

Citadel Capital

Company Report

19 April 2010



Trading at a Floor

- Reiterate Buy and cut TP 11% to EGP13.14/share (66% upside)
- Stock trading slightly below floor, worst-case scenario valuation neither prices in Citadel's asset management business nor the value potential of investments that lack a market value proxy
- Expecting fee-earning third-party AUMs to grow over 40% from existing platforms alone

We maintain our Buy recommendation on Citadel but cut our target price by 11% to EGP13.14/share (66% upside) to reflect (i) a more conservative valuation for principal investments (EGP11.28/share ex-adjustments) that rely mostly on Citadel's NAV guidance and (ii) higher net debt and other adjustments. The stock should not trade at a discount to NAV guidance for principal investments as it only represents a conservative valuation that Citadel aims to beat. The stock still trades on negative sentiment following lackluster performance since listing last December (underperforming the market by 57%). Gradually increasing institutional flows into the stock should help improve sentiment. Exits at attractive valuations remain a key share price catalyst. New investments are unlikely to be major unless some exits are made or fresh capital is raised (unlikely at current price levels).

Limited downside risks from current price levels as the stock is trading at a c.5% discount to a floor valuation (EGP8.28/share). Our worst-case scenario valuation discounts (i) investments with a market value proxy (ASEC Holding, ASEC Mining, United Foundries, and TAQA Arabia), (ii) impaired valuations for upstream ventures Rally and NPC, and (iii) the cost basis for all other principal investments. Valuation upside is represented in (i) the value of asset management business (adjusted for net debt and other assets/liabilities), (ii) the value potential of some investments (Bonyan, Gozour Holding, GlassWorks, Grandview, and Finance Unlimited) as per Citadel's conservative valuation guidance, and (iii) the value of remaining capital calls for Egyptian Refining Company (ERC).

Expecting growth of over 40% (c.USD800 million) in fee-earning third-party AUMs from existing platforms. The bulk of growth will be from ERC, which had about a quarter of its c.USD1 billion capital commitments drawn. It also represents over half of capital calls to be met by Citadel (over USD140 million). Limited risks to meeting capital calls as they are covered by existing cash and equivalents as well as loans to and other dues from platforms. We value asset management business at EGP3.40/share (ex-adjustments) based on net management fees and carried interest. Citadel has the option to buy back rights to c.35% of management fees from anchor investors at c.USD130 million (that will be debt-financed)—a scenario we see as likely and assign a 50% probability to its occurrence in our valuation.

Near-term exits likely from TAQA Arabia, ASEC Holding and ASEC Mining. TAQA Arabia, a well-structured and profitable platform, is looking to IPO a 30%–40% stake, which will give Citadel and co-investors the opportunity to exit over time once the stock is listed. Citadel could also sell a further small stake in ASEC Holding given its large shareholding (49.8%) and the size of the investment (c.24% of portfolio), but full exit is unlikely until greenfield cement plants are running and restructuring efforts are completed. ASEC Mining, Citadel's only listed platform company, will continue to serve as a liquidity cushion to meet obligations and investment opportunities through on-market sales.

KPIs	New		Old		Consensus	
	2010e	2011f	2010e	2011f	2010e	2011f
Revenue (EGP mn)	126	156	-	-	-	-
BVPS (EGP)	5.45	5.46	-	-	-	-
P/BV	1.45x	1.45x	-	-	-	-

a = actual; e/f = HC's estimates/forecasts; c = consensus estimates

Buy

Target Price (EGP)	13.14
Market Price (EGP)	7.92
Upside	65.9%

Listed On	EGX
Bloomberg Code	CCAP EY
RIC	CCAP.CA

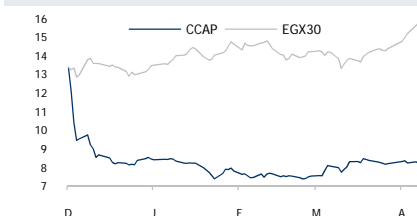
Enterprise Value (EGP mn)	5,936
Net Debt (EGP mn)	696

Market Cap. (EGP mn)	5,240
Market Cap. (USD mn)	953
Number of Shares (000)	661,625

Shareholder Structure

Free Float and Others	24%
Citadel Capital Partners (CCP)	42%
Board Members (Ex-CCP)	14%
Owning More than 1% Each	20%

Price Performance Chart



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* Disclaimer See Page 18



Private Equity – Egypt

Table 1: Citadel Capital's Valuation Details

Platform Company	Sector	Target Stake	Pro-Forma Inv. Cost (EGP mn)	Valuation Methodology	Value (EGP mn)	/CCAP Share (EGP)	Cont.
Construction and Building Materials							
ASEC Holding	Engineering, Construction, and Cement	49.8%	772	Based on Transaction Executed in Dec. 2009	2,384	3.60	27.4%
ASEC Mining	Mining	44.6%	169	Three-Month Average Market Price	226	0.34	2.6%
United Foundries	Metallurgy	51.5%	184	Based on Transaction Executed in Dec. 2009	222	0.34	2.6%
Energy							
Egyptian Refining Co.	Petroleum Refining	8.2%	561	Cost	561	0.85	6.5%
Mashreq Petroleum	Energy Distribution	27.3%	38	Cost	38	0.06	0.4%
National Petroleum Co.	Upstream Oil and Gas	14.9%	360	60% Impairment	140	0.21	1.6%
Nile Valley Petroleum	Upstream Oil and Gas	10.0%	28	Cost	28	0.04	0.3%
NOPC/Rally Energy	Heavy Oil	10.4%	359	50% Impairment	180	0.27	2.1%
TAQA Arabia	Energy Distribution	34.4%	208	Based on Transaction Executed on 4 Oct. 2009	375	0.57	4.3%
Food & Beverages							
Gozour	Agriculture and Food	20.0%	206	10x 2014 Earnings Discounted at 20% pa	423	0.64	4.9%
Gozour Real Estate	Real Estate	20.0%	76	40 mn sqm at EGP30/sqm	264	0.40	3.0%
Wafra	Agriculture and Food	37.5%	57	Cost	57	0.09	0.7%
Others							
Africa Railways	Transportation and Logistics	25.0%	83	Cost	83	0.13	1.0%
Bonyan	Specialty Real Estate	30.7%	148	10x 2013 Earnings Discounted at 20% pa	245	0.37	2.8%
Finance Unlimited	Financial Services	100.0%	207	SOTP SEB, Pharos, Tanmeyah (Cost)	308	0.47	3.5%
GlassWorks	Glass Manufacturing	20.0%	139	10x 2014 Earnings Discounted at 20% pa	199	0.30	2.3%
Grandview	Mid-Cap/Multi-Sector	13.0%	70	10x 2014 Earnings Discounted at 20% pa	154	0.23	1.8%
Nile Logistics	Transportation and Logistics	25.0%	150	Cost	150	0.23	1.7%
Tanweer	Media and Retail	100.0%	148	Cost	148	0.22	1.7%
Tawazon	Waste Management	25.0%	38	Cost	38	0.06	0.4%
Convertibles							
ASEC Holding		49.8%	278	Conversion in 2014 at Par Discounted at 17% pa	1,116	1.69	12.8%
National Petroleum Co.		N/A	52	Cost	52	0.08	0.6%
NOPC/Rally Energy		N/A	72	Cost	72	0.11	0.8%
Citadel's Principal Investments			4,403		7,463	11.28	85.9%
Asset Management Business					2,253	3.40	25.9%
Cash and Investments					395	0.60	4.5%
Due to CCP					(305)	(0.46)	-3.5%
Net Dues from (to) Platforms & Related Parties					(9)	(0.01)	-0.1%
Other Assets and Liabilities					61	0.09	0.7%
Debt*					(1,165)	(1.76)	-13.4%
Total Valuation					8,691	13.14	100.0%

*Includes 50% of c.USD130 million possible debt facility should Citadel buy back right to c.35% of management fees and carry
Source: Citadel Capital, HC Research



Attractive Entry Point at a Floor Valuation

- **Current price levels are very lucrative entry points as they imply a 5% discount to a floor, worst case valuation for Citadel; we value Citadel at EGP13.14/share (66% upside) and reiterate our Buy recommendation**
- **The market is neither discounting Citadel's asset management business nor the value potential of investments that lack a market value proxy**
- **Exits at attractive valuations are a key catalyst; new investments are not an imminent driver as size is unlikely to be significant unless the company exits or raises fresh capital**

Current market price is below a floor, worst-case scenario valuation to Citadel...

