



Enduring Value

Arab Youth Unemployment

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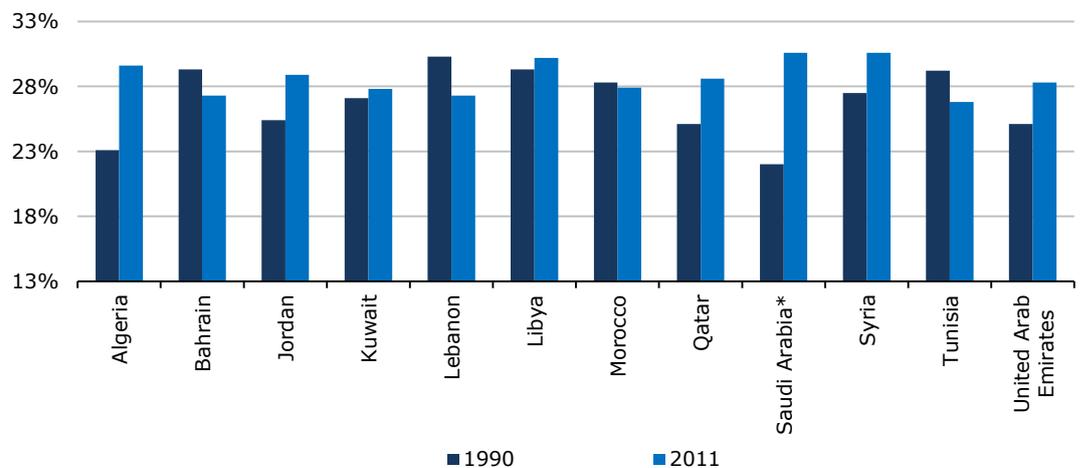
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The Arab spring – A manifestation of woes in the labor market?

In the midst of simmering signs of social unrest emerging in nations comprising the Middle East over the past few years, there is a clear challenge facing governments to foster essential economic reforms to curtail such developments. The challenge is further exacerbated by the growing unemployed youth population in the Arab region, impatiently yearning to secure an economic future. The Middle East economies have been trapped in a vicious development cycle. Within the region's oil rich nations, a rising dependence on natural resources has prevented the emergence of a strong private sector, which has hindered progress towards effective economic diversification. On the other hand, some countries in the region have not been able to clock sustained economic growth to generate enough employment for their citizens, who look up to their better off neighbors for low end employment opportunities. With pockets of social upheavals and regime changes across the Arab world, a key problem clearly seems to be the unaddressed issues in the labor market. Although the regional governments are implementing a range of initiatives to address these concerns, and stepping up efforts to boost growth in the private sector mainly aimed to absorb the incremental labor force, these measures have largely been unsuccessful. Most of the policies are purely aimed at short term employment numbers, and fail to address the underlying issues of skill mismatch and low workforce participation. Therefore, more focused and concrete steps need to be initiated across the major Middle East economies, as the problem of an increasing labor force, largely due to the increasing youth population, is likely to present fresh challenges in the near future.

Demographic structure now demands even more job creation

Youth Population- Age Bracket (15-29) as a % of Total Population



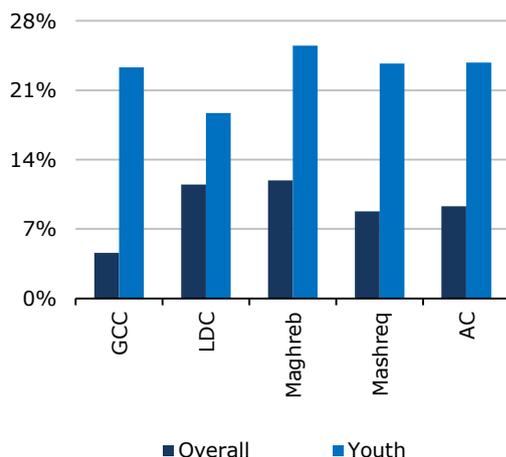
Source: US International Census Bureau, * Year = 1992

The youth population as a proportion to overall population has increased over the past decade for most of the Arab countries. According to the IMF, labor force in the Arab region has grown at an annual rate of about 2.7% over the past decade, outpacing the global average, and the trend is expected to continue in the coming decade, with roughly about 10.7 million new entrants entering the workforce every year. Low infant mortality and high birth rates have resulted in a sizeable rise in the number of youth vying for jobs. The unprecedented 'youth bulge', a term used to describe the sizeable and rapidly growing proportion of the population in the age group of 15-29 years, is seen to offer a demographic window of opportunity, while at the same time is leading to high pressure on the labor markets. Each year, increasingly educated young job seekers in the age cohort of 15-29 years enter the labor market aspiring for high quality jobs. These expectations, however, are not being met fully as governments have failed to create sufficient quality jobs even during the economic boom. As a result, youth unemployment in the Arab nations, according to a UN International Labour Organization (ILO) report, stood at around 23.2% in 2012, compared to the world average of 13.9%.

