

UAE Consumer Staples Sector – 1Q 2023

Sector Weighting:
MARKET WEIGHT
Preview Note 1Q 2023

Slowdown in food price inflation bodes favourably for the sector

We prefer Agthia Group over Americana in the consumer sector. The stock of Americana Restaurants factors in most of the positives, such as store and margin expansion over the forecasted period. Agthia trades at a 2023 EV/EBITDA multiple of 8.6x with a dividend yield of 3.6% as compared to Americana's EV/EBITDA multiple of 13.2x and dividend yield of 2.5%. Both companies are expected to benefit from the decline in food inflation in 2023. Agthia management expects revenue to grow at a CAGR of 13.7% to AED 6 Bn by 2025, with improvement in EBITDA and net margin of 150 and 300 bps, respectively. The revenue footprint of the company expanded into 45 countries by diversifying risk across the business. The product portfolio consists of a well-balanced mix of 35 value-added food and beverage brands distributed across four local segments in rapidly growing markets. Agthia is proactively controlling costs and improving supply chain efficiency through broad-based pricing, optimizing its product and channel mix, and synergy extraction through acquired entities. Thus, we expect gross and EBITDA margin to improve 60 and 54 bps, respectively in 2023.

Stock	TP	CMP	Gain	Rating	P/E ¹	EV/EBITDA ¹	Dividend Yield ¹
Agthia Group	6.00	4.62	29.9%	BUY	13.6	8.6	3.6%
Americana Restaurants (USD)	4.15	3.92	5.9%	HOLD	28.4	13.2	2.5%

Source: FABS Estimate

¹Data refers to FY2023

Key Developments in the Consumer Sector

Inflation is expected to soften in UAE and KSA, while it will remain higher in Egypt

The annual CPI Index in Dubai rose 0.3% MOM and 4.3% YOY in March 2023. The rate of inflation softened from 4.90% in February 2023 to 4.32% in March 2023 mainly due to the decline in the cost of transportation which fell due to a decline in oil prices. The transportation index registered a decline of 1.12% YOY in March 2023 as compared to a growth of 4.28% in February 2023. Moreover, the inflation in UAE is expected to decline from 4.8% in 2022 to 3.2% in 2023, owing to slower price increases in all categories, particularly transportation and food and beverages. Because of the global disinflation trend, imported inflation is estimated to be stable, and rents and wages are also expected to contribute moderately. Inflation is further expected to fall in 2024 to 2.8%, in line with the global trend. Furthermore, Saudi Arabia's inflation also softened from 3.0% in February 2023 to 2.7% in March 2023 as food and transportation prices rose at a slower rate as compared to the overall index. The monthly consumer price index (CPI) rose marginally by 0.1% due to the decline in food inflation. Inflation in Egypt continued to soar and rose to its highest level in six years due to soaring food prices linked to the decline in local currency. Urban inflation rose 32.9% in March 2023 as compared to 31.9% in February 2023. Inflation in Egypt is expected to average 21.6% in 2023 and later moderate to 18.0% in 2024 according to an IMF estimate.

Consumer spending during Ramadan will be boosted by inflation

Retail spending in the MENA region is expected to reach USD 66 Bn in 2023 according to Redseer Consulting. The increase in spending is contributed by inflation as compared to consumer enthusiasm. The spending fell to a low of USD 46 Bn in 2020, later recovered to USD 57 Bn and USD

61 Bn, respectively in 2021 and 2022. According to the research firm, the planned spending will grow 14% during the Ramadan in 2022, while expenditure on cooking at home will decline 50% as compared to last year. Spending on gifts and get together will rise 33% in 2023.

