

August 2010

## Markets Rebound in July

### Global and Regional Market Review

Research Highlights:  
Review of stock markets for  
the month of July 2010

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*"We're in a pause in a recovery, a modest recovery, but a pause in a modest recovery feels like a quasi-recession" – Alan Greenspan, Former Federal Reserve Chairman<sup>1</sup>*

World markets saw gains in July as positive economic signals emerged from Developed Europe. MSCI World gained 8% in July after losing 3% in June. UK GDP grew at an annual rate of 1.1% in 2Q10, the largest quarterly growth since the first quarter of 2006.

Investors were somewhat relieved by the results of the E.U. stress test on 91 lenders, in which only 7 banks failed. However, some investors remain concerned in light of the upwards of USD 270 bn of debt which will require refinancing in 2011 and a further USD 230 bn in 2012<sup>2</sup>.

On the other end of the pond, the US economy as 2Q GDP growth was at an annual rate of 2.4%, driven by weak private investment and consumption. The unemployment rate is expected to edge up to 9.6% in July from 9.5% in June according to a Bloomberg survey.

China's GDP growth declined to a 10.3% annual rate in 2Q10 while July manufacturing figures were the weakest seen in 16 months.

GCC markets turned positive in July as corporate earnings lifted sentiment in addition to positive reports from rating agencies. MSCI GCC gained 5% for the month, bringing the YTD gain to 4%. The index underperformed MSCI EM and MSCI BRIC for the month but is outperforming the indices on a yearly basis. All GCC markets saw gains, except Bahrain which shed 0.17%. Gains were led by Kuwait's Weighted Index which was up 5.5% for the month.

Liquidity continued to dry up across the GCC in July, as volume and value traded declined a further 5% and 27%, respectively. In terms of volume, all markets saw declines, except Kuwait where volume traded was up 70% for the month, value traded in Kuwait was up 23% to USD 2.46 bn. Volatility in the GCC was down 40% in July, led by the UAE markets where MVX Abu Dhabi and MVX Dubai declined 48% and 39%, respectively.

<sup>1</sup> NBC, Meet the Press

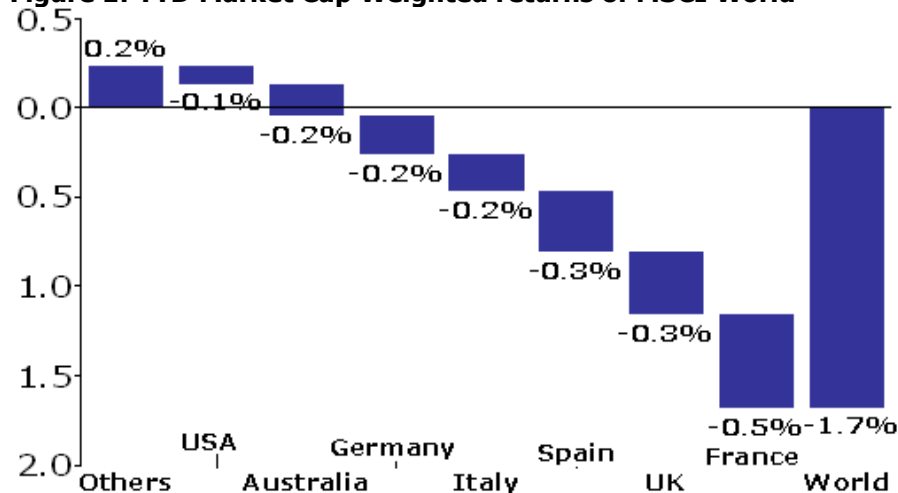
<sup>2</sup> Bloomberg

MSCI World gained 8% in July after losing 3% in June, bringing the YTD loss to 2%

### Global Markets Review – July 2010

World markets saw gains in July as positive economic signals emerged from Developed Europe. MSCI World gained 8% in July after losing 3% in June, bringing the YTD loss to 2%. On a market cap weighted basis, France was the largest contributor with a loss of 0.5%. (Figure: 1)

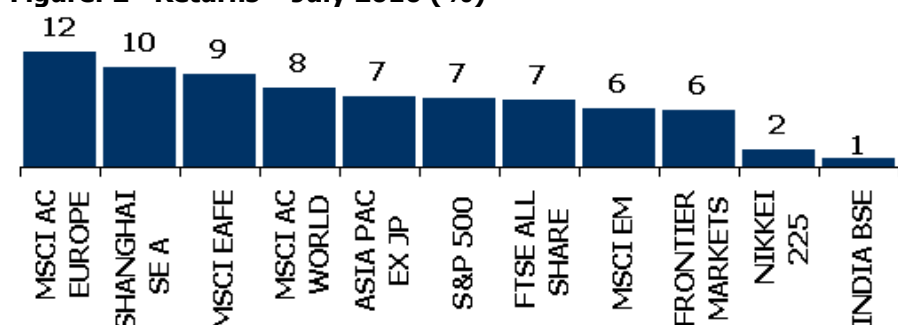
**Figure 1: YTD Market Cap Weighted returns of MSCI World**



Source: MSCI Indices, Thomson DataStream

Monthly returns were positive for the month, led by MSCI Europe's gain of 12% followed by Shanghai, up 10% for the month. The FTSE was up 7% as the UK reported strong 2Q GDP growth.

**Figure 2 –Returns – July 2010 (%)**



Source: MSCI, Thomson DataStream

The US economy showed clear signs of slowing as GDP growth in 2Q10 was at an annual rate of 2.4%

#### World

The UK turned out a strong economic report for Q2, growing at an annual rate of 1.1% versus just 0.3% in the first quarter. The 2<sup>nd</sup> quarter growth represents the largest since the first quarter of 2006. The largest contribution to growth has been from the financial sector<sup>3</sup>.

