جلوبل Global

MENA Construction Contractors

MENA Construction

- **Global Research contractors universe profits expected to go up by 30% in 2011e**
- **Saudi Arabia, Abu Dhabi and Qatar to lead projects market**
- **Margins to remain under pressure in the long run**
- **Strong Buy:** DSI; **BUY:** Al Khodari, MMG & OCI**; HOLD:** ARABTEC

Long-term growth in MENA contractors to remain firm

Regardless of the collapse in regional real estate markets, we believe long-term outlook for MENA contractors remains attractive. The region displays relatively unique characteristics, in our view: decent demographics, strong state budget surpluses fueled by high oil prices, muscular sovereign wealth funds and a drive to diversify economies. Hence we believe the infrastructure and construction boom in MENA region would translate well in terms of profitability for the regional contractors.

Saudi Arabia, Qatar & Abu Dhabi to remain as key markets

In our view Dubai construction market will remain fundamentally weak in the coming years as the Emirate is facing issues related to its debt maturities. However there are ample opportunities for contractors in other MENA geographies, in our view, namely Abu Dhabi, Saudi Arabia & Qatar. These markets have undertaken massive infrastructure spending plans backed by government and government related entities.

Margins to shrink in the long run

MENA region contractors margins have remained significantly higher than the international peers. These were higher as during the construction boom, developers were awarded high margin contracts. However, lately that phase has passed and now the competition has emerged which has forced contractors to shift their business mix. Nevertheless we believe that margins would remain under pressure in the long run as many international contractors have entered the market.

Diversified contractors remain our top pick: OCI, DSI & Al Khodari

We initiate on Al Khodari as BUY, as we believe the stock has profound value, less risks and an appealing story. Al Khodari enjoys the highest margins in our universe due to its ability to serve across all segments of infrastructure where others lack expertise and reach. Orascom Construction is also a well diversified company which has the ability to overcome the shortcomings of one business by other. Secondly the company is present across three continents which reduces its risks and increases it reach. We have a Hold stance on Arabtec as we believe the stock has inherent risks and less diversification ability. Drake & Scull on the other hand is relatively similar to Arabtec but with lower risks and upside potential attached. The company is a former Dubai-based MEP contractor that has started to diversify in regional and international markets.

Global Research - MENA Construction Contractor Sector

Company	Mkt. Cap (USD mn)	EV/Backlog 2011e	EV/EBITDA 2011e	EV/Rev. 2011e	P/E 2011e	CMP (LC)	Target Price (LC)	Upside / (Downside)	Rec.
Al Khodari	787.7	0.89	10.24	2.7	11.8	69.50	80.50	15.8%	BUY
Arabtec Holding	516.9	0.13	2.74	0.3	8.8	1.27	1.34	5.5%	HOLD
Drake & Scull	589.3	0.35	10.88	0.9	10.2	0.99	1.28	29.3%	Strong Buy
Orascom Cons.	9,580.1	2.04	14.44	2.3	12.1	272.60	326.90	19.9%	BUY
Mojil Group	733.3	0.78	9.60	1.4	21.6	22.00	25.20	14.5%	BUY
Sector		1.08	11.89	1.8	11.8				

Source: Bloomberg & Global Research
** AKS, MMG price as of 22nd June while the rest are as of 23rd June*

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Valuation

BUY
Target Price
SAR80.5

Al Khodari Sons Company (AKS) – *Initial Coverage*

We initiate coverage on Al-Khodari with a **'BUY'** rating and a price target of SAR80.5 per share. Al-Khodari shares are trading at a PE of 11.8x in 2011e and 10.2x in 2012e. We see strong pick-up in construction activity in Saudi Arabia, which interprets into revenue and net income CAGR of 16.7% and 12.9% during 2010-14. Al-Khodari has a strong history of securing government contracts, consistent order book growth and management's focus on high-margin sustainability. The Company is a well diversified contractor in the infrastructure segment, which differentiates it from others that are more horizontally diversified. Company is an ideal proxy to gauge the Saudi Arabia construction and infrastructure boom.

HOLD
Target Price
AED1.34

Arabtec Holding (ARABTEC) – *Investment Update*

Arabtec's recent performance has been significantly marred by a combination of the significant slowdown in the real estate and construction sectors regionally, as well as tight liquidity within. Margins have tightened on account of higher fixed costs in Dubai and lower margins elsewhere with minority eating significantly into profitability. In the near term, project delays, cancellations and a slow pipeline of opportunities are expected to be the primary challenge for Arabtec. From an internal company perspective, receivables management is the primary cause of concern since almost 65% of the balance sheet size is tied in receivables. The value of Arabtec's shares derived from the DCF is AED1.34/share. At current price, Arabtec's shares are trading at a P/E and P/B multiples of 8.8x and 0.7x, respectively for 2011e. Valuations now look fair and imply that the stock is trading at a discount of 5.5% from our target price. We maintain our **'HOLD'** recommendation.

Strong Buy
Target Price
AED1.28

Drake & Scull International (DSI) – *Investment Update*

Unlike other contractors in UAE, Drake & Scull's equity story is relatively less risky and a diversified contractor that has expanded its reach from Dubai to MENA and now turning to Asia as well. Post its recent acquisitions in Saudi Arabia, the company was able to acquire its highest ever order of SAR2bn which raised its backlog to sales ratio from 1.5x in 2009 to 2.6x in 2011. Despite recent acquisition, Drake & Scull still has over AED500mn of cash which can be used for its future acquisitions and joint ventures. This cash position offers a huge cushion against any negative surprises regarding receivables. Its cash balance accounts for almost 50% of the company's market cap. Company has a huge upside potential of 29.3% and we recommend **'Strong Buy'**. DSI is currently trading at 2011e and 2012e PE of 10.2x and 9.7x respectively.

BUY
Target Price
SAR25.2

Mohammad Al-Mojil Group (MMG) – *Initial Coverage*

We initiate coverage of MMG with a **'BUY'** rating and a price target of SAR25.2 per share. MMG shares are trading at a PE of 21.8x in 2011e and 19.6x in 2012e. Strong pick-up in the industrial segment specially oil & gas in Saudi Arabia with projects worth over USD50bn budget for the next five years would decipher continued flow of projects to Mojil which is a specialized oil and gas contractor. Company has secured YTD contracts of SAR2.8bn in 2011, while its backlog stands at SAR4.2bn, which is 1.8 times its 2011 revenues. Company has recently established two joint ventures and have acquired three companies to support its core business. Apart from that it has diversified its client base and has opened a new branch in Abu Dhabi whereby the group has now permission to work in oil, gas, petrochemical and also in civil construction sector.

BUY
Target Price
EGP326.9

Orascom Construction Industries (OCI) – *Investment Update*

We view OCI as a high-quality stock. In our view, its construction business downturn would be compensated by its fertilizer business. Construction business backlog stands at EGP35.3bn, which is 1.9 times its 2011 revenues down from above 2 times previously. Since 2010, OCI has acquired three companies in the fertilizer segment and has entered into four joint ventures in the construction segment. Three of the joint ventures were in Italy, US and India in a way to diversify its backlog from their local market which has 27% share of the total. OCI's value generation capability after shelving of its cement business has been the nitrogen fertilizer which is on its way to be among 5 largest worldwide. The stock has enjoyed a strong rally since the Egyptian bourse reopened after the political turmoil. Stock has a further potential upside of 19.9% based on our SOTP value. At their current price, OCI's shares are trading at a P/E multiple of 12.1x and 9.7x for 2011 and 2012 respectively. We therefore recommend a **'BUY'** on the stock.

Valuation Methodology

For arriving at the fair value, we have used a blend of two valuation methods:

- Cash flow approach represented by the Discounted Cash Flow method.
- Relative valuation using peer group P/E multiple.

Valutions

	AKS	MMG	ARABTEC	DSI
	(SAR mn)	(SAR mn)	(AED mn)	(AED mn)
DCF				
PV of Cash Flows & Terminal Value				
Yr 1	154	8	(37)	(168)
Yr 2	202	102	176	167
Yr 3	171	140	87	70
Yr 4	284	284	141	171
Terminal	3,981	4,318	1,706	2,335
Assumptions				
Growth Rate	3%	3%	3%	3%
Beta	1.0	1.0	1.2	1.0
Risk Free Rate	5.6%	5.6%	4.2%	4.2%
Risk Premium	7.0%	7.0%	7.0%	7.0%
COE	12.6%	12.6%	13.4%	11.7%
WACC	10.3%	9.8%	11.5%	10.5%
Equity Value	3,538	3,561	2,022	2,852
DCF based Fair Value per Share	83.30	28.50	1.35	1.31
Relative Valuation				
Peer Group Multiple	11.80	11.80	11.80	11.80
Price based on Relative Valuation Method	69.40	11.90	1.31	1.15
Fair Value				
Fair Value - DCF (80%)	83.30	28.50	1.35	1.31
Fair Value - Relative Valuation (20%)	69.40	11.90	1.31	1.15
Fair Value	**80.52**	**25.18**	**1.34**	**1.28**

Source: Global Research

** Orascom Construction is not presented because of its value being derived from SOTP method.*

MENA Listed Contractors Multiples - 2011e

Ticker	Name of the Company	Market Cap (USD mn)	1m (%)	3m (%)	12m (%)	P/E (x)	P/Bv (x)
MENA							
ALKHODAR AB	Al Khodari & Sons Company	787.7	3.3%	15.6%	N/A	11.8	3.8
ARTC UH	Arabtec Holding	516.9	-2.3%	0.5%	-16.9%	8.8	0.7
DSI UH	Drake & Scull	589.3	-0.6%	-4.4%	22.4%	10.2	0.8
MMG AB	Mohammad Al-Mojil Group	733.3	-6.5%	28.1%	19.7%	21.8	1.7
DEPA DU	DEPA	338.1	-4.8%	-13.5%	-24.0%	NA	NA
DPW DU	DP World	10,142.6	-0.8%	22.5%	50.5%	28.0	1.3
CGC KK	Combined Contracting Group	632.0	0.2%	3.3%	21.7%	18.8	4.4
NASS BI	Nass Corporation	93.2	-8.0%	9.4%	-23.2%	7.0	0.7
GECS OM	Galfar Engg & Contracting	260.5	-8.8%	-4.3%	12.0%	12.6	1.2
OCIC EY	Orascom Construction Ind.	9,580.1	7.4%	36.6%	20.7%	12.1	2.6
UEGC EY	El Saed Contracting Co.	94.2	27.5%	N/A	-2.9%	6.8	1.2
						13.8	1.8
World							
1186 HK	China Railway & Cons.	10,771.6	2.3%	-20.5%	-25.9%	7.4	1.1
LT IN	Larsen & Toubro	22,638.0	11.8%	6.3%	3.2%	23.3	1.4
AEG SJ	AVENG Limited	1,953.7	0.4%	-3.1%	2.7%	9.9	1.1
GAM MK	GAMUDA	2,537.0	4.1%	1.6%	32.2%	19.2	2.1
VOVOS GA	Babis Vovos Int. Cons	48.1	37.2%	-16.3%	-39.5%	24.0	0.4
6305 JT	Hitachi Construction	4,638.4	-16.8%	-22.5%	-7.9%	33.8	1.2
						18.8	1.3

Source: Zawya & Global Research

Sensitivity Analysis

Al Khodari

Terminal Growth Rate

WACC	1.0%	2.0%	3.0%	4.0%	5.0%
8.3%	84.6	97.9	116.1	142.7	185.2
9.3%	72.7	82.5	95.5	113.3	139.3
10.3%	63.3	70.9	**80.5**	93.1	110.5
11.3%	55.8	61.7	69.1	78.5	90.9
12.3%	49.6	54.4	60.2	67.4	76.6

COE

COD	10.6%	11.6%	12.6%	13.6%	14.6%
5.0%	116.1	102.9	92.1	83.1	75.6
6.0%	107.0	95.5	86.0	78.0	71.2
7.0%	99.0	88.9	**80.5**	73.3	67.2
8.0%	92.1	83.1	75.6	69.1	63.5
9.0%	86.0	78.0	71.2	65.3	60.2

Arabtec

Terminal Growth Rate

WACC	1.0%	2.0%	3.0%	4.0%	5.0%
9.5%	1.39	1.53	1.71	1.95	2.31
10.5%	1.26	1.37	1.50	1.68	1.92
11.5%	1.16	1.24	**1.34**	1.47	1.65
12.5%	1.07	1.14	1.22	1.32	1.45
13.5%	0.99	1.05	1.12	1.20	1.30

COE

COD	11.4%	12.4%	13.4%	14.4%	15.4%
6.0%	1.71	1.57	1.45	1.35	1.26
7.0%	1.63	1.50	1.39	1.30	1.22
8.0%	1.56	1.44	**1.34**	1.26	1.18
9.0%	1.49	1.39	1.30	1.22	1.15
10.0%	1.43	1.34	1.25	1.18	1.12

Drake & Scull

Terminal Growth Rate

WACC	1.0%	2.0%	3.0%	4.0%	5.0%
8.5%	1.32	1.47	1.67	1.96	2.42
9.5%	1.19	1.30	1.44	1.64	1.92
10.5%	1.08	1.17	**1.28**	1.42	1.61
11.5%	1.00	1.07	1.15	1.26	1.39
12.5%	0.93	0.98	1.05	1.13	1.23

COE

COD	9.7%	10.7%	11.7%	12.7%	13.7%
5.0%	1.67	1.49	1.35	1.24	1.15
6.0%	1.61	1.44	1.31	1.21	1.12
7.0%	1.55	1.40	**1.28**	1.18	1.10
8.0%	1.49	1.35	1.24	1.15	1.07
9.0%	1.44	1.31	1.21	1.12	1.05

Mojil Group

Terminal Growth Rate

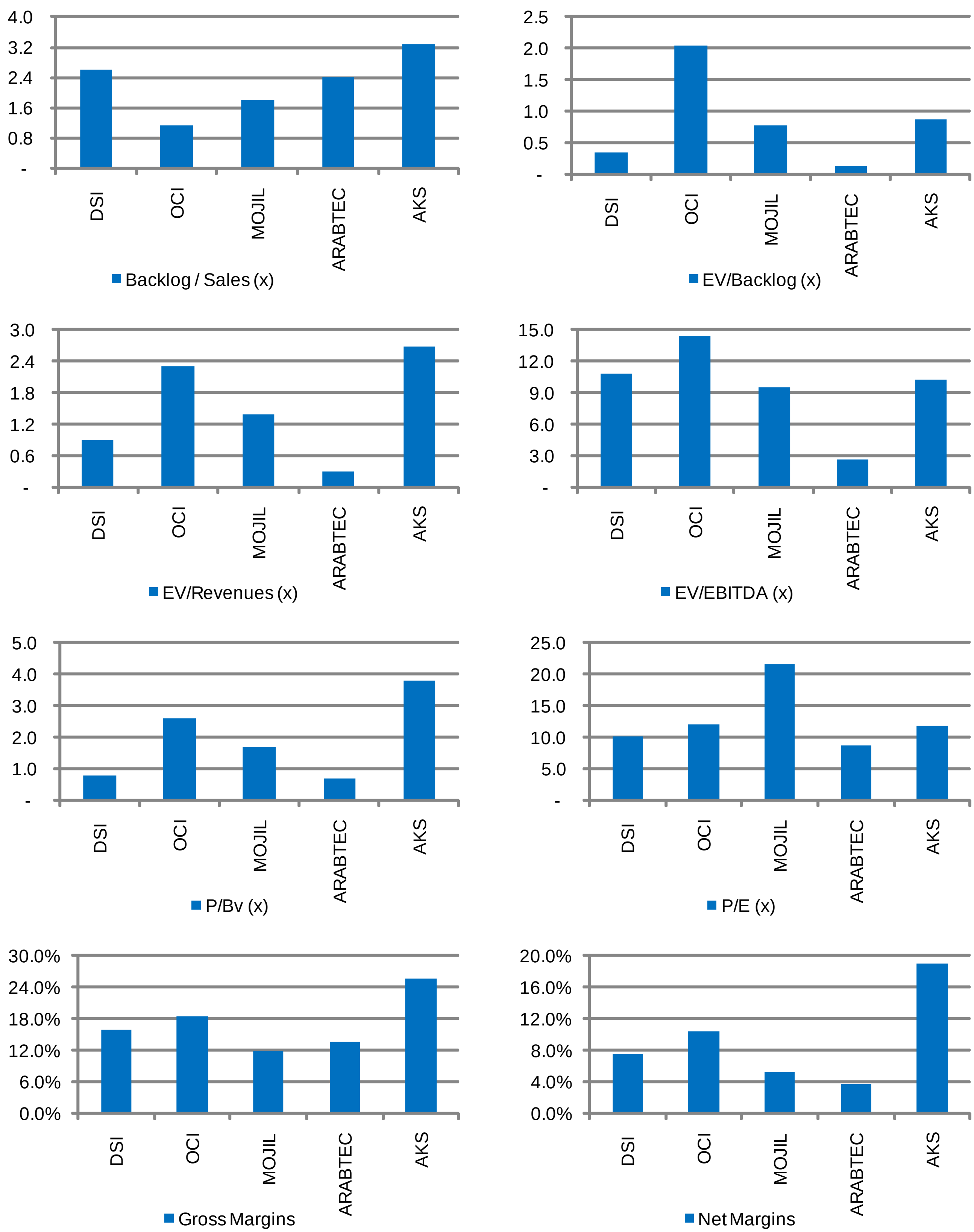
WACC	1.0%	2.0%	3.0%	4.0%	5.0%
7.8%	26.6	32.0	39.5	51.1	71.0
8.8%	22.0	25.9	31.1	38.5	49.8
9.8%	18.5	21.4	**25.2**	30.3	37.5
10.8%	15.7	17.9	20.8	24.5	29.5
11.8%	13.4	15.2	17.4	20.2	23.8

COE

COD	10.6%	11.6%	12.6%	13.6%	14.6%
5.0%	39.5	34.9	31.1	27.9	25.2
6.0%	34.9	31.1	27.9	25.2	22.8
7.0%	31.1	27.9	**25.2**	22.8	20.8
8.0%	27.9	25.2	22.8	20.8	19.0
9.0%	25.2	22.8	20.8	19.0	17.4

** Orascom Construction is not presented because of its value being derived from SOTP method.*

Global Research - Contractors Universe - 2011e



Source: Global Research

MENA Projects & Construction Market

MENA region is on track for a recovery from the global crisis. Growth accelerated to 3.8% in 2010 from 1.8% in 2009, mainly driven by the region's oil exporters. For 2011, IMF projects GDP growth of MENA to the tune of 4.1%.

Oil importers within the region are expected to do exceptionally well as compared to 2010 mainly because of expectation of higher average oil prices in 2011 as compared to those in 2010. Within MENA, GCC region is expected to post nominal and real GDP growth in 2011 of 29.3% and 7.8% respectively.

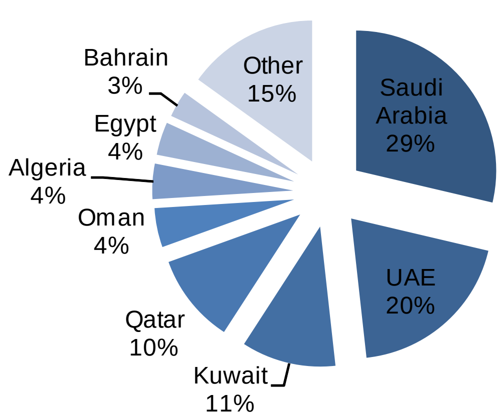
MENA Country Comparison

	Active Backlog (USD bn)	GDP 2011e (USD bn)	Backlog/GDP (x)
Saudi Arabia	601.9	578.6	1.04
UAE	411.4	363.8	1.13
Kuwait	229.0	172.8	1.33
Qatar	217.2	194.3	1.12
Oman	95.1	66.0	1.44
Algeria	85.0	174.9	0.49
Egypt	80.0	231.1	0.35
Bahrain	64.0	26.5	2.42
Other	316.4	402.0	0.79
MENA	2,100.0	2,210.0	0.95

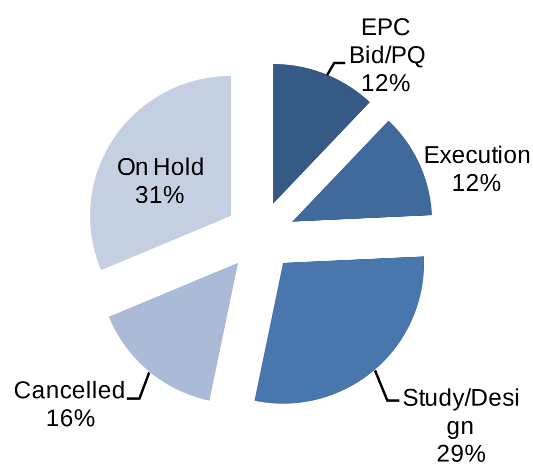
Source: IMF, MEED & Global Research

Overall projects market size in the MENA region as of 2010 stood at USD2.1tn. Projects are spread over a period of 5-10years. Saudi Arabia stood out with a backlog share of 29% (USD601.9bn) followed by 20% of UAE at USD411.4bn.

Backlog Market Share - 2010



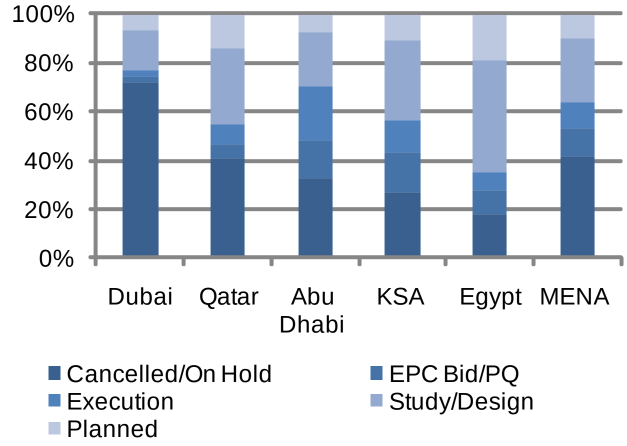
Break down of MENA Projects by Status - 2010



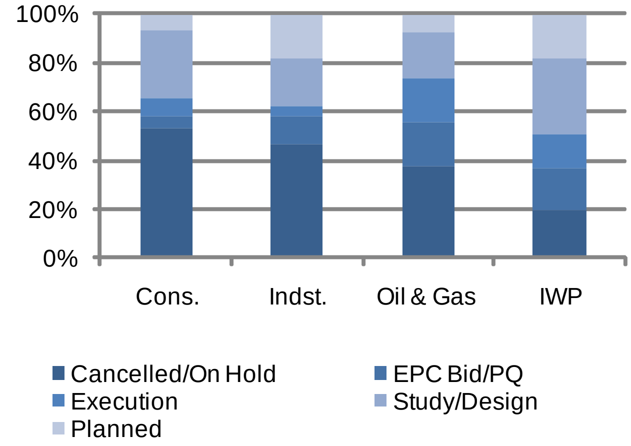
Source: MEED, Zawya & Global Research

The prospects for new construction awards in Middle East and North African markets are positive. Growth rates in the MENA region remain high for the medium-term, both in terms of GDP and construction sector growth. With over USD1tn of planned infrastructure projects announced by the MENA region's governments through to 2016, many contractors are well positioned to benefit from the MENA region's robust bidding pipeline over the medium term.

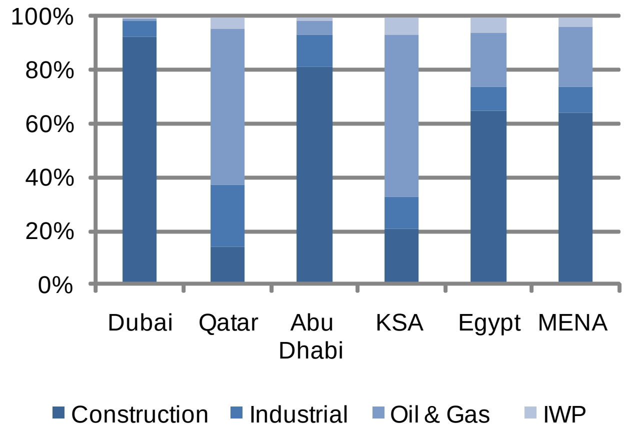
Status of MENA projects by geography - 2010



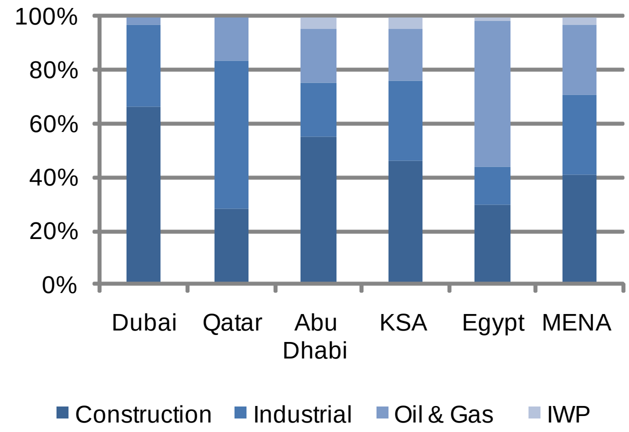
Status of MENA projects by segment - 2010



Cancelled MENA projects by segment/geography - 2010

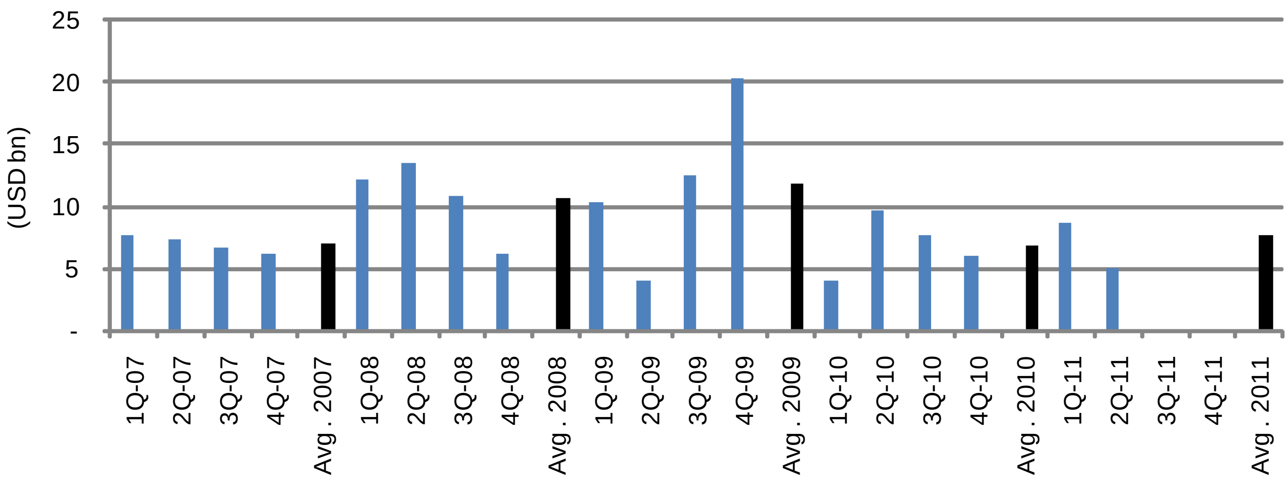


Ongoing MENA projects by segment/geography - 2010



Source: MEED, Zawya & Global Research

Contracts Awarded in MENA



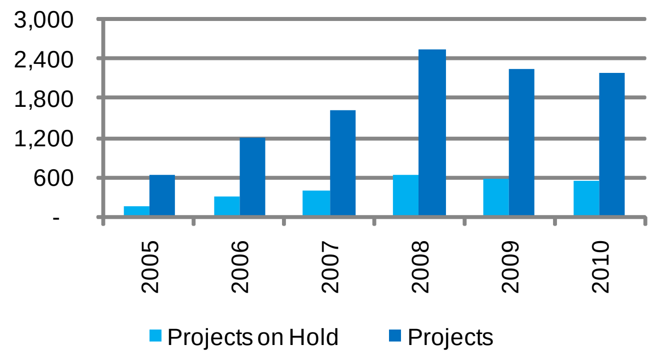
Source: MEED

GCC Projects Market

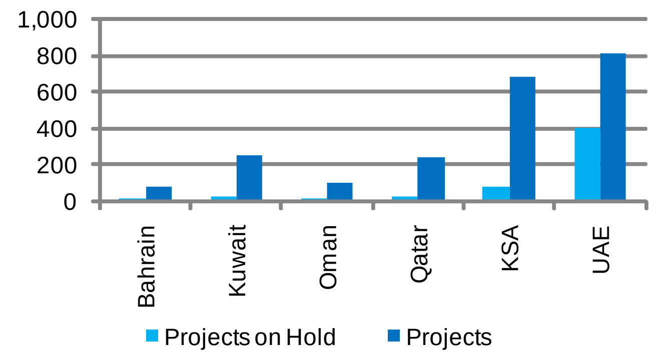
The road to recovery from the global economic downturn has unfortunately not remained an easy route for the GCC nations as it treads along a path of uneven recovery fuelled by a steady increase in oil prices. Despite witnessing a steady stream of investments flowing into the construction sector, the concentration has been skewed more towards energy and infrastructural developments.

