

# EQUITY REPORT

Palestine Development  
and Investment  
(PADICO.PS)

### Economic & Sector Overview

- Despite the ongoing political instability in the Palestinian territories, the "transport, storage and communications", trade, real estate, and "hotels and restaurants" sectors managed to achieve higher-than-expected growth in the first nine months of 2006.
- Preliminary figures unveiled that real GDP growth in the Gaza Strip & remaining West Bank retracted by 3.6% during the first three quarters of 2006 against the same period in 2005 as a result of the Western aid freeze. This compares with an expansion of 4.9% and a real per capita growth of 1.8% to USD1,268 in 2005.
- Manufacturing topped the list of contributors to GDP among the commodity-producing sectors, making 13.4%–10.7% of GDP between 2001-2005. The manufacturing industry has dramatically improved due to the PNA's investment-friendly policies and bold private sector's initiatives. The sector is mainly comprised of light and medium-sized manufacturing facilities.
- Construction is also one of the leading sectors in the West bank and the Gaza Strip.
- The Israeli withdrawal from the Gaza Strip and some parts of the West Bank in September 2005 helped the sector register a high year-on-year growth of 15.1%. The construction's share in the economy slightly dropped from 2.8% during the first three quarters of 2005 to 2.5% in the corresponding period of 2006. Nevertheless, the total number of issued building licenses increased by 15.6% in the second quarter of 2006 compared to the same quarter of 2005 and by 35.7% against the second quarter of 2004.
- The real estate, renting, and business services sector expanded by 4.2% in 2005. Although the sector shrank by 1.1% in the first nine months of 2006, its contribution to GDP inched up to 10.6% from 10.4% in the first three quarters of 2005.
- A further boom in construction is expected in the coming years in tandem with the projected population growth, and consequently, higher demand for real estate projects. However, political instability might cast a shadow on these forecasts.
- The "hotels and restaurants" sector continued to grow in 2006. Preliminary figures showed that the sector registered a 10.2% growth during the first nine months of 2006.

Macro Economic Indicators in the Gaza Strip & Remaining West Bank*						In USD million	
	2001	2002	2003	2004	2005	2005 (3Qtrts)	2006 (3Qtrts)
Real GDP	3,917.8	3,556.4	3,995.	4,247.7	4,456.4	3,270.10	3,152.70
Real GDP Growth	-8.1	-9.2	12.3	6.3	4.9	-	-3.6
Real Per Capita GDP in USD	1,301.0	1,191.3	1,184.8	1,246.2	1,268.	934.7	870
<b>Manufacturing</b>	504.60	476.30	450.70	477.70	476.50	363.8	292.9
Sector's Contribution to GDP	12.88	13.39	11.28	11.25	10.69	11.13	9.29
Sector's Growth	-11.55	3.98	-15.76	-0.31	-4.92	-	-16.49
<b>Construction</b>	85.5	67.5	96.9	103.7	119.4	90.7	79.4
Sector's Contribution to GDP	2.2	1.9	2.4	2.4	2.7	2.8	2.5
Sector's Growth	-68.4	-21.1	43.6	7.0	15.1	-	-12.5
<b>Real Estate, Renting, and Business Services</b>	444.6	392.7	404.1	428.9	446.8	338.7	334.9
Sector's Contribution to GDP	11.3	11.0	10.1	10.1	10.0	10.4	10.6
Sector's Growth	-21.5	-11.7	2.9	6.1	4.2	-	-1.1
<b>Hotels &amp; Restaurants</b>	104.4	60.7	58.0	61.8	68.1	50.2	55.3
Sector Contribution to GDP	2.7	1.7	1.5	1.5	1.5	1.5	1.8
Sector Growth	11.4	-41.9	-4.4	6.6	10.2	-	10.2

Source: Palestinian Central Bureau of Statistics, (\*) Remaining West Bank : Includes all the West Bank except for those parts of Jerusalem which were annexed after the 1967 Israeli occupation.

