

***Presentation to the Arab Cable Manufacturers Association  
Re: Overview of the Middle East & North Africa (MENA)  
Economies***

**May 2009**

**I. Executive Summary**

**II. Investment Opportunity**

**A. Overview of MENA Economies**

**B. Overview of MENA Markets**

**III. Firm Credentials**

**IV. The EFG-Hermes MEDA Fund**

## Executive Summary

### MENA Overview

- The sharp decline in oil prices from a peak of USD147/bbl in July to USD45-55/bbl will drive the deceleration of economic growth in the MENA region, but will not bring it to a grinding halt unless oil prices fall below USD25/bbl and stay there
- As a result of the global credit crunch, MENA governments have been forced to step in and inject liquidity in their banking systems to avoid a credit freeze and help move vital infrastructure projects forward
- Some MENA economies will fare better than others with Saudi Arabia (large domestic economy, low debt/GDP ratio, highly liquid SWF) and Qatar (LNG exports) more cushioned for a downturn than Dubai (regional services hub, small open economy) and Egypt (pressure on currency, fall in FDI, tourism and Suez Canal revenue)
- MENA markets are trading at levels comparable with other Emerging Markets with a PE09 average of 7.9x and PE10 of 7.4x, but are poised to post higher EPS growth of 5% vs. an Emerging Markets average of -10.7% and a BRIC country average of 0-5%

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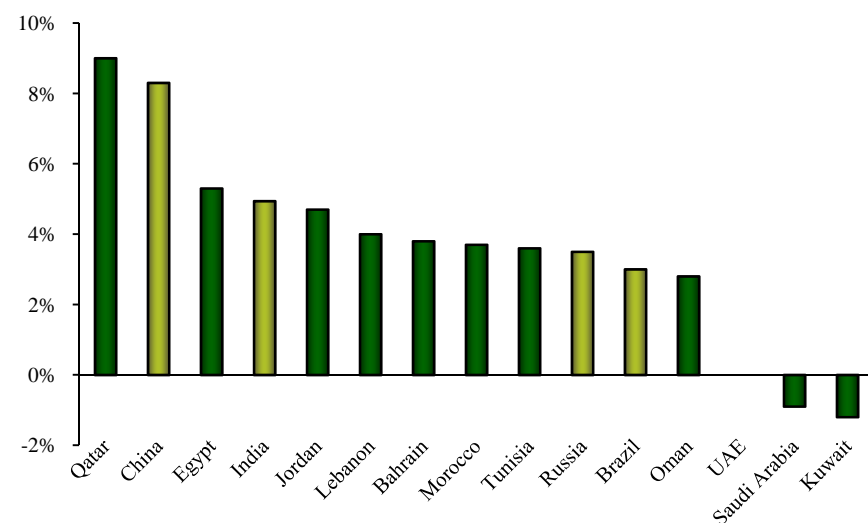
# Overview of MENA Economies

## The Oil Factor

- While MENA economies are likely to face deceleration in their growth prospects in 2009, they will not come to a grinding halt unless oil prices stagnate at USD25/bbl or below
- Assuming oil prices between USD45-50/bbl in 2009, GDP growth is expected to slow to 2.3% in 2009 from 6.1% in 2008 with Qatar leading the region given its ramp-up in infrastructure spending and LNG exports
- The large accumulated reserves during past years when the GCC posted record current account surpluses would continue to shield the region from a severe downturn as governments re-direct some of their savings domestically (already the case for Kuwait, Qatar and Saudi) and commit to continue with vital infrastructure spending programs
- Assuming that GCC countries maintain spending levels outlined in their 2009 budgets and oil prices remain in the USD45-50/bbl range, Gulf countries will likely run single-digit current account deficits in 2009

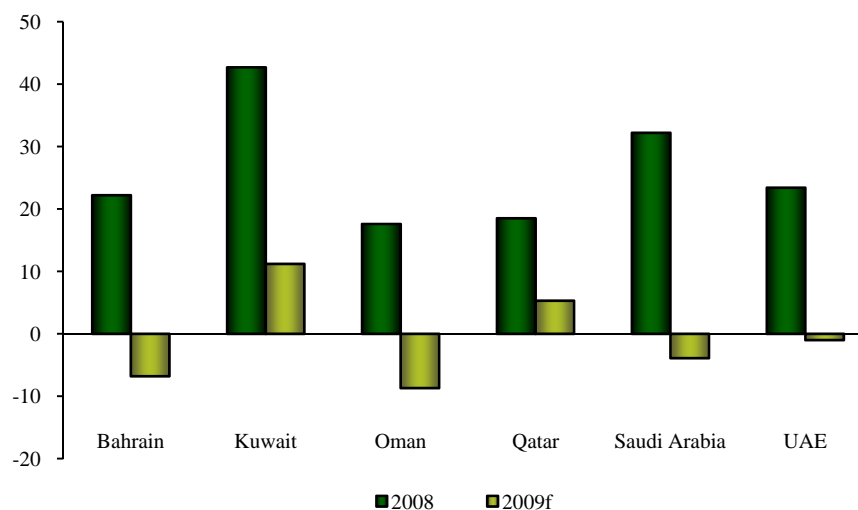
### MENA Real GDP Growth vs. BRIC Countries

