COMPANY NOTE

May 17th, 2011

Raya Holding

Despite delays, value remains

Following a 37% growth in FY10 revenues, RAYA showed a 5% year-on-year increase in earnings, reaching EGP43.6mn (8% above CICRe of EGP40.5mn). Excluding EGP23mn in provisions charged in 2010 and the EGP18.7mn unusual gain recorded in 2009, before-tax normalized earnings increased around 2.7x to EGP82.8mn. However, disrupted demand caused by the uprising has weakened RAYA's performance in 1Q11. Accordingly, we cut our 2011e top line and earnings estimates by 9% and 18%, respectively. We also cut our earnings estimates for 2012 and 2013 by an average of 55%, based on the rescheduled launch of most of the buildings in the new Smart Buildings segment. Fortunately, the increased weight of debt in the capital structure has muted the impact of a higher cost of equity used, in view of the prevailing country risk. Nevertheless, we cut our LTFV by 13% to EGP11.7/share, down from EGP13.5/share. We have also reduced our target price by 28% to EGP5.5/share, down from EGP7.6/share. Due to the recent market sell-off, RAYA trades at an attractive 2011E PER of 6.1x, compared to a peer average of 9.8x. With a 29% upside potential, we have downgraded our recommendation from Strong Buy to Buy.

BoD proposes to retain cash dividends: RAYA's BoD has proposed to retain cash dividends and distribute an only 3.3% stock dividend.

Trade segment, the main top-line contributor: Demand for the trade segment has started to recover following the slow demand posted during the uprising. Over the forecast period, the trade segment will still be the main contributor to total revenues (with over 60% contribution). Meanwhile, owing to its relatively high margin, the IT segment is the main value driver.

Rescheduling the launch of new business segments: Given the prevailing instability, RAYA has slowed down investments in the new business segments for better cash management. Three out of four of its planned smart buildings are expected to be launched in 2013, rather than previous plans for 4Q11 and 2012. As it stands, only one building is to be completed in May 2011. Also, the trial operation of **BariQ,** its plastic recycling company, is expected to take place in late 2011 instead of mid-2011.

Valuation and recommendation: Cutting back consumer and corporate spending is likely to pressure RAYA's performance for at least the first half of 2011. However, market conditions have begun to recover. With one smart building ready to be offered for rent soon, and the plastic manufacturing business set to kick off late this year, we believe there is more value ahead for the company. The recent market sell-off left the stock trading at a 15% discount to its par value (EGP5/share) and a significant discount to BV/share. We have revised our estimates downward, driving our LTFV to EGP11.7/share and Target price to EGP5.5/share and prompting us to downgrade our rating from Strong Buy to Buy.

EGP mn	2008 A	2009 A	2010 A	2011 F	2012 F
Revenues	**2,176.1**	**1,869.7**	**2,553.9**	**2,326.7**	**2,643.2**
Growth rate	*-4.3%*	*-14.1%*	*36.6%*	*-8.9%*	*13.6%*
EBITDA	**137.7**	**86.2**	**138.4**	**92.1**	**123.8**
Growth rate	*24.7%*	*-37.4%*	*60.6%*	*-33.4%*	*34.4%*
EBITDA margin	6.3%	4.6%	5.4%	4.0%	4.7%
Net income	**54.0**	**41.6**	**43.6**	**43.2**	**42.0**
Growth rate	*-43.2%*	*-22.9%*	*4.8%*	*-0.9%*	*-2.9%*
Net margin	2.5%	2.2%	1.7%	1.9%	1.6%
PER	4.9x	6.3x	6.1x	6.1x	6.3x
P/BV	0.6x	0.5x	0.5x	0.5x	0.5x
EV/EBITDA	4.6x	5.3x	3.7x	6.5x	7.1x
Net debt/EBITDA	2.7x	2.3x	1.8x	3.6x	5.0x
Dividend yield	4.9%	5.4%	0.0%	5.6%	5.7%

Source: Company reports and CICR estimates

BUY (downgraded)
LT FAIR VALUE | EGP11.7 (reduced)
TARGET PRICE | EGP5.5 (reduced)

COMPANY SYNOPSIS

Raya Holding [RAYA] consists of four business segments: retail & distribution (c.75% of the company's operations), IT, Contact Centre and newly-introduced Raya Smart Buildings. In 2Q10, RAYA launched its land transportation business targeting Egypt and Sudan. RAYA is also set to establish a new plastic recycling company (Bariq) in 2011 in what will be the first of its kind in Egypt.

RAYA is currently one of Egypt's flagship CIT companies, commanding a large share of the local mobile distribution market and a broad share of the IT segment, offering a wide array of services. RAYA's IT segment has a presence in Algeria, Nigeria, Saudi Arabia, the UAE and the US. As of 1Q11, the company had 33 outlets (up from 30 in 2010) operating under the names "Raya" and "Nokia Care" and "Samsung".

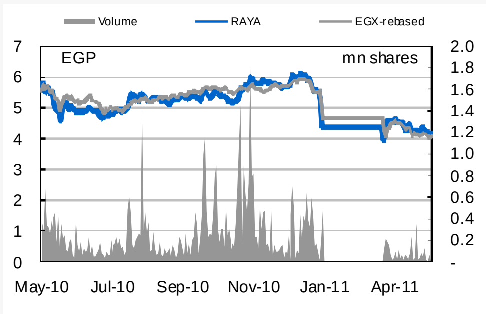
SHAREHOLDER STRUCTURE

Medhat Khalil & Family	28%
Financial Holding Int'l LTD	12%
El-Tawil Family	6%
Watheeqa	5%
Others	49%

STOCK DATA

Reuters; Bloomberg	RAYA.CA; RAYA EY
Recent price as of 15-May-11	EGP4.25
No. of O/S shares	62.2 mn
Market cap	EGP264 mn
52-wk high / low	EGP6.25/ EGP3.57
Avg. daily volume / turnover	0.25 mn /EGP1.15 mn

STOCK PERFORMANCE | 52 WEEKS



Source: Bloomberg

INGY EL-DIWANY
INGY.ELDIWANY@CICH.COM.EG

Recent Developments

- In line with Raya Trade's expansion strategy, in May the company opened three new stores in New Cairo, Sixth of October City and Luxor. The current number of outlets reached 33 under three brands in Egypt: "Raya", "Nokia Care", and "Samsung".

