



شركة وثيقة المالية

Watheeqa Capital Company

Value Erosion in MENA Markets – A Thematic Study

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MENA markets – Key takeaways

MENA markets (GCC + Egypt) witnessed a golden run in the pre-financial crisis period (i.e. between 12/31/2003-09/15/2008). MENA markets not only outperformed the developed markets' indices (both MSCI US and MSCI European markets) by handsome margins but also posted higher returns than the MSCI Emerging markets' index (with the exception of Bahrain and Saudi Arabia though). However, post the financial crisis; MENA markets had underperformed the MSCI Emerging markets, MSCI US markets, and even the MSCI European markets (with the exception of Qatar) as well for that matter.

Figure 1: MENA markets vis-à-vis global equity markets

CAGR (%)	12/31/2003-09/15/2008	09/15/2008-10/16/2011	12/31/2003-10/16/2011
EGX30 Index (Egypt)	47.9	(17.0)	17.8
DFMGI Index (Dubai)	33.9	(29.2)	4.1
MSM30 Index (Oman)	25.8	(11.7)	9.4
KWSEIDX Index (Kuwait)	22.6	(21.1)	3.0
ADSMI Index (Abu Dhabi)	17.2	(12.5)	4.4
DSM Index (Qatar)	16.5	0.9	10.1
BHSEASI Idx (Bahrain)*	11.5	(22.0)	(4.0)
SASEIDX Idx (Saudi Arab)	10.8	(5.2)	4.2
MSCI US Index	1.7	1.0	1.4
MSCI Europe Index	3.2	(4.2)	0.2
MSCI EM Index	13.9	4.1	9.9

Source: Bloomberg, Watheeqa

Note: Returns for BHSEASI Index calculated since 07/05/2004.

The golden run in the pre-financial crisis period, in our view, was largely underpinned by the healthy excess return generation

witnessed in all the MENA markets. We have measured the excess return as the differential between return on equity (RoE) and cost of equity (CoE). Average RoEs in the MENA markets during FY2004-2007 stood (pre-financial crisis period) at 18.2%, resulting in a healthy return differential of 7.8% over CoE. However, the financial crisis impacted earnings considerably with the average RoEs contracting to 11.5%. Consequently, the average return differential narrowed to 1.8% during FY2008-2010 (post-financial crisis period) and hence, the underperformance, in our view. Individually speaking, Qatar, Oman, Saudi Arabia, and United Arab Emirates (UAE) managed to maintain the positive return differential in both the pre- and post-financial crisis periods. All the remaining regional markets, however, gave up the excess returns and slipped into the negative territory post the financial crisis.

Figure 2: Return differential contracted by 6% post crisis

Excess Returns (ROE - COE) (%)	FY2004-2007 average	FY2008-2010 average
Qatar	10.0	7.4
Oman	9.3	6.1
Saudi Arabia	8.0	2.5
UAE	8.5	1.0
Egypt	4.4	(0.8)
Bahrain	5.0	(1.2)
Kuwait	9.6	(2.5)
Average	7.8	1.8

Source: Bloomberg, Watheeqa

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Concomitantly, the valuation multiples in the MENA markets witnessed sharp contraction in the post-financial crisis period. Price/Book (PB) multiple for the MENA markets more than halved to 1.6x during FY2008-2010. Individually speaking, the UAE market witnessed more than 70% decline in its average PB multiple. Saudi Arabia and Bahrain witnessed 60%+ and 50%+ declines in their average PB multiples respectively during the same period. Average PB multiples for Oman dropped by a fourth - the lowest decline in the region - during FY2008-2010 relative to its FY2004-2007 average.

Figure 3: Valuation multiples more than halved in the post crisis period

P/B Multiple (x)	FY2004-2007 average	FY2008-2010 average	Decline (%)
Oman	2.4	1.8	(23.7)
Egypt	2.9	1.8	(38.0)
Kuwait	3.0	1.7	(44.4)
Qatar	3.4	1.8	(46.1)
Bahrain	2.8	1.3	(51.3)
Saudi Arabia	4.6	1.7	(62.5)
UAE	3.5	1.0	(71.6)
MENA	3.8	1.6	(58.5)

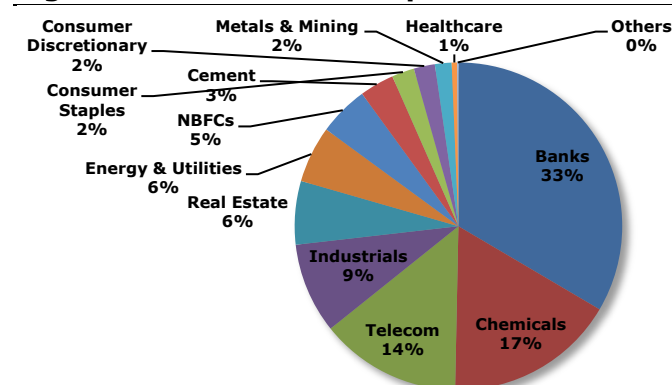
Source: Bloomberg, Watheeqa

Note: We have used year-end market capitalization to calculate the p/b multiples.

NOTE: *The report does not state, nor imply any investment recommendation or asset allocation strategy. The report's objective is to present observational findings based on our research.*

The combined market capitalization of the MENA markets stood at ~US\$730bn as on October 16, 2011. Our study universe includes companies with market capitalization exceeding US\$100mn in each of the regional markets representing ~96% of the combined market capitalization.

Figure 4: MENA market cap - sectoral break-up



Source: Bloomberg, Watheeqa

Top five sectors: Banks, Chemicals, Telecom, Industrials, and Real Estate accounted for c.80% of the total market capitalization of the MENA markets. In the following pages, we highlight the return differential trends in the key sectors of the region in both the pre- and post-financial crisis periods. Subsequently, we present a brief synopsis of each country in the region depicting the sectoral break-up of current market capitalization and FY2010 normalized earnings along with the

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trends in the sectoral RoEs (in respective markets) both in the pre- and post-financial crisis periods.

Return differential: Key sectoral trends

Similar to the return differential for each of the regional markets, we have looked at the return differential for the major sectors in the region in both the pre- and post-financial crisis periods. It is worth noting that we have used the cost of equity of the respective markets to work out the excess returns for the individual sectors.

Figure 5: MENA Banks' return differential

Excess Returns (ROE - COE) (%)	FY2004-2007 average	FY2008-2010 average
Qatar	8.7	7.9
Saudi Arabia	17.6	7.2
UAE	8.6	3.5
Oman	6.1	1.5
Kuwait	10.2	0.6
Bahrain	0.7	0.4
Egypt	(1.2)	(0.1)

Source: Bloomberg, Watheeqa

Qatari and Saudi Arabian banks continued to enjoy healthy return differential (average) in the post-financial crisis period. Qatari banks witnessed a minor compression of 80 basis points (bps) in the return differential relative to its pre-financial crisis average. Return differential for Saudi Arabian and Kuwaiti banks witnessed the largest decline of c.10% during FY2008-2010.

Figure 6: MENA Chemicals' return differential

Excess Returns (ROE - COE) (%)	FY2004-2007 average	FY2008-2010 average
Egypt	19.6	16.6
Saudi Arabia	9.7	2.6
Kuwait	5.3	(1.2)

Source: Bloomberg, Watheeqa

Saudi Arabia accounted for more than 90% of the market capitalization of the chemicals sector in the region. Return differential for the sector contracted by 7.1% to 2.6% during FY2008-2010. The Egyptian chemical sector, though much smaller relative to Saudi Arabia, witnessed much less value erosion.

Figure 7: MENA Telecoms' return differential

Excess Returns (ROE - COE) (%)	FY2004-2007 average	FY2008-2010 average
Oman	19.0	21.3
Bahrain	15.5	11.9
UAE	15.3	11.2
Saudi Arabia	21.9	6.5
Kuwait	9.7	2.1
Egypt	5.7	(0.2)
Qatar	18.0	(0.7)

Source: Bloomberg, Watheeqa

Oman telecom sector stood first in terms of value creation in the region, followed by Bahrain. The telecom sector was the best performing sector in UAE with a healthy return differential of 11.2% in the post-financial crisis period.

