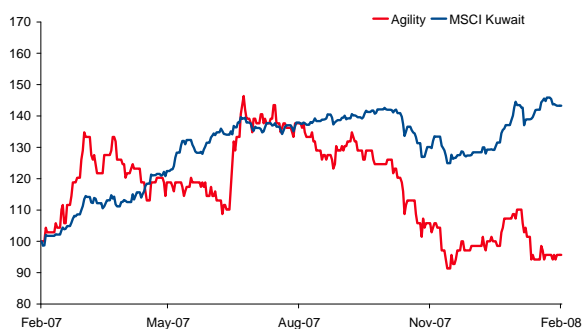


## Key Data

<b>Current Price*</b>	<b>Avg. Value Traded per Day</b>
KD 1.360	KD 6.3 mln
<b>52-Week High</b>	<b>Market Cap</b>
KD 2.020	KD 1.3 bln
<b>52-Week Low</b>	<b>Current Number of Shares</b>
KD 1.260	951.7 mln
<b>Reuters</b>	<b>Bloomberg</b>
AGLT.KW	AGLTY KK
<b>Ownership Structure</b>	
Privately Held: 41%	Public: 59%

Sources: Reuters, Zawya, and NBK Capital  
\*Price as of close on February 21, 2008

## Rebased Performance



Sources: MSCI, Reuters, and NBK Capital

## Key Ratios\*\*\*

	2006 a	2007 f	2008 f	2009 f	2010 f
P/E	7.8	8.5	10.9	11.8	11.0
EPS Growth	13%	-8%	-22%	-8%	7%
EV/ EBITDA	6.8	6.7	7.5	8.1	7.8
EBITDA Margin	21%	13%	10%	9%	8%
EBITDA Growth	45%	2%	-11%	-7%	4%
Dividend Yield	4.8%	3.0%	2.3%	2.1%	2.3%
ROAE	27%	21%	15%	12%	12%
<b>3Q2007 EBITDA a</b>	<b>4Q2007 EBITDA f</b>				
KD 55.0 mln	KD 53.1 mln				
<b>3Q2007 EBITDA f</b>	<b>1Q2008 EBITDA f</b>				
KD 54.7 mln	KD 49.3 mln				

Sources: Reuters and NBK Capital  
a = actual, f = forecast, \*\*\*based on third scenario

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## Highlights

**12-Month Fair Value: KD 1.396**

**Recommendation: Hold – Risk Level\*\*: 4**

**Reason for Report: Event Update**

- Agility recently announced that the United States Defense Logistics Agency (DLA) might retender its Subsistence Prime Vendor contract (SPVC) for the provision of food and related items to the US military in Kuwait, Iraq, and Jordan, which was originally signed in June 2005.
- We believe that the main reason behind this move by the DLA is to clarify or amend some of the major terms in the existing contract.
- Accordingly, we believe that this could have a serious negative effect on Agility. Based on our estimates, the income generated from the SPVC accounts for at least 60% of the company's total EBITDA, even though we estimate that it accounts for less than 30% of its total revenues.
- The recent award of a new small contract to Agility by the US Army indicates that Agility and the US Government are still on good terms. We believe that Agility will most likely win the biggest portion of the new SPVC (if not all of it); however, the new SPVC will most likely be under new, more stringent terms that would have a material negative impact on Agility's margins.
- Our new fair value estimate for Agility is based on four discounted cash flow (DCF) scenarios. This represents a shift from our prior method of valuing Agility based on a single DCF scenario and a peer comparison based on forward price/earnings-to-growth (PEG) multiples.
- The third scenario assumes that Agility will bid for the new contract but will only be awarded Zone I, which accounts for more than 80% of the estimated value of the new SPVC. We have assigned this scenario a probability of 70%.
- We have increased the company's risk rating from 3 to 4 to reflect the uncertainty of the company's future earnings.
- Our new 12-month fair value estimate for Agility's share price is KD 1.396, 2.6% lower than the last market close; hence, our new recommendation is "Hold".

\*\*Please refer to page 7 for recommendations and risk ratings

## IS AGILITY ON THE US GOVERNMENT'S BAD SIDE? NOT REALLY...

On January 27, 2008, Agility announced that the US Defense Logistics Agency (DLA) might retender its Subsistence Prime Vendor contract (SPVC) for the provision of food and related items to the US military in Kuwait, Iraq, and Jordan. The lifespan of Agility's contract with the DLA, which was originally signed in June 2005, is five years, but it must be renewed on a yearly basis. The contract is due for its yearly renewal in June 2008, but the fact that the DLA has posted on its website a new draft request for proposal (RFP) for the SPVC in Kuwait, Iraq, and Jordan is an important indication that the existing contract might not be renewed. We believe that the main reason behind the DLA's move is to clarify or amend some of the major terms of the existing contract.

