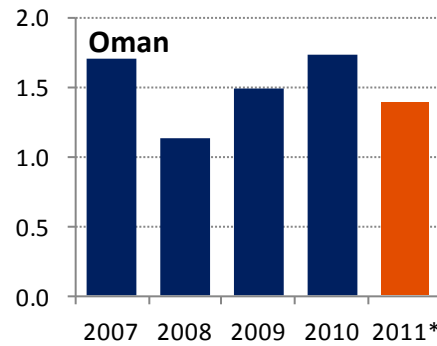
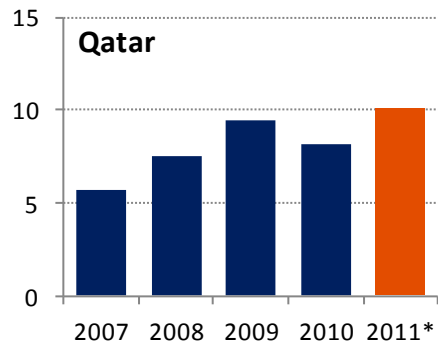
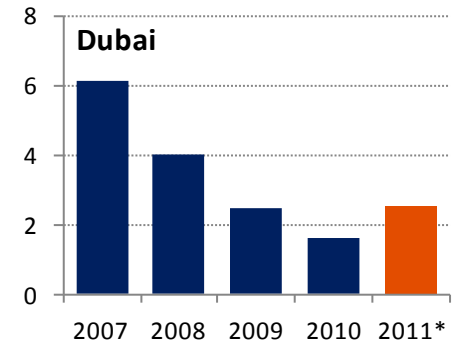
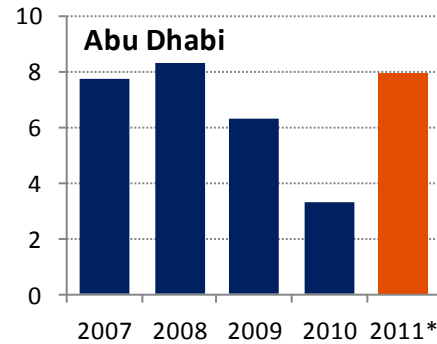
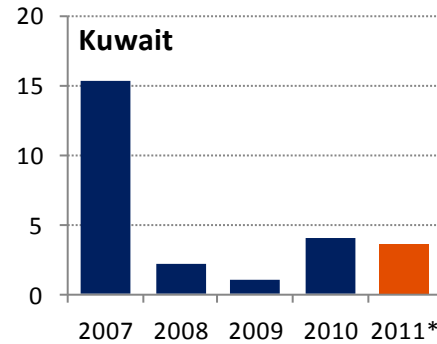
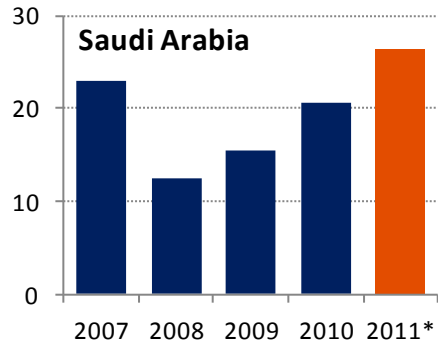


GCC Equity Markets – 2011 Performance vs. EM Countries



Source: Bloomberg, GIC Research

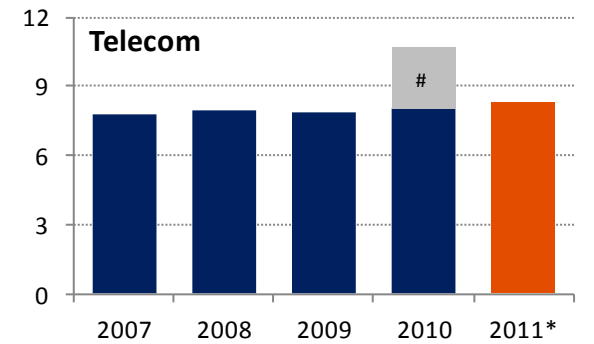
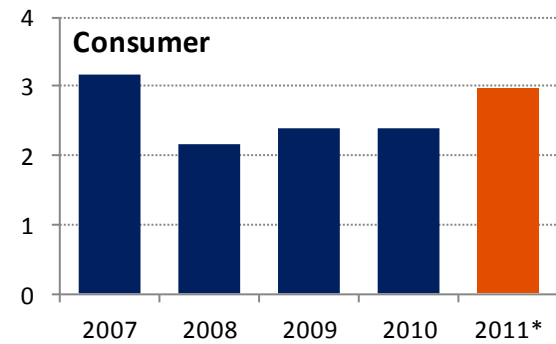
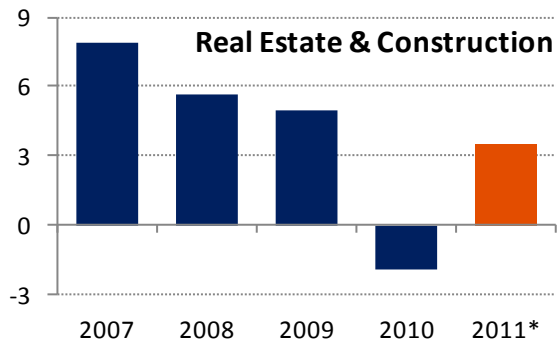
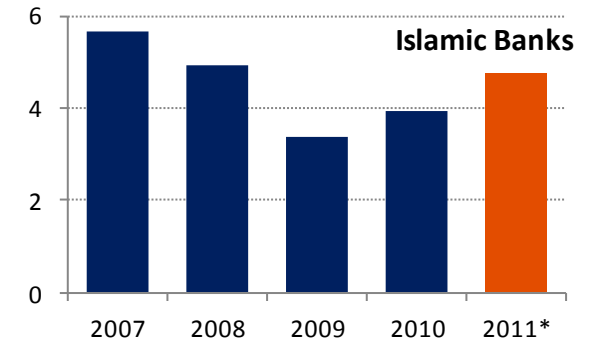
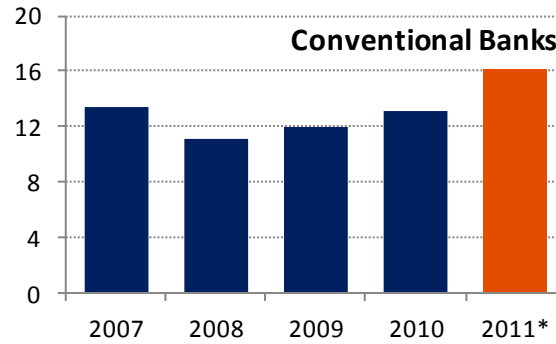
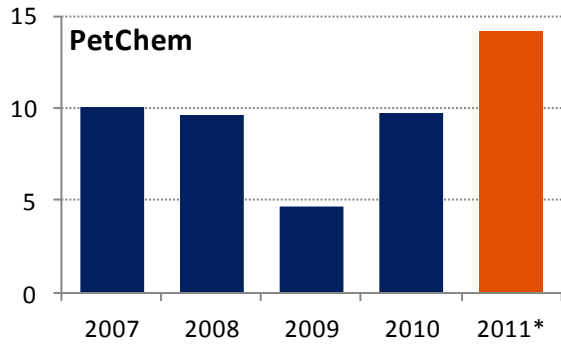
GCC Equity Markets – Corporate Profit Trend



Source: Reuters, GIC Research

All figures are in USD bn
* Results for 2011 are annualized 9M figures

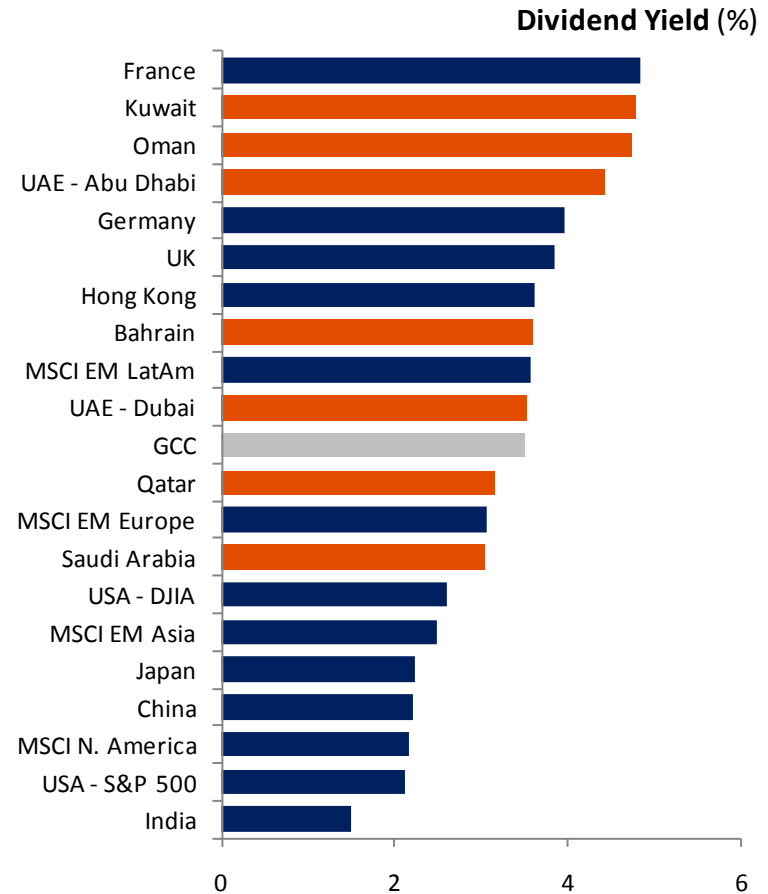
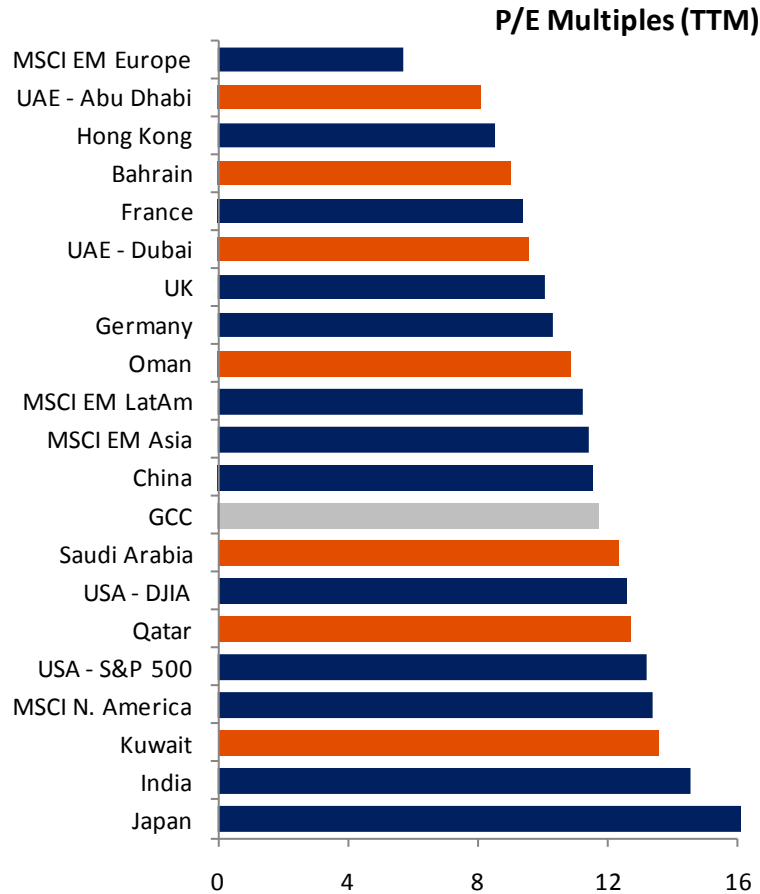
GCC Equity Markets – Corporate Profit Trend



Source: Reuters, GIC Research

All figures are in USD bn
 * Results for 2011 are annualized 9M figures
 # Net Income for the Telecom sector in 2010 has been adjusted for the extra-ordinary income generated by Zain from sale of operations in 2010

GCC Equity Markets – Valuations



Source: Bloomberg, GIC Research



GCC Credit Markets Overview





GCC Credit Markets – Overview

- The global credit markets have had to grapple with a range of adverse economic news: Euro-area debt crisis, US economic slowdown and fiscal crisis, recession in Japan and the impending slowdown in EM especially China.
- The U.S. downgrade by S&P resulted in volatility in the global and the GCC credit markets, and caused a rush towards safe havens, resulting in a steep decline in the US treasury yield.
- Credits from the region have been particularly resilient in the recent market sell-off owing to various factors, including the strength of local bids, a relatively low correlation with overall EM flows, and solid underlying fundamentals.
- Social unrest in the Arab world also affected the credit markets in the GCC, causing widening of spreads. However, the spreads tightened from the high during the peak of the “Arab Spring”.
- The global crisis has had positive ramifications on the GCC credit markets, as investors overwhelmingly subscribed to various issues in the GCC market, given the stable economic outlook. However, the global uncertainties also caused the deferment of some major issues in the market.
- GCC credits continue to trade on thin liquidity with HG outperforming and HY lagging. Investors are choosing to reduce exposure in HY names, and illiquid paper and flows have been generally one way in HG.
- The sovereign market was basically dry due to disruption in Bahrain, which has been one of the most active issuers in the past. Corporate issuances were also few and uneven. However, the secondary market activity has remained subdued and liquidity thin.





GCC Credit Markets – Outlook

- The GCC credit markets will be driven by global headline news flow. EM, including GCC, are expected to see positive flow of funds due to relative economic stability, better credit fundamentals and better yield as compared to the DM.
- Currently, the GCC credit markets appear to be holding up well and have absorbed a reasonable amount of primary market issuance. However, if the situation in Europe turns decidedly worse, we could expect a sharp withdrawal of cash from EM, including GCC, as investors seek liquidity through profit-taking and broad-based selling.
- Having the US rating only one notch higher than some GCC countries, might raise interest in regional bonds, especially that 'AA' GCC spreads are comparatively cheaper in that rating group.
- In the GCC, we prefer the more defensive credits, primarily out of Qatar and Abu Dhabi. We see better value in the quasi-sovereigns given the attractive spread pick-up over the sovereigns.
- Reduced risk appetite will result in continued preference in the ST for HG over HY till the global uncertainty recedes.
- Sukuks are expected to perform better than Conventional in the short to medium term due to demand supply imbalance.
- The GCC Sovereign basis in ST to MT is expected to trade in negative territory due to thin liquidity. However, in the LT, the basis will narrow, resulting in tightening of spreads in the cash market.
- While we could see a brief rally in the ST, the yields are expected to remain volatile. It will be a better strategy to have a short portfolio duration as papers at the shorter end of the curve are expected to perform better.
- The Primary market pipeline built up is strong. Sovereign, Utilities, Banks and Petrochemical sectors are expected to be the major issuers to meet their expense, refinancing and expansion requirements.



GCC Credit Fundamentals – Strong & Stable

	Total External Debt/GDP (%)		Debt/Export (%)		Budget Balance (%)		Current A/C Balance (% of GDP)	
	2010	2011	2010	2011	2010	2011	2010	2011
Saudi Arabia	18.6	17.9	29.9	26.5	7.0	14.4	14.9	20.6
Bahrain	63.6	81.3	50.6	40.7	(5.3)	(2.0)	4.9	12.6
Qatar	61.9	47.6	67.3	45.0	15.7	17.6	25.3	32.6
UAE	51.0	42.6	45.5	35.0	(2.1)	4.8	7.0	10.3
Kuwait	36.0	27.6	28.5	14.0	23.6	26.0	33.5	30.4
Oman	14.2	13.6	20.0	19.1	(0.2)	2.2	8.8	14.5

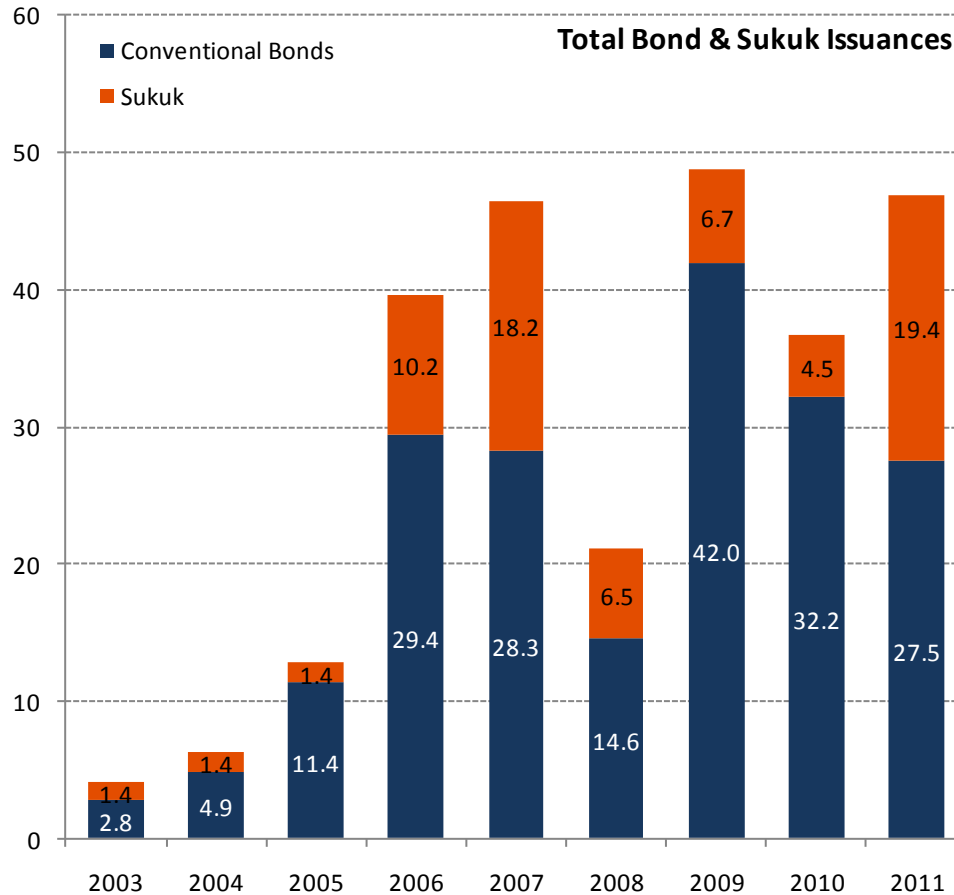
Source: Thomson Reuters, EIU, IMF, GIC Research