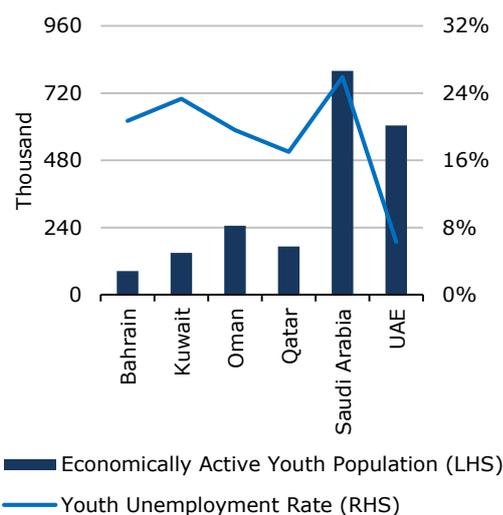
There is considerable variation in the Arab countries' national youth unemployment rates with a low at around 11% for Kuwait that stands in stark contrast to around 42% seen in Tunisia. Although the entire Arab world is confronted with increasing pressure from the supply side of the labor market, the situation seems to be particularly severe in least developed and conflict stricken countries. Elevated levels of unemployment among youth threaten social cohesion and social stability in the region.

Youth unemployment high across the Arab region

Unemployment Rates for Arab sub-regions (2001-2011)



Scenario: Youth Population (15-24 Age Group)



Note: Arab countries(AC) included are GCC (Bahrain, Kuwait, Saudi Arabia, UAE) Least Developed Countries (Yemen), Maghreb (Algeria, Morocco, Tunisia) and Mashreq (Egypt, Lebanon, Syria)
 Source: UNDP Arab Development Challenges Background Paper 2011/05

Source: ILO, Job Creation in the Arab Economies: Navigating Through Difficult Waters, Arab Human Development Report, 2010

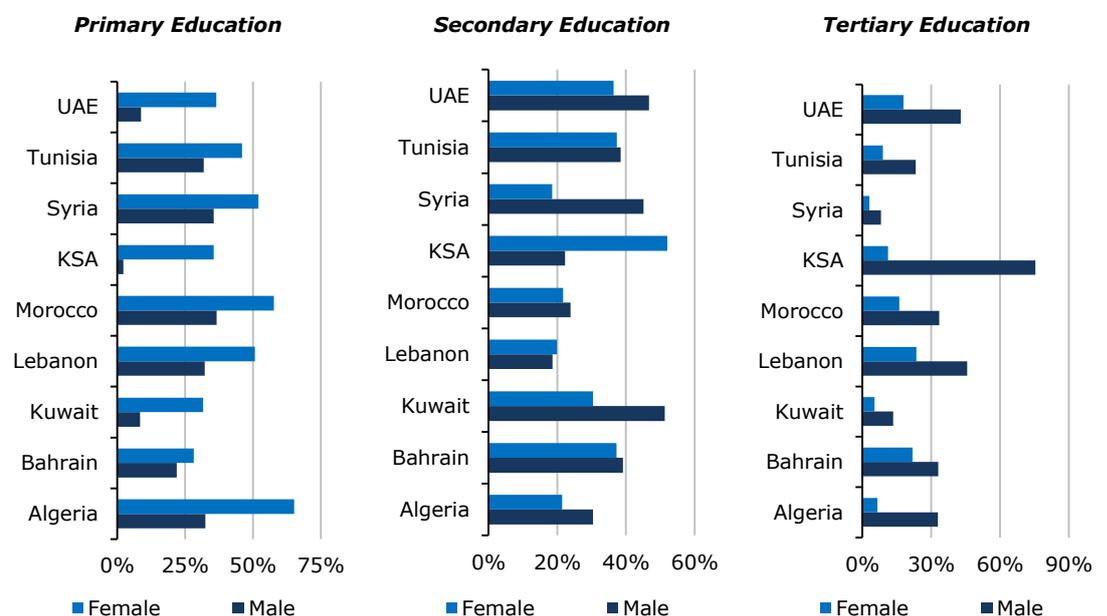
The difference in the average unemployment rate and unemployment among the youth is starkly apparent from the chart above. While the unemployment rate breakdown indicates that most oil rich GCC countries (barring Oman and Saudi Arabia), have low jobless rates as economic activity in these regions has been supported partially by expansive government policies, youth unemployment in the GCC region is no less than in the other parts of the Arab world. Within the GCC, Saudi Arabia has witnessed average unemployment rates consistently over 10% and this has affected new entrants in the labor market. Smaller and non-oil economies within the region that have abundant labor force have failed to create enough jobs mainly due to the weak economic growth and restricted government budgets. For example, relatively low investment to GDP ratio, lack of skilled workforce and mismatch between demand and supply continues to remain a chronic problem for the Tunisian economy. This has effectively compelled locals from such nations to migrate to GCC and other neighboring countries in search for job opportunities. Given the rising number of youth, it is imperative and now a common priority for Arab countries to generate enough employment for locals to keep pace with the large number of jobseekers locally.

