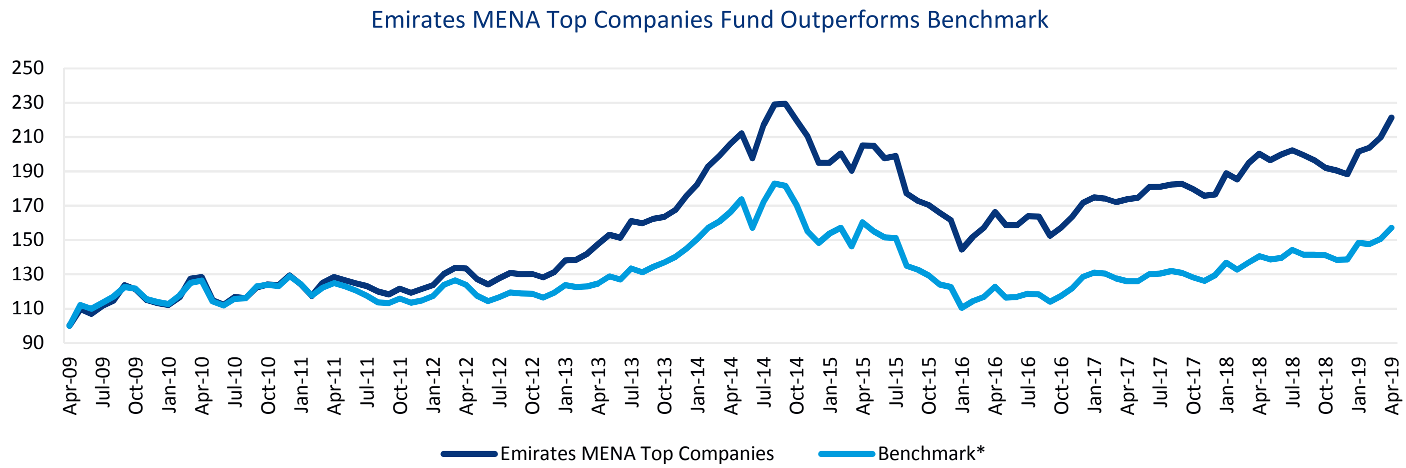
Emirates MENA Top Companies Fund – High conviction calls paying off



	YTD 2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Emirates MENA Top Companies Fund	17.53%	6.64%	2.85%	6.22%	-17.09%	10.89%	33.90%	8.08%	-6.11%	14.35%	19.50%
Benchmark*	13.28%	7.06%	0.70%	4.92%	-17.39%	2.34%	21.50%	3.89%	-10.88%	13.16%	14.84%

Source: ENBDAM as at 30th April 2019. Jersey P share class, bid to bid with net income reinvested. *Benchmark: 45% MSCI Saudi Arabia Domestic Index, 55% MSCI Arabian Markets Index ex Saudi Arabia.

Overview

During 2019 foreign investors have poured in around $4bn to Saudi's Tadawul stock market, pushing the index up by 20% YTD. Over the next 12 months, flows of a further $18-40bn are expected which is likely to have a long term positive effect. The Emirates MENA Top Companies Fund currently has a 49% exposure to Saudi equities, exposure to countries such as Egypt and Kuwait will increase over time to further diversify the portfolio.

High conviction calls paying off:

Bupa Arabia: BUPA's long term equity story is compelling. It is the largest medical insurer in Saudi Arabia with c.40% market share in the medical insurance segment, and with healthy potential for long term growth. While its underwriting practices are superior, thanks to its global model, the company has certain positives ahead in the next 6-12 months. Firstly, given the concentrated nature of the industry, regulator's aversion to price competition and unutilized capacity at the hospitals, our channel checks suggest pricing power has returned to the medical insurers. Furthermore, with BUPA's key competitors having loss ratio of 100+%, pricing increase is inevitable at the sector level benefitting market leaders such as BUPA. Finally, mandatory enforcement of Saudis working in the private sector (mostly SMEs) should result in c.10-15% increase in the market size.

United Electronics (Extra): In the previous three years, the Saudi Electronics market contracted by c.50+% while cost pressures (Saudization, increased fees and more stringent regulatory framework) led to industry consolidation (smaller shops shut down and customers moved to larger organized retailers). In this backdrop, while Extra managed to increase market share from c.9% in 2015 to c.14% in 2018, we expect the company to further benefit from consolidation in the consumer durables market. Extra's equity story revolves around two pillars; firstly it is a consolidation and market share increase story amidst systemic cost pressures for smaller retailer secondly, it's newly launched consumer finance business could lead to another leg of earnings growth for the company. While we like Extra's consolidation benefits on a standalone basis, we believe its consumer finance business is yet to be priced in by investors and could be a significant value creator for Extra shareholders in the next 2-3 years. Year to date, Extra has underperformed the broader Tadawul index which we attribute to Extra not being a MSCI EM index inclusion candidate. That being said, once the flow story wears out in the second half of 2019, we believe investor attention would turn to candidates such as Extra which are fundamentally strong, run by superior management and trade at reasonable valuation multiples.

Fund metrics look compelling: The fund's lower P/E compared to the benchmark illustrates strong value built in to the portfolio.

	P/E 2020	DIV 2020	ROE 2020
Emirates MENA Top Companies Fund	10.8	4.2%	20.0%
Benchmark	12.2	4.6%	12.7%

Source: ENBDAM as at 12th May 2019.

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