Fund Flow – Movement Towards EM To Continue

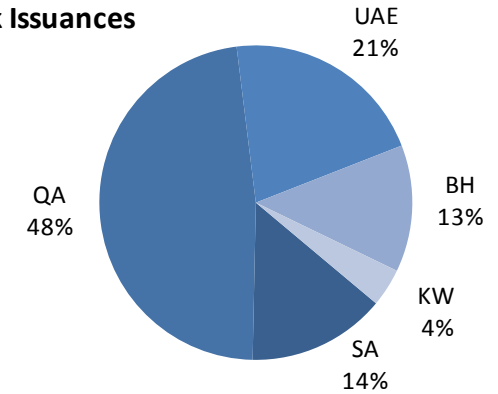
Type of Fund	Cumulative flows YTD (USD mn)	Cumulative Flows for same period in 2010 (USD mn)
Emerging Markets	8,519	34,670
<i>Local- currency</i>	7,267	19,046
<i>Hard- currency</i>	991	7,476
<i>Blended- currency</i>	261	8,148
Developed Markets	66,847	151,371
Total Bonds	75,365	186,042
High- Yields	6,964	17,133
Money Market	(119,587)	(452,537)

Source: SCB (Report dated 16 Dec '11), GIC Research

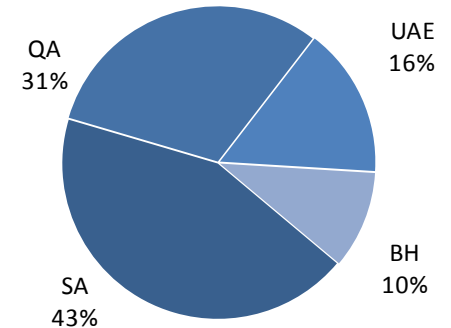
GCC Primary Issuances – Expected To Remain Strong



Sukuk Issuances 2011



Sukuk Issuances 2010

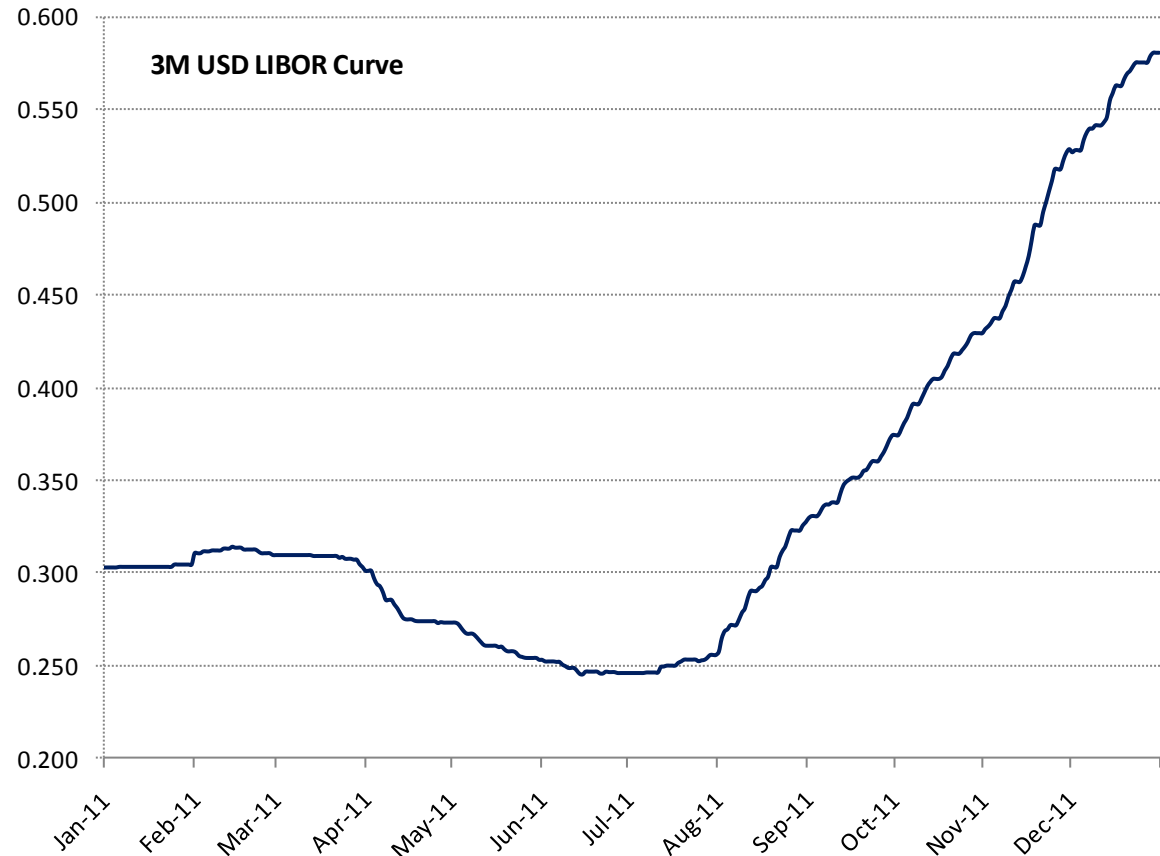


Source: Bloomberg, Zawya, GIC Research

*Includes issuances by various GCC Central Banks in the domestic market

Bonds vs. Loans – Bonds Preferred As Rates Go Up

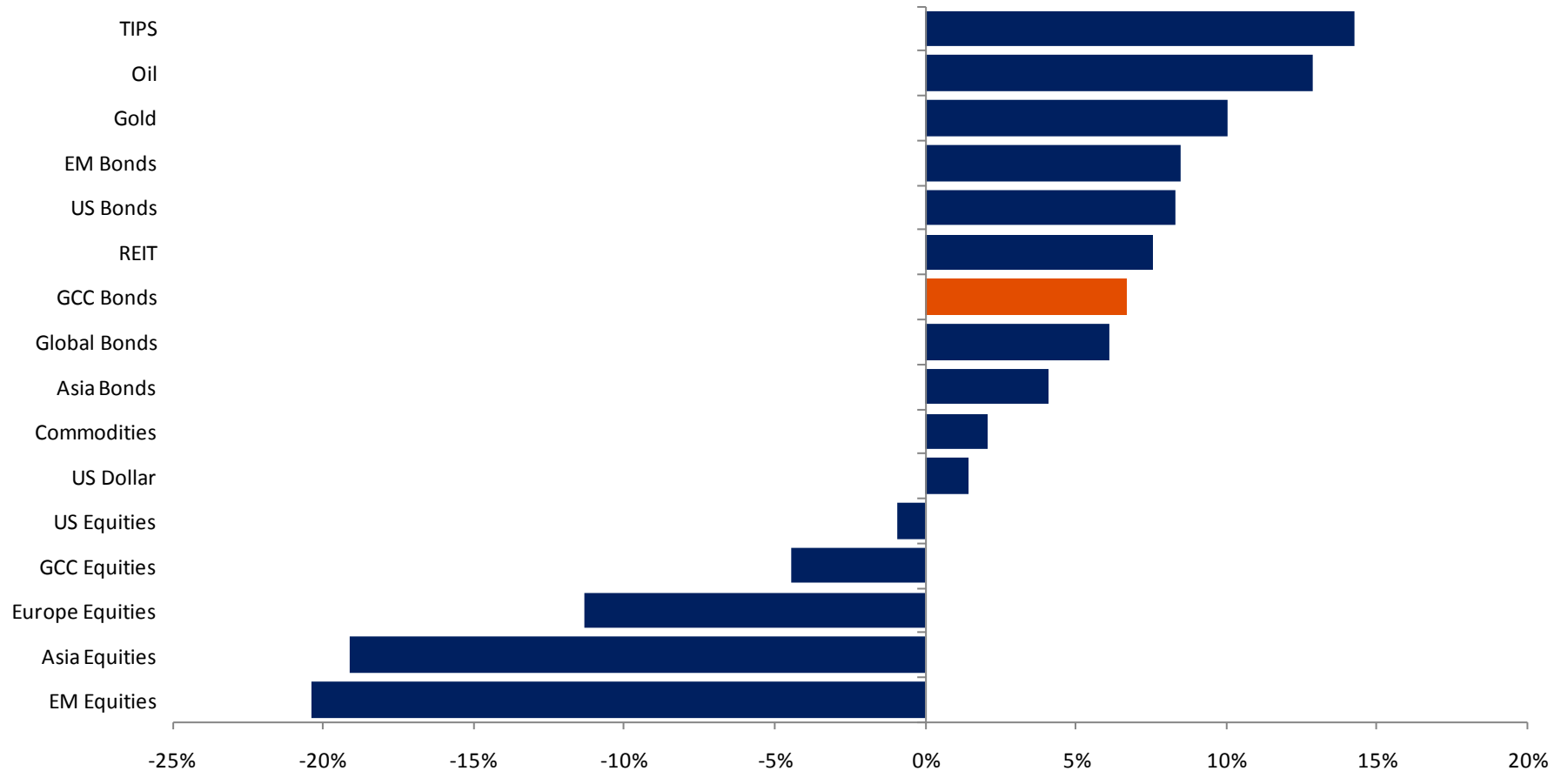
- The rate has been steadily rising as investors become increasingly reluctant to make USD-based loans to European banks on longer than an overnight basis
- Middle East entities hoping to refinance via bank loans face higher costs and lower commitments. This could make the bond markets become more attractive for issuers



Source: Bloomberg, GIC Research

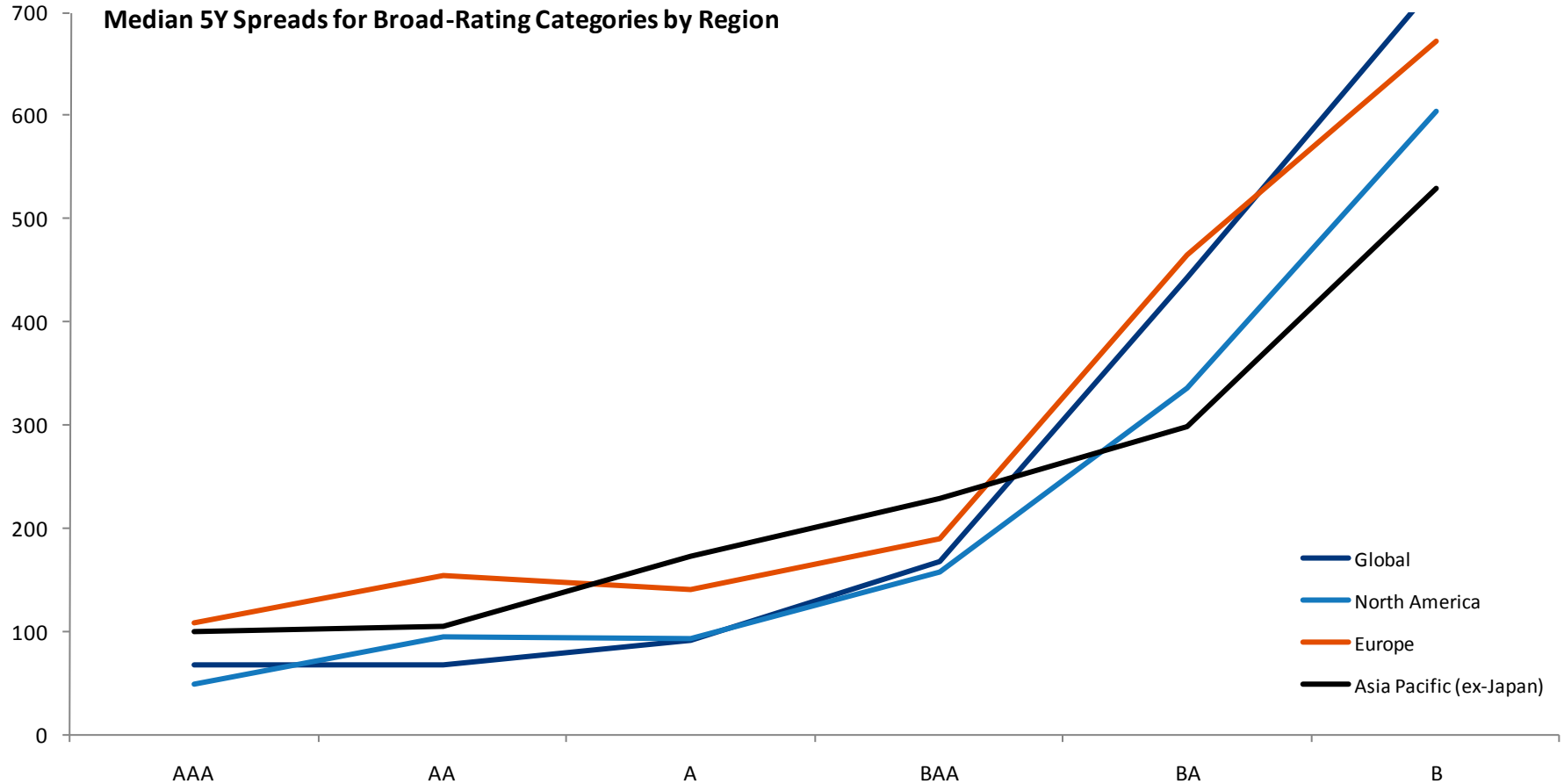


Relative Returns – Bonds vs. Other Asset Classes



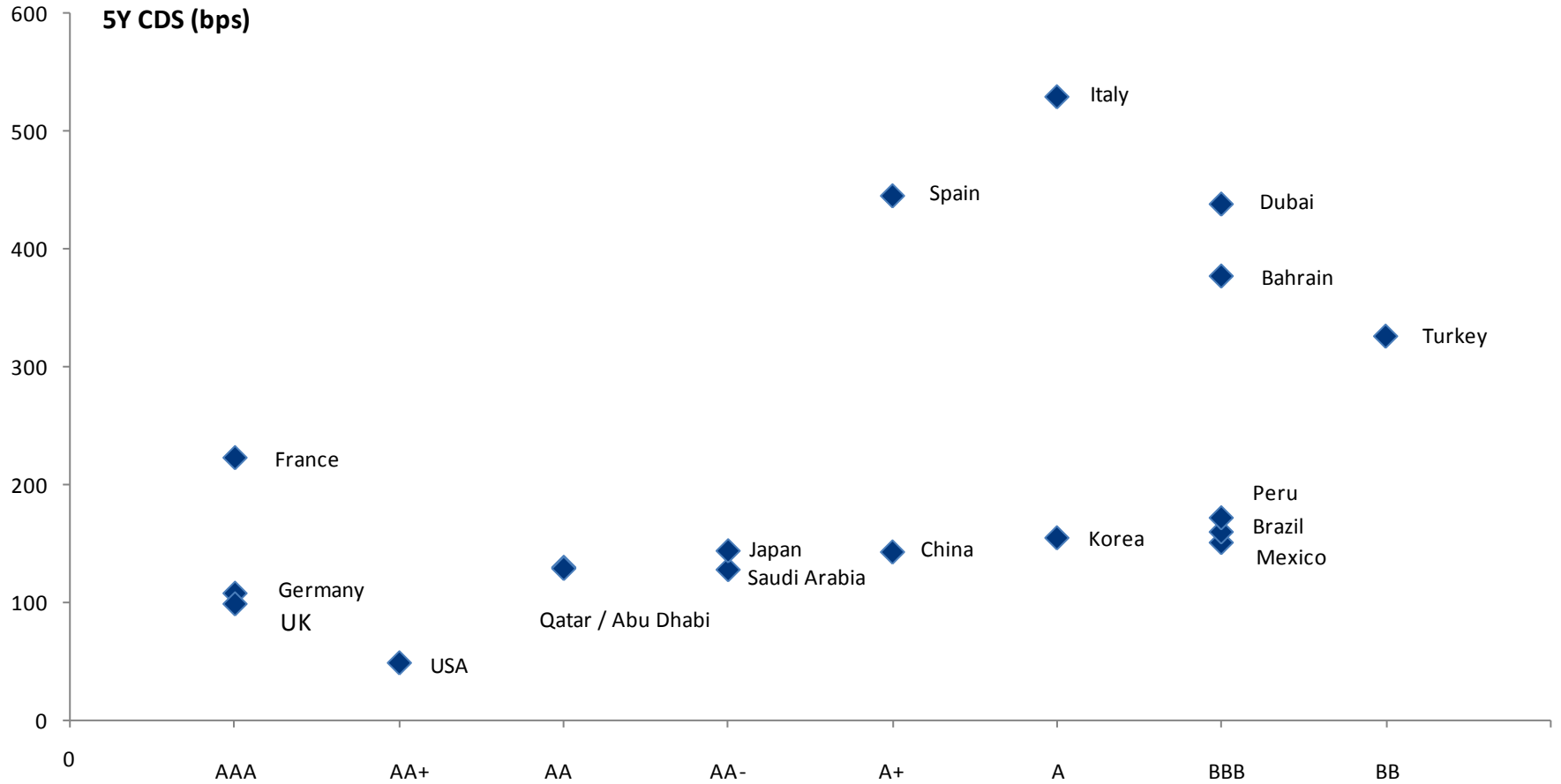
Source: Bloomberg, GIC Research

Global CDS Spreads – EM Expected To Tighten



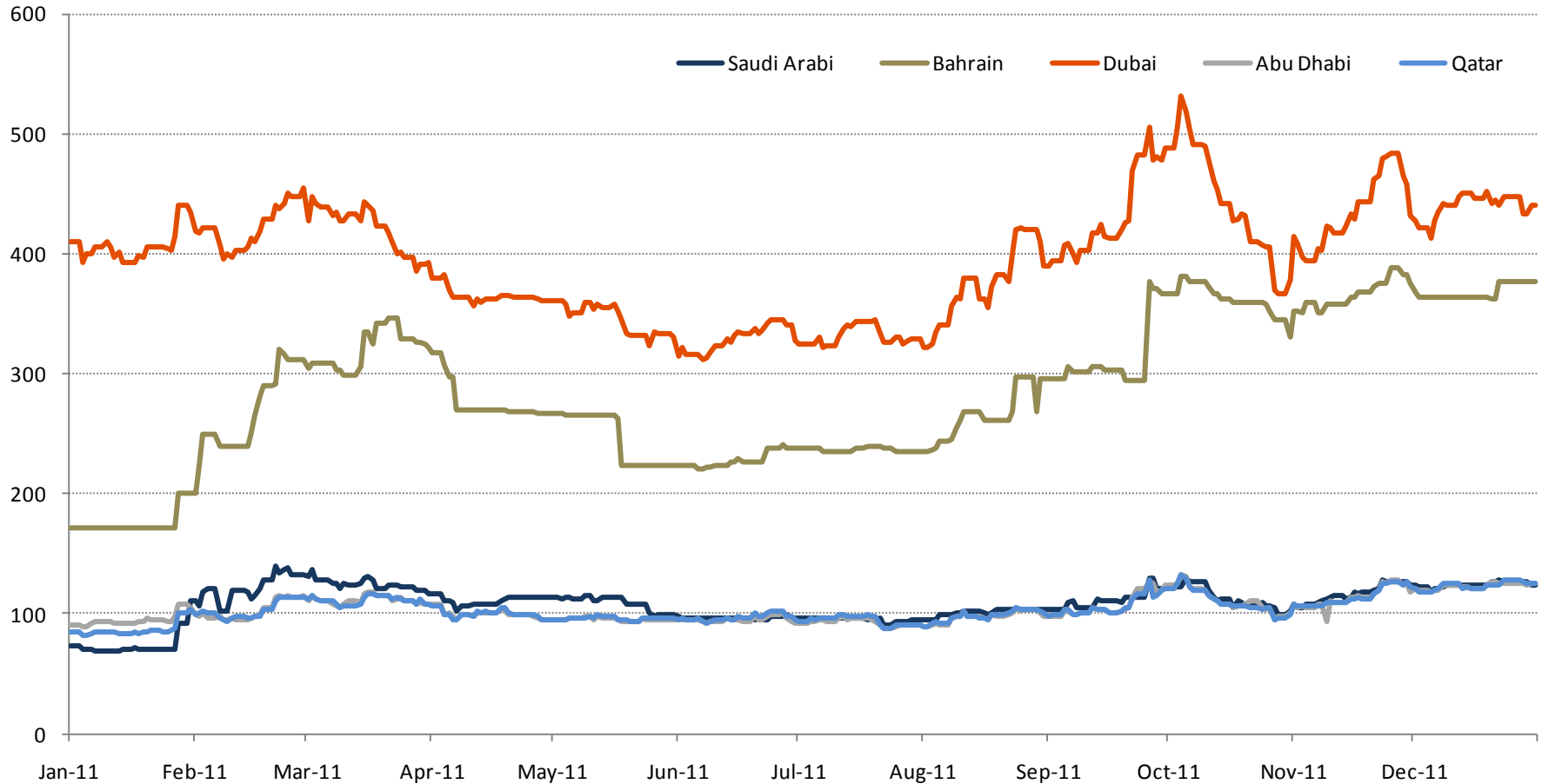
Source: Moody's (Report dated 30 Dec'11), GIC Research