RAYA has now 33 outlets

- RAYA's estimated losses incurred during the uprising reached almost EGP7mn, according to a company official. RAYA's trade segment witnessed a loss of EGP3mn on the damage of four of its stores. The damaged outlets were restored and all outlets are operating normally. Furthermore, the Contact Center segment incurred losses of EGP4mn on cancelling four local projects and the postponement of three offshore projects.

Losses during the uprising reached EGP7mn

- Raya Contact Center managed to overcome the internet disruptions during the uprising through use of an emergency plan. The plan allowed the diversion of its Contact Center operations (4% of revenues) to India, accounting over 70-80% of offshore operations. Moreover, in order to ensure that customer operations ran smoothly, Raya Contact Center offered accommodation for agents and team leaders who worked during curfew hours on-site or in the next door hotel.

A disaster plan in the contact center segment to overcome internet disruptions

- In its April 5 meeting, the BoD suggested a 3.4% stock dividend and the postponement of cash dividend distribution until a later stage.

Postponing cash dividend

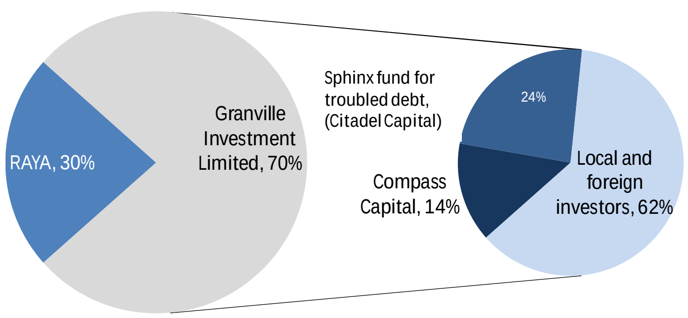
- RAYA bought back 413,386 treasury shares (out of the planned 1mn shares) during the period from March 23, 2011 till April 22, 2011 at price of EGP4.25/share.

Buying back treasury shares

- In an OTC transaction executed mid January, **10th of Ramadan for Pharmaceuticals and Diagnostic Reagents Company (RAMEDA)** was fully acquired by a consortium comprised of **Raya Holding [RAYA]** with a 30% stake and the remaining 70% stake belongs to **Granville Investment Limited**, an offshore company established to execute the acquisition. The latter's structure is divided as 14.3% for **Compass Capital**, 23.8% for **Sphinx Fund for troubled debts** affiliated to **Citadel Capital**, in addition to 61.9% for foreign and local investors. The total value of the deal is EGP232mn. Raya paid almost EGP54.9mn in 1Q11.The pharmaceuticals industry in Egypt is growing annually at an average rate of 8% driven by population growth and growing health awareness. RAMEDA has one of the largest plants in Egypt and the Middle East. The company produces a wide range of generics and under licensed products. However, the market share of the company is not significant and RAYA plans to restructure RAMEDA.

RAYA acquired 30% of RAMEDA

Figure 1 | New shareholder structure of RAMEDA



Source: www.arabfinance.com

May 17th, 2011

Financial Summary

Revenues recovered in 2010 with a 37% growth

Spectacular growth in 2010 top line: Supported by strong revenue growth in the Trade segment, consolidated revenues grew 37%, reaching EGP2,553.9mn (2% above CICRe of EGP2,503.3mn). The strong performance of the trade segment was the product of continuous recovery in the handsets market in which volumes sold increased 16% to 2.8mn, up from 2.45mn, together with the launch of RAYA's new e-commerce website, the introduction of a new product mix and the launch of a strategic partnership with **Etisalat Misr**. These factors combined led to a 39% increase in trade segment revenues. RAYA's other business segments – IT and contact centers – showed respective growths of 20% and 21% in FY10 revenues. Ostool, RAYA's land transportation subsidiary which launched its operations in 2Q10, recorded EGP2mn revenues in its first year of operations. Furthermore, the Smart Buildings segment recorded revenues of EGP30.4mn on RAYA's 18-month lease contract signed with Palm Hills Middle East Co. for Real Estate Investments, a subsidiary of **Palm Hills Development [PHDC.CA]**.

EBITDA margin improved 81bps

EBITDA grew 61% YoY with margin improvement: EBITDA increased 61% YoY, with EBITDA margin improving 81bps. Gross profit margin declined 91bps in FY10, on mainly lower margin of the Trade and the IT segments. We believe that the decline in RAYA's Trade segment came after low profitability (c.2%) associated with Etisalat Misr products, whose revenues added a lot to RAYA's trade top line. Furthermore, SG&A/Sales declined 172bps on the back of relatively stable general and administrative expenses as opposed to increasing revenues.

Operational growth and lower finance costs drove earnings higher

Earnings increased 5%: Owing to the strong operational performance together with a 67% decrease in net interest expense, bottom line profits showed a 5% increase to EGP43.6mn. Decline in net interest expense resulted mainly from RAYA's reliance on USD overdraft obligations (with a 3.5% interest rate) from Egyptian pounds (with a 13% interest rate). Nevertheless, this was associated with an FX loss of EGP10mn due to the devaluation of the EGP vis-à-vis the USD. In FY10, RAYA booked almost EGP23mn customs provisions (formed in 2Q10) to meet a penalty the **Algerian Customs Authority** imposed on **RAYA Algeria**. Furthermore, RAYA recorded investment losses of EGP9.3mn related to losses from its associates, **Fawry (**startup) and **IBS**. Excluding FY10 EGP23mn custom provisions related to RAYA Algeria and the FY09 EGP12.7mn capital gain and EGP6mn receipts from a lawsuit, normalized earnings increased almost 3x to EGP56.7mn.

