Initiation of Coverage

20 March 2012

BUY

Target Price: JD 9.90
Consider Buy: JD 8.40*
Uncertainty Rating: Medium*
Upside to Target Price: 56%

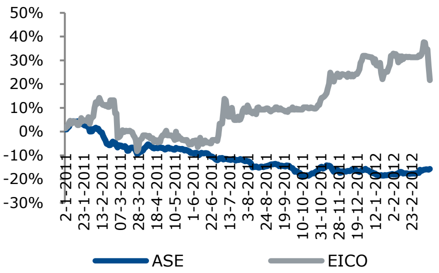
Al-Eqbal Investment Co. (EICO)

A Deep-Value Play in a Growing Market

Share Data	
Current Price (JD)	6.35
Market Cap (JD mn)	127.0
Shares Outstanding (mn)	20.0
YTD Change	-5.2%
52-week Low (JD)	4.66
52-week High (JD)	6.99
Avg. Daily Trading Volume	6,306
Avg. Daily Trading Value (JD)	37,472
Free Float	22.0%
Exchange	ASE
Reuters Code	EICO.AM
Bloomberg Code	EICO JR

- **Initiating with a Buy, 56% upside potential**
  We initiate coverage on Al-Eqbal Investment Company (EICO), one of the world's leading producers of flavored tobacco, with a Buy rating and a DCF-derived price objective of JD9.90, implying a 56% upside potential.
- **Four reasons to buy EICO**
  We recommend investing in EICO shares for the following reasons: i) its strong pricing power; ii) limited input cost pressures, in contrast to other staples categories; iii) significant cost savings potential to amplify robust top-line trends at the earnings line; and iv) plenty of options for shareholder-friendly use of the company's remarkable cash generation.
- **Solid balance sheet and cash flows**
  EICO's solid operational and restructuring efforts have transformed the company to a nearly debt-free state, with strong free cash flows and dividends, contrasted with around JD24.0 million of debt at year-end 2010. The company paid a DPS of JD1.0 for FY 2011, a current yield of 15.7%.
- **Risks are manageable in our view**
  Like all other tobacco producers, EICO is sensitive to higher taxation on tobacco-related products and increased smoking restrictions, in addition to a stronger US Dollar which could also weigh on the company's top line. However, we believe that in the case of EICO, these risks are relatively manageable given the geographic diversification of the company's revenues and the size of the still untapped markets that EICO could still grow into.

Share Price Performance



Income Statement (JD mn)	2011A	2012F	2013F	2014F	2015F
Sales	83.30	82.00	90.20	98.32	106.18
COGS	(51.50)	(45.92)	(50.51)	(55.06)	(61.06)
EBITDA	21.73	26.56	29.69	32.76	34.11
NOPAT	17.34	22.97	25.73	28.34	29.33
Net Income	21.27	22.79	25.58	28.22	29.22
EPS (JD)	1.06	1.14	1.28	1.41	1.46
Balance Sheet (JD mn)	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**
Total Assets	67.66	69.65	75.63	81.73	86.75
Debt	0.19	0.00	0.00	0.00	0.00
Invested Capital	42.49	40.70	41.59	43.15	44.43
Equity	56.55	59.33	64.40	69.60	73.42
BVPS (JD)	2.83	2.97	3.22	3.48	3.67
Key Ratios	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**
Gross Margin (excluding Dep.)	38.17%	44.00%	44.00%	44.00%	42.50%
EBIT Margin	22.48%	29.78%	30.33%	30.66%	29.38%
Net Margin	25.57%	27.79%	28.36%	28.70%	27.51%
ROaA	27.77%	33.19%	35.21%	35.86%	34.68%
ROaE	41.61%	39.33%	41.34%	42.11%	40.86%
ROIC	30.72%	54.05%	63.22%	68.14%	67.97%
ROIC-WACC	16.22%	39.55%	48.72%	53.64%	53.47%
Debt/Equity	0.33%	0.00%	0.00%	0.00%	0.00%

Source: EICO Financials, Capital Investments (CI) Estimates

Valuation Multiples	2011	2012F
P/E (x)	5.99	5.60
P/B (x)	2.24	2.14
Div. Yield (%)	15.7	15.7

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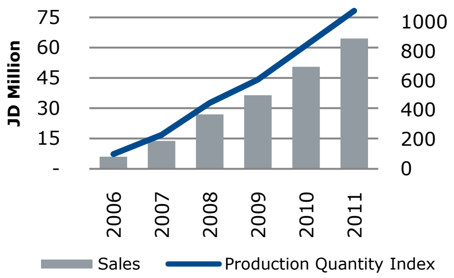
*: See page 13 for Rating System & Valuation Methodology

INVESTMENT THESIS

We initiate coverage on Al-Eqbal Investment Co. (EICO) with a BUY rating and a 12-month price target of JD9.90, offering 56% total return potential. Our favorable view is based on the following:

Figure 1: Al-Fakher Historical Sales vs Volumes

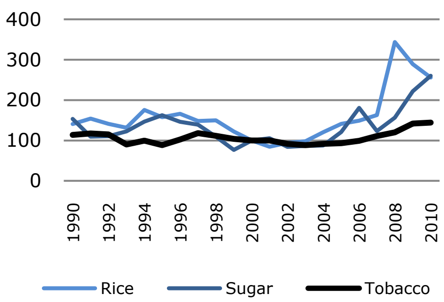


Source: EICO Financials

Top-line trends set to stay strong

Our positive stance on EICO is based on our view that the medium-term prospects for flavored tobacco or molasses (expected to account for 100% of operating revenues going forward) remain encouraging as the pricing environment that helped sustain revenue growth trends over the past several years remains intact. The industry's business model is fairly straight forward, with volumes being the key driver of revenues while cost cutting continues to add leverage to operating profits. *(See Figure 1)*

