

Company Focus

14 June 2009 | 44 pages

El Sewedy Cables (SWDY.CA)

Initiation of coverage ☒

Initiate with Buy/ Medium Risk and E£88 Target

- **Sum of Parts of E£88 to Reflect Changing Mix** — Cable was 86% of FY08A allocated gross profit but by FY11 we expect this to drop to 55%, driven by growth of relatively new divisions: electrical products (meters, transformers) and wind (turbines, towers, blades). 35% of the capital required for this is already sunk (US\$75m more needed in 09E). We use premiums to global comparable 09E EV/EBITDA multiples to value each segment.
- **Cable and Turnkey (E£55 Value per Share Assuming Group Debt)** — “Commodity” cable gross profit/ton is expected to fall as mix shifts from under ground to over ground and competition increases. But growth in volumes and high-margin turnkey (consulting on network design and procurement) should offset this. Also group net debt (which we assign to cable in our SOP) should fall sharply as lower copper raw material prices drive better working capital cash flow (the E£5 per share positive swing in 1Q09 was a proof point).
- **New Business Value (E£33)** — We estimate additional value from electrical products (E£29 per share using 40% premiums to global peers to reflect higher growth, lower tax) and wind (E£3 per share in line with cash invested). Evidence of adoption of wind technology and strong execution would encourage us to be more aggressive (potential extra E£30 per share).
- **Risks** — Low visibility (short-dated order backlog) in commodity cable, worse competition-driven falls in cable margin (and cash flow) than we forecast and poor execution in new businesses are the main risks we identify.

Buy/Medium Risk	1M
Price (11 Jun 09)	E£72.97
Target price	E£88.00
Expected share price return	20.6%
Expected dividend yield	0.0%
Expected total return	20.6%
Market Cap	E£9,647M
	US\$1,722M

Price Performance (RIC: SWDY.CA, BB: SWDY EY)



El Sewedy Cables (EGP)

Year to 31 Dec	2007A	2008A	2009E	2010E	2011E
Sales (£M)	9,348.3	11,445.9	8,273.1	10,472.1	14,208.6
Net Income (£M)	703.4	828.4	901.8	1,154.3	1,431.0
Diluted EPS (£)	5.32	6.27	6.82	8.73	10.82
Diluted EPS (Old) (£)	5.32	6.27	6.82	8.73	10.82
PE (x)	13.7	11.6	10.7	8.4	6.7
EV/EBITDA (x)	11.2	11.5	9.4	6.4	5.0
DPS (£)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0

See Appendix A-1 for Analyst Certification and important disclosures.

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¹Citigroup Global Markets Ltd

Fiscal year end 31-Dec	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	13.7	11.6	10.7	8.4	6.7
EV/EBITDA adjusted (x)	11.2	11.5	9.4	6.4	5.0
P/BV (x)	3.1	2.5	2.0	1.6	1.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (E£)					
EPS adjusted	5.32	6.27	6.82	8.73	10.82
EPS reported	5.42	6.27	6.82	8.73	10.82
BVPS	23.26	28.81	35.61	44.34	55.17
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (E£M)					
Net sales	9,348	11,446	8,273	10,472	14,209
Operating expenses	-8,468	-10,538	-7,127	-9,023	-12,438
EBIT	880	908	1,146	1,449	1,771
Net interest expense	-132	-207	-186	-174	-157
Non-operating/exceptionals	25	215	21	3	3
Pre-tax profit	774	916	981	1,278	1,616
Tax	-24	-19	-40	-77	-129
Extraord./Min.Int./Pref.div.	-32	-68	-39	-47	-56
Reported net income	717	828	902	1,154	1,431
Adjusted earnings	703	828	902	1,154	1,431
Adjusted EBITDA	968	1,045	1,311	1,747	2,147
Growth Rates (%)					
Sales	62.7	22.4	-27.7	26.6	35.7
EBIT adjusted	52.9	3.5	26.1	26.4	22.2
EBITDA adjusted	50.7	8.0	25.5	33.3	22.9
EPS adjusted	44.1	17.8	8.9	28.0	24.0
Cash Flow (E£M)					
Operating cash flow	286	-65	2,679	1,147	609
Depreciation/amortization	87	134	163	296	373
Net working capital	-616	-1,216	1,495	-396	-1,308
Investing cash flow	-424	-2,038	-900	-250	-250
Capital expenditure	-456	-1,201	-1,017	-250	-250
Acquisitions/disposals	32	-836	117	0	0
Financing cash flow	568	2,088	-375	-15	-16
Borrowings	389	2,012	-352	-15	-16
Dividends paid	0	-18	-23	0	0
Change in cash	430	-15	1,403	882	343
Balance Sheet (E£M)					
Total assets	6,252	10,433	11,403	12,758	14,790
Cash & cash equivalent	982	1,318	2,561	3,396	3,683
Accounts receivable	1,612	2,639	3,269	3,665	4,973
Net fixed assets	1,171	2,758	3,600	3,554	3,431
Total liabilities	2,949	6,257	6,284	6,439	6,983
Accounts payable	495	968	1,401	1,571	2,131
Total Debt	2,301	4,845	4,494	4,478	4,462
Shareholders' funds	3,303	4,176	5,119	6,320	7,807
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	10.4	9.1	15.8	16.7	15.1
ROE adjusted	26.4	24.1	21.2	21.8	21.8
ROIC adjusted	21.8	15.0	15.5	19.5	21.1
Net debt to equity	39.9	84.4	37.8	17.1	10.0
Total debt to capital	41.1	53.7	46.7	41.5	36.4

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Investment Thesis

We initiate with a Buy/ Medium Risk rating. Our E£88 target price is derived from a sum of parts based on our '09 forecasts which assumes a 15% premium to cable peers, 40% for electrical products and values the nascent wind power business at book value.

Changing Business Mix

El Sewedy's business mix is shifting from being largely a cable producer to having almost half of its gross profit coming from relatively new businesses in electrical products (electrometers and transformers) and wind (turbines, towers and blades). While diversification into new areas is a risk it is in keeping with the entrepreneurial history of the company (which is still run and majority owned by its founder).

Valuing Some But Not All Of The Potential Upside

We use a sum of parts valuation method to capture the value of El Sewedy's individual segments. We apply EV/EBITDA multiples to our 2009 forecasts. The premiums we assume to global comparables reflect the higher growth and lower tax which we expect these segments to enjoy relative to their peers. By focusing on 2009, we are giving some but not all the credit we could for value creation in the new businesses (particularly wind which should see its first full-year contribution only in 2010). We would prefer to see evidence that ramp-up execution and technology adoption (in the case of wind) risks are mitigated before attributing greater value.

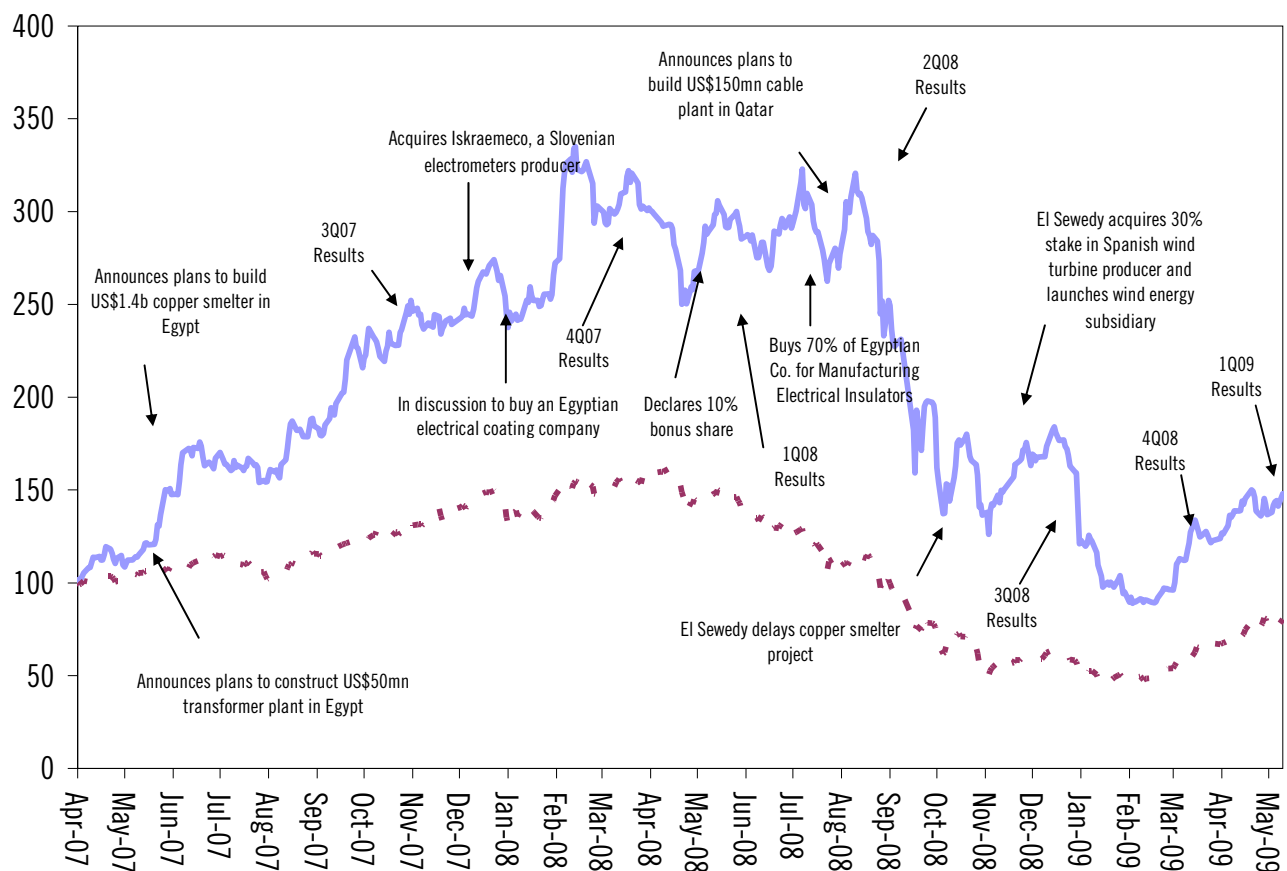
While the commodity portion of the cable business is under pressure from greater competition and mix changes (more lower-margin overhead cable) the growth of the turnkey portion and overall volume growth (as MENA utilities continue network expansion in response to rising electricity consumption) should offset this. (Turnkey refers to consulting services on electricity network design and component procurement.) Furthermore, after the significant fall in copper raw material prices we forecast a large positive swing in working capital cash flow (and a reduction in net debt). The main risks to our view on cable are the low level of visibility provided by a short-dated backlog and the potential for greater competitive impact than we already forecast.

The value creation we forecast from the electrical products division is low risk in the sense that it is a related business and is well beyond the start-up phase. The main risk is on the timely ramp-up of new capacity and restructuring of operations relocated from the acquired IskraEmeco business.

In our target price we attribute relatively modest value to the wind business (equating to approximately cash invested). This is to reflect the risks that this is an entirely new business for El Sewedy (no competitive track record, although its JV partners mitigate this to a degree) and the timing of active support for wind technology by the Egyptian government.

Share Price History

Figure 1. El Sewedy Cables Stock and EGX 30 (Dotted Line) Two-Year Performance, April 2007 = 100



Source: Reuters and CIRA

- Weight of EGX 30 Index – 4.8%
- Weight of Dow Jones Arab Titans 50 Index – 0.97%
- Average Daily Value – US\$4m
- Free Float – 25%. El Sewedy family collectively owns 72.7% (64.1% held by executives, 8.6% by non-executives).

Valuation

We value El Sewedy shares using a sum of the parts analysis with each segment valued based on peer multiples. While this method is subjective to our peer group selection (many of which are much larger than El Sewedy and have lower growth and margins) and our adjustments to reflect El Sewedy's unique attributes (vertical integration, over 50% of Egypt cables market), we believe a market-based approach makes more sense than cash flow based valuation. We set our target price in line with our sum of the parts valuation of E£88 per share.

El Sewedy Cables last generated positive annual free cash flow in 2004. Non-recurring growth capex for greenfield operations contributed to this negative free cash flow performance. However, the primary reason has been growing working capital needs which have risen with materials prices, copper in particular. While we are comfortable with our near-term free cash flow estimates and believe El Sewedy will turn free cash flow positive this year, the volatility of copper prices coupled with the unpredictability of swings in working capital needs for the transformers and wind segments lessens our confidence in long-term free cash flow based estimates.