In the E.U., despite a passing grade from regulators, banks in Europe's peripheral nations are expected to struggle in refinancing upwards of USD 270 bn of debt in 2011 and USD 230 bn in 2012<sup>4</sup>. Only seven out of the 91 lenders which were stress tested by the EU failed which served to ease investor concerns. However, many investors remain concerned that rather than the passing of 84 lenders being a positive, it may indicate that the stress tests were not as severe as they ought to have been.

<sup>3</sup> Office for National Statistics

<sup>4</sup> Bloomberg

MXV India hit an historic low during July 2010, ending the month at 583, a decline of 43%

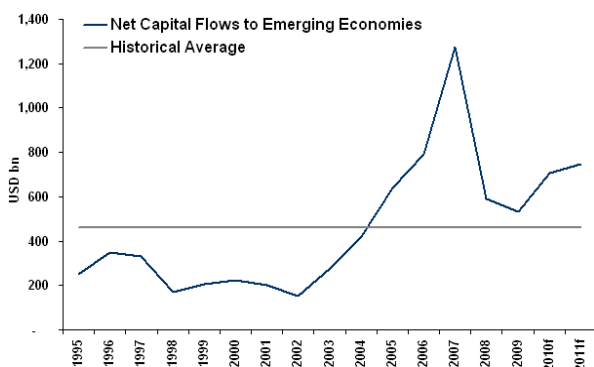
On the other end of the pond, the US economy showed clear signs of slowing as GDP growth in 2Q10 was at an annual rate of 2.4% versus 3.7% in Q1. The slowdown was primarily driven by increasing imports, and declining private investment; consumption also continued to decelerate as unemployment remains stubbornly high<sup>5</sup>. Federal Reserve Chairman Ben Bernanke went on record stating that the U.S. economic outlook is "unusually uncertain" as certain segments of the economy, mainly large businesses and high income individuals are in strong recovery, while consumption and employment remain stubbornly negative. The unemployment rate is expected to edge up to 9.6% in July from 9.5% in June according to a Bloomberg survey.

Property-tightening measures by the Chinese government are reigning in economic growth, which dipped to a 10.3% annual rate in 2Q10 from 11.9% in the first quarter. July manufacturing figures were the weakest seen in 16 months as austerity measures in advanced economies (mainly, Europe) are expected to dampen demand for exports. The HSBC PMI fell to 49.4 in July (values below 50 signal contraction)<sup>6</sup>.

India manufacturing growth accelerated in July putting pressure on the central bank to increase interest rates in order to clamp down on demand as inflation has remained above 10% since February. The Reserve Bank of India raised interest rates for the fourth time in five months while bond yields touched a three month high. The reverse repo rate was raised to 4.5% from 4%<sup>7</sup>. MXV India hit an historic low during July 2010, ending the month at 583, a decline of 43%.

