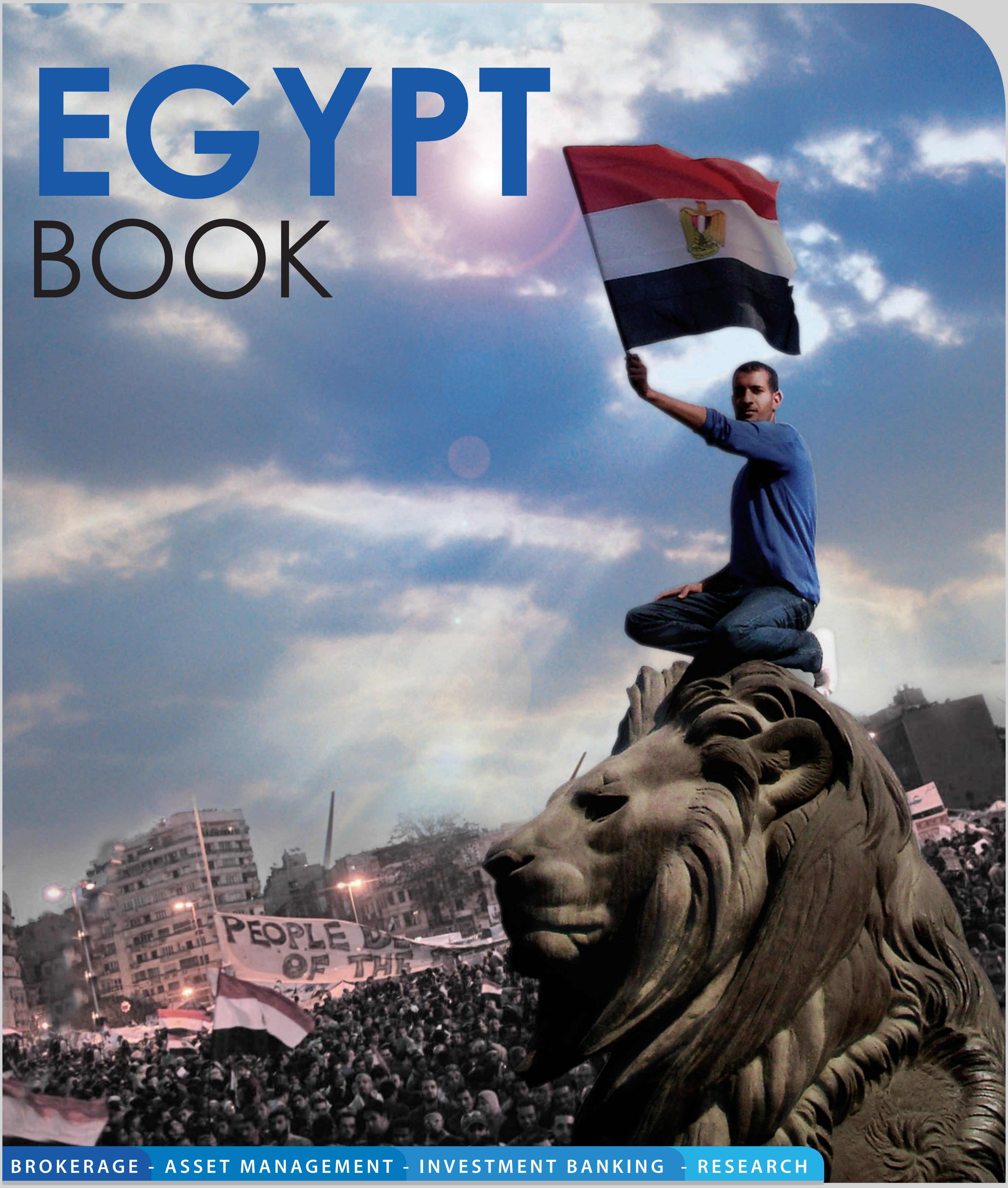
EGYPT
BOOK



BROKERAGE - ASSET MANAGEMENT - INVESTMENT BANKING - RESEARCH

2012

CI CAPITAL RESEARCH

A CIB Group Member

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CAPITAL RESEARCH

A CIB Group Member

Strategy

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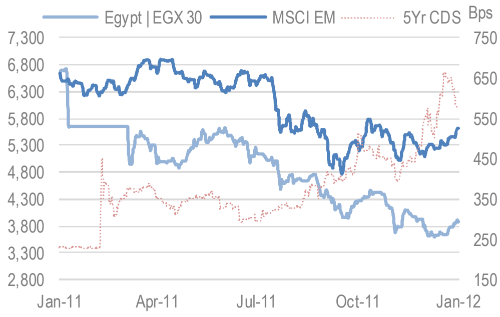
Egypt Book 2011/12

January 26, 2012

EGX 30, MSCI EM & Egypt's 5yr CDS | 52 Wks



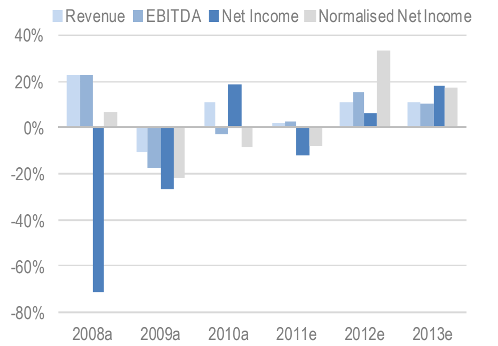
Egypt 2012 | Key themes

- Politics to be the key determinant of investor sentiment in 2012.
- Negative macro indicators to weigh on market potential.
- Normalized earnings growth to rebound in 2012 despite tough market conditions.

Sector & Stock Picks

- **Fertilisers & Construction (OCIC)** – High growth potential, rising demand, strong liquidity levels. Plus, diversified market with healthy exposure to oil-exporting markets, particularly GCC.
- **Pharmaceuticals (PHAR)** – Defensive sector, inelastic demand for medical products, plus population growth & expanding medical insurance program.
- **Mills (UEFM)** – Defensive sector, consumer staple. UEFM is our top pick in this sector with a higher market share in fine flour production (45% in FY10/11) which has higher margins. UEFM is the second largest player in the subsidized flour market & has a dividend yield above the sector's average.

CI Capital Universe | YoY Growth 2008-15e†



† Aggregate of CI Capital Research covered stocks.

Executive Summary

In this section:

- **Stock Market Review 2011**
- **Key Macro Themes 2012**
- **CI Capital Universe**
- **Market Dashboard**

One Year On: Egypt at a Crossroads

- **Political instability hits investor confidence with EGX amongst worst performing indices globally in 2011.**
- **Heavy selling activity sees large caps underperform small caps - EGX 20 down +45% YoY vs. EGX 70's 41% reduction.**
- **Earnings to rise in 2012 despite continued macro concerns.**
- **Stock picking the key as volatility remains high.**

2011 has been a difficult year for global markets and Egypt alike, with strong macro-economic and geo-political headwinds forcing investors into survival mode. The sovereign debt crises in Europe and faltering growth in the US have served to undermine investor confidence in developed markets, while political upheaval – namely the Arab Spring – has underlined the risks inherent in emerging economies. While reduced consumer spending abroad and 'risk-off' investment attitudes clearly played their part, the key downward pressure on Egypt's macro and corporate environment in 2011 stems from political events. The ousting of President Mubarak in February 2011, the subsequent inability of the transitional government to inspire confidence, continued street protests and sporadic violence have all placed significant stresses on Egypt's economy. Foreign reserves are now 50% lower year-on-year, the EGP continues to depreciate (albeit at a slow pace), Egypt's fiscal deficit to GDP has widened, spending levels and investments are down, unemployment levels are up and inflation is creeping higher. Such developments have inevitably taken their toll on Egyptian equities – the EGX 30 has shed 41% year-on-year (to January 19th 2012) and holds the dubious honour of being one of the worst performing indices globally in 2011.

The performance of the Egyptian stock exchange is likely to remain hostage to changes in the political scene, social unrest, and the resulting implications for the macro-economic environment. Hence, while parliamentary elections passed-off relatively smoothly, instability will likely persist – at least until the ruling military council hands over power to a newly-elected president, expected by June 30th, 2012. Even then though, the restoration of business confidence will take time, particularly amongst those concerned over the investment policies of an Islamist-based parliament – a likely scenario now given the success of the Freedom & Justice Party (FJP) in the recent polls. So, despite the EGX 30 currently trading at a discount of 45.3% vs. MSCI Emerging Markets on a F12m PER, the elevated political risk will – in the main – continue to dampen investor sentiment. Equally, uncertainties on the

Figure 1.1 | **2011 Returns**

Asset Class	1m	3m	6m	12m
Equities*				
Egypt	2.9%	-7.7%	-21.3%	-38.4%
UAE	-5.5%	-4.4%	-18.2%	-21.6%
KSA	-6.3%	-7.2%	0.6%	26.6%
US	8.7%	8.2%	-1.6%	2.1%
Eurozone	6.3%	0.8%	-11.4%	-15.2%
Emerging Markets	10.4%	5.1%	-13.1%	-15.5%
Developed Markets	7.7%	4.0%	-7.2%	-6.6%
Debt**				
Egypt	-12.3%	28.9%	71.6%	152.2%
UAE	-2.2%	7.3%	31.2%	-0.5%
KSA	15.2%	28.5%	51.5%	91.9%
Qatar	16.1%	32.6%	43.2%	69.5%
US	-8.3%	8.6%	-12.4%	-4.5%
Currencies†				
Egyptian Pound	-0.3%	-1.1%	-1.4%	-3.8%
Euro	0.8%	6.8%	9.7%	4.4%
Sterling	0.4%	2.2%	4.4%	3.5%
Commodoties‡				
Oil (WTI)	7.6%	13.9%	4.9%	10.1%
Gold	4.2%	0.9%	3.8%	21.2%
Base Metals	12.6%	8.7%	-15.3%	-15.6%

Source: Bloomberg, Data to 17th December 2011.
*MSCI Indices; **5-Year CDS; † Positive figure represents a rise against USD. These are un-hedged returns, showing purely currency movements & do not include the effect of interest rates differentials; ‡ Spot market returns.

domestic front and the prospects of weaker global economic recovery mean that market volatility is likely to remain high as well.

However, despite the weak current data, Egypt still represents a genuine investment opportunity. With a sizable population, demand fundamentals remain solid. This inherent long-term investment story allied to Egypt edging closer to civil democratic rule with an "investment-prop" approach, means those who tap the market with a long-term vision will be the real winners.

Key 2012 themes

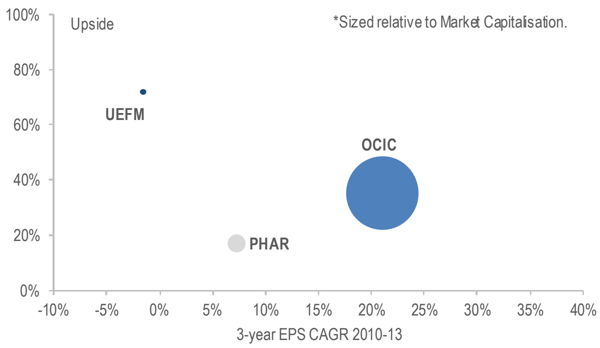
- **Politics** to be the key determinant of investor sentiment in 2012.
- Negative **macro indicators** to weigh on market.
- **Structural problems** in US & Europe coupled with weakening global economies will weigh on foreign investment sentiment and will depress export.
- Falling asset values and high unemployment will **dampen spending** level – reflecting negatively on equities.
- CBE shift to a tightening policy & high yield treasuries to pressure equities.
- Earnings growth in negative territory in 2011 but due to rise in 2012.
- Pharmaceuticals, Fertilizers & Construction our top sectors (see p.16)
- **Orascom Construction (OCIC), EIPICO (PHAR)** and **Upper Egypt Mills (UEFM)** our top picks.

CI Capital Research Universe

Our 38-stock Egypt coverage universe reflects the current uncertainty afflicting corporate Egypt, with reported 2011 earnings contracting 11.8% YoY on the back of minimal revenue growth. Top-line is however expected to recover in 2012 – albeit not to the 26%average growth of 2007 and 2008 – while aggregated reported earnings are forecast to increase 5.8%. Meanwhile, on a normalised basis, earnings are projected to increase 33.3% in 2012. Despite the low profitability at present, the right stocks still offer value. Our universe currently boasts an average upside of +30% and a median upside of +25.1% while 17 of our universe companies are rated Buy or Strong Buy. Plus, on a valuation footing, our aggregated 2012 PER of 7.9x still remains well below the MSCI Emerging Market Benchmark.

Figure 1.2 | **Stock picks – +/-% vs. 3-year EPS CAGR (10-12)**

Ticker	Curr.	Last	+/- to TP	TP	LTFV	Rating	PER 11	PER 12
OCIC	EGP	219.8	35.1%	297.0	377.0	Strong Buy	10.8	7.5
PHAR	EGP	33.0	16.9%	38.6	38.6	Buy	7.4	6.9
UEFM	EGP	48.4	71.7%	83.1	83.1	Strong Buy	3.2	4.3



Source: CI Capital Research & Bloomberg Professional.

Figure 1.3 | **CI Capital Universe Summary**

EGPmn	2007	2008	2009	2010	2011	2012	2013
Revenue*	127,316	156,581	140,245	155,791	158,405	176,161	195,509
Growth	*29.9%*	*23.0%*	*-10.4%*	*11.1%*	*1.7%*	*11.2%*	*11.0%*
EBITDA*	39,851	48,978	40,549	39,344	40,526	46,811	51,555
Growth	*18.5%*	*22.9%*	*-17.2%*	*-3.0%*	*3.0%*	*15.5%*	*10.1%*
Net Income	99,435	28,425	20,782	24,607	21,709	22,976	27,038
Growth	*n/m*	*-71.4%*	*-26.9%*	*18.4%*	*-11.8%*	*5.8%*	*17.7%*
Normalised Net Income	24,787	26,411	20,675	18,969	17,478	23,297	27,359
Growth	*n/a*	*6.6%*	*-21.7%*	*-8.2%*	*-7.9%*	*33.3%*	*17.4%*
PER	1.8x	6.3x	8.6x	7.3x	8.2x	7.8x	6.6x
PBV	1.5x	1.5x	1.4x	1.2x	1.1x	1.0x	1.0x
RoE	85.9%	23.2%	16.1%	16.4%	13.3%	13.3%	14.7%
EV/EBITDA	5.9x	5.2x	6.2x	6.5x	6.3x	5.4x	4.7x

Metrics based on Reported Net Income. Source: CI Capital Research Database

Stock Market Review

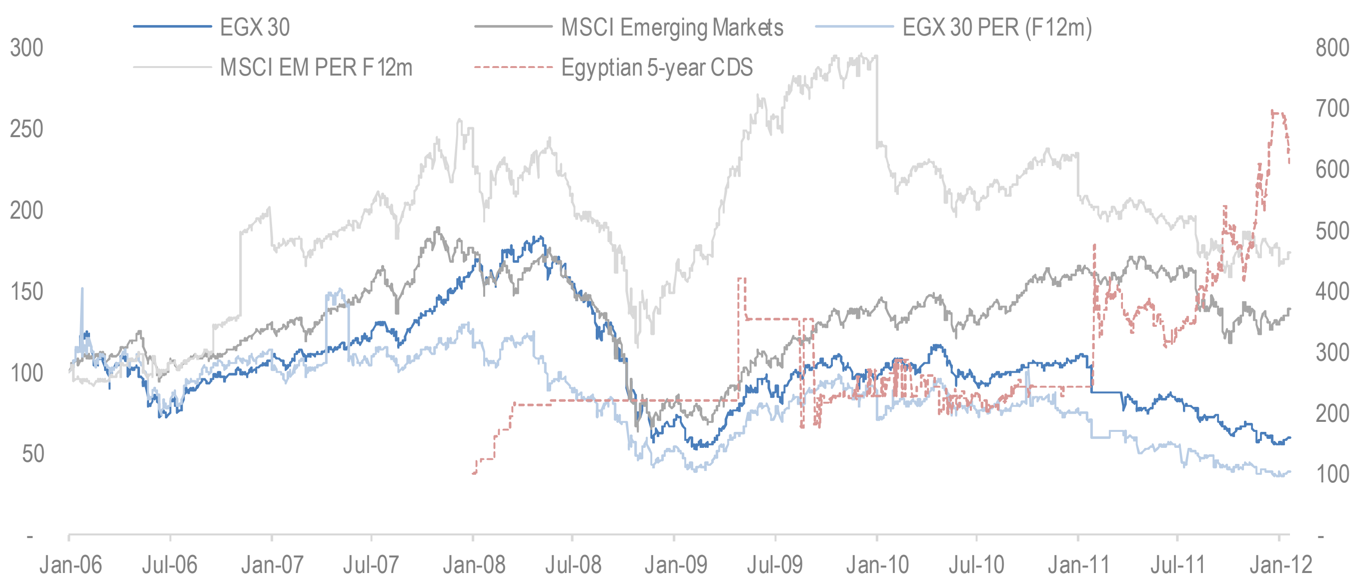
Round-up

2011 was a difficult year for global markets with strong macro-economic and geo-political headwinds forcing many investors – local and international – into survival mode. Egypt suffered more than most, the EGX 30 down 49.1% in the calendar year, and 46.1% between the January 25 Revolution and December 31, 2011. On a year-on-year basis – to January 19th 2012 – The EGX 30 is down 41.8%. The MSCI World index meanwhile is off 7.9% in the same period while the MSCI Emerging Market index – our benchmark, has fallen 15.5% in the 12 months to January 19, 2012. Other indicators show similar stresses. Towards the end of 2011 the yield on Egypt's 9-month Treasury Bill hit a 5-year high while the country's 5-year Credit Default Swap (CDS) has only recently dropped below the 600bps level. It currently stands at 581bps – a 12% discount to its 52 week high. While Parliamentary elections passing off with little alarm and despite a solid start to 2012 (the EGX 30 is up 6.8% Ytd as at January 19th), much uncertainty remains. Until the short-medium term political outlook becomes clearer, investors will continue to be cautious.

EGX at the mercy of political instability

Political unrest in the Middle East in the wake of what has been termed the 'Arab Spring' dramatically impacted the performance of Egypt's stock market (EGX) in 2011. One year on from the ousting of Ben Ali as President of Tunisia – the commonly accepted spark for the subsequent regional unrest – and Egypt's key bourse, the EGX 30, is down 41.8%. This is well-ahead of most global indices and masks the fact that, prior to this tectonic shifting of the regions 'political plates', Egypt was one of the most robust markets in the region.

Figure 1.4 | **Egypt vs. Benchmark – Jan 2006 to date (January 19, 2012)**

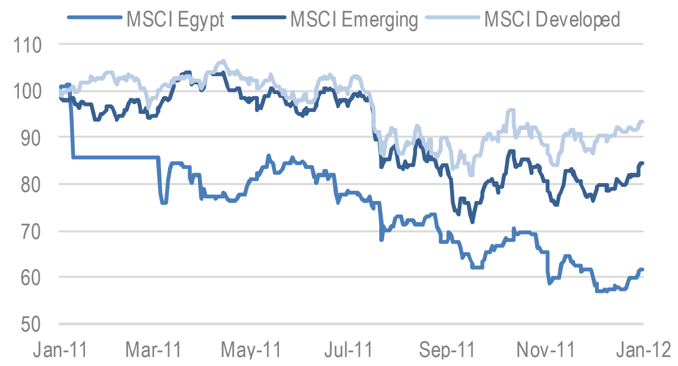


All components rebased to 100. Credit Default Swap on right-hand, all other measures on left-hand axis. As at close on January 19, 2012.
Source: Bloomberg Professional.

Egyptian equities underperforming vs. global peers...

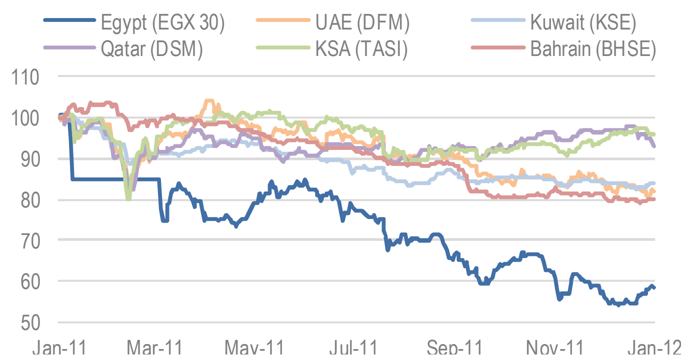
Egypt has underperformed against both global and regional peers in the last 12 months. Year-on-year to January 19, 2012, MSCI Egypt is down 38.4%, over double that of the MSCI Emerging Market index (-15.5% yoy) and six times weaker than Developed markets (-6.6% yoy) – see graph below.

Figure 1.5 | **Egypt vs. Emerging & Developed Markets**



All indices rebased to 100; Source: Bloomberg Professional. As at January 19, 2012.

Figure 1.6 | **EGX 30 vs. Regional Peers**



All indices rebased to 100; Source: Bloomberg Professional. As at January 19, 2012.

... as well as against regional players.

Given the political uncertainty in the MENA region it is little surprise to see MSCI Egypt trailing its MSCI Emerging Market benchmark. However, since the January 25 Revolution, the performance of Egypt's stock market has been noticeably weaker against regional peers too – despite that fact that several other Arab states have also experienced political unrest. Egypt regional 'peers' are primarily GCC-based rather than North Africa's and, aside from Bahrain at times, the GCC has not experienced the same political upheaval as that seen in Egypt, Tunis, Libya and now Syria. Nor have they had their markets suspended or suffered the same level of foreign-investor exits.

Rising treasury yields direct investors away from equities

Other indicators bear witness to the market stresses seen in Egypt this year too. Egypt's 5-year credit default swap (CDS) has risen markedly (153% yoy) while the yields on Egyptian treasury bonds have spiked higher. More worryingly still, these are not mid-year trends – but ongoing issues. Only recently, the yield on Egypt's 9-month Treasury bill hit a 5-year high of 15.1% while the 5-year CDS marked a 52-week high (661bps) on December 20, 2011.

Figure 1.7 | **Egyptian 5-year credit default swap (CDS)**

Source: Bloomberg Professional. As at January 19, 2012.

Figure 1.8 | **Performance – Egypt vs. Regional & Global Peers**

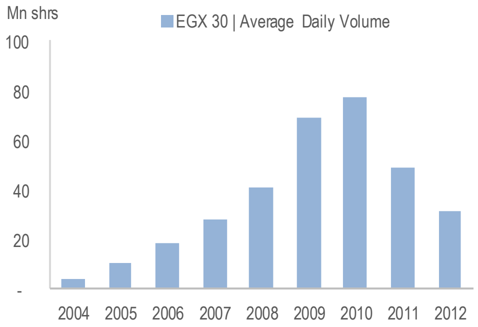
Country	Index	Last Price	MoM %	3M%	YTD%	YoY%	52Wk H	52Wk L	Mkt Cap*	6m ADV†
Egypt	EGX 20	4,186	1.4	-9.1	6.6	-44.6	4,768	3,844	26,455	28.84
Egypt	EGX 30	3,868	1.7	-9.3	6.8	-41.8	6,733	3,578	28,556	35.22
Egypt	EGX 100	660	-2.2	-13.2	2.6	-41.1	1,140	618	32,699	50.35
MENA										
Qatar	DSM	8,462	-3.2	1.0	-3.6	-6.8	9,193	7,489	94,110	4.95
Saudi Arabia	TASI	6,378	1.6	4.4	-0.6	-4.2	6,786	5,232	335,906	173.27
Tunisia	TUSISE	4,672	-0.5	1.0	-1.1	2.6	4,763	4,033	9,351	0.83
UAE	ADSMI	2,337	-2.4	-4.5	-2.7	-12.7	2,777	2,292	69,477	47.91
Morocco	MORALSI	9,019	-0.7	-2.9	0.1	-15.1	10,851	8,751	57,767	0.53
Kuwait	KWSE	6	-0.2	-1.5	-0.3	-16.2	6,985	5,680	101,978	1.50
Jordan	AMMAN SE	1,939	-2.0	-0.5	-2.8	-21.2	2,475	1,916	22,915	9.97
UAE	DFM	1,328	-3.4	-2.6	-1.9	-18.0	1,692	1,294	28,134	51.18
Oman	MSM 30	5,582	-1.6	0.9	-2.0	-20.1	7,018	5,408	13,792	6.16
Lebanon	BLOM	1,169	-1.8	-4.0	-0.6	-20.8	1,524	1,165	30,150	0.16
Bahrain	BHSE	1,142	-1.5	-0.5	-0.2	-19.9	1,475	1,127	16,043	2.10
Egypt	**EGX 30**	**3,868**	**1.7**	**-9.3**	**6.8**	**-41.8**	**6,733**	**3,578**	**28,556**	**35.22**
Syria	DSE	867	3.0	-3.8	-0.2	n/a	1,752	842	n/a	n/a
Selected Other										
US	S&P 500	1,308.0	8.5	8.1	4.0	2.0	1,371	1,075	12,127,680	823
UK	FTSE 100	5,730.8	6.8	5.1	2.8	-4.1	6,106	4,791	2,469,660	917
China	Shanghai Comp.	2,296.1	3.5	-3.4	4.4	-16.8	3,067	2,133	n/a	6,763
Australia	All Share 51	4,214.8	3.8	0.0	3.9	-12.8	4,976	3,766	n/a	896
Russia	Micex	1,503.7	8.7	5.9	7.2	-14.8	1,865	1,243	n/a	48,048
India	Sensex 30	16,643.7	8.2	-2.6	7.7	-12.3	19,811	15,136	n/a	16
Germany	DAX	6,391.9	12.7	8.1	8.4	-9.8	7,600	4,966	866,338	187
Hong Kong	Hang Seng	19,943.0	10.4	8.9	8.2	-18.3	24,469	16,170	n/a	2,013
Taiwan	TWSE	7,233.7	9.1	-1.6	2.3	-20.4	9,207	6,609	n/a	2,410
Brazil	IBOV	61,872.8	11.9	12.6	9.0	-11.7	71,190	47,793	n/a	288
France	CAC 40	3,309.5	11.3	4.8	4.7	-16.8	4,170	2,693	1,090,841	176
Other										
World	MSCI World	310.9	8.0	4.2	3.8	-7.9	359	265	33,860,440	61,326
EMF	MSCI EMF	357.6	9.2	5.2	5.2	-14.6	438	300	3,394,545	6,367
EM Asia	MSCI EM Asia	401.4	9.6	3.7	6.0	-15.7	497	343	4,105,939	6,596
EM	MSCI EM	980.9	10.4	5.1	7.0	-15.5	1,212	824	7,085,448	54,920
EM EMEA	MSCI EM EMEA	363.9	10.0	1.8	8.3	-23.0	532	303	902,592	47,455
EM LatAm	MSCI EM LatAm	3,967.9	13.0	10.0	10.1	-13.5	4,771	3,126	1,642,369	766

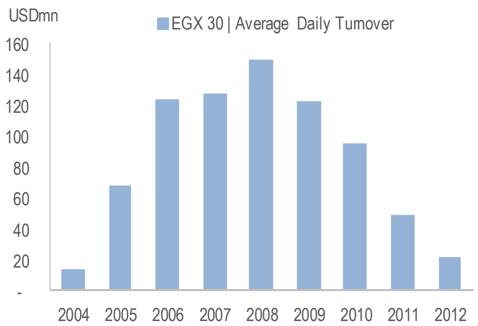
*All Market Capitalisation figures (Mkt Cap) in USDmn.
†6 month Average Daily Volume (ADV) in mn shares.

Source: Bloomberg Professional. As at close on January 19th 2012.

Volume & Liquidity

The selling pressure experienced by the EGX in 2011 served to reduce the market's liquidity. The Average Daily Volume (ADV) of EGX 30 shares traded in 2011 was 36% lower than that for 2010 whilst Average Daily Turnover (ADT) dropped from USD95.1mn to USD48.2mn – a 49% decrease. Using a 5-year average (2007-11) to contextualise these figures provides a clearer indication of the reduced liquidity in the market. While, ADV in 2011 is exactly in line with the 5-year average (52.8mn per day), it is turnover which reveals the key difference. Indeed, the 5-year ADT average stands at USD108.6mn, double that of 2011 (USD 48.2mn), suggesting a very significant reduction in market prices this year. The last 6 months – which included the end of Ramadan, Parliamentary elections and then Christmas and the New Year holiday – have been particularly slow, ADT coming in at a paltry USD28.1mn.





Compare this to 2008 – when the EGX 30's ADT came in at USD149.7mn and the extent of the current malaise in clear.

Figure 1.9 | **Volume & Turnover – Egypt vs. Regional Peers**

Average Daily Volume (mn shrs)

Regional		2005	2006	2007	2008	2009	2010	2011	2012	Last 6M	Last 3M	Last 20D
KSA	TASI	n/a	247.7	250.1	238.9	206.8	117.5	175.7	278.3	173.3	220.4	246.5
UAE	DFM	84.2	139.1	367.7	292.7	425.1	143.5	85.3	43.1	51.2	48.9	52.5
UAE	ADSMI	n/a	38.7	188.4	195.7	149.2	70.0	63.3	53.3	47.9	50.1	61.4
Egypt	EGX 30	10.1	18.4	27.8	41.1	69.3	77.0	49.1	31.2	35.2	31.7	27.1
Jordan	Amman SE	n/a	n/a	n/a	10.9	17.3	21.2	13.4	6.3	10.0	7.9	7.5
Oman	MSM 30	0.6	2.1	5.9	11.1	18.6	8.4	7.1	7.9	6.2	6.8	7.8
Qatar	DSM	0.8	1.0	2.3	6.2	11.4	6.6	6.6	5.0	4.9	5.3	5.7
Bahrain	BHSE	2.9	1.8	3.0	6.1	3.4	2.5	2.0	0.7	2.1	1.1	1.5
Tunisia	TUSISE	n/a	n/a	0.2	0.3	0.4	0.4	0.6	0.7	0.8	0.8	0.7
Morocco	MORALSI	n/a	0.7	0.5	0.6	0.6	0.7	0.5	0.2	0.5	0.7	0.9
Lebanon	BLOM	0.5	0.5	0.2	0.3	0.2	0.5	0.2	0.1	0.2	0.2	0.1

Average Daily Turnover (USDmn)

Regional		2005	2006	2007	2008	2009	2010	2011	2012	Last 6M	Last 3M	Last 20D
KSA	TASI	n/a	2,275.2	1,775.6	1,787.7	1,334.6	802.4	1,177.8	1,724.4	1,247.4	1,507.7	1,676.7
Qatar	DSM	-	15.6	52.6	120.0	85.1	62.5	73.5	51.5	56.4	55.3	54.2
Egypt	EGX 30	67.7	124.1	127.3	149.7	122.9	95.1	48.2	22.0	28.1	24.0	19.3
UAE	DFM	n/a	n/a	423.2	325.4	186.2	73.4	31.9	15.1	19.0	18.7	15.0
UAE	ADSMI	n/a	57.5	180.1	245.8	75.8	36.9	26.9	16.3	19.2	18.8	16.8
Morocco	MORALSI	n/a	-	26.3	40.8	16.9	32.7	16.9	6.8	17.8	22.3	34.1
Jordan	Amman SE	n/a	n/a	n/a	49.8	43.3	28.1	13.1	6.9	10.3	9.8	8.6
Oman	MSM 30	1.1	6.4	13.8	28.5	19.1	9.9	8.2	7.5	6.5	7.2	7.9
Tunisia	TUSISE	n/a	n/a	1.3	3.7	3.4	4.1	3.3	3.3	4.0	4.0	4.0
Lebanon	BLOM	-	-	-	-	1.7	3.6	1.4	0.9	1.0	0.9	0.8
Bahrain	BHSE	-	-	2.6	7.9	1.9	1.1	1.1	0.3	1.1	0.8	1.3

Source: Bloomberg Professional

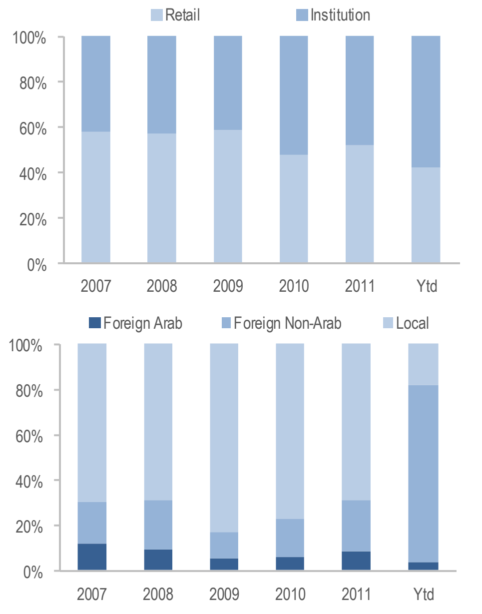
Market Investors

Retail and institutional investors comprised an almost even half share of value traded in 2011 – the most balanced this ratio has been for at least 5 years. A general trend sees retail investors enjoying a larger share of turnover, despite their share so far in 2012 dipping to 42%. Meanwhile, local investors continue to dominate their foreign counterparts, comprising 68.7% of all 2011 turnover, a fall of 10.8% year-on-year (YoY). That said, 2011 saw the largest share of foreign non-Arab investors for over 5 years – increasing from 16.6% in 2011 to 22.9% in 2011.

Rather unsurprisingly, foreign non-Arabs were net sellers in 2011 (EGP202mn), reflecting the higher risk premiums demanded by foreign investors to trade Egyptian stocks. The foreign non-Arab net-buying spike seen in September 2011 (foreign non-Arabs were EGP1,810mn net buyers) came largely on the back of Olympic Group's Electrolux deal in September. Aside from this month, foreign non-Arabs were net sellers in eight of the 11 traded months in 2011. Arabs on the other hand were net buyers for 6 months in 2011.

Overall, locals and institutions were net buyers in 2011 while foreign investors (Arabs and non Arabs) took the largest share of turnover for at least 5 year.

Figure 1.10 | **Share of Values Traded**



Source: Egyptian Exchange

Figure 1.11 | **Breakdown of market investors 2011**

	Local		Foreign Arab		Foreign Non-Arab		Retail		Institution	
By Month	**% Tnvr**	**Net**	**% Tnvr**	**Net**	**% Tnvr**	**Net**	**% Tnvr**	**Net**	**% Tnvr**	**Net**
Nov-10	76.4%	(1,104)	4.4%	(283)	19.2%	1,387	39.5%	(427)	60.5%	427
Dec-10	76.4%	(671)	5.6%	75	17.9%	597	47.3%	(306)	52.7%	306
Jan-11	65.6%	806	7.6%	(459)	26.9%	(346)	44.7%	(574)	55.3%	574
Feb-11	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mar-11	33.9%	151	9.1%	(1)	57.0%	(149)	27.8%	265	72.2%	(265)
Apr-11	56.0%	133	5.9%	64	38.2%	(197)	49.9%	136	51.7%	(136)
May-11	60.3%	42	7.4%	165	32.3%	(207)	55.8%	(174)	44.7%	174
Jun-11	77.8%	566	4.2%	52	18.1%	(618)	52.4%	681	48.2%	(681)
Jul-11	73.1%	27	4.2%	103	22.7%	(129)	65.1%	71	35.7%	(71)
Aug-11	79.6%	22	4.8%	113	15.6%	(135)	47.5%	101	53.0%	(101)
Sep-11	58.5%	(1,771)	5.4%	(39)	36.0%	1,810	45.3%	(146)	54.8%	146
Oct-11	64.8%	(137)	7.2%	151	28.0%	(14)	56.9%	(2)	43.2%	2
Nov-11	18.1%	(272)	21.9%	(143)	61.2%	320	36.8%	(11)	64.4%	(84)
Dec-11	22.2%	(384)	4.4%	(53)	73.4%	437	47.3%	208	51.8%	(172)
By Year	**% Tnvr**	**Net**	**% Tnvr**	**Net**	**% Tnvr**	**Net**	**% Tnvr**	**Net**	**% Tnvr**	**Net**
2007	69.6%	(11,379)	11.9%	(7,374)	18.5%	18,327	58.2%	(15,882)	41.8%	15,455
2008	68.9%	(9,872)	9.6%	3,511	21.5%	6,361	57.4%	(15,880)	42.7%	15,879
2009	83.0%	(1,198)	5.4%	(3,928)	11.6%	5,204	58.9%	15,635	41.1%	(15,715)
2010	77.0%	(6,625)	6.5%	(7)	16.6%	6,631	47.9%	(5,037)	52.1%	5,036
2011	68.7%	511	8.4%	(309)	22.9%	(202)	51.9%	(351)	48.1%	351
Ytd	17.8%	137	4.1%	(102)	78.1%	(35)	42.2%	(134)	57.8%	134

Net sellers in brackets; all figures in EGPmn unless stated. Ytd figure as at 21st January 2012.

Source: Egyptian Exchange

GDR's

Like their EGX-listed counterparts, the GDR market has been severely pressured since the January 25 Revolution. Of the actively traded GDR's, both Commercial International Bank (CBKD) and EFG Hermes Holding (EFGD) are down more than 50% in the 12 months to January 19, 2012 while Orascom Construction Industries (ORSD) and Telecom Egypt (TEEG) – are off by more than 20%. Orascom Telecom (OTLD) has held relatively firm, down only 6.8%.

Figure 1.12 | **Egyptian Global Depositary Receipts (GDR's)**

GDR's	Code	Curr.	Last	WoW (%)	MoM (%)	3M (%)	YTD (%)	YoY (%)	52Wk H	52Wk L	GDR in local curr.		P/D
Commercial International Bank	CBKD	USD	3.3	**-2.4**	3.1	-17.9	9.6	-51.3	7.1	2.9	EGP	3.30	**-0.1%**
EFG Hermes Holding	EFGD	USD	3.3	**0.1**	-7.9	-15.0	3.6	-62.3	8.8	2.7	EGP	3.38	**-1.9%**
Ezz Steel	AEZD	USD	n/a	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	EGP	n/a	**n/a**
Lecico Egypt	LECI	USD	3.5	**0.0**	0.0	0.0	0.0	13.8	4.1	3.1	EGP	0.99	**252.3%**
Orascom Construction Industries	ORSD	USD	37.0	**5.7**	12.0	-2.9	9.1	-20.4	49.0	31.3	EGP	36.39	**1.7%**
Orascom Telecom	OTLD	USD	2.0	**0.9**	20.8	31.6	18.3	-6.8	3.9	1.1	EGP	2.17	**-8.6%**
Paints & Chemical Industry Co.	PCLD	USD	n/a	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	EGP	1.79	**n/a**
Palm Hills	PHDC	USD	4.8	**0.0**	0.0	0.0	0.0	-9.4	5.3	4.8	EGP	n/a	**n/a**
Suez Cement	SZCD	USD	7.5	**0.0**	0.0	0.0	0.0	23.0	7.7	6.1	EGP	3.89	**92.8%**
Telecom Egypt	TEEG	USD	11.5	**5.4**	2.3	-6.5	2.3	-23.8	17.2	10.0	EGP	11.93	**-3.5%**

† EGX suspended between 28th January & 23rd March 2011; GDR trading at premium (P)/discount (D) to local stock.
* Calculated using an exchange rate of EGP6.04 to USD1.0. All data from Bloomberg.
All prices as at January 19, 2012 aside from ORTE which uses January 22 closing prices to account for demerger.

Source: EGX & Bloomberg Professional

Sector Performance

Defensive stocks bear up as political storm wreaks havoc

With the majority of 2011 having been spent under a cloud of political uncertainty, year-on-year sector and industry performances make for grim reading. Indeed, no sector or industry has made gains and some of the latter have declined more than 50% in value. The Oil and Gas (-7.2% yoy), Health Care (-15.3%) and Mills (-18.6%) industries – inherently defensive areas – have been least impacted, while Mubarak-linked areas such as Steel (-59.9%) and Real Estate (-54.1%) have been hit particularly hard.

Financials as a whole have been badly affected too, with confidence in the Egyptian economy undermined by the unprecedented political upheaval. The exodus of foreign investors from the market in 1H11, the damage to investor sentiment caused by the lengthy suspension of trading and the continued lack of clarity concerning an election roadmap have all contributed to these clear stresses on stock prices.

Relative to the EGX indices

Figure 1.13 | **Year-on-year (YoY) Industry Performance**

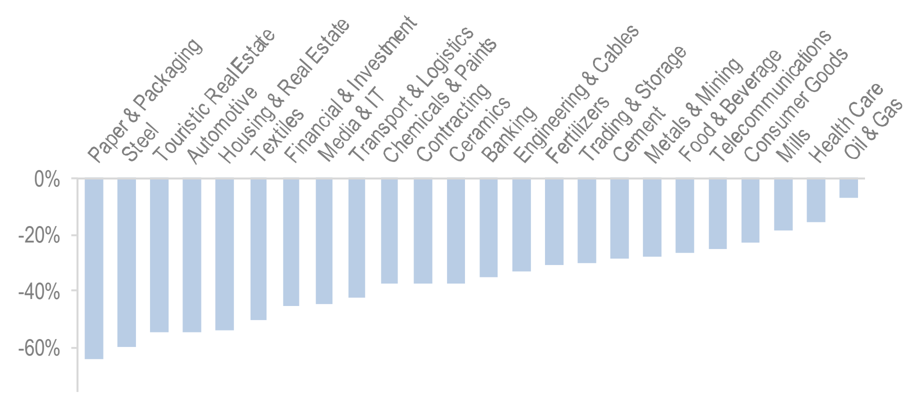
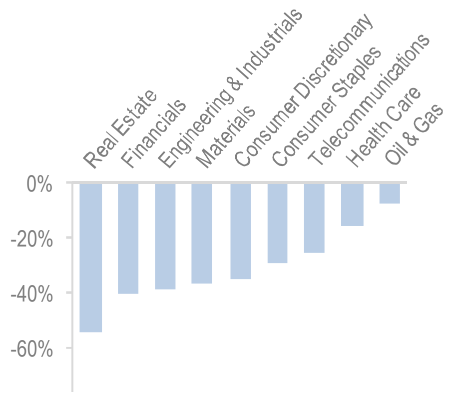


Figure 1.14 | **YoY Sector Performance**



Industries & Sectors classified according to CI Capital Research definitions and comprised of current CI Capital 100 constituent stocks.
Source: Bloomberg Professional & CI Capital Research

Stock Performance

Torrid year for share prices as investors go defensive

Only six out of the hundred stocks in the CI Capital 100 Index have made gains year-on-year (see below). **Alexandria Minerals Oil Company [AMOC]** was the obvious star performer, up 40% YoY on the back of soaring profits, driven in turn by a higher oil price. Two other gainers were Milling stocks – **East Delta Mills [EDFM]** and **Middle & West Delta Mills [WCDF**– re-affirming their defensive nature. At the other end of the spectrum, Housing & Touristic Real Estate stocks dominate the worst performers. In total 32 stocks in the CI Capital 100 Index have lost 50% or more of their value since January 20, 2011. Neither are these small caps either – 12 of these 32 are in the EGX 30, 4 of which have a market capitalization of over USD500mn. AMOC

Holding up against the headwinds – top performers in the last 12 months

EDFM and **WCDF** led the way in the defensive Milling sector, buoyed by double-digit dividends while Electrolux's acquisition of **Olympic Group (OLGR) –** through a mandatory offer at EGP40.6/share – helped boost the company's performance. However, as a result of OLGR's free float falling below the 5% minimum threshold, the company was de-listed from the EGX on October 3 (as per EGX listing rules).

And those at the bottom were...

PHDC, OCDI, AMER, MNHD, TMGH – Land contract disputes (stemming from alleged violations of the law under the previous governments) continue to afflict real-estate developers, helping to pressure Housing & Touristic Real Estate stocks.

ESRS has suffered from the Mubarak-effect and a lack of visibility in 2011 – the latter in terms of both a court ruling withdrawing two new licenses and the ongoing lawsuit related to its acquisition of **Ezz Al Dekheila [IRAX]**.

CCAP, AFDI, HRHO & ABRD – Financial & Investment stocks have weakened significantly on the back of dramatic reductions in investment into Egypt as well as major disruption to business. The 7-week suspension of the stock market in 1Q11 resulted in significant losses to brokerage companies while volumes have dwindled in 2H11.

Figure 1.15 | **Top 15 performing stocks in 2011 (YoY)**

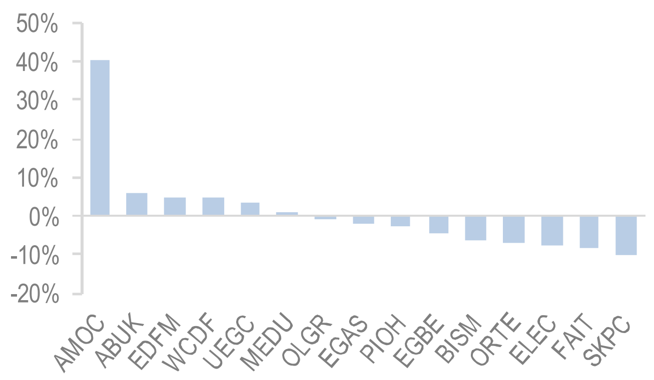
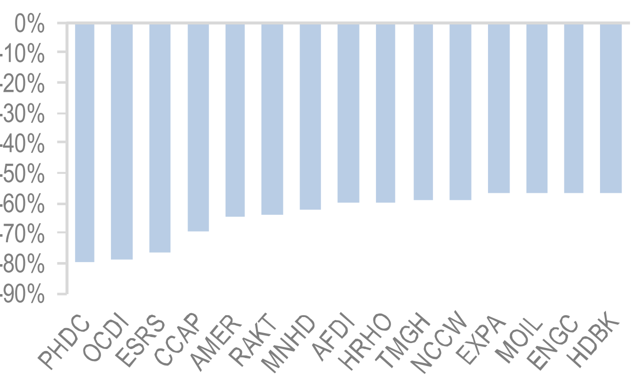


Figure 1.16 | **Bottom 15 performing stocks in 2011 (YoY)**



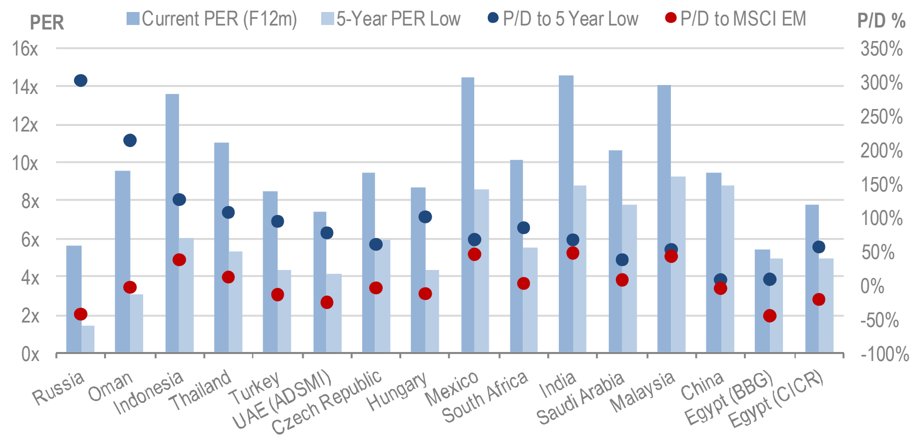
Stocks classified according to CI Capital Research definitions and comprised of current CI Capital 100 constituent stocks. Stock performance includes dividends.
Source: Bloomberg Professional & CI Capital Research

Valuation

Egypt may be cheap, but is the risk priced in?

According to Bloomberg consensus, the EGX 30 trades on a F12m PER of 5.4x – a 31% discount to our 38-stock coverage universe figure, which has Egypt on F12m PER of 7.8x. The key difference between these figures stems from the constituent stocks used to calculate them – only 13 of our coverage stocks are in the EGX 30.

Figure 1.17 | **Peer Group PER analysis**



Calculated using the primary benchmark indices of each country (i.e. Egypt = EGX 30)
Source: Bloomberg Professional & CI Capital Research

In terms of the benchmark, consensus has the EGX30 trading at a 45.3% discount to the MSCI Emerging market index, one of the largest discounts in our market sample. Whilst this discount admittedly existed prior to the January 25th Revolution, it has widened significantly on the back of the ensuing political and economic disruption – and noticeably in 2H11. Prior to the Revolution, the deficit was actually narrowing, closing to 9.7% on January 10, 2012. The EGX 100 currently sits at a 12.7% discount while our own 2012 PER stands at a 21.4% discount.

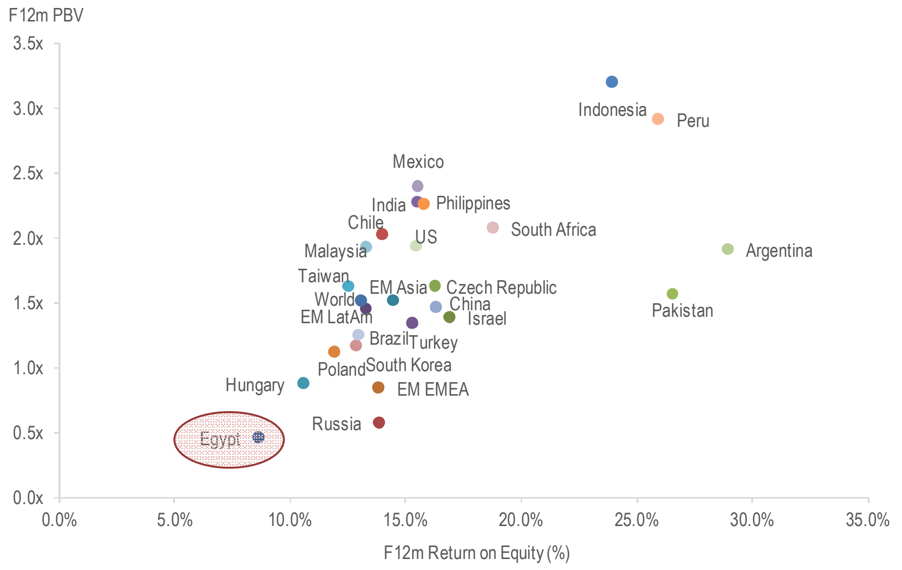
Figure 1.18 | **Consensus Valuations – Middle East & North Africa**

Country	Index	11 PE	12 PE	11 PBV	12 PBV	11 ROE	12 ROE	11 EV/ EBITDA	12 EV/ EBITDA	11 DY	12 DY
CICR Universe		**8.2x**	**7.8x**	**1.1x**	**1.0x**	**13.3%**	**13.3%**	**6.3x**	**5.4x**	**7.5%**	**7.4%**
Egypt	**EGX 30**	**13.0x**	**5.4x**	**1.0x**	**0.5x**	**7.6%**	**8.8%**	**5.2x**	**4.4x**	**5.6%**	**5.6%**
Qatar	DSM	10.3x	10.1x	1.7x	1.6x	16.5%	16.2%	n/a	8.4x	4.4%	4.4%
Saudi Arabia	TASI	13.3x	10.7x	1.8x	1.6x	13.8%	15.3%	8.6x	6.9x	4.1%	4.1%
Kuw ait	KWSE	n/a	12.6x	1.2x	n/a	n/a	n/a	16.2x	n/a	n/a	n/a
Jordan	AMMAN SE	n/m	n/a	1.0x	n/a	0.9%	n/a	4.7x	n/a	n/a	n/a
Oman	MSM 30	11.6x	9.6x	1.5x	1.4x	13.3%	14.8%	5.1x	n/a	5.0%	5.0%
UAE	ADSMI	12.2x	7.4x	1.0x	0.9x	7.9%	12.9%	5.8x	5.3x	5.0%	5.0%
Morocco	MORALSI	16.2x	13.2x	2.7x	2.6x	16.6%	19.4%	11.5x	n/a	4.2%	4.2%
Bahrain	BHSE	19.7x	8.2x	0.9x	n/a	4.5%	n/a	n/a	n/a	n/a	n/a
UAE	DFM	43.9x	7.8x	0.6x	0.6x	1.4%	7.1%	6.0x	6.1x	3.7%	3.7%
Lebanon	BLOM	3.8x	6.8x	0.9x	0.9x	22.4%	13.8%	n/a	n/a	5.6%	5.6%
Regional (Middle East)		**16.0x**	**9.2x**	**1.3x**	**1.3x**	**10.5%**	**13.6%**	**7.9x**	**6.2x**	**4.7%**	**4.7%**
Emerging Markets		**11.1x**	**9.9x**	**1.6x**	**1.4x**	**14.7%**	**14.3%**	**7.0x**	**6.7x**	**3.3%**	**3.3%**

Based on F12m consensus figures. As at close on January 19, 2012. Source: Bloomberg.

In a regional context too, Egypt is inexpensive, trading at a 41.0% discount to the regional average PER of 9.2x. Other valuation metrics also hint towards Egypt's difficulties in 2011. Consensus profitability is unsurprisingly down, with return on equity (RoE) for the EGX 30 amongst the lowest in the region at 8.8% (placing it amongst the least profitable in our EM sample) while Egypt trades at a mere 0.5x on a Price to Book (PBV) basis – the lowest ratio in the our regional sample group and half of that of 2010.

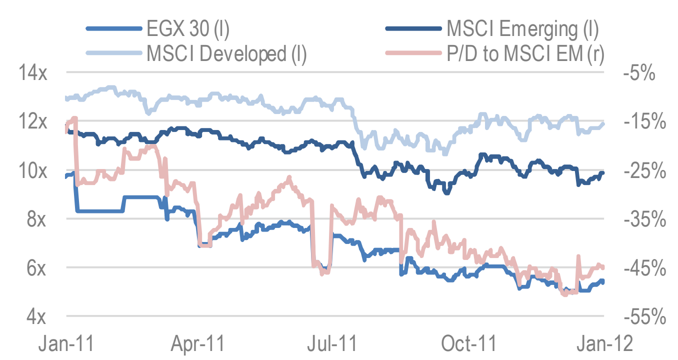
Figure 1.19 | **Consensus Valuations – PBV vs. RoE**



Based on F12m MSCI. Source: Bloomberg.

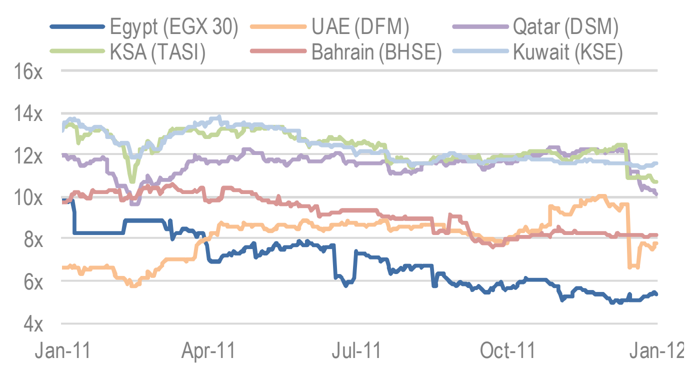
A key element in assessing Egypt's' attractiveness is the assessment as to whether or not the political risk has been fully priced in. The fact that consensus now has the EGX 30 trading at 8.6% premium to its 5-year low implies much of it has been (*see Figure 1.17*). Only China – at a premium of 7.8% comes lower than Egypt. Though the violence and demonstrations of recent months serve as an unwelcome reminder of the political risk, valuation levels at least could be seen to suggest that investors have accounted for much of this – both the threat of violence and the real thing.

Figure 1.20 | **F12m PER - Egypt vs. Benchmarks 2011**



Source: Bloomberg Professional.

Figure 1.21 | **F12m PER - Egypt vs. Regional Peers 2011**



Source: Bloomberg Professional.

Key Macro Themes 2012

1. **Politics to continue to dictate market momentum.**
2. **Negative macro-economic picture to dampen sentiment.**
3. **Tightening monetary policy.**
4. **Depreciating EGP raises FX risk & pressures earnings.**
5. **Falling asset values & high unemployment dampens spending.**
6. **Fiscal measures bear differing impact on earnings.**
7. **Weakening global economies to subdue inflationary pressure, yet unrest will pose upside risk to inflation.**
8. **Increased liquidity could ease market strain and drive commodities prices higher.**

1. Politics to continue to dominate

There is a strong correlation between changes in Egypt's political framework and the fortunes of the EGX. As a result, the political unrest seen in 2011 has dramatically impacted the EGX's performance. Egyptian equities have fallen significantly since the uprising, with the EGX 30 down 42%YTD; and both the EGX 70 and the EGX 100 off 41%. During the uprising itself on January 25, the EGX 30 fell almost 17% in just two trading sessions.

The toppling of the Mubarak regime and continued protests throughout 2011 have thus taken their toll on Egyptian equities, and this trend shows little sign of abating. Demonstrations demanding the ruling military council (SCAF) hand over power to a civil democratic rule by April 2012 resulted in a 10% fall in the EGX 30 as recently as November. This correlation does, however, work both ways – the smooth running of the first round of parliamentary elections saw the EGX 30 rebound from recent lows.

SCAF committed to transfer of power to civilian body

We believe the Supreme Council for Armed Forces (SCAF)'s determination in running parliamentary elections as scheduled (despite renewed protests) – already the first parliamentary session convened on January 23, 2011 - and its fixing of a June 2012 deadline for running the presidential election confirms its commitment to handing over power to a civil democratic rule.

Instability & unrest to continue through elections

We believe that instability and unrest is likely to continue during the course of the presidential elections – despite a pretty much smooth process that the parliamentary elections witnessed throughout its three rounds.

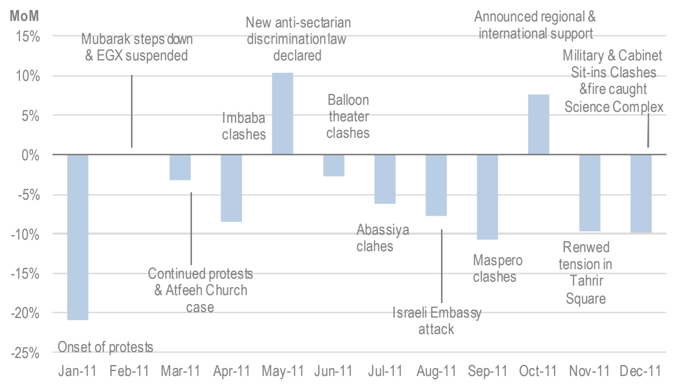
Islamist presence a concern

The strong presence of Islamist parties in the parliament – led by the Freedom & Justice Party (FJP) – raises concerns both locally and internationally. However, the party's goals of ending corruption, building a modern democratic country and their stated objectives for reform and economic development should ease some fears if and when they are implemented.

Change to a multi-party political system

While the unrest of 2011 has set the ball rolling towards democratic change, enforcing the shift from a single-party system to a multi-party one brings with it inherent risks. With uncertainties marking 2012 – at least until the presidential election ends and the new government is formed – investment sentiment is likely to be depressed. The market will remain volatile – particularly during 1H12 – with market movements continuing to reflect the changes in Egypt's political landscape. In short, investors will keep Egypt on their "wait & see" list until sings of the newly-elected political regimes policies towards investment are revealed.

Figure 1.22 | **Political unrest in 2011 & the EGX 30**



Source: CI Capital Database & Bloomberg Professional

2. Negative macro picture to hit sentiment

The ousting of the Mubarak regime, a string of cabinet reshuffles and ongoing strikes and protests (with sporadic sectarian violence) has resulted in a deterioration of Egypt's macroeconomic scene in 2011.

- Business flows have been restrained, with operations coming to a halt across several sectors.
- Foreign capital saw significant outflows.
- Tourism losses have been significant.
- Distribution bottlenecks and stock-piling drove up inflation readings during 1H11, exacerbated by the rising global commodities prices

- Drop in tourism receipts and a depreciating local currency have seen foreign reserves fall by almost 50%.
- Rising 5-year CDS (up by some 152% YoY), coupled with a series of downgrades of Egypt's credit rating by international houses, has seen treasury yields spike to record highs (crossing 14.5%), further burdening the state budget.
- Fiscal deficit to GDP reached 9.5% in FY10/11, up from 8.1% a year earlier; and gross domestic debt to GDP climbed to 76.2% up from 73.6%.

Weak macro indicators allied to political instability thus puts Egypt on a challenging macro-economic platform. In 2012 the country will be facing a number of issues with the potential to dampen investment appetite and depress trading volumes. These include:

- Growing fiscal deficit to GDP.
- Dwindling foreign reserves associated with falling tourism revenues.
- Depressed remittances growth.
- Subdued capital inflows.
- Depreciating local currency.
- Possible further credit downgrades by international ratings houses.

Figure 1.23 | **Egypt's currency reserves & EGX 30 trading volumes**

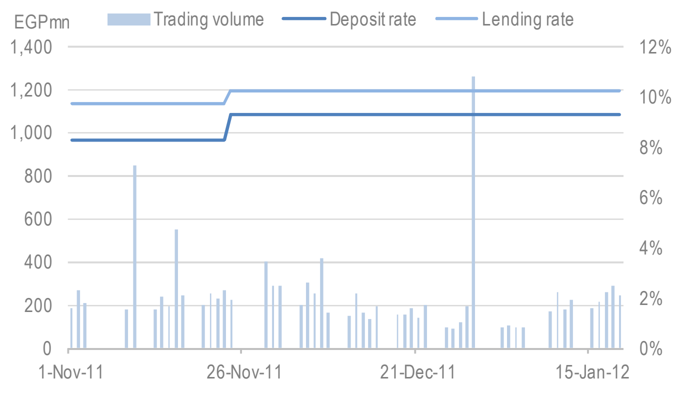
Source: Central Bank of Egypt

3. Tighter monetary policy needed in context

The CBE's decision to raise interest rates – 100bps for deposits and 50bps for lending – for the first time since September 2009 marks a shift towards a tightening monetary policy. While raising rates will do little to support Egypt's weak growth, the CBE has given higher consideration to supporting the depreciating local currency and Egypt's dwindling foreign reserves.

Raising interest rates, in theory, is unfavorable to equities as it increases the risks on stocks – especially those with high leverage ratios. However, in context, the government has prioritized the need to address Egypt's weakening macro-economic indicators.

Figure 1.24 | **Deposit / lending rates & EGX 30 volumes**

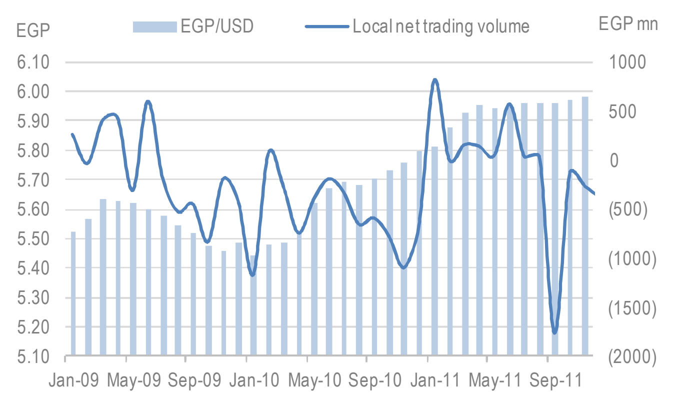


Source: CBE and EGX

4. Weaker EGP raises FX risk & hits earnings

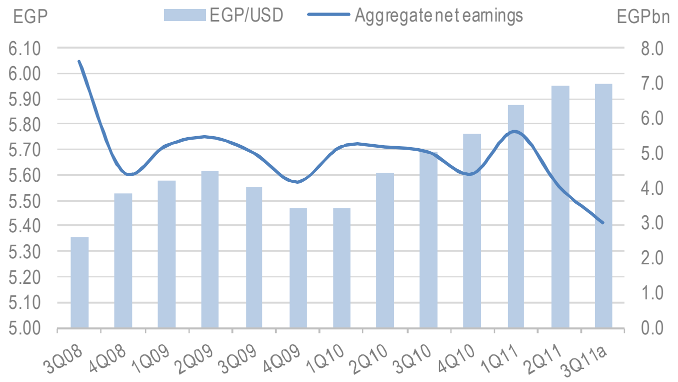
Continued depreciation of the local currency (EGP) – expected to further devalue by c.7% in 2012 – will weigh on company margins. With factors of production representing almost 25% of Egypt's imports bill, a weaker EGP will reflect negatively on corporate earnings. Meanwhile producers' cost-passing ability is likely to be undermined by depressed consumer spending power and, to compound matters, even those companies directing their sales to international markets will be faced with weakening global demand – namely in the US and eurozone, Egypt's key export markets.

Figure 1.25 | **USD-EGP depreciation & local trading volume (EGX30)**



Source: Bloomberg and EGX

Figure 1.26 | **USD-EGP & aggregate earnings growth (CI Capital Research universe)**

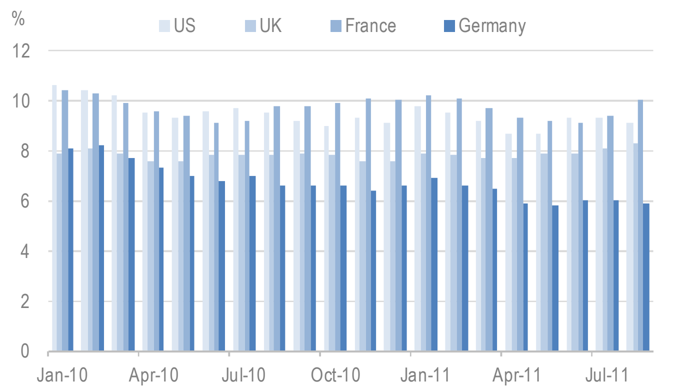


Source: CI Capital Research Database & Bloomberg

5. Spending hit on higher unemployment

Risk-aversion has swept through markets as global macroeconomic conditions weaken. The fall in global equities has lowered asset values, which will further dampen spending levels – further exacerbated by the high level of unemployment in global economies.

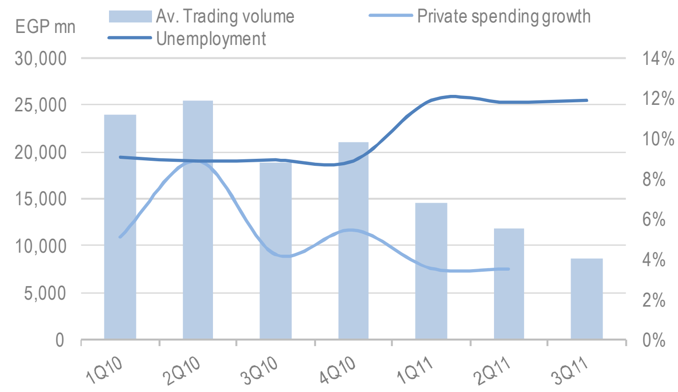
Figure 1.27 | **Global unemployment rates**



Source: US Census Bureau & the European Central Bank

Egypt is no exception to this, as private spending growth slowed to 3.5% over 2H10/11 vs. a growth of 4.8% in 1H10/11. Since the start of the political unrest, unemployment increased to 11.9% over 9M11, up from 9% in 2010. Depressed spending levels led earnings to drop 17.6%YoY in 9M11, while local contribution to trading activity fell to 59% (as of December 30th) vs. 77% in 2010 – ending the year as net sellers. On the back of anticipated instability and continued unrest, we believe business confidence will remain depressed, reflecting negatively on investment and the unemployment rate which will undermine private demand. This will in turn reflect negatively on company earnings.

Figure 1.28 | **Egypt's unemployment & private spending vs. local contribution in EGX trading**



Source: CBE & EGX

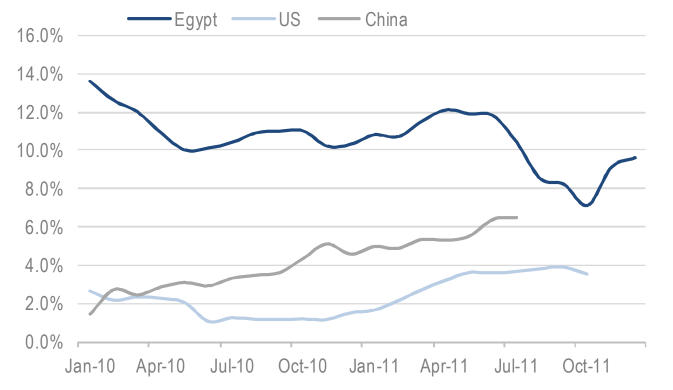
6. Fiscal measures bear differing impact on earnings

Several fiscal measures should reflect positively on spending levels. The GoE's economic recovery program in FY11/12 aims to raise the minimum gross wage level to EGP700/month – which is expected to benefit 1.9mn government employees (around 30% of the total government employees); and to raise the tax exemption ceiling to EGP12k, up from EGP9k/year. This should favour equity performance and improve trading activities – particularly by local investors. It should also support consumer spending, which will reflect positively on company financials. On the other hand, the progressive tax scheme with a new tax tier of 25% for earnings above EGP10mn should depress earnings in 2012.

7. Weakening global economies to subdue inflationary pressure, yet unrest will pose upside risk to inflation

Unresolved structural weaknesses in the eurozone and a stalled transfer from public to private demand in the US are expected to further weaken the global economic platform. With prospects of declining global GDP growth in 2012, international commodities prices are expected to see depressed levels. Receding prices since 2H11 were reflected in inflation readings, as over the past 6 months annual headline inflation dropped to an average of 8.8% vs. 11.5% in 1H11. This should cushion spending levels, which should in turn support equities. However, continued instability and unrest is expected to further depreciate the local currency and create supply bottlenecks, posing upside risks to inflation. This should depress spending levels and further dampen equities.

Figure 1.29 | **Monthly inflation – Egypt, US & China**

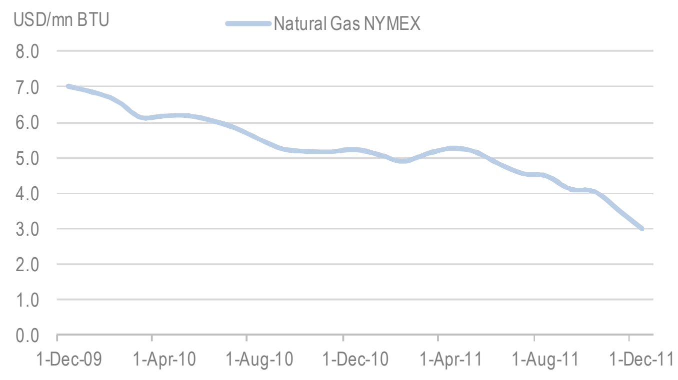


Source: US Census Bureau & Bloomberg

8. Increased liquidity could ease market strain, or drive commodities higher

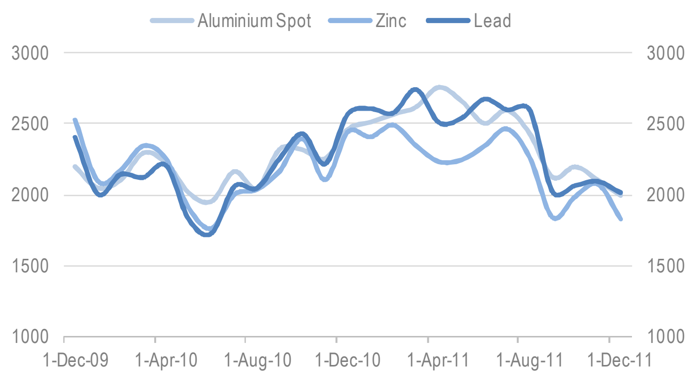
Concerns over a looming economic slowdown triggered the People's Bank of China to lower its reserves requirement ratio for the first time in 3 years; especially with inflationary pressures easing. Moreover, the US embarked upon another round of liquidity injection, by which it will purchase, through the end of June 2012, USD400bn of treasuries with remaining maturities of 6-30 years and sell an equal amount with remaining maturities of 3 years or less. Most recently, central banks of advanced economies, including the Bank of England, the Bank of Canada, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank have announced coordinated actions to improve liquidity. This includes lowering the pricing on the existing temporary US dollar liquidity swap arrangements by 50 basis points from December 5, 2011, and extending these swap arrangements to February 1, 2013. In addition, the central banks have agreed to establish temporary bilateral liquidity swap arrangements so that liquidity can be provided in any of their currencies. Improved liquidity should ease strains on financial markets; already, global stock markets saw some recovery in October with renewed speculation about a third round of quantitative easing from the Fed. The EGX 30 gained +7% in October with solid trading volumes by foreign investors, who ended the month as net buyers. However, on the back of rising liquidity risks, higher commodities prices may surface, posing downside risks to an already weak economic growth.

Figure 1.30 | **Natural Gas Prices**



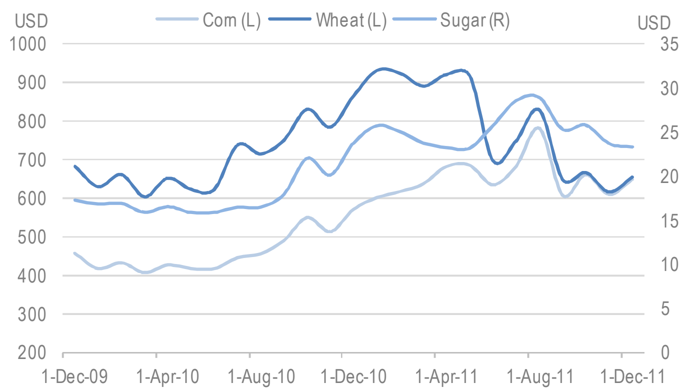
Source: Bloomberg Professional

Figure 1.31 | **Aluminium, Zinc & Lead Prices (USD)**



Source: Bloomberg Professional

Figure 1.32 | **Corn, Wheat & Sugar Prices (USD)**



Source: Bloomberg Professional

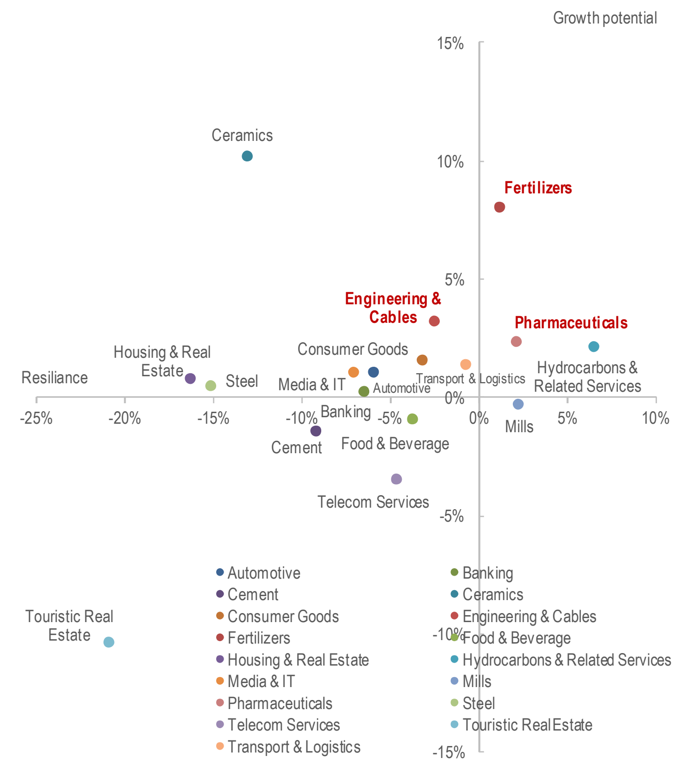
Sectors in favour

Despite domestic and regional turmoil and continued uncertainty in the global scene (and their negative implications on Egypt's macro platform), investment opportunities can still be spotted. Within our coverage universe we have ranked the sectors according to factors that we believe are key in the context of the current instability, unrest and deteriorating economic outlook. We assessed each sector according to:

- **Resilience** based on sector's ability to deliver throughout past instability.
- **Growth potential**
- **Short-term financial standing and cash position**

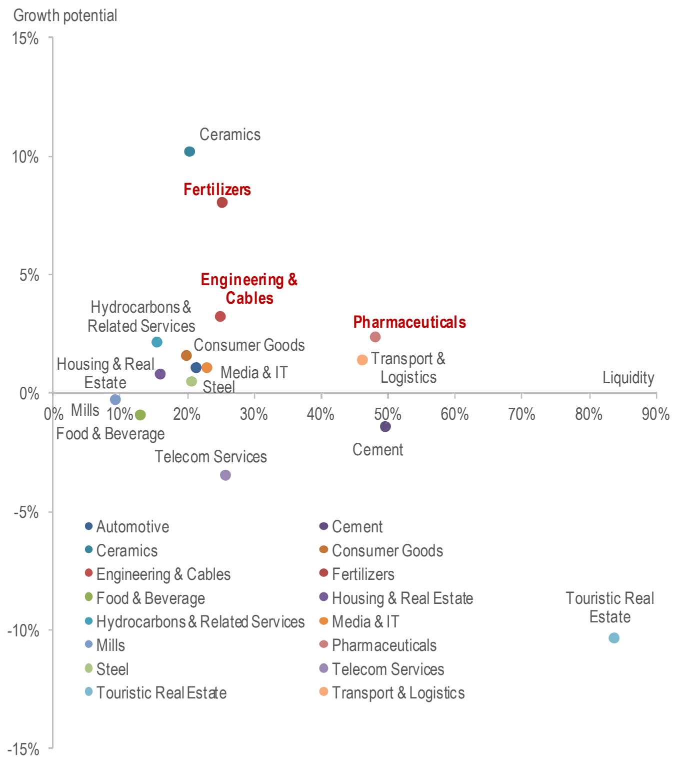
In view of such an assessment, we believe the defensive Pharmaceutical sector is key player while rising demand for food and a shortage in supply will drive-up the market for fertilizers. We also believe the increased construction and infrastructure activity in the MENA region – namely in oil-exporting countries – will bode well for the contracting and infrastructure sector, particularly given that a considerable contribution of these companies' backlog is in the MENA region.

Figure 1.33 | **Growth potential vs. resilience**



Source: CI Capital Research Database:

Figure 1.34 | **Growth potential vs. liquidity**

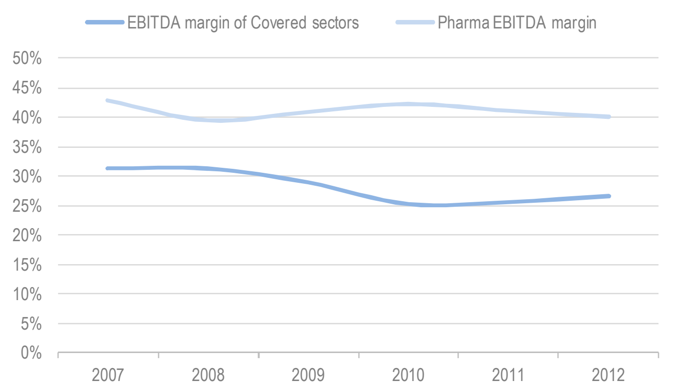


Source: CI Capital Research Database:

Playing Safe | Pharmaceuticals

The Pharmaceutical sector saw a resilient performance amidst the unrest, given its inelastic demand nature. Sales are keeping their growth momentum – despite the lower selling prices – which is reflected on the sector's resilient performance in EGX – as the sector was ranked as the second most resilient sector in 2011, following hydrocarbons and mills. Population growth and an expanding comprehensive medical insurance program should bode well for the sector.

Figure 1.35 | **Pharmaceuticals vs. Universe EBITDA Margins**



Source: CI Capital Research Database:

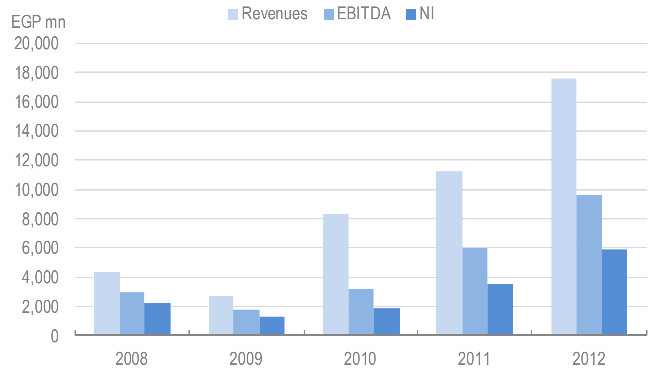
Despite pressured earnings given a depreciated local currency, and the newly imposed higher effective tax rate of 25%, the sector will maintain its positive growth in 2012. Adding to this is the sector's strong cash position, its low risk, and higher EBITDA margin vs. the average margins of CI Capital Research universe.

High Growth Potential | Fertilizers

Tightened global food supply coupled with rising demand should drive up the fertilizers market – especially since Egypt directs around 50% of its production to international markets. In 2011/12, the world food supply is expected to be negatively affected by the drought in northern Europe and the excess rainfall in the northern part of the United States. Cereals' aggregate stock-to-use ratio is expected to be the lowest since2007/08, at the time of the food crisis.

Moreover, on the local front the decline in arable land due to illegal agricultural land violations will further push the demand for fertilizers – especially the N-fertilizers, which is associated with yield enhancement. However, the risk of higher energy prices still holds, as the GoE intends to reduce its level of subsidies. That said, the current instability on the political front – with several cabinet reshufflings taking place – and a lack of any clear announcement about the timeframe and the magnitude of subsidies removal render it difficult to assess the impact for the time being. Further, we believe that the rise in feedstock prices may not be applicable for local players with existing cost-hedging. High growth potential coupled with strong liquidity levels should support the fertilizers sector amidst uncertainties in 2012.

Figure 1.36 | **EFIC & OCIC - Revenues, EBITDA & Net income**

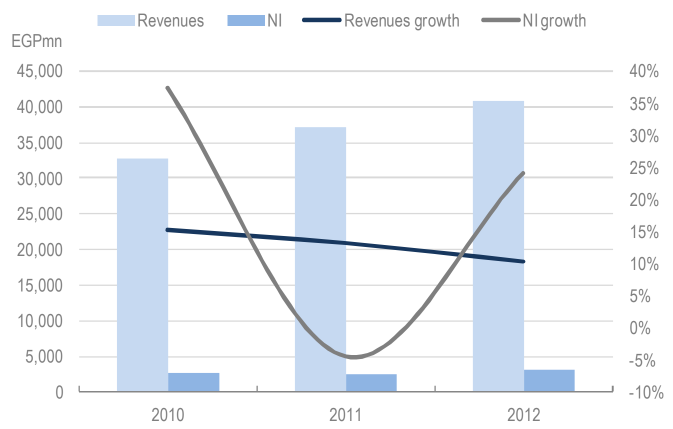


Source: CI Capital Research Database:

Diversification & High liquidity | Construction & Engineering

We believe that the negative impact of instability on the Construction and infrastructure sector in Egypt will be mitigated by the sector's operation in the international market. Expectations for increasing construction activities in the GCC countries should support the sector's performance. OCIC and SWDY – covered companies in this sector – conduct +70% of their operations outside Egypt. Within the MENA region (excluding Egypt) OCIC's contracting arm is focusing on KSA, Qatar, UAE and Algeria with a combined contribution of 46% of the company's backlog. As for SWDY, the GCC represents some 35% of the company's backlog, namely in the UAE, Qatar, and KSA. High spending levels on construction and infrastructure activities in these oil-exporting countries should reflect positively on these companies – as they are expected to maintain solid top-line and net income growth in 2012. Adding to this is the sector's high liquidity ratio, which lends it strength amidst such instability.

Figure 1.37 | **OCIC & SWDY – Revenues & Net income**



Source: CI Capital Research Database:

CI Capital Universe | Analysis

A quick look into our crystal ball...

Our 38-stock Egyptian coverage universe reflects the uncertainty afflicting corporate Egypt in 2011 with aggregated reported earnings contracting 11.8% YoY – down 7.9% once normalized. This bottom line performance comes on the back of minimal revenue growth of 2.1% in 2011. Top-line is expected to increase by 11.2% year-on-year in 2012 - still some way off the average growth in 2007 and 2008 of 26.5%. However, this increased growth in top-line should filter through into a much improved bottom line for 2012. Reported earnings are projected to rise 5.8% while, on a normalized basis, we expect an improvement of 33.3% (*see below*).

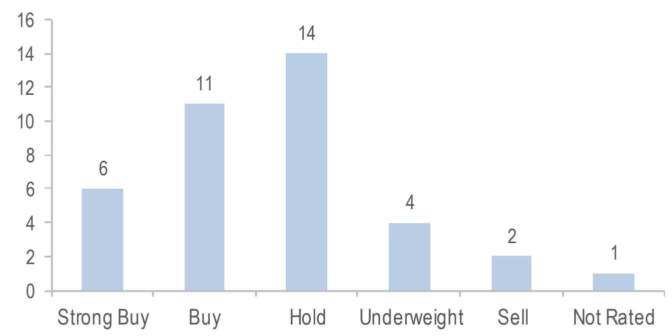
The overall reduction in profitability in 2011 makes stock picking all the more important, particularly given our belief that several stocks still offer value. With an average upside of +30% and a median of +25.1%, 17 of our universe companies are rated either Buy or Strong Buy (with an average upside of 36.5% between them) while, on a valuation front, an aggregated F12m PER of 7.8x is a 21% discount to Egypt's MSCI Emerging Market benchmark.

Figure 1.38 | **Coverage Universe Summary**

	2010*	2011*	2012
Number of Stocks	40	43	38
Strong Buy	11	10	6
Buy	12	11	11
Hold	10	12	14
Underw eight	0	0	4
Sell	6	9	2
Not Rated	1	1	1
Average +/- (%)	31.9%	13.8%	29.9%
Median +/- (%)	24.3%	17.2%	25.1%
Buys/Strong Buys	23	21	17
Average Upside of Buys	54.5%	10.8%	36.5%

*At January 1, 2012. Source: CI Capital Research

Figure 1.39 | **Distribution of Recommendations**



Source: CI Capital Research

Revenue

2011 | Growth remains despite strong headwinds

Year-on-year aggregated revenue growth is projected at 2.1% for 2011. This appears more robust in the context of the strong headwinds – political and economic – witnessed both in Egypt and globally in 2011. Figure 1.40 outlines the top-line performance of the most influential stocks in our universe – or those that have the largest bearing on our aggregated revenue growth. Much like the EGX 30 – our 38-stock universe is dominated by a minority of large-cap liquid companies, to the extent that the ten largest stocks comprise 80.2% of the total universe market capitalization. Of these ten *key stocks*, **Orascom Construction Industries [OCIC, Strong Buy]**, **Orascom Telecom [ORTE, Strong Buy]** and **Telecom Egypt (ETEL, Buy)** are the largest by some distance and have the heaviest influence on aggregated results. In terms of 2011 top-line performance however, **Commercial International Bank [COMI, Not Rated]** and **El Sewedy Electric [SWDY, Buy]** were two of the more robust constituents, up a respective 18.8% and 15.8%.

2012 | Top-line to pick-up with doubt-digit growth, led by OCIC

We forecast top line 2012 growth of 11.2% for our aggregated universe, followed by a similar return in 2013. Revenue growth in 2012 is to be driven primarily by OCIC's projected 21.6% increase in top line and, to a lesser extent, double-digit growth for **TMG Holding [TMGH, Strong Buy]**, **GB Auto [AUTO, Hold]** and **Ezz Steel [ESRS, Hold]**. Put another way, OCIC is set to contribute c.36% of our universe's 11.2% aggregated growth in 2012 (or 4.3% of the 11.2%) while TMGH, AUTO and ESRS are expected to weigh in with c.32% between them. This means in effect that c.68% of our universe's top line growth in 2012 will be driven by four stocks (see table below).

Figure 1.40 | **Revenue Breakdown – 2008-2014e**

Revenue Analysis			2008a	2009a	2010a	2011e	2012e	2013e	2014e
Total Aggregated Revenue (EGPmn)			160,701	144,890	161,063	164,422	182,761	203,102	220,240
Total Aggregated Revenue Growth			*23.2%*	*-9.8%*	*11.2%*	***2.1%***	***11.2%***	*11.1%*	*8.4%*
YoY Performance Breakdown									
Key Stocks	Sector	Weight†							
Orascom Construction Industries	Fertilizers	25.5%	55.4%	2.7%	28.2%	**10.2%**	**21.6%**	5.9%	4.1%
Telecom Egypt	Telecom Services	13.8%	1.2%	-1.5%	3.6%	**-2.4%**	**0.9%**	0.7%	0.2%
Orascom Telecom	Telecom Services	12.1%	6.1%	-4.9%	-24.5%	**4.1%**	**1.2%**	2.8%	2.7%
Commercial International Bank	Banking	6.6%	49.9%	12.9%	11.2%	**18.8%**	**12.4%**	15.2%	15.0%
National Societe General Bank	Banking	5.5%	20.1%	16.0%	14.8%	**11.3%**	**9.5%**	14.5%	15.4%
Mobinil	Telecom Services	4.5%	22.0%	8.0%	-2.1%	**-3.8%**	**-0.4%**	2.3%	2.4%
TMG Holding	Housing & Real Estate	3.7%	190.8%	-11.6%	10.7%	**-6.0%**	**34.7%**	24.1%	10.6%
Ezz Aldekheila Steel – Alexandria	Steel	3.2%	31.9%	-29.9%	33.2%	**-7.7%**	**11.4%**	18.5%	17.3%
El Sewedy Electric	Engineering & Cables	2.8%	22.4%	-18.8%	38.9%	**15.8%**	**4.7%**	21.1%	12.2%
Eastern Company	Food & Beverage	2.6%	4.9%	3.9%	7.7%	**2.4%**	**4.6%**	3.2%	3.1%
Selected Others									
GB Auto	Automotive	1.5%	12.1%	-18.0%	61.4%	**12.7%**	**31.0%**	25.8%	21.6%
Ezz Steel	Steel	1.4%	35.2%	-42.4%	32.0%	**-17.0%**	**14.4%**	14.3%	22.7%
Oriental Weavers Carpets	Consumer Goods	1.5%	12.2%	3.1%	14.3%	**9.8%**	**5.5%**	8.3%	7.2%
Above stocks as a proportion of Total Aggregated Revenue*			**87.6%**	**86.1%**	**86.1%**	**86.4%**	**86.6%**	**86.1%**	**86.9%**
Contribution to Aggregated Revenue Growth‡			**2008a**	**2009a**	**2010a**	**2011e**	**2012e**	**2013e**	**2014e**
Key Stocks		Aggregated Growth	(23.2%)	(-9.8%)	(11.2%)	(2.1%)	(11.2%)	(11.1%)	(8.4%)
Orascom Construction Industries	Fertilizers		6.1%	0.4%	4.5%	**1.9%**	**4.3%**	1.3%	0.8%
Telecom Egypt	Telecom Services		0.1%	-0.1%	0.2%	**-0.2%**	**0.1%**	0.0%	0.0%
Orascom Telecom	Telecom Services		1.4%	-1.0%	-5.2%	**0.6%**	**0.2%**	0.4%	0.3%
Commercial International Bank	Banking		0.5%	0.1%	0.2%	**0.3%**	**0.2%**	0.3%	0.3%
National Societe General Bank	Banking		0.2%	0.1%	0.2%	**0.1%**	**0.1%**	0.2%	0.2%
Mobinil	Telecom Services		1.4%	0.5%	-0.2%	**-0.2%**	**0.0%**	0.1%	0.1%
TMG Holding	Housing & Real Estate		2.7%	-0.4%	0.4%	**-0.2%**	**1.1%**	0.9%	0.4%
Ezz Aldekheila Steel – Alexandria	Steel		2.2%	-2.2%	1.9%	**-0.5%**	**0.7%**	1.1%	1.1%
El Sewedy Electric	Engineering & Cables		1.6%	-1.3%	2.5%	**1.3%**	**0.4%**	1.8%	1.1%
Eastern Company	Food & Beverage		0.1%	0.1%	0.2%	**0.1%**	**0.1%**	0.1%	0.1%
Selected Others									
GB Auto	Automotive		0.4%	-0.6%	1.8%	**0.5%**	**1.5%**	1.4%	1.4%
Ezz Steel	Steel		4.4%	-5.8%	2.8%	**-1.8%**	**1.2%**	1.2%	2.0%
Oriental Weavers Carpets	Consumer Goods		0.3%	0.1%	0.4%	**0.2%**	**0.1%**	0.2%	0.2%

Aggregate Revenue based on a coverage universe of 38 stocks. For Banking stocks, Net Interest Income (NII) used instead of Revenue. Source: CI Capital Research

†'Key Stocks' are the 10 largest non-banking stocks in CI Capital Universe by Market Capitalisation. These stocks constitute 80.2% of total CI Capital universe.

*'Key Stocks' & 'Selected Others'. ‡ Positive/negative figure details actual stock contribution (in percentage points) to aggregated growth figure.

EBITDA

2011 | EBITDA growth mirrors top line as margins inch up

Aggregated EBITDA in 2011 is projected to rise 3.0% year-on-year, reversing the 3.0% contraction in 2010. While margins will inch higher to 25.6% (vs. 25.3% in 2010), they remain noticeably down on 2008 and 2008 levels. In terms of stock-drivers, the EBITDA of seven of the thirteen stocks listed in the table below are actually likely to decline in 2011. It is the strong performance (and heavy weighting) of OCIC and ORTE (with help from **Eastern Company [EAST, Hold]**) that helps keep the aggregated figure flat. **Mobinil [EMOB, Underweight]**, **Telecom Egypt [ETEL, Buy]** and **Oriental Weavers [ORWE, Hold]** posted particularly weak EBITDA results in 2011.

2012 | Revenue growth filters through to boost EBITDA

2012 should see a pick-up in aggregated EBITDA growth, with a 15.5% YoY rise to EGP46.8bn (driven once again by OCIC, TMGH & GB Auto) followed by a further 10.1% YoY increase in 2013. Despite this expected increase in aggregated EBITDA, margins are likely to remain relatively stable, within a range of 26.6-26.4%. OCIC is set to account for over 50% of aggregated EBITDA growth in 2012, supported in part by ORTE and TMGH.

Figure 1.41 | **EBITDA Breakdown – 2008-2014e**

Contribution to Aggregated EBITDA Growth‡			**2008a**	**2009a**	**2010a**	**2011e**	**2012e**	**2013e**	**2014e**
Total Aggregated EBITDA (EGPmn)			**48,978**	**40,549**	**39,344**	**40,526**	**46,811**	**51,555**	**56,575**
EBITDA Margin			*31.3%*	*28.9%*	*25.3%*	***25.6%***	***26.6%***	*26.4%*	*26.8%*
Total Aggregated EBITDA Growth			*22.9%*	*-17.2%*	*-3.0%*	***3.0%***	***15.5%***	*10.1%*	*9.7%*
YoY Performance Breakdown									
Key Stocks	Sector	Weight†							
Orascom Construction Industries	Fertilizers	25.5%	153.4%	-18.4%	35.9%	**50.2%**	**39.1%**	-1.0%	-0.5%
Telecom Egypt	Telecom Services	13.8%	-1.9%	-5.8%	3.3%	**-33.7%**	**7.1%**	-2.7%	-6.2%
Orascom Telecom	Telecom Services	12.1%	14.6%	-19.1%	-33.3%	**36.6%**	**-0.4%**	4.3%	5.6%
Mobinil	Telecom Services	4.5%	25.2%	6.4%	-28.2%	**-51.3%**	**33.2%**	2.7%	9.1%
TMG Holding	Housing & Real Estate	3.7%	187.5%	-31.4%	-4.5%	**-11.6%**	**65.5%**	32.6%	45.2%
Ezz Aldekheila Steel – Alexandria	Steel	3.2%	32.9%	-67.8%	9.9%	**-15.5%**	**24.3%**	54.1%	26.2%
El Sewedy Electric	Engineering & Cables	2.8%	4.7%	-15.7%	34.4%	**-11.7%**	**22.8%**	29.8%	26.7%
Eastern Company	Food & Beverage	2.6%	-0.5%	10.9%	-23.6%	**12.6%**	**1.0%**	3.1%	4.5%
Maridive	Oil & Gas	1.6%	-0.5%	-15.7%	-7.0%	**23.5%**	**11.1%**	37.3%	16.8%
Oriental Weavers Carpets	Consumer Goods	1.5%	-3.1%	-7.4%	19.7%	**-31.9%**	**22.9%**	26.6%	19.3%
Selected Others									
GB Auto	Automotive	1.5%	31.9%	-41.1%	49.3%	**3.5%**	**72.2%**	18.0%	30.0%
Ezz Steel	Steel	1.4%	15.3%	-72.3%	46.3%	**-17.6%**	**35.3%**	55.2%	66.2%
Maridive	Oil & Gas	1.6%	-0.5%	-15.7%	-7.0%	**23.5%**	**11.1%**	37.3%	16.8%
Above stocks as a proportion of Total Aggregated EBITDA*			**91.6%**	**91.1%**	**89.6%**	**92.6%**	**92.8%**	**91.9%**	**92.5%**
Contribution to Aggregated EBITDA Growth‡			**2008a**	**2009a**	**2010a**	**2011e**	**2012e**	**2013e**	**2014e**
Key Stocks		Aggregated Growth	(22.9%)	(-17.2%)	(-3%)	(3%)	(15.5%)	(10.1%)	(9.7%)
Orascom Construction Industries	Fertilizers		6.4%	-1.1%	4.4%	**5.5%**	**8.3%**	0.0%	0.0%
Telecom Egypt	Telecom Services		-0.6%	-0.3%	-0.4%	**-1.6%**	**0.0%**	-0.2%	-0.1%
Orascom Telecom	Telecom Services		5.0%	-2.6%	-8.8%	**4.5%**	**-0.1%**	0.6%	0.6%
Mobinil	Telecom Services		2.5%	0.9%	-2.0%	**-2.0%**	**0.6%**	0.2%	0.2%
TMG Holding	Housing & Real Estate		2.6%	-0.9%	-0.1%	**-0.3%**	**1.6%**	1.1%	1.9%
Ezz Aldekheila Steel – Alexandria	Steel		2.4%	-5.5%	0.8%	**-0.6%**	**0.7%**	1.7%	1.2%
El Sewedy Electric	Engineering & Cables		0.7%	-0.4%	0.8%	**-0.2%**	**0.6%**	0.8%	0.8%
Eastern Company	Food & Beverage		0.0%	0.2%	-0.7%	**0.4%**	**0.1%**	0.2%	0.2%
Maridive	Oil & Gas		0.0%	-0.1%	-0.1%	**0.4%**	**0.2%**	0.5%	0.3%
Oriental Weavers Carpets	Consumer Goods		0.1%	-0.1%	0.2%	**-0.3%**	**0.3%**	0.2%	0.2%
Selected Others									
GB Auto	Automotive		0.4%	-0.5%	0.5%	**0.1%**	**1.0%**	0.4%	0.7%
Ezz Steel	Steel		1.3%	-5.7%	1.2%	**-0.6%**	**1.2%**	2.1%	3.5%
Maridive	Oil & Gas		0.0%	-0.1%	-0.1%	**0.4%**	**0.2%**	0.5%	0.3%

Aggregate EBITDA based on coverage universe less Banking stocks (34 stocks in total). Source: CI Capital Research

†'Key Stocks' are the 10 largest non-banking stocks in CI Capital Universe by Market Capitalisation. These stocks constitute 71.1% of total CI Capital universe.

*'Key Stocks' & 'Selected Others'. ‡ Positive/negative figure details actual stock contribution (in percentage points) to aggregated growth figure.

Net Income

2011 | Reported & Normalised earnings suffer as political unrest takes its toll

Reported net income contracted 11.8% YoY in 2011 compared to an 18.4% YoY increase in 2010 – a noticeable swing into negative territory and a clear indication of the difficulties faced by Egyptian corporates since the January 25 Revolution. Normalised net income was marginally more robust, down 7.9%. Weaker consumer confidence, reduced demand, an exodus or freezing of foreign business activities, increased disruption and security risks to transport routes, the 25% higher tax rate and the 7-week suspension to the stock market have all played their part to hit earnings in 2011. On a normalized basis, ETEL (-13.3%), COMI (-20.7%), and EMOB (EGP1.3bn in 2010 to EGP-0.5bn in 2011) are amongst the largest stocks to suffer negative earnings growth, while only 14 of our 38 coverage stocks saw any growth at all. Remove OCIC (+21.6% yoy and 25.5% of our universe on a market capitalisation basis) from the equation and normalised earnings are down 14.7% YoY. Margins have been pressured too in 2011 – both on a reported and normalised basis – down to 13.2% and 10.6% respectively.

Figure 1.42 | **Net Income Breakdown – 2008-2014e (Reported & Normalised)**

Reported Net Income Analysis			2008a	2009a	2010a	2011e	2012e	2013e	2014e
Total Aggregated Reported Net Income (EGPmn)			**28,425**	**20,782**	**24,607**	**21,709**	**22,976**	**27,038**	**32,435**
Net Income Margin			*17.7%*	*14.3%*	*15.3%*	***13.2%***	***12.6%***	*13.3%*	*14.7%*
Total Aggregated Net Income Growth			*-71.4%*	*-26.9%*	*18.4%*	***-11.8%***	***5.8%***	*17.7%*	*20.0%*
Normalised Net Income Analysis			**2008a**	**2009a**	**2010a**	**2011e**	**2012e**	**2013e**	**2014e**
Total Aggregated Normalised Net Income (EGPmn)			**26,411**	**20,675**	**18,969**	**17,478**	**23,297**	**27,359**	**32,723**
Normalised Net Income Margin			*16.4%*	*14.3%*	*11.8%*	***10.6%***	***12.7%***	*13.5%*	*14.9%*
Total Aggregated Normalised Net Income Growth			*6.6%*	*-21.7%*	*-8.2%*	***-7.9%***	***33.3%***	*17.4%*	*19.6%*
YoY Performance Breakdown									
Key Stocks	Sector	Weight†							
Orascom Construction Industries	Fertilizers	25.5%	228.5%	-39.7%	36.8%	**21.6%**	**44.7%**	0.8%	-2.1%
Telecom Egypt	Telecom Services	13.8%	16.7%	-1.8%	12.3%	**-13.3%**	**5.7%**	1.6%	1.0%
Orascom Telecom	Telecom Services	12.1%	-68.6%	-13.0%	-174.3%	**142.0%**	**n/m**	19.1%	57.5%
Commercial International Bank	Banking	6.6%	36.6%	12.2%	15.0%	**-20.7%**	**7.6%**	29.7%	20.5%
National Societe General Bank	Banking	5.5%	20.8%	63.8%	3.5%	**5.5%**	**-4.1%**	23.2%	17.1%
Mobinil	Telecom Services	4.5%	14.1%	1.6%	-30.3%	**-103.9%**	**n/m**	19.9%	19.8%
TMG Holding	Housing & Real Estate	3.7%	7.6%	-23.3%	-16.1%	**-21.3%**	**66.5%**	32.5%	42.8%
Ezz Aldekheila Steel – Alexandria	Steel	3.2%	30.0%	-76.4%	2.4%	**-28.0%**	**33.0%**	82.1%	37.7%
El Sewedy Electric	Engineering & Cables	2.8%	14.4%	-23.5%	25.6%	**-16.9%**	**4.0%**	10.3%	47.6%
Eastern Company	Food & Beverage	2.6%	8.7%	14.9%	-23.8%	**0.6%**	**0.9%**	1.6%	8.7%
Selected Others									
GB Auto	Automotive	1.5%	-4.1%	-51.6%	28.0%	**-10.6%**	**116.6%**	18.7%	41.7%
Ezz Steel	Steel	1.4%	10.9%	-93.1%	192.9%	**-74.7%**	**n/m**	85.3%	218.0%
Oriental Weavers Carpets	Consumer Goods	1.5%	3.3%	0.4%	3.1%	**-25.1%**	**24.0%**	25.5%	19.0%
Above stocks as a proportion of Total Normalised Net Income*			**82.7%**	**79.5%**	**76.4%**	**80.4%**	**83.7%**	**81.6%**	**83.9%**

Aggregate Normalised Net Income based on a coverage universe of 38 stocks. Source: CI Capital Research

†'Key Stocks' are the 10 largest non-banking stocks in CI Capital Universe by Market Capitalisation. These stocks constitute 80.2% of total CI Capital universe.

*'Key Stocks' & 'Selected Others'. ‡ Positive/negative figure details actual stock contribution (in percentage points) to aggregated growth figure.

2012 | Normalised earnings to lead the way in earnings pick-up

We project a pick-up in 2012 earnings of 5.8% on a reported and 33.3% on a normalised basis. The latter figure derives from the low base from which it starts – normalised aggregated earnings in 2011 are expected at EGP17.5bn, from we expect them to rise to EGP23.3bn in 2012. The primary drivers of this will be the Orascom stocks – OCIC and ORTE – which are forecast to contribute a total 19.9% of the 33.3% between them (see table below). EMOB and TMGH are the next most influential stocks, contributing an expected 2.9% and 2.8% respectively.

