# SODIC

بلوم مصر لتداول الأوراق المالية
BLOM EGYPT SECURITIES

BLOMINVEST BANK

Equity Research – Initiation of Coverage

| | |
|---|---|
| Sector: | Real Estate |
| Country: | Egypt |
| Date: | October 01, 2012 |

| | |
|---|---|
| Share Price (EGP): | 23.00 |
| Fair Value (EGP): | 27.00 |
| Upside: | 17.4% |
| Recommendation: | ACCUMULATE |
| Risk: | Medium-to-High |

## Initiating with an ACCUMULATE Rating and a Fair Value of EGP 27.00 per share based on the channels of analysis below

**SODIC's conservative and flexible model enables it to steer clear of crisis**

With fears of land confiscation and consumers still unwilling to commit to major purchases, the real estate sector in Egypt plunged on all indicators with cancellations exceeding sales at most developers. SODIC was able to weather these challenges due to its strong balance sheet, flexible operation and conservative financing scheme. With 96% of its land bank already paid for, SODIC finances its projects from customer advances leading it to maintain a low debt to equity ratio averaging 13%. This has allowed the company to ensure its cash doesn't dry up, resorting to little debt even as it reported a EGP 193 million loss during 2011.

**Leap of faith in Syrian market backfires but Egyptian operation on track**

SODIC has taken its first step in its geographic expansion by acquiring a 50% stake in Syrian real estate developer, Palmyra. However, as the turmoil hit Syria, SODIC temporarily halted its operation accepting a significant devaluation for its land there. On the local front, deliveries are resuming and we estimate 2012 revenues from real estate sales at EGP 940 million, 83% higher than that of 2011 due to increased deliveries in the first phases of SODIC's flagship project, Allegria. Sales momentum during 2012 has been favorable as the successful launch of Westown Residences led to contracted sales of EGP 1,075 million in H1 2012.

**Improved market position through adapting to new environment**

SODIC has been reducing its unit sizes and prices, shifting its focus from the high-end segment to the more demanded mid-end. The company has also delayed its lease portfolio to 2016 while launching Westown Residences, a high quality project with reasonable prices. To mitigate delay in construction, SODIC has sought the services of tier-1 contractors, learning from delinquencies faced in 2011 caused by the bankruptcy of smaller construction firms. Legally, SODIC was successful in resolving 2 key lawsuits surrounding land ownership allegation. However, a final decision on its Eastown (11% of land bank) is pending.

**Share price has potential to appreciate as financial performance improves**

We estimate the fair value of SODIC shares at EGP 27 using a Sum-Of-The-Parts methodology, where projects under construction were valued using a DCF model with a WACC of 15.55%. Projects in master-planning or raw land were valued at acquisition cost, with the exception of land in Syria where we applied a further 50% discount. SODIC is trading at a price-to-revenue of 4.3, almost triple that of its Egyptian peers. We attribute this premium to the aggressive growth expected to be registered in 2012 and 2013 as scheduled unit deliveries are made.

## Share Data

| | |
|---|---|
| Bloomberg Symbol | OCDI EY |
| Reuters Symbol | OCDI.CA |
| Market Cap (EGPm) | 2,316 |
| Number of Shares | 90,676,348 |
| Free Float | 59.30% |
| Price-to- Earnings 2012e | 16.54 |
| Price-to-Book Value 2012e | 0.93 |

## Share Performance


*Source: Bloomberg*

| | |
|---|---|
| 1 Month Return | 45.66% |
| 3 Month Return | 71.10% |
| 6 Month Return | 48.59% |
| 12 Month Return | 52.36% |
| 52 Week Range | 26.71 - 7.44 |

*Source: Bloomberg*

## Performance and Forecasts

| Year | 2010 | 2011 | 2012e | 2013f | 2014f |
|---|---|---|---|---|---|
| Revenues (EGP millions) | 520 | 542 | 971 | 1,152 | 1,072 |
| Net Income (EGP millions) | 135 | (193) | 142 | 230 | 218 |
| EPS (EGP) | 3.85 | (2.13) | 1.56 | 2.53 | 2.40 |
| BVPS (EGP) | 61.89 | 21.58 | 27.46 | 23.30 | 26.76 |
| ROA (%) | 1.96% | -3% | 2% | 3% | 3% |
| ROE (%) | 5.85% | -10% | 6% | 11% | 9% |

*Source: SODIC, Blominvest*


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## FINANCIALS & VALUATION

| Year | 2010 | 2011 | 2012e | 2013f | 2014f |
|---|---|---|---|---|---|
| **Profit & Loss Summary** | | | | | |
| Revenue (EGPm) | 520 | 542 | 971 | 1,152 | 1,072 |
| Revenue Growth (%) | 1,593% | 4.4% | 79.1% | 18.6% | -7.0% |
| Gross Profit (EGPm) | 253 | -19 | 460 | 570 | 531 |
| Gross Margin (%) | 48.8% | -3.5% | 47.4% | 49.5% | 49.5% |
| Net Profit (EGPm) | 135 | -193 | 142 | 230 | 218 |
| Profit Margin (%) | 26.0% | -35.6% | 14.6% | 19.9% | 20.3% |
| Net Profit Growth (%) | 220% | -242% | 173% | 62% | -5.2% |
| **Earnings Per Share (EGP)** | **3.85** | **(2.11)** | **1.54** | **2.51** | **2.38** |
| Price-to-Earnings (Forward P/E) | 6.63 | - | 16.54 | 10.19 | 10.75 |
| **Balance Sheet Summary (EGPm)** | | | | | |
| Cash & Cash Balances | 853 | 506 | 552 | 544 | 576 |
| Works In process | 2,704 | 2,886 | 3,153 | 3,103 | 3,288 |
| Trades and notes receivable | 859 | 802 | 876 | 862 | 914 |
| Development properties | 420 | 414 | 389 | 365 | 343 |
| Other Assets | 2,065 | 1,758 | 2,404 | 2,417 | 2,164 |
| Total Assets | 6,901 | 6,365 | 7,374 | 7,291 | 7,285 |
| Total Liabilities | 4,494 | 4,409 | 4,884 | 5,178 | 4,858 |
| **Book Value Per Share (EGP)** | **68.95** | **21.58** | **27.46** | **23.30** | **26.76** |
| **Profitability** | | | | | |
| ROA (%) | 1.96% | -3.03% | 1.92% | 3.15% | 2.99% |
| ROE (%) | 5.85% | -10.10% | 5.78% | 11.10% | 9.13% |
| **Liquidity** | | | | | |
| Cash / Current Liabilities | 0.20 | 0.13 | 0.12 | 0.11 | 0.12 |
| Current Assets / Current Liabilities | 1.18 | 1.21 | 1.17 | 1.06 | 1.18 |
| Net Working Capital / Current Assets | 0.15 | 0.17 | 0.14 | 0.06 | 0.15 |

### Comparables

| | Valuation | | | Margin Analysis (%) | | | Profitability (%) | |
|---|---|---|---|---|---|---|---|---|
| | P/Rev | P/BV | P/CF | Gross | Operat. | Net | ROE | ROA |
| SODIC | 4.27 | 1.18 | 10.2 | -3.5 | -34.9 | -35.6 | -10.10 | -3.03 |
| MENA Average | 4.89 | 0.78 | 9.53 | 49.6 | 20.4 | 21.1 | 5.34 | 3.75 |

### Valuation

| | EGP Million |
|---|---|
| Real Estate Sales | 1,621 |
| Investment Property for Recurring Income | 168 |
| Projects in Master planning or Raw Land | 382 |
| Loss from Services | (50) |
| Add: Cash & T-Bills | 677 |
| Less: Debt | (350) |
| **Fair Value** | **2,448** |
| Number of shares (in millions) | 90.676 |
| **Share Value (EGP)** | **27.00** |

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## INVESTMENT SUMMARY

We issue an ACCUMULATE rating on SODIC after carefully analyzing the following:

### Economic Overview

Following the revolution, real estate activity has slowed due to fears of delay in delivery and legal allegations over land ownership. Nevertheless, the sector grew by almost 3.1% in the first half of FY2012 and represented 2.7% of GDP. The construction and building material industry, a key indicator of real estate activity, supports the view of a better-than-expected performance during FY2012 with sales of cement and steel almost stable over the period. Demographics are encouraging as well, with housing demand emanating from Egypt's growing population, 75% of which under the age of 35 along with 800,000 marriages per annum.

In spite of the 2011 political cataclysms, mortgage loans have grown by an inspiring 83% to around EGP 3.2 billion from the beginning of the crisis until the first quarter of 2012. The Egyptian government has been gradually reforming the real estate sector, knowing that the housing shortage is estimated at around 200,000 units per year. It is doing so through easing bureaucratic procedures for both developers and consumers and focusing on supplying units to families in poverty.

### Business Model

SODIC focuses on offering residential real estate through projects targeting upper-middle and high income clients. However, due to its relatively small land bank, it has ventured into commercial and retail spaces, thus capitalizing on the existent market gap in this segment. Recurring income is expected to take up a 13% share of SODIC's total revenues by 2016 through projects such as Westown Retail Hub, Autoville, The Polygon and Forty West.

SODIC holds most of its land bank, estimated at 10.7 million sqm, in Egypt located in Sixth of October City and Kattameya area while the remaining 1.4 million sqm is invested in Syria where projects are frozen due to the latest political turmoil. SODIC finances its real estate sales through an off-plan sales model. It collects 40% of the value in the first year and divides the remaining 60% over three years in quarterly installments.

### Growth

We estimate 2012 revenues from real estate sales at EGP 940 million, 83% higher than 2011 due to increased deliveries in Kattameya Plaza along with more revenues generated by SODIC's flagship project, Allegria. The company's 5-year revenue CAGR is estimated at 12.6% with the most aggressive growth registered during 2012 and 2013 due to the introduction of new projects such as Westown Residences. From a strategic point of view, SODIC has been expanding geographically and has already taken its first step by the acquisition of Syrian real estate developer, Palmyra. SODIC found a valuable opportunity in the fast growing Syrian real estate sector prompting it to establish presence there. However, in the beginning of 2011, the turmoil that hit Syria led to a halt in SODIC's operation and a significant devaluation of its land there.

### Profitability

We estimate SODIC's net income at EGP 142 million during 2012, compared to the previous year's loss of EGP 193 million. The company's main source of revenues has been from the Allegria project accounting for 79% of total 2011 revenue. Sales momentum during 2012 has been favorable due to the successful launch of Westown Residences with contracted sales of EGP 1,075 million for H1 2012 and 182 delivered units. During the 2011 revolution, SODIC's profitability reached severe lows compared to the 2009 financial crisis as both Return-on-Assets (ROA) and Return-on-Equity (ROE) ratios were reported at -3.03% and -10.10% in 2011 compared to -2.24% and -6.50% in 2009. However, both ratios are expected to improve as unit deliveries are made and revenues increase. We estimate SODIC's gross profit margin for 2012 and onwards at 50% following its signing with top contractors, immunizing it to fluctuations in raw material prices.

### Financial Position

With 96% of its land bank already paid for, SODIC finances its projects primarily from advances of customers collected by off-plan sales leading it to maintain a low debt to equity ratio averaging 13% over the last four years. This helps the company reduce risk by avoiding unsold property and only starting construction when a significant number of units have been sold. SODIC's debt to equity ratio has been hovering around 8% in the last few years, however, it increased to 24% in 2011 due to newly drawn debt used to partially finance construction works on Allegria. Combined with its low leverage, the company has maintained EGP 506 million worth of cash at banks through the 2011 revolution enabling it to quickly react and change the strategy of its Westown development and turning it into Westown Residences, thus reaping the profits of the gap in the middle-income residential segment.

### Valuation

We estimate the fair value of SODIC's share at EGP 27.00 using a Sum-of-The-Parts (SOTP) methodology. Projects in Construction or Master-Planning are valued using a discounted cash flow (DCF) model with a WACC of 15.55%. Revenues and costs associated with land sold, BUA and infrastructure are recognized upon delivery. In our DCF model, we started recognizing revenues and costs following the delivery dates provided by the company. Raw land areas were valued by applying a discount based on the location's perceived risk.

In general, Egyptian companies are trading at a discount compared to regional peers due to the political situation and events occurring in Egypt. On the local front, SODIC's price-to-revenue (P/Rev) ratio of 4.3 is almost triple that of the Egyptian average estimated at 1.5. We attribute this premium to the expected high growth in SODIC's revenues to occur between 2012 and 2013 as deliveries are made and revenues recognized. From a price-to-book value (P/BV) point of view, SODIC trades at a considerable premium compared to both the Egyptian and Middle Eastern averages. It also trades at a premium when comparing its price-to-cash flow (P/CF).

### Risks

The prominent short term risk is the political tension and security situation. Although we expect little cancellations, the risk still looms if major events unfold on the political scene. This will also drive the risk of creating delivery delinquencies. Moreover, the central bank's foreign reserves were reduced by half during 2012 applying pressure on the Egyptian pound and leading it to depreciate from 5.5 to around 6.09 USD/EGP recently.