Sum of the Parts Using Peer Multiples

Reflecting the expected change in earnings mix, our peer group is composed of global cable companies as well as electrical products companies (with a large exposure to electrical meters and transformers) and wind products players, which highlight the differing valuations of each of El Sewedy's business segments.

That said, at present El Sewedy's valuation is in line with global cable peers, despite a much stronger track record of growth. We believe this valuation not only underscores the cheapness of El Sewedy's cable business (which benefits from low marginal tax and has outperformed peers historically) but also the option value of the electrical products and wind segments, higher-growth businesses which command higher multiples. We note that we exclude GCC cable companies as peers for valuation purposes as they are less liquid and there are very few contributors to consensus earnings.

Our peer group is composed of global cable players, electrical products and wind energy companies

Figure 2. Sum of the Parts Valuation - EGP£ Millions except per share

Consolidated Forecasts - Mn	2008	2009E	per share	2010E	per share	Notes
Gross Profit	1,298	1,601		1,938		
SG&A	(336)	(390)		(487)		
EBIT	962	1,211		1,451		Here selling expenses are netted out of Gross Profit for ease of calculation. This differs from amounts quoted elsewhere in the report.
Depreciation	134	163		296		
EBITDA	1,096	1,374		1,747		
Cable & Turnkey Forecasts						
Gross Profit	1,117	1,250		1,139		
EBIT post SG&A Split - Assumed	916	1,075		920		In 2008, 60% of Cons. SG&A allocated to Cable, 45% thereafter
Depreciation and Amortization - Assumed	94	106		178		In 2008, 70% of Consolidated D&A allocated to Cable, 65% in 2009, 60% in 2010
EBITDA	1,009	1,181		1,097		
Peer EV Valuation		6.8x		5.9x		Valued at 15% / 20% Premium to Global Peers in 09E / 10E
Multiple Used		7.8x		7.1x		Higher premium for '10 vs. '09 reflects higher cable production growth (21.1% in '10 vs. 19.7% in '09) and improving plant utilisation
1) Cable & Turnkey EV (Enterprise Value)	-	9,233	69.8	7,769	58.8	
Electrical Products Forecasts						
Gross Profit	180	350		606		
EBIT post SG&A Split - Assumed	46	175		387		In 2008, 40% of Cons. SG&A allocated to Elec. Products, 45% thereafter
Depreciation and Amortization - Assumed	40	49		89		30% of Consolidated D&A allocated to Electrical Prod
EBITDA	86	224		475		
Peer EV Valuation		12.4x		10.8x		Valued at 40% / 30% Premium to Global Peers in 09E / 10E
Multiple Used		17.4x		14.0x		
2) Electrical Products EV	-	3,886	29.4	6,673	50.5	
Wind Forecasts						
Gross Profit				194		
EBIT post SG&A Split - Assumed				145		10% of Consolidated SG&A allocated to Wind
Depreciation and Amortization - Assumed				30		10% of Consolidated D&A allocated to Wind in 2010
EBITDA				175		
Peer EV Valuation				9.6x		Valued at 30% Premium to Global Peers in 10E
Multiple Used				12.5x		Book Value of Wind expected around E£560m by end '09. The 30% stake in M. Torres was bought for c E£300m
3) Wind EV	430	3.3	2,182	16.5		
4) Forecast Change in Net Debt (1Q09A to FY10E)	1,052	8.0	1,903	14.4		Guidance is for E E£2.0b working cap. reversal in '09. Our forecast assumes reversal of E E£ 1.5 b
Total Enterprise Value	14,601	110.4	18,527	140.1		
Net Debt at 1Q09	(3,440)	(26.0)	(3,440)	(26.0)		
Marketable Securities at 1Q09	455	3.4	455	3.4		
Implied Equity Value for the Company	11,617	87.9	15,542	117.6		

Source: Citi Investment Research and Analysis

Figure 3. Peer Multiples by Sector

Company	EV/EBITDA 2008	EV/EBITDA 2009E	EV/EBITDA 2010E	P/E 2008	P/E 2009E	P/E 2010E
El Sewedy Cables	11.6x	9.3x	6.9x	11.5x	10.6x	8.3x
Global Cable						
Anixter (AXE.N; US\$41.42; Not Rated)	na	8.5x	7.9x	11.6x	18.3x	10.1x
Belden (BDC.N; US\$19.40; Not Rated)	5.0x	7.9x	6.1x	19.0x	27.7x	9.0x
General Cable (BGC.N; US\$40.07; Not Rated)	6.0x	7.6x	7.3x	15.0x	16.9x	9.1x
Draka (DRAK.AS; €9.16; Not Rated)	4.7x	6.8x	6.3x	13.5x	19.7x	7.0x
LEONI (LEOGn.DE; €12.73; Not Rated)	6.3x	nm	6.7x	nm	nm	nm
Nexans (NEXS.PA; €40.50; 1M)	5.0x	4.2x	4.2x	6.1x	11.8x	12.3x
Prysmian (PRY.MI; €10.58; 1M)	6.2x	6.0x	5.6x	10.4x	8.8x	9.3x
LS Corp (006260.KS; W95,100; 2H)	3.1x	2.9x	2.2x	9.5x	8.0x	7.2x
Taihan Electric Wire (001440.KS; W21,700; 3S)	nm	10.7x	7.0x	4.8x	12.4x	13.9x
Avrg	5.2x	6.8x	5.9x	11.2x	15.5x	9.7x
Electrical Products and Accessories						
Itron (ITRI.O; US\$59.52; Not Rated)	11.1x	13.2x	10.6x	25.0x	22.8x	17.1x
Wasion (3393.HK; HK\$5.69; Not Rated)	na	8.4x	6.6x	8.0x	10.3x	10.4x
Havell's (HVEL.BO; Rs299.30; Analyzed Not Rated)	8.2x	11.4x	10.4x	18.4x	nm	nm
Badger Meter Inc (BML.N; US\$40.99; Not Rated)	nm	11.8x	11.3x	17.8x	22.7x	18.5x
Echelon (ELON.OQ; US\$8.00; Not Rated)	nm	nm	nm	nm	nm	nm
Areva T&D India (AREV.BO; Rs365.10; 3M)	19.3x	17.3x	15.3x	26.6x	28.7x	26.0x
Avrg	12.9x	12.4x	10.8x	19.1x	21.1x	18.0x
Wind Companies						
Vestas (VWS.CO; Dkr394.00; 1H)	15.1x	12.9x	14.0x	24.1x	19.4x	17.3x
Acciona (ANA.MC; €90.70; 1M)	4.4x	10.8x	8.2x	16.6x	17.6x	20.8x
Gamesa (GAM.MC; €14.47; Not Rated)	12.2x	9.5x	7.7x	19.6x	20.4x	16.4x
Nordex (NDXGk.DE; €12.74; Not Rated)	10.2x	11.8x	8.1x	30.7x	24.4x	17.6x
Repower (RPWGn.DE; €116.00; Not Rated)	na	13.0x	10.9x	na	22.5x	20.2x
Suzlon (SUZL.BO; Rs121.00; 2H)	9.8x	8.8x	8.8x	37.3x	19.1x	17.9x
Avrg	10.4x	11.1x	9.6x	25.7x	20.6x	18.4x

Source: dataCentral, Reuters, CIRA Estimates. dataCentral is Citi Investment Research's proprietary database which includes Citi estimates, data from company reports, and feeds from Reuters, Datastream, Firstcall, IBES and Toyo Keizai. Priced on 10 June

We value El Sewedy's cable segment using a 15% premium (on 2009 EV to EBITDA) to the average multiples of global cable peers to reflect the fact the company is highly exposed to high-growth MENA power capacity, to reflect the ramp-up in production from recent capacity additions that have yet to contribute materially to earnings investments and the fact that this segment's earnings benefit from a low tax rate.

We use a 40% premium to global electrical products peers to value El Sewedy's electrical products segment. The premium reflects high anticipated earnings growth from expansion in transformers (capacity expected to increase 3.5x times by 2013) and electrical meters (capacity to increase 3x by 2012) as well as the significant profitability improvement expected in the latter from the restructuring at IskraEmeco which is already under way.

Finally, we value El Sewedy's wind segment at a book value of the investments made reflecting the early stage of 2009 operations.

Our EV calculation reflects expected surge in cash in 2009 from lower working capital

Results from our sum of the parts valuation are shown above. Adding up each segment's estimated enterprise value and adjusting for the anticipated change in net debt in 2009 reflecting an expected reversal in working capital requirements (management is guiding for a gain of E£2 billion), we derive an equity value per share of E£88 for 2009 forming the basis of our target price.

Our target implies upside from current levels on our 2009 earnings outlook. However, in the same table we explore upside potential for the stock should the company be able to deliver on our 2010 estimates (when electrical products and the wind segment are expected to be larger contributors to consolidated earnings). As shown in Figure 2, assuming conservative premiums to peers of 20% for the cables segment (reflecting accelerated production growth in '10 vs. '09), 30% for the electrical products segment and 30% for wind, we see significant upside potential for the shares if El Sewedy can realise the earning potential of the new segments in 2010.

Figure 4. Peer Growth Rates

Company	Growth Rates 2006-2008			Growth Rates 2008-2010		
	Revenue	EBITDA	EPS	Revenue	EBITDA	EPS
El Sewedy Cables	25.6%	27.6%	31.1%	-4.3%	29.3%	18.0%
Global Cable						
Anixter	11.5%	na	18.5%	-7.0%	na	-21.9%
Belden	15.8%	15.0%	19.4%	-13.8%	-9.4%	-15.2%
General Cable	30.4%	na	30.2%	-12.4%	-9.0%	-8.4%
Draka	3.4%	14.2%	30.7%	-10.1%	-13.8%	-27.8%
LEONI	17.5%	-7.4%	-74.6%	-7.4%	-3.0%	-44.2%
Nexans	3.7%	22.6%	39.6%	2.0%	-4.6%	-24.1%
Prysmian	1.4%	18.2%	92.7%	-7.2%	-8.6%	-22.2%
LS Corp	na	na	na	26.0%	26.2%	26.5%
Taihan Electric Wire	-0.8%	-3.0%	82.5%	4.1%	8.1%	-54.3%
Electrical Products and Accessories						
Itron	72.2%	55.9%	18.6%	0.5%	2.3%	1.8%
Wasion	32.8%	na	28.9%	44.1%	na	22.7%
Havell's	41.4%	88.0%	54.9%	52.2%	-10.9%	-40.9%
Badger Meter Inc	10.3%	na	33.0%	1.8%	na	7.1%
Echelon	53.0%	na	1.6%	3.3%	-23.6%	-7.0%
Areva T&D India	256.0%	330.2%	124.6%	26.2%	12.1%	11.3%
Wind Companies						
Vestas	25.1%	59.0%	113.1%	10.9%	-1.5%	-12.0%
Acciona	42.1%	71.6%	-37.4%	-24.1%	-26.9%	-28.2%
Gamesa	23.5%	na	28.0%	3.0%	25.7%	-18.3%
Nordex	48.7%	na	83.9%	12.6%	12.2%	0.8%
Repower	-43.3%	na	na	201.8%	na	na
Suzlon	34.9%	51.5%	20.9%	66.5%	5.7%	-10.4%

