Ezz Steel

بلوم مصر لتداول الأوراق المالية
BLOM EGYPT SECURITIES
BLOMINVEST BANK

Equity Research – Initiation of Coverage		Share Price (EGP):	19.28
Sector:	Industrial Products	Fair Value (EGP):	22.40
Country:	Egypt	Upside:	16%
Date:	January 23, 2011	Recommendation:	HOLD

Initiating with a HOLD Recommendation and a Fair Value of EGP 22.40 per share based on the channels of analysis below

Growth rooted in expansion of production capacity
Sales at Ezz are expected to grow at a CAGR of 19.3% between 2010 and 2013, with an estimated revenue growth of 16 % y-o-y to reach EGP 14.6 billion in 2010. The company is increasing its capacity through the construction of two new Direct Reduced Iron (DRI) plants to bring its total production capacity to 8.9 million tons in 2013. This represents a 54% growth from its current capacity of 5.8 million tons.

Revenue reliant on construction activity in Egypt
Sales from long steel used in construction constitute 77% of revenues in 2009 with the rest attributed to flat steel that is used in manufacturing. Ezz produced 3.3 million tons of long steel in 2009 of which 98% is sold in the Egyptian market. On the other hand, only 41% of the 1 million tons of flat steel produced are sold locally.

Earnings estimated to increase in 2010 but still below 2008
We estimate 2010 net income to substantially increase reaching EGP 290 million, almost fourfold that of the company's reported earnings in 2009 but still less than half the past three-year average. This comeback is attributed to the company's EFS facility resuming operation in 2010 following a pickup in global demand. We forecast consistent earnings growth during the next three years with bottom line exceeding its pre-recession levels in 2013.

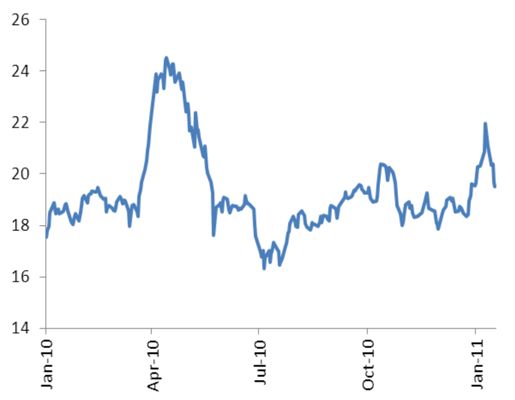
Satisfactory short term liquidity with heavy reliance on debt
Since 2007, cash-to-current liabilities at Ezz has been higher than 30% with a peak of 60% in 2008. The company relies heavily on debt to finance its operations with a debt-to-equity ratio of 124% in 2009. We expect leverage to further increase as the company is already financing phase 1 of its capacity expansion estimated to cost USD 400 million.

Valuation premium favored by growth potential in local market
We value Ezz Steel at EGP 22.40 per share using a discounted cash flow model with a 13% discount rate. The 16% valuation premium is based on the company's growth potential favored by its capacity expansion in anticipation of continuous construction in Egypt due to the rapid population growth and acute housing shortage. However, we issue a HOLD recommendation due to considerable downward pressure on the stock price caused by the heightened political tensions in the region, along with the upcoming presidential elections in Egypt.

Share Data

Bloomberg Symbol	ESRS EY
Reuters Symbol	ESRS.CA
Market Cap (EGP)	10,599,100,677
Number of Shares	543,265,027
Free Float	35%
Price-to-Earnings TTM	19.07
Price-to-Book	1.74

Share Performance



Source: Reuters

1 Month Return	4.22%
3 Month Return	-4.84%
6 Month Return	15.31%
12 Month Return	3.82%
52 Week Range	24.52 - 16.33

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Performance and Forecasts

Year	2008	2009	2010e	2011f	2012f	2013f
Revenues (EGP M)	21,843	12,589	14,586	20,009	22,389	24,753
Net Income (EGP M)	1,234	88	290	723	1,110	1,424
EPS (EGP)	2.27	0.16	0.53	1.33	2.04	2.62
BVPS (EGP)	12.24	10.97	9.40	9.85	13.18	17.53
ROA	7.2%	0.5%	1.7%	3.7%	5.3%	6.4%
ROE	20.1%	1.3%	5.0%	13.0%	16.9%	16.4%

Source: Company Historicals and Blominvest Estimates

FINANCIALS & VALUATION

Year	2008	2009	2010e	2011f	2012f	2013f
Profit & Loss Summary						
Revenue (EGP M)	21,843	12,589	14,586	20,009	22,389	24,753
Revenue Growth (%)	35.2	-42.4	15.9	37.2	11.9	10.6
Gross Profit (EGP M)	4,324	1,455	2,042	3,201	4,030	4,703
Gross Margin (%)	19.8	11.6	14.0	16.0	18.0	19.0
Net Profit (EGP M)	1,234	88	290	723	1,110	1,424
Profit Margin (%)	5.6	0.7	2.0	3.6	5.0	5.8
Net Profit Growth (%)	9.9	-92.8	229.2	149.0	53.5	28.2
Earnings Per Share (EGP)	2.27	0.16	0.53	1.33	2.04	2,62
Price-to-Earnings (Forward P/E)	8.59	120.17	36.50	14.66	9.55	7.45
Balance Sheet Summary (EGP M)						
Property plant & equipment	10,030	9,627	9,423	9,992	9,785	9,554
Projects under construction	423	1,427	2,814	2,583	3,277	4.086
Inventories	3,179	2,679	3,501	4,102	4,254	4,332
Cash & cash equivalents	4,096	1,581	1,167	1,701	2,127	3,168
Accounts & other receivables	531	937	798	1,090	1,231	1,386
Other assets	370	350	700	703	702	705
Total Assets	18,628	16,601	18,403	20,171	21,376	23,231
Total Liabilities	11,662	10,327	12,981	14,505	13,900	13,392
Book Value Per Share (EGP)	12.24	10.97	9.40	9.85	13.18	17.53
Profitability						
ROA (%)	7.2	0.5	1.7	3.7	5.3	6.4
ROE (%)	20.1	1.3	5.0	13.0	16.9	16.4
Liquidity						
Cash / Current Liabilities	0.57	0.31	0.16	0.20	0.26	0.38
Current Assets / Current Liabilities	1.09	1.01	0.78	0.88	0.96	1.11
Net Working Capital / Current Assets	0.08	0.01	(0.28)	(0.14)	(0.04)	0.10

Comparables

	Valuation			Margin Analysis (%)			Profitability (%)	
	P/E	P/Rev	P/BV	Gross	Oper.	Net	ROE	ROA
Ezz Steel	19.1	0.8	1.7	11.6	8.4	0.7	1.8	1.7
Average of Peers	21.2	1.3	2.3	14.2	7.7	6.4	10.3	4.6

Valuation

	2010e	2011f	2012f	2013f	2014f	Term. Val.
Net Income (EGP million)	290	723	1,103	1,424	1,762	
Free Cash Flow to Firm (EGP million)	1,228	730	602	286	1,090	15,572
Discounted Cash-flows (EGP million)	1,228	646	471	198	669	8,959
Ezz Steel Value (EGP milion)						12,172
Number of shares (in millions)						543.27

Share Value (EGP)	22.40

Table of Contents

INVESTMENT SUMMARY 4

ECONOMIC OVERVIEW 6
- China Dominates World Steel 6
- Input Materials Drive Steel Prices Against a Lag in Recovery 6
- Urban Development and Population Growth Boost Egypt's Demand for Steel 7
- Ezz Market Share Considerably Outweighs Other Producers 8
- Global Outlook: Steel Prices to Maintain Rise over the Short and Medium Term 9
- Local Outlook: Solid Demand Fundamentals Justify Capacity Expansion 9

COMPANY PROFILE 10
- Ownership 10
- Board of Directors 10
- Management 10
- Subsidiaries and Plants 11

BUSINESS MODEL 12
- Revenue Mix 12
- Geographical Diversification 12
- Pressured Margins 13
- In-House DRI Production 13

STRATEGY 14
- Capacity Expansion 14
- International Growth with a Focus on the Middle East 14
- Decentralizing Production Facilities 14
- Positioned to Withstand Surge in Scrap Pricing 15
- Brand Associated with High Quality and Availability 15
- Commitment to Corporate Responsibility 15

FINANCIAL ANALYSIS 16
- Revenues 16
- Gross Margins 16
- Earnings 17
- Liquidity 17
- Leverage 18
- Profitability 18

COMPARABLE ANALYSIS 19
- Relative Valuation 19
- Profitability Comparison 20
- Management Effectiveness 20
- Liquidity and Efficiency 21

VALUATION 22
- Discount Rate 22
- Assumptions in Forecasting Production Costs 22
- Deriving Revenue 23
- Estimating Net Income 23
- Determining Free Cash Flow to Firm 23
- Sensitivity Analysis 23

PROJECTED INCOME STATEMENT 24
PROJECTED BALANCE SHEET 25

APPENDIX 26
- I - List of Comparable Peers 26

INVESTMENT SUMMARY

We issue a HOLD recommendation on Ezz Steel after carefully analyzing the following:

Macroeconomic Environment

Over the coming period, we expect Egypt's steel consumption to continue advancing as the housing market spreads to the different income segments of the country, through government assistance such as housing mortgages and subsidies. Between 2004 and 2010, steel consumption in Egypt jumped from 3.4 to 8.5 million tons driven by the construction and manufacturing sectors that move in parallel with the country's economic expansion, population growth, and urbanization. Egypt's economy has been growing at an average annual rate of 6.2% over the past five years, driven by vigorous domestic activity and an emergent support from foreign investment. The country's rapid rate of population growth (almost 2% per year) and acute housing shortage have been driving construction and real estate activity to unprecedented levels. In addition, the urbanization trend where more than 65% of Egypt's population is expected to be living in urban areas by 2020 is inciting the government to initiate wide-scale infrastructure projects. From a global standpoint, steel prices have been rising steadily by more than 30% from 2009 due to increasing costs of iron ore, scrap steel, and coking coal.

