

**RAYA HOLDING**

9M08 earnings missing our expectations on lower-than-expected revenues; 12M FV cut by 17% - yet still a BUY

RAYA released its 9M08 consolidated financials ended September 30, 2008 revealing net profits after minority interest of LE 41.4 mn, **14% below our expectations of LE 48.3 mn**, vs. LE 75.2 mn a year ago. Said deviation from our expectations mainly came as a result of a 3% lower-than-expected sales figure. Excluding (1) the LE 54.4-mn capital gain recorded in 9M07 from the sale of a 45.9% stake in Raya Telecom and (2) indemnity and tax expenses, 9M08 earnings would have been 22% higher YoY vs. a *pro forma* figure of LE 34 mn in 9M07. We revised our top-line estimates lower for 2008 and throughout the forecast period in all lines of business due to the global slowdown and inflationary pressures. This led to a 17% cut in our 12-month fair value from LE 11.5/share to LE 9.5/share. Given the 108% upside potential with the stock traded at 4.5x 2008 earnings vs. a peers' average of 11.5x, we reiterate our BUY with MODERATE RISK.

**9M08 revenues delivering a minor growth of 1% YoY.** Revenues in 9M08 exhibited a growth of 1% YoY to LE 1,680 mn, coming in 3% below our expectations on 11% lower-than-expected revenues from the IT segment. YoY, revenues came in 8% lower YoY in 3Q08 due to the following:

1. Lower revenues from the Trade LoB due to: (1) lower average price of handsets sold, (2) growing competition, and (3) the slower pace of net additions of mobile subscribers. RAYA closed five of its non-profitable outlets in 3Q08, bringing down its total number of outlets to 57 in Egypt.
2. Lower revenues from the IT LoB due to the lower size of business available on hand in 3Q08 vs. 3Q07.

**Yet, a slight improvement in 9M08 gross margin.** Gross profit increased 5% to LE 237.2 mn in 9M08, implying a 48-bps improvement in gross margin to 14.1% ( vs. our expectations of 14.4%). Said improvement came as a result of improving margins in the Trade LoB as a result of reverting to direct distribution strategy. Also, the IT LoB improved by over 200 bps as the company was awarded a number of contracts with higher margins. However, EBIT retreated 9% to LE 70 mn on higher depreciation expense related to the new buildings in the Sixth of October City and Smart Village. An LE 4.5-mn provision for doubtful receivables was incurred in 3Q08 as a result of the strict provision policy of the company.

**Valuation and recommendation:** We cut our 12-month fair value/share by LE 2 or 17% from LE 11.5/share to LE 9.5/share as a result of: (1) the growing size of net debt in 9M08 vs. 1H08 (a drop of LE 0.9/share) and (2) revising our top-line estimates and Trade LoB margins downward as a result of the global slowdown and inflationary pressures, respectively (a drop of LE 1.1/share). Still, the stock offers a 108% upside potential. With peers traded at an average 2008 PER of 11.5x vs. RAYA's 4.5x, we reiterate our BUY recommendation. ■■

COMPANY NOTE

**12M FAIR VALUE | LE 9.5**  
**BUY | MODERATE RISK**

**SHARE DATA**

Reuters; Bloomberg	RAYA.CA; RAYA EY
Recent price as of 24-Nov-08	LE 4.59
No. of O/S shares	56.9 mn
Market cap	LE 261 mn
52-wk high / low	LE 16.4/ LE 3.8
Avg. daily volume / turnover	0.71 mn / LE 8.91 mn