We reiterate our Buy recommendation on Citadel Capital. We value the company at EGP13.14/share, which implies a significant 66% upside to the current market price, making it one of the most attractive investment opportunities on the Egyptian Exchange, especially after the recent market rally (19% YTD). We assign a value to Citadel's principal investments as well as the asset management component of its business and then adjust for net debt and other assets/liabilities (See Table 1 for details). We lowered our target price by 11% to reflect (i) a more conservative valuation for principal investments reflecting Citadel's NAV guidance that will be provided on a semi-annual basis (previously, we attempted to value each platform) and (ii) higher net debt and other adjustments.

Citadel is currently trading at a very attractive valuation that is at a 5% discount to a floor, worst-case scenario for the company that values it at:

(i) **implied valuations (NAV) for investments that have a market value proxy** (EGP4.85/share), namely: (i) ASEC Holding, based on implied valuation of a 6% stake sale in December 2009 by Citadel to EIIC, (ii) ASEC Mining, Citadel's only publicly listed platform company, (iii) United Foundries, based on implied valuation of a 6% stake sale in December 2009 by Citadel to EIIC, and (iv) TAQA Arabia, based on the implied valuation of the sale of a 2% stake by some existing shareholders (other than Citadel) concluded in October 2009;

(ii) **impaired valuation of Citadel's oil and gas ventures** (EGP0.48/share) Rally (50% impairment) and National Petroleum Company (60% impairment). Both investments are facing production difficulties;

(iii) **a cost basis for all other principal investments** (EGP2.95/share). Egyptian Refining Company (ERC), which will stand as Citadel's second largest investment (after ASEC Holding) when capital calls are met, is valued solely based on capital commitments already met (c. EGP168 million including accrued advisory fees).

...ignoring value potential of most investments and Citadel's asset management business

The upside is significant from current price levels as investors essentially get three things for free:

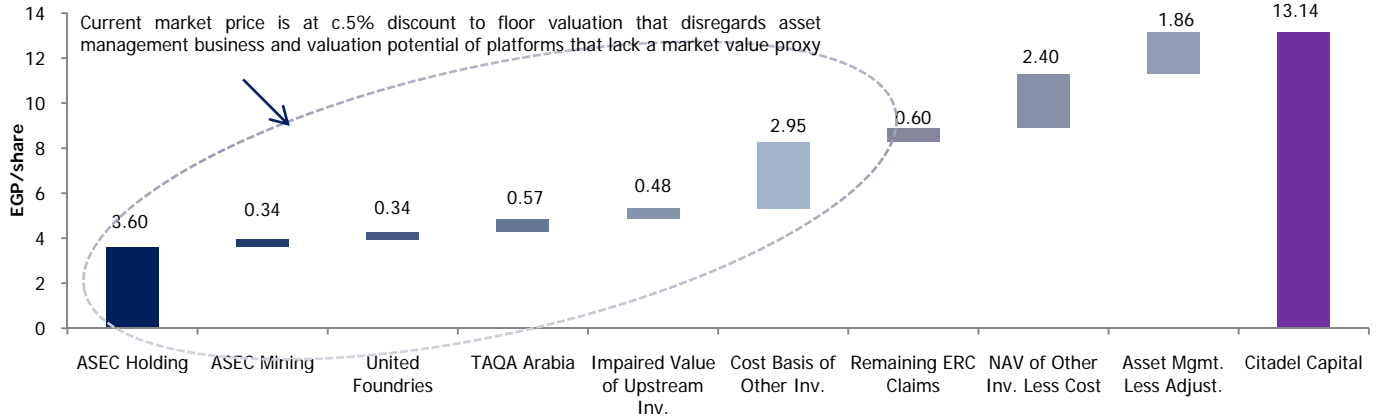
(i) **the remaining cost basis for ERC** (EGP0.60/share) based on unmet capital calls to be completed by 2013f;

(ii) **the value potential for all investments that do not have a market proxy** (EGP2.40/share). As per Citadel's valuation guidance, the investments that have value in excess of cost are Gozour Holding (including its real estate assets), Bonyan, Finance Unlimited, Glass Works, and Grandview as well as ASEC Holding's convertible bond. Citadel's guidance is based on conservative valuations that the company strives to beat when it actually exits these investments so there is even more upside than reflected in our target price;

(iii) **the asset management business less net debt and other adjustments** (EGP1.78/share), which we value based on management fees (typically 1% per annum on drawn capital) and potential carried interest (typically 20% over a hurdle rate of 12%). There is upside to our valuation of this component given: (i) that Citadel is currently only entitled to c.35% of management fees and carry with a highly likely purchase of these rights this year (we only assign a 50% probability to that scenario), (ii) potential carry from investments other than the ones we considered, (iii) higher management fees for some of the newer platforms (Citadel will earn 1.5% per annum on Africa Railways' drawn capital for instance), and (iv) a premium for the company's high-caliber management team.



Chart 1: Citadel's Valuation Breakdown



Source: HC Research

Exits remain a key catalyst but stock is trading on sentiment

The stock is currently trading largely on negative sentiment after lackluster performance since listing on 6 December 2009. Citadel's share price has underperformed the market by 57% from its listing and plummeted to a low of EGP7.39/share in March 2010, which represents a 45% decline from its first trading day. With a relatively minor recovery from price lows, the stock still has much more to go from here. Citadel offers a different "concept" to current stock market offerings in the region that investors will eventually buy into. We thus believe that as more institutional investors buy into the stock, negative sentiment will be lifted and the stock will rally. Other than improved sentiment, exits remain the main catalyst for the stock.

Exits (at the right valuation) are at the core of the company's business. Citadel will typically sell its (and co-investors') stake in mature investments, realizing gains and shifting into new investments in different sectors. Optimally, the company could have up to 25 platform companies at any one time, according to management. Currently, the company has 19 platforms, but we believe any new principal investments by Citadel are unlikely to be significant unless the company exits some of its existing portfolio, which we believe is likely over the next 12 months. This presumption will not apply should Citadel undertake a capital increase through a rights issue (which we had highlighted in our initiation report as a primary driver for the listing of the company's shares) but we see that as unlikely until the share price recovers a big chunk of its losses.

Limited risk to meeting capital calls and other liabilities

We estimate capital calls from existing platforms that Citadel must meet of over USD140 million, with c.USD80 million to be met in 2010e. ERC alone constitutes over half of expected capital calls given that Citadel and co-investors have only met about a quarter of capital commitments in excess of USD1 billion, of which 10% is payable by Citadel. We believe there are limited risks to meeting capital calls in the near term given readily available sources of c.USD145 million: (i) USD73 million in loans granted to platforms, (ii) c.USD50 million in cash and equivalents, and (iii) c.USD22 million in other dues from platforms (including advisory fees). Citadel can continue selling small stakes in listed platform ASEC Mining (with a total stake worth USD41 million based on a three-month average market price) to meet liquidity needs and boost profits, especially with the current market price being over 50% above Citadel's average cost. Citadel could also capitalize ERC's management fees over the capital drawdown period (ending 2013f) subject to co-investors' approval, which would reduce Citadel's cash capital commitment in ERC to c.USD30 million and in turn lower Citadel's total cash capital calls to over USD90 million.

Other than capital calls, the other main liability on Citadel's balance sheet is its USD147 million long-term loan facility that should be fully repaid by 2013 (10% in 2011f, 20% in 2012f, and the remaining 70% in 2013f), which we believe could be met even if no significant exits take place as receivables are paid and management fees grow. A potential obligation is the option to buy back some co-investors' right to 35% of management fees and carried interest that could be exercised at c.USD130 million, but that option would be fully financed through debt given the instant associated cash flow stream. Additionally, Citadel is currently facing a trademark infringement lawsuit filed by Chicago-based hedge fund Citadel Investment Group, which could subject Citadel to pay yet-to-be-assessed liability claims, but we believe legal proceedings could drag on.