Higher tourist footfall in KSA and UAE will boost spending

Travel and Tourism Sector accounted for 11.6% of the total UAE GDP in 2019. The government further plans to increase its contribution to 15% by 2030. UAE unveiled its new 2031 tourism strategy according to this strategy it plans to attract AED 100 Bn as additional tourism investment and welcome 40 Mn hotel guests by 2031. According to Dubai Tourism, Dubai welcomed 3.1 Mn tourists in the first two months of 2023, a 42% increase over the same period last year and it is almost equivalent to 3.14 Mn arrivals in 2019. The UAE's hospitality sector expanded rapidly in 1Q23, driven by a continued influx of tourists from three key source markets, namely India, Russia, and Oman. The increase in inbound travel also boosted the lower and mid-tier hospitality segments, which saw a surge in occupancy and increase in RevPAR (revenue per available room) in the first two months of 2023. Meanwhile, Saudi Arabia also attracted 4.9 Mn foreign tourists in the first two months of 2023. KSA plans to attract 25 Mn foreign tourists in 2023 and targets to achieve 100 Mn annual visitors by 2030. Tourist spending rose 93% YOY to SAR 185 Bn in 2022. It further plans to attract 2 Mn Hajj pilgrims in 2023 with 90% visitors from abroad. The increase in footfall and spending will benefit consumer companies in both countries.

UAE and KSA non-oil PMI data indicates expansion while Egypt's economy continue to face pressure

UAE Purchasing Managers' Index (PMI) rose from 54.3 in February 2023 to 55.9 in March 2023, this is the largest increase in the index recorded since October 2021. The expansion in the index is underpinned by strong growth in new order intake which rose to a five-month high also, supported by the quickest job growth in the last seven years. The PMI continued to show expansion in the oil sector supporting the forecast for growth in the non-oil sector in 2023. Meanwhile, KSA PMI softened from an eight-year high of 59.8 in February 2023 to 58.7 in March 2023. Despite the softness, the data indicated robust expansion in business activity in the non-oil sector in KSA in 1Q23. The order pipeline remained positive with a robust outlook of new orders and export orders declining moderately as compared to the previous month. The hiring remained strong across the retail and wholesale sector with strong gains in purchases. While Egypt's PMI continued to soften for the 28th consecutive month in March 2023. PMI declined from 46.9 in February 2023 to 46.7 in March 2023. The output declined at a slower pace in March 2023 as compared to the previous month due to import controls restricting the purchase accompanied by weak demand levels. The new orders declined rapidly indicating further weakness in the activity in the forthcoming months, however, the service sector reported its first increase since the last year. The new export order continued to fall at a slower pace in March 2023 although, weak global conditions prevented the capitalisation of the Egyptian currency.

Content:

Key Developments in the Consumer Sector	1
1Q23 Preview: Agthia	4
1Q23 preview: Americana Restaurants	7

1Q23 Preview: Agthia Group

Decline in commodity price inflation to improve margins

CMP (AED): 4.62

Potential upside/(Downside) (%): **+29.9%**

12-m target price:

AED 6.00

Stock rating:

BUY

1Q23 Estimate

Agthia Group (AGTHIA/the Company) net profit is expected to decline 7.8% YOY to AED 76 Mn in 1Q23 owing to an increase in finance expense partially offset by a decline in increase in revenue and other income. Revenue of the company is estimated to increase 11.0% YOY from AED 1,053 Mn in 1Q22 to AED 1,169 Mn in 1Q23. The cost of sales is expected to increase from AED 745 Mn in 1Q22 to AED 841 Mn in 1Q23 owing to the effects of commodity price inflations. Thus, gross profit is expected to grow 6.5% YOY to AED 328 Mn in 1Q23. Operating expense is expected to increase from AED 205 Mn in 1Q22 to AED 209 Mn in 1Q23 owing to the company's continued focus on integrating back-office operations, co-locating factories for increasing capacity and efficiencies, and also centralizing the procurement functions. The finance income of the Company is expected to increase from AED 5 Mn in 1Q22 to AED 7 Mn in 1Q23, while the finance cost is expected to significantly increase from AED 10 Mn in 1Q22 to AED 31 Mn in 1Q23 due to increase in benchmark interest rates in the economy. Zakat expense of the Company is expected to increase to AED 10 Mn in 1Q23, as compared to AED 8 Mn in 1Q22 dragging profit.