2009f



### Current Account Surplus (% of GDP)

2008 – 2009f



Source: IMF, EFG-Hermes Research, Merrill Lynch

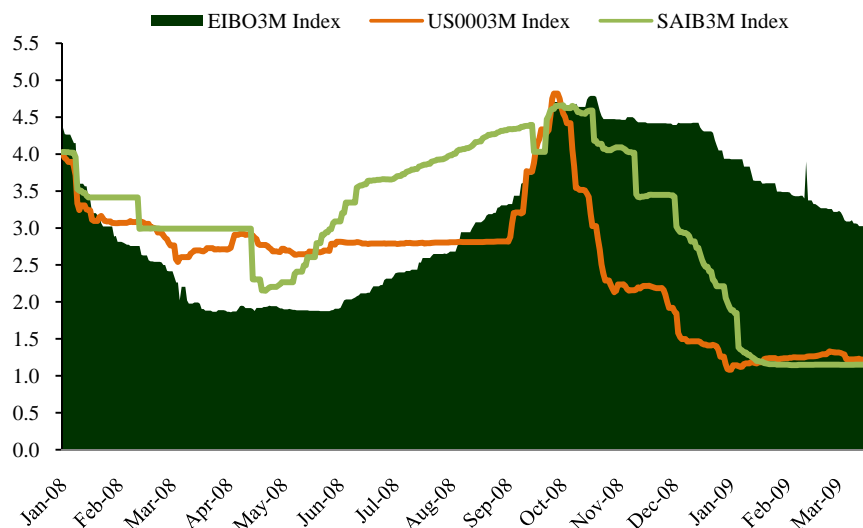
# Overview of MENA Economies

## The Credit Crunch

- While the MENA financial sector did not have significant exposure to the subprime sector and structured credit, liquidity in the banking sector tightened after the outflow of speculative foreign funds betting on revaluation gains
- As depositors exited the region, overleveraging and underfunding (i.e. burgeoning loan to deposit ratios) by regional financial institutions –namely in the UAE and Qatar –became apparent
- The lack of convergence between LIBOR and the Emirates Interbank Offering Rate (EIBOR) rates despite the currency peg is symptomatic for the higher cost of funding and tightening credit prevalent in the banking sector
- Governmental and quasi-governmental institutions are looking to act as lenders of last resort to bridge financing gaps directly or through the injection of liquidity in the banking system