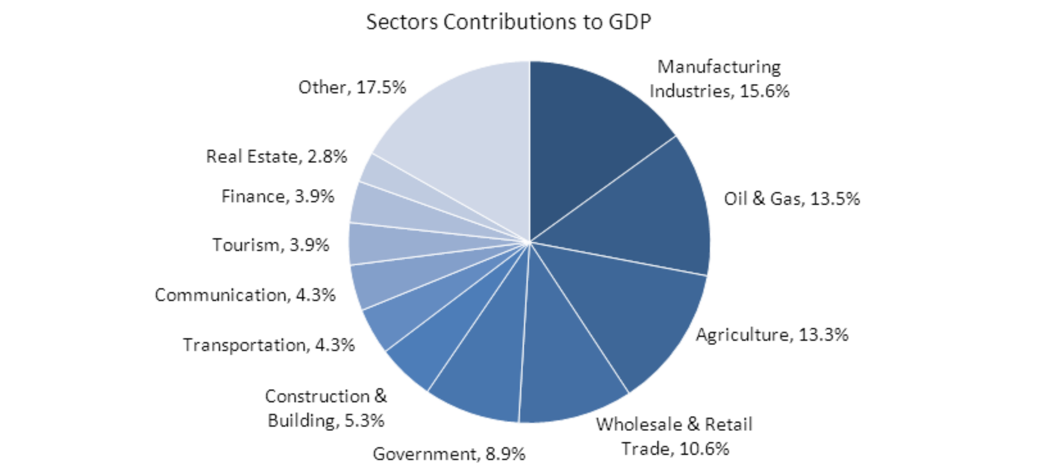
As for company specific risks, 80.9% of SODIC's land bank is in Egypt while the rest lies in Syria, two countries that have lately showcased severe country risks. This massive land concentration in Egypt exposes the company to many jeopardies stressing on the political downturn of the country and its effect on the economy. Furthermore, on the long term, SODIC's depleting land bank will force the developer to purchase new land in the future either self-financed or via debt or a combination of both which might challenge SODIC's low leveraged strategy paving way to liquidity risks.

Finally, real estate developers in Egypt have been facing lawsuits related to their acquisition of land. The most severe case was related to Talaat Mostafa's flagship project, Madinaty, in which the company had been accused with violating the law by acquiring land through a direct order from the government rather than through a public auction. As for SODIC, It successfully obtained a three year extension plan for the construction of its land bank in West Cairo (18% of land bank) clearing its issues for the concerned plot with Al Yosr plot also cleared from legal disputes. However, issues still lie in Eastown (11% of land bank) where SODIC is waiting for the final decision of the Conflict Resolution Committee.

# ECONOMIC OVERVIEW

## Economy Still in the Dark but Vital Signs are Beginning to Resurface

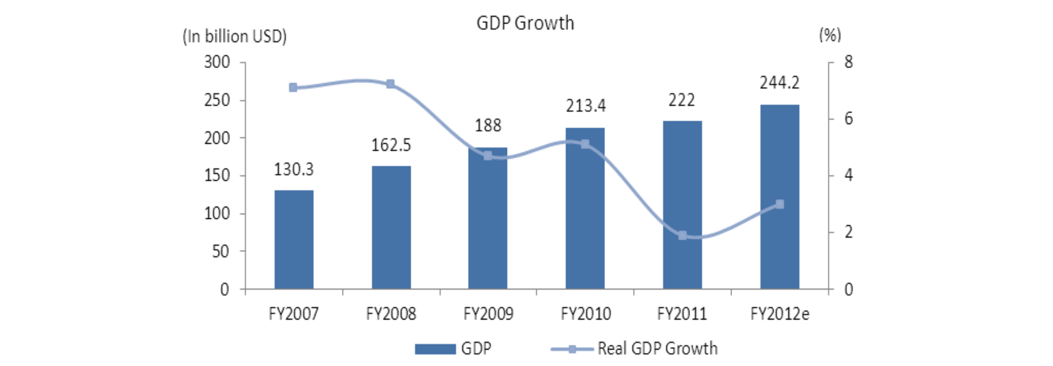
In the five years prior to the revolution, Egypt's economy was growing at an average annual rate of 5.2%. However, with the halt in capital expenditure and the large losses accrued in the external sector, real growth dropped to 1% in 2011. This began to change in the first few months of 2012, marking improvements in tourism and investment confidence. The real estate sector is picking up in line with the country's real demand for housing, climbing 3.2% y-o-y between July 2011 and March 2012. Tourists regained interest in Egypt after having avoided the region during its months of turmoil; noting that tourism accounts for an estimated 15% of Egypt's economy through its direct and indirect economic linkages. In Q1 2012, tourism revenues increased by 12.8% y-o-y to USD 2.02 billion after having dropped by 28% y-o-y in the previous quarter. Likewise, receipts from the Suez Canal remained elevated, ranking in between USD 1.2 billion and USD 1.4 billion on a quarterly basis.




*Source: Central Bank of Egypt*

## Growth Expected to Slowly Kick in as Confidence Resumes

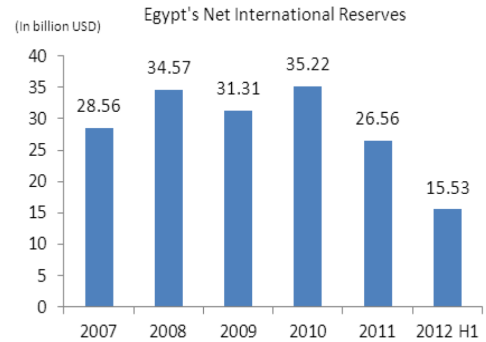
GDP is estimated to have increased by 5.2% in the first quarter of 2012, according to Egypt's Minister of Planning. While this trend of improving activity cannot be considered sustainable or stable enough, Egypt's economy will continue to be supported over the coming period by private spending. This in turn depends on the growing population and remittances from Egyptian expatriates. In the first three quarters of Fiscal Year 2011/2012, private spending jumped 18.1% y-o-y, compared to a 15.1% annual expansion a year earlier. The rise in consumer prices during the period hovered around 9%, down from almost 12% in the previous year.

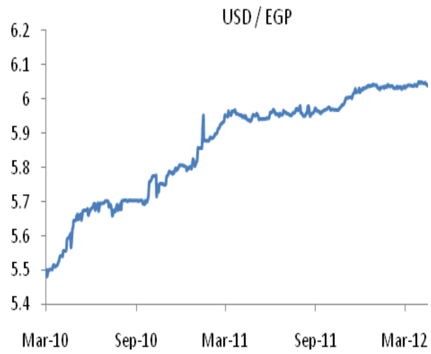



*Source: Central Bank of Egypt*

### Credit to Private Sector Dry as Banks Focus on Government Funding

While the country's slowing growth will be offset by continued demand from Egypt's massive consumer base, numerous challenges still lay ahead as the budget deficit more than doubled compared to 2011 reaching USD 11.2 billion. The risk of a full-blown balance of payments crisis lingers over the coming period since the central bank's stock of foreign reserves has decreased and capital outflows remain significant paving the way to a possible devaluation of the domestic currency. Knowing that the banking sector is the main purchaser of government treasuries, the crowding out effect of the private sector has been significant. Yet, over the last few months, international reserves have been slowly picking up as a first tranche (USD 500 million) of a USD 2 billion deposit pledged by the Qatari government was transferred to the Ministry of Finance account at the Central Bank.

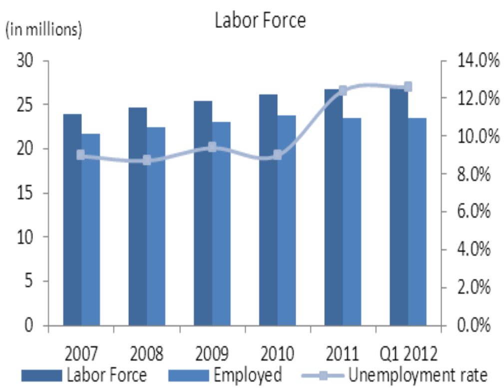


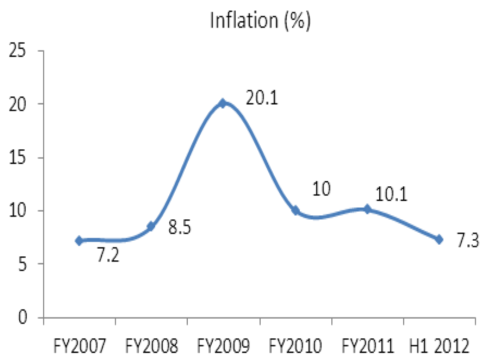




*Source: Central Bank of Egypt, Bloomberg*

### Unemployment remains high while inflation improves

Between 2005 and 2010, Egypt's labor force increased at an average rate of 3.8% y-o-y, continuously exceeding job creation and thus accelerating unemployment. The labor market is also at a disadvantage seeing that the downturn in both state projects and private businesses has yet to recover as unemployment reached 12.6% in the first quarter of 2012. On a positive note, inflation is beginning to decline as it reached 7.3% in June 2012 compared to approximately 10% in 2011. We expect a further decline to around 7% by the end of 2012.




*Source: CAPMAS, Institute of International Finance*

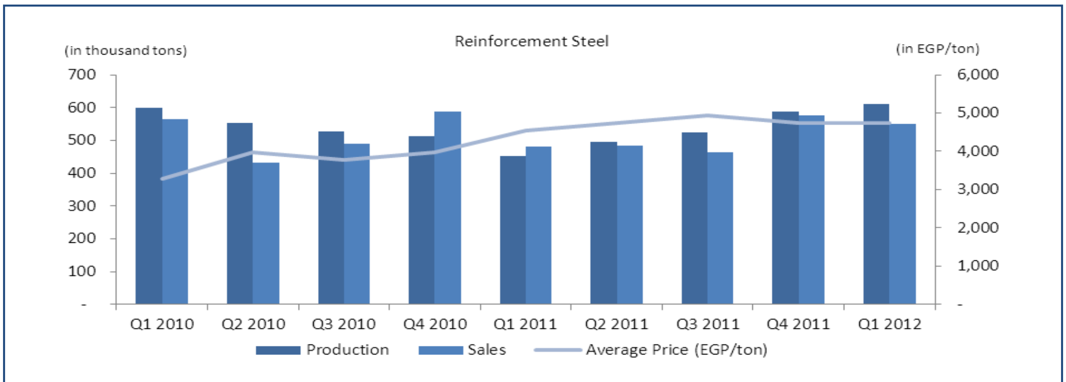
## REAL ESTATE MARKET

The road to democracy has been very costly for businesses in Egypt, as the revolutionary tides have halted activities in most economic sectors. Real estate has been in the forefront of this decline, with the unfolding turmoil leading to precipitous declines in company profits. Fears of land confiscation still plague investors, while consumers have preferred waiting on the sidelines, unwilling to commit within this environment. Despite the cloudy outlook, strong foundations remain, anchored by favorable demographics, a shortage in housing supply, and a mortgage market that remains underpenetrated. Stabilization in economic activity and a return to growth will leave Egypt's real estate sector as one of the most attractive investment segments available.

### Real Estate Sector Stands Firm as Political Turnaround Sparks Growth

Following the revolution, real estate activity halted, especially for off-plan property sales, caused by fears of delay in delivery and legal allegations over land ownership. Nevertheless, the sector grew by almost 3.1% in the first half of FY2012 and contributed to 2.7% of GDP. This is slightly lower than the same period during FY2011, where the sector grew by 3.2% and contributed to 2.8% of GDP. On the other hand, sector growth during FY2008 and FY2009 exceeded 4.0% and even reached 7.1% in FY2007.

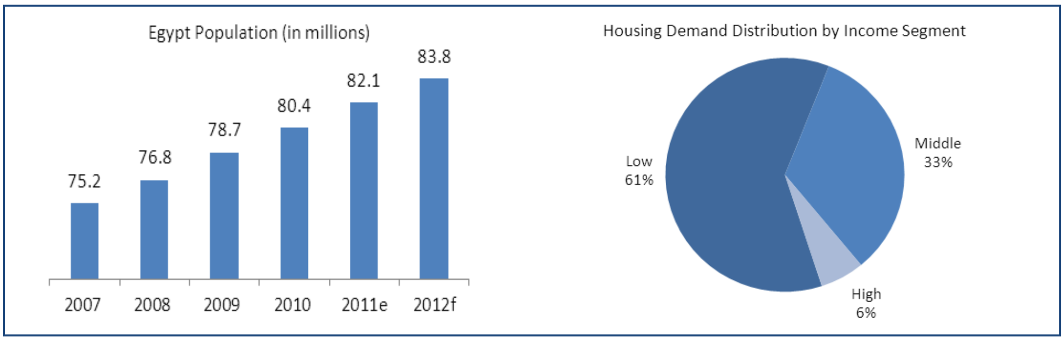
The construction and building material industry, a key indicator of the activity in the real estate sector, supports the view of a better-than-expected performance during FY2012 with sales of cement and steel almost stable over the period.




*Source: Central Bank of Egypt*

### Shortage in Middle Income Residential Market Backed by Strong Demographics

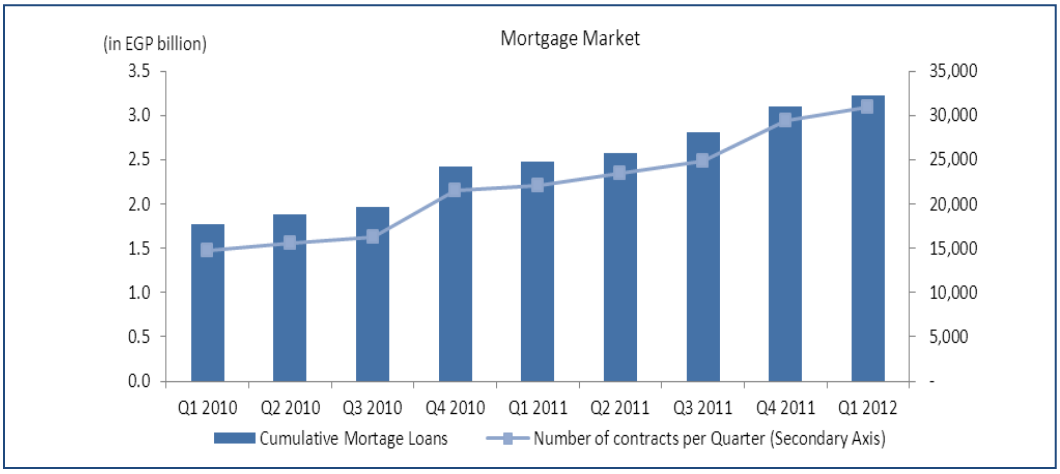
Demographics are encouraging to real estate investments since Egypt is witnessing a 2% average annual growth rate of its 82 million population having 75% under the age of 35. In addition, the high annual marriage rate at 800,000 reinforces demand for housing since, according to USAID, 46% of people seeking new houses are planning to get married. Actually, 61% of demand comes from the low income segment but since the latter cannot afford to seek houses, it is characterized as latent demand. Excluding the latent demand, 79% of projected demand for new homes is newly married couples coming from the middle income segment.