**COMPANY SYNOPSIS**

Raya Holding (RAYA) is initially the offspring of a merger conducted in 1999 between seven companies in the IT and mobile distribution fields. Operating under Law 95/1992, RAYA's activities encompass currently three main lines of business (LoBs), namely retail & distribution, contributing to around 76% of the company's operations, IT, and Contact Center business after the sale of the Telecom LoB. Since its inception, the company underwent four development phases: 1) a merger phase, 2) a diversification phase that occurred in 2000 and 2001 whereby three companies were acquired and seven new companies were established. 3) Streamlining phase where mergers between small companies were effected and subsidiaries were renamed to consolidate the RAYA brand name in 2002. 4) Expansion phase starting 2003 and onwards, in which RAYA set its eyes on regional and international expansion. Currently, RAYA stands as one of the flagships in Egypt's CIT industry, commanding a high market share in the local mobile distribution market, and capturing a considerable part of the IT segment with a broad array of services offered. In the IT LoB, RAYA has presence in Algeria, Nigeria, Saudi Arabia, Kuwait, UAE, and lately the US. On the retail level, RAYA's outlets reached 57 in 9M08 down from 62 outlets in 2Q08. In 1H07, RAYA launched Kazza Mizza retail chain addressing C and D classes. With 5 outlets in Algeria, RAYA also shop-in-shop agreements with 25 shops of Nedjma, the third mobile operator in Algeria. Recently, Mr Medhat Khalil, chairman & managing director of Raya Holding increased his stake in the company to 14% up from 4% in June 2008.

**SHAREHOLDER STRUCTURE**

Financial Holding Int'l LTD	12.0%
Medhat Khalil & Family	14.0%
El-Tawil Family & others	5.8%
Public Sector	9.4%
Free float	58.8%

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**STOCK PERFORMANCE | 52 WEEKS**

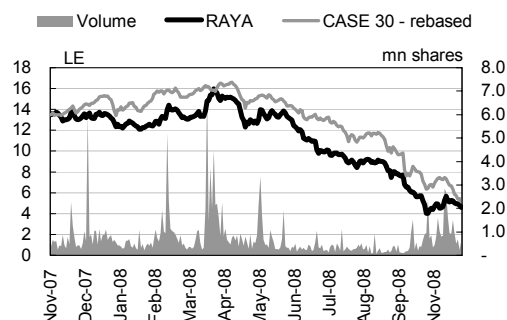


Figure 1: Summary income statement (actual vs. forecast)