Source: Company Reports, dataCentral and CIRA Estimates

Figure 5. Peer Margins and Returns

Company	EBITDA Mrgn. 2008	EBITDA Mrgn. 2009E	EBITDA Mrgn. 2010E	Net Mrgn. 2008	Net Mrgn. 2009E	Net Mrgn. 2010E	ROE 2008	ROE 2009E	ROE 2010E	ROA 2008	ROA 2009E	ROA 2010E
El Sewedy Cable	9.1%	15.8%	16.7%	7.8%	11.4%	11.5%	24.0%	21.2%	21.8%	10.8%	8.4%	11.6%
Global Cable												
Anixter	na	5.6%	5.8%	3.7%	2.2%	2.5%	22.2%	12.0%	11.3%	7.4%	8.6%	9.4%
Belden	12.6%	11.6%	14.0%	6.3%	4.2%	6.3%	22.3%	5.4%	15.3%	7.7%	1.0%	8.1%
General Cable	8.3%	9.1%	9.0%	3.5%	3.7%	3.8%	25.8%	18.3%	16.0%	5.7%	3.9%	4.2%
Draka	7.0%	5.9%	6.4%	3.1%	1.7%	2.0%	19.0%	7.4%	9.8%	4.9%	4.2%	6.9%
LEONI	5.7%	2.6%	6.2%	0.2%	-4.1%	-0.1%	1.0%	-23.3%	0.8%	0.3%	-3.6%	1.4%
Nexans	10.9%	9.8%	9.8%	3.9%	3.7%	3.8%	13.2%	10.3%	9.6%	4.0%	3.7%	3.7%
Prysmian	10.1%	9.4%	9.8%	4.6%	4.4%	4.5%	75.4%	36.5%	32.4%	7.8%	6.1%	6.8%
LS Corp	nm	nm	nm	nm	nm	nm	17.1%	21.4%	22.3%	14.7%	18.6%	19.6%
Taihan Electric Wire	3.5%	3.5%	3.8%	17.0%	4.1%	3.3%	30.2%	5.8%	5.2%	12.0%	2.5%	2.4%
Avrg	8.3%	7.2%	8.1%	5.3%	2.5%	3.3%	25.1%	10.4%	13.6%	7.2%	5.0%	6.9%
Electrical Products and Accessories												
Itron	14.7%	13.9%	15.2%	6.2%	5.6%	7.4%	11.4%	6.2%	8.8%	4.1%	3.6%	5.5%
Wasion	na	na	na	24.7%	22.4%	21.2%	na	20.7%	21.6%	na	11.7%	12.0%
Havell's	16.3%	4.8%	5.6%	3.2%	-0.6%	1.2%	33.8%	-8.0%	7.8%	10.8%	9.6%	4.2%
Badger Meter Inc	na	19.1%	18.8%	9.0%	9.9%	9.7%	22.6%	20.3%	18.6%	12.8%	12.2%	12.3%
Echelon	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Areva T&D India	17.2%	15.2%	13.6%	8.6%	7.3%	7.6%	41.2%	29.6%	30.7%	10.0%	7.3%	6.9%
Avrg	16.1%	13.2%	13.3%	10.3%	8.9%	9.4%	27.2%	13.8%	17.5%	9.4%	8.9%	8.2%
Wind Companies												
Vestas	13.4%	11.6%	10.6%	8.5%	6.2%	5.9%	29.4%	18.8%	17.7%	10.6%	8.5%	9.3%
Acciona	22.3%	16.2%	20.7%	4.2%	4.5%	3.9%	7.9%	6.6%	4.4%	1.4%	1.5%	2.1%
Gamesa	8.1%	11.6%	12.1%	8.8%	5.0%	5.2%	23.1%	9.8%	11.2%	7.0%	3.5%	4.9%
Nordex	na	na	na	4.2%	2.8%	3.4%	16.0%	9.2%	13.5%	6.1%	4.5%	7.0%
Repower	na	na	na	na	4.1%	3.4%	na	11.9%	12.1%	na	na	na
Suzlon	31.6%	12.6%	12.7%	8.6%	5.7%	5.2%	18.7%	12.9%	10.3%	7.8%	4.4%	4.0%
Avrg	18.9%	13.0%	14.0%	6.9%	4.7%	4.5%	19.0%	11.5%	11.5%	6.6%	4.5%	5.4%

Source: dataCentral, Reuters, CIRA Estimates

The meaningful difference between our 2009 and 2010 valuation can be explained by the fact that while electrical products and wind segments should only contribute 36% of consolidated EBITDA in 2010E, nearly all of our estimated uplift in equity value per share from '09 to '10 comes from these two segments. Achieving the earnings potential in these new segments is critical to driving El Sewedy's stock price in the longer term.

In the near term however, the case for El Sewedy's undervaluation is clear in our view. Our ££88.0 target price is based on 2009 expectations, to be conservative. We initiate with a Buy recommendation and rate the shares Medium Risk.

Risks

We rate El Sewedy Cables Medium Risk given our view on the growth of the GCC cables sector, the company's strong positioning within the sector and its solid financial health. We view the risks to an investment in El Sewedy Cables, and therefore to the achievement of our target price, as follows:

1. **Declining returns in cables and poor earnings visibility:** El Sewedy has suffered declining returns in the last few years with 2008 particularly difficult as large working capital requirements and capex for capacity that has not yet come online negatively impacted returns. While we expect lower working capital and capex requirements to improve returns, core cable profitability remains a concern as management is guiding for gross profit margins of E£4,500 per cable ton going forward, down from the E£6,000-E£7,000 range previously.

Generally speaking, the cables business has relatively short lead times (3-6 months) and therefore long-term visibility is poor. In the case of El Sewedy Cables, weak visibility is exacerbated by the fact that the company is in the process of building significant capacity not only in cables but in electrical products and accessories and in the wind segment as well. Several of our earnings assumptions reflect management guidance.

2. **Growth dependent on new products and markets:** Wind energy and electrical products are expected to represent 40% of gross profit by 2011 from 2% in 2008. In wind energy, while El Sewedy is leveraging acquisitions of companies that have experience in these markets (M. Torres Olvega and PSP) and has entered into JVs (wind towers) with others, El Sewedy management itself has no prior experience in these markets. In electrical products, the situation is slightly different as El Sewedy already has experience with electrical meters through IskraEmeco (acquired in '07) and transformers which it has been manufacturing for some time. However, the scale of El Sewedy's expansion (2.5x capacity growth over five years) assumes El Sewedy will be able to find new markets for a mature product which to date has been a minor contributor to the firm's operations.
3. **Exposure to commodity price fluctuations:** El Sewedy is exposed to commodity price fluctuations, mostly copper and aluminium, through its cables segment. While El Sewedy hedges about 90% of its exposure to copper and aluminium on every order and charges a fixed margin on top of its production costs, fluctuating costs of copper and aluminium which make up about 80% of raw material costs for cable production imply that margins on a percentage basis for cables vary widely year on year.

El Sewedy has not generated any free cash flow since 2004

More importantly, volatile commodity price movements greatly impact cash flows with rising commodity prices increasing working capital requirements. Commodity price increases in the last few years have hurt El Sewedy which has not generated any annual free cash flow since 2004. Our forecasts for 2009-2011 assume a reversal in that trend on the back of both lower working capital expectations and lower capex post 2009.

Guidance is gross margins of E£4,500 per cable ton going forward, down from the E£6,000-E£7,000 range previously

Near-term financing ability concerns could impact the pace of development of power capacity in the region, especially wind power

4. **Wind energy sector in Egypt at very early stage:** While Egypt is the most advanced wind power market in MENA representing 56% of installed wind capacity, the absolute MW capacity remains small. Future growth is very dependent on government intervention. In Egypt for example, which is expected to represent about 50% of El Sewedy's wind power sales, the Egyptian government is expected to be responsible for direct building of wind power capacity (about one-third of annual wind capacity growth by 2020) as well as providing incentives to private companies through export credits, tax incentives etc, most of which have not been announced.
5. **Acquisitions/integration risk:** The majority of El Sewedy's growth historically has been organic. The company's largest acquisition prior to its stake in M. Torres Olvega was the acquisition of a stake IskraEmeco in 2007. While showing progress, the IskraEmeco acquisition is recent and does not provide much to assess management's ability in integration.
6. **Trend towards self sufficiency for cable needs from power utilities:** Recently the Abu Dhabi Water and Electricity Authority, the Dubai Electricity and Water Authority and Ducab, a Dubai based cable producer jointly owned by the Dubai and Abu Dhabi governments, have announced a JV to produce High Voltage cables for power transmission. The linking up of government utilities and local cable producers (in this case also government owned cable producers) is negative for exporters like El Sewedy as cable purchases will be steered domestically. For example, Ducab aims to supply 80% of the UAE cable market.
7. **Credit crunch impact on El Sewedy's customers:** While infrastructure spending in MENA remains strong and power spending should continue, near-term financing ability concerns could impact the pace of development of power capacity in the region. While this is less of an issue for government-owned utilities and oil and gas companies, the primary customers of cables and electrical products, this risk is particularly strong within the wind energy segment with wind farms traditionally very dependent on debt for their financing requirements.
8. **Key man risk:** Ahmed El Sewedy, CEO of El Sewedy Cables, has been instrumental to the development of the company's vision in the last few years. While Mr El Sewedy is in his 40s and is very committed to the company, his continued involvement is key and we would view it as a negative should he become less involved in the business going forward for whatever reason.
9. **Technology risk:** While cables is a fairly commoditised business, electrical meters and to a large extent the wind power segment are subject to important technology risk. While traditional sources of energy like oil have begun to dwindle worldwide (Egypt is now a net importer of oil) making renewables unavoidable for energy purposes and desirable from an environmental perspective, other power sources like solar and nuclear compete with wind energy. Furthermore for El Sewedy, its wind segment is focused only on the production of gearless turbines, a subset of the turbine market.

El Sewedy History

One of the few entrepreneur-owned public companies in MENA, El Sewedy Cables has a strong track record of growth historically. It entered the cables business in Egypt in the 1960s as a distributor before establishing cable production facilities there in 1984, making it the only local cable producer at the time. Since then, El Sewedy has built up its cable production organically, expanding along the supply chain. By 2006, El Sewedy had set up 10 more operating companies (adding copper rod production, plastics production and steel wire production capabilities) and expanded its geographic footprint in cable and cable accessories to Sudan, Ghana and Syria.

By year end, El Sewedy's cable capacity should be 38% larger than its closest GCC peer

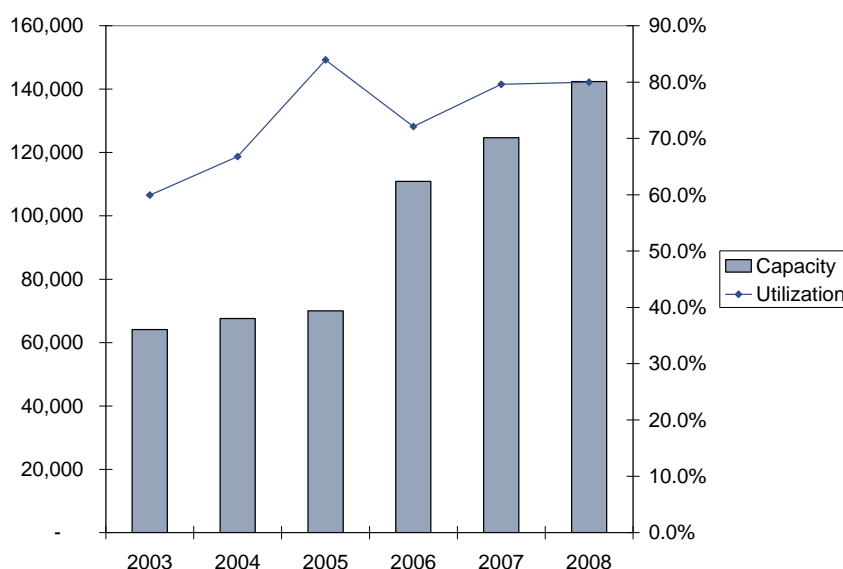
Post the 2006 IPO (25% sold to public), 11 more manufacturing companies were added including five by acquisition. To put the company's scale in context, its cable capacity of 215,000 tons per annum (by year end) will be 38% bigger than that of its nearest GCC rival. Its labour force is over 6,000 employees.

In some markets, El Sewedy's approach to growth has been to focus on products and markets where it could establish first-mover advantage. This has led it to be the first to establish cable production facilities in Syria, Algeria and Libya, markets where it faces little to no local competition. In some markets it remains the only local producer. For example, El Sewedy is the only producer of transformers in Egypt, Syria, Sudan and Zambia and the only insulator producer in MENA.

For most of the company's history, cables have made up 80%-90% of its revenues and gross profit

Revenues from cables (mostly power cables) and cable raw materials (sold to other cable producers) have made up over 90% of El Sewedy's revenues and 80%-90% of gross profits for most of the company's history. Electric utilities represent the majority of its business (65%), with distributors (21%) and contracting and petroleum companies (12%) also important customers.