2023 Forecast

We estimate Agthia Group's net profit to increase 8.7% from AED 247 Mn in 2022 to AED 268 Mn in 2023 driven by an increase in top line and lower increase in expenses as compared to revenue partially offset by an increase in finance cost and profit attributable to non-controlling interest holders. The Company's revenue is expected to incline 11.0% to AED 4,516 Mn in 2023 compared to AED 4,067 Mn in 2022 owing to an increase in regional footprint and the growing product mix for the consumers. The Company's cost of sales is expected to increase 10.1% to AED 3,203 Mn in 2023 due to expected moderation in commodity price inflation. Thus, the gross profit is expected to incline 13.4% from AED 1,158 Mn in 2022 to AED 1,312 Mn in 2023 with a gross margin of 29.1%. The Company's operating expense is expected to increase from AED 808 Mn in 2022 to AED 881 Mn in 2023 owing to productivity enhancement and disciplined cost management. Finance income is expected to decline 5.2% to AED 26 Mn in 2023 while the finance cost is expected to go up 62.9% to AED 124 Mn in 2023 as compared to AED 76 Mn in 2022. Thus, profit before tax incline 10.6% to AED 333 Mn in 2023. The Company's income tax expense is anticipated to increase 10.1% to AED 32 Mn in 2023 while the profit attributable to non-controlling interest is expected to increase 28.6% to AED 33 Mn in 2023.

4Q22 Outturn

Net revenue rose 17.2% YOY to AED 1,118 Mn in 4Q22. The increase in net revenue was driven by significant growth in the Consumer and Agri-business verticals. Consumer Business grew 19.4% YOY to AED 853.8 Mn in 4Q22 driven by strong growth in Snacking and Water & Food segment partially offset by a decline in Protein & Frozen category. Protein & Frozen segment declined 4.9% YOY owing to the adverse impact of the devaluation of Egyptian currency. Excluding the impact of the devaluation, the segment recorded top-line growth of 20% across the segment, while revenue Egyptian operations rose 31%. Revenue from the Snacking segment rose 68.1% YOY to AED 346.5 Mn in 4Q22 mainly due to high teens volume growth in Al Foah dates business, increasing of market share in UAE Retail supported by the successful consolidation and integration of BMB and Abu Auf. Water & Food Segment revenue increased 5.4% YOY to AED 238.3 Mn in 4Q22, owing to the resumption of volume growth in UAE water bottled. Furthermore, Agribusiness segment revenue grew 10.6% YOY to AED 264.5 Mn in 4Q22 owing to the strong pricing across the Flour and feed.

Cost of sales rose increased from AED 621 Mn in 4Q21 to AED 804 Mn in 4Q22 owing primarily to commodity price inflation. Resultantly, gross profit declined 5.5% YOY to AED 314 Mn in 4Q22 with a decrease in gross margin from 34.9% in 4Q21 to 28.1% in 4Q22. Operating expenses rose 11.3% YOY to AED 221 Mn in 4Q22 mainly due to an increase in G&A expense. As a result, operating profit declined 12.2% YOY to AED 115 Mn in 4Q22. EBITDA also decreased 2.3% YOY to AED 178 Mn with a decline in EBITDA margin from 13.7% in 4Q21 to 10.3% in 4Q22. Finance income rose from AED 5 Mn in 4Q21 to AED 9 Mn in 4Q22. While, finance cost increased significantly from AED 7 Mn in 4Q21 to AED 27 Mn in 4Q22 due to an increase in debt to finance acquisition. Furthermore, profit before tax and zakat decreased 24.3% YOY to AED 97 Mn in 4Q22. Income tax expense decreased from AED 10 Mn in 4Q21 to AED 6 Mn in 4Q22 mainly due to decline in profitability.