Figure 2: Historical Price Index of Raw Tobacco vs. other Staples

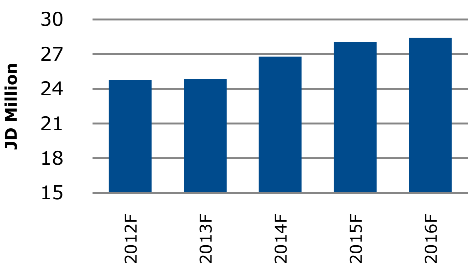


Source: UNCTAD

Limited pressures on margins

In addition to our expectations of strong top-line trends in the medium term, we see little in the way of cost pressures to divert revenue growth from earnings. Since the company tends to hold several months of semi-processed tobacco inventory, which is the single largest raw material input cost for the industry, the impact of raw material price fluctuations is usually smoothed significantly. In fact, leaf and unprocessed tobacco prices have been relatively stable during the last several decades compared to other commodities *(See Figure 2)*. The implications of this stability in EICO's largest input cost is unlikely to put pressure on margins in the foreseeable future.

Figure 3: Projected Free Cash Flows

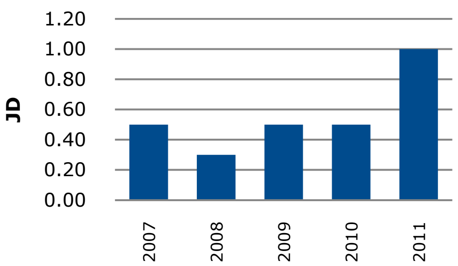


Source: CI Estimates

Ample room for cost savings

Given limited input cost pressures, cost savings are more of a source of earnings growth than margin protection for the flavored tobacco industry. In addition to the fact that tobacco products are considered highly transportable goods, sales volumes, whether increasing or decreasing, are relatively predictable making even fixed costs effectively variable in declining markets through the rationalization of production and the optimization of distribution networks. This also puts major players in the industry, like Al-Fakher, at an advantage to expand production capacity in growing markets and hence improving returns on capital and operating margins.
EICO already has a number of cost saving strategies in place that are expected to contribute to margins starting 2012, mainly the automation of the 250g production lines in Al-Fakher factory in Ajman, in addition to begin processing a part of the tobacco used in the production of Al-Fakher molasses as opposed to importing all required tobacco in a semi-processed format.

Figure 4: Historical DPS



Source: EICO Financials

Strong cash generation and returns

A further key reason to support our recommendation is the company's strong and predictable cash generation. With limited M&A opportunities in the foreseeable future, a solid debt-free balance sheet and relatively modest incremental capex requirements, it is more likely that EICO will continue to return excess cash to shareholders in the medium term. *(See Charts 3 & 4)*

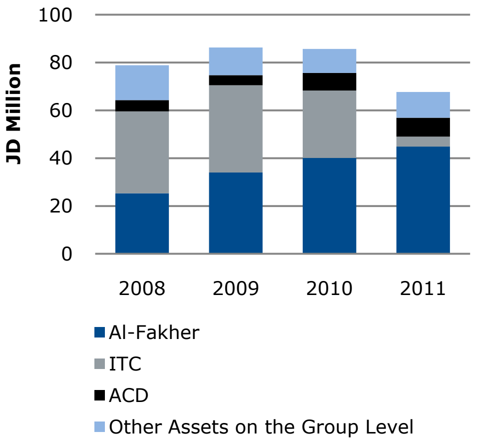
Al-Fakher's market share still has room to grow

Although official market share figures for the flavored tobacco industry are not available, we believe that Al-Fakher still has plenty of room to grow its revenues and market share especially when considering the fact that the company has not yet focused its efforts on entering a number of major markets including Turkey which is still dominated by other players. Among the main reasons that kept Al-Fakher products out of a market like Turkey are tax issues which favor local products over imported tobacco. We don't see this as a major hurdle should EICO decide to enter the Turkish market as the capex requirements will be relatively small compared to the sales volumes that could be generated in such a market.

Barriers to entry

Like the cigarettes industry, flavored tobacco is characterized by its strong brand loyalty. Although the ban on advertising on all tobacco products in many countries makes it difficult for EICO to signal the qualities of its brands, mainly Al-Fakher, it also works as a formidable barrier to entry for new competitors. The popularity of the Al-Fakher brand name and the loyalty for its products make it very difficult for a new comer to get access to existing retail channels and end users, placing EICO in a perfect position to generate attractive returns for its shareholders over extended periods.

Figure 5: EICO's Asset Breakdown per Subsidiary



Source: EICO Financials

Divestiture of low performing assets; a better asset structure starting Q2 2011

EICO restructured its asset base in 2011 by offloading most of the low performing assets of its cigarettes business to Phillip Morris Jordan in a deal worth JD29.7 million. Aside from reporting a profit of around JD5.6 million from the sale, the proceeds were used to pay off all the company's debt which amounted to around JD25 million, bringing down EICO's asset base to JD62.8 million by the end of Q2 2011 compared to JD85.7 million at the beginning of the year *(See Figure 5)*. This will not only save more than JD1.0 million in annual interest expense, but will also improve both EICO's ROA and ROIC going forward. More recently and in a similar step, EICO sold its subsidiary, The International Company for Trade & Distributing Tobacco - Egypt, for a total value of USD8.66 million. The sale enabled EICO to recover its capital investment including goodwill in addition to retained earnings.

Key risks to our price objective

Although our base case scenario assumes sustained robust pricing, there are principal threats that could challenge the status quo:

1. The possibility of significant increases in tobacco-related taxes in countries around the world which could trigger volume declines.