Business Model

Sales from long products used in construction of real estate and infrastructure continue to dominate revenue at Ezz, constituting 77% of 2009 revenue with the rest attributed to flat steel which is used in industrial manufacturing. Ezz sold almost 3.3 million tons of long products and 1 million tons of flat steel resulting in total revenues of EGP 12.6 billion for 2009. Long steel products primarily target the ever-growing Egyptian market which currently captures 98% of total long product sales at Ezz. On the other hand, flat products are mainly directed towards satisfying foreign demand which captures 59% of the company's flat output sales. Ezz Steel has the advantage of operating in a country where natural gas, the main energy source used in steelmaking, is abundant and supplied to them through the Egyptian government at low cost. In order to manage its exposure to international feedstock prices, Ezz established a Direct Reduced Iron (DRI) facility in 2008 through its subsidiary EZDK to produce steel using DRI, which relies on iron ore as input.

Profitability

We estimate the company's 2010 net income to substantially increase to reach EGP 290 million, more than three folds that of its reported earnings in 2009 as demand continues to pick up and its Ezz Flat Steel facility (EFS) resumed operation. During 2009, earnings at Ezz witnessed a dramatic drop plunging 93% and standing at a humble EGP 88 million due to depressed market demand, which resulted in a net profit margin of 0.7%. We expect margins for the steel producer to remain squeezed for 2010 with both iron ore and scrap prices rising throughout the first half of 2010 and expected to keep an upward trend on shortage in supply. As a result, the gross margin for Ezz will not exceed 16% by end-2011 although the favorable demand conditions in the domestic market protected Egypt's economy from the global recession so far. Beyond 2011, the global economic recovery, which is gaining momentum, will enhance Ezz Steel's presence in foreign markets. As a result, we expect the company's gross margin to range between 18% and 19% through 2013.

Growth

Sales at Ezz are expected to grow at a CAGR of 19.3% between 2010 and 2013, with an estimated revenue growth of 16% y-o-y to reach EGP 14.6 billion in 2010. We base our expectations on grounds that the shy recovery of the global economy from the 2009 recession will pick up causing the demand for steel to rise. This has been witnessed during the first half of 2010, where average prices for the company's sources of income improved by 13% and 26%

respectively, standing at an average of EGP 3,308 for long steel and EGP 3,547 for flat steel. Simultaneously, Ezz is increasing its DRI capacity through the construction of two new DRI plants to be located at the Suez facility resulting in an additional 1.85 million tons of annual capacity to be completed by Q4 2011, and another 1.3 million by the first half of 2013. This would bring total capacity at Ezz to 8.9 million tons, almost a 54% growth from its current 5.8 million.

Financial Position

Ezz Steel has consistently maintained satisfactory cash balances in its assets. Since 2007, its cash-to-current liabilities has been at least 30% with a peak of 60% in 2008, following a high performance during the year. In 2009, the steelmaker's balance sheet witnessed a significant decline in its liquidity, mostly due to the financing of phase I in the DRI capacity expansion along with 2009 being a challenging year for the steel industry due to weak demand.

Competing in a capital-intensive industry, Ezz relies heavily on debt to finance its operations with debt-to-equity ratio reaching 124% in 2009. This has been especially the case since the company launched phase I in the DRI capacity expansion project during that year. We expect leverage to further increase over the coming few years, especially with phase II of the process expected to start in 2012.

Valuation

We estimate the fair value of Ezz Steel at EGP 22.40 per share using a discounted cash flow (DCF) model based on a 5-year forecast, with a discount rate of 13% and a terminal growth rate of 6%, given the outlook of the company. In our assumptions, we assigned a slight upward trend for iron ore prices over the short term, before applying a decline due to an oversupply of the raw material projected to occur by 2012. As for scrap, we raised prices by an average of 10% per year due to continued high demand in emerging markets.

Ezz is deemed undervalued when comparing its P/E of 19.1 to that of its peers estimated at 21.1. We attribute this discount to the additional risk associated with the company's high leverage where it is operating at a Debt/Equity ratio estimated to be almost double the industry average. In our view, the company's high leverage is justified since a considerable portion of the funds is invested in expanding its production capacity and future growth. Additionally, Ezz is the undisputed leader holding a share of 45% in the Egyptian steel market that is growing based on fundamentals such as rapid population growth and acute housing shortage in the country.

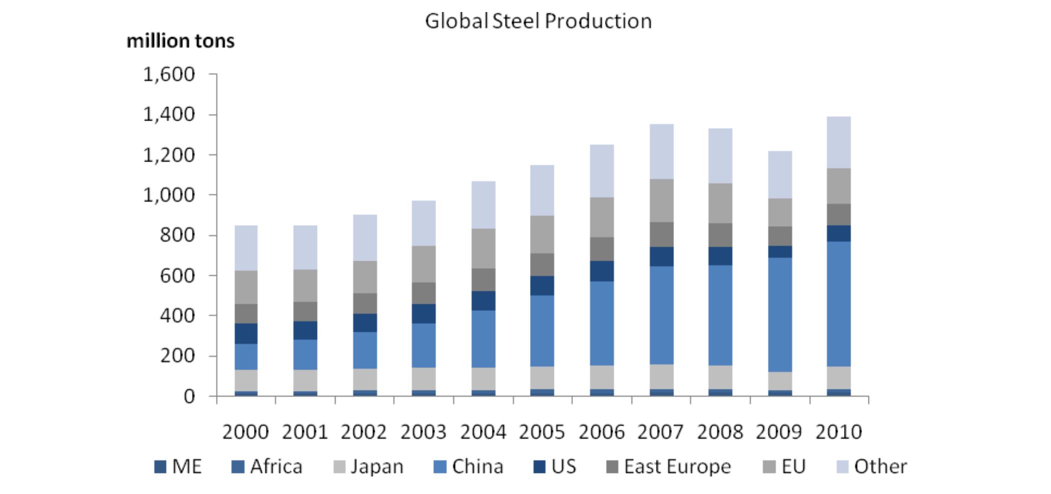
Market Risks

Due to the high import price of iron ore, Egypt's relatively high priced steel is disadvantaged to compete in international markets and therefore relies on domestic demand. This makes Egyptian steel producers susceptible to either political or economic downturns in the country, which may influence investment appetite in Egypt. On the political front, the recent outbursts of violence in Egypt's second largest city, Alexandria, are feared to have distorted the country's image as the new hub of investment in the MENA region. Additionally, the upcoming presidential elections in Egypt and the recent upheavals in Tunisia, which have begun to cast their shadows over the Arab World's autocratic regimes, are likely to exercise downward pressure on the stock. Moving to sector risks, Egyptian steel production is still limited to a large degree due to the country's deficiency in mineral resources, and its substandard reserves of iron ore. This puts Egyptian producers at risk of being out-taken by cheaper imports, namely subsidized Turkish products, which have been gaining ground in the Egyptian market due to their high quality and lower price. Furthermore, energy subsidies are expected to expire for the industrial sector by the end of 2011, a change that will negatively affect Egyptian consumers to which price hikes will be eventually transferred. As a result, the potential offshoot of inflation could have a wide scale economic and political effect on the country.

ECONOMIC OVERVIEW

China Dominates World Steel

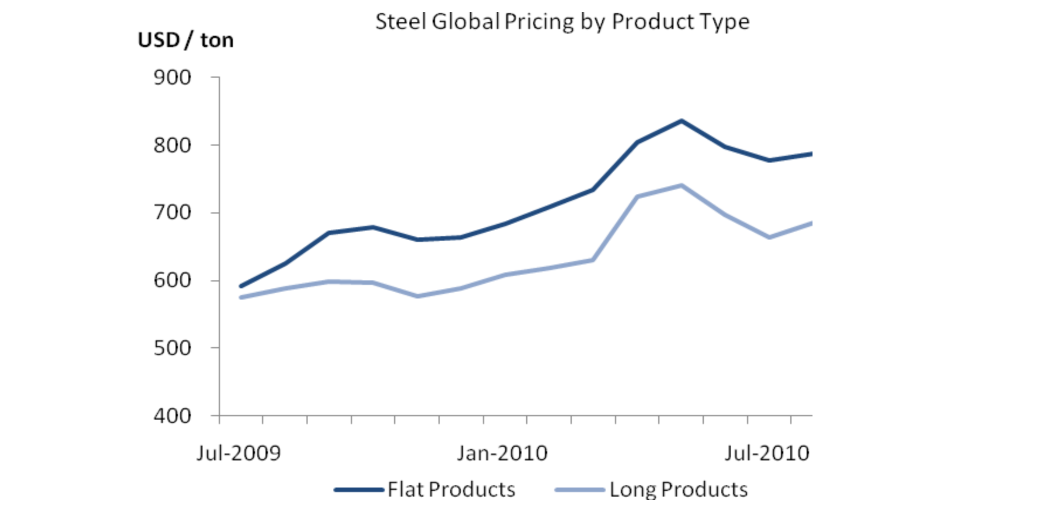
The urbanization boom in emerging economies over the past decade hiked demand for steel and lifted global production and prices drastically. Between 2000 and 2007, world production of steel surged 69% to 1.35 billion tons before edging down to 1.21 billion after the financial crisis. China has become the world's largest producer with a market share of around 45% in 2010. On the other hand, the EU's production share slipped from first place with 19.2% in 2000 to 12.5% in 2010.



Source: World Steel Association

Input Materials Drive Steel Prices Against a Lag in Recovery

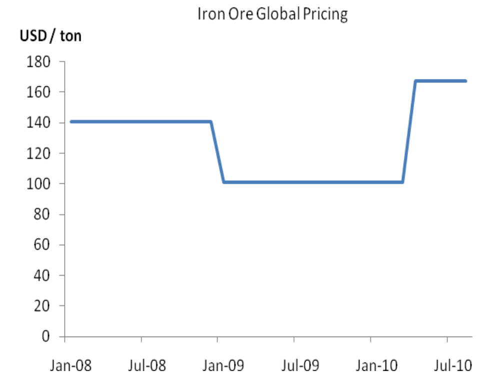
During 2010, demand for steel remained below its 2008 levels as the recovery of the global economy continued to show signs of hesitation amid depressed consumer sentiment in developed markets. However, the price of steel has been rising steadily by more than 30% from 2009 due to increasing costs of iron ore, scrap steel, and coking coal.