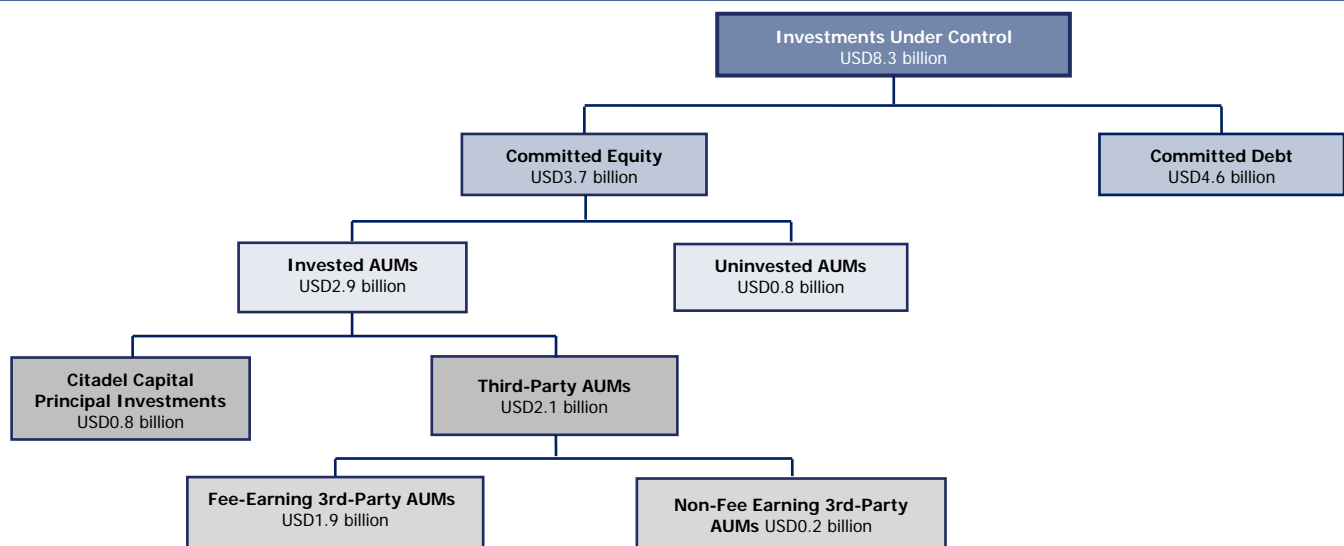
Asset Management Business

- Fee-earning third-party AUMs to grow in excess of 40% from existing platforms alone with over 80% of the growth from ERC
- Citadel is nearing first close on two new funds that are expected to collectively reach USD500 million, providing needed diversification of the company’s investor base; the funds will match Citadel’s investments 2-for-1
- We value the asset management business at EGP3.40/share based on net management fees and carried interest; Citadel has the option to buy back the rights to 34.8% of management fees and carry from anchor investors for c.USD130 million—a scenario to which we assign a 50% weight in our valuation

Fee-earning third-party AUMs to grow by over 40% from existing platforms...

We expect Citadel’s fee-earning third-party AUMs (c.USD1.9 billion in December 2009) to grow by over 40% (c.USD800 million) at the very least over the next three years from existing platform companies. A bulk of the growth will come from ERC that only had around a quarter of its c.USD1 billion committed equity drawn. Also, newly established platforms Africa Railways and Tawazon have zero capital commitments at the moment but are expected to reach c.USD100 million by year-end.

Chart 2: Breakdown of Citadel’s Investments Under Control at 31 December 2009



Source: Citadel Capital, HC Research

...supported by attempts to diversify investor base

Citadel established two new funds: the MENA Joint Investment Fund (with the International Finance Corporation and European Investment Bank) and the Africa Joint Investment Fund (with development finance institutions). The two funds will achieve first close in 2Q10e, targeting USD150 million with a total of USD500 million targeted for next year. Initial funds will mostly go into existing platforms such as Africa Railways, ERC, and Tawazon. The funds provide a much-needed diversification of the company’s investor base as both will match Citadel’s principal investments on a 2-for-1 basis applicable for every transaction Citadel enters into effective from the fund closing date.

We value Citadel’s asset management business at EGP3.40/share...

We value Citadel’s asset management business at EGP3.40/share (excluding net debt and other adjustments) based on two components: net management fees (1% per annum on drawn capital) and carried interest (20% above a hurdle rate of 12% and 15% over a hurdle rate of 15% for some of the older investments).

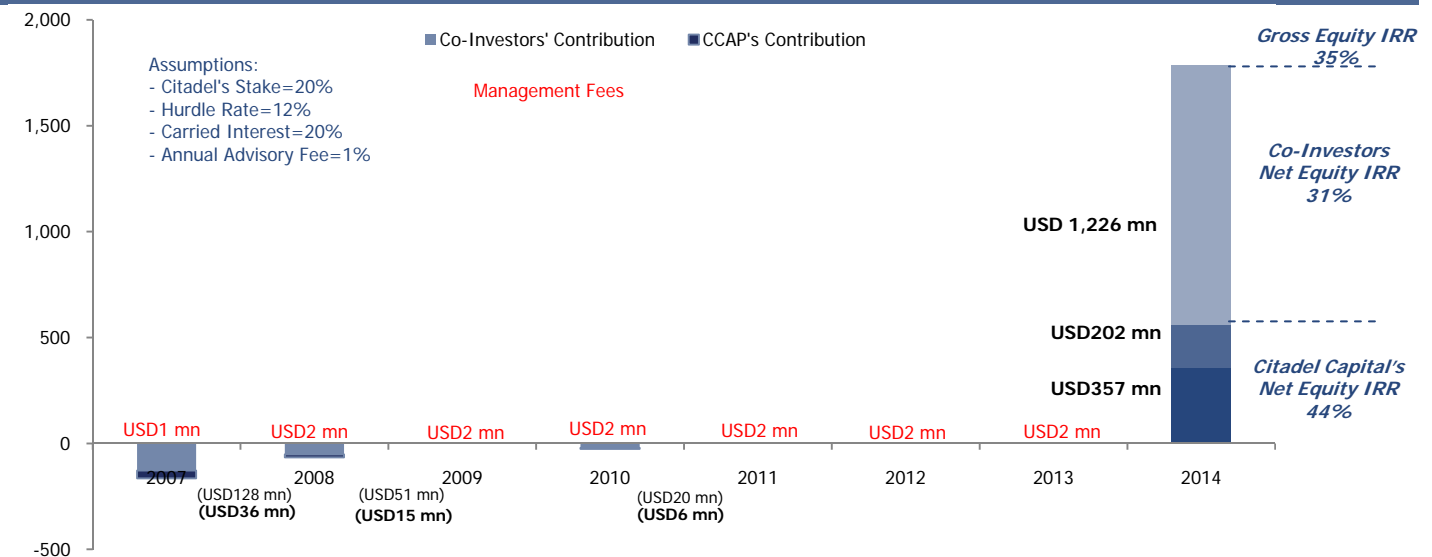
For the net management fees component, we assume 20% annual growth in fee-earning third-party AUMs and deduct selling, general, and administrative expenses, which currently stand at c.USD26 million on a normalized basis. We estimate they will grow an average 7% per annum. Our assumptions imply that management fees will outpace SG&A expenses by 2012f.



Private Equity – Egypt

For the carried interest component, we calculate the implied carry should Citadel achieve its targeted minimum gross equity IRR of 35% for only the currently operational and relatively mature fee-earning platforms, namely ASEC Holding (carry to be only earned on committed capital in its subsidiary ASEC Cement), TAQA Arabia, Gozour, and GlassWorks. We apply a discount rate of 20% to the carry given its risky nature. We use 2013f as a target exit year for ASEC Cement (by which time all greenfield cement plants should be up and running), 2010e for TAQA Arabia (given that it is the most likely near-term exit target in our view), and 2014f for Gozour and GlassWorks. Chart 3 demonstrates the methodology for arriving at carried interest that we incorporated in our valuation using Gozour Holding as an example.

Chart 3: Demonstrating carried interest generation using Gozour as an example



Source: HC Research

...while factoring in option to buyback right to 100% of management fees and carried interest

Citadel formulated an agreement in 2004 with anchor limited investors whereby they are entitled to receive 34.8% of management fees and carried interest from Citadel's Opportunity-Specific Funds. Citadel currently has the option to fully buyback these rights for c.USD130 million—an option we believe management is highly likely to exercise this year as some exits loom. Should management opt to exercise this option, it will most likely be fully financed through debt, which should not be difficult given the company's balance sheet and the immediate cash flow stream associated with exercising the option. In our valuation of Citadel's asset management business, we consider both scenarios—not exercising and exercising the buyback option—and assign each a 50% weight. We account for Citadel's USD147 million (EGP808 million) on-balance sheet debt (deducted from our overall valuation) in our WACC calculation for the asset management business. We adjust WACC further for the buyback option scenario to incorporate the additional USD130 million in debt. We also deduct 50% of the value of the debt associated with the buyback option from the overall valuation to match our assigned probability for the scenario.