2. Growing regulatory actions such as smoking bans, health warnings, and descriptors, in addition to more testing requirements.

3. More restrictions or bans on advertising, promotion, and marketing, in addition to other regulations that may negatively affect sales volumes.

4. Given that export sales represent more than 70% of Al-Fakher's revenues, and the fact that both the Jordanian Dinar and the UAE Dirham are pegged to the US Dollar, a stronger dollar could weigh on both EICO's top line and bottom line.

5. Finally, there may be risks associated with broader equity markets and/or an investor shift away from consumer or defensive names.

VALUATION

Our target price is derived through a three-stage discounted cash flow model. The first stage consists of a detailed five-year forecast. The second stage uses normalized revenue and cost assumptions where EICO's excess returns on new invested capital (RONIC) implicitly fade until the perpetuity year. In the third stage of our model, we assumed EICO's RONIC equals its weighted average cost of capital (WACC) and calculated a continuing value using a standard perpetuity formula. Stage three comprises 16% of the enterprise value and assumes a terminal growth rate of 1% and a WACC of 14.5%. We derive our WACC using a cost of equity of 14.5% (based on a 7.5% risk-free rate, 5.0% risk premium, 2.0% liquidity premium, and a beta of 1.0). As EICO has a net cash position we have assumed zero debt in our WACC assumptions.

Table 1: DCF Model - Stage 1

(JD million)	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
EBIT	24.420	27.359	30.142	31.195	31.752
Less: Taxes	(1.454)	(1.633)	(1.801)	(1.865)	(1.898)
Tax-effected EBIT	**22.966**	**25.726**	**28.341**	**29.330**	**29.854**
Plus: Depreciation	2.140	2.333	2.622	2.912	3.258
Less: Additions to Intangibles	1.978	0.000	0.000	0.000	0.000
Less: Capital expenditures	(4.825)	(1.930)	(2.895)	(2.895)	(3.465)
+ / - Changes in working capital	2.505	(1.299)	(1.286)	(1.298)	(1.237)
Free Cash Flow	**24.764**	**24.830**	**26.782**	**28.049**	**28.410**

Source: CI Estimates

Table 2: DCF Model - Stage 2&3

(JD million)	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Tax-effected EBIT	30.406	30.952	31.487	32.008	32.509	32.987	33.436	33.851	34.227	34.559
Net New Investment	(1.533)	(1.624)	(1.717)	(1.812)	(1.907)	(2.003)	(2.099)	(2.195)	(2.290)	(2.383)
Free Cash Flow	**28.873**	**29.327**	**29.770**	**30.196**	**30.602**	**30.984**	**31.337**	**31.656**	**31.937**	**32.176**
Terminal Value										240.72
RONIC	38.23%	35.60%	32.96%	30.32%	27.68%	25.05%	22.41%	19.77%	17.14%	14.50%

Source: CI Estimates

Table 3: DCF Valuation

(JD million)		
Present Value of Years 1-5 (Stage 1)	**89.16**	44.7%
Present Value of Years 6-15 (Stage 2)	**78.71**	39.5%
Present Value of Continuing Value (Stage 3)	**31.58**	15.8%
Total Enterprise Value	**199.45**	100%
Less: Net Debt*	5.973	
Plus: Investments	4.65	
Total Equity Value	**198.13**	
Equity Value per Share (JD)	**9.91**	

Source: CI Estimates

**: Net of the JD 20.0 Million paid as dividends in March 2012*

Table 4: WACC Calculation

Risk Free Rate (Rf)	7.5%
Market Risk Premium (Rm)	5.0%
Beta	1.0
Liquidity Premium	2.0%
Cost of Equity (COE)	**14.5%**
Equity	100%
Debt	0%
WACC	**14.5%%**

Source: CI Estimates

Table 5: WACC Sensitivity Analysis

		Market Risk Premium		
		4.50%	**5.00%**	**5.50%**
Risk Free Rate	**7.00%**	13.50%	14.00%	14.50%
	7.25%	13.75%	14.25%	14.75%
	7.50%	14.00%	**14.50%**	15.00%
	7.75%	14.25%	14.75%	15.25%
	8.00%	14.50%	15.00%	15.50%

Source: CI Estimates

Table 6: Fair Value Sensitivity Analysis

		Perpetual Growth		
		0.00%	**1.00%**	**2.00%**
WACC	**12.50%**	11.66	11.69	11.73
	13.50%	10.72	10.73	10.74
	14.50%	9.91	**9.91**	9.91
	15.50%	9.21	9.20	9.19
	16.50%	8.59	8.58	8.57

Source: CI Estimates

Our Cross-Check Valuation

We also cross-checked our DCF valuation with an Economic Profit Model using the same assumptions.

Table 7: Economic Profit Model

(JD million)	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Opening Invested Capital	42.49	40.70	41.59	43.15	44.43	45.88	47.41	49.03	50.75	52.56	54.47	56.47	58.57	60.77	63.06
ROIC	54.1%	63.2%	68.1%	68.0%	67.2%	66.3%	65.3%	64.2%	63.1%	61.8%	60.6%	59.2%	57.8%	56.3%	54.8%
ROIC-WACC	39.6%	48.7%	53.6%	53.5%	52.7%	51.8%	50.8%	49.7%	48.6%	47.3%	46.1%	44.7%	43.3%	41.8%	40.3%
Economic Profit	16.80	19.83	22.31	23.07	23.41	23.75	24.08	24.38	24.65	24.89	25.09	25.25	25.36	25.42	25.42
Terminal Value															**175.28**