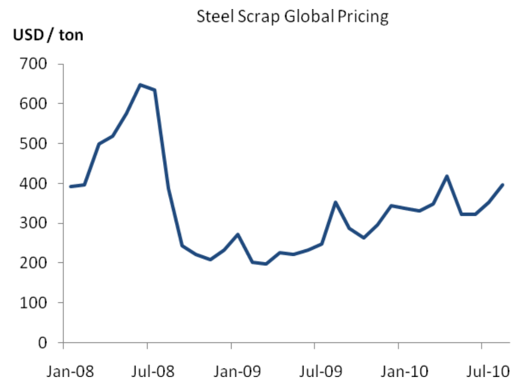


Source: MEPS

Iron ore prices soared by 80% to USD 182 / ton in 2010 and were influenced by several factors other than demand for the metal:

- Concentrated supply from China, Australia and Brazil giving major mining firms considerable control in determining the price of the metal.
- The annual benchmark pricing mechanism has been replaced with a quarterly pricing system that makes iron ore highly volatile and adds speculation into the pricing formula. Steel producers have thus been raising their demand for the commodity to catch it at its low price, anticipating a future hike in prices once the global economy fully recovers.
- The economic and currency performance of Australia and Brazil, which have become highly overvalued. The Australian Dollar is estimated to be 31% overvalued and began to hover around par with the US Dollar as of Q3 2010.





Source: MEPS

As for the price of scrap, it surged almost 45% during 2010 to an average of USD 322 / ton. We attribute this to the following factors:

- *Limited supply of recyclable steel:* The slow recovery of the world economy following the financial crisis prompted factories to retain their depreciating machinery to cut their replacement costs; a trend that was also common with private owners of vehicles and steel-based household items. This tendency diminished the availability of recyclable steel causing demand to considerably outweigh supply of scrap and push its price higher.

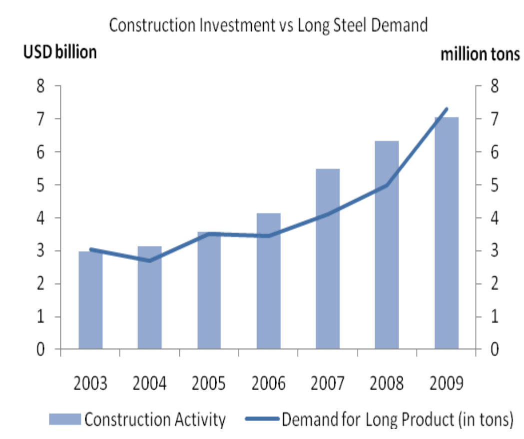
- *Unaccounted demand emanating from newly developing countries:* The demand for scrap from newly industrializing economies had not been accounted for previously in the supply-demand price formula of the world stock. This is due to the fact that developing countries do not have large stocks of recyclable steel products and therefore rely on importing scrap from more developed countries.

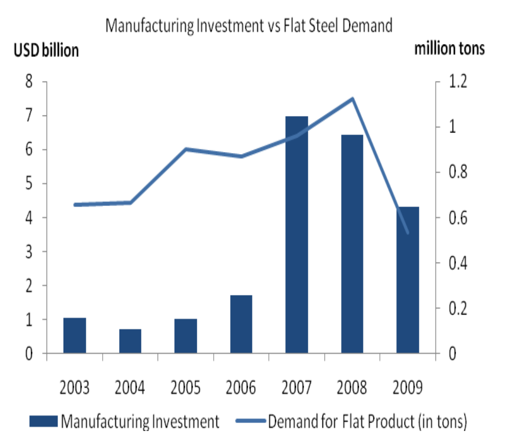
Urban Development and Population Growth Boost Egypt's Demand for Steel

Between 2004 and 2010, steel consumption in Egypt jumped from 3.4 to 8.5 million tons. This growing demand is grounded in the construction and manufacturing sectors that move in parallel with the country's economic expansion, population growth, and urbanization.

- The Egyptian economy has been growing at an average annual rate of 6.2% over the past five years, driven by vigorous domestic activity and an emergent support from foreign investment.
- Egypt's fast rate of population expansion (almost 2% per year) and acute housing shortage have been driving construction and real estate activity to unprecedented levels. This is being supported by an improving regulatory environment with easier access to finance.

- The urbanization trend where more than 65% of the total population is expected to be living in urban areas by 2020 is inciting the government to initiate wide-scale infrastructure projects.
- Egypt's rising wages are driving demand for steel-based consumer durable goods such as home appliances and vehicles.



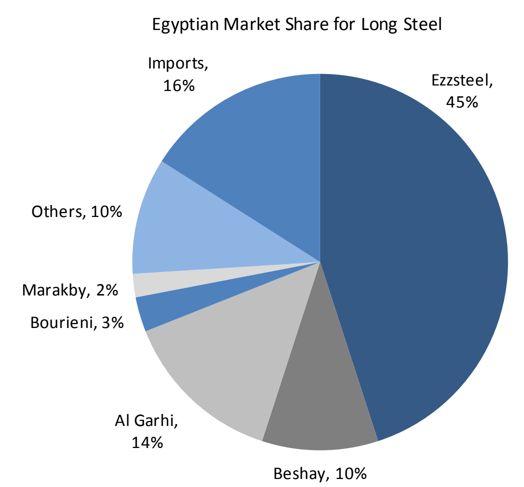


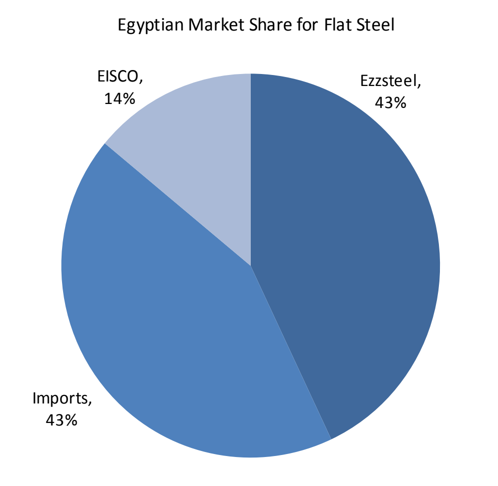
Source: Ministry of Investment

Ezz Market Share Considerably Outweighs Other Producers

During the first nine months of 2010, Egyptian steel production grew by 14.7% y-o-y to reach 4.66 million tons (mt), reinforcing the country's position as the largest steel producer in the MENA region and the second in the African continent after South Africa. This has been supported by the expanding pace of consumption that topped 8.5 mt and was dominated by long products.

Egypt's domestic steel supply is dominated by Ezz Steel, responsible for 45% of the country's long products and 43% of its flat products. The second largest private producer, Beshay, supplies only 10% of the long steel market. Egypt's steel imports also increased as 16% of demand for long steel and 43% of flat steel were satisfied from offshore sources, mainly from Turkey.





Source: Steel on the Net

Global Outlook: Steel Prices to Maintain Rise over the Short and Medium Term

Over the short term, we expect steel prices to continue rising, primarily due to increasing prices of its input materials, as well as a projected recovery in world markets for vehicles and mechanical appliances; a change that is set to raise the price of flat steel. Long steel on the other hand, will experience a slower rate price expansion, considering the depleted appetite for construction and housing in larger markets.

The world's largest consumer of steel, China, has been adopting a constrictive economic policy to curb its rising inflation. Its policies have been influencing the country's manufacturing exports as well as domestic construction trends. China has also been pushing with an environmental agenda lately, inciting it to close down many smelting factories. If sustained, the reduction in supply could match the slower demand for the metal, keeping its prices stable. This however, could prove insignificant over the medium term, depending on China's future currency strategies. If the Chinese government will succumb to international and economic pressure to appreciate its currency, we could see a new hike in demand for steel.

On the other hand, India has been pursuing aggressive growth oriented strategies focusing its efforts on construction, urbanization and infrastructure. India's massive population and its acute need for housing will thus likely raise demand for steel considerably over the next five years, triggering a rise that will likely outweigh the decline in other economies, pushing the price of steel yet to new highs.

Local Outlook: Solid Demand Fundamentals Justify Capacity Expansion

Over the coming period, we expect Egypt's steel consumption to continue advancing, considering the solid fundamentals of demand for long products. The housing market is spreading at a faster rate to the different income segments of the country, through government assistance – housing mortgages and subsidies. Furthermore, it will continue to be driven by projects in infrastructure paralleling the country's growing capital investment. Flat products on the other hand are more liable to price changes. The rise in prices will likely be passed on to consumers influencing demand for domestic flat products, which are inherently more price sensitive.

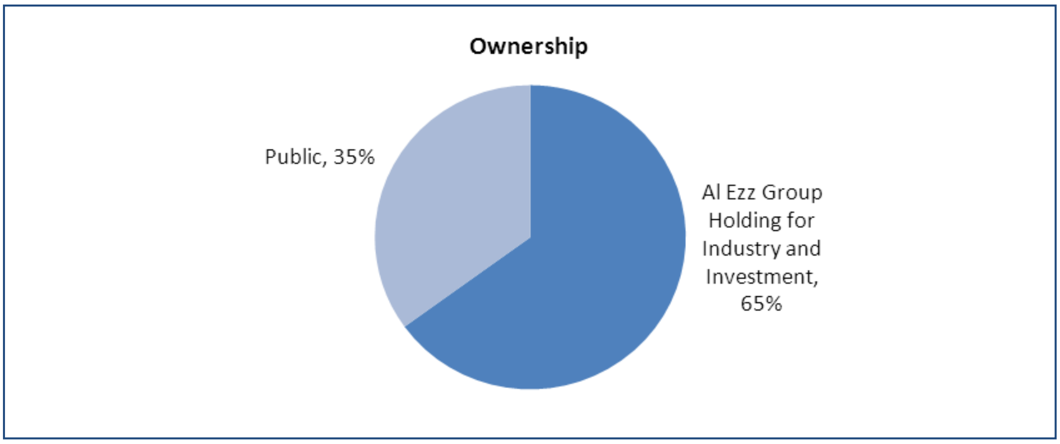
Egypt's supply of steel is expected to exceed 10 mt in 2013, as local companies plan expansion and new licenses with a production capacity of 3 mt have been issued. International producers such as ArcelorMittal, the world's largest steel producer, have shown interest in the Egyptian market. ArcelorMittal has bid for a license to build a new steel plant with a DRI (Direct Reduced Iron) capacity of 1.6 mt, but is taking a long time to initiate construction.

