

August 19th, 2010

Raya Holding

2Q10: Better margins muted by one-time provisions

RAYA Holding [RAYA] showed a 66% year-on-year increase in its 1H10 earnings. They reached EGP20.7mn (-10% below CICRe of EGP22.9mn), up from EGP12.5mn in 1H09. Deviation from estimates resulted mainly from a one-time provision of EGP11.4mn related to an Algerian customs penalty. After we adjusted RAYA's earnings for this provisions expense and the EGP12.9mn capital gain recorded in 1H09, they increased 11x to EGP32mn. Although 2Q10 top line slowed slightly quarter-on-quarter, 1H10 top line increased 41% year-on-year on strong trade segment revenues (largely the result of a new product mix featuring LCD televisions and Etisalat Misr products). We maintain our earnings and top line estimates, as well as our EGP14.7/share LTFV and EGP8.3/share target price, both of which we set in our July 27th update. Raya trades on a 2010E PER of 8.1x, compared to a composite peer average of 9.6x and a 10x market average. Having taken all this into account, we reiterate our Strong Buy rating.

Strong 41% increase in revenues during 1H10: Revenues reached EGP1,262mn (+3% above CICRe of EGP1,225mn) in 1H10, driven primarily by a 49% increase in trade segment revenues occurring on the back of recovery in the handset market and the launch of a new e-commerce website. These factors drove RAYA's volume of handsets sold up 79% YoY, and the introduction of a new product mix and the launch of a strategic partnership with **Etisalat Misr** helped drive top line higher. RAYA's other business segments – IT and contact centers – showed respective growths of 6% and 11% in their 1H10 revenues.

EBITDA margin widens slightly: EBITDA increased 49% YoY, prompting a slight 25bps expansion in its margin. Gross profit margin, meanwhile, contracted on 86bps, mainly as a result of the lower margins (c.2%) associated with Etisalat Misr products. On a quarterly basis, trade segment margins improved significantly by 120bps to 11.8% (vs. CICRe of 7.9%) on increasing contribution of handset sales. SG&A/Sales also improved, by 112bps on the back of increasing revenues.

Earnings deviate 10% from CICRe on high provisions: Bottom line profits showed a 66% increase to EGP20.7mn. This was the product of a strong growth in EBITDA and a 77% decline in interest expense. The latter occurred as RAYA converted its loan obligations to US dollars (with a 3.5% interest rate) from Egyptian pounds (with a 13% interest rate). In 2Q10, RAYA booked EGP11.4mn in customs provisions to meet a penalty the **Algerian Customs Authority** imposed on **RAYA Algeria**.

Valuation and recommendation: RAYA's 1H10 performance lent further support to our positive outlook, and company management also expects 2010 to be an exceptional year. RAYA's development of its new business segments is proceeding apace: it is to inaugurate its first smart building in 1Q11 and **BariQ** – its plastic recycling company – in mid-2011. We maintain our EGP14.7/share LTFV and EGP8.3/share target price, as well as reiterate our **Strong Buy** rating.

EGP mn	2008 A	2009 A	2010 F	2011 F	2012 F
Revenues	2,176.1	1,869.7	2,451.6	2,566.7	2,780.8
Growth rate	-4.3%	-14.1%	31.1%	4.7%	8.3%
EBITDA	137.7	85.9	101.9	127.3	243.3
Growth rate	24.7%	-37.6%	18.6%	24.9%	91.2%
EBITDA margin	6.3%	4.6%	4.2%	5.0%	8.8%
Net income	54.0	41.6	41.0	52.7	95.1
Growth rate	-43.2%	-22.9%	-1.5%	28.7%	80.4%
Net margin	2.5%	2.2%	1.7%	2.1%	3.4%
PER	6.1x	7.9x	8.1x	6.3x	3.5x
P/BV	0.7x	0.7x	0.6x	0.6x	0.5x
EV/EBITDA	5.1x	6.1x	7.0x	7.2x	3.8x
Net debt/EBITDA	2.7x	2.3x	3.8x	4.6x	2.5x
Dividend yield	3.6%	4.3%	4.2%	5.6%	10.0%

Source: Company reports and CICR estimates

STRONG BUY (maintained)
LT FAIR VALUE | EGP14.7 (maintained)
TARGET PRICE | EGP8.30 (maintained)

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 will launch 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 2009, the company had 34 outlets (down from 52 in 2008) operating under the names "Raya" and "Phono."

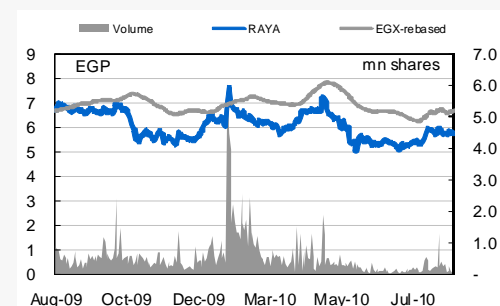
SHAREHOLDER STRUCTURE

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 19-Aug-10	EGP5.77
No. of O/S shares	56.9 mn
Market cap	EGP328 mn
52-wk high / low	EGP7.92/ EGP4.9
Avg. daily volume / turnover	0.55 mn / EGP3.51 mn

STOCK PERFORMANCE | 52 WEEKS



Source: Bloomberg

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

August 19th, 2010
Figure 1 | Summary Actual vs. Forecasted Results (1H10 vs. 1H09)