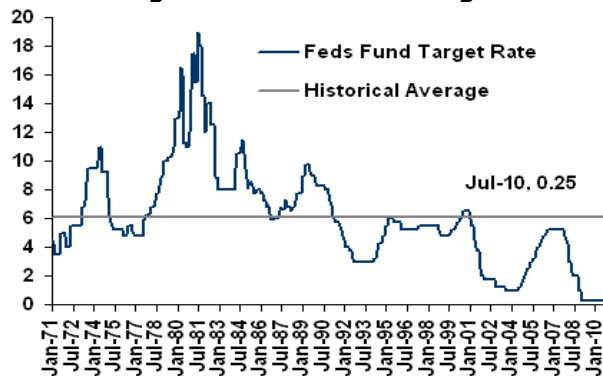
**Chart Pack – Global Markets**

**Figure: 3 – Capital Flows to Emerging Economies**



Source: Institute of International Finance

**Figure: 4 - Feds Fund Target rate**



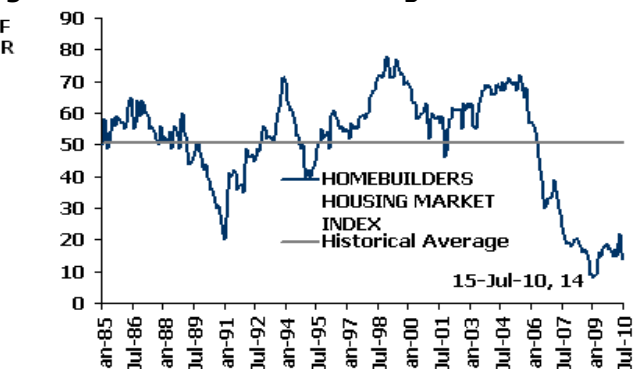
Source: Thomson DataStream

**Figure: 5 - Trade Weighted Dollar**



Source: Thomson DataStream

**Figure: 6 -Homebuilders housing market index**



Source: Thomson DataStream

<sup>5</sup> Bureau of Economic Analysis, News Release, July 2010

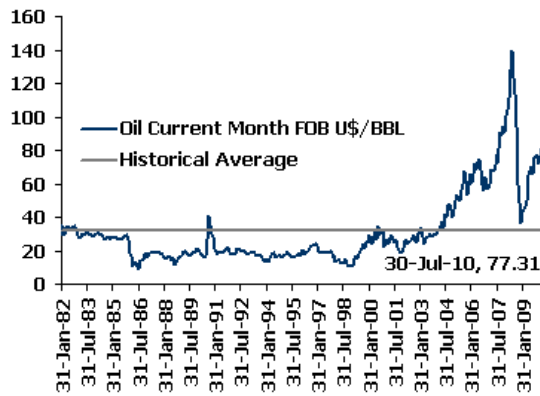
<sup>6</sup> Bloomberg News

<sup>7</sup> Reserve Bank of India

**Figure: 7 - US Unemployment rate (Seasonally Adj)** **Figure: 8 - Crude Brent Oil Prices**

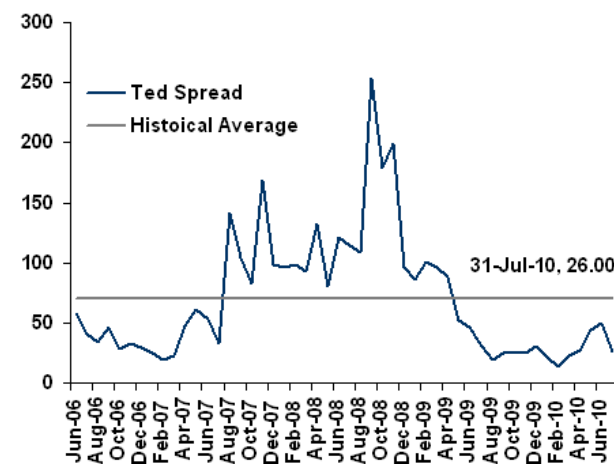


Source: Thomson DataStream



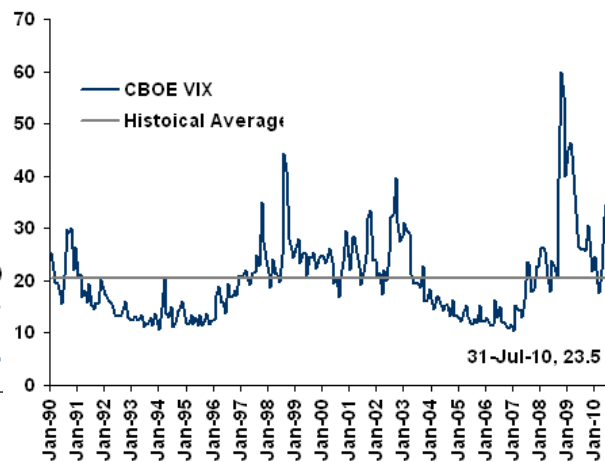
Source: Thomson DataStream

**Figure: 9 - Ted Spread**



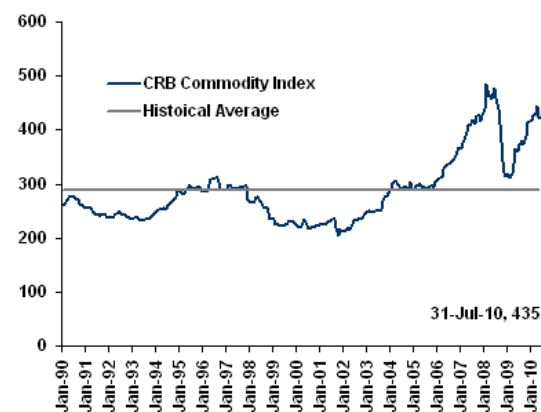
Source: Reuters 3000Xtra

**Figure: 10 - CBOE VIX**



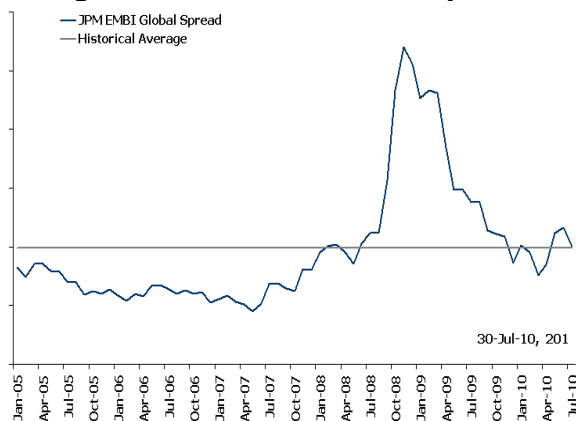
Source: Reuters 3000Xtra

**Figure: 11 - CRB Commodity Index**



Source: Reuters 3000Xtra

**Figure: 12: JPM EMBI Global Spread**



Source: Thomson DataStream

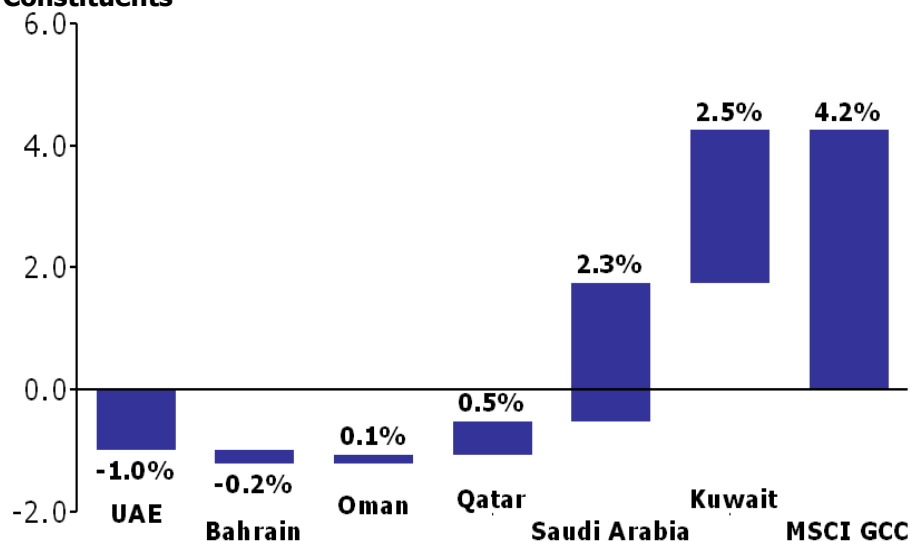
## GCC Markets Review – July 2010

MSCI GCC gained 5% for the month, bringing the YTD gain to 4%

GCC markets turned positive in July as 2Q corporate earnings lifted sentiment in addition to positive reports from rating agencies. MSCI GCC gained 5% for the month, bringing the YTD gain to 4%. The index underperformed MSCI EM and MSCI BRIC for the month but is outperforming the indices on a yearly basis as the former is up 0.22% while the latter is down 2.55%. All GCC markets saw gains, except Bahrain which shed 0.17%. Gains were led by Kuwait's Weighted Index which was up 5.5% for the month as Blue Chips saw gains on the bank of healthy 2Q

results. Kuwait contributed the most to the GCC YTD return, on a market cap basis, with a 2.5% gain.

