EFG Hermes
An EFG Holding Company

The Year Ahead 2025

Playing it the MENA way

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What does MENA offer in 2025?

An anchor in a volatile world

The world is entering 2025 ready for another episode of volatility, led by a strong USD, risks of trade wars and continued geopolitical instability. In this environment, we argue that MENA provides investors with a decent haven for stability. Gulf economies possess strong and attractive intrinsic growth drivers that are less tied-up to global events, compared to other regions in the world. Structural reforms, led by Saudi Arabia and the UAE, underpin solid growth stories. The favourable outlook is complemented with additional sources of stability, including limited FX risks – due to currency pegs – as well as ample financial resources to support the positive growth backdrop. In a lower rate environment, the region offers ample dividend yield plays, which can enhance investors' total returns.

Region can handle a USD70/b oil price

The outlook for oil is a largely downbeat one, with risks of additional non-OPEC+ supply and weak demand backdrop, underpinned by poor growth dynamics in China. Nevertheless, we see risks to commodities as largely balanced, with extended supply cuts by OPEC+, which are shaving off 5.8mn barrels per day of production from global markets, outweighing weaker demand. We, therefore, assume an average oil price of USD75/b in 2025, a level that we see high enough to maintain the expansionary fiscal stances of gov'ts in the region. Even the more vulnerable ones to lower oil prices, primarily Saudi Arabia and Kuwait, have enough resources to manage any short-term shocks to oil prices.

Overweight UAE, KSA…

We expect the two markets to outperform, thanks to their solid domestic-driven growth stories, capitalising on population growth, structural reforms and fiscal expansionary policies. Both countries are set to register decent GDP growth (on the non-oil side) of +4%, while also maintaining relatively undemanding valuations. In the case of Saudi Arabia, the market is now trading at relatively more undemanding multiples (11.3x 12-month forward P/E and 1.7x P/B), following the recent sell-off. With downside risks to energy/materials stocks, which were a main drag on the market this year, hedged by a neutral outlook on oil, we expect banks (which underperformed this year) to lead the market gains in 2025.

…and Kuwait, which can offer alpha in 2025

Kuwait is likely to be the swing market in 2025, as the relatively new gov't's efforts to boost economic activity and push for fiscal reforms start to yield results. Investors have already celebrated the recent changes, pushing Kuwait as the second best-performing market in the region in 2024, following years of underperformance. We are looking forward to: i) a decent pick-up in project awards, mostly in the infrastructure (power, water and roads), which will boost economic activity and credit growth; ii) legislative reforms, most notably a new housing law that would unleash pent-up demand for property; and iii) fiscal reforms that are critical for the sustainability of any potential upcoming investment cycle.

Egypt is a neutral

Egypt offers investors the cheapest valuations in the region (6.9x 12-month forward P/E); however, the market lacks a clear catalyst to outperform. Locals do not have much additional firepower to bring the market to significant new strides, amidst the absence of the foreign bid (foreign investors' share of trading fell to a mere 7%, from 17% in 2021/22). Moreover, FX volatility raises concerns over the USD-based returns of the market, which were negative in three of the past four years. Lower policy rates will provide some support to the market in 2025, but a high real yield – as inflation slows much faster than policy rate cuts – is likely to weigh on market sentiment. The two key upside risks, which would drive us to change our view, are a potential resolution to the regional conflict (that would boost Suez Canal revenues) and/or progress on the gov't's programme of asset sales.

Financials in the lead…

We are overweight financials across most markets under our coverage, with falling rates enabling banks to lock in higher rates and enjoy a recovery in credit growth. The latter has already shown decent signs of recovery in 2024, as economic agents sensed that rates have reached a peak, with lower interest rates likely to fuel a further leg of the credit recovery. We are particularly positive on Saudi banks, which tend to see the biggest benefit from lower rates, where we favour SNB and Al Rajhi. In Kuwait, we are positive on NBK, which has pretty much lagged behind the positive market run in 2024, trading at attractive multiples (13.2x P/E and 1.7x P/B) and set to be one of the biggest beneficiaries of potential reforms.

…so is the property sector

The real estate sector in both UAE and KSA continues to offer attractive investment stories. In the UAE, both Emaar Properties (offering 10.6% dividend yield) and Emaar Development offer investors trusted names, with a strong track record to monetise their land banks and sizable backlogs of sales that ensure strong dividend pay-outs in the future. In KSA, the sector is underpinned by strong growth fundamentals, in light of the gov't's drive to boost economic activity, as well as unleash investment opportunities within the property sector. The potential new foreign ownership law will be an important catalyst for the sector, opening up totally new pockets of demand for properties in the Kingdom. We favour Retal and Alakaria.

A good list of domestic-demand plays

We are also positive on a number of idiosyncratic growth stories, which reflect the essence of MENA's relative stability that it offers against other regions in the world. In the UAE, we favour plays on the population growth theme, led by du, DEWA and Empower amongst Dubai names, in addition to key Abu Dhabi names, including AD Ports, ADNOC L&S and ADNOC Gas. In KSA, the market offers broader choices, including CARE and Aldawaa in the healthcare sector, Almarai, Budget, Leejam and Theeb. In addition, STC and Mobily in the telecoms sector offer good exposure for growth with decent dividend yields. In the construction sector, we like City Cement and Saudi Cement. Finally, in Egypt, we like COMI, TMG, EKHO and Ibn Sina.

2025 Macro Strategy Themes

We cover eight key themes that we think will shape the outlook for MENA's macro and markets in 2025, focusing mostly on oil, interest rates, underlying growth drivers (population and investment spending), divestment and geopolitical risks, in addition to key regulatory changes to watch for.

Neutral on oil

Oil prices are heading into 2025 fueled by a downbeat sentiment, amidst a well-balanced market, in terms of supply/demand dynamics, with the balance tilted towards higher supply. The downbeat sentiment is also supported by three key factors: i) subdued growth in China; ii) ample supply, as well as spare capacity; and iii) potential for the de-escalation of major geopolitical conflicts in both the Middle East and Europe. We see these downside risks largely balanced with supply cuts by OPEC+; hence, take a largely neutral stance on oil. We base our macroeconomic forecasts on an average oil price of USD75/b in 2025 and USD70/b in 2026.

Key amongst the challenges facing the oil price outlook is the weakness in China's economy, which is facing major structural headwinds that dim its outlook. Oil demand from China, while still growing by c200k barrels per day, remains 2-3x lower than pre-pandemic levels.

Moreover, Chinese officials failed to deliver on a stimulus package that would attract the attention of global markets; hence, weighing further upon sentiment. Earlier versions of the stimulus focused on the less impactful monetary side. Meanwhile, latest efforts to field a more encouraging fiscal stimulus kept underwhelming the market, given its conservative magnitude, despite some initial big headlines. As such, the market expects only modest growth of Chinese demand for oil.

Another headwind facing oil markets is the potential rise in global supplies, amidst a weak demand backdrop. Concerns over the latter were hyped, following Trump's win of the US elections, considering the potential hit to global demand if he implements his plan of imposing tariffs on China. In this respect, OPEC+ sought, in early Dec, to balance these rising risks to demand by extending its supply cuts yet again, a decision it had considered to implement earlier in Oct. The group pushed back the start of these cuts to Apr 2025 and extended the full unwinding of cuts by a year until end-2026. We see the group's production cuts of 5.86mbpd acting as a balance to the rising demand risks; hence, we believe they keep a floor for oil prices at/above the USD70/b.

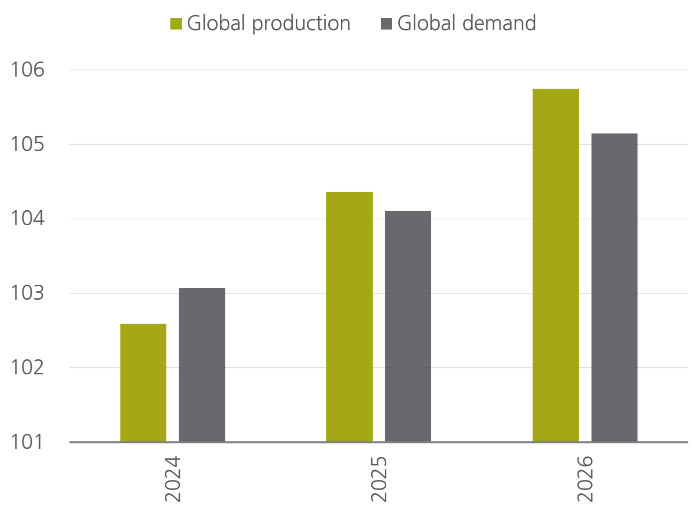
Figure 1: Oil prices trended lower in 2024

In USD/b

Source: Bloomberg

Figure 2: Production set to outpace demand in next couple of years

In mn barrels per day



Source: EIA, EFG Hermes estimates

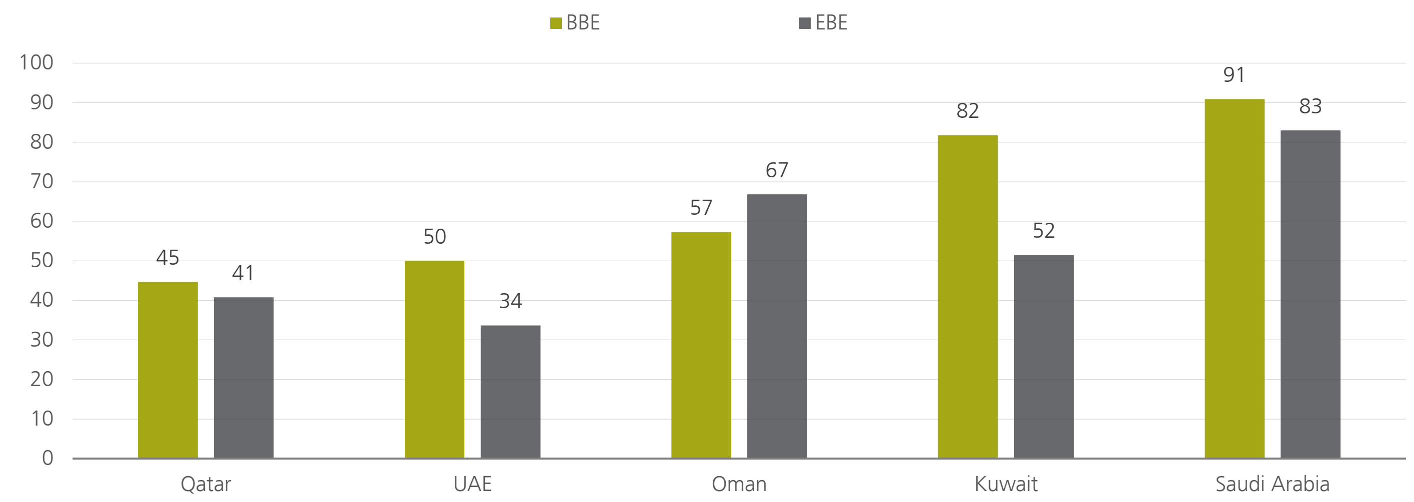
The potential resolution of the two current main geopolitical hotspots, namely the Russia-Ukraine war and the conflict in the Middle East, could be another headwind. We think, though, that the likely bumpy road to such potential resolutions means risks around the market are largely balanced, especially when taking the OPEC+ production cuts into consideration.

Such an oil price environment poses medium-term rather than immediate challenges to MENA's oil-exporting countries. Economies normally possess enough buffers to handle short-term drops in oil prices, though vulnerabilities over the medium term vary, considering future investment plans and the extent of economic diversification. In this respect, Qatar, the UAE and Oman score high on the most resilient economies amidst a low oil price environment (mostly below the USD70/b-mark), considering their relatively lower breakeven oil prices (at both fiscal and external fronts).

All three economies have breakeven prices below current oil prices (+USD70/b) and could even sustain oil prices within the USD60s range without much need for fiscal restraint. The UAE, though, remains in the lead, considering its attractive growth profile and diversified economy when compared to Qatar and Oman.

Figure 3: Saudi Arabia and Kuwait screen as most vulnerable to a drop in oil prices

In USD per barrel



Source: IMF, EFG Hermes estimates

Kuwait is fiscally more vulnerable, with a budget break-even oil price of USD82/b. Thus, in the absence of fiscal reforms, the country will not be adequately positioned to press ahead with a proper investment plan. The budget will also be constrained in the absence of a new debt law, as gov't financing will remain quite constrained, amidst the low level of reserves available for the Ministry of Finance (which cannot tap the cUSD900bn Future Generations Fund).

This leaves **Saudi Arabia** as the most vulnerable to oil prices shocks, largely due to two key factors. First, the Kingdom is carrying the heavyweight in maintaining OPEC+ production cuts, shaving off 1-1.5mn barrels per day of its production. Second, and more importantly, the Kingdom's economy is going through a transformation phase that requires sizable investments by the public sector (both the central gov't and the sovereign wealth fund). With the transformation being at its early stages, dependence on oil prices remains elevated, as diversification of income initiatives is yet to bear fruit.

In this context, the gov't has already started a recalibration/re-prioritisation exercise for its key projects, with reported budget cuts for less urgent projects. In parallel, the gov't is planning to cut expenditure by 4.5% in 2025, which would be the first spending cut since 2021.

It is important to note that KSA's elevated budget break-even oil price of +USD90/b is notably supported by Aramco's performance-based dividend, which amounted to cUSD40bn in 2024, the gov't's share of which accounted for c17% of oil revenues, equivalent to 3.2% of GDP. We estimate that, at current oil prices, Aramco is unlikely to generate much surplus free cash flow, meaning it can only pay such additional dividends by leveraging and relying on its existing cash positions; however, this would be quite challenging to replicate in 2026; hence, would require further spending cuts, in case such lower oil price levels persist, a base case that we think is likely.

We note that, fundamentally, all GCC-5 economies possess very solid balance sheets that would enable governments to easily handle ensuing pressure from oil prices shocks. The vulnerability we flag, though, is related more to the sentiment and pace of growth potential of the more vulnerable economies, in case of price shocks, with a read-through to equity markets, where investors will have rising concerns over the earnings growth priced by companies in respective markets.

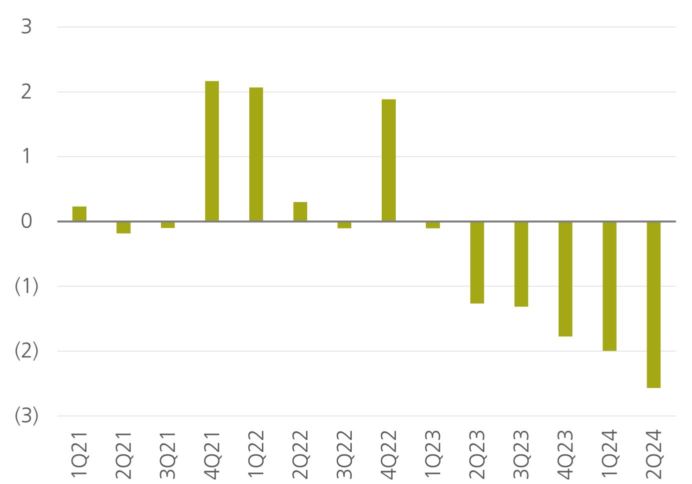
Contrary to the above, oil-importing **Egypt** will be a big beneficiary of a bearish stance on oil. The country returned to being a net importer of energy, as the FX crunch and rising subsidies weighed heavily upon investments in the sector, leading to a decline in production. By end of 2024, the country has lost a third of its peak natural gas production that it reached in late 2021.

Lower oil prices would, at least, help contain a widening energy trade deficit that mushroomed last FY23/24 to USD7.6bn, as opposed to a USD0.4bn surplus in the year before. We estimate the deficit to widen further in the current FY24/25 to USD10.3bn (2.9% of GDP), as natural gas exports collapsed, and the gov't embarked on imports to bridge its energy gap, weighing upon the country's widening current account deficit, which we project to widen to cUSD20bn, equivalent to 5.3% of GDP.

In parallel, lower oil prices would provide much-needed relief to the inflation outlook, as it would lead to lower-than-projected hikes in domestic fuel prices, which are catching up to the EGP floatation of earlier this year. At current oil prices, we estimate the gov't still has to increase domestic fuel price by another 15-20% in 2025, having already increased it c60% YTD in 2024. The combination of reduced external and inflationary pressures would make room for larger rate cuts than our envisaged 500-600bps.

Figure 4: Egypt's external energy deficit widening significantly…

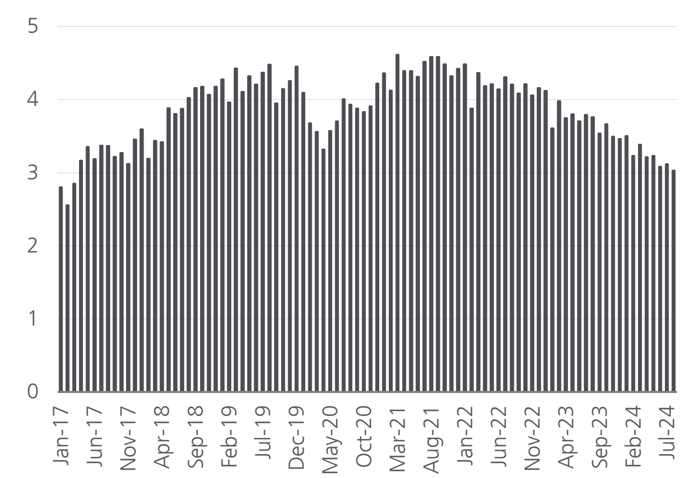
In USDbn



Source: CBE

Figure 5: …driven partly by a drop in domestic gas production

In mn of tonnes



Source: CAPMAS

China's stimulus, or lack thereof

As highlighted above, a large part of our bearish view on oil stems from the weak economic backdrop in China, as the country suffers from structural and cyclical headwinds to growth. The economy has been suffering from outsized investments in the property sector and elevated debt at the local governments, which were two key engines of growth in the past decade.

In this context, a major theme that dominated markets, mostly in the latter half of 2024, was the potential of stimulus by Chinese authorities in order to reverse the course of slower GDP growth. Nevertheless, authorities have continued to disappoint markets, focusing their stimulus mostly on the monetary side, which is proving ineffective, amidst already elevated leverage by state-owned companies and local governments, reducing their capacity for additional borrowing.

Instead, the market has been looking for a fiscal stimulus that would directly boost domestic demand, albeit only for markets to be disappointed. The need for a proper fiscal stimulus became even all the more necessary, following Trump's win in the US elections, considering his agenda of imposing big tariffs on China, forming another headwind to the Chinese economy.

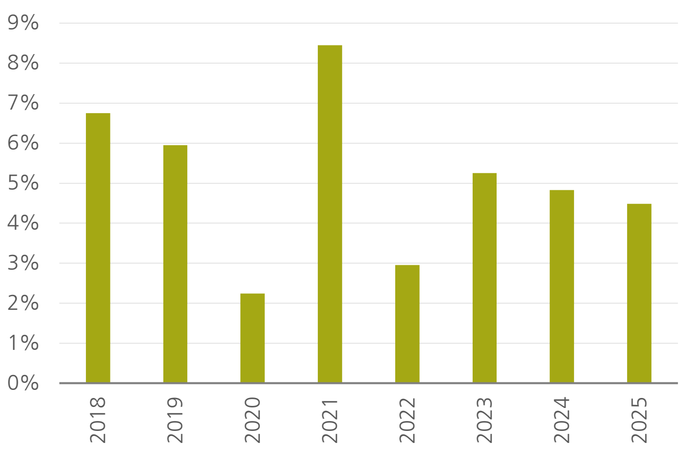
For all of the above reasons, we remain bearish on China, a call that makes us also downbeat on oil, as well as the petrochemicals sector, which suffers from over-production and weak demand dynamics. Moreover, a weak commodity price outlook, including that on food prices, is a further negative for the sector. The out-of-favour outlook would take a further hit in case Trump delivers on his promises on imposing tariffs on China.

We note that, even if Chinese authorities end up delivering on their promise of fiscal stimulus, the latter will most likely just balance the ensuing headwinds to face the economy, rather than resulting in any meaningful acceleration in Chinese demand. Accordingly, while a stimulus might lead to some tailwind risks, these will remain constrained by the structural challenges facing the China macro story.

A weak China outlook brings a somewhat mixed impact on MENA. On the one hand, slow growth in China weighs upon the chemicals sector, amidst oversupply and weak demand dynamics. On the other, it is boosting investment in Dubai's property; the past few years witnessed a noticeable increase in property purchases in the Emirate by Chinese investors as they diversify out of their own ailing property sector. Abu Dhabi has also been increasingly falling under the radar screen of Chinese investors.

Figure 6: China's base case growth remains depressed, with risks tilted mainly to the downside

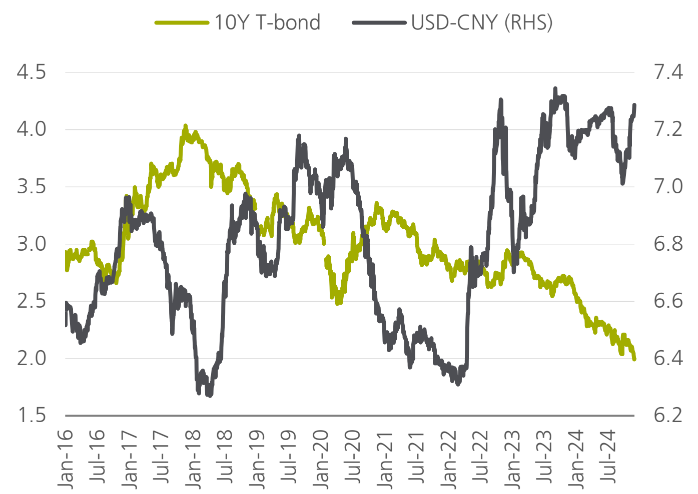
Real GDP growth in %



Source: IMF

Figure 7: Chinese Treasury yields falling to record lows and CNY weakening, amidst bearish signals from the economy

In % (RHS), in CNY (RHS)



Source: Bloomberg

Interest rates – Extending the credit growth recovery

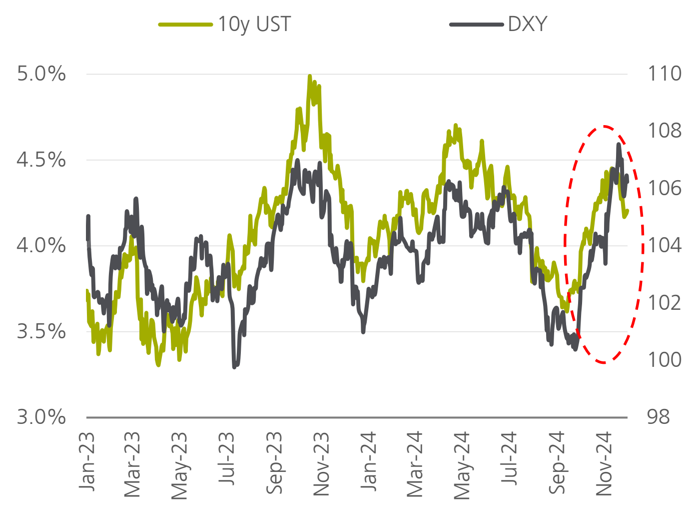
Lower interest rates are another big theme for 2025, as the rate cycle has finally turned a tide in late 2024, following one of the most rapid tightening cycles in the US Federal Reserves' history. The US Fed has cut rates by 75bps, so far this year, and another 25bps is mostly likely to happen at the Dec meeting.

Prospects for additional rate cuts were ripe a few months ago, and we think they remain largely the same, not much impacted *per se* by Trump's win of the US elections. Even before the elections' results, one could monitor a clear stickiness of services' inflation, which casted some doubt on prospects for sizable rate cuts in 2025.

Trump's win, indeed, poses some additional upside inflationary risks, particularly when it comes to immigration policies (with implications on wages), expansionary fiscal policy (with implications on broader inflation), as well as tariffs (implication on goods' prices); however, Trump also comes with two initiatives that are positive for inflation. One is keenness on bringing lower oil prices through increasing US production. The other is businesses' deregulation, which typically helps keep inflation at bay through improved productivity.

Figure 8: Trump's win pushed both USD and Treasury yields higher

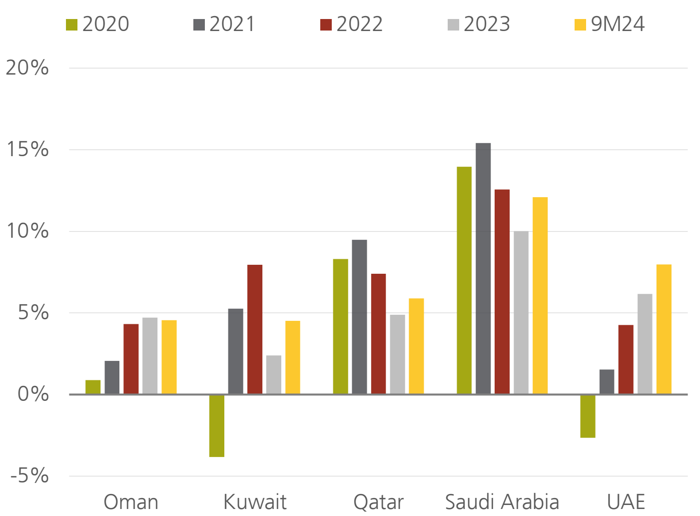
In % (LHS), index (RHS)



Source: Bloomberg

Figure 9: Credit growth slowed across most GCC since 2021; started to recover in 2024 as rates peaked

In Y-o-Y % change



Source: Regional central banks

Such a backdrop of elevated uncertainty is likely to keep the US Fed even more data-dependent than it has been. In this setting, we think the strong US growth outlook, coupled with some further easing of inflation (we assume 2.5% by end-2025) would still allow for further rate cuts, albeit relatively measured ones. We, therefore, base our case for 100bps of rate cuts by the US Fed in 2025. We expect all GCC5 to mirror the Fed's rate cuts, with the exception of Kuwait – where we project a 50bps cut – as CBK has not matched Fed's actions across the cycle.

We expect projected rate cuts will be an important booster to regional equity markets in 2025. In addition to reducing discount rates, lower policy rates will be a key driver of credit creation and business activity. Indeed, credit growth has been impacted negatively by rising rates, particularly at the retail level, where the slowdown has been nearly universal. The biggest impact was felt in Saudi Arabia's mortgage market, where higher interest rates represented one of the challenges driving a notable slowdown in growth in mortgages. Slower retail loan growth in Kuwait was also notable as investors await the peak of the cycle and also coming from a high base in 2021-22.

Figure 10: MENA's key dividend plays for 2025

Company	Market	RIC	Sector	Close	Div yield 2025	Rating	P/E 2025	M cap (USD)	ADVT (USD)
Abu Qir Fertilizers	Egypt	ABUK.CA	Materials	52.1	13.8%	Buy	6.3	1,293	1.5
Humansoft	Kuwait	HUMN.KW	Consumer Discretionary	2.5	13.3%	Buy	8.7	1,090	1.2
Emaar	Dubai	EMAR.DU	Real estate & hospitality	9.45	10.6%	Buy	6.2	22,741	28.2
EK Holding	Egypt	EKHO.CA	Industrials	0.8	10.1%	Buy	5.4	896	0.3
Abraj Energy Services	Oman	ABRJ.OM	Energy	0.3	9.7%	Buy	8.7	561	0.4
OQ Gas Networks SAOC	Oman	OQGN.OM	Energy	0.1	9.6%	Buy	9.4	1,470	1.0
Alef Education	Abu Dhabi	ALEFEDT.AD	Consumer Staples	1.1	8.5%	Buy	13.9	2,174	1.7
Dana Gas	Abu Dhabi	DANA.AD	Energy	0.7	8.3%	Buy	9.6	1,376	1.5
Emirates Driving Co. (DRIVE)	Abu Dhabi	DRIVE.AD	Consumer Staples	2.7	8.0%	Buy	10.8	804	0.1
Emirates NBD	Dubai	ENBD.DU	Financials	19.7	7.6%	Buy	5.9	33,907	12.6
RAK Ceramics	Abu Dhabi	RAKCEC.AD	Industrials	2.5	7.2%	Buy	9.7	677	0.2
Jarir Marketing Co.	Saudi	4190.SE	Consumer Discretionary	12.9	7.2%	Buy	14.2	4,111	6.9
Arabian Cement Company (Saudi)	Saudi	3010.SE	Materials	27.6	7.2%	Neutral	13.9	734	2.0
Banque Saudi Fransi	Saudi	1050.SE	Financials	33.0	7.0%	Neutral	8.2	10,579	8.9
Arabian Centres Co Ltd	Saudi	4321.SE	Real Estate & Hospitality	21.3	7.0%	Buy	9.7	2,693	6.3
Saudi British Bank	Saudi	1060.SE	Financials	32.5	6.9%	Buy	8.1	17,734	15.5
du	Dubai	DU.DU	Telecom Services	7.4	6.9%	Buy	13.8	9,165	1.6
NMDC Group	Abu Dhabi	NMDC.AD	Industrials	25.6	6.7%	Buy	5.4	5,881	8.8
Qatar Electricity & Water	Qatar	QEWC.QA	Utilities	16.1	6.5%	Buy	9.4	4,840	1.8
Jazeera Airways Co.	Kuwait	JAZK.KW	Industrials	1.1	6.5%	Buy	14.4	756	1.3
Qassim Cement Company	Saudi	3040.SE	Materials	53.6	6.5%	Neutral	15.3	1,283	1.7
Arab National Bank	Saudi	1080.SE	Financials	20.5	6.5%	Neutral	8.5	10,904	9.6
Borouge	Abu Dhabi	BOROUGE.AD	Materials	2.5	6.4%	Neutral	16.1	20,214	2.3
Industries Qatar	Qatar	IQCD.QA	Materials	13.0	6.3%	Buy	15.8	21,531	6.7
SABIC Agri-Nutrients	Saudi	2020.SE	Materials	112.4	6.2%	Buy	13.4	14,230	13.4
Dubai Islamic Bank	Dubai	DISB.DU	Financials	6.8	6.2%	Neutral	9.0	13,416	9.2
Bank Muscat	Oman	BKMB.OM	Financials	0.3	6.2%	Neutral	8.2	4,978	0.8
Yanbu Cement Company	Saudi	3060.SE	Materials	24.4	6.1%	Buy	15.9	1,022	2.1
Al Ansari Financial Services	Dubai	ALANSARI.DU	Financials	1.0	6.0%	Neutral	14.2	2,017	0.5
AD Islamic Bank	Abu Dhabi	ADIB.AD	Financials	13.2	6.0%	Buy	9.1	13,063	10.1
ADNOC Distribution	Abu Dhabi	ADNOCDIST.AD	Energy	3.5	6.0%	Buy	15.9	11,751	4.1
Tabreed	Dubai	TABR.DU	Utilities	2.9	5.8%	Buy	11.2	2,256	0.6
Saudi Cement Company	Saudi	3030.SE	Materials	43.3	5.8%	Buy	17.1	1,762	2.0
Saudi National Bank	Saudi	1180.SE	Financials	34.1	5.7%	Buy	9.5	54,416	46.9
Commercial Bank of Qatar	Qatar	COMB.QA	Financials	4.4	5.7%	Buy	7.5	4,873	3.5
SAIB	Saudi	1030.SE	Financials	14.7	5.7%	Neutral	9.5	4,900	3.4
City Cement Company	Saudi	3003.SE	Materials	18.5	5.7%	Buy	17.6	689	1.4
Riyad Bank	Saudi	1010.SE	Financials	28.7	5.6%	Buy	9.8	22,899	18.2
Aramex	Dubai	ARMX.DU	Industrials	2.3	5.5%	Buy	13.3	906	0.7
First Abu Dhabi Bank	Abu Dhabi	FAB.AD	Financials	13.3	5.5%	Buy	9.0	39,834	11.3
Al Othaim	Saudi	4001.SE	Consumer Staples	10.9	5.5%	Neutral	21.2	2,619	3.4

Source: Bloomberg, EFG Hermes estimates

Corporate credit was somewhat resilient in Saudi Arabia and the UAE, considering the strong growth impetus of the macro stories. Nevertheless, lower rates would still provide stimulus for future growth plans, especially with lower oil prices putting some strains on budgets, particularly in the case of Saudi Arabia and Kuwait.

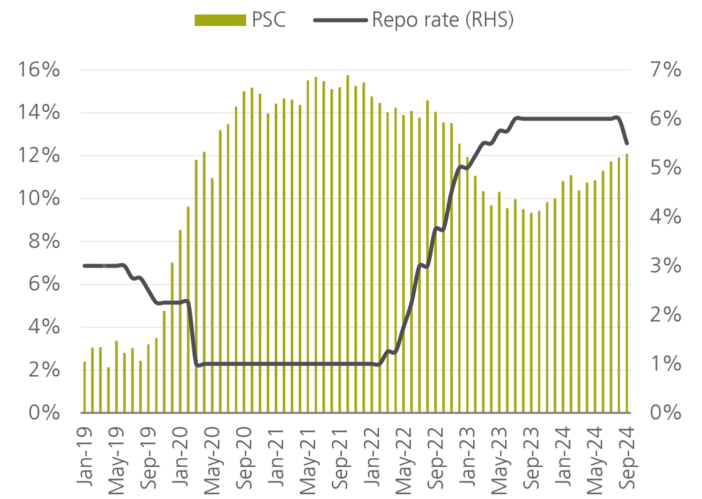
In parallel, we also expect lower interest rates to increase appetite for corporates to tap debt markets, amidst elevated needs to finance prospective growth. We expect this to be a key trend in Saudi Arabia, where the banking sector's liquidity remains tight, as rising loan growth outpaces only modest deposits growth. We also see a clear rising appetite for the refinancing of existing bonds/sukuks at ensuing lower rates.

Lower rates are also likely to bring the theme of dividend yields to the forefront, in our view. And, while rate cuts might end up being not too aggressive, we think domestic investors will remain yield hunters, as they have always been; hence, boosting companies with decent dividend payouts. We screen below companies that offer the most lucrative dividend plays, according to our analysis.

In parallel to Gulf economies, lower rates in advanced markets - in addition to a notable disinflationary path - will allow the Central Bank of Egypt (CBE) to cut rates in 2025. We expect, though, that such rate cuts would be relatively confined (500-600bps) and see Egypt ending the year with elevated real rates (700-800bps). Headline inflation is set to slow down notably, on the back of a sizable base effect from 2024, falling to low mid-teens as early as Feb, hypothetically providing the CBE with sizable room to slash a policy rate that stands at 27.75% (yielding c1,400bps of real rates).

Figure 11: Private credit growth slows in KSA as interest rates were hiked in line with US Fed's hikes…

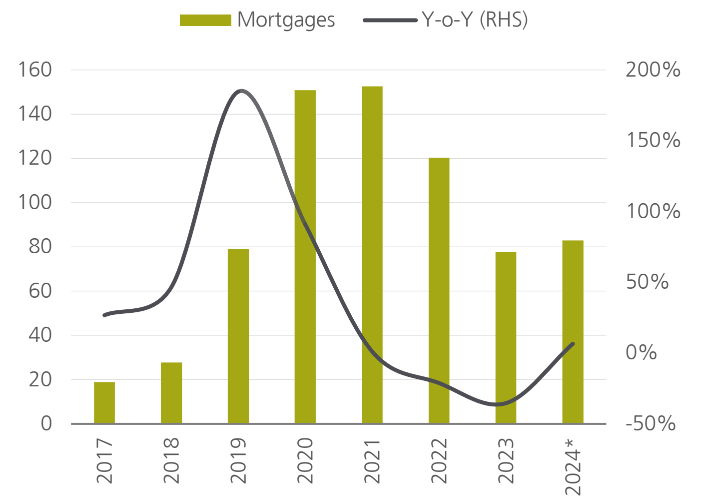
In Y-o-Y % change (LHS), In % (RHS)



Source: SAMA

Figure 12: …with mortgages being one of the key market segments to suffer from higher rates

In SARbn (LHS), in Y-o-Y % change (RHS)



Source: SAMA

However, we see three factors limiting the extent of easing that the CBE can execute, namely: i) some inflation noise from continued fuel subsidy cuts and a slightly weaker EGP; ii) external sector challenges – amidst pressure on Suez Canal revenues and the energy deficit – leaving the economy dependent upon carry trade; and iii) limited de-dollarisation as locals remain concerned over potential EGP weakness.

Lower rates will weigh upon banks' net interest margins as they normalise from a record level, leading to lower earnings. Nevertheless, we still like banks, considering the decent return on equity and expect only a gradual normalisation of NIMs (whether due to the natural gradual infiltration of lower rates into profitability, as banks lock high-yielding assets for longer maturities, or on the back of the gradual drop in policy rates we are projecting). In parallel, companies with elevated leverage levels, including in the industrials and healthcare sectors, will be clear beneficiaries of lower interest rates.

Figure 13: Companies with the highest leverage ratios and likely to be the most to benefit from lower rates

Company	Country	RIC	Sector	Net debt / Equity 2025	M.cap (USDmn)	Rating
Salik	Dubai	SALIK.DU	Industrials	3.6	10,320	Sell
Dubai Taxi Co	Dubai	DTC.DU	Consumer Staples	2.6	1,853	Neutral
Advanced Petrochemicals	Saudi	2330.SE	Materials	2.3	2,289	Buy
Parkin	Dubai	PARKIN.DU	Industrials	2.2	3,883	Neutral
Ibnsina Pharma	Egypt	ISPH.CA	Healthcare	1.9	124	Buy
Lumi Rental	Saudi	4262.SE	Consumer Discretionary	1.7	1,084	Neutral
ACWA Power	Saudi	2082.SE	Utilities	1.6	74,160	Sell
ADES Holding	Saudi	2382.SE	Energy	1.6	5,315	Buy
GB Corp	Egypt	GBCO.CA	Consumer Discretionary	1.6	323	Buy
Dhofar Generating Company	Oman	DGEN.OM	Utilities	1.6	38	Buy
Theeb Rent A Car Co	Saudi	4261.SE	Consumer Discretionary	1.5	885	Buy
EIPICO	Egypt	PHAR.CA	Healthcare	1.4	136	Buy
EMPOWER	Dubai	EMPOWER.DU	Utilities	1.2	4,768	Buy
Beyout Investment Group	Kuwait	BEYOUT.KW	Industrials	1.0	419	Buy
Retal Urban Development	Saudi	4322.SE	Real Estate & Hospitality	0.9	2,194	Buy
Sulaiman Al Habib Medical Services	Saudi	4013.SE	Healthcare	0.9	28,037	Sell
Chemanol	Saudi	2001.SE	Materials	0.8	326	Neutral
AD Ports	Abu Dhabi	ADPORTS.AD	Industrials	0.8	6,740	Buy
Cenomi Centers	Saudi	4321.SE	Real Estate & Hospitality	0.7	2,693	Buy
Obour Land For Food Industries	Egypt	OLFI.CA	Consumer Staples	0.7	144	Buy
Riyadh Cables Group	Saudi	4142.SE	Utilities	0.7	5,968	Sell
Tabreed	Dubai	TABR.DU	Utilities	0.7	2,256	Buy
Almarai	Saudi	2280.SE	Consumer Staples	0.6	16,250	Buy
Marafiq	Saudi	2083.SE	Utilities	0.6	3,737	Buy

Source: Bloomberg, EFG Hermes estimates

Population – A key engine of growth

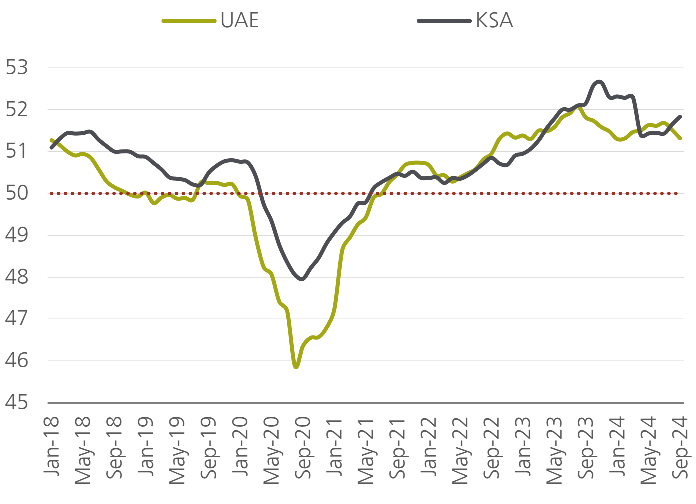
Underpinning MENA’s attractiveness in a more volatile world, as well as bearishness on oil prices is the underlying structural growth in the population, which provides a defensive nature to economic growth dynamics. Strong population growth has underpinned the region’s relatively elevated economic growth in the past couple of years, particularly in the UAE and Saudi Arabia; thereby, boosting employment and aggregate demand for goods and services. Both countries undertook structural reforms to boost their population growth with the UAE also capitalising on regional geopolitical instability.

The sustainability of such strong population growth trends will continue to be an important booster to economic activity for the GCC economies in 2025 and an important theme to play in equity markets. The theme filters into key markets, including the financial sector, real estate, infrastructure, as well as retail. Indeed, the population theme drove a strong performance in 2024 from stocks that enjoy clear exposure to it (see Fig.14).

We see population growth continuing to be a strong theme in 2025 for Saudi Arabia and the UAE, albeit at a slower pace, considering the elevated base over the past few years. In the case of Saudi Arabia, for example, the country added c3.4mn expats to its workforce in the past three years; this is going to be hard to replicate. Moreover, the country’s recent recalibration exercise and budget cuts for some projects are likely to form some headwinds to growth in the expats population. Priority spending for giga projects linked to the upcoming international events, including the Asian Games and Expo, is likely to ensure a floor level of expenditure that should keep supporting the population growth theme, in our view.

Figure 14: Both KSA and UAE showing much stronger employment levels than pre-pandemic

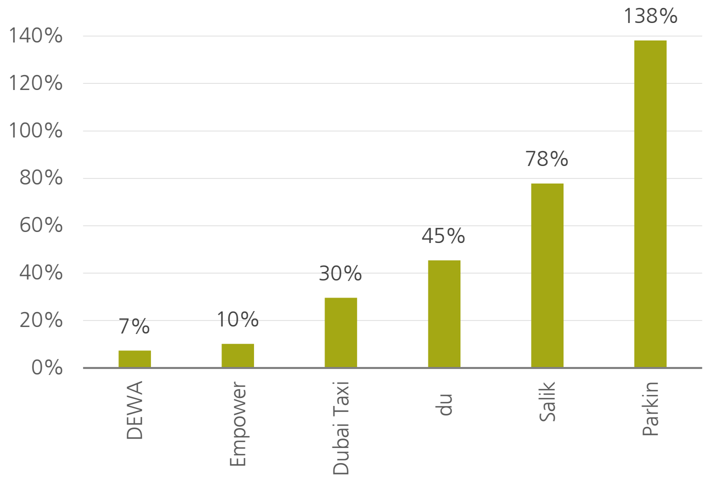
Index; readings above 50 point to expansion



Source: Markit

Figure 15: UAE's clear plays on population growth performed strongly in 2024

In YTD %



Source: Bloomberg

Broadly, the same trends would apply to the UAE, where growth has been exceptionally strong in the past three years, as measured by almost all matrices (non-oil GDP, employment, car registration, etc). But again, structural reforms to residency, as well as expansionary fiscal stance, ensure a healthy growth trajectory, in our view.

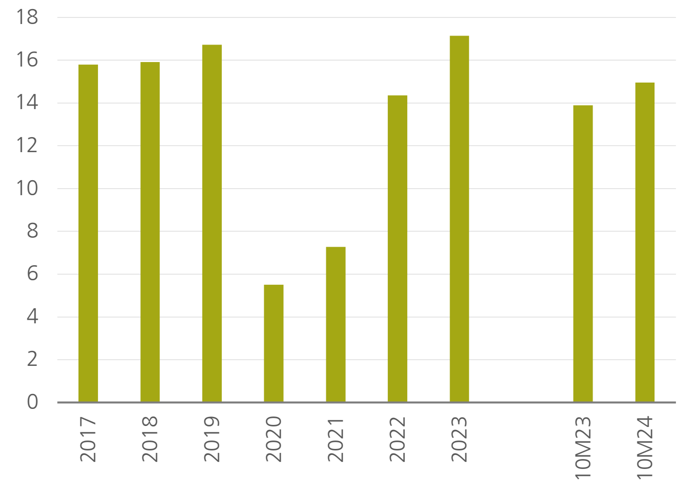
The influx of new residents to both countries is also coupled with an impressive growth backdrop in tourism; thereby, broadening the breadth of growth. Saudi Arabia has seen record tourism growth, leading the gov't to recently upgrade its targets for Vision 2030 to 150mn visitors (from an earlier 100mn that it had already surpassed in 2023). Religious tourism is rebounding strongly, capitalising on previous investments in the holy sites. Indeed, there are currently USD14bn of hospitality projects in the execution phase, led by the Rua Al Madinah project, which is set to add 47k keys, as well as the development of historical sites in Al Ula.

In addition, non-religious inbound tourism has witnessed exceptional growth, on the opening-up of the country, as well as easier visa requirements. The domestic tourism story is another solid component of the tourism story, providing a resilient pocket of growth.

The UAE also enjoys strong recovery in tourism, with Dubai set to hit a record of c18mn tourist arrivals in 2024. The gov't is investing in upgrading its infrastructure, including the new Al Maktoum Airport, and is also investing across the spectrum in the hospitality sector. Indeed, the sector has cUSD7bn of projects in the execution phase.

Figure 16: Dubai set for another record tourism season in 2024, approaching 18mn arrivals

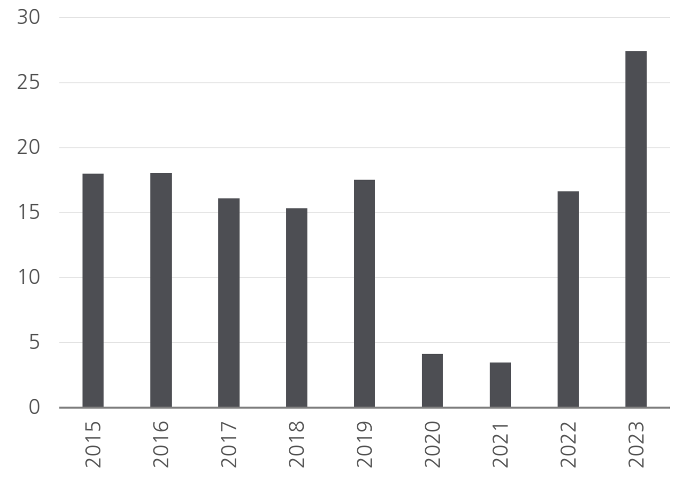
In mn of arrivals



Source: Dubai Department for Economy and Tourism

Figure 17: KSA seeing unprecedented growth in inbound tourism, including new market segments in non-religious tourism

In mn of arrivals



Source: Ministry of Tourism

Projects – Who can deliver?

In line with MENA's resilience to global shocks, and in a clear demonstration of the population growth theme, the region is enjoying a boom in project awards, which provide good visibility on future economic expansion. This year (2024) is proving to be yet another record year in awards that is likely to match, if not exceed, the USD244bn of awards recorded in 2023, resulting in cUSD485bn in backlog built over the past two years.

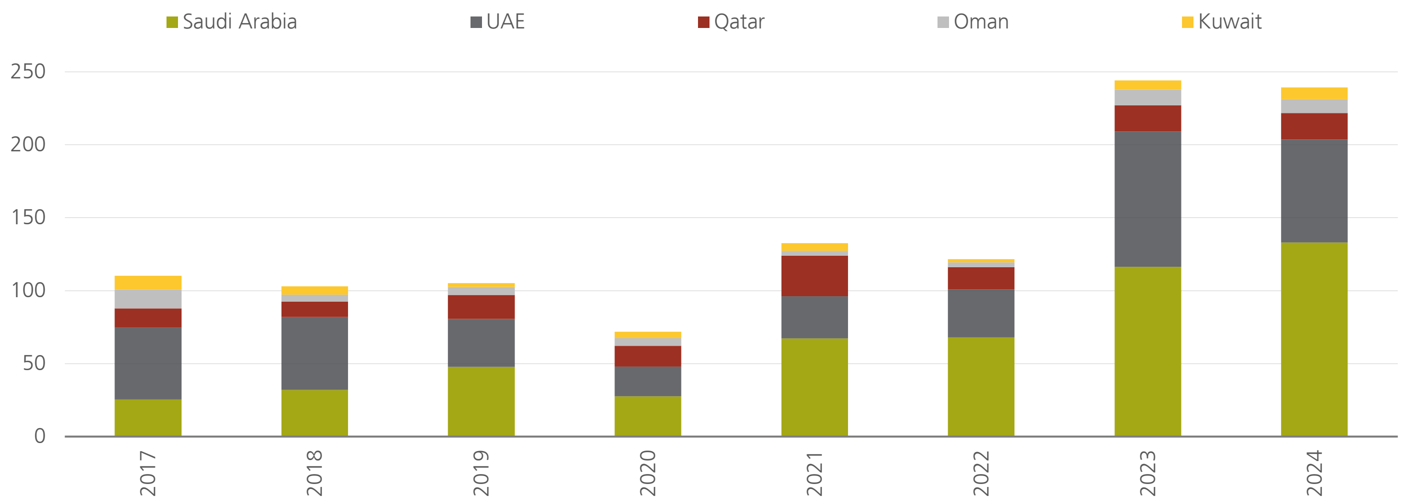
Saudi Arabia is leading the awards market, with the latter up 14% Y-o-Y, so far, in 2024, on the back of a staggering 71% Y-o-Y in 2023, yielding cumulative awards in these two years of cUSD250bn in projects. The UAE comes as a distant second, with cumulative awards of USD163bn in the past two years, with awards actually falling 24% Y-o-Y in 2024. Qatar and Oman are recording flattish awards, in line with their relatively downbeat growth backdrop (although Oman's awards are up significantly, compared to 2018-22 period).

