

# Air Arabia



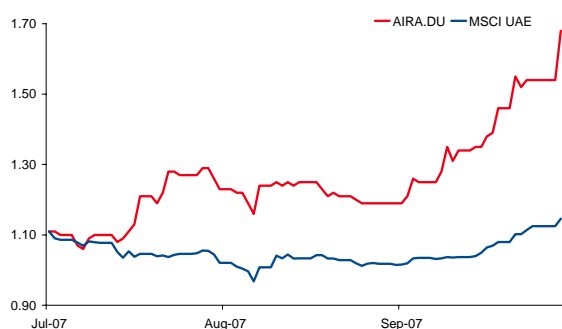
October 16, 2007

## Key Data

<b>Current Price*</b>	<b>Avg. Value Traded per Day</b>
AED 1.68	AED 169.5 mln
<b>52-Week High</b>	<b>Market Cap</b>
1.68	AED 7.84 bln
<b>52-Week Low</b>	<b>Current Number of Shares</b>
AED 1.00	4,666.7 mln
<b>Reuters</b>	<b>Bloomberg</b>
AIRA.DU	AIRARABI.UH
<b>Ownership Structure</b>	
Privately Held: 45%	Public: 55%

Sources: Reuters, Zawya, and MENA Equity Research  
\*Price as of close on October 15, 2007

## Rebased Performance



Sources: MSCI, Reuters, and MENA Equity Research

## Key Ratios

	2007 f	2008 f	2009 f	2010 f	2011 f
P/E	31.2	18.4	15.4	14.0	12.2
EPS Growth	n.a.	70%	19%	10%	15%
EV/ EBITDA	42.3	26.2	20.5	16.0	13.2
EBITDA Margin	15%	17%	17%	17%	18%
EBITDA Growth	123%	62%	28%	28%	21%
Dividend Yield	0.4%	1.4%	1.6%	1.8%	2.0%
PBV	1.6	1.5	1.4	1.3	1.2
ROAE	9%	8%	9%	9%	9%

<b>1Q2007 EBITDAR a</b>	<b>2Q2007 EBITDAR a</b>
AED 67.7 mln	AED 86.3 mln
<b>3Q2007 EBITDAR f</b>	<b>4Q2007 EBITDAR f</b>
AED 92.0 mln	AED 96.9 mln

Sources: Reuters and MENA Equity Research  
a = actual, f = forecast

## Analyst

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## Highlights

**12-Month Fair Value: AED 1.53**

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

**Reason for Report: Initiation of Coverage**

- Air Arabia has successfully implemented a low-cost carrier operating model and became profitable in its first full year of operation.
- Air Arabia is carving out a niche for itself as being the only UAE airline focused on short haul flights, since both Emirates and Etihad are focused on expanding their long haul services.
- The setup of Air Arabia allows for quick decision making, an attribute that is not common among other airlines in the region. This permits Air Arabia to react rapidly to any new opportunity and be on top of any new move made by competitors, which in most cases are government-controlled entities.
- Following its IPO, Air Arabia embarked on an expansion strategy to increase the number of aircraft in its fleet in order to increase its output. We expect that Air Arabia will soon place an order for around 34 Airbus A320 aircraft, and options for a further 15, with a configuration similar to its existing fleet.
- We believe that Air Arabia will continue to post strong growth rates over our forecast horizon. We forecast revenue growth of 68% in 2007, followed by a 36% growth rate in 2008.
- Air Arabia was able to achieve AED 101.1 million in net income in 2006, and we forecast that this figure will grow by 147% to reach AED 251 million by the end of 2007.
- We arrived at a 12-month fair value for Air Arabia of AED 1.53 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward PEG (price-to-earnings ratio to growth) multiples. We are initiating coverage with a "Reduce" recommendation.
- We believe Air Arabia has very strong growth potential; however, following the recent rally of the share price we see that the promising aspects of the company have been priced in. Air Arabia's current market price is already 65% higher than the IPO subscription price.

\*\*Please refer to the second page for recommendations and risk ratings.

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
<b>VALUATION</b>	<b>4</b>
Discounted Cash Flow Valuation	4
Peer Group Comparison	5
Risks	6
<b>BULLS VS. BEARS</b>	<b>8</b>
<b>A LOOK AT MAJOR AIRLINES IN THE MIDDLE EAST</b>	<b>10</b>
<b>UAE: FACTORS THAT FAVOR AIR ARABIA</b>	<b>15</b>
<b>OPERATING MODEL OF A LOW-COST CARRIER</b>	<b>17</b>
<b>COMPANY OVERVIEW</b>	<b>19</b>
Company Background	19
Strategy	19
Fleet Expansion	20
Distribution Channels	20
Competition	22
Recent IPO	22
<b>FINANCIAL OVERVIEW</b>	<b>23</b>
Major Forecast Assumptions	23
Output	23
Traffic and Yield	25
Unit Costs and Profitability	28
Waiver from Sharjah Airport Authority	30
Fuel Costs	31
Financial Health	31
Goodwill	31
<b>FINANCIAL STATEMENTS</b>	<b>32</b>

#### Risk and Recommendation Guide

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

\*1 being least risky

## EXECUTIVE SUMMARY

Air Arabia is a regional low-cost carrier based at Sharjah International Airport in the UAE. The company was established in 2003, and is credited with being the first airline in the Middle East to implement the low-cost carrier operating model. As a low-cost carrier, Air Arabia offers air transportation at generally low fares without compromising safety.

Air Arabia currently operates a fleet of ten Airbus A320 aircraft and flies to 35 destinations in the Middle East, North Africa, and the Indian sub-continent. Following its recent IPO, Air Arabia plans to expand its fleet in order to offer new routes and increase frequency on existing ones. We expect that Air Arabia will soon place an order for around 34 Airbus A320 aircraft, and options for a further 15, with a configuration similar to its existing fleet.

Air Arabia has been successful in introducing the low-cost carrier operating model in the Middle East and returning a profit in its first full year of operation. Air Arabia's revenue increased by 82% in 2006, to reach AED 749 million. Total revenue for 1H2007 was AED 513 million and we forecast that total revenues for 2007 will reach AED 1,261 million. As for profitability, Air Arabia was able to achieve AED 101.1 million in net income in 2006, and we forecast this figure will grow by 147% to AED 251 million by the end of 2007.

From a valuation standpoint, using a combination of discounted cash flow (DCF) and peer comparison based on forward PEG multiples, we believe that the fair value of the share is AED 1.53. We are initiating coverage with a "Reduce" recommendation, as we see that the promising aspects of the company have been priced in.

From our subjective criteria for risk, we have assigned Air Arabia a risk rating of 4 on a scale of 1 to 5. This value takes into account the following major risks that may affect the value of the company:

- Air Arabia is pursuing an aggressive growth strategy over the next ten years. Although this growth plan is based on solid fundamentals, the possibility that supply may outstrip demand exists.
- The airline industry is known to have very high operating leverage due to its high fixed-cost structure. Therefore, minor changes in passenger traffic or fare structure may lead to fluctuations in operating results.

## VALUATION

The purpose of this valuation exercise is to arrive at a fair-value estimate of the share price, through the use of fundamental analysis, that should prevail for Air Arabia over the next 12 months. This does not represent a guarantee that this value is achievable within that time frame, as a wide range of variables and market dynamics affect the market price of an asset.

Each investor must use his or her favorite mix of fundamental research, technical analysis, and market intelligence to arrive at an investment decision that matches his or her objectives and tolerance for risk.

We arrived at a 12-month fair value for Air Arabia of AED 1.53 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward PE-to-growth (PEG) multiples. We specified a weight for each method, as shown in Figure 1. A greater weight is assigned to DCF, as this method examines the fundamentals of the company to determine its future cash-generating ability. The 12-month fair value target is AED 1.53 and we are placing a "Reduce" recommendation.

**Figure 1 Fair Value per Share**

*Our 12-month fair value for Air Arabia is AED 1.53*

Valuation Method	Value	Weight
Discounted cash flow	AED 1.37	70%
Peer comparison	AED 1.89	30%
<b>Weighted average fair value</b>	<b>AED 1.53</b>	<b>100%</b>

Source: MENA Equity Research

### DISCOUNTED CASH FLOW VALUATION

Our DCF valuation (Figure 2) is based on forecasted financial results through 2016. The DCF valuation is a function of the following major variables, which have been estimated by our models:

- Future net operating profit less adjusted taxes (NOPLAT), which is driven primarily by expectations of sales and operating expenses
- Future changes in working capital
- Future net expenditures on fixed assets
- The weighted average cost of capital (WACC), which is a weighted average of our estimated cost of equity and the after-tax cost of debt
- The long-term expected growth rate in NOPLAT and the expected rate of return on net new invested capital (RONIC)

From the forecasted financial results, we extracted the free cash flows that were used in our valuation. We discounted those cash flows to a point in time that is 12 months into

the future to obtain an estimate of the value of the company's operations. After subtracting net debt and minority interest, and adding the value of non-operating assets, we arrived at a total equity value of AED 6.4 billion.

In order to estimate the value of Air Arabia's operations, we incorporated a varying WACC into our model. Our selection of a cost of equity of 13% is based mainly on interest rate levels and the operating environment.