*Source: IMF, CAPMAS*

### Underpenetrated Mortgage Market Grows Despite Political Upheaval

In 2011, total mortgages represented around 0.5% of Egypt's GDP, compared to 1.3% in Saudi Arabia and 11.5% in Lebanon. An efficient mortgage market will reinforce demand through housing affordability and feasibility. Since 2004, 13 mortgage companies have been established with the total amount of mortgages increasing from EGP 193 million in September 2005 to EGP 3 billion in September 2011. This will be further enhanced by the government's announced plans in June 2010 to more than double the market size from EGP 4 billion to EGP 10 billion within three years. Institutional immaturity characterized by complicated mortgage registrations and time-consuming bureaucratic procedures have been the main cause of this under-penetration. In spite of the 2011 political cataclysms, mortgage loans grew by an inspiring 83% to around EGP 3.2 billion since the beginning of the crisis till the first quarter of 2012 while the number of contracts surged 46% in 2011 to approximately 100,000 compared to 2010.




*Source: Egyptian Financial Supervisory Authority*

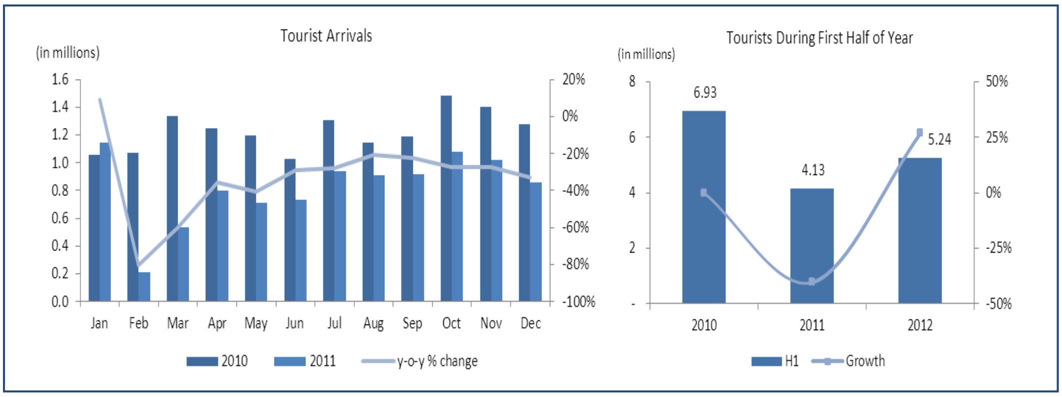
### Government Intervention and Effective Reform Needed For Sector Progress

The Egyptian government has been gradually reforming the real estate sector, knowing that the housing shortage is estimated at around 200,000 units per year. It is doing so through easing bureaucratic procedures for both developers and consumers and focusing on supplying units to families in poverty. Post revolution, the Egyptian government launched the National Housing Project aiming to provide 1 million residential units through 5 years in 22 cities across the country. However, we do not expect this to affect prices of mid-end properties since there is a substantial shortage of supply. This shortage has been caused by the private sector's concentration on high-end projects due to their attractive profit margins.

Since Cairo has reached its population density limit, satellite cities around the capital (New Cairo, Sixth of October, etc.) have been drawing high and middle income residents to gated communities seeking to escape Cairo's congested lifestyle. Cairo has been worst affected by the political unrest in the country in contrast to its satellite cities. This is due to their close position to Cairo yet far enough from the hostility that took place. Sixth of October City performed best having only suffered a contraction in the retail segment due to being considered as a "Smart Village" harboring inflows of technology and finance businesses; it is well suited for offices and commercial real estate.

### Tourism Slowdown Reaches All Corners of Economy with Retail Taking a Big Blow

Following the weakening in private consumption and the losses suffered by the tourism industry, the retail sector was most affected as rental prices are expected to decline due to weak demand and low occupancy. Tourism employs 12% of Egypt's workforce having a share that ranges up to 13% of total GDP through its direct and indirect linkages to the economy. The sector has been widely affected by the turmoil with the number of tourists shrinking by 33%, tourist spending dropping by USD 1.6 billion and revenues from the sector falling by more than USD 4 billion in 2011. Nevertheless, we still have a positive outlook on the years to come as the economy heals, best translated by the 27% rise in tourists during the first half of 2012 compared to the same period in the previous year. Furthermore, it is expected that tourist numbers will reach 12 million by the end of FY2012, 22% higher than FY2011.




*Source: CAPMAS*

### Developers adapt to new market dynamics

We expect the real estate sector to start recovering gradually with a focus on primary housing demand. Moreover, developers will shift to middle-end residential projects in order to capitalize on the shortage in supply for the lower and middle income level groups, as foreign investments are weak and may not recover as long as political risks persist and the tourism sector remains frail.

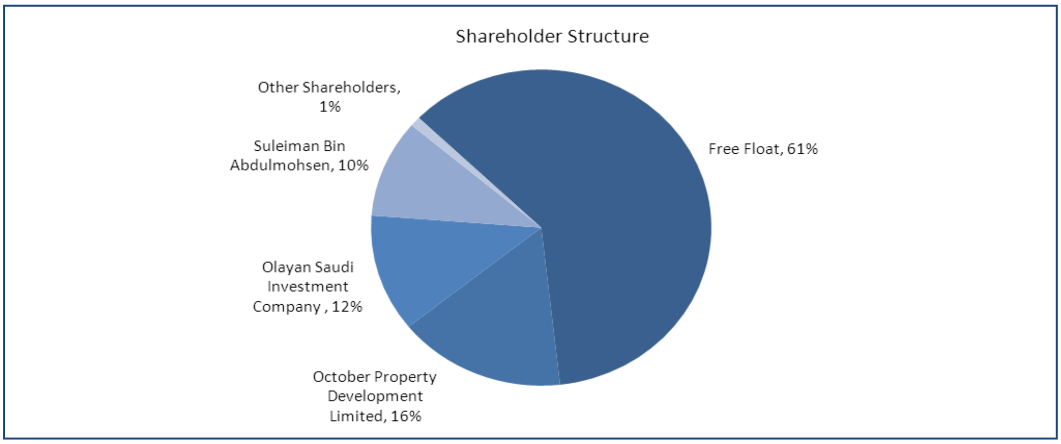
New marketing strategies are being developed by real estate firms due to the shortage in liquidity from banks. These include the reduction of down-payment to 5-10% instead of 30% and the possibility of increasing the number of installments and repayment period to more than 7 years.

## COMPANY PROFILE

Sixth of October Development and Investment (SODIC) was established in Cairo in 1996 with the objective of developing a 10.7 million sqm land plot in Sixth of October City. Following the success of its first community project, Beverly Hills, 7.5 million sqm remain for development. The business focuses on offering residential real estate through projects targeting upper-middle and high income clients. However, due to its relatively small land bank, it was forced to venture into commercial and retail spaces, thus capitalizing on the existent market gap in this segment. From a strategic point of view, the company is seeking to expand geographically and has already taken its first step by the acquisition of Syrian real estate developer, Palmyra. SODIC holds most of its land bank in Egypt located in Sixth of October City and Kattameya area while the remaining 1.4 million sqm is invested in Syria where projects are frozen due to the latest political turmoil.

### Ownership

SODIC is publicly traded on the Alexandria and Cairo stock exchange and is included in the EGX 100 index. The stock was initially issued in 1998 with a par value of EGP 10 and underwent a 5-to-2 split, in July 2011, setting a par value of EGP 4 and 90,676,348 outstanding shares that are being traded today. The company's largest shareholder is October Property Development, which is owned by EFG Hermes, followed by Olayan Saudi Investment Company and Mr. Suleiman Bin Abdul Mohsen.




*Source: Zawya, Blominvest*

EFG-Hermes is in the process of selling part of its share to QInvest to focus on other plans.

### Board of Directors

| Name | Position |
|---|---|
| Dr. Hani Sari-Eldin | Non-Executive Chairman |
| Maher Rafik Maksoud | Vice Chairman, Managing Director, CEO |
| Safwan Ahmad Thabet | Director |
| Yaser Al Malwani | Director |
| Mohammed Arafa | Director |
| Shafeek Mohammed Al Baghdadi | Director |
| Ahmad Damrdash Badrawi | Director |
| Walid Suleiman Abanmi | Director |
| Sari Maurice Sahyoun | Director |
| Hassan Haykal | Director |
| Salah Majdi Chafii | Director |

*Source: SODIC*

## Subsidiaries & Affiliates

### i. Syria

In 2009, SODIC bought a 50% stake in Palmyra, a Syrian real estate development company. The latter owns 2.9 million sqm of land in Syria, almost half of which is located in the capital, Damascus, representing 19.3% of SODIC's total land bank. The company plans on re-launching the Tilal Al Yasmine project. However, with the political turmoil in Syria aggravating, no progress is taking place.

### ii. Subsidiaries

| Company Name | Ownership | Country |
|---|---|---|
| Polygon for Real Estate Development Company | 100% | Egypt |
| SODIC Property Services Company | 100% | Egypt |
| SODIC Syria | 100% | Syria |
| SODIC for Golf and Tourist Development Company | 100% | Egypt |
| WESTOWN for Real Estate Company | 100% | Egypt |
| WESTOWN for Real Estate Development Company | 100% | Egypt |
| Ceremony for Real Estate Investment Company | 99.99% | Egypt |
| El Yosr for Projects and Agriculture Development Company | 99.99% | Egypt |
| Fourteen for Real Estate Investment Company | 99.99% | Egypt |
| La Maison for Real Estate Investment Company | 99.99% | Egypt |
| SODIC Allegria for Real Estate Investment Company | 99.99% | Egypt |
| Sixth of October for Development and Real Estate Projects Company (SOREAL) | 99.99% | Egypt |
| Edara for Services of Cities and Resorts Company | 99.97% | Egypt |
| SODIC SIAC for Real Estate Investment Company | 80.00% | Egypt |
| Beverly Hills for Management of Cities and Resorts Company | 74.80% | Egypt |
| Move-In for Advanced Contracting Company | 70.00% | Egypt |
| Greenscape for Agriculture and Reclamation Company | 51.00% | Egypt |
| SODIC Garden City for Development and Investment Company | 50.00% | Egypt |
| Tegara for Trading Centers Company | 50.00% | Egypt |

*Source: Zawya*

# BUSINESS MODEL

## Revenue Mix

### i. Real estate & land sales

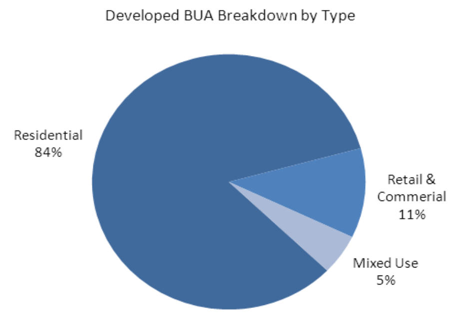
Sales of residential units account for most of the total revenue since SODIC is, at the moment, mostly reaping the profits of its residential development, Allegria. In 2011, Management decided to create a recurring income stream in commercial/retail projects. However, post-revolution, the focus was once again on residential units with the introduction of Westown Residences, due to its easy financing through off-plan sales amid the tough economic and political situation.

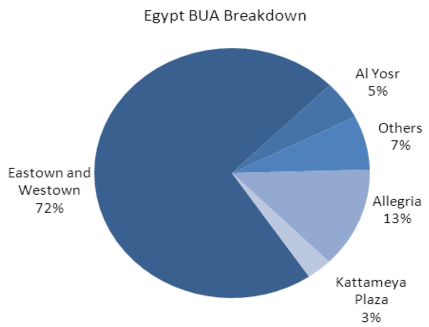
### Recurring income

In 2010, after recognizing the significant gap between supply and demand in the commercial rental segment, SODIC strived to develop its recurring income through office and shop concentrated projects. Recurring income is expected to take up a 13% share of SODIC's total revenues by 2016 through projects such as Westown Retail Hub, Autoville, The Polygon and Forty West.

### iii. Services and other revenues

Revenues from rendered property management services in Allegria and Beverly Hills projects consist of infrastructure management, security, landscaping maintenance, cleaning, garbage collection, waste management, pest control, and shuttle services. However, these services are a source of expense as the costs exceed revenue. Finally, other revenues consist of construction contracts from subsidiaries.