Figure 1.43 | **Contribution to Total Normalised Net Income Growth – 2008-2014e**

Contribution to Total Normalised Net Income Growth‡ Key Stocks	Aggregated Growth	2008a (6.6%)	2009a (-21.7%)	2010a (-8.2%)	2011e (-7.9%)	2012e (33.3%)	2013e (17.4%)	2014e (19.6%)
Orascom Construction Industries	Fertilizers	12.2%	-6.5%	4.7%	**4.1%**	**11.2%**	0.2%	-0.5%
Telecom Egypt	Telecom Services	1.9%	-0.2%	1.9%	**-2.5%**	**1.0%**	0.2%	0.1%
Orascom Telecom	Telecom Services	-17.8%	-1.0%	-14.8%	**9.8%**	**8.7%**	1.7%	5.2%
Commercial International Bank	Banking	1.7%	0.7%	1.3%	**-2.2%**	**0.7%**	2.2%	1.7%
National Societe General Bank	Banking	0.5%	1.9%	0.2%	**0.4%**	**-0.3%**	1.4%	1.0%
Mobinil	Telecom Services	1.0%	0.1%	-2.9%	**-7.5%**	**2.9%**	0.4%	0.4%
TMG Holding	Housing & Real Estate	0.4%	-1.3%	-0.9%	**-1.0%**	**2.8%**	1.7%	2.5%
Ezz Aldekheila Steel – Alexandria	Steel	2.8%	-8.6%	0.1%	**-1.1%**	**1.0%**	2.4%	1.7%
El Sewedy Electric	Engineering & Cables	0.4%	-0.7%	0.8%	**-0.7%**	**0.2%**	0.3%	1.3%
Eastern Company	Food & Beverage	0.2%	0.4%	-0.9%	**0.0%**	**0.0%**	0.0%	0.2%
Selected Others								
GB Auto	Automotive	-0.1%	-0.8%	0.3%	**-0.1%**	**1.5%**	0.4%	0.9%
Ezz Steel	Steel	0.5%	-4.4%	0.8%	**-1.0%**	**1.1%**	0.9%	3.8%
Oriental Weavers Carpets	Consumer Goods	0.0%	0.0%	0.0%	**-0.4%**	**0.3%**	0.3%	0.3%

Aggregate Normalised Net Income based on a coverage universe of 38 stocks. Source: CI Capital Research

†'Key Stocks' are the 10 largest non-banking stocks in CI Capital Universe by Market Capitalisation. These stocks constitute 80.2% of total CI Capital universe.

*'Key Stocks' & 'Selected Others'. ‡ Positive/negative figure details actual stock contribution (in percentage points) to aggregated growth figure.

Summary

Our universe trades on a 2012 PER of 7.8x, a 44% premium to Bloomberg's EGX 30 consensus but below the MSCI Emerging Market index's 9.9x. In a regional context, our universe suggests Egypt is still cheap and that it will remain so too into 2013 and 2014. On a separate footing, we see little change in profitability in 2012 compared to 2011 – with aggregated return on equity‡ unchanged at 13.3%. EV/EBITDA is set to fall to 5.4x in 2012 from 6.3x in 2011 while – on current projections – our universe is set to de-leverage noticeably through to 2014.

Figure 1.44 | **Universe Metrics Summary – 2008-14e**

Key Performance Indicators EGPmn	2008a	2009a	2010a	2011e	2012e	2013e	2014e
Price Earnings (PE)	6.3x	8.6x	7.3x	**8.2x**	**7.8x**	6.6x	5.5x
Price to Book (PBV)	1.5x	1.4x	1.2x	**1.1x**	**1.0x**	1.0x	0.9x
Return on Equity (RoE)	23.2%	16.1%	16.4%	**13.3%**	**13.3%**	14.7%	16.4%
EV/EBITDA	5.2x	6.2x	6.5x	**6.3x**	**5.4x**	4.7x	4.0x
Net Debt/Equity	0.6x	0.5x	0.5x	**0.4x**	**0.4x**	0.3x	0.2x
Market Cap	178,657	178,657	178,657	**178,657**	**178,657**	178,657	178,657
Enterprise Value	253,870	251,744	254,428	**254,938**	**251,371**	242,686	228,489

*Aggregate Revenue based on a coverage universe of 38 stocks. For Banking stocks, Net Interest Income (NII) used instead of Revenue. Source: CI Capital Research

†Aggregate EBITDA & margin calculation based on coverage universe less Banking stocks (34 stocks in total).

‡Metrics based on reported net inccome rather than normalised.

David vs. Goliath | Is bigger really better?

Another theme we have considered in searching for value is the performance of Egyptian equities relative to their size and liquidity. With only seven stocks trading **Global Depository Receipts (GDR's)**, liquidity – or the lack of it – is a key factor to consider. To explore this further, we have screened our 38-stock universe comparing large caps against their smaller counterparts. Large caps have been taken as those companies with a market capitalization of EGP1.5bn (USD248mn) or more.

The results enable us to make the following deductions:

- **Small Caps offer higher risk with higher returns**
  Smaller caps were hit hard in 2011, net income falling a collective 43.1% yoy. Despite this, earnings are expected to rebound in 2012, moving 51.9% higher compared to Large Caps 4.1% growth. Small Caps boast a 3-year CAGR net income (2010-13) of 12.4% - significantly ahead of Large Caps 2.6%, implying robustness amidst strong macro headwinds.

- **Small Caps more volatile**
  Smaller caps have a significantly wider range than large caps, reflecting their increased volatility (and thus risk).The net income growth range for smaller caps (107.6%) is over three times that of large caps (30.6%).

- **Large Caps more profitable**
  Large caps appear to benefit from economies of scale, boasting noticeably better margins than Small Caps, both for EBITDA and net income. This greater efficiency is likely to stem from the enhanced resources – from management to IT – available to larger companies in Egypt and also hints at the obstacles facing smaller businesses.

- **Valuation levels similar but Large Caps have the dividend**
  While Large Caps were cheaper than Small Caps in 2011, both now trade near the universe average of 7.8x on a 2012e PER. On a PBV basis, Small Caps come in lower while Large Caps are more attractive in terms of EV/EBITDA. A key card for Large Caps is their dividend yield – consistently higher than that of Small Caps and 40% higher in 2012.

Figure 1.45 | **Small Cap, Large Cap...**

Indicator	Large Cap				Small Cap				Total			
YoY Growth Rates	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e
Revenue	11.3%	2.2%	11.2%	10.2%	9.1%	-4.4%	11.7%	20.0%	11.1%	1.7%	11.2%	11.0%
EBITDA	-3.1%	4.3%	14.9%	8.7%	0.2%	-25.4%	35.9%	47.6%	-3.0%	3.0%	15.5%	10.1%
Net Income	20.6%	-10.0%	4.1%	15.2%	-10.3%	-43.1%	51.9%	64.5%	18.4%	-11.8%	5.8%	17.7%
CAGR	6Y (07-13)	5Y (08-13)	4Y (09-13)	3Y (10-13)	6Y (07-13)	5Y (08-13)	4Y (09-13)	3Y (10-13)	6Y (07-13)	5Y (08-13)	4Y (09-13)	3Y (10-13)
Revenue	7.4%	4.5%	8.7%	7.8%	7.2%	5.1%	8.7%	8.6%	7.4%	4.5%	8.7%	7.9%
EBITDA	4.3%	1.1%	6.0%	9.2%	6.0%	-1.0%	10.7%	14.4%	4.4%	1.0%	6.2%	9.4%
Net Income	-20.3%	-0.8%	6.8%	2.6%	4.0%	-2.9%	6.3%	12.4%	-19.5%	-1.0%	6.8%	3.2%
Profitability	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e
EBITDA Margin	26.4%	26.9%	27.8%	27.4%	12.8%	10.0%	12.2%	15.0%	25.3%	25.6%	26.6%	26.4%
Net Income Margin	16.3%	14.4%	13.5%	14.1%	10.2%	6.1%	8.3%	11.4%	15.8%	13.7%	13.0%	13.8%
Leverage	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e
Debt/Equity	66.3%	64.8%	61.0%	54.1%	35.7%	35.0%	35.7%	32.8%	63.7%	62.5%	59.0%	52.4%
Net Debt/EBITDA	173.5%	167.7%	135.0%	102.5%	154.6%	208.0%	172.8%	118.3%	172.7%	169.0%	136.4%	103.3%
Valuation	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e	2010a	2011e	2012e	2013e
PER	7.31x	8.12x	7.79x	6.77x	6.46x	11.35x	7.47x	4.54x	7.26x	8.23x	7.78x	6.61x
PBV	1.24x	1.13x	1.07x	1.01x	0.69x	0.68x	0.64x	0.58x	1.19x	1.10x	1.04x	0.97x
EV/EBITDA	6.43x	6.18x	5.30x	4.69x	7.20x	9.65x	7.31x	4.98x	6.47x	6.29x	5.37x	4.71x
Dividend Yield	6.1%	4.6%	5.6%	6.1%	3.9%	3.7%	4.0%	4.7%	6.0%	4.6%	5.5%	6.0%

*Large caps are those companies with a market cap of at least EGP1.5bn; Small caps less than EGP1.5bn.
Source: CI Capital Research database based on CICR Coverage Universe of 38 Egyptian stocks.

Universe Scorecard | Converting Metrics, Risk & Liquidity into Points

This final exercise examines our 38 stock universe using 14 different valuation metrics, the risks associated with each company (both qualitative and quantitative) as well as their liquidity – the idea being to ascertain which of our 38 stocks are most attractive *overall* and to assess this relative to their current recommendations. We have combined the different elements (with liquidity ranked as a metric) using a point's scheme, the methodology of which is outline below:

Metric Points

Risk Weighting

Metric Points

Using a sample of 14 different weighted metrics together with a measure of individual stock liquidity, we ranked each universe constituent to find the top 10 ranked stocks for each individual item. The highest (or best) ranked stock for each metric was allocated 10 points, with the 10th best allocated 1 point. The metrics used were categorized both by type and sub-type and then assigned a weighting based on relevance†. The items and weightings used are listed below:

Valuation	30%	Profitability	15%
1. Price Earnings Ratio (PER)	5%	10. EBITDA Margin	5%
2. Price to Book Value (PBV)	5%	11. Net Margin	5%
3. Dividend Yield	5%	12. RoE	5%
4. Cash Flow Yield	5%		
5. Enterprise Value (EV) / EBITDA	5%	**Liquidity**	**20%**
6. Cash / Market Cap	5%	13. Av. Daily T'over	20.00
Growth	**15%**	**Leverage**	**20%**
7. Revenue Growth	5%	14. Net Debt/EBITDA	10%
8. EBITDA Growth	5%	15. Net Debt/Equity	10%
9. Net Income Growth	5%		

†Subjective call influenced both by frequency of use and completeness of data.

Risk Weighting

Once aggregated, the points score produced by the above metrics was then divided by a stand-alone risk weighting. This risk weighting factored in both qualitative and quantitative measures and was arrived at by merging the stocks consensus beta score with that of a subjective allocation based on CI Capital Research's risk categories (where Low = 0.7, Moderate = 1 and High = 1.3), as ultimately determined by each stock analyst. The risk weighting for each stock was thus calculated as [*Consensus Beta x Risk Factor*].

Results vs. Our Top Picks

Top Picks

Ticker	Name	Industry	Curr.	Last	+/- to TP	TP	LTFV	Rating	Mkt Cap (USDmn)	PER 11	PER 12
OCIC	Orascom Construction Industries	Fertilizers	EGP	219.8	35.12%	297.0	377.0	Strong Buy	7,529.9	10.8	7.5
PHAR	EIPICO	Pharmaceuticals	EGP	33.0	16.93%	38.6	38.6	Buy	433.6	7.4	6.9
UEFM	Upper Egypt Mills	Mills	EGP	48.4	71.73%	83.1	83.1	Strong Buy	56.1	3.2	4.3

Source: CI Capital Research

Ranking Results

Upper Egypt Mills (UEFM) | *3rd place*

UEFM has the second lowest PER & EV/EBITDA metric in our universe, the second highest dividend yield and it is not highly leveraged.

EIPICO (PHAR) | *5th place*

PHAR has solid margins for 2012, a return of equity of 22% while Pharmaceuticals is an inherently defensive sector, with inelastic demand for medical products. Factor in too Egypt's forecast population growth & expanding medical insurance program.

Orascom Construction Industries (OCIC) | *6th place*

OCIC has a return of equity for 2012 of 30%, healthy top and bottom-line growth forecasts for 2012 while the Fertiliser & Construction sector as a whole has high growth potential, rising demand and strong liquidity levels. Plus, it is a diversified market with healthy exposure to oil-exporting markets, particularly GCC.

Companies

	Stock	Company	Sector	Rating	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	MILS	North Cairo Mills	Mills	Hold	3.45	4.80	5.98	5.56	4.38	5.73	6.40	5.22	3.37	4.46
2	MCQE	Misr Cement (Qena)	Cement	Underweight	1.50	2.34	3.50	5.75	6.59	5.59	5.75	4.84	4.50	5.17
3	UEFM	Upper Egypt Mills	Mills	Strong Buy	1.87	2.16	7.87	6.56	5.72	9.19	5.62	5.72	4.78	6.75
4	WCDF	Middle & West Delta Mills	Mills	Buy	5.08	4.27	0.23	1.50	4.50	5.20	5.20	3.23	2.42	3.58
5	PHAR	EIPICO	Pharmaceuticals	Buy	1.88	1.25	0.75	3.76	3.51	2.88	3.51	2.00	2.38	0.00
6	OCIC	Orascom Construction Industrie:	Fertilizers	Strong Buy	1.61	2.41	2.67	1.61	2.46	2.67	3.02	2.11	2.11	1.81
7	TMGH	TMG Holding	Housing & Real Estate	Strong Buy	0.00	2.17	2.25	1.76	1.42	1.80	2.70	2.25	2.29	1.20
8	AUTO	GB Auto	Automotive	Hold	0.00	0.07	0.00	0.00	1.52	0.22	2.46	1.16	2.75	5.65
9	ETEL	Telecom Egypt	Telecom Services	Buy	3.01	1.93	1.70	1.59	1.76	2.10	2.33	2.44	2.44	1.14
10	EMOB	Mobinil	Telecom Services	Underweight	2.70	0.99	1.05	3.30	1.82	0.94	2.04	1.76	1.82	2.53
11	COMI	Commercial International Bank	Banking	Not Rated	1.02	0.88	1.37	1.76	1.66	1.95	1.95	1.95	1.95	2.49
12	ALCN	Alexandria Containers Handling	Transport & Logistics	Buy	1.81	2.02	1.65	3.43	2.10	2.14	1.89	1.69	1.45	2.06
13	AFMC	Alexandria Mills	Mills	Underw eight	0.67	0.53	3.22	1.97	1.73	2.50	1.88	2.21	1.92	2.21
14	SCFM	South Cairo & Giza Mills	Mills	Sell	1.75	4.30	5.20	2.42	1.45	1.15	1.75	1.21	1.21	1.33
15	MBSC	Misr Beni Suef Cement	Cement	Hold	2.92	1.57	0.90	2.92	1.20	1.57	1.72	2.10	2.10	3.37
16	EDFM	East Delta Mills	Mills	Buy	2.07	3.45	5.11	0.00	1.38	3.04	1.66	0.28	0.00	1.24
17	SUGR	Delta Sugar	Food & Beverage	Hold	0.92	1.57	0.00	0.98	1.90	2.23	1.64	1.44	1.05	0.26
18	PHDC	Palm Hills Developments	Housing & Real Estate	Hold	1.70	0.18	1.88	1.29	1.37	1.29	1.63	2.81	2.29	0.59
19	ETRS	Egytrans	Transport & Logistics	Hold	0.00	0.00	0.35	0.35	0.41	0.85	1.52	0.41	0.88	0.00
20	ESRS	Ezz Steel	Steel	Hold	2.32	1.62	2.01	1.30	1.65	1.06	1.37	1.90	2.36	0.99
21	SCEM	Sinai Cement	Cement	Buy	1.18	0.92	1.77	5.05	3.93	2.49	1.31	1.97	1.64	4.59
22	ORTE	Orascom Telecom	Telecom Services	Strong Buy	2.02	2.93	2.22	2.32	3.03	3.78	1.26	0.76	1.01	1.41
23	LCSW	Lecico Egypt	Ceramics	Strong Buy	1.28	1.78	1.07	2.35	1.43	0.36	1.14	1.78	1.78	4.14
24	HELI	Heliopolis Housing & Development	Housing & Real Estate	Hold	0.25	1.98	0.67	0.89	1.88	0.92	1.13	0.99	1.77	0.00
25	CIEB	Credit Agricole	Banking	Buy	0.00	1.32	0.86	1.32	1.32	0.86	0.86	1.32	0.79	2.05
26	RAYA	Raya Holding	Media & IT	Buy	1.60	2.25	0.50	0.60	1.95	0.70	0.80	1.10	2.60	0.00
27	CEFM	Central Egypt Mills	Mills	Underw eight	2.30	1.28	2.16	0.54	1.49	1.96	0.74	1.01	0.61	2.57
28	NSGB	National Societe General Bank	Banking	Buy	0.00	0.00	0.33	0.22	0.00	0.11	0.72	0.78	0.72	0.94
29	EGTS	Egyptian Resorts Company	Touristic Real Estate	Sell	1.47	3.23	1.97	0.32	0.86	0.47	0.72	1.47	1.79	0.00
30	MOIL	Maridive	Hydrocarbons & Related Services	Hold	0.39	2.16	0.44	0.15	0.10	0.74	0.69	1.23	1.23	3.49
31	IRAX	Ezz Aldekheila Steel – Alexandria	Steel	Hold	2.30	1.60	0.94	0.00	0.28	0.09	0.61	1.79	1.46	0.00
32	HDBK	Housing & Development Bank	Banking	Hold	0.45	0.58	0.00	1.66	0.51	0.45	0.58	1.02	0.77	1.34
33	ORWE	Oriental Weavers Carpets	Consumer Goods	Hold	0.18	0.00	0.27	0.62	0.00	0.00	0.53	0.00	0.00	0.89
34	EFIC	Egyptian Financial & Industrial Co.	Fertilizers	Strong Buy	0.54	0.35	1.36	0.12	0.43	0.89	0.35	0.39	0.19	0.97
35	SWDY	El Sewedy Electric	Engineering & Cables	Buy	0.59	1.37	0.26	0.98	1.96	1.31	0.33	0.72	1.24	0.26
36	AIVC	Al Arafa for Investments	Consumer Goods	Buy	1.95	1.04	0.79	1.10	0.49	1.34	0.24	1.46	0.67	1.16
37	EAST	Eastern Company	Food & Beverage	Hold	0.67	0.52	0.00	0.81	0.15	0.15	0.15	0.37	0.00	0.44
38	MNHD	Nasr City Housing & Development	Housing & Real Estate	Hold	2.07	1.80	1.42	1.07	0.19	0.00	0.00	0.00	0.00	0.00
	Average				**1.46**	**1.67**	**1.70**	**1.79**	**1.80**	**1.86**	**1.79**	**1.71**	**1.64**	**1.87**

Source: CI Capital Research Database

Universe Summary

Price to Earnings (PER)

Dearest 5	2010	2011	2012	2013
Central Egypt Mills	13.1x	15.3x	22.4x	15.6x
Nasr City Housing & Development	15.2x	22.7x	19.9x	18.8x
Mobinil	5.9x	n/a	16.2x	13.5x
South Cairo & Giza Mills	n/a	29.7x	13.4x	12.9x
Al Arafa for Investments	10.4x	5.2x	11.4x	7.8x
Cheapest 5	**2010**	**2011**	**2012**	**2013**
Middle & West Delta Mills	5.1x	4.9x	4.2x	4.3x
Upper Egypt Mills	3.8x	3.2x	4.3x	4.0x
Palm Hills Developments	2.4x	n/a	4.3x	1.5x
Raya Holding	5.0x	5.5x	4.6x	3.8x
North Cairo Mills	9.0x	6.4x	4.9x	4.6x

Price to Book Value (P/BV)

Dearest 5	2010	2011	2012	2013
Misr Cement (Qena)	4.3x	4.2x	4.1x	4.0x
Nasr City Housing & Development	4.6x	4.2x	3.9x	3.6x
Heliopolis Housing & Development	2.3x	3.1x	2.7x	2.4x
Alexandria Containers Handling	3.2x	2.1x	2.6x	2.2x
Orascom Construction Industries	2.5x	2.3x	2.3x	2.3x
Cheapest 5	**2010**	**2011**	**2012**	**2013**
TMG Holding	0.3x	0.3x	0.3x	0.2x
Palm Hills Developments	0.3x	0.3x	0.3x	0.2x
Egytrans	0.6x	0.5x	0.3x	0.3x
Raya Holding	0.4x	0.4x	0.4x	0.3x
Ezz Steel	0.5x	0.5x	0.5x	0.5x

Dividend Yield (DY)

Highest 5	2010	2011	2012	2013
Middle & West Delta Mills	10.8%	13.9%	13.9%	14.1%
Upper Egypt Mills	12.4%	13.6%	13.6%	14.6%
North Cairo Mills	10.0%	11.0%	11.6%	12.3%
Misr Cement (Qena)	15.3%	11.6%	10.9%	9.8%
Alexandria Containers Handling	n/a	9.4%	10.1%	10.7%
Lowest 5	**2010**	**2011**	**2012**	**2013**
Egyptian Financial & Industrial Co.	0.0%	n/a	2.2%	2.6%
Central Egypt Mills	n/a	3.3%	2.2%	3.2%
Al Arafa for Investments	n/a	5.3%	2.4%	4.1%
El Sewedy Electric	14.3%	2.9%	3.0%	3.3%
Commercial International Bank	5.0%	4.0%	4.3%	5.5%

Enterprise Value / EBITDA

Dearest 5	2010	2011	2012	2013
Al Arafa for Investments	n/a	17.5x	15.9x	9.9x
Nasr City Housing & Development	10.3x	15.6x	15.6x	14.9x
Heliopolis Housing & Development	4.6x	10.0x	8.9x	7.1x
Oriental Weavers Carpets	7.6x	9.4x	7.5x	6.2x
Egytrans	n/a	27.0x	7.4x	15.4x
Cheapest 5	**2010**	**2011**	**2012**	**2013**
North Cairo Mills	2.4x	1.6x	1.0x	0.4x
Upper Egypt Mills	2.0x	0.9x	2.0x	1.5x
Middle & West Delta Mills	3.1x	2.5x	2.1x	1.8x
Alexandria Mills	2.8x	0.8x	2.2x	0.9x
Orascom Telecom	4.8x	3.1x	2.9x	2.6x

Return on Equity (RoE)

Highest 5	2010	2011	2012	2013
Misr Cement (Qena)	69.2%	60.0%	54.6%	48.0%
Alexandria Containers Handling	47.3%	34.0%	43.9%	38.4%
Heliopolis Housing & Development	43.3%	37.4%	36.1%	38.0%
Middle & West Delta Mills	32.4%	33.3%	33.3%	29.3%
Orascom Construction Industries	19.3%	21.1%	30.3%	30.5%
Lowest 5	**2010**	**2011**	**2012**	**2013**
Egyptian Resorts Company	n/a	n/a	0.3%	0.5%
Central Egypt Mills	4.7%	4.0%	2.7%	3.8%
TMG Holding	3.8%	3.0%	4.8%	5.9%
Al Arafa for Investments	5.8%	11.1%	4.9%	6.8%
Ezz Steel	5.3%	1.3%	5.1%	8.7%

EBITDA Margin

Highest 5	2010	2011	2012	2013
Alexandria Containers Handling	63.7%	64.7%	64.9%	65.0%
Heliopolis Housing & Development	59.4%	52.6%	50.9%	54.5%
Misr Cement (Qena)	52.6%	51.2%	50.6%	52.1%
Orascom Telecom	41.4%	47.1%	46.3%	46.3%
Telecom Egypt	47.1%	42.0%	41.5%	40.5%
Lowest 5	**2010**	**2011**	**2012**	**2013**
South Cairo & Giza Mills	-5.1%	-2.0%	0.0%	0.0%
Central Egypt Mills	5.4%	3.1%	3.2%	3.2%
Egytrans	-3.6%	2.6%	3.6%	4.1%
Alexandria Mills	4.6%	4.4%	3.7%	3.7%
Raya Holding	5.4%	5.2%	4.8%	6.2%

Net Debt / Equity

Highest 5	2010	2011	2012	2013
Ezz Aldekheila Steel – Alexandria	2.1x	1.8x	1.6x	1.3x
Mobinil	1.5x	1.4x	1.4x	1.3x
Orascom Construction Industries	0.6x	1.4x	1.4x	1.4x
Ezz Steel	1.8x	1.5x	1.2x	0.6x
Egyptian Financial & Industrial Co.	1.0x	0.8x	1.1x	0.9x
Lowest 5	**2010**	**2011**	**2012**	**2013**
Misr Cement (Qena)	-1.3x	-1.4x	-1.4x	-1.5x
North Cairo Mills	-0.8x	-0.8x	-0.8x	-0.8x
Upper Egypt Mills	-0.8x	-1.0x	-0.7x	-0.7x
South Cairo & Giza Mills	-0.6x	-0.7x	-0.7x	-0.8x
Alexandria Mills	-0.5x	-0.9x	-0.6x	-0.8x

Cash Flow Yield

Highest 5	2010	2011	2012	2013
Orascom Telecom	9.3%	27.0%	35.3%	n/a
Middle & West Delta Mills	15.3%	24.6%	22.2%	17.0%
Mobinil	10.8%	17.2%	17.9%	22.6%
Ezz Aldekheila Steel – Alexandria	4.2%	21.7%	16.9%	31.2%
Maridive	n/a	n/a	16.1%	16.1%
Lowest 5	**2010**	**2011**	**2012**	**2013**
GB Auto	n/a	n/a	0.8%	11.0%
Egyptian Resorts Company	n/a	n/a	2.6%	n/a
Upper Egypt Mills	8.9%	33.8%	2.7%	17.8%
Oriental Weavers Carpets	n/a	2.0%	7.4%	9.0%
EIPICO	9.9%	5.6%	8.8%	10.3%

Sorted & ranked by 2012; Based on CI Capital Coverage Universe; EGX suspended between 27th Jan - 23rd March 2011.
All prices used as at close on January 19, 2012. FX rate used in calculations = USD6.04 per EGP1.

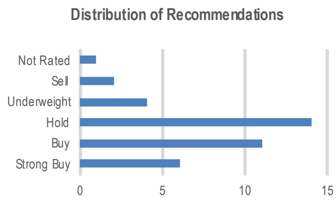
CI Capital Universe | Summary I

Sector/Company	Ticker	Rating	Curr.	Last Price	Target Price	+/- %	PER 2011	PER 2012	PBV 10 2011	PBV 10 2012	EV/EBITDA 2011	EV/EBITDA 2012	ND/EBITDA 2011	ND/EBITDA 2012	Div. Yield 2011	Div. Yield 2012
Automotive																
GB Auto	AUTO	Hold	EGP	20.99	29.30	39.6%	11.4x	5.3x	1.3x	1.2x	7.8x	5.0x	3.2x	2.2x	4.1%	9.0%
Banking																
Credit Agricole	CIEB	Buy	EGP	8.00	10.01	25.1%	7.1x	7.2x	1.3x	1.2x	n/a	n/a	n/m	n/m	10.6%	10.0%
Commercial International Bank	COMI	Not Rated	EGP	19.96	n/a	n/a	7.4x	6.9x	1.2x	1.1x	n/a	n/a	n/m	n/m	4.0%	4.3%
Housing & Development Bank	HDBK	Hold	EGP	10.80	15.63	44.7%	7.1x	6.4x	0.6x	0.6x	n/a	n/a	n/m	n/m	6.9%	6.9%
National Societe General Bank	NSGB	Buy	EGP	24.43	26.09	6.8%	7.0x	7.3x	1.3x	1.2x	n/a	n/a	n/m	n/m	4.9%	5.0%
Cement																
Misr Beni Suef Cement	MBSC	Hold	EGP	61.50	70.73	15.0%	8.9x	8.6x	1.4x	1.4x	5.1x	4.5x	-1.0x	-1.4x	7.0%	7.2%
Misr Cement (Qena)	MCQE	Underweight	EGP	89.92	92.44	2.8%	7.0x	7.5x	4.2x	4.1x	4.5x	4.7x	-2.2x	-2.5x	11.6%	10.9%
Sinai Cement	SCEM	Buy	EGP	29.67	36.73	23.8%	6.1x	8.5x	0.8x	0.8x	3.2x	3.3x	-1.8x	-2.1x	12.4%	8.9%
Ceramics, Chemicals & Paints																
Lecico Egypt	LCSW	Strong Buy	EGP	6.00	10.70	78.3%	19.5x	6.3x	0.5x	0.5x	5.4x	3.5x	2.9x	1.7x	4.2%	8.3%
Consumer Goods																
Al-Arafa for Investments & Consultancies	AIVC	Buy	USD	0.38	0.56	47.4%	5.2x	11.4x	0.6x	0.6x	17.5x	15.9x	9.4x	8.1x	5.3%	2.4%
Eastern Company	EAST	Hold	EGP	92.00	106.00	15.2%	7.3x	7.6x	1.3x	1.2x	5.0x	4.8x	1.0x	0.9x	6.5%	5.9%
Oriental Weavers Carpets	ORWE	Hold	EGP	30.00	36.50	21.7%	11.2x	9.0x	0.9x	0.9x	9.4x	7.5x	3.2x	2.4x	6.2%	7.6%
Contracting & Fertilisers																
Orascom Construction Industries	OCIC	Strong Buy	EGP	219.80	297.00	35.1%	10.8x	7.5x	2.3x	2.3x	8.6x	6.3x	3.3x	2.5x	4.6%	6.7%
Egyptian Financial & Industrial Co.	EFIC	Strong Buy	EGP	8.85	14.30	61.6%	13.7x	7.2x	0.7x	0.6x	6.2x	6.9x	3.4x	4.3x	n/a	2.2%
Engineering																
El Sewedy Electric	SWDY	Buy	EGP	22.07	25.20	14.2%	7.5x	7.2x	0.8x	0.8x	5.8x	5.2x	1.6x	1.7x	2.9%	3.0%
Food & Beverage																
Delta Sugar	SUGR	Hold	EGP	16.94	20.40	20.4%	6.3x	7.3x	2.2x	2.0x	3.7x	4.1x	-1.2x	-1.5x	10.8%	9.4%
Housing & Touristic Real Estate																
Egyptian Resorts Company	EGTS	Sell	EGP	0.86	0.60	-30.2%	n/a	n/m	0.9x	0.9x	n/m	n/m	8.6x	n/m	n/a	n/a
Heliopolis Housing & Development	HELI	Hold	EGP	11.05	15.60	41.2%	8.2x	7.5x	3.1x	2.7x	10.0x	8.9x	2.2x	2.4x	5.2%	5.7%
Nasr City Housing & Development	MNHD	Hold	EGP	11.05	15.30	38.5%	22.7x	19.9x	4.2x	3.9x	15.6x	15.6x	-0.5x	0.1x	n/a	n/a
Palm Hills Developments	PHDC	Hold	EGP	1.20	1.40	16.7%	n/a	4.3x	0.3x	0.3x	14.8x	4.8x	3.1x	0.9x	n/a	n/a
TMG Holding	TMGH	Strong Buy	EGP	3.22	5.50	70.8%	9.1x	5.5x	0.3x	0.3x	12.2x	7.2x	4.9x	2.7x	n/a	n/a
Hydrocarbons & Related Services																
Maridive	MOIL	Hold	USD	1.50	2.25	50.0%	8.7x	8.0x	1.7x	1.5x	7.2x	6.1x	3.0x	2.2x	6.0%	6.9%
Media & IT																
Raya Holding	RAYA	Buy	EGP	3.53	5.00	41.6%	5.5x	4.6x	0.4x	0.4x	4.5x	6.1x	2.8x	4.4x	n/a	4.3%
Mills																
Alexandria Mills	AFMC	Underweight	EGP	15.10	15.20	0.7%	10.5x	10.1x	1.1x	1.0x	0.8x	2.2x	-4.4x	-3.3x	5.0%	5.3%
Central Egypt Mills	CEFM	Underweight	EGP	7.53	8.30	10.2%	15.3x	22.4x	0.6x	0.6x	3.9x	5.2x	-2.0x	-0.3x	3.3%	2.2%
East Delta Mills	EDFM	Buy	EGP	33.41	40.10	20.0%	6.9x	6.7x	1.4x	1.3x	7.4x	4.6x	-0.8x	-0.6x	10.0%	10.0%
North Cairo Mills	MILS	Hold	EGP	15.00	17.50	16.7%	6.4x	4.9x	1.0x	1.0x	1.6x	1.0x	-5.0x	-4.8x	11.0%	11.6%
South Cairo & Giza Mills	SCFM	Sell	EGP	23.28	10.10	-56.6%	29.7x	13.4x	0.9x	0.9x	n/m	n/m	12.0x	470.5x	5.8%	5.8%
Upper Egypt Mills	UEFM	Strong Buy	EGP	48.39	83.10	71.7%	3.2x	4.3x	1.2x	1.1x	0.9x	2.0x	-2.4x	-2.2x	13.6%	13.6%
Middle & West Delta Mills	WCDF	Buy	EGP	36.01	46.90	30.2%	4.9x	4.2x	1.6x	1.4x	2.5x	2.1x	-0.2x	-0.5x	13.9%	13.9%
Pharmaceuticals																
EIPICO	PHAR	Buy	EGP	33.01	38.60	16.9%	7.4x	6.9x	1.7x	1.5x	4.0x	3.5x	-1.2x	-1.2x	8.8%	9.5%
Steel																
Ezz Steel	ESRS	Hold	EGP	4.57	8.80	92.6%	39.0x	9.6x	0.5x	0.5x	6.2x	4.8x	3.8x	2.6x	n/a	n/a
Ezz Aldekheila Steel – Alexandria	IRAX	Hold	EGP	417.03	780.00	87.0%	11.0x	8.2x	1.8x	1.7x	7.3x	6.2x	3.3x	2.8x	n/a	n/a

CI Capital Universe | Summary II

Sector/Company	Ticker	Rating	Curr.	Last Price	Target Price	+/- %	PER 2011	PER 2012	PBV 10 2011	PBV 10 2012	EV/EBITDA 2011	EV/EBITDA 2012	ND/EBITDA 2011	ND/EBITDA 2012	Div. Yield 2011	Div. Yield 2012
Telecom Services																
Mobinil	EMOB	Underweight	EGP	80.1	109.00	36.1%	n/a	16.2x	2.0x	1.9x	3.9x	3.7x	1.6x	1.6x	n/a	5.6%
Telecom Egypt	ETEL	Buy	EGP	14.41	21.00	45.7%	8.5x	8.0x	0.9x	0.8x	4.5x	4.1x	-1.3x	-1.7x	8.8%	9.4%
Orascom Telecom	ORTE	Strong Buy	USD	1.98	3.20	61.7%	4.3x	10.4x	1.0x	0.9x	3.1x	2.9x	1.1x	0.9x	n/a	n/a
Transport & Logistics																
Alexandria Containers Handling	ALCN	Buy	EGP	61	83.30	36.6%	6.3x	5.9x	2.1x	2.6x	3.9x	4.3x	-1.3x	-0.7x	9.4%	10.1%
Egytrans	ETRS	Hold	EGP	5.82	7.20	23.7%	6.2x	5.5x	0.5x	0.3x	27.0x	7.4x	8.4x	-3.0x	n/a	n/a

Distribution of Recommendations	Number	%
Strong Buy	6	15.8%
Buy	11	28.9%
Hold	14	36.8%
Underweight	4	10.5%
Sell	2	5.3%
Not Rated	1	2.6%
Total	**38**	**100%**



n/a = not available
n/m = not meaningful
*COMI is not rated due to its 100% ownership of CICH.
Source: CI Capital Database.

Sector/Industry Breakdown	Number of Securities in Sector/Industry	Market Cap (EGPmn)	Universe Weighting	PER 2011	PER 2012	PBV 10 2011	PBV 10 2012	EV/EBITDA 2011	EV/EBITDA 2012	RoE 2011	RoE 2012	Div. Yield 2011	Div. Yield 2012
CICR Coverage Universe	38	178,657.0	--	8.2x	7.8x	1.1x	1.0x	6.3x	5.4x	13.3%	13.3%	7.5%	7.4%
CI Capital 100	100	246,146.4	--	11.3x	10.7x	1.5x	1.4x	8.0x	6.8x	13.3%	13.3%	7.5%	7.4%
BBG Consensus (EGX 30)	30	172,477.8	--	5.4x	n/a	0.5x	n/a	n/a	n/a	8.8%	n/a	5.6%	n/a
Sector													
Consumer Discretionary	5	6,751.4	3.8%	10.0x	6.8x	0.9x	0.8x	8.4x	6.1x	9.0%	12.3%	4.9%	6.3%
Consumer Staples	9	8,219.7	4.6%	6.6x	7.1x	1.4x	1.3x	4.3x	4.3x	21.9%	18.7%	8.9%	8.6%
Engineering & Industrials	1	4,930.8	2.8%	7.5x	7.2x	0.8x	0.8x	5.8x	5.2x	11.2%	10.7%	2.9%	3.0%
Financials	4	25,233.9	14.1%	7.2x	7.0x	1.2x	1.1x	n/m	n/m	16.9%	15.8%	6.6%	6.5%
Health Care	1	2,618.9	1.5%	7.4x	6.9x	1.7x	1.5x	4.0x	3.5x	22.2%	22.1%	8.8%	9.5%
Materials	7	61,500.1	34.4%	10.3x	7.5x	1.8x	1.7x	7.7x	5.9x	17.4%	23.3%	8.9%	7.2%
Oil & Gas	1	2,784.3	1.6%	8.7x	8.0x	1.7x	1.5x	7.2x	6.1x	19.5%	19.3%	6.0%	6.9%
Real Estate	5	10,785.5	6.0%	13.0x	6.4x	0.4x	0.3x	13.2x	7.4x	2.8%	5.3%	5.2%	5.7%
Telecommunications	3	54,238.3	30.4%	6.9x	9.6x	1.0x	0.9x	3.6x	3.3x	14.5%	9.8%	8.8%	7.5%
Trade & Logistics	2	1,594.1	0.9%	6.3x	5.9x	1.8x	1.8x	4.3x	4.4x	28.8%	31.0%	9.4%	10.1%
Industry													
Automotive	1	2,632.2	1.5%	11.4x	5.3x	1.3x	1.2x	7.8x	5.0x	11.7%	22.4%	4.1%	9.0%
Banking	4	25,233.9	14.1%	7.2x	7.0x	1.2x	1.1x	n/m	n/m	16.9%	15.8%	6.6%	6.5%
Cement	3	7,223.5	4.0%	7.2x	8.1x	1.5x	1.4x	4.3x	4.1x	20.6%	17.7%	10.3%	9.0%
Ceramics	1	480.0	0.3%	19.5x	6.3x	0.5x	0.5x	5.4x	3.5x	2.8%	8.3%	4.2%	8.3%
Consumer Goods	2	3,419.8	1.9%	9.0x	9.4x	0.8x	0.8x	10.9x	8.8x	9.3%	8.5%	5.7%	5.0%
Engineering & Cables	1	4,930.8	2.8%	7.5x	7.2x	0.8x	0.8x	5.8x	5.2x	11.2%	10.7%	2.9%	3.0%
Fertilizers	2	46,094.0	25.8%	10.5x	7.2x	2.1x	2.1x	8.5x	6.3x	20.4%	29.3%	4.6%	4.4%
Food & Beverage	2	7,008.8	3.9%	6.9x	7.5x	1.5x	1.4x	4.6x	4.6x	21.9%	18.5%	8.6%	7.7%
Housing & Real Estate	4	9,882.5	5.5%	11.6x	5.9x	0.3x	0.3x	12.5x	7.1x	2.9%	5.4%	5.2%	5.7%
Hydrocarbons & Related Services	1	2,784.3	1.6%	8.7x	8.0x	1.7x	1.5x	7.2x	6.1x	19.5%	19.3%	6.0%	6.9%
Media & IT	1	219.4	0.1%	5.5x	4.6x	0.4x	0.4x	4.5x	6.1x	7.1%	8.0%	n/a	4.3%
Mills	7	1,210.9	0.7%	5.3x	5.5x	1.1x	1.1x	2.3x	2.6x	21.8%	19.4%	8.9%	8.9%
Pharmaceuticals	1	2,618.9	1.5%	7.4x	6.9x	1.7x	1.5x	4.0x	3.5x	22.2%	22.1%	8.8%	9.5%
Steel	2	8,182.6	4.6%	14.0x	8.6x	1.0x	1.0x	6.8x	5.4x	7.3%	11.2%	n/a	n/a
Telecom Services	3	54,238.3	30.4%	6.9x	9.6x	1.0x	0.9x	3.6x	3.3x	14.5%	9.8%	8.8%	7.5%
Touristic Real Estate	1	903.0	0.5%	n/m	n/m	0.9x	0.9x	n/m	n/m	n/a	n/a	n/a	n/a
Transport & Logistics	2	1,594.1	0.9%	6.3x	5.9x	1.8x	1.8x	4.3x	4.4x	28.8%	31.0%	9.4%	10.1%

N.B. ORTE's recommendation and +/- % reflects the company's price post-demerger while ORTE's financial figures are based on its forecasts on a pre-demerger basis (i.e. including both ORTE and OTMT).

CI Capital Universe | Summary III

Ticker	Company Name	Rating	Date of Rating	Risk	Curr	TP	LTFV	EGX 30	Beta	No. of Shares
LCSW	Lecico Egypt	Strong Buy	22-Jan-12	Moderate	EGP	10.70	14.70	No	0.70	79,999,800
ORTE	Orascom Telecom	Strong Buy	22-Jan-12	High	USD	3.20	4.00	Yes	0.76	1,049,138,000
UEFM	Upper Egypt Mills	Strong Buy	17-Jan-12	Low	EGP	83.10	83.10	No	0.76	7,000,000
EFIC	Egyptian Financial & Industrial Co.	Strong Buy	24-Nov-11	High	EGP	14.30	15.40	No	0.99	69,301,640
TMGH	TMG Holding	Strong Buy	22-Nov-11	High Risk	EGP	5.50	8.70	Yes	1.03	2,063,562,000
OCIC	Orascom Construction Industries	Strong Buy	21-Nov-11	Moderate	EGP	297.00	377.00	Yes	0.99	206,918,400
EDFM	East Delta Mills	Buy	17-Jan-12	Low	EGP	40.10	40.10	No	0.52	6,000,000
WCDF	Middle & West Delta Mills	Buy	17-Jan-12	Low	EGP	46.90	46.90	No	0.62	7,500,000
SCEM	Sinai Cement	Buy	10-Jan-12	Moderate	EGP	36.73	36.73	Yes	0.76	70,000,000
CIEB	Credit Agricole	Buy	7-Dec-11	Moderate	EGP	10.01	10.39	No	0.76	287,000,000
NSGB	National Societe General Bank	Buy	7-Dec-11	Moderate	EGP	26.09	27.46	Yes	0.90	403,214,600
PHAR	EIPICO	Buy	29-Nov-11	Low	EGP	38.60	38.60	No	0.57	79,336,400
RAYA	Raya Holding	Buy	29-Nov-11	Moderate	EGP	5.00	9.10	No	1.00	62,210,830
ALCN	Alexandria Containers Handling	Buy	17-Nov-11	High	EGP	83.30	95.50	No	0.95	24,600,000
SWDY	El Sewedy Electric	Buy	14-Nov-11	Moderate	EGP	25.20	32.50	Yes	0.76	223,418,000
AIVC	Al-Arafa for Investments & Consultancies	Buy	18-Sep-11	Moderate	USD	0.56	0.80	No	0.82	313,500,000
ETEL	Telecom Egypt	Buy	14-Apr-11	Moderate	EGP	21.00	21.90	Yes	0.88	1,707,072,000
MBSC	Misr Beni Suef Cement	Hold	10-Jan-12	Moderate	EGP	70.73	70.73	No	0.67	40,000,000
HDBK	Housing & Development Bank	Hold	7-Dec-11	Moderate	EGP	15.63	18.88	No	0.78	115,000,000
PHDC	Palm Hills Developments	Hold	29-Nov-11	High	EGP	1.40	2.90	Yes	1.04	1,048,320,000
ORWE	Oriental Weavers Carpets	Hold	21-Nov-11	Moderate	EGP	36.50	36.50	No	0.56	90,000,050
MNHD	Nasr City Housing & Development	Hold	2-Nov-11	High	EGP	15.30	25.60	No	1.00	105,000,000
SUGR	Delta Sugar	Hold	20-Oct-11	Moderate	EGP	20.40	20.40	No	0.76	142,197,400
EAST	Eastern Company	Hold	17-Oct-11	Moderate	EGP	106.00	106.00	No	0.68	50,000,000
MOIL	Maridive	Hold	17-Oct-11	Moderate	USD	2.25	2.58	Yes	1.02	307,200,000
ETRS	Egytrans	Hold	11-Oct-11	High	EGP	7.20	7.00	No	1.32	15,606,250
AUTO	GB Auto	Hold	26-Sep-11	Moderate	EGP	29.30	29.30	No	0.69	129,000,000
ESRS	Ezz Steel	Hold	15-Sep-11	High	EGP	8.80	15.80	Yes	1.09	543,265,000
IRAX	Ezz Aldekheila Steel – Alexandria	Hold	15-Mar-11	High	EGP	780.00	974.00	No	0.82	13,667,770
HELI	Heliopolis Housing & Development	Hold	6-Mar-11	High	EGP	15.60	26.00	No	1.09	111,257,100
MILS	North Cairo Mills	Hold	17-Jan-11	Low	EGP	17.50	17.50	No	0.85	10,700,000
EMOB	Mobinil	Underweight	10-Nov-11	Moderate	EGP	109.00	106.00	Yes	0.91	100,000,000
MCQE	Misr Cement (Qena)	Underweight	10-Jan-12	Moderate	EGP	92.44	92.44	No	0.60	30,000,000
AFMC	Alexandria Mills	Underweight	17-Jan-12	Moderate	EGP	15.20	15.20	No	1.04	4,000,000
CEFM	Central Egypt Mills	Underweight	17-Jan-12	Low	EGP	8.30	8.30	No	1.06	14,722,930
SCFM	South Cairo & Giza Mills	Sell	17-Jan-12	Moderate	EGP	10.10	10.10	No	0.83	3,000,000
EGTS	Egyptian Resorts Company	Sell	18-Apr-11	High	EGP	0.60	0.80	Yes	1.07	1,050,000,000
COMI	Commercial International Bank	Not Rated	n/a	Moderate	EGP	n/a	n/a	Yes	1.02	593,456,300

Market Summary

Price Movements

Top 10 Winners (%)	1M	6M	Ytd	YoY
Alex Mineral Oils	6.05	3.77	6.01	40.02
Abu Qir Fertilizers	-9.07	6.19	-1.82	6.01
East Delta Mills*	1.43	-2.59	3.95	4.64
Middle and West Delta Mills*	-0.99	-15.23	1.35	4.35
Upper Egypt Contracting	-5.65	-18.18	0.86	3.54
Medical Union Pharmaceuticals	-0.07	6.09	2.11	0.69
Olympic Group	0.00	3.11	0.00	-0.90
Egypt Gas	1.06	-0.30	1.86	-2.06
Pioneers Holding	16.27	-39.84	31.98	-2.66
Egyptian Gulf Bank	0.00	-17.84	0.00	-4.40
Top 10 Losers (%)				
Palm Hills Developments*	1.69	-45.95	10.09	-79.73
SODIC	-0.90	-63.03	10.04	-78.52
Ezz Steel*	3.86	-53.32	22.52	-76.58
Citadel Group	-5.38	-48.74	3.53	-69.69
Amer Group Holding	-6.56	-39.36	3.64	-64.96
RAKTA	-11.47	-50.98	-2.59	-63.82
Nasr City for Housing and Development*	-7.14	-41.87	1.28	-61.93
Al Ahly Investment & Development	0.17	-43.30	5.19	-59.70
EFG - Hermes	1.90	-35.54	2.00	-59.52
Talaat Mostafa Group (TMG) Holding*	-2.42	-29.23	8.78	-58.74

Average Daily Volume

Top 10 (mn shrs)	30 Day	3 Month	6 Month
Amer Group Holding	5,049	6,873	6,119
Egyptian Electric Cables	1,257	2,212	5,209
Palm Hills Developments*	2,765	3,201	3,488
Upper Egypt Contracting	836	1,180	3,189
Talaat Mostafa Group (TMG) Holding*	4,317	4,231	3,131
Pioneers Holding	2,378	2,348	2,893
Citadel Group	1,646	2,650	2,876
Egyptian for Tourism Resorts*	1,521	1,625	2,003
Ezz Steel*	1,723	1,329	1,233
Commercial International Bank (CIB)*	998	1,162	1,022
Bottom 10 (mn shrs)			
Bisco Misr	0.55	0.72	0.40
Ezz Al-Dekheila Steel*	0.30	0.30	0.41
Misr Cement (Qena)*	0.62	0.67	0.66
South Cairo and Giza Mills*	0.20	0.66	0.86
East Delta Mills*	0.50	0.52	1.05
Egypt Gas	0.86	0.92	1.67
Alexandria Mills*	1.12	1.80	2.03
General Silos and Storage Co.	2.35	2.10	2.24
Alexandria Containers *	0.72	1.45	2.57
Egypt Aluminum Company	1.55	3.73	3.24

Market Capitalisation

Largest 10 Stocks	Free Float (%)	USDmn	EGPmn
Orascom Construction & Ind.*	99.79	7,530	45,481
Telecom Egypt*	17.99	4,073	24,599
Orascom Telecom*	n/a	3,587	21,674
Commercial International Bank (CIB)*	90.18	1,961	11,845
Abu Qir Fertilizers	15.56	1,754	10,592
National Societe General Bank*	22.42	1,631	9,851
MobiNil*	27.31	1,326	8,010
Talaat Mostafa Group (TMG) Holding*	47.96	1,100	6,645
Sidi Kerir Petrochemicals	22.01	1,098	6,631
Alex Mineral Oils	18.75	1,012	6,110

Average Daily Turnover

Top 10 (USD 000')	20 Day	3 Month	6 Month
Commercial International Bank (CIB)*	3,022.9	4,332.1	4,014.1
Orascom Construction & Ind.*	2,473.7	3,154.9	3,464.4
Orascom Telecom*	2,760.4	2,545.7	2,636.7
Talaat Mostafa Group (TMG) Holding*	2,349.0	2,346.3	1,827.8
Pioneers Holding	1,032.4	1,068.5	1,827.1
Citadel Group	782.5	1,295.8	1,643.6
EFG - Hermes	641.4	1,074.7	1,489.9
MobiNil*	1,367.2	1,209.3	1,257.6
Ezz Steel*	1,426.7	1,028.8	1,244.4
Telecom Egypt*	689.9	958.0	1,158.0

Beta

10 Highest Beta Stocks	Beta	Std. Dev
Canal Shipping Agencies	1.36	n/a
General Ceramic & Porcelain	1.35	0.03
Arab Cotton Ginning	1.33	0.02
Egytrans*	1.32	0.02
Arab Polvara	1.28	0.01
General Giza for Cont. & Real Estate Investment	1.24	0.08
Egyptians Abroad for Investment & Development	1.22	0.03
Egyptians Housing Development & Reconstruction	1.22	0.02
El Shams Housing & Development	1.22	0.03
RAKTA	1.21	0.03

Average Daily Turnover

Bottom 10 (USD 000')	20 Day	3 Month	6 Month
Bisco Misr	3.9	3.6	2.0
South Cairo and Giza Mills*	0.5	2.7	3.7
Alexandria Mills*	3.0	4.9	6.1
East Delta Mills*	2.2	2.9	6.3
General Silos and Storage Co.	11.7	7.9	8.9
Misr Cement (Qena)*	4.3	10.0	10.3
Faisal Islamic Bank	11.4	14.9	13.8
GlaxoSmithKline Egypt	13.1	14.8	14.5
Egypt Aluminum Company	6.4	17.0	15.4
Central Egypt Mills*	8.9	11.8	15.4

Based on CI Capital 100; *Actively covered by CI Capital; EGX suspended between 27th Jan - 23rd March 2011.
FX conversions use USD:EGP rate of USD6.04 per EGP1.

Sector Performance | Last 12 months

Industry/Sector	Stocks	Mkt Cap (USDmn)	CIC 100 Weighting	Performance (%)						Average Daily Volume (000' shares)			
Industry				**WoW%**	**MoM%**	**3M%**	**6M%**	**YTD%**	**YoY%**	**5D**	**30D**	**3M**	**6M**
Consumer Discretionary	13	1,933.1	4.6%	(0.54)	(3.72)	(11.91)	(23.71)	0.12	(35.12)	1,692.2	1,471.4	1,847.7	2,390.9
Consumer Staples	18	2,359.9	5.6%	(0.60)	(3.01)	(14.76)	(25.19)	0.29	(28.76)	4,434.3	2,552.7	2,818.1	3,173.1
Engineering & Industrials	15	9,163.3	21.9%	(0.41)	(4.51)	(13.42)	(33.15)	0.54	(38.75)	4,541.6	3,084.8	4,737.5	10,014.4
Financials	17	7,202.9	17.2%	2.94	0.35	(8.51)	(26.85)	5.04	(40.10)	13,096.3	7,556.6	8,650.0	9,270.8
Health Care	3	715.9	1.7%	(1.55)	(0.73)	(1.62)	(9.77)	(0.61)	(15.39)	25.6	25.2	28.4	37.5
Materials	13	6,208.1	14.8%	(0.04)	(2.52)	(12.36)	(27.95)	2.53	(36.31)	4,145.5	2,132.9	1,706.1	1,658.8
Oil & Gas	4	2,721.1	6.5%	2.75	2.18	(3.63)	(14.52)	5.07	(7.25)	728.7	411.6	440.7	416.7
Real Estate	14	2,586.4	6.2%	1.06	(1.31)	(12.26)	(32.02)	5.89	(54.32)	22,892.9	15,561.5	17,806.9	16,572.6
Telecommunications	3	8,985.8	21.5%	3.96	5.77	3.69	(10.38)	9.93	(25.07)	1,493.6	1,144.6	1,427.4	1,509.4
CI Capital 100	100	41,876.7	100.0%	0.58	(1.92)	(11.07)	(26.45)	2.64	(36.20)	53,050.6	33,941.3	39,462.8	45,044.2
EGX 30	29	29,134.5	n/a	2.40	1.74	(9.28)	(24.80)	6.79	(41.79)	43,415.0	27,910.2	31,694.8	35,215.3
Sector				**WoW%**	**MoM%**	**3M%**	**6M%**	**YTD%**	**YoY%**	**5D**	**30D**	**3M**	**6M**
Automotive	1	448.3	1.1%	6.33	(0.05)	(12.25)	(33.79)	0.10	(54.40)	16.0	18.0	18.2	23.0
Banking	9	4,870.8	11.6%	1.64	(0.74)	(4.75)	(19.62)	3.09	(35.40)	2,254.6	1,936.0	1,962.8	1,662.5
Cement	5	2,151.7	5.1%	(0.46)	(1.09)	(9.25)	(23.49)	2.18	(28.69)	143.6	110.6	121.5	178.9
Ceramics	4	227.6	0.5%	(1.11)	(4.25)	(10.58)	(30.85)	0.70	(37.03)	450.4	575.9	625.9	750.2
Chemicals & Paints	2	145.8	0.3%	(1.08)	(3.29)	(21.58)	(23.33)	(1.62)	(37.35)	58.5	42.8	75.5	100.0
Consumer Goods	4	993.5	2.4%	(0.85)	(3.47)	(8.98)	(14.22)	(0.79)	(22.66)	661.7	431.7	736.7	994.3
Contracting	5	7,651.6	18.3%	(0.26)	(3.72)	(11.94)	(34.39)	1.75	(37.32)	1,447.2	1,034.7	1,409.2	3,436.4
Engineering & Cables	3	930.3	2.2%	(0.98)	(3.17)	(7.85)	(20.61)	1.79	(33.19)	2,180.6	1,349.7	2,352.8	5,403.4
Fertilizers	3	1,863.8	4.5%	(1.81)	(4.93)	(10.76)	(21.56)	(0.77)	(31.11)	190.6	203.2	161.5	170.8
Financial & Investment	8	2,332.1	5.6%	4.39	1.56	(12.73)	(34.99)	7.22	(45.38)	10,841.7	5,620.6	6,687.1	7,608.3
Food & Beverage	7	1,934.5	4.6%	(1.34)	(4.08)	(10.75)	(19.97)	(1.13)	(26.72)	2,015.8	959.7	1,253.2	1,297.7
Housing & Real Estate	11	2,354.7	5.6%	1.83	(0.68)	(12.04)	(32.82)	6.87	(54.14)	20,584.6	13,670.1	15,861.1	14,316.0
Hydrocarbons & Related Services	4	2,721.1	6.5%	2.75	2.18	(3.63)	(14.52)	5.07	(7.25)	728.7	411.6	440.7	416.7
Media & IT	2	118.0	0.3%	(1.70)	(5.41)	(10.63)	(23.77)	2.51	(44.33)	505.4	402.9	391.4	523.5
Metals & Mining	2	508.7	1.2%	(3.18)	(2.36)	(12.32)	(25.29)	0.26	(27.73)	42.8	25.9	31.1	29.8
Mills	7	200.5	0.5%	0.36	(2.44)	(15.95)	(20.78)	0.50	(18.63)	16.5	22.6	28.7	31.6
Paper & Packaging	1	29.9	0.1%	(3.99)	(11.47)	(25.68)	(50.98)	(2.59)	(63.82)	65.8	56.7	70.4	85.6
Pharmaceuticals	3	715.9	1.7%	(1.55)	(0.73)	(1.62)	(9.77)	(0.61)	(15.39)	25.6	25.2	28.4	37.5
Steel	3	1,683.9	4.0%	4.50	(2.60)	(19.16)	(43.54)	7.93	(59.92)	3,768.4	1,793.2	1,392.1	1,279.2
Telecom Services	3	8,985.8	21.5%	3.96	5.77	3.69	(10.38)	9.93	(25.07)	1,493.6	1,144.6	1,427.4	1,509.4
Textiles	4	224.9	0.5%	(0.99)	(2.13)	(19.68)	(42.02)	2.40	(50.09)	2,401.9	1,570.3	1,536.2	1,843.9
Touristic Real Estate	3	231.8	0.6%	(1.78)	(3.62)	(13.06)	(29.05)	2.28	(54.95)	2,308.2	1,891.4	1,945.7	2,256.6
Trading & Storage	2	82.4	0.2%	3.28	(2.84)	(6.39)	(21.29)	(1.00)	(30.11)	0.5	3.1	13.3	55.3
Transport & Logistics	4	469.1	1.1%	(1.13)	(5.61)	(19.89)	(42.49)	(0.34)	(42.77)	847.5	640.6	891.9	1,033.7
CI Capital 100	100	41,876.7	100.0%	0.58	(1.92)	(11.07)	(26.45)	2.64	(36.20)	53,050.6	33,941.3	39,462.8	45,044.2
EGX 30	29	29,134.5	n/a	2.40	1.74	(9.28)	(24.80)	6.79	(41.79)	43,415.0	27,910.2	31,694.8	35,215.3

Source: Bloomberg & CI Capital Research Database

Dashboard I | Last 12 months

Year-on-Year Performance

	Company	Curr.	Last	Mkt. Cap (USDmn)	WoW (%)	MoM (%)	3M (%)	Ytd (%)	YoY (%)	52 Wk H	52 Wk L	6m Avg. Vol. (000' shares)	3m Avg. Val. (USD 000')†	6m Avg. Val. (USD 000')†
1	Alex Mineral Oils	EGP	70.96	1,011.5	0.21	6.05	10.51	6.01	**40.02**	82.87	44.17	38.4	303.83	443.79
2	Abu Qir Fertilizers	EGP	125.91	1,753.7	-0.91	-9.07	-1.17	-1.82	**6.01**	149.39	106.56	7.0	91.59	160.34
3	East Delta Mills	EGP	33.41	33.2	3.05	1.43	-10.62	3.95	**4.64**	38.50	27.00	1.1	2.87	6.30
4	Middle and West Delta Mills	EGP	36.01	44.7	3.63	-0.99	-21.82	1.35	**4.35**	47.00	28.20	4.0	17.34	28.49
5	Upper Egypt Contracting	EGP	1.17	73.1	-1.68	-5.65	-3.31	0.86	**3.54**	1.63	0.77	3,189.3	246.51	739.78
6	Medical Union Pharmaceuticals	EGP	29.10	151.0	-0.48	-0.07	4.30	2.11	**0.69**	29.60	22.23	3.8	7.32	17.43
7	Olympic Group	EGP	39.75	395.4	0.00	0.00	7.43	0.00	**-0.90**	41.00	29.83	13.8	3.02	89.24
8	Egypt Gas	EGP	76.00	151.0	0.00	1.06	-1.55	1.86	**-2.06**	80.00	65.76	1.7	11.48	21.12
9	Pioneers Holding	EGP	2.93	242.5	23.63	16.27	-9.57	31.98	**-2.66**	5.30	1.99	2,892.9	1,068.54	1,827.06
10	Egyptian Gulf Bank	USD	1.52	304.3	0.00	0.00	-12.14	0.00	**-4.40**	2.18	1.19	66.8	178.60	106.60
11	Bisco Misr	EGP	28.50	54.3	1.60	-9.52	-10.63	-2.03	**-6.47**	35.70	28.00	0.4	3.60	2.02
12	Orascom Telecom	USD	3.42	3,587.0	0.89	20.81	31.55	18.30	**-6.84**	3.90	1.11	951.9	2,545.70	2,636.66
13	Egyptian Electric Cables	EGP	0.86	70.7	-1.15	-4.44	-8.51	0.00	**-7.53**	1.13	0.67	5,209.2	338.29	843.74
14	Faisal Islamic Bank	EGP	20.00	44.2	0.10	1.16	1.52	1.06	**-8.38**	22.50	15.88	4.3	14.90	13.80
15	Sidi Kerir Petrochemicals	EGP	12.63	1,097.8	5.16	2.93	1.53	6.05	**-10.17**	15.48	11.00	164.7	365.62	343.77
16	Misr Beni Suef Cement	EGP	61.50	407.3	-1.44	0.80	-3.36	1.74	**-10.38**	76.98	52.00	6.3	86.80	65.24
17	EIPICO	EGP	33.01	433.6	-2.91	0.03	2.87	-2.88	**-10.59**	40.00	31.00	25.5	97.60	141.39
18	Oriental Weavers	EGP	30.00	447.0	0.00	0.00	-1.19	0.07	**-11.56**	35.00	27.00	29.7	211.52	148.88
19	Misr Cement (Qena)	EGP	89.92	446.6	-0.93	2.25	-3.85	0.56	**-12.23**	128.89	86.01	0.7	9.98	10.32
20	Upper Egypt Mills	EGP	48.39	56.1	-1.79	-1.08	-24.99	-0.74	**-14.78**	70.00	44.84	4.7	60.41	47.03
21	Delta Sugar	EGP	16.94	398.8	-1.40	-2.84	-2.59	0.18	**-15.99**	20.58	15.00	102.8	66.72	313.55
22	Telecom Egypt	EGP	14.41	4,072.7	5.49	6.74	-3.87	9.08	**-17.66**	18.00	11.99	475.9	958.00	1,157.96
23	AL Baraka Egypt Bank	EGP	8.73	127.0	3.07	5.05	8.58	3.31	**-17.84**	11.23	6.88	70.8	72.52	98.03
24	General Ceramic & Porcelain	EGP	4.17	34.8	-2.34	-6.92	-16.60	-3.25	**-18.07**	8.98	2.99	640.1	358.24	627.37
25	Orascom Construction & Ind.	EGP	219.80	7,529.9	2.96	6.58	-3.51	9.27	**-18.64**	290.00	183.94	92.4	3,154.93	3,464.39
26	General Silos and Storage Co.	EGP	21.62	35.8	6.55	-5.67	-7.73	-1.99	**-19.63**	27.89	19.62	2.2	7.89	8.86
27	Canal Shipping Agencies	EGP	5.65	187.1	0.00	-6.77	-19.86	0.00	**-20.76**	12.17	4.15	269.3	195.01	354.79
28	North Cairo Mills	EGP	15.00	26.6	-1.19	-5.84	-17.58	-0.07	**-20.97**	20.98	14.31	9.1	24.56	27.58
29	Eastern Company	EGP	92.00	761.6	-2.13	0.00	-2.18	-0.81	**-23.24**	122.95	81.01	14.8	327.36	230.75
30	Egypt Aluminum Company	EGP	22.31	461.7	-5.86	-9.24	-27.42	-5.63	**-23.44**	34.78	20.89	3.2	16.99	15.35
31	Cairo Housing & Development	EGP	4.62	71.7	12.68	11.06	0.65	19.07	**-24.88**	6.30	3.75	352.7	191.68	273.98
32	Arab Ceramics (ARACEMCO)	EGP	23.00	95.2	-0.09	0.00	1.77	-2.29	**-25.03**	35.00	20.25	8.6	29.02	33.77
33	United Housing and Development	EGP	4.23	60.9	5.49	6.02	13.71	11.32	**-28.06**	6.02	2.86	219.8	150.08	139.67
34	South Cairo and Giza Mills	EGP	23.28	11.6	0.00	-3.24	-4.71	0.34	**-31.67**	35.00	22.11	0.9	2.66	3.70
35	Al Arafa Holding	USD	0.38	119.1	0.00	-7.32	-22.45	-5.00	**-31.94**	0.61	0.38	352.0	101.30	183.92
36	Asec for Mining	EGP	8.11	47.0	-0.49	4.51	2.79	6.15	**-32.02**	14.00	6.53	26.5	35.71	36.80
37	Juhayna	EGP	3.80	457.0	-0.52	-5.00	-20.50	-2.56	**-33.33**	6.00	3.60	498.2	483.07	367.10
38	Misr Oil and Soap	EGP	11.47	11.4	-0.69	-2.55	-14.59	2.32	**-34.31**	18.02	11.00	12.0	21.90	27.01
39	Cairo Poultry	EGP	9.63	231.4	-3.70	-3.70	-6.69	-3.70	**-34.31**	15.99	9.40	40.2	92.52	71.80
40	Alexandria Mills	EGP	15.10	10.0	1.41	-0.53	-12.92	3.92	**-34.55**	25.40	14.00	2.0	4.90	6.09
41	Egypt Kuwait Holding Co.	USD	1.02	856.1	6.25	2.00	0.00	4.08	**-35.03**	1.63	0.90	487.8	529.10	507.65
42	National Bank for Development (NBD)	EGP	3.48	115.2	2.35	3.57	11.90	-0.57	**-35.32**	5.54	2.54	287.7	213.89	158.77
43	Misr Chemicals Company	EGP	4.63	38.3	-1.70	-6.28	-27.20	-1.49	**-35.87**	7.86	4.40	83.5	58.64	88.21
44	Raya Holding	EGP	3.53	36.4	-3.02	-5.36	-7.35	1.44	**-36.28**	5.66	3.07	263.8	109.46	183.21
45	GlaxoSmithKline Egypt	EGP	9.50	131.4	-1.25	-2.16	-12.04	-1.04	**-36.28**	15.65	8.86	8.1	14.79	14.48
46	Central Egypt Mills	EGP	7.53	18.4	-2.59	-6.81	-19.03	-5.28	**-37.41**	12.33	7.46	9.8	11.77	15.37
47	Suez Cement	EGP	23.50	707.6	-0.59	-1.26	-14.51	4.07	**-37.83**	42.30	22.50	6.8	24.80	32.68
48	South Valley Cement	EGP	3.02	246.3	-0.33	-5.63	-15.64	1.00	**-38.37**	5.10	2.87	134.1	42.75	83.88
49	Delta Insurance Company	EGP	4.60	17.1	1.32	-0.65	-24.47	5.26	**-38.58**	8.89	3.95	17.2	9.43	18.11
50	PACHIN	EGP	32.45	107.5	-0.46	-0.31	-15.95	-1.76	**-38.82**	55.40	30.00	16.5	71.06	99.96
51	Extracted Oils	EGP	0.77	20.0	-2.53	-4.94	-18.09	-1.28	**-39.37**	1.30	0.72	629.3	65.00	102.78
52	Misr Duty Free Shops	EGP	3.00	46.6	0.00	0.00	-5.06	0.00	**-40.59**	5.37	2.74	53.0	5.65	33.15
53	Development & Engineering Consultancy	EGP	10.95	26.2	-1.26	-1.88	-8.98	2.34	**-40.75**	18.94	9.65	21.7	24.10	47.47
54	National Societe General Bank	EGP	24.43	1,630.9	11.15	11.15	2.96	20.29	**-42.53**	43.86	18.44	96.1	392.92	373.21
55	Arab Cotton Ginning	EGP	2.25	100.9	-0.88	-2.17	-27.42	6.64	**-44.31**	4.31	2.01	988.4	373.59	510.81

* Stocks sorted in descending order by Year-on-year performance; Prices/data at close on 21 January 2012 — Source: Bloomberg Professional

† 3m/6m Average Value refers to 3/6-month Average Daily Turnover; Mkt Cap converted to USD using FX rate of USD6.04 to 1EGP.

Dashboard II | Last 12 months

Year-on-Year Performance

	Company	Curr.	Last	Mkt. Cap (USDmn)	WoW (%)	MoM (%)	3M (%)	Ytd (%)	YoY (%)	52 Wk H	52 Wk L	6m Avg. Vol. (000' shares)	3m Avg. Val. (USD 000')†	6m Avg. Val. (USD 000')†
56	Sinai Cement	EGP	29.67	343.9	0.99	-1.62	-8.88	3.52	**-44.64**	63.20	27.80	31.0	144.09	180.22
57	Alex Spin & Weaving	EGP	0.87	43.0	-1.14	-4.40	-19.44	-1.14	**-44.94**	1.62	0.83	200.5	25.08	36.80
58	Alexandria Containers	EGP	61.00	248.4	-0.41	-5.51	-21.45	-1.72	**-45.05**	114.00	56.70	2.6	16.30	32.07
59	El-Sweedy Cables	EGP	22.07	816.4	0.73	1.89	3.66	6.41	**-45.43**	41.92	17.48	129.2	304.95	469.98
60	Credit Agricole	EGP	8.00	380.1	0.38	0.00	-4.42	0.76	**-45.84**	15.79	7.70	19.2	29.74	26.98
61	KABO	EGP	0.57	32.0	-3.39	-6.56	-19.72	1.79	**-46.23**	1.09	0.55	598.8	51.81	72.40
62	Al-Nasr for Electric Transformers (Almaco)	EGP	6.56	43.3	-2.53	-6.95	-18.71	-1.06	**-46.62**	14.33	6.01	65.1	67.50	98.71
63	Ezz Al-Dekheila Steel	EGP	417.03	943.7	0.24	-5.66	-10.79	-2.29	**-47.13**	810.00	392.00	0.4	21.49	34.05
64	Naeem Holding	USD	0.25	77.3	4.17	0.00	0.00	4.17	**-47.92**	0.49	0.20	287.8	55.76	78.21
65	Semad Misr	EGP	5.44	8.6	-1.45	-4.06	-13.38	0.18	**-49.02**	11.00	4.85	22.4	20.31	24.58
66	United Arab shipping	EGP	0.56	18.5	-1.75	-5.08	-22.22	0.00	**-49.55**	1.14	0.53	706.6	68.72	86.15
67	Al-Ezz Ceramics & Porcelain Co.	EGP	2.15	18.2	-1.83	-4.87	-18.25	4.88	**-49.65**	4.54	1.90	58.7	27.98	23.58
68	Egyptians Abroad for Investment & Development	EGP	3.28	21.8	1.23	-1.80	-11.59	1.55	**-49.92**	6.75	2.65	273.9	155.60	170.26
69	Egyptian Financial& Chem. Co. (EFIC)	EGP	8.85	101.5	-3.07	-1.67	-17.75	-0.67	**-50.34**	18.24	8.40	141.4	217.48	251.17
70	MobiNil	EGP	80.10	1,326.2	5.49	-10.25	-16.60	2.39	**-50.71**	167.99	72.99	81.6	1,209.29	1,257.62
71	El Shams Housing & Development	EGP	2.32	38.4	0.87	-1.69	-11.79	3.57	**-50.85**	4.92	1.95	401.7	146.44	186.30
72	Commercial International Bank (CIB)	EGP	19.96	1,961.2	-0.50	-3.62	-18.06	6.74	**-50.87**	41.66	18.50	1,022.2	4,332.15	4,014.11
73	Egyptians Housing Development & Reconstruction	EGP	2.21	33.6	0.91	0.91	-6.36	5.24	**-51.85**	4.76	1.77	344.0	135.40	137.50
74	Media Production City	EGP	2.60	81.6	-0.38	-5.45	-13.91	3.59	**-52.38**	5.61	2.40	259.7	101.67	142.95
75	GB Auto	EGP	20.99	448.3	6.33	-0.05	-12.25	0.10	**-54.40**	47.50	19.01	23.0	67.35	98.63
76	Sharm Tourism Company	EGP	8.44	62.9	-0.71	-4.09	-18.30	-0.94	**-54.43**	19.99	7.80	12.8	9.45	20.87
77	Mena for Touristic & Real Estate Investment	EGP	1.56	19.4	-1.27	-1.27	-6.02	5.41	**-54.52**	3.52	1.20	240.5	85.53	70.86
78	Arab Polvara	EGP	1.52	23.6	-1.94	-1.94	-20.00	4.11	**-55.29**	3.46	1.37	455.6	103.87	149.89
79	Heliopolis for Housing and Development	EGP	11.05	203.5	-1.60	-6.59	-20.33	0.18	**-55.30**	25.00	10.46	43.8	99.70	97.09
80	Lecico	EGP	6.00	79.5	-0.17	-5.21	-9.23	3.45	**-55.38**	13.95	5.68	42.9	73.88	45.63
81	Egytrans	EGP	5.82	15.0	-2.35	-5.06	-16.02	0.34	**-55.71**	13.55	5.07	55.2	57.40	70.80
82	Nile Cotton Ginning	EGP	6.55	57.5	0.00	0.00	-11.84	0.00	**-55.80**	15.01	5.47	199.4	101.04	299.14
83	Egyptian for Tourism Resorts	EGP	0.86	149.5	-3.37	-5.49	-14.85	2.38	**-55.90**	2.00	0.77	2,003.3	253.63	332.26
84	Egyptian Iron and Steel	EGP	4.07	329.1	1.24	-6.00	-20.51	3.56	**-56.05**	9.41	3.80	45.6	46.04	37.30
85	General Giza for Cont. & Real Estate Investment	EGP	11.13	18.4	0.54	-4.30	-20.90	-0.18	**-56.11**	26.28	10.50	80.8	158.24	210.50
86	Housing and Development Bank	EGP	10.80	205.6	-0.83	-10.60	-10.15	-1.91	**-56.61**	25.50	10.50	42.3	77.43	94.05
87	ICON	EGP	4.44	13.1	-1.33	-9.76	-17.32	0.00	**-56.64**	10.50	4.00	66.5	47.65	61.90
88	Maridive & Oil Services	USD	1.50	460.8	5.63	-1.32	-25.00	6.38	**-56.77**	3.72	1.34	211.9	369.50	416.78
89	Export Development Bank	EGP	4.29	102.3	-0.92	-13.33	-22.98	-1.83	**-56.84**	10.00	4.06	53.2	54.92	48.49
90	El-Nasr for Civil Works	EGP	20.53	17.0	-1.77	-5.48	-14.67	-1.20	**-58.74**	54.00	19.00	7.3	31.12	33.37
91	Talaat Mostafa Group (TMG) Holding	EGP	3.22	1,100.1	0.00	-2.42	-14.36	8.78	**-58.74**	7.99	2.75	3,130.6	2,346.30	1,827.76
92	EFG - Hermes	EGP	10.21	808.5	-2.76	1.90	-16.65	2.00	**-59.52**	25.98	9.25	708.3	1,074.68	1,489.91
93	Al Ahly Investment & Development	EGP	5.88	19.5	-1.84	0.17	-15.40	5.19	**-59.70**	14.95	5.10	64.4	74.98	80.91
94	Nasr City for Housing and Development	EGP	11.05	192.1	-0.72	-7.14	-16.98	1.28	**-61.93**	29.43	9.53	33.5	57.79	73.02
95	RAKTA	EGP	6.02	29.9	-3.99	-11.47	-25.68	-2.59	**-63.82**	18.75	5.71	85.6	83.62	130.73
96	Amer Group Holding	EGP	0.57	288.2	-1.72	-6.56	-20.09	3.64	**-64.96**	1.70	0.52	6,118.9	778.45	749.64
97	Citadel Group	EGP	2.64	289.2	3.13	-5.38	-24.14	3.53	**-69.69**	9.05	2.35	2,876.0	1,295.80	1,643.59
98	Ezz Steel	EGP	4.57	411.0	12.01	3.86	-26.17	22.52	**-76.58**	20.05	3.28	1,233.2	1,028.82	1,244.37
99	SODIC	EGP	8.77	131.7	4.65	-0.90	-40.26	10.04	**-78.52**	41.60	7.25	160.9	379.49	306.96
100	Palm Hills Developments	EGP	1.20	208.3	0.84	1.69	-7.69	10.09	**-79.73**	5.99	1.04	3,488.4	662.30	853.15

* Stocks sorted in descending order by Year-on-year performance; Prices/data at close on 21 January 2012

Source: Bloomberg Professional

† 3m/6m Average Value refers to 3/6-month Average Daily Turnover; Mkt Cap converted to USD using FX rate of USD6.04 to 1EGP.

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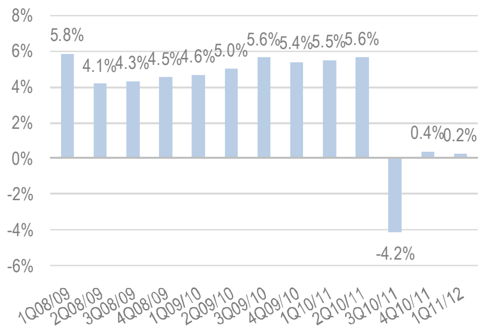
January 26, 2012

GDP growth by quarter | 1Q08/09 – 4Q10/11*



Growth Drivers

- Strategic location on major trade routes, with extensive trade agreements in place.
- Populous young economy; over 80m, with 46% between the ages of 15 and 44.
- Rising middle class and sizeable internal demand provide long term growth.
- Relatively cheap labor and energy costs.

Short-term Risks

- Political and social instability.
- Business disruptions and security risks.
- Falling net international reserves.
- Upside risks to inflation due to instability and a devalued local currency.
- Widening budget deficit and risks keeping interest rates high.
- Slow US GDP growth and eurozone crisis should impact Egypt's external sector.

KPIs | FY09/10-FY12/13e*

Indicator	09/10	10/11	11/12e	12/13e
Real GDP Growth (%)	5.1%	1.8%	0.4%	1.4%
Balance of Goods & Services (USD bn)	(14.8)	(15.9)	(18.4)	(22.4)
Current Account (USD bn)	(4.3)	(2.8)	(3.2)	(4.7)
FDI (USD bn)	6.8	2.2	0.6	0.9
EGP/USD Exchange Rate (Period Avg)	5.524	5.820	6.182	6.309
Net International Reserves (USD bn)	35.2	26.6	12.2	14.3
Inflation (CPI, %)	11.7%	11.1%	9.3%	10.2%
Core Inflation (Core CPI, %)	6.7%	8.6%	7.5%	8.0%
Fiscal Deficit % GDP	8.1%	9.5%	11.8%	10.9%

* Source: CI Capital Research

Egypt: Down but not out

- **Uncertainty will negatively impact investment, especially FDI.**
- **Further slowed economic growth of 0.4% in FY11/12.**
- **Widened fiscal deficit of 11.8% of GDP vs. 9.5% in FY10/11.**
- **Falling net international reserves and depreciated local currency.**

Shifting alliances, jostling for power, and democratic aspirations are reshaping the new Egypt, but shaking up the economy in the process. The January 25 Revolution and the ensuing unrest prompted the outflow of not only portfolio investments but also foreign direct investment, while reined productivity pressured GDP growth to 1.8% in FY10/11. This shifted the Balance of Payment to a deficit of USD9.8bn, drawing some USD18bn from reserves. Government attempts to satisfy the demands of an unsettled public, combined with rising interest payments, pressured the budget-deficit, which widened to 9.5% of GDP. We believe the same pressures will continue in FY11/12 until a clear economic and political vision is attained. Low investments will continue to pressure growth to below 1%, while tight reserves and budget deficit will remain key weaknesses. Further, interest payment, wage and salary hikes will widen fiscal deficit to 11.8% of GDP.

Instability to weaken Egypt's economic standing

Although the Armed Forces' plan to hand over power is moving ahead with the parliamentary elections completed and the newly elected president planned to take power by the end of June 2012, tension still exists. The country is witnessing a fierce power struggle amongst a rich and volatile mix of players in its political scene, including the army, police, revolutionaries, Islamists, and vestiges of the old regime. We believe intermittent social and political tension will persist at least until a president is elected in June 2012, which will weigh on Egypt's economic performance.

Stagnant investment, lower growth, falling reserves

FDI inflows will continue to feel the effect of lingering uncertainty in FY11/12, and are projected to fall to USD0.6bn, pressuring investment to drop by 8.2%. Nonetheless, these declines will pressure GDP growth down to 0.4%. Slowed exports growth and weak tourism revenues of USD8bn amidst ongoing tensions – despite growing transfers and solid Suez Canal revenues – will widen the current account deficit to USD3.2bn. Additionally, weak portfolio investments will further push down foreign reserves to USD 12.2bn.

Rising fiscal strains

Given the successive downgrading in Egypt's rating and continued rise in yields, borrowing costs are rising and pressure on the budget is mounting. Meanwhile, maintained sectarian protests and rising demand will continue fueling the increase in wages and salaries. Though we expect revenues to slightly recover, rising 8% in FY11/12, we also expect budget deficit to rise to 11.8% of GDP – above the 8.6% budgeted figure. Maintained political tension and weak economic performance will make it harder for Egypt to gain access to external funding; however, continued regional support may provide some relief.

2011 Review: Spotlight on politics

Egypt: The road to democracy

When the levee breaks

By early 2011, accumulated feelings of injustice from the country's mounting poverty rates, widespread corruption, high unemployment, and repression of democratic values had all coalesced into a ticking time bomb within Egyptian society. Adding to this, the ruling NDP party's wide victory in the November 2010 parliamentary elections – wherein the Wafd Party and Muslim Brotherhood members' lost their 88 seats – represented a more concrete affront to democracy, and came alongside growing anger with the apparent grooming of Gamal Mubarak to succeed his father in power. The situation was thus already on the brink a year ago, when the model of the Jasmine Revolution in nearby Tunisia pushed it over the edge. Starting January 25, Egypt witnessed its largest anti-government protests for more than three decades, all demanding the resignation of President Mubarak and his 30-year regime. The magnitude of the situation caught many off-guard, as protests and riots escalated and swept across all governorates. After 18 days of unrest, Mubarak stepped down and transferred power to the Supreme Council of Armed Forces (SCAF).

Figure 2.1 | **Protests' Timeline till Mubarak stepped down**

Date	Event
25-27 Jan-11	Thousands gather in inter-connected protests in several governorates across Egypt; Cairo's Tahrir Square the focal point of protests.
28-Jan-11	**"Friday of Anger":** Large protests after Friday prayers; internet and mobile services blocked by state security; clashes between police and protestors; army mobilised and sent into central Cairo; curfew implemented; looting and breakdown in law and order.
29-31 Jan-11	Police withdrawn from streets; heavy army presence responsible for maintaining control; prisons opened and 17,000 prisoners escape (4,000 re-captured so far); pro-Mubarak protests seen in streets; continued looting of public & private properties.
1-Feb-11	**"March of the Millions":** Protests across several governorates; estimated 2mn demonstrators.
2-Feb-11	**"Black Wednesday":** Pro-Mubarak supporters launch counter-attack in Tahrir Square; violent skirmishes between rival factions; curfew shortened.
3-Feb-11	Protests continue; violence reported early in day; over 2nd and 3rd February, 13 people killed, around 1,900 injured.
4-Feb-11	**"Friday of Departure":** Millions marched to Tahrir Square along with protests in Suez and Ismailiya and other governorates; no violence reported.
5-10 Feb-11	Protestors camp out in Tahrir Square; protests remain peaceful; tension builds through Feb 9th until 11th.
11-Feb-11	Mubarak steps down, transferring ruling power to the army.

Source: CI Capital Research Database

SCAF confirms commitment to power-transfer

The transfer of power to the SCAF came as a positive step to ensure some measure of stability until the arrival of civil democratic rule. The Council swiftly moved to confirm this, assuring it would not act as a substitute for the legitimacy of the public, and would oversee the orderly transfer to a civil democratic rule while honoring all regional and international treaties. That said, the council wields considerable power and has recently unilaterally issued a constitutional declaration giving itself legislative and judicial powers to effectively "decide what the law is," leading to renewed political tension.

Figure 2.2 | **Overnight Changes**

Immediate Political Outcome
• The dissolution of both houses: Shura Council and People's Assembly.
• The suspension of the constitution and amendment of four laws covering the exercise of political rights and the elections of People's Assembly, the Shura Council and the presidency.
• The implementation of the temporary constitutional declaration with the approved amendments after the referendum held on March 19th and articles in the 1971 constitution.
• The approval of the formation of new political parties.
• Starting a national dialogue, allowing the public to get involved in the GoE's decision making process.

Source: CI Capital Research Database

Key political developments during SCAF rule

Trials of Mubarak and regime figures: Former President Mubarak and his sons have entered trials where they face charges of killing protestors during the revolution and misusing political status to accumulate wealth by deliberately misallocating state funds for personal gains. Members of the old regime were tried as well, with several ex-ministers receiving sentences.

Concrete steps to prevent sectarian conflicts: A unified law for constructing places of worship and a new anti-sectarian discrimination law were declared. Moreover, a decision was made to establish a National Justice Committee to prevent sectarian conflicts, which serves as a positive step towards solving post-revolution security issues.

Announcement of Anti-Discrimination Law: Any person accused of discrimination by gender, origin, language or religion will be sentenced to at least three months imprisonment and/or a fine of EGP30k to EGP50k.

Figure 2.3 | **Political Update**

Key Political Developments
• The Supreme Council of Armed Forces (SCAF) announces support for constitutional reforms via the preparation of a principles script for choosing a Constituent Assembly, in order to draft a new constitution with approval of all political powers and parties.
• Administrative Court announces the dissolution of Local Councils.
• SCAF announces three-stage process for upcoming parliamentary elections: People's Assembly elections held November 28-January 10, 2012; Shura Council elections set for January 29-March 11, 2012; People's Assembly to convene on January 23rd.
• Several cabinet reshufflings with the current interim government headed by Dr. Kamal El-Ganzouri.
• Ministry of Interior sees largest ever reshuffling, covering 4000 officers, as well as ending service for 505 major- and brigadier-generals and 82 colonels.
• Ten consecutive attacks on Egypt's natural gas pipeline feeding Jordan and Israel.
• Emergency law reactivated in September to maintain national security until June 2012.
• SCAF decrees Anti-Discrimination law and a unified law for constructing places of worship was declared.
• Judicial Court issues 12-year prison sentence for former Minister of Interior Affairs, 3-year sentence for former Minister of Tourism, 5 years for former Minister of Population and Urban Communities, and 30 years for former Minister of Finance
• SCAF cancels Article No.5 of the Election Law, which allows members of political parties to run as independents in legislative elections.
• Egyptians living abroad granted the right to vote in the country's elections in world embassies and consulates.

Source: CI Capital Research Database

Political representation pre-January 25th

Egypt currently has 25 political parties. Prior to the January 25 Revolution, Egypt was nominally a multi-party system by constitution; however, in practice, the National Democratic Party dominated the political arena, with a majority ranging from 75% to 95% in every parliamentary election since 1979.

Colouring the political landscape

As hopes rise for further political freedom and the holding of Egypt's first free parliamentary election, political parties are fast multiplying. Immediately after the SCAF's taking power, the moderate Islamic political party, Al-Wasat, was approved after a 15-year old legal battle between the party and the old regime. Following this, a number of other parties were recognized, including the long-banned Muslim Brotherhood party, Freedom and Justice, which received approval in May. Other approved parties included: Egyptian Social Democratic Party, Socialist Popular Alliance Party, Justice Party, Free Egyptians Party, Egypt Freedom Party, and others.

Moreover, figures from various opposition parties were represented in the interim cabinet. New Wafd affiliate Mounir Abdel Nour is the Tourism Minister and the top leftist Tagammu party member, Gouda Abdel Khalek has been made the Minister of Supply and Social Affairs.

Figure 2.4 | **Political parties**

Party	Ideology	Est.	Key Figures	Key Policies: Political	Key Policies: Economic	Key Policies: Foreign
Al-Gabha al-Dimuqrati (Democratic Front Party)	Liberal	May-07	President: **Saeed Kamel** Founding Member: **Osama Al-Ghazali Harb**	Supports presidential system and bicameral parliament; independent judiciary; immediate repeal of all emergency laws.	Market economy; establishing minimum wage; providing government programs for health care, social security & pensions, unemployment benefits.	Engagement with Arab, Nile Basin, African countries; independence from US & stable relations with Iran.
Al-Ghad (Tomorrow Party)	Liberal	May-04	President: **Ayman Nour**	Supports parliamentary system; religious tolerance; eliminating state's monopoly on the media.	Supports social market economy; maintaining strong regulatory role for state; establishing development bank to help alleviate poverty; eliminating corruption.	Improving cooperation with Nile Basin countries; amending Camp David Accords; supports economic cooperation with European countries.
Al-Wafd (Delegation Party)	Liberal	Feb-78	Chairman: **Sayyid Al Badawi** Deputy Chairman **Fouad Badrawi**	Imposing two-term limit on presidency; abolishing all special security courts; requiring nomination of a vice-president.	Developing free private sector; Forbidding monopolies of all types; deregulating banking industry; improving education.	Strengthening Arab League; maintaining strategic Egyptian-US relationship yet rejecting U.S. bias towards Israel.
Al-Masriyeen al-Ahrrar (Free Egyptians Party)	Liberal	Apr-11	Founder: **Naguib Sawiris** Founding Member: **Ahmed Said**	Supports separation of religious & state affairs; democracy, freedom of speech & expression; greater role of women in society.	Supports market economy; restructuring of tax system; expansion of micro-credit program; implementing tax credits for Zakat & tithe to reward social cooperation.	Respecting Camp David Accords; developing stronger ties with Sudan, Turkey, Iran, Russia, & China; rebalancing Egyptian-US relations.
Al-Islah wa al-Tanmiyya (Reform & Development Pty)	Liberal	Jan-09	President: **Ramy Lakkah** Founding Member: **Anwar Sadat**	Monitoring corruption, establishing clear separation between religious & political realms.	Promoting free-market policies; supporting small-scale development projects & microfinance initiatives.	Against normalization of diplomatic & economic relations with Israel.
Al-Masry al-Dimuqrati al-Igtima'i (Egyptian Social Democratic Party)	Liberal	Jul-11	President: **Mohamed Abou El-Ghar** Founding Member: **Emad Gad**	Ensuring civil, political, economic, & social rights for all individuals; democracy based upon rule of law.	Supports market economy; adequate healthcare & housing; public infrastructure spending to stimulate economy.	End arms race in Middle East including making the region free of Weapons of Mass Destruction.
Al-Wasat (Center Party)	Islamic	Feb-96	President: **Abu al-'Ila Madi** Founding Member: **Essam Sultan**	Equal citizenship rights for all Egyptians; abolishing emergency laws; imposing term limits on presidency.	Alleviating hardship for poor; controlling inflation; supporting investment in private sector; universal health insurance.	Prioritizing relationships with Sudan & Nile Basin countries; encouraging links between Arab countries.
Al-Tayar al-Masry (Egyptian Current Party)	Islamic	Jun-11	President: **Mohamed al-Kassas**	Equal rights to all citizens; civil state in Egypt with Islamic values but not an Islamic state.	Advocating social justice; investing in education; providing adequate housing & health insurance.	Affirming Egypt's identity as Islamic, Arab, & African country.
Al-Hurriyya wa al-'Adala (Freedom & Justice Party)	Islamic	May-11	President: **Mohammed Morsi** Vice-President : **Rafiq Habib**	Supports civil state & goals of Islamic law; affirming belief in non-discrimination/freedom of expression; calling for a parliamentary system.	Supports market economy; eliminating poverty, unemployment; raising standard of education; deepening concepts of Islamic law.	Release of national security documents; strengthening Organization of Islamic Conference & Arab League; securing Nile River resources.
Al-Adl (Justice Party)	Islamic	Jun-11	President: **Mostafa Naggar** Founding Member: **Mohammed Gabar**	Respecting freedom of religious belief; upholding rule of law; promoting concept of decentralization.	Supports free economy; exploiting all of Egypt's land; relying on new & renewable energy sources.	Respect international law/; rejecting normalization with Israel; establish close ties with Arab states.
Building & Development Party	Islamic	Jun-11	President: **Tareq al-Zumr**	Promoting legal, constitutional, & political reform.	Establishing strong Islamic values in society; supporting role of the family & women; spreading political concepts & values of Islam.	Affirming Egypt's role as a leader of the Arab; establishing stronger relations with Nile Basin countries.
Al-Asala (Authenticity Party)	Islamic (Salafi)	Jul-11	President: **Dr. Adel Abdal Maqsoud** Founding Member: **Ihab Mohamed Ali**	Supports Islamic religious state; treating all individuals with justice; fighting corruption; freedom of media.	Supports fair distribution of wealth & raise the quality of life through social solidarity.	Return Egypt to its leading position; unifying ranks of the Islamic world; rejecting the Camp David Accords.
Al-Nour (Light Party)	Islamic (Salafi)	Jun-11	President: **Emad ad-Din Abd al-Ghofour**	Supports Article 2 of the Egyptian Constitution; supports separation between legislative, judicial & executive powers.	Free economic competition; reducing unemployment; calling for independence of l-Azhar; supporting religious freedom for Copts.	Supports greater role for Egypt in Arab & Islamic worlds as well as among Nile Basin countries.
Al-Tahrir al-Masry (Egyptian Liberation Party)	Islamic (Sufi)	2011	Founder & President: **Ibrahim Zahran**	Supports a civil state; adhering to the principles of Islamic law.	Establishing free market economy; increasing the role of Sufis.	Cooperation with all peoples, civil society organizations & international institutions.
Al-Tagammu (Progressive Unionist Party)	Leftist	Jan-76	Chairman: **Mohammed Rifat al-Saeed**	Maintaining strong state & advocating democracy.	Nationalization of major industries; supports redistribution of wealth.	Solidarity amongst Arab nations: rejecting US & Israeli 'imperialism' in Middle East.
Al-Tahaluf al-sha'abi al-ishtiraki (Socialist Popular Alliance Party)	Leftist	Mar-11	Founding Member: **Abu al-Ezz al-Hariri** Prominent Member: **Abd al-Ghaffar Shukr**	Supports civil, democratic state; establishing parliamentary republic; greater power to local government.	Implementing tax reform; retaining state ownership of major banks; adopting comprehensive social insurance system.	Re-examining trade agreements & partnerships; severance of diplomatic relations with Israel; greater cooperation with African states.

Masr al-Hurreyya (Egypt Freedom Party)	**Social-Democratic**	May-11	President: **Amr Hamzawy** Founding **Member: Anji Maseehi**	Ensuring rights of all Egyptians; reducing discrimination; enforcing human rights.	Supports market economy; calling for government-established regulations to reduce monopolies.	Advocating active role for Egypt in Arab world, Africa; calling for positive engagement with Turkey & Iran.
Al-Dimqurati al-Arabi al-Nasseri (Democratic Arab Nasserite Party)		Jan-92	President: **Sameh Ashour** Founding Member: **Mohammed Abu al-'Ala**	Maintaining & expanding upon social & political achievements brought about by the 1952 revolution.	Reversing free-market reforms & restoring economic system based on socialist principles; expanding public sector; fully-subsidized healthcare.	Resolving Palestinian question; opposing normalization of relations with Israel.
Democratic Generation (al-Geel) **Party**		Feb-02	President: **Nagi Al - Shihabi**	Supports legal equality of all citizens & multi-party system.	Strengthening agricultural output; providing state-subsidized housing; improving situation of teachers.	Improving integration of Nile basin; resisting U.S. intervention

Source: Carnegie

Figure 2.5 | **Political Alliances**

Alliance	Orientation	Est. Date	Political Parties	Elections' Representation
Al-Tahaluf al-Dimuqrati (The Democratic Alliance)	Coalition of liberal, leftists & Islamic parties.	Jun-11	Freedom and Justice, Al-Ghad Al-Jedid, Al-Karama, & eight smaller, less well-known parties.	Freedom & Justice party account for 70% of Alliance's list & 90% of those running for independent seats.
Al-Kotla al-Masriyya (The Egypt Bloc)	Main liberal alliance.	Aug-11	Free Egyptians Party (Al-Masriyeen al-Ahrrar), the Egyptian Social Democratic Party (Al-Masry al-Dimuqrati al-Igtima'i) & National Progressive Unionist Party (al-Tagammu).	Al-Masriyeen Al-Ahrrar is the founder of the bloc & gets 50% of the places on the list; Al-Masry Al-Dimuqrati al-Igtima'I has 40%, while al-Tagammu gets 10%.
Al-Tahaluf al-Islami (The Islamist Alliance)	Islamist alliance.	Sep-11	The Salafi Al-Nour & Al-Asala Parties and Al-Gama'a Al-Islamiyya's Building & Development Party.	
Al-Thawra Mostamera ("Completing the Revolution" Alliance)	Coalition with different orientations.	Oct-11	Egypt Freedom Party, Egyptian Current Party, Socialist Popular Alliance Party, the Sufi Egyptian Liberation Party, al-Nahda, the Equality and Development Party, the Revolutionary Youth Coalition, the Youth Movement for Justice and Freedom, & the Union of Independent Farmers.	Alliance will field 300 candidates in 33 electoral districts: 250 on unified electoral lists & 50 for independent seats

Source: Carnegie

SCAF's action plan to transfer power

70% of parliamentary seats are based on party list system

The electoral system for the first parliament after the uprising is different; wherein 70% of the 498 parliamentary seats are based on the party list system, while the remaining 30% through individual-candidate voting. To ensure the representation of women, each list included at least one woman candidate, yet the removal of the women quota in the parliament itself undermines women's representation. The three rounds of parliamentary elections ran smoothly, ending with Islamists as the leading contributors, and the first parliamentary assembly convened on January 23, 2012. Similarly, the three-round elections for the new 270-seat Shura Council will start on January 29, 2012, and end on March 11. Following the convening of the newly elected People's Assembly and Shura Council in March 2012, a committee will draft a new constitution to replace the pre-revolutionary one, and then presidential elections will be held by June 2012 at the latest.

New elected president to come into power by July 1

Under the new regulations of March 2011 referendum the president is limited to two four-year terms and is required to appoint a deputy. To get on the ballot presidential candidates will be required to provide 30,000 signatures from at least 15 provinces, 30 members of a chamber of the legislature, or nomination by a party holding at least one seat in the legislature.

Islamists lead in polls after several rounds of voting

The success of Egypt's Islamic parties could give them a key role in shaping the country's future. The Muslim Brotherhood could have a strong influence over how the next constitution is devised. But with the ruling Military Council planning to stay put until June, it remains unclear exactly what powers any new parliament will wield. The Brotherhood has a history of political pragmatism, as even though the group was legally banned, many of its members served in parliament under Mubarak as independents. Leaders of the Brotherhood’s Freedom & Justice Party say their current priorities include rebuilding state institutions and promoting a free-enterprise economy as well as the role of the private sector, while not banning alcohol or regulating women’s dress.

2011 Review: Economy

Repercussions of a revolution

Capital flight

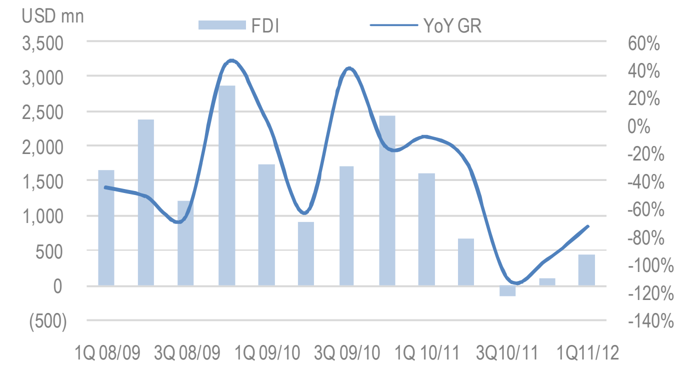
First time FDI outflows

Adding to the unrest in Egypt, the widespread turbulence in the MENA region noticeably impacted Egypt's FDI, as the region bears a contribution of 13% in the country's total FDI inflow. Further, the weak economic stance of key investment partners in Egypt – i.e. the US and Euro area – negatively impacted investment. For the first time, FDI saw an outflow of existing investments of USD0.2bn, compared to CI Capital Research estimates of an inflow of USD0.5bn in 3Q10/11. This resulted in a drop in FDI inflows to USD2.2bn in FY10/11 – in line with our expectations of USD2.1bn. In 1Q11/12, FDI retreated to USD0.4bn vs. USD1.6bn a year earlier, which came slightly above our expectations of USD0.2bn.

Portfolio outflows

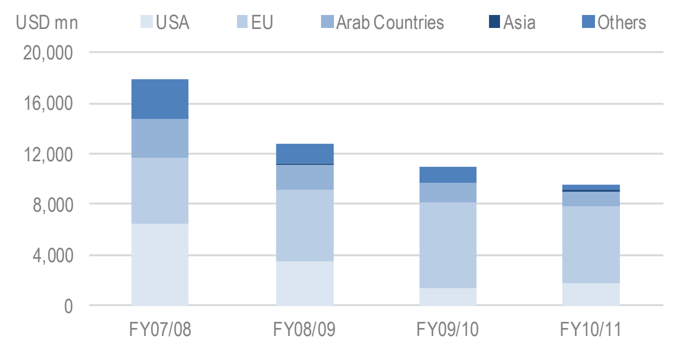
Moreover, huge foreign selling in equities and bonds shifted portfolio investments to a net outflow of USD2.6bn, vs. a net inflow of USD7.9bn in FY09/10.

Figure 2.6 | **FDI Inflows**



Source: CBE

Figure 2.7 | **FDI by country**



Source: CBE

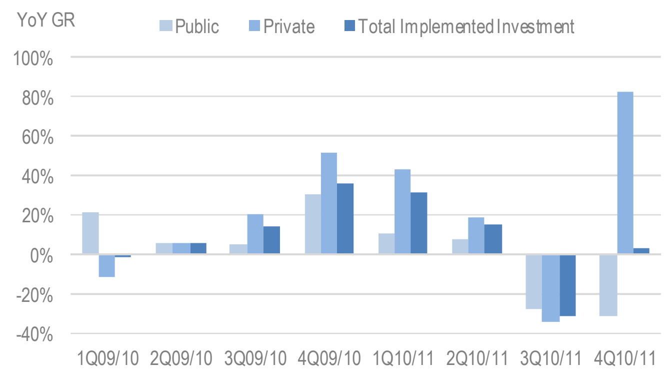
Depressed investments

Implemented investments dropped 1.2%

Egyptian business sentiment was hit hard by the wave of political and social unrest, with the public uprising in January putting many foreign investment decisions on hold. Meanwhile, the allegations facing a number of businessmen in Egypt weighed on the investment environment. Implemented investment dropped 1.2% to EGP229bn in FY10/11, down from EGP231.8bn a year earlier. The minor drop was supported by the pick-up in the last quarter, which rose 34%QoQ and marked a slower YoY drop of 6% vs. the 32% fall seen in the previous quarter. Private sector implemented investments maintained its double-digit growth, rising 15.7% YoY from 11.6% in FY09/10 - supported by the first half of the year, whereas government investment reversed its growth of 14.7% to mark a drop of 21.5% in FY10/11. Oil and natural gas investments dropped 40% YoY, while investments in the agriculture and manufacturing sectors saw a single-digit fall. On the other hand, real estate and wholesale trade marked the fastest-growing sectors with a rise of +80%YoY.

