Middle East Specialized Cables:
Along the right lines

جدوى للإستثمار
Jadwa Investment

29 June 2009

Equity Research

HOLD
Target price*: SR41.3
Current price: SR38.4
Fair value: SR37.9
*12-month target

12-month target price SR41.3

Current price SR38.4

>SR47.4	SR47.4-44.4	SR44.4-38.3	SR38.3-35.3	<35.3
Sell	Consider selling	**Hold**	Consider buying	Buy

Share details

Market cap (SR million)	1536
Shares outstanding (million)	40.0
Free float (million)	19.18
Earnings per share (SR)	1.629
Dividends per share (SR)	1.20
Book value per share (SR)	12.07
52-week high (SR)	108.2
52-week low (SR)	24.6

Share price

Key ratios

Price-earnings ratio (P/E)	23.58
Price-book ratio (P/B)	3.18
Return on equity (%)*	18.79
Return on total assets (%)*	6.18
Gross margin (%)*	21.71
Operating margin (%)*	5.97
Quick ratio	0.45
Market risk (beta)	1.10
Company risk (standard deviation)	0.45
Earnings yield (%)	4.24
Dividend yield (%)	3.12

* 12 months ending March 2009

Investment summary

Middle East Specialized Cables (MESC) is primarily a producer of custom made cables targeting the industrial sector. In recent years the company has diversified into the production of low and medium voltage cables to benefit from the construction boom and open up new export markets. It has made several acquisitions in the region and increased production capacity at its Riyadh facilities. At its current share price we believe that MESC is fairly valued.

Investment positives:

- Strong market share and only producer of specialized cables in the Kingdom.
- Diversified product mix.
- Geographical expansion and inorganic growth through acquisitions give the company greater access to regional and global markets.
- Access to latest technology and expertise through joint ventures with global cables manufacturers.
- Long-term contracts with key customers.

Investment negatives:

- Working capital was negative at end-2008 and in the first quarter of 2009 indicating that the company may be having difficulty in meeting its short-term obligations.
- Aggressive acquisitions and expansions just prior to a significant slowdown in demand.
- Tougher local competition stemming from three new players and greater production capacity at existing producers.
- Excessive short-term borrowing to fund copper and aluminum purchases and working capital needs.
- Shrinking margins, particularly for low and medium voltage cables.
- Highly vulnerable to volatility in copper and aluminum prices.
- The company's main local copper supplier is a competitor.
- Large inventory write downs due to the plunge in commodity prices.

Industry analysis

Saudi Arabia has the one of the largest cable industries in the Middle East. Strong domestic and regional demand has heightened competition in recent years, raised product standards to a world-class level and opened up more export opportunities. Local producers benefit from their location in a fast growing market in addition to low energy, labor and petrochemical costs (petrochemicals are used to manufacture cable insulation and sheathing).

Raw materials

Source: Bloomberg

Copper is the key raw material used in cable production owing to its excellent conductivity properties. It accounts for about 65 percent of the production cost of a cable. Saudi cable producers import all their copper and their aluminum, the other main raw material for cables. Asia was the largest source of copper and aluminum imports in 2007, at over 40 percent, followed by the Middle East North Africa region (mainly Bahrain) accounting for 34 percent. Cable companies generally purchase copper and aluminum on spot markets or on up to three-month forward contracts. Prices of these commodities are the main determinants of cable prices.

International prices for both commodities have been very volatile in recent years. The copper price surged from around $1,600 per ton at the end of 2002 to $8,600 per ton in May 2006 as a result of rapid growth in demand outpacing supply. It remained at elevated levels over the next few years peaking at $8,900 per ton in July 2008, before collapsing in the final quarter of last year to below $3,000 per ton as the global economy plunged into recession. Aluminum prices followed a similar trend, plunging from just over $3,300 per ton in July to below $1,500 per ton at the end of the year. Prices of both have picked up in 2009, but are only around a half of their recent highs.

Source: Bloomberg

The reliance on imported raw materials with volatile prices means that inventory management is very important for cables companies. It is very difficult to quickly locate alternative sources of supply in the event of a disruption, meaning that it is essential for manufacturers to maintain good relationships with their suppliers. Too large a stock of raw materials exposes companies to fluctuations in prices. Several local manufacturers that had stepped up production in anticipation of a continuation of the construction boom in the GCC have found themselves with large unsold inventory that they have had to write-down on their balance sheets owing to the slowdown in project implementation in the region and the rapid fall in copper and aluminum prices.

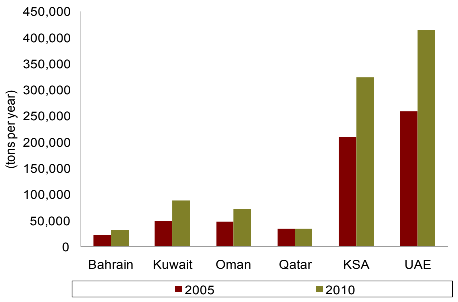
Manufacturing processes

Cables come in various sizes, materials and quality depending on their specifications and usage. The voltage usage determines the insulation needed, the carrying capacity determines the cross sectional size and the environmental conditions the cable will be used in determine the type of outer jacket. While manufacturing processes vary, there are some common features.

The process generally starts with copper rod being crushed into powder. The powder is then smelted and passed through an electrolytic refining process where the final product turns into copper cathode. The copper cathodes are drawn and then annealed (a heat treatment) to get to the correct shape. Immediately after the annealing, polyethylene or polyvinyl chloride (PVC) insulation is added. Finally, the cables are covered with plastic sheathing.

Market size

Production capacity by country



Source: GRMC (MESC Prospectus)

Saudi Arabia has one of the largest cable industries in the Middle East. The Kingdom ranked second in the region in terms of sales revenues by listed companies, at $1.1 billion in 2008, behind Egypt, where sales were $2 billion. However, some of the largest players in the industry are not listed. Taking their sales into account, we estimate that industry revenues are $3.3 billion. Total revenues for listed cable companies in the Middle East grew almost three-fold between 2004 and 2008 to $5.1 billion, reflecting higher prices, capacity upgrading, greater demand, diversification of product lines and mergers with and acquisitions of foreign producers.

Revenues of listed cable manufacturers in the region

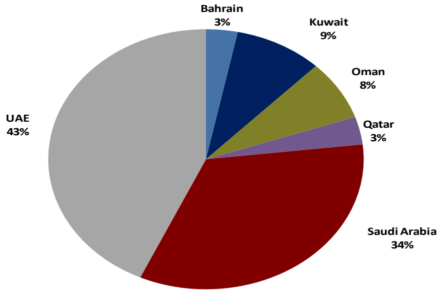
	2004	2005	2006	2007	2008
Middle East($ millions)	1,738	1,953	2,734	4,306	5,081
Saudi Arabia($ millions)	292	340	576	1,079	1,109
Egypt ($ millions)	472	623	782	1,554	1,982
Oman ($ millions)	101	166	336	578	813
Growth for Middle East	87%	12%	40%	57%	18%
Growth for Saudi	71%	16%	69%	87%	3%
Growth for Egypt	211%	32%	25%	99%	28%
Growth for Oman	57%	64%	103%	72%	40%

Source: Reuters

Drivers of the cable industry in Saudi Arabia

The cable industry in Saudi Arabia is competitive, mature, expenditure driven and caters for almost all sectors of the economy. It has gone through a phase of rapid growth that has encouraged new players to enter the sector. The key growth drivers of the Saudi cables industry are:

Production capacity by country (2009)

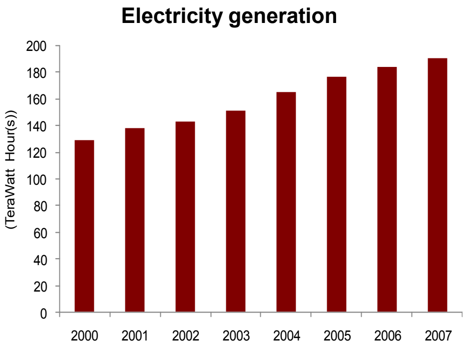


Source: Jadwa estimates, Zawya.