COMPANY PROFILE

Ezz Steel Company, formerly known as Al Ezz Steel Rebars Company, was incorporated in Egypt in 1992. The company and its subsidiaries are engaged in the manufacturing, trading and distribution of iron and steel products of all kinds along with associated products and services. It is the market leader in Egypt in the production and sale of long steel products which mostly consist of rebars and wire rods, used for strengthening concrete in building and other construction applications. On the other hand, its internationally renowned flat steel products used in manufacturing consumer goods and industrial products consist mainly of hot rolled coil which are thin gauge sheets manufactured to precise specification. Ezz Steel's facilities are strategically located in the port cities of Alexandria and Suez as well as in the Egyptian interior at Sadat City and 10th of Ramadan City.
The company's current consolidated 5.8 million tons capacity of finished products is divided between long and flat products at 3.5 million tons and 2.3 million tons, respectively.

Ownership

Ezz Steel went public in July 1999 as a subsidiary of Al Ezz Group Holding for Industry and Investment. It currently has 543.3 million shares outstanding with a par value of EGP5 per share, out of which 35% are tradable on the Egypt Stock Exchange and the London Stock Exchange.



Source: Zawya

Board of Directors

Ahmed Ezz	Chairman, Managing Director
Alaa Abul-Kheir	Board Member
Gamal Omar	Board Member
Raed El-Beblawy	Board Member
Mamdouh El-Rouby	Board Member
Mohammed El-Berry	Board Member
Paul Chekaiban	Managing Director

Source: Ezz Steel

Management

Hassan Nouh	General Manager
Farouk Ibrahim	Corporate Technical Officer
Samir Naaman	Corporate Sales Officer
George Matta	Corporate Marketing Officer
Nabil El Khatib	Corporate Procurement Officer

Source: Ezz Steel

Subsidiaries and Plants

Subsidiary	Ownership	Location	Products	Capacity (in million tons)	Level of Integration
Al Ezz Rolling Mill Company (ERM)	98.91%	10th of Ramadan	Rebar, Wire	0.5	Rolling mill Wire mesh factory
Al Ezz El Dekheila For Steel - (EZDK)	54.59%	Alexandria	Rebar, Wire, Flat	Long – 2.0 Flat – 1.0	Fully integrated
Al Ezz Flat Steel (EFS)	63.84% **	Suez	Flat / Long	1.3	Melt shop, Slab Caster, Billet Caster & Rolling Mill
Al Ezz Steel Rebar (ESR)	Plant - full	Sadat City	Rebar	1.0	Melt shop, Billet Caster & Rolling Mill
Al Ezz Steel Algeria	98.00%	Algeria	N/A **	N/A **	Office Setup

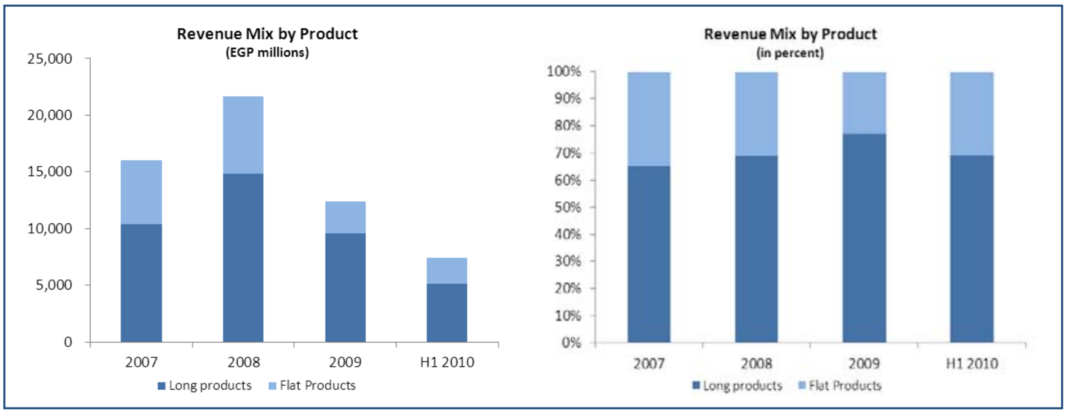
**Owned directly and indirectly through EZDK*
***Al Ezz Algeria consists of an office setup for negotiation of projects. No production takes place in this location*

BUSINESS MODEL

Sales of Ezz Steel primarily consist of revenues from long and flat products, with a negligible share coming from other related sources. Since long and flat products largely dominate the sales pool, our analysis will focus on these two sources.

Revenue Mix

Sales from long products continue to form the core of Ezz revenues with 3,257 thousand tons sold in 2009 constituting 77% of revenues, standing at EGP 9,564 million. These consist mainly from rebar and wire rods used in real estate construction and infrastructure. Flat product sales, which include hot rolled coil used in industrial manufacturing, stood at 1,016 thousand tons in 2009, grasping EGP 2,859 million or 23% of revenues for 2009.

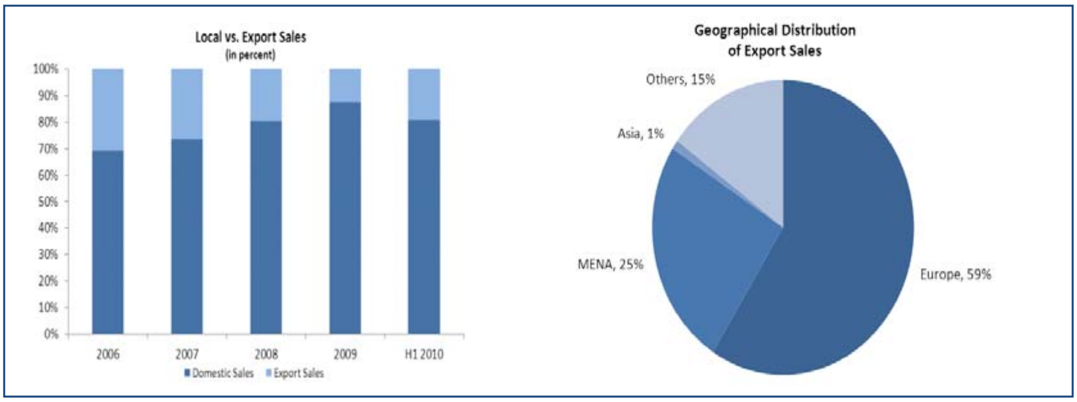


Source: Ezz Steel, BlomInvest

Geographical Diversification

Revenues of Ezz Steel are generated from both local and exports sales. Long steel products primarily target the ever-growing Egyptian market which currently captures 98% of its total long product sales. On the other hand, flat products are mainly directed to export markets which hold 59% of flat output sales.

The domestic market is increasingly dominating the sales mix, grasping 81% of sales in 2009 as the company aims primarily to satisfy the local demand that has climbed by 41% during 2009 year-on-year. This supports the view that the local market has been growing despite the depression in global demand following the 2009 recession, enabling Ezz to take advantage of the flourishing construction activity in real estate and infrastructure.

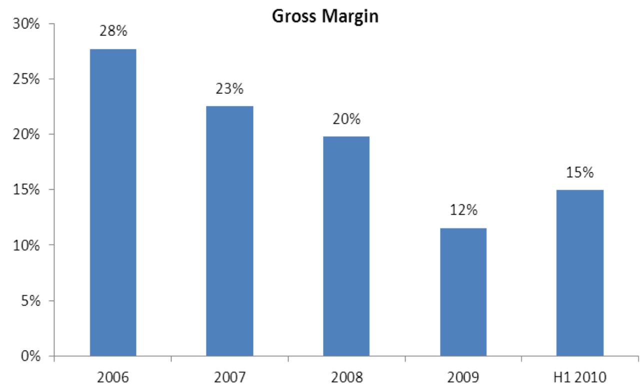


Source: Ezz Steel, BlomInvest

Export revenues, which are driven mainly from sales to Europe and constitute 59% of the company's foreign sales, decreased sharply in 2009 compared to a year earlier as the global recession pressured the demand from foreign markets. As a result, the company shut operations of its EFS facility in Q1 2009, before resuming activities in the beginning of 2010 with the start of the global economic recovery that restored the export demand for flat steel.

Pressured Margins

For steel producers, margins are highly dependent on raw material costs and the strength of demand in the market which directly affects prices. Highly volatile feedstock prices coupled with a slowing global steel demand since the 2008 financial crisis, has made it a challenge for Ezz Steel to pass on the increasing production costs to its foreign customers, resulting in the squeeze of its gross margin from 28% in 2006 to 12% in 2009. Moreover, lack of barriers to entry in the Egyptian market has prevented the company from increasing its selling prices amidst concerns that price increases will dampen domestic consumption and turn local customers to foreign competition.



Source: Ezz Steel, BlomInvest

On a positive note, Ezz Steel has the advantage of operating in a country where natural gas, the main energy source used in steelmaking, is abundant and provided to them through the Egyptian government at relatively low cost. The steel producer can also rely on plants that consume less energy due to the DRI technology it uses in more than 50% of its capacity.

Finally, Ezz Steel benefits from the strategic location of its plants which are situated close to deep water ports both on the Mediterranean and Red seas. Strategic location optimizes both logistics of sourcing raw materials and the distribution of final products to foreign markets.

In-House DRI Production

In order to manage its exposure to international feedstock prices, the steel maker established a Direct Reduced Iron (DRI) facility through its subsidiary EZDK which produces steel using DRI as the main input, being the exact equivalent to scrap.