### 3M EIBOR vs. 3M LIBOR vs. 3M SIBOR

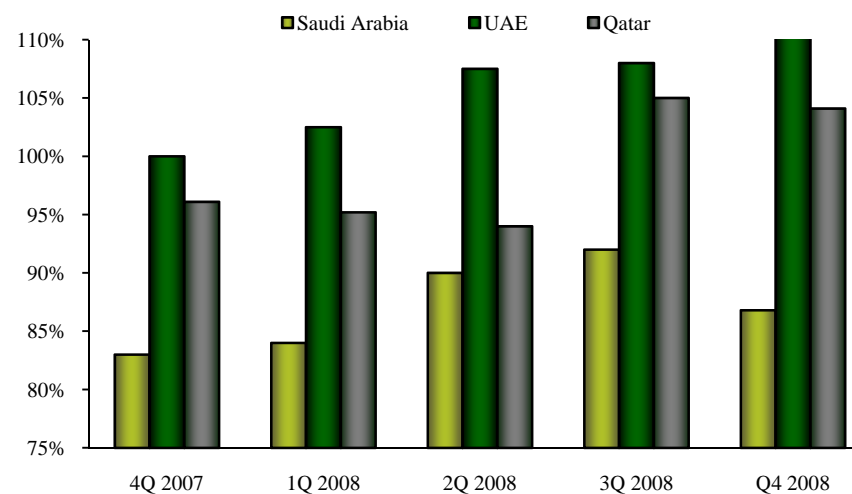
January 2008 - March 2009



Source: EFG-Hermes Research, QCB, UAE Central Bank, Bloomberg

### Loan-to-Deposit Ratios in the UAE, Qatar & Saudi Arabia

Q4 2007 - Q4 2008



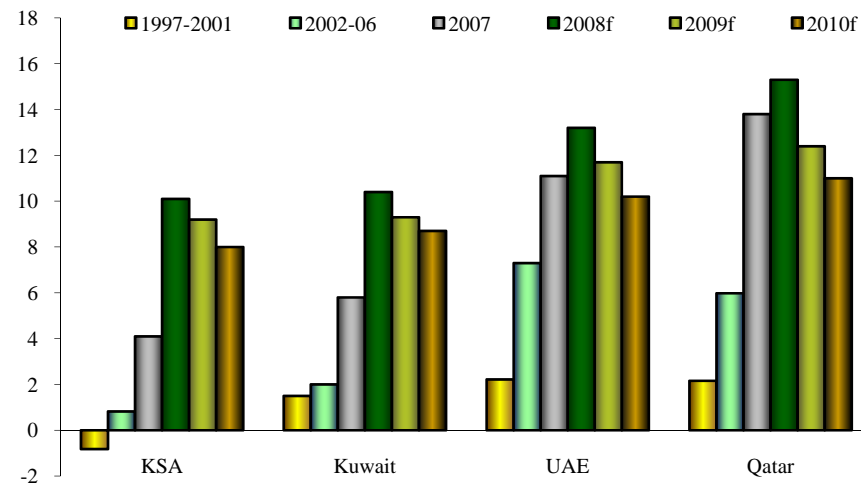
# Overview of MENA Economies

## Silver Lining

- The slowdown in GDP growth has helped record inflation ease while favorable demographics are expected to continue to drive higher levels of private consumption
  - The strengthening of the US dollar has led to a decline in imported inflation as commodity prices have declined (i.e. construction materials)
  - Credit growth has moderated substantially helping domestic inflation to decrease
  
- The population growth of MENA is the highest globally while more than 50% of the region's population is under the age of 25; these favorable demographics are contributing to increased infrastructure spending and private consumption levels

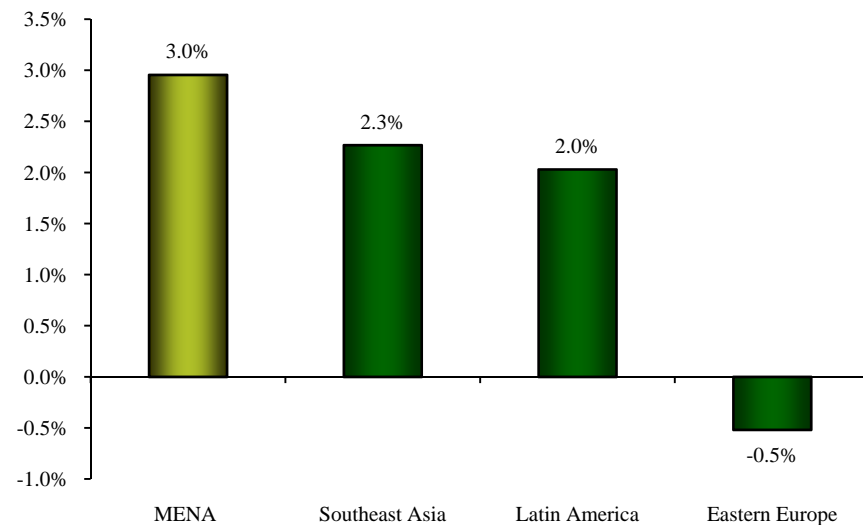
### GCC Inflation (%)

1997 - 2010f



### Average Population Growth, MENA vs. Emerging Markets

2008 - 2010



Source: EFG-Hermes Research, IMF, EIU

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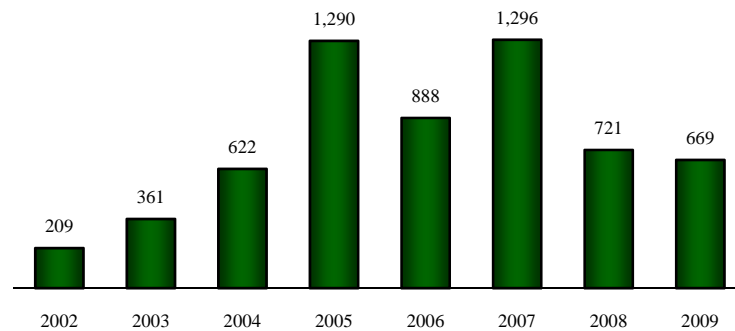
# Overview of MENA Markets

## Market Capitalization and Liquidity

- The MENA region's market capitalization has declined by USD500 billion in 2008 but remains higher than that of South Africa, Russia and Southeast Asia; the region also boasts a daily trading value which is higher than other Emerging Markets
- Saudi Arabia's daily traded value is higher than Brazil, Russia, and India, making it the second most liquid emerging market globally after China; the Saudi CMA has allowed foreigners to invest through certified swaps leading to further institutionalization

