SHUAA CAPITAL PSC

Power Play

Equity Research

Initiation Coverage

February 15th, 2008

Sector Coverage Team

Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

El Sewedy Cables (SWDY.CA)

Current price	EGP 122.00	**Country**	Egypt
Fair value target	EGP 111.06	**Sector**	Industrial / Cables
Recommendation	NEUTRAL	**Exchange**	Cairo and Alexandria Stock Exchange

Saudi Cable Company (2110.SE)

Current price	SAR 69.75	**Country**	Saudi Arabia
Fair value target	SAR 109.43	**Sector**	Industrial / Cables
Recommendation	BUY	**Exchange**	Saudi Stock Market (TADAWUL)

Gulf Cable and Electrical Industries Company (CABL.KW)

Current price	KWD 3.70	**Country**	Kuwait
Fair value target	KWD 4.38	**Sector**	Industrial / Cables
Recommendation	BUY	**Exchange**	Kuwait Stock Exchange

- Cables are a core component of infrastructure for many industries including power, telecom and information technology, and represent a key play on the growth in demand for power and telecommunication services in any economy. This is particularly true of the industry in the Middle East at this time of significant anticipated increase in regional demand for power, and significant anticipated investment in power production and transmission.

- We opted to initiate coverage on three of the largest listed cables producers in the Middle East, which collectively represent over 40% of the region's total production levels. We initiate coverage on Egypt- based El Sewedy Cables, Saudi-based, Saudi Cable Company, and Kuwait-based Gulf Cable and Electrical Industries Company.

- Our top pick is Saudi Cable Company for which we initiate coverage with Buy investment recommendation based on a target price of SAR 109.43 per share, offering an attractive 57% upside potential over the latest market price of SAR 69.75 per share. Our view is formed by near-term capacity additions in addition to the impact of rising demand for power cables on the back of strong infrastructure spending in Saudi Arabia.

Contents

Investment highlights

- Cables are a core component of infrastructure for many industries including power, telecom and information technology, and represent a key play on the growth in demand for power and telecommunication services in any economy. The global power cables industry generated revenues in excess of USD 65 bn in 2006, representing approximately 65% of the global cables market.

- In this report, we focus primarily on the power cables industry in the Middle East (ME) at a time of significant anticipated increase in regional demand for power, and significant anticipated investment in power production and transmission. Demand for power cables in the MENA region is estimated at 700,000 tpa (tonnes per annum) in 2006 and is expected to reach 840,000 tpa by 2009 and almost 900,000 by 2011, outstripping anticipated growth in regional supply over the same period.

- Current production capacity for cables in the MENA region stands at 600,000 tpa, and expected to approach 856,000 tpa by 2011. Total combined capacity for our cables coverage universe stands at 260,000 tpa as of 2007 and expected to reach 430,000 tpa by 2009.

- We initiate coverage on three of the largest cables producers in the MENA region, El Sewedy Cables, Saudi Cable Company and Gulf Cable Company. Throughout our five years forecast horizon (2006-2012), we expect El Sewedy Cables , Saudi Cable and Gulf Cable to invest heavily in new capacity to meet rising demand, and to benefit from a highly benign environment. This will result in average anticipated revenue growth of around 20% over a five year horizon.

- Our top pick is Saudi Cable Company for which we initiate coverage with Buy investment recommendation based on a target price of SAR 109.43 per share, offering an attractive 57% upside potential over the latest market price of SAR 69.75 per share. Our view is formed by near-term capacity additions in addition to the impact of rising demand for power cables on the back of strong infrastructure spending in Saudi Arabia. We also initiate coverage on Gulf Cable and El Sewedy Cables with a Buy and Neutral investment recommendations respectively.

Introduction

Cables global market size is estimated at USD100 billion

Cables are a core component of infrastructure for many industries including power, telecom and information technology, and represent a key play on the growth in demand for power and telecommunication services in any economy. Power cables are used for the transmission and distribution of electricity from electric generators to plants and through to end users, including households and businesses. The industry enjoys a derived demand that has benefitted from the recent accelerated growth in demand for power globally, and in emerging markets especially. The impact of the resultant growth in demand for cables is reflected well by the trend of global copper prices (by far the most important component in power cables) over the past five years, during which prices quadrupled. The global cables market, which includes power and telecom cables, generated revenues of approximately USD 100 billion (bn) in 2006, out of which power cables represent almost 70%. In this report, we focus primarily on the power cables industry in the Middle East (ME) at a time of significant anticipated increase in regional demand for power, and significant anticipated investment in power production and transmission. Power cables constitute the bulk of revenues for regional cables producers. We profile and initiate coverage on three of the largest listed cables producers in the ME, which collectively represent over 40% of the region's total production levels.

Power cables defined

Power cables are essentially an assembly of two or more electrical conductors, usually held together with an overall sheath (outer jacket covering power cables). The cable may be installed as permanent wiring within buildings, buried in the ground, run overhead, or exposed. Power cables are sub-divided into electric wires, high voltage cables, medium -low voltage cables and overhead conductors.

Production process
The raw material used to produce power cables is either aluminium or copper. Copper cables are mainly used for underground transmission while aluminium cables are commonly used for overhead transmission. The production process of copper power cables involves the following process:

Smelting
Concentrated copper powder is taken into smelter to produce copper cathodes, which are then transferred to copper rods.

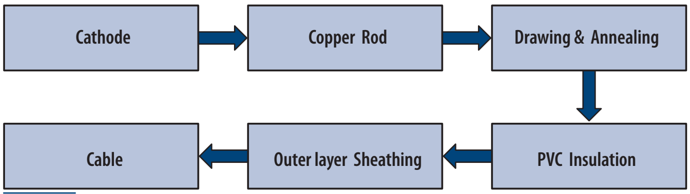
Drawing
Bulk copper is formed into wire of different diameters by drawing it through a series of dies

Annealing
Annealing is a heat treatment wherein the material is reshaped, causing changes in its properties such as rigidity and hardness. In case of annealing copper rods, this process is performed using sizeable heating for a period of time and allowing it to cool slowly.

PVC insulation
The copper conductors, single or multiple wires, are insulated either with Polyethylene or Polyvinyl chloride (PVC).

Outer layer Sheathing
Covering the cables with an outer cover, sheath is generally made of plastics.

Production process



Source: CRU

Power cables components

Copper is the most commonly used material for cables production

Conductors:
Conductors are materials that are used to conduct electricity. The main three types of conductors are:

Copper- the most common material and enjoys the highest conductivity.
Silver - more conductive material than copper but its high cost makes it more viable to be used in specialized equipments such as satellites.

Aluminium - commonly used for large scale power distribution though overhead power lines. Is much lighter than copper, but less conductive.

Electrical Insulator:
Electrical insulator is a material that resists the flow of electricity. High voltage insulators used for high voltage power transmissions are made of glass and polymer materials. Electrical wires are usually insulated with Polyvinyl chloride (PVC) as it is cheap and easy to assemble.

Sheath (Outer Jacket):
Sheath is the outer covering of power cables and is made of tough material, often plastic, to resist environmental exposure. There may be more than one sheath surrounding the cables.

The Power Cables Market

Global demand structure

Global demand for power cables is estimated at 7.3 mn tons in 2006, up 4% from 2005 levels. Europe, at 22 %, accounts for the largest share of global consumption. Cables consumption in the ME region is estimated to be around 700,000 tpa , representing approximately 9 % of global consumption.

Copper cables consumption by region	2004	2005	2006
`000 Tons	Actual	Actual	Actual
Europe	1,716	1,667	1,776
North America	1,522	1,557	1,656
*North East Asia	1,116	1,140	1,180
Rest of the world	2,500	2,650	2,700
Total	6,854	7,014	7,312

Source: CRU and ICF
**Japan, South Korea and Taiwan*

ME Region Demand for cables

ME consumes approximately 700k tpa of power cables

The ME region has been witnessing sustained and accelerating growth in cables consumption levels over the past four years, driven by the growing spend on infrastructure overall across the region. According to several industry sources, current power cables consumption hovers in the range of 700,000 tpa in the ME region.

Demand Drivers

Rising electricity consumption boosts cables demand

Power demand

The key demand driver for the ME region cables industry is the rising level of demand for power - underlined by demographic and macroeconomic factors such as the high population growth rates and rising GDP per capita, in addition to increased industrialization and the planned and budgeted levels of investments in infrastructure and, in particular, electricity generation and transmission.

Electricity consumption in core MENA markets

Power Generation	FY 04	FY 05	FY 06
Thermal Mega Watt per hour (TWH)	Actual	Actual	Actual
Algeria	30.9	33.6	34.6
Egypt	97.0	104.0	110.7
Iran	156.4	170.1	198.3
Kuwait	42.6	43.7	40.2
Libya	21.9	23.5	25.1
Qatar	13.0	14.0	15.1
Saudi Arabia	165.0	176.0	189.6
Total	527	565	614

Source: BMI

Strong budget surplus underpins infrastructure spending

ME region economies have been witnessing high and sustained rates of growth over the past six years. The strong growth has resulted in rising per capita income levels throughout the region as well as strong budget surpluses. Average per capita income for the ME region increased from USD 3,461 in 2002 to USD 5,677 in 2007.

Main macro indicators for MENA region

	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Estimate
Real GDP growth	2.2%	4.7%	7.2%	5.8%	8.0%	5.4%
Population growth	2.1%	2.1%	2.2%	2.0%	2.0%	2.1%
Per capita income (USD)	3,461	3,466	3,754	4,338	5,118	5,677
Current Account Balance (USD bn)	28.44	24.76	53.45	88.79	164.43	193.08
Percent of Nominal GDP	5.6%	4.7%	9.3%	13.1%	20.1%	20.8%

Source: IMF, BMI
Note: MENA includes GCC, Egypt, Morocco, Tunisia, Jordan, and Lebanon.

Enjoying a steadily increasing margin of fiscal comfort, the regional governments have undertaken higher infrastructure spending both to address the rising demand and to make up for the significant underinvestment during the previous two decades. We anticipate that this trend of higher infrastructure spend will persist across the region, and even accelerate well into the next decade in the backdrop of higher accumulated government revenues, much improved overall government finances, growing domestic demand, increased industrialization and economic diversification efforts, as well as efforts towards regional economic integration - all necessitating significant improvement and enhancement of regional infrastructure. Among the key sectors to witness significant growth will be power generation and distribution, with projects such as national and regional grids introducing a new demand avenue.

Infrastructure spending to GDP in core MENA markets

Country	2002	2006
Saudi Arabia	9.30	11.24
Kuwait	4.01	6.05
Egypt	3.03	3.20
Average	5.44	6.83

Source: Central Banks& SHUAA Capital

Mega electricity projects

In order to meet the growing demand for electricity, several mega power projects are underway throughout the region. One of the most important is the multi-billion dollar, GCC-wide power grid project, already underway, to link the six states with an integrated electricity network by 2010. The first phase of the GCC interconnection grid project will interconnect Kuwait, Saudi Arabia, Bahrain and Qatar by 2008, and the United Arab Emirates (UAE) and the Sultanate of Oman by 2010. An overall budget upwards of USD 8.5 bn has been earmarked for the project. Once completed, the project will significantly reduce the cost of power generation in the six GCC states, allowing the respective governments to harbour more ambitious targets.

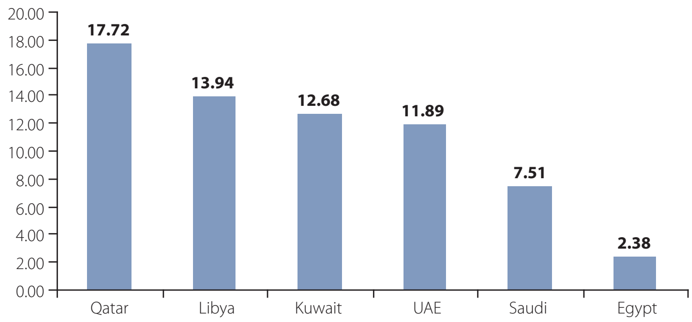
Contribution of private sector

Marking an important shift, the investment outlay for upgrading infrastructure outlined by regional governments has been complemented by rising share of the private sector's investments in power sector. The Government of Abu Dhabi, for instance, has attracted private investors in its power industry with seven power and water projects currently ongoing with foreign partners.

Rising electricity consumption per capita

Significant investments in expanding production capacity will be required to meet growing demand in the region. World Energy Council statistics indicate that the GCC region alone will require100 GW of extra power over the coming decade.

Per capita consumption by TWH for core ME markets



Source: Central Banks& SHUAA Capital

During the period 1990 and 2003, the consumption of electricity in the region increased from 214 to 471 kilowatt hours, a rise of 120 %, far exceeding the 23% rise recorded in Japan and 29 % in the United States during the same period. Projecting ahead, the ME demand for energy is expected to remain strong, growing at 7 to 10% per annum for the next 10 years, against a 3% growth in global demand over the same period.

To meet this projected increase in demand, the UAE's total electricity capacity has to increase by 60 % to 26 GW in the next four years in order to support the country's phenomenal levels of economic growth. Abu Dhabi is looking at more than doubling its power generating capacity to at least 10 GW by 2012. Egypt is planning to build 17 new power plants which are expected to double the current generation capacity of 6 GW to almost 13 GW by 2012. The Kingdom of Saudi Arabia (KSA) is planning to add additional 20 GW of power by 2019 – nearly the same amount as the current capacity of 27 GW. Kuwait has announced a plan to invest USD 4 bn over the next decade in power generation, while in Oman, demand for electricity is growing at an average rate of 5 % annually and an additional capacity of 30 MW is needed to be added every three to five years.

Key power projects under construction

Country	Project	Capacity MW	Cost USD million
Egypt	Sid Krir	750	350
Egypt	Cairo West	700	300
Egypt	Zaafarana Wind farm	320	530
Libya	Al-Khaleeg Power plant	1,400	1,200
Kuwait	Al- Zour north	2,500	2,250
Oman	Salalah	400	Na
Saudi Arabia	Al-Qurayah	1,900	1,700
Saudi Arabia	Jubail	2,500	3,500
UAE	Taweelah smelter	2,250	2,000
Total		**12,720**	**11,830**

Source: MEED projects

Cables Demand Outlook

Cables demand to increase by CAGR of 6%

According to several industry sources the estimated current consumption levels of cables in the ME region is approximately 700,000 tpa. Given that the demand for power generation is a key driver for the demand for power cables, we estimate the demand for cables to grow by the same rate as that of power generation across the region. Hence, through our five year forecast horizon (2006-2012), we estimate cables demand in the MENA region to increase by CAGR of 6 %.

Outlook on the regional cables consumption

Regional Cables Consumption	FY 06	FY 07	FY 08	FY 09	FY 10
TWH per capita	949.2	1,004.7	1,070.20	1,139.30	1,210.30
TWH Growth rate %	7.91	5.85	6.52	6.46	6.23
Cables Consumption (Tons)	700,000	740,929	789,233	840,192	892,552

Source: SHUAA Capital & BMI

Supply Structure

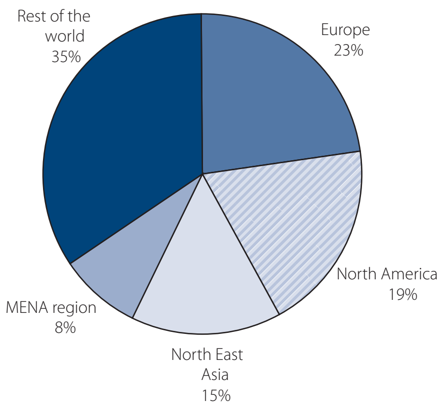
Global Supply

In 2006, global production of power cables was approximately 7.6 mtpa, with a total value of more than USD 65 bn. The top three global players namely, Nexans, Sumitomo Electric, and Prsmian, reported combined revenues of more than USD 6 bn. Europe is the largest producer of wires and cables producing approximately 1.7 mn tons, representing approximately 23% of total global production levels.

Copper W&C Production	FY 04	FY 05	FY 06
Tons 000	Actual	actual	Annualized
Europe	1,711	1,675	1,748
North America	1,352	1,365	1,452
*North East Asia	1,123	1,138	1,172
Rest of the world	2,900	3,100	3,300
Total	7,086	7,278	7,672

Source: CRU and ICF
**Japan, South Korea and Taiwan*

Global Geographic production-2006



Source: CRU and ICF

Supply Overview - Middle East

The estimated production capacity for cables in the ME region totals 700,000 tpa, or approximately 9 % of the global cables production. Focusing on the sub sector of power cables, and based on current prices for both the copper cables and aluminum cables, we estimate the size of the power cables industry in the region at approximately USD 5.5 bn to USD 6 bn representing around 7 % of the global power cables industry.
Further, half of the ME region power cables production is produced in the Gulf region.

Supply Outlook

Cables supply to exceed 850k tpa

Going forward, we expect the ME region to witness significant new capacity coming on stream to meet the growing demand from electricity and power projects. Key power cables producers, including El Sewedy Cables, Riyadh Cables, Saudi Cable, Ducab and Gulf Cable, have already initiated investments into expansion of total production levels. While supply will be tight during 2008, cables production capacity in the ME is expected to increase by more than 200,000 tons over the next two years, creating marginal excess supply of power cables in the range of 20,000 tons by end-2009, which, in turn, is expected to soften prices by the end of 2009. However, with a sustained growth in regional demand, the situation is likely to reverse once again going forward with further supply shortage anticipated to return by 2010, as annual demand rises to almost 900,000 tons for the year.

Upcoming capacity in the ME region

MENA Capacities (Tons)	Country	FY07	FY09 e
El Sewedy Cables	Egypt	124,640	216,000
Riyadh Cables	Saudi	160,000	190,000
Saudi Cable	Saudi	85,000	120,000
Gulf Cable and Electrical Industries	Kuwait	50,000	95,000
Ducab	UAE	70,000	105,000
Jeddah Cables	Saudi	36,000	36,000
Oman Cables	Oman	30,000	30,000
MESC	Jordan	30,000	30,000
Electro Cables	Egypt	15,000	15,000
International cables	Egypt	10,520	10,520
Giza Cables	Egypt	9,000	9,000
Total production		620,160	856,520

Source: Zawya, SWDY, Saudi Cable, and Gulf Cable.

Pricing of Power Cables

Cables prices are heavily influenced by copper and aluminum prices

Cables prices are heavily influenced by underlying commodity prices and are typically determined based on a set margin above the copper and aluminium prices as per the London Metal Exchange (LME). Copper accounts for approximately 83 % of the copper cable's cash cost and its prices have quadrupled since 2003 – rising from an average of USD 2,100 per ton (USD 0.95 per lb) to current average levels of USD 7,000 per ton. The average price during the 9M FY07 is approximately USD 7,162 per ton and the current average selling price for copper cables in the region is in the range of USD 10,170 per ton.