DRI is produced from the direct reduction of iron ore through a gas produced from natural gas. Unlike the conventional routes for steelmaking such as blast furnaces, the use of DRI in the production process enables EZDK to lower the capital expenditures related to the traditional process and to use either DRI or scrap as raw materials. In addition, the employment of DRI in steelmaking improves the quality of the steel and allows the company to save on production costs. In fact, EZDK is currently saving USD 100-150 per ton using 85-95% DRI instead of scrap as it is currently importing iron ore from Brazil at around USD 200 per ton compared to USD 300-350 per ton for scrap during Q3 2010.

STRATEGY

During the last few years, Ezz Steel has been shielding itself from the high volatility of the industry's raw material costs while committing itself to a growth strategy both domestically and regionally.

Capacity Expansion

In 2009, 2.6 million tons of DRI were annually produced through EZDK that has a capacity of 3.2 million tons. Ezz Steel is increasing its DRI capacity over two phases:

- Phase I, which is likely to be completed by Q4 2011, will result in an additional 1.2 million tons in annual DRI capacity.
- Phase II, which is set to start early 2012 and through end-2014, will add further 1.8 million tons to the DRI capacity.

Worth noting that each phase will require a $400 million investment financed 70% through debt and 30% through cash.

International Growth with a Focus on the Middle East

Although Ezz aims primarily to satisfy the local market, the established dominant presence in its country of origin provides the steel maker with a solid base to upgrade its focus on international expansion. It currently serves 30 countries and is aware of the high potential growth in the MENA region which constitutes 25% of export sales. In fact, the increasing demand for steel boosted by the growing Middle Eastern economies has had Ezz eying the trillion dollar projects that Arab governments have been funding for a few years now and that are expected to continue, with a focus on the Saudi Arabian market. Moreover, as Qatar will be hosting the 2022 World Cup, the construction activity that is expected to pick up in the commercial, real estate and infrastructure sectors is regarded as a potential gain in the MENA market for Ezz Steel.

Ezz Steel is able to distribute its products wherever the price is higher, through their main buyer Global Steel Trader that can deliberately place their products where needed. Ezz is currently focusing on the Middle East market where there is high pipe-n-tube demand which is driving steel prices higher compared to the European region where dampened demand is applying pressure on prices.

Decentralizing Production Facilities

Currently, Ezz Steel production facilities are restricted within the Egyptian borders but the company is aiming to start operating outside the Egyptian territories. The steelmaker has an office setup in Algeria for the negotiation of projects.

In 2007, and upon the request of the Algerian government, the company signed a memorandum of understanding with the local government and got an approval to setup a plant worth $2 billion. This initiative came in a move from Ezz to take advantage of the booming Algerian construction market which has been suffering from a market gap of 4 million tons of steel rebar. However, investments in Algeria have been limited since 2008 as the company's internal compliance decided that it is unable to fit its business to Algerian laws due to:

1) Requirement for dividend repatriation, which does not suit the company's strategy to retain 100% of its earnings to finance growth
2) Restriction of the push-button exit strategy that Ezz was pursuing
3) Restriction of the valuations they can exit through a put-option.

Positioned to Withstand Surge in Scrap Pricing

Increased DRI production that relies on iron ore is allowing the company to manage the current global shortage in scrap which was caused by growth in steel demand from emerging markets. On the other hand, the use of DRI in steelmaking delivers output with a higher quality in addition to the fact that iron ore prices are cheaper than scrap, with prices ranging from USD 140 per ton to USD 159 per ton. Worth noting that iron ore prices will most likely further decrease in the medium term as the global market expects potential oversupply of the mineral by 2012.

Brand Associated with High Quality and Availability

Ezz Steel manufactures a wide range of steel products that meet international quality standards, earning it the ISO 9001:2000 for its management quality system. This is achieved through:

- *Use of latest technology and integrated production processes:* The procurement of high quality feedstock enables Ezz to produce outputs that exceed customer's expectations using the latest technology and integrated production processes. Currently, Ezz uses the Electric Arc Furnace for steelmaking in all its subsidiaries and is planning to fully integrate them in order to optimize production by using any mix of iron ore (DRI) and ferrous scrap.

- *Flexibility in production:* Ezz Steel also benefits from the flexibility to shift part of its production between flat and long product according to the needs of the market at no additional costs. Using a newly installed billet caster, it can now shift between producing long and flat steel at its EFS facility that was shut down during Q1 2009 due to weak demand for flat steel. This enables Ezz to exploit the opportunities arising in both local and foreign markets while shielding itself from fluctuating demand for various products.

- *High productivity:* Commitment to quality has not affected the company's productivity which remains the center of attention of management as Ezz Steel has one of the highest levels of productivity in the world at over 800 tons per employee per year. The company has higher capacity utilization when compared to other steelmakers as its utilization rate has been sustained above 90% over the past few years.

Commitment to Corporate Responsibility

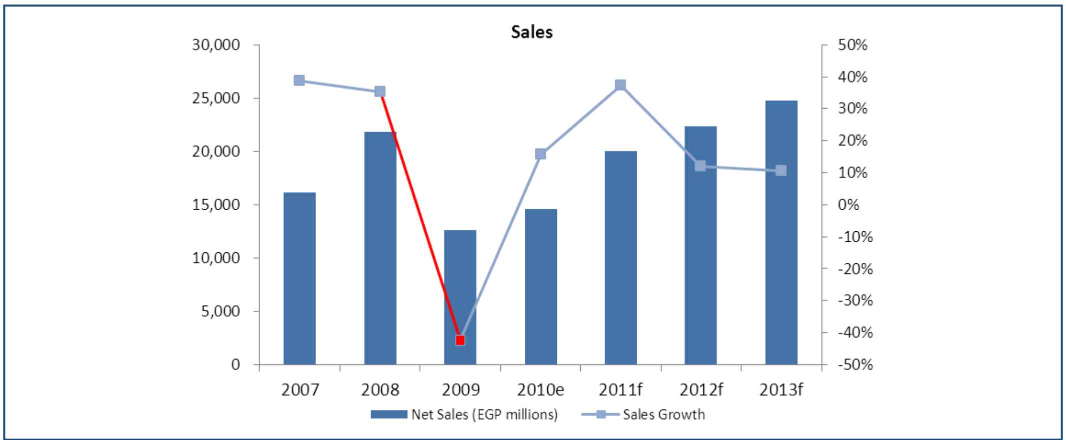
Given that the production of steel can be challenging for environmental sustainability, producing in an environmentally friendly manner is a major consideration for Ezz that always works for sustainable development. The company has earned the ISO 14001 for its environmental management system that is monitored on a yearly basis by the Germanischer Lloyd Certification GmbH (GLC).

On human capital, Ezz Steel focuses on investing in its employees through both its employees safety management system, which is OHSAS 18001 certified, and thorough staff training to promote environmental policies and awareness.

FINANCIAL ANALYSIS

Revenues

- We expect sales at Ezz Steel to grow at a CAGR of 19.3% between 2010 and 2013, with an estimated gain of 16% y-o-y to EGP 14.6 billion in 2010. We base our expectations on grounds that the shy recovery of the global economy from the 2009 recession will pick up the global demand for steel. This has been witnessed during the first half of 2010, where average prices for the company's sources of income improved by 13% and 26% respectively, standing at an average of EGP 3,308 for long steel and EGP 3,547 for flat steel.
- In 2009, the company's top line, which had been growing aggressively over the earlier three-year period, was weighed upon by the 2009 global recession. The insufficient global demand for flat steel pushed the company to close its EFS facility during the first quarter of 2009, and caused downward pressure on steel prices during the year resulting in a 43% drop in sales at Ezz.

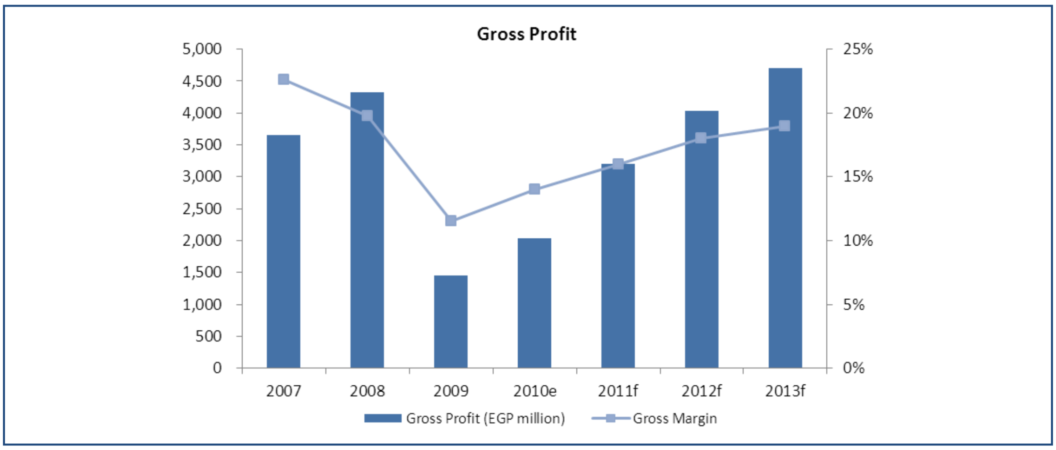


Source: Blominvest

Gross Margins

Following aggressive fluctuations in raw material and energy prices, the company's gross margin dropped from 22.6% in 2007 to 11.6% in 2009. We expect margins for the steel producer to remain squeezed for 2010 with both iron ore and scrap prices rising throughout the first half of 2010 and expected to keep an upward trend on shortage in supply. As a result, the gross margin for Ezz will not exceed 16% by end-2011 although the favorable demand conditions in the domestic market protected Egypt's economy from the global recession so far.

