



## Until the Wind Blows

- Initiate coverage on El Sewedy with a Neutral rating and TP of EGP74.1/share (4% potential return)
- Non-cable businesses are a considerable 56% of valuation but most still lack momentum; wind will drive upgrades but hasn't started yet
- Cable valuation is negatively correlated with copper prices (a concern in an uptrend) and assumes improved working capital management

We initiate coverage on El Sewedy, the MENA region's largest and most diversified cable producer, with a Neutral rating and a TP of EGP74.1/share (4% potential return). We believe share price performance will remain muted (underperformed the EGX30 by 46% in 2009 and 4% YTD) until non-cable businesses kick in strongly and realize their potential.

**Non-cable segments constitute 56% of our valuation but lack momentum** as: (1) European meter replacements face delays, (2) transformer sales slowly materialize with credentials still being built, and (3) the economic environment is non-conducive for wind projects. Turnkey stands out for its track record, but the latest reported backlog is 25% lower than the previous one. Consensus is betting on a bullish uptick in non-cable segments (especially wind). Our EBITDA estimates are 9% lower in 2011e and 21% lower in 2012e.

**Wind will be the key driver for valuation upgrades in our view.** We value the segment at cost (EGP5.0/share), which is close to our DCF for operating facilities (MTOI + Egypt towers). The start of the now-delayed Egypt turbine plant will add c27% to our valuation.

**Superior cable profitability can sustain but high valuation sensitivity to copper prices and working capital is a concern.** Copper prices are expected to continue an uptrend heading into 2011e (+9% y-o-y), straining valuation with higher working capital and debt: every 1% increase in copper prices lowers our valuation by 2%. Stiff competition has placed additional pressure on working capital, increasing inventory days and collection periods. If both metrics remain at current levels, our valuation would be c11% lower.

**Valuation-implied multiples look fair at this stage:** (i) Cable EV/EBITDA (2011e) of 7.5x is reasonably above peers, reflecting higher net debt and strong regional foothold; (ii) Electric products EV/EBITDA of 11.4x is in line with peers despite our forecasts reflecting a strong pickup (2010e–2012e EBITDA CAGR of 51%); and (iii) Turnkey EV/backlog is at a high 0.97x as we opt to give credit for segment's strong historical performance.

### Key Indicators (EGP)

	2009a	2010e	2011e	2012e
Clean EPS	4.98	6.13	6.94	7.65
DPS	-	1.32	2.69	3.55

Source: Company data, HC

## Neutral

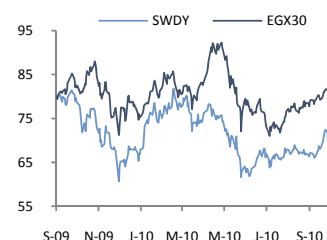
Target Price (EGP)	74.1
Current Price (EGP)	71.1
Potential Return	4.2%

Bloomberg	SWDY EY
Reuters	SWDY.CA

MCap (EGPm)	9,399
MCap (USDm)	1,649
Number of Shares (m)	132.2
Free Float	33.1%
Daily Volume (USDm)	2.7
Foreign Own. Limit	100%
Foreign Ownership	N/A

Note: All prices as of 29 Sept. 2010

### Price Performance



30 September 2010

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## El Sewedy Electric's Financial Statements and Ratios

EGPm	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b>Income Statement</b>							
Gross Revenue	16,066	14,834	18,388	22,033	22,984	24,002	25,234
Intersegment Revenue	(4,620)	(5,543)	(5,878)	(6,677)	(6,811)	(6,955)	(7,075)
<b>Net Revenue</b>	<b>11,446</b>	<b>9,291</b>	<b>12,510</b>	<b>15,356</b>	<b>16,173</b>	<b>17,047</b>	<b>18,158</b>
<u>Growth</u>	<u>22.4%</u>	<u>-18.8%</u>	<u>34.6%</u>	<u>22.7%</u>	<u>5.3%</u>	<u>5.4%</u>	<u>6.5%</u>
COGS	(9,785)	(7,555)	(10,320)	(12,901)	(13,530)	(14,204)	(15,062)
<b>Gross Profit</b>	<b>1,661</b>	<b>1,735</b>	<b>2,190</b>	<b>2,455</b>	<b>2,643</b>	<b>2,842</b>	<b>3,096</b>
<i>Gross Margin</i>	<i>14.5%</i>	<i>18.7%</i>	<i>17.5%</i>	<i>16.0%</i>	<i>16.3%</i>	<i>16.7%</i>	<i>17.1%</i>
General and Administrative Expenses	(336)	(398)	(468)	(515)	(540)	(566)	(590)
Selling and Marketing Costs	(229)	(331)	(353)	(389)	(402)	(416)	(433)
<b>EBITDA</b>	<b>1,096</b>	<b>1,006</b>	<b>1,369</b>	<b>1,551</b>	<b>1,701</b>	<b>1,860</b>	<b>2,074</b>
<u>Growth</u>	<u>11.3%</u>	<u>-8.2%</u>	<u>36.1%</u>	<u>13.3%</u>	<u>9.7%</u>	<u>9.3%</u>	<u>11.5%</u>
<i>EBITDA Margin</i>	<i>9.6%</i>	<i>10.8%</i>	<i>10.9%</i>	<i>10.1%</i>	<i>10.5%</i>	<i>10.9%</i>	<i>11.4%</i>
Depreciation and Amortization	(134)	(192)	(276)	(320)	(331)	(344)	(359)
Impairment	(49)	(70)	(19)	0	0	0	0
Other Operating Income	162	105	55	68	72	75	80
Other Operating Expenses	(24)	(21)	(31)	(38)	(40)	(42)	(45)
Net Provisions	(140)	19	(6)	(7)	(8)	(8)	(9)
FX Gains (Losses)	45	(37)	12	(8)	(8)	(9)	(9)
<b>EBIT</b>	<b>956</b>	<b>809</b>	<b>1,104</b>	<b>1,246</b>	<b>1,386</b>	<b>1,532</b>	<b>1,733</b>
Net Interest Income (Expense)	(40)	(142)	(131)	(141)	(139)	(131)	(126)
Investment Income	0	(6)	0	0	0	0	0
Non-recurring Items	1	4	74	0	0	0	0
<b>Pre-tax Income</b>	<b>916</b>	<b>665</b>	<b>1,047</b>	<b>1,105</b>	<b>1,247</b>	<b>1,401</b>	<b>1,607</b>
Taxes	(19)	(34)	(86)	(113)	(152)	(199)	(260)
Minority Interest	(68)	3	(51)	(69)	(77)	(84)	(94)
<b>Net Income</b>	<b>828</b>	<b>634</b>	<b>910</b>	<b>923</b>	<b>1,018</b>	<b>1,118</b>	<b>1,253</b>
Appropriations	(21)	(9)	(14)	(14)	(15)	(17)	(19)
<b>Net Income After Appropriations</b>	<b>807</b>	<b>624</b>	<b>897</b>	<b>909</b>	<b>1,003</b>	<b>1,101</b>	<b>1,234</b>
<u>Growth</u>	<u>14.8%</u>	<u>-22.7%</u>	<u>43.6%</u>	<u>1.4%</u>	<u>10.3%</u>	<u>9.8%</u>	<u>12.0%</u>
<i>Net Margin</i>	<i>7.1%</i>	<i>6.7%</i>	<i>7.2%</i>	<i>5.9%</i>	<i>6.2%</i>	<i>6.5%</i>	<i>6.8%</i>
<b>Balance Sheet</b>							
Cash and Equivalents	1,318	1,027	1,368	1,253	1,388	1,592	1,647
Trade and Other Receivables	2,639	2,656	3,420	4,063	4,167	4,315	4,458
Due from Related Parties	64	276	185	193	201	210	219
Inventories	3,170	2,779	3,357	3,748	3,753	3,791	3,821
<b>Total Current Assets</b>	<b>7,192</b>	<b>6,737</b>	<b>8,329</b>	<b>9,256</b>	<b>9,509</b>	<b>9,907</b>	<b>10,145</b>
Intangible Assets	28	28	195	195	195	195	195
Available-for-Sale Investments	4	17	14	14	14	14	14
Investment in Associates	341	336	9	9	9	9	9
Net Fixed Assets	2,828	3,749	3,868	4,094	4,150	4,211	4,276
Other Non-current Assets	40	496	313	313	313	313	313
<b>Total Non-current Assets</b>	<b>3,241</b>	<b>4,626</b>	<b>4,399</b>	<b>4,626</b>	<b>4,682</b>	<b>4,743</b>	<b>4,808</b>
<b>Total Assets</b>	<b>10,433</b>	<b>11,363</b>	<b>12,729</b>	<b>13,882</b>	<b>14,191</b>	<b>14,651</b>	<b>14,953</b>
Overdrafts	3,468	2,996	3,189	3,560	3,566	3,601	3,630
CPLTD	623	629	452	468	280	280	91
Payables	968	1,760	2,152	2,597	2,709	2,794	2,867
Distributions Payable	153	-	241	475	626	911	1,021
Due to Related Parties	25	55	65	96	128	162	199
Provisions	221	95	99	106	114	122	131
<b>Total Current Liabilities</b>	<b>5,458</b>	<b>5,534</b>	<b>6,198</b>	<b>7,303</b>	<b>7,422</b>	<b>7,871</b>	<b>7,939</b>
Long-term Debt	755	989	1,119	651	371	91	-
Other Non-current Liabilities	197	256	215	215	215	215	215
<b>Total Non-current Liabilities</b>	<b>952</b>	<b>1,245</b>	<b>1,334</b>	<b>865</b>	<b>586</b>	<b>306</b>	<b>215</b>
<b>Total Shareholders' Equity</b>	<b>4,023</b>	<b>4,584</b>	<b>5,197</b>	<b>5,714</b>	<b>6,183</b>	<b>6,474</b>	<b>6,800</b>



## El Sewedy Electric's Financial Statements and Ratios

EGPm	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b>Cash Flow Statement</b>							
Pre-Minority Net Income	897	631	962	992	1,095	1,202	1,347
Depreciation and Amortization	134	192	276	320	331	344	359
Other Non-cash Items	257	191	97	206	203	196	193
Change in Working Capital	(1,779)	881	(787)	(566)	28	(76)	(73)
<b>Operating Cash Flows</b>	<b>(491)</b>	<b>1,895</b>	<b>549</b>	<b>951</b>	<b>1,657</b>	<b>1,667</b>	<b>1,826</b>
CAPEX	(1,210)	(1,442)	(558)	(546)	(387)	(406)	(423)
Other Investments	(739)	112	158	0	0	0	0
<b>Investing Cash Flows</b>	<b>(1,948)</b>	<b>(1,331)</b>	<b>(400)</b>	<b>(546)</b>	<b>(387)</b>	<b>(406)</b>	<b>(423)</b>
<b>Financing Cash Flows</b>	<b>2,350</b>	<b>(563)</b>	<b>(5)</b>	<b>(520)</b>	<b>(1,134)</b>	<b>(1,058)</b>	<b>(1,346)</b>
<b>Key Financial Ratios</b>							
Net Debt/Equity	0.88x	0.78x	0.65x	0.60x	0.46x	0.37x	0.30x
Net Debt/EBITDA	3.21x	3.55x	2.47x	2.20x	1.65x	1.27x	0.99x
ROAA (Adj.) <sup>(1)</sup>	9.7%	5.7%	7.5%	6.9%	7.2%	7.7%	8.4%
ROAE (Adj.) <sup>(1)</sup>	22.2%	14.6%	18.8%	17.3%	17.4%	18.0%	19.2%
ROIC	16.9%	11.2%	14.2%	14.3%	15.3%	16.8%	18.1%
<b>Key Price Ratios</b>							
EV/EBITDA	12.13x	13.27x	9.62x	8.56x	7.49x	6.66x	5.87x
P/Sales	0.82x	1.01x	0.75x	0.61x	0.58x	0.55x	0.52x
P/E	11.64x	15.05x	10.48x	10.34x	9.37x	8.53x	7.62x
P/E (Clean)	12.34x	14.28x	11.61x	10.25x	9.30x	8.47x	7.56x
P/BV	2.34x	2.05x	1.81x	1.64x	1.52x	1.45x	1.38x
Dividend Yield	1.4%	0.0%	1.9%	3.8%	5.0%	7.3%	8.2%
FCF Yield	-18.1%	4.8%	-0.1%	4.3%	13.5%	13.4%	14.9%

Note: (1) Ex-goodwill and other intangibles



## Investment Case

- El Sewedy, MENA's largest and most diversified cable player, offers a unique exposure to region's power-spending pool (over USD130bn in next 10 years); valuation is highly sensitive to copper prices – a concern with uptrend expected to continue – and bets on some improvement in working capital management
- Non-cable segments are 56% of valuation, a concern given (1) delays in Europe's meter substitution programs, (2) slow transformer sales materialization, (3) recent weak turnkey backlog, and (4) no major contribution yet from wind with Egypt's turbine plant – segment's value driver –delayed (would add c27% to valuation)
- We initiate coverage on El Sewedy Electric with a Neutral rating and TP of EGP74.1/share, implying a 4% potential return

### Key Attractions

#### 1. MENA's Largest Cable Player, Offering Best Exposure to Regional Power Spending

El Sewedy is the MENA region's largest cable player with a capacity of 203,195 tpa at the end of 2009, which is expected to increase 34% to 273,050 tpa when all capacities are running (by 2012e on our assumptions). We believe is well diversified with operations across eight countries and a leadership position in each (20%–40% market share) with Saudi Arabia being the exception (targeting a 10% market share there). Accordingly, El Sewedy offers the best listed exposure to the MENA power spending pool (over USD130bn in the next 10 years), from which cable players are direct beneficiaries.

#### 2. In a Better Position to Weather Regional Cable Industry Threats

Overcapacity in the MENA region (particularly GCC) has been the key reason behind a tough competitive environment for cable players that lowered profitability per ton (currently c17% less than 2008 peaks for El Sewedy) and prolonged receivables' collection periods (nearly double 2008 levels). GCC operations are only c20% of El Sewedy's total capacity, but there are fears that other GCC players' excess capacities will flood other markets and impact sales out of Egypt (51% of capacity) – El Sewedy's export hub. However, we believe El Sewedy will fare better than peers and manage to maintain above-average profitability for a number of reasons:

- (1) The size of its operations with a capacity unmatched in the region;
- (2) Favorable dynamics in some countries, such as supply shortages in Algeria, Ethiopia, Libya, Sudan, and Yemen and proximity to underserved markets like Egypt and Syria ensuring solid profitability;
- (3) Complementing existing capacities in favorable markets like Sudan by capacities from the export hub in Egypt;

(4) Extra-high voltage capacities (20%–25% of total) that have better profitability and less price sensitivity;

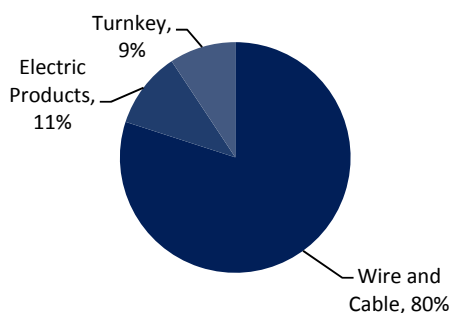
(5) It is the sole producer in a number of countries (Qatar, Ethiopia, Sudan, and Yemen).

We assume a sustainable GP/ton of EGP5,500, in line with management guidance of EGP5,500–EGP6,000. This is c11% below current levels to reflect the potential risk of weaker profitability should the current industry overcapacity situation sustain or worsen. Our valuation is sensitive to our GP/ton assumptions: **every 1% increase in GP/ton from our estimates increases our valuation of El Sewedy by 1%.**

### 3. Diversifying into Other Related Segments with Strong Cross-selling Potential

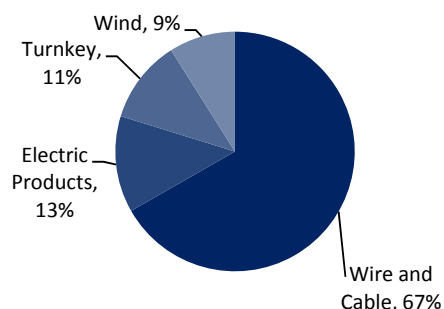
El Sewedy has been investing heavily in higher-margin, related non-cable businesses – namely meters, transformers, turnkey projects, and wind energy – to diversify its revenue stream and increase overall revenue generation potential through exploiting cross-selling opportunities. We expect wire and cable’s contribution to revenue to drop to 67% in 2014e from 80% in 2009 and gross profit contribution to drop to 56% in 2014e from 65% in 2009.

**Segmental Revenue Breakdown (2009a)**



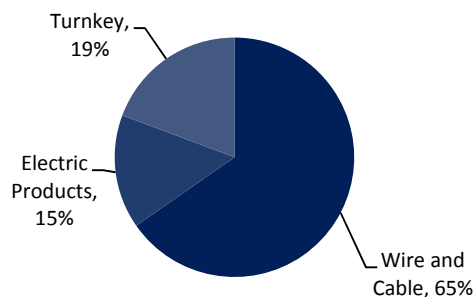
Source: El Sewedy Electric, HC

**Segmental Revenue Breakdown (2014e)**



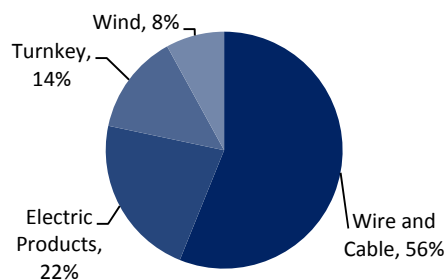
Source: HC

**Segmental Gross Profit Breakdown (2009a)**



Source: El Sewedy Electric, HC

**Segmental Gross Profit Breakdown (2014e)**



Source: HC



## Why We Are Neutral

**We initiate coverage on El Sewedy with a Neutral rating and a TP of EGP74.1/share**, which offers a 4% potential return to the current market price. We expect share price performance to remain muted (stock has underperformed the EGX30 by 46% in 2009 and 4% y-t-d) until non-cable businesses strongly kick-in and realize their potential.

El Sewedy's non-cable businesses constitute over half (56%) of our valuation despite the company remaining largely a cable player at least in the near term (79% of 2010e revenue and 66% of gross profit). Other than the turnkey business, non-cable segments are yet to build a track record and/or achieve their potential. We believe consensus is overestimating the near-term contribution of non-cable segments (especially wind) and is likely to lower estimates. Our EBITDA estimates are 9% below consensus for 2011e and 21% lower for 2012e.

### HC's Estimates vs Consensus (EGPm)

	Revenue			EBITDA			Net Income <sup>(1)</sup>		
	HC	Cons.	%Diff.	HC	Cons.	%Diff.	HC	Cons.	%Diff.
2010e	12,510	12,647	-1%	1,369	1,345	2%	810	871	-7%
2011e	15,356	15,438	-1%	1,551	1,710	-9%	917	1,200	-24%
2012e	16,173	18,126	-11%	1,701	2,147	-21%	1,011	1,513	-33%

Source: Reuters, HC

(1) Excluding extraordinary items

### (1) Electric Products (24% of Valuation) Still Lack Momentum . . .

Electric product segment's (24% of valuation) revenue is still weak as (1) meters, the segment's main driver, are seeing relatively weak sales with Europe's substitution to digital meters continuing to see delays and (2) transformer sales are slowly materializing as the company works to meet pre-qualification requirements. Relatively weak revenue is a concern given the segment's high operating leverage, which is a spillover from the acquisition of leading European meter manufacturer Iskraemeco in 2007.

### . . . and Implied Valuation Appears Fair Although We Assume Significant Improvement in Utilization

However, we expect a strong gradual pickup as the segment realizes its potential. We assume meter utilization to exceed 80% by 2014e from c47% in 2010e and transformer utilization to reach c95% from 29%. Accordingly, we expect a strong CAGR (2010e–2012e) of 25% for revenue and 51% for EBITDA. However, our implied EV/EBITDA of 12.4x (2011e) is mostly in line with peers and above-peers median of 9.0x (see valuation section for details).

### (2) Recent Turnkey (25% of Valuation) Backlog Weakness is a Concern . . .

Although the turnkey segment (25% of valuation) has a decent recent track record and solid margins that averaged above 25% historically, recent backlog weakness is a concern. Backlog of USD510m reported in June 2010 is 25% lower than previous guidance due to a more conservative reporting stance, according to management.



### **. . . Yet We Assume Additions of Nearly Double Existing Backlog**

Our valuation implies an EV/backlog of 0.97x, which is above peer average of 0.50x and thus assumes significant backlog additions of nearly double the current level over our forecast horizon. We are betting on El Sewedy's turnkey business given its recent strong performance, but the segment could disappoint should contract awards prove weak.

### **(3) Wind Segment (7% of Valuation) is Still Facing Delays . . .**

El Sewedy ventured into the wind sector in 2008 through a number of strategic transactions including the acquisition of Spanish wind turbine manufacturer MTOI. Despite solid prospects in the region, the segment has not contributed to numbers (only EGP10m in 1H10 in maintenance revenue) and we expect first contribution in 4Q10e at the earliest with two contracts worth cEUR120m awarded so far. Reasons for delays are (1) the long cycle for wind-farm development, (2) large financing requirements for wind-farm development that the current economic environment is not supportive of, and (3) strong competition caused by a slowdown in the wind sector, especially in Europe.