Global CDS Spreads – GCC Could Perform Better



Source: Thomson Reuters , GIC Research

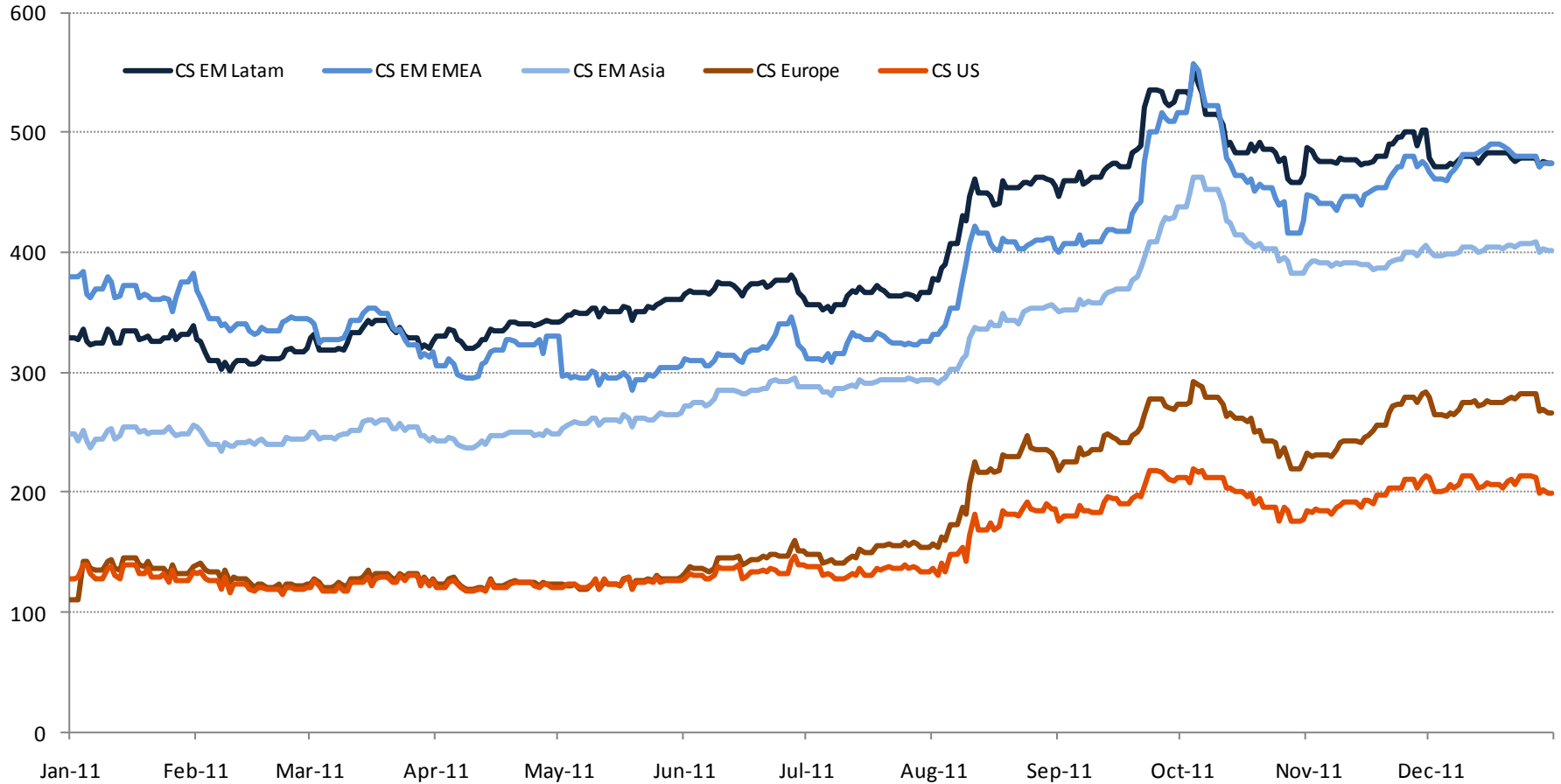
GCC CDS Spreads – Dubai & Bahrain Remain Outliers