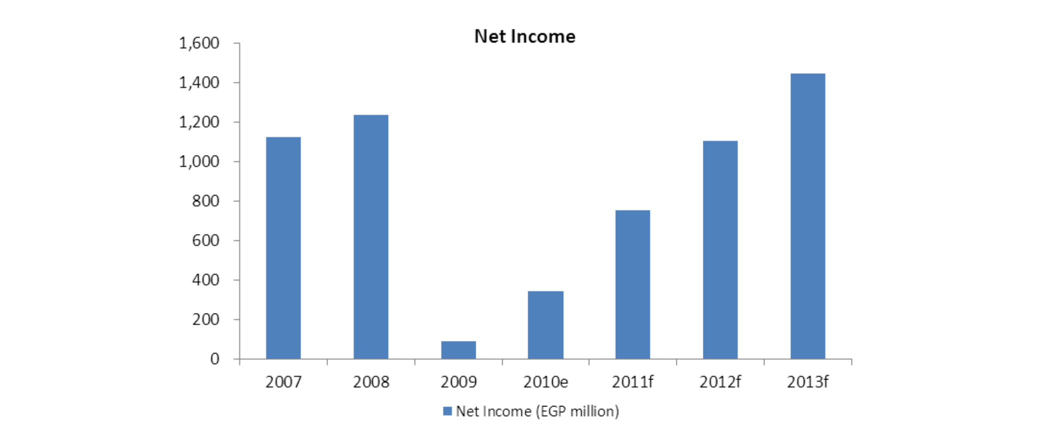
Beyond 2011, the full DRI integration of ESR and EFS will cause a noticeable improvement on the company's margin which we estimate will hover around 18 – 19% through 2013.



Source: Blominvest

Earnings

We estimate the company's 2010 net income to increase substantially from EGP 88 million in 2009 to EGP 290 million. Going forward, the company's bottom line is expected to grow at a CAGR of 70% through 2013 as demand continues to pick up and economies of scale improve due to capacity expansion. During 2009, the steelmaker's high fixed costs and leverage caused earnings to experience a plunge that is much more accentuated than its revenue drop.



Source: Blominvest

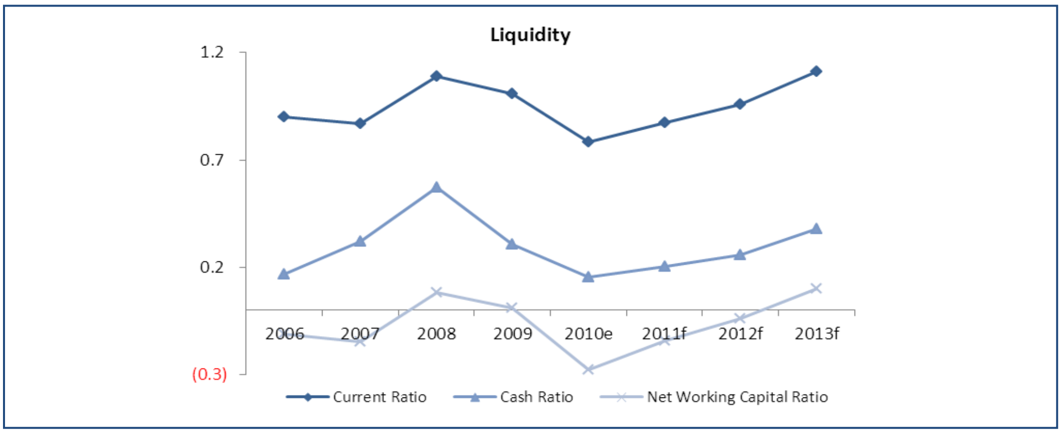
Liquidity

Ezz Steel has consistently maintained satisfactory cash balances in its assets. Since 2007, its cash-to-current liabilities has been at least 30% with a peak of 60% in 2008, following a high performance during the year. In 2009, the steelmaker's balance sheet witnessed a significant decline in its cash, mostly due to a financing of phase I in the DRI capacity expansion, but also as 2009 was a challenging year for the steel industry with sales at Ezz being pressured by an insufficient global demand for the metal.

During the past two years, the company's current assets have been at least as much as its current liabilities, due to inventories which have constituted a significant balance of 41% to 51% of current assets. Hence, Net Working Capital, that is the difference between current assets and current liabilities, has been positive for Ezz since 2008.

Over the medium term, we expect this indicator to slightly improve on grounds of a pick-up in sales, although the financing of the DRI capacity expansion will most likely bear down upon the company's liquidity during 2010.

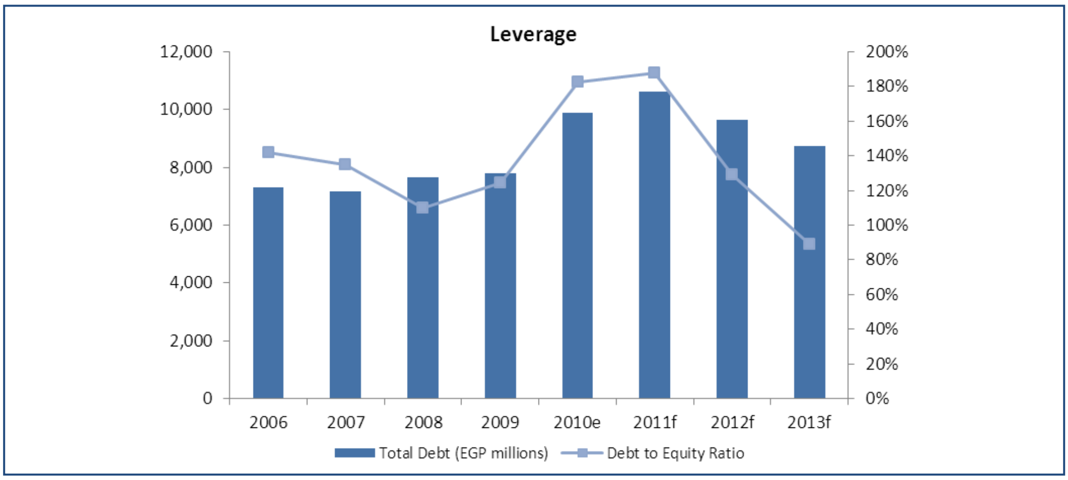
Current Ratio = Current Assets / Current Liabilities
Cash Ratio = Cash / Current Liabilities
Net Working Capital Ratio = (Current Assets – Current Liabilities) / Current Assets



Source: Blominvest

Leverage

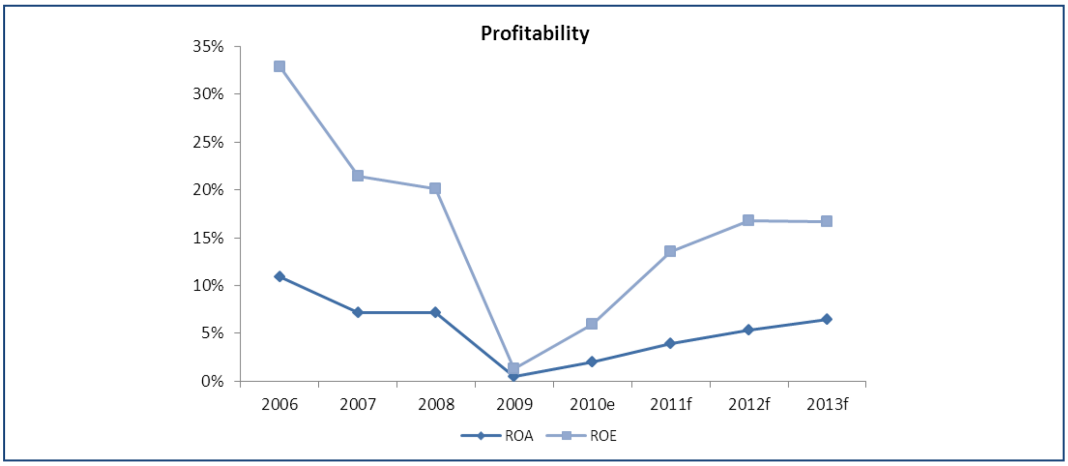
Competing in a capital-intensive industry, Ezz relies heavily on debt to finance its operations.
With the company investing in its DRI capacity expansion, the debt-to-equity ratio rose by 13% in 2009 y-o-y to 124%. We expect this ratio to peak through 2011 with the completion of phase I of the process and the kick-off of phase II by end of 2011. Moving forward, leverage will drop sharply with the repayment of principal and the full completion of the DRI expansion process.
Prior to 2009, leverage financing at Ezz declined to 110% in 2008 from 142% in 2006. Although during that year the company issued new debt through short and long term bonds, debt-to-equity value declined as the company simultaneously increased its capital from EGP 912 million to EGP 2,736 million.



Source: Blominvest

Profitability

Ezz Steel has been witnessing a dramatic downward trend in its Return on Assets (ROA) and Return on Equity (ROE) reaching 0.5% and 1.3% respectively in 2009, as the company faced challenges from the slowing global demand. These ratios indicate how efficiently the company is managing its assets and its capital to generate earnings. We expect these indicators to show significant improvement starting 2010 driven by the lift in the company's net income.



Source: Blominvest

Dividends

Ezz Steel does not have a specific dividend distribution policy. Normally, the company distributes dividends when it is not investing in the expansion of its operations. In 2008, Ezz distributed almost all of its earnings to shareholders in the form of dividends.

COMPARABLE ANALYSIS

In order to assess the performance of Ezz Steel in comparison to peers, we compare it on four different fronts:

1. Relative Valuation: Demonstrates if the company is overvalued, fairly valued or undervalued compared to its peers.
2. Profitability: Presents the company's Gross, Operating and Net Profit Margins with regard to the average company in the industry and region.
3. Management Effectiveness: Provides insight into how well management is at utilizing assets and equity to generate earnings.
4. Liquidity and Efficiency: Offers a glance at the company's liquidity position in comparison to peers and its inventory turnover compared to the global steel industry.

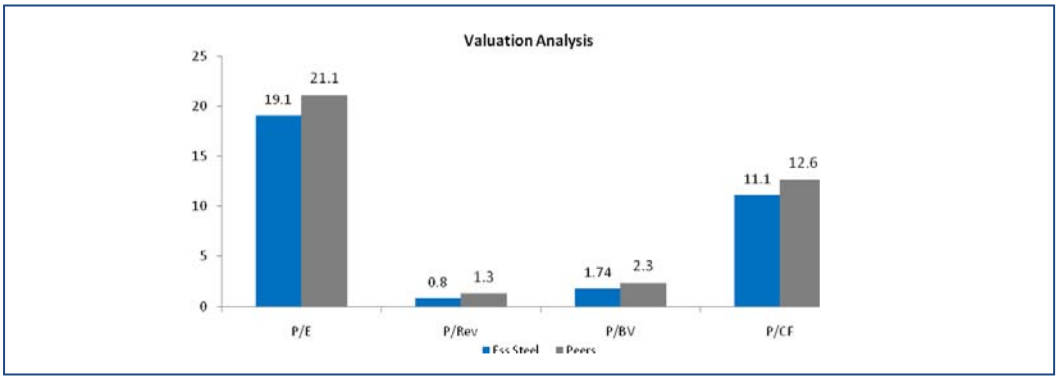
Comparable Firms

We compiled a list of 10 steel producers that are comparable to Ezz with regards to its operations. The market cap of the companies we chose ranges between USD 1 billion and USD 3 billion with an average of USD 1.8 billion (versus USD 1.7 billion for Ezz).