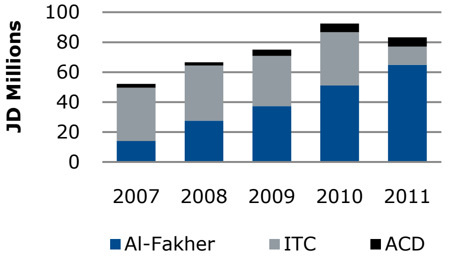
Opening Invested Capital	42.49
PV 15 years Economic Profits	133.96
PV of Terminal Value	**23.00**
Total Enterprise Value	**199.45**
Less: Net Debt*	5.97
Plus: Investments	4.65
Total Equity Value	**198.12**
Value per Share (JD)	**9.91**

Source: CI Estimates

**: Net of the JD 20.0 Million paid as dividends in March 2012*

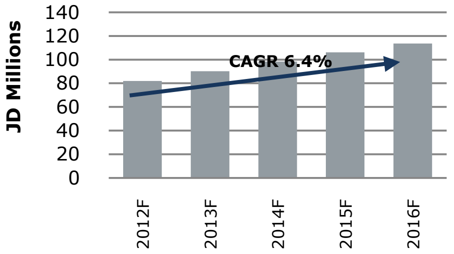
FINANCIAL ANALYSIS & OUTLOOK

Figure 6: Historical Sales per Segment



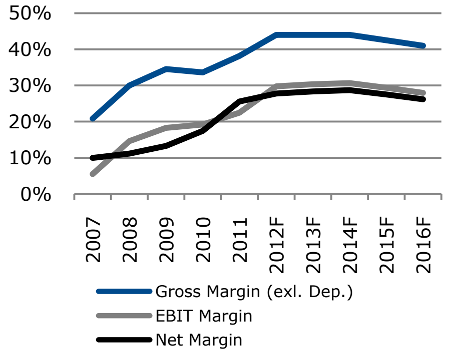
Source: EICO Financials

Figure 7: Projected Sales of Al-Fakher



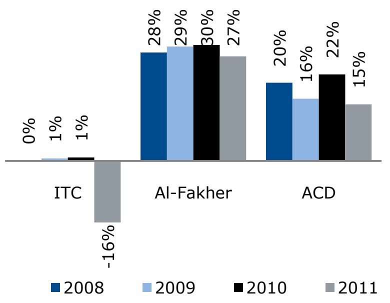
Source: CI Estimates

Figure 8: EICO Operating Margins (2006-2016)



Source: CI Estimates, EICO Financials

Figure 9: Historical Net Margin per Segment



Source: CI Estimates

Recent top line trends distorted by ITC

Consolidated revenues for FY2011 dropped by around 10% compared to FY2010 reaching JD83.3 million due to the sale of the company's cigarette business in Q2 2011. The International Tobacco & Cigarette Co. (ITC), which held all the assets of the cigarettes business prior to the sale and accounted for more than 38% of consolidated revenues during 2010, recorded a drop of 65% in sales figures for FY2011. However, the remarkable performance of the Al-Fakher helped EICO partially offset the drop in its cigarettes business and end the year with a decline of only 10% compared to FY2010. *(See Figure 6)*

Revenues excluding ITC surged by 25% during FY2011 on the back of a 27% increase in Al-Fakher's sales and a 7% increase in the sales of the Arab Cigarette Distribution Co. (ACD).

Sales to grow at 6.4% CAGR through 2016

Going forward we expect sales to grow at a CAGR of 6.4% between 2012 and 2016 before growing at a declining rate in the following 10 years *(See Figure 7).* Anticipated top line growth will be mainly driven by rising volumes of the molasses business, Al-Fakher, as we do not expect EICO to deviate from its current growth strategy which focuses on increasing market share in current markets coupled with entering new markets instead of raising prices.

Al-Fakher sales volumes grew at an impressive CAGR of more than 60% since 2006 and are expected to continue with the same trend albeit at a lower rate around 6% through 2016.

Margins continue to expand on better asset structure and cost management

EICO's gross and net margins continued to improve reaching 38.2% and 25.6% respectively by the end of 2011, up from 20.8% and 10.0% respectively in 2007 *(See Figure 8).* The main driver behind this remarkable improvement in the company's operating margins was the growing contribution of Al-Fakher (the segment with the highest margins, 27% net margin in 2011) to EICO's consolidated revenue which increased from only 27% in 2007 to around 78% by year end 2011 following the sale of ITC's assets. *(See Figure 9)*

Margins will continue to widen in the foreseeable future

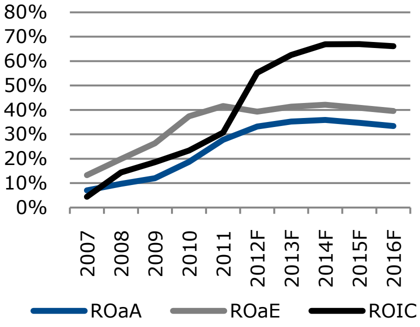
While the bulk of the cost savings mentioned above are already built into recent results, there are further savings expected in 2012 which we anticipate will contribute to margins until 2014 before gradually decreasing as we factor in fiercer competition and more aggressive marketing to expand market share in current and untapped markets. Our estimates of wider margins between 2012 and 2014 are based on the following:

1. A 40% increase in production capacity which occurred during the second half of 2011 will increase EICO's operating leverage given the relatively low CAPEX requirements, which in turn will improve operating margins.

2. Further automation of production lines expected in 2012 will improve utilization and lower costs.

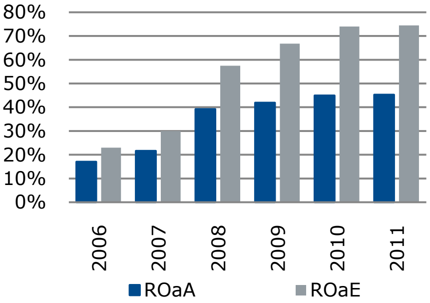
3. In-house processing of raw tobacco as opposed to importing semi-processed tobacco, planned in 2012, will also contribute to margins. We estimate that this initiative will increase EICO's gross margins by up to 3.0% in the next several years.