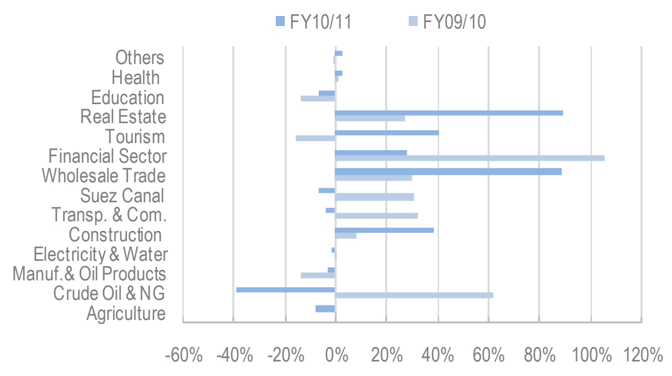
Implemented Investments dropped to EGP46bn in 1Q11/12, down from EGP56bn a year earlier.

Figure 2.8 | **Implemented Investment Growth**



Source: Central Bank of Egypt (CBE)

Figure 2.9 | **Investment Performance by Sector**



Source: CBE

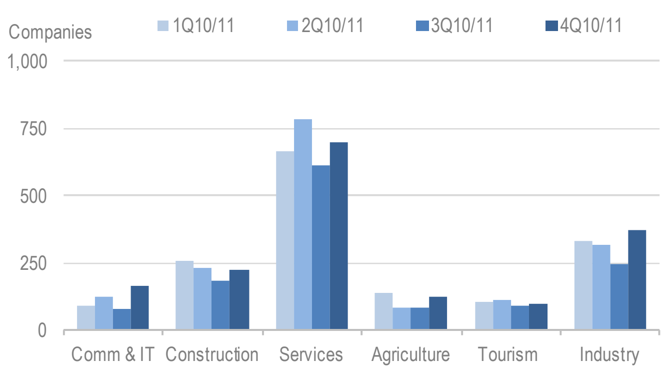
Double-digit fall in newly established companies

The total number of new companies reversed its growth of 15.5% to mark a drop of 14.6% in FY10/11, amounting to only 6,205 companies, as investment was hit in the second half of the year. Tourism and agriculture sectors saw the highest drop of 34% and 28%, respectively.

Reined loans growth

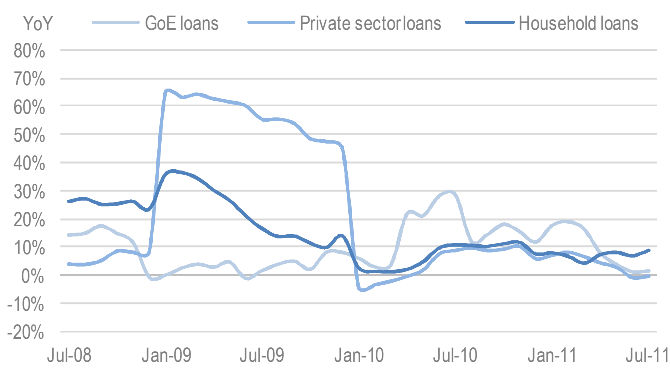
Reduced deposits growth, high treasury yields, and general economic slowdown combined to rein in loans growth. In FY10/11, aggregate loans grew 1.6%YoY, down from an 8.5% growth a year earlier, with household loans maintaining their single-digit YoY increase, registering 6.7% compared to 9.5% in FY09/10.

Figure 2.10 | **Establishment of New Companies**



Source: CBE & Ministry of Investment (MoI)

Figure 2.11 | **Loan Growth**



Source: CBE & MoI

Depressed spending levels

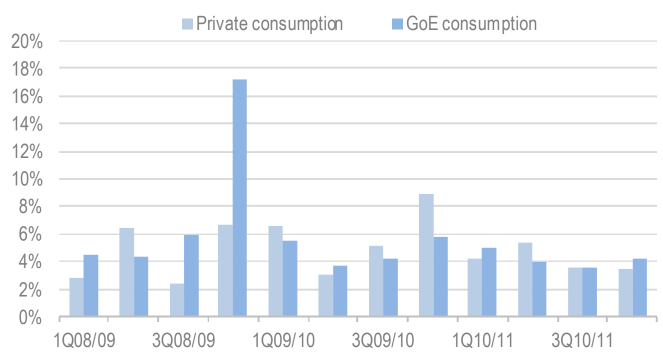
Slower private spending growth

Private consumption saw a slow-paced growth of 4.8% in FY10/11, down from 5.1% a year earlier – in line with CI Capital Research estimates of 4.5%. In addition to the country's instability, high inflationary pressures and rising unemployment further depressed spending levels.

Reined imports growth

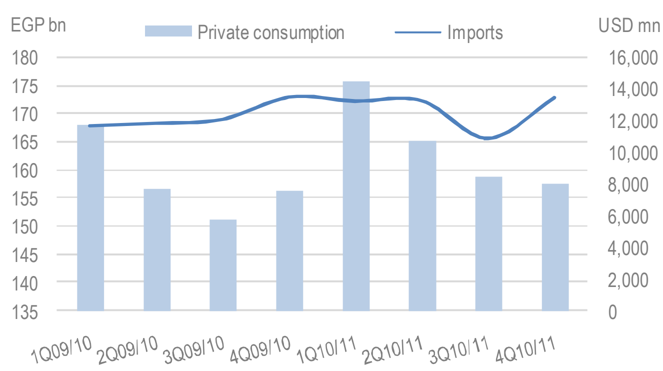
Slower spending levels coupled with the drop in investments reined imports growth to 3.6%YoY, reaching USD49.1bn in FY10/11. This came below the past five years' average growth of 16.4%. In 1Q11/12, goods imports shifted to a growth of 10.2% to USD14.6bn – above our expectations of USD13bn – reversing the drop seen over the last two quarters.

Figure 2.12 | **Growth in Private & Government Consumption**



Source: MoP

Figure 2.13 | **Private spending and imports**



Source: CBE & MoP

Drop in tourism, key export earner

The country's political and social upheaval has hit tourism hard. In FY10/11, tourism receipts dropped to USD10.6bn – exactly at our expectations – marking a drop of 8.6%YoY. The sector is to remain negatively affected for some time, until confidence returns. Uncertainty continues to take its toll on tourism revenues, which dropped 26%YoY to USD2.7bn in 1Q11/12. However, this came above our estimates of USD2.2bn.

Suez Canal revenues remain solid

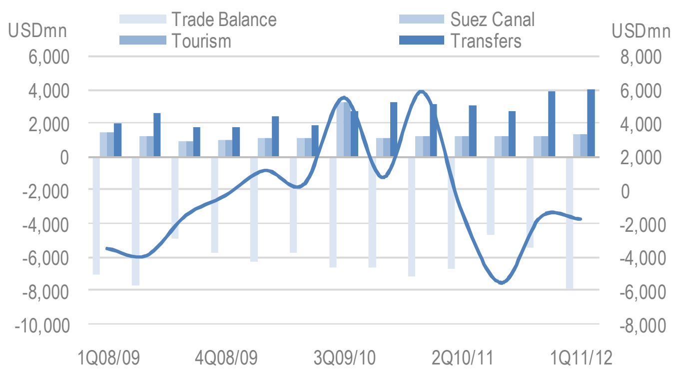
On the other hand, maintained canal tolls and higher oil prices drove up Suez Canal revenues 12%YoY, reaching USD5.1bn in FY10/11, exactly in line with CI Capital Research estimates. Canal revenues reached USD1.4bn in 1Q11/12.

High oil prices support exports and transfers

Despite production disruptions and several successive bombings of Sinai's natural gas pipeline to Israel, exports nonetheless increased 13.1% YoY in FY10/11 to USD27bn – above CI Capital Research estimates of USD25.4bn. This came as exports performance improved significantly to USD8.1bn in 4Q10/11, above our estimates of USD6.4bn – marking a rise of 17%YoY, supported by the hiking oil prices that averaged USD102.5/barrel over the quarter. In all, oil exports saw a higher growth in FY10/11, rising 18.3% vs. a drop of 6.8% a year earlier backed by higher oil prices which averaged 89.35USD/barrel in FY10/11 up from 75.09USD/barrel a year earlier. Although demand in our main export markets is slowing, exports increased 10%YoY in 1Q11/12 to USD6.8bn – in line with CI Capital

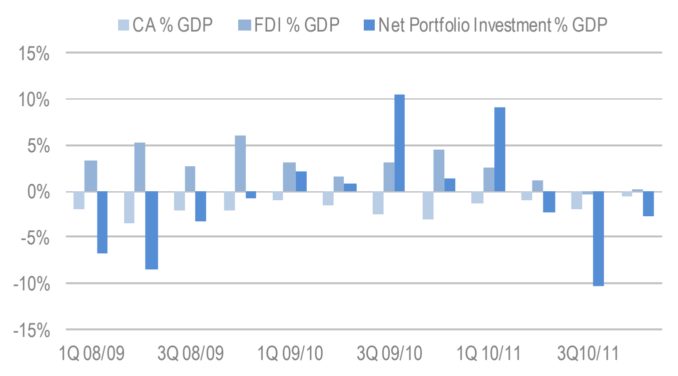
Research estimates of USD6.9bn. Growth was supported by the rise of 15.8% in oil exports due to higher oil prices, which averaged 89.78USD/barrel in 1Q11/12, up from 78.28USD/barrel a year earlier. Moreover, transfers grew by double-digit of 26%YoY backed by higher oil prices – registering USD13.3bn in FY10/11 above our estimates of USD12bn.

Figure 2.14 | **Current Account**



Source: CBE

Figure 2.15 | **External Sector Indicators**

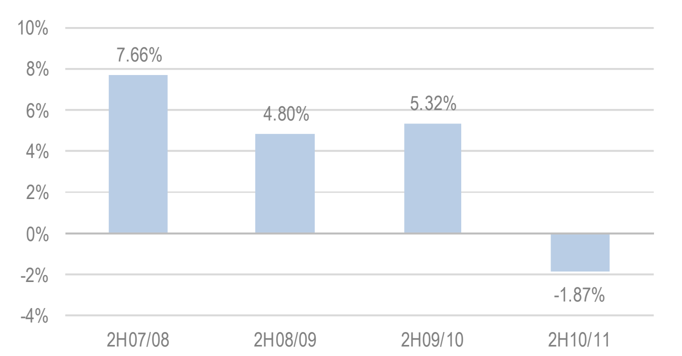


Source: CBE

Slower GDP growth

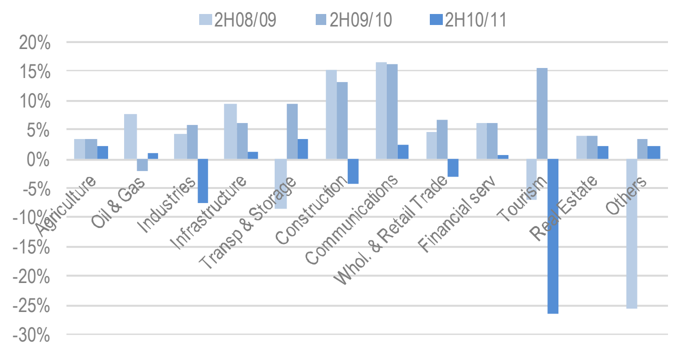
The economy dipped 4.2%YoY in 3Q10/11 driven by the double-digit drop in investments and slower spending. Most sectors contracted, with tourism and manufacturing experiencing the largest drops of 33% and 12%, respectively during the quarter. GDP growth in 2H10/11 contracted 1.9% vs. a growth of 5.3% a year earlier. In all, GDP growth slowed to a low of 1.8% in FY10/11, below GoE expectations of 2.6% and down from 5.1% a year earlier – though above CI Capital Research estimates of 1.2%. Moreover, preliminary figures reveal a further depressed GDP growth of 0.2% in 1Q11/12 – below our expectations of 0.8%.

Figure 2.16 | **2H10/11 GDP growth**



Source: Ministry of Planning (MoP)

Figure 2.17 | **2H10/11 sectors' performance**



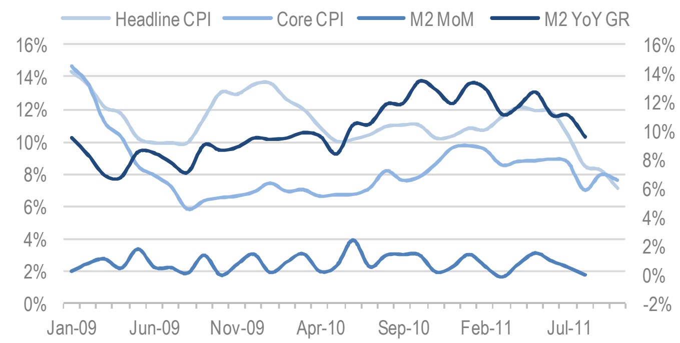
Source: MoP

Rising risks

High inflation despite slower growth

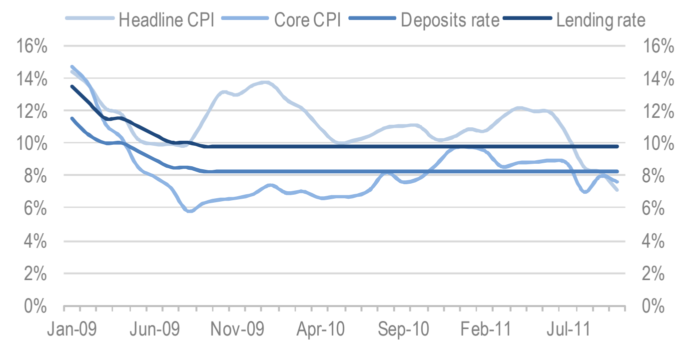
Instability and rising international commodities prices lifted up inflation readings to an average of 11.3% for headline CPI and 9% for core CPI over the first seven months of 2011. However, as commodities prices cooled down, inflationary pressure eased to a low of 7.1% in October 2011. In FY10/11 annual headline inflation remained high, averaging 11.1%, while core averaged 8.6%, matching CI Capital Research expectations. On the back of renewed and strengthening oil prices due to rising seasonal demand, the reading spiraled to 9.6% in December.

Figure 2.18 | **Inflation & Money Supply**



Source: CBE

Figure 2.19 | **Inflation & Interest Rates**



Source: CBE

A depreciating local currency

Political upheaval has pressured the local currency, which marked its first low of EGP5.95/USD on February 7, although it stabilized at EGP5.88/USD after the CBE's intervention. Nonetheless, aggravated political tension in November pushed the currency to a new low of EGP6/USD on November 24, with capital flight and the drop in tourism further pressuring the currency downwards. In FY10/11 the EGP dropped 5.1% against the USD. Moreover, the high rate of dollarization exerted more pressure on the EGP. Local currency dominated deposits grew at a slower pace of 4.2% over 9M011, vs. a growth of 12.2% for the foreign currency deposits. A depreciating local currency – especially following the recent unrest in November – triggered the MPC decision to raise the overnight deposit rate by 100 bps to 9.25% while raising the overnight lending rate and the 7-day repo by 50 bps to 10.25% and 9.75%, respectively. The discount rate was also raised by 100 bps to 9.5%. This should help lift up demand for the EGP, which deteriorated over the course of 2011, with slashed growth in EGP-denominated deposits vs. accelerated growth in foreign-denominated deposits.

High unemployment

Since the onset of unrest, unemployment rose to 11.9% over 9M11, up from 9% in 2010. Given the current instability and the drop in investment, we believe the unemployment rate will remain high. Following the revolution, the GoE announced providing unemployment reimbursement of EGP500-1000 per employee. Plans were announced to establish an unemployment allowance fund worth EGP2bn, to disburse allowance for unemployed fresh-graduates coupled with training programs for a period of 6 months.

Weakening macro-indicators

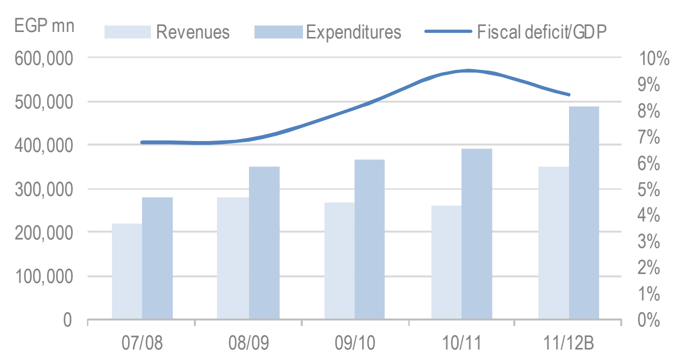
Rising fiscal deficit

FY10/11 revenues came in 4% below our estimates, marking a drop of 3.2% vs. a 5% decline a year earlier, while non-tax revenues saw a larger drop of 30%, driven by a 60% cut in grants. However, tax revenues picked up, rising 12.4% vs. a growth of 4.5% in FY09/10. The positive impact of higher oil prices on Egypt General Petroleum Company (EGPC) profits and solid Suez Canal revenues were reflected in the 17% YoY increase in income tax revenues, which reversed the 4.5% drop in FY09/10. Both property tax and taxes on goods and services marked a double-digit growth of 17% and 13%, respectively. Taxes on international trade were the only type to see a drop, falling 6%.

The increase in expenditures to EGP392.1bn came 8.9% below our expectations. Subsidies reversed their 18.9% drop in FY09/10 to a growth of 19.3% due to strengthened oil prices. However, the rise in unemployment rate to 9.2% vs. 9% in FY09/10 slightly constrained the growth in wages and salaries to 11% YoY, down from 12% a year earlier. Spending on purchasing goods and services saw its first drop in five years, falling 15.2% in FY10/11, which helped the modest 7% increase in expenditure compared to an average growth of 18.2% over the past five years.

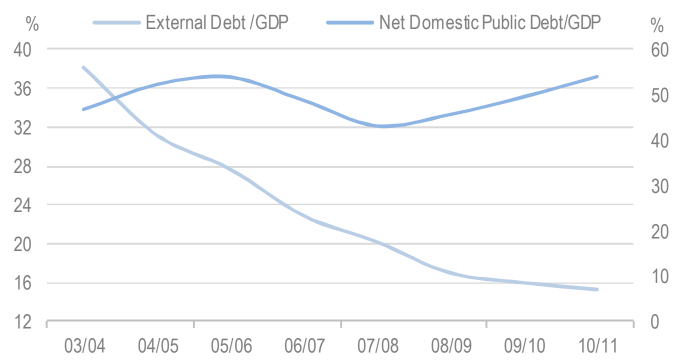
The drop in revenues coupled with rising expenditure widened the FY10/11 budget deficit to 9.5%, exactly matching our expectations, yet above 8.1% in FY09/10 and an 8.8% budgeted deficit for FY10/11.

Figure 2.20 | **Fiscal Balance**



Source: CBE

Figure 2.21 | **Debt Ratios**



Source: CBE

Figure 2.22 | **Fiscal Measures**

Measure	Positive Impact	Negative Impact
Subsidies maintained, while absorbing any price increase	Mitigates skyrocketing inflation; ensures social stability	Increases subsidies burden, raises expenditure
Postponing tax collection from damaged corporations	Supports investors	Reduces revenues
Increasing wages by 15% effective April 2011	Alleviates high inflation impact on disposable incomes; ensures social stability	Increases expenditure
Adding 150k families to the pension scheme through the allocation of USD17mn	Supports additional spending; ensures social stability	Increases expenditure
Adding USD480mn for wheat & essential goods	Mitigate skyrocketing inflation; ensure social stability	Increases subsidies burden, raises expenditure
Allocating EGP5bn fund to compensate damaged entities	Support investors with no extra burden (off-budget fund)	

Measure	Positive Impact	Negative Impact
Providing unemployment reimbursement of EGP500-1000 per employee	Ensures social stability	Increases expenditure
Postponing January installment for the new taxi project	Helps drivers overcome losses	
Postponing customs collection on imports of essential goods during February	Prevents supply shocks; ensure social stability	
Permanent hiring of GoE temporary staff that exceeded the 3 years time frame	Ensures social stability	
Monthly compensation of EGP1500 for martyrs' families	Supports public image of the cabinet	Increases expenditure
CBE intervention in the exchange rate	Prevent high fluctuations in exchange rate	Reduce net international reserves a

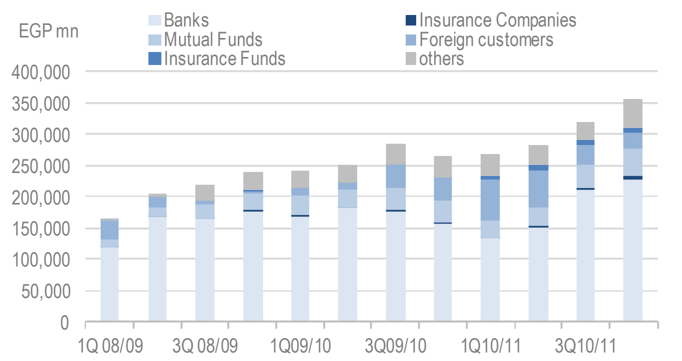
Source: CI Capital Database

Higher domestic debt

Egypt's total debt rose to EGP1254.2bn in FY10/11, with an increase of EGP163.3bn from the previous year, reaching 91.29% of GDP. Rising yields pushed gross domestic debt to 76.2% of GDP, up from 73.6% a year earlier. The lucrative yields prompted banks to buy government securities, which pressured liquidity – as banks held 69% of total T-bills issued in September vs. 57.5% back in January 2011. It is also worth noting that in September state-owned banks cut their holdings of T-bills 17% MoM.

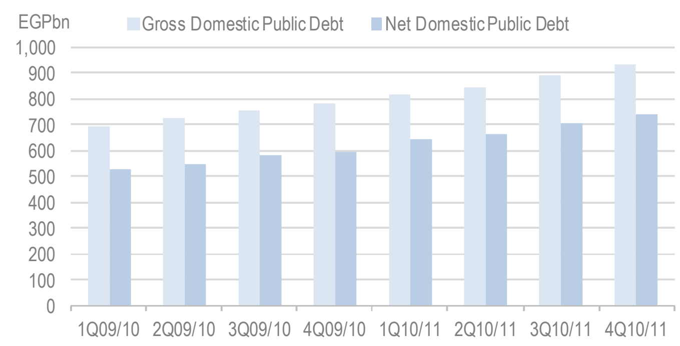
External debt rose to USD34.9bn (EGP209.4bn), increasing by 3.6%YoY in FY10/11 driven by the 7.4% increase in total debt services. Interest payment increased by 8.3% YoY in FY10/11. However, external debt to GDP ratio fell slightly to 15.2% from 15.9% in FY09/10.

Figure 2.23 | **T-bills by Holder**



Source: CBE & MOF

Figure 2.24 | **Domestic Debt**



Source: CBE & MOF

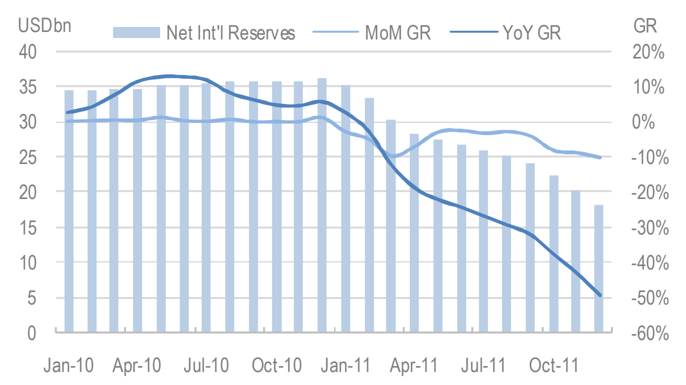
Balance of Payment shifted to a deficit

Huge foreign selling in equities and bonds shifted portfolio investments to a net outflow of USD2.6bn, vs. a net inflow of USD7.9bn in FY09/10. In a similar flip, the overall balance of payment meanwhile registered an overall deficit of USD9.8bn in FY10/11, reversing a surplus of USD3.4bn a year earlier. Indeed, the capital flight triggered by the unrest has outpaced the impact of the narrowed current account deficit. The overall balance of payment registered a deficit of USD2.4bn in 1Q11/12, reversing a surplus of USD14.7bn a year earlier. This combined with falling tourism revenues has reflected negatively on the country's foreign reserves.

Rapidly falling reserves

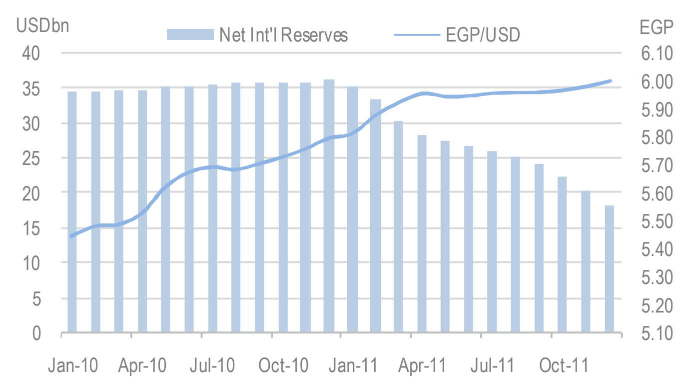
Rapid dollarization, capital flight and the drop in tourism revenues slashed net international reserves to USD18bn in December, marking a decline of 50%Ytd. The KSA's and the army's injections of USD500mn and USD1bn respectively, along with the recent rise in interest rates to limit dollarization, should support reserves. However, we believe uncertainty and unrest should continue to be pressuring factors.

Figure 2.25 | **Net International Reserves**



Source: CBE

Figure 2.26 | **Reserves & Currency**



Source: CBE

Lower ratings

Successive downgrading by international houses

Since the uprising, Egypt has been witnessing continuous downgrading by international investment houses. Moreover, the country's rating could be downgraded further in the event that foreign exchange reserves continue to fall to a level that threatens authorities' debt repayment capacity or their ability to support the Egyptian pound.

Figure 2.27 | **Egypt's Credit Rating Downgrades 2011**

Rating Agency	Date	Action
Moody's	Feb-11	A one-notch downgrade to **Ba2** with a negative outlook from Ba1.
	Mar-11	Downgrade Egypt's foreign & local currency government bond ratings to **Ba3** from Ba2 with a negative outlook.
	Oct-11	Downgraded Egypt's government bond ratings by one notch to **B1** from Ba3. The outlook remains negative.
Standard & Poor's	Feb-11	Cut long-term foreign currency sovereign credit rating to **BB** & its long-term local currency rating to BB+.
	Mar-11	Cut long-term foreign currency sovereign credit rating to BB- from BB & its long-term local currency rating to **BB-** from BB+. To this end, Egypt was removed from S&P's CreditWatch with negative implications.
	Oct-11	Downgrade short-term ratings sovereign credit to **B** for both foreign & local currency debt were affirmed. S&P is maintaining a negative outlook on the rating.
	Nov-11	Lower long-term foreign- & local-currency sovereign credit ratings on Egypt to **B+** from BB-. Meanwhile, it affirmed the B short-term ratings on Egypt. The outlook is negative. The transfer & convertibility (T&C) assessment was also revised to B+ in line with the sovereign ratings. The recovery rating on the unsecured foreign-currency debt is 3, indicating expectation of a 50%-70% recovery in the event of a default.

Fitch	Feb-11	Revising downwards outlook for Egypt to negative.
	Jun-11	Affirmed long-term foreign currency Issuer Default Rating (IDR) at 'BB' & Long-term local currency IDR at 'BB+'. Both ratings have a Negative Outlook. The Country Ceiling at 'BB' & the Short-term foreign currency IDR at 'B' were affirmed.
	Jan-12	Downgraded the country by one notch to BB- and warning further downgrades remain possible given the unstable political environment and significant depreciation in the country's reserves.

Source: CI Capital Research Database

13 places down in competitiveness ranking

Egypt retreated 13 places in 2011-12 global competiveness report rankings to 94th place among 142 countries – from 81st among 139 countries a year earlier. The main weaknesses cited included rising crime rates and disparity of income distribution. Egypt currently ranks 132 in terms of macroeconomic environment and 141 in labor market efficiency. The drop in ranking likely reflects increased uncertainty regarding the future direction of economic policy as well as higher public awareness of the country's structural weaknesses, resulting mainly in poorer assessments of different aspects of public and private institutions, and to a lesser degree, the deteriorating efficiency of goods and labor markets.

Figure 2.28 | **Economic Update**

Key Economic measures
• New ministerial committee for economic policies established, headed by Dr. Farouk El Okkdah, CBE Governor.
• SCAF announces legislation to reconcile with businessmen. Later, the Prime Minister heads and establishes a committee to deal with land disputes and sale to real estate developers; the assets of 13 businessmen are un-frozen.
• Egypt's cabinet approves amending the Anti-Trust Law to increase the fine for its violation to at least EGP300mn (USD50.2mn), up from EGP50mn.
• Egypt's cabinet approves new price scheme to Jordan up 150%. Price will average USD5.2/mnBtu vs. the current price range of USD2 -USD2.15/mnBtu. New prices will be applied retroactively from Jan-11 till Jun-13.
• The SCAF announces the application of real estate tax law by January 1, 2013.
• Ministerial Cabinet decides to exempt some nationalities from acquiring a visa prior to entering Egypt, while others have been allowed to receive their visas at ports.
• Egypt signs a debt swap agreement with Germany worth EUR6.6mn, by which 50% will be allocated to the government budget.

Source: CI Capital Research Database

2012 Preview: "The Challenge"

Kicking off the year with weak economic indicators amidst upcoming political changes and instability puts Egypt on challenging macro-economic footing to say the least – a bottleneck subject to large downside risk. Growing fiscal deficit to GDP, dwindling foreign reserves associated with falling tourism revenues, subdued capital inflows, and possible credit downgrades by international houses will weigh on Egypt's economic standing. Based on the central political assumption that presidential elections will run as scheduled and taking into consideration the associated unrest, we expect economic performance to remain depressed, as real GDP growth is expected to reach 0.4% in FY11/12 down from 1.8% a year earlier.

Assumptions to our forecast

- **Further local currency devaluation:** Slashed tourism revenues, outflow of foreign funds, and maintained dollarization trend will continue pressuring down the local currency. We expect the EGP to average EGP6.182/USD in FY11/12. Over the course of 2012 the local currency is expected to further devalue to an average of EGP6.376/USD, from an estimated average of EGP5.959 in 2011 – marking a 7% depreciation.

- **Maintained inflationary pressure:** Continued unrest along with the further expected depreciation of the local currency should create an upside risk to inflation, despite the eased commodities prices. Renewed instability in November raised annual headline reading to 9.1%, up from 7.1% a month earlier. Inflation reading is expected to be higher in 2H11/12, although the year will average 9.3% in terms of headline CPI vs. 11.1% in FY10/11. This is still considered high compared to the low GDP growth of 0.4%.

- **Higher interest rates to support the local currency:** On November 24, the Monetary Policy Committee (MPC) decided to raise interest rates for the first time in two years. The overnight deposit rate was raised by 100 bps to 9.25%, while the overnight lending and 7-day repo rates were raised by 50 bps to 10.25% and 9.75%, respectively. Discount rate was also raised by 100 bps to 9.5%. Although raising interest rates will do little to support Egypt's weak growth, higher consideration is now being given to supporting the depreciating local currency – especially with the falling international reserves and strong dollarization rate. Nonetheless, we expect another 75bps to be added in the year to come.
- **Weakening global demand:** The world economy is suffering from the surge in fiscal and financial uncertainty in the eurozone on one hand and the softening in US growth on the other, driven by a political impasse over fiscal consolidation, a weak housing market, and deteriorating financial conditions. Adding to this is the wave of unrest in some oil-producing countries. Growth in Egypt's main trading partners is to remain weak; the eurozone is expected to fall into mild recession with the economy contracting by 0.5%, while the US is expected to maintain its slow growth of 1.8%, as in 2011.

Unrest sends investments sliding

Anticipated unrest and Egypt's ongoing political transition are set to dampen investment sentiment and delay investment decisions until a clearer political picture comes to light. However, the GoE's announcement of several incentives should help support investment, especially alongside the series of investment announcements in the headlines. Though Egypt's long-term potential remains strong, it has been put at high risk by an unstable and unclear political situation. Moreover, the re-nationalization of three state companies that had been privatized during the Mubarak era – Shebin El-Kom Textile Company, the Tanta Company for Linen and Derivatives and the Steam Boilers Company – could shake investor confidence. In November, the GoE shut down operations in the disputed MOBCO factory in Damietta after large-scale clashes between police and protesters demanding the relocation of the factory out of Damietta port left two dead and more injured. It is worth noting that the Canadian company Agrium International Ltd. holds a 26% ownership of the MOBCO factory, so the incident serves as an example of instability risks to foreign investment. This leads us to expect a lower level of FDI until the stabilization of both the social and political scene; accordingly, we project FDI inflows of USD0.6bn, and 8.2% drop in aggregate investments in FY11/12.

Figure 2.29 | **Investment Incentives**

Authority	Date	Action
GoE	Apr-11	Canceled the initial approval of the IDA for the establishment of industrial projects
		Reduced the duration for registering a company's branch to 3 days instead of 4-6 months
		Extended the validity of export/import license to 3-5 years, instead of the previous duration of 6 months- 1year
		Reduce Letters of Guarantees to EGP50/sqm instead of EGP100/sqm for industrial land plots up to 1000sqm, & EGP70/sqm for plots exceeding this area.
Ministry of Trade & Industry	Jul-11	LGs are returned to investors over 3 phases instead of 4; by which 25% is returned upon issuing the construction license, 50% upon establishing the foundation of the building, & the remaining 25% is returned upon issuing the operation license
General Authority for Free Zones & Investment	Oct-11	Streamlined rules to allow companies to secure licenses more swiftly. New firms can now apply for a license directly from GAFI, instead of seeking initial approval from the Industrial Development Authority
GoE	Jun-11	Amended Anti-Trust Law to increase the fine for its violation to at least EGP300mn market which helps curb inflationary pressure.
General Authority for Free Zones & Investment		Offered new incentives for renewable energy investors, through a "special tariff" scheme.
Federation of Banks		Reduced interest rates on loans granted to the textiles sector to 11% & postponed the pay-off of debt installments for squeezed companies.

Source: CI Capital Research database

Figure 2.30 | **Announced investments**

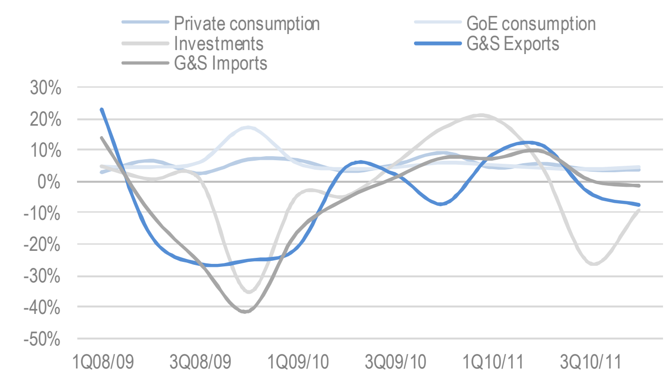
Company	Project
Eni	A multinational oil and gas company, confirmed a USD3bn worth of investments in 2011-2012
Al-Futtaim Group	Announced injecting EGP1bn in 2011;
A group of Saudi investors	Establish a new investment and development bank to finance foreign direct investment (FDI) amounting to EGP100bn (USD17bn).
Saudi Egyptian Touristic Development Company	Announced plans to inject EGP3.1bn.
Cisco	Announced plans for USD10mn in venture capital investments aimed at growing high-potential small business.
A Czech company	Announced investing USD3.5bn in a new textile factory in 6th of October city; of which USD200mn will be pumped immediately.
ARACEMCO	Announced pumping EUR2.25mn.
BP (British Petroleum)	Studying the possibility of establishing a mega natural gas project with a total investment of USD11bn over 5 years.
Barwa Real Estate Co.,	Qatar's largest publicly-traded property developer, is looking at investing EGP50bn (USD8.39bn) in its project in New Cairo city.

Source: CI Capital Research database

Depressed spending levels

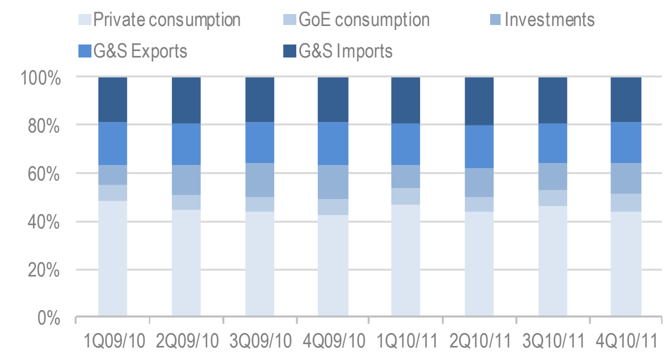
Uncertainty will keep growth in spending levels at its slow pace, given the high unemployment and inflationary pressure. Increased spending over the electoral campaigns should give private consumption a boost, although it should remain low, growing at 4.1% in FY11/12. Government spending is expected to grow 3.8% – the same as last year.

Figure 2.31 | **GDP Expenditure Growth**



Source: CBE & M0F

Figure 2.32 | **Shares**



Source: CBE & M0F

Reined exports growth

The anticipated weakness in global demand coupled with the repeated bombings of the natural gas pipeline to Israel and Jordan will slash exports growth by more than half in FY11/12, down to 6% from 13% a year earlier. Uncertainty in the global scene will dampen the rise in oil prices, which are expected to inch up by only 5% vs. an increase of 19% a year earlier – barring an escalation in the situation in Iran. Moreover, the halt of natural gas exports to Jordan and Israel due to the repeated pipeline bombings will offset the increase in gas export prices to Jordan by c.150% to USD5.2/mnBtu – which should be implemented starting January 2011, retroactively.

Weak tourism revenues

Tourism will continue to struggle until confidence in the country's stability returns. We believe the social unrest will slash tourists' arrivals to 9.97mn tourists over FY11/12 vs. an inflow of 11.9mn tourists a year earlier. We thus expect tourism revenues to drop 25% in FY11/12 to USD8bn. However, should the unrest be contained and stability maintained, the industry will soon return to its positive growth levels.

Suez Canal to remain resilient

Given its resilience over 2011, we expect the Suez Canal's revenues to remain solid, rising 12.5% in FY11/12 to USD5.7bn, and supported by the higher fees of 3% effective March 2012. Canal revenues reached USD1.36bn in 1Q11/12, increasing 8.6% YoY.

Instability to depress transfers growth

The mere 5% increase in oil prices, unclear political situation and escalating social unrest will pressure remittances growth. We believe this should lead transfers to register a growth of 15.4% in FY11/12 vs. a growth of 25.6% a year earlier.

Slight imports growth

Continued drop in investments and depressed spending levels should rein imports growth, keeping it in the single-digit range of 3.3% in FY11/12 vs. 3.6% a year earlier.

Current account deficit to widen

The widened balance of goods and services deficit should negatively reflect on the current account provided the depressed growth in transfers. We believe the current account deficit will widen to USD3.2bn in FY11/12 compared to USD2.8bn a year earlier.

Falling international reserves

The SCAF expects to see international reserves of USD15bn by January 2012, since USD5bn is already committed in payments to foreign investors or other obligations. We expect reserves to mark another low of USD12.2bn in FY11/12, which will cover only 3 months of imports, down from 9 months in FY09/10.

Higher fiscal deficit

Higher taxes and non-tax revenues will increase revenues

Although the anticipated sluggish increase in oil prices could depress EGPC profitability, the GoE's introduction of a progressive tax scheme (with a new tax tier of 25%) and the additional 10% imposed on cigarettes sales should reflect positively on tax revenues. Further, Suez Canal performance is to remain resilient, which should also support tax revenues – especially with the higher fees effective in March 2012. Finally, non-tax revenues – namely international and regional grants in support of Egypt – will shift the drop in revenues to a growth of around 8.1% in FY11/12.

We believe the announced international and regional support may help finance the budget gap, as the GoE signed several agreements with international organizations and accepted numerous grants over the course of 2011. That said, the government is still mulling over the IMF's offer for a USD3bn loan at an annual interest rate of 1.5%, to be repaid over five years with a 39-month grace period – the same amount it has previously turned down in June. It is worth noting that the European Bank for Reconstruction and Development (EBRD) announced it will specify the amount of funding available for Egypt, after having set up a support package for Egypt, Tunisia and Morocco worth USD2.5bn by 2015, expected to start next summer.

Figure 2.33 | **Pledged International & Regional Financial Support**

Donor	Total (USDmn)	Details
Arab Monetary Fund (AMF)	470	Loan with a grace period of 18 months and 1.4% interest rate to support the budget deficit & balance of payment. The first tranche of USD200mn to be paid immediately while, the second tranche of USD270mn will be within two months pending approval from the fund.
World Bank	2,930	USD430mn in co-operation with the IMF to finance agriculture & railway projects
		USD2.5bn investment lending for specific projects, financing for private businesses & political risks & guarantees
IMF	3,200	USD3.2bn formally requested by Egypt after having turned it down in June.
KSA	4,000	USD1bn to be deposited in the Central Bank of Egypt (CBE)
		USD500mn in bills
		USD500mn for general budget support
		USD500mn in soft loans for development programs from the Saudi Fund for Development (SFD)
		USD200mn as grant to be placed with the fund or in a current account to finance projects as SMEs
		USD750mn would be extended as a line of credit to finance Saudi exports to Egypt
Qatar	500	Grant for budgetary support.
USA	2,480	USD150mn to assist Egypt's democratic transformation
		USD1bn debt relief
		USD1bn directed to infrastructure & employment projects in the country
		USD330mn a newly announced support package
Canada	11	Development assistance
China	10.2	USD9.2mn in aid
		USD1mn to support evacuated Egyptian workers from Libya
UAE	3,000	USD1.5bn for the set-up of the Khalifa bin Zayed Fund to support medium & small projects in Egypt
France	EUR1.2bn	Loan to finance the third & the fourth line of Egypt's underground network.
Japan	1200	Loan to finance the fourth line of Egypt's underground network.

Source: CI Capital Research Database

Highly-pressured expenditure side

Wages, salaries and interest payments are expected to act as key burdens on the expenditure side of the budget this year. Government attempts at easing an unsettled public will drive up wages and salaries in FY11/12, while the high interest payment – due to high yields – will further pressure the budget. On the other hand, the moderate rise in oil and commodities prices will, in a way, alleviate rising expenditure. We expect that expenditure will reach EGP437.2bn in FY11/12 – below the budgeted figure of EGP490.6bn.

The government has partially lifted energy subsidies for natural gas (having taken effect January 1, 2012) for energy-intensive industries – cement, fertilizers, ceramics and steel – implying a 33% increase from USD3/mmbtu to USD4/mmbtu. As natural gas subsidies account for 10.2% of total energy subsidies, of which energy-intensive industries consume around 60%, we do not expect the increase in prices to have a strong impact. We expect the rise to save EGP522mn, especially since it will be implemented in the second half of the fiscal year.

A wider fiscal deficit of 11.8% to GDP

The new fiscal policy displays a consideration and support for the demands of the revolution. Although raising the minimum wage level should drive up spending, it will also serve to pressure expenditures. Adding to this is the higher interest payment. On the revenues side, applying the new tax scheme will allow for a greater flow of revenues to the budget; EGP1.2bn is expected to be generated from the 10% increase in cigarettes sales tax, while EGP1bn will be gained from the newly added tax tier of 25%. We expect fiscal deficit to rise to EGP164bn – a deficit to GDP of 11.8%, up from 9.5% a year earlier.

In 5M11/12 Egypt's budget revenues increased 16.9%YoY to EGP 77.4bn, up from EGP 66.2bn, while expenditures increased 11.4%YoY. The increase in revenues was driven by the 72%YoY rise in non-tax revenues as grants hiked to EGP5.9bn, up from EGP45mn over the same period a year ago. Meanwhile, tax revenues increased a mere 2.8% backed by the 26% increase in property taxes. On the expenditures side, subsidies rose 31%YoY, while interest payment and wages and salaries maintained double-digit growths of 22% and 24%, respectively. This brought fiscal deficit to GDP down to 3.7% in 5M11/12 vs. 4% a year earlier.

GoE to adopt austerity policy in FY12/13

The current cabinet announced its intention to reduce the fiscal deficit by implementing an austerity policy in the coming fiscal year. As part of this, the Minister of Finance issued a decree detailing the expense rationalizing plan for the administrative arm of the government, which includes cutting bonuses for government employees by 10% and governmental operating expenses by 3%. That said, the ministry has not revealed what exact savings it expects to make from these measures. The Minister added that he had officially asked for support from the special funds – which are excluded from the general budget – to serve as loans to be repaid in three years without interest.

Government incentives to improve tax collection

Egypt's Prime Minister is expected to announce government incentives offered to those who pay their deferred taxes - amounting EGP60bn - up to the end of 2012, after SCAF issued the decree recently. These incentives include;

- 20% discount for those who pay before 31 March 2012.
- 15% discount for those who pay before 30 June 2012.
- 10% discount for those who pay before 30 September 2012.
- 5% discount for those who pay before 31 December 2012.

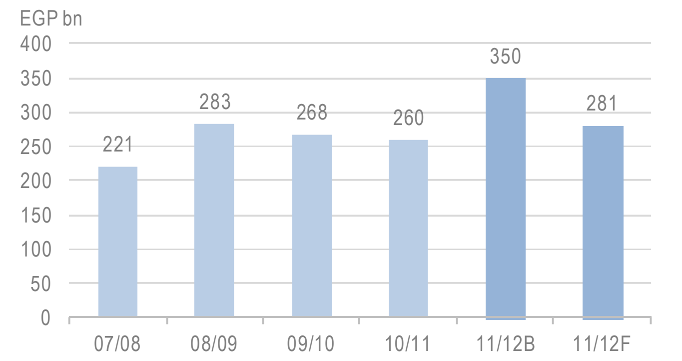
According to the latest announcement by the Minister of Planning and International Cooperation, the government is committed to maintaining a budget deficit of EGP134bn in FY11/12, denying reports that the deficit would exceed this figure. However, earlier in December many government sources, including the governor of Egypt's central bank, stated that the deficit is expected to rise to EGP160-180bn – around 11.7% of GDP.

Figure 2.34 | New fiscal measures impact on the FY11/12 deficit

Measure	Impact on FY11/12 Budget		
Raising tax-exemption ceiling to EGP12k up from EGP9k/year	Decrease	↓	Revenues by EGP3,197
Wage stamps due to investment increase	Increase	↑	Revenues by EGP633
10% capital gain tax is imposed on capital investment	Increase	↑	Revenues by EGP2,500
Raising sales tax imposed on cigarettes to 50% up from 40%	Increase	↑	Revenues by EGP1,200
Increasing tax tranche 5%	Increase	↑	Revenues by EGP3,200
Setting a minimum wage level for government employees at EGP700/month	Increase	↑	Expenditure by EGP7,500
Training program of 6-month to support unemployed workers and new graduates	Increase	↑	Expenditure by EGP2,000
Judicial decisions regarding income tax refund	Increase	↑	Expenditure by EGP1,000
Increasing citizen's medical treatment on State's expense	Increase	↑	Expenditure by EGP2,000
Doubling social guarantee pension to cover 1.5mn families	Increase	↑	Expenditure by EGP1,633
Increasing minimum pension rate	Increase	↑	Expenditure by EGP1,200
Increasing credits of pension funds with the special allowance decided in 2008	Increase	↑	Expenditure by EGP2,800
Bearing of the public treasury for the new pensions' special allowance	Increase	↑	Expenditure by EGP3,500
Increasing investments	Increase	↑	Expenditure by EGP6,200
Contributions in economic authorities	Increase	↑	Expenditure by EGP13,500
Total deficit			**36,997**

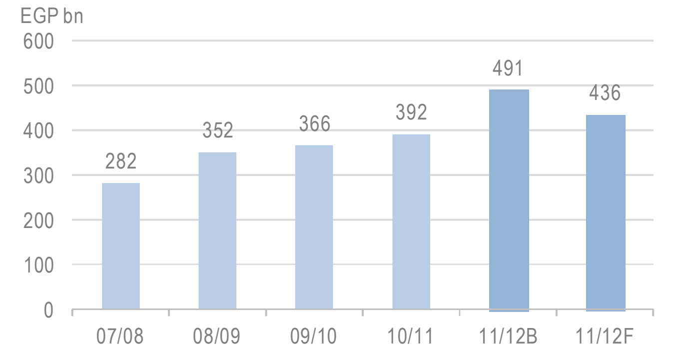
Source: MoF

Figure 2.35 | **Revenues**



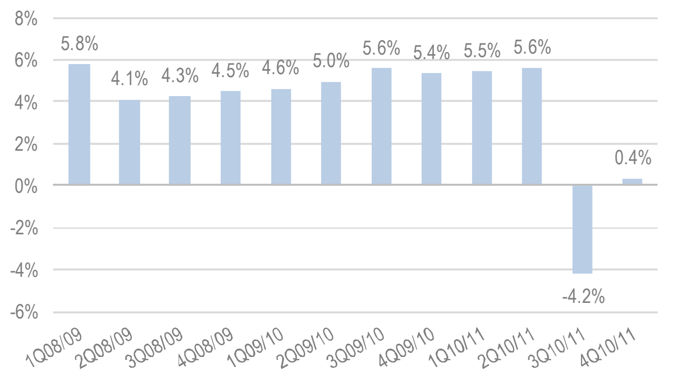
Source: MoF

Figure 2.36 | **Expenditure**



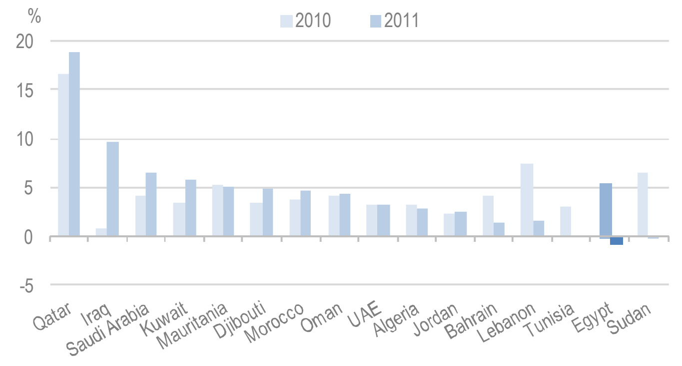
Source: MoF

Figure 2.37 | **GDP Growth by Quarter**



Source: CBE

Figure 2.38 | **MENA GDP Growth**



Source: CBE

Going long for the Egypt story

Egypt stands on the brink. Slowing growth, weak macro-indicators, falling reserves, and possible further downgrades makes the short-term vision negative. However, while the country may be pinned down by tough times, the “Egypt story” is down but not out. Indeed, long-term potential remains. Despite the current political dustup, whatever government takes the reins will be faced with the imperative of advancing the prosperity of ordinary Egyptians, or else risk the same fate as the old regime. Given this, there is a real possibility that the story of the region’s most populous nation will be strengthened by not only clearer governance, but accelerated investment-friendly reforms.

Figure 2.39 | **Egypt | Economy | CICR Outlook**

Expectation	Underlying Theme	Implication	Risks to Expectations
Investments are to be hard hit	• Instability that will deter FDI investment decision. • The re-nationalization of three privatized companies. • The closure of MOBCO factory in Damietta. • Freezing bank accounts of prior government officials that are originally businessmen should reduce the investment potential - especially that other wealthy businessmen that derived benefits from these officials may also experience similar cases. • Dampened local demand growth will discourage further investments.	• High Unemployment. • This may result in intensified social unrest. • Reduced economic performance, through lower GDP growth.	• The patriotic sentiment will succeed in supporting domestic investment. • The GoE take the necessary measures to support rising unemployment. • More GoE spending to support investment yet will result in a wider fiscal deficit.
Depressed imports growth	• As investments are expected to drop, imports growth will remain in the single-digit range given the high contribution of capital and intermediate goods in total imports. • Slow private consumption growth should negatively impact imports. • International commodities prices are to remain within the normal growth levels.	• Reduced the trade balance deficit and that of goods and services. • This will reflect positively on the current account deficit which will be narrowed.	• If international commodities prices shoot higher coupled with higher than expected private demand and investment then this will drive up imports. • On the other hand, higher than expected international commodities prices coupled with slowed investments and private demand this may bring imports even lower.
Exports are to witness lower growth rates	• Depressed demand in key markets (US, EU) will negatively reflect on exports - outweighing the positive impact that a depreciated local currency should have on exports. • Existing unrest is expected to hard hit tourism, and rein the growth of remittances. • Continued unrest should disrupt productivity, transport and hence trade activities.	• Widen the trade deficit and that of goods and services. • This will reflect negatively on the current account deficit which will be expanded. • Will depress GDP growth.	• Higher than expected oil prices should drive exports higher. • No trade flows disruptions could lead to higher exports. • More resilient tourism industry, higher Suez Canal revenues, and higher transfers should bode well for exports. • Quicker than expected recovery in global demand will drive up exports.
A depreciated local currency	• Continued instability will keep sending away foreign funds and negatively impact tourism revenues; which will further depreciate the local currency. • Maintained high dollarization trend due to unrest will further devalue the local currency.	• High inflationary pressure. • Exports become more competitive.	• Eased unrest will support the local currency from further depreciation. • Higher interest rates could further create demand for local currency which supports the EGP. • The flow of international and regional support should reflect positively on reserves which could help stem further local currency devaluation.
High inflation risk	• Continued instability will disrupt distribution channels and drive up prices. • A devalued currency will further increase inflation.	• Higher inflation will dampen private spending. • As private demand represents +70% of the country's GDP it will negatively impact GDP growth.	• Eased unrest will cool off inflationary pressure. • The patriotic sentiment could succeed in supporting higher demand.
Lower private demand	• Maintained uncertainty should negatively impact spending levels. • High inflation should impact disposable income. • High unemployment rate should rein spending levels.	• Dampened levels of spending. • As private demand represents +70% of the country's GDP it will negatively impact GDP growth.	• Stability is achieved sooner than expected. • The patriotic sentiment could outweigh the impact of high inflation on demand. • Inflationary levels are lower than expected which will support higher private spending.
Higher fiscal deficit to GDP	• Increased expenditure, due to higher commodities prices and the announced measures to ease the unsettled public will increase fiscal deficit. • The depreciated local currency against the USD will increase the cost of imports and should weigh on the expenditure side of the budget (especially that the GoE is committed to absorb the rising subsidies level). • Higher government securities yields will increase interest payment and thus weigh on expenditure. • Reduced inflows to the budget due to expected lower companies' earnings should negatively impact tax revenues.	• Higher expenditure and depressed revenues will lead to higher fiscal deficit to GDP.	• Ease of social unrest and no interruptions to business operation which will result in higher-than-expected companies' earnings and thus higher revenues. • If the GoE managed to get more support, the grants item in the revenues side of the budget will be increased. • Accordingly fiscal deficit to GDP will be reduced.

Source: CI Capital Research Estimate

Figure 2.40 | **Macro forecasts**

	FY09/10	FY10/11	FY11/12F	FY12/13F	FY13/14F	FY14/15F
Real Sector						
GDP, Current (EGP bn)	1,206.6	1,371.7	1,389.3	1,522.0	1,713.5	1,960.8
GDP, Current (USD bn)	218.4	235.7	224.7	241.3	283.8	335.0
Real GDP Growth (%)	5.1%	1.8%	0.4%	1.4%	3.0%	4.1%
GDP/Capita, Current (USD)	2,821	2,996	2,800	2,947	3,399	3,934
Population	77,300	78,578	80,150	81,753	83,388	85,055
Avg. Population (15-45 yrs old)	38,495	39,132	39,914	40,713	41,527	42,358
External Sector						
Balance of Goods & Services (USD bn)	(14.8)	(15.9)	(18.4)	(22.4)	(24.8)	(27.1)
Tourism Revenues (USD bn)	11.6	10.6	8.0	9.0	10.9	12.6
Suez Canal Revenues (USD bn)	4.5	5.1	5.7	6.1	6.5	6.9
Transfers (USD bn)	10.5	13.1	15.2	17.7	21.2	25.8
Current Account (USD bn)	(4.3)	(2.8)	(3.2)	(4.7)	(3.6)	(1.3)
Current Account % GDP	-2.0%	-1.2%	-1.4%	-2.0%	-1.3%	-0.4%
FDI (USD bn)	6.8	2.2	0.6	0.9	1.8	3.1
FDI % GDP	3.1%	0.9%	0.3%	0.4%	0.6%	0.9%
EGP/USD Exchange Rate (Period Avg)	5.524	5.820	6.182	6.309	6.039	5.854
Net International Reserves (USD bn)	35.2	26.6	12.2	14.3	20.6	25.2
Monetary Sector						
Inflation (CPI, %)	11.7%	11.1%	9.3%	10.2%	11.1%	11.6%
Core Inflation (Core CPI, %)	6.7%	8.6%	7.5%	8.0%	9.3%	9.9%
Deposits Rate (End of period, %)	8.25%	8.25%	10.00%	10.50%	9.25%	8.75%
Lending Rate (End of period, %)	9.75%	9.75%	11.00%	11.50%	10.25%	9.75%
M2 Growth (%)	10.4%	10.0%	8.1%	9.5%	10.7%	12.8%
Fiscal Sector						
Fiscal Deficit % GDP	8.1%	9.5%	11.8%	10.9%	9.8%	8.9%

Source: CBE, Bloomberg, CAPMAS, MoF, MoP & CI Capital Research Estimates

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Banking

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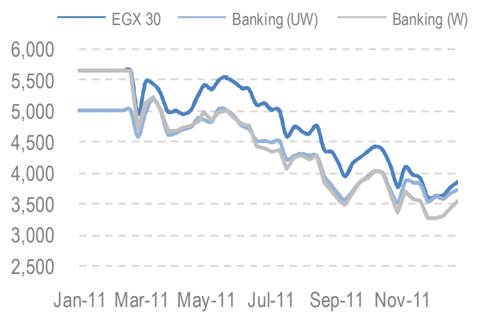
Egypt Book 2011/12 | Sector Review

CIEB | Buy
COMI | Not Rated*
HDBK | Hold
NSGB | Buy

***Due to COMI's 100% ownership of CI Capital Holding**

January 26, 2012

Banking | 52 Wk Performance*



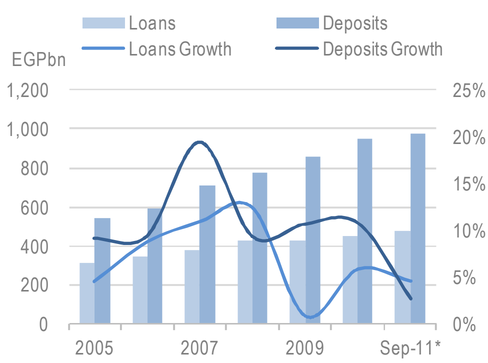
Sector Growth Drivers

- High liquidity.
- Primarily funded by core local deposits.
- Huge growth potential due to highly underpenetrated market.
- Usually high profitability indicators.
- Faster than expected political and economic stability.

Sector Risks

- Political instability & rising banks' sovereign exposure.
- Economic uncertainties.
- Global recession or negative exogenous factors.
- Potential weakening in asset quality.
- Slower than expected market penetration.
- Standard banking risks including credit, interest-rates, market, liquidity, FX risks among others.

KPIs | System LDR 2005-Sept.11 (EGPbn)†



† September 2011 growth rate compared to December 2010.
* Comprises all sector stocks constituting CI Capital 100 Index.
Source: Central Bank of Egypt (CBE).

Cloudy today, sunny tomorrow

- **Political and economic uncertainties**
- **Volumes slow vs. 2010, potential weakening of asset quality**
- **Margins benefit from high T-Bills yields**
- **Non-Interest Income under pressure**

Though we remain positive on the sector's long-term potential, near-term risks exist with the low political and economic visibility, rising budget deficit and rising local banks' sovereign exposure. 9M11 showed a slowdown in loan growth compared to December 2010, however lending did not dry out. NPLs levels did not show significant movement, though expected to edge higher in 2012. NII generally showed reasonable increases given the higher yields on T-Bills while non-interest income stayed under pressure. Provisions charge generally strengthened though it formed a higher portion of banking income for Commercial International Bank (CIB) [COMI] and Credit Agricole Egypt (CAE) [CIEB] compared to National Societe Generale Bank (NSGB) [NSGB] and Housing and Development Bank (HDB) [HDBK], despite the relatively lower asset quality of the latter two banks.

Review 2011

CBE data in September 2011 compared to December 2010, revealed slow banking system deposits growth (2.7%), a 4.6% increase in loans compared to a higher 24.1% growth in outstanding T-Bills. Bank holdings of T-Bills showed a strong 50.7% growth over the same period. Those represent 69.1% of total outstanding T-Bills in September 2011, up from 57% in December 2010. Leading coverage banks' 9M11 financial releases including CIB, CAE and HDB showed YoY earnings declines ranging around 20-25% mainly pressured by higher YoY provisions charge, taxation (tax rate increased from 20% to 25%) and lower non-interest income, where NSGB showed a YoY rise of around 9% supported by the end of amortization charges in 2010 as well as moderate provisions charge. NPLs ratio has not shown much movement for the 3 leading banks but HDB's ratio added 92bps to 6.4%. Net lending volumes registered growth ranging from 5% to 9% to the three leading covered banks CIB, NSGB and CAE compared to December 2010, while HDB recorded 3%.

Preview 2012

Our bullish outlook for 2011 and 2012 was delayed after the breakout of the January 25, 2011 revolution. As much as we remain positive on the long-term prospects for growth in the economy and banking sector in light of a more democratic atmosphere, the short-term low visibility and lengthy procedures related to political aspects will surely have a negative impact on the economy and banking sector in the near future.

We expect lending to continue its sluggish growth in 2012, with potential weakening in NPLs ratio to mirror the weakening in the economic growth. Banks are expected to keep their focus on T-Bills that have seen their yields rise, especially with the increasing government expenditure and rising budget deficit. Meanwhile, additional foreign currency liquidity is expected to be invested in interbank assets.

2011 Review

Banking sector de-leveraging over the past decade

The Egyptian Banking sector had been excessively de-leveraging over the past decade with loans to deposits ratio (LDR) falling rapidly to finally reach 48.7% in September 2011 (excluding Central Bank of Egypt). This occurred as a result of deposits growth successively exceeding loans growth, the former recording a 5-year CAGR (2005-10) of 11.9% and 7.6% for the latter. This trend was reversed over the first 9 months of 2011 (also in 2008), while loans showed a 4.6% growth compared to December 2010, while deposits only grew by 2.7%.

Figure 3.1 | **System Loan & Deposit growth**

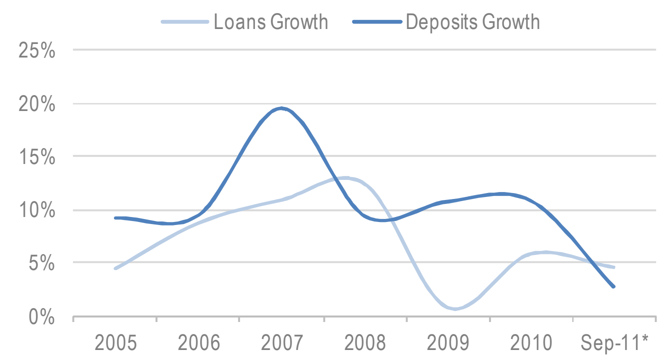
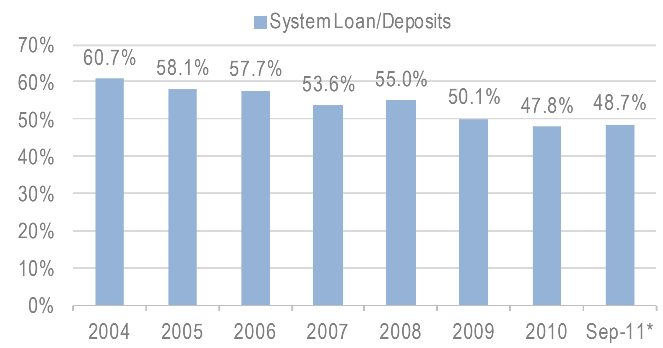


Figure 3.2 | **System LDR (ex-CBE)**



*September 2011 compared to December 2010; Source: Central Bank of Egypt (CBE).

Sluggish volumes growth for loans and deposits until September 2011

The first 9 months of 2011 until September, showed only a 4.6% loan growth compared to December 2010 (excluding Central Bank of Egypt (CBE) balances), compared to 8.2% over the first 9 months of 2010, however 2010 growth reduced to 5.2% by year-end. This indicates that system loan growth had slightly slowed down in 2011 post the January revolution, compared to 2010. However, for coverage banks, the volumes had dropped compared to 2010 but did not dry out.

Overweighting T-Bills

Meanwhile, as the yields have peaked with the deficit financing requirements widening, bank's holdings of T-Bills have peaked, rising 50.7% between December 2010 and September 2011. Banks hold around 69.1% of T-Bills owners, up from 57% in December 2010.

Dollarization of deposits

Although T-Bills yields have increased in 2011, the increased deposit dollarization that peaked in February 2011 had put some pressures on local currency liquidity.

Figure 3.3 | **System T-Bills/Assets**

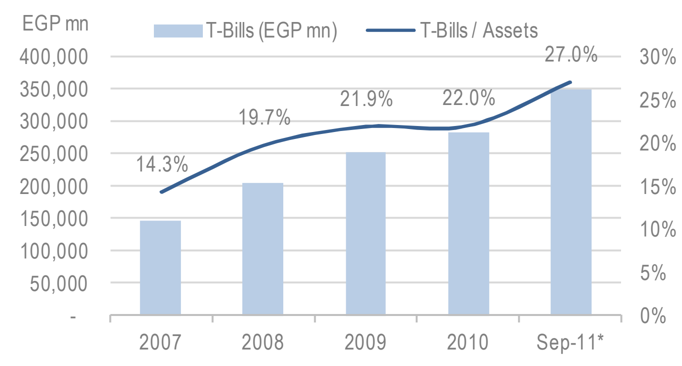
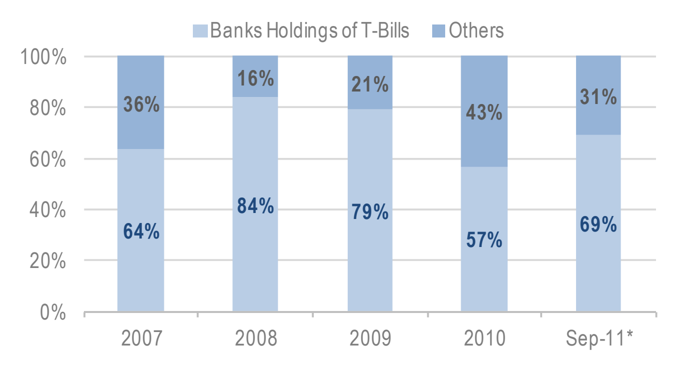


Figure 3.4 | **System Holders of T-Bills**



*September 2011 compared to December 2010; Source: Central Bank of Egypt (CBE).

Figure 3.5 | Month-on-Month change (MoM)
LCY Loans/Total Loans vs. FCY Loans/Total Loans

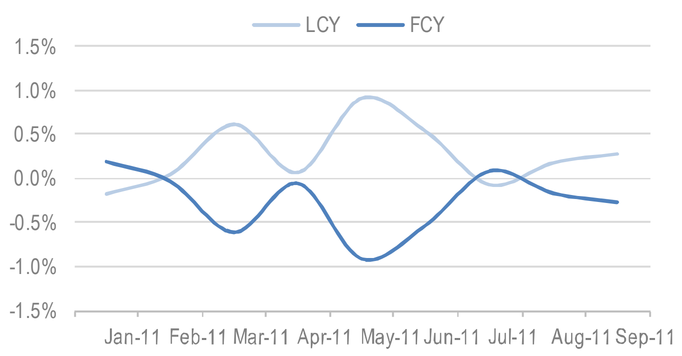
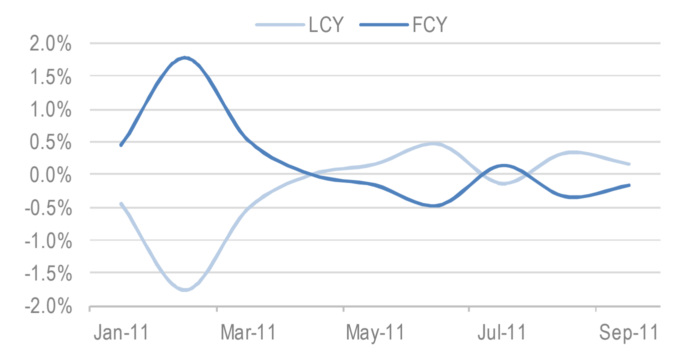


Figure 3.6 | Month-on-Month change (MoM)
LCY Deposits /Total Deposits vs. FCY Deposits/Total Deposits



Source: Central Bank of Egypt (CBE).

Figure 3.7 | **Loan, Deposits, T-Bills /Assets**

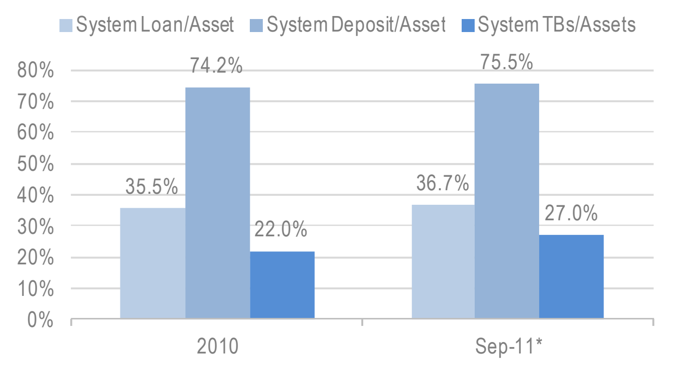
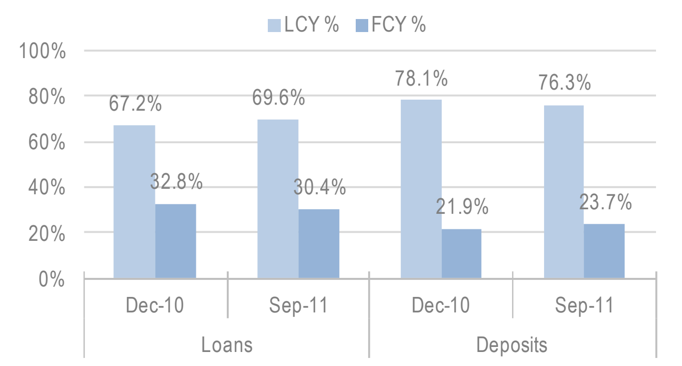


Figure 3.8 | **Loan & Deposit Dollarization**



*September 2011 compared to December 2010; Source: Central Bank of Egypt (CBE).

NII healthy but non-interest income under pressure

NII revealed resilience showing an average YoY rise of 13% in the 9M11 for covered banks, as NIMs have remained healthy following the peak in T-Bills yields. Meanwhile, a weaker economy and market impacted non-interest income (including trading income, investment income and gains on selling investments) to close either almost flat or decline.

Higher tax rate

Due to the change in tax regime that had occurred during 2011, from a flat rate of 20% to 25% on the income above EGP10mn (and 20% will be levied on the first EGP10mn). This had with no doubt affected NPAT for banks.

NPLs not much movement but potential weakening, provision charges on the rise for some

This far through 2011 (9M11) NPLs ratio had not showed much movement for our covered banks (+/- 20bps averaging 2.9%) with the exception of HDB, which added a quicker 92bps to its ratio reaching 6.4%. Provisions charge formed 8% and 11% of banking income for CIB and CAE in 9M11, respectively, and was lower at 4% for NSGB. Meanwhile, HDB's net charge was almost nil.

2012 Preview

Loan and deposit volumes to slow in 2012

We expect loan and deposit volumes to slow in 2012 compared to 2011 for all our Egyptian coverage. Throughout forecast, we expect a range of 5-year CAGR (2010-15) of 14-17% for loans and 12-16% for deposits.

NIMs to hold up, non-interest income under pressure

Overall, NII is expected to remain healthy as we do not expect T-Bills yields to fall in 2012, despite some expected pressures from the cost of funding, especially after the two leading public banks had raised interest rates by 150-200bps on two types of saving certificates and the Central Bank of Egypt (CBE) raised corridor rates (+100bps for deposits rate, +50bps for lending). Meanwhile, slow balance sheet in 2012 will likely affect fee income. A weaker markets backdrop is expected to weigh on trading income, dividend income and other income, including gains on investment sales.

Provisions to continue to be high

Though we expect NPLs ratio to edge higher, we estimate it to add around 56-58bps cumulatively over 2011 and 2012 for the 3 leading coverage banks, while HDB is estimated to add around 146bps of which the bulk had been already registered in the 9M11 period vs. December 2010. We expect provisions charges to remain high in 2012

Even if the YoY provisions charge eases for part of our coverage, we expect the charges to remain at high historical averages relative to total banking income. Furthermore, we expect banks to book higher YoY bank risk reserve allocations from their year-end profits distribution. Costs are projected to follow their same trend into 2012, with not much higher than normal investment in branch expansions during 2012.

Sector Summary

Banking - SWOT Analysis

Strengths	Weakness
• High liquidity • Core deposits funding • High interest margin and ROE • Underpenetrated market with huge growth potential • Improved credit quality in recent years	• Slow loan growth in the past • Low retail lending appetite driven by culture • Immature credit scoring system for retail • IT systems
Opportunities	**Threat**
• Loan growth across lending types • Underpenetrated market, especially in retail, SMEs • Various banking products have yet to be introduced	• Weak loan growth • Asset quality deterioration & higher provisions charges • Pressure on interest margins • Slow markets could slow non-interest income

Source: CI Capital Research

CAPITAL RESEARCH
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Commercial International Bank

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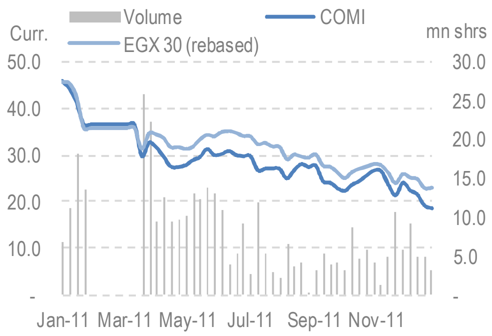
Egypt Book 2011/12 | Banking

Not Rated

January 26, 2012

52 week Share Performance



Stock Details

Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Not Rated/Moderate
Target Price/LTFV (EGP)	n/a
Last Price (EGP)	19.96
52 Week High	41.66
52 Week Low	18.50
6M Av. Daily Vol. (000' shrs)	1,022.19
%Chg: MoM / 6M / YoY	-3.6 / -26.1 / -50.9
No. of Shares (mn)	593.46
Mkt. Cap (EGPmn)	11,845.39
Mkt. Cap (USDmn)*	1,961.16
Free Float (%)	90.70
Paid in Capital (EGPmn)	5,934.40
Reuters / Bloomberg	COMI.CA / COMI Ey Equity
ISIN	EGS60121C018

GDR Data

Last Price (USD)	3.3
52 Week High	7.08
52 Week Low	2.90

Company Profile

Commercial International Bank (CIB) [COMI] was founded by National Bank of Egypt (NBE) and Chase Manhattan Bank (CMB) in 1975 under the Open Door Policy. COMI has since become Egypt's leading private-sector bank, providing diversified services to multinationals along with private-sector industrial companies. Since its successful IPO in September 1993, the bank has been one of the Egyptian stock market's blue chips.

CIB offers a high quality exposure to a full-fledged business varying among corporate and retail banking, investment banking, securities brokerage, mutual funds, asset management, research and insurance.

CIB presence amounted to 154 branches and 488 ATMs.

Ownership Structure

Actis	9.3%
Free Float	90.7%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

The careful builder

- **Maintaining corporate leadership, and building retail.**
- **Maintaining strict risk controls.**
- **Increasing cross-selling activities.**

CIB remains a strong brand with a leading market share. The bank generates one of the highest RoEs in the sector and has successfully maintained the growth of its core interest income generation. Along with its corporate-lending leadership, the bank has accelerated its retail segment to 11% of the total loan book. Finally, CIB maintains one of the strictest risk controls and efficiency standards amongst peers.

2011 Review

CIB's ambition to grow its retail loans and enhance its corporate banking leadership was unfazed by this year's political events, recording growth in both areas. That said, growth has slowed and could have reached the double digits registered in 2010 were it not for the unrest. Asset quality remained at comfortable levels while the bank enhanced its loan provision cushion by heavy charges— especially in 1Q11 and 3Q11— to ensure the maintenance of its strict risk control policy. CAR remained well above the CBE requirement, while higher yields for government bills supported interest margins, especially given CIB's strong local currency liquidity. However, the non-interest income has been impacted by the weak market. Deeming its current 154 branches adequate, the bank has stalled further expansions, thereby relieving some stress from its cost/income ratio; however, any additional impairment charges related to its fully owned investment banking subsidiary would see this pressure maintained.

2012 Preview

We think 2012 volume growth may slow further and NPLs ratio may slightly weaken given an expected slower GDP growth. Loan provisions should remain high, although lower than 2011. Non-interest income will likely remain distressed given uncertainty in the market. Fortunately, NII is expected to maintain its resilience since interest margin is projected to remain flat. All considered, we expect the bank to record YoY earnings growth in 2012, given NII resilience and expected slower YoY provisions.

Valuation & Recommendation

Owing to CIB's 100% ownership of CI Capital Holding, we do not issue a target price or recommendation on the stock.

Financial Statements

Commercial International Bank (COMI)

COMI | EGPmn | FY End: December Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash / Due from Banks	4,473.0	4,179.3	5,675.2	4,769.4	5,107.0	5,810.8
T-Bills & Government Securities	12,457.0	13,199.0	8,821.0	9,964.2	10,964.4	11,987.4
Gross Loans & Advances	28,007.9	28,780.4	36,588.1	40,841.5	44,329.5	51,283.9
Net Loans & Advances	26,330.3	27,242.3	35,046.0	39,027.8	42,245.0	49,041.6
Interest Earning Assets	48,815.7	56,407.4	64,834.8	75,620.4	80,739.3	91,002.3
Total Assets	**57,461.8**	**64,254.6**	**75,425.4**	**84,445.2**	**90,068.6**	**101,412.3**
Customer Deposits	48,790.0	54,648.7	63,364.2	70,959.7	75,169.0	84,847.0
Total Liabilities	52,087.3	57,816.0	67,628.3	74,785.1	79,397.7	89,429.1
Shareholder Equity (Book Value)	5,328.2	6,392.9	7,750.2	9,613.0	10,622.9	11,933.5
Minority Interest	46.3	45.6	47.0	47.1	48.0	49.8
Total Liabilities & Shareholder Equity	**57,461.8**	**64,254.6**	**75,425.4**	**84,445.2**	**90,068.6**	**101,412.3**
Income statement						
Net Interest Income (NII)	**1,798.7**	**2,030.0**	**2,257.7**	**2,682.1**	**3,014.5**	**3,473.8**
NII Less Provisions	1,388.1	2,020.8	2,251.5	2,363.3	2,766.9	3,330.8
Non-Interest Income	1,484.4	1,312.8	1,674.0	1,273.1	1,256.5	1,634.8
Income before Provisions	3,283.0	3,342.8	3,931.7	3,955.3	4,271.0	5,108.7
Income after Provisions	**2,872.5**	**3,333.6**	**3,925.6**	**3,636.4**	**4,023.4**	**4,965.6**
Operating Expense	**1,072.4**	**1,238.3**	**1,561.6**	**1,539.2**	**1,739.4**	**2,003.5**
Net Operating Income	1,800.1	2,095.3	2,364.0	2,097.3	2,284.0	2,962.1
PBT	1,616.4	2,095.3	2,364.0	2,097.3	2,284.0	2,962.1
NPAT	1,365.4	1,745.5	2,006.9	1,590.9	1,713.0	2,221.5
Net Income	**1,370.6**	**1,744.0**	**2,005.5**	**1,590.6**	**1,712.1**	**2,219.8**
Normalised Net Income	1,554.3	1,744.0	2,005.5	1,590.6	1,712.1	2,219.8
Ordinary Dividends	292.5	438.8	590.1	474.8	504.4	652.8
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	2.31	2.94	3.38	2.68	2.88	3.74
EPS (Normalised) (EGP)	2.62	2.94	3.38	2.68	2.88	3.74
Dividend Per Share	0.49	0.74	0.99	0.80	0.85	1.10
Book Value Per Share	8.98	10.77	13.06	16.20	17.90	20.11
Valuation						
PER (Basic) (x)	8.64	6.79	5.91	7.45	6.92	5.34
PER (CICR) (x)	7.62	6.79	5.91	7.45	6.92	5.34
PBV (x)	2.22	1.85	1.53	1.23	1.12	0.99
Dividend Yield (%)	2.47	3.70	4.98	4.01	4.26	5.51
Earnings Yield (%)	11.57	14.72	16.93	13.43	14.45	18.74
Market Capitalisation (EGPmn)	11,845.4	11,845.4	11,845.4	11,845.4	11,845.4	11,845.4
Profitability						
RoE (%)	25.72	27.28	25.88	16.55	16.12	18.60
RoAE (%)	28.90	29.76	28.36	18.32	16.92	19.68
RoA (%)	2.39	2.71	2.66	1.88	1.90	2.19
RoAA (%)	2.60	2.87	2.87	1.99	1.96	2.32
Cost to Income (%)	32.66	37.04	39.72	38.91	40.73	39.22
Net Interest Margin (%)	4.05	3.86	3.72	3.82	3.86	4.05
Other Indicators						
Net Loans to Deposits	53.97	49.85	55.31	55.00	56.20	57.80
Net Loans to Total Assets	45.82	42.40	46.46	46.22	46.90	48.36
Deposits to Total Assets	84.91	85.05	84.01	84.03	83.46	83.67
NPL's to Total Loans	2.97	3.00	2.74	3.02	3.32	2.92
Equity/Assets	9.27	9.95	10.28	11.38	11.79	11.77

Source: Company Financials & CICR Database

CAPITAL RESEARCH
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Egypt Book 2011/12 | Banking

Buy

TP - EGP 10.0 | 25.1% Upside

January 26, 2012

Fast loans over forecast amidst market uncertainty

- **Growing all lending segments.**
- **Maintaining high asset quality.**
- **Controlling costs.**

CAE is a fast-growing bank which recorded the highest loan growth in 2010, while maintaining the highest asset quality amongst peers, supported by its most liquid LDR ratio. Its high cost/income ratio weighed down on its performance against the backdrop of higher provisions and taxes, showing lower non-interest income. Further, its high asset quality is threatened by overall market conditions.

2011 Review

The political upheaval at the beginning of 2011 led to a YoY drop in loan growth in the 9M11 relative to the 30% peak in 2010. Although deposits remained flat, the bank is fortunately the most liquid in our coverage based on LDR. Asset quality stayed in comfortable zones, while the bank increased its annual provisions charge, and CAR kept well above the CBE requirement. Interest margin had been likely supported by higher yields for government bills as well as high volumes utilized in interbank placements. However, the weak market weighed on non-interest income, and higher provisions and taxes further pressured performance. Accordingly, cost/income ratio weakened YoY and is currently amongst the highest in our coverage.

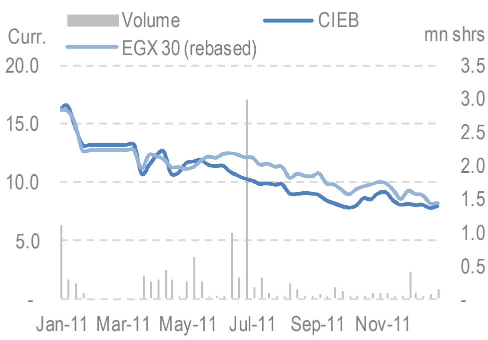
2012 Preview

While we predict a weakened volume growth in 2012, we nonetheless attach the fastest net loan growth expectations amongst coverage banks to CAE. This is built on a 5-year CAGR of 16.7% until 2015, supported by the bank's high liquidity and lower loan base compared to CIB and NSGB. NPLs ratio is expected to weaken to 3.14% in 2012, in line with the economic situation, and provisions charge is to rise to 8.4% of total banking income in 2012 (compared to a low of 3.4% in 2010). Interest margin is to stabilize in 2012 and NII to grow moderately, while non-interest income is expected to stay under pressure, and earnings to finish nearly flat.

Valuation & Recommendation

LTFV and TP are EGP10.39/share and EGP10.01/share, respectively. The bank comes with a Buy recommendation and a Moderate Risk rating.

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Buy/Moderate
Target Price/LTFV (EGP)	10.01/ 10.39
Last Price (EGP)	8.00
52 Week High	15.79
52 Week Low	7.70
6M Av. Daily Vol. (000' shrs)	19.23
% Chg: MoM / 6M / YoY	0 / -20.7 / -45.8
No. of Shares (mn)	287.00
Mkt. Cap (EGPmn)	2,296.00
Mkt. Cap (USDmn)*	380.13
Free Float (%)	20.00
Paid in Capital (EGPmn)	1,148.00
Reuters / Bloomberg	CIEB.CA / CIEB Ey Equity
ISIN	EGS60041C018

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Crédit Agricole Indosuez-Egypt started operations in 2001 when it acquired, along with El Mansour & El Maghraby for Investment & Development (MMID) 93.3% of Crédit International d'Egypte (CIE), previously owned by Crédit Commercial de France (CCF) and the National Bank of Egypt (NBE).

In 2005, Crédit Agricole Indosuez-Egypt merged with Crédit Lyonnais (Egypt Branch), thus jointly founding CALYON Bank-Egypt, this came after France's Crédit Agricole acquired France's Crédit Lyonnais. In February 2006, Crédit Agricole Group along with MMID acquired 74.6% of Egyptian American Bank (EAB).
Based on the decision of the EGM held on June 2006, the merge of the operations of EAB and CALYON Bank-Egypt under the name of Crédit Agricole Egypt (CAE) took place in September 2006.

CAE currently operates a network of 72 branches and 121 ATMs.

Ownership Structure

Credit Agricole SA	60.0%
Mansour & Maghrabi for Inv. & Dev.	20.0%
Free Float	20.0%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Financial Statements

Credit Agricolé (CIEB)

CIEB | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash / Due from Banks	1,739.1	2,315.1	2,338.4	2,598.0	2,728.4	3,066.9
T-Bills & Government Securities	3,214.4	3,982.8	6,036.5	3,721.3	4,232.8	4,554.2
Gross Loans & Advances	7,336.9	8,622.5	11,148.6	12,250.3	13,414.0	15,963.7
Net Loans & Advances	6,977.0	8,290.2	10,787.6	11,813.6	12,913.3	15,399.3
Interest Earning Assets	19,413.1	19,590.4	22,054.1	22,360.3	24,001.3	27,449.3
Total Assets	**22,037.8**	**22,839.2**	**25,352.3**	**26,052.6**	**27,924.8**	**31,920.6**
Customer Deposits	18,766.5	19,450.8	21,080.5	22,247.0	23,606.6	27,062.8
Total Liabilities	20,345.4	21,071.4	23,534.3	24,227.8	26,039.5	29,933.5
Shareholder Equity (Book Value)	1,692.4	1,767.8	1,818.1	1,824.8	1,885.2	1,987.2
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities & Shareholder Equity	**22,037.8**	**22,839.2**	**25,352.3**	**26,052.6**	**27,924.8**	**31,920.6**
Income statement						
Net Interest Income (NII)	**600.5**	**662.5**	**770.1**	**858.3**	**898.1**	**1,042.0**
NII Less Provisions	618.7	638.8	731.7	756.5	794.9	980.7
Non-Interest Income	399.0	324.8	366.1	345.0	336.9	405.9
Income before Provisions	999.5	987.2	1,136.2	1,203.3	1,235.0	1,447.9
Income after Provisions	**1,017.8**	**963.6**	**1,097.8**	**1,101.5**	**1,131.8**	**1,386.6**
Operating Expense	**482.3**	**499.4**	**545.2**	**618.4**	**704.7**	**813.8**
Net Operating Income	535.5	464.1	552.5	483.1	427.1	572.8
PBT	488.7	464.9	554.8	488.0	427.1	572.8
NPAT	475.4	394.2	446.5	324.1	320.3	429.6
Net Income	**475.4**	**394.2**	**446.5**	**324.1**	**320.3**	**429.6**
Normalised Net Income	523.4	394.2	446.5	324.1	320.3	429.6
Ordinary Dividends	315.7	315.7	344.4	244.0	229.6	287.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.66	1.37	1.56	1.13	1.12	1.50
EPS (Normalised) (EGP)	1.82	1.37	1.56	1.13	1.12	1.50
Dividend Per Share	1.10	1.10	1.20	0.85	0.80	1.00
Book Value Per Share	5.90	6.16	6.33	6.36	6.57	6.92
Valuation						
PER (Basic) (x)	4.83	5.82	5.14	7.08	7.17	5.34
PER (CICR) (x)	4.39	5.82	5.14	7.08	7.17	5.34
PBV (x)	1.36	1.30	1.26	1.26	1.22	1.16
Dividend Yield (%)	13.75	13.75	15.00	10.63	10.00	12.50
Earnings Yield (%)	20.70	17.17	19.45	14.12	13.95	18.71
Market Capitalisation (EGPmn)	2,296.0	2,296.0	2,296.0	2,296.0	2,296.0	2,296.0
Profitability						
RoE (%)	28.09	22.30	24.56	17.76	16.99	21.62
RoAE (%)	29.10	22.79	24.91	17.80	17.27	22.19
RoA (%)	2.16	1.73	1.76	1.24	1.15	1.35
RoAA (%)	2.18	1.76	1.85	1.26	1.19	1.44
Cost to Income (%)	48.25	50.59	47.99	51.39	57.06	56.21
Net Interest Margin (%)	3.12	3.40	3.70	3.86	3.87	4.05
Other Indicators						
Net Loans to Deposits	37.18	42.62	51.17	53.10	54.70	56.90
Net Loans to Total Assets	31.66	36.30	42.55	45.35	46.24	48.24
Deposits to Total Assets	85.16	85.16	83.15	85.39	84.54	84.78
NPL's to Total Loans	3.90	3.59	2.58	2.66	3.14	2.74
Equity/Assets	7.68	7.74	7.17	7.00	6.75	6.23

Source: Company Financials & CICR Database

Housing & Development Bank

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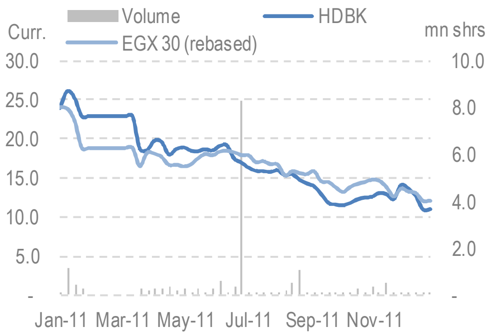
Egypt Book 2011/12 | Banking

Hold

TP - EGP 15.6 | 44.7% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/Moderate
Target Price/LTFV (EGP)	15.63 / 18.88
Last Price (EGP)	10.80
52 Week High	25.50
52 Week Low	10.50
6M Av. Daily Vol. (000' shrs)	42.32
% Chg: MoM / 6M / YoY	-10.6 / -32.5 / -56.6
No. of Shares (mn)	115.00
Mkt. Cap (EGP mn)	1,242.00
Mkt. Cap (USD mn)*	205.63
Free Float (%)	33.50
Paid in Capital (EGP mn)	1,150.00
Reuters / Bloomberg	HDBK.CA / HDBK Ey Equity
ISIN	EGS60301C016

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Housing & Development Bank [HDBK] was established as an Egyptian joint-stock company operating under the investment law and registered as an investment and commercial bank. HDBK was originally envisioned as a specialized entity to finance real estate development, fund national housing projects and provide investment trustee services. HDBK's commercial banking operation includes syndications, structured lending, SME lending and trade finance whilst its retail business features personal loans, housing finance loans, mortgage loans, credit/debt cards and other retail services. The bank also operates in real estate development, and is well-known for its solid track record with projects along the North Coast, including Marina, Marakia and Marabella. HDBK conducts most real estate ventures through its subsidiaries. HDBK has grown rapidly in recent years through expansion into retail activities (c.50% of its lending portfolio), capitalizing on a network of 58 branches and collection offices and aims to expand its network to 100 branches over the next few years. HDBK's current management team took over in 2003.

Ownership Structure

New Urban Communities Authority	29.8%
Misr Insurance	14.9%
Egyptian for Endowment Authority	11.4%
Housing Finance Fund	7.4%
Employee Associated & Insurance	3.0%
Free Float	33.5%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Gains delayed amidst a foggy backdrop

- **Growing in all lending segments.**
- **Growth in housing income.**
- **Controlling costs and asset quality.**

As a player in two sectors, banking and real-estate, HDB's growth plans have been delayed due to a foggy market backdrop. As a result, lending growth slowed vs. 2010, and is projected to remain sluggish in 2012, but should gain momentum throughout 5-year forecast period. Lower-than-average asset quality compared to leading coverage peers coupled with further expected weakening might hinder performance. In addition, the real-estate segment showed dampened deliveries. Despite expected slow balance sheet volumes, 2012 earnings should reveal some improvement supported by a number of expected real-estate deliveries. Similarly positive, at 24%, CAR remained well above the CBE requirement (10%).

2011 Review

Loan growth slowed to 3% over the 9M11, while deposits remained broadly flat. NPLs ratio showed some weakening to 6.4%, higher than coverage peers (which averaged 2.9%). Meanwhile, Net Interest Income (NII) showed some resilience during the year, although the non-interest income caption was hurt by the weak market and lower real-estate income, and higher taxes further weighed on performance. Accordingly, cost/income ratio weakened YoY and is currently amongst the highest in our coverage.

2012 Preview

NII is expected to show weak growth of 3% YoY in 2012, due to low expected volumes. However, while non-interest income is expected to finish 2011 with a slight 1.4% reduction, it should rebound in 2012 to grow by 25%, supported by the expected delivery of a large administrative building in Kattameya. NPLs levels might slightly weaken to 6.9%, so estimates for provisions charge have been increased. 2012 earnings are expected to slightly grow YoY on expected higher investment income and real-estate income.

Valuation & Recommendation

LTFV stands at EGP18.88/share and TP at EGP15.63/share. Our recommendation is Hold with a Moderate Risk rating

Financial Statements

Housing & Development Bank (HDBK)

HDBK | EGPmn | FY End: December **Balance sheet**	2008a	2009a	2010a	2011e	2012e	2013e
Cash / Due from Banks	495.3	711.5	917.1	1,022.0	1,046.7	1,158.6
T-Bills & Government Securities	550.9	851.3	1,170.7	1,307.7	1,432.6	1,571.2
Gross Loans & Advances	5,567.5	6,188.6	6,988.9	7,499.7	7,750.2	8,871.1
Net Loans & Advances	5,181.3	5,791.6	6,563.2	7,051.3	7,265.2	8,337.0
Interest Earning Assets	7,573.4	8,014.4	9,243.9	9,551.2	9,954.1	11,315.3
Total Assets	**9,494.1**	**10,619.1**	**12,657.2**	**13,185.6**	**13,715.5**	**15,437.0**
Customer Deposits	5,231.0	6,567.7	7,505.1	7,914.7	8,145.7	9,786.3
Total Liabilities	8,659.8	9,744.3	10,765.2	11,190.1	11,641.9	13,233.1
Shareholder Equity (Book Value)	834.3	874.8	1,891.9	1,995.5	2,073.6	2,203.9
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities & Shareholder Equity	**9,494.1**	**10,619.1**	**12,657.2**	**13,185.6**	**13,715.5**	**15,437.0**
Income statement						
Net Interest Income (NII)	**296.3**	**300.6**	**348.8**	**364.8**	**375.7**	**431.0**
NII Less Provisions	291.5	284.4	289.4	305.0	331.4	387.0
Non-Interest Income	163.7	278.1	294.7	290.5	364.0	478.4
Income before Provisions	460.0	578.7	643.5	655.3	739.6	909.3
Income after Provisions	**455.2**	**562.5**	**584.0**	**595.5**	**695.3**	**865.3**
Operating Expense	**254.7**	**299.0**	**353.5**	**378.3**	**437.5**	**507.6**
Net Operating Income	200.5	263.6	230.5	217.2	257.8	357.7
PBT	200.8	263.6	230.5	217.2	257.8	357.7
NPAT	200.9	244.1	202.7	174.5	193.4	268.3
Net Income	**200.9**	**244.1**	**202.7**	**174.5**	**193.4**	**268.3**
Normalised Net Income	200.9	244.1	202.7	174.5	193.4	268.3
Ordinary Dividends	100.5	167.5	92.0	86.3	86.3	97.8
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.75	2.12	1.76	1.52	1.68	2.33
EPS (Normalised) (EGP)	1.75	2.12	1.76	1.52	1.68	2.33
Dividend Per Share	0.87	1.46	0.80	0.75	0.75	0.85
Book Value Per Share	7.26	7.61	16.45	17.35	18.03	19.16
Valuation						
PER (Basic) (x)	6.18	5.09	6.13	7.12	6.42	4.63
PER (CICR) (x)	6.18	5.09	6.13	7.12	6.42	4.63
PBV (x)	1.49	1.42	0.66	0.62	0.60	0.56
Dividend Yield (%)	8.09	13.49	7.41	6.94	6.94	7.87
Earnings Yield (%)	16.17	19.65	16.32	14.05	15.57	21.60
Market Capitalisation (EGPmn)	1,242.0	1,242.0	1,242.0	1,242.0	1,242.0	1,242.0
Profitability						
RoE (%)	24.08	27.90	10.72	8.74	9.33	12.17
RoAE (%)	27.11	28.56	14.65	8.98	9.50	12.54
RoA (%)	2.12	2.30	1.60	1.32	1.41	1.74
RoAA (%)	2.00	2.43	1.74	1.35	1.44	1.84
Cost to Income (%)	55.37	51.66	54.94	57.73	59.15	55.82
Net Interest Margin (%)	3.65	3.86	4.04	3.88	3.85	4.05
Other Indicators						
Net Loans to Deposits	99.05	88.18	87.45	89.09	89.19	85.19
Net Loans to Total Assets	54.57	54.54	51.85	53.48	52.97	54.01
Deposits to Total Assets	55.10	61.85	59.30	60.03	59.39	63.39
NPL's to Total Loans	7.23	5.10	5.45	6.48	6.92	6.27
Equity/Assets	8.79	8.24	14.95	15.13	15.12	14.28

Source: Company Financials & CICR Database

National Societe Generale Bank

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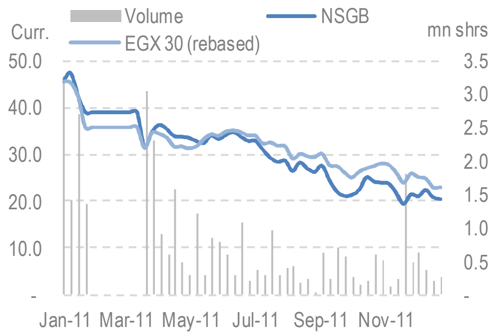
Egypt Book 2011/12 | Banking

Buy

TP - EGP 26.1 | 6.8% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Buy/Moderate
Target Price/LTFV (EGP)	26.09 / 27.46
Last Price (EGP)	24.43
52 Week High	43.86
52 Week Low	18.44
6M Av. Daily Vol. (000' shrs)	96.08
% Chg: MoM / 6M / YoY	11.1 / -18.9 / -42.5
No. of Shares (mn)	403.21
Mkt. Cap (EGPmn)	9,850.53
Mkt. Cap (USDmn)*	1,630.88
Free Float (%)	22.80
Paid in Capital (EGPmn)	4,032.10
Reuters / Bloomberg	NSGB.CA / NSGB Ey Equity
ISIN	EGS60081C014

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

National Société Générale Bank (NSGB) was established in April 1978, by the French Société Générale Bank (SGB); one of the largest financial services group in the Eurozone, and National Bank of Egypt (NBE); Egypt's largest public bank. In September 2005, NSGB acquired 90.7% of Egypt's second largest private bank at the time; Misr International Bank (MIBank). NSGB is currently one of the largest private sector banks in Egypt. The bank operates in key businesses including retail banking, corporate and investment banking, alongside other activities offered through its affiliates such as leasing via "Sogelease", NSGB Life Insurance company and ALD Automotive specialized in car rentals and fleet management. Currently, Société Générale owns 77.2% of NSGB after acquiring NBE's 18% stake in addition to another 6% in August 2005. Currently,

NSGB runs a network of 156 branches and 316 ATMs.

Ownership Structure

Société Générale Bank (SGB)	77.2%
Free Float	22.8%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Moving forward with vigilance

- **Maintaining retail banking leadership through branching out.**
- **Steadily growing its corporate portfolio.**
- **Improving its risk profile.**

NSGB has expanded its retail services to attain the largest retail loans base amongst our coverage (forming 17% of its loan book), while at the same time grabbing a leading corporate banking market share and undertaking a long-term customer satisfaction plan. Its branch network had steadily increased over the last two years, while maintaining one of the most efficient cost/income ratios in our coverage. Despite a rocky start for the market this year, NSGB is the only bank in our coverage expected to record YoY earnings growth, as it is supported not only by the end of amortization charges the previous year but also its growing NII. All considered, the bank generates one of the highest RoE's in the Egyptian banking sector.

2011 Review

Recent events have not dented NSGB's ambitions to grow its retail loans and enhance its corporate banking leadership; indeed, total loans have recorded the highest growth rate amongst our coverage in 9M11. NSGB's asset quality has come a long way in a short period of time, despite legacy NPLs related to the MIBank acquisition in 2006. So far, NPLs ratio ended 9M11 remained flat compared December 2010. The provisions charge over the 9M11 had not increased with the same pace as peers and estimated coverage ratio is currently around 94% of NPLs. CAR remained well above the CBE requirement, while higher yields for government bills supported interest margins during the year. However, the non-interest income caption had been impacted by the weak market. The termination of amortization charges in 2010 was helpful in supporting YoY earnings growth in 9M11.

2012 Preview

The recent economic slowdown and political blur are expected to take their toll on balance sheet volumes and earnings growth, as well as asset quality. This requires provisioning estimates to remain high in 2012. We project non-interest income to remain somewhat distressed, but to nevertheless record a slight improvement. The expected hike in provisions in 2012 should result in a slight YoY decline in earnings growth.

Valuation & Recommendation:

LTFV and TP are EGP30.21/share and EGP28.70/share adjusted to EGP27.46/share and EGP26.09/share, respectively, following the distribution of a 10% stock dividend. The stock currently holds a Buy recommendation with a Moderate Risk rating.

