Emirates MENA Top Companies Fund – High Conviction Calls

- **Emirates NBD (6.4% portfolio weight vs. 0% benchmark weight)**

    - **Investment Rationale** - We like Emirates NBD for its scale, high quality management, solid low cost retail deposit generating franchise, prudent risk management, cheap valuation (2019E P/E of 6.2 and P/B of 1.0 vs. RoE of 18.4) and potential growth opportunities in KSA, Turkey and Egypt apart from its home market UAE.

    - **Key Development** - We always liked Emirates NBD due to its fundamental strength and recently increased our position. In our view, while we do not have visibility on timing, the recent closure of Denizbank acquisition could lead to a potential rights issue and subsequently lifting the cap on foreign ownership limit (FOL). Emirates NBD is the cheapest bank (vis-à-vis its high quality) in our coverage universe and lifting of FOL could act as a catalyst for the stock and bridge the valuation gap vs. peers.

- **EK Holding (6.1% portfolio weight vs. 0% benchmark weight)**

    - **Investment Rationale** - EKHO is a large holding company with industrial focus across Egypt, including energy (NatEnergy/Kahraba), fertilizers (AlexFert), chemical products (Sprea Misr) and gas upstream business (NOSPCO). The company has experienced significant growth over the past three years, and looking ahead, we continue to see significant growth prospects for the company: i) NatEnergy has been mandated by the government to connect gas pipelines to households to make gas deliveries easier, cheaper and more efficient; ii) Kahraba is expanding its electricity generation capacity and developing electricity distribution capabilities; iii) expansion into production of new products, such as production of MDF boards – a key material used in furniture; and iv) discovery of natural gas in its Off shore North Sinai Concession (ONS).

    - **Key Developments** - In February 2019, EK Holding announced that a seismic study conducted by WesterGeco (a business segment of Schlumberger) revealed the gas reserve potential at its Offshore North Sinai (ONS) concession holds up to 2.35 TCF of gas and 112mn bbl of condensates - 10x its existing P1 natural gas reserves of 218 bcf (announced in September 2018). The company's management has stated it has outlined a capex plan to fully develop and capitalize on these fields, which we expect will unlock more value going forward. Looking forward, we see several catalysts that could trigger a re-rating in the stock. Kahraba (owned by NatEnergy) is looking to expand its electricity production and distribution capabilities from a current 75 MW to 175 MW by 2021. Moreover, EKH is building a fully integrated 300k capacity MDF (medium-density fiberboard) plant. We believe there are strong market dynamics to support this venture due to: i) growing interest in MDF boards in Egypt and ii) 80% of all MDF boards are imported.

- **Bupa Arabia (4.5% portfolio weight vs. 0.3% benchmark weight)**

    - **Investment Rationale** - Bupa Arabia is the largest medical insurer in Saudi Arabia with c.40% market share in medical insurance. Going forward, as the KSA government increases private participation in healthcare (the backbone of which is well capitalized insurance sector), we believe the company has a solid potential for long term growth. In our view, Bupa's receipt of Aramco's TPA contract for the Western region is just the tip of the iceberg and sooner rather than later we should see more of these contracts being awarded to insurance companies. Thanks to its global underwriting model, its underwriting practices are superior and risk profile favourable which is well reflected on the combined ratio (c.90-95%) and sector high RoE of c.20-25% (between 2016-2018).

    - **Key Developments** - We believe the company has certain positives ahead in the next 6-12 months. First, given the concentrated nature of the industry, regulator's aversion to price competition, and unutilized capacity at hospitals, pricing power has returned to the medical insurers. Second, mandatory enforcement of Saudis working in the private sector (mostly SMEs) should result in c.10-15% increase in the market size. Third, given improved pricing scenario coupled with economies of scale derived from GWP growth, we expect combined ratio to trend downwards leading to 30-40% y/y increase in net profit in 2019 (Solid 1H19 earnings have beaten street estimates and confirm our hypothesis).

- **National Medical Care (5.0% portfolio weight vs. 0% benchmark weight)**

    - **Investment Rationale** - CARE is one of the renowned publicly listed hospital operators in Saudi Arabia with 560 operational beds (825 beds once expansions are completed in 2019-2020) and government institutions such as GOSI, National Guard accounting for c.45% of revenues. On a standalone basis, the company has historically been inefficient with margins close margins close the low end of the sector. That said, we see CARE as a turnaround candidate with catalysts already in place. NMC Healthcare (well known for efficiency extraction) from UAE recently acquired a sizable stake in CARE through its J/V with Hassana and acquired operational control of the company. We believe NMC's involvement in CARE should lead to significant earnings rerating (c.150-200% earnings growth in the next 3 years) and subsequent rerating of the stock price. Given depressed earnings, we believe traditional earnings multiples such as P/E and EV/EBITDA would be irrelevant and instead we prefer to look at asset based metric such EV/bed. On EV/bed metric, the company is trading at c.SAR2.6m, which is close to the replacement cost of the asset. At a more strategic level, we believe Saudi investment story would move away from MSCI Inclusion realted flow candidates and investors would increasing focus on stock specific idiosyncratic stories such as CARE and Extra.

- **Key Developments** - NMC Healthcare (NMC) and Hassana (Investment arm of Saudi Arabia's General Organization for Social Insurance - GOSI) announced the closing of the joint venture (JV) agreements signed on March 4, 2019. The agreement pertains to the formation of a JV whereby NMC would contribute its 5 assets in Saudi Arabia and SAR250m of cash while GOSI and Hassana would contribute their 38.88% stake in National Medical Care (CARE). Following the closing of the transaction, NMC will have operational control of the JV. Accordingly, Saad Al-Fadhli (CEO of Hassana Investment) was appointed as chairman of the board of directors of CARE while Michael Davis (Chief Operating Officer of NMC) was appointed as a member of the board of directors of CARE. Given NMC's involvement in CARE, on a longer term horizon we believe a turnaround story is unfolding. CARE is one of the less efficient hospitals in Saudi and with NMC Healthcare/Hassana J/V acquiring GOSI's stake in CARE, we believe NMC Healthcare's superior operational expertize would be instrumental in significantly unlocking CARE's value.

Emirates MENA Top Companies Fund outperforming its benchmark with lower volatility

	YTD	12 Months	P/E 2020	Active Share	Volatility
Emirates MENA Top Companies Fund	11.21%	5.64%	10.8	78.4	13.22%
Benchmark	5.22%	3.12%	12.2	n/a	13.71%

Source: ENBDAM as at 31st August 2019. *Benchmark: 45% MSCI Saudi Arabia Domestic Index, 55% MSCI Arabian Markets Index ex Saudi Arabia.

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