GCC projects market has witnessed an unparalleled growth. The projects market grew from USD633bn in 2005 to USD2.1tn at the end of 2010. Pre crisis level of projects market was USD2.5tn at the end of 2008. However after the initiation of crisis the projects market continued to deteriorate and the fall has not yet stopped.

GCC Project Markets (USD bn)



GCC Project (USD bn) - Country Wise - 2010



Source: MEED

In terms of overall size of the projects market, UAE stands at the top at USD815bn. However of these USD404bn worth of projects are on hold or either cancelled making it second biggest active projects market after Saudi Arabia. Saudi Arabia overall market size is USD680bn of which USD78bn are on hold or cancelled making it the top most projects market in the GCC.

Within GCC, the smallest project market is Bahrain with active number of projects at USD63.9bn as of 2010. Post political turmoil in the country, it is actively pursuing some of its big scale projects as Durrat Al Bahrain and Bahrain Monorail which are worth over USD12bn. Within Global Research contractor universe, none of the Companies have either subsidiaries or operate in Bahrain. Recently the country received aid package worth USD10bn from the GCC governments to take on its developments plans ahead and help revive the economy.

Oman is fifth biggest projects market in the GCC with active projects amounting to USD95.1bn. It was also one of the GCC country which witnessed political issues during the past six months. Even before it political disorder, country was going ahead with OMR30bn spending plan.

GCC Countries Construction Sector GDP - 2010

(USD bn)	Nominal GDP	Construction Sector GDP	CS as part of GDP
Kuwait	129.0	2.5	2.0%
Bahrain	21.7	1.0	4.7%
Oman	53.8	5.0	9.3%
Qatar	108.9	8.2	7.6%
UAE	252.7	20.4	8.1%
KSA	434.8	21.3	4.9%

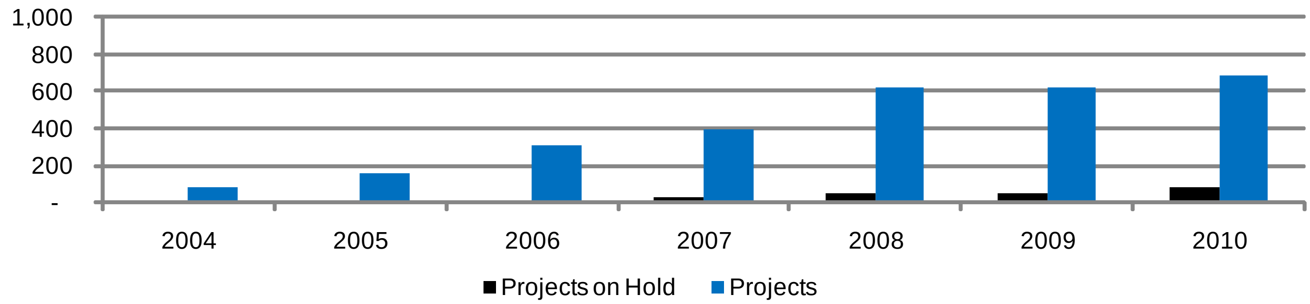
Source: IMF & Global Research

We have talked about other core markets of GCC in detail as our contractors universe have significant amount of backlog exposure in them.

Saudi Projects Market

The projects in Saudi Arabia have grown at a CAGR of 16.8% during 2006-10. Saudi Arabia alike Qatar witnessed an increase in the order book despite the economic slowdown, for which the credit goes to the continued flow of petro dollar liquidity. Projects as of 2010 have reached USD680bn. Of the total projects, USD78bn worth of projects have either been delayed or postponed as of 2010. Nevertheless the active number of projects are highest in the GCC at USD602bn.

Saudi Arabia Projects - (USDbn)



Source: MEED & Zawya

In 2011 alone the Kingdom is expected to spend USD155bn. The investment is quite necessary as the Kingdom is facing lot of political pressures over the increase in unemployment. Government originally budgeted spending of SAR540bn but with budgeted oil prices above USD70/barrel, the Kingdom has huge cushion to keep pushing its development programs.

Major Projects in Saudi Arabia

Project Name	Size (USDbn)	Project Name	Size (USDbn)
Sudair Industrial City	40.0	Saudi Landbridge	6.6
Jazan Economic City	27.0	Makkah, Madinah Rail Link	6.0
King Abdullah Economic City	27.0	Mina, Arafa Railway	5.3
Ras Al Zour Economic City	25.0	King Abdulaziz Int. Airport Devp. Project	5.3
Jazan Industrial City	17.0	Ras Al Zour Port	0.7

Source: MEED & Zawya

Within the development programs of 2011 the Kingdom has announced construction projects worth USD86bn alone. KSA construction sector accounts for a major share of the economy. The construction sector's real GDP growth was 2% in 2008, increase in government investment improved this annual growth rate to 5% in 2010 and it is expected to grow even faster at 6% in 2011.

Saudi Arabia has major plans to improve its rail network, investing an estimated USD25bn and adding 3,900km of track through three major railway projects. The government recently announced plans to invest USD53bn in water projects over the coming 15 years. In response to power shortage concerns, the government has announced plans to spend USD80bn on increasing its power generation capacity and transmission network over the next 10 years.

Booming housing demand

Although the Kingdom is witnessing huge developments in the housing construction, housing market still suffers from large demand-supply gap due to rapid expansion of expatriate population along with domestic population and rapidly declining household size. Moreover, majority of the Kingdom's populace does not have their own houses and live in rented houses.

Post recent political ups and downs in the country the Kingdom announced construction of 500,000 houses by 2015. To put this into outlook, the largest Saudi contractor, Saudi Bin Laden Group has the capacity to build 5,000 units per annum. To be conservative even if 200,000 units are being built the Kingdom would require some 8 groups of the size as big as Saudi Bin Laden to meet the housing demand.

Saudi King Abdullah's pledged to increase spending on housing by SAR55bn (USD15bn) to relieve the country's home shortage. Saudi Arabia's Real Estate Development Fund, which provides interest-free loans, will get SAR40bn. Another SAR15bn will be added to the housing budget to build affordable homes for state employees.

Oil & gas related projects – *Mojil to be key beneficiary*

Saudi Arabia has embarked on a number of new mega-projects in a variety of industries. The majority of them are focused on the sectors of their economy in which the Kingdom has advantages, specifically in the oil and petrochemical industries. Oil and gas industry alone, is undertaking about SAR259bn, one fourth of the total.

Some of the mega projects that Saudi Arabia is pursuing:

- USD10bn Aramco-Sumitomo chemical refining and petrochemical joint venture
- SAR37.5bn Aramco-Total export refinery
- SAR22.5bn Aramco-ConocoPhillips export refinery

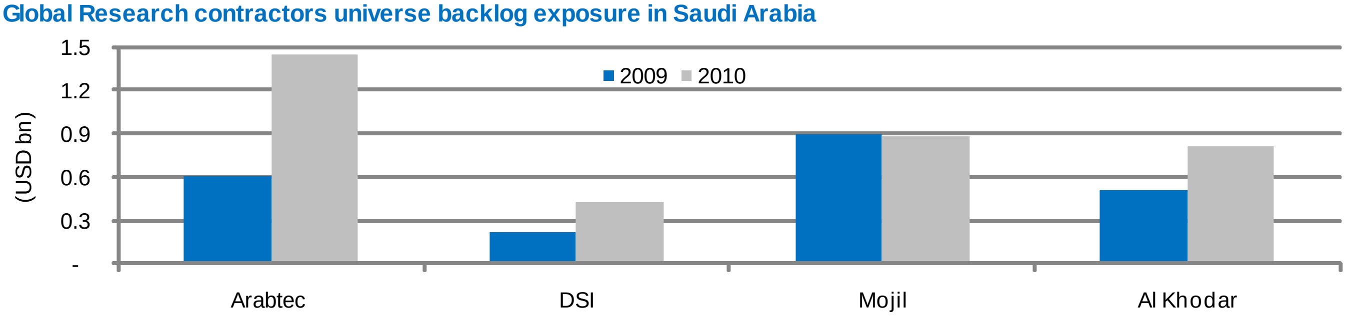
Meanwhile, work continues on Aramco's USD20bn crude oil expansion program, which aims at raising Saudi oil production capacity from the current 11.3mbpd to 12.5mbpd by 2009. The gas initiative has been succeeding in conjunction with the expansion. This involves exploration for gas in Aramco's joint ventures with several foreign oil and gas companies, with the intention of supplying gas for local industrial use and power generation, eventually freeing up more crude oil for export. Companies involved in the development include Shell, Total, Russia's Lukoil, China's Sinopec, and Repsol of Spain.

Mojil Group is expected to be key beneficiary of these oil gas projects as the Company is the only within our universe which specializes in oil and gas contracting. Company has already tie-ups with Aramco and Sabic which as of 2009 and 2010 contributed over 75% of the revenue. Going forward with Aramco and Sabic huge expansion plans we believe continued flow of projects to the Company.

Global Research contractors universe backlog exposure to Saudi Arabia

Out of the five contractors under Global Research coverage four operate quite actively in Saudi Arabia as two of them Saudi based. As of 2010, Saudi Arabia is the most active market within our construction companies in terms of their backlog share. Combined backlog exposure of companies under our coverage to Saudi Arabia is USD3.6bn which has increased from USD2.2bn in 2009.

Global Research contractors universe backlog exposure in Saudi Arabia



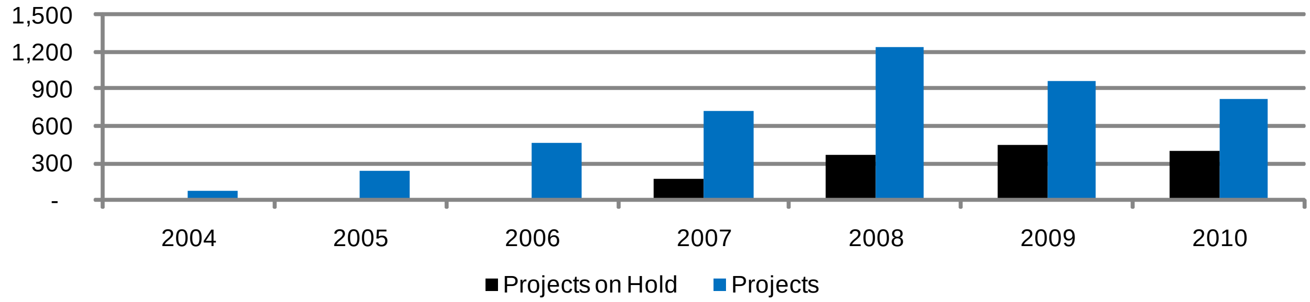
Source: Company Reports

Market share of the backlog in Saudi Arabia has increased from 18% in 2009 to 29% in 2010. Within Global Research universe, Company with most backlog exposure to Saudi Arabia is Arabtec at USD1.45bn followed by Mojil Group at USD0.9bn.

UAE Projects Market

UAE projects market is second biggest market in the GCC. The projects in UAE have grown at a CAGR of 14.9% during 2006-10. Projects touched the maximum in 2008 when it reached USD1.2tn. However post economic slowdown worldwide and issues related to Dubai government debt, the projects market witnessed an unabated fall. As of 2010, projects market stands at USD815bn of which half are on hold or delayed. Most of the projects which have been delayed are in Dubai while on the other hand Abu Dhabi is continuing to limit the fall in projects markets of UAE by announcing billions of new projects which are actively going ahead as planned.

UAE Projects - (USDbn)



Source: MEED & Zawya

Within UAE, total value of all construction projects in Abu Dhabi is currently calculated at USD562.8bn. By sector, buildings contributes USD304.4bn to the total value of construction projects in Abu Dhabi, energy (oil and gas, petrochemicals and power & water projects) adds USD129bn, and projects in infrastructure (roads, bridges, rail, sewerage, wastewater and marine projects) account for USD129.3bn.

Major Projects in UAE

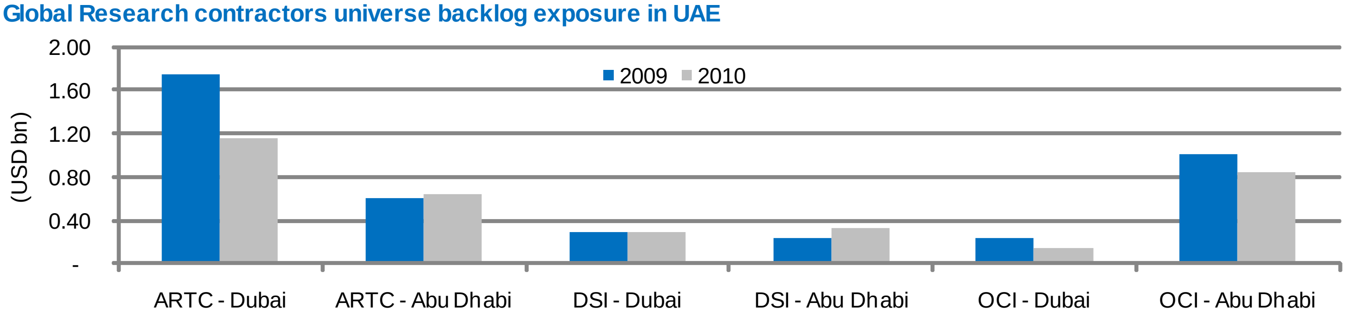
Project Name	Size (USDbn)	Project Name	Size (USDbn)
Jumeirah Gardens City	95.0	Dubai Metro Expansion	12.0
Abu Dhabi Capital District	40.0	Al Maktoum International Airport (JXB)	8.3
Nuclear Power Plant	40.0	Abu Dhabi Airport Expansion	8.1
Dubai World Central	33.0	Abu Dhabi Metro	7.0
Saadiyat Island Development	27.2	Ajman Airport	3.4

Source: MEED & Zawya

Global Research contractors universe backlog exposure to UAE

Within Global's contractors universe, 2 of the Companies are headquartered in UAE while 2 others have their branches and actively bid for the projects. As of 2010, combined backlog exposure of companies under our coverage to UAE is USD3.41bn which has dropped from USD4.1bn in 2009. Market share of the backlog in UAE has dropped from 18% in 2009 to 13% in 2010. Within UAE their order book to Abu Dhabi has remained the same at USD1.8bn while their exposure to Dubai has declined to USD1.6bn in 2010 from USD2.3bn in 2009.

Global Research contractors universe backlog exposure in UAE

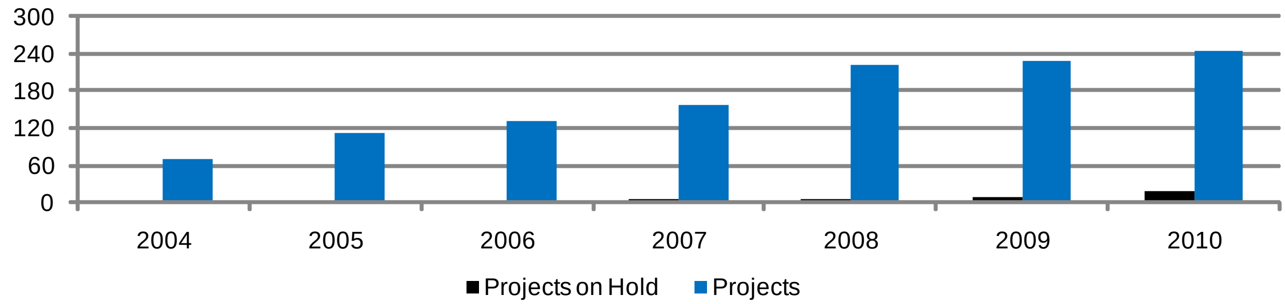


Source: Company Reports

Qatar Projects Market

The projects in Qatar have grown at a CAGR of 16.8% during 2006-10. Qatar is the only projects market whose order book has continued to increase despite the economic slowdown thanks to its continued flow of gas based revenues. Projects as of 2010 have reached USD245bn. Nevertheless, there are some projects which have either been delayed or postponed amounting to USD18bn as of 2010.

Qatar Projects - (USDbn)



Source: MEED & Zawya

According to MEED, Qatar has dedicated over 40% of its budget towards infrastructure expansion projects with expenditures also going to the private sector for the creation of more job opportunities. The move translates to over USD66bn worth of infrastructure projects that are either in the planning stage or is already under way in Qatar at present. Construction industry spending alone is projected to drive in more than USD22bn in new contract awards by 2012, an increase from the USD20.2bn worth of contracts awarded in 2010.

Major Projects in Qatar

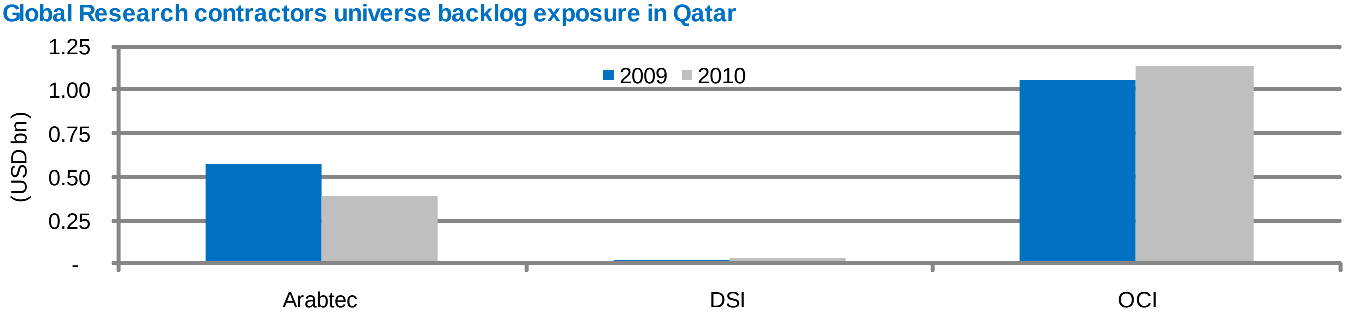
Project Name	Size (USDbn)	Project Name	Size (USDbn)
Qatar Rail Network Program	42.9	Education City	8.3
Qatar North Gas Field Devp.	20.0	New Doha Port	7.0
The Pearl Qatar	14.0	Lusail Development	5.5
New Doha International Airport	11.0	Qatar UPDA - Doha Rail Network	1.0
Barzan Gas Development	8.2	Ras Laffan Dry Dock (Phase 1)	0.6

Source: MEED & Zawya

Global Research contractors universe backlog exposure to Qatar

As of 2010, combined backlog exposure of companies under our coverage to Qatar is USD1.6bn which has dropped from USD1.7bn in 2009. Market share of the backlog in Qatar has dropped from 13.2% in 2009 to 12.6% in 2010. With Global Research universe, Company with most backlog exposure to Qatar is OCI at USD1.1bn followed by Arabtec and DSI at USD0.4bn and DSI at USD40mn.

Global Research contractors universe backlog exposure in Qatar



Source: Company Reports

Going forward, country has recently won the bid for the World Cup 2022 hosting. For World Cup alone the country is planning to build 12 stadiums, 70,000 hotel rooms, and USD43bn of infrastructure which will directly benefit the regional contracts who operate in these segments.

Egypt Projects Market

Egypt stands as one of the key markets within our universe. Country was witnessing continued flow of high profile real estate and construction activity till 2010. However in early 2011 the political turmoil which started from Tunis swept across almost whole middle east and Egypt was amongst the first batch which took the brunt.

Before the political upheaval, in 2006 government's strategized to promote and increase the private sector involvement in the country's economic and social development plan- particularly in the area of public utility services- the Government took initiative to introduce the Public Private Partnership program (PPP). The projects covered were in health care, infrastructure, oil and gas, transport and hospitality sectors.

EGYPT Big Ticket Projects (2010-15)

Rod El Farag - 6 of October Highway	EGP3bn
Matrouh Railway Line Relocation	EGP360mn
Railway (Cairo line – 10th of Ramadan)	EGP4bn
East Port Said Flagship Project	EGP3bn
Damietta Port Projects	EGP10.2bn
Alexandria & Dekhila Ports Projects	EGP14bn
Second Phase Petrochemical Industry Projects	EGP35bn
Tourism project in the City of Luxor	EGP1.6bn
Ras El Hekma project in Marsa Matruh	EGP12bn
Qarun Lake	EGP1bn
Touristic Project in the Northern Coast	EGP10bn
Education Related Projects in PPP	EGP30bn

Source: PPPCU Egypt

However the situation post the political turmoil hangs in no man’s land. The Egyptian government is pondering the possibility of delaying bidding deadlines for more than a few public infrastructure spending initiatives which are worth an estimated EGP25-30bn and are to be completed over the next five years.

Ministry of Investment's data shows that there are currently 46 projects lined up with an estimated investment cost of USD16.2bn and spans a number of different sectors and will be carried out under the PPP umbrella.

Global Research believes that most of these PPP projects would be delayed but there will be continuation of some of the necessary projects related to health care and infrastructure which are required to boost the overall investment theme post revolution.

Global Research contractors universe exposure to Egypt

Within our contractors universe, Orascom Construction which is headquartered in Egypt, has backlog exposure of 27% in Egypt. Apart from that UAE based contractors have lately started bidding for projects in Egypt in an attempt to expand in the region amid a real estate slump in its home market.

Arabtec Egypt for Construction SAE, a subsidiary of Arabtec Holding PJSC has been awarded the contract to build the Hanging Gardens, a project being developed by the Amer Group with an estimated construction value in excess of AED195mn and a completion period of 14 months. The Hanging Gardens project will consist of six residential buildings featuring 726 apartments located at Golf Porto Sokhna, a residential and mixed-use vacation resort covering 2.2mn square-meters of cliff face with spectacular views of the Red Sea, that is home to Egypt’s only mountain top 18-hole championship golf course and a Spa complex.

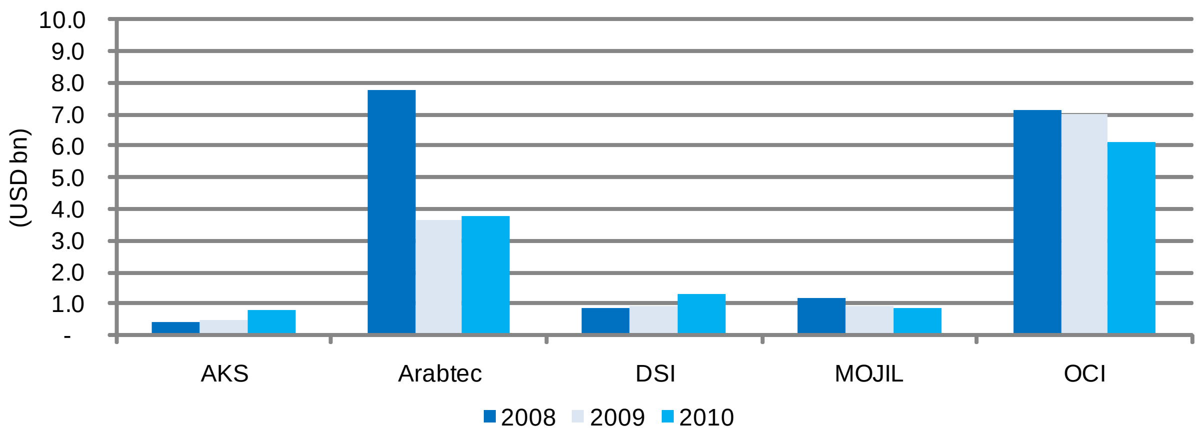
Recently, DSI won couple of contract in Egypt. First one was worth USD127mn, a mixed-use Nile Corniche Project (NCP), situated in Downtown Cairo and being developed by Qatari Diar Real Estate Investment Company, includes construction of a hotel as well as serviced apartments. While the second project was for a value of AED80mn which is in the hospitality sector.

Global Research Contractors Universe – Backlog Performance

According to MEED, the MENA backlog has more or less started to stabilize. Almost 75% of projects are ongoing as per schedule. Year-to-date contracts awarded are up 24%, primarily driven by the development plans and reforms announced by various countries in the MENA. However, slowdown in the Dubai construction industry is hindering the growth. But nevertheless we believe that there are ample opportunities for contractors in other countries such as Abu Dhabi, Saudi Arabia, Qatar and Kuwait which have undertaken massive infrastructure spending plans backed by strong oil prices.

Global Research construction universe backlog at the end of 2010 stood at USD12.4bn. The backlog witnessed a decline of 1.9% when compared with the figures of 2009 at USD12.6bn. However if we exclude the Orascom's backlog, the backlog grew by 14.6% during 2010.

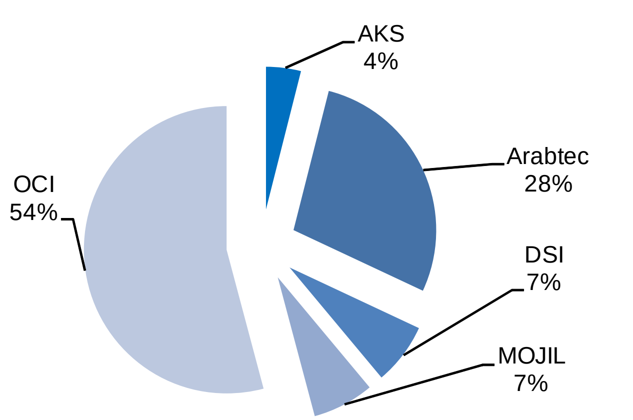
Companies Backlog Performance



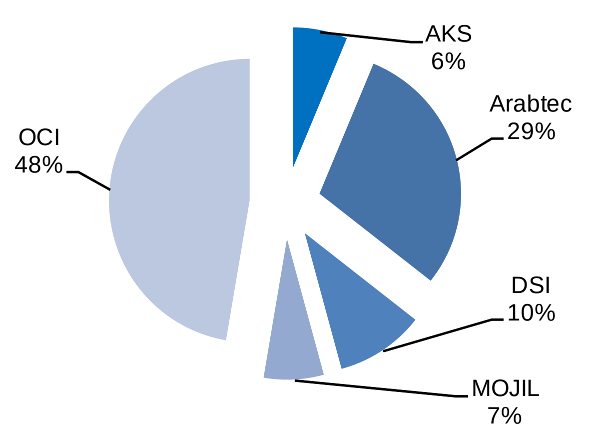
Source: Company Reports & Stock Exchange Websites

In terms of share within our construction universe, OCI leads with a market share of 48% in 2010 despite a decline from 54% in 2009. The drop in the backlog of OCI was due to the slowdown in contract awards in Egypt (~25% of total backlog) due to delays in approving Public Private Partnership (PPP) legislation. The PPP law was passed in July 2010, paving the way for the country to begin tenders for over USD15bn worth of projects in the education, healthcare, utilities and transportation sectors. But delays in PPP followed by political unrest in the country marred the backlog growth.

2009



2010



Source: Company Reports & Global Research

The backlog of rest of the companies grew during the period. Arabtec backlog grew from USD3.6bn in 2009 to USD4.1bn in 2010 and hence its market share increased to 29% in 2010 as compared to 28% in 2009. Saudi Arabia with a total backlog of AED5.3bn was Arabtec's largest market and accounted for 38% of its backlog. This was followed by Dubai with AED4.3bn backlog or ~31% of the company's total backlog. Abu Dhabi with a 17% contribution to the backlog is the third largest market while Qatar at 10% is fourth. The pace of project execution in the region continues to be slow marred mainly by the tight liquidity in Dubai and the current unrest in the MENA region elsewhere.

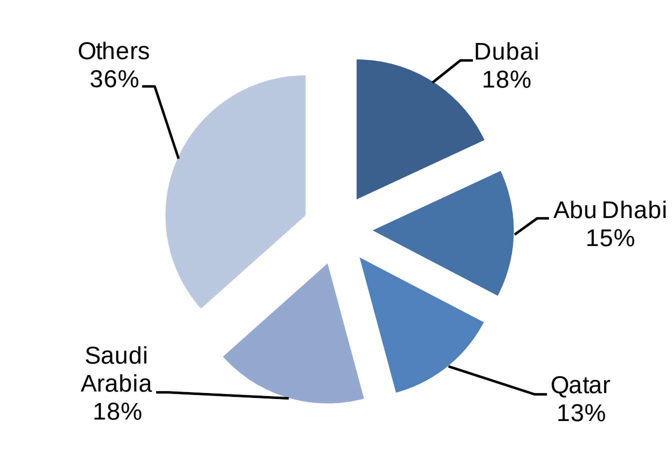
Drake and Scull backlog grew from USD0.9bn in 2009 to USD1.3bn in 2010 and hence its market share increased from 7% in 2009 to 10% in 2010. Company was able to get AED3.38bn worth of new contracts during the year which were higher by 47% as compared to the last year. Highest number of contracts availed were during 2Q10 at AED1,385mn while the least contracts acquired were in 3Q10 at AED215mn. At the year end, backlog of the Company stood at AED4.8bn as compared to AED3.3bn, increase of 46.3%.