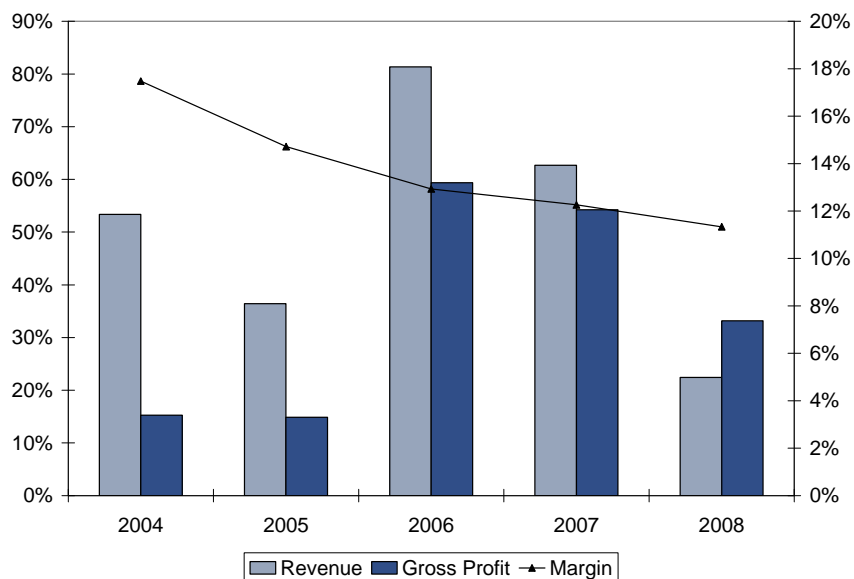
Figure 6. El Sewedy's Cable Capacity (Tons) and Utilisation Rate, 2003-2008



Source: Company Reports

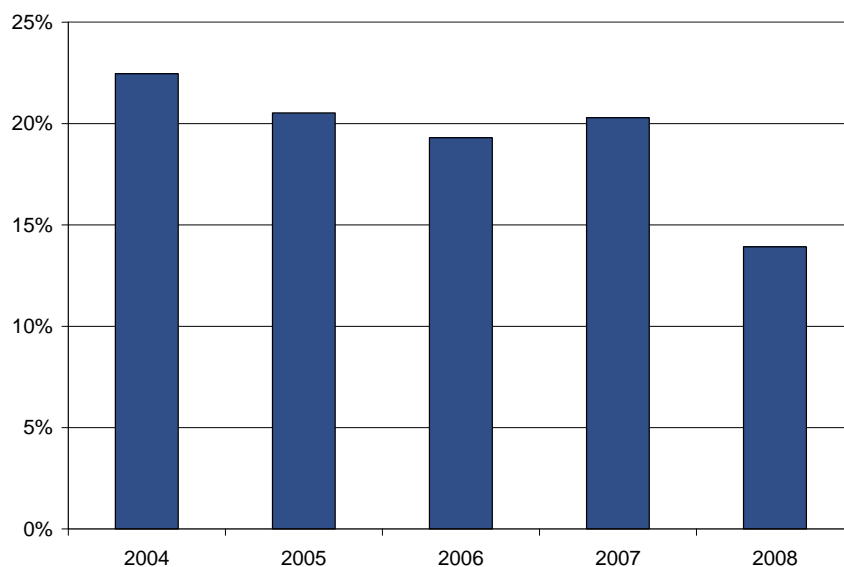
While cables are a competitive price-driven business, El Sewedy has been able to generate impressive Returns on Invested Capital (ROIC) in the 19%-22% range historically. The significant decline in ROIC in 2008 was as a result of significant capex for capacity which has not yet come online.

Figure 7. El Sewedy's YoY Growth in Cable Revenue, Gross Profit (LHS) and Gross Margin (RHS)



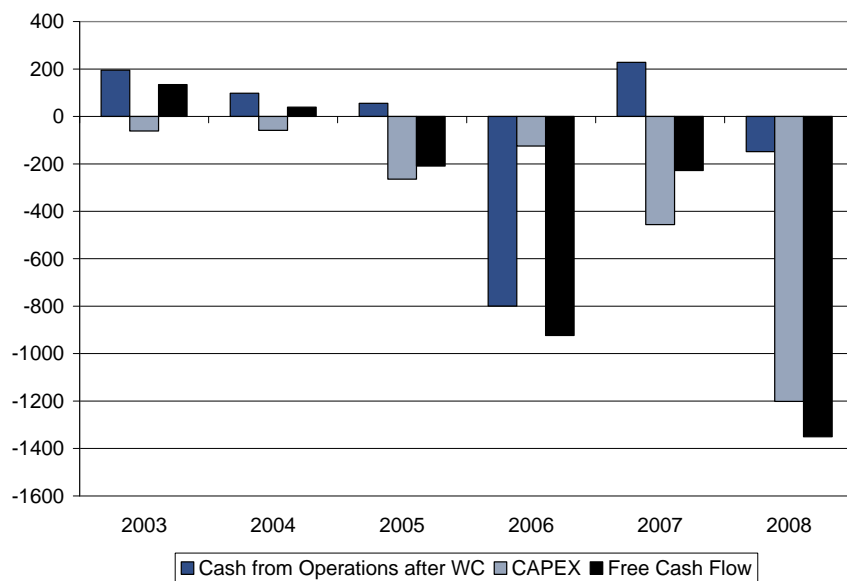
Source: Company Reports and CIRA Estimates

Figure 8. ROIC, 2004-2008



Source: Company Reports and CIRA Estimates

Figure 9. El Sewedy Cables, FCF Breakdown 2003-2008 (E£ Millions)



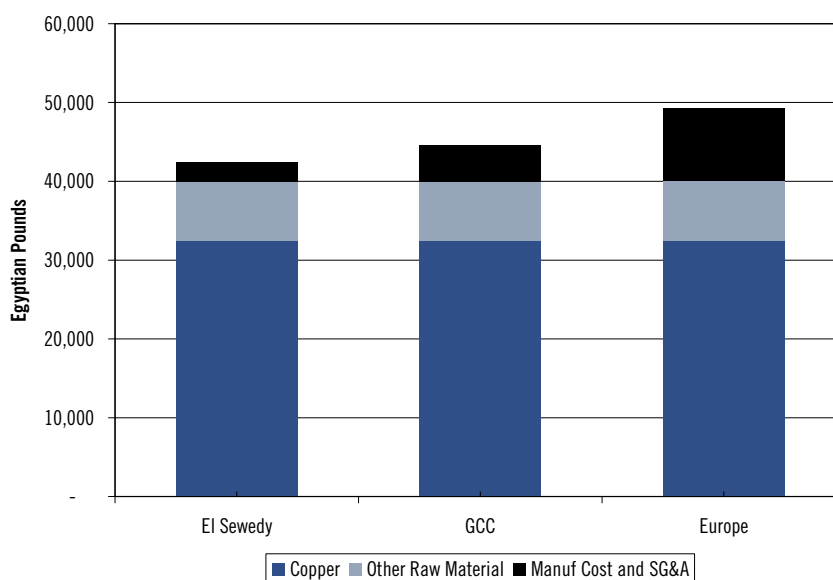
Source: Company Reports

Competitive Advantages

We believe El Sewedy's competitive advantages are as follows:

1. **Self-Sufficiency:** The company supplies 50% of its raw materials requirements for its cable production. El Sewedy produces its own copper wire, plastic and galvanised steel wire for the production of power cables. While the company derives some cost benefits from internal production, the main benefit is guaranteed availability of raw materials whose availability can be scarce, depending on the country. This drives higher capacity utilisation over time.
2. **Low Production Costs in Egypt:** While raw material costs make up the majority of the price of aluminum and copper cables, the low labour costs in Egypt, at a fraction of those in GCC or European countries, gives El Sewedy up to a 20% cost advantage on the cost of cable production (according to company data, see figure below) which is a highly price-sensitive business. The impact of low production costs in Egypt is even more apparent for labour-intensive products like meters and transformers.

Figure 10. El Sewedy Copper Cable Costs vs GCC and European Peers, E£ per Ton, 2006 Data



Source: Company Reports

1. **Tax-Exempt Status and Favourable Trade Position:** As El Sewedy has set up a number of greenfield facilities, it benefits from tax exemptions for periods of 10 years on average. On a consolidated basis, El Sewedy's tax rate was only 2% in 2008. The consolidated rate is expected to stay in single digits until 2013. Furthermore El Sewedy benefits from a number of trade agreements giving it a competitive advantage from exports from Egypt. No customs are imposed on El Sewedy's exports from Egypt to Europe whereas European imports into Egypt are subject to tariffs. As per COMESA, no customs are imposed on El Sewedy's exports from Egypt to all African member countries whereas Arab and European competitors do not enjoy this privilege. Lastly, no customs are imposed on El Sewedy's exports from Egypt to all Arab countries.
2. **Record of exploiting niche markets through partnerships with local governments:** El Sewedy has a strong record of identifying opportunities for the sale of cables and electrical products in geographic markets where competition is limited. The company was first to set up cable production facilities in Egypt and first to set up a copper wire production facility in Egypt. Even in cables, management considers that 32% of its cable capacity is in regions where it faces low competition.

El Sewedy Future

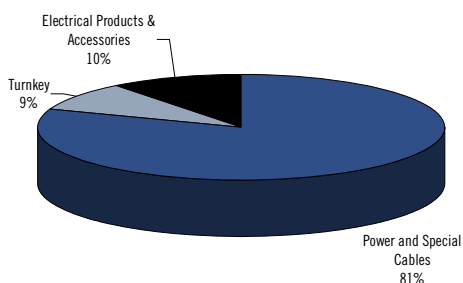
By 2011, El Sewedy expects less than half of its gross profit will come cables. There are two main drivers of this change:

1. Growth in Electrical Products. El Sewedy is building electrical meters production facilities in Egypt, transferring production of some components from IskraEmeco, a Slovenian electrometers producer it acquired in 2007. The transfer of production to Egypt is expected to lead to significant cost savings. At the time of acquisition, IskraEmeco was just breaking even. Electrical Products will also benefit from significant investment to grow transformers production capacity.
2. Growth of the Wind Power Segment. In 2008, El Sewedy entered the wind power market. Under a new division called SWEG (Sewedy Wind Energy Group) El Sewedy grouped two recent transactions: 1) acquisition of a 30% stake in Spanish wind turbine manufacturer M. Torres Olvega; and 2) a 50/50 JV with SIAG, a German wind tower producer. El Sewedy plans to access the technological know-how of these two companies to set up what will be the first dedicated facilities for the production of wind turbines and wind towers in Egypt.

Gross profit contribution from the Cables segment is expected to fall to 40% by 2011 from 64% presently

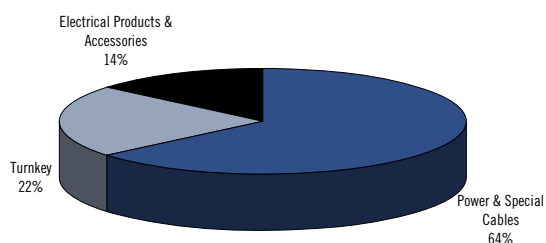
Management anticipates that electrical products and accessories will account for 26% of consolidated Gross Profit by 2011 from 14% in 2008 and that the wind segment will account for 22% of Gross Profit from 0% in 2008. Gross Profit contribution from the Cables and Wires segment is expected to fall to 40% from 64% presently.

Figure 11. 2008 Revenue Split by Segment



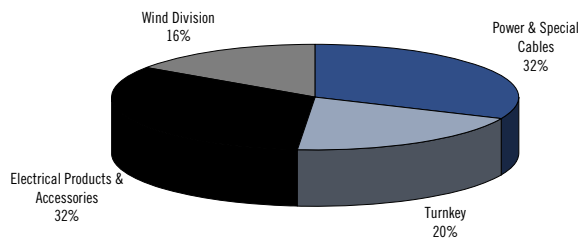
Source: Company Reports

Figure 12. 2008 Gross Profit Split by Segment



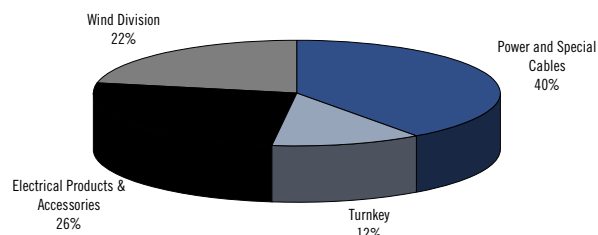
Source: Company Reports

Figure 13. 2011E Revenue Split – Management Guidance



Source: Company Reports

Figure 14. 2011E Gross Profit Split – Management Guidance

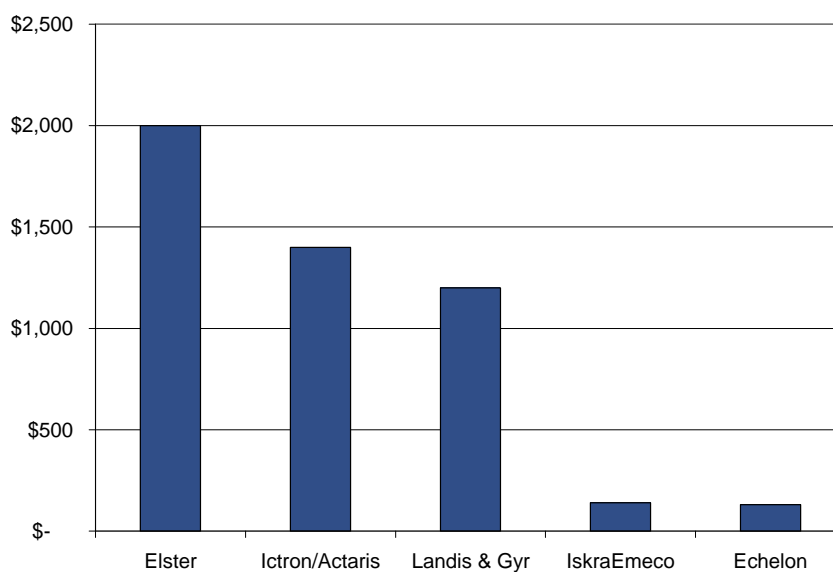


Source: Company Reports

Accelerated Restructuring in Electrical Meters

El Sewedy acquired a 97.6% stake in IskraEmeco in December 2007 for €37.6 million. At the time, IskraEmeco was a privately held Slovenian electrometers producer and the fifth largest (now fourth largest) manufacturer of electricity meters globally with annual sales of US\$140 million. It has been producing meters since 1945 and we estimate it has a global market share of about 3%.