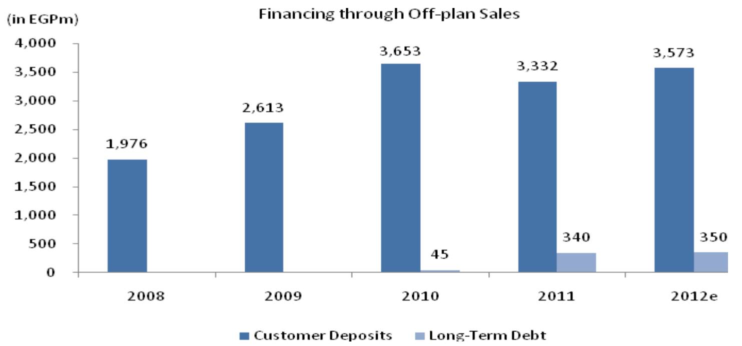



*Source: SODIC, Blominvest*

### Off-plan sales assist in financing projects

SODIC finances its real estate sales through an off-plan sales model. It collects 40% of the value in the first year and divides the remaining 60% over three years in quarterly installments. Since the gross margin approximates to 50%, the recovery of costs will lie in the second year. Note that revenues are only recognized upon final delivery to clients. As for the lease portfolio, it is financed by the sale of sub developments carrying an approximate gross margin of 70%.

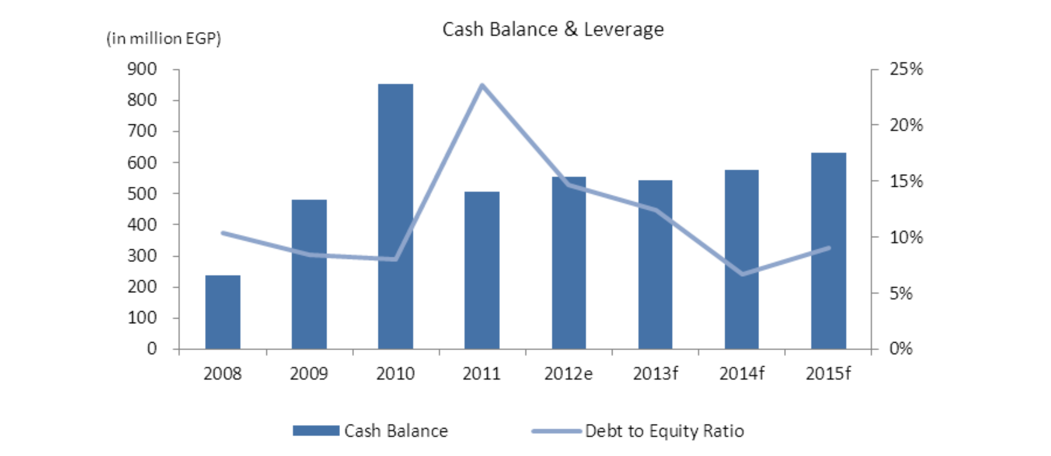



*Source: SODIC, Blominvest*

## Resistant to Shocks by Staying Rich in Cash

With 96% of its land bank already paid for, SODIC finances its projects primarily from advances of customers collected by off-plan sales leading it to maintain a low debt to equity ratio averaging 13% over the last four years. This helps the company reduce risk by avoiding unsold property and only starting construction when a significant number of units have been sold.

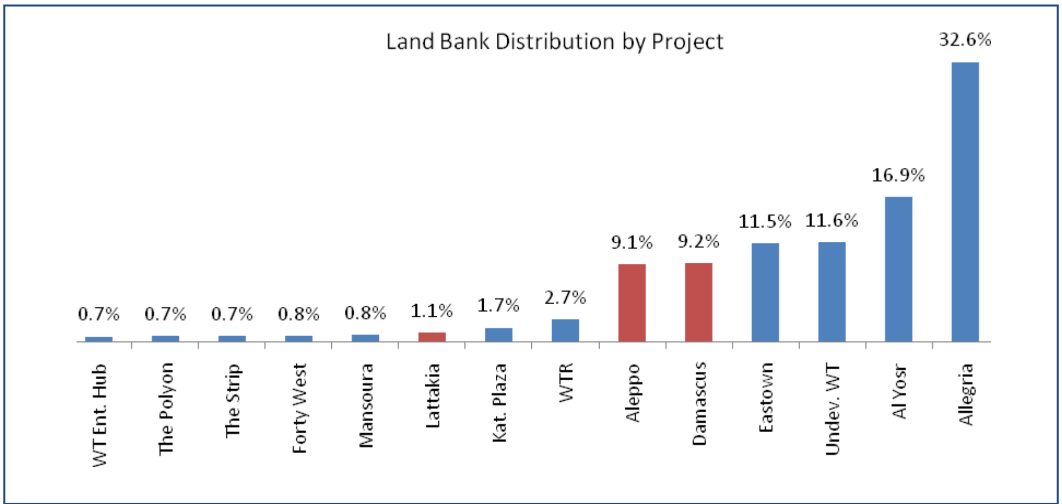
Moreover, SODIC distinguishes itself from competitors by maintaining high liquidity which enables it to adapt in times of crises. Combined with its low leverage, the company has maintained EGP 506 million worth of cash at banks through the 2011 revolution enabling it to quickly react and change the strategy of its Westown development and turning it into Westown Residences, thus reaping the profits of the gap in the middle-income residential segment.




*Source: SODIC, Blominvest*

## Geographic Expansion

SODIC found a valuable opportunity in the fast growing Syrian real estate sector prompting it to establish presence there. It acquired 50% of Syrian real estate company, Palmyra, and formed SODIC – Palmyra which currently owns 2.9 million sqm of land in Damascus, Lattakia, and Aleppo. However, in the beginning of 2011, the turmoil hit Syria causing a devastating impact to the economy. This led to a halt in SODIC's operation in Syria and a significant devaluation of its land.




*Source: SODIC, Blominvest* ** Bars in red indicate land in Syria*

## PROJECT PORTFOLIO

| Project | Location | Use | Type | Sellable BUA | Leasable BUA | Delivery Dates | % contracted as of Q1 2012* | Ownership |
|---|---|---|---|---|---|---|---|---|
| Allegria | West Cairo | High-end Residential | Stand Alone & Townhouses | ***564,308*** | - | 2010-2013 | *89%* | *100%* |
| *Phase 1 & 2* | *West Cairo* | *High-end Residential* | *Stand Alone & Townhouses* | *454,019* | - | *2010* | *91%* | *100%* |
| *Phase 3* | *West Cairo* | *High-end Residential* | *Stand Alone & Townhouses* | *78,732* | - | *2013* | *88%* | *100%* |
| *Phase 4* | *West Cairo* | *High-end Residential* | *Stand Alone & Townhouses* | *21,776* | - | *2013* | *99%* | *100%* |
| *Phase 5* | *West Cairo* | *High-end Residential* | *Stand Alone Villas* | *9,782* | - | *2014* | - | *100%* |
| Kattameya Plaza | East Cairo | Upper Middle Residential | Apartments | 100,525 | - | 2012-2013 | *66%* | *100%* |
| The Polygon | West Cairo | Commercial | Offices | 42,984 | 26,478 | 2013-2014 | *29%* | *80%* |
| Forty West | West Cairo | High-end Mixed Use | Apartments, Retail & Offices | 37,268 | 9,009 | 2013-2014 | *60%* | *100%* |
| Westown Residences - Phase 1 | West Cairo | Upper Middle Residential | Townhouses & Twin houses | 51,979 | | 2014 | *100%* | *100%* |
| Westown Residences - Phase 2 | West Cairo | Upper Middle Residential | City Villas & Duplexes | 21,849 | - | 2015 | *100%* | *100%* |
| Westown Residences - Phase 3 | West Cairo | Upper Middle Residential | City Villas & Duplexes | 17,097 | - | 2015 | *100%* | *100%* |
| CASA | West Cairo | Upper Middle Residential | Apartments | | | 2013 | - | *20%* |
| Autoville | West Cairo | Retail | Restaurants & Shops | 18,096 | 4,729 | 2012-2013 | *45%* | *50%* |
| Westown Retail Hub - Phase 1 | West Cairo | Retail | Restaurants & Boutiques | - | 10,539 | 2013 | - | *100%* |
| Al Yosr Land | West Cairo | Residential | NA | | | NA | - | *100%* |

*% delivered is negligible for all projects with the exception of Allegria (30% delivered in phase 1) and Autoville (9% delivered)

*Source: SODIC, Blominvest*

Note: SODIC has stated that its land bank was acquired in conformity with the law and that all land liabilities are settled with the exception of EGP 167.5 million mainly related to Allegria Extension and Al Yosr Plot.

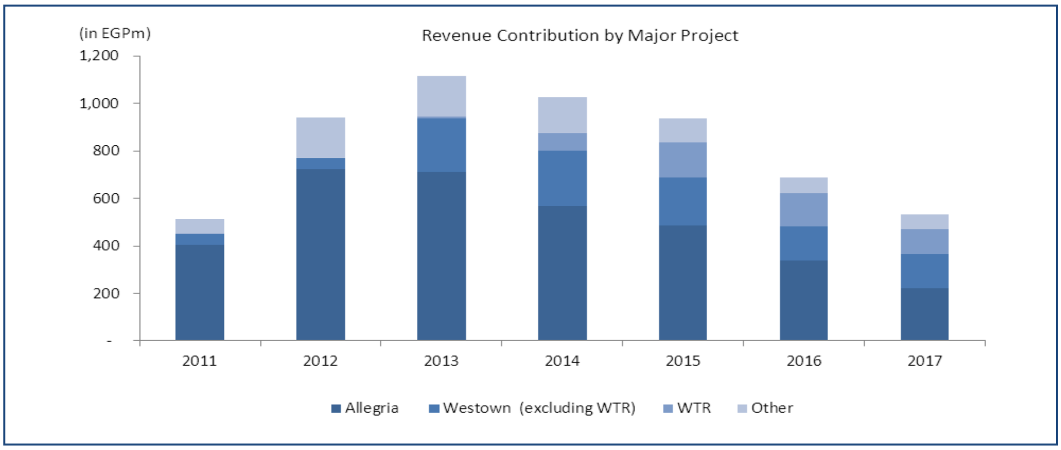
A brief description of each project is available in the appendix.

## DEVELOPMENTS OF MAJOR PROJECTS

SODIC is facing a shift in its sales concentration as it is moving from Allegria to Westown and Kattameya Plaza. This is driven by the fact that Allegria has passed the bulk of its sales with the details of each of the main projects below:

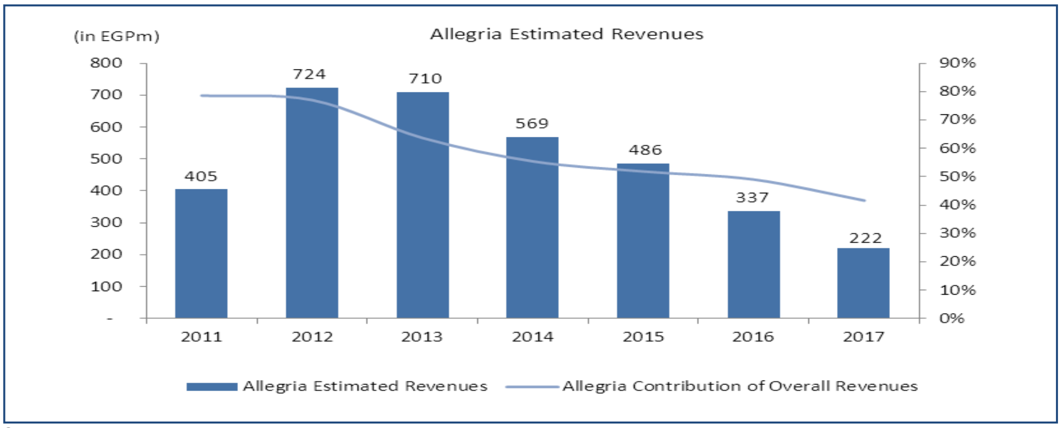
### Allegria

Allegria was launched in 2008 and has been the main source of income representing 78% of 2011 revenues. However, Westown Residences and Kattameya Plaza are now expected to be the main providers of revenue since 80% of Allegria units have already been contracted. Although cancellations slowed the income stream in the past year, sales and deliveries picked up as we expect the rest of Allegria units to be delivered by 2018 on an average rate of 13% annually without accounting for cancellations.




*Source: Blominvest*

SODIC's strategy to sell the remaining units will focus on reducing unit sizes in phase IV instead of lowering prices as Allegria is a high-end project and cutting prices may lead to a tarnished image and perhaps some cancellations.



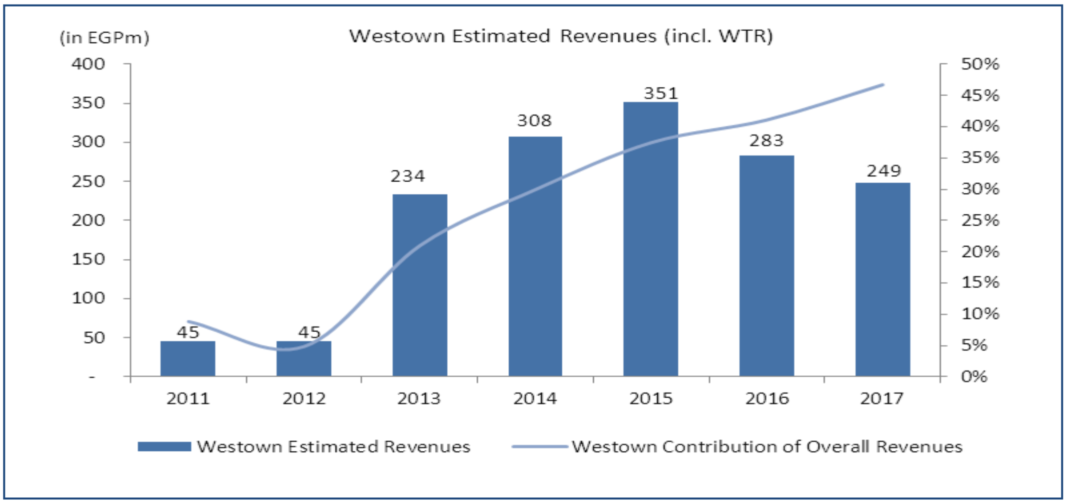

*Source: Blominvest*

### Cash Drain Due to the Construction of Unsold Units

SODIC is committed to deliver the project at the scheduled date and since it's currently facing unsold units and it relies on off-plan sales to finance its project, it is going to have to continue construction by draining its own cash. The loan drawn from Bank of Alexandria has already been used to finance the project. The delinquency rate of receivables will also affect cash. However, the company adopted new payment terms by extending the installment period from 4 to 6 years.