**Figure 2 DCF Valuation**

Figures in AED Millions*		Forecast							
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Net Operating Profit after Tax</b>	<b>251</b>	<b>315</b>	<b>403</b>	<b>489</b>	<b>572</b>	<b>699</b>	<b>759</b>	<b>941</b>	<b>1,150</b>
Add: Depreciation and Amortization	46	64	82	100	118	203	356	518	689
<b>Gross Cash Flow</b>	<b>297</b>	<b>379</b>	<b>485</b>	<b>589</b>	<b>690</b>	<b>902</b>	<b>1,115</b>	<b>1,458</b>	<b>1,839</b>
(Incr.)Decr. in Working Capital	(2)	8	8	3	4	(16)	(10)	(21)	(28)
(Incr.)Decr. in Operating Fixed Assets	(275)	(152)	(160)	(962)	(1,764)	(1,881)	(1,998)	(1,136)	(275)
<b>Free Cash Flow from Operations</b>	<b>20</b>	<b>235</b>	<b>333</b>	<b>(370)</b>	<b>(1,070)</b>	<b>(994)</b>	<b>(893)</b>	<b>301</b>	<b>1,535</b>
<b>Terminal Value</b>	-	-	-	-	-	-	-	-	<b>9,694</b>
<b>Value of Operations in 12 Months</b>	<b>2,907</b>								
Add: Excess Cash	3,368								
Add: Value of Long-Term Investments	28								
Add: Value of Other Long-Term Assets	91								
Less: Total Debt	-								
Less: Minority Interest	-								
<b>Value of Equity in 12 Months</b>	<b>6,394</b>								
<b>Per Share Value in AED</b>	<b>1.37</b>								

*Using the DCF valuation method, we arrived at a fair value per share of AED 1.37*

Source: MENA Equity Research  
\*Except per share value

### Sensitivity Analysis

We performed a sensitivity analysis (Figure 3) on two important inputs for our DCF valuation model: the cost of equity and the perpetual growth rate used in computing the terminal value.

**Figure 3 DCF Sensitivity**

		Growth				
		4.50%	4.75%	5.00%	5.25%	5.50%
Cost of Equity*	12.0%	AED 1.52	AED 1.52	AED 1.53	AED 1.54	AED 1.55
	12.5%	AED 1.44	AED 1.44	AED 1.44	AED 1.45	AED 1.46
	13.0%	AED 1.36	AED 1.37	<b>AED 1.37</b>	AED 1.37	AED 1.38
	13.5%	AED 1.30	AED 1.30	AED 1.31	AED 1.31	AED 1.31
	14.0%	AED 1.25	AED 1.25	AED 1.25	AED 1.25	AED 1.25

*We performed sensitivity analysis on two major inputs for the DCF model*

Source: MENA Equity Research  
\*Variations in the cost of equity result in variations in WACC

### PEER GROUP COMPARISON

With a market capitalization of AED 7.84 billion, Air Arabia is the first low-cost carrier in the Middle East and one of the very few listed airlines in the MENA region. Given the fact that there is a shortage of listed airlines in the MENA region, we have selected seven low-cost carriers from around the world upon which to conduct the peer valuation exercise.

We obtained the consensus forward earnings per share (EPS) and the consensus earnings growth estimates for each of the companies. The simple average PEG for the sample, excluding the highest and lowest values, was 0.78. Air Arabia currently trades at a PEG of 0.7, based on our 2008 forecast EPS and next-four-years earnings growth rate.

Using the simple average PEG, excluding outliers among the data for the seven companies in the sample, we estimate the value of Air Arabia's share at AED 1.89, based on a forecasted EPS of AED 0.09. This represents an upside potential of 12.5% compared with the current market price of AED 1.68.

**Figure 4 Forward PE Comparison**

Company	Market Data		2008 Forecast EPS	PEG
	Price*	Market Cap (USD Millions)		
Virgin Blue (AUD)	2.29	2,176	0.23	11.11
AirAsia (MYR)	1.99	1,395	0.12	1.29
Ryanair (EUR)	5.55	11,823	0.34	0.90
WestJet (CAD)	18.42	2,453	1.39	0.60
Soutwest (USD)	14.67	10,963	0.82	0.58
easyJet (GBP)	588.00	5,012	45.20	0.55
jetBlue (USD)	9.17	1,651	0.51	0.15
<b>Weighted average</b>				<b>1.34</b>
<b>Simple average</b>				<b>2.17</b>
<b>Simple average excluding outliers</b>				<b>0.78</b>
<b>Median</b>				<b>0.60</b>

*The average PEG for the sample, excluding the outliers, stands at 0.78*

Sources: Bloomberg and MENA Equity Research  
\*Prices as of October 12, 2007

## RISKS

- Air Arabia is based in the UAE with a significant number of destinations to other locations in the Middle East. Due to the political uncertainty of some of these destinations and the region as a whole, Air Arabia's business may face disruptions that are beyond its control. These disruptions may affect a single route or a significant portion of Air Arabia's network.
- Air Arabia is still considered to be a startup airline, despite its tremendous success in the first few years of operations. Due to the nature of the airline business, any traffic accident may have a profound impact on the company's credibility. Such an event may have an intense impact on Air Arabia's revenue, as it does not have an established track record to buffer it from the consequences.
- The airline industry is known to have very high operating leverage due to its high fixed-cost structure. Therefore, minor changes in passenger traffic or fare structure may lead to fluctuations in operating results. This can be easily seen in the 2006 performance data for Air Arabia, where a reduction of passengers by only 12.5% (assuming yield is constant) would erode the operating profit for the year.

- Air Arabia is pursuing an aggressive growth strategy over the next ten years. Although this growth plan is based on solid fundamentals, the possibility that supply may outstrip demand exists. Such a scenario may result from intense competition or an overestimation of demand.
  
- Since many of the regional airlines are owned by governments, it is possible that some would respond to competition by taking actions that do not make economic sense. Such action may be in the form of pricing below unit costs to prevent the loss of market share to competition.

## BULLS VS. BEARS

### BULL STORY

- The fact that the Sharjah International Airport is not congested allows for very fast turnaround times for aircraft, leading to higher utilization rates. Also, it decreases the time that the plane spends taxiing, which helps save on fuel costs.
- Air Arabia has a symbiotic relationship with Sharjah International Airport that enhances cooperation between the two parties.
- Air Arabia has implemented a model focused on reducing operating costs to the bare minimum. This, in turn, allows it to offer very low fares in order to cater to ultra-price sensitive passengers and at the same time remain profitable.
- Air Arabia is carving out a niche for itself as being the only UAE airline focused on short-haul flights, since both Emirates and Etihad are expanding their long-haul services.
- The use of an automated revenue management system would further enhance the profitability of Air Arabia, as it will allow automatic adjustments of fares for any changes in demand.
- The setup of Air Arabia allows for quick decision making, an attribute that is not common among other airlines in the region. This permits Air Arabia to react quickly to any new opportunity and respond to any new move made by the competition. Basically, Air Arabia is a private company competing, for the most part, with government-controlled airlines.
- Air Arabia has a very young fleet, with an average aircraft age of two years. We expect that the average age of the Air Arabia fleet will remain low for years to come, as new aircraft replace older models. A young fleet will help keep maintenance costs low and departures on time.
- Air Arabia has a management team with considerable experience working in the airline industry.
- As the first low-cost carrier in the Middle East, Air Arabia has achieved a high degree of operational efficiency, which will make it very difficult for any new entrant to compete on price alone.
- Air Arabia has successfully established strong brand recognition in its key markets.

### BEAR STORY

- The United Arab Emirates has adopted an open skies policy, which means that Air Arabia may face competition from several airlines at its home base. This represents a disadvantage for Air Arabia, since it is in a region where not all countries have adopted a similar open skies policy.

- The selection of the Dubai International Airport as a second hub for Jazeera Airways, the second major low-cost carrier in the Middle East, will make it difficult for Air Arabia to attract price-sensitive business travelers and tourists coming to or leaving Dubai. For these passengers, price is important; however, time plays an important factor as well, and by using a Dubai-based low-cost carrier, they will obtain better prices than the full-service carriers and reduced times for commuting compared with Air Arabia.
- Airport authorities may revert to unfair competition tactics in order to protect their national carriers. Since national carriers cannot compete with Air Arabia on price, airport authorities might interfere and give the advantage to their national carriers through other means, such as scheduling unfavorable time slots, limiting the frequency of departures or simply not authorizing the use of the airport.
- Any air traffic accident can have a severe effect on the reputation of the company.

## A LOOK AT MAJOR AIRLINES IN THE MIDDLE EAST

The majority of the airlines in the Middle East are government controlled entities and in many cases they are a source of national pride. Three airlines (Emirates Airlines, Qatar Airways, and Etihad) have developed a sophisticated hub-and-spoke network allowing them to transport passengers across continents and compete with the top airlines in Europe and Asia. The rest operate a point-to-point network that might include long-haul flights, making them dependent on traffic from or to their base. The fact that governments have such a large stake in the airline industry means that many of the airlines receive support from governmental authorities both directly, such as subsidies, or indirectly, such as limiting competition on specific routes.

The low-cost carrier model seems to be gaining momentum in the Middle East. Following its successful introduction by Air Arabia in 2004, and later followed by Jazeera Airways in 2005, two new low-cost carriers were introduced in Saudi Arabia to operate on domestic routes.

Below is a brief overview of some of the major airlines in Middle East.

### UAE

Each of the seven emirates of the UAE has its own aviation authority and can establish its own airline. Therefore, the inception of an airline in the UAE needs to be backed by one of the emirates. Below is a list of the airlines that are operating or that have announced their intent to start operations from the UAE, with the exception of Air Arabia.