Aluminium, which represents approximately 65 % of the aluminium cables cost, has seen its prices increasing during the period 2005-2007 from a low of USD 2,270 per ton to a high of USD 3,147 per ton. Currently, aluminium prices are hovering around USD 2,450 per ton and that of aluminium cables in the range of USD 5,500 per ton.

Components of Price Rise

The significant rise in both copper and aluminium prices is primarily attributed to:

I. Strong demand particularly from BRIC countries (Brazil, Russia, India, and China) as they accounted for approximately half of the global economic growth during the past year.

II. Solid demand from ME region and, especially the GCC, due to the growing spend on power and electricity projects.

III. Main copper producing countries (Chile and Peru) witnessing a series of labor strikes in copper mines imposing pressure on the overall copper supply.

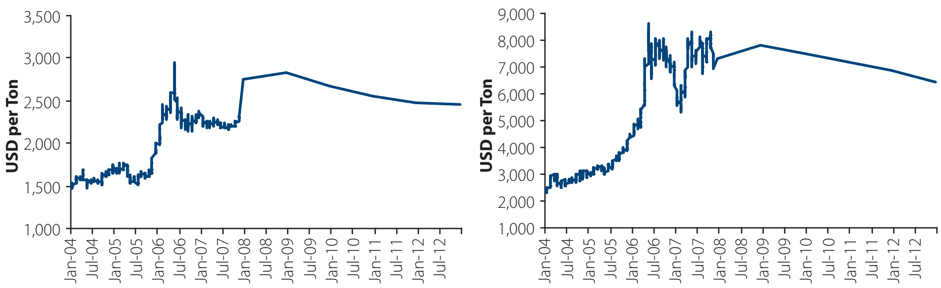
Outlook on aluminum and copper prices

Despite the general fear of a slowdown in the US economy in the aftermath of the current sub prime mortgage crisis and the Fed's recent announcements of a series of cuts in its discount rates, copper and aluminium prices are expected to slightly increase during 2008 due to the following:

I. BRIC countries and, particularly, China, will most likely offset the expected weakness in the US consumption in 2008 as a result of sustained strong economic growth rates. China's real GDP growth rate is estimated at 10.4% for 2007. Together, China, Brazil and India represent approximately 30% of the global copper and aluminium consumption, with their share likely to increase going forward.

II. According to several industry sources, copper inventories are undersized imposing upward pressure on copper prices bringing forth expectations of USD 7,300 per ton on average in 2008.

Copper and Aluminum Prices



Source: Bloomberg& SHUAA Capital estimates

Expected global production and consumption for copper and aluminum

Copper Tons (000)	2006	2007	2008
Country	Actual	Estimate	Estimate
Brazil	339	351	378
China	4,228	4,293	4,677
EU	3,603	3,694	3,816
India	458	480	528
US	2,130	2,115	2,169
Rest of the world	6,721	7,399	7,772
Global consumption	17,479	18,332	19,340
Global production	17,334	18,436	19,235
Surplus/deficit	(145)	104	(105)

Source: CRU

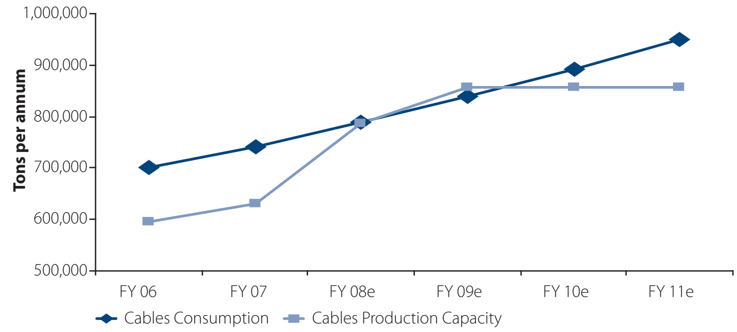
Aluminium (Tons 000)	2006	2007	2008
Brazil	778	879	1,010
China	8,798	10,879	13,054
EU	7,014	7,400	7,770
India	1,080	1,194	1,373
US	6,315	5,870	6,095
Rest of the world	10,563	10,745	10,998
Global consumption	34,548	36,967	40,300
Global production	33,960	37,319	40,610
Surplus/Deficit	(588)	352	310

Source: CRU

Outlook on cables prices

We expect cables prices in the region to continue strengthening until the end of 2009, by which time prices may soften given the general outlook regarding an expected drop in overall commodities prices and, particularly, that of copper and aluminium. Firming the softening argument is our expectation of marginal excess supply in the cables market in the ME region by the end of 2009. During 2009, we see cables production in the ME in the range of 856,000 tpa as opposed to expected demand of 840,000 tpa. However the excess supply in our forecast represents only 2% of anticipated overall production capacity by 2009, and can easily turn into supply shortage if demand turns out to be slightly stronger, or if there are any delays in the introduction of new capacity by producers. Prices are expected to strengthen again by 2010 if no additional supply comes on stream that year.

ME cables consumption vs. cables production



Drop in commodity prices together with robust regional demand is considered the optimal scenario for producers.

In the event that underlying commodity prices soften by 2009, while regional demand continues to outstrip supply of cables, the industry will likely witness a sustained period of expanding margins and higher capacity driven sales, which in turn would result in a significant boost to profitability from current levels. This would represent the best case scenario for regional cable producers in the medium term.

We foresee that the best play on the aforementioned developments would be regional cable producers with significant late-stage investments in new capacity and proximity to the largest sources of anticipated demand. We present our views on three of the largest listed cables producers in the region below.

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El Sewedy Cables (SWDY.CA)

Equity Research

Initiation Coverage

February 15th, 2008

Current price	EGP 122.00	**Country**	Egypt
Fair value target	EGP 111.06	**Sector**	Industrial / Cables
Recommendation	NEUTRAL	**Exchange**	Cairo and Alexandria Stock Exchange

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Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

- El Sewedy Cables is the largest cables producer in Egypt and the second largest cables producer in the region with total production capacity of 124,640 tpa and expected to reach 216,512 tpa by 2009.

- El Sewedy's leading position in the region with a presence in five core markets as well as its aggressive acquisition strategy are key drivers for earnings growth going forward. The company is among the best positioned in the region to benefit from the growth in demand for power, and retain the best profitability margins and lowest production cost.

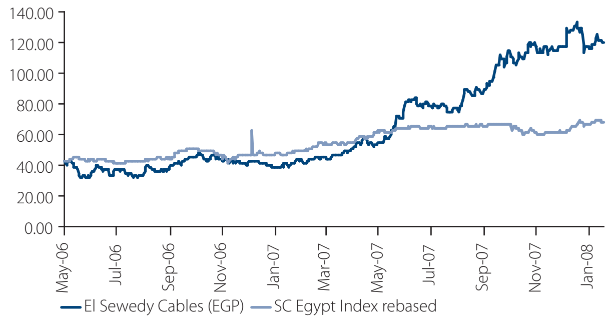
- We initiate coverage on El Sewedy Cables with a Neutral recommendation based on a target price of EGP 111.06 per share, implying 9.0% downside from the current market price of EGP122.00.

Year	Net profit (EGP '000)	BV (EGP'000)	EPS (EGP)	BVPS (EGP)	ROAE (%)	P/E (X)	EV/EBITDA (X)	P/BV (X)
Dec-2009E	971,829	5,008,442	8.10	41.74	21.1%	15.02	7.94	2.91
Dec-2008E	849,250	4,211,836	7.08	35.10	22.6%	17.19	10.95	3.47
Dec-2007E	732,432	3,316,179	6.10	27.63	25.6%	19.93	12.94	4.40
Dec-2006	508,054	2,412,040	4.23	20.10	27.3%	28.73	20.44	6.05

52-week range (EGP)	38.85-133.00
Number of Shares (000)	120,000
Free Float (%)	25%
Market Cap (EGP 000)	14,640,000
Market Cap (USD 000)	2,614,000
Div. Yld. 2006 (%)	0

Source: Reuters, SHUAA Capital

El Sewedy Cables stock performance vs. SC Egypt Index



Investment highlights

• El Sewedy Cables is the largest cables producer in Egypt and the second largest cables producer in the region with total production capacity of 124,640 tpa representing 20 % of the region's cables production capacity in 2007. The company's market share in the region is expected to strengthen further on the back of expansion projects in Egypt, Saudi Arabia, Syria and Libya, which will raise the total capacity to 216,512 tpa by 2009.

• The company is implementing a successful vertical integration business model through acquisitions of existing companies as well as creating new ones either in its core activity or related industries. The company's plans to build a smelter factory in Egypt and recent acquisition of the third largest player in the European electromechanical sector are a few key steps on that front.

• Cables represent 90 % of the company's revenues while turnkey projects and electrical products represent the remaining 10 %.

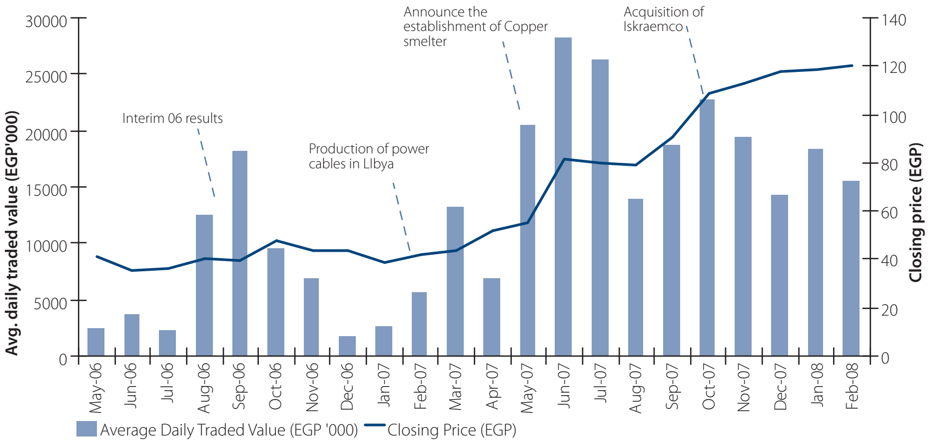
• El Sewedy Cables enjoys presence in several geographical locations across the region. Exports and international operations represent approximately 72 % of the consolidated revenues in 2007, up from 32 % in 2003.

• Despite an expected softening in cables prices in 2009, we expect the company's revenues to increase by CAGR of 25 % driven by the expansion projects underway.

• In 9M FY07, El Sewedy Cables recorded a net income of EGP 527 mn as opposed to EGP 328 mn in 9M FY06. We expect El Sewedy Cables to record net profits of EGP 732mn and EGP 850 million in FY 07 and FY 08, respectively.

• El Sewedy's leading position in the region with a presence in five core markets as well as its aggressive acquisition strategy are key drivers for earnings growth going forward. The company is among the best positioned in the region to benefit from the growth in demand for power, and retain the best profitability margins and lowest production cost. However, given the strong performance by the company's stock over the past 12 months, in which it managed to record over 200% in gains, we believe that the growth El Sewedy is expected to deliver has already been reflected in the current stock price.

• We initiate coverage on El Sewedy Cables with a Neutral investment recommendation based on a target price of EGP 111.06 per share, which implies a 9.0% downside from the current market price of EGP 122.00 per share.



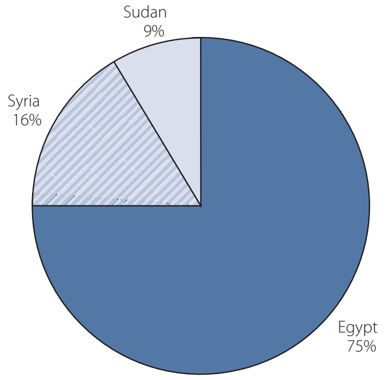
Company overview

Background

El Sewedy is one of the oldest cables producers in the region

Egypt-based El Sewedy Cables is the second largest power cables producer in the MENA region. Its current cables production capacity of 124,640 tons is expected to reach 216,512 tons by 2009. The company has manufacturing plants in Egypt, Sudan and Syria and is currently building plants in Saudi Arabia and Libya, all due to become operational by 2008.

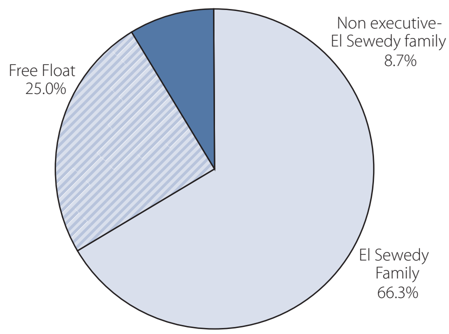
El Sewedy production capacity by country in 2007



Source: El Sewedy Cables

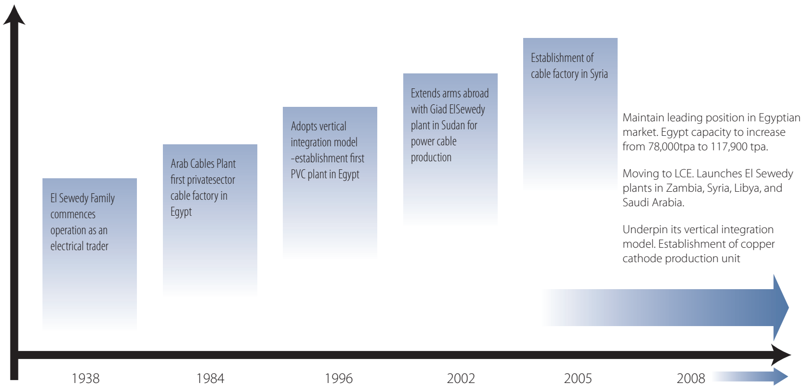
El Sewedy Cables was founded in 1938 as an electrical equipment trading house that gradually grew into cables manufacturing business and is now well on its journey to become one of the leading cables producers in the region. The company is 75 % owned by El Sewedy family, while 25 % of the company was floated on the Cairo & Alexandria Stock Exchange through an IPO in 2006. The IPO raised EGP 1.29 bn to fund the company's regional expansion plans.

Ownership Structure



Source: El Sewedy Cables

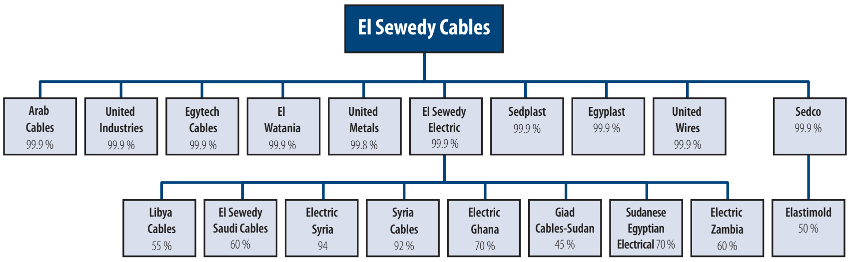
Timeline since the start In 1938



Group Structure

El Sewedy Cables is a holding company with stakes in different companies operating in the cables and electrical sector with a view to realise a fully vertically integrated business model. Further, the group's holdings are geographically diversified among a number of markets including Sudan, Ghana, Saudi Arabia, and Zambia, with the group's entire international business consolidated under El Sewedy Electric.

Group Structure



Source: El Sewedy Cables

Revenue composition

Wires and Cables segment represents the majority of El Sewedy revenues

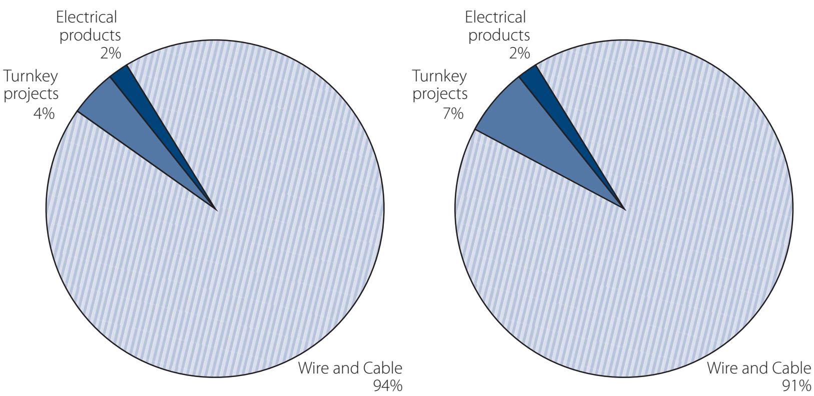
El Sewedy Group's revenue stream flows from three segments:

I. Wire and cables represents by far the dominant component of the group's consolidated revenues contributing approximately 91 % of the group's consolidated revenues in 9M FY07. The activities include manufacturing of power and special cables, and production of raw materials such as copper, plastic and galvanized steel. El Sewedy's main cables plants are located in Egypt, Syria, and Sudan. Throughout our forecast horizon (2006-2012), we see power cables and raw materials revenues to increase by CAGR of 23%, supported by the new capacity that is expected to be introduced in Q3 08.

II. Turnkey projects are the most recent segment to be introduced in El Sewedy's revenues portfolio following the successful execution of several projects. Capitalizing on its in-house technical knowhow, the group undertakes large turnkey projects related to power cables businesses in response to specific customer requirements. The segment represented approximately 7 % of the group's consolidated revenues in 9M FY07. We expect revenues from Turnkey projects to grow by a CAGR of 39 %.

III. The electrical products segment includes the production and manufacturing of main power cables accessories such as terminators, transformers, and joints. During 9M FY07, approximately 2 % of the group's consolidated revenues was accounted for by this segment. We expect revenues from electrical products to increase by CAGR of 40 %, supported by both the new transformers plant and the Slovenian electrometers project.

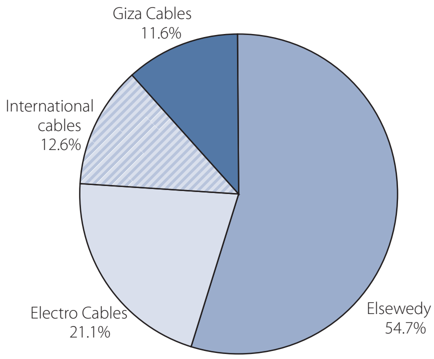
Revenues breakdown 9MFY06- 9MFY07



Source: El Sewedy Cables

Given El Sewedy's presence in several locations in the ME, the group's consolidated revenues show a significant contribution from cross border operations. During 9M FY07, El Sewedy's exports and international revenues represented approximately 72 % of the group's consolidated revenues. In our view, we expect El Sewedy's local revenues, which represent 28 % of the group's consolidated revenues, to diminish slightly as opposed to export revenues reflecting planned capacity increase and growing demand from regions in which it presently has no manufacturing presence.

Group revenue mix 9M FY07



Source: El Sewedy Cables

Growth Strategy

El Sewedy Cables is the largest cable producer in Egypt and the second largest power cables producer in the region. As the company already dominates the Egyptian market, most of the growth in revenues has come from exports and geographical expansion in the region. Sales to the ME region, Africa and Europe currently represent 59% of total company sales. Going forward, and in view of the company's focus on expanding its presence in other regional markets, we expect the contribution of the domestic Egyptian market to fall further.