LE 000	3Q07A	3Q08A	YoY growth	3Q08E	A vs. E	9M07A	9M08A	YoY growth	9M08E	A vs. E	2008 New	2008 Old	New vs. Old
<b>Revenues</b>													
Retail & Distribution	525,193	495,804	-6%	514,517	-4%	1,335,295	1,338,101	0%	1,356,814	-1%	1,833,969	1,832,998	0%
IT	96,292	77,083	-20%	112,941	-32%	286,092	305,103	7%	340,960	-11%	382,255	451,763	-15%
Contact Center	15,152	17,238	14%	20,245	-15%	49,152	53,002	8%	56,008	-5%	72,488	78,665	-8%
Intercompany sales	(1,438)	(5,144)	258%	(5,829)	-12%	(9,511)	(15,741)	65%	(16,426)	-4%	(20,951)	(21,913)	-4%
<b>Total Revenues</b>	<b>635,199</b>	<b>584,981</b>	<b>-8%</b>	<b>641,874</b>	<b>-9%</b>	<b>1,661,028</b>	<b>1,680,465</b>	<b>1%</b>	<b>1,737,358</b>	<b>-3%</b>	<b>2,267,761</b>	<b>2,341,514</b>	<b>-3%</b>
<b>GPM</b>													
Retail & Distribution	11.7%	10.6%		12.5%	-193 bps	11.6%	11.7%	13 bps	12.4%	-72 bps	11.7%	12.5%	-80 bps
IT	12.3%	24.9%		16.1%	888 bps	17.5%	19.3%	172 bps	16.9%	234 bps	19.4%	16.7%	273 bps
Contact Center	45.6%	36.5%		40.7%	-414 bps	43.6%	40.6%	-300 bps	41.9%	-128 bps	40.5%	41.5%	-100 bps
<b>Total gross profits</b>	<b>80,377</b>	<b>77,939</b>	<b>-3%</b>	<b>90,719</b>	<b>-14%</b>	<b>226,411</b>	<b>237,200</b>	<b>5%</b>	<b>249,980</b>	<b>-5%</b>	<b>317,645</b>	<b>336,598</b>	<b>-6%</b>
<b>Gross margin</b>	<b>12.65%</b>	<b>13.32%</b>		<b>14.13%</b>	<b>-81 bps</b>	<b>13.63%</b>	<b>14.12%</b>	<b>48 bps</b>	<b>14.39%</b>	<b>-27 bps</b>	<b>14.01%</b>	<b>14.38%</b>	<b>-37 bps</b>
SG&A	(48,734)	(50,803)	4%	(52,120)	-3%	(138,073)	(147,721)		(149,038)	-1%	(198,725)	(201,297)	-1%
<b>EBITDA</b>	<b>31,643</b>	<b>27,136</b>	<b>-14%</b>	<b>38,599</b>	<b>-30%</b>	<b>88,338</b>	<b>89,480</b>	<b>1%</b>	<b>100,943</b>	<b>-11%</b>	<b>118,920</b>	<b>135,301</b>	<b>-12%</b>
<b>EBITDA margin</b>	<b>4.98%</b>	<b>4.64%</b>		<b>6.01%</b>	<b>-137 bps</b>	<b>5.32%</b>	<b>5.32%</b>	<b>1 bps</b>	<b>5.81%</b>	<b>-49 bps</b>	<b>5.24%</b>	<b>5.78%</b>	<b>-53 bps</b>
Depreciation & Amortization	(7,251)	(8,263)		(5,776)	43%	(11,091)	(19,209)	73%	(16,722)	15%	(27,066)	(22,497)	20%
<b>EBIT</b>	<b>24,392</b>	<b>18,873</b>	<b>-23%</b>	<b>32,823</b>	<b>-43%</b>	<b>77,247</b>	<b>70,271</b>	<b>-9%</b>	<b>84,221</b>	<b>-17%</b>	<b>91,853</b>	<b>112,803</b>	<b>-19%</b>
Net interest expense	(5,035)	(6,866)	36%	(8,820)	-22%	(16,136)	(23,131)	43%	(25,086)	-8%	(30,176)	(33,906)	-11%
Sundry income	1,852	5,524	198%	2,372	133%	61,298	15,658	-74%	12,506	25%	18,944	14,878	27%
Sundry expenses	(9,774)	(3,349)	-66%	(1,890)	77%	(32,856)	(7,128)	-78%	(5,670)	26%	(4,597)	(7,560)	-39%
<b>Net Profits Before Taxes</b>	<b>11,434</b>	<b>14,183</b>	<b>24%</b>	<b>24,485</b>	<b>-42%</b>	<b>89,553</b>	<b>55,670</b>	<b>-38%</b>	<b>65,972</b>	<b>-16%</b>	<b>76,024</b>	<b>86,217</b>	<b>-12%</b>
Prov. Income Taxes	(4,790)	(4,156)	-13%	(6,086)	-32%	(18,106)	(14,592)	-19%	(16,522)	-12%	(19,006)	(21,554)	-12%
<b>Net Profits after Taxes</b>	<b>6,645</b>	<b>10,027</b>	<b>51%</b>	<b>18,399</b>	<b>-46%</b>	<b>71,447</b>	<b>41,078</b>	<b>-43%</b>	<b>49,450</b>	<b>-17%</b>	<b>57,018</b>	<b>64,662</b>	<b>-12%</b>
Unusual items													
Minority interest	2,132	996	-53%	(481)	-307%	3,707	355	-90%	(1,123)	-132%	473	(1,604)	-130%
<b>NPAUI</b>	<b>8,777</b>	<b>11,024</b>	<b>26%</b>	<b>17,918</b>	<b>-38%</b>	<b>75,155</b>	<b>41,433</b>	<b>-45%</b>	<b>48,327</b>	<b>-14%</b>	<b>57,491</b>	<b>63,058</b>	<b>-9%</b>
Net Margin after MI	1.4%	1.9%		2.8%	-91 bps	4.5%	2.5%	-46%	2.8%	-32 bps	2.5%	2.7%	-16 bps
<b>EPS</b>	<b>0.15</b>	<b>0.19</b>		<b>0.31</b>	<b>-38%</b>	<b>1.32</b>	<b>0.73</b>	<b>-45%</b>	<b>0.85</b>	<b>-14%</b>	<b>1.01</b>	<b>1.11</b>	<b>-9%</b>
No of outstanding shares (000)	56,985	56,985		56,985		56,985	56,985		56,985		56,985	56,985	