#### *Emirates Airlines*

Emirates Airlines (Emirates) is the largest airline in the Middle East and one of the fastest growing airlines in the world. Emirates, which is 100% owned by the government of Dubai, is based at Dubai International Airport and provides both passenger and cargo services. Emirates travels to 93 destinations in 59 countries. The Emirates' fleet consists of 106 aircraft, with an average age of 5.4 years. Emirates receives, on average, one or two new planes per month and has orders for more than 80 new planes including the Super Jumbo Airbus A380. All planes operated by Emirates are wide-bodied aircraft, which allows them to carry a larger mix of passengers and cargo.

Emirates operates an extensive hub-and-spoke network using sixth freedom rights (i.e., rights given to an airline to transport passengers from a foreign state to another foreign state by passing through its home country). This has allowed the airline to offer long haul services, such as flying passengers from London to Sydney by passing through Dubai. The strategic location of Dubai as a midway location between Europe and Asia has made Emirates a serious competitor to both European and Asian airlines, including Air France, KLM, British Airways, Lufthansa, and Singapore Airlines.

Figure 5 shows a summary of the latest available operating statistics for Emirates.

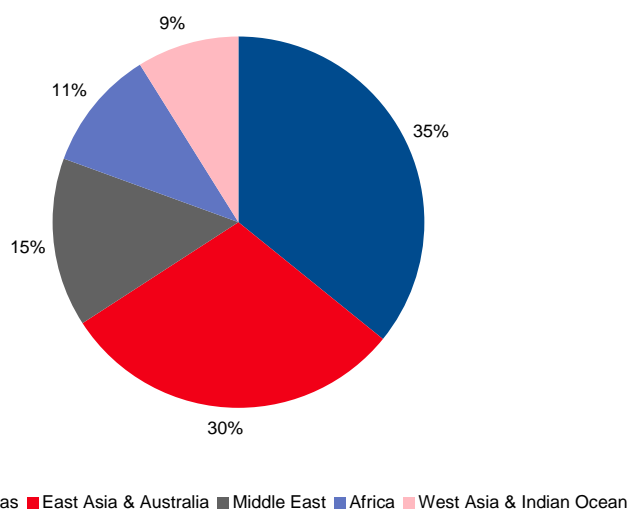
**Figure 5 Summary Statistics of Emirates Airlines**

	2006-07	2005-06	2004-05
Total Revenue (AED billions)	29.8	23.0	18.1
Net Profit (AED billions)	3.1	2.5	2.4
ASK (billions)	102.3	82.0	68.9
RPK (billions)	77.9	62.3	51.4
Seat load factor	76.2%	75.9%	74.6%
Passengers carried (millions)	17.5	14.5	12.5
Average distance flown (km's)	4,443	4,295	4,102

*17.5 million travelers  
flew Emirates in its  
last fiscal year 2006-07*

Sources: Emirates Annual Report

Figure 6 shows the distribution of Emirates' revenue by region. The fact that 65% of revenue is from Europe, the Americas, East Asia and Australia shows the focus of the airline on serving international long-haul destinations.

**Figure 6 Emirates Revenue by Geographic Segments (2006-07)**

*65% of Emirates' revenue is generated from flights from and to Europe, the Americas, East Asia, and Australia*

Sources: Emirates Annual Report

### *Etihad Airways*

Etihad Airways was formed in 2003, and is based in Abu Dhabi. Etihad has been growing at an impressive pace since its inception and is following in the footsteps of Emirates in establishing itself as an international carrier. Etihad has a fleet of 30 aircraft and has placed an order for another 28 wide-bodied aircraft, the largest wide-bodied aircraft order by a startup airline. Etihad Airways is fully owned by the government of Abu Dhabi.

### *Potential Entrants*

News has been circulating over the past two years regarding the establishment of RAK Airways as the fourth national airline of the UAE. In addition, a recent announcement in the news states that Fujairah Airways will be established as the fifth airline in the UAE. So far, no serious initiatives have been revealed by either of the two companies.

## SAUDI ARABIA

### *Saudi Arabian Airlines*

Saudi Arabian Airlines is based at King Abdulaziz International Airport in Jeddah and is wholly owned by the Saudi government. The airline also operates out of King Khalid International Airport in Riyadh and King Fahd International Airport in Dammam. Its fleet exceeds 100 aircraft and the airline conducts both local and international flights. A major source of the airline's business results from the importance of the kingdom as a religious destination.

### *NAS AIR*

NAS Air is the first low-cost carrier to make domestic flights in Saudi Arabia. NAS Air started operations on February 25, 2007.

### *Sama*

Sama is the second domestic carrier in Saudi Arabia operating according to the low-cost model. Sama started operations in May 2007, and currently has a fleet of four Boeing 737 aircraft. Sama announced its intent to increase its fleet in order to expand its network to other destinations in the Middle East.

## KUWAIT

### *Kuwait Airways*

Kuwait Airways is fully owned by the state of Kuwait and operates out of Kuwait International Airport. Kuwait Airways has a fleet of 17 aircraft and flies to 46 destinations. Kuwait Airways operates a point-to-point network with both long-haul and short-haul flights.

### *Jazeera Airways*

Jazeera Airways is the second low-cost carrier to be established in the Middle East. Jazeera Airways is based at Kuwait International Airport and uses Dubai International airport as a secondary hub. Jazeera Airways is a private company with the Boodai Group owning 30% and the remaining 70% owned by Kuwaiti nationals. Even though Jazeera Airways is a private company, it has been given the status of a national carrier by the Kuwait government. Jazeera Airways flies to 20 destinations in the Middle East, North Africa, Iran, and India. Jazeera Airways started operations on October 30, 2005, and currently has a fleet of five Airbus A320s. During the 2007 Paris Air Show, Jazeera Airways announced that it had placed an order for 35 Airbus A320s.

In its implementation of the low-cost carrier model, Jazeera Airways made some changes. The most significant change is that on most of its flights Jazeera Airways offers two cabin classes, economy and business. The business class, branded as Jazeera Plus, offers clients express check-in at passport controls and access to lounges. The Jazeera Plus seats are the same seats used for the economy class; however, one out of every three seats is kept vacant for passenger comfort. The second major change is that the two hubs that Jazeera operates from are major airports and not secondary airports.

Figure 7 presents a brief summary of the publicly disclosed 2006 performance data of Jazeera Airways.

**Figure 7 Summary of Jazeera's Performance in 2006**

*Jazeera Airways was profitable in the first full year of operation*

	2006
Revenue	KD 21.5 million
EBITDA	KD 7.3 million
EBITDA margin	34.0%
Net Profit	KD 2.5 million
Net Profit margin	11.6%
Passengers	600,618
Load factor	65.0%

Source: Jazeera Press Release

## QATAR

### *Qatar Airways*

Qatar Airways is the national airline of the state of Qatar and is based at Doha International Airport. Qatar Airways is another airline walking in the footsteps of Emirates by building an international hub-and-spoke network out of Doha International Airport. The airline currently has a fleet of 58 aircraft but has an order exceeding 100 new aircraft. The government of Qatar owns 50% of the airline, with the remaining 50% belonging to private shareholders.

## EGYPT

### *EgyptAir*

EgyptAir is the national airline of Egypt and is fully owned by the Egyptian government. Its main hub is Cairo International Airport. It currently has 45 aircraft in its fleet and flies to over 64 international destinations. In 2007, it launched a new subsidiary, EgyptAir Express, which will be flying domestic routes.

## JORDAN

### *Royal Jordanian*

Royal Jordanian (RJ) is the national airline of Jordan and operates out of Queen Alia International Airport in Amman. RJ has a fleet of 30 aircraft flying to 52 destinations. RJ is currently owned by the Jordanian government; however plans to privatize the company have been made.

## LEBANON

### *Middle East Airlines*

Middle East Airlines (MEA) is the national airline of Lebanon and is based at Beirut Rafic Hariri International Airport. MEA has a fleet of nine aircraft and currently flies to 26 destinations in Europe, Africa, and the Middle East. MEA is owned by the Central Bank of Lebanon (Banque du Liban).

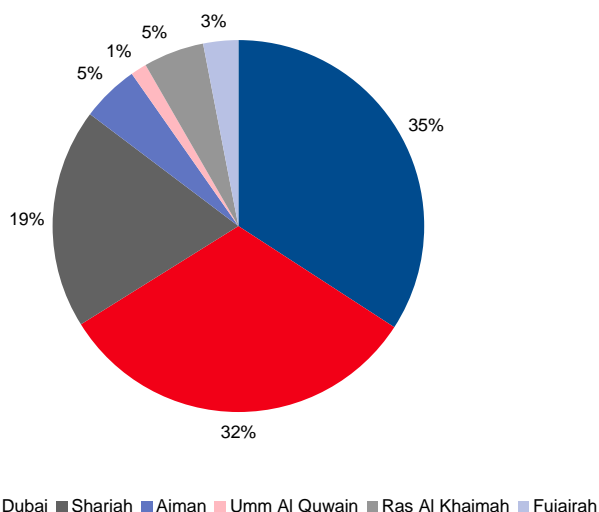
## UAE: FACTORS THAT FAVOR AIR ARABIA

### EXPATRIATE POPULATION

According to latest census conducted by the Ministry of Economy in the UAE, the number of people residing in the UAE is 3.8 million. An interesting fact regarding this figure is that 78% of the people in the UAE are non-nationals, a reflection of the huge expatriate population living in the country. Figure 8 shows the distribution of the UAE population by emirates. From Figure 8, it is easy to see that the two most important catchment areas for Air Arabia, Dubai and Sharjah, comprise 51% of the population in the UAE.