Table 2: Citadel's Asset Management Business Valuation Summary

Scenario Description	Management Fees (EGP)	Carried Interest (EGP)	Value/Share (EGP)	Probability	Prob.-Weighted Value (EGP)
65.2% Entitlement	0.79	1.75	2.53	50%	1.27
100.0% Entitlement	1.60	2.68	4.28	50%	2.14
Value					3.40

Source: HC Research



Private Equity – Egypt

Table 3: Management Fees Component of Asset Management Business Valuation

USD mn	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Scenario I – 65.2% Entitlement										
<i>3rd Party Fee Earning AUMS</i>	2,288	2,746	3,295	3,954	4,745	5,694	6,833	8,199	9,839	11,807
Management Fees	14	18	21	26	31	37	45	53	64	77
SG&A Expenses	(26)	(28)	(30)	(32)	(34)	(36)	(38)	(40)	(42)	(45)
Other	1	-	-	-	-	-	-	-	-	-
Cash Flows	(11)	(10)	(8)	(6)	(3)	1	7	13	22	32
<i>Cost of Equity</i>	14.8%									
<i>Equity Weight</i>	86.8%									
<i>After-Tax Cost of Debt</i>	2.4%									
<i>Debt Weight</i>	13.2%									
<i>WACC</i>	13.1%									
<i>Perpetual Growth Rate</i>	3.0%									
Value (EGP mn)	521									
Value/Share (EGP)	0.79									
Scenario II – 100% Entitlement										
<i>3rd Party Fee Earning AUMS</i>	2,288	2,746	3,295	3,954	4,745	5,694	6,833	8,199	9,839	11,807
Management Fees	21	27	33	40	47	57	68	82	98	118
SG&A Expenses	(26)	(28)	(30)	(32)	(34)	(37)	(39)	(42)	(45)	(48)
Other	(129)	-	-	-	-	-	-	-	-	-
Cash Flows	(134)	(0)	3	8	13	20	29	40	54	70
<i>Cost of Equity</i>	14.8%									
<i>Equity Weight</i>	77.7%									
<i>After-Tax Cost of Debt</i>	5.8%									
<i>Debt Weight</i>	22.3%									
<i>WACC</i>	12.7%									
<i>Perpetual Growth Rate</i>	3.0%									
Value (EGP mn)	1,059									
Value/Share (EGP)	1.60									

Source: HC Research

Table 4: Carried Interest Component of Asset Management Business Valuation

Platform	Exit Year	Hurdle Rate	Carry over Hurdle Rate	Gross Equity IRR	Value (USD mn)	Value/Share (EGP)
ASEC Cement Holding	2013	15%	15%	35%	142	1.18
Gozour Holding	2014	12%	20%	35%	98	0.81
GlassWorks	2014	12%	20%	35%	55	0.46
TAQA Arabia	2010	15%	15%	35%	27	0.23
Scenario 1 (65.2% Entitlement)						1.75
Scenario 2 (100.0% Entitlement)						2.68

Source: HC Research



Principal Investments

- We value Citadel's principal investments at EGP11.28/share mostly based on Citadel's valuation guidance
- ASEC Holding is valued at EGP3.60/share (32% of principal investments' valuation) based on implied-valuation of a recent 6% stake sale; we conducted a conservative valuation exercise that assumes a 2013f exit, which yielded a 22% premium to deal-implied valuation
- TAQA Arabia is a possible near-term exit target; the company is seeking to IPO a 30%–40% stake, which would allow Citadel and its co-investors to exit over time

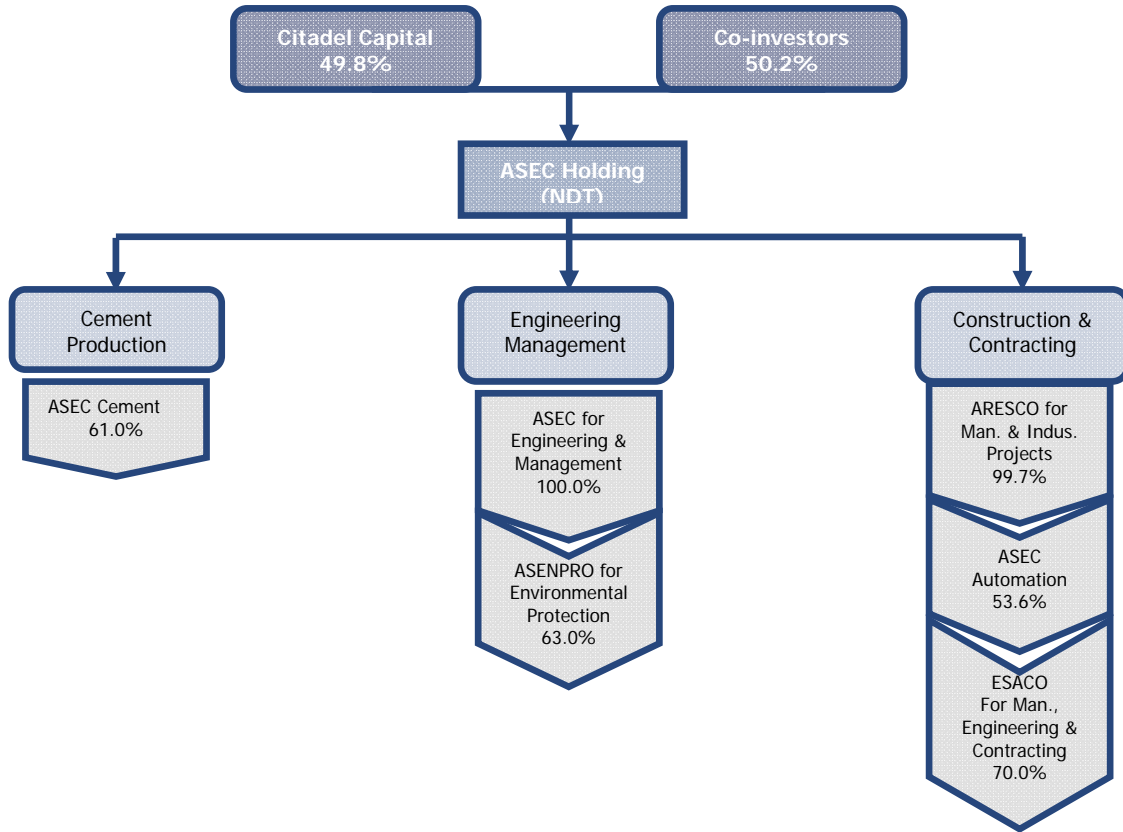
We assign a value of EGP11.28/share for Citadel's principal investments

We value Citadel's principal investments at EGP11.28/share (excluding net debt and other adjustments). We rely for the most part on Citadel's valuation guidance for its principal investments. Previously, we attempted to value each platform separately, which we believe will be difficult to sustain given limited disclosures on the different platforms. The main difference between our assigned portfolio investments value and Citadel's guidance is that we value ERC at cost based on total capital commitments (versus paid capital commitments in Citadel's guidance) and ASEC Mining based on a three-month average market price from 1 January to 31 March 2010 (versus the price on 31 December 2009 in Citadel's guidance). We believe the market should not assign a discount to the valuation guidance (or Portfolio NAV) as it only represents a conservative valuation on Citadel's part, which it aims to surpass. Given that all platforms except ASEC Mining are not public, the Portfolio NAV should only serve as a guide to a floor valuation for Citadel.

ASEC Holding: Largest investment, another partial exit?

ASEC Holding—a well-integrated platform in the cement, construction, and engineering sectors—is Citadel's largest investment representing c.24% of its capital commitments (including the convertibles). It is also its oldest investment dating back to December 2004. We believe a full exit is unlikely in the near-term as restructuring efforts are still in place (especially at ARESCO), and c.80% of contracted cement capacities are yet to come on stream. However, given the size of the investment and Citadel's relatively large stake (49.8%), it is likely that Citadel could sell further small stakes to reduce the skew of its portfolio to the cement and construction sectors as well as provide some liquidity to fund new investments in existing and new platforms.