Figure 2| Summary Actual vs. Forecasted Results (FY10 vs. FY09)

EGP000	4Q09 A	4Q10 A	4Q10 E	YoY growth	A vs. E	FY09 A	FY10 A	FY10 E	YoY growth	A vs. E
Revenues										
Retail & Distribution	402,402	512,311	470,097	27%	9%	1,429,238	1,992,716	1,950,502	39%	2%
IT	98,936	126,752	104,490	28%	21%	389,347	467,837	445,575	20%	5%
Contact Center	17,622	23,438	23,212	33%	1%	69,857	84,240	84,015	21%	0%
RAYA Smart Buildings*	(1,033)	(13,574)	NA	NA	NA	5,153	30,408	43,981	490%	-31%
Ostool		1,070	1,906	NA	-44%	-	2,061	2,898	NA	-29%
Intercompany sales	(8,284)	(3,796)	(4,138)			(23,860)	(23,360)	(23,702)		
Total Revenues	**509,642**	**646,201**	**595,567**	**27%**	**9%**	**1,869,735**	**2,553,902**	**2,503,268**	**37%**	**2%**
GPM										
Retail & Distribution	10.3%	8.8%	8.6%	-155 bps	24 bps	10.2%	9.0%	9.0%	-115 bps	5 bps
IT	19.8%	19.6%	18.6%	-21 bps	97 bps	19.9%	18.6%	18.3%	-127 bps	28 bps
Contact Center*	10.9%	13.4%	46.2%	246 bps	-3,279 bps	37.7%	41.1%	50.2%	335 bps	-913 bps
RAYA Smart Buildings	1.0%	NA	NA	NA	NA	1.2%	70.6%	26.5%	6,934 bps	4,408 bps
Ostool	NA	46.0%	25.0%	NA	2,105 bps	NA	46%	32.5%	NA	1,397 bps
Total gross profits	**96,300**	**121,617**	**70,868**	**26%**	**72%**	**282,075**	**361,968**	**311,219**	**28%**	**16%**
Gross margin	**18.9%**	**18.8%**	**11.9%**	-8 bps	692 bps	**15.1%**	**14.2%**	**12.4%**	-91 bps	174 bps
EBITDA	**22,929**	**47,142**	**23,223**	**106%**	**103%**	**86,190**	**138,431**	**114,512**	**61%**	**21%**
EBITDA margin	**4.5%**	**7.3%**	**3.9%**	**280 bps**	340 bps	**4.6%**	**5.4%**	**4.6%**	81 bps	85 bps
NPAUI	**16,072**	**13,886**	**10,760**	**-14%**	**29%**	**41,609**	**43,622**	**40,496**	**5%**	**8%**
NPAUI Normalized	**10,862**	**13,886**	**10,760**	**28%**	**29%**	**19,020**	**56,677**	**40,496**	**198%**	**40%**

*Company adjusted end of year figures

A=Actual E=Expected NA= Not Available

Source: Company reports and CICR estimates

May 17th, 2011

Changes to our Forecasts

Rolling over our 5-year forecast to 2015: We have rolled our 5-year forecast period over from 2014 to 2015.

Revising our top line estimates: We have revised downward our top line estimates for 2011 to account for the cutting back of consumer and corporate spending following the uprising that took place in early 2011. Moreover, we cut our top line for 2012 and onwards to account for the delay in the launch of the Smart buildings and Plastic recycling segments.

Revising our top line estimates lower by 9% in 2011 and by an average of 4% thereafter

Cutting estimates of Trade segment revenues in 2011: According to RAYA's management, demand for mobile handsets started to recover gradually in late 1Q11, after being squeezed for over a month. Still, we believe that demand may not return to 2010 levels given the negative impact of current economic conditions and high inflationary pressures on consumer spending. Thus, compared to our previous forecasts, we have downward revised revenues for the trade segment by 10%. Post 2011, we almost maintained our estimates for the trade segment revenues.

Trade segment to remain main revenue contributor

Lower corporate spending is to be mirrored in lower IT revenues: Given the prevailing instability, we cut our IT top line estimates by almost 5% over the forecast period. We believe a considerable amount of corporate and governmental projects will be put on hold in 2011.

Cutting estimated IT revenues by 5%

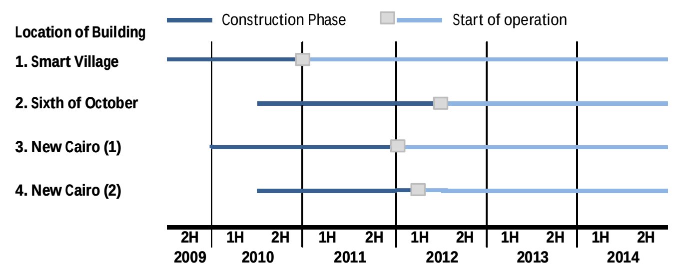
Contact Center revenues fine-tuned. In our new update, we cut our estimates in 2011 for the Contact Center segment by 8% compared to our previous forecast. Following Egypt's uprising, the Contact Center segment incurred losses estimated at EGP4mn on cancelling four local projects and the postponement of three offshore projects. RAYA currently has 3,000 seats available with 1,800 utilized seats and 1,500 skilled multilingual agents.

Canceling four local projects and putting off three offshore ones on Egypt's uprising

Slowing down investments in RAYA Smart Buildings: Given the prevailing instability, RAYA has slowed down investments in the new Smart Buildings segment. Three out four of its planned smart buildings are expected to be launched in mid 2013 and 2014, instead of previous launch plans for 4Q11 and 2012. As it stands, only one building is to be completed in May 2011. These buildings may be offered for sale or rent, but for projection purposes, we assumed that these buildings will be offered for rent. Accordingly, we accounted for this delay in our forecasts for this business segment. Once all four buildings begin full operations (scheduled for 2014), we expect profits to start flowing. This should be driven by the segment's high profitability (an 85% gross margin), which is expected to contribute 30% to RAYA consolidated gross profits in 2015.