**Figure 8** Distribution of Population by Emirate

*51% of the people residing in the UAE live in Dubai and Sharjah*



Source: *Tedad Census 2005*

The census did not provide information concerning the countries from which the non-nationals came; however, anecdotal evidence suggests that around 60%-65% are from South Asia, 20%-25% are from Middle Eastern countries, and the rest are mainly from Western and East European countries. The diverse population that is present in the UAE comes mostly from countries that are within the radius of coverage of Air Arabia, thus a significant portion of the expatriate population travels (or would want to travel) to their home country in order to visit their friends and relatives. Since cost is a major obstacle for such visits, Air Arabia's low fares will appeal to this market and will most likely result in people increasing their frequency of travel.

### DISTANCE FROM SHARJAH TO DUBAI AND ABU DHABI

Dubai is just 15 kilometers away from Sharjah, thus it would take approximately 20 minutes by car without rush hour traffic. The proximity of Sharjah to Dubai allows people residing in Dubai to have quick access to Sharjah International Airport. Abu Dhabi, on the other hand, is about 200 kilometers away from Sharjah, which means it is an approximately 90-minute drive. This suggests that for people residing in Abu Dhabi, commuting to Sharjah might be a problem. Therefore, we expect that for the people

residing in Abu Dhabi, only the ultra price-sensitive travelers will consider flying Air Arabia.

### DUBAI AS A WEEKEND GETAWAY FOR NEARBY COUNTRIES

It is no secret that the UAE (Dubai in particular) is the most liberal among the GCC countries. Dubai, for many people living in the GCC, offers an opportunity to escape some of the restrictions imposed on them, thereby creating demand for travel to the UAE. The cheap fares of a low-cost carrier, such as Air Arabia, will permit people living in the GCC to travel to Dubai more frequently for a quick vacation. This is similar to the effect that low-cost airlines had on increasing demand for travel from Western European countries to Eastern European countries, since they are a cheaper weekend getaway; however, the case for Dubai is unlike the European situation insofar as the increased demand would result from Dubai's more liberal atmosphere.

## OPERATING MODEL OF A LOW-COST CARRIER

The term low-cost carrier is generally associated with airlines that aim to control operating costs by eliminating traditional passenger services in order to offer low fares. However, many tend to use the term low-cost carrier to refer to any airline that offers low fares and has eliminated some traditional services, regardless of whether it succeeded at achieving a low-cost structure. For low-cost carriers to be successful they must control their operating expenses, as there is very little leeway in raising fares, since their most competitive advantage over a full-service carriers is their low-price structure.

Southwest Airlines is credited with pioneering the low-cost carrier concept in the United States in 1971. Southwest Airlines started as an intra-Texas carrier and has grown to become the fourth largest airline in the United States. Southwest has proven that its operating model works by demonstrating continuous profitability since 1973, a record that no other U.S. carrier can match. Today, Southwest and jetBlue are the two most successful low-cost carriers in the United States. In the 1990s, the low-cost carrier concept was brought to Europe and was implemented most successfully by both Ryanair and easyJet. At the start of the new millennium, low-cost carriers began to emerge in Asia and Oceania with successful operators such as AirAsia and Virgin Blue. In the Middle East, Air Arabia was the first to introduce the concept and was later followed by Jazeera Airways and several other announcements of intent to set up low-cost carriers.

### OPERATING MODEL OF A LOW-COST CARRIER

The following is a summary of the operating model of a low-cost carrier as it appears in the book *Straight and Level: Practical Airline Economics* by Stephen Holloway.

#### *Service Design*

- High-frequency service on a predominantly short-haul point-to-point network
- Use of secondary airports in preference to major hubs
- High density, single class cabin configuration
- No assigned seating
- No catering or a limited pay-as-you-go service
- Few onboard amenities and a limited airport customer service
- Simple tariff structure, including one-way fares
- No frequent flyer program

#### *Process Design*

- Emphasis on direct sales, particularly over the Internet
- E-ticketing

- No hub service (i.e., passengers are not sold guaranteed connection flights and no transfer of baggage between flights)
- Lean administrative process that allows for quick decision making
- Outsourcing of non-core operations

#### *Productivity*

- High resource utilization, which is reflected in a low staff-to-passenger ratio and a high block hour for aircrafts
- Use of an automated revenue management system in order to maximize yield

#### *Fleet Structure*

- Standardized fleet of a single type of aircraft (usually an Airbus A320 or a Boeing 737)

### **DEVIATIONS FROM THE BASIC OPERATING MODEL**

It is important to note that not all low-cost carriers apply every attribute of the above mentioned operating model. Many airlines tend to customize the low-cost operating model to better suit the needs of the markets they serve. Such customizations may provide the airline with a competitive advantage over its rivals or enable them to carve out a niche market. For example:

- Southwest Airlines and jetBlue offer loyalty programs
- AirTran offers two cabin classes (business and economy)
- easyJet and jetBlue serve primary airports
- Many low-cost carriers offer assigned seating

Such deviations from the low-cost operating model do not come cheaply, but in many cases the implications they have on revenues may be well worth the cost.

## COMPANY OVERVIEW

### COMPANY BACKGROUND

Air Arabia is a regional low-cost carrier based at Sharjah International Airport in the UAE. The company was established in 2003, and is credited with being the first airline in the Middle East to implement the low-cost carrier operating model. As a low-cost carrier, Air Arabia offers air transportation at generally low fares without compromising safety.

Air Arabia currently operates a fleet of ten Airbus A320 aircraft and flies to 35 destinations in the Middle East, North Africa, and the Indian sub-continent.

Figure 9 presents a quick summary of Air Arabia's operating statistics for 1H2007.

**Figure 9 Summary of Air Arabia's Performance in 1H2007**

	1H2006	1H2007
Number of aircraft	7	9
Destinations	28.0	35.0
Number of passengers (millions)	0.8	1.2
RPK (billions)	1.4	2.2
ASK (billions)	1.7	2.7
Load factor	80.0%	83.0%

Source: Air Arabia

*The operating statistics of Air Arabia in 1H2007 show a significant improvement*

### STRATEGY

Air Arabia's strategy aims to fulfill the following goals:

- Continued focus on the low-cost model
  - Offer the lowest fares in the MENA region while remaining profitable
  - Focus on lowering costs and achieving high operational efficiency
  - Optimize aircraft utilization by implementing a point-to-point system
  - Use a single aircraft type in order to limit employee training costs, maintenance, and spare parts purchasing
- Expand existing network
  - Add new destinations in the Indian Sub-continent, MENA, the Eastern Mediterranean, and the Commonwealth of Independent States
  - Increase the frequency of existing routes
  - Evaluate the possibility of expanding into a new hub

- Achieve growth from complementary services
  - Focus on growing revenue from complementary services
  - improve overall profitability through revenue from complementary services
- Seek strategic acquisition opportunities

## FLEET EXPANSION

Currently, Air Arabia has ten planes in its fleet, all of which are leased. Air Arabia plans to significantly increase the number of planes it operates to reach around 40 aircraft by the year 2015. Air Arabia will make the switch from leasing to owning the planes it operates. The company is in the process of placing orders for new aircraft that will start to be delivered in 2013. Up until the delivery of the first owned aircraft, Air Arabia will continue expanding its fleet by leasing an average of four airplanes per year.

## DISTRIBUTION CHANNELS

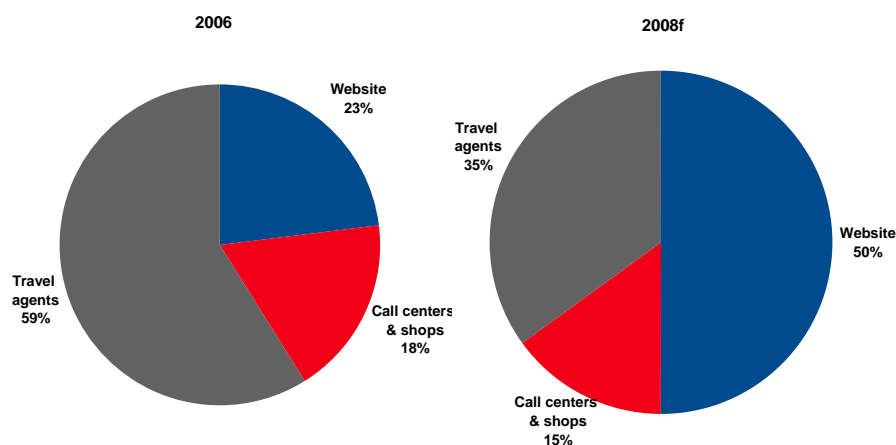
Air Arabia tickets are sold through the following distribution methods:

- **Website:** Online booking is a very efficient distribution method for airlines. This distribution method reduces the required number of back office staff, in addition to reducing the payment cycle. Also, website sales provide the added benefit of allowing the company to compile a database of its clients.
- **Call centers and shops:** Air Arabia realizes that a significant portion of their target market does not have credit cards and thus will not be able to make online purchases. For this reason, Air Arabia has set up call centers and sales shops for walk-in clients.
- **Travel agents:** Changing paradigms does not happen overnight, which is why Air Arabia has opted to sell through travel agents, a method generally not followed by low-cost carriers. Air Arabia sells through travel agents without going through third party reservation systems, thus it does not pay third party fees. Air Arabia does not pay fees for travel agents; rather, travel agents are permitted to add their own service charge to the price of the ticket. Air Arabia chooses to reward travel agents that generate considerable sales with a service commission as a form of encouragement. Management believes that reliance on this distribution method will decline in the future.