A=Actual E=Estimates

Source: Company reports and CICR estimates

Balance Sheet (LE Millions)	2007A	2008F	2009F	2010F
<b>Assets</b>				
Cash & Cash Equivalent	124	66	70	73
Net Receivables	279	279	290	298
Total Inventory	294	293	311	321
Advance Payment to Suppliers	10	10	11	11
Other Trading Assets	0	0	0	0
Other Current Assets	0	0	0	0
<b>Total Current Assets</b>	<b>708</b>	<b>648</b>	<b>682</b>	<b>703</b>
<b>Net Plant</b>	<b>232</b>	<b>269</b>	<b>268</b>	<b>262</b>
Long-Term Investments	28	31	31	31
Other Trading Non-Current Assets	63	73	73	73
Other Non-current Assets	76	57	60	63
Intangibles	67	86	86	86
<b>Total Assets</b>	<b>1,175</b>	<b>1,163</b>	<b>1,200</b>	<b>1,218</b>

Liabilities & Shareholders' Equity	2007A	2008F	2009F	2010F
<b>Short-Term Debt</b>	<b>246</b>	<b>182</b>	<b>169</b>	<b>134</b>
Current Portion of Long-Term Debt	21	20	19	19
Accounts Payable	171	171	181	190
Accrued Expenses	48	48	51	53
Down Payments to customers	28	31	33	35
Taxes Payable	18	18	18	18
Dividends Payable	8	19	22	25
Other Spontaneous Finance	0	0	0	0
Other Current Liabilities	94	91	96	101
<b>Total Current Liabilities</b>	<b>634</b>	<b>579</b>	<b>590</b>	<b>576</b>
Total Long-Term Debt	69	59	40	21
Other Non-Current Liabilities	1	2	2	2
Long-Term Spontaneous Finance	0.0	0	0	0
<b>Total Liabilities</b>	<b>704</b>	<b>640</b>	<b>632</b>	<b>598</b>
Deferred Taxes	31.5	49	49	49
Other Provisions	0	0	0	0
Minority Interest	6	6	7	8
<b>Shareholders Equity</b>	<b>433</b>	<b>469</b>	<b>513</b>	<b>562</b>
<b>Total Liab. &amp; Shareholders' Equity</b>	<b>1,175</b>	<b>1,163</b>	<b>1,200</b>	<b>1,218</b>

Income Statement (LE Millions)	2007A	2008F	2009F	2010F
<b>Revenues</b>	<b>2,273</b>	<b>2,268</b>	<b>2,409</b>	<b>2,528</b>
Trade LoB	1,951	1,834	1,909	1,962
IT LoB	283	382	435	490
Call Center LoB	67	72	86	98
intercompany sales	(119)	(21)	(21)	(22)
<b>Cost of Revenues</b>	<b>(1,972)</b>	<b>(1,950)</b>	<b>(2,066)</b>	<b>(2,169)</b>
<b>Gross Profits</b>	<b>301</b>	<b>318</b>	<b>342</b>	<b>359</b>
SG&A	(190)	(199)	(208)	(219)
<b>EBITDA</b>	<b>110</b>	<b>119</b>	<b>134</b>	<b>140</b>
Depreciation & Amortization	(16)	(27)	(32)	(35)
<b>EBIT</b>	<b>94</b>	<b>92</b>	<b>102</b>	<b>105</b>
Interest Expense	(24)	(34)	(30)	(23)
Provisions	(13)	(5)	(5)	(5)
Interest Income	3	4	4	4
Investment Income	9	8	8	9
Other Non-Operating Income	47	11	11	11
Other Non-Operating Expenses	0	0	0	0
<b>EBT</b>	<b>115</b>	<b>76</b>	<b>90</b>	<b>101</b>
Taxes	(21)	(19)	(23)	(25)
<b>NPAT</b>	<b>94</b>	<b>57</b>	<b>68</b>	<b>76</b>
Minority Interest	1	0	(1)	(2)
Extraordinary Items	-	-	-	-
<b>Attributable Profits</b>	<b>95</b>	<b>57</b>	<b>66</b>	<b>74</b>