Failure of the education system remains the root cause affecting the Arab states

Although in the past two decades, efforts by governments in the region have resulted in dramatic advances in primary and secondary school enrollment, with a marked increase in tertiary education, the number of illiterates is still high. According to a UNESCO report, about 5 million youths aged 15 to 24 in the Arab states are still missing out on primary education and about 4 million teenagers have dropped out of secondary school, failing to acquire vital skills required for future employment. Furthermore, youth from the lower economic strata lack equitable access to higher education across the region. Rural areas in some countries continue to witness high repetition, dropout rates and low enrollment particularly among the low-income groups. Even at the vocational level, the vocational training institutes' curriculum fail to address the needs of the labor market and impart proper guidance to the youth, resulting in low number of enrollments in the vocational streams. As highlighted by the World Bank, the workforce in the Middle East and North Africa is low skilled, with the region's secondary school and technical and vocational training systems not suited to meet the growing labor demand. In most Arab regions, the proportion of secondary enrollees in technical or vocational education is often below that compared to the developed world. With the exception of Egypt, Libya, Bahrain, and Syria, the proportion of upper secondary students enrolled in vocational or technical subjects is less than 30% of the total secondary enrollment. Lack of information and comprehensive national strategies compatible with the labor market and mismatch between skills have compelled many youth to sit idle without quality jobs.

Educated youths entering the labor markets lack relevant skills

Unemployment by Education Level



Source: World Bank

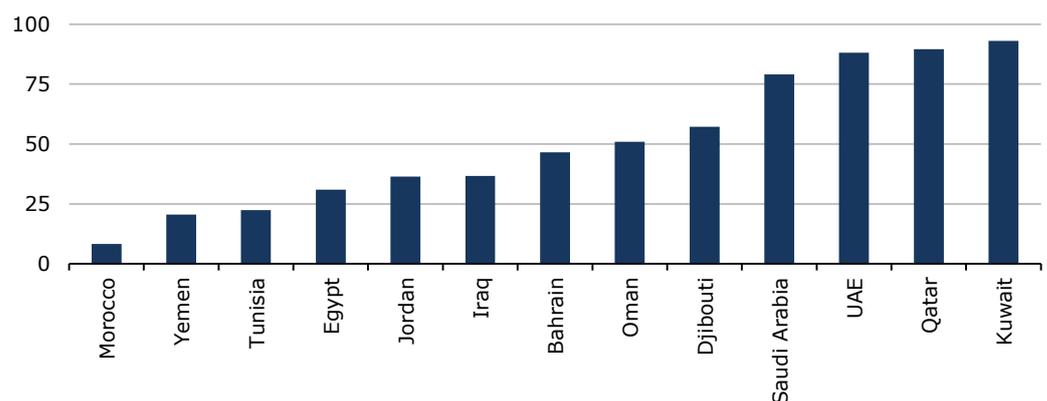
Governments across the Arab region have invested heavily in education, and the past decade has witnessed a rapid expansion of primary, secondary and tertiary education, yet it is widely regarded that the quality of human capital being produced in such courses does not adequately match the needs of the labor market. As a result, job readiness suffers and unemployment amongst the educated remains at elevated levels. Statistics indicate that more than 43% of those with tertiary education are unemployed in Saudi Arabia, while 22% and 14% of the educated remains unemployed in Morocco and the United Arab Emirates. Employers often cite the lack of suitable skills and are not willing to fill existing vacancies with the available