Figure 15. Top 5 Electrical Meters Producers – Sales (US\$ Millions), 2008



Source: Company Reports

Figures for Ictron/Actaris, Elster and Landis & Gyr include electrical meters and gas and water meters

In December 2008, EI Sewedy let go 370 employees at IskraEmeco or 38% of the company's 980 employees

At time of the acquisition, EI Sewedy was bound by a number of commitments to the sellers of IskraEmeco including investing up to €30 million in the coming four years and keeping the number of employees unchanged. The recent financial crisis however has brought about an opportunity for EI Sewedy to modify its plans for IskraEmeco.

EI Sewedy renegotiated with the sellers of IskraEmeco regarding its obligations and penalty clauses and EI Sewedy was able to win concessions to transfer part of the production of IskraEmeco's Slovenian factory to Egypt. In December 2008, EI Sewedy let go 370 employees at IskraEmeco or 38% of the company's 980 employees. In the near term, this move is expected to lead EI Sewedy to incur an indemnity charge (reportedly €9 million according to industry sources¹), likely in 1Q09. More importantly, in the long term shifting production of some capacity to Egypt will lead to significant cost savings.

IskraEmeco's electrical meters can be separated into two broad categories: mechanical and digital meters, each representing about 50% of IskraEmeco's total revenues. While the production of digital meters is specialised, the manufacturing process for mechanical meters is simple and highly labour intensive. In IskraEmeco's Slovenian factory, the labour in the production of mechanical meters represents about 25% of revenues.

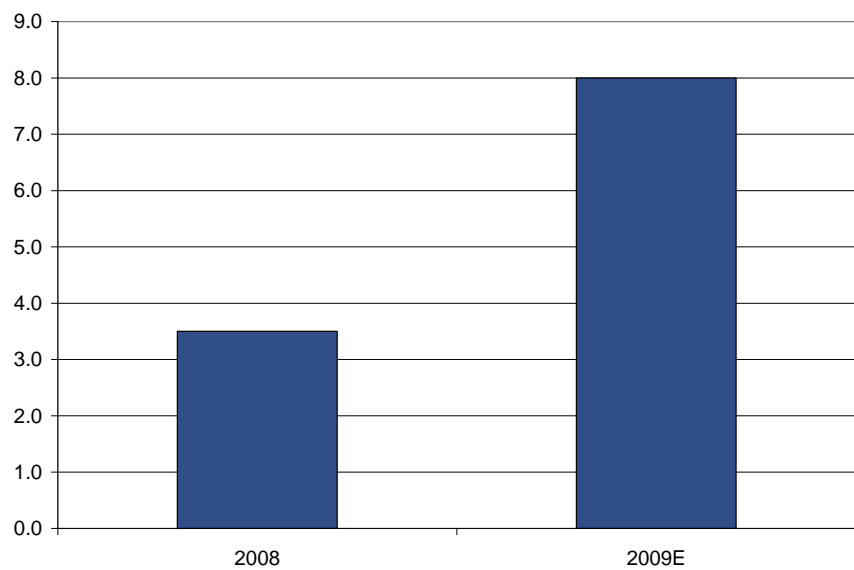
With labour costs in Egypt approximately 95% lower than in Slovenia, significant cost savings are expected

With hourly labour costs in Egypt approximately 95% lower than in Slovenia, we expect cost saving of E£85 million annually which would turn IskraEmeco from a slightly loss making operation presently to a company with net margins in the 10% range, which would make it more profitable than Itron (ITRI.O; US\$59.52; Not Rated), the leading electrical meters producer worldwide, has been historically.

Electrical meters are expected to become a key product line for EI Sewedy with capacity set to grow from 3.5 million units at end 2008 to 8 million units at end of 2009.

¹ European Restructuring Monitor.

Figure 16. IskraEmeco – Planned Capacity Growth 2009 (Millions of Units)



Source: Company Reports

Wind Power Venture – US\$100m Planned Investment

In late 2008, El Sewedy entered the wind power generation equipment market. Under a new division called Sewedy Wind Energy Group (SWEG), El Sewedy grouped two major transactions:

1. It acquired a 30% stake in M. Torres Olvega, a privately-held Spanish producer of wind turbines, for €40 million (option to acquire remaining 70% by 2011). The acquisition of a stake in M. Torres comes with a technology transfer agreement allowing SWEG to set up a wind turbine production facility in Egypt. At a cost of cUS\$16 million, local wind turbine production will allow El Sewedy to capitalise on Egypt's low cost structure. El Sewedy will also have exclusive distribution rights for M.Torres Olvega branded wind turbines in Africa and the Middle East. M. Torres focuses on gearless wind turbines which the company believes are particularly well suited to the weather conditions in MENA.
2. It signed a 50/50 Joint Venture agreement with a privately held German wind tower manufacturer SIAG (Schaaf Industries Corporation of Germany) to co-produce turbines for wind energy farms. SIAG is a leading supplier of wind towers for the European market with seven production facilities in France, Germany and the Czech Republic accounting for over 13% of the European tower fabricating capacity. SIAG's annual turnover is about €160 million.

The JV will focus on small wind energy farms (less than €120 million investments). The project will be located in Ein Al Sukhna on 250,000 square metres, a few kilometres away from Sukhna Port to facilitate exports to Europe and Africa. The project's first phase would involve E£320 million investments and is expected to produce 300 towers annually. The first tower is scheduled for production by 3Q09. The main markets are expected to be North Africa and Mediterranean Europe, in particular Italy, southern France, Greece and Turkey.

The production of wind turbines and wind towers will allow El Sewedy to offer a full range of products to the growing wind power sector in Egypt and Africa

The production of wind turbines and wind towers will allow El Sewedy to offer a full range of products to the growing wind power sector in Egypt and Africa. In total, the investment in the 30% stake in M. Torres Olvega and the capex for the local production of turbines and towers (US\$28mn in capex and working capital for 2009, as per company) amounts to an initial investment of cUS\$100 million for El Sewedy. Excluded from this number is the cost of acquiring PSP, an Egyptian wind engineer consulting firm, as the purchase price was not disclosed, but in any case we estimate the investment was small as the firm had no fixed assets.

El Sewedy expects the Wind Energy Group's sales to reach €50 million at the end of 2009 with EBITDA of €5.3 million growing to sales of €300 million by 2013 with 17% EBITDA margins. Imbedded in these figures is the assumption that the company will acquire the remaining 70% of M. Torres Olvega in March 2011.

Wind Segment Drivers

While wind power is already an established source of energy generation in Egypt, the production of components for wind farms to date is almost virgin business in Egypt and Africa.

Government support however has shown increased commitment to developing and investing in local wind power infrastructure. For example, in April 2008 the Egypt Supreme Council of Energy announced a commitment to generate 20% of the nation's energy needs from renewable sources by 2020 with wind energy expected to represent 7,200 MW annually. Currently power generation from wind energy is about 365MW annually.

The Egyptian government has been a major driver of growth of Wind generation capacity in Egypt both directly through investment and indirectly through incentives and legislation. Directly, the Egyptian government is expected to build about one-third of the wind power capacity by 2020. Indirectly, the government is actively supporting the development of wind power through legislation and financial incentives for private developers.

The growth of wind power generation in Egypt should be a plus for local manufacturers of components like El Sewedy. The size of components like blades and towers makes them difficult and expensive to ship. Furthermore, while no measures have yet been announced, El Sewedy expects government measures to encourage local production such as minimum requirements for local sourcing of components and export subsidies.

El Sewedy targets supplying about 300MW of wind power generation capacity annually with the expectation that about 50% of its business will be in Egypt

El Sewedy targets supplying about 300MW of wind power generation capacity annually with the expectation that about 50% of its business will be in Egypt with the remainder shipped outside. As we previously mentioned, transportation costs are an impediment to shipping wind farm components over long distances. However, low labour costs in Egypt are expected to more than make up for the difference as labour costs can represent up to 40%-50% of the cost of blades and 20% of the cost of wind towers, according to the company.

Lastly, while not a driver for El Sewedy's decision to enter the wind power market, there are nevertheless considerable synergies with El Sewedy's cable and cable accessories business. Of the total cost of developing wind power generation, management estimates that about 25% is spent on cables and accessories.

We discuss the Egyptian wind energy market in more detail in Appendix II.

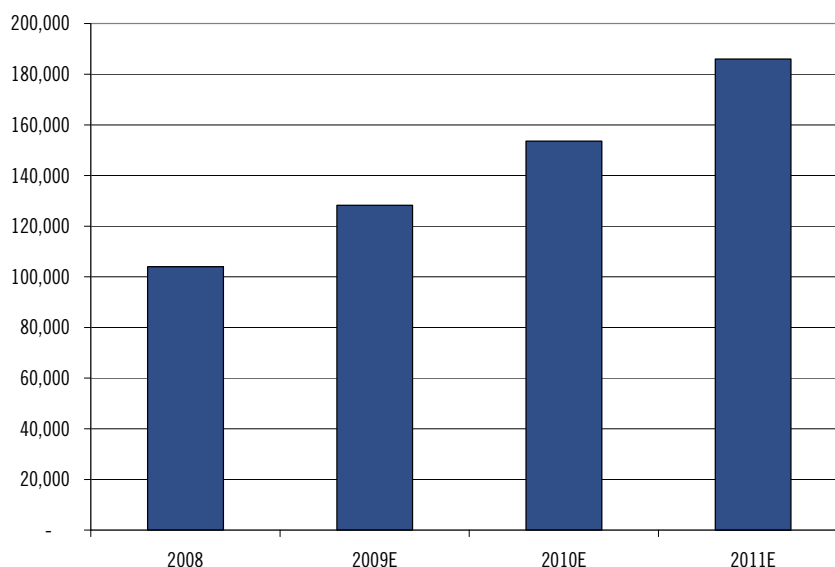
Financial Forecasts

Cables

We forecast cable ton sales of 128,000 in 2009, 154,000 in 2010 and 186,000 in 2011 or annual increases of 23%, 20% and 21% respectively

We forecast cable ton sales of 128,000 in 2009, 154,000 in 2010 and 186,000 in 2011 or annual increases of 23%, 20% and 21% respectively. These estimates are in line with management guidance. The higher sales should be driven by new cable capacity coming on line in Egypt and Saudi Arabia and to a lesser extent Qatar, Algeria, Syria and Libya. By 2011E, Saudi Arabia will represent about 12% of total cable capacity while Libya, Qatar and Algeria will each represent 5%-6% of total capacity. El Sewedy had no cable capacity in Saudi Arabia, Libya, Qatar or Algeria at end 2008.