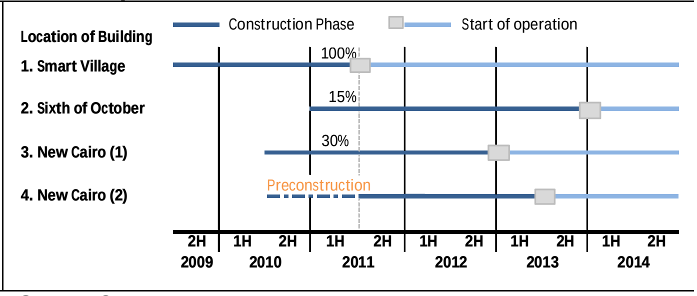
Still there are more than two years ahead to reap the fruits of the smart buildings

Figure 3 | Timeline of the New Smart Buildings (OLD)



Source: Company reports

Figure 4 | Timeline of the New Smart Buildings (NEW)



Source: Company reports

Construction Development YTD:

- Smart Village building is 100% finished
- 15% of the construction in the Sixth of October building is completed
- 30% of the construction in the New Cairo (1) building is completed
- New Cairo (2) building is still in the preconstruction phase

Figure 5 | Summary expected KPIs for smart buildings [2011P-2015P]

	2010 A	2011 P	2012 P	2013 P	2014 P	2015 P
Revenues (EGP 000)	-	5,726	10,556	39,276	211,105	214,342
Gross profit (EGP 000)	-	4,867	8,972	33,385	179,440	182,191
Gross profit margin		85%	85%	85%	85%	85%
Capex (EGP mn)	47	61	209	176		
Assumed debt financing (EGP mn)	-	42	146	123	-	
Assumed equity financing (EGP mn)	47	18	63	53	-	

Source: Company reports & CICR estimates

A high margin segment to be launched soon

BariQ, to be launched in December 2011. Management has recently revealed that the inauguration of BariQ – its plastic recycling company – is expected to take place in December 2011 instead of the initial plan of being launched in mid-2011.With a forecasted gross margin of 52%, BariQ should contribute 7% to RAYA's consolidated gross profits in 2015.

Fleet size growing rapidly

Development in Ostool is moving as planned: RAYA's land transportation segment launched its operations in 2Q10. Currently, Ostool has 19 trucks available and is planning to reach a fleet size of 34 trucks by end of 2011.

Lease contract with Palm Hills to generate a capital gain of EGP12mn in 2011

Accounting for EGP12mn capital gain on the lease contract signed with Palm Hills: In 2010, RAYA signed an EGP90mn lease contract with Palm Hills Middle East Co. for Real Estate Investments for 18 months. Forecasted profits from this transaction are around EGP37mn, with almost EGP25mn of that figure representing operational profit for Raya Smart Buildings (over 18months). The remaining EGP12mn is a capital gain resulting from the transfer of ownership of its building in Smart Village to Palm Hills [PHDC]'s subsidiary.

In 2011, earnings cut 18% to EGP42.9mn

A simultaneous cut in EBITDA and net income: Consequent to the above, our EBITDA margin has been cut 100bps in 2011 to 4%. We have also accounted for an EGP3mn in losses incurred on stores damaged during the uprising, and cut our earnings 18% to EGP43.2mn, down from EGP52.6mn in our previous forecasts. Going forward, we cut our earnings estimates by an average of 36%. This resulted from the following: (i) the delay in the launch of the two high-margin segments namely the Smart Buildings segment and BariQ, the plastic recycling plant, and (ii) raising SG&A/Sales estimates higher.

Figure 6 | New vs. Old KPI estimates

	2011 e			2012 e			2013 e			2014 e		
	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.
Revenues (EGP mn)												
Trade LoB	1,954	1,754	-10%	1,998	2,011	1%	2,043	2,021	-1%	2,091	2,053	-2%
IT LoB	463	438	-5%	504	477	-5%	549	520	-5%	599	566	-5%
Contact Center LoB	90	83	-8%	94	94	0%	100	98	-2%	104	103	-1%
Smart Buildings LoB	55	52	-5%	128	11	-92%	206	39	-81%	215	211	-2%
BariQ (Plastic Recycling)	24	0.4	-98%	64	34	-46%	79	66	-17%	82	74	-10%
Land Transportation LoB	18	20	10%	34	41	22%	55	64	15%	84	94	12%
Net Revenues (EGP mn)	**2,567**	**2,327**	**-9%**	**2,781**	**2,643**	**-5%**	**2,989**	**2,782**	**-7%**	**3,128**	**3,073**	**-2%**
Total Gross profit (EGP mn)	**339**	**284**	**-16%**	**479.71**	**351**	**-27%**	**587**	**432**	**-26%**	**631**	**613**	**-3%**
Total Gross Profit Margin (%)	**13.2%**	**12.2%**	**-99bps**	**17.3%**	**13.3%**	**-397bps**	**19.6%**	**15.5%**	**-409bps**	**20.2%**	**19.9%**	**-22bps**
Trade LoB	8.6%	8.3%	-28bps	9.3%	8.9%	-36bps	9.7%	9.7%	1bps	10.1%	9.9%	-17bps
IT LoB	20.1%	19.5%	-57bps	19.4%	19.3%	-6bps	19.3%	19.2%	-6bps	19.1%	19.1%	-6bps
Contact Center LoB	47.7%	46.1%	-153bps	45.9%	44.3%	-163bps	44.6%	44.3%	-28bps	43.9%	43.7%	-20bps
Land Transportation LoB	30.0%	30.0%	0bps	35.0%	35.0%	0bps	40.0%	40.0%	0bps	40.0%	40.0%	0bps
Smart Buildings LoB	40.0%	17.8%	-2215bps	85.0%	85.0%	0bps	85.0%	85.0%	0bps	85.0%	85.0%	0bps
BariQ (Plastic Recycling)	35.2%	25.0%	-1,016bps	52.0%	43.9%	-810bps	52.0%	52.0%	0bps	52.0%	52.0%	0bps
EBITDA	**127**	**92**	**-28%**	**243**	**124**	**-49%**	**332**	**193**	**-42%**	**365**	**348**	**-4%**
EBITDA Margin	**5.0%**	**4.0%**	**-100bps**	**8.8%**	**4.7%**	**-407bps**	**11.1%**	**6.9%**	**-419bps**	**11.7%**	**11.3%**	**-32bps**
Net Income (EGP mn)	**52.6**	**43.2**	**-18%**	**94.8**	**42.0**	**-56%**	**158.5**	**75.2**	**-53%**	**194.4**	**192.4**	**-1%**