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Figure 8: MENA Industrials' return differential

Excess Returns (ROE - COE) (%)	FY2004-2007 average	FY2008-2010 average
Qatar	14.1	12.0
Oman	12.3	5.6
Egypt	5.4	3.3
Saudi Arabia	1.8	2.5
Kuwait	12.3	(0.3)
UAE	0.2	(0.3)

Source: Bloomberg, Watheeqa

Qatari industrials sector, with more than a third's share of market capitalization in the region, stood first in terms of value creation. Kuwaiti industrials' sector witnessed the largest compression of c.13% in the return differential in the post-financial crisis period.

real estate sector remained the best value creator in both the pre- and post-financial crisis periods.

Figure 9: MENA Real Estate return differential

Excess Returns (ROE - COE) (%)	FY2004-2007 average	FY2008-2010 average
Qatar	6.0	6.2
Bahrain	16.3	2.4
Saudi Arabia	(0.3)	(2.3)
Kuwait	5.3	(7.7)
Egypt	(2.5)	(7.8)
UAE	9.1	(9.5)

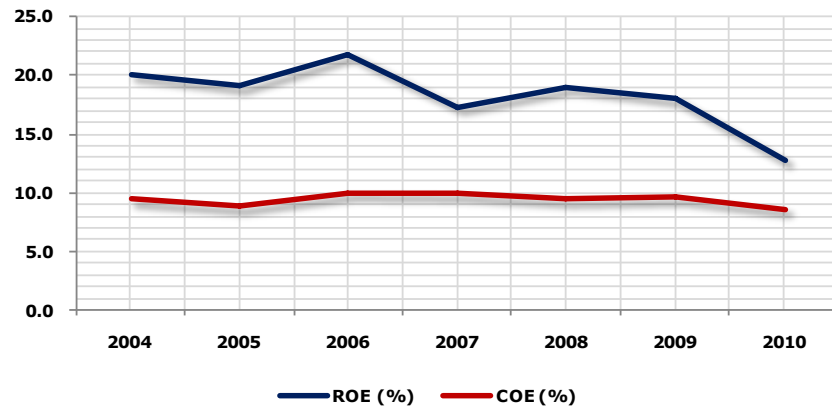
Source: Bloomberg, Watheeqa

Real estate sector in UAE, Bahrain and Kuwait witnessed significant contractions of 19%, 14% and 13% respectively in their average return differentials during FY2008-2010. Qatari

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Qatar

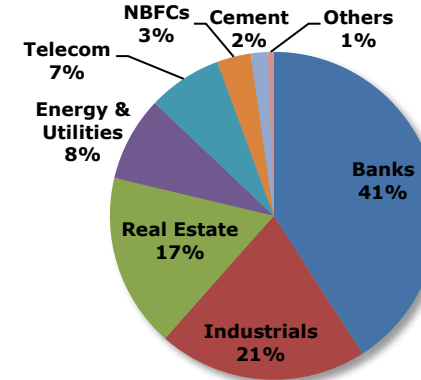
Figure 10: RoE-CoE differential (%)



Source: Bloomberg, Watheeqa

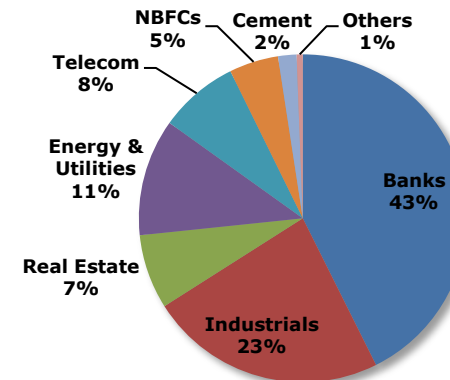
Qatar enjoys the highest return differential (RoE - CoE) in the post-financial crisis period, justifying its recent relative outperformance vis-à-vis her regional peers.

Figure 11: Market cap – sectoral break-up



Source: Bloomberg, Watheeqa

Figure 12: FY2010 Earnings - sectoral break-up



Source: Bloomberg, Watheeqa

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Top three sectors: Banks, Industrials, and, Real Estate accounted for ~80% of the total market capitalization and ~3/4th of total normalized earnings in FY2010.

Figure 13: RoE trends: Financials - Banks

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	2.5	3.8	3.3	3.2	3.2	2.9	2.5	2.6	2.6
Lev (x)	6.0	5.2	5.8	6.0	5.7	6.4	6.3	6.7	6.5
ROE (%)	14.6	20.1	19.3	19.1	18.3	18.5	15.5	17.4	17.1

Source: Bloomberg, Watheeqa

Banking sector average RoA contracted by 60bps during FY2008-2010 but remained healthy at 2.6%. Leverage remained lowest amongst regional peers at 6.5x. Average RoE contracted by 110bps to 17.1% in the post-financial crisis period.

Figure 14: DuPont Analysis: Industrials

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	45.8	63.4	46.8	50.6	51.6	43.6	42.3	38.6	41.5
As TO (x)	0.4	0.3	0.4	0.4	0.4	0.5	0.3	0.3	0.4
Lev (x)	1.2	1.2	1.3	1.4	1.3	1.4	1.4	1.4	1.4
ROE (%)	23.2	23.7	22.5	25.5	23.7	27.8	18.8	17.2	21.3

Source: Bloomberg, Watheeqa

Industrials sector remained the most profitable in the country with average net profit margin (NPM) in excess of 40% during FY2008-2010. Asset turnover and leverage remained stable in both the periods. Average RoE during FY2008-2010 contracted

by 240bps to 21.3%, primarily owing to the decline in NPM margins. It is worth highlighting that industrial sector's average RoE was the highest amongst the regional peers.

Figure 15: RoE trends: Financials – Real Estate

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	4.7	6.3	24.3	5.3	10.1	5.0	13.5	1.8	6.8
Lev (x)	1.1	1.4	1.5	2.4	1.6	2.8	2.0	2.6	2.5
ROE (%)	5.1	8.8	35.9	12.5	15.6	13.9	27.6	4.8	15.4

Source: Bloomberg, Watheeqa

Average RoE in the real estate sector remained stable in both the periods. However, the increase in leverage (2.5x) remained a worrying point. Having said that, real estate sector generated the highest RoE amongst the regional peers.

Figure 16: DuPont Analysis: Energy & Utilities

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	28.4	23.9	23.9	19.8	24.0	23.5	25.0	21.8	23.4
As TO (x)	0.5	0.4	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Lev (x)	2.1	1.5	2.8	2.8	2.3	8.2	4.5	4.7	5.8
ROE (%)	28.4	13.4	17.5	13.3	18.1	45.8	23.0	24.1	31.0

Source: Bloomberg, Watheeqa

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✎ Average RoE in the energy and utilities sector increased from 18.1% during FY2004-2007 to 31.0% during FY2008-2010. However, this can be solely attributed to more than doubling in its leverage level to 5.8x.

Figure 17: DuPont Analysis: Telecom

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	63.1	39.9	38.5	16.1	39.4	12.1	13.6	8.2	11.3
As TO (x)	0.5	0.5	0.6	0.2	0.4	0.3	0.3	0.3	0.3
Lev (x)	1.3	1.5	1.5	2.9	1.8	2.7	2.9	2.6	2.7
ROE (%)	38.7	27.8	33.7	10.1	27.6	9.1	11.1	5.4	8.5

Source: Bloomberg, Watheeqa

✎ Average RoE in the telecom sector dropped by more than a third during FY2008-2010 relative to the FY2004-2007 average.

Figure 18: RoE trends: Financials - NBFCs

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	9.1	9.2	8.1	8.2	8.6	9.5	6.8	6.9	7.7
Lev (x)	1.3	1.3	1.4	1.5	1.4	1.8	1.9	1.9	1.9
ROE (%)	12.0	11.6	11.6	12.6	12.0	17.1	12.6	13.1	14.3

Source: Bloomberg, Watheeqa

✎ Average RoE in the NBFC sector increased by more than 200bps to 14.3% during FY2008-2010 primarily owing to increase in leverage.