The complete list of comparables is available in the appendix.

Relative Valuation

Ezz is deemed undervalued when comparing its P/E of 19.1 to that of its peers estimated at 21.1. This is further validated through the other valuation metrics that portray Ezz as trading at a smaller premium compared to peers. We attribute this discount to the additional risk associated with the company's high leverage where it is operating at a Debt/Equity ratio estimated to be almost double the industry average. In our view, the company's high leverage is justified since a considerable portion of the funds is invested in expanding its production capacity and future growth. This, in turn, should require a valuation premium from investors instead of the discount that Ezz trades at. In addition, Ezz is the undisputed leader holding a share of 45% in the Egyptian steel market that is growing based on fundamentals such as rapid population growth and acute housing shortage in the country.



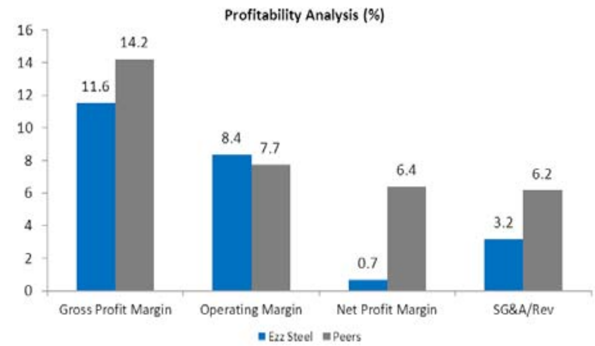
Source: Blominvest

Profitability Comparison

We compared gross margin, operating margin and net income as a percentage of revenues in order to understand how the company is managing its expenses compared to peers.

The gross margin at Ezz is lower than our benchmark since most of the comparable companies operate in iron ore producing countries such as Brazil and India. As a result, these companies can procure the raw material much cheaper than Ezz Steel. Note however that Chinese steel producers are burdened by higher cost of sales compared to Ezz. One explanation would be that the Chinese consumption of iron ore, the biggest in the world, outweighs considerably the country's production, resulting in Chinese companies being bound to importing iron ore from other countries.

On a positive note, Ezz Steel is better positioned against Chinese steel producers due to operating in a country where energy, which constitutes a considerable portion of production costs, is procured through the government at low costs in the form of natural gas.

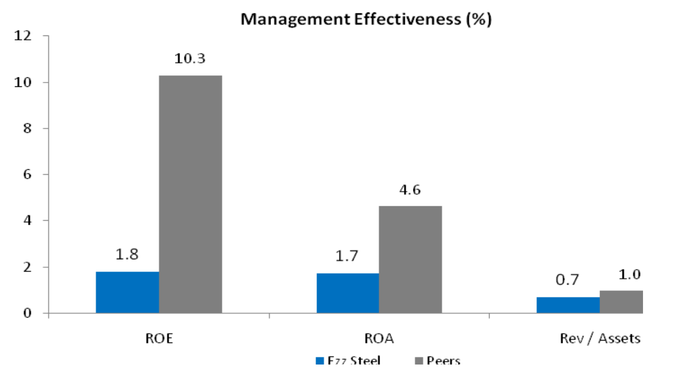


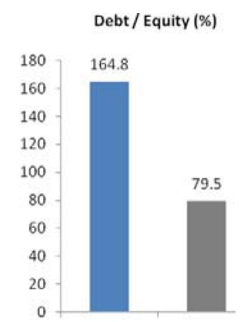
Source: Blominvest

Operating margin at Ezz is higher than other steel producers since the company maintained its selling, general and administrative expenses at only 3% against revenues, almost half that of peers. However, the company's net profit margin was squeezed in 2009, burdened by financial costs which constituted 81% of the company's total expenses in the year, driven by extensive leverage that stands at more than twice its peers.

Management Effectiveness

To measure how well the company is managing its capital and assets, we compared the ROE and ROA ratios to the peers' average. Ezz Steel significantly underperforms its peers with an ROE of 1.8% and an ROA of 1.7% when benchmarked to peers' 10.3% and 4.6% respectively. The significant spread is mainly the result of extremely depressed earnings in 2009 due to sunken revenues during the year and exceptionally high finance costs. The 42% drop in revenue was partially caused by discontinued operations at the EFS facility during H2 2009, further weighing on the revenues-to-total assets ratio which stood at 0.7 for Ezz, slightly below that of peers at 1.0.



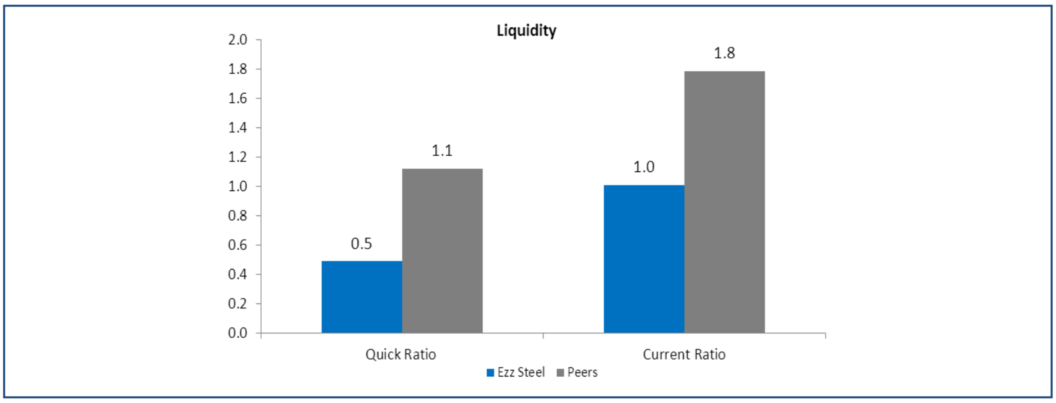


Source: Blominvest

In addition, the company's debt-to-equity ratio is more than double that of the industry average. This is especially the case since the Egyptian steelmaker is financing as much as 70% of the DRI capacity expansion through debt, versus only 30% through cash.

Liquidity and Efficiency

Taking a look at the quick and current ratios, Ezz Steel appears to be less liquid than the average in the market with ratios of 0.5 and 1.0 benchmarked to 1.1 and 1.8 respectively. We believe this is mostly due to the drop in revenues in 2009, but also since the company is financing 30% of the first phase of DRI capacity expansion from its cash balances.



Source: Blominvest

To get a sense of how often the company is replacing its inventory during the year, we compared the inventory turnover ratio at Ezz to that of the global steel industry. The company has a turnover ratio of 3.60, almost on par with that of the global industry average which stands at 3.66. This indicates that Ezz holds its inventory for 100 days compared to 98 at other steel producers.

VALUATION

We valued Ezz Steel at EGP 22.40 per share, which presents a 16% premium over the current stock price. However, we issue a HOLD recommendation due to expecting downward pressure on the stock caused by heightened political tensions in the region, particularly in Tunisia, and as President Mubarak's term approaches end.

Discount Rate

We used a WACC of 13% for the purpose of valuing Ezz Steel's equity derived as follows:

WACC = (Weight of Equity * Cost of Equity) + (Weight of Debt * Cost of Debt) * (1 – Tax Rate)

= (0.40 * 17.63%) + (0.60 * 12.23%) * (1 – 20 %) = 12.95% rounded up to 13%

Ezz Steel Cost of Equity = Risk-Free Rate + (Beta * Market Risk Premium)

= 10.40% + (1.13 * 6.40%) = 17.63%

- We used a Risk-Free Rate of 10.40% represented by the one year Treasury bill 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.
- Ezz Steel's weekly Beta over the past 2 years is estimated at 1.13. This is a measure of the steelmaker's share volatility against the EGX-30 Index that represents the 30 largest shares on the Egyptian Stock Exchange.
- A Market Risk Premium of 6.40% is the result of the difference between the average 5 year return of the EGX-30 estimated at 16.80% and the Risk-Free Rate of 10.40%. This represents the premium investors expect to gain for realizing the additional risk of investing in securities.

Assumptions in Forecasting Production Costs

Production costs were estimated through the underlying factors such as raw material prices, expectations for steel prices, yields of finished output, and capacity growth.

- We increased total capacity from 5.8 million tons in 2010 to 8.1 million by 2014 following the completion of most of the company's DRI capacity expansion.
- We assigned a slight upward trend for iron ore prices over the short term, before witnessing a decline due to an oversupply of the raw material projected to occur by 2012.
- Scrap prices were raised by an average of 10% annually due to continued high demand in emerging markets.
- Shipping costs for iron ore and scrap were estimated at 25% and 10% per ton, respectively.
- Finally, we lifted energy prices in our forecasts - which include natural gas provided by the government and electricity - as a percentage of raw materials cost by 1% through 2014.