While amongst our Saudi contractors, Al Khodari managed to increase its share to 6% in 2010 from 4% in 2009 while Mojil Group share remained the same during 2009 and 2010 at 7%.

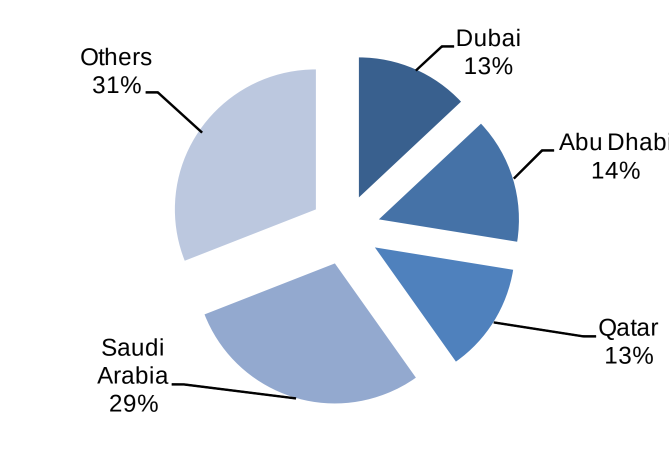
Contractors Backlog Exposure

Global construction universe companies are most exposed to Saudi Arabia as of 2010. Saudi Arabia share of backlog stands at 29% of the total and is worth USD3.6bn as compared to 18% in 2009 at USD2.2bn. Such a phenomenonal growth of 61% in the backlog was due to active participation of Dubai based contractors DSI and Arabtec. DSI and Arabtec backlog in Saudi grew by 99.7% and 140.9% in 2010.

2009



2010



Source: Company Reports & Global Research

Their exposure to Dubai decreased from 19% in 2009 to 14% in 2010. The backlog total of Dubai stands at USD1.6bn as compared to USD2.3bn at the end of 2009, decline of 29.4%.

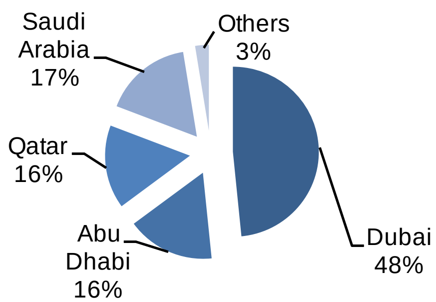
Arabtec's exposure to Dubai declined from USD1.8bn (48.4% of the total) in 2009 to USD1.2bn (30.8% of the total) in 2010. DSI Dubai backlog stood at USD0.3bn as compared to USD0.29bn in 2009. The backlog of DSI in Dubai grew, however its percentage to the total backlog declined to 23.0% in 2010 as compared to 32.0% in 2009.

Orascom Construction order book for Dubai declined to USD0.15bn in 2010, 2.6% of the total backlog as compared to USD0.24bn in 2009, 3.6% of the total.

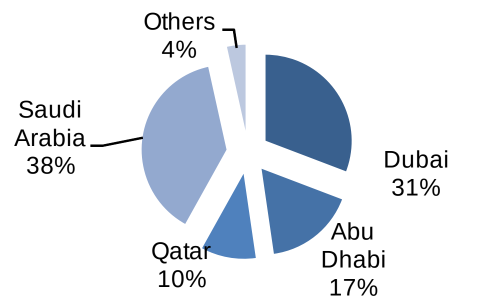
Post Dubai's debt restructuring and the overall financial crisis, most of the companies have tried to limit their exposure to Dubai considering it might get risky or it might affect the their cash flows going forward.

Contracting Companies - Backlog Break-up Geography Wise

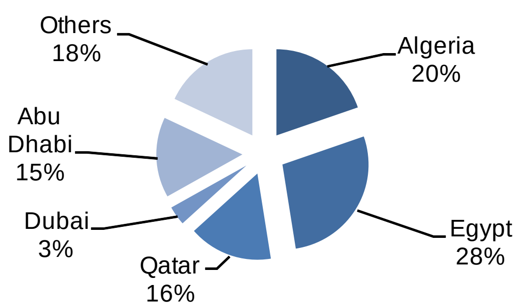
Arabtec 2009



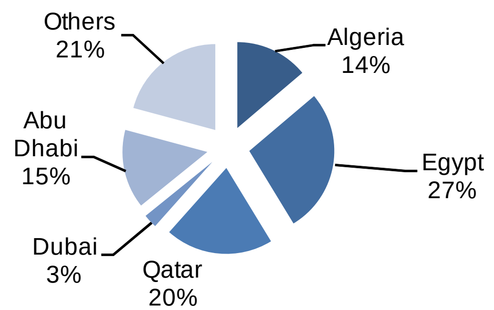
Arabtec 2010



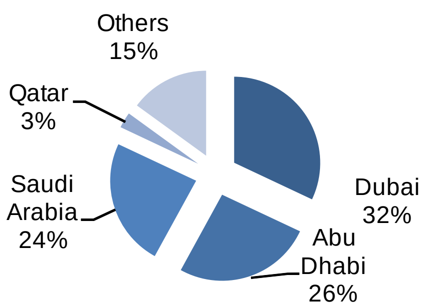
OCI 2009



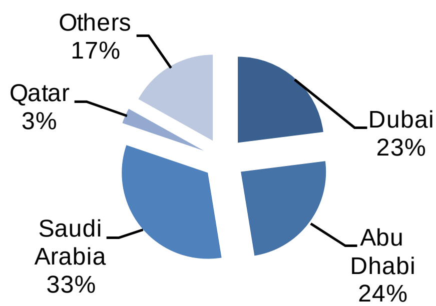
OCI 2010



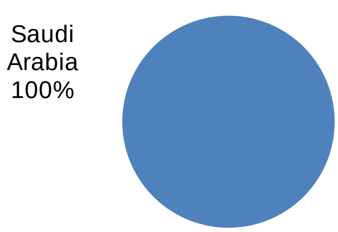
DSI 2009



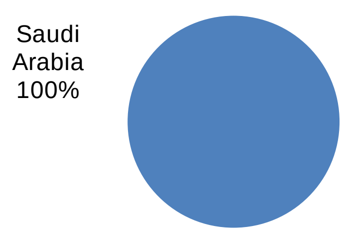
DSI 2010



Mojil 2010



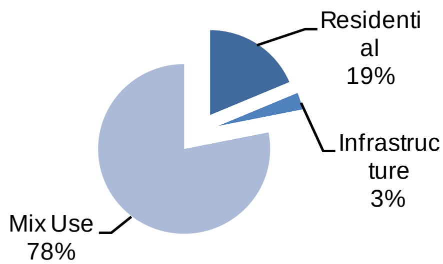
Al Khodari 2010



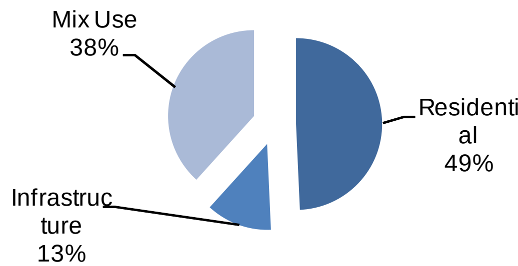
Source: Company Reports

Contracting Companies - Backlog Break-up Sector Wise

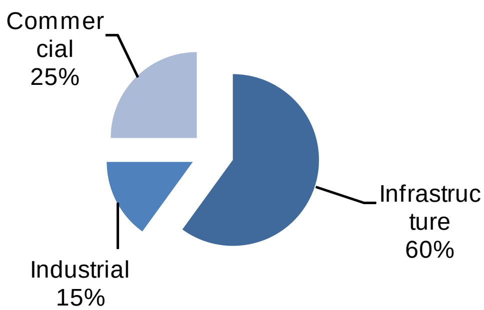
Arabtec 2009



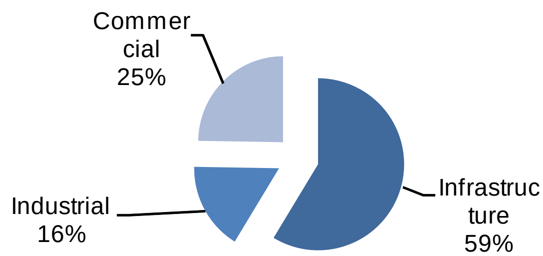
Arabtec 2010



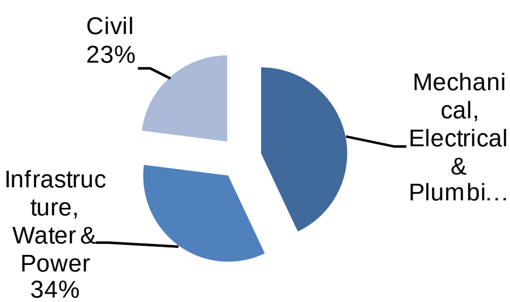
OCI 2009



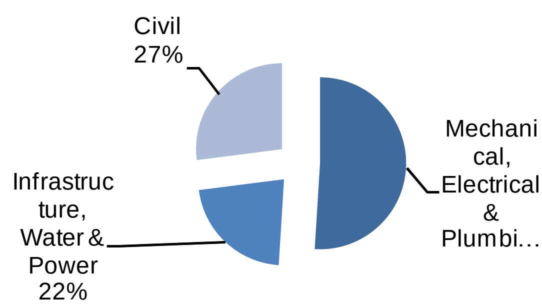
OCI 2010



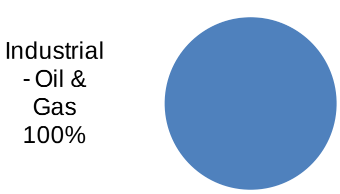
DSI 2009



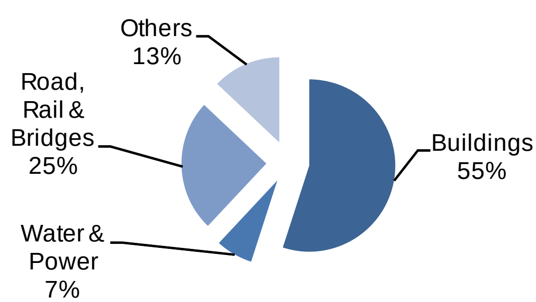
DSI 2010



Mojil 2010



Al Khodari 2010



Source: Company Reports

Global Research Contractors Universe – Financial Performance

Global's contractors universe includes: Al Khodari, Arabtec Holding, Drake & Scull, Mojil Group and Orascom Construction Industries (Construction Segment Only).

Overall revenue of the sector witnessed a decline of 13.4% to USD5.9bn as compared to USD6.9bn in 2009. Reason for decline in revenue is continued slowdown in the projects market. Within our universe Arabtec witnessed the most decline followed by Mojil Group. Al Khodari and and Orascom Construction were the ones who witnessed an increase in the revenue. Al Khodari because of its government backed projects while Orascom because of its its presence across many geographies.

Global Research Contractors Universe

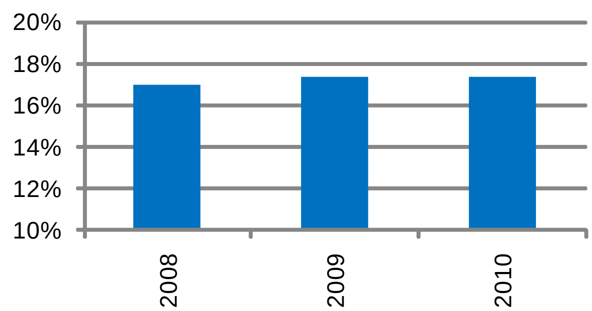
(USD mn)	2009	2010	Change
Revenue	6,890	5,970	-13.4%
Cost	5,695	4,936	-13.3%
Gross Profit	1,195	1,035	-13.4%
Operating Profit	797	765	-4.1%
Net Profit	586	417	-28.8%
Cash	1,589	1,357	-14.6%
Receivables	3,929	4,074	3.7%
Inventories	449	465	3.4%
Loan	3,183	3,791	19.1%
Equity	5,089	5,259	3.4%
Total Assets	13,432	14,403	7.2%

Source: Company Reports

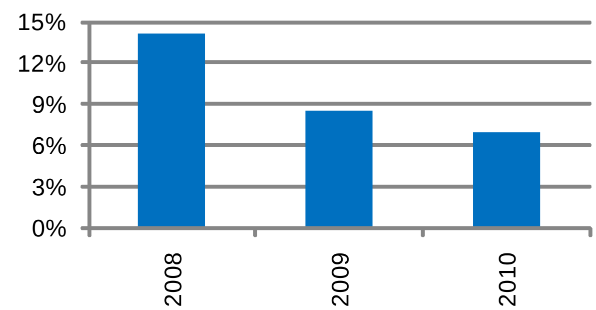
** OCI Construction Segment P&L numbers are taken*

Overall gross margins of the sector were almost the same as compared to last year at 17.3%. On an individual basis Al Khodari outperformed with gross margins of 26.9% in 2010. Drake & Scull followed with margins at 18.6%. Orascom was also not far behind at 18.% while the least margins were of the Mojil Group at 11.2% during 2010.

Gross Margins



Net Margins



Source: Company Reports

Al Khodari margins are combinations of contracting and trading business. Its contracting business margins as of 2010 are 23.7% while its trading business margins are at 49.2%. Reason for higher margins is Al Khodari is a diversified infrastructure contractor, which operates in almost segments and sub segments of infrastructure whereas others contractors in the Gulf, fall under the vertical construction, industrial, or MEP.

Secondly Al Khodari is an A grade contractor by virtue of which it can bid for an unlimited amount of contract as compared to others. It is classified into A category for bidding of road, rail, buildings and dam related contracts.

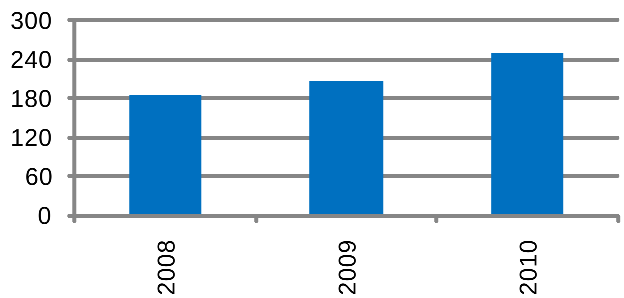
Gross Margins of the MENA contractors are almost in line or relatively higher than their Global Peers. ENKAI INSAAT which is one of the biggest construction company operating across the crossroads of Europe and Asia enjoys highest gross margins of 17.4% amongst its international peers. However its gross margins are lower than the gross margins reported by Al Khodari, Drake & Scull and Orascom Construction.

Despite growth in the oil prices, MENA contractors did well in terms of controlling their operating expenses. Their operating expense fell by 32.1% to USD270mn (4.5% of the revenue) as compared to USD398mn (5.8% of the revenue) in 2009. Al Khodari operating margins of 21.4% were higher amongst its local as well international peers.

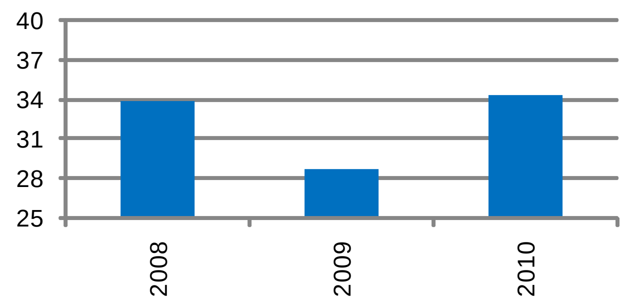
In terms of profits only one of the Company in our Universe was in losses while other witnessed decline in profitability except Al Khodari & Orascom. Mojil Group ended in losses because of provisions related to doubtful debts. Orascom outperformed with a construction segment profit growth of 1.5% followed by Al Khodari at 0.4%.

At the end of 2010, combined receivables of the construction contractors stand at USD4.0bn, higher by 3.7% when compared with 2009 receivables at USD3.9bn.

Receivables Outstanding (Days)



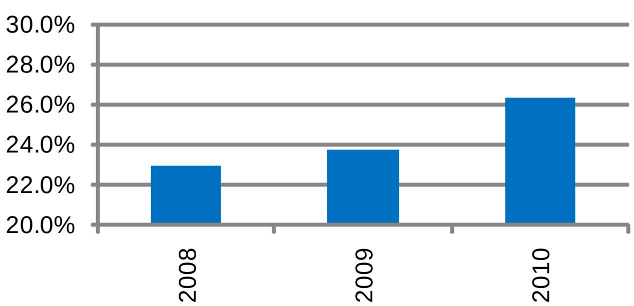
Inventory Stock (Days)



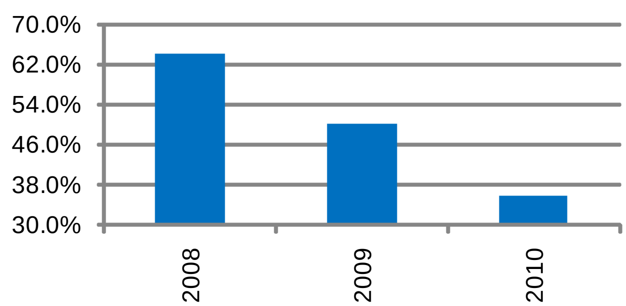
Source: Company Reports & Global Research

The receivables outstanding days of the sector stand at 249 days at the end of 2010 as compared to 208 days at the end of 2009. Within our universe, Company with highest receivables days is Mojil Group at 345.0 days followed by Arabtec at 278.7days.

Debt as % of Assets



Cash Covering Debt



Source: Company Reports & Global Research

In the case of Arabtec and Mojil Group, the reason being for higher number of receivables days is higher portion of government-driven projects which on an average pay later than private customers. This cost benefit relationship continues amongst them as they have good repute with the government in terms of getting new contracts while they cost them in terms of delayed payments.

Contractors acquisitions and JV on the rise

Prior to the economic slowdown and Dubai debt issues, the ever-expanding pie of work in GCC, coupled with attractive margins, encouraged significant capacity build up. In addition to organic growth, well-established contractors took the acquisition route to expand their scope of activity, as well as their geographical presence.

In 4Q08, UAE particularly Dubai came to an unprecedented halt, and several projects were either cancelled or put to a halt. Projects market continued to deteriorate which encouraged these companies to pursue inorganic growth initiatives for backlog replenishment and business continuity.

Contractors Acquisitions and Joint Ventures

Company	Year	Quarter	Country	Share	Company Name	Business	Acquisition / JV
DSI	2009	4Q09	Germany	82%	Passavant-Roediger	Construction	Acquisition
		4Q09	Kuwait	75%	Electrical Contracting Co.	Construction	Acquisition
	2010	1Q10	Qatar	100%	DSI Qatar	Construction	Acquisition
		4Q10	Saudi Arabia	65%	DSI MEP Saudi / Civil	Construction	Acquisition
	2011	1Q11	Saudi Arabia	100%	ICCC *	Construction	Acquisition
Arabtec	2009	1Q09	Saudi Arabia	45%	CPS Services / Prime Group	Construction	JV
	2010	4Q10	Egypt	55%	Amer Group	Construction	JV
		4Q10	Bahrain	N/A	Musawa Holding	Construction	JV
OCI	2010	1Q10	US	50%	Morgan Stanley	Construction	JV
		2Q10	Netherland	NA	Royal DSM N - OCI Nitrogen	Fertilizer	Acquisition
		3Q10	Netherland	NA	MICRO Chemie B.V.	Fertilizer	Acquisition
		2Q10	India	NA	Hindustan Construction Co.	Construction	JV
	2011	1Q11	Italy	50%	Maire Tecnimont	Construction	JV
		2Q11	Egypt	NA	Arab Contractors	Construction	JV
		2Q11	US	50%	Pandora Methanol LLC	Fertilizer	Acquisition
Al Khodari	2011	2Q11	South Korea	55%	Lotte Engg & Construction Co	Construction	JV
		2Q11	Saudi Arabia	NA	Al Yamama Co. / Al Kifah Group	Construction	JV
Mojil Group	2011	1Q11	Oman	51%	National Training Institute	Construction	JV
		1Q11	Saudi Arabia	20%	Saudi Masader Company	Construction	Acquisition
		2Q11	Saudi Arabia	50%	3W Networks MMG	Construction	JV
		2Q11	Saudi Arabia	NA	Gulf Elite Gen Contracting Co.	Construction	Acquisition
		2Q11	Saudi Arabia	50%	Al Rushaid Petroleum Inv. Co.	Construction	JV

Source: Company Reports & Zawya

Given the companies' current cash balances of USD1.4bn and their fundamental outlook, we believe OCI and DSI would outpace others. Mojil and Al Khodari operate in a strong project market hence for them at the moment it's not necessary to expand geographically.

COMPANY PROFILES

Al Khodari Sons Company

BUY
Target Price
SAR80.5

Market Data

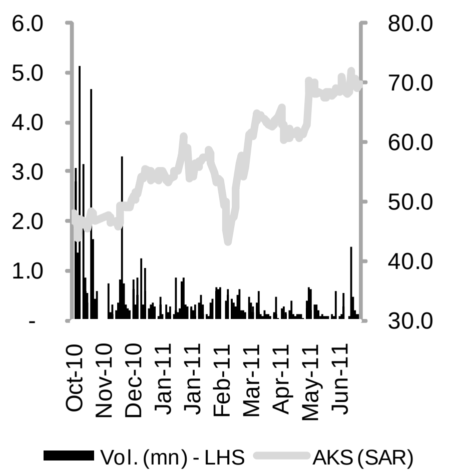
Bloomberg Code:	ALKHODAR AB
Reuters Code:	1330.SE
CMP (22 June 2011):	SAR69.5
O/S (mn)	42.5
Market Cap (SAR mn):	2,953.8
Market Cap (USD mn):	787.7
P/E 2011e (x):	11.8
P/Bv 2011e (x):	3.8

Price Performance 1-Yr

High (SAR):	72.0
Low (SAR):	43.0
Average Volume: (000)	459.3

	1m	3m	12m
Absolute (%)	3.3	15.6	NA
Relative (%)	7.1	13.1	NA

Price Volume Performance



- **A-grade contractor with highest margins in the industry**
- **Revenue to grow at CAGR of 16.7% during 2010-14**
- **2011e backlog expected at SAR3.9bn, 3.0x of sales**
- **New joint ventures to support the business**

Initiating coverage

Global Research initiates its coverage of on Al Khodari Sons & Company (Al Khodari). The Company is a multifaceted contracting company. The Company earns its revenue from contracting and trading segment. Contracting revenue major contributors are building, water and power while the trading revenue comes from sales of company's used contracting equipment and instruments, scraps and outdated spare parts.

Construction boom in Saudi to translate into higher backlog & revenue

Company is capitalizing well on the Saudi construction boom which is evident from the CAGR in backlog of 35.8% during 2008-10 of the Company as compared to CAGR of Saudi Arabia projects at 5.1% during the same period. Going forward, we believe the Company backlog CAGR of 19.6% during 2010-14 would translate into contracting revenue CAGR of 18.5% during 2010-14.

Working capital to gradually improve

The receivables days of the Company rose to 233days as of 2010 as compared to 186days in 2009. Gradually we believe that as more and more public and private companies projects are rolled out and Al Khodari gets some share of those, the receivables days of the Company would come down to 190 by 2014. Nevertheless at current point in time the receivables days of the Company are lower than many of its local and regional peers and lesser than many of the Company under Global Research contractors universe.

Margins expected to remain higher than the peers

Its contracting business margins as of 2010 are 23.7% as compared to sector average of 17.3%. Reason for higher margins are, Al Khodari is a diversified infrastructure contractor, which operates in almost segments and sub segments of infrastructure whereas others contractors in the Gulf, fall under the vertical construction, industrial, or MEP. Secondly Al Khodari is an A grade contractor by virtue of which it can bid for an unlimited amount of contract as compared to others.

Valuations

The value of Al Khodari's shares derived from the weighted average of the DCF and relative valuation methods is SAR80.5/share. The stock closed at SAR69.5/share on the Tadawul at the end of trading on 22nd June 2011, which implies that the weighted average value of Al Khodari's shares is at a premium of 15.8% to the share's current market price. At their current price, Al Khodari's shares are trading at a P/E multiple of 11.8x and 10.2x for 2011 and 2012 respectively. We therefore recommend a **'BUY'** on the Al Khodari stock at its prevailing price levels.

Investment Indicators

	2009	2010	2011e	2012e	2013e	2014e
Revenue (SAR mn)	1,048	1,074	1,315	1,568	1,791	1,991
Net Profit (SAR mn)	217	218	249	290	323	354
EV/Revenues (x)	0.6	2.8	2.7	2.2	1.8	1.5
EV/Backlog (x)	0.3	1.0	0.9	0.7	0.6	0.5
EV/EBITDA (x)	1.8	8.7	10.3	8.7	7.6	6.5
P/E (x)	-	10.5	11.8	10.2	9.1	8.3
P/BV (x)	-	3.9	3.8	3.0	2.4	2.0

Source: Company Reports & Global Research

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Valuation Explained

Assumptions for Discounted Cash Flow (DCF)

In order to compute the cost of equity for the DCF method, we have used the Capital Asset Pricing Model (CAPM). The following assumptions have been made in order to arrive at the DCF value of Al Khodari.

- A risk-free rate of 5.6% has been taken which is yield on 10-yr Saudi government bond.
- A market risk premium of 7.0% has been assumed.
- Beta taken from Bloomberg comes out to be 1.46. But since the Company is trading since October 2010 only, we have taken beta as 1.0.
- The cost of equity derived from the above assumptions using the Capital Asset Pricing Model is 12.6%.
- The cost of debt has been assumed at 7.0%.
- Based on the above assumptions, the Weighted Average Cost of Capital (WACC) works out to be 10.3%.
- Terminal growth rate of 3.0% has been assumed.
- Based on our future earnings projections and the above assumptions for DCF computations, the DCF value of the Company comes out to be SAR83.3/share.

DISCOUNTED CASH FLOW

(SAR mn)		2011e	2012e	2013e	2014e
Free Cash Flow		162	235	220	402
Discounted Cash Flow		154	202	171	284
Terminal Value	5,640				
Primary Value	811				
Discounted Terminal Value	3,981				
Investments	4	*(As of 1Q11)*			
Cash	49	*(As of 1Q11)*			
Debt	653	*(As of 1Q11)*			
Enterprise Value	4,192				
Equity Value	3,538				
Shares Outstanding	42.5				
Per Share Value (SAR)	**83.3**				

Source: Global Research

Relative Valuation

To arrive at the peer-set P/E multiple, we have computed the weighted average P/E of the five listed regional construction companies based on their current market prices and 2011 earnings estimates. The weighted average forward P/E for the peer set, thus arrived at, is 11.8x. On the basis of the weighted average forward P/E for the peer set and Company's 2011 earnings, the company's stock valuation comes to SAR69.4/share.

Blended Price

The blended price is then calculated after applying weight of 80% to the DCF value and 20% to the value from relative valuation method. The weighted average value comes to SAR80.5 per share.

About the company

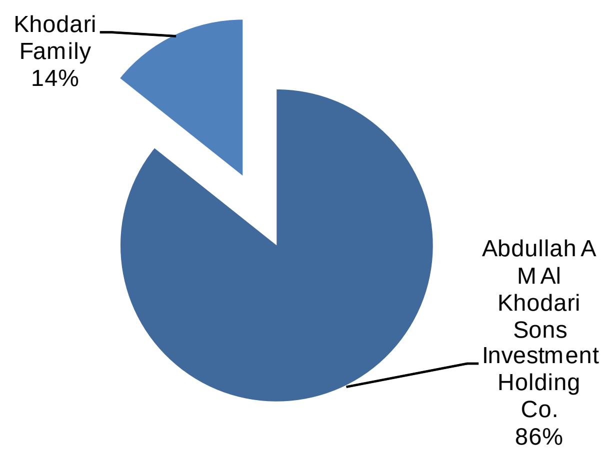
Global Research initiates its coverage on Al Khodari Sons & Company (Al Khodari). The Company is a multifaceted contracting company. The Company was established in 1966. Post its establishment it has gone through various phases, which are limited partnership, joint stock company and last being IPO. Companies wide scope of activities include: civil engineering, roads and bridges, railways, buildings and infrastructure, water & waste water treatment, oil & gas and pipelines in support of petrochemical production, city cleaning, environmental control, land transportation and operation & maintenance activities. Apart from that company is also engaged in trading of the company's used contracting equipment and instruments, scraps and outdated spare parts.