Figure 10: EICO's ROaA, ROaE & ROIC (2007-2016)



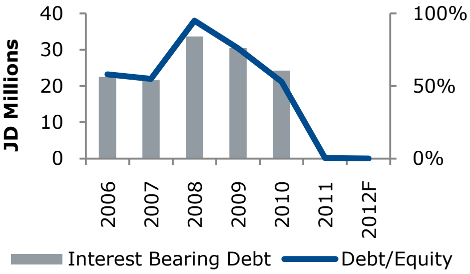
Source: CI Estimates, EICO Financials

Figure 11: Al-Fakher's Historical Returns



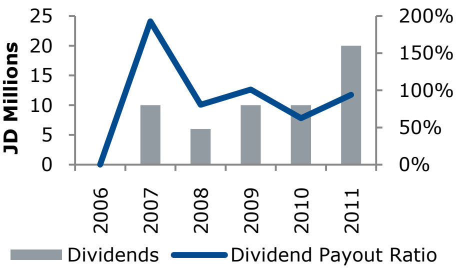
Source: EICO Financials

Figure 12: Debt Levels & Gearing Ratio



Source: EICO Financials, CI Estimates

Figure 13: Historical Dividends & Payout Ratio



Source: EICO Financials

Another year of strong returns

The year 2011 witnessed another notable improvement in EICO's returns. Both ROaA and ROaE increased to 27.8% and 41.6%, up from 18.7% and 37.4% in 2010. Although the non-recurring profit from the sale of ITC's assets helped boost returns in 2011, the growing contribution of the molasses business to EICO's top line and operating results also had a positive impact on the company's returns as a apparent in the improvement in EICO's ROIC which increased from 23.4% in 2010 to more that 30% by the end of 2011 *(See Figure 10)*.

With Al-Fakher's assets now constituting the majority of EICO's operating assets, we expect EICO's consolidates returns to converge towards the returns of Al-Fakher at a faster rate (See Figure 11). This will translate into a steady improvement in EICO's ROaA, ROaE, and ROIC through 2016 reaching 33%, 39%, and 67% respectively before gradually declining over the next 10 year.

We also see higher returns on incremental capital

Given Al-Fakher's strong brand name and existing sales and distribution networks, we believe that EICO will be able to drive regional expansion with minimal incremental capital investment at higher rate of returns, sufficiently above its cost of capital. This will not only improve the company's return on capital in the short to medium term, but will also lengthen EICO's value creation period at which the company will continue to earn positive economic profits for its shareholders.

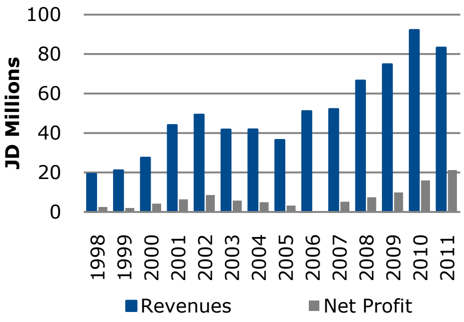
Solid balance sheet and cash flow

The divesture of ITC's assets in addition to EICO's strong operational efforts has transformed the company to a nearly debt-free entity with strong free cash flows and dividends, contrasted with around JD24 million of interest bearing debt in 2010 *(See Figures 12 & 13)*.

As per the most recent FY2011 financial results, EICO had a net cash position of JD14 million, a JD0.70/share, as EICO generated JD29.65 million of cash flow from operations in 2011 and JD42.8 million in free cash flow (FCF) after netting the change in PP&E and investment. Going forward, we expect EICO to generate a FCF/share of around JD1.24 in 2012 and 2013 before growing by an average of 4.6% in the next 3 years.

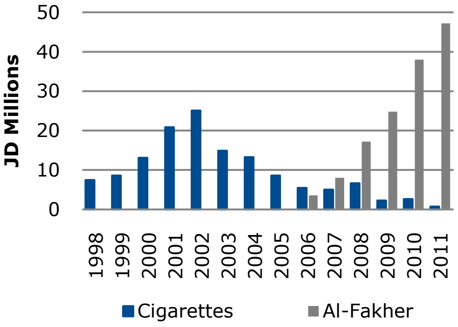
COMPANY OVERVIEW:

Figure 14: EICO's Historical Revenues & Net Profits (1998 – 2011)



Source: EICO Financials

Figure 15: EICO's Export Sales per Segment (1998 – 2011)



Source: EICO Financials

Background

Al-Eqbal Investment Company PLC, formerly known as the International Tobacco and Cigarettes Company (ITC) was established in 1992 as a public shareholding company focusing on the production and distribution of tobacco products. In 1998, ITC signed a licensing agreement with Philip Morris International to locally produce and market L&M cigarettes and was later expanded to include the Marlboro brand in 2002. Although ITC previously focused on the low and medium price segments through its local brands, these agreements helped increase the company's share in the local market to 40%.

The prospects for ITC's cigarettes business looked very promising as the company's sales grew by more than 170% between 1998 and 2002. It was only in the subsequent year when sales began to experience a decline mainly on the back of a 40% decline in export sales as a result of the intensifying competition in Iraq, a major market constituting 90% of ITC's exports. Declining export sales coupled with weaker growth rates in the domestic market due to higher taxes on tobacco products which led to a shift by consumers to higher priced international brands contributed to falling revenues and profitability between 2003 and 2006. ITC's top and bottom lines fell to JD36.4 million and JD3.2 million in 2005, down from JD49.26 and JD8.5 in 2002 respectively.