### **. . . Forcing Company to Delay Egypt's Turbine Plant – Segment's Key Value Driver**

El Sewedy has delayed plans for a turbine plant in Egypt, which we believe is the segment's main value driver. Accordingly, we value the segment at a cost of EGP658m (EGP5.0/share). Valuing the segment's operational facilities – MTOI's plant plus Egypt's tower plant – yielded a value close to cost. Realization of the wind segment's potential is the key medium-term catalyst for El Sewedy and will be the driver for valuation and earnings upgrades in our view. **Should the Egypt turbine plant begin production and sales by 2012e, this would add c27% (EGP20.0/share) to our valuation.**

### **(4) Valuation is Negatively Correlated to Copper Prices . . .**

In the current environment, higher copper prices (70%–75% of copper cable costs) are negative for the valuations of cable player as they imply higher working capital and accordingly net debt requirements (over 65% of El Sewedy's total debt is in overdrafts to finance working capital). We estimate a 2010e net debt/EBITDA of 2.5x compared to developed peer average of 1.4x. Our valuation is thus highly sensitive to copper prices: **every 1% increase in copper prices from estimates lowers our valuation by 2%.** This is especially a concern since copper prices are expected to continue their uptrend as demand may outstrip supply in 2011e (+ 9% y-o-y).

### **. . . and Our Implied Cable Valuation is Mostly in Line with Peers**

Our cable business valuation implies an EV/EBITDA (2011e) of 7.5x, mostly in line with cable peers and above the peer median of 6.7x (see valuation section for details). We assume a sustainable cable capacity utilization of c80% (above a cable plant's normal operating rate of 75%) and the start of the much-delayed Libyan 55,000 tpa plant by 2012e.



#### **(5) Betting on an Improvement in Working Capital Management**

Increased competition has placed additional pressure on working capital requirements on top of those caused by copper price increases. El Sewedy's receivables collection period in 2Q10 were 18% above the historical average while inventory days on hand were 16% above the historical average. We assume a 4% improvement in collection periods and 9% in days on hand over our forecast horizon. **Should El Sewedy's receivables collection period and inventory days on hand sustain at current levels, our valuation would be c11% lower.**





## Valuation and Risks

**We initiate coverage on El Sewedy with a Neutral rating and a sum-of-the-parts (SOTP)**

**TP of EGP74.1/share**, which offers 4% potential return to the current market price. The wire and cable segment is the largest contributor to valuation (44%). We value the wind segment at cost given that it still has not significantly contributed to numbers and Egypt's wind turbine plant, the segment's main value driver, is delayed.

### El Sewedy's Valuation Summary

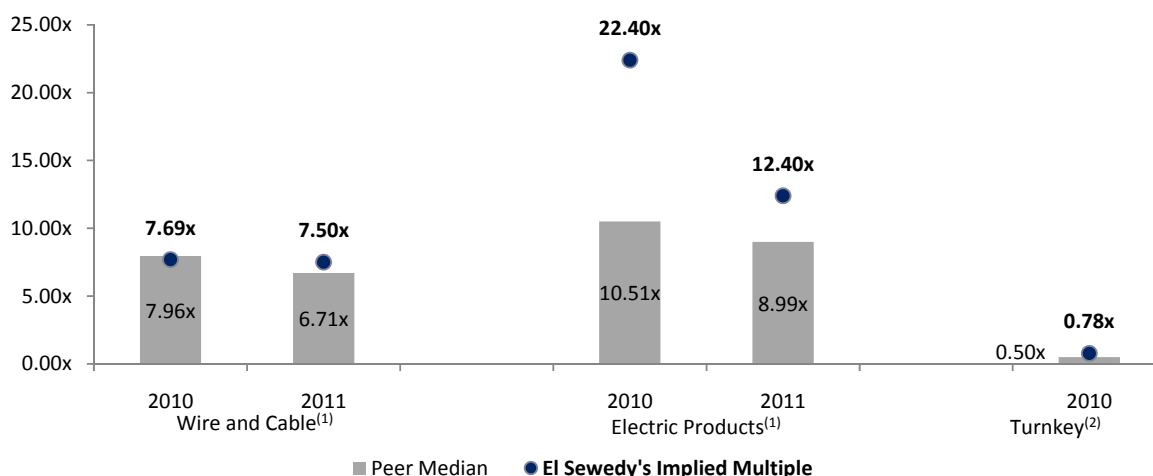
Segment	WACC	g <sup>(1)</sup>	EV (EGPm)	% Cont.	Net Debt (EGPm)	Minority Interest (EGPm)	Equity Value (EGPm)	% Cont.	Value/Share (EGP)
Wire and Cable	11.2%	3.0%	7,373	53%	2,466	563	4,344	44%	32.86
Turnkey	11.9%	3.0%	2,811	20%	372	-	2,439	25%	18.45
Electric Products	11.2%	3.5%	2,887	21%	473	66	2,348	24%	17.76
Wind <sup>(2)</sup>	11.0%	3.5%	759	5%	68	33	658	7%	4.98
<b>Total</b>			<b>13,830</b>	<b>100%</b>	<b>3,378</b>	<b>663</b>	<b>9,789</b>	<b>100%</b>	<b>74.05</b>

Source: HC

Note: (1) We apply a higher terminal growth rate to Electric Products and Wind given their strong long-term potential, (2) El Sewedy's wind segment is valued at cost with EV adjusted accordingly

**Multiples implied by our valuation are above peer median for 2010e and 2011e** (see chart below). We examine EV/EBITDA for the wire and cable and electric product segments and EV/backlog for the turnkey segment. The reasons behind the high implied multiples are (1) high net debt compared to developed market cable peers, (2) still weak revenue realization at electric products segment that has particularly high operating leverage, and (3) recent backlog weakness at the turnkey segment. Although somewhat justified, the valuation premiums indicate that there is limited potential upside to our fair value (and thus current price levels) given the present business outlook. **The wind segment (valued at cost) will be the key medium-term driver for value and earning upgrades once it starts contributing to numbers.**

### Implied Valuation Multiples are at a Premium to Peers



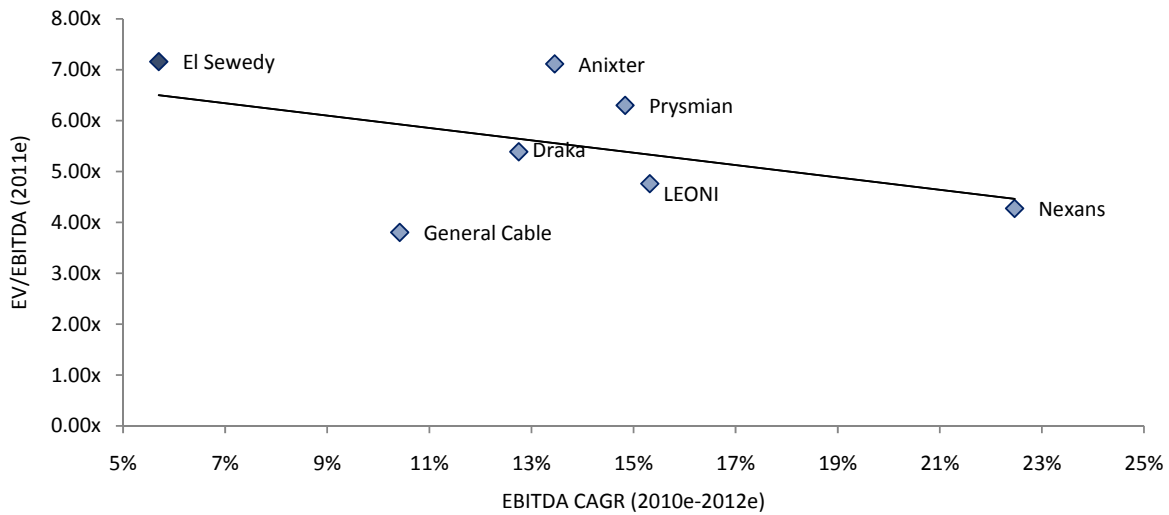
Source: Bloomberg, HC

Note: (1) EV/EBITDA (2) EV/Backlog



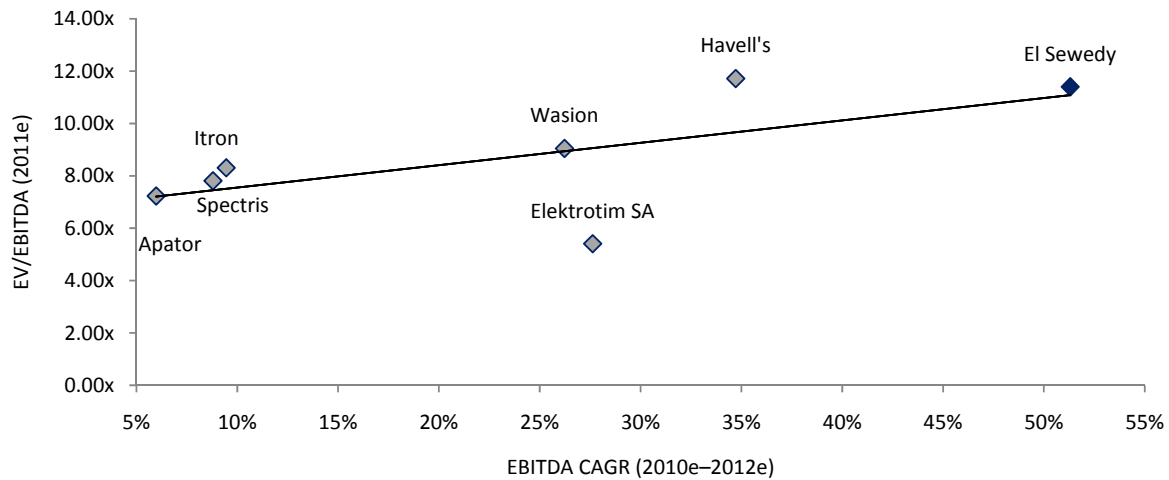
Our valuation-implied EV/EBITDA (2011e) for both the wire and cable and electric products segments is mostly in line with the peer average relative to growth (2010e–2012e) as indicated in charts below.

#### Implied Wire and Cable EV/EBITDA (2011e) is at a Premium to Peers



Source: Bloomberg, HC

#### Implied Electric Products EV/EBITDA (2011e) Mostly in Line with Peers



Source: Bloomberg, HC



## Key Risks for Each Segment

Segment	Upside Risks
<b>Wire and Cable</b>	<ul style="list-style-type: none"> <li>- Lower-than-expected copper prices</li> <li>- Better-than-expected sustainable GP/ton</li> <li>- Improvement in working capital management (shorter days on hand and collection periods)</li> <li>- Reversal of current industry overcapacity situation in MENA</li> <li>- Value-accretive new capacities in underserved countries (sub-Saharan Africa)</li> <li>- Sustainable reduction in debt level</li> </ul>
<b>Electric Products</b>	<ul style="list-style-type: none"> <li>- Start of meter replacement programs in Europe</li> <li>- Faster realization of transformer revenue potential</li> <li>- Official award of smart meter tenders in Europe to Iskraemeco</li> <li>- Better-than-expected margins as meter business restructuring is complete and sales mix improves</li> <li>- Adding new higher-voltage transformer capacities for cross-country transmission</li> <li>- Sustained momentum and/or margins of other electric products (cable accessories, etc.)</li> <li>- Continuity of the relatively favorable competitive situation in transformers</li> </ul>
<b>Turnkey</b>	<ul style="list-style-type: none"> <li>- Significant new contract awards</li> <li>- Better-than-expected sustainable margins</li> </ul>
<b>Wind</b>	<ul style="list-style-type: none"> <li>- Segment starts contributing to numbers</li> <li>- Beginning of production at Egypt turbine and blades plants</li> <li>- Improved economic conditions to re-entice wind farm financing schemes</li> <li>- Securing more wind contracts</li> <li>- Launching wind operations in other countries (Brazil and India are potentials)</li> <li>- Tamer-than-expected impact on margins from already-existing, expensive MTOI inventory</li> <li>- Weak local and regional competition</li> <li>- Strong cross-selling to other segments when the wind business fully launches</li> </ul>

Source: HC



## El Sewedy and its Peers on Multiples

Company	Country	Mkt Cap (USDm)	P/B		P/E			EV/EBITDA			Net Debt/EBITDA		
			2009a	2010e	2009a	2010e	2011e	2009a	2010e	2011e	2009A	2010E	2011e
CABLES													
Nexans	France	2,128	0.78x	0.86x	-	24.06x	12.19x	4.53x	5.70x	4.27x	0.38x	0.75x	0.42x
LEONI	Germany	1,009	1.69x	1.76x	-	14.73x	9.39x	24.14x	5.83x	4.76x	9.86x	2.38x	1.82x
Prysmian	Italy	3,335	3.83x	3.13x	9.88x	14.37x	11.12x	6.46x	7.66x	6.30x	1.10x	1.29x	0.85x
Saudi Cables Company	KSA	313	1.06x	0.88x	11.23x	10.58x	7.05x	11.05x	16.10x	11.63x	5.72x	7.28x	5.99x
Middle East Specialized Cables	KSA	199	1.48x	1.37x	14.63x	9.14x	8.19x	12.02x	10.66x	8.73x	5.96x	6.07x	4.91x
Draka Holding	Netherlands	837	1.05x	1.11x	-	16.39x	9.41x	12.69x	6.39x	5.39x	4.11x	1.99x	1.49x
Oman Cable Industry	Oman	304	2.86x	2.49x	17.52x	14.06x	10.39x	16.68x	11.19x	13.30x	4.21x	2.69x	3.64x
LS Corp	S. Korea	3,442	2.12x	2.17x	18.17x	15.49x	12.47x	17.97x	14.38x	11.32x	0.35x	0.02x	-0.31x
Anixter	USA	1,773	1.78x	1.77x	-	14.45x	12.04x	10.23x	8.26x	7.11x	2.95x	2.38x	1.87x
General Cable	USA	1,367	1.06x	0.94x	12.58x	12.30x	9.41x	4.98x	4.81x	3.80x	1.18x	0.70x	0.21x
MEDIAN			1.59x	1.56x	13.60x	14.41x	9.90x	11.53x	7.96x	6.71x	3.53x	2.18x	1.66x
ELECTRICAL PRODUCTS													
Wasion	Hong Kong	703	2.22x	2.03x	20.82x	17.55x	13.23x	14.82x	12.58x	9.83x	-0.64x	-0.93x	-0.63x
Havell's	India	1,065	11.89x	8.30x	68.81x	64.80x	20.21x	16.94x	17.87x	11.71x	2.82x	3.52x	2.04x
Apator SA (transformers)	Poland	170	3.35x	3.01x	16.47x	10.29x	11.13x	8.70x	7.44x	7.21x	0.78x	0.26x	0.44x
Spectris PLC (meters)	UK	1,926	2.79x	2.62x	28.65x	14.87x	13.05x	13.80x	9.81x	8.65x	1.10x	0.56x	0.18x
Itron (meters)	USA	2,403	1.89x	1.74x	-	16.41x	13.92x	15.26x	9.13x	7.76x	3.29x	1.28x	0.73x
Badger Meter Inc	USA	608	3.96x	3.55x	17.78x	21.82x	19.02x	11.95x	11.20x	9.32x	-0.11x	-0.45x	-0.85x
MEDIAN			3.07x	2.82x	20.82x	16.98x	13.58x	14.31x	10.51x	8.99x	0.94x	0.41x	0.31x
WIND													
Vestas	Denmark	7,605	1.75x	1.55x	-	-	-	-	-	-	-	0.72x	0.27x
Electricite de France International	France	79,955	1.82x	1.91x	15.05x	16.20x	14.02x	6.62x	5.80x	5.57x	3.18x	2.55x	2.47x
Nordex	Germany	615	1.30x	1.24x	18.58x	16.12x	11.43x	5.69x	6.19x	4.91x	-0.93x	-0.43x	0.08x
Repower	Germany	1,416	2.20x	2.27x	17.84x	21.26x	16.54x	7.96x	9.16x	6.97x	-1.54x	-1.01x	-1.49x
Suzlon	India	2,071	1.24x	0.98x	-	-	-	16.43x	14.38x	13.23x	8.44x	7.57x	6.60x
Enel Power	Italy	49,909	1.02x	1.07x	6.80x	8.41x	8.35x	6.54x	5.17x	5.06x	4.18x	2.96x	2.88x
Acciona	Spain	5,365	0.67x	0.68x	3.12x	19.81x	15.62x	10.75x	9.39x	8.52x	6.97x	6.27x	5.81x
Gamesa	Spain	1,674	0.77x	0.76x	10.73x	18.56x	12.93x	3.81x	5.43x	4.47x	0.69x	1.27x	1.06x
MEDIAN			1.27x	1.15x	12.89x	17.38x	13.47x	6.62x	6.19x	5.57x	3.18x	1.91x	1.76x
EL SEWEDY ELECTRIC	Egypt	1,647	2.05x	1.81x	14.28x	11.61x	10.25x	13.27x	9.62x	8.56x	3.55x	2.47x	2.20x

## Wire and Cable

- Cable profitability to remain superior to peers, but company is not entirely immune to MENA overcapacity and competition; assume a sustainable GP/ton of cEGP5,500, c11% below current levels; valuation positively correlated 1-for-1 to GP/ton
- Valuation is negatively correlated to copper prices with uptrend expected to continue; every 1% higher in copper prices lowers our valuation by 2%; we bet on improved working capital management – valuation would be c11% lower should they sustain at current levels
- Value El Sewedy's cable business at EGP32.9/share, 44% of our valuation while remaining largest contributor to consolidated numbers (80% of revenue and 65% of gross profit in 2009, dropping to 67% and 56% by 2014e)

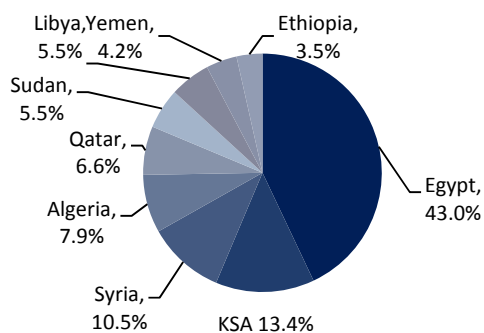
### MENA Region's Largest Cable Player . . .

El Sewedy is currently the MENA region's single-largest cable producer with a total capacity of 203,195 tpa at the end of 2009 spread over eight countries. Cable capacity is expected to increase 34% to 273,050 tpa (227,524 tpa on a proportionate basis) when all capacities are up running. Currently, the only cable plant that is yet to operate is Libya's (discussed below). El Sewedy has a market share of 20%–40% in most markets where it operates with the exception of Saudi Arabia where the company is targeting a market share of 10%.

El Sewedy is a relatively integrated cable player, producing 70%–80% of its processed raw material requirements (namely copper rod, PVC, polypropylene filler, and galvanized steel wire) which helps the group achieve some relative cost advantages. Excess raw material capacities are typically exported but almost all will be utilized internally by early 2012e, according to management.

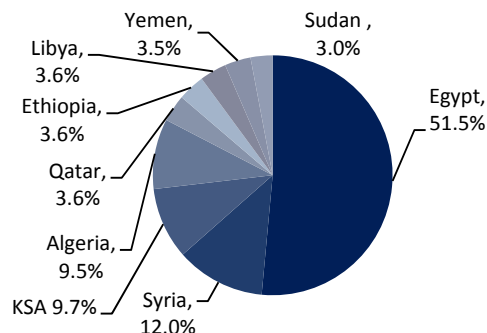
Cables will remain the largest contributor to El Sewedy's business but contribution is expected to drop to 67% of revenue and 56% of gross profit by 2014e from 80% and 65% in 2009 as growth prospects materialize and capacities come on stream for non-cable businesses.