Financial Statements

National Societe Generale Bank (NSGB)

NSGB | EGPmn | FY End: December Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash / Due from Banks	3,229.0	4,072.9	5,154.3	5,319.7	5,477.1	6,071.2
T-Bills & Government Securities	2,976.4	9,095.9	12,348.7	13,000.5	13,680.6	14,463.4
Gross Loans & Advances	27,109.1	27,993.2	32,499.5	36,464.8	39,485.0	45,725.7
Net Loans & Advances	25,011.2	26,569.1	31,345.3	35,218.7	38,121.8	44,255.1
Interest Earning Assets	40,670.2	47,120.8	53,940.2	57,876.1	61,792.6	69,759.2
Total Assets	**46,046.8**	**53,219.6**	**60,884.9**	**65,241.1**	**69,585.6**	**78,471.4**
Customer Deposits	36,889.2	43,715.5	50,083.6	53,568.8	56,945.2	64,563.8
Total Liabilities	41,733.8	47,963.8	54,830.4	57,903.1	61,495.8	69,461.7
Shareholder Equity (Book Value)	4,313.0	5,255.8	6,054.5	7,338.0	8,089.8	9,009.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities & Shareholder Equity	**46,046.8**	**53,219.6**	**60,884.9**	**65,241.1**	**69,585.6**	**78,471.4**
Income statement						
Net Interest Income (NII)	**1,424.0**	**1,651.6**	**1,896.1**	**2,111.2**	**2,311.7**	**2,646.8**
NII Less Provisions	1,210.6	1,932.6	1,967.4	1,970.9	2,123.4	2,564.6
Non-Interest Income	823.4	801.0	906.6	863.2	895.6	1,055.2
Income before Provisions	2,247.4	2,452.6	2,802.7	2,974.4	3,207.3	3,702.0
Income after Provisions	**2,034.0**	**2,733.6**	**2,874.0**	**2,834.1**	**3,019.0**	**3,619.8**
Operating Expense	**1,085.0**	**1,207.8**	**1,283.2**	**1,062.2**	**1,214.0**	**1,395.3**
Net Operating Income	949.0	1,525.8	1,590.9	1,771.9	1,805.1	2,224.5
PBT	1,297.0	1,525.8	1,590.9	1,771.9	1,805.1	2,224.5
NPAT	1,136.9	1,293.2	1,337.8	1,411.2	1,353.8	1,668.4
Net Income	**1,136.9**	**1,293.2**	**1,337.8**	**1,411.2**	**1,353.8**	**1,668.4**
Normalised Net Income	789.3	1,293.2	1,337.8	1,411.2	1,353.8	1,668.4
Ordinary Dividends	378.7	416.5	458.2	483.9	491.9	612.9
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	2.82	3.21	3.32	3.50	3.36	4.14
EPS (Normalised) (EGP)	1.96	3.21	3.32	3.50	3.36	4.14
Dividend Per Share	0.94	1.03	1.14	1.20	1.22	1.52
Book Value Per Share	10.70	13.03	15.02	18.20	20.06	22.34
Valuation						
PER (Basic) (x)	8.66	7.62	7.36	6.98	7.28	5.90
PER (CICR) (x)	12.48	7.62	7.36	6.98	7.28	5.90
PBV (x)	2.28	1.87	1.63	1.34	1.22	1.09
Dividend Yield (%)	3.84	4.23	4.65	4.91	4.99	6.22
Earnings Yield (%)	11.54	13.13	13.58	14.33	13.74	16.94
Market Capitalisation (EGPmn)	9,850.5	9,850.5	9,850.5	9,850.5	9,850.5	9,850.5
Profitability						
RoE (%)	26.36	24.60	22.10	19.23	16.73	18.52
RoAE (%)	28.47	27.03	23.66	21.08	17.55	19.51
RoA (%)	2.47	2.43	2.20	2.16	1.95	2.13
RoAA (%)	2.43	2.61	2.34	2.24	2.01	2.25
Cost to Income (%)	48.28	49.25	45.78	35.71	37.85	37.69
Net Interest Margin (%)	3.47	3.76	3.75	3.78	3.86	4.02
Other Indicators						
Net Loans to Deposits	67.80	60.78	62.59	65.74	66.94	68.54
Net Loans to Total Assets	54.32	49.92	51.48	53.98	54.78	56.40
Deposits to Total Assets	80.11	82.14	82.26	82.11	81.83	82.28
NPL's to Total Loans	7.00	4.77	3.42	3.49	3.97	3.51
Equity/Assets	9.37	9.88	9.94	11.25	11.63	11.48

Source: Company Financials & CICR Database

Cement

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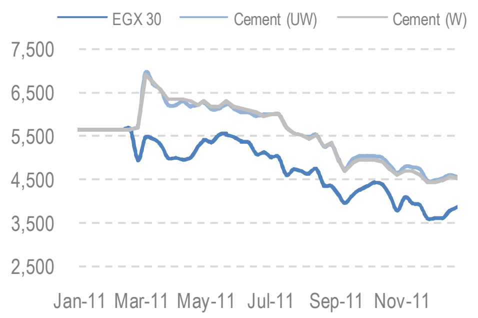
Egypt Book 2011/12 | Sector Review

MBSC | Hold
MCQE | Underweight
SCEM | Buy

January 26, 2012

Cement | 52 Wk Performance*



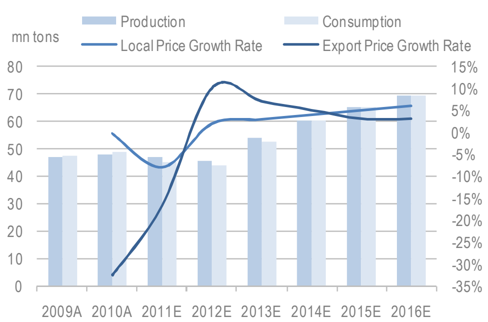
Sector Growth Drivers

- Abundant raw materials.
- A faster-than-expected recovery for the political risk.
- Expected pick-up in private investments and government spending when things settle in Egypt will boost construction and infrastructure activities.
- Despite the current events, outstanding real estate projects still secure demand for cement.

Sector Risks

- The probability of GoE's intervention in the industry.
- Increasing energy prices might squeeze margins.
- Oversupply in the local market may lead to price war between domestic players.
- Lower prices in the export markets.
- Competition from cheap imports, particularly Turkey.
- Rising competition regionally as countries such as Saudi Arabia bring new capacities on stream.

KPIs | 2009-16e



*Comprises all sector stocks constituting CI Capital 100 Index.

Another year of pressure for cement

- **2011 slowdown is expected to extend to 2012 on continued unrest.**
- **Despite increase in capacities, KPIs are expected to decline in both years.**
- **Average prices are to reverse their 2011 drop to an increase in 2012.**
- **GoE approved a 33% increase in natural gas prices starting January 1, 2012**

It was a tough year for cement, with significant disruption arising from the January 25 Revolution and the ensuing unrest. Despite new capacities, both utilization rates and production are expected to show a year-on-year (YoY) decline. Likewise, consumption and average prices are anticipated to decline on an anticipated lower demand as a direct result of the unrest and general insecurity following the revolution. This breakdown in security has resulted in 11 bombings of the natural gas pipe line in North Sinai to date, while the unrest has led foreign and local investors alike to refrain from investing in new real estate and construction projects. Adding to this, increasing energy prices on cement factories, labour strikes and armed attacks have created a great disruption in the cement market. Export-wise, local producers face problems in regaining their foothold in their export markets due to the prolonged cement exports ban, (April 2009- October 2010). For 2012 we remain bearish, anticipating the lower KPIs to continue due to the unrest and insecurity. Despite the anticipated oversupply in the local market coupled with the overall lower demand, prices are estimated to show a slight increase due to the announced plan to build 75,000 housing units for youth over 2012 and 2013.

Review 2011

2011 is expected to end with a considerable slowdown in average utilization rates and production. Both are estimated at lower 1,400bps and 2% to 84% and 46.9mt, respectively. Consumption is projected to lose 8% to 45.2mt, driven by lower demand due to slowdown in the real estate sector courtesy of continued political and economic unrest. This unrest and the state of insecurity resulted in 11 bombings to the natural gas pipeline located in North Sinai. Additionally, average prices are predicted to decline by 8% to EGP470/ton, driven by the aforementioned reasons in addition to competition from new players.

Preview 2012

The slowdown is expected to extend into 2012 and for as long as political unrest continues. This will be reflected in the decline in average utilization rates, production and consumption to 74%, 45.9mt and 44.5mt, respectively. Likewise, average local prices are set to show a slight increase, reaching EGP479/ton (2%). Moreover, the GoE approved a 33% increase in natural gas prices on cement factories effective January 1, 2012.

Covered stocks

We cover three cement companies: Misr Cement (Qena) [MCQE], Misr Beni Suef Cement [MBSC] and Sinai Cement [SCEM], which will fall under the new 25% tax rate by 2013, 2014 and 2012, respectively. SCEM is our top pick.

Review 2011

Despite the initial rush to take advantage of unrest and the lawlessness by building on agricultural land and slums without government approvals, the construction and real-estate sectors were amongst the hardest hit by the political upheaval in Egypt. Indeed, it appears most consumers prefer to keep their assets liquid rather than investing in or building new homes. As for real-estate developers, while many are rushing to finish existing projects, few show any intention of investing in any new projects in the near future, particularly since some of them are facing lawsuits over land sales.

Key Recent Developments

El-Sewedy Cement begins cement production

El-Sewedy Cement began cement production in March 2011 in Suez governorate, and captured a market share of c.2% of local cement sales over the same month, with 0.83mt sold. El-Sewedy Cement was one of the seven Greenfield licenses' winners offered in October 2007, with a total capacity of 1.5mt, paying EGP201mn for the license.

MBSC's second grinder starts operations

MBSC's second grinder started operations in January 2011, raising company's capacity to 3mtpa from 1.5mtpa.

IDA postpones launching 12 new cement licenses

After the uprising, the IDA announced that it will postpone the issuing of 12 new cement licenses from the current year until further notice. The postponement reflects the fact that most investors, be they local or foreign, will likely be less willing to invest large amounts of money until things stabilize in the country.

Judiciary halts IDA decision over North Sinai Cement

On May 10, 2011, the Judiciary halted the IDA's decision to withdraw the license acquired by North Sinai Cement, after the company presented proof that it had made agreements with a Chinese bank for financing and a Chinese company to supply it with the machinery and equipment needed for its new factory.

GoE approved natural gas increase

In late December 2011, the Government of Egypt (GoE) approved increasing energy prices for energy-intensive industries, including cement, aluminium, glass and ceramics. By virtue of this decision, natural gas prices will increase to USD4/MMbtu from the current USD3/MMbtu. Meanwhile, cement companies using mazut in their production will not be affected by this increase, as mazut already trades according to international prices.

Natural gas pipeline in North Sinai bombed

The natural gas pipeline in North Sinai governorate, which delivers natural gas to Jordan and Israel was bombed – the 11th time since April 2011. This reflects the insecurity in North Sinai governorate and represents a risk to all factories that use natural gas as a fuel, forcing them to use the more expensive mazut in their production.

Supply

Capacities are estimated to add approx. 6.4mtpa in 2011 (+13% over 2010), compared with a 7% YoY growth in 2010 over 2009. This increase is stimulated by the added capacities for Misr Beni Suef, Arabian, Wadi El Nil, El Sewedy and El Arish. Production is predicted to slow down by 2% to 46.9mt in 2011 versus the 0.2% YoY increase in 2010. This decline is mainly attributable to the lower demand during 2011 as a result of political and economic unrest. Utilization rates are expected to average at 84% in 2011, as opposed to 98% in 2010.

Cement exports were hard hit in 2010, selling a mere 0.05mn tons as a result of the cement export banning imposed by GoE, which extended from April 2009 and lifted in October 2010. This ban saw cement companies lose their export markets. However, exports are expected to rebound in 2011 to reflect the effect of the ban's removal. Exports are estimated to reach 0.9mt in 2011.

Demand

Consumption in 2011 is estimated to decline 8%, scoring 45.2mt, compared with a growth of 3% in 2010 (48.9mt). This drop in consumption came on the back of lower demand for real estate and construction activities. Imports meanwhile are expected to increase by 14% during 2011 to 0.7mt due to cheaper imported cement, especially from Turkey. The market is set to reverse its deficit recorded in 2010 (0.9mt). In 2011, we expect a surplus of 1.8mt resulted from the estimated lower demand coupled with new added capacities.

Prices

Local cement average ex-factory prices – announced by the Ministry of Trade & Industry (MoTI) – are estimated to ease down by 8% in 2011 to EGP470/ton, compared with an average price of EGP510/ton in 2010. This estimated drop in prices is a direct result of the lower demand as well as the competition from the cheaply imported cement i.e. USD60/ton (EGP360/ton). Exports prices are estimated to register an average of USD45/ton in 2011 (vs. average of USD54/ton in 2010) in order to compete and regain market shares in the export markets.

Preview 2012

Supply

In 2012, we expect capacities to increase by 12% to 62.23mtpa by adding 6.7mtpa though new producers, in addition to launching new production lines for existing players. Production is expected to continue its slowdown exhibited in 2011, declining an additional 2% to 45.9mt (46.9mt estimated in 2011). This decline might be due to the expected lower demand in real estate and construction activities, as we expect the current unrest to continue into 2012.

Utilization rates are predicted to continue to decline for the second year in a row, scoring an average of 74% while exports in 2012 are estimated to maintain at 0.9mt.

Demand

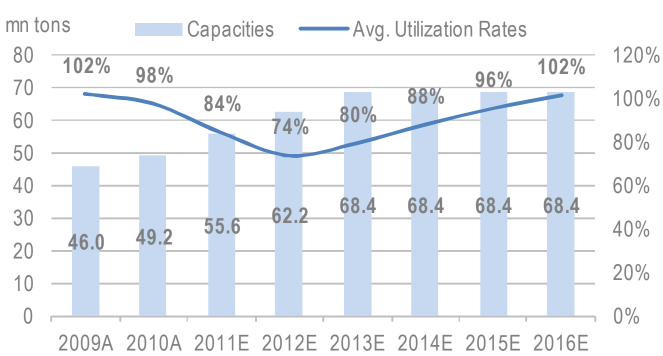
We expect consumption to decrease by 2% YoY in 2012 on the back of continued political and economic unrest. Consumption is estimated at 44.5mt in 2012 (vs. 45.2mt estimated in 2011). Imports are estimated to drop throughout 2012 to 0.2mt (vs. 0.7mn tons in 2011), driven by the expected lower demand. The market is set to continue its increasing surplus achieved in 2011, especially with the new added capacities. We believe surplus to reach 1.5mt in 2012.

Prices

We expect local cement prices to see a slight 2% increase in 2012 (EGP479/ton), compared to 2011 (EGP470/ton). This will be spurred on by government plan to build new 75,000 housing units over 2012 and 2013, as well as companies' expected attempts to partially pass on the increased costs of natural gas.

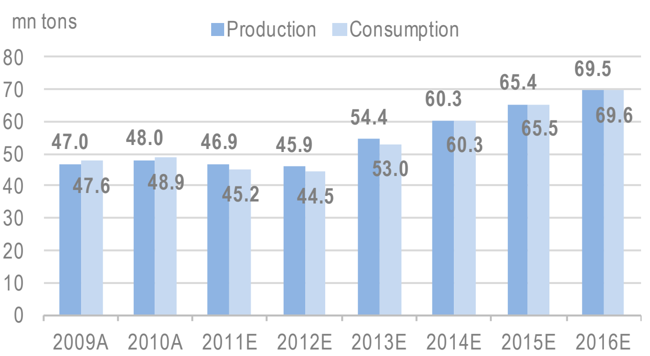
Export prices are expected to gain some momentum, increasing 10% to an average of USD50/ton in 2012 on a higher expected demand from the neighboring African markets, especially the Libyan and the Sudanese markets.

Figure 4.1.1 | **Capacities & Utilization Rates ('09-'16E)**



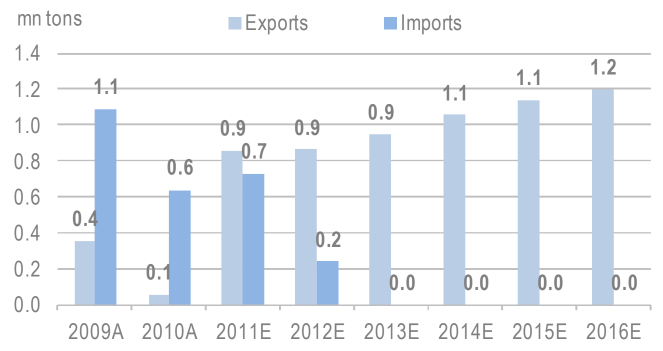
Source: CI Capital Research Database

Figure 4.1.2 | **Production & Consumption ('09-'16E)**



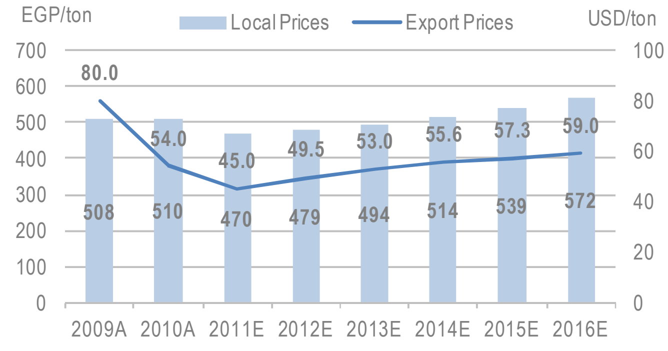
Source: CI Capital Research Database

Figure 4.1.3 | **Cement Exports & Imports ('09-'16E)**



Source: CI Capital Research Database

Figure 4.1.4 | **Local & Export Prices* ('09-'16E)**



Source: CI Capital Research Database
* Local prices are ex-factory announced by MoTI
* Export prices are ex-factory

Figure 4.1.5 | **Changes to our Estimates ('09-'16E)**

Item	2009 A	2010 A	2011E	2012E	2013E	2014E	2015E	2016E
Capacity (mn tons)								
Old	46.0	49.2	55.3	62.2	66.9	66.9	66.9	n/a
New	46.0	49.2	55.6	62.2	68.4	68.4	68.4	68.4
% change	0.0%	0.0%	0.5%	0.0%	2.2%	2.2%	2.2%	n/m
Utilization rates (%)								
Old	102.2%	98.2%	82.5%	77.7%	80.2%	86.8%	93.7%	n/a
New	102.2%	97.7%	84.4%	73.8%	79.6%	88.1%	95.6%	101.6%
% change	0.0%	-0.5%	2.4%	-5.0%	-0.7%	1.5%	2.0%	n/m
Production (mn tons)								
Old	47.0	48.0	45.7	48.4	53.7	58.1	62.7	n/a
New	47.0	48.0	46.9	45.9	54.4	60.3	65.4	69.5
% change	0.0%	0.1%	2.8%	-5.0%	1.5%	3.8%	4.3%	n/m
Consumption (mn tons)								
Old	47.6	48.9	44.7	46.8	51.9	55.8	59.7	n/a
New	47.6	48.9	45.2	44.5	53.0	60.3	65.5	69.6
% change	0.0%	0.2%	1.1%	-5.0%	2.1%	8.1%	9.7%	n/m
Exports (mn tons)								
Old	0.4	0.1	0.3	1.3	1.8	2.3	3.0	n/a
New	0.4	0.1	0.9	0.9	0.9	1.1	1.1	1.2
% change	0.0%	13.2%	206.9%	-33.1%	-47.0%	-53.5%	-62.0%	n/m
Imports (mn tons)								
Old	1.1	0.6	0.7	0.2	0.0	0.0	0.0	n/a
New	1.1	0.6	0.7	0.2	0.0	0.0	0.0	0.0
% change	0.0%	0.0%	0.0%	0.0%	n/m	n/m	n/m	n/m
Local Prices (EGP/ton)								
Old	508	510	485	461	494	498	513	n/a
New	508	510	470	479	494	514	539	572
% change	0.0%	0.0%	-3.1%	4.0%	0.0%	3.1%	5.1%	n/m
Export Prices (USD/ton)								
Old	80	54	42	47	48	49	50	n/a
New	80	54	45	50	53	56	57	59
% change	0.0%	0.0%	7.1%	5.3%	10.3%	13.5%	14.6%	n/m

Source: CI Capital Research

Figure 4.1.6 | **Planned Market Capacities by Company ('09-'16E)**

Company Name	2009 A	2010 A	2011E	2012E	2013E	2014E	2015E	2016E
Torah	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Helwan	4.5	4.5	4.5	4.5	5.4	5.4	5.4	5.4
Additions	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0
National	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cemex	5.0	5.0	5.0	5.0	6.5	6.5	6.5	6.5
Additions	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0
Al-Amreyah+Cimpor	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Titan	3.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Additions	0.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Suez	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lafarge	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
Additions	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sinai	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Additions	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misr Qena	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misr Beni Suef	1.5	1.5	2.5	3.0	3.0	3.0	3.0	3.0
Additions	0.0	0.0	1.0	0.5	0.0	0.0	0.0	0.0
Arabian	0.0	1.6	3.2	4.2	4.2	4.2	4.2	4.2
Additions	0.0	1.6	1.6	1.1	0.0	0.0	0.0	0.0
Madcom-Aswan	0.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Additions	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Arab National	0.0	0.0	0.0	0.0	1.5	1.5	1.5	1.5
Additions	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0
Wadi EL Nil	0.0	0.0	0.8	1.5	1.5	1.5	1.5	1.5
Additions	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0
El-Sewedy	0.0	0.0	1.5	1.5	1.5	1.5	1.5	1.5
Additions	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0
North Sinai	0.0	0.0	0.0	0.0	1.5	1.5	1.5	1.5
Additions	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0
South Valley	1.0	1.0	1.0	1.5	1.5	1.5	1.5	1.5
Additions	1.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Al-Nahda Industries	0.0	0.0	0.0	1.5	1.5	1.5	1.5	1.5
Additions	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0
Egypt Kuwait Holding	0.0	0.0	0.0	0.8	1.5	1.5	1.5	1.5
Additions	0.0	0.0	0.0	0.8	0.8	0.0	0.0	0.0
Shoura	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Additions	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Al Arish (Armed Forces)			1.6	3.2	3.2	3.2	3.2	3.2
Additions	0.0	0.0	1.6	1.6	0.0	0.0	0.0	0.0
Total Capacities - New	**46.0**	**49.2**	**55.6**	**62.2**	**68.4**	**68.4**	**68.4**	**68.4**
Total Capacities - Old	**46.0**	**49.2**	**55.3**	**62.2**	**66.9**	**66.9**	**66.9**	**66.9**
Total Additions - New	**4.1**	**3.2**	**6.4**	**6.7**	**6.2**	**0.0**	**0.0**	**0.0**
Total Additions - Old	**4.1**	**3.2**	**6.2**	**6.9**	**4.7**	**0.0**	**0.0**	**1.0**
Capacities Growth Rates	*10%*	*7%*	*13%*	*12%*	*10%*	*0%*	*0%*	*0%*

Source: CI Capital Database

Sector Summary

Cement Sector - SWOT Analysis	
Strengths	**Weaknesses**
• Despite the rising cost of energy, it is still cheaper in Egypt than in the international markets. • An abundant supply of raw materials gives the industry a competitive edge. • Capacities on the stream will lead to more competitive prices, thus increasing real estate and construction activities. • Reduction of resource development fees imposed on clay from EGP35.1/ton to EGP15/ton.	• The state of lawlessness, especially in North Sianai rsulted in 11 bombings for the natural gas pipeline. • The capital-intensive nature of the industry and the high cost of acquiring a new cement license serve as barriers to entry. • The current slowdown in the real estate and construction activities led to lower YoY demand. • Low margins on the back of declining sales coupled with higher opex due to lower demand and rising energy prices.
Opportunities	**Threats**
• Government decision to lift the export ban opens the door for exports to flow freely. • Outstanding real estate backlog secures demand for cement in the coming years. • Government plan to expand infrastructure investments. • Faster-than-expected recovery to the current political and economic unrest. • Lifting cement export ban will give room for cement exporters to regain their lost markets during the ban.	• Reduced availability of energy . • Longer-than-expected political and economic unrest • Removal of energy subsidies is expected to be effective in 2012, which will affect local producers' margins negatively. • Rising competition in the local market after new capacities come on stream. • Competition from cheaper imports, particularly those from Turkey.

Source: CI Capital Research

CAPITAL RESEARCH A CIB Group Member

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Egypt Book 2011/12 | Building Materials

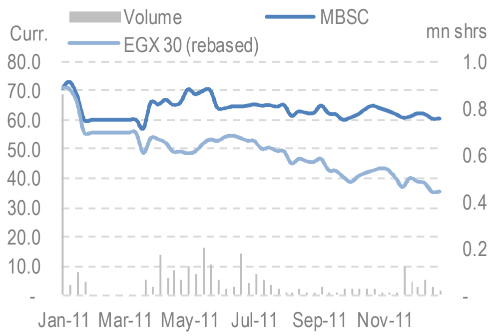
Cement

Hold

TP - EGP 70.7 | 15.0% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Hold/Moderate
Target Price/LTFV (EGP)	70.73 / 70.73
Last Price (EGP)	61.50
52 Week High	76.98
52 Week Low	52.00
6M Av. Daily Vol. (000' shrs)	6.33
% Chg: MoM / 6M / YoY	0.8 / -5.4 / -10.4
No. of Shares (mn)	40.00
Mkt. Cap (EGPmn)	2,460.00
Mkt. Cap (USDmn)*	407.28
Free Float (%)	39.80
Paid in Capital (EGPmn)	400.00
Reuters / Bloomberg	MBSC.CA / MBSC Ey Equity
ISIN	EGS3C371C019

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Misr Beni Suef Cement [MBSC] was incorporated in November 1997 as a shareholding company for the production of cement and associated products and in August 1999 the company had its shares listed on the Egyptian Exchange (EGX). MBSC was established with a paid-in capital of EGP 120mn distributed over 12mn shares at a par value of EGP 10/share. Currently, MBSC has a paid-in capital of EGP200mn distributed over 20mn shares at a par value of EGP 10/share.

In December 2006, MBSC signed a supplying and installation contract with the French company Polysius in order to double its annual production capacity. Just over a year later, in February 2008, MBSC signed a contract to import two cement grinders. In 2009, MBSC reached 4% and 20% local market and export market share, selling 1,845k tons and 70k tons (c.4% of production), respectively.

Ownership Structure

Free Float	39.8%
Top Management	26.0%
National Investment Bank	20.1%
Individuals	11.2%
Others	2.9%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Higher fuel costs pressure margins

- **Capacity doubled to 3mtpa in April 2011.**
- **Top-line KPIs to rise despite declining utilization rate in 2011 & 2012.**
- **EBITDA margin expected to narrow in 2011 & 2012 on estimated higher opex.**
- **Applying 25% tax rate by 2014.**

MBSC's second production line launched operations in April 2011 with a capacity of 1.5mtpa, bringing total capacity to 3mtpa. Accordingly, production is estimated to grow in 2011 and 2012, albeit leading to lower estimated utilization rates. Thus, sales volume is expected to show an increase in both years. Average local selling prices are expected to rise in 2011 and 2012 despite the current unrest and competition in the market. These higher prices are made possible by the company's competitive selling prices compared to local peers, which give it room to increase its prices, especially with the 33% increase in natural gas prices starting 2012. Meanwhile, MBSC resumed exports following the removal of the cement export ban in October 2010, albeit on low volumes and estimated lower average export prices in 2011. That said, prices should rebound in 2012 on an anticipated higher demand from the Libyan market and other African markets. Overall, we expect net sales to rise in 2011 and 2012 despite the expected continuation of the economic unrest. Finally, margins are expected to narrow over 2011 and 2012 impacted by increasing opex, with recovery expected by 2013. In sum, we trimmed our overall estimates through 2016, taking into account the 25% new tax rate by 2014 post expiration of the 10-year tax exemption. Thus, we cut our TP by 34% to EGP70.7/share. We accordingly downgrade our recommendation to Hold from Strong Buy.

2011 Review

In April 2011, the 1.5mtpa second line started operations. Despite this doubling capacity to 3mtpa, utilization rates are expected to decline due to lower demand, pressured by post-revolution unrest. Production and sales volume are meanwhile estimated to increase, and local prices are predicted to rise as well. However, EBITDA margin is expected to narrow on an increasing opex due to higher incentives paid to retailers to maintain local selling prices. Finally, earnings are expected to fall on a lower non-operating performance coupled with a squeezed EBITDA margin.

2012 Preview

In 2012, we foresee continued top-line growth, albeit at a slower pace. Production will increase on the back of operating at a full capacity, although with a declining utilization rate due to expected continued unrest. Prices (and thus net sales) are expected to rise in an attempt to partially pass on the increase in fuel cost. However, EBITDA margin should feel the pressure of higher opex resulting from the increase in natural gas cost aligned with the increase in incentive paid to retailers to maintain selling prices. Finally, earnings are expected to decline.

Valuation & Recommendation

In sum, we trimmed our overall estimates through 2016, taking into account the 25% tax rate by 2014. Finally, we cut our TP by 34% to EGP70.7. We have thus downgraded our recommendation to Hold from Strong Buy.

Misr Beni Suef Cement (MBSC)

MBSC | EGPmn | FY End: December Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash & Cash Equivalent	227.9	332.9	331.8	408.2	595.8	833.1
Current Assets	256.8	362.9	458.5	585.5	771.3	985.6
Total Assets	1,553.0	1,985.8	2,179.0	2,266.1	2,384.7	2,522.1
Current Liabilities	166.2	246.4	217.7	222.8	256.1	285.1
Total Debt	51.7	63.4	21.2	22.0	15.3	10.8
Net Debt	-176.2	-269.5	-310.6	-386.2	-580.5	-822.3
Total Liabilities	196.9	297.3	238.9	238.7	266.7	290.4
Shr Equity (Book Value)	840.8	1,431.4	1,614.4	1,697.3	1,782.7	1,890.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	515.3	230.4	232.3	236.8	241.9	247.9
Total Liabilities & Equity	1,553.0	1,985.8	2,179.0	2,266.1	2,384.7	2,522.1
Income statement						
Revenue	660.0	835.6	749.0	897.2	1,054.5	1,241.6
COGS	-218.4	-320.4	-252.9	-436.5	-558.7	-655.1
Gross Profit	441.5	515.2	496.2	460.7	495.8	586.5
EBITDA	421.0	497.1	477.3	402.8	416.1	497.4
EBIT	357.7	433.6	346.8	257.0	265.0	339.7
Int. Income	14.6	16.6	28.2	22.4	25.3	27.3
Int. Expense	0.0	0.0	-0.3	-0.7	-0.6	-0.7
PBT	233.3	389.3	370.5	278.1	288.4	364.2
NPAT	202.4	390.6	303.9	276.3	284.9	359.0
Net Income	202.4	390.6	303.9	276.3	284.9	359.0
Normalised Net Income	192.1	380.3	481.1	447.6	461.6	581.7
Ordinary Dividends	80.0	120.0	191.2	171.3	176.7	222.7
Cash Flow Summary						
COPAT	356.9	499.5	405.0	401.0	412.5	492.2
FCFF	-168.7	217.2	97.3	248.6	370.1	467.6
Change in Cash	-1.2	39.3	253.4	88.9	151.4	163.6
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	5.06	9.76	7.60	6.91	7.12	8.98
EPS (Normalised) (EGP)	4.80	9.51	12.03	11.19	11.54	14.54
Dividend Per Share	2.00	3.00	4.78	4.28	4.42	5.57
Book Value Per Share	21.02	35.78	40.36	42.43	44.57	47.26
Valuation						
PER (Basic) (x)	12.15	6.30	8.10	8.90	8.63	6.85
PER (CICR) (x)	12.81	6.47	5.11	5.50	5.33	4.23
PBV (x)	2.93	1.72	1.52	1.45	1.38	1.30
Dividend Yield (%)	3.25	4.88	7.77	6.96	7.18	9.05
Earnings Yield (%)	8.23	15.88	12.35	11.23	11.58	14.60
EV/Revenue (x)	3.46	2.62	2.87	2.31	1.78	1.32
EV/EBITDA (x)	5.42	4.41	4.50	5.15	4.52	3.29
Market Capitalisation (EGPmn)	2,460.0	2,460.0	2,460.0	2,460.0	2,460.0	2,460.0
Enterprise Value (EGPmn)	2,283.8	2,190.5	2,149.4	2,073.8	1,879.5	1,637.7
Profitability						
ROE (%)	24.07	27.29	18.82	16.28	15.98	18.99
ROA (%)	13.03	19.67	13.95	12.19	11.95	14.24
Asset Turnover (x)	0.42	0.42	0.34	0.40	0.44	0.49
EBITDA Margin (%)	63.80	59.49	63.72	44.90	39.45	40.06
Liquidity						
ND/Equity (x)	-0.21	-0.19	-0.19	-0.23	-0.33	-0.43
ND/EBITDA (x)	-0.42	-0.54	-0.65	-0.96	-1.40	-1.65

Source: Company Financials & CICR Database

CAPITAL RESEARCH
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Misr Cement - Qena

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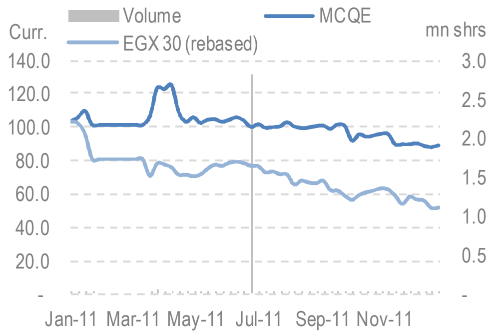
Egypt Book 2011/12 | Building Materials

Cement

Underweight

TP - EGP 92.4 | 2.8% Upside

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Underweight/Moderate
Target Price/LTFV (EGP)	92.44 / 92.44
Last Price (EGP)	89.92
52 Week High	128.89
52 Week Low	86.01
6M Av. Daily Vol. (000' shrs)	0.66
% Chg: MoM / 6M / YoY	2.3 / -8.7 / -12.2
No. of Shares (mn)	30.00
Mkt. Cap (EGPmn)	2,697.60
Mkt. Cap (USDmn)*	446.62
Free Float (%)	15.70
Paid in Capital (EGPmn)	298.78
Reuters / Bloomberg	MCQE.CA / MCQE Ey Equity
ISIN	EGS3C391C017

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Misr Cement (Qena) [MCQE] was incorporated in May 1997 as a shareholding company to produce and sell cement and other related construction products. At the time it operated a cement plant with a single 1.5-mtpa capacity production line. In May 2000, MCQE had its shares listed on the Egyptian Exchange (EGX) - the company began public trading with an issued and paid-in capital of EGP300mn distributed over 30mn shares at a par value of EGP 10/share. Currently, its paid-in capital stands at EGP298.8mn, distributed over 29.9mn shares at a par value of EGP 10/share.

In June 2009 MCQE provided FLSmidth the mechanical equipment, plant management and installation services necessary for its 1.4mn ton per annum production line. The plant had a total investment cost of EGP750mn, and began producing in April 2002. MCQE also provided technical management, maintenance and supervision for the quarries' raw materials deliveries to Arab Swiss Engineering Company.

Ownership Structure	
ASEC Cement	27.6%
Misr Insurance	20.2%
Free Float	15.7%
Egyptian Investment Projects	10.0%
Egyptian Kuwaiti Investment	9.9%
Al Ahly Capital Holding Co.	7.5%
Misr Financial Investments	7.5%
Others	15%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

January 26, 2012

Average player in tough times

- **Capacity currently stands at 1.5mtpa with no plan for increase.**
- **Top-line KPIs to fall, in line with declining utilization rates in 2011 & 2012.**
- **EBITDA margin to slightly narrow in 2011 & 2012 on estimated higher opex.**
- **25% tax rate to be applied by 2013.**

MCQE is considered an average cement player with an expected local sales' market share of 4% in 2011. Although the company has no plans to increase its existing 1.5 mtpa existing capacity, this is made up for by a higher utilization rate, which is above market average. Since the company is using mazut as a fuel for its production, we expect it to come through the 33% increase in the natural gas prices unscathed. On October 30, 2011, the company experienced a labour strike, bringing operations to a halt for a day before the Armed Forces' intervention. All considered, the company's 2011 production is estimated to drop on a lower estimated utilization rate, thus decreasing sales volume as well. Meanwhile, average local selling prices in 2011 are expected to rise in line with the 10M11 average. Accordingly, 2011 net sales are expected to drop, while EBITDA margin is to dip slightly on a higher opex due, coupled with lower sales volume. Hence, we trimmed our estimates up to 2016, taking into account the new 25% tax rate in 2013, and thus cutting our TP by 14% to EGP92.4. Given this TP, we maintain our Underweight recommendation on the stock.

2011 Review

On October 30, 2011, the company experienced a labour strike, bringing operations to a halt for a day before the Armed Forces' intervention. Like other cement producers, 2011 is expected to show a drop in utilization rates, production and sales volume. This is in line with the lower demand driven by the political and economic unrest, which led to slowdown in real estate and construction activities. Overall prices are expected to increase based on the 10M11 average; however, EBITDA margin is expected to slide on an increasing opex due to higher incentives paid to retailers to maintain local selling prices. Finally, earnings are expected to fall on a lower operating performance.

2012 Preview

In 2012, we expect all KPIs to dip, including utilization rate, production, sales volume. This will be in line with the current political and economic unrest, which is predicted to extend through 2012. Local prices are set to rise, while net sales should head south. Likewise, EBITDA margin is predicted to feel some pressure as a result of a higher opex, which comes from an increase in incentives paid to retailers to maintain selling prices. As a result, earnings are predicted to decline.

Valuation & Recommendation

All considered, we trimmed our estimates up to 2016, taking into account the new 25% tax rate in 2013. As a result, we cut our TP by 14% to EGP92.4. Given this TP, we maintain our Underweight recommendation on the stock.

Financial Statements

Misr Cement – Qena (MCQE)

MCQE | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	490.3	642.0	810.7	878.1	951.0	1,018.3
Current Assets	544.4	702.3	863.6	926.2	996.9	1,067.4
Total Assets	1,140.6	1,280.7	1,403.6	1,429.6	1,463.5	1,496.9
Current Liabilities	348.0	411.2	551.1	553.4	564.9	577.3
Total Debt	0.0	0.0	0.0	3.3	6.9	6.1
Net Debt	-490.3	-642.0	-810.7	-874.9	-944.1	-1,012.2
Total Liabilities	350.2	411.5	551.2	553.4	564.9	577.3
Shr Equity (Book Value)	663.2	668.7	618.8	637.9	655.8	672.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	74.2	145.0	177.8	182.5	186.9	191.8
Total Liabilities & Equity	1,140.6	1,280.7	1,403.6	1,429.6	1,463.5	1,496.9
Income statement						
Revenue	773.3	844.6	888.4	783.3	739.9	814.4
COGS	-342.8	-367.2	-391.6	-356.0	-340.8	-363.6
Gross Profit	430.6	477.4	496.8	427.2	399.0	450.7
EBITDA	406.1	448.1	467.5	401.1	374.2	424.0
EBIT	364.9	406.9	426.1	359.7	332.4	381.8
Int. Income	17.8	23.5	31.3	26.2	28.1	27.7
Int. Expense	-0.1	-0.2	-0.1	-0.4	-0.8	-0.7
PBT	311.6	359.1	432.5	388.4	363.5	430.4
NPAT	302.9	352.3	425.9	382.5	358.0	322.8
Net Income	302.9	352.3	428.3	382.5	358.0	322.8
Normalised Net Income	261.9	303.1	360.8	331.1	309.9	279.4
Ordinary Dividends	246.5	298.8	410.5	312.0	292.0	263.3
Cash Flow Summary						
COPAT	399.6	437.5	469.7	393.5	368.0	317.6
FCFF	359.8	478.3	430.1	394.4	373.8	321.4
Change in Cash	0.9	-2.6	-0.1	19.9	22.0	78.5
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	10.14	11.79	14.34	12.80	11.98	10.80
EPS (Normalised) (EGP)	8.77	10.14	12.07	11.08	10.37	9.35
Dividend Per Share	8.25	10.00	13.74	10.44	9.77	8.81
Book Value Per Share	22.20	22.38	20.71	21.35	21.95	22.49
Valuation						
PER (Basic) (x)	8.87	7.63	6.27	7.02	7.51	8.32
PER (CICR) (x)	10.26	8.86	7.45	8.11	8.67	9.61
PBV (x)	4.05	4.02	4.34	4.21	4.10	4.00
Dividend Yield (%)	9.17	11.12	15.28	11.61	10.87	9.80
Earnings Yield (%)	11.28	13.11	15.94	14.24	13.32	12.01
EV/Revenue (x)	2.84	2.42	2.11	2.31	2.36	2.06
EV/EBITDA (x)	5.41	4.56	4.01	4.52	4.66	3.95
Market Capitalisation (EGPmn)	2,686.6	2,686.6	2,686.6	2,686.6	2,686.6	2,686.6
Enterprise Value (EGPmn)	2,196.4	2,044.7	1,876.0	1,811.7	1,742.6	1,674.4
Profitability						
ROE (%)	45.68	52.68	69.22	59.96	54.58	48.04
ROA (%)	26.56	27.51	30.52	26.75	24.46	21.56
Asset Turnover (x)	0.68	0.66	0.63	0.55	0.51	0.54
EBITDA Margin (%)	52.52	53.05	52.63	51.21	50.58	52.06
Liquidity						
ND/Equity (x)	-0.74	-0.96	-1.31	-1.37	-1.44	-1.51
ND/EBITDA (x)	-1.21	-1.43	-1.73	-2.18	-2.52	-2.39

Source: Company Financials & CICR Database

Sinai Cement

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Egypt Book 2011/12 | Building Materials

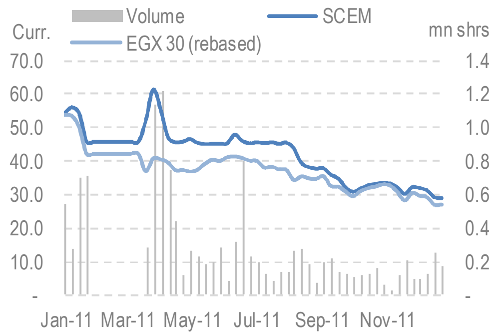
Cement

Buy

TP - EGP 36.7 | 23.8% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Buy/Moderate
Target Price/LTFV (EGP)	36.73 / 36.73
Last Price (EGP)	29.67
52 Week High	63.20
52 Week Low	27.80
6M Av. Daily Vol. (000' shrs)	31.00
% Chg: MoM / 6M / YoY	-1.6 / -34.6 / -44.6
No. of Shares (mn)	70.00
Mkt. Cap (EGPmn)	2,076.90
Mkt. Cap (USDmn)*	343.86
Free Float (%)	28.30
Paid in Capital (EGPmn)	700.00
Reuters / Bloomberg	SCEM.CA / SCEM Ey Equity
ISIN	EGS3C401C014

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Sinai Cement [SCEM] was incorporated in 1998 as a shareholding company to produce cement, packaging and all other cement products. In July 2000, SCEM had its shares listed on the Egyptian Exchange (EGX). SCEM was established at a paid-in capital of EGP250mn distributed over 25mn shares at a par value of EGP 10/share. Currently, SCEM has a paid-in capital of EGP700mn distributed over 70mn shares at a par value of EGP 10/share.

In August 2006, SCEM signed a contract with ASEC, ARASCO and FL Smith to double its production capacity. It captured 8% local market share in 2009, selling 3,495k tons. SCEM recorded zero exports in 2009 due to the export ban.

Ownership Structure	
Vika Misr Cement Industries	39.6%
Free Float	28.3%
Sama Cement	9.4%
Social Insurance Fund for Public Sector Labor	9.4%
Others	7.0%
Al Arabia Co. For Industrial Investment	6.2%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Potential growth despite double-threat

- **Capacity currently stands at 3.2mtpa.**
- **Overall results to be affected hard by bombings in North Sinai and unrest.**
- **SCEM will not be affected by the natural gas increase as it uses the more expensive mazut.**
- **Applying 25% tax rate by 2012.**

SCEM faces a double threat to its operations as a result of post-revolution unrest. First, the natural gas pipeline bombings in North Sinai (11 times since April 2011) have forced the company to shift to the more expensive mazut as a source of fuel instead of natural gas. This shift has created an additional cost burden, on top of the increase in incentives paid to retailers to maintain local prices. A second unrest-driven threat is the slowdown in real estate and construction activity, a result of which production is expected to decline in 2011 and 2012. As such, a lower-than-average utilization rate for both years is expected, while sales volumes are set to record a drop in both years, mainly on lower demand. Prices are likely to fall in 2011, rebounding slightly in 2012. Meanwhile, opex is to increase in 2011 from shifting to the more expensive mazut, while in 2012 it should continue to rise, driven by higher incentives paid to retailers to maintain prices. As a result, EBITDA margin will be pressured throughout 2011 & 2012 while, starting 2012, earnings are expected to suffer on the back of the new 25% tax rate. In sum, we have trimmed our estimates up to 2016, cutting our TP by 30% to EGP36.7/share. Nonetheless, there is a potential growth should the company turn back to natural gas as a fuel instead of the more expensive mazut.

2011 Review

Following the revolution, SCEM has found itself a victim of Egypt's weakened security. A series of bombings have hit the natural gas pipeline in North Sinai, forcing the company to switch over to the more expensive Mazut. SCEM has also had to navigate the rocky economic road post-revolution, as production and utilization rates and sales volume all declined on lower demand (driven by the slowdown in the real estate and construction sectors). Average prices are expected to decrease, while EBITDA margin is to drop significantly, on increasing opex due to both higher energy costs and incentives paid to retailers to maintain the local selling prices. Finally, earnings are expected to fall aggressively on a lower operating performance.

2012 Preview

We expect all KPIs to weaken, albeit at a slower pace. This will be in line with current political and economic unrest, which is set to extend through 2012. Local prices are to increase in an attempt to partially pass on costs after the increase in fuel while net sales are anticipated to plummet. Likewise, EBITDA margin is to see a sharp drop on a higher opex due to the increase in energy costs aligned with the increase in incentive paid to retailers to maintain selling prices. Finally, earnings are anticipated to fall coupled with the new 25% tax rate, effective 2012.

Valuation & Recommendation

We do not think the new energy pricing scheme will a strong effect on the company as it already uses the more expensive mazut. Moreover, due to the lack of information about Sinai White Cement Company and Sinai Cement for Services, we valued the two companies at their investments cost. Our recommendation for SCEM is Buy.

Financial Statements

Sinai Cement (SCEM)

SCEM | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	117.5	288.4	694.1	742.0	819.7	914.4
Current Assets	238.9	461.9	879.2	961.3	1,034.9	1,125.0
Total Assets	1,759.6	2,010.0	2,704.3	2,781.3	2,816.7	2,893.3
Current Liabilities	183.1	133.0	125.6	140.1	132.4	148.7
Total Debt	0.0	0.0	0.0	5.3	4.9	4.0
Net Debt	-117.5	-288.4	-694.1	-736.7	-814.8	-910.4
Total Liabilities	194.1	133.0	212.4	216.8	199.0	205.2
Shr Equity (Book Value)	1,548.0	1,855.2	2,454.4	2,522.5	2,571.3	2,636.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	17.6	21.8	37.5	42.0	46.3	51.6
Total Liabilities & Equity	1,759.6	2,010.0	2,704.3	2,781.3	2,816.7	2,893.3
Income statement						
Revenue	906.3	1,513.1	1,627.6	1,219.2	1,156.8	1,399.0
COGS	-362.0	-670.0	-706.5	-688.5	-657.8	-772.0
Gross Profit	544.4	843.1	921.0	530.7	499.0	627.0
EBITDA	475.5	749.2	795.7	413.4	388.0	495.6
EBIT	437.6	677.0	717.7	331.7	302.7	406.9
Int. Income	1.6	12.8	27.3	23.5	26.7	32.3
Int. Expense	0.0	0.0	0.0	-0.7	-0.6	-0.5
PBT	435.9	681.2	732.8	344.8	325.3	434.7
NPAT	435.6	678.6	727.4	340.2	244.0	326.0
Net Income	414.1	677.6	728.1	340.2	244.0	326.0
Normalised Net Income	393.7	652.7	691.5	325.2	233.2	311.6
Ordinary Dividends	350.0	280.0	628.4	257.2	184.4	246.4
Cash Flow Summary						
COPAT	462.3	749.4	826.9	433.5	306.7	387.0
FCFF	183.3	560.7	636.8	314.4	256.5	333.5
Change in Cash	-5.9	-6.1	50.9	206.6	102.4	1.4
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	5.92	9.68	10.40	4.86	3.49	4.66
EPS (Normalised) (EGP)	5.62	9.32	9.88	4.65	3.33	4.45
Dividend Per Share	5.00	4.00	8.98	3.67	2.63	3.52
Book Value Per Share	22.11	26.50	35.06	36.04	36.73	37.66
Valuation						
PER (Basic) (x)	5.02	3.07	2.85	6.11	8.51	6.37
PER (CICR) (x)	5.27	3.18	3.00	6.39	8.90	6.66
PBV (x)	1.34	1.12	0.85	0.82	0.81	0.79
Dividend Yield (%)	16.85	13.48	30.26	12.38	8.88	11.87
Earnings Yield (%)	19.94	32.62	35.06	16.38	11.75	15.70
EV/Revenue (x)	2.16	1.18	0.85	1.10	1.09	0.83
EV/EBITDA (x)	4.12	2.39	1.74	3.24	3.25	2.35
Market Capitalisation (EGPmn)	2,076.9	2,076.9	2,076.9	2,076.9	2,076.9	2,076.9
Enterprise Value (EGPmn)	1,959.4	1,788.5	1,382.8	1,340.2	1,262.1	1,166.5
Profitability						
ROE (%)	26.75	36.52	29.66	13.49	9.49	12.37
ROA (%)	23.54	33.71	26.92	12.23	8.66	11.27
Asset Turnover (x)	0.52	0.75	0.60	0.44	0.41	0.48
EBITDA Margin (%)	52.46	49.52	48.89	33.91	33.54	35.43
Liquidity						
ND/Equity (x)	-0.08	-0.16	-0.28	-0.29	-0.32	-0.35
ND/EBITDA (x)	-0.25	-0.38	-0.87	-1.78	-2.10	-1.84

Source: Company Financials & CICR Database

Steel

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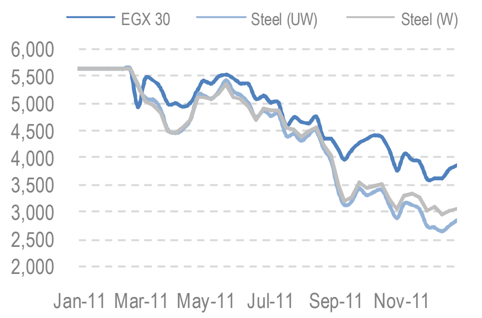
Egypt Book 2011/12 | Sector Review

ESRS | Hold
IRAX | Hold

January 26, 2012

Steel Sector | 52 Wk Performance*



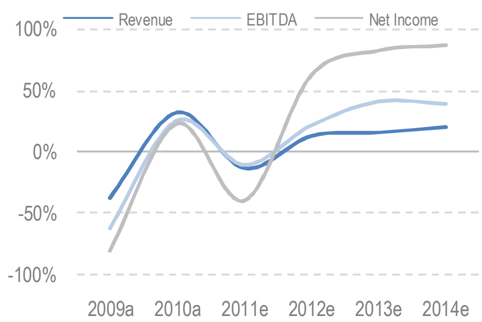
Sector Growth Drivers

- Construction backlog ensures demand for steel rebars.
- Infrastructure investments to support demand for steel rebars.
- GoE issuance of new operational licenses to increase supply and tackle steel production monopoly.
- Population growth drives substantial growth for the industry.

Sector Risks

- Political and economic turmoil post the 25th of January revolution has a negative impact on the steel market.
- FX risk since raw materials are imported.
- Heavy raw materials imports keeps end –product prices hostage to international price volatility.

KPIs | 2009-14e



*Comprises all sector stocks constituting CI Capital 100 Index.

Political stability key to potential

- **Raw materials and energy drive-up prices.**
- **Amendments in anti-monopolistic law to benefit competition.**
- **Signs of recovery expected to kick-off by 2H12 as political scene unfolds.**

Global crude steel prices soared at the beginning of the year to USD210/ton – a 56% YoY rise. However, after ranging from USD185/ton-USD210/ton until September, reduced global demand eased prices to USD144.5/ton in October. On the local front, the sector was at once impacted by key players' charges of corruption and monopolistic practices, as well as the slowdown in real-estate activities. Flat steel was also impacted by the drop in automotive industry and white consumer goods given the current economic and political instability. We expect a slight recovery in rebars demand by 2H12 as the country's political and social unrest settles. In addition, the pick-up in construction activity with the GoE's plan to establish low and middle residential units to meet its social commitments should bolster demand. The validation of TMGH's Madinaty land contract will provide another support. Meanwhile, initiatives to issue new production licenses to increase supply and tackle monopolies will stoke competition in the market and thus balance prices. Flat steel, too, stands to make gains in the coming year, alongside a 16% increased demand by the automotive industry.

Review 2012

The global economic slowdown has taken its toll on the steel industry, crude steel production growing only 8%YoYover 9M11, (vs. 22% in 9M10). On the back of this, prices increased by 56% YoY to January 2011 and remained high between February-September 2011 until October where they saw a remarkable decline. Domestically, steel has seen a series of dramatic events following the January 25 Revolution, not least the corruption charges against Mr. Ahmed Ezz, Ezz Steel's ex-chairman and major shareholder, concerning the acquisition of EZDK [IRAX]. Elsewhere, the demand for steel rebars was hit by lower demand for housing, in addition to the rising price of steel rebars, with the consumer prices for steel climbing 20% YoY to September 2011, while rebar demand was dealt another blow by major real estate developers TMGH and PHDC facing land ownership cases. Flat steel, meanwhile, saw falling demand alongside the decline of dependent industries (e.g. automotives) on the back of the deteriorating local economic and political situation.

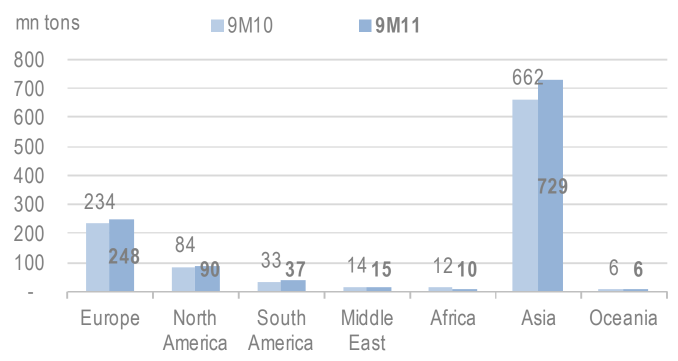
Preview 2012

2012 is expected to witness the first signs of recovery for the steel sector on the back of increasing demand for housing units. However, with this rising demand, price hikes for steel rebars won't be far behind. This will be further driven by crude steel prices reaching an average of USD163/ton in 1H12, and the GoE's decision to increase energy prices to steel companies to USD4/mmbtu. As for flat steel, local demand is expected to witness further improvement in 2012 led by a forecasted 16% growth of the automotive market, which is expected to reach 102K units in 2012, up from 88.3K units in 2011

2011 Review

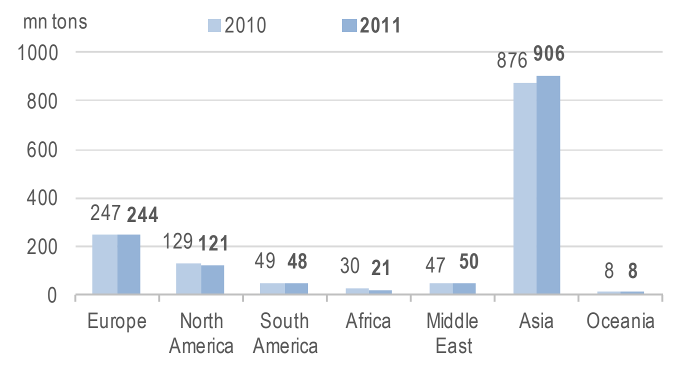
In 2011, the steel industry was a victim of the global economic slowdown, as the production of crude steel, reaching 1.1bn tons during 9M11, witnessed a mere 8% YoY growth compared to 22% in 2010. On a monthly basis, global crude steel production grew by an average of 1% during 9M11. European countries boasted the fastest growth of crude steel production, with Turkey showing a 19% growth to reach 25mn tons in 9M11, up from 21mn tons during the same period in 2010. That said, Asia still maintained its dominance, with production reaching 728.7mn tons in 9M11 and a 12% YoY growth. Global crude steel production was led by China, churning out 527.5mn tons in 9M11, representing 72% of Asia and 46% of the world total. Global demand for crude steel, however, is expected to grow only slightly by 1% in 2011 to reach 1.4bn tons – compared to a 14% growth in 2010 – due to the global economic slowdown. In addition to its production dominance, Asia proved to be the major consumer of crude steel as well, reaching 906mn tons, equivalent to 65% of the world's total consumption in 2011. Crude steel prices reached their peak at USD210/ton starting in January 2011, representing a YoY increase of 56% compared to USD135/ton in 2010. Prices remained relatively high, ranging from USD185/ton – USD210/ton during the period from February-September 2011, until October 2011, in which the global slowdown dented the price of crude steel to USD144.5/ton, representing a 31% decline compared to January 2011 and even a YoY drop of 16%.

Figure 4.2.1 | **World Production by region**



Source: World Steel Association

Figure 4.2.2 | **World estimated consumption by region**



Source: World Steel Association

Domestically, 2011 was a turning point for Egypt's economy, and hardly a welcome one. When the January 25 Revolution swept a regime from power, it also brought host of new challenges, many of which felt by the steel sector. Following the revolution, Mr. Ahmed Ezz, ESRS's ex-chairman and major shareholder, was accused of corruption and monopolistic practices related to the acquisition of EZDK by ESRS. Mr. Ezz faced a litany of charges, including: gaining control of EZDK via nominal share swap in violation of the Capital Market Law; committing criminal acts against public property; controlling over 67% of EZDK's steel production; the modification of [then] ANSDK's logo to "Ezz Al Dekheila" in order to market and sell his company's [ESR's] products as if they were products of the same company; reducing EZDK's production in order to boost his own company's sales; selling EZDK's billets production to his company at preferential prices; and failure to repay EZDK's bank loans. Cairo Criminal court sentenced Mr. Ahmed Ezz and Eng. Amr Assal, former IDA chairman to 10 years in prison along with fining them EGP660mn for wasting public funds, and ordering the withdrawal of illegal production licenses granted to ESRS and other four major producers Beshay Steel, Taybah Steel, Al-Garhy Steel and National Steel.

The GoE reached a number of verdicts that will affect steel sector, including the decision to have steel producers pay the value of previously illegally granted licenses in order to retain them, at an amount of EGP350mn each on five year installments with a 15% of the value as down payment. Thanks to this allowance, companies should be able to maintain their expansion plans. In addition, the GoE approved amendments to the anti-monopolistic law and raised the fine to a minimum of EGP300mn, subject to increase based on the severity of the transgression. Elsewhere, the GoE set out to commence a new energy pricing scheme in FY11/12, with Egypt's cabinet announcing the new pricing scheme for medium- and high-intensive energy consumption industries, for which it plans to phase-out energy subsidies. According to government officials, Egypt's steel and cement industries will see a 33% increase in natural gas charges to USD4/mmbtu, which is expected to drive up the price of steel products.

Moreover, the demand for steel rebars has been hit by the lower demand for housing, further dampened as major real estate developers Talaat Mostafa Group (TMGH) and Palm Hills Development Company (PHDC) have been facing legal obstacles concerned with the validity of land ownership contracts. The court ruled to halt the sale of 33mn sqm to TMGH (66% of TMGH's total land bank) for its mixed-use Madinaty project, deeming the land acquisition agreement between TMGH and the New Urban Communities Authority (NUCA) to be invalid, as it was not closed in auction form. However, TMGH appealed the decision and in November 2011, the court decided the validity of Madinaty contracts with the GoE, thus assuring the company's right to retain and develop it. Meanwhile, The New Urban Communities (NUCA) cancelled its contract with Palm Hills Development over a land plot amounting 190 feddans (equivalent to 798K sqm) in 6th of October city, which will affect the company's construction plans and therefore its demand for steel rebars.

Figure 4.2.3 | **Key events affecting steel market in 2011**

Date	Event
22-Nov-11	The Egyptian Administrative Court rules that Talaat Moustafa Group Holding's[TMGH] Madinaty land bank contract with the GoE is valid, thereby assuring TMGH the right to maintain it.
09-Nov-11	The GoE and steel-producing companies (including ESRS) compromise to pay the value of withdrawn licenses, amounting to EGP1.2bn for all licenses, with a 15% down payment and a 1.5 year grace period, followed by equal installments over five years.
27-Sep-11	The GoE approves anti-monopoly law amendments and raises the fine to a minimum of EGP300mn. The fine is subject to increase based on the severity of the transgression.
15-Sep-11	The court decision regarding irregularities in the granting of steel licenses to Ezz Steel [ESRS] results in the withdrawal of all illegally-granted licenses to steel producers including ESRS, Beshay Steel, Taybah Steel, Al-Garhy Steel and National Steel. Mr. Ahmed Ezz, former chairman of ESRS, and Eng. AmrAssal, former chairman of IDA are sentenced to 10 years in prison and fined together an amount of EGP660mn for wasting public funds. Eng. Rashid Mohammed Rashid, former Minister of Trade & Industry is sentenced to 15 years in prison and charged with EGP1.414bn fine for wasting public funds.
07-Apr-11	The New Urban Communities Authority (NUCA) decided to cancel its land contract with Palm Hills Development Company (PHD) for a land plot amounting 190 feddans, equivalent to 798K sqm in 6th of October city.

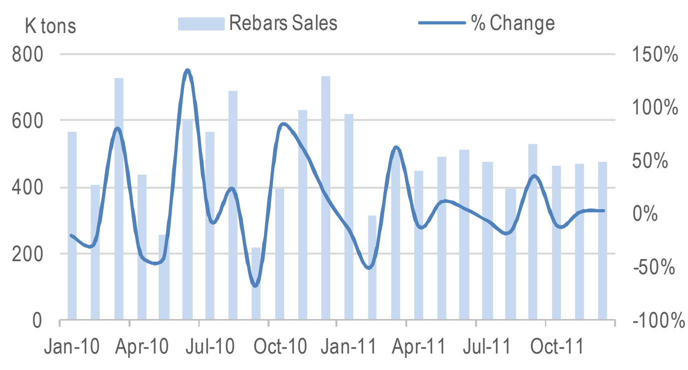
Source: CICR Database

Rebars

Steel rebars production witnessed an estimated YoY decline of 8.2% in 2011, reaching 6mn tons, down from 6.5mn tons in 2010. This decline was due to the slowdown of construction activity amidst the unrest following the January 25 Revolution. Construction permits declined by 35% YoY in 1H11 to reach 27.4K, down from 42K permits in 2010. Although official construction permits showed this drastic decline, a number of construction activities went on illegally, as the lack of land regulations during early 2011 lead to numerous agricultural land violations in a throughout rural governorates of the Delta area, especially in Dakahleya. Some farmers took advantage of the instability to build housing units on agricultural land, which in one way or another increased the demand on steel rebars

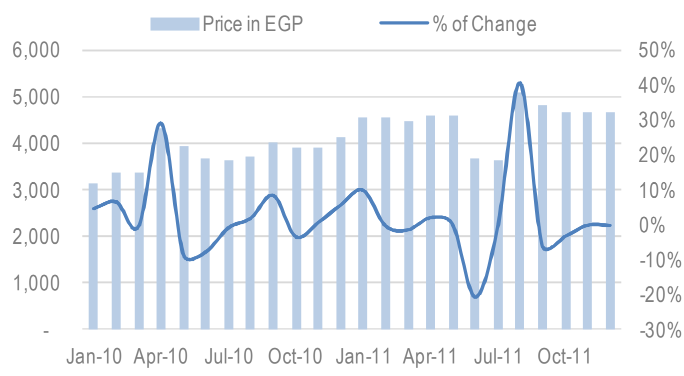
According to Egyptian Information Portal (EIP), demand for steel rebars dropped by 8.4% YoY in 2011. The reason for this decline is twofold – with the current slowdown in economic activity harming demand, and the increase in steel prices further dampening it. Domestic retail prices grew by 20% YoY, reaching EGP4,804/ton in September 2011, up from EGP4,017/ton in September 2010, as a result of the growing price of raw materials – namely, crude steel, which witnessed a 17%YoY growth, reaching USD190.5/ton in September 2011. As a result of the declining price of global crude steel in October (falling to USD144.5/ton), and the declining demand for steel rebars, producers announced decreasing the price per ton by EGP300 in October 2011 to reach EGP4,650/ton, aiming to stimulate demand and maintain December prices.

Figure 4.2.4 | **Steel Rebars sales by month**



Source: Egyptian Information Portal (EIP), CICR estimates

Figure 4.2.5 | **Steel rebars retail prices by Month**

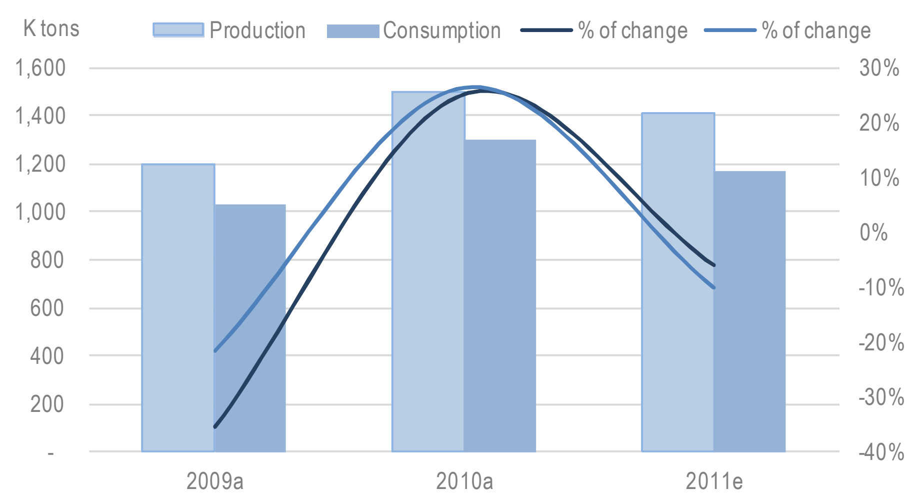


Source: Egyptian Information Portal (EIP)

Flat Steel

We expect flat steel consumption to witness a 10% YoY decline in 2011 to 1.2mn tons due to the decline of such feeding industries as automotives and white consumer goods, in addition to the increasing price of raw materials. Indeed, the price of global hot rolled steel increased by 15% YoY in 1H11 to USD787/ton, up from USD685/ton in 1H10, which caused local prices of flat steel to increase by 17.2% to an average of EGP4214.9/ton in 1H11, compared to 3,595/ton in 1H10.

Figure 4.2.6 | **Flat Steel Supply and Demand**



Source: Ezz Steel & CICR estimates

2012 Preview

Demand for steel rebars is expected to take its first steps towards recovery late 2012 with the expected improvement in the local economic and political situation, and the breaking-ground on a number of new construction activities, including the GoE plan to establish new residential units for low and middle income citizens as part of its social housing plan.

Elsewhere, Talaat Moustafa Group Holding's [TMGH] Madinaty land bank contract validity with the Government of Egypt will enable the company to complete the project, which will increase the demand for steel rebars for construction.

Moreover, the GoE plan to invest in infrastructure is expected to raise the demand for steel products, as it announced issuing four PPP projects over the short-term with investment cost of EGP13.8bn in the health, transport and drainage services.

Local demand for flat steel is expected to witness further improvement in 2012 led by a forecasted 16% growth of automotives market, which is expected to reach 102K units in 2012 up from 88.3K units in 2011

Regarding steel prices, we expect changes from 2011 figures given the minimal growth in demand during the 1H12. However, prices could rise in 2H12 with the expected increase in local demand for steel alongside an improved macro picture, in addition to the increase of crude steel price by an average of USD165/ton, up from USDR163/ton in 1H12, and the increase in energy prices to EGP4/mmbtu.

Sector Summary

Steel - SWOT Analysis

Strengths	Weakness
• Most of rebars produced are sold in the local market, which protect it from fluctuations in global markets.	• Heavy reliance on imported raw materials • Exposure to FX risks as most of the raw materials used are imported

Opportunities	Threat
• Growth in dependant industries fuel demand for flat steel. • GoE's plan to expand infrastructure investments. • GoE's plan to establish residential units. • Outstanding real estate projects secure demand for rebars in the coming years. • Production shortfall in the rebar segment leaves the door open for inflow of new investments.	• GoE random decisions against steel producers. • Rising competition from cheap imported Turkish steel. • Increasing raw materials prices. • Reduced availability of energy as steel is an energy-intensive industry can hinder the industry's growth potentials.

Source: CI Capital Research

Ezz Steel

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Egypt Book 2011/12 | Building Materials

Steel

Hold

TP - EGP 8.8 | 92.6% Upside

January 26, 2012

52 week Share Performance

Stock Details As at: 21-Jan-12

CICR Rating/Risk	Hold/High
Target Price/LTFV (EGP)	8.8 / 15.8
Last Price (EGP)	4.57
52 Week High	20.05
52 Week Low	3.28
6M Av. Daily Vol. (000' shrs)	1,233.25
% Chg: MoM / 6M / YoY	3.9 / -53.3 / -76.6
No. of Shares (mn)	543.27
Mkt. Cap (EGPmn)	2,482.72
Mkt. Cap (USDmn)*	411.05
Free Float (%)	35.09
Paid in Capital (EGPmn)	2,716.33
Reuters / Bloomberg	ESRS.CA / ESRS Ey Equity
ISIN	EGS3C251C013

GDR Data

Last Price (USD)	n/a
52 Week High	n/a
52 Week Low	n/a

Company Profile

Ezz Steel [ESRS] - previously Al-Ezz Steel Rebars Co. (ESR) - is was established in April 1994 to manufacture steel rebars in Sadat City. In 1995, ESRS acquired 90.7% of National Al-Baraka for Iron & Steel - currently known as Al-Ezz Rolling Mills (ERM) - which produces straight and coiled rebars in 10th of Ramadan. These facilities have a combined production capacity of 1.4mn tons per annum (p.a.). ESRS also owns 75.15% of Al-Ezz Flat Steel (EFS), which lends a capacity is 1.2mn tons of flat steel p.a., most of which is directed to export markets.

ESRS also owns a 53.24% stake in Al-Ezz Dekheila for Steel-Alexandria (EZDK), previously known as Alexandria National Iron & Steel Company (ANSDK). EZDK is the largest integrated steel plant in Egypt, with an annual production capacity of 1.78mn tons of long products and 1mn tons of flat products. This structure has made ESRS a strong entity both locally (where it holds a 40% market share of long and flat products) and internationally, as it is ranked among the top 60 steel producers worldwide.

Ownership Structure

Ezz Industries	64.6%
Banks, Insurance Companies & Others	0.3%
Free Float	35.1%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Steel giant at a crossroads

- **Direct reduced iron licenses were returned, fees to be paid.**
- **Another issue related to the acquisition of EZDK still pending.**
- **With local recovery expected in 2012, we expect ESRS's utilization rates to see some improvement.**

ESRS is a major local steel producer, with a market share of c.48% in 2011. Since the arrival of the January 25 Revolution, however, it has been standing at a crossroads. Although current operational capacities remain intact, a license granted to ESRS in 2008 was withdrawn in 2011 – albeit with an agreement reached with the GoE in early 2012 to pay for the licenses and retain them. In addition, the company is facing another legal issue related to the acquisition of EZDK. With the local economic recovery expected for 2012, we expect ESRS's utilization rates to witness some enhancement over 2011.

2011 Review

Following the January 25 Revolution, ESRS was accused of obtaining two licenses for producing 1.85mtpa each of Direct Reduced Iron (DRI) in the **Ezz Flat Steel (EFS)** facility, while failing to pay licensing fees of EGP330mn each. Construction activity for the facility using the first license started in 2009 and was planned to be completed by mid-2011, with a total investment cost of USD440mn. On September 15, 2011, an Egyptian court reached a decision resulting in financial penalties and imprisonment of the company's ex-chairman, Mr. Ahmed Ezz, in addition to the withdrawal of illegally-granted steel licenses. However, in early 2012, an agreement was reached with the GoE to pay for the licenses and retain them. Furthermore, Mr. Ezz has been accused of corruption and monopolistic practices, including the acquisition of **Al-Ezz Dekheila for Steel Alexandria (EZDK) [IRAX]** via a nominal share swap, wherein he traded shares of ESRS for those of EZDK, in violation of the Capital Market Law. The case is still under investigations.

2012 Preview

For the second DRI license (a capacity of 1.85mtpa), the company expects to start construction activity following completion of the first DRI line. Construction is expected to take two years, with the same construction costs as the first DRI line and the same financing scheme. By adding these two DRI lines to its facilities, ESRS will be able to enhance its operations by introducing a fully-integrated production scheme in its EFS and Ezz Steel Rebars Co. (ESR) facilities, similar to the one applied in its Ezz Al-Dekheila [IRAX] facilities (ESRS owns 55% of IRAX). This should improve the EBITDA margins of EFS and ESR (currently at 10%), to gradually reach IRAX's profitability margin of 20% - 25%. Moreover, we expect some improvement in the local economic and political situation forecasted by the end of 2012, this should have a positive impact on the utilization rates of the company over those of 2011.

Valuation & Recommendation

Our LTFV for ESRS is EGP15.8 per share and our Target Price at EGP8.8 per share. ESRS currently has a Hold recommendation with a High Risk rating.

Financial Statements

Ezz Steel (ESRS)

ESRS | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	4,090.3	1,581.0	1,414.9	300.0	500.0	500.0
Current Assets	7,780.6	5,207.7	6,057.4	3,657.5	4,193.2	3,718.6
Total Assets	18,590.3	16,600.8	19,457.1	16,428.0	16,437.5	15,151.9
Current Liabilities	7,123.1	5,126.4	6,865.9	6,375.3	6,474.5	4,075.1
Total Debt	7,649.6	7,798.4	9,766.3	7,541.2	6,727.3	3,714.9
Net Debt	3,559.3	6,217.4	8,351.4	7,241.2	6,227.3	3,214.9
Total Liabilities	11,604.7	10,288.6	12,845.8	9,468.0	8,770.0	5,875.7
Shr Equity (Book Value)	5,179.9	4,599.0	4,761.3	4,810.1	5,044.2	5,462.5
Minority Interest	1,757.3	1,674.9	1,727.3	2,027.3	2,500.7	3,691.1
Provisions	48.4	38.3	122.6	122.6	122.6	122.6
Total Liabilities & Equity	18,590.3	16,600.8	19,457.1	16,428.0	16,437.5	15,151.9
Income statement						
Revenue	21,843.1	12,589.3	16,621.4	13,789.7	15,781.4	18,042.0
COGS	-16,859.4	-10,546.7	-14,120.7	-11,493.4	-12,955.2	-14,174.0
Gross Profit	4,983.7	2,042.6	2,500.8	2,296.2	2,826.1	3,868.0
EBITDA	4,438.8	1,635.9	2,109.5	1,882.5	2,352.7	3,326.8
EBIT	3,779.0	1,047.8	1,532.4	1,262.7	1,707.9	2,650.1
Int. Income	135.2	88.7	67.2	51.4	16.0	20.0
Int. Expense	-590.5	-778.5	-754.4	-852.6	-772.4	-469.1
PBT	3,337.2	494.5	772.2	484.9	974.9	2,224.3
NPAT	2,586.0	304.6	564.5	363.7	731.2	1,668.2
Net Income	1,244.6	85.9	251.7	63.7	257.8	477.8
Normalised Net Income	1,244.6	85.9	251.7	63.7	257.8	477.8
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	4,005.0	674.6	2,036.3	1,802.1	2,109.0	2,770.7
FCFF	3,312.6	-655.7	-1,141.7	2,198.8	1,770.6	3,497.7
Change in Cash	2,198.5	-2,509.3	-166.2	-1,114.9	200.0	0.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	2.29	0.16	0.46	0.12	0.47	0.88
EPS (Normalised) (EGP)	2.29	0.16	0.46	0.12	0.47	0.88
Dividend Per Share	n/a	n/a	n/a	n/a	n/a	n/a
Book Value Per Share	9.53	8.47	8.76	8.85	9.28	10.05
Valuation						
PER (Basic) (x)	1.99	28.89	9.86	38.97	9.63	5.20
PER (CICR) (x)	1.99	28.89	9.86	38.97	9.63	5.20
PBV (x)	0.48	0.54	0.52	0.52	0.49	0.45
Dividend Yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Earnings Yield (%)	50.13	3.46	10.14	2.57	10.38	19.25
EV/Revenue (x)	0.36	0.82	0.76	0.85	0.71	0.52
EV/EBITDA (x)	1.76	6.34	5.95	6.24	4.77	2.82
Market Capitalisation (EGPmn)	2,482.7	2,482.7	2,482.7	2,482.7	2,482.7	2,482.7
Enterprise Value (EGPmn)	7,799.3	10,375.0	12,561.5	11,751.2	11,210.7	9,388.7
Profitability						
ROE (%)	24.03	1.87	5.29	1.32	5.11	8.75
ROA (%)	6.70	0.52	1.29	0.39	1.57	3.15
Asset Turnover (x)	1.17	0.76	0.85	0.84	0.96	1.19
EBITDA Margin (%)	20.32	12.99	12.69	13.65	14.91	18.44
Liquidity						
ND/Equity (x)	0.69	1.35	1.75	1.51	1.23	0.59
ND/EBITDA (x)	0.80	3.80	3.96	3.85	2.65	0.97

Source: Company Financials & CICR Database

CAPITAL RESEARCH
A CIB Group Member

Ezz Al-Dekheila Steel

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Egypt Book 2011/12 | Building Materials

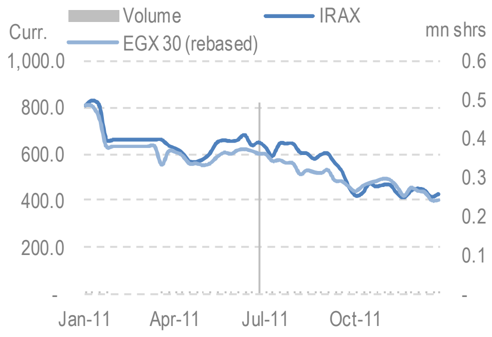
Steel

Hold

TP - EGP 780 | 87.0% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/High
Target Price/LTFV (EGP)	780 / 974
Last Price (EGP)	417.03
52 Week High	810.00
52 Week Low	392.00
6M Av. Daily Vol. (000' shrs)	0.41
% Chg: MoM / 6M / YoY	-5.7 / -35.3 / -47.1
No. of Shares (mn)	13.67
Mkt. Cap (EGPmn)	5,699.87
Mkt. Cap (USDmn)*	943.69
Free Float (%)	7.50
Paid in Capital (EGPmn)	1,336.44
Reuters / Bloomberg	IRAX.CA / IRAX Ey Equity
ISIN	EGS3D041C017

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Al-Ezz Dekheila for Steel - Alexandria [IRAX] - previously known as Alexandria National Iron & Steel Company (ANSDK) - was established in 1982 under Law No. 43 as a joint venture between Egyptian public sector companies, Nippon Kokan, Kobe Steel & Tomen and the International Finance Corporation (IFC). EZDK currently operates under Law No. 8/1997.

IRAX operates Egypt's largest fully-integrated steel factory, producing 2.8mn tons of long and flat products each year. 64% of this consists of long products, with flat products making up the remainder. Ezz Steel owns 53.24% of IRAX, which provides synergies for the entire group - an entity capable of competing both locally and internationally.

Ownership Structure	
Ezz Steel	55.0%
Banks, Insurance Companies & Others	31.7%
Ahli Capital Holdings	5.8%
Free Float	7.5%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Will efficiency win out?

- **Largest integrated steel plant both in Egypt and regionally.**
- **Lowest cost steel producer in the region.**
- **Utilization rates should improve with expected economic recovery in 2012.**

Ezz Al-Dekheila Steel – Alexandria [IRAX] operates Egypt's largest fully integrated steel plant and is the lowest cost steel producer in the Middle East, giving it a key edge in the current economic climate. IRAX produces 2.8mtpa of long and flat products each year – 64% of this consisting of long products, with flat products making up the remainder. IRAX owns 55% of Ezz Flat Steel (EFS) which has a flat products capacity of 1.3mtpa. With ESRS currently facing several legal issues, we feel EZDK's problem-free status and its efficiency should work in its favour alongside any improvement in the local economic situation.

2011 Review

Following the January 25 Revolution, Mr. Ahmed Ezz, ESRS's ex-chairman and major shareholder was accused of corruption and monopolistic practices related to the acquisition of EZDK by ESRS. The Attorney General has accused Mr. Ahmed Ezz of (i) gaining control of EZDK via a nominal share swap, trading shares of ESRS for those of EZDK in violation of the Capital Market Law; (ii) gaining control over 67% of EZDK's steel production; (iii) reducing EZDK's production in order to boost his own company's sales and (iv) selling EZDK's billets production to his company at preferential prices, resulting in losses for EZDK amounting to several million Egyptian pounds. While the value of these losses has not been declared yet, we believe this case should not impact the fundamentals of the company. Indeed, the company witnessed a 6.5% YoY increase in its 1H11 net income and a 34% YoY increase in 1H11 revenues.

2012 Preview

We are not in a position to decide on the legal outcome of the case of acquisition of IRAX by ESRS. However, we believe that the fundamentals of the company should not be affected. With the gradual recovery of the local economic and political situation in Egypt, we expect an improved demand for housing units and thus more demand for steel rebars – and this should reflect positively on the company's revenues in 2012.

Valuation & Recommendation

Our LTFV for the company amounts to EGP974 per share, while our Target Price stands at EGP780 per share. IRAX currently bears a Hold recommendation with a High Risk rating.

Financial Statements

Ezz Al-Dekheila Steel (IRAX)

IRAX | EGPmn | FY End: December

Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash & Cash Equivalent	2,524.7	1,107.1	200.0	200.0	200.0	200.0
Current Assets	4,703.5	3,851.7	4,827.5	4,426.2	4,835.3	5,180.6
Total Assets	10,253.3	13,447.9	14,863.9	14,513.5	14,984.2	15,338.6
Current Liabilities	4,972.5	5,125.1	6,641.4	7,111.7	8,125.0	8,520.3
Total Debt	4,130.9	6,005.3	6,352.1	5,897.4	5,866.6	5,359.2
Net Debt	1,606.2	4,898.1	6,152.1	5,697.4	5,666.6	5,159.2
Total Liabilities	7,060.2	9,336.6	10,738.6	10,149.8	10,298.1	10,050.9
Shr Equity (Book Value)	3,144.8	2,938.0	2,931.4	3,158.5	3,452.7	3,966.5
Minority Interest	0.0	1,135.5	1,163.8	1,175.1	1,203.3	1,291.1
Provisions	48.4	37.8	30.2	30.2	30.2	30.2
Total Liabilities & Equity	10,253.3	13,447.9	14,863.9	14,513.5	14,984.2	15,338.6
Income statement						
Revenue	11,639.0	8,160.8	10,873.1	10,031.6	11,172.1	13,239.3
COGS	-7,109.1	-6,381.3	-8,717.9	-8,112.2	-8,928.9	-10,147.3
Gross Profit	4,530.0	1,779.4	2,155.2	1,919.3	2,243.2	3,092.0
EBITDA	4,292.0	1,595.1	1,937.7	1,718.7	2,019.8	2,827.2
EBIT	3,864.8	1,242.6	1,365.2	1,153.6	1,433.9	2,209.6
Int. Income	98.4	69.3	78.4	24.0	24.0	24.0
Int. Expense	-326.9	-436.3	-579.5	-587.5	-632.2	-624.1
PBT	3,720.8	883.9	937.9	663.8	899.5	1,683.2
NPAT	2,984.8	705.4	750.3	531.1	719.6	1,346.6
Net Income	2,984.8	705.4	722.0	519.8	691.4	1,258.7
Normalised Net Income	2,984.8	705.4	722.0	519.8	691.4	1,258.7
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	3,710.9	2,090.0	2,114.0	1,585.9	1,839.9	2,490.6
FCFF	3,263.5	-2,451.7	241.5	1,237.1	962.5	1,778.8
Change in Cash	850.1	-1,417.6	-907.1	0.0	0.0	0.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	218.38	51.61	52.83	38.03	50.58	92.10
EPS (Normalised) (EGP)	218.38	51.61	52.83	38.03	50.58	92.10
Dividend Per Share	n/a	n/a	n/a	n/a	n/a	n/a
Book Value Per Share	230.09	214.96	214.48	231.09	252.62	290.20
Valuation						
PER (Basic) (x)	1.91	8.08	7.89	10.97	8.24	4.53
PER (CICR) (x)	1.91	8.08	7.89	10.97	8.24	4.53
PBV (x)	1.81	1.94	1.94	1.80	1.65	1.44
Dividend Yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Earnings Yield (%)	52.37	12.38	12.67	9.12	12.13	22.08
EV/Revenue (x)	0.63	1.44	1.20	1.25	1.13	0.92
EV/EBITDA (x)	1.70	7.36	6.72	7.32	6.22	4.30
Market Capitalisation (EGPmn)	5,699.9	5,699.9	5,699.9	5,699.9	5,699.9	5,699.9
Enterprise Value (EGPmn)	7,306.1	11,733.5	13,015.8	12,572.4	12,569.7	12,150.2
Profitability						
ROE (%)	94.91	24.01	24.63	16.46	20.02	31.73
ROA (%)	29.11	5.25	4.86	3.58	4.61	8.21
Asset Turnover (x)	1.14	0.61	0.73	0.69	0.75	0.86
EBITDA Margin (%)	36.88	19.55	17.82	17.13	18.08	21.35
Liquidity						
ND/Equity (x)	0.51	1.67	2.10	1.80	1.64	1.30
ND/EBITDA (x)	0.37	3.07	3.17	3.31	2.81	1.82

Source: Company Financials & CICR Database

Consumer Goods

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Egypt Book 2011/12 | Sector Review

AIVC | Buy — AUTO | Hold
LCSW | Strong Buy — ORWE | Hold
RAYA | Buy

January 26, 2012

A perplexing year as confidence wavers

- **Fewer vehicles sold in 2011 hits Automotive Sector where it hurts.**
- **Floor Coverings market remains robust despite disruption to export markets.**

The Consumer Goods sector – one of the most vital to the Egyptian economy – is cyclical in nature and generally mimics overall economic conditions. For the purposes of the 2011/12 Egypt Book, we have included within the Consumer Sector both Automotives and Floor Coverings. Though both these segments rely largely on consumer spending and overall consumer confidence, they have showed differing performances so far in 2011. While the automotive industry has been negatively impacted, with volumes of units sold (from all types of vehicles) declining c.31% YoY in the first eleven months of 2011, the Floor Coverings market – correlated to demand for new residences and renovations – showed relative resilience on both the hard and soft floor coverings' fronts. Tensions in neighboring export markets such as Libya have had an indirect impact on the Tiles market in terms of exports, while local demand has remained stable, with demand for high-end soft floor coverings showing strong growth. Uncertainty on the global macro level continues to concern us for its impact on export oriented companies.

Review 2011

The performance of the Consumer Goods sector in 2011 has been somewhat mixed. Automotive saw a clear negative trend, with units sold in 11M11 declining c.31% year-on-year (YoY). In contrast, the floor coverings market performed relatively robustly in 2011, with local demand for Egypt's hard-floor tile covering sector remaining almost stable. However, reduced demand from key export markets, such as Libya, hurt market growth. On the soft floor coverings front, market growth was mainly driven by higher-than-average prices – despite slightly lower volumes – on increased demand for high-end products (e.g. imported handmade carpets).

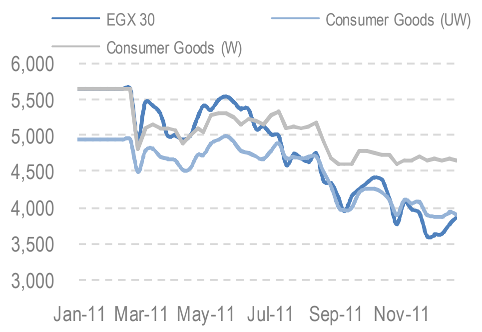
Preview 2012

The Consumer sector should show a slight improvement in 2012. The automotive industry is expected to gradually recover, backed by the introduction of new models of Passenger Cars, in addition to the gradual recovery in tourism and construction activities, which should in turn stimulate demand for Commercial Vehicles (CVs). We also expect a slower yet continued increase in demand for both hard and soft floor coverings over the coming period, given the sustained growth exhibited in supply of residential urban units in 2012.

Covered stocks

RAYA is our top sector pick once again this year, supported by a strong performance in 3Q11 and its penetration of new potential high-margin business segments.

Consumer Goods | 52 Wk Performance*



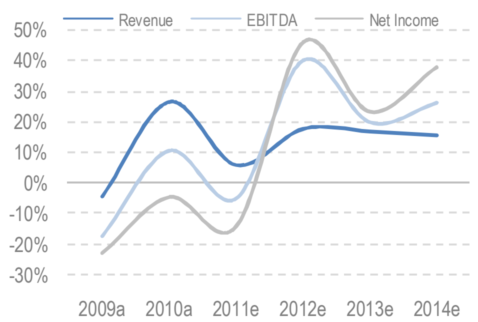
Sector Growth Drivers

- Strong population base with a sizeable youth bracket.
- Low cost-base environment.
- Continued delivery of new housing units.
- Expected gradual economic growth.

Sector Risks

- High raw material costs.
- Political and economical unrest increasing consumer caution towards discretionary items.
- Pressures of high inflation and FX rate fluctuations.

KPIs | 2009-14e†



*Comprises all sector stocks constituting CI Capital 100 Index; † Aggregate of CI Capital Research covered stocks.

Automotive

Automotive Sector | Growth Drivers

- Relevant trade agreements.
- Low labor cost holds the key to a growing industry.
- Expected improved economic performance towards the end of 2012.

Automotive Sector | Risks

- New UNECE safety regulations will require adjustments to production plans.
- Pressures of high inflation and FX rate fluctuations.
- Political and economic unrest increasing consumer caution towards big purchases.
- High customs' tariffs compared to other regional countries.

Vehicle sales hit by political instability in a tough year for sector

Egypt's automotive sector has experienced a turbulent environment this year in the wake of the January 25 Revolution. Though vehicles sales posted a drop of c.31%YoY to November 2011 – the sharpest decline came in February (a drop of 73%), with the following months seeing softer declines, albeit still in double-digits. Political instability caused depressed growth in private spending, as demand for big tickets was undermined. Tight lending conditions; rising inflation – namely in the first 7 months of 2011; high unemployment; and the massive loss of wealth from the decline in the stock market hit the automotive market. On the back of an expected gradual improved economic performance towards the end of 2012, in addition to the launching of new models, we forecast total aggregate automotive market sales units to increase YoY over our 2011e forecast by 16.5% to 228,247 units, driven mainly by expected 18% YoY increase in Passenger Cars (PCs).

2011 Review

The first eleven months of 2011 sales witnessed a strong decline of c.31% Year-on-year (YoY) down to 158,446 units from all vehicles due to the effect of the political unrest events in Egypt. PCs witnessed a 32% YoY decline to 119,490 units whilst total commercial vehicles (buses and trucks) witnessed a 25% YoY decline to 38,956 units. We estimate that PCs sales in 2011 will reach 158,135 units compared to 192,848 units in 2010 – an 18% decline, while CV will reach 37,861 units, posting a decline of 32.5%YoY in 2011.

Figure 5.1 | **Automotive – Key Developments 2011**

Date	Event	Impact
January	**Reduced custom duties** In accordance with Egyptian-European and Egyptian-Turkish Trade Agreements, the Egyptian Customs Authority (ECA) decreases customs duties on vehicles of European and Turkish origin by 10% each. This marks the second phase in decreasing European vehicles customs (to reach nil by 2019), and the first phase in decreasing the Turkish vehicles customs (to reach nil by 2020).	These reductions in customs duties should have no effect on our covered stock, GB Auto, as Turkish and the European vehicles represent a small portion from the automotive sales market in Egypt. European vehicle demand remains limited by its high prices.
February	**Drawbar license extended** Ex-Prime Minister Dr. Ahmed Shafik extends the drawbar license for an additional year.	This marks the second extension of the drawbar license following parliament decisions in June 2010 to extend the license for two years until August 2012. Many automotive companies have protested the cancelation of this project due to their high levels of investment in it.

March	**Automotive incentives strategy postponed** The Ministry of Trade and Industry (MTI) decides to postpone the GoE's automotive incentives strategy due to changed budgetary priorities post-revolution. The strategy would support local automotive manufacturing by raising Egypt's production share of the locally manufactured vehicles over 45%; it had been planned to start in February 2011, with total incentives expected to reach EGP1.5bn.	This should have a negative effect on the auto-feeding industry, as the strategy was intended to partially offset the gradual elimination of custom duties on imported completely built up (CBU) vehicles.
September	**CPA proposes new component committee** The Consumer Protection Agency (CPA) suggests establishing a committee from the Ministry of Trade & Industry (MTI), Ministry of Finance (MoF) and Ministry of Foreign Affairs (MFA) to apply 45 new international automotive component specifications (out of 126 components that are included in the UNECE Agreement).	This should have a positive effect on the global automotive industry, and the Egyptian economy in particular, as the Egyptian automotive industry lacks international safety regulations for vehicles. It should also facilitate trade between signatory parties in the agreement.

2012 Preview

In 2012, we expect the market to remain depressed. However, an improved performance will be seen towards the second half of the year – with political stability expected to return. Passenger Cars (PCs) total sales volume is expected to increase YoY over 2011e by 18% to reach 186,600 units whilst total commercial vehicles (buses and trucks) are expected to see a 10% increase over 2011e to reach 41,647 units. According to the Egyptian-European Trade Agreement, the third phase for reducing the customs' duties on the European PC took place in January 2012 – with 10% reduction. This will have its impact on European cars only (on vehicles till 1600cc) which represents a minimal contribution to the market - as we believe the full potential of such reductions will not be felt before 2015. However, this agreement could jeopardize the future development of the local assembly industry for PCs in Egypt.

Floor Coverings

Hard Floor Coverings

2011 Review

Egypt's Tiles industry has benefited from the country's growing construction and infrastructure sectors, registering an average CAGR of 10% over FY05-FY10. The country currently has about 25 tiles plants with a total annual production capacity of 250mn sqm p.a. The local market currently consumes c. 70-80% of total output, leaving Egypt with room for a vast export capacity. While Egypt exports ceramics to approximately 82 countries, Arab countries continue to absorb the lion-share of exports. In terms of total production output, Egypt has been ranked within the top ten globally.

Floor Coverings | Growth Drivers

- Relevant trade agreements.
- Low labor cost holds the key to a growing industry.
- Expected improved economic performance towards the end of 2012.

Despite the number players, the industry is fairly concentrated, with its three largest players – Cleopatra, Pharaohs and Lecico [LCSW] – controlling c.50% of the market. Nonetheless, competition is increasing as large amounts of production capacity continue to come on stream.

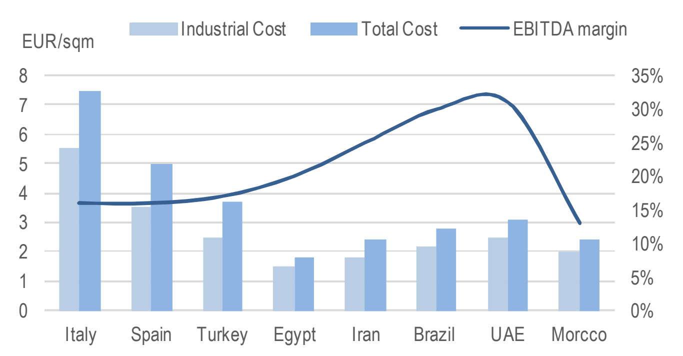
Floor Coverings | Risks

- New UNECE safety regulations will require adjustments to production plans.
- Pressures of high inflation and FX rate fluctuations.
- Political and economic unrest increasing consumer caution towards big purchases.
- High customs' tariffs compared to other regional countries.

Competitive Cost Structure

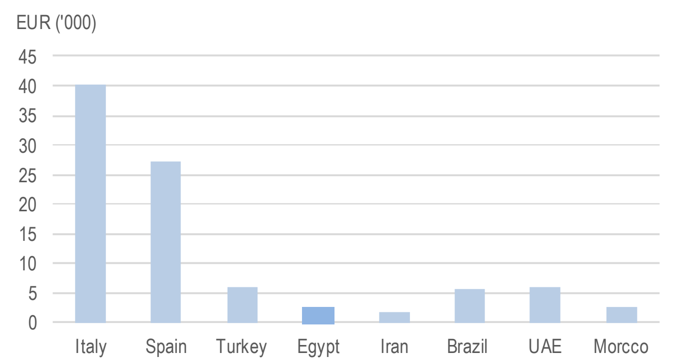
As European competitors struggle to contend with the rising costs of labor and energy, the Egyptian tile industry can capitalize on its core strength of global cost competency. Local tile producers are currently charged USD2.3/mmbtu for natural gas, c.40% lower than the international price of USD3.9/mmbtu. Per capita labor costs for the local industry also come in at a c.80% discount to the global average of EUR 11,480/ year.

Figure 5.2 | **Cost & EBITDA Margin for Global Tile Producers**



Source: Italian Institute for Industrial Promotion (IPI)

Figure 5.3 | **Annual Labour Cost/Worker – Global Tile Producers**



Source: Italian Institute for Industrial Promotion (IPI)

Rising Global Competition

Despite Egypt's attractive low-cost base, the local tile industry is coming under increasing pressure from other aggressive low-cost international players, particularly Turkey, China, India and the UAE. While the Egyptian tile industry ranks amongst the best performers in terms of production capacity, capacity utilization and cost, it continues to underperform in terms of quality, technology-used, productivity, raw materials availability and quality management.

Figure 5.4 | **Egyptian Tile Sector Performance vs. Regional Competition**

Production Area	Egyptian Performance	Regional Position
Production Capacity	250mn/sqm/year	High
Production Utilization	60-70%	At Par
Productivity	6500sqm/year/worker	Low
Technology Used	Red Body/wet process	Low
Quality	Low-Medium Low perceived quality	Low
Costs	EUR1.8/sqm	Best
Raw materials	Availability of raw materials (red body) Poor quality management	Low
Marketing / Trading Area	**Egyptian Performance**	**Regional Position**
Exports	20% of total Production	Low
Access to foreign markets	Low integration	Low
Prices	EUR2.2/sqm	Best
Profitability	c.20%	At Par

In 2011, the down-turn in regional real estate markets along with depressed consumer spending following the Arab Spring led to lower demand for Egyptian ceramics both locally (c.75% of demand-though fairly resilient) and in key export markets. In Egypt, ceramic demand decline, due to faltering real-estate and construction sector growth, was somewhat steadied owing to the boom in informal housing construction (without permits) which took place amidst and immediately after the uprising. However, over 2011, ceramic exports to Libya— which have historically consumed c.6% of total production and accounts for c.30% of the total ceramic export value— have come to a near stand-still since the start of their uprising on February 15 (down c. 90%YoY). Other primary markets which also experienced uprisings and demand disruption are Jordan and Syria. Both individually consume c.15% of exported ceramic volume and account for a c.10% share (USD17mn) of Egypt's total ceramics export value.

Figure 5.5 | **Hard Floor Coverings – Key Developments 2011**

Date	Event	Impact
March	Jordan removes the USD1.1/sqm protection duty the country had levied on Egyptian ceramic imports back in October 2010. The duty had resulted in a c.30% increase in the price of imported Egyptian ceramics within Jordan.	The removal of the protection duty should re-stimulate demand for Egyptian export in the Jordanian market- at a time when local is expected to be weak following the revolution. Egyptian tile exports fulfill c.35% of Jordan's tile need

1H 2011	Local producers offer a c.5% discount on ceramic products in the local market in an attempt to spur consumer spending.	The discounts did indeed encourage local consumption- particularly within Egypt's informal construction and building sector. Industry-wide revenues remained fairly resilient
June	Iraq announces its intention to increase the country's imports of Egyptian ceramics and provide further incentives to encourage Egyptian investment in Iraq's Kurdistan region.	Iraq is a key high-growth market in the Middle-East, and an affirmation from Iraq to use Egypt as a primary source for ceramics will positively impact the Egyptian tile industry.
2H 2011	Local producers once increase discounted tile prices in the local market by 3%.	Burdened by rising input costs and tax expenses, local producers raised the price of discounted tiles by c.3% (q-o-q) in attempt to alleviate margin and bottom line pressure.
October	GoE indefinitely delays plans to remove energy subsidies from high-energy intensive industry and Egypt's ceramics industry. Firms within the affected industries would've been charged natural gas prices of USD4.7/mmbtu	Tile producers (currently classified as mid- energy intensive users) are charged USD2.3/mmbtu for natural gas-less than half the proposed new charge of USD4.7/mmbtu. Energy also represents c.17% of the total manufacturing cost for ceramic tile- thus, plans to delay the subsidy removal is a definite positive for the industry.
December	GoE announces plans to reduce energy subsidies granted to Egypt's energy intensive industries, including the ceramics industry. Local ceramic producers will be charged natural gas prices of USD3/mmbtu- a 30% increase from the current charge of USD2.3/mmbtu. The pricing scheme is expected to become effective on Jan 2 2012.	Energy (natural gas) represents c. 15-17% of the total manufacturing cost for ceramic tile. Hence, the new pricing scheme will negatively impact profitability with industry-wide gross profit margins expected to contract by c.4-5% once the scheme becomes effective.

Soft Floor Coverings

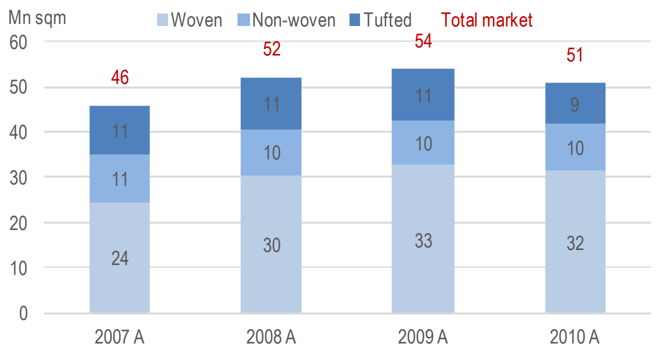
2011 Review

The size of the soft floor coverings market is estimated to have grown 4% YoY in 9M11. This growth was mainly driven by higher average prices – despite slightly lower volumes – on increasing demand for high-end products especially imported handmade carpets. Volumes sold declined in 9M11, mostly impacted by the first quarter's weak demand amidst the uprising, after which they gradually recovered, driven by the delivery of new housing units and new marriages witnessed in 2011.

The local market for soft floor coverings (area rugs and carpets) remains highly concentrated, with Oriental Weavers Carpets [ORWE] controlling almost 85% of the machine-made carpets market in Egypt. The remaining players include Prado Egypt (a new entry), as well as imports from Saudi Arabia, China and Turkey.

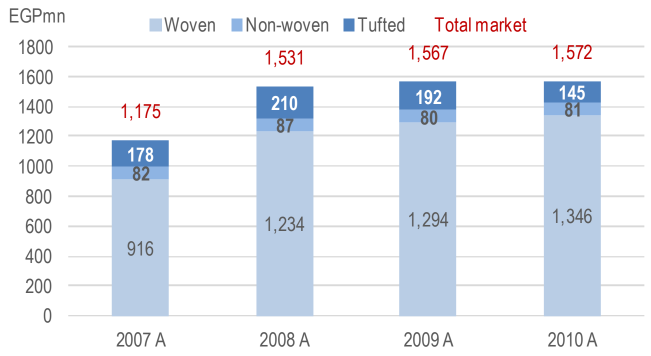
Consumption volumes of woven, tufted and non-woven rugs in Egypt grew at a 3-year CAGR of 3% between 2007-2010, increasing from an estimated volume of c.46mn sqm to c.51mn sqm. Consumption value, meanwhile, grew by a 3-year CAGR of 10% to an estimated EGP1,572mn in 2010.

Figure 5.6 | **Evolution of Market Volumes of Area Rugs & Carpet Production (mn sqm)**



Source: Oriental Weavers Carpets (OWC) & CI Capital Research Estimates

Figure 5.7 | **Evolution of Market Values of Area Rugs & Carpet Production (EGPmn)**



Source: Oriental Weavers Carpets (OWC) & CI Capital Research Estimates

Figure 5.8 | **Soft Floor Coverings – Key Developments 2011**

Date	Event	Impact
February	Tensions in Libya	Rising polypropylene prices as Libya is a major supplier of propane gas. This imposed pressures on profitability margins of machine-made carpet companies.
June	Reduction of the size of export incentives to EGP2.1bn down from EGP4bn	This might pressure receipts of export rebates granted to export-oriented companies.

Floor Coverings

2012 Preview

Continued growth in the delivery of housing units in Egypt

Despite downward revisions in the projected supply of Egyptian housing units in 2012, we nonetheless forecast a c.5% annual growth in urban units by the end of 2012 (vs. a previously growth of 7%YoY). This should translate to a continued increase in demand for both hard and soft floor coverings.

Increasing interest in hard floor coverings

In a continuation of a global trend that has emerged within the past decade, consumers have increasingly begun to prefer hard surface flooring to wall-to-wall carpets. This has therefore suppressed demand for wall-to-wall carpet while fueling demand for area rugs. This represents further potential for both area rugs (produced by Oriental Weavers Carpets [ORWE] and pieces (produced by MAC) used in combination with hard floor coverings (produced by companies within the Tile industry).

A recovering Libya could increase Tile demand

Over 2011, tile exports to Libya – a major market for Egyptian ceramic goods – stalled, as civil war disrupted the flow of business. Provided stability is achieved, some recovery could take place, supported by the country's vital need for infrastructure re-development.

Growing Housing and Contracting sectors

Residential construction in Africa and the Middle East is expected to show modest growth over the coming years.

- **Tiles:** We remain confident that the Middle East will continue to show a healthy appetite for competitively-priced Egyptian tiles. According to a study conducted by JLL, there is a shortage of 3.5 million affordable housing units in the MENA region. Furthermore, sales to the Middle East are often priced at c.40% premium to local (Egyptian) sales, thus providing a strong boost to the industry's overall profitability.
- **Area rugs and carpets:** The local soft floor coverings market is expected to exhibit growth of 5% YoY in 2012, stimulated by an anticipated recovery in the housing market, yet towards the end of the year – as Egypt is expected to regain some stability. In the international market, demand for flooring and carpets is expected to report some depressed growth in 2012 – given the expected weak global economic performance.