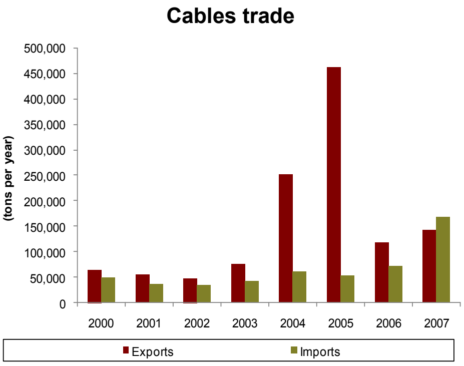
Booming infrastructure and utilities spending: Huge investment projects are planned and underway in the Kingdom. While the global financial crisis has impacted on private sector projects, the government is pushing ahead with plans worth around $400 billion over the next five years. Much of the spending is focused on infrastructure, housing and power, all of which are big users of cables.

Telecoms liberalization: Three new fixed line telecom operators are in the process of setting up services and provision of broadband is rapidly growing, supporting strong demand for communication cables.

Demand for electricity: Electricity demand is growing rapidly owing to greater industrialization and rising population growth. The Saudi Electrical Company has approved projects worth SR 26 billion to meet rising electricity demand in Kingdom.



Source: SEC, BMI



Source: Ministry of Economy and Planning

Government subsidies: The government provides cable manufacturers with subsidized rates of fuel and electricity and cheap land. In addition, the Saudi Industrial Development Fund (SIDF), a government agency, has played an important role in financing the expansion of the cables industry by the provision of loans on concessional terms.

Export opportunities: Proximity to the healthy growth in demand in the rest of the GCC and South Asia gives Saudi companies the ability to respond to the needs of regional consumers quicker than European producers can.

Types of cables produced in the Kingdom

Energy cables: Used in the supply of electricity. Energy cables come in various forms. Medium and low voltages energy cables are primarily used in distribution networks that carry electricity from high voltage substations to cities and remote areas. Energy cables also come in the form of overhead power lines which are electric power transmission lines used on towers and poles.

Instrumentation cables: Utilized in several industries to measure pressure, flow, vibration levels and other physical/electrical variables. Most are made to withstand harsh treatment such as surface abrasion and contact with flames.

Power and control cables: Mainly used in control and protection circuits of power supply circuits and usually bought by utility companies. Power cables can be used in applications in power supply systems, oil and gas drilling rigs, shipyards and diesel-electric locomotives.

Industrial cables: Utilized in various applications such as power generation, industrial robotics, sea port cranes, gas production and petrochemicals. They are suitable for high voltage applications and can be used in high temperature areas.

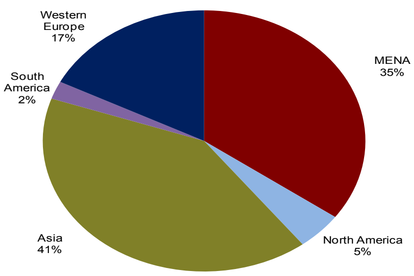
Communications cables: Used to transmit information signals between various points. Communication cables come in several forms including data communication, fiber optic and telecommunication cables. Data communication cables are used for broadband applications. Fiber optic cables are used for voice, video and local networks.

Imports and exports

Import and exports of cables to and from the Kingdom have jumped in recent years in both value and volume terms owing to higher prices and stronger demand. The majority of exports have been of low and medium voltage cables to support construction projects in the region. There has also been a noticeable increase in exports of communication and industrial cables to neighboring countries. Currently, Saudi Arabia does not have sufficient capacity to meet local demand for instrumentation cables.

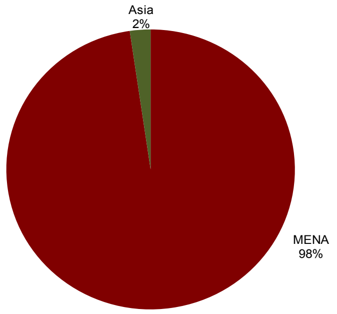
Cable exports totaled 143,469 tons in 2007 (latest data), up from 76,613 tons in 2003. Over the same period, revenues from cables exports leapt to SR3.1 billion from SR490 million. This boom followed a slower period for the industry and allowed companies to clear their inventories. Strong demand from the rest of the GCC and

Imports (2007)



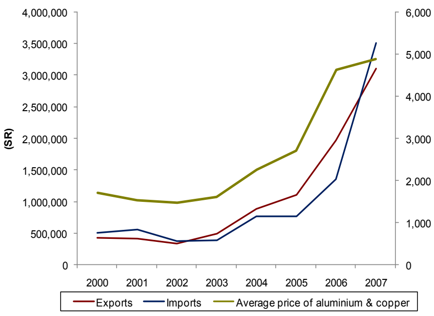
Source: Ministry of Economy and Panning

Exports (2007)



Source: Ministry of Economy and Panning

Export, imports and Prices



Source: Ministry of Economy and Planning

South Asia has encouraged manufacturers to upgrade their production lines and new entrants to the industry. Saudi Arabia imported 169,009 tons of cables in 2007 up from 42,270 tons in 2003, in value terms the rise was to SR3.5 billion in 2007 from SR395 million in 2003.

Exports and imports should fall this year in both value and volume terms owing to much lower raw material prices and the slowing regional economy (demand from Dubai is expected to fall sharply). Exports of low and medium voltage cables will be particularly affected and Saudi exporters are now refocusing from the GCC to faster growing South Asian markets. However, the power sector in the region should remain a healthy source of demand. The projections in the table below show that Saudi Arabia will continue to be a net importer of cables through to 2010 (note that these projects were made before the global recession and demand is likely to undershot the projection for each country).

Projected supply and demand in the GCC in 2010

Country	Projected demand	Percent share	Projected production	Percent share	Supply deficit
Bahrain	31,165	3.25%	21,000	4.02%	10,156
Kuwait	86,879	9.05%	75,000	14.36%	11,879
Oman	71,472	7.45%	40,800	7.81%	30,672
Qatar	32,948	3.43%	1,200	0.23%	31,748
Saudi Arabia	323,156	33.68%	238,625	45.70%	84,531
UAE	413,940	43.14%	145,570	27.88%	268,370
Total	**959,560**		**522,195**		**437,265**

Source: GRMC (MESC Prospectus)

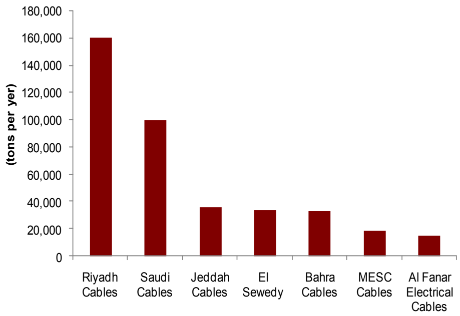
Competition and major players

Competition has intensified in the cables industry as more manufactures try to take advantage of growing demand. There are no barriers to entry into the industry other than capital requirements and a lack of sufficiently skilled labor. Not that all cables manufactures provide each type of cables. Low and medium voltage cables for commercial and residential use are the most heavily produced and are the source of most competition and growth opportunities in the sector. Most companies do not have the facilities to cater for the oil and gas industry (we estimate that MESC has 70 percent of this market). Cables manufacturing is not governed or regulated by an independent body in the Kingdom. Manufacturers depend on agencies such as the International Standardization Organization to get their products rated and approved.