Figure 19: DuPont Analysis: Cement

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	37.9	27.7	23.4	35.0	31.0	31.9	34.1	42.2	36.1
As TO (x)	0.4	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3
Lev (x)	1.1	1.4	1.4	1.2	1.3	1.8	1.4	1.5	1.6
ROE (%)	15.0	11.7	14.9	15.4	14.3	18.0	14.0	12.9	15.0

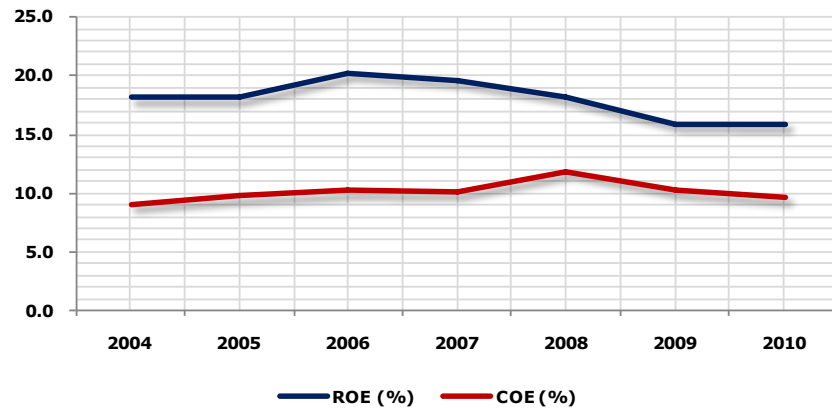
Source: Bloomberg, Watheeqa

✎ Average RoE in the cement sector remained stable owing to improvement in underlying profitability.

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Oman

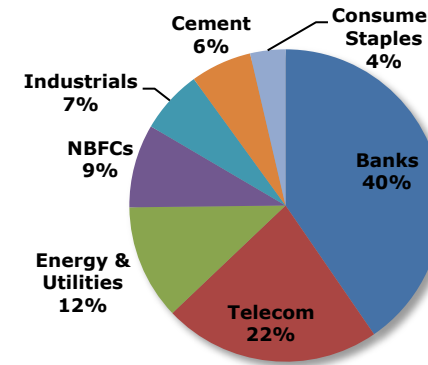
Figure 20: RoE-CoE differential (%)



Source: Bloomberg, Watheeqa

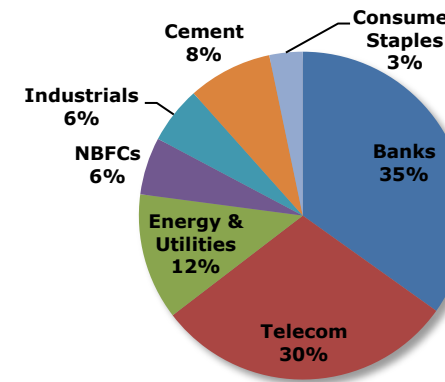
Oman enjoys the second highest return differential (RoE - CoE) in the post-financial crisis period amongst her regional peers.

Figure 21: Market cap – sectoral break-up



Source: Bloomberg, Watheeqa

Figure 22: FY2010 Earnings – sectoral break-up



Source: Bloomberg, Watheeqa

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Top three sectors: Banks, Telecom, and, Energy & Utilities accounted for ~75% of both the total market capitalization and total normalized earnings in FY2010.

Figure 23: RoE trends: Financials - Banks

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	1.7	2.4	2.4	2.2	2.2	1.7	1.4	1.6	1.6
Lev (x)	8.2	6.6	7.8	6.9	7.4	7.9	7.7	7.5	7.7
ROE (%)	13.8	15.7	19.0	15.0	15.9	13.4	10.7	12.1	12.1

Source: Bloomberg, Watheeqa

Banking sector average RoA contracted by 60bps to 1.6% during FY2008-2010. Leverage remained stable at 7.7x. Consequently, average RoE contracted by 380bps to 12.1% in the post-financial crisis period.

Figure 24: DuPont Analysis: Telecom

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	30.7	25.0	24.9	26.2	26.7	29.1	28.5	26.8	28.1
As TO (x)	0.5	0.6	0.7	0.7	0.6	0.7	0.6	0.6	0.7
Lev (x)	1.7	1.8	1.6	1.7	1.7	1.8	1.7	1.6	1.7
ROE (%)	27.5	26.7	28.6	32.2	28.8	37.9	31.4	26.2	31.8

Source: Bloomberg, Watheeqa

Average ROE of the Telecom sector increased by 3.1% to 31.8% in the post-financial crisis period – this is the best amongst the regional peers. Asset Turnover and leverage remained stable reflecting improvement in underlying profitability.

Figure 25: DuPont Analysis: Energy & Utilities

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	8.6	7.3	6.3	5.6	7.0	5.1	6.2	6.2	5.9
As TO (x)	1.3	1.2	1.3	1.4	1.3	1.2	1.0	1.0	1.1
Lev (x)	2.8	2.9	2.7	3.0	2.9	3.8	3.4	3.3	3.5
ROE (%)	31.9	25.2	22.7	24.6	26.1	22.6	21.5	21.0	21.7

Source: Bloomberg, Watheeqa

Average ROE of the Energy & Utilities sector declined by 4.4% to 21.7% in the post-financial crisis period owing to decline in NPM and asset turnover. Leverage rose to 3.5x during Fy2008-2010.

Figure 26: DuPont Analysis: Cement

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	36.3	38.8	42.4	38.8	39.1	27.4	32.2	38.7	32.8
As TO (x)	0.4	0.4	0.4	0.5	0.4	0.6	0.6	0.3	0.5
Lev (x)	1.3	1.3	1.2	1.2	1.2	1.2	1.1	1.4	1.2
ROE (%)	18.3	18.9	23.2	20.8	20.3	19.4	20.9	17.7	19.3

Source: Bloomberg, Watheeqa

Cement sector generated the second best average RoE amongst the regional peers despite ~100bps contraction in the post-financial crisis period.

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Figure 27: RoE trends: Financials - NBFCs

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	2.9	3.5	2.1	3.6	3.0	1.4	2.0	1.6	1.6
Lev (x)	4.0	3.8	4.4	4.0	4.1	4.6	4.8	6.1	5.2
ROE (%)	11.6	13.3	9.3	14.3	12.1	6.2	9.5	9.7	8.5

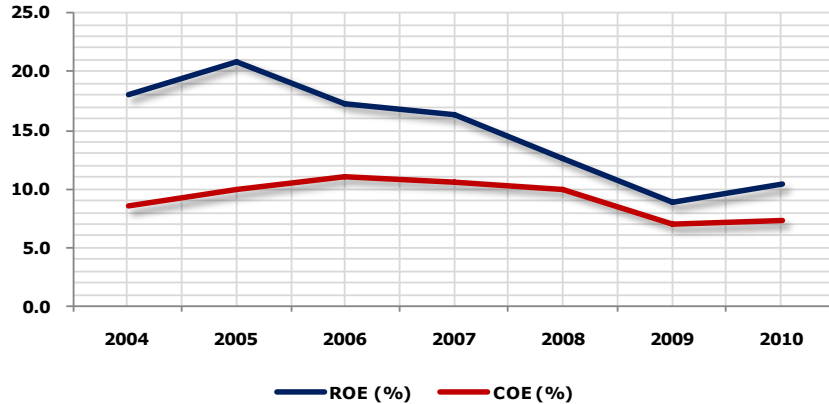
Source: Bloomberg, Watheeqa

✗ Average RoE for the NBFC sector declined by 360bps to 8.5% owing to sharp decline in RoA. Increase in leverage also remained worrisome.