Notwithstanding the massive size of the awards, the key question rests mostly on who is able to best execute, taking into account the financial, as well as the capacity constraints. Saudi Arabia, as the largest market by a good margin, is definitely offering the bigger opportunity. Event-driven spending – to meet the Asian Games and Expo – offers a floor to the level of expenditure in light of the hard deadlines associated with these projects, rendering them largely immune from fiscal vulnerabilities, as they will always take the priority.

As such, the Kingdom offers decent growth for the construction industry, where we also see the gov't investing directly through taking equity stakes in the Kingdom's largest contractors to boost their capacity to implement, lately even overtaking Bin Laden's debt on its own balance sheet to bail out the company. We expect growth opportunities will also invite large international contractors to boost their operations in KSA, also attracted by the market's highest margins in the region with an angle of boosting the population story. Financing these projects is also likely to drive a series of listings from the sector on the equity market, in our view.

Figure 18: GCC-5 seeing two record years of project awards, building a backlog of cUSD500bn of projects

In USDbn



Source: MEED Projects

The growth opportunity, though, comes with its own challenges, which are centred upon fiscal and capacity constraints. Rising fiscal challenges and the gov't's recent prioritisation exercise highlight some financial constraints that could weigh upon project execution in the coming years. We do not negate the positive aspect of this reprioritisation exercise, in terms of avoiding overheating and rising construction costs. Nevertheless, we cannot also ignore the vulnerability of the Kingdom's fiscal conditions, in light of the bearish outlook for oil prices.

Another challenge lies in the capacity of the Kingdom's construction sector to manage such a massive boom. Moreover, infrastructure projects – mostly related to utilities – would require leveraging balance sheets, but also raising equity. Coordination between these projects is, therefore, key, in our view. A further execution risk is related to the capacity of the construction sector, which needs new players and a better ability to execute. The concentration of construction in Riyadh, which is likely to take the lion's share of these investments, is another execution risk.

Finally, Egypt would still offer some growth opportunities in the projects' market, where the focus will be on the sizable Ras El-Hekma project. Modon Holding, the project's lead developer, has awarded an undisclosed amount of awards in Oct to key local contractors to develop the first phase of the project. We note that the company will also be responsible for building and managing the city's new airport. Activity in the project will slightly compensate for an otherwise contracting projects' market as the gov't tightens its belts, following years of expansion in infrastructure spending. In line with fiscal consolidation, as part of the ongoing IMF programme, the gov't is bound by a nominal ceiling to all public investments, with such a ceiling set at EGP1trn for the current FY24/25, representing a c30% drop Y-o-Y in real terms.

Geopolitics – De-escalation of conflicts can be positive

Trump's win of the US presidential elections has made room for some sort of settlement of the two key conflicts in the world, namely the Russia-Ukraine war and the conflict in the Middle East. Any de-escalation leading to a settlement would largely bring positive vibes to the region, in our view. On the other hand, Trump's presidency could also escalate trade wars and volatility in global markets.

We see Egypt as the largest beneficiary from the de-escalation of any of the two conflicts, or ideally both. An end to the regional conflict would potentially open the door for a restoration of normal maritime activity in the Red Sea; thereby, gradually recovering some USD6-7bn of lost revenues from tolls through the Suez Canal. In addition, a drop in oil price – as risk premiums are evaded by de-escalation – would be further good news to the somewhat stretched external balances (with a stretched current account deficit of +5% of GDP projected in FY25). Finally, an end to the Russia-Ukraine conflict would also potentially ease access to one of the world's key grain markets, providing yet another relative boost to external balances.

Gulf countries are also likely to benefit from de-escalation in the region, with some tailwind risks on tourism and trade. On the other hand, rising global market volatility, in case President Trump enacts his threats of tariffs on key emerging market countries like China and Mexico, is likely to favour Gulf markets considering their currency pegs, which can withstand a strong dollar, as well as their intrinsic growth capacity.

Kuwait – A dark horse in the making?

While the UAE and KSA remain our key growth markets in 2025, we flag Kuwait as a potential dark horse for next year as the gov't delivers on economic reforms gradually, following major political changes earlier in 2024.

Kuwait is coming from a low base of economic growth with a strong balance sheet and the GCC's lowest public debt level. The country has notably underperformed its regional peers over the past decade(s), as well as in the most recent episode of transformational change in the region; however, such a trend started to take a somewhat different turn in 2024, post key political decisions by the new Emir and the appointment of a new cabinet.

The new gov't has been embarking on plans and actions to boost growth, where our observations show it has been focusing its efforts on accelerating project execution and tightening fiscal belts. We think both points are critical for building credibility with the public, ahead of the much-needed fiscal reforms, which will be critical for the sustainability of a potential investment cycle. Elevated current spending and lack of fiscal reforms in the past years, amidst restricted ability to issue debt, have depleted the sovereign pocket to finance the budget.

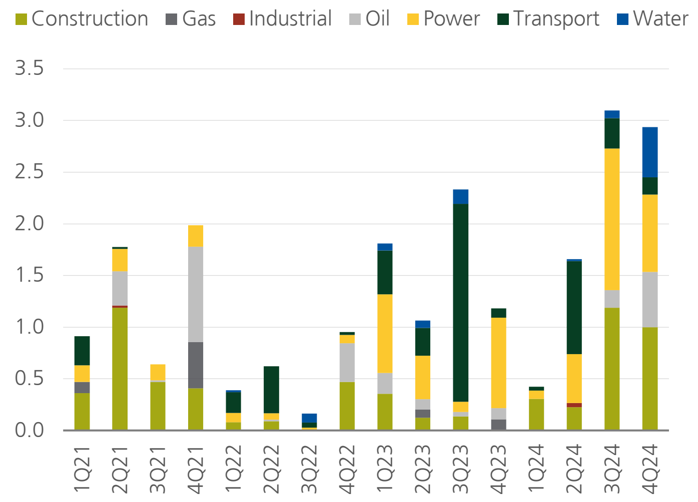
The gov't, though, is yet to issue its economic programme to outline its key areas of focus and policies. We would be more encouraged by signals that economic reforms are owned by the country's leadership other than representing efforts by the technocrats in the gov't. In this context, we are mostly looking forward to a more moderate and gradual pace of reforms and execution rather than a fundamental/structural economic reform path.

A moderate/gradual reform path would still deliver positive vibes in the equity market, in our view, with investors already celebrating the change by pushing Kuwait to be the second-best performing market in the region YTD, following a few years of underperformance.

In this context, we are mostly looking for acceleration of project awards/implementation to boost credit growth activity, which has been lacklustre in the past couple of years after a very strong post pandemic recovery. We already see a pipeline of cKWD8bn (USD26bn) of projects in their final phase(s) of being awarded – mostly in the water and power sectors – as the gov't moves to tackle power shortages experienced this summer.

Figure 19: Project awards picking up post appointment of new gov't

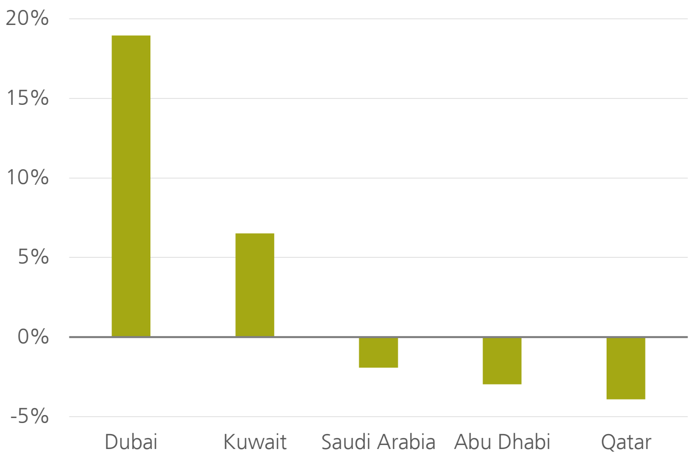
In USDbn



Source: MEED Projects

Figure 20: Kuwait is second best-performing market in GCC YTD

YTD in %



Source: Bloomberg

The announcement of the upcoming FY25/26 budget, likely in 2Q25, will be an important milestone to watch. We would be looking for signs of fiscal tightening, whether the soft route of expenditure rationalisation and/or a more aggressive route of fiscal reforms, especially on the revenue side. The latter are important to create the fiscal space to boost capital expenditure.

We are also eyeing the approval of the housing law, which provides a reasonable opportunity for the gov't to boost economic activity without much strain on fiscal balances. The much-awaited legislation would engage the private sector in financing homebuyers at a time when the public sector is overwhelmed, with outstanding applications that it is not able to fulfill.

Regulatory changes – The positives and negatives

The upcoming year is likely to carry some important regulatory changes in MENA, which will likely represent some important tailwinds, as well as headwinds for the equity market.

Easing of foreign ownership regulations for real estate in Saudi Arabia

The most important regulatory change, in our view, is likely to be the easing of foreign ownership regulation for the property sector in Saudi Arabia. This can take the shape of a comprehensive law that would open the sector for ownership by both expats, as well as non-residents. Alternatively, the easing of restrictions can take the shape of reducing the bar for premium residency through property ownership (currently at SAR4mn). In both cases, changes will be an important factor in building the maturity of the property sector in the Kingdom, streamlining property purchases by foreigners and opening up a whole new pocket of demand.

Reducing the bar on premium residency will be particularly important to boost demand by expats, whose purchasing power clearly cannot offer much demand at the currently required SAR4mn-ticket. We expect demand for residential property to be predominantly led by expats, with non-residents likely to be focused on religious tourism, i.e., demand to be focused on Mecca and Medina.

Improving the affordability of property for expats is all the more necessary, amidst the absence of developed, streamlined mortgage products for foreigners, while the core mortgage market remains dominated by the subsidised offering by the gov't. Moreover, the mortgage market is yet to gear up to the newly-introduced off-plan sale model for property.

Medical insurance enforcement in Saudi Arabia

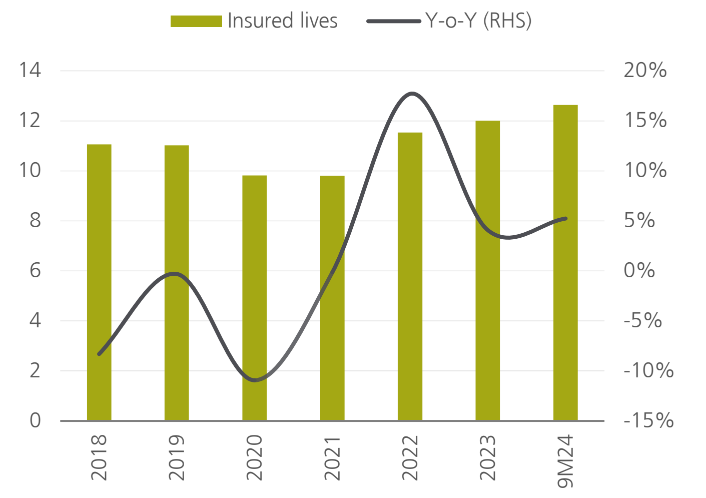
Another important regulatory change is related to the insurance sector in Saudi Arabia, one that could potentially utilise a rather dormant driver of growth for the sector. Despite the strong rise in population and private sector employment in the past couple of years, this has not really been translated into a strong rise in the number of insured lives. The key reason is the lack of proper enforcement in the private sector. Statistics indicate that one out of four expats working in the private sector is medically uninsured, while the gap is even larger when it comes to Saudis, standing at one for every three.

The new sector's regulator, appointed more than a year ago, is aware of this matter; however, the seeming delay in tackling this issue is said to originate from the fact that the regulator is embarking on a complete overhaul of the insurance sector, including key KPIs to align the sector with key targets of Vision 2030 rather than take the piecemeal approach to dealing with the sector's challenges. The latest talks within the insurance industry is that this new plan will be presented sometime in mid-2025. Any serious tackling of medical enforcement in the private sector would be a decent booster to growth in the sector, amidst currently relatively uninspiring growth dynamics.

We are slightly more downbeat on this one vs the real estate ownership law, considering the uncertainty on any regulatory action.

Figure 21: Growth of insured lives in single-digit growth, despite strong employment growth

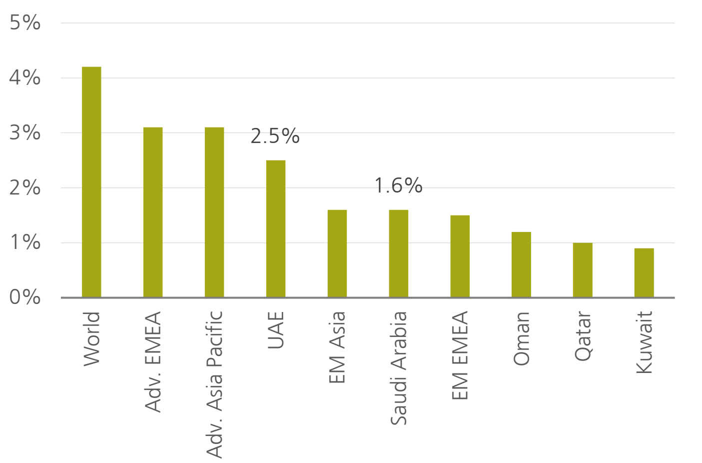
In mn of people (LHS), in Y-o-Y % change (RHS)



Source: Company data, EFG Hermes estimates

Figure 22: Saudi Arabia lagging behind EM and the UAE in non-life insurance, opening significant room for growth

Non-life premiums as % of GDP



Source: Sigma Swiss

The Global Minimum Tax

Contrary to the above potentially positive regulatory changes, one key legal change that might cause some headwinds to corporate earnings is related to taxes. In line with the OECD's Global Minimum Tax (GMT), multinational companies (MNCs) with revenues above EUR750mn will be subject to a 15% minimum tax rate wherever they operate. As such, MNCs that operate in jurisdictions that do not impose income taxes or charge less than 15% would still have to pay the tax in other jurisdictions. And this is exactly what makes Gulf countries more likely to impose the tax, in our view. Simply, if the GCC gov'ts do not impose the tax, they will be forgoing tax revenues that their own companies pay to another country.

Indeed, GCC countries are starting to announce their plans for the tax. The UAE was the first to officially announce it will be imposing a 15% corporate income tax on large MNCs effective Jan 2025, i.e., those with revenues above EUR750mn. Meanwhile, in Kuwait, news reports suggest the gov't is considering: i) also imposing the tax on MNCs effective Jan; and ii) extending the tax to all companies with revenues +KWD1.5mn by 2027. We expect more countries to follow with announcements on the tax.

Figure 23: GCC-5 current position on corporate income taxes

Country	Current tax treatment
Qatar	Local corporates are exempt from income tax and pay no other taxes/fees related to their incomes
Saudi Arabia	Local companies pay 2.5% zakat
Kuwait	Companies are exempt from income tax, but they pay the equivalent of c4.5% of their income through various other taxes/fees
UAE	Companies already pay 9% income tax starting 2023
Oman	Companies already pay 15% income tax

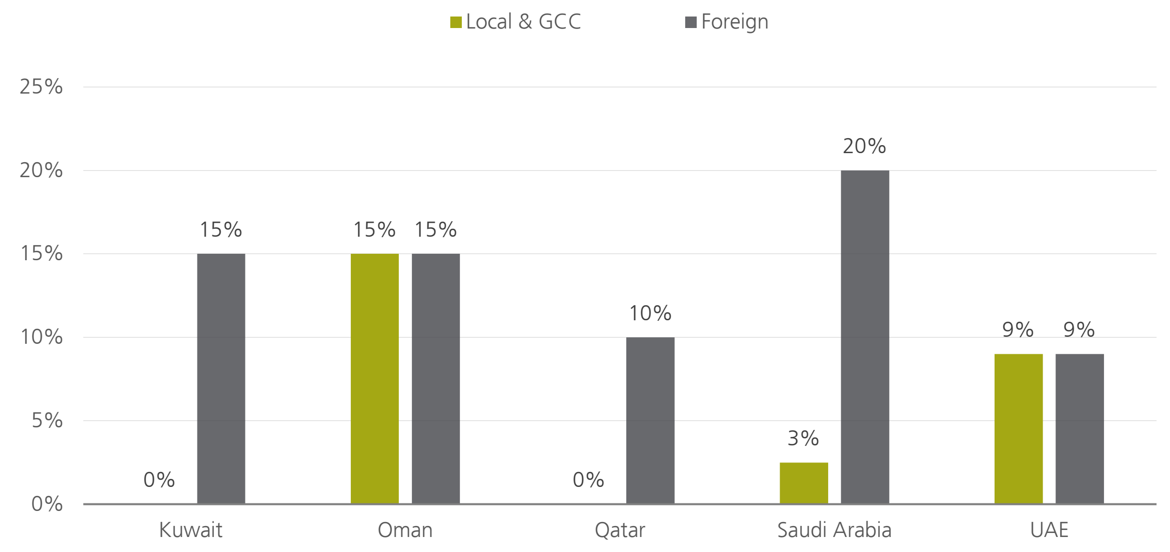
Source: Deloitte

Rating countries by the most to be affected, it would be Qatar, followed by KSA, then Kuwait and then the UAE. As demonstrated in Fig. 23, Qatar will be the most implicated by the tax as corporates pay almost no taxes whatsoever on their incomes. This makes us think that the tax might well indeed be only imposed on the larger corporates rather than a blanket on all sectors.

Saudi companies would also be negatively impacted, paying only 2.5% zakat on their incomes. Kuwaiti corporates pay 4.5% through various taxes/fees on their incomes; hence, would still be hit by a c10pp increase in taxes. In case of the UAE, corporates would be relatively less implicated, as they already started paying a 9% income tax since 2023. Finally, Oman would see no impact, as companies already pay a 15% income tax.

Figure 24: Global Minimum Tax to weigh on profitability of Saudi, Kuwaiti and Qatari companies and, to a lesser degree, UAE ones

Current corporate income tax rates in %



Source: PWC

2025's action plan

With all key assumptions and themes for 2025 laid-out in the previous section, we move towards thinking about ways to play these themes in the region's equity markets. We provide country weights, general themes to play, as well as our sectoral preference amidst likely more volatile market conditions.

The case for MENA in a volatile world

Rising risks for tariffs, stronger dollar and broader market volatility make a good case for MENA equity markets, in our view, primarily GCC countries. The latter offer a safe haven for investors for a number of reasons. First, the region neutralises FX risks faced by other emerging market currencies that will face a stronger dollar, due to existing currency pegs that are supported by sizable external foreign base.

Second, and as outlined above, the region has very solid, intrinsic economic growth drivers that will continue to support corporate earnings and insulate many businesses from global market volatility, including tariffs. The region is also in a position to withstand lower commodity prices, with varying degrees, as highlighted above, thanks to existing buffers; thereby, reducing the risk against any short-term shocks to the global economy. The expansionary fiscal stance is complemented with structural reforms that underpin a favourable growth outlook.

Pressure emanating from FX risks, and potential tariffs by the US, on key emerging markets, like Mexico and the US, make GCC markets a safe haven amidst such volatility. Indeed, the data show record foreign outflows from China's equity markets, in a preemption of the expected tariff imposition by the Trump administration, as well as lack of credible stimulus. We, therefore, expect some re-positioning from investors into GCC markets as a result.

Overweight UAE, Saudi Arabia and Kuwait…

The UAE is our most favourite market going into 2025, as it simply offers investors decent levels of growth (non-oil GDP growth still projected above 5%), which is underpinned by continued structural reforms, ample fiscal space and a strong record to deliver. Moreover, the equity markets still yield reasonable valuations, which - while slightly more expensive than other regional markets - they are not that expensive in absolute terms. Moreover, any relative premium is well-deserved, in our view, considering the unmatched growth path the market offers.

Figure 25: KSA's valuation adjusted downwards in 2H24, offering a cushion against current risks

12-month forward P/E

Source: Bloomberg

The population growth theme remains the key story in the UAE. We are positive on the property sector, which is buoyed by Emaar Development's impressive contracted sales and backlog built over the past few years, boosting the company's future dividends. We also expect the property sector to benefit from lower rates, whether at the level of improved mortgage affordability and/or improved sentiment. Utilities also offer good exposure to the population theme, including DEWA, which has lagged behind the recent rally in names like Salik and Parkin.

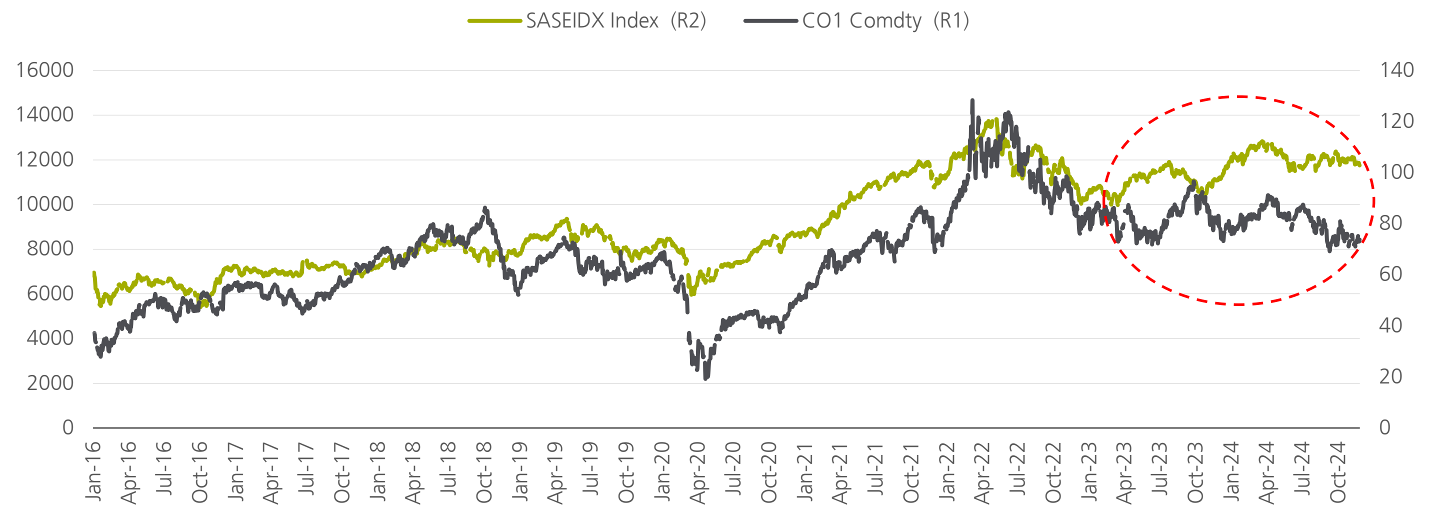
We are also overweight **Saudi Arabia**, building the call on two main arguments, one macro and another micro. On the macro front, as highlighted in the previous section, we see the growing risks around oil prices – especially in a Trump presidency – are balanced with OPEC+ production cuts; thereby, likely keeping prices around the USD70/b, a level that will not cause much trouble to gov't finances. The sovereign has various borrowing opportunities and can tap international markets at a reasonable cost. Meanwhile, on the micro front, we are comforted by the market's recent correction, which also meant the market is now trading at lower, more reasonable multiples.

Our overweight call is underpinned by our positive outlook on the banking sector. The latter has underperformed in 2024 and is heading into 2025 with a positive outlook for profitability and relative attractiveness to the rest of the region. The sector is the most to benefit from lower rates, thanks to a decent share of its book being locked at elevated fixed rates. The sector also trades at undemanding valuations: 11.3x 12-month forward P/E and 1.7x P/B.

While we are not excited about the chemicals sector, given limited downside risks from current levels as stocks have already taken a beat this year (were the main drag on the market), downside risks from the current oil price environment is limited. Finally, while the overall consumer sector has been one of the main drags on the market this year, the sector still offers interesting, domestic plays at reasonable multiples.

Figure 26: Saudi market de-linked from oil in the past couple of years; we think it could gradually re-couple as oil prices dip from here

TASI index (LHS), In USD/b (RHS



Source: Bloomberg

We remain positive on the real estate and hospitality sectors, which offer ample room for growth, underpinned by a more captive market (growing population and religious tourism) and are set to also be supported by lower interest rates. We also like some other plays that offer unique exposure to the transformation plan, including: i) **SNB** and **Rajhi** in the banking sector; ii) car rentals (**Theeb** and **Budget**), as well as **Almarai** (which we think offers a good investment opportunity, especially post overhang from the Savola capital increase) within the consumer space; iii) **STC** and **Mobily** in telecommunications; and iv) **Aldawaa** and **CARE** within the healthcare sector.

One final point on KSA: we see the market continuing to be de-coupled from oil, as long as oil prices are around the USD70/b. Transformational plans to diversify the economy, expansionary fiscal policies and active capital market transactions have all insulated markets from oil price volatility, at least in the past couple of years (see Fig. 25). Meanwhile, oil prices have generally been on a positive trajectory in the past few years, averaging USD83/b 2021-24, a level high enough to provide a comfortable backdrop to the investment cycle.

We note, though, that an oil price drop towards the USD60/b-mark or below would, however, make the market way more vulnerable, given the associated fiscal risks and could, therefore, bring the market back to its historical high correlation with oil prices. An oil price at such a level would require some fiscal adjustments and would also increase the country's leverage – which still remains fairly low – at a more accelerated pace.

We are also overweight **Kuwait**, considering the potential tailwind risks associated with the recent political changes. Key amongst these are the potential of a pick-up in gov't expenditure, fiscal reforms and favourable gov't legislations. We think there are good prospects for the housing law to be issued next year, with currently ongoing discussions between the banks and the gov't on the law, which would create decent credit growth opportunities for the banks and boost the construction/property sector in Kuwait.

Banks are our main play in Kuwait. While they face the headwind of the Global Minimum Tax, we think this potential one-off hit would be outweighed by positive catalysts from potential fiscal reforms. Moreover, the tax issue has been communicated to the market since late 2023; hence, should not be that much of a headwind to the market. Finally, we expect banks to be in a position to maintain their dividends - a key consideration for the large domestic investors base in Kuwait - despite the tax, by increasing their pay-out ratios marginally.

…Neutral Egypt…

Egypt is our only neutral in the region despite its notably depressed valuations – whether in absolute or relative terms – as it remains hard to find a sustained/structural catalyst(s) for the market. Liquidity conditions continue to challenge foreign investors, amidst the lack of more meaningful new listings. In absence of the foreign bid, it is hard to envisage fuel for the market to rally. We do, indeed, expect a monetary easing cycle to commence next year, driving nominal rates lower from a current historic peak. Nevertheless, our projections also hint towards a limited cut in nominal rates that will still result in an exceptional margin of real rates – to normalise over two rather than one year – thereby likely weighing upon sentiment.

We are, nevertheless, positive on key sectors in the market. Banks are set for a Y-o-Y normalisation of earnings from this year's exceptional base, but profitability will remain much higher than pre-2024 levels. Moreover, banks still trade at attractive multiples, as stocks lagged the market rally this year.

Our view is also positive on consumer stocks, in general, particularly Juhayna, with companies having been able to pass on rise in input costs, whilst largely maintaining fairly healthy margin growth. The healthcare sector still has further strides to go, thanks to the remaining adjustments to administrative prices, which will boost their top-lines.

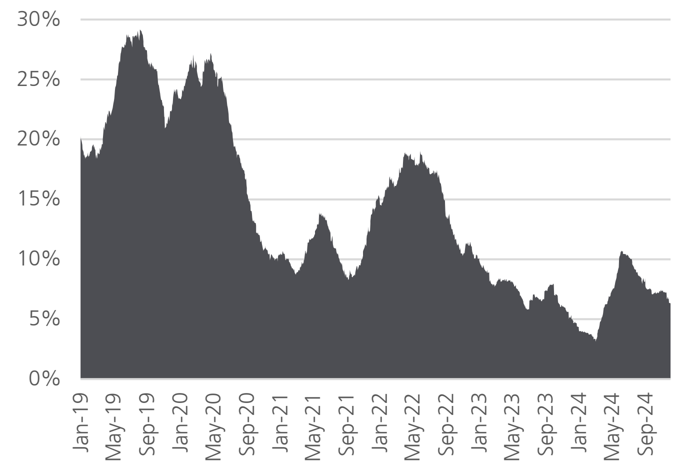
Figure 27: Egypt market trading at relatively undemanding valuations…

12-month forward P/E ratio

Source: Bloomberg

Figure 28: …amidst a clear absence of the foreign bid which omits an important catalyst for the market

30-day moving average of share of foreigners' volumes



Source: Egyptian Stock Exchange

…maintain Oman and Qatar as Underweight

Despite ranking as being of the more resilient countries to lower oil prices, we would still be underweight the two markets largely, in light of the lack of catalysts. Both markets have generally underperformed the region in the past year, and we do not see much change going into 2025.

Qatar's story remains one that is focused on the sizable natural gas expansion, which is still not filtering much into its broader non-oil GDP economy, making it really hard to find many equity plays to benefit from such expansion. The other side of the story is one of sizable fiscal surpluses that the gov't is mostly using to deleverage, amidst lack of strong ideas for growth. Overall public expenditure has been muted in the past few years, with capex on nearly a sustained decline as the gov't's investment plan has well matured a few years ago.

Oman's story, while slightly different, still leads to uninspiring growth trends. The Sultanate has taken impressive strides over the past few years to resolve its structural fiscal problems, delivering a remarkable fiscal turnaround. The gov't is yet to turn its full attention to support GDP growth, especially with the need for further fiscal reforms (albeit at a slower pace) to ensure fiscal sustainability.

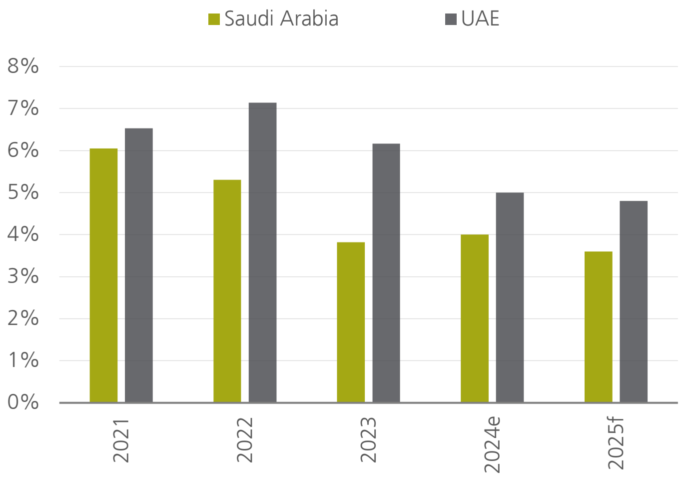
UAE vs KSA

Picking the right positioning amongst the region's largest two equity markets will still be an important focus next year, in our view. KSA still offers the larger growth potential, considering the scale of business opportunities, as well as coming from a much lower development base; however, the bigger growth opportunity comes with a more elevated risk profile, particularly given the high vulnerability to oil prices, as well as execution risks.

On the other hand, the UAE offers a fairly solid path of growth, which actually outpaced that of Saudi Arabia in the past few years, when measured by non-oil GDP growth. The relatively more mature UAE market offers investors a more reassured earnings path, despite the story coming from an elevated base, with non-oil real GDP growth having averaged 6.2% between 2021-24 and equity markets rallying during the same period (DFM +93% and Abu Dhabi 84%).

Figure 29: UAE outpacing KSA's real non-oil GDP growth in past few years…

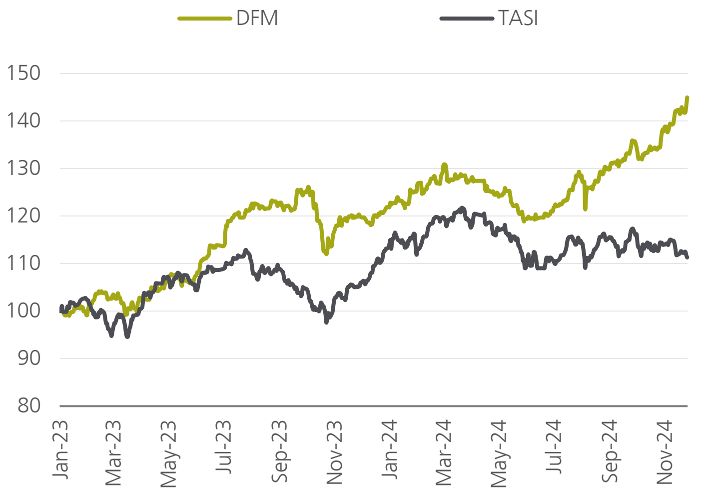
In Y-o-Y % real change



Source: GAS, FCSC and EFG Hermes estimates

Figure 30: …which is also mirrored by Dubai's equity market outperforming that of Saudi Arabia

Index (rebased)



Source: Bloomberg

Property

We favour the UAE over KSA when it comes to the property sector, with our argument resting upon the valuation angle. Saudi property stocks had a good run this year (Retal +104% and Al Akaria +57%), rendering the stocks pricey at their current levels. We, therefore, turn more positive towards the UAE names where valuations are less demanding and companies are maintaining a strong growth profile.

Emaar Development is our top pick in this context, offering investors much clearer visibility on earnings and cash flows, considering the company's sizable sales backlog. The company recorded contracted sales of AED48bn in 9M24 and holds a sizable AED84bn backlog that it will record over the coming few years. It is starting to realise cash flows from its post-pandemic sales boom; thereby, boosting its position to potentially increase dividends in the years to come. The stock had, indeed, a good run this year, up 59% and beating the DFM index, but we still see value, given the above-mentioned reasons.

Another interesting name in the UAE's property sector for 2025 is Abu Dhabi-based Modon Holding. The company is set to plan major developments within Abu Dhabi and has also been appointed by ADQ as the master-developer of the entire 170mn-square-metre Ras El Hekma mega project in Egypt, as well as the developer for the first phase of the project (spanning over 50mn square metres).

Approval of the foreign ownership law in Saudi Arabia would hold very positive prospects for the sector; hence, an important upside for real estate stocks. Retal would particularly benefit from the new ownership law, while Al Akaria will benefit more from further land clearances that would enhance the company's land bank. We would, nevertheless, continue to favour Emaar Development over Al Akaria in 2025, given the latter's accelerated pace of land monetisation and leadership position in the sector. Al Akaria is relatively new in adapting the off-plan sale model, so will take time to capitalise on the new opportunity, relative to the more established Emaar.

Banks

The banking sector is the one exception where we would have outright preference for Saudi stocks over the UAE. Such a view is underpinned predominantly by a clear advantage in the earnings outlook of the stocks, in favour of Saudi names, considering three key factors.

First, UAE stocks are likely to see margin compression as rates, in line with the upcoming rate cuts in 2025, compared to the largely balanced impact on Saudi banks, which enjoy a larger exposure to the retail than corporate sector, with the former being disbursed on fixed rates. Moreover, mortgages in KSA are based on fixed rates against floating ones in the UAE.

Second, we also expect UAE banks to have higher provisions than their Saudi counterparts. UAE banks booked exceptionally low provisions in 2024; hence, we expect these to normalise to a relatively elevated base in 2025, leaving Saudi banks in a comparative advantage. Finally, UAE banks face downside risk of a higher income tax, as we flagged in the previous section. Basically, UAE banks currently pay a 9% income tax, and this would rise to a minimum of 15% as the UAE complies with the Global Minimum Tax for large multinational companies.

The valuation angle is largely a neutral one, in our view. UAE banks continue to trade at lower earnings' multiples than Saudi banks, in line with historical trends; hence, UAE banks offer a limited downside risk, but the earnings growth outlook for the Saudi banks trumps this relative advantage, in our view.

Infrastructure/logistics

Another sector where we favour the UAE over KSA, primarily from a valuation, as well as an execution risk perspective. Saudi utilities sector – led by Acwa Power and Miahona – trade at very expensive valuations, which we think are bound to de-rate from current levels. Moreover, execution is seeing a slower pace than what the valuations promise at their current levels, especially in the water sector.

On the other hand, the DFM is ripe with companies, which continue to offer good earnings growth trajectory, while trading at reasonable multiples. DEWA leads the group with undemanding valuations and especially with the stock lagging its peers (Salik and Parkin). Tariff adjustment is an upside risk, which is not captured in our numbers, considering that the gov't seems more lenient to adjust the prices of its services and considering that the last adjustment to utility prices was 12 years ago.

Broadening the spectrum to include Abu Dhabi's market, we also like ADNOC L&S and AD Ports. The former offers investors a stable earnings outlook, thanks to the exposure to ADNOC's logistics business (whether for warehousing and/or labour transportation), as well as LNG shipments – with more potential to grow for the LNG business as Abu Dhabi expands in the sector. In parallel, AD Ports offer an idiosyncratic play on Abu Dhabi's industrialisation and will also benefit from lower rates, given its elevated leverage levels.

Telecommunications

This is probably the hardest call to choose one market over the other; hence, we find ourselves on the fence when it comes to the telecommunications sector. On the one hand, du, as the only pure play on Dubai, trades at relatively cheap multiples of 14x P/E, despite rallying c46% YTD. The stock also offers a decent dividend yield of c7%, boosting the stock's future return profile further.

On their part, Saudi stocks also offer decent growth, though one that is heavily skewed towards gov't spending, amidst underwhelming growth in the retail side; however, the two stocks we like (both STC and Mobily) have had modest performances this year; thereby, possessing a good chance to rally from current levels. Both stocks also offer good dividend yields of 5.4% and 4.0%, respectively.

Index matters (MSCI – FTSE): 2025 watch list

Following the implementation of MSCI and FTSE 2024 reviews, we take a look ahead of the upcoming reviews and cut-off dates, and we list some calls of our 2025 watch list for MSCI and FTSE for our EM coverage.

Share price performance-dependent calls

Within the **UAE universe**, we flagged by end-4Q24 three names – **Emaar Development (EMAARDEV UH), Salik (SALIK UH)** and **Dubai Electricity & Water Authority (DEWA UH)** – following a rally of less than 20% would become eligible to be added to the MSCI standard index by the Feb review. At the time of writing, EMAARDEV UH has successfully closed this gap, with an extra buffer exceeding 10%. If it manages to maintain these gains until end-Jan (MSCI price cut-off period for the Feb review), it will be a high-conviction addition and will realise estimated inflows of USD260mn (38x ADVT).

On the other hand, SALIK's share price still needs to gain another 5% and hold on to these levels. If the name succeeds in doing so, it will realise USD225mn (25x ADVT) inflows. Similarly, DEWA is still far from meeting the minimum inclusion criteria by roughly 10%, but if it manages to close the gap, it will unlock large passive inflows valued at USD400mn (60x ADVT). It is worth noting that, if these two names could not close the gap on time before the Feb review cut-off, they will still have a good chance for the following rebalancing later in 2025. On a smaller scale, we expect **Gulf Navigation Holding (GULFNAV UH)** to join FTSE EM in Mar, if it manages to maintain or improve its current price until end-Dec. Two other names that could be included in the FTSE EM Mar review, if they manage to rally before end of Dec are **Dubai Taxi Co (DTC UH)** by 20% and **Alef Education Holding Plc (ALEFEDT UH)** by 25%; otherwise, the two would remain on the watch list for Sep inclusion.

In the Saudi universe, all eyes are on **Riyadh Cables Group Co (RIYADHCA AB)**, currently a non-MSCI index member and **Astra Industrial Group (ASTRA AB),** an existing MSCI small cap index member. Neither of them has closed the gap yet to make it into the MSCI standard index, but their recent performance implies they are on track. If in 2025 either of **RIYADHCA** saw its price rally by more than c12% or **ASTRA** saw a price rally of more than c18%, they both will have a good chance to be added/upgraded to the standard index on the next rebalance, with their first test in end-Jan during the price cut-off period for the Feb review.

On the other hand, we think most probably **Alimtiaz Investment Group (ALIMTIAZ KK)** and **Herfy Food Services Co (HERFY AB)** will be deleted from FTSE in Mar, but subject to final closing prices in end-Dec. Four other names are also at risk: **Najran Cement Co (NAJRAN AB), Northern Region Cement Co (NORTHCEM AB)** and **Sinad Holding Co (ATTMCO AB)**. If none of these names bounce from their respective current prices before end-Dec, or if FTSE uses lower cut-off numbers in its Mar review, these names will be at a risk of deletion. **Advanced Petrochemical Co (APPC AB)** could be at a risk of being downgraded from MSCI standard index to MSCI small cap index in 2025, if the stock sees any sharp price declines exceeding 10%, estimated outflows of USD75mn (18x ADVT).

Liquidity-dependent calls

Emirates Integrated Telecommunication's (DU UH) liquidity in the past six months has improved significantly, a criterion that it has failed to join any of the MSCI and FTSE indexes. Following this improvement, and the fact that FTSE liquidity screening depends on volumes relative to free-floated shares, if DU maintains its current liquidity levels until end-Jun, it will be an addition in the Sep review. The name would realise estimated inflows of USD57mn (36x ADVT). It is worth flagging that the MSCI liquidity screening depends on traded value relative to FFMC, so the price performance has a significant effect on the turnover ratio, and DU has shown a remarkable performance rising more than 30% since end-Jun. This has led to a less appealing turnover ratio when screening liquidity for MSCI.

Abu Dhabi National Hotels' (ADNH UH) liquidity has recently improved significantly, enough for the stock to become a high-conviction addition to MSCI EM small cap in Feb, followed by the addition to the FTSE EM index by Mar. The name would expect total passive inflows of USD64mn (37x ADVT) in less than a month duration

Recently listed stocks that would become eligible to be added after completing three months of trade: **NMDC Energy (NMDCENR UH)** is expected to join MSCI SC in Feb, followed by FTSE EM in Mar. **Lulu Retail Holdings (LULU UH)** is expected to join FTSE EM by Jun. **Talabat Holding (TALABAT UH)** has recently started to trade in the stock exchange and was also added to the FTSE EM index through fast entry. After the name trades for three months, it will become eligible for testing to join the MSCI standard index in the May review. Talabat Holding is currently far from meeting the expected minimum FFMC requirement to join the MSCI EM standard index; however, if it manages to rally by c38% and close the gap before the end of the last 10 business days of Apr, it will unlock a potential of USD220mn passive inflows from its inclusion in end-May.

Figure 31: 2025 watch list expectations

Ticker	Name	Country	Index	Action	Exp. time	Est flows (USDmn)	Flows / ADVT
EMAARDEV UH	Emaar Development	UAE	MSCI	Stand. addition	25-Feb	260	38
SALIK UH	Salik	UAE	MSCI	Stand. addition	25-Feb	225	25
DEWA UH	Dubai Electricity & Water	UAE	MSCI	Stand. addition - price dep.	25-Feb	400	60
NMDCENR UH	NMDC Energy	UAE	MSCI	SC addition	25-Feb	12	2
ADNH UH	Abu Dhabi National Hotels	UAE	MSCI	SC addition	25-Feb	15	9
ALIMTIAZ KK	Alimtiaz Investment Group	Kuwait	FTSE	Deletion	25-Mar	-7	7
HERFY AB	Herfy Food Services	KSA	FTSE	Deletion	25-Mar	-5	2
NAJRAN AB	Najran Cement	KSA	FTSE	Deletion - price dep.	25-Mar	-6	6
NORTHCEM AB	Northern Region Cement	KSA	FTSE	Deletion - price dep.	25-Mar	-7	11
ATTMCO AB	Sinad Holding	KSA	FTSE	Deletion - price dep.	25-Mar	-7	5
ADNH UH	Abu Dhabi National Hotels	UAE	FTSE	addition	25-Mar	49	28
ALEFEDT UH	Alef Education Holding	UAE	FTSE	Addition - price dep.	25-Mar	14	7
DTC UH	Dubai Taxi	UAE	FTSE	Addition - price dep.	25-Mar	15	5
GULFNAV UH	Gulf Navigation Holding	UAE	FTSE	Addition - price dep.	25-Mar	20	6
NMDCENR UH	NMDC Energy	UAE	FTSE	Addition	25-Mar	29	5
TALABAT UH	Talabat Holding Plc	UAE	MSCI	Standard addition - price dep.	25-May	222	N/A
MERS QD	Al Meera Consumer Goods	Qatar	FTSE	IWF change - pending FOL removal	WL	5	11
MERS QD	Al Meera Consumer Goods	Qatar	MSCI	SC FIF chg. - pending FOL removal	WL	2	4
RIYADHCA AB	Riyadh Cables Group	KSA	MSCI	Stand. addition - price dep.	WL	133	12
ASTRA AB	Astra Industrial Group	KSA	MSCI	Upgrade - price dep.	WL	167	28
APPC AB	Advanced Petrochemical	KSA	MSCI	Downgrade - price dep.	WL	-75	18
JAHEZ AB	Jahez International	KSA	FTSE	Addition - pending migration	WL	31	6
LULU UH	Lulu Retail Holdings	UAE	FTSE	Addition	25-Jun	50	3
DU UH	Emirates Integrated Telecoms	UAE	FTSE	Addition - liq. dep.	25-Sep	57	36

Source: MSCI, FTSE and EFG Hermes estimates

Special events and scenarios:

Jahez International Co (JAHEZ AB): Currently a member of MSCI's Small Cap Index, but it is excluded from FTSE EM due to its listing on the Nomu Parallel Market. Jahez successfully transferred to the main market in Dec. Therefore, the name will be eligible for FTSE EM testing for inclusion, which could bring in passive inflows of around USD30mn (8x ADVT). The stock will complete three months of trading after the Mar review cut-off and Jun is a quarter review through which usually only recent listed IPOs can join the index. Therefore, we think Jahez will be added in Sep review and realise those inflows, unless FTSE made an exception for it and included it earlier.

Boubyan Bank (BOUBYAN KK) and Gulf Bank possible merger could result in a potential free float increase, due to the expectation that the shares held by Kuwait's Public Institution for Social Security and Behbehani Investment Company would fall below 5% because of larger size of the new entity. As a result, these shares could be considered part of free float. Commercial Bank of Kuwait's (CBK) stake is already below 5% following share sales ordered by the Ministry of Justice as part of the settlement of debt by Investment Dar to CBK. If index providers update their FIF/IWF accordingly, the merger could generate estimated USD140mn in passive inflows from MSCI and FTSE trackers, due to the increased free float and market capitalisation.

Potential for float and FOL changes

Al Meera Consumer Goods (MERS QD) is expected to unlock estimated inflows of USD7mn (16x ADVT): FTSE USD5mn and MSCI USD2mn on the next rebalance, once all approvals are granted and the removal of the FOL gets implemented.

Five stocks in Saudi Arabia – National Shipping Co. of Saudi Arabia (**NSCSA AB**), Jabal Omar Development (**JOMAR AB**), Makkah Construction & Development (**MCDCO AB**), Knowledge Economic City (**KEC AB**) and Taiba Investments (**TAIBA AB**) – are currently closed to foreign ownership, but if the FOL is raised to 49%, they could become eligible for MSCI and FTSE inclusion. These five names would likely see substantial passive inflows of approximately USD1.1bn, if these changes get approved and implemented.

Figure 32: If current stocks with zero FOL to become open for foreign

Ticker	Country	Index	Action	MSCI flows (USDmn)	FTSE flows (USDmn)	Total flows (USDmn)	Flows / ADVT
NSCSA AB	KSA	MSCI Stand. & FTSE	Inclusion pending FOL	227.1	83	310.1	115.6
JOMAR AB	KSA	MSCI Stand. & FTSE	Inclusion pending FOL	279.4	102.1	381.5	39.2
MCDCO AB	KSA	MSCI Stand. & FTSE	Inclusion pending FOL	217.4	79.5	296.9	135.1
TAIBA AB	KSA	MSCI SC & FTSE	Inclusion pending FOL	110.1	40.3	150.4	96.8
KEC AB	KSA	MSCI SC	Inclusion pending FOL	4.6	-	4.6	2.6
				839	305	1,144	

Source: MSCI, FTSE and EFG Hermes estimates

Moreover, of course, there is always the potential for Saudi Arabia to increase its FOL to 100% across the board to attract more inflows, which would catalyse many billions of USD in passive inflows exceeding the USD10bn. The list below shows the top 20 names that would benefit the most, with Al Rajhi Bank (RJHI AB) to account for half of these inflows.