Source: CICR estimates

COMPANY NOTE

Valuation and Recommendation

Cutting value of main segments on revising margin lower

LTFV cut 13% to EGP11.7/share from EGP13.5/share: In our new update, we downgraded the value of most of RAYA's business segments, valued using the sum-of-the-parts method. The value of RAYA's three main business segments (trade, IT and Contact Center), reached using the free cash flow to the firm, is cut by an average of 19%, mostly driven by the downward revision of our EBITDA estimates. Fortunately, the weight of debt increased in the capital structure, muting the impact of a higher cost of equity used, in view of the prevailing country risk.

Also, value of other potential segments are revised lower

Meanwhile, the value of the new potential segments such as Smart Buildings and Plastic Recycling, valued using the free cash flow to equity method, is cut by an average of 35% due to the following: (i) postponement in the launch of the operation, and (ii) increasing the execution risk factor for the Smart Buildings segment to 50% up from 25%, to account for the uncertainty associated with the segment and any further delay in operations, and (iii) increasing the cost of equity by 160bps, due to raising the risk free rate and equity risk premium, to account for the current country risk. Also, we added RAYA's EGP54.9mn investments in RAMEDA (amount paid as of 1Q11), the pharmaceutical company, to its existing EGP55.8mn book value of investments. Our LTFV is now 13% lower to EGP11.7/share. (Compared to EGP13.5/share in our last update dated July 27, 2010)

Figure 7 | SoTP summary valuation

Line of Business (EGP 000)	Method of Valuation	Cost of equity	Cost of debt (1-t)	WACC	Perpetual growth	EV*	Net Debt (Debt-Cash)	Equity [EV-Net Debt]	Execution risk factor	LTFV/RAYA share (New)	LTFV/Raya Share (Old)	% Change
Trade LoB	FCFF	16.4%	9.6%	12%	2.0%	338,461	160,294	178,167		2.9	3.4	-17%
IT LoB	FCFF	16.4%	9.6%	12%	2.0%	306,301	50,935	255,366		4.1	4.4	-7%
Contact Center LoB	FCFF	16.4%	9.6%	12%	2.0%	71,393	5,992	65,401		1.1	1.6	-33%
Smart buildings LoB	FCFE	16.4%	9.6%		3.0%		NA	126,277	50%	1.0	1.8	-43%
Plastic recycling LoB	FCFE	16.4%	9.6%		3.0%		NA	58,181	25%	0.7	1.0	-27%
Land transportation LoB	FCFF	16.4%	9.6%	12%	2.0%	65,082		65,082	0%	1.0	0.6	86%
Net debt of the Holding Co.							55,054	(55,054)		(0.9)	(0.3)	171%
Book value of investments								110,728		1.8	1.1	59%
LTFV**								**739,065**	**726,464**	**11.7**	**13.5**	-13%

* Assumptions of working capital and capex of each segment is based on our own assumptions

** LTFV is calculated one year forward

Source: CICR analysis

Figure 8 | Book value of investments

Affiliate	Stake	Book value of Investments (as of Dec 31, 2010)
Fawry	35%	2,721
IBS	49%	8,533
RAMEDA	30%	54,900
Regional Investment CO	5%	30,259
Smart Village Development Co	3.4%	14,314
Total Book value of investments		110,728

Source: Company reports

Target price cut 28%

Target price set at EGP5.5/share– downgraded to Buy: We cut our target price 28% to EGP5.5/share from EGP 7.6/share. Based on this value, RAYA would be trading at a 2% discount to the market's 2011E PER of 10x. With a 29% upside potential, we downgraded our recommendation from Strong Buy to Buy.

We reached our target price of EGP5.5/share by taking the average of the implied values based on a 2011E, 2012E and 2013E composite PER of peers' average. We applied a 50% execution discount factor for the 2013E implied value, to account for any delay for that might occur for the new smart buildings segment. Due to the recent market sell-off, RAYA trades at an attractive 2011E normalized PER of 7.4x (excluding EGP12mn capital gain and EGP3mn losses expected to be recorded in 2011 on damaged stores during the uprising), compared to a composite peer average of 9.8x and a 10x market average.

Figure 9 | Target price calculation

	2011E	2012E	2013E
Peers' composite PER	9.8x	8.5x	8.2x
RAYA EPS (normalized) (EGP/share)	0.6	0.7	1.3
Implied value (EGP/share)	**5.6**	**5.7**	**10.3**
Execution risk factor			**50%**
Average value (EGP/share)	**5.5**		