Chart 4: ASEC Holding's Corporate Structure



Source: Citadel Capital, HC Research

We value ASEC Holding based on the implied valuation from the 6% stake sale executed in December 2009, which valued the company at USD870 million (EGP4.8 billion). We are firm believers in the medium-term value prospects of this platform. We conduct a simple valuation exercise based on ASEC Holding's business plan to gauge ASEC Holding's value potential assuming exit in 2013f, which yielded a valuation that is 22% higher than that implied by the December 2009 deal. We, however, believe that there is significant upside to our valuation especially as we believe that the cement business could be sold at a higher EV/ton than our assumed USD300/ton especially given the favorable cost environment in some countries. For instance, Algeria's plants are expected to have an energy cost of USD8–USD11/ton as opposed to up to USD32/ton for the other plants. Additionally, we exclude other ASEC Holding subsidiaries—namely ASENPRO and ASEC Automation—from our valuation exercise.



Private Equity – Egypt

Table 5: Conservative valuation of ASEC from a 2013f exit perspective is at c.22% premium to recent deal-implied valuation

Plant	Country	Stake	Capacity (mtpa)	Proportionate EV (USD mn)
ASEC Cement Holding				
Djelfa	Algeria	54.0%	4.0	648
Zahana	Algeria	35.0%	2.8	294
ANCC - Minya	Egypt	51.0%	1.6	245
MCQE	Egypt	27.6%	1.6	132
Al Takamul	Sudan	51.0%	1.6	245
Abu Shamat	Syria	51.0%	1.6	245
Enterprise Value				1,809
<i>Implied EV/Ton</i>				<i>300</i>
<i>Implied EV/Prop. EBITDA (2014f)</i>				<i>6.01x</i>
Proportionate Net Debt				373
Undiscounted Equity Value				1,435
Equity Value Discounted at 15%				850
ASEC Holding's Stake: 61.0%				518
ASEC Engineering				
2014f Net Income				45
Undiscounted Value at 10x P/E				451
<i>Implied EV/EBITDA (2014f)</i>				<i>7.52x</i>
Equity Value Discounted at 15%				267
ASEC Holding's Stake: 100.0%				267
ARESCO				
2014f Net Income				31
Undiscounted Value at 10x P/E				309
<i>Implied EV/EBITDA (2014f)</i>				<i>5.48x</i>
Equity Value Discounted at 15%				182
ASEC Holding's Stake: 99.7%				182
ESACO				
2014f Net Income				22
Undiscounted Value at 10x P/E				224
<i>Implied EV/EBITDA (2014f)</i>				<i>6.56x</i>
Equity Value Discounted at 15%				133
ASEC Holding's Stake: 70.0%				93
ASEC HOLDING VALUATION				1,060
Citadel's Stake - 49.8%				528
/CCAP Share (EGP)				4.39
<i>Deal-Implied Valuation/CCAP Share</i>				<i>3.60</i>
<i>Premium</i>				<i>22%</i>

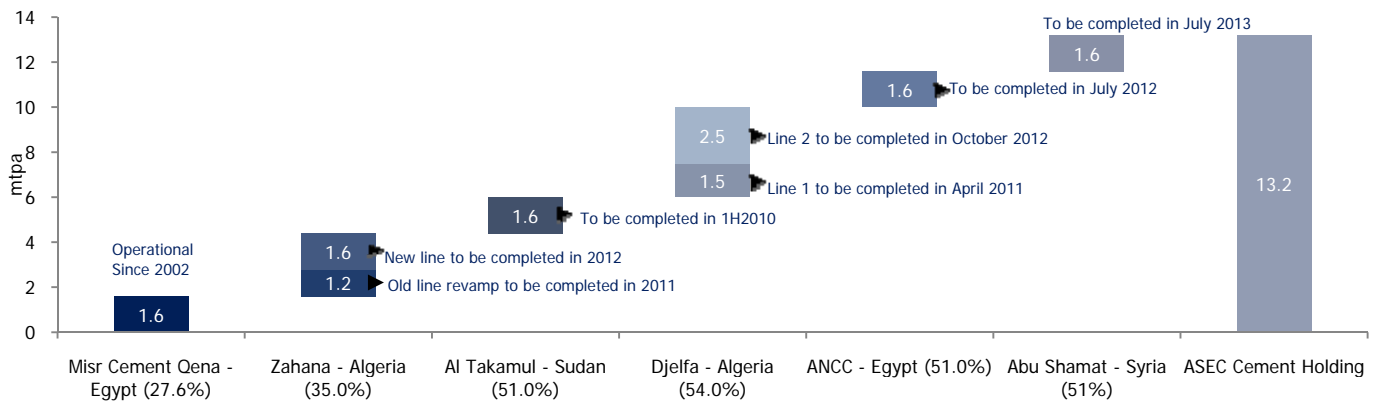
Source: Citadel Capital, HC Research

ASEC Cement Holding (ACH)

The key value driver for ASEC Holding, ACH is expected to have capacity of over 13 million tons per annum (of which only 2.8 mtpa is currently operational) in Algeria, Egypt, Sudan, and Syria. With the exception of Egypt's Misr Cement Qena and Algeria's Zahana, all additional capacities are greenfields. The company is targeting consolidated revenue of USD1.41 billion and EBITDA of USD662 million by 2014f when all capacities come on stream. ACH acquired an 85% stake in GRD Cement in Northern Iraq, allowing it to construct a USD250 million greenfield cement plant that is not yet included in the company's business plan.

Private Equity – Egypt

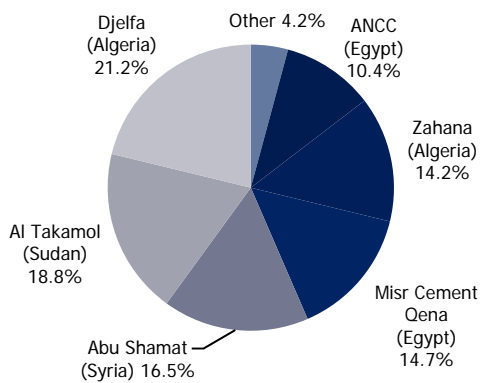
Chart 5: ACH is set to have 13.2 million tons per annum capacity by 2013f



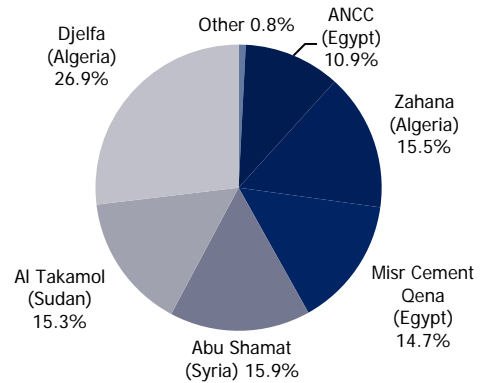
Source: HC Research

Chart 6: ACH's revenue is expected to reach USD1.41 billion and EBITDA USD662 million by 2014f