**Figure 13: YTD Market Cap Weighted returns of MSCI GCC Constituents**



Source: MSCI, Thomson DataStream

GCC markets saw gains in July as fairly positive Q2 results rolled in

GCC markets saw gains in July as fairly positive Q2 results rolled in, in addition to positive reports from the IMF on the state of the region. Oil prices gained 3% for the month.

The Saudi market gained 3% despite earnings disappointments buoyed by stable crude oil prices. Blue Chips gained despite poor results; Al Rajhi Bank and Samba Financial Group gained 6% and 5%, respectively, despite 1H10 earnings declines of 1% and 3%, respectively.

Kuwait firms saw fairly healthy quarterly results; Gulf Bank swung to a profit of KD 2 mn after posting losses in the same period of the previous year. NBK posted a 10% growth in second quarter earnings and provisions of USD 81 mn for the same period. The bank forecasted a tougher second half due to a shortage of public spending. Moody's retained a long term credit rating of AA 2 on NBK with a Stable outlook. Furthermore, a recent IMF report put the combined capital adequacy of the Kuwait banking sector at 18%, well above the 12% stipulated by the Central Bank<sup>8</sup>.

The UAE markets saw gains during the month, boosted by some positive corporate earnings figures. NBAD and First Gulf Bank saw 1H10 earnings growths of 21% and 12%, respectively, while Emirates NBD saw earnings decline 29% in the same period. On the debt front, Dubai World's debt agreement is not expected until sometime in September while Nakheel has proposed a 5 year repayment schedule for its multibillion dollar debt coupled with a repayment of one outstanding USD 1.85 bn syndicated Islamic loan after seven years, creditors have until end of August to approve the plan. Fitch Ratings warned of further difficulties in the Dubai real estate market as upcoming debt maturities in 2011/12 may present refinancing difficulties for corporations.

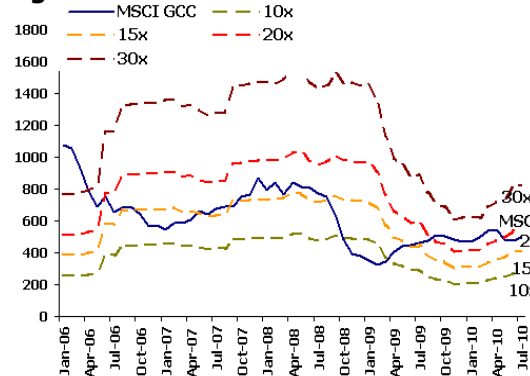
Liquidity continued to dry up across the GCC in July, as volume and value traded declined a further 5% and 27%, respectively. In terms of volume, all markets saw declines, except Kuwait where volume traded was up 70% for

<sup>8</sup> Kuwait: Financial System Stability Assessment – Update, International Monetary Fund, July 2010

the month, value traded in Kuwait was up 23% to USD 2.46 bn. Volatility in the GCC was down 40% in July, led by the UAE markets where MVX Abu Dhabi and MVX Dubai declined 48% and 39%, respectively.