candidates. A persistent gap exists due to the mismatch in skills acquired at university and the requirements of businesses. Moreover, many of them lack the necessary soft skills, experience and an exposure to international practices and standards. A majority of the students enroll for courses in social sciences and the arts, while a relatively smaller proportion of students pursue disciplines required by the job market, resulting in a quantitative and qualitative skill mismatch. For instance, only 24.6% and 14.8% enroll for science and technology-related subjects in the UAE and Saudi Arabia, respectively.

While governments in many Arab countries have invested heavily in educating the youth, these investments, however, have been undermined by the low quality of education standards and weak linkages between curriculum and the labor market. Infact, the Arab states are considered to have some of the world's worst performing education systems, with an international comparative study of the young students showing that problems start early during the primary education level. UNESCO's Global Monitoring Report published in 2012 that gauges the performance of grade 4 students across different countries shows that over 90% of students in Kuwait, Qatar and Morocco scored below the lowest benchmark, indicating that they lacked even basic comprehension. The same problem seems to resurface higher up the education system. The report also analyzed skills in math's and science, for the 8th grade students in 47 countries and concluded that half of the students in most Arab countries had no working knowledge of basic math. This shows the urgent need to improve the quality of education and ensure recognized and measurable learning outcomes of the young students especially in literacy, numeracy and essential life skills. Moreover, the education systems should be responsive to the needs and concerns of school and college students to prepare them for not only pursuing post-secondary education but also make them ready with skills that are largely relevant to the needs of employers. Further, reforms to the education system complemented with vocational training could prove to be helpful in aligning the skills of graduates to the need of the labor market.

Preference for public sector jobs has deterred the youth from pursuing opportunities in the private sector

Public Employment as a Share of Total Employment



Source: World Bank MENA Development Report: Opening Doors, Economic Commission for Europe, Conference of European Statisticians

The labor market in the Arab world is characterized by the affinity of a large number of educated youth towards employment in public sector firms. It has been observed that most labor market entrants voluntarily remain unemployed than take up available jobs in the private sector in the hope of getting public sector employment. This 'wait unemployment' phenomenon partly responsible for the high unemployment rates in the Arab region. Public sector jobs are seen to be characterized by more stability, higher benefits, lower effort and

higher pay package than their private sector counterparts. For instance public sector wages in Egypt and Tunisia are 48% and 36% higher respectively compared to the salaries in the private sector. In the absence of lucrative private sector job opportunities, it has been observed that the public sector has been the greatest source of employment to the labor force for the local populace. Furthermore, the higher public sector benefits tends to have a larger repercussion on the economic productivity and growth as they distort the market incentives to efficiently allocate skills to more productive areas in the economy. Countries in the MENA region allocate close to 10% of the GDP on central government wage bill, compared to a global average of 5.4%.

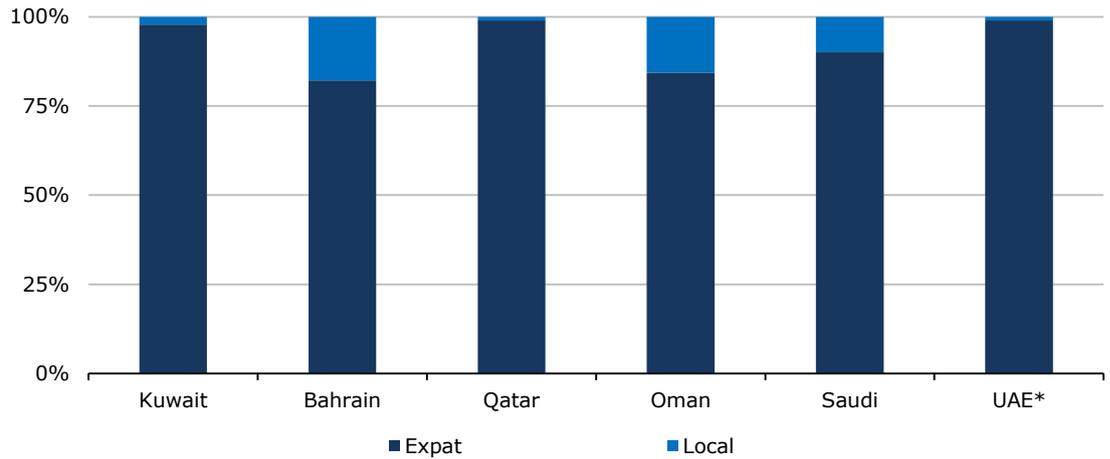
Private sector jobs have been taken up by expats