	2010e	2011f	2012f	2013f	2014f
Cost of iron ore per ton (USD)	183	185	187	174	156
Cost of iron ore per ton (EGP)	1,058	1,068	1,079	1,004	903
add: shipping costs per ton of output (25% of iron ore)	1,322	1,336	1,349	1,255	1,129
Cost of 1.2 tons of iron ore - EZDK (EGP) *	1,481	1,496	1,511	1,405	1,265
DRI Capacity Utilized	3.0	4.0	4.2	4.8	5.2
COGS for steel produced through DRI	**4,502**	**5,969**	**6,315**	**6,674**	**6,607**
Cost of scrap per ton (USD)	370	406	447	492	541
Cost of scrap per ton (EGP)	2,136	2,350	2,585	2,844	3,128
add: shipping costs per ton of output (10% of scrap)	2,350	2,938	3,231	3,555	3,910
Cost of 1.2 tons of scrap ESR/ERM - EFS (EGP)*	2,632	3,290	3,619	3,981	4,379
Utilized Capacity using scrap	2.5	2.6	2.6	2.6	2.6
COGS for steel produced through scrap	**6,501**	**8,647**	**9,511**	**10,463**	**11,509**
Total COGS for raw materials	**11,004**	**14,615**	**15,827**	**17,137**	**18,116**
Add: Energy costs as percentage from raw material	14%	15%	16%	17%	18%
Energy costs per ton of steel produced	1,541	2,192	2,532	2,913	3,261
Total COGS including energy costs	**12,544**	**16,808**	**18,359**	**20,050**	**21,377**

** We assumed a yield of 12% for each ton of iron ore and scrap used in the production of finished output*

Deriving Revenue

We derived revenue for Ezz Steel based on our forecasts for production costs and then estimating COGS as a percentage of revenue. This is based on the fact that steel producers normally price their products based on market dynamics that are driven by input costs. In our forecasts, we estimated COGS would decline to 86% of revenue in 2010 and follow a downward trend by slightly edging down to 80% through 2014. We anticipate this as prices of iron ore, the main raw material at Ezz, are expected to slightly decline and as increased DRI capacity will have a positive impact on the company's production efficiency.

Estimating Net Income

- SG&A was maintained at 1.3% of revenues which is in line with the past three years.
- Finance Expenses were forecasted by applying 9% on interest bearing liabilities.
- A 20% income tax is applied in accordance with Egyptian law.

Determining Free Cash Flow to Firm

From Net Income, we deduce Free Cash Flow to Firm (FCFF) by applying the following:
FCFF = Net Income + Depreciation – Capital Expenditures (CAPEX) – Change in Net Working Capital

Discounted Cash Flow	2010e	2011f	2012f	2013f	2014f
Net income	290	723	1,103	1,424	1,762
Add: Depreciation	666	819	900	925	927
Less: CAPEX	(1,388)	(231)	(694)	(809)	(809)
Less: Change in Net Working Capital	1,660	(581)	(708)	(1,254)	(790)
FCFF	1,228	730	602	286	1,090

Source: Blominvest

As for the Terminal Growth Rate, we assumed a 6% growth rate for FCFF beyond 2014.

Sensitivity Analysis

Discount Rate	Terminal Growth	Fair Value/Share	Premium
15%	5%	16.24	-16%
15%	6%	17.51	-9%
15%	7%	19.10	-1%
13%	5%	20.21	5%
13%	**6%**	**22.40**	**16%**
13%	7%	25.33	31%
11%	5%	26.92	40%
11%	6%	31.32	62%
11%	7%	37.93	97%

Source: Blominvest

PROJECTED INCOME STATEMENT

In EGP million	2008	2009	2010e	2011f	2012e	2013f
Net sales	21,843	12,589	14,586	20,009	22,389	24,753
Cost of goods sold	(17,519)	(11.135)	(12,544)	(16,808)	(18,359)	(20,050)
Gross Profit	4,324	1,455	2,042	3,201	4,030	4,703
Selling & marketing expenses	(298)	(128)	(190)	(220)	(269)	(347)
General & admin. Expenses	(225)	(274)	(233)	(280)	(291)	(297)
Impairment loss on assets	(22)	(5)	-	-	-	-
Provisions	-	(15)	(4)	(6)	(9)	(9)
Total expenses	(545)	(422)	(427)	(506)	(569)	(653)
Finance expenses	(591)	(779)	(692)	(979)	(1,010)	(935)
Interest income	135	89	93	129	160	220
Reversal of impairment loss on assets	49	14	-	-	-	-
Provisions no longer required	-	25	-	-	-	-
Gain on sale of investment	-	41	-	-	-	-
Investment Income	-	0	1	1	1	1
Forex differences	(102)	25	(4)	0	0	0
Other income	65	49	57	62	68	80
Capital gains	1	0	0	0	0	0
Total other expenses	(442)	(536)	(832)	(817)	(705)	(530)
Net profit before tax & non-controlling interest	3,337	497	784	1,878	2,756	3,520
Income tax expense	(692)	(141)	(157)	(376)	(551)	(704)
Deferred tax expense	(59)	(49)	(22)	(27)	(28)	(25)
Net profit before minority interests	2,586	307	605	1,476	2,177	2,791
Minority interest	(1,353)	(219)	(315)	(753)	(1,067)	(1,368)
Net profit after minority interests	1,234	88	290	723	1,110	1,424

Source: Blominvest

PROJECTED BALANCE SHEET

In EGP million	2008	2009	2010e	2011f	2012f	2013f
Non-current Assets						
Property, plant & equipment	10,030	9,627	9,423	9,992	9,785	9,554
Projects under construction	423	1,427	2,814	2,583	3,277	4,086
Investments in subsidiaries & associates	4	0	0	0	0	0
Long term lending	3	3	4	4	4	4
Long term saving certificates	20	20	-	-	-	-
Long term trade & notes receivable	10	1	1	4	2	5
Goodwill	315	315	315	315	315	315
Total non-current assets	10,808	11,393	12,558	12,898	13,384	13,965
Current Assets						
Inventories	3,179	2,679	3,501	4,102	4,254	4,332
Trade & notes receivable	87	112	190	220	291	371
Debtors & other debit balances	408	694	448	630	716	743
Advances to suppliers	36	132	160	240	224	272
Investments in treasury bills	15	11	380	380	380	380
Cash & cash equivalents	4,096	1,581	1,167	1,701	2,127	3,168
Total current assets	7,821	5,208	5,846	7,273	7,992	9,226
Total Assets	18,628	16,601	18,403	20,171	21,376	23,231
Non-current Liabilities						
Loans	2,636	3,547	3,889	4,706	4,223	3,809
Other non-current liabilities	174	114	187	205	225	248
Bonds loan	1,100	880	760	540	320	100
deferred tax liabilities	572	621	683	744	813	894
Total Non - current liabilities	4,482	5,162	5,652	6,308	6,525	6,583
Current Liabilities						
Banks credit accts & Overdrafts	1,890	1,498	1,882	2,353	2,387	2,306
ST Loans & Borrowings	2,024	1,654	3,136	2,857	2,570	2,406
Bonds loan	-	220	220	175	140	125
Trade & notes payable	831	860	1,004	1,143	1,193	1,243
Advances from customers	948	365	554	780	896	965
Creditors & other credit balances	1,438	531	627	958	1,083	1,243
Provisions	50	38	40	43	52	53
Total Current Liabilities	7,181	5,165	7,463	8,309	8,321	8,341
Total Liabilities	11,662	10,327	12,981	14,505	13,900	13,392
Shareholders' Equity	6,966	6,274	5,422	5,667	7,476	9,839
Total Liabilities & Shareholders' Equity	18,628	16,601	18,403	20,171	21,376	23,231

Source: Blominvest

APPENDIX

I - List of Comparable Peers

Company	Country	Mkt Cap USD (m)	Valuation				Profitability Analysis				Management Effectiveness				Liquidity	
			P/E	P/Rev	P/BV	P/CF	Gross Margin (%)	Operating Margin (%)	Net Margin (%)	SG&A / Rev	ROE	ROA	Rev/TA	D/E	Quick Ratio	Current Ratio
Siderar S.A.I.C.	Argentina	2,887	6.3	1.8	1.4	11.7	24.6	12.5	11.2	12.1	9.2	7.2	0.6	2.1	1.9	3.3
Acos Villares SA	Brazil	2,640	14.0	3.1	5.0	16.4	24.0	17.0	13.5	8.4	21.5	10.4	0.8	41.4	1.7	2.1
Bhushan Steel Ltd.	India	2,104	21.0	1.7	2.4	9.0	29.0	20.0	14.7	8.7	26.4	5.7	0.4	286.3	1.1	2.3
PT Krakatau Steel (Persero)	Indonesia	2,043	7.1	1.1	3.2	21.7	7.0	0.2	2.9	6.9	8.8	3.5	1.2	80.6	0.6	1.4
Beijing Shougang Co., Ltd.	China	1,967	53.0	0.6	1.7	14.7	3.7	2.0	1.3	2.1	4.8	1.7	1.3	66.7	0.6	1.0
Maruichi Steel Tube Ltd.	Japan	1,784	14.0	1.5	0.8	11.5	20.1	9.8	7.5	9.8	3.9	3.1	0.4	5.2	3.2	3.8
Xinyu Iron & Steel Co., Ltd.	China	1,254	27.0	0.4	1.0	5.8	5.8	0.8	0.9	3.8	2.2	0.8	0.9	104.5	0.3	0.7
Nanchang Changli Iron & Steel	China	1,233	47.0	0.8	4.7	16.7	5.8	0.8	0.3	3.6	1.9	0.6	1.7	126.9	0.4	0.6
China Oriental Group Co Ltd	Hong Kong	1,158	6.1	0.4	1.1	4.2	9.7	6.9	4.7	1.7	13.2	6.6	1.4	50.6	0.6	1.0
Feng Hsin Iron & Steel Co Ltd	Taiwan	1,081	15.0	1.4	2.2	14.5	12.5	7.6	6.8	4.8	11.2	6.9	1.0	31.3	0.8	1.6
Average		1,816	21.1	1.3	2.3	12.6	14.2	7.7	6.4	6.2	10.3	4.6	1.0	79.5	1.1	1.8
Ezz Steel Co SAE	Egypt	1,708	19.1	0.8	2.2	11.1	11.6	8.4	0.7	3.2	1.8	1.7	0.7	164.8	0.5	1.0

Source: Blominvest, Reuters

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Equity Rating Key

Buy: A recommendation with a potential return greater than 10% based on our current 12-month view of total shareholder return*.

Hold: A recommendation with a potential return between -10% and 10% based on our current 12-month view of total shareholder return.

Sell: A recommendation with a potential return of less than -10% based on our current 12-month view of total shareholder return.

* Total Shareholder Return is calculated by the potential price growth over a 12-month period along with the expected dividend yield.

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