In order to offset the declining cigarette business, the company's management decided to search for profitable alternatives. The opportunity presented itself in Al-Fakher Tobacco Factory, a company incorporated under the laws of the UAE that specializes in the production and distribution of flavored molasses, which was acquired at a price of USD 11.0 million during 2006. Al-Fakher, a market leader in the production of premium molasses, played a crucial role in opening a new market for the company. Sales of Al-Fakher soared from more than JD6.0 million in 2006 to around JD65.0 million in 2011.

Al-Fakher

Based in Ajman, UAE, Al-Fakher began operations in 1999 following the emergence of the relatively new flavored molasses industry as opposed to the more traditional black molasses industry that has been operating for a considerable time.

Geographical Distribution of Al-Fakher's Major Markets

Asia	Europe	Africa	Australia	North America
Afghanistan	Cyprus	Egypt	Australia	USA
Bahrain	Germany	Morocco	New Zealand	
India	Moldova	Libya		
Iran	Romania	Somalia		
Iraq	Russia	Djibouti		
Palestine	Switzerland			
Jordan	UK			
Kazakhstan	Ukraine			
Kuwait				
Lebanon				
Malaysia				
Oman				
Qatar				
Saudi Arabia				
Syria				
UAE				
Yemen				

Source: EICO Financials

In the wake of ITC's acquisition of the factory, manufacturing methods were upgraded by installing state of the art machinery and the automation of the factory's production lines. This enabled the company to offer its products to the market with consistency in quality and packaging. Al-Fakher has positioned itself as a market leader in the production of premium molasses, with its brand standing out for its quality and wide variety among a number of competitors such as Al Nakhla (Egypt), Al Waha (Jordan) and Layalina (U.A.E). Furthermore, the company was able to capitalize on the aforementioned along with strong customer loyalty to generate sales in more than 73 countries around the globe.

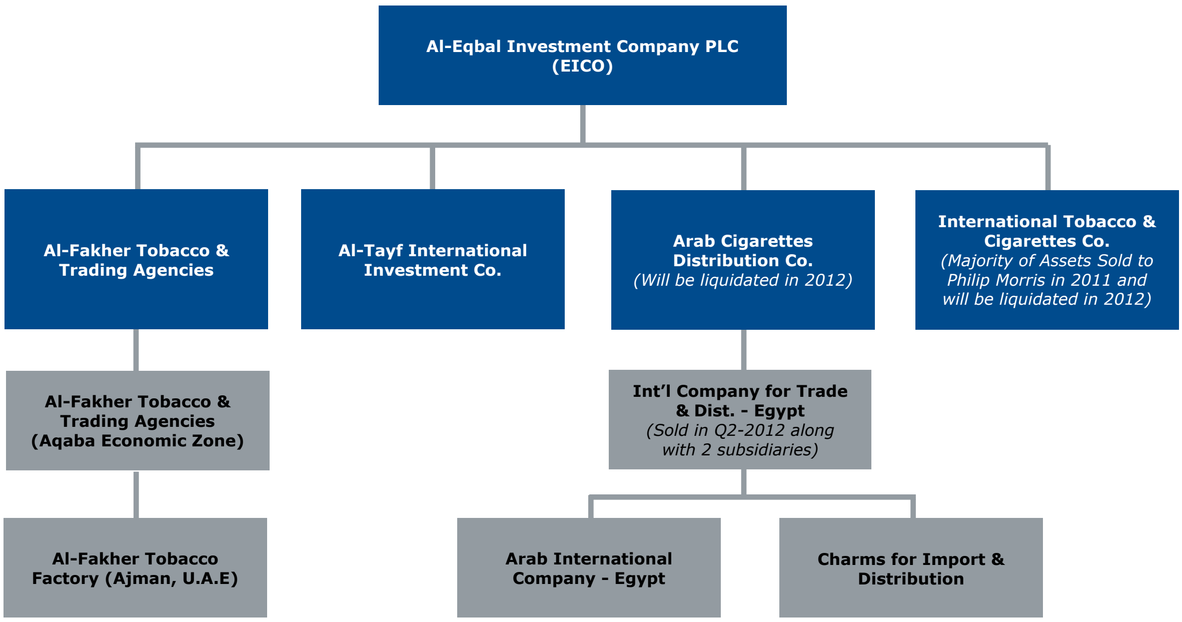
Organizational Structure

In 2008, the company was restructured under the name of AL-Eqbal investment Company PLC (EICO) with 3 main subsidiaries: International Tobacco and Cigarettes Company (ITC), Arab Cigarette Distribution Company (ADC), and Al-Fakher Tobacco Trading and Agency Company.

After assessing the company's strategy amid the recurring losses from the cigarettes business, EICO sold off the majority of ITC's assets to Phillip Morris Investments/Jordan during the 2nd quarter of 2011 at a price of JD29.7 million, realizing a net profit of JD5.6 million from the sale. After the sale, Al-Fakher became EICO's main business and its essential source of income.

More recently and in a similar step, EICO sold off the International Company for Trade & Distribution - Egypt, a branch of its main subsidiary operating in Aqaba, for a total value of USD8.66 million. The sale enabled EICO to recover its capital investment in the company in addition to the retained earnings and goodwill.

The chart below illustrates Eqbal Investment Company's organizational structure as of the end of 2011, which included four subsidiaries with two branches under Al-Fakher Tobacco & Trading Agencies and one branch under Arab Cigarettes Distribution Company.