Foreign ownership limit in the Company is to a maximum of 49% while GCC nationals can hold cent percent of the Company.

Shareholding structure

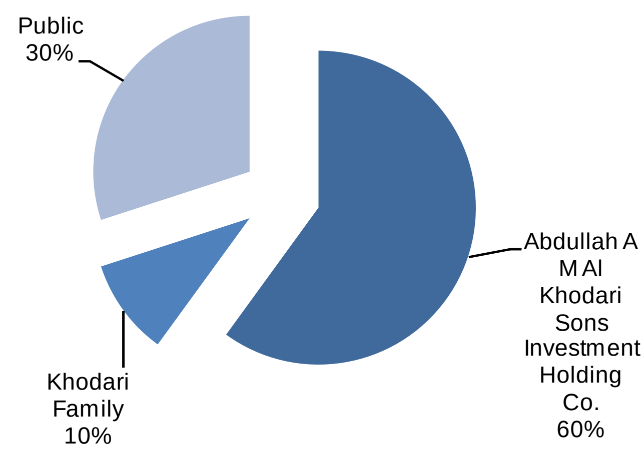
Before IPO the founding shareholders Abdullah A. M. Al-Khodari Sons Investment Holding Company owned 85.7% which as of 2010 dropped to 60.0%. Before IPO Khodari family owned around 14% of the Company which as of current has dropped to 10%. Hence the free float or the shares available public stand around 30% as of latest.

Shareholding Structure - Pre IPO



Source: IPO Prospectus

Shareholding Structure - Current

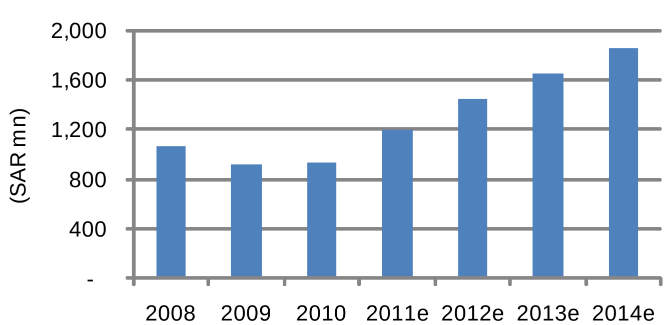


Source: Zawya

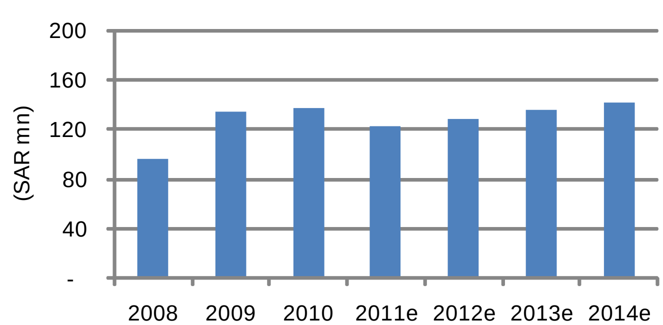
Al Khodari revenue to grow at CAGR of 16.7% during 2010-14

Revenues of the Company witnessed a growth of 2.5% to SAR1,075mn as compared to SAR1,048mn in the same period last year. Growth in revenues emanated from the contracting segments, whose revenue growth was 2.6% as compared to that of trading segment at 1.5% during 2010. Contracting segment contribution to the total revenue of the Company stood at 87.3% in 2010, marginally higher when compared to 87.2% in 2009.

Contracting Revenue



Trading Revenue



Source: Company Reports & Global Research

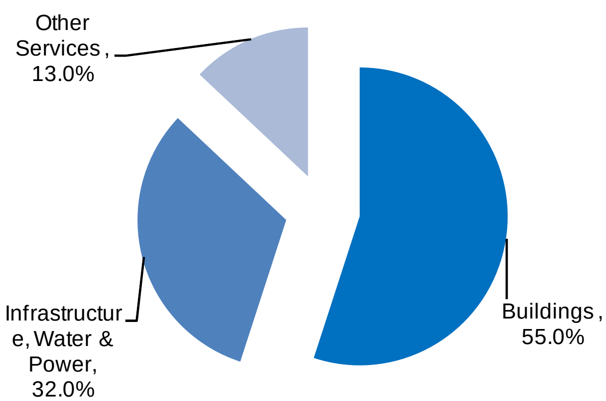
Going forward we believe that construction segment would continue to add more than the trading segment. Construction segment revenue is expected to grow at a CAGR of 18.5% during 2010-14. While on the other hand trading segment would continue to support the construction revenue with a CAGR of 1% during 2010-14.

Backlog growth to ride on Saudi construction boom

Company backlog grew at a CAGR of 35.8% during 2008-10. As of 2010, Company's backlog stands at SAR3.0bn, higher by 84.5% and 54.8% over 2008 and 2009 backlog. Capitalizing on the construction boom in the Kingdom, the Company managed to grab SAR2.0bn worth of new orders and managed to roll out SAR0.93bn worth of completed projects during the period.

As of 2010, Buildings segment carried the highest chunk of the backlog at 55% worth around SAR1.7bn followed by Infrastructure, Water and Power segment at 32% (SAR0.97bn) and the rest being contributed by other segments.

2010 2014e



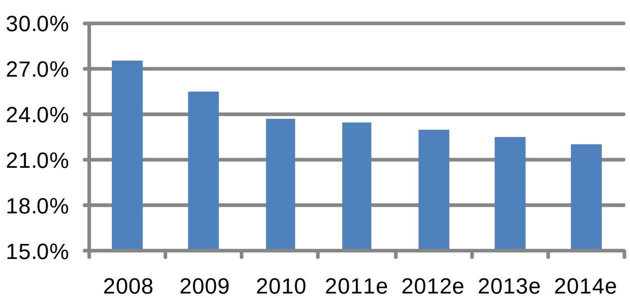
Source: Al Khodari & Global Research

Going forward we believe, the Company's overall backlog to register a CAGR of 19.6% during 2010-14 to SAR6.2bn. Within its segment we believe the Company would focus more on its Infrastructure, Water and Power segment as more and more projects are being announced in the Kingdom followed by Building segment. Infrastructure, Water and Power segment backlog are estimated to grow at a CAGR of 24.8% followed by 19.6% by Building and the rest of the segment to grow at a CAGR of 2.4%.

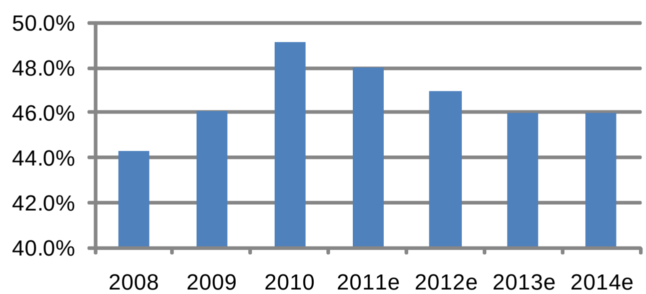
Highest gross margins in the industry

Overall Al Khodari enjoys the highest gross margins within our contractors universe. The difference between the gross margins of Al Khodari (26.9%) and second best Drake & Scull (18.6%) stands at 8.3%. Such high margins emanate from its trading segment which as of 2010 stand at 49.2%. While if we look at the stand alone margins of contracting segment they are still higher than that of Drake & Scull and Orascom Construction.

Contracting Margins



Trading Margins



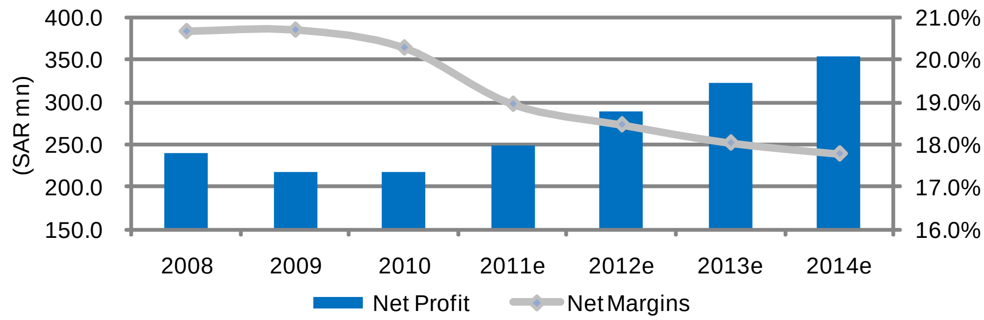
Source: Company Reports & Global Research

Its contracting business margins as of 2010 are 23.7% while its trading business margins are at 49.2%. Reason for higher margins are, Al Khodari is a diversified infrastructure contractor, which operates in almost segments and sub segments of infrastructure whereas others contractors in the Gulf, fall under the vertical construction, industrial, or MEP. Secondly Al Khodari is an A grade contractor by virtue of which it can bid for an unlimited amount of contract as compared to others. It is classified into A category for bidding of road, rail, buildings and dam related contracts.

Going forward we believe that the overall Al Khodari's gross margins are expected to decline as the competition in the Kingdom heats up over various projects being rolled by the Government post its economic and financial reforms. Even when we forecast declining margins, we believe that Al-Khodari will remain the most profitable contractor within our MENA construction space with its gross margins averaging 23.7% by 2014 (22.0% of contracting and 46% of trading).

Net income

Net profit earned by the Company during 2010 was almost the same as of 2009 at SAR218mn. However higher zakat during 2010 limited the net profit growth to 0.4% as compared to profit before zakat growth of 2.7%. The company managed to control its operating cost quite effectively during 2010 which reduced the impact of declining gross margins during 2010.



Source: Company Reports & Global Research

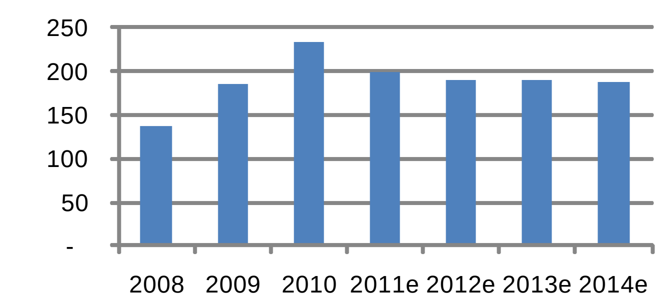
Going forward we believe that the net income is estimated to register a CAGR of 12.9% during 2010-14. While on the other hand the net margins are expect to follow the trend of the gross margins and drop to 19.0% and 17.8% during 2011 and 2014 respectively. Nevertheless the net margins of the industry would remain higher than any of its regional and local peers.

Receivables – *Not much of an issue …*

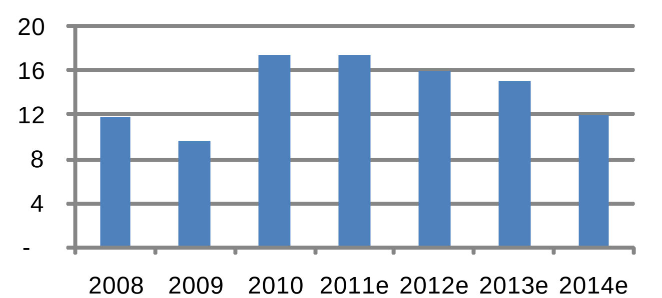
Al Khodari receivable rose from 138days in 2008 to 186days at the end of 2009 which currently stand at 233days. Receivables break-up revealed that, contract receivable were at 173days during 2010 as compared to 129days in 2009, while the retention receivable rose from 26days in 2009 to 28days by 2010.

During 2010, Al Khodari did not take any provisions related to foreseeable losses which in 2009 they provisioned around SAR13.9mn.

Receivables Days



Inventories Days



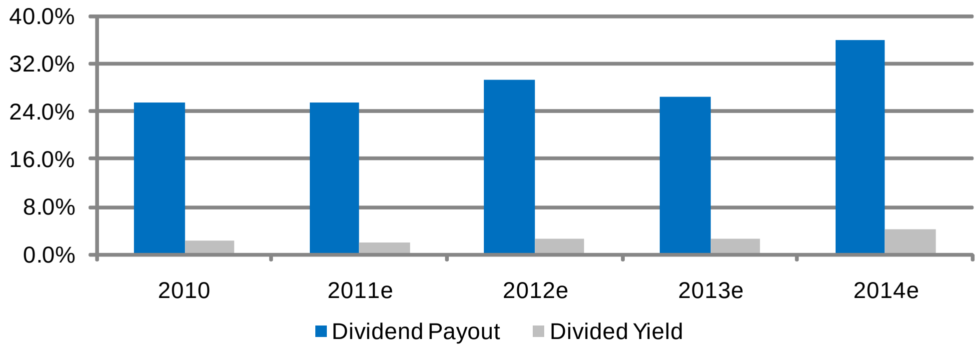
Source: Company Reports & Global Research

In 2011, we believe the receivables would drop down to around 200 which are further expected to go down to 190 by 2014. While inventory receivables are expected to follow the trend and reach 12days by 2014 as compared to 17 in 2010.

By the end of 1Q-2010, DSI receivables rose further to 237days. Further breakup of the receivables revealed that the contract receivables were at 156days and retentions were at 81days.

Dividend yield to remain low in the short term

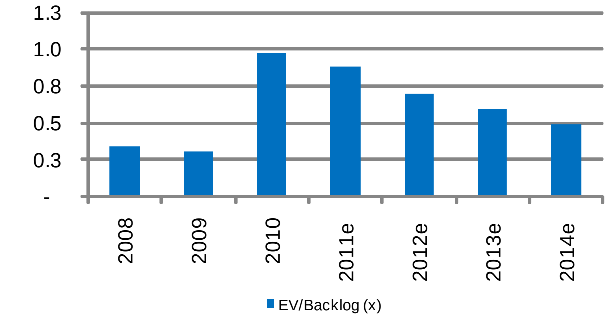
Dividend paid by the Company during 2010 remained at SAR55mn which translated into a dividend payout of 25.4% and dividend yield of 2.4%. Going forward we believe that as the profit growth continues the payout would increase to a maximum of around 36% during our forecast period which will translate into a yield of 4.2%.

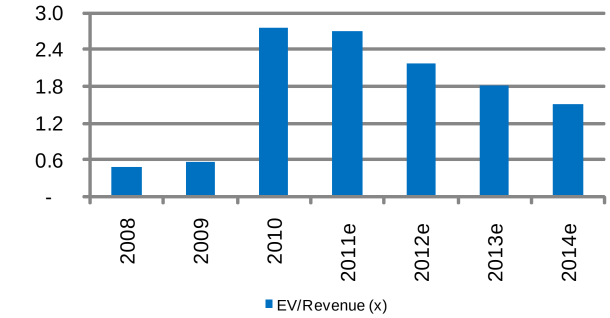


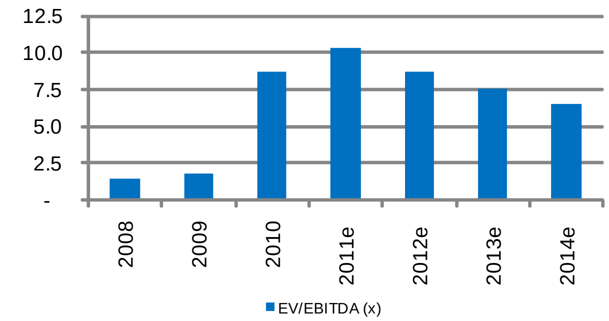
Source: Company Reports & Global Research

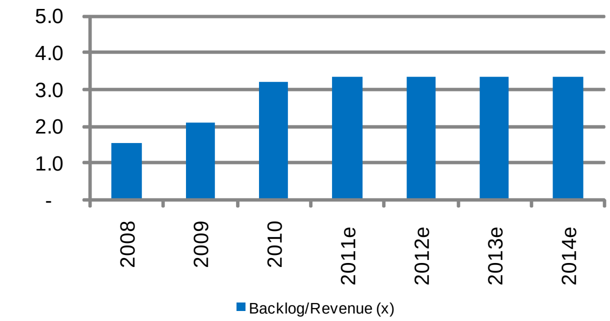
The payout and dividend yield of the Company is in line with many of its local as well as regional players and sounds appropriate considering the opportunistic growth of Saudi construction boom where the Company has to capitalize.

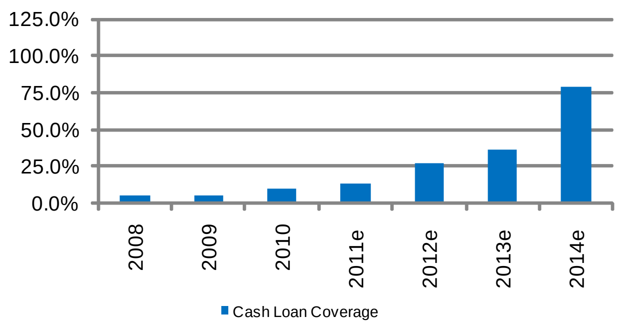
Al Khodari - Chart Gallery

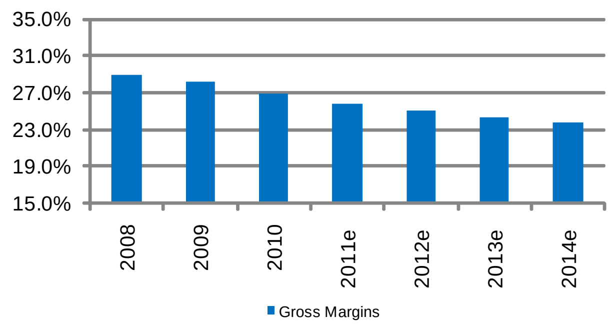


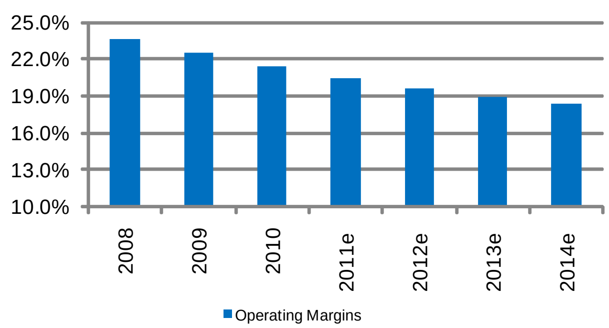


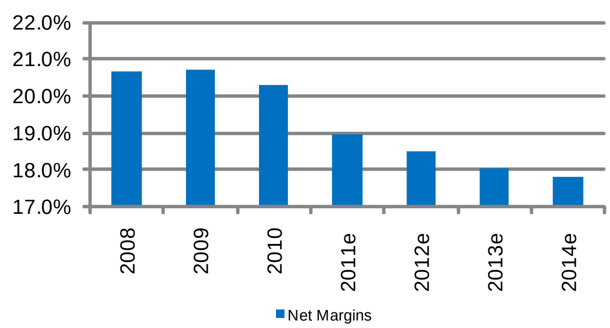


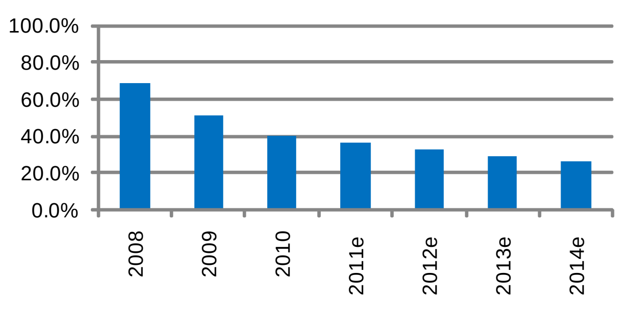


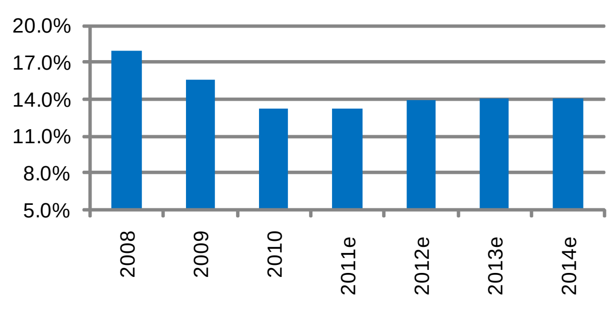












Source: Company Reports & Bloomberg

Financial Statements

(SAR mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Income Statement							
Revenue	1,159	1,048	1,074	1,315	1,568	1,791	1,991
Cost of Sales	(824)	(753)	(785)	(976)	(1,177)	(1,356)	(1,519)
Gross Profits	**335**	**295**	**289**	**339**	**392**	**435**	**472**
General & Administrative Expenses	(48)	(46)	(45)	(58)	(71)	(82)	(92)
Provisions for Doubtful Debts	(13)	(13)	(13)	(12)	(13)	(14)	(14)
Operating Profit	**274**	**236**	**230**	**269**	**308**	**339**	**366**
Murabaha Charges	(34)	(21)	(14)	(20)	(18)	(15)	(12)
Other Income	6	7	12	14	15	17	18
Net Profit before Zakat	**246**	**223**	**229**	**263**	**305**	**340**	**373**
Provisions for Doubtful Debts	-	-	-	-	-	-	-
Zakat	(7)	(6)	(11)	(13)	(15)	(17)	(19)
Net Profit	**240**	**217**	**218**	**249**	**290**	**323**	**354**
Balance Sheet							
Cash and Bank Balance	33	33	71	90	168	187	315
Receivables	438	534	687	721	816	932	1,026
Inventories	27	20	37	47	52	56	50
Advance Payment & Others	201	351	583	685	773	883	873
Total Current Assets	699	937	1,379	1,542	1,809	2,058	2,264
Plant and Equipment	628	502	434	398	360	321	280
Other Assets	13	11	14	20	25	40	70
Total Assets	**1,340**	**1,450**	**1,826**	**1,959**	**2,194**	**2,418**	**2,613**
Current Portion of Term Loan	188	120	230	207	186	168	151
Accounts Payable	26	248	437	455	548	632	713
Short Term Loans	53	32	11	11	12	13	13
Others	295	6	11	12	13	14	14
Due To Sister Companies	6	3	5	6	6	7	8
Total Current Liabilities	**569**	**410**	**693**	**690**	**765**	**833**	**899**
Term Loans	396	506	515	464	417	334	234
Employee Indemnity Provision	27	27	30	32	33	35	36
Paid-up Capital	300	400	425	425	425	425	425
Statutory Reserves	-	11	22	43	43	43	43
Retained Earnings & Others	48	96	141	306	511	749	976
Total Shareholders Equity	348	506	588	774	979	1,217	1,444
Total Equity & Liability	**1,340**	**1,450**	**1,826**	**1,959**	**2,194**	**2,418**	**2,613**
Cash Flow							
Cash Flow from Operating Activities	76	131	121	208	283	270	455
Cash Flow from Investing Activities	(75)	8	(44)	(51)	(53)	(65)	(83)
Cash Flow from Financing Activities	(57)	(140)	(39)	(138)	(151)	(186)	(244)
Change in Cash	(57)	(1)	38	19	78	19	128
Net Cash at End	**33**	**33**	**71**	**90**	**168**	**187**	**315**
Ratio Analysis							
Current Ratio (x)	1.2	2.3	2.0	2.2	2.4	2.5	2.5
Quick Ratio (x)	0.9	1.4	1.1	1.2	1.4	1.4	1.5
Gross Profit Margin	28.9%	28.2%	26.9%	25.8%	25.0%	24.3%	23.7%
Operating Margin	23.6%	22.6%	21.4%	20.5%	19.7%	18.9%	18.4%
Net Profit Margin	20.7%	20.7%	20.3%	19.0%	18.5%	18.1%	17.8%
Return on Average Assets	17.9%	15.6%	13.3%	13.2%	14.0%	14.0%	14.1%
Return on Average Equity	68.9%	50.8%	39.8%	36.6%	33.1%	29.4%	26.6%
Current Liability / Equity (x)	1.6	0.8	1.2	0.9	0.8	0.7	0.6
Debt / Equity (x)	1.7	1.2	1.3	0.9	0.6	0.4	0.3
EV/Revenues (x)	0.5	0.6	2.8	2.7	2.2	1.8	1.5
EV/EBITDA (x)	1.4	1.8	8.7	10.3	8.7	7.6	6.5
Adjusted EPS (SAR)	5.6	5.1	5.1	5.9	6.8	7.6	8.3
Adjusted Book Value Per Share (SAR)	8.2	11.9	13.8	18.2	23.0	28.6	34.0
Market Price (SAR) *	-	-	53.7	69.5	69.5	69.5	69.5
Market Capitalization (SAR mn)	-	-	2,282.3	2,953.8	2,953.8	2,953.8	2,953.8
Dividend Yield	-	-	2.4%	2.2%	2.9%	2.9%	4.3%
P/E Ratio (x)	-	-	10.5	11.8	10.2	9.1	8.3
P/BV Ratio (x)	-	-	3.9	3.8	3.0	2.4	2.0

Source: Company Reports & Global Research

** Market price for 2011 and subsequent years as per closing prices on June 22, 2011*

Arabtec Holding

HOLD
Target Price
AED1.34

Market Data

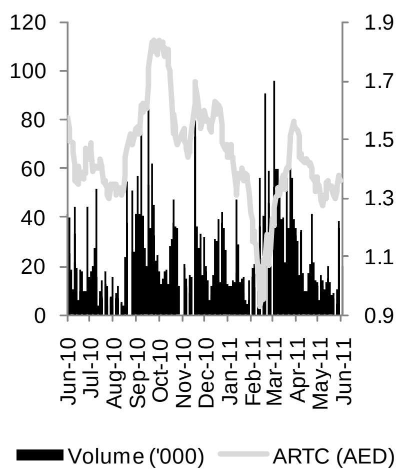
Bloomberg Code:	ARTC UH
Reuters Code:	ARTC.DU
CMP (23 June 2011):	AED1.27
O/S (mn)	1,495.0
Market Cap (AED mn):	1,898.7
Market Cap (USD mn):	516.9
P/E 2011e (x):	8.8
P/Bv 2011e (x):	0.7

Price Performance 1-Yr

High (AED):	1.87
Low (AED):	0.91
Average Volume: (000)	22,767

	1m	3m	12m
Absolute (%)	-2.3	0.5	-16.9
Relative (%)	-2.0	-3.6	-19.7

Price Volume Performance



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- **Slow project execution and regional turmoil impacts revenue**
- **High minority interest further dents earnings**
- **Outlook remain cautious despite increase in backlog**
- **Downgraded to HOLD from Strong Buy**

Slow project execution and regional turmoil impacts 1Q11 revenue

Arabtec's total revenue for 1Q11 stood at AED1,242mn, falling 20% yoy and 8% qoq. Minimal progress on the orders won in 2010 and significant slowdown on other orders impacted 1Q11 revenues. Gross margin came down at 13.3% from 15.4% in 4Q10 and 16.6% in 1Q10 on account of lower contract margins. Operating profit stood at AED53.0mn against AED162mn reported in 1Q10.

Net profit takes a further hit in 1Q11 due to higher minority interest

Net profit after minority interest of Arabtec stood at AED26.6mn, and was almost half of our estimate of AED52.4mn on account of both lower margins and higher minority interest that stood at 51%.

Cash balance improves while receivables decrease

Arabtec's cash balance increased 8% qoq to AED633mn while bank borrowings decreased 20% qoq to AED590mn in 1Q11. Total receivables came down by 4% qoq to AED4.7bn. Payables remain almost unchanged at AED4.2bn. Consequently, payables to receivables ratio has come down to 1.14x from 1.19x during 4Q10.

Backlog to grow at a CAGR of 13.4% during 2010-14

Backlog growth has started to pick up in recent quarters driven by new order wins in Saudi Arabia and Qatar. Given Arabtec's key focus on these markets, going forward, we believe these two markets are likely to add to the growth in backlog. We expect a CAGR of 13.4% during our forecast period during which the backlog is expected to go up from AED13.9bn to AED22.9bn.

Valuation Update

At the current price, Arabtec's shares are trading at a P/E and P/B multiples of 8.8x and 0.7x respectively for 2011e. Given the recent run up in Arabtec's share price along with revision in our target price (We lower our target price to AED1.34 per share from AED1.46 per share on account of weak 1Q11 numbers and revised forecasts), valuations now look rich and imply that the stock is trading at a discount of 5.5% from our target price. We, therefore reiterate **Hold** stance on the Company.