Source: Thomson Reuters, GIC Research



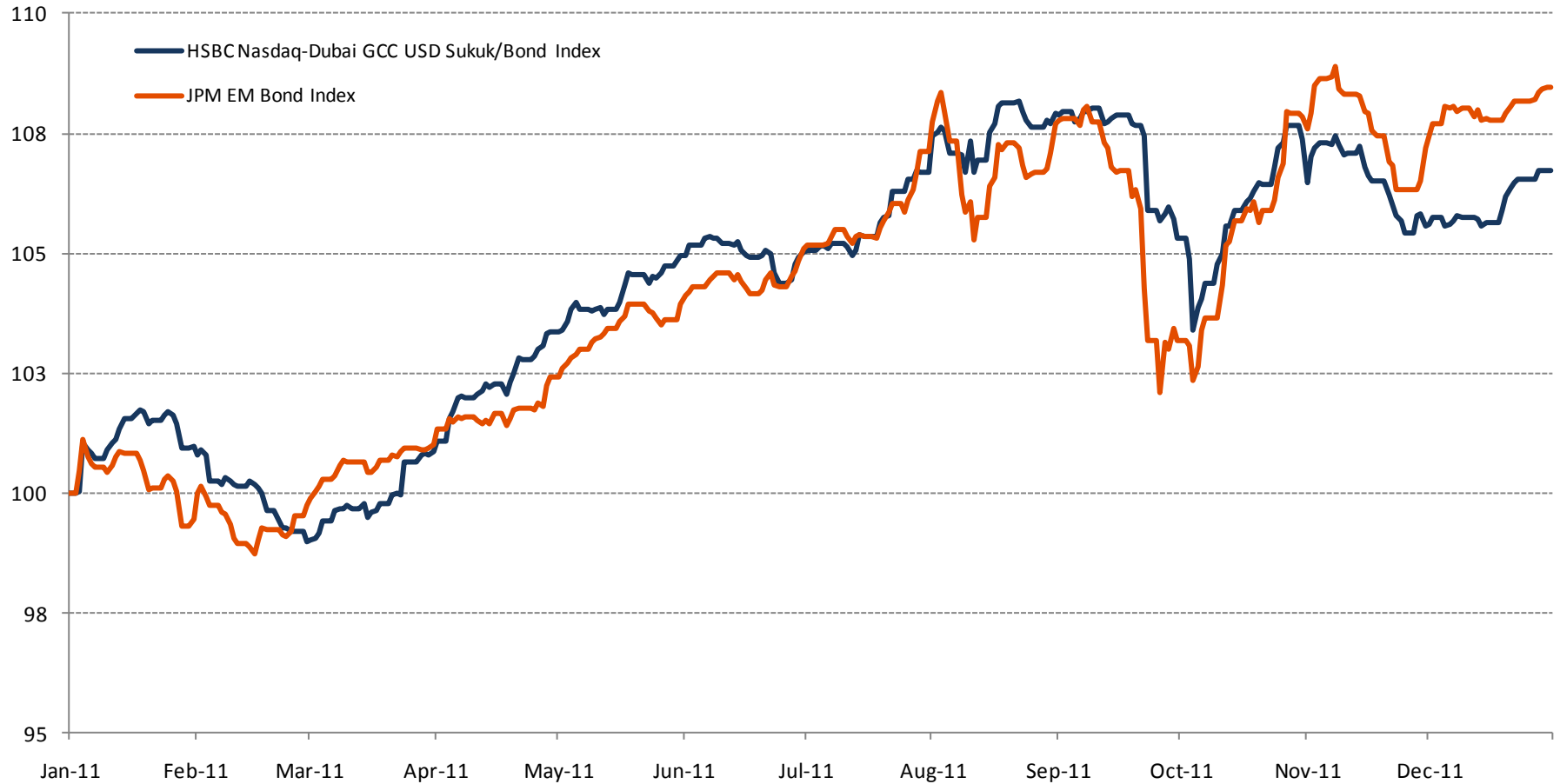
Swap Spreads – EM Has Outperformed DM



Source: Bloomberg, GIC Research

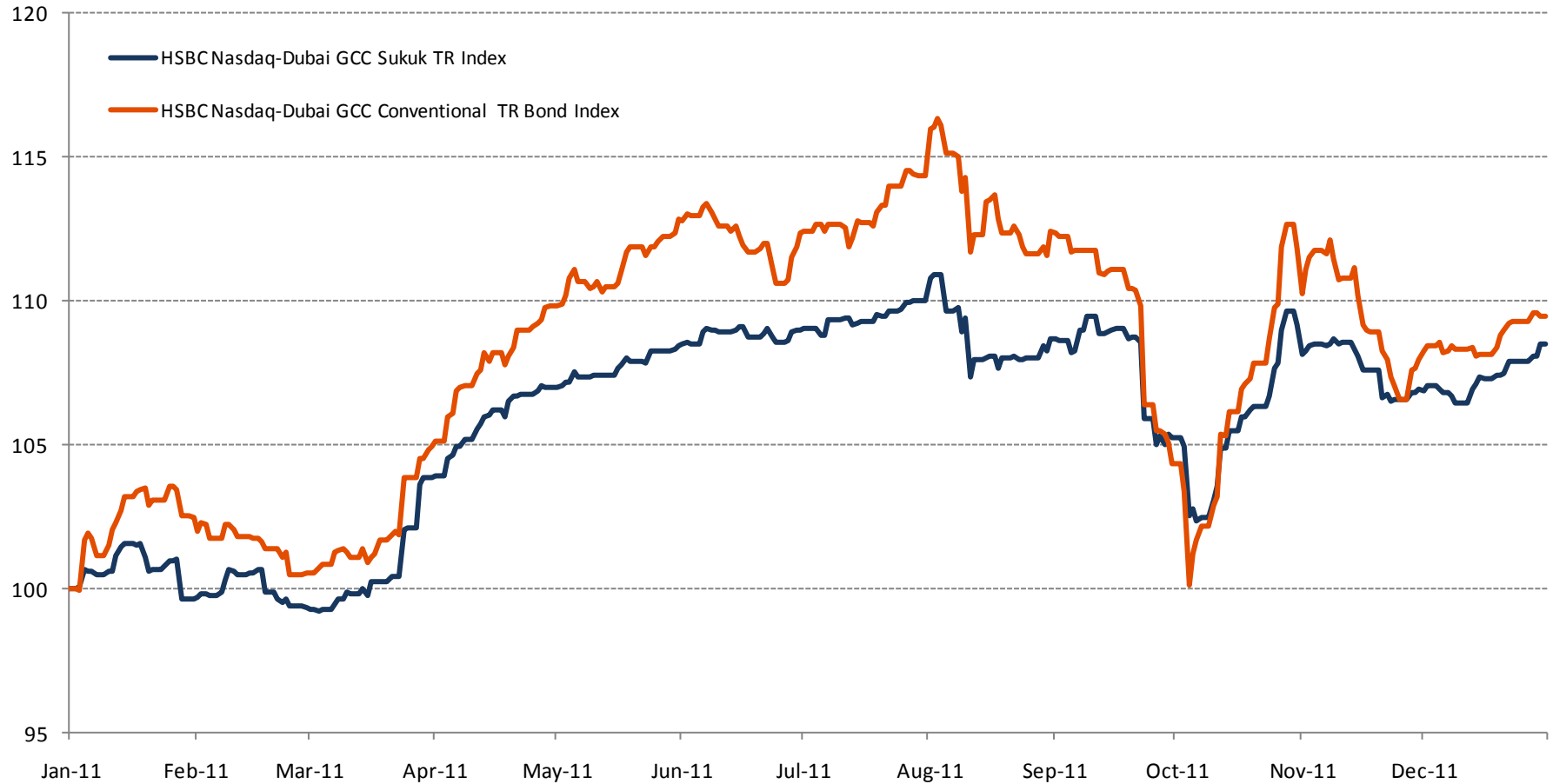


Relative Returns – GCC Bonds vs. EM Bonds



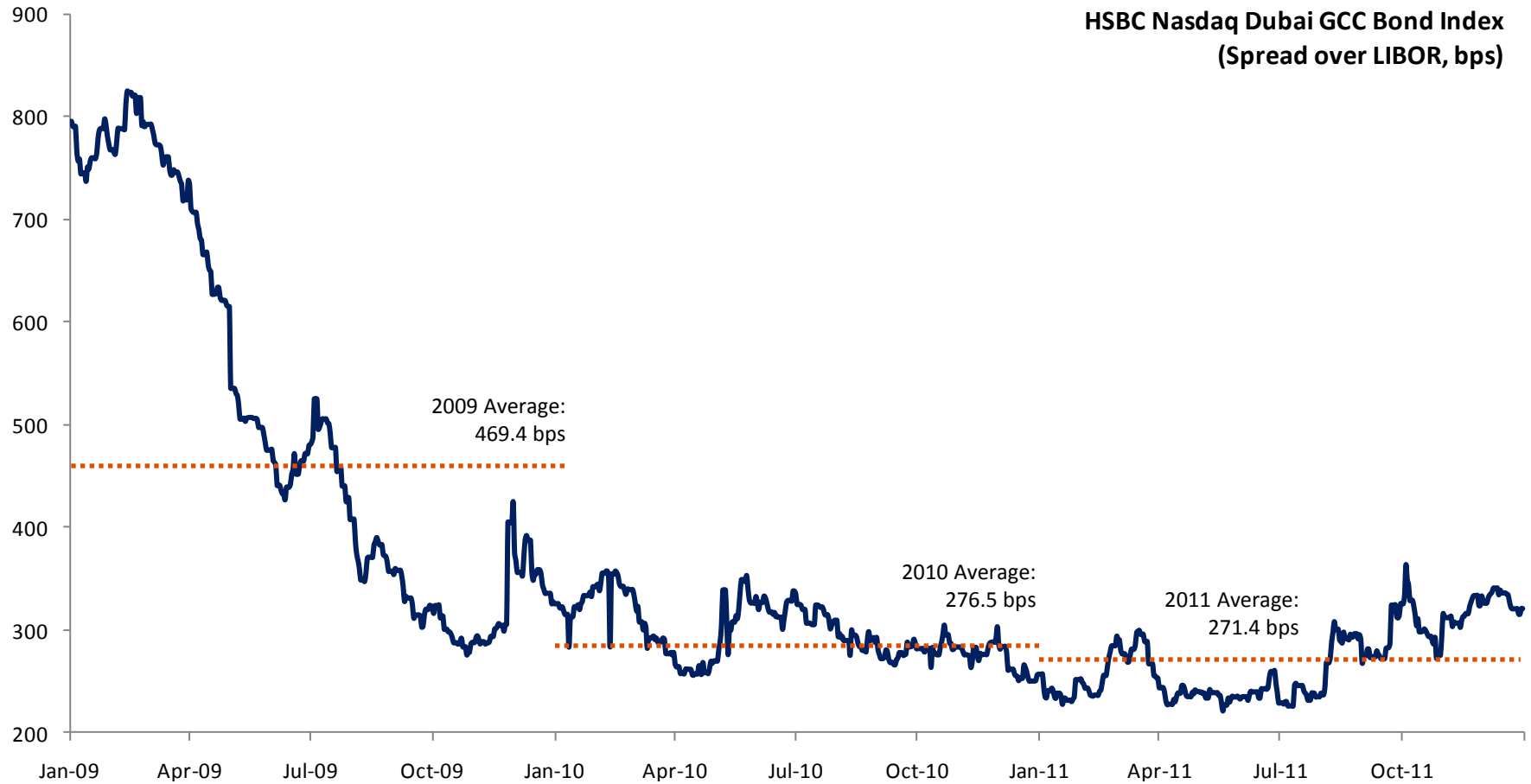
Source: Bloomberg, GIC Research

Relative Returns – GCC Bonds vs. GCC Sukuks



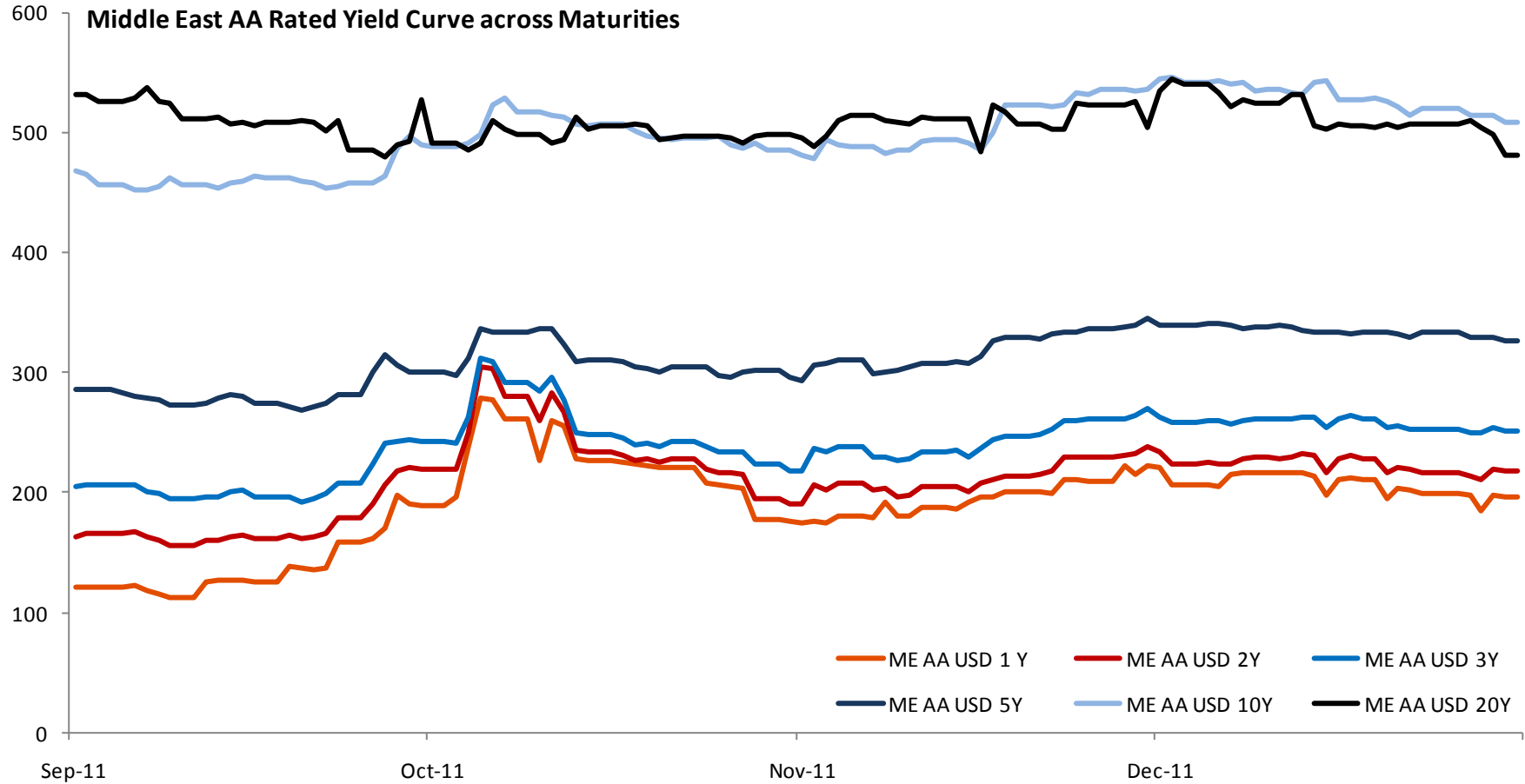
Source: Bloomberg, GIC Research

Bond Spreads – Volatility To Continue



Source: Bloomberg, GIC Research

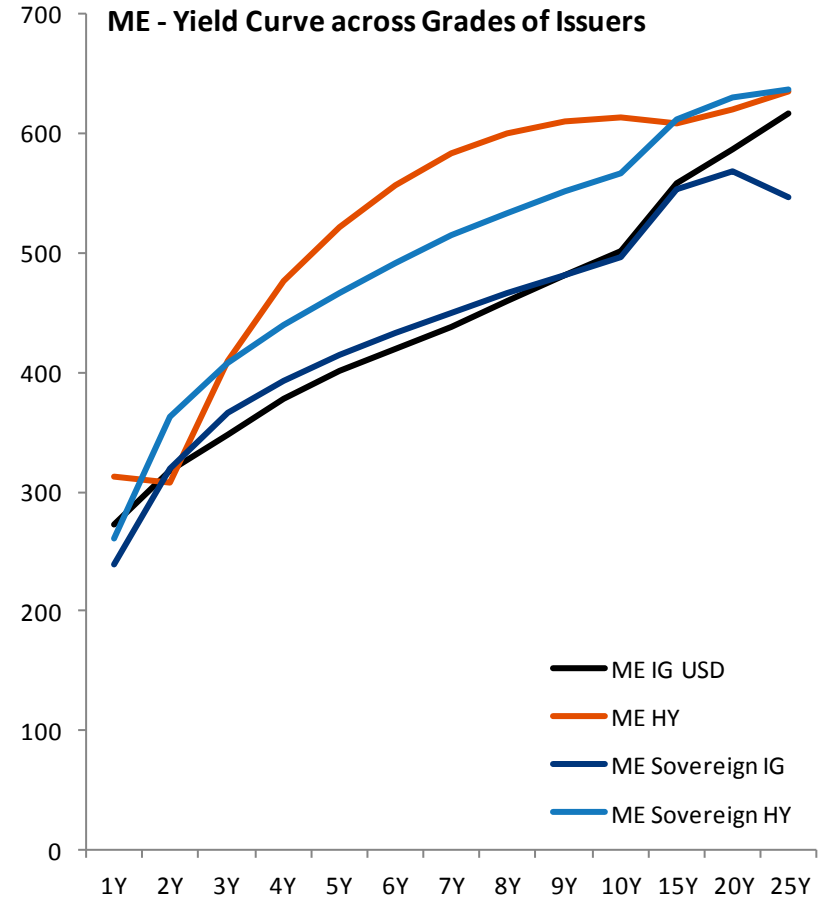
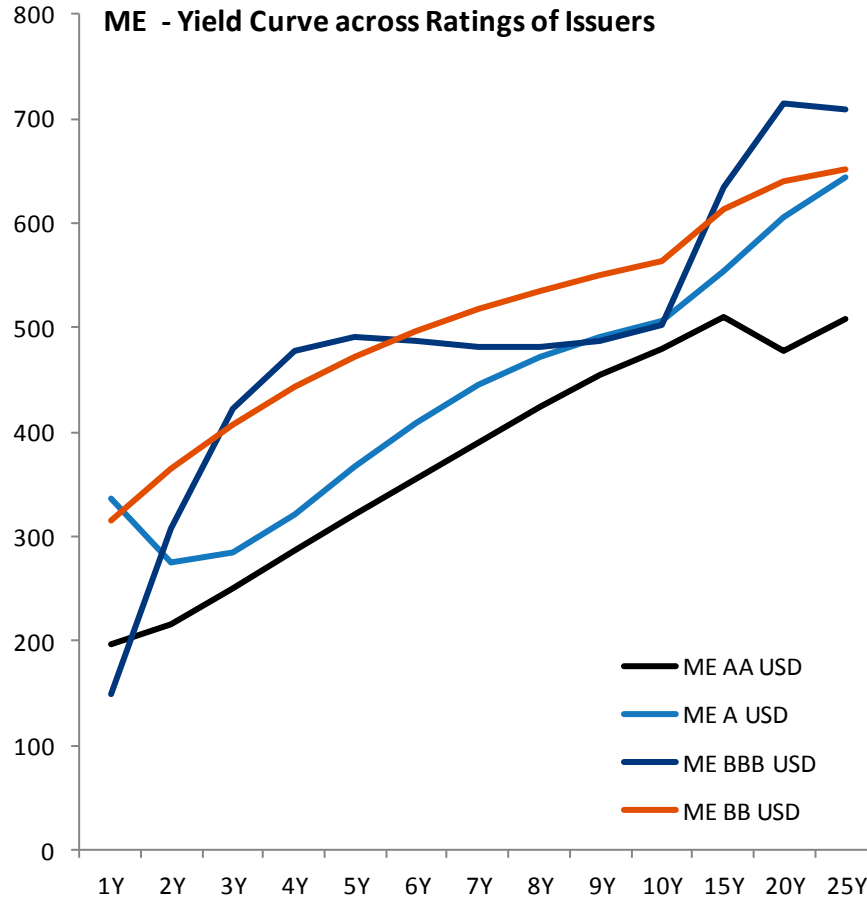
ME Yield Curve – Volatile Across Maturities