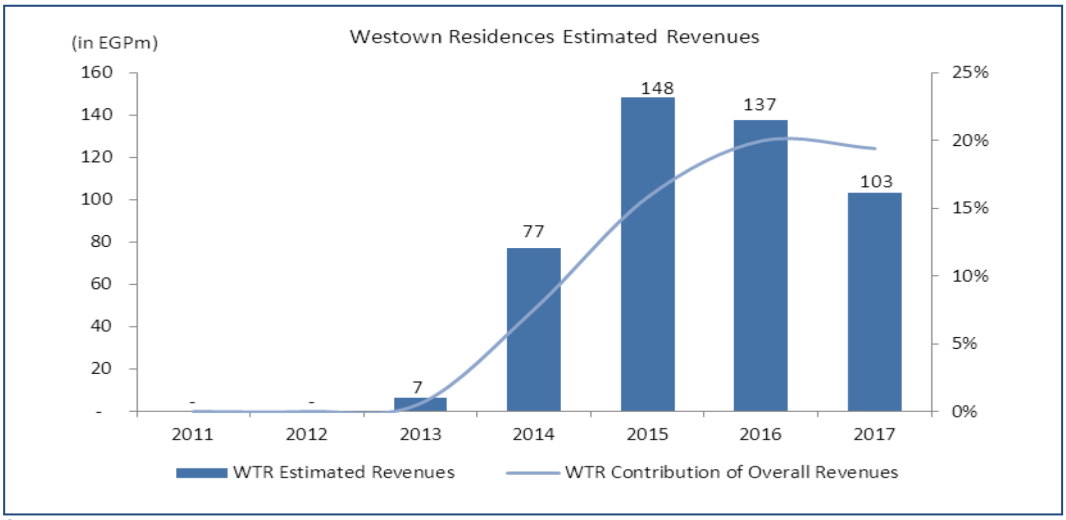
## Westown

With Westown accounting for 16% of SODIC's land bank and 71% of which is still undeveloped, we expect it to be a major revenue driver in the next few years. The developed portion constitutes projects such as The Polygon, Forty West and Westown Residences (WTR). The Polygon (30% contracted up to date) and Forty West (60% contracted up to date) were launched in 2010 carrying some of the highest price tags in Egypt and are expected to contribute a major share of annual revenues up till 2017 (forecast timeframe).




*Source: Blominvest*

With the halt in sales and increasing cancellations during 2011, SODIC altered its strategy by updating the original master plan focused on retail and commercial spaces (however preserving The Polygon and Forty West) and introduced small-scaled residential developments under the Westown Residences project. WTR sold out in 48 hours after its launch date. The residential upper mid-income project is expected to be a key driver for revenue growth till 2018. WTR sales were reported at EGP 586.7 million in H1 2012 compared to total gross sales of EGP 973.8 million for the entire year of 2011. In addition, all projects designed by SODIC post revolution are sold out, achieving sales of EGP 1,075 million in the first half of 2012.

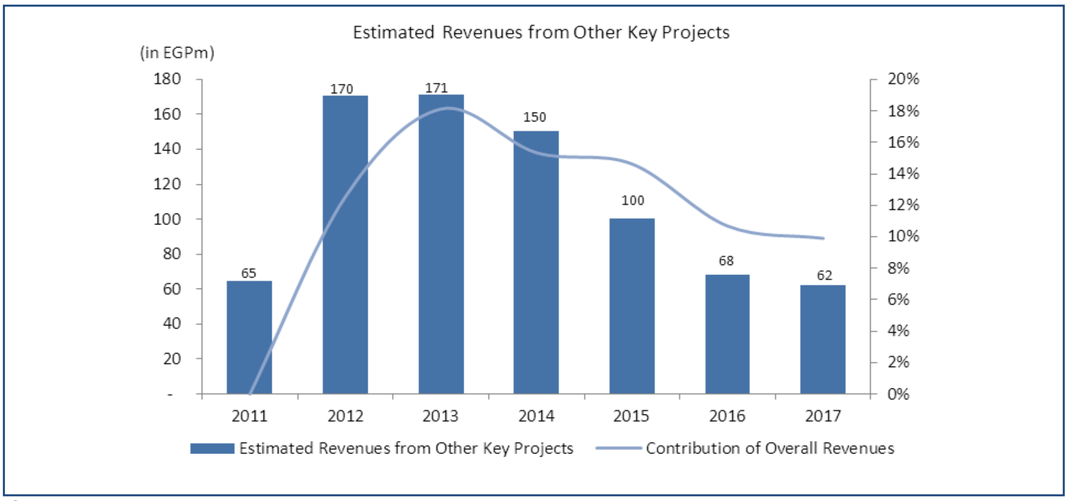



*Source: Blominvest*

## Other Projects

- Kattameya Plaza, a residential apartments project covering 0.1 million sqm, is expected to contribute an annual average of 10% to the company's revenues. The project's deliveries are expected to begin by the end of 2013.

- Autoville (The Strip) is a retail project built on 0.1 million sqm of land. Approximately 80% of the project is intended for sale and expected to contribute to an average of 4% of total revenues over our forecast horizon.

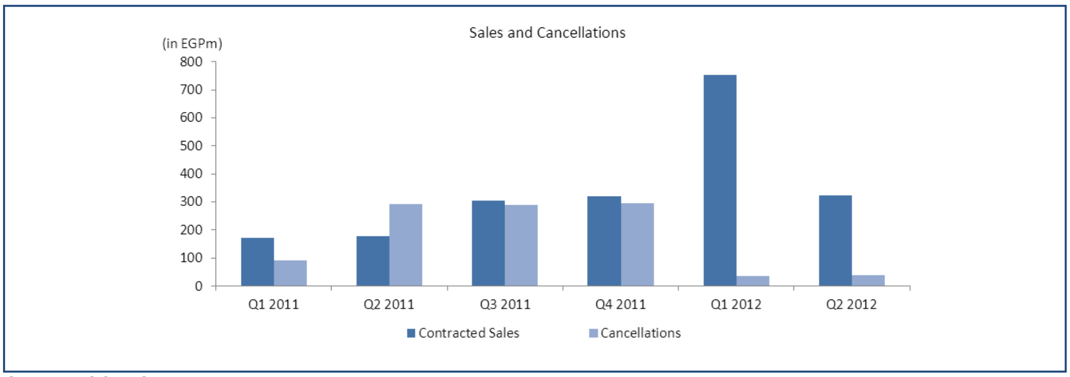



*Source: Blominvest*

## OPERATING ENVIRONMENT

### SODIC Doubled Down on Market Prior to Revolution

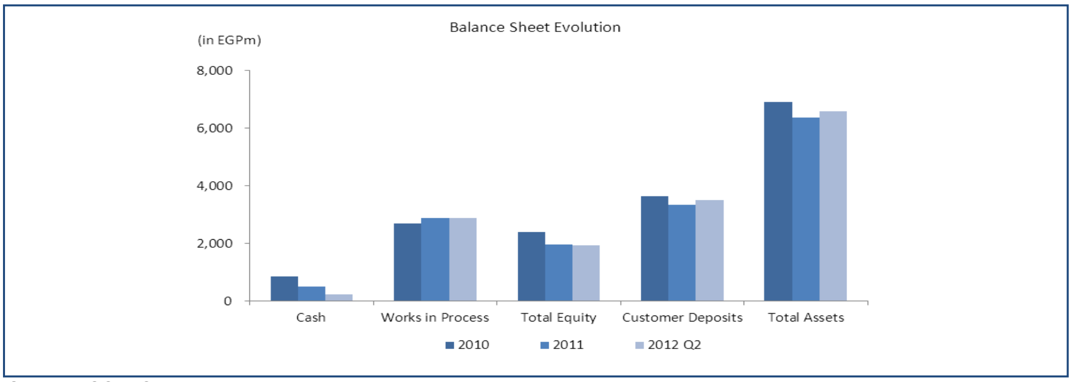
After SODIC's Allegria success in 2010, the company was preparing to launch more projects, double its construction budget to increase market share and expand by entering regional markets. The plan was to build a geographically diversified project portfolio consisting of residential, commercial, and retail units laid out locally and regionally. The recurring revenue stream from leasable commercial and retail assets was mainly a tool to hedge against the relatively limited land bank that the company possesses.




*Source: SODIC, Blominvest*

### Post Revolution Market Crunch Forces SODIC to Adapt

However, as the revolution played out, the implications on businesses throughout Egypt were dreadful. Due to the economic slowdown and the high cancellation rate for the Allegria project, SODIC suffered from a cash crunch and was forced to scale down its plans and adapt to the new market conditions. SODIC relied on its ability to restore stakeholders' confidence via its strong balance sheet, flexible operation and conservative financing approach. This was demonstrated through receivables worth EGP 1.7 billion, a cash position of EGP 506 million and EGP 340 million in bank debt, allowing SODIC to maintain a net positive cash position during 2011. The conservative measures and application of strict guidelines helped hedge against the volatility caused by the uprising.




*Source: SODIC, Blominvest*

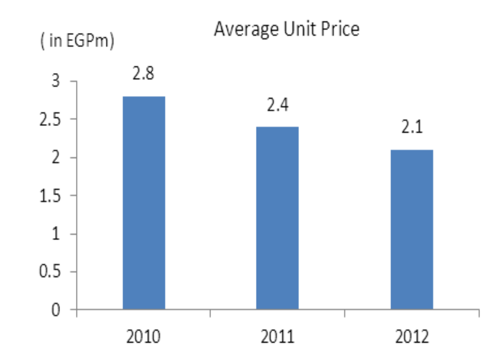
### Performance in Q2 2012

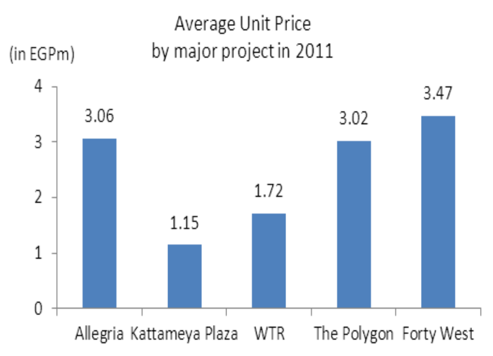
Signaling a possible reversal of the worsening conditions, SODIC's strive to secure timely deliveries along with its tight cash collection policy enabled the company to collect EGP 199 million worth of receivables, approximately 89% of the quarter's outstanding total. Contracted Gross in H1 2012 reached EGP 1,075 million compared to EGP 973 million for FY2011 while cancellations dropped significantly to EGP 75 million, down by 92.25% from EGP 968 million during FY2011. Moreover, work in process amounted to EGP 2.9 billion at end of Q2 2012 with 83 units delivered and valued at EGP 268 million in Q1 2012 along with 99 units worth EGP 325 million delivered in Q2 2012.

# STRATEGY

### Flexible Model, Quick Adaptation and Market Responsiveness

The company has reacted to the changing environment by updating the original master plan for the 1.2 million sqm Westown project through developing Westown Residences, a residential project targeted to the upper-middle income segment. Despite the 60% allocation of Westown's BUA to commercial and retail spaces, the company delayed its lease portfolio to 2016 while it launched Westown Residences, which appeals to customers through its high quality yet relatively reasonable prices. The latter sells at an average EGP 1.7 million per unit while Allegria units are priced well over EGP 3 million.



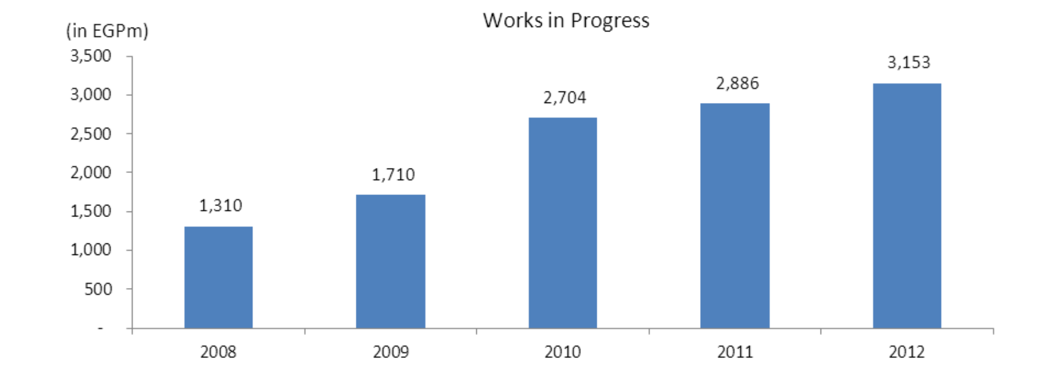




*Source: SODIC*

### Reliance on Tier 1 Contractors

SODIC's management decided to outsource construction activities by seeking tier 1 contractors, such as SIAC and Hassan Allam Sons, in response to delinquencies faced in 2011 caused by the bankruptcy of smaller construction firms. This approach resulted in 182 units worth EGP 593 million to be delivered during the first half of 2012.

With the recourse to top contractors, delays were significantly minimized from a 35% estimated delinquency rate for deliveries in 2011 to 11% reported in Q2 2012. Works in progress are held steady as units are completed and new construction enters the pipeline.