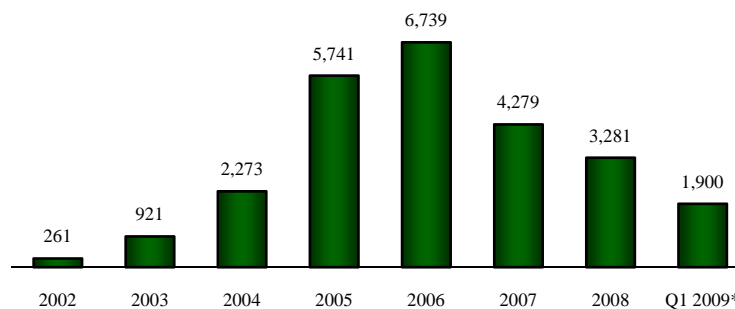
### MENA Market Capitalization

USD billion, March 31<sup>st</sup>, 2009



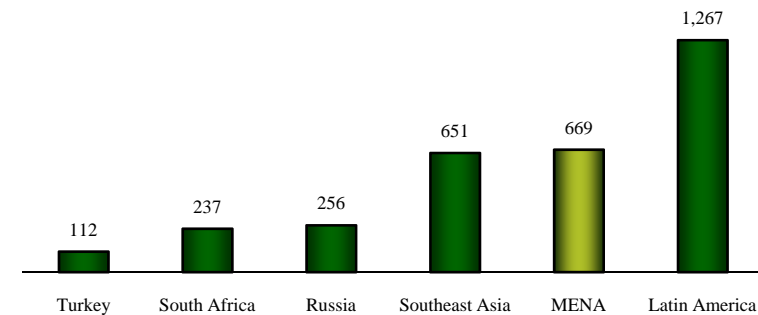
### MENA Average Daily Traded Value

USD million



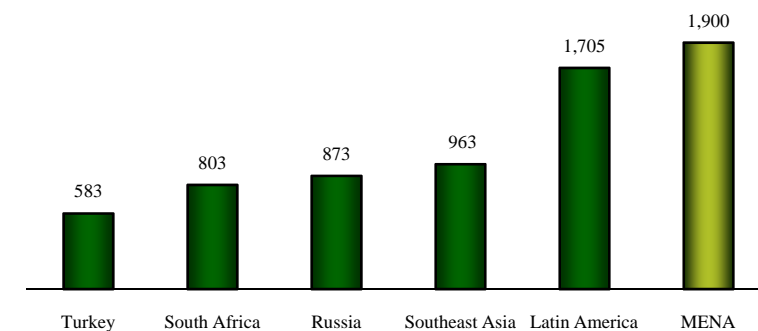
### Comparative Market Capitalization

USD billion, March 31<sup>st</sup>, 2009



### Comparative Average Daily Traded Value

USD million, Q1 2009\*



Source: Bloomberg, IMF \* Figures reflect the average daily traded value from January 1<sup>st</sup> – March 31<sup>st</sup>, 2009

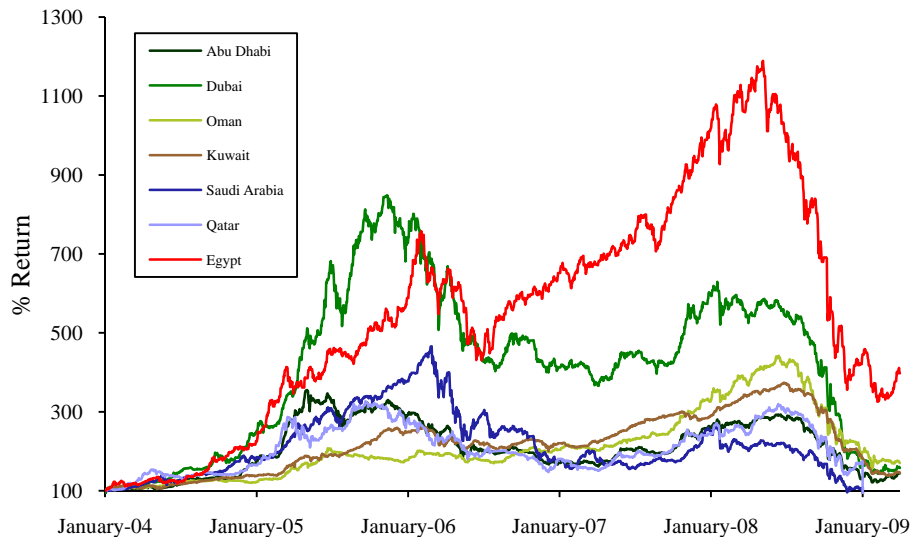
# Overview of MENA Markets

## Market Performance

- Markets have experienced a pronounced correction in 2008 due to the global meltdown, increasing scrutiny of corporate governance and weakening liquidity which has markedly increased the correlation between the MENA region and other Emerging Markets
- Secondary reasons for the market correction were:
  - The decline in oil prices from \$147 to the USD45-55/bbl range
  - Concern over Dubai's ability to finance its debt amidst a "real estate bubble"
  - Capital flight on account of the diminishing probability of a currency de-peg
- In the first quarter of 2009, the correction continued, however, recent policy implementations by various MENA governments led to encouraging signs that the economic uncertainty surrounding the region has started to abate