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Saudi Arabia

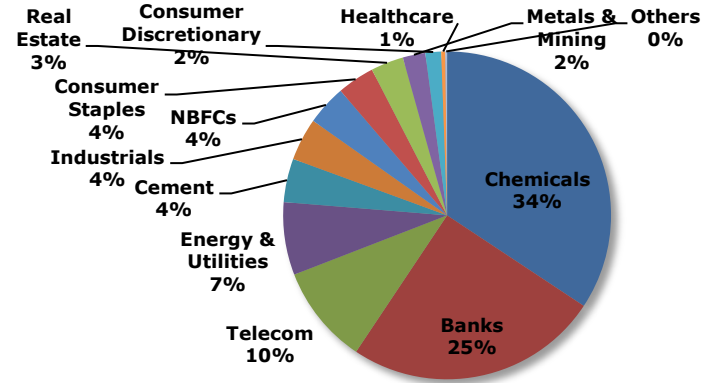
Figure 28: RoE-CoE differential (%)



Source: Bloomberg, Watheeqa

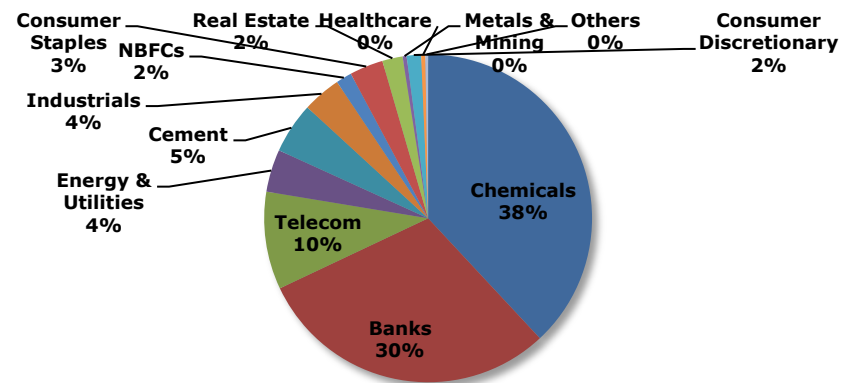
✎ Saudi Arabia's return differential (RoE - CoE) declined to 2.5% in the post-financial crisis period relative to 8.0% in the pre-financial crisis period.

Figure 29: Market cap – sectoral break-up



Source: Bloomberg, Watheeqa

Figure 30: FY2010 earnings – sectoral break-up



Source: Bloomberg, Watheeqa

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Top three sectors: Chemicals, Banks, and, Telecom accounted for ~70% of the total market capitalization and ~4/5th of total earnings in FY2010.

Figure 31: DuPont Analysis: Chemicals

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	21.6	25.9	25.1	22.5	23.8	16.7	11.2	16.0	14.6
As TO (x)	0.5	0.5	0.5	0.5	0.5	0.5	0.3	0.4	0.4
Lev (x)	1.7	1.6	1.6	1.9	1.7	1.8	2.0	2.0	2.0
ROE (%)	18.8	21.6	18.7	19.7	19.7	13.9	6.1	12.2	10.7

Source: Bloomberg, Watheeqa

Average NPM of the Chemicals sector contracted by 9% during FY2008-2010. Leverage increased considerably to 2.0x. Average RoE nearly halved to 10.7% in the post-financial crisis period.

Figure 32: RoE trends: Financials - Banks

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	2.7	3.7	4.3	2.9	3.4	2.3	2.1	2.0	2.1
Lev (x)	9.7	8.0	7.3	7.8	8.2	7.9	7.3	6.4	7.2
ROE (%)	25.9	30.1	31.8	22.8	27.6	18.2	15.1	12.8	15.4

Source: Bloomberg, Watheeqa

Average RoA of the banking sector remained healthy in excess of 2.0% during FY2008-2010. Leverage level declined in the post-financial crisis period. Average RoE stood at 15.4% - this is relatively superior to regional peers (with the exception of Qatari banks).

Figure 33: DuPont Analysis: Telecom

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	30.5	33.0	33.8	31.2	32.1	18.5	16.1	12.3	15.6
As TO (x)	0.7	0.6	0.6	0.5	0.6	0.4	0.4	0.4	0.4
Lev (x)	1.4	1.7	1.6	2.1	1.7	2.4	2.3	2.3	2.4
ROE (%)	30.1	30.7	34.9	32.1	32.0	17.0	15.0	11.9	14.6

Source: Bloomberg, Watheeqa

Shrinking NPM, lower asset turnover and marked increase in leverage led to more than halving in the average RoE (14.6%) of the telecom sector in the post-financial crisis period.

Figure 34: DuPont Analysis: Cement

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	69.6	56.2	56.6	57.7	60.0	53.8	49.5	46.3	49.9
As TO (x)	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Lev (x)	1.1	1.2	1.2	1.3	1.2	1.3	1.3	1.3	1.3
ROE (%)	24.0	24.7	25.9	27.3	25.5	23.2	20.5	18.8	20.8

Source: Bloomberg, Watheeqa

Cement sector continued to enjoy the highest NPM amongst the regional peers despite sharp contraction in the post-financial crisis period. Asset turnover and leverage remained stable in both the periods. Average RoE during FY2008-2010 stood at 20.8% - the best amongst the regional peers.

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Figure 35: DuPont Analysis: Energy & Utilities

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	9.5	10.2	8.6	6.9	8.8	2.6	0.5	3.9	2.3
As TO (x)	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.2
Lev (x)	2.3	2.4	2.6	2.8	2.6	3.2	3.6	3.8	3.5
ROE (%)	3.8	4.2	3.8	2.8	3.7	1.4	0.4	4.6	2.1

Source: Bloomberg, Watheeqa

✎ Profitability of the nascent Energy and Utilities sector continued to remain poor. NPM margins declined considerably. Asset turnover remained low despite steady improvement during FY2008-2010. Leverage rose significantly as well.

Figure 36: DuPont Analysis: Industrials

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	9.1	11.2	16.6	11.0	12.0	9.8	8.2	8.5	8.8
As TO (x)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Lev (x)	2.1	2.0	1.7	2.3	2.0	2.4	2.3	2.2	2.3
ROE (%)	9.1	12.1	13.9	12.4	11.9	12.9	9.2	9.8	10.6

Source: Bloomberg, Watheeqa

Figure 37: DuPont Analysis: Consumer Staples

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	10.5	41.8	4.8	13.2	17.6	6.7	7.0	6.9	6.9
As TO (x)	0.7	0.3	0.7	0.7	0.6	0.8	0.8	0.9	0.9
Lev (x)	1.7	1.8	1.6	1.6	1.7	2.0	1.9	2.0	2.0
ROE (%)	13.0	20.4	5.4	14.9	13.4	11.1	11.5	12.6	11.7

Source: Bloomberg, Watheeqa

Figure 38: RoE trends: Financials – Real Estate

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	6.3	8.9	10.7	7.4	8.3	6.1	4.4	2.8	4.4
Lev (x)	1.2	1.1	1.1	1.3	1.2	1.3	1.3	1.3	1.3
ROE (%)	7.4	10.1	11.8	9.5	9.7	8.2	5.8	3.6	5.9

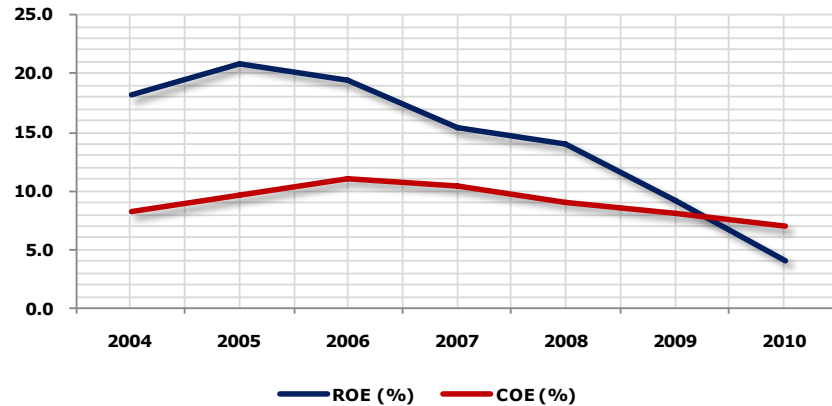
Source: Bloomberg, Watheeqa

✎ Average RoE of the Industrials sector contracted by 125bps to 10.6% during FY2008-2010. Average RoE of the Consumer Staples sector declined by 1.7% during the same period. However, the rise in leverage appeared worrisome. Average RoE of the real estate sector contracted by ~4% but leverage remained low at ~1.3x.