### Company Background

- With a paid-up capital of USD200 million, PADICO was established in 1993 as a holding company that operates through investing in its subsidiaries and affiliates.
- Through its vast investments locally and abroad, the company seeks to help rebuild the Palestinian economy and contribute to the development of the local community through creating job opportunities and luring investors.
- To achieve its goals, PADICO invests in local, regional, and international markets and financial instruments. It allocates its huge assets to long-term and short-term investments in the form of direct and indirect investments in subsidiaries and affiliates.
- PADICO, a main pillar of the Palestinian economy, also acts as an umbrella for a group of companies - affiliates and subsidiaries - operating in various sectors such as tourism, construction, industrial, real estate, as well as consulting services.

PADICO's Subsidiaries as in September 2006		
Company	PADICO's Holdings (%)	Subscribed Capital (million)
Jerusalem Tourism Investment	95.2	USD25
Palestine Industrial Investment	59.3	JOD18.75
Palestine Poultry	54.4	JOD9.40
Palestine Plastic Industries	47.8	JOD5.00
Palestine Securities Exchange	80	USD10.0

Source: PADICO

PADICO's Affiliates as in September 2006		
Company	PADICO's Holdings (%)	Subscribed Capital (million)
Palestine Real Estate Investment	34.5	JOD50.0
Al- Mashtal Tourism Investment	40.74	USD24.0
Palestine Electrical and Electronics	25.1	JOD3.60
Palestine Telecommunications	28.5	JOD131.6
Palestine Industrial Estates Dev. & Management	34.8	USD10.0
Palestine Industrial Estate Development (Holding)	41.5	USD50.0
National Electricity	20.5	USD100

Source: PADICO

### Current Situation

- In February 2006, PADICO's management revealed that the company, along with strategic investors, plans to invest USD800 million in residential projects as well as in other sectors such as cement, aluminum, iron, education, health, and infrastructure across Palestine. However, these investments were suspended from execution due to the continued Israeli offensive on the Palestinian territories.
- In 2006, PADICO announced that it will offer 50% of its stake in the Palestine Securities Exchange (PSE), where it holds a majority 80% of shares, in an Initial Public Offering (IPO). The plans were shelved until the first quarter of 2007 due to the downward trend of the PSE in 2006 and the liquidity shortage in the market, which exacerbated following the January election of the Hamas government.
- The company invests around 55%-60% of its assets in Arab stock markets, and the remainder is being invested in the Palestinian market.
- After the Israeli withdrawal from the Gaza Strip - in September 2005, PADICO founded a USD100 million mutual fund there. Another USD60 million fund was established in the northern part of the West Bank. These funds were registered but are still awaiting positive political developments to be launched.
- Palestine Telecommunications is considered PADICO's biggest investment, with a holding of 28.5% of total shares. PADICO will join hands with its affiliate PALTEL in several projects in regional and international markets. Worth noting is that PADICO and PALTEL are strategic partners in VTEL Holdings, a USD1 billion project set up in the United Arab Emirates to finance the group's foreign investments.
- PADICO and its subsidiaries carry out their business in various sectors. Following is a summary of selected balances' breakdown based on segments of activity:

USD 000	Total Assets	Total Liabilities	Total Revenues	General & Administrative Expenses	Depreciation and Amortization	Net Income (Loss)
Investments	389,481	48,955	134,206	26,515	57	107,634
Real Estate	50,150	10,563	7,587	6,237	945	405
Manufacturing	40,642	4,464	18,532	13,164	66	5,302
Securities Market	13,207	2,106	11,752	2,813	234	8,705
Eliminations	-36,781	-501	-2269	-378	0	-1,891
Consolidated	456,699	65,587	169,808	48,351	1,302	120,155