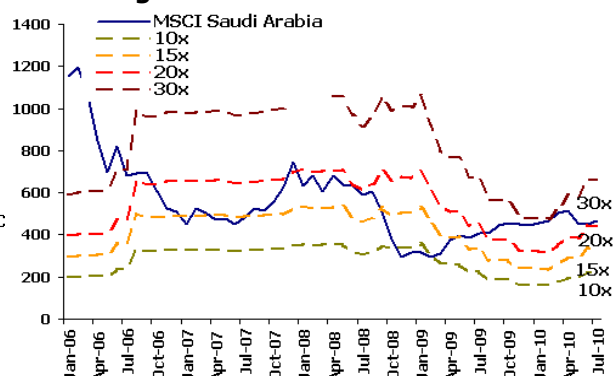
**Chart Pack – GCC**

**Figure: 14 - MSCI GCC – PE Band**



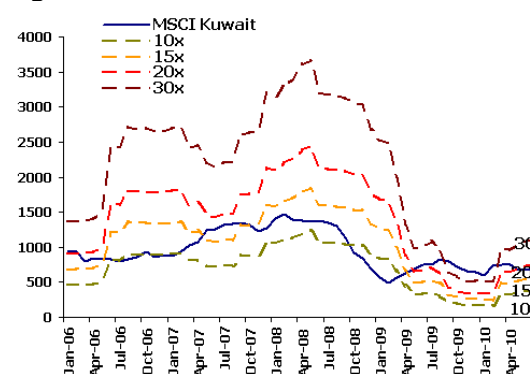
Source: MSCI, Thomson DataStream

**Figure: 15 - MSCI Saudi Arabia – PE Band**



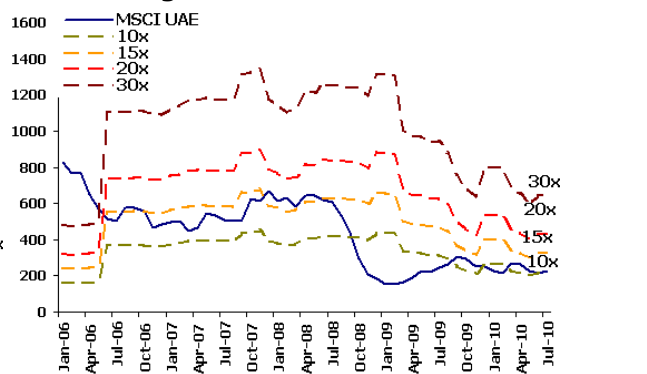
Source: MSCI, Thomson DataStream

**Figure: 16 - MSCI Kuwait – PE Band**



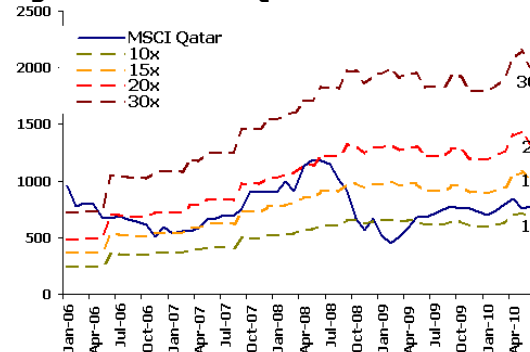
Source: MSCI, Thomson DataStream

**Figure: 17 - MSCI UAE – PE Band**



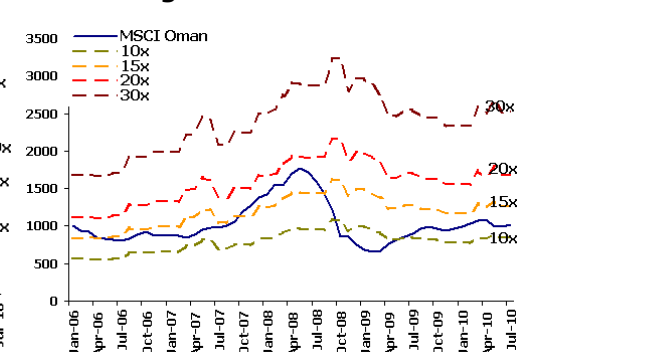
Source: MSCI, Thomson DataStream

**Figure: 18 - MSCI Qatar – PE Band**



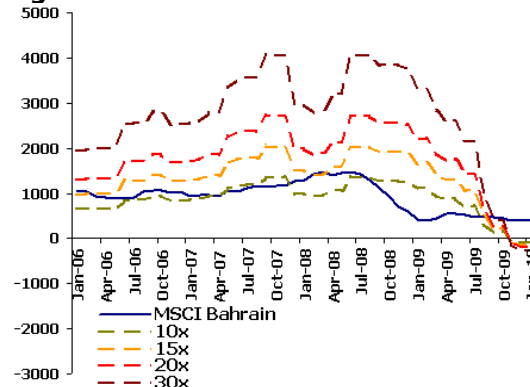
Source: MSCI, Thomson DataStream

