

Citadel Capital

Company Note

9 December 2009



Lowering Valuation on Sale of Stakes

- **Citadel Capital announced that it will sell a 6% stake in each of ASEC Holding and United Foundries for USD55 million (EGP300 million).**
- **The transaction values ASEC Holding at around USD850 million and United Foundries at USD67 million.**
- **We lower our price target by 22% to EGP14.83/share to reflect the implied valuation from the transaction. We rate the stock 'Buy' given an upside of 42% to current market price.**

Citadel Capital announced that it entered into an agreement to sell a 6% stake in each of ASEC Holding (also known as National Company for Development and Trading – NDT) **and United Foundries for USD55 million** (EGP300 million) to Emirates International Investment Company (EIIC) bringing Citadel Capital's stake in both companies down to 49%. This development is expected and in line with the company's strategy to hold non-controlling interests in its platform companies.

The deal will enhance the cash balance of the company as well as result in capital gains of around EGP200 million. More importantly, the deal **assigns a market value to Citadel Capital's largest investment, ASEC Holding.** The deal values ASEC Holding at around USD850 million (EGP4.6 billion), which is below our previous valuation of USD1.6 billion (EGP8.5 billion), which valued the company on a DCF basis assuming an exit by 2014f. We believe that the deal valuation does not really reflect the potential value that Citadel Capital is expected to capture upon exit given that: (i) many of ASEC Holding's projects and investments are still not operational and restructuring efforts are underway, and (ii) the stake sold is small and thus does not include a controlling stake premium. We value ASEC Holding at the deal-implied valuation as we believe that this is the valuation that the market will assign to the company in the medium-term. The implied valuation of United Foundries is USD67 million (EGP365 million), which is slightly lower than Citadel Capital's valuation guidance of USD70 million (EGP383 million) that we had used in our previous valuation.

Since our pre-listing note dated November 16th, 2009, **Citadel Capital has made a number of positive announcements. We have not incorporated these developments in our valuation due to limited information at this stage.** Announcements include: (i) the acquisition of 75% of Sudanese confectionary Al-Musharraf by El Rashidi El Mizan, a subsidiary of Citadel Capital's food and beverages platform Gozour Holding, for an enterprise value of USD19 million. Al-Musharraf's capacity is at 24,000 tons of halawa, 18,000 tons of biscuits, and 45,000 tons of flour per annum (which will be increased to 90,000 tons by the end of 2010), (ii) the establishment of ENTAG Holding, Citadel Capital's 18th platform company for solid waste management, through the acquisition of the Egyptian Company for Solid Waste Recycling (ECARU) and the Engineering Tasks Group (ENTAG), and (iii) National Petroleum Company (NPC), Citadel Capital's oil and gas exploration and production platform company, raised production on Shukheir Bay-5 ST from 60 to 1,600 bopd, raising NPC's production to 1,908 bopd. We value NPC at cost.

We rate Citadel Capital 'Buy' but lower our base case valuation by 22% to EGP14.83/share (42% upside) to reflect the implied valuation by the transaction. Citadel Capital started trading on the Egyptian Exchange on December 6th, 2009 and the stock has dropped around 30% from its open price. We believe that the share price performance was triggered by investors who have been locked-in the company for years and wanted to cash out. We thus expect selling pressures to gradually ease. Catalysts include exits from existing investments, the ability to assign a market value to existing investments and new platform companies/investments.

KPIs	08A	09E	09C	10F	10C
Revenue (EGPm)	270	459	-	230	-
Net Income (EGPm)	23	314	-	53	-
EPS (EGP)	0.04	0.47	-	0.08	-
P/BV	1.80x	1.57x	-	1.50x	-

A = Actual; E/F = HC's Estimates/Forecasts; C = Consensus Estimates

Buy

Target Price (EGP)	14.83
Market Price (EGP)	10.42
Upside	42.3%

Listed on	EGX
Bloomberg Code	CCAP EY
Reuters Code	CCAP.CA

Enterprise Value (EGPm)	6,961
Net Debt (EGPm)	67
Market Cap (EGPm)	6,894
Market Cap (USDm)	1,265