Figure 33: Top 20 names that would benefit from 100% FOL scenario

Ticker	MSCI flows (USDmn)	FTSE flows (USDmn)	Total flows (USDmn)	Flows / ADVT
RJHI AB	4,366	1,541	5,907	54
SNB AB	748	221	970	21
ALINMA AB	677	239	916	17
BSF AB	236	80	316	36
SIPCHEM AB	172	59	232	25
EEC AB	250	78	329	23
ALARKAN AB	188	66	254	23
SIIG AB	106	34	140	31
BJAZ AB	147	57	204	25
TAWUNIYA AB	128	44	172	13
RIBL AB	20	14	33	2
SAVOLA AB	139	40	179	18
APPC AB	81	27	108	26
JARIR AB	74	25	99	14
SIBC AB	46	31	77	22
KAYAN AB	38	13	51	7
ALBI AB	62	34	97	9
ZAINKSA AB	13	10	23	4
ALDREES AB	20	51	71	6
SABB AB	15	0	15	1

Source: MSCI, FTSE, Bloomberg, Reuters, Exchange and EFG Hermes estimates

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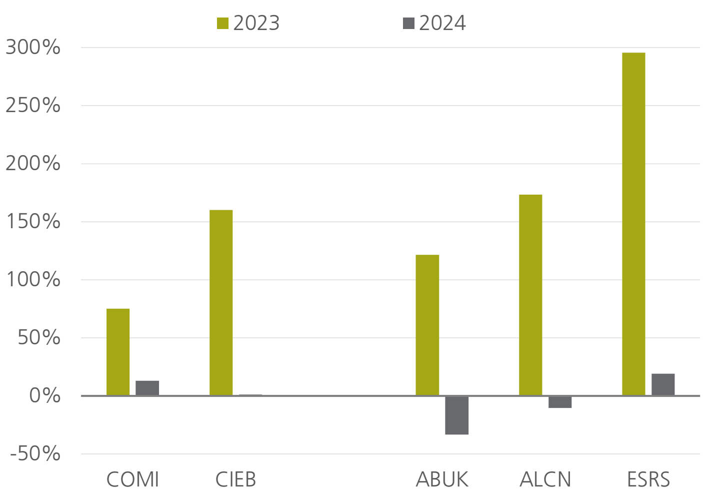
In search of a catalyst

- Nominal rates will drop in 2025, but real rates likely to be high
- M&As to remain a key market driver, albeit unfavourable for long-term market dynamics
- We like banks, consumer and healthcare plays
- Asset sales and new listings are much-needed catalysts

Egypt's equity market rallied in 2024, on the back of the floatation of the EGP, driving another leg of the market's continued rally since 2022. The 24% rise in EGX30 was attributable to investors shifting their exposure to stocks that were highly depressed during the FX shortages, replacing them with ones that were pure beneficiaries of a weaker EGP. Thus, the market rally was driven by consumer and healthcare names, while industrials (partially) and banks took the back seat. Consumer companies showed resilience in maintaining strong earnings growth – thanks to the sharp rise in their product prices – as well as volumes holding steady. Meanwhile, pharmaceutical companies benefitted from regulatory approvals of the re-pricing of their end-products.

Figure 1: EGX30 drivers shifted in 2024 from FX heavyweights…

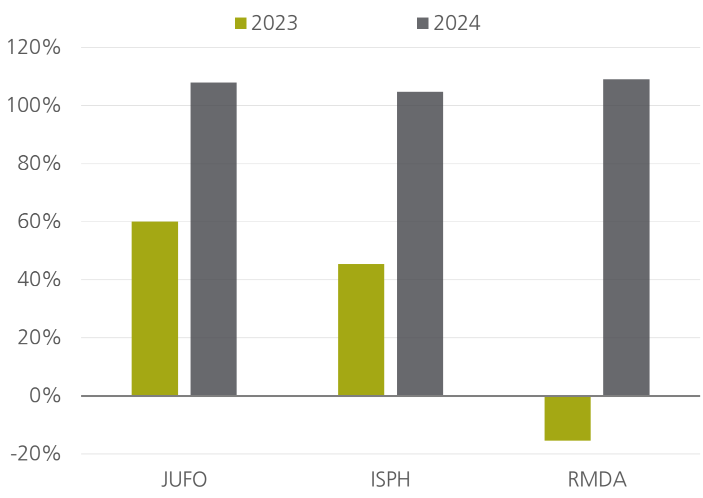
In Y-o-Y % change



Source: Bloomberg

Figure 2: …to more domestic plays (consumer and pharma)

In Y-o-Y % change



Source: Bloomberg

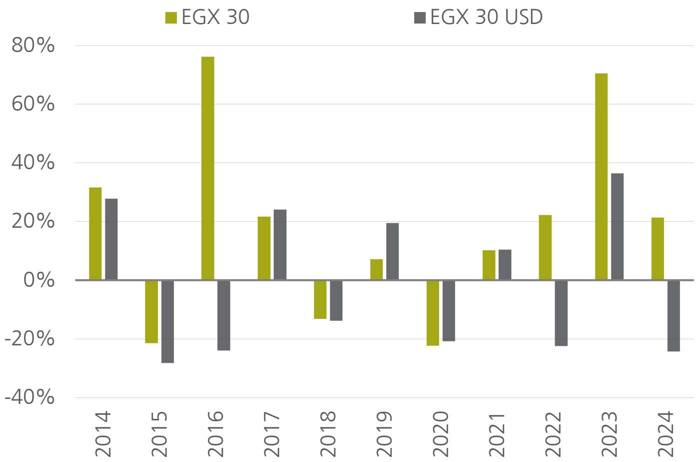
Nevertheless, the strong market performance was, once again, driven mostly by local currency returns, while USD-based returns were in the negative territory for the third year in the past four. In this context, it was not surprising to see foreign investors shying away from participating in the market rally. Indeed, foreign investors' share of total value traded dropped to an average 7% in 2024 vs. 13% in 2021/22.

Going into 2025, we think the biggest challenge facing the market lies in the lack of a fundamental catalyst. Foreign participation is unlikely to recover much, considering the structural challenges facing the market – insignificant weight in MSCI, lack of new big listings and low liquidity levels, as well as concerns over the extent of macroeconomic structural reforms.

We see lower policy rates partially driving a positive market performance, but real rates are likely to remain high, an unconducive development for the market in the absence of other fundamental changes. We do expect the Central Bank of Egypt (CBE) to cut rates by 500bps in 2025, but also see real rates ending the year as high as 700-800bps, weighing on market sentiment, in our view. The combination of real rates and attractive carry trade has been recurrent in Egypt in the past few years, always with a downturn for interest in the equity market (especially during times of relative EGP stability).

Figure 3: EGX30 saw negative USD returns in 2024

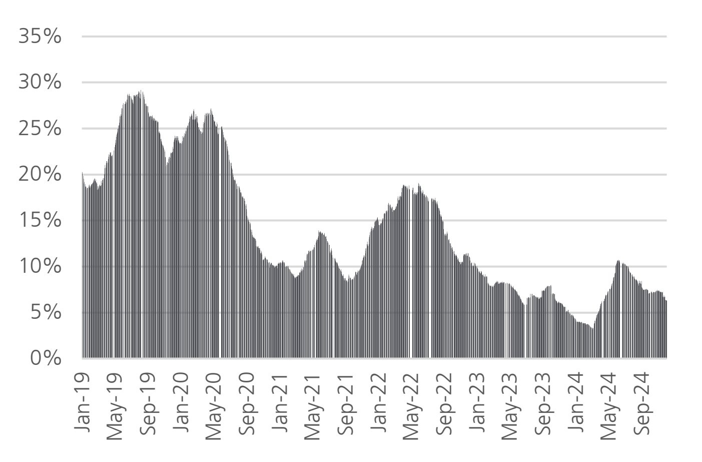
In Y-o-Y % change



Source: Bloomberg

Figure 4: Foreigners' market participation remains depressed

Six-month trailing average foreign participation in traded volume



Source: Egyptian Stock Exchange

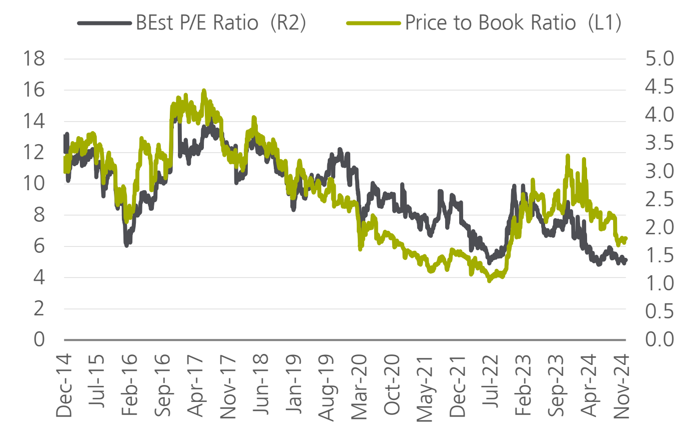
We expect the acquisitions theme to remain relevant in 2025, considering the market's cheap valuations. While the latter is an important driver of stock returns, we note that the long-term impact of these transactions is negative on the market, as it keeps losing listings that are not being adequately replaced. SWDY's free float dwindled post the acquisition earlier this year, while IDH already finalised its de-listing. CIRA is awaiting the final steps of the tender offer to delist. And, ESRS became the latest player to appear on the de-listings roster.

Setting these macro headwinds aside, we think the market still offers good value. We like banks, which - while expected to see a NIM-compression-driven drop in earnings - would still enjoy decent levels of profitability, whilst trading at undemanding valuations. We also like most consumer names, led by JUFO, which enjoy strong growth prospects (guaranteed by nominal price hikes in the past and future), as well as growing FX earnings from exports.

Finally, we see a number of companies also benefitting from lower rates. While the latter are likely to end the year positive in real terms by a decent margin, a 500bps drop in nominal rates will still drive a further boost to earnings. ISPH, ETEL and ESRS are amongst the key names we see benefitting the most from lower rates.

Figure 5: COMI valuations depressed, despite record earnings

12-month forward P/E (LHS), price to BV (RHS)



Source: Bloomberg

Figure 6: JUFO valuation depressed, despite 108% YTD rally

12-month forward P/E

Source: Bloomberg

Banks

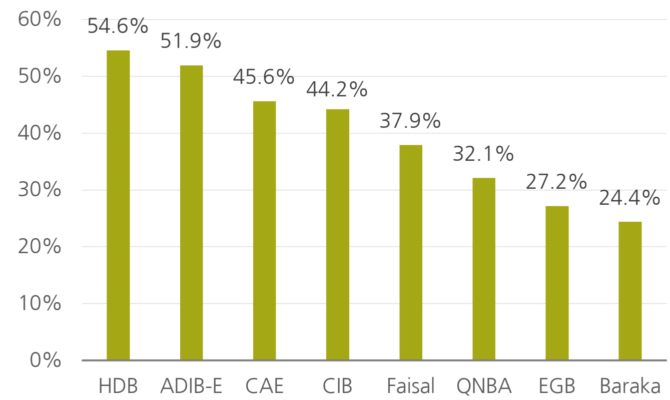
Net interest margins and ROEs at record-high levels in 2024

Egypt banks' profitability is now at record-high levels, with average ROE at c40% in 9M24 for banks under our coverage (excluding one-off FX revaluation gains), up from c30% in 2023. CBE's rate hikes in 2022-24 (19pps for the mid-corridor to 27.75%) have driven strong expansion in net interest margins (c8.5% on average for the sector in 9M24 and up c200bps since 2023), especially for banks with a better funding mix; CIB, Credit Agricole Egypt (CAE), Housing and Development Bank (HDB) and ADIB-E all have above sector average low cost deposits as a percentage of total deposits.

Despite the macro challenges posed by high inflation and FX shortages (before Ras El-Hekma deal in Feb and EGP floatation in Mar), credit quality has been remarkably resilient. Banks have pointed to some stress in SMEs, but NPL ratios have seen limited change during 2023 and, so far, in 2024. Precautionary provisioning and inflation-driven increase in operating expenses are being more than offset in the short term by strong revenue growth.

Figure 7: Record-high ROEs for Egypt banks in 2024

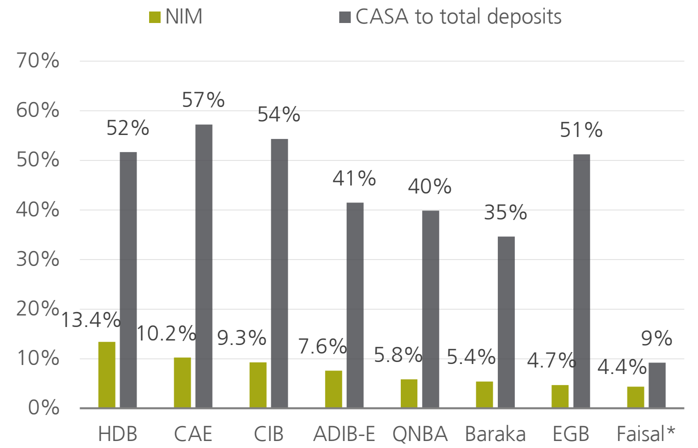
Annualised ROE as of 9M24



Source: Company data

Figure 8: HDB, CAE, CIB and ADIB-E exhibit above-sector average NIMs and a higher share of CASA to total deposits

NIM and CASA to total deposits (9M24)



*Faisal's CASA to total deposits includes only demand deposits, as savings deposits are not disclosed separately

Source: Company data

We expect lower rates to start driving normalisation in NIMs starting 2H25; provisioning costs are an upside risk to earnings next year

Our in-house estimates see inflation falling to mid-twenties by end-24 (from mid-thirties earlier this year) to mid-teens in Feb 2025 (base effects) and to low-teens by end-2025, with projected rate cuts of c500-600bps in 2025.

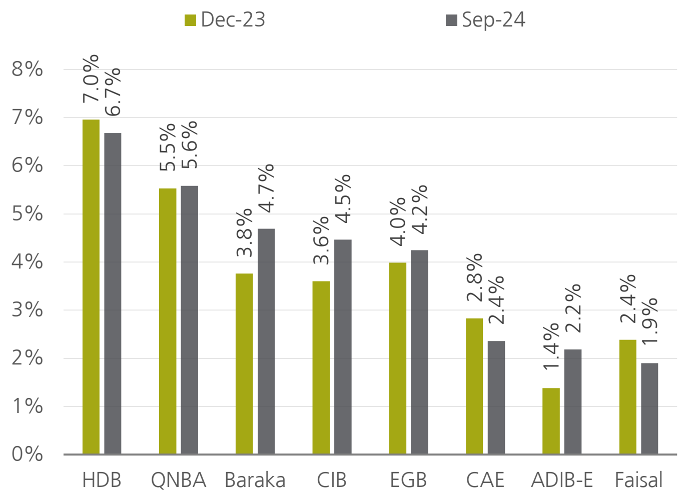
We estimate broadly stable NIMs for Egypt banks relative to their 9M24 level and strong earnings growth for the sector of c75% in 2024, driven by high double-digit revenue growth. With the CBE likely to start the easing cycle in 2Q25, we expect NIMs would see some erosion during the second half of next year and a stronger margin decline during 2026 and 2027. We expect that by the end of 2027, Egypt banks' NIMs will have generally converged to their pre-2022 level of 5.5% (on average for the sector), down from c8.5% in 2024e.

We estimate revenue growth to slow down to high-single digit per annum in 2025-27 and earnings growth to decelerate to mid-to-low-teens per annum over the same period. We expect, as result, ROE to normalise to c25-30% over the medium term for CIB, CAE, HDB and ADIB-E.

We think provisioning costs are the main upside risk to our earnings estimates in 2025-26. There is room for banks to reduce provisioning expenses in order to support earnings growth. Despite sizeable rate hikes over the past two years, profitability at the broader large corporate sector has remained strong, credit quality indicators continue to be healthy and most banks have ample provisioning buffers.

Figure 9: Credit quality deterioration has been contained in 2024, despite macro challenges posed by high inflation and weaker EGP

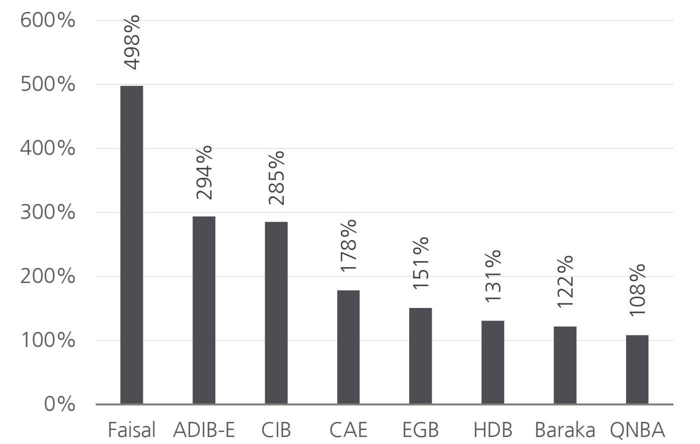
NPL ratio



Source: Company data

Figure 10: NPL coverage ratios are high across the sector

Total provisions to NPLs (Sep 2024)



Source: Company data

Cautiously optimistic on a strong pick-up in credit growth next year

EGP loan growth was in a low-single digit in 9M24 in real terms (c30% Y-o-Y in nominal terms, compared to inflation in mid-twenties), and high borrowing costs are unlikely to be supportive of a recovery this year, in our view. We estimate EGP loan growth of 18-20% p.a. in 2025-26 (real growth of 8pps). We think the credit growth outlook lacks drivers for a stronger rebound. We expect a slow pace for the economic recovery (GDP growth of c4-4.5% in 2025-26), and the state is unlikely to support growth (as much as it did over the past few years). Upside risks to our estimates include any gov't incentives to boost private sector investment.

Top picks

Despite the strong share price performance of 2023, strong earnings growth continues to drive very low PEs for Egypt banks, at mid to low single-digit in 2024e. Our top picks are CIB, CAE and HDB. All have strong capital and provisioning buffers, a strong track record in credit risk and funding cost mgmt. and stronger ability to defend high ROEs in a lower interest rate environment, in our view.

CIB: Key upside risks are: i) dividends; it has large excess capital buffers and there is room for the dividend payout ratio to converge to the historical average of 15-30% pre-COVID-19, compared to 6% in 2023; and ii) cost of risk; it has excess provisions and it uses very conservative assumptions in its Expected Credit Model. Its planned transformation strategy could a see a stronger consumer and digital banking focus.

Credit Agricole Egypt: Strong focus on profitability, above sector average NIMs and ROEs and better than sector's credit quality are key strengths of the franchise. It has the highest dividend yield in Egypt banks.

HDB: Its balance sheet is almost 100% denominated in EGP, leading to very high profitability (c55% ROE in 2024) despite an increase in the provisioning burden. It trades at one of the lowest PEs in the sector.

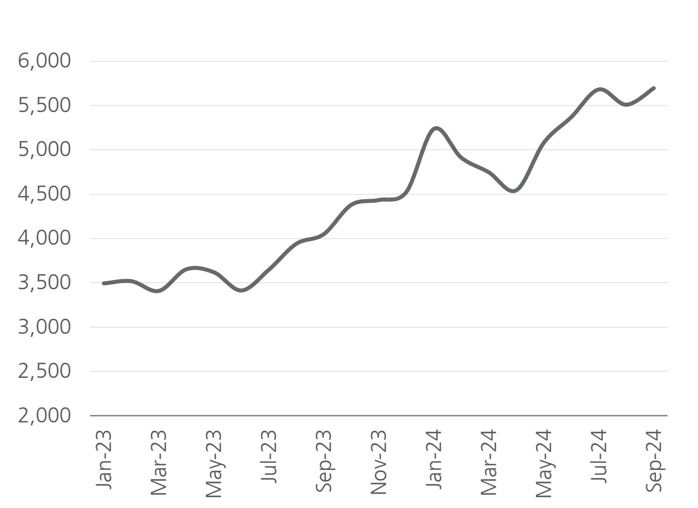
Real estate

Egypt's property market has been attracting buyers' attention since 2H23, with the sector typically offering a hedge against inflation and currency devaluation. This was evidenced in the surge in companies' contracted sales numbers and average selling prices for various new project launches and units offered in the resale market. Developers initiated a series of selling price increases starting 2H23, in an attempt to hedge against the EGP currency weakness that has placed pressure on the cost of development. We note that average selling prices in the market have risen 63% over the past two years, according to Aqar map property price index, with some developers implementing price increases that reached 80-90% in some instances. This was coupled by an increase in unit sales numbers, which have, in turn, initiated a positive uptrend in property stocks and the real estate index. Despite the rise in selling prices and higher contracted sales booked, developers maintained the same extended payment terms to mitigate the burden of higher prices, in our view.

There has been a focus on projects in North Coast in 2024, especially following the launch of SouthMed by TMG, which managed to book phenomenal sales numbers, reaching EGP277bn since its launch and up until Sep 2024. Moreover, PHD managed to report gross contracted sales in Alexandria and the North Coast, of EGP87.3bn (+9x Y-o-Y). The exceptional sales across projects in the North Coast indicate the demand potential in the area and buyers' preferences. According to a survey conducted by Invest-Gate's research, which included 120 respondents, 68% have second homes in the North Coast. We believe the increase in sales during the summer months in the area contributed to the overall uptick in market average selling prices that started again in May 2024. On the other hand, there has been a relative slowdown in booked sales for projects in Cairo vs the North Coast.

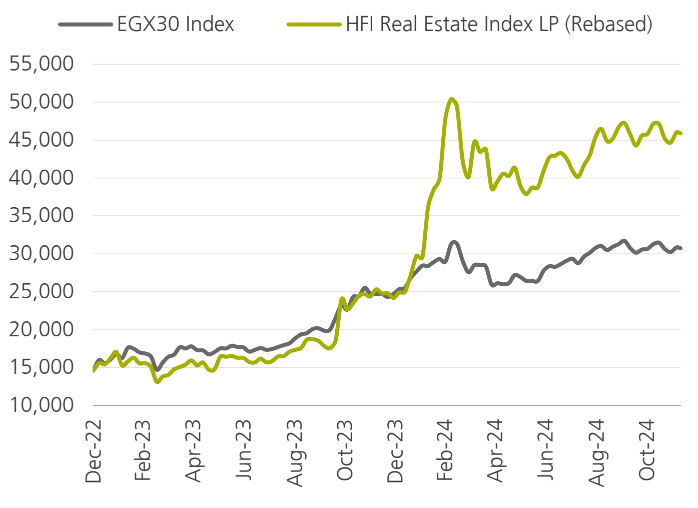
Figure 11: Average market selling prices up 63% since Jan 2023 and up until Sep 2024

In EGP per sqm



Source: Aqar Map, EFG Hermes

Figure 12: HFI Real Estate index far outperforming the general market index, +214% (between Jan 2023 and Dec 2024)



Source: Bloomberg, EFG Hermes

Going into 2025, we think there are a few themes that would dominate the scene; these include: i) launch of Ras El-Hekma project, which we expect to be in focus during the year, announcing the details of the set milestone for the project development; ii) announced expansions by major local players into the Kingdom's property market to materialise and strengthen further; and iii) minor selling price increases for new launches, which we think will be lower than the prevalent inflation rates, as affordability concerns rise further.

All eyes are set on North Coast domestically; a totally different market…

Over the past few years, the North Coast has proved to have its own supply-demand dynamics vs other locations in Cairo, with the relative scarcity in supply, increased demand potential, especially for premium projects; hence, driving up selling prices for various projects in the area. We believe this will remain the case, at least in the short term, especially with the potential launch of Ras El-Hekma project in 2025. We expect Modon (UAE developer), which is responsible for developing the overall project to start announcing collaboration agreements with local developers and contractors, along with revealing the master-plan development strategy for the project. We think this will possibly have its positive implications on local players, with companies in our coverage like TMG, PHD and Emaar Misr having roles in the project. It is worth noting that, to date, only TMG was involved in the initial agreements with the master-developer; hence, concrete development plans that might affect other developers are yet-to-be-announced. We believe Modon will start by launching residential units to kick off the project launch, which will be followed by announcements of hotels and other facilities and services in the area.

Despite our positive outlook on the supply-demand dynamics in the North Coast, we have a less favourable overall outlook on the new projects that would be announced in both East and West sides of Cairo. Increasing affordability concerns would imply that developers might revert to more extended payment term offers and/or smaller-sized units to encourage sales activity; however, we think demand will remain relatively solid for large, more established projects that offer potential buyers an edge or somehow unique exposure. In our opinion, this would include the potential launch of "The Spine" in Madinaty (TMG), which we think will attract decent demand, given the project's new concept that is going to be developed in an already well-established community. While on the West side of Cairo, we think Badya will continue to establish itself as an attractive city in the area, especially with the opening-up of the new university. We think pricing strategies would imply lower relative price increases, coming in lower than the prevalent inflation rates, while we expect increased representation of sales, assuming more extended payment terms duration.

Developers having access to significant land bank, such as Heliopolis Housing, will continue to execute their land monetisation plans, with the recent agreements being concluded under the spotlight, as we think investors would be awaiting the launch of projects and cash flow generation for such sales.

…and developers' expansion strategies in the regional space, with focus on KSA

We expect to see more Egyptian developers establishing presence in the Kingdom in 2025, given the market's growth prospects and attractiveness. This move was first initiated by TMG, announcing building a megaproject, in collaboration with National Housing Company (NHC) back in 2023. The project, Banan, planned to be built over 10mn sqm, was launched in 2024 and has secured sales of EGP52bn since its launch and up until Sep 2024. We believe this might mark the first in a series of new projects that TMG would launch in the international markets. Furthermore, PHD announced its entry into the Saudi market by establishing a joint venture with Dallah Real Estate, with both parties working together to develop integrated, multi-use urban projects and 15 international schools across the Kingdom over a 30-year partnership agreement.

We believe more private developers would be interested in tapping the KSA property market and establish presence in the Kingdom, offering investors a new growth venue, along with a source of foreign currency. Furthermore, we think Egyptian developers will benefit from expanding their asset base to increase their exposure to recurring income revenue sources, including hotel developments, educational establishments and properties to be added to various companies' investment properties base; this will potentially reflect positively on companies' reported numbers and offer investors more visibility on earnings and cash flow.

Top picks

TMG: We believe TMG is a proxy on growth in Egypt's property market, with attractive exposure to the lucrative Saudi market, along with offering unique exposure to the hospitality segment in Egypt, through several premium assets. We think TMG is no longer solely a local player, but is rather emerging as a strong regional real estate company that can compete with big names across the region. We estimate strong sales performance to continue in 2025, with the company planning to launch the long-awaited "The Spine" project (Madinaty), which mgmt. is guiding that it is expected to generate approximately EGP1trn in sales. We expect the positive stock performance to continue, given the solid operational outlook for all business segments, while the potential participation of TMG in Ras El-Hekma giga project would offer further growth to the company's solid development portfolio, especially given the positive operating market environment in the North Coast.

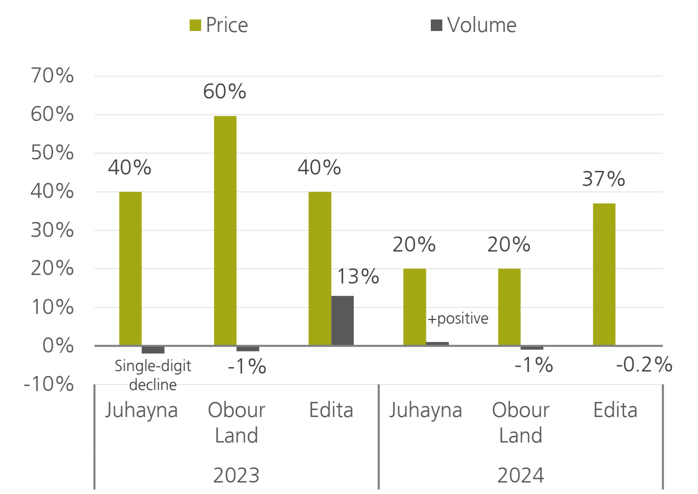
Consumer

Consumer names were well-positioned to weather FX challenges

Egypt consumer names witnessed another strong year, with consumption trends remaining fairly resilient (volumes for listed food producers were relatively intact). Focus is on growing FX revenue by increasing reliance on exports to source annual FX needs. Balance sheets are relatively strong, with most players deploying excess cash in high-yielding instruments. Capex spending increased in 2024 and is likely to remain elevated for the next couple of years, partly on a weaker EGP, and as some companies are expanding production and distribution capacities. The main challenge heading into 2025 remains further weakening in the EGP and/or the need for potential price increases, as the impact this would have on volumes and margins is uncertain.

Figure 13: Volume and price trends in 2023 and 2024

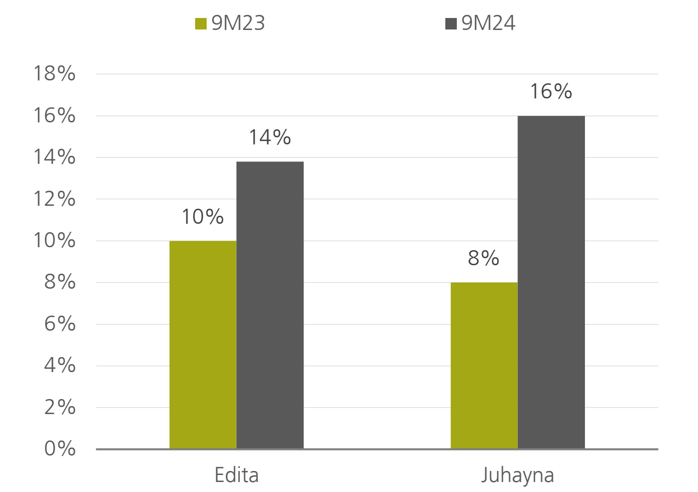
Y-o-Y growth



Source: Company data, EFG Hermes estimates

Figure 14: Focus is on growing FX revenue by increasing reliance on exports to source annual FX needs

Contribution of exports to total sales



Source: Company data

Food names performing well, with volumes relatively steady, despite aggressive price hikes

Food producers continued to undergo price increases in the first months of 2024 to pass on inflationary pressures, mainly from a weaker EGP; however, many players lowered the prices of some products after the official EGP devaluation in Mar by a high single-digit rate, upon the gov't's directive to local manufacturers of core products. Meanwhile, margin trends have been favourable for most players, as inflated black-market rates went down, except for Edita, which was sourcing its FX needs in 2023 from banks at the official rate (in contrast to some black-market sourcing for other players). Juhayna is our preferred food pick, as it is also benefitting from strong export sales of orange concentrates (prices have doubled globally, on supply shortages of oranges), which is driving an impressive improvement in margins and offsetting the increase in raw material costs. Heading into 2025e, Juhayna is maintaining its emphasis on exports, while increasing its capex to increase its farming, production and distribution capabilities.

Cigarette prices can now easily increase every year

Egypt's largest tobacco producer **Eastern Co**. has also implemented several direct ex-factory price increases in 2024 (+11% in Feb 2024; +24% in Apr 2024). In Nov 2024, the company raised prices again by EGP4/pack (ex-factory price +18%) after the ceiling of the lower tax bracket (this is where over 95% of Eastern Co.'s brands are priced) was raised from EGP34.7 to EGP38.9, as new regulations now permit an annual increase (every November) in tax brackets of 12% without parliamentary approval. This change in regulations provides the company with much-needed flexibility to increase prices every year.

Figure 15: Price change for Eastern Co.'s key SKUs that represent 95%+ of its local sales volumes

In EGP per pack

	Queen (58% of volumes), Box (36%) & Super (4%)		Change
Nov 2023			
Ex-factory price	6.88	7.88	*15%*
Flat tax	4.00	4.50	*13%*
Variable tax	12.00	13.50	*13%*
Health tax	1.10	1.10	*0%*
Retailer margin	0.025	0.025	*0%*
Retail price	**24.00**	**27.00**	***13%***
Feb 2024			
Ex-factory price	7.88	9.38	*19%*
Flat tax	4.50	4.50	*0%*
Variable tax	13.50	15.00	*11%*
Health tax	1.10	1.10	*0%*
Retailer margin	0.025	0.025	*0%*
Retail price	**27.00**	**30.00**	***11%***
Apr 2024			
Ex-factory price	9.38	11.63	*24%*
Flat tax	4.50	4.50	*0%*
Variable tax	15.00	17.25	*15%*
Health tax	1.10	1.10	*0%*
Retailer margin	0.025	0.025	*0%*
Retail price	**30.00**	**34.50**	***15%***
Jul 2024			
Ex-factory price	11.63	11.49	*-1%*
Flat tax	4.50	4.50	*0%*
Variable tax	17.25	17.36	*1%*
Health tax	1.10	1.35	*23%*
Retailer margin	0.025	0.025	*0%*
Retail price	**34.50**	**34.72**	***0.6%***
Nov 2024			
Ex-factory price	11.49	13.5	18%
Flat tax	4.50	4.50	0%
Variable tax	17.36	19.38	12%
Health tax	1.35	1.35	0%
Retailer margin	0.025	0.025	0%
Retail price	**34.72**	**38.75**	**12%**

Source: Company data

Discretionary names more of a mixed bag

GB Corp's revenue trends were solid throughout the year, on a recovery in auto business volumes, as well as improved pricing strategies and enhanced product mix; however, margins normalised in 2024, following the devaluation of the EGP (were inflated in 4Q24 and 1Q24 as any currency sourced at the black-market rate was booked as an FX loss). Meanwhile, **Oriental Weavers** saw a better earnings momentum in 2024, mainly on EGP devaluation benefits, given its large export business (60%+ of sales), but visibility beyond 2025 is low, given softness in overall consumer demand and the potential cut to export rebates, which would impact numbers starting 2026e (current backlog as of 30 Jun 2024 should cover income statement numbers for 2025e).

Top picks

Juhayna (JUFO): Attractive valuation close to a historic low, with earnings expected to grow at a c19% CAGR after +117% in 2024e, driven by continued revenue growth, increased contribution from high-margin export business (mainly concentrates), as well as a drop in net interest costs (after a significant increase in 2024e), on lower leverage and rates.

Eastern (EAST): A key positive is the new pricing regulation that allows for an annual increase in tax brackets without parliamentary approval, giving the company's greater pricing flexibility. Volumes have also resumed strong growth in 2024 after having been impacted by production issues, amidst currency shortages last year, with price increases partially offsetting the margin pressure caused by a weaker EGP. Valuation remains attractive, with FY23/24 cash at 50%+ of the company's assets.

Healthcare

Price increase approval main catalyst for pharma players

The Egyptian Drug Authority (EDA) approved price increases over 2022-23, following the EGP devaluation that started in Mar 2022 (law permits, if FX rate moves +/- 15%), with the overall market's avg. selling price (ASP) increasing by 22% Y-o-Y in 2022 and +26% in 2023. Moreover, following the EGP devaluation in Mar 2024, the EDA started to approve price increases from May 2024 (chronic medication +30% and acute/OTC +40-50%), which is being implemented over phases, with a plan to cover the entire market by 2-3Q25e. That said, we forecast the overall pharma market to grow 44% Y-o-Y in 2024e (+39% in 9M24) and a still-strong +25% in 2025e as the aforementioned price increases only covered c1.6k SKUs as of 3Q24 (c26% of total registered in the market; c41% of overall market value), followed by a 3YR CAGR of c14% (pricing +8%, volumes +5%).

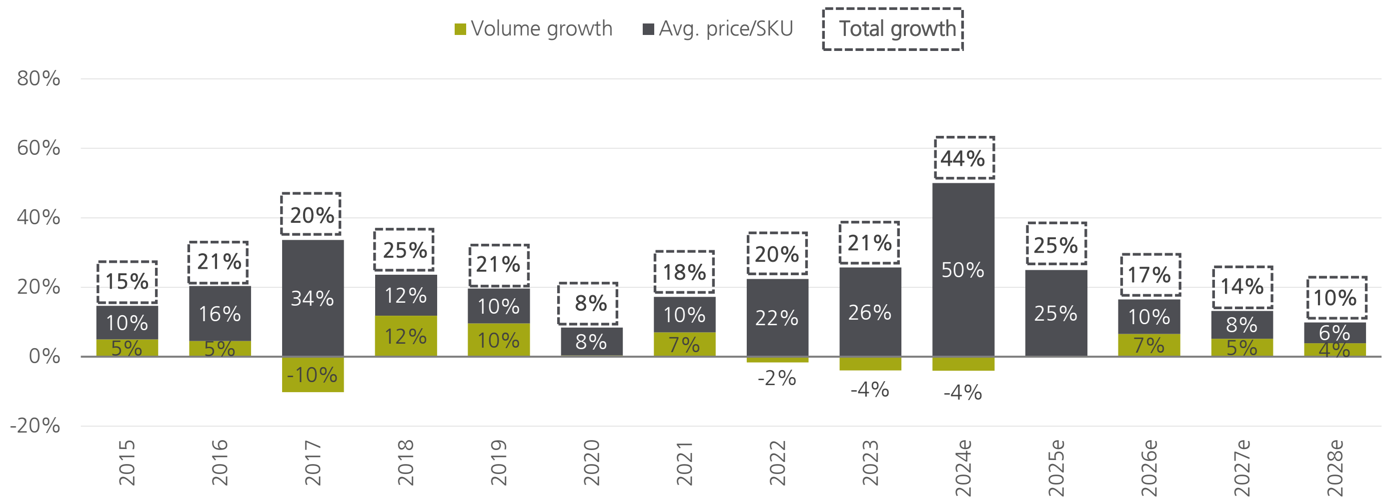
In addition to the aforementioned price increases, the gov't has been taking steps to solve the limited availability of medicines, caused by shortages in raw materials as some manufacturers struggled to source FX for imports and, to a lesser extent, higher shipping costs, due to disruptions in Red Sea shipping routes (led pharma companies to resort to more expensive air transport alternatives). Some of these initiatives are: i) CBE gave priority to pending import requests for medicine and medical supplies (especially those held at ports) from Feb 2024; and ii) gov't approved a EGP7bn of subsidised loans for pharmaceutical manufacturers, offering them financing at an interest rate of 5-7%, to help streamline production of medications and secure necessary imports. That said, drug shortages, which had reached 30-40% of total medicines (of which 50% do not have alternatives), dropped to c8-10% during Aug 2024, before being completely eliminated during Nov 2024, according to the Head of Egyptian Pharmaceutical Chamber.

Private sector to benefit from law to develop public health facilities

There is also strong potential for healthcare providers, where recently the President ratified a law that allows the private sector to establish, manage, operate and develop public health facilities in Egypt. The gov't-proposed law, approved by the House of Representatives in May, allows private investors to secure concessions to manage and operate public hospitals for no less than three years and up to 15 years. The private sector should maintain these public health facilities, medical equipment and all necessary infrastructure and keep them in good and functional condition throughout the contract period. According to the law, all health facilities, including medical equipment, will be transferred back to state ownership at the end of the concessions period for free and in good condition. Moreover, the law requires private investors to maintain a minimum of 25% of the facility's employees, if they agree, ensuring no prejudice to their financial and employment rights.

Figure 16: We expect Egypt's total pharma market to growth 44% Y-o-Y in 2024e and 25% in 2025e, with growth being entirely price-driven, as a result of price increases approved by the EDA given recent EGP weakness, while volumes to remain pressured as consumers adjust to the higher prices (overall market volumes dropped 5% in 2Q24, and has been on a downtrend since then)

Y-o-Y growth



Source: IQVIA, EFG Hermes estimates

Top pick

Ibnsina: The company continues to significantly outperform the overall pharma market (revenue +61% in 9M24), with its market share growing to 29.8% (+6pps Y-o-Y), as numerous suppliers have been shifting their businesses to Ibnsina, on financial difficulties facing one of the largest pharma distributors in Egypt, as well as the company's strategic focus on diversifying its portfolio (non-pharma distribution, etc.).

We expect this outperformance to continue, with recurring earnings to grow at 5YR CAGR of c54%, driven by higher revenue (+23%), economies of scale (EBITDA +25%) and lower net interest costs (c80% of EBIT in 2023, dropping to c61% in 2025e) and lower interest costs (c80% of EBIT in 2023, dropping to c61% in 2025e and <50% by 2028e), given impending rate cuts (2024e net debt at c2.2x equity, c1.9x EBITDA). Ibnsina has shown commendable improvement in working capital mgmt. (-22% Y-o-Y in 9M24, despite large revenue increase).

Telecoms

Price increases main impetus for telcos

Egypt's telecom sector went through a pivotal year 2024 in which the National Telecommunications Regulatory Authority (NTRA) authorised an increase of up to 15% in prices for both data and voice services in Jan 2024; this came on the back of a high inflation environment in 2023. We expect the gov't to authorise another round of price hikes towards end of 2024 or early in 2025, with the aim of helping telecom operators cope with cost inflation. We believe the increase in service prices was a necessary step for the regulator to be able to auction 5G mobile licences in the market, with Telecom Egypt (TE) obtaining the first 15-year licence in Jan 2024 for USD150mn and the remaining operators – Vodafone, Orange, and e& – awarded licences in Oct 2024 for a combined USD675mn (including renewal of previous generation licences).

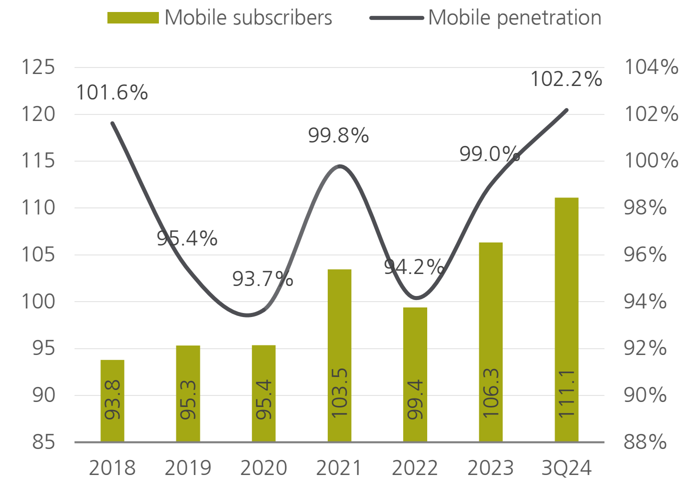
5G penetration levels likely to be constrained; growth stimulants likely in rising no. of broadband subscribers, higher per-capita data consumption

The rollout of 5G mobile infrastructure is likely to be gradual and selective over the coming two-three years, in our view, as it is unlikely to become a mass-market service, given the low penetration of 5G-enabled devices, which are naturally concentrated in cities, with more affluent customer segments. We expect strong demand for broadband services – both mobile and fixed – to continue in 2025, on relatively low penetration levels. At the start of 2024, total mobile data market subscribers reached 79.2mn, implying a mobile data penetration of only 75% vs a voice penetration of 116%, while total FBB subscribers reached 11.8mn, translating into household penetration of only 45%. This should continue to increase, owing to the gov't's goal to achieve telecom access – especially data/internet – for everyone.

We see the market continuing to print double-digit revenue growth in 2025, driven by the combination of higher subscriber penetration, increase in per-capita consumption of data, increase in service pricing (regulator-driven), and the expansion in data use-cases as the gov't continues to push the digitalisation agenda across various sectors of the economy.

Figure 17: Although mobile penetration is already above 100%, there is still growth to come as mobile data penetration is still at 75%

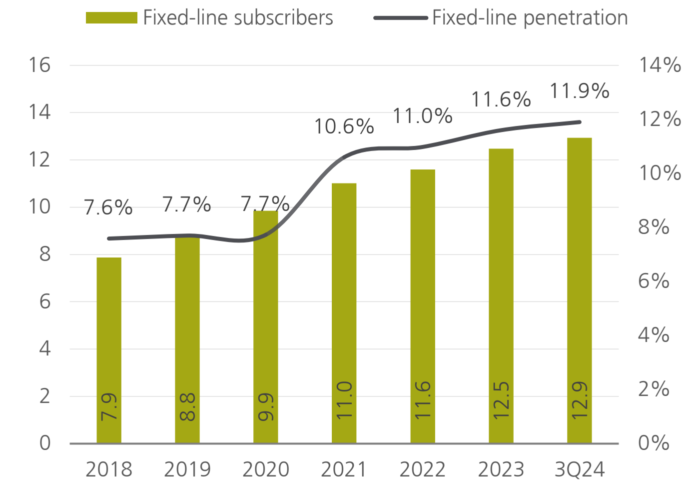
In mn, unless otherwise stated



Source: MCIT

Figure 18: Fixed-line penetration is rising because of solid growth in FBB uptake, backed by the nation-wide fibre modernisation project

In mn, unless otherwise stated



Source: MCIT

Materials / Industrials

Outlook challenging in the ST

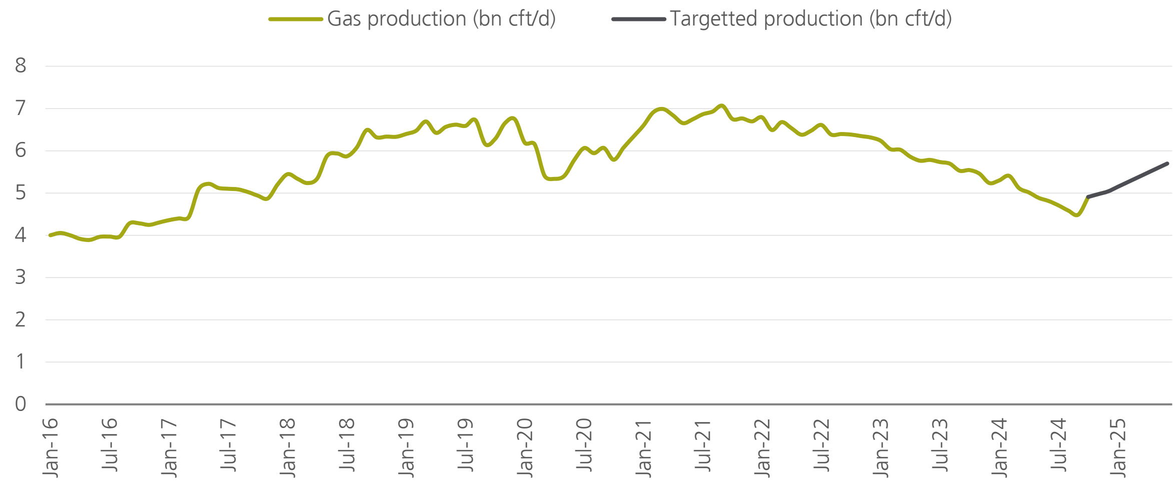
For Egypt fertiliser producers, the ST outlook is challenging, as producers have been weighed down by gas supply shortages and heavily discounted local market prices, with the only positive being a decent price environment globally.

Gov't has plans to rein in gas supply shortages, but will take time

The gas supply issues that started in the summer last year have accelerated in 2024, as the lack of capex into the E&P space in Egypt over the past several years has driven lower production. Gas production has seen a c3% improvement since the summer, with the gov't now spending more capex and pushing to increase production, but will need to increase another 10%+ to close off the current gap, based on our estimates. We are confident that utilisation will pick up in the medium term, as gas production should rebound in 2025, but it will take some time, and we expect ST utilisation rates to remain below capacity until at least mid-2025 (the gov't is targeting to achieve normal production levels by Jun 2025) and potentially longer.

Figure 19: Egypt's natural gas production has plummeted, but the gov't is targeting a strong recovery in 2025

Historic and targeted natural gas production in Egypt in bn cubic feet per day



Source: JODI Gas World Database for historical figures, EFG Hermes estimates for the targeted production based on statements from gov't officials

Poor local fertiliser prices weighing upon earnings…

Simultaneously, despite the currency devaluation in 2024, local market prices for urea remain fixed at EGP4,500/t (sub-USD100/t vs USD350/t+ internationally), which has pressured margins as gas costs are priced in USD and rose aggressively in EGP terms. With the local market urea pricing regulated by the gov't, it remains unclear when we could see higher prices and to what level, and this will likely continue to weigh upon the sector until we get more clarity.

…albeit showing some positive momentum globally

On the positive side, global prices have been at very healthy levels, which we expect to continue in 2025, given limited supply growth. Overall, we would be cautious over the sector, given the lack of clarity on gas supply and local market pricing.

Petchems still wrestling with global oversupply, local gas shortages

For petrochemicals, global pricing is under severe pressure, on global oversupply, and local gas feedstock (ethane) is also suffering from shortages, so we would avoid the sector in 1H25.

Top picks

Abu Qir (ABUK): Our preferred pick amongst local fertiliser players, given its attractive valuation (c6.5x forward P/E), solid dividend yield (13-14%) and defensive nature, as cash constitutes c30% of its market cap. The company also offers growth several new projects under study/execution.

EK Holding (EKHO): The company's earnings have been under pressure recently, due to the impact of re-pricing its regulated and unregulated products post currency devaluations, but we think it still has a lot to offer from: i) a solid balance sheet; ii) growth in new verticals; and iii) natural uplift as product prices are amended (urea and local utilities, such as gas connection and electricity prices). Mgmt. also their eyes set at exporting their utility expertise to regional markets, which could deploy cash pools and generate a healthy recurring stream of income, with lower volatility risks. As for valuations, they remain ultra-low on a growth-adjusted basis, while still offering healthy levels of yield, along with the growth.