Figure 10 shows the percentage of the sales generated from each distribution channel in 2006 and management's expectation for 2008.

Figure 10 Distribution Channels

*Air Arabia expects to generate 50% of its sales through its website in 2008*



Sources: Air Arabia

## OTHER REVENUE

Besides ticket sales, Air Arabia generates revenue by providing ancillary and cargo services. Even though these revenue sources represent only a small portion of total revenue (3.3% in 2006), they have a significant impact on the company's overall profitability. Below is a brief summary of the other sources of revenue for Air Arabia:

### *Cargo*

In 2005, Air Arabia started to offer cargo services, thereby increasing the revenues generated from its flights. Even though this revenue segment is expected to increase as more planes join the fleet, it will always be a small portion of total revenues. This is due to the nature of the Airbus A320, which does not permit loading a significant amount of cargo along with passenger luggage.

### *Baggage*

Air Arabia, like most airlines, charges passengers for extra baggage. This revenue is very important for low-cost carriers, which generally are very strict in applying the rules pertaining to baggage allowance.

### *Service Income*

Service income represents revenue generated from Air Arabia Holidays and in-flight sales. Air Arabia Holidays currently offers vacation packages and hotel reservation services. Management has plans to expand the reach of Air Arabia Holidays by providing a website and setting up sales shops.

## COMPETITION

Air Arabia faces competition from all airlines that travel on any of the routes in its network. If we consider that Air Arabia provides air transport out of the UAE, then Emirates and Etihad will be its two major competitors, as their networks would overlap with Air Arabia on many of its routes. However, since it is a 90-minute drive from Abu Dhabi to Sharjah, the level of competition between Air Arabia and Etihad is generally low. This would make Emirates the most prominent competitor to Air Arabia, especially given that the two airlines have 22 routes in common. Two factors will play to Air Arabia's advantage in this matter: The fact that Air Arabia would appeal more to price-sensitive travelers and the fact that the routes that overlap in the networks of Air Arabia and Emirates are not the most important routes for Emirates in terms of revenue generation.

Another important competitor for Air Arabia is Jazeera Airways, which recently started a relatively limited operation out of Dubai. Air Arabia and Jazeera Airways currently have seven routes in common, but at the time, Air Arabia appears to have the advantage. Even though both airlines are low-cost carriers, Air Arabia's operation out of Sharjah will provide it with a cost advantage and the ability to schedule its flights at more convenient times for travelers. As the network of Jazeera expands out of Dubai, we expect that the competition between these two airlines will become more intense. We foresee that Air Arabia will be more attractive to ultra price-sensitive travelers while Jazeera Airways will be favored by price-sensitive business travelers.

## RECENT IPO

Air Arabia successfully raised AED 2.57 billion through its IPO in March 2007. In order to go public, the company changed its legal structure from a limited liability company to a public joint stock company. Air Arabia P.J.S.C. (Air Arabia) was incorporated on June 19, 2007 and the assets and liabilities of Air Arabia Company L.L.C. were transferred as an in-kind contribution for a 30% interest. This was followed by a cash contribution of AED 700 million from the founders for another 15% interest. Thus, the founders now own 45% of Air Arabia while the public owns 55%.

## FINANCIAL OVERVIEW

### MAJOR FORECAST ASSUMPTIONS

#### *Fleet*

- Based on input provided from management regarding Air Arabia's fleet expansion strategy, we assumed that all new aircraft joining Air Arabia's fleet will be leased until 2013, the year when the first of the ordered aircraft will join the fleet.
- Another major assumption we made is that all newly leased aircraft will be leased for a period of 6 years and all options to extend current leases will be exercised.
- Also, we assumed that until 2012, an average of four new planes will be leased per year, regardless of the number of planes that exit the fleet in the year.
- Regarding the purchase of planes, we assumed that Air Arabia will place an order for 34 new planes, of which eight or nine aircraft will be delivered per year starting 2013. We used an average cost per plane of AED 200 million. The payment schedule used for the planes is 2% upon placing the order and the remaining balance paid in the last two years prior to delivery.
- We assumed that all new planes, both leased and purchased, will be Airbus A320 with a similar configuration to the ones currently operated by Air Arabia.

#### *Output and Revenue*

- Regarding the output of Air Arabia, we assumed that it will grow in proportion to the average number of aircraft present during the year.
- Following 2007, we assumed that Air Arabia's yield will grow at a rate of 3% per year.

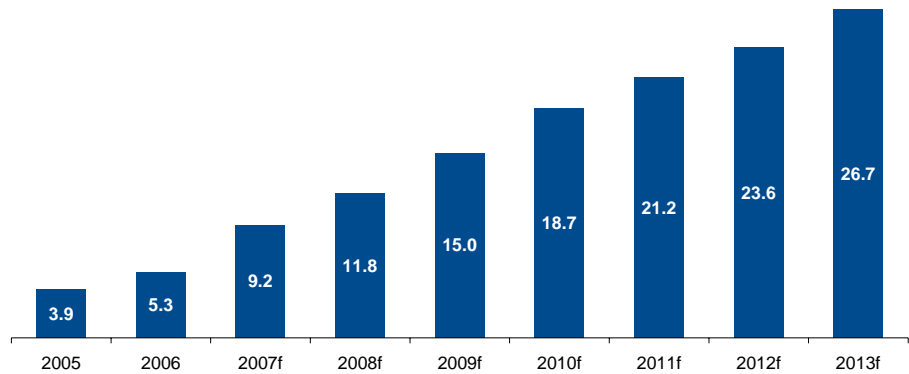
### OUTPUT

#### *Average Number of Aircraft*

The output produced by an airline is directly related to the number of aircraft it operates and the distance traveled by the aircraft on each route. To estimate the output that Air Arabia will generate for a given year, we look at the average number of aircraft for the year. The average number of aircraft allows the inclusion of the last months of operation for aircraft exiting the fleet. Also, it prevents overestimating output by including the months before new planes join. Figure 11 shows the average number of aircraft for the year. In our forecasts we assume that Air Arabia will have an average of 26.7 aircraft in its fleet in 2013.

Figure 11 Number of Aircraft

*We forecast that the average number of aircraft will reach 26.7 by 2013*



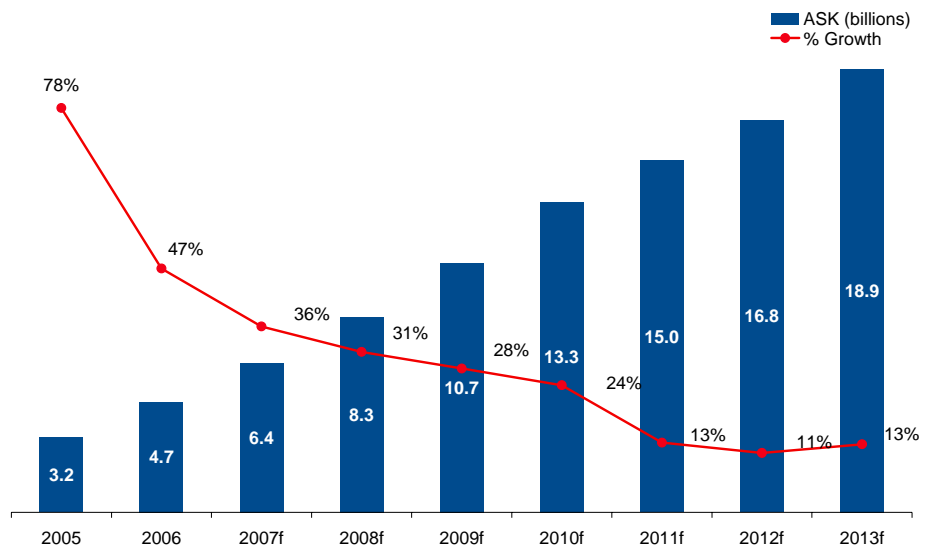
Source: Air Arabia and MENA Equity Research

ASK

In the airline industry, output is measured by multiplying a seating unit by the distance flown, and the most common measure for output is available seat-kilometers (ASK). ASK represents one seat, irrespective of whether it is filled, flown one kilometer. From Figure 12 we see that in 2005, Air Arabia had a total output of 3.2 billion ASKs, while in 2006, total output increased by 47% to 4.7 billion ASKs.