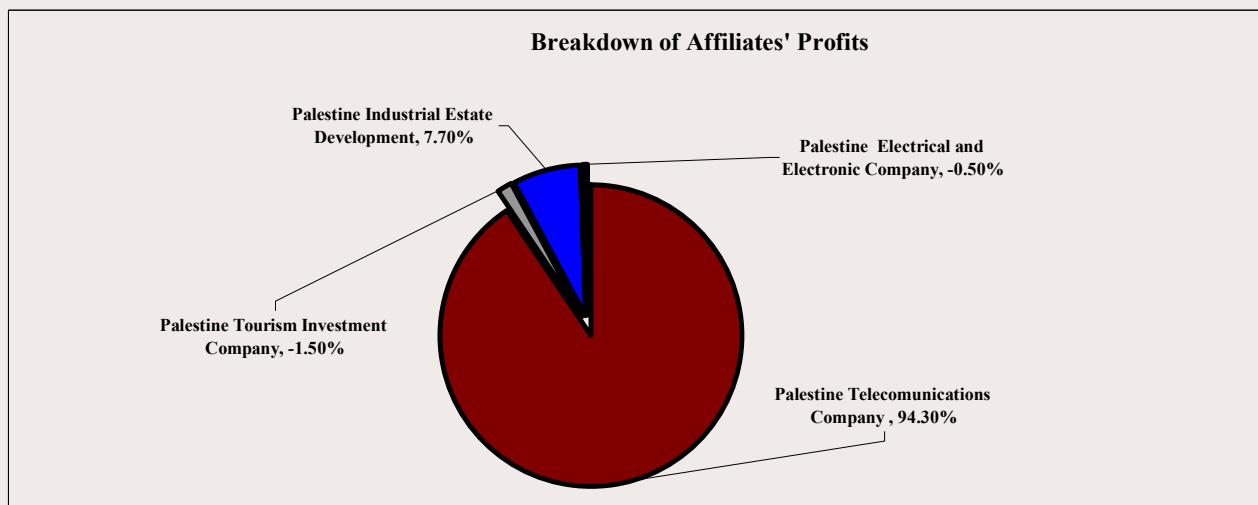
Source: PADICO

### Financial Highlights

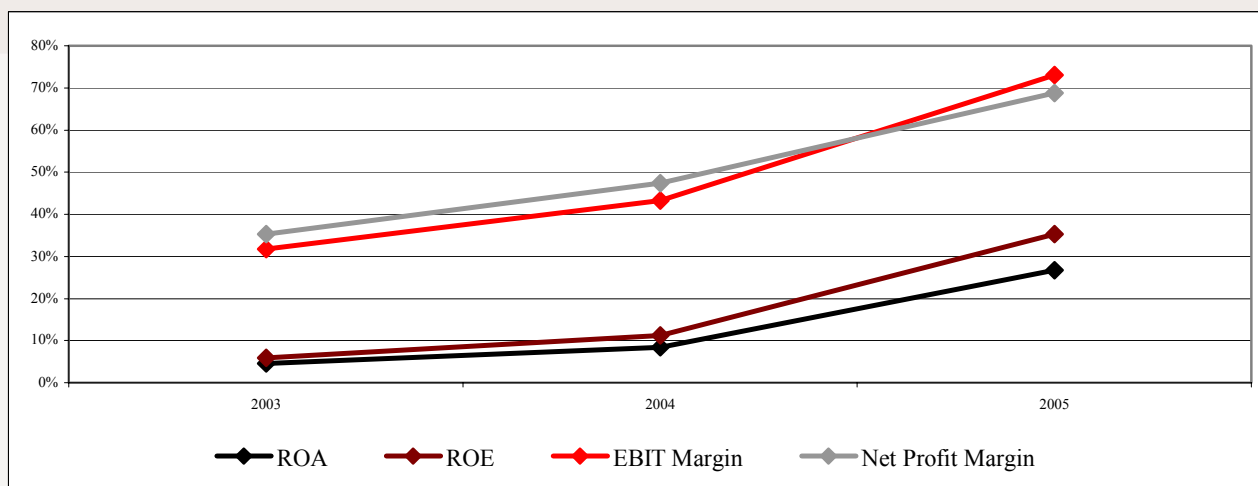
- 2005 was an exceptional year for PADICO, with revenue totaling around USD169.4 million, a robust growth of 269% compared to a growth of 69% in 2004. The revenue breakdown is summarized as follows (excluding non-recurring revenue):