**Total<sup>(1)</sup> Cable Capacity Breakdown by Country**



Source: El Sewedy Electric, HC  
Note: (1) 273,050 tpa

**Proportionate<sup>(1)</sup> Cable Capacity Breakdown by Country**



Source: El Sewedy Electric, HC  
Note: (1) 227,524 tpa



## El Sewedy's Cable Capacities by Country

tpa	2009	2010e	Strategic Rationale
<b>Egypt (99.40%–99.99%)<sup>(1)</sup></b>			Market leader
Copper	84,000	85,800	Company's export hub
Aluminum	31,500	31,500	Low-cost manufacturing base
<b>Total</b>	<b>115,500</b>	<b>117,300</b>	Tax exemption (ends May 2018 for El Sewedy Cables)
<b>Saudi Arabia (60.00%)</b>			
Copper	12,000	30,000	Middle East's largest cable market
Aluminum	1,500	6,600	Preferential treatment of local players
<b>Total</b>	<b>13,500</b>	<b>36,600</b>	
<b>Syria (95.98%)</b>			Low-cost manufacturing base
Copper	24,950	24,950	Huge market share
Aluminum	3,600	3,600	Proximity to export markets: Iraq, Jordan, Lebanon
<b>Total</b>	<b>28,550</b>	<b>28,550</b>	Tax-exemption (ends November 2010)
<b>Algeria (99.64%)</b>			
Copper	13,260	15,060	Market supply deficit
Aluminum	4,510	6,540	15% tariff on imports
<b>Total</b>	<b>17,770</b>	<b>21,600</b>	Five-year tax exemption
<b>Qatar (45.60%)<sup>(2)</sup></b>			
Copper	4,500	18,000	Country's first cable producer
Aluminum	-	-	Import duty exemptions
<b>Total</b>	<b>4,500</b>	<b>18,000</b>	
<b>Sudan (45.00%)</b>			
Copper	6,775	9,000	Country's first and only producer
Aluminum	5,600	6,000	Country is net importer given under-developed infrastructure
<b>Total</b>	<b>12,375</b>	<b>15,000</b>	Partnership with government
			Tax exemption (ends December 2012)
<b>Libya (55.00%)<sup>(3)</sup></b>			
Copper	-	12,000	Country's first high-voltage cable producer
Aluminum	-	3,000	Country is net importer
<b>Total</b>	<b>-</b>	<b>15,000</b>	Partnership with government
			Eight-year tax exemption
<b>Yemen (70.00%)</b>			
Copper	4,000	7,200	Country's first and only producer
Aluminum	2,000	4,200	Seven-year tax exemption
<b>Total</b>	<b>6,000</b>	<b>11,400</b>	
<b>Ethiopia (86.00%)</b>			
Copper	4,000	7,200	Country's first and only producer
Aluminum	1,000	2,400	Two-to-five-year tax exemption
<b>Total</b>	<b>5,000</b>	<b>9,600</b>	
<b>Aggregate</b>			
Copper	153,485	209,210	
Aluminum	49,710	63,840	
<b>Total</b>	<b>203,195</b>	<b>273,050</b>	

Source: El Sewedy Electric, HC

Note: (1) Four cable plants in Egypt: Arab Cables (99.99%), Egytech Cables (99.98%), United Industries (99.98%), and El Sewedy Cables Egypt (99.40%) (2) Qatari business is proportionately consolidated; capacity could go up to c40,000 tons with relatively small investments (3) We assume Libyan operation will begin operations in 2012e given continuous delays



### Supportive Electricity Sector Dynamics in El Sewedy's Key Countries of Operation

Country	Current Capacity	Planned Capacity	Investments	Other Characteristics
Egypt	24kMW	33kMW by 2013 80kMW by 2027	USD100-120bn for both phases	- Gradual privatization of Egypt's electricity sector will introduce independent power projects by turnkey operators like El Sewedy
Saudi	45kMW	65kMW by 2018 (10-year plan)	USD140bn (over USD80bn on power generation capacities)	- Encouraging private-sector participation in electricity projects, with the first private sector plant to be completed by 2013e under a BOO scheme
Algeria	9kMW	11kMW by 2010 20kMW by 2015	N/A	- Government plans to connect an additional 1.3m homes to the national electricity grid by 2014e
Syria	7.2kMW	12.7kMW by 2012	N/A	- Power plants not operating at full capacity due to old age - Supply deficit of c1kMW to reach c1.8kMW by 2012e - Resorting to private-sector participation in electricity generation and transmission sectors
Qatar	6.2kMW	9kMW by 2011	USD3.9bn	- Ras Girtas, Qatar's largest power and water project, with generation capacity of 2.7kMW to be fully completed by 2011e (first phase: 2010e) - Demand for power in Qatar is forecast to almost double, reaching 8kMW by 2013e
Ethiopia	1.5kMW	2.2kMW by 2010 13.3kMW by 2030	N/A	- Only 16% of population has access to electricity - Intending to extend electricity to 20%–30% of the population by 2012e
Sudan	1.2kMW	N/A	N/A	- Only 30% of population has access to electricity

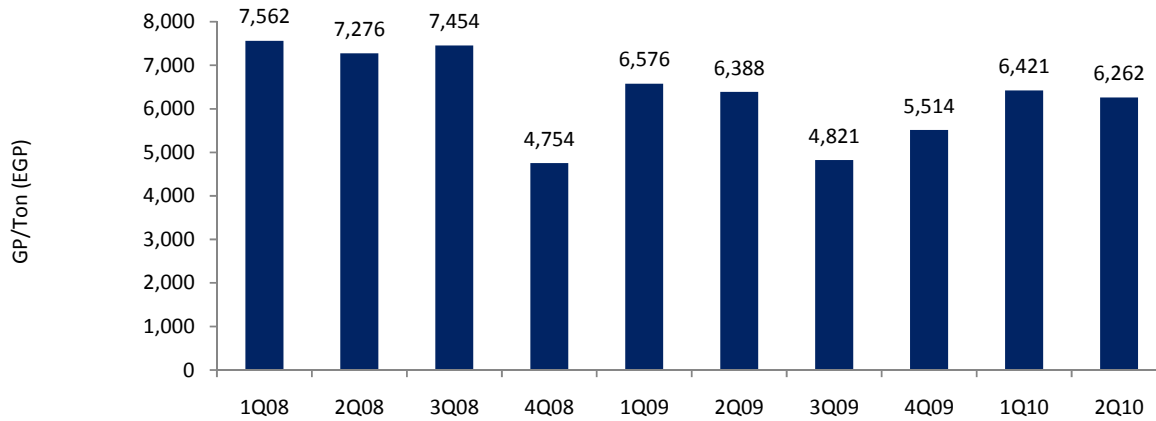
Source: Various country data sources, HC

### Increased Competition and Overcapacity are the Main Threats to MENA Cable Industry

In an industry where clients are price sensitive and producer order books are short term (typically less than six months), increasing competition is a major threat. El Sewedy will indeed continue to benefit from its position as the region's cable industry leader, but is not immune to the worsening competitive situation that has led to (1) lower profitability per ton, and (2) longer average collection periods due to a growing need to offer lenient credit terms to remain competitive.

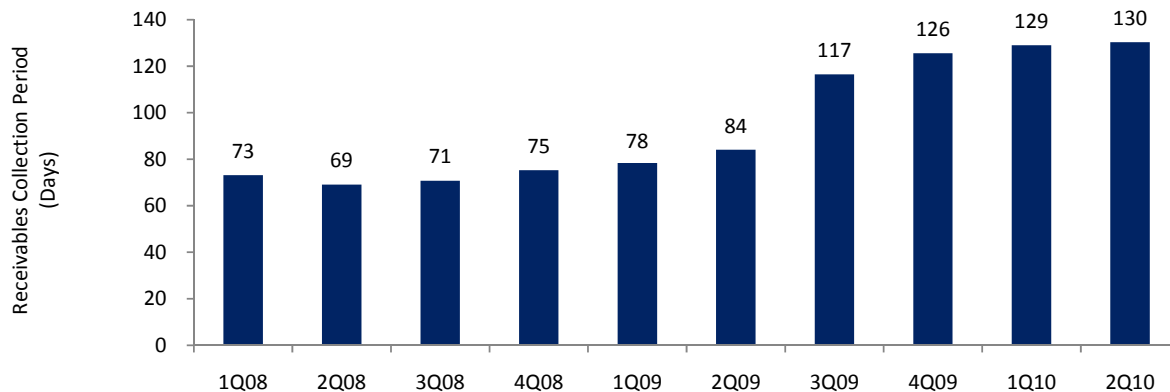


### Current GP/Ton<sup>(1)</sup> Levels Are Over 15% Below 2008 Peaks



Source: El Sewedy Electric, HC  
 Note: (1) Including depreciation

### Receivables Collection Period<sup>(1)</sup> Almost Double 2008 Levels



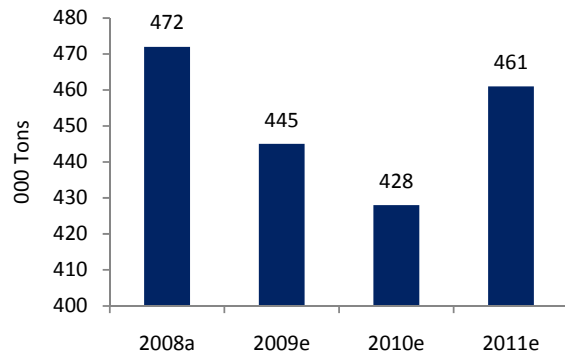
Source: El Sewedy Electric, HC  
 Note: (1) Calculated based on El Sewedy's Wire and Cable sales only

Overcapacity in the MENA region (particularly in the GCC) is the main reason behind the strenuous competition. As a result of a strong surge in demand since 2000, a large number of existing cable players as well as new entrants planned in late 2007/early 2008 the launch of new capacities that started to come on stream with the onset of the global financial crisis. Accordingly, GCC cable capacity is estimated to reach c1 million tpa over the next couple of years, nearly double 2007 levels of 510k tpa – a time when there were only 10 local producers in the GCC dominated by Saudi firms (c50% of GCC capacity). New capacities are coming on stream at a time when demand is struggling – GCC cable demand is expected to continue to slide in 2010e before seeing some rebound in 2011e (see chart below). GCC overcapacity is especially pronounced this year with major capacities coming on stream: over 50k tpa by Saudi Cables and c30k tpa in high-voltage capacity by Dubai Cables (Ducab) through a JV with Dubai Electricity and Water Authority (DEWA) and Abu Dhabi Electricity and Water Authority (ADWEA).



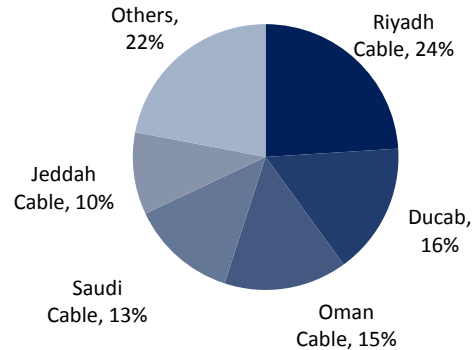


#### GCC Cable Demand to Continue its Slide in 2010e



Source: MEED, CRU, HC

#### GCC Cable Production Value by Company



Source: MEED, CRU, HC

### How is Industry Overcapacity Affecting El Sewedy?

#### GCC Operations (KSA and Qatar): A Matter of Presence

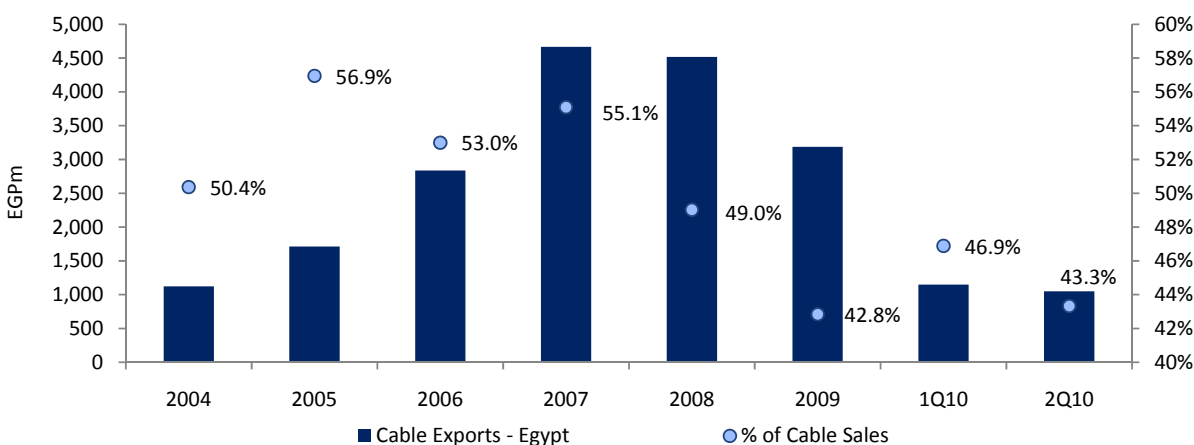
El Sewedy launched soft operations in July 2009 (and full operations this year) at its 60%-owned plant in Saudi Arabia – the crux of the GCC oversupply situation with excess capacity estimated at 50%. We believe cable profitability in the Saudi market, where demand is over 300k tpa, is among the lowest in the region at less than EGP4,500/ton. We believe the decision to exist in Saudi Arabia will pay off in the medium to long run for El Sewedy given (1) the country's huge electricity demand and large public spending plan (2011e cable tenders offered by the government are cSAR3bn), which will eventually benefit local cable players; (2) the relatively small size of El Sewedy's operations compared to peers (such as Riyadh Cables, Saudi Cables, and Jeddah Cables), leading to more manageable overheads that will allow El Sewedy to profitably gain market share (targeting c10% from less than 5% now) in a market with problem-struck players. Management is expecting the Saudi operation to make a small profit this year, exceeding expectations of small losses/breakeven; and (3) that most new supply coming on stream in Saudi Arabia is low voltage compared to El Sewedy's full-range product offering.

Although the market situation is the polar opposite in GCC-peer Qatar, El Sewedy's first-mover advantage will not last long with the impending launch of Qatar International Cable Company, a 10k tpa JV with France's Nexans.

#### Egyptian Operations: The Export Hub

The Egyptian operation remains the largest and most significant value driver for El Sewedy's cable business as it represents 43% of total and 51% of proportionate capacity. It also remains El Sewedy's main export hub with 60%–70% of production exported and 45%–55% of revenue generated through exports. However, the operation is likely to be heavily affected by the regional overcapacity situation mainly due to its relatively heavy exports to the GCC. We expect exports to the GCC to see a drop with the start of El Sewedy's on-the-ground operations this year (Saudi Arabia and Qatar) and the excess supply already in these markets, which is expected to flood other regional markets especially if the situation doesn't improve.

## El Sewedy's Historical Wire and Cable Exports Out of Egypt



Source: El Sewedy Electric, HC

## But Overcapacity is Less Pressing for El Sewedy Versus Peers . . .

Although not fully immune from the overcapacity situation, El Sewedy should fare much better than peers with regards to the matter due to (1) the size and geographical diversification of its operations, which are unmatched in the region; (2) above-average profitability in a number of countries given favorable dynamics such as supply shortages (Algeria, Ethiopia, Libya, Sudan, and Yemen) or proximity to underserved export markets (Egypt and Syria); (3) existing capacities in markets with favorable dynamics being complemented by (higher voltage) excess capacities in other countries of operation. Sudan is one example as it represents only c3% of proportionate capacity but receives a decent chunk of exports from Egypt mainly in medium- and high-voltage cables, thus complementing existing low-voltage capacities; (4) extra-high voltage (up to 400 KV) production capacities (20%–25% of El Sewedy's total capacity), which we believe have much higher profitability per ton and the least price sensitivity compared to lower-voltage alternatives, but longer lead times hamper their revenue recognition a bit; and (5) its sole-producer status in a number of countries – namely Qatar, Ethiopia, Sudan and Yemen – that represent 14% of proportionate capacity.

## . . . Helping El Sewedy Achieve Above-Average Profitability

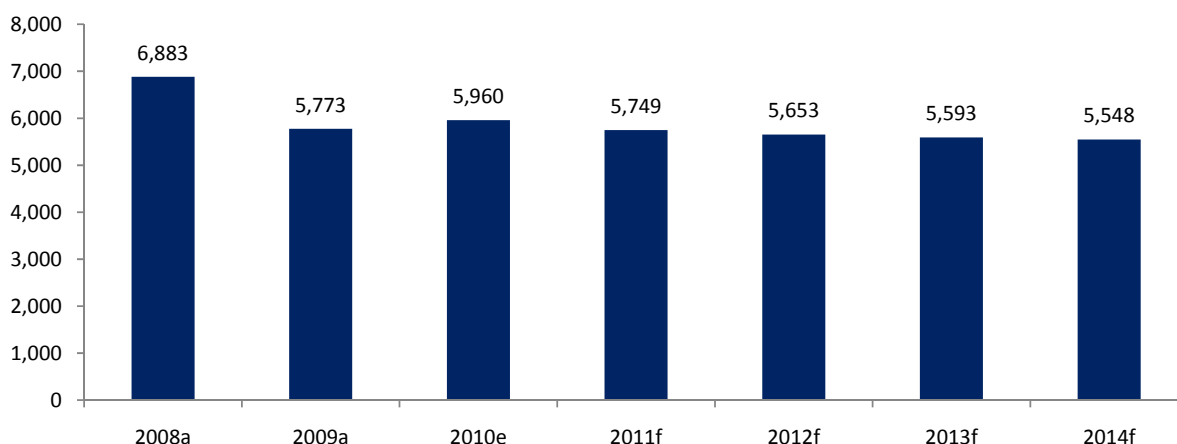
El Sewedy's management has been guiding the market to a GP/ton of EGP4,500 (including depreciation) since the latter part of 2008, which is a very conservative level that the company has actually never achieved. Management recently upped its guidance to EGP5,500–EGP6,000 GP/ton, which is more reasonable in our view.

Although growing competition is a key determinant of profitability, we believe El Sewedy will manage to achieve above-average profitability due to (1) a better product mix with higher profitability achieved on higher voltage cables (especially EHV), (2) a large and growing customer base and better-margin customized orders, and (3) above-average profitability in a number of markets.



Nonetheless, the earlier guidance level of a GP/ton of EGP4,500/ton could be reached in adverse industry times. There is also the materializing risk of capacity in excessively-supplied markets such as Saudi Arabia flooding neighboring markets. Accordingly, we assume a sustainable GP of EGP5,500/ton, which is c11% below 2Q10 levels and c13% below the average over the past 10 quarters. Our valuation is highly sensitive to GP/ton assumption: **every 1% increase in GP/ton from our estimates increases our valuation 1%.**

#### Expecting El Sewedy's Cable GP/ton<sup>(1)</sup> to Sustain at 12% Below Current Levels



Source: El Sewedy Electric, HC  
 Note: (1) Including depreciation

## Cable Capacity Additions

### Libya Cables Remains Only Non-operational Plant

El Sewedy announced in February 2007 that it will establish Libya Cables, a 55%-owned medium- and high-voltage (up to 220 KV) power cable production plant in Tripoli with a capacity of 15k tons at a total investment cost of cUSD64m (EGP365m). The General Electricity Company of Libya and the Libyan Economic Development Fund will collectively own the remaining 45%. The plant, which will be the country's first high-voltage cable manufacturer, was scheduled to start operations in 2H08 but has been plagued with delays. Despite start-up difficulties, El Sewedy still sees Libya as a strategic market where they can capture a reasonable market share, and it is already directing sizeable exports from Egypt to the country. Management is hoping for start-up by early 2011e, but we assume Libya Cables will begin operations in early 2012e as there are still no signs of an imminent start-up.

### Further Major Capacity Expansions Unlikely in Our View

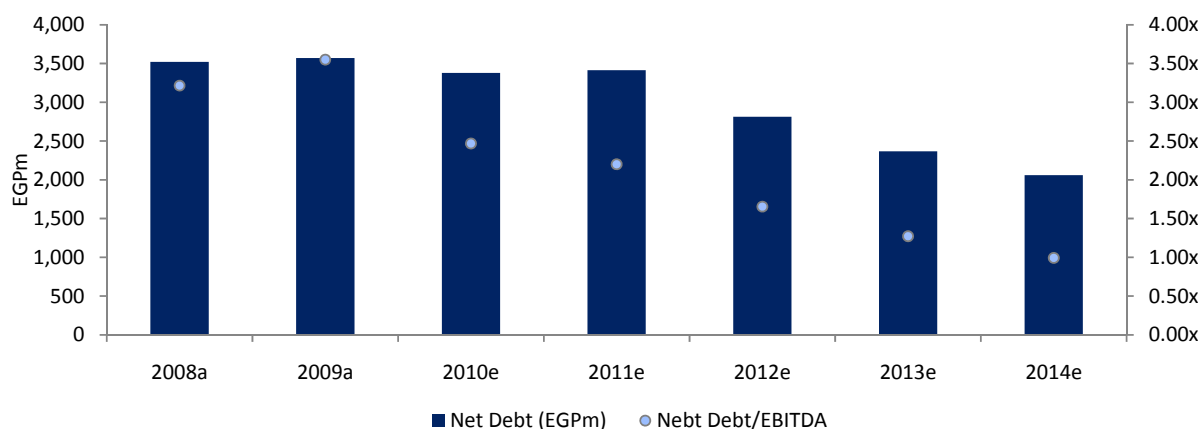
Further expansions into under-penetrated countries are a key catalyst for El Sewedy, but we see this as unlikely in the short to medium term given the large amount of greenfield investments made over the past few years. Management had indicated earlier that further expansions would only be considered after achieving an c80% utilization on existing capacities (translating to an annual production of 220k tons), which will be achieved by 2014e on our numbers.



## Working Capital Requirements and Net Debt are a Drag on the Cable Business Valuation

In the current difficult economic and industry environment, upward movements in copper prices will hamper valuations of MENA cable players due to increasing working capital (reflected in inventory and receivables) and (thus) net debt requirements. Over 65% of El Sewedy's total debt is in overdrafts predominantly used to finance cable business's working capital that increases with higher copper prices – the primary cable feedstock representing 70%–75% of copper cable costs. We estimate El Sewedy's net debt for 2010e to stand at 2.5x EBITDA, above developed peer average of 1.4x.