El Sewedy eyes LCE markets

Four pillars of growth strategy

The company's strategy is built around four main themes:

I. Maintain leadership position in Egyptian market: El Sewedy is by far the largest cables producer in Egypt. With a domestic production capacity of 78,000 tons, it represents 55 % of the country's total cables production capacity. The current expansion plans are expected to take this capacity to 117,900 tons by 2008. In May 2007, El Sewedy acquired Egypt-based Al Watania Company. We expect the developments to further consolidate the company's dominant market share and position it to realize its ambitious targets from exports.

II. Make inroads into new markets witnessing high spending on infrastructure: Riding the change unfolding in the kingdom, El Sewedy Cables is currently establishing a manufacturing plant in Saudi Arabia with a production capacity of 29,500 tons. The plant, due to come on stream in Q3 08, is considered an important peg in the company's strategy to gain a firm foothold in the largest market in the ME region. Cables consumption in the ME region stands approximately at 700,000 tpa and is expected to exceed the 840,000 tons by 2009. This is marginally behind the expected announced capacity of 856,000 tons, supported by rising consumption in power and high infrastructure spending in the GCC.

III. Expand capacities in low cost countries: Stretching resources where they yield greater competitive advantage, El Sewedy is expanding the production capacity of its manufacturing plant in Syria from the current level of 15,600 tons to 24,000 tons by Q3 08. The Syrian unit will likely be used as an exporting base to meet demand from neighboring markets.

Advantages matrix of El Sewedy's enhanced regional presence

Syria	Sudan
Low cost environment (energy, labor, and transport). Export base for neighboring countries, especially Iraq.	Cable market characterized by excess demand. Sudanese government imposed 20 % custom duty on imported cables to protect local industry.
Saudi	Libya
Strong budget surplus supporting overall investment and infrastructure spending. Launching of new power projects in the GCC with an estimated cost of SAR 50 bn over 2006-2017 Several industrial and economic cities under development to trigger economic development	First high voltage cables manufacturer. Sustained high oil prices and a liberalizing economy presents bullish markets with a strong macro backdrop . Rising cooperation with the west, particularly USA and Europe

IV. Underpin its vertical integration model and diversifying product mix on its core or related industry through acquisitions or creating new companies.

Initiatives –Bringing Strategy to life

Greenfield Transformer Unit

In June 2007, El Sewedy announced that it will invest USD 50 mn in a greenfield operation for the production and distribution of both power and dry type transformers. The project, with initial production capacity of 600 dry type transformers and 105 power transformers, will be the first of its kind in Egypt and the ME. Production of dry type transformers is expected to commence by April 2008, while that of power transformers by Q1 09. The new plant enjoys ten years tax exemption from the start of production. In terms of application, dry type transformers are used in chemical plants, oil, and gas refineries, hospitals, hotels, and schools; while power transformers are used in utilities, power plants and rapid transmission projects.

Acquisition of Electrometers Major

In November 2007, El Sewedy acquired, in partner ship with El Sewedy Electrometers, 68.3 % in the Slovenian-based company, Iskraemco, for a total consideration of EUR 26.3 mn. Iskraemco, being the third largest player in the European market and the 7th largest globally, offers El Sewedy opportunities to:

- Access more than 100 markets through Iskraemeco's plants in Slovenia, India and Malaysia.
- Diversify its product mix in light of the stated intention of Egypt's Ministry of Electricity to substitute mechanical meters by electrometers.
- Leverage its own industry knowhow and regional expertise to secure a sustain-able advantage.

Establishment of Copper Cathode Production Unit

Moving to upstream industries

Staying focused on its vertical integration business model, the company, in June 2007, attained approval for establishment of a free zone company in El Ain El Sokhna, Egypt, for production of 300,000 tpa of copper cathodes. Total investment cost for the project is USD 850 mn where El Sewedy's stake is expected to be 74 % and the remaining stake will be owned by Glencore International. Glencore international is one of the largest global suppliers of a wide range of commodities and raw materials to industrial consumers. El Sewedy and Glencore have appointed a leading consultant company to perform the detailed feasibility study and basic engineering for the project, the conclusions of which are expected to be submitted by 2008 end. If the said study gains approval by both parties, construction of the project is proposed to be completed within next 30 months. The new smelter project will convert concentrated copper to cathode, which is currently imported on a premium above the copper LME announced price. El Sewedy's copper rod production facilities will convert the produced copper cathodes into copper rods, with one ton of concentrated copper producing 0.3 tons copper cathodes, and, finally, to power copper cables.

The new project will offer El Sewedy the following:

- Improved overall margins, and reducing exposure to the fluctuating global copper prices.
- One mn ton of sulphuric acid as a by product from the smelter plant which could be sold in the local market as Egypt is a net importer of the sulphuric acid. Widely used in the fertilizer industry, average selling price of sulphuric acid is in the range of USD 50 – USD 55 per ton. According to the company's management, the smelter project is expected to add incremental earnings of USD 50 mn from the sale of sulphuric acid in the local market.
- Currently, El Sewedy produces approximately 80% of its required raw materials in-house. Given a successful vertical integration business model, El Sewedy Cables's value proposition is expected to push the company ahead of its regional peers in terms of both margins and profitability.

SWOT Analysis

In our opinion, while the main risk for El Sewedy is a slowdown in the overall spending on infrastructure and resultant over-capacity, we do not expect it to occur during the coming period. Our confidence stemming from a given likelihood of sustained economic and population growth in the region. Moreover, the fiscal cushion provided by budget surpluses of target economies is expected to maintain overall infrastructure spending, as a percentage of GDP, within the same level.

SWOT Analysis

Strengths	Weaknesses
• Successful vertical integration model • Technical knowhow • Strong historical track record • Market credibility in terms of product quality and delivery.	• FX risk given the rising prices of raw material • Increase in copper prices
Opportunities	**Treats**
• Strong budget surplus driving investment and infrastructure spending • Launching of new power projects across the region • Allocation of EGP 9.9 bn for new power plants in Egypt	• Drop in oil prices on the back of global economic slow down • Bargaining powers of suppliers • Political risks particularly in Syria.

Risks

Disruption in the supply of raw materials
Copper and aluminum are the main raw materials for production and there are limited suppliers for copper and other raw materials. Currently, United Metals, El Sewedy subsidiary, secures copper in the open market from suppliers. Disability of sustaining good relation with these suppliers could adversely impact accessibility of raw materials and, hence, the business.

Highly competitive market
Cables industry is highly competitive in terms of prices, quality, timing, and payment policy. Several regional players are currently expanding either in their home markets or regional markets (Saudi Cable, Gulf Cable, Riyadh Cables, and Ducab) and it is likely that the industry will witness further competition as producers cross into each others domestic markets. Furthermore, global cable players may seek to move into low cost producing countries or may acquire or establish partnerships with local competitors in the Egyptian market.

Power Cables in Egypt

Capacity

Total power cables production capacity in Egypt is estimated at 140,000 tpa, with approximately 50 % channelled towards local consumption. We estimate the local market size of the cables industry to be approximately between EGP 2.8 bn and EGP 3.0 bn, representing approximately 30 % of infrastructure spending in Egypt for the year 2006. During the period 2000-2006, total cables production in Egypt increased by CAGR of 10%, copper cables increased by CAGR of 13 % reaching 65,000 tpa, while that of aluminium cables increased by CAGR of 5.2 %, reaching 40,000 tpa. Total current cables consumption stands at around 68,000 tpa after recording a CAGR of 5 % during the period 2001-2006. During 2006, copper and aluminium consumption were estimated at 30,000 and 38,000 tpa respectively.

A Net cables exporter

Egypt is net cable exporter

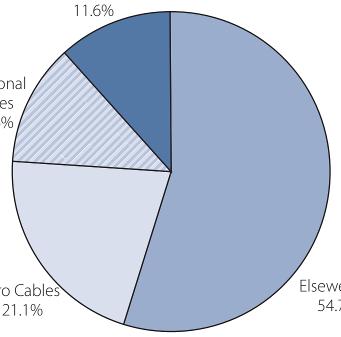
Cables production capacity in Egypt is expected to reach 183,000 tons by 2008 as opposed to an expected local consumption of approximately 77,000 tons, creating a significant surplus for export, which it manages due to a relatively low cost base, and shortage of supply in many neighbouring markets. El Sewedy, which will increase its local capacity to 117,900 tons by Q3 08, is eyeing the top position in power cables production across the region.

Competition

Limited direct competition in Egypt

Competition in the Egyptian cables market is relatively limited with four main players namely, El Sewedy Cables (55 %), Egypt Electro Cables (11 %), Giza Cables (7 %), and International Cables (8 %), with the remaining share fragmented among other smaller players. It is important to note that we calculate El Sewedy's market share based on the capacity of its manufacturing plants in Egypt.

Cables market share in Egypt, 2006



Source: El Sewedy Cables

Egyptian cables capacity

Egypt Cables Production Capacities	2006	2007	2008
Tons	Actual	Actual	Estimate
*El Sewedy	65,750	78,000	117,900
Giza Cables	9,205	9,205	9,205
Electro cables	15,000	15,000	15,000
International cables	10,520	10,520	10,520
Other	31,025	31,025	31,025
Total	131,500	143,750	183,650
Consumption	69,204	72,131	77,060

Source: El Sewedy Cables
** Egypt capacity*
Consumption growth is based on growth in power generation (-source: BMI)

Demand Drivers

Rising infrastructure investments

Rising spending on the electricity and infrastructure spend is the main driver of growth in cables demand in Egypt.

Investments in construction, electricity and water

Implemented Investments (EGP Mn)	2004	2005	2006
	Actual	Actual	Estimates
Real GDP	381,001	398,528	426,149
Electricity & Water	8,689	9,551	8,260
Construction & Building	1,089	1,189	4,110
Infrastructure Spending	9,778	10,740	12,370
%age to GDP	2.57%	2.70%	2.90%

Source: CBE

Throughout our forecast horizon, we maintain infrastructure investments to GDP ratio within 3 % level, thus yielding expected infrastructure investments of between EGP 12.5 bn and EGP 15 bn annually.

New power plants

In September 2007, the Egyptian government allocated EGP 9.9 bn to construct three power plants at Sidi Krir and West Cairo. The government's long-term plan, ending 2012, has called for construction of 17 new power plants doubling the current generated capacity of 6 GW to almost 12.9 GW.

Upcoming power projects

Project	Capacity MW	Cost USD million
Zaafarana Wind farm	320	530
Sid Krir	750	350
West Cairo	700	300
El-Tebbine	650	260
Total	2,420	1,440

Source: MEED

Rising electricity consumption per capita

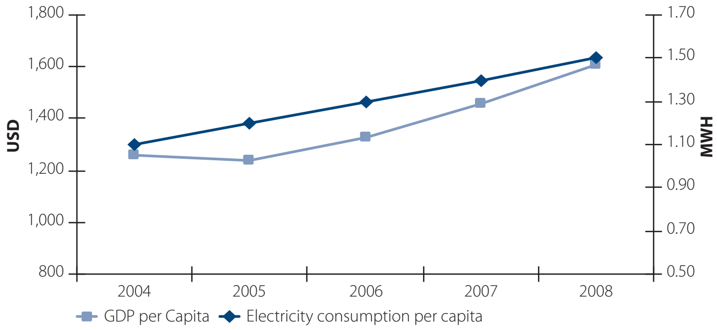
Rising demand scenario

The increased capacity will cater to the growing demand for electricity which has recorded a rise from 69,743 kilo watt per hour in 2002 to 92,814 kilo watt per hour in 2006. We attribute the rise in electricity demand to:

I. Rapid population growth of about 2% a year, coupled with an improvement in GDP per capita.

II. Impressive industrial CAPEX - Industrial sector represents approximately 40 % of the electricity consumption in Egypt

Expected GDP per capita and electricity consumption per capita in Egypt



Source: SHUAA Capital & BMI

Analysis and Forecasts

Production and utilization

Unique model with existing capacities in key emerging markets

El Sewedy is expected to almost double its power cables capacity from the current capacity of 124,640 tpa to a targeted 216,512 tpa in 2009. The expansions are expected to come from the company's plants in Egypt and Syria, in addition to its new plants in Saudi Arabia and Libya which are expected to come on stream in 2008. Given the company's dominant status in the local market and overall surplus capacity in the country, the new expansions in Egypt are expected to cater to the exports market. Consequent to these expansion plans, the contribution of manufacturing plants in Egypt is set to fall from 73% of total capacity in 2007 to 56% by the end of our forecast horizon.

El Sewedy Cables production capacities

El Sewedy Cables capacities	2006	2007	2008	2009
Tons	Actual	Estimate	Forecast	Forecast
Egypt	65,750	78,000	117,900	117,900
Sudan	9,000	9,000	9,000	9,000
Syria	15,600	17,100	24,000	24,000
Libya	0	0	13,600	13,600
Saudi	0	0	25,000	29,500
Total	**110,890**	**124,640**	**212,012**	**216,512**

Source: El Sewedy Cables

Planned capacity and expected average utilization rate

	2005	2006	2007	2008	2009
Volume in Tons	Actual	Actual	Estimate	Forecast	Forecast
Copper Cables	41,760	81,490	89,240	156,512	161,012
Utilization rate	83%	73 %	75 %	75 %	82 %
Aluminium Cables	17,300	29,400	35,400	55,500	55,500
Utilization rate	80%	91 %	80 %	80 %	85 %
Total	**59,060**	**110,890**	**124,640**	**212,012**	**216,512**

Source: El Sewedy Cables & SHUAA Capital

We estimate a drop in the average utilization rate during 2007 and 2008 due to the addition of new capacity during these two years which, we believe, may not be fully absorbed immediately. Going forward, we maintain an average utilization rate for both the copper and aluminium cables at 85 %.

El Sewedy Cables expected sales volume

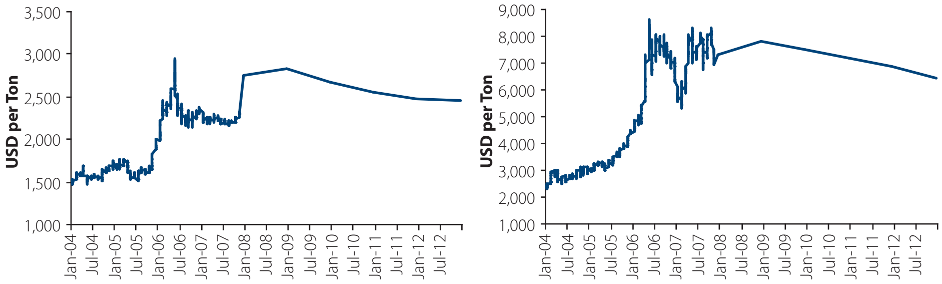
Sales	2005	2006	2007	2008	2009
Volume in Tons	Actual	Actual	Estimate	Forecast	Forecast
Copper Cables	33,991	37,840	50,198	88,038	99,022
Sales to production	98%	64%	75 %	75 %	82 %
Aluminium Cables	12,671	23,423	24,794	38,872	41,301
Sales to production	92%	88%	88%	88%	88%
Total	46,662	61,263	74,992	126,910	140,323

Source: El Sewedy Cables & SHUAA Capital

Prices Outlook

Cables prices are heavily influenced by copper and aluminium prices as copper represents approximately 83 % of the copper cables cost, while aluminium represents approximately 63 % of the aluminium cables cost. The company prices its cables on a premium over both the copper and aluminium prices as per London Metal exchange (LME). Accordingly, we estimate average cables prices based on a premium of USD 1,100 over copper and aluminium cables cash cost.

Copper and Aluminum Price Outlook



Source: Bloomberg, SHUAA Capital

Copper cables pursue rising copper pricing

In 2006, copper prices jumped approximately 90% above 2005 prices from USD 3,507 to USD 6,661 on the back of rising demand, especially from China. Accordingly, El Sewedy's selling price per ton for copper cables increased 20% to USD 9,121 per ton. As the increase in the prices of cables fell short of the increase in copper prices, El Sewedy's copper cables margins fell from 15.58 % in 2005 to 14.98 % in 2006.

Copper and aluminum prices outlook

Price per ton	2006	2007	2008	2009	2010
USD per ton	Actual	Estimate	Forecast	Forecast	Forecast
Copper	6,661	7,306	7,525	7.224	6,935
Growth rate	90.10%	10%	3%	-4 %	-4%
Aluminium	2,323	2,227	2,285	2,171	2,062
Growth rate	39.28%	-4.15%	2.60%	-5%	-5%

Source: Bloomberg& SHUAA Capital estimates

Throughout our forecast horizon, we assume a sustained USD 1,100 premium over the copper cables cash cost, as we believe that such a margin will be sustainable over the long-term.

Copper cables prices Outlook

Copper cables	2007	2008	2009	2010
USD per ton	Estimate	Forecast	Forecast	Forecast
Copper cost % of total cost	82 %	82 %	82 %	82 %
Average cost (USD per ton)	8,536	8,792	8,353	7,935
Average selling price (USD per ton)	9,720	9,977	9,536	9,118

Source: SWDY Cable &SHUAA Capital estimates

Relatively stable aluminum prices

During 2006, aluminium prices increased by 40% to reach USD 2,326 per ton as compared to USD 1,667 per ton in 2005. At the same time, El Sewedy's aluminium cables selling price increased only by 1 % to reach USD 5,581 per ton in 2006 versus USD 5,548 per ton in 2005. Our expected selling price for aluminium cables is estimated based on a premium of USD 1,100 over the aluminium cables cash cost.

Aluminum cables prices outlook

Aluminium Cables	2007	2008	2009	2010
USD per ton	Estimate	Forecast	Forecast	Forecast
Aluminium cost % of total cost	63 %	63 %	63 %	63 %
Average cost (USD per ton)	3,534	3,639	3,458	3,285
Average selling price (USD per ton)	4,872	4,983	4,792	4,610

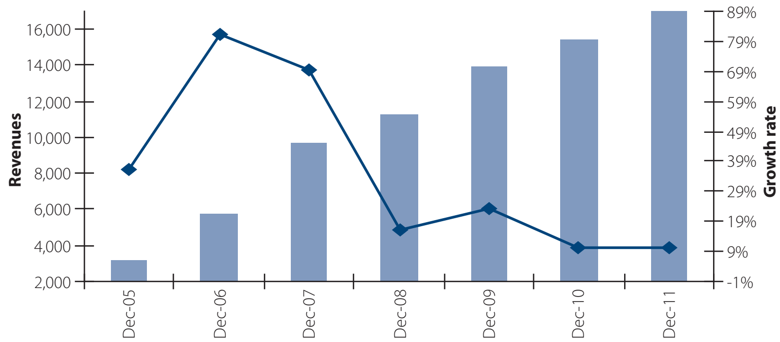
Source: SWDY Cable & SHUAA Capital estimates

Revenues

Revenues to grow by CAGR of 25%

The expected increase in the company's production capacity is expected to be fully reflected in its revenue figure. Throughout our five year forecast horizon, we expect El Sewedy's revenues figures to increase by CAGR of 25 %, as planned capacity expansion for 2008 and 2009 are realized. We expect 2007 revenues to come at approximately EGP 9.7 bn, 69 % higher than the 2006 figure.