Operating Revenue	17.83%
Revenues form Investments	61.69%
Revenues form associates	19.65%
Interest Revenue	0.68%
Other Revenue	0.15%

- The breakdown of affiliates' revenues is provided in the following chart:



- EBIT reached USD123.8 million in 2005 against USD18.5 million in 2004, a growth of 410%, which was realized despite the fact that the company deducted a provision of USD20 million for any drop in the value of trading investments. Accordingly, the growth in net income in 2005, including the effect of non-recurring revenue of around USD0.4 million and excluding a minority interest share of USD3.7 million, touched 475%. PADICO distributed 20% in stock dividends and 20% in cash dividends of earnings in 2005.



- Although the largest chunk of revenues generated in 2005 came from investments, this should not undermine the strength of the company as it succeeded in diversifying its sources of revenues. The company invests in vital sectors of the Palestinians economy such as industry, telecoms, housing, tourism, financial services, insurance, agriculture, and industrial estates through partnerships in pioneering projects and financial instruments. The company is also expanding geographically.
- Total assets jumped by 82% to around USD436.7 million in 2005. The surge was mainly caused by a 90% increase (around USD100 million) in investments in affiliates to USD210.8 million, followed by a USD34.6 million and USD25.1 million growth in the available for sale investments and trading securities respectively.

- On the liabilities side, PADICO's total debt ratio averaged 15.6% in the last three years. The 2005 total debt ratio stood at around 14.17%, indicating the company's tendency to keep debt at low levels. The current liabilities comprised 41.2% of total liabilities.
- The company's current assets covered its current liabilities (current ratio) 3.6 times in 2005 compared to 2.2 times in 2004.
- The company's unconsolidated financial statement, which was released for Q3 revealed an EBT of USD38.6 million. The company's policy is to consolidate its financial statements once a year; on Dec. 31<sup>st</sup>.
- PADICO's share in Palestine Real Estate Investment Company (PREI) has dropped from 48.8% to 34.5% due to an increase in PREI's capital to JOD50 million, realized through the entry of a strategic partner. Thus, PREI was reclassified from a subsidiary to an affiliate in PADICO's consolidated financial statement.

### Outlook

- PADICO will pursue its main objectives of developing and encouraging investments in various sectors including manufacturing, real estate, tourism and housing and providing technical and consulting services. To fulfill these goals, the company plans to set up new companies, enter into joint ventures, and associate with other firms.
- Apart from the diversification of its business lines, the company is also taking advantage of several promising investment opportunities both regionally and internationally in order to reduce the amount of political risk that the company is exposed to.
- Jordinvest forecasts PADICO's consolidated total revenues to reach USD67.7 million in 2006, while its net income is projected at around USD42.3 million. An injection of the remainder of the provision for the decline in the market value of trading securities to net income is also expected. The company is considering expanding in regional markets and setting foot in Far Eastern and North American markets in line with its investment diversification scheme.
- In addition to a normal growth in assets, the expected launch of the two earlier-mentioned funds and the establishment of new companies have been accounted for in the projection.
- Below is a table that presents PADICO's main financial figures for the past few years. In addition to our projection for the coming three years, taking into consideration the historical performance and the country's financial situation.