Figure 5.9 | **Floor Coverings Outlook**

Floor Coverings | Outlook

Expectation	Underlying Theme	Implication	Risks to Expectations
Continued demand in the local market amid uncertain economic conditions	The increasing number of housing units expected to be delivered in the coming period.	Continued demand for floor coverings.	Stalling supply of new housing and stagnant replacement market
Egypt: an efficient export hub	Given the low cost environment and the proximity to major European and US markets, there is growing attention for outsourcing business from Egypt.	Growing international demand for Egyptian products will enhance expansions in the local industry.	Slow down in international demand.
Government stimulates exports	GOE reduced the size of the export stimulus program to EGP2.1bn down from EGP4bn in 2010/11.	Companies' receipts of export rebates could be subject to reduction. Although the Egyptian Ceramic producers are not entitled to receive export rebates by the government, we believe the excess capacities coming on stream will strengthen their export potential.	GOE liquidity sqeeze could threaten the existance of the export incentive program.

Sector Summary

Automotive - SWOT Analysis

Strengths	Weakness
• Egypt trade agreements. • Low labor cost. • Capital intensive industry reduce new entries.	• High tariff costs.
Opportunities	**Threat**
• Relevant trade agreements. • UNECE safety rules could facilitate international trade.	• Unfavorable inflation & FX fluctuations. • Severe competition. • Highly suceptible to economic environment. • Imports outside origin country. • High unemployment as well and low GDP per capita impacts the potential of expanding the market.

Source: CI Capital Research

Floor Coverings - SWOT Analysis

Strengths	Weakness
• Growing local population with 45% of population falling in the marriage age • Low cost-base environment. • Proximity to major international markets.	• Higher costs of raw materials and partial cost passing ability lead to pressured margins. • Insufficient integration of technology in tiles manufacturing, thus affecting production quality which in turn hampers export growth.
Opportunities	**Threat**
• Sustained growth for demand of affordable housing units should stimulate the floor coverings market. • Increasing international outsourcing buisness should drive exports for area rugs' companies higher.	• Tightened consumer spending amidst political and economic uncertainty. • Uncertainty in the global macroeconomy especially in the US and Europe. • Strong competition from local and international players.

Source: CI Capital Research

Lecico Egypt

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Egypt Book 2011/12 | Consumer Goods

Flooring & Tiles

Strong Buy

TP - EGP 10.7 | 78.3% Upside

January 26, 2012

52 week Share Performance

Stock Details As at: 21-Jan-12

CICR Rating/Risk	Strong Buy/Moderate
Target Price/LTFV (EGP)	10.7 / 14.7
Last Price (EGP)	6.00
52 Week High	13.95
52 Week Low	5.68
6M Av. Daily Vol. (000' shrs)	42.87
% Chg: MoM / 6M / YoY	-5.2 / -40.5 / -55.4
No. of Shares (mn)	80.00
Mkt. Cap (EGP mn)	480.00
Mkt. Cap (USD mn)*	79.47
Free Float (%)	46.70
Paid in Capital (EGP mn)	300.00
Reuters / Bloomberg	LCSW.CA / LCSW Ey Equity
ISIN	EGS3C161C014

GDR Data

Last Price (USD)	3.5
52 Week High	4.10
52 Week Low	3.08

Company Profile

Lecico Egypt (Lecico) [LCSW] is a leading sanitary ware producer/exporter globally and a significant producer/exporter of tiles in the Middle East. In August 2010, Lecico also launched operations in their brassware segment- an entirely new LoB for the company. The company was established in 1959 and has been majority owned by the Gargour family since 1969. LCSW's foremost competitive advantage is its ability to produce European-quality sanitary ware at discount costs c.50% lower than those of its continental competition (made possible by the cheap labour and energy available in Egypt). This has enabled the company to become a major international sanitary ware (SW) exporter – in 2010 exports accounted for c.58% of its sanitary ware sales. Within Egypt, LCSW has a leading sanitary ware market share of 38%, and controls a 17% share of the tiles market. It is the only producer of sanitary ware in Lebanon, and holds SW and tiles market shares of 36% and 24% in that country, respectively. The UK is LCSW's most profitable market, however, and the company supplies c.24% of the market there.

Ownership Structure

Free Float	46.7%
Top Management	25.4%
National Investment Bank	20.1%
Individuals	6.5%
Others	13%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Toughing it out

- **Building up capacity utilization in the new tile plant's first-phase.**
- **Sanitary ware penetrating new European markets through increased product innovation.**
- **Stronger focus on export growth to new markets across the Middle East.**

2011 was a tough a year for Lecico. With halted production, two labour strikes, dampened demand growth across major regional markets following the Arab Spring and the euro-zone crisis added to the mix, LCSW saw no shortage of "action" in 2011. On the back of this, both operationally and financially, we expect 2011 to be Lecico's worst year since its 2005's IPO. Nevertheless, our long-term outlook for LCSW remains bright, grounded in the resilience of its competitive business model and continued investment in future growth. Looking forward, we expect increasing utilization rates for sanitary ware and a recent tile expansion to drive earnings up by a healthy 5-year CAGR of c.58% to 2015.

2011 Review

During the 18-day uprising in 1Q11, Lecico saw production output fall by 30%, in addition to a 6-day suspension of all trading activities and a 2-day company-wide general workers strike. Despite raising salaries by c.27% in an attempt to address employee demands, 3Q11 saw workers at LCSW's Khorshid plant execute a second nine-day strike. Once again this was resolved by management slightly increasing workers' yearly bonus payout. Apart from Egypt – a market accounting for c. 30% of revenues in 2010 – LCSW was also contended with the virtual closure of its largest regional export market, Libya (c. 9% of 2010 revenues), and dampened demand growth from an economically struggling Europe (c.35 of 2010 revenues). On a positive note, in 3Q11 LCSW launched red-body tile operations in the first phase of its new tile plant expansion, increasing current tile production capacity by c. 28%YoY – a move which should prove to be a key catalyst for the segment's future growth.

2012 Preview

LCSW's primary focus for 2012 will be demand recovery, as the company continues to invest in SW product innovation and actively targets new regional markets and international OEM clients. Top-line growth in 2012 should be further supported as LCSW continues to build capacity in its new red-body tile plant. Prior to the expansion, LCSW's tile plants were operating at full capacity, leading us to expect the c.28% capacity boost should directly translate into higher earnings for 2012.

Valuation & Recommendation

Our DCF-based long-term fair value (LTFV) for LCSW's equity is EGP16.1/share with a target price of EGP15.01/share. Presently, our recommendation is Buy with a Moderate Risk rating.

Financial Statements

Lecico Egypt (LCSW)

LCSW | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	196.0	99.6	112.4	127.8	149.7	165.0
Current Assets	830.9	738.0	825.8	959.6	944.6	981.6
Total Assets	1,657.5	1,571.5	1,812.0	1,858.2	1,806.7	1,799.8
Current Liabilities	657.2	537.6	798.6	768.6	709.3	696.1
Total Debt	710.9	530.9	687.9	715.8	603.4	539.6
Net Debt	514.9	431.3	575.5	588.0	453.7	374.5
Total Liabilities	868.2	681.2	872.5	907.3	805.9	753.2
Shr Equity (Book Value)	718.4	828.5	871.1	882.1	922.2	962.6
Minority Interest	9.4	3.5	2.9	1.5	2.7	4.1
Provisions	42.6	39.1	45.9	47.7	56.4	60.3
Total Liabilities & Equity	1,657.5	1,571.5	1,812.0	1,858.2	1,806.7	1,799.8
Income statement						
Revenue	1,080.7	1,055.3	1,019.2	957.3	1,123.7	1,241.1
COGS	-631.2	-595.9	-573.5	-586.7	-659.0	-743.8
Gross Profit	449.5	459.4	445.7	370.6	464.8	497.2
EBITDA	253.5	273.4	274.2	199.3	265.9	290.6
EBIT	183.6	197.1	195.8	114.3	178.9	201.0
Int. Income	1.1	1.6	2.1	2.8	3.7	5.4
Int. Expense	-47.9	-51.3	-56.1	-67.3	-61.5	-56.8
PBT	130.2	128.9	121.7	34.2	107.0	133.8
NPAT	110.3	109.2	93.3	23.2	77.4	97.1
Net Income	108.8	110.2	94.8	24.6	76.2	95.6
Normalised Net Income	108.8	110.2	94.8	24.6	76.2	95.6
Ordinary Dividends	60.0	60.0	60.0	20.0	40.0	60.0
Cash Flow Summary						
COPAT	238.7	265.5	248.0	189.7	235.1	252.4
FCFF	74.9	182.3	53.3	14.3	244.3	205.2
Change in Cash	-97.9	-96.4	12.8	15.4	21.9	15.3
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.36	1.38	1.19	0.31	0.95	1.20
EPS (Normalised) (EGP)	1.36	1.38	1.19	0.31	0.95	1.20
Dividend Per Share	0.75	0.75	0.75	0.25	0.50	0.75
Book Value Per Share	8.98	10.36	10.89	11.03	11.53	12.03
Valuation						
PER (Basic) (x)	4.41	4.36	5.06	19.50	6.30	5.02
PER (CICR) (x)	4.41	4.36	5.06	19.50	6.30	5.02
PBV (x)	0.67	0.58	0.55	0.54	0.52	0.50
Dividend Yield (%)	12.50	12.50	12.49	4.17	8.33	12.50
Earnings Yield (%)	22.68	22.95	19.75	5.13	15.88	19.92
EV/Revenue (x)	0.93	0.87	1.04	1.12	0.83	0.69
EV/EBITDA (x)	3.96	3.35	3.86	5.37	3.52	2.95
Market Capitalisation (EGPmn)	480.0	480.0	480.0	480.0	480.0	480.0
Enterprise Value (EGPmn)	1,004.3	914.8	1,058.4	1,069.5	936.3	858.7
Profitability						
ROE (%)	15.15	13.30	10.89	2.79	8.26	9.94
ROA (%)	6.57	7.01	5.23	1.32	4.22	5.31
Asset Turnover (x)	0.65	0.67	0.56	0.52	0.62	0.69
EBITDA Margin (%)	23.46	25.90	26.91	20.82	23.66	23.41
Liquidity						
ND/Equity (x)	0.72	0.52	0.66	0.67	0.49	0.39
ND/EBITDA (x)	2.03	1.58	2.10	2.95	1.71	1.29

Source: Company Financials & CICR Database

Oriental Weavers Carpets

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Egypt Book 2011/12 | Consumer Goods
Flooring & Tiles
Hold
TP - EGP 36.5 | 21.7% Upside

January 26, 2012

Maintaining markets is the key

- **85% share of local market, 25% in the US and 20% in Europe.**
- **A vertically-integrated business model.**
- **Rising polypropylene prices the primary concern.**

Despite instability in local and international markets, Oriental Weavers Carpets [ORWE] has delivered a remarkable top-line growth in 2011 so far. Owing to a successful strategy, the company has managed to maintain its solid position in its primary markets. In addition, it is expanding its commission-weaving business by supplying one of its US competitors. Moreover, order backlogs still range from 6-8 weeks, which ORWE has filled by adding new capacities to its woven and tufted segments. However, elevated polypropylene prices — which reached an all-time high in 2Q11 alongside tensions in Libya — weighed down on the company's margins. We foresee lower top-line growth in 2012, on rising uncertainties in the global macro scene. The stock currently trades at a 2012 PER of 9.0x, compared to 17.6x peers' average.

2011 Review

ORWE recorded an almost 12% growth in its 9M11 revenues, backed by strong local and export sales. Said growth was driven in large part by high average prices of woven and tufted carpets (rather than volumes), and growing local sales of fibers and handmade carpets. However, soaring polypropylene prices, which increased 26% ytd reaching an average of USD1,708/ton, drove EBITDA margin down 430bps YoY to 10%.

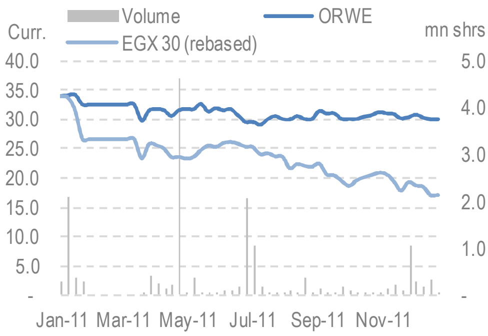
2012 Preview

We forecast ORWE's top line to show a reasonable growth of 5.5% YoY in 2012 in light of hampered exports growth given the uncertainties surrounding the global macro picture. Furthermore, on the local front, we further expect modest sales growth stimulated by an anticipated recovery in the housing market, yet towards the end of the year, when Egypt is expected to regain some stability. Polypropylene prices are expected to be subdued eventually on an expected easing in oil and gas prices due to expected lower global economic growth compared to 2011. This should level off pressure on EBITDA margin, and in turn, drive bottom line profits higher.

Valuation & Recommendation

Thanks to its strong position in the local and global markets, ORWE will likely find support for its top line, with high polypropylene prices to remain the primary concern. Meanwhile, we believe that a reduction in export rebates – which constitute almost a third of pretax earnings for the company – is more likely in the coming period, given unstable local economic conditions coupled with the reduced government allocation for the export incentive program in the 2011/12 budget. The amount has been cut to only EGP2.1bn, down from EGP4bn last year. However, we still view the stock as a stable long-term investment despite its poor trading liquidity. With an LTFV and TP of EGP36.5/share, ORWE is a Hold.

52 week Share Performance



Stock Details

Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/Moderate
Target Price/LTFV (EGP)	36.5 / 36.5
Last Price (EGP)	30.00
52 Week High	35.00
52 Week Low	27.00
6M Av. Daily Vol. (000' shrs)	29.70
% Chg: MoM / 6M / YoY	0 / 2.5 / -11.6
No. of Shares (mn)	90.00
Mkt. Cap (EGPmn)	2,700.00
Mkt. Cap (USDmn)*	447.02
Free Float (%)	27.94
Paid in Capital (EGPmn)	450.00
Reuters / Bloomberg	ORWE.CA / ORWE Ey Equity
ISIN	EGS33041C012

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Oriental Weavers Carpets [ORWE] is the leading Egyptian carpet manufacturer, with a market share of 85%. The company also has a 25% market share in the US. MAC, ORWE's 53%-owned subsidiary, captures about a third of the world's jet-printed rug market. Exports contributed 61% of ORWE's top line in 9M 11, with sales to the US and Europe contributing almost 53% to total sales.
ORWE adopts the vertical integration method in its manufacturing, processing its own polypropylene fiber, which is converted into yarn, and also manufacturing and distributing finished products. The company sources its polypropylene needs from Egyptian Propylene and Polypropylene Company in addition to importing them from a regional supplier. Total fiber requirements are supplied through its subsidiaries OWF and EFCO. Carpets and rugs production processes are carried out through Oriental Weavers Carpets (OWC), Oriental Weavers International (OWI), MAC, and OW China.

Ownership Structure

Moh. Farid Khamis & Family	57.2%
Retail	33.4%
Fitaihi Holding Group Co.	4.9%
Misr Insurance	4.5%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Financial Statements

Oriental Weavers (ORWE)

ORWE | EGPmn | FY End: December Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash & Cash Equivalent	195.1	339.8	533.4	402.2	417.6	418.2
Current Assets	2,660.1	2,509.0	2,967.6	3,105.7	3,246.6	3,444.1
Total Assets	5,358.2	5,187.0	6,057.7	6,310.5	6,426.0	6,566.3
Current Liabilities	1,774.8	1,826.7	2,400.5	2,761.2	2,848.7	2,746.7
Total Debt	1,697.6	1,549.1	2,124.7	1,920.1	1,836.9	1,684.3
Net Debt	1,502.5	1,209.3	1,591.3	1,517.9	1,419.3	1,266.1
Total Liabilities	2,413.6	2,306.4	2,986.5	3,126.5	3,102.2	3,068.4
Shr Equity (Book Value)	2,646.2	2,596.3	2,773.3	2,848.1	2,940.9	3,058.7
Minority Interest	229.0	215.9	220.0	256.3	301.1	355.1
Provisions	67.2	67.6	77.5	79.7	81.9	84.1
Total Liabilities & Equity	5,358.2	5,187.0	6,057.7	6,310.5	6,426.0	6,566.3
Income statement						
Revenue	3,442.4	3,550.6	4,059.7	4,456.2	4,701.7	5,094.1
COGS	-2,125.4	-2,354.7	-2,765.6	-3,194.1	-3,267.7	-3,473.9
Gross Profit	1,316.9	1,195.9	1,294.1	1,262.1	1,434.0	1,620.2
EBITDA	550.2	518.3	591.0	474.4	592.4	693.1
EBIT	343.3	317.8	380.4	259.0	318.2	402.8
Int. Income	4.4	9.7	12.9	14.9	14.7	16.7
Int. Expense	-82.4	-96.2	-84.3	-87.5	-89.6	-70.9
PBT	401.5	396.9	403.0	328.3	413.8	534.4
NPAT	365.0	351.2	361.9	277.7	344.1	429.7
Net Income	311.1	312.3	322.1	241.4	299.3	375.6
Normalised Net Income	311.1	312.3	322.1	241.4	299.3	375.6
Ordinary Dividends	298.4	223.8	180.0	166.6	206.5	257.8
Cash Flow Summary						
COPAT	503.6	502.6	500.5	474.3	551.2	603.7
FCFF	-278.9	620.3	-168.1	54.9	200.3	243.9
Change in Cash	61.1	144.7	193.6	-131.2	15.4	0.6
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	3.46	3.47	3.58	2.68	3.33	4.17
EPS (Normalised) (EGP)	3.46	3.47	3.58	2.68	3.33	4.17
Dividend Per Share	3.32	2.49	2.00	1.85	2.29	2.86
Book Value Per Share	29.40	28.85	30.81	31.65	32.68	33.99
Valuation						
PER (Basic) (x)	8.68	8.64	8.38	11.18	9.02	7.19
PER (CICR) (x)	8.68	8.64	8.38	11.18	9.02	7.19
PBV (x)	1.02	1.04	0.97	0.95	0.92	0.88
Dividend Yield (%)	11.05	8.29	6.67	6.17	7.65	9.55
Earnings Yield (%)	11.52	11.57	11.93	8.94	11.09	13.91
EV/Revenue (x)	1.29	1.16	1.11	1.00	0.94	0.85
EV/EBITDA (x)	8.05	7.96	7.63	9.43	7.46	6.23
Market Capitalisation (EGPmn)	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0
Enterprise Value (EGPmn)	4,431.5	4,125.2	4,511.2	4,474.1	4,420.3	4,321.2
Profitability						
ROE (%)	11.76	12.03	11.62	8.48	10.18	12.28
ROA (%)	5.81	6.02	5.32	3.83	4.66	5.72
Asset Turnover (x)	0.64	0.68	0.67	0.71	0.73	0.78
EBITDA Margin (%)	15.98	14.60	14.56	10.65	12.60	13.61
Liquidity						
ND/Equity (x)	0.57	0.47	0.57	0.53	0.48	0.41
ND/EBITDA (x)	2.73	2.33	2.69	3.20	2.40	1.83

Source: Company Financials & CICR Database

CAPITAL RESEARCH
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Egypt Book 2011/12 | Consumer Goods

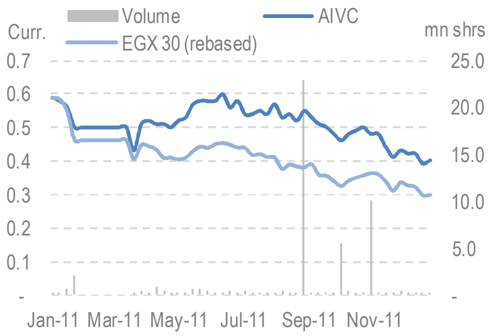
Consumer

Buy

TP - USD 0.6 | 47.4% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Buy/Moderate
Target Price/LTFV (USD)	0.56 / 0.8
Last Price (USD)	0.38
52 Week High	0.61
52 Week Low	0.38
6M Av. Daily Vol. (000' shrs)	351.97
% Chg: MoM / 6M / YoY	-7.3 / -28.8 / -31.9
No. of Shares (mn)	313.50
Mkt. Cap (EGPmn)	719.82
Mkt. Cap (USDmn)*	119.13
Free Float (%)	24.44
Paid in Capital (USDmn)	52.25
Reuters / Bloomberg	AIVC.CA / AIVC Ey Equity
ISIN	EGS672I2C014

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Established in 2006, AIVC is a vertically integrated textile and garment manufacturer, exporter and retailer. The group has three consumer-based sectors: (i) the Casual Wear market, with production in Beni Suef and targeting big US retailers such as Macy's and GAP; (ii) the Formal Wear market, which supplies a British retail arm, BMB, holding a 12% share in the UK formal suits market; and (iii) the Luxury market, in which AIVC produces high quality suits for Concrete in the local market and other Luxury brands.

International revenue stream made almost 89% of AIVC's revenue in 2010/11. Exports are mainly directed to Europe, particularly the UK and the US. AIVC supplies JC Penny, Massimo Dutti, as well as international fashion brands such as Valentino, Jaeger and Haggar. AIVC also owns a 35% stake in the prestigious Italian company, Forall Confezioni, the owner of brand Pal Zileri.

Ownership Structure

Alaa Arafa	25.3%
Sammaa Ragab	16.5%
Shereen Arafa	6.9%
Ashraf Arafa	11.9%
Postal Savings Fund	5.6%
Free Float	33.9%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Taming market challenges with luxury brands

- **Export-oriented business with 90% of sales allocated to international markets.**
- **Increasing exposure to the luxury-wear manufacturing business.**
- **The JV with Zegna, the start of the new shirt factory, and the launch of the made-to-measure services are AIVC's potential growth drivers.**

Following the divesture of its two loss-making foreign subsidiaries in 2010, Al-Arafa for Investments & Consultancies [AIVC] managed to level off pressures on its retail margin and reduce exposure to the UK market. AIVC is now turning its attention to the US, Europe and other high growth potential markets with an increasing focus on luxury-wear manufacturing. Despite the prevailing challenges in its primary markets, AIVC managed to deliver a decent top line growth in 9M11/12 (ended October 2011), albeit on lower margins. The company is expanding its product range to include shirt manufacturing (with one factory already launched in 1Q11/12 and the other expected in 2012) and high-end made-to-measure business in Egypt in 2012. Further cost savings should be achieved once the casual-wear production lines are fully transferred to Beni Suef (expected by yearend). AIVC currently trades at a 2011/12E PER of 11.4, vs. a peer average of 13x.

2011 Review

Despite a 13% YoY drop in 1Q11/12 revenues given short-term disruptions in the local market, AIVC recorded a 2.6% YoY increase in 9M11/12 revenues, reaching USD206.3mn. This was driven by revenue growth in the Retail and the Apparel & Tailoring segments which came at the expense of pressured EBITDA margin on strong promotional campaigns and efforts exerted to retain international customers.

2012 Preview

We expect AIVC's top line to be somewhat affected by the unstable outlook for 2012 especially in the UK market (38% of top line in FY10/11). However, expected commitments to launch a new shirts factory besides the newly established one and a made-to-measure business by Concrete in the local market should lend support to AIVC's top line and margins. Furthermore, AIVC is eyeing the Latin American market.

Valuation & Recommendation

AIVC's signing of a joint-venture agreement with Zegna to establish a new shirts factory underscores the company's solid recognition in the menswear market. While we remain cautious about the global macro scene, we still believe in the company's potential given the growing contribution of its high-margin luxury-wear business-which remained so far relatively sheltered from the economic headwinds. Moreover further devaluation of the EGP vs. USD (the reporting currency) will help AIVC since some of the industrial expenses are denominated in EGP and a USD stock benefits local investors and provide a shield for foreign investors. We currently assign AIVC an LTFV of USD0.8/share and a TP of USD0.56/share, with a Buy rating.

Financial Statements

Al Arafa for Investments (AIVC)

AIVC | USDmn | FY End: January	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	91.9	66.2	86.6	62.3	64.4	66.8
Current Assets	245.5	242.9	260.4	302.7	306.9	293.9
Total Assets	402.5	473.3	532.3	545.1	538.6	518.5
Current Liabilities	153.2	185.6	232.9	204.8	208.0	199.7
Total Debt	146.8	182.6	215.7	230.1	216.8	182.3
Net Debt	54.9	116.4	129.1	167.8	152.4	115.5
Total Liabilities	200.6	268.2	299.4	309.2	294.0	262.5
Shr Equity (Book Value)	177.0	181.3	199.5	208.2	215.7	226.2
Minority Interest	23.2	22.2	32.1	26.1	27.2	28.2
Provisions	1.7	1.6	1.3	1.6	1.6	1.6
Total Liabilities & Equity	402.5	473.3	532.3	545.1	538.6	518.5
Income statement						
Revenue	303.8	388.8	332.4	283.3	289.0	299.7
COGS	-192.9	-222.4	-190.2	-176.7	-182.1	-184.8
Gross Profit	110.9	166.4	142.3	106.6	106.9	114.9
EBITDA	33.1	31.5	3.2	17.9	18.8	26.5
EBIT	25.2	20.1	-9.7	9.5	10.9	17.6
Int. Income	5.0	4.9	4.3	3.9	2.8	2.9
Int. Expense	-6.0	-8.9	-9.4	-11.3	-10.2	-8.9
PBT	37.5	30.0	5.6	11.0	15.3	20.9
NPAT	34.0	27.0	1.7	8.0	11.7	16.3
Net Income	30.0	26.6	11.5	23.1	10.5	15.3
Normalised Net Income	30.0	26.6	3.1	14.4	10.5	15.3
Ordinary Dividends	7.1	0.0	0.0	6.3	2.9	4.9
Cash Flow Summary						
COPAT	29.6	28.1	3.5	12.7	15.1	21.9
FCFF	1.0	-31.3	-5.0	-45.8	10.8	30.5
Change in Cash	22.0	-25.7	20.4	-24.3	2.1	2.4
Key Multiples						
Per Share Data						
EPS (Basic) (USD)	0.10	0.08	0.04	0.07	0.03	0.05
EPS (Normalised) (USD)	0.10	0.08	0.01	0.05	0.03	0.05
Dividend Per Share	0.02	n/a	n/a	0.02	0.01	0.02
Book Value Per Share	0.56	0.58	0.64	0.66	0.69	0.72
Valuation						
PER (Basic) (x)	3.97	4.49	10.38	5.15	11.36	7.77
PER (CICR) (x)	3.97	4.49	39.06	8.25	11.36	7.77
PBV (x)	0.67	0.66	0.60	0.57	0.55	0.53
Dividend Yield (%)	5.98	n/a	n/a	5.26	2.45	4.11
Earnings Yield (%)	25.18	22.29	9.64	19.40	8.80	12.86
EV/Revenue (x)	0.65	0.66	0.84	1.10	1.03	0.88
EV/EBITDA (x)	5.97	8.19	88.65	17.45	15.89	9.94
Market Capitalisation (USDmn)	119.1	119.1	119.1	119.1	119.1	119.1
Enterprise Value (USDmn)	197.2	257.7	280.3	313.0	298.7	262.8
Profitability						
ROE (%)	16.94	14.64	5.76	11.10	4.86	6.78
ROA (%)	7.45	5.61	2.16	4.24	1.95	2.96
Asset Turnover (x)	0.75	0.82	0.62	0.52	0.54	0.58
EBITDA Margin (%)	10.88	8.09	0.95	6.33	6.50	8.83
Liquidity						
ND/Equity (x)	0.31	0.64	0.65	0.81	0.71	0.51
ND/EBITDA (x)	1.66	3.70	40.83	9.36	8.11	4.37

Source: Company Financials & CICR Database

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GB Auto

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Egypt Book 2011/12 | Consumer Goods

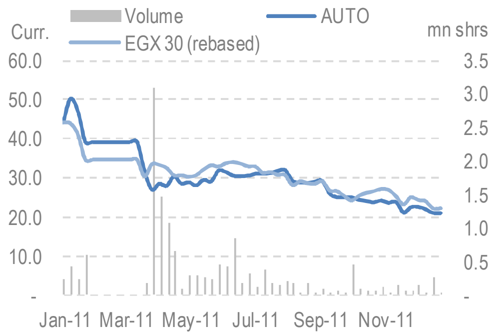
Automotive

Hold

TP - EGP 29.3 | 39.6% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Hold/Moderate
Target Price/LTFV (EGP)	29.3 / 29.3
Last Price (EGP)	20.99
52 Week High	47.50
52 Week Low	19.01
6M Av. Daily Vol. (000' shrs)	23.00
% Chg: MoM / 6M / YoY	0 / -33.8 / -54.4
No. of Shares / O/S Shares (mn)	129 / 125.4
Mkt. Cap (EGPmn)	2,632.15
Mkt. Cap (USDmn)*	448.30
Free Float (%)	26.50
Paid in Capital (EGPmn)	129.00
Reuters / Bloomberg	AUTO.CA / AUTO Ey Equity
ISIN	EGS673T1C012

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

GB Auto [AUTO] was founded by Sadek & Kamal Ghabbour in 1940. In 1956 the company was incorporated for trade in automotive-related products & construction materials whilst later on, in the early 1970s, it began securing agent licenses for passenger car, bus and automotive part distributors.

In July 2007, GB Auto shares began trading on the Egyptian Exchange (EGX) after the completion of a capital increase through an IPO. GB Auto was the first (and is currently the only car assembly company) floating shares in EGX. The company has an authorized capital of EGP400mn and an issued capital of EGP 129mn, distributed over 129mn shares at a par value of EGP 1/share.

Ownership Structure

Dr.Raouf Ghabbour & Family	73.5%
Free float	26.5%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Gearing up for expansion

- **c.32% market share for Passenger Cars' (PCs) in local market in 9M11.**
- **Engaged at all levels of industry value chain, with successful financing activities.**
- **Strong partnerships with original equipment manufacturers (OEMs) and distribution agreements for tires & sound financing activities.**

GB Auto [AUTO] is a leading player in the Egyptian automotive industry, holding exclusive licenses from South Korea's Hyundai Motor Company and Japan's Mazda Company to distribute their passenger cars in the local market. AUTO's range of competitively-priced products held a leading c.32% share of Egypt's passenger car market in 9M11, and the company is currently the largest player in the three-wheel vehicle market. Outside Egypt, AUTO has entered into a joint venture with Al-Kasid Group to distribute Hyundai PCs across the Iraqi market. The company has also inked an agreement with Allab Group to export and distribute trailers in Algeria, and has launched a joint venture with Marcopolo to distribute buses in Marcopolo's markets. AUTO also has sound financing activities.

2011 Review

This year, AUTO launched several new models of Hyundai PCs including the Accent RB, 2012 Elantra, Veloster, and the ix20. Meanwhile, the new paint shop has entered into the final pre-commissioning testing phase. Auto has a strong market share in the taxi replacement program hovers around 87.6% in 9M11. In addition, AUTO announced the launching of its new consumer financing company, Drive. AUTO's Commercial Vehicles' segment suffered this year and remains challenged due to the effects of the January 25 Revolution in Egypt in addition to continuous competitive pricing pressures whilst two- and three-wheeler reported a good performance, becoming the company's second largest line of business in terms of revenues after PCs' segment. On a different note, Mashro'y has added home appliances to its range of products sold on credit terms to micro finance eligible clients.

2012 Preview

AUTO is expected to join forces with new OEMs in 2012 in order to offset the Hyundai Verna production stoppage which is expected to start by the end of 2013 and to make better use of its expanded CKD assembly capacity. Should any of the brands offer a micro-bus, it would allow AUTO to participate in any government program aimed at replacing old micro-buses manufactured in Egypt. In addition, they will help AUTO to complete its product portfolio by including pickups and light commercial vehicles.

Valuation & Recommendation:

We value GB Auto Group using DCF model for free cash flow to the firm (FCFF). Our model yields a LTFV of EGP29.3/share, which we set as our target price, and have a Hold recommendation with Moderate Risk rating attached.

GB Auto (AUTO)

AUTO | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	124.2	141.6	828.5	387.2	507.4	638.5
Current Assets	2,042.4	1,922.2	3,440.6	3,236.7	4,169.9	5,257.1
Total Assets	3,628.7	3,693.8	5,518.2	6,117.0	7,422.6	8,650.3
Current Liabilities	1,621.0	1,714.6	2,258.2	2,988.1	4,290.3	5,448.2
Total Debt	857.7	787.2	869.3	2,363.0	2,836.6	3,212.0
Net Debt	733.5	645.5	40.8	1,975.8	2,329.2	2,573.5
Total Liabilities	1,795.2	1,780.0	3,368.0	3,792.2	4,754.6	5,572.8
Shr Equity (Book Value)	1,726.2	1,782.8	1,844.2	1,965.3	2,227.9	2,539.6
Minority Interest	15.0	66.6	222.5	234.8	261.4	293.1
Provisions	74.0	42.6	56.9	89.9	133.1	187.5
Total Liabilities & Equity	3,628.7	3,693.8	5,518.2	6,117.0	7,422.6	8,650.3
Income statement						
Revenue	5,192.4	4,258.4	6,873.8	7,743.4	10,147.5	12,769.5
COGS	-4,268.9	-3,608.9	-5,909.3	-6,771.1	-8,644.7	-10,951.2
Gross Profit	923.4	649.5	964.5	972.3	1,502.8	1,818.3
EBITDA	646.4	405.7	602.6	623.8	1,046.2	1,243.7
EBIT	595.4	350.7	523.5	541.6	932.6	1,100.7
Int. Income	0.0	0.0	0.0	0.0	0.0	0.0
Int. Expense	-134.5	-114.0	-171.0	-283.6	-325.4	-387.9
PBT	512.0	266.6	356.7	327.6	700.4	831.7
NPAT	417.9	203.4	284.0	242.7	525.8	624.3
Net Income	415.9	201.4	257.9	230.4	499.1	592.6
Normalised Net Income	415.9	201.4	257.9	230.4	499.1	592.6
Ordinary Dividends	0.0	129.0	129.0	109.2	236.6	280.9
Cash Flow Summary						
COPAT	585.8	300.6	531.9	536.0	865.1	1,029.1
FCFF	-185.9	163.5	-233.3	-468.5	20.4	288.7
Change in Cash	-142.1	17.4	686.9	-441.3	120.2	131.1
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	3.32	1.61	2.06	1.84	3.98	4.73
EPS (Normalised) (EGP)	3.32	1.61	2.06	1.84	3.98	4.73
Dividend Per Share	n/a	1.03	1.03	0.87	1.89	2.24
Book Value Per Share	13.77	14.22	14.71	15.67	17.77	20.25
Valuation						
PER (Basic) (x)	6.33	13.07	10.21	11.42	5.27	4.44
PER (CICR) (x)	6.33	13.07	10.21	11.42	5.27	4.44
PBV (x)	1.52	1.48	1.43	1.34	1.18	1.04
Dividend Yield (%)	n/a	4.90	4.90	4.15	8.99	10.67
Earnings Yield (%)	15.80	7.65	9.80	8.75	18.96	22.51
EV/Revenue (x)	0.65	0.79	0.42	0.63	0.51	0.43
EV/EBITDA (x)	5.23	8.24	4.81	7.76	4.99	4.42
Market Capitalisation (EGPmn)	2,632.2	2,632.2	2,632.2	2,632.2	2,632.2	2,632.2
Enterprise Value (EGPmn)	3,380.6	3,344.3	2,895.4	4,842.7	5,222.8	5,498.8
Profitability						
ROE (%)	24.09	11.30	13.98	11.72	22.40	23.34
ROA (%)	11.46	5.45	4.67	3.77	6.72	6.85
Asset Turnover (x)	1.43	1.15	1.25	1.27	1.37	1.48
EBITDA Margin (%)	12.45	9.53	8.77	8.06	10.31	9.74
Liquidity						
ND/Equity (x)	0.42	0.36	0.02	1.01	1.05	1.01
ND/EBITDA (x)	1.13	1.59	0.07	3.17	2.23	2.07

Source: Company Financials & CICR Database

Raya Holding

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Egypt Book 2011/12 | Consumer Goods

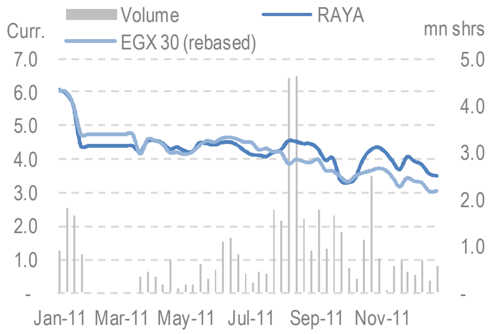
Media & IT

Buy

TP - EGP 5 | 41.6% Upside

January 26, 2012

52 week Share Performance



Stock Details — As at: 21-Jan-12

CICR Rating/Risk	Buy/Moderate
Target Price/LTFV (EGP)	5 / 9.1
Last Price (EGP)	3.53
52 Week High	5.66
52 Week Low	3.07
6M Av. Daily Vol. (000' shrs)	263.82
% Chg: MoM / 6M / YoY	-5.4 / -13.7 / -36.3
No. of Shares (mn)	62.21
Mkt. Cap (EGPmn)	219.60
Mkt. Cap (USDmn)*	36.36
Free Float (%)	58.48
Paid in Capital (EGPmn)	310.83
Reuters / Bloomberg	RAYA.CA / RAYA Ey Equity
ISIN	EGS690C1C010

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Raya Holding [RAYA] consists of five business segments: Retail & Distribution (c.86% of the company's operations), IT, Contact Centre, and the newly-introduced Raya Smart Buildings and Land Transportation business targeting Egypt and Sudan. RAYA is also set to establish a new plastic recycling company (Bariq) in 1Q12 in what will be the first of its kind in Egypt.

RAYA is currently one of Egypt's flagship CIT companies, commanding a large share of the local mobile distribution market and a broad share of the IT segment, offering a wide array of services. RAYA's IT segment has a presence in Algeria, Nigeria, Saudi Arabia, the UAE and the US. As of 9M11, the company had 31 outlets operating under the names "Raya" and "Nokia Care" and "Samsung."

Ownership Structure

Medhat Khalil & Family	21.4%
Free Float	56.5%
Financial Holdings international Ltd	12.0%
Wathiqa Financial Company	3.1%
Others	7.1%

Source: Bloomberg / CICR — *USD:EGP FX: 6.04

Watch for a rising star

- **Strong growth in the Trade segment.**
- **Recycling business (first of its kind in Egypt) to be launched in 1Q12.**
- **Penetrating the growing market for smart buildings**

Raya Holding [RAYA] exhibited a shining performance in 2010, which was shortly interrupted in 1Q11 on disrupted demand during the uprising. Revenues eventually recovered and remained flat YoY in 2Q11, and then showed 13% YoY growth in 3Q11. The Trade segment remains RAYA's main revenue growth driver, following a serious of partnership agreements signed with Etisalat Misr (EM), Blackberry and most recently, penetrating the home appliance distribution of Samsung. In early 2011, RAYA slowed down investments in new business segments for better cash management. Only one of its four potential smart buildings is ready for use and BariQ, the plastic recycling arm, is expected to be launched in 1Q12. RAYA is trading at a low PER 2012E of 4.6x, compared to peers' average of 9x.

2011 Review

Impacted by disrupted demand in 1Q11, RAYA reported a 3% decline in its 9M11 revenues on lower performance of the IT segment (12% of revenues) due to the freezing of most government and corporate projects following the January 25 Revolution. However, the Trade segment (83% of RAYA's 9M11top line) showed 4% growth in its 9M11 revenues, thanks to the strong summer demand and the new product mix featuring high-margin mobile handsets and LCDs. Despite 11% growth in 9M11 EBITDA on margin improvement, earnings declined 12% YoY mainly due to higher taxes, losses incurred on damaged stores and EGP14mn customs provisions booked to meet a penalty imposed on RAYA Algeria. Excluding non-recurring items, 9M11 normalized income is down 5% YoY. Given the prevailing instability, RAYA has slowed down investments in the new EGP600mn smart buildings segment for better cash management. With EGP267mn capex has been spent, one of RAYA's four smart buildings is ready for use, while the remaining buildings will be launched in 2013.

2012 Preview

We believe the Trade segment will continue to be the backbone of the company and the main revenue growth driver. Still, a prolonged freeze in RAYA's IT segment (with relatively high margin) should slightly weigh down on RAYA's EBITDA margin. This is expected to be somewhat mitigated by the full launch of BariQ, RAYA's new plastic recycling company, in addition to the utilization of the completed smart building.

Valuation & Recommendation:

Despite consumers' cutting back spending on non-essential items amidst the current economic slowdown, RAYA showed a resilient operational performance in 9M11. We still see value in the stock, driven by its growing Trade segment, potential smart buildings, land transportation and the new plastic recycling company. In addition, the firm is moving forward with the construction of the three remaining smart buildings as planned. RAYA has received an LTFV of EGP9/share and a TP of EGP5/share with a Buy rating.

Financial Statements

Raya Holding (RAYA)

RAYA | EGPmn | FY End: December Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash & Cash Equivalent	58.5	115.7	113.0	92.3	104.3	124.9
Current Assets	698.7	579.4	654.0	728.2	1,002.7	1,237.3
Total Assets	1,240.1	1,252.3	1,354.4	1,518.9	1,809.0	2,023.3
Current Liabilities	655.0	643.3	704.8	738.1	849.3	960.4
Total Debt	432.9	311.7	357.7	466.6	691.6	842.1
Net Debt	374.4	196.1	244.7	374.2	587.3	717.2
Total Liabilities	725.7	705.8	798.8	910.2	1,156.8	1,320.7
Shr Equity (Book Value)	473.0	494.8	515.6	555.2	593.6	636.9
Minority Interest	-1.8	-1.8	2.6	1.3	0.4	1.5
Provisions	43.1	53.5	37.4	52.2	58.2	64.2
Total Liabilities & Equity	1,240.1	1,252.3	1,354.4	1,518.9	1,809.0	2,023.3
Income statement						
Revenue	2,176.1	1,869.7	2,553.9	2,564.9	2,750.7	2,956.6
COGS	-1,848.3	-1,587.7	-2,191.9	-2,228.3	-2,398.1	-2,523.8
Gross Profit	327.7	282.1	362.0	336.6	352.6	432.8
EBITDA	137.7	86.2	138.4	132.6	132.5	184.5
EBIT	105.9	48.0	99.9	91.7	87.0	127.8
Int. Income	0.9	1.0	2.4	2.3	2.0	2.1
Int. Expense	-35.8	-24.9	-10.0	-22.8	-27.2	-52.1
PBT	74.1	49.0	59.9	55.3	63.9	80.2
NPAT	53.4	41.3	42.3	38.2	46.9	59.2
Net Income	54.0	41.6	43.6	39.6	47.7	58.1
Normalised Net Income	54.0	28.9	74.3	54.4	47.7	58.1
Ordinary Dividends	12.0	14.2	12.4	0.0	9.4	14.8
Cash Flow Summary						
COPAT	101.8	61.6	168.4	115.6	115.5	163.4
FCFF	-115.9	340.4	80.7	-43.6	-188.8	-71.0
Change in Cash	-65.3	57.1	-2.7	-20.6	12.0	20.6
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	0.87	0.67	0.70	0.64	0.77	0.93
EPS (Normalised) (EGP)	0.87	0.47	1.19	0.88	0.77	0.93
Dividend Per Share	0.19	0.23	0.20	n/a	0.15	0.24
Book Value Per Share	7.61	7.96	8.29	8.93	9.55	10.25
Valuation						
PER (Basic) (x)	4.07	5.27	5.03	5.54	4.60	3.78
PER (CICR) (x)	4.07	7.58	2.95	4.03	4.60	3.78
PBV (x)	0.46	0.44	0.43	0.40	0.37	0.34
Dividend Yield (%)	5.45	6.49	5.67	n/a	4.28	6.74
Earnings Yield (%)	24.60	18.96	19.88	18.04	21.76	26.49
EV/Revenue (x)	0.27	0.22	0.18	0.23	0.29	0.32
EV/EBITDA (x)	4.30	4.80	3.37	4.49	6.09	5.09
Market Capitalisation (EGPmn)	219.4	219.4	219.4	219.4	219.4	219.4
Enterprise Value (EGPmn)	592.1	413.8	466.8	594.9	807.2	938.1
Profitability						
ROE (%)	11.41	8.41	8.46	7.13	8.04	9.13
ROA (%)	4.35	3.32	3.22	2.61	2.64	2.87
Asset Turnover (x)	1.75	1.49	1.89	1.69	1.52	1.46
EBITDA Margin (%)	6.33	4.61	5.42	5.17	4.82	6.24
Liquidity						
ND/Equity (x)	0.79	0.40	0.47	0.67	0.99	1.13
ND/EBITDA (x)	2.72	2.27	1.77	2.82	4.43	3.89

Source: Company Financials & CICR Database

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Fertilisers

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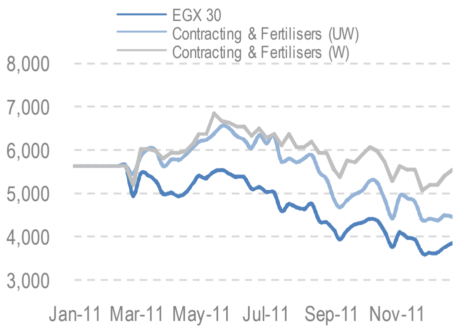
Egypt Book 2011/12 | Sector Review

EFIC | Strong Buy
OCIC | Strong Buy

January 26, 2012

Fertilisers | 52 Wk Performance*



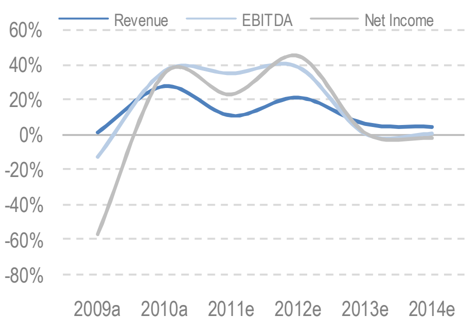
Sector Growth Drivers

- Growing population.
- Delays in launch of additional capacities will drive up prices till the end of 2012 or start of 2013.
- Environmental restrictions on European firms to stimulate exports.
- Abundance of phosphate rock and natural gas.
- Prime export location.

Sector Risks

- Lack of credit available to farmers.
- China may lower or remove its export tariff.
- Recent energy subsidies might be waived.
- Dependent on sulphur imports, which are negatively affect companies' net income following FX and interest rate risks.
- Private mining licenses may not be issued.

KPIs | 2006-12e



*Comprises all sector stocks constituting CI Capital 100 Index.

Revisiting untapped resources

With imports covering 13% of total consumption and exports contributing c.50% of total production, developments on the international scene hold significant sway over Egypt's domestic fertiliser market. This was evident in 2010, with global food supply issues leading to increased crop and fertiliser prices. Company performances were mixed, with N fertiliser companies achieving higher operating margins than their P fertiliser counterparts. This imbalance came as natural gas (NG) – the feedstock for N fertilisers – held close to 2010 price levels, while prices for fertiliser itself approached 2008 levels – a noticeable year for fertiliser price highs. Elsewhere sulphur (S) and phosphate rock – P fertiliser feed stocks – saw respective 450% and 30% increases, while P fertiliser prices themselves lagged. We expect fertiliser prices to see additional hikes, especially on the N side, as food issues need to be addressed quickly, as opposed to the P segment's more long-term benefits. That said, food affordability could lead to food price decreases, thereby muting fertiliser prices.

Review 2011

N fertiliser average prices increased 100% in 2011, compared with their respective averages during 2010, and are approaching frenzied 2008 levels, at 70%. In addition, average natural gas prices during 2011 neared those of 2010, which led to amplification of N fertiliser margins. Limited NG licenses were a central theme this year, and so investors were on the lookout for spin-offs from fertiliser related conglomerates, as well as secured natural gas contracts. In the local market, the PBDAC was unplugged from distribution channels, and the GoE has been pursuing the removal of energy subsidies, albeit having previously announced this two years ago. On the restructuring segment, the government announced that it is studying land reclamation in areas outside the Nile basin area as well as outside the country's borders to overcome land violations during early 2011.

Preview 2012

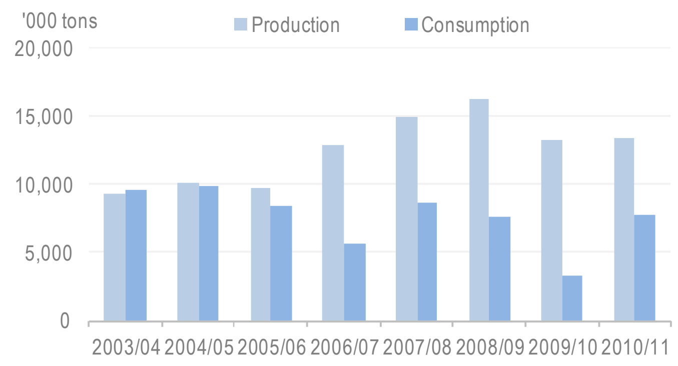
We expect fertiliser prices to experience additional increases, especially for N types, as food issues need to be addressed quickly, as opposed P segment's more long-term potential; however, food affordability could lead to food price decreases, thereby muting prices. This provides an opportunity for cost-hedged Orascom Construction Industries (OCIC) to sustain more competitive margins than other N fertiliser players without such hedging. On the local front, we expect the Ministry of Industry to restart the negotiation process for phosphate mining for private companies in late 2012 or in 2013. We believe that the Jordanian phosphate business model could prove beneficial if adopted, according to which the government enters in partnerships or JVs with investors. Further, we do not expect subsidies to be totally abolished in one fell swoop (as implied by recent statements); for fertiliser companies at least, a gradual decrease is much more likely.

2011 Review

Healthier int'l market dynamics drive demand, but unrest tangles local market

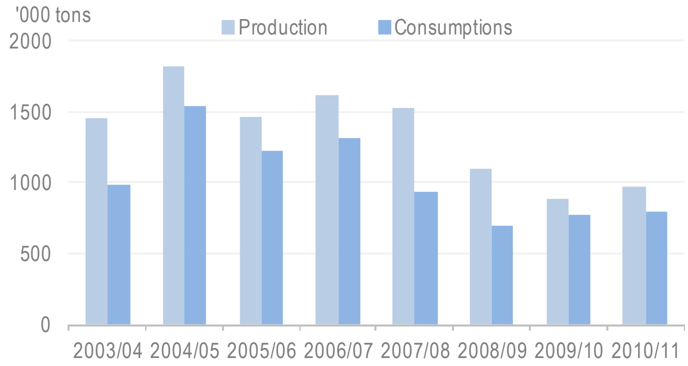
While the two are generally interrelated, the Egyptian fertiliser market appeared to de-couple itself from the international scene this year, as rising local demand went un-matched by corresponding supply. Although we lack official figures, our sources suggest fertiliser consumption has increased YoY, while production capacities experienced a marginal increase over the same year. Accordingly, we estimate local consumption to have increased 2.3x YoY to 7.7mn tons and less than 1mn tons of N and P fertilisers, respectively. On the supply side, we estimate local fertiliser supply marginally increasing YoY to 14.3mn tons in FY10/11, compared with 14.1mn tons in FY09/10. This follows political upheaval in Egypt during the second half of FY10/11.

Figure 6.1 | **N Local market dynamics**



Source: High Fertiliser Council & CI Capital Estimates

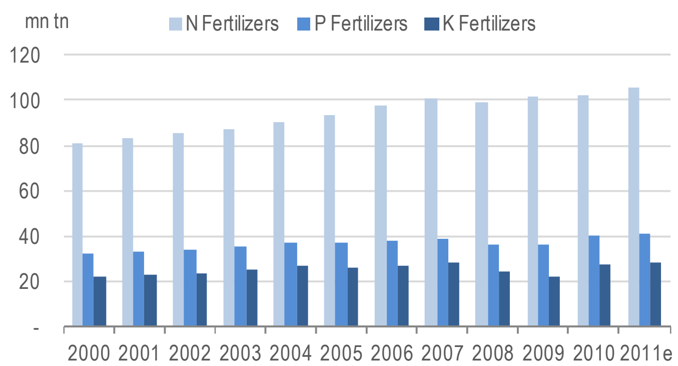
Figure 6.2 | **P Local market dynamics**



Source: High Fertiliser Council & CI Capital Estimates

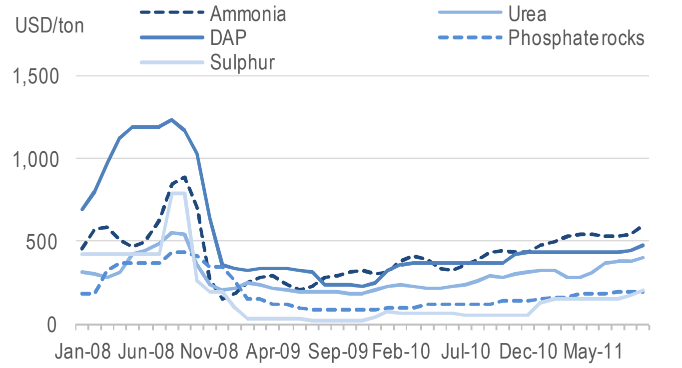
Globally, we see 2011 as a healthier market than in recent years, thanks to tightened supply and rising demand. After increasing 5.4% in 2009/10, global fertiliser demand in 2010/11 is estimated to have risen 5% to 172.1Mt – a second successive annual increase after the 7.6% contraction in 2008/09.

Figure 6.3 | **Global fertiliser consumption**



Source: IFA

Figure 6.4 | **Fertiliser prices**



Source: IFA

Furthermore, N fertiliser market dynamics proved stronger than our 2011 expectations due to the demand-supply trade balance, pushing up N fertiliser consumption by c.3% to 105.mn tons.

Unfavorable agriculture conditions persist

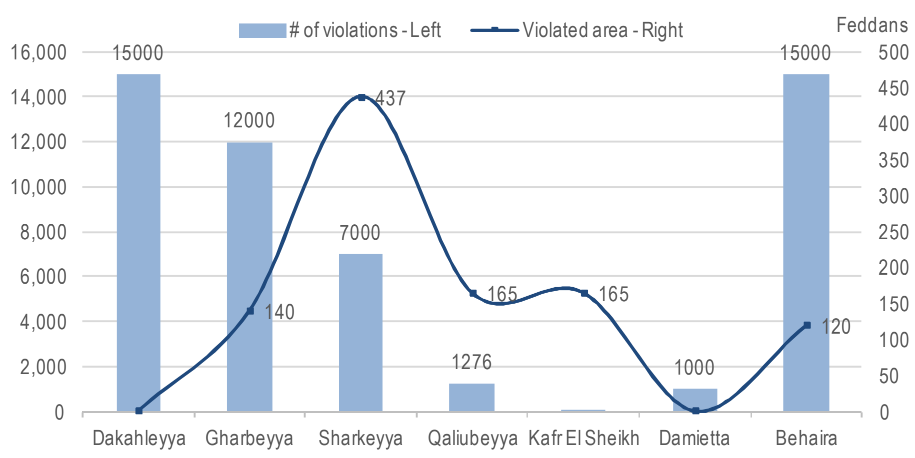
Global weather disruptions caused food shortages

As a result of droughts in Russia and Ukraine as well as hot and wet summer conditions in the US Corn Belt, world cereal production fell by 2.2%, recording 2.18mn tons in 2010 following a 0.3% decrease during 2009. Accordingly, shelved cereal declined by 10%, signaling a marginal decrease in cereal stock-to-use ratio, which led to shaving the ratio well below 2007/08 – a marked year of food issues. All of these factors served to increase crop prices; maize and wheat prices surged starting mid-2010, and pressed hard during 2Q11, surpassing their respective highs during 2008. Sugar prices increased also during 2H10, recording a new record level over the past 30 years in January 2011. Meanwhile, operating at a utilization rate of 81%, fertiliser production recorded 213.5mn tons a growth of 10%. It's worth noting that this 81% utilization rate is 5% higher than 2009's average utilization rate of 76%. Supported with more bank facilities compared with previous years, we expect increased cultivation requirements from 2012 onwards – compared with the ample supplies in late 2008 and early 2009 – have bolstered fertiliser transactions, while the tighter food supply has also enabled farmers to afford more purchases themselves.

Egypt aims to improve land management

Following the January 25 Revolution, local agricultural land suffered from unauthorized dealings by farmers, which served to cut down the cultivated land area. The lack of land regulations during early 2011 has lead to agricultural land violations in a number of rural governorates of the Delta area, especially in Dakahleya Governorate. In March 2011, further land regulation violations were driven by climbing rent, housing issues, and the expected increase in real estate returns.

Figure 6.5 | **Land violation activities during 2011**



Source: Moheet website

Raw materials: Escalating costs

At the global level, growth in the fertiliser industry is dependent on the availability of feedstock, particularly natural gas and phosphate rocks. N-fertiliser producers use natural gas as the main feedstock for their production of ammonia, with natural gas representing about 71% of the cost of ammonia and c. 60% of the per-ton cost of urea. Any increase in the cost of natural gas will therefore negatively impact N fertiliser producers' margins. Phosphate fertilisers, meanwhile, rely on phosphate rock and sulphuric acid as raw materials. In terms of volume, the former contributes 62-66% and the latter 34-38% of total inputs in Single Super Phosphate (SSP) production – the main phosphate fertiliser produced in Egypt.

Natural Gas: Energy subsidies still in question

Egypt has higher NG cost relative to selective regional countries

Natural gas supply licenses issued to N fertiliser companies are decreasing. In Egypt, feedstock costs are far higher than those of the country's regional peers, in the range of USD1.25-3/MMBtu, compared to USD0.75-1.50/MMBtu in the GCC. Recently, the Bahraini government increased its natural gas price by 75 cents to reach USD2.25/MMBtu, which will be applied starting 2012. Given the costs, the GoE is currently considering abolishing energy subsidies provided to local industries.

Figure 6.6 | **Existing local N fertiliser companies' environment**

	Company	Full Natural Gas Cost Hedge	Price Cap
Ex free-zone area	Egyptian Basic Industries (EBIC)	Yes	No
	Egyptian Fertilizers Company (EFC)	Yes	No
	Helwan Fertilizers	No	No
	Alexfert	No	No
	Misr Oil Processing Company (MOPCO)	No	No
Out side the free-zone area	El Delta Fertilizers Company	No	Yes
	Abu Qir Fertilizers & Chemical Industries (ABUK)	No	Yes
	El Nasr Coke and Chemicals Company	No	Yes
	Egyptian Chemical Industries (Kima)	No	Yes
	El Nasr Fertilizer and Chemicals (SEMADCO)	No	Yes

Source: CI Capital Research Database

Rock Phosphate: Mining licenses still under review

Reoffering phosphate rock mining licenses in Egypt

The Ministry of Trade & Industry (MTI) announced on September 15 that it is considering reoffering 18 new phosphate fertilisers licenses. There had been a prior disagreement between new P fertiliser companies and the Industrial Development Authority (IDA) on the percentage of mined rock that new P companies have to supply back to the IDA (the IDA demanded as much as 70% in 2010). It is worth noting that state-owned El-Nasr Mining Co. controls an 80% share of phosphate rock extraction, followed by Red Sea Co. and National Phosphate Co. with a 20% share between them. Most phosphate rock is extracted from Egypt's Red Sea coast.

Electricity: More pressure on supply costs

In 2008, the GoE increased the price of electricity for energy consumer companies, including those producing fertilisers. That said, N fertiliser companies have already stated they can cut costs by using abundant kerosene-generated electricity, and since P fertiliser companies use the sulphuric acid they produce to generate electricity, they too should have mitigated the rising cost of energy.

Figure 6.7 | **Key Developments 2011**

Date	Event	Impact
January	Cooperatives to distribute N fertilisers.	The Principal Bank for Agriculture and Credit (PBDAC) retreated from the distribution process.
	High Fertiliser Council submits memorandum to reject energy price increase.	Securing fertiliser margins against energy price increases.
March	N fertiliser shortage in the local market.	N fertiliser prices increased in the secondary market.
	N fertiliser international prices increase.	Secondary market transactions dominated local activities.
	Sulphur prices increased.	Increased working capital requirements for P fertiliser companies.
May	Fixing N fertiliser selling prices.	More fertilisers supplied via the secondary market.
June	EGYPHOS delay.	To affect investment income for companies' with equity stakes.
	Fertiliser producers inject more fertilisers into the local market.	Greater burden on subsidies.
September	IDA reoffers phosphate licenses.	Coming up with resolutions to the mining activities for phosphate rock.
	Government plans to terminate energy subsidies due to budget constraints.	Local operating margins put at risk
November	GoE increases energy costs on selective industries, excluding fertilisers.	Local operating margins are at ease

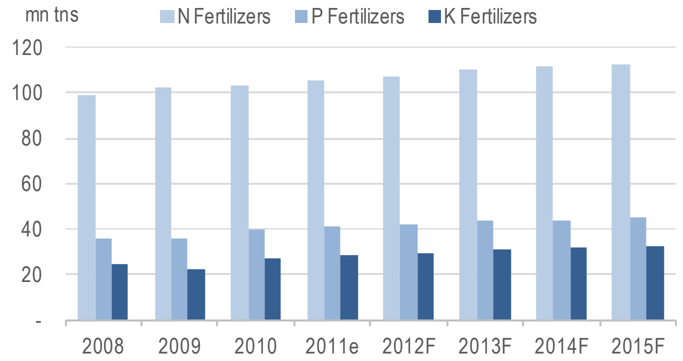
Source: CI Capital Research

2012 Preview

Global demand moderates

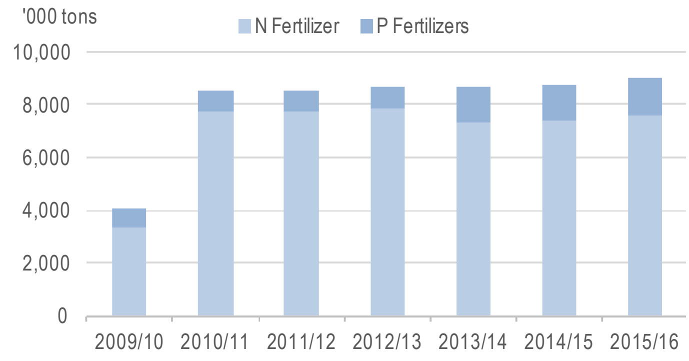
According to the IFA, global fertiliser demand in 2011/12 is predicted to rise more modestly, by 2.5%, to 176.4 Mt. By segment, K fertiliser demand is set to fully recover (+5.5%) to its 2007/08 high, while growth rates for N and P demand should be more moderate, translating to an +1.8% rise for N and +2.1% for P. fertiliser consumption across all regions, with a strong rebound in Eastern Europe and Central Asia. The largest gains in volume are anticipated in East Asia, South Asia and Latin America. Increases for all three nutrients are anticipated in all regions, with the exception of P in Western and Central Europe and K in Oceania. In the medium term, the positive agricultural outlook is expected to stimulate fertiliser demand. World demand is anticipated to reach 191.1 Mt in 2015/16, corresponding to an average annual growth rate of 2.6% from the base year (average consumption between 2008/09 and 2010/11). Because of its depressed level in 2008/09 and 2009/10, K fertiliser demand is forecast to grow much faster (+4.7% per annum) than demand for N (+1.9% p.a.) and P (+3.1% p.a.) fertilisers.

Figure 6.8 | **Global fertiliser consumption**



Source: IFA & CI Capital Research estimates

Figure 6.9 | **Local fertiliser consumption (FY09/10 – 15/16)**



Source: CI Capital Research estimates

In the short term, we expect local production capacities to increase by 14% to reach 16mn tons, mostly coming from the P segment while marginally from the N side. On the P side, we expect Egyptian Financial & Industrial Co.'s [EFIC] additional 700k tons of product in Suez and Abu Zaabal's renovation program to dominate the increase in capacities. On the N side, we believe that Orascom Construction Industries' [OCIC] fertiliser LoB will experience further capacity expansions.

We expect the GoE to address the demand of the local market during 2012, taking into consideration: (1) illegal agricultural land violations that curtailed the area of arable land; and (2) the rise of the N fertiliser secondary market, which has led to local N fertiliser prices being matched with international ones due to the lack of distribution regulations. Further, we believe that these issues might sustain high demand for N fertiliser as means to solve short-term crop shortage, while demand for P fertilisers might be brewing as more agricultural land areas are needed in the medium to long term.

In the wake of the illegal agricultural land grab for real estate activities initiated during early 2011, we expect that the reclamation process will be difficult, even if these estate activities are torn down. Accordingly, we expect the country's reclaimed lands to fall in the vicinity 8.6mn feddans. Although the GoE might be willing to maintain the previous regime's initiative of reclaiming c.200k feddans per year, it may also offer investment incentives to reclaim more agriculture lands for Egypt, within or outside the country's borders.

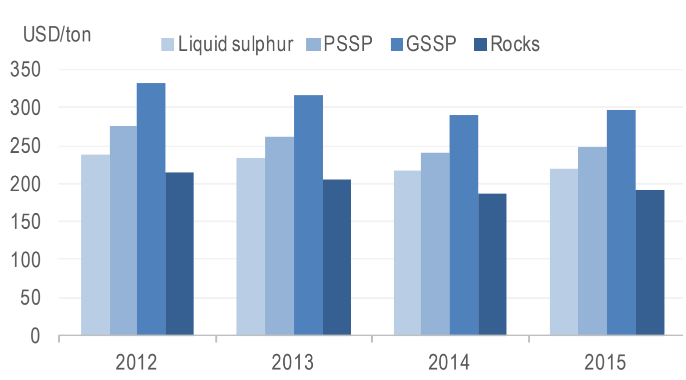
On the price front, we expect that increasing local fertiliser prices might be addressed by the new parliament, albeit too soon to say. In any case, we think that the new GoE's fiscal budget might include a lower level of energy subsidies, which should translate to higher fertiliser prices in the local market somewhere close to the international benchmark. Further, we think that higher NG prices may not apply to local players with existing costs hedge.

On the local front, we believe domestic fertiliser consumption will increase by a CAGR of 17% to 9mn tons in FY15/16. We also note that the absolute contribution of N fertilisers is the largest (a 5-year CAGR of 18%); however, we expect that P fertiliser could see a 5-year CAGR of 13%, higher than the previously projected 11%, due to the urgency to reclaim Sinai and the New Valley.

Nitrogen fertilisers: Looking forward

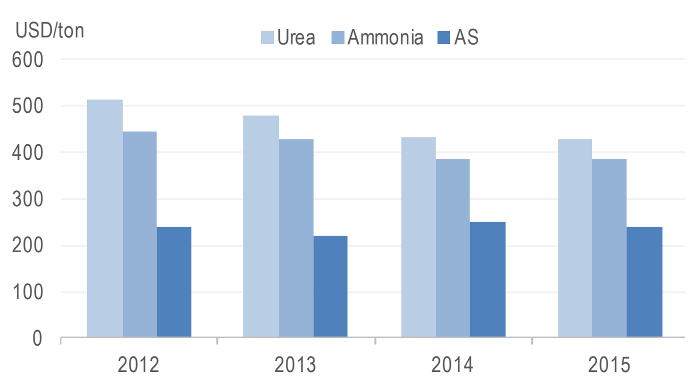
Until 2015, more than 250 capacity related projects will be erected, in addition to plants expansions, with the IFA estimating cumulative investments in the industry at c.USD90bn for the 2010-2015 period. A high level of interest in the nitrogen segment is maintained by a number of countries' desires to reduce reliance on imports, achieved by exploiting local resources and increasing production capacities to become net sellers. Fertiliser prices are likely to be driven by two primary supply related factors. On one hand, the premature launch of fertiliser plants could boost supply, and accordingly, prices should decrease. However, China is still hoarding away its exports and we expect supplies to be short, which might buoy N fertiliser prices. In the Ukraine meanwhile, should the government decide to not utilize its previous NG fertiliser subsidy from 2009, local plants will price their urea at USD350/ton, as a support level. Egypt features a number of fertiliser companies in good export locations, and the industry is eyeing expansion. Previous initiatives to increase production capacities have been delayed but not terminated, as evidenced by three capital increases for MOPCO, KIMA and Delta fertiliser companies to increase their respective production capacities, and Orascom Construction Industries [OCIC] to do the same in 2012.

Figure 6.10 | **P fertiliser prices forecast (2012 – 2015)**



Source: CI Capital Research estimates

Figure 6.11 | **N fertiliser prices forecast (2012 – 2015)**



Source: CI Capital Research estimates

Phosphate fertilisers: Looking forward

Saudi Arabia's Maaden is a key player in the region, and it is set to add c.3mn tons of P related fertiliser products to the market. We assume that the increased demand for phosphate rocks will translate into a further rally in P fertiliser derivatives, not to mention sulphur, as the latter has surged following the recent political tension in the MENA region. The GoE has been highlighting the un-utilized rock phosphate of Abu Tartur; we expect a possible concession agreement – likely in the form of public private partnership (PPP) – to utilize the mine. We project the additional capacity will result in a 3 fold surge in P-fertiliser production to 7mn tons in FY13/14, up from less than 1mn tons in FY09/10. Meanwhile, in the interests of conservatism, we have waived the production capacities of EGYPHOS, and have delayed the launch of the new P fertiliser companies for a 1-2 years period until the Ministry of Trade completes its re-offering process.

Figure 6.12 | **Fertiliser Outlook 2012**

Fertiliser Sector | Outlook			
Expectation	**Underlying Theme**	**Implication**	**Risks to Expectations**
Rising N-fertiliser prices	Continuing Chinese export tariffs for N-fertiliser products. China & India may slash crop exports to ensure domestic supplies.	Reduced fertiliser supply as exports from China (Chinese trade represent c.20% of global trade) are w aived from the global system. Food prices may increase, enhacing farmers' margins and increase their fertiliser buying pow er.	China abolishes export tariffs on fertiliser exports. China & India are not slashing agricultural exports.
More Agriculture activities	Distruptions in w eather conditions low er the supply of grain so more agriculture activities are required to meet the rising demand for food.	More demand for fertilisers, w hich lifts up prices. Demand for fertilisers w ill be limited on the amount used to fertile agriculture lands for food production.	Resolution of food shortages.
Increased feed stock prices	Natural gas, sulphur, and phosphate rock prices are expected to increase.	These are feed stocks for both N & P fertilizers and their margins should be under pressure - unless companies hedge their feedstock costs.	Feed stock prices are maintained.

Source: CI Capital Research

Sector Summary

Fertiliser - SWOT Analysis

Strengths	Weaknesses
• Egypt is rich in the basic raw materials of natural gas and phosphate. • Egypt leverages on its long experience in producing nitrogen and phosphate fertilizers in the local market and exporting to the international markets. • Egypt enjoys a strategic location for exporting to different regions. • Natural gas cost in Egypt is lower than many developed countries in Europe and North America. • Strong distribution local network.	• Several governmental interventions in the nitrogenous fertilizers sector in the form of export ban and price caps. • The industry is capital intensive which imposes a barrier for entry. • Dependence on government subsidized raw materials making it vulnerable to government decisions. • N fertilizers distribution channels Cooperatives are not efficient resulting in regular fertilizers crisis.
Opportunities	**Threats**
• Planned 200k feddans to be reclaimed each year which expands potential fetilizers consumption. • Lax application of enivornmental laws in Egypt, unlike any developing country that may render investing in the country more lucrative. • GoE is willing to negotiate concession rights for phosphate rocks mines.	• Growth of natural gas reserves that can support the increase in local consumption and exports might not be maintained. • The anticpated increase in natural gas prices due to removal of subsidies will put Egypt at a disadvantage compared with competitors in the Middle East Region with US$1.5/MMBtu. • Maintained product price caps.

Source: CI Capital Research

Egyptian Financial & Industrial Co.

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Egypt Book 2011/12 | Fertilisers & Industries

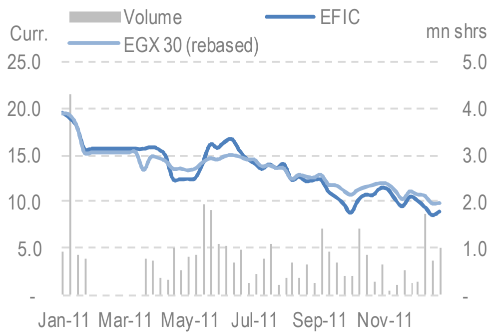
Fertilisers

Strong Buy

TP - EGP 14.3 | 61.6% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Strong Buy/High
Target Price/LTFV (EGP)	14.3 / 15.4
Last Price (EGP)	8.85
52 Week High	18.24
52 Week Low	8.40
6M Av. Daily Vol. (000' shrs)	141.41
% Chg: MoM / 6M / YoY	-1.7 / -36.6 / -50.3
No. of Shares (mn)	69.30
Mkt. Cap (EGPmn)	613.32
Mkt. Cap (USDmn)*	101.54
Free Float (%)	52.00
Paid in Capital (EGPmn)	693.02
Reuters / Bloomberg	EFIC.CA / EFIC Ey Equity
ISIN	EGS38381C017

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Egyptian Financial & Industrial Company [EFIC] is a joint-stock company founded in 1929. EFIC's main activities are producing and trading phosphate fertilizers and chemicals. The company produces the following products: single super phosphate (SSP) in two forms- powdered (PSSP) and granulated (GSSP), sulphuric acid, ammonium sulphate (AS), and di-calcium phosphate (DCP).

Mixture fertilizers NPKEFIC is the largest producer of phosphate fertilizers in Egypt, accounting for around 70% of SSP local market sales in 2007. Such a market share takes into account sales from Suez Co. for Fertilizers Production (SCFP), EFIC's 99.88%-owned subsidiary. EFIC's 2009 AGM/EGM approved increasing authorized capital from EGP700mn to EGP1000mn, while maintaing its issued capital of EGP693mn, distributed over 69.3 mn shares at a par value of EGP 10/share.

Ownership Structure

Free Float	52.0%
Holding Companies	26.6%
Others	10.3%
Banks	10.0%
Insurance Companies	1.1%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Shaking-up to shape up

- **Reviving export sales with enhanced margins.**
- **Decreased interest expense enhances company's attributable earnings for distribution.**
- **Increasing & replenishing old production capacities.**

EFIC's new plant in Suez has been delayed, although this is hardly uncommon in the current climate. Following Egypt's political change, company management was encouraged to undertake a similar restructuring process in the company as announced in early 2011, which we think may prove beneficial for the company's operational performance. Although we believe that global food scarcity has reduced the primacy of bio-fuels as a green-energy alternative, we do feel an increase in crop prices could improve farmers' economics and boost demand for P fertilizers starting in 2013. In the meantime, the company's margins should benefit from the establishment of a P fertilizer plant in Suez during 2012. Moreover, it will have the logistical advantage of being located in close proximity to seaports.

2011 Review

Although EFIC's management has been changed twice this year, both team sets have been committed to undertaking long-needed radical changes. Management has boldly written off much of its expensive inventory stockpiled since 2008, and is fully adhering to its production capacity increases. In addition, it has rescheduled its banks' short-term borrowings to long-term borrowings in order to better manage company's cash flows. Finally, it is solving issues related to its idle capacities by renovating its machinery and obtaining necessary environmental licenses.

2012 Preview

EFIC is increasing its production capacity and deleveraging its capital structure. Its single super phosphate (SSP) production in Suez governorate will increase by 50% (700k tons a year) to offset the negative impact of old machinery, which management will continue on renovating, during 2012. Additionally, EFIC's management will likely strive to continue reviving the firm's consolidated exports. In doing so, it stands to benefit from the Latin America's MERCOSUR trade agreement for P-fertiliser exports, boosting exports' percentage of total sales into the 25-30% range.

Valuation & Recommendation

In light of both the current restructuring actives and increases in both sulphur and phosphate rock prices, our current LTFV is set at EGP15.4/share and TP at EGP14.3/share. It has earned a Strong Buy recommendation.

Financial Statements

Egyptian Financial & Industrial Company (EFIC)

EFIC | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	56.0	23.5	59.6	44.0	50.2	73.3
Current Assets	875.1	800.8	594.0	594.9	872.3	921.6
Total Assets	2,011.8	2,011.1	1,838.2	1,822.0	2,269.4	2,301.4
Current Liabilities	938.0	1,009.2	507.3	398.6	902.0	981.3
Total Debt	859.4	973.8	869.3	767.6	1,076.4	1,033.4
Net Debt	803.3	950.2	809.7	723.6	1,026.2	960.0
Total Liabilities	1,124.5	1,109.7	953.1	815.0	1,190.3	1,136.3
Shr Equity (Book Value)	851.0	860.1	844.0	897.5	969.3	1,054.6
Minority Interest	0.2	0.5	0.4	0.7	1.2	1.8
Provisions	36.0	40.7	40.7	108.7	108.7	108.7
Total Liabilities & Equity	2,011.8	2,011.1	1,838.2	1,822.0	2,269.4	2,301.4
Income statement						
Revenue	931.3	575.6	650.3	899.0	1,025.3	1,160.1
COGS	-602.7	-421.7	-518.1	-634.3	-726.6	-813.6
Gross Profit	328.7	153.9	132.2	264.7	298.7	346.5
EBITDA	296.3	117.1	89.6	214.3	236.8	264.3
EBIT	278.3	104.1	72.0	183.7	195.0	208.6
Int. Income	8.8	3.2	0.2	0.0	0.0	0.0
Int. Expense	-50.4	-82.0	-68.6	-64.4	-97.2	-92.2
PBT	239.7	25.8	-8.2	51.5	98.0	116.6
NPAT	226.1	25.8	-8.2	45.1	85.8	102.0
Net Income	226.0	25.6	-8.1	44.8	85.2	101.3
Normalised Net Income	210.2	3.5	-8.1	44.8	85.2	101.3
Ordinary Dividends	52.0	0.0	0.1	0.0	13.4	16.0
Cash Flow Summary						
COPAT	282.6	117.0	89.6	207.5	224.0	249.0
FCFF	-455.5	-2.2	244.5	142.5	-192.7	173.6
Change in Cash	-27.7	0.1	-0.1	0.0	0.0	0.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	3.26	0.37	-0.12	0.65	1.23	1.46
EPS (Normalised) (EGP)	3.03	0.05	-0.12	0.65	1.23	1.46
Dividend Per Share	0.75	n/a	0.00	n/a	0.19	0.23
Book Value Per Share	12.28	12.41	12.18	12.95	13.99	15.22
Valuation						
PER (Basic) (x)	2.71	23.93	-75.76	13.69	7.20	6.05
PER (CICR) (x)	2.92	174.81	-75.76	13.69	7.20	6.05
PBV (x)	0.72	0.71	0.73	0.68	0.63	0.58
Dividend Yield (%)	8.47	n/a	0.01	n/a	2.19	2.61
Earnings Yield (%)	36.84	4.18	-1.32	7.30	13.89	16.52
EV/Revenue (x)	1.52	2.72	2.19	1.49	1.60	1.36
EV/EBITDA (x)	4.78	13.35	15.89	6.24	6.93	5.96
Market Capitalisation (EGPmn)	613.3	613.3	613.3	613.3	613.3	613.3
Enterprise Value (EGPmn)	1,416.9	1,564.1	1,423.4	1,337.6	1,640.7	1,575.1
Profitability						
ROE (%)	26.55	2.98	-0.96	4.99	8.79	9.61
ROA (%)	11.23	1.27	-0.44	2.46	3.75	4.40
Asset Turnover (x)	0.46	0.29	0.35	0.49	0.45	0.50
EBITDA Margin (%)	31.82	20.35	13.78	23.83	23.10	22.78
Liquidity						
ND/Equity (x)	0.94	1.10	0.96	0.81	1.06	0.91
ND/EBITDA (x)	2.71	8.11	9.04	3.38	4.33	3.63

Source: Company Financials & CICR Database

Orascom Construction Industries

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Egypt Book 2011/12 | Fertilisers & Industries

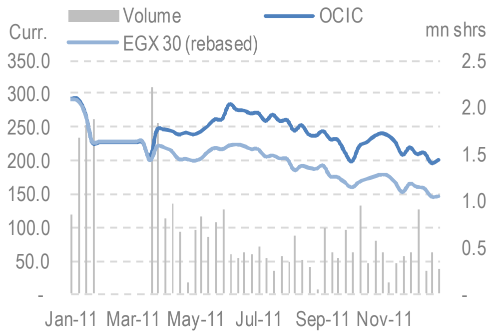
Contracting

Strong Buy

TP - EGP 297 | 35.1% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Strong Buy/Moderate
Target Price/LTFV (EGP)	297 / 377
Last Price (EGP)	219.80
52 Week High	290.00
52 Week Low	183.94
6M Av. Daily Vol. (000' shrs)	92.45
%Chg: MoM / 6M / YoY	6.6 / -17.5 / -18.6
No. of Shares (mn)	206.92
Mkt. Cap (EGPmn)	45,480.66
Mkt. Cap (USDmn)*	7,529.91
Free Float (%)	56.00
Paid in Capital (EGPmn)	1,044.70
Reuters / Bloomberg	OCIC.CA / OCIC Ey Equity
ISIN	EGS65901C018

GDR Data	
Last Price (USD)	37.06
52 Week High	48.99
52 Week Low	31.27

Company Profile

Orascom Construction Industries [OCIC] was incorporated under Law No. 159/1981 in April 1998 as a shareholding company, to undertake contracting business and other related activities. OCIC's operations include construction and fertilisers (nitrogen) and, in 1999 when it was listed on the EGX, it entered the cement business. In January 2008, OCIC divested its cement segment to Lafarge S.A. in a deal worth EUR8.8bn (USD 12.9bn) and assumed USD2bn in debt.

2008 also marked OCIC's first venture into the fertiliser industry through its USD1.59 merger with Egyptian Fertilizers Company (EFC). Through EFC, OCIC owns a 20% stake in Notore Fertilizers, a Nigerian company. In addition, OCIC owns 60% of Egyptian Basic Industries Company (EBIC), another Egyptian fertiliser manufacturer. A third fertiliser plant, Sorfert, is underway in Algeria, to be launched in 2H10, whilst OCIC has also acquired a 20% stake in Gavilon, a US fertiliser distribution company. OCIC is reported to also have considered a DAP/MAP (phosphate fertilisers) project in either Algeria or Morocco.

Ownership Structure	
Sawiris Family	56.0%
Free Float	44.0%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Leveraging a wide reach

- **Firm fertilizer prices reflecting positively on fertilizer LoB**
- **Contracting business may rebound alongside MENA rebuilding plans.**
- **Possible M&As facilitated by strong cash position**

The fertilizer line of business (LoB) showed outstanding performance throughout 2011, and we expect that it will continue its strong showing in 2012 following our expectations for a marginal increase in fertilizer prices. Meanwhile, the contracting LoB may start to gear up alongside infrastructure rebuilding plans throughout the MENA region. This is signalled by the boost in the company's backlog in 3Q11, its secondincrease after six consequtive quarters of declining balances. Further, the company had a cash balance of c.USD1.6bn at the end of September 2011, facilitating any potential M&A process.

2011 Review

The fertilizers LoB was a high-performer in 2011, and the contracting LoB started to pick up, as evident in the company's backlog, which increased twice during 2011, to record c.USD6bn. Fertilizers prices followed our YoY increased expectations, while the contracting LoB's backlog started building mid-2011 after having dropped over the previous six quarters from 4Q09 to 1Q11. Building on 2010 acquisitions, OCI acquired a US manufacturing fertilizer company, in a deal through OCI Nitrogen, a 100% owned subsidiary of OCI. The firm currently conducts operations in Europe, North Africa, Far East Asia, and most recently, the US. After sealing successful loan deals, OCI had a cash balance of c.USD1.6bn at end of 3Q11.

2012 Preview

OCI looks to be holding steady for the coming year. We believe rising nitrogen fertilizer prices bode well for OCI's performance in 2012 – especially in light of its fixed natural gas costs and growing global manufacturing and distribution network. Moreover, the growing numbers of infrastructure projects in the MEA region and Eastern Asia should add to the firm's backlog, which is expected to grow by an 8% CAGR over 2011-15. OCI's large cash position should facilitate any potential acquisitions, and the company's investment income, which is generated from its ownership in a number of fertilizer and contracting companies, may make an increasing contribution to its consolidated net income over the coming period.

Valuation & Recommendation

OCI's management is likely to leverage its geographically-diverse business model in order to tap global opportunities for both the fertilizer and contracting segments. Our current rating is Strong Buy with a LTFV of EGP377/share and a TP of EGP294/share.

Orascom Construction Industries (OCIC)

OCIC | USDmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	1,654.6	1,267.4	1,011.7	891.9	1,087.1	1,141.6
Current Assets	3,681.3	3,604.0	3,759.1	8,244.6	8,734.7	8,898.1
Total Assets	7,823.1	8,574.0	9,491.0	14,645.1	15,102.3	15,258.0
Current Liabilities	2,553.7	2,519.4	3,152.3	8,390.5	8,843.6	9,213.6
Total Debt	2,077.3	2,477.7	2,981.3	5,720.1	6,014.4	6,060.5
Net Debt	422.7	1,210.3	1,969.6	4,828.2	4,927.4	4,918.9
Total Liabilities	4,167.2	4,962.2	5,573.1	10,681.8	11,077.6	11,192.6
Shr Equity (Book Value)	3,155.6	2,899.9	3,079.7	3,431.4	3,453.0	3,453.0
Minority Interest	41.2	127.2	178.9	60.7	83.4	105.5
Provisions	459.1	584.7	659.3	471.3	488.3	506.9
Total Liabilities & Equity	7,823.1	8,574.0	9,491.0	14,645.1	15,102.3	15,258.0
Income statement						
Revenue	3,717.1	3,818.7	4,896.0	5,394.0	6,556.9	6,946.7
COGS	-2,610.2	-2,787.2	-3,439.6	-3,540.4	-4,081.3	-4,436.9
Gross Profit	1,106.9	1,031.5	1,456.4	1,853.6	2,475.7	2,509.8
EBITDA	881.2	791.9	1,086.6	1,444.8	2,003.3	2,005.4
EBIT	747.1	609.3	827.9	1,243.3	1,729.6	1,713.1
Int. Income	124.2	20.4	18.4	10.7	14.2	15.5
Int. Expense	-122.7	-107.6	-120.4	-217.0	-150.8	-128.1
PBT	839.6	545.2	796.6	1,072.2	1,653.7	1,666.7
NPAT	733.9	459.1	648.2	841.1	1,288.9	1,303.1
Net Income	985.0	434.2	594.2	722.6	1,046.0	1,054.7
Normalised Net Income	719.8	434.2	594.2	722.6	1,046.0	1,054.7
Ordinary Dividends	214.8	372.5	417.9	361.3	523.0	527.4
Cash Flow Summary						
COPAT	839.5	650.4	988.5	1,058.7	1,407.1	1,405.4
FCFF	13,272.6	-386.1	16.9	-1,848.9	1,025.9	1,134.9
Change in Cash	808.6	-418.9	-117.7	-372.2	96.8	74.2
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	4.76	2.10	2.87	3.49	5.05	5.10
EPS (Normalised) (EGP)	3.48	2.10	2.87	3.49	5.05	5.10
Dividend Per Share	1.04	1.80	2.02	1.75	2.53	2.55
Book Value Per Share	15.25	14.01	14.88	16.58	16.69	16.69
Valuation						
PER (Basic) (x)	7.64	17.34	12.67	10.42	7.20	7.14
PER (CICR) (x)	10.46	17.34	12.67	10.42	7.20	7.14
PBV (x)	2.39	2.60	2.45	2.19	2.18	2.18
Dividend Yield (%)	2.85	4.95	5.55	4.80	6.95	7.00
Earnings Yield (%)	13.08	5.77	7.89	9.60	13.89	14.01
EV/Revenue (x)	2.15	2.32	1.98	2.30	1.91	1.81
EV/EBITDA (x)	9.07	11.20	8.91	8.60	6.26	6.26
Market Capitalisation (USDmn)	7,529.9	7,529.9	7,529.9	7,529.9	7,529.9	7,529.9
Enterprise Value (USDmn)	7,993.8	8,867.4	9,678.4	12,418.8	12,540.7	12,554.4
Profitability						
ROE (%)	31.21	14.97	19.29	21.06	30.29	30.55
ROA (%)	12.59	5.06	6.26	4.93	6.93	6.91
Asset Turnover (x)	0.48	0.45	0.52	0.37	0.43	0.46
EBITDA Margin (%)	23.71	20.74	22.19	26.79	30.55	28.87
Liquidity						
ND/Equity (x)	0.13	0.42	0.64	1.41	1.43	1.42
ND/EBITDA (x)	0.48	1.53	1.81	3.34	2.46	2.45

Source: Company Financials & CICR Database

CAPITAL RESEARCH
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El Sewedy Electric

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Egypt Book 2011/12 | Fertilisers & Industries

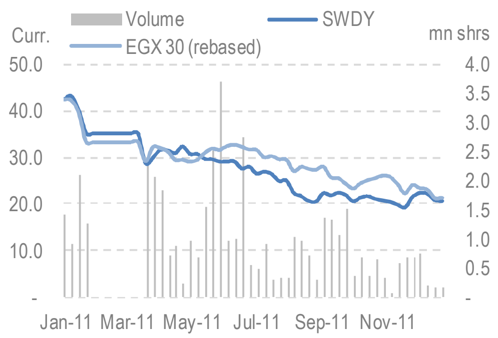
Industries

Buy

TP - EGP 25.2 | 14.2% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Buy/Moderate
Target Price/LTFV (EGP)	25.2 / 32.5
Last Price (EGP)	22.07
52 Week High	41.92
52 Week Low	17.48
6M Av. Daily Vol. (000' shrs)	129.18
% Chg: MoM / 6M / YoY	1.9 / -18 / -45.4
No. of Shares (mn)	223.42
Mkt. Cap (EGPmn)	4,930.84
Mkt. Cap (USDmn)*	816.36
Free Float (%)	25.00
Paid in Capital (EGPmn)	1,718.60
Reuters / Bloomberg	SWDY.CA / SWDY Ey Equity
ISIN	EGS3G0Z1C014

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

El Sewedy Electric [SWDY] – formerly El-Sewedy Cables – is an Egyptian joint stock company, established under Investment Incentives & Guarantees Law No. 8/1997. El Sewedy was listed in the Commercial Register in June 2005. Its business model has evolved to encompass 4 segments: wire & cables, electrical devices, turnkey projects, wind energy.

These 4 business lines offer customers a host of energy-related products and services. SWDY's wire & cables segment offers power cables, overhead conductors and optical ground wires, supported by a raw materials sub-segment that ensures feedstock availability and enhances profit margins. The electrical device line of business has two sub-segments: measuring devices and transformers. The turnkey projects segment, meanwhile, is involved in project design and management and provides a one-stop shop service for electricity-related projects. SWDY has recently ventured into wind energy in order to capitalize on the increase in global demand for green energy.

Ownership Structure

El Sewedy Family	72.7%
Free Float	25.0%
Hassan A Sallam	2.3%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Business opportunities amidst Arab Spring

- **Management reviewing business model to meet demands of politically-reshaped MENA region while securing operating assets.**
- **Looking for wind energy business opportunities in the MEA region.**
- **With EGP1bn cash position as of Sep 30, M&A activity is possible.**

SWDY's business model is under review as management searches for ways to dodge the negative side-effects of the Arab Spring. Recent expansions outside the Arab region may benefit company's operations, especially on the wire & cable front, while the company's turnkey LoB may turn out to be the black horse, with a number of contracting projects in the pipeline for the MEA region. Finally, wind energy should see significant attention from management in the pursuit of new projects.

2011 Review

SWDY's operations in 2011 depended heavily on its turnkey and wire & cable lines of business (LoB).On the core operations front, the wire & cables LoB was positively affected by the decrease in copper prices, which also positively affected interest expense following the decline in segment's working capital requirements. During the Arab Spring, the firm's management is flexing its business model to address the ever-changing demands of the regional unrest. Early in 2011, SWDY put its Libyan investments on indefinite hold and pulled out of Yemen, while maintaining its Syrian presence to date. In the wind LoB, the company has made proposals to several governments, including Ethiopia, to invest in wind farms. Investment tickets were in the vicinity of USD200-300mn; however, they are still under review.

2012 Preview

We believe that SWDY's operations might continue to focus on the existing activities of the turnkey and wire & cables LoBs over the short term, with possible prospects for the wind segment. We also expect North African countries to undertake reconstruction plans, which could hold a number of opportunities, building the backlog for the turnkey LoB. On the GCC front, we expect that the company's Qatari subsidiary might pave the way for SWDY's wire & cable LoB. Also, African countries have made several alternative energy arrangements, including several offerings to supply wind tools and manage wind operations, which could benefit SWDY's wind energy LoB initiative there. Meanwhile, we trust the company's management will continue to restructure its electrical devices segment.

Valuation & Recommendation

We believe that company's management is setting a high level strategy to deal with the Arab Spring. Further, the company's segmental nature provides with with a logistical advantage and may enable it to leverage on its extensive footprint within the MEA region. We remain confident in SWDY's business model, and our current LTFV is EGP32.5/share and TP of EGP25.2/share, while our current rating is Buy.

Financial Statements

El Sewedy Electric (SWDY)

SWDY | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	1,318.4	1,026.7	1,569.1	935.5	1,444.9	1,204.7
Current Assets	7,191.6	6,737.0	9,667.0	7,411.4	9,371.6	10,703.7
Total Assets	10,433.0	11,362.6	13,944.2	11,505.9	13,175.3	14,195.9
Current Liabilities	5,222.5	5,439.4	7,237.8	3,832.7	5,179.6	5,934.2
Total Debt	4,845.2	4,613.1	5,838.4	3,008.8	4,041.3	4,535.6
Net Debt	3,526.8	3,586.4	4,269.3	2,073.3	2,596.4	3,330.9
Total Liabilities	6,116.7	6,620.6	8,422.1	4,936.0	6,052.0	6,462.0
Shr Equity (Book Value)	3,669.5	4,211.8	4,846.1	5,880.1	6,419.2	7,014.1
Minority Interest	368.1	371.8	495.2	509.0	523.3	539.0
Provisions	221.2	94.7	71.8	71.8	71.8	71.8
Total Liabilities & Equity	10,433.0	11,362.6	13,944.2	11,505.9	13,175.3	14,195.9
Income statement						
Revenue	11,445.9	9,290.7	12,902.0	14,942.2	15,637.8	18,932.6
COGS	-9,785.1	-7,555.2	-10,635.1	-12,943.9	-13,300.9	-15,857.0
Gross Profit	1,660.7	1,735.5	2,266.9	1,998.3	2,336.9	3,075.6
EBITDA	1,234.0	1,035.0	1,363.1	1,295.9	1,549.3	1,936.0
EBIT	956.3	806.5	1,084.0	957.2	1,175.3	1,525.9
Int. Income	25.8	14.8	57.3	0.0	0.0	0.0
Int. Expense	-233.0	-195.3	-233.5	-242.0	-344.8	-587.3
PBT	915.8	664.5	907.8	715.2	830.5	938.5
NPAT	896.9	630.7	816.6	678.8	705.9	779.0
Net Income	828.4	633.6	795.5	661.3	687.7	758.8
Normalised Net Income	828.4	633.6	795.5	661.3	687.7	758.8
Ordinary Dividends	144.9	29.0	703.6	142.9	148.6	163.9
Cash Flow Summary						
COPAT	968.2	889.6	1,240.5	1,274.2	1,406.4	1,756.3
FCFF	-2,257.0	819.9	-854.1	1,669.4	-49.8	96.8
Change in Cash	-4,169.8	-199.7	-1,578.7	1,594.8	-842.3	-968.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	3.71	2.84	3.56	2.96	3.08	3.40
EPS (Normalised) (EGP)	3.71	2.84	3.56	2.96	3.08	3.40
Dividend Per Share	0.65	0.13	3.15	0.64	0.66	0.73
Book Value Per Share	16.42	18.85	21.69	26.32	28.73	31.39
Valuation						
PER (Basic) (x)	5.95	7.78	6.20	7.46	7.17	6.50
PER (CICR) (x)	5.95	7.78	6.20	7.46	7.17	6.50
PBV (x)	1.34	1.17	1.02	0.84	0.77	0.70
Dividend Yield (%)	2.94	0.59	14.27	2.90	3.01	3.32
Earnings Yield (%)	16.80	12.85	16.13	13.41	13.95	15.39
EV/Revenue (x)	0.77	0.96	0.75	0.50	0.51	0.46
EV/EBITDA (x)	7.15	8.59	7.11	5.80	5.20	4.55
Market Capitalisation (EGPmn)	4,930.8	4,930.8	4,930.8	4,930.8	4,930.8	4,930.8
Enterprise Value (EGPmn)	8,825.8	8,889.0	9,695.4	7,513.1	8,050.5	8,800.8
Profitability						
ROE (%)	22.58	15.04	16.42	11.25	10.71	10.82
ROA (%)	7.94	5.58	5.71	5.75	5.22	5.35
Asset Turnover (x)	1.10	0.82	0.93	1.30	1.19	1.33
EBITDA Margin (%)	10.78	11.14	10.56	8.67	9.91	10.23
Liquidity						
ND/Equity (x)	0.96	0.85	0.88	0.35	0.40	0.47
ND/EBITDA (x)	2.86	3.46	3.13	1.60	1.68	1.72

Source: Company Financials & CICR Database

Food & Beverage

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Egypt Book 2011/12 | Sector Review

EAST | Hold

SUGR | Hold

January 26, 2012

Still unscathed

- **Solid performance amidst depressed spending levels.**
- **Rising raw materials cost stemming from higher beet procurement prices. and a depreciated local currency weighs on margins.**
- **Instability and security issues impact supply.**

While most sectors have been hit by the political unrest in 2011, Food and Beverage has remained resilient. Our focus is on Sugar and Tobacco – both of which showed growth in 2011. Ex factory sugar prices increased 22% YoY to EGP4,345/ton – partially offsetting the 25% increase in beet procurement price. Margins are estimated to decline in 2011 with Delta Sugar's [SUGR] (the largest sugar beet producer) EBITDA margin down to 32% from 36.3% in 2010. Egypt's tobacco industry meanwhile – dominated by Eastern Company [EAST] – has proven immune to the current instability. EAST's net sales increased 2.4%YoY in FY10/11 – driven by higher prices and the inelastic demand characteristic of tobacco. Though margins improved with the shift to high-margin foreign brands (as the price gap between local and foreign cigarettes brands narrowed), EAST's EBITDA margin remained below its 3-year average of 30.7%. In 2012, we believe both sugar and tobacco will deliver strong performances – even with the depressed growth in private spending and ongoing political instability. That said, SUGR's margins are likely to fall given the higher beet procurement price and fixed levels of sugar selling price. Tobacco will sustain market growth in addition to the newly introduced pricing amendments which will add to market size in terms of value. However, smuggled cigarettes are expected to continue gaining market share given the poor levels of security.

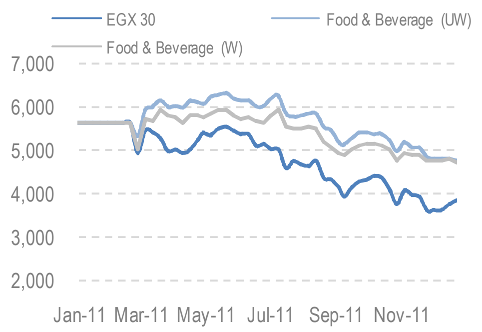
Review 2011

The Food & Beverage sector experienced overall price rises in 2011 despite lower volumes. For sugar, ex-factory selling prices of local public beet producers were fixed throughout 2011 at EGP4,345/ton, a 22% YoY increase. Similarly, the GoE raised the sales tax on cigarettes, driving final cigarettes prices up 20% YoY on average. This followed the price increase introduced on nine local brands accounting for a market share of almost 30%. The reduced price gap between prices of local and foreign cigarettes brands meanwhile drove consumers to shift to high-margin foreign brands, thus increasing foreign brands' market share by 340bps YoY to 27%.

Preview 2012

Given an expected surplus of 4.5mn tons of sugar in the global market, We expect local sugar prices to gradually drop below their current level of EGP4,850/ton to average EGP4,345/ton in 2012, representing a flat YoY growth for public sugar beet producers' selling price. Meanwhile, with local sugar beet producers raising beet procurement prices by 11% YoY for the 2012 season margins will be depressed. Tobacco is expected to see sustained market growth, backed by the defensiveness of the industry. Moreover, new amendments introduced to pricing will add to market size in terms of value. However, a maintained sub-standard level of security will expand the market share of smuggled cigarettes.

Food & Beverage | 52 Wk Performance*



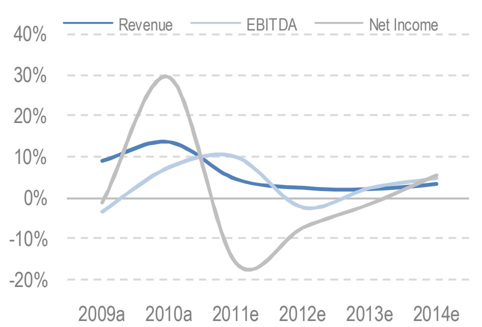
Sector Growth Drivers

- Strong population base with a sizeable youth bracket.
- The sector's defensive nature supports its solid performance.
- Low cost-base environment.

Sector Risks

- Rising raw material costs.
- FX rate fluctuations – as the local currency is expected to further depreciate which will increase the cost of raw materials.
- Further unrest could impact both market forces – supply and demand.

KPIs | 2009-14e†



*Comprises all sector stocks constituting CI Capital 100 Index; † Aggregate of CI Capital Research covered stocks.

Sugar

2011 Review

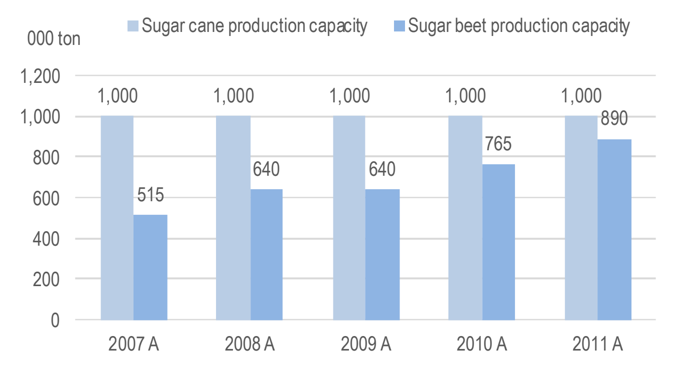
Sugar beet production capacities increased 16%YoY in 2011 to 890k tons per annum

In 2011, annual sugar beet production capacities maintained their double-digit growth for the second year in a row, reaching 890k tons, while sugar cane capacities sustained their previous levels of 1mn tons.

Dakahlia Sugar now stands at par with SUGR in terms of annual production capacity

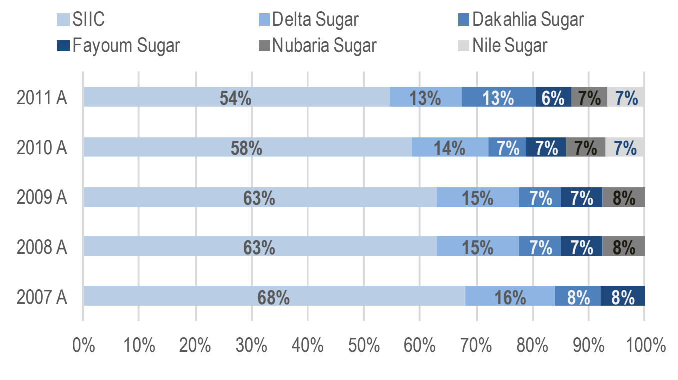
Sugar & Integrated Industries Company (SIIC) – the country's sole sugar cane producer – has the leading market share of 54% of the total sugar market. Though [SUGR] has been historically ranked second in the aggregate sugar market and the leading sugar beet producer, this year the operation of Dakahlia Sugar's second production line brought it on equal footing with SUGR in terms of annual production capacity.