Accordingly, we believe that this could have a serious negative effect on Agility, as we estimate that the income generated from the SPVC accounts for at least 60% of the company's total EBITDA, even though we estimate that it accounts for less than 30% of total revenues. It is worth noting, however, that our uncertainty about the breakdown of Agility's performance by business segments stems from the unavailability of segmental operating performance.

The recent award of a new contract to Agility by the US Army indicates that Agility and the US Government are still on good terms. Thus, we believe that Agility will most likely win the larger portion of the new SPVC (if not all of it). However, the new SPVC will most likely be under new, more stringent, terms that would have some material negative impact on Agility's profit margins.

## VALUATION

Our new fair value estimate for Agility is based on four discounted cash flow (DCF) scenarios. This represents a shift from our prior method of valuing Agility based on a single DCF scenario and a peer comparison based on forward price/earnings-to-growth (PEG) multiples. The significance of the SPVC to Agility increases the uncertainty surrounding future earnings and makes the valuation based on PEG multiples inaccurate.

We have increased the company's risk rating from 3 to 4 to reflect the uncertainty of the company's future earnings. This has led to a 1.5% increase in the risk premium, which places downward pressure on valuations. However, the impact of that increase has been softened by a decline in the risk-free rate in light of recent interest rate cuts.

Our new 12-month fair value estimate for Agility's share price is KD 1.396, 15% lower than our previous estimate. This decline in value is a direct result of the change in our methodology of valuing Agility. We have assigned a probability to each scenario, as shown in Figure 1, based on our opinion of the likelihood of its occurrence. Given that our fair value estimate is 2.6% lower than the last market price, our new recommendation is "Hold".

*Our 12-month fair value estimate for Agility is KD 1.396*

**Figure 1 Fair Value per Share**

DCF Scenarios	Value	Weight
No Major Change to SPVC	KD 1.731	5%
Winning Both Zones with Tighter Margins	KD 1.534	20%
Winning Zone I Only with Tighter Margins	KD 1.378	70%
Complete Loss of SPVC	KD 0.760	5%
<b>Weighted average fair value</b>	<b>KD 1.396</b>	<b>100%</b>

Source: NBK Capital

## MAJOR TERMS OF THE DRAFT RFP

Based on the DLA's new draft RFP for the SPVC in Kuwait, Iraq, and Jordan, the services to be rendered by the chosen prime vendor(s) (PV) will not materially differ from what is currently performed by Agility. Basically, the main role of the PV will continue to be purchasing, delivering, and distributing food and other products for the US Army. Thus, the aim of the new draft is to clarify or amend some terms of the existing contract. We have included a list of some of the major terms in the draft RFP below.

- The draft RFP separates the services to be rendered to the US Armed Forces into two zones: Zone I and Zone II. Zone I contains Kuwait and northern, central, and southern portions of Iraq, which should be supported via delivery routes originating in Kuwait and Turkey. Zone II, on the other hand, consists of Jordan and the west-central portion of Iraq, which should be supported via delivery routes originating in Jordan. The estimated value of the entire contract is USD 1.57 billion per year, with the values of Zone I and Zone II estimated at USD 1.31 billion and USD 0.26 billion, respectively.
- The DLA intends to make a single award per zone, but it has reserved the right to make one award for both zones.
- One of the major reforms is the addition of a contractual clause that is specific to rebates, discounts, and early payment discounts. The draft RFP clearly states that all discounts or rebates received by the PV should be passed on to the US Government; however, the PV can retain early payment discounts if all of these conditions are met:
  - The early payment discount is based on the cost of money.
  - The early payment discount is consistent with commercial practice.
  - The early payment discount is routinely given by the supplier to customers other than the PV at similar terms.
  - The early payment discount is not established, requested, or negotiated.
  - The early payment discount is no more than 2% and early payment is within 10 days.

- The terms of the discount appear on the invoice submitted to the U.S. Government.
- The draft also details the procedure that the PV must follow if it becomes aware of any overcharge.
- The required level of transparency of the PV has been expanded. Also, the PV must cooperate with several scheduled and unscheduled audit checks.

## NEW CONTRACT IN KUWAIT WITH US GOVERNMENT

As a result of the probe into the US Army food supply operations in Iraq and a series of articles published in the *Wall Street Journal* questioning if Agility has been overcharging the US Government, investors have become concerned about the status of the relationship between Agility and the US government. Also, the posting of the new draft RFP for the SPVC in Kuwait, Iraq, and Jordan by the DLA could be interpreted as a signal that the situation between the two parties has been deteriorating.