Source: CICR estimates

Figure 10 | RAYA's Segments PER vs. International Peers

Company Name	Ticker	Country	Curr.	Last Price LCY	PER 10a	PER 11e	PER 12e	PER 13e
Trade segment								
Avnet Inc	AVT US	USA	USD	36.4	9.4x	8.6x	7.9x	7.5x
Brightpoint Inc	CELL US	USA	USD	9.1	14.4x	9.1x	7.6x	7.2x
Average					**11.9x**	**8.8x**	**7.7x**	**7.3x**
IT segment								
BATM Advanced Communications	BVC LN	UK	GBp	0.2	58.0x	9.8x	8.4x	8.0x
EOH Holdings LTD	EOH SJ	South Africa	ZAr	18.8	10.3x	9.6x	9.2x	8.6x
Computer Sciences Corp	CSC US	USA	USD	44.0	8.3x	8.7x	8.2x	7.7x
Average					**25.5x**	**9.4x**	**8.6x**	**8.1x**
Contact Center segment								
Sykes Enterprises Inc	SYKE US	USA	USD	21.2	22.7x	14.2x	12.4x	11.7x
APAC Customer services Inc	APAC US	USA	USD	5.6	11.8x	11.3x	10.3x	9.7x
Average					**17.3x**	**12.8x**	**11.4x**	**10.7x**
Smart Buildings segment								
Mastec Inc	MTZ US	USA	USD	21.0	17.1x	16.5x	13.8x	13.2x
Average					**17.1x**	**16.5x**	**13.8x**	**13.2x**
Plastic Recycling segment								
Guanwei Recycling Corp	GPRC US	USA	USD	2.2	4.2x	4.2x	3.6x	3.4x
Average					**15.4x**	**4.2x**	**3.6x**	**3.4x**
Composite Peer average					**16.5x**	**9.8x**	**8.4x**	**8.0x**
Raya Holding	**RAYA**	**EGY**	**EGP**	**4.3**	**6.1x**	**6.1x**	**6.3x**	**3.5x**

**Composite peers' average is based on each segment's contribution to RAYA's gross profits*

Source: Bloomberg, Company reports and CICR estimates

COMPANY NOTE

May 17th, 2011

Catalysts

- Greater-than-expected pick-up in the handset market.
- Imposing anti-dumping duties on Chinese handsets sold legally in the local market.
- Rapid expansion in the land transportation segment should drive up return on investments.
- Potential demand for new smart buildings in Egypt.

Risks

- Serious competition from other distributors in the Trade segment.
- Competition from local and international companies in the contact center business.
- Poor waste collection points could deter the success of the plastic recycling plant.
- Increasing competition in the smart building field may lead to a lower occupancy rate for RAYA's new planned buildings.

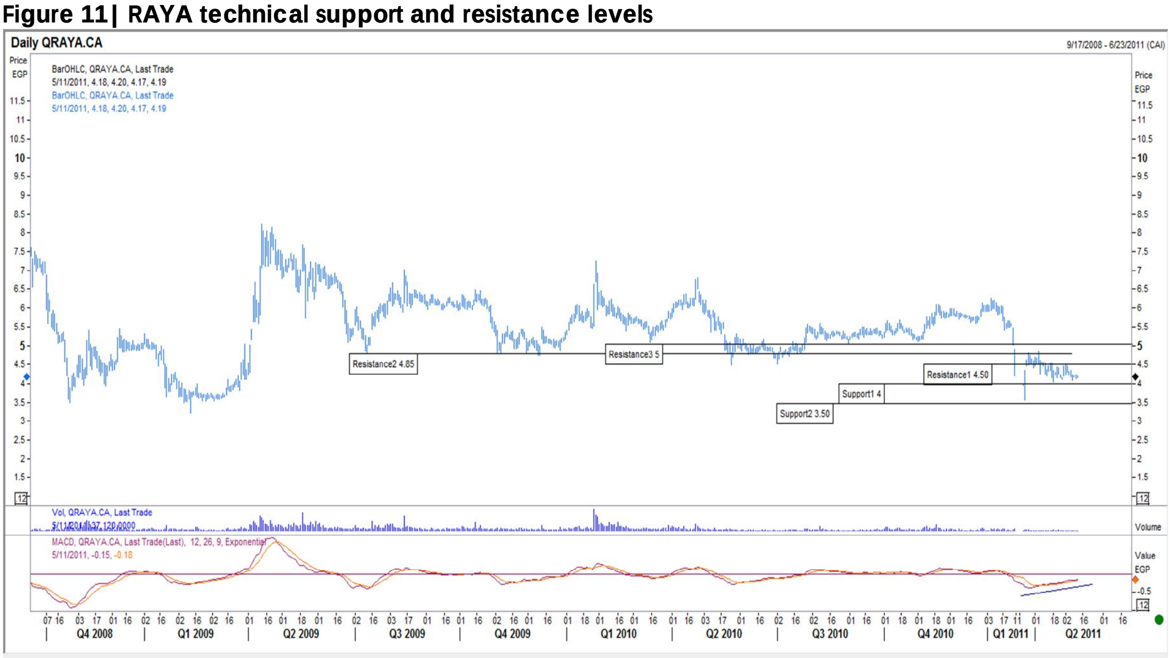
Technical recommendation

Mohamed El-Zayat, MSTA, CFTe | Mohamed.Elzayat@cich.com.eg
Mohamed Kamel, CETA,CFTe | Mohamed.Kamel@cich.com.eg

Resistance level is EGP4.85-5/share

RAYA share price fell below EGP4/share before recovering slightly. Although so far unconfirmed, a short term bottom is about to be formed, with an imminent rebound expected to follow. However, since said rebound will be treated as a correction to its sharp fall from EGP6.25/share, the stock is expected to be limited by EGP4.85-5/share. The first sign of support is at EGP4-4.05/share, and any fall below EGP4/share will invalidate our view.