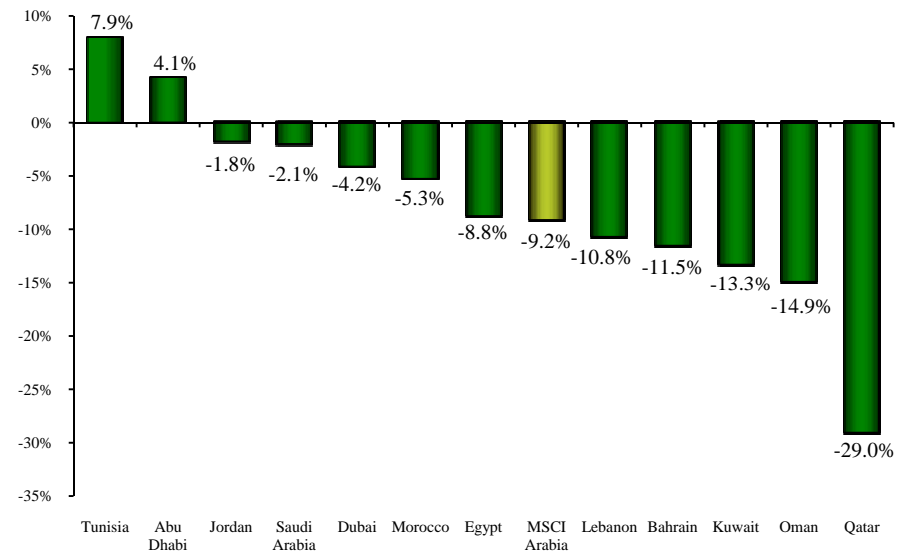
### MENA Market Performance

January 2004 – March 2009



### MENA Market Performance

YTD % change as of March 31<sup>st</sup>, 2009



Source: Bloomberg • Past performance is not a guide to future returns.

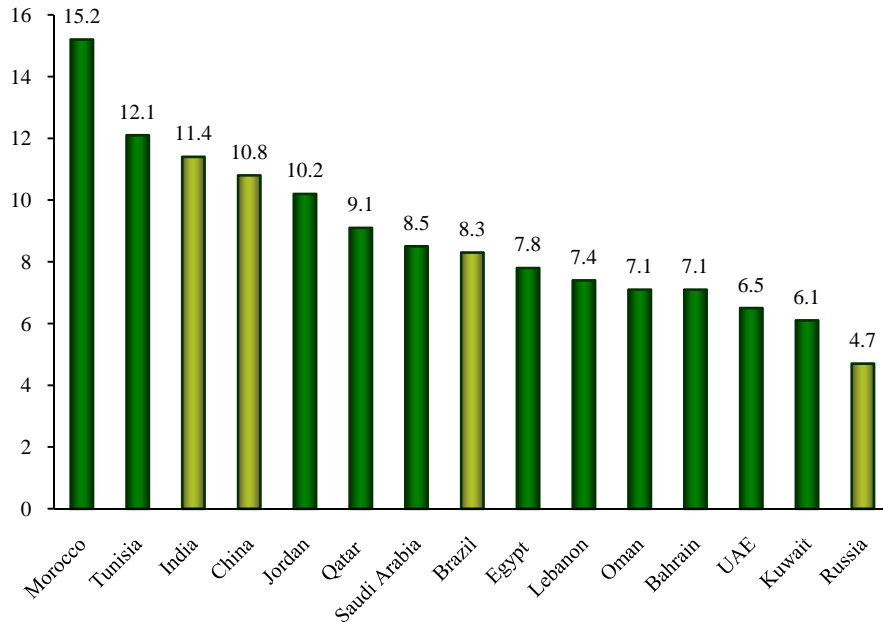
# Overview of MENA Markets

## Country Valuations

- Following the recent sharp correction, regional equity valuations are at attractive levels relative to global peers trading at a 2009 PE of 7.9x vs. an average of 10.0x for Emerging Markets
- Domestic liquidity is significantly higher than other emerging markets, coupled with high ROEs (10%) and 2009 EPS growth (5%+), the region could justifiably trade at a premium in the medium to long term to emerging market peers