Currently there are five major cables manufacturers in Saudi Arabia. We estimate that Riyadh Cables has the highest market share, controlling about 48 percent of the market, followed by Saudi Cables with around 27 percent. The existing companies are:

Riyadh Cables: Established in 1984 by the Al Zaim family, Riyadh Cables is the largest cables company in the Kingdom in terms of production capacity and revenues and is one of the most technologically advanced in the region. It makes most types of cables.

Designed capacities of cable manufacturers



Source: Jadwa estimates 2009 capacity

Saudi Cables: Headquartered in Jeddah, Saudi Cables was the first cables company established in the Kingdom, in 1975. It exports to 60 countries and has ten manufacturing units in Bahrain, Saudi Arabia and Turkey. The company provides turnkey solutions for the energy and telecom sectors and also manufactures low and medium voltage cables. It was one of the first to produce optical fiber telecommunications systems in the MENA region and has undertaken major projects throughout the region.

Al-Fanar Electrical Systems: Established in 1989 to produce various electrical products and accessories, Al Fanar is well known for electrical wiring, medium voltage products, circuit breakers and ring main units. Its factory is located in Riyadh.

Middle East Specialized Cables (MESC): MESC was established in 1993 to provide specialized cables primarily to the oil and gas industry and is an approved provider to Sabic, Saudi Aramco and the Saudi Electric Company. Other types of products include low and medium voltage cables which the company produces through joint ventures and subsidiaries in Jordan, the UAE and Saudi Arabia.

Jeddah Cables: Founded by El-Sewedy Group International in 1998, the Jeddah based manufacturer provides medium and high voltage cables along with aluminum overhead lines. It currently has five manufacturing units and exports to 15 countries.

In addition, two companies have announced that they will open factories in the Kingdom this year. These are:

El-Sewedy Group: One of the largest manufactures in the region, Egypt-based El-Sewedy is currently building a $150 million plant in Yanbu with a production capacity of 34,000 tons per year of electrical cables and overhead transmission lines. The factory is expected to be operational by mid 2009.

Bahra Cables Company: CPC (a member of the Saudi Binladin Group of companies) established Bahra Cables in 2008 in Bahra Industrial City, 25km from Jeddah. The company will manufacture low, medium and high voltage cables and later plans to produce several types of copper products targeting the electrical manufacturing sector such as copper tapes and bus bars. It is primarily export oriented.

Manufacturer	Year established	Location	Public/ Private	Estimated Capacity[1]
Riyadh Cables	1984	Riyadh	Private	160,000
Saudi Cables	1998	Jeddah	Public	100,000
Jeddah Cables	1975	Jeddah	Private	36,000
El Sewedy Group	2009	Yanbu	Private	34,000
Bahra Cables	2009	Jeddah	Private	33,000
MESC	1993	Riyadh	Public	19,000
Al Fanar Electrical Cables	1989	Riyadh	Private	15,000
			2009 Total	**397,000**

[1]tonnes per annum.

The company

Middle East Specialized Cables (MESC) is a producer of industrial, instrumentation process control and other cables. It was established in 1993 in Riyadh, Saudi Arabia and has affiliates in Jordan and the UAE. The company converted from a limited liability to a joint stock company in mid 2007 through an initial public offering on the Saudi stock market and the share capital was raised to SR320 million from SR24 million. In the process, the founding shareholders sold 30 percent of their capital at SR46 per share. In July 2008, the company boosted its capital again, to SR400 million, through the issuance of dividend stocks at a 1:4 ratio. MESC has 40 million issued shares of which 19.1 million are floating. Four shareholders hold 51.3 percent of the capital.

MESC specializes in custom made cables targeting mostly the industrial sector. It has vendor approval from most of the largest industrial clients such as Saudi Aramco, SEC and Sabic. In recent years the company has diversified into the production of low and medium voltage cables to benefit from the construction boom and open up new export markets. It has made several acquisitions in the region and increased production capacity at its Riyadh facilities.

Products and demand

MESC's capacity has increased over the years driven by high demand from the industrial sector. Major clients such as Aramco require MESC to produce customized cables yearly for maintenance and repair purposes. Sabic has a long term agreement with the company for specialized cables for manufacturing needs. A detailed breakdown of production data is not available.

The foreign subsidiaries deal in low and medium voltage products and have made sales to major real estate projects around the region. Last year exports, mainly to clients in the GCC, accounted for 14 percent of sales.

Production facilities

The bulk of specialized cables are produced at the company's facilities in Riyadh. These have gone through seven expansions which have added more production facilities and larger warehouses over the years. The company recently completed phase one of an eighth expansion and is working on the second part, which is expected to finish in the second quarter of 2009. The eighth expansion has been the biggest and most capital intensive due to the installation of around 18 state-of-the-art machines. Once complete, MESC will be able to introduce more diversified products and will increase capacity of specialized cables by 30 percent. Given the weak demand environment, it is not clear when full production will begin. Low and medium voltage energy cables are made by MESC's foreign entities.

The company and its subsidiaries import all of their machinery and equipment from world class suppliers and regularly upgrade their technology. Rigorous tests are performed throughout the production process to ensure the consistency of the final products and verify their compliance to client and international standards.

Competitive position

MESC is the leading supplier of specialized cables in the Kingdom. Demand for specialized cables is driven by the industrial sector and some major clients have delayed investment plans owing to the current economic uncertainty, which is likely to dampen demand for these products. MESC faces tough competition in the low and medium voltage market, in which it has a relatively small share, as larger producers are becoming increasingly aggressive in order to lower inventories that have built up recently. MESC may be forced to make larger discounts on their products than to larger players due to the company's current relative small size in the low and medium voltage lines.

Raw materials

MESC maintains good relationships with its suppliers of copper. Around 60 percent of its copper comes from Jeddah Cables. Having a local supplier helps prevent any interruptions in case of a delay in shipping. However Jeddah Cables is a competitors and major copper consumer itself, so the arrangement does not eliminate supply risk. The bulk of its international supplies come from a Russian company.

Management

Management had focused on expanding operations and establishing affiliates to benefit from the construction boom, but this strategy has been derailed by the global recession. Inventories are mounting and while customized cables are paid for in advance, competition in the low and medium voltage business is becoming tougher. The main challenge for management is adopting the necessary aggressive strategy in this part of the business.

Given that most top management officers are engineers with long experience in cables manufacturing, we think they will be up to this challenge. CEO, Hashim Huneide, is a veteran of the cables industry who played a crucial role in the founding of MESC and was also involved in establishing the National Cable and Wires Manufacturing Company in Amman, Jordan. The CFO, Ayman Yousuf, has 15 years of experience in the cables industry and was previously with Ernst & Young. The company currently has 610 employees, 23 percent of which are Saudi nationals (below the official 30 percent requirement). The company has its own in-house training center.

Affiliates

Jordan New Cables (JNC): Established in 1992, JNC produces low voltage power cables and wires. Its products are mainly sold to wholesalers in Saudi Arabia, though the company exports across the Middle East. It has a 38,300 square meter factory, 60 km from Amman, with a production capacity of 25,000 tons per year. MESC brought a 48.15 percent stake in JNC, which is listed on the Amman stock exchange, in 2003. In 2008, the company raised its capital through a private stock offering to JD40 million (SR212 million) from JD27 million (SR143 million). The acquisition of JNC was driven by MESC's desire to establish a position in the low voltage cables industry.

Sharjah Cables: Established in 1984, Sharjah Cables manufactures cables and switch gears. It has an annual production capacity of 2,400 tons of cables following a major expansion that was completed in February 2009. It produces a variety of cables, including low voltage, coaxial, satellite cables, control and instrumentation cables, in addition to PVC compounds. MESC acquired Sharjah Cables in 2008 to solidify its presence in the low and medium voltage electric cables and switch gear sectors and gain a foothold in new markets; Sharjah Cables has established clients in North Africa and South Asia.