### El Sewedy's Consolidated Net Debt and Net Debt/EBITDA<sup>(1)</sup>

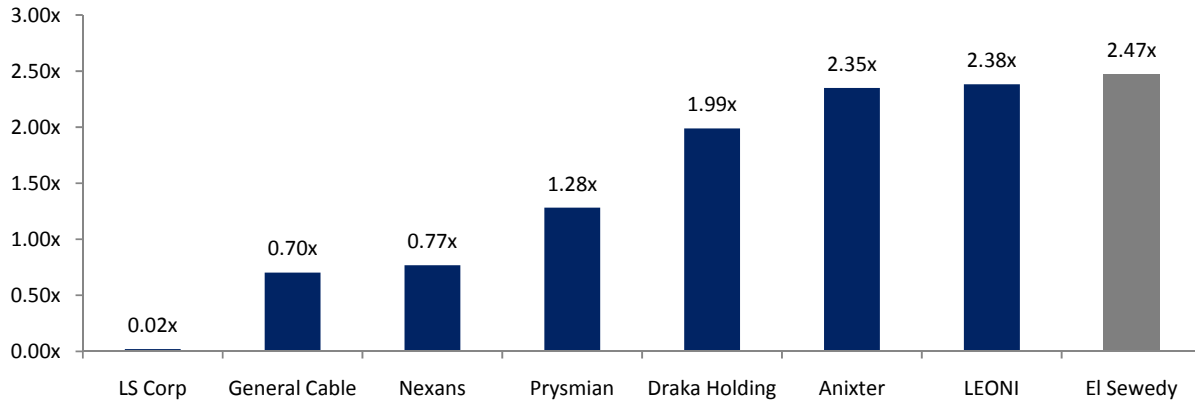


Source: El Sewedy Electric, HC

Note: (1) Debt is net of cash and marketable securities (mostly treasuries)



## El Sewedy's 2010e Net Debt/EBITDA Versus Developed Market Peers\*



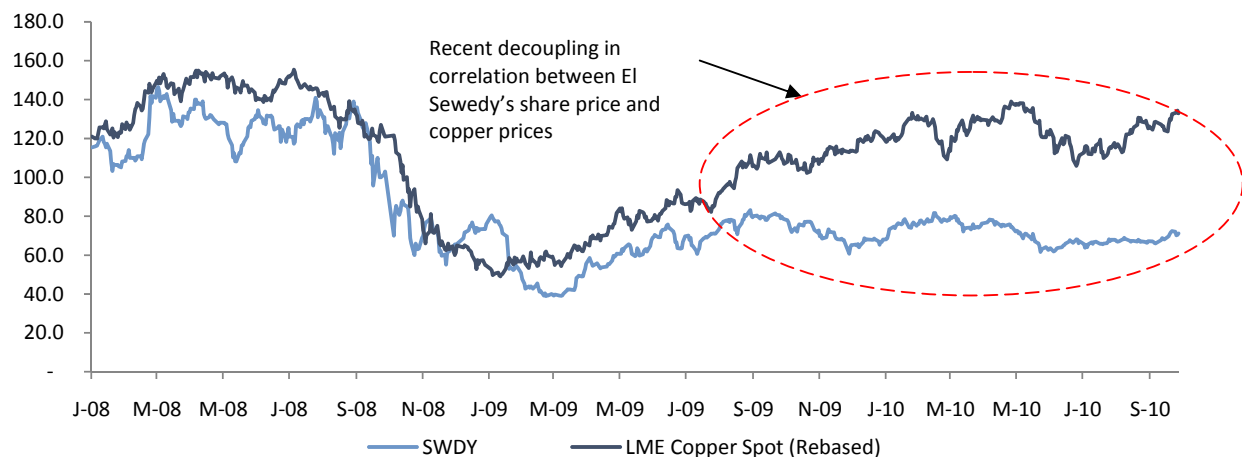
Source: El Sewedy Electric, HC

\*We compare El Sewedy to developed market peers given its size and the geographical diversity of its operation

## Valuation is Negatively Correlated to Copper Prices with a Continued Uptrend Expected

In good economic times, cable players were able to pass on copper price increases with a little leverage, which translated to better profitability that offset the increased debt and working capital investments from a valuation perspective. Currently, pricing power is not as strong and therefore the historical positive correlation between El Sewedy's share price and copper prices has been decoupling (see chart below). Some 23% of El Sewedy's total capacity is in aluminum cables, but aluminum prices are not of concern given that they are much lower than copper prices (cUSD2k/ton versus cUSD7k/ton for copper). Accordingly, our valuation is highly sensitive to changes in copper prices: **every 1% increase in copper prices from our estimates lowers our valuation of El Sewedy 2%.**

## Correlation between El Sewedy's Share Price and Copper Prices

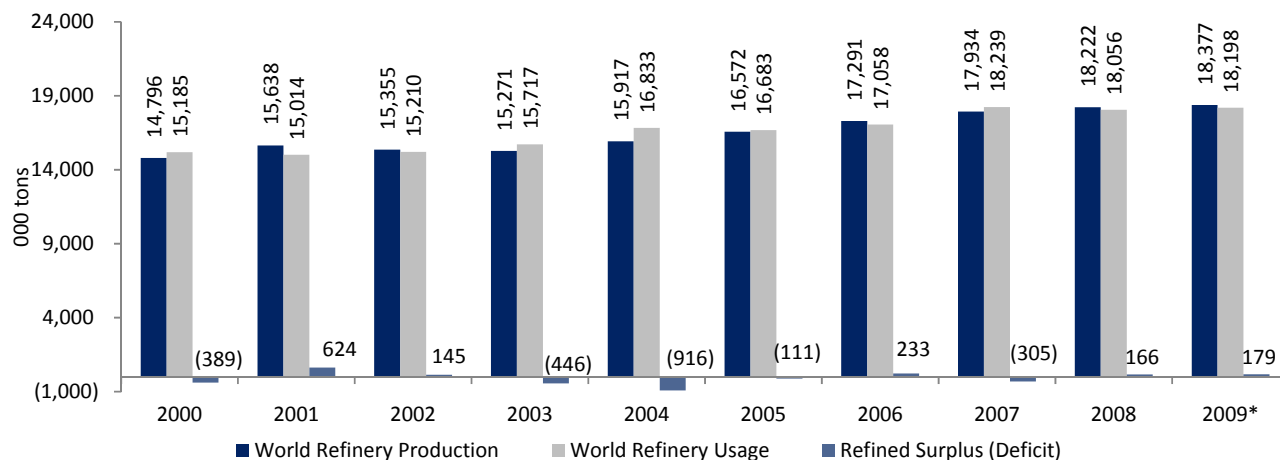


Source: El Sewedy Electric, HC



High valuation sensitivity to copper prices is not any consolation currently with consensus expecting an uptick in prices next year (+9%). The reason is that demand may outstrip supply (estimated deficit of 20k tons) for the first time in four years as China, the world's biggest consumer of refined copper, sustains strong purchases and ore grades deteriorate. Some smelters are expected to reduce production of refined copper later this year by an average of 8%–10% if they continue to face lower grades of ore, declining processing fees, and tight supplies of scrap. This is further confirmed by copper mining and refinery data for the first five months of 2010 where, despite capacity increases, world mine production in the first five months of the year remained almost flat (+1.3%) compared with the same period in 2009. Copper stocks held at the major metal exchanges (LME, COMEX, etc.) at the end of July totaled 608,960 tons, a decrease of 78,731 tons from stocks held at the end of December 2009.

### Global Copper Supply and Demand



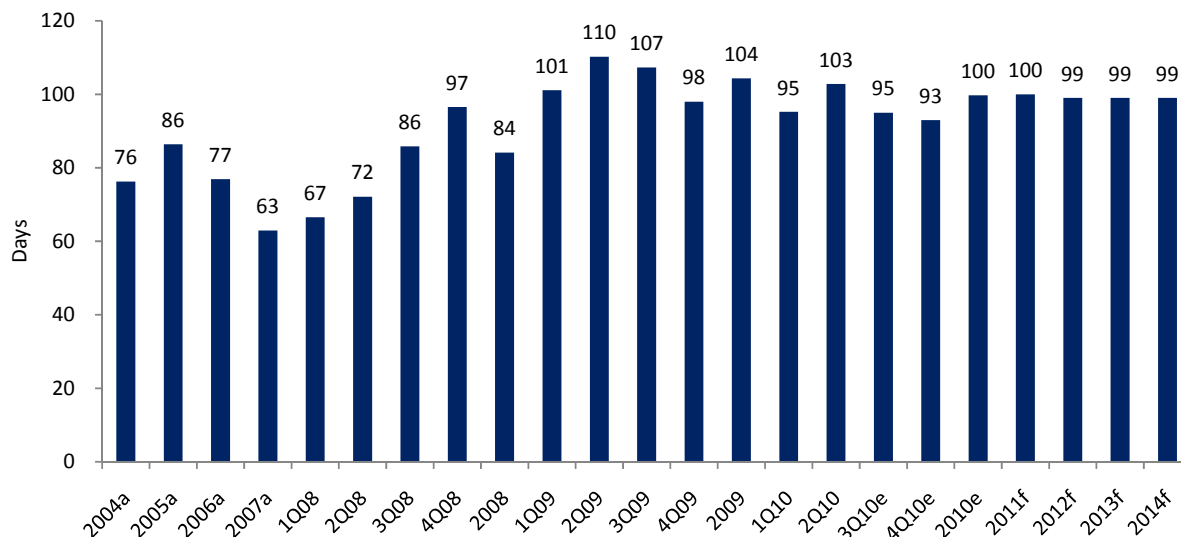
Source: The International Copper Study Group (ICSG), HC

Note: (\*) Provisional

### Our Valuation Bets on an Improvement in Working Capital Management

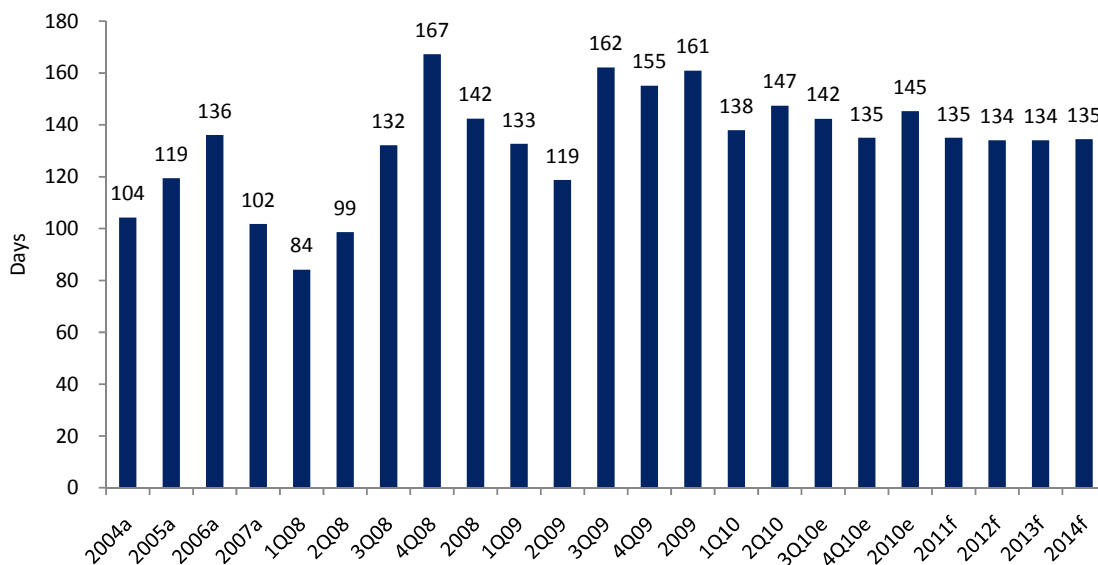
El Sewedy's consolidated receivables collection period in 2Q10 stood at 103 days, 18% above company's historical average since 2004. Inventory days on hand stood at 147, 16% above company's historical average. We assume some improvement in working capital management over our forecast horizon: 4% lower collection periods and 9% lower days on hand. **Should El Sewedy's average collection period and inventory days on hand sustain at current levels, our valuation would drop by c11%.**

**We Assume El Sewedy's Receivables Collection Period <sup>(1)</sup> Will Improve c4% from Current Levels**



Source: El Sewedy Electric, HC  
 Note: (1) Excluding wind revenue

**We Assume El Sewedy's Inventory Days on Hand <sup>(1)</sup> Will Improve c9% from Current Levels**



Source: El Sewedy Electric, HC  
 Note: (1) For the cable segment only



## Valuation and Risks

We value El Sewedy's wire and cable segment at EGP4.34bn (EGP32.9/share). This represents 44% of our total valuation despite the segment contributing over 60% to consolidated revenue and over 50% to consolidated gross profit due to the high net debt and working capital requirements. We apply a WACC of 11.2% (based on weighted-average, risk-free rate of 7.1% according to proportionate capacities by country) to the segment and a perpetual growth rate of 3.0%. Our valuation implies an EV/EBITDA of 7.7x (2010e) and 7.5x (2011e), which is fair in our view compared to peer median of 8.0x (2010e) and 6.7x (2011e).

Key risks are (1) higher-than-expected copper prices, (2) lower-than-expected sustainable GP/ton, (3) failure to improve working capital management with inventory days on hand and collection periods sustaining at or above current levels, (4) prolonged excess capacity situation in the GCC with a demand rebound taking place beyond 2011e, and (5) increased competition in the region with more capacities announced by new and existing players.





## El Sewedy's Wire and Cable Segment Forecasts and Valuation

	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b>Cables</b>							
<b>I. Copper Cables</b>							
Capacity (Tons)	108,353	135,093	184,841	197,210	209,210	209,210	209,210
Sales (Tons)	79,411	111,993	129,894	148,894	156,908	166,322	175,736
Capacity Utilization	73.3%	82.9%	70.3%	75.5%	75.0%	79.5%	84.0%
Copper Price/Ton (USD) <sup>(1)</sup>	6,896	5,173	7,182	7,825	7,538	7,269	6,977
Gross Profit/Ton (EGP) <sup>(2)</sup>	6,369	5,271	5,150	4,950	4,800	4,724	4,667
<b>Revenue (EGPm)</b>	<b>5,402</b>	<b>5,415</b>	<b>7,476</b>	<b>9,514</b>	<b>9,663</b>	<b>9,893</b>	<b>10,057</b>
<b>COGS (EGPm)</b>	<b>(4,896)</b>	<b>(4,825)</b>	<b>(6,807)</b>	<b>(8,777)</b>	<b>(8,910)</b>	<b>(9,108)</b>	<b>(9,237)</b>
<b>Gross Profit (EGPm)<sup>(2)</sup></b>	<b>506</b>	<b>590</b>	<b>669</b>	<b>737</b>	<b>753</b>	<b>786</b>	<b>820</b>
<b>II. Aluminum Cables</b>							
Capacity (Tons)	34,050	38,731	54,711	60,840	63,840	63,840	63,840
Sales (Tons)	24,687	23,423	28,388	33,462	38,304	41,496	44,688
Capacity Utilization	72.5%	60.5%	51.9%	55.0%	60.0%	65.0%	70.0%
Aluminum Price/Ton (USD) <sup>(1)</sup>	2,625	1,589	2,143	2,247	2,329	2,398	2,453
Gross Profit/Ton (EGP) <sup>(2)</sup>	6,006	6,226	7,993	7,793	7,743	7,693	7,643
<b>Revenue (EGPm)</b>	<b>1,184</b>	<b>1,069</b>	<b>1,132</b>	<b>1,379</b>	<b>1,623</b>	<b>1,799</b>	<b>1,971</b>
<b>COGS (EGPm)</b>	<b>(1,036)</b>	<b>(923)</b>	<b>(905)</b>	<b>(1,118)</b>	<b>(1,326)</b>	<b>(1,480)</b>	<b>(1,630)</b>
<b>Gross Profit (EGPm)<sup>(2)</sup></b>	<b>148</b>	<b>146</b>	<b>227</b>	<b>261</b>	<b>297</b>	<b>319</b>	<b>342</b>
<b>Others<sup>(3)</sup></b>							
<b>Revenue (EGPm)</b>	<b>1,104</b>	<b>1,104</b>	<b>700</b>	<b>735</b>	<b>772</b>	<b>811</b>	<b>851</b>
<b>COGS (EGPm)</b>	<b>(1,041)</b>	<b>(1,058)</b>	<b>(653)</b>	<b>(685)</b>	<b>(718)</b>	<b>(753)</b>	<b>(790)</b>
<b>Gross Profit (EGPm)<sup>(2)</sup></b>	<b>63</b>	<b>46</b>	<b>48</b>	<b>51</b>	<b>54</b>	<b>57</b>	<b>61</b>
Total Cable Capacity (Tons)	142,403	173,824	239,552	258,050	273,050	273,050	273,050
Total Cable Sales (Tons)	104,099	135,416	158,282	182,356	195,212	207,818	220,424
Capacity Utilization	73.1%	77.9%	66.1%	70.7%	71.5%	76.1%	80.7%
<b>Gross Profit/Ton (EGP)<sup>(2)</sup></b>	<b>6,886</b>	<b>5,773</b>	<b>5,960</b>	<b>5,749</b>	<b>5,653</b>	<b>5,593</b>	<b>5,548</b>
<b>Gross Profit/Ton Ex. Depn. (EGP)</b>	<b>7,652</b>	<b>6,682</b>	<b>7,048</b>	<b>6,817</b>	<b>6,682</b>	<b>6,590</b>	<b>6,519</b>
<b>Raw Materials</b>							
<b>I. Copper Rods</b>							
Capacity (Tons)	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Sales (Tons)	123,317	136,999	129,861	120,000	120,000	120,000	120,000
Capacity Utilization	102.8%	114.2%	108.2%	100.0%	100.0%	100.0%	100.0%
<b>Revenue (EGPm)</b>	<b>5,333</b>	<b>4,295</b>	<b>5,483</b>	<b>5,625</b>	<b>5,421</b>	<b>5,236</b>	<b>5,037</b>
<b>COGS (EGPm)</b>	<b>(5,186)</b>	<b>(4,171)</b>	<b>(5,275)</b>	<b>(5,483)</b>	<b>(5,282)</b>	<b>(5,094)</b>	<b>(4,889)</b>
<b>Gross Profit (EGPm)<sup>(2)</sup></b>	<b>147</b>	<b>124</b>	<b>207</b>	<b>141</b>	<b>139</b>	<b>142</b>	<b>148</b>
<b>II. PVC</b>							
Capacity (Tons)	81,480	100,000	97,800	97,800	97,800	97,800	97,800
Sales (Tons)	71,552	86,829	76,268	78,240	78,240	78,240	78,240
Capacity Utilization	87.8%	86.8%	78.0%	80.0%	80.0%	80.0%	80.0%
<b>Revenue (EGPm)</b>	<b>612</b>	<b>561</b>	<b>566</b>	<b>586</b>	<b>592</b>	<b>598</b>	<b>604</b>
<b>COGS (EGPm)</b>	<b>(502)</b>	<b>(499)</b>	<b>(470)</b>	<b>(487)</b>	<b>(492)</b>	<b>(497)</b>	<b>(502)</b>
<b>Gross Profit (EGPm)<sup>(2)</sup></b>	<b>110</b>	<b>62</b>	<b>96</b>	<b>99</b>	<b>100</b>	<b>101</b>	<b>102</b>
<b>III. Raw Steel</b>							
Capacity (Tons)	17,538	10,662	14,400	14,400	14,400	14,400	14,400
Sales (Tons)	15,028	9,309	11,420	11,520	11,520	11,520	11,520
Capacity Utilization	85.7%	87.3%	79.3%	80.0%	80.0%	80.0%	80.0%
<b>Revenue (EGPm)</b>	<b>90</b>	<b>54</b>	<b>71</b>	<b>73</b>	<b>73</b>	<b>74</b>	<b>75</b>
<b>COGS (EGPm)</b>	<b>(62)</b>	<b>(47)</b>	<b>(64)</b>	<b>(65)</b>	<b>(65)</b>	<b>(66)</b>	<b>(67)</b>
<b>Gross Profit (EGPm)<sup>(2)</sup></b>	<b>28</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>

Continued on next page



	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b>Gross Revenue (EGPm)</b>	<b>13,725</b>	<b>12,458</b>	<b>15,427</b>	<b>17,911</b>	<b>18,145</b>	<b>18,411</b>	<b>18,596</b>
Intersegment Revenue (EGPm)	(4,514)	(5,020)	(5,540)	(6,253)	(6,335)	(6,428)	(6,492)
<b>Net Revenue (EGPm)</b>	<b>9,211</b>	<b>7,438</b>	<b>9,887</b>	<b>11,658</b>	<b>11,810</b>	<b>11,983</b>	<b>12,103</b>
COGS (EGPm)	(8,220)	(6,450)	(8,637)	(10,362)	(10,460)	(10,570)	(10,622)
<b>Gross Profit (EGPm)<sup>(2)</sup></b>	<b>991</b>	<b>988</b>	<b>1,250</b>	<b>1,296</b>	<b>1,350</b>	<b>1,414</b>	<b>1,481</b>
Depreciation (EGPm)	(94)	(145)	(203)	(229)	(236)	(244)	(252)
<b>Gross Profit Ex. Depn. (EGPm)</b>	<b>1,085</b>	<b>1,133</b>	<b>1,453</b>	<b>1,526</b>	<b>1,587</b>	<b>1,657</b>	<b>1,733</b>
<i>Gross Margin</i>	<i>11.8%</i>	<i>15.2%</i>	<i>14.7%</i>	<i>13.1%</i>	<i>13.4%</i>	<i>13.8%</i>	<i>14.3%</i>
Selling and Marketing Exp. (EGPm)	(161)	(243)	(261)	(284)	(288)	(292)	(295)
G&A Expenses (EGPm) <sup>(4)</sup>	(178)	(203)	(233)	(258)	(262)	(265)	(268)
<b>EBITDA (EGPm)</b>	<b>746</b>	<b>687</b>	<b>959</b>	<b>983</b>	<b>1,037</b>	<b>1,100</b>	<b>1,170</b>
<i>EBITDA Margin</i>	<i>8.1%</i>	<i>9.2%</i>	<i>9.7%</i>	<i>8.4%</i>	<i>8.8%</i>	<i>9.2%</i>	<i>9.7%</i>
Taxes (EGPm) <sup>(5)</sup>	(16)	(27)	(68)	(86)	(111)	(140)	(173)
Working Cap. Inv. (EGPm) <sup>(5)</sup>	(1,433)	714	(322)	(430)	20	(53)	(49)
CAPEX (EGPm)	(915)	(1,020)	(353)	(408)	(236)	(242)	(248)
<b>Free Cash Flows (EGPm)</b>	<b>(1,618)</b>	<b>354</b>	<b>216</b>	<b>60</b>	<b>710</b>	<b>665</b>	<b>699</b>
Risk-Free Rate	7.1%						
Beta	1.00						
Equity Risk Premium	6.5%						
<b>Cost of Equity</b>	<b>13.6%</b>						
Equity Weight	65.0%						
Cost of Debt	8.3%						
Tax Rate	20.0%						
<b>After-Tax Cost of Debt</b>	<b>6.6%</b>						
Debt Weight	35.0%						
<b>WACC</b>	<b>11.2%</b>						
<b>Terminal Growth Rate</b>	<b>3.0%</b>						
<b>PV of FCFs</b>			211	52	560	471	446
<b>Terminal Value</b>							8,831
<b>Enterprise Value (EGPm)</b>	<b>7,373</b>						
Net Debt (EGPm) <sup>(6)</sup>	2,466						
Minority Interest (EGPm) <sup>(7)</sup>	563						
<b>Equity Value (EGPm)</b>	<b>4,344</b>						
<b>Value/Share (EGPm)</b>	<b>32.86</b>						

Source: El Sewedy Electric, HC

Note: (1) Based on Bloomberg consensus estimates (2) Gross profit including depreciation (3) Others include fiber optic cables (4) G&A expenses are allocated to segments based on some historical disclosures with holding company G&A costs proportionately allocated to segments (5) Taxes and working capital investments are allocated to segments based on segment's contribution to consolidated sales (6) Assuming segment's net debt is 73% of total based on old disclosures. Debt is net of cash and marketable securities (mostly treasuries) (7) Assuming segment's minority interest is 85% of total (2009 minority balance + discounted additions over forecast period).