Figure 17. Expected Sales in Cable Tons, 2008A-2011E



Source: Company Reports and CIRA Estimates

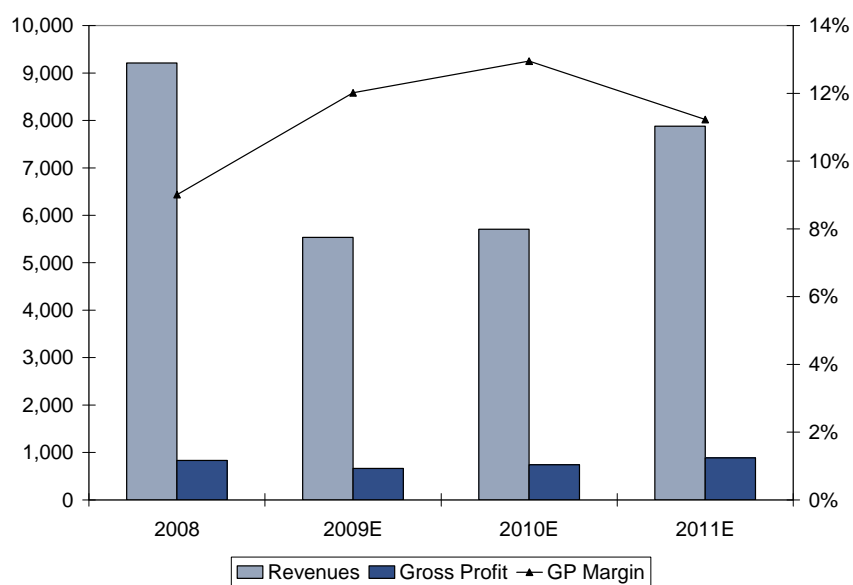
We assume copper prices of US\$1.33/lb, US\$1.50/lb and US\$2.00/lb from 2009-2011 with gross profit per ton of E£4,500, in line with management forecast

We forecast stronger revenue growth than unit sales growth on the back of an expected recovery in raw material prices. Citi Investment Research and Analysis forecasts average copper prices of 133.25 cents per lb in 2009, 150 cents per lb in 2010 and 200 cents per lb in 2011 and aluminum prices of 60 cents per lb in 2009 and 2010 and 70 cents per lb in 2011.

El Sewedy's current cables backlog is E£2.5 billion. While only a short-term indicator of cables performance as the backlog is typically delivered in 3-6 months, the backlog has not declined following the onset of the credit crunch in late 2008, supporting management claims that the quality of the backlog is solid.

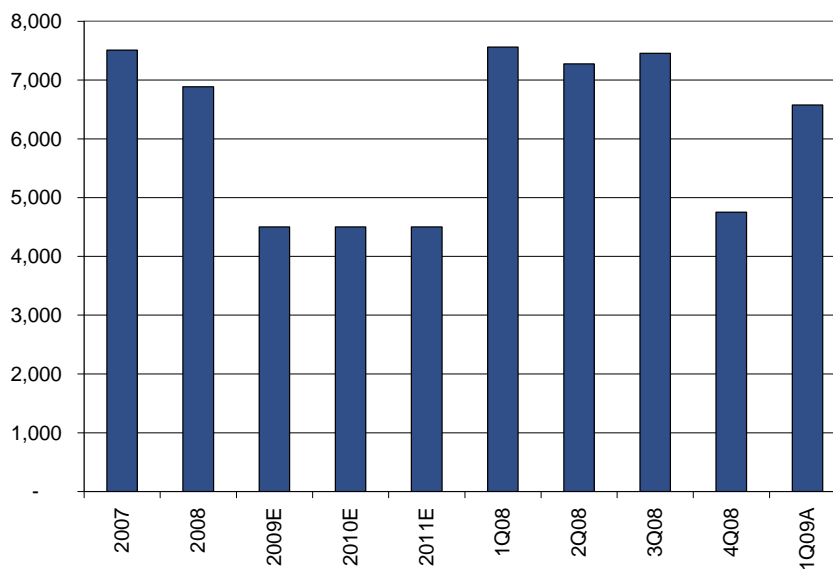
On the margin side, we expect contraction in cable gross profit per ton as El Sewedy's product mix is expected to shift to more overhead cables (lower margin) versus underground cables (higher margin). Our cable gross profit estimates are in line with management guidance for E£4,500 per ton for 2009-2011, a significant decline from the average gross profit per ton of E£6,686 in 2008 but in line with the average GP per ton earned in 4Q08.

Figure 18. Cables Revenues, Gross Profit and GP Margin 2008-2011E (E£ Millions)



Source: Company Reports and CIRA Estimates

Figure 19. Cable Gross Profit, 2007-2011E (E£ per Ton)



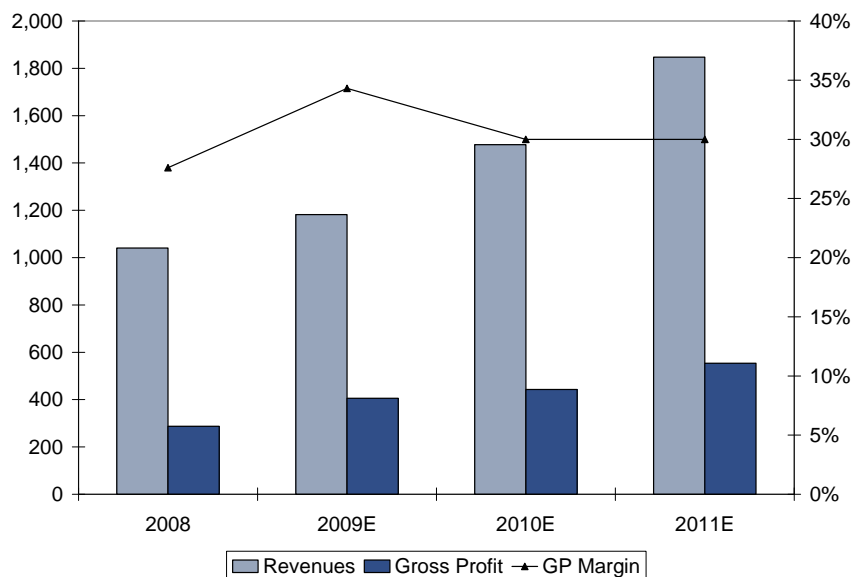
Source: Company Reports and CIRA Estimates

Current backlog in the Turnkey segment is E£1.7 billion and management is guiding for 25% sales growth with stable margins

Turnkey

Current backlog in the Turnkey segment is E£1.7 billion compared to 2008 sales of E£1 billion. The company mentioned during its 4Q08 conference call that it had not seen any order cancellations even in the current difficult economic environment. As the majority of turnkey contracts are with regional governments for building power generation and distribution capacity in MENA, we expect this segment to continue to fare well going forward. On the top line we forecast revenue growth of 25% for 2009-2011. We expect gross margins in turnkey projects to fall however to 22% in 2010 and 2011. To put this in perspective, turnkey profit margins were 20.7% in 2007. The 41.7% gross margin seen in 1Q09 was due to a one-time contract as well as stable dollar margin in an environment of falling prices and revenues for cable.

Figure 20. Turnkey Revenues, Gross Profit and GP Margin, 2008-2011E (E£ Millions)



Source: Company Reports and CIRA Estimates

Electrical Products

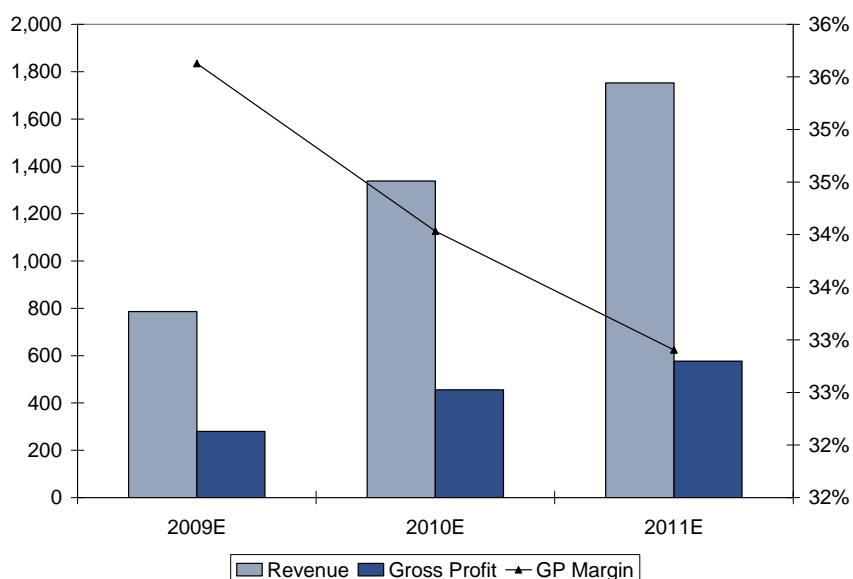
The largest contributors in terms of products to the Cable Accessories division are meters and transformers and to a lesser extent other products like insulators, electric poles etc. We expect significant growth in cable sales in 2009-2011 on the back of new capacity coming on line mostly in Egypt.

We forecast meters unit growth of 17%, 47% and 40% for 2009, 2010 and 2011. Partially offsetting our unit growth forecast is an expected decline in unit prices for electrometers. For El Sewedy, unit prices for electrometers fell about 10% in 2008 and we forecast further declines of 7%-8% annually to 2011 despite a shift to a higher price point, higher-margin product mix.

With restructuring at IkraEmeco, gross profit margin in meters is expected to jump from 16.1% in 2008 to 33% in 2009

The shift to local production for labour-intensive meters produced at IkraEmeco's factory in Slovenia is expected to have a very positive impact on the profitability of meters going forward. The gross profit margin in the meters segment is expected to jump from 16.1% in 2008 to 33% in 2009, according to company guidance.

Figure 21. Electrometers Revenues and Gross Profit 2009E-2011E (E£ Millions)

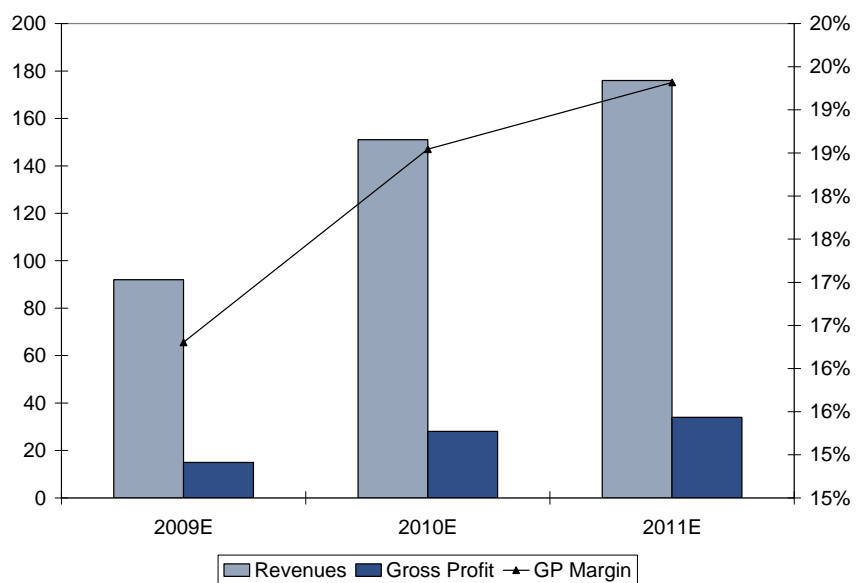


Source: Company reports and CIRA estimates.

Transformer capacity is expected to grow eightfold from 2008-2010 and represents 38% of the capex budget for 2009

For transformers, El Sewedy's capacity was 1,618 MVA (Million Volt Ampere) at the end of 2008. This is set to surge eightfold by 2010 (13,000 MVA) and over 20,000 MVA of capacity is planned by 2013 on the back of major capacity additions in Syria, Sudan, Zambia and Egypt. The investment in growing transformers capacity will be a major capital expenditure for El Sewedy in 2009 estimated at about E£300 million or about 38% of the 2009 capex budget.

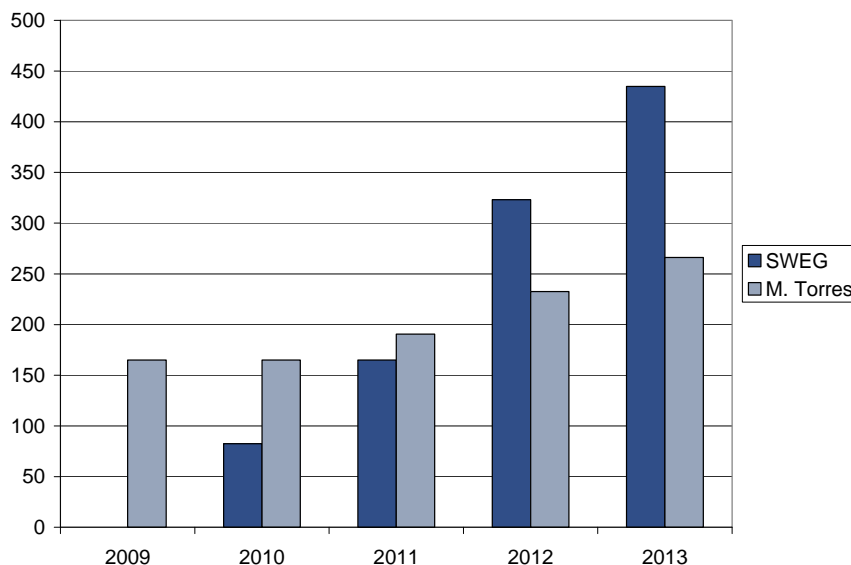
Figure 22. Transformers Revenues and Gross Profit, 2009E-2011E (US\$ Millions)



Source: Company guidance.