**Figure: 19 - MSCI Oman – PE Band**



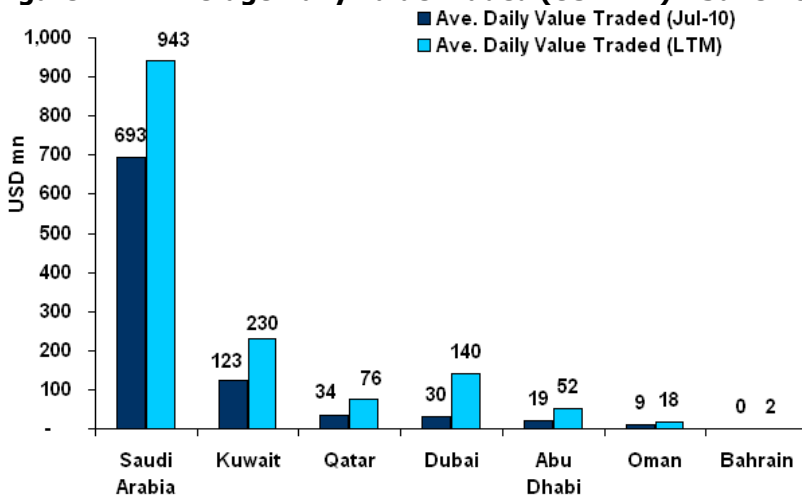
Source: MSCI, Thomson DataStream

**Figure: 20 - MSCI Bahrain – PE Band**



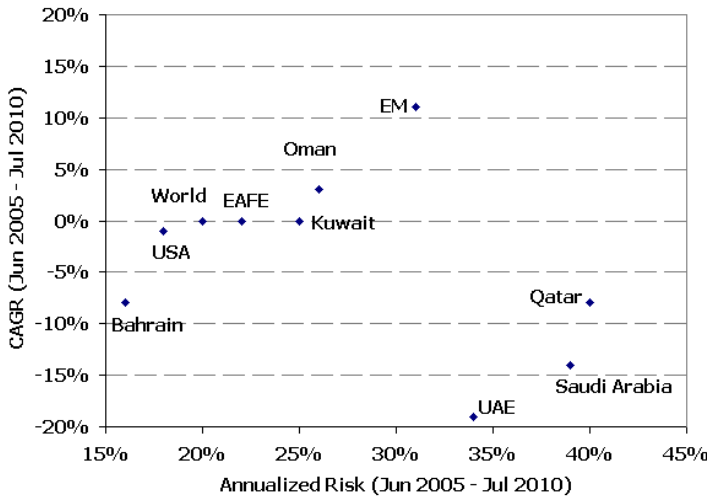
Source: MSCI, Thomson DataStream

**Figure: 21 – Average Daily Value Traded (USD mn) – June 2010**



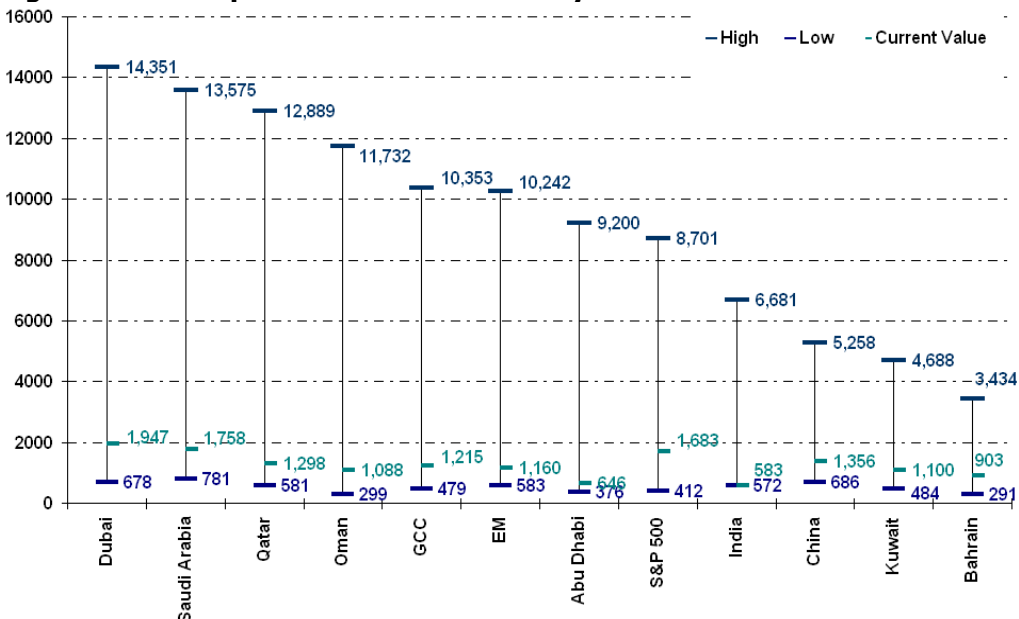
Source : Zawya Investor

**Figure: 22 - Risk & Return – GCC Vs Developed & EM – June 2005 - July 2010**



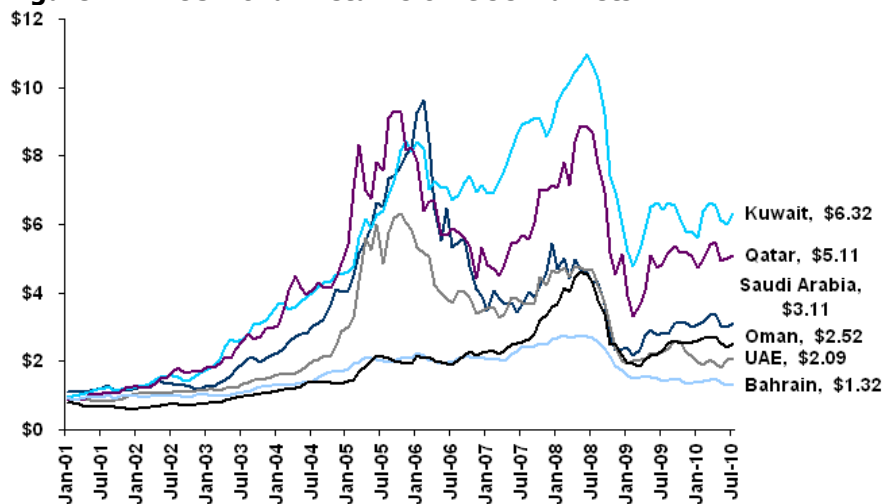
Source: MSCI, Thomson DataStream

**Figure: 23 – Comparative MVX Levels – July 2010**



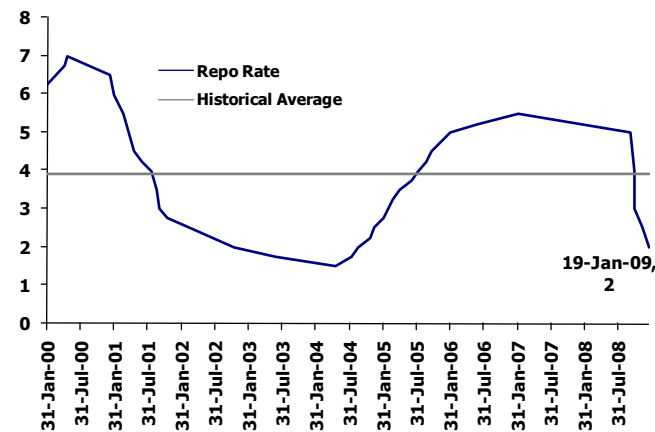
Source: MVX is a proprietary volatility index developed by Markaz Research