Investment Indicators

Year	2009	2010	2011e	2012e	2013e	2014e
Revenue (AED mn)	7,665	5,464	5,784	6,544	7,198	7,918
Net Profit (AED mn)	495	307	215	322	388	437
EPS (AED)	0.33	0.21	0.14	0.22	0.26	0.29
EV/Revenues (x)	0.43	0.42	0.31	0.23	0.19	0.13
EV/EBITDA (x)	2.7	3.3	2.7	1.8	1.5	1.0
P/E (x)	6.5	7.7	8.8	5.9	4.9	4.3
P/BV (x)	1.3	0.9	0.7	0.6	0.5	0.5

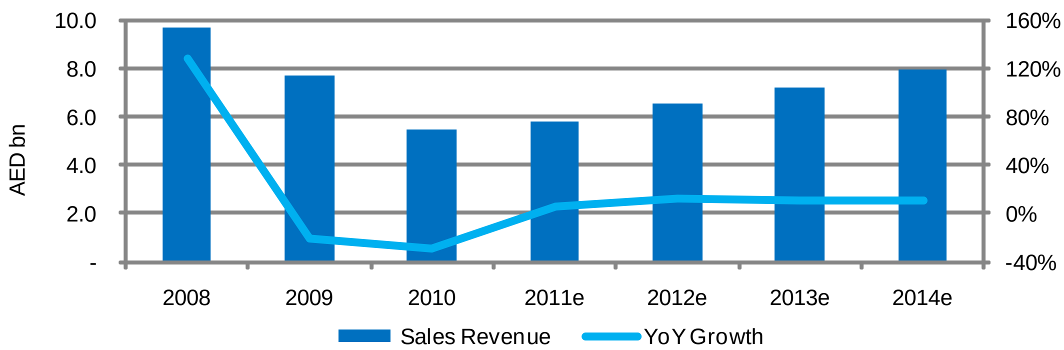
Source: Company Reports & Global Research

Dubai slowdown impacts growth

Arabtec's total revenues for 2010 were AED5.5bn, a decline of 29% over 2009. A combination of the significant slowdown in the real estate construction sectors regionally, as well as tight liquidity, marred Arabtec's performance lately. This followed a decline of 21% in 2009 over the peak of AED9.7bn recorded in 2008. Market conditions continue to remain challenging and the company reported a 20% YoY and 8% QoQ decline in revenues in 1Q11. We estimate the top line of Arabtec to grow by 6% in 2011 to AED5783.5bn and post a low double digit growth rate from 2012 onwards.

We expect Arabtec's revenue to grow at a CAGR of 10% from 2010-14e. We have been conservative in our revenue growth assumptions and estimates in the context of the existing liquidity condition of the company as well as the opaqueness that surrounds company's ability to expand abroad in the absence of adequate funding. However, it should be noted that, if the Company is able to raise the funds and if the expansion plans come to fruition, the upside potential rises significantly.

Revenue and Growth (2008-2014e)

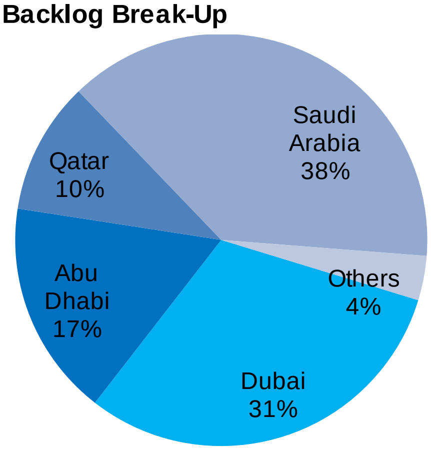


Source: Company data, Global Research

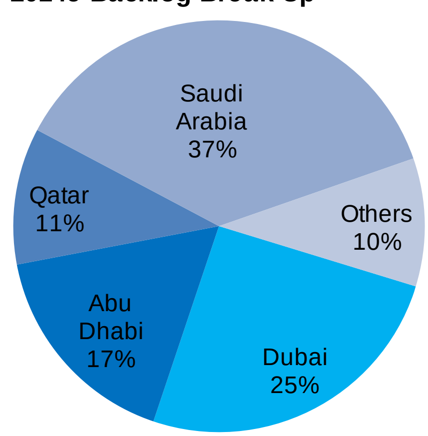
Backlog Analysis

Arabtec's 1Q11 backlog stood at AED15.1bn which is up 9.0% q-o-q and is 2.76x times its 2010 revenues. On a YoY basis the backlog is up by 19.5%. Saudi Arabia with a total backlog of AED5.1bn was Arabtec's largest market and accounted for 33% of its backlog. This was followed by Dubai with AED4.5bn backlog or ~30% of the company's total backlog. Abu Dhabi with a 17% contribution to the backlog is the third largest market while Qatar at 8.7% is fourth. Although, the pace of project execution in Dubai remains slow, in Abu Dhabi it is strong and as per our analysis has contributed the most to Arabtec's 1Q11 revenues.

2010 Backlog Break-Up



2014e Backlog Break-Up



Source: Company Reports & Global Research

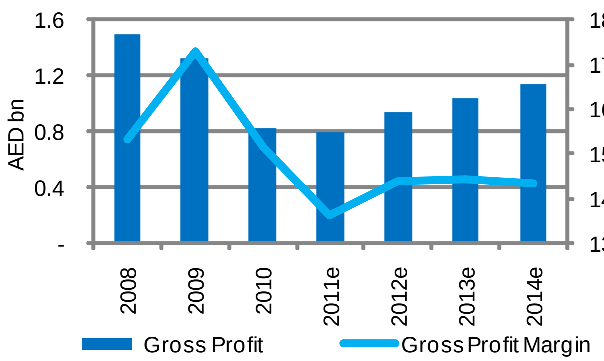
Backlog growth has started to pick up in recent quarters driven by new order wins in Saudi Arabia and Qatar. Given Arabtec's key focus on these markets, going forward, we believe these two markets are likely to add to the growth in backlog. We expect a CAGR of 13.4% during our forecast period during which the backlog is expected to go up from AED13.9bn to AED22.9bn.

Margins to remain under pressure

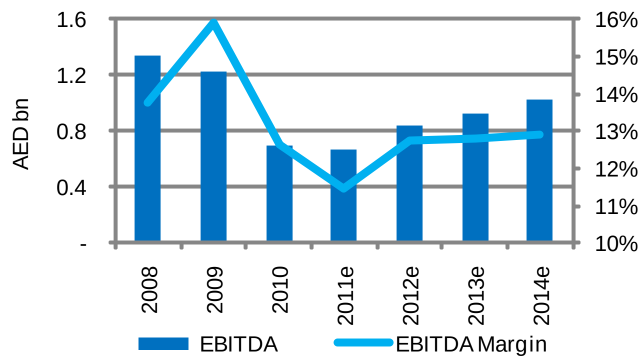
Arabtec's total direct costs in 2010 stood at AED4.6bn, implying gross profit of AED827mn. Gross margins stood at 15.1% - 217bps lower than 2009 figures. For 1Q11, gross profit has declined by 36% YOY while gross margin stood at 13.3%, down 330bps lower over previous year. The margins are on the decline due to projects being renegotiated, an increase in competition and lower realization of margins from projects in Abu Dhabi and Saudi Arabia – Arabtec's key growth markets. However, we expect Arabtec's margins to improve slightly and record gross margin of 13.6% in 2011 and thereon gradually improve in the next three years.

Arabtec's EBITDA margin in 2010 stood at 12.6%, 330bps lower than 2009. We expect an EBITDA margin of 11.5% in 2011. Given that gross margins are expected to inch a little, we estimate EBITDA margin to follow the same trend and stand around 12.8% during our forecast period.

Gross Profit and Gross Margins (2008-2014e)



EBITDA and EBITDA Margins (2008-2014e)

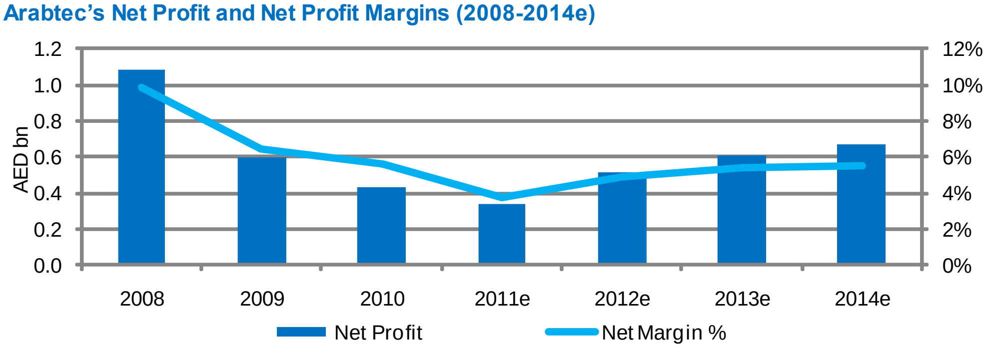


Source: Company data, Global Research

Higher minority share to impact profitability

Net profit for 2010 stood at AED307.1mn, down 38% YoY, primarily impacted by 38% drop in EBITDA. Consequently, net margin for 2010 stood at 5.6%. For 1Q11, the company reported a net profit of AED27mn and a net margin of 2.1%. The significant decline in net profit margin is on account of higher minority interest and took away 50% of the profit.

Arabtec's Net Profit and Net Profit Margins (2008-2014e)



Source: Company data, Global Research

In light of the recent results, we expect net profit attributable to parent to come down to AED215mn with net profit margin expected at 3.7% in 2011 on account of tight market conditions as well as higher share of minority. Nonetheless, we expect margins to inch upwards to 5.5% by the end of 2014.

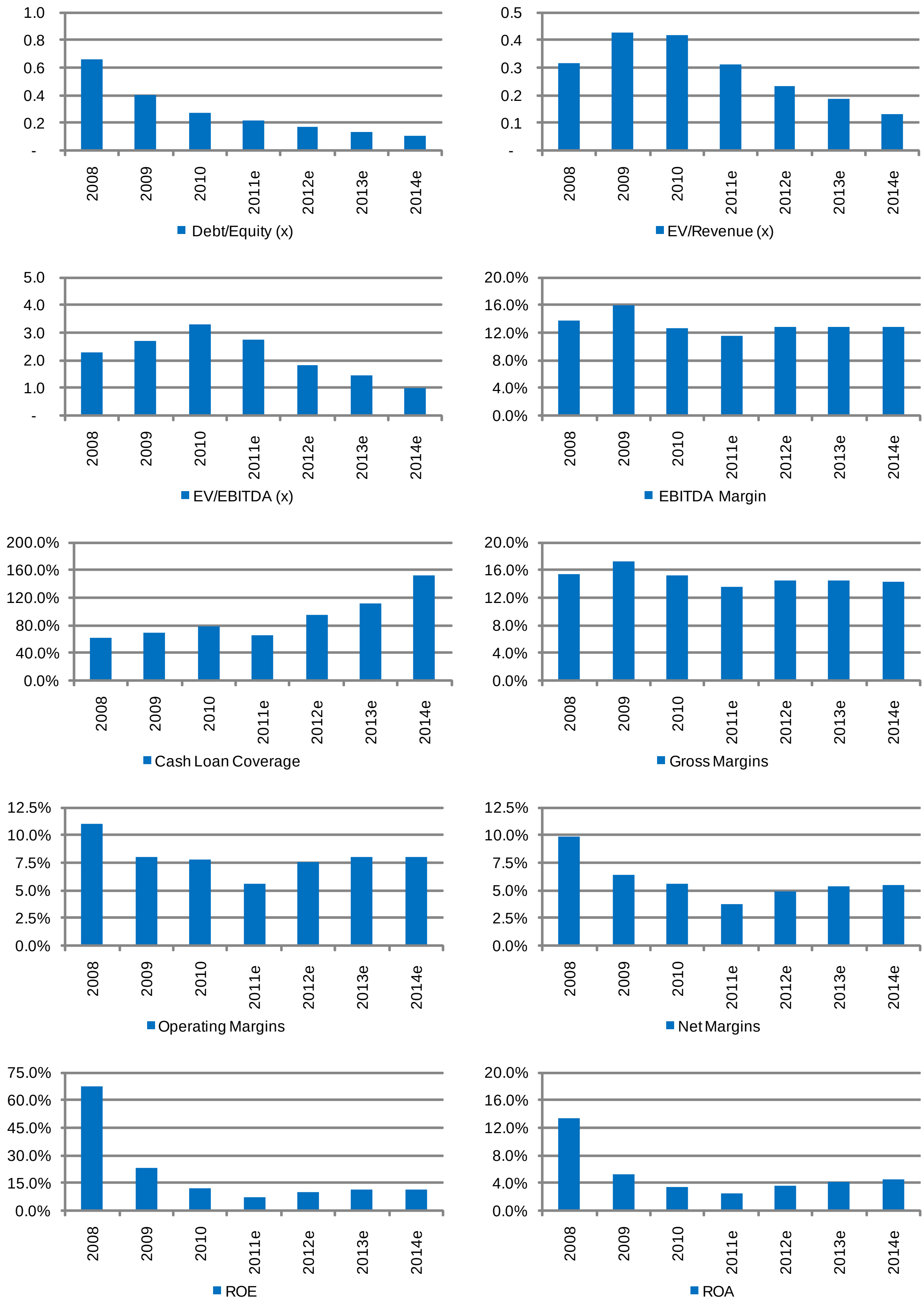
Receivables cause of concern

Arabtec registered AED4.7bn in accounts receivables including in 1Q11 almost unchanged from 2010 ending period. Due from related parties has however, gone up from AED724mn at the end of 2010 to AED849mn at the end of 1Q11. Collectively the two account for 64% of

Arabtec's total assets and remain a big concern. Most of these receivables are due from ongoing projects in Dubai and it needs to be seen how Arabtec is able to sail out of this situation. The company had ~AED 2.2bn in past due receivables in 2010 including AED 1.6bn in impaired receivables, when it had last disclosed the ageing profile of its receivables. However, total balance sheet provisions fell to AED265mn in 2010 from AED299m in 2009.

Working capital remains restricted, driven by the tight liquidity conditions and poor payment terms across the value chain. Given the current situation, we do not rule out further delays and potential for provisioning. We continue to factor high working capital requirements into our estimates for the next few quarters, and see them easing only very gradually thereafter.

Arabtec - Chart Gallery



Source: Company Reports & Bloomberg

Financial Statements

(AED mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Income Statement							
Total Revenues	9,722	7,665	5,464	5,784	6,544	7,198	7,918
Cost of Production	(8,230)	(6,338)	(4,637)	(4,995)	(5,601)	(6,160)	(6,783)
Gross Profit	**1,492**	**1,327**	**827**	**789**	**942**	**1,038**	**1,135**
General & Administrative Expenses	(242)	(156)	(225)	(191)	(196)	(205)	(210)
Staff Costs	(272)	(253)	(173)	(202)	(229)	(259)	(293)
Other Operating Income	167	70	47	58	98	108	119
Depreciation & Amortisation	(66)	(82)	(83)	(87)	(96)	(102)	(116)
Provision for bad debts	(5)	(294)	32	(42)	(22)	-	-
Total Operating Income	**1,073**	**611**	**425**	**325**	**497**	**580**	**635**
EBITDA	1,339	1,219	689	662	834	921	1,021
Other Income	23	20	13	27	35	53	66
Profit Before Tax	**1,096**	**631**	**438**	**351**	**532**	**632**	**701**
Taxation	(16)	(39)	(6)	(11)	(21)	(25)	(28)
Net Profit	**1,080**	**592**	**432**	**341**	**511**	**607**	**673**
Minority Interest	(122)	(97)	(124)	(126)	(189)	(219)	(235)
Net Profit Attributable to Parent	**958**	**495**	**307**	**215**	**322**	**388**	**437**
Balance Sheet							
Cash & cash equivalents	757	634	588	474	649	730	951
Trade & other receivables	4,983	4,678	4,172	4,247	4,428	4,575	4,816
Due from related parties	278	720	724	792	807	868	954
Inventories	1,017	648	369	438	491	540	595
Other current assets	251	336	333	411	415	456	515
Total Current Assets	**7,286**	**7,016**	**6,185**	**6,361**	**6,790**	**7,169**	**7,831**
Intangible assets and Goodwill	495	448	391	344	297	257	247
Retentions receivable (Non-current)	237	211	775	871	896	887	759
Net fixed assets	1,381	1,363	1,272	1,177	1,162	1,170	1,183
Other non-current assets	61	72	58	62	67	72	78
Total Assets	**9,460**	**9,110**	**8,680**	**8,815**	**9,211**	**9,556**	**10,099**
Bank borrowings (Current)	1,102	770	627	564	508	457	411
Trade & other payables	5,735	4,855	4,161	4,173	4,297	4,303	4,367
Due to related parties	173	376	348	274	230	169	186
Total Current Liabilities	**7,010**	**6,001**	**5,135**	**5,011**	**5,035**	**4,929**	**4,964**
Retentions payable (Non-current)	154	187	110	77	54	38	27
Bank borrowings (Non-current)	114	138	128	150	170	192	217
Employee Indemnity Provision	64	57	204	220	215	203	186
Paid-up Capital	1,196	1,196	1,196	1,495	1,495	1,495	1,495
Retained Earnings	516	961	1,242	1,136	1,425	1,775	2,169
Other Reserves	182	235	260	284	318	360	406
Shareholders' Equity	**1,893**	**2,392**	**2,698**	**2,915**	**3,239**	**3,630**	**4,070**
Non-controlling interest	225	336	404	442	499	565	635
Total Equity & Liability	**9,460**	**9,110**	**8,680**	**8,815**	**9,211**	**9,556**	**10,099**
Cash Flow							
Cash from Operating Activities	70	397	361	287	697	682	843
Cash from Investing Activities	(745)	(236)	(157)	(217)	(310)	(381)	(400)
Cash from Financing Activities	687	(284)	(250)	(184)	(212)	(220)	(222)
Change in Cash	11	(123)	(46)	(114)	175	81	221
Net Cash at End	**757**	**634**	**588**	**474**	**649**	**730**	**951**
Ratio Analysis							
Gross Profit Margin	15.3%	17.3%	15.1%	13.6%	14.4%	14.4%	14.3%
Operating Margin	11.0%	8.0%	7.8%	5.6%	7.6%	8.1%	8.0%
EBITDA Margin	13.8%	15.9%	12.6%	11.5%	12.8%	12.8%	12.9%
Net Profit Margin	9.9%	6.5%	5.6%	3.7%	4.9%	5.4%	5.5%
Current Ratio (x)	1.0	1.2	1.2	1.3	1.3	1.5	1.6
Debt/Equity (x)	0.7	0.4	0.3	0.2	0.2	0.1	0.1
ROAA	13.4%	5.3%	3.5%	2.5%	3.6%	4.1%	4.4%
ROAE	67.4%	23.1%	12.1%	7.7%	10.5%	11.3%	11.4%
Adjusted EPS (AED)	0.6	0.3	0.2	0.1	0.2	0.3	0.3
Adjusted BVPS (AED)	1.3	1.6	1.8	1.9	2.2	2.4	2.7
Market Price (AED) *	1.81	2.14	1.58	1.27	1.27	1.27	1.27
Market Capitalization (AED mn)	2,703.0	3,205.3	2,356.1	1,898.7	1,898.7	1,898.7	1,898.7
EV/EBITDA (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P/E Ratio (x)	2.8	6.5	7.7	8.8	5.9	4.9	4.3
P/BV Ratio (x)	1.4	1.3	0.9	0.7	0.6	0.5	0.5

Source: Company Reports & Global Research

** Market price for 2011 and subsequent years as per closing prices on DFM on June 23, 2011*

Drake & Scull International

Strong Buy
Target Price
AED1.28

Market Data

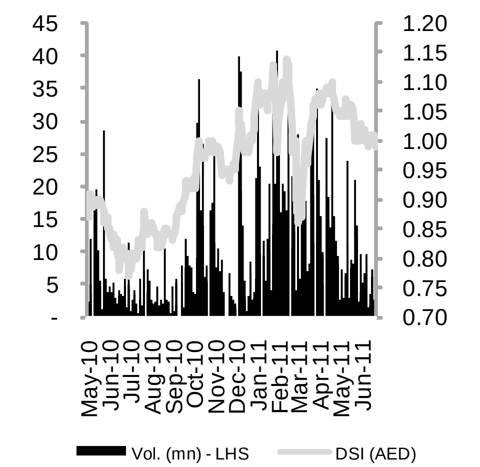
Bloomberg Code:	DSI UH
Reuters Code:	DSI.AD
CMP (23 June 2011):	AED0.99
O/S (mn)	2,177.8
Market Cap (AED mn):	2,156.0
Market Cap (USD mn):	589.3
P/E 2011e (x):	10.2
P/Bv 2011e (x):	0.8

Price Performance 1-Yr

High (AED):	1.14
Low (AED):	0.77
Average Volume: (mn)	9.3

	1m	3m	12m
Absolute (%)	-0.6	-4.4	22.4
Relative (%)	-0.2	-8.5	19.6

Price Volume Performance



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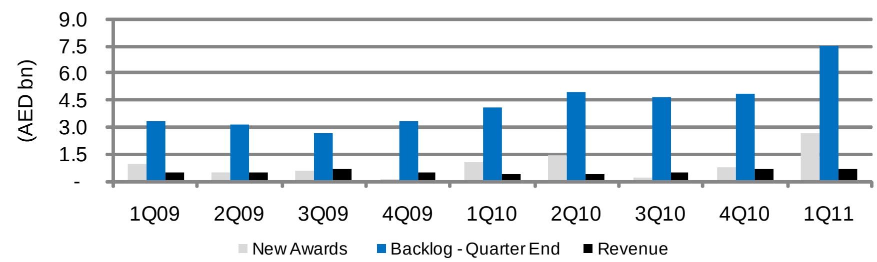
- **1Q11 results in-line with our estimates**
- **Year to date new order win reaches AED3.0bn in 2011**
- **Acquisition in Saudi Arabia paying off**
- **Margins to remain under pressure**

Entry into international markets and acquisitions boosts backlog

Majority of DSI's activities were previously centered in UAE. However, looking at the growth potential in the regional markets, DSI initiated its geographical diversification strategy and entered into Saudi Arabia, Egypt and now it is planning to setup a unit in India. Despite unrest in Saudi Arabia and Egypt, DSI was able to win contracts at both the places. Egyptian contract is worth AED80mn while that of Saudi Arabia is worth AED2bn. Overall year to date contract win by the Company has touched AED3.0bn, which we have assumed to reach AED5bn by the end of the year.

DSI Quarterly Performance



Source: Company Reports

1Q11 results aligned with our estimates

During 1Q11 DSI reported net income of AED45.9mn (EPS: AED0.021) as compared to AED42.2mn (EPS: AED0.019) in 1Q10. Global Research estimated 1Q11 profit of AED45.4mn, deviation of a percent. The results as expected was higher because of remarkable backlog growth and continuation of receiving big ticket awards locally as well as regionally. During the quarter the Company revenue swelled by 67% to AED645.1mn as compared to AED386.4mn in the same period last year. The only negative during the quarter was the drop in the gross margins to 15.6% as compared to 19.2% in 1Q10.

Valuation Update

The value of DSI's shares derived from the weighted average of the DCF and relative valuation methods is AED1.31/share. The stock closed at AED0.99/share on the Dubai Financial Market at the end of trading on 23rd June 2011, which implies that the weighted average value of DSI's shares is at a premium of 29.3% to the share's current market price. At their current price, DSI's shares are trading at a P/E multiple of 10.2x and 9.7x for 2011 and 2012 respectively. We therefore recommend **Strong Buy** on the Company.

Investment Indicators

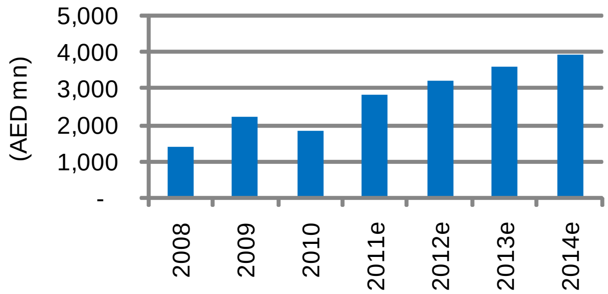
Year	2009	2010	2011e	2012e	2013e	2014e
Revenue (AED mn)	2,212	1,855	2,820	3,204	3,599	3,947
Net Profit (AED mn)	337	162	211	222	227	245
EV/Revenues (x)	-	0.7	1.3	0.9	0.8	0.7
EV/Backlog (x)	-	4.3	12.8	11.0	9.9	9.5
EV/EBITDA (x)	4.3	12.8	11.0	9.9	9.5	8.2
P/E (x)	5.8	14.0	10.2	9.7	9.5	8.8
P/BV (x)	0.8	0.9	0.8	0.8	0.7	0.7

Source: Company Reports & Global Research

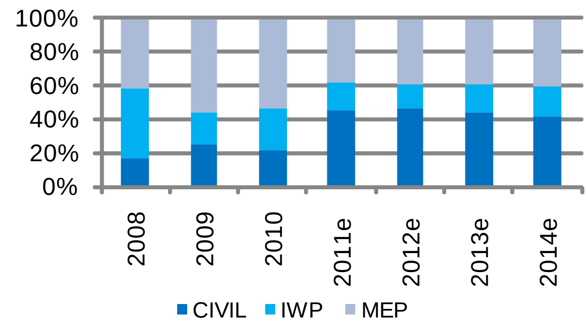
Revenue to increase at a CAGR of 20.8% during 2010-14

DSI contract revenue declined by 16.1% in 2010 to AED1.8bn as compared to AED2.2bn in 2009. Although the Company received higher number of new awards during the period but most of the contracts are for a longer period of time hence the project completion rate during the period dropped. Amongst the three business segments, only IWP witnessed an increase of 16.8% during 2010 reaching AED487mn as compared to AED417mn in the same period last year. MEP and civil segment revenue dropped by 16.7% and 25.5% respectively.

Revenue



Revenue by Segment



Source: Company Reports & Global Research

During 1Q11, DSI contract revenues was recorded at AED645.1mn as compared to AED386.4mn in the corresponding period of last year, growth of 67.0%. MEP business contribution remained higher during the period at 47.3% followed by Civil at 45.4%.

Revenue Assumptions

(AED mn)	2009	2010	2011e	2012e	2013e	2014e
Opening backlog	3,212	3,300	4,828	7,250	8,240	9,254
New Contracts Awarded	2,300	3,382	5,242	4,194	4,613	4,844
Monthly run-rate	192	282	437	349	384	404
Project Completion	*40%*	*28%*	*28%*	*28%*	*28%*	*28%*
Value of Work Completed (Revenue)	2,212	1,855	2,820	3,204	3,599	3,947
Closing Backlog	3,300	4,828	7,250	8,240	9,254	10,150

Source: Global Research

In 2011, we expect the Company's revenue to increase by 52.0% to AED2.8bn. Such an increase is expected because the Company has already availed projects worth AED3.0bn in 2011 which we expect to touch AED5.2bn by the end of the year. Post 2011, we expect the revenue to increase at a CAGR of 11.9% during 2011-14.

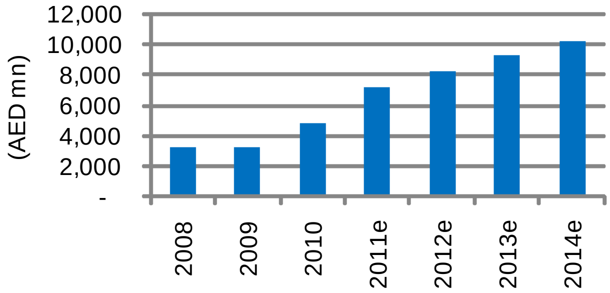
Although the Company has plans to move their IWP segment contribution to the total revenue higher because IWP contracts generally have higher gross margins when compared to those of MEP and Civil. But recently most of the big ticket contracts availed by the Company are in the Civil business. Hence we have assumed Civil segment contribution to the total revenue to increase from 23.6% in 2010 to 45.0% in 2011. While the contribution of MEP and IWP is assumed to drop to 38.0% and 17.0% respectively in 2011.

In terms of revenue break-up geographically we have assumed that, Saudi Arabia would contribute the most in 2011 and would reach 40% while Abu Dhabi would contribute around 25% to the total revenue of the Company.

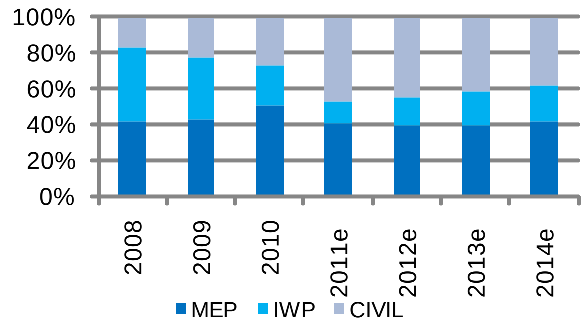
Backlog – Saudi share to increase

DSI's 1Q11 backlog stood at AED7.5bn which is up 55.3% higher on a q-o-q basis and 82.9% higher on a y-o-y basis. The backlog is 2.7x times its 2011 revenues. Saudi Arabia with a total backlog of AED3.7bn was DSI's largest market and accounted for 49% of its backlog. This was followed by Abu Dhabi with AED1.1bn backlog or ~15% of the company's total backlog. The project market activity in UAE specially Dubai has witnessed an unabated fall which to some extent has been arrested by Abu Dhabi. Company exposure to Dubai related contracts has continued to drop. From 32.0% in 2009 it fell down to 23.0% in 2010. As per the latest the backlog has further reduced to 14% of the total.