El-Sewedy revenues



Source: SWDY cable and SHUAA Capital estimates

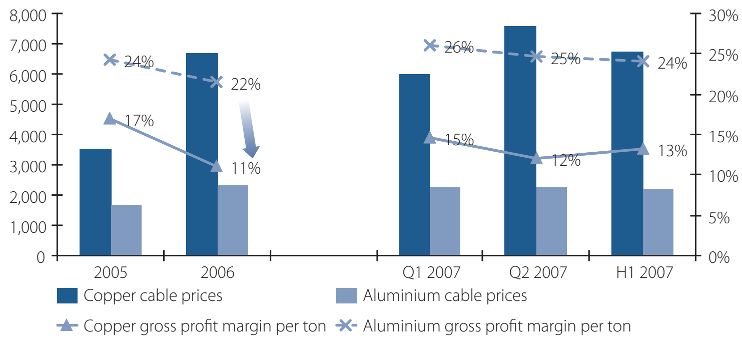
Margins and Returns

Vertical integration enhances margins

El Sewedy has successfully accomplished a high degree of vertical integration, reducing its reliance on imported raw materials and, thus, avoiding some of the volatility in global prices. Currently, approximately 80 % of El Sewedy's required raw materials are produced in-house and the proportion is expected to increase if the company commences production of copper cathode from its new smelter facility in Egypt.

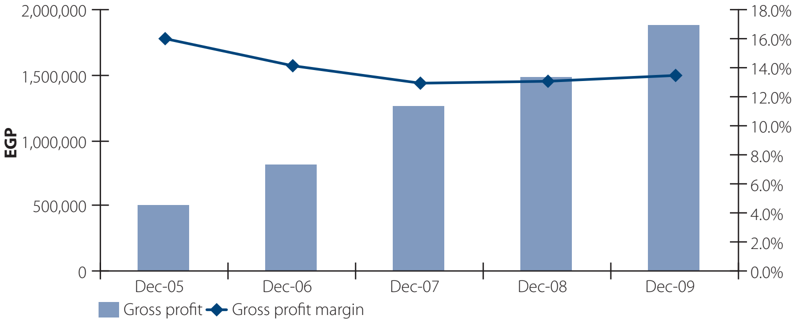
The preceding period witnessed a rise in both the copper and the aluminium prices, where the first represents approximately 82 % of the average cash cost per ton, while the latter represents approximately 65 % of the cash cost per ton. For 9M FY07, El Sewedy's gross profit margin was around 13 % as opposed to 15 % during the 9M FY06. We attribute the margins squeeze to a significant jump in the copper price from an average of USD 6,600 per ton to an average of USD 7,160 per ton, an 8 % yoy rise.

Impact of copper and aluminum prices on gross profit margin per ton

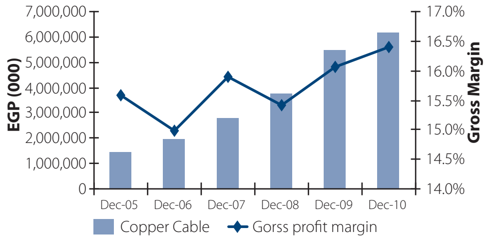


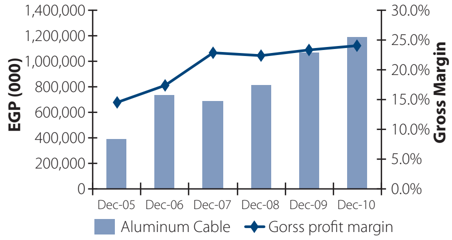
Source: El Sewedy Cables

El Sewedy's gross profit margin outlook



Source: El Sewedy Cables & SHUAA Capital





Source: El Sewedy Cables and SHUAA Capital estimates

Capital expenditures

CAPEX bill stands at USD200 million

According to management, the consolidated CAPEX is approximately USD 265 mn, of which El Sewedy's share is USD 203 mn. The announced capital expenditure does not include the new smelter production capacity. The estimated CAPEX per ton for the existing plant stands at USD 1,500 per ton, while the required CAPEX per ton for Greenfield is approximately USD3,000 per ton.

Expected CAPEX figures for El Sewedy Cables

Country	Project Details	Total cost	SWDY	SWDY Cost	Existing Capacity	Target Capacity	Completion
		(USD 000)	Stake	(USD 000)	Tons	Tons	date
Egypt	Cables	60,000	100%	60,000	78,225	117,900	Q3-2008
Saudi	Cables	80,000	60%	48,000	0	25,000	Q3-2008
Libya	Cables	65,000	55%	35,750	0	13,600	Q3-2008
Syria	Cables	10,350	94%	9,729	17,100	24,000	Q3-2008
Egypt	Transformers	50,000	100%	50,000			
Total		265,350		203,479	95,325	180,500	

Source: El Sewedy Cables

Capital Expenditures - El Sewedy's share	2006	2007	2008	2009
USD (000)	Actual	Estimate	Estimate	Estimate
	25,143	55,979	95,579	29,975

Source: El Sewedy Cables

Leverage

Low net debt to equity ratio

El Sewedy Cables enjoys a relatively low debt to equity ratio and the company's profitability shows its comfort ability to cover its debt. During the 9M FY07, El Sewedy net debt to equity was 26 %, with most of the company's debt being short-term to finance working capital.

Net profit

Net profit to increase by CAGR of 23%

During the period FY03-FY06, El Sewedy Cables witnessed a net profit CAGR of 9% translating to a net profit figure of EGP 508 mn for FY 06 as opposed to EGP 394 mn in 2003. During the 9M FY07, El Sewedy Cables recorded a net profit figure of EGP 527 mn as opposed to EGP 328 mn in 9M FY06. We foresee El Sewedy Cables to record net profits of approximately EGP 732 mn for FY 07, a growth of 44 % for the year. Going forward, we expect El Sewedy Cables's net profit to grow by CAGR of 23%, underpinned by sustained margins and growing capacity and sales.

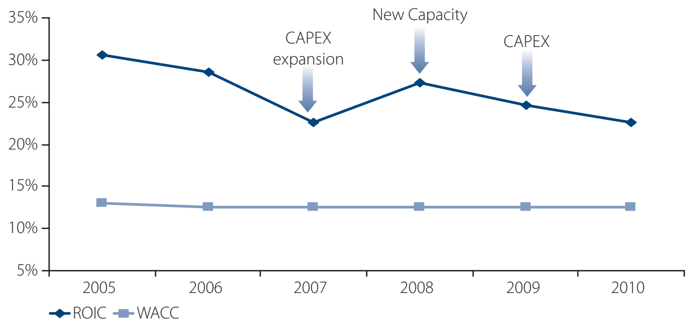
Dividends

We expect dividends streams to take place as of 2010, given the company concluding its overall announced expansion. We expect a dividend payout of 45% as of 2010.

ROIC

During the preceding period, El Sewedy Cables reported strong returns on its invested capital (ROIC), averaging around 30%. Going forward, we expect El Sewedy's ROIC to hover between 20% and 25%.

El Sewedy ROIC versus WACC



Source: SHUAA Capital

Valuation

DCF target price stands at EGP 111.06 per share

We initiate coverage on El Sewedy Cables with a Neutral investment recommendation based on a Discounted Cash Flow (DCF) target price of EGP 111.06 per share, implying a 9.0% downside from the current market price of EGP 122.00 per share.

El Sewedy's leading position in the region with a presence in five core markets as well as its aggressive acquisition strategy are key drivers for earnings growth going forward. The company is among the best positioned in the region to benefit from the growth in demand for power, and retains the best profitability margins and lowest production cost. However, given the strong performance by the company's stock over the past 12 months, in which it managed to record over 200% in gains, we believe that the growth El Sewedy is expected to deliver has already been reflected in the current stock price. This is also evident by the company's high price to earnings multiple relative to regional peers.

The DCF target price is based on five year forecast horizon. The weighted average cost of capital is 13.2% based on a cost of equity of 14.2 % and a cost of debt of 8.4 %. Our cost of equity calculation is based on the capital asset pricing model (CAPM) where our risk free rate is 9.2 %, market risk premium is 5%, and a beta of one. Our utilized growth rate for the terminal value calculation is 5%. Our DCF model has yielded a target price of EGP 111.06 per share.

Sensitivity Analysis

Perpetual growth	4.00%	5.00%	6.00%
WACC			
12.17%	116.28	130.95	150.39
13.17%	99.92	111.06	124.94
14.17%	86.85	95.29	105.79

Source: SHUAA Capital estimates

Financials

Income Statement

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
EGP (000)	Actual	Estimate	Estimate	Estimate	Estimate
Revenues from operation	5,746,271	9,735,898	11,323,835	13,938,868	15,385,429
Cost of goods sold	4,936,909	8,470,231	9,841,491	12,057,466	13,235,495
Selling and general expense	172,384	253,133	294,420	362,411	400,021
EBITDA	**636,979**	**1,012,533**	**1,187,924**	**1,518,991**	**1,749,913**
Depreciation	66,152	84,083	127,044	182,106	207,837
Operating profit(EBIT)	570,827	928,450	1,060,880	1,336,885	1,542,075
Interest expense	94,643	203,487	208,069	264,714	294,809
Interest income	64,000	71,158	76,961	99,913	155,601
Earnings before taxes (EBT)	544,968	796,122	929,773	1,172,084	1,402,867
Income taxes	11,484	27,864	32,542	41,023	49,100
Net profit after unusual item (NPAUI)	533,483	768,257	897,231	1,131,061	1,353,767
Minority interest	25,429	35,825	46,489	164,092	196,401
Net profit attributable to shareholders (NAI)	**508,054**	**732,432**	**850,742**	**966,969**	**1,157,366**

Source: SWDY CABLE & SHUAA Capital estimates

Balance sheet (EGP 000)

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
EGP (000)	Actual	Estimate	Estimate	Estimate	Estimate
Cash	1,464	3,310	3,850	4,739	5,231
Time deposits	395,322	384,806	499,565	778,003	755,518
Net Accounts receivable	1,211,278	1,529,118	1,664,604	2,185,614	2,412,435
Inventory	1,746,371	1,609,344	2,263,543	2,712,930	2,647,099
Due from HC's & affiliates	21,984	97,359	113,238	139,389	153,854
Other current assets	266,644	681,513	566,192	696,943	769,271
Projects under implementation	145,516	253,133	90,591	111,511	123,083
Net fixed assets	557,879	689,472	956,971	1,293,172	1,299,684
Long-term investments	4,284	136,303	158,534	195,144	215,396
Total assets	**4,880,322**	**5,937,575**	**7,087,108**	**9,202,587**	**9,884,752**
Due to banks	1,927,837	1,781,882	2,102,724	2,922,567	2,687,205
Current portion long-term debt	27,530	77,084	0	0	0
Accounts payable	401,639	592,916	590,489	723,448	794,130
Due to HC's & affiliates	13,484	16,940	19,683	24,115	26,471
Long-term debt	19,142	24,885	12,442	6,221	0
Total liabilities	2,468,282	2,621,395	2,873,698	3,858,116	3,707,329
Paid in capital	1,107,518	1,200,000	1,200,000	1,200,000	1,200,000
Legal and statutory reserves	0	35,889	77,576	124,957	181,668
General and other reserves	0	0	0	0	0
Total shareholders equity	2,412,040	3,316,179	4,213,409	5,344,471	6,177,423
Total liabilities and equity	**4,880,321**	**5,937,574**	**7,087,108**	**9,202,587**	**9,884,752**

Source: SWDY Cables & SHUAA Capital estimates

Free Cash Flow

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
EGP (000)	Actual	Estimate	Estimate	Estimate	Estimate
NOPLAT after minority	536,640	737,614	954,050	1,081,854	1,264,451
Add: Depreciation	66,152	84,083	127,044	182,106	207,837
Change in working capital	(1,134,552)	8,231	(753,019)	(720,962)	(78,088)
Capital expenditures	(134,228)	(313,483)	(535,243)	(167,860)	(194,292)
Free Cash flow	**(665,989)**	**516,445**	**(207,167)**	**375,137**	**1,199,908**

Source: SWDY Cables & SHUAA Capital estimates

Financial Ratios

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
	Actual	Estimate	Estimate	Estimate	Estimate
Growth					
Revenue	81%	69%	16%	23%	10%
NAI	54%	44%	16%	14%	20%
Profitability					
Return on average equity	27%	26%	23%	20%	20%
Return on average assets	14%	14%	13%	12%	12%
Gross profit margin	14%	13%	13%	13%	14%
EBITDA margin	11%	10%	10%	11%	11%
NAI margin	9%	8%	8%	7%	8%
Liquidity					
Current ratio	1.70	1.74	1.92	1.97	2.06
Quick ratio	0.93	1.18	1.19	1.21	1.45
cash ratio	0.17	0.15	0.18	0.21	0.21
Activity					
Accounts receivable days on hand	62.29	51.37	51.47	50.41	54.54
Inventory days on hand	95.69	72.30	71.82	75.32	73.91
Accounts payable days on hand	23.18	21.43	21.95	19.89	20.93
Debt					
Net debt to equity	65%	45%	38%	40%	31%
Leverage ratio	49%	47%	42%	41%	40%
Per Share					
Earnings per share	4.23	6.10	7.09	8.06	9.64
Book value per share	20.10	27.63	35.11	44.54	51.48
Dividends per share	0.00	0.00	0.00	0.00	4.34
EBITDA per share	5.31	8.44	9.90	12.66	14.58
Revenues per share	47.89	81.13	94.37	116.16	128.21
FCF per share	(5.55)	4.30	(1.73)	3.13	10.00
Price multiples					
Price to earnings	28.82	19.99	17.24	15.06	13.18
Price to book value	6.07	4.41	3.48	2.92	2.52
Price to free cash flow	(21.98)	28.35	(70.08)	38.39	12.11
Price to sales	2.55	1.50	1.29	1.05	0.95
Price/EBITDA	22.98	14.46	12.34	9.60	8.32
EV/Sales	2.27	1.35	1.15	0.87	0.80
EV/EBITDA	20.51	12.98	10.98	7.97	7.01

Source: SWDY Cables & SHUAA Capital estimates

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SHUAACAPITAL PSC

Saudi Cable Company (2110.SE)

Equity Research

Initiation Coverage

February 15th, 2008

Current Price:	SAR 69.75	**Country:**	Saudi Arabia
Fair value Target:	SAR 109.43	**Sector:**	Industrial / Cables
Recommendation:	BUY	**Exchange:**	Saudi Stock Market (TADAWUL)

Sector Coverage Team

Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

- Saudi Cable Company (SCC), with a production capacity of 85,000 tpa in 2007, is the fourth largest cables producer in the MENA region and the second largest in Saudi Arabia. An expansion plan which is currently underway is set to increase total production capacity to 120,000 tpa by end-2008.

- The company's near-term capacity additions in addition to the impact of rising demand for power cables on the back of strong infrastructure spending in Saudi Arabia are set to drive the company's growth going forward. Constantly improving margins will further magnify this growth make this trend particularly visible on the company's bottom line.

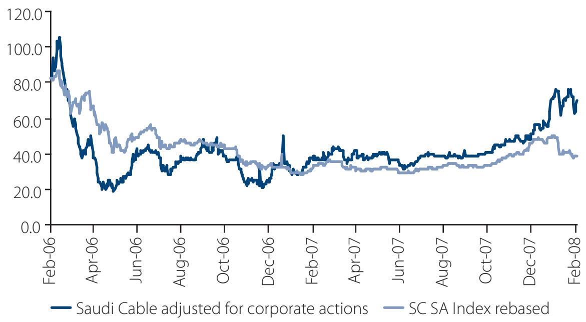
- We initiate coverage on Saudi Cable with a Buy recommendation based on a target price of SAR 109.43 per share, implying a 57% upside potential over the current market price SAR 69.75 per share.

Year	Net profit (SAR '000)	BV (SAR '000)	EPS (SAR)	BVPS (SAR)	ROAE (%)	P/E (X)	EV/EBITDA (X)	P/BV (X)
Dec-2009E	576,259	1,701,614	7.58	22.39	37.3%	7.58	6.06	3.12
Dec-2008E	450,292	1,384,672	5.92	18.22	37.0%	11.77	7.78	3.83
Dec-2007E	302,698	1,046,952	3.98	13.78	32.8%	17.51	11.34	5.06
Dec-2006	102,672	797,538	1.35	10.49	15.3%	51.63	26.14	6.65

52-week range (SAR)	31.75-76.25
Number of Shares (000)	76,000
Free Float (%)	80%
Market Cap (SAR 000)	5,301,000
Market Cap (USD 000)	1,421,180
Div. Yld. 2006 (%)	0%

Source: Reuters, SHUAA Capital

Saudi Cable stock performance vs. SC SA Index



Investment highlights

- Saudi Cable Company (SCC) was established in 1975 in Jeddah. With a production capacity of 85,000 tpa in 2007, the company is the fourth largest cables producer in the ME region and the second largest in Saudi Arabia. Total production capacity is expected to reach 120,000 tpa by end-2008.

- The company operates manufacturing units in Saudi Arabia and Turkey. Total capacity in Saudi Arabia stands at 65,000 tpa and expected to reach 100,000 tpa by the end of 2008. Turkish capacity stands at 20,000 tpa.

- In addition, Saudi Cable owns a 50% stake in the Bahraini based Midal Cables, one of the key producers of aluminium rods with total production capacity of 150,000 tpa. We estimate that Midal Cables contributed around 16% of SCC's net income in 9M FY07.

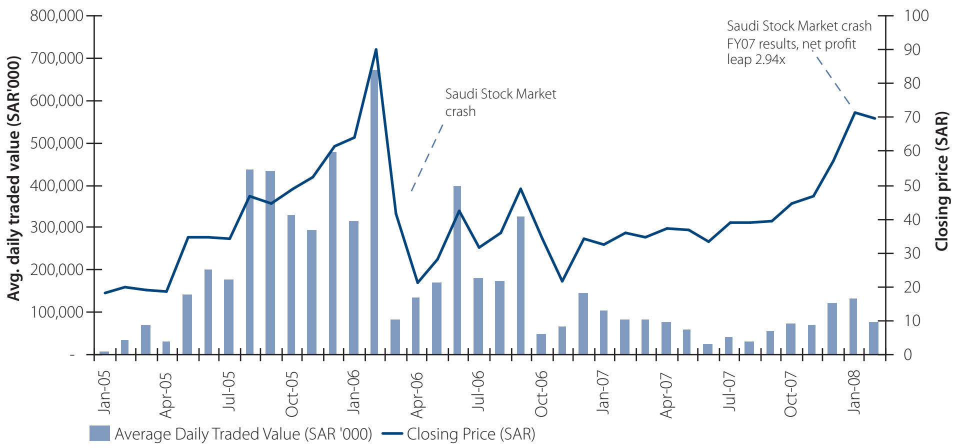
- The company's strategy revolves around its core market in Saudi Arabia which is witnessing increasing demand for power and a rising spend on infrastructure. Electricity consumption per capita in Saudi Arabia is expected to reach 8.6 MWH by 2011 as opposed to 6.4 Mega Watt per Hour (MWH) in 2004, a CAGR of 6.1%, which compounds the impact of overall strong population growth in the country.