Cash Flow (LE mn)	2007A	2008F	2009F	2010F
<b>NOPAT</b>	<b>82.1</b>	<b>59.4</b>	<b>79.3</b>	<b>79.7</b>
Depreciation & Amortization	16	27	32	35
<b>Gross Cash Flow (COPAT)</b>	<b>98</b>	<b>86</b>	<b>112</b>	<b>115</b>
Working Investments Change	23	4	(15)	(4)
Other Current Items	(48)	1	6	5
<b>Cash After Current Operations</b>	<b>73</b>	<b>92</b>	<b>102</b>	<b>116</b>
Financing Payments	(33)	(55)	(50)	(42)
<b>Cash Before Long Term Use</b>	<b>40</b>	<b>37</b>	<b>52</b>	<b>73</b>
Net Plant Change	(94)	(63)	(32)	(29)
<b>FCFF</b>	<b>(21)</b>	<b>28</b>	<b>70</b>	<b>86</b>
Others	94	17	15	17
<b>Cash Before Financing</b>	<b>41</b>	<b>(9)</b>	<b>36</b>	<b>61</b>
Short-Term Debt	15	(64)	(13)	(35)
Long-Term Debt	32	10	0	0
Networth	(47)	(2)	(1)	(2)
Grey Area	27	16	1	1
Dividends	(62)	(8)	(19)	(22)
Change in Cash	6	(58)	4	3

Fact Sheet	2007A	2008F	2009F	2010F
ROE	21.9%	12.3%	12.9%	13.2%
ROS	4.2%	2.5%	2.8%	2.9%
ROA	8.1%	4.9%	5.5%	6.1%
ROIC	11.1%	8.5%	11.2%	11.3%
<b>Gross Margin</b>	<b>13.2%</b>	<b>14.0%</b>	<b>14.2%</b>	<b>14.2%</b>
Trade LoB	10.7%	11.7%	11.8%	11.8%
IT LoB	17.3%	19.4%	18.9%	18.0%
Call Center LoB	41.5%	40.5%	40.6%	40.1%
<b>EBITDA Margin</b>	<b>4.9%</b>	<b>5.2%</b>	<b>5.6%</b>	<b>5.6%</b>
ATO	1.9	1.9	2.0	2.1
W/ Sales	0.2	0.2	0.2	0.2
ALEV	2.7	2.5	2.3	2.2
Liabilities/Networth	1.6	1.4	1.2	1.1
Current Ratio	1.1	1.1	1.2	1.2

Per-Share Ratios	2007A	2008F	2009F	2010F
Share Price	4.6	4.6	4.6	4.6
No. Of Shares (mn)	57.0	57.0	57.0	57.0
EPS	1.7	1.0	1.2	1.3
DPS	1.2	0.3	0.4	0.4
Revenues/Share	39.9	39.8	42.3	44.4
BV/Share	7.6	8.2	9.0	9.9
Gross Cash Flow/Share	1.7	1.5	2.0	2.0
FCFF/Share	(0.4)	0.5	1.2	1.5
EBITDA/Share	1.9	2.1	2.4	2.5
EV/Share	8.3	8.0	7.4	6.4

Multiples	2007A	2008F	2009F	2010F
P/E	2.8x	4.5x	3.9x	3.5x
Dividend Yield	27%	7%	8%	9%
P/ Revenue	0.1x	0.1x	0.1x	0.1x
EV/ Revenues	0.2x	0.2x	0.2x	0.1x
P/ COPAT	2.7x	3.0x	2.3x	2.3x
EV/ COPAT	4.8x	5.3x	3.8x	3.2x
P/ FCFF	-12.6x	9.2x	3.7x	3.0x
EV/ FCFF	-22.8x	16.0x	6.0x	4.2x
P/ EBITDA	2.4x	2.2x	2.0x	1.9x
EV/ EBITDA	4.3x	3.8x	3.1x	2.6x
P/ BV	0.6x	0.6x	0.5x	0.5x

Source: Raya Holding and CICR estimates

Note: A = Actual; F = Forecasted

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