Figure 11| RAYA technical support and resistance levels



Source: Reuters and CI Capital technical analysis

COMPANY NOTE

Company Financials [2009A-2015E]

Balance Sheet (EGP mn)	2009 A	2010 A	2011 E	2012 E	2013 E	2014 E	2015 E
Assets							
Cash & Cash Equivalent	116	113	54	99	116	165	193
Net Receivables	217	188	198	253	267	295	311
Total Inventory	231	308	348	601	785	813	835
Advance Payment to Suppliers	16	46	43	44	45	47	50
Other Trading Assets	0	0	0	0	0	0	0
Other Current Assets	0	0	0	0	0	0	0
Total Current Assets	**579**	**654**	**643**	**996**	**1,213**	**1,320**	**1,389**
Net Plant	**254**	**209**	**219**	**236**	**218**	**187**	**145**
Long-Term Investments	59	62	117	117	117	117	117
Other Trading Non-Current Assets	229	258	258	258	258	258	258
Other Non-current Assets	59	98	90	102	107	118	125
Intangibles	71	74	74	74	74	74	74
Total Assets	**1,252**	**1,354**	**1,400**	**1,782**	**1,987**	**2,073**	**2,108**
Liabilities & Shareholders' Equity							
Short-Term Debt	240	260	110	337	529	513	463
Current Portion of Long-Term Debt	14	17	62	87	89	82	68
Accounts Payable	229	187	173	207	212	222	235
Accrued Expenses	47	52	56	56	58	61	64
Down Payments to customers	33	70	64	51	53	59	62
Taxes Payable	12	68	68	68	68	68	68
Dividends Payable	7	9	15	15	27	68	74
Other Spontaneous Finance	0	0	0	0	0	0	0
Other Current Liabilities	61	41	37	42	44	49	52
Total Current Liabilities	**643**	**705**	**585**	**863**	**1,081**	**1,123**	**1,087**
Total Long-Term Debt	58	80	217	295	231	148	81
Other Non-Current Liabilities	4	14	14	14	14	14	14
Long-Term Spontaneous Finance	0	0	0	0	0	0	0
Total Liabilities	**706**	**799**	**817**	**1,171**	**1,326**	**1,285**	**1,182**
Deferred Taxes	54	37	37	37	37	37	37
Other Provisions	0	0	0	0	0	0	0
Minority Interest	(2)	3	2	3	4	7	10
Shareholders Equity	**495**	**516**	**544**	**571**	**619**	**743**	**878**
Total Liab. & Shareholders' Equity	**1,252**	**1,354**	**1,400**	**1,782**	**1,987**	**2,073**	**2,108**

Income Statement (EGPmn)	2009 A	2010 A	2011 E	2012 E	2013 E	2014 E	2015 E
Revenues	**1,870**	**2,554**	**2,327**	**2,643**	**2,782**	**3,073**	**3,248**
Trade LoB	1,429	1,993	1,754	2,011	2,021	2,053	2,134
IT LoB	389	468	438	477	520	566	617
Contact Center LoB	70	84	83	94	98	103	107
Smart Buildings LoB	5	30	52	11	39	211	214
Plastic recycling LoB (Bariq)	0	0	0	34	66	74	81
Land transportation (Ostool)	0	2	20	41	64	94	125
intercompany sales	(24)	(23)	(21)	(24)	(25)	(28)	(29)
Cost of Revenues	**(1,588)**	**(2,192)**	**(2,042)**	**(2,292)**	**(2,350)**	**(2,460)**	**(2,600)**
Gross Profits	**282**	**362**	**284**	**351**	**432**	**613**	**648**
Trade LoB	145	180	145	179	196	204	211
IT LoB	77	87	85	92	100	108	116
Contact Center LoB	26	35	38	41	43	45	46
Smart Buildings LoB	5	21	9	9	33	179	182
Plastic recycling LoB (Bariq)		0	0	15	34	38	42
Land transportation (Ostool)		1	6	14	26	37	50
SG&A	(196)	(224)	(192)	(227)	(239)	(264)	(279)
EBITDA	**86**	**138**	**92**	**124**	**193**	**348**	**368**
Depreciation & Amortization	(38)	(38)	(38)	(37)	(46)	(61)	(72)
EBIT	**48**	**100**	**54**	**87**	**147**	**287**	**297**
Interest Expense	(25)	(10)	(15)	(45)	(65)	(57)	(45)
Provisions	(2)	(23)	0	0	0	0	0
Interest Income	1	2	3	2	3	4	6
Investment Income	(5)	(9)	(4)	1	2	3	3
Other Non-Operating Income	33	9	18	9	8	7	5
Other Non-Operating Expenses	(2)	(10)	(5)	0	0	0	0
EBT	**49**	**60**	**51**	**53**	**96**	**244**	**266**
Taxes	(8)	(18)	(8)	(11)	(19)	(49)	(53)
NPAT	**41**	**42**	**43**	**43**	**76**	**196**	**213**
Minority Interest	0	1	1	(1)	(1)	(3)	(3)
Attributable Profits	**42**	**44**	**43**	**42**	**75**	**192**	**209**

A=Actual E=Expected
Source: Company reports & CICR estimates

Cash Flow (EGPmn)	2009 A	2010 A	2011 E	2012 E	2013 E	2014 E	2015 E
NOPAT	23	130	46	76	128	239	243
Depreciation & Amortization	38	38	38	37	46	61	72
Gross Cash Flow (COPAT)	**62**	**168**	**84**	**113**	**174**	**299**	**315**
Working Investments Change	278	(77)	(64)	(289)	(189)	(40)	(22)
Other Current Items	(8)	(18)	(4)	5	2	5	3
Cash After Current Operations	**331**	**74**	**16**	**(170)**	**(13)**	**264**	**296**
Financing Payments	(53)	(24)	(33)	(107)	(152)	(146)	(127)
Cash Before Long Term Use	**279**	**50**	**(16)**	**(277)**	**(165)**	**119**	**168**
Net Plant Change	9	7	(48)	(54)	(28)	(29)	(30)
FCFF	**340**	**81**	**(32)**	**(225)**	**(41)**	**235**	**265**
Others	(138)	(60)	(34)	(1)	8	3	8
Cash Before Financing	**150**	**(3)**	**(99)**	**(332)**	**(185)**	**93**	**145**
Short-Term Debt	(99)	20	(151)	227	193	(17)	(49)
Long-Term Debt	6	40	199	164	25	(0)	(0)
Networth	(5)	(21)	1	(1)	(1)	(3)	(3)
Grey Area	13	(40)	(1)	1	1	3	3
Dividends	(7)	2	(9)	(15)	(15)	(27)	(68)
Change in Cash	57	(3)	(59)	45	17	49	28