## Turnkey Projects

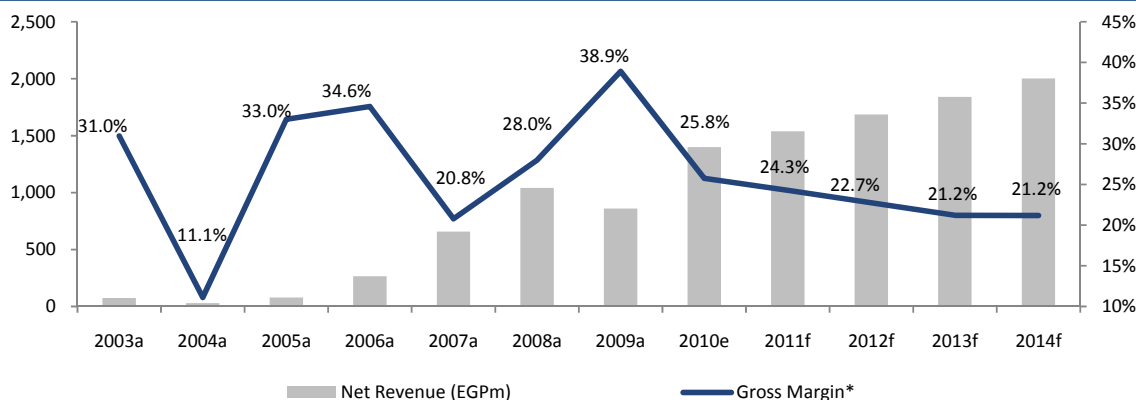
- We believe this segment has strong gross margins that historically averaged above 25% (ex-depreciation) and have been consistently improving as El Sewedy executes higher-voltage projects and diversifies geographically
- Recent backlog weakness – June 2010 backlog of cUSD510m (EGP2.9bn) is 25% lower than previous guidance – is a concern, but management attributes the drop to taking a conservative approach to reflect some project delays
- Value turnkey business at EGP18.5/share, 25% of total valuation; valuation assumes significant additions to backlog from current levels (0.97x implied EV/backlog)

### Segment has Strong Margins . . .

Turnkey segment (aka Engineering and Contracting) offers a one-stop-shop for clients as El Sewedy undertakes large power generation, distribution, and transmission projects from the design and engineering to contracting, installation, and delivery. The division has historically focused on Egypt, Algeria, and some other African countries, but the company has been looking to venture into other Arab countries such as Saudi Arabia and some new African markets such as Rwanda and Zambia. The vast majority of the segment's client base is utilities.

Turnkey margins tend to be very volatile but have historically averaged above 25% (ex-depreciation). Margins are partly a function of the countries of execution and project nature. El Sewedy has seen its order book skew over time to better-margin, higher-voltage projects while achieving decent geographical diversification. These factors have significantly improved margins with 2009 seeing a record-high gross margin of 38.9%. Also, margins tend to be affected by cost fluctuations as many contracts don't allow for passing on raw material cost increases that occur between the time of contract award and execution. However, raw materials typically average 50% of the contract value and there is usually not a huge lag until execution starts. Management is targeting sustainable margins in the 20%–25% range. We assume a sustainable margin of c21%, which is below the segment's historical average.

El Sewedy's Turnkey Revenue and Gross Margins<sup>(1)</sup>



Source: El Sewedy Electric, HC  
 Note: (1) Excluding Depreciation



### **. . . but Recent Backlog Weakness is a Concern**

El Sewedy's turnkey backlog stood at cUSD510m (EGP2.9bn) in June 2010, which is 25% lower than previous guidance of EGP3.85bn in December 2009. Although the recent weakness is a concern, management attributes it largely to a more conservative approach to backlog reporting, opting to exclude projects that have been seeing delays without providing more details. Our numbers assume that El Sewedy will book revenues over our forecast horizon that are equivalent to nearly three-times the current backlog.

### **Valuation and Risks**

We value El Sewedy's turnkey segment at EGP2.44bn (EGP18.5/share), which represents 24% of our total valuation for El Sewedy. We apply a WACC of 11.9% to the segment and a perpetual growth rate of 3.0%. Our valuation implies an EV/backlog of 0.97x, which appears rich compared to a peer average of 0.50x, but we opt to give the company the benefit of the doubt given segment's solid recent performance. Thus, our turnkey segment valuation is contingent on significant backlog additions (nearly double the current backlog) over our forecast horizon.

Key risks are (1) sustained backlog weakness and (2) lower-than-expected sustainable margins.



## El Sewedy's Turnkey Segment Forecasts and Valuation

	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b>Gross Revenue (EGPm)</b>	<b>1,070</b>	<b>1,271</b>	<b>1,554</b>	<b>1,707</b>	<b>1,870</b>	<b>2,042</b>	<b>2,222</b>
Intersegment Revenue (EGPm)	(29)	(411)	(154)	(169)	(185)	(202)	(220)
<b>Net Revenue (EGPm)</b>	<b>1,040</b>	<b>860</b>	<b>1,400</b>	<b>1,539</b>	<b>1,685</b>	<b>1,840</b>	<b>2,003</b>
CoGS (EGPm)	(753)	(533)	(1,056)	(1,183)	(1,321)	(1,470)	(1,600)
<b>Gross Profit (EGPm)</b>	<b>287</b>	<b>327</b>	<b>345</b>	<b>356</b>	<b>364</b>	<b>370</b>	<b>403</b>
Depreciation (EGPm)	(4)	(8)	(16)	(18)	(19)	(20)	(22)
<b>Gross Profit Ex. Depn (EGPm)</b>	<b>291</b>	<b>335</b>	<b>361</b>	<b>374</b>	<b>383</b>	<b>390</b>	<b>424</b>
<i>Gross Margin</i>	<i>28.0%</i>	<i>38.9%</i>	<i>25.8%</i>	<i>24.3%</i>	<i>22.7%</i>	<i>21.2%</i>	<i>21.2%</i>
Selling & Marketing Exp. (EGPm)	(0)	(24)	(26)	(28)	(29)	(31)	(34)
G&A Expenses (EGPm) <sup>(1)</sup>	(20)	(20)	(28)	(30)	(33)	(36)	(39)
<b>EBITDA (EGPm)</b>	<b>271</b>	<b>291</b>	<b>307</b>	<b>316</b>	<b>321</b>	<b>324</b>	<b>352</b>
<i>EBITDA Margin</i>	<i>26.1%</i>	<i>33.8%</i>	<i>21.9%</i>	<i>20.5%</i>	<i>19.1%</i>	<i>17.6%</i>	<i>17.6%</i>
Taxes (EGPm) <sup>(2)</sup>	(2)	(3)	(10)	(11)	(16)	(21)	(29)
Working Cap. Inv. (EGPm) <sup>(2)</sup>	(170)	79	(26)	(57)	3	(8)	(8)
CAPEX (EGPm)	(27)	(36)	(82)	(38)	(42)	(46)	(50)
<b>Free Cash Flows (EGPm)</b>	<b>72</b>	<b>331</b>	<b>189</b>	<b>209</b>	<b>266</b>	<b>248</b>	<b>265</b>
Risk-Free Rate	8.3%						
Beta	1.00						
Equity Risk Premium	6.5%						
<b>Cost of Equity</b>	<b>14.8%</b>						
Equity Weight	65.0%						
Cost of Debt	8.3%						
Tax Rate	20.0%						
<b>After-Tax Cost of Debt</b>	<b>6.6%</b>						
Debt Weight	35.0%						
<b>WACC</b>	<b>11.9%</b>						
<b>Terminal Growth Rate</b>	<b>3.0%</b>						
<b>PV of FCFs</b>			183	182	207	172	164
<b>Terminal Value</b>							3,067
<b>Enterprise Value (EGPm)</b>	<b>2,811</b>						
Net Debt (EGPm) <sup>(3)</sup>	372						
Minority Interest (EGPm) <sup>(4)</sup>	-						
<b>Equity Value (EGPm)</b>	<b>2,439</b>						
<b>Value/Share (EGPm)</b>	<b>18.45</b>						

Source: El Sewedy Electric, HC

Note: (1) G&A expenses are allocated to segments based on some historical disclosures with holding company, G&A costs proportionately allocated to segments (2) Taxes and working capital investments are allocated to segments based on segment's contribution to consolidated sales (3) Assuming segment's net debt is 11% of total based on old disclosures. Debt is net of cash and marketable securities (mostly treasuries) (4) Segment has no minority interest.



## Electric Products (Meters and Transformers)

- Meter business, the segment's primary value driver, is yet to realize its potential with continued delays in Europe's substitution to digital meters
- Transformer sales are slowly materializing as El Sewedy works on meeting pre-qualification requirements, but could surprise in near term given seemingly decent order book
- Value El Sewedy's electric products business at EGP17.8/share, 24% of our total valuation; segment has high operating leverage and so ramp up in revenue is detrimental to realizing potential

### Meters: European Replacements Still Facing Delays

#### The Iskraemeco Acquisition . . .

El Sewedy acquired in December 2007 97.55% of Slovenian electrometers manufacturer Iskraemeco for cEUR38m (EGP308m). Iskraemeco is the third-largest European electrometers manufacturer and the seventh-largest globally with a market share of c4%. It has a presence in over 100 countries with facilities in Slovenia, India, and Malaysia. After the acquisition, El Sewedy began a number of restructuring measures to cut costs including implementing a shift in the supplier mix and moving the production of more labor-intensive mechanical meters to Egypt from Slovenia. El Sewedy's combined meter capacity will stand at c5m units.

#### . . . to Capitalize on Europe's Electromechanical Meters Replacement Program . . .

The Iskraemeco acquisition was aimed primarily at capitalizing on government-initiated replacement projects in Europe to convert households and businesses from traditional electromechanical to smart meters that remotely measure, record, communicate, and control energy consumption. Smart meters currently constitute only c4% of the c1.3bn electrometers in the world and are expected to constitute c18% by 2015e. Global smart meter revenue is thus expected to exceed USD3.8bn by 2015e, nearly four times 2008 levels.

The European Union (EU) aims to have 80% smart meter coverage by 2020 to meet its target of improving energy efficiency by 20%, which creates an opportunity for c350–400m meters out of the replacement business alone. France's replacements are estimated at EUR4.5bn. Iskraemeco is one of three companies chosen for France's pilot program with a tender to be launched at a later stage. The UK's replacements are set to take place over 10 years and are estimated at GBP9bn. Europe's replacement programs are expected to be replicated in other parts of the world with the GCC already expressing interest.



### Key EU Meter Replacement Programs

Country	Size of Replacement	Time Frame
<b>France</b> (Electricite Reseau Distribution France)	35m PLC connected meters	- 300k meter pilot currently in place - Commences in 2012e to 2016e with peak replacements of 35k meters/day
<b>United Kingdom</b> (Energy Retail Association)	47m meters	- Starts July 2012e and ends by 2020e
<b>Italy</b> (ENEL)	36m PLC and GSM connected meters	Commenced in 2008 with completion in 2011e
<b>Germany</b> (RWE and Echelon)	N/A	Mandatory for all new or remodeled homes to include smart meters by 2010e
<b>Spain</b> (Endesa, Iberdrola and EON-Viesgo)	24m meters	- 150,000 meters installed - Three pilot projects held by three utility providers - Commenced in 2008 with completion in 2018e
<b>Bosnia Herzegovina</b>	200k PLC connected meters	Small pilot ongoing
<b>Ireland</b> (Northern Ireland Electricity)	2m meters	- 25k meter pilot - EUR1bn plan to have all homes smart-meter enabled by 2013e
<b>Finland</b> (Finnish Regional Electricity Utility)	3.1m meters	- Commenced in 2008 with completion in 2012e - Targeting full penetration by 2014e
<b>Denmark</b> (Danish Utility)	800k meters	N/A
<b>Sweden</b> (Gothenburg Energy)	1m meters	N/A
<b>Austria</b> (Energie AG)	Up to 400k meters	10k meter pilot 2010e: 100k meters 2014e: 400k meters
<b>Serbia</b> (Elektrovojvodina)	830k meters	Two Automated Meter Reading (AMR) pilot projects 2010e: 30k meters 2020e: 830k meters

Source: Smart Metering Projects Map, Energy Retail Association (UK), European Smart Metering Alliance, HC

### ... that Has Been Plagued with Delays

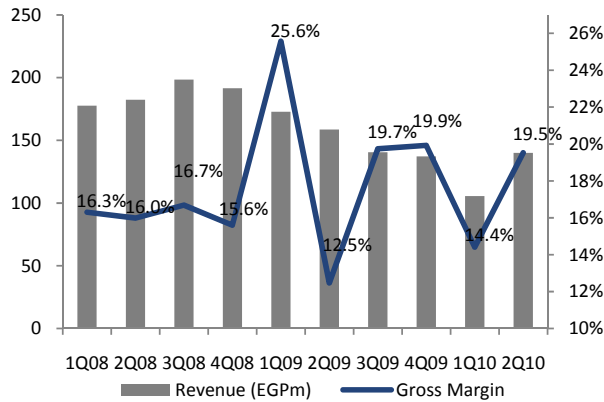
Small-scale substitution has begun in some parts of Europe (mainly Scandinavia), but implementation in Middle and Central Europe has been for the most part delayed on weakening economic conditions. We believe El Sewedy's meter sales are likely to remain hampered until late 2011e at best.

El Sewedy's meter revenue has thus been losing momentum as replacements are continually delayed. To keep production rolling, El Sewedy has been targeting new markets (mainly in Africa) where clients seek less sophisticated, lower-priced products. The full transfer of induction-meter production to Egypt has not yet taken place given weak European demand for smart meters. Accordingly, the Egyptian plant is only running a single shift.

We forecast decent meter revenue growth at a CAGR of 17% (2009a–2014e), assuming sustainable capacity utilization in excess of 80% from c47% in 2010e. We believe it is unlikely that Iskraemeco will not take part in the EU's major smart-meter tenders given its best-in-class status. We forecast margins to sustain at c24% from c20% currently as the sales mix improves and induction meters are fully relocated to Egypt's facility.



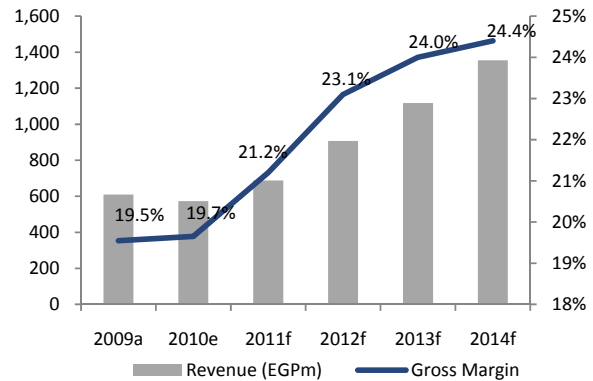
### Meter Sales Losing Momentum on Replacement Delays<sup>(1)</sup>



Source: El Sewedy Electric, HC

Note: (1) Gross margin includes depreciation

### Forecasting a Meter Revenue CAGR of c17%<sup>(1)</sup>



Source: El Sewedy Electric, HC

(1) Gross margin includes depreciation

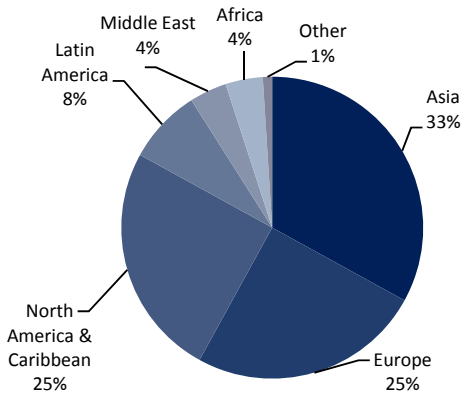
## Transformers: Strong Potential Slowly Materializing

### El Sewedy's Diverse Transformer Product Range Capitalizes on Solid Industrial Demand

We believe there is a promising market for transformers in the MENA estimated at c75 GV (cUSD1bn in revenue terms) with demand driven by a growing population and high industrial demand, especially from the oil and gas industry. El Sewedy offers a wide range of transformers allowing the company to serve several customers. Dry-type transformers (up to 15 MVA, 36 KV), which are produced from cast resin and are inflammable/self-extinguishing, are used in locations where safety is of great importance such as high-rises, hospitals, wind farms, airports, and commercial complexes. Oil-immersed power transformers (up to 200 MVA, 220 KV) serve utilities and heavy industries. El Sewedy also produces oil-immersed distribution transformers (from 25 KVA to 5,000 KVA with primary voltage up to 33 KV).

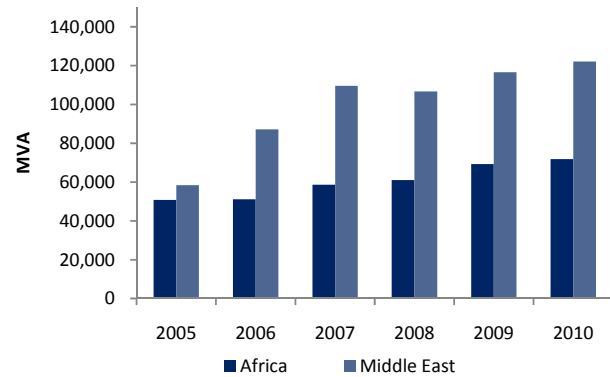


### Middle East and Africa Transformer Market is c8% of Global Transformer Industry . . .



Source: IWCC, HC

### . . . and Produces Over 190k MVA of Power Transformers



Source: IWCC, HC

### Egypt and Syria Plants are the Key Drivers

El Sewedy has transformer plants in five countries – Egypt, Nigeria, Sudan, Syria, and Zambia – with a first-mover advantage in each and a total capacity of 13k MVA. By pioneering transformer production in these countries and in many cases partnering with local governments, El Sewedy enjoys tax exemptions and low-cost production. Like with cables, Egypt's plant is the key business driver, representing 66% of transformer capacity, and serves as the transformer operations' export hub to the Middle East and Africa. It is also El Sewedy's only plant that produces power transformers. Syria follows (22% of capacity) and serves as an export hub to neighboring Iraq.

### El Sewedy's Transformer Capacities by Country

Country	Stake	Existing Capacity (MVA)	Strategic Rationale
<b>Egypt</b>	100%	8,550	Country's first and only power transformers producer Export hub Low-cost manufacturing base Ten-year tax exemption
<b>Syria</b>	94%	2,800	Country's first and only transformers producer Proximity to Iraq Low-cost manufacturing base Tax-exemption (ends October 2011)
<b>Nigeria</b>	95%	750	Country's first and only transformers producer Partnership with the government Two-year tax exemption
<b>Sudan</b>	70%	450	Country's first and only transformers producer Partnership with the government
<b>Zambia</b>	60%	450	Country's first and only transformers producer Country is a net importer Partnership with the government One of partners – ZESCO Ltd. – is main client Two-to-five-year tax exemption

Source: El Sewedy Electric, HC

## Favorable Competitive Environment

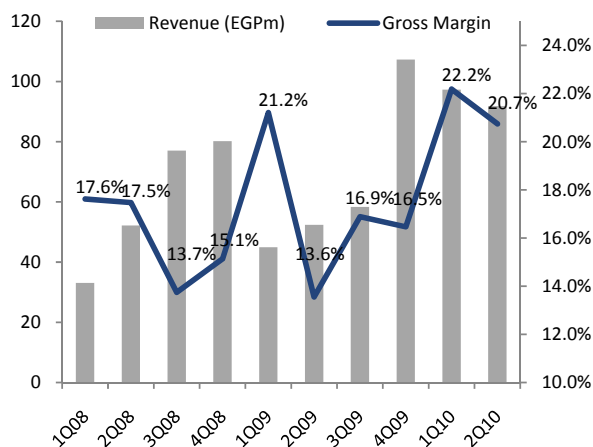
The overall transformer competitive situation is a minor concern at this point (especially compared to the cable business) given minimal competition from within the region. In Egypt, dry-type distribution transformers are facing moderate competition from small-sized local players. El Sewedy is the only high-voltage power transformer producer in the country, facing some competition from international players from China, India, etc. Competition is also stiffening in Syria, impacting margins, but sales from higher-margin operations in Nigeria and Zambia (c9% of capacity) should help offset such a risk. Worth noting, El Sewedy could add new transformer capacities that provide the capability to produce units that can be used in cross-country transmission (300 KV).