However, a contract recently won by Agility portrays the opposite message. On February 11, 2008, Agility announced that it will begin executing a Dining Facilities Contract (DFAC) awarded by the US Army Contracting Command Southwest Asia whereby it will be providing food services to the US Army through 11 dining facilities in Kuwait. The value of the DFAC contract could reach USD 127 million over a period of three years. Thus, even though this contract appears to be small in value when compared to the SPVC, it clearly indicates that Agility and the US Government are still on good terms. It also signifies that the probe has not yet resulted in any major findings that would lead to the termination of activity between the two parties.

## DCF SCENARIOS

The SPVC is a major driving force behind the profitability of Agility, even though it represents less than 30% (in our estimate) of the company's total revenue. In our opinion, the services that Agility performs under the SPVC account for at least 60% of the company's EBITDA. Therefore, any change in the terms of this contract will have a significant negative effect on Agility's profitability. Accordingly, we have developed four scenarios that reflect what might happen to the SPVC in June 2008.

### *Scenario 1: No Major Change to SPVC*

This first scenario assumes that Agility will win both zones of the new contract and that the new terms will have no material impact on the company. Thus, the forecasts that we developed in our last update will be relevant for this first scenario. In our opinion, this scenario is unlikely to happen, as the stricter terms that appear in the draft RFP will most likely raise Agility's cost structure. We have assigned this scenario a probability of 5%. Figure 2 presents a summary of our forecast for the first scenario.

Figure 2 Scenario 1

Income Statement (KD Millions)							
Fiscal Year	2006	2007f	2008f	2009f	2010f	2011f	2012f
Total Revenue	1,013	1,686	1,880	2,105	2,364	2,620	2,858
% Change	n.a.*	66.4%	11.5%	12.0%	12.3%	10.8%	9.1%
EBITDA	209	214	212	218	226	240	251
% Change	45.4%	2.3%	-0.7%	2.7%	3.5%	6.5%	4.4%
Margin	20.6%	12.7%	11.3%	10.4%	9.5%	9.2%	8.8%
Net Income	167	153	141	151	160	175	188
% Change	17.4%	-8.3%	-7.8%	7.3%	5.9%	9.3%	7.2%
Margin	16.4%	9.1%	7.5%	7.2%	6.8%	6.7%	6.6%
ROAE	27.0%	20.8%	17.0%	16.1%	15.1%	14.7%	14.1%

Sources: Agility and NBK Capital

\*2005 gross revenues are not available

*The first scenario is the forecasts we had in our last update*

### Scenario 2: Winning Both Zones with Tighter Margins

The second scenario assumes that Agility will win both zones under the new contract, but that the stricter terms of the contract will result in tighter margins. In our opinion, the services performed under the SPVC have an EBITDA margin close to 28%. We expect that costs associated with increasing the level of transparency to adhere to the terms of the new contract and the restrictions imposed on prepayment discounts could affect the margins of the Subsistence Prime Vendor segment. We incorporated in our forecast a decline in EBITDA margin to 23% for the Subsistence Prime Vendor segment to reflect our estimated increase in costs. This has lowered the 2009 forecast EBITDA margin of the group from 10.4% to 9.2%. Figure 3 presents a summary of the second scenario, which shows the same revenues as the first scenario but presents a decline in profitability. We assigned the second scenario a probability of 20%.

Figure 3 Scenario 2

Income Statement (KD Millions)							
Fiscal Year	2006	2007f	2008f	2009f	2010f	2011f	2012f
Total Revenue	1,013	1,686	1,880	2,105	2,364	2,620	2,858
% Change	n.a.*	66.4%	11.5%	12.0%	12.3%	10.8%	9.1%
EBITDA	209	214	201	194	202	214	225
% Change	45.4%	2.3%	-6.2%	-3.4%	4.2%	6.0%	5.2%
Margin	20.6%	12.7%	10.7%	9.2%	8.5%	8.2%	7.9%
Net Income	167	153	130	127	136	148	160
% Change	17.4%	-8.3%	-15.2%	-1.7%	6.9%	8.6%	8.3%
Margin	16.4%	9.1%	6.9%	6.1%	5.8%	5.6%	5.6%
ROAE	27.0%	20.8%	15.7%	13.9%	13.4%	13.1%	12.9%

Sources: Agility and NBK Capital

\*2005 gross revenues are not available

*The second scenario assumes that Agility will face tighter margins under the SPVC*

### Scenario 3: Winning Zone I Only with Tighter Margins

The third scenario assumes that Agility will bid for the new contract but will only be awarded Zone I, which accounts for more than 80% of the estimated value of the new contract. Accordingly, we have assumed that Agility will lose around 20% of the revenue it currently generates from services provided under the SPVC and, like the situation in the second scenario, it will be facing tighter margins. Thus, in the third scenario,

revenues will decline and profitability will decline further compared to the second scenario, which is portrayed by the decline in the 2009 forecast EBITDA margin to 8.7%. Figure 4 presents a summary of the third scenario. We believe that this scenario has the highest odds of occurrence and we have assigned it a probability of 70%.