Figure 7.1 | **Local Cane & Beet Production Capacity (2007A- 11A)**



Source: CI Capital Research Database

Figure 7.2 | **Local Production Capacity by Company (2007A- 11A)**

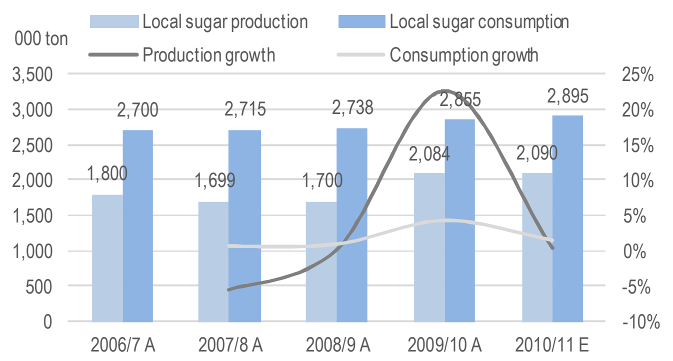


Source: CI Capital Research Database

Local production still falls short of the market needs

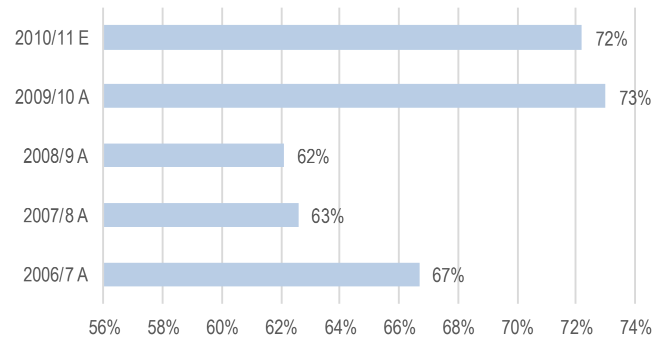
Unlike 2010, local production saw only meager gains, increasing by less than 1%. That said, 2010 was an exceptional year, as yield per feddan improved and the allocated area of beet cultivation expanded. Accordingly, local production coverage jumped to 73%, up from 62% a year earlier. Local production is estimated to maintain the same contribution in 2011, according to CI Capital estimates. There is no plan to expand sugar production capacity; especially after SUGR's expansion has been put on hold given its failure to purchase a land plot to establish its new factory. The deficit is mainly satisfied through imported raw sugar to be refined at local sugar producers' factories during the off-season production, which runs from July to December. At present, Saudi-based Savola Group operates a refining factory through its subsidiary United Sugar Company with an annual production capacity of 750,000 tons producing "Al-Osra" sugar, while the Industrial Development Authority (IDA) invited companies last August to participate in the construction of a sugar refining project located in Port Said governorate. The refining companies would then import raw sugar to refine at their factories.

Figure 7.3 | **Local Production & Consumption (2006/7A- 10/11E)**



Sugar marketing year runs from Oct-Sept. Source: www.sugaronline.com

Figure 7.4 | **Local Production Coverage (2006/7A-10/11E)**



Source: www.sugaronline.com

Selling prices jumped by double-digit in line with international prices

Movements in international prices naturally influence those in the local market. In 2011 international sugar prices soared 15% YoY to average USD707/ton vs. USD616/ton in 2010. Prices rallied at the beginning of the year, reaching high levels averaging USD751/ton in 1Q11 on fears of tightening global supply in 2010/11 ended September. However, prices have gradually been declining to average USD672/ton in 2Q11, following India's export release into the market with the intention to allow for additional exports at a later stage. On the other hand, Brazil's expected lower production in addition to its delayed shipments pushed prices upward during July. Since then, prices have been cooling down following the International Sugar Organization (ISO)'s forecast of a surplus of 1.2mn tons of sugar in 2010/11 in addition to its forecasted surplus of 4.5mn tons of sugar in 2011/12. It is worth highlighting that Brazil and India are considered the largest world's sugar producers, together accounting for 39% of total world's sugar production in 2010/11. Meanwhile, Brazil and Thailand jointly accounted for 62% of total world's sugar exports in 2010/11. Accordingly, ex factory local sugar selling prices rallied by +22%YoY to EGP4,345/ton (net of sales tax) in 2011. Public sugar beet producers agreed to sell their 2011 sugar production to The Holding Company for Food Industries (HCFI) at a fixed ex factory price of EGP4,345/ton. The latter sold sugar at EGP4,500/ton. However, in September, HCFI raised its sugar selling price by EGP500/ton to EGP5,000/ton due to higher international prices and the need to import sugar to satisfy the deficit. However, public sugar beet producers did not benefit from said price increase, given their agreement with HCFI. Later, in December, the latter reduced its sugar selling price to EGP4850/ton, in line with declining international prices.

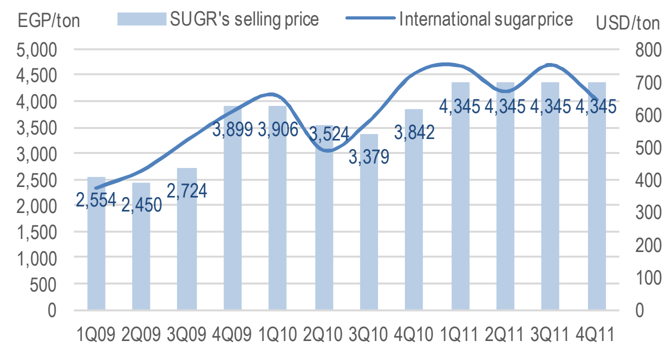
Yet higher beet procurement prices depressed margins

Though high selling prices supported a strong top line, yet the farmers' heightened bargaining power – as local sugar beet producers do not own cultivated land – allowed them to raise beet procurement price to EGP350/ton from the initial contracted price of EGP280/ton for 2011 season. This is estimated to reduce margins in 2011, as SUGR's EBITDA margin is estimated at 32% vs. 36.3% a year ago.

Figure 7.5 | **Global Sugar Surplus (Deficit) (2008/09A- 11/12E)**

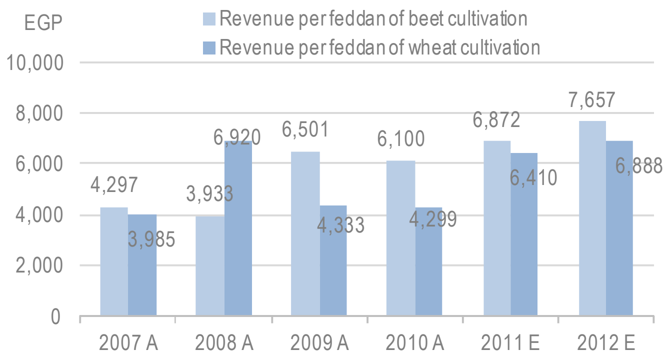
*Sugar marketing year runs from Oct-Sept. Source: Source: www.sugaronline.com

Figure 7.6 | **International Sugar Price vs. SUGR's Selling Price (1Q09A- 3Q11A)**



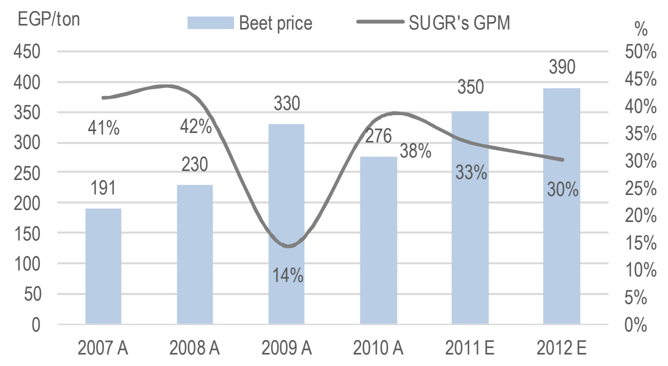
Source: Delta Sugar & www.sugaronline.com

Figure 7.7 | **Revenue/feddan wheat vs. beet cultivation (2007A-12E)**



Source: CI Capital Research Database

Figure 7.8 | **Beet price vs. SUGR's Gross Profit Margin (GPM) (2007A- 12E)**



Source: Delta Sugar & CI Capital Research Database

Figure 7.9 | **Key Developments 2011**

Date	Event	Impact
January	Local sugar beet producers' agreement to sell their 2011 production to HCFI at EGP4,345/ton.	**Positive for local sugar beet producers.** The contracted price is 22% higher YoY.
February	Local sugar beet producers responding to farmers' protests to raise beet price to EGP350/ton for 2011 season up from the initial contracted price of EGP280/ton.	**Negative for local sugar beet producers.** Compared to SUGR's EBITDA margin of 40.8% using the initial contracted beet price, we expect SUGR's EBITDA margin to drop to 32% after accounting for the increase in beet costs in 2011.
February	Extension of exemption of cash cover requirement on sugar imports till the end of 2011.	**Neutral for local sugar producers.** The decision aims to ease importing sugar to satisfy the deficit in the market. The imports do not impose a threat to local producers given higher cost of imported sugar than local prices.
September	Raising beet procurement price 11% YoY to average EGP390/ton for 2012 season.	**Negative for local sugar beet producers.** Given higher beet costs, we expect SUGR's EBITDA margin to decline to 28.8% in 2012 down from 32% in 2011.

September	HCFI raising sugar selling price from EGP4,850 to EGP5,000/ton.	**Neutral for local sugar beet producers.** Local sugar beet producers contracted to sell 2011 sugar production to HCFI at EGP 4,345/ton throughout the year to HCFI. Thus, they do not benefit from the increase in price.
December	HCFI reducing sugar selling price fromEGP5,000/ton to EGP4,850/ton.	**Neutral for local sugar beet producers.** Local sugar beet producers contracted to sell 2011 sugar production to HCFI at EGP 4,345/ton throughout the year to HCFI. Thus, they are unaffected by the decrease in price.

2012 Preview

Higher beet cost and stable selling prices weigh heavily on margins

Given an expected surplus of 4.5mn tons of sugar in the global market for 2011/12 season, we expect international sugar prices to cool down and local prices to follow suit. Local sugar prices currently stand at EGP4,850/ton since December 2011. Yet, public sugar beet producers were not allowed to sell at this price given their agreement with the HCFI to fix their selling prices at EGP4,345/ton throughout 2011. We expect local sugar prices to gradually drop below their current level of EGP4,850/ton to average EGP4,345/ton in 2012, representing a flat YoY growth for public sugar beet producers' selling price. Meanwhile, local sugar beet producers raised beet procurement price by 11% YoY to average EGP390/ton for 2012 season. Farmers will be motivated to cultivate beet rather than its competing wheat crop given an 11% higher revenue in favor of beet cultivation compared to wheat.

Tobacco

2011 Review

Rising share of foreign brands

The Egyptian tobacco industry is dominated by Eastern Company [EAST], the country's sole tobacco producer, with toll manufacturing for international manufacturers such as Philip Morris and British American Tobacco. Although prices of foreign brands sell at almost double that of the local brands, market share of the former reached almost 27% in June 2011, up from 16% in June 2008. On the water pipe tobacco front, Eastern Company dominates almost 50% of the market, while the remainder is picked up by other players.

Resilient performance amidst instability

Backed by its defensiveness, tobacco consumption came through the prevailing instability in the local market unscathed. The size of the local cigarette market in terms of volumes has been distorted in FY10/11 (ended June 2011), dropping to 79bn cigarettes compared to 84.5bn cigarettes in FY09/10 (ended June 2010). Last year sold volumes were exceptionally high as a result of the two-month stock piling that took place ahead of the sales tax increase imposed in July 2010. However, the size of the market in terms of value increased slightly in FY10/11 (ended June 2011) due to the price-increase introduced on nine local brands (which hold almost 30% market share) in late May 2011, the three-week stockpiling that took place in June 2011 ahead of the recent increase in sales tax, and amendments to the toll manufacturing agreement with Philip Morris.

Figure 7.10 | **Cigarettes market (FY07/08-FY10/11)**

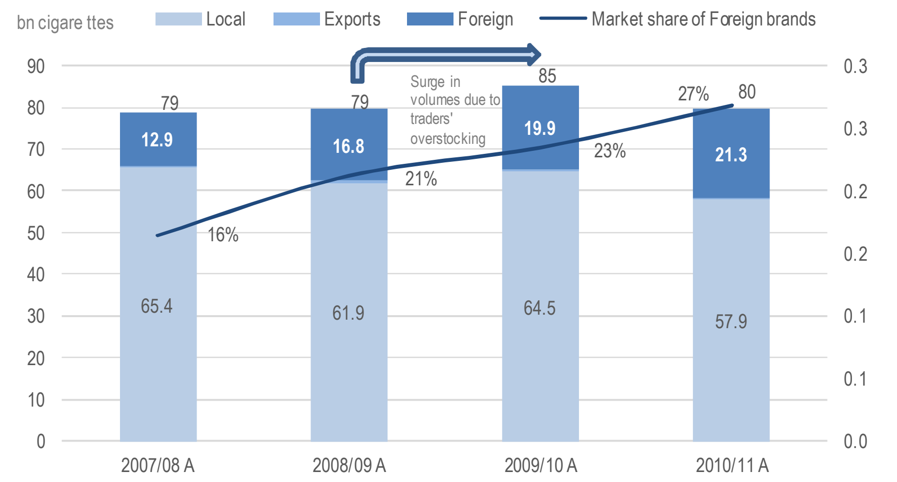


*Figure excludes smuggled and imported cigarettes; Source: Eastern Company (EC)

Higher taxes drove up final cigarette prices 20%YoY & shifted demand to high-margin foreign brands

In late June 2011, the GOE raised the sales tax on cigarettes, driving final cigarette prices up 20% YoY on average. The reduced price gap between prices of local and foreign cigarettes brands drove consumers to shift to the high-margin foreign brands, thereby increasing foreign brands' market share 340bps YoY in FY10/11 to 27%.

Lack of security increased smuggling

Given the current lack of security in Egypt, smuggled cigarettes from China, Jordan, and the UAE are increasing their presence in the local market. This is driven by the price differential, as smuggled cigarettes sell for EGP4-5.4/pack, while prices of Eastern Company's local brands range from EGP5.25-6.25/pack.

Figure 7.11 | **Key Developments 2011**

Date	Event	Impact
May	Raising prices of nine local brands	Said price increase is estimated to add almost 1.6% to Eastern Company's top line revenues (market size) given the 30% market share of these brands.
June	Increase in sales tax on local and foreign brands	Three-week stock piling in anticipation of the sales tax increase that was effective late June 2011.
July	Revision of the toll manufacturing agreement with Philip Morris & British American Tobacco	Eastern Company estimates that this should add almost EGP50mn annually (1% to top line). We expect this to add 6% to FY11/12E earnings.
December	Revision of the toll manufacturing agreement with British American Tobacco	Eastern Company estimates that this should add almost EGP50.3mn annually to top line starting January 2012, adding almost 0.5% to FY11/12E top line. We expect this to add 2.4% to FY11/12E earnings.

2012 Preview

The segment will still see growth

Sustained top-line growth is likely, backed by the defensiveness of the industry, and new amendments introduced to pricing will add to market size (in terms of value). Due to the lack of supervision, however, smuggled cigarettes have gained market share and are expected to remain as such until the return of improved security.

Sector Summary

Food & Beverage - SWOT Analysis	
Strengths	**Weakness**
• Defensive sector with inelastic demand. • Sizeable population base with wide tranche of youth population (45% of population below the age of 45). • Egyptians spend c.39% of their household spending on Food and Beverage.	• Farmers' strong bargaining power in raising beet price weighs on beet producers margins. • Higher costs of tobacco leaves amid rigid prices lead to pressured margins
Opportunities	**Threat**
• Annual population growth by 2% fueling demand for sugar. • Sugar supply/demand gap in the domestic market encouraging expansion of industry production capacities. • Low health awareness stimulating tobacco demand.	• Continuous struggle between beet and wheat playing a key role to determine cultivated areas in any given season and thus production volume. • Anti smoking campaigns in Egypt. • Depreciation of the local currency will further increase the cost of imports.

Source: CI Capital Research

Eastern Company

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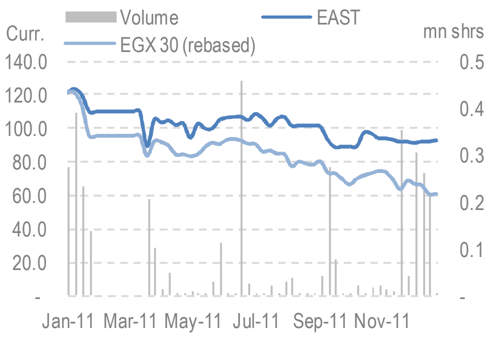
Egypt Book 2011/12 | Consumer Staple
Food & Beverage
Hold
TP - EGP 106 | 15.2% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/Moderate
Target Price/LTFV (EGP)	106 / 106
Last Price (EGP)	92.00
52 Week High	122.95
52 Week Low	81.01
6M Av. Daily Vol. (000' shrs)	14.84
% Chg: MoM / 6M / YoY	0 / -12.4 / -23.2
No. of Shares (mn)	50.00
Mkt. Cap (EGPmn)	4,600.00
Mkt. Cap (USDmn)*	761.59
Free Float (%)	44.29
Paid in Capital (EGPmn)	750.00
Reuters / Bloomberg	EAST.CA / EAST Ey Equity
ISIN	EGS37091C013

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Eastern Company (EC) is a state monopoly tobacco producer with a 73% local market share for its own branded portfolio (as of June 2011). This balance is catered through EC's toll manufacturing for foreign producers like Philip Morris (PM), British American Tobacco (BAT). EC operates 20 factories in Giza, Talbeya, Alexandria, Monouf, Tanta, and Assuit. Currently, EC is establishing a new integrated industrial complex in the Sixth of October City over an area of 357 acres. The total estimated investment cost of this complex is EGP5.5bn.

EC's major raw material is imported tobacco leaf, which represents about 60% of EC's total cost. Forbidden by law from growing tobacco in Egypt, EC imports all its needs of tobacco leaves from COMESA, China, India, Europe and Brazil.

Ownership Structure	
Holding Co. for Chemical Industries	55.0%
Free Float	32.4%
Lazard EM Equity Portfolio	6.8%
Employee Shareholders' Association	5.5%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Defensive but pressured

- **Inelastic demand for cigarettes.**
- **Growing population & low health awareness the driving forces behind growth in the local tobacco industry.**
- **Fluctuations in tobacco prices combined with devaluation of EGP raises production costs.**

EAST's operational performance continues to remain sheltered from instability in the local market. Despite high lease costs and increasing operational expenses, EAST posted double-digit EBITDA growth in its FY10/11 financials. This was driven largely by an increasing market share of high-margin foreign brands. EAST amended the toll manufacturing agreements with Philip Morris and British American Tobacco, which should add both to the company's revenues and earnings. The new industrial complex will start full operations in June 2012, after which margin improvement should be considered on utilization of cost saving techniques. EAST is studying the suitable utilization of the potential vacant land through selecting between either a partnership with investors or offering the land for a 25-year usufruct agreement.

2011 Review

Revenues rose 2.4% in FY10/11, driven by cigarette stockpiling ahead of the average 20% sales tax increase introduced late June 2011, raised prices for 9 local brands in late May 2011, and the amendment of the toll manufacturing agreement with Philip Morris. These were in turn coupled with 300bps EBITDA margin improvement due mostly to the growing market share of foreign brands. The reduced price gap between prices of local and foreign cigarettes brands drove consumers to shift to high-margin foreign brands. The company meanwhile saw a 26% drop in earnings, mainly due to minimal reversed provisions of EGP3.3mn vs. EGP225mn a year ago. Excluding the reversed provisions in both respective years, normalized earnings would show an almost 1% increase YoY.

2012 Preview

Amendments to the toll manufacturing agreement with Philip Morris and lately with British American Tobacco are expected to add EGP100.3mn annually to revenues, as well as an annual cost savings of EGP17mn. This is expected to add 1.7% to revenues and 9% to after tax earnings in FY11/12. Also, the growing size of Egyptian smuggled cigarettes to Libya and Gaza is expected to somehow offset competition faced in the local market from smuggled cigarettes that sell below local brand prices. Still the high lease and financial expenses coupled with the new increase in income tax rate might partially pressure the FY11/12 earnings.

Valuation & Recommendation

Sustainable top line growth is a key for EAST's operational performance. However, it should be muted by cost pressures arising from high lease and interest expenses, which are no longer offset by reversed provisions (previously formed to offset the lease burden). We thus expect mild earnings growth in the coming period. Our LTFV and target price is EGP106/share and our recommendation is Hold.

Financial Statements

Eastern Company (EAST)

EAST | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	224.1	419.6	528.5	459.1	347.0	492.8
Current Assets	2,303.7	2,886.4	3,283.4	3,642.2	3,403.9	3,431.4
Total Assets	5,693.6	6,811.7	8,420.5	9,385.6	9,441.6	9,468.6
Current Liabilities	2,422.9	2,361.0	2,775.0	3,949.5	3,952.7	3,995.6
Total Debt	538.4	672.2	1,575.7	1,605.4	1,390.8	1,110.5
Net Debt	314.2	252.6	1,047.2	1,146.3	1,043.8	617.7
Total Liabilities	2,422.9	3,068.9	4,315.2	5,413.2	5,135.1	4,897.8
Shr Equity (Book Value)	2,667.2	3,079.9	3,667.1	3,537.4	3,871.4	4,210.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	603.5	662.9	438.2	435.1	435.1	360.1
Total Liabilities & Equity	5,693.6	6,811.7	8,420.5	9,385.6	9,441.6	9,468.6
Income statement						
Revenue	3,818.9	3,967.0	4,274.1	4,374.9	4,575.4	4,721.5
COGS	-2,633.1	-2,658.7	-3,211.0	-3,141.3	-3,320.5	-3,393.5
Gross Profit	1,185.8	1,308.3	1,063.1	1,233.6	1,254.9	1,328.0
EBITDA	1,130.3	1,252.5	985.2	1,140.7	1,167.0	1,237.3
EBIT	949.4	1,052.8	804.1	905.0	914.1	942.7
Int. Income	12.6	2.9	1.2	1.0	0.1	0.1
Int. Expense	-28.2	-6.5	-32.3	-99.8	-122.5	-138.2
PBT	932.4	1,018.5	994.6	782.8	809.1	821.9
NPAT	751.3	830.4	850.4	631.9	607.3	616.9
Net Income	751.3	830.4	850.4	631.9	607.3	616.9
Normalised Net Income	683.6	785.2	598.4	601.8	607.3	616.9
Ordinary Dividends	350.0	225.0	275.0	300.0	273.3	277.6
Cash Flow Summary						
COPAT	1,494.9	1,042.3	984.5	1,691.8	965.3	1,032.4
FCFF	-264.0	401.9	-500.0	404.6	605.7	897.6
Change in Cash	-155.6	195.5	108.9	-69.4	-112.0	145.8
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	15.03	16.61	17.01	12.64	12.15	12.34
EPS (Normalised) (EGP)	13.67	15.70	11.97	12.04	12.15	12.34
Dividend Per Share	7.00	4.50	5.50	6.00	5.47	5.55
Book Value Per Share	53.34	61.60	73.34	70.75	77.43	84.21
Valuation						
PER (Basic) (x)	6.12	5.54	5.41	7.28	7.57	7.46
PER (CICR) (x)	6.73	5.86	7.69	7.64	7.57	7.46
PBV (x)	1.72	1.49	1.25	1.30	1.19	1.09
Dividend Yield (%)	7.61	4.89	5.98	6.52	5.94	6.03
Earnings Yield (%)	16.33	18.05	18.49	13.74	13.20	13.41
EV/Revenue (x)	1.29	1.22	1.32	1.31	1.23	1.11
EV/EBITDA (x)	4.35	3.87	5.73	5.04	4.84	4.22
Market Capitalisation (EGPmn)	4,600.0	4,600.0	4,600.0	4,600.0	4,600.0	4,600.0
Enterprise Value (EGPmn)	4,914.2	4,852.6	5,647.2	5,746.3	5,643.8	5,217.7
Profitability						
ROE (%)	28.17	26.96	23.19	17.86	15.69	14.65
ROA (%)	13.20	12.19	10.10	6.73	6.43	6.52
Asset Turnover (x)	0.67	0.58	0.51	0.47	0.48	0.50
EBITDA Margin (%)	29.60	31.57	23.05	26.07	25.51	26.21
Liquidity						
ND/Equity (x)	0.12	0.08	0.29	0.32	0.27	0.15
ND/EBITDA (x)	0.28	0.20	1.06	1.00	0.89	0.50

Source: Company Financials & CICR Database

Delta Sugar

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Egypt Book 2011/12 | Consumer Staple

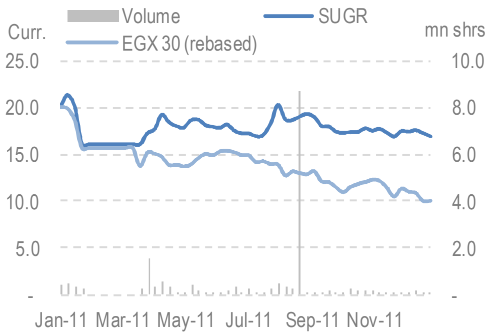
Food & Beverage

Hold

TP - EGP 20.4 | 20.4% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Hold/Moderate
Target Price/LTFV (EGP)	20.4 / 20.4
Last Price (EGP)	16.94
52 Week High	20.58
52 Week Low	15.00
6M Av. Daily Vol. (000' shrs)	102.84
% Chg: MoM / 6M / YoY	-2.8 / 0.9 / -16
No. of Shares (mn)	142.20
Mkt. Cap (EGPmn)	2,408.82
Mkt. Cap (USDmn)*	398.81
Free Float (%)	7.30
Paid in Capital (EGPmn)	710.99
Reuters / Bloomberg	SUGR.CA / SUGR Ey Equity
ISIN	EGS30201C015

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Delta Sugar [SUGR] was established in 1978 under Investment Law No. 230/1989 to manufacture sugar beet and its byproducts (namely molasses and fodder). SUGR contracts with farmers for beet cultivation during the last quarter of each year, then produces sugar from February to June. During the off-season (from July to December), the company refines imported raw sugar.

SUGR operates one factory in Kafr El-Sheikh, consisting of two production lines with a combined annual capacity of 245k tons of sugar beet, 100k tons of molasses and 100k tons of fodder. Along with Dakhalia Sugar, SUGR is the second largest player in Egyptian sugar production, occupying a 13% market share in 2011, after Sugar and Integrated Industries Co. (SIIC) – the sole sugar cane producer – while occupying a market share of 28% in sugar beet production capacity in 2011. SUGR's authorized capital is EGP 1bn and its paid-in capital EGP 710,990,375 distributed over 142,198,075 shares at a par value EGP 5/share.

Ownership Structure

Sugar & Integrated Industries Co.	55.7%
Public Banks	9.4%
Egyptian Endowment Authority	8.1%
Misr Insurance Company	7.0%
KIMA	6.5%
Misr Life Insurance Company	6.0%
Free Float	7.3%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

2011's optimism fading away

- **Farmers' strengthened bargaining power to raise beet prices hits margins.**
- **SUGR's sugar prices to remain flat in 2012 given an expected surplus in the global market.**
- **Expansion put on hold due to land issues.**
- **Studying ethanol unit construction.**

The Government of Egypt has set sugar selling prices at EGP4,345/ton in 2011 (+22% YoY) for public-sector sugar beet producers, including SUGR, in an attempt to stabilize local prices. We expect higher selling prices to offset lower production volumes and higher beet costs and grow net income 8% YoY in 2011 vs. an abnormally-high 2010 performance. Meanwhile, we expect SUGR's sugar price to remain flat in 2012 given an expected surplus of 4.5mn tons of sugar in the global market. On the other hand, we expect rising beet costs to hit margins going forward. Meanwhile, SUGR is again studying the establishment of an ethanol unit in its current factory to produce and export ethanol (at a capacity of 50,000 tons) should ethanol prices rise above molasses prices; however, the project is still under review. Although SUGR is a defensive stock (13% down in 2011 vs. EGX30 decline of 45%), we currently do not see any growth drivers especially now that the company has put its expansion plans to establish a new factory on hold.

2011 Review

Despite a 21% lower production season in 2011 of 261,000 tons of sugar, SUGR benefited from fixing sugar selling prices at EGP4,345/ton throughout the year (+22% YoY) in addition to rising fodder prices (+95% YoY). Meanwhile, SUGR incurred higher beet costs in response to farmers' protests post revolution, demanding beet price be raised to EGP350/ton vs. the initial contracted price of EGP280/ton.

2012 Preview

SUGR raised beet prices by 11% YoY to EGP390/ton in order to avoid farmers' strong bargaining power to refuse to distribute the crop to the company. We expect higher beet prices to prompt farmers to increase cultivated area of beet, and thus grow SUGR's local production 10% YoY. Meanwhile, we expect SUGR' sugar selling price to remain flat in 2012, given an expected surplus of 4.5mn tons of sugar in the global market. We expect earnings to be pressured by 13% to EGP331.8mn in 2012 down from EGP381.6mn in 2011 due to 11% higher beet prices and flat sugar prices.

Valuation & Recommendation

Our DCF model yielded an LTFV of EGP20.4/share while SUGR currently trades at a forward 2012 PER of 7.26x. We set our target price as LTFV, and have assigned the stock a Hold recommendation and Moderate Risk rating.

Financial Statements

Delta Sugar (SUGR)

SUGR | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	204.3	172.2	406.8	574.2	655.5	747.1
Current Assets	504.9	367.6	605.1	858.4	942.0	1,037.2
Total Assets	1,217.5	1,098.9	1,350.3	1,611.4	1,681.3	1,762.7
Current Liabilities	307.2	203.5	316.3	456.4	420.2	403.4
Total Debt	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt	-204.3	-172.2	-406.8	-574.2	-655.5	-747.1
Total Liabilities	307.2	203.5	316.3	456.4	420.2	403.4
Shr Equity (Book Value)	820.2	815.2	969.3	1,090.4	1,196.4	1,294.6
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	70.2	60.2	23.2	23.2	23.2	23.2
Total Liabilities & Equity	1,217.5	1,098.9	1,350.3	1,611.4	1,681.3	1,762.7
Income statement						
Revenue	733.7	1,000.0	1,373.0	1,536.8	1,488.8	1,478.2
COGS	-429.1	-857.5	-855.6	-1,027.9	-1,041.7	-1,061.0
Gross Profit	304.6	142.5	517.3	508.8	447.1	417.1
EBITDA	295.4	127.1	498.2	491.7	429.4	398.8
EBIT	263.3	97.7	467.3	459.5	395.4	364.0
Int. Income	8.7	11.9	10.9	18.7	21.1	23.8
Int. Expense	-3.7	-8.7	-10.2	-2.3	-11.9	-11.5
PBT	246.4	119.6	466.8	508.1	441.8	408.9
NPAT	191.4	102.2	353.3	381.6	331.8	307.1
Net Income	192.6	102.2	354.2	381.6	331.8	307.1
Normalised Net Income	192.6	102.2	354.2	381.6	331.8	307.1
Ordinary Dividends	185.5	92.7	154.6	259.6	225.7	209.0
Cash Flow Summary						
COPAT	240.4	109.7	384.7	365.2	319.5	297.1
FCFF	49.2	192.1	361.1	314.7	294.5	272.5
Change in Cash	-105.7	-32.1	234.5	167.5	81.3	91.6
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.35	0.72	2.49	2.68	2.33	2.16
EPS (Normalised) (EGP)	1.35	0.72	2.49	2.68	2.33	2.16
Dividend Per Share	1.30	0.65	1.09	1.83	1.59	1.47
Book Value Per Share	5.77	5.73	6.82	7.67	8.41	9.10
Valuation						
PER (Basic) (x)	12.50	23.56	6.80	6.31	7.26	7.84
PER (CICR) (x)	12.50	23.56	6.80	6.31	7.26	7.84
PBV (x)	2.94	2.95	2.49	2.21	2.01	1.86
Dividend Yield (%)	7.70	3.85	6.42	10.78	9.37	8.67
Earnings Yield (%)	8.00	4.24	14.71	15.84	13.77	12.75
EV/Revenue (x)	3.00	2.24	1.46	1.19	1.18	1.12
EV/EBITDA (x)	7.46	17.60	4.02	3.73	4.08	4.17
Market Capitalisation (EGPmn)	2,408.8	2,408.8	2,408.8	2,408.8	2,408.8	2,408.8
Enterprise Value (EGPmn)	2,204.5	2,236.6	2,002.1	1,834.6	1,753.3	1,661.7
Profitability						
ROE (%)	23.49	12.54	36.55	35.00	27.73	23.72
ROA (%)	15.82	9.30	26.23	23.68	19.74	17.42
Asset Turnover (x)	0.60	0.91	1.02	0.95	0.89	0.84
EBITDA Margin (%)	40.26	12.70	36.29	32.00	28.84	26.98
Liquidity						
ND/Equity (x)	-0.25	-0.21	-0.42	-0.53	-0.55	-0.58
ND/EBITDA (x)	-0.69	-1.36	-0.82	-1.17	-1.53	-1.87

Source: Company Financials & CICR Database

Housing & Real Estate

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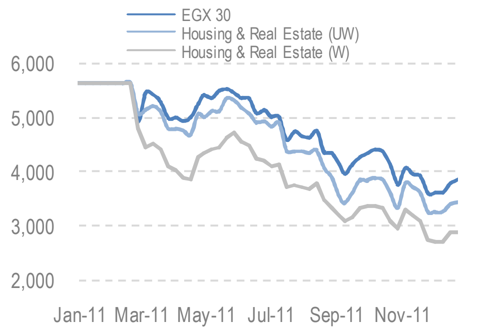
Egypt Book 2011/12 | Sector Review

PHDC | Hold   EGTS | Sell
HELI | Hold   MNHD | Hold
TMGH | Strong Buy

January 26, 2012

Housing & Real Estate | 52 Wk Performance*



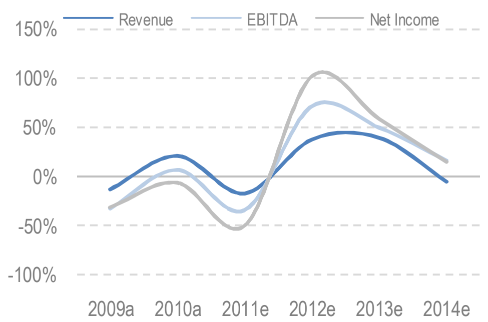
Sector Growth Drivers

- Stable population growth.
- 30% of population falls within "marriage group;" 49% 19 or younger.
- Unmet demand for housing for both lower and middle classes.
- Real estate is considered safe investment.
- GoE's plan to provide low and middle income housing.

Sector Risks

- Economic and political instability post January 25 Revolution negatively affects demand for housing.
- Global economic slowdown which affects real estate FDIs negatively.
- Underdeveloped mortgage finance industry with a high mortgage rate of 12.4% in June 2011.
- Unclear real estate regulations regarding state land sales and taxes.
- Lack of low- and middle-income housing.

KPIs | 2009-14e



*Comprises all sector stocks constituting CI Capital 100 Index.

Demographics, the load-bearing beam

The January 25 Revolution has taken its toll on the local real estate market, reflected in a drop in both new construction permits and newly established real estate and construction companies, as well as in the increase of building materials prices. Adding to these challenges are the trials of a number of real estate developers (including Talaat Moustafa, Palm Hills, and SODIC), coupled with land and licensing issues related to housing projects depressed the real estate market. However, the sector nonetheless managed to post positive YoY growth of 2.2% in 1H11, supported by Egypt's demographic structure and growing marriages and divorces. Despite instability and high interest rates, mortgage finance still posted growth post-revolution, growing in double digits of 37% YoY to EGP2.5bn in 1H11. We believe that 2012 will maintain depressed real estate activities on the back of continued unrest associated with the election process, expected to end by mid-2012. Provided that the newly-elected government supports investments, we can see a pick in FDI flowing into this sector. The anticipated stability following the elections should support the real estate market, especially since the government is targeting an increased supply of low- and middle-income housing units.

Review 2011

The Egyptian real estate sector witnessed a remarkable slump post-revolution due to the accompanying economic and political instability, and was further hindered by the increasing price of building materials and land withdrawal cases against major real estate companies (e.g. Talaat Moustafa [TMGH], SODIC and PHDC), which hurt both supply and demand. However, despite these challenges, the demographic structure of Egypt proved enough to sustain the sector through tough times.

Preview 2012

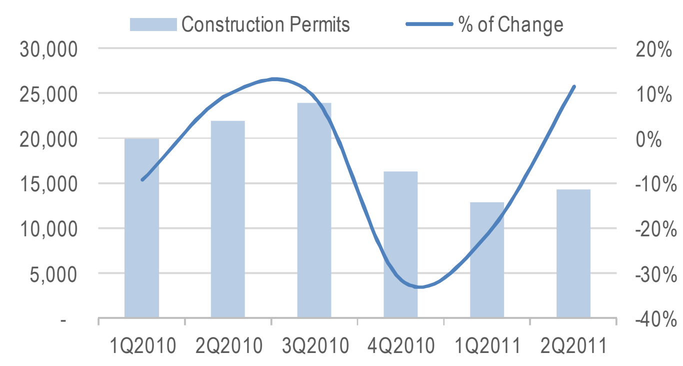
2012 holds some growth potential for the real estate sector, since political stability is likely to follow the parliamentary and presidential elections and the implementation of the new constitution. Further, when taking into account the GoE's social housing plan and the increasing marriage and divorce contracts, the demand for housing units should increase, and in so doing, refresh the real estate market in Egypt.

2011 Review

Declined construction permits

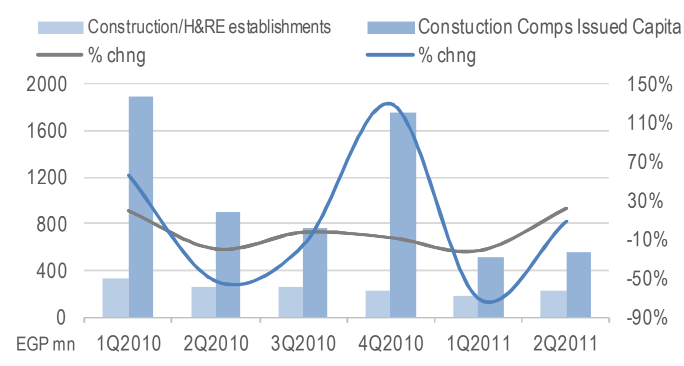
In the wake of the January 25 Revolution, the country's real estate sector witnessed a relative slowdown as the economic and political instability pressured down demand, a problem further aggravated by high building materials prices. Construction permits witnessed a 35% YoY decline in 1H11 to reach 27.4K permits compared to 42K permits in 1H10. Moreover, the number of newly-established companies working in construction and real estate fell by 30% to 476 in 1H11 compared to 679 companies in 1H10. That said, there was some recovery in the second quarter, as construction permits in 2Q11 grew by 12% compared to 1Q11, reaching 14.4K permits. In addition, the number of newly established real estate and construction businesses increased by 23% in 2Q11 reaching 222 companies compared to 181 companies in 1Q11.

Figure 8.1 | **Construction permits by quarter**



Source: Egyptian Information Portal

Figure 8.2 | **Construction & real estate establishments**



Source: Ministry of Investment

Real estate activities slow in 1H11

Real estate activities saw depressed growth of 2.2% over 1H11 compared to 4% over the same period a year earlier. However, the sector still remained resilient when compared to most of the country's other key sectors, which experienced negative growth. This resiliency was supported by demand from the growing population, as well as marriages and divorces.

Egypt's demographic structure

Egyptian demographics play a fundamental role in driving the country's real estate industry. Rapid population growth is accompanied by an average per-annum increase of 2% in unmet demand for housing for the middle & lower income groups, as well as the concentration of the majority of the Egyptian population within the marriageable age group. These factors provide the fuel for creating and sustaining demand for housing, thus making demographics a backbone of support for the real estate sector.

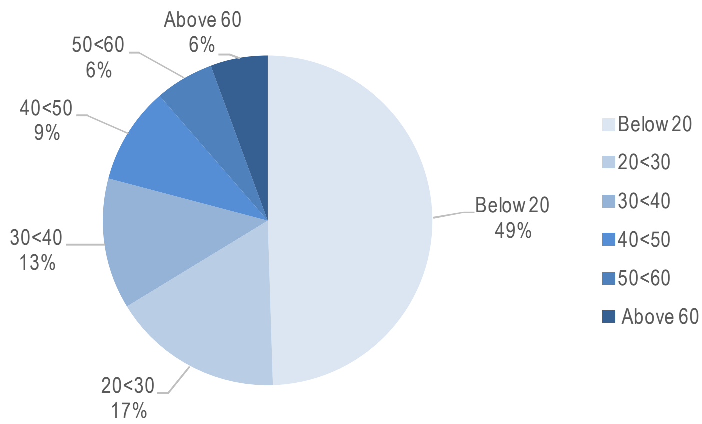
Young Population

≤19 years: According to the latest census, this group represents 49% of Egypt's total population. It is dependent largely on the following two groups, and as such creates little demand on its own. It will, however, make up the core of housing demand for the next 20 years.

20-40 years: As the "marriageable" age group, this demographic stimulates a great deal of demand for housing. 20-40 year olds represent 30% of Egypt's population.

≥40 years: This age group is expected to create demand for new properties through relocation and/or the purchase or development of secondary properties. It represents 21% of the total population.

Figure 8.3 | **Population Distribution (2006 Census) – by age**



Central Agency for Mobilization and Statistics (CAPMAS)

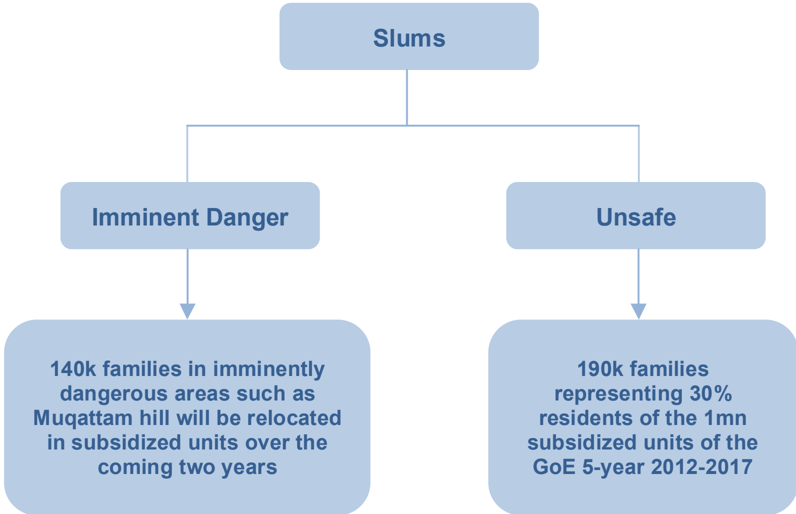
New Marriages and Divorces

The growth rates for population and marriage are two major factors impacting total demand for housing units in Egypt. In fact, demand for units and marriage contracts are correlated by 0.98, with around 79% of projected demand for new properties driven by newly-married couples, especially those in the middle income group. Demand for units driven by new marriages is forecasted at 580.2K in 2014. Divorces also impact demand for housing, as almost 10% of all divorces create demand for new residences. Demand driven by divorce is expected to average 6,808 units per annum between 2006 and 2014, only 1% of the average total estimated demand for this period

Replacement of Informal and Slum Housing

The total number of residents of informal slums has reached 12mn, and this continues to increase annually with the lack of affordable housing. Insufficient resources, increasing rural-urban migration, population growth, a decline in real disposable income and rising poverty are just a few of the reasons fueling the growth of slums. However, after the January 25 Revolution, the GoE started to take prompter initiatives to solve the growing slum problem. The Ministry of Housing and Urban Communities decided to relocate the inhabitants of slums and classified them to two categories: imminent danger slum areas, and unsafe slum areas. The imminent danger slum residents will be relocated to residential units subsidized by the government over the coming two years, while unsafe slums residents are to be relocated gradually as per the Ministry of Housing and Urban Communities five-year plan 2012-17.

Figure 8.4 | **Classification of Slums**

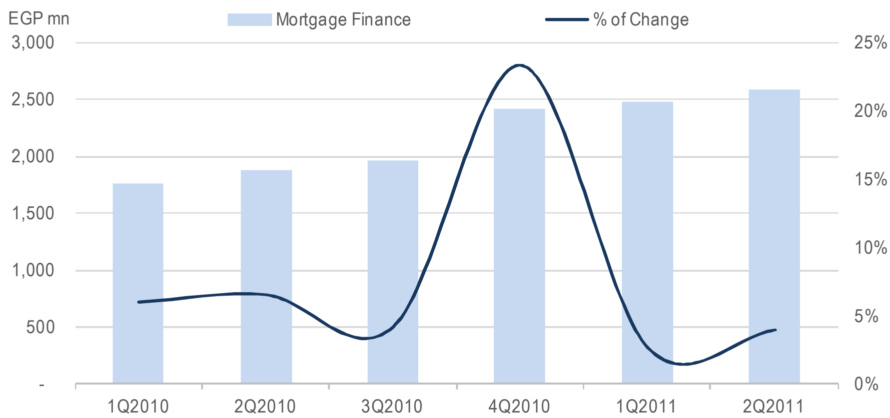


Source: Ministry of Housing and Urban Communities

Mortgage finance

Though the construction sector witnessed a major slump in 1H11, mortgage finance showed some progress, as it reached EGP2.58 bn with a YoY and HoH growth of 37% and 4%, respectively. The number of mortgage beneficiaries increased by 51% YoY to reach 23.5K in 1H11, compared to 15.6K in 1H10. It's worth noting that as of June 2011, there were 13 mortgage finance companies with a total issued capital of EGP1.5 bn.

Figure 8.5 | **Mortgage Finance by quarters from 1Q10-2Q11**



Source: Egyptian Financial Supervisory Authority (EFSA)

In the wake of the revolution, numerous corruption files were revealed and major real estate developers and government officials faced charges, including Talaat Mostafa Group (TMGH) and Palm Hills Development Company (PHDC). Both groups have since been facing legal obstacles concerned with the validation of land ownership contracts. Egyptian court first ruled to halt the sale of 33mn sqm to TMGH (66% of TMGH's total land bank) for its mixed-use Madinaty project, citing that the land acquisition agreement between TMGH and the New Urban Communities Authority (NUCA) was invalid as it was not closed in auction form. However, TMGH appealed to the court decision, and in November, 2011, the court decided the validity of Madinaty contracts with the GoE and thus assured TMGH's right to retain it. Palm Hills was not so lucky, however, as the New Urban Communities (NUCA) cancelled its contract with PHDC over a land plot amounting 190 feddans (equivalent to 798K sqm) in 6th of October city, which will affect the company's construction plans.

Meanwhile, Sixth of October Development and Investment Company (SODIC) chairman Magdi Rasekh and the former Minister of Housing and Urban Communities were accused of violating laws regulating tenders and auctions and acquiring state land at fire-sale prices, wasting EGP970mn.

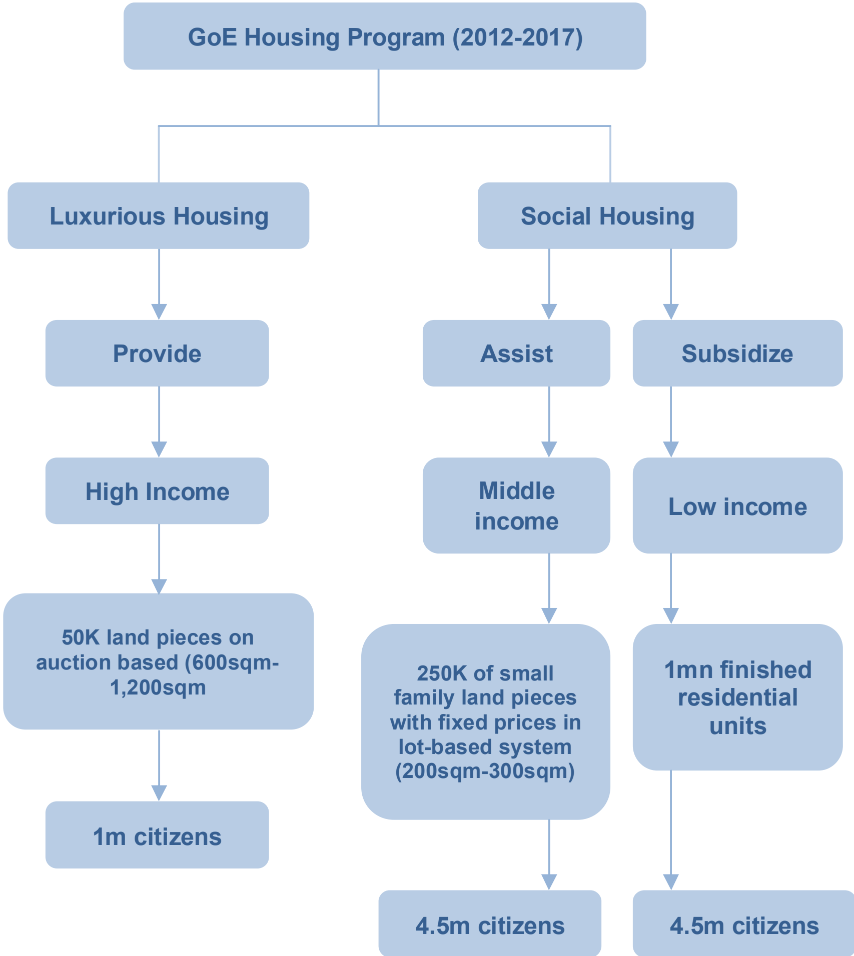
Furthermore, former Minister of Housing and Urban Communities Ahmed El Maghrabi was sentenced to five years in prison for involvement in an illegal land deal, wasting public funds, and helping a businessman buy 70K sqm of state land at below-market prices. The businessman, Mounir Ghabbour, received a one-year suspended sentence for his role in the same case.

Preview 2012

During 2012, we expect the real estate industry to witness minimal growth, with some recovery anticipated towards the end of the year as the political situation clears up. In the meantime, the sector will still be supported by the growing population (with 49% aged 19 and older), as well as new marriages and divorces. Moreover, given the rising awareness of social responsibility post-revolution, we expect the GoE to start supplying low- and middle-income groups with appropriate housing units.

According to the Ministry of Housing, GoE has a preliminary social housing five-year plan, yet to be implemented. The social housing projects will target new cities in most of Egypt's governorates, starting with Cairo and Giza. The Ministry of Housing and Urban Development has allocated EGP10bn for use next year. These allocations will run for a six-month period in 1H12, of which EGP7bn will be allocated from the state budget and EGP3bn from other development partners. The plan has is built on a "Subsidize, Assist and Provide" strategy.

Figure 8.6 | **GOE Social Housing Program 2012-2017**



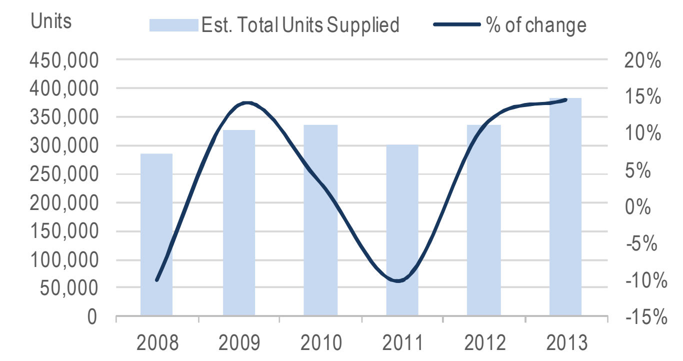
Source: Ministry of Housing and Urban Communities

The “Subsidize” part of the strategy is for the low-income families, with the plan expected to provide 1mn subsidized finished units for low-income citizens. 30% of these units are specialized for residents of slums, and 4.5mn residents are expected to inhabit the low-income units over the coming five years. “Assist” is designed for middle-income citizens by helping small contractors carry out infrastructural work for 250K land plots on a lot-based system with minimal administrative fees. These units are expected to absorb 4.5 residents. Finally, the “Provide” part of the plan concerns the ministry’s responsibility to provide high-income brackets with land plots on an auction based for luxurious housing to absorb 1mn families.

Prior to the revolution, estimates were for supply and demand of housing units to reach 347.3K and 708.9K in 2011 and 372.2K and 715.9K units in 2012 respectively. However, due to the post-revolution economic down-turn and its impact on the supply and demand of units, we decreased our estimates for supplied units in 2011 by 13% to 302.2K and in 2012 by 10% to reach 335K. Furthermore, our estimates for demanded units in 2011 declined by 10% to 638K and fell 6% in 2012 to 672.9K. 2013 is expected to see the start of a recovery, especially after attaining political stability; this considered, we will henceforth maintain our estimates of supplied units to 383.5K and demanded units to 723.7K.

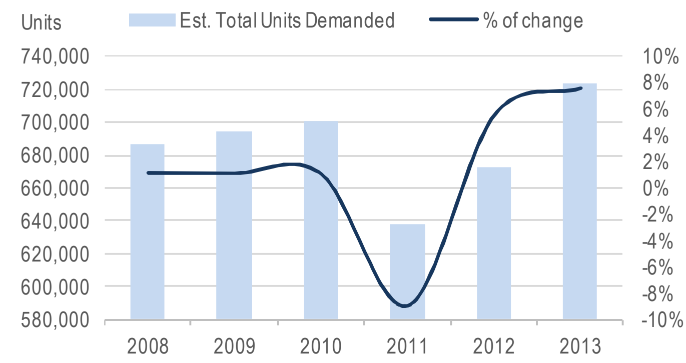
Also, with the steady enhancement in real-estate activity due to the gradual stability in the local political situation, we expect the mortgage activity to improve, although challenged by the high mortgage rate. However, we believe that real-estate FDIs will start to come back to Egypt with the arrival of full political stability.

Figure 8.7 | **Estimated supplied units**



Source: CAPMAS, CICR estimates

Figure 8.8 | **Estimated demanded units**



Source: CAPMAS, CICR estimates

Sector Summary

Housing & Real Estate - SWOT Analysis	
Strengths	**Weakness**
• Population growth creates demand for housing units. • Growth in marriages has a positive effect on demand for housing units. Marriage group represents 33% of total population, thus strongly influencing housing demand. • The existence of unsatisfied demand is an investment opportunity given that all the risks are reduced and the housing market becomes more efficient.	• Political and economic instability post January 25 Revolution. • Increasing price of building materials. • Without clear property rights, because of lack of land and property registration, no mortgage financing is possible.
Opportunities	**Threat**
• GoE to provide more residential units for low and middle income brackets. • GoE's efforts to widen urban areas tranlsate to increased housing activity. • Government support to the sector via a set of rules and regulations to remove obstacles to the industry.	• Random decisions against real estate developers and contractors. • Constraints on land development include GoE land ownership, complicated development regulations and high developing costs. All of these are barriers to urban development. • Underdeveloped transportation facilities hinder the urbanization development and therefore housing development. • Inefficient infrastructure system is considered a key factor restricting growth in new urban areas.

Source: CI Capital Research

CAPITAL RESEARCH
A CIB Group Member

Egyptian Resorts

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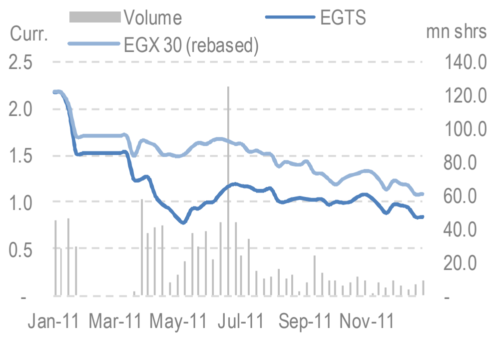
Egypt Book 2011/12 | Housing & Real Estate

Sell

TP - EGP 0.6 | 30.2% Downside

26 January 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Sell/High
Target Price/LTFV (EGP)	0.6 / 0.8
Last Price (EGP)	0.86
52 Week High	2.00
52 Week Low	0.77
6M Av. Daily Vol. (000' shrs)	2,003.25
% Chg: MoM / 6M / YoY	-5.5 / -24.6 / -55.9
No. of Shares (mn)	1050.00
Mkt. Cap (EGP mn)	903.00
Mkt. Cap (USD mn)*	149.50
Free Float (%)	30.10
Paid in Capital (EGP mn)	1,050.00
Reuters / Bloomberg	EGTS.CA / EGTS Ey Equity
ISIN	EGS70431C019

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Egyptian Resorts Company (ERC) [EGTS] was incorporated in April 1996 as a shareholding company operating under Law No. 159/1981 and its executive stipulations. EGTS's primary activity is touristic resort development and it is currently establishing a fully-integrated touristic-residential resort community in Sahl Hasheesh, 17 km south of Hurghada. In some cases, EGTS develops infrastructure on its land to sell to other developers whilst in others, the company develops the land entirely by itself or in cooperation with other developers.

EGTS owns 69.38% of Sahl Hasheesh Company (SHC), which was incorporated with the express purpose of owning and managing the community, as well as to construct residential buildings, hotel apartments and the necessary support facilities in Sahl Hasheesh.SHC has yet to begin operations.

Ownership Structure

Misr Insurance	13.1%
Kato for Investment	12.0%
Rowad Tourism Company	10.0%
First Arabian Company	10.0%
Al Ahly Capital Holding	9.0%
Orascom Development Holding	4.5%
Banks, Insuranc Company & Others	11.4%
Free Float	30.1%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Switching gears to jump the ditch

- **TDA has withdrawn 68% of EGTS's total land bank.**
- **The company is left with 5mn sqm to be developed, with plans to switch from a land developer to a touristic developer.**
- **No land sales since 2008.**

Earlier this year, the Egyptian Touristic Development Authority (TDA) decided to withdraw a land bank from Egyptian Resorts Co. [EGTS] amounting to 28mn sqm. Out of the remaining 32%, the company has already sold 8mn sqm and is left with only 5mn sqm of land to be sold over the coming years. Unfortunately, EGTS has been unable to sell any land plots since the start of the global recession, and given the current local uncertainty, we expect this state of affairs to continue over the next two years with the remaining land bank. Meanwhile, the political allegations against EGTS founder provide another negative catalyst against stock performance. In brighter news however, the company has announced its plans to develop a 2.5mn sqm land bank in cooperation with Orascom Development Management (ODM).

2011 Review

The land withdrawn by the TDA in 1H11 amounted to 28mn sqm, or 68% of EGTS total land bank, leaving 5mn sqm unsold with an estimated worth of EGP2.3bn. In order to utilize the remaining land, the company plans to switch its role from a land developer (furnishing raw land with infrastructure and utilities and selling it to touristic developers) to a touristic developer (developing the land to a touristic project). In addition to its land bank issues, the ongoing political allegations surrounding EGTS's founder and former chairman, Mr. Ibrahim Kamel, have placed additional pressure on the company's stock performance.

2012 Preview

We expect several land sales in late 2012 pending local political stability. Furthermore, the company has announced its plans to develop a 2.5mn sqm land bank in cooperation with ODM. According to company officials, this joint venture will commence project development in 2012.

Valuation & Recommendation

EGTS's LTFV stands at EGP0.8 per share, with a Target Price at EGP0.6 per share, The company currently has a Sell recommendation with a High Risk rating.

Financial Statements

Egyptian Resorts (EGTS)

EGTS | EGPmn | FY End: December

Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash & Cash Equivalent	371.2	309.2	216.6	192.2	220.0	213.0
Current Assets	1,070.5	1,091.2	777.8	749.1	732.7	761.4
Total Assets	1,550.1	1,497.1	1,273.5	1,225.8	1,250.4	1,258.2
Current Liabilities	233.2	142.7	122.8	92.4	111.0	110.8
Total Debt	0.0	0.0	0.0	0.0	0.6	0.2
Net Debt	-371.2	-309.2	-216.6	-192.2	-219.4	-212.8
Total Liabilities	429.5	334.8	122.8	92.4	111.3	111.3
Shr Equity (Book Value)	1,041.4	1,076.0	1,062.4	1,042.3	1,045.3	1,050.6
Minority Interest	77.9	78.5	80.4	83.3	85.9	88.5
Provisions	1.2	7.9	7.9	7.9	7.9	7.9
Total Liabilities & Equity	1,550.1	1,497.1	1,273.5	1,225.8	1,250.4	1,258.2
Income statement						
Revenue	347.8	25.8	15.5	8.5	47.8	56.9
COGS	-22.1	-10.0	-11.6	-6.4	-15.5	-20.2
Gross Profit	325.7	15.8	3.9	2.1	32.3	36.7
EBITDA	297.3	-2.6	-20.9	-22.3	5.6	8.6
EBIT	295.1	-8.2	-34.0	-36.3	-9.2	-7.2
Int. Income	21.5	23.9	18.5	14.4	14.5	15.2
Int. Expense	-0.2	-0.1	-0.1	0.0	-0.3	-0.2
PBT	345.9	8.1	-13.8	-20.3	6.8	9.5
NPAT	265.8	-3.4	-11.0	-16.2	5.4	7.6
Net Income	264.6	-3.9	-12.9	-19.2	2.8	5.0
Normalised Net Income	264.6	-3.9	-12.9	-19.2	2.8	5.0
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	265.9	-98.8	-20.3	-18.3	4.4	6.9
FCFF	52.5	-25.4	-96.6	-20.6	23.3	-7.0
Change in Cash	-91.1	-62.0	-92.6	-24.4	27.8	-7.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	0.25	0.00	-0.01	-0.02	0.00	0.00
EPS (Normalised) (EGP)	0.25	0.00	-0.01	-0.02	0.00	0.00
Dividend Per Share	n/a	n/a	n/a	n/a	n/a	n/a
Book Value Per Share	0.99	1.02	1.01	0.99	1.00	1.00
Valuation						
PER (Basic) (x)	3.41	-228.73	-69.85	-47.09	317.42	179.06
PER (CICR) (x)	3.41	-228.73	-69.85	-47.09	317.42	179.06
PBV (x)	0.87	0.84	0.85	0.87	0.86	0.86
Dividend Yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Earnings Yield (%)	29.30	-0.44	-1.43	-2.12	0.32	0.56
EV/Revenue (x)	1.75	26.08	49.47	93.43	16.09	13.69
EV/EBITDA (x)	2.05	-262.86	-36.64	-35.56	136.75	90.09
Market Capitalisation (EGPmn)	903.0	903.0	903.0	903.0	903.0	903.0
Enterprise Value (EGPmn)	609.7	672.3	766.8	794.2	769.6	778.7
Profitability						
ROE (%)	25.41	-0.37	-1.22	-1.84	0.27	0.48
ROA (%)	17.07	-0.26	-1.02	-1.56	0.23	0.40
Asset Turnover (x)	0.22	0.02	0.01	0.01	0.04	0.05
EBITDA Margin (%)	85.49	-9.92	-135.03	-262.74	11.77	15.20
Liquidity						
ND/Equity (x)	-0.36	-0.29	-0.20	-0.18	-0.21	-0.20
ND/EBITDA (x)	-1.25	120.91	10.35	8.60	-38.98	-24.61

Source: Company Financials & CICR Database

Heliopolis Housing

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Egypt Book 2011/12 | Housing & Real Estate

Hold

TP - EGP 15.6 | 41.2% Upside

26 January 2012

Management muddles land-bank potential

- **Large, well-located land bank totaling 33mn sqm.**
- **Unproven management record with inefficient use of resources.**
- **Majority of land bank remains unutilized.**

Established in 1906, Heliopolis Housing & Development [HELI] is one of Cairo's oldest real estate developers. The current unrest has put the company under pressure, and is likely to impact its operations in the coming years. The company has 33.4mn sqm of unutilized land bank, 3.5% of which has pending legal issues. Furthermore, we do not expect HELI to capitalize on the remaining 96.5% dispute-free, well-located land bank given its proven managerial inefficiency. The company is indeed more likely to continue selling its land bank over the coming period, rather than developing it.

2011 Review

Over the past year, HELI has been dependent on land sales as a source of revenue, rather than the higher-profit-margin development of its land bank into housing projects. Furthermore, the company has a pending legal land issue with businessman Mohamed Abu Eleinein regarding a legal entitlement over 280 feddans in New Heliopolis, which represents around 3.5% of total land bank .

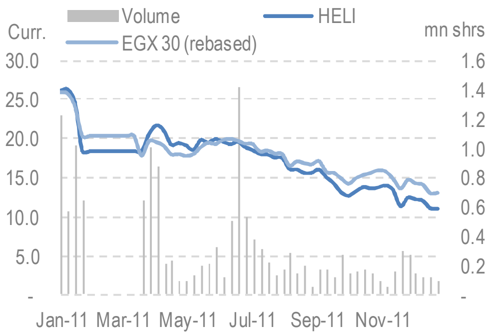
2012 Preview

The current economic and political situation is expected to lead to a drop in demand for real-estate units; this will have a negative impact on current and potential real estate projects. Furthermore, we expect HELI's management inefficiency to continue, leading to further dependence on land sales to generate revenues.

Valuation & Recommendation

HELI's LTFV stands at EGP26.0 per share, with a Target Price of EGP15.6 per share, and a Sell recommendation with a High Risk rating.

52 week Share Performance



Stock Details

Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/High
Target Price/LTFV (EGP)	15.6 / 26
Last Price (EGP)	11.05
52 Week High	25.00
52 Week Low	10.46
6M Av. Daily Vol. (000' shrs)	43.75
% Chg: MoM / 6M / YoY	-6.6 / -38.5 / -55.3
No. of Shares (mn)	111.26
Mkt. Cap (EGPmn)	1,229.39
Mkt. Cap (USDmn)*	203.54
Free Float (%)	26.80
Paid in Capital (EGPmn)	111.26
Reuters / Bloomberg	HELI.CA / HELI Ey Equity
ISIN	EGS65591C017

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Heliopolis Housing and Development [HELI] was established in 1906 and currently operates under the provisions of Law No. 203/1991 as a subsidiary of the National Company for Construction and Development. In May 1995, HELI had its shares listed on the Cairo and Alexandria Stock Exchange (now the Egyptian Exchange). The company's current paid-in capital is EGP200mn, with an issued capital of EGP74.2mn distributed over 74,171,400 shares at a par value of EGP 1/share. HELI mainly engages in real estate and land development. Land sales represented 54% of its total land and unit sales in FY07/08, unit sales the remaining 46%.

Ownership Structure

National Company for Construction & Developm	72.3%
Banks, Insurance Companies & Others	0.9%
Free Float	26.8%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Financial Statements

Heliopolis Housing (HELI)

HELI | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	53.2	16.0	16.1	12.9	7.9	3.9
Current Assets	1,207.5	1,236.3	1,441.8	1,473.1	1,526.3	1,549.6
Total Assets	1,221.6	1,253.8	1,460.4	1,491.3	1,544.4	1,567.6
Current Liabilities	748.5	793.7	943.3	1,056.5	1,067.8	1,049.2
Total Debt	3.3	59.6	80.6	242.9	315.6	322.7
Net Debt	-49.8	43.6	64.5	230.0	307.7	318.8
Total Liabilities	828.5	942.2	1,071.0	1,183.8	1,201.2	1,189.0
Shr Equity (Book Value)	341.0	277.4	350.3	268.5	304.1	339.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	52.1	34.1	39.0	39.0	39.0	39.0
Total Liabilities & Equity	1,221.6	1,253.8	1,460.4	1,491.3	1,544.4	1,567.6
Income statement						
Revenue	280.1	143.4	321.0	200.1	250.3	292.7
COGS	-94.8	-27.9	-104.2	-78.5	-102.6	-109.2
Gross Profit	185.3	115.4	216.8	121.6	147.7	183.5
EBITDA	164.8	92.3	190.6	105.2	127.3	159.6
EBIT	164.3	91.5	189.8	104.4	126.4	158.7
Int. Income	34.4	41.5	41.6	38.5	32.5	25.1
Int. Expense	-0.2	-0.2	-0.2	-14.6	-18.9	-19.3
PBT	174.5	126.7	198.4	125.5	137.1	161.3
NPAT	134.6	100.1	151.5	100.4	109.7	129.1
Net Income	133.2	99.4	151.5	100.4	109.7	129.1
Normalised Net Income	133.2	99.4	151.5	100.4	109.7	129.1
Ordinary Dividends	74.2	92.7	64.6	42.8	46.8	55.0
Cash Flow Summary						
COPAT	166.1	65.7	144.1	79.8	99.9	127.3
FCFF	586.1	-29.6	84.2	19.2	-20.5	73.4
Change in Cash	2.7	-5.7	0.1	0.0	0.0	0.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.80	1.34	2.04	1.35	1.48	1.74
EPS (Normalised) (EGP)	1.80	1.34	2.04	1.35	1.48	1.74
Dividend Per Share	1.00	1.25	0.87	0.58	0.63	0.74
Book Value Per Share	4.60	3.74	4.72	3.62	4.10	4.58
Valuation						
PER (Basic) (x)	6.15	8.24	5.41	8.16	7.47	6.35
PER (CICR) (x)	6.15	8.24	5.41	8.16	7.47	6.35
PBV (x)	2.40	2.95	2.34	3.05	2.70	2.41
Dividend Yield (%)	9.05	11.31	7.88	5.22	5.71	6.72
Earnings Yield (%)	16.26	12.13	18.49	12.25	13.38	15.75
EV/Revenue (x)	2.75	6.02	2.75	5.25	4.50	3.89
EV/EBITDA (x)	4.67	9.36	4.64	9.97	8.85	7.13
Market Capitalisation (EGPmn)	819.6	819.6	819.6	819.6	819.6	819.6
Enterprise Value (EGPmn)	769.7	863.2	884.1	1,049.6	1,127.3	1,138.4
Profitability						
ROE (%)	39.08	35.83	43.26	37.40	36.07	38.02
ROA (%)	10.91	7.93	10.38	6.73	7.10	8.23
Asset Turnover (x)	0.23	0.11	0.22	0.13	0.16	0.19
EBITDA Margin (%)	58.84	64.35	59.38	52.61	50.86	54.53
Liquidity						
ND/Equity (x)	-0.15	0.16	0.18	0.86	1.01	0.94
ND/EBITDA (x)	-0.30	0.47	0.34	2.19	2.42	2.00

Source: Company Financials & CICR Database

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Nasr City Housing

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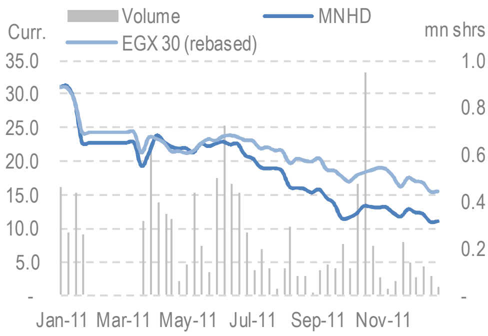
Egypt Book 2011/12 | Housing & Real Estate

Hold

TP - EGP 15.3 | 38.5% Upside

26 January 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Hold/High
Target Price/LTFV (EGP)	15.3 / 25.6
Last Price (EGP)	11.05
52 Week High	29.43
52 Week Low	9.53
6M Av. Daily Vol. (000' shrs)	33.50
% Chg: MoM / 6M / YoY	-7.1 / -41.9 / -61.9
No. of Shares (mn)	105.00
Mkt. Cap (EGP mn)	1,160.25
Mkt. Cap (USD mn)*	192.09
Free Float (%)	42.63
Paid in Capital (EGP mn)	100.00
Reuters / Bloomberg	MNHD.CA / MNHD Ey Equity
ISIN	EGS65571C019

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Nasr City Housing and Development [MNHD] is one of Egypt's oldest real-estate developers, primarily targeting the middle class. With the issue of Law No. 97/1983, the company became a subsidiary of the Public Sector Housing Authority. In 1991, following Law No. 203/1991, it became a subsidiary of the National Company for Construction and Development.

MNHD's shares were listed on the Cairo and Alexandria Stock Exchange (now the Egyptian Exchange) in 1995 and, a year later, in 1996, 75% of its shares were floated as MNHD became a shareholding company. The company has an authorized capital of EGP 150mn, with issued capital of EGP 100mn distributed over 100mn shares at a par value of EGP 1 per share.

MNHD's main activities are real estate and land development. It owns c.10.2mn sqm of land in Nasr City, New Cairo and Sixth of October City.

Ownership Structure

Nat. Co. for Const. and Dev.	15.1%
Beltone Group	31.2%
Banks, Ins Co., Others	5.9%
ESOP	5.0%
Treasury Shares	0.9%
Free Float	42.0%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Tightened target market poses challenges

- **Shares middle class target market with all local developers post-revolution, meaning both competition and execution risks.**
- **Dispute-free, well-located land bank, yet to be developed.**
- **Target market strategy maintained, with project approvals underway.**

Recent economic uncertainty has taken its toll on the demand for housing units, and consequently, local real estate developers – to which Nasr City Housing & Development [MNHD] is no exception. This has, in turn, pressured the company's operations and future plans. Before the January 25 Revolution, MNHD's management was able to solve its disputes with both the Ministry of Defense (MoD) and the Egyptian Civil Aviation Authority (ECAA) over its land bank. However, post-revolution, MNHD is facing new challenges, including: (i) a lower demand for housing units over 2011 and 2012; and (ii) increased competition over MNHD's main target market (middle-income group) by local real estate developers, which ultimately leads to execution risk. Though no longer disputed, use of the land in question remains in the planning stage. We have therefore attached High Risk to MNHD until it discloses its development plans and begins their execution on a timely basis.

2011 Review

During 2011, the company has maintained its strategy of targeting the middle class through the development of three major projects. (i) Hadayek Al Nasr is a low-income budget housing project, with 9,100 residential units. The project is in its early stages. (ii) Teegan project is targeting the upper middle class and will be developed in cooperation with Orascom Development & Management – a subsidiary of Orascom Development Holding AG (ODH). The master plan is awaiting the Prime Minister's authorization and the approval of the High Council of Urban Development. (iii) The KM 45 project is still in the approval phase, with the master plan submitted to Cairo Governorate.

2012 Preview

We expect improved political stability during H212, which should reflect positively on the economic situation and thus MNHD's operations. We expect MNHD to finalize its projects permissions during 2012, which will also have a positive impact on the company.

Valuation & Recommendation

MNHD's LTFV stands at EGP25.6 per share, with a Target Price of EGP15.3 per share. The company currently has a Hold recommendation with a High Risk rating.

Nasr City Housing & Development (MNHD)

MNHD | EGPmn | FY End: June Balance sheet	2008a	2009a	2010a	2011e*	2012e	2013e
Cash & Cash Equivalent	151.0	103.7	73.0	70.0	50.0	60.0
Current Assets	1,139.3	1,058.0	1,056.9	1,081.7	1,139.1	1,158.5
Total Assets	1,173.9	1,106.5	1,102.3	1,123.0	1,182.2	1,202.4
Current Liabilities	740.4	669.0	692.2	667.7	683.4	657.6
Total Debt	29.1	24.0	10.2	33.0	54.5	37.0
Net Debt	-121.9	-79.7	-62.8	-37.0	4.5	-23.0
Total Liabilities	756.3	709.9	705.8	681.0	696.4	670.3
Shr Equity (Book Value)	273.7	244.1	251.2	276.7	300.2	325.2
Minority Interest	21.6	27.0	35.8	45.9	56.6	68.3
Provisions	122.2	125.5	109.6	119.3	129.0	138.6
Total Liabilities & Equity	1,173.9	1,106.5	1,102.3	1,123.0	1,182.2	1,202.4
Income statement						
Revenue	320.3	500.3	504.4	410.6	429.9	462.7
COGS	-165.1	-327.4	-355.8	-297.7	-312.9	-340.1
Gross Profit	155.2	172.9	148.6	112.9	117.0	122.6
EBITDA	127.9	142.5	109.7	74.9	78.3	80.9
EBIT	127.0	142.5	109.7	73.3	76.5	79.1
Int. Income	13.3	8.8	7.0	6.5	5.6	5.2
Int. Expense	-3.8	-3.9	-5.5	-2.7	-4.7	-3.1
PBT	133.8	143.5	109.5	78.3	88.4	94.2
NPAT	111.8	116.5	86.3	61.3	69.0	73.6
Net Income	104.9	107.2	76.2	51.1	58.3	61.9
Normalised Net Income	104.9	107.2	76.2	51.1	58.3	61.9
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	85.8	53.7	75.9	53.3	48.2	48.6
FCFF	79.2	18.7	36.6	-19.5	-38.9	27.9
Change in Cash	-62.3	-47.3	-30.7	-3.0	-20.0	10.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.00	1.02	0.73	0.49	0.56	0.59
EPS (Normalised) (EGP)	1.00	1.02	0.73	0.49	0.56	0.59
Dividend Per Share	n/a	n/a	n/a	n/a	n/a	n/a
Book Value Per Share	2.61	2.32	2.39	2.64	2.86	3.10
Valuation						
PER (Basic) (x)	11.06	10.82	15.23	22.70	19.90	18.76
PER (CICR) (x)	11.06	10.82	15.23	22.70	19.90	18.76
PBV (x)	4.24	4.75	4.62	4.19	3.86	3.57
Dividend Yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Earnings Yield (%)	9.04	9.24	6.57	4.41	5.02	5.33
EV/Revenue (x)	3.31	2.21	2.25	2.85	2.84	2.61
EV/EBITDA (x)	8.29	7.77	10.33	15.61	15.60	14.90
Market Capitalisation (EGPmn)	1,160.3	1,160.3	1,160.3	1,160.3	1,160.3	1,160.3
Enterprise Value (EGPmn)	1,059.9	1,107.6	1,133.2	1,169.2	1,221.4	1,205.6
Profitability						
ROE (%)	38.34	43.92	30.33	18.47	19.42	19.02
ROA (%)	8.94	9.69	6.91	4.55	4.93	5.14
Asset Turnover (x)	0.27	0.45	0.46	0.37	0.36	0.38
EBITDA Margin (%)	39.93	28.49	21.75	18.24	18.21	17.49
Liquidity						
ND/Equity (x)	-0.45	-0.33	-0.25	-0.13	0.02	-0.07
ND/EBITDA (x)	-0.95	-0.56	-0.57	-0.49	0.06	-0.28

Source: Company Financials & CICR Database
*In 2011, MNHD started to follow a Calendar year for its financial reporting.

Palm Hills Developments

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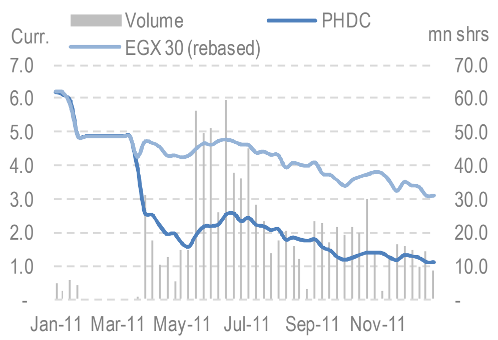
Egypt Book 2011/12 | Housing & Real Estate

Hold

TP - EGP 1.4 | 16.7% Upside

26 January 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/High
Target Price/LTFV (EGP)	1.4 / 2.9
Last Price (EGP)	1.20
52 Week High	5.99
52 Week Low	1.04
6M Av. Daily Vol. (000' shrs)	3,488.45
% Chg: MoM / 6M / YoY	1.7 / -45.9 / -79.7
No. of Shares (mn)	1048.32
Mkt. Cap (EGPmn)	1,257.98
Mkt. Cap (USDmn)*	208.28
Free Float (%)	36.58
Paid in Capital (EGPmn)	2,096.64
Reuters / Bloomberg	PHDC.CA / PHDC Ey Equity
ISIN	EGS655L1C012

GDR Data

Last Price (EGP)	1.2
52 Week High	5.99
52 Week Low	1.04

Company Profile

Palm Hills Developments Company [PHDC] was incorporated in 2005 as a joint stock company, operating under the provisions of the Investment Guarantees and Incentives Law No. 8/1997, Company Law No. 159/1981 and Capital Market Law No. 95/1992. PHDC's core activities include the construction of integrated projects, management of residential compounds and resorts after construction is completed, investment in real estate and the sale/lease of properties.

PHDC owns 11 subsidiaries and has also entered into strategic partnerships to pursue development projects on its well-diversified land bank: 48.8mn sqm spread all over Egypt.

Ownership Structure

Top Management	8.6%
MMID	54.2%
Banks, Insurance Companies & Others	0.6%
Free Float	36.6%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Elite developer facing the storm

- **Legal issues over 1mn sqm of land bank in New Cairo.**
- **Plans to reduce existing land liability by 50% by returning selected raw land plots to GoE**
- **Reducing construction spending by 50% to EGP1bn in 2011 from initial target of EGP2bn to manage cash position.**

The drastic political and economic changes of the past year have taken their toll on the broader real estate industry, but Palm Hills Developments [PHDC] especially. Lower demand for real-estate units was the theme over 2011, resulting in net losses for the company over 9M11. We expect a similar picture for 2012, with muted activity in the hospitality segment as tourism continues to suffer. Furthermore, c.2% of the company's land bank is facing legal issues, with plans to return land plots to the GoE to reduce land liability by 50%.

2011 Review

During 2011, PHDC faced two legal challenges over the ownership of part of its land bank. The first plot is located to the west of Cairo, spread over 475,000 sqm (1% of the total land bank) and was earmarked by the company for its Palm Parks project. In May 2011, court decided that this land plot is legally owned by the company. The other land plot is located to the east of Cairo, spread over 930,000 sqm (2% of the company's total land bank) and was earmarked to develop Palm Hills' Kattameya project. Supreme Administrative Court has set February 15, 2012 as a ruling date. In order to enhance the company's cash position, PHDC announced plans to reduce existing land liability by 50% by returning selected raw land plots to GoE and using the installments paid from these selected plots to settle other land plots' liabilities. With the expected drop in sales and the higher level of cancellations in 2011, alongside the expected drop in tourism revenues, the firm declared that it would cut its construction spending by 50% to EGP1bn in 2011 from its initial target of EGP2bn. However, the company announced that it is fully committed to meeting all delivery deadlines for 2011.

2012 Preview

The current economic and political instability is expected to pressure the demand for housing units and tourism activity over 2012, leading to a lower level of reservations for the housing segment, and lower hotel occupancy rates for the tourism segment. This is likely to persist until the end of 2012, which should see a return to stability and economic recovery.

Valuation & Recommendation

PHDC's LTFV stands at EGP5/share, with a Target Price of EGP1.4/share. The company has a Hold recommendation with a High Risk rating.

Financial Statements

Palm Hills Development (PHDC)

PHDC | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	279.7	134.9	148.2	210.0	180.0	150.0
Current Assets	6,425.2	7,250.2	10,693.9	10,479.4	9,886.8	12,818.8
Total Assets	9,145.3	10,531.5	15,323.1	13,736.4	14,615.0	21,880.1
Current Liabilities	2,941.7	3,691.7	7,162.5	5,322.3	5,894.8	10,571.7
Total Debt	888.5	1,135.8	1,068.4	680.9	601.8	853.7
Net Debt	608.7	1,000.8	920.2	470.9	421.8	703.7
Total Liabilities	6,313.1	7,121.1	10,445.8	8,887.2	9,450.7	15,800.1
Shr Equity (Book Value)	2,687.4	3,162.4	4,387.7	4,354.3	4,661.0	5,558.5
Minority Interest	144.8	248.0	480.6	485.7	494.2	512.3
Provisions	0.0	0.0	9.1	9.1	9.1	9.1
Total Liabilities & Equity	9,145.3	10,531.5	15,323.1	13,736.4	14,615.0	21,880.1
Income statement						
Revenue	1,234.8	1,145.8	1,831.0	995.1	1,632.8	3,498.8
COGS	-279.8	-427.4	-820.2	-705.7	-937.0	-1,916.2
Gross Profit	955.0	718.4	1,010.8	289.4	695.9	1,582.6
EBITDA	743.6	530.1	649.5	150.1	450.9	1,057.8
EBIT	730.1	503.0	610.2	108.3	413.4	1,024.0
Int. Income	73.1	126.7	212.2	74.0	117.2	247.4
Int. Expense	-38.0	-26.0	-38.9	-97.5	-73.7	-89.7
PBT	719.2	560.0	636.3	-26.6	400.8	1,163.8
NPAT	660.0	520.1	545.3	-26.6	300.6	872.9
Net Income	657.7	475.6	526.4	-31.8	292.1	854.7
Normalised Net Income	657.7	475.6	526.4	-31.8	292.1	854.7
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	709.4	472.5	607.8	150.1	350.7	766.8
FCFF	-1,748.0	-1,272.7	-1,521.8	607.4	-459.8	-2,610.7
Change in Cash	741.8	574.8	-45.7	629.8	2,345.8	-1,964.4
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	0.63	0.45	0.50	-0.03	0.28	0.82
EPS (Normalised) (EGP)	0.63	0.45	0.50	-0.03	0.28	0.82
Dividend Per Share	n/a	n/a	n/a	n/a	n/a	n/a
Book Value Per Share	2.56	3.02	4.19	4.15	4.45	5.30
Valuation						
PER (Basic) (x)	1.91	2.65	2.39	-39.58	4.31	1.47
PER (CICR) (x)	1.91	2.65	2.39	-39.58	4.31	1.47
PBV (x)	0.47	0.40	0.29	0.29	0.27	0.23
Dividend Yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Earnings Yield (%)	52.28	37.81	41.84	-2.53	23.22	67.94
EV/Revenue (x)	1.63	2.19	1.45	2.23	1.33	0.71
EV/EBITDA (x)	2.71	4.73	4.09	14.76	4.82	2.34
Market Capitalisation (EGPmn)	1,258.0	1,258.0	1,258.0	1,258.0	1,258.0	1,258.0
Enterprise Value (EGPmn)	2,011.5	2,506.8	2,658.8	2,214.7	2,174.0	2,474.0
Profitability						
ROE (%)	24.47	15.04	12.00	-0.73	6.27	15.38
ROA (%)	7.19	4.52	3.44	-0.23	2.00	3.91
Asset Turnover (x)	0.14	0.11	0.12	0.07	0.11	0.16
EBITDA Margin (%)	60.22	46.27	35.47	15.08	27.62	30.23
Liquidity						
ND/Equity (x)	0.23	0.32	0.21	0.11	0.09	0.13
ND/EBITDA (x)	0.82	1.89	1.42	3.14	0.94	0.67

Source: Company Financials & CICR Database

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Egypt Book 2011/12 | Housing & Real Estate

Strong Buy

TP - EGP 5.5 | 70.8% Upside

26 January 2012

Breathing a sigh of relief

- **Egyptian Administrative Court rules TMGH's Madinaty land bank contract with GoE is valid, confirming TMGH's right to maintain it.**
- **Court decision to have strong positive impact on shareholder value and price, yet political situation to dampen upside potential.**
- **We expect TMGH to witness lower demand for housing projects and lower hotel occupancy rates due to ongoing unrest.**

With the court's decision to maintain Madinaty's land bank, TMGH no longer faces the unsystematic risk of land dispute. However, it continues to face systematic risk in the form of lower demand for housing units and tourism activity over the coming year, leading to a lower level of reservations for the housing segment, and lower hotel occupancy rates for the tourism segment. This is likely to persist until the end of 2012, which should see a return to stability and economic recovery.

2011 Review

After a long period of legal challenges, the Egyptian Administrative Court decided in November 2011 that TMGH's Madinaty land bank contract with the Government of Egypt is valid, thus assuring TMGH the right to maintain it. We expect the court decision to have a positive impact on the company, as it will be able to pursue its development plans and enhance its cash flows where we expect Madinaty project to contribute an average of 60% to revenues over the next three years.

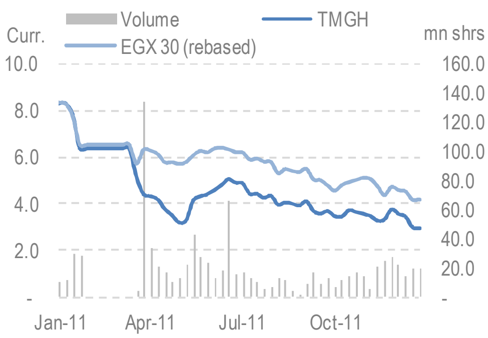
2012 Preview

The current economic and political instability is expected to pressure the demand for housing units and tourism during 2012, leading to a lower level of reservations for the housing segment, and lower hotel occupancy rates for the tourism segment. This is likely to persist until the end of 2012, which should see a return to stability and economic recovery.

Valuation & Recommendation

TMGH's LTFV stands at EGP8.7/share, with a Target Price of EGP5.5/share. The company currently has a Strong Buy recommendation with a High Risk rating.

52 week Share Performance



Stock Details

As at: 21-Jan-12

CICR Rating/Risk	Strong Buy/High Risk
Target Price/LTFV (EGP)	5.5 / 8.7
Last Price (EGP)	3.22
52 Week High	7.99
52 Week Low	2.75
6M Av. Daily Vol. (000' shrs)	3,130.59
% Chg: MoM / 6M / YoY	-2.4 / -29.2 / -58.7
No. of Shares (mn)	2063.56
Mkt. Cap (EGPmn)	6,644.67
Mkt. Cap (USDmn)*	1,100.11
Free Float (%)	45.60
Paid in Capital (EGPmn)	20,132.31
Reuters / Bloomberg	TMGH.CA / TMGH Ey Equity
ISIN	EGS691S1C011

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Talaat Mostafa Group Holding Company [TMGH] was incorporated in April 2007 and currently has a paid-in capital of LE 20.302bn. Being 49.85%-owned by the Talaat Mostafa family, TMGH is a fully fledged touristic, housing and real estate company, with more than 20 years of experience in the development industry. TMGH targets the establishment of self-sustained residential city and community complexes for the upper and middle classes.

TMGH's activities also extend to the Hotels & Resorts segment. The company's four hotels are managed by the internationally reputable Four Seasons chain, with five under construction. Arab for Hotels & Tourism Investment (of which TMGH owns 74%) signed a 50-year renewable concession right agreement for Sultana Malak land in Luxor, earmarked for the construction of a luxury hotel and five-star Nile cruiser, both to be managed by the Four Seasons Hotel. TMGH has also launched a joint venture in Saudi Arabia to develop 1.3mn sqm at a total cost of SAR6bn.

Ownership Structure

TMG for Touristic and Real Estate Investment	47.1%
Free Float	45.6%
Banks, Insurance Companies & Others	7.3%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Financial Statements

Talaat Mostafa Group (TMGH)

TMGH | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	1,425.0	398.8	577.5	590.0	500.0	400.0
Current Assets	33,000.3	34,053.5	33,987.9	32,589.0	38,186.8	44,322.6
Total Assets	53,800.3	53,888.8	54,873.3	53,760.7	59,650.6	66,106.6
Current Liabilities	9,888.5	23,620.9	22,962.3	23,073.1	28,501.5	34,067.6
Total Debt	20,539.3	6,888.1	7,785.6	5,995.6	5,166.4	4,519.9
Net Debt	19,114.3	6,489.3	7,208.1	5,405.6	4,666.4	4,119.9
Total Liabilities	29,803.4	29,038.7	29,161.3	28,252.3	32,953.9	37,837.4
Shr Equity (Book Value)	21,954.5	23,144.8	24,357.1	24,204.8	25,481.0	27,171.9
Minority Interest	1,994.2	1,684.6	1,328.0	1,271.5	1,177.9	1,053.9
Provisions	48.2	20.8	26.9	32.1	37.7	43.4
Total Liabilities & Equity	53,800.3	53,888.8	54,873.3	53,760.7	59,650.6	66,106.6
Income statement						
Revenue	5,455.0	4,822.1	5,339.4	5,021.4	6,763.3	8,390.5
COGS	-3,528.0	-3,335.7	-3,817.1	-3,637.7	-4,636.1	-5,634.3
Gross Profit	1,927.0	1,486.4	1,522.4	1,383.7	2,127.3	2,756.2
EBITDA	1,678.0	1,253.0	1,212.7	1,092.5	1,735.0	2,269.5
EBIT	1,678.0	1,151.7	1,099.8	971.7	1,608.7	2,132.4
Int. Income	141.0	67.4	59.6	53.1	45.0	36.0
Int. Expense	0.0	0.0	-174.6	-210.5	-155.0	-112.5
PBT	1,857.0	1,312.6	1,190.7	1,029.6	1,714.0	2,271.2
NPAT	1,661.0	1,199.4	991.7	786.4	1,308.9	1,734.4
Net Income	1,443.0	1,106.2	927.7	729.9	1,215.4	1,610.4
Normalised Net Income	1,443.0	1,106.2	927.7	729.9	1,215.4	1,610.4
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	1,492.5	1,126.0	1,013.6	849.2	1,329.8	1,732.7
FCFF	-22,425.2	12,783.7	-891.4	2,820.4	797.0	613.9
Change in Cash	1,364.3	-1,026.2	178.7	12.5	-90.0	-100.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	0.70	0.54	0.45	0.35	0.59	0.78
EPS (Normalised) (EGP)	0.70	0.54	0.45	0.35	0.59	0.78
Dividend Per Share	n/a	n/a	n/a	n/a	n/a	n/a
Book Value Per Share	10.64	11.22	11.80	11.73	12.35	13.17
Valuation						
PER (Basic) (x)	4.60	6.01	7.16	9.10	5.47	4.13
PER (CICR) (x)	4.60	6.01	7.16	9.10	5.47	4.13
PBV (x)	0.30	0.29	0.27	0.27	0.26	0.24
Dividend Yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Earnings Yield (%)	21.72	16.65	13.96	10.98	18.29	24.24
EV/Revenue (x)	5.09	3.07	2.84	2.65	1.85	1.41
EV/EBITDA (x)	16.54	11.83	12.52	12.19	7.20	5.21
Market Capitalisation (EGPmn)	6,644.7	6,644.7	6,644.7	6,644.7	6,644.7	6,644.7
Enterprise Value (EGPmn)	27,753.1	14,818.6	15,180.7	13,321.7	12,489.0	11,818.6
Profitability						
ROE (%)	6.57	4.78	3.81	3.02	4.77	5.93
ROA (%)	2.68	2.05	1.69	1.36	2.04	2.44
Asset Turnover (x)	0.10	0.09	0.10	0.09	0.11	0.13
EBITDA Margin (%)	30.76	25.98	22.71	21.76	25.65	27.05
Liquidity						
ND/Equity (x)	0.87	0.28	0.30	0.22	0.18	0.15
ND/EBITDA (x)	11.39	5.18	5.94	4.95	2.69	1.82

Source: Company Financials & CICR Database

CAPITAL RESEARCH
A CIB Group Member

Hydrocarbons

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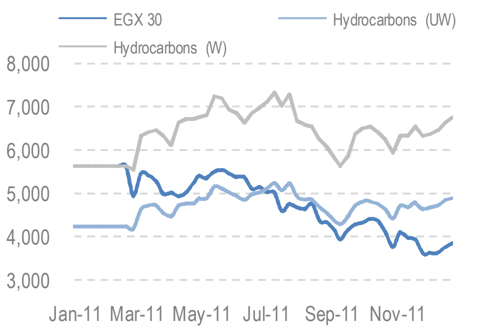
Egypt Book 2011/12 | Sector Review

MOIL | Hold

January 26, 2012

Hydrocarbons | 52 Wk Performance*



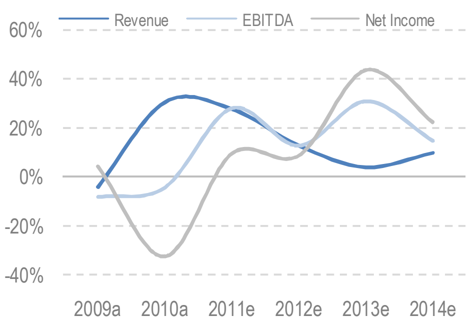
Sector Growth Drivers

- Fixed-contract nature of offshore exploration acts as a temporary buffer against turbulent oil prices.
- Sustainability of oil prices within the comfort zone of E&P producers above USD77/barrel secures business appetite for further exploration.
- Technological advancement facilitates exploration at greater depth conquering deep & ultra deepwater.
- Rising deepwater production from zero in 1990 to 9% of global oil production in 2010.

Sector Risks

- Threat of global economic slowdown casts its shadow on oil demand, which dropped by 1% to 86.2 mb/d in 1H11.
- Oil price volatility.
- Dwindling shallow water discoveries reduce exploration in accessible and relatively cheap areas.
- Oversupply in the rig market depressed rigs utilization rates to 80% YTD in 2011, below the 2010 rate of 85%.

KPIs | 2009-14e†



*Comprises all sector stocks constituting CI Capital 100 Index.
†Aggregate of CI Capital Research covered stocks in sector.

Offshore holds steady

- **Oil price a key driver to E&P spending.**
- **In 2011, offshore E&P sustains post-financial crisis recovery, backed by offshore capex.**
- **Risks of global economic slowdown to undermine oil demand in 2012.**
- **Offshore capex expected to remain resilient in 2012 due to anticipated sustainability of appealing oil prices to E&P companies.**

Backed by a 19% YoY rise in oil prices to USD94/barrel; technological advancement; increasing offshore production; and significant deepwater potential, global offshore capex continued its post-financial crisis recovery, growing 14% YoY to USD158bn in 2011 year-to-date (YTD). Such growth outpaced the 10% average annual growth rate recorded over the period of 2005-210. That said, rising economic uncertainties in OECD countries and China – which account for respective shares of 50% and 10% of global oil demand –depressed global oil demand by 1% during 1H11. Increasingly bearish sentiment led several international bodies – namely the IMF and OPEC – to cut estimates for 2012, the former cutting their real global GDP growth rate estimates to 4% (vs. earlier estimates of 4.5%), while the latter cut their global oil demand by 0.3% to 89mb/d. While the magnitude of the economic downturn is not yet clear, future NYMEX oil contracts projects prices are set to remain at USD95/barrel in 2012. Accordingly, backed by commercially appealing oil prices, we believe that offshore capex will remain resilient, growing by 12% YoY to USD177bn in 2012.

Review 2011

Global E&P spending continued its recovery, growing 11% YoY to USD490bn – driven by a 14%YoY increase in offshore capex to USD158bn. This was backed by a 19% rise in oil prices to USD95/barrel in 2011 YTD, well-above the threshold of USD77/barrel set by E&P companies' budget in 2011. Backed by dwindling onshore discoveries, offshore discoveries have been on the rise, increasing the segment's contribution to total oil production to 33% in 2010 vs. 31% in 2000. Furthermore, technological advancement has encouraged exploration at greater depth, with deepwater contribution rising to 9% in 2010 vs. 2% 10 years ago. Exploration stimulated a rise in the rig market, which saw the highest capex for new rig builds, at USD24.7bn, as well as a sustainability of an 80% utilization rate YTD in 2011. The Support Vessels market supply rose 7%YoY to 2,746 vessels in March 2011.

Preview 2012

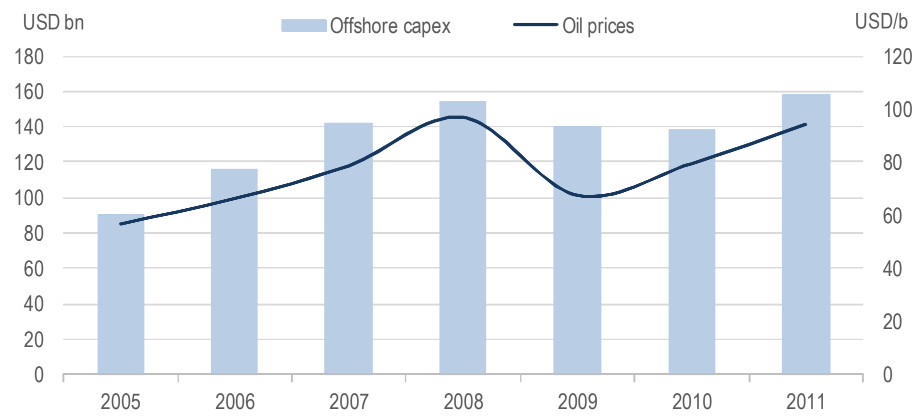
2012 holds several challenges. First is the potential for global economic slowdown in the OECD and China, with the IMF projecting real GDP growth to come lower at 4% – below its previous 4.51% forecast. Second is the projected reduced growth in oil demand, the OPEC having lowered its 2012 global demand by 0.3% to 89mb/d. Based on NYMEX future contracts, oil prices are expected to reach USD95/barrel, which is still above the comfort zone of E&P. Despite bearish sentiment, we believe offshore capex should remain resilient, backed by commercially appealing prices and profit margins for producers.

2011 Review

Appealing oil prices sustain global offshore spending recovery

A recent survey conducted by Barclays Capital to 402 oil companies revealed that Global exploration and production (E&P) has continued its path to recovery this year, growing by 11% to USD490bn YTD in 2011. Accordingly, offshore capex grew by 14% YoY to USD158bn, backed by 19% YoY increase in average oil prices to USD95/barrel YTD. The survey found that companies are basing their 2011 E&P budgets on average oil prices of approximately USD77.32/barrel. Accordingly, Capex is expected to remain resilient as long as oil prices do not break down from this level – far above the exploration cost of an offshore barrel, which hovers around USD20/barrel. Subsequently, any drop in oil prices below USD60/barrel will pressure producers' margins, causing a material drop in capex. On the other hand, any rise in oil prices above USD90/barrel will encourage producers to significantly expand their capex.

Figure 9.1 | **Global offshore capex vs. oil prices**



Source: Douglas Westwood; Bloomberg

Market Drivers

Given its global footprint, the offshore exploration industry is influenced by a diverse set of drivers, ranging from oil demand to potential offshore discoveries, (see below).

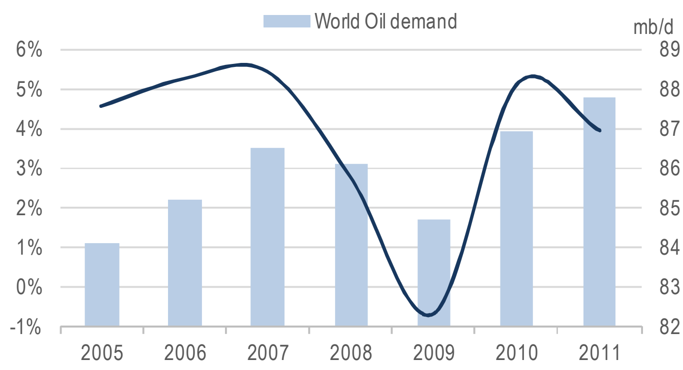
Oil Demand	Oil Prices	Offshore Potential
• Economic Growth	• Geopolitical factors • Oil Demand & economic growth • Derivatives & future contracts	• Rising offshore production • Rising deepwater production • Rig market displays 80% utilization rate • 7% YoY growth in OSV market

Rising global economic downturn casts its shadow on oil demand

In 2010, global oil demand recovered, recording a 2.6% YoY growth to 86.9mb/d – vs. a 1.6% contraction a year earlier – driven by a strong rebound in global economy by 5%. In 2011, however, rising economic challenges in OECD countries – major oil consumers accounting for more than 50% of global consumption – rendered this rebound short-lived. Weakened by a heavy budget deficit and high unemployment rate, the US saw slowing growth, down to 1.8% in 9M11 compared to 3% 9M10, while the eurozone suffered from an escalating sovereign debt crisis. In 2H11, global oil demand fell by 1% to 86.2 mb/d, vs. 86.9 mb/d recorded in 2010. In emerging markets, China – another major player, which accounted for 10% of global oil demand – exhibited signs of economic slowdown, with its GDP growth rate was reduced to 9.4% in 9M11 vs.10.7% in 2010, and its industrial sector growth declining by 50pp to 13.5% in August 2011.

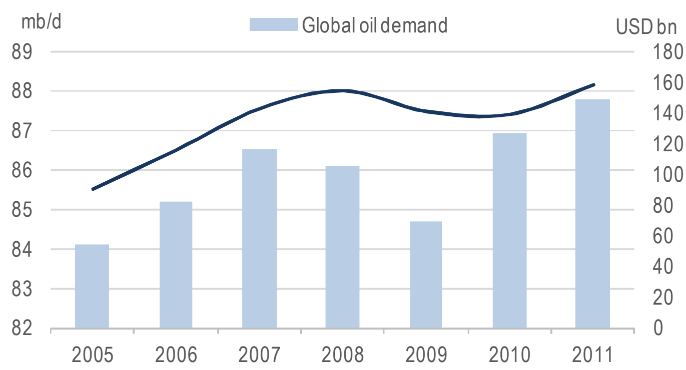
Amidst mounting global economic challenges, OPEC marginally lowered their 2011 global demand estimates by 0.23% to 87.8 mb/d vs. previous estimates of 88 mb/d.

Figure 9.2 | **Global oil demand Vs. World GDP growth rate**



Source: OPEC, IMF

Figure 9.3 | **Global oil demand vs. offshore capex**



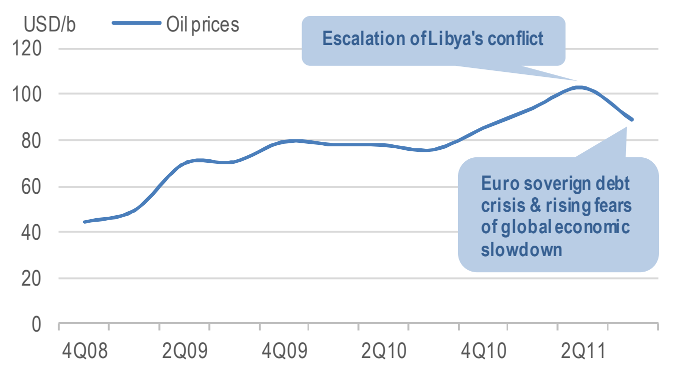
Source: Douglas Westwood, OPEC

Offshore fixed contracts hedge producers' margins from the turbulent oil prices

In 2011, crude oil prices have been increasingly volatile, with a general pattern of steady rises followed by sharp drops. In 2Q11 prices reached a peak of USD103/barrel, driven by the protracted political tension in Libya, only to be depressed the following quarter by rising concerns about the economic uncertainties and associated risks in OECD countries.