Backlog



Backlog Break-Up



Source: Company Reports & Global Research

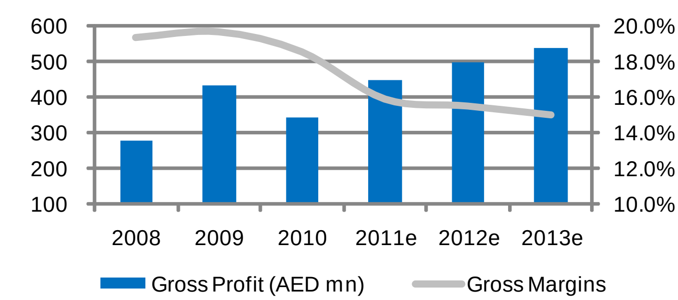
Going forward in 2011 we expect, Company's backlog to touch AED7.2bn, around 2.6x times revenue and 0.4x of the enterprise value. While in the long term we believe that backlog will grow at a CAGR of 20.4% during 2010-14.

In terms of backlog breakup we expect the civil segment contribution to drop from 47% as of 1Q11 to 45% as of 2012 and around 38% by 2014. While on the other hand IWP segment where the Company wants to focus more, its contribution would increase to 20% by 2014 as compared to 12% as of 1Q11.

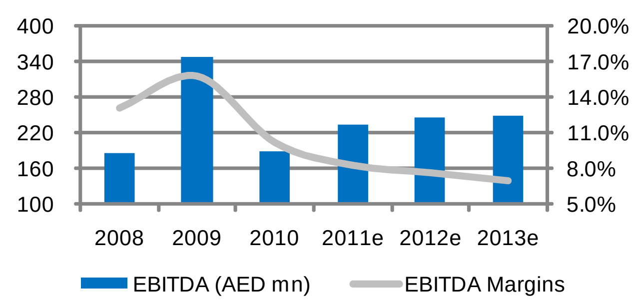
Gross margins to remain under pressure

During 1Q11, DSI gross margins were recorded at 15.6% as compared to 19.2% in the corresponding period last year. The margins as expected were lower when compared to previous year because of tough contractors market and increasing competition. Moving forward, we expect Company's margins to remain at 15.9% in 2011 and then further drop to 15% by 2014.

Gross Profit & Gross Margins



EBITDA & EBITDA Margins



Source: Company Reports & Global Research

Earlier, during the boom time the main priority was to find a contractor, however the financial crisis has drastically changed the overall outlook and these days developers bargaining power is on the upswing and contractors capacity utilization rates are going down.

The economic downturn affected some of the regional markets, but Abu Dhabi, KSA and Kuwait remained lucrative. However, due to DSI's strong presence in Abu Dhabi, which they had concentrated on developing and maintaining over the past few years, along with their positive track record and recent big ticket project wins in Saudi Arabia, we expect the Company to bargain well for the upcoming projects.

Acquisitions

Post its IPO, the Company amassed huge cash which it kept a side for potential acquisitions. Post IPO, Company has so far accomplished five acquisition worth over AED600mn in the last three years.

Recently, Company announced the successful completion of the agreement for its second acquisition in Saudi Arabia. DSI acquired 100% stake of "International Centre for Contracting Co. (ICCC) " for an enterprise value of SAR128mn.

DSI Acquisitions

Year	Date	Country	Company Name	Purchase Price (AEDmn)	Order Backlog (AEDmn)	EV/Backlog (x)	EV/Sales (x)
2009	4Q09	Germany	Passavant-Roediger	60.0	410.0	0.15	0.40
	4Q09	Kuwait	Electrical Contracting Co.	85.0	70.0	1.21	0.80
2010	1Q10	Qatar	DSI Qatar	96.0	167.0	0.57	0.90
	4Q10	Saudi Arabia	DSI MEP Saudi / Civil	244.0	488.0	0.50	0.80
2011	1Q11	Saudi Arabia	ICCC *	128.0	640.0	0.20	0.50

Source: DSI & Zawya

** ICC Purchase price and order book is in SAR mn*

We believe that post the acquisition of ICCC, Company will still have sufficient cash reserves over AED500mn, which would be utilized by the Company for future geographic expansions in other emerging markets.

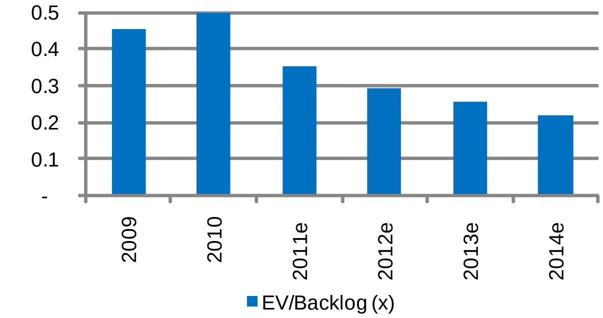
Net income to increase at a CAGR of 11.0% during 2010-14

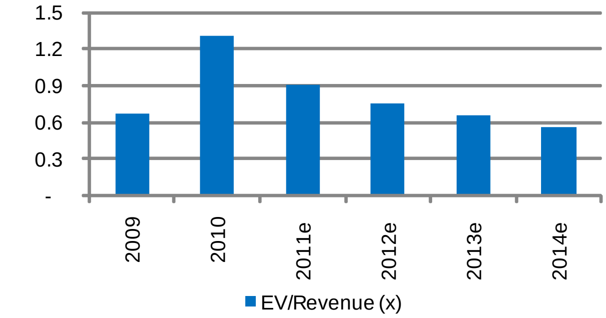
In 2010, DSI net profit almost halved to AED162mn as compared to AED337mn in 2009. However, during the 1Q-2011, DSI was able to post a net income of AED45.9mn at net margins of 7.1% as compared to 1Q10 margins of 10.9%. Nevertheless the profit was higher by 8.6% y-o-y due to the healthy backlog and new contracts wins.

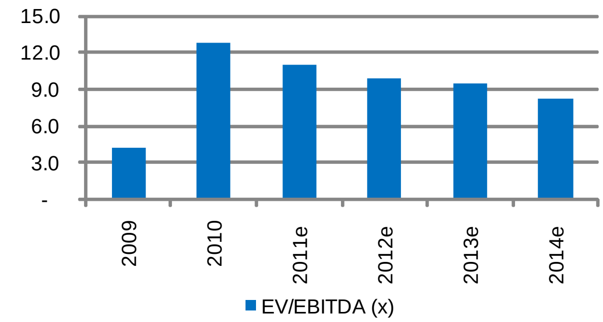
In 2011, DSI is expected to report net income of AED211mn (EPS: AED0.10) as compared to AED162mn (EPS: AED0.07) in 2010. While on the net margin front we expect the net margins to be 7.5% in 2011 as compared to 8.7% in 2010.

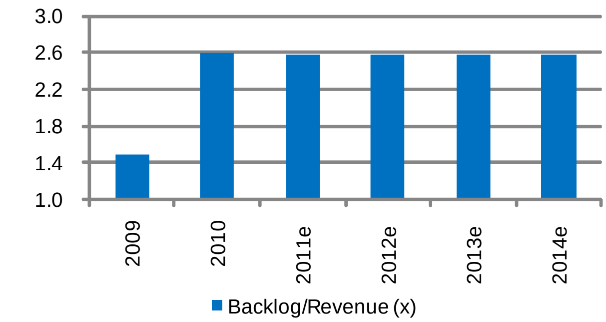
Post 2011, we expect the Company to report higher income on the back of expected economic recovery in the Middle East. Qatar, Saudi Arabia and Abu Dhabi government spending worth billions would benefit the regional contractors and we believe DSI would get sizable new projects during that period. We expect net profit of DSI to grow at a CAGR of 11.0% during 2010-14 and expect net margins to remain in the range of 6.2-7.5% during 2011-14.

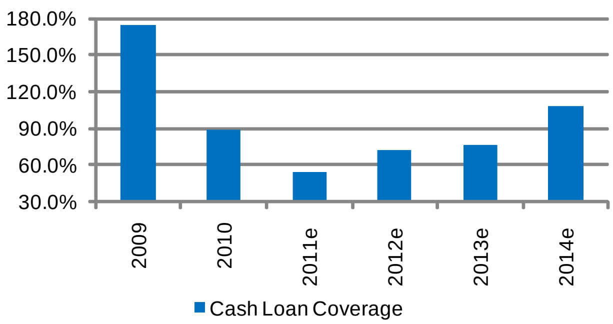
DSI - Chart Gallery

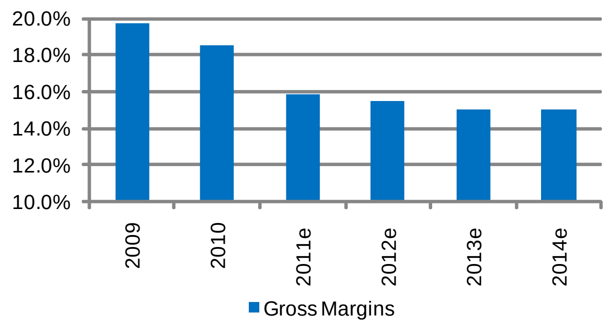


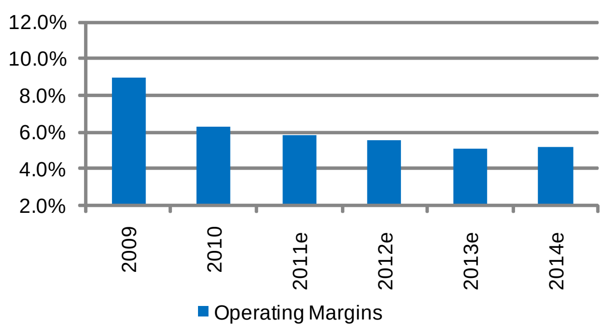


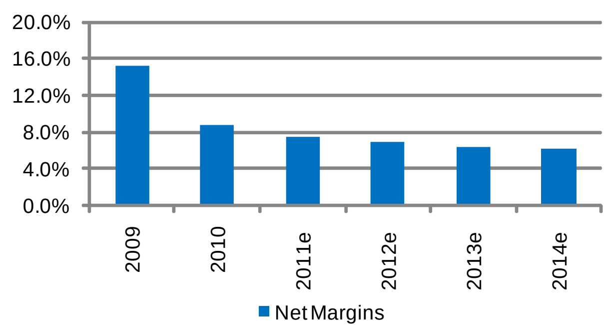


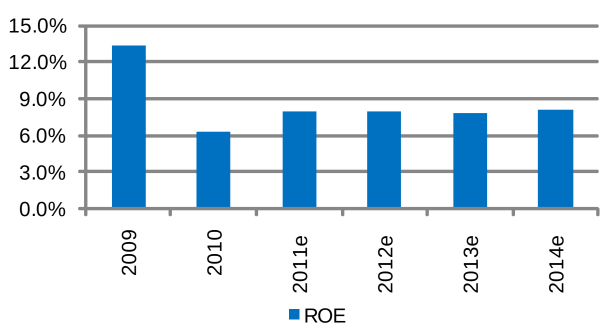


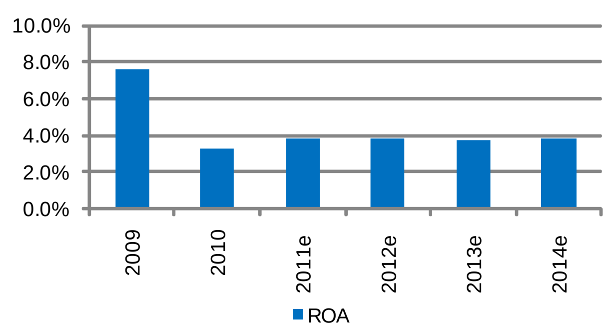












Source: Company Reports & Global Research

Financial Statements

	(AED mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Income Statement	Contract Revenue	1,425	2,212	1,855	2,820	3,204	3,599	3,947
	Contract Costs	(1,149)	(1,776)	(1,510)	(2,371)	(2,708)	(3,059)	(3,355)
	Gross Profit	**276**	**436**	**344**	**448**	**497**	**540**	**592**
	Amortization of Intangible Assets	-	(38)	(34)	(36)	(38)	(40)	(42)
	Selling, Gen. & Administrative Expense	(123)	(183)	(179)	(226)	(256)	(288)	(316)
	Management Fees	(13)	(17)	(15)	(21)	(24)	(27)	(30)
	Operating Profit	**140**	**199**	**117**	**165**	**178**	**185**	**205**
	Other Income	26	114	72	67	63	60	57
	Financial Charges	(7)	(17)	(33)	(19)	(18)	(16)	(14)
	Profit Before Tax	**158**	**337**	**156**	**213**	**224**	**229**	**248**
	Income Tax	-	(1)	5	(2)	(2)	(2)	(2)
	Profit After Tax	**158**	**337**	**162**	**211**	**222**	**227**	**245**
Balance Sheet	Cash and Bank Balance	162	1,160	705	386	464	436	558
	Contract Receivables & Retentions	520	984	1,266	1,622	1,580	1,676	1,784
	Contract Work in Progress	226	405	622	812	890	964	1,030
	Inventories	2	13	25	39	45	50	55
	Other Assets	48	556	738	1,004	1,053	1,085	1,060
	Total Current Assets	958	3,118	3,356	3,863	4,033	4,210	4,487
	Goodwill & Other Assets	147	822	1,203	1,241	1,303	1,369	1,437
	Long Term Investments	13	198	13	14	15	15	16
	Prepayments	115	30	15	16	17	18	19
	Property, Plant & Equipment	172	212	250	309	347	380	415
	Loans & Advances	45	22	34	37	38	40	42
	Total Non-Current Assets	491	1,282	1,514	1,617	1,720	1,822	1,929
	Total Assets	**1,450**	**4,401**	**4,871**	**5,481**	**5,753**	**6,033**	**6,416**
	Loans	262	663	789	708	638	574	516
	Payables	532	786	963	1,234	1,335	1,425	1,609
	Others	345	436	576	886	1,014	1,151	1,271
	Share Capital	15	2,178	2,178	2,178	2,178	2,178	2,178
	Statutory Reserve	8	34	49	70	92	115	140
	Treasury Shares	-	(29)	(29)	(29)	(29)	(29)	(29)
	Minority Interest	14	39	72	77	83	89	95
	Foreign Currency Translation Reserve	-	(7)	(8)	-	-	-	-
	Retained Earnings	274	301	280	356	441	530	636
	Total Shareholders Equity	311	2,515	2,542	2,652	2,765	2,883	3,020
	Total Equity & Liability	**1,450**	**4,401**	**4,871**	**5,481**	**5,753**	**6,033**	**6,416**
Cash Flow	Cash Flow from Operating Activities	(11)	(195)	(131)	(93)	273	169	327
	Cash Flow from Investing Activities	(96)	(343)	(219)	(22)	(19)	(23)	(30)
	Cash Flow from Financing Activities	144	1,535	(266)	(204)	(176)	(175)	(174)
	Change in Cash	37	998	(616)	(319)	78	(29)	123
	Net Cash at End	**175**	**1,160**	**705**	**386**	**464**	**436**	**558**
Ratio Analysis	Current Ratio (x)	0.9	1.9	1.5	1.4	1.4	1.4	1.4
	Quick Ratio (x)	0.9	1.9	1.5	1.4	1.4	1.4	1.3
	Gross Profit Margin	19.4%	19.7%	18.6%	15.9%	15.5%	15.0%	15.0%
	Operating Margin	9.8%	9.0%	6.3%	5.9%	5.6%	5.1%	5.2%
	Net Profit Margin	11.1%	15.2%	8.7%	7.5%	6.9%	6.3%	6.2%
	Return on Assets	10.9%	7.6%	3.3%	3.9%	3.9%	3.8%	3.8%
	Return on Equity	51.0%	13.4%	6.4%	8.0%	8.0%	7.9%	8.1%
	Debt / Equity (x)	0.84	0.26	0.31	0.27	0.23	0.20	0.17
	EV/Backlog (x)	-	0.45	0.50	0.35	0.29	0.26	0.22
	EV/Revenues (x)	-	0.68	1.31	0.91	0.75	0.66	0.56
	EV/EBITDA (x)	-	4.30	12.83	10.96	9.86	9.52	8.19
	EPS (AED)	0.07	0.15	0.07	0.10	0.10	0.10	0.11
	Book Value Per Share (AED)	0.14	1.16	1.17	1.22	1.27	1.32	1.39
	Market Price (AED) *	-	0.90	1.04	0.99	0.99	0.99	0.99
	Market Capitalization (AED mn)	-	1,960.0	2,264.9	2,156.0	2,156.0	2,156.0	2,156.0
	Dividend Yield	0.0%	0.0%	6.7%	5.1%	5.1%	5.1%	5.1%
	P/E Ratio (x)	-	5.8	14.0	10.2	9.7	9.5	8.8
	P/BV Ratio (x)	-	0.8	0.9	0.8	0.8	0.7	0.7

Source: Company Reports & Global Research

** Market price for 2011 and subsequent years as per closing prices on June 23, 2011*

Mohammad Al-Mojil Group

BUY
Target Price
SAR25.2

Market Data

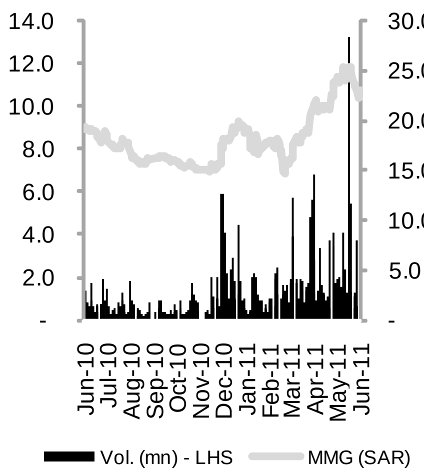
Bloomberg Code:	MMG AB
Reuters Code:	1310.SE
CMP (22 June 2011):	SAR22.0
O/S (mn)	125.0
Market Cap (SAR mn):	2,750.0
Market Cap (USD mn):	733.3
P/E 2011e (x):	21.8
P/Bv 2011e (x):	1.7

Price Performance 1-Yr

High (SAR):	22.7
Low (SAR):	14.5
Average Volume: (mn)	1.2

	1m	3m	12m
Absolute (%)	-6.5	28.1	19.7
Relative (%)	-2.7	25.7	14.7

Price Volume Performance



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- **Benefitting in world's largest oil producer as oil & gas contractor**
- **YTD contract win reaches SAR2.8bn in 2011, backlog at SAR4.2bn**
- **Establishing new joint ventures to support business**
- **Margins to remain range bound**

Initiating coverage

We initiates its coverage on Mojil Group. The Company is one of the leading oil & gas construction contractors in the Kingdom of Saudi Arabia. The Company has key clients such Aramco, Sabic and Maaden whose average contribution to the Company's revenue ranges between 70-90%. Mohammad Bin Hamad Abdulkarim Al Mojil is the leading stake holder in the Company at 50% at the end of 2010.

Aramco's spending to benefit Mojil

Aramco is planning to spend USD125bn on various projects over the next five years. Aramco projects contributed 63% revenue to the Company in 2010 and as of year to date it has given projects worth SAR1.7bn to Mojil Group. Going forward with such huge amount kept for spending we believe the Company would continue to benefit as it is one of few contractors who specialize in oil and gas contracting segment.

Sabic's expansions would promote Mojils order book

As per Meed, Sabic expansion projects during 2011-20 include additional capacities of various oil derivatives which will cost around USD48-50bn. During 2008 and 2009, Sabic's projects to Mojil contributed 57.3% and 40.9% revenue to the Company and with more expansions we believe sizable chunk would go to Mojil as well because of its track record and expertise in the field.

YTD contracts and backlog rise to SAR2.8bn & SAR4.2bn, respectively

Since the start of the year, the Company received sizable orders which raised its new contracts to SAR2.8bn of which SAR1.7bn have been contributed from Aramco alone. Other major project wins were from Wasit Gas Development Project worth SAR746.2mn and Daelim Saudi Arabia worth SAR256mn. Company recently issued a statement that its backlog has touched SAR4.2bn till the mid of 2011, which is going to last till 2014. Global research estimates for new contracts and ending backlog 2011 are SAR3.5bn and SAR4.2bn respectively.

Valuations

The value of Mojil's shares derived from the weighted average of the DCF and relative valuation methods is SAR25.3/share. The stock closed at SAR22.0/share on the Tadawul at the end of trading on 22nd June 2011, which implies that the weighted average value of Mojil's shares is at a premium of 14.5% to the share's current market price. At their current price, Mojil's shares are trading at a P/E multiple of 21.8x and 19.6x for 2011 and 2012 respectively. We therefore recommend a **'BUY'** on the stock at its prevailing price levels.

Investment Indicators

	2009	2010	2011e	2012e	2013e	2014e
Revenue (SAR mn)	2,216	1,731	2,364	2,786	3,257	3,709
Net Profit (SAR mn)	40	(179)	126	140	153	162
EV/Revenues (x)	1.5	1.6	1.4	1.2	1.0	0.8
EV/Backlog (x)	1.0	0.9	0.8	0.6	0.5	0.4
EV/EBITDA (x)	9.2	11.9	9.6	8.5	7.7	6.8
P/E (x)	74.4	(13.2)	21.8	19.6	17.9	17.0
P/BV (x)	1.6	1.5	1.7	1.6	1.6	1.7

Source: Company Reports & Global Research

Valuation Explained

Assumptions for Discounted Cash Flow (DCF)

In order to compute the cost of equity for the DCF method, we have used the Capital Asset Pricing Model (CAPM). The following assumptions have been made in order to arrive at the DCF value of Mojil.

- A risk-free rate of 5.6% has been taken which is yield on 10-yr Saudi government bond.
- A market risk premium of 7.0% has been assumed.
- Beta taken from Bloomberg comes out to be less than 1.0. Hence to be conservative we have taken beta as 1.0.
- The cost of equity derived from the above assumptions using the Capital Asset Pricing Model is 12.6%.
- The cost of debt has been assumed at 7.0%.
- Based on the above assumptions, the Weighted Average Cost of Capital (WACC) works out to be 9.8%.
- Terminal growth rate of 3.0% has been assumed.
- Based on our future earnings projections and the above assumptions for DCF computations, the DCF value of the Company comes out to be SAR28.5/share.

DISCOUNTED CASH FLOW

(SAR mn)			**2011e**	**2012e**	**2013e**	**2014e**
Free Cash Flow			9	118	177	396
Discounted Cash Flow			8	102	140	284
Terminal Value	6,009					
Primary Value	535					
Discounted Terminal Value	4,318					
Investments	10	*(As of 1Q11)*				
Cash	39	*(As of 1Q11)*				
Debt	670	*(As of 1Q11)*				
Enterprise Value	4,231					
Equity Value	3,561					
Shares Outstanding	125					
Per Share Value (SAR)	**28.5**					

Source: Global Research

Relative Valuation

To arrive at the peer-set P/E multiple, we have computed the weighted average P/E of the five listed regional construction companies based on their current market prices and 2011 earnings estimates. The weighted average forward P/E for the peer set, thus arrived at, is 11.8x. On the basis of the weighted average forward P/E for the peer set and Company's 2011 earnings, the company's stock valuation comes to SAR11.9/share.

Blended Price

The blended price is then calculated after applying weight of 80% to the DCF value and 20% to the value from relative valuation method. The weighted average value comes to SAR25.2 per share.

About the company

Mohammad Al Mojil Group (MMG) is one of the leading oil & gas construction contractors in the Kingdom of Saudi Arabia with over 50 years of experience and around SAR50bn worth of projects completed since inception. The Company went public in May 2008 and raised around USD560mn.

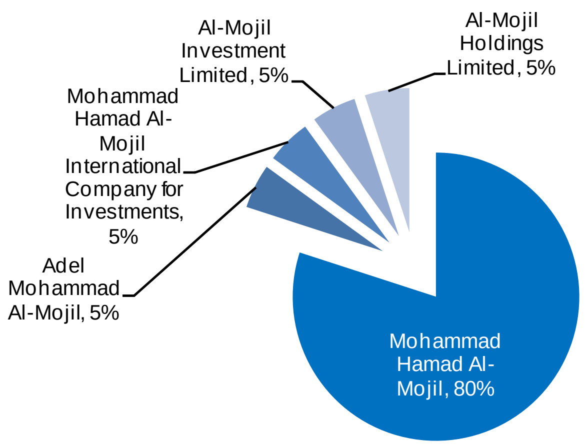
The Company is a licensed general contractor specializing in onshore and offshore oil & gas and petrochemical projects. The Company's core activity is the construction of onshore and offshore oil & gas and petrochemical facilities on a subcontract basis from the primary project contractor who provides the technical requirements, designs and specifications of the project. Al-Mojil role is then to execute the construction as per the requirements. Company's scope of work includes all construction activities involving civil, structural, mechanical, electrical, instrumental and maintenance.

Foreign ownership limit in the Company is to a maximum of 49% while GCC nationals can hold cent percent of the Company.

Shareholding structure

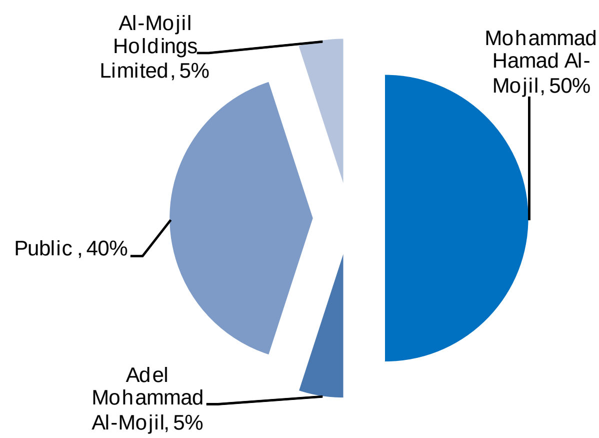
Before IPO the founding shareholder Mohammad Bin Hamad Abdulkarim Al Mojil owned 80% which at the end of 2010 dropped to 50%. Post IPO, Adel Mohammad Al-Mojil and Al-Mojil Holdings Limited retained its shareholding in the Company at 5%. Hence today the free float or the shares available to public stand around 40%.

Shareholding Structure - Pre IPO



Source: IPO Prospectus

Shareholding Structure - Current

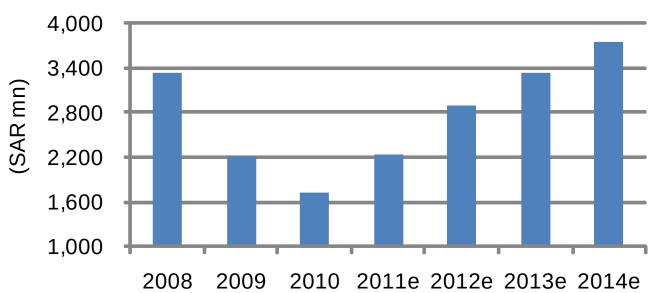


Source: Zawya

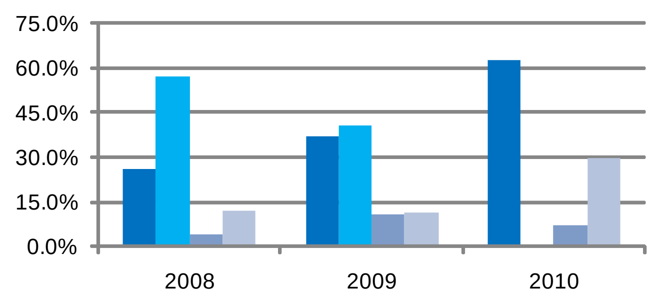
Revenue to the grow at a CAGR of 21% during 2010-14

During 2010, Company witnessed a fall of 22% to SAR1.7bn as compared to SAR2.2bn in 2009. During 2010, revenue generation through SABIC's projects declined to merely 0.3% of the total which at the end of 2009 stood at 40.9%. SABIC did not undergo many new projects during the period because of which the Company was not able to secure new orders from them.