MESC Fujikura Cable Company: A joint venture between MESC and Japanese conglomerate Fujikura, specializing in low and medium voltage power cables and aluminum conductors. MESC directly owns 46 percent of the company and holds a further 19 percent through JNC; Fujikura owns 35 percent. Its factory in Jordan, which is due to start production later this year, has a designed capacity of 20,000 tons of cables per year. Under the partnership, Fujikura (a leading international cables producer) provides technical assistance in the manufacture of medium voltage cables in return for a license fee and MESC's operational experience in the Middle East. MESC Fujikura Cable Company manufactures products with the same quality as Fujikura, but benefits from the cheaper labor and energy in the region.

MESC-Ras Al Khaimah: Established in 2008 with a capital of AED170 million (SR174 million). The company's 52,300 square meter plant, located in Ras Al Khaimah, has yet to start operations. It has a capacity of 12,000 tons per year and the products will include distribution cables, power supply cables, cables trays, cross arms and accessories.

Juba Investment and Development Company: In December 2008, MESC bought a 20 percent equity stake in Juba Investment and Development Company for SR 21.2 million. The company plans is to develop a commercial complex in Amman.

Marketing and brand recognition

MESC strives to promote its brand and advertise its name. The company regularly participates in industry conferences and spends generously on high quality brochures and newsletters to market their products and services. The advertising budget grew by 13 percent last year and accounts for 3 percent of total sales revenue. MESC has several sales offices in MENA region and stays active in exploring opportunities by maintaining relationships with the appropriate divisions at the oil, gas and petrochemical companies. Subsidiaries partner with the Riyadh office to locate wholesalers and distributors in Saudi Arabia for their medium and low voltage cables.

The marketing department is central to the operations of MESC since the manufacturing of instrumentation cables require close coordination with clients. Engineer Fathi Hassan, a former officer at Saudi Cables, heads the marketing team. The company's sales team consists of diverse professionals such as engineers, marketing officers who work very closely with clients locally and regionally.

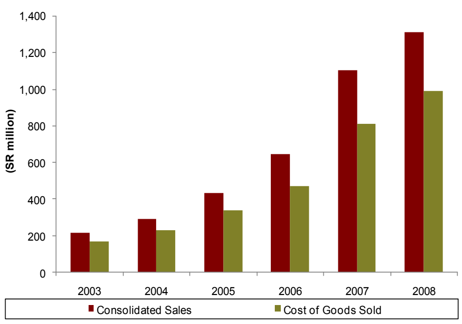
Disclosure and transparency

MESC has good standards of disclosure and transparency compared to most local listed companies and has a dedicated investor relations officer. Financial statements and the company website contain helpful information, though investors would benefit from the provision of production and sales data and more historic financial information. We found company management to be obliging and transparent in our discussions during the preparation of this report.

Financial analysis

Revenues have surged over the last five years, with annual growth averaging 44 percent. This is the result of a combination of factors including an increase in output from existing production facilities and the introduction of new products, but it is primarily down to the surge in commodity prices. Prices of copper and aluminum, which are the main determinants of both production costs and sales revenue for MESC, rose exceptionally strongly over the past five years. In 2008, MESC's consolidated sales revenues totaled SR1.3 billion, up 19 percent from 2007, a year in which the company posted its highest sales growth on record, of 70 percent.

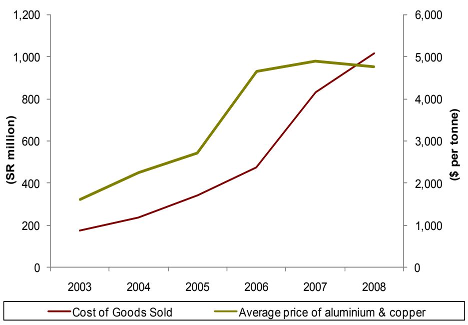
Operating revenues and costs



Revenues from the company's Saudi operations (specialized cables) climbed by 14 percent last year and contributed 52 percent of consolidated revenue. Revenues from the operation in Jordan (low and medium voltage cables) accounted for 46 percent of the consolidated revenue, up 17 percent from the previous year. Sharjah Cables, which was acquired last year, contributed the remaining 2 percent.

Cost of goods sold (COGS) has been growing at a higher pace than revenues in recent years, reflecting the generally lower margins on low and medium voltage cables produced by the company's affiliates, compared to those on specialized cables. Last year, they grew by 22 percent, following a rise of 77 percent in 2007.

Commodity prices and operational costs



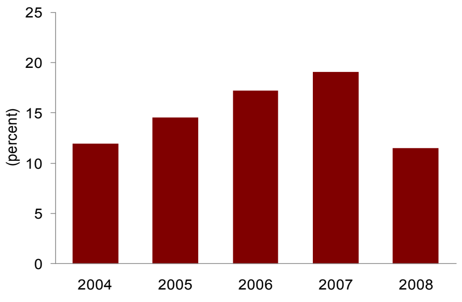
Source: MESC & Bloomberg

Depreciation is incorporated in COGS as customarily practiced under local accounting rules. At current depreciation rates, the remaining useful life of MESC's machinery and equipment is around 9 years.

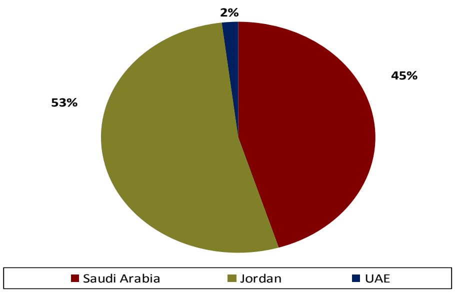
The rising COGS pushed gross margin down to 22 percent last year from 25 percent in 2007 and 27.4 percent in 2006. Operating margin, which reflects selling, general and administrative expenses, declined to 20 percent last year from 23 percent in 2007.

The net profit margin fell to 6.8 percent last year, from 14 percent in 2007, the steepest decline since 2003. This was largely caused by a write down of SR94.1 million to reflect a sharp decline in the market value of MESC's copper and aluminum inventory (prices of these commodities slumped in the final quarter of the year). Financing charges took a big chunk (SR38.3 million) out of MESC's income last year owing to borrowing to finance higher raw material costs and expenses related to new affiliates and the expansion of domestic operations (the bulk of the company's loan portfolio is short-term murabaha). Net income also suffered a deduction of SR11.4 million for unrealized losses on securities held for trading.

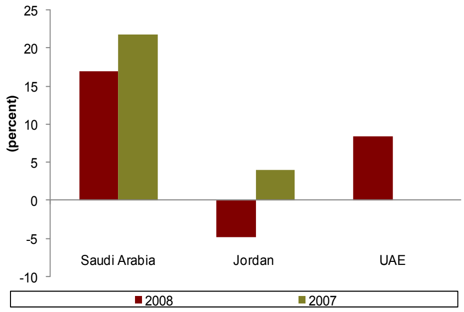
EBITDA/Revenue



Revenue by production location



Profit margin by production location



An impairment of goodwill at JNC to reflect the decline in the company's market value on the Amman stock exchange cut an additional SR6 million from MESC's net income. JNC reported a loss of SR29.5 million last year due to a write-down in the value of copper inventory and greater competition in regional markets.

The Saudi operation was the highest contributor to net income last year, at SR115.3 million. Specialized cables are made to order, greatly reducing unsold inventory and minimizing the impact of fluctuations in raw material prices. JNC carried the most raw material and was impacted the most out of all the subsidiaries, which drove the overall net income lower. Net income from subsidiaries was negative for the first time in 2008.