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United Arab Emirates

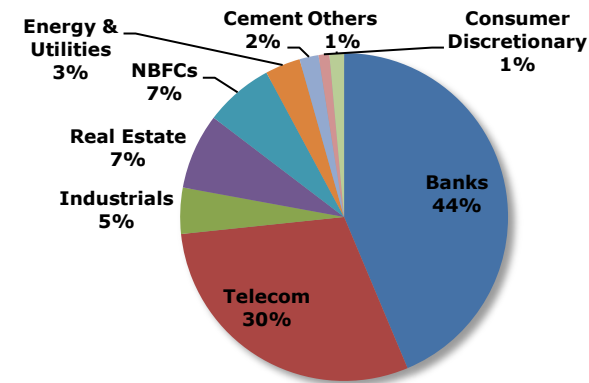
Figure 39: RoE-CoE differential (%)



Source: Bloomberg, Watheeqa

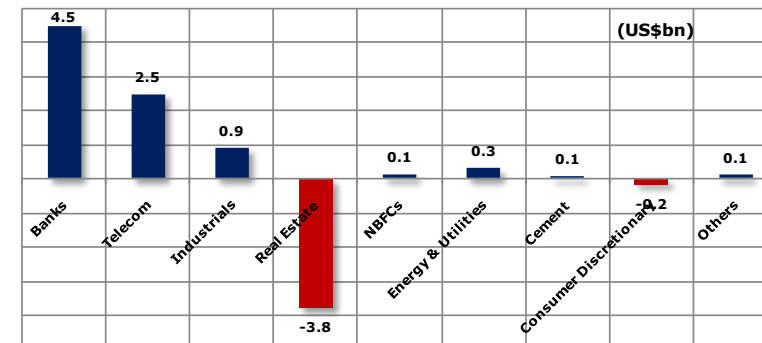
United Arab Emirates' (UAE) return differential (RoE - CoE) declined to a meager 1.0% in the post-financial crisis period, relative to 8.5% in the pre-financial crisis period.

Figure 40: Market cap – sectoral break-up



Source: Bloomberg, Watheeqa

Figure 41: FY2010 earnings - sectoral break-up



Source: Bloomberg, Watheeqa

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Top three sectors: Banks, Telecom, and, Industrials accounted for ~4/5th of the total market capitalization. Mounting losses in the real estate sector dragged down the overall earnings in FY2010.

Figure 42: RoE trends: Financials - Banks

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	2.1	3.3	2.4	2.0	2.4	1.7	1.3	1.4	1.8
Lev (x)	8.1	6.8	7.2	8.7	7.7	8.8	7.7	7.5	8.0
ROE (%)	16.6	23.3	17.6	17.3	18.5	14.7	10.0	10.2	11.6

Source: Bloomberg, Watheeqa

Average RoA of the banking sector contracted by 100bps to 1.4% during FY2008-2010. Leverage went up marginally to 8.0x. Average RoE stood at 11.6% - down by nearly a third relative to FY2004-2007 average.

Figure 43: DuPont Analysis: Telecom

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	34.5	34.5	53.1	28.0	37.5	28.6	24.2	22.1	25.0
As TO (x)	0.5	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Lev (x)	1.5	1.5	1.9	1.9	1.7	1.9	1.8	1.8	1.8
ROE (%)	25.5	25.3	29.6	20.3	25.2	21.9	18.8	17.1	19.3

Source: Bloomberg, Watheeqa

Telecom sector generated the highest RoE in the country in the post-financial crisis period despite decline in NPM.

Figure 44: DuPont Analysis: Industrials

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	12.7	11.0	9.1	11.8	11.1	12.5	10.6	9.7	10.9
As TO (x)	0.5	0.5	0.6	0.2	0.5	0.4	0.3	0.3	0.3
Lev (x)	1.9	2.0	2.3	2.0	2.0	2.2	2.2	2.2	2.2
ROE (%)	11.2	11.3	11.8	6.0	10.1	9.9	7.4	6.1	7.8

Source: Bloomberg, Watheeqa

Lower asset turnover primarily contributed towards the decline in the average RoE of the industrials sector in the post-financial crisis period.

Figure 45: RoE trends: Financials – Real Estate

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	11.4	14.0	14.9	10.5	12.7	6.7	1.7	(9.1)	(0.2)
Lev (x)	1.7	1.3	1.4	1.7	1.5	2.5	2.6	2.8	2.7
ROE (%)	19.2	17.9	20.9	17.9	19.0	17.1	4.6	(25.9)	(1.4)

Source: Bloomberg, Watheeqa

Figure 46: RoE trends: Financials - NBFCs

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	8.1	17.1	13.2	9.2	11.9	4.2	2.4	0.8	2.4
Lev (x)	1.9	1.6	1.7	1.9	1.8	2.1	2.0	1.9	2.0
ROE (%)	15.3	28.0	22.6	17.1	20.7	8.8	4.7	1.5	5.0

Source: Bloomberg, Watheeqa

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Real estate was the worst hit sector by the financial crisis. Profitability got wiped out completely coupled with marked increase in leverage. The NBFC sector also suffered similar fate with average RoE falling by more than a fourth during FY2008-2010.

Average RoE of the cement sector dropped by nearly a fourth during FY2008-2010 relative to the FY2004-2007 average.

Figure 47: DuPont Analysis: Energy & Utilities

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	10.2	50.8	26.8	13.7	25.4	8.1	11.0	4.9	8.0
As TO (x)	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Lev (x)	8.1	4.9	4.1	4.8	5.5	5.9	4.9	5.3	5.4
ROE (%)	8.5	13.6	9.0	7.4	9.6	8.7	9.2	4.6	7.5

Source: Bloomberg, Watheeqa

NPM of the Energy and Utilities sector declined by more than a third leading to ~220bps contraction in average RoE during FY2008-2010. Leverage remained elevated at ~5.4x.

Figure 48: DuPont Analysis: Cement

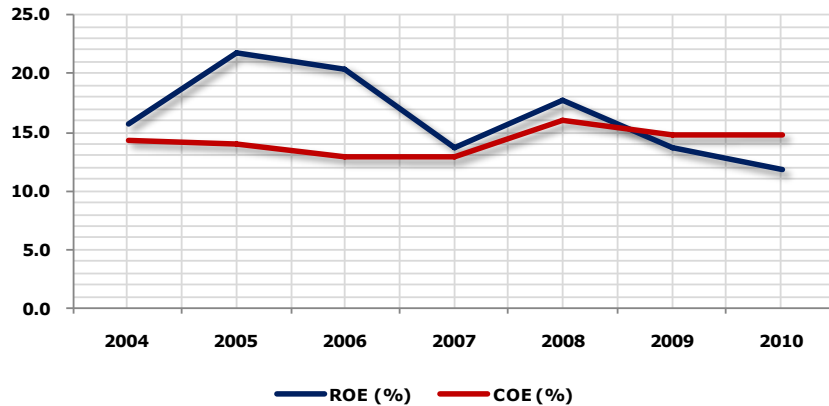
	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	30.6	61.4	28.6	31.6	38.0	5.5	10.2	11.0	8.9
As TO (x)	0.5	0.3	0.3	0.4	0.4	0.5	0.4	0.3	0.4
Lev (x)	1.2	1.1	1.2	1.1	1.1	1.3	1.3	1.3	1.3
ROE (%)	19.0	21.2	10.0	12.5	15.7	3.5	4.9	3.8	4.1

Source: Bloomberg, Watheeqa

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Egypt

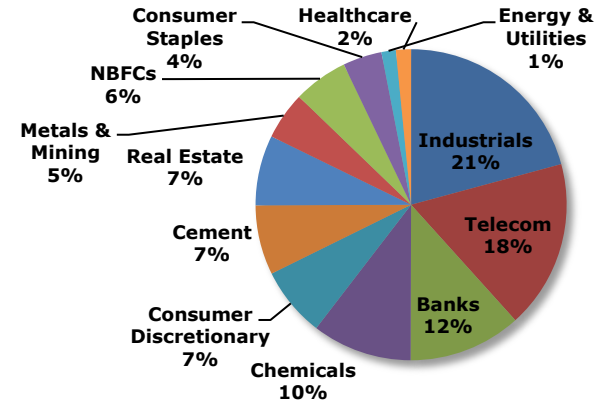
Figure 49: RoE-CoE differential (%)