Figure 12 ASK Forecast

*We forecast that total output for 2007 will be 6.4 billion ASKs*



Source: Air Arabia and MENA Equity Research

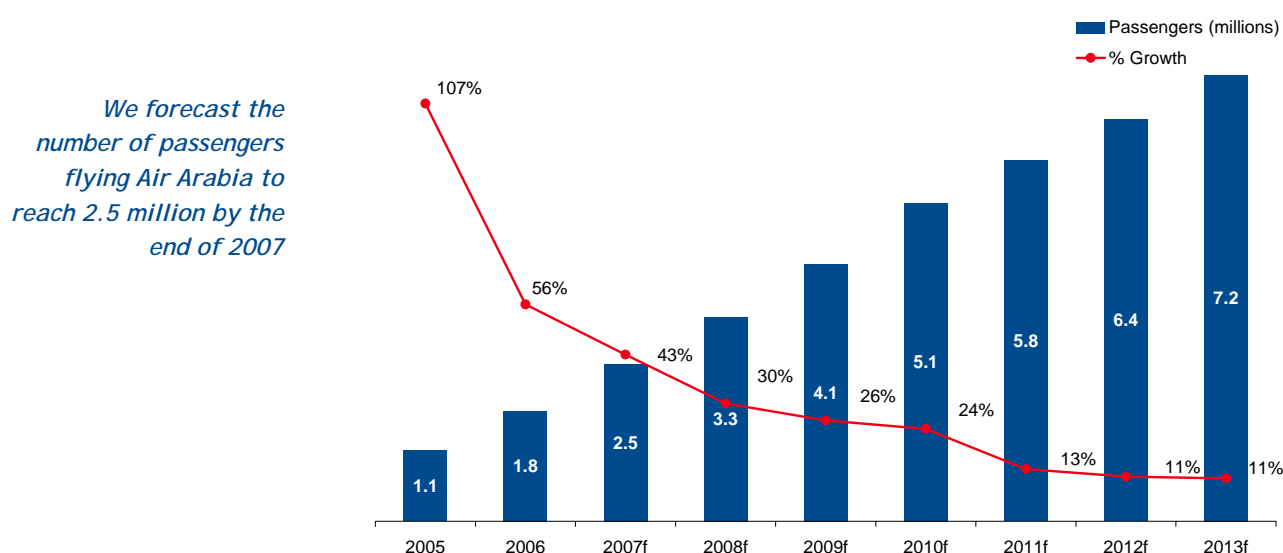
For the first half of 2007, Air Arabia's output was 2.7 billion ASKs, and we forecast that total output for 2007 will be 6.4 billion ASKs, representing a 36% increase over the output in 2006. As new aircraft join the Air Arabia fleet, we forecast that output will increase accordingly and that output will reach 18.9 billion ASKs by 2013.

## TRAFFIC AND YIELD

### Passengers Enplaned

As expected from a newly formed airline, the number of passengers flying Air Arabia has been increasing at a high rate. From Figure 13 we see that the number of passengers enplaned in 2005 exceeded one million, which represents an increase of 107% over 2004, the first full year of operations for Air Arabia. The number of passengers grew by 56% in 2006, to reach 1.8 million.

Figure 13 Passengers Enplaned



Sources: Annual reports and MENA Equity Research

For the first half of 2007, the number of passengers flying Air Arabia reached 1.2 million and we forecast that the number will reach 2.5 million by the end of the year, representing a 43% year-on-year growth. We expect this strong growth in the number of passengers flying Air Arabia to continue, but with a gradual decline over the coming years. We forecast that the number of passengers flying Air Arabia will reach 7.2 million by 2013.

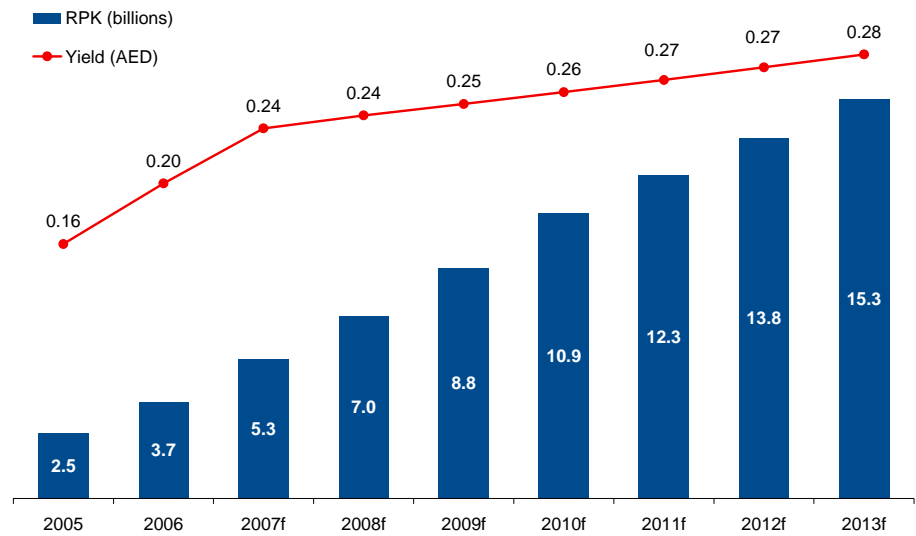
### RPK and Yield

Revenue passenger-kilometers (RPK) is an industry measure used to measure traffic and is equal to the total number of passengers enplaned multiplied by the average distance flown. Yield is the revenue generated per RPK. RPK and yield should be examined simultaneously, as this will help determine if the airline is gaining market share at the expense of profits. Figure 14 shows that Air Arabia's RPK reached 3.7 billion in 2006, marking a 48% increase over 2005. Since the growth in RPK for 2006 is less than

the growth in the number of passengers, it suggests that the average distance flown in 2006 was shorter than in 2005. The fact that RPK and yield are both increasing shows that Air Arabia is gaining market share and at the same time raising its average fare, a sign of a solid revenue management system at work.

**Figure 14 RPK and Yield**

*We forecast that Air Arabia's RPK will reach 5.3 billion by 2007*



Sources: Air Arabia and MENA Equity Research

For 1H2007, Air Arabia had an RPK of 2.2 billion and a yield of AED 0.23, while we forecast that the company will end the year with an RPK of 5.3 billion and a yield of AED 0.24. Our forecasts show that the RPK will continue to grow to reach 15.3 billion by 2013. Also, we forecast that yield will continue to increase, but at a much slower pace than the growth in RPK, to reach AED 0.28 by 2013.

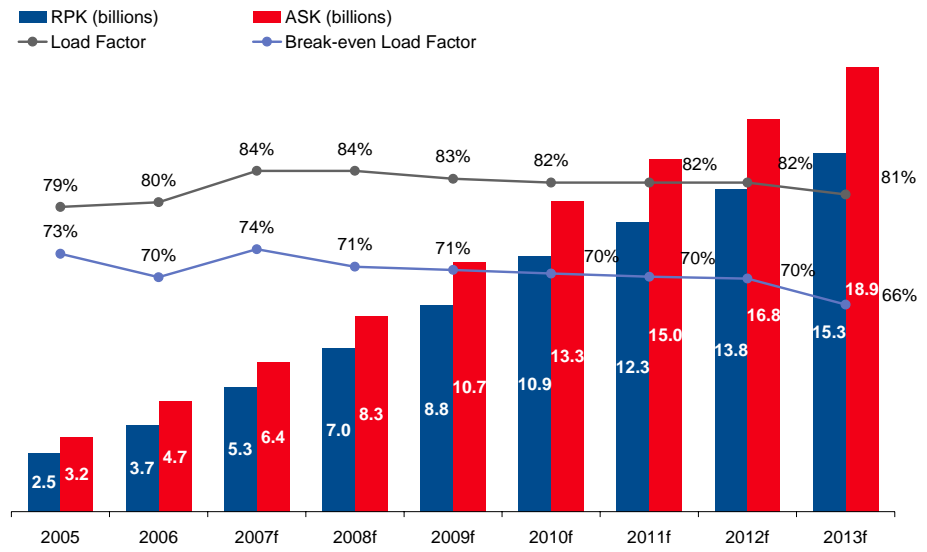
**Load Factor**

Load factor is a measure of output utilization and is calculated by dividing total RPK by total ASK. Figure 15 shows Air Arabia's actual load factor in 2005 and 2006, and our forecast until 2013. The load factor for Air Arabia was 79% and 80% for 2005 and 2006 respectively. For the first half of 2007, Air Arabia's load factor was 83% and we forecast that it will improve to 84% by the end of the year. After 2007, we forecast that the load factor for Air Arabia will fall slightly, and settle at the 82% level.

The break-even load factor shows the percentage of output that needs to be utilized, given the current yield, to cover all operating costs. Air Arabia's break-even load factor for 2006 was 70%, which means that if Air Arabia lost 12.5% of its passengers it would not have been able to record an operating profit for the year. We forecast that the break-even load factor will decline on a year-by-year basis to reach 66% by 2013. The decline in the break-even load factor is a reflection of the operational efficiency that we expect Air Arabia to achieve as a result of the fleet expansion.