Liquidity ratios

	2004	2005	2006	2007	2008	Q1 2009
Current ratio	1.38	1.19	1.3	1.33	0.94	0.92
Quick ratio	0.76	0.57	0.58	0.65	0.45	0.52
Net working capital	89,649	54,772	126,101	203,177	(58,841)	(80,448)

The current ratio fell below one last year, indicating tight liquidity, while the quick ratio was at its lowest level since 2003. Net working capital was negative due to rising current liabilities incurred from short-term murabaha borrowing to fund development work at the company's subsidiaries and copper and aluminum purchases. Liquidity ratios for the first quarter 2009 were little changed, though net working capital went further negative.

Performance ratios

	2004	2005	2006	2007	2008
Sales to fixed assets	3.56	4.54	4.32	4.75	2.89
Sales to total assets	0.72	0.95	0.77	0.89	0.81

Management's effectiveness in utilizing the resources at its disposal was tested last year as sales to fixed assets and sales to total assets declined as a result of the recent acquisitions in the UAE and Jordan.

Activity ratios

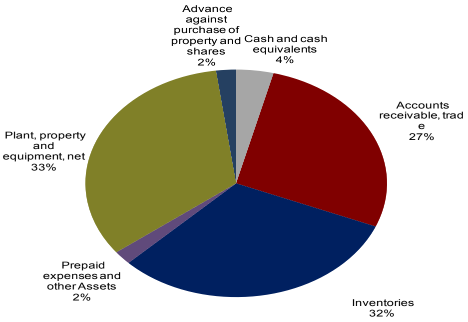
	2004	2005	2006	2007	2008
Sales to net working capital	3.27	7.90	5.14	5.43	(22)
Inventory	2.60	2.45	2.09	2.45	2.48
Receivables	4.49	4.90	4.51	4.59	3.91

Inventory turnover improved slightly last year as the number of days required to sell inventory fell to 143 from 174 in 2006. Turnover of accounts receivable slowed, pushing up the average collection period to 93 days from 79 days in 2007.

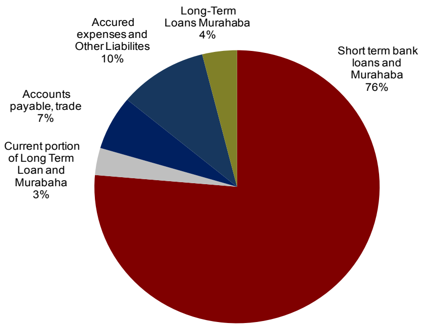
MESC's capital structure has changed over the years as companies were acquired and more debt was consolidated on the balance sheet. Most of MESC's liabilities are short-term obligations which make working capital management quite a challenging task.

The equity ratio has fallen for the past three years indicating that the company is assuming more debt than equity in financing its assets. But long term debt to total capital remains low at 8 percent, which suggests MESC may be too heavily reliant on short-term borrowing.

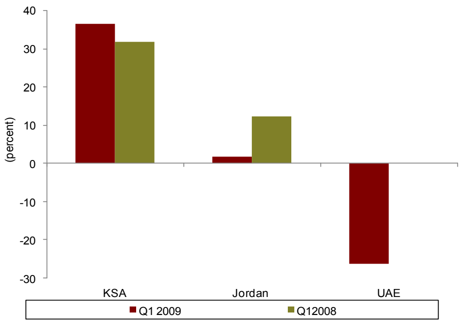
Asset composition (end-2008)



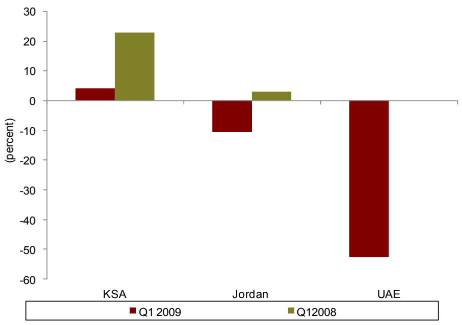
Liability composition (end-2008)



Quarterly gross margin



Quarterly net profit margin



Leverage ratios
(percent)

	2004	2005	2006	2007	2008
Long-term debt to total capital	33.0	5.0	4.0	10.7	7.80
Debt to equity ratio	79.0	8.0	5.0	16.0	10.0
Equity to total assets	17.7	23.1	38.3	34.9	31.4
Equity to total capital	59.4	99.0	97.4	88.0	92.8

Assets have grown at an annual average of 46.5 percent since 2003 owning to the increase in copper and aluminum prices and acquisitions. Last year, inventory alone accounted for 26.5 percent of total assets (down from 30 percent at end-2007), despite a large write down due to the fall in commodity prices. Plant, property and equipment accounted for 28 percent of total assets (up from 18.7 percent at the end of the previous year), as a result of MESC's acquisitions in UAE and Jordan.

Liabilities increased by 50 percent last year due to the acquisition of Sharjah Cables. Consolidated short-term (less than one year) loans were MESC's largest single obligation accounting for 47 percent of total liabilities, predominantly murabaha instruments for JNC. Under this type of financing, (SR179.4 million) banks purchase goods on behalf of MESC and resell them back to the company with a premium. Short term murabaha loans are secured by promissory notes guaranteed by the shares of JNC.

According to the management, MESC does not have a fixed dividend distribution policy. Despite the current financial crisis and losses on Jordanian operations, MESC still paid dividends of SR16 million last year, though these were significantly less than the prior year's SR40 million. Although, the dividends may fulfill investor expectations, it may have been better for the management to have retained these funds to address working capital needs.

Results for the first quarter of 2009

MESC's first quarter results reflect the slowdown in construction activity. Net income fell by 47 percent in year-on-year terms and sales revenues slumped by 33 percent. The Saudi operation contributed 54 percent of sales, followed by Jordan at 42 percent and the UAE at 2 percent. Jordanian and UAE operations suffered the most and posted a loss for the quarter. The sharp year-on-year falls were the result of the plunge in copper prices and greater competition, as foreign companies lower prices in order to offload inventory.

Total assets increased by 67 percent driven mainly by a large increase in property, plant and equipment and also an increase in goodwill. The increase in assets is driven by capital expenditure on the Saudi plant and from recent acquisitions.

On a quarter on quarter basis, net income entered profitable territory. Compared to the fourth quarter of 2008 and sales increased by 10 percent. Gross margin was 24 percent, an improvement by 3 percentage points over the previous quarter.

Valuation

We base our valuation of MESC on a combination of the discounted cash flow (DCF) and relative valuation approaches. We believe DCF analysis is the best way of determining an appropriate fair value for a share price. Relative valuation allows us to incorporate the prevailing market conditions of companies in the same sector in our valuation. We have assigned 70 percent weight to the DCF and 30 percent to relative valuation.

DCF valuation calculations

Risk free rate: 3.52
Equity risk premium: 7.18
Beta: 1.10
Terminal growth rate: 3 percent

To project future cash flows, we considered the following factors in our assumptions:

- Average copper prices will be fairly low this year, but we expect them to rise slowly over the next few years as the global economy recovers.

- The decline in construction spending in some key export markets (notably, the UAE) would impact the future revenue growth negatively.

- Increased competition from foreign producers with inventory to dispose of and new Saudi producers will lead to slimmer profit margins in 2009 and 2010. These should improve as demand picks up from 2011 onwards. Competition should particularly affect the low and medium voltage cables produced by the affiliates in Jordan and the UAE.

We selected the net cash flow to equity (NCFe) approach as the appropriate measure of economic income to use in this valuation. Net cash flow represents the maximum amount of cash that could be distributed to shareholders without affecting the company's normal operational cash requirements. We calculated net cash flow to equity by adding back depreciation and deducting capital expenditures and increases in working capital from net income.