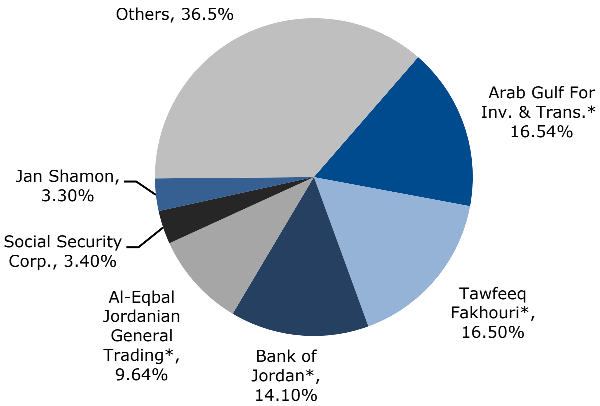


Source: EICO Financials

Ownership Structure:

EICO has a concentrated shareholding structure, dominated by one group of investors, Al-Fakhouri Family (57.0%). The remaining shares are publicly traded on the Amman Stock Exchange, where EICO is listed. More than 1,400 investors own shares in the company. The shareholding structure has been very stable since 2008.

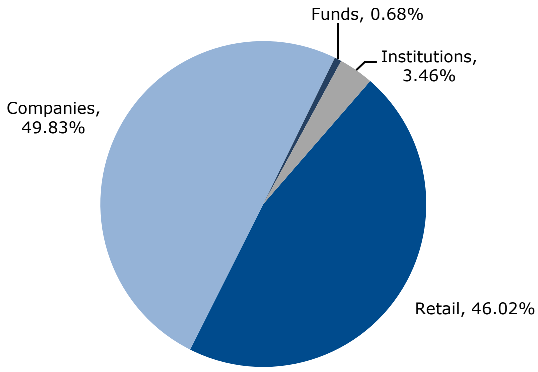
Figure 8: Major Shareholders



*: Part of Al-Fakhouri Investor Group

Source: SDC

Figure 8: Shareholders Breakdown by Investor Type



Source: SDC

Board of Directors:

The following table represents EICO's Board of Directors.

Board of Directors	
Name	**Position**
Samer Fakhouri	Chairman
Walid Fakhouri	Deputy Chairman
Al-Yamama General Investment Company *Represented by Mohammad Barakat*	Member
Al-Eqbal Jordanian General Trading Company *Represented by Raed Samara*	Member
Bank of Jordan *Represented by Haitham Qteishat*	Member
Farah Sanitary & Electrical Installation Company *Represented by Yousef Omar*	Member
Arab Gulf for Investment & Transportation *Represented by Hassan Jaser*	Member
Zahrat Al-Urdun for Real Estate & Hotels Investments *Represented by Sakher Doudeen*	Member
Lo'lo'a Trade Company for Construction & Investment *Represented by Abdul-Raheem Al-Zoubi*	Member

Source: SDC, EICO Financials

Al-Eqbal Investment Co.						
Balance Sheet	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
(JD Million)						
Cash	14.21	18.15	22.33	25.96	28.50	30.51
Accounts receivables, net	7.83	7.71	8.48	9.25	9.99	10.68
Spare parts & other supplies	1.08	0.96	1.06	1.15	1.28	1.40
Inventory	10.87	9.69	10.66	11.62	12.89	14.15
Other current assets	5.02	3.77	4.15	4.52	4.88	5.23
Total Current Assets	**39.01**	**40.29**	**46.68**	**52.51**	**57.54**	**61.97**
PP&E, net	14.35	17.04	16.64	16.91	16.89	17.10
Projects & equipment in Progress	0.01	0.00	0.00	0.00	0.00	0.00
Available for sale investments	3.27	3.27	3.27	3.27	3.27	3.27
Investments in Associates	0.82	0.82	0.82	0.82	0.82	0.82
Investments in land	0.55	0.55	0.55	0.55	0.55	0.55
Intangible Assets	9.65	7.67	7.67	7.67	7.67	7.67
Total Assets	**67.66**	**69.65**	**75.63**	**81.73**	**86.75**	**91.39**
Accounts payable & other liabilities	9.31	9.15	10.07	10.97	12.17	13.36
Due to banks	0.19	0.00	0.00	0.00	0.00	0.00
Withholding sales tax	0.01	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	**9.50**	**9.15**	**10.07**	**10.97**	**12.17**	**13.36**
Other long term liabilities	0.45	0.00	0.00	0.00	0.00	0.00
Remuneration reserve	1.16	1.16	1.16	1.16	1.16	1.16
Total Liabilities	**11.12**	**10.31**	**11.23**	**12.13**	**13.33**	**14.52**
Paid up Capital	20.00	20.00	20.00	20.00	20.00	20.00
Shares owned from Subsidiary	0.00	0.00	0.00	0.00	0.00	0.00
Statutory reserve	8.63	10.91	13.47	16.29	19.21	20.00
Voluntary reserve	3.18	3.18	3.18	3.18	3.18	3.18
Other comprehensive income	0.28	0.28	0.28	0.28	0.28	0.28
Retained Earnings (losses)	24.41	24.92	27.43	29.80	30.70	33.36
Non-controlling interest	0.05	0.05	0.05	0.05	0.05	0.05
Total Equity	**56.55**	**59.33**	**64.40**	**69.60**	**73.42**	**76.87**
Total Liabilities and Equity	**67.66**	**69.65**	**75.63**	**81.73**	**86.75**	**91.39**