Revenue



Revenue Break-Up



Source: Company Reports & Global Research

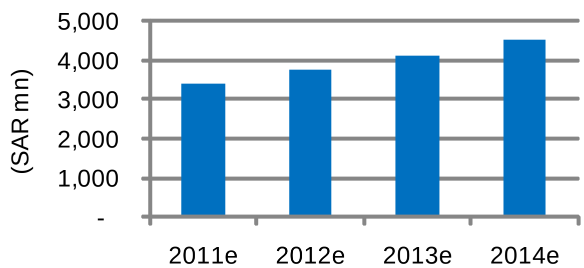
During 2011, the Company has secured new orders over SAR1.7bn from Aramco, whose contracts completion contributed around 63% to the total revenue of the Company in 2010.

Going forward we believe that the Company would register a revenue CAGR of 21.4% during 2010-14. The revenue would be driven by various oil and gas related project being announced in Saudi Arabia and Abu Dhabi, where MMG operates.

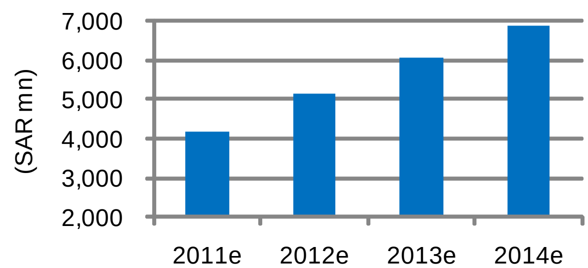
The order book to grow as more oil/gas projects are carried out locally

Company's order book is expected to grow as various projects worth billions have been announced by the government of Saudi Arabia. The company has already won projects worth SAR2.8bn and there are still six months to go. However just to be conservative we have assumed new orders of the Company during 2011 at SAR3.5bn.

New Contract Awarded



Backlog



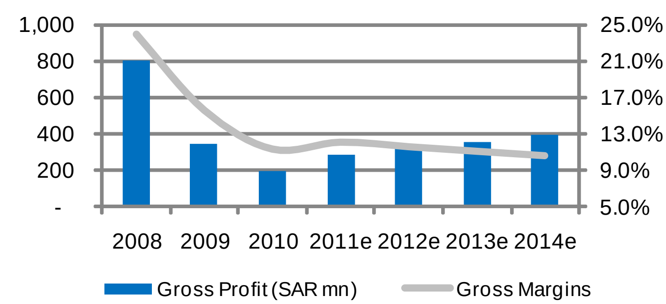
Source: Global Research

Going forward, we have assumed new contract and backlog CAGR of 10.0% and 17.9% during 2011-14. The new order and backlog is expected to touch SAR4.5bn and SAR6.9bn at the end of 2014.

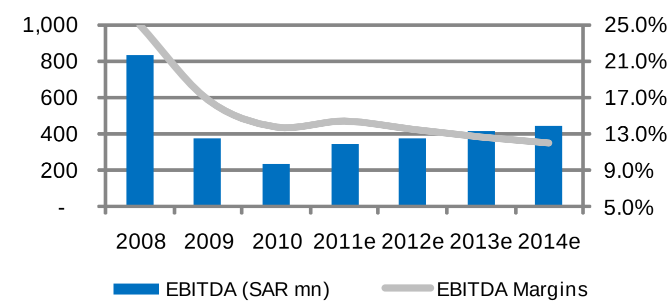
Margins to contract as competition heats up in the Kingdom

During 2010, cost of sales declined but the cost as a percentage of sales increased which dropped the gross margins to 11.2% in 2010 as compared to 15.5% in 2009. While during 1Q11, the Company's gross margins rose slightly to 11.6%. We expect MMG to record gross margin of 12.0% for 2011 and thereon gradually decline to 10.5%.

Gross Profit & Gross Margins



EBITDA & EBITDA Margins



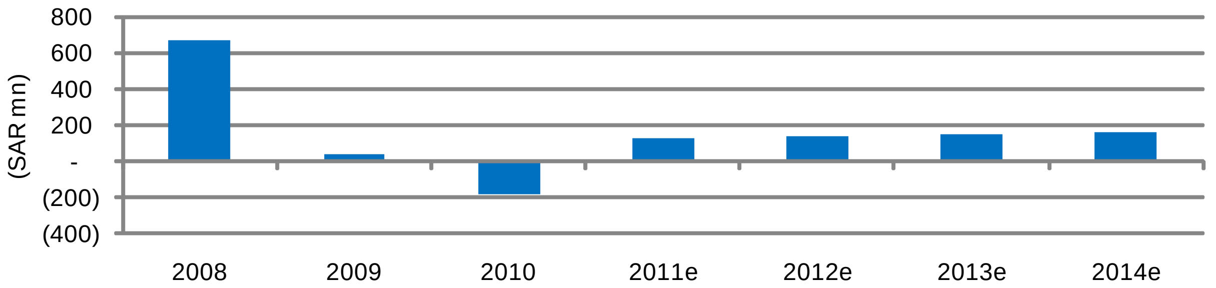
Source: Company Reports & Global Research

MMG's EBITDA margin in 2010 stood at 13.8%. We expect an EBITDA margin of 14.4% in 2011. Given that gross margins are expected to decline, we estimate EBITDA margin to follow the same trend and come down to 12.0% by 2014.

Net income

Net loss reported by the Company during 2010 was SAR179mn. This loss was reported by the Company because of provisions of doubtful debts worth over SAR236mn in 2010 which in 2009 stood at SAR154mn. During 1Q11, Company reported net income of SAR32.6mn which was higher by 213.5% when compared to 1Q10 net profit of SAR10.4mn.

Net Income



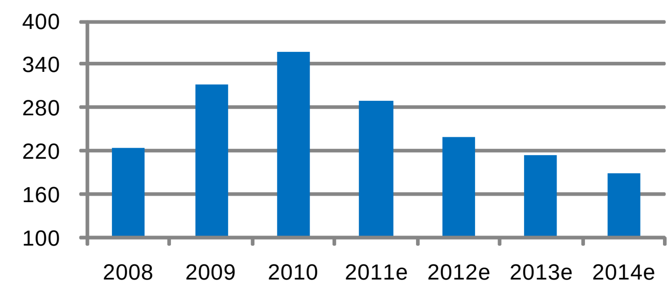
Source: Company Reports & Global Research

Going forward we believe that the net income is estimated to register a CAGR of 8.7% during 2011-14. While on the other hand the net margins are expect to follow the trend of the gross margins and drop to 5.3% and 4.4% during 2011 and 2014 respectively.

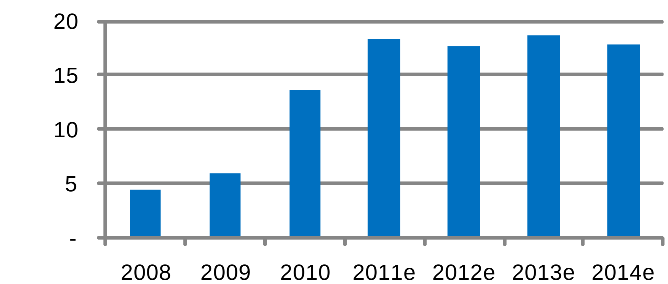
Working capital higher currently – *expected to go down*

During 2010, the Company's receivables stand at SAR1.6bn, less by 6.3% when compared to that of 2009 at SAR1.7bn. Although there was a decline in receivable but the receivables outstanding days increased during 2010 to 357days as compared to 312days in 2009. On the other hand the inventory rose to SAR84mn as compared to SAR31mn in 2009. A surge in inventories raised the inventory stock days to 14 as compared to 6 in 2009.

Receivables Outstanding (Days)



Inventory Stock (Days)



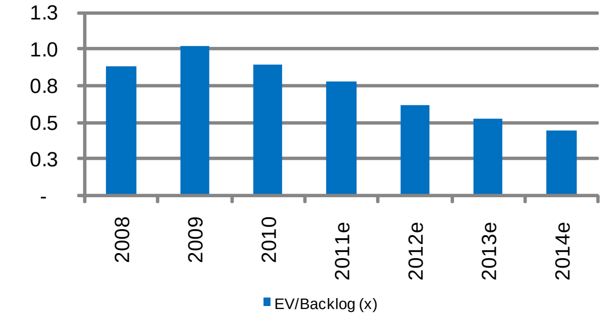
Source: Company Reports & Global Research

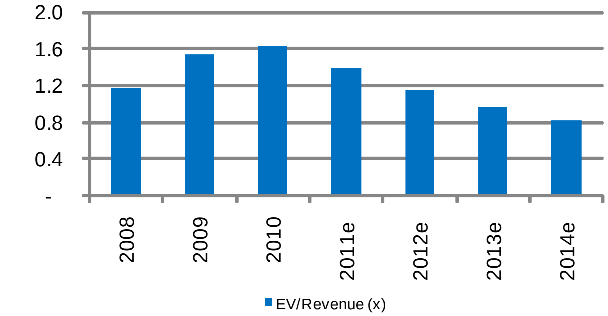
Gradually we believe that as more and more public and private companies projects are rolled out and Mojil gets some share of those, the receivables days of the Company would come down to 200 by 2014. Nevertheless at current point in time the receivables days of the Company are higher than many of its local and regional peers and higher when compared to our contractors coverage.

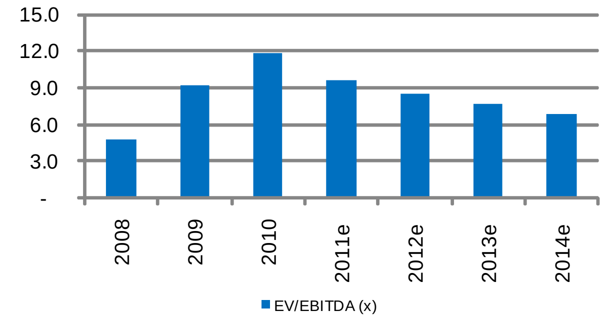
Key Risk to Valuation

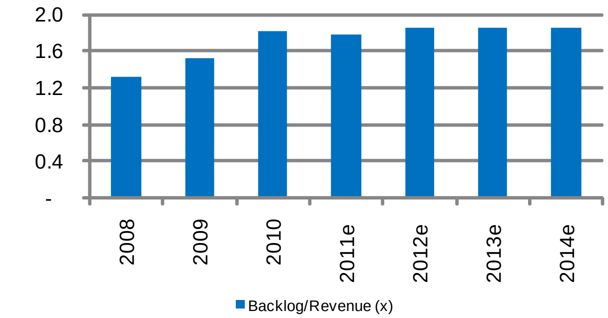
- The Company currently pays its Murabaha facilities on a variable rate basis, exposing it to higher financing cost in case of any associated increase in rate prices which will adversely affect its financial results.
- The Company depends on a number of key clients such as Aramco and SABIC. The Company's operations and financial results could be adversely affected in case of the Company's inability to secure further contracts with these clients.
- During 2009 and 2010, MMG reported provisions related to doubtful debts at a sum of SAR154mn and SAR236mn respectively. There is no guidance from the Company related to any provisions in 2011, however, if the amount appears it would be in 4Q11, which can take the profits down.

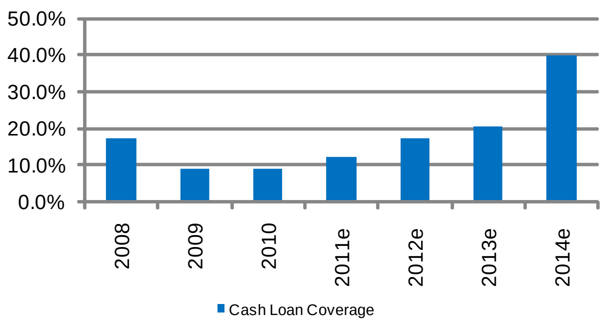
Mojil - Chart Gallery

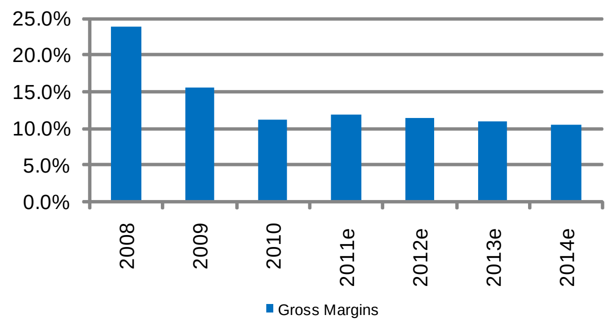


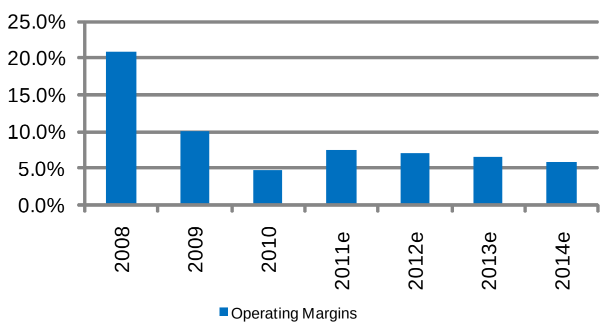


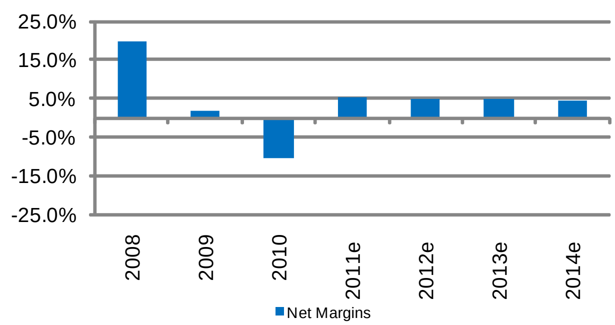


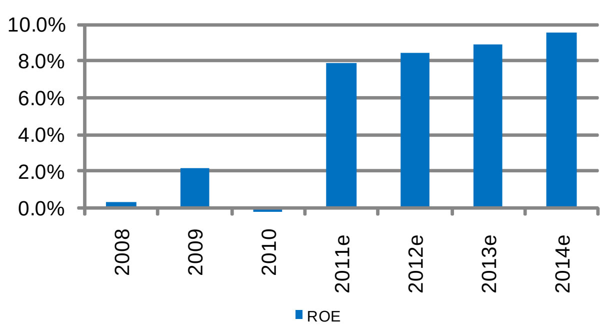


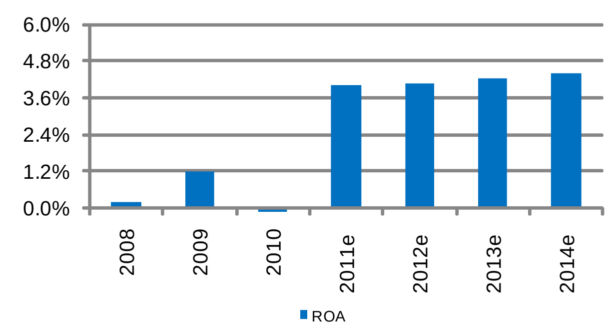












Source: Company Reports & Bloomberg

Financial Statements

	(SAR mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Income Statement	Contract Revenues	3,345	2,216	1,731	2,364	2,786	3,257	3,709
	Cost of Sales	(2,544)	(1,872)	(1,537)	(2,080)	(2,465)	(2,899)	(3,319)
	Gross Profits	**801**	**344**	**194**	**284**	**320**	**358**	**389**
	General & Administrative Expenses	(99)	(119)	(110)	(106)	(125)	(147)	(167)
	Provisions for Doubtful Debts	-	-	-	-	-	-	-
	Operating Profit	**701**	**225**	**84**	**177**	**195**	**212**	**223**
	Murabaha Charges	(19)	(15)	(11)	(12)	(11)	(11)	(10)
	Other Income	3	2	2	2	2	2	2
	Net Profit before Zakat	**685**	**212**	**75**	**167**	**186**	**203**	**215**
	Provisions for Doubtful Debts	-	(154)	(236)	-	-	-	-
	Zakat	(20)	(17)	(18)	(41)	(45)	(50)	(53)
	Net Profit	**665**	**40**	**(179)**	**126**	**140**	**153**	**162**
Balance Sheet	Cash and Bank Balance	86	41	46	74	98	111	205
	Receivables	2,048	1,745	1,636	1,910	1,984	2,053	1,930
	Inventories	31	31	84	114	135	159	164
	Advance Payment & Others	278	58	82	112	168	196	193
	Total Current Assets	2,442	1,876	1,849	2,211	2,386	2,519	2,492
	Plant and Equipment	1,225	1,196	1,095	1,107	1,121	1,135	1,151
	Other Assets	2	1	-	10	15	30	60
	Total Assets	**3,669**	**3,073**	**2,944**	**3,328**	**3,521**	**3,684**	**3,703**
	Short Term Murabaha Facilities	500	450	490	564	535	509	483
	Accounts Payable	375	386	374	570	675	794	909
	Down Payments	525	135	109	115	120	126	133
	Accured Expenses & Other Liabilities	232	168	274	301	331	364	372
	Due To Sister Companies	47	3	11	13	14	15	17
	Total Current Liabilities	**1,680**	**1,142**	**1,259**	**1,562**	**1,676**	**1,809**	**1,914**
	Long Term Murabaha Facilities	-	-	25	38	34	30	27
	Employee Indemnity Provision	87	91	94	99	103	109	114
	Paid-up Capital	1,000	1,250	1,250	1,250	1,250	1,250	1,250
	Statutory Reserves	116	120	120	120	120	120	120
	Retained Earnings	786	470	197	260	338	366	278
	Total Shareholders Equity	1,902	1,840	1,566	1,630	1,708	1,736	1,648
	Total Equity & Liability	**3,669**	**3,073**	**2,944**	**3,328**	**3,521**	**3,684**	**3,703**
Cash Flow	Cash Flow from Operating Activities	123	240	96	195	323	402	644
	Cash Flow from Investing Activities	(411)	(131)	(63)	(196)	(210)	(240)	(278)
	Cash Flow from Financing Activities	350	(153)	(29)	29	(89)	(149)	(272)
	Change in Cash	61	(44)	5	28	24	13	94
	Net Cash at End	**86**	**41**	**46**	**74**	**98**	**111**	**205**
Ratio Analysis	Current Ratio (x)	1.5	1.6	1.5	1.4	1.4	1.4	1.3
	Quick Ratio (x)	1.3	1.6	1.4	1.3	1.3	1.3	1.2
	Gross Profit Margin	23.9%	15.5%	11.2%	12.0%	11.5%	11.0%	10.5%
	Operating Margin	21.0%	10.1%	4.9%	7.5%	7.0%	6.5%	6.0%
	Net Profit Margin	19.9%	1.8%	-10.4%	5.3%	5.0%	4.7%	4.4%
	Return on Average Assets	18.1%	1.2%	-6.0%	4.0%	4.1%	4.3%	4.4%
	Return on Average Equity	35.0%	2.2%	-10.5%	7.9%	8.4%	8.9%	9.6%
	Current Liability / Equity (x)	0.9	0.6	0.8	1.0	1.0	1.0	1.2
	Debt / Equity (x)	0.3	0.2	0.3	0.4	0.3	0.3	0.3
	EV/Revenues (x)	1.2	1.5	1.6	1.4	1.2	1.0	0.8
	EV/EBITDA (x)	4.7	9.2	11.9	9.6	8.5	7.7	6.8
	Adjusted EPS (SAR)	5.3	0.3	(1.4)	1.0	1.1	1.2	1.3
	Adjusted Book Value Per Share (SAR)	15.2	14.7	12.5	13.0	13.7	13.9	13.2
	Market Price (SAR) *	35.3	24.0	18.9	22.0	22.0	22.0	22.0
	Market Capitalization (SAR mn)	3,528.0	3,000.0	2,362.5	2,750.0	2,750.0	2,750.0	2,750.0
	Dividend Yield	0.0%	3.3%	4.0%	2.3%	2.3%	4.5%	9.1%
	P/E Ratio (x)	6.6	74.4	(13.2)	21.8	19.6	17.9	17.0
	P/BV Ratio (x)	2.3	1.6	1.5	1.7	1.6	1.6	1.7

Source: Company Reports & Global Research

** Market price for 2011 and subsequent years as per closing prices on June 22, 2011*

Orascom Construction Industries

BUY
Target Price
EGP326.9

Market Data

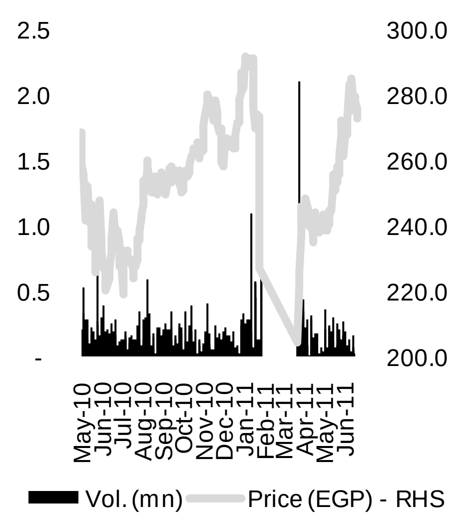
Bloomberg Code:	OCIC EY
Reuters Code:	OCIC.CA
CMP (23 June 2011):	EGP272.6
O/S (mn)	208.9
Market Cap (EGP bn):	56.9
Market Cap (USD bn):	9.6
P/E 2011e (x):	12.1
P/Bv 2011e (x):	2.6

Price Performance 1-Yr

High (EGP):	291.7
Low (EGP):	204.4
Average Volume: (000)	178

	1m	3m	12m
Absolute (%)	7.4	36.6	20.7
Relative (%)	3.9	27.8	34.0

Price Volume Performance



- **New acquisitions to strengthen revenues and net income**
- **Construction segment to benefit from MENA govt's spending plans**
- **Renegotiation of gas contracts in Egypt to look out for**
- **Fertilizer product prices on the rise to benefit the Company**

Net income grew by 76.9% in 1Q11

Orascom Construction Industries (OCI) reported net income of USD206.1mn in 1Q11 as compared to USD116.5mn in the comparable period last year. Such an exceptional growth in profits emanated from 28% increase in the top line along with drop in the cost which raised the gross margins to 32.4% in 1Q11 compared to 30.2% in 1Q10. 1Q11 reflects financial contribution from OCI Nitrogen which was not included during the same period last year. As per management presentation for 1Q11, the net income growth was also aided by strong results from Gavilon.

Interim Results

(USD mn)	1Q10	1Q11	Change
Sales Revenue	985.4	1,261.6	28.0%
Cost of Sales	688.3	853.4	24.0%
Gross Profit	297.1	408.2	37.4%
Operating Profit	183.9	268.3	45.9%
Net Profit	116.5	206.1	76.9%
Gross Margins	*30.2%*	*32.4%*	-
Operating Margins	*18.7%*	*21.3%*	-
Net Margins	*11.8%*	*16.3%*	-

Source: Company Reports

Pandora acquisition

During 2Q11, Company announced that its wholly owned subsidiary, OCI Nitrogen (Netherlands), acquired an integrated ammonia-methanol plant located in Beaumont, Texas, on the Gulf Coast of the United States. OCI acquired the plant through a joint venture with Janus Methanol AG (Janus), named Pandora Methanol LLC, in which OCI holds 50% plus 1 share. The plant has a production capacity of 0.25mtpa of ammonia and 0.75mtpa of methanol. Ammonia production is expected to commence in 4Q11 while methanol production is targeted to start in 2Q12. As per our analysis, Pandora would add around EGP1.2bn revenue to OCI Nitrogen in 2012 and EGP1.6bn by 2014.

Valuation update

Based on future earnings projections, the DCF based SOTP value of OCI comes out to be EGP326.9/share. We have upgraded our value by 2%. The upgrade would have been further higher but we have downgraded the value of construction business to EGP168.1 from EGP200.8 because of expected slowdown in the local Egyptian market till the political scenario normalizes in the country. At current price, we recommend a **'BUY'** on the stock.

Investment Indicators

	2009	2010	2011e	2012e	2013e	2014e
Revenue (EGP mn)	21,819	27,552	29,513	34,346	37,566	40,389
Net Profit (EGP mn)	2,417	3,344	4,708	5,889	6,469	6,568
EV/Revenues (x)	2.7	2.6	2.3	1.9	1.6	1.4
EV/EBITDA (x)	12.7	11.1	8.3	6.5	5.8	5.4
Dividend Yield (%)	4.1%	3.9%	3.5%	5.0%	6.2%	6.8%
P/E (x)	21.3	17.9	12.1	9.7	8.8	8.7
P/BV (x)	3.0	3.2	2.6	2.2	2.0	1.8

Source: Company Reports & Global Research

Hettish Karmani
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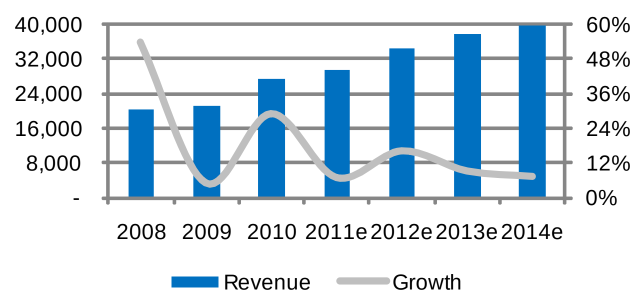
Revenue growth to be aided by fertilizer expansions and acquisitions

OCI revenue increased by 26.3% in 2010 to EGP27.5bn as compared to EGP21.8bn in 2009. During the period construction revenue went up marginally by a percent while the real growth emanated from the fertilizer segment which topped with a revenue growth of 208.6%. In terms of contribution, construction revenue topped with 70% share of total while the rest was contributed by fertilizer segment.

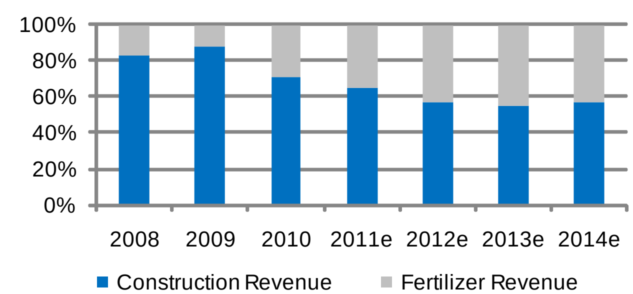
Growth in fertilizer revenue can be attributed to improved prices across OCI's product portfolio and the consolidation of OCI Nitrogen. While the revenue of construction segment arose from its projects in Egypt and Algeria, Contrack projects in the Gulf area, Cementech projects, and BESIX projects in Europe, Gulf area and Africa.

During 1Q11, OCI consolidated revenues grew by 28.0% to USD1,261.6mn (EGP7,383.3mn) versus USD985.4mn (EGP 5,400.1mn) in 1Q10. The contribution to the revenue from the segments was not available but we are clear that the fertilizer revenue contribution to the total would have increased because of increase in fertilizer prices during the quarter as well as lost of 10 days of construction site activity in Egypt during the quarter.

Revenue (EGP mn)



Revenue Composition



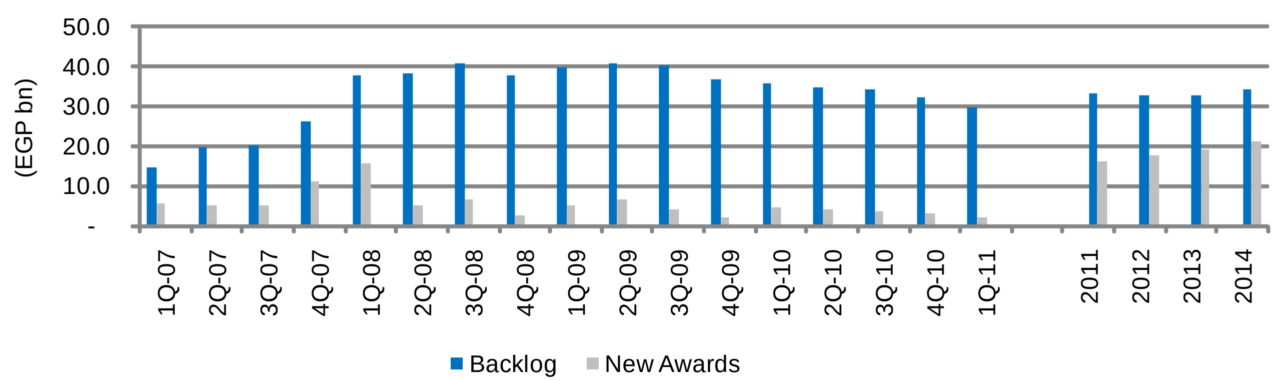
Source: Company Reports & Global Research

During 2011, we expect the revenue to register a growth of 7.1% to EGP29.5bn. Fertilizer segment revenue is estimated to grow by 26.5% while that of construction segment is estimated to report a drop of a percent. Growth in the fertilizer segment revenue would be contributed by increase in the product prices along with commercial commencement of some Sorfert Algerie products as well as full throttle addition from OCI Nitrogen. In the long run we estimate the revenue to grow at a CAGR of 10% during 2010-14. Within the revenue, construction revenue is estimated to grow at a CAGR of 4.5% while the fertilizer revenue is expected to report a CAGR of 20.4%.