EGP000	2Q09 A	2Q10 A	2Q10 E	YoY growth	A vs. E	1H09 A	1H10 A	1H10 E	YoY growth	A vs. E
Revenues										
Retail & Distribution	334,511	481,389	463,845	44%	4%	667,188	996,451	978,907	49%	2%
IT	114,302	112,010	106,214	-2%	5%	204,400	215,699	209,904	6%	3%
Contact Center	17,259	20,599	17,072	19%	21%	34,152	37,878	34,351	11%	10%
RAYA Smart Buildings	-	16,235	8,587	NA	89%	-	27,475	19,827	NA	39%
Intercompany sales	(4,844)	(5,882)	(8,637)	NA	-32%	(13,098)	(15,123)	(17,878)	15%	-15%
Total Revenues	461,227	624,351	587,081	35%	6%	892,642	1,262,381	1,225,110	41%	3%
GPM										
Retail & Distribution	10.6%	11.8%	7.9%	120 bps	388 bps	9.8%	9.5%	7.6%	-31 bps	188 bps
IT	18.8%	18.5%	19.9%	-26 bps	-141 bps	20.3%	19.7%	20.4%	-65 bps	-74 bps
Contact Center	49.1%	46.7%	49.8%	-240 bps	-308 bps	45.6%	48.2%	49.9%	266 bps	-169 bps
RAYA Smart Buildings	1.0%	26.2%	47.2%	2514 bps	-2103 bps	0.0%	25.8%	34.8%	2581 bps	-897 bps
Total gross profits	61,808	91,275	70,458	48%	30%	122,754	162,683	141,866	33%	15%
Gross margin	13.40%	14.62%	12.00%	122 bps	262 bps	13.8%	12.9%	11.58%	-86 bps	131 bps
SG&A	(44,845)	(52,695)	(48,188)	18%	9%	(80,212)	(99,307)	(94,800)	24%	5%
SG&A/ Sales	9.72%	8.44%	8.21%	-128 bps	23 bps	8.99%	7.87%	7.74%	-112 bps	13 bps
EBITDA	16,963	38,580	22,270	127%	73%	42,543	63,376	47,066	49%	35%
EBITDA margin	3.68%	6.18%	3.79%	250 bps	239 bps	4.8%	5.0%	3.84%	25 bps	118 bps
Depreciation & Amortization	(8,238)	(8,539)	(8,568)	4%	0%	(15,863)	(16,179)	(16,207)	2%	0%
EBIT	8,726	30,041	13,702	244%	119%	26,679	47,198	30,859	77%	53%
Net interest expense	(6,750)	(1,611)	(5,019)	-76%	-68%	(18,017)	(4,184)	(7,592)	-77%	-45%
Sundry income	12,966	2,508	6,269	-81%	-60%	17,491	5,401	9,162	-69%	-41%
Sundry expenses	(2,906)	(16,321)	(1,555)	462%	949%	(8,793)	(17,477)	(2,711)	99%	545%
NPAUI	8,798	8,849	11,045	1%	-20%	12,506	20,732	22,927	66%	-10%
NPAUI Normalized	(775)	20,249	11,045	NM	83%	2,933	32,132	22,927	995%	40%

A=Actual E=Expected NM= Not Meaningful

Source: Company reports and CICR estimates

Contacts and Disclaimer:

CI CAPITAL RESEARCH

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

Amr Hussein Elalfy, CFA | Director
Amr.Elalfy@cich.com.eg

Mona Mansour | Director
Mona.Mansour@cich.com.eg



**CI CAPITAL SECURITIES BROKERAGE
(EGYPT & UAE)**

Amr Mostafa | Managing Director
Amr.Mostafa@cich.com.eg

DYNAMIC SECURITIES

Ahmed Roushdy | Managing Director
Ahmed.Roushdy@cich.com.eg

CI CAPITAL HOLDING

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

Reuters pages: COIW, COIX, COIY, and
COIZ

Bloomberg page: COIB <GO>

For more information,
please contact CI Capital Research on +2
(02) 33 38 62 59,
send e-mail to Research@cich.com.eg
or visit our website at www.cich.com.eg

RATING SYSTEM

In February 2009, 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 changing 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 target 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 as 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.)

Recommendation structure:

	Change to Target Price	
Strong BUY	> 30%	Strong Conviction
BUY	> 20% < 30%	
Hold	> 10% < 20%	
Underweight	> 0% < 10%	
SELL	< 0%	

DISCLAIMER

The information used to produce this market commentary is based on sources that CI Capital Research (CICR) believes to be reliable and accurate. This information has not been independently verified and may be condensed or incomplete. CICR does not make any guarantee, representation or warranty and accepts no responsibility or liability to the accuracy and completeness of such information. Expression of opinion contained herein is based on certain assumptions and with the use of specific financial techniques that reflect the personal opinion of the authors of the commentary and is subject to change without notice. It is acknowledged that different assumptions can always be made and that there is a wide choice of techniques that can be adopted each of which can lead to a different conclusion. Therefore, all that is stated herein is of an indicative and informative nature as forward-looking statements, projections, and fair values quoted may not be realized. Accordingly, CICR does not take any responsibility for decisions made on the basis on the content of this commentary. This commentary is made for the sole use of CICR's customers and no part or excerpt of its content may be redistributed, reproduced or conveyed in any form, written or oral, to any third party without the prior written consent of CICR. This commentary does not constitute a solicitation or an offer to buy or sell securities.