## Transformer Sales are Slowly Materializing, Could Surprise

Transformer sales are slowly materializing for El Sewedy due to very harsh pre-qualification and feasibility requirements, particularly for power transformers. Pre-qualification entails obtaining certification for different types of transformers, which can be a very long process, as well as third-party references. Management estimates that it could take about two years to have solid pre-qualification credentials. However, we believe transformer sales could surprise in the near term as Egypt's transformer plant – the business's core value driver – has a solid order book (size not disclosed) that is keeping the plant operating near full capacity.

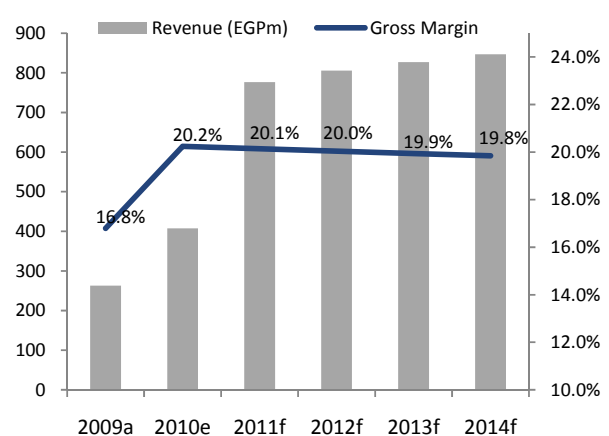
Transformer sales saw a strong pick-up starting 4Q09 (cEGP100m versus average historical quarterly average run rate of cEGP55m) as the majority of capacities came on stream. We expect transformer sales to grow at a CAGR of 25% (2009a–2014e) as utilization improves to c95% from c29% currently as the company meets pre-qualification requirements.

### Transformer Revenue Picked Up as Capacities Came on Stream. . . <sup>(1)</sup>



Source: El Sewedy Electric, HC  
 Note: (1) Gross margin includes depreciation

### . . . and We Expect it to Grow at a c25% CAGR as Utilization Improves<sup>(1)</sup>



Source: El Sewedy Electric, HC  
 Note: (1) Gross margin includes depreciation



## Valuation and Risks

We value El Sewedy's electric products segment at EGP2.35bn (EGP17.76/share), which represents 24% of our total valuation. We apply a WACC of 11.2% to the segment, which takes into account the European meter facilities, and a perpetual growth rate of 3.5%. Our valuation implies an EV/EBITDA of 22.4x (2010e) and 12.4x (2011e), which appears rich compared to the peer median of 10.5x in 2010e and 9.0x in 2011e. Thus, our electric products segment valuation is highly contingent on realizing potential for both meters (with the start of EU replacements) and transformers (with the completion of certification requirements). A key concern is that the segment has the highest operating leverage for El Sewedy (despite a solid gross margin of c27% in 2009, EBITDA margin was in low single digits), which is a spillover from the Iskraemeco acquisition, hence the segment's multiples will remain expensive until revenue ramps up.

Key risks are (1) continued delays to meter replacements in Europe, (2) transformer business certifications taking longer than expected, (3) new on-the-ground competition, which is a medium-term risk for transformers in our view, (4) weaker-than-expected margins as the sales mix skews to low-margin items and Iskraemeco restructuring benefits prove less than estimated, and (5) weakening of other electric products' (such as cable accessories) revenue momentum and/or margins (21% of segment's revenue and 28% of gross profit in 2009).



## El Sewedy's Electric Products Segment Forecasts & Valuation

	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b>Meters</b>							
Capacity (m Units)	3.33	3.86	4.65	4.91	4.91	4.91	4.91
Sales (m Units)	2.22	2.02	2.25	2.87	3.36	3.73	3.97
Capacity Utilization	70.8%	50.9%	47.3%	58.3%	68.3%	75.8%	80.8%
Price/Unit (EGP)	337	301	255	240	270	300	341
Revenue (EGPm)	750	609	574	688	907	1,118	1,354
COGS (EGPm)	(629)	(490)	(458)	(542)	(697)	(850)	(1,024)
Gross Profit (EGPm) <sup>(1)</sup>	121	119	116	146	209	268	330
Gross Margin	16.1%	19.5%	20.2%	21.2%	23.1%	24.0%	24.4%
<b>Transformers</b>							
Capacity (MVA)	1,618	5,749	12,829	13,000	13,000	13,000	13,000
Sales (MVA)	1,386	2,352	3,696	9,750	11,050	11,700	12,350
Capacity Utilization	89.8%	42.1%	28.8%	75.0%	85.0%	90.0%	95.0%
Price/MVA (EGP)	175,543	111,779	110,190	79,671	72,883	70,697	68,576
Revenue (EGPm)	243	263	407	777	805	827	847
COGS (EGPm)	(205)	(219)	(325)	(620)	(644)	(662)	(679)
Gross Profit (EGPm) <sup>(1)</sup>	38	44	82	156	161	165	168
Gross Margin	15.5%	16.8%	20.2%	20.1%	20.0%	19.9%	19.8%
<b>Others<sup>(2)</sup></b>							
Revenue (EGPm)	278	233	404	424	446	468	491
COGS (EGPm)	(189)	(168)	(294)	(312)	(331)	(351)	(372)
Gross Profit (EGPm) <sup>(1)</sup>	90	65	110	112	115	117	119
Gross Margin	32.2%	27.9%	27.2%	26.5%	25.7%	25.0%	24.2%
<b>Gross Revenue (EGPm)</b>	<b>1,272</b>	<b>1,105</b>	<b>1,385</b>	<b>1,889</b>	<b>2,158</b>	<b>2,413</b>	<b>2,693</b>
Intersegment Revenue (EGPm)	(77)	(112)	(184)	(255)	(291)	(326)	(364)
<b>Net Revenue (EGPm)</b>	<b>1,194</b>	<b>993</b>	<b>1,202</b>	<b>1,634</b>	<b>1,866</b>	<b>2,087</b>	<b>2,329</b>
COGS (EGPm)	(945)	(765)	(893)	(1,219)	(1,381)	(1,537)	(1,712)
<b>Gross Profit (EGPm)</b>	<b>249</b>	<b>228</b>	<b>308</b>	<b>415</b>	<b>486</b>	<b>550</b>	<b>618</b>
Depreciation (EGPm)	(36)	(40)	(51)	(62)	(65)	(68)	(71)
<b>Gross Profit Ex. Depn. (EGPm)</b>	<b>285</b>	<b>268</b>	<b>359</b>	<b>477</b>	<b>550</b>	<b>618</b>	<b>689</b>
Gross Margin	23.8%	27.0%	29.9%	29.2%	29.5%	29.6%	29.6%
Selling and Market. Exp. (EGPm)	(68)	(65)	(67)	(72)	(77)	(81)	(86)
G&A Expenses (EGPm) <sup>(3)</sup>	(138)	(159)	(164)	(172)	(178)	(187)	(197)
<b>EBITDA (EGPm)</b>	<b>79</b>	<b>44</b>	<b>129</b>	<b>234</b>	<b>295</b>	<b>349</b>	<b>406</b>
EBITDA Margin	6.6%	4.4%	10.7%	14.3%	15.8%	16.7%	17.4%
Taxes (EGPm) <sup>(4)</sup>	(2)	(4)	(8)	(12)	(18)	(24)	(33)
Working Cap. Inv. (EGPm) <sup>(4)</sup>	(175)	88	(38)	(60)	3	(9)	(9)
CAPEX (EGPm)	(98)	(233)	(103)	(74)	(77)	(83)	(91)
<b>Free Cash Flows (EGPm)</b>	<b>(197)</b>	<b>(105)</b>	<b>(20)</b>	<b>88</b>	<b>204</b>	<b>232</b>	<b>272</b>

Continued on next page



	2008a	2009a	2010e	2011e	2012e	2013e	2014e
Risk-Free Rate	7.2%						
Beta	1.00						
Equity Risk Premium	6.5%						
<b>Cost of Equity</b>	<b>13.7%</b>						
Equity Weight	65.0%						
Cost of Debt	8.3%						
Tax Rate	20.0%						
<b>After-Tax Cost of Debt</b>	<b>6.6%</b>						
Debt Weight	35.0%						
<b>WACC</b>	<b>11.2%</b>						
<b>Terminal Growth Rate</b>	<b>3.5%</b>						
<b>PV of FCFs</b>			(20)	77	161	165	173
<b>Terminal Value</b>							<b>2,331</b>
<b>Enterprise Value (EGPm)</b>	<b>2,887</b>						
Net Debt (EGPm) <sup>(5)</sup>	473						
Minority Interest (EGPm) <sup>(6)</sup>	66						
<b>Equity Value (EGPm)</b>	<b>2,348</b>						
<b>Value/Share (EGPm)</b>	<b>17.76</b>						

Source: El Sewedy Electric, HC

Note: (1) Gross profit including depreciation (2) Others include a number of items such as cable accessories, insulators and fiber glass poles (3) G&A expenses are allocated to segments based on some historical disclosures with holding company G&A costs proportionately allocated to segments (4) Taxes and working capital investments are allocated to segments based on segment's contribution to consolidated sales (5) Assuming segment's net debt is 14% of total based on old disclosures. Debt is net of cash and marketable securities (mostly treasuries) (6) Assuming segment's minority interest is 10% of total (2009 minority balance + discounted additions over forecast period)



## Wind Energy

- El Sewedy's venture into the wind energy sector in late 2008 capitalizes on strong potential in the MENA and Egypt in particular as the country is targeting to generate c12% of electricity from wind by 2020e from c1% currently
- Consistent delays in light of the current investment climate led the company to delay its Egypt wind turbine plant, the segment's key value driver; backlog of EUR120m with first major contribution expected in 2011e
- We value El Sewedy's wind segment at cost of EGP658m or EGP5.0/share (7% of total), which we believe is fair at this stage of the segment's development; including Egypt's turbine plant would add c27% to our valuation

### Aiming to Be a Leading Regional Wind Energy Player . . .

El Sewedy made a series of strategic transactions in 2008 (detailed below) to form its wind energy group. The company currently has capacities to produce wind turbines and towers. El Sewedy also has a wind farm development division is involved in the construction, operation, and maintenance of wind farms. It is also involved in project management and the sale of electricity to third parties. The wind segment will help secure demand for El Sewedy's other products including cables and electric products.

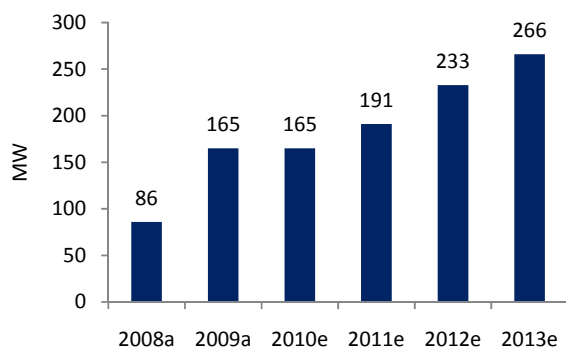
The venture will make El Sewedy one of the region's first and leading producers of wind energy components, capitalizing on significant first-mover advantages like tax exemptions and the potential to build Egypt's first privately-owned wind farm. El Sewedy will also sell wind products to European and regional markets, benefitting from a number of free trade agreements with African, Arab, and European countries.

#### (1) Manual Torres Olvega Industrial (MTOI)

Spain's MTOI, a subsidiary of M. Torres Group, is a manufacturer of multi-pole, best-in-their-class gearless wind turbines, which are considered the most important component in wind-energy generation. MTOI generated cEUR17m in revenue in 2008 with a 16%–17% EBITDA margin. El Sewedy initially acquired 30% of the wind energy division for a total deal value of EUR40m with the option to acquire the remaining 70% by March 2011 provided MTOI achieves some technical milestones. El Sewedy renegotiated in March 2010 the option terms and increased its stake to 90% through financing the settlement of MTOI's bank liabilities through a EUR22m participative loan plus a EUR9m contingent credit line. MTOI thus currently stands debt free.

MTOI is producing 1.65MW turbines and is gradually shifting to 2.5MW turbines that should be ready by early 2011e, which are more efficient, have a higher energy-generation capacity and will mainly target European and US markets. El Sewedy will utilize MTOI's technology to build a wind-turbine production facility in Egypt with a capacity of 215 units per annum to serve Egypt and North Africa. Plans were to have the Egyptian facility ready this year, but it was delayed due to a slow start to the wind segment.

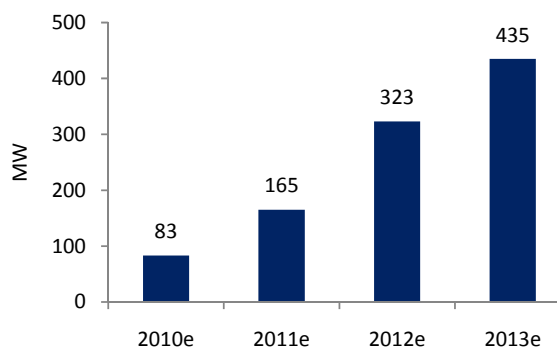
**MTOI's Wind Turbine Capacity<sup>(1)</sup>**



Source: El Sewedy Electric, HC

Note: (1) Based on guidance issued in late 2009

**El Sewedy's Wind Turbine Egypt Capacity<sup>(1)</sup>**



Source: El Sewedy Electric, HC

Note: (1) Based on guidance issued in late 2009; Egypt's turbine plant is currently on hold

## (2) Siag El Sewedy for Towers (SET)

SET is a 49%-owned, EUR20m wind tower production JV with Schaaf Industrie Aktiengesellschaft (SIAG), a leading German wind-tower manufacturer active in four European countries. Towers are the core element for wind turbine erection and installation. The new plant, located at Ain El Sokhna on Egypt's Red Sea Coast, is SIAG's first major investment outside Europe. The plant began operations this year, and total production capacity is expected to reach 256 towers per annum by 2012e.

## (3) Power System Projects (PSP)

PSP is a 75%-owned Egyptian electrical engineering company specialized in power generation projects. It was acquired to assist in executing turnkey projects.

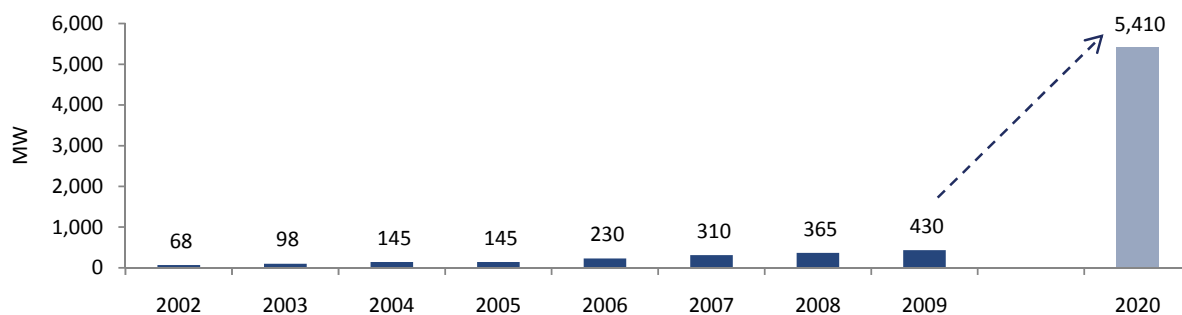
## ... Capitalizing on Supportive Sector Dynamics Particularly in Egypt

Wind energy currently contributes c1% to Egypt's electricity, and the Egyptian Supreme Energy Council approved in February 2008 a plan to generate 20% of the country's electricity (c7,200MW) from renewable sources by 2020e, including 12% from wind energy, implying additions of 4,980MW to the country's current wind-generation capacities. The government has earmarked 7,600 sqkm of desert land for implementing wind energy projects and granted all land allocation permits to the New and Renewable Energy Authority (NREA). To support the local wind industry, the government requires a portion of wind-farm components to be sourced locally. The Egyptian Electricity Transmission Company (EETC) will buy the electricity generated by wind farms under long-term Power Purchase Agreements (discussed below).

The government's focus on wind as the main source of renewable energy makes perfect sense given several factors: (1) The country's geographical location allows it to enjoy favorable wind speeds. The Gulf of Suez stands out with one of the highest wind speeds in the MENA region. Wind speeds reach 8.5 m/s on average at Zafarana and 10.5 m/s at Gulf El Zayt. Other promising sites include the Aqaba shorelines and the Eastern and Western

deserts; (2) The low cost of generating electricity from above-average wind speeds (c4–6 Euro cents/KWH); (3) The abundance of land with otherwise low economic value in the country; (4) The availability of cheap labor to operate wind energy farms; (5) The increasing export potential of energy to Europe given higher demands for renewable energy in the continent in line with the Kyoto protocol; (6) The lower social costs for generating electricity from wind (0.05-0.25 Euro cents/KWH versus 1.1-3.0 Euro cents/KWH for gas power stations); and (7) Solar energy, an alternative renewable energy source, can be up to three times more expensive compared to wind energy.

#### Egypt's Wind Energy Capacity is Estimated to Grow Nearly 13-Times by 2020



Source: El Sewedy Electric, NREA, HC

Egypt's wind energy sector development is planned to take place over two phases. The **first phase (ending 2012e)** will involve capacity additions of 200MW per annum through projects owned by NREA and supported by foreign financing/grants (including an EGP1.1bn subsidized loan provided by the World Bank in July 2009, a EUR50m provided by the European Investment Bank in October 2009, and a USD432m soft loan provided by the Japanese government).

The **second phase (post 2012e)** will involve the private sector stepping in, thus boosting capacity additions to 400MW–1,000MW per annum. Encouraging private-sector contribution in wind energy generation will be done gradually through (1) adopting a competitive-bids approach through issuing international tenders to the private sector against long-term guaranteed Power Purchase Agreements (PPAs) with the government to reduce financial risk for investors, and (2) introducing feed-in-tariffs – an incentive-based pricing structure generally applied by governments in renewable energy sectors at their early phases of development where the government guarantees the purchase of the energy at above-market prices to ensure cost coverage – which will be based on prices realized in the PPAs and will be gradually phased out as market penetration rises.





## Completed and Planned Wind Energy Projects in Egypt

### Completed Projects

Wind Farm	Year of Inception	In Cooperation with	Capacity (MW)	
Hurgahda	1993	Denmark, Germany, USA	5	Egypt's Total Installed Wind Capacity (2009) = <b>430MW</b>
Zafarana (Phases 1–7)	2001	Denmark, Germany, Japan, Spain	425	

### Projects Under Construction

Wind Farm	Tentative Date of Completion	In Cooperation with	Capacity (MW)	
Zafarana (Phase 8)	Early 2011	Denmark (DANIDA)	120	<b>Phase I:</b> In Cooperation with Development Associations
Gabal Al-Zayt	2011	Italy	400	
Gulf of Al-Zayt	April 2013	European Investment Bank – Germany	200	
Gulf of Al-Zayt	April 2010	Japan	220	
Gulf of Suez (Phase 1)	N/A	Spain	300 (Over Three Phases)	
Gulf of Suez	2014	Private sector developers (BOO scheme), World Bank	250	<b>Phase II: Private Sector Participation</b>
Gulf of Aqaba	N/A Announced July 2010	Private sector developers (BOO scheme)	1,000	

Source: GWEC, NREA, Zawya Projects, HC



## **Blades are Missing for El Sewedy to Source Entire Wind Mill Components**

Blades are still the missing component in El Sewedy's wind product range, but the company is looking to establish a blade factory in Egypt with an investment cost of cEUR8m. Initial blade capacity is targeted at c129 sets per annum from two moulds. The main difficulty with a blades facility is the large size of the blades (typically over 40 meters long). Adding blades to the product range will enable El Sewedy to provide a complete wind mill for its customers. We don't expect plans for a blades factory to be revived any time soon in light of the challenges that the segment is currently facing.

## **Challenges Still Abound: cEUR120m Backlog with First Contribution in 2011e**

El Sewedy's wind energy division has still not significantly contributed to numbers given (1) the long cycle for wind farm development, (2) large financing requirements for wind-farm development that the current economic environment is not conducive to, and (3) strong competition caused by a slowdown in the wind sector, especially in Europe.