Source: Bloomberg, Watheeqa

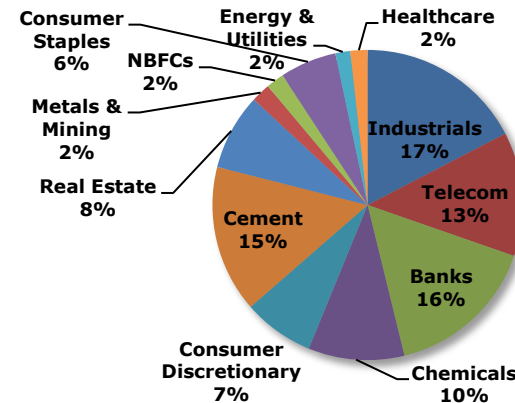
✎ Egypt slipped into negative territory in terms of return differential (RoE - CoE) in the post-financial crisis period. However, individually speaking, sectors like chemicals, consumer staples, cement, energy & utilities, and, industrials generated healthy return differential during this period.

Figure 50: Market cap – sectoral break-up



Source: Bloomberg, Watheeqa

Figure 51: FY2010 earnings - sectoral break-up



Source: Bloomberg, Watheeqa

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Top four sectors: Industrials, Telecom, Banks and, Chemicals accounted for both ~60% of the total market capitalization and total earnings in FY2010.

Figure 52: RoE trends: Financials - Banks

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	0.8	0.9	0.8	1.3	0.9	1.4	1.7	1.6	1.6
Lev (x)	14.9	13.8	13.0	11.6	13.3	10.2	9.4	9.4	9.7
ROE (%)	12.0	12.6	10.1	14.9	12.4	14.3	15.7	15.2	15.1

Source: Bloomberg, Watheeqa

Average RoA of the banking sector expanded by 60bps to 1.6% during FY2008-2010. Leverage stood at 9.7x - higher than regional peers but significantly lower than its FY2004-2007 average of 13.3x. Average RoE rose by 2.7% to a healthy 15.1% during this period

Figure 53: RoE trends: Financials - NBFCs

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	2.0	4.5	3.9	6.1	4.1	4.5	3.8	0.6	3.0
Lev (x)	4.5	4.2	2.3	2.4	3.3	2.3	2.2	3.6	2.7
ROE (%)	9.1	19.0	8.9	14.8	12.9	10.3	8.4	2.2	7.0

Source: Bloomberg, Watheeqa

Figure 54: RoE trends: Financials – Real Estate

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	4.1	6.0	7.4	2.4	5.0	3.9	2.8	2.7	3.1
Lev (x)	2.7	2.5	1.9	1.9	2.2	2.4	2.3	2.3	2.4
ROE (%)	11.0	15.0	13.8	4.6	11.1	9.3	6.6	6.2	7.4

Source: Bloomberg, Watheeqa

Average RoE of the NBFC sector nearly halved to 7.0% in the post-financial crisis period. Average RoE of the real estate sector contracted by 3.7% to 7.4%. However, leverage remained stable during both the periods.

Figure 55: DuPont Analysis: Industrials

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	13.0	14.6	13.6	8.9	12.5	14.2	10.1	10.5	11.6
As TO (x)	0.7	0.6	0.7	0.3	0.6	0.6	0.5	0.6	0.6
Lev (x)	2.7	2.8	2.5	1.4	2.3	2.6	2.8	2.8	2.7
ROE (%)	23.3	26.4	23.4	3.0	19.0	22.0	14.9	18.5	18.5

Source: Bloomberg, Watheeqa

Average RoE of the Industrial sector remained stable during both the periods.

Figure 56: DuPont Analysis: Cement

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	17.4	31.1	28.7	37.7	28.7	25.2	27.3	27.9	26.8
As TO (x)	0.5	0.3	0.5	0.4	0.4	0.5	0.6	0.6	0.6
Lev (x)	1.9	1.7	1.6	1.4	1.6	1.4	1.3	1.4	1.3
ROE (%)	15.4	17.6	21.4	24.1	19.6	18.9	21.0	22.6	20.8

Source: Bloomberg, Watheeqa

Average RoE of the Cement sector increased by 120bps to 20.8% during FY2008-2010. Average NPM of the sector declined by 190bps. Further, leverage declined during this period. Hence, the improvement in average RoE emanated solely from higher

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asset turnover. It is worth highlighting that sector RoE equaled that of Saudi Arabia's cement sector – the best in the region.

Figure 57: DuPont Analysis: Chemicals

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	32.6	28.8	29.9	33.1	31.1	26.9	24.2	23.8	25.0
As TO (x)	0.5	0.6	0.7	0.7	0.7	0.9	0.8	1.0	0.9
Lev (x)	1.7	1.7	1.7	1.5	1.6	1.5	1.4	1.3	1.4
ROE (%)	28.6	31.5	36.5	35.8	33.1	36.0	28.6	30.8	31.8

Source: Bloomberg, Watheeqa

✎ Chemicals sector recorded the highest average RoE of 31.8% in the country in the post-financial crisis period. Steady improvement in asset turnover contributed to a much lower decline of 1.3% in average RoE during FY2008-2010.

Figure 58: DuPont Analysis: Consumer Discretionary

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	12.7	16.9	13.8	17.0	15.1	16.0	12.8	10.8	13.2
As TO (x)	0.5	0.5	0.6	0.5	0.5	0.5	0.4	0.5	0.5
Lev (x)	1.6	1.6	1.9	1.6	1.7	1.6	1.6	1.8	1.7
ROE (%)	9.4	12.8	16.2	14.8	13.3	13.4	8.7	9.3	10.5

Source: Bloomberg, Watheeqa

✎ Lower average NPM led to lower RoE in the consumer discretionary sector during FY2008-2010.

Figure 59: DuPont Analysis: Consumer Staples

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	13.0	13.4	13.9	15.2	13.9	13.6	15.7	18.2	15.8
As TO (x)	0.9	1.0	1.0	0.9	0.9	0.8	0.7	0.6	0.7
Lev (x)	2.1	1.9	1.8	1.8	1.9	2.4	2.1	1.9	2.1
ROE (%)	23.6	24.9	26.1	25.1	24.9	24.3	22.6	21.6	22.8

Source: Bloomberg, Watheeqa

✎ Average NPM of the consumer staples sector increased during FY2008-2010 but didn't translate into higher RoE owing to steady decline in asset turnover. However, it is worth highlighting that average RoE (22.8%) for the consumer staples was the second highest amongst all the sectors in Egypt.

Figure 60: DuPont Analysis: Energy & Utilities

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	26.3	30.8	28.7	29.1	28.7	25.0	25.3	16.7	22.3
As TO (x)	0.3	0.3	0.3	0.6	0.4	0.5	0.5	0.5	0.5
Lev (x)	2.0	1.8	1.8	1.9	1.9	1.7	1.8	1.9	1.8
ROE (%)	14.8	16.5	15.6	31.2	19.5	20.7	21.3	16.2	19.4

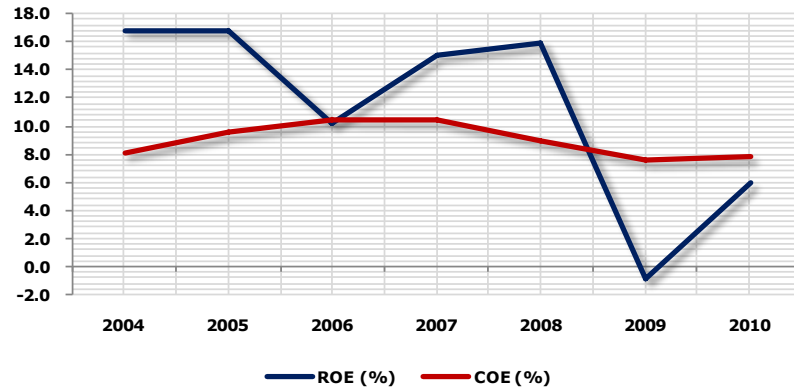
Source: Bloomberg, Watheeqa

✎ Average NPM of the energy and utilities sector contracted by 6.4% in the post-financial crisis period. However, average RoE remained fairly similar in both the periods owing to improved asset turnover.