Figure 20: Egypt coverage

Price as of 12 Dec 2024

Company	Price (EGP)	TP	Rating	YTD perf. (%)	ADVT (USDmn)	M cap (USDbn)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	P/B (x) 2024	DY (%) 2024
Consumer											
Edita Food Industries	28.90	57.00	Buy	(7.3)	0.60	0.40	12.7	9.4	7.7	5.0	5.4
Juhayna	31.25	48.00	Buy	99.4	0.40	0.58	24.1	11.2	8.4	4.8	1.6
Obour Land For Food Industries	18.25	22.00	Buy	70.6	0.38	0.14	10.2	7.7	7.2	8.7	10.7
Oriental Weavers	26.00	30.00	Buy	53.8	1.17	0.34	10.7	6.9	7.3	1.3	7.7
Financials											
Abu Dhabi Islamic Bank - Egypt	40.88	46.90	Buy	22.7	0.65	0.48	5.9	3.7	3.5	1.2	0.0
Al Baraka Bank Egypt	13.41	11.60	Neutral	16.6	0.20	0.19	5.0	3.8	3.6	0.8	4.4
CIB	82.99	112.00	Buy	14.2	5.15	4.97	9.5	5.1	4.4	1.9	2.7
Contact Financial Holding	4.65	6.00	Buy	22.7	0.10	0.11	5.8	4.6	3.9	1.3	7.7
Credit Agricole Egypt	21.04	25.30	Buy	(4.4)	0.63	0.52	5.7	4.2	4.2	1.7	11.9
Egyptian Gulf Bank*	0.27	0.21	Sell	(11.7)	0.03	0.14	5.7	3.8	3.7	0.8	0.0
Faisal Islamic Bank of Egypt*	39.09	24.90	Sell	20.3	0.10	0.47	6.2	3.1	4.9	0.8	9.2
Housing & Dev. Bank	52.57	70.40	Buy	35.4	0.11	0.55	4.8	3.5	3.3	1.4	6.7
Qatar National Bank AlAhli	32.52	45.10	Buy	15.4	0.19	1.38	4.8	2.9	2.8	0.8	6.2
Healthcare											
EIPICO	46.40	90.00	Buy	27.1	0.46	0.14	9.7	6.9	5.4	1.5	5.4
Ibnsina Pharma	6.23	8.00	Buy	98.4	1.03	0.12	40.9	17.9	9.0	3.6	0.7
Rameda	3.40	4.40	Buy	106.1	0.99	0.10	23.2	19.5	9.6	2.8	3.2
Industrials											
EK Holding*	0.80	1.70	Buy	1.1	0.30	0.90	5.0	5.8	5.4	2.2	8.8
Orascom Construction PLC	287.00	220.00	Buy	59.3	2.47	0.66	5.9	8.8	5.0	0.8	6.2

* Currency in USD

Source: Company data, EFG Hermes estimates

Figure 21: Egypt coverage *(continued)*

Price as of 12 Dec 2024

Company	Price (EGP)	TP	Rating	YTD perf. (%)	ADVT (USDmn)	M cap (USDbn)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	P/B (x) 2024	DY (%) 2024
Materials											
Abu Qir Fertilizers	52.10	79.00	Buy	(38.0)	1.54	1.29	5.2	5.4	6.3	2.0	12.7
Arabian Cement Company (Egypt)	16.36	14.70	Buy	63.6	0.47	0.12	8.9	11.3	9.2	2.8	4.5
EFIC	151.00	42.00	Neutral	153.6	0.12	0.22	21.8	22.3	24.1	4.8	2.3
Egyptian Chemical Industries	7.80	8.22	Sell	(27.2)	0.31	0.23	10.2	14.9	13.5	1.4	2.2
Misr Fertilizers Production Company (MOPCO)	40.66	49.00	Neutral	(36.7)	1.03	1.66	14.1	6.7	7.6	1.7	9.8
Sidi Kerir	20.30	23.00	Neutral	(16.2)	0.94	0.36	6.9	8.2	9.9	2.6	4.9
South Valley Cement	3.41	1.40	Sell	92.4	0.47	0.03	N/M	N/M	N/M	1.2	0.0
Real Estate & Hospitality											
Egyptian Resorts Company	5.54	5.40	Neutral	32.2	0.40	0.11	N/M	N/M	20.0	N/M	0.0
Emaar Misr for Development	7.75	5.50	Buy	107.2	1.48	0.69	5.2	5.2	5.5	0.8	0.0
Heliopolis Housing	9.63	21.00	Buy	(7.4)	1.53	0.25	1.6	7.0	13.1	1.3	2.6
Palm Hills	6.64	13.00	Buy	149.6	2.50	0.38	12.4	6.3	4.3	1.3	0.0
TMG Holding	56.53	120.00	Buy	134.1	4.32	2.30	35.2	15.9	12.6	1.1	0.4
Telecom Services											
OIH	0.54	0.53	Sell	38.5	0.89	0.06	N/M	N/M	N/M	N/M	0.0
Information Technology											
Raya Contact Center	7.48	3.50	Buy	33.3	0.22	0.03	13.6	18.3	22.3	2.7	0.0

Source: Company data, EFG Hermes estimates

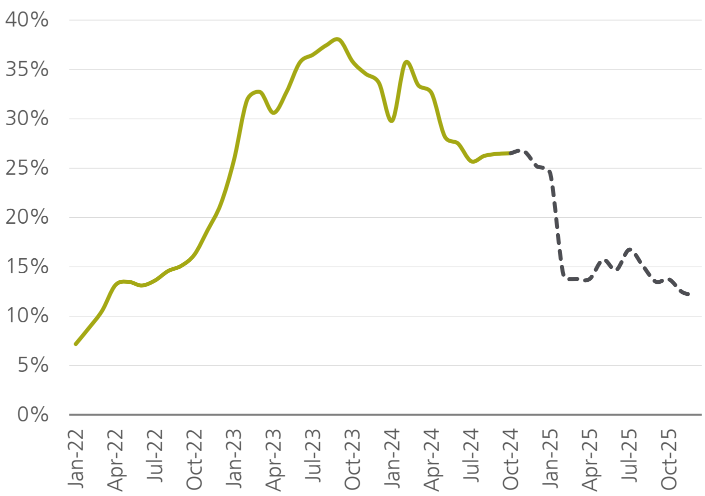
Macro outlook – Looking forward to macro relief

2024 brought in yet another major macro adjustment for Egypt, having floated its currency, raised rates sharply and tightened fiscal policy. The economy also faced external challenges, with the war in Gaza weighing heavily upon Suez Canal revenues and denting the recovery in income from tourism. Going into 2025, we think the economy will be on a course of relief, albeit one likely to be mixed and not devoid of challenges.

A key theme for next year is the projected normalisation in inflation, following one of the largest price shocks in the country's history. The base effect is set to fade away, leading us to expect inflation to decelerate to 14-15% by Feb and possibly ending the year within the range of 12-13%. Such a sharp drop in inflation will clearly make room for the Central Bank of Egypt (CBE) to cut policy rates from the current nominal all-time high. We expect, though, the upcoming easing cycle to be challenged by three key factors that are likely to contain the extent of the projected easing. First, inflation will continue to make some noise in 2025, with further subsidy cuts – in view of the targeted phasing-out of fuel subsidies by year-end, as well as the reduction in VAT exemptions.

Figure 22: We project significant slowdown in inflation next year as prices normalise from last year's exceptionally high base

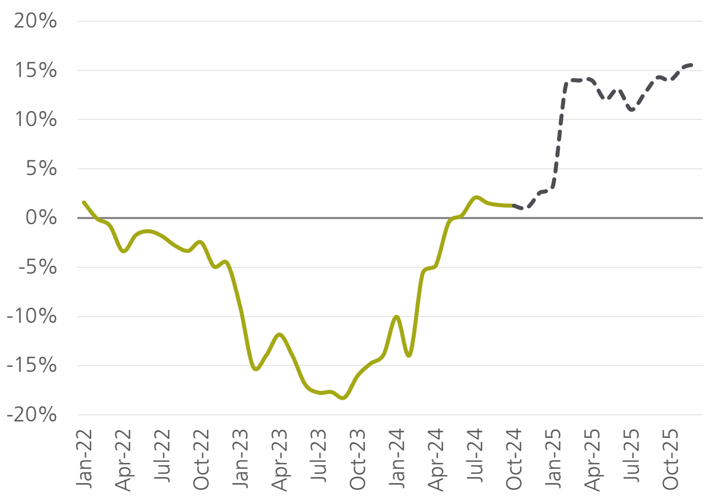
In Y-o-Y % change



Source: CAPMAS, EFG Hermes estimates

Figure 23: Big drop in inflation will leave CBE with high margin of real rates; we see this normalising over two years, rather than one

Real policy rates in %



Source: CAPMAS, CBE and EFG Hermes estimates

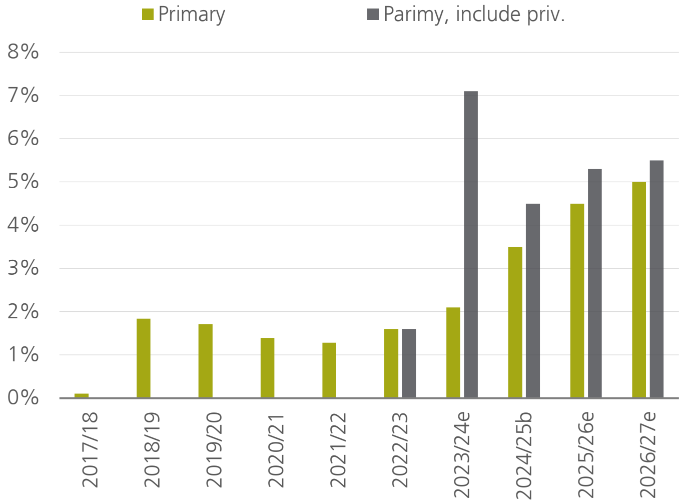
Second, the country's CA deficit is set to remain elevated, at +5% of GDP. Disruptions to maritime traffic in the Red Sea are, so far, causing an annual loss of USD6-7bn in Suez Canal revenues. Moreover, the energy deficit is also yielding another USD6-7bn hit to the external sector, due to a drop in domestic hydrocarbons production.

In addition to such external pressures, further vulnerabilities arise from dependence on the carry trade to bridge the financing gap. In this respect, we think the CBE will play it cautiously with regard to easing policy rates to maintain the attractiveness of the carry trade. If not through drawing in new portfolio inflows, then at least the CBE will seek to maintain the existing stock, in our view, to avoid igniting pressure on the EGP. Finally, the relatively downbeat de-dollarisation is the third key factor likely to keep CBE cautious with nominal rate cuts.

As such, we project the CBE to cut rates by a range of 500-600bps in 2025, with the first of which likely to be delivered towards end of 1Q25 post Feb's critical inflation reading. We then expect a pause in 3Q25 as fiscal measures set in before resuming the easing cycle in 4Q25. Our projected rate cuts denote that real rates would still remain elevated, at up to 800bps by year-end. While implying that further rate cuts are very much on the cards in 2026, the flip side of a high margin of real rates means monetary policy will remain tight next year.

Figure 24: Record primary surpluses signal sharp fiscal tightening…

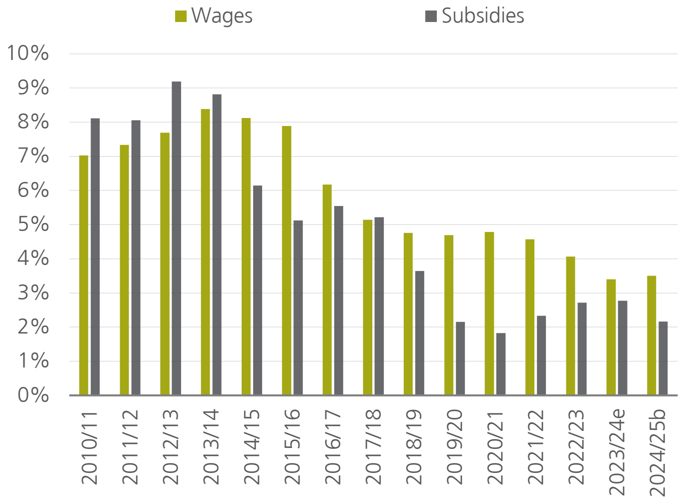
In % of GDP



Source: MOF, IMF

Figure 25: …which is weighing heavily upon wages and subsidies

In % of GDP



Source: MOF

The tight monetary policy will be complemented, in parallel, with a tight fiscal policy, with subsidy cuts and a VAT reform. Seeking to ease such a strained macro picture, authorities are seeking to ease the pace of fiscal consolidation by narrowing the projected primary surplus for the upcoming FY25/26 from the original 4.5% of GDP. This came following public comments by President Sisi, calling for changes to the IMF programme in case it keeps putting pressure on the average citizen. Even if the targeted primary surplus is watered-down towards the same level as the current FY24/25 (at 3.5% of GDP), it will still remain elevated at a record-high level.

Restrictive as they are, the tight fiscal and monetary policies are likely to resemble core factors that sustain relative underlying stability of the USD-EGP. We do expect, though, some weakness in the local currency in 2025, as we see the theme of a stronger USD and relatively lower rate cuts in the US driving net outflows in the carry trade throughout next year. We project the EGP's trading range to widen from the more recent EGP48-50 to EGP48-52.

We see two upside risks that could alter this rather tight macro backdrop. The first is a settlement of the regional conflict in the Middle East, a development that will likely drive a gradual recovery of Suez Canal revenues and boost a rather resilient tourism sector. Second, and probably more effectively, is the gov't's success in delivering on its promise of asset sales, a success that would cross many streams with one bridge. Sizable proceeds from the asset sales would enhance FX inflows; thereby, reducing vulnerability to carry trade outflows and also boosting the shaky confidence of locals in the EGP. Moreover, they would allow for an accelerated path of reducing public debt and debt burden (given a rule that at least 50% of asset sales proceeds to be directed towards debt reduction).

Broader policy success would be contingent upon the gov't's ability to introduce structural macro reforms that would steer the economy away from public dominance, whilst enhancing the role of the private sector, including attracting more foreign investments. The new economic team at the gov't has given off some positive signs in this regard, as seen in the attempts to streamline tax collections, invite the informal economy to be integrated into the system, reduce non-tax burdens on private corporates, as well as revamp the exports subsidy programme. The ability to deliver on such reforms and expand them into broader parts of the economy will be critical for regaining investors' confidence, in our view.

Egypt Macroeconomic Indicators (Year-end Jun)

	2022a	2023a	2024e	2025e	2026e
Real Sector					
Nominal GDP (USDbn)	475.3	391.3	383.1	355.4	408.3
Real GDP growth	6.7%	3.8%	2.4%	3.7%	4.7%
Population (mn)	103.6	105.2	106.6	108.1	109.7
Per capita GDP (USD)	4,587	3,721	3,592	3,287	3,723
CPI inflation (%, Avg.)	8.5%	24.1%	33.6%	21.1%	13.0%
External Sector					
Trade balance (USDbn)	(43.4)	(31.2)	(39.6)	(43.3)	(44.2)
Services balance (USDbn)	11.2	21.9	14.4	9.9	13.1
Tourism (USDbn)	10.7	13.6	14.4	15.3	16.9
Suez canal (USDbn)	7.0	8.8	6.6	3.5	5.0
Private transfers (net) (USDbn)	31.7	21.9	21.9	29.6	31.4
Current account balance (USDbn)	(16.6)	(4.7)	(20.8)	(19.6)	(16.0)
Current account balance (% of GDP)	-3.5%	-1.2%	-5.4%	-5.5%	-3.9%
FDI (USDbn)	8.6	9.7	45.6	11.7	12.7
Fiscal Sector					
Tax revenues (USDbn)	60.1	48.5	44.9	41.6	48.6
Subsidies (USDbn)	11.1	10.6	9.7	6.2	5.5
Primary balance (% of GDP)	1.3%	1.6%	6.2%	3.3%	3.4%
Fiscal balance (USDbn)	(29.4)	(23.5)	(13.9)	(26.5)	(25.7)
Fiscal balance (% of GDP)	-6.2%	-6.0%	-3.6%	-7.5%	-6.3%
Net domestic budget sector debt (% of GDP)	63.8%	67.2%	58.9%	59.2%	59.4%
Gross external government debt (% of GDP)	17.1%	21.1%	21.3%	22.7%	19.5%
Monetary Sector					
NFAs in the banking system (USDbn)	(19.8)	(27.0)	13.0	7.0	5.8
Foreign reserves (USDbn)	33.4	34.8	44.5	44.8	45.1
Exchange rate versus USD (Avg.)	16.50	25.95	36.29	49.11	50.58
Benchmark lending interest rate (end of period)	12.3%	19.3%	28.3%	23.3%	18.3%
Broad money growth	23.5%	24.7%	16.7%	25.6%	24.0%
Private sector credit growth (%, eop)	24.3%	25.4%	27.8%	25.5%	24.1%
Private sector credit (% of GDP)	27.8%	26.9%	25.1%	25.1%	26.4%

Source: Central Bank of Egypt, Ministry of Finance, CAPMAS and EFG Hermes estimates

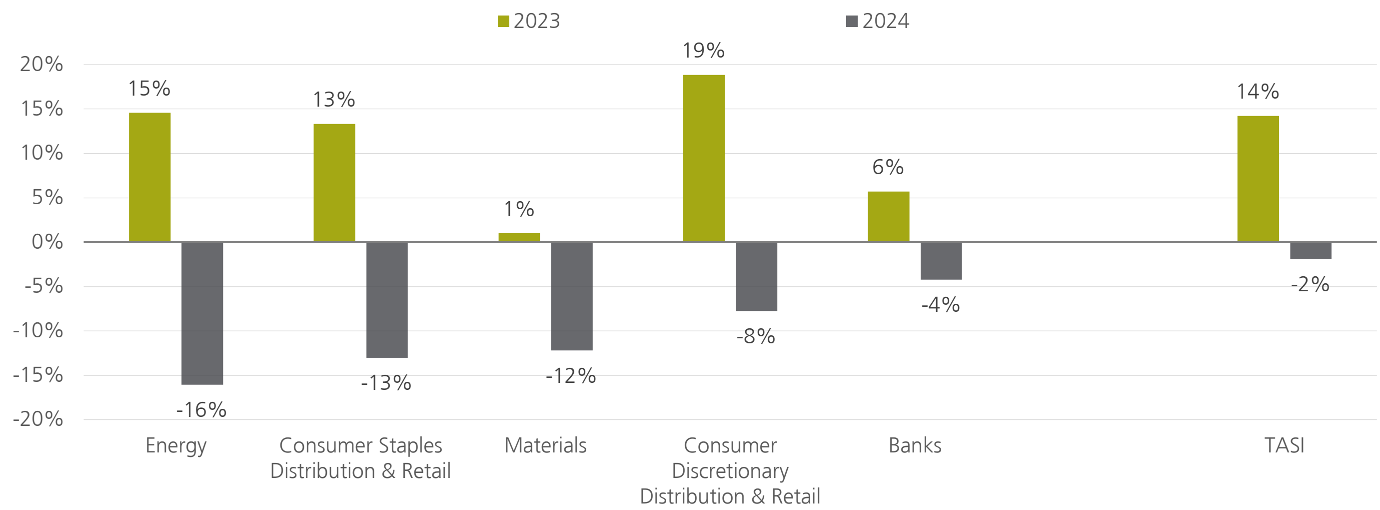
Growth story still has more to give

- Valuation premium to EM has narrowed
- Banks are our top picks in 2025
- We like defensive, domestic plays
- Foreign investors remain key buyers of Saudi stocks

2024 was a modest year for the KSA equity market, having shed 2% YTD, as it has been weighed by the energy and materials sectors, which were hit by falling oil prices and weak demand outlook, in light of the downbeat signals coming from China. Market performance was also weighed-upon by the consumer sector, especially on the retail side, as companies' performance, including top-line and margins, came in below expectations.

Figure 1: Energy and materials were the bigger drags on Tadawul in 2024, in addition to consumer staples

In Y-o-Y % change



Source: Bloomberg

Foreign and GCC investors continued to be the market's key buyers in 2024, YTD, with net purchases of USD4.9bn for foreign and USD0.8bn for GCC investors. Meanwhile, local retail investors (ex-HNWI) have been big buyers of the market in 2024, YTD, with net purchase of cUSD7bn, their largest net purchasing since at least 2021. This was counterbalanced with USD8.7bn of net selling from local institutions, which were driven by net sales from GREs.

The modest market drop meant valuations have also dropped in parallel, with the market's 12-month forward P/E currently trading at around the 15x vs 18x at beginning of year. This meant the market now trades below its long-term average multiples – on a P/E basis – and that it has also narrowed the premium to EM; hence, becoming an important factor in our overweight call on the Saudi market for 2025.

The market remains ripe with more idiosyncratic stories/themes that can provide a cushion against downside risks from external shocks, including lower oil prices. The trajectory for lower interest rates leads us to put banks as our top picks in KSA; in fact, they are our top picks across the region.

The sector has underperformed this year, falling 4% YTD, amidst concerns over the scaling-back of gov't investments and lower oil prices. As mentioned in the thematic section, we think the gov't has enough firepower to withstand short-term oil price volatility, and the event-driven projects offer a floor to spending, in our view. Moreover, private credit growth has been rather solid, so far this year.

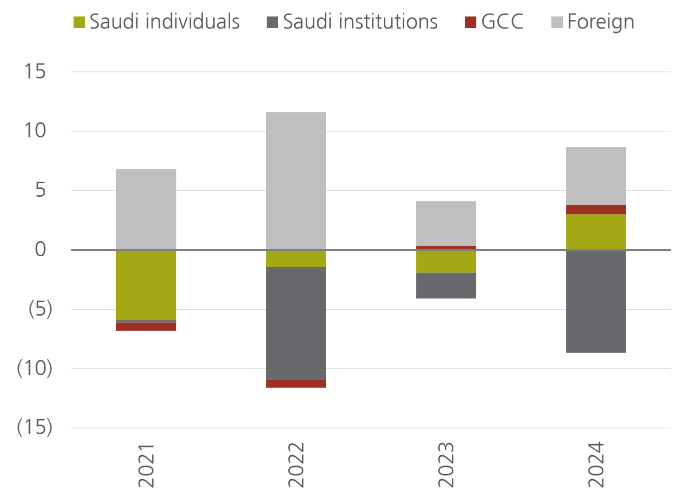
Figure 2: Correction in 2024 reduced valuation premium with EM

12-month forward P/E

Source: Bloomberg

Figure 3: Foreigners and GCC remain main buyers

In USDbn



Source: Tadawul

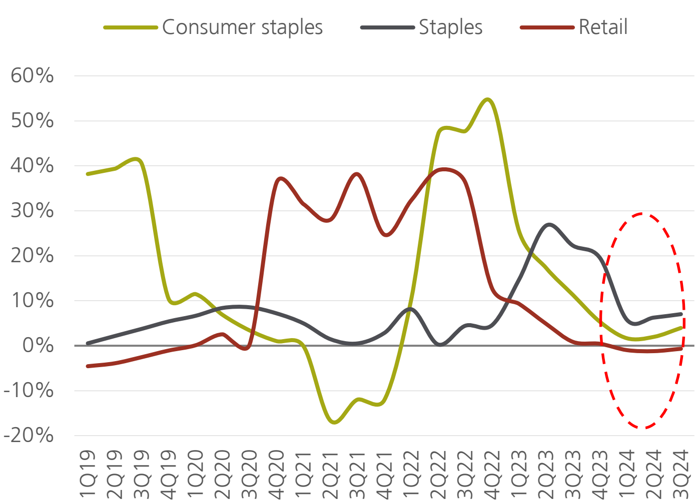
We also like defensive names in the healthcare sector, including CARE on the hospitals side, as well as Aldawaa in the pharmaceuticals segment, especially following the latest stock price correction for the sector at large. Meanwhile, the outlook for consumers remain somewhat mixed, with downbeat performance in 2024 weighing on stocks (weakening revenue growth across the board, see Fig. 5).

The rising population growth has not translated into much growth for a number of consumer segments, especially for food producers/supermarkets. We, therefore, favour selective names, including Almarai, Theeb in car rentals and gym operator Leejam. We are also positive on electronics market, which is staging a strong recovery.

The sectors to avoid are primarily chemicals and insurance. The former, having been the driver of 2024's market underperformance, is likely to remain in a lull against a backdrop of weak demand and ample supply; hence, this is a sector that we clearly prefer to remain underweight on. Similarly, the insurance sector is likely to be at a disadvantage, as we project a compression in yields, due to lower rates.

Figure 4: Revenue growth slowing across various consumer segments as population growth theme failed to boost top lines

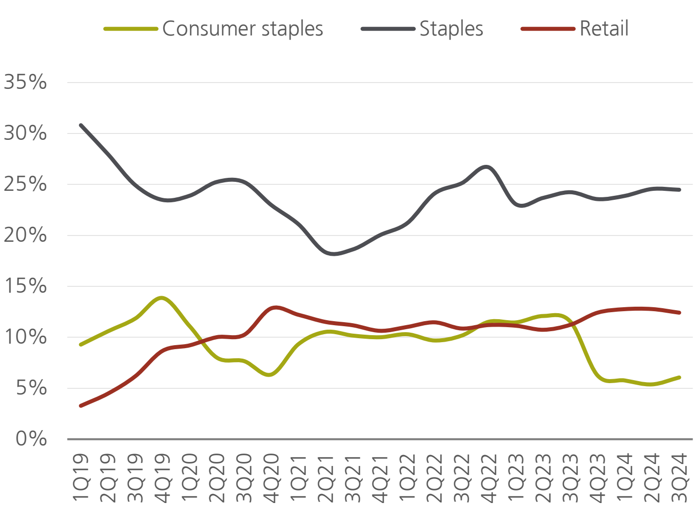
In Y-o-Y % change in revenues



Source: Company data

Figure 5: Margins held up well, except for consumer staples, where they have nearly halved in 2024

EBITDA margin as %



Source: Company data

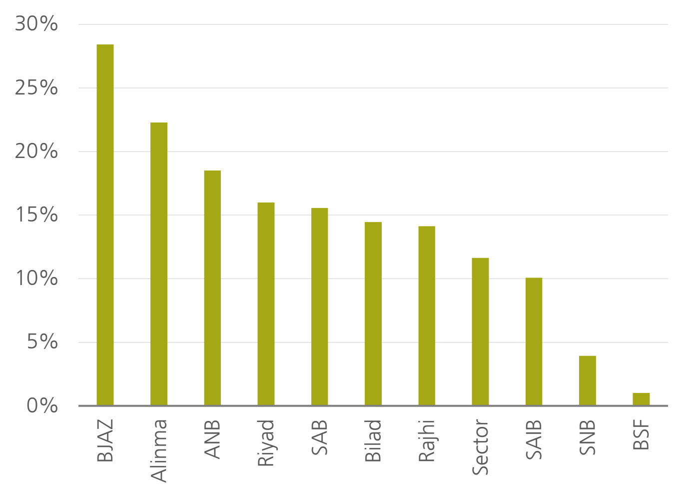
Banks

Banks underperform in 2024, despite delivering good earnings growth

Saudi banks' stocks have underperformed this year. This comes against a backdrop of lower oil prices, concerns over the scale-back of giga projects and relatively light liquidity. Even though stock performance has been underwhelming, the sector's profitability has been quite strong. Composite earnings in 9M24 are up 12% Y-o-Y, on strong revenue (non-II led), controlled cost growth and lower provisioning. Loan growth has been strong, at 12% Y-o-Y; NIM has declined 13bps Y-o-Y to 2.96%; and the cost of risk continues to be at a cyclical low, underpinned by a benign credit environment.

Figure 6: Profit growth by bank

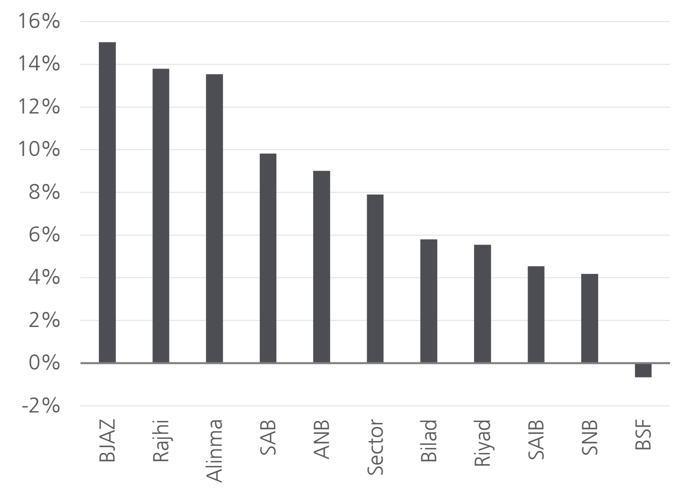
As of 9M24 (Y-o-Y)



Source: Company data

Figure 7: Revenue growth Y-o-Y

As of 9M24



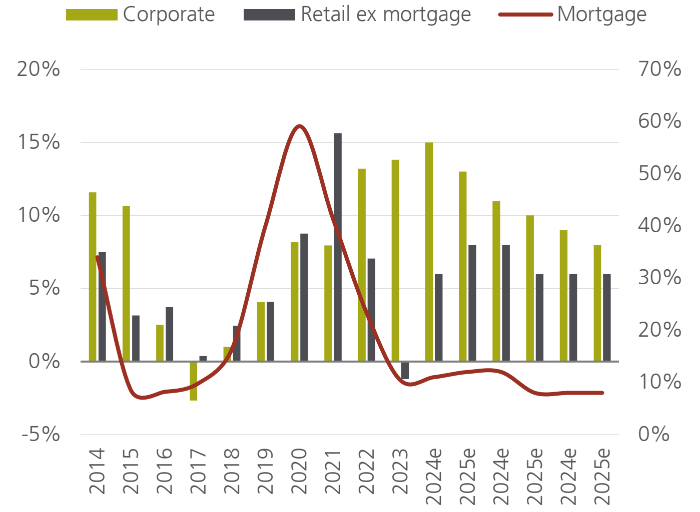
Source: Company data

2025 Outlook – corporate loan growth likely to remain strong; retail loan growth to pick-up

Concerns over a slowdown in project activity is valid – oil prices are low, relative to Saudi Arabia's budget breakeven level – Saudi banks' mgmt. expect corporate growth to continue its strength. It is likely to be paramount for Saudi authorities to ensure that mega events – Expo 2030 and the 2034 FIFA World Cup – are a success, so they will ensure the infrastructure associated with these events (stadiums, roads and accommodation) are delivered on a timely basis. In retail, the underlying growth drivers – population growth, falling unemployment, household formation and increase in home ownership – supporting a relatively strong growth outlook are intact.

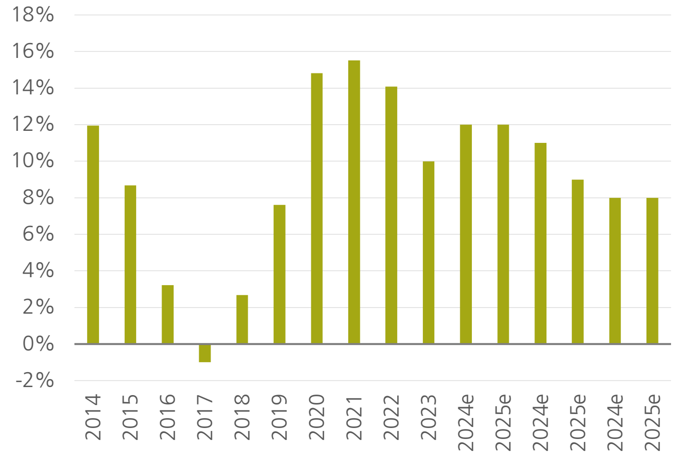
Retail loan growth is also likely to get a cyclical boost from lower interest rates, with every 100bp cut in rates potentially driving a 200bp increase in demand for personal financing and an 800bp increase in demand for mortgages. Altogether, we expect Saudi loan growth to remain strong (low-double digits) in the medium term.

Figure 8: Loan growth by segment



Source: Company data

Figure 9: Overall loan growth evolution



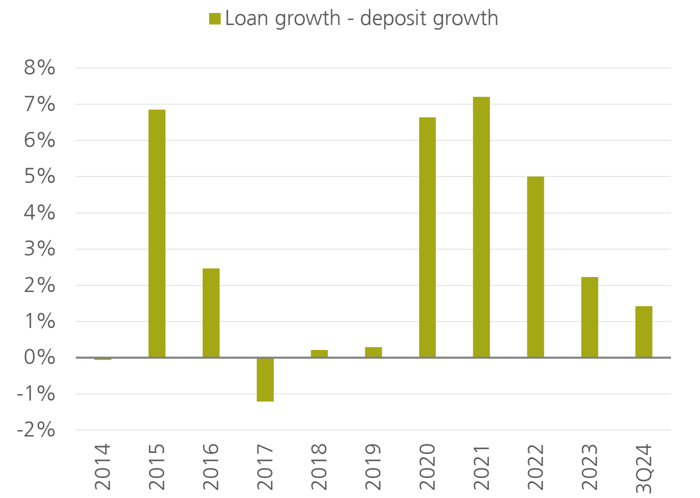
Source: Company data

Liquidity – continues to be tight; negative net foreign assets position not a concern

KSA's banking sector liquidity is still relatively tight. Headline LDR is 100%, while the regulatory LDR is at 80% (max permitted is 90%). Saudi banks' deposit growth has not kept pace with that of loans, as Saudi funding needs – whether for Vision 2030 projects or for housing – have increased. As a result, banks have increasingly had to tap other sources of funding (including overseas liabilities – interbank funding, debt and deposits) to close the gap and, potentially, increase the duration of their liabilities.

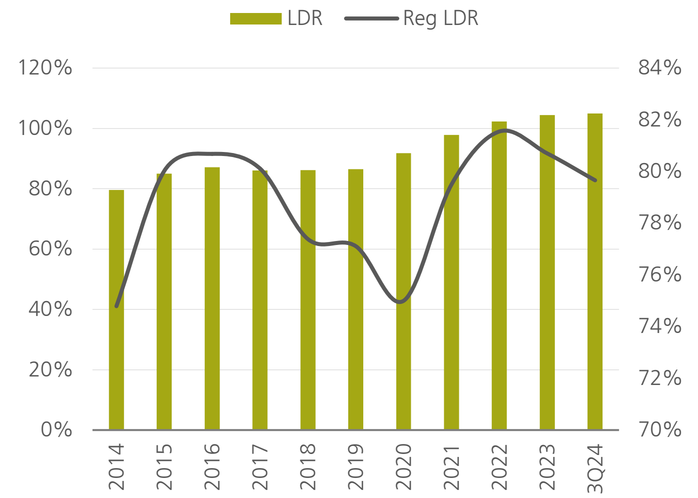
As banks have increasingly tapped overseas funding, the sector's net foreign assets position (foreign assets-foreign liabilities) has turned negative. Foreign liabilities exceeded foreign assets by cSAR16bn. We do not have major concerns over this development. It shows that the Saudi market is maturing, in terms of its funding composition. Foreign liabilities for Saudi banks still make up a relatively small portion of total liabilities vs some of the regional markets – KSA: 9%, UAE: 20% and Qatar: 34%.

Figure 10: Loan growth – deposit growth gap



Source: Company data

Figure 11: Sector's LDR and regulatory LDR



Source: Company data

Five Factor Funding Resilience Framework to screen banks

In an environment where deposit-funding gap is likely to persist, we believe that banks, which fund their loan growth in a cost-effective manner, should outperform. We screen the banks based on their funding resilience using a five-factor framework: i) market share of deposits – banks with a large market share should have better pricing power on deposits; ii) market share of CASA – high share reflects ability to raise low-cost funding; iii) CASA growth since 2020 – success in mobilising CASA in a competitive environment; iv) percent of liabilities associated with the retail segment – retail deposits tend to be sticky and lower-priced; and iv) cost of funds; reflects the results of the first four criteria. Based on this screening, SNB, Rajhi and Alinma score the best; BJAZ, SAIB and BSF are the weakest.

Top picks

SNB: NIM has likely bottomed out, and mgmt. expects rate cuts to be NIM-positive. Loan growth should continue to increase, considering the bank's relatively strong funding and capital position. The bank's strategy refresh, which is likely to outline plans to boost ROE through focus on higher-yielding segments, enhancing cross-sell and optimising costs – not a reason to cheer in the ST once unveiled.

Rajhi: Our positive view on Rajhi is shaped by its solid returns, better-than-sector outlook for ROE expansion and strong funding profile (2nd best, as per our funding framework). It is one of the best-positioned for rate cuts. The bank aims to boost fees by sharpening its focus on cross-sell and growing its investment banking business.

Real Estate

Positive developments in 2023-24 paved the way for a brighter sector outlook

We believe 2023-24 marked a transformational period in the property sector dynamics, with exponential growth in the number of projects assuming the off-plan sales model. Such activity has been led by National Housing Company (NHC) and Roshn, with both leading new project launches and shaping new market supply. Focus has been on increasing housing ownership amongst Saudi nationals, which reached 63.7% in 2023. Furthermore, the announcement of the premium residency programme, with one of the criteria being linked to owning a real estate unit with a minimum value of USD1mn is the first step towards the approval of the foreign ownership law, in our view. The programme is increasingly attracting attention, despite the minimum set limit – considered to be the highest in the GCC. This has opened a new demand segment for the property sector that we expect to attract a wider buyers base.

We expect the pace of change to continue in the sector, with some themes continuing, while new ones will begin to show some signs. Amongst the themes that we expect to prevail and shape our sector outlook are further developments on the regulatory front, broadening the product offering, continued massive investments in the capital city real estate sector and more investments in Mecca. Although the focus will be on residential products, we believe developments in other segments, such as office space and retail would come into the scene, especially with Cenomi Centers planning to open two flagship projects in Riyadh and Jeddah, along with the near completion of The Avenues Riyadh (Mabanee). New super-regional retail assets opening in the coming 24 months will result in higher retail activity, in general, and more brands being attracted to the Saudi market, which is considered to be the largest in the GCC. Expansions in the F&B and entertainment segments will continue to prevail.

As for the lease market, we believe rental rates, especially in Riyadh's residential market, will continue to increase at double-digit rates, given the insignificant new supply expected in the market next year, along with the higher demand potential from the influx of expatriates. The hospitality segment will continue to be in focus, despite no significant number of hotel rooms hitting the market next year; yet, we expect more announcements for hotel developments, especially in new projects like Diriyah, New Murabaa, etc.

Developments in the sector's regulatory front to take centre stage

Although we acknowledge that recent developments in the regulatory front have resulted in a change to the sector's dynamics, with the most prominent being the off-plan sales model gaining momentum, along with the kick-off of the premium residency programme, we believe there is still room for further developments. This will primarily include the passing of foreign ownership law, which we think will represent a trigger for increased activity in the market. Furthermore, we think lowering the minimum limit for the premium residency, related to owning a real estate unit to be in line with other cities such as Dubai, will widen the buyers' base and offer more opportunities for developers to diversify their product offerings. Moreover, we believe changes to the mortgage system are inevitable. Currently, only a few banks offer mortgages to non-Saudi nationals; some restricting the offer to the premium residency issuance. We believe that, should more banks offer mortgage products, especially with a downtrend in interest rates, this will support real demand coming into the sector, especially from the wider expatriates' base.

More focus on offering various products

We have a positive outlook on the Kingdom's real estate market in the short and medium term, where we expect a continuation of the growth story that has started to show its signs over the past three years. This would entail developers offering a wider range of products that would target various market segments. We highlight that efforts over the past three years have been directed to providing affordable housing units across various cities in the Kingdom, with the target of increasing the housing ownership percentage amongst Saudi nationals to hit 70% by 2030, having reached 63.7% in 2023. We expect NHC to continue to lead this segment by collaborating with private developers to execute the plan; the company has highlighted that apartments within its communities start at a price of SAR375,000, in an attempt to better serve this segment to address affordability concerns.

On the other hand, we expect an increased number of projects launches that would target the higher end of the market. It is worth noting that the trend of branded units is gaining momentum in the region, with Dubai's property market being led by activity in the segment; hence, we expect the Kingdom's market to follow; this has started with launches in Al Diriyah (two more brands are expected), which will be smaller in number of units, albeit higher-priced. Roshn is also planning to follow and launch units targeting the high-end segment in its flagship project Sedra (Riyadh). This will also be in parallel to New Murabaa project launches, which are expected towards end-2025 – again, in an attempt to serve the high end of the market. The middle-income segment will continue to be served by private developers, mostly in NHC and Roshn's communities, in our opinion.

Riyadh will continue to attract the biggest chunk of investments…

We expect Riyadh city to continue to attract the biggest chunk of investments towards the real estate sector, which will be encouraged by the recent move by the gov't to clear restrictions on 50mn sqm of land plots in North Riyadh. Yet, progress within giga-projects of the likes of New Murabaa, Al Diriyah and Al Qiddiya will remain in focus in 2025. Despite the three projects being announced and showcased in several international exhibitions over the past couple of years, the first residential launch in Al Diriyah has just been launched in Nov 2024 in the City Scape exhibition, which included c150 branded units. We expect the pace of new residential unit launches to be initially slow in these projects; yet, their progress and milestones, in terms of infrastructure and construction work will be the focus, along with some new hotel assets being launched. As for residential units, the focus will continue to be on launches in NHC's suburbs and Roshn's communities, with private developers collaborating with both developers; however, we note that NHC and Roshn will tap other segments outside their core market segment, along with developing the investment properties portfolio.

Figure 12: Major giga projects announced

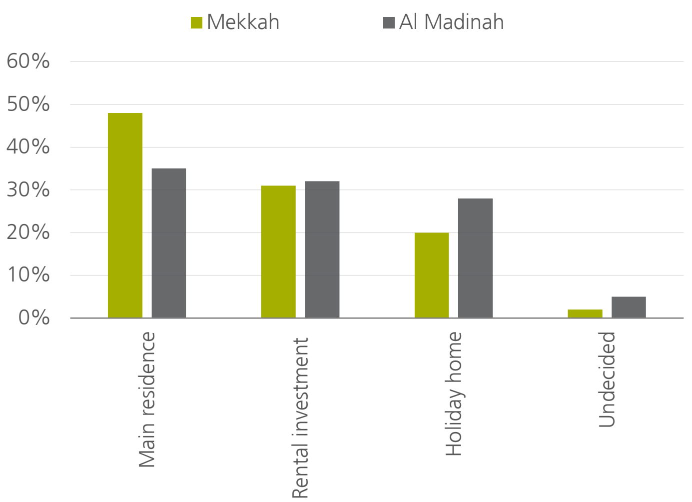
Project	Investment (USDbn)	Planned number of units	Other components
Al Diriyah (Riyadh) *Featuring the cultural and historic area of the Kingdom*	USD63bn	20,000 units+	**Hotels**: 38 hotels **Retail area**: 500,000 sqm **Office area**: 600,000 sqm
Al Murabaa (Riyadh) *Transforming Downtown Riyadh*	USD50bn	104,000 units	**Hotel rooms**: 9,000 keys **Retail area**: 980,000 sqm **Office area**: 1.4mn sqm
King Salman Park (Riyadh) *The world's largest urban park and integrated residential community*	USD17bn	12,000 units	**Hotel rooms**: 2,300 keys **Retail area**: 500,000 sqm **Office area**: 600,000 sqm
Jeddah Central (Jeddah) *A revitalisation project centred on the city's history*	USD20bn	17,000 units	**Hotel rooms**: 2,700 keys
Total	USD150bn	153,000 units	**Hotels:** 38 hotels **Hotel rooms**: 14,000 keys **Retail area**: 2.0mn sqm **Office area**: 2.6mn sqm

Source: Knight Frank, EFG Hermes estimates

…while Mecca's property market will be on the radar screen

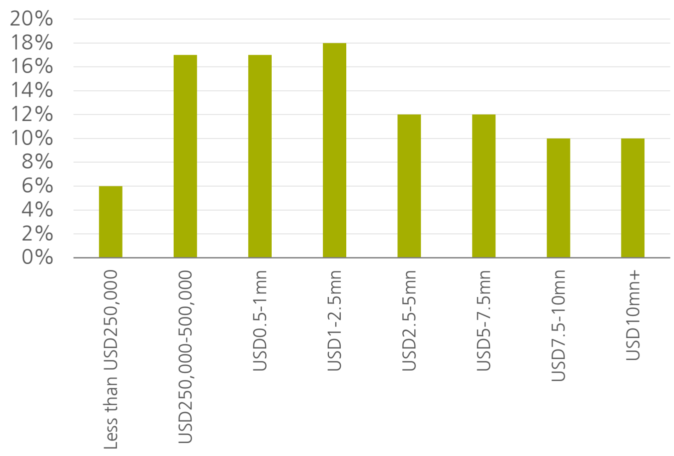
There is a number of projects announced in Mecca that will drive the real estate sector in the province. Although the activity is led primarily by tourism-related projects, with several planned hotels in Jabal Omar (1,800 hotel rooms planned to open in 2025-26), Masar Makkah and Thaker Makkah; we believe the residential projects are gaining momentum, following a period of relatively no new projects being announced, as the focus has been on Riyadh, Jeddah and Dammam. Market leaders, NHC and Roshn, launched projects in Mecca, with Al Manar (Roshn) planning to supply 33,000 units and Makkah Gate (NHC) 8,300 units. This is in addition to the Thaker Makkah project that targets to build 100 towers, including hotel and residential units. Although Mecca is one of the lowest cities, in terms of hosing ownership amongst Saudi nationals (56%, as per the latest census in 2022), we think some of the new projects being offered to non-Saudis, on a 99-year leasehold basis – assuming the premium residency programme – will be the main growth driver, given the significant demand expected from the Muslim community across the world.

Figure 13: A significant percentage of potential property buyers are seeking buying properties as a main residence…



Source: Knight Frank, EFG Hermes

Figure 14: …with generous budgets being assigned to these investments, reaching more than USD10mn



Source: Knight Frank, EFG Hermes

Top picks

Retal: It is our sector pick, expecting that the company will continue to leverage on positive market developments; hence, launching more projects across the various segments. The stock was a top-performer in the sector, which we expect to continue in 2025. The company leverages on all market growth opportunities, with presence across all segments and strong ties with the two leading developers, NHC and Roshn. Besides its strong brand equity and market presence, we believe Retal will continue to leverage on its ties with PIF and establish presence in new giga projects that are expected to hit the market over the medium term.

Al Akaria: It would be amongst our preferred stocks in the sector, as the stock represents a proxy on the continued progress in land restriction clearance initiatives in Riyadh. The clearance of land restriction of Al Widyan plot will unlock significant value for the company, offering growth opportunities in the development segment, given the land premium location. We are positive on Binyah's operations (60% owned subsidiary), for which we expect faster execution of major projects in the backlog, along with being awarded new contracts. Furthermore, the potential IPO of Binyah, might act as a stock trigger during the year.

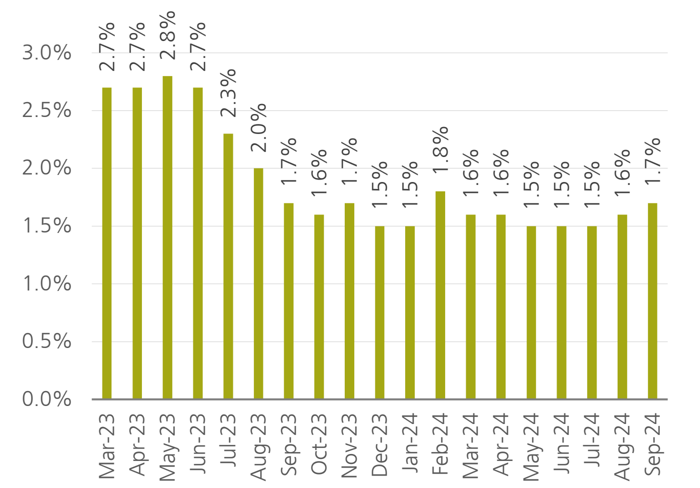
Consumer

A challenging 2024

Saudi consumer names, for the most part, have had a tough 2024, as market volume growth was below expectations (partly on slower population growth), and 2023 was a relatively high base. From a demand-side perspective, the operating environment has been fairly tough, due to residual impact of inflation, which is reflected on consumer spending power, with many players opting for price promotions to drive demand.

Figure 15: KSA's inflation rate slightly increased to 1.7 % in Sep 2024

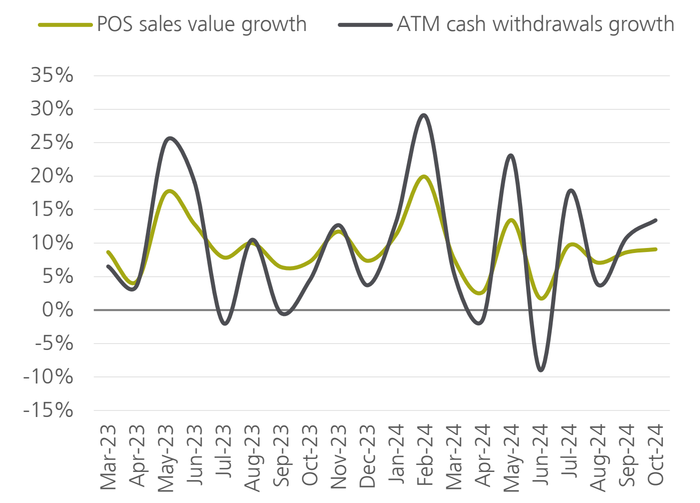
%



Source: SAMA

Figure 16: The value of point-of-sales (POS) transactions in Saudi Arabia grew 9% Y-o-Y in Oct (+2% M-o-M), while ATM cash withdrawals grew 4% Y-o-Y (+10% M-o-M)

Y-o-Y growth (%)



Source: SAMA

Food producers seeing strong competition

Food producers have been seeing margin gains from lower input costs and partial impact from 2023 price increases, but we believe margin momentum will likely slow down, given increased promotions (particularly in dairy) and a slight increase in raw material costs.

Companies that had a high inventory cover of raw materials in 2023, and with ex-KSA operations, are likely to continue to outperform in 2025e, given rising competition amongst food producers, as well as better consumer trends in markets like UAE and Kuwait. Almarai is our preferred food pick, with added impetus from its significant poultry capacity expansion plans, in line with KSA's plans to increase self-sufficiency, but there is an overhang on share price performance from the transfer of Savola's 34.5% stake to its shareholders.

Similarly, grocery retailers have been seeing slowing revenue momentum, on weaker LFL sales, signalling lower market demand (especially for non-food grocery items) and increased competition, especially with improved performance at previously troubled/distressed players like BinDawood and Panda and the entry of new players.