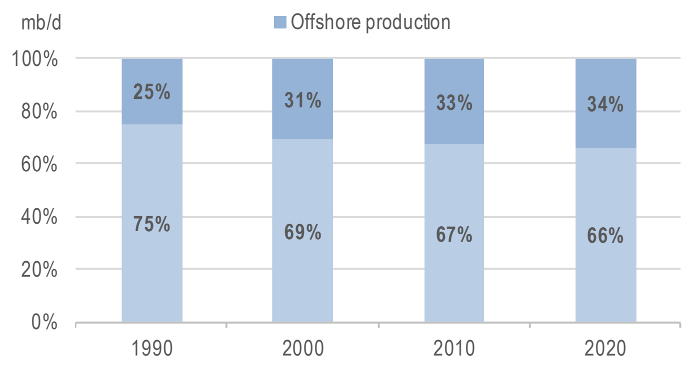
That said, these fluctuations did not have any immediate impact on the offshore industry due to: (1) the sustainability of oil prices within the comfort zone of E&P producers (above USD77/barrel, far above the production cost of an offshore barrel, which stands at a maximum USD20), thus ensuring significant margins for producers; and (2) the contract-driven nature of E&P business, which protects projects from immediate impact of fluctuating prices. In 2011, E&P spending continued on its path to recovery, growing by 11% to USD490bn. Offshore segment capex rose by 14% to USD158bn.

Figure 9.4 | **Quarterly WTI oil prices**



Source: OPEC, IMF

Figure 9.5 | **Global oil production (offshore & onshore production)**



Source: Douglas Westwood

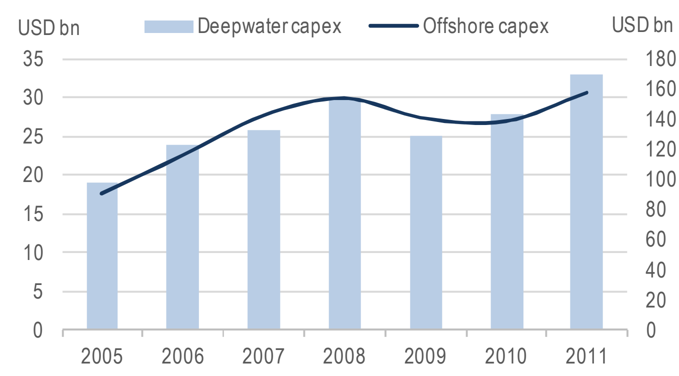
Increasing contribution of offshore production

The depletion of onshore reserves coupled with the adoption of advanced technology supported rising offshore production – especially since a large scale of offshore reserves was discovered. Over the past 20 years, offshore oil production's contribution to global production rose to 33% in 2010 vs. 25% in 1990. This contribution is set to grow to 34% by 2020.

Deepwater discoveries drove offshore activities

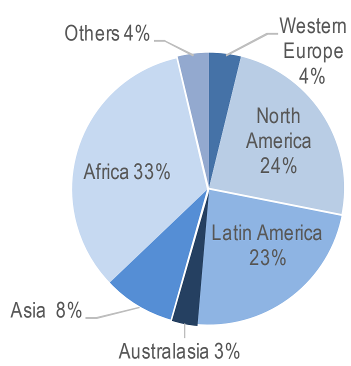
Over the past 20 years, deepwater contribution to total oil production rose from nil in 1990 to 9% in 2010. Over the period of 2007-11, deepwater capex rose by a 6% CAGR, which outpaced offshore capex's 3% CAGR. The majority of deepwater discoveries were made in the golden triangle – Africa, North America and Latin America – where 80% of the capex was directed.

Figure 9.6 | **Deepwater capex vs. offshore capex**



Source: Douglas Westwood

Figure 9.7 | **Deepwater capex by region (2007-11)**

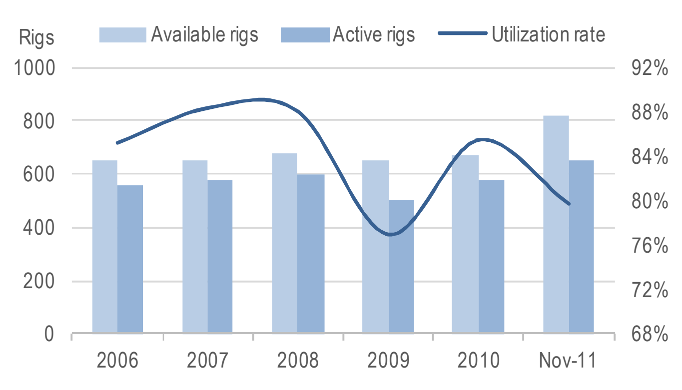


Source: Douglas Westwood

High influx of new rigs

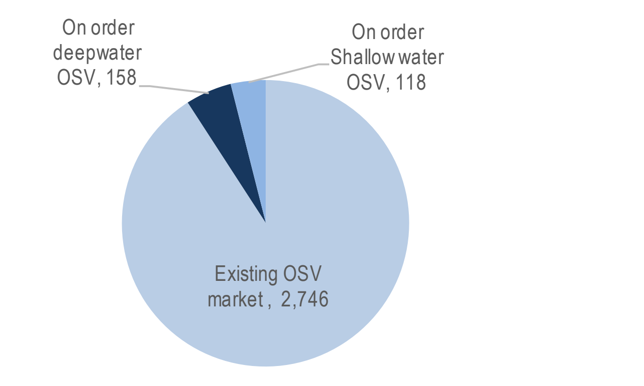
Since the end of 2010, the rig market has witnessed a breakthrough from its 2009 financial crisis slump, driven by: (1) rising international oil prices; (2) the recovery of exploration activities; and (3) deepwater exploration growth prompting the need for new advanced rigs. On the supply side, orders for new rigs have been on the rise since October 2010. Capex for new rig builds recovered from a low of USD2.7bn in 2009 to USD9bn in 2010, and then USD24.7bn YTD in 2011, a figure that already exceeds the previous record set in 2007. On the demand side, rigs utilization rates remained in the 80% level –below 85% rates of 2010, due to the influx of new rigs – however still higher than 2009 trough of 77%.

Figure 9.8 | **Global offshore rig market**



Source: World Oil magazine, ODS Petrodata

Figure 9.9 | **OSV global market in March 2011 plus on order vessels**



Source: Bourbon & ODS Petrodata

OSV market rises by 7%

Driven by rising E&P spending and 80% rig utilization, the global Offshore Support Vessels fleet[1] size rose by 7%YoY to 2,746 vessels in March 2011[2].The market is expected to witness further expansion with the expected delivery of 276 vessels until the end of the year. The majority of 57% of the new fleet will be directed to the deepwater segment.

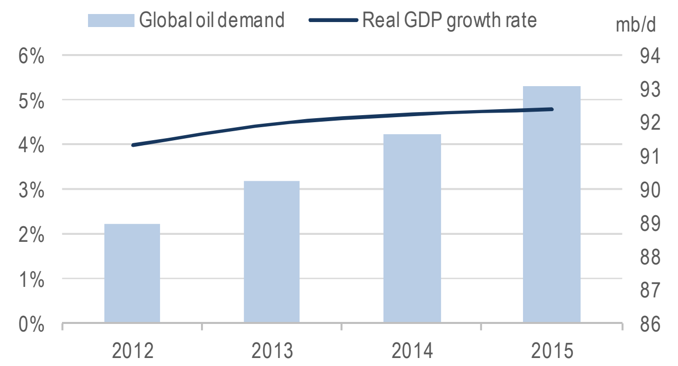
2012 Preview

Economic slowdown haunts 2012 oil demand forecasts

Uncertainty in the global economy has dimmed the economic outlook for 2012. As a result, IMF revised its world GDP forecast downward from 4.51% to 4% in September 2011. Most of the uncertainty is attributed to the OECD region, namely USA, Europe and Japan. However, the Chinese economy is facing the prospect of decelerating growth, with the IMF projecting 9% growth in 2012, vs. 9.5% a year earlier. In October, the Organization of Petroleum Exporting Countries (OPEC) revised its 2012 global demand downward by 0.3% to reach 89mb/d.

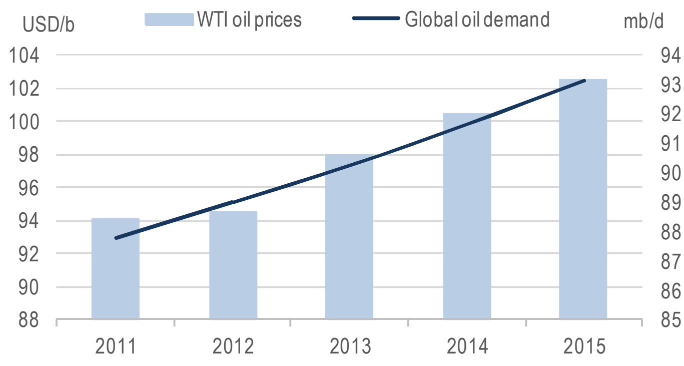
[1] The Offshore Support Vessels (OSV) is responsible for offering various services to the rigs including towing, delivering supplies & staff, providing seismic survey, fire fighting and safety services; in addition to accommodation vessels.
2 ODS PetroData/ Bourbon March 11

Figure 9.10 | **Global oil demand vs. real GDP growth rate**



Source: IMF, OPEC & CICRe

Figure 9.11 | **Oil prices vs. global oil demand**



Source: IMF, OPEC & CICRe

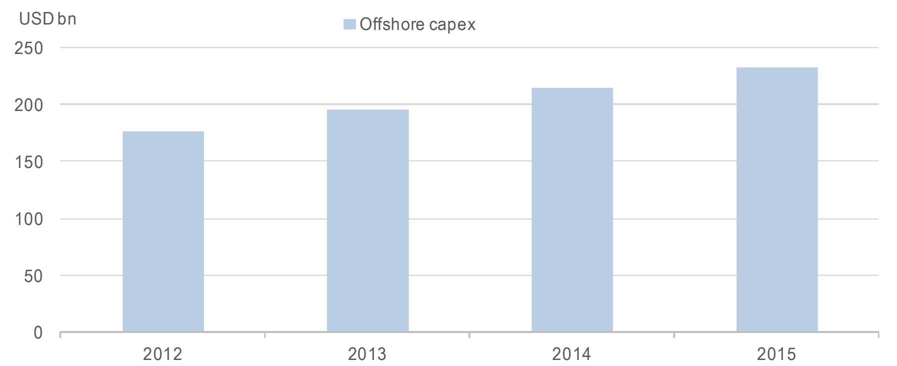
Oil prices: Stagnant prospectus due to prevailing bearish sentiment

We expect oil prices to hover near USD95/b in 4Q11, above the previous quarter's USD88.9, to be driven by the upcoming winter season and the fact that oil prices remain highly correlated with seasonal factors. Overall in 2011, we estimate oil prices will leap by 19% YoY to reach USD94.7/b. Due to prevailing bearish sentiment and the prospect of global economic slowdown, we linked our 2012 oil price estimates to the NYMEX futures contract, which currently stands at USD95.3/b. Since the onset of the global economic crisis, oil price movements have been closely correlated with equities, highlighting the continuing impact of the wider financial markets on crude prices.

Offshore capex to remain resilient

Despite prevailing bearish sentiment in the market, we expect offshore capex to remain resilient, growing by 12% and driven by such factors as: (1) the sustainability of international oil prices in the comfort zone of E&P producers (above USD77/b); and (2) rising deepwater exploration with a forecasted USD231bn capex 2011-15 vs. USD132bn spent during 2006-10 . Deepwater potential mainly resides in the golden triangle Africa, North America and Latin America. Recently, Latin America's Petrobas announced its plan to invest USD53bn in the development of its reserves in Brazil.

Figure 9.12 | **Global Offshore capex**



Source: Douglas Westwood

Sector Summary

Hydrocarbons & Related Services - SWOT Analysis	
Strengths	**Weaknesses**
• The fixed contract nature of offshore exploration acts as a temporary buffer against turbulent oil prices. • The sustainability of oil prices within the comfort zone of E&P producers, secures business appetite for further exploration. • Technological advancement prompted E&P companies to explore at greater depth conquering deep & ultra deepwater. • Rising deepwater production from nill to 9% of global oil production in 2010, offers more business opportunities for E&P companies.	• Prospects of recession casts its shadow on oil demand which dropped by 1% to 86.2 mb/d in 1H11. • The oversupply in the rig market depressed utilization rates, below 2010 levels. • Dwindling shallow water discoveries reduce exploration in such accessiblecost-effective areas.
Opportunities	**Threats**
• Strengthening oil prices - above USD90/barrel are expected to boost E&P companies appetite for further discoveries. • Huge potential resides in the deepwater segment which is expected to attract USD231bn worth of capex 2011-15 vs. USD132bn spent during 2006-10. • Technological advancement is expected to enlarge the area of exploration to new ultra-deepwater areas.	• The inherent volatility of oil prices increases the industry's vulnerability to uncontrolled geopolitical factors. • Political instability and discontinuity in resource rich countries

Source: CI Capital Research

Maridive Oil Services

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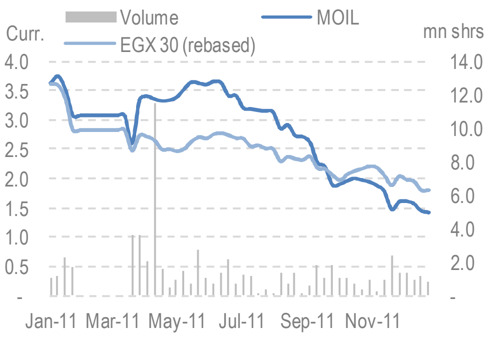
Egypt Book 2011/12 | Hydrocarbons & Related Services

Hold

TP – USD2.3 | 50% Upside

January 26, 2012

52 week Share Performance



Stock Details

Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/Moderate
Target Price/LTFV (USD)	2.25 / 2.58
Last Price (USD)	1.50
52 Week High	3.72
52 Week Low	1.34
6M Av. Daily Vol. (000' shrs)	211.93
% Chg: MoM / 6M / YoY	-1.3 / -52.2 / -56.8
No. of Shares (mn)	307.20
Mkt. Cap (EGPmn)	2,784.29
Mkt. Cap (USDmn)*	460.80
Free Float (%)	30.00
Paid in Capital (USDmn)	122.88
Reuters / Bloomberg	MOIL.CA / MOIL Ey Equity
ISIN	EGS44012C010

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Maridive & Oil Services Company [MOIL] is a free-zone joint stock company established in 1978. Based in Port Said with offices in Cairo, Alexandria, and Abu Dhabi, Maridive's primary function is to provide Offshore Support Vessels (Marine services) and Offshore Construction Services (Project services) to oil exploration and production companies. The company's operations are executed via both the holding company and its subsidiaries: Maritide Offshore Oil Services (MOS), Valentine Maritime, and Maridve Offshore Projects (MOP).

Maridive is a highly-integrated marine and offshore oil service company. With over 30 years' experience, MOS is Egypt's largest marine and offshore oil services company and a leading regional player in terms of fleet size, with 71 marine units. It also continues to win international contracts from the Gulf to Gabon, East Asia and Mexico.

Ownership Structure

Free Float	30.0%
Offshore Oil Projects	21.0%
Eleish Family	14.0%
Zeid Family	14.0%
Nadim Family	13.0%
CIB	4.0%
EFG Private Equity	4.0%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Low contract visibility dampens potential

- **2011 E&P spending continued its recovery, rising by 11% YoY to USD490bn.**
- **In 9M11, MOIL witnessed the entry of five new vessels and new markets, namely Brazil; yet earnings contracted by 21%.**
- **2012 poses a challenge for MOIL to secure sizable contracts.**

2011 witnessed a sustainable recovery of global E&P spending, which rose by 11%YoY to USD490bn. In the early half of 2011, MOIL exhibited positive results, recording a 31% leap in net profit rose; while revenues rose by 45%. The company also witnessed the entry of 5 new vessels — including several high HP vessels (above 10,000HP). However, in 9M11, depressed gross profit – which reached 34% vs. 41% a year ago, due to new fleet's mobilization cost – cut earnings by 21% to USD30.308mn. In 2012, the rising threat of global economic slowdown and the associated bearish sentiment in the oil market may undermine MOIL's chances to secure new sizable contracts. MOIL's current backlog stands at USD558mn, 7% lower than the USD601mn backlog attained a year earlier.

2011 Review

In 2011, MOIL witnessed: (1) the securing of new OSV contracts in Brazil and Tunisia; (2) the engagement in two mega OCS projects in Saudi Arabia and India; (3) 7% contraction in its backlog reaching USD558mn (2011-2014) vs. USD601mn a year ago, due to the company's inability to secure new sizable OCS contracts; and (4) the entry of new 5 new vessels with higher horse power of (10,000HP and above). In 9M11, MOIL's revenues rose by 21% YoY; gross profit dropped to 34% vs. 41% a year ago, due to higher mobilization cost of the new fleet. Accordingly, earnings contracted by 21% to USD30.3mn.

2012 Preview

In 2012, MOIL could face several challenges in securing new significant and profitable contracts. First, there is the fear of a protracted global economic pick-up, which induced the IMF to revise downward its world GDP forecast from 4.51% to 4% in September 2011. Second, the Organization of Petroleum Exporting Countries (OPEC) revised its 2012 global demand downward by 0.3% to reach 89mb/d. Finally, the company's lackluster record in securing sizeable contracts in 2011 (despite prevailing bullish sentiment in industry) manifested in a 7% contraction in backlog, which currently stands at USD558mn vs. USD601mn, a year earlier.

Valuation & Recommendation

Our updated DCF model yielded an LTFV of USD2.58/share. We calculated our TP by assigning equal weights to (i) the relative value of USD2.23 based on an estimated international peers' average 2011e PER of 13x; (ii) the relative value of USD1.94/share based on international peers' average 2011e EV/EBITDA of 7.8x; and (iii) our LTFV of USD2.58/share. We set our TP at USD2.25, lending MOIL a Hold recommendation.

Financial Statements

Maridive Oil Services (MOIL)

MOIL | USDmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	78.9	21.5	10.0	8.9	10.0	10.4
Current Assets	169.4	152.8	151.6	183.2	206.1	211.3
Total Assets	496.7	558.1	648.7	866.5	881.1	895.9
Current Liabilities	155.4	123.7	200.7	414.5	424.4	398.5
Total Debt	132.9	168.3	240.8	371.6	320.0	257.8
Net Debt	54.0	146.8	230.8	362.7	310.0	247.3
Total Liabilities	256.6	257.2	363.8	536.1	503.1	454.6
Shr Equity (Book Value)	211.4	271.9	247.5	272.7	298.7	329.9
Minority Interest	26.1	25.9	33.8	54.0	75.8	107.8
Provisions	2.5	3.1	3.6	3.6	3.6	3.6
Total Liabilities & Equity	496.7	558.1	648.7	866.5	881.1	895.9
Income statement						
Revenue	257.7	247.0	322.3	411.6	464.1	482.3
COGS	-125.2	-122.1	-198.6	-253.4	-286.2	-264.5
Gross Profit	132.5	124.9	123.7	158.2	177.9	217.8
EBITDA	109.5	100.4	96.0	122.6	137.9	179.8
EBIT	95.9	80.8	75.1	92.8	103.1	141.5
Int. Income	0.0	0.2	0.1	0.1	0.1	0.1
Int. Expense	-4.6	-3.8	-7.1	-13.7	-12.8	-10.9
PBT	83.6	81.7	65.2	83.3	90.4	130.7
NPAT	82.2	80.2	60.2	73.3	79.5	115.1
Net Income	69.0	71.9	48.5	53.1	57.8	83.0
Normalised Net Income	69.0	71.9	48.5	53.1	57.8	83.0
Ordinary Dividends	58.1	42.1	18.4	27.9	31.8	51.8
Cash Flow Summary						
COPAT	96.7	92.7	78.3	92.3	105.3	132.1
FCFF	-6.5	-13.7	-21.3	-123.2	74.2	74.1
Change in Cash	68.1	-57.4	-11.5	-1.1	1.1	0.4
Key Multiples						
Per Share Data						
EPS (Basic) (USD)	0.22	0.23	0.16	0.17	0.19	0.27
EPS (Normalised) (USD)	0.22	0.23	0.16	0.17	0.19	0.27
Dividend Per Share	0.19	0.14	0.06	0.09	0.10	0.17
Book Value Per Share	0.69	0.89	0.81	0.89	0.97	1.07
Valuation						
PER (Basic) (x)	6.68	6.41	9.50	8.67	7.98	5.55
PER (CICR) (x)	6.68	6.41	9.50	8.67	7.98	5.55
PBV (x)	2.18	1.69	1.86	1.69	1.54	1.40
Dividend Yield (%)	12.61	9.14	4.00	6.05	6.90	11.24
Earnings Yield (%)	14.97	15.61	10.52	11.53	12.54	18.01
EV/Revenue (x)	2.10	2.56	2.25	2.13	1.82	1.69
EV/EBITDA (x)	4.94	6.31	7.55	7.16	6.14	4.54
Market Capitalisation (USDmn)	460.8	460.8	460.8	460.8	460.8	460.8
Enterprise Value (USDmn)	540.9	633.5	725.4	877.5	846.5	815.9
Profitability						
ROE (%)	32.64	26.46	19.60	19.48	19.34	25.16
ROA (%)	13.89	12.89	7.48	6.13	6.56	9.27
Asset Turnover (x)	0.52	0.44	0.50	0.47	0.53	0.54
EBITDA Margin (%)	42.47	40.65	29.80	29.78	29.70	37.28
Liquidity						
ND/Equity (x)	0.26	0.54	0.93	1.33	1.04	0.75
ND/EBITDA (x)	0.49	1.46	2.40	2.96	2.25	1.38

Source: Company Financials & CICR Database

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Mills

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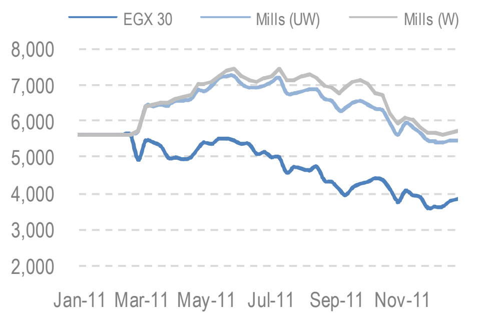
Egypt Book 2011/12 | Sector Review

AFMC | Underweight **CEFM | Underweight** **MILS | Hold**
EDFM | Buy **WCDF | Buy** **SCFM | Sell**
UEFM | Strong Buy

January 26, 2012

Mills | 52 Wk Performance*



Sector Growth Drivers

- 2.1% annual population growth fuels demand for bread.
- Inelastic demand.
- Government support for subsidized bread.
- GASC responsible for supplying wheat used in subsidized flour bread.

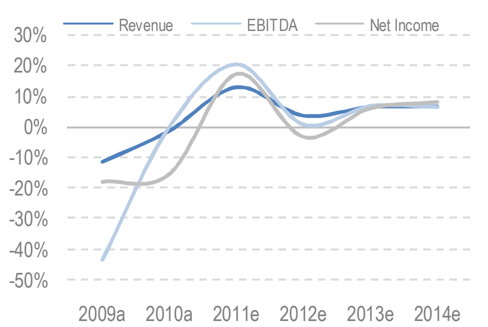
Sector Risks

- More than one government authority responsible for the industry, leading to conflicting decisions.
- Government intervention in the sector: price-setting & production quotas.
- International wheat prices impact fine flour margins.

Sector KPIs | 2008/09-2010/11

Source: MoA, BBG, CICH	08/09	09/10	10/11
Total wheat production (mn tons)	8.5	7.2	8.4
Total wheat consumption (mn tons)	16.8	17.5	19.0
Self-sufficieny ratio (%)	50.5%	41.0%	44.1%
Local wheat price (EGP/ton)	1,641.5	1,809.0	2,345.0
Int'l wheat price (EGP/ton)	1,154.4	1,011.6	1,804.2
Public sector's 82% & 76%- flour share	65.3%	66.4%	59.8%
Public sector's 72%- flour share	8.7%	5.9%	6.4%

Coverage KPIs | 2009-14e†



*Comprises all sector stocks constituting CI Capital 100 Index; † Aggregate of CI Capital Research covered stocks.

Government holds the line

- **Wheat imports will maintain their significant contribution to consumption**
- **Higher wheat procurement price, yet beet cultivation remains more lucrative**
- **Ministry of Finance pondering an increase in crushing fees, which will improve public mills' EBITDA margin if approved**

Milling is a key sector of the Egyptian economy as it deals with wheat, a strategic commodity and the fundamental ingredient in the production of bread. Egypt is one of the world's top wheat importers, fulfilling more than half of its total wheat needs with foreign sources, and total consumption amounting to 19mn tons in FY10/11. As far as domestic supply is concerned, the public sector produced an average c.60% of total subsidized flour in FY10/11. The bread subsidy costs the Egyptian government around EGP16bn annually while the public sector's share of fine flour came in at 7% in FY10/11. The public milling sector benefits from the General Authority for Supply Commodities (GASC)'s supply of required wheat volumes for the production of subsidized bread. However, milling companies showed weaker operational performance in crushing activities in FY10/11 due to the higher cost of crushing wheat for subsidized flour, compared to a crushing fee of EGP75/ton fee levied by the GASC. The Ministry of Agriculture officially announced a 9% higher local wheat procurement price of EGP380/ardab in the current FY11/12 season, compared to EGP350/ardab in the last season.

Review 2011

Cultivated wheat area increased 2% from 3mn feddan to almost 3.1mn feddan in FY10/11, which we attribute to 30% higher wheat prices of EGP350/ardab. In addition, average crop yield per feddan rose from 15.9 ardab to 18.3 ardab, bringing the total for local wheat production up 17% to 8.4mn tons. Total public sector crushed wheat for subsidized flour came 1% higher at 5.1mn tons in FY10/11. The Ministry of Agriculture and the Ministry of Social Solidarity and Justice have put forth a proposal to increase the current crushing fee (EGP75/ton since 2007) to EGP112.5/ton, which the Ministry of Finance is still reviewing. The public sector's average dividend yield was 8.4% in FY10/11, with Middle & West Delta Mills [WCDF] and Upper Egypt Mills [UEFM] delivering the highest yields: at 11.7% and 10.3% respectively.

Preview 2012

The government officially announced a 9% higher local procurement price for FY11/12 of EGP380/ardab to encourage farmers to cultivate wheat. However, the revenue per feddan of beet cultivation (a major competing crop to wheat) is 11% higher than that of wheat, which could rein the growth of wheat cultivated land. Total public sector crushed wheat for subsidized flour is expected to increase 11% to 5.7mn tons, whilst the total crushed wheat for fine flour is expected to report a 1% increase to 292,500 tons.

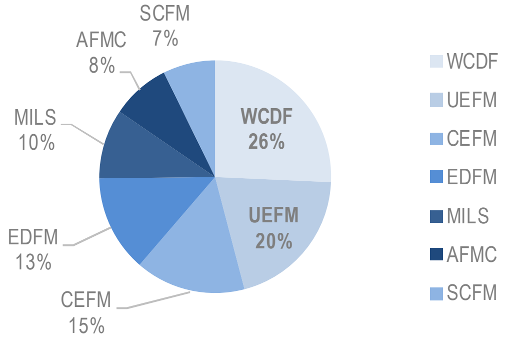
Industry Developments

The public sector usually crushes wheat to produce 82%-extraction subsidized flour. In a move aimed at improving the quality of bread, however, the public sector produces higher quality 76%-extraction subsidized flour for use in "Al-Tabakky bread." The public sector held the highest market share 60% of subsidized flour (82% and 76%-extractions) in FY10/11, and wheat used to produce this type of flour represented 94% of total crushed grains for the public sector. Total crushed wheat used by the sector to produce subsidized flour increased slightly by almost 1% YoY to 5.1mn tons in FY10/11. WCDF held the largest share of public sector subsidized flour production of 26%, followed by UEFM with 20%.

The private sector, meanwhile, controls production of 72%-extraction fine flour, while the public sector's share of fine flour production was a mere 7% in FY10/11. The total public sector crushed wheat for fine flour increased YoY by 4% from 281,300 tons in FY09/10 to 291,000 tons in FY10/11. UEFM alone accounts for 45% of fine flour produced by the public sector, which it produces through its 54.5%-owned subsidiary, Wadi El-Melouke for Milling Company (WEM).

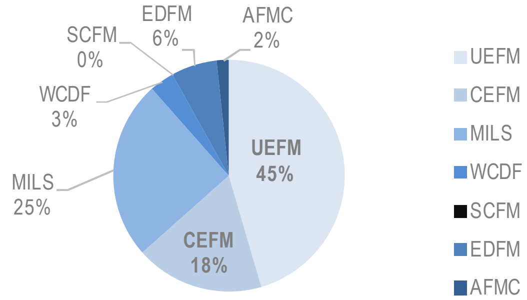
Public companies also crush maize to mix with wheat flour, which helps ease wheat consumption. Crushed maize represented 0.7% of total crushed grains in FY10/11.

Figure 10.1 | **Public Sector Share of Subsidized flour (FY10/11)**



Source: Company Reports

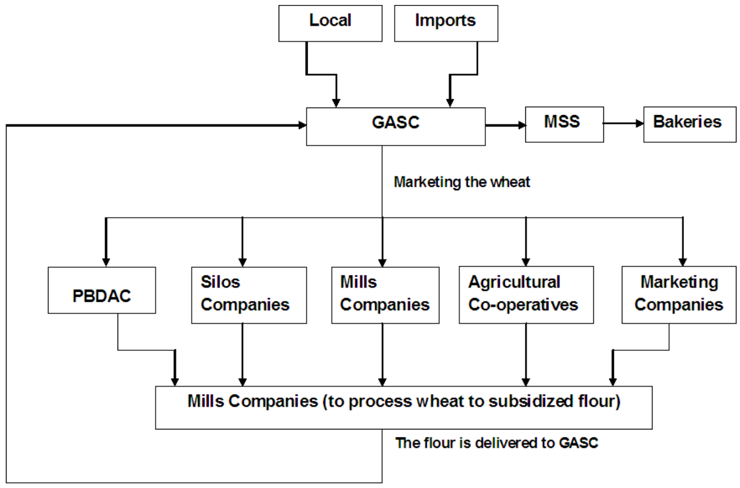
Figure 10.2 | **Public Sector Share of Fine flour (FY10/11)**



Source: Company Reports

The GASC is responsible for providing both public and private sector milling companies with wheat for use in the production of subsidized flour. The distribution chain for subsidized flour is fragment. Around 24,000 bakeries specialize in the production of subsidized bread. As a result, it is difficult for government authorities to monitor their activities. Some bakeries take advantage of the lack of oversight and engage in a black market flour trade.

Figure 10.3 | **Subsidized Flour (82% & 76%-extractions) Supply Process**



Source: CI Capital Research

The government currently spends around EGP16bn on bread subsidies each year. In order to supply wheat, the GASC either purchases crops itself or provides financing to milling companies for the purchase of wheat. The difference between wheat purchase price, the milling fee and the sale price of flour is the bread subsidy.

Figure 10.4 | **Flour Subsidization Process**

Note: One ton of crushed wheat yields 0.82 ton of subsidized flour (82%-extraction) or 0.76 ton of subsidized flour (76%-extraction)

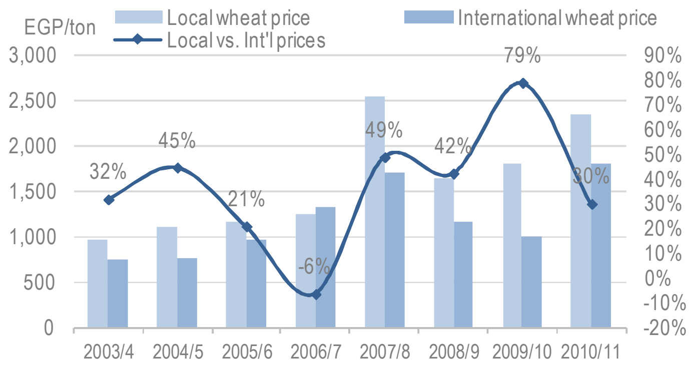
Source: CI Capital Research

2010/11 Review

Wheat is a winter crop cultivated from October to December and harvested from April to July. The Ministry of Agriculture usually announces the price of wheat prior to the cultivation season. Although the government sets wheat prices above international prices, wheat cultivation is usually less profitable to farmers in terms of revenue per feddan compared to beet- a competing winter crop.

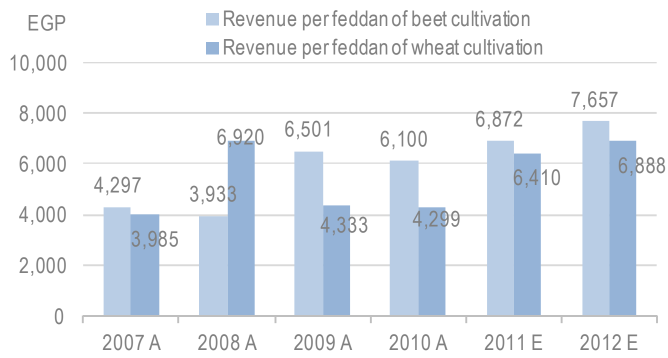
Accordingly, the price of local wheat increased by 30% YoY to EGP350/ardab, equivalent to EGP2,345/ton (1 ton = 6.7 ardab) in FY10/11, compared to an average international price of EGP1,804/ton during the same period, making imported wheat less costly to the government than local wheat.

Figure 10.5 | **Local vs. Int'l Wheat Prices (2004/05-2010/11)**



Source: Ministry of Agriculture, Bloomberg and GASC

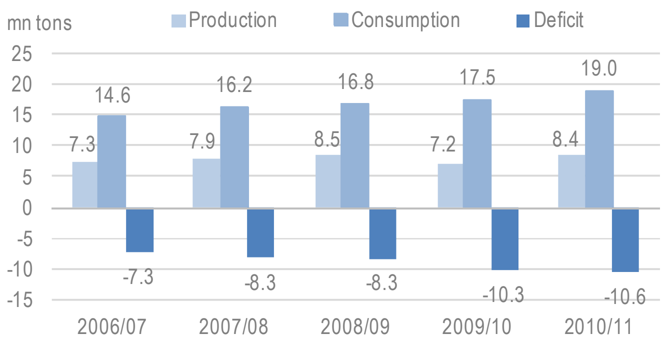
Figure 10.6 | **Revenue/feddan wheat vs. beet cultivation (2007A-12E)**



Source: The Ministry of Agriculture, USDA and CI Capital Research

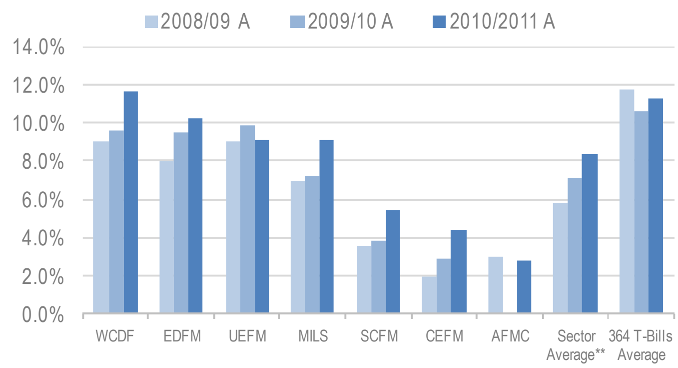
The cultivated area of wheat grew by c.2% YoY from 3mn feddans to almost 3.1mn feddans in FY10/11, which we attribute to the 30% higher wheat prices the government assigned in FY10/11 season. On top of this, average yield per feddan grew from 15.9 ardab to 18.3 ardab. Total local crushed wheat therefore grew 17% to 8.4mn tons in FY10/11. However, local wheat supplied to milling companies represented c.30% of local wheat production, while the remaining balance was used by farmers and leaked during transportation and storage process. Total crushed wheat used by the public sector to produce subsidized flour increased almost YoY by 1% to 5.1mn tons.

Figure 10.7 | **Wheat Production & Consumption (2006/07-2010/11)**



Source: The Ministry of Agriculture, USDA and CI Capital Research

Figure 10.8 | **Public Sector Dividend Yields* vs. 364 T-Bills yield**



*Dividend yield is calculated based on the closing price of the AGM date.
Source: Company reports, Reuters and CI Capital Research

Egypt remains one of the world's top wheat importers, importing more than half of its consumption. The GASC (which is affiliated with the Ministry of Industry & Foreign Trade) contracts with private companies to import the wheat used in the production of subsidized flour. GASC wheat imports made up c.57% of total wheat imports over the last three years.

Meanwhile, the public milling sector offered a high average dividend yield of 8.4% in FY10/11. Middle & West Delta Mills [WCDF], Upper Egypt Mills [UEFM] and East Delta Mills [EDFM] led the pack with respective dividend yields of 11.7%, 10.3% and 9.2%.

2011/12 Preview

The Egyptian government officially announced local wheat prices for the FY11/12 season at EGP380/ardab, 9% higher than the previous year's EGP350/ardab. However, the revenue per feddan of beet cultivation (a major competing crop to wheat) is 11% higher than that of wheat, which could rein the growth of wheat cultivated land. We believe that the total public sector of crushed wheat for subsidized flour will increase 11% to 5.7mn tons in FY11/12.

Figure 10.9 | **Local Wheat Production and Consumption (FY2007/08 - FY2015/16)**

Total Wheat Consumption (000 tons)	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16
Local Wheat	**7,937**	**8,481**	**7,169**	**8,371**	**8,789**	**9,229**	**9,690**	**10,174**	**10,683**
Procured Wheat	2,400	3,000	2,140	2,512	2,631	2,762	2,900	3,045	3,198
Leakage	5,537	5,481	5,029	5,859	6,158	6,466	6,790	7,129	7,486
Imported Wheat	**8,310**	**8,320**	**10,300**	**10,600**	**11,130**	**11,687**	**12,271**	**12,884**	**13,529**
GASC	6,455	5,090	5,530	6,088	6,392	6,712	7,048	7,400	7,770
Private	1,855	3,230	4,770	4,512	4,738	4,975	5,223	5,484	5,759
Total Wheat Consumption	**16,247**	**16,801**	**17,469**	**18,971**	**19,919**	**20,915**	**21,961**	**23,059**	**24,212**
Growth rate		3.4%	4.0%	8.6%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Wheat Consumption	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**
Subsidized production (82%, 76% & subsidized 72%)	8,855	8,090	7,670	8,600	9,023	9,474	9,948	10,445	10,967
Non-subsidized production (72%)	1,855	3,230	4,770	4,512	4,738	4,975	5,223	5,484	5,759
Total	**10,710**	**11,320**	**12,440**	**13,112**	**13,761**	**14,449**	**15,171**	**15,930**	**16,726**
Leakage & Rural consumption	5,537	5,481	5,029	5,859	6,158	6,466	6,790	7,129	7,486
Grand Total (Production+ Leakage)	16,247	16,801	17,469	18,971	19,919	20,915	21,961	23,059	24,212

Source: MOA, GASC, USDA & CI Capital Research

Sector Summary

Mills - SWOT Analysis	
Strengths	**Weakness**
• Inelasticity of demand for its strategic products. • Advantageous geographical distribution of public sector companies throughout Egypt. • GASC's reponsibility for supplying wheat used for subsidized flour production. • Public sector companies own a strong transportation fleet	• Multiple governmental authority responsible for wheat milling industry making conflicting decisions. • Government intervention in the production and pricing of subsidized flour, enforcing the public sector to produce subsidized flour with low profit margins.
Opportunities	**Threat**
• Population growth of c.2.1% p.a. which fueles the demand for bread. • Higher procurement price of EGP380/Ardab from EGP350/Ardab would enhance more cultivated lands.	• International wheat prices fluctuations affecting flour (72%-extraction) profit margins. • Crushing fee remains unchanged at EGP75/ton whilst the crushing cost exceeded EGP100/ton.

Source: CI Capital Research

Alexandria Mills

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Egypt Book 2011/12 | Consumer Staples

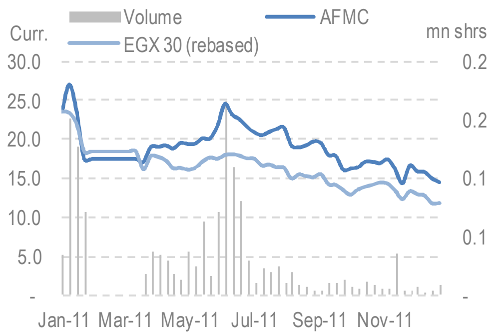
Mills

Underweight

TP - EGP 15.2 | 0.7% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Underweight/Moderate
Target Price/LTFV (EGP)	15.2 / 15.2
Last Price (EGP)	15.10
52 Week High	25.40
52 Week Low	14.00
6M Av. Daily Vol. (000' shrs)	2.03
% Chg: MoM / 6M / YoY	-0.5 / -27.3 / -34.5
No. of Shares (mn)	4.00
Mkt. Cap (EGPmn)	60.40
Mkt. Cap (USDmn)*	10.00
Free Float (%)	17.90
Paid in Capital (EGPmn)	40.00
Reuters / Bloomberg	AFMC.CA / AFMC Ey Equity
ISIN	EGS30471C014

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Alexandria Mills [AFMC] was established in 1965 under Presidential Decree No. 2475 and 2483/1965. It was later re-established under Law No. 203/1991 as a subsidiary of the Holding Company for Food Industries. AFMC's purpose is to manufacture, import and distribute flour, cereals and their related products. The company operates 11 mills with an annual production capacity of 571k tons in addition to 5 bakeries and 3 macaroni factories.

AFMC held a market share of 9% in the production of subsidized flour and 3% in the production of fine flour in FY08/09. The company currently holds an authorized capital of EGP 100mn and a paid-in capital of EGP 40mn, distributed over 4mn shares at a par value of EGP 10/share.

Ownership Structure	
Holding Company for Food Industries	60.0%
Mr.Ahmed Diaa El-Din	10.0%
Employee Association	10.0%
Others	2.1%
Free float	17.9%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Small player, low dividend yield

- **Small player in subsidized flour production with FY10/11 market share of 8%.**
- **Small player in fine flour production market with FY10/11 share of 2%.**
- **Low dividend yield stock of 4.5% in FY10/11 below sector average of 8.4%**

Alexandria Mills [AFMC] held an 8% share of subsidized flour production in FY10/11, a small figure compared to its local peers. The firm is also a small player in the fine flour market, controlling a mere 2% market share, and offers a low FY10/11 dividend yield of 4.5% at AGM date (a 3.1% average over the last three years), well below the sector's 8.4% average.

2011 Review

AFMC's FY10/11 earnings decreased 15% YoY to EGP5.7mn on the back of 23bps decline in EBITDA margin to 4.4% vs. 4.6% a year ago in addition to provisions of EGP1.8mn in FY10/11 vs. EGP0.2mn a year ago. AFMC's volume of crushed wheat declined 4% YoY to 420,000 tons to produce subsidized flour due to the company's adherence to the Ministry of Social Solidarity and Justice's decision of specified quotas of crushed wheat in addition to halting four mills (representing 36% of the company's total mills) for development. This lead to a drop of AFMC's market share to 8% in FY10/11, down from 9% a year ago. Meanwhile, although COGS/sales declined to 87.8% vs. 89.5% a year ago, SG&A/sales increased to 7.7%, up from 5.9% a year ago, leading to a drop in margins. AFMC distributed a DPS of EGP0.75, implying a payout ratio of 52% in FY10/11. This implies a dividend yield of 4.5% - well below the sector's 8.4% average.

2012 Preview

We forecast AFMC's net income to grow by 4% to EGP6mn in FY11/12. Given that the Government has not yet approved an increase in the current milling fee of EGP75/ton, we expect margins to be pressured given higher crushing costs due to higher wages and electricity costs. We expect EBITDA margin to fall to 3.7%, down from 4.4% a year ago. Finally, AFMC approved an EGP15mn Capex plan in FY11/12, mainly for replacement and renewal of a mill and transportation fleet.

Valuation & Recommendation

Our DCF model yielded an LTFV of EGP15.2/share, and we set our target price to match it. AFMC currently trades at a forward FY11/12 P/ER of 10x (above the sector average of 5.4x). We assigned an Underweight recommendation on the stock with a Moderate Risk rating.

Alexandria Mills (AFMC)

AFMC | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	68.2	40.7	33.8	56.0	41.8	52.1
Current Assets	136.9	100.4	101.5	121.4	114.8	130.4
Total Assets	225.6	181.9	188.2	203.9	199.8	207.9
Current Liabilities	129.9	97.7	102.6	124.1	117.1	124.6
Total Debt	13.3	8.0	8.0	5.3	5.3	2.7
Net Debt	-55.0	-32.8	-25.9	-50.7	-36.5	-49.5
Total Liabilities	143.2	105.6	110.5	129.4	122.4	127.3
Shr Equity (Book Value)	57.4	55.8	56.2	55.3	58.1	61.4
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	25.0	20.5	19.6	16.9	16.9	16.9
Total Liabilities & Equity	225.6	181.9	188.2	203.9	199.8	207.9
Income statement						
Revenue	343.1	280.9	261.4	264.0	296.2	315.0
COGS	-286.3	-255.6	-233.9	-231.9	-264.9	-281.7
Gross Profit	56.8	25.3	27.6	32.1	31.3	33.3
EBITDA	44.0	11.1	12.2	11.7	11.1	11.8
EBIT	31.4	-0.7	1.2	0.3	-1.1	-1.1
Int. Income	3.0	5.2	3.1	3.5	3.9	4.8
Int. Expense	0.0	0.0	0.0	0.0	0.0	0.0
PBT	23.9	10.5	9.5	7.5	9.5	10.8
NPAT	18.0	9.9	8.4	6.6	8.4	9.5
Net Income	10.4	6.6	6.8	5.7	6.0	7.0
Normalised Net Income	10.4	6.6	6.8	5.7	6.0	7.0
Ordinary Dividends	3.0	3.0	2.8	3.0	3.2	3.7
Cash Flow Summary						
COPAT	32.8	10.4	11.0	10.8	10.0	10.5
FCFF	77.7	-20.7	-4.4	31.9	-18.8	8.0
Change in Cash	35.4	-27.5	-6.9	22.2	-14.3	10.4
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	2.60	1.65	1.70	1.44	1.50	1.75
EPS (Normalised) (EGP)	2.60	1.65	1.70	1.44	1.50	1.75
Dividend Per Share	0.75	0.75	0.70	0.75	0.79	0.93
Book Value Per Share	14.36	13.94	14.05	13.81	14.52	15.34
Valuation						
PER (Basic) (x)	5.80	9.13	8.90	10.51	10.09	8.64
PER (CICR) (x)	5.80	9.13	8.90	10.51	10.09	8.64
PBV (x)	1.05	1.08	1.07	1.09	1.04	0.98
Dividend Yield (%)	4.97	4.97	4.64	4.97	5.25	6.14
Earnings Yield (%)	17.24	10.95	11.23	9.52	9.91	11.58
EV/Revenue (x)	0.02	0.10	0.13	0.04	0.08	0.03
EV/EBITDA (x)	0.12	2.49	2.84	0.83	2.16	0.92
Market Capitalisation (EGPmn)	60.4	60.4	60.4	60.4	60.4	60.4
Enterprise Value (EGPmn)	5.4	27.6	34.5	9.7	23.9	10.9
Profitability						
ROE (%)	18.13	11.86	12.07	10.41	10.31	11.40
ROA (%)	4.61	3.64	3.61	2.82	3.00	3.36
Asset Turnover (x)	1.52	1.54	1.39	1.29	1.48	1.51
EBITDA Margin (%)	12.83	3.95	4.65	4.41	3.75	3.75
Liquidity						
ND/Equity (x)	-0.96	-0.59	-0.46	-0.92	-0.63	-0.81
ND/EBITDA (x)	-1.25	-2.96	-2.13	-4.35	-3.28	-4.19

Source: Company Financials & CICR Database

CAPITAL RESEARCH

A CIB Group Member

Central Egypt Mills

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Egypt Book 2011/12 | Consumer Staples

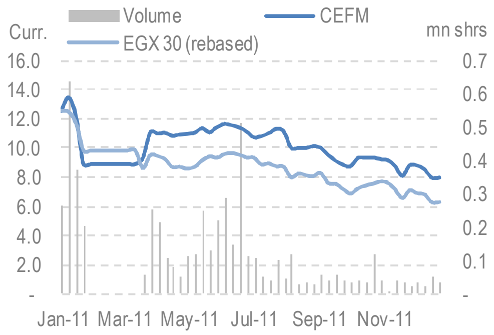
Mills

Underweight

TP - EGP 8.3 | 10.2% Upside

January 26, 2012

52 week Share Performance



Stock Details

As at: 21-Jan-12

CICR Rating/Risk	Underweight/Low
Target Price/LTFV (EGP)	8.3 / 8.3
Last Price (EGP)	7.53
52 Week High	12.33
52 Week Low	7.46
6M Av. Daily Vol. (000' shrs)	9.83
%Chg: MoM / 6M / YoY	-6.8 / -31.9 / -37.4
No. of Shares (mn)	14.72
Mkt. Cap (EGPmn)	110.86
Mkt. Cap (USDmn)*	18.35
Free Float (%)	26.90
Paid in Capital (EGPmn)	147.23
Reuters / Bloomberg	CEFM.CA / CEFM Ey Equity
ISIN	EGS30401C011

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Central Egypt Mills [CEFM] was established in 1965 under Presidential Decree No. 2478/1965 for the purpose of manufacturing, importing, transporting and distributing flour, cereals and their related products. It was re-established under Public Sector Companies Law No.203/1991.

CEFM operates 10 mills with an annual production capacity of 1mn tons, in addition to 8 bakeries and 2 macaroni production lines. The company held a market share of 14% in the production of subsidized flour and 20% in the production of fine flour in FY08/09 and has an authorized capital of EGP200mn. Of this, EGP 147.2mn is paid-in, being distributed over 14.7mn shares at a par value EGP 10/share.

Ownership Structure

Holding Company for Food Industries	51.1%
Free Float	26.9%
Mr. Ahmed Diaa El-Din Hussien	10.0%
Employee Association	6.4%
Misr Insurance Company	5.5%
Others	0.2%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Low dividend yield, high PER

- **Decent market share of 15% in subsidized flour production in FY10/11.**
- **Low dividend yield of 2.8% in FY10/11, below sector average of 8.4%.**
- **Trading at a high forward FY11/12 PER of 22.6x, well above the sector's 5.4x average.**

While Central Egypt Mills [CEFM] managed to maintain its share of subsidized flour production at 15% in FY10/11, the company's EBITDA margin narrowed from 5.4% to 3.1% during the same period. CEFM has offered a low dividend yield of 2.8% during FY10/11, below the sector's 8.4% average, while the stock currently trades at a high FY11/12 P/ER of 22.6x, above the sector's 5.4x average. Our DCF model yielded an LTFV of EGP8.3/share, and we set our target price to match it. All considered, we assigned an Underweight recommendation on the stock with a Low Risk rating.

2011 Review

CEFM's FY10/11 earnings declined 14% from EGP8.4mn to EGP7.2mn on declining margins. The company's volumes of crushed wheat for subsidized flour increased 2% YoY to 792,000 tons of wheat, while volumes of crushed wheat for fine flour declined 4% YoY to 52,000 tons of wheat. Although revenues increased 11% YoY to EGP604.9mn vs. EGP543.6mn a year ago, EBITDA margin declined by 229 bps to 3.1% on 38% higher wages. The decline in margins was greatly offset by a capital gain of EGP3.4mn, attributed to the sale of land plots in Beni Suef and Al-Minya governorates at a total value of EGP13mn, compared to EGP2.3mn a year ago. CEFM distributed a DPS of EGP0.25, implying a payout ratio of 50% in FY10/11. This implies a dividend yield of 2.8% - well below the sector's 8.4% average.

2012 Preview

We expect CEFM's net income to decline 32% YoY to EGP4.9mn in FY11/12, down from EGP7.2mn a year ago. This comes even as the company's volume of crushed wheat for subsidized flour is predicted to increase 10% YoY to 871,000 tons. The drop in earnings, then, is attributed to nil capital gain vs. EGP3.4mn a year ago. We took into account CEFM's approved capex plan of EGP32mn in FY11/12, EGP10mn of which will be used for the expansion of daily production capacity of two mills from 375 tons to 675 tons, while the remaining balance will be used for the purchase of machinery and transportation fleet.

Valuation & Recommendation

Our DCF model yielded an LTFV of EGP8.3/share, and we set our target price to match. CEFM trades at a high forward FY11/12 PER of 22.6x, well above the sector's 5.4x average. All considered, we assigned an Underweight recommendation on the stock with a Low Risk rating.

Financial Statements

Central Egypt Mills (CEFM)

CEFM | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	98.9	28.5	87.0	127.2	107.1	114.6
Current Assets	251.1	207.3	311.0	343.6	322.3	345.8
Total Assets	474.7	424.9	500.9	524.0	517.9	531.1
Current Liabilities	284.8	228.1	300.2	322.9	319.3	331.2
Total Debt	68.9	65.2	59.9	88.7	101.9	95.8
Net Debt	-30.0	36.7	-27.1	-38.5	-5.2	-18.9
Total Liabilities	292.0	235.3	307.3	330.0	321.5	331.2
Shr Equity (Book Value)	172.0	176.4	181.7	182.8	185.2	188.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	10.6	4.5	3.3	3.0	3.0	3.0
Total Liabilities & Equity	474.7	424.9	500.9	524.0	517.9	531.1
Income statement						
Revenue	719.9	561.0	543.6	604.9	643.0	688.2
COGS	-623.4	-486.5	-472.6	-526.5	-559.4	-598.7
Gross Profit	96.5	74.5	70.9	78.3	83.6	89.5
EBITDA	68.8	37.9	29.3	18.8	20.3	21.7
EBIT	49.7	19.2	11.5	1.2	2.5	4.2
Int. Income	5.0	8.2	6.2	6.4	6.6	7.1
Int. Expense	-7.9	-11.3	-8.8	-5.8	-5.9	-5.7
PBT	43.2	17.4	7.1	4.2	5.7	8.3
NPAT	42.3	16.8	6.1	4.2	4.9	7.1
Net Income	25.2	17.6	8.4	7.2	4.9	7.1
Normalised Net Income	25.2	17.6	8.4	7.2	4.9	7.1
Ordinary Dividends	11.8	7.4	0.0	3.7	2.5	3.6
Cash Flow Summary						
COPAT	65.7	34.9	28.4	18.8	19.5	20.6
FCFF	56.7	-34.4	69.5	16.7	-31.4	14.5
Change in Cash	32.8	-70.4	58.5	40.2	-20.1	7.5
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.71	1.19	0.57	0.49	0.34	0.48
EPS (Normalised) (EGP)	1.71	1.19	0.57	0.49	0.34	0.48
Dividend Per Share	0.80	0.50	n/a	0.25	0.17	0.24
Book Value Per Share	11.69	11.98	12.34	12.42	12.58	12.82
Valuation						
PER (Basic) (x)	4.40	6.30	13.12	15.31	22.43	15.56
PER (CICR) (x)	4.40	6.30	13.12	15.31	22.43	15.56
PBV (x)	0.64	0.63	0.61	0.61	0.60	0.59
Dividend Yield (%)	10.62	6.64	n/a	3.29	2.25	3.24
Earnings Yield (%)	22.73	15.87	7.62	6.53	4.46	6.43
EV/Revenue (x)	0.11	0.26	0.15	0.12	0.16	0.13
EV/EBITDA (x)	1.18	3.89	2.86	3.85	5.20	4.23
Market Capitalisation (EGPmn)	110.9	110.9	110.9	110.9	110.9	110.9
Enterprise Value (EGPmn)	80.9	147.6	83.8	72.4	105.7	92.0
Profitability						
ROE (%)	14.65	9.97	4.65	3.96	2.67	3.77
ROA (%)	5.31	4.14	1.69	1.38	0.95	1.34
Asset Turnover (x)	1.52	1.32	1.09	1.15	1.24	1.30
EBITDA Margin (%)	9.56	6.76	5.40	3.11	3.16	3.16
Liquidity						
ND/Equity (x)	-0.17	0.21	-0.15	-0.21	-0.03	-0.10
ND/EBITDA (x)	-0.44	0.97	-0.92	-2.04	-0.25	-0.87

Source: Company Financials & CICR Database

East Delta Mills

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Egypt Book 2011/12 | Consumer Staples

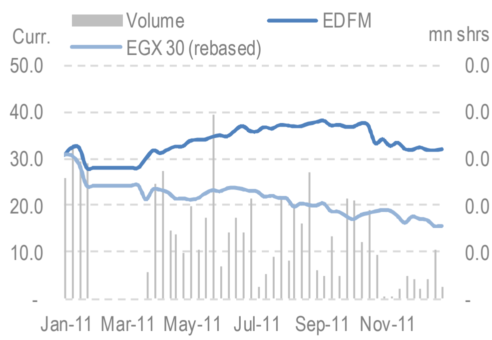
Mills

Buy

TP - EGP 40.1 | 20.0% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Buy/Low
Target Price/LTFV (EGP)	40.1 / 40.1
Last Price (EGP)	33.41
52 Week High	38.50
52 Week Low	27.00
6M Av. Daily Vol. (000' shrs)	1.05
% Chg: MoM / 6M / YoY	1.4 / -2.6 / 4.6
No. of Shares (mn)	6.00
Mkt. Cap (EGPmn)	200.46
Mkt. Cap (USDmn)*	33.19
Free Float (%)	40.10
Paid in Capital (EGPmn)	60.00
Reuters / Bloomberg	EDFM.CA / EDFM Ey Equity
ISIN	EGS30351C018

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

East Delta Mills [EDFM] was established in 1965 for the purpose of manufacturing, importing, transporting and distributing flour, cereals and their related products. EDFM operates 14 mills with an annual production capacity of 921.5k tons in addition to 9 bakeries and a macaroni plant. EDFM had respective market shares of 14% and 3% in the production of subsidized flour (82%-extraction) and flour (72%-extraction) in FY08/09. The company has an authorized capital of EGP150mn and a paid-in capital of EGP60mn distributed over 6mn shares at a par value EGP 10/share.

Ownership Structure	
Free Float	40.1%
Holding Company for Food Industries	25.5%
Others	3.1%
Mr. Mohamed Abdel Hamid Al-Feky	11.3%
Labor Association	10.0%
Mr.Mohamed Salah Al-Ragehy	10.0%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Solid market share, high dividend yield

- **Fourth largest-player in subsidized flour production with market share of 13% in FY10/11.**
- **A high dividend yield of 9.2% in FY10/11, above sector average of 8.4%.**
- **Trading at a FY11/12 PER of 6.4x, compared to the sector average of 5.4x.**

In FY10/11, East Delta Mills [EDFM] captured a solid 13% market share of subsidized flour production. Moreover, its share of fine flour production increased from 2% to 6%. EDFM offered a 9.2% dividend yield (as of the date of its annual assembly) in FY10/11 (vs. the sector average of 8.4%) and currently trades at forward 2011/12 PER of 6.4x (vs. the 5.4x sector average). Our DCF model yielded a LTFV of EGP40.1/share, and we have set our target price to match. All considered, we have assigned a Buy recommendation on the stock with a Low Risk rating.

2011 Review

EDFM's FY10/11 earnings increased YoY by 13% to EGP28.9mn, 46% (EGP13mn) of which consisted of sundry income. Revenues were up 9% YoY to EGP584.6mn. Also, EBITDA margin increased by 0.7pp from 3.5% to 4.2% on a 1pp improvement in gross profit margin, which itself was slightly narrowed by a 0.3pp increase in SG&A/sales. EDFM's volumes of crushed wheat for subsidized flour increased 2% YoY to 690,200 tons in FY10/11, while its volumes of crushed wheat to produce fine flour reported a massive increase of 270%, reaching 18,500 tons in the same period. EDFM distributed a DPS of EGP3.35, implying a payout ratio of 70% in FY10/11. This implies a dividend yield of 9.2% - above the sector's 8.4% average.

2012 Preview

For 2012, we have maintained EDFM's share of the subsidized flour market share at 13%, while assigning a 4% market share of fine flour extraction for the next five years. On a different note, we expect the company's revenues to increase by 13% YoY to 662mn, whilst bottom-line earnings are predicted to increase by 4% YoY to reach EGP30mn. Total crushed wheat for subsidized flour is expected to increase YoY by 10% to 759,777 tons whilst crushed wheat for fine flour is expected to decline by 36% YoY to 11,911 tons. EBITDA margin is expected to improve YoY by 1.7pp to 6%, and we expect the company to maintain its DPS at EGP3.35/share.

Valuation & Recommendation

Our DCF model yielded an LTFV of EGP40.1/share, and we set our target price to match it. EDFM currently trades on a forward FY11/12 PER of 6.4x compared to the 5.4x sector average. Hence, we assigned a Buy recommendation on the stock with a Low Risk rating.

Financial Statements

East Delta Mills (EDFM)

EDFM | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	103.2	22.8	20.7	31.5	30.9	33.0
Current Assets	171.6	83.4	72.8	79.1	87.7	93.3
Total Assets	498.9	486.9	391.6	453.3	466.3	488.1
Current Liabilities	325.9	322.2	230.0	292.2	295.4	306.7
Total Debt	0.0	18.9	1.6	11.6	9.5	2.3
Net Debt	-103.2	-4.0	-19.1	-19.9	-21.5	-30.7
Total Liabilities	325.9	322.2	230.0	292.2	295.4	306.7
Shr Equity (Book Value)	148.1	153.7	148.6	147.2	157.1	167.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	19.9	4.6	4.1	4.1	4.1	4.1
Total Liabilities & Equity	498.9	486.9	391.6	453.3	466.3	488.1
Income statement						
Revenue	582.2	579.5	538.3	584.6	661.9	705.4
COGS	-487.8	-530.9	-495.0	-531.4	-591.8	-629.8
Gross Profit	94.4	48.6	43.3	53.2	70.1	75.6
EBITDA	67.8	24.9	18.8	24.5	38.7	42.2
EBIT	54.6	24.9	18.8	24.5	25.4	27.1
Int. Income	3.3	4.1	1.3	1.6	1.7	1.8
Int. Expense	0.0	0.0	0.0	0.0	0.0	0.0
PBT	45.1	37.9	30.6	35.5	38.8	41.3
NPAT	32.4	30.6	25.5	28.9	30.0	31.9
Net Income	40.9	34.1	25.5	28.9	30.0	31.9
Normalised Net Income	32.4	25.7	17.2	20.6	30.0	31.9
Ordinary Dividends	20.1	20.1	20.1	20.1	20.1	21.4
Cash Flow Summary						
COPAT	55.1	17.6	13.7	17.9	29.9	32.9
FCFF	121.5	-16.8	-80.8	71.1	20.0	27.9
Change in Cash	64.9	-80.3	-2.1	10.8	-0.6	7.2
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	6.82	5.68	4.25	4.82	5.00	5.32
EPS (Normalised) (EGP)	5.41	4.28	2.86	3.43	5.00	5.32
Dividend Per Share	3.35	3.35	3.35	3.35	3.35	3.57
Book Value Per Share	24.68	25.61	24.77	24.54	26.19	27.95
Valuation						
PER (Basic) (x)	4.90	5.88	7.86	6.93	6.68	6.28
PER (CICR) (x)	6.18	7.80	11.68	9.75	6.68	6.28
PBV (x)	1.35	1.30	1.35	1.36	1.28	1.20
Dividend Yield (%)	10.03	10.03	10.03	10.03	10.02	10.68
Earnings Yield (%)	20.40	17.00	12.72	14.43	14.96	15.94
EV/Revenue (x)	0.17	0.34	0.34	0.31	0.27	0.24
EV/EBITDA (x)	1.44	7.90	9.66	7.38	4.62	4.02
Market Capitalisation (EGPmn)	200.5	200.5	200.5	200.5	200.5	200.5
Enterprise Value (EGPmn)	97.3	196.5	181.4	180.5	179.0	169.8
Profitability						
ROE (%)	27.62	22.18	17.15	19.65	19.09	19.05
ROA (%)	8.20	7.00	6.51	6.38	6.43	6.54
Asset Turnover (x)	1.17	1.19	1.37	1.29	1.42	1.45
EBITDA Margin (%)	11.64	4.29	3.49	4.19	5.85	5.99
Liquidity						
ND/Equity (x)	-0.70	-0.03	-0.13	-0.14	-0.14	-0.18
ND/EBITDA (x)	-1.52	-0.16	-1.02	-0.81	-0.55	-0.73

Source: Company Financials & CICR Database

![CI Capital Research logo]

North Cairo Mills

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Egypt Book 2011/12 | Consumer Staples

Mills

Hold

TP - EGP 17.5 | 16.7% Upside

January 26, 2012

A knack for fine flour and a decent yield

- **Second largest player in fine flour production with a market share of 25% in FY10/11.**
- **Dividend yield of 9.1% in FY10/11, above sector average of 8.4%.**
- **Flat c.10% share of subsidized flour production over the last two years.**

North Cairo Mills [MILS] is the second-largest player in the production of fine flour, having held a 25% market share in FY10/11 vs. 19% a year ago. MILS also enjoys a flat 10% share of subsidized flour production over the last two years. The firm had a decent dividend yield of 9.1% in FY10/11 (on its AGM date)- above the sector average of 8.4%, and currently trades on a forward FY11/12 PER of 5x, below the sector's 5.4x average, and its PER average of 7.7x in FY09/10 and FY10/11. Our DCF model yielded an LTFV of EGP17.5/share, and set our target price to match. All considered, we assigned a Hold recommendation on the stock with a Low Risk rating.

2011 Review

MILS's FY10/11 earnings increased 40% YoY to EGP25.2mn, 37% (EGP9mn) of which consisted of sundry income, which itself increased YoY by 22%. Revenues were up 8% YoY to EGP399.3mn. Though EBITDA margin increased by 1.2pp YoY from 5% to 6.2% on a 2.8pp improvement in gross profit margin, which was partially offset by 1.6pp increase in SG&A/sales. MILS's volumes of crushed wheat to produce subsidized flour decreased 1% YoY to 500,600 tons in FY10/11, while its volumes of crushed wheat to produce fine flour reported an increase of 39% reaching 72,900 tons in the same period. MILS distributed a DPS of EGP1.65, implying a payout ratio of 70% in FY10/11, implying a dividend yield of 9.1% - above the sector's 8.4% average.

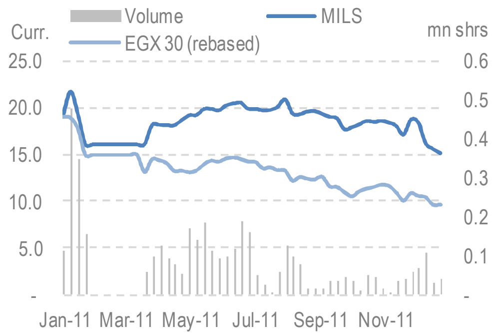
2012 Preview

We forecast MILS's net income to increase YoY by 30% to EGP32.7mn. We assigned MILS a 22% share of the fine-flour market over the coming five years while we maintain a c.10% market share for subsidized flour during the same period. On a different note, we expect the company's revenues to grow 25% YoY to EGP500.4mn. Finally, we expect the company to increase its DPS YoY by 5% to EGP1.73 vs. EGP1.65 a year ago.

Valuation & Recommendation:

Our DCF model yielded an LTFV of EGP17.5/share, and we set out target price to match it. MILS currently trades on a FY11/12 PER of 5x, below the sector's 5.4x average. All considered, we assigned a Hold recommendation on the stock with a Low Risk rating.

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/Low
Target Price/LTFV (EGP)	17.5 / 17.5
Last Price (EGP)	15.00
52 Week High	20.98
52 Week Low	14.31
6M Av. Daily Vol. (000' shrs)	9.07
% Chg: MoM / 6M / YoY	-5.8 / -24.1 / -21
No. of Shares (mn)	10.70
Mkt. Cap (EGPmn)	160.50
Mkt. Cap (USDmn)*	26.57
Free Float (%)	39.50
Paid in Capital (EGPmn)	107.00
Reuters / Bloomberg	MILS.CA / MILS Ey Equity
ISIN	EGS30361C017

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

North Cairo Mills [MILS] was established in 1967 as a joint stock company operating under Law No. 203. The company specializes in the production of flour, bread and macaroni. MILS operates 13 mills with a total annual production capacity of 1.2mn tons. All these mills specialise in the production of subsidised flour (82%-extraction) with the exception of one, which specialises in fine flour (72%-extraction) production. MILS also operates bakeries and a macaroni factory.

The company holds a market share of 11% in the production of subsidized flour (82%-extraction) and was the fourth market player in the production of flour (72%-extraction), with a strong market share of 18% in FY08/09. MILS has an authorized capital of EGP 150mn and an issued and paid-in capital of EGP 107mn distributed over 10.7mn shares at a par value EGP 10/share.

Ownership Structure	
Holding Company for Food Industries	51.0%
Free Float	39.5%
Employees Association	5.6%
Misr Insurance Company	2.3%
Others	1.6%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Financial Statements

North Cairo Mills (MILS)

MILS | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	116.9	125.6	116.8	121.9	133.3	148.8
Current Assets	195.5	160.4	151.8	152.3	178.8	197.6
Total Assets	296.9	262.8	247.3	242.8	273.8	295.3
Current Liabilities	119.4	88.7	81.9	72.7	89.6	96.1
Total Debt	0.1	0.1	0.1	0.1	0.1	0.1
Net Debt	-116.8	-125.5	-116.7	-121.8	-133.3	-148.7
Total Liabilities	119.6	88.9	82.0	72.9	89.7	96.2
Shr Equity (Book Value)	157.2	157.2	152.3	152.9	167.0	182.1
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	20.1	15.9	12.8	16.3	16.3	16.3
Total Liabilities & Equity	296.9	262.8	247.3	242.8	273.8	295.3
Income statement						
Revenue	625.9	428.7	371.6	399.3	500.4	538.7
COGS	-517.6	-367.7	-319.9	-332.6	-423.8	-456.2
Gross Profit	108.3	61.1	51.7	66.7	76.6	82.5
EBITDA	75.0	27.8	18.6	24.6	27.9	30.0
EBIT	67.0	20.9	10.8	16.8	19.9	21.7
Int. Income	2.2	1.2	0.5	0.7	0.8	0.9
Int. Expense	0.0	0.0	0.0	0.0	0.0	0.0
PBT	70.5	39.4	22.8	32.6	43.6	46.3
NPAT	54.8	31.6	17.8	25.2	32.7	34.8
Net Income	50.7	31.9	17.9	25.2	32.7	34.8
Normalised Net Income	50.7	31.9	17.9	25.2	32.7	34.8
Ordinary Dividends	21.4	21.4	16.1	17.7	18.6	19.7
Cash Flow Summary						
COPAT	59.2	20.0	13.6	17.1	17.0	18.5
FCFF	60.5	27.8	14.5	15.2	15.0	10.1
Change in Cash	37.2	8.7	-8.8	5.1	11.4	15.5
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	4.74	2.99	1.67	2.35	3.05	3.25
EPS (Normalised) (EGP)	4.74	2.99	1.67	2.35	3.05	3.25
Dividend Per Share	2.00	2.00	1.50	1.65	1.73	1.84
Book Value Per Share	14.69	14.69	14.24	14.29	15.61	17.01
Valuation						
PER (Basic) (x)	3.16	5.02	8.96	6.38	4.91	4.62
PER (CICR) (x)	3.16	5.02	8.96	6.38	4.91	4.62
PBV (x)	1.02	1.02	1.05	1.05	0.96	0.88
Dividend Yield (%)	13.33	13.33	10.00	11.00	11.56	12.30
Earnings Yield (%)	31.62	19.90	11.16	15.67	20.36	21.65
EV/Revenue (x)	0.07	0.08	0.12	0.10	0.05	0.02
EV/EBITDA (x)	0.58	1.26	2.36	1.57	0.98	0.39
Market Capitalisation (EGPmn)	160.5	160.5	160.5	160.5	160.5	160.5
Enterprise Value (EGPmn)	43.7	35.0	43.8	38.7	27.2	11.8
Profitability						
ROE (%)	32.28	20.32	11.76	16.45	19.56	19.09
ROA (%)	17.09	12.15	7.24	10.36	11.93	11.77
Asset Turnover (x)	2.11	1.63	1.50	1.64	1.83	1.82
EBITDA Margin (%)	11.98	6.48	5.00	6.16	5.58	5.58
Liquidity						
ND/Equity (x)	-0.74	-0.80	-0.77	-0.80	-0.80	-0.82
ND/EBITDA (x)	-1.56	-4.52	-6.28	-4.96	-4.77	-4.95

Source: Company Financials & CICR Database

South Cairo & Giza Mills

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Egypt Book 2011/12 | Consumer Staples

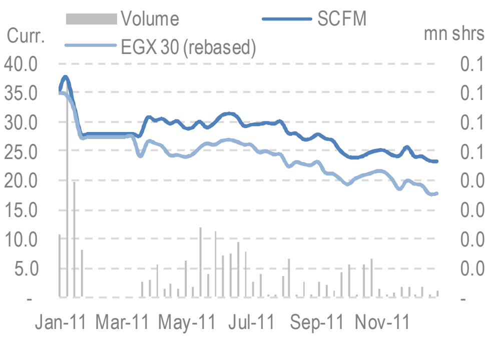
Mills

Sell

TP - EGP 10.1 | 56.6% Downside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Sell/Moderate
Target Price/LTFV (EGP)	10.1 / 10.1
Last Price (EGP)	23.28
52 Week High	35.00
52 Week Low	22.11
6M Av. Daily Vol. (000' shrs)	0.86
% Chg: MoM / 6M / YoY	-3.2 / -21.2 / -31.7
No. of Shares (mn)	3.00
Mkt. Cap (EGPmn)	69.84
Mkt. Cap (USDmn)*	11.56
Free Float (%)	38.63
Paid in Capital (EGPmn)	30.00
Reuters / Bloomberg	SCFM.CA / SCFM Ey Equity
ISIN	EGS30411C010

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

South Cairo & Giza Mills [SCFM] was established in 1965 under Presidential Decree No. 2472/1965, for the purpose of manufacturing, importing, transporting and distributing flour, cereals and their related products. According to Prime Minister's Decree No. 4313/1999, SCFM became a subsidiary of the Holding Company for Food Industries, operating under Law No. 203/1991.

SCFM operates 11 mills with an annual production capacity of 680k tons in addition to 4 bakeries. The company held a market share of 8% in the production of both subsidized flour fine flour in FY08/09 and has an authorized and paid-in capital of EGP30mn, distributed over 3mn shares at a par value of EGP 10/share.

Ownership Structure	
Holding Company for Food Industries	51.0%
Mr. Mahmoud Ali Abou Seif	10.3%
Employee Association	10.0%
Others	0.2%
Free Float	28.5%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Cash-rich, yet inefficient operations

- **Smallest player in subsidized flour production; 7% market share in FY10/11**
- **Inefficient operational performance realizing losses in last two years**
- **Low dividend yield stock of 5.5% in FY10/11 below sector average of 8.4%**

South Cairo & Giza Mills [SCFM] is the smallest player in the production of subsidized flour, with a market share of 7% in FY10/11. The company has seen losses in its operations over the last two years, and we expect it to record a negative net operating profit after tax (NOPAT) during our forecast period from FY11/12 to FY15/16. However, SCFM enjoys a decent cash balance of EGP67.3mn (after reducing a total dividend of EGP4.1mn from the company's cash balance as of September 30, 2011), representing 97% of the company's market cap, reversing the company's negative corporate value to a positive shareholders' value of EGP25.5mn. SCFM's dividend yield was 5.5% in FY10/11 – below the 8.4% sector average, while the stock currently trades at a high FY11/12 PER of 13.4x, above the sector's 5.4x average.

2011 Review

SCFM remained the smallest player in subsidized flour production, with a market share of 7% in FY10/11, and did not crush any wheat to produce fine flour during the year. And while the company showed a net profit of EGP2.3mn in FY10/11 in contrast to a net loss of EGP3.6mn a year ago, it continues to see losses in its operations, generating a negative EBITDA margin of 2% in FY10/11, compared to a negative EBITDA margin of 5.1% a year ago. SCFM maintained its DPS at EGP1.35/share in FY10/11, distributed from its FY10/11 earnings in addition to reserves recording a payout ratio of 173%. This implies a dividend yield of 5.5%, still below the sector average of 8.4%.

2012 Preview

We expect SCFM to remain the smallest producer of subsidized flour, with its crushed wheat for subsidized flour expected to grow by 10% YoY to 413,000 tons of wheat vs. 377,000 tons a year ago. However, due to the company's large fluctuations in EBITDA margin, we took a conservative approach in our forecast, as we expect SCFM to nearly break even in its operational performance. This will generate nil EBITDA margin in FY11/12, compared to a negative EBITDA margin of 2% and 5.1% in FY10/11 and FY09/10, respectively, and a positive EBITDA margin of 1.3% in FY08/09. We expect SCFM to generate profits from non-operational items, mainly interest income of EGP5.4mn and sundry income of EGP9.9mn, resulting in a bottom line of EGP5.2mn in FY11/12. We took into account SCFM' capex plan of EGP20mn in FY11/12, mainly directed toward the capacity expansion of a mill.

Valuation & Recommendation:

Our DCF model yielded an LTFV of EGP10.1/share, and we set our target price to match it. SCFM trades on a forward FY11/12 PER of 13.4x (vs. the sector average of 5.4x). All considered, we assigned a Sell recommendation on the stock with a Moderate Risk Rating.

Financial Statements

South Cairo & Giza Mills (SCFM)

SCFM | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	78.4	47.4	55.9	61.6	56.3	62.0
Current Assets	111.2	77.3	68.5	72.4	68.1	75.1
Total Assets	193.6	163.9	154.1	160.2	170.2	173.4
Current Liabilities	83.9	50.6	54.8	73.4	85.3	90.4
Total Debt	12.4	12.4	9.3	6.3	3.3	0.2
Net Debt	-66.0	-35.1	-46.6	-55.2	-53.0	-61.7
Total Liabilities	96.3	62.9	64.1	79.7	88.6	90.6
Shr Equity (Book Value)	87.4	87.2	79.6	76.8	78.0	79.2
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	7.7	11.8	8.4	0.9	0.9	0.9
Total Liabilities & Equity	193.6	163.9	154.1	160.2	170.2	173.4
Income statement						
Revenue	296.0	304.8	242.7	231.0	256.7	272.7
COGS	-235.4	-271.1	-220.8	-200.2	-228.1	-242.3
Gross Profit	60.5	33.7	21.9	30.8	28.6	30.4
EBITDA	28.6	3.9	-12.4	-4.6	-0.1	-0.1
EBIT	22.7	-1.4	-18.3	-11.4	-7.6	-8.3
Int. Income	6.7	6.2	5.2	4.9	5.4	5.8
Int. Expense	0.0	0.0	-0.2	0.0	0.0	0.0
PBT	36.8	12.1	-3.6	3.1	6.4	6.6
NPAT	29.6	10.0	-3.6	2.3	5.2	5.4
Net Income	28.8	10.0	-3.6	2.3	5.2	5.4
Normalised Net Income	28.8	10.0	-3.6	2.3	5.2	5.4
Ordinary Dividends	6.0	6.0	4.1	4.1	4.1	4.2
Cash Flow Summary						
COPAT	21.3	1.9	-12.4	-5.4	-1.3	-1.3
FCFF	29.3	-28.1	10.4	-1.1	-9.9	-0.8
Change in Cash	30.2	-30.9	8.5	5.6	-5.3	5.7
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	9.62	3.35	-1.19	0.78	1.74	1.81
EPS (Normalised) (EGP)	9.62	3.35	-1.19	0.78	1.74	1.81
Dividend Per Share	2.00	2.00	1.35	1.35	1.35	1.41
Book Value Per Share	29.14	29.06	26.52	25.61	25.99	26.39
Valuation						
PER (Basic) (x)	2.42	6.95	-19.49	29.74	13.41	12.89
PER (CICR) (x)	2.42	6.95	-19.49	29.74	13.41	12.89
PBV (x)	0.80	0.80	0.88	0.91	0.90	0.88
Dividend Yield (%)	8.59	8.59	5.80	5.80	5.82	6.05
Earnings Yield (%)	41.30	14.38	-5.13	3.36	7.46	7.75
EV/Revenue (x)	0.01	0.11	0.10	0.06	0.07	0.03
EV/EBITDA (x)	0.14	8.81	-1.88	-3.16	-149.28	-67.59
Market Capitalisation (EGPmn)	69.8	69.8	69.8	69.8	69.8	69.8
Enterprise Value (EGPmn)	3.9	34.8	23.2	14.6	16.8	8.1
Profitability						
ROE (%)	32.99	11.52	-4.51	3.06	6.68	6.84
ROA (%)	14.90	6.13	-2.33	1.47	3.06	3.12
Asset Turnover (x)	1.53	1.86	1.58	1.44	1.51	1.57
EBITDA Margin (%)	9.67	1.30	-5.11	-2.00	-0.04	-0.04
Liquidity						
ND/Equity (x)	-0.75	-0.40	-0.59	-0.72	-0.68	-0.78
ND/EBITDA (x)	-2.30	-8.88	3.76	11.96	470.51	515.82

Source: Company Financials & CICR Database

Upper Egypt Mills

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Egypt Book 2011/12 | Consumer Staples

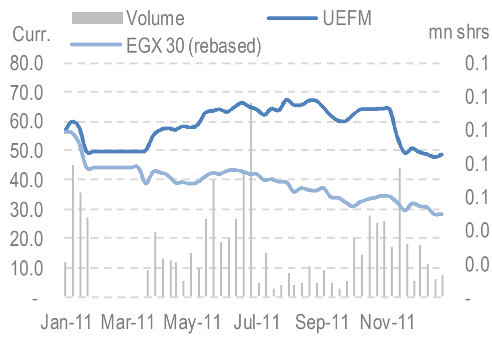
Mills

Strong Buy

TP - EGP 83.1 | 71.7% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Strong Buy/Low
Target Price/LTFV (EGP)	83.1 / 83.1
Last Price (EGP)	48.39
52 Week High	70.00
52 Week Low	44.84
6M Av. Daily Vol. (000' shrs)	4.75
% Chg: MoM / 6M / YoY	-1.1 / -23.2 / -14.8
No. of Shares (mn)	7.00
Mkt. Cap (EGPmn)	338.73
Mkt. Cap (USDmn)*	56.08
Free Float (%)	39.00
Paid in Capital (EGPmn)	70.00
Reuters / Bloomberg	UEFM.CA / UEFM Ey Equity
ISIN	EGS30451C016

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Upper Egypt Mills [UEFM] was established in 1965 as a joint stock company operating under Law No. 159/1981. The company specializes in the production of flour and bread. Unlike its local public peers, UEFM does not own any macaroni factories. It covers the areas of Sohag, Qena, Aswan and the Red Sea.

The company owns a majority 54.5% stake in King's Valley Mills, established in 1998 under law No. 159/1981. King's Valley Mills has a paid-in capital of EGP70mn and specializes in the production of flour (72%-extraction), covering the Sixth of October Governorate. UEFM itself has an authorized capital of EGP20mn and a paid-in capital of EGP70mn, distributed over 7mn shares at a par value EGP 10/share.

Ownership Structure	
Free Float	39.0%
Holding Company for Food Industries	27.0%
Employee Association	14.7%
Arab Cotton Ginning	10.0%
Others	9.3%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Set to peak

- **Largest player in fine-flour production, market share of 45% in FY10/11.**
- **Second-largest player in the production of subsidized flour, market share of 20% in FY10/11.**
- **High dividend yield of 10.3% in FY10/11, above sector average of 8.4%.**

Upper Egypt Mills [UEFM] held the highest market share for the production of fine flour of 45% in FY10/11. It owns a 54.5% stake in Wadi El-Melouke for Milling Company (WEM), which specializes in the production of fine flour. UEFM was also the second-largest player in the subsidized flour market, with a 20% share in FY10/11. Further, the stock offered a high 10.3% dividend yield (at AGM date) in FY10/11, compared to the 8.4% sector average, and currently trades at forward FY11/12 P/ER of 4.3x (below the sector average of 5.4x). Arab Cotton Ginning Company has been an active investor since 2009, which also serves to add value to the company's operations.

2011 Review

UEFM's FY10/11 earnings increased YoY by 19% to EGP105.3mn, while revenues reported a 21% YoY growth of EGP1,320.4mn, up from EGP1,089.7mn the year before. EBITDA margin has remained almost flat at 9% in FY10/11. UEFM's crushed wheat for subsidized flour increased slightly YoY by 0.4% to 1.04mn tons, maintaining the same market share of 20%, while its crushed wheat declined YoY by 2% to 132,300 tons. UEFM distributed a DPS of EGP6.6, implying a payout ratio of 44% in FY10/11. This implies a dividend yield of 10.3% – above the sector's 8.4% average.

2012 Preview

We predict UEFM's net income will decline by 25% YoY to EGP79.1mn. As for market share, we estimate UEFM will capture a 47% share of fine-flour over the coming five years while we maintain a 20% market share for subsidized flour during the same period. On a different note, we expect the company's revenues to decline by 21% YoY to EGP1,043.1mn on lower by-products and other revenues. Total crushed wheat to produce subsidized flour and fine flour are expected to increase YoY by 11% and 4% to reach 1.2mn tons and 136,800 tons, respectively. EBITDA margin is expected to remain flat at 9%. We expect the company to maintain its DPS at EGP6.6/share.

Valuation & Recommendation:

Our DCF model yielded an LTFV of EGP83.1/share, and we set our target price to match it. UEFM currently trades on a forward FY11/12 PER of 4.3x, below the 5.4x sector average. All considered, we have assigned a Strong Buy recommendation on the stock with a Low Risk rating.

Financial Statements

Upper Egypt Mills (UEFM)

UEFM | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	205.9	193.5	192.1	284.5	209.0	243.3
Current Assets	298.9	325.9	312.4	406.1	326.7	369.5
Total Assets	493.2	572.0	570.4	641.8	586.7	633.8
Current Liabilities	250.9	247.0	214.5	264.7	176.9	188.8
Total Debt	0.3	0.3	0.2	0.2	0.0	0.0
Net Debt	-205.6	-193.2	-191.9	-284.3	-209.0	-243.3
Total Liabilities	251.2	247.3	214.8	264.9	176.9	188.8
Shr Equity (Book Value)	177.1	232.2	254.6	273.3	306.2	341.3
Minority Interest	42.2	49.0	52.3	55.4	55.4	55.4
Provisions	22.7	33.8	36.7	34.5	34.5	34.5
Total Liabilities & Equity	493.2	572.0	570.4	641.8	586.7	633.8
Income statement						
Revenue	1,113.3	1,093.3	1,089.7	1,320.4	1,043.1	1,122.0
COGS	-991.3	-948.8	-951.2	-1,152.6	-910.6	-979.4
Gross Profit	121.9	144.5	138.5	167.7	132.6	142.6
EBITDA	91.0	109.8	101.9	118.6	93.8	100.8
EBIT	91.0	100.6	87.3	102.9	77.2	82.6
Int. Income	3.9	10.7	13.2	9.5	12.8	13.8
Int. Expense	-0.1	0.0	-0.1	-0.2	-0.2	-0.2
PBT	98.5	107.4	104.0	122.5	97.6	104.2
NPAT	81.7	90.4	88.5	104.4	79.1	84.5
Net Income	87.7	94.8	88.5	105.3	79.1	84.5
Normalised Net Income	87.7	94.8	88.5	105.3	79.1	84.5
Ordinary Dividends	42.0	42.0	42.0	46.2	46.2	49.3
Cash Flow Summary						
COPAT	75.3	93.1	86.3	99.7	75.3	81.1
FCFF	70.3	45.1	30.2	114.4	9.1	60.1
Change in Cash	126.1	-12.4	-1.4	92.4	-75.6	34.3
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	12.53	13.54	12.64	15.05	11.30	12.07
EPS (Normalised) (EGP)	12.53	13.54	12.64	15.05	11.30	12.07
Dividend Per Share	6.00	6.00	6.00	6.60	6.60	7.05
Book Value Per Share	25.30	33.18	36.37	39.04	43.74	48.76
Valuation						
PER (Basic) (x)	3.86	3.57	3.83	3.22	4.28	4.01
PER (CICR) (x)	3.86	3.57	3.83	3.22	4.28	4.01
PBV (x)	1.91	1.46	1.33	1.24	1.11	0.99
Dividend Yield (%)	12.40	12.40	12.40	13.64	13.64	14.56
Earnings Yield (%)	25.90	27.99	26.12	31.09	23.36	24.94
EV/Revenue (x)	0.16	0.18	0.18	0.08	0.18	0.13
EV/EBITDA (x)	1.93	1.77	1.95	0.93	1.97	1.50
Market Capitalisation (EGPmn)	338.7	338.7	338.7	338.7	338.7	338.7
Enterprise Value (EGPmn)	175.3	194.4	199.1	109.8	185.1	150.8
Profitability						
ROE (%)	49.54	40.82	34.75	38.54	25.84	24.75
ROA (%)	17.79	16.58	15.51	16.41	13.49	13.33
Asset Turnover (x)	2.26	1.91	1.91	2.06	1.78	1.77
EBITDA Margin (%)	8.17	10.05	9.35	8.98	8.99	8.99
Liquidity						
ND/Equity (x)	-1.16	-0.83	-0.75	-1.04	-0.68	-0.71
ND/EBITDA (x)	-2.26	-1.76	-1.88	-2.40	-2.23	-2.41

Source: Company Financials & CICR Database

Middle & West Delta Mills

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Egypt Book 2011/12 | Consumer Staples

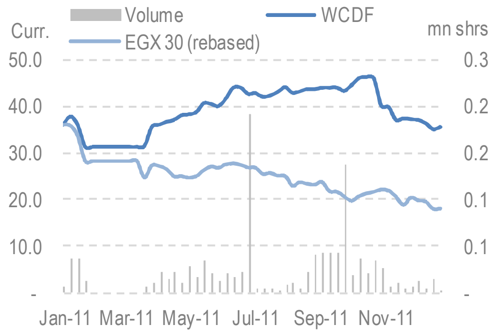
Mills

Buy

TP - EGP 46.9 | 30.2%Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Buy/Low
Target Price/LTFV (EGP)	46.9 / 46.9
Last Price (EGP)	36.01
52 Week High	47.00
52 Week Low	28.20
6M Av. Daily Vol. (000' shrs)	4.00
% Chg: MoM / 6M / YoY	-1/ -15.2 / 4.3
No. of Shares (mn)	7.50
Mkt. Cap (EGPmn)	270.08
Mkt. Cap (USDmn)*	44.71
Free Float (%)	36.50
Paid in Capital (EGPmn)	75.00
Reuters / Bloomberg	WCDF.CA / WCDF Ey Equity
ISIN	EGS30421C019

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Middle & West Delta Mills [WCDF] was established in 1967 and is operating under Law No.159/1981. The company specializes in the production of flour, bread and macaroni.WCDF operates 12 mills with a combined annual production capacity of 1.5mn tons, in addition to bakeries and a macaroni factory.

The company is the market leader among the public sector for the production of subsidized flour, with a market share of 24% as of FY08/09. It is the second largest producer of fine flour, with a market share of 22%. WCDF has an authorized capital of EGP200mn and an issued and paid-in capital of EGP75mn distributed over 7.5mn shares at a par value EGP 10/share.

Ownership Structure

Free Float	36.5%
Holding Company for Food Industries	27.0%
Mr. Mohemd Al-Feky	11.6%
Employee Association	10.0%
Ms. Fatma Nasr.	6.8%
Others	8.1%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Low multiples + high dividend yield = value

- **Largest player in subsidized flour production with a market share of 26% in FY10/11**
- **Low FY11/12 PER multiple of 4.1x, below sector average of 5.4x**
- **Highest dividend yield stock of 11.7% in FY10/11 above sector average of 8.4%**

Middle & West Delta Mills [WCDF] is the largest player in the production of subsidized flour. It held a 26% market share in FY10/11. The stock offered a high 11.7% dividend yield in FY10/11- significantly above the sector's 8.4% average, and an average dividend yield of 10.1% over the past three years. The company trades at a forward FY11/12 PER of 4.3x, well below the sector's 5.4x average.

2011 Review

WCDF's FY10/11 earnings increased 4% YoY to EGP54.9mn. Despite higher costs incurred by public-sector milling companies, WCDF (the largest public-sector player in subsidized flour production) managed to improve its EBITDA margin to 8.1% in FY10/11 vs. 7.1% a year ago. However, the improvement in operational performace was partially hit by a provision amounting to EGP11.1mn vs. EGP6.2mn a year ago. WCDF increased its DPS by 28% YoY to EGP5/share in FY10/11 vs. EGP3.9/share a year ago, marking the highest dividend yield of 11.7% compared to a sector average of 8.4%. This implies a payout ratio of 68%.

2012 Preview

We forecast WCDF's net income to grow 16% YoY to EGP63.6mn in FY11/12. On the operational level, the firm's volume of crushed wheat to produce subsidized flour is expected to increase by 10% to 1.5mn tons. The growth in earnings is expected to be the result of a provisions decline to EGP7.4mn, compared to EGP11.1mn a year ago.

Valuation & Recommendation:

Our DCF model yielded an LTFV of EGP46.9/share, and we set our target price to match it. WCDF trades at a low FY11/12 PER of 4.3x, below the 5.4x sector average. This implies 29% upside potential from its market price of EGP36.3/share. Hence, we assigned a Buy recommendation on the stock with a Low Risk rating.

Financial Statements

Middle & West Delta Mills (WCDF)

WCDF | EGPmn | FY End: June Balance sheet	2008a	2009a	2010a	2011e	2012e	2013e
Cash & Cash Equivalent	52.0	42.8	32.4	17.9	51.9	72.8
Current Assets	192.7	98.5	63.5	59.0	95.5	118.0
Total Assets	383.2	396.8	405.0	435.3	492.3	533.7
Current Liabilities	183.8	197.0	202.6	221.2	244.7	253.2
Total Debt	0.5	0.0	0.0	0.0	0.0	0.0
Net Debt	-51.5	-42.8	-32.4	-17.9	-51.9	-72.8
Total Liabilities	205.1	221.2	212.2	227.9	251.4	259.9
Shr Equity (Book Value)	148.5	153.8	163.7	165.0	191.1	216.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	24.9	17.0	24.2	35.3	42.7	50.3
Total Liabilities & Equity	383.2	396.8	405.0	435.3	492.3	533.7
Income statement						
Revenue	1,090.5	959.7	1,091.3	1,255.2	1,411.7	1,468.1
COGS	-1,005.6	-908.3	-986.2	-1,117.3	-1,266.2	-1,316.8
Gross Profit	84.8	51.4	105.1	137.9	145.5	151.3
EBITDA	61.0	30.9	77.3	101.1	104.1	108.3
EBIT	41.3	12.5	54.6	81.5	80.6	79.7
Int. Income	0.0	0.0	1.9	0.2	1.8	2.4
Int. Expense	0.0	0.0	0.0	-3.7	0.0	0.0
PBT	43.9	37.7	58.4	75.6	84.8	84.6
NPAT	30.8	28.9	42.3	58.5	63.6	63.5
Net Income	40.6	37.8	53.0	54.9	63.6	63.5
Normalised Net Income	40.6	37.8	53.0	54.9	63.6	63.5
Ordinary Dividends	27.0	27.0	29.3	37.5	37.5	38.1
Cash Flow Summary						
COPAT	48.0	22.1	61.1	88.1	82.9	87.2
FCFF	-3.5	37.5	41.2	66.3	59.9	45.8
Change in Cash	-27.1	-9.2	-10.3	-14.5	34.0	20.9
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	5.41	5.04	7.06	7.32	8.48	8.46
EPS (Normalised) (EGP)	5.41	5.04	7.06	7.32	8.48	8.46
Dividend Per Share	3.60	3.60	3.90	5.00	5.00	5.08
Book Value Per Share	19.81	20.50	21.82	22.00	25.48	28.87
Valuation						
PER (Basic) (x)	6.66	7.15	5.10	4.92	4.25	4.26
PER (CICR) (x)	6.66	7.15	5.10	4.92	4.25	4.26
PBV (x)	1.82	1.76	1.65	1.64	1.41	1.25
Dividend Yield (%)	10.00	10.00	10.83	13.89	13.89	14.10
Earnings Yield (%)	15.02	13.98	19.62	20.34	23.55	23.50
EV/Revenue (x)	0.20	0.24	0.22	0.20	0.15	0.13
EV/EBITDA (x)	3.58	7.36	3.08	2.49	2.09	1.82
Market Capitalisation (EGPmn)	270.1	270.1	270.1	270.1	270.1	270.1
Enterprise Value (EGPmn)	218.6	227.3	237.6	252.1	218.2	197.3
Profitability						
ROE (%)	27.31	24.56	32.37	33.28	33.28	29.31
ROA (%)	10.59	9.52	13.08	12.62	12.92	11.89
Asset Turnover (x)	2.85	2.42	2.69	2.88	2.87	2.75
EBITDA Margin (%)	5.59	3.22	7.08	8.05	7.38	7.38
Liquidity						
ND/Equity (x)	-0.35	-0.28	-0.20	-0.11	-0.27	-0.34
ND/EBITDA (x)	-0.84	-1.39	-0.42	-0.18	-0.50	-0.67

Source: Company Financials & CICR Database

CI CAPITAL RESEARCH
A CIB Group Member

Pharmaceuticals

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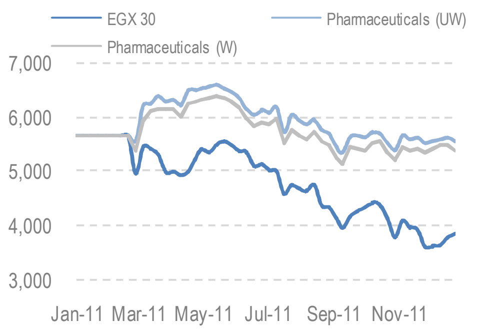
Egypt Book 2011/12 | Sector Review

PHAR | Buy

January 26, 2012

Pharmaceuticals | 52 Wk Performance*



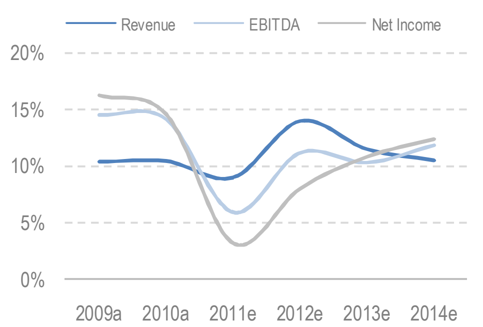
Sector Growth Drivers

- 2.1% population growth per annum.
- Development of a comprehensive medical insurance scheme to cover all citizens in Egypt.
- Inelastic demand of strategic commodities.

Sector Risks

- 80-95% of all raw materials imported.
- Minimal research and development.
- Government intervention in pharmaceutical pricing.
- Unfavorable FX fluctuations.

KPIs | YoY Growth 2009-14†



*Comprises all sector stocks constituting CI Capital 100 Index;
† Aggregate of all covered stocks in sector.

Play defensive

- **Solid performance despite unrest – thanks to the growing population.**
- **Another tranche of reduced medicine selling prices.**
- **FX risk should continue weighing heavily on margins**

While the January 25 Revolution and its ensuing political unrest has taken its toll across numerous manufacturing sectors in Egypt this year, we maintain a positive outlook for the pharmaceutical sector, as its share of the hardship was relatively muted due to the inelasticity of its strategic products. Both the 2.1% p.a. population growth and the comprehensive Egyptian national healthcare program serve as key growth drivers for the sector, in spite of the challenges ahead. This considered, total Egyptian medicine consumption is expected to grow by 8% to reach EGP19.8bn in 2012. However, the FX fluctuations, the higher new effective tax rate of c.25% and the lower selling prices weighed heavily on the margins. We expect the unfavourable FX rates to continue in 2012 as further depreciation for the local currency against the USD is anticipated, which should have its impact on pharmaceutical companies, as they import c.80% of their raw materials (mainly the effective ingredients).

Review 2011

The higher effective tax rate play a major role in the earnings decline of pharmaceutical companies; our covered stock EIPICO, for example, witnessed a c.3% YoY decline in its 9M11 NPAT due to higher tax rate of c.25%. Moreover, the continuous depreciation of the Egyptian Pound against the foreign currencies has hurt company margins, given they cannot increase their selling prices without approval from the Ministry of Health (MoH).

Preview 2012

We believe the FX will continue to pose a risk on margins – as the contribution of raw materials in production is significant. However, the growing population and Egypt's comprehensive medical insurance program will help maintain the solid performance of the industry. Accordingly, we expect total Egyptian medicine consumption to reach EGP20bn in 2012.

Coverage stock

Egyptian International Pharmaceuticals (EIPICO) [PHAR]: PHAR is a generic pharmaceutical company controlling a c.6.5% share of the local market. Its main strength comes from operating as a low-cost producer in a price-inelastic sector. PHAR is also a cash-rich company with zero-debt, which has allowed it to undertake a factory-expansion project (worth around EGP300mn) which is expected to be inaugurated early in 2012.

Figure 11.1 | **Pharmaceuticals – Key Developments 2011**

Date	Event	Impact
January	**Reduction in sale prices** Ex-Minister of Health, Dr. Hatem El-Gabely, announces a new reduction in the sales prices of 50 medicines, starting that same month.	Marks the 4th such reduction in pharmaceutical selling prices (together they have applied to 182 products, 5 of which are sold by EIPICO) since September 15, 2009 according to the Ministry of Health's decision to modify pharmaceutical pricing policy.
March	**Decision to increase pharmacies revoked** Dr. Ahraf Hatem, Ex-Minister of Health, revokes the former minister's decision to increase the pharmacies area from 25sqm to 40sqm.	The former minister's decision was announced in conjunction with the new medicine pricing system on September 15, 2009, and fuelled protests from pharmacy owners due to their deeming it economically unfeasible.
May	**Court confirms new medicine pricing system** The Higher Administrative Court decides to continue working with the new medicine pricing system issued by El-Gabely.	Decision fuelled protests from multinational pharmaceutical companies, which challenged it for putting Egyptian selling prices on par with weak economies such as India and Sudan. Local pharmaceutical companies found useful the decision's specific and comprehensible pricing criteria, despite its potential to negatively affect their margins.
August	**Sandoz (the generic pharmaceuticals division of Novartis) stops production of penicillin.** HoldiPharma makes available total of 70,000 penicillin packages in the Egyptian Company for Pharmaceuticals Trade's (EGYDRUG) pharmacies. Meanwhile, Dr. Magdy Hasan, Chairman of HoldiPharma, announces the Ministry of Health (MoH) will license new plant in the Abu-Zaabal area to produce long-acting antibiotics, penicillin included.	Sandoz's decision should have a negative effect on the local Egyptian market, as penicillin is a vital treatment for the rheumatic fever and many other chronic diseases, and the company satisfies c.20% of the market's needs. In addition, public-sector pharmaceutical companies had stopped the local production of penicillin due to renovation in plant production lines, where penicillin is produced to exact specifications.
August	**Ministry of Health & Population approves import of penicillin** The Ministry of Health & Population approves new procedures granting import of penicillin in large quantities. Meanwhile, Novartis Pharma, Sandoz's parent company, announces that Sandoz has completely halted the production of long-acting penicillin Retarpen (which satisfies c.20% of penicillin needs in the Egyptian market through providing 10mn packages p.a.) due to economic infeasibility of its production as a result of its low selling price.	The new import procedures could help bridge the gap in the Egyptian market.
November	**New medicine-pricing rules to be announced** Dr. Makram Mahana, Chairman of Pharmaceutical, Cosmetics & Appliances Chamber in the Federation of Egyptian Industries (FEI) announces new incoming procedures to organize the operations of pharmaceutical plants, medicine-pricing, medicine-alternatives, trading operations and appointing specific control units to develop and eliminate any conflicts in the pharmaceutical industry. The new medicine-pricing rules will provide a clear system for setting prices according to the associated costs of production and margins, rather than pricing liberalization.	These new rules could help eliminate the debates between the Ministry of Health (MoH) and pharmaceutical companies (mainly multinationals), over the current pricing system. These new procedures could also help to solve the dearth of medicinal products - mainly under-licensed ones - by allowing the increase of alternatives-per-medicine. The current system does not allow more than 12 alternatives for each medicinal product, which harms many Egyptian pharmaceutical plants when the MoH refuses to grant them an operating license for their product line due to the existence of alternatives.