2014f ACH Revenue Breakdown

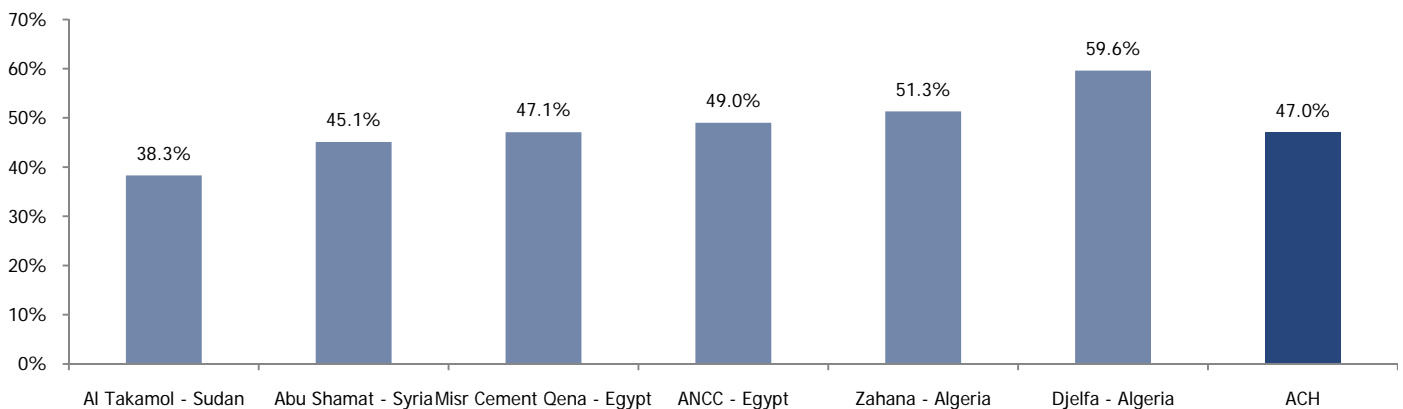


2014f ACH EBITDA Breakdown



Source: Citadel Capital, HC Research

Chart 7: ACH's 2014f EBITDA Margin by Subsidiary

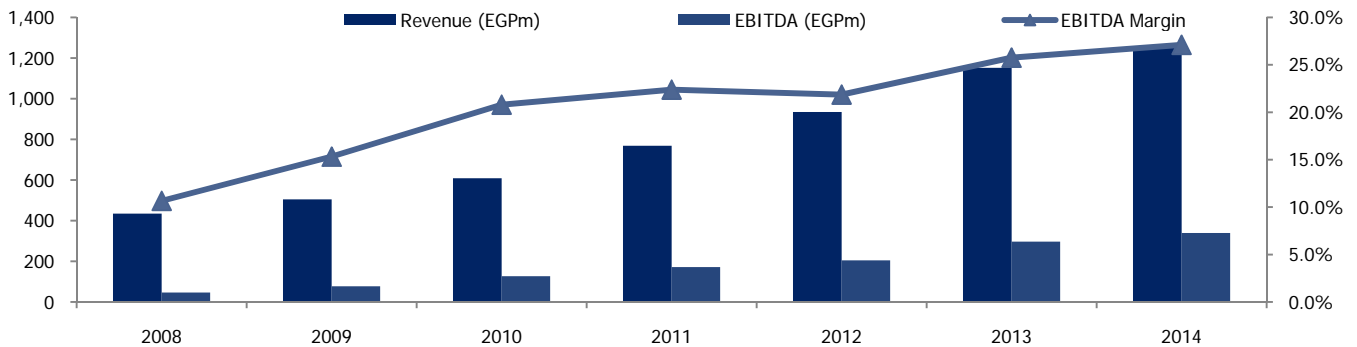


Source: Citadel Capital, HC Research

ASEC Engineering and Management

ASEC Engineering and Management specializes in technical management (over 90% of its revenue), managing cement plants on behalf of their owners with responsibility for production, spare parts, and inventory management. The company is currently managing 15 mtpa of cement. Tonnage under management is expected to reach 28 mtpa by 2014f (mainly from existing countries and ACH's to-be-launched greenfields such as Djelfa, Al Takamul, and Abu Shamat), boosting revenue to EGP1.25 billion (a 20% CAGR) and EBITDA to EGP340 million (a 34% CAGR).

Chart 8: ASEC Engineering's revenue to grow at a CAGR (2009a–14f) of 20% and EBITDA at 34%

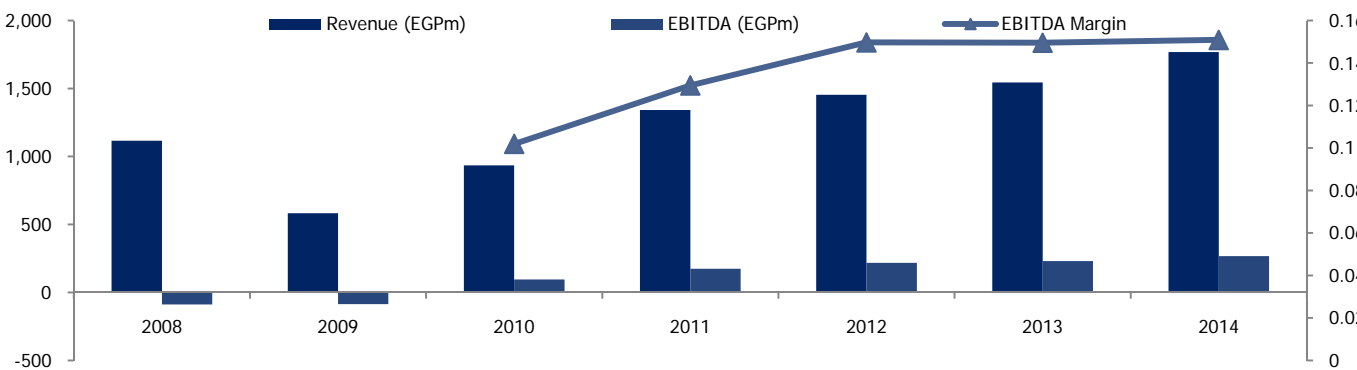


Source: Citadel Capital, HC Research

ARESCO

ARESCO provides integrated turnkey construction services with a skew to the cement sector. The company is currently EBITDA negative and is being restructured (new management was appointed in late 2008) to enhance profitability. The full impact of this will bear fruit in 2012f by which time the company's EBITDA margin is expected to settle at c.15%. It is highly dependent on ACH (c.64% of 2009 revenue), which management aims to reduce and should end in 2013f when all of ACH's new lines are up and running.

Chart 9: ARESCO's profitability enhancement restructuring to fully bear fruit by 2012f

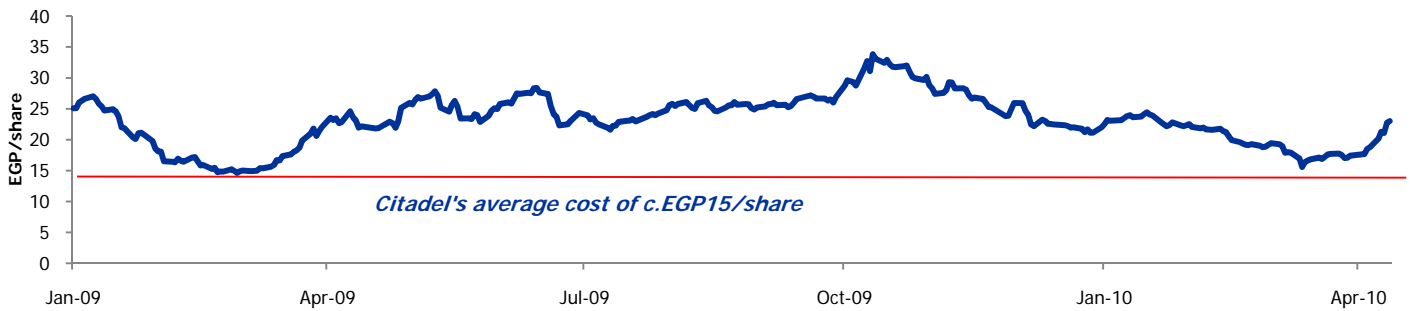


Source: Citadel Capital, HC Research

ASEC Mining: The Liquidity Cushion

Citadel reduced its stake in ASEC Mining to 45% from 65% since its listing on the Egyptian Exchange in February 2007 through on-market sales—a practice we expect to continue as long as the market price is attractive. We believe Citadel is currently utilizing its investment in ASEC Mining to provide liquidity for new investments, capital calls, and other obligations through partial sales capitalizing on the fact that it is currently Citadel's only publicly-listed, directly-owned investment. The current market price is attractive as it is at a premium of over 50% to Citadel's average cost price of c. EGP15/share.

Chart 10: ASEC Mining's Share Price Performance (January 2009-April 2010)



Source: Reuters, Citadel Capital, HC Research

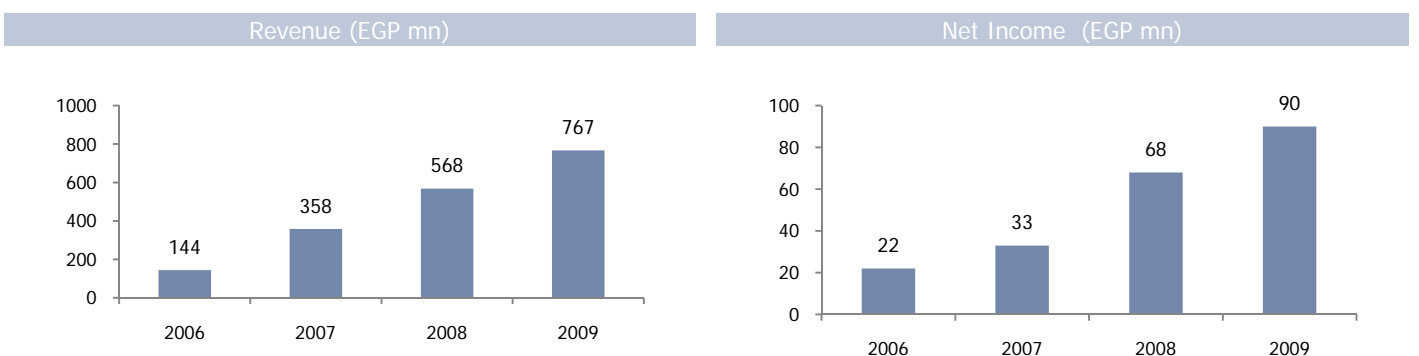
TAQA Arabia: An Exit Looming?