Source: Thomson Reuters, GIC Research

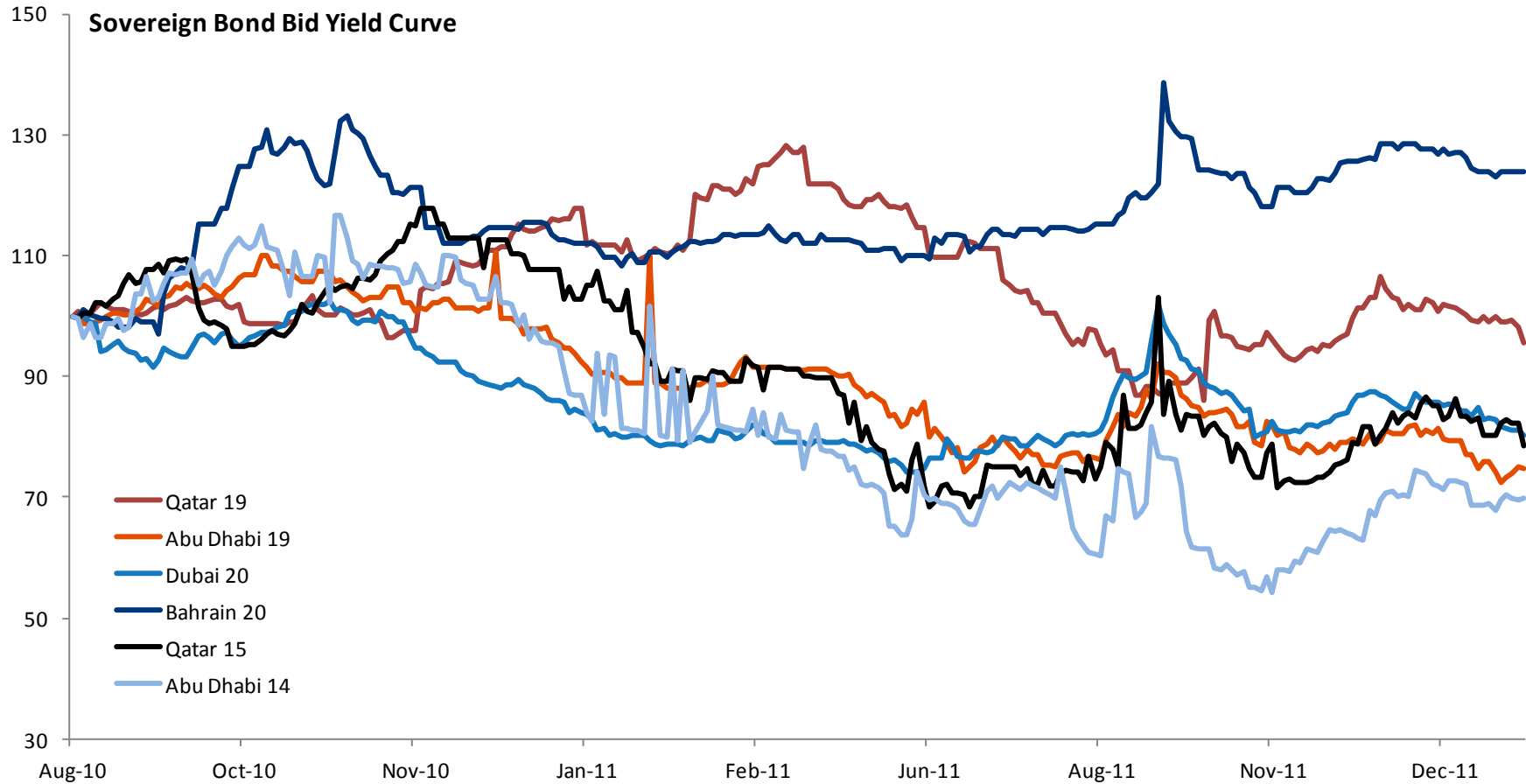


ME Yield Curve – IG To Perform Better



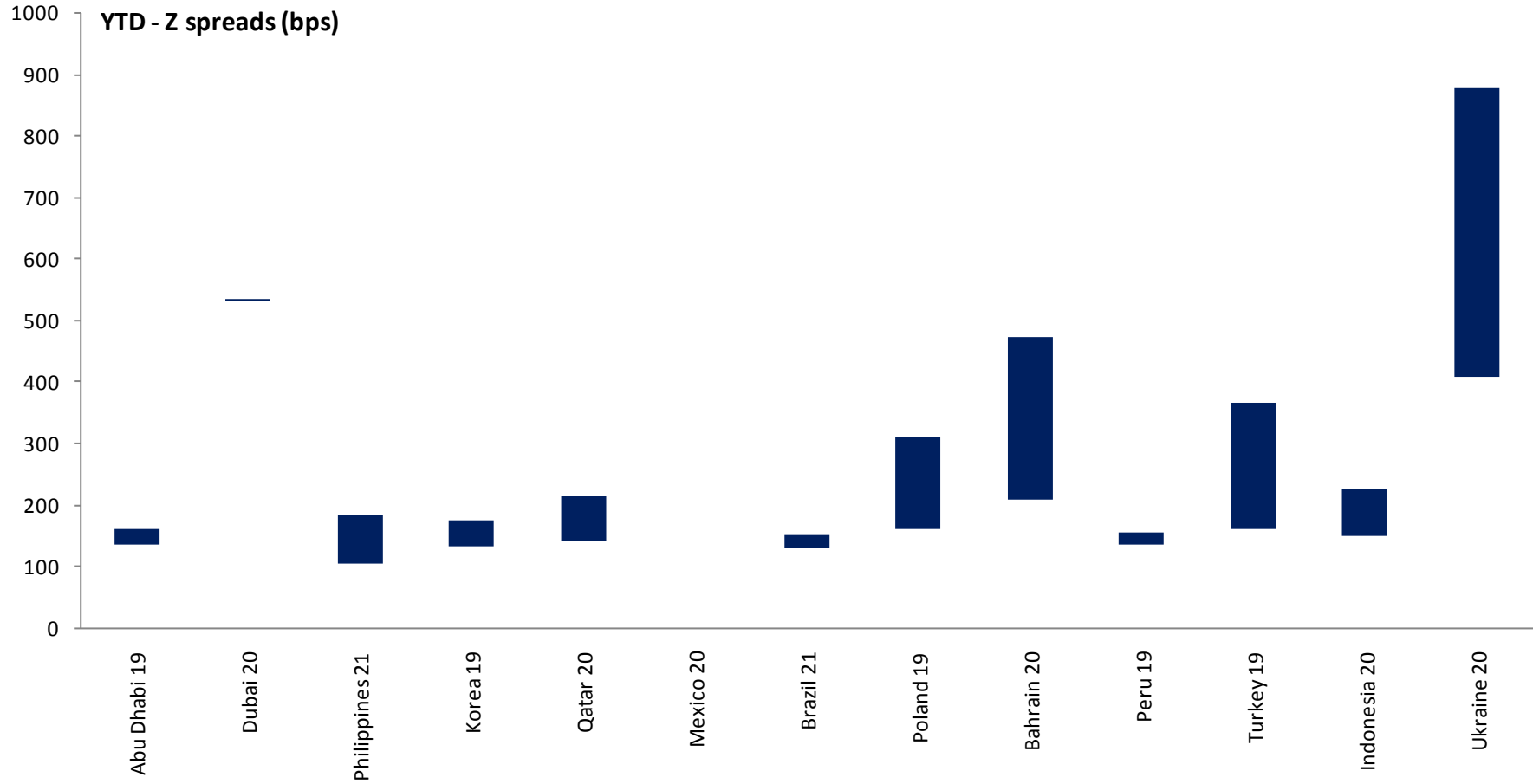
Source: Thomson Reuters , GIC Research

Yield Curve – Sovereign IG Yields To Tighten



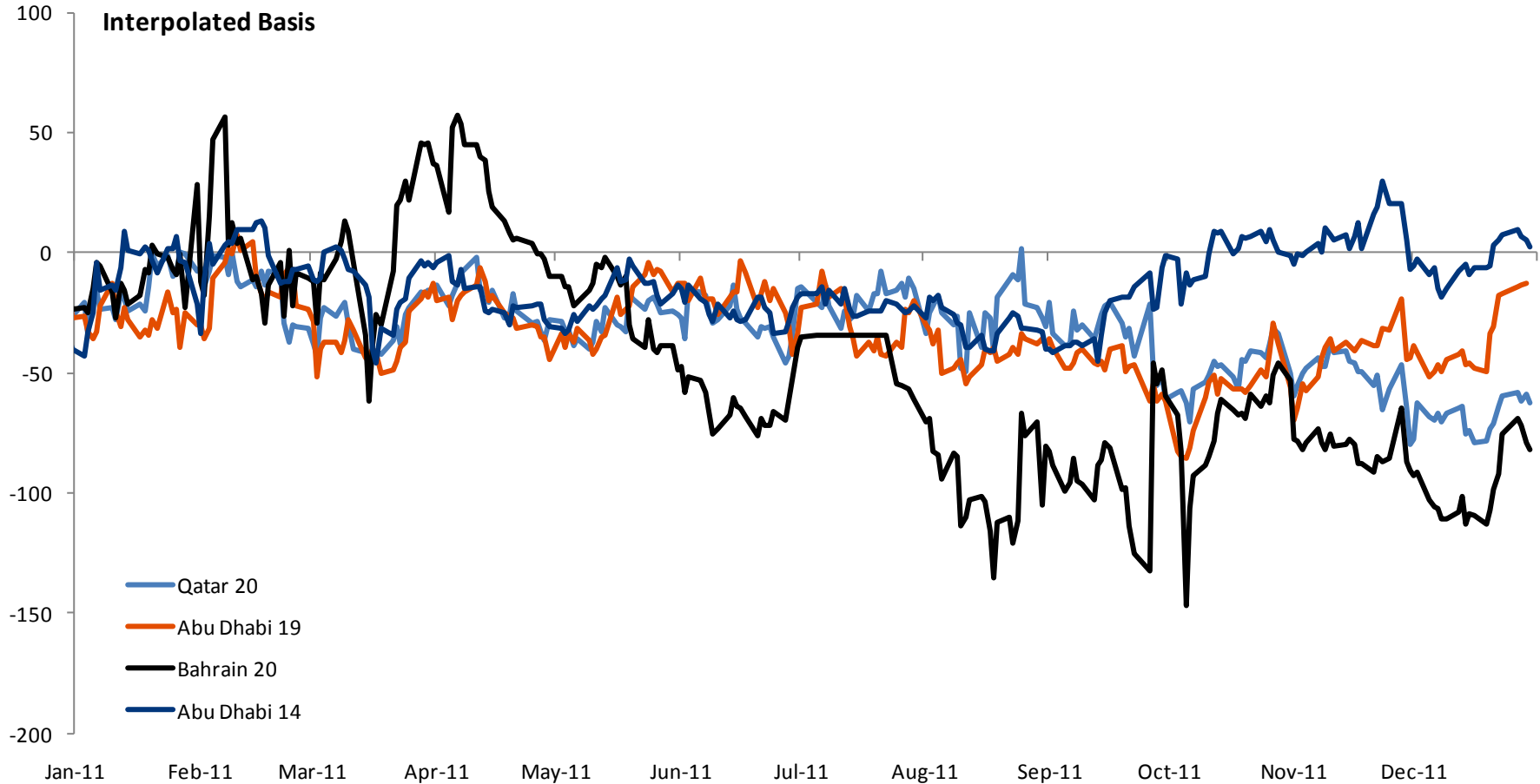
Source: Thomson Reuters , GIC Research

Z Spreads – GCC vs. EM Sovereign Bonds



Source: Thomson Reuters, GIC Research

GCC Sovereign Basis – CDS Trading Tighter Than Cash



Source: Thomson Reuters, GIC Research

GCC Credit Markets – Recent Credit rating Actions

Issuer Name	Agency	Rating Type	Movement	Current Rating	Last Rating
Kuwait	S&P	LT Local & Foreign Issuer Credit	Upgrade	AA	AA-
Kingdom of Bahrain	Moody's	FC Issuer Rating	Downgrade	Baa1	A3
DEWA	Moody's	Corporate Family Rating	Upgrade	Ba1	Ba2
DP World	Moody's	Senior Unsecured Debt	Upgrade	Baa3	Ba1
Riyad Bank	CI	Financial Strength	Upgrade	AA-	A+
National Bank of Bahrain	Moody's	Local & Foreign LT Bank Deposits	Downgrade	Baa1	A3
National Bank of Kuwait	Moody's	Local & Foreign LT Bank Deposits	Downgrade	Aa3	Aa2
Emaar Properties PJSC	Moody's	Corporate Family Rating	Upgrade	Ba3	B1
ADCB	S&P	LT Local & Foreign Issuer Credit	Downgrade	A	A+
Aldar	Moody's	Senior Unsecured Debt	Downgrade	B3	B1
Saudi Hollandi Bank	CI	Financial Strength	Downgrade	BBB+	A-
Majid Al Futtaim Group	Fitch	Senior Unsecured Debt	New Rating	BBB	Unrated

Source: Thomson Reuters, Bloomberg, Zawya, GIC Research

GCC Credit Markets – Major Corporate Issuances YTD '11

Issuer name	Type	Maturity	Issue Size (USD mn)	Margin (%)
ADIB	Sukuk	30-Nov-16	500	3.780
ADCB	Sukuk	22-Nov-16	500	4.071
Kingdom of Bahrain	Sukuk	22-Nov-18	750	6.273
State of Qatar (3 Tranche)	Conventional	17/22/42	5,000	3.125/4.500/5.750
Sharjah Islamic Bank	Sukuk	25-May-16	400	4.715
Emirates Airlines	Conventional	8-Jun-16	1,000	5.125
Islamic Development Bank	Sukuk	25-May-16	750	2.500
First Gulf Bank	Sukuk	2-Aug-16	650	3.970
Saudi Aramco Total	Sukuk	10-Oct-25	1,000	0.950
Emaar Properties	Sukuk	3-Aug-16	500	8.500
IPIC	Conventional	14-May-16	1,793	4.875
IPIC	Conventional	14-Mar-21	1,793	5.875

Source: Thomson Reuters, Bloomberg, Zawya GIC Research

GCC Credit Markets – Strong Bond Issue Pipeline

Issuer Name	Rating	Country of Risk	Expected Issue Size (USD mn)	Stage of Issue
Emirates Airlines	Unrated	UAE	1,000	Pre mandate
United Arab Shipping Co	Unrated	Kuwait	N.A.	Mandated
Kuwait Projects Co. (KIPCO)	Baa2	Kuwait	80	Mandated
Commercial Bank of Qatar	A1	Qatar	N.A.	Pre mandate
United Gulf Bank	Ba1	Bahrain	N.A.	Pre Mandate
Bank Muscat	A1	Oman	300	Pre mandate
Doha Bank	A2	Qatar	500	JPM and MS have been mandated
Dolphin Energy Ltd	A1	UAE	1,930	Post Road show
National Bank of Abu Dhabi	Aa3	UAE	130	Samurai bond of ¥10bn
Saudi Aramco	Unrated	Saudi Arabia	1,000	CA-CIB,DB & SAMBA have been mandated
Qatar National Bank	Aa3	Qatar	N.A.	Pre Mandate
TDIC	A1	UAE	N.A.	Post Road show

Source: Thomson Reuters, GIC Research

GCC Credit Markets – Strong Sukuk Issue Pipeline

Issuer Name	Sukuk Name	Country of Risk	Expected Issue Size (USD mn)	Comments
Tamweel	Sukuk III	UAE	N.A.	Conducting Road Show
Abu Dhabi National Energy	Sukuk	UAE	2,000	Conducting Road Show
Emirates Islamic Bank	Sukuk (Tranche -2)	UAE	N.A.	Pre Mandate
Qatar Islamic Bank	Sukuk II	Qatar	1,000	Tenor of 5 years
Nakheel	Nakheel Sukuk	UAE	1,034	Pre Mandate
Majid Al Futtaim Group	Wakala	UAE	500	Mandated
Masraf Al Rayyan	Masraf Al Rayan Sukuk	Qatar	1,000	N.A.
Almarai Co.	Almarai Sukuk	Saudi Arabia	N.A.	N.A.
Etisalat Sukuk Co.	Etisalat Sukuk	UAE	1,000	Citigroup and RBS are the arrangers
IDB Trust Services Limited	IDB MTN (Series 8)	Saudi Arabia	600	SCB,HSBC,DB and PNB are the arrangers
ACWA Power International	Acwa Power Sukuk	Saudi Arabia	300	N.A.
Saudi Electricity Co.	Sukuk IV	Saudi Arabia	1,000	HSBC & DB are the arrangers. Tenor of 10-12Y

Source: Thomson Reuters, Zawya, GIC Research



GCC Region Country Views





Country Outlook – Saudi Arabia

- ❖ Saudi Arabia's overall GDP growth is expected to rise during 2011 as Oil production and government expenditure expand. Crude oil production increased from 8.4mn bpd in 2H 2010 to 9.0 mn in 1H 2011. Oil production could slowdown as global demand weakens and exports from Libya improve.
- ❖ Data from cement consumption, point of sale transactions, PMI and private sector credit point towards acceleration in non-oil real GDP for 1H 2011. However, as the effects of social benefits and salary adjustments fade, private sector activity is likely to moderate for the rest of the year.
- ❖ There remain concerns about the impact of declining demand of oil and softening of the commodity prices, and resultant impact on GDP growth rate could be significant.
- ❖ Accumulated surpluses assure that government spending will continue for years to come, irrespective of short-term oil price volatility.
- ❖ Given global economic conditions, sectors focused on the local economy like Banks, Retail, Telecom and Cements will outperform the Petrochemicals sector.
- ❖ Banking sector earnings are likely to improve as provisions decline. Private sector lending has started to show signs of recovery.
- ❖ Reduced capital expenditure in the Telecom sector will result in higher payout ratios. Legislation on Saudi mortgages is likely to be a strong sentiment catalyst and could boost Real estate and Construction sectors.





Country Outlook – UAE

- ⦿ GDP is set to recover in 2011, driven by Oil prices and recovery in trade & tourism. Based on IIF estimates, the fiscal balance is projected to be 7% of GDP in 2011.
- ⦿ With the exception of real estate, other sectors are performing well due to significant increase in government spending in Abu Dhabi.
- ⦿ The UAE economy proved itself as a 'safe haven' amidst the political turmoil across the Arab world. Data through May 2011 suggest that tourism and hospitality have benefitted from the political turmoil elsewhere in the region.
- ⦿ Dubai's debt problems remain a drag on overall sentiment, however, positive developments have helped reign in fears. Consequently, Dubai's CDS spreads, though high in relative terms, declined to 329 bps in July 2011. Spreads have widened once more to 440 bps in Nov 2011 as concerns of spread of the Euro crisis affected sentiment.
- ⦿ The Real estate sector continues to evade investor interest. However, sustained decline in rents has helped to contain inflation.
- ⦿ Credit growth remains weak despite improvement in funding. Defaults by large conglomerates continue to necessitate higher provisions as NPL coverage for some banks is significantly below full. UAE banks are expected to continue deleveraging their Balance sheet to comply with central banks requirements.





Country Outlook – Kuwait

- ❖ The IIF estimates overall GDP growth to top 4.4%, driven by the oil sector that is expected to expand after Gulf countries step-up their oil production to makeup for shortage from Libya.
- ❖ The current environment of high oil prices bodes well for the overall economy.
- ❖ Inflation has moderated to 4.6% (year to August), from 6% in December 2010.
- ❖ Deleveraging in the financial sector is likely to keep a check on growth of non-oil growth rate.
- ❖ Credit growth is slow as banks struggle with high NPL ratios and Balance sheet issues, though recovery has continued at a slow pace
- ❖ Volatile relationships with between legislative and executive powers have hindered the implementation of government policies. These tensions have resurfaced recently, stalling progress on many spending plans like the four year USD 100bn development plan adopted in 2010, which bodes ill for future growth.
- ❖ Capital markets lack catalysts that lowers outlook for 2012. Unresolved issues surrounding some blue-chip companies further compound worries about the equity markets.
- ❖ Confusion about the newly issued CMA rules has exacerbated the situation as institutional investors are forced to comply with strict ownership limits.





Country Outlook – Qatar

- ❖ Qatar is expected to be one of the fastest growing economies in the world during FY11.
- ❖ Economic growth is largely underpinned by additions to gas production capacity in '11. LNG exports have grown by 42% YoY in volume during the eight months ending August 2011. Going forward, the growth rate will slow down as the ramp-up in gas capacity is largely completed.
- ❖ Increased revenues from oil and gas activities create additional fiscal space to facilitate spending on infrastructure and sustained long-term public investment. According to IMF estimates, government expenditures have grown by 59% in 2011 since 2008.
- ❖ Qatar's political system has remained unchallenged during the Arab Spring as its small native population is well taken care off. Recently announced increase in public salaries, and constitutional reforms including creation of a 45-member Parliament have further reduced prospects of geopolitical risk in the country.
- ❖ Risks to the economic outlook stems from declining gas prices. Though regional gas prices have been resilient vs. Nymex Henry Hub, Qatar's high external debt could threaten its credit rating if gas prices were to collapse.
- ❖ Overall stock markets are expected to take cue from global markets in the short term; 2012 could witness banking stocks to outperform the broad index as government spending pace up lending activity and decline in credit cost boost profitability.





Country Outlook – Oman

- ❖ Social unrest resulted in the government announcing a number of measures to satisfy protestors that included creation of 50,000 new jobs and unemployment benefits of OMR 150 per month. However, risk remains if genuine political/economic reforms are not introduced to stem corruption.
- ❖ Social measures undertaken are likely to put strain on the government budget which is highly dependent on oil revenues.
- ❖ The economy is sensitive to oil prices, and short-term initiatives are largely geared to volatility in oil prices. However, oil prices moderating at current levels is supportive of the economic trajectory.
- ❖ Infrastructure development shall remain a core area of focus, aiding Bank asset growth.
- ❖ Oman is one of the best regulated markets in the region, but suffers from lack of depth.
- ❖ The Omani equity market has been one of the worst performing in the region, but has shown signs of bottoming in the recent past.
- ❖ The Banking Sector will be aided by infrastructure development that shall remain a core area of focus.
- ❖ Rising competition in the Telecom sector has resulted in poor price performance in the past 52 weeks however, recent performance is encouraging.





Country Outlook – Bahrain

- ❖ Bahrain is the least gifted oil and gas producer in the GCC region. The government depends on hydrocarbon revenues to finance its spending, but current wealth generated is deemed insufficient to meet future expectations.
- ❖ Social unrest at the start of Arab Spring is a setback to Bahrain's ambitions of establishing itself as the regional financial hub.
- ❖ Despite the first increase in oil production for many years, growth will slowdown as economic recovery is interrupted by the demonstrations, and continued domestic tensions could divert Government's attention from core development issues.
- ❖ A sharp drop-off in tourist arrivals due to unrest will cause a discernible impact on economy. This is reflected in the latest estimates from the IMF, that expects real GDP to decline to 1.48% in 2011 from 4.1% (estimate) in 2010.
- ❖ The global financial crisis and social unrest have had a major impact on equity markets that continue to suffer from investor anxiety. Persistent unrest will cause equity market to continue underperforming regional peers.
- ❖ The Banking sector has suffered significantly during the crisis and is trading at historic lows. Any improvement in the socio-economic situation should result in a faster recovery for the financial sector.



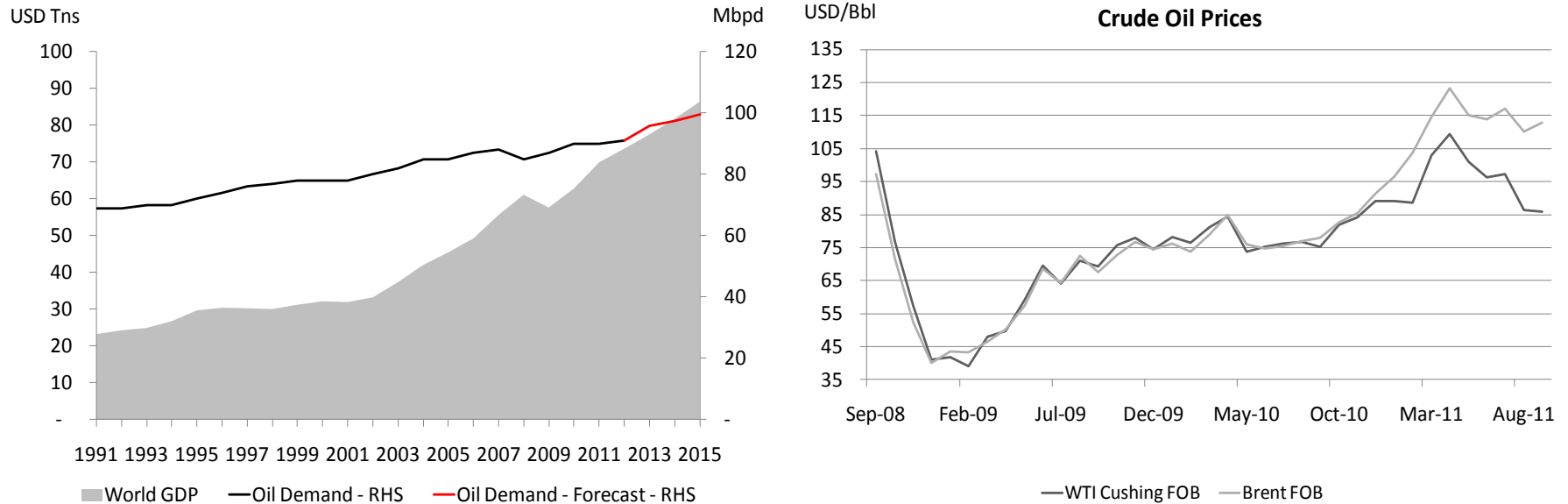


Sector Watch

Petrochemicals & Fertilizers



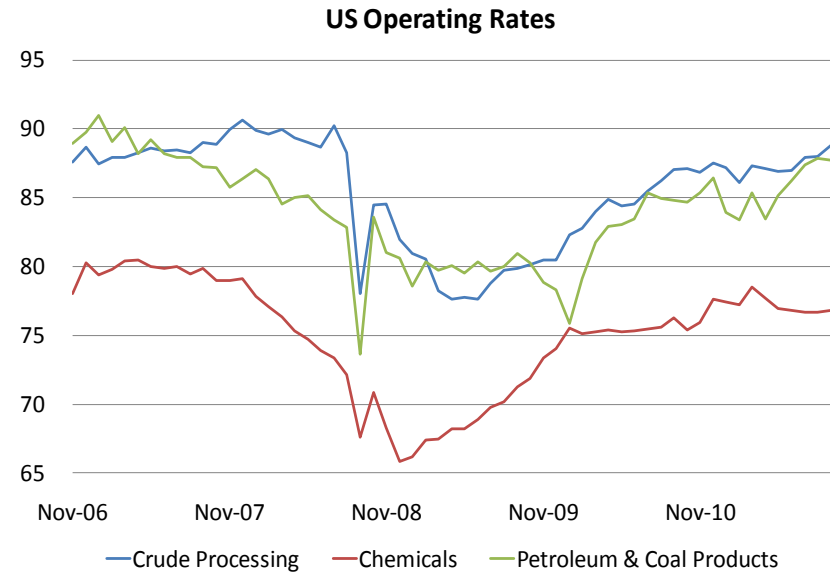
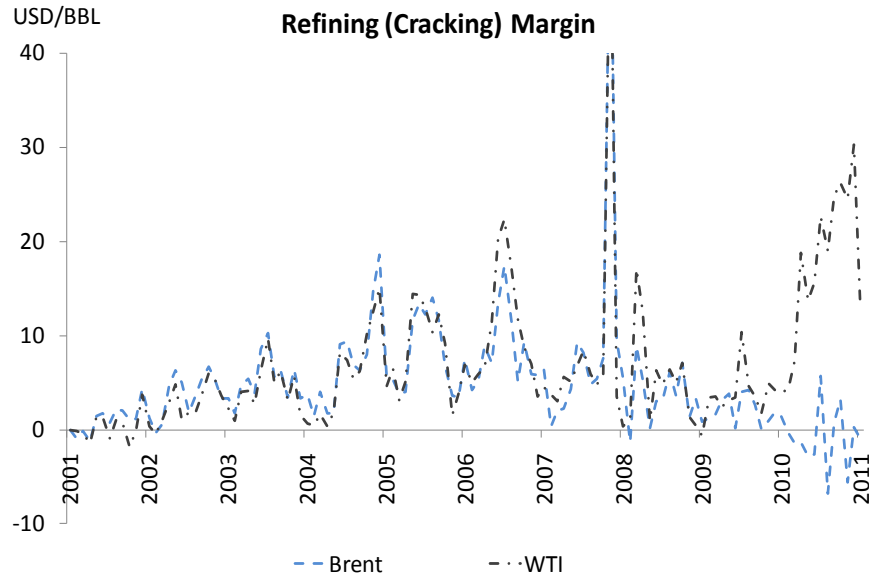
Petrochemicals – Steady Oil Demand



- Global oil consumption has been increasing steadily and is expected to continue to grow albeit at a slow pace
- Oil prices have recovered swiftly since the crash in 2008, partly due to continued demand from EM economies and partly due to geopolitical tension in the Middle East.