Target price and rating

We maintain our BUY rating on Agthia Group a target price of AED 6.00. Agthia further intends to strengthen its position in the food and beverage (F&B) sector by FY2025 by expanding its presence beyond MENA and by adding additional value-adding F&B brands. Since 2020, the company doubled its revenue by completing value-accretive acquisitions and increased its margin by 601 bps by diversifying from a commoditized portfolio, exiting loss-making businesses, and improving productivity. The management expects revenue to grow at a CAGR of 13.7% to AED 6 Bn by 2025, with improvement in EBITDA and net margin of 150 and 300 bps, respectively. The revenue footprint of the company expanded into 45 countries by diversifying risk across the business. The product portfolio consists of a well-balanced mix of 35 value-added food and beverage brands distributed across four local segments in rapidly growing markets. We also consider the Company's strategy of reducing the dependence on volatile agribusiness while increasing contribution from the consumer division. The consumer division generated 75.0% of revenue in 2022. Furthermore, Agthia is proactively controlling costs and improving supply chain efficiency through broad-based pricing, optimizing its product and channel mix, and synergy extraction through acquired entities. In addition, Agthia Group signed an MoU with AD Ports Group, the world's leading facilitator of trade, logistics, and industry. This agreement will allow the company to improve its supply chain connectivity, logistics, and operational efficiencies and accelerate the implementation of digital-first initiatives. Furthermore, Agthia finalized plans for the construction of its new Saudi manufacturing facility, which is expected to begin in 1Q24 and will play a significant role in meeting local protein requirements and export demand. In 2022, the Company also maintained a strong financial position, with cash and cash equivalents of AED 1.0 Bn with a net debt totaling AED 1.3 Bn. It improved its working capital management, resulting in healthy cash conversion, and a decrease in inflation will further reduce working capital requirements. Therefore, we rate the stock as a 'BUY' based on the aforementioned factors.

Agthia – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE (X)	13.2	20.2	80.4	16.1	14.8	13.6
PB (X)	1.4	1.4	1.5	1.3	1.3	1.2
EV / EBITDA	8.6	10.2	15.3	10.6	9.1	8.6
Dividend yield (%)	3.2%	3.2%	3.6%	3.6%	3.6%	3.6%

FABS estimate & Co Data

Agthia - P&L

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
AED mm								
Revenue	1,053	1,118	1,169	11.0%	4.6%	4,067	4,516	11.0%
Cost of sale	-745	-804	-841	12.9%	4.7%	-2,910	-3,203	10.1%
Gross profit	308	314	328	6.5%	4.4%	1,158	1,312	13.4%
S&D expense	-129	-122	-126	-1.8%	3.3%	-508	-555	9.3%
G&A expense	-81	-96	-95	17.0%	-0.7%	-346	-375	8.4%
R&D costs	-3	-2	-2	-7.1%	1.2%	-9	-11	16.6%
Share of loss from invst. in JV	1	1	0	NA	NA	3	1	-67.4%
Other (expenses) / income	6	20	15	136.6%	-26.1%	52	59	12.4%
EBITDA	158	178	179	13.0%	0.2%	581	670	15.2%
Operating profit	103	115	119	15.5%	3.6%	350	431	23.2%
Finance income	5	9	7	23.8%	-27.6%	27	26	-5.2%
Finance expense	-10	-27	-31	214.8%	15.6%	-76	-124	62.9%
Profit before tax & Zakat	98	97	94	-3.9%	-2.6%	301	333	10.6%
Income tax (exp) / credit	-8	-6	-10	27.8%	54.0%	-29	-32	10.1%
Profit of the year	91	91	85	-6.6%	-6.6%	273	302	10.6%
Non-controlling interest	-9	-2	-9	5.1%	362.7%	-26	-33	28.6%
Net Profit	82	89	76	-7.8%	-14.6%	247	268	8.7%

FABS estimate & Co Data

Agthia - Margins

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	29.3%	28.1%	28.1%	-121	-5	28.5%	29.1%	60
EBITDA	9.8%	10.3%	10.2%	39	-10	8.6%	9.5%	94
Operating Profit	15.0%	15.9%	15.3%	27	-66	14.3%	14.8%	54
Net Profit	7.8%	7.9%	6.5%	-132	-146	6.1%	5.9%	-12

FABS estimate & Co Data

1Q23 preview: Americana Restaurants

Store addition and margin expansion to drive bottom line

CMP (AED): 3.92

Potential upside/(Downside) (%): **+5.9%**

12-m target price:

AED 4.15

Stock rating:

HOLD

1Q23 Estimate

Americana Restaurants' (the Company/ Americana) net profit is anticipated to grow 14.8% QOQ to USD 73 Mn in 1Q23 owing to the increase in the restaurant portfolio and rise in Lfl growth partially offset by growth in increase in cost of sales and tax expenses. Revenue is expected to grow 1.9% QOQ to USD 619 Mn in 1Q23 owing to increase in store count and increase in Lfl growth. The cost of sales is expected grow higher than revenue 2.0% QOQ from USD 297 Mn in 4Q22 to USD 303 Mn in 1Q23 due to higher cost of inventory. Thus, the gross profit is expected to grow marginally 1.8% QOQ to USD 316 Mn in 1Q23 with a gross margin of 51.0%. The operating expense is expected to remain almost unchanged at USD 241 Mn in 1Q23 efficiency improvement. The finance income is expected to stay consistent at USD 2 Mn while the finance cost is anticipated to grow 7.6% QOQ to USD 8 Mn in 1Q23. The zakat expense of the Company is expected to increase to USD 5 MN in 1Q23, as compared to USD 1 Mn in 4Q22 dragging profit.

2023 Forecast

We estimate Americana Restaurants' net profit to increase 22.2% to USD 317 Mn in 2023 driven by increase in top line and a slower increase in the cost of sales as high inventory phases out by the first half of 2023 partially offset by the rise in the operating expenses and zakat expenses. The Company's revenue is expected to incline 14.2% to USD 2.7 Bn in 2023 from USD 2.4 Bn in 2022 owing to the addition and increase in the Lfl growth of the portfolio restaurants. Similarly, the cost of sales is anticipated to grow at a slower rate as compared to top line with an increase of 12.9% to USD 1,297 Mn in 2023. Therefore, the gross profit is expected to incline 15.5% from USD 1.2 Bn in 2022 to USD 1.4 Bn in 2023. On the other hand, the Company's selling and marketing expense is anticipated to grow 16.4% to USD 860 Mn and the administrative expense is likely to increase 12.6% to USD 217 Mn in 2023 owing to the growth in the number of new outlets. Furthermore, the Company's finance income is expected to increase from USD 4 Mn in 2022 to USD 6 Mn in 2023, while finance cost is anticipated to rise from USD 25 Mn in FY2022 to USD 28 Mn in FY2023 owing to the rising lease expenses as a result of store addition. Zakat expense is expected to increase from USD 9 Mn in 2022 to USD 23 Mn in 2023 dragging profit.

4Q22 Outturn

Americana Restaurants' revenue rose 11.7% YOY to USD 608 Mn in 4Q22 due to overall double-digit Lfl sales growth and the gross addition of 220 stores. It recorded double-digit Lfl sales growth in KFC and Hardees with single-digit Lfl growth in Pizza Hut partially offset by a single-digit Lfl decline in the Krispy Kreme segment in 2022. The Company also recorded double-digit growth in power brand sales across KFC, Hardees, Pizza Hut, and Krispy Kreme. The Company's cost of goods sold increased 15.0% YOY to USD 297 Mn in 4Q22 mainly due to commodity cost inflation. Thus, gross profit grew 8.7% YOY to USD 310 Mn in 4Q22, while gross margin declined 141 bps YOY to 51.1% in 4Q22 due to higher growth in the cost of sales. On the other hand, the Company's selling and marketing expenses grew 8.3% YOY to USD 188 Mn in 4Q22. Moreover, general and administrative expenses rose 4.1% YOY to USD 54 Mn in 4Q22. Other income stood at USD 7 Mn in 4Q22, up from USD 3 Mn in 4Q21. As a result, total operating expenses increased 7.8% YOY to USD 242 Mn in 4Q22. EBITDA declined 11.6% YOY to USD 116 Mn in 4Q22 with a margin of 19.0%. While adjusted EBITDA decline 9.6% YOY to USD 118 Mn in 4Q22 with a margin of 19.5%. Americana's operating profit rose 12.1% YOY to USD 68 Mn in 4Q21. Furthermore, the Company's finance income improved

from USD 0.8 Mn in 4Q21 to USD 1.9 Mn in 4Q22 while finance cost slightly rose from USD 6.5 Mn in 4Q21 to USD 7.5 Mn in 4Q22 owing to the higher lease expenses. Zakat expenses declined from USD 5 Mn in 4Q21 to USD 1 Mn in 4Q22 boosting net profit. As a result, net profit attributable to non-controlling shareholders rose 8.2% YOY to USD 64 Mn in 4Q22.