- Saudi Cable reported preliminary net profit for 2007 of SAR 302 mn, a 194% increase over 2006. The strong results were achieved on the back of higher production capacities as well as higher income from Midal Cables which raised its production during the year.

- We expect the company's net profits to increase in 2008 by 49% to reach SAR 450 mn. We expect net profit to grow by CAGR of 43 % over the period 2006-2012, supported by the capacity increase and a robust domestic demand environment.

- The company's near-term capacity additions in addition to the impact of rising demand for power cables on the back of strong infrastructure spending in Saudi Arabia are set to drive the company's growth going forward. Constantly improving margins will further magnify this growth make this trend particularly visible on the company's bottom line.

- We initiate coverage on Saudi Cable with a Buy recommendation based on a target price of SAR SAR 109.43 per share, implying a 57% upside potential over the current market price SAR 69.75 per share.



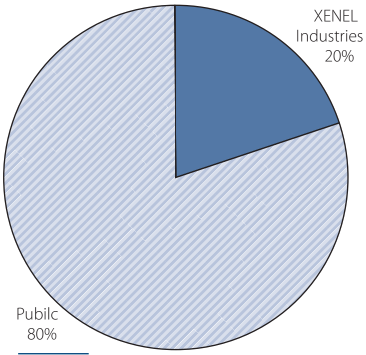
Overview

Second largest cables producers in Saudi Arabia, fourth in the region

Saudi Cable Company (SCC) was established in 1975 in Saudi Arabia, making it one of the oldest cable manufacturers in the GCC. With a total production capacity of 85,000 tpa in 2007, it is the second largest cables producer in Saudi Arabia and the fourth largest in the ME region. The company operates manufacturing units in Saudi Arabia (65,000 tpa capacity) and Turkey (20,000 tpa capacity). An expansion project in Saudi Arabia, currently underway, is set to increase the company's total capacity to 120,000 tons by the end of 2008.

Shareholder Structure

XENEL Industries is the largest shareholder in Saudi Cable with a holding stake of 20%. XENEL Industries, a Saudi company based in Jeddah and founded in 1973, is engaged in diversified sectors, including energy, construction, infrastructure development, healthcare, industrial services, information technology, logistics, and real-estate.



Source: SCC

Capital increase amendment

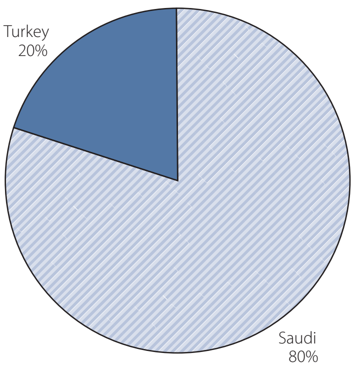
In January 2006, SCC raised SAR 120 mn in new equity directing the raised funds to bid for new power projects in Saudi Arabia. Saudi Electricity Company, the only power provider in Saudi Arabia, announced its intention to execute several projects including electricity transmissions and distribution, in addition to new power plants which will be financed through a BOT system. Additionally, SCC will most likely allocate a percentage of the proceeds to finance the company's working capital necessitated by the recent hike in the raw materials prices, particularly copper.

Group Structure

Plant facilities in Saudi and Turkey

Saudi Cable is a holding company with stakes in different companies operating inside and outside of Saudi Arabia, namely, Turkey, Bahrain and the UAE. Saudi Arabia represents the lion's share of revenues, at approximately 80 %, while the Turkish operations represent the remaining portion. Bahraini operations are not included in the consolidated revenues as SCC reports the income from Midal Cables as income from associates given that SCC owns 50% of the company. As for the UAE presence, it is presently just a representative office based in Dubai.

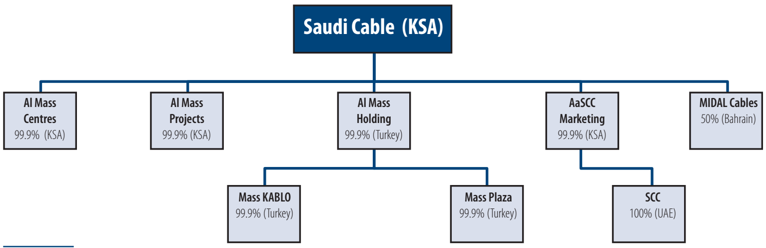
Breakdown of revenues by country-December 2006



Source: SCC

In addition to catering to demand within the Gulf region, the company has exported its products and services to more than sixty countries, including the USA, Europe, Australia, Japan, Philippines, Taiwan, New Zealand and Guam in the Pacific Ocean. SCC offers a range of cable and electricity services, turnkey projects, and designing of power and telecom networks.

Business Structure



Source: SCC

Saudi Arabian Operations
Saudi operations represent the majority of SCC's consolidated sales, at approximately 80% of the total, with a total production capacity of 65,000 tpa. The capacity, expected to reach 100,000 tpa by the end of 2008, will further consolidate the kingdom's dominance. In addition to the manufacturing operations in the country, the company owns three subsidiaries in Saudi Arabia as follows:

I. Al Mass Projects

Al Mass Projects executes power and telecom cables turn key projects. The company was established on the back of a successful electricity transmission project in Kuwait following the first Gulf war in 1991.

II. Al Mass Centres

Al Mass Center is the retail and distribution arm for Saudi Cable in Saudi Arabia. However, as SCC increased its cooperation with other major distributors across Saudi Arabia, the retail arm's activity has been diminishing.

III. Saudi Cable for Marketing

Saudi Cable for Marketing acts as the marketing arm for SCC. It also fully owns Saudi Cable (Emirates), a representative office based in the UAE acting as marketing and distribution office in the country.

Turkish Operation

The company's Turkish operations represent around 20% of its revenues with total production capacity at 20,000 tpa. This operation is managed under the umbrella of Mass Holding Company which is 99.9 % owned by SCC.

Mass Holding
Al Mass Holding Company, the operational arm of SCC in Turkey, is 99.92 % owned by SCC and, in turn, owns 99.9 % in Mass Kablo and Mass Plaza, both Turkey-based companies.

I. Mass Kablo

Mass Kablo directly owns 93.33 % in Deimrir Kablo and 99.93 % in Cavel Kablo.

II. Deimrir Kablo

Deimir Kablo is among Turkey's largest and most advanced cables producers. Since its establishment in 1982, the company produced low and medium voltage cables targeting the domestic market. Starting 1989, the company extended its range and started to offer high voltage cables. During 1995, Deimrir was the first Turkish cable company that exported power cables of 220 KV. Currently, the company produces both copper and aluminium power cables, and exports 40 to 50 % of its production to the Gulf region, particularly Saudi Arabia.

III. Cavel Kablo

Cavel is another Turkey based producer of both power and telecom cables.

IV. Mass Plaza

Mass Plaza is a Turkish real estate company that owns Mass Plaza commercial mall in Turkey.

Bahraini Operation

Midal Cables
Midal Cables, based in Bahrain, is one of the key producers of aluminum rod; aluminum alloy rod for mechanical and electrical applications; steel reinforced aluminum conductors, and aluminum alloy conductors for power transmission lines. The company started its operations in 1978 with an initial capacity of 20,000 metric tpa and, currently, boasts of a total production capacity of 150,000 metric tpa. Midal Cables is 50 % owned by Saudi Cable with income being reported as income from associate in SCC's books.

Al Zayani Investments, which owns the remaining 50 % of Midal, is a Bahraini investment company with investments in automotive, health care, manufacturing, real estates and services industry.

Business model

Saudi Cable is fine-tuning a business model that generates income from more diverse sources such as service offerings on the back of its significant product sales track record. The other critical peg of its business model is geographic dispersion to diversify risks and widen target market base. As a second largest cables manufacturer in Saudi Arabia, SCC has production facilities located in Saudi Arabia and Turkey, in addition to a 50% stake in Midal Cables, a Bahrain based aluminium rod producer. SCC's consolidated cables capacity is 85,000 tpa and is expected to reach 120,000 tpa by 2009. The company's income is derived from three main segments; cables sales income, contract income, and income from associates.

I. Cables: Cables revenues are generated from the company's production facilities in Saudi Arabia and Turkey. Cables revenues represent the vast majority of SCC's gross income, translating to SAR 1.5 bn for FY06, and representing approximately 93 % of SCC's annual turnover. During the 9M FY07, cables sales represented approximately 96 % of gross income.

II. Projects/ Contract: During the 9M FY07, contract revenues represented approximately 2.8 % of SCC's gross income. SCC successfully executed several projects through its project arm, SCC Projects, capitalizing on a strong regional track record and captive production facilities.

Income from Midal represents 16% of the net income

III. Associates: During the 9M FY07, income from Midal Cables and other associates was SAR 34.9 mn, representing 16 % of SCC's net profit during the 9M FY07.

Strategy

SCC's strategy is focused on the following pivots:

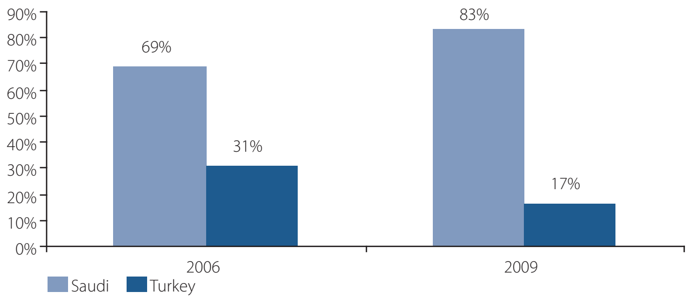
1. Maintaining its strong market share in Saudi Arabia,
2. Being aggressive on power cables and underweight telecom cables,
3. Strengthening its sales in the European market. SCC's core markets are Saudi Arabia, Turkey, UAE, and Bahrain.

Maintaining its strong market share in Saudi Arabia

Saudi Arabia's strong budget surplus underpins infrastructure spending

Being the second largest cables producer in Saudi Arabia, the largest economy in the GCC, SCC is well positioned to exploit macro growth linked opportunities in both Saudi Arabia and broader GCC markets. The sticky increase in the oil prices are positively impacting Saudi Arabia's fiscal health (budget surplus reached 22 % in 2006), thus enhancing the overall spending on infrastructure and construction activities. Several power projects have been announced to meet the growing demand for electricity from both the household and the industrial sector. Hence, the Saudi market will continue to be the company's top priority and not just for the growth potential. The Saudi market offers attractive margins relative to other markets. In order to consolidate its strong position in the Saudi market, SCC will raise its production capacity in Saudi from current level of 65,000 to 100,000 tpa by the end of 2008 for power cable and telecom cable combined. Its other activities in Saudi market include production of raw material and projects. The company recently acquired land in Jeddah, close to its existing plant facilities, for SAR 42 mn. The new land is likely to be used for a new cables production facility.

SCC production capacity (prior and post expansion)



Source: SCC

Focus on power cables

We believe that the company will overweigh its focus on power cables rather than telecom cables in view of the growing demand for electricity and the consequent expansion in Saudi Arabia's electricity network, as also due to growing investments in the construction and infrastructure projects. Concurrently, demand for telecom cables is expected to witness slowdown during the coming period. This shift in focus marks a reversal of trends as telecom cables outperformed electrical cable consumption since the beginning of the decade supported by the massive investments in the telecom sector and entry of new players across the board.

Strengthen its position in the European market

Turkish operation offers SCC an extended arm to the European market

Deimrir Kablo is considered SCC's extended arm in the European market as the company has successfully executed several turnkey jobs in Turkey. Also, SCC is able to export high voltage cable to western markets including US from Turkey, given the relatively low production cost.

Power Cables in Saudi Arabia

Supply

The total cables production capacity in Saudi Arabia is estimated at 295,000 tpa in 2007, with three main producers being Riyadh Cables, Saudi Cable and Jeddah Cables.

Saudi Arabia's major cable producers and their capacity

Tons per annum	2007	2009
Riyadh Cables	160,000	190,000
*Saudi Cable	65,000	100,000
Jeddah Cables	36,000	36,000
*El Sewedy Cables	0	25,000
MESC	19,000	19,000
Al Fanar Cables	15,000	15,000
Total	295,000	385,000

Source: Zawya
Saudi Capacity only

Demand

Our estimated figure for cables demand in Saudi Arabia is based on a percentage of the overall infrastructure spending in the country. Based on our calculation methodology, we see the demand for cables in Saudi Arabia reaching approximately 400,000 tpa by 2009, slightly higher than the expected supply of cables for that year.

Methodology in calculating expected demand

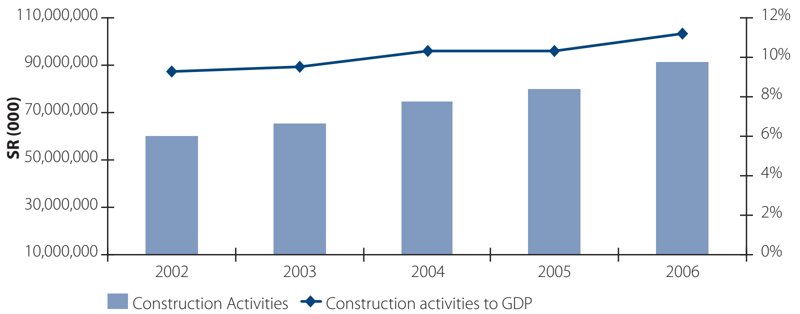
	2006	2007	2008	2009
Figures are in SAR	Estimate	Estimate	Estimate	Estimate
Project Activity	83,943	88,439	92,906	96,922
Projects /GDP (%)	10.3%	10.3	10.3	10.3
Cables spend % of infrastructure spending	10.00%	14%	14%	14%
Cables Spending	8,394	12,381	13,006	13,527
Average blended price for cables per ton SAR	22,313	32,003	34,243	33,901
Estimated Cables demand in tons	376,199	386,887	393,406	399,025

Source: SHUAA Capital estimates

Demand Drivers

Strong macro picture enhances projects spending
The continuous increase in the oil prices since 2003, has delivered a strong budget surplus in all GCC countries, facilitating increased overall government spending. Saudi Arabia, the world's largest oil producer, has benefited from the continuous rise in oil prices since 2002, taking its budget surplus from 6.4 % of GDP in 2002, to approximately 22 % in 2006. Accordingly, total project activity increased from SAR 60 bn to approximately 90 bn over the same period.

Construction spending in Saudi Arabia vis-à-vis the GDP



Source: BMI

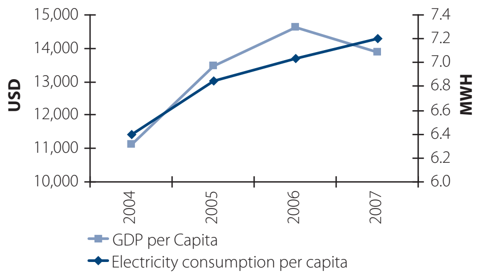
Strong demand for electricity boost demand for power cable

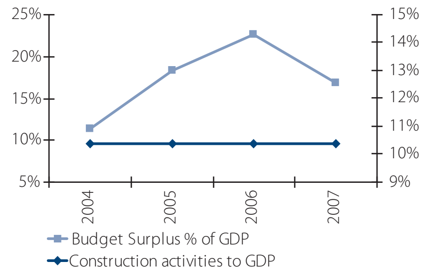
Coupling with an increase in the electricity usage

The usage of electricity generally measured in terms of consumption per person per MWH and is partially impacted by disposable income levels as well as national industrialization levels. Electricity usage is generally higher in rich countries as a result of the higher GDP per capita and more developed levels of industrialization. Hence, Saudi Arabia has one of the largest per capita electricity consumption in the ME, while growth in consumption is also among the highest. Electricity consumption per capita is expected to reach 8.6 MWH by 2011 as opposed to 6.4 MWH in 2004, a CAGR of 6.1%. This compounds the impact of overall strong population growth in the country.

The Ministry of Industry and Electricity estimates that Saudi Arabia will require up to 20 GW of additional power generating capacity by 2019.

GDP and electricity consumption per capita





Source: BMI

Execution of several power projects

Saudi Electricity Company has announced the execution of several power projects during the period 2006-2017 with an estimated investment cost of SAR 50 bn. According to the Ministry of Industry and Electricity, these new power projects should be able to cope with the growing demand.

Upcoming major power projects

Project	Capacity MW	Cost USD million
PP9	660.00	650.00
PP8	500.00	450.00
Al- Qurayyah	1,900.00	1,700.00
PP 10	2,000.00	1,800.00
Jubail IWPP	2,500.00	3,500.00
Ras al-zour	1,950.00	1,500.00
Other	2,080.00	5,030.00
Total	11,590.00	14,630.00

Source: MEED

Analysis and Forecasts

Capacity

Production facilities in Saudi Arabia and Turkey

Saudi Cable is the second largest cables producer in Saudi Arabia, with total production capacity of 85,000 tpa where 76 % of this capacity comes from Saudi Arabia and the remaining from Turkey. Power cables include both copper and aluminum cables and the company does not disclose any further breakdown. By the end of 2008, SCC is expected to raise its production capacity in Saudi Arabia to 100,000 tpa as opposed to a current capacity of 65,000 tpa.

Production capacity and average utilization for SCC over forecast period

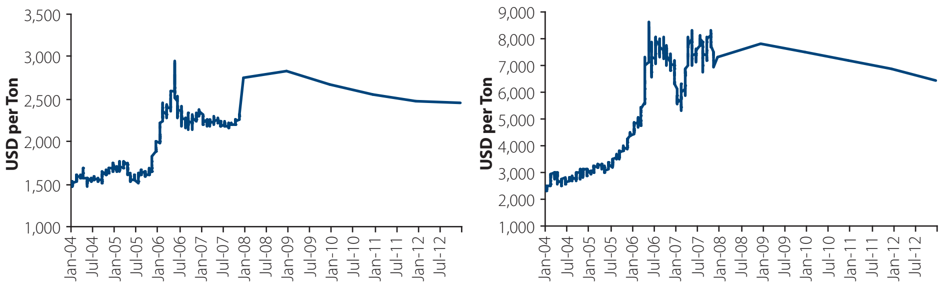
Capacities	2006	2007	2008	2009
Volume in Tons	Actual	Estimate	Forecast	Forecast
Saudi Plant	45,000	65,000	*100,000	100,000
Turkey Plant	20,000	20,000	20,000	20,000
Power Cables	65,000	85,000	120,000	120,000
Utilization rate	85%	85%	85%	85%

Source: Zawya, SCC, SHUAA Capital
**2008 additional capacity are expected to take place by the end of the year*

Prices Outlook

Cable prices are heavily influenced by copper and aluminium prices as copper represents approximately 83 % of the copper cable cost, while aluminium represents approximately 65 % of the aluminium cable cost.