Foreign Ownership Limit	-
Foreign Ownership Level	-

Daily Turnover (EGPm)	-
Daily Turnover (USDm)	-

Shareholders Structure

Free Float & Others	35.60%
Citadel Capital Partners	40.00%
EIIC	15.70%
Alaa Arafa	3.31%
Amina Allam	3.14%
Al Alian Financial Ltd.	2.25%

Hatem Alaa

- ▶ +2 02 3332 8614
- ▶ halaa@hc-si.com

Roaa Alian

- ▶ +2 02 3332 8612
- ▶ ralian@hc-si.com

* Disclaimer See Page 3



Egypt – Private Equity

Table 1: Citadel Capital's Valuation

Platform Company	OSF	Stake	Committed Equity (EGPm)	CC Committed Equity (EGPm)	Valuation Method	Total Valuation (EGPm)	CC's Stake (EGPm)	Value / CC Share (EGP)	Contribution
Citadel Capital					PV of Carry and Net Management Fees		1,824	2.76	19%
Construction & Building Materials									
ASEC Holding	ASEC Holding	49.3%	3,532	797	Based on Sale of 6% Stake Announced on Dec.8th, 2009	4,633	2,284	3.45	23%
ASCOM Mining	ASEC Mining	46.0%	177	177	Six-Month Average Market Price	601	276	0.42	3%
United Foundries	United Foundries	49.3%	354	211	Based on Sale of 6% Stake Announced on Dec.8th, 2009	365	180	0.27	2%
Energy									
Egyptian Refining Co.	Orient Properties Investment Ltd.	8.2%	4,510	451	Exit by 2014f at 8x EBITDA; 25% Margin	6,565	538	0.81	6%
Mashreq Petroleum	Ledmore Ltd.	27.3%	107	37	Cost	107	37	0.06	0%
National Petroleum Co.	Golden Crescent Investment Ltd.	14.9%	2,338	349	Cost	2,338	349	0.53	4%
Nile Valley Petroleum	Nile Valley Petroleum	10.0%	275	28	Cost	275	28	0.04	0%
Rally	Logria Holding Ltd.	10.4%	2,414	358	Cost	2,414	358	0.54	4%
TAQA Arabia	Silverstone Capital Investments Ltd	33.4%	657	265	Based on Sale of 2% Stake by Co-Investors	1,107	370	0.56	4%
Food & Beverages									
Gozour & Real Estate	Falcon Agricultural Investments	20.0%	1,414	283	1.95x 2014f Sales Discounted at 15.25%; Land Sold @ EGP30/sqm	4,746	949	1.43	10%
Sudan Agri. Project	Sudan Agricultural Project	30.0%	385	116	SEAC 8x 2014f EBITDA; Sabina at Cost	448	135	0.20	1%
Others									
Bonyan	MENA Home Furniture	24.0%	465	112	10x 2013f Earnings Discounted @ 20% SEB @ 1.5x 2009 BV; Pharos @ 1.8x 2011f BV; Tanmeyah at Cost	796	191	0.29	2%
Finance Unlimited	Finance Unlimited	100.0%	207	207	DCF Exit by 2014f	503	461	0.70	5%
Glass Works	MENA Glass Ltd./ Sphinx Glass Ltd.	20.0%	894	136	DCF Exit by 2014f	1,056	211	0.32	2%
Grandview	Grandview Inv. Holding Ltd.	13.0%	523	68	10x 2014f Earnings Discounted @ 20%	1,185	154	0.23	2%
NRTC & NRPCM	Regional Inv. Holdings Ltd.	25.0%	605	151	Replacement Value for NRTC; Cost for Others	790	198	0.30	2%
Tanweer	Tanweer	100.0%	148	148	Cost	148	148	0.22	2%
Convertibles									
ASEC Holding	Convertibles	66.8%	331	221	Conversion in 2014 at Par, Discounted at 17%	1,398	934	1.41	10%
NPC	Convertibles	N/A	93	52	Cost	93	52	0.08	1%
Rally	Convertibles	N/A	732	75	Cost	732	75	0.11	1%
Total			20,160	4,239		30,297	9,751	14.74	100%
Cash & Other Assets							760	1.15	8%
Due to CCP							(87)	(0.13)	-1%
Net Due from Rel. Part.							151	0.23	2%
Debt							(827)	(1.25)	-8%
Total							9,748	14.73	100%