Target price and rating

We revise our rating on Americana Restaurants from ACCUMULATE to HOLD with a target price of AED 4.15. The Company share price moved up 4.5% since our last rating in 9 March 2023. Americana owns and runs 2,183 restaurants in power, growth/niche, and other brand segments. The Company recorded double-digit LfL growth with gross addition of 220 stores in 2022. Americana intends to add 250-300 net restaurants per year throughout the anticipated period, driven by brownfield prospects in Saudi Arabia and greenfield opportunities in Iraq. In the anticipated period, the company intends to double sales while growing LfL by mid-single digits. The company also anticipates that gross margin will increase in the second half of 2023 as high-cost inventory starts to phase out, and that adjusted EBITDA margin would rise by 250-300 basis points in the medium run. During the year, Pizza Hut entered a franchise deal with Yum! Brands to develop and operate Pizza Hut restaurants in Saudi Arabia except in Jeddah, while Peet's Coffee signed a master franchise agreement and opened an outlet in Dubai Mall. Americana Restaurants also expanded in Egypt and launched Krispy Kreme in Jordan, as well as Wimpy in the UAE, with two locations in Dubai Mall and Dubai Hills Mall. The Company intends to increase its restaurant portfolio, strengthen its digital capabilities, and continue to ramp up Pizza Hut in Saudi Arabia, Peet's Coffee, and Wimpy. Furthermore, the Company intends to provide a minimum payout of 50% of net profit beginning in FY2023. Since most of the growth forecast is already priced in the stock as a result, we assign a HOLD rating to the stock.

Americana – Relative Valuation

(At CMP)	2021	2022	2023F
PE (X)	NA	34.71	28.40
PB (X)	NA	31.62	23.38
EV / EBITDA (x)	NA	16.28	13.22
Dividend yield (%)	NA	2.4%	2.5%

FABS estimate and Co data

Americana - P&L

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
USD mm								
Revenue	NA	608	619	NA	1.9%	2,379	2,717	14.2%
COGS	NA	-297	-303	NA	2.0%	-1,148	-1,297	12.9%
Gross Profit	NA	310	316	NA	1.8%	1,230	1,421	15.5%
S&M Expenses	NA	-188	-195	NA	3.9%	-739	-860	16.4%
G&A Expenses	NA	-54	-50	NA	-8.2%	-193	-217	12.6%
Other Income	NA	7	4	NA	-46.8%	17	18	9.0%
Total Operating Expense	NA	-242	-241	NA	-0.6%	-915	-1,059	15.8%
EBITDA	NA	116	132	NA	14.4%	536	649	21.2%
EBIT	NA	68	75	NA	10.3%	315	361	14.7%
Financing income	NA	2	2	NA	-18.5%	4	6	67.4%
Financing cost	NA	-7	-8	NA	7.6%	-25	-28	14.1%
Profit Before ZAKAT	NA	65	68	NA	5.7%	272	340	25.0%
Zakat	NA	-1	-5	NA	320.1%	9	23	159.5%
Net Profit	NA	64	73	NA	15.1%	263	317	20.5%
Non-controlling interest	NA	0	0	NA	NA	4	0	NA
Net Profit	NA	64	73	NA	14.8%	259	317	22.2%

FABS estimate & Co Data

Americana - Margins

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	NA	51.1%	51.0%	NA	-5	51.7%	52.3%	57
EBITDA	NA	19.0%	21.4%	NA	233	22.5%	23.9%	138
Operating Profit	NA	11.2%	12.1%	NA	92	13.3%	13.3%	5
Net Profit	NA	10.5%	11.8%	NA	133	10.9%	11.7%	76

FABS estimate & Co Data

FAB Securities Contacts:
Research Analyst

Ahmad Banihani	+971-2 -6161629	ahmad.banihani@Bankfab.com
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Sales & Execution

Trading Desk Abu Dhabi Head Office	+971-2 -6161777
	+971-2 -6161700/1
Institutional Desk	+971-4 -5658395
Sales and Marketing	+971-2 -6161703

Customer Service

Abu Dhabi Office	+971-2 -6161600	Online Trading Link
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