Figure: 24 – US Dollar Returns on GCC Markets



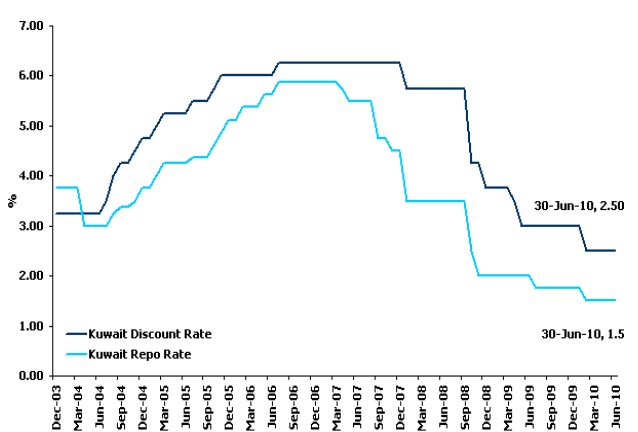
Source: Markaz Research

Figure: 25 - Saudi Arabia Repo Rate



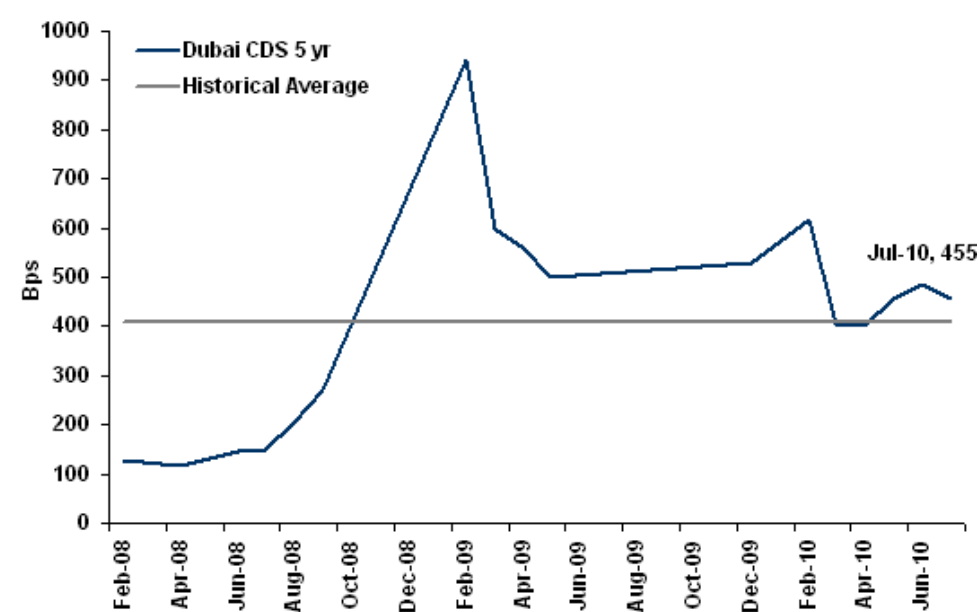
Source: Reuters 3000Xtra

Figure: 26 - Kuwait Rates



Source: Reuters 3000Xtra

Figure 27: Dubai CDS 5 yr



Source: Reuters 3000Xtra

Data Tables – GCC

Data Table: 1 - Market Indicators					
Indicators	M. Cap (USD Bn)	Last Close	July 2010 %	YTD %	P/E TTM
Saudi (TASI)	329	6284	3.12	2.65	15
Kuwait SE WT.INDEX	112	419	5.49	8.68	14
Abu Dhabi (ADI)^	75	2546	1.26	-7.21	9
Qatar(Doha SM)	71	7029	1.88	1.01	10
Dubai (DFMGI)	51	1512	3.46	-16.14	9
Oman(Muscat SM)	17	6295	3.90	-1.17	11
Bahrain (BAX)	16	1394	-0.17	-4.41	11
MSCI GCC Index	436	417	4.14	2.42	17

Source: Excerpt from Markaz 'Daily Morning Brief' August 1, 2010

Data Table: 2 - Value & Volume Traded Indicators										
% of Volume Traded	% of Value Traded		Volume Parameters				Value Parameters			
			Volume Traded (Mn)	LTM Avg Volume Traded (Mn)	MoM Deviation (%)	Top 5 Volume Traded Concentration in Market Cap	Value Traded (USD Mn)	LTM Avg Value Traded (USD Mn)	MoM Deviation (%)	Top 5 Value Traded Concentration in Market Cap
21%	77%	<b>Saudi Arabia</b>	2,304	3,095	-36%	30%	14,551	19,795	-30%	28%
56%	13%	<b>Kuwait</b>	6,251	6,986	70%	0%	2,461	4,342	23%	12%
21%	5%	<b>UAE</b>	2,380	7,600	-42%	8%	1,031	4,058	-37%	25%
1%	4%	<b>Qatar</b>	82	195	-44%	9%	704	1,622	-42%	27%
2%	1%	<b>Oman</b>	181	365	-28%	21%	197	379	-14%	21%
0%	0%	<b>Bahrain</b>	23	64	-55%	35%	9	35	-63%	35%
		<b>Total GCC</b>	11,221	18,305	-5%		18,952	30,231	-27%	

Source: Markaz Research

Data Table: 3 - Value traded (USD Bn)							
	2004	2005	2006	2007	2008	2009	2010
Saudi (TASI)	473	1103	1403	682	522	338	136
Kuwait (KSE)	51	97	60	131	134	75	28
Abu Dhabi (ADX)	4	29	19	48	83	19	5
Dubai (DFM)	14	110	95	103	63	48	14
Qatar (DSM)	6	28	21	30	47	26	10
Oman (MSM)	2	3	2	5	9	6	2
Bahrain (BAX)	0.4	0.6	1.4	0.9	2.2	0.48	0.20
<b>Total</b>	<b>550</b>	<b>1371</b>	<b>1601</b>	<b>1000</b>	<b>860</b>	<b>512</b>	<b>196</b>

Source: Respective Stock Exchanges

Data Table: 4 - Blue Chips Performance

Companies	M.Cap (USD Bn)	Last Close (Lc)	Monthly Change	YTD	2009 Change	P/E TTM	H1 2010 Earnings	PAT (YoY Growth)
<b>Saudi Arabia (SAR)</b>								
SABIC	69	86.5	1	6	60	14	10450	NM
Al-Rajhi Bank	32	79.5	6	14	27	18	3460	-1
Saudi Telecom	21	38.2	1	-10	-10	8	3830	-30
Saudi Electricity Co.	16	14.2	11	33	22	39	286	NM
Samba Fin. Group	15	60.0	5	20	-1	12	2430	-3
<b>United Arab Emirates (AED)</b>								
ETISALAT	22	10.1	-3	4	33	10	3900	-15
NBAD	7	11.4	4	2	52	8	2030	21
First Gulf Bank	5	14.5	-4	-7	71	6	1710	12
Emaar Properties	5	3.3	7	-16	75	7	760^	221
Emirates NBD	4	2.5	3	-9	6	5	1510	-29
<b>Kuwait (KWD)</b>								
ZAIN	16	1.2	7	18	21	26	52^	-32
NBK	14	1.2	5	24	4	14	145	15
KFH	9	1.0	6	4	-9	23	71	-2
Comm. Bk. Kuwait	4	0.9	-3	-3	-21	NA	0.89	-0.4
Gulf Bank	4	0.4	9	47	-33	NA	2	NM
<b>Qatar (QAR)</b>								
Ezdan Real Est. Co.	24	34.0	17	-48	144	6	117	-42
Industries Qatar	15	99.8	3	-9	13	10	1200^	-14
QNB	14	135.4	1	21	9	11	2700	31
Q-TEL	7	170.7	5	23	33	7	2100^	254
Qatar Islamic Bank	4	74.6	5	3	-6	14	602	-26

^1Q10

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 Daily Fixed Income Update

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KSE Market Weekly Review  
 International Market Update  
 Real Estate Market Commentary

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 Option Market Activity  
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 GCC Corporate Earnings

#### Quarterly

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 GCC Quants

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 GCC Water  
 GCC Airports  
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- Real Estate Earnings -2009 (May-09)
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### Company Research