**Figure 4 Scenario 3**

*The third scenario assumes that Agility will be awarded Zone I only and will face tighter margins*

Income Statement (KD Millions)							
Fiscal Year	2006	2007f	2008f	2009f	2010f	2011f	2012f
Total Revenue	1,013	1,686	1,854	2,009	2,265	2,518	2,753
% Change	n.a.*	66.4%	10.0%	8.4%	12.7%	11.2%	9.3%
EBITDA	209	214	190	176	183	194	205
% Change	45.4%	2.3%	-11.2%	-7.4%	3.9%	6.4%	5.5%
Margin	20.6%	12.7%	10.2%	8.7%	8.1%	7.7%	7.4%
Net Income	167	153	119	110	117	128	139
% Change	17.4%	-8.3%	-22.0%	-7.7%	6.7%	9.1%	8.8%
Margin	16.4%	9.1%	6.4%	5.5%	5.2%	5.1%	5.1%
ROAE	27.0%	20.8%	14.6%	12.2%	11.9%	11.9%	11.8%

Sources: Agility and NBK Capital

\*2005 gross revenues are not available

#### Scenario 4: Complete Loss of SPVC

The fourth scenario is basically the worst-case scenario, assuming that Agility will either be prohibited from retendering or that it will lose out in the bidding process. For the fourth scenario, we eliminated what we estimate to be the revenue and profit generated from the SPVC. This scenario reflects the level of dependence that Agility has on the SPVC, as by just removing our estimate of the revenues generated by the contract (which represent less than 30% of the total revenues of Agility), the forecast net income for 2009 declines by 86% compared with the first scenario. This shows that by bidding for the new contract, Agility will be acting in the best interest of its shareholders, and the only acceptable reasons for Agility not to bid should be either that it is prohibited to bid or that the terms of the contract do not make economic sense—two reasons that, in our opinion, are far-fetched.

**Figure 5 Scenario 4**

*The fourth scenario assumes the complete loss of SPVC*

Income Statement (KD Millions)							
Fiscal Year	2006	2007f	2008f	2009f	2010f	2011f	2012f
Total Revenue	1,013	1,686	1,646	1,623	1,896	2,171	2,433
% Change	n.a.*	66.4%	-2.4%	-1.4%	16.8%	14.5%	12.1%
EBITDA	209	214	147	82	89	100	110
% Change	45.4%	2.3%	-31.1%	-44.2%	8.8%	11.7%	10.4%
Margin	20.6%	12.7%	8.9%	5.1%	4.7%	4.6%	4.5%
Net Income	167	153	79	21	27	34	44
% Change	17.4%	-8.3%	-48.1%	-73.1%	26.6%	25.9%	29.1%
Margin	16.4%	9.1%	4.8%	1.3%	1.4%	1.6%	1.8%
ROAE	27.0%	20.8%	9.9%	2.6%	3.2%	4.0%	4.9%

Sources: Agility and NBK Capital

\*2005 gross revenues are not available

We do not expect Agility to lose in the bidding process, as we believe that it is very difficult for any organization in the region to provide what Agility has been providing

under the SPVC since 2003. The new draft RFP says that the PV is expected to make 64,130 deliveries into Iraq per year to fulfill just the requirements of Zone I. Each delivery is the equivalent of a truckload, which means that the prime vendor must have enough trucks to make more than 64,000 trips per year into a war zone. Also, over 90% of these deliveries are refrigerated deliveries. We believe that Agility's track record will help it to win the new contract, as its delivery success rate has been 99.9%; according to Agility's management, this is a record that other PVs do not achieve in regions without conflict. In our opinion, the reliability of the PV will be extremely important to the US Army, which makes it very difficult to imagine another entity replacing Agility. We believe that the fourth scenario is unlikely to happen unless the probe results in a surprising outcome. Thus, we have assigned a probability of 5% to the fourth scenario.

**Risk and Recommendation Guide**

Recommendation		Upside (Downside) Potential		
Buy		more than 20%		
Accumulate		between 10% and 20%		
Hold		between -5% and 10%		
Reduce		between -10% and -5%		
Sell		less than -10%		
Risk Level				
1	2	3	4	5
Low Risk				High Risk



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