Source: DataStream, GIC Research

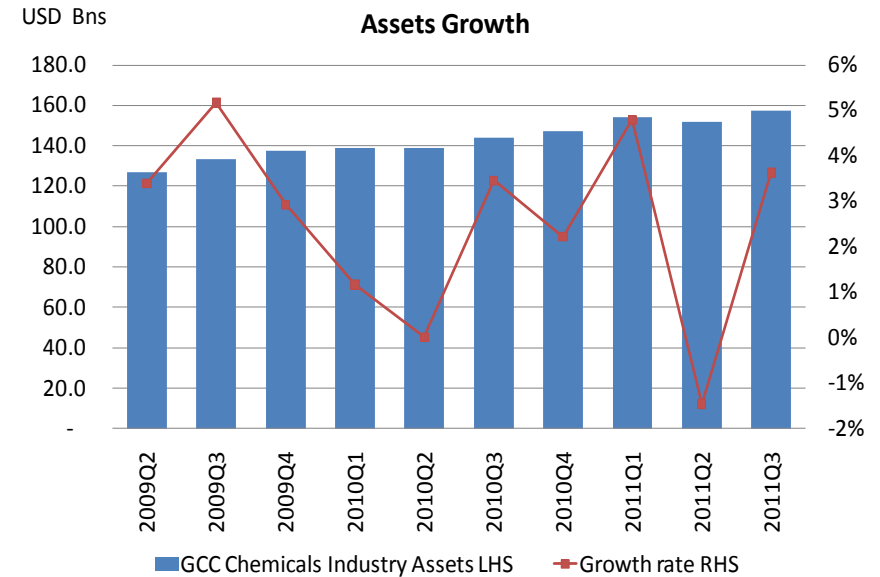
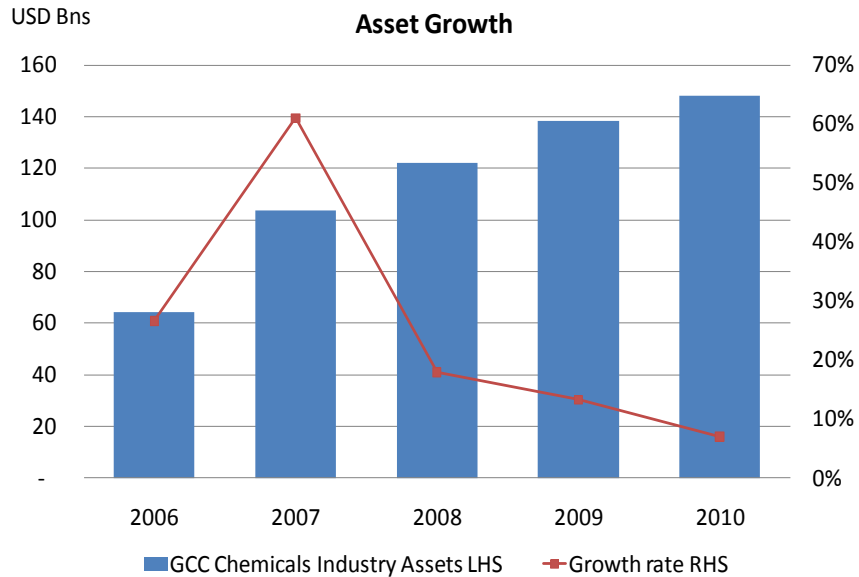
Petrochemicals – Cracking Margins Reflect Strong Demand



- Widening gap between WTI and Brent is driven by logistical and supply factors. Refining margins in US WTI suggest there is strong demand for refined products
- Latest data suggest U.S. operating rates have recovered from lows of 2008

Source: DataStream, GIC Research

Petrochemicals – Expansions To Take a Breather

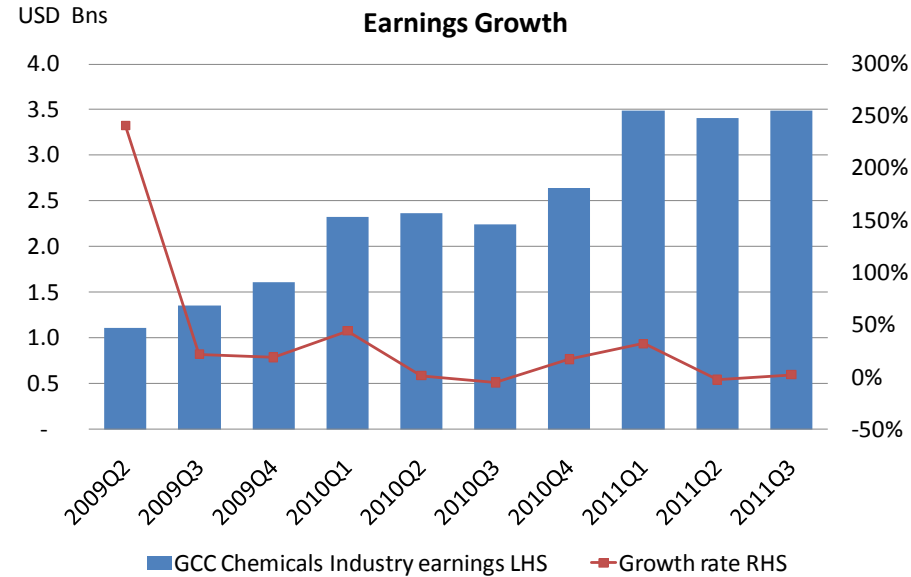


- ⦿ Slow down in asset growth for GCC chemicals indicate that volume growth will taper down in the short term
- ⦿ Earnings momentum will be driven by product prices and operating efficiencies

Source: Reuters, GIC Research



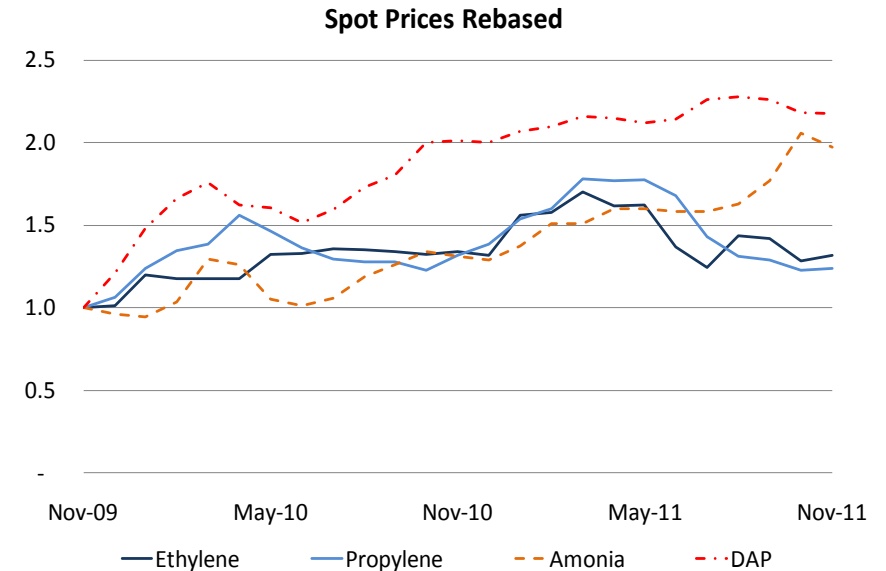
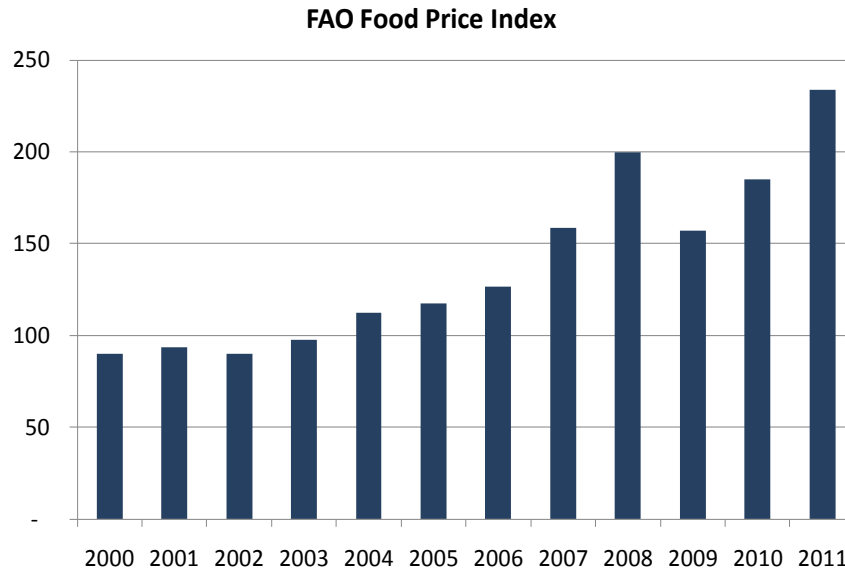
Earnings Growth To Remain Low On Q-o-Q Basis



- With softening demand from EM and renewed concerns of global economic slowdown, we expect earnings growth to slow down significantly in the short term

Source: Reuters, GIC Research

Fertilizers – Soaring Food Prices, Improved Product Prices



- Global demographic factors is fueling steady increase in grain demand. The UN FAO Food Price Index has resumed its upward trend with a 49% cumulative growth over the past two years.
- Low-cost producers in the GCC generally benefit from better margins. However, fertilizer prices are tightly correlated to Oil prices, and margins could be impacted by a sustained decline in oil prices.

Source: UN FAO, DataStream, GIC Research



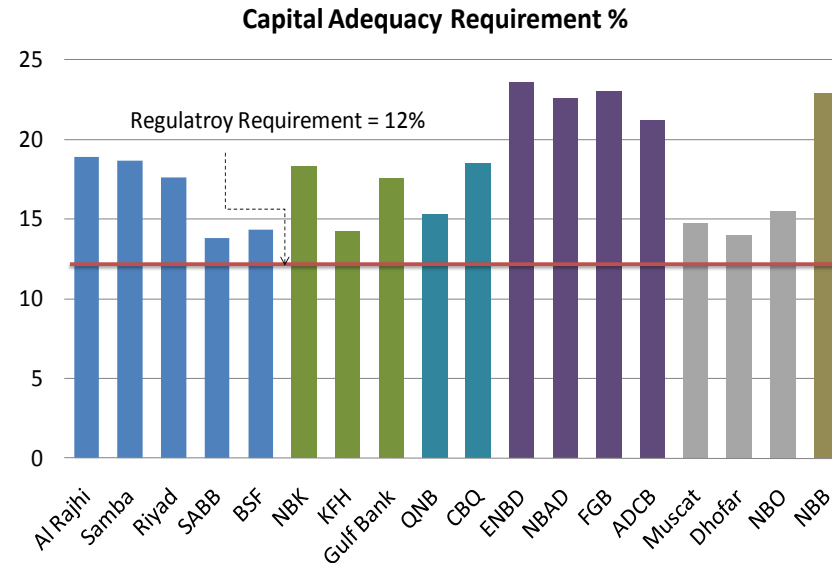
Sector Watch

Banking





Banks – Improved Risk Profile

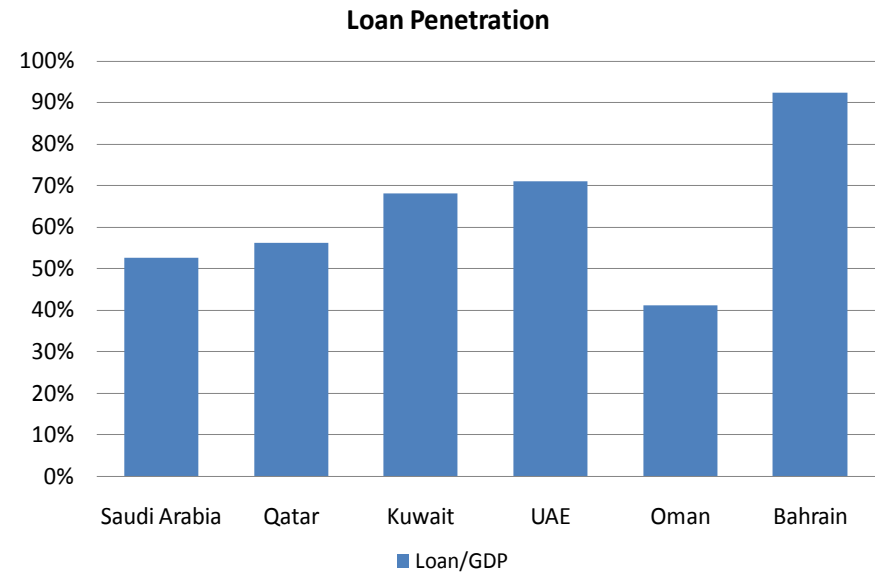
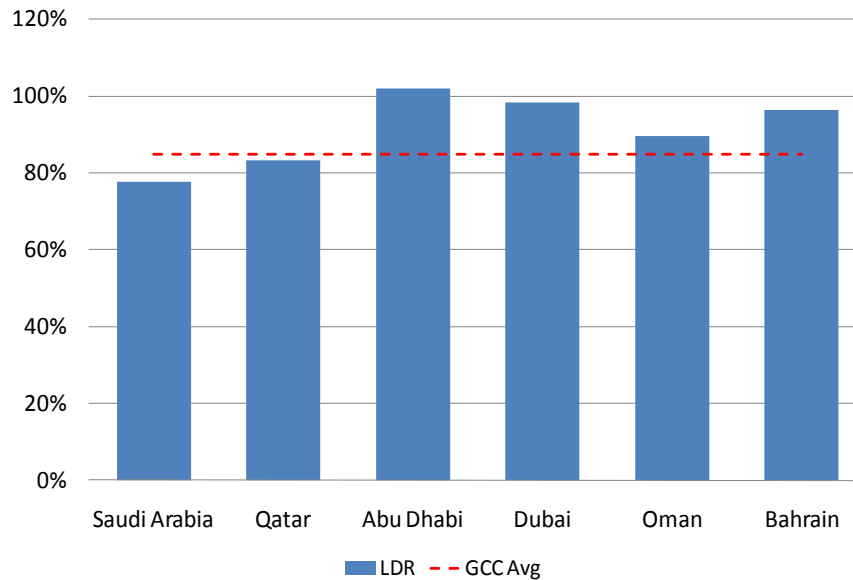


- There has been a gradual improvement in the risk profile of the banks since the crash of 2008. Capital ratios have improved significantly as Banks took risk mitigation measures and the government provided vital support in terms of Tier 1 and Tier 2 capital
- Currently, GCC Banks are well capitalized, and show a comfortable buffer above the regulatory CAR requirement of 12%. This allows plenty of space and flexibility to grow and absorb external shocks

Source: Reuters, GIC Research



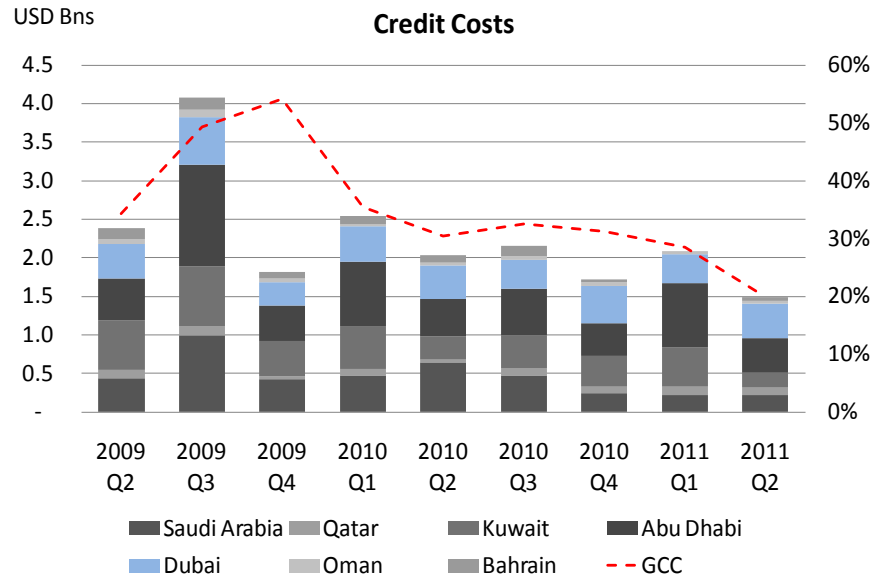
Banks – Loan Penetration At Sustainable Levels



- Currently, LDR are close to regulatory requirements of 85% (100 for UAE). Banks have been very conservative in lending since 2008, but there are signs that risk appetite is improving and institutions are eager to lend
- Loan penetrations are inline with international norms and sustainable at current level.
- There is ample room for lending in Saudi Arabia where the LDR is significantly below regulatory requirement

Source: Reuters, GIC Research

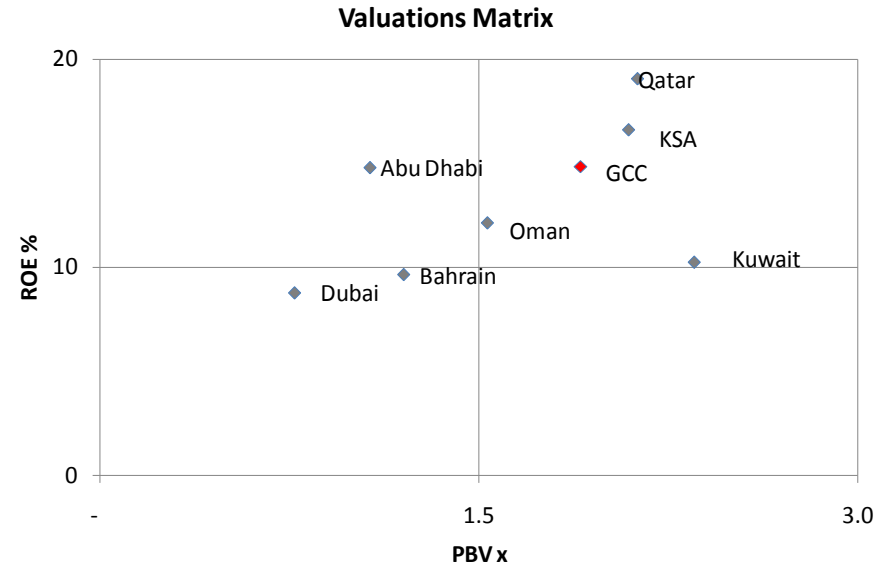
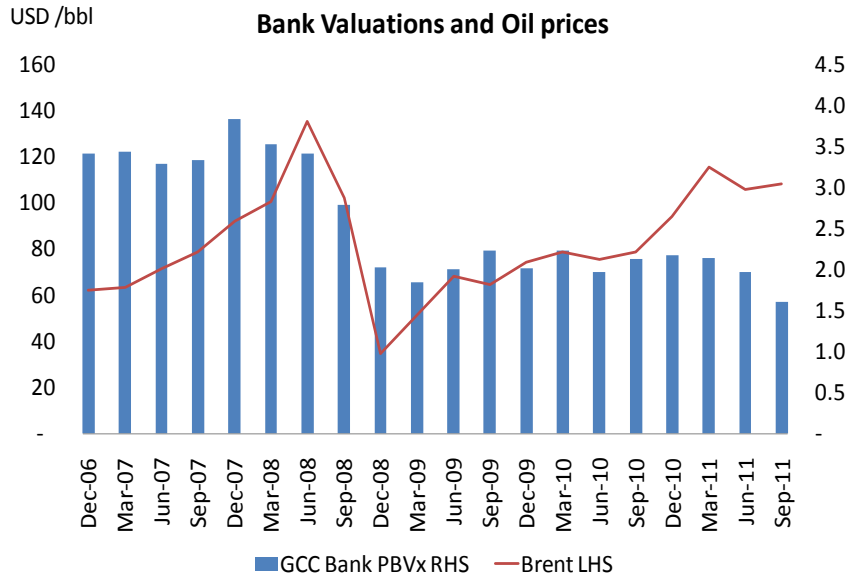
Banks – Declining Credit Costs To Boost Bottom line



- As economic conditions improve and the provision cycle declines, the industry will witness improved profitability
- Declining credit costs will help boost bottom line in the short to medium term
- This will also help reduce banks' risk aversion and speed up lending activity

Source: Reuters, GIC Research

Banks – Profitability & Valuations



- ❖ Saudi Arabia and Qatar seem to be trading at a premium but we feel this premium is justified given forecast growth in core operations and the capacity to grow asset base.
- ❖ We expect UAE banks to benefit from improved risk profile as banks provision costs decline and earnings visibility improves.