Construction backlog performance

During 2010, construction backlog of the Company decreased by 7.7% while new contracts awarded declined by 12.1%. Backlog split by sector reveals that the infrastructure segment backlog was 58.6% of the total, 16.6% of industrial and the rest by commercial segment.

OCI Backlog & New Awards



Source: OCI & Global Research

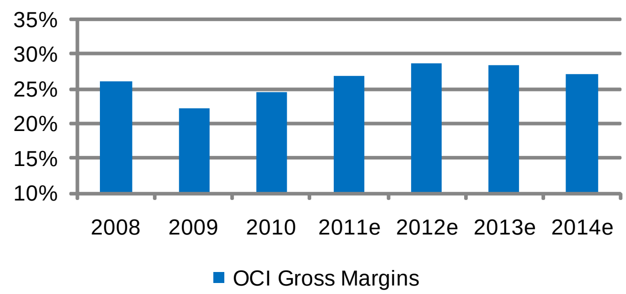
As of 2010, Egyptian backlog dropped to 27.4% of the total amounting to EGP9.7bn, highest in a country. While in terms of region middle east amounted to EGP14.6bn (41.5% of the total).

Going forward, we anticipate backlog to report a CAGR of -1% during 2010-14 while the same for new contracts is expected to report a CAGR of 8.7% during the same period.

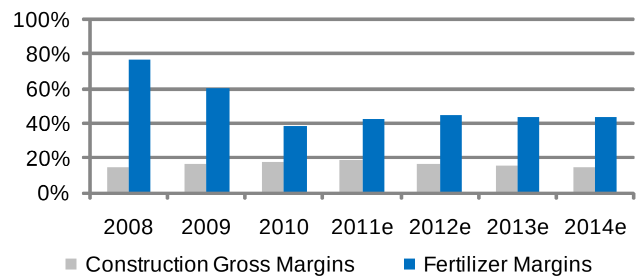
Margins expected to remain range bound

In 2010, OCI cost of sales rose by 21.5% to EGP20.7bn as compared to EGP17.1bn in 2009. This increase was due to increase in the cost of fertilizer segment by to EGP5.0bn as compared to EGP1.0bn in 2009. Increase in cost during 2010 was due to commencement of various product lines and additions from OCI Nitrogen at the end of the year. On the other hand, construction segment cost went up marginally. In terms of contribution in 2010, construction segment contributed the most at 77.2% while the remaining was covered by fertilizer.

OCI Margins



Segment Margins



Source: Company Reports & Global Research

In 2011, we expect the overall cost to grow by 4.0% to EGP21.5bn (Gross Margins: 26.8%) as compared to EGP20.7bn (Gross Margins: 24.6%) reported in 2010. Gross margins of the fertilizer segment are expected to go up during the forecasted period. In 2011, fertilizer margins are expected to be higher at 42.6% compared to 38.2% in 2010. Even post 2011, we expect the margins to prop up because of commissioning of new low cost production lines at fertilizer segment which will increase the margins to 43.6% by 2014.

Construction segment margins are expected to drop as the sector becomes much tougher in terms of getting newer contracts because of increasing competition. We expect the construction segment margins to drop from 18.2% in 2010 to 15.0% in 2014.

Gas prices renegotiation – a step to look out to…

Various frameworks are under scrutiny in Egypt and we assume that there might be changes in relation to the gas pricing in the country. OCI avails gas at quite cheaper rate of around 1.5 USD/mmbtu for Egypt Fertilizer Company and 1.25 USD/mmbtu for Egypt Basic Industries Corporation.

For that purpose we have done sensitivity if the prices of gas is raised to 2 USD/mmbtu and 3 USD/mmbtu for both EFC and EBIC during 2011-14.

Change in Prices of EBIC and EFC and decline in Fertilizer Income

	2011	2012	2013	2014
Current Fertilizer Prices per USD/mmbtu				
EFC	**1.50**	**1.50**	**2.00**	**2.00**
EBIC	**1.25**	**1.25**	**1.25**	**1.25**
Raised to 2 USD/mmbtu for EFC and EBIC during 2011-14				
Loss of Income (EGP mn)	81	187	88	89
Raised to 3 USD/mmbtu for EFC and EBIC during 2011-14				
Loss of Income (EGP mn)	214	503	432	432

Source: Global Research

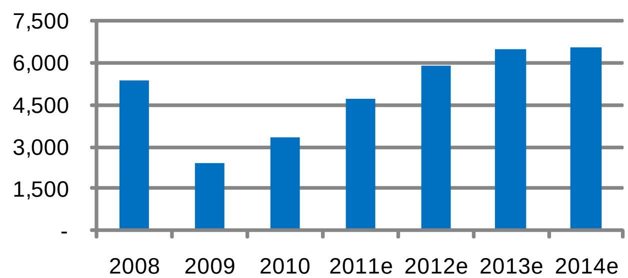
If the price is raised to 2 USD/mmbtu then during 2011, the Company would report a drop in net income by EGP81mn while if the same is raised to 3 USD/mmbtu then the Company would report a loss of EGP214mn.

However we believe if any such thing happens the Company would actively plan in advance to compensate for it through either new acquisitions or through increasing capacity at different plants which are located worldwide.

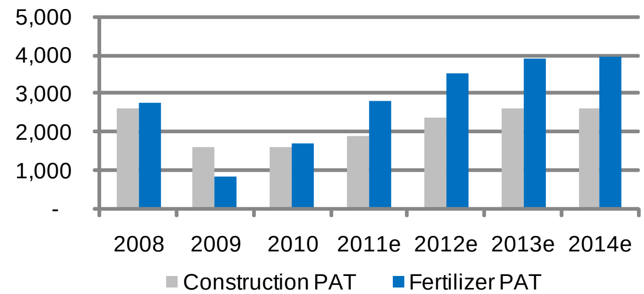
Net income

In the past, OCI has witnessed significant jump in its bottom line numbers due to divestment of its various businesses and business segments. In 2011, we expect the net income to improve by 40.8% to EGP4.7bn (Net Margins: 16.0%). Fertilizer segment is expected to contribute the most to the change with a net income growth of 64.0% to EGP2.8bn (Net Margins: 34.3%) while the construction segment is expected to register a growth of 16.1% to EGP1.8bn (Net Margins: 10.1%). Fertilizer segment contribution to the net income is expected to increase from 51.5% in 2010 to 60.0% by 2011 while for the construction sector it is expected to drop from 48.5% to 40.0%.

Net Income (EGP mn)



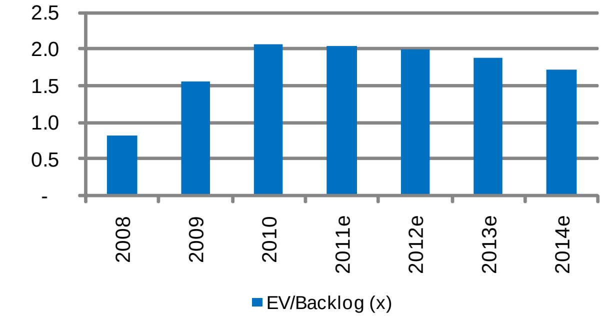
Income Segment Wise

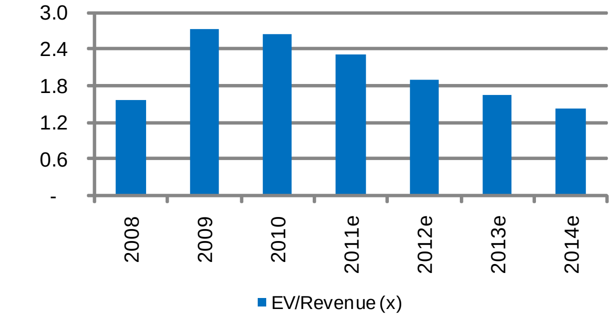


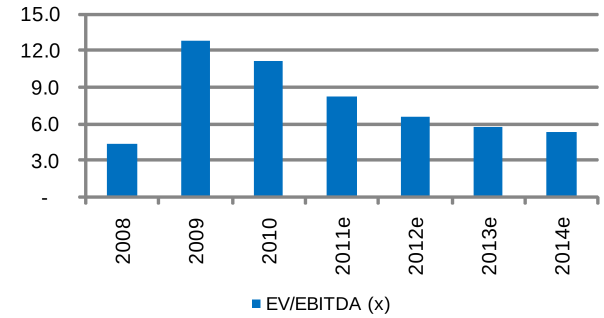
Source: Company Reports & Global Research

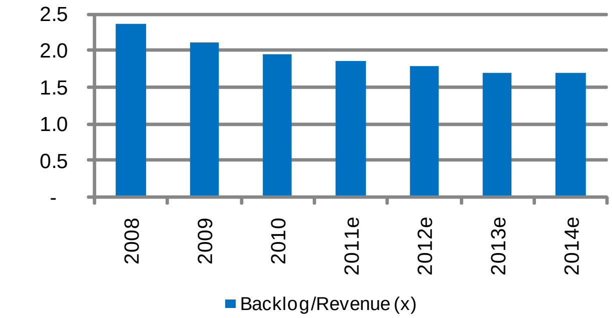
Going forward, we expect the Company to register a CAGR growth of 18.4% in the net income during 2010-14. Fertilizer segment would register a CAGR of 23% whereas the construction segment is expected to grow at a CAGR of 12.8%.

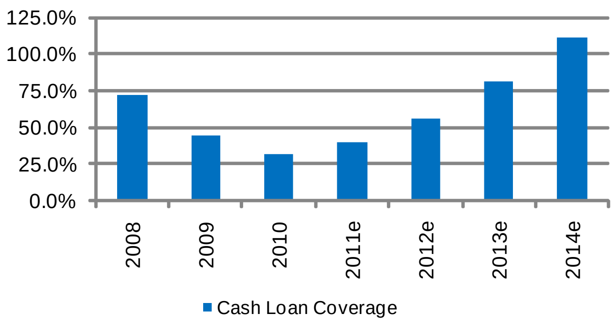
OCI - Chart Gallery

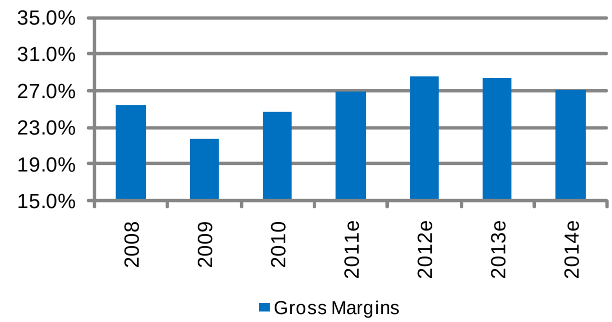


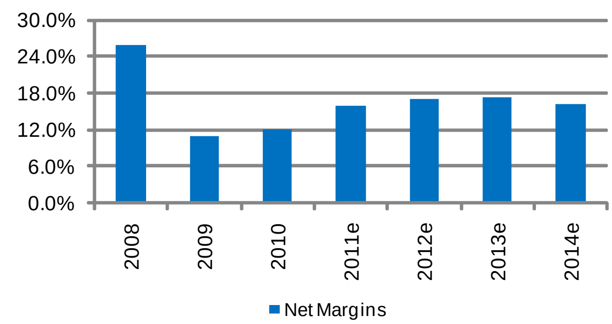


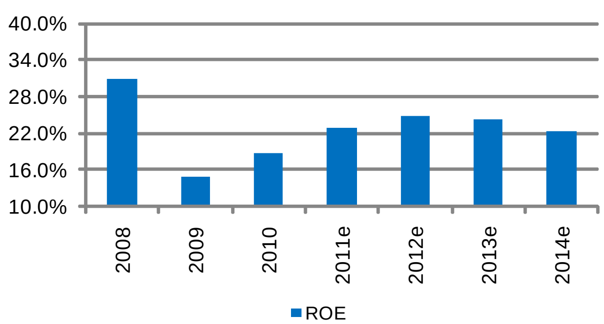


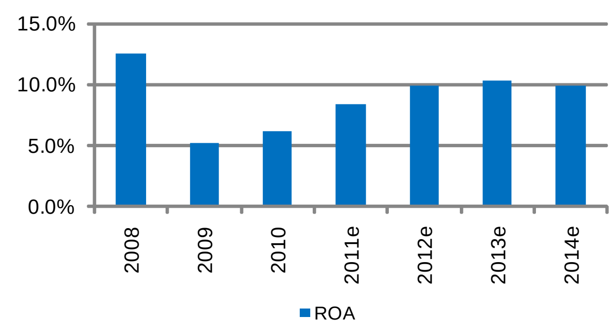












Source: Company Reports & Bloomberg

Financial Statements

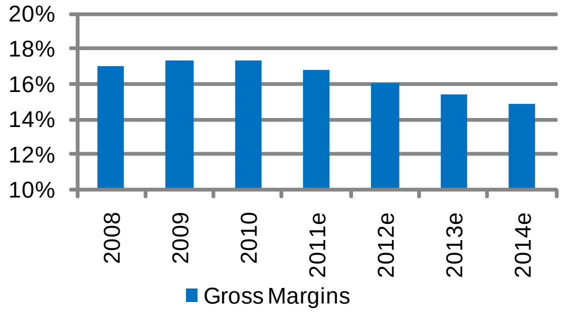
(EGP mn)		2008	2009	2010	2011e	2012e	2013e	2014e
Income Statement	Revenue	20,764	21,819	27,552	29,513	34,346	37,566	40,389
	Costs	(15,463)	(17,087)	(20,768)	(21,594)	(24,506)	(26,888)	(29,480)
	Gross Profit	**5,300**	**4,732**	**6,785**	**7,919**	**9,841**	**10,679**	**10,909**
	Other Operating Income	64	168	21	23	25	28	30
	Selling, Gen. & Administrative Expense	(1,093)	(1,284)	(1,639)	(1,728)	(1,960)	(2,151)	(2,358)
	Operating Profit	**4,271**	**3,616**	**5,166**	**6,215**	**7,905**	**8,555**	**8,581**
	Non-Core Income	2,606	269	495	719	790	869	956
	Interest Expense	(668)	(632)	(672)	(619)	(573)	(532)	(496)
	Provisions	(201)	(212)	(500)	(180)	(183)	(192)	(200)
	Minority Interest	(77)	(134)	(305)	(291)	(383)	(404)	(417)
	Income Tax	(576)	(491)	(840)	(1,135)	(1,667)	(1,827)	(1,857)
	Profit After Tax	**5,367**	**2,417**	**3,344**	**4,708**	**5,889**	**6,469**	**6,568**
Balance Sheet	Cash and Bank Balance	8,269	5,925	5,649	6,474	8,329	11,273	14,377
	Trade & Other Receivables	8,236	9,750	11,452	12,129	14,115	15,438	16,598
	Inventories	1,462	1,402	1,886	2,071	2,350	2,578	2,827
	Other Assets	1,892	2,274	2,668	3,218	3,586	3,726	4,176
	Investments	268	2,358	3,083	3,249	3,412	3,582	3,761
	Intangible Assets	9,910	9,874	11,062	11,284	11,509	11,739	11,974
	Long Term Receivables	255	247	339	366	384	404	424
	Deffered Tax Assets	36	38	36	85	125	137	139
	Property, Plant & Equipment	9,912	14,991	18,606	17,487	15,781	13,991	12,134
	Payment for Purchase of Investments	2,785	-	-	-	-	-	-
	Total Non-Current Assets	23,167	27,508	33,125	32,471	31,211	29,853	28,432
	Total Assets	**43,026**	**46,858**	**54,780**	**56,362**	**59,592**	**62,869**	**66,411**
	Loans	11,425	13,485	17,593	16,212	15,000	13,929	12,976
	Trade & Other Payables	8,318	8,494	10,346	10,945	12,219	13,260	14,619
	Due to Clients	1,600	3,659	2,964	2,371	1,897	1,518	1,214
	Other Current Liabilities	1,090	1,011	1,338	1,361	1,544	1,842	2,100
	Provisions	1,891	1,913	2,148	1,933	1,740	1,566	1,409
	Deffered Tax Liability	507	582	773	858	983	1,120	1,259
	Other Long Term Liabilities	613	571	713	785	863	949	1,044
	Share Capital	1,074	1,035	1,045	1,045	1,045	1,045	1,045
	Retained Earning & Others	16,508	16,108	17,860	20,853	24,300	27,640	30,743
	Total Shareholders Equity	17,581	17,143	18,905	21,898	25,345	28,685	31,788
	Total Equity & Liability	**43,026**	**46,858**	**54,780**	**56,362**	**59,592**	**62,869**	**66,411**
Cash Flow	Cash Flow from Operating Activities	3,255	3,186	2,212	4,219	5,252	6,786	7,056
	Cash Flow from Investing Activities	63,840	(4,616)	(4,184)	223	893	1,048	1,193
	Cash Flow from Financing Activities	(62,743)	(914)	1,708	(3,618)	(4,290)	(4,889)	(5,145)
	Change in Cash	4,352	(2,344)	(275)	824	1,855	2,944	3,104
	Net Cash at End	**8,269**	**5,925**	**5,649**	**6,474**	**8,329**	**11,273**	**14,377**
Ratio Analysis	Current Ratio (x)	1.4	1.3	1.2	1.4	1.6	1.8	2.0
	Quick Ratio (x)	1.3	1.2	1.1	1.3	1.5	1.7	1.8
	Gross Profit Margin	25.5%	21.7%	24.6%	26.8%	28.7%	28.4%	27.0%
	Operating Margin	20.6%	16.6%	18.8%	21.1%	23.0%	22.8%	21.2%
	Net Profit Margin	25.8%	11.1%	12.1%	16.0%	17.1%	17.2%	16.3%
	Return on Average Assets	12.5%	5.2%	6.1%	8.4%	9.9%	10.3%	9.9%
	Return on Average Equity	30.9%	14.7%	18.7%	22.9%	24.9%	24.4%	22.5%
	Current Liability / Equity (x)	0.8	0.9	1.0	0.8	0.7	0.6	0.6
	Debt / Equity (x)	0.6	0.8	0.9	0.7	0.6	0.5	0.4
	EV/Revenues (x)	1.6	2.7	2.6	2.3	1.9	1.6	1.4
	EV/EBITDA (x)	4.4	12.7	11.1	8.3	6.5	5.8	5.4
	Adjusted EPS (EGP)	25.7	11.6	16.0	22.5	28.2	31.0	31.4
	Book Value Per Share (EGP)	84.1	82.0	90.5	104.8	121.3	137.3	152.1
	Market Price (EGP) *	139.0	246.0	287.1	272.6	272.6	272.6	272.6
	Market Capitalization (EGP mn)	29,040.6	51,401.3	59,988.8	56,952.9	56,952.9	56,952.9	56,952.9
	Dividend Yield	223.4%	4.1%	3.9%	3.5%	5.0%	6.2%	6.8%
	P/E Ratio (x)	5.4	21.3	17.9	12.1	9.7	8.8	8.7
	P/BV Ratio (x)	1.7	3.0	3.2	2.6	2.2	2.0	1.8

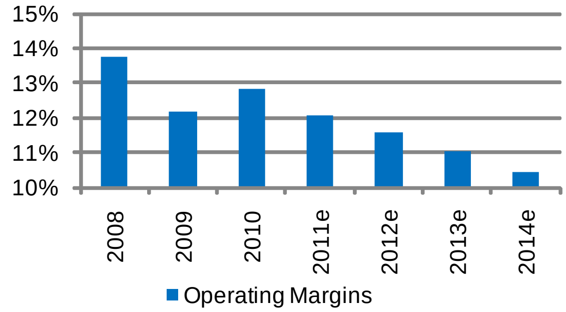
Source: Company Reports & Global Research

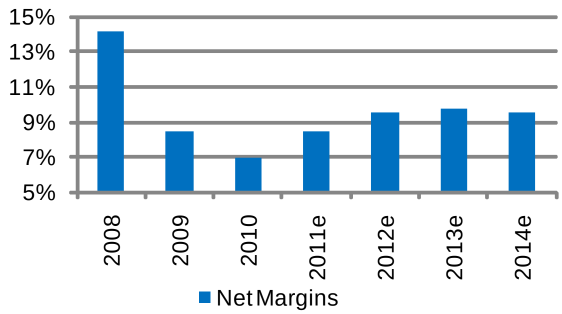
** Market price for 2011 and subsequent years as per closing prices on June 23, 2011*

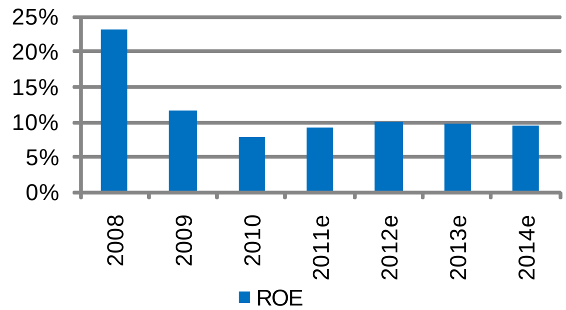
APPENDIX

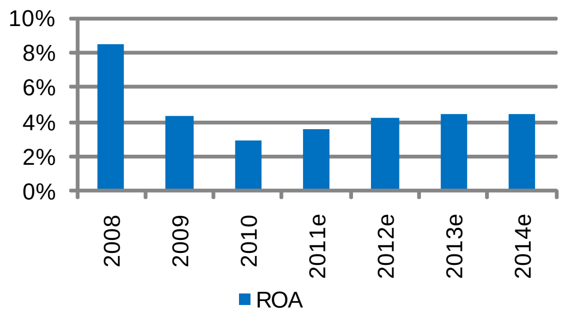
MENA Construction Sector Indicators

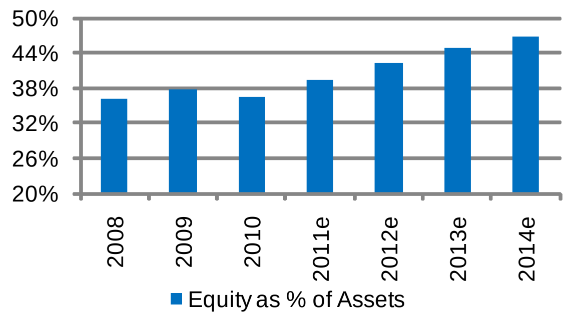


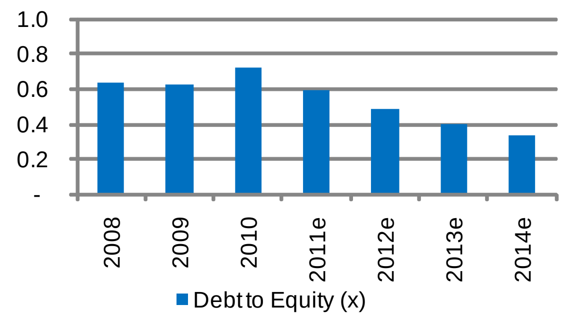


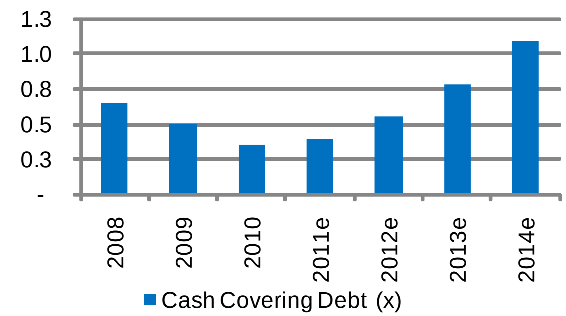


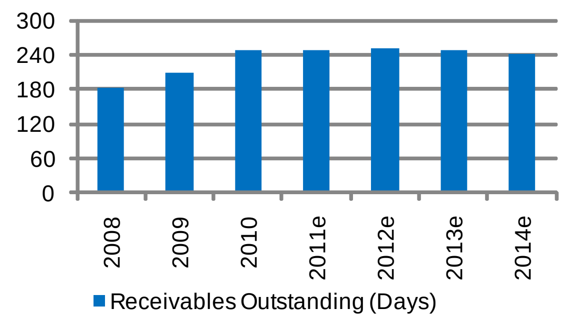


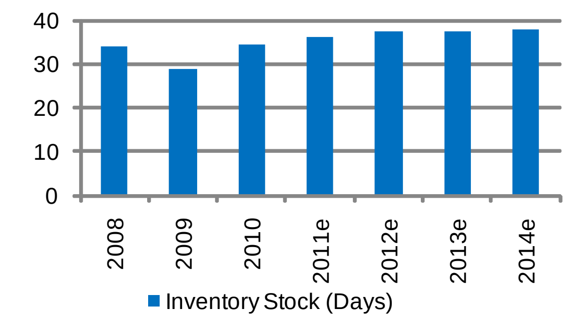












Source: Company Reports & Global Research

** Financials of AKS, ARABTEC, DSI, MOJIL, & OCI*

Company Wise Ratios

	2008	2009	2010	2011e	2012e	2013e	2014e
Gross Margins (%)							
AKS	28.9%	28.2%	26.9%	25.8%	25.0%	24.3%	23.7%
ARABTEC	15.3%	17.3%	15.1%	13.6%	14.4%	14.4%	14.3%
DSI	19.4%	19.7%	18.6%	15.9%	15.5%	15.0%	15.0%
MOJIL	23.9%	15.5%	11.2%	12.0%	11.5%	11.0%	10.5%
OCI	25.5%	21.7%	24.6%	26.8%	28.7%	28.4%	27.0%
Operating Margins (%)							
AKS	23.6%	22.6%	21.4%	20.5%	19.7%	18.9%	18.4%
ARABTEC	11.0%	8.0%	7.8%	5.6%	7.6%	8.1%	8.0%
DSI	9.8%	9.0%	6.3%	5.9%	5.6%	5.1%	5.2%
MOJIL	21.0%	10.1%	4.9%	7.5%	7.0%	6.5%	6.0%
OCI	20.6%	16.6%	18.8%	21.1%	23.0%	22.8%	21.2%
Net Margins (%)							
AKS	20.7%	20.7%	20.3%	19.0%	18.5%	18.1%	17.8%
ARABTEC	9.9%	6.5%	5.6%	3.7%	4.9%	5.4%	5.5%
DSI	11.1%	15.2%	8.7%	7.5%	6.9%	6.3%	6.2%
MOJIL	19.9%	1.8%	-10.4%	5.3%	5.0%	4.7%	4.4%
OCI	25.8%	11.1%	12.1%	16.0%	17.1%	17.2%	16.3%
ROE (%)							
AKS	68.9%	42.9%	37.0%	32.2%	29.6%	26.6%	24.5%
ARABTEC	50.6%	20.7%	11.4%	7.4%	9.9%	10.7%	10.7%
DSI	51.0%	13.4%	6.4%	8.0%	8.0%	7.9%	8.1%
MOJIL	35.0%	2.2%	-11.5%	7.7%	8.2%	8.8%	9.8%
OCI	30.9%	14.7%	18.7%	22.9%	24.9%	24.4%	22.5%
ROA (%)							
AKS	17.9%	15.0%	11.9%	12.7%	13.2%	13.4%	13.6%
ARABTEC	10.1%	5.4%	3.5%	2.4%	3.5%	4.1%	4.3%
DSI	10.9%	7.6%	3.3%	3.9%	3.9%	3.8%	3.8%
MOJIL	18.1%	1.3%	-6.1%	3.8%	4.0%	4.2%	4.4%
OCI	12.5%	5.2%	6.1%	8.4%	9.9%	10.3%	9.9%
Debt to Equity (x)							
AKS	1.83	1.30	1.28	0.88	0.63	0.42	0.28
ARABTEC	0.64	0.38	0.28	0.25	0.21	0.18	0.15
DSI	0.84	0.26	0.31	0.27	0.23	0.20	0.17
MOJIL	0.26	0.24	0.33	0.37	0.33	0.31	0.31
OCI	0.65	0.79	0.93	0.74	0.59	0.49	0.41
Liabilities to Equity (x)							
AKS	2.85	1.86	2.11	1.53	1.24	0.99	0.81
ARABTEC	4.00	2.81	2.22	2.02	1.84	1.63	1.48
DSI	3.66	0.75	0.92	1.07	1.08	1.09	1.12
MOJIL	0.93	0.67	0.88	1.04	1.06	1.12	1.25
OCI	1.45	1.73	1.90	1.57	1.35	1.19	1.09

Source: Company Reports & Global Research

** OCI Consolidated numbers are taken*

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Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

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Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
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Drake & Scull International	Strong Buy	DSI UH	DSI.DU	AED 0.99	1,10
Mojil Group	BUY	MMG AB	1310.SE	SAR 22.0	1,10
Orascom Construction Industries	BUY	OCIC EY	OCIC.CA	EGP 272.6	1,10

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