SHUAACAPITAL PSC

Monthly Stock Pick Monitor

Equities Strategy

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In stark contrast to the strong performance of GCC markets in October, most markets, with the distinct exception of Saudi Arabia, witnessed significant declines during the month of November. The performance of our optimal portfolio was mixed for the month, with strong gains recorded by the Saudi component balanced out by some losses incurred by the UAE and Kuwait listed stocks. However, out of five UAE-based stocks in the portfolio, two managed to end the month in the black despite an overly negative performance by the general market. Among our Saudi Arabian stocks picks, gains ranged from around 3% to over 20%, with the largest gains claimed by regional consumer brand Almarai, which recorded more than twice the gains recorded by the Saudi Arabian benchmark index for the period. The largest decline in the portfolio was recorded by perennial underperformer Agility, which recorded an 18% decline for the period, as our belief that the worst was already priced into the stock proved pre-mature. In all, the portfolio edged into the black with a 0.2% gain for the month, marginally underperforming both referenced benchmarks due to the dominant weighting of the Saudi Arabian market in both. We present our optimal portfolio for December below:

Optimal portfolio

	Company	Market	Industry	Closing price (Lcl currency)	Performance		Valuation			06 - 08' Earnings CAGR	Market cap USD '000	Recommended weight
					1 month	12 months	PE 06	PE 07e	P/B			
1	Emaar Properties	DFM	Real Estate	12.40	-3.9%	5.1%	11.9	9.7	2.6	13.5%	20,581,114	18.2%
2	Arabtec	DFM	Construction	8.32	1.5%	58.2%	22.9	10.6	6.4	46.0%	1,354,577	9.1%
3	Air Arabia	DFM	Airlines	1.88	9.9%	N/A	86.9	34.0	1.8	70.0%	2,388,619	9.1%
4	Aldar Properties	ADSM	Real Estate	9.47	-3.5%	115.2%	13.1	7.5	5.0	63.0%	4,447,522	9.1%
5	Etisalat	ADSM	Telecom	21.30	-5.3%	27.9%	18.1	15.3	5.6	15.0%	28,944,630	9.1%
6	SABIC	Tadawul	Petrochemicals	159.00	6.9%	50.7%	19.6	16.6	5.5	14.0%	107,287,449	9.1%
7	Arabian Pipes	Tadawul	Pipe Manufacturing	76.75	2.7%	17.2%	32.2	18.6	4.7	42.0%	652,530	9.1%
8	Almarai	Tadawul	Dairy Products	113.00	20.5%	50.2%	24.3	18.8	6.0	20.0%	3,049,933	9.1%
9	Agility	KSE	Logistics	1.26	-18.2%	25.0%	7.2	7.1	2.2	12.0%	4,369,912	9.1%
10	Galfar Engineering	MSM	Construction / O&G	1.19	-4.6%	N/A	18.1	13.9	5.5	20.0%	776,895	9.1%
	Average						**25.4**	**15.2**		**32%**		

Optimal Portfolio vs. Benchmark Indices	Optimal Portfolio	SC GCC	MSCI GCC Countries Index	Relative Performance vs	
				vs SC GCC	vs. MSCI GCC
1 month performance	0.20%	2.60%	1.10%	-2.40%	-0.90%
Performance since Inception	20.84%	14.15%	9.80%	6.69%	11.04%

Core themes:

We retain all the components of our optimal portfolio for December, and reemphasize the core themes of real estate companies trading at a discount to NAV during a period of high asset price inflation in the UAE, as well as construction and infrastructure themes in the Gulf. On the construction front we anticipate significant upside on both Arabtec and Galfar Engineering in the medium term on the back of continuing growth in backlog and shortage of capacity in the sector. We only wish that there were more stocks from this sector listed on regional markets.

Portfolio Stocks:

Emaar Properties (EMAR.DU)
Aderth in of news flow, combined with high foreign institutional participation in the stock at a time of weakness in global equity markets has meant that the stock continued to languish despite earlier signs of a break in sentiment on the stock. However, the fact that Emaar Economic City, one of Emaar's most significant subsidiaries, rallied by around 32% on the Saudi Arabian market over the past two months seems not to have registered with investors. Same theme on the stock continues to apply, although a true rerating may have to be driven by a good earnings surprise, possibly in Q1 08.

Arabtec (ARTC.DU)
As we raise our price target further on Arabtec, we believe that this stock will likely feature on our list for some time to come. We anticipate that the stock retains the potential to almost double in value over the next year.

Air Arabia (AIRA.DU)
Air Arabia proved to be the best performer among the UAE based component of our portfolio for November, as very strong Q3 07 results further boosted interest in the stock. The results push us to hold on to the stock for longer as we anticipate further positive momentum on the stock as the UAE market resumes its rally.

Aldar Properties (ALDR.AD)
Core to our real estate sector exposure, Aldar continues to hold significant upside potential going forward. However, we are beginning to worry about the overhang and dilution effects of outstanding convertible bonds.

Etisalat (ETEL.AD)
We continue to retain our favorite telecom pick in the region, in anticipation of further positive news flows. However, visibility remains limited regarding the timing of the two major developments represented by a reduction in royalty fees, and the opening up of ownership to foreign investors. It seems increasingly likely that such developments may not materialize until well into the year 2008.

SABIC (2010.SE)
The stock continues to record a positive performance, as key petrochemicals prices continue to record new highs. We believe that the stock remains the best source of exposure to the sector in the Gulf region.

Arabian Pipes (2200.SE)

We continue to anticipate further positive performance by the stock, and a particularly strong year-end numbers.

Almarai (2280.SE)

Being among the most well-developed consumer brands in the region, Almarai continues to be one of the few listed plays on consumer spending in the Gulf. The stock has managed to generate very strong returns over the past two months, and we anticipate further positive performance well into 2008, as solid earnings growth continues to underpin investor interest.

Agility (AGLT.KW)

Speculation related to the ability of Agility to retain its most profitable contracts in the long-term, have hit the stock hard in November. However, there have been no confirmed negative developments during the period, at a time when significant new contracts have been landed by the company. Nevertheless, numbers have to start reflecting the anticipated growth soon for the equity story to remain viable. We continue to retain the stock in the portfolio, as it is among the cheapest in the world within its sector from a trailing multiples perspective.

Galfar Engineering (GECS.OM)

The stock seems to have built a base at current levels, after having recorded strong gains post-IPO. We believe that there will be significant buildup of interest going forward, as the company is among the premium names today within an industry that is witnessing strong growth and in which high value is assigned to scale. Short of that, the company may witness interest from a strategic buyer, through which significant rerating may occur. In either case, we believe that a significant upside remains inherent in the stock.