With a high concentration of educated youth eyeing jobs in the public sector, private businesses, where opportunities exist, depend heavily on the supply of foreign labor. Despite investments and job creation in the non-oil sectors in some countries, the general unwillingness amongst locals to accept lower paying private sector jobs and lack of adequate skills for higher end jobs has led to most vacancies in the private sector being filled up by expatriates. The chart below clearly highlights this trend in the relatively well off labor importing GCC countries where expatriates constitute more than 90% of those employed in the private sector, with this number close to 99% in countries such as Qatar and the UAE. Despite investments and job creation in the non-oil sectors in the GCC countries, the general unwillingness amongst locals coupled with lack of adequate skills for higher end jobs has led to most vacancies in the private sector being filled up by expatriates.

According to the National Bank of Kuwait, the expat workforce in Kuwait rose by 3.3% in 2012, a net increase of nearly 60,000 jobs of which most were created in the unskilled private domain. At the end of 2012, number of expats working in Kuwait stood at 1.86 million of which nearly half were unskilled workers employed in the private sector and only around 15% consisted of skilled employees in the private sector. Meanwhile, about 7% expats were employed in the government sector. Compared to Kuwait, Oman is home to approximately one million expatriates of whom 60% are unskilled laborers mostly from South or Southeast Asian regions, with a significant number of them working in the construction industry and the remaining employed in other strenuous industries such as oil and service industries.

Similarly, in Saudi Arabia, expatriate workers dominate the private sector. Despite their dominance, only about 15% of foreign workers in Saudi Arabia are engaged in skilled labor industries (oil, healthcare, finance, and trading), with expatriates from Europe and North America employed in most of the high-skilled jobs, while the majority is employed as low-skilled labor (agriculture, cleaning, and domestic service), mainly dominated by low-skilled workers from South and Southeast Asia. Most governments in the GCC countries have started to implement various schemes to limit the number of expats especially those in unskilled domains.

Ratio of Workers in Private Sector in 2010

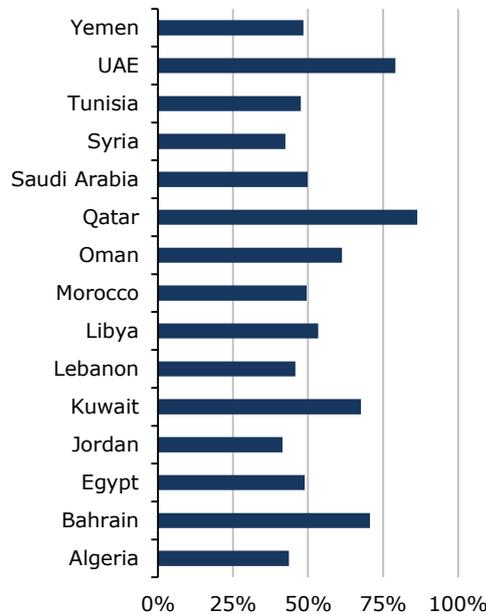


Source: Gulf Investment Corporation * 2008 Est.

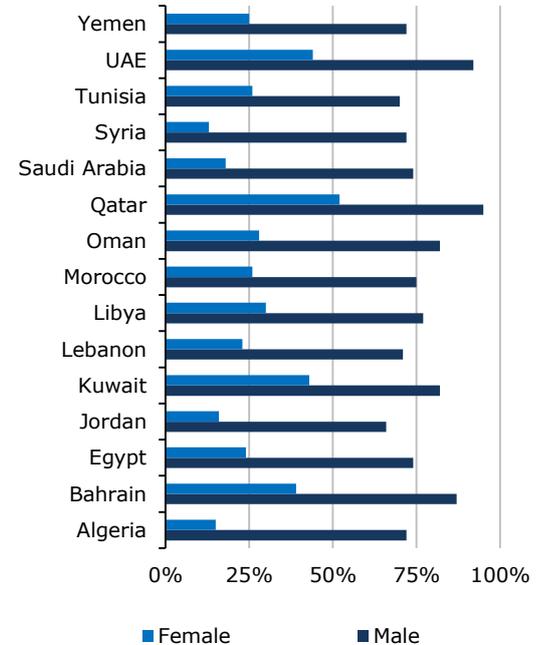
There is a strong belief among economists that the Arab private sector has the potential to create substantial employment in the region as highlighted in an IMF report which indicates that a 1% growth in non-hydrocarbon GDP contributes to an increase in employment of nationals, ranging from 0.45% in Qatar to 1.53% in Oman. These elasticities are relatively high compared to those in other countries. Although GCC economies largely focused on developing the private sector in the last decade, the resultant impact has been minimal, as majority of the jobs have gone to foreign workers. As highlighted earlier, foreign workers dominate the private sector workforce in the relatively well off nations within the region, making them the greatest beneficiaries of the recent growth in the private sector.