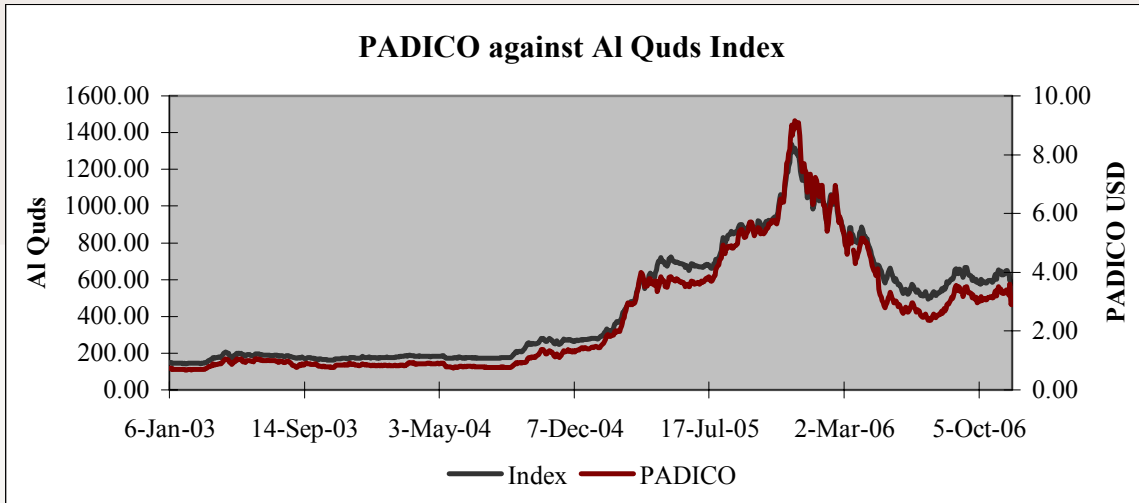
Main Financial Figures and Ratios	2003	2004	2005	2006	2007	2008
<i>All figures in 1,000 USD</i>						
Cash at Banks	6,031	7,314	25,500	13,319	19,226	25,266
Current Assets	36,083	40,059	96,538	76,487	110,407	145,093
Total Assets	196,382	240,514	436,699	436,699	630,369	828,406
Current Liabilities	14,108	18,267	27,050	32,270	46,581	61,215
Total Liabilities	28,666	41,974	65,587	69,979	101,013	132,747
Shareholders' Equity	149,164	180,623	329,570	366,720	529,356	695,659
Outstanding Shares	129,850	146,656	199,438	239,431	239,431	239,431
Operating Revenue	13,815	14,589	30,206	15,406	23,109	34,664
Cost of Services	10,722	11,764	16,747	7,703	11,555	17,332
Revenues form Investments	5,894	9,889	104,504	33,415	56,137	94,309
Revenues form associates	4,444	16,942	33,288	15,772	24,164	39,946
Interest Revenue	674	625	1,155	1,472	2,208	3,312
Other Revenue	374	712	246	431	647	971
EBIT	8,010	18,476	123,800	42,955	47,460	77,391
Net Income	8,897	20,241	116,459	42,278	46,767	76,260
ROA	4.53%	8.42%	26.67%	9.68%	7.42%	9.21%
ROE	5.96%	11.21%	35.34%	11.53%	8.83%	10.96%
EBIT Margin	31.78%	43.21%	73.08%	64.60%	44.66%	44.68%
Net Profit Margin	35.30%	47.34%	68.75%	63.58%	44.01%	44.03%
Current Ratio (x)	2.56	2.19	3.57	2.37	2.37	2.37
Debt Ratio	14.90%	17.78%	14.17%	16.02%	16.02%	16.02%
Price End of Year	0.85	1.39	7.34	2.99	N.A	N.A
P/E	12.41	10.07	12.57	16.93	15.31	9.39
P/BV	0.74	1.13	4.44	1.95	1.35	1.03
P/Rev	4.38	4.77	8.64	10.77	6.74	4.13
Div Yield	0.23	0.13	0.03	NA	NA	NA
Market Capitalization	110,373	203,852	1,463,875	NA	NA	NA

Source: PADICO's Annual Report, Jordinvest.

\*Price used for 2006 is the price on Dec. 10<sup>th</sup>, 2006

Stock's Key Data (From Jan 2003 to Nov 2006)	
Period Open (USD)	0.74
Period Close (JOD)	3.22
Period High (USD)	9.15
Period Low (USD)	0.67
Period Percentage Change (%)	222
Period Change (JOD)	3.22
Total Volume	361,857,634
Total Value (JOD)	878,010,832
Average Close (JOD)	2.51
Average Volume	387,428
Average Value (JOD)	940,152

Source: Jordinvest





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