TAQA Arabia is one of the relatively older and restructured investments, and a near-term exit from it is not far-fetched. Procedures to list the company on the Egyptian Exchange are currently in place and EFG-Hermes has been mandated for a possible IPO of a 30%–40% stake. The IPO will enable TAQA Arabia to raise capital to fund expansions in its capital-intensive power segment as well as country diversification plans. The company's largest segment currently is gas division, constituting c.70% of revenue, but TAQA Arabia aims to grow its power generation and distribution division from the current c.25% contribution to top line. TAQA Arabia also hopes to generate c.50% of revenue from outside Egypt by 2012f.

If offered to the public, Citadel could opt to sell a portion of its 34.4% stake in TAQA Arabia through the offering and then gradually divest its stake through on-market sales post listing, especially since the offering will aim to raise new capital for the company. Selling its entire stake all at once is more likely to be done through a private placement or sale to a strategic shareholder. However, we see that scenario as unlikely as Citadel would also be seeking to exit for co-investors as well. With committed equity to TAQA Arabia (including Citadel's stake) representing 83% of the company, we believe a partial exit through the IPO followed by sequential sales is more likely.

The current valuation of TAQA Arabia as per Citadel's guidance is based on a deal concluded in October 2009 when some shareholders sold a 2% stake, which valued the company at c.USD198 million (EGP1.1 billion) and at 12x 2009 earnings. We believe the potential IPO will be at a higher valuation given growth prospects driven by: (i) increased gas installations to new residential areas and in Upper Egypt for the gas division, and (ii) new generation and distribution capacities at the power division (contracted capacity of 240 MW) that should also benefit from increased government spending on electricity infrastructure and sector deregulation.

Chart 11: TAQA Arabia's Income Statement KPIs (2006-2009)



Source: Citadel Capital, HC Research



Egyptian Refining Company (ERC): Overhang being lifted, remains a major long-term value driver

ERC, Citadel's unique USD3.5 billion refinery project, remains one of our most favored investments by Citadel given its exceptionally sound economics and potential. The USD2.25 billion debt facility, which came to a halt as the financial crisis hit, is due to close in 2Q10e. ERC, which should stand as Citadel's second largest principal investment when capital calls are met, is also key for near-term growth in fee-earning AUMs as about a quarter of its c.USD1 billion committed equity has been drawn and it thus represents Citadel's largest capital commitment currently. We value Citadel's principal investment in ERC at cost (post all capital calls) since exit is unlikely until the refinery is operational by 2014f, but we are strong believers in ERC's long-term value potential.

Upstream Ventures: Looking better but problems sustain, crucial for management fee generation at this stage

Citadel's upstream oil and gas investments—Rally and National Petroleum Company (NPC)—are still facing production difficulties. In Rally's case, Egypt's Issaran field has challenging economics related to the high density nature of its reserves. On a positive note, optimization efforts at Rally are paying off with production increasing 55% at Issaran in February 2010 compared to December 2008. Rally's net working interest at Egypt and Pakistan currently stands at 5,200 bopd. NPC also raised total production to 1,908 bopd with increased production from Shukheir Bay-5 from 60 to 1,600 bopd last December. Still, production levels remain relatively low and the two investments (which collectively stand at EGP843 million including convertibles) still represent the largest risk across Citadel's portfolio investments. Citadel's valuation guidance assumes an impairment of 50% for Rally and 60% for NPC. Although a near-term exit is unlikely until production levels improve, the possibility of a distressed sale should not be entirely ruled out. Management, however, has recently indicated that there is growing interest from large oil operators to either partner in or buy those assets. The two investments collectively represent the largest component (c.40%) of third-party fee-earning AUMs and are thus the largest contributors to management fees currently.

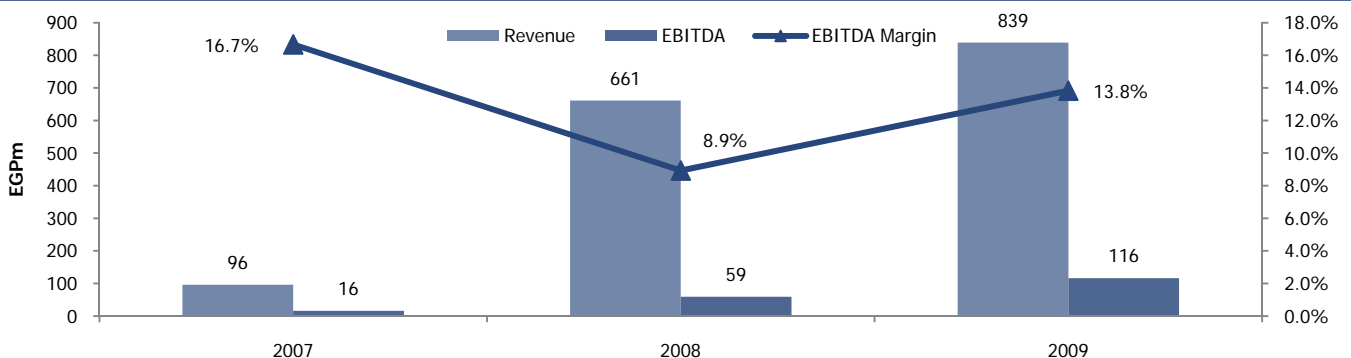
Gozour Holding: Integration and restructuring are ongoing, land will be spun-off at right price

We believe a near-term exit from Gozour Holding is unlikely as consolidation (the group concluded the major acquisition of dairy products and juice producer Enjoy in July 2009) and restructuring efforts are still ongoing. As part of value enhancement efforts, the platform is seeking to achieve backward integration by reducing exposure to raw material cost fluctuations, increasing self-sufficiency to 50%–60% by 2012f from 28%–30% currently. Gozour is reportedly in advanced talks to buy an Ethiopian food firm with the deal expected to be completed in 1H10e. If it goes through, the deal would allow Gozour to engage in "contract farming" in Ethiopia, which involves financing farmers and in return reaching an agreement to use the crops in factories in Egypt and eventually in Ethiopia. Gozour also hopes to expand into Uganda and Kenya, which are also rich in raw materials.

We believe Citadel's valuation guidance for Gozour Holding (excluding land) of USD385 million (EGP2.1 billion) is conservative as it values the company at 2.5x 2009 sales revenue, not accounting for the large growth potential with expected double-digit sales growth in the medium-term. The company's 2010e revenue is expected to be substantially higher than 2009's as all of Enjoy's sales will be consolidated, as opposed to c.50% in 2009 to match the timing of the acquisition

Gozour also has 40 million square meters of unutilized land belonging to Dina Farms that is a beneficiary of regulatory changes as the land can be used for residential and commercial developments. The land will either be sold or spun off as a real estate company, which is something that could happen in the near-term. Valuation guidance puts the land at a conservative EGP30/square meter, or USD218 million (EGP1.2 billion) for the entire plot.

Chart 12: Gozour's KPIs 2007–2009



Source: Citadel Capital, HC Research



GlassWorks: Greenfield starts operations

GlassWorks announced in February 2010 the commissioning of 51%-owned Sphinx Glass, its 220,000 square meter EGP1.1 billion greenfield float glass factory. Initial capacity is at 600 tpa and is expected to reach full capacity of 200,000 tpa by 2012f. Misr Glass Manufacturing (MGM), GlassWorks' operational 35%-owned container glass factory, is still undergoing capacity expansions where current capacity will nearly triple to 309,000 tpa by 2013f driven by the completion of MGM's fully-owned plant United Glass Company (UGC). We don't expect a near-term exit until the company's investment phase is completed for the most part.