According to management, more capital will be injected into the company in the future, in part to finance the operations in Ras Al Khaimah. We therefore expect additional borrowing, probably in the form of murabaha. Working capital requirement is high at MESC due to high proportion of short term murabaha loans and short term liabilities resulting from contract terms with copper suppliers. We expect that MESC will restructure or renegotiate these terms in order to decrease current liabilities, causing working capital to improve slightly.

We calculated that the present value of the company's NCFe for fiscal years 2009 through 2014 is approximately SR600.9 million. Of course, MESC will continue to generate cash flows beyond the discrete projection period. Therefore, the DCF analysis also projects a terminal value. In estimating an appropriate terminal growth rate for the company's net cash flows, we considered several factors, including the expected growth of the overall economy and the expected long-term rate of inflation. Based on this information we selected a long-term rate of 3 percent as appropriate for MESC's net cash flow.

Combining the present value of the terminal cash flow with the present value of the discrete cash flow projections results in a total value of MESC of SR1.69 billion. Based on the above, the DCF results in a fair market value of MESC's common stock on the valuation date of SR42.4.

Relative valuation approach

Relative valuation values a company in reference to other publicly traded companies with similar operating and financial characteristics. Some of the most commonly used financial ratios for this process are the price-to-earnings ratio (PE) and price-to-book value ratio (PB). A lower ratio than its peers and the industry average may suggest that a stock is undervalued and vice versa. The rationale for using the PE is that earnings power is the main driver of investment value. The PB ratio measures how much investors are willing to pay for a unit of the company's net asset value.

For our comparables, we selected some companies from the building and construction sector of Tadawul with emphasis on construction, export and manufacturing driven activities.

MESC's stock is currently trading at a trailing PE of 23.6, higher than the sector average, suggesting that its share price is overvalued compared to its peers. From a PB perspective, the stock is also above the sector average. Based on our analysis of the company's past performance, we have assigned MESC last twelve months earnings per share of SR1.63 and book value per share of SR12.07.

Applying MESC's last twelve months earnings per share to the comparables one year trailing PE gives a price of MESC's shares of SR22. Applying MESC's 2008 book value per share to the comparables one year trailing PB average gives a price of MESC's share of SR32.8. Averaging these results gives a price of SR27.3 per share of MESC's stock.

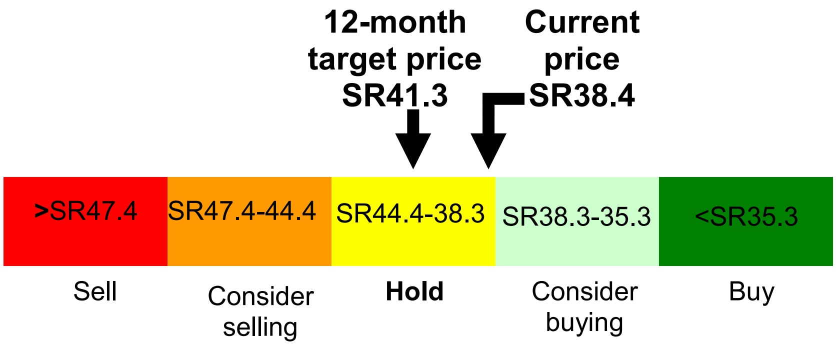
Company	Beta	Current PE Ratio	Current PB Ratio
Mohammad Al-Mojil Group	1.15	7.41	2.05
Zamil Industrial Investment	1.11	11.93	2.69
Amiantit	1.15	10.5	1.66
Saudi Cable Company	1.132	11.78	1.87
Al-Babtain Power & Telecom-munication	0.99	14.73	4.87
MESC	1.00	23.58	3.18
Sector (Average)	**1.10**	**13.32**	**2.72**

Recommendation

Based on the two valuation parameters weighted 70:30 in favor of the DCF, we arrive at a fair value price of SR37.9. To get our 12-month target price, we ran a DCF as of 12 months after the valuation date, then discounted the resulting value by the current discount rate; we leave the relative valuation unchanged as it is already forward looking. This generates a 12-month target price for MESC of SR41.3. With MESC currently trading at SR38.4, we recommend that investors "hold" the stock.

Valuation Method	Price per share (SR)	Weights	Contribution
Free Cash Flow to Equity (DCFe)	45.8	70%	32.1
Relative Valuation (PE/PBV)	31.0	30%	
One year target price			**41.3**

The Jadwa recommendation bar



The bar on the front page of this report is Jadwa's method of conveying our investment recommendation as clearly and concisely as possible. The bar is based on traffic lights, where green means "go" (buy), yellow is "slow" (hold), and red is "stop" (sell). Our 12-month target for the stock is the middle of the yellow area. This is the price that we expect the shares to trade at in 12 months time. This is different to fair value, which is our estimate of the fair value of the company's share price as of the valuation date.

We use five colors in our recommendation bar, with those on either side of the yellow area signifying that an investor should consider buying or selling the stock. The price range for each of these alternatives is within the colored section. These price ranges have been adjusted to take account of share price volatility (using the stock's variance-mean ratio). The more volatile the share price, the larger the price ranges.

Performance matrix

This table ranks MESC's performance against what we believe are the key success factors for the building and construction industry. A green rating is positive, yellow neutral and red negative.

Factor	Measures	MESC's status	Rating
Valuation	Fair market value of the company	The stock is fairly priced.	
Management	How efficiently and effectively the company is run.	A diverse team of competent professionals. The recent expansion strategy has been derailed by the global recession.	
Competitive position	The position of business relative to others in the same industry.	Market leader in the specialized cables industry, but facing tough competition in low and medium voltage cables sector.	
Brand recognition	To promote the business in the market and achieve recognition.	Well known for making instrumentation cables, but less so for other business lines.	
Manufacturing facilities	Efficiency, durability and reliability of plant and equipment.	Procured from reputable German and Japanese machinery manufacturers.	
Raw material supplies	Relationship status with the supplier.	Mostly from a local company who is also a competitor in low and medium cables.	
Product mix	The degree of homogeneity between products, product lines and investment	MESC has the capability to customize its products to various industries while low and medium cables provide extra product diversification.	
Location	Proximity to markets with high construction activity and seaport or land terminals for exports.	Multiple plants in the region for catering to domestic, regional and international demand.	
Expansion potential	What future projects or plans does the company have to maintain growth momentum locally or regionally.	A combination of upgrading existing facilities and inorganic expansion through strategic acquisitions and joint ventures to add synergies. A few projects for additional products are in the pipeline.	
Labor issues	Saudiization, turnover and visa issues.	The quota is met but the company depends heavily on foreign workers for technical jobs. A well-equipped in-house training center exists.	
Disclosure & transparency	Company practice in providing information required by investors	Company has a dedicated investor relations contact and management is open to meetings with the financial community, but certain important information is not disclosed.	
Profitability	The end-result of a company's operations utilizing all resources at its disposal.	Profit margin has declined sharply and foreign subsidiaries reported loses due to major write downs.	
Activity	How efficient management is in using its assets.	Low sales, unsold inventory and write downs have impacted activity ratios negatively.	
Performance	Efficiency in generating sales.	Sales as a percentage of fixed assets have declined significantly recently due to lower sales and increased investment in fixed assets.	
Liquidity	Company's ability to meet short-term and current obligations on time.	Net working capital is negative.	
Coverage	Long term solvency and ability to deal with financial problems.	The company is not generating sufficient revenue to satisfy interest payments.	
Leverage	Capital adequacy and company's ability to meet long-term obligations and take advantage of opportunities as they arise.	Company's leverage ratio is 7.8 percent, but total debt to capital is 183 percent indicating the company is very highly leverage.	