Wind Segment

Figure 23. El Sewedy's Wind Turbine Production Capacity (MW), 2009E-2013E



Source: Company guidance.

Our sales forecasts for the wind segment of €160m in 2010 and €250m in 2011 are in line with management guidance

The wind segment will start contributing to El Sewedy's results in 2010. Initially, the results will represent only the contribution of the 30% stake in M. Torres Olvega and starting in 2010, we should see the benefits of the local production of towers and turbines. Our consolidated forecasts (in euros) for the wind segment are sales of €160 million in 2010 and €250 million in 2011 with gross margins each year of 25%, in line with management guidance. We do not factor in the impact of the purchase of the 70% of M. Torres El Sewedy does not own although management expects to complete the purchase of the remaining 70% starting in March 2011 and has already negotiated a price of €100 million.

Net Income

We expect modest net income growth in 2009 on the back of lower expected gross profit per ton in the cable segment (as previously discussed) followed by much stronger growth expected in 2010. Our estimates for net income growth are roughly in line with management guidance of 10% net income growth for 2009 and 25% for 2010.

Working Capital, Capex and FCF

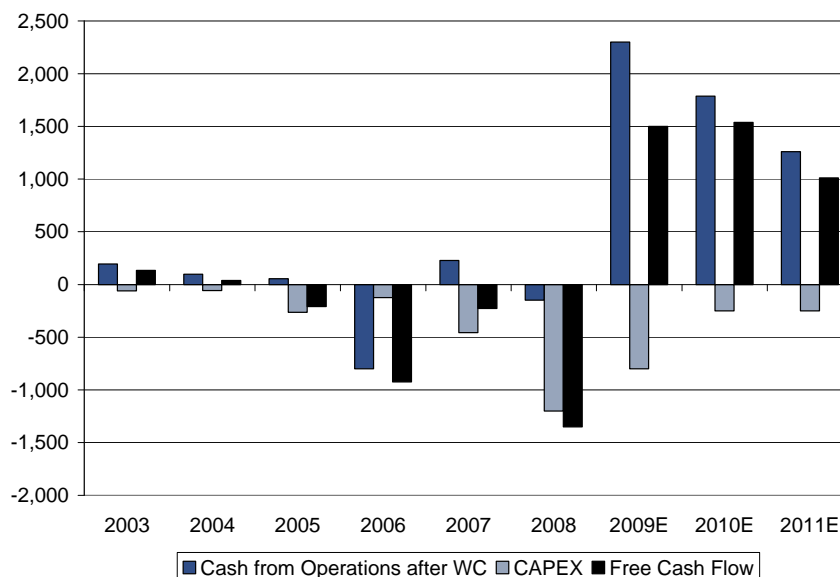
We expect significant reversal in working capital needs to lead to positive CFO and FCF in 2009

Falling raw material prices versus their 2008 peaks are good news for El Sewedy, substantially lowering working capital requirements. From a (£1.2 billion) cash outflow in 2008, we expect working capital changes to contribute £1.5 billion to Cash from Operations in 2009.

We expect capex of £800 million in 2009 (£1.2 billion in 2008), moderating significantly to £250 million in 2010 and 2011. The most significant capital investments over the next few years include £1 billion on wires and cables capacity, about £300 million on transformers and about £230 million on the wind segment.

With capex and working capital needs falling, we expect positive Free Cash Flow in 2009-2011; the last previous year of positive FCF was in 2004. The company's growing cash balance will have positive impact on the company's leverage. We expect El Sewedy's ratio of net debt to EBITDA to fall from 3.95x at end of 2008, to 1.8x in 2009, 0.6x in 2010 and 0.2x in 2011.

Figure 24. Free Cash Flow, Past and Future (£ Millions)



Source: Company Reports and CIRA Estimates

Figure 25. Income Statement, 2006A-2011E (E£ Millions)

Millions	2006	2007	2008	1Q09A	2Q09E	3Q09E	4Q09E	2009E	2010E	2011E
Revenue by Segment										
Power and Special Cables	5,354	8,468	9,211	1,893	992	1,113	1,537	5,535	5,706	7,879
Turnkey Projects	266	658	1,040	282	300	300	300	1,182	1,477	1,847
Electrical Products & Accessories	126	222	1,194	240	320	320	320	1,200	2,148	2,697
Wind Division	-	-	-	-	-	178	178	357	1,141	1,786
Total Revenues	5,746	9,348	11,446	2,415	1,611	1,912	2,335	8,273	10,472	14,209
Gross Profit by Segment										
Power and Special Cables	612	793	830	203	159	187	269	818	814	920
Turnkey	92	136	287	118	108	105	102	433	325	406
Electrical Products & Accessories	39	75	180	71	93	93	93	350	606	759
Wind Division	-	-	-	-	-	-	-	-	194	304
Unallocated Gross Profit	-	142	229	(0)	67	67	67	201	322	387
Total Gross Profit	743	1,146	1,527	391	428	452	531	1,802	2,261	2,775
Income from investments	0	0	3	-	1	1	1	2	3	3
Other operating income	17	29	169	28	-	-	-	28	29	31
SG&A	(172)	(249)	(565)	(165)	(165)	(164)	(164)	(658)	(809)	(996)
Other operating expenses	(12)	(46)	(222)	(6)	(6)	(6)	(6)	(26)	(32)	(40)
EBIT	576	880	911	247	257	283	362	1,149	1,451	1,773
One-time items included in EBIT:										
Net Provisions and receivable impairment loss	2	-3	0	0	0	0	0	0	0	0
Receivables Impairment	-7	0	0	0	0	0	0	0	0	0
Gain (Loss) on sale of asset	14	-4	0	0	0	0	0	0	0	0
Other one-time items	(4)	-	(0)	-	-	-	-	-	-	-
Total One-time items included in EBIT	5	(7)	(0)	-	-	-	-	-	-	-
Interest income	46	51	26	5	14	19	19	57	72	90
Interest expense	-95	-183	-233	-61	-61	-61	-61	-244	-245	-247
Foreign exchange and other gains/losses	18	32	212	18	0	0	0	18	0	0
Net financing costs	-31	-99	5	-37	-47	-42	-42	-168	-174	-157
EBT	545	781	916	210	210	241	320	981	1,278	1,616
Income taxes	(11)	(24)	(19)	(9)	(8)	(10)	(13)	(40)	(77)	(129)
Tax rate on exceptional items	-2%	-3%	-2%	-4%	-4%	-4%	-4%	-4%	-6%	-8%
Net profit for the period	533	757	897	201	202	231	307	941	1,201	1,487
Net Profit from Parent	508	724	828	193	192	221	297	902	1,154	1,431
Net Profit from Minority Interest	25	32	68	8	10	10	10	39	47	56
Company share in Employee Profits	-20	-21	0	0	0	0	0	0	0	
Weighted Average Number of Shares Out.	132	132	132	132	132	132	132	132	132	132
EPS after profit share (E£)	3.65	5.32	6.27	1.46	1.45	1.67	2.24	6.82	8.73	10.82

Source: Company Reports and CIRA Estimates

Figure 26. Balance Sheet, 2006A-2011E (E£ Millions)

Millions	2006	2007	2008	1Q09A	2Q09E	3Q09E	4Q09E	2009e	2010E	2011E
Fixed assets	558	757	2,758	3,085	3,256	3,428	3,600	3,600	3,554	3,431
Projects in progress	146	414	-	-	-	-	-	-	-	-
Investments AFS	4	4	4	14	14	14	14	14	14	14
Investments in associates	-	-	341	342	342	342	342	342	342	342
Payment for purchase of investments	13	8	-	-	-	-	-	-	-	-
Paid on account of investments	-	301	69	38	38	38	38	38	38	38
Debit balances	185	56	25	23	23	23	23	23	23	23
Goodwill	0	8	-	-	-	-	-	-	-	-
Other Intangibles	-	-	28	28	28	28	28	28	28	28
Deferred tax assets	-	0	16	15	15	15	15	15	15	15
Total long term assets	906	1,549	3,241	3,546	3,717	3,889	4,061	4,061	4,015	3,892
Inventories	1,746	2,075	3,170	2,413	1,740	1,147	1,401	1,401	1,571	2,131
Trade, notes, and other receivables	1,211	1,612	2,639	2,678	2,578	3,059	3,269	3,269	3,665	4,973
Due from related parties	22	35	64	111	111	111	111	111	111	111
Investments	267	147	604	455	455	455	455	455	455	455
Central Bank bonds	331	33	-	-	-	-	-	-	-	-
Cash at banks and on hand	397	802	714	758	1,402	2,032	2,106	2,106	2,941	3,227
Total current assets	3,974	4,704	7,192	6,415	6,287	6,804	7,342	7,342	8,743	10,898
Bank overdraft	246	840	3,468	2,733	2,733	2,733	2,733	2,733	2,733	2,733
Loans and LT loan instalments due within one year	1,710	1,421	623	771	771	771	771	771	771	771
Trade, notes, and other payables	402	495	968	994	838	994	1,401	1,401	1,571	2,131
Due to related parties	13	13	25	17	17	17	17	17	17	17
Provisions	29	33	221	167	167	167	167	167	167	167
Pension Deficit/Obligation	-	-	-	-	-	-	-	-	-	-
Total current liabilities	2,399	2,802	5,305	4,683	4,526	4,682	5,089	5,089	5,259	5,819
Loans	19	40	755	694	692	993	989	989	974	958
Deferred tax liabilities	4	12	55	150	150	150	150	150	150	150
Other liabilities	46	95	142	55	55	55	55	55	55	55
Pension Deficit/Obligation	-	-	-	-	-	-	-	-	-	-
Total long term liabilities	69	147	952	899	898	1,199	1,195	1,195	1,180	1,164
Issued and paid capital	1,200	1,200	1,322	1,322	1,322	1,322	1,322	1,322	1,322	1,322
Shares issued for employee stock compensation	-	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	
Treasury shares	(92)	-	11	11	11	11	11	11	11	11
Spread between acquisition cost & net available value at date of acquisition	631	583	581	579	579	579	579	579	579	579
Retained earnings	-	571	1,122	1,950	2,143	2,335	2,556	2,556	2,852	4,006
Net profit for the period	508	724	828	193	192	221	297	297	1,154	1,431
Cumulative translation adjustments	7	(5)	(54)	(54)	(54)	(54)	(54)	(54)	(54)	(54)
Total parent's shareholders' equity	2,254	3,074	3,808	3,999	4,191	4,411	4,708	4,708	5,862	7,293
Minority interest	158	229	368	380	390	400	411	411	457	513
Total equity	2,412	3,303	4,176	4,379	4,581	4,812	5,119	5,119	6,320	7,807

Source: Company Reports and CIRA Estimates

Figure 27. Cash Flow Statement, 2006A-2011E (E£ Millions)