Source: HC Brokerage



Rating Scale

Recommendation	Upside
Buy	Greater than 25%
Hold	0-25%
Sell	Less than 0%

Disclaimer

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Egypt - Private Equity

HC Research

research@hc-si.com

Karim Khadr	Regional Head of Research	karim.khadr@af-hc.com	+971 4 2935381
Tudor Allin-Khan, CFA Amr Abdel Khalek	Chief Economist/Strategist Junior Economist	tudor.allin-khan@af-hc.com aabdelkhalek@hc-si.com	+971 4 2935386 +202 3332 638
NematAllah Choucri Sarah Shabayek	Telecoms Telecoms	nchoucri@hc-si.com sshabayek@hc-si.com	+202 3332 8610 +202 3332 8640
Germaine Benyamin Janany Vamadeva Engy El Dishish	Banks & Financials Banks & Financials Banks & Financials	germaine.benyamin@af-hc.com janany.vamadeva@af-hc.com engy.eldishish@af-hc.com	+971 4 2935382 +971 4 2935384 +202 3332 8636
Roa Alia Mennatallah El Hefnawy	Construction & Build. Materials Construction & Build. Materials	ralian@hc-si.com melhefnawy@hc-si.com	+202 3332 8612 +202 3332 8632
Hatem Alaa Mai Nehad Nadine Weheba	Industrials & Consumer Goods Industrials & Consumer Goods Industrials & Consumer Goods	halaa@hc-si.com mnehad@hc-si.com nweheba@hc-si.com	+202 3332 8614 +202 3332 8626 +202 3332 8644
Majed Azzam Ankur Khetawat Nermeen Abdel Gawad	Real Estate Real Estate Real Estate	majed.azzam@af-hc.com ankur.khatawat@af-hc.com ngawad@hc-si.com	+971 4 2935385 +971 4 2935387 +202 3332 8628
Yasmin El-Rifae	Editor	yelrifae@hc-si.com	+202 3332 8634
Mohamed El Saiid, MFTA Wael Atta, CFTe Sameh Khalil, CFTe	Head of TA Desk Senior Technical Analyst Technical Analyst	msaeed@hc-si.com wael.atta@af-hc.com skhalil@hc-si.com	+202 37496008 (Ext. 175) +971 4 2935388 +202 37496008 (Ext. 361)

HC Brokerage – Cairo, Egypt

traders@hc-si.com

Shawkat El-Maraghy	Managing Director	selmaraghy@hc-si.com	Ext. 200
Mostafa Saad	Local & Gulf Sales	mсаad@hc-si.com	Ext. 213
Yasser Mansour	Local & Gulf Sales	ymansour@hc-si.com	Ext. 217
Hossam Wahid	Local & Gulf Sales	hwahid@hc-si.com	Ext. 206
Hassan Kenawi	Local & Gulf Sales	hkenawi@hc-si.com	Ext. 300
Abou Bakr Shaaban	Local & Gulf Sales	ashaaban@hc-si.com	Ext. 238
Nihal Hany	Local & Gulf Sales	nhany@hc-si.com	Ext. 219
Mohamed Helmy	Foreign Sales	mhelmy@hc-si.com	Ext. 207
Ahmed Nabil	Fixed Income Trader	anabil@hc-si.com	Ext. 218

HC Brokerage – Dubai, UAE

Hassan Aly Choucri	General Manager	hassan.choucri@af-hc.com	+971 4 293 5305
Mohamed Hegazy	Head of Sales	mohamed.hegazy@af-hc.com	+971 4 293 5365
Mohamed Galal	Head of Sales Trading	mohammed.galal@af-hc.com	+971 4 293 5309
Hesham Bakry	Institutional Sales Manager	hesham.bakry@af-hc.com	+971 4 293 5353
Anne Marie Browne	Foreign Institutional Sales	annemarie.browne@af-hc.com	+971 4 293 5301
Richard Frost	Foreign Institutional Sales	richard.frost@af-hc.com	+971 4 293 5302