Source: Company Financials, Reuters, GIC Research



Sector Watch

Real Estate & Construction



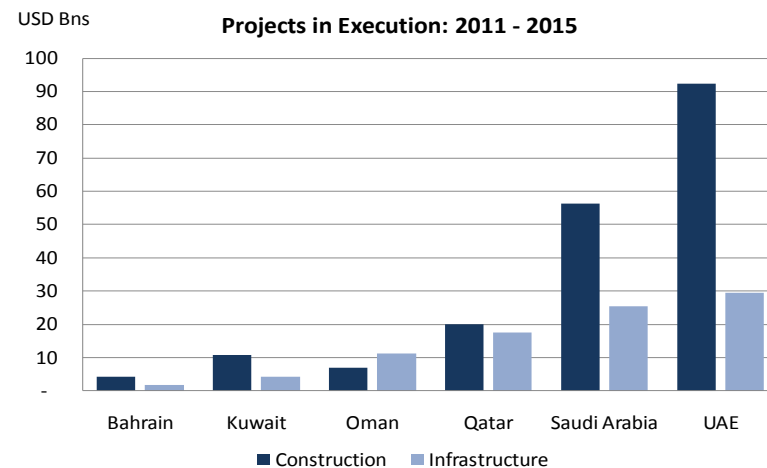
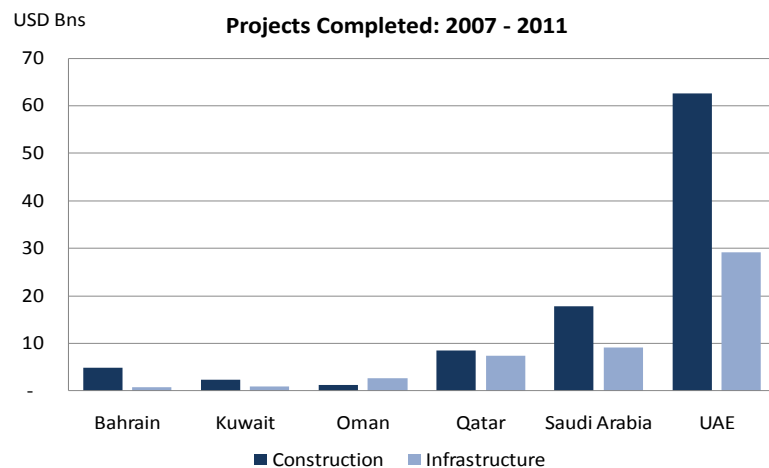


Real Estate & Construction – Spending Boom Continues

- ❖ The retrenchment of the UAE real estate market is still continuing.
- ❖ Though expectations are positive for 2011, a formal recovery curve could take more time to manifest itself, as the supply overhang in Dubai and Abu Dhabi leaves the UAE Real Estate demand-supply equation severely stretched.
- ❖ Saudi demand for Real-estate has been growing, but lack of availability and the absence of a formal mortgage market are key hurdles.
- ❖ Infrastructure Projects currently underway in the GCC region aggregate to USD 2.8 trillion.
- ❖ With Saudi, the largest market for infrastructure development, likely to embrace the PPP model, the project finance segment is likely to receive a strong boost.
- ❖ In 2008, Qatar announced plans to spend close to ~USD 150bn over a 5-year period. An additional ~USD 50bn is expected to be spent on infrastructure related to World Cup 2022.

Source: MEED

Riding The Infrastructure Surge ...

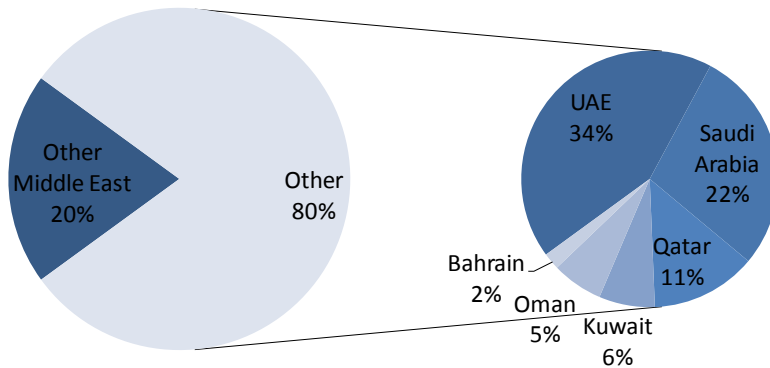


Projects Cancelled or On-Hold (USD mn)	Scheduled Completion Date	
	2007-2011	2012-2015
Bahrain	2,730	723
Kuwait	620	1,039
Oman	1,305	4,409
Qatar	805	6,998
Saudi Arabia	847	780
UAE	59,266	21,096
Total	65,573	34,685

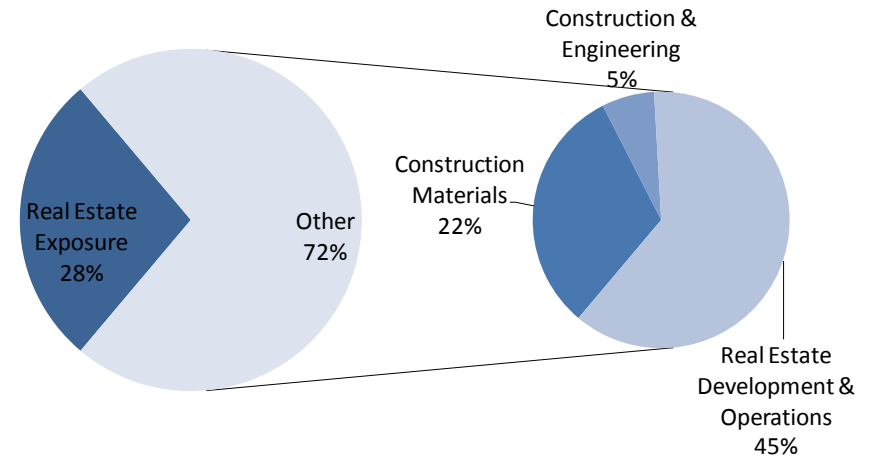
Source: MEED, GIC Research

... However, Opportunities Are Limited

**Middle East Construction and Infrastructure projects -
Planned and Execution stages**



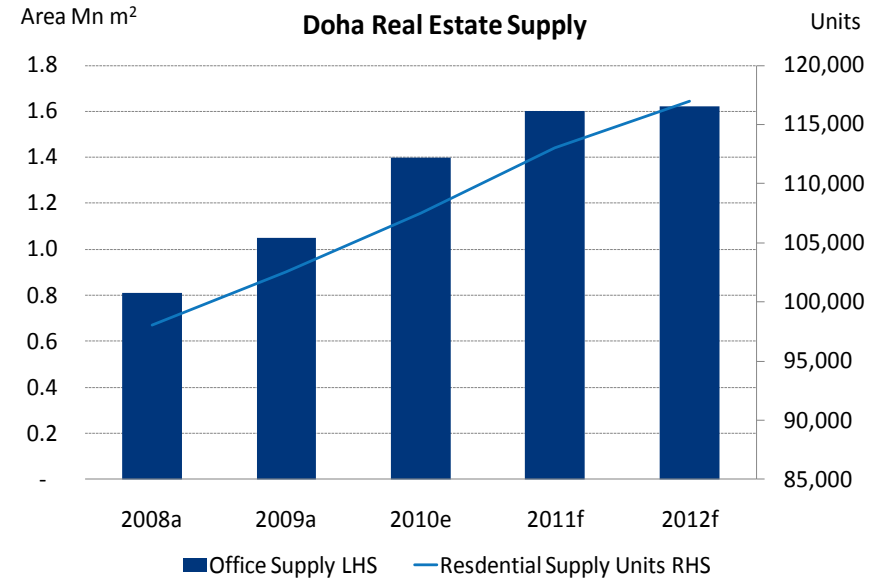
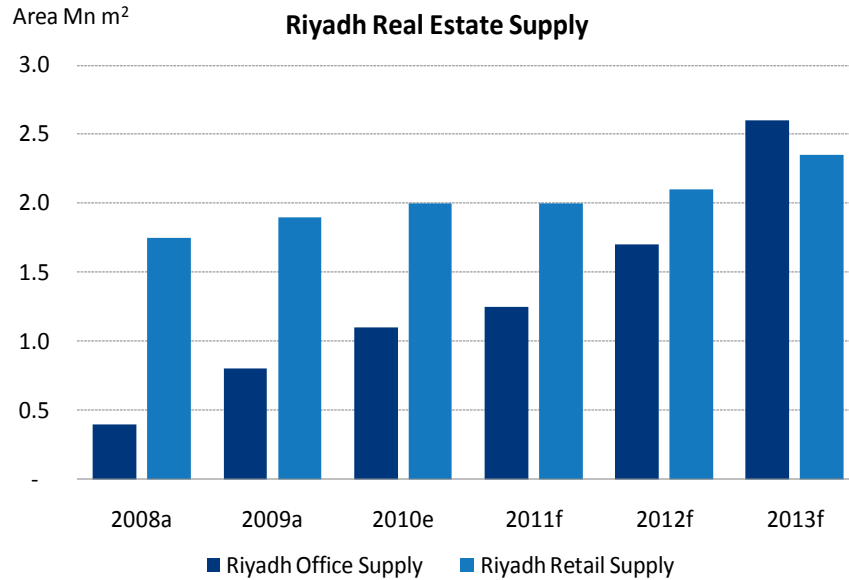
**GCC Construction and Infrastructure Exposure through
Equities**



- With weak outlook on real estate, we are inclined towards infrastructure development projects as the best way to get exposure to the vast spending in the sector.
- Overall projects planned and underway are concentrated in UAE and Saudi Arabia with few opportunities to take direct exposure.
- According to our estimates, less than 50% of listed equities (by market cap) in the Real Estate & Construction are partly exposed to the infrastructure spending in the region that include construction materials and contracting companies

Source: MEED, GIC Research

Real Estate & Construction – Saudi Holds The Key

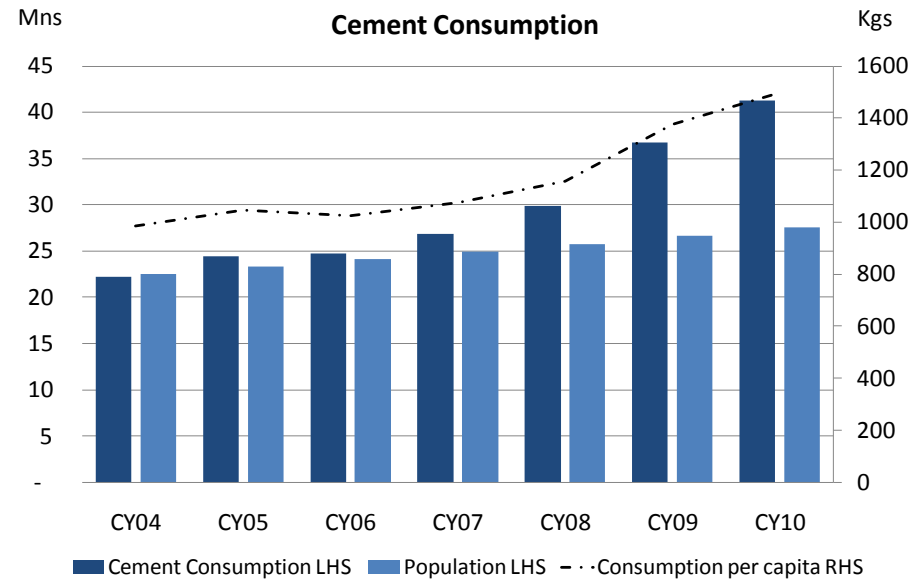


- ◆ In Real Estate, we see potential in Saudi Arabia and Qatar where demand is steady and upcoming supply is less risky for the industry fundamentals

Source: Colliers International Middle East, GIC Research



Cement – A Long term Beneficiary

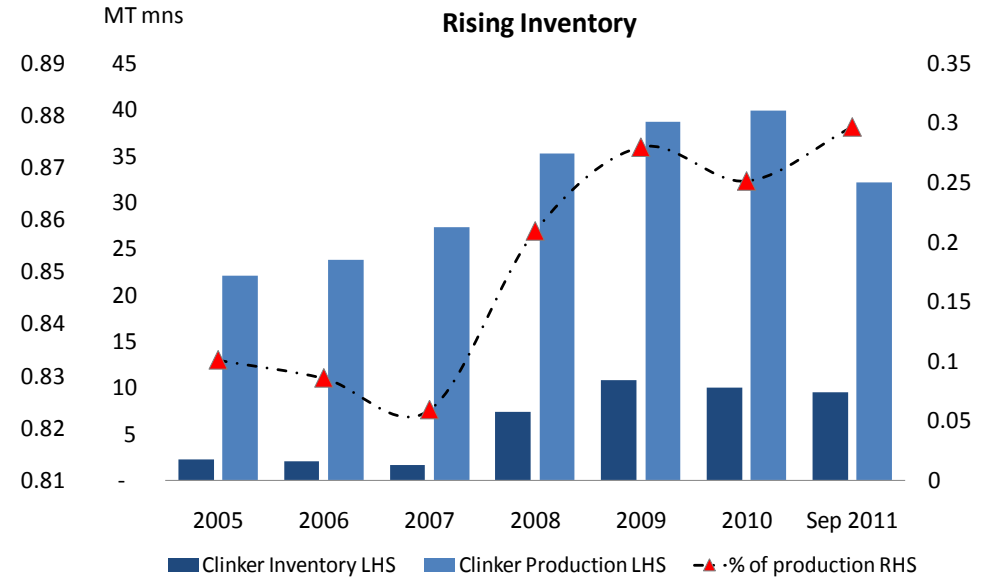
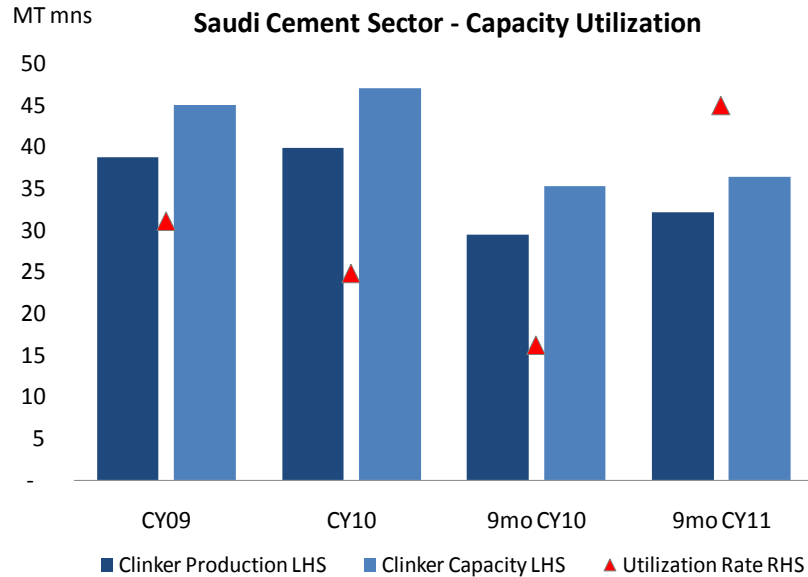


- ⦿ We see Saudi Cement Sector as long term benefactor of the kingdoms infrastructure spending
- ⦿ Cement consumption has been increasing steadily and reached over 1.5MT/capita in CY10. We feel there is further room for consumption to grow as it is in the early stages of its life cycle

Source: Reuters, GIC Research



Cement – Demand/Supply Gap To Close In The Future



- ☉ Cement sector is a capital intensive industry and goes through phases of overcapacity and demand/supply gap as a natural outcome of its business cycle; Saudi cement sector seems to be in this phase
- ☉ Companies that plan expansions prudently would improve competitiveness through economies of scale and add value to shareholder wealth in the long term