Millions	2006	2007	2008	1Q09A	2Q09E	3Q09E	4Q09E	2009E	2010E	2011E
Profit before tax	545	781	916	210	210	241	320	981	1,278	1,616
Taxes	-	-	-	-	(8)	(10)	(13)	(31)	(77)	(129)
Adjustments for:	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	66	87	134	42	40	40	40	163	296	373
Provisions and receivable impairment loss	6	13	145	2	-	-	-	2	-	-
Net financing cost	-	-	(5)	-	-	-	-	-	-	-
Foreign exchange differences	-	(0)	(1)	37	-	-	-	37	-	-
Gain on sale of fixed assets	(1)	(4)	(29)	(2)	-	-	-	(2)	-	-
Adjustments from acquisition of minority shares	-	-	(2)	(5)	-	-	-	(5)	-	-
Increase in net assets of acquired subs under consideration for acquisition	-	-	(80)	-	-	-	-	-	-	-
Minority interest share in profit	-	-	-	-	-	-	-	-	-	-
Changes in cumulative translation adjustments	-	-	-	(0)	-	-	-	(0)	-	-
Interest from Treasury bills	-	-	-	-	-	-	-	-	-	-
Cash from Operations	616	877	1,078	284	242	271	347	1,145	1,497	1,860
Increase in inventories	(859)	(338)	(866)	757	673	593	(254)	1,769	(170)	(560)
Increase in trade, notes and other receivables	(738)	(322)	(644)	(38)	99	(480)	(210)	(629)	(396)	(1,308)
Increase in related parties	(89)	(14)	(17)	(55)	-	-	-	(55)	-	-
Increase in trade, notes and other payables	287	57	347	53	(157)	156	407	460	170	560
Dividends paid to employees	-	(36)	-	-	-	-	-	-	-	-
Provisions used	-	-	-	(50)	-	-	-	(50)	-	-
Changes in Working Capital	(1,399)	(616)	(1,216)	667	616	269	(57)	1,495	(396)	(1,308)
Net cash used in Operating Activities	(783)	261	(138)	952	858	540	290	2,640	1,101	553
Cash flows from Investing Activities	-	-	-	-	-	-	-	-	-	-
Maintenance CAPEX	(62)	(68)	(100)	(100)	(100)	(100)	(100)	(100)	(110)	(121)
Growth CAPEX	(62)	(388)	(1,101)	(281)	(112)	(112)	(112)	(917)	(140)	(129)
Total CAPEX	(124)	(456)	(1,201)	(381)	(212)	(212)	(212)	(1,017)	(250)	(250)
Acquisition of subsidiaries, net of cash acquired	(474)	(377)	(434)	(38)	-	-	-	(38)	-	-
Proceeds from sale of fixed assets	2	1	22	6	-	-	-	6	-	-
Payment for purchase of treasury bills and investments	(478)	409	(424)	149	-	-	-	149	-	-
Disposal of discontinued operations waived	8	-	-	-	-	-	-	-	-	-
Net cash flows used in Investing Activities	(1,066)	(424)	(2,038)	(264)	(212)	(212)	(212)	(900)	(250)	(250)
Cash flows from Financing Activities	-	-	-	-	-	-	-	-	-	-
Proceeds from issue of share capital	1,200	-	-	-	-	-	-	-	-	-
Sale (Purchase) of treasury bills	(92)	136	-	-	-	-	-	-	-	-
Proceeds from minority share in acquired subsidiaries	-	42	94	-	-	-	-	-	-	-
Dividends paid to minority from subsidiaries	-	-	(18)	(23)	-	-	-	(23)	-	-
Payments to shareholders	-	-	-	-	-	-	-	-	-	-
Net Proceeds from loans	1,139	389	2,012	(648)	-	305	-	(343)	-	-
Loan Repayment	-	-	-	-	(1)	(4)	(4)	(9)	(15)	(16)
Other	-	-	-	-	-	-	-	-	-	-
Net cash flows provided by Financing Activities	2,246	568	2,088	(644)	(1)	301	(4)	(348)	(15)	(16)
Net increase in cash & equivalents	397	406	(88)	44	645	629	74	1,392	835	287

Source: Company Reports and CIRA Estimates

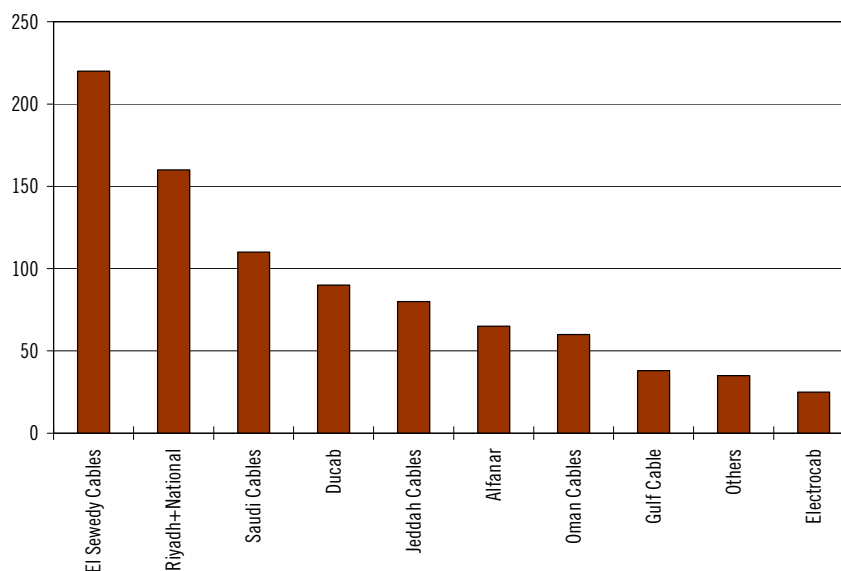
Appendix 1 – Middle East Cables Market

The Middle East Cables market is fragmented as a whole, however each country has a dominant local player: in Egypt, El Sewedy which claims to have 50% of the market for cables; UAE's Ducab estimates it has over 50% share of the UAE market; and Oman Cables estimates it has 75% market share in Oman.

Part of the reason for this is the fact that transporting cables over long distances can be onerous when dealing with low to mid voltage cables (lower margin). Another reason is government preferences to favour local companies. As a result, to expand sales MENA cable manufacturers have had to set up operations outside of their manufacturing bases either alone or through joint ventures such as El Sewedy's setting up of greenfield operations in Qatar and Saudi Arabia.

International cable producers have adopted the same strategy to expand in MENA. For example, Nexans, the world leader in cables, has production facilities in Lebanon and Egypt. Others, like Draka Cables, have acquired stakes in local companies; Draka owns 34.8% of Oman Cables.

Figure 28. Middle East Cable Production Capacity, 2008 and 2009E (Thousands of Tons)



Source: El Sewedy Cables and CIRA. Note: El Sewedy figure is company guidance for 2009. Data for other companies is 2008A.

The Middle East cables market has enjoyed strong growth on the back of development of spending to boost Middle East Power Infrastructure. In terms of tons, cable sales in the GCC are estimated to have risen 15.8% in 2006 and 13.0% in 2007 to 651,865 tons in 2007 according to Ventures Middle East, a Middle East Consultancy.

Investments in power infrastructure are expected to continue to rise at a strong clip on the back of strong population growth forecasts and high electricity consumption per capita. Spending on Power Sector expansion is the main driver for the Cables sector. Expansion is the key as the useful life of a cable is about 40 years, so at this stage very little business is recurring. According to MEED, Power Capacity in terms of MW is expected to grow between 6%-13.3% in GCC countries by 2015.

Figure 29. Expected Power Capacity Addition by 2015E, MW Thousands

Country	Existing Capacity MW	Additions by 2015 MW	Total Increase	7-Yr CAGR
Saudi Arabia	30,000	15,000	50%	6.0%
UAE	18,000	22,000	122%	12.1%
Kuwait	10,000	9,500	95%	10.0%
Qatar	5,000	7,000	140%	13.3%
Oman	4,000	3,000	75%	8.3%
Bahrain	3,000	3,500	117%	11.7%

Source: MEED, March 2008

Appendix 2 – Egypt Wind Power Market

As a renewable energy source, wind energy is already well established in more than 50 countries worldwide. At present wind supplies a total of 94GW of power globally and the sector is expected to supply 30% of the world's total electricity by 2030. In the Middle East however wind power is still in its infancy. Egypt and Morocco are the most advanced Middle East economies in the development of wind infrastructure and represented 58% and 23% of total Middle East wind power capacity at end 2007.

Focusing on Egypt, wind power is particularly well-suited to the country's climate and terrain. A government sponsored Egyptian wind atlas completed in 2003 revealed that the area near the Suez Gulf Coast was highly suitable for wind farms with average wind speeds of 10 metres per second, one of the world's strongest stable wind currents. Furthermore, the wind atlas indicated that about 20,000MW of wind farms can be housed in the Gulf of Suez area. To put this in perspective, this is only slightly less than all of Egypt's power capacity presently.

To date, the largest wind farm project has been established at Zafarana, on the Gulf of Suez. Spread over 80 square kilometres, it has a total capacity of 360MW. It has been operated in stages since 2001, in cooperation with the governments of Germany, Denmark and Spain. Further government investment in Zafarana as well as two other wind farms is expected to bring Egypt's capacity to 860MW by 2010.

Besides direct investment, government legislation has been very supportive of the development of renewable energy development in Egypt. In February 2008, the Egyptian Supreme Council of Energy approved an ambitious plan to produce 20% of total electricity from renewable energies by 2020, including a 12% contribution from wind energy or 7,200MW of grid-connected wind farms from 365MW presently. This would translate into the addition of roughly 600MW of wind capacity per year by 2020 (28% annual growth) with the NREA (New and Renewable Energy Authority) carrying out about one-third of these capacity additions while the private sector is expected to develop the remainder.

The growth in wind power capacity in Egypt is expected to have a favourable impact on local production of wind farm components. For starters, the size of some of the wind farm components (towers are over 50 metres high, blades are even higher) make the components hard to transport. This was already seen in the case of Zafarana where 30% of the capacity at Zafarana was manufactured locally. Secondly, the Egyptian government is expected to further support the development of local wind components production by setting local content requirements similar to other countries like China and Spain, for example.

In terms of revenue spending, El Sewedy management estimates that each MW of wind power translates into an investment in equipment of €1.4 million; 75% is spent on towers, blades and turbines, 25% is spent on cables and cable accessories which equates to a revenue opportunity in cables for El Sewedy of €1.4 million times 700 MW times 25% of about US\$330m.

El Sewedy Cables

Company description

El Sewedy Cables is the largest cables producer in MENA with annual capacity at the end of 2008 over 140,000 tons. Its operations are vertically integrated and the company supplies 50% of its own raw material needs. Its main customers are power utilities (68% of '08 sales) mostly in the GCC and North Africa.

Investment strategy

We rate El Sewedy Buy/ Medium Risk (1M). El Sewedy has a two-pronged growth strategy: 1) It is adding cable capacity in large new markets such as Qatar and Saudi Arabia as well as in underpenetrated smaller markets such as Sudan, Yemen etc. Cable capacity is expected to rise 45% and 35% in 2009 and 2010 respectively. 2) The company is investing heavily to add manufacturing capacity in peripheral sectors to cable such as electrical products (electrical meters, transformers, insulators, etc) and wind power components (turbines, towers and blades). By 2011, the company estimates that about 48% of its gross profit will come from the Electrical Products and Wind segments.

Valuation

Our valuation and target price of E£88 is based on a Sum of the Parts using our 2009 estimates. We value the company's core cable earnings at 7.8x EBITDA, a 15% premium to global cable peers reflecting high anticipated growth in cable capacity and the company's tax advantage. We value the electrical products segment at 17.4x EBITDA, a 40% premium to peers reflecting very high anticipated capacity growth over the next five years (tripling of meters and transformers capacity) but also significant cost savings anticipated from a restructuring at the company's Slovenian meters business. Finally, we value the wind segment at the book value of the invested capital in the business to date. A large expected inflow of cash in 2009 from lower working capital (on the back of lower commodity prices) also plays a significant role (8% of EV) in our Enterprise Value calculation.

Risks

We rate El Sewedy Medium Risk. Deteriorating returns in the cable segment and poor cable visibility are key risks that could prevent the shares from achieving our target price. Future growth is very dependent on the performance of the electrical products segment and the new wind segment. However, those are not without risk: both electrical products and wind depend on successful management of new greenfield manufacturing capacity. Furthermore, wind power in MENA is at a very early stage with the size of the market not yet defined and future growth depends to a large extent on political will.

Notes

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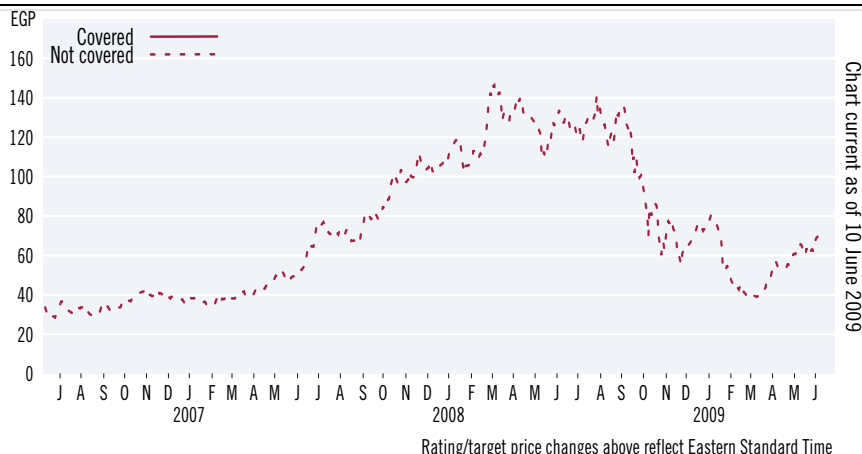
Appendix A-1

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IMPORTANT DISCLOSURES

El Sewedy Cables (SWDY.CA) Ratings and Target Price History Fundamental Research



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43%	37%	20%

<i>% of companies in each rating category that are investment banking clients</i>	47%	43%	36%
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