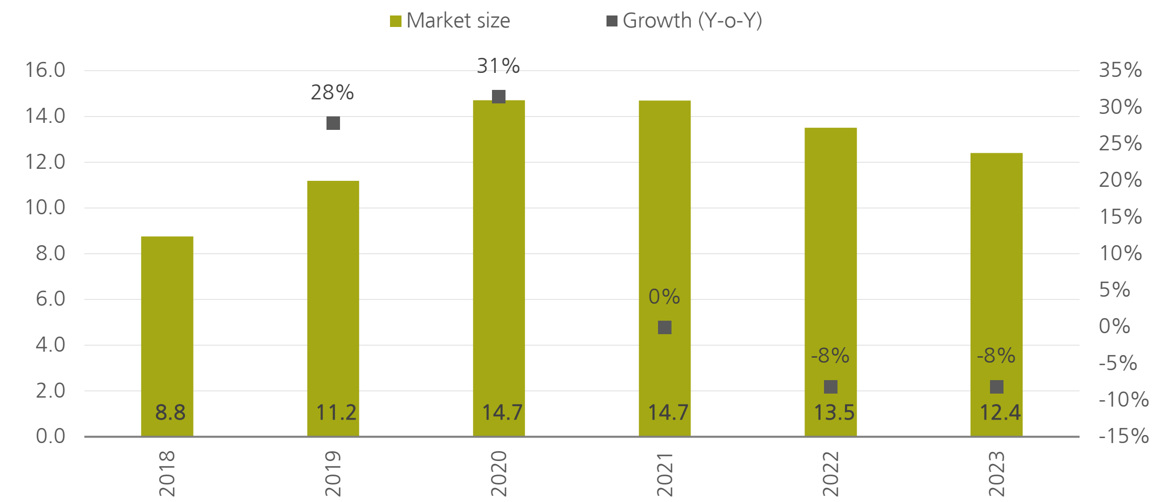
QSRs likely to rebound from a low base, but visibility is not high

Quick service restaurants (QSRs) - **Alamar, Americana** and **Herfy** - remain under pressure from ongoing boycotts of American brands, given regional geopolitical tension, as well as increased competition in some subcategories, as well as pressure from aggregators on delivery fees. There should be a bounce-back in performance in 2025e, given a low comparable base, but visibility is low. KSA aggregator **Jahez** is also facing low visibility, due to the entry of Chinese player Meituan in Oct 2024, which is reportedly causing a significant disruption to the market.

White goods expected to be the gold medalist

Amongst non-food retailers, the electronics market appears to be recovering after a weak performance since 2021, due to strong buying patterns during COVID-19 lockdowns and ahead of the Jul 2020 VAT increase, as well as high inflation over 2022-23. White goods (where **eXtra** is a dominant player) is the best sub-segment within the market, on tailwinds from housing demand/mortgage growth and limited competition from online players. We would also highlight leading gym operator **Leejam** as a play on rising demand for fitness in KSA and its aggressive expansion plans, with the recent slowdown in numbers, due to a relatively larger members base after strong growth over 2022-23 and opening in newer areas that take more time to ramp up.

Figure 17: KSA consumer electronics market estimated to have dropped c8% in each of 2022 and 2023, on inflationary pressures and as spending shifted to entertainment, travel, etc., but appears to be recovering in 2024
In SARbn



Source: SAMA

A weaker ST rental market and lower used car margins a drag on car rental names

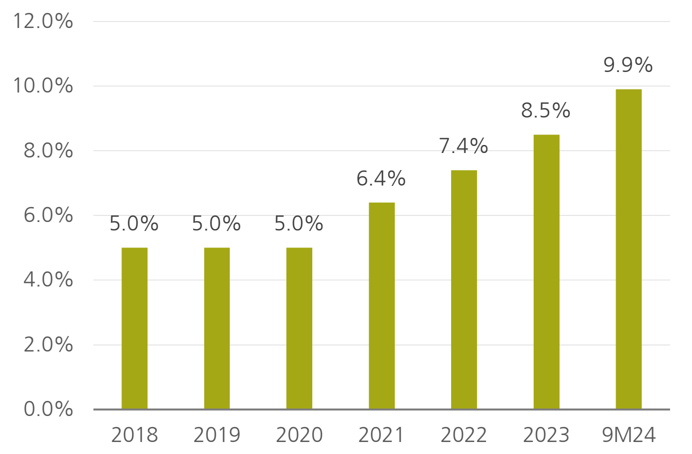
The car rental industry was a market favourite in 2023, but this changed in 2024, with a slowing ST rental market (after a very strong 2022-23, on increased domestic travel), partly as some players over-expanded the prior years, and as used-car margins have been normalising. The LT leasing market, however, remains strong, on increased demand from corporates (opting to lease not own) and gov't entities. Also, a key highlight was **Budget KSA**'s SAR455mn acquisition of leasing company AutoWorld in 3Q24 that should unlock significant synergies in the medium term. Our preferred player is **Theeb**, which has been staging a comeback, on improved ST rental utilisation, some measures to cut costs and strong leasing growth.

Consolidation remains a theme in some retail sub-sectors

Petrol station operator **Aldrees** is one of the best plays on this theme, given the high fragmentation of the market (it is the leader, with only c10% market share); however, at its current high valuation, we see it as a play on the optionality of a potential hike in regulated gasoline/diesel margins. **eXtra** also still has some scope to gain market share in the electronics market, especially driven by white goods, and grocery retail is set to benefit in the medium term from modern trade under-penetration (only c45-50% of the market is organised).

Figure 18: Evolution of Aldrees' market share - strong gains from 2021, on station openings and consolidation benefits

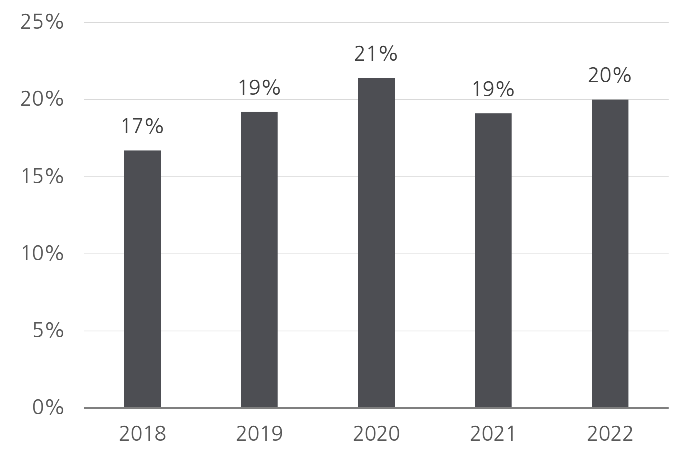
Market share



Source: Company data

Figure 19: Evolution of eXtra's total electronics market share – strong gains from 2017, on consolidation benefits; eased in 2021-22; eXtra's white goods market share doubled over the past three years

Market share



Source: Company data

Top picks

Almarai: MENA's largest listed consumer name and GCC's leading dairy and juice companies will continue to outperform peers, operationally supported by improved volume trends, especially in ex-KSA GCC and better margins, driven by lower commodity prices; however, there has been an overhang on share price performance from the transfer of Savola's 34.5% stake in Almarai to its shareholders as dividends.

Budget KSA: The company reinforced its leadership position in LT vehicle leasing, with the acquisition of AutoWorld (c16k fleet) in 3Q24. Earnings momentum should accelerate in 2025e, on AutoWorld consolidation and as cost synergies are realised over 2025-26e.

Leejam: KSA's largest fitness centre operator continues to expand aggressively across multiple gym formats, with a new growth strategy expected to be announced in 2025e. The company also continues to have superior profitability and FCF generation.

Theeb Rent A Car: KSA's leading ST car rental company has been seeing an earnings recovery since 2Q24, which will continue into 2025e, driven by strong leasing growth, improved margins (partly on insurance contract renegotiation), lower interest rates (as it is a highly leveraged business) and better utilisation at the high-margin ST car rental segment.

Healthcare

Strong operational performance to sustain, with favourable macro backdrop, rising insurance coverage and higher prices

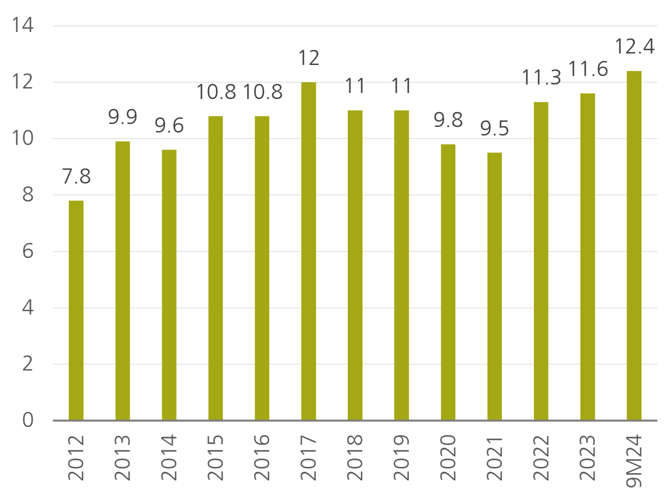
KSA hospital operator names are on track to post solid 2024e results, supported by strong operational performance (revenue and margins), which is a trend we expect will continue in 2025-26e. We attribute the solid performance to: i) a recovery in the economy that has been supporting employment and population trends (particularly in Riyadh); ii) increased insurance coverage (number of insured lives increased 4% Y-o-Y to c12.4mn as of Oct 2024); iii) favourable pricing trends (on case/patient mix and price increases implemented by some hospitals); iv) the gov't not opening new facilities in main cities; thus, positioning private hospital operators to gain higher traffic. That said, we do not see a risk from the recent revision by the Saudi gov't to its population targets and expansions (NEOM, etc.), as - despite the large expansions taking place by private hospitals - the sector is estimated to see a beds shortage of c2k (assuming current gov't-led expansions do not see further delays, and there are no expansions in the public sector). Moreover, the Saudi gov't continued its effort to transform the sector, with several initiatives to promote its quality and infrastructure, none of which have benefitted private hospital operators thus far (opportunity is in the privatisation programme, which remains immaterial in the ST).

Non-pharma to remain dampened by discount/promotion trends

Dynamics in the non-pharma segment remain challenged in 2024, with trends of discounts/promotions this year continuing to be comparable to what was seen in 2023, which is a trend we expect to continue in 2025e, on increased presence by discounters and online retailers/marketplaces. Meanwhile, total pharma market grew by a robust c12% in 9M24, driven by: i) higher volumes, on the aforementioned increase in insurance coverage and supportive gov't initiatives (targeting to increase local pharma production to 40% of total, from c29% currently and c24% in 2021); ii) a favourable drug pricing environment; and iii) continued demand for GLP-1 products (weight loss and diabetes drugs; accounted for c25-30% of the market's overall growth).

Figure 20: Number of insured lives resumed strong growth from 2022, supported by better employment and population trends

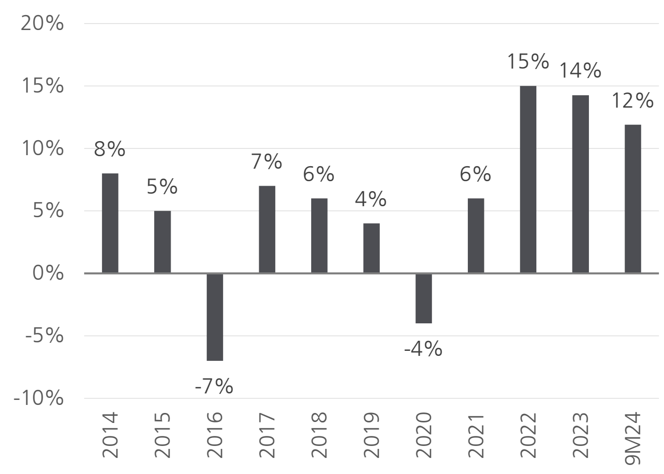
Number of insured lives (in mn)



Source: CHI, Bupa Arabia

Figure 21: Total KSA pharma market (private + tenders) continued to exhibit robust growth (+12% Y-o-Y in 9M24)

Y-o-Y growth



Source: IQVIA

Top picks

CARE: It is our top pick within Saudi hospitals, as it continues to deliver on its five-year strategy (acquired two assets since 2Q23, and announced a third acquisition last week) while working on improving its existing operations. The name is trading at a 2025e P/E of 20x vs sector avg. of 25x, despite a stronger earnings growth outlook with a 2YR CAGR of 30% (second highest amongst Saudi-listed hospitals), driven by higher revenue and margins. There is also upside to our numbers as the five-year strategy is further implemented, where it has firepower up to SAR1.5bn that could be spent on expansions and/or acquisitions.

MEAHCO: The name is a main beneficiary of interest rate cuts as it has the highest leverage across the sector, where we expect earnings growth momentum to accelerate from 4Q24e, driven by recent normalisation in finance costs which have been offsetting solid operational performance since 4Q23. The name trades at a 2025e P/E of c20x, which is at a discount to the sector (25x), despite having higher earnings growth prospects (2YR CAGR of 32% vs sector avg. of 23%).

Aldawaa: Our preferred exposure to the fast-growing pharma market, given its key position in the Wasfaty programme (an e-prescription platform that provides Saudis with public insurance to obtain their medications from private pharmacies that participate in the programme; Aldawaa handles c65%+ of the programme’s total invoices), which enables it to offset headwinds in the non-pharma segment and grow by a five-year earnings CAGR of c16%, driven by higher revenue (+6%), continued focus on opex controls and normalisation in interest costs (on rate cuts and deleveraging).

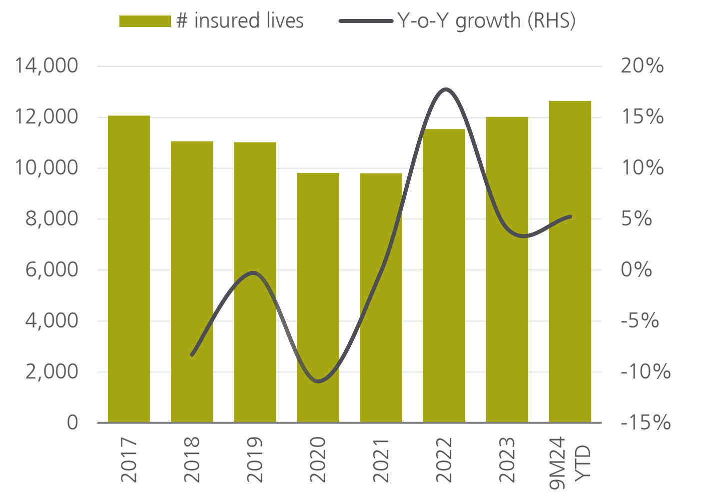
Insurance

Medical – stable medical inflation, mid-single digit volume growth

We expect medical inflation to stabilise at 8-9% going into 2025. Recent regulatory amendment to Article 11 - allowing insurers to enforce insurance protocols on public providers - could bring down medical inflation by 1pp, in our view. In the absence of a regulatory push towards closing the current enforcement gap (31% for Saudis, 24% for expats), we pencil in mid-single digit medical volume growth in 2025, in line with 2024 trends. We believe Tawuniya will likely continue to capture medical market share, following a solid track record in 2024, and fueled by its improved value proposition and focus on SME underwriting. Primary care expansion will likely continue for Tawuniya (six facilities currently), and we will likely see Bupa's first clinics in Riyadh next year; however, the expected claim reduction will take some time to materialise as members' enrolment picks up pace.

Figure 22: insured lives growth is lacklustre at 5% YTD as of 9M24, following 4% Y-o-Y growth in 2023…

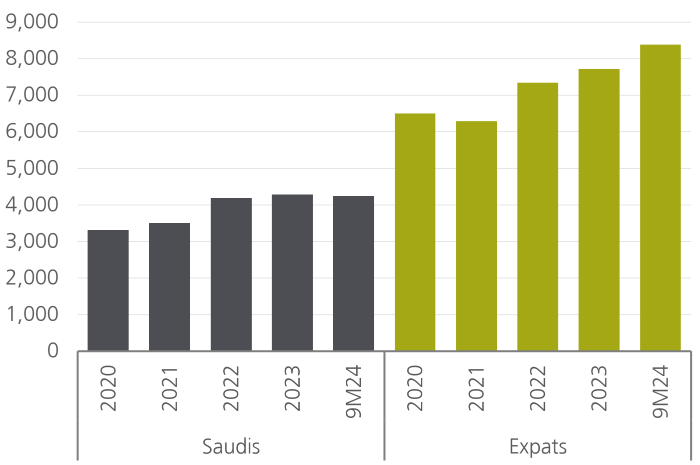
Total insured lives in 1,000 and their Y-o-Y growth (%)



Source: Company data, CHI

Figure 23: …driven by expats (up 9% YTD in 9M24), while Saudi insured lives fell 1% YTD in 9M24

Saudis vs expats insured lives in 1,000



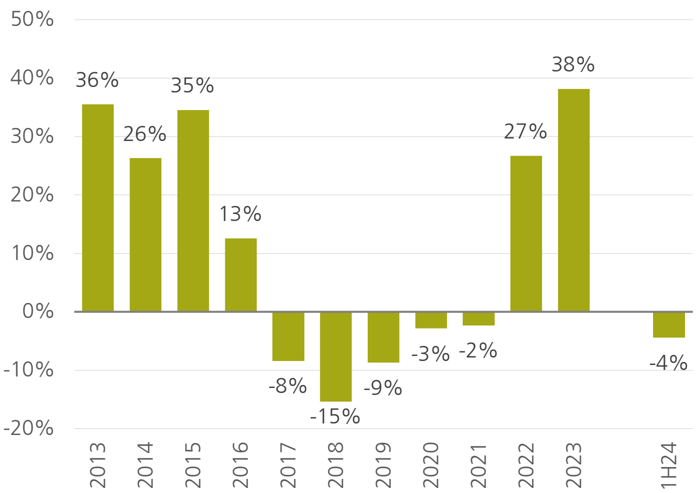
Source: Company data, CHI

Motor – upward marginal pricing likely in 2H25; post margin squeeze in 1H25

We expect motor margins to come under further pressure going into 2025, due to the fierce price war since early 2Q24 (average pricing down 30% Y-o-Y). We expect insurers to react by raising motor rates towards mid-2025 to repair distressed margins. We expect dominant motor insurers Tawuniya and Al Rajhi Takaful to offset revenue slowdown - due to GWP drop in 2024 - by grabbing higher-margin TPL plus and comprehensive volumes from distressed competitors.

Figure 24: Price war led to a 4% Y-o-Y drop in sector motor GWP, following strong pickup of 38% in FY23 driven by enforcement

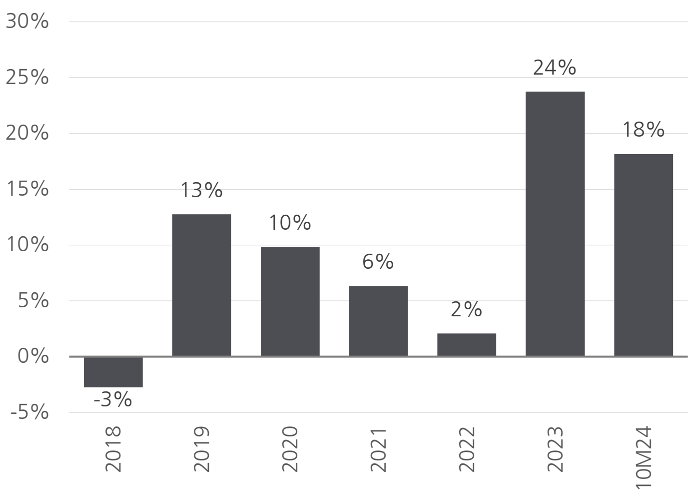
Motor GWP growth Y-o-Y



Source: Insurance Authority, SAMA

Figure 25: Solid insured vehicles volume growth alleviated some of the pricing pressure on motor premiums

Y-o-Y growth in insured vehicles



Source: Najm

Life – Al Rajhi Takaful to continue to dominate; Tawuniya to enter as a challenger

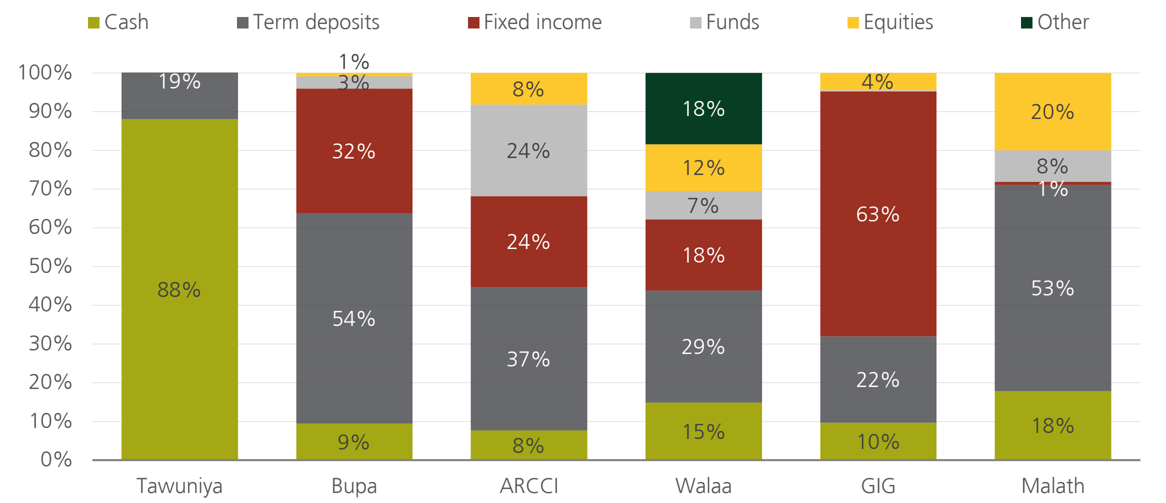
Life is gradually emerging as the new relay for growth for the Saudi insurance sector, in our view, spearheaded by Al Rajhi Takaful. We expect the latter to continue growing its savings book, amidst a supportive macro backdrop (Vision 2030 push for savings for Saudis, declining rates prompting a shift from deposits) and growing demand, particularly from young Saudis. Tawuniya has started building a multi-channel life distribution network targeting the mass market and will start competing gradually with the dominant player for volumes.

Lower rates to weigh on investment yields from 2Q25

We expect the ongoing rate cut cycle to pressure insurers' investment yields gradually from 2Q25; however, insurers with a strong fixed income and mutual fund exposure; hence, a longer portfolio duration will likely be shielded in 2025 (Bupa, ARCCI and GIG).

Figure 26: Term deposits are the largest recipient of investments, with the exception of GIG which has a sizeable fixed income exposure

Investment mix as of 2023 of covered Saudi insurers



Source: Company data

National insurance plan could be a game-changer, but its timing is uncertain

The Insurance Authority is reportedly working on a strategic plan, which is expected in 1H25, for the insurance sector. This comprehensive plan will tackle all segments with clear targets, in terms of enforcement, push for product diversification and sophistication, in addition to a more stringent oversight of the sector. We believe this plan can drive significant volume for the sector, particularly if it tackles the medical enforcement gap.

Top picks

Tawuniya: It is our preferred play and is the best-positioned to seize the structural growth opportunities in the Saudi insurance sector. Its scale (largest MENA insurer), multi-line exposure, robust digital edge, dynamic culture and gov't ownership are undeniable strengths, which support market share gains across segments. Life will emerge as the next growth driver for the insurer in the medium term, in our view. We believe the recent sell-off in the name offers an attractive entry point.

GIG: The name is our top pick amongst small insurers. We believe its strong focus on high-margin motor comprehensive retail, medical SME and group life, will drive a gradual margin improvement, following a significant clean-up in 2023. Heavy exposure to gov't bonds (71% of mix) will shield investment yields from declining rates.

Telecoms

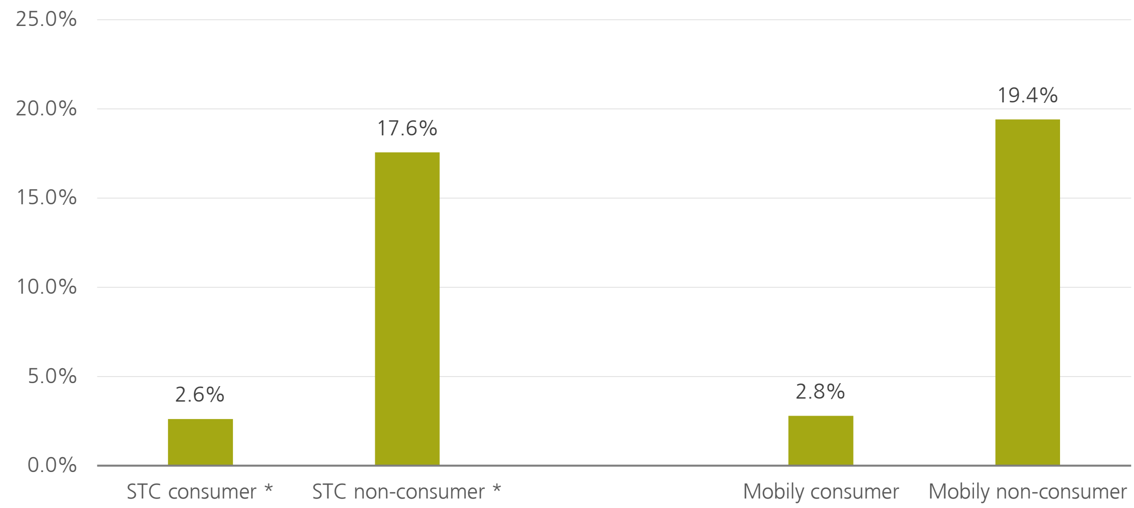
Market reaps benefits of gov't spending on ICT projects

2024 was a year of two tales for KSA telecoms, as the contrast between the consumer and enterprise segments was somewhat striking. Gov't-led spending on ICT projects translated into decent revenue growth from the enterprise segment, which was visible in STC and Mobily, while consumer market dynamics remained challenging; the latter was more tangible at Zain KSA, while also affecting overall growth for its larger two competitors.

There is anecdotal evidence in the market that part of the consumer segment subscribers is becoming transactional, i.e. more focused on chasing attractive offers and promotions, which likely affected churn levels across the market, we believe. Most of the aggregate revenue growth for STC and Mobily in 9M24 came from the enterprise segment and other non-telco subsidiaries, while the consumer segment barely grew during the period. Zain KSA remains the most exposed player to the consumer segment, from a revenue mix perspective.

Figure 27: Enterprise revenue has been and will remain the main growth driver in KSA owing to gov't spending, while consumer segment revenue growth has lagged due to multiple challenges

2017-2024 revenue CAGR (with 2024 reflecting annualised 9M24 figures); comparable breakdowns for Zain KSA not available



* Using STC KSA revenue (excl. subsidiaries) as proxy for consumer segment revenue; non-consumer excl. Kuwait and Bahrain
Source: Company data

Growth likely to continue, albeit at a decelerating pace

We expect 2025 to be a good year for telecoms in Saudi Arabia, as we see growth from the enterprise segment continuing, driven considerably by gov't spending on various ICT projects; however, we caution that the growth pace could be somewhat slower than recent years because of the risk of gov't scaling down spending on some of the mega projects across KSA. We see no near-term risk of gov't receivables building up again from slower spending, as we believe budget availability will not be an issue for now, and the collection process has been streamlined, with the launch of Etimad platform. On the consumer segment's side, we believe the market will remain challenging in 2025, as there is no evidence of abating competition, with multiple brands now competing in the segment, including MVNOs.

Tower consolidation, additional ICT infrastructure investments, 5G network capacity expansion key sector themes for 2025

Some key themes to watch for in the Saudi Arabia telecoms sector in 2025 are: i) continuation of tower consolidation, with STC's tower sale to PIF likely materialising in 1H25, which could be followed by a sale of Mobily towers to PIF at a later stage, in our view; ii) increase in ICT infrastructure investments from telecom operators, particularly in data centres and submarine cables, as KSA works towards positioning itself as a digital hub and leader for the MENA region; and iii) expansion in 5G network capacity (with possible scaling down of older technologies), following the recent sale of 15-year spectrum to Mobily and Zain. In Nov 2024, Mobily acquired a sizeable 120MHz of spectrum in the 600, 700, and 3,800 frequency bands, while Zain acquired two blocks of 15MHz in the 600MHz band.

Top picks

Mobily: It is our preferred play in Saudi Arabia. The company will deliver solid performance in 2025, with strong growth in earnings and healthy FCF generation, which could enable the company to pay a significantly higher dividend payout vs the current DPO of c50%; it continues to trade at attractive price multiples vs historical forward levels.

STC: The name is our second preferred play in the Kingdom. STC has announced its new three-year dividend policy that will enable it to pay at least SAR2.20 in FY25, offering the most attractive yield amongst KSA telcos, but its earnings will remain burdened in the short term by margin compression from its nascent subsidiaries that are meant to diversify the business.

Industrials

Major developments in 2024, on implementation of Vision 2030 projects

KSA's industrials/utilities space has seen considerable developments in 2024, with the execution of Vision 2030 projects picking up across some sub-sectors, while more clarity is now offered on other investment plans as we head into 2025.

2025 to see accelerating investments, developments

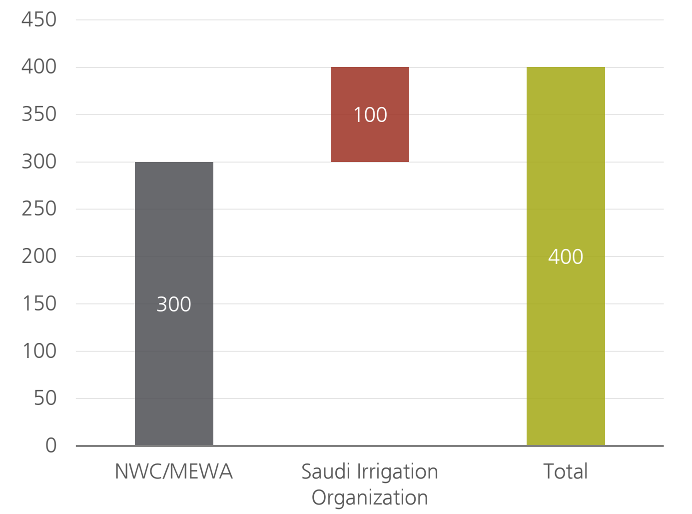
The renewables space has finally seen an acceleration in the development and award of some projects in 2024, while the reduction in interest rates should also incentivise further investment acceleration, as the theme will continue playing out from 2025 onwards. This renewables theme carries considerable weight in KSA and will be given high priority amongst the Vision 2030 plans due to the great importance of displacing liquid hydrocarbons being burnt in local power plants, an area that is being spearheaded by PIF, ACWA Power and Aramco. Other conventional utilities are also seeing investments piling into KSA, as power and water FDIs are flowing through KSA.

Higher pace of water space awards critical to deliver on Vision 2030 plans

As for the underserved water space, while projects are going to come through to the market, the pace has been relatively slow in 2024 in delivering on KSA's Vision 2030 plans. We think there is also a need to accelerate the pace of new awards in 2025 onwards, especially as the water infrastruwcture is critical to the plans of KSA increasing its population.

Figure 28: Scale of proposed water projects to achieve KSA's ambitious gov't initiatives

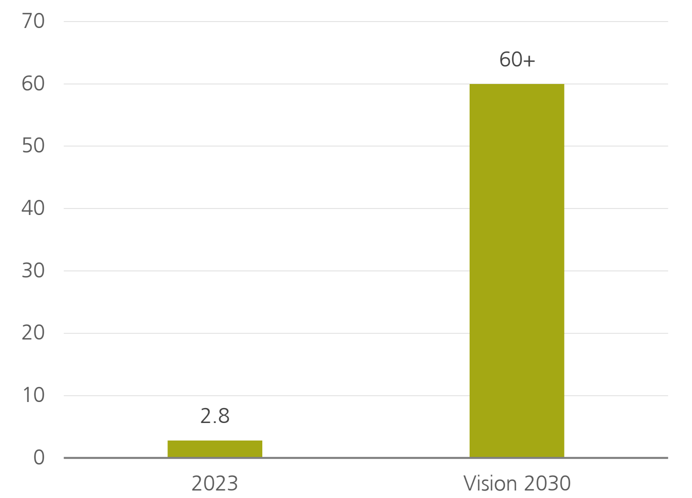
In SARbn



Source: KSA Ministry of Environment, Water and Agriculture, EFG Hermes estimates

Figure 29: KSA renewable energy capacity target

In GW

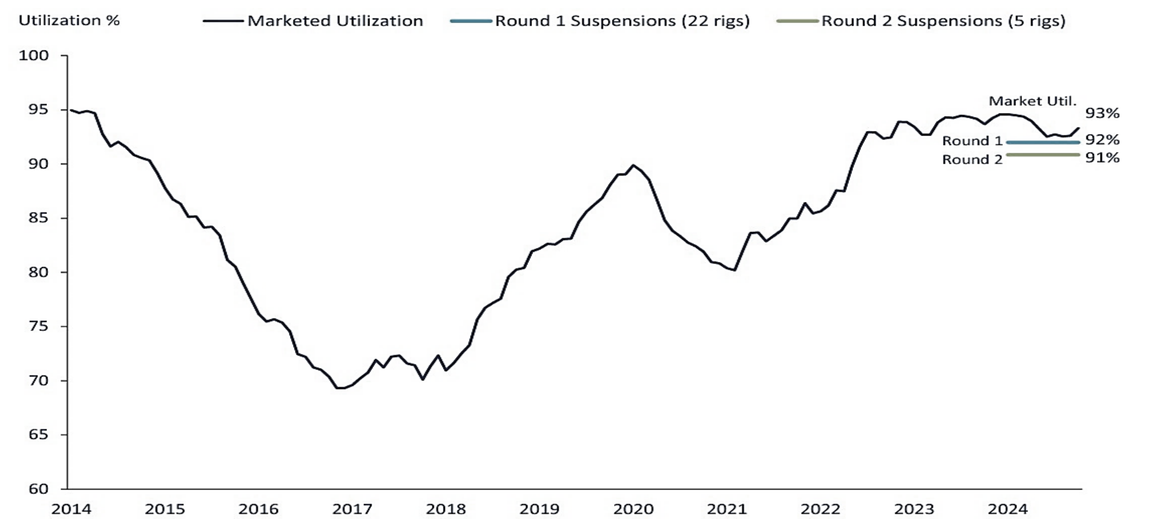


Source: Company data, EFG Hermes estimates

From rig suspension in 2024 to gas growth in 2025

On the hydrocarbons front, Aramco caused quite the stir in the market in 2024, when the gov't decided to suspend its MSC13 initiatives, which ultimately led to the suspension of a number of offshore jack-up rigs – impacting local and international players that have positioned assets in KSA; however, Aramco remains committed to its plans to develop its gas resources and aims to increase gas production by 60% by 2030 – again, an initiative that serves in displacing liquids being burnt in local power plants. As for the local drillers, the exposure and magnitude of the impact have varied widely, as ADES was able to redeploy its fleet with ease, while ADC struggled with the suspension of its own rigs and harder times trying to redeploy. Overall, as we head into 2025, we think the ramifications of these suspensions on the international rig market will be relatively subdued because it is a very tight market, with 90%+ contracted capacities; hence, rig owners with the ability to redeploy in other markets are enjoying better day-rates and lower costs vs their fleet being in KSA.

Figure 30: Global utilisation rates following Aramco suspensions



Source: Shelf Drilling

Top picks

ADES: Valuation is compelling at this stage, and the company has immense capacity to scale up across international expansion opportunities.
Marafiq: The regulatory frameworks are changing to offer more favourable dynamics (operating under a RAB model). This framework should alleviate risks over fuel price hikes, cut implied equity risk premiums on the story and drive a significant re-rating in the name.

Chemicals

Low demand, oversupply pressure chemical names

Saudi chemical stocks have had a tough year in 2024, driven by lacklustre demand and oversupply for most products produced in the region. On the demand side, China's real estate crisis, elevated energy prices and inflation, and the globally high interest rate environment have all weighed on consumption, with limited restocking activity seen this year. On the supply side, most products in the region have seen substantial capacity growth in 2024, after supply growth had already outpaced that of demand during 2021-23, leaving the market in oversupply and forcing producers to cut operating rates.

Fertiliser outlook more promising than petchems in 2025

Looking into 2025, we prefer fertiliser stocks to traditional petrochemical producers, as global capacity growth for fertilisers is limited, the market is relatively balanced and prices are near mid-cycle levels. Furthermore, we think growth prospects for fertilisers are preferable, with returns on potential blue ammonia projects in the coming years to be more attractive than traditional petrochemical investments, in our view.

Current oversupply to weigh on petchem earnings in 2025

In traditional petrochemicals, while we see LT value in stocks such as Advanced, SABIC and Tasnee, the current oversupply situation is likely to keep earnings under pressure in 2025, so we would steer away from them for now. While demand could slightly recovery next year, leading indicators are somewhat mixed – though slightly skewed to the positive – and a rebound is unlikely until at least 2H25.

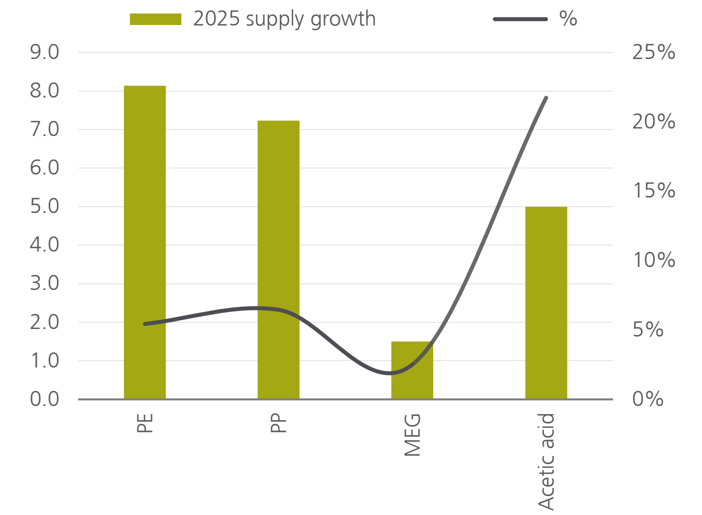
Figure 31: Chemical prices remained under pressure in 2024

Average of PE, PP, PC, MEG, AA and VAM prices in USD/t

Source: Company data, EFG Hermes estimates

Figure 32: Supply growth is substantial for most products

LHS: supply growth in mn tonnes, RHS: supply growth in %



Source: Company data, EFG Hermes estimates

Top picks

SANIC: Our preferred pick, as the stock offers exposure to potential blue ammonia investments in KSA (traditional ammonia projects in KSA have generated IRRs of 30%+), its valuation is not demanding on medium-term metrics and it is defensive, as it offers a decent dividend and c20% of the company's market cap is in cash.

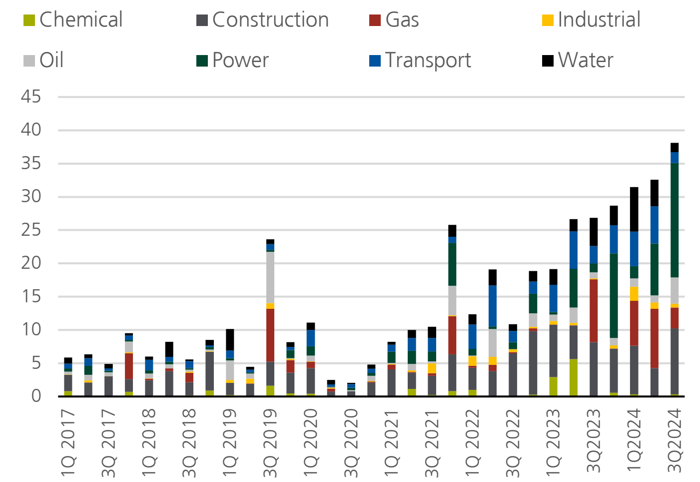
Cement

Interest rate cuts to improve KSA project activities in 2025

With another round of interest rate cuts anticipated in 2025, we expect it to support the construction sector activities in KSA, as overall spending on infrastructure is expected to increase. Lower borrowing rates would boost housing demand through improved personal borrowing power, and lower interest cost for construction companies will eventually improve companies' working capital cycle that has been a drag over the past two years. Thus, we believe the lower interest rate cycle will support the Saudi construction sector over the medium term. Having said that, regional conflict and oil price volatility pose a major risk to our estimates, with any significant change to the current political or economic scenario possibly posing remarkable risks to the sector.

Figure 33: KSA project awards at record-high in past two years…

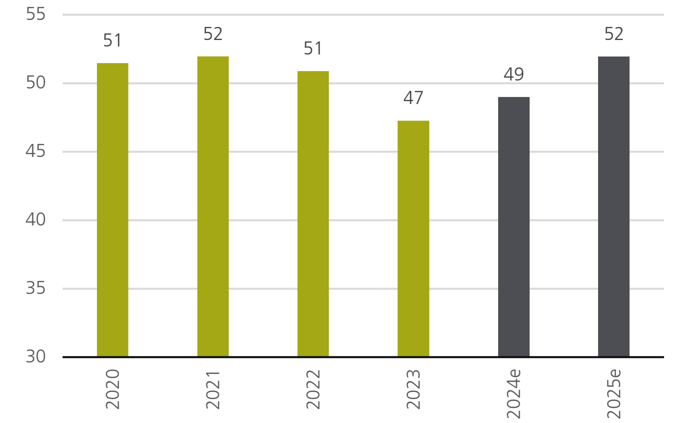
Project awards in USDbn



Source: MEED Projects

Figure 34: …but this is not yet reflected on cement demand

KSA annual cement demand in mn tonnes



Source: Yamama, EFG Hermes estimates

Project reprioritisation skewed positively to central region

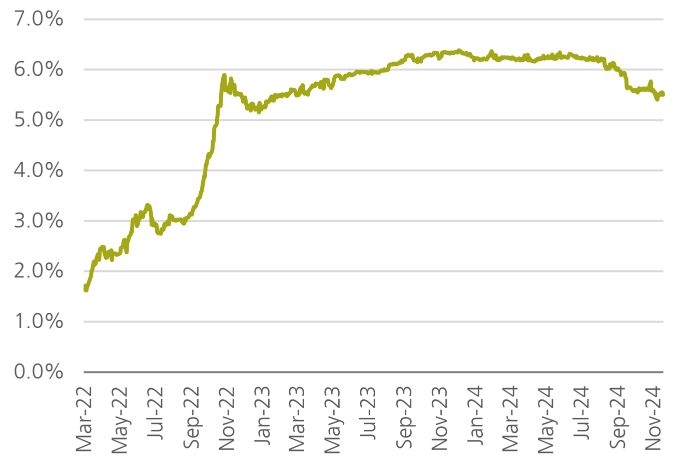
The gov't is reprioritising the projects across KSA as part of its fiscal prudence measures, and some projects are being scaled-back, or phased over a longer time period. We now believe the projects linked to international events (Expo 2030, FIFA World Cup 2034, 2029 Asian Games) and projects that have better cash flow visibility would be given investment priority, in our view. Accordingly, we believe the central region will get an advantage vs other regions, as the bulk of these events is planned around the central region.

Gov't policies to support local products, but competition to weigh upon margins

As part of its Vision 2030 programme to improve locally produced content within various sectors, the Saudi gov't has been given priority for local products within the construction sector. This has positively impacted sectors with a large portion of imported products, such as the pipes and ceramics sector, in view of the overall improved pricing scenario across the Kingdom; however, the large local supply within certain sectors, such as ceramics, would keep the sector highly competitive and limit large margin gains, in our view. The construction sector has been relying fully on local cement manufacturers, with no imports; hence, the lack of impact on the cement sector.

Figure 35: Interest rate set to moderate in KSA, tracking fed rate, and would support construction activities

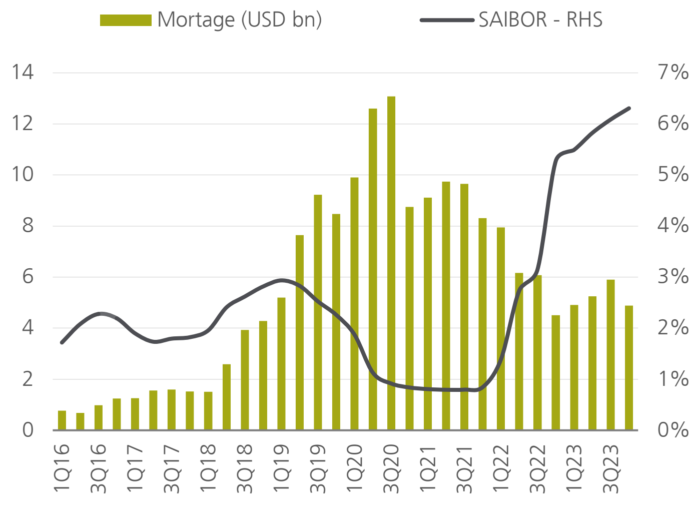
3M SAIBOR rate



Source: Bloomberg

Figure 36: Lower SAIBOR would potentially improve housing demand as well

Mortgage demand (in USDbn) vs SAIBOR (lagged by 2 quarters)



Source: SAMA, Bloomberg

Top picks

City Cement: We like City Cement for its large excess capacity in the high-demand Riyadh Province (current utilisation rate at 70% vs 90% for central players), use of alternative fuels in its feedstock, which would reduce impact from any further fuel price increase and attractive valuation.

Yamama: For being the largest player in Riyadh Province, which has a better outlook than the rest of KSA. The company has a low-cost advantage, excess capacity (utilisation at 87%), and the Line 7 transfer will add 40% capacity and support earnings growth over the MT.

Saudi Cement: Saudi Cement offers sector-leading dividend yield of 6%+, stability in cement prices and offers growth, as it has access to the borders of the central region.