Sector Summary

Pharmaceutical Sector - SWOT Analysis	
Strengths	**Weakness**
• Inelasticity of demand for drug products. • A rapid population growth and health awarness improvement.	• Minimal Research and development. • Import c.80-95% of raw materials.
Opportunities	**Threat**
• GoE plan to expand number of hospitals and develop the medical scheme. • Regional expansions.	• A government intervention in determing medicines' prices. • FX fluctuations. • Increasing the volume of fake medicines.

Source: CI Capital Research

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EIPICO

Egypt Book 2011/12 | Healthcare

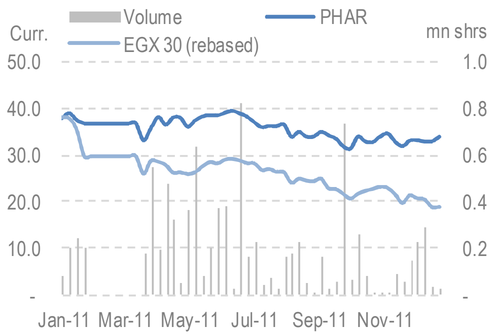
Pharmaceuticals

Buy

TP - EGP 38.6 | 16.9% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Buy/Low
Target Price/LTFV (EGP)	38.6 / 38.6
Last Price (EGP)	33.01
52 Week High	40.00
52 Week Low	31.00
6M Av. Daily Vol. (000' shrs)	25.51
% Chg: MoM / 6M / YoY	0 / -8.8 / -10.6
No. of Shares (mn)	79.34
Mkt. Cap (EGPmn)	2,618.89
Mkt. Cap (USDmn)*	433.59
Free Float (%)	44.40
Paid in Capital (EGPmn)	793.36
Reuters / Bloomberg	PHAR.CA / PHAR Ey Equity
ISIN	EGS38081C013

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Egyptian International Pharmaceutical Industries Company (EIPICO) [PHAR] was established in 1980 although it did not start production until 1985. PHAR's product mix is comprised of around 264 generic products and the company's market share hovers around 6.5%, making it the largest local private-sector pharmaceutical producer. PHAR also exports to about 64 countries, and is currently in the process of expanding its factory.

The company has two subsidiaries: The Egyptian International Ampoule Manufacturing Company (EIACO) (PHAR owns 98%), and Saudi Arabia-based Universal, of which PHAR owns 30%. PHAR has an authorized capital of EGP850mn and an issued capital of EGP793.4mn, distributed over 79.3mn shares at a par value of EGP 10/share.

Ownership Structure

ACDIMA	43.2%
Free Float	44.4%
Others	6.8%
Medical Union Pharma	5.6%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Operationally defensive and cash-healthy

- **Cash-rich, debt-free company.**
- **Competitively-priced products compared to other private sector companies.**
- **Newly-expanded factory to be inaugurated early 2012**

PHAR is a generic pharmaceutical company controlling a c.6.5% share of the local market. Its product mix is comprised of around 264 generic products, exported to over 60 countries. Its chief strength comes from operating as a low-cost producer in a price-inelastic sector. PHAR is also a cash-rich company with zero-debt, which has allowed it to undertake a factory-expansion project (worth around EGP300mn), expected to be inaugurated early in 2012. This expansion should add 33% to revenues in gradual increments until 2015.

2011 Review

The higher effective tax rate of c.25% played a major role in EPICO's earnings decline, as it reported c.3% YoY decline in its 9M11 NPAT. Moreover, the continuous depreciation of the Egyptian Pound against foreign currencies has hurt the company's margins, as it increased the raw materials' prices (c.80% imported) – especially since PHAR could not increase its selling prices without approval from Ministry of Health. PHAR tried to rationalize its marketing expenses in 2011 to partially offset the increase in its manufacturing costs. On a different note, the company announced that its new plant will be inaugurated early in 2012.

2012 Preview

Despite the expected continuation of unfavourable FX movements in 2012, we believe that the 2.1% p.a. population growth, as well as the comprehensive medical insurance program (to cover all the Egyptian citizens), will serve as key drivers for EIPICO's operations – especially considering its comparative pricing advantage amongst other private sector pharmaceutical producers. Moreover, we expect its new plant expansion to be fully operational in 2012 and contribute 10% to its revenues. Accordingly, we estimate PHAR's revenues will grow by 14% YoY to reach EGP1,379mn.

Valuation & Recommendation

We have valued PHAR using a discounted cash flow (DCF) model for free cash flow to the firm (FCFF), using a risk free rate of 12% (taking into account the recent interest rate hike by Central Bank of Egypt), an equity market premium of 8%, a WACC of 17.6%, beta of 0.7x and a perpetual growth rate of 3%. Our model yields a LTFV of EGP38.6/share and we have set this as our target price too, assigning a Buy recommendation on the stock with a Low Risk rating.

Financial Statements

Egyptian International Pharmaceuticals (PHAR)

PHAR | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	372.0	437.2	600.4	615.0	678.5	767.2
Current Assets	995.7	1,072.0	1,197.9	1,331.2	1,512.3	1,712.4
Total Assets	1,671.8	1,852.0	2,096.4	2,278.5	2,474.2	2,691.4
Current Liabilities	261.3	297.3	345.1	381.2	421.1	468.1
Total Debt	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt	-372.0	-437.2	-600.4	-615.0	-678.5	-767.2
Total Liabilities	268.1	310.5	367.0	403.1	443.0	490.0
Shr Equity (Book Value)	1,144.3	1,271.5	1,464.3	1,587.1	1,719.7	1,866.6
Minority Interest	1.0	1.0	1.3	1.3	1.3	1.3
Provisions	258.4	269.0	263.9	287.1	310.3	333.5
Total Liabilities & Equity	1,671.8	1,852.0	2,096.4	2,278.5	2,474.2	2,691.4
Income statement						
Revenue	910.1	1,004.5	1,109.4	1,209.3	1,378.6	1,537.1
COGS	-529.4	-552.0	-594.5	-682.5	-792.1	-889.7
Gross Profit	380.7	452.5	514.9	526.8	586.5	647.4
EBITDA	358.7	410.8	468.8	496.6	552.1	609.0
EBIT	310.4	355.7	408.7	440.4	482.4	533.1
Int. Income	20.0	19.5	22.9	30.4	34.7	38.7
Int. Expense	-1.3	-1.8	-1.4	-1.4	-1.4	-1.4
PBT	315.9	370.2	422.6	469.1	506.6	561.4
NPAT	256.6	296.5	341.1	352.4	380.4	421.5
Net Income	256.6	298.3	341.6	352.4	380.4	421.5
Normalised Net Income	239.9	280.2	317.4	352.4	380.4	421.5
Ordinary Dividends	137.0	151.5	198.3	229.6	247.9	274.6
Cash Flow Summary						
COPAT	299.4	337.0	387.2	379.8	425.9	469.1
FCFF	138.2	170.8	258.6	146.8	231.4	270.6
Change in Cash	-44.8	65.2	163.2	14.7	63.5	88.7
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	3.23	3.76	4.31	4.44	4.80	5.31
EPS (Normalised) (EGP)	3.02	3.53	4.00	4.44	4.80	5.31
Dividend Per Share	1.73	1.91	2.50	2.89	3.12	3.46
Book Value Per Share	14.42	16.03	18.46	20.00	21.68	23.53
Valuation						
PER (Basic) (x)	10.21	8.78	7.67	7.43	6.88	6.21
PER (CICR) (x)	10.91	9.35	8.25	7.43	6.88	6.21
PBV (x)	2.29	2.06	1.79	1.65	1.52	1.40
Dividend Yield (%)	5.23	5.78	7.57	8.77	9.46	10.49
Earnings Yield (%)	9.80	11.39	13.05	13.45	14.53	16.10
EV/Revenue (x)	2.47	2.17	1.82	1.66	1.41	1.21
EV/EBITDA (x)	6.27	5.31	4.31	4.04	3.52	3.04
Market Capitalisation (EGPmn)	2,618.9	2,618.9	2,618.9	2,618.9	2,618.9	2,618.9
Enterprise Value (EGPmn)	2,247.9	2,182.8	2,019.8	2,005.1	1,941.7	1,853.0
Profitability						
ROE (%)	22.42	23.46	23.33	22.20	22.12	22.58
ROA (%)	15.35	16.11	16.30	15.46	15.38	15.66
Asset Turnover (x)	0.54	0.54	0.53	0.53	0.56	0.57
EBITDA Margin (%)	39.42	40.89	42.25	41.06	40.04	39.62
Liquidity						
ND/Equity (x)	-0.33	-0.34	-0.41	-0.39	-0.39	-0.41
ND/EBITDA (x)	-1.04	-1.06	-1.28	-1.24	-1.23	-1.26

Source: Company Financials & CICR Database

CAPITAL RESEARCH

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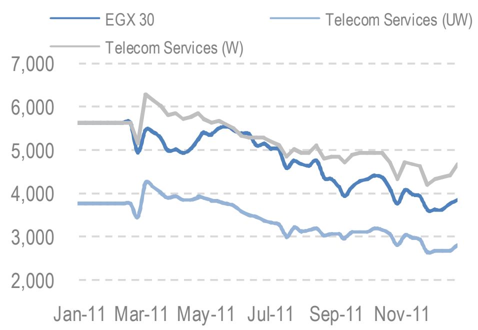
Egypt Book 2011/12 | Sector Review

EMOB | Underweight
ETEL | Buy
ORTE | Strong Buy

January 26, 2012

Telecom Services | 52 Wk Performance*



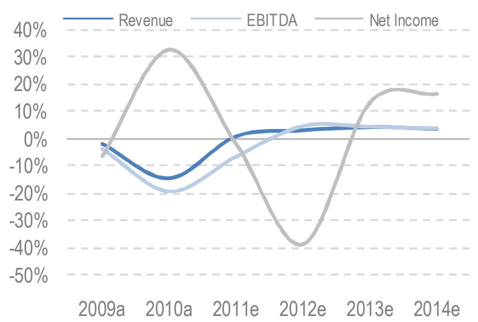
Sector Growth Drivers

- Egypt's young population secures a sustainable market for telecom services.
- Provision of new VAS (i.e. mobile banking) to shore up ARPUs.
- Triple-play services to boost ADSL and fixed-line subs.
- Potential growth may come from offering MVNO services.
- A low internet penetration rate leaves room for growth.

Sector Risks

- Market saturation may narrow future growth potential in the mobile segment.
- Aggressive price competition exerts pressure on operators' ARPUs.
- Egypt's high illiteracy rates may hinder proliferation of VAS.
- Illegal sharing of ADSL connections may put a lid on broadband subs growth.

KPIs | 2009-14e



*Comprises all sector stocks constituting CI Capital 100 Index.

Through the bottleneck

Despite the resilience of telecom sector, all telecom operators – three mobile and one fixed – have suffered from post-revolution repercussions, along with tense competition and market saturation in 2011. Company strategies are set to address value rather than customer growth, as we believe sector growth will come less from customer acquisition and more from value-added services (VAS). This will oblige operators to invest more into upgrading their networks. However, we believe this cannot be achieved in 2012 unless the country's political and economic climate improves and regulatory issues between operators are resolved.

Review 2011

This year, two major incidents had a marked effect on the overall growth of mobile customers and operators' revenues and profitability. The first of these was the revolution and subsequent unrest in 1Q11, which had a widely negative impact on usage and sales activities. The second was the series of boycott campaigns against Mobinil [EMOB] in response to a cartoon published by Sawiris at the end of 2Q11, which was considered offensive to Islam. The boycott provided an opportunity for rivals – Vodafone Egypt (VFE) and Etisalat Misr (EM) – to capture a tranche of EMOB customers. EMOB reacted by offering numerous incentives to its customers to stay on, causing the company's profitability to fall dramatically in 3Q11. EM is the winner in year-to-date mobile subs race and succeeded to elevate its market share from 12% in 4Q10 to an estimated 17% in 3Q11. Meanwhile, EMOB's market share retreated from 43% to around 39%, while VFE almost sustained its leading market share throughout the 9M11 at 44%. On the fixed-line front, the number of telephone lines – provided through Telecom Egypt [ETEL] – contracted more than 642k lines, triggering a 19% year-on-year (YoY) drop in voice revenues. This drop was mainly driven by: (i) fixed-mobile substitution (FMS), (ii) dampening of tourism and business activities, (iii) reduction of paying customers, (iv) tighter credit policy, and (v) stolen copper cables.

Preview 2012

Egypt's mobile subs are to continue growing in 2012 but at a single-digit rate of 9%, reaching a 100% penetration during the year – down from an estimated 23% in 2011— as the mobile market is considered at the saturation phase. We believe sector growth will be less from customer acquisition and more from VAS and data services. Accordingly, we believe that company strategies will address value rather than customer growth in an attempt to counter the continuing pressure on voice call revenues. We are currently awaiting an amicable end to the regulatory issues between telecom operators and the regulatory authority, which encompass interconnection fees, ETEL's network infrastructure lease, and international gateway services. Taking into account the slow-growth nature of telephone lines, we expect a 9% YoY drop in active lines in 2011 and only a 1% decline in 2012 following the clean-up of customer base. We continue to play down the possibility of a new fixed-line entrant, unless the new entrant will lease ETEL's extensive network and offer VAS.

Mobile

2011 Review

Major Events

Boycott campaigns against Mobinil

A number of EMOB customers have canceled their contracts with the company following boycott campaigns launched on both Twitter and Facebook in response to a cartoon published by Eng. Naguib Sawiris on his Twitter account in June 2011, which was considered as offensive to Islam. The Minister of Communication and Information Technology (MCIT) reported 101,000 net disconnections in EMOB subs in July 2011, while EMOB management did not quantify the number of customer disconnections but stated that in July and August "some hundred thousands" of customers had submitted requests to EMOB to opt out to other opcos through Mobile Number Portability (MNP). Management reacted to such a large number of requests by offering incentives to stay on, such as free minutes, which would put further pressure on ARPU. The company's chairman, Alex Shalaby was quoted as saying "The number of "porting out" requests by subscribers reached around 20,000 a day at the peak of the boycott, compared to 1,000 or less per day before the incident. [Now], we are way below that figure."

New numbering plan

On the regulatory front, Egypt's National Telecom Regulatory Authority (NTRA) announced a new numbering plan, starting October 6, 2011, in an attempt to accommodate a growing number of mobile phone users. The new numbering plan complies with international standards in order to maintain market stability. Mobile operators will have four months to fully comply with the decision, during which time users will be able to call using either the old number or the new one.

Figure 12.1 | **New numbers by each mobile operator**

Mobinil		Etisalat		Vodafone Egypt	
Old	New	Old	New	Old	New
012 - - - - - - -	0122 - - - - - - -	011 - - - - - - -	0111 - - - - - - -	010 - - - - - - -	0100 - - - - - - -
017 - - - - - - -	0127 - - - - - - -	014 - - - - - - -	0114 - - - - - - -	016 - - - - - - -	0106 - - - - - - -
018 - - - - - - -	0128 - - - - - - -	0152 - - - - - - -	0112 - - - - - - -	019 - - - - - - -	0109 - - - - - - -
0150 - - - - - - -	0120 - - - - - - -			0151 - - - - - - -	0101 - - - - - - -

Source: CI Capital Research

Operators receive a "go ahead" for mobile banking

Mobile Banking (MB) is considered a value-added service and a potential revenue growth-driver down the road, which would help mobile operators curb ARPU erosion in view of continuous tariff cuts in voice call rates. In June 2011, EMOB and Vodafone Egypt (VFE) had received NTRA approval to provide mobile-phone money transfer once security in Egypt improves. The NTRA expects to introduce the service over three stages, as agreed with the Central Bank of Egypt (CBE):

- The first stage will include the transfer of funds between subs of a single operator.
- The second stage will include transfers between subs of the three operators.
- The final stage will include transfers to international markets.

Financial performance

The Revolution took its toll on 1Q11 results

EMOB reported weaker-than-expected results for the "exceptional" 1Q11. Net earnings fell dramatically to EGP23mn vs. EGP357mn in 1Q10, coming far below consensus estimates of EGP243mn due to lower-than-expected revenues and EBITDA margin. Management attributed the weak results to:

- Forced shutdown of the mobile network on January 28.
- Disconnection of SMS for 8 days and data services for 5 days.
- Compensation for customers for unavailability of service.
- Low security and economic slowdown following January 28, leading to slow sales activity.
- Reduction of tourism activity and lower usage of the corporate segment.

While EMOB's 1Q11 revenues declined by 4.5% YoY to reach EGP2.4bn, Vodafone Egypt (VFE)'s 4Q10/11 ending March 2011 saw revenues decrease by only 1.6% YoY at EGP2.8bn. Meanwhile, VFE's net earnings fell 16% YoY to EGP487mn. According to the MCIT's figures, Etisalat Misr (EM) added 2.9mn customer in 1Q11, representing a massive share of net adds of 89%, while VFE added only 0.4mn subs, a 12% share of net add. Meanwhile, EMOB lost 36,600 subs during the quarter to further widen the gap between its subs base and VFE's to 2mn in favor of the latter vs. 1.5mn in favor of EMOB in 1Q10.

New tax regime hit profitability in 2Q11

Although 2Q11 revenues showed a recovery in business environment compared to 1Q11, EMOB's performance has proven disappointing, mainly because of the low margins. The company reported a net loss of EGP108.5mn in 2Q11, largely impacted by a new tax regime. Net income for the mobile segment was hit by one-time income taxes of EGP190mn:

- EGP174mn of which was related to the increase in deferred taxes (subject to the new corporate tax rate) based on a stock of deferred taxes of around EGP700mn.
- EGP16mn resulted from higher income taxes due to the increase in corporate tax rate.

Before applying the new tax regime, EMOB reported net earnings after-tax of EGP80mn, compared to consensus estimates of EGP240mn. Total revenues came close to estimates, reaching EGP2.6bn (+3.5% YoY) - helped by the robust growth in broadband revenues. However, the earnings variance emanated mainly from lower-than-expected EBITDA margin, higher-than-expected depreciation & amortization (D&A) expenses, and higher-than-expected non-operating expenses.

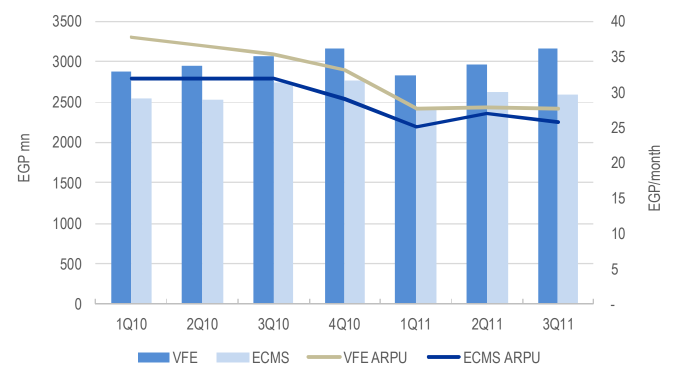
In the same quarter, VFE's 1Q11/12 net earnings were down by 32% YoY to EGP518mn, with almost flat revenues of EGP2.97bn. VFE proved its competitive edge in marketplace in 2Q11 and added 1.7mn to reach a subs base of 33.8mn, representing a 65% share of net adds, while EMOB added only 169,000 subs to reach a total base of 30.4mn. Meanwhile, EM added 729,000 or 28% share of net adds to raise its customer base to 12.2mn.

Ramadan marketing activities hurt 3Q11 margins

EMOB continued its weak performance in 3Q11, reporting a 97% YoY drop in 3Q11 net earnings to EGP10mn on the back of 5% lower revenues, 21% lower EBITDA, and a higher effective tax rate. Most of the earnings drop came from the mobile business, which missed our estimates by 50%. Mobile revenues (96% of total revenues) declined by 8% YoY, which was attributed to Ramadan promotions, low tourism activities, and higher retention costs to retain Mobinil customers requesting to migrate to other operators because of the boycott campaign. EBITDA margin came lower at 33.2% vs. 39.6% in 3Q10 mainly due to summer campaigns and promotions during Ramadan.

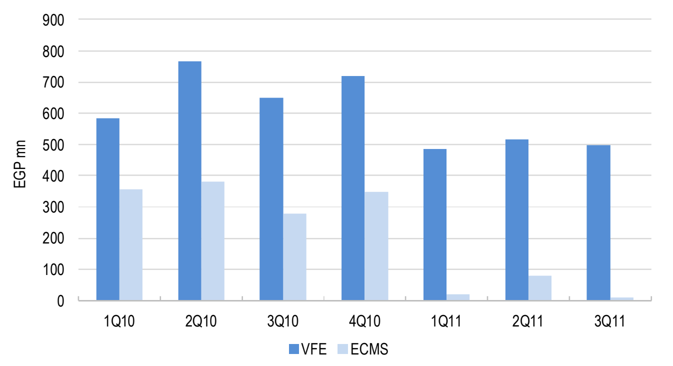
Although it was exposed to boycott campaigns in June 2011, EMOB reported more than 1mn net adds during 3Q11 to close the quarter with a subs base of 31.6mn. This compares to net disconnections of 101,000 as reported by MCIT for the month of July 2011. On the contrary, VFE added 1.7mn subs during the quarter, making EM the winner in year-to-date mobile subs race. The company succeeded to elevate its market share from 12% in December 2010 to an estimated 17% in September 2011. Meanwhile, EMOB's market share retreated from 43% to around 39%, while VFE almost sustained its leading market share throughout the year at 44%.

Figure 12.2 | **Quarterly revenues and ARPU [ECMS and VFE]**



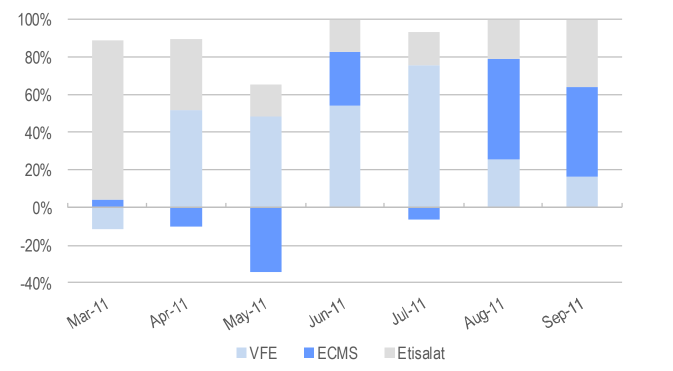
Source: Company Reports

Figure 12.3 | **Quarterly net earnings for ECMS and VFE**



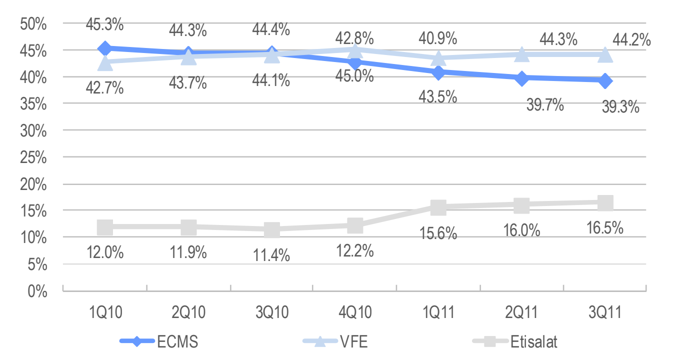
Source: Company Reports

Figure 12.4 | **Monthly share of net adds**



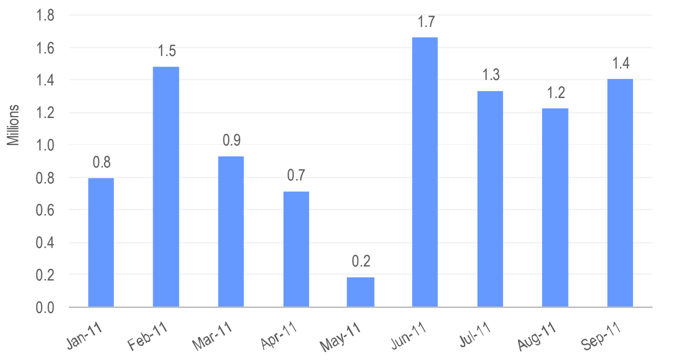
Source: MCIT & Companies Reports

Figure 12.5 | **Market share by operator**



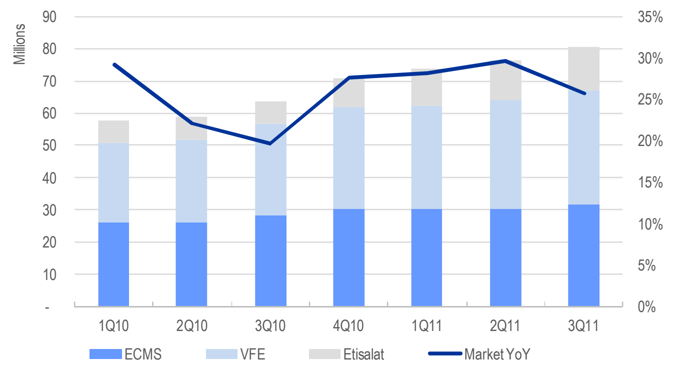
Source: MCIT & Companies Reports

Figure 12.6 | **Monthly net adds**



Source: MCIT & Companies Reports

Figure 12.7 | **Mobile subs & market growth YoY**



Source: MCIT & Companies Reports

2012 Preview

Market saturation to curb mobile subs growth

Overall, we expect Egypt's mobile market to continue growing in terms of subs, although at a slower pace. Annual subscriber growth may slow down from 23% in 2011 down to a single-digit of 9% in 2012 as the mobile market is considered at the saturation phase. The mobile market is expected to reach a 100% penetration rate during 2012, to be driven by:

- The multi-SIMs phenomenon,
- Attractive on-net offers by all three mobile incumbents,
- Decreasing mobile handset prices, and
- Lower subscription fees.

Data and VAS to rescue rapid ARPU erosion

In 2012, we think the performance of mobile operators should start to normalize gradually, provided that Egypt's economic and political situation is moving toward stability. However, we do not see a significant catalyst for boosting or supporting revenue growth apart from value-added services (VAS). Otherwise, mobile revenues will be pressured by weaker purchasing power, competition, and market saturation. Roaming revenues will be the most affected in 2012 by the negative outlook of the tourism sector. Going forward, it will be crucial for mobile operators to introduce more innovative VAS (e.g. mobile banking), as we believe future growth will come less from customer acquisition and more from VAS and data services. Accordingly, we believe that the company strategies will address value rather than customer growth in an attempt to counter the continuing pressure on voice call revenues. This should help mobile operators mitigate the continuous erosion of mobile ARPU and, hence, declining profitability. Although we think the MB segment will start bearing fruit slowly – most likely beyond 2012 – the numerous financial services and payments that could be provided through MB will likely appeal to a wide base of mobile customers and should eventually help in triggering top-line growth.

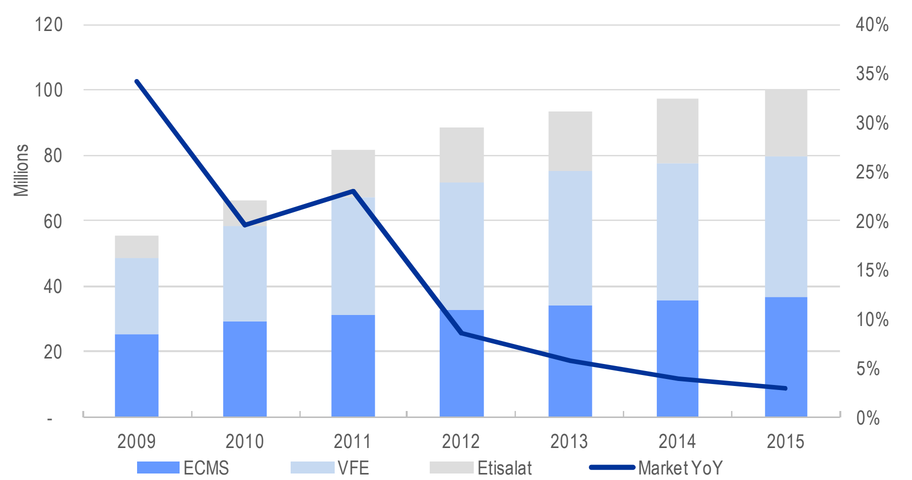
Seeking an amicable agreement on regulatory issues

Pending political stability in Egypt, we are awaiting an amicable end to outstanding regulatory issues between mobile operators, Telecom Egypt [ETE], and the NTRA. The interconnection fees, leasing ETEL's network infrastructure and international gateway services are the key regulatory issues. It is worth mentioning that the interconnection dispute between EMOB and the NTRA could lead to a potential after-tax one-time loss of EGP764mn (from January 1, 2008 up to September 30, 2011) on the former, in case of losing its legal case.

EGP14bn investments in telecom and IT sector in 2012

Huge investments are expected to be directed toward the Egyptian telecom industry as the private and public sectors look to boost capacity and increase the availability of new technologies. The Egyptian Ministry of Planning expects EGP13.9bn investments in the telecom and IT sector in FY2011/12, of which 85% will come from the private sector, as the demand for telecom services remains strong and competition between several major players ensures that continued spending will enhance services.

Figure 12.8 | **Mobile subs forecasts**



Source: MCIT and CI Capital Research estimates

Fixed line

2011 Review

700K YTD net disconnections in ALIS

For the first nine months of 2011, the number of active lines in services (ALIS) – provided through the sole fixed-line operator, ETEL – contracted by more than 700,000 lines, helping in a 19% year-on-year drop in year-to-date (YTD) voice revenues, comprising of local calls, long distance calls, fixed-to-international calls, and fixed-to-mobile calls. The drop in telephone lines and voice revenues was mainly driven by: (i) fixed-mobile substitution (FMS), (ii) dampening of tourism and business activities, (iii) reduction of paying customers, (iv) tighter credit policy adopted by ETEL to disconnect inactive subs, and (v) stolen copper cables.

Curfew and revolution events hit 1Q11 revenues

In 1Q11, the company said it had reactivated the telephone services “at no cost” to more than 1.4mn customers, who failed to pay bills on time because of the events of the revolution, and extended payment terms for active subscribers. Nonetheless, the number of ALIS remained almost unchanged quarter-on-quarter (QoQ) at 9.3mn. Despite the higher average local call volumes in 1Q11, voice revenues declined 12% YoY due to the drop of paying customers as the government had imposed curfew during the revolution events.

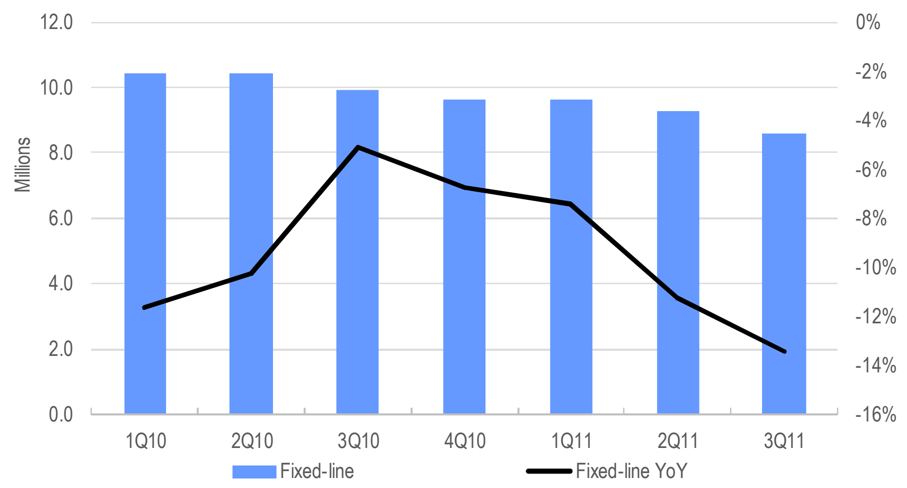
Active lines shrink on reduction of paying customers and stolen copper cable

In 2Q11, ETEL stated that some 750 thousand customers have experienced periods of no service as a result of sections of copper cable being stolen as the price of the underlying commodity soars. Accordingly, the number of ALIS contracted by net disconnections of 300,000 to reach 9mn, while voice revenues declined by 25% (YoY) on the back of the reduction in the number of paying customers. In an attempt to boost voice call traffic, ETEL decided to cut the long-distance call tariff to be at the same local call tariff of EGP0.03/min and lowered its fixed-to-mobile call tariff from EGP0.15/min to EGP0.14/min.

Slower business and tourism activities put further pressure on revenues

In 3Q11, ETEL had temporary disconnected 400,000 customers during the quarter to reach a customer base of 8.6mn. This decline was primarily attributable to the tightening of ETEL credit policy following a “bit of relaxation” in credit policy post-revolution. Voice revenue was 20% YoY lower, as the local and international calls were negatively impacted by the seasonal effect of Ramadan falling within summer period, depressed tourism levels, and slower business activity. Beside its regular telephone services, ETEL provides domestic and international services – under the umbrella of its wholesale business – to third parties who use TE’s extensive, digital infrastructure principally for co-location and transmission services and infrastructure leasing.

Figure 12.9 | **Fixed-line subs & market growth YoY**



Source: MCIT

2012 Preview

Expected stagnant growth in telephone lines in 2012

Although ETEL is offering a land line promotion at only EGP50/line until yearend for both residential & business customers, we expect net disconnections to amount to 755,000 throughout 2011, implying a 9% YoY drop. Following the clean-up of customer base, we expect active lines to only exhibit a 1% annual decrease to 8.5mn by end of 2012, representing a 10% penetration rate. This takes into account the fixed-line sector's slow-growth nature in view of FMS. We still play down the possibility of a new fixed-line entrant to compete with ETEL as the idea lost its economic merit due to the stagnant growth in the number of active lines, unless the new entrant will lease ETEL's extensive network and offer VAS.

Competition from mobile operators to continue but to a lesser degree

We believe competition by mobile operators will continue to exert pressure on ETEL's revenues throughout 2012. However, we expect the price war instigated by mobile operators to cool off going forward, thus limiting mobile ARPU erosion and somewhat easing competitive pressures on ETEL's revenues.

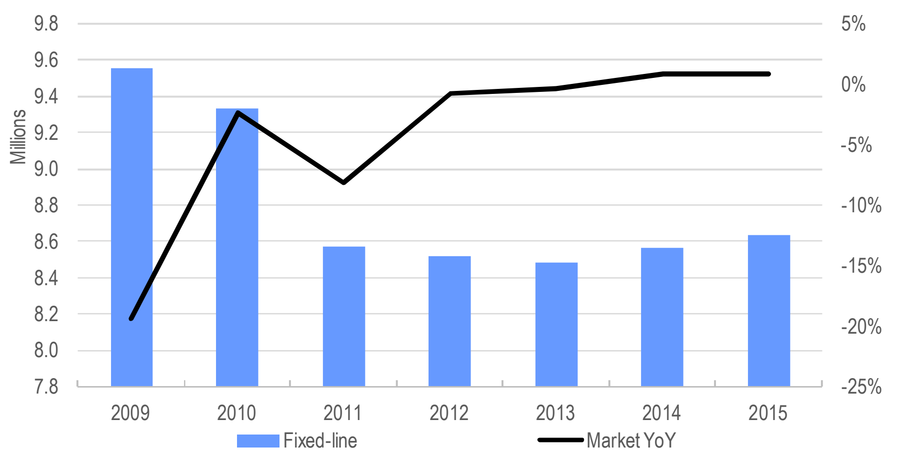
MVNO solution is being delayed to 2012

Owing to the country's unrest post-revolution, ETEL delayed its ambition to push further into mobile phone services via Egypt's first ever mobile virtual network operator (MVNO) license. ETEL management had previously expressed its intention to obtain an MVNO license by end of 2011, however, we think such issue will be revived post the parliament election, which is scheduled to be finalized in early 2012. Should it offer mobile services through an MVNO solution, ETEL would be to benefit further from the mobile sector growth.

Triple-play service is also being delayed due to government instability

Triple-play service (Voice, Data and IPTV in one bundle) in gated communities is also being delayed, most likely because of the revolution and government instability. Through fiber-to-the-home (FTTH) network, the triple-play services provide customers with integrated telecom services, targeting the "Smart Home" services. We believe offering VAS through triple-play licenses will alter the nature of the fixed-line sector, opening new revenue streams for service providers and ETEL as well. The government had issued two triple-play licenses in September 2009, while ETEL launched its first FTTH implementation in Egypt in Cairo Suburb area of Qatamiya in October 2009. In mid 2010, the government had decided to award LinkOne and TeleTech consortia two licenses for the construction and operation of Access Telecommunications Networks in closed compounds. The first consortium led by LinkOne comprised of Link Egypt, LINKdotNET, and Weather Capital Investment Company. The second consortium comprised of TeleTech, Vodafone International, Aviation Information Technology (AVIT), and Giza Systems Company. ETEL is the only fixed-line voice provider, so any triple-play service provider will have to use ETEL's voice services.

Figure 12.10 | Fixed-line subs forecasts



Source: ETEL and CICR estimates

Internet

2011 Review

Social media drives internet users

Internet played a major role in sparking the January 25 Revolution. The number of users of the social media network, *Facebook*, in Egypt recorded 7.2mn users as of 1H11, representing an almost 9% penetration rate of the population. Of this,15% are under 18 years of age, 70% fall between 18 and 34, and 15% are above 34. The demand on internet services post-revolution helped in a 32% YoY growth in the number of internet users, reaching 25.9mn users in 2Q11, and implying a penetration of 33% vs. 28% in 2Q10. ADSL subscribers grew by 34% YoY to reach 1.64mn subs in 2Q11 thanks to the relatively faster and cheaper connection speeds available under ADSL tariffs. ADSL (including illegal connections) and mobile internet users were the most popular internet modes of access, with 34% apiece. Meanwhile, the share of leased line, ISDN and dial-up declined to 23%, down from 31% a year ago. Competition in Egypt's internet market is dominated by a couple of Internet Service Providers (ISPs), namely **TE Data** – owned by ETEL – and **LINKdotNET (LDN)** – owned by EMOB. TE Data raised its leading market share to reach 63% in September 2011 vs. 62.2% in September 2010. Meanwhile, LDN's market share has retreated to 14% vs. 16% a year ago.

2012 Preview

Broadband potential largely untapped

The **Ministry of Communications & Information Technology (MCIT)** revealed that the increase of broadband penetration and infrastructure is on the top of its priorities for the upcoming period. The MCIT is to launch a national internet initiative, to start in 2Q12, under the name of **eMisr,** which includes spreading the use of broadband across Egypt up to 2015, by lowering prices and increasing speed. The new strategy targets 4.5mn subs by 2015 and higher speed at 2MB/second in 2015, and to reach 25MB/second in 2021. Public and private sectors will jointly undertake the plan (eMisr) by pumping investments up to USD2.4bn. eMisr should help the economic growth in the coming period, and it would help the different sectors in attracting more investments by creating a more developing and dynamic environment for businesses in Egypt. eMisr is based on three pillars: (1) expanding the geographic coverage for broadband infrastructure, (2) increasing broadband penetration, and (3) providing internet access for people in out-of-coverage areas, which represent 36% of population.

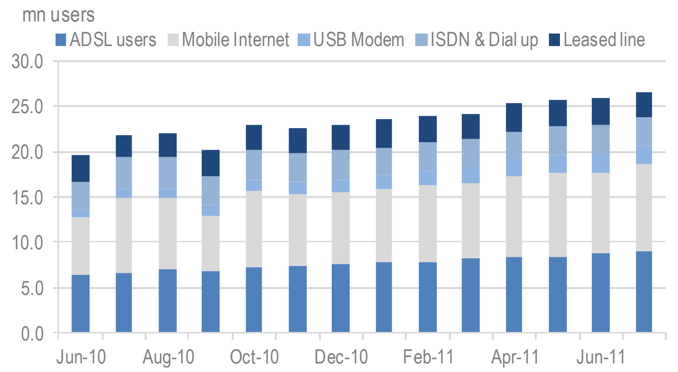
However, we believe that eMisr and the broadband growth in Egypt faces a number of challenges, including:

- The government obligation toward financing budget deficit.

- Lack of fixed broadband infrastructure in Egypt – according to telecom experts, the total investment cost for the required fiber optic cables (FTTH and LTE) across Egypt is estimated within USD6-10bn over the next six years.
- Limited competition between fixed broadband providers – TE Data owns 70% of internet capacity in Egypt and ETEL controls 100% of wholesale internet & data business.
- Poor infrastructure in Egypt.
- Heavy bureaucracy in getting the required licenses for civil works.
- Weaker purchasing power and low per capita income at around USD3,000 for FY10/11.
- Relatively high (although already decreasing) cost of owning a personal computer (PC); the annual growth in the number of PCs is around 4%.
- Illiteracy rate of around 30% of population, in addition to the higher digital Illiteracy rate.
- Lack of rich Arabic content.
- Illegal connection sharing per ADSL line.

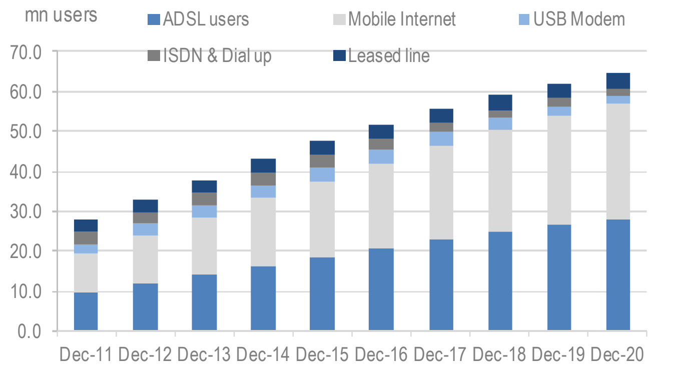
Mobile internet and broadband to lead user growth: We expect internet users to continue growing in 2012 by 18% YoY to 32.6mn users – implying a penetration rate of 35% – up from an expected YoY growth of 20% in 2011. Mobile internet and broadband will likely drive the growth in internet users, while ADSL subscribers are projected to grow by 36% to reach 1.9mn lines. Taking into account the illegal ADSL sharing (currently an average of 6 ADSL users share a single ADSL line), we expect the number of ADSL users will contribute to almost 34% of internet mode of access. We believe that the average number of illegal sharing will decline as long as the internet providers cut their connection fees for ADSL. Broadband and mobile internet are expected to remain the popular modes of connecting users to the internet, with mobile operators set to capitalize on the latter in offering VAS. Such an increase in usage is expected to come at the at the expense of dial-up users, the figures of which are steadily declining.

Figure 12.11 | **Internet users by mode of access**



Source: MCIT

Figure 12.12 | **Forecasted internet users**



Source: CICR estimates

Sector Summary

Telecom Services - SWOT Analysis	
Strengths	**Weakness**
• Egypt is one of the largest telecom markets in MENA region. • High demand for internet services thanks to predominantly young population. • On-net promotions and cost optimization help mobile operators to stimulate usage and sustain margins. • Nationwide network coverage.	• Decelerating revenue growth rates due to lower tariffs on the heels of stiff competition. • Slower subs growth due to high mobile penetration rate (c. 98%). • Dormant performance in fixed-line sector due to fixed-mobile
Opportunities	**Threat**
• Egypt's mobile market to continue growing, driven in part by: the multi-SIM phenomenon, decreasing mobile handset prices and lower subscription fees. • Providing triple-play services in gated communities will alter the nature of the fixed-line sector. • Potential revenue growth from providing valued-added services (e.g. Mobile banking and broadband). • Low internet penetration rate at 32% and growing demand for internet services should stimulate sector growth.	• Market saturation may limit mobile growth potential. The mobile sector is expected to grow at slower pace, reaching a single-digit (9%) in 2012. • The mobile price war and aggressive competition will likely further erode both ARPU and margins unless Egypt's regulator intervenes to ensure fair competition. • Egypt's high rates of illiteracy may hinder VAS proliferation

Source: CI Capital Research

CAPITAL RESEARCH

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Mobinil

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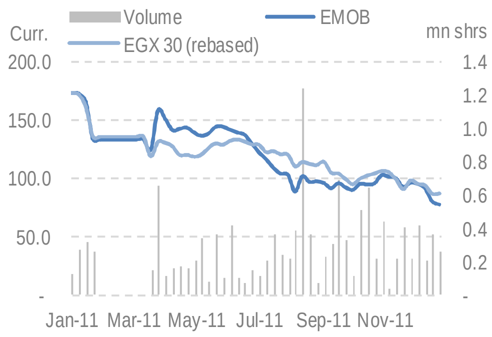
Egypt Book 2011/12 | Telecom Services

Underweight

TP - EGP 109 | 36.1% Upside

January 26, 2012

52 week Share Performance



Stock Details

As at: 21-Jan-12

CICR Rating/Risk	Underweight/Moderate
Target Price/LTFV (EGP)	109 / 106
Last Price (EGP)	80.10
52 Week High	167.99
52 Week Low	72.99
6M Av. Daily Vol. (000' shrs)	8156
% Chg: MoM / 6M / YoY	-10.3 / -27.7 / -50.7
No. of Shares (mn)	100.00
Mkt. Cap (EGP mn)	8,010.00
Mkt. Cap (USD mn)*	1,326.16
Free Float (%)	29.00
Paid in Capital (EGP mn)	1,000.00
Reuters / Bloomberg	EMOB.CA / EMOB Ey Equity
ISIN	EGS48011C018

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Egyptian Company for Mobile Services (ECMS) "Mobinil" [EMOB] was established in November 1997 under Investment Law No. 8/1997, granting it a 5-year tax holiday ending 2003. The company began operations in May 1998, when Telecom Egypt's mobile assets were sold to Mobinil Telecommunications, a consortium consisting of Orascom Telecom (OT), France Telecom Mobiles International (FTMI), and Motorola. Mobinil Telecom currently controls EMOB through its 51% combined stake.

In 1998, EMOB was awarded a 15-year license (renewable for a 5-year period) to operate and expand the existing GSM 900 network. In 2005, it was granted access to 7.5 mhz of the 1800 mhz spectrum for a payment of EGP1.24bn, and later acquired a 3G license for EGP3.4bn to launch commercial 3G services in late 2008. Today, EMOB represents the largest local GSM mobile operator in terms of subscribers (c. 25mn subs), and its network covers 35 urban areas, with 4,419 sites and 35 switches as of March 20.

Ownership Structure

Mobinil Telecom	51.0%
Free Float	29.0%
OT	20.0%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Operating under stress

- **2011 results impacted by macro and competitive pressures.**
- **Performance should start to normalize in 2012, buoyed by internet and data.**
- **A possible deal between France Telecom (FT) and Orascom Telecom (OT) is probably the only trigger for EMOB's stock in 2012.**

2011 was an exceptional year for EMOB; which saw the company losing leadership and feeling the ill-effects of competitive, political, and economic pressures. However, EMOB did not lose hope for 2012, in which the company is looking to capitalize on the rapid growth in internet and data services. Moreover, value-added services (VAS) such as mobile banking (MB) might start adding a premium to 2012 revenues. In 2012, France Telecom (FT) could possibly strike a deal with Orascom Telecom (OT) over EMOB, either through an option exercise or an outright sale. Yet, we assign a very low probably to this scenario.

2011 Review

EMOB reported weak results throughout 2011, mainly due to stiff competition, market saturation, and unrest in Egypt following the January 25 Revolution. As such, the company is betting on internet and VAS to trigger revenue growth. To this end, EMOB received approval from the National Telecom Regulatory Authority (NTRA) in June 2011 to provide mobile-phone money transfer once security in Egypt improves. Nonetheless, a number of customers have canceled their contracts with the company in July and August because of boycott campaigns in response to a cartoon published by Sawiris, which was considered as offensive to Islam.

2012 Preview

Although OT said it will not sell its stake in EMOB, we believe that FT would probably be eager to conclude a deal with Sawiris at a price below the put option prices (EGP221.7-248.5) before reaching the 2-month exercise window (from September 15 through November 15 in both 2012 or 2013). Whether through an option exercise or an outright sale, there will have to be a mandatory buyout offer submitted by FT to EMOB's free float minorities of 29%. Although EMOB and **Telecom Egypt [ETEL]** revealed their intention to reach an amicable agreement over interconnection rates, EMOB has a huge potential loss in case of an adverse outcome. Meanwhile, the ongoing negotiations with ETEL over the leasing of network infrastructure and international gateway are likely to be resolved in 2012, in which MB should start to be accretive to EMOB revenues. We think the numerous financial services and payments that could be provided through MB will appeal to a wide base of mobile customers.

Valuation & Recommendation

Our DCF-based fair value for EMOB (inclusive of MB) stands at EGP106/share. Meanwhile, our TP is EGP109/share, implying a 2012e EV/EBITDA multiple at 3.7x. Our recommendation is Underweight with a Moderate Risk rating.

Financial Statements

Mobinil (EMOB)

EMOB | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	650.5	813.9	610.5	810.0	357.7	630.2
Current Assets	1,084.0	1,256.5	1,234.9	1,491.4	1,022.0	1,310.4
Total Assets	13,658.0	14,639.7	16,731.0	16,350.7	15,875.7	15,804.3
Current Liabilities	4,963.3	6,347.0	5,065.3	4,784.4	6,223.3	7,672.2
Total Debt	5,550.1	4,979.9	6,993.3	6,585.2	6,332.3	6,003.1
Net Debt	4,899.6	4,166.1	6,382.8	5,775.2	5,974.6	5,372.9
Total Liabilities	10,950.4	11,307.8	12,116.9	11,796.5	11,271.9	11,141.2
Shr Equity (Book Value)	2,239.6	2,929.6	4,145.1	4,076.5	4,126.0	4,185.3
Minority Interest	2.5	-1.0	-1.0	-1.0	-1.0	-1.0
Provisions	465.4	403.2	470.0	478.8	478.8	478.8
Total Liabilities & Equity	13,658.0	14,639.7	16,731.0	16,350.7	15,875.7	15,804.3
Income statement						
Revenue	10,002.8	10,806.9	10,575.9	10,174.3	10,136.8	10,373.7
COGS	-2,057.4	-2,038.7	-2,395.3	-2,925.5	-2,678.3	-2,745.7
Gross Profit	7,945.4	8,768.1	8,180.5	7,248.8	7,458.5	7,627.9
EBITDA	4,681.4	5,121.6	4,309.1	3,524.3	3,747.8	3,830.5
EBIT	3,021.8	3,214.4	2,308.1	1,123.6	1,496.7	1,537.5
Int. Income	40.4	35.6	45.1	49.4	49.4	70.6
Int. Expense	-375.6	-723.6	-634.3	-867.7	-888.9	-819.4
PBT	2,468.0	2,573.2	1,757.8	260.5	657.1	788.7
NPAT	1,969.1	2,037.6	1,365.1	-53.2	494.8	593.5
Net Income	1,970.2	2,038.0	1,365.1	-53.2	494.8	593.5
Normalised Net Income	1,920.5	1,951.0	1,360.1	-53.2	454.3	545.0
Ordinary Dividends	1,268.0	950.0	1,235.0	0.0	445.3	534.2
Cash Flow Summary						
COPAT	3,924.5	4,657.8	3,825.8	3,115.9	3,585.5	3,635.3
FCFF	2,064.3	2,666.3	868.7	1,375.5	1,431.2	1,808.8
Change in Cash	235.6	163.4	-203.4	199.6	-452.4	272.6
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	19.70	20.38	13.65	n/m	4.95	5.94
EPS (Normalised) (EGP)	19.20	19.51	13.60	n/m	4.54	5.45
Dividend Per Share	12.68	9.50	12.35	n/a	4.45	5.34
Book Value Per Share	22.40	29.30	41.45	40.76	41.26	41.85
Valuation						
PER (Basic) (x)	4.07	3.93	5.87	n/m	16.19	13.50
PER (CICR) (x)	4.17	4.11	5.89	n/m	17.63	14.70
PBV (x)	3.58	2.73	1.93	1.96	1.94	1.91
Dividend Yield (%)	15.83	11.86	15.42	n/a	5.56	6.67
Earnings Yield (%)	24.60	25.44	17.04	n/a	6.18	7.41
EV/Revenue (x)	1.29	1.13	1.36	1.35	1.38	1.29
EV/EBITDA (x)	2.76	2.38	3.34	3.91	3.73	3.49
Market Capitalisation (EGPmn)	8,010.0	8,010.0	8,010.0	8,010.0	8,010.0	8,010.0
Enterprise Value (EGPmn)	12,912.1	12,175.0	14,391.9	13,784.2	13,983.6	13,381.9
Profitability						
ROE (%)	87.97	69.56	32.93	-1.31	11.99	14.18
ROA (%)	14.43	13.92	8.16	-0.33	3.12	3.76
Asset Turnover (x)	0.73	0.74	0.63	0.62	0.64	0.66
EBITDA Margin (%)	46.80	47.39	40.74	34.64	36.97	36.93
Liquidity						
ND/Equity (x)	2.19	1.42	1.54	1.42	1.45	1.28
ND/EBITDA (x)	1.05	0.81	1.48	1.64	1.59	1.40

Source: Company Financials & CICR Database

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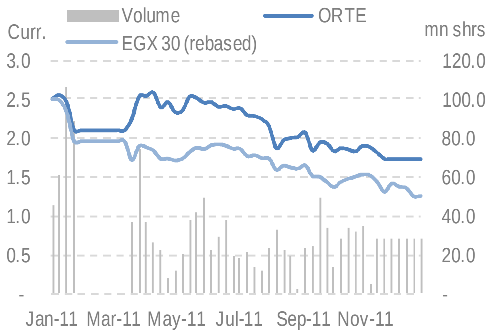
Egypt Book 2011/12 | Telecom Services

Strong Buy

TP – USD 3.2 | 61.7% Upside

January 26, 2012

52 week Share Performance



GDS Details	As at: 21-Jan-12
CICR Rating/Risk	Strong Buy/High
Target Price/LTFV (USD)	3.2 / 4
Last Price (USD)	198
52 Week High	3.90
52 Week Low	1.11
6M Av. Daily Vol. (000' shrs)	95191
% Chg: MoM / 6M / YoY	20.8 / 4.6 / -6.8
No. of Shares (mn)	1049.14
Mkt. Cap (EGPmn)	21673.73
Mkt. Cap (USDmn)*	3,587.00
Free Float (%)	48.10
Paid in Capital (USDmn)	507.00
Reuters / Bloomberg	ORTE.CA / OTLD LI Equity
ISIN	US68554W2052

Company Profile

Orascom Telecom Holding (OTH) is a leading regional mobile operators and among the largest in the Middle East and Africa. ORTE's GSM networks cover 10 main countries with a total population of around 490mn. In December 2007, OTH sold its GSM operator in Iraq to Zain for USD12bn and in 4Q10 OTH sold its stake in Tunisiana (Tunisia) for USD12bn. Early 2008, OTH has been granted the first 25-year commercial license to provide mobile services in the North Korea, with an exclusivity period of four years. In partnership with Canada-based Globalive, OTH won an AWS spectrum in Canada which started operations at end of 2009 under the brand name WIND Mobile. In 2010, Russia's VimpelCom signed an agreement with Wind Telecom (shareholder of OTH) to merge their telecom assets, creating the world's sixth-largest mobile company by subs. As per the agreement, OTH will spin off a number of its assets, not intended to form part of the VimpelCom-Wind Telecom group, into a new company, Orascom Telecom Media & Technology Holding (OTMT).

Ownership Structure	
Wind Telecom (100% owned by VimpelCom)	51.9%
Free Float	48.1%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Renewed licenses – and optimism

- **VimpelCom in talks with the Algerian government to sell a 51% stake in Djezzy.**
- **Renewal of existing licenses in Bangladesh.**
- **Recent top management changes to reflect the new owners.**
- **Successful demerger of OTMT after a two-month long trading suspension.**

Djezzy is set to remain the catalyst for ORTE's stock performance going into 2012, and we are optimistic the recently-signed non-binding memorandum of understanding (MoU) between VimpelCom and the Algerian government may end the two-year long dispute over the operator. Meanwhile, the successful renewal of Banglalink's 2G license assures ORTE's future presence in the country and its contribution to its revenue stream.

2011 Review

As a result of VimpelCom's acquisition of Wind Telecom, ORTE completed the demerger of assets not included in the deal into a new firm, Orascom Telecom Media & Technology Holding (OTMT), and accordingly the shares of both companies were successfully listed and traded on the Egyptian Exchange (EGX) according to their new trading prices. VimpelCom also assumed control of ORTE's board by appointing Mr. Jo Lunder to the position of Chairman, replacing Mr. Khaled Bichara, thus reflecting ORTE's new owners. Meanwhile, in order to sustain its revenues and EBITDA streams going forward, ORTE renewed its 2G license in Bangladesh, as well as its management contract of the Lebanese Alfa. It also managed to free itself of its Namibian operator, Powercom, pursuant to its strategy to dispose of non-core assets.

2012 Preview

We believe Djezzy will continue to be the catalyst for the ORTE's (post-demerger) stock performance going into 2012. The recently-signed non-binding MoU between VimpelCom and the Algerian government to explore the possibility of selling a majority stake (c.51%) to the latter can be viewed as a potential end to a 2-year-long dispute that dates back to late 2009. However, the price and timeline of the transaction have not yet been disclosed. On the financial front, we expect continued revenue growth while maintaining healthy EBITDA level and further benefiting from the growing subscriber base (now standing at 73.4mn) by offering them more value-added services, as well as taking advantage of potential synergies from being part of the enlarged VimpelCom global telecom group.

Valuation & Recommendation

We set our post-demerger long-term fair value (LTFV) and target price (TP) at EGP4.8/share (USD4.0/GDS) and EGP3.9/share (USD3.2/GDS), respectively. Our TP is based on four different probability-weighted scenarios for Djezzy, and our LTFV is driven off our DCF-based sum-of-the-parts model. Our recommendation for ORTE (post-demerger) is Strong Buy.

Financial Statements

Orascom Telecom (ORTE)

ORTE | USDmn | FY End: December **Balance sheet**	2008a	2009a	2010a	2011e	2012e	2013e
Cash & Cash Equivalent	651.8	759.5	824.1	2,008.3	2,188.7	2,580.9
Current Assets	1,684.8	1,731.8	2,596.4	3,670.1	3,808.8	4,264.3
Total Assets	9,928.9	10,099.0	9,980.5	10,210.5	10,356.5	10,706.8
Current Liabilities	2,998.8	3,469.1	2,965.6	2,324.7	2,108.3	1,999.5
Total Debt	5,735.3	5,872.2	4,832.9	4,120.0	3,927.7	3,749.1
Net Debt	5,083.6	5,112.7	4,008.8	2,111.7	1,739.0	1,168.3
Total Liabilities	8,727.7	8,683.2	7,179.3	6,495.2	6,254.0	6,149.8
Shr Equity (Book Value)	1,080.2	1,275.8	2,724.8	3,592.3	3,935.7	4,344.6
Minority Interest	121.0	140.0	76.4	122.9	166.7	212.4
Provisions	n/a	n/a	n/a	n/a	n/a	n/a
Total Liabilities & Equity	9,928.9	10,099.0	9,980.5	10,210.5	10,356.5	10,706.8
Income statement						
Revenue	5,327.0	5,064.8	3,825.5	3,981.2	4,027.1	4,139.2
COGS	-2,945.9	-2,892.9	-2,241.2	-2,106.8	-2,160.8	-2,224.3
Gross Profit	2,381.1	2,171.9	1,584.3	1,874.5	1,866.2	1,915.0
EBITDA	2,381.1	2,171.9	1,584.3	1,874.5	1,866.2	1,915.0
EBIT	1,468.9	1,187.9	791.9	1,082.0	1,077.8	1,123.9
Int. Income	53.1	95.5	56.1	83.5	81.1	81.1
Int. Expense	-468.5	-511.3	-466.8	-537.4	-373.7	-348.3
PBT	810.5	713.8	61.1	336.1	595.7	699.4
NPAT	407.0	353.0	-178.2	133.6	387.2	454.6
Net Income	428.4	318.1	743.1	834.7	343.4	408.9
Normalised Net Income	335.2	291.6	-216.5	91.0	343.4	408.9
Ordinary Dividends	166.0	91.2	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	1,891.5	1,576.7	1,349.6	1,822.4	2,139.8	2,932.2
FCFF	2,192.9	582.2	331.6	968.1	1,265.4	2,199.5
Change in Cash	-586.8	107.8	64.5	1,184.2	786.0	1,978.4
Key Multiples						
Per Share Data						
EPS (Basic) (USD)	0.41	0.30	0.71	0.80	0.33	0.39
EPS (Normalised) (USD)	0.32	0.28	n/m	0.09	0.33	0.39
Dividend Per Share	0.16	0.09	n/a	n/a	n/a	n/a
Book Value Per Share	1.03	1.22	2.60	3.42	3.75	4.14
Valuation						
PER (Basic) (x)	8.36	11.25	4.82	4.29	10.43	8.75
PER (CICR) (x)	10.68	12.28	n/m	39.33	10.43	8.75
PBV (x)	3.31	2.81	1.31	1.00	0.91	0.82
Dividend Yield (%)	4.64	2.55	n/a	n/a	n/a	n/a
Earnings Yield (%)	11.97	8.89	20.76	23.32	9.59	11.42
EV/Revenue (x)	1.65	1.74	2.00	1.46	1.36	1.20
EV/EBITDA (x)	3.69	4.07	4.84	3.10	2.94	2.59
Market Capitalisation (USDmn)	3,579.7	3,579.7	3,579.7	3,579.7	3,579.7	3,579.7
Enterprise Value (USDmn)	8,784.2	8,832.4	7,664.8	5,814.2	5,485.4	4,960.4
Profitability						
ROE (%)	39.66	24.94	27.27	23.24	8.72	9.41
ROA (%)	4.31	3.15	7.45	8.17	3.32	3.82
Asset Turnover (x)	0.54	0.50	0.38	0.39	0.39	0.39
EBITDA Margin (%)	44.70	42.88	41.41	47.08	46.34	46.26
Liquidity						
ND/Equity (x)	4.71	4.01	1.47	0.59	0.44	0.27
ND/EBITDA (x)	2.13	2.35	2.53	1.13	0.93	0.61

Source: Company Financials & CICR Database

ORTE's financials are those as at pre-demerger. Multiples are thus based on a price of USD3.41/GDR - the closing price on January 19, 2012.

Telecom Egypt

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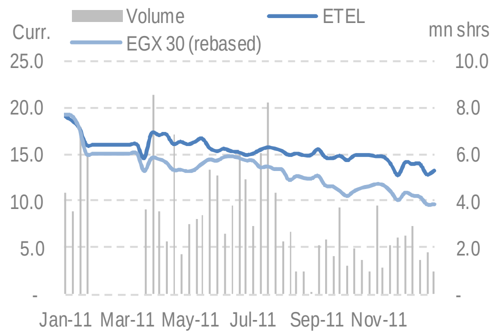
Egypt Book 2011/12 | Telecom Services

Buy

TP - EGP 21 | 45.7% Upside

January 26, 2012

52 week Share Performance



Stock Details As at: 21-Jan-12

CICR Rating/Risk	Buy/Moderate
Target Price/LTFV (EGP)	21/ 21.9
Last Price (EGP)	14.41
52 Week High	18.00
52 Week Low	11.99
6M Av. Daily Vol. (000' shrs)	475.88
% Chg: MoM / 6M / YoY	6.7 / -8 / -17.7
No. of Shares (mn)	1707.07
Mkt. Cap (EGP mn)	24,598.91
Mkt. Cap (USD mn)*	4,072.67
Free Float (%)	20.00
Paid in Capital (EGP mn)	17,070.72
Reuters / Bloomberg	ETEL.CA / ETEL Ey Equity
ISIN	EGS48031C016

GDR Data

Last Price (USD)	11.51
52 Week High	17.23
52 Week Low	10.04

Company Profile

In 1998, the Egyptian government converted its Arab Republic of Egypt National Telecommunication Organization (ARENTO) into a joint stock company in 1998 according to Law No. 19/1998, thus establishing Telecom Egypt [ETEL]. ETEL is Egypt's sole fixed-line telecommunication operator, offering retail telecommunication services including access, voice, and internet and data through its subsidiary TE Data. It is also the sole provider of wholesale services (including broadband capacity leasing to ISPs) and both national and international interconnection services.

The entity is one of the largest providers of fixed-line services in the Middle East & Africa, with more than 9.6mn subscribers as of March 2010, implying a penetration rate of c.12%. ETEL competes in Egypt's fast-growing mobile market through its 45% stake in Vodafone Egypt (VFE), Egypt's second largest mobile operator in terms of subscribers. ETEL's ISP subsidiary, TE Data has a leading market share of 61%.

Ownership Structure

Government of Egypt (GoE)	80.0%
Free Float	20.0%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Performance stimulated by strong fundamentals

- **Performance balanced by a diversified business model.**
- **Employee protests put top management under pressure.**
- **ETEL might become an integrated operator in 2012 by launching MVNO and triple-play services.**

Telecom Egypt [ETEL] has delivered a balanced top line performance so far in 2011, thanks to its diversified business model, which was mainly characterized by internet & data and wholesale growth. In addition, the company's launch of its TE-NORTH (TEN) cable system operations further supported top-line growth. However, margins were hit in 2011 by the extraordinary salary increase, following employees' protests. Absent any acquisition target, ETEL is still determined to fulfil its strategy in 2012, possibly by providing mobile services under a mobile virtual network operator (MVNO) business model, in addition to triple-play services in gated communities. ETEL's strong balance sheet supported by its robust net cash position will likely result in higher dividends in 2012.

2011 Review

In response to employee protests demanding higher salaries following the revolution, ETEL approved in February 2011 an extraordinary 15% increase in salaries, starting March 1, 2011. Later on, in October, a number of workers at TE protested and demanded higher wages; this put some pressure on the company's margins. In early August, ETEL announced that the TEN Cable System is in service at a speed of 40 Gigabit/sec (40G), making it the first Mediterranean cable network to provide commercial service using this newest 40G technology. In an attempt to boost voice call traffic, ETEL launched a promotion till year end, by virtue of which the long-distance call tariff matches the local call tariff of EGP0.03/min, while the fixed-to-mobile call tariff was lowered from EGP0.15/min to EGP0.14/min. We believe such promotion will be extended into 2012.

2012 Preview

Due to ongoing unrest, the government has delayed several projects into 2012. Should the macro picture improve, ETEL might become an integrated telecom operator in 2012 by launching MVNO and triple-play services in gated communities. The company has a strong net cash position that could help in targeting either a local or regional investment opportunity. Tough competition from mobile operators will likely continue to exert pressure on ETEL's revenues— to be mitigated by strong internet growth and cable revenues. The company will undertake a restructuring plan for salaries in 2012. So we expect higher salaries and hence lower margins in 2012. The first phase of will be implemented in January 2012 on about 80% of the employees and the remaining 20% will be in March 2012.

Valuation & Recommendation

Our DCF-based fair value for ETEL stands at EGP21.9/share, including its 45% stake in Vodafone Egypt and 100% ownership of Egypt's leading ISP, TE Data. Meanwhile, our TP is EGP21/share, implying a 2011e EV/EBITDA multiple at 3.7x. Our recommendation is Buy with a Moderate Risk rating.

Financial Statements

Telecom Egypt (ETEL)

ETEL | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	2,734.7	2,452.8	4,976.3	6,251.5	7,889.1	9,531.3
Current Assets	6,236.5	5,734.2	7,823.7	9,335.1	11,050.8	12,829.5
Total Assets	33,869.6	32,461.2	33,204.2	33,768.2	34,370.6	35,061.6
Current Liabilities	4,979.0	3,758.1	3,977.2	3,937.2	3,885.6	3,899.3
Total Debt	3,145.9	1,043.7	880.7	725.2	586.6	451.1
Net Debt	411.2	-1,409.2	-4,095.5	-5,526.3	-7,302.5	-9,080.1
Total Liabilities	6,891.9	4,851.9	4,848.7	4,670.0	4,482.9	4,361.2
Shr Equity (Book Value)	26,631.0	27,227.3	27,968.0	28,690.6	29,459.7	30,252.0
Minority Interest	38.1	41.0	20.0	20.0	20.0	20.0
Provisions	308.6	340.9	367.5	387.6	408.0	428.4
Total Liabilities & Equity	33,869.6	32,461.2	33,204.2	33,768.2	34,370.6	35,061.6
Income statement						
Revenue	10,116.9	9,960.7	10,317.9	10,071.3	10,161.2	10,233.4
COGS	-3,365.3	-3,295.7	-3,616.3	-3,727.7	-3,607.2	-3,632.9
Gross Profit	6,751.6	6,665.0	6,701.7	6,343.6	6,554.0	6,600.5
EBITDA	5,163.3	5,021.9	4,864.9	4,228.2	4,216.9	4,144.5
EBIT	2,419.3	2,279.5	2,355.1	1,561.6	1,672.5	1,626.8
Int. Income	157.8	131.9	202.9	298.3	296.1	298.4
Int. Expense	-360.7	-137.3	-26.3	65.9	164.9	264.5
PBT	3,307.5	3,355.2	3,723.0	3,282.5	3,515.9	3,621.8
NPAT	2,795.2	2,901.8	3,231.2	2,890.3	3,076.4	3,169.1
Net Income	2,789.5	2,896.5	3,228.8	2,890.3	3,076.4	3,169.1
Normalised Net Income	3,286.3	3,227.9	3,624.1	3,142.0	3,320.3	3,373.8
Ordinary Dividends	2,219.2	2,219.2	2,219.2	2,167.7	2,307.3	2,376.8
Cash Flow Summary						
COPAT	4,602.1	4,306.6	4,471.7	3,795.8	3,786.3	3,699.0
FCFF	3,992.7	3,352.0	3,557.0	2,253.4	2,413.1	2,357.4
Change in Cash	1,337.8	-281.8	2,523.4	1,275.2	1,637.6	1,642.2
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	1.63	1.70	1.89	1.69	1.80	1.86
EPS (Normalised) (EGP)	1.93	1.89	2.12	1.84	1.95	1.98
Dividend Per Share	1.30	1.30	1.30	1.27	1.35	1.39
Book Value Per Share	15.60	15.95	16.38	16.81	17.26	17.72
Valuation						
PER (Basic) (x)	8.82	8.49	7.62	8.51	8.00	7.76
PER (CICR) (x)	7.49	7.62	6.79	7.83	7.41	7.29
PBV (x)	0.92	0.90	0.88	0.86	0.84	0.81
Dividend Yield (%)	9.02	9.02	9.02	8.81	9.38	9.66
Earnings Yield (%)	11.34	11.77	13.13	11.75	12.51	12.88
EV/Revenue (x)	2.48	2.33	1.99	1.90	1.70	1.52
EV/EBITDA (x)	4.85	4.63	4.22	4.52	4.11	3.75
Market Capitalisation (EGPmn)	24,598.9	24,598.9	24,598.9	24,598.9	24,598.9	24,598.9
Enterprise Value (EGPmn)	25,048.2	23,230.7	20,523.4	19,092.6	17,316.4	15,538.8
Profitability						
ROE (%)	10.47	10.64	11.54	10.07	10.44	10.48
ROA (%)	8.24	8.92	9.72	8.56	8.95	9.04
Asset Turnover (x)	0.30	0.31	0.31	0.30	0.30	0.29
EBITDA Margin (%)	51.04	50.42	47.15	41.98	41.50	40.50
Liquidity						
ND/Equity (x)	0.02	-0.05	-0.15	-0.19	-0.25	-0.30
ND/EBITDA (x)	0.08	-0.28	-0.84	-1.31	-1.73	-2.19

Source: Company Financials & CICR Database

Transport & Logistics

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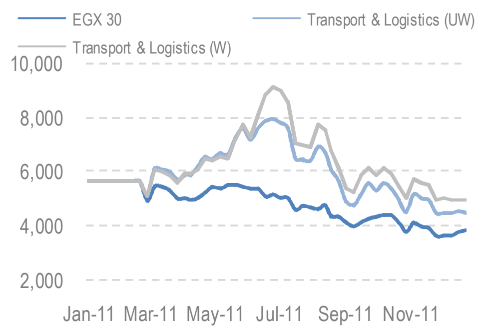
Egypt Book 2011/12 | Sector Review

ALCN | Buy

ETRS | Hold

Transport & Logistics | 52 Wk Performance*



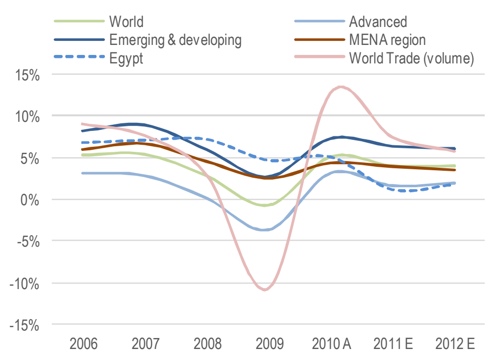
Sector Growth Drivers

- Growing global trade activities
- Expected stability in Egypt towards the end of 2012.
- Terminal operators' expansion plans.
- Firm oil prices support Suez vessel traffic.

Sector Risks

- Depressed global economic recovery.
- Widening scale of protests around the world.
- Instability in Egypt.
- Delays in expansion of ports/terminals by operators.
- Increased pirate activity in the Gulf of Aden.

KPIs | 2006-12e



*Comprises all sector stocks constituting CI Capital 100 Index.

January 26, 2012

Instability to undermine sector performance

- **FY10/11 performance weakened since January 25 Revolution.**
- **Tourism industry hardest hit, severely impacting passenger traffic LoB.**
- **Containers handling, cargo handling & vessels traffic declined marginally.**
- **Decline expected to continue in FY11/12**

The January 25 Revolution and continued unrest in Egypt over the course of 2011 have taken their toll on the Transport & Logistics industry, leading to an overall decline of c.10% in FY10/11 for the four lines of business (LoB) versus growth of c.5% in FY09/10. Three out of these four LoBs showed marginal decreases with an average decline of 3% (vs. +5.1% in FY09/10), while the passenger traffic LoB was the worst performer, down 30% (vs. +3.5% in FY09/10) on the back of the drop in tourism. The Euro zone instability and weak consumer spending in the U.S. weakened trade activities. On the back of this we expect decline to continue in all the LoBs during FY11/12, dragged by economic and political unrest in Egypt. Moreover, this is expected to be coupled with fading hopes of a quick recovery in the economic situations of both Europe and the U.S.

Review 2011

During FY10/11, each of the Transport & Logistics industry's four main LoBs declined. The worst performer was the passengers' traffic, which saw a 30% drop to 2.2mn passengers on the back of a weakened tourism sector following the January 25 Revolution. Vessels traffic LoB registered a 6.4% decline to 18.434 trips, while container and Cargo handling LoB recorded a slight decrease of 2% and 0.2% to 6.5mn twenty-foot equivalent units (TEUs) and 130mn tons, respectively.

Preview 2012

We continue to hold a negative outlook for the industry's four LoBs in FY11/12, mainly due to the continued unrest. Moreover, major risks still exist, including: (i) an unclear economic outlook for the Euro zone and the U.S, and (ii) the political and economic unrest in other Arab Spring countries. We estimate an average decline of 5.2% for all LoBs in FY11/12, increasing gradually to reach 11.6% by FY15/16.

Covered stocks

On September 15, we terminated coverage of Canal Shipping Agencies (due to lower-than-required free float by the Egyptian Exchange (EGX) and weak operational performance) and United Arab Stevedoring (after 13 years' non-performance led to deterioration in shareholder value).

FY10/11 Review

Cargo Handling

Cargo handling remained almost flat

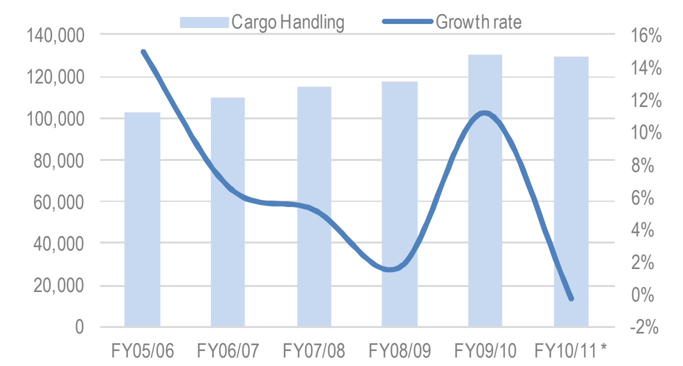
Cargo handling remained almost stable in FY10/11 at 130mn tons vs. 130.3mn tons a year earlier. 1H10/11 saw a growth of 2.7%YoY, however the second half saw a drop of 3.1%YoY and 1.5% decline HoH - given the spread of instability in the Euro area, reduced consumer spending namely in the US and unrest in Egypt.

Container Handling

Minimal drop in container handling

Container handling followed suit with 2H10/11 has weakened the performance of the year by a mere decline of 2%. Containers handled in Egyptian sea terminals reached 6.49mn TEU in FY10/11 vs. 6.61mn in FY09/10.

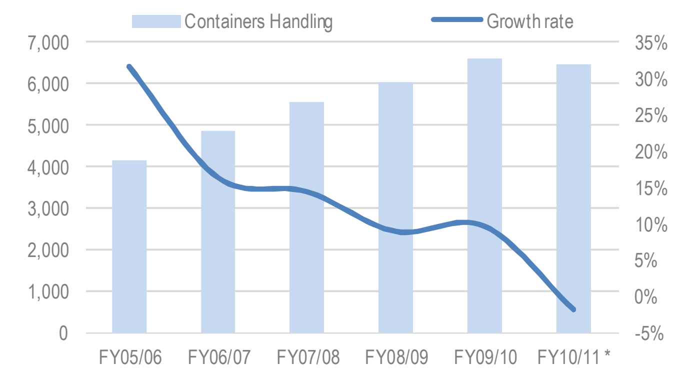
Figure 13.1 | **Seaport Total Cargo Handling (000's tons)**



* FY10/11 is actual till May 2011 (11M10/11), while June is estimated by CI Capital Research.

Source: Egyptian Maritime Data Bank

Figure 13.2 | **Sea Terminal Total Containers Handling (mn TEUs)**



* FY10/11 is actual till May 2011 (11M10/11), while June is estimated by CI Capital Research.

Source: Egyptian Maritime Data Bank

Vessel Traffic

A wider drop in vessel traffic

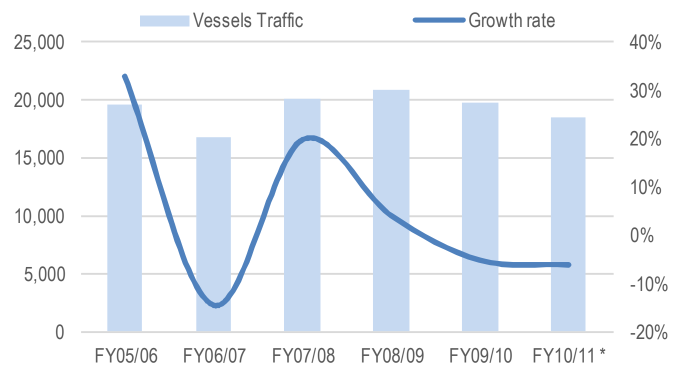
Accordingly, vessel traffic dropped in FY10/11, yet with a wider rate of 6%YoY. Port Said seaports contributed significantly with 30% of the total vessel traffic as usual.

Passenger Traffic

A drastic drop in the passenger traffic LoB given the hit in tourism

Given the 13% drop in international tourist arrivals in FY10/11, passenger traffic was the hardest hit LoB in the industry, dropping 30%YoY to reach 2.2mn passengers

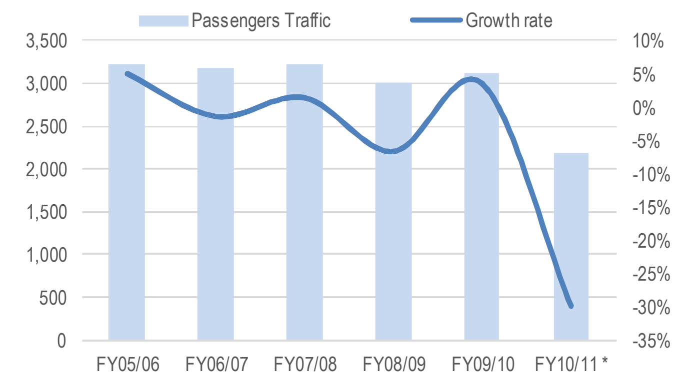
Figure 13.3 | **Egyptian Seaport Vessel Traffic**



* FY10/11 is actual till May 2011 (11M10/11), while June is estimated by CI Capital Research.

Source: Egyptian Maritime Data Bank

Figure 13.4 | **Egyptian Seaport Passenger Traffic**



* FY10/11 is actual till May 2011 (11M10/11), while June is estimated by CI Capital Research.

Source: Egyptian Maritime Data Bank

Unrest led to stoppage in Ain Sokhna & Demietta Ports

In September 20, 2011, Ain Sokhna seaport in Suez governorate stopped its operations for four days due to labor strikes. Operations have been resumed after solving problems between labors and Dubai Ports Company's management.

In November 7, 2011, Damietta seaport stopped its operations for 11 days due to citizens' anger about MOPCO factories, claiming that they are polluting environment. Operations have been resumed after 11 days of stoppage after solving problems between Damietta citizens and Damietta governorate's officials and representative from the Supreme Council of Armed Forces (SCAF).

Yet there are still investments

Despite the unrest, however, there are still several active investments in the various Egyptian ports.

Figure 13.5 | **Executed, Current and Future Investments in Egyptian Seaports & Terminals**

Port Authority	Executed Investments	Current & Future Investments
Alexandria	• The general cargo, containers, and touristic links. • The development of the trucks's entrance and linking the Eastern district with the international road. • The construction of logistic centers and electronic department buildings. • In September 2007, Alexandria International Container Terminals, a subsidiary of Hutchison Port Holdings, inauguratedtwo new terminals in Alexandria & El Dekheila seaports.	• The development of El Dekheila seaport and linking with Alexandria seaport. • The construction of multi-purpose station. • The development of the maritime zone and the ships movement tower. • The construction of the touristic marina project.
Damietta	• Importing two tugboats with a pull power of 50 tons per each in addition to a guidance boat. The total investment cost amounted EGP13.3mn and EUR11.9mn, respectively. • Completion of the infrastructure related to the seaport development. • Exporting the LNG. • In November 2007, China Shipping Group acquired a 20% stake in Damietta container seaport with a total investments of USD200mn.	• Expanding the logistic zones & constructingthe petrochemicals complex. • The establishment of a new container terminal for Damietta International Company over a total area of 1.1 mn sqm. • The development of the terminal's wharf to be able to receive the new generation giant vessels.
Port Said	• Pacific had acquired a 20% stake in Suez Canal Container Terminal, which already started the construction on phase 2 of the East Port Said sea terminal.	**West Port Said Seaport** • The development of wharfs. • Establishing storage and warehousing areas. • Adding areastocover the expected increase in the containers and cargo handling activities. **East Port Said Seaport** • Deepening the navigation passage. • The establishment of the second stage of the first containers terminal in addition to constructing generalcargo wharfs. • General development for the seaport through three stages covering a total area of 35 km². **El Arish Seaport** • General devlopment to encourage exports through horizontal and vertical expansions.
Red Sea	• In February 2008, DP World, a UAE based terminal operator, acquired a 90% stake the Egyptian Containers Handling Company (ECHCO) the operator of El Sokhna seaport terminal ina deal worth USD670mn.	• General development and upgrade for the 21 affiliated seaports, including commercial, oil, and metallurgical seaports. • In October 2010, DP World, a UAE based terminal operator, has extended its concession agreement to 35 years with a total value of EGP3.7bn, by which it will double the terminal's capacity to 1.75mn

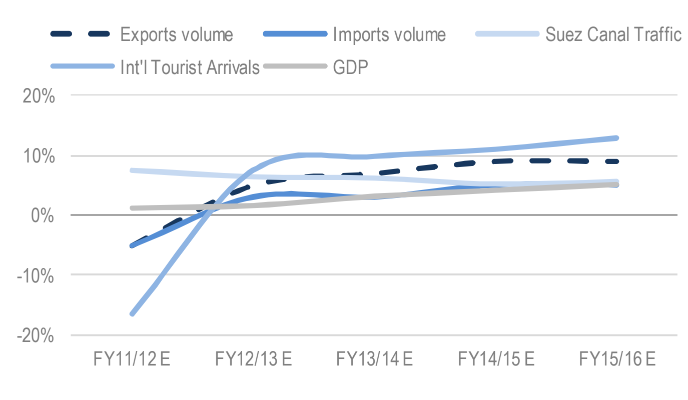
Preview FY11/12

Decline will continue through FY11/12

We believe local, regional and global economic and political unrest will remain major risks throughout FY11/12. In addition, we foresee weakness in the global economy and trade as a result of: i) Euro zone economic turmoil, especially with debt crisis in Italy and Greece; ii) the US debt deadlock coupled with weak consumer spending; iii) regional political instability; and iv) continued unrest in Egypt. Accordingly, FY11/12 will still see a decline in entire business yet at a rate of 5.2% versus an average drop of 9.6% in FY10/11. Yet on the longer term we believe the industry will resume a growth pattern.

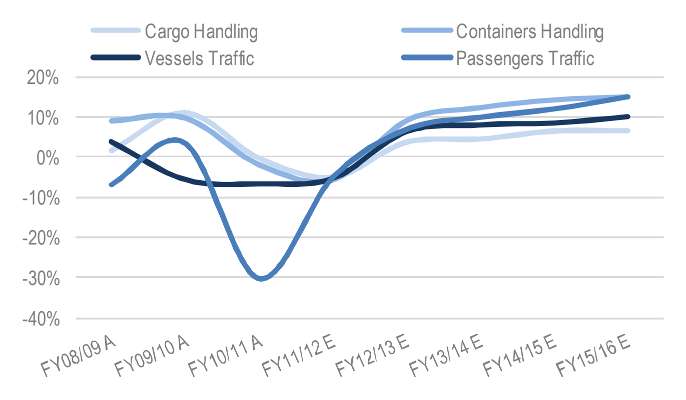
- Container handling: 5-year CAGR of 9% to 9.8mn TEUs till FY15/16
- Cargo handling: 5-year CAGR of 3% to 152.4mn tons till FY15/16
- Vessel traffic: 5-year CAGR of 5% to 24,012 trips till FY15/16
- Passenger traffic: 5-year CAGR of 8% to 3.1mn passengers till FY15/16

Figure 13.6 | **Maritime Transport & Logistics Key Drivers**



Source: CI Capital Research Estimates

Figure 13.7 | **Maritime Transport & Logistics Future Outlook**



Source: CI Capital Research Estimates

Sector Summary

Maritime Transport & Logistics Industry - SWOT Analysis	
Strengths	**Weaknesses**
• Egypt's strategic location at the heart of World's maritime trade routes enhances local and transit foreign trade. • Suez Canal has a market share of c.15% of the global maritime trade traffic. The canal has a vital role for linking Asia with Europe and vice versa, and used for the oil delivery from Asia to Europe. • A wide range of required facilities exists in the Egyptian seaports and terminals serving almost all types and sizes of vessels	• Egyptian seaports and terminals still require more development and advanced technology in order to fulfil all clients' needs. • Seaport congestions need an improvement to save the time consumed in waiting before entering the port, especially in busy periods • A relatively obsolete merchant fleet, which needs upgrading.
Opportunities	**Threats**
• Faster-than-expected global economic recovery. • Seaports and terminals still not fully utilized, giving a room for potential growth. • Private terminal operators announced a raft of long-term investments in their controlled seaports. • Dredging activities implemented in Suez Canal in order to widen and deepen its draught are crucial to receiving the giant generation of fully loaded VLCCs and ULCCs vessels , thus increasing the canal's traffic.	• A longer-than-expected global economic recovery. • Piracy operations in the Gulf of Aden (the main portal to Suez Canal) is considered one of the major risks that face the canal's traffic and the maritime industry in general, as it leads the ship owners to shift their waterway to the Cape of Good Hope as safe route, particularly in the time of low oil prices. • Egypt's political and economic unrest. • The frequent labour strikes might refelected negatively on the seaports and terminals operations.

Source: CI Capital Research

Alexandria Containers Handling

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Egypt Book 2011/12 | Trade & Logistics

Transport & Logistics

Buy

TP - EGP 83.3 | 36.6% Upside

January 26, 2012

Navigating rough seas

- **ALCN stock resumed trading in July 6, 2010 after a 6-month suspension**
- **FY10/11 results higher YoY despite the January 25 Revolution**
- **Strong fundamentals (strong cash position, high margins, low leverage)**

Despite post-revolution turbulence, ALCN's FY10/11 results showed an improved year-on-year (YoY) performance in terms of operations, margins and earnings, affirming the ability to succeed in hard times. As for FY11/12, we foresee operational performance growth, despite the labour strikes in early October 2011. However, we still believe in the company's future growth, especially with the expected success in the parliament elections, which will lead to a political and economic stability.

2011 Review

ALCN's stock resumed trading on July 6, 2010 after a 6-month suspension due to incompliance with the Egyptian Exchange (EGX) listing rules' minimum required 5% free float. In response, the company increased its paid-in-capital at fair value to increase its free float from 4.3% to 5%. On the financials front, ALCN FY10/11 results recorded a YoY growth in top line, margins and bottom line despite the challenges posed by the aftermath of the January 25 Revolution. Moreover, sustained revenue growth was due to higher prices which more than offset lower volumes resulting from the turbulence. Recently, in its October AGM, the company raised its dividends which translated into a high dividend yield that was better than expected and helped push the stock higher.

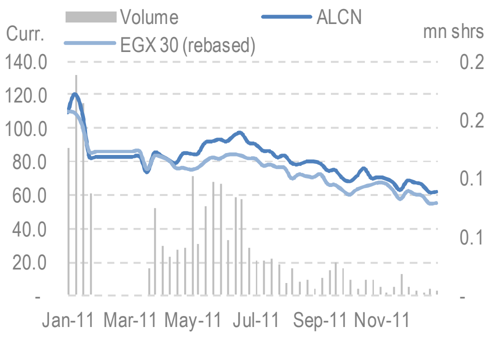
2012 Preview

In early October, labor strikes took place in El Dekheila terminal, seeking to increase their annual bonus. The Supreme Council of Armed Forces (SCAF)'s representative has reached an agreement with the demonstrators, leading to a final solution to the problem. Though, we expect some bottlenecks for the company's operations in FY11/12, presenting numerous challenges. Nevertheless, we expect ALCN to overcome these challenges especially with the expected political and economic stability following the success of the parliament elections. Thus, we expect an overall increase in revenues, better profitability margins and higher earnings.

Valuation & Recommendation

We expect FY11/12 political and economic to relatively tone down post the parliament elections. However, we cut our LTFV by 10% to EGP95.5/share. To arrive at our TP, we continue to include a 5% risk discount to account for Egypt's political unrest; hence, we also reduce our TP by 23% to EGP83.3/share. Nonetheless, we upgraded our recommendation to Buy from Hold, mainly stimulated by the drop in ALCN share price.

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Buy/High
Target Price/LTFV (EGP)	83.3 / 95.5
Last Price (EGP)	61.00
52 Week High	114.00
52 Week Low	56.70
6M Av. Daily Vol. (000' shrs)	2.57
% Chg: MoM / 6M / YoY	-5.5 / -29.6 / -45.1
No. of Shares (mn)	24.60
Mkt. Cap (EGPmn)	1,500.60
Mkt. Cap (USDmn)*	248.44
Free Float (%)	4.30
Paid in Capital (EGPmn)	123.22
Reuters / Bloomberg	ALCN.CA / ALCN Ey Equity
ISIN	EGS42111C012

GDR Data	
Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

Alexandria Containers & Cargo Handling [ALCN] is a subsidiary of the Holding Company for Maritime and Land Transportation, established in 1984 as a public sector company under Law No. 203/1991. In January 2005, Decree No. 460 permitted the company to operate under the Free Zone system in Alexandria and El Dekheila terminals.

ALCN was Egypt's first specialized container handling terminal operator. It operates both Alexandria Container Terminal in Alexandria seaport (with a handling capacity of 23.2mn tons p.a.) and El Dekheila Container Terminal in El Dekheila seaport (with an 8.9mn tons capacity p.a.), handling all varieties of containers and cargo - dry and oversize containers, as well as general cargo.

The company currently has a paid-in capital of EGP 123.216mn, distributed over 24.643mn shares at a par value of EGP 5/share.

Ownership Structure	
HCMLT	55.8%
Alexandria Port Authority	39.9%
Free Float	4.3%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Financial Statements

Alexandria Containers Handling (ALCN)

ALCN | EGPmn | FY End: June	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	198.0	353.1	291.8	379.6	206.3	318.3
Current Assets	243.2	413.2	352.6	443.5	269.6	385.8
Total Assets	499.6	662.5	717.5	810.9	697.2	836.5
Current Liabilities	165.3	229.7	200.0	38.0	43.8	47.2
Total Debt	0.0	0.0	0.0		2.4	3.9
Net Debt	-198.0	-353.1	-291.8	-379.6	-203.9	-314.4
Total Liabilities	165.3	229.7	200.0	38.0	43.8	47.2
Shr Equity (Book Value)	289.9	383.9	464.3	703.6	578.7	699.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	44.4	48.9	53.1	69.3	74.7	89.7
Total Liabilities & Equity	499.6	662.5	717.5	810.9	697.2	836.5
Income statement						
Revenue	286.4	419.9	404.8	446.3	468.9	497.4
COGS	-93.4	-108.9	-115.6	-121.6	-126.5	-132.8
Gross Profit	193.0	310.9	289.2	324.6	342.4	364.6
EBITDA	175.7	282.6	257.9	288.8	304.3	323.5
EBIT	152.5	262.2	225.3	254.3	268.8	283.2
Int. Income	7.1	9.1	10.6	16.3	16.7	17.3
Int. Expense	-4.0	-0.3	-0.2	-0.2	-0.2	-0.4
PBT	154.1	237.5	219.5	239.2	254.0	268.9
NPAT	154.1	237.5	219.5	239.2	254.0	268.9
Net Income	154.1	237.5	219.5	239.2	254.0	268.9
Normalised Net Income	154.1	237.5	219.5	220.0	254.0	268.9
Ordinary Dividends	0.0	124.0	0.0	141.2	152.4	161.3
Cash Flow Summary						
COPAT	175.7	282.6	257.9	288.8	304.3	323.5
FCFF	54.9	268.8	90.7	228.5	211.2	256.8
Change in Cash	53.4	146.1	-62.1	97.7	-173.3	112.0
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	6.25	9.64	8.91	9.71	10.31	10.91
EPS (Normalised) (EGP)	6.25	9.64	8.91	8.93	10.31	10.91
Dividend Per Share	n/a	5.03	n/a	5.73	6.18	6.55
Book Value Per Share	11.76	15.58	18.84	28.55	23.48	28.39
Valuation						
PER (Basic) (x)	9.75	6.33	6.85	6.28	5.92	5.59
PER (CICR) (x)	9.75	6.33	6.85	6.83	5.92	5.59
PBV (x)	5.19	3.92	3.24	2.14	2.60	2.15
Dividend Yield (%)	n/a	8.25	n/a	9.40	10.14	10.73
Earnings Yield (%)	10.25	15.80	14.60	15.92	16.90	17.89
EV/Revenue (x)	4.56	2.74	2.99	2.52	2.77	2.39
EV/EBITDA (x)	7.43	4.07	4.70	3.89	4.27	3.67
Market Capitalisation (EGPmn)	1,503.2	1,503.2	1,503.2	1,503.2	1,503.2	1,503.2
Enterprise Value (EGPmn)	1,305.3	1,150.1	1,211.4	1,123.6	1,299.3	1,188.8
Profitability						
ROE (%)	53.17	61.86	47.28	34.00	43.90	38.43
ROA (%)	30.85	35.85	30.60	29.50	36.44	32.14
Asset Turnover (x)	0.57	0.63	0.56	0.55	0.67	0.59
EBITDA Margin (%)	61.36	67.31	63.70	64.71	64.91	65.04
Liquidity						
ND/Equity (x)	-0.68	-0.92	-0.63	-0.54	-0.35	-0.45
ND/EBITDA (x)	-1.13	-1.25	-1.13	-1.31	-0.67	-0.97

Source: Company Financials & CICR Database

Egytrans

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Egypt Book 2011/12 | Trade & Logistics

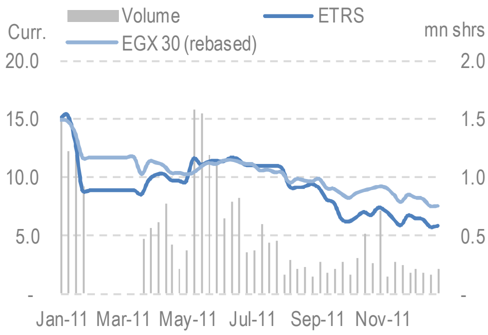
Transport & Logistics

Hold

TP - EGP 7.2 | 23.7% Upside

January 26, 2012

52 week Share Performance



Stock Details	As at: 21-Jan-12
CICR Rating/Risk	Hold/High
Target Price/LTFV (EGP)	7.2 / 7
Last Price (EGP)	5.82
52 Week High	13.55
52 Week Low	5.07
6M Av. Daily Vol. (000' shrs)	55.20
% Chg: MoM / 6M / YoY	-5.1 / -47.2 / -55.7
No. of Shares (mn)	15.61
Mkt. Cap (EGP mn)	90.83
Mkt. Cap (USD mn)*	15.04
Free Float (%)	59.20
Paid in Capital (EGP mn)	156.06
Reuters / Bloomberg	ETRS.CA / ETRS Ey Equity
ISIN	EGS42051C010

GDR Data

Last Price	No GDR available
52 Week High	n/a
52 Week Low	n/a

Company Profile

The Egyptian Transport and Commercial Services Company (Egytrans) [ETRS] was established in December 1973 under Egypt's open door policy. However, its transport activities and experience date back to 1939 and Gamal El-Din Leheta & Co. Following its nationalization in 1976, Egytrans became one of Egypt's largest companies, offering shipping, tourism and other transport services.

In early 2010, the company succeeded in raising its authorized and paid in capital from EGP 100mn and EGP 56.1mn to EGP 1bn and EGP 256.1mn. To date, it has called only EGP 100mn of this increase.

ETRS will use the capital increase proceeds to expand and develop its current activities, in addition to entering the new Land & River Transport and Logistics industries by operating river ports, terminals and a river transport business.

Ownership Structure

Free Float	59.2%
National Bank for Investment	24.0%
Leheta Family	16.8%

Source: Bloomberg / CICR *USD:EGP FX: 6.04

Strong against the storm

- **Showed some resilience year-on-year (YoY) despite the January 25 Revolution.**
- **Attempting to shore up revenues through new contracts and licenses.**
- **Considerably low and attractive PER vs. global and local peers.**

Throughout 2011, ETRS has taken new steps to shore up its existing operations, while overseeing the launch of its new high-margin river transport activity on schedule by 2014. These steps include: i) signing new contracts in the Projects line of business worth EGP190mn, of which EGP60mn is expected to be recognized in 2011; ii) obtaining a new license for a new food stuff storage; and iii) reaching a final agreement with Qalioubeya Governorate to develop its new river port. On a different note, 2011 results are expected to show some resilience YoY in spite of the post-revolution challenges. This growth is anticipated to expand in 2012 in all entire business. ETRS is among the cheapest stocks within the Transport & Logistics sector in terms of PER versus its global and local peers.

2011 Review

ETRS's 2011 results are estimated to show some resilience YoY in terms of operations, profitability margins and earnings, despite the January 25 Revolution's negative consequences for Egypt's economy. Operationally, the Projects line of business (LoB) (Integrated Transport activity) is expected to be the main growth-driver for revenues, registering an almost 3-fold increase YoY. On the margin front, we see EBITDA margin to improve YoY on increasing revenues from the Projects (a high-margin LoB). Meanwhile, earnings are set to maintain YoY on a balanced performance for non-operating items.

2012 Preview

Backed by the newly signed contracts in the Projects LoB (Integrated Transport activity), in addition to the new license obtained for the Free Zone activity, we expect revenues to add some EGP190mn (lower than our previous estimates of EGP215mn) during 2H11, 2012 and 2013. Moreover, the new high-margin River Transport activity operational launch was shifted from 2013 to 2014 as a direct result of the post-revolution unrest. All considered, we expect ETRS to show a new trend for its revenues starting 2014.

Valuation & Recommendation

In light of the above, we reached a LTFV of EGP7/share. To arrive at our TP, we have continued to include a 5% risk discount to account for Egypt's political unrest; hence, we arrived at our TP of EGP7.2/share. Finally, our recommendation on the stock is Hold.

Financial Statements

Egytrans (ETRS)

ETRS | EGPmn | FY End: December	2008a	2009a	2010a	2011e	2012e	2013e
Balance sheet						
Cash & Cash Equivalent	5.2	4.3	74.8	13.3	115.8	11.3
Current Assets	76.9	73.4	132.0	88.7	187.4	101.2
Total Assets	124.2	125.4	222.9	262.1	419.0	450.6
Current Liabilities	21.4	39.7	30.0	75.9	116.0	129.0
Total Debt	40.3	35.8	34.2	55.3	89.3	98.3
Net Debt	35.1	31.5	-40.6	42.0	-26.6	87.0
Total Liabilities	50.6	64.9	51.6	75.9	116.0	129.0
Shr Equity (Book Value)	69.2	55.5	163.8	178.5	294.9	313.1
Minority Interest	0.0	0.1	1.6	1.9	2.2	2.6
Provisions	2.4	2.6	2.8	2.8	2.8	2.8
Total Liabilities & Equity	124.2	125.4	222.9	262.1	419.0	450.6
Income statement						
Revenue	195.5	201.5	134.4	189.8	246.5	283.2
COGS	-174.4	-174.6	-120.7	-161.5	-209.5	-240.7
Gross Profit	21.2	26.9	13.6	28.3	37.0	42.5
EBITDA	8.3	11.4	-4.9	5.0	8.9	11.7
EBIT	7.5	10.4	-5.8	3.7	6.7	7.9
Int. Income	0.1	0.0	4.9	5.1	7.0	7.4
Int. Expense	-0.3	-2.0	-1.7	-5.5	-8.9	-9.8
PBT	11.7	12.7	10.6	16.5	18.4	20.5
NPAT	11.0	11.5	9.6	15.0	16.7	18.6
Net Income	11.0	11.4	9.9	14.7	16.4	18.3
Normalised Net Income	11.0	10.2	9.9	14.7	16.4	18.3
Ordinary Dividends	0.0	11.2	0.0	0.0	0.0	0.0
Cash Flow Summary						
COPAT	8.0	10.3	-5.2	3.5	7.3	9.9
FCFF	8.3	6.4	-18.2	-86.2	-51.1	-126.8
Change in Cash	2.4	-0.9	70.5	-61.5	102.6	-104.5
Key Multiples						
Per Share Data						
EPS (Basic) (EGP)	0.70	0.73	0.63	0.94	1.05	1.17
EPS (Normalised) (EGP)	0.70	0.65	0.63	0.94	1.05	1.17
Dividend Per Share	n/a	0.72	n/a	n/a	n/a	n/a
Book Value Per Share	4.44	3.56	10.50	11.44	18.89	20.06
Valuation						
PER (Basic) (x)	8.27	7.94	9.17	6.18	5.55	4.98
PER (CICR) (x)	8.27	8.93	9.17	6.18	5.55	4.98
PBV (x)	1.31	1.64	0.55	0.51	0.31	0.29
Dividend Yield (%)	n/a	12.35	n/a	n/a	n/a	n/a
Earnings Yield (%)	12.09	12.59	10.91	16.17	18.03	20.10
EV/Revenue (x)	0.64	0.61	0.39	0.71	0.27	0.64
EV/EBITDA (x)	15.10	10.76	-10.60	27.05	7.44	15.39
Market Capitalisation (EGPmn)	90.8	90.8	90.8	90.8	90.8	90.8
Enterprise Value (EGPmn)	125.9	122.4	51.8	134.7	66.5	180.4
Profitability						
ROE (%)	15.86	20.61	6.05	8.23	5.55	5.83
ROA (%)	8.84	9.12	4.44	5.60	3.91	4.05
Asset Turnover (x)	1.57	1.61	0.60	0.72	0.59	0.63
EBITDA Margin (%)	4.26	5.65	-3.64	2.62	3.63	4.14
Liquidity						
ND/Equity (x)	0.51	0.57	-0.25	0.24	-0.09	0.28
ND/EBITDA (x)	4.21	2.77	8.30	8.43	-2.97	7.42

Source: Company Financials & CICR Database

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Investment Rating*

Strong Buy
>30%

Buy
>20% <30%

Hold
>10% <20%

Underweight
>0% <10%

Sell
<0%