Figure 15 ASK and Load Factor

*We forecast a decline in the break-even load factor, a reflection of improvements in operational efficiency*



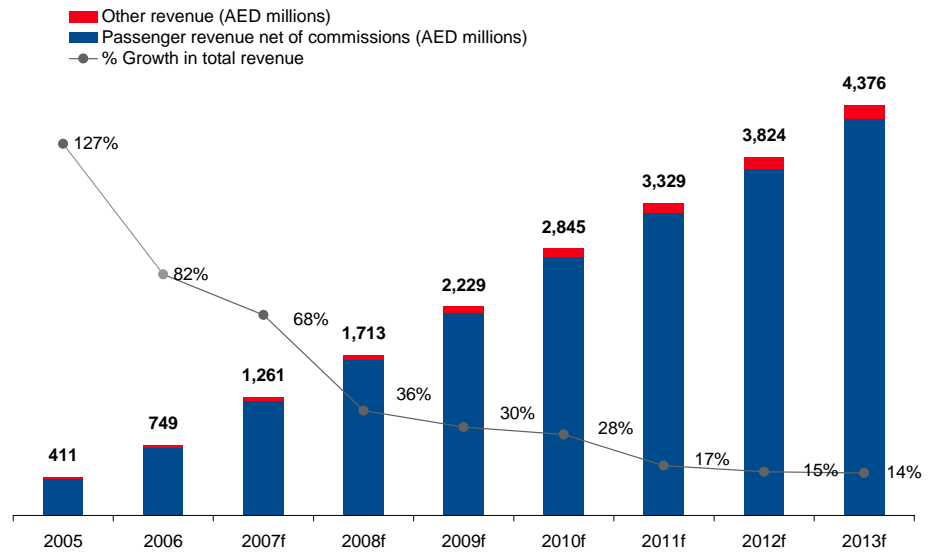
Source: Air Arabia and MENA Equity Research

Revenue

The growth in both RPK and yield are reflected in Air Arabia's revenue. Figure 16 shows the total revenue for Air Arabia since 2005 and our forecast until 2013. In 2005, Air Arabia's revenue increased by 127% to reach AED 411 million. Growth in revenue slowed down to 82% in 2006, with total revenue generated for the year reaching AED 749 million. Total revenue for 1H2007 was AED 513 million and we forecast that total revenues for 2007 will reach AED 1,261 million. Figure 16 graphically separates passenger revenue net of commissions from other ancillary revenue (cargo revenue, baggage revenue, and service income). We can see that other revenue represents just a small portion of revenue; however, we ought not to underestimate the importance of other revenue in the airline industry as it can make the difference between an operating profit and a loss. Around 23% of Air Arabia's net income for 2006 would disappear if we take out other revenue. As is evident from Figure 16, we forecast that Air Arabia's revenue will reach AED 4.4 billion by 2013.

Figure 16 Total Revenue

We forecast that Air Arabia's revenue will reach AED 4.4 billion by 2013



Sources: Air Arabia and MENA Equity Research

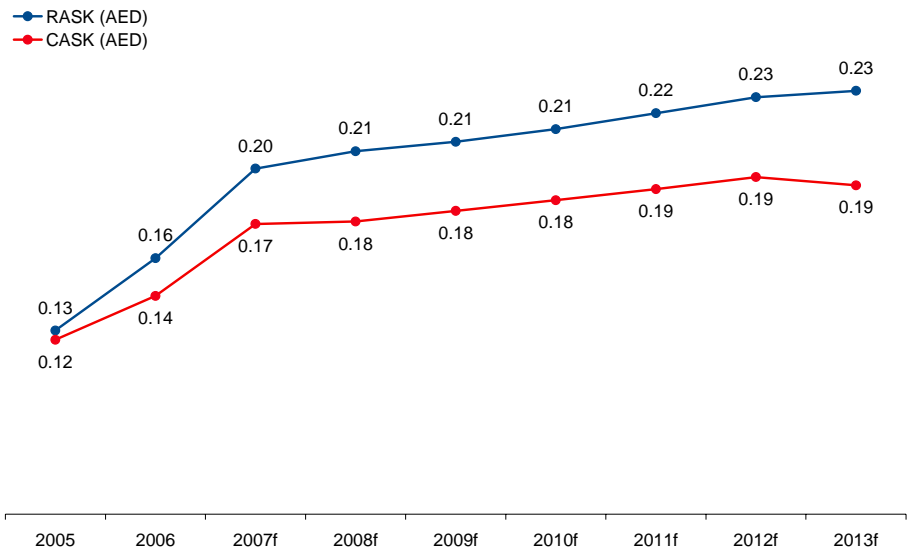
UNIT COSTS AND PROFITABILITY

RASK and CASK

One of the most common ways of assessing an airline's profitability is by comparing the revenues per ASK (RASK) with the costs per ASK (CASK). Figure 17 shows Air Arabia's RASK compared with its CASK.

Figure 17 RASK and CASK

Comparing RASK and CASK is one of the best ways to measure an airline's profitability



Source: Air Arabia and MENA Equity Research

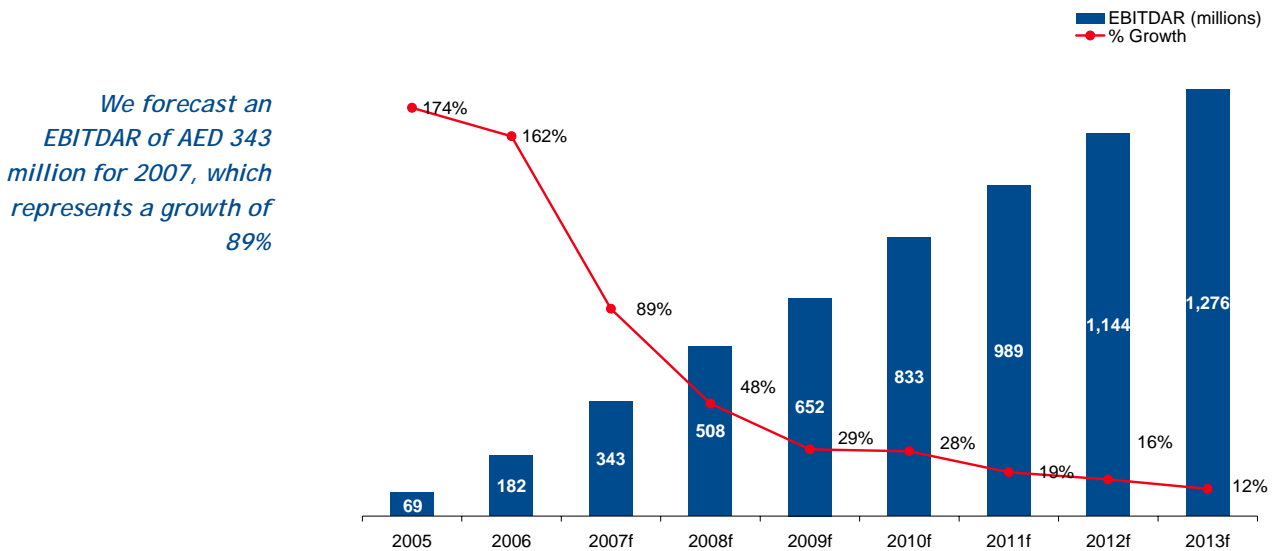
The profitability of Air Arabia improved in 2006, as RASK increased from AED 0.13 to AED 0.16, while at the same time CASK increased from AED 0.12 to AED 0.14. Thereby, the profitability per ASK increased from AED 0.01 in 2005, to AED 0.02 in 2006. For 2007, we forecast that the profitability per ASK will improve further to reach AED 0.04. As can be seen from Figure 17, we expect both RASK and CASK to grow but with the profitability per ASK ranging between AED 0.03 and AED 0.04.

**EBITDAR**

EBITDAR (earnings before interest, taxes, depreciation, amortization, and rent) is another figure regularly examined in the airline industry. Basically, it is very similar to EBITDA, except that it excludes any lease payments made by the company. In the airline industry, EBITDAR helps in comparing the operating performance of an airline against its rivals and against its own performance in previous years regardless of the financing mechanism used to obtain its aircraft. Through the use of EBITDAR, we can compare the operating performance of an airline that leases its aircraft to one that buys them.

Figure 18 shows Air Arabia's EBITDAR for 2005 and 2006 and our forecast until 2013. Air Arabia's EBITDAR grew by 174% and 162% in 2005 and 2006, respectively; however, we do not expect the continuation of these high figures as Air Arabia's network moves closer to maturity. For 2007, we forecast that Air Arabia's EBITDAR will increase by 89% and reach AED 343 million, implying an EBITDAR margin of 27.2%. In our forecast we show that Air Arabia's EBITDAR will continue to grow to reach AED 1,276 million by 2013.

**Figure 18 EBITDAR Margin**



*We forecast an EBITDAR of AED 343 million for 2007, which represents a growth of 89%*

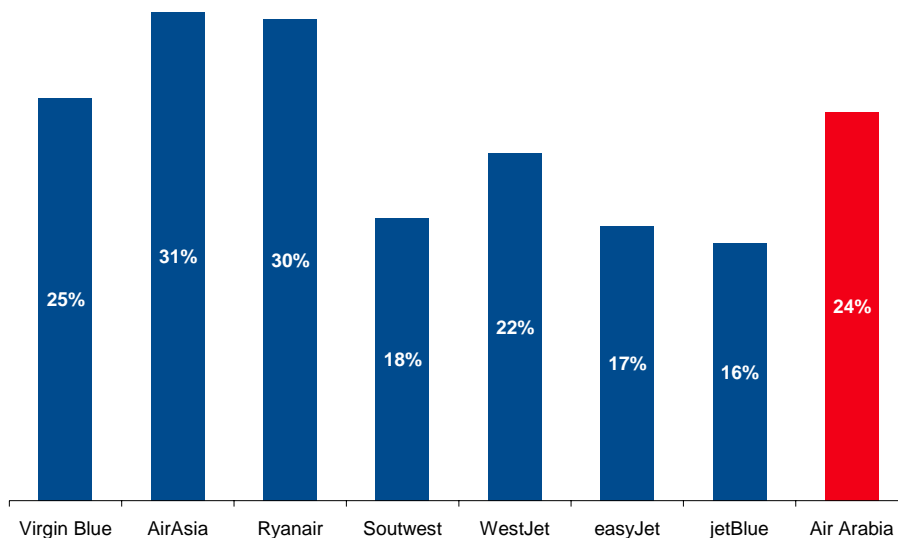
Source: Air Arabia and MENA Equity Research

Figure 19 compares Air Arabia's EBITDAR margin for 2006 with the EBITDAR margin of other low-cost carriers from across the world. Considering that 2006 was the second full year of operations for Air Arabia, its EBITDAR margin of 24% looks very strong compared to its global peers. This comparison helps to show that Air Arabia has

successfully implemented the low-cost operating model and has been able to achieve impressive levels of profitability in a short period of time.