Copper and aluminum prices outlook



Source: Bloomberg, SHUAA Capital estimates

Copper increased by 90 % and copper cable pursue
During 2006, copper prices jumped approximately 90 % above 2005 prices taking them from USD 3,507 in 2005 to USD 6,679 in 2006. Currently, copper prices are near the range of USD 7,000 per ton, approximately 7% over the average price in 2006 (USD 6,661). According to several industry sources, copper prices are expected to move upwards in the current year due to undersized inventory volumes in the industry. Our estimated copper price for 2008 is approximately USD 7,210 per ton. During 2009, we see a 5% decline in the copper prices; however, this will have but a slight impact on our cables coverage universe as the prices there are based on the announced copper prices from the LME.

Aluminum prices relatively underperformed as opposed to copper
During 2006, aluminium prices increased by 40 % reaching USD 2,326 per ton vs. USD 1,667 per ton in 2005. The up trend reversed later with the current average prices in the range of USD 2,220 per ton, down approximately 4% over the 2006 average prices. Our expected selling price for the aluminium cable is based on an average premium of USD 1,100 over the aluminium cable cash cost as per LME, which we expect to be in the range of USD 2,142 for 2008. We expect aluminium prices to follow the copper prices pattern and to drop by 5 % by 2009.

Copper and Aluminum Prices Outlook

Price per ton	2006	2007	2008	2009	2010
USD per ton	Actual	Estimate	Forecast	Forecast	Forecast
Copper	6,661	7,000	7,210	6,850	6,507
Growth rate	90.10%	5.09%	3%	-5%	-5%
Aluminium	2,323	2,227	2,142	2,035	1,933
Growth rate	39.28%	-4.15%	2%	-5%	-5%

Source: Bloomberg, SHUAA Capital estimates

Revenues

We expect SCC's revenue to increase by CAGR of 24%

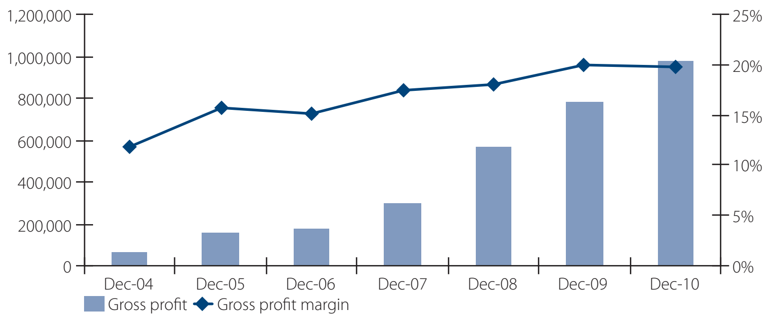
SCC announced its preliminary revenues figure for FY07 of SAR 3.1 bn as opposed to SAR 1.69 bn in FY06, up 85 % yoy on the back of new capacity rollout. During 2006, cable business segment represented the largest portion of the revenue pie at 95 % (SAR 1.51 bn) share. We believe that the witnessed growth impetus was mainly due to increase in the feed stock prices (copper and aluminum) reflecting itself on end product prices. During FY06, copper and aluminum prices witnessed 43% and 19% increase respectively. Saudi Cable usually sets its prices based on the average prices of copper and aluminum cable cash cost.

During the 9M FY07, SCC recorded total revenue of SAR 2.26 bn with the rise in revenues figure coupled with 80% growth rate in our blended price per ton. We expect SCC to record revenues of SAR 3.9 bn during 2008. Throughout our five years forecast horizon (2006-2012), we foresee SCC revenues figure growing by CAGR of 24 % driven by the new capacity that is coming on stream in Saudi Arabia, and robust overall prices.

Margins and Returns

During 9M FY07, SCC recorded a gross profit of SAR 390 mn representing a gross profit margin of 17 % as opposed to a margin of 15 % in the comparable last year period. In our opinion, we believe that margin improvement was mainly due to the specific product mix i.e., high voltage and low voltage, as also due to broad basing of the target market segment. Moreover, SCC's core market in the GCC offers attractive margins as compared to other markets.

Margins Outlook (SAR 000)



Source: SCC and SHUAA Capital estimates

During FY06, SCC recorded an EBITDA of SAR177 mn, resulting an EBITDA margin of 10%. The capacity increase witnessed during FY07, has influenced the financial performance of SCC through doubling the EBITDA figure to SAR 274 mn during the 9M FY07 as opposed to SAR 91 mn during comparable period the previous year, yielding an EBITDA margin of 12%. Throughout our forecast horizon, we foresee a slight improvement in the overall margins supported by expected decline in the copper and aluminum global prices in the long-term, which we expect to materialize starting 2009, as well as robust domestic demand for cables. During 2008, we expect SCC to record an EBITDA of SAR 593 mn yielding an EBITDA margin of around 12.5 %.

Midal Cables, represents 16% of SCC's net profit

Associates income

During the 9M FY07, income from associates amounted to SAR 34.9 mn representing approximately 16 % of SCC's net income, with Midal Cables representing the largest portion. We expect income from associates to come within the range of SAR 46 mn as we expected Midal Cables to record a net profit for FY07 of SAR 93 mn. Midal Cables has completed an expansion program to increase its production capacity for aluminum rods to 150,000 tpa per year in 2007. Aluminum rods are used in the manufacture of aerial wires.

Capital expenditures

During the 9M FY07, CAPEX figure amounted to SAR 100 mn including investment of SAR 42 mn for the acquisition of land near the company's existing plants in Jeddah. According to the company's annual report, the newly acquired land would facilitate SCC's capacity expansion plans in Saudi Arabia.
We estimate SCC's CAPEX figure during 2008 to stand approximately at SAR 216 mn and reach SAR 255 mn driven by expected capacity increase in Saudi Arabia.

CAPEX Outlook

Capital Expenditures	2006	2007	2008	2009
SAR (000)	Actual	Estimate	Estimate	Estimate
	20,514	161,894	216,393	255,106

Source: SCC & SHUAA Capital estimates

Leverage

SCC net debt to equity was around 72% as of September 2007. The company is highly reliant on short-term debt to finance its working capital in the aftermath of recent rise in the required raw materials cost. SCC's debt to equity ratio is higher as compared to other peers in the region. For instance, net debt to equity ratio for Egypt based, El Sewedy Cables and Kuwaiti based, Gulf Cable were 26 % and 7 % respectively during 9M FY07.

Taxes

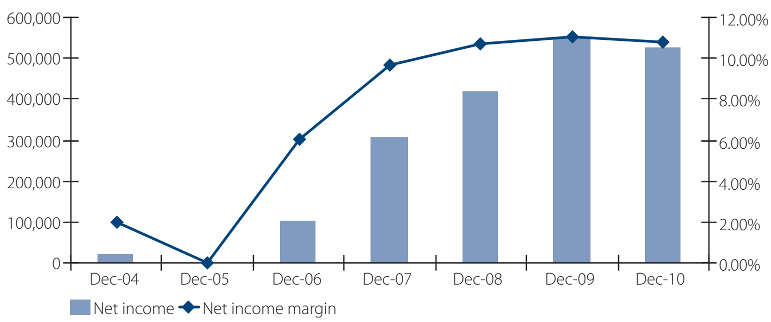
SCC's operations in Turkey attract a 20 % tax rate on expected earnings before taxes generated from the country.

Net profit to increase by CAGR of 43%

Net Profit

SCC announced its preliminary net profit for FY07 of SAR 304 mn, compared to SAR 102 mn in FY06. The newly installed capacity coupled with visible improvement in the overall margins made the strong growth possible. The expected decline in the feed stock prices, further new capacity anticipated in 2008 and strong domestic demand for cables are reflected in our net profit outlook over the five years forecast horizon (2006-2012), with SCC's net profit expected to increase by a CAGR of 43%. We expect SCC to record a net profit figure of SAR 450 mn in 2008, 48 % over FY07. During FY07, the company booked an extraordinary income of SAR 26 mn as gain on sale of investment..

Net Profit Outlook-SAR (000)

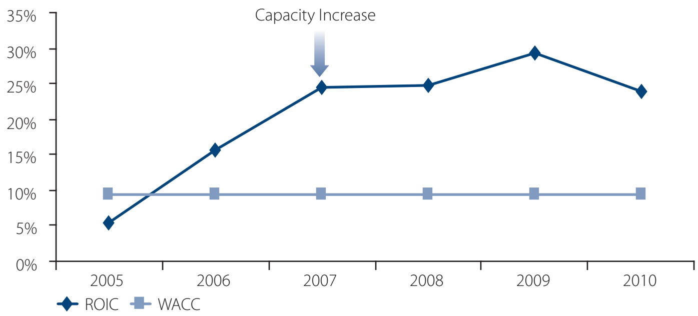


Source: SCC & SHUAA Capital estimates

ROIC

In 2006, SCC's ROIC was 16 % - way ahead of 5 % in 2005 - illustrating a clear shift in SCC's profitability. Higher ROIC in 2006 took place on the back of efficient cost and SG&A and higher revenues. Going forward, we expect ROIC to improve further targeting the range of 20 %, supported by earnings growth and better profitability made possible with the expected capacity additions. SCC's low ROIC as opposed to our cables coverage universe (SWDY and GC) is mainly due to high cash balance as opposed to peers. During 2006, SCC's cash balance exceeded 3 % of its consolidated revenues compared to less than 1 % for members of our coverage universe.

SCC ROIC versus WACC



Source: SHUAA Capital

Valuation

We initiate coverage on Saudi Cable with a Buy recommendation and a target value per share of SAR 109.43.

We initiate coverage on Saudi Cable with Buy recommendation based on a target price of SAR 109.43 per share, which represents an 57% upside potential to the most recent closing price of SAR 69.5 per share. Given SCC holding stake of 50% in Midal cables, we opted to value SCC based on a sum of the parts valuation model. We utilized DCF model to value SCC on a stand alone, which has yielded a target price of SAR 103.86. As for Midal Cable, we assumed a price earnings multiplier of 9.1, based on peer comparable analysis, which has yielded an additional value of SAR 5.6 per share.

The company's near-term capacity additions in addition to the impact of rising demand for power cables on the back of strong infrastructure spending in Saudi Arabia are set to drive the company's growth going forward. Constantly improving margins will further magnify this growth make this trend particularly visible on the company's bottom line. Our bullish stance on the company is further affirmed given its lower forward price to earnings multiple relative to peers.

We valued SCC core cable business excluding income form associates, which represents approximately 15% of SCC net profit in 2007. Our DCF model for SCC core business has yielded a target price per share of SAR 103.86. Our DCF target price is based on a five-year forecast horizon. The weighted average cost of capital is 9.2 % based on a cost of equity is 10 % and a cost of debt of 6.9 %. Our utilized cost of equity is calculated based on the capital asset pricing model (CAPM) where our risk free rate is 4.45 %, market risk premium is 5 % and a beta of one. Our utilized growth rate for the terminal value calculation is 5 %.

For FY 2007, we expect Midal to record a net profit of SAR 93 mn. We applied a price to earnings multiple of 9.1x, based on a peers comparable analysis, creating a corporate value for Midal Cables of SAR 846.39 mn. The table below shows our peers comparable analysis for Midal Cables.

Aluminum peers comparables

Aluminium peers	Country	PE FY07
Arab Aluminium Industries	Jordan	9.14
Nordic Aluminium	Norway	9.79
Egypt Aluminium	Egypt	8.30
Average		9.08

Source: Reuters

Midal PE valuation

SAR millions	9M FY07	FY07
Midal Cables expected earnings	69.80	93.2
SCC stake in Midal	50%	50%
SCC income from associates	34.9	46.60
PE multiple		9.08x
Midal Value		846.39

Source: SHUAA Capital estimates

Sum of the parts valuation

SOTP (SAR millions)	Country	Equity value	SCC stake	SOTP	SOTP per Share
Saudi Cable	Saudi	7,893	100%	7,893	103.86
Midal Cables	Bahrain	846.39	50%	423.19	5.57
SOTP		8,740		8,316	109.43

Source: SHUAA Capital estimates

Sensitivity Analysis

Perpetual growth	4.00%	5.00%	6.00%
WACC			
8.17%	114.59	146.30	207.23
9.17%	90.97	109.43	139.82
10.17%	75.02	87.01	104.75

Source: SHUAA Capital estimates

Financials

Income Statement(SAR 000)

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
SAR (000)	Actual	Estimate	Forecast	Forecast	Forecast
Revenues from operation	1,691,678	3,139,000	3,903,188	4,946,119	4,896,658
Cost of goods sold	1,397,274	2,597,523	3,122,550	3,964,809	3,933,011
Selling and general expense	117,160	151,928	188,914	239,392	236,998
EBITDA	**177,244**	**389,550**	**591,723**	**741,918**	**726,648**
Depreciation	25,410	35,686	42,158	49,811	54,658
Operating profit(EBIT)	134,011	324,043	512,485	645,118	625,472
Income from associates	28,247	46,608	53,599	58,959	64,854
Interest expense	52,554	66,376	69,381	68,424	75,469
Interest income	0	0	0	0	0
Earnings before taxes (EBT)	112,976	305,217	496,703	635,652	614,858
Income taxes	6,715	28,519	46,411	59,394	57,451
Net profit after unusual item (NPAUI)	102,672	302,698	450,292	576,259	557,407
Minority interest	0	0	0	0	0
Net profit attributable to shareholders (NAI)	**102,672**	**302,698**	**450,292**	**576,259**	**557,407**

Source: SCC & SHUAA Capital estimates

Balance sheet (SAR 000)

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
SAR (000)	Actual	Estimate	Forecast	Forecast	Forecast
Cash	64,369	62,780	89,773	108,815	97,933
Time deposits	0	18,630	15,316	13,492	3,873
Net Accounts receivable	1,081,992	1,569,500	1,561,275	1,978,448	1,958,663
Inventory	425,586	610,571	671,532	764,924	758,789
Due from HC's & affiliates	1,482	12,556	15,613	19,784	19,587
Other current assets	42,063	47,085	58,548	74,192	73,450
Projects under implementation	0	0	0	0	0
Net fixed assets	260,691	368,780	543,014	748,309	855,208
Investments in associates	106,691	153,299	206,897	265,856	330,710
Total assets	**2,036,127**	**2,855,757**	**3,177,582**	**3,993,603**	**4,117,799**
Due to banks	659,433	884,739	757,465	902,367	965,425
Current portion long-term debt	43,829	10,519	421	0	0
Accounts payable	376,106	571,455	686,961	991,202	786,602
Due to HC's & affiliates	34,786	7,793	9,368	11,894	11,799
Long-term debt	29,204	70,090	42,054	25,232	0
Total liabilities	1,238,589	1,808,804	1,792,910	2,291,989	2,109,612
Paid in capital	760,000	760,000	760,000	760,000	760,000
Legal and statutory reserves	3,912	34,182	79,211	136,837	192,578
General and other reserves	0	0	0	0	0
Total shareholders equity	797,538	1,046,952	1,384,672	1,701,614	2,008,188
Total liabilities and equity	**2,036,127**	**2,855,757**	**3,177,582**	**3,993,603**	**4,117,799**

Source: SCC & SHUAA Capital estimates

Free Cash Flow

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
SAR (000)	Actual	Estimate	Forecast	Forecast	Forecast
NOPLAT	146,403	334,076	507,654	636,163	613,325
Add: Depreciation	25,410	35,686	42,158	49,811	54,658
Change in working capital	(501,572)	(475,555)	35,776	(225,364)	(167,799)
Capital expenditures	(20,514)	(161,894)	(216,393)	(255,106)	(161,557)
Free Cash flow	**(350,273)**	**(267,686)**	**369,196**	**205,504**	**338,627**

Source: SCC & SHUAA Capital estimates

Financial Ratios

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
	Actual	Estimate	Forecast	Forecast	Forecast
Growth					
Revenue	43%	86%	24%	27%	-1%
NAI	59942%	195%	49%	28%	-3%
Profitability					
Return on average equity	15%	33%	37%	37%	30%
Return on average assets	6%	12%	15%	16%	14%
Gross profit margin	17%	17%	20%	20%	20%
EBITDA margin	10%	12%	15%	15%	15%
NAI margin	6%	10%	12%	12%	11%
Liquidity					
Current ratio	1.38	1.39	1.42	1.40	1.41
Quick ratio	1.02	1.02	1.05	1.02	1.07
cash ratio	0.06	0.05	0.06	0.06	0.05
Activity					
Accounts receivable days on hand	177.01	154.16	146.38	130.61	146.74
Inventory days on hand	92.65	72.80	74.93	66.12	70.70
Accounts payable days on hand	72.73	66.57	73.55	77.25	82.49
Leverage					
Leverage ratio	60%	62%	60%	57%	54%
Debt to assets	37%	35%	29%	24%	23%
Per Share					
Earnings per share	1.35	3.98	5.92	7.58	7.33
Book value per share	10.49	13.78	18.22	22.39	26.42
EBITDA per share	2.33	5.13	7.79	9.76	9.56
Revenue per share	22.26	41.30	51.36	65.08	64.43
cash flow from operation per share	(4.61)	(3.52)	4.86	2.70	4.46
Price multiples					
Price to earnings	51.63	17.51	11.77	9.20	9.51
Price to book value	6.65	5.06	3.83	3.12	2.64
Price to free cash flow	(15.13)	(19.80)	14.36	25.80	15.65
Price to sales	3.13	1.69	1.36	1.07	1.08
Price/EBITDA	30.02	13.66	8.99	7.17	7.32
EV/Sales	2.74	1.41	1.18	0.91	0.91
EV/EBITDA	26.14	11.34	7.78	6.06	6.11

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Gulf Cable and Electrical Industries (CABL.KW)

SHUAA CAPITAL PSC

Equity Research

Initiation Coverage

February 15th, 2008

Current price	KWD 3.70	**Country**	Kuwait
Fair value target	KWD 4.38	**Sector**	Industrial / Cables
Recommendation	BUY	**Exchange**	Kuwait Stock Exchange

Sector Coverage Team

Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

- Gulf Cable and Electrical Industries Company is the sole producer and manufacturer of power cables and overhead conductors in Kuwait with a total production capacity of 50,000 tpa and expected to reach 95,000 tpa by the end of 2008.

- The demand outlook for the power cables in Kuwait is positive given the government's plan to increase the country's power generation capacity from 40 Thermal Mega Watt (TWH) to 54 TWH by 2009. Being the only cables producer in Kuwait, Gulf Cable is set to benefit from the strengthening demand for cables on the back of infrastructure spending in its home market.