The discounted cash flow model

The DCF method estimates value on the basis of future cash flows over an investment horizon using empirical market data, macroeconomic and industry evidence and the underlying fundamental trends of the subject company. The DCF method then applies a present value discount rate, known as the required rate of return on investment, to project future cash flows, which results in an estimation of net present value of projected cash flows.

The value of the company is estimated by projecting the cash flows that the company is expected to produce and discounting those cash flows back to the valuation date using a discount rate that reflects the related risk. An in-depth analysis of the company's revenues, fixed and variable expenses and capital structure were conducted.

DCF valuation calculations

Present value discount rate: We estimated the cost of MESC equity capital (net of long-term debt) using the capital asset pricing model which incorporates a risk free rate, a long-term risk premium and a company's stock beta.

- **Risk free rate:** The risk free rate is used as to measure the opportunity cost of investing. Since DCF analysis is based upon a long-term investment horizon, the appropriate risk-free rate is that of a long-term government security. We use the 10-year Saudi riyal bond issued by SAMA, which yielded 3.51 on the valuation date.

- **Equity risk premium:** We calculate the equity risk premium as the average of the arithmetic and geometric means of TASI historical returns, less the long-term rate of return on the10-year SAMA bond. The arithmetic mean of the TASI over the period from 1980 to June 28, 2009 is 14.34 percent. The geometric mean over the same period was 7.05 percent. The average of the two is 10.69 percent, which represents the market return. Accordingly, the equity risk premium is 7.18 percent.

- **Beta:** Beta is a measure of the risk inherent in the company's investment returns. The market (TASI) beta is always one. A stock beta that is lower than one, as in the case of MESC (1.10) indicates that the stock tends to be about 10 percent more volatile (up or down) than the TASI. Applying the average beta of the selected companies to the long-term equity risk premium gives a beta-adjusted long-term equity risk premium of 7.81 percent.

The capital asset pricing model resulted in a total estimated cost of equity capital of approximately 11.33 percent. This is arrived at by adding the beta-adjusted equity risk premium and the risk free rate.

DCF valuation

SR	2009	2010	2011	2012	2013	2014
Net income	**112,424,330**	**102,298,020**	**102,384,789**	**109,567,286**	**121,724,296**	
+ Depreciation	29,310,610	29,896,823	30,494,759	31,104,654	31,726,747	
+ Amortization	1,052,190	841,752	757,576	787,880	835,152	
- Capital expenditure	(36,185,939)	(9,770,203)	(9,965,608)	(10,164,920)	(10,368,218)	(10,575,582)
-/+ Increase/decrease in working capital	67,485,251	20,154,234	2,629,743	(954,756)	(2,152,421)	(3,668,750)
+ Increase in long-term debt	-	-	-	-	-	-
= Net cash flow to equity	**174,086,442**	**143,420,624**	**126,301,260**	**130,340,144**	**141,765,557**	

Estimating the discount rate	
k = rf + (rm - rf)B	
Risk-free rate (rf)	3.52%
Market return (rm)	10.69%
B (beta)	1.1
Discount rate (k)	**11.33%**

	2009	2010	2011	2012	2013	2014
Discounted Value of Equity (DFCFe)	164,774,921	121,938,012	96,457,615	89,414,586	87,357,910	40,985,700
Total DFCF	600,928,744					
Terminal Cash Flow						
Value in year 5	151,433,990					
Assumed growth into perpetuity	3.00%					
Present value of terminal cash flow	1,095,477,181					
Total value of business (SR)	**1,696,405,925**					
Shares outstanding	40,000,000					
Fair Value per share (SR)	**42.41**					
As of 28 June 2009						
Current Price	**38.40**					

Financial statements

Balance sheet

ASSETS	2004 (SR)	2005 (SR)	2006 (SR)	2007 (SR)	2008 (SR)
Cash and cash equivalents	79,146,634	24,389,578	30,611,111	90,477,074	54,373,108
Financial instruments for trading	28,568,300	37,661,183	34,127,340	9,941,889	8,859,110
Accounts receivable, trade	71,488,500	105,309,168	182,100,793	298,454,613	370,187,225
Inventories	118,797,901	157,994,256	291,854,841	369,969,110	428,218,405
Advance to suppliers			7,782,645	8,428,943	14,884,287
Prepaid expenses and other assets	27,956,889	22,010,738	6,661,548	32,519,643	26,712,939
Total Current Assets	**325,958,224**	**347,364,923**	**553,138,278**	**809,791,272**	**903,235,074**
Plant, property and equipment, net	82,425,190	95,356,637	149,909,525	232,427,116	452,324,235
Advance against purchase of property and shares			12,416,534	48,939,261	29,054,627
Financial instruments for sale		13,343,028	11,840,462	5,841,904	5,205,656
Investment in subsidiary					41,741,000
Deferred charges	310,833	287,378			
Goodwill arising from subsidiary	1,192,171	1,192,171	116,953,343	144,085,247	164,221,179
Deferred tax credit			620,535		14,733,234
Other intangible assets			783,158	4,470,890	4,593,285
Total Fixed Assets	**83,928,194**	**110,179,214**	**292,523,557**	**435,764,418**	**711,873,216**
TOTAL ASSETS	**409,886,418**	**457,544,137**	**845,661,835**	**1,245,555,690**	**1,615,108,290**
Bank overdraft	344,770	4,261,337			
Short term bank loans and murahaba	189,078,626	210,612,205	290,214,827	379,453,907	764,813,732
Current portion of LT Loan and murabaha	4,700,000	4,100,000	1,600,000	31,099,299	32,199,299
Accounts payable, trade	14,915,531	42,256,358	87,634,809	129,229,895	64,317,301
Accrued expenses and other liabilities	18,648,243	25,150,007	47,587,554	66,831,283	100,745,580
Payable against subsidiary	8,622,356	6,213,460			
Total Current Liabilities	**236,309,526**	**292,593,367**	**427,037,190**	**606,614,384**	**962,075,912**
Long-Term loans murahaba	49,583,449	1,100,000	8,773,000	59,338,423	39,379,124
End of service benefits	7,631,434	7,113,922	7,927,696	9,277,472	11,672,516
TOTAL Non Current Liabilities	**57,214,883**	**8,213,922**	**16,700,696**	**68,615,895**	**51,051,640**
Share capital	24,000,000	24,000,000	24,000,000	320,000,000	400,000,000
Statutory reserve	11,008,524	12,000,000	12,000,000	15,013,260	23,854,410
Cumulative translation adjustment	39,026	202,277	(570,924)	(455,494)	
Shareholders current account			153,310,164		
Unrealized loss on financial instruments available for sale		(808,375)			(785,984)
Retained earnings	37,511,654	70,097,008	135,522,266	99,951,770	83,522,122
TOTAL SHAREHOLDERS' EQUITY	**72,559,204**	**105,490,910**	**324,261,506**	**434,509,536**	**506,590,548**
Minority interests	**43,802,805**	**51,245,938**	**77,662,443**	**135,815,875**	**95,390,190**
Total equity	**116,362,009**	**156,736,848**	**401,923,949**	**570,325,411**	**601,980,738**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**409,886,418**	**457,544,137**	**845,661,835**	**1,245,555,690**	**1,615,108,290**