Saudi Arabia	Kuwait (For Internal Use Only)	UAE	Qatar	Oman
<ul style="list-style-type: none"> <li>Yanbu Cement Co (Jun-09)</li> <li>Saudi Telecom Co. (Jun-09)</li> <li>Emaar Economic City (Jun-10)</li> <li>Qassim Cement Company (Jun-10)</li> <li>Savola Group (May-10)</li> <li>Alinma Bank (May-10)</li> <li>Jarir Marketing (May-10)</li> <li>Bank Al Bilad (May-10)</li> <li>Bank Al Jazira (Apr-10)</li> <li>Makkah Construction (Apr-10)</li> <li>Saudi Cement Company (Apr-10)</li> <li>Southern Province Cement Co (Mar-10)</li> <li>Saudi Electricity Company (Feb-10)</li> <li>Saudi Arabian Mining Co (Feb-10)</li> <li>Yamama Saudi Cement (Feb-10)</li> <li>Etihad Etisalat (Feb-10)</li> <li>Al Marai Company (Dec-09)</li> <li>Arab National Bank (Oct-09)</li> <li>SAFCO (Oct-09)</li> <li>Al Rajhi Bank (Aug-09)</li> <li>Riyad Bank (Jul-09)</li> <li>Sabic (Mar-09)</li> <li>Samba Financial Group (Feb-09)</li> <li>Saudi Investment Bank (Jan-09)</li> <li>Kingdom Holding Co (Dec-08)</li> <li>Saudi Kayan Petro Co. (Aug-08)</li> <li>Banque Saudi Fransi (Jun-08)</li> </ul>	<ul style="list-style-type: none"> <li>Agility (June-10)</li> <li>Gulf Bank of Kuwait (May -10)</li> <li>National Bank of Kuwait (Mar-10)</li> <li>Al Deera Holding (Aug-09)</li> <li>Kuwait Finance House (Apr-09)</li> <li>Kuwait Financial Centre (Dec-08)</li> <li>Commercial Bank of Kuwait (Oct-08)</li> <li>National Industries Group (Sept-08)</li> <li>Zain (Sept-08)</li> <li>Global Investment House (Sept-08)</li> <li>Kipco (Sept-08)</li> <li>The Investment Dar (Sept-08)</li> <li>Burgan Bank (Sept-08)</li> <li>Automated Systems Co (Aug-08)</li> <li>Al Safat Investment Co (July-08)</li> </ul>	<ul style="list-style-type: none"> <li>Dubai Financial Market (Sept-09)</li> <li>ADCB (Jun-09)</li> <li>DP World (Jun-09)</li> <li>NBAD (Feb-09)</li> <li>Sorouh Real Estate (Feb-09)</li> <li>Aldar Properties (Feb-09)</li> <li>Gulf Cement Company (Jan-09)</li> <li>Abu Dhabi National Hotels (Dec-08)</li> <li>Dubai Investments (Dec-08)</li> <li>Arabtec Holding (Dec-08)</li> <li>Air Arabia (Nov-08)</li> <li>Union Properties (Nov-08)</li> <li>Dubai Islamic bank (Oct-08)</li> <li>Union National Bank (Aug-08)</li> <li>Emaar Properties (July-08)</li> <li>Dana Gas (July-08)</li> <li>FGB (July-08)</li> <li>Etisalat (Jun-08)</li> </ul>	<ul style="list-style-type: none"> <li>Masraf Al-Rayan (Jun-10)</li> <li>Commercial Bank of Qatar (Mar-10)</li> <li>Qatar Telecom (Jun-09)</li> <li>Industries Qatar (Apr-09)</li> <li>Qatar National Bank (Feb-09)</li> <li>United Development Co. (Feb-09)</li> <li>Qatar Fuel Co. (Dec-08)</li> <li>Qatar Shipping Co (Dec-08)</li> <li>Barwa Real Estate Co. (Nov-08)</li> <li>Qatar Int'l Islamic bank (Nov-08)</li> <li>Qatar Insurance Co. (Nov-08)</li> <li>Qatar Gas Transport Co. (Oct-08)</li> <li>Doha Bank (Aug-08)</li> <li>QEWC (July-08)</li> <li>QISB (July-08)</li> </ul> <p><b>Bahrain</b></p> <ul style="list-style-type: none"> <li>Gulf Finance House (Oct-08)</li> <li>Esterad Inv. Company (Aug-08)</li> <li>Bahrain Islamic Bank (Aug-08)</li> <li>Ithmaar Bank (July-08)</li> <li>Tameer (July-08)</li> <li>Batelco (July-08)</li> </ul>	<ul style="list-style-type: none"> <li>Shell Oman Marketing (Apr-10)</li> <li>Galfar Engineering &amp; Cont. (Nov-08)</li> <li>Oman Telecommunications (Sept-08)</li> <li>Bank Muscat (Sept-08)</li> <li>Oman cement (Sept-08)</li> <li>Raysut Cement Company (Aug-08)</li> <li>National Bank of Oman (Aug-08)</li> <li>OIB (July-08)</li> </ul> <p><b>Jordan</b></p> <ul style="list-style-type: none"> <li>Arab Bank (Sept-08)</li> <li>Cairo Amman Bank (Oct-08)</li> </ul> <p><b>Morocco</b></p> <ul style="list-style-type: none"> <li>Maroc Telecom (Mar-10)</li> </ul> <p><b>Egypt</b></p> <ul style="list-style-type: none"> <li>Egypt Kuwait Holding (Mar-10)</li> <li>Commercial Int'l Bank (Oct-08)</li> <li>Orascom Telecom (Sep-08)</li> <li>Mobinil (Sep-08)</li> <li>Telecom Egypt (Aug-08)</li> <li>EFG-Hermes (Jun-08)</li> </ul>

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UAE	79%	25%	58%
Bahrain	58%	74%	23%
Oman	63%	100%	50%
Egypt	60%	85%	40%
Jordan	39%	0%	32%
Morocco	50%	70%	24%
<b>MENA</b>	<b>77%</b>	<b>88%</b>	<b>61%</b>



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