Labor force participation is low; women participation is a serious issue

Labor Force Participation Rate, 2011



Labor Force Participation Rate by Gender, 2011



Source: World Bank, *Labor force participation rate is the proportion of the population ages 15 and older that is economically active: all people who supply labor for the production of goods and services during a specified period.

While Arab countries have witnessed a sharp rise in the share of labor force in the total working age population over the past decade, yet this share as a percentage of total population remains

low by global standards. Work force participation rates in the developed economies of US and UK, stands at about 64% and 77% respectively. The low women participation rate contributes to the low overall participation rates in the region and represents substantial untapped economic potential for all Arab countries. While women in the GCC region enjoy reasonably good educational levels, their participation rates are low, probably because the cultural and value system places considerable restrictions on the work of women in certain domains. According to a survey by Nadereh Chamlou, senior adviser to the chief economist for the Middle East and North Africa at the World Bank, corporates in the Arab world prefer to hire women over men citing soft skills, dedication and higher reliance than men, but remained wary of hiring them on presumption that the social restrictions and pressure would keep them from performing well at their jobs. Generally, the lower participation of women in the Arab region could be attributed to the prevailing cultural attitudes and weak laws that do not provide adequate support to women.

Rapid urbanization and migration is contributing to surplus labor in some economies

Several socio-economic issues have resulted in rapid urbanization and substantial increase in the supply of job seekers. The inflow of job seekers due to migration has been higher than the capacity to absorb this supply, putting additional pressure on the labor market and resulting in a higher unemployment rate. The main population flows within the Arab region have been associated not only with non-oil producing countries having abundant labor such as Egypt and Yemen, but also Jordan, Palestine and Syria, to the oil-producing countries within the GCC. For example, Egypt has about 2 million migrants in other Arab countries, with almost an equal mix of skilled professionals and unskilled or semi-skilled workers. At the same time, Jordan exports skilled labor to GCC countries, while importing unskilled labor from Egypt and Syria. In the context of GCC countries, the presence of foreign nationals (including laborers from other Arab countries) is more pronounced for some countries such as UAE and Qatar at about 90%, and about 60% for other GCC regions. This high migration has put real pressure on the governments of the GCC to find employment for their nation's young labor force, compelling them to embark on the formulation to limit the number of expats or foreign workers through restrictions on immigrant employment and subsidies for native workers. They have also devised market strategies to improve this situation by imposing policies called localization (Saudization, Omanization, Emiratization) to create employment opportunities for nationals and to limit the dependence on expats. However, most of these initiatives have met with limited success.

Government initiatives

Given the array of employment challenges in the Arab region, productive employment for the youth will need focused efforts from governments in terms of policies and reforms, in addition to a favorable economic environment for job creation. Governments across the region have adopted a host of approaches to tackle the unemployment issue in the region. We have broadly classified the initiatives into three broad categories

- Policies aimed at improving the quality of workforce, thereby enabling job seekers better chances of getting employed
- Increasing the number of jobs available for locals
- Functioning and monitoring of the labor market in terms of market information, job search assistance, and employment promotion schemes.