Fact Sheet	2009 A	2010 A	2011 E	2012 E	2013 E	2014 E	2015 E
ROE	8.4%	8.5%	8.0%	7.4%	12.1%	25.9%	23.8%
ROS	2.2%	1.7%	1.9%	1.6%	2.7%	6.3%	6.4%
ROA	3.3%	3.2%	3.1%	2.4%	3.8%	9.3%	9.9%
ROIC	3.0%	15.5%	5.1%	6.1%	8.9%	16.4%	16.6%
Gross Margin	**15.1%**	**14.2%**	**12.2%**	**13.3%**	**15.5%**	**19.9%**	**19.9%**
Trade LoB	10.2%	9.0%	8.3%	8.9%	9.7%	9.9%	9.9%
IT LoB	19.9%	18.6%	19.5%	19.3%	19.2%	19.1%	18.9%
Contact Center LoB	37.7%	41.1%	46.1%	44.3%	44.3%	43.7%	43.6%
Smart Buildings LoB	0.0%	70.6%	17.8%	85.0%	85.0%	85.0%	85.0%
Plastic recycling LoB (Bariq)		NA	25.0%	43.9%	52.0%	52.0%	52.0%
Land transportation (Ostool)		46.5%	30.0%	35.0%	40.0%	40.0%	40.0%
EBITDA Margin	**4.6%**	**5.4%**	**4.0%**	**4.7%**	**6.9%**	**11.3%**	**11.3%**
ATO	1.5	1.9	1.7	1.5	1.4	1.5	1.5
WI/ Sales	0.2	0.2	0.2	0.3	0.4	0.3	0.3
ALEV	2.5	2.6	2.6	3.1	3.2	2.8	2.4
Liabilities/Networth	1.4	1.5	1.5	2.1	2.1	1.7	1.3
Current Ratio	0.9	0.9	1.1	1.2	1.1	1.2	1.3

Per-Share Ratios	2009 A	2010 A	2011 E	2012 E	2013 E	2014 E	2015 E
Share Price	4.3	4.3	4.3	4.3	4.3	4.3	4.3
No. Of Shares (mn)	62.2	62.2	62.2	62.2	62.2	62.2	62.2
EPS	0.7	0.7	0.7	0.7	1.2	3.1	3.4
DPS	0.2	0.0	0.2	0.2	0.4	1.1	1.2
Revenues/Share	30.1	41.1	37.4	42.5	44.8	49.4	52.2
BV/Share	8.0	8.3	8.8	9.2	10.0	12.0	14.1
Gross Cash Flow/Share	1.0	2.7	1.3	1.8	2.8	4.8	5.1
FCFF/Share	5.5	1.3	(0.5)	(3.6)	(0.7)	3.8	4.3
EBITDA/Share	1.4	2.2	1.5	2.0	3.1	5.6	5.9
EV/Share	7.4	8.2	9.6	14.2	16.0	13.6	11.0

Multiples	2009 A	2010 A	2011 E	2012 E	2013 E	2014 E	2015 E
P/E	6.3x	6.1x	6.1x	6.3x	3.5x	1.4x	1.3x
Dividend Yield	5%	0%	6%	6%	10%	25%	28%
P/ Revenue	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
EV/ Revenues	0.2x	0.2x	0.3x	0.3x	0.4x	0.3x	0.2x
P/ COPAT	4.3x	1.6x	3.2x	2.3x	1.5x	0.9x	0.8x
EV/ COPAT	7.5x	3.0x	7.2x	7.8x	5.7x	2.8x	2.2x
P/ FCFF	0.8x	3.3x	-8.3x	-1.2x	-6.4x	1.1x	1.0x
EV/ FCFF	1.4x	6.3x	-18.8x	-3.9x	-24.3x	3.6x	2.6x
P/ EBITDA	3.1x	1.9x	2.9x	2.1x	1.4x	0.8x	0.7x
EV/ EBITDA	5.3x	3.7x	6.5x	7.1x	5.2x	2.4x	1.9x
P/ BV	0.5x	0.5x	0.5x	0.5x	0.4x	0.4x	0.3x

A=Actual E=Expected
Source: Company reports & CICR estimates

Contacts and Disclaimer:

Research

Mark Rorison | Group Director & Head of Research
Mark.Rorison@cich.com.eg

Amr Hussein Elalfy, CFA | Co-Head of Research
Amr.Elalfy@cich.com.eg

Mona Mansour | Co-Head of Research
Mona.Mansour@cich.com.eg

CI Capital Securities Brokerage (Egypt & UAE)

Khaled Abd El Rahman | MD & Global Head of Securities Brokerage
Khaled.Abdelrahman@cich.com.eg

Dynamic Securities

Ahmed Roushdy | MD
Ahmed.Roushdy@cich.com.eg

CI Capital Holding

8 Nadi El-Seid Street, Third Floor
Dokki
Giza, Egypt

Tel: +2(02) 33 38 62 59
Research@cich.com.eg
www.cich.com.eg

Rating System

In February 2008, CI Capital Research (CICR) launched a new rating system to give analysts more freedom to be market responsive. This is to make one element of our research more dynamic, namely the advertising of target prices and recommendations. What we did not change is our assessment of the Long Term Fair Value (LTFV), nor have we stopped our detailed industry and company research. What we did is change the target price to trade in the balance of where a share should trade and where we think it will trade.

LTFV: As before we continue to estimate a fundamental valuation, largely DCF and/or NAV based.

Target Price: The price, which is not necessarily the LTFV, is where the analyst, given all (qualitative as well as financial) information available, thinks the share price can get to within the next 3-12 months. This can be changed at any time on changing facts and perceptions.

Recommendations: Our new rating system falls out from the total return relating to the share price performance to the target price, and including any distributions may not be included in the target price calculation. This is shown in the table below, and to be BUY must return over 19%, an arbitrary hurdle rate we think reasonable given prevailing interest rates and risks (Please see table below.)

Rating	Potential Upside/Downside
Strong Buy	>30%
Buy	>20%<30%
Hold	>10%<20%
Underweight	>0% <10%
Sell	<0%

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