Figure 37: Saudi Arabia coverage

Price as of 12 Dec 2024

Company	Price (SAR)	TP	Rating	YTD perf. (%)	ADVT (USDmn)	M cap (USDbn)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	P/B (x) 2024	DY (%) 2024
Consumer											
Al Hassan Ghazi Ibrahim Shaker	27.25	30.40	Buy	12.2	2.72	0.40	24.8	19.9	15.9	1.9	0.0
Al Othaim Markets	10.94	12.50	Neutral	(17.1)	3.36	2.62	25.4	24.1	21.2	10.3	5.5
Alamar Foods	76.10	84.00	Neutral	(20.6)	1.11	0.52	29.5	62.7	26.9	6.5	2.2
Almarai	61.10	71.50	Buy	9.5	8.52	16.26	32.5	26.4	22.0	3.4	1.9
Americana Restaurants	2.35	2.80	Neutral	(27.2)	9.32	5.27	19.5	28.0	22.3	17.5	2.7
Budget Saudi	80.00	115.00	Buy	1.3	4.79	1.66	20.5	19.8	16.1	2.4	1.9
CATRION	127.20	116.00	Neutral	(1.4)	6.71	2.78	37.0	29.5	23.5	7.9	2.4
Halwani Brothers	55.30	37.00	Sell	8.4	1.79	0.52	N/M	N/M	74.6	5.9	0.9
Herfy	24.94	26.50	Sell	(23.0)	2.38	0.43	N/M	46.4	29.5	1.6	2.2
Jarir Marketing Co	12.88	16.80	Buy	(17.3)	6.88	4.11	15.9	15.4	14.2	10.7	6.8
Leejam Sports Co	188.40	256.00	Buy	(7.4)	5.20	2.63	26.6	21.7	17.6	8.0	2.6
Lumi Rental	74.10	92.00	Neutral	(25.9)	3.28	1.08	22.4	21.8	19.7	3.6	2.2
National Agriculture Development Company	25.90	28.00	Neutral	(7.0)	9.60	2.08	24.3	22.8	21.2	1.9	0.0
SADAFCO	360.00	375.00	Neutral	7.6	3.22	3.11	26.1	22.9	21.8	7.2	3.3
Saudi Company for Hardware (SACO)	32.65	24.00	Sell	(15.6)	1.82	0.31	N/M	N/M	42.2	3.3	0.0
Saudi Marketing (Farm Superstores)	22.78	18.00	Sell	0.4	1.16	0.27	40.2	27.2	21.0	1.6	3.5
Theeb Rent A Car Co	77.40	102.00	Buy	17.6	2.73	0.89	23.4	19.0	16.4	4.2	2.6
Energy											
ADES Holding	17.70	23.00	Buy	(26.3)	10.43	5.32	40.9	20.1	17.3	3.1	2.4
Aldrees Petroleum & Transport Services	125.00	108.00	Neutral	(6.1)	11.99	3.33	45.3	39.1	31.2	9.3	1.0
Arabian Drilling	117.80	154.00	Buy	(38.3)	13.75	2.79	17.3	20.8	15.5	1.7	4.0
Saudi Aramco	28.45	31.10	Neutral	(13.8)	118.05	1,832.55	14.7	15.7	15.1	4.4	6.4
Financials											
AL Rajhi Bank	93.10	105.00	Buy	7.6	107.93	99.12	23.6	21.2	18.4	4.0	2.7
Al Rajhi Insurance	174.40	214.00	Neutral	145.6	7.57	4.64	53.2	43.1	31.6	8.1	0.0
Alinma Bank	29.00	39.00	Buy	(6.2)	51.26	19.30	15.6	14.0	11.9	2.2	2.7
Arab National Bank	20.50	21.00	Neutral	8.0	9.57	10.91	10.1	8.6	8.5	1.1	6.4
Bank Albilad	37.15	42.00	Neutral	2.2	10.90	12.36	19.6	17.6	15.3	2.8	2.3
Bank Aljazira	17.76	18.10	Neutral	18.7	8.33	4.85	20.6	16.9	13.2	1.3	1.2
Banque Saudi Fransi	33.00	36.00	Neutral	(17.5)	8.96	10.59	9.8	8.9	8.2	1.1	6.5
Bupa	208.40	206.00	Neutral	(2.3)	11.02	8.32	33.2	25.3	22.2	5.7	2.5
Buruj	18.26	11.00	Sell	(4.6)	0.38	0.15	27.3	33.3	21.6	0.5	0.0
Gulf Insurance Group	30.75	35.00	Buy	16.9	0.92	0.43	12.6	18.4	13.1	1.4	2.2
Malath Insurance	15.72	16.00	Neutral	(9.8)	1.98	0.21	20.6	19.1	14.3	1.8	0.0
Riyad Bank	28.70	33.00	Buy	0.7	18.11	22.92	11.1	10.4	9.8	1.6	5.2
SAIB	14.74	14.00	Neutral	15.4	3.39	4.90	11.6	10.5	9.5	1.2	5.2
Saudi Awwal Bank	32.45	46.00	Buy	(14.4)	15.34	17.75	9.5	8.6	8.1	1.0	6.6
Saudi National Bank	34.10	48.00	Buy	(11.8)	46.79	54.46	10.6	10.5	9.5	1.2	5.3
Tawuniya	144.00	175.00	Buy	10.6	13.10	5.75	35.0	23.0	19.5	4.9	1.3
Walaa Insurance	17.98	25.00	Neutral	(5.2)	2.42	0.41	10.3	10.3	8.5	1.1	0.0

Source: Company data, EFG Hermes estimates

Figure 38: Saudi Arabia coverage *(continued)*

Price as of 12 Dec 2024

Company	Price (SAR)	TP	Rating	YTD perf. (%)	ADVT (USDmn)	M cap (USDbn)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	P/B (x) 2024	DY (%) 2024
Healthcare											
Aldawaa Medical Services	79.00	115.00	Buy	(25.3)	2.20	1.79	19.9	16.5	13.5	5.0	3.8
Dallah Healthcare	161.40	150.00	Neutral	(6.1)	2.35	4.20	41.4	33.0	28.1	4.3	1.6
Fakeeh Care Group	68.50	61.00	Neutral	N/A	10.85	4.23	65.8	44.8	35.0	5.2	0.2
Hammadi	40.70	61.00	Buy	(31.5)	8.19	1.73	21.6	23.6	18.3	3.4	3.4
MEAHCO	73.10	102.00	Buy	(17.2)	5.06	1.79	37.6	29.0	21.9	4.0	0.7
Mouwasat	92.50	125.00	Neutral	(17.3)	8.77	4.92	28.1	23.7	21.0	5.6	2.2
Nahdi Medical	120.80	140.00	Neutral	(11.8)	4.62	4.18	17.6	17.3	16.1	7.1	5.0
National Medical Care	172.00	250.00	Buy	(1.4)	5.66	2.05	37.7	30.2	22.2	5.0	1.5
SPIMACO	32.00	31.00	Neutral	(15.3)	5.67	1.02	N/M	33.1	24.3	2.5	1.6
Sulaiman Al Habib (HMG)	301.20	245.00	Sell	6.1	14.21	28.06	51.5	46.6	40.1	15.7	1.6
Industrials											
AlMawarid Manpower	107.80	156.00	Buy	(13.6)	1.89	0.43	18.2	16.5	12.5	4.3	3.0
Maharah Human Resources Co	6.22	8.30	Buy	(21.8)	4.29	0.79	30.5	18.5	14.8	4.6	1.9
National Industrialization Company	10.30	13.00	Buy	(16.8)	5.56	1.83	39.5	44.9	18.8	0.7	0.0
Riyadh Cables Group	149.60	75.00	Sell	61.6	10.95	5.97	38.0	37.3	33.5	9.2	2.0
Saudi Ceramics	35.55	28.80	Neutral	61.3	5.49	0.95	N/M	34.8	24.2	2.3	2.2
Materials											
Advanced Petrochemicals	33.10	50.00	Buy	(15.3)	4.04	2.29	50.9	N/M	32.0	2.6	0.0
Al Jouf Cement Company	10.14	9.66	Sell	(16.5)	0.39	0.29	17.1	31.1	25.9	1.1	0.0
Arabian Cement Company (Saudi)	27.60	32.70	Neutral	(19.9)	1.97	0.73	19.8	15.2	13.9	1.0	6.6
Chemanol	18.20	17.00	Neutral	(9.9)	2.88	0.33	N/M	N/M	N/M	1.3	0.0
City Cement Company	18.50	22.80	Buy	(10.8)	1.40	0.69	31.6	19.5	17.6	2.0	5.1
Eastern Province Cement Company	34.80	38.00	Neutral	(8.7)	0.94	0.80	15.1	14.5	13.8	1.2	5.2
Maaden	52.80	36.50	Neutral	8.8	38.37	51.88	N/M	56.5	25.7	4.1	0.0
Northern Region Cement Company	9.06	9.26	Neutral	(14.0)	0.59	0.43	29.0	11.7	13.2	0.7	4.3
Qassim Cement Company	53.60	58.60	Neutral	(15.9)	1.75	1.28	34.0	19.3	15.3	3.1	5.2
SABIC	68.70	84.00	Buy	(17.7)	31.39	54.86	N/M	48.0	20.5	1.3	5.1
SABIC Agri-Nutrients	112.40	130.00	Buy	(18.7)	13.44	14.24	14.6	15.7	13.4	2.8	5.3
Saudi Cement Company	43.30	52.60	Buy	(17.7)	1.97	1.76	17.4	18.3	17.1	3.1	5.8
SIPCHEM	24.90	27.50	Neutral	(26.9)	9.13	4.86	15.5	34.6	26.9	1.1	4.0
Southern Province Cement Company	34.75	43.00	Neutral	(18.3)	0.88	1.29	24.9	27.5	24.1	1.5	2.9
Tabuk Cement Company	12.60	14.10	Neutral	(7.4)	0.62	0.30	57.4	31.3	23.3	0.9	2.6
Yamama Cement Company	33.50	39.00	Buy	(1.9)	1.95	1.81	22.3	17.6	16.9	1.4	3.1
Yanbu Cement Company	24.40	35.30	Buy	(29.2)	2.05	1.02	32.0	22.5	15.9	1.5	5.7
YANSAB	37.85	42.00	Neutral	(0.5)	5.58	5.67	N/M	38.3	36.8	2.0	5.3
Real Estate & Hospitality											
Al Akaria	25.40	31.50	Buy	59.3	4.63	2.54	N/M	N/M	36.8	2.0	0.0
Cenomi Centers	21.32	26.00	Buy	2.6	6.22	2.70	6.7	8.6	9.7	0.7	7.0
Dar Al Arkan	14.96	16.00	Neutral	5.4	11.49	4.30	27.4	29.3	12.1	0.8	0.0
Retal Urban Development	16.50	17.50	Buy	93.7	5.90	2.20	40.8	36.0	25.0	10.2	1.9
Telecom Services											
Etihad Etisalat	55.10	65.00	Buy	12.3	14.19	11.29	19.0	15.0	13.6	2.2	3.4
Saudi Telecom Company	40.90	47.60	Buy	1.2	57.32	54.26	15.3	14.4	13.7	2.4	4.3
Zain KSA	10.34	14.30	Neutral	(26.6)	5.91	2.47	10.2	7.7	10.3	0.8	6.8
Information Technology											
Jahez International	32.40	33.50	Neutral	22.5	9.41	1.81	55.5	43.0	39.0	5.4	0.0
Utilities											
ACWA Power	381.40	100.00	Sell	48.4	30.69	74.22	N/M	N/M	N/M	11.8	0.1
Alkhorayef Water & Power	148.80	129.00	Sell	7.6	6.17	1.39	37.2	22.4	20.8	6.8	1.0
Marafiq	56.20	78.50	Buy	(13.3)	4.04	3.74	26.7	19.7	14.6	1.7	4.1

Source: Company data, EFG Hermes estimates

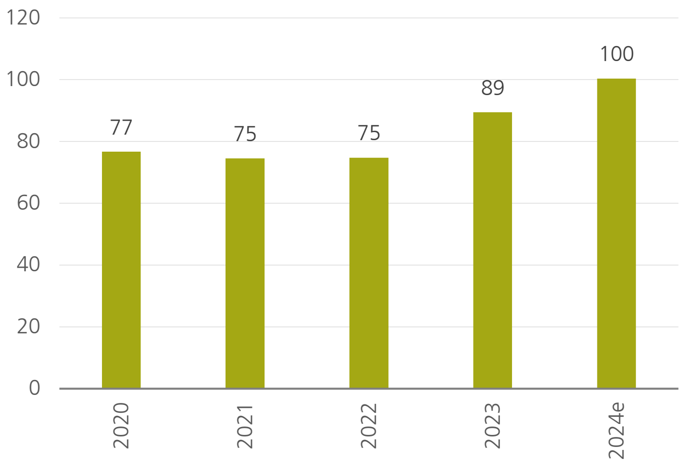
Macro outlook – The build-up of fiscal vulnerabilities

As one of the more vulnerable economies in the region to oil prices, the Kingdom's is set to enter 2025 facing the challenge of balancing growth ambitions with the need to maintain macroeconomic discipline. Strong spending between 2021-24, combined with c15mn barrels per day of crude oil production cuts, has increased the budget breakeven oil price to nearly USD100/b in 2024, from mid-70s a few years ago.

In this context, one key focus this year will be the gov't's ability to deliver on its promise to reduce expenditure. The 2025 budget includes a 4.5% cut in expenditure, the first since 2021, with the biggest weight coming from a 7% reduction in capital investments. Moreover, the budget is planning for only a 0.5% nominal increase in wages, resulting in negative real growth for public-sector employees.

Figure 39: Budget break-even oil price rose rapidly in past two years, on rising spending and falling oil production

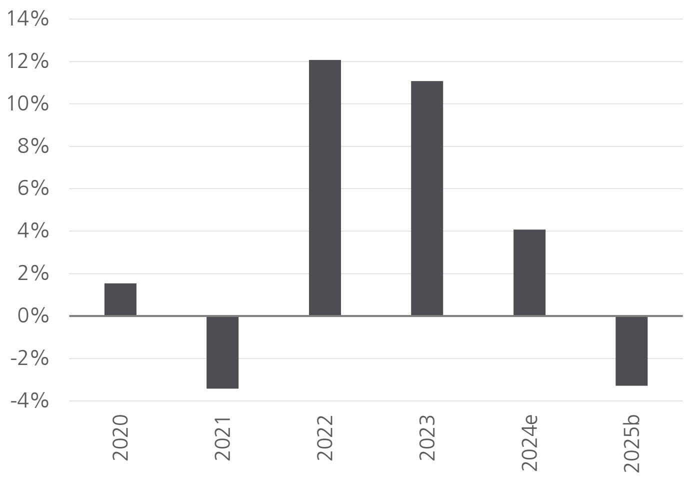
In USD/b



Source: Ministry of Finance, EFG Hermes estimates

Figure 40: Expenditure growth has been elevated in past three years; gov't budgeting for a cut in 2025

Nominal Y-o-Y % change



Source: Company data, EFG Hermes estimates

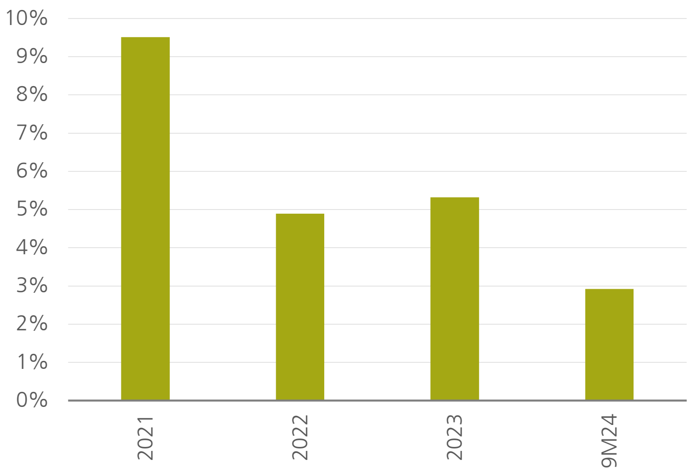
We see the promise as particularly challenging, since we do not think the gov't has much leeway on managing an oil price shock. Our analysis shows the gov't is basing its oil price assumptions around the USD75-80/b range, which is already higher than current levels for the commodity; hence, not leaving much manoeuvrability for the State against oil price shocks.

Moreover, oil revenue is inflated by Aramco's performance-based dividend. The additional dividend formed a sizable part of revenues in 2024, at c16% of total. Our analysis of the budget suggests the gov't is likely assuming a 50% cut to this additional dividend, a level that in itself would still require Aramco to leverage its balance sheet and run down some of its cash balances. We see this trend as not replicable beyond 2025, since, at current oil prices, we project no surplus free cash flow, which is the underlying base for distributing such dividends.

The mirror-image challenge to the one listed above is whether PIF will, indeed, deliver on its own promise to increase its investments domestically. The fund is set to step up its investments to SAR150bn in 2025, from an expected SAR100bn in the previous couple of years. The fund's mgmt. has hinted that it would pull back foreign investments, in a shift of focus to the domestic economy. We think such a trend would probably require additional financing, which could include further international debt issuance from PIF and/or further divestment of domestic assets (as was the case in 2024, with partial stake sale in Aramco, followed by STC late in the year).

Figure 41: Private consumption growth has been modest this year…

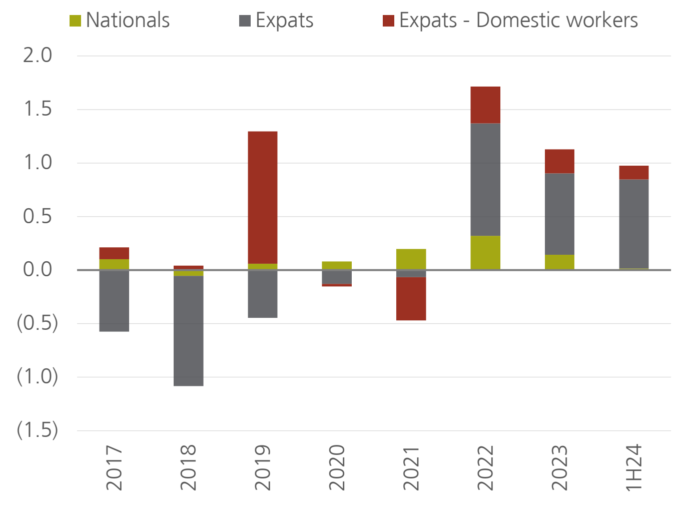
Real Y-o-Y % change



Source: General Authority for Statistics

Figure 42: …despite a strong rise in employment

In USDbn



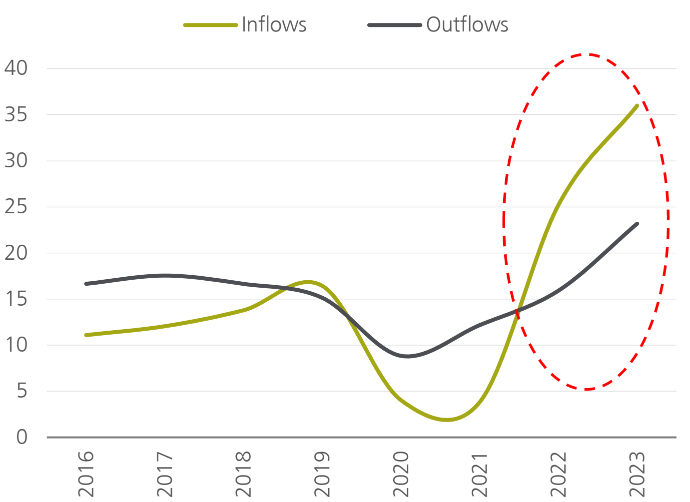
Source: SAMA

Despite the vulnerabilities highlighted above, we still assume relatively healthy non-oil GDP growth of 3.8% in 2025. The cut in public expenditure and reduction of budgets of some giga projects are likely to be balanced with some impetus to credit, in light of lower rates, as well as expenditure on priority projects. We also expect tourism to provide further support to GDP, with the sector showing strong growth in the past years and becoming a source of national income. Domestic tourism is also part of the broader supporting factors to growth, in our view.

We are still somewhat downbeat on consumption growth, which has underperformed in 2024 (see Fig. 41), where real private consumption growth slowed to sub 3% in 9M24, despite a rise in expats population and record-low unemployment for Saudi nationals. We think the paradox comes from consumers having faced inflationary pressures – not necessarily captured in the official inflation numbers – as well as subdued real wage growth for public sector employees. The latter, who constitute around 40% of the labour force, are likely to see real contraction in wages in 2025, posing headwinds to overall consumption trajectory, in our view.

Figure 43: Tourism is now a source of national income

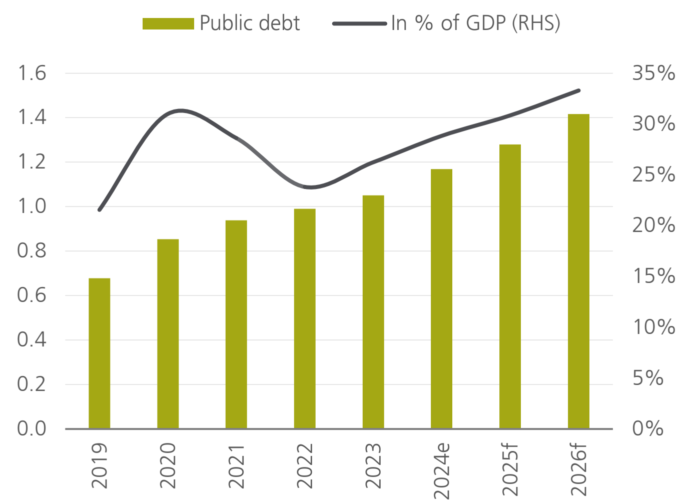
In USDbn



Source: SAMA

Figure 44: Public debt trajectory on the rise

In SARbn (LHS), In % of GDP (RHS)



Source: Ministry of Finance, EFG Hermes estimates

Saudi Arabia Macroeconomic Indicators (Year-end Dec)

	2022a	2023a	2024e	2025e	2026e
Real Sector					
Nominal GDP (USDbn)	1,108.6	1,067.6	1,080.8	1,106.0	1,133.9
Real GDP growth	7.5%	-0.8%	1.3%	2.7%	2.5%
Real non-oil growth	530.4%	382.3%	4.0%	3.6%	3.5%
Population (mn)	36.2	36.8	37.4	38.1	38.7
Per capita GDP (USD)	30,615	28,992	28,862	29,043	29,278
Oil price (Brent, USD/b Avg.)	99.0	82.2	80.0	75.0	70.0
CPI inflation (%, Avg.)	2.5%	2.3%	1.7%	1.5%	1.8%
External Sector					
Trade balance (USDbn)	235.3	126.9	91.6	79.4	57.5
HC exports (USDbn)	327.0	248.4	220.9	208.1	194.2
Non-HC exports (USDbn)	84.2	74.1	72.2	75.8	79.6
Services balance (USDbn)	(47.6)	(47.5)	(48.0)	(46.0)	(45.0)
Net transfers (USDbn)	(45.8)	(51.2)	(46.5)	(47.8)	(49.2)
Current account (USDbn)	151.5	34.1	3.3	(8.0)	(29.9)
Current account (% of GDP)	13.7%	3.2%	0.3%	-0.7%	-2.6%
FDI (USDbn)	1.1	(3.8)	1.0	2.0	2.0
Fiscal Sector					
HC revenues (USDbn)	228.6	201.2	202.1	169.5	159.8
Other revenues (USDbn)	109.6	122.1	125.9	140.4	147.8
Spending (USDbn)	310.5	344.9	358.9	347.1	354.1
Primary balance (% of GDP)	1.8%	-3.0%	-3.8%	-4.4%	-5.0%
Fiscal balance (USDbn)	27.6	(21.5)	(30.9)	(37.2)	(46.4)
Fiscal balance (% of GDP)	2.5%	-2.0%	-2.9%	-3.4%	-4.1%
Budget breakeven oil price (USD/b)	74.8	89.4	100.4	88.6	88.4
Net domestic claims on government (% of GDP)	-2.0%	2.2%	2.7%	3.1%	3.3%
Gross external government debt (% of GDP)	9.0%	10.1%	10.4%	10.4%	10.3%
Monetary Sector					
NFAs in the banking system (USDbn)	463.0	428.5	413.7	404.6	389.7
Exchange rate versus USD (Avg.)	3.75	3.75	3.75	3.75	3.75
Benchmark lending interest rate (end of period)	5.0%	6.0%	5.3%	3.8%	3.8%
Broad money growth	6.0%	9.4%	3.8%	3.4%	2.8%
Private sector credit growth (%, eop)	12.6%	10.0%	9.0%	8.0%	8.0%
Private sector credit (% of GDP)	55.1%	62.9%	67.7%	71.5%	75.3%

Source: SAMA, General Authority for Statistics, IMF and EFG Hermes estimates

Looking for another strong year ahead

- Valuations are still undemanding; resilience to low oil price is a plus
- Population theme remains in the lead
- Real estate has more to give

UAE markets saw another mixed year in 2024, with DFM outperforming all of MENA markets against a lacklustre performance for ADX for the second straight year. DFM enjoyed strong support from population-driven names, also buoyed by favourable regulations, as well as new listings. Meanwhile, ADX got dragged-down by unfavourable performance from names such as Americana (-28% YTD) and AD Ports (-25% YTD).

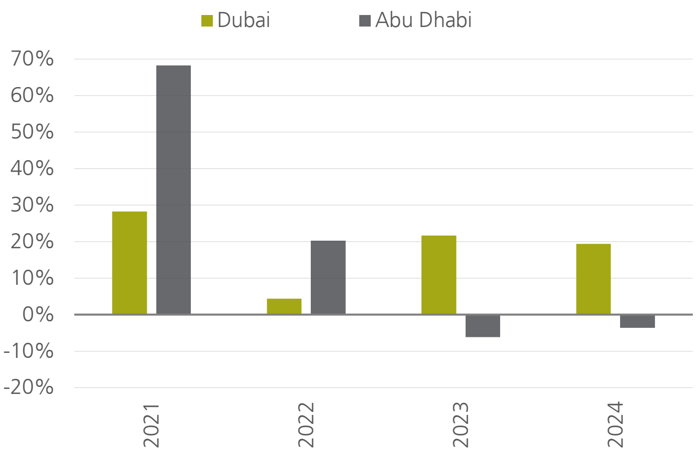
We remain positive on UAE equity markets, considering their strong resilience to lower oil prices, as well as the solid intrinsic growth story that is underpinned by structural reforms and positive cyclical trends. The population theme remains to be the key driver of the economy and equity markets, one that has more to give, in our view. We do acknowledge, though, that the market will be facing some headwinds in 2025. Key amongst these is pressure on earnings, resulting from higher corporate income taxes (CIT) on multinationals. In compliance with the GMT, the federal gov't has decided to raise the CIT on multinational companies, with revenues of more than EUR750mn, basically most big names in the UAE, to 15%, from a current 9%.

The other key headwind lies in the negative implications of further monetary easing on banks' profitability, due to more sensitive balance sheet structure to rate movements. The relatively lower exposure than their peers in the region to retail books, as well as higher exposure to floating mortgages rates, means banks will see downward pressure on their NIMs. Finally, there is limited room for further reduced provisioning, which is already down 42% Y-o-Y in 9M24. As such, our analysts project a 6% drop in earnings in 2025 for the nine banks we cover and a decrease in ROE to 16.5%, from 18.8%, expected in 2024. The sector trades at a relatively undemanding valuation of 8x P/E, though we think this is justified, given the earnings outlook for 2025.

We, therefore, prefer exposure to non-financials, led by the property sector, where we like **Emaar Properties**. The company's increased pace of land monetisation and project launches are best-reflected in a 60% Y-o-Y rise in contracted sales in 9M24 to AED49.9bn. The company's recently announced dividend policy makes the stock an attractive dividend yield play, offering +10% annual yield for the coming few years. We also like **Emaar Development**, which is set to benefit from the current positive sector outlook, with the stock offering strong visibility of earnings and cash flow. We are also positive on **DEWA** and **Empower** as plays on the population theme, having lagged behind names such as Salik and Parkin, which rallied in 2024. We also like **AD Ports**, **ADNOC L&S** and **ADNOC Gas** amongst the Abu Dhabi names. The three companies offer exposure to Abu Dhabi's economic diversification, defensive plays against lower oil prices and undemanding valuations.

Figure 1: DFM outperformed ADX for second straight year

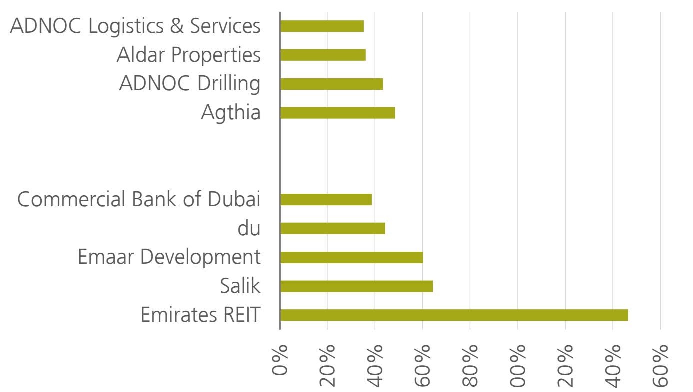
In Y-o-Y % change



Source: Bloomberg

Figure 2: Biggest gainers for both UAE markets YTD

YTD % change



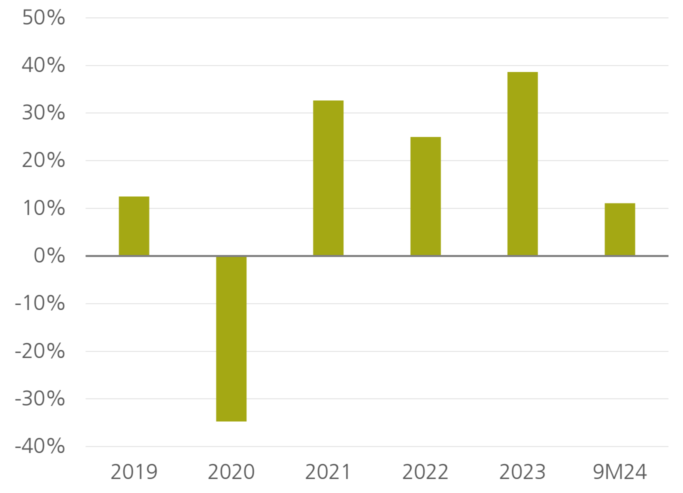
Source: Bloomberg

Banks

Earnings growth decelerates in 2024 as the benefit of higher rates tapers off

Aggregate earnings for our coverage moderated in 2024 (based on 9M24 actuals) vs 2023. Earnings rose 11% Y-o-Y in 9M24, down from 39% Y-o-Y growth in 2023 as the benefits of rising interest rates have tapered off. Revenue rose 9% Y-o-Y in 9M24, primarily led by non-II (+13% Y-o-Y). NII growth at 7% Y-o-Y was largely driven by loan growth, as NIM was pressured because of the rising cost of funds (higher rates; negative mix shift from CASA to TD) and slowing asset yield expansion (competitive pressures and an increase cash reserve requirements). The group's 9M24 earnings received a boost from a 42% decline in provisioning, thanks to a favourable macro landscape characterised by strong economic growth and a strong real estate market.

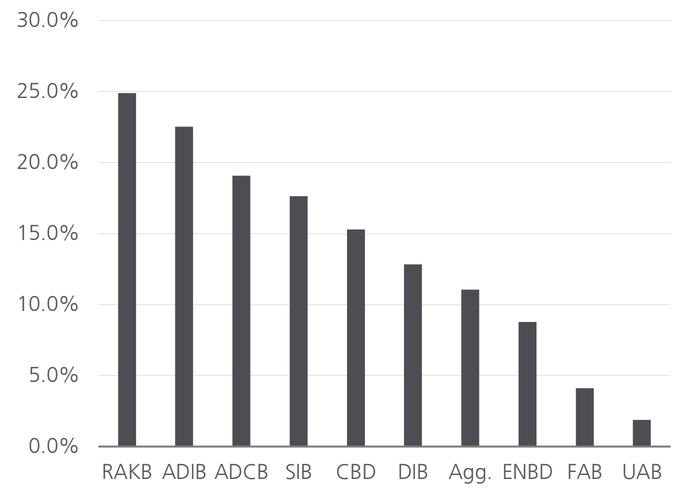
Figure 3: Profit growth decelerates in 9M24



Source: Company data

Figure 4: Earnings growth by bank

As of 9M24 (Y-o-Y)



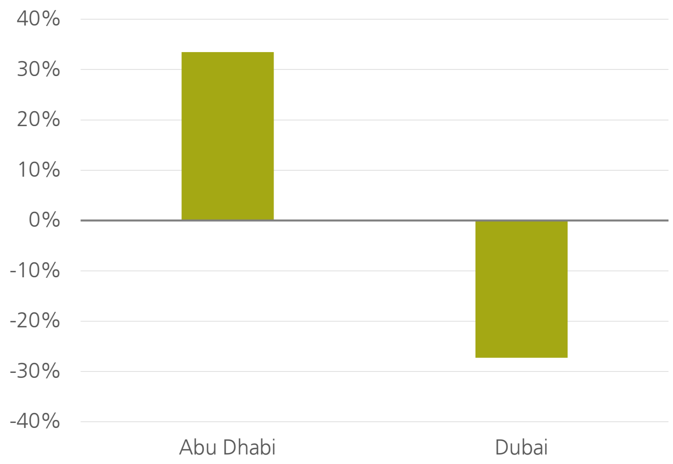
Source: Company data

Sovereign lending – a tale of two cities

Though overall lending by UAE banks to the gov't is down 9% Y-o-Y (Jul 2024), the underlying trends for Dubai and Abu Dhabi banks are divergent. Lending to the gov't by Abu Dhabi banks is up 34% Y-o-Y, while for Dubai banks it is down 27% Y-o-Y. This trend is also evident in loan growth trends for ENBD and DIB. ENBD's exposure to the Dubai gov't peaked in 2020, when it reached AED160bn or 36% of the group's loan book. Since then, exposure has been steadily unwinding, reaching AED62bn in 3Q24, or less than 13% of the group's loan book. While we do not rule out further debt unwinding by the Dubai gov't, these repayments should moderate as Dubai focuses on new infrastructure projects, such as the USD5bn metro expansion, USD22bn sewage system upgrade and a USD35bn new airport terminal.

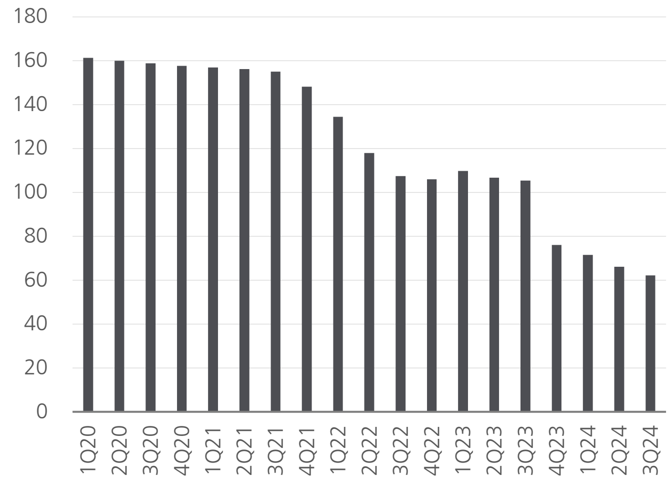
Figure 5: Loan growth by emirate

Y-o-Y; Jul 2024



Source: Company data

Figure 6: ENBD's loan exposure to Dubai gov't



Source: Company data

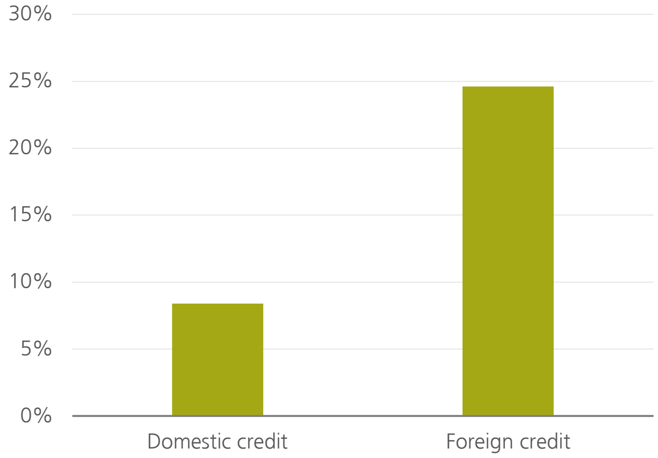
2025 earnings outlook – Lower rates, higher tax and fading recoveries are key headwinds

UAE banks' earnings growth outlook is relatively weak. We are still positive on the outlook for loan growth, but the lower rates should weigh on the sector's NIM. We also expect large UAE banks' corporate tax to rise to 15%, from 9%, in light of the potential Pillar 2 set of rules developed by OECD on multi-national enterprises. Furthermore, provisioning should start to normalise from a cyclical low.

We are positive on loan growth in 2025

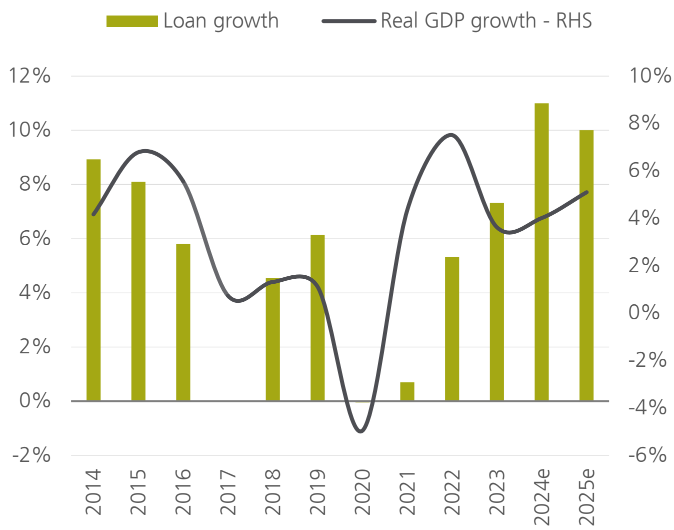
UAE banks' loan growth in 2024 is likely to be the strongest in more than a decade, underpinned by strong domestic demand (retail and corporate) and UAE banks' increasing overseas lending (Saudi Arabia, Bahrain and Oman). While loan growth is likely to moderate in 2025, it should still be strong in a historical context. The macro backdrop continues to be supportive (GDP growth in 2025 is likely to be stronger than this year), and banks are well-capitalised. Dubai's infrastructure spending should still be debt-financed, even if Dubai's fiscal position is still quite strong. Saudi Arabia would continue to be an important destination for cross-border lending. The UAE's Central Bank data suggest that foreign credit is up 25% Y-o-Y as of Jul 2024, well above domestic credit growth of 8%. ENBD has a strong presence on the ground (largest branch network of any international bank), and ADCB has received a wholesale branch licence.

Figure 7: Foreign credit (13% of total) has grown at a solid pace



Source: Company data

Figure 8: Loan growth evolution and outlook



Source: Company data, EFG Hermes estimates

Top picks

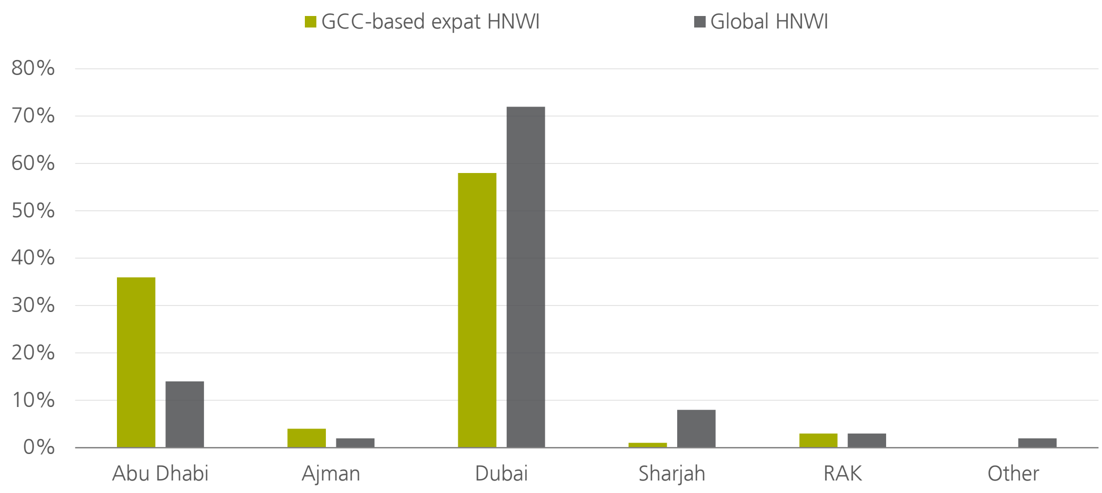
FAB: We are reassured by mgmt.'s comments that the MT ROE target of 16% is a priority and an important threshold for assessing organic or inorganic growth. Mgmt. has also ruled out a transformational M&A (such as acquiring a large international bank). NIM sensitivity to rate cuts is relatively low, while the macro environment points to a strong 2025 loan growth outlook.

ADCB: NIM sensitivity to rate cuts is relatively low, loan growth is strong; mgmt. does not have international M&A aspirations; credit risk profile has improved and dividend yield is relatively high.

Real estate

We think that 2025 will be a good year for the UAE real estate market, continuing the positive trend that started in 2021; expecting a strong operational performance across the various segments, led by the property sector, while the hospitality and the retail segments will continue to show positive trends. We believe Dubai will remain in focus vs the other emirates, while Abu Dhabi's property market will grow steadily and continue to attract foreign interest. Ras Al-Khaimah will also be on the radar screen of property investors, with the emirate actively implementing changes to attract foreign interest and investments to the sector. According to a survey conducted by Knight Frank, which included HNWI who are GCC-based and others around the world, there has been a remarkably positive interest from HNWI to buy properties in the UAE next year, with Dubai undoubtedly leading. Abu Dhabi came next in line, with more interest coming from GCC-based expat HNWI, indicating that continued efforts to establish the emirate as one of the attractive global cities would offer further growth in attracting global HNWI.

Figure 9: Most preferred UAE emirates for real estate buying over the coming period



Source: Knight Frank, EFG Hermes

A focus on Dubai's property market – all eyes are set on what to expect in current cycle

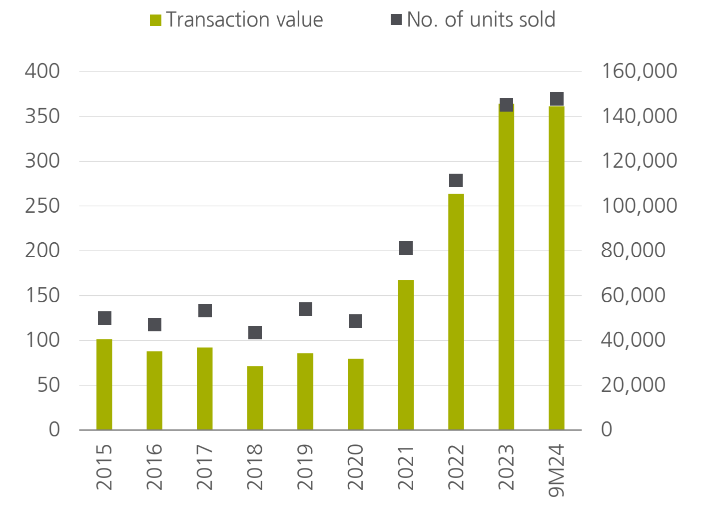
We acknowledge that property sectors are cyclical in nature, with each market having its own dynamics. Dubai's property market has its own set of underlying forces that are driven primarily by foreign demand, leveraging on the city increasingly establishing itself as a major global city. Dubai has been ranked the top city in the Middle East and Africa and fifth in the world in the "Global City Index 2024" report issued by Brand Finance. The property market in the emirate has been a hot spot over the past few years and attracted a lot of foreign investors, which has been driving the sector's performance since end of 2020. We highlight that the emirate has already witnessed two property cycles, with significant changes in transactions' value and prices between the peak and trough of the cycle. The main highlights of the previous two cycles are that the duration of the full cycle is between eight to nine years and that there are significant changes to average prices (typically in any cycle) and transaction values.

2025 will be a strong year for Dubai's property market. The current cycle, which - according to Knight Frank is named the "COVID comeback" cycle - has witnessed a surge in total transaction values and higher selling prices across the various market segments, indicating upcycle market conditions. This started in Mar 2020 and extends up until now. We note that activity has been led primarily by expats residing in the city purchasing property, along with foreign demand. Total reported transactions during the current cycle witnessed 548,544 residential units exchanging hands, with a total value AED1,276mn between Mar 2020 and Oct 2024. We note that this is 2.1 times the number of units and 2.8 times the value of transactions, compared to the stable period, after the downtrend, in the past cycle (Jan 2015 until Feb 2020). Emaar has leveraged on the positive market environment and upcycle market conditions, managing to increase its sales by 1.4 times between 2021 and 2023 and an increase of six folds, when compared to 2020 (lowest year in Emaar's sales history due to COVID-19 outbreak), with 9M24 numbers showing a 66% Y-o-Y increase.

We believe the current property cycle in the emirate will be the longest, in terms of duration; we expect the cycle peak to be in 2025, with minimal increases in average selling prices from 2024 levels, while we believe market transactions will continue to be strong, albeit not reporting the same annual growth rates as the previous three years. We expect at least a 10% increase in total market transactions, while the pace of average selling price increases would slow down, with an annual increase of up to 5%. We believe the expected interest rates cuts will reflect positively on mortgage activity; yet, mortgage sales contribution will remain insignificant. Payment terms, a major determinant for developers, would remain intact, in our view; hence, reflecting positively on companies' cash flow.

Figure 10: We expect total sales transactions to end the year with AED500bn (+37% Y-o-Y), while more than 200,000 residential units would exchange hands in the market

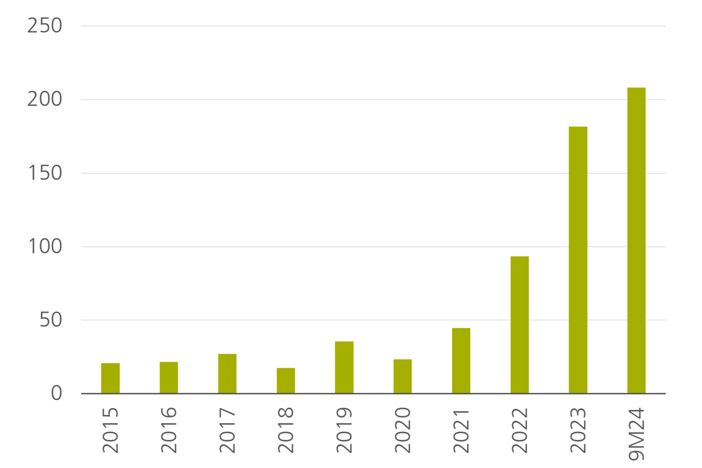
In AEDbn



Source: REIDIN, EFG Hermes estimates

Figure 11: Off-plan sales are growing exponentially, reflecting the increase in number of new projects launches and its positive implications on various market players

In AEDbn



Source: REIDIN, EFG Hermes estimates

Expect minor correction in market activity and prices, less aggressive cyclicality. As for the downtrend, which is typical to all cyclical sectors, we believe it would be relatively minor, with less steep fluctuation in transaction values and average selling prices, when compared to the previous cycle. We estimate minor correction in average selling prices, which will not exceed 10%, over the two-year downturn (2027-28) and average monthly transaction values of AED35-38bn, which is 20-25% lower than our estimates in the peak year (2025), albeit still 15% higher than the average monthly values in 2023 (a relatively solid year). We believe the cycle on the downturn will not be aggressive and will be supported by: i) continued buyers by expats residing in the emirate, given the emirate's ambitious plans to continue to attract expatriates and increase its population base by 2040; and ii) foreign interest driving growth in, especially at the high end of the market with global HNWI being attracted to the city. Thus, we believe Dubai's current property cycle will witness a much lower average selling price differential between the peak and the trough.

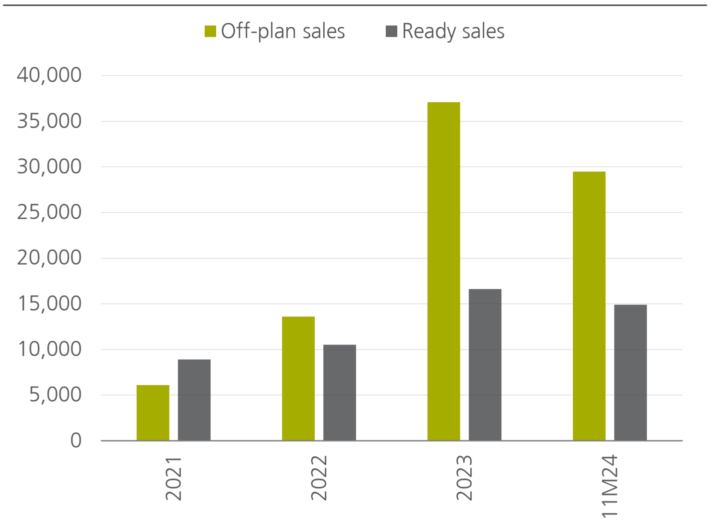
Abu Dhabi property market: A mid-cycle dip or has it reached the peak?

Abu Dhabi property market started a growth phase in 2021, with the emirate's property sector establishing itself gradually as an attractive destination for foreign investment. This was evident in Aldar's (the market leader) increased representation of foreign buyers in its total sales to reach 23% in 9M24, up from 11% in 2021. There was also a surge in representation of resident expatriates in total company's sales from 10% in 2021 to 53% in 9M24. Accordingly, with Aldar being a proxy on the market activity, given its leadership, we believe such foreign interest has been the real driver for the phenomenal growth that was especially evident in 2023 that witnessed exponential growth in sales transactions, especially for standalone units. Furthermore, there was an increase in new projects launches, with Aldar leading the way. Such a positive trend in activity did not continue in 2024, when we expect the year would end with an annual drop in total market transaction values, more evident in the off-plan sales segment.

We think the relatively lower activity in 2024 is more likely a mid-cycle dip rather than a start of a recessionary period in the sector. We are positive on the outlook of the emirate's property sector and think 2025 will resume the positive trend in market transactions and pricing, especially with the expected launch of large new projects; the most prominent being Al Hudayriyat Island, a giga project in the heart of the capital city, where Modon Properties has launched a number of new projects during the past few months. We think expatriates residing in the emirate will continue to drive growth in sales for major developers of the likes of Aldar and Modon; hence, being active participants in driving growth.

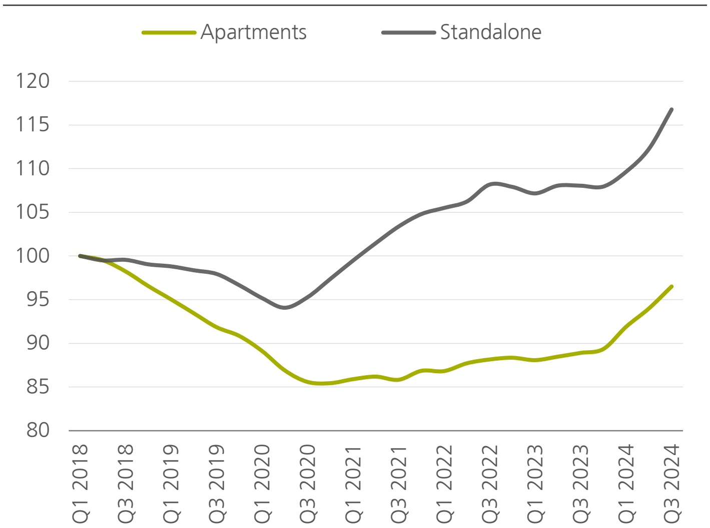
Figure 12: A surge in property sales, especially off-plan sales, in 2023; yet, this strong momentum could not sustain in 2024

In AEDmn



Source: Quanta, EFG Hermes

Figure 13: Average price for standalone units shows an uptrend since the start of the upcycle, while prices for apartments are a laggard



Source: Quanta, EFG Hermes

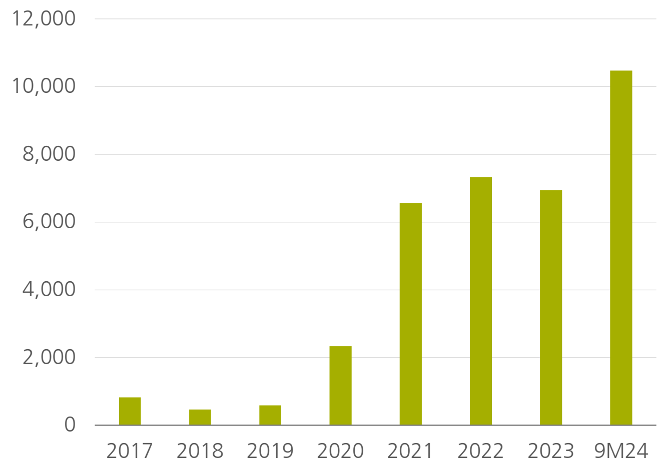
Ras Al-Khaimah will continue to attract investments

RAK's property market has been attracting attention increasingly over the past few years, especially following the announcement of the establishment of casinos licences in the emirate. The announcement, first unveiled in 2022, has attracted major local developers, including Aldar and Emaar to establish presence in the emirate, with Aldar adding to its investment portfolio a retail mall and two hotel assets, while Emaar launched a residential community in the emirate, with plans to establish a new hotel. In Oct 2024, the General Commercial Gaming Regulatory Authority (GCGRA) in the UAE issued its first commercial land-based casino gaming licence, which will be based in Al Marjan Island (RAK). The licence was granted to a consortium of Wynn Resorts, RAK Hospitality in Al Marjan Island, which announced total planned investments in the range of USD4bn.