Policies aimed at improving the quality of workforce

Given the widespread grievance among employers on skill mismatch resulting from poor alignment of the education and training system with the needs of the labor market, most of the regional authorities are stepping up efforts in providing vocational training programs. Multiple governmental initiatives are actively promoting skill build up, with some of the noteworthy schemes being the King Abdullah Foreign Scholarship Program in Saudi Arabia, which will run through 2020 with a net spending of about SR 9 billion, offering funding for nearly 130,000 students – for bachelors, masters and doctorate programs abroad. Moreover, King Abdullah Scholarship Program for Technical Trainers is aimed at promoting vocational and technical education. Vocational training programs and the students enrolled are exhibiting a rapid increase in the kingdom, with the number of students expected to increase almost fivefold, from 94,000 in 2009 to 450,000 in 2015. Oman's Eighth Five-Year Development Plan (2011–15) lays emphasis on the role of higher education, while the Qatar National Vision 2030 has a plan charted for an advanced education system and training opportunities. However, these initiatives will take time to yield results and gain traction. Government spending on education as a percentage of overall budgetary spending is increasing considerably especially in the GCC nations. Among the non-GCC countries, nations such as Morocco, Algeria and Jordan are experiencing brain drain, given the lack of opportunities in their home country. The Moroccan government has announced measures to improve the on-going Idmaj plan, which enables young graduates to develop their professional skills by gaining work experience. Additionally, the Taehil programme offers pre-employment skills training partly paid for by the state to help foster job creation. Together, since their launch in 2007, these programs have made it possible to find work for 228,000 and 50,335 job seekers, respectively.

In addition, governments in the resource rich region are also trying to limit the employment of limited-skill expatriate workers and encourage the employment of skilled workers from within the country based on their vocational and accredited education degrees. Kuwait has banned expats in various small sectors and activities and is planning to implement a quota based on nationality to reduce the number of foreigners in the country and define a cap on the length of time expatriates can spend in the country. On similar lines, Oman, which had earlier implemented a cap on the number of foreign workers, has recently considered a decision to suspend recruitment of foreign labor in various sectors to create job opportunities for the national workforce.

Increasing the number of jobs available for locals

Given the government limitations in creating jobs in the public sector, authorities are stepping up efforts to create an environment in which the private sector can fill in the gap in generating employment for locals. Policies have ranged from forging public private partnerships, localization policies, immigrant visa restrictions, hike in visa fees for migrant workers and deportation of irregular workers. However most of the policies have met with limited success, as governments have failed to address the root causes and not much progress has been made to tackle the challenge in a systematic way. Some of the steps that can aid an increase in jobs but not limited to are listed below:

I. Nationalization and job-reservation schemes

Most labor importing GCC governments have introduced localization programmes, such as Emiratisation, Qatarisation, Saudisation, Omanisation, Kuwaitisation and Bahrainisation to improve job opportunities especially in the private sector. The recent Nitaqat program launched by the Saudi government is the most ambitious in the region and penalizes companies based on percentage of expat employees. The program involves attractive incentives for complying companies and penalties against offenders. Thousands of expats are being forced to leave the country, due to non renewal of visas. This move has not only

impacted the labor from the South Asian economies, but is also impacting the other labor supplying Arab economies of Yemen and Egypt. Reports cite that about 380,000 jobless Yemeni workers have returned to their country during the year through early June. In addition, the Saudi government has sharply increased visa fees for expats in private sector establishments that have a lower proportion of Saudi nationals, thereby directly impacting profit margins of businesses. According to reports, the Saudi government employment initiative has resulted in creation of 600,000 jobs for Saudi nationals. However this number when compared to the total Saudi youth population is still miniscule.

Most of these schemes in past have failed to achieve the desired outcome even after years of implementation, and can only be successful when accompanied by wage reforms, and skill match up by locals. Private sector employers feel that the cost of hiring locals is much higher than hiring expats, making businesses unviable. Moreover, locals lack technical skill set needed for high end jobs. Many employers still prefer hiring expatriates largely due to their higher commitment to work at lower remunerations compared to the nationals. These labor laws have resulted in ghost workers; where companies pay locals to stay at home just to have them on their rolls. On the other hand, labor exporting nations like Tunisia are promoting new schemes offering employment. The Tunisian government introduced a program that aims to offer a civil service job, including that of drivers and gardeners, to at least one member of every family. However, the scheme had a limited impact with only about 1250 jobs being offered initially.

II. Increasing investments in infrastructure

The infrastructure sector has a huge potential to generate jobs. According to a report from the World Bank, the Middle East and North Africa region can generate about 2.0 million in direct jobs and 2.5 million in indirect and auxiliary industry related jobs. Though cash rich countries like Saudi Arabia and Qatar are investing heavily into infrastructure, low income countries such as Egypt and Jordan face funding difficulties.