Income statement

	2004 (SR)	2005 (SR)	2006 (SR)	2007 (SR)	2008 (SR)
Consolidated sales	293,543,317	432,814,554	648,066,048	1,103,282,541	1,308,438,014
Cost of sales	(231,660,671)	(339,464,877)	(470,792,291)	(811,189,287)	(991,157,663)
Gross operating income	61,882,646	93,349,677	177,273,757	292,093,254	317,280,351
Selling and distribution	(14,534,775)	(18,267,969)	(28,190,642)	(35,842,936)	(44,077,565)
General and administration	(10,230,782)	(12,483,854)	(15,438,229)	(23,871,805)	(33,681,483)
Amortization of intangible assets	(218,000)	(210,000)	(179,250)	(688,814)	(1,175,605)
Depreciation	(10,855)	(9,694)	(14,715)	(20,736,049)	(26,533,603)
Income from operations	**36,888,234**	**62,378,160**	**133,450,921**	**210,953,650**	**211,812,095**
Write down on inventory					(94,130,575)
Impairment of goodwill					(6,000,000)
Reclassification of financial instrument held for trading			(2,506,763)		(1,082,779)
Other Income (expenses)	6,580,645	9,889,297	2,680,637	8,819,245	2,780,927
Provision of loss contingency					(11,352,900)
Unrealized gain on revaluation of financial instruments held for trading	1,939,430	6,913,874			
Impairment in available for sale investments			(2,281,946)	(2,619,695)	
Financial charges	(5,982,239)	(12,394,282)	(16,223,139)	(31,874,513)	(38,248,320)
Minority interest in net income from subsidiaries	(10,480,915)	(16,240,328)	(19,621,486)	(27,814,770)	29,616,906
Income before Zakat and Tax	**28,945,155**	**50,546,721**	**95,498,224**	**157,463,917**	**93,395,354**
Zakat andTax	(2,099,234)	(2,978,891)	(6,104,244)	(7,331,317)	(4,983,852)
Net Income	**26,845,921**	**47,567,830**	**89,393,980**	**150,132,600**	**88,411,502**
Shares outstanding			40,000,000	40,000,000	40,000,000
Earnings per share SR			2.23	3.75	2.21

Cash flow statement

	2004 (SR)	2005 (SR)	2006 (SR)	2007 (SR)	2008 (SR)
Net cash provided from operating activities	(71,329,486)	5,743,935	43,764,274	65,466,779	(75,692,779)
Net cash provided (used) in investing activities	(25,723,806)	34,504,592	(56,932,288)	(170,302,580)	(295,043,634)
Net cash used in financing activities	126,040,019	34,504,692	41,700,207	159,642,464	339,691,747
Net change in cash and cash equivalents	28,986,727	74,753,219	28,532,193	54,806,663	(31,044,666)

Ratio analysis

Liquidity	2004	2005	2006	2007	2008
Cash Ratio	0.33	0.08	0.07	0.14	0.06
Current ratio	1.38	1.19	1.30	1.33	0.94
Quick ratio (Acid-Test)	0.76	0.57	0.58	0.65	0.45
Net working capital (SR '000)	89,649	54,772	126,101	203,177	(58,841)
Activity					
Turnover:					
Sales to net working capital	3.3	7.9	5.1	5.4	(22.2)
Inventory	2.6	2.5	2.1	2.5	2.6
Receivables	4.5	4.9	4.5	4.6	3.9
Average collection period (days)	81	75	81	79	93
Days to sell inventory	140	149	174	145	143
Days working capital	0.60	0.51	0.60	0.49	0.56
Performance					
Sales to fixed assets	3.56	4.54	4.32	4.75	2.89
Sales to total assets	0.72	0.95	0.77	0.89	0.81
Profitability					
Gross margin	21.1%	21.6%	27.4%	24.6%	22.2%
Pretax profit margin	9.9%	11.7%	13.9%	14.3%	7.1%
Net profit margin	9.1%	11.0%	13.0%	13.6%	6.8%
Return on:					
Total assets	9.8%	13.8%	15.4%	17.4%	8.9%
Equity	37.0%	45.1%	25.9%	34.6%	17.5%
Investment	25.4%	41.6%	38.2%	36.3%	17.0%
Average assets	2.0%	2.7%	3.2%	3.6%	1.5%
Average equity	42.3%	53.4%	39.1%	39.6%	18.8%
Average investment (ROIC)	6.3%	10.4%	9.6%	9.1%	4.3%
Leverage					
Long-term debt to total capital	33.0%	5.0%	4.0%	10.7%	7.8%
Equity to total assets	17.7%	23.1%	38.3%	34.9%	31.4%
Equity to total capital	59.4%	99.0%	97.4%	88.0%	92.8%
Total debt to capital	324.3%	843.5%	912.3%	115.7%	183.0%
Coverage					
Interest coverage ratio	4.43	2.14	1.63	0.83	0.69

Summary of quarterly results

Balance sheet	Q2 2008 (SR ‘000)	Q3 2008 (SR ‘000)	Q4 2008 (SR ‘000)	Q1 2009 (SR ‘000)
Current assets	559,970	582,361	529,183	598,118
Inventory	364,580	443,948	422,020	325,534
Investments	8,457	6,189	15,866	41,741
Fixed assets	343,136	381,505	449,457	467,550
Other assets	233,340	212,459	231,527	213,572
Total Assets	**1,509,483**	**1,626,462**	**1,648,053**	**1,646,515**
Current liabilities	767,814	885,603	999,826	1,004,101
Non-current liabilities	66,161	60,025	51,052	43,312
Other liabilities				
Shareholder's equity	675,508	680,834	597,175	599,102
Total liabilities & shareholder equity	**1,509,483**	**1,626,462**	**1,648,053**	**1,646,515**

Income statement	Q2 2008 (SR ‘000)	Q3 2008 (SR ‘000)	Q4 2008 (SR ‘000)	Q1 2009 (SR ‘000)
Sales	360,988	371,567	217,183	237,972
Sales cost	261,723	288,740	172,412	180,646
Total income	**99,265**	**82,827**	**44,771**	**57,326**
Other revenues	1,396	43	0	0
Total revenues	**100,661**	**82,870**	**44,771**	**57,326**
Admin and marketing expenses	21,806	20,700	14,901	14,581
Depreciation	8,430	6,604	5,585	8,066
Other expenses	15,994	31,035	65,011	4,528
Total Expenses	**46,230**	**58,339**	**85,497**	**27,175**
Net income before Zakat	54,431	24,531	(40,726)	30,151
Zakat	3,383	3,144	3,450	4,164
Net Income	**51,048**	**21,387**	**(37,276)**	**25,987**

For comments and queries please contact:

Brad Bourland
Chief Economist
jadwaresearch@jadwa.com

Paul Gamble
Head of Research
pgamble@jadwa.com

Gasim Abdulkarim
Equity Research Director
gabdulkarim@jadwa.com

or the author:
Salman Aga
Equity Research Associate
saga@jadwa.com

Head office:
Phone +966 1 279-1111
Fax +966 1 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Disclaimer of Liability

The information contained in this research (hereinafter refer to as **"Research"**) has been obtained from various sources whose data is believed to be reliable and accurate. Jadwa Investment does not claim and has no way of ascertaining that such information is precise or free of error. This Research shall not be reproduced, redistributed or passed directly or indirectly to any other person or published in whole or in part for any purpose without written consent of Jadwa Investment.

The information, opinions, rankings or recommendations contained in this Research are submitted solely for informational purposes. This Research is not an advice to sell nor is it a solicitation to buy any securities, or to take into account any particular investment objectives, or financial positions or is intended to meet the particular needs of any investor who may receive this Research.

Jadwa Investment or its directors, staff, or affiliates make no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness or usefulness of any information that is contained in this Research. It is not the intention of this Research to be used or deemed as an advice, option or for any action that may take place in the future. Investors should seek an independent opinion before taking any investment action. The investor should understand that the income of investments is subject to fluctuation and that the price or the value may change at any time. Any action relying on this Research in whole or in part is entirely the sole responsibility of the investor.

Jadwa Investment or its directors, staff, or affiliates may have a financial interest in the security referred to herein.