Source: Reuters, GIC Research



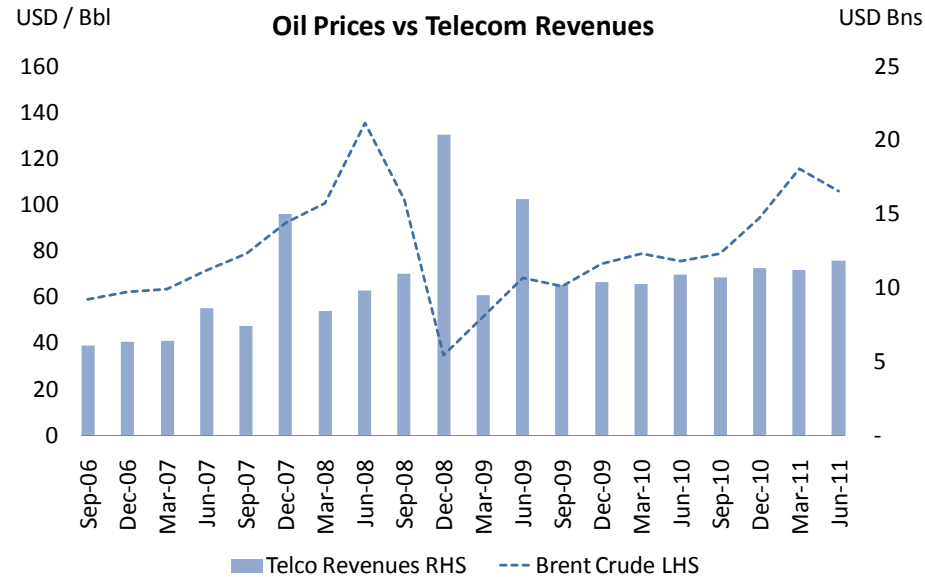
Sector Watch

Telecom





Telecoms – Pure Defensive Play



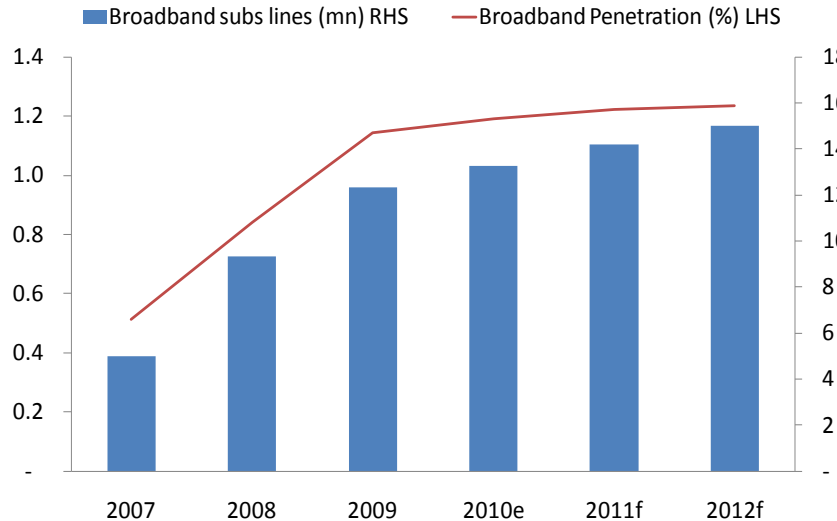
- With some of the fastest population growth rates in the world, demographic profile for the GCC countries is attractive for telecom companies and specifically mobile operators.
- Telecom industry revenues sustained through the global economic crisis and the resulting crash in oil prices, making this industry attractive for diversifying and risk mitigation.

Source: Reuters, GIC Research

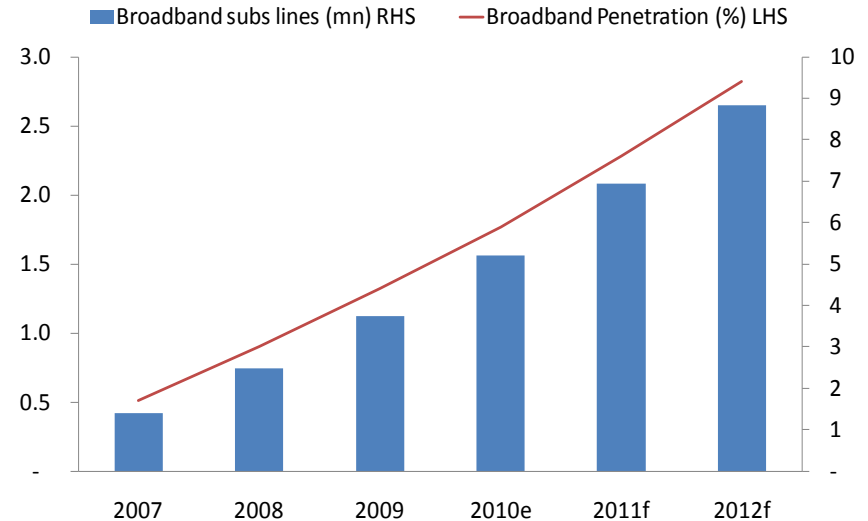


Telecoms – Data Surge Could Boost Revenues

UAE Broadband



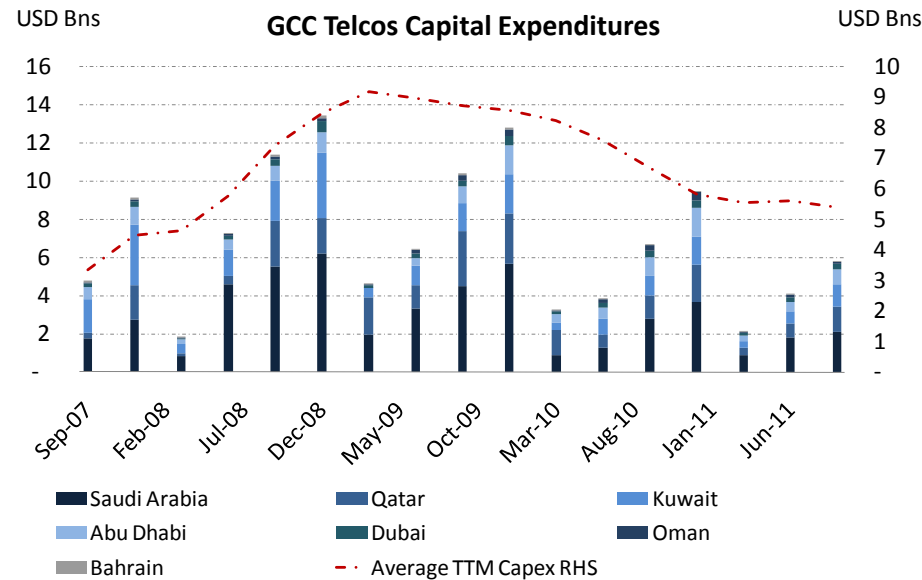
Saudi Arabia Broadband



- With recent changes in technology and data consumption trends, Broadband and data services segments have seen significant growth that could fuel growth in profitability for the Telecom sector.
- Mobile broadband is emerging as a suitable replacement for fixed-line internet, while mobile operators retain better pricing power in the data segment.

Source: Economist Intelligence Unit, GIC Research

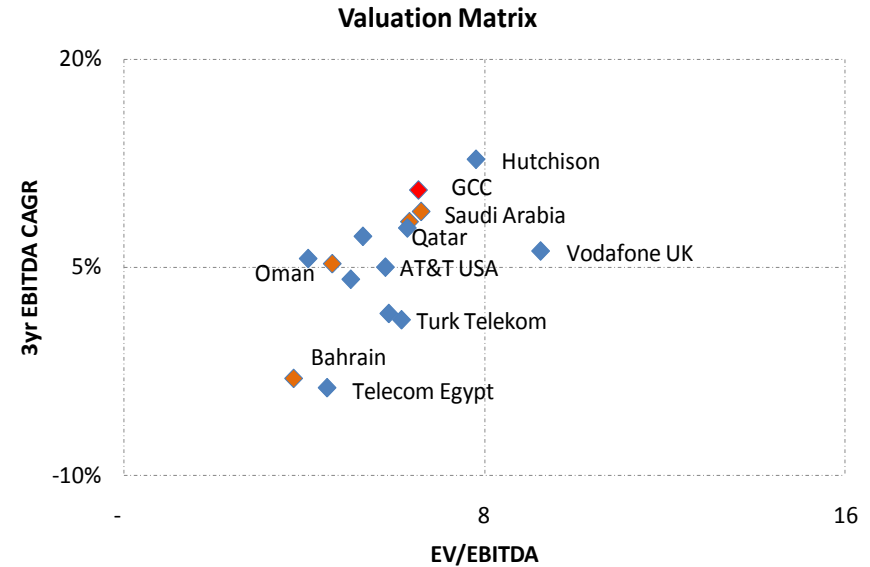
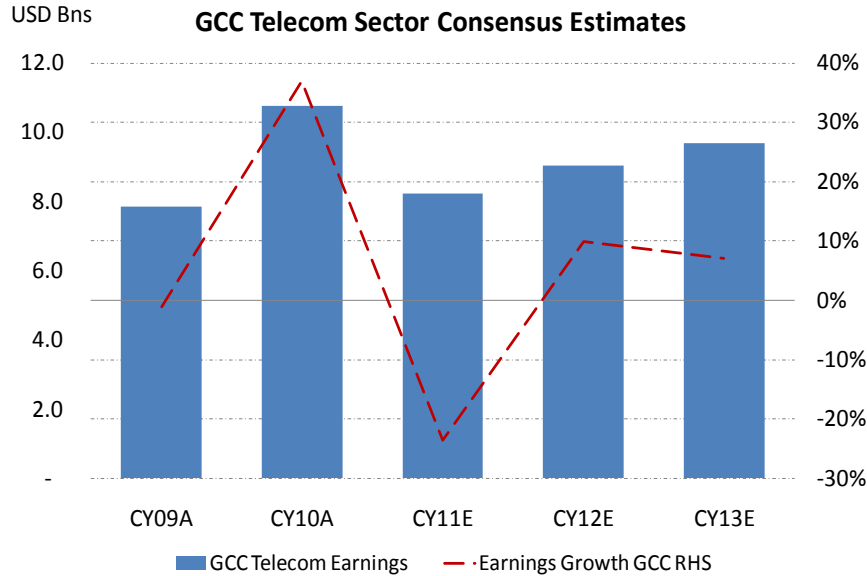
Telecoms – Rising Cash Flows Improve Defensive Character



- Over the past few years telecom companies have invested significant amounts in infrastructure and M&A activities to acquire market share and penetrations
- With full penetration levels, opportunities for increase in expenditures are limited that would result in availability of future cash flows for dividend payouts

Source: Reuters, GIC Research

Telecoms – Positive Growth & Attractive Valuations



- Estimates suggest positive growth lies ahead for telecom companies driven by improvement in demographic factors as well as data services penetrations.
- Current valuations seem to be cheaper than international and regional peers which improves the overall attractiveness of the sector in the medium term.

Source: Reuters, GIC Research



Sector Watch

Consumer



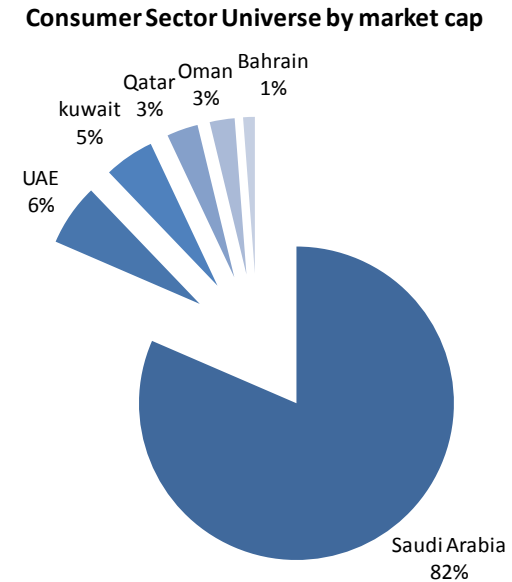
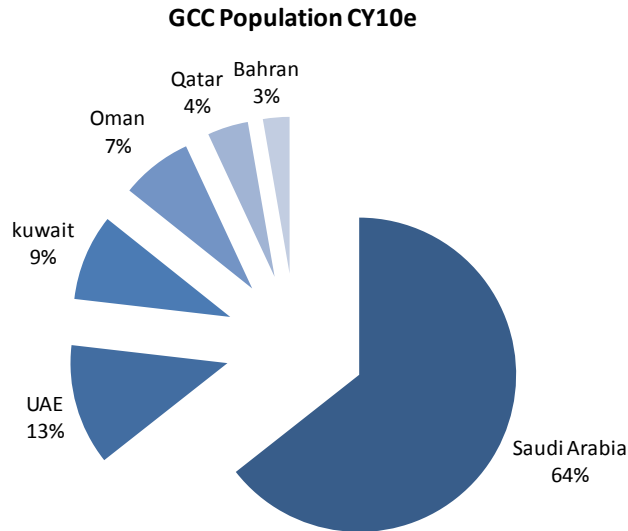


Consumer – Strength In Numbers

- ❖ The retail sector provides a very stable business model to mitigate some of the risks currently hovering in the global economy.
- ❖ With population in the region steadily rising, and the majority of the population under the age of 40, the demographics are very favorable for the sector, particularly given the high levels of disposable income that is available with the general public.
- ❖ Spending power of GCC nationals is rising, adding to the consumption mentality of the region which can only benefit retailers.
- ❖ Valuations are attractive and offer substantial upside in the consumer segment although money has been piled into the sector to hedge exposure to cyclical stocks.
- ❖ Firms in the sector have very steady income and have excellent growth prospects both organically and non-organically in the near future.



Consumer – Strength In Numbers

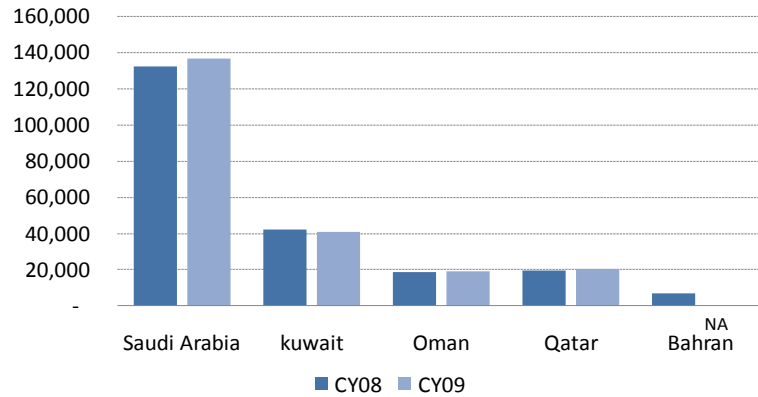


- ❖ Saudi's total population has been growing at a CAGR of 2.4% over the past 8 years, rising from 20.9mn in 2001, to 24.8mn in 2009. Per Capita GDP has risen from SAR 32,821 (USD 8,752) in 2001, to SAR 70,859 (USD 18,896) in 2008, achieving CAGR of 12% during the 8-year period.
- ❖ Outlook for retailers and consumer durables in Saudi is very robust due to a large population base that is growing faster than the GCC average, rapidly escalating per Capita GDP, and availability of higher disposable income.

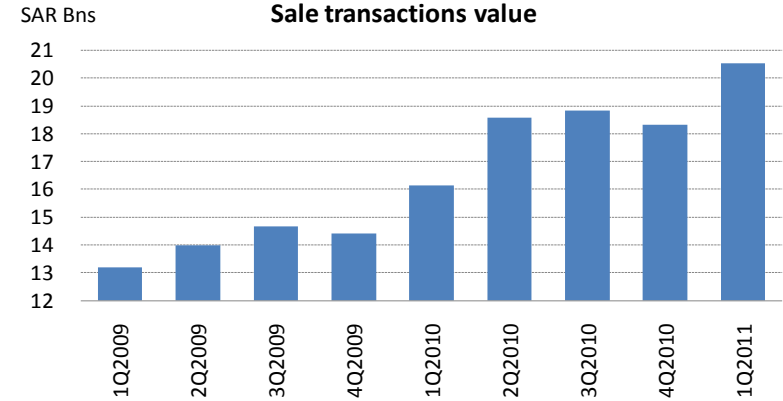
Source: SAMA, Reuters, GIC Research

Consumer – Strength In Numbers

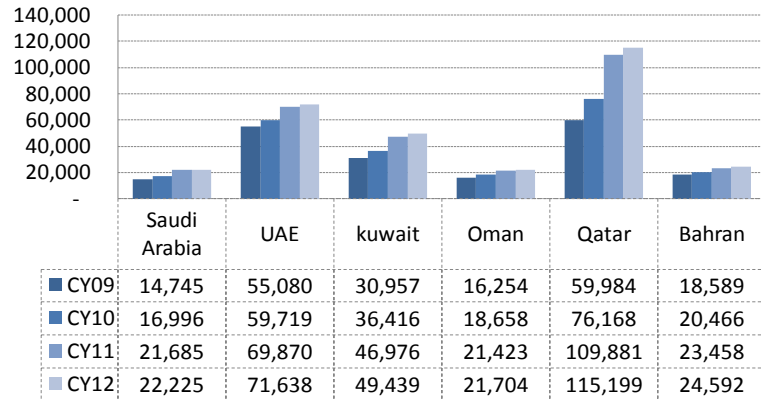
USD Mns **Private consumption - IMF International Statistics**



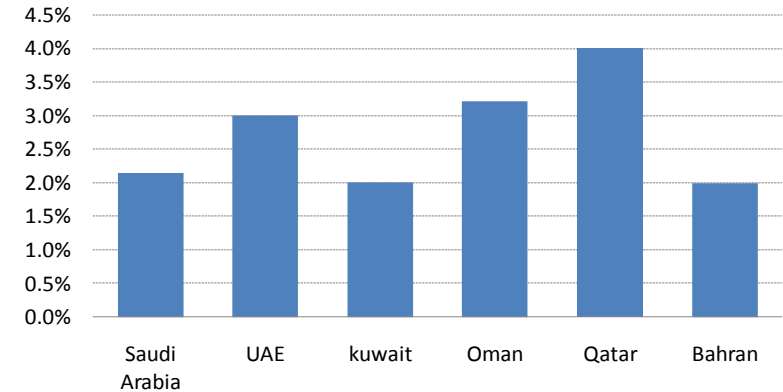
Saudi Arabia consumer spending reflected in Point of Sale transactions value



GDP Per Capita - USD



Population growth rates - 5yr CAGR 2015 - IMF



Source: SAMA, Reuters, GIC Research



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