III. Opportunities for self employment

Promoting small and medium-sized enterprises (SMEs) is considered as one of the best strategies to achieve economic development. Many Arab countries have recognized the importance of SMEs and have formulated policies to encourage, support, and fund an entrepreneurial environment. These start-ups not only employ their owners, but have significant spillover benefits for the larger economy. Egypt's Social Fund for Development has been providing loans to youth to support project startups and expansion for decades now. In Morocco, the Moukawalati program has led to the creation of about 3,315 enterprises and about 10,000 jobs. However this number is short of its targeted goal, as absence of entrepreneurial culture, lack of guidance and support to the young non experienced business entrepreneurs, led to considerable rejections of applications. Furthermore, funds were not readily disbursed by the regional banks for such start ups, despite the government guarantees. The Maghreb start-up initiative, a sponsored program to identify innovative businesses that would generate value and have a positive impact on society, is currently underway in Algeria, Morocco and Tunisia. In Jordan, the Queen Rania Center for Entrepreneurship (QRCE) aims to support economic growth by providing several services and programs to develop entrepreneurship skills. Additionally, countries such as Saudi Arabia are establishing a fund to nurture women entrepreneurs. The Prince Sultan bin Abdul Aziz Fund has supported more than 32 projects from the time it was established in 2007. The governments of the Arab countries have realized that building sustainable entrepreneurship would be one of the meaningful ways to support employment that is the need of the hour in the post-Arab Spring era.

Functioning and monitoring of the labor market

Job search assistance and counseling can result in cost-effective labor market measures for youth employment. Though many Arab countries have introduced schemes to improve the functioning and monitoring of the labor market by increasing dissemination of job market information and updating of employment database, providing assistance for job search through employment offices and enhancing the coordination between the various employment promotion schemes is still nonexistent in many of the Arab countries. However, this scenario is slowly changing. The Tawteen council in UAE, a governmental body tasked with finding employment for job seekers, aims to create about 300,000 jobs for Emiratis by 2020. Bahrain, Jordan, Saudi Arabia and Tunisia have established Vocational Training bodies that help impart vocational education to young graduates. Saudi Arabia's Hafiz program offered training and job matching to establish approved national standards for occupational skill requirements that impart skills to young graduates that are in line with the labor market demand. The National Agency For Employment and Independent Work in Tunisia has established 90 employment offices to convey job information between employers and job candidates.

The Road Ahead

There is an urgent need to address the soaring youth unemployment levels in the Arab region, where the youth account for a majority chunk in the demographic pie. Prolonged high levels of youth unemployment can trigger significant social and political implications such as high crime rates, social unrest and young people delaying marriage. As highlighted in the report, the labor market in the Arab region is plagued by increasing pressure arising from the supply side, while on the demand side, skill mismatch, low productivity levels; inconsistent domestic investment growth, low participation and wage disparity are limiting options for the unemployed. While the dimension of the challenge varies from country to country in the Arab world, there is a pressing need for the nations in the Arab region to foster measures that would enable the youth to develop skills to tap employment opportunities. Countries in the Arab world need to focus on targeting economic policies facilitating economic growth, along with a stable political environment, and job creation to meet the supply in the labor market.

On the supply side, governments especially in the resource rich countries need to step up efforts on skill enhancement measures rather than job reservations. Wage reforms and educational programs need to be highly aligned to industry demands. Vocational training especially in the areas of healthcare, hospitality and construction and allied industries should be promoted to tap jobs in the private sector which are currently dominated by expatriates. Apart from reforms aimed at skill development, there is also a need for adopting programs promoting career guidance, job counseling for the incoming youth in the labor market, while financial and other support to micro enterprises and SMEs needs to be extended in order to create a business friendly atmosphere to encourage the youth to look for other lucrative avenues to pursue employment. Moreover, promoting women participation in the workforce would help to unleash this largely untapped economic potential.

On the demand side, sweeping political, economical and social reforms will be crucial in creating a foundation for sustained employment generation. Improving the aggregate level of employment relies largely on effectiveness of economic policies and the overall synergies between the public and private sector. There is a need for coordinated effort from fiscal, monetary, financial, and overall private sector development policies to boost labor market conditions, especially empower the local population to participate in skilled private sector jobs. Increasing investments in infrastructure and economic diversification would help in creating sustainable employment opportunities. All said and done employment creation should be at the helm of the country's short-term and long-term policy framework.

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