*Source: SODIC*

## RISKS

### Cancellations and Delinquencies Dependent on Political Situation

The prominent short term risk is the political tension and security situation dragging along a shortage of liquidity in the private sector as banks are focused on lending to the public sector. However, as the economy recovers, banks should boost liquidity in the market. Although we expect little cancellations, the risk still looms especially if major events happen on the political scene. This will also propel the risk of creating delivery delinquencies.

### Currency Devaluation

The unrest has also hit tourism and foreign direct investment, two key sources of foreign reserves. The central bank's foreign currency reserves halved during 2012 which put some pressure on the exchange rate of the Egyptian pound that has depreciated from 5.5 to around 6.09 USD/EGP since the beginning of the crisis till September 2012. Re-acceleration in inflation could cause further currency depreciation, knowing that the country is a huge importer of basic consumer products. Foreign currency reserves are running low as a capital flight and lower foreign receipts increase the risk of devaluation.

### New Real Estate Tax Law

A new real estate tax will go into effect as of January 2013. This heavily criticized law was issued under the previous government but has been later amended to overcome many of the problems of the original draft. After modification, the law exempts a person's home from the tax as it also states that 25% of the tax receipts will be contributed to develop slum areas.

### Land Bank Concentration Bonds SODIC to Country Specific Risks

80.9% of SODIC's land bank is in Egypt while the rest lies in Syria, two countries that have lately showcased severe country risks. This massive land concentration in Egypt exposes the company to many jeopardies stressing on the political downturn of the country in recent years and its effect on the economy. Moreover, the expansion in Syria proved to carry losses on the short term while its long term outlook may be beneficial.

### Depletion of land bank in the coming years threatens SODIC's lowly leveraged business model

While this is a long term risk, SODIC's depleting land bank will force the developer to purchase new land in the future either self-financed or via debt or a combination of both. However, we expect a higher probability of financing land purchases with debt which challenges SODIC's low leveraged strategy paving way to liquidity risks.

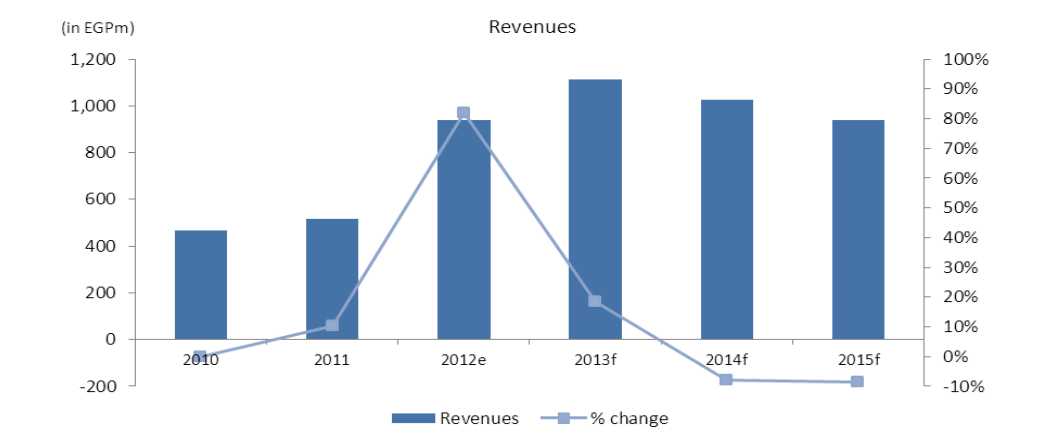
### Legal Disputes

The three main real estate developers have faced lawsuits related to their acquisition of land. The most severe case was related to Talaat Mostafa's flagship project, Madinaty, in which the company had been accused with violating the law by acquiring land through a direct order from the government rather than through a public auction. The case was settled in November 2011 by modifying the contract and fining the group. The second lawsuit was faced by Palm Hills concerning some of its land plots, leading it to return some land to relieve its cash flow problems.
On March 7th 2012, after heavy negotiations with the government, SODIC announced that it successfully obtained a three year extension plan for the construction of its land bank in West Cairo (18% of land bank). Additionally, its Al Yosr plot was cleared from legal disputes. However, issues still lie in Eastown (11% of land bank) where the administrative body, NUCA, failed to meet its contractual obligations under the land purchase agreement. On March 29, NUCA informed SODIC its decision to cancel the allocation and annul the contract of the Eastown plot. Consequently, SODIC appealed the decision and submitted a petition to the Conflict Resolution Committee (CRC), a committee designed to fast track investor disputes, which supersedes NUCA decisions, blaming the delay on NUCA for their failure to meet contractual obligations. The CRC responded by informing NUCA to freeze all action against SODIC pending a final decision.

# FINANCIAL ANALYSIS

## Revenues

We estimate 2012 revenues from real estate sales at EGP 940 million, 83% higher than 2011 due to increased deliveries in Kattameya Plaza along with more revenues generated by SODIC's flagship project, Allegria. The company's 5-year revenue CAGR is estimated at 12.6% with the most aggressive growth registered during 2012 and 2013 due to the introduction of new projects such as Westown Residences.

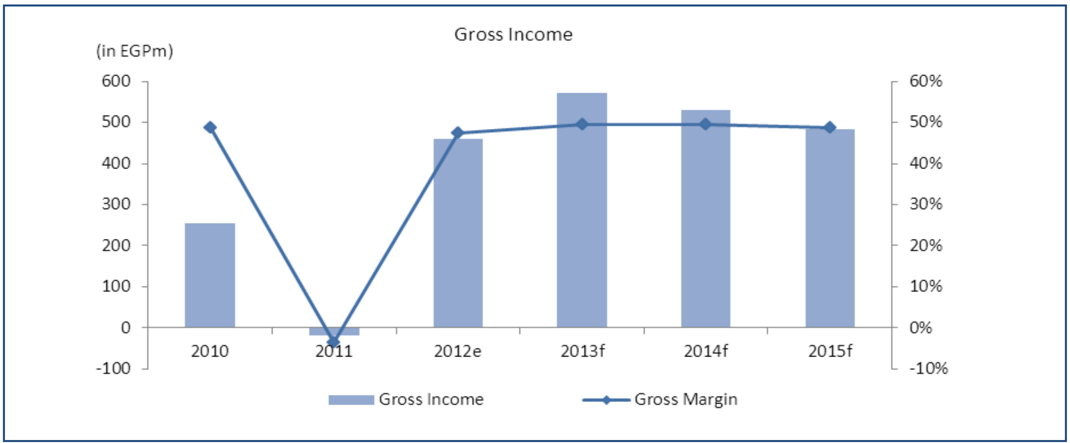



*Source: Blominvest*

SODIC's main source of revenues has been from the Allegria project accounting for 79% of total 2011 revenue. As revenues are booked upon final delivery to clients, the company's revenues were reported at EGP 542 million on the delivery of 259 units in 2011. Sales momentum during 2012 has been favorable due to the successful launch of Westown Residences with contracted sales of EGP 1,075 million for H1 2012 and 182 delivered units.

## Gross Margin

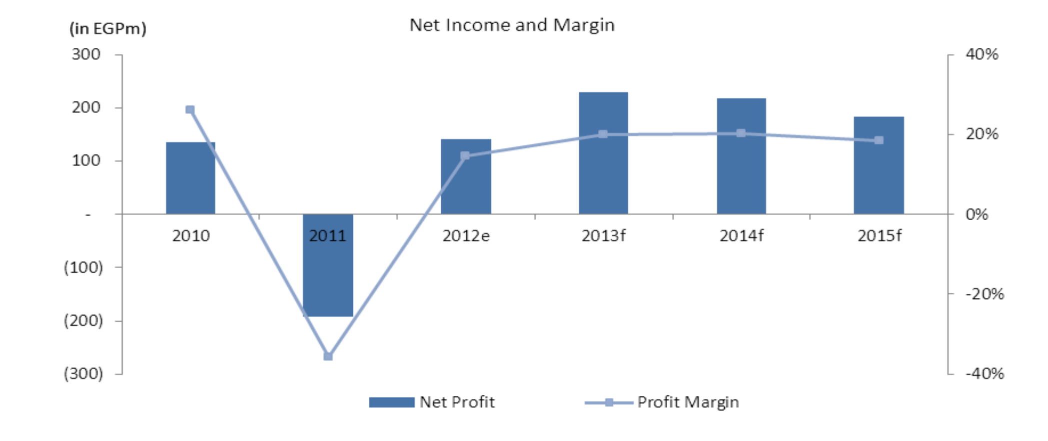
We estimate SODIC's gross profit margin for 2012 and onwards at 50% following its signing with top contractors, immunizing it to fluctuations in raw material prices. As a result, gross income for 2012 is estimated at EGP 460 million as opposed to a loss of EGP 19 million during 2011 due to the high cancellations that occurred.




*Source: Blominvest*

## Earnings

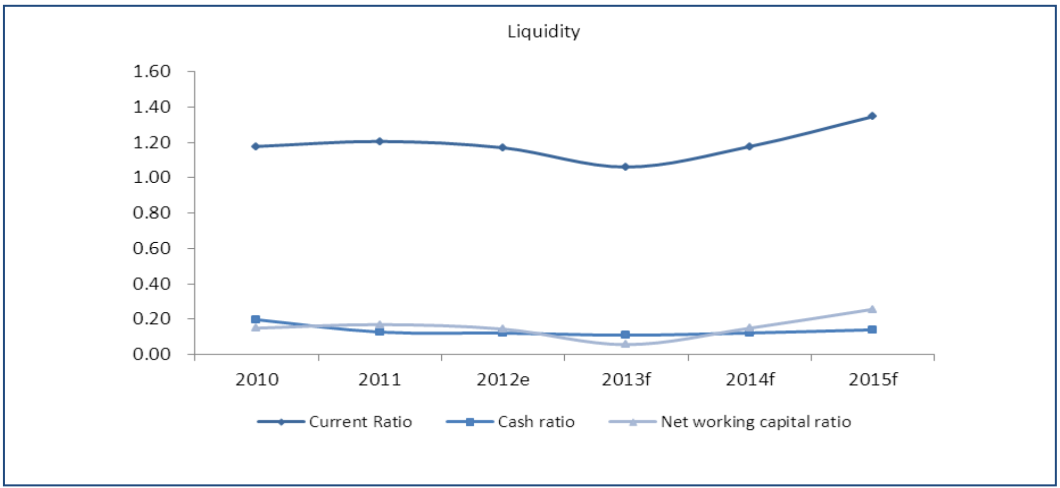
We estimate SODIC's net income at EGP 142 million during 2012, compared to the previous year's loss of EGP 193 million. Further growth is forecasted in 2013 as sales from Allegria Phase 3 begin to reflect on the financial statements. Earnings for 2013 are estimated at EGP 230 million mostly due to higher deliveries and revenue recognition.




*Source: Blominvest*

## Liquidity

Characterized by low sales and high cancellations, 2011 was marked as a year of construction, thus of spending rather than collecting. However, in the first quarter of 2012, the company was back on track by collecting approximately 88% of its receivables. Its balance sheet is characterized with high liquidity where cash in 2011 was reported at EGP 505 million. However, the launch of Westown Residences pushed cash levels to decrease to EGP 373 million in the first quarter of 2012 and EGP 242 million in the second quarter mainly due to construction outflows. SODIC's cash-to-current liabilities ratio varies between 10% and 20% while its current assets have always exceeded its current liabilities mostly due to very low debt.

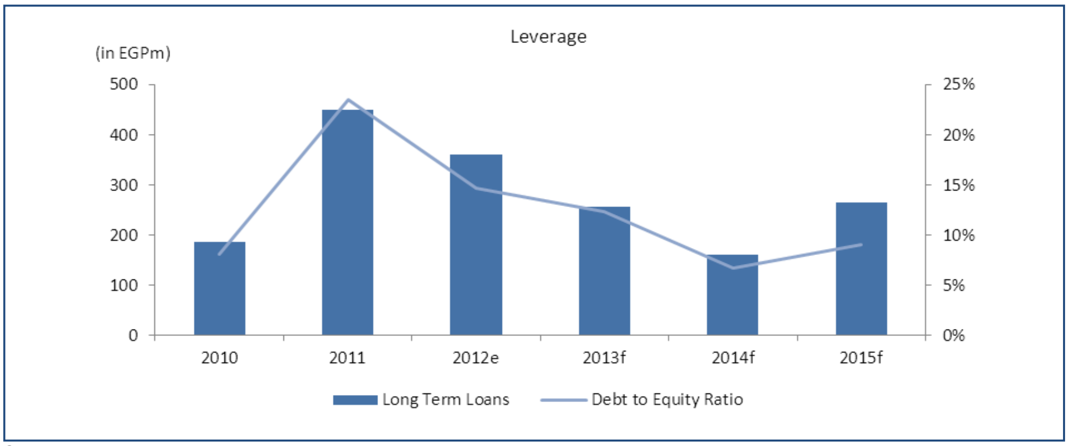



*Source: Blominvest*

## Leverage

SODIC's debt to equity ratio has been hovering around 8% in the last few years, however, it increased to 24% in 2011 due to newly drawn debt used to partially finance construction works on Allegria. The loan amounting to EGP 350 million has a 3.5 year maturity period with an interest rate of 2.85% above the corridor rate. SODIC's low leveraged balance sheet has been maintained due to 96% of the company's land having been already paid, in addition to residential units being financed by off-plan sales rather than debt. However, the off-plan sales scheme causes liabilities on the balance sheet to vastly exceed equity, with unearned sales captured in the customer deposits accounting for 75% of overall liabilities.