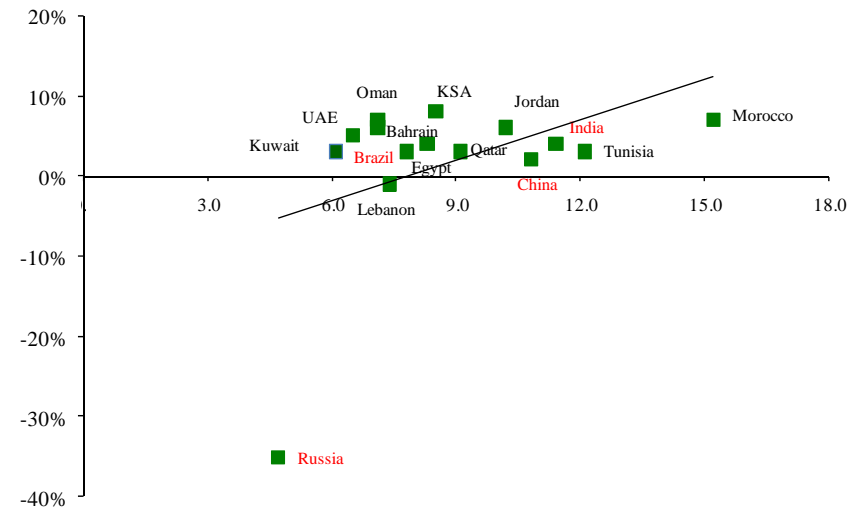
### MENA Valuations vs. BRIC Countries

Price to Earnings Ratio (P/E), 2009f\*



### MENA Markets

Valuation vs. Growth (MENA vs. BRIC countries)\*



Source: EFG-Hermes Asset Management, Merrill Lynch, Bloomberg

\* March 31<sup>st</sup>, 2009

## Overview of MENA Markets

### Country vs. Fund Valuations\*

	Country Valuation							MEDA Fund Valuation				
	PE 09	EPS Growth 09	PE10	EPS Growth 10	PEG	P/B	Dividend Yield	PE09	EPS Growth 09	PE10	EPS Growth 10	PEG
UAE	6.5	5%	6.0	8%	0.96	1.1	5.2%	6.8	6%	6.4	6%	0.89
Egypt	7.8	3%	7.1	9%	0.73	1.0	9.8%	7.7	6%	7.2	7%	0.87
Qatar	9.1	3%	8.3	10%	0.66	1.2	9.5%	8.3	5%	7.5	12%	0.88
Saudi Arabia	8.5	8%	7.8	9%	0.94	1.5	5.1%	8.1	11%	7.5	8%	0.95
Kuwait	6.1	3%	5.7	6%	0.71	0.9	7.6%	6.7	7%	6.5	3%	0.76
Oman	7.1	7%	6.8	4%	0.77	1.3	6.1%	6.8	N/R	6.1	11%	0.71
Jordan	10.2	6%	8.9	3%	0.46	2.2	2.9%	9.6	N/R	N/R	N/R	N/R
Morocco	15.2	7%	14.1	8%	0.46	4.5	4.3%	N/R	N/R	N/R	N/R	N/R
Bahrain	7.1	6%	6.9	3%	0.60	0.9	7.2%	N/R	N/R	N/R	N/R	N/R
Tunisia	12.1	3%	10.6	14%	0.69	2.2	3.2%	N/R	N/R	N/R	N/R	N/R
Lebanon	7.4	-1%	6.4	16%	0.93	2.1	3.4%	N/R	N/R	N/R	N/R	N/R
<b>Average</b>	<b>7.9</b>	<b>5%</b>	<b>7.4</b>	<b>8%</b>	<b>0.76</b>	<b>1.6</b>	<b>6.1%</b>	<b>7.5</b>	<b>7%</b>	<b>6.9</b>	<b>10%</b>	<b>0.69</b>

\* As of March 31<sup>st</sup>, 2009

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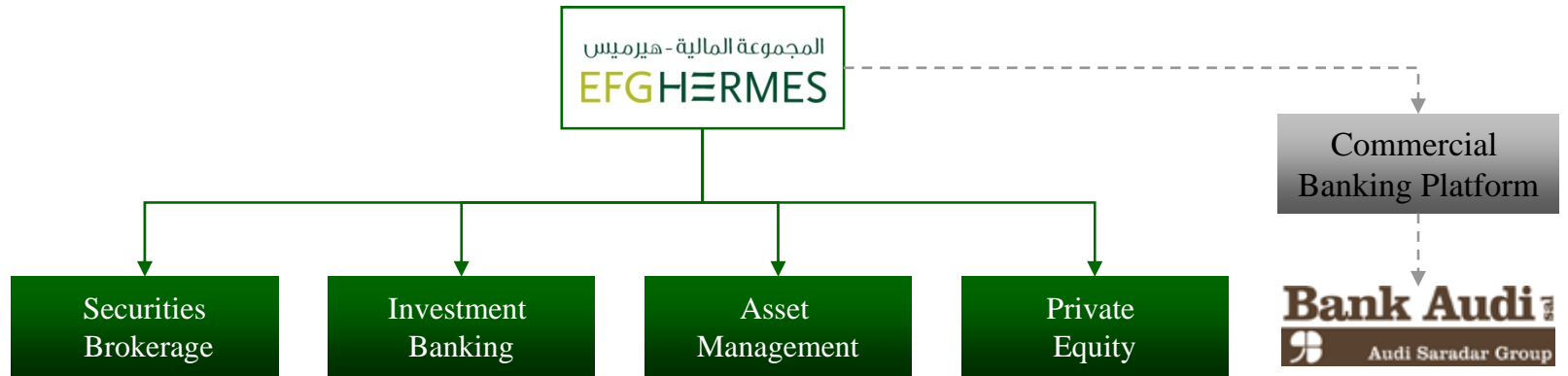
**III. Firm Credentials**

**IV. The EFG-Hermes MEDA Fund**

# Firm Credentials

## Overview

### Structure



### The Firm

- EFG-Hermes is the Arab world's largest investment bank in the region with a net cash balance of USD400M as of end of 2008
- EFG-Hermes went public through a GDR offering in July 1998 and has a current market capitalization over USD1.2 billion, a book value of USD1.5 billion, and a liquidity to equity ratio of 0.3x (as of 31<sup>st</sup> December, 2008); the company is listed on the London Cairo and Alexandria Stock Exchanges
- EFG-Hermes is the market leader in the field of privatization, mergers & acquisitions, equity and debt finance raising. Since 1997, EFG-Hermes has raised around USD12 billion for its clients and advised on more than USD18 billion worth of M&A transactions