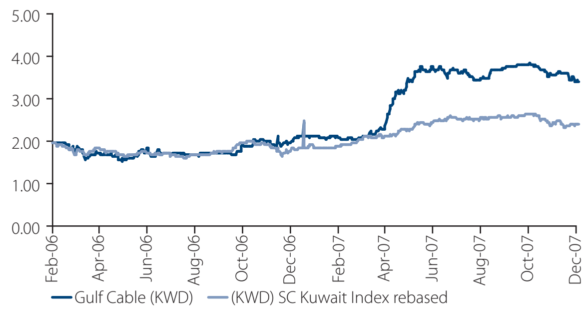
- We initiate coverage on Gulf Cable with a Buy recommendation based on a target price of KWD 4.38 per share, offering 18 % upside potential over the current market price KWD 3.70.

Year	Net profit (KWD '000)	BV (KWD '000)	EPS (KWD)	BVPS (KWD)	ROAE (%)	P/E (X)	EV/EBITDA (X)	P/BV (X)
Dec-09E	42,210	398,272	0.26	2.47	11.2%	14.16	8.72	1.50
Dec-08E	36,433	355,984	0.23	2.20	10.8%	16.40	12.45	1.68
Dec-07E	29,891	319,484	0.19	1.98	11.7%	19.99	23.72	1.87
Dec-06	20,076	192,124	0.12	1.19	12.4%	29.76	29.54	3.11

52-week range (KWD)	2.03-3.90
Number of Shares	161,486
Free Float (%)	80%
Market Cap (KWD 000)	597,497
Market Cap (USD 000)	2,157,028
Div. Yld. 2007(%)	1.4

Source: Reuters, SHUAA Capital

Gulf Cable stock performance vs. SC Kuwait Index



Investment highlights

• Gulf Cable and Electrical Industries Company (GC), established in 1975, is the sole producer and manufacturer of power cables and overhead conductors in Kuwait. Gulf Cable operates two production facilities, Gulf Cable Company, the Kuwait-based parent company, and Jordan-based Gulf Cable and Multi Industries Company, acquired by GC in 2006.

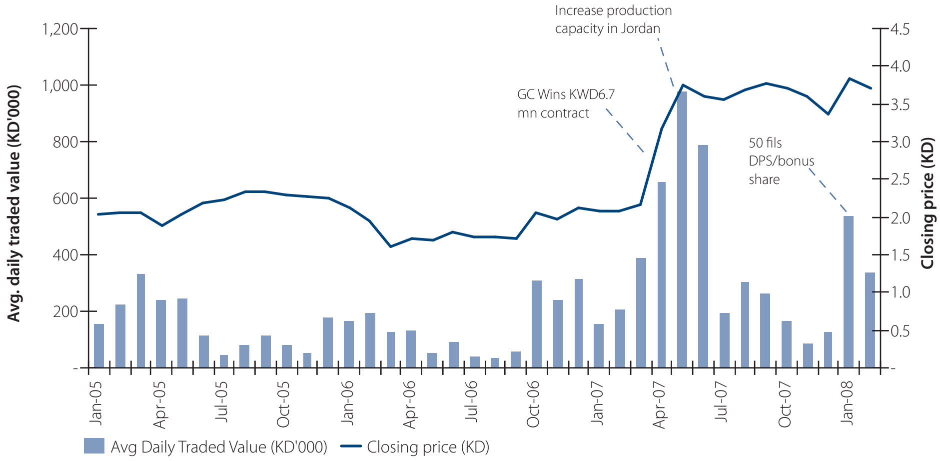
• Gulf Cable Company recorded total production capacity of 50,000 tons in 2007 and is expected to reach 95,000 tons by the end of 2008 driven by expansions in the company's plants in Kuwait and Jordan.

• The demand outlook for cables in Kuwait is positive given the government's plan to increase the country's power generation capacity from 40 Thermal Mega Watt (TWH) to 54 TWH by 2009. The spending on infrastructure is supported by Kuwait having the highest budget surplus to GDP among the GCC countries, underpinned, as for all others, by high oil prices.

• During 9M FY07, GC recorded revenues of KWD 60 mn, up 31% over the comparable period last year. Throughout our forecast horizon (2006-2012), we foresee GC's revenues to increase by a CAGR 14% on the back of capacity expansions underway. We expect GC net profit to reach KWD 29 mn in FY 07 and to grow at a CAGR of 16% in 2006-2012.

• Being the only cables producer in Kuwait, Gulf Cables is set to benefit from the strengthening demand for cables on the back of infrastructure spending in its home market. The company's capacity expansions in Kuwait in addition to the Jordanian acquisition will offer GC a solid earnings momentum going forward. However, given the prospect of excess supply in Kuwait, margins should remain steady over the forecast period.

• We initiate coverage on Gulf Cable with a Buy investment recommendation based on a target price of KWD 4.38 per share, offering 18 % upside potential over the current market price KWD 3.70.



Overview

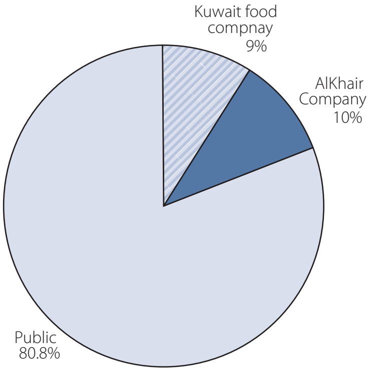
Sole cable producer in Kuwait

Gulf Cable and Electrical Industries Company (GC), established in 1975, is the sole producer and manufacturer of power, control and telecommunication cables, and overhead conductors in Kuwait. Gulf cable operates two production facilities, Gulf Cable Company, the Kuwaiti-based parent company, and Jordan-based Gulf Cable and Multi Industries Company, acquired by GC in 2006. Total production capacity from Kuwaiti plant stood at 50,000 tpa in 2007 and is expected to reach 75,000 tpa by the end of 2008. Jordan's plant is expected to deliver 20,000 tpa by end-2008.

Shareholding Structure

Al Khair National for Stocks and Real-Estate is the major shareholder in GC with a stake of 10 %. Al Khair National for Stocks and Real-Estate is 35 % owned by National Investment Company, an investment company listed on the Kuwait Stock Exchange. The second largest shareholder is Kuwaiti Food Company- Americana, a leading food and agriculture company with operations in the fields of fast food and dining franchises.

GC's shareholder structure



Source: GC

Group Structure

In 2006, GC extended its operations beyond the GCC region with acquisition of 92.5 % of Multi Industries Company (MIC), Jordan, for a total consideration of KWD 7.3 mn. The Jordanian factory includes power cable plant, copper rod plant, and a battery plant. The most important of these is the power cable plant which is expected to offer GC an additional capacity of both electric and telecom cables. MIC power cable capacity is 20,000, tons which is expected to be reflected in GC books by the end of 2008.

Business model

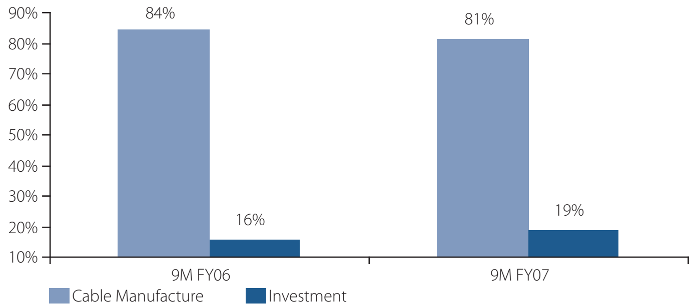
GC primary business model has two key components, which includes its core activity of cable manufacturing and an increasing revenue base from tactical investments in emerging opportunities in the same general field.

Investment in listed/non-listed funds represent a considerable portion of total assets

Cable segment represents the majority of GC's gross and net income. In 9M FY07, cable manufacturing segment represented approximately 81 % of the gross income as opposed to 84% in the 9M FY06. Cable manufacturing includes copper and aluminum cables. During the preceding period, copper cables accounted for 65% of the total power cable sales volume with the rest accounted for by aluminum cables. Year to date, copper cables represent approximately 70% of the total cables sales volume.

The investment business unit represents a considerable portion of GC's gross income, accounting for 16% in 9M FY06 and 19% in 9M FY07. GC utilizes its excess cash in either managed funds or listed and non-listed securities. Investment revenues during the 9M FY07 included KWD 4.1 mn, booked as a gain on sale of available investments, which we excluded from our segmental analysis.

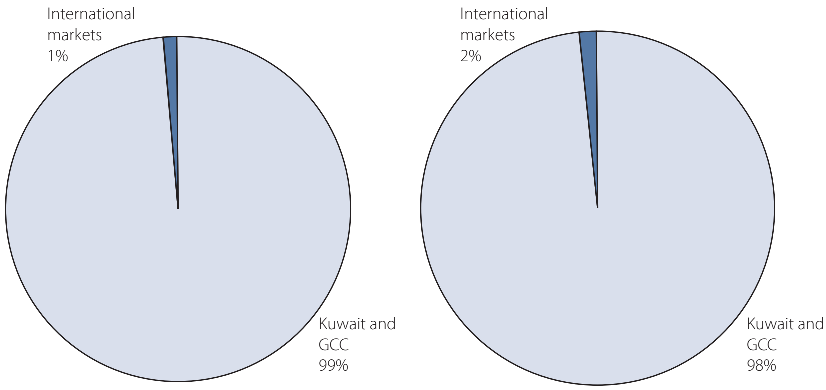
Gross Income



Source: GC

Looking at the geographical dispersion of its business, during 2006 gross income from Kuwait and GCC operations represented approximately 98 % of the total gross income.

Gross income 2005 *Gross income 2006*



Source: GC

Strategy

GC's growth strategy is designed to offer adequate response to its core business and competitive advantage in an evolving business landscape. It is built around three basic themes:

1. Continued domination of the Kuwaiti cables market,
2. Tapping growth opportunities beyond the Kuwaiti borders primarily in the GCC, and
3. Investing excess cash in listed and non-listed securities.

Dominating the Kuwaiti cable market
As the company is the sole cable producer in Kuwait, it enjoys an inherent advantage in exploiting the current boom in infrastructure spending in the GCC and in Kuwait in particular. In 2006, Kuwait enjoyed the largest budget surplus as a percentage of GDP among all GCC countries; its figure of an average 28% compared very favorably to an average of 14% for other GCC countries. In addition, construction and infrastructure spending represented approximately 5.6% of GDP in 2006, as opposed to 2.2% in 2001. Sustaining the momentum of last decade, the estimated infrastructure spend in Kuwait is expected to exceed 6% of GDP in 2007. Accordingly, we expect the Kuwaiti market to remain the main focus of the company's strategy going forward. This is already evident in GC's decision to add another 25,000 tons to its existing power cable production capacity in Kuwait, taking it to 75,000 tpa by the end of 2008 as opposed to 50,000 tpa in 2007.

Stretching arms beyond the GCC, targeting LCE
In 2006, GC acquired Gulf Cable and Multi Industries Company, based in Jordan, for a total consideration of KWD 7.3 mn. The Jordanian subsidiary will add 20,000 tpa to the current capacity by end-2008, thus raising GC's consolidated capacity to 95,000 tpa by end-2008. (75,000 tpa in Kuwait and 20,000 tpa in Jordan)

Further regional expansions might materialize

MIC is expected to offer GC a cables mix of both power and telecom cables. In our opinion, the Jordanian acquisition is an initial step to enhance GC's regional business and, consequently, diversify its revenue stream. We believe that the Jordanian presence, underpinned by its low cost environment (LCE) as compared to Kuwait, will allow GC to use it as an export base for neighboring countries such as Iraq and Turkey.

Going forward, we expect GC to expand its regional presence by making further acquisitions. Gulf Cable's low net debt to equity (0.07x) indicates that there is room for more leverage to finance possible acquisitions in the future, while there remain many small producers regionally that may represent a clear opportunity for consolidation in the sector.

Investment in listed and non-listed securities

GC's excess cash is invested in both listed and non-listed securities. During the 9M FY07, investment available for sales represented approximately 70% of its total assets.

GC investments in 2006-2007

Investment available for sales	September 2006	December 2006	September 2007
Managed portfolio	95,938	108,788	221,837
Quoted shares	18,055	17,568	17,282
Quoted funds	3,474	3,577	5,655
Quoted preferred shares	466	466	0
Unquoted shares	8,573	8,948	8,915
Unquoted funds	2,790	2,689	2,557
Total	129,299	142,039	256,249
Total Assets	183,177	203,013	334,725
% to total assets	70.5%	69.9%	76%

Source: GC

The considerable weight of total investments to total assets indicates the huge growth potential pushing GC to search for further acquisitions similar to the Jordanian acquisition.

Power Cables in Kuwait

Supply

GC is the sole cable player in Kuwait with a total capacity of 50,000 metric tpa as of 2007, and expected to reach *75,000 tons by the end of 2008. We believe that entry of other players in this market is unlikely in the near term due to the following reasons:
Cable industry is highly capital intensive.
Cables demand in Kuwait stands approximately at 41,000 tpa as of 2007, and we see demand increasing to 47,000 tpa by 2010 which can be fully delivered by Gulf Cable alone, given its planned capacity increase and strong reputation in domestic market.

Demand

Cables demand in Kuwait stands at 41K tpa

In the absence of quantifiable figures for the cables demand in Kuwait, GC has estimated market demand to be around 41,000 tpa in 2007 with excess production directed towards exports to other GCC markets, particularly Saudi Arabia. Throughout our forecast period we estimate the cable demand in Kuwait to reach the range of 47,000 tpa in 2010, indicating an excess supply of cables domestically.

Domestic demand outlook in Kuwait

Cables Market outlook	2004	2005	2006	2007	2008	2009	2010
Construction Spending (KWD 000)	569,500	678,300	750,500	849,511	852,152	854,347	856,100
Construction Spending to GDP %	5.54	5.51	5.65	6.05	5.75	5.46	5.19
Cable market size in (KWD 000)	28,852	35,946	63,1247	99,627	114,111	115,532	116,228
Cable market size to Infrastructure %	5.1	5.3	8.4	11.7	13.4	13.5	13.6
Estimated demand for cables	36,500	38,000	40,000	41,600	43,297	45,099	47,014

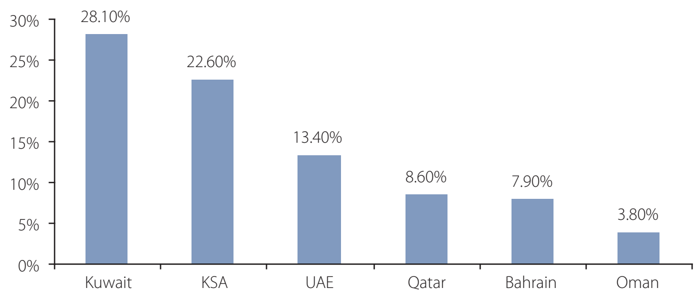
Source: BMI, SHUAA Capital

Demand Drivers

Strong macro picture enhances construction spending
We believe that industry growth drivers across the GCC are very similar, given the similarity in the nature and composition of the respective economies. Kuwait enjoys the highest budget surplus to GDP among the GCC countries.

**Kuwait capacity only*

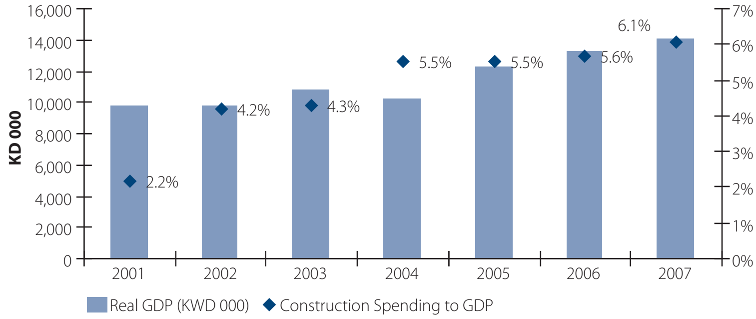
Comparable analysis of budget surplus as a Percentage of GDP in 2006



Source: SHUAA Capital

Strong budget surplus underpinned by high oil prices is most likely to be directed towards spending on infrastructure and construction projects. In 2006, Kuwait infrastructure spending to GDP was in the range of 5.6%, and is expected to exceed the 6 % level in 2007.

Infrastructure spending in Kuwait



Source: SHUAA Capital

Coupled with rising demand on electricity

In 2006, Kuwait's power generation is estimated at 40.2 TWH and expected to reach 54 TWH by 2009.

Expected power generation across the major GCC countries

Power Generation	2006	2007	2008	2009
TWH	Actual	Estimate	Forecast	Forecast
Saudi	189.6	198.1	207.0	216.4
Kuwait	40.2	44.0	48.0	54.0
UAE	58.8	63.2	68.0	73.0
Oman	10.4	10.9	11.5	12.1

Source: BMI

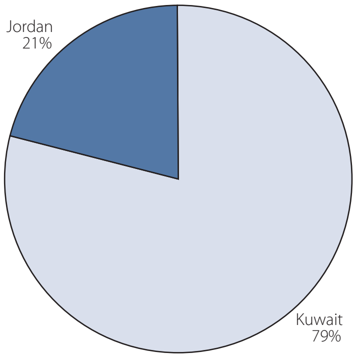
Analysis and Forecasts

Capacity

Plant facilities in Kuwait and Jordan

GC's installed capacity in 2007 stands at 50,000 tpa and is expected to reach 95,000 tpa by Q3 08 subsequent to expansion in the company's plants in Kuwait and Jordan. The company's production capacity in Kuwait is set to increase from 50,000 tpa to 75,000 tpa in 2008, while the Jordanian subsidiary is expected to start its first cables production plant with a capacity of 20,000 in the same year. Combined new capacity of 45,000 tpa is expected to come on board by Q3-2008.

GC production capacity breakdown by country –END 2008



Source: GC

GC cables capacities and utilization

Power cable capacities	2005	2006	2007	2008	2009
Volume in Tons	Actual	Actual	Estimate	Forecast	Forecast
Kuwait	50,000	50,000	75,000	75,000	75,000
Jordan	0	0	0	20,000	20,000
Total Capacity	50,000	50,000	75,000	95,000	95,000
Utilization rate	101%	102%	95%	95%	90%
Production	50,585	51,107	47,500	67,688	85,500

Source: GC

Sales

Cables sales volume in GC is segmented between copper cables and aluminium cables. During the preceding period, copper cables were the major component of the sales volume representing approximately 70% of the total sales volume and we expect it to continue dominating the sales volume throughout the forecast horizon.