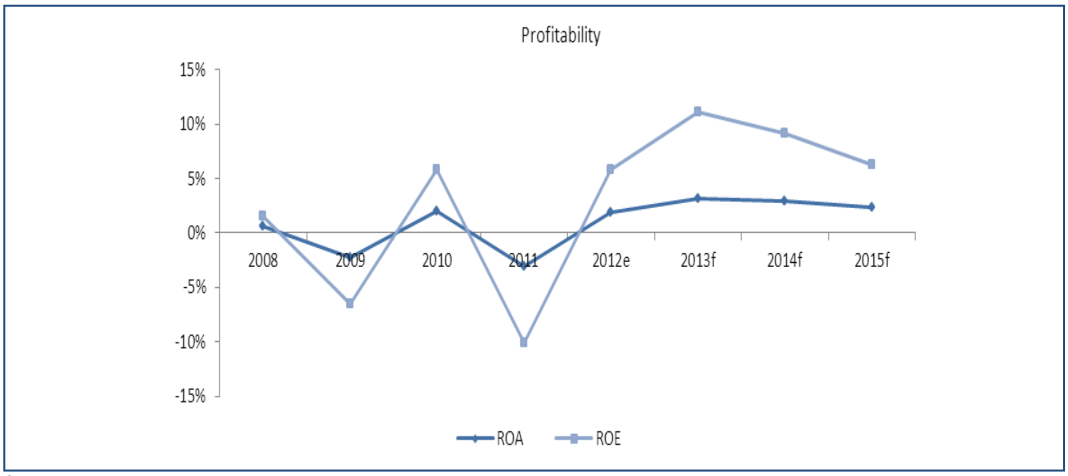
We expect debt to decline until 2015 as SODIC pays down its new loan. However, we anticipate an increase in debt post-2014 as the company may need to finance new land purchases once the current land bank depletes.




*Source: Blominvest*

## Profitability

During the 2011 revolution, SODIC's profitability reached severe lows compared to the 2009 financial crisis as both Return-on-Assets (ROA) and Return-on-Equity (ROE) ratios were reported at -3.03% and -10.10% in 2011 compared to -2.24% and -6.50% in 2009. However, both ratios are expected to improve as unit deliveries are made and revenues increase.




*Source: Blominvest*

## COMPARABLE ANALYSIS

When studying a company, we find it necessary to see how it compares to peers from three standpoints:

1. Profitability Comparison: Shows how well the company is managing its expenses through different margin analysis (Gross Margin, Operating Margin, Profit Margin)
2. Relative Valuation: Shows how the market perceives the company (overvalued, undervalued, or fairly valued)
3. Management Effectiveness: Shows how efficient management is at using its assets and equity to generate earnings.

### Comparable Firms

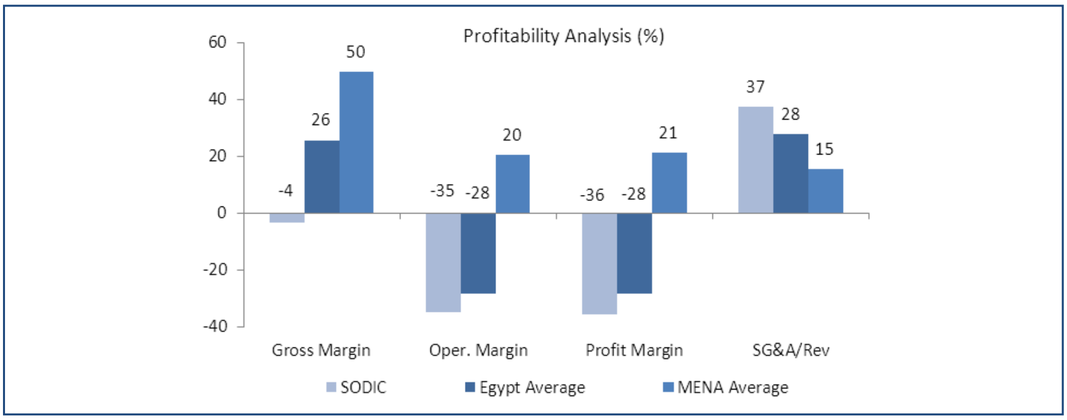
The list we compiled consists of 12 real estate companies that operate in the Middle East including 4 that operate in Egypt: "Talaat Moustafa Group Holding (TMGH)", "Palm Hills Development Company (PHDC)", "Amer Group (AMER)" and "Remco for Construction of Touristic Villages (RTVC)". We compared SODIC to the average of these 4 separately since they share common attributes dictated by their country such as political and market risks. The largest of the 12 has a market cap of USD 1.34 billion while the smallest has USD 106 million and the average is USD 503 million. On the other hand, SODIC's market cap is approximately USD 392 million.

**The complete list of comparables is available in the appendix.**

### Profitability Comparison

The company's gross margin, operating margin and profit margin are negative since cost of real estate sold reached 98% of revenues. This was caused by clients cancelling their contracts, leading SODIC to reverse the revenue from land sales recognized before. Nevertheless, we can notice the company's operating and profit margins are in harmony with those of Egypt and significantly lower than those of the region due to Egypt's political turmoil.

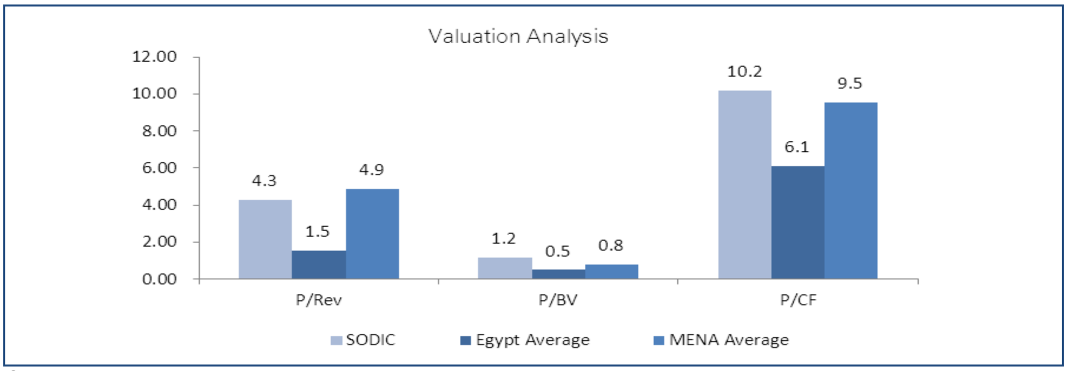
We also included a ratio that represents Selling, General, & Administrative (SG&A) as a percentage of revenue. In this case, SODIC has a higher SG&A ratio than both its regional and Egyptian average. However, as revenues improve in 2012, we expect it will be on par with its Egyptian peers.




*Source: Reuters, Bloomberg, Blominvest*

## Relative Valuation

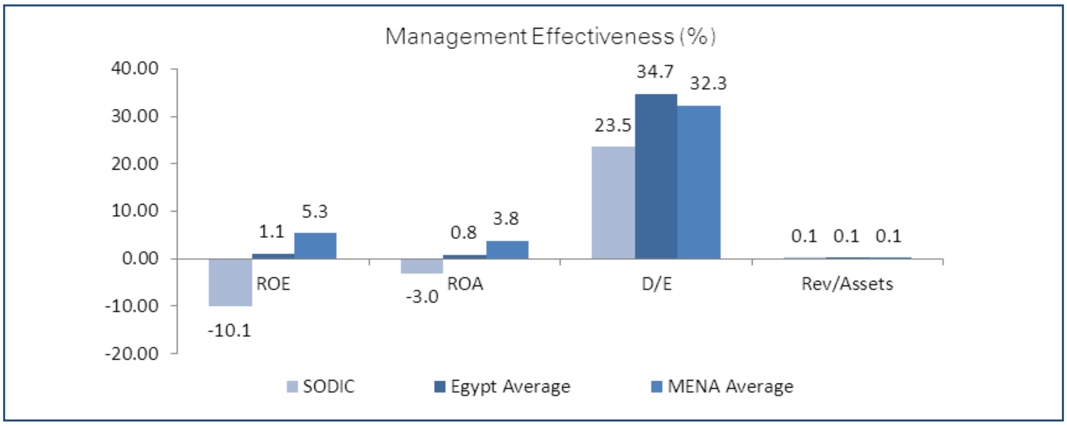
In general, Egyptian companies are trading at a discount compared to regional peers due to the political situation and events occurring in Egypt. On the local front, SODIC's price-to-revenue (P/Rev) ratio of 4.3 is almost triple that of the Egyptian average estimated at 1.5. We attribute this premium to the expected high growth in SODIC's revenues to occur between 2012 and 2013 as deliveries are made and revenues recognized. From a price-to-book value (P/BV) point of view, SODIC trades at a considerable premium compared to both the Egyptian and Middle Eastern averages. It also trades at a premium when comparing its price-to-cash flow (P/CF). We attribute this to the low cash-flows during 2011 caused by high cancellations. As for the price-to-earnings (P/E) ratio, we did not take it into consideration since SODIC and most Egyptian real estate companies experienced losses during 2011.




*Source: Reuters, Bloomberg, Blominvest*

## Management Effectiveness

SODIC's Return-on-Equity (ROE) and Return-on-Assets (ROA), at -10.1% and -3.0% respectively, are considerably lower than those of its Egyptian peers and Middle Eastern average due to the high cancellations. However, we believe they will be in positive territory during 2012 as cancellations have declined significantly with most projects back on track. Its debt-to-equity (D/E) at 23.5% is lower than the Middle Eastern and Egyptian average driven by its self-financing model. As for management's ability to generate revenues from its assets, the ratio revenue-to-assets shows that SODIC is on par with both the regional and local averages.




*Source:* Reuters, Bloomberg, Blominvest

## VALUATION

We estimate the fair value of SODIC's share at EGP 27.00 using a Sum-of-The-Parts (SOTP) methodology. Projects in Construction or Master-Planning are valued using a discounted cash flow (DCF) model while raw land areas are valued by applying a discount based on the location's perceived risk.

| Value Component | EGP million |
|---|---|
| Real Estate Sales | 1,621 |
| Investment Property for Recurring Income | 168 |
| Projects in Master-Planning or Raw Land | 381 |
| Loss from Services | (50) |
| Add: Cash & T-Bills | 677 |
| Less: Debt | (350) |
| **Fair Value** | **2,448** |
| Number of Shares (in millions) | 90.676 |
| **Fair Value per Share (In EGP)** | **27.00** |

*Source: Blominvest*

### Assumptions in Valuation of Projects in Construction

Discount Rate

We used a WACC of 15.67% for the purpose of valuing SODIC's equity derived as follows:
WACC = (Weight of Equity * Cost of Equity) + (Weight of Debt * Cost of Debt) * (1 – Tax Rate)
= (0.88 * 16.42%) + (0.12 *12.50%) * (1 – 25%) = 15.55%

SODIC Cost of Equity = Risk-Free Rate + (Beta * Market Risk Premium)
= 12.50% + (1.12 * 3.50%) = 16.42%

- We used a Risk-Free Rate of 12.50% represented by the 5-year Treasury bond recently issued by the Egyptian government. This captures the additional risk of investing in a relatively undeveloped country such as Egypt when comparing it to the U.S. Treasury.
- SODIC's beta over the past 5 years is estimated at 1.12. This is a measure of the share volatility against the EGX-30 Index that represents the 30 largest shares on the Egyptian Stock Exchange.
- A Market Risk Premium of 3.50% is the result of the difference between the expected return of investing in the EGX-30 estimated at 16.00% and the Risk-Free Rate of 12.50%. This represents the premium investors expect to gain for realizing the additional risk of investing in securities.

SODIC's Cost of Debt = Finance Expense for 2012 / Debt for 2012
= EGP 45 million / EGP 360 million
= 12.50%

Forecasts

Sales begin the year a project is launched and extend a few years depending on indicators for market demand. Sale projections are done separately for each project and vary based on:

- Consumer interest demonstrated though historic demand
- Supply of remaining unsold units
- SODIC's presence and expertise in the project area
- SODIC management input

### Revenue and Cost Recognition

Revenues and costs associated with land sold, BUA and infrastructure are recognized upon delivery. In our DCF model, we started recognizing revenues and costs following the delivery dates provided by the company.

Revenues of sold units are recognized as a percentage of each project's total potential sales. We assumed no price growth in our forecasts and therefore, sales would continue to follow the same prices in the next few years.

Costs of sold units are recognized as a percentage of each project's total development costs along with a 5% addition to cover estimated land costs.