# Firm Credentials

## Organizational Structure



### Cairo Office

**Established** 1994

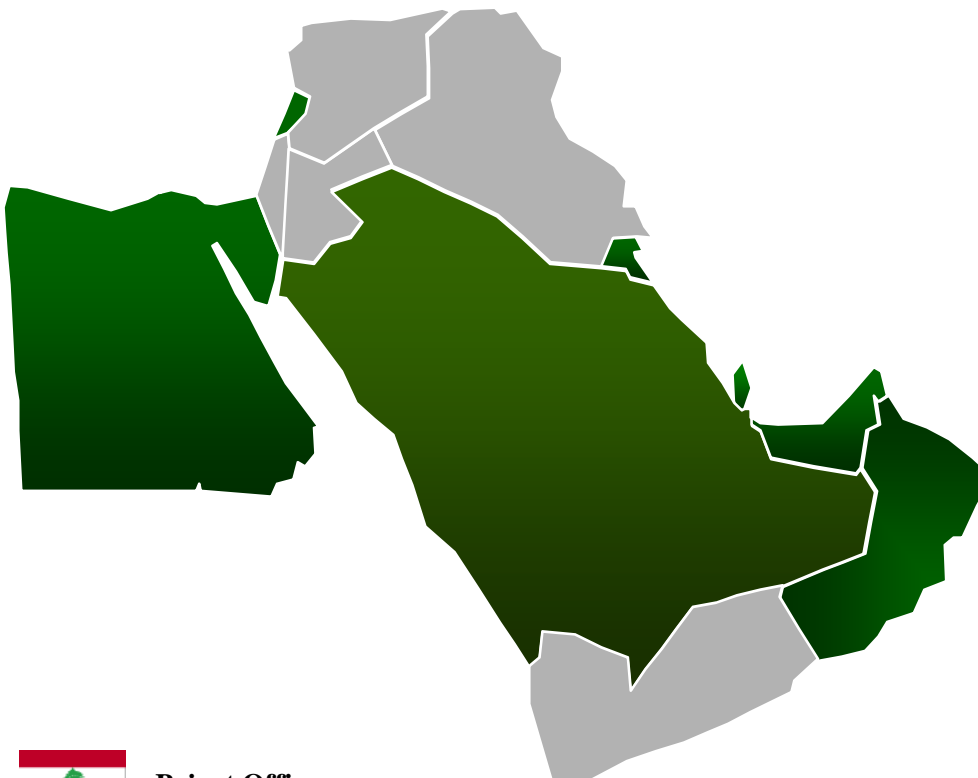
**Services** Securities Brokerage  
Investment Banking  
Asset Management  
Private Equity  
Research



### Riyadh Office

**Established** 2006

**Services** Securities Brokerage  
Investment Banking  
Asset Management  
Research



### Beirut Office

**Established** 2006

**Services** Investment Banking  
Asset Management  
Research



### Muscat Office \*

**Established** Q2 2008

**Services** Securities Brokerage



### Dubai Office

**Established** 2002

**Services** Securities Brokerage  
Investment Banking  
Asset Management  
Research  
Private Equity



### Doha Office

**Established** Q1 2007

**Services** Investment Banking  
Asset Management



### Kuwait Office \*\*

**Established** Q2 2008

**Services** Securities Brokerage

\* EFG-Hermes owns 51% stake in Vision Securities \*\* EFG-Hermes has a 90% stake in Gulf Financial Brokerage Company, now called EFG-Hermes IFA

## Firm Credentials

### Asset Management Overview

- The EFG-Hermes Asset Management Team is part of the EFG-Hermes Group
- Has a 14-year track record in regional markets since the Firm's establishment in 1994
- Currently managing approximately USD4 billion:
  - Equity & money market funds across the MENA region
  - Private Equity funds across countries/sectors
  - Discretionary portfolios and segregated mandates for institutional and ultra high net worth clients
- Product Range
  - Equities (long/short), Fixed Income and Money Markets
  - Specialized (e.g. Islamic, sector specific etc.)
  - Indexed and absolute return
  - Private Equity
- Top performing funds in the regional market over the last 5 years
- Experienced Team of 25+ investment professionals across four countries (Egypt, the UAE, Lebanon, Saudi Arabia and Qatar) making it the largest on-the-ground team of any investment manager in the Middle East