Source: EICO Financials, CI Estimates

Al-Eqbal Investment Co.						
Income Statement	**2011A**	**2012F**	**2013F**	**2014F**	**2015F**	**2016F**
(JD Million)						
Revenues	83.30	82.00	90.20	98.32	106.18	113.62
COGS excl. Dep	(51.50)	(45.92)	(50.51)	(55.06)	(61.06)	(67.03)
Gross Profit	**31.80**	**36.08**	**39.69**	**43.26**	**45.13**	**46.58**
G&A Expenses	(6.12)	(5.38)	(5.65)	(5.93)	(6.23)	(6.54)
S&D Expenses	(3.94)	(4.14)	(4.35)	(4.57)	(4.79)	(5.03)
EBITDA	**21.73**	**26.56**	**29.69**	**32.76**	**34.11**	**35.01**
Depreciation	(3.00)	(2.14)	(2.33)	(2.62)	(2.91)	(3.26)
EBIT	**18.73**	**24.42**	**27.36**	**30.14**	**31.20**	**31.75**
Interest Expense	(0.54)	(0.01)	0.00	0.00	0.00	0.00
Interest Income	0.11	0.24	0.30	0.36	0.41	0.44
Provisions for Slow Moving Inventory	(1.49)	(0.62)	(0.68)	(0.74)	(0.80)	(0.85)
Board of Directors Remuneration	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Other Provisions	(0.03)	(0.16)	(0.18)	(0.20)	(0.21)	(0.23)
Gain on sale of PPE & Spare Parts	5.47	0.00	0.00	0.00	0.00	0.00
Other Non-Operating Income	0.49	0.41	0.45	0.49	0.53	0.57
Income Tax Provision-Subsidiaries	(1.39)	(1.45)	(1.63)	(1.80)	(1.86)	(1.90)
Pretax Income	21.30	22.79	25.58	28.22	29.22	29.74
Income Taxes	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	**21.30**	**22.79**	**25.58**	**28.22**	**29.22**	**29.74**
Minority Interest	(0.03)	0.00	0.00	0.00	0.00	0.00
Attributed to Shareholders	**21.27**	**22.79**	**25.58**	**28.22**	**29.22**	**29.74**
EPS (JD)	**1.06**	**1.14**	**1.28**	**1.41**	**1.46**	**1.49**

Source: EICO Financials, CI Estimates

Capital Investments Rating System & Valuation Methodology

Capital Investments' equity research rating system helps investors identify companies trading at a discount or premium to our analysts' assessment of their intrinsic or fair value (FV). Four key components drive our rating: 1) Our assessment of the company's competitive edge, 2) our estimate of the stock's FV which is usually derived from a DCF model, 3) our uncertainty rating and the margin of safety bands we apply around our FV estimate, and 4) the current market price.

1) Competitive Advantage:

Our appraisal of a company's competitive edge plays a central role not only in our qualitative assessment of the firm's long-term investment potential, but also in our valuation process. The two major cornerstones that we usually build our valuation models around are: 1) the strength of the company's competitive advantage or in other words, the size of excess returns (returns above cost of capital) that will be generated in the short to medium term, and 2) the length of the firm's competitive advantage period (CAP) during which excess returns are prevented from eroding. We see this as a primary differentiating factor among firms as only companies with a notable competitive edge can stave off competitive forces and continue to generate excess returns or economic profits for extended periods.

2) Fair Value:

At the heart of our valuation model are detailed projections of a company's future cash flows. We also use scenario analysis and a variety of other analytical tools to augment this process. The majority of our covered firms are valued using a standard 3-stage FCF model, but we have also developed specialized models for valuing banks, insurance firms, and real estate companies.

First Stage

The first stage of our 3-stage FCF model can last from 5 to 10 years and contains numerous detailed assumptions about almost all operating and financial items.

Second Stage

The length of the second stage depends on the length of the company's CAP. We define the second stage of our model as the period it will take the company's return on new invested capital (RONIC) to decline (or rise) to its cost of capital. We forecast this period to last anywhere from 0 years to 15 years. During this period, cash flows are forecasted using four assumptions: a normalized intrinsic growth rate for NOPAT, an investment rate in the first year after stage 1, RONIC in the first year after Stage I, and the number of years until perpetuity.

Third Stage:

Once a company's RONIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At this point, we believe the firm will no longer be able add value to it shareholders by investing in new projects at a return greater than its cost of capital. The cash flows from all three stages are then discounted to the present value and summed to arrive at an enterprise value for the firm. Then, by subtracting net debt and adjusting for any off-balance-sheet assets or liabilities, we arrive at a FV for the common stock.

Discount Rate

We use a firm's cost of capital to discount its future cash flows. However, unlike the most commonly accepted methodologies for the calculation of the cost of equity (COE), we ignore stock-price volatility as we believe that risk comes from the possibility from a permanent loss of capital which could be determined by the likelihood that our forecasted cash flows will be generated or not. Therefore, instead of using a single measure that compares the stock's historical price fluctuations with those of the market, we rely on our assessment of volatility in the firm's underlying cash flows while also taking into account takes into account fundamental factors such as the diversity of revenue sources, debt level, and the firm's fixed cost structure. In some cases where a stock is thinly traded, we add a liquidity premium to our estimate of the firm's COE.

As for the cost of debt, we use our estimate of the firm's marginal cost to borrow. Once we have these two inputs, we weight them in terms of the implied value of the firm's market value of equity to its debt and then sum the proportional cost of equity with the proportional tax-effected cost of debt to arrive at our weighted average cost of capital (WACC).

3) Uncertainty Rating:

As mentioned above, we employ a number of tools to augment our valuation process, mainly scenario analysis where we assess the performance of a business under different conditions based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. We typically model three scenarios for each company we cover before examining the distribution and likelihood of these different scenarios and their corresponding fair values.

Capital Investments Uncertainty Rating captures the range of these potential fair values. Our analysts use this range to assign an appropriate margin of safety around our FV estimate, which sets our Consider Buy and Consider Sell prices. Firms trading below our consider-buying prices receive a **Buy** Rating, whereas firms trading above our consider-selling prices receive a **Sell** rating leaving firms trading between our Consider Buy and Sell prices which receive a **Hold** rating.

Capital Investments

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