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Bahrain

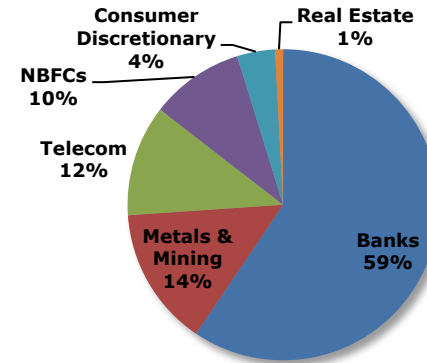
Figure 61: RoE-CoE differential (%)



Source: Bloomberg, Watheeqa

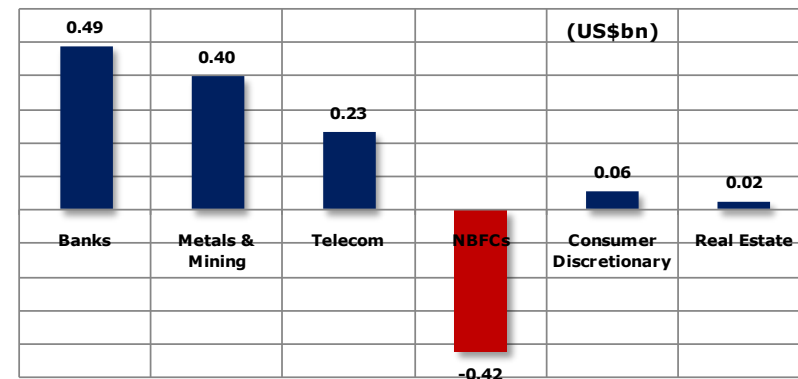
Bahrain witnessed significant value erosion with her return differential (RoE - CoE) sliding into negative territory in the post-financial crisis period. However, individually speaking, sectors like consumer discretionary and telecom generated healthy return differential during this period.

Figure 62: Market cap – sectoral break-up



Source: Bloomberg, Watheeqa

Figure 63: FY2010 earnings - sectoral break-up



Source: Bloomberg, Watheeqa

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✎ Top two sectors: Banks and Metals & Mining accounted for close to 3/4th of the total market capitalization. Huge losses in the NBFC sector continued to remain a drag on overall earnings.

Figure 64: RoE trends: Financials - Banks

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	1.6	1.5	1.4	1.5	1.5	1.4	0.9	0.8	1.0
Lev (x)	7.8	7.9	4.2	7.3	6.8	8.0	7.9	8.6	8.2
ROE (%)	12.5	12.0	5.9	11.2	10.4	11.5	7.2	6.9	8.5

Source: Bloomberg, Watheeqa

✎ Average RoA of the banking sector declined to 1.0% during FY2008-2010 from a healthy 1.5% during FY2004-2007. Leverage went up as well to 8.2x from 6.8x during this period. Average RoE contracted by ~2% to 8.5% making it the least profitable in the region.

Figure 65: RoE trends: Financials – NBFCs

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	3.9	6.7	6.3	6.9	6.0	3.5	(7.8)	(3.8)	(2.7)
Lev (x)	4.1	3.0	3.1	3.1	3.3	3.9	4.8	5.3	4.7
ROE (%)	16.0	19.9	19.6	21.2	19.2	13.8	(37.4)	(19.9)	(14.5)

Source: Bloomberg, Watheeqa

✎ NBFCs in Bahrain enjoyed much higher average RoE compared to the banking sector in the pre-financial crisis period. However, the sector remained the worst hit by the financial crisis with drastic decline in profitability coupled with significant rise in leverage.

Figure 66: RoE trends: Financials – Real Estate

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)				24.3	24.3	14.8	6.5	8.2	9.8
Lev (x)				1.1	1.1	1.1	1.1	1.1	1.1
ROE (%)				26.0	26.0	16.0	7.0	8.7	10.5

Source: Bloomberg, Watheeqa

✎ Average RoE of the real estate sector more than halved to 10.5% during FY2008-2010. However, there was no change in the leverage during this period. Leverage at 1.1x remained the lowest in the region.

Figure 67: DuPont Analysis: Metals & Mining

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)				2.2	2.2	21.6	(1.6)	19.8	13.3
As TO (x)				0.5	0.5	0.6	0.4	0.6	0.5
Lev (x)				3.5	3.5	2.3	2.1	1.9	2.1
ROE (%)				3.8	3.8	29.6	(1.5)	21.3	16.5

Source: Bloomberg, Watheeqa

✎ Average RoE of the metals and mining sector (Aluminium Bahrain to be specific) witnessed considerable improvement during FY2008-2010 despite sharp swings in NPM. Asset turnover remained stable in both the periods with leverage declining considerably during FY2008-2010.

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Figure 68: DuPont Analysis: Telecom

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	40.5	41.3	38.1	34.6	38.7	32.7	30.3	25.5	29.5
As TO (x)	0.6	0.5	0.5	0.4	0.5	0.4	0.5	0.5	0.5
Lev (x)	1.2	1.2	1.3	1.8	1.4	1.5	1.3	1.3	1.4
ROE (%)	27.0	25.6	24.1	24.3	25.2	22.5	20.8	16.8	20.1

Source: Bloomberg, Watheeqa

✎ Average RoE of the telecom sector (Bahrain Telecom to be specific) exceeded 20% in the post-financial crisis period. Asset turnover and leverage remained stable during this period.

Figure 69: DuPont Analysis: Consumer Discretionary

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	18.6	21.1	16.9	20.3	19.2	20.8	15.5	16.2	17.5
As TO (x)	1.0	0.8	0.9	0.8	0.9	0.9	1.0	0.9	0.9
Lev (x)	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3
ROE (%)	25.1	21.8	18.4	19.9	21.3	25.1	18.2	17.8	20.4

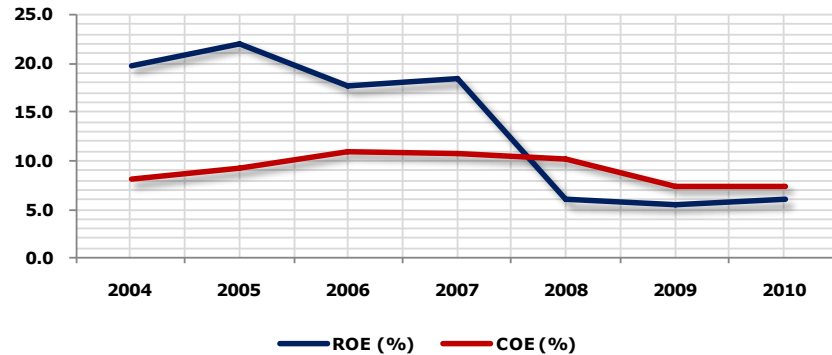
Source: Bloomberg, Watheeqa

✎ The consumer discretionary sector remained the best in Bahrain in terms of value creation. Average RoE contracted by a meager 90bps to 20.4% during FY2008-2010 with no material change in asset turnover and leverage.