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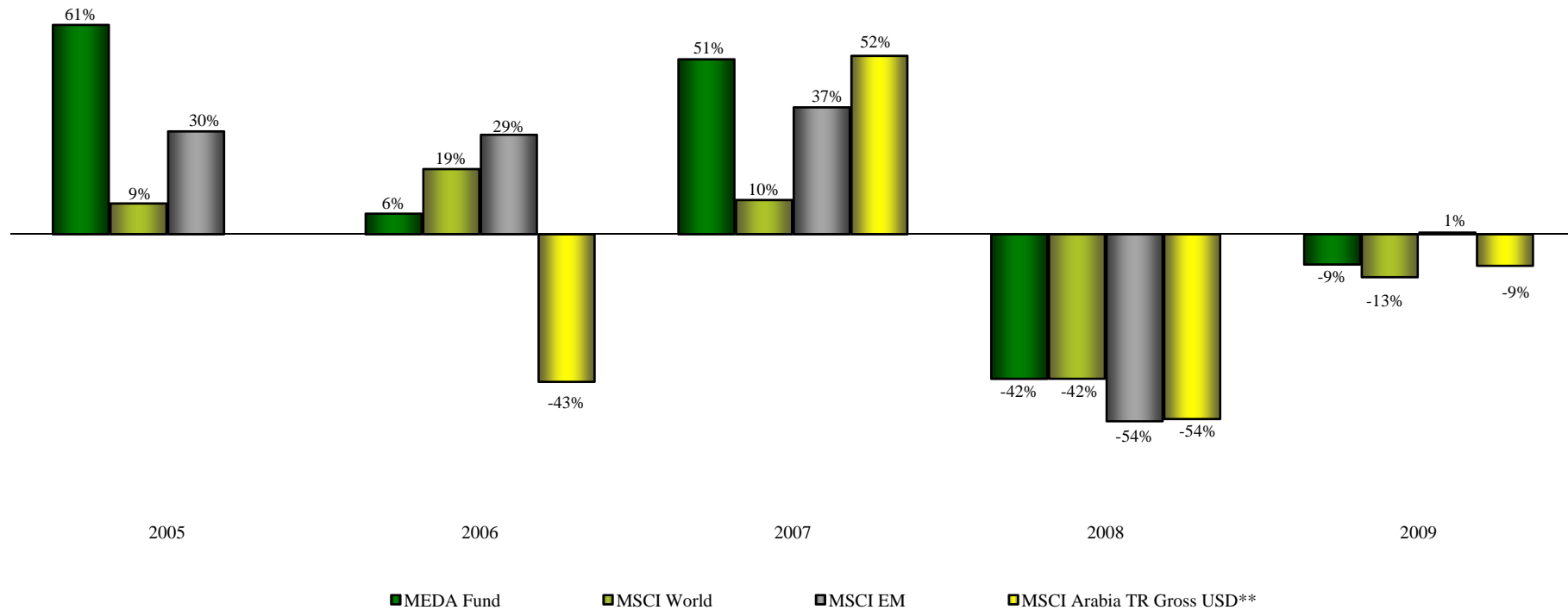
**IV. The EFG-Hermes MEDA Fund**

# Firm Credentials

## EFG-Hermes MEDA Fund Relative Performance\*

### Global MSCI Indices vs. MEDA Fund

2005 – 2009 YTD



\* Performance from December 31<sup>st</sup>, 2004 to March 31<sup>st</sup>, 2009

\*\* MSCI Arabia TR Gross was launched in January 2006

## The EFG-Hermes MEDA Fund

### Country Allocation

Country	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Mar-09
Egypt	30.9%	34.2%	29.4%	23.6%	16.3%	13.1%
Jordan	2.1%	0.0%	0.0%	3.2%	2.6%	2.0%
Morocco	12.8%	1.3%	0.0%	1.0%	0.0%	0.0%
Lebanon	0.0%	11.8%	7.0%	0.0%	0.0%	0.0%
Tunisia	5.4%	0.6%	1.0%	0.0%	0.0%	0.0%
<b>Non-GCC</b>	<b>51.2%</b>	<b>47.9%</b>	<b>37.4%</b>	<b>27.8%</b>	<b>18.9%</b>	<b>15.1%</b>
UAE	0.0%	0.0%	10.3%	22.0%	13.2%	13.8%
Qatar	6.7%	3.1%	9.0%	10.8%	15.7%	13.5%
Saudi Arabia	0.0%	0.0%	0.0%	22.8%	16.9%	13.4%
Kuwait	11.0%	30.7%	16.1%	8.0%	2.5%	5.7%
Oman	14.1%	8.0%	6.4%	6.2%	4.5%	5.4%
Bahrain	12.5%	6.2%	9.5%	0.0%	0.0%	0.0%
<b>GCC</b>	<b>44.3%</b>	<b>48.0%</b>	<b>51.3%</b>	<b>69.8%</b>	<b>52.8%</b>	<b>51.8%</b>
<b>Total Exposure</b>	<b>95.5%</b>	<b>95.9%</b>	<b>88.7%</b>	<b>97.6%</b>	<b>71.7%</b>	<b>66.9%</b>
<b>Average Exposure</b>	<b>92.3%</b>	<b>95.1%</b>	<b>93.6%</b>	<b>94.2%</b>	<b>90.5%</b>	<b>86.1%</b>

# The EFG-Hermes MEDA Fund

## Investment Strategy & Outlook

**Investment Thesis: *Remain defensive while remaining poised to capture recovery***