Figure 19 Peer EBITDAR Margin for Last Fiscal Year

*Air Arabia's EBITDR looks very strong in comparison with its global peers*



Source: Annual Reports and MENA Equity Research

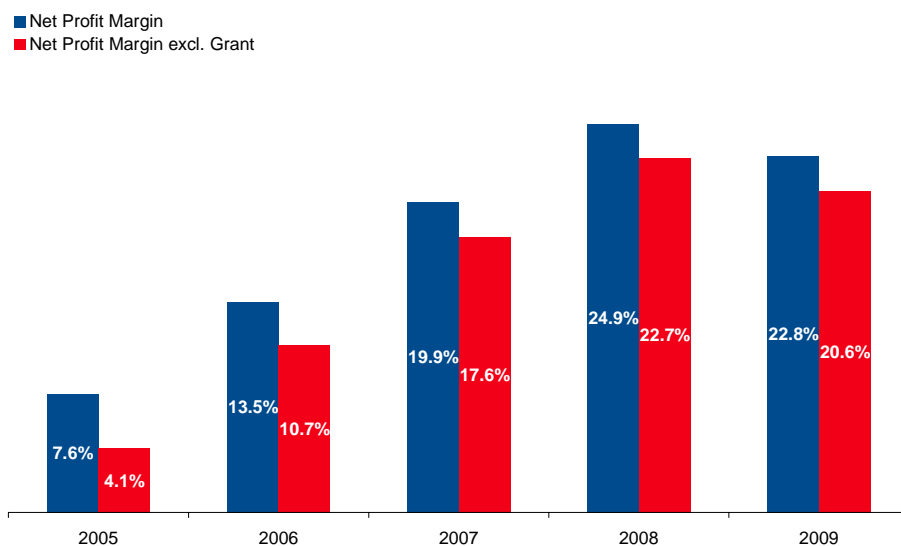
### WAIVER FROM SHARJAH AIRPORT AUTHORITY

Due to the symbiotic nature of the relationship between Air Arabia and the Sharjah Airport Authority, the latter granted the former a waiver for all ground handling, landing, and parking charges until the end of 2007. Figure 20 shows the effect of the waiver on the net profit margin of Air Arabia for the years that it received the waiver. and for the years in our forecast we assume the waiver will continue to be granted. As we can see from Figure 20, the waiver had an important effect on profitability in 2005, since Air Arabia's net profit margin would have dropped from 7.6% to 4.1% without the waiver. Moving forward, the effect of the waiver on the overall profitability will decline, but will continue to represent 2% to 3% of total revenue.

We would like to point to the transparency of reporting the waiver transaction in Air Arabia's financial statements. All ground handling, landing, and parking charges are recorded as operating expenses, while the waiver is recorded as part of non-operating income. This helps in analysis of the company going forward, when the waiver might no longer be granted.

Figure 20 Effect of Waiver

*Without the waiver, Air Arabia's net profit margin would have declined from 7.6% to 4.1% in 2005*



Sources: Annual reports and MENA Equity Research

## FUEL COSTS

Fuel costs constitute the largest expense for Air Arabia and in 2006 it comprised 32% of total revenue. Over our forecast period, fuel costs will continue to be the largest operating expense for Air Arabia, ranging from 31% to 32% of passenger revenue. For our forecast we applied a gradual increase in fuel prices and maintained Air Arabia's fuel consumption levels. Even though we expect that fuel prices will be much more volatile than what we incorporated into our forecasting model, we believe that any significant increase or decline in fuel prices will be passed on to the consumers in the form of adding or removing fuel surcharges.

Air Arabia has a fuel hedging strategy that it has only used once, so far. The rationale behind this limited use of fuel hedging is that fuel prices are currently high and locking in to a high price could lead to hedging losses.

## FINANCIAL HEALTH

Air Arabia has no debt on its balance sheet and after its IPO, it has a large amount of cash. Even before the IPO, Air Arabia has shown its ability to meet all its operating lease obligations and grow its cash balance. Moving forward, we believe that Air Arabia has enough cash and untapped borrowing capability to pursue its expansion strategy.

## GOODWILL

The incorporation of Air Arabia P.J.S.C. on June 19, 2007, resulted in the creation of a goodwill value of AED 1.3 billion. Currently we are not concerned about this figure as it appears to have been fairly valued. For our forecast, we assumed that no write off of goodwill will take place.

## FINANCIAL STATEMENTS

Balance Sheet (AED Thousands)				Forecast					
Fiscal Year Ends December	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>ASSETS</b>									
Cash and Short-Term Investments	47,642	99,560	182,156	3,520,255	3,640,760	3,975,500	4,366,228	4,008,821	2,739,302
Total Receivables, Net	15,516	35,841	74,760	126,107	170,679	221,645	282,289	329,660	378,287
<b>Total Current Assets</b>	<b>63,158</b>	<b>135,402</b>	<b>256,916</b>	<b>3,646,361</b>	<b>3,811,439</b>	<b>4,197,146</b>	<b>4,648,518</b>	<b>4,338,480</b>	<b>3,117,589</b>
Property/Plant/Equipment, Total - Net	2,724	4,118	40,300	138,300	367,300	455,300	533,300	1,395,300	3,041,300
Goodwill, Net	-	-	-	1,320,860	1,320,860	1,320,860	1,320,860	1,320,860	1,320,860
Long Term Investments	16,601	34,136	27,168	27,803	28,577	29,504	30,598	31,876	33,358
Other Long-Term Assets, Total	12,159	21,058	43,148	66,484	101,973	145,719	194,810	245,540	290,413
<b>TOTAL ASSETS</b>	<b>94,642</b>	<b>194,715</b>	<b>367,531</b>	<b>5,199,809</b>	<b>5,630,150</b>	<b>6,148,529</b>	<b>6,728,086</b>	<b>7,332,057</b>	<b>7,803,520</b>
<b>LIABILITIES &amp; EQUITY</b>									
Accounts Payable	28,527	59,754	118,368	210,297	276,137	361,923	462,180	537,758	615,825
Other Current Liabilities, Total	15,345	41,721	65,449	125,674	170,204	221,123	281,714	329,027	377,591
<b>Total Current Liabilities</b>	<b>43,872</b>	<b>101,475</b>	<b>183,817</b>	<b>335,971</b>	<b>446,340</b>	<b>583,046</b>	<b>743,894</b>	<b>866,785</b>	<b>993,416</b>
Long-Term Debt	-	-	-	-	-	-	-	-	-
Other Liabilities, Total	12,323	10,765	9,751	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>56,196</b>	<b>112,240</b>	<b>193,568</b>	<b>335,971</b>	<b>446,340</b>	<b>583,046</b>	<b>743,894</b>	<b>866,785</b>	<b>993,416</b>
<b>Total Equity</b>	<b>38,446</b>	<b>82,475</b>	<b>173,964</b>	<b>4,863,838</b>	<b>5,183,810</b>	<b>5,565,483</b>	<b>5,984,191</b>	<b>6,465,272</b>	<b>6,810,103</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>94,642</b>	<b>194,715</b>	<b>367,531</b>	<b>5,199,809</b>	<b>5,630,150</b>	<b>6,148,529</b>	<b>6,728,086</b>	<b>7,332,057</b>	<b>7,803,520</b>
Income Statement (AED Thousands)				Forecast					
Fiscal Year Ends December	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Revenue	181,308	411,181	749,165	1,261,377	1,712,538	2,229,135	2,845,121	3,329,202	3,823,832
Cost of Revenue	156,674	358,865	615,667	1,013,549	1,336,856	1,754,445	2,244,851	2,611,466	2,990,188
<b>Gross Profit</b>	<b>24,634</b>	<b>52,316</b>	<b>133,498</b>	<b>247,828</b>	<b>375,682</b>	<b>474,690</b>	<b>600,269</b>	<b>717,736</b>	<b>833,643</b>
Selling/General/Admin. Expenses	24,589	36,154	51,267	64,071	78,898	95,676	115,372	129,198	143,438
Depreciation/Amortization	1,805	3,567	6,353	32,652	45,753	64,157	81,930	99,917	118,049
<b>Operating Income</b>	<b>(1,760)</b>	<b>12,595</b>	<b>75,877</b>	<b>151,105</b>	<b>251,030</b>	<b>314,857</b>	<b>402,967</b>	<b>488,621</b>	<b>572,156</b>
Interest Income (Exp), Net Non-Operating	203	(45)	1,283	68,017	134,299	140,500	151,612	148,978	113,503
Other, Net	1,127	18,759	23,985	31,894	41,300	53,541	3,698	3,843	4,002
<b>Net Income</b>	<b>(430)</b>	<b>31,309</b>	<b>101,145</b>	<b>251,016</b>	<b>426,629</b>	<b>508,898</b>	<b>558,277</b>	<b>641,442</b>	<b>689,662</b>

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