Wind started contributing minimally to numbers in 2010e (cEGP10m in revenue in 1H10 mainly in maintenance revenue from MTOI), and we don't expect any major contribution to numbers before 4Q10e at the earliest. The current backlog is cEUR120m (cEGP870m) comprised of (1) an EUR82m EPC project in Libya to develop a 60MW wind farm to begin execution in 4Q10e with wind turbines for the project already in stock (MTOI has cEUR60m in inventory), pending preparation of the site and some other logistical issues, and (2) a EUR38m order for 22 turbines (36MW) in Spain to be delivered by the end of 2011e. El Sewedy is currently on the lookout for orders in diverse locales including Africa, Eastern Europe, Latin America, and Pakistan (a 50MW project) with MoUs signed for developing c250MW. Management expects to sign two more orders before the end of the year be delivered over the next two years.

El Sewedy (as part of consortium) was shortlisted among ten developers for the development of Egypt's first private-sector 250MW wind farm on a BOO basis in the Gulf of Suez (for more details refer to the *Wind Energy Sector: An Overview* section). The winning bidder will not be announced before 2011e but if won, the project could keep El Sewedy's wind factories busy for up to three years, according to management. Even if El Sewedy's consortium doesn't win, the company is bound to benefit from the wind farm through supplying components, in our opinion.

## **Valuation and Risks**

We value El Sewedy's Wind segment at cost (MTOI's purchase price plus tower investments) of EGP658m (EGP5.0/share), which represents 7% of our total valuation for El Sewedy. We believe it is fair to value the wind segment at cost at this stage (or even not discount it altogether) until it starts contributing to numbers. Additionally, Egypt's turbine plant, the segment's core value driver, is currently on hold and, accordingly, valuing just Spain's turbine capacities plus Egypt's tower plant would yield a value close to cost (see valuation table below).



A jumpstart to the segment's contribution to consolidated numbers is the primary catalyst for El Sewedy's share price in the medium term, in our view. **Should the Egyptian turbine plant begin sales by 2012e** and ramp up capacity until 2014e operating at a terminal year utilization rate of 75%, **this would add EGP20.0/share (c27%) to our total valuation** (see table below). Another catalyst is the potential launch of wind operations in other counties (Brazil and India are possibilities), which should not require substantial investments since knowhow is the key. We apply a WACC of 11.0% to the segment, which accounts for MTOL's capacities in Spain, and a perpetual growth rate of 3.5% to reflect strong long-term potential for wind energy in MENA and Egypt from which El Sewedy is bound to benefit.

Key risks are (1) prolonged delays in the wind segment's contribution to numbers as economic conditions remain non-conducive for wind farm financing, (2) initially weaker-than-expected margins when the segment starts due to some expensive MTOL's inventory built back in 2008, (3) increased local and regional competition that could hamper El Sewedy's ability to secure decent wind contracts, and (4) weak cross selling to El Sewedy's other segments when the wind business fully launched.



## El Sewedy's Wind Segment Forecasts and Valuation

EGPm	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b>Turbine – MTOI</b>							
Capacity (MW)	-	-	-	191	233	265	265
Sales (MW)	-	-	-	60	91	129	204
Capacity Utilization	-	-	-	31.5%	39.1%	48.7%	77.0%
Price/MW	-	-	-	7.35	7.35	7.35	7.35
Revenue	-	-	-	441	669	946	1,498
COGS	-	-	-	(392)	(595)	(842)	(1,333)
Gross Profit <sup>(1)</sup>	-	-	-	49	74	104	165
Gross Margin	-	-	-	11.0%	11.0%	11.0%	11.0%
<b>Towers</b>							
Capacity (Units)	-	-	-	113	128	128	128
Sales (Units)	-	-	-	45	77	102	122
Capacity Utilization	-	-	-	40.0%	60.0%	80.0%	95.0%
Price/MW	-	-	-	1.86	1.86	1.86	1.86
Revenue	-	-	-	84	142	190	226
COGS	-	-	-	(64)	(104)	(130)	(154)
Gross Profit <sup>(1)</sup>	-	-	-	20	38	60	71
Gross Margin	-	-	-	23.7%	26.9%	31.6%	31.6%
Net Revenue	-	-	21	525	811	1,136	1,723
COGS	-	-	(10)	(456)	(699)	(972)	(1,487)
Gross Profit	-	-	11	68	112	164	236
Depreciation	-	-	(7)	(10)	(11)	(13)	(14)
Gross Profit Ex. Depn.	-	-	18	79	123	177	250
Gross Margin	-	-	84.4%	15.0%	15.2%	15.5%	14.5%
Selling and Marketing Exp.	-	-	-	(5)	(8)	(11)	(17)
G&A Expenses <sup>(2)</sup>	-	(16)	(44)	(55)	(67)	(78)	(86)
EBITDA	-	(16)	(26)	18	48	87	147
EBITDA Margin	-	N/A	N/A	3.5%	5.9%	7.6%	8.5%
Taxes <sup>(3)</sup>	-	-	(0)	(4)	(8)	(13)	(25)
Working Cap. Inv. <sup>(3)</sup>	-	-	(2)	(19)	1	(5)	(7)
CAPEX	-	-	-	(26)	(32)	(34)	(34)
Free Cash Flows	-	(16)	(28)	(31)	9	34	80
Risk-Free Rate	6.8%						
Beta	1.00						
Equity Risk Premium	6.5%						
Cost of Equity	13.3%						
Equity Weight	65.0%						
Cost of Debt	8.3%						
Tax Rate	20.0%						
After-Tax Cost of Debt	6.6%						
Debt Weight	35.0%						
WACC	11.0%						
Terminal Growth Rate	3.5%						
PV of FCFs			(27)	(27)	7	25	52
Terminal Value							1,116
Enterprise Value	746						
Net Debt <sup>(4)</sup>	68						
Minority Interest <sup>(5)</sup>	33						
Equity Value	645						
Value/Share	4.88						
Cost	658						
Value/Share	4.98						

Source: El Sewedy Electric, HC

Note: (1) Gross profit includes depreciation (2) G&A expenses allocated to segments based on historical disclosures with holding company G&A costs proportionately allocated to segments (3) Taxes and working capital investments allocated to segments based on contribution to consolidated sales (4) Assuming segment's net debt is 2% of total based on old disclosures; debt is net of cash and marketable securities (mostly treasuries) (5) Assuming segment's minority interest is 5% of total (2009 minority balance + discounted additions over forecast period)



**Potential Incremental Value from Egypt's Turbine Plant<sup>(1)</sup>**

EGPm	2008a	2009a	2010e	2011e	2012e	2013e	2014e
<b><i>Turbines – Egypt</i></b>							
Capacity (MW)	-	-	-	-	208	403	436
Sales (MW)	-	-	-	-	52	201	327
Capacity Utilization	-	-	-	-	25.0%	50.0%	75.0%
Price/MW	-	-	-	-	7.35	7.35	7.35
<b>Revenue</b>	-	-	-	-	<b>381</b>	<b>1,479</b>	<b>2,401</b>
<b>COGS</b>	-	-	-	-	<b>(301)</b>	<b>(1,169)</b>	<b>(1,897)</b>
<b>Gross Profit</b>	-	-	-	-	<b>80</b>	<b>311</b>	<b>504</b>
<i>Gross Margin</i>	-	-	-	-	21.0%	21.0%	21.0%
<b><i>Incremental:</i></b>							
Depreciation	-	-	-	-	(1)	(1)	(2)
<b>Gross Profit Ex. Depn.</b>	-	-	-	-	<b>81</b>	<b>311</b>	<b>506</b>
Selling and Marketing Exp.	-	-	-	-	(4)	(15)	(24)
G&A Expenses	-	-	-	-	(32)	(102)	(120)
<b>EBITDA</b>	-	-	-	-	<b>45</b>	<b>195</b>	<b>362</b>
Taxes	-	-	-	-	(4)	(20)	(41)
Working Cap. Inv.	-	-	-	-	(1)	(6)	(8)
CAPEX	-	-	-	-	(16)	(44)	(48)
<b>Free Cash Flows</b>	-	-	-	-	<b>24</b>	<b>125</b>	<b>266</b>
<b>Incremental Value</b>	<b>2,638</b>						
<b><u>Value/Share</u></b>	<b><u>19.95</u></b>						

Source: El Sewedy Electric, HC

Note: (1) Same assumptions as those listed in table above including WACC and terminal growth rate



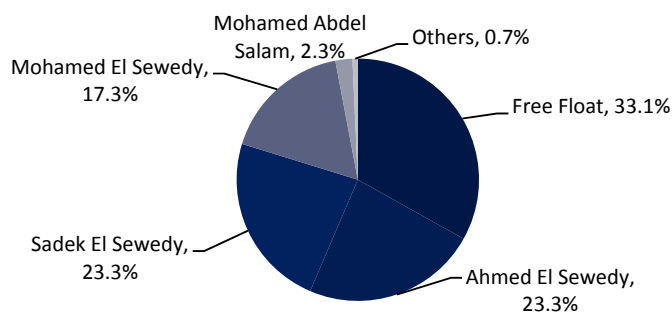
## El Sewedy Electric: An Overview

### El Sewedy Electric's Timeline of Key Events

Year	Event
1997	Establishing Egypt's first special cables production plant Beginning production at power cable joints and modular terminators factory Producing the 220KV high-voltage underground cable for the first time in Egypt
1998	Establishing Egypt's first copper rods production plant Establishing the Middle East and Africa's first cable accessories production plant
2002	Establishing Sudan's first cable production plant
2005	Establishing Syria's first high-voltage cable production plant Establishing Ghana's first road-lighting-pole production facility
2006	El Sewedy goes public through a EGP1.29bn private placement Forming JV with Saudi Arabia's El Rajhi to establish a power cable production plant
2007	Announcing plans to establish 55%-owned Libya Cables Announcing plans to establish 60%-owned distribution transformers plant in Zambia Start of production at United Wires (galvanized steel wires) in Egypt Acquisition of 100% of Al Wataniya Cables in Egypt Acquiring Iskraemeco, a leading Slovenian electrometer producer
2008	Announcing plans to establish 50%-owned Doha Cables, Qatar's first cable plant Acquiring a 30% stake in M. Torres Olvega, a leading Spanish wind-energy turbine manufacturer Establishing Egypt's first wind-energy turbine and tower production facility Acquiring PSP, an Egyptian engineering company specializing in power-generation projects Production begins at cable plants in Algeria and Saudi Arabia Acquiring Egyptian Co. for Electrical Insulators (ECMEI), a producer of electric ceramic insulators Establishing Egypt's first dry-transformer production facility
2009	Start of production at low-voltage cable plant in Yemen (June) Start of production at oil-immersed distribution transformer plant in Nigeria (August) Start of production at cable plant in Ethiopia (October)
2010	Raising stake in MTOI to 90% (March) Official launch of Doha Cables (May)

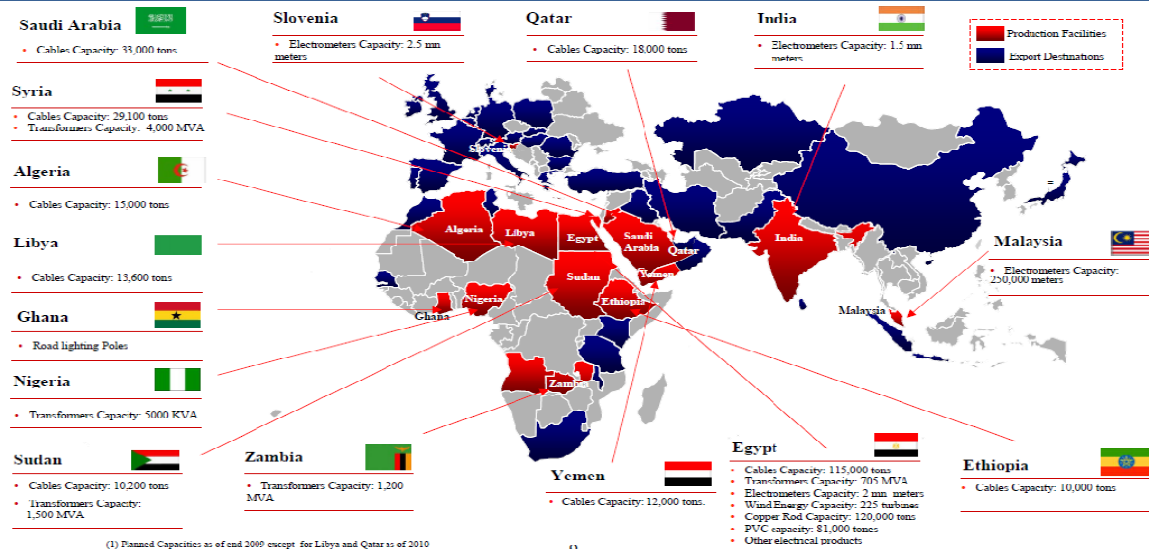
Source: El Sewedy Electric, HC

### El Sewedy's Shareholder Structure<sup>(1)</sup>



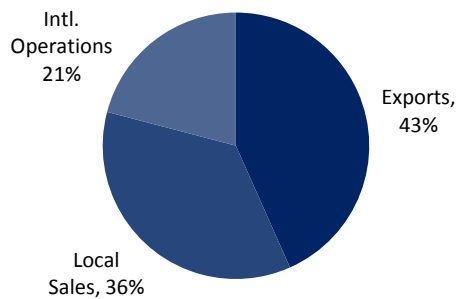
Source: EGX, HC  
Note: (1) On 30 June 2010

## El Sewedy Electric's Operations by Country



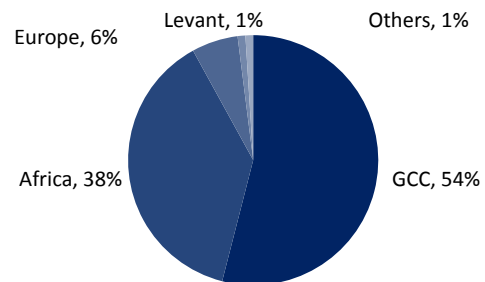
Source: El Sewedy Electric

## Export Sales (2009a) at c43% of Total Sales . . .



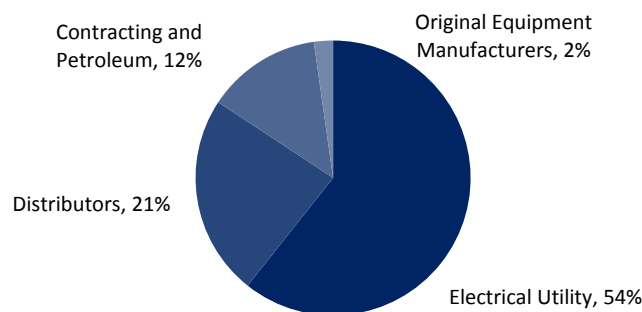
Source: El Sewedy Electric, HC

## . . . with GCC and Africa Dominating



Source: El Sewedy Electric, HC

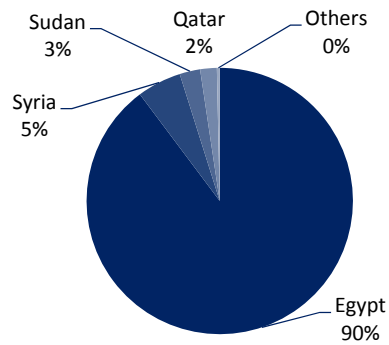
## Sales Breakdown by Customer



Source: El Sewedy Electric, HC

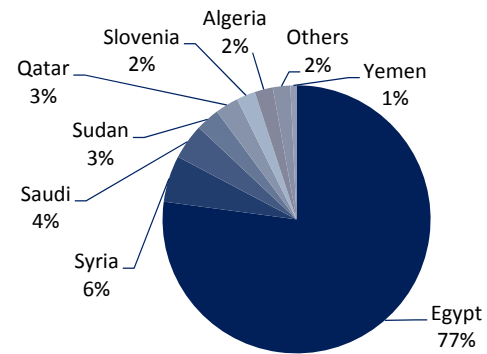


### Revenue Breakdown by Country (2007)



Source: El Sewedy Electric, HC

### Sales Breakdown by Country (1Q10)



Source: El Sewedy Electric, HC



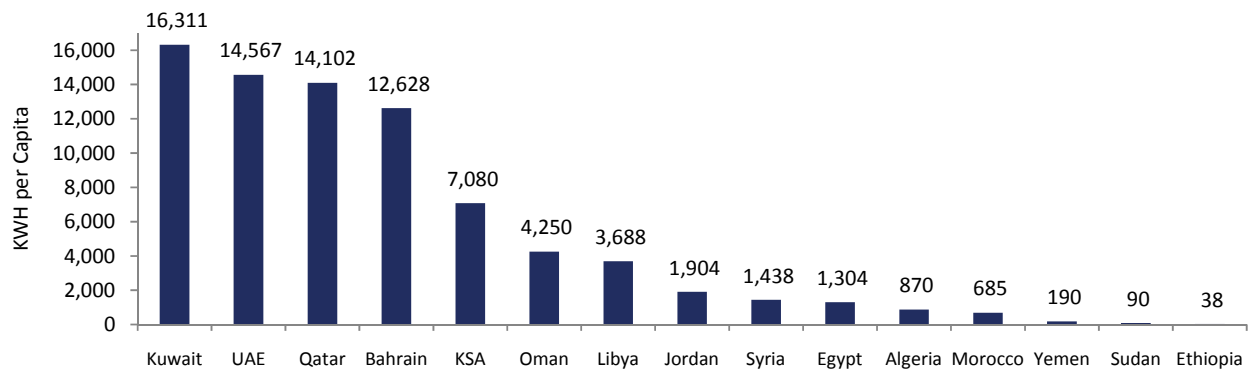
## MENA Electricity Sector: An Overview

### Sustainably Robust Demand for Electricity in the MENA Region . . .

The Middle East power market is one of the fastest-growing sectors in the region (c5%–6% per annum), owing to economic expansion, increased industrial activity, and urbanization. We expect the strong growth in the region's electricity sector to persist in the foreseeable future given (1) the region's rapid economic growth, (2) high population growth, (3) large infrastructure spending and construction activity, (4) electricity subsidies in many MENA countries thus discouraging electricity rationalization, (5) the abundant availability of feedstock (oil, gas, coal, and hydro resources) in the region, and (6) the continuous and growing need for desalinated water in the GCC and some North African countries (such as Algeria) with limited access to fresh water resources.

Despite relatively high per-capita consumption (see chart below), intense consumption patterns in the GCC are expected to persist given specific needs such as cooling and water desalination. Saudi Arabia projects the 169TWh of power consumed in 2006 to increase by 10% per annum until 2017, reaching 572TWh by 2032. Similarly, Oman expects average annual growth of up to 10% until 2014, Kuwait 9% until 2015, Qatar 11% until 2015, Bahrain 8% until 2020, and the UAE 9% until 2020. Algeria also expects strong average annual growth of 8% driven by a number of energy-intensive projects that are expected to come on stream over the next five years.

#### Electricity Consumption Per Capita in Selected Middle Eastern and African Countries (2008)



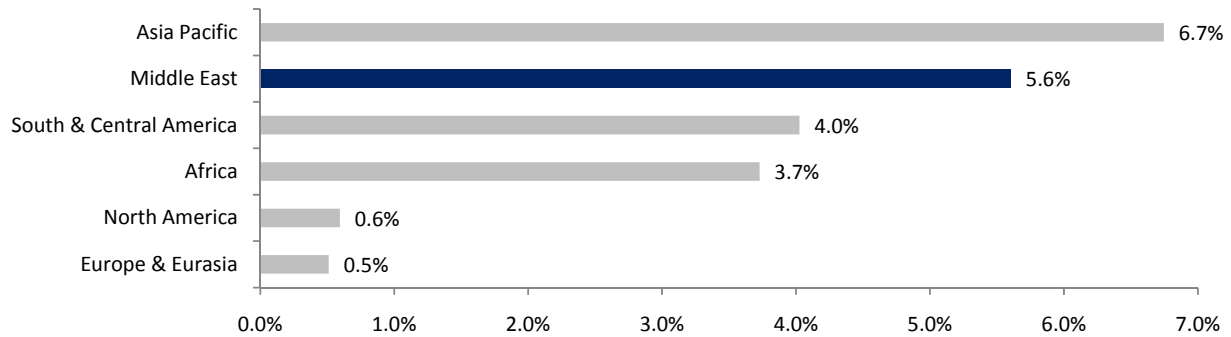
Source: World Bank Statistics, HC

### . . . to be Met by Growing Capacities

Despite a drop in global electricity generation capacities in North America and Europe over the course of 2009, the Middle East was among the few regions that posted growth in electricity generation, confirming solid demand dynamics. With total installed capacity of 932TWh, the MENA region represents c5% of the world's total electricity generation. Saudi Arabia (c28% of power generation capacities in MENA) and Iran (c26%) are the largest power generators in the MENA region, followed by Egypt (15%–20%) and the UAE (c11%). From 2003 to 2008, the UAE witnessed an average annual increase in net generation capacities of 9%, Egypt 7%, and Saudi Arabia 5%. According to MEED,

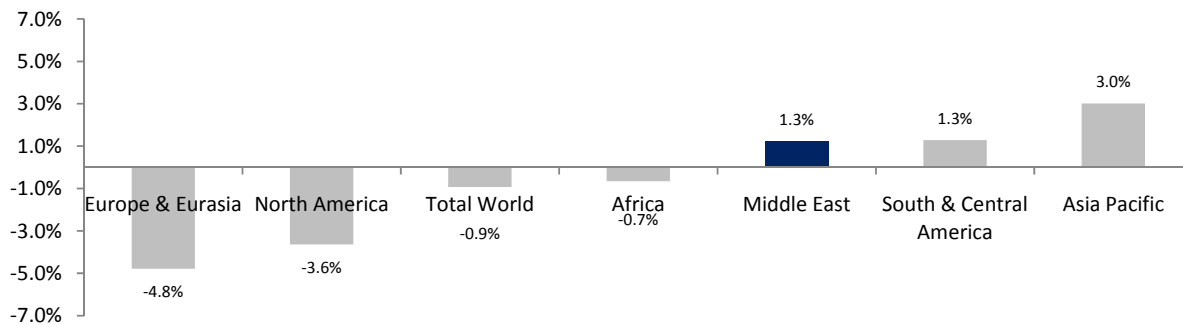
cUSD125bn worth of conventional power generation, transmission, and distribution projects are currently underway in the GCC, of which c42% are in Saudi Arabia.