### Valuation of Projects in Construction using DCF

| Project | Value (in million EGP) | SODIC Ownership | Value to SODIC (in million EGP) |
|---|---|---|---|
| Allegria | 980.5 | 100% | 980.5 |
| The Polygon | 250.8 | 80% | 200.6 |
| Forty West | 146.0 | 100% | 146.0 |
| Westown Residences | 120.4 | 100% | 120.4 |
| CASA | 12.3 | 20% | 2.5 |
| Autoville | 65.7 | 50% | 32.9 |
| Kattameya Plaza | 138.2 | 100% | 138.2 |
| **Total** | 1713.9 | | **1,621.0** |
| **Value for all Projects in Construction** | | | **1,621.0** |

*Source: Blominvest*

### Valuation of Raw Land

The price of raw land is recorded at cost with a discount applied according to the region's risk.

| Land | Cost (in million EGP) | SODIC Ownership | Discount rate | Value for SODIC (in million EGP) |
|---|---|---|---|---|
| Al Yosr Land | 230.6 | 100% | 20% | 184.5 |
| Palmyra (Syria) | 789.0 | 50% | 50% | 197.2 |
| **Value of Raw Land** | | | | **381.7** |

*Source: Blominvest*

## Valuation of Investment Property for Recurring Income

We valued investment property using a DCF for anticipated leases expected to begin in 2016.

| Project | Value (in million EGP) | SODIC Ownership | Value for SODIC (in million EGP) |
|---|---|---|---|
| Westown Retail Hub | 47.8 | 100% | 47.8 |
| Autoville | 26.8 | 50% | 13.4 |
| The Polygon | 84.2 | 80% | 67.3 |
| Forty West | 39.6 | 100% | 39.6 |
| **Value of Investment Property** | | | **168.2** |

*Source: Blominvest*

## Valuation of Service Offerings

We valued Services and costs using a DCF model based on our estimated growth forecasts.

| Project | Value for SODIC (in million EGP) |
|---|---|
| Beverly Hills | (38.6) |
| Allegria | (0.6) |
| Other | (10,1) |
| **Value of Service Offerings** | **(50.0)** |

*Source: Blominvest*

## PROJECTED INCOME STATEMENT

| *In EGP million* | 2009 | 2010 | 2011 | 2012e | 2013f | 2014f | 2015f |
|---|---|---|---|---|---|---|---|
| Real Estate Sales | 1 | 469 | 516 | 940 | 1,115 | 1,027 | 938 |
| Revenue from Services | 30 | 51 | 26 | 31 | 37 | 45 | 54 |
| **Total revenues** | **31** | **520** | **542** | **971** | **1,152** | **1,072** | **991** |
| Cost of real estate sold | (1) | (207) | (506) | (477) | (541) | (492) | (450) |
| Costs Associated with Services | (32) | (59) | (55) | (34) | (41) | (49) | (59) |
| **Total costs** | **(33)** | **(266)** | **(561)** | **(511)** | **(582)** | **(541)** | **(509)** |
| **Gross profit (loss)** | **(2)** | **254** | **(19)** | **460** | **570** | **531** | **483** |
| Other operating revenues | 46 | 62 | 66 | 65 | 70 | 75 | 80 |
| Loss on sales of investments in associates | - | 32 | - | - | - | - | - |
| Impairment on Golf Course | - | - | (24) | - | - | - | - |
| Selling & marketing expenses | (46) | (70) | (71) | (126) | (150) | (139) | (129) |
| General & administrative expenses | (112) | (129) | (132) | (194) | (184) | (193) | (198) |
| Other operating expenses | (23) | (17) | (9) | (15) | (15) | (15) | (15) |
| **Operating profit (loss)** | **(137)** | **132** | **(189)** | **190** | **291** | **259** | **220** |
| Finance income | 20 | 85 | 46 | 44 | 49 | 52 | 57 |
| Finance expenses | (21) | (27) | (43) | (45) | (38) | (31) | (42) |
| **Net finance income (expenses)** | **(1)** | **58** | **3** | **(1)** | **11** | **20** | **15** |
| **Deduct Income Tax** | | | | | | | |
| Income tax expense | 25 | (55) | (7) | (47) | (73) | (61) | (52) |
| **Net profit (loss)** | **(113)** | **135** | **(193)** | **142** | **230** | **218** | **184** |

*Source: SODIC, Blominvest*

## PROJECTED BALANCE SHEET

| *In EGP million* | 2009 | 2010 | 2011 | 2012e | 2013f | 2014f | 2015f |
|---|---|---|---|---|---|---|---|
| Cash at banks & on hand | 482 | 853 | 506 | 552 | 544 | 576 | 631 |
| Trades & notes receivables | 740 | 859 | 802 | 876 | 862 | 914 | 1,001 |
| Debtors & other debit balances | 392 | 471 | 412 | 450 | 442 | 469 | 514 |
| Works in process | 1,710 | 2,704 | 2,886 | 3,153 | 3,103 | 3,288 | 3,602 |
| Other Current Assets | 129 | 182 | 166 | 258 | 268 | 281 | 291 |
| **Total Current Assets** | **3,453** | **5,069** | **4,771** | **5,289** | **5,219** | **5,527** | **6,038** |
| Fixed assets | 51 | 88 | 233 | 268 | 301 | 331 | 364 |
| Investment properties | 306 | 420 | 414 | 389 | 365 | 343 | 323 |
| Trade & notes receivables | 1,115 | 1,260 | 923 | 1,395 | 1,373 | 1,050 | 959 |
| Other Long-Term Assets | 91 | 63 | 24 | 32 | 33 | 33 | 34 |
| **Total Long-Term Assets** | **1,563** | **1,832** | **1,594** | **2,085** | **2,072** | **1,758** | **1,680** |
| **Total Assets** | **5,016** | **6,901** | **6,365** | **7,374** | **7,291** | **7,285** | **7,718** |
| Current Portion of LT Debt | - | 3 | 5 | 100 | 100 | 100 | 100 |
| Provisions for completion | - | 128 | 142 | 130 | 120 | 110 | 102 |
| Provisions | 99 | 7 | 7 | 100 | 100 | 100 | 100 |
| Bank - Credit facilities | 97 | 87 | 51 | 77 | 92 | 109 | 129 |
| Customers deposits | 2,613 | 3,653 | 3,332 | 3,573 | 3,902 | 3,595 | 3,282 |
| Contractors, suppliers & notes payable | 88 | 116 | 111 | 167 | 161 | 155 | 149 |
| Creditors & other credit balances | 213 | 310 | 311 | 375 | 446 | 527 | 624 |
| Other Current Liabilities | 1 | 3 | - | 1 | 1 | 1 | 1 |
| **Total Current Liabilities** | **3,112** | **4,308** | **3,959** | **4,524** | **4,922** | **4,698** | **4,487** |
| Long Term Loans | - | 42 | 335 | 250 | 150 | 50 | 150 |
| Notes payable | 146 | 122 | 97 | 103 | 107 | 110 | 114 |
| Other Long Term Liabilities | - | 23 | 18 | 8 | - | - | - |
| **Total Long-Term Liabilities** | **146** | **186** | **450** | **360** | **257** | **160** | **264** |
| **Total Liabilities** | **3,258** | **4,494** | **4,409** | **4,884** | **5,178** | **4,858** | **4,751** |
| **Total Equity** | **1,758** | **2,407** | **1,956** | **2,490** | **2,112** | **2,427** | **2,967** |
| **Total Liabilities & Equity** | **5,016** | **6,901** | **6,365** | **7,374** | **7,291** | **7,285** | **7,718** |

*Source: SODIC, Blominvest*

# APPENDIX

## I - Projects Overview

### Beverly Hills Project
In 1999, the company undertook its first project, Beverly Hills, which is a 1.75 million sqm residential compound consisting of over 1,800 villas and apartments located in Sheikh Zayed City, off the Cairo-Alexandria Desert Road. The project generated revenue of over EGP 1 billion for the company and now offers schools, restaurants, offices, and a clubhouse.

### Allegria
In April 2006, a new and more experienced management team was appointed in order to capitalize on current market growth thus giving birth to its award winning project, Allegria. The project is a high end residential community situated in Sheik Zayad City, off the Cairo-Alexandria Desert Road, it also features Egypt's first and only Greg Norman signature golf course.

### Eastown and Westown
SODIC ventured with the internationally renowned Lebanese real estate company Solidere International to create two mix–use city centers located 50km apart on either side of Cairo. Westown is situated in Sheik Zayed/Sixth of October City while Eastown is situated in Kattamaya/new Cairo. With an investment value of over EGP 25 million and a land bank of 2 million sqm, the two developments mark the rebirth of master-planned mixed-use city centers in Egypt. Speculations for Eastown's future remains doubtful as it is subject to legal complications.

### Kattameya Plaza
A gated residential apartment community situated in the heart of east Cairo consisting of 41 buildings offering 471 apartments.

### The Polygon
Westown's first business park, made in response to the shortage of office spaces in Cairo. The Polygon offers over 70,000 sqm of office space distributed over 9 "Class A" office buildings. In addition, it offers a business hotel, and a serviced apartments building. Services include business center, restaurants, day care, and gym

### Forty West
A set of upscale hotels, apartments, and retail units located around a piazza, Forty West's residences comprise of 175 fully-finished apartments whereas the retail space consists of offices, a large art gallery, boutiques, world-class restaurants, and a luxurious 50-room Angsana hotel.

### Westown Residences (WTR)
Located in Westown's southern corner, Westown Residences is the Westown's first purely gated residential neighborhood. The project exhibited its first spark of success having sold out all 148 units within 48 hours giving way to a potential launching of commercial, retail, and entertainment developments in the future. It was developed to replace the existing master plan is Westown as a reaction to the aggravating economic conditions in 2011 and proved to be a successful swap.

### The Strip, Autoville
Designated to revolutionize Egypt's shopping experience, the Strip retail mall offers 13 commercial buildings consisting of 100 retail outlets arranged side by side. Autoville is a specialized automobile mall containing 3,780 sqm of high-end automobile showrooms.

### Casa
A family apartment compound situated in Sheik Zayed City, 38 km from Cairo-Alexandria Desert Road, comprising security, 24/7 property management, parking, a clubhouse, 14 swimming pools, barbecue areas, and play areas for children.

## II - List of Comparable Peers

| | | | Relative Valuation | | | | Profitability Analysis | | | | Management Effectiveness | | | | Liquidity | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Country | Mkt Cap USD (m) | P/E | P/Rev | P/BV | P/CF | Gross Margin (%) | Operating Margin (%) | Profit Margin (%) | SG&A / Rev | ROE | ROA | Rev/ Assets | D/E | Quick Ratio | Current Ratio |
| **<u>Local Peers</u>** | | | | | | | | | | | | | | | | |
| Talaat Mostafa Group Holding Co. | Egypt | 1,340 | 13.94 | 1.6 | 0.32 | 12.19 | 23.27 | 14.03 | 11.33 | 48.73 | 2.34 | 1.06 | 0.09 | 12.93 | 1.54 | 1.54 |
| Palm Hills Development | Egypt | 420 | - | 1.77 | 0.57 | 3.68 | -8.22 | -52.1 | -57.89 | 34.34 | -8.25 | -2.21 | 0.03 | 83.89 | 0.38 | 1.74 |
| Amer Group | Egypt | 317 | 31.70 | 1.87 | 0.90 | 6.48 | 39.08 | 18.80 | 23.63 | 24.13 | 12.38 | 5.49 | 0.23 | 15.26 | 1.51 | 1.52 |
| Remco for Constr. of Touristic Villages | Egypt | 106 | 12.31 | 0.91 | 0.19 | 2.14 | 48.13 | -94.13 | -91.02 | 3.51 | -2.05 | -1.22 | 0.01 | 26.84 | 0.9 | 2.06 |
| **Egypt Average** | | **524** | **19** | **1.54** | **0.50** | **6.12** | **25.57** | **-28.35** | **-28.49** | **27.68** | **1.10** | **0.78** | **0.10** | **34.73** | **1.08** | **1.72** |
| **<u>Regional Peers</u>** | | | | | | | | | | | | | | | | |
| Saudi Real Estate Company | Saudi Arabia | 848 | 18.66 | 12.02 | 0.99 | 18.04 | 67.94 | 60.60 | 56.57 | 4.72 | 4.70 | 4.35 | 0.07 | 0.00 | 0.63 | 0.63 |
| Taiba Holding Co. | Saudi Arabia | 832 | 6.52 | 7.92 | 0.96 | 11.08 | 72.68 | 62.54 | 56.64 | 11.81 | 8.01 | 6.48 | 0.11 | 0.04 | 1.15 | 1.18 |
| Sorouh Real Estate | UAE | 715 | 7.19 | 0.7 | 0.41 | 5.95 | 18.31 | 9.81 | 8.72 | 8.42 | 5.38 | 2.41 | 0.27 | 41.53 | 1.76 | 1.76 |
| Arriyadh Development Co. | Saudi Arabia | 600 | 11.38 | 11.42 | 1.50 | 15.19 | 72.06 | 65.78 | 66.10 | 3.09 | 8.78 | 7.86 | 0.12 | 0.00 | - | 1.76 |
| Kuwait Remal Real Estate Co. | Kuwait | 332 | 13.37 | 10.52 | 2.06 | 13.48 | 75.86 | 66.76 | 58.27 | 0.94 | 18.10 | 9.42 | 0.12 | 81.26 | - | 0.01 |
| Tamdeen Real Estate Company | Kuwait | 294 | 19.06 | 4.13 | 0.83 | 14.44 | 82.89 | 27.49 | 27.17 | 31.24 | 3.75 | 1.89 | 0.07 | 112.74 | - | 0.74 |
| Ras Al Khaimah Properties | UAE | 180 | 5.55 | 1.27 | 0.19 | 5.83 | 29.39 | 11.32 | 20.83 | 9.98 | 3.2 | 2.13 | 0.1 | 13.3 | - | 2.4 |
| Seef Properties | Bahrain | 143 | 6.16 | 4.56 | 0.48 | 5.86 | 73.51 | 53.80 | 72.77 | 3.53 | 7.77 | 7.37 | 0.01 | 0.00 | - | 2.71 |
| **MENA Average** | | **503** | **13.26** | **4.89** | **0.78** | **9.53** | **49.58** | **20.39** | **21.09** | **15.37** | **5.34** | **3.75** | **0.11** | **32.32** | **1.12** | **1.50** |
| **SODIC** | **Egypt** | **392** | **-** | **4.27** | **1.18** | **10.21** | **-3.52** | **-34.90** | **-35.62** | **37.29** | **-10.10** | **-3.03** | **0.11** | **23.53** | **0.55** | **1.18** |

*Source: Thomson Reuters, Blominvest*

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## Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

**Buy:** Fair Value higher than Market Price by at least 20%
**Accumulate:** Fair Value higher than Market Price by 10% to 20%
**Hold:** Fair Value ranges between -5% to +10% in relation to Market Price
**Reduce:** Fair Value lower than Market Price by 5% to 15%
**Sell:** Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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