Finance Unlimited: Micro-financing growing rapidly

Finance Unlimited, Citadel's fully-owned investment holding company, is seeing its newly launched micro-financing business, Tanmeyah for Micro Enterprises Services, grow aggressively. Established in July 2009, it currently has 52 branches, over 200 employees in seven governorates, and a loan book of over EGP50 million. Citadel spun off Sphinx Private Equity Management in 2009 to Finance Unlimited's investment banking subsidiary, Pharos Holding. Sphinx held first close on a USD100 million turnaround fund that targets distressed SMEs in Egypt. Citadel recently hired a new CEO for Finance Unlimited to develop the business and expand Citadel's financial services presence to frontier markets with a focus on East African countries such as Kenya, Tanzania, and Uganda. Given its relatively strategic nature and numerous synergies with Citadel's core business, we see limited likelihood of a near-term exit and believe that any future divestments will only be partial.

Some Other Investments: Great ideas but still a long way to go

Africa Railways

Africa Railways aims to invest in African land transportation. Currently, equity is solely provided by Citadel at USD15 million (EGP83 million). Citadel is targeting a 25% stake in the platform and total committed equity of USD70 million, the majority of which will be provided by the two new funds expected to achieve first close in 2Q10e.

Seed capital provided by Citadel was used to acquire a 49% stake in Sheltam Railways Company, which owns a 35% stake in Rift Valley Railways (RVR) of Kenya and Uganda. RVR has 25-year concession to operate the 2,000 km rail line linking the port of Mombasa in Kenya with the interiors of both Kenya and Uganda. Investments of c.USD150 million will be injected into the Kenya/Uganda railway over the coming five years, increasing handling capacity five times to 5 million tons/annum. Citadel plans to eventually up its stake in Sheltam to 100%. The lack of operating transportation capacity in East Africa has inflated transport prices: it costs more than USD0.13/ton to transport goods from Kenya to Uganda. The company expects transport costs to drop by 50% with the development of an efficient rail network.

In its second venture into African land transportation, Citadel signed an agreement with Sudanese Railway Corporation in March 2010 under which its company, Nile Valley Railways (NVR), will offer cargo transport services under a revenue-sharing agreement. Sudanese Railway Corporation operates more than 4,500 km linking Port Sudan to Khartoum, Wadi Helifa on the Egyptian border to South Sudan, and Babnanusa in Central Sudan to Wau in South Sudan. NVR will purchase rolling stock, including wagons and locomotives, which will run on the existing railway's infrastructure. Due diligence is currently being finalized.

Nile Logistics

Nile Logistics is Citadel's 25%-owned platform with investments in the river transport sector in Egypt and Sudan that aims to capitalize on the under penetration of the transport mode despite available resources, namely the Nile River. National River Ports Management Company (NRPMC) opened its Tanash port (rented under a 15-year tender) in 1Q10 with handling capacity of 2 million tons and 110,000 TEUs per annum. NRPMC has committed USD27 million to develop an unparalleled river-transport network. It is developing four other river ports in Alexandria, Beni Suef, Minya, and Tebbin. It also plans to roll out new ports in Assuit and Aswan. Nile Cargo is still building its 62 new barges, with the first barge to be delivered by mid-2010. The new fleet will bring total annual capacity to over 10 million tons by 2015f.

In a recent development, Nile Logistics was awarded a five-year contract to transport up to 2 million tons of wheat per annum along the Nile for Egypt's General Company for Silos and Storage. Three of Nile Cargo's barges will move 750,000 tons of wheat in 2010 with tonnage granted to GCSS to increase to 2 million by 2012f.

**Tawazon**

Tawazon, Citadel's platform for solid waste management, was established through the acquisition of Egyptian Company for Solid Waste Recycling (ECARU) and the Engineering Tasks Group (ENTAG). Currently, equity is solely provided by Citadel at USD7 million (EGP38 million). Citadel is targeting a 25% stake in the platform and total committed equity of USD40 million, the majority of which will be provided by the two new funds expected to achieve first close in 2Q10e.

ECARU was established in 1997 and mainly collects and processes more than 500,000 tons per year of agricultural solid waste, particularly rice straw. The company's operations in the South of Cairo process up to 1,500 tons of municipal waste per day, producing compost and extracting recyclable materials. Additionally, it signed a greenhouse gas emission reduction purchase agreement with the World Bank in the summer of 2008, agreeing to sell 325,480 tons of carbon dioxide equivalent greenhouse gas emission reductions to the Carbon Fund for Europe. ENTAG was established in 1995 and specializes in designing, manufacturing, and erecting solid waste management systems.

Wafra

Wafra, Citadel's 37.5%-owned platform for investments in the agricultural sector, includes portfolio companies Sudanese Egyptian Agricultural Crops (SEAC), which has 250,000 feddans in South Sudan that will be ready to seed 20,000 feddans by the beginning of the rainy season in mid-2011, and Sabina, which has 250,000 feddans in North Sudan that will have 3,000 feddans under cultivation by next June. Wafra recently established its third portfolio company El-Nahda for Integrated Solutions, which signed an agreement with the White Nile Governorate whereby it will lease 60,000 feddans of land in south of Khartoum for 30 years to build Sudan's first large-scale commercial rice farm. The farm will grow long-grain rice that will be processed at a rice mill on the site and will be primarily used for local consumption as Sudan is a net rice importer. Citadel is targeting committed equity of USD40 million in Wafra and a 49% stake in the platform.



Financial Statements*

EGP mn	2009a	2010e	2011f	2012f	2013f	2014f
Unconsolidated Income Statement						
<i>Fee-Earning Third-Party AUMs (USD mn)</i>	1,900	2,288	2,746	3,295	3,954	4,745
Advisory Fees	104	117	151	181	217	261
Dividend Income	14	-	-	-	-	-
Gains on Sale of Investments	273	-	-	-	-	-
Carried Interest	-	5	-	-	-	-
Revaluation Gains	-	-	-	-	-	-
Other Operating Income	49	4	5	5	5	5
Total Revenue	439	126	156	186	222	266
General and Administrative Expenses	(172)	(143)	(153)	(164)	(175)	(186)
Depreciation	(9)	(9)	(10)	(10)	(10)	(10)
Impairment Loss on Assets	(21)	-	-	-	-	-
Provisions	(3)	-	-	-	-	-
Management Fee	(23)	(0)	(1)	(1)	(1)	(2)
Others	-	-	-	-	-	-
EBIT	211	(27)	(8)	11	37	68
Interest Income	36	62	41	35	27	3
Interest Expense	(31)	(31)	(27)	(38)	(59)	(53)
FX Gains (Losses)	(7)	-	-	-	-	-
Net Profit Before Tax	210	4	6	9	5	18
Taxes	1	0	0	0	0	0
Net Profit	211	4	6	9	5	19
Unconsolidated Balance Sheet						
Current Assets						
Cash and Equivalents	248	191	237	259	49	151
Due from Related Parties (Net)	611	536	321	223	187	184
Other Debit Balances	17	17	16	16	16	15
Total Current Assets	877	744	573	498	252	351
Non-Current Assets						
Available-for-Sale Investments	31	31	31	31	-	-
Investments in Subsidiaries and Associates (Net)	2,352	2,236	2,236	2,236	2,236	2,236
Payments for Investments	1,027	1,471	1,647	1,760	1,777	1,777
Fixed Assets (Net)	84	85	85	86	87	89
Loans to Sister Companies	400	320	240	160	80	-
Deferred Taxes	1	1	1	1	1	1
Total Non-Current Assets	3,894	4,143	4,240	4,274	4,181	4,102
Total Assets	4,771	4,887	4,814	4,772	4,432	4,453
Current Liabilities						
Short-Term Loans	-	81	162	566	-	-
Bank Overdrafts	-	110	110	220	440	440
Due to Related Parties	305	306	306	307	308	310
Other Credit Balances	40	42	42	42	43	43
Provisions	14	14	14	14	14	14
Total Current Liabilities	359	552	634	1,149	805	807
Non-Current Liabilities						
Loans & Borrowings	808	727	566	-	-	-
Deferred Tax Liabilities	-	-	-	-	-	-
Total Non-Current Liabilities	808	727	566	-	-	-
Total Equity	3,604	3,608	3,614	3,622	3,627	3,646
Unconsolidated Cash Flow Statement						
Operating Cash Flows	37	91	233	118	53	34
Investing Cash Flows	(458)	(258)	(107)	(44)	83	68
Financing Cash Flows	544	110	(81)	(52)	(346)	-
Change in Cash	123	(57)	45	22	(210)	102

*Financial statements are not reflective of Citadel's potential and are thus not significant. We don't assume any exits in our forecasts.



Rating Scale

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

Disclaimer

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