Breakdown of GC's sales volume

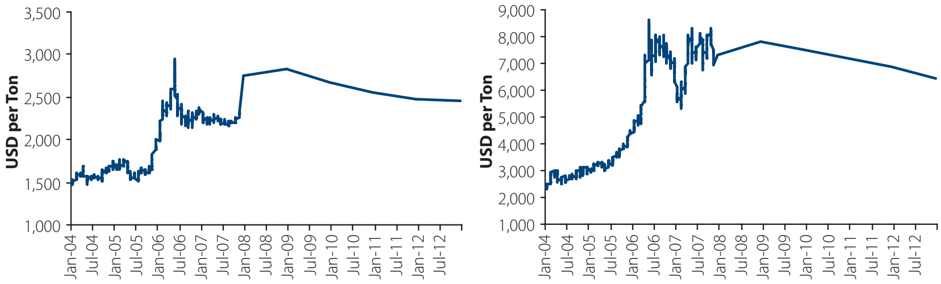
Sales	2005	2006	Oct 2007	2007	2008
Volume in Tons	Actual	Actual	Actual	Estimates	Forecast
Copper Cables	31,732	33,558	29,029	33,250	47,381
Copper Cables %	63	65	71	70	70
Aluminium Cables	18,853	17,549	12,379	14,250	20,306
Aluminium Cables %	37	35	30	28	30
Total	50,585	51,107	41,408	47,500	67,688

Source: GC& SHUAA Capital

Prices Outlook

Cables prices are are heavily influenced by copper and aluminium prices as copper represents approximately 83 % of the copper cables cost, while aluminium represents approximately 63 % of the aluminium cables cost.

Copper and aluminum cables Outlook



Source: Bloomberg, SHUAA Capital estimates

Copper increased by 90% and copper cables pursue

During 2006, copper prices jumped approximately 90 % above 2005 prices, or from USD 3,507 to USD 6,679. Currently, the copper prices are near the range of USD 7,000 per ton, approximately 7% over the average price of 2006 (USD 6,661). According to several industry sources, copper prices are expected to continue moving upward during 2008, with the push coming from undersized inventory volumes. Our estimated copper price for 2008 is approximately USD 7,210 per ton. During 2009, we see a decline in the copper prices in the range of 5%; however, this will have a slight impact on our cables coverage universe as the companies set their prices based on the announced copper prices from the LME.

Aluminum prices relatively stable compared to copper

During 2006, aluminium prices increased by 40% to USD 2,326 per ton, up from USD 1,667 per ton in 2005. Currently, the aluminium average prices are in the range of USD 2,220 per ton, down approximately 4% over 2006 average prices. Our expected selling price for the aluminium cables is estimated based on a premium of USD 1,100 over the aluminium cables cash cost as per LME which, we expect, to be in the range of USD 2,142 for 2008. We expect aluminium prices to follow copper prices patterns and to drop by 5% as of 2009.

Outlook on copper and aluminum prices

Price per ton	2006	2007	2008	2009	2010
USD per ton	Actual	Estimate	Forecast	Forecast	Forecast
Copper	6,661	7,000	7,210	6,850	6,507
Growth rate	90.10%	5.09%	3%	-5%	-5%
Aluminium	2,323	2,227	2,142	2,035	1,933
Growth rate	39.28%	-4.15%	2%	-5%	-5%

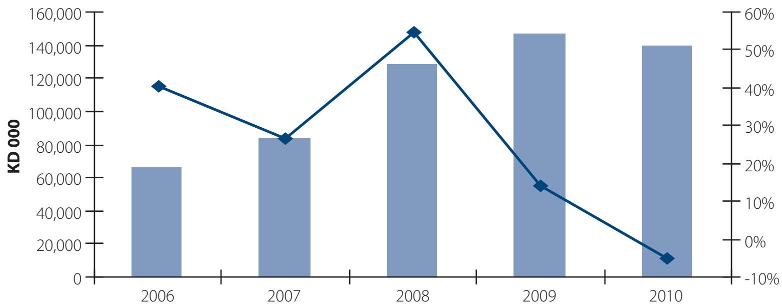
Source: Bloomberg, SHUAA Capital estimates

Revenues

Revenue to increase by CAGR of 14%

During 9M FY07, GC recorded revenues of KWD 60 mn, up 31% over the comparable period last year. We expect GC to record total revenues of KWD 83 mn in 2007, up 26% yoy. Throughout our forecast horizon (2006-2012), we see GC's revenues to increase by a CAGR of 14%, given expected doubling of its current power cables capacity. Copper cables, accounting for 70%, represent the largest portion of the recorded revenues and we expect copper cables to maintain their dominant share of the consolidated revenues going forward. The company's blended selling price per ton for the 9M FY07 stood at KWD 1,741 per ton. Going forward we assume that GC's blended price per ton to move in sync with the copper and aluminium prices as per LME, and for underlying margins to remain stable.

Revenues outlook for GC

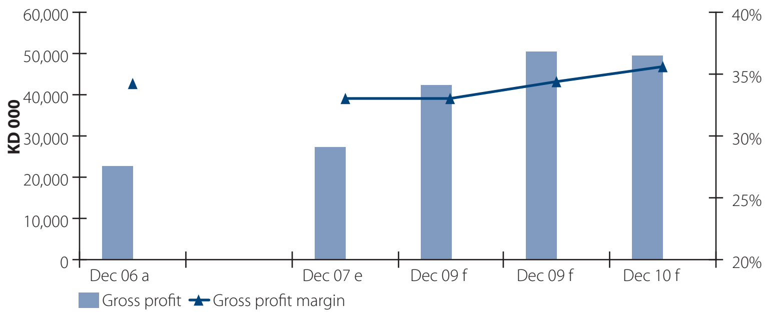


Source: GC and, SHUAA Capital estimates

Margins and returns

During the 9M FY07, GC's average gross profit margin was 32% as opposed to 38% in the comparable period last year. We attribute the 600 bps drop in recorded margins to increase in the copper prices, given that copper sales volume represents approximately 70% of the revenue mix. Throughout our forecast horizon (2006-2012), we expect GC margins to stay firm in the range of 30%.

Outlook on GC margins



Source: GC and, SHUAA Capital estimates

Capital Expenditures

We estimate GC capital expenditures to amount KWD 7 mn in 2007 and KWD 7.8 mn in 2008. The capital expenditures will be directed towards the installation of new capacities both in Jordan and Kuwait.

Expected CAPEX figures

CAPEX	2006	2007	2008	2009
KWD 000	Actual	Estimate	Forecast	Forecast
	5,621	7,094	7,872	2,993

Source: GC

Leverage

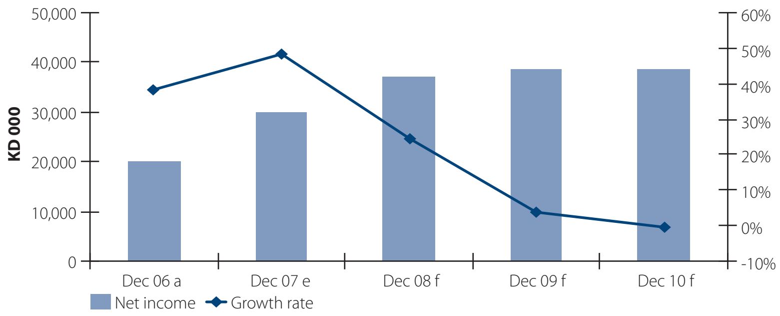
Lowest net debt to equity among our cables coverage universe

GC current net debt to equity stood at 7% during the 9M FY07 - the lowest relative to our cables coverage universe. This relatively low debt to equity ratio offers GC healthy leeway for planning further expansions.

Net profit

During the 9M FY07, GC's net profit grew by 36% over the corresponding period in 2006, reaching KWD 22.8 mn. We expect GC to record KWD 29 mn in net profits for FY 07, 48 % yoy. Throughout our five years forecast horizon (2006-2012), we see GC'c net profit to grow by a CAGR of 16%, driven by the 25,000 tons of newly added capacity in Kuwait and the 20,000 tons through acquisition in Jordan, both raising GC's total capacity to 95,000 tons by 2008 - a substantial rise over the current capacity of 50,000 tons. Our CAGR for the expected net profit includes GC's investment income that represents approximately 16 % of our expected net profit figure through out our forecast horizon (2006-2012). Otherwise, our net profit estimate for CAGR, excluding the expected investment income, is 13%.

Net income outlook



Source: GC and SHUAA Capital estimates

ROIC

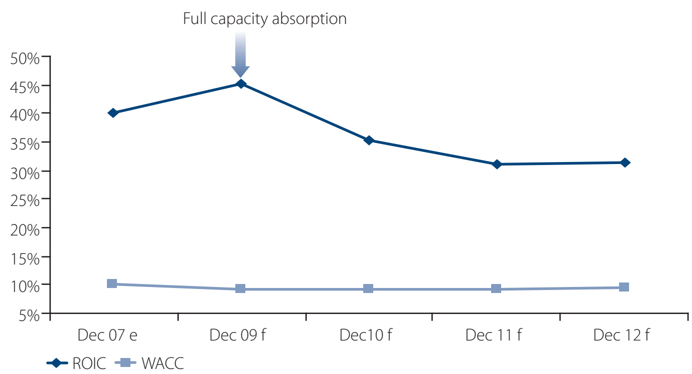
GC enjoys high ROIC relative to its peers in our cables coverage universe as the company enjoys a higher NOPLAT per ton relative to its peers in the region. During 2007, GC is expected to record the highest NOPLAT per ton versus its peers in the region, approximately USD 1,736 per ton as opposed to USD 1,405 per ton, and USD 1,249 per ton for El Sewedy Cables and Saudi Cable respectively.

Expected NOPLAT per ton-2007

Figures are in USD	NOPLAT(000)	Tons sold	NOPLAT per ton
	Expected	Expected	Expected
El Sewedy Cables	131,717	93,753	1,405
Saudi Cable	90,251	72,250	1,249
Gulf Cable	82,462	47,500	1,736

Source: SHUAA Capital

ROIC versus WACC



Source: SHUAA Capital

Valuation

DCF yielded a value of KWD 4.38 per share

We initiate coverage on Gulf Cable with a Buy recommendation based on a DCF target price of KWD 4.38 per share, offering 18 % upside potential over the current market price KWD 3.70.

Being the only cables producer in Kuwait, Gulf Cables is set to benefit from the strengthening demand for cables on the back of infrastructure spending in its home market. The company's capacity expansions in Kuwait in addition to the Jordanian acquisition will offer GC a solid earnings momentum going forward. However, given the prospect of excess supply in Kuwait, margins should remain steady over the forecast period. On the upside, GC's low net debt to equity offers the company room to finance further expansions and acquisitions, while its presence in both Kuwait and Jordan may open up the Iraqi market in the event of improving prospects in this key market.

Our utilized DCF model for Gulf Cable is based on a five year forecast period and a terminal value. The weighted average cost of capital is 9.48 % and the weighted average cost of equity is 9.5 % as the equity financing represents 99 % of the total capital. Our cost of equity calculation is based on the capital asset pricing model (CAPM) where our risk free rate is 4.45 %, market risk premium is 5% and a beta of one. Our utilized growth rate for the terminal value calculation is 5%. Based on the previous figures, our DCF model has yielded a target price of KWD 4.38 per share.

Sensitivity Analysis

Perpetual growth	4.00%	5.00%	6.00%
WACC			
8.48%	4.58	5.72	7.79
9.48%	3.69	4.38	5.47
10.48%	3.07	3.52	4.19

Source: SHUAA Capital estimates

Financials

Income Statement (KWD 000)

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
KWD (000)	Actual	Estimate	Forecast	Forecast	Forecast
Revenues from operation	65,914	83,316	122,287	146,744	139,407
Cost of goods sold	43,368	55,822	81,932	96,352	89,704
Selling and general expense	2,338	3,083	3,669	4,182	3,973
EBITDA	**20,208**	**24,412**	**36,686**	**46,210**	**45,730**
Depreciation	1,128	1,035	1,579	1,721	1,801
Operating profit(EBIT)	18,294	22,275	34,605	43,887	43,357
Interest expense	1,354	694	3,954	8,072	8,542
Interest income	242	185	1,013	358	406
Earnings before taxes (EBT)	20,755	26,245	38,095	43,830	42,514
Income taxes	671	735	1,067	1,227	1,190
Net profit after unusual item (NPAUI)	20,055	29,930	37,029	42,603	41,324
Minority interest	(21)	39	69	79	77
Net profit attributable to shareholders (NAI)	**20,076**	**29,891**	**36,960**	**42,524**	**41,247**

Source: Gulf cable & SHUAA Capital estimates

Balance sheet (KWD 000)

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
KWD (000)	Actual	Estimate	Forecast	Forecast	Forecast
Cash	1,009	1,666	2,446	2,935	2,788
Time deposits	2,639	5,067	3,583	4,063	30,866
Net Accounts receivable	18,536	27,682	40,630	48,757	46,319
Inventory	26,055	39,913	58,582	68,892	64,138
Due from HC's & affiliates	0	0	0	0	0
Other current assets	126	159	233	280	266
Projects under implementation	0	0	0	0	0
Net fixed assets	11,849	11,659	17,952	19,224	19,200
Long-term investments	142,039	266,611	391,319	469,582	446,103
Total assets	**203,013**	**352,782**	**514,781**	**613,776**	**609,722**
Due to banks	689	18,536	140,887	195,908	162,322
Current portion long-term debt	359	1,078	719	719	719
Accounts payable	667	1,396	2,048	2,409	2,243
Due to HC's & affiliates	0	0	0	0	0
Long-term debt	3,233	2,874	2,066	1,347	831
Total liabilities	10,889	30,582	155,552	211,944	176,878
Paid in capital	40,366	45,309	45,309	45,309	45,309
Legal and statutory reserves	22,170	23,664	25,512	27,639	29,701
General and other reserves	16,788	17,087	17,087	17,087	17,087
Total shareholders equity	192,124	322,200	359,229	401,832	432,844
Total liabilities and equity	**203,013**	**352,782**	**514,781**	**613,776**	**609,722**

Source: Gulf cable & SHUAA Capital estimates

Free Cash Flow

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
KWD (000)	Actual	Estimate	Forecast	Forecast	Forecast
NOPLAT	18,506	22,842	34,076	43,182	42,638
Add: Depreciation	1,128	1,035	1,579	1,721	1,801
Change in working capital	(19,362)	(22,932)	(31,744)	(18,565)	7,172
Capital expenditures	(5,621)	(7,094)	(7,872)	(2,993)	(1,777)
Free Cash flow	**(5,350)**	**(6,149)**	**(3,960)**	**23,345**	**49,834**

Source: Gulf cable & SHUAA Capital estimates

Financial Ratios

Year to December	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
	Actual	Estimate	Forecast	Forecast	Forecast
Growth					
Revenue	40%	26%	47%	20%	-5%
NAI	36%	29%	47%	18%	-7%
Profitability					
Return on average equity	12%	12%	11%	11%	10%
Return on average assets	11%	11%	9%	8%	7%
Gross profit margin	34%	33%	33%	34%	36%
EBITDA margin	4%	4%	3%	3%	3%
NAI margin	28%	27%	28%	30%	31%
Liquidity					
Current ratio	2.59	3.60	0.99	0.63	0.70
Quick ratio	3.46	1.25	0.31	0.27	0.46
cash ratio	0.57	0.24	0.04	0.03	0.19
Activity					
Accounts receivable days on hand	77.35	101.24	101.95	111.17	124.46
Inventory days on hand	165.77	215.67	219.39	241.45	270.65
Accounts payable days on hand	6.95	6.74	7.67	8.44	9.46
Leverage					
Leverage ratio	10%	7%	21%	33%	32%
Debt to assets	6%	5%	19%	30%	30%
Per Share					
Earnings per share	0.14	0.21	0.27	0.31	0.30
Book value per share	1.38	2.31	2.58	2.89	3.11
EBITDA per share	0.15	0.18	0.26	0.33	0.33
Sales per share	0.47	0.60	0.88	1.05	1.00
cash flow from operation per share	(0.04)	(0.04)	(0.03)	0.17	0.36
Price multiples					
Price to earnings	29.76	19.99	16.40	14.16	14.61
Price to book value	3.11	1.87	1.68	1.50	1.39
Price to free cash flow	(111.69)	(97.16)	(150.87)	25.59	11.99
Price to sales	9.06	7.17	4.89	4.07	4.29
Price/EBITDA	29.57	24.48	16.29	12.93	13.07
EV/Sales	9.06	0.00	0.00	0.00	0.00
EV/EBITDA	29.54	23.72	12.45	8.72	10.13

Source: Gulf cable & SHUAA Capital estimates

Research

Head of Research

Walid Shihabi
+9714 3199 750
wshihabi@shuaacapital.com

Chief Economist & Strategist

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Strategy and Economics

Ahmad Shahin
+9714 3199 742
ashahin@shuaacapital.com

Jafar Shami
+9714 3199 522
jshami@shuaacapital.com

Sahar Tabaja
+9714 4238 532
stabaja@shuaacapital.com

Commercial Banks and other Financial Services

Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

Sofia El Boury
+9714 4283 533
selboury@shuaacapital.com

Ghida Obeid
+9714 4283 536
gobeid@shuaacapital.com

Data

Ahmad Shahin
+9714 3199 742
ashahin@shuaacapital.com

Heavy Industries and Utilities

Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

Hala Fares
+9714 4283 539
hfares@shuaacapital.com

Telecommunications, Media and Technology

Simon Simonian
+9714 3199 763
ssimonian@shuaacapital.com

Jessica Estefane
+9714 3199 834
jestefane@shuaacapital.com

Consumer, Retail and Pharma

Laurent-Patrick Gally
+9714 4283 544
lgally@shuaacapital.com

Transportation and Logistics

Kareem Z. Murad
+9714 3199 757
kmurad@shuaacapital.com

Rasha Hamdan, CFA, FRM
+9714 4283 525
rhamdan@shuaacapital.com

Real Estate, Construction and Construction Materials

Roy Cherry
+9714 3199 767
rcherry@shuaacapital.com

Lara Hourani
+9714 3199 687
lhourani@shuaacapital.com

Chief Technical Analyst

Nabil Effat, CFTe, MSTA
+9714 3651 862
neffat@shuaacapital.com

Design

Jovan Ruseski
+9714 3199 759
jruseski@shuaacapital.com

Financial Editor

Anju Govil
+9714 3199 523
agovil@shuaacapital.com

Regional Sales

Mohamad Bleik
+9714 3199 773
mbleik@shuaacapital.com

Elias Bakhazi
+9714 3199 732
ebakhazi@shuaacapital.com

Faisal Rajeh
+9714 3199 794
frajeh@shuaacapital.com

International Sales

Nadine Haddad
+9714 3199 733
nhaddad@shuaacapital.com

Saad Tayara
+9714 3199 765
stayara@shuaacapital.com

Rabah Abu Khadra
+9714 3199 826
rkhadra@shuaacapital.com

Sam Quawasmi
+9714 3199 873
squawasmi@shuaacapital.com

Equity Advisory

Fares Mechelany
+9714 3199 745
fmechelany@shuaacapital.com

Nadeem Outry
+9714 3199 744
noutry@shuaacapital.com

Bassel Barbir
+9714 3199 635
bbarbir@shuaacapital.com

Jad El-Hakim
+9714 3199 822
jhakim@shuaacapital.com