The real estate market has witnessed signs of increased activity since 2021; however, there was a surge in real estate transactions in 9M24. RAK Properties has leveraged on the positive operating environment, with the company managing to book AED2,868mn of contracted sales in 2023 (5.6 folds Y-o-Y), having a market share of 40%; however, such strong activity slowed down in 2024, with the company launching fewer numbers of new projects. We expect increased activity and sales for the company, given the current residual land bank, especially following securing the land plot in Al Marjan.

Figure 14: Real estate transaction in RAK witnessed a surge in 2024; a trend we expect to continue

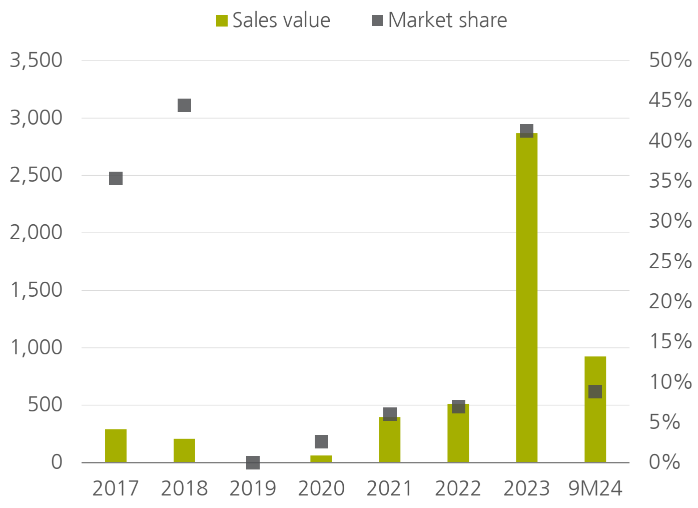
In AEDmn



Source: RAK statistics center, EFG Hermes

Figure 15: …yet, there will be a delay in the sales surge for RAK Properties, as we think the launch of projects in Al Marjan Island would be key for the company's sales activity

In AEDmn



Source: Company data, EFG Hermes estimates

Top picks

Emaar Properties. A valuation call, with the stock currently trading at a discount to our FV of ED and the malls business; hence, implying zero value for the hospitality, other retail business and all the international operations. Despite the stock outperforming the general market index slightly in 2024, it has significantly underperformed ED – unjustifiable, in our view. Emaar has reported strong operating and financial results and is expected to continue its growth story in all three major segments of operations (development, retail and hospitality), leveraging on the overall growth in Dubai and gov't's ambitious targets. The stock is trading at attractive multiples and offers a lucrative dividend yield, especially following the company's recent announced dividend policy, committing to pay AED1 per share in 2024 and the following few years.

Emaar Development (ED). The stock offers exposure to the growing Dubai property market, with the company being a clear leader in the market and impressively increasing its contracted sales numbers. We expect ED to book higher sales numbers in 2025, estimating AED66.8bn of new sales, which will add to the company's sizable sales backlog number that will be recognised over the coming four to five years. This will, in turn, solidify our view of a strong visibility of earnings and cash flow that ED offers; hence, continuing to pay a lucrative dividend.

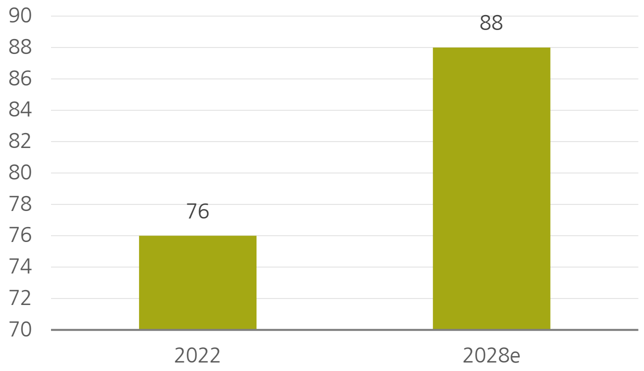
Consumer

Robust consumption trends driven by population growth continues…

The UAE consumer sector remained robust in 2024, supported by a growing, affluent expat population that has driven strong performance across key consumer companies. With a high-income base and strong consumer spending power, companies have maintained healthy growth metrics, despite the introduction of first-time 9% corporate tax rate during the year.

Figure 16: Supportive affluent population* dynamics in the UAE expected to grow at CAGR of 2.3% over 2022-28e

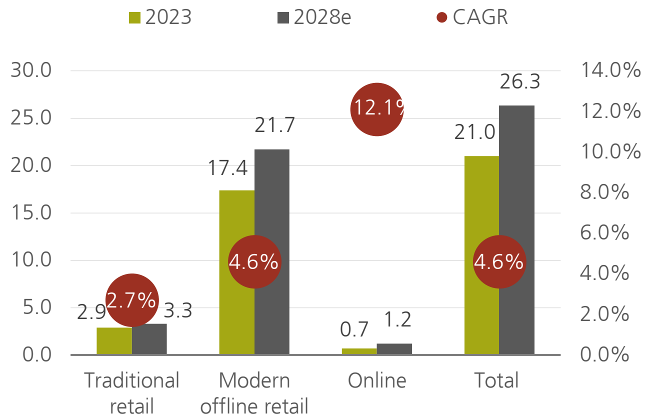
Disposable income per capita, AED k



*Adults in earning age range with yearly income higher than AED110k (cUSD30k)
Source: Oxford Economics, Kearney Analysis, The UAE gov't, Dubai Media Office, Company data

Figure 17: UAE is the fastest-growing retail market in the GCC, with modern retail contributing c86% to total retail market in the UAE

Total UAE retail market size by channel in (USDbn)



Source: Euromonitor

…resulting in strong performance of UAE consumer companies

Grocery retailers (**Spinneys** and **LuLu Retail**) continued to deliver healthy like-for-like (LFL) sales growth, benefitting from strong market tailwinds in the country. Food and beverage conglomerate, **Agthia**, has also been delivering decent operational performance, despite EGP devaluation (Egypt and Jordan represent c25% of top-line) and delays in the date harvest, and remains on track to meet its 2025 guidance of AED5.5bn in organic top-line and a pre-minority net margin of 8.5-10%. Amongst non-food retailers, **ADNOC Distribution's** GCC throughput continued its uptrend in 2024 after declining for six consecutive years, due to improved UAE macro dynamics. Meanwhile, leading taxi operator, **Dubai Taxi Co.,** delivered a strong top-line performance and continues to receive new licence plates that are significantly above expectations, but margins are being impacted by higher plate and licence fees, staff costs, insurance costs and depreciation charges.

Top picks

Spinneys: Has been seeing strong revenue growth momentum, on solid like-for-like (LFL) sales growth, capitalising on the stable spending power of UAE consumers and continued demand for premium grocery products. The stock has an impressive profitability profile (2023 net margin: c9%; ROAIC: c30%) and 5YR earnings CAGR of 9%, on store expansions. We like the company's liquid balance sheet (net cash position), aided by its negative working capital cycle, providing scope for high dividend payments (min. DPO of 70%).

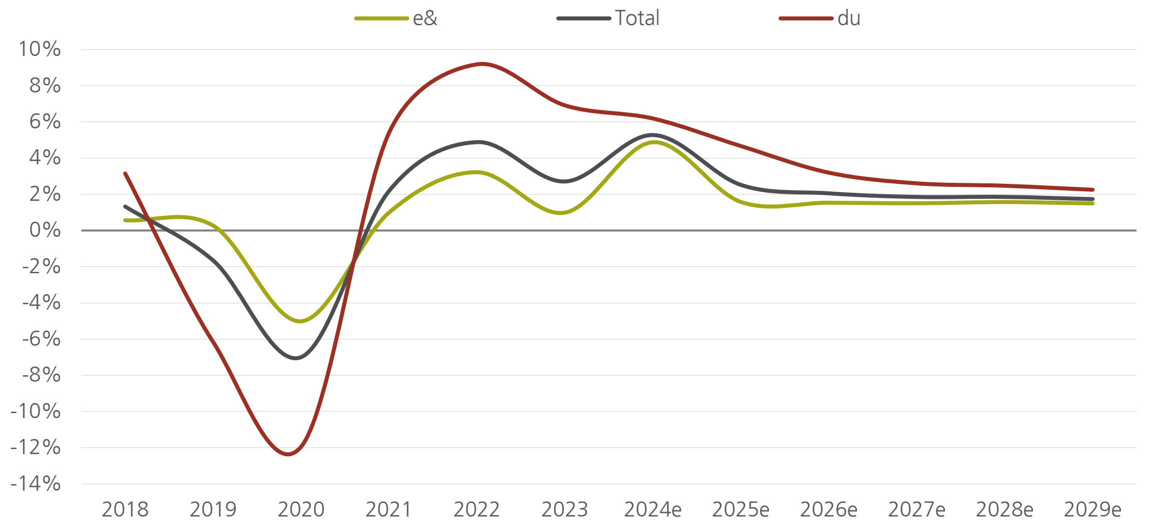
ADNOC Distribution: Delivered improved GCC station throughputs in 2024. We believe the current valuation is attractive, with the stock having a lucrative dividend yield, which is at a discount to UAE infrastructure names with a dividend commitment. The company has maintained a semi-annual dividend commitment of the higher of USD700mn a year or a 75% DPO over 2024-28e. We forecast a five-year earnings CAGR of 13%, driven by higher volumes and some opex savings.

Telecoms

Operating environment, macro backdrop favourable for telcos

Telecom players in the UAE have benefitted from an ongoing healthy operating environment in 2024; market competition dynamics remain benign, with a stable pricing atmosphere in the mobile and fixed segments, and the overall macroeconomic picture was supportive of sector growth, as economic activity was solid and population growth strong. The main area where we saw competition heating up – albeit not being aggressive – was the fixed segment (FWA and FTTH), where EITC (du) continued to be very active commercially and achieved market share growth. We believe all the above mentioned fundamentals will hold in 2025, with more growth possibly coming from the enterprise segment, as digitalisation continues to pick up in the market overall, on the back of healthy economic activity. We have seen some margin compression this year for e&, but this was a function of a change in revenue mix, as enterprise revenue grew more than consumer revenue; however, du's margins expanded, as it was more focused on the consumer segment and cost efficiencies. Moreover, earnings improved visibly, on the back of the new royalty regime that was implemented starting Jan 2024, in conjunction with the rollout of the UAE's corporate tax rate of 9%.

Figure 18: Revenue growth across the market has been strong lately on healthy macroeconomic and demographic fundamentals; although we expect a slower pace going forward, we see upside to our growth assumptions



Source: Company data, EFG Hermes estimates

Early investments in fibre optic and wireless access network continue to pay off

From an infrastructure perspective, the UAE remains one of the most efficient markets in the region because of early investments in the fibre optic backbone and wireless access network; hence, we believe capex intensity will remain broadly unchanged in 2025 vs 2024. Another key theme that we see continuing into 2025 and beyond is growth in adjacent opportunities, particularly in the consumer segment, as operators continue to focus on diversifying away from pure telecom services only; e& is a leader in this space with the addition of various non-telco consumer offerings such as fintech, media streaming, food delivery, ride hailing, etc.

Top picks

du: It is our preferred play in the UAE, as it offers pure exposure to the sector; the company is benefitting from strong demand drivers and continues to deliver decent growth with healthy FCF generation and a very high dividend payout that translates into one of the most attractive yields in the region.

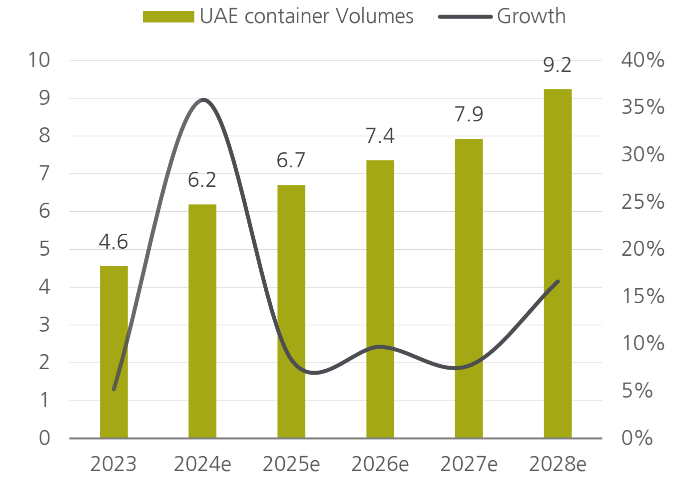
Industrials

Logistics and transport in the limelight in 2024

The logistics/transport space has been a leading sector in 2024, due mainly to: i) higher vessel charter rates and tightness in container/specialised vessel availability; and ii) an expansion in infrastructure capacities (ports, economic zones), with the aim of incentivising Abu Dhabi's industrialisation and funnelling trade traffic to the UAE from other regional hubs. We see these themes continuing into 2025 (at least in the earlier part of the year), as Red Sea disruptions continue and as Abu Dhabi expands and develops its LT port infrastructure assets and augment them with a back-ended support via industrial zones and incentivising industrialisation of the emirate.

Figure 19: UAE's container volumes

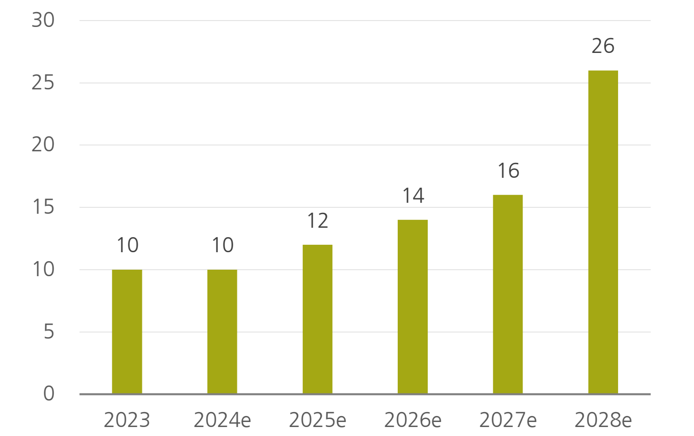
LHS in mn TEUs; RHS in %



Source: Company data, EFG Hermes estimates

Figure 20: ADNOC L&S LNG fleet

In x

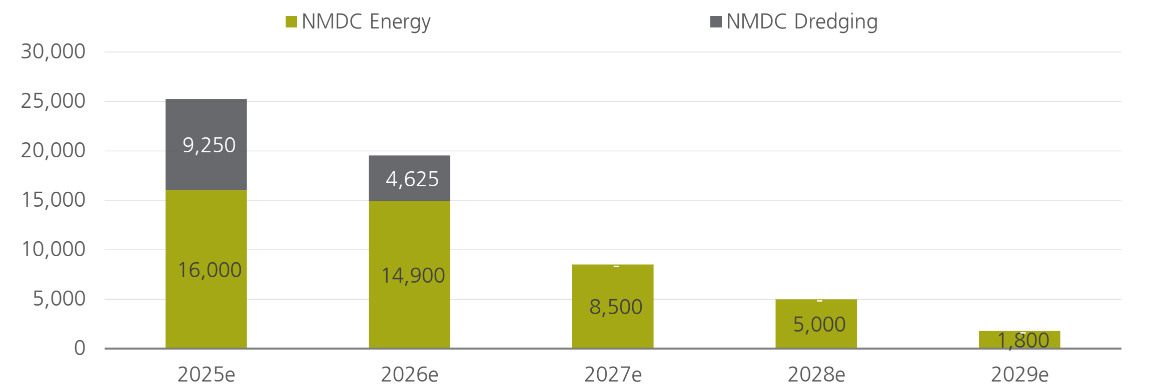


Source: Company data, EFG Hermes estimates

We also see all the key Abu Dhabi gov't entities coordinating together in delivering this masterplan, as ADNOC Group (via its different clusters) seems to have a mandate to drive additional gas and downstream development in Abu Dhabi and broader UAE (via the 5mn boe/d target, development of unconventional gas resources and achieving gas self-sufficiency for the UAE). These hydrocarbon initiatives will ultimately require the logistics support systems, supply chain needs and specialised EPC capabilities to step up and capture the upside risks of this theme, which drives an interesting and accretive investment cycle in the coming few years.

Figure 21: NMDC backlog – building UAE's critical energy and port infrastructure

In AEDmn



Source: Company data, EFG Hermes estimates

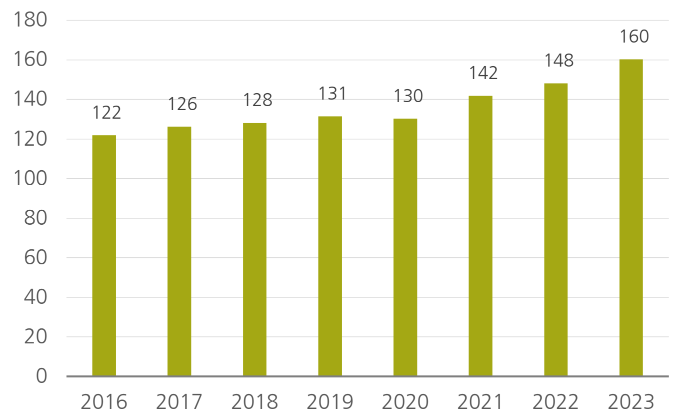
Tourism, new residents are key to UAE's population growth

As for the UAE's population theme, which was definitely an exciting one to play in 2024, it continues to be active across Dubai and Abu Dhabi, as an influx of tourism and new residents is requiring utility infrastructure expansions; however, we think the investment case for these stories needs to be selective, owing to the valuation uplift in 2024.

On the utilities side of the equation, there remain to be a few plays that garner attention as we head into 2025, such as renewables' exposed players and district-cooling plays (Masdar, TAQA, DEWA and Empower). Listed names in this space mostly offer growth opportunities, tick the box on sustainable/environmental investments and, to a high degree, still offer good value (TAQA being the exception on valuations).

Figure 22: UAE's total electricity consumption

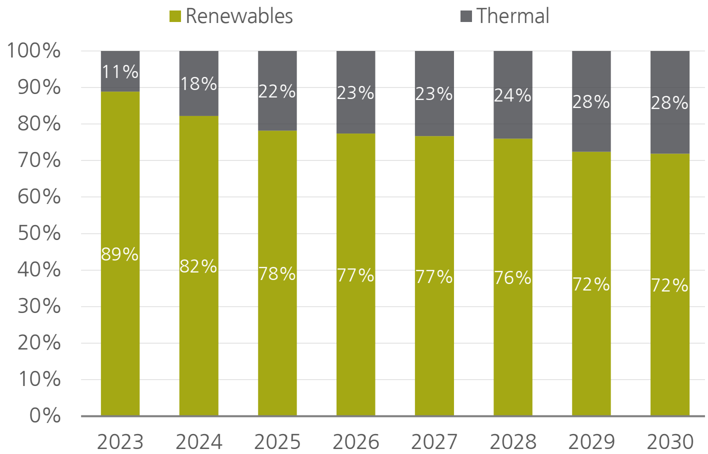
In GWH



Source: UAE Ministry of Energy and Infrastructure

Figure 23: DEWA's renewables/thermal mix

In %



Source: Company data

Top picks

ADNOC L&S and AD Ports: Both offer impressive exposure to the logistics/supply chain growth of Abu Dhabi and the UAE with considerable growth that is primarily contracted and defensive in nature – all being priced at attractive risk/growth-adjusted valuations.

NMDC (Group and Energy): Both entities are well-positioned for a building spree in Abu Dhabi and the international expansion via: i) real estate names; ii) port assets; and iii) to an extent, Masdar for NMDC Energy.

Empower and DEWA: They benefit from the population theme and rate cuts, and they offer decent dividend yields, with some further growth potentially developing.

Figure 24: UAE coverage

Price as of 12 Dec 2024

Company	Price (AED)	TP	Rating	YTD perf. (%)	ADVT (USDmn)	M cap (USDbn)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	P/B (x) 2024	DY (%) 2024
Consumer											
Agthia	6.93	9.00	Buy	49.1	0.87	1.57	19.2	16.7	13.4	1.9	3.0
Alef Education	1.14	1.60	Buy	N/A	1.67	2.17	17.2	18.3	13.9	14.3	8.5
Dubai Taxi Co	2.72	2.90	Neutral	27.7	2.74	1.85	19.7	20.5	20.2	23.7	4.2
Emirates Driving Co. (DRIVE)	2.74	3.65	Buy	(17.8)	0.15	0.80	12.0	11.6	10.8	2.8	6.2
Spinneys	1.57	1.87	Buy	N/A	0.90	1.54	22.4	21.7	18.9	31.3	3.5
Taaleem Holdings	4.03	5.20	Buy	3.6	1.10	1.10	34.6	26.0	27.7	2.6	2.7
Energy											
ADNOC Distribution	3.45	4.65	Buy	(6.8)	4.06	11.74	20.2	18.4	15.9	24.1	6.0
ADNOC Drilling	5.69	5.70	Neutral	50.5	22.81	24.79	25.4	19.7	17.5	6.7	3.2
ADNOC Gas	3.46	4.00	Buy	12.0	16.18	72.30	15.3	15.6	15.4	3.0	4.7
Dana Gas	0.72	1.05	Buy	(8.8)	1.49	1.38	8.6	9.0	9.6	0.5	6.9
Financials											
AD Commercial Bank	10.12	12.80	Buy	10.2	15.49	20.17	9.0	8.0	8.1	1.2	5.4
AD Islamic Bank	13.20	15.60	Buy	30.4	10.10	13.05	10.1	8.7	9.1	2.2	6.3
AD National Ins.	6.04	8.00	Buy	1.2	0.19	0.94	7.3	6.8	6.5	0.9	7.3
Al Ansari Financial Services	0.99	1.09	Neutral	(6.9)	0.45	2.02	14.9	16.1	14.2	4.0	5.3
Commercial Bank of Dubai	7.04	7.20	Neutral	37.0	0.06	5.72	7.9	6.7	6.2	1.5	7.1
Dubai Islamic Bank	6.80	7.30	Neutral	18.9	9.19	13.41	8.4	7.9	9.0	1.4	7.0
Emirates NBD	19.70	25.00	Buy	13.9	12.61	33.88	5.8	5.4	5.9	1.2	6.6
First Abu Dhabi Bank	13.26	15.10	Buy	(5.0)	11.27	39.80	8.8	8.5	9.0	1.3	5.8
RAK Bank	5.95	7.00	Buy	11.2	0.29	3.26	6.7	5.5	5.9	1.0	7.3
Sharjah Islamic Bank	2.40	2.20	Neutral	(1.2)	7.01	2.11	11.2	9.5	8.8	1.2	4.7
United Arab Bank	1.34	1.20	Neutral	(0.7)	0.68	0.75	12.4	11.8	11.2	1.5	0.0
Healthcare											
Burjeel Holdings	2.09	3.64	Buy	(32.8)	2.82	2.96	20.8	16.3	12.3	6.4	3.1

Source: Company data, EFG Hermes estimates

Figure 25: UAE coverage *(Continued)*

Price as of 12 Dec 2024

Company	Price	TP	Rating	YTD perf.	ADVT	M cap	P/E (x)			P/B (x)	DY (%)
	(AED)			(%)	(USDmn)	(USDbn)	2023	2024	2025	2024	2024
Industrials											
AD Aviation	5.89	8.50	Neutral	(14.8)	0.23	0.71	9.6	9.3	8.0	0.6	5.4
AD Ports	4.86	8.30	Buy	(23.8)	2.47	6.74	23.1	16.6	14.6	1.1	0.0
ADNOC Logistics & Services	5.23	7.20	Buy	36.6	4.37	10.54	17.0	13.6	11.7	2.1	2.6
Air Arabia	3.06	2.90	Buy	8.5	2.49	3.89	11.5	13.6	13.4	2.0	5.2
Aramex	2.27	4.00	Buy	(0.9)	0.70	0.90	25.7	16.1	13.3	1.3	4.4
NMDC Energy	2.99	3.50	Buy	N/A	4.08	4.07	19.2	10.2	7.7	2.8	4.7
NMDC Group	25.56	33.20	Buy	(14.2)	8.82	5.88	10.0	6.8	5.4	1.9	5.8
Parkin	4.75	4.10	Neutral	N/A	4.17	3.88	43.5	36.4	32.1	39.2	3.5
RAK Ceramics	2.50	3.30	Buy	(6.4)	0.19	0.68	8.5	11.6	9.7	0.9	8.0
Salik	5.05	5.00	Sell	62.4	9.18	10.31	34.5	32.3	23.3	51.1	3.1
Materials											
Borouge	2.47	2.55	Neutral	0.0	2.26	20.21	20.4	17.0	16.1	4.6	6.4
Fertiglobe	2.42	3.40	Buy	(18.5)	61.56	5.47	15.7	20.3	12.6	4.2	7.3
Real Estate & Hospitality											
Emaar	9.45	18.00	Buy	19.3	28.23	22.74	7.2	7.1	6.3	1.0	10.6
Emaar Development	11.85	17.00	Buy	65.7	7.04	12.91	7.2	6.9	4.8	1.7	4.6
Emirates REIT	0.53	0.85	Buy	153.6	0.07	0.17	1.3	1.0	6.9	0.2	0.0
RAK Properties	1.09	0.72	Neutral	(3.1)	2.31	0.89	39.6	19.7	23.3	0.5	0.0
Telecom Services											
du	7.42	8.60	Buy	43.0	1.57	9.16	20.2	13.9	13.8	3.4	6.9
EAND	16.44	19.30	Neutral	(16.3)	9.52	38.93	14.3	13.6	13.3	2.9	4.9
Utilities											
DEWA	2.64	3.10	Buy	7.3	7.17	35.94	17.1	17.2	15.3	1.5	4.7
EMPOWER	1.75	2.15	Buy	5.4	1.32	4.76	18.4	17.7	16.5	5.3	4.9
Tabreed	2.91	4.35	Buy	(18.7)	0.63	2.25	18.3	11.8	11.2	1.3	5.5
TAQA	3.08	1.55	Sell	(12.0)	100.98	94.28	52.1	47.9	45.0	3.3	1.1

Source: Company data, EFG Hermes estimates

Macro outlook – Favourable outlook to be sustained

Firing on all its macro cylinders, the UAE has been enjoying a strong GDP expansion in the past few years, capitalising on a post-pandemic rebound, structural reforms and positive external shocks. The UAE's real non-oil GDP growth has outperformed all other peers in the region, averaging c6.2% in 2021-24. Moreover, growth has been fairly broad-based, with all sectors of the economy enjoying strong expansion, including real estate and construction, trade, transport and financial services (see Fig. 26).

We expect such a positive trajectory to continue in 2025, benefitting from lower interest rates, ample fiscal space that can withstand lower oil prices and continued structural reforms. A continued deceleration in inflation trends is also likely to provide some marginal support for growth. The population growth story remains the underlying driving force of the economy, as a vibrant economy is inviting more people to move to the UAE. In parallel, the economy continues to benefit from buoyant activity in the tourism sector, with Dubai set to cross the 18mn-mark in arrivals in 2024 (stood at 14.96mn by Oct).

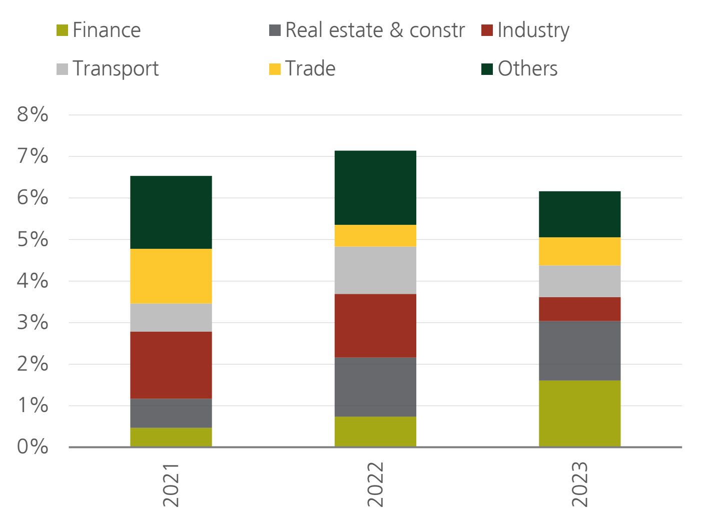
The pace of GDP expansion, though, is set to ease as it comes from an exceptionally high base. We, therefore, project real non-GDP growth to slow to a still-solid 4.8%, from an expected 5% in 2024. Signs of peak growth are manifested in several indicators, including slower public expenditure growth, a drop in contract awards and slower high-frequency data on economic activity; all showing a relative slowdown, from a highly elevated base.

One of the more positive trends to highlight within the UAE's macro space has been the significant improvement in Dubai's fiscal position. Public revenues were boosted by the strong post-pandemic recovery, whether directly from higher fees and taxes, or indirectly through higher dividends from gov't-related entities (GREs).

The emirate is set to run its third fiscal surplus in as many years, planning for an AED11.5bn in the 2025 budget. These fiscal surpluses, strong cash flows from GREs, as well as privatisation proceeds from public asset divestments have all allowed Dubai to record impressive deleveraging in just the past few years. As such, we estimate Dubai's sovereign debt has likely dropped 32% of GDP by end-2024, down from c80% in 2020, and expect a further decline to 28% in 2025.

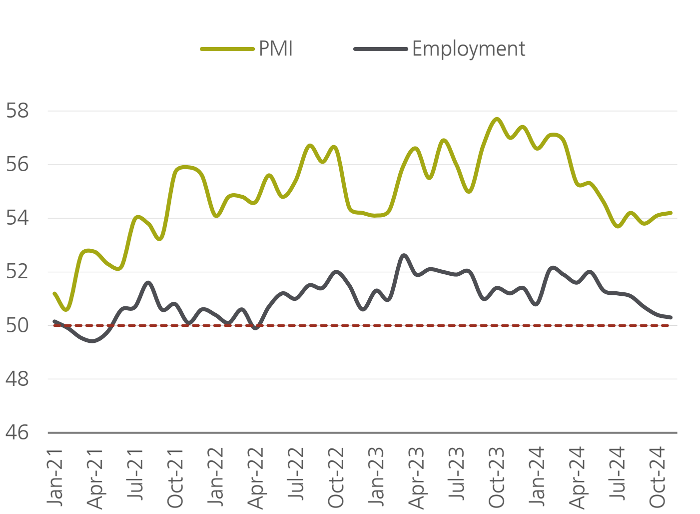
We are also positive on the key property sector, where we see the current cycle in Dubai lasting for a few more years. Property surveys (see UAE real estate section) show still-healthy interest for Dubai's real estate. We do, however, project a moderation in property transactions and average selling prices, a theme that would go in line with our broader expectations of moderating activity across a few sectors, from a high base.

Figure 26: Real non-oil GDP growth has been broad-based, with all key sectors of the economy enjoying strong expansion
In weighted % change



Source: Federal Competitiveness and Statists Authority

Figure 27: Latest high frequency readings show some softness in growth, coming from a high base
Index, readings below 50 points to contraction



Source: S&P Global

UAE Macroeconomic Indicators (Year-end Dec)

	2022a	2023a	2024e	2025e	2026e
Real Sector					
Nominal GDP (USDbn)	503.1	514.5	536.4	556.7	577.0
Real GDP growth	7.5%	3.6%	3.6%	4.2%	3.7%
Real non-oil growth	7.1%	6.2%	5.0%	4.8%	4.7%
Population (mn)	10.3	10.7	11.0	11.3	11.6
Per capita GDP (USD)	48,931	48,173	48,760	49,377	49,925
Oil price (Brent, USD/b Avg.)	99.0	82.2	80.0	75.0	70.0
CPI inflation (%, Avg.)	4.8%	1.6%	2.0%	1.5%	1.8%
External Sector					
Trade balance (USDbn)	69.6	57.4	76.3	65.4	56.1
HC exports (USDbn)	93.0	86.8	86.1	85.7	84.7
Non-HC exports (USDbn)	274.8	309.8	325.3	341.6	358.7
Services balance (USDbn)	57.5	56.9	57.0	58.0	60.0
Net transfers (USDbn)	(61.6)	(65.6)	(67.6)	(69.6)	(71.6)
Current account (USDbn)	65.6	52.5	67.7	55.8	46.5
Current account (% of GDP)	13.0%	10.2%	12.6%	10.0%	8.1%
FDI (USDbn)	(2.1)	8.4	14.0	15.5	17.0
Fiscal Sector					
HC revenues (USDbn)	103.4	98.3	97.6	97.1	96.0
Other revenues (USDbn)	76.9	72.0	76.7	82.4	85.4
Spending (USDbn)	133.7	133.3	138.1	143.6	148.7
Primary balance (% of GDP)	8.8%	6.8%	6.2%	5.9%	5.1%
Fiscal balance (USDbn)	46.5	37.0	36.2	35.9	32.7
Fiscal balance (% of GDP)	9.3%	7.2%	6.8%	6.5%	5.7%
Budget breakeven oil price (USD/b)	57.3	65.6	66.0	64.2	66.0
Net domestic claims on government (% of GDP)	-2.5%	-5.5%	-8.0%	-8.1%	-7.4%
Gross external government debt (% of GDP)	81.8%	85.8%	88.9%	89.3%	87.0%
Monetary Sector					
NFAs in the banking system (USDbn)	234.1	312.2	390.0	464.0	523.9
Exchange rate versus USD (Avg.)	3.67	3.67	3.67	3.67	3.67
Benchmark lending interest rate (end of period)	4.4%	5.4%	4.4%	3.4%	3.4%
Broad money growth	9.0%	18.8%	17.2%	16.5%	12.3%
Private sector credit growth (%, eop)	4.3%	617.0%	7.5%	0.0%	0.0%
Private sector credit (% of GDP)	64.7%	67.2%	69.3%	72.7%	75.8%

Source: Central Bank of UAE, IMF and EFG Hermes estimates

In the spotlight

- Kuwait is second-best performing market in 2024
- Tax headwind balanced with reform potential
- Banks still the more favourable play

Kuwait market made a strong showing YTD, standing as the second-best performing in the GCC, in contrast to its underperformance throughout the post-pandemic recovery. M&A transactions have been a key driver of the market's outperformance this year, following the announcement of merger talks between Boubyan Bank and Gulf Bank. Smaller banks saw a decent rally, on the back of the news and maintained these gains. Mezzan Holding was also another strong performer this year, with the stock price up 60% YTD, as the company is staging a strong recovery in earnings, led by its Kuwaiti food business.

We expect the market to take more strides in 2025, capitalising on new Cabinet's focus on boosting economic activity and potentially pushing for economic reforms. We are encouraged by the recent pick-up in project awards and see a healthy pipeline of projects that bodes well for future credit growth, which was subdued, so far, this year. Key factors to watch next year are: i) new legislation, primarily new housing law, as well as the public debt law; ii) new budget, which will give a direction for the potential fiscal reforms; and iii) pace of project awards.

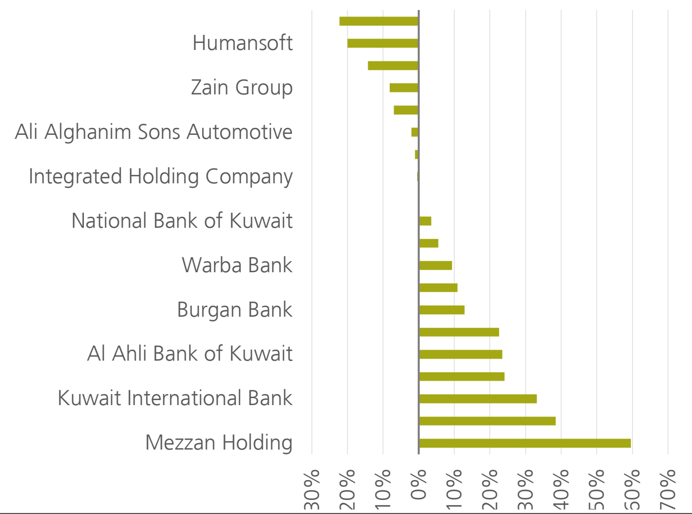
Banks remain the best, and probably the more reasonable, play on the prospective pick-up in economic activity, in our view. The sector will be a direct beneficiary of a potential new housing law, opening new financing opportunities for the sector. Moreover, it will also benefit from increased project activity, as the latter will be a clear booster for future lending growth.

While the sector trades at somewhat demanding valuations (18.6x P/E and 1.8 P/B for 2025e against an average of 10.0x P/E and 1.3 P/B for other Gulf countries), we still see some names trading at reasonable multiples. **NBK** is our top preference, as it is trading at undemanding multiples of 13.2x P/E and 1.7 P/B for 2025e; these multiples are attractive in relative and absolute terms (relatively to the bank's own historical ones).

We also like **Boursa Kuwait** as a play on a potential pick-up in trading activity, as momentum picks up with the expected reforms, as well as lower interest rates. The exchange also trades at a discount to the region, namely DFM and Tadawul, with a forward P/E of 23x in 2025e, while offering a reasonable dividend yield of 4.1%.

Figure 1: Market gains YTD were led by Mezzan and financials

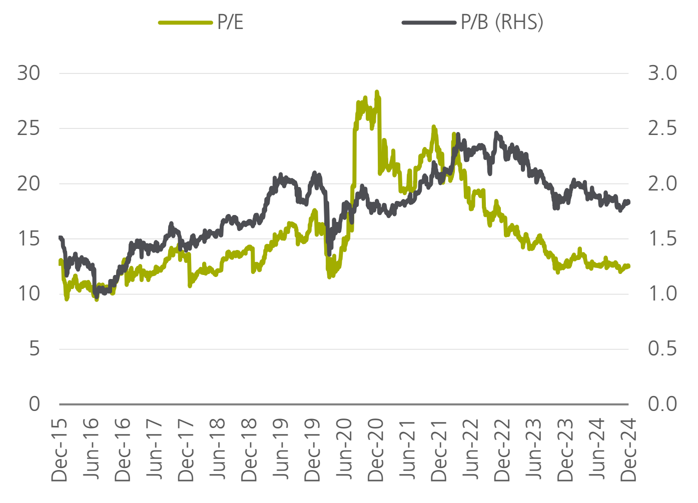
YTD % change



Source: Bloomberg

Figure 2: NBK trades at low valuations, having missed 2024 rally

12-month forward P/E (LHS), P/B (RHS)



Source: Bloomberg

Banks

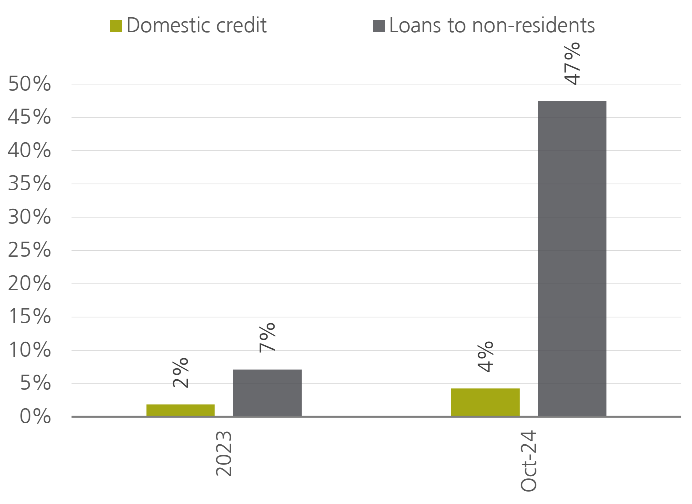
Upside risks to credit growth, on gov't spending, increase in retail credit appetite and on potential Mortgage Law

We expect loan growth for Kuwait banks under our coverage to end at a mid-to-high-single digit in 2024. A key driver for loan growth this year for Kuwait banks was lending to non-resident corporates (GREs and non-bank financial institutions in the GCC), as banks have stepped up their participation in regional syndicated loans (mainly in Saudi Arabia and the UAE). Domestic credit growth has improved after a very slow 2023, but continues to be subdued (c2% Y-o-Y for the retail segment, c3.5% Y-o-Y for the local corporate segment as of Oct 2024, and according to the Central Bank's stats).

We factor in high-single digit loan growth for the sector in 2025e and think that upside risks to loan growth for Kuwait are to the upside next year. We have seen progress in the tendering of infrastructure projects in 2H24, and the gov't has shown strong commitment to move forward with key strategic projects for Kuwait, in the areas of transportation and logistics (Port Mubarak and GCC rail network), amongst others. We also expect retail credit demand to improve in 2025, on lower borrowing costs (retail credit growth in low-single digit in 2024). Finally, there is optimism on Kuwait approving its long-awaited and first mortgage law during 2025. There continues to be a pressing need in Kuwait to improve access to gov't housing (including financing), with the backlog of housing applicants having risen to 97,000 this year. Based on our estimates, a Mortgage Law could add around 5pps to credit growth per annum for Kuwait banks.

Figure 3: Loans to non-residents was a key driver of Kuwait banks' loan growth during 2024 as banks have stepped up their participation in syndicated loans in the GCC

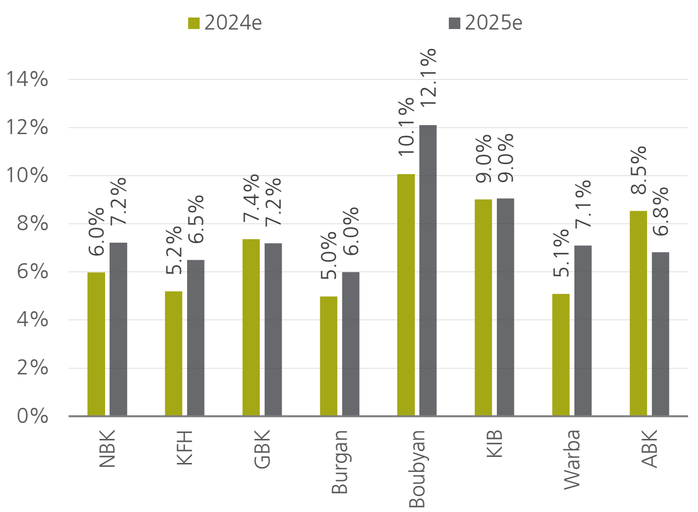
Y-o-Y credit growth



Source: Central Bank of Kuwait data

Figure 4: We expect high-single digit loan growth in 2025e for most banks in Kuwait, driven by our expectation of a pick-up in gov't infrastructure projects

Loan growth estimates by bank



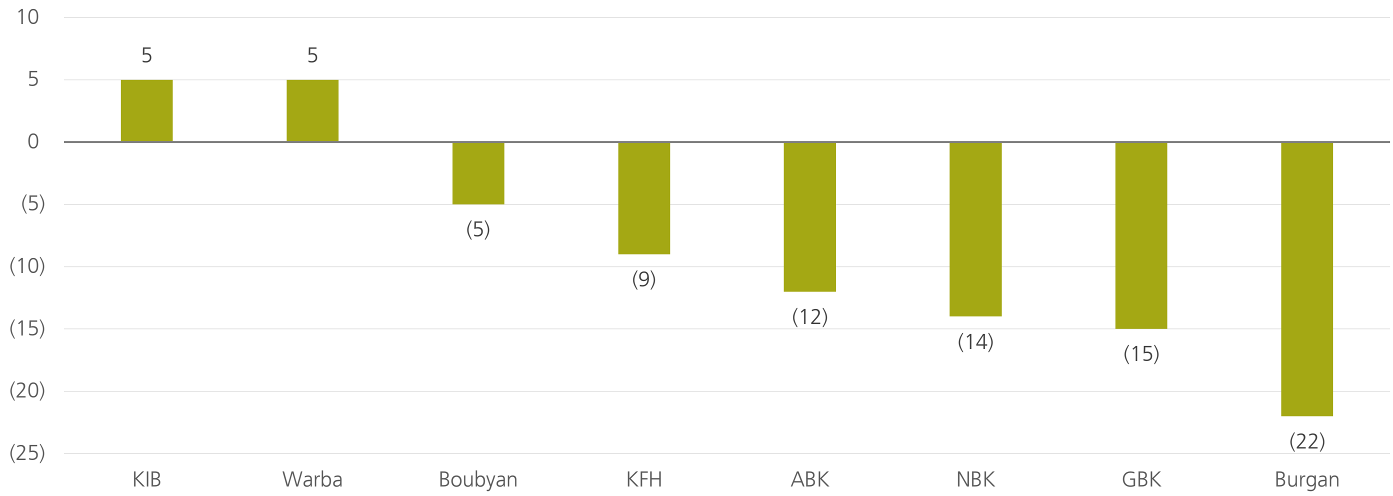
Source: Company data, EFG Hermes estimates

Rate cuts are negative for NIMs; Islamic banks are likely to see less compression than conventional ones

CBK has cut rates by 25bps so far in 2025 (vs 75bp cut by the Fed), and we expect it will follow some of the Fed's rate cuts in 2025. We factor in a NIM compression of 5-15bps across the sector. Islamic banks are set to see a slower decline in NIMs, with lower interest rates, due to the lagged repricing of their loan book vis-à-vis-conventional banks. Despite NIM compression, we expect revenue growth in mid-single digit for the sector, thanks to loan growth, and as the gov't's projects are likely to drive guaranteed-linked fees from contractors bidding for such projects.

Figure 5: Kuwait banks' NIM sensitivity to 100bp rate cuts

In bps, on an annualised basis



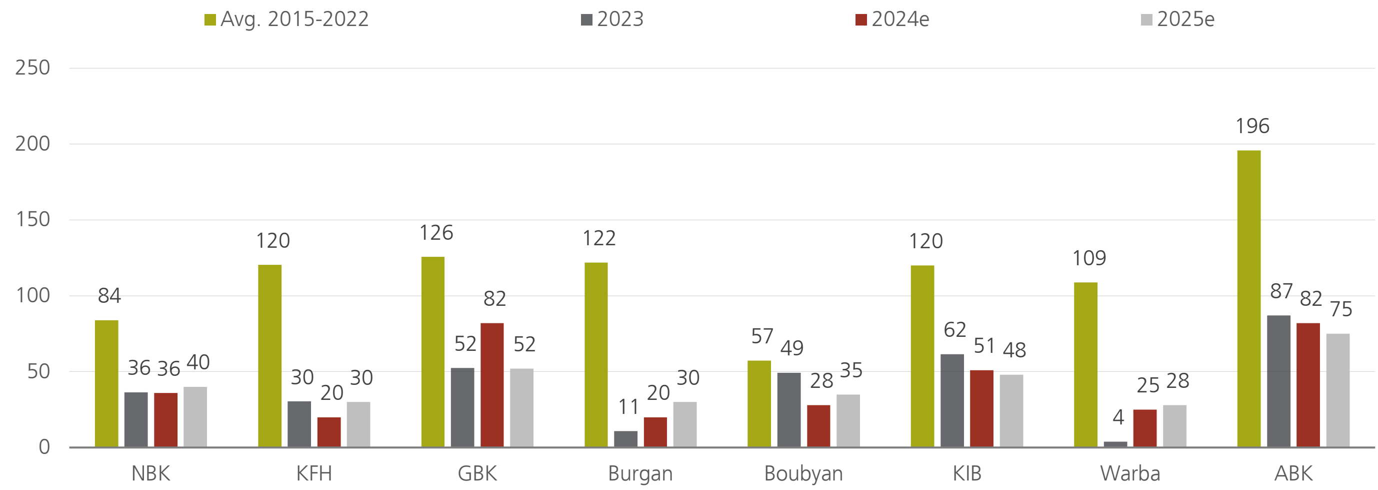
Source: Company data

Asset quality trends continue to be very resilient; cost of risk close to all-time lows

Most Kuwait banks' cost of risk declined further in 2024 to a decade low. Credit quality trends are benign across the sector (no material increase in NPLs over the past three years). Banks continue to have large buffers of excess provisions, following several years of precautionary provisioning requirements by the CBK. We expect fairly similar cost of risk levels for the sector in 2025 vs 2024.

Figure 6: Cost of risk set to normalise for most banks, on excess provisioning buffers and several years of precautionary provisions

Cost of risk by bank (bps)



Source: Company data, EFG Hermes estimates

Introduction of corporate tax in 2025 to drive earnings down Y-o-Y

Kuwait signed OECD Pillar 2 BEPS rules; as such, corporates and banks with gross revenue in excess of EUR750mn and earnings generating international subsidiaries will be subject to 15% corporate tax starting 2025 (vs 4.5% currently). As per recent media reports, the cabinet is reviewing a draft law which introduces 15% tax on local earnings for multinationals in 2025, while local corporates with revenue in excess of KWD1.5mn will pay 15% corporate tax starting 2027. As a conservative assumption, we had factored in 15% corporate tax for all banks in our coverage. GBK, KIB and Warba Bank do not have international subsidiaries and may not be subject to a higher tax bill until 2027.

M&A theme could be at play over the medium term

GBK and Boubyan Bank are exploring a merger, and talks are progressing since their initial disclosure at end-Jul 2024. There are a number of banks in Kuwait with high cost-to-income ratios, small scale and with below CoE ROEs: Burgan Bank, Warba Bank, ABK and KIB. We think further consolidation in the industry is a plausible scenario over the medium term.

Top picks

NBK: Highest quality corporate banking franchise in Kuwait, and best play on gov't spending theme. Second highest ROE in the sector (after KFH). Increased mobilisation of government projects as well as the strengthening of its wealth mgmt. business in Saudi Arabia are set to drive higher non-interest income going forward.

GBK: Offers upside, assuming a valuation premium in its potential merger with Boubyan Bank. We expect news flow on the agreed-upon merger swap ratio during 1Q25.

Boursa Kuwait: One of the most profitable stock exchanges globally, with net profit margin in mid-50% and tangible ROE at c32%. Very little capex needs imply that majority of profits are returned as dividends (pay-out ratio is 95%). Trading activity set to benefit from lower interest rates and from increased optimism on Kuwait's economic outlook going into 2025. Boursa Kuwait trades at a discount to both Tadawul and DFM.