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Kuwait

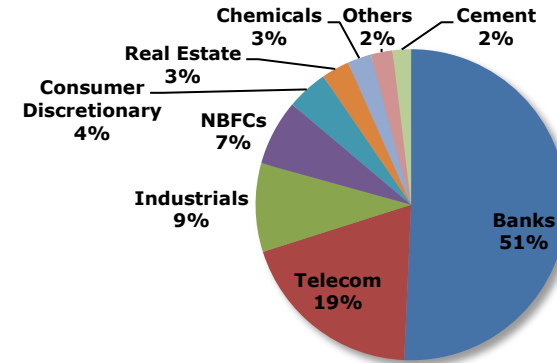
Figure 70: RoE-CoE differential (%)



Source: Bloomberg, Watheeqa

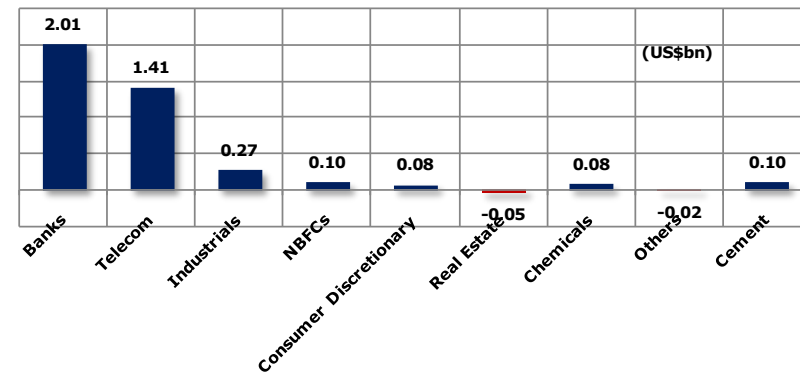
Kuwait witnessed the highest value erosion with her return differential (RoE - CoE) collapsing by a whopping 12% in the post-financial crisis period. It is worth highlighting that Kuwait enjoyed the second highest return differential (followed by Qatar) in the pre-financial crisis period.

Figure 71: Market cap – sectoral break-up



Source: Bloomberg, Watheeqa

Figure 72: FY2010 earnings - sectoral break-up



Source: Bloomberg, Watheeqa

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✎ Top three sectors: Banks, telecom, and industrials accounted for c.80% of the total market capitalization and more than 90% of the total earnings in FY2010.

Figure 73: RoE trends: Financials - Banks

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	2.4	2.8	2.7	2.5	2.6	1.8	0.8	1.2	1.3
Lev (x)	8.9	7.2	7.6	6.7	7.6	7.2	7.4	6.6	7.1
ROE (%)	21.7	20.4	20.8	17.0	20.0	13.0	6.0	8.1	9.0

Source: Bloomberg, Watheeqa

✎ Kuwaiti banking sector stood second (followed by Saudi banks) in terms of profitability in the pre-financial crisis period. However, the picture changed dramatically with average RoE more than halving in the post-financial crisis period.

Figure 74: RoE trends: Financials - NBFCs

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	7.0	11.8	6.1	10.9	8.9	(3.9)	(1.4)	0.3	(1.6)
Lev (x)	2.1	2.0	2.3	2.6	2.3	3.5	3.5	3.3	3.5
ROE (%)	14.9	23.5	13.9	28.9	20.3	(13.5)	(4.8)	1.0	(5.8)

Source: Bloomberg, Watheeqa

Figure 75: RoE trends: Financials – Real Estate

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
ROA (%)	9.4	12.7	8.3	8.5	9.7	0.2	1.5	(0.6)	0.4
Lev (x)	1.5	1.5	1.5	1.7	1.6	2.0	2.0	1.9	2.0
ROE (%)	14.3	19.3	12.9	14.2	15.1	0.3	2.9	(1.1)	0.7

Source: Bloomberg, Watheeqa

✎ Likewise Bahrain, Kuwaiti NBFC sector also enjoyed healthy RoE of ~20% during FY2004-2007. However, profitability declined considerably during FY2008-2010 with significant rise in leverage as well. Kuwaiti real estate sector witnessed similar value erosion as well.

Figure 76: DuPont Analysis: Telecom

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	29.0	25.0	23.1	18.7	23.9	9.3	18.9	20.5	16.3
As TO (x)	0.4	0.3	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Lev (x)	1.9	1.9	2.3	2.5	2.1	2.3	2.2	1.4	2.0
ROE (%)	24.1	15.5	20.8	18.0	19.6	8.4	11.5	11.8	10.5

Source: Bloomberg, Watheeqa

✎ Kuwaiti telecom sector's average RoE nearly halved during FY2008-2010 primarily owing to decline in underlying profitability.

Figure 77: DuPont Analysis: Industrials

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	43.6	58.4	25.2	19.7	36.7	9.1	7.6	3.5	6.7
As TO (x)	0.4	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Lev (x)	1.6	1.7	1.7	1.9	1.7	2.6	2.3	2.0	2.3
ROE (%)	25.1	28.9	18.6	16.0	22.2	12.8	8.2	3.4	8.1

Source: Bloomberg, Watheeqa

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Figure 78: DuPont Analysis: Consumer Discretionary

	2004	2005	2006	2007	04-07 avg	2008	2009	2010	08-10 avg
NPM (%)	12.1	25.6	15.9	17.5	17.8	7.9	8.4	2.5	6.3
As TO (x)	0.8	0.7	0.5	0.5	0.6	0.7	0.7	0.7	0.7
Lev (x)	1.7	1.4	1.9	1.8	1.7	2.0	2.1	2.1	2.1
ROE (%)	16.1	26.3	15.6	15.5	18.4	11.0	12.3	3.6	9.0

Source: Bloomberg, Watheeqa

✎ Kuwaiti industrial sector's average NPM declined by nearly one sixth during FY2008-2010 resulting in 14% decline in average RoE of the sector. Likewise, average RoE of the Kuwaiti consumer discretionary sector more than halved to 9.0% with nearly a third decline in NPM during this period.

Value Erosion in MENA Markets- A Thematic Study

Appendix: Cost of Equity for MENA markets

We arrived at the cost of equity (CoE) for the MENA countries by adding the risk-free rate and equity market risk premium for the respective countries. For risk-free rate, we have considered the deposit rates in each of the countries for each of the years. For equity market risk premium, we have used the annual country risk premiums for respective countries from Aswath Damodaran's website (www.damodaran.com).

Figure 1: Risk-free rates in MENA

Deposit Rate (%)	2004	2005	2006	2007	2008	2009	2010
Bahrain	1.5	3.1	4.4	4.5	1.6	1.6	1.1
Egypt	7.7	7.2	6.0	6.1	6.6	6.5	6.2
Kuwait	1.9	3.3	5.2	5.2	3.7	2.1	1.8
Oman	2.3	3.3	4.0	4.1	4.5	4.1	3.4
Qatar	3.2	3.2	4.2	4.4	3.0	4.2	2.9
Saudi Arabia (KSA)	1.7	3.8	5.0	4.8	2.9	1.2	1.3
United Arab Emirates	2.2	4.0	5.3	4.9	2.6	2.7	1.3

Source: World Bank, EIU, Bloomberg, Central Banks, Watheeqa

Figure 2: Equity market risk premium in MENA

Risk premium (%)	2004	2005	2006	2007	2008	2009	2010
Bahrain	6.6	6.5	6.2	6.0	7.4	6.1	6.7
Egypt	6.6	6.8	6.9	6.8	9.5	8.3	8.6
Kuwait	6.2	6.0	5.8	5.5	6.5	5.4	5.8
Oman	6.8	6.5	6.2	6.0	7.4	6.1	6.3
Qatar	6.3	5.7	5.8	5.5	6.5	5.4	5.8
Saudi Arabia (KSA)	6.8	6.2	6.1	5.8	7.1	5.9	6.1
United Arab Emirates	6.0	5.7	5.8	5.5	6.5	5.4	5.8

Source: www.damodaran.com

Figure 3: Cost of Equity in MENA

Risk premium (%)	2004	2005	2006	2007	2008	2009	2010
Bahrain	8.2	9.6	10.6	10.5	9.0	7.7	7.9
Egypt	14.4	14.1	13.0	12.9	16.1	14.7	14.8
Kuwait	8.1	9.3	11.1	10.8	10.2	7.5	7.5
Oman	9.1	9.8	10.2	10.1	11.9	10.2	9.6
Qatar	9.5	8.9	10.0	10.0	9.5	9.6	8.6
Saudi Arabia (KSA)	8.5	10.1	11.1	10.6	10.0	7.1	7.4
United Arab Emirates	8.2	9.7	11.1	10.5	9.1	8.1	7.0

Source: World Bank, EIU, Bloomberg, Central Banks, www.damodaran.com, Watheeqa