#### Average Growth in Electricity Generation (2004–2009)



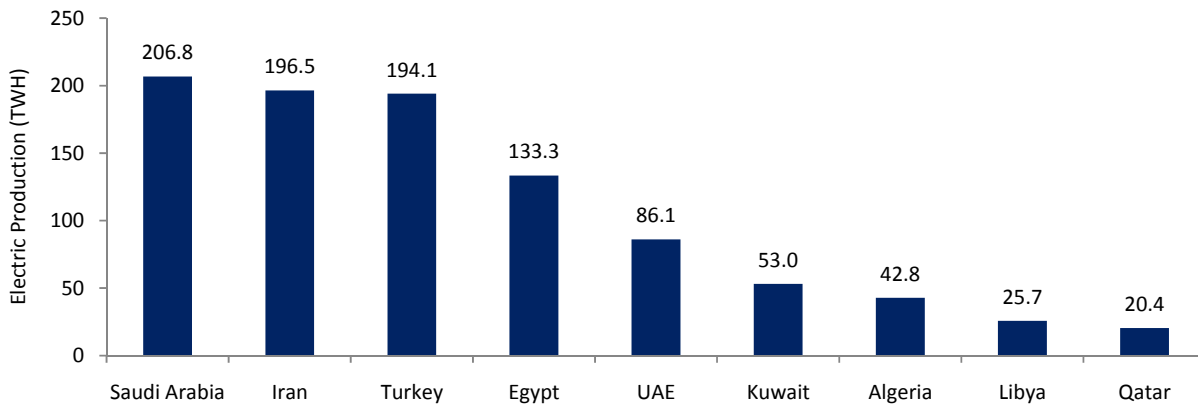
Source: BP Statistical Review (June 2010), HC

#### Growth (y-o-y) in Power Generation (2009)



Source: BP Statistical Review (June 2010), HC

#### Total Electricity Generation in Selected MENA Countries (2009)



Source: BP Statistical Review (June 2010), Country data, HC



In addition to the need to add new generative capacities to keep up with demand growth, GCC countries, especially Saudi Arabia, need to rebuild reserve margins (or excess capacities) that have been steadily eroding over the past decade in order to meet sudden spikes in consumption that increase pressure on networks, especially during the summer. A GCC interconnection grid is set to help meet the rapidly rising power demand and avoid power outages in many GCC states during the summer. The three-stage project is due to be completed by 2012e and will cost USD1.3bn–USD1.6bn. The project is expected to reduce the need for power generation capacity in GCC countries by 5,000MW, and thus decrease investment and reliance on local electrical grids.

#### GCC Electricity Projects Underway

Country	Value of Electricity Projects Underway (USDbn)	% of Total Value of Electricity Projects Underway	Electricity Reserve Margin <sup>(1)</sup>
Saudi Arabia	52.2	42%	7%
UAE	36.7	29%	22%
Kuwait	24.1	19%	3%
Qatar	7.3	6%	15%
Oman	3.0	2%	12%
Bahrain	2.0	2%	11%
<b>Total GCC</b>	<b>125.3</b>	<b>100%</b>	<b>Industry Average: 10%–15%</b>

Source: MEED, HC

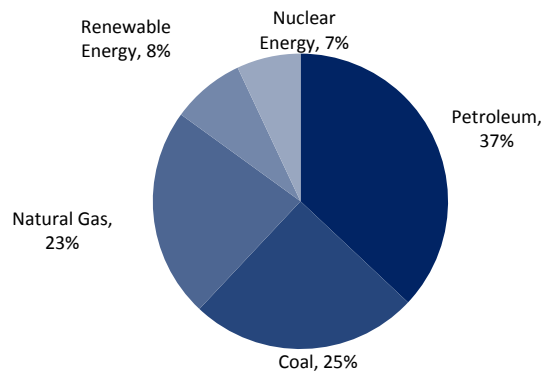
Note: (1) % of available power capacity unutilized

## Wind Energy Sector: An Overview

### MENA Wind Sector Still in its Infancy but Has Solid Potential . . .

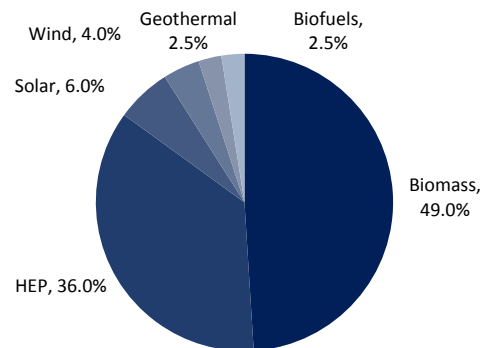
With increasing global demand for sources of renewable energy, global wind energy capacity grew at a CAGR of 28% (2005–2009) to 159GW and is forecasted to grow further at a CAGR of 21% to reach 409GW by 2014e. The US is currently the world's largest country in terms of wind power capacity (22% of total global capacity as of 2009). The US and Asia (mainly China and India) are taking Europe's place as leaders in wind projects as new capacities come on stream.

**Global Energy Consumption by Type**



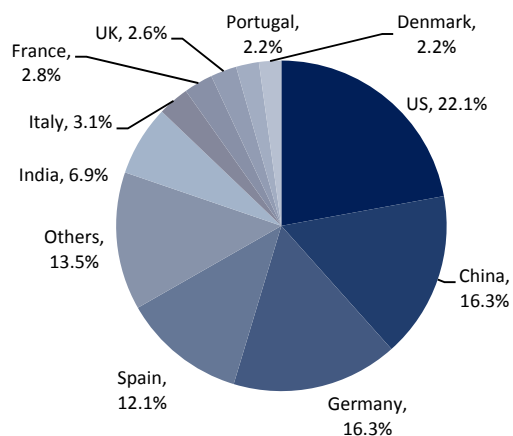
Source: El Sewedy Electric, Renewables Global Status Report, GWEC, HC

**Renewable Energy Consumption by Type**



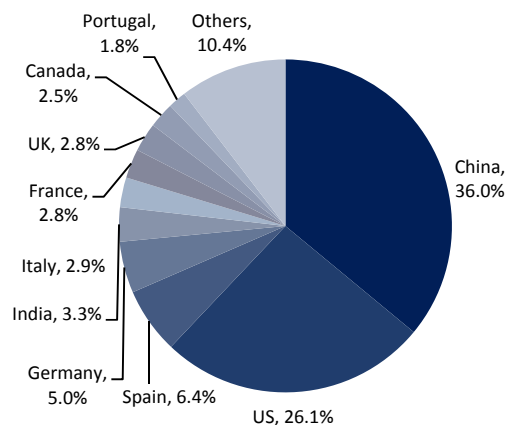
Source: El Sewedy Electric, Renewables Global Status Report, GWEC, HC

**Top 10 Total Installed Capacity in 2009**



Source: GWEC, HC

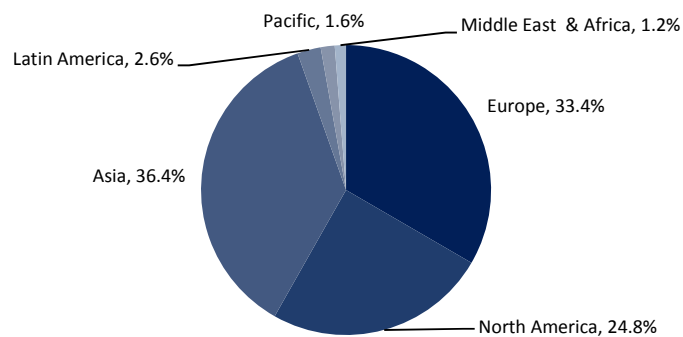
**Top 10 New Capacity in 2009**



Source: GWEC, HC

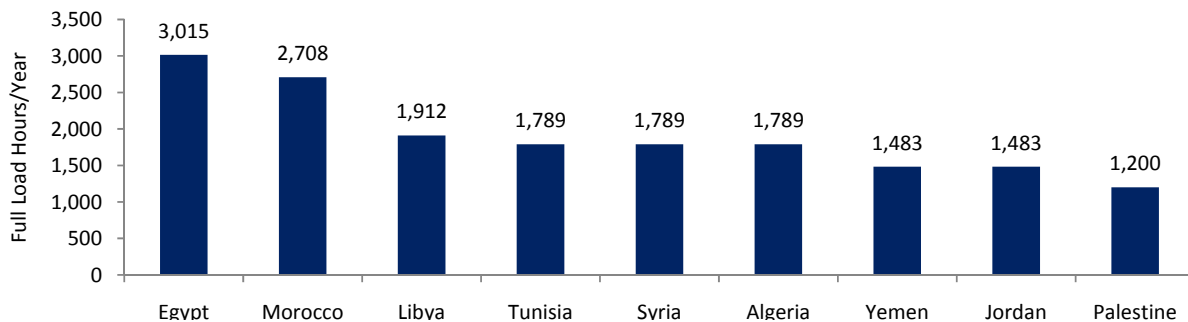
Wind power generation is still at an early stage of development in the MENA region, which represents c1% of global wind energy capacity despite the region's good potential given favorable weather conditions and the presence of several sites suitable for projects. The majority of MENA countries have over 1,400 full-load hours per annum, giving wind energy development viable economic potential in the medium to long term. Annual capacity additions in the region are expected to reach 900MW by 2013e from 130MW in 2008. Still, capacity additions are small in a global context with annual additions in Asia set to reach 27.0GW in 2013e from 8.6GW in 2008.

#### Middle East and Africa Represent 1.2% of Global Wind Energy Capacity



Source: El Sewedy Electric, GWEC, HC

#### Wind Energy Potential in the MENA region



Source: Regional Center for Renewable Energy and Energy Efficiency (RCREEE), HC

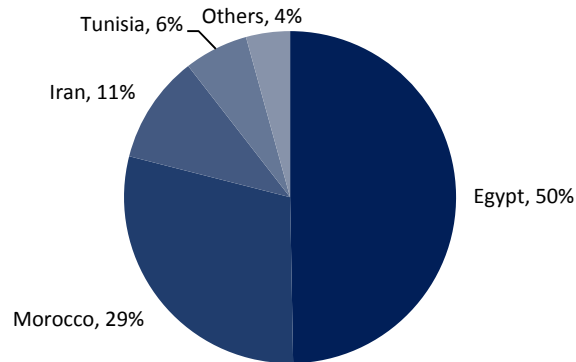
#### ... with Egypt at the Forefront of the Region's Wind Sector Development

Egypt, which represents 50% (430MW) of capacity in the Middle East and Africa, is at the forefront of wind energy development in the region especially given favorable wind velocities ranging between 8 and 11 meters per second (m/s) and the highest full load hours in the region. Wind speed is a crucial element in projecting turbine performance, and a site's wind speed is measured through wind resource assessment prior to a wind system's construction. Generally, an annual average wind speed greater than 4m/s (nine miles per hour) is required for small wind electric turbines. Utility-scale wind power plants require minimum average wind speeds of 6 m/s.

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## Egypt Leads in Terms of Wind Energy Generation Capacity in the Middle East and Africa

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Source: El Sewedy Electric, GWEC, HC

## Key Wind Energy Projects in Egypt

### Zafarana Wind Park Project

Located south of the Suez Canal, Zafarana Wind Park is a JV between Egypt and a number of countries including Germany, Denmark, Spain, and Japan. The project was constructed and operated in stages since 2001, bringing capacity to c425MW as of 2009 and generating 1,033GWh of electricity during the year. The final phase of the project (to be completed by the end of 2010/beginning 2011) will bring total capacity to 545MW, making Zafarana the largest wind farm in Africa and the Middle East.

### Gulf of Al-Zayt Wind Farm Projects

Gulf of Al-Zayt, north of Hurgahda, is characterized by fast (10.5m/s) and constant wind speeds throughout the year, significantly higher than the fastest average wind speed areas in Europe, which makes it one of the best locations for wind energy generation in Egypt. In addition to the 5MW plant already operating, there are currently c720MW projects in different phases of development in the area in cooperation with Germany, European Investment Bank, Japan, and Spain.

### Gulf of Suez Wind Power Plant Project

The Gulf of Suez project is a 250MW wind farm project that will be Egypt's first privately-run wind farm. The Egyptian government and the Egyptian Electricity Transmission Company (EETC) tendered the project in May 2009 on a BOO basis, with generated power to be sold to the EETC under a 20–25 year PPA. Following the tender, 34 offers were received and a shortlist of 10 qualified bidders was announced in November 2009. In July 2010, the EETC selected UK-based consultant Garrad Hassan to complete site assessment. Developers will be invited to submit their final bids once the consultant concludes wind study and site assessment by 2011e with the project to be completed by 2014e.



### List of Qualified Bidders for the Gulf of Suez Wind Farm

Country	Qualified Bidder
Egypt	El Sewedy Electric
Egypt	Orascom Construction Industries (OCI)
Egypt and Malaysia	Egypt Wind Power and Powertek
France	EDF
Italy	Enel
Japan	Toyota
South Korea	Korea Electric Power Corporation
Spain	Iberdrola
UK	Renewable Energy Systems
USA	AES Corporation

Source: MEED, HC

### Gulf of Suez Wind Farm Development Schedule

Date	Description
14 May 2009	Issuance of invitations to bid for pre-qualification rounds
20 August 2009	Submission of pre-qualification documents by interested bidders
27 September 2009	Submission of bids for consultancy service contract
9 November 2009	Announcement of 10 (of 34) short-listed bidders including El Sewedy and OCI
3Q10–4Q11	Site assessment period by UK-based consultant Garrad Hassan
1Q11	Submission of proposals by bidders
2014	Expected completion date

Source: Zawya Projects, HC



## Appendix I: Key MENA Electricity Projects Underway

Selected MENA Electricity Projects Underway			
Projects	Capacity (MW)	Cost (USDm)	Completion Date
<b>Algeria</b>			
Sonelgaz – Koudiet Edraouch Power Plant	1,200	2.2	1Q12
Sonelgaz – Terga Power Plant	1,200	2.0	3Q11
Mubadala/Sonatrach – Beni Saf Power Plant	2,000	1.6	2012
<b>Bahrain</b>			
Bahrain MOF – Al Dur IWPP	1,234	2,100	3Q11
<b>Egypt</b>			
CEPC – Giza North Power Plant	1,500	1.4	2014
EDEPC – Ain Sokhna Power Plant	1,300	2.0	1Q14
Egypt MOEE – El Dabaa Nuclear Power Plant	1,200	4.0	2019
Egypt MOEE – Gabal El Zeit Wind Farm	120	0.9	2011
<b>Iraq</b>			
Ministry of Electricity – Wasit Power Station		0.9	3Q12
<b>Kuwait</b>			
Partnerships Technical Bureau – Al Zour IWPP	1,500	1.0	N/A
Kuwait MEW – Shuaiba North Power & Desalination Plant	828	1.3	2H11
Kuwait MEW – Subiya Power Plant	2,000	2.7	2012
<b>Libya</b>			
Gecol – Al Khaleej Steam Power Plant	1,400	1.5	3Q12
Gecol – Tripoli West Power Plant Expansion	1,400	1.4	3Q12
<b>Morocco</b>			
MASEN – Moroccan Solar Project	2,000	9.0	2019
<b>Qatar</b>			
Kahramaa – Solar Power Plant	3,500	1.0	2013
Ras Girtas Project	2,730	3.9	2011
<b>Saudi Arabia</b>			
Jazan Power Plant	2,400	2.5	2013
RCJY – Ras Al Zour Power and Desalination Plant	2,400	6.0	4Q13
SEC – Al Qurayyah Power Plant II	1,200	1.9	2Q12
SEC – PP10 Power Plant	2,000	3.0	3Q11
SEC – Rabigh 6 Power Plant Expansion	2,600	4.0	2014
SEC – Shuaibah Power Plant Expansion – Phase III	1,200	2.9	2011
SEC – Shuqaiq III Power Plant	600	1.8	2018
SEC – Yanbu Industrial City II Power Plant	2,400	1.4	2014
SWCC – Ras Al Zour Power and Desalination Plant	2,400	5.0	4Q13
SEC – Rabigh Power Plant – Phase 7	720	0.9	4Q10
<b>UAE</b>			
DEWA – Jebel Ali M Station Power Plant	2,000	1.7	3Q10
DEWA – Lehabab Power Plant	5,000	5.5	2015
ENEC – Nuclear Power Plant	5,600	40.0	2020
Masdar/Hydrogen Energy – Hydrogen Power and Desalination Plant	420	2.2	2H14
SEWA – Hamriyah Power and desalination Station – Phase 3	2,150	2.7	N/A
SEWA – Al Wasit Power Station Conversion	N/A	1.1	N/A

Source: Zawya Projects, HC





## Appendix II: MENA Cable Players

Operational MENA Cable Capacities				
Company	Country	Current Cable Capacity (tpa)	Countries of Presence	Planned Expansions
El Sewedy Electric	Egypt	226k	Egypt, Algeria, Sudan, KSA, Syria, Yemen, Ethiopia, Qatar, Libya	Libya is the only non-operational plant
Midal Cables	Bahrain	180k <sup>(1)</sup>	Bahrain, Canada, Kenya, Malaysia, UK	N/A
Riyadh Cables	KSA	175k	KSA, Bahrain, Lebanon, Syria, Turkey	N/A
Ducab Company	UAE	125k	Bahrain, Oman, KSA, Qatar, UAE	Adding 30k tons of high and extra-high voltage cables by end of 2010
Saudi Cable	KSA	75k–85k	KSA, Bahrain, Lebanon, Turkey, UAE, USA	Capacity to reach 100k by end of 2010
Oman Cables	Oman	80k	Oman, Kuwait, Qatar, KSA, UAE	Added 48k tons of aluminum rod and electrical conductors in June 2010 through 51%-owned Oman Aluminum Processing Industries
Gulf Cable	Kuwait	55k	Kuwait, Jordan	N/A
Jeddah Cable	KSA	58k	KSA, Ethiopia, Bahrain, Jordan, Kuwait, Oman, Qatar, Sudan, Syria, UAE, USA, Yemen	N/A
Al Fanar	KSA	50k	Bahrain, KSA, Cyprus, Iraq, Kuwait, Lebanon, Libya, Sudan, Yemen	N/A
Egy. Electro Cables	Egypt	50k	Egypt	N/A
MESC	KSA	40k	KSA, Jordan, UAE	N/A
Nuhas Oman	Oman	18k	Cyprus, France, India, Italy, Jordan, Nepal, Oman, KSA, Qatar, Sri Lanka, UAE, Turkey, Nigeria	N/A
Red Sea Cables	KSA	15k	KSA	N/A
Bahra Cable	KSA	15k	Qatar, KSA, UAE	N/A
Tekab Company	UAE	13k	UAE	N/A
QICC – Nexans	Qatar	10k	N/A	To begin operations before year-end
Cabelco	Jordan	5k <sup>(2)</sup>	Jordan	N/A
Sharjah Cable	UAE	1.4k	UAE	N/A

Source: Zawya Projects, Company Disclosures, HC

Note: (1) Aluminum rods and conductors only (2) Copper wire only



## Appendix III: El Sewedy Electric's Tax Exemptions

El Sewedy has a low effective tax rate (c5% in 2009 and c8% in 2010e) that will gradually go up to 20% by 2018e as tax exemptions across greenfield investments end. El Sewedy's tax exemptions are listed below.

### Free Zone Subsidiaries

#### In Egypt

El Sewedy Electric  
 El Sewedy Electric High Voltage  
 El Sewedy Electric Transmission and Power Distribution  
 El Sewedy Sedco for Petroleum Distribution  
 Red Sea for Copper

#### Outside Egypt

El Sewedy Electric Ghana

Source: El Sewedy Electric, HC

### Temporary Tax Exemptions

#### In Egypt

##### Company

El Sewedy Cables Egypt  
 Egypt Plastic Company  
 United Metals Company  
 United Wires Company

##### End of Tax Exemption

May 2018  
 December 2017  
 December 2010  
 December 2017

#### Outside Egypt

##### Company

El Sewedy Cables Algeria  
 El Sewedy Cables Ethiopia  
 El Sewedy Cables Syria  
 El Sewedy Cables Yemen  
 El Sewedy Electric Limited Nigeria  
 El Sewedy Electric Limited Zambia  
 El Sewedy Electric Syria  
 Giyad Cables El Sewedy  
 Sed Plast Syria

##### End of Tax Exemption

Five years from production start  
 Two to five years from production start  
 November 2010  
 Seven years from production start  
 Two years from production start  
 Two to five years from production start  
 October 2011  
 December 2012  
 Five years from production start

Source: El Sewedy Electric, HC



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## Rating Scale

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Recommendation	Potential Return
Overweight	Greater than 20%
Neutral	0% to 20%
Underweight	Less than 0%

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