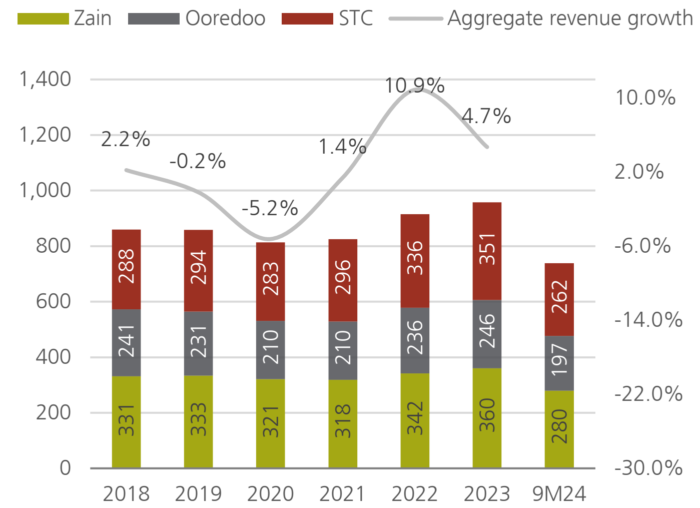
Telecoms

Market needs price repair, better competitive dynamics…

The dominating theme in Kuwait continues to be aggressive competition; the market remains largely saturated, while being simultaneously overcrowded with too many operators, including three mobile network operators (MNOs) and multiple brands, some of which are mobile virtual network operators (MVNOs). Although an independent telecommunications regulatory authority was established a few years ago under the name CITRA (Communication and Information Technology Regulatory Authority), we do not see evidence of a price repair theme in the market, which is a key element needed to improve the overall health of the competitive landscape, in our view. We believe Kuwaiti telecom operators' long-term ability to maintain an adequate level of investment in network infrastructure could be hampered by aggressive competition, as margins remain lower than in most neighbouring comparable GCC markets; thereby, pressuring cash flow generation and returns. We do not expect any change in the abovementioned dynamics in 2025.

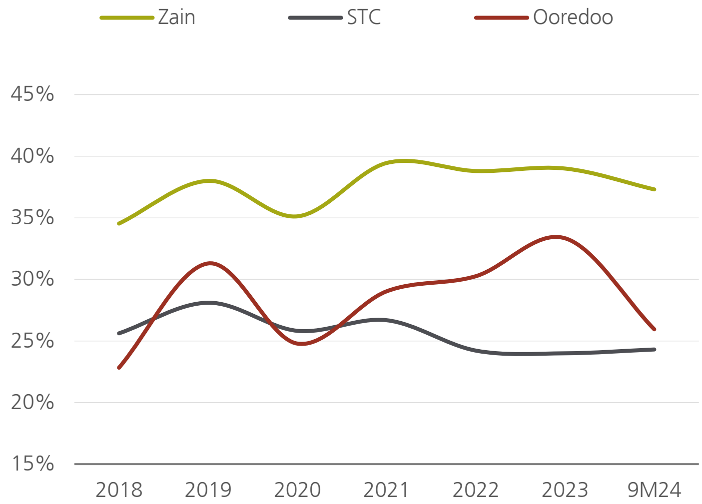
Figure 7: Kuwaiti telcos' revenue growth has been subdued by market maturity, except for 2022-23 which saw inorganic growth

In KWDmn, unless otherwise stated



Source: Company data

Figure 8: EBITDA margins in Kuwait remain weak vs the rest of MENA, mainly on tough competition and relative market saturation



Source: Company data

…and a more meaningful enterprise segment

Another potential source of revenue growth and diversification is the enterprise segment, which has been the main growth driver in other GCC markets like KSA; however, in Kuwait, the enterprise segment has yet to become a more sizeable revenue generator. This is unlikely to unfold in 2025, as we do not see evidence of major gov't projects in the ICT space that would drive such growth. Another source of pressure that is likely to materialise in 2025 is the implementation of a corporate tax rate; we understand that some players are in discussions swith the gov't on the mechanism and timing of implementation, with no clear timeline available yet.

Top picks

Ooredoo Kuwait: It is our preferred play, as it trades at attractive valuations vs MENA peers and offers a superior dividend yield; however, we note that it is not a pure play on Kuwait's telecoms sector, as only 28% of its EBITDA comes from Kuwait, while the remainder comes from Algeria, Tunisia, Maldives and Palestine.

Figure 9: Kuwait coverage

Price as of 12 Dec 2024

Company	Price (KWD)	TP	Rating	YTD perf. (%)	ADVT (USDmn)	M cap (USDbn)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	P/B (x) 2024	DY (%) 2024
Consumer											
Ali Alghanim Sons Automotive	1.05	1.43	Buy	(0.6)	1.56	0.95	11.4	11.2	10.9	3.9	7.2
Humansoft	2.51	3.85	Buy	(22.5)	1.17	1.10	8.1	8.5	8.7	4.4	13.3
Mezzan Holding	0.92	1.10	Buy	59.3	1.05	0.93	25.3	20.5	16.7	2.6	2.7
Financials											
Al Ahli Bank of Kuwait	0.28	0.30	Neutral	24.4	1.37	2.24	14.7	13.3	16.5	1.1	3.6
Boubyan Bank	0.57	0.58	Neutral	0.3	11.43	7.76	32.1	26.4	26.4	2.6	1.7
Boursa Kuwait	2.24	2.33	Buy	29.9	1.36	1.46	28.5	25.6	24.1	6.8	3.7
Burgan Bank	0.19	0.20	Neutral	14.8	2.61	2.22	19.6	17.7	20.3	0.8	3.7
Commercial Bank of Kuwait	0.57	0.43	Sell	3.7	0.06	3.66	28.2	N/M	N/M	N/M	0.0
Gulf Bank	0.33	0.37	Buy	23.3	6.74	4.08	17.6	24.1	20.3	1.5	2.6
Kuwait Finance House	0.74	0.67	Neutral	11.3	23.07	41.25	21.2	21.0	21.7	2.3	2.5
Kuwait International Bank	0.19	0.21	Neutral	33.2	3.19	1.08	23.3	19.1	23.0	0.9	2.6
National Bank of Kuwait	0.88	1.03	Buy	3.4	13.69	23.84	13.6	12.5	13.3	1.9	4.0
Warba Bank	0.19	0.17	Neutral	8.8	2.51	1.36	25.1	24.2	29.0	1.3	1.6
Industrials											
Beyout Investment Group	0.43	0.60	Buy	N/A	0.90	0.42	19.7	17.4	12.8	2.7	7.8
Integrated Holding Company	0.51	0.49	Neutral	0.4	1.12	0.42	31.6	18.8	13.1	2.0	4.3
Jazeera Airways Co	1.07	1.25	Buy	(23.3)	1.32	0.76	38.6	25.4	14.4	9.0	2.9
Telecom Services											
Ooredoo Kuwait	1.08	1.40	Buy	(10.9)	0.35	1.77	6.2	12.2	12.4	1.0	7.4
STC Kuwait	0.57	0.58	Neutral	0.4	1.19	1.84	17.3	17.0	18.4	2.3	6.2
Zain Group	0.48	0.53	Neutral	(5.9)	4.41	6.72	9.8	9.7	10.0	1.6	7.3

Source: Company data, EFG Hermes estimates

Macro outlook – Looking forward to measured delivery

Kuwait's new Cabinet, which was appointed this summer, post the dissolution of the National Assembly and suspension of the constitution, has been focusing its efforts on reviving economic activity. The gov't has devoted its attention to upgrading the country's infrastructure, starting with the more basic areas of road maintenance, water treatment and power projects. In doing so, the gov't is catering to the more pressing issues for the public, while also boosting economic activity.

Moreover, the gov't is expediting the resumption of construction work at Mubarak Al Kabeer Port, which - when completed - will include a duty-free zone, as well as housing, retail and entertainment facilities. The gov't has recently sought the support of Chinese experts and state-owned companies to expedite the project.

We think such an approach is critical for laying the ground for confidence-building with the public, which is going to be important to pave the way for the much-needed fiscal reforms. The latter is critical for the sustainability of any investment cycle in Kuwait, with the gov't already running a thin margin for expanding expenditure.

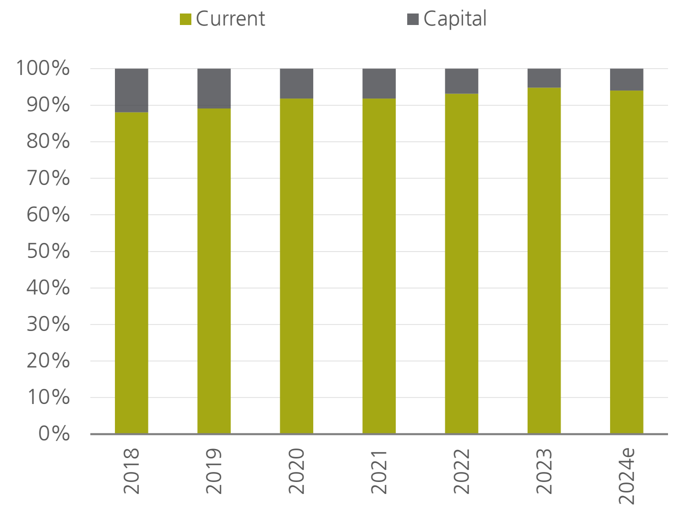
Due to elevated expenditure over the past years, directed predominantly towards current spending, Kuwait has a budget breakeven oil price of +USD80/b, already higher than current oil prices. Moreover, the gov't General Reserves Fund, which finances the budget deficit, has been depleted over the past years, leaving limited room for financing big deficits. This is more so the case amidst the continued absence of a public debt law.

As such, fiscal reforms are critical for ensuring adequate fiscal space to increase investment spending and run sustainable fiscal deficits. Reforms are likely to focus on the two flanks of the budget, namely boosting non-oil revenues and reducing expenditure (especially with the latter being the highest in the GCC's five countries, including the highest wage bill across the region). The gov't is likely to use the Global Minimum Tax to introduce a 15% corporate income tax on all companies (rather than on multinational companies only). The introduction of an excise and value-added tax is also likely to be on the table. The gov't will focus its expenditure reduction on reducing the generous social benefits and fuel subsidies.

Fiscal reforms can be complemented by ample room for borrowing, amidst low public debt levels; we project the latter to stand at 2.8% of GDP by end-2024. Domestic debt is nearly non-existent, at 0.1% of GDP, and external demand is composed of a single outstanding Eurobond of USD4.5bn. A 5% of GDP borrowing can provide approximately USD8bn in additional financing, highlighting the extent of borrowing space for the gov't. Utilising this space, though, is contingent upon the passing of a new public debt law.

Figure 10: Current expenditure has dominated public spending

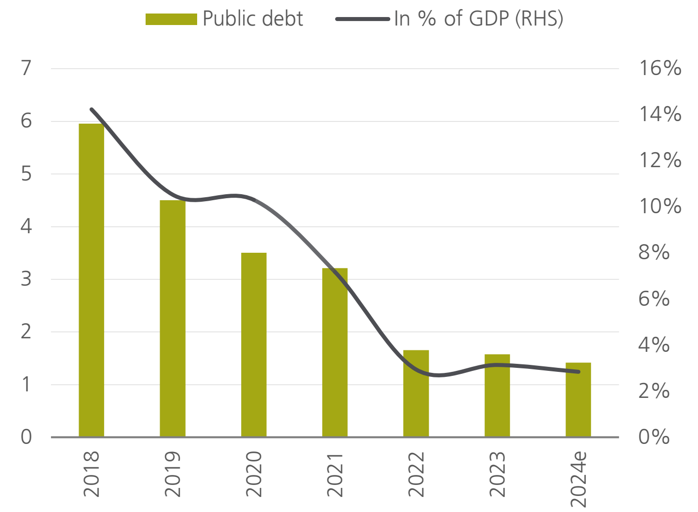
Weight in %



Source: MoF, EFG Hermes estimates

Figure 11: Low public debt levels leave ample space for borrowing

In KWDbn (LHS), In % of GDP (RHS)



Source: CBK, EFG Hermes estimates

Kuwait Macroeconomic Indicators (Year-end Dec)

	2022a	2023a	2024e	2025e	2026e
Real Sector					
Nominal GDP (USDbn)	184.2	165.4	164.2	166.6	169.8
Real GDP growth	5.9%	-3.6%	-1.8%	2.1%	2.5%
Real non-oil growth	-0.1%	-2.9%	3.2%	3.0%	3.0%
Population (mn)	4.7	4.9	5.0	5.1	5.2
Per capita GDP (USD)	38,888	34,044	33,123	32,961	32,937
Oil price (Brent, USD/b Avg.)	99.0	82.2	80.0	75.0	70.0
CPI inflation (%, Avg.)	4.0%	3.6%	3.2%	3.0%	3.0%
External Sector					
Trade balance (USDbn)	72.0	51.7	41.7	36.8	32.2
HC exports (USDbn)	94.1	78.9	67.7	64.2	61.2
Non-HC exports (USDbn)	6.3	6.2	6.4	6.6	6.8
Services balance (USDbn)	(17.0)	(19.3)	(19.7)	(20.6)	(21.4)
Net transfers (USDbn)	(17.9)	(13.1)	(13.4)	(13.6)	(13.9)
Current account (USDbn)	63.2	51.9	42.8	38.6	34.7
Current account (% of GDP)	34.3%	31.4%	26.1%	23.2%	20.4%
FDI (USDbn)	(23.9)	(9.2)	(5.9)	(5.9)	(5.9)
Fiscal Sector					
HC revenues (USDbn)	87.3	70.8	61.6	58.5	55.7
Other revenues (USDbn)	26.7	27.8	28.1	28.2	28.4
Spending (USDbn)	71.3	75.0	77.6	78.4	79.5
Primary balance (% of GDP)	22.5%	12.9%	5.6%	3.2%	0.9%
Fiscal balance (USDbn)	42.6	23.4	12.0	8.3	4.5
Fiscal balance (% of GDP)	23.2%	14.3%	7.4%	5.0%	2.7%
Budget breakeven oil price (USD/b)	59.2	86.5	74.9	74.7	74.3
Net domestic claims on government (% of GDP)	-21.3%	-25.4%	-26.2%	-26.4%	-26.5%
Gross external government debt (% of GDP)	2.4%	2.7%	2.7%	2.7%	2.6%
Monetary Sector					
NFAs in the banking system (USDbn)	76.9	83.1	84.6	86.3	88.0
Exchange rate versus USD (Avg.)	0.31	0.30	0.30	0.30	0.30
Benchmark lending interest rate (end of period)	3.5%	4.3%	4.0%	3.0%	3.0%
Broad money growth	6.5%	1.0%	2.4%	4.0%	5.1%
Private sector credit growth (%, eop)	8.0%	2.4%	4.0%	5.3%	6.2%
Private sector credit (% of GDP)	78.3%	89.8%	94.1%	97.7%	101.8%

Source: Central Bank of Kuwait, Ministry of Finance, IMF and EFG Hermes estimates

Lacklustre performance continues

- 2024 was a year of two opposing halves
- Market still lacks a catalyst
- Property oversupply weigh on banks

Qatar's equity market saw a year of two oscillating halves in 2024, showing notable swings during the year. In 1H24, the market saw a nearly consistent drop, reaching almost a decade-low and shedding 14% YTD at its low on 29 May. Since then, the market has recovered nearly all of its losses as it rallied 13.6% up until mid-Dec. Market trading activity has also been on a declining trend, with average value trading falling 13% Y-o-Y in 11M24. Selling pressure have been driven entirely by foreigner investors, including GCC and Arabs, who turned net sellers this year, with net selling of USD682mn in 11M24 vs net purchases of USD515mn in 11M23. Non-Arab foreigners were net sellers in seven of the 11 months YTD.

We remain underweight Qatar, in light of the market's lack of a clear catalyst. The macro story is uninspiring, resting primarily on the gas production expansion with limited spillovers into the non-hydrocarbon economy. Meanwhile, the latter is growing between 1-2%, amidst reduced gov't spending on projects – due to a matured capex cycle – and relatively small private sector. Such a setting leaves the economy with hardly many stories that can help the equity market rally from current levels.

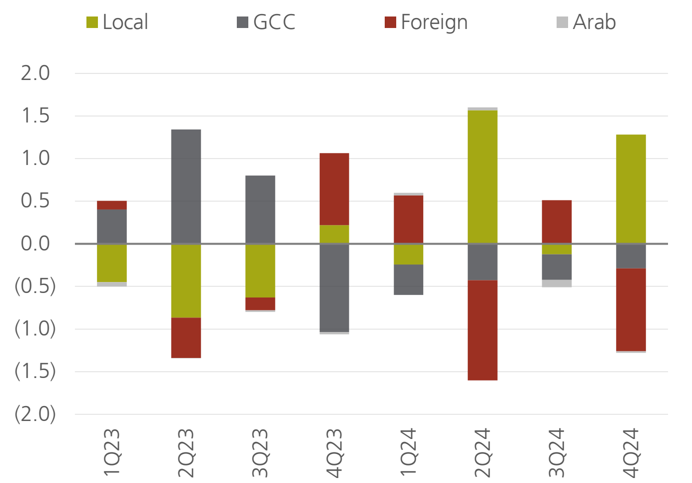
In addition, concerns over real estate excesses remain an overhang on the banking sector, which continues to add provisions – mostly for real estate exposure – driving a high cost of risk, which we expect to extend from 2024 up to 2026; thereby, weighing on profitability. As such, we see the market's relatively low valuation (from a forward P/E perspective) as appropriate, given the lack of clear catalyst and overhang of the excesses in the property sector.

We like **Nakilat,** which should start to reflect the upside of the already secured contract awards, with the fleet expansion starting to have an impact on the company's bottom line. In this respect, the company's current multiple of 14x 2025e P/E is relatively undemanding.

In the banking space, our top pick is **CBQ,** which trades a deep discount to the sector, on a P/E basis; currently at 7.3x 2025e, whilst the sector's average stands at 10.7x. In the meantime, the bank has the highest dividend yield (5.9% for 2025), as well as highest ROE amidst mid-sized Qatari banks. We also add **QNB** as a top pick for the Qatari equity market. Holding the best quality franchise in the country, it is also trading at the second lowest P/E multiple across the sector, albeit likely to face the headwind of the Global Minimum Tax.

Figure 1: Foreigners remained net sellers; GCC joined forces

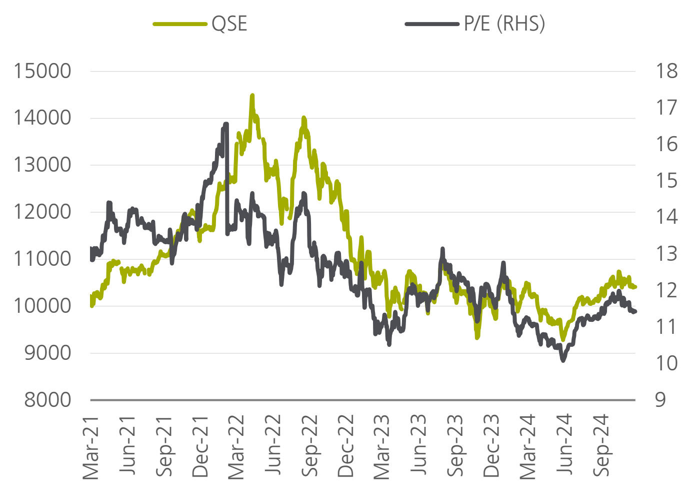
In QARbn



Source: Qatar Stock Exchange (QSE)

Figure 2: Market trades at low multiples amidst lack of catalyst

QSE index (LHS), 12-month forward P/E (RHS)



Source: Bloomberg

Banks

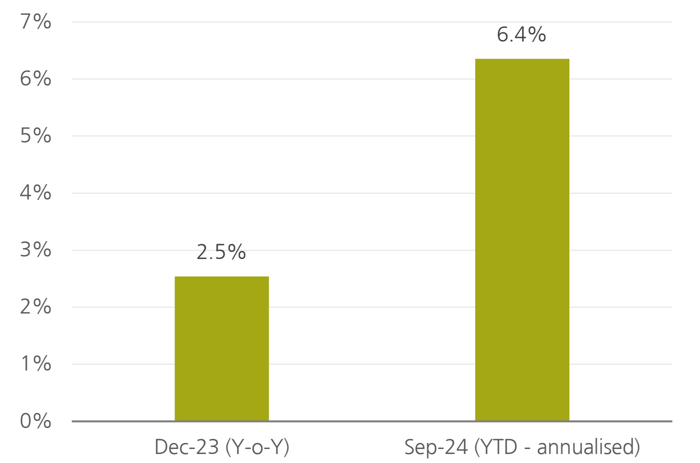
Loan growth recovering from the lows of 2023, as the gov't stops repayments of overdrafts in 2024

The slowdown in business activity post-World Cup 2022, coupled with repayments of overdrafts by the Ministry of Finance in 2023 (on fiscal surpluses), led to flat or negative credit growth for Qatar banks in 2023. Loan growth has recovered to mid-single digits in 2024, on average for the sector, driven by solid growth in certain segments of the private sector (mainly real estate and services) and a pickup in credit demand by the gov't and gov't-related entities. Qatar continues to enjoy fiscal surpluses in 2024, but these have been directed to increase external buffers. QNB's and Dukhan Bank's loan growth was in the low teens in 9M24, and outperformed the sector.

As a base case, we estimate loan growth in mid-single digits for Qatar banks in 2025. Risks are to the upside if the execution of ancillary projects linked to the North Field expansion materialises earlier than expected.

Figure 3: Loan growth recovered in 2024, from a low base in 2023, driven by solid growth in private and public sector loans

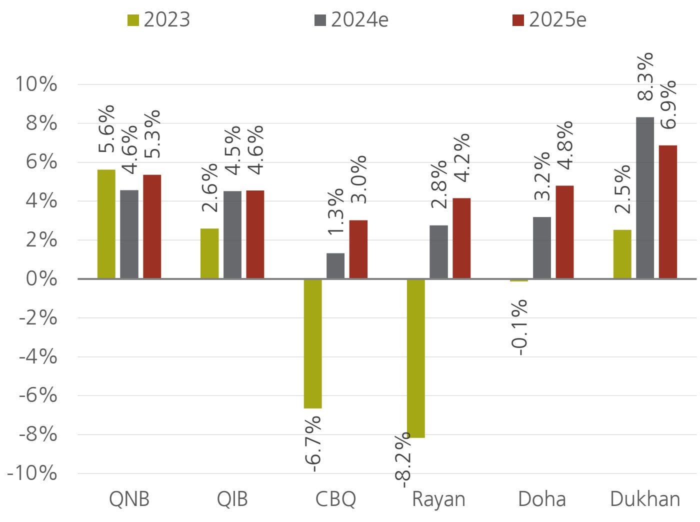
System loan growth



Source: Qatar Central Bank data

Figure 4: We estimate mid-single digit loan growth for Qatar banks in 2024-25e

Loan growth estimates by bank (Y-o-Y)



Source: Company data, EFG Hermes estimates

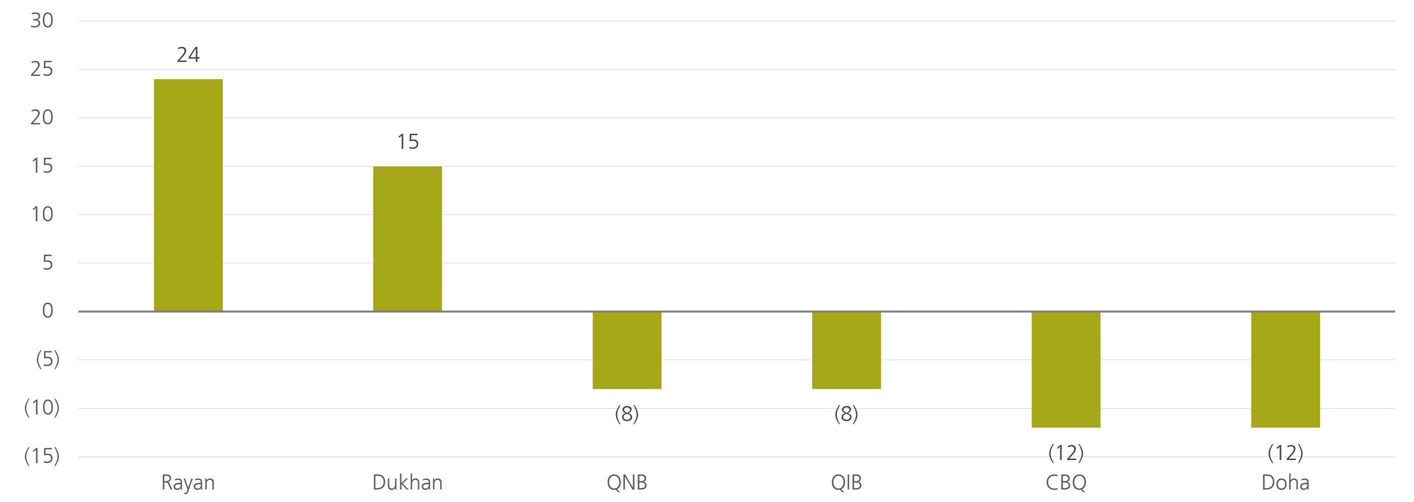
Low sensitivity to rate cuts in GCC banks context; Islamic banks' margins set to benefit from lower rates

Higher interest rates in 2022-23 led to NIM compression for many banks in Qatar, due to: i) a low share of low-cost deposits (CASA) to total deposits (c20% at the broader sector level); ii) weak transmission of higher rates into lending yields (loan concentration in corporate and GREs sector); and iii) a very competitive deposits market (which also exhibits high concentration amongst gov't, GREs, corporates and high net worth individuals).

Mid-sized Islamic banks expect that lower rates will drive, in the short term, expansion in NIMs, with deposits repricing faster than assets. They do not anticipate material downward pressure in asset yields as loan pricing did not fully incorporate rate hikes in 2022-23. Al Rayan and Dukhan Bank's NIMs are the most geared to rate cuts (+25bps NIM expansion for Al Rayan, 15-20bps for Dukhan Bank for each 100bp rate cut). We expect most other banks' NIMs to fall with lower rates, but sensitivity is generally lower than other banks in the region.

Figure 5: Qatar banks' NIM sensitivity to rate cuts of 100bps

In bps, on an annualised basis



Source: Company data

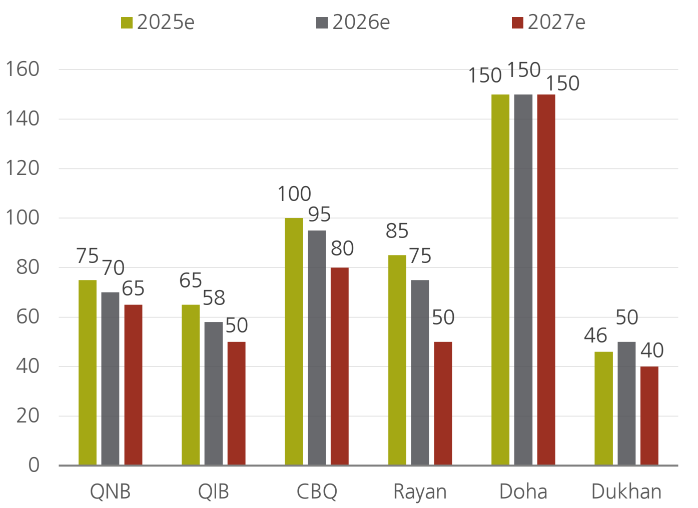
Cost of risk unlikely to see an inflection point in 2025

Cost of risk levels are generally higher for Qatar banks vs other banks in the region. Stage 2 loans and NPL ratios are also higher, and provision coverage levels are relatively low (excluding "best in class banks" QNB and QIB).

Most banks continue to add provisions for legacy loans (primarily in the real estate sector), driving high cost of risk in 2024 and until 2026. Al Rayan and CBQ expect to complete the cleaning up of their legacy loan book by 2026, with cost of risk levels set to decline sharply starting 2027.

Figure 6: We expect most banks' cost of risk to gradually decline over the MT, but to remain higher vs other GCC banks in the ST…

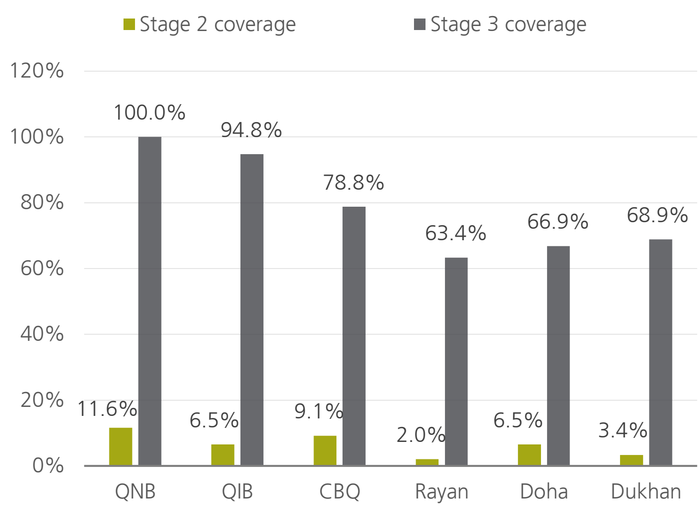
Cost of risk estimates by bank (bps)



Source: Company data, EFG Hermes estimates

Figure 7: …as Stage 2 and Stage 3 coverage remains relatively low for most banks in Qatar

Coverage of Stage 2 and Stage 3 loans (Sep 2024)



Source: Company data

Introduction of corporate tax to drive sector EPS down in 2025

Qatar signed OECD Pillar 2 BEPS rules and, as such, banks with gross revenue in excess of EUR750mn and international subsidiaries will be subject to a 15% corporate tax starting 2025. It is unclear for now if Qatar will introduce a minimum corporate tax for all corporates/banks or if only multinationals will be subject to it.

As a conservative assumption, we factor in a 15% corporate tax for all Qatar banks. Within our coverage, Dukhan Bank may not be finally subject to tax, as it does not have earnings-generating subsidiaries outside of Qatar.

Top picks

QNB: Highest quality franchise in Qatar banks, trading at the second lowest PE in the sector, after CBQ. Earnings growth is likely to be slightly negative in 2025, on corporate tax, but there is room for QNB to lower the cost of risk to mitigate the impact. The credit growth outlook in Turkey and Egypt is set to improve next year, with lower rates.

CBQ: Trading at a large discount to the sector, despite having the best ROE amongst mid-sized Qatar banks (c13% in 2025e, after corporate tax). Limited downside risks to dividends in 2024, on improved CET1. Highest dividend yield in the sector.

Al Rayan: Best play on rate cuts next year, with NIM expansion driving above-sector average growth in revenue and profits in 2025 (despite corporate tax).

Materials / Industrials

A mixed performance for chemicals; fertilisers holding steady

Chemical stocks in Qatar were a mixed bag in 2024, but were generally stable to lower in a very weak global price environment for most petrochemical products amidst oversupply and lacklustre demand. Fertilisers held up much better, as supply and demand are much better balanced.

Outlook for 2025 difficult amidst more supply growth, with few exceptions

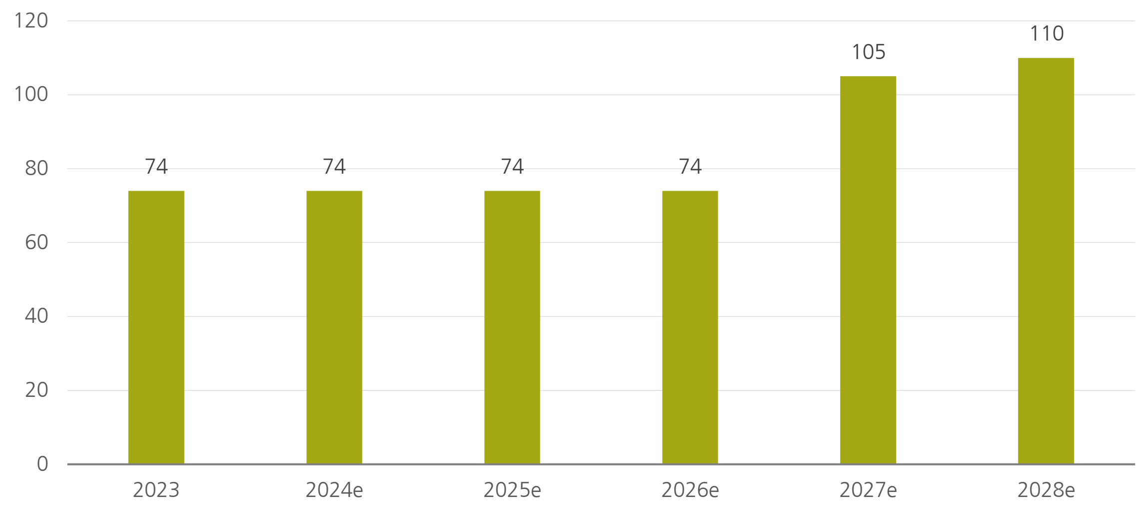
The outlook for 2025 remains difficult for most chemical products, as capacity additions are still elevated, and it will take time for the market to rebalance itself. Some products, however, such as fertilisers, LDPE and methanol have been resilient and are likely to remain so in 2025, on limited capacity growth.

Shipping and energy stepping up

The shipping space and energy companies also saw major developments in 2024 in the form of a final delivery on certain North Field expansion awards: i) Nakilat receiving several awards (25 conventional LNG vessels + nine QC Max vessels + locking in a few more international opportunities); ii) QatarEnergy announcing several renewable projects – though Qatar Electricity and Water (QEWC) seems unlikely to participate; and iii) downstream chemical investments being announced and spearheaded by QatarEnergy – again, seemingly not bringing in IQCD, at least for now.

Figure 8: Nakilat total fleet size

In x



Source: Company data, EFG Hermes estimates

Lower interest rates, altering capital allocation policies key themes for industrials

Industrial names in Qatar are also set to benefit from two key themes: i) lower interest rates, as some companies are about to head into a capex cycle; and ii) companies becoming more conscious of their capital allocation policies – QatarEnergy having directed its companies to upstream more dividends and to be conducted with semi-annual frequency.

Rising alumina raw material cost to cause significant margin pressure for aluminium producers

For other material stocks, not including chemicals, performance was mixed, with aluminium producers doing well for most of the year, but are expected to experience severe margin pressure in the short term because of the escalation in alumina raw material costs.

Top picks

Nakilat: As we look ahead into 2025, its equity value should begin to reflect the upside of the secured contract awards and compound the value, as we move gradually closer to the fleet expansion having an impact on P&L; hence, we expect its multiples to re-rate higher in 2025.

IQCD: We like the name, as: i) relatively speaking, its product portfolio has a better outlook within the MENA chemicals space, with LDPE, methanol and fertiliser prices and margins in line with historical norms vs other products that are being priced near trough levels; ii) c20% of IQ's market cap is cash; and iii) the company's planned blue ammonia project offers growth at attractive return metrics, in our view.

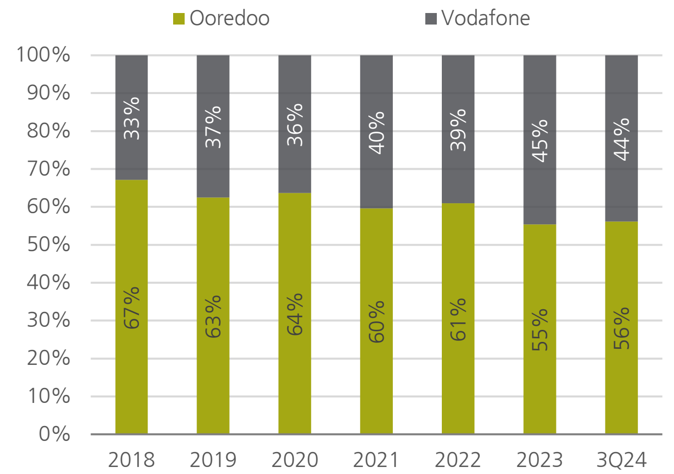
QAMCO: We like the name in the medium term, as we remain constructive on the global aluminium price outlook for the coming years amidst tight supply, but we would be cautious in the short term, as margins have been squeezed substantially, amidst a global shortage of upstream alumina feedstock, which will take several months to resolve fully.

Telecoms

Competition to persist in 2025…

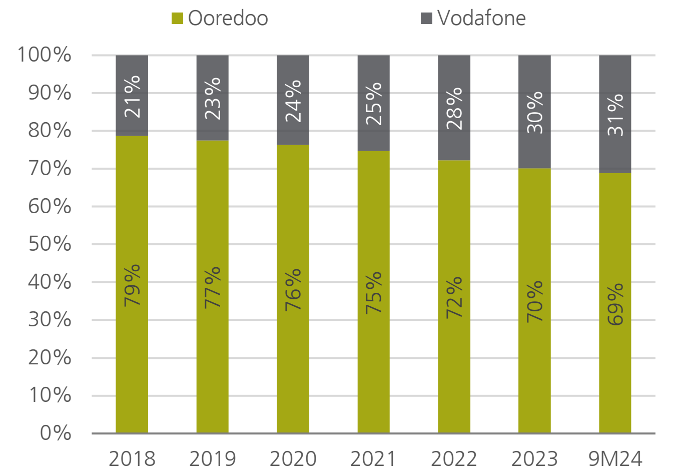
The Qatari telecoms market remained largely competitive in 2024, despite being a two-player market; commercial activity on the part of both operators saw lots of offers and promotions across various service categories, with the aim of increasing customer retention and stimulating usage levels. We saw some interesting dynamics between both players, with Ooredoo's 9M24 revenue from Qatar dropping 1% Y-o-Y (normalised for carve-out of data centres, World Cup B2B contracts and one-off projects), while Vodafone's revenue grew 4% Y-o-Y, implying a decent revenue share gain and implying a revenue share of 31% (9M24) vs 30% a year earlier; this came from both the mobile (both prepaid and postpaid) and fixed segments. This came on the backdrop of a market that continued to normalise from the peak levels reached at end-2022/early-2023 from the high growth levels achieved during the World Cup. We believe these same dynamics will play out in 2025, with competition remaining rather active, albeit not value-destructive, in our view.

Figure 9: Competition was evident in the mobile segment, with Vodafone continuing to take a larger share of new subscribers…



Source: Company data

Figure 10: …which helped Vodafone increase its share of total market revenue (mobile, fixed, and others)



Source: Company data

…with macro backdrop supportive of the sector

A key driver for growth in Qatar generally is macroeconomic activity, which typically trickles down fairly quickly and reflects on population growth and – in turn – telecoms' growth, as we have seen in the last cycle, driven by the World Cup in 2022. Beyond 2024, we see a healthy macroeconomic momentum, on the back of gov't infrastructure spending, which should translate into healthy growth from the telecoms sector. Away from the pure connectivity side of the ICT space, we see momentum accelerating on the infrastructure side in 2025, with Ooredoo edging closer to completing the carve-out of its towers and data centre verticals.

Top picks

Ooredoo Group: We like the name, but note that it operates in eight other markets as well (Kuwait, Iraq, Oman, Algeria, Tunisia, Indonesia, Maldives and Palestine); Ooredoo Group's performance will continue to benefit from a successful restructuring and turnaround story, with more value unlocking likely to come through in 2025, upon completing the carve-out of towers and data centres.

Figure 11: Qatar coverage

Price as of 12 Dec 2024

Company	Price (QAR)	TP	Rating	YTD perf. (%)	ADVT (USDmn)	M cap (USDbn)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	P/B (x) 2024	DY (%) 2024
Consumer											
Al Meera Consumer Goods	14.52	18.40	Neutral	5.3	0.42	0.82	13.5	12.7	N/M	2.0	7.0
Energy											
NAKILAT	4.19	5.50	Buy	18.9	2.92	6.36	14.9	14.0	14.0	1.8	3.3
Financials											
Commercial Bank of Qatar	4.40	5.29	Buy	(29.1)	3.55	4.88	6.5	6.8	7.5	1.0	5.7
Doha Bank	1.98	1.78	Buy	8.1	2.07	1.68	10.6	10.2	12.4	0.6	4.0
Dukhan Bank	3.61	3.84	Neutral	(9.3)	4.00	5.18	15.3	14.6	13.9	1.5	4.5
Masraf Al Rayan	2.50	2.79	Buy	(5.8)	6.94	6.38	16.0	15.0	13.2	1.0	4.4
Qatar Insurance Co	2.10	2.67	Buy	(18.9)	0.42	1.84	N/M	N/M	N/M	N/M	0.0
Qatar Islamic Bank	20.95	20.70	Buy	(2.6)	5.97	13.58	12.1	11.3	12.7	1.9	3.5
Qatar National Bank	17.32	18.30	Buy	4.8	12.80	43.89	11.1	10.2	10.4	1.9	3.8
Industrials											
Gulf Warehousing	3.33	6.30	Buy	6.3	0.75	0.54	8.9	8.4	7.3	0.8	3.8
Materials											
Industries Qatar	12.99	14.60	Buy	(0.7)	6.70	21.56	16.6	16.8	15.8	2.1	5.9
Qatar Aluminum Manufacturing	1.26	1.50	Buy	(10.2)	5.64	1.92	15.7	12.9	18.8	1.0	6.2
Telecom Services											
Ooredoo Group	11.70	13.70	Buy	2.6	4.29	10.28	12.0	11.9	11.2	1.2	3.8
Utilities											
Qatar Electricity & Water	16.06	26.00	Buy	(14.6)	1.76	4.85	11.4	10.6	9.4	1.1	5.7

Source: Company data, EFG Hermes estimates

Macro outlook – Gas expansion dominates the story

The expansion of the country's gas production capacity remains the name of the game in Qatar, with the first production of the sizable expansion set to start in 2026. Earlier this year, the gov't announced a boost to its gas expansion plans, revealing another expansion to the already massive North Field LNG expansion, dubbing the new one as North Field West (NFW). The latter will add another 16mn tonnes per year (t/y), which will drive total capacity to 142mn t/y by 2030. This is up 15% from the previous target of 126mn t/y and 85% higher than current capacity of 77mn t/y. The country's gas reserves now stand over 2,000trn cubic feet, in addition to 80bn barrels of condensates, showing the significant potential of future growth for hydrocarbons production.

Higher gas production will significantly boost hydrocarbons GDP starting 2026, when +20% growth is envisioned in the first two years before moderating to a still-elevated 6%, on average, between 2028-30. More gas and condensates to export – both accounting for c60% of total hydrocarbon exports – will boost the country's fiscal and external position significantly over the upcoming decade. We, therefore, project double-digit current account surpluses in the same period overall.

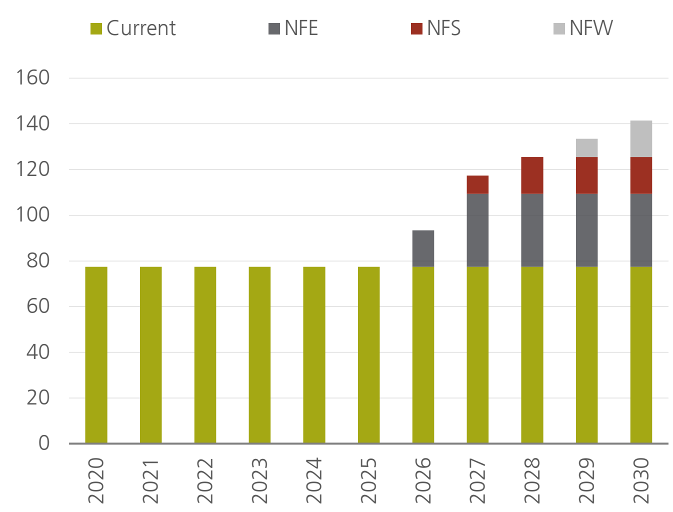
In the meantime, the non-hydrocarbon growth story for Qatar is less inspiring, with trajectory remaining on a downtrend, post the maturity of the country's capex cycle. Indeed, public investment spending contracted in 2023 (by around 2% Y-o-Y), and numbers for 1H24 show another 5% Y-o-Y drop. Overall, expenditure was up 1.4% Y-o-Y in nominal terms, with the gov't still focusing its efforts on de-leveraging, with debt-to-GDP ratio falling to 39% by 2Q24, from 57% early in 2022. Non-hydrocarbon real GDP growth collapsed to 1.1% in 2023, more than a two-decade low, and while the gov't is yet to issue any interim data for 2024 GDP, high-frequency data suggest growth remains subdued.

Credit growth, though, has slightly accelerated this year, largely as the gov't reduced its payments for overdraft facilities. Private sector credit growth, though, remains largely stable having averaged 5.7% in 10M24. Moreover, project awards were flattish in 2024 at around the USD18bn market. We project real non-hydrocarbon growth to expand c2% in the coming two years.

Tourism is still a bright spot in the non-oil economy, with the sector continuing to enjoy dividends to the 2022 FIFA World Cup. The sector staged a decent rebound, with arrivals rising 32% above pre-pandemic levels in 2023 to 2.81mn. This year is looking even more encouraging, with arrivals in 7M24 at 2.96mn, surpassing FY23 arrivals and also beating the previous historical peak of 2.93mn in 2015. With five more months to go, the country is heading to a new tourism record and by a decent margin. The sector, though, constitutes less than 1% of GDP and c1.5% of non-hydrocarbon GDP; hence, its ability to push headline GDP number remains limited.

Figure 12: Gas production to see a significant boost by 2030

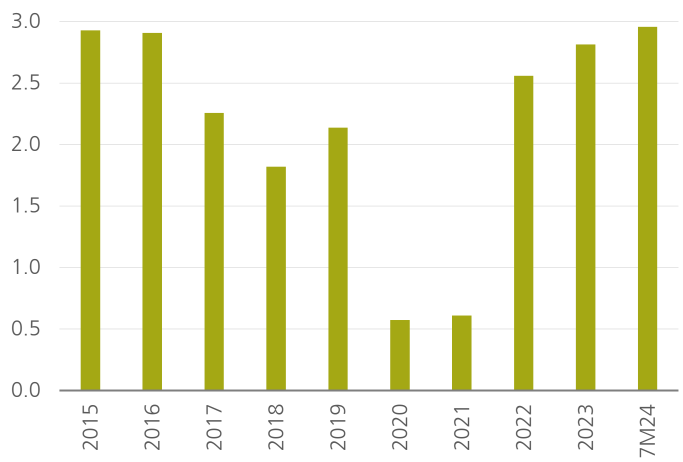
In mn tonnes



Source: MEES

Figure 13: Tourist arrivals heading for a record year in 2024

Arrivals in mn tourists



Source: Planning and Statistics Authority

Qatar Macroeconomic Indicators (Year-end Dec)

	2022a	2023a	2024e	2025e	2026e
Real Sector					
Nominal GDP (USDbn)	235.7	213.0	215.5	216.0	231.9
Real GDP growth	4.2%	1.2%	1.2%	1.4%	5.9%
Real non-oil growth	5.7%	1.1%	1.8%	2.0%	2.5%
Population (mn)	2.9	3.0	3.0	3.1	3.1
Per capita GDP (USD)	81,024	71,816	71,249	70,705	75,136
Oil price (Brent, USD/b Avg.)	99.0	82.2	80.0	75.0	70.0
CPI inflation (%, Avg.)	5.0%	3.0%	1.2%	1.5%	1.8%
External Sector					
Trade balance (USDbn)	97.5	79.4	71.9	68.2	73.7
HC exports (USDbn)	115.0	100.9	92.6	91.7	100.2
Non-HC exports (USDbn)	16.0	8.0	14.0	14.0	14.0
Services balance (USDbn)	(10.3)	(11.8)	(10.0)	(9.0)	(8.5)
Net transfers (USDbn)	(15.8)	(14.0)	(13.6)	(13.9)	(14.2)
Current account (USDbn)	63.2	47.6	43.3	40.4	46.1
Current account (% of GDP)	26.8%	22.3%	20.1%	18.7%	19.9%
FDI (USDbn)	(2.3)	(0.3)	(1.0)	(2.0)	(2.0)
Fiscal Sector					
HC revenues (USDbn)	76.1	69.4	67.0	68.2	73.9
Other revenues (USDbn)	6.2	4.5	4.5	4.1	4.4
Spending (USDbn)	57.3	57.2	56.8	58.0	59.6
Primary balance (% of GDP)	9.2%	6.4%	5.5%	5.3%	6.8%
Fiscal balance (USDbn)	24.9	16.7	14.8	14.3	18.7
Fiscal balance (% of GDP)	10.6%	7.8%	6.9%	6.6%	8.1%
Budget breakeven oil price (USD/b)	47.0	48.2	47.6	48.9	43.9
Net domestic claims on government (% of GDP)	22.9%	25.8%	25.1%	25.4%	24.0%
Gross external government debt (% of GDP)	23.7%	22.9%	21.7%	21.1%	19.7%
Monetary Sector					
NFAs in the banking system (USDbn)	(62.9)	(51.7)	(56.6)	(56.9)	(56.5)
Exchange rate versus USD (Avg.)	3.64	3.64	3.64	3.64	3.64
Benchmark lending interest rate (end of period)	5.3%	6.0%	5.0%	4.0%	4.0%
Broad money growth	17.4%	1.1%	2.7%	3.0%	4.1%
Private sector credit growth (%, eop)	7.4%	4.9%	5.5%	5.0%	6.0%
Private sector credit (% of GDP)	96.0%	111.4%	116.2%	121.7%	120.2%

Source: Qatar Central Bank, Ministry of Planning and Statistics, IMF and EFG Hermes estimates

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