

Flash Result Report - Q3 2011

Palestine Development & Investment

Palestine Stock Exchange

Ticker	Sector	Trading Currency	ISIN	Free Float	Current Price	Forward PE	Market Capitalization \$	52 Week high	52 Week low
PADICO	Investment	USD	PS4002112937	%81.94	1.01	8.00x	252,500,000	1.34	1.01

Company Background

PADICO HOLDING is a limited public shareholding company traded on the Palestine Exchange (PEX) with a paid-in capital of USD 250 million. Since its inception in 1993, its mission has been to develop and strengthen the Palestinian economy by investing in vital economic sectors. This mission was initiated by several Palestinian and Arab investors who had a clear patriotic goal, and a belief that the Palestinian market represents a unique business opportunity that offers substantial returns. PADICO HOLDING's shareholder base grew from 710 shareholders in 1998 to about 10,800 shareholders in September 2011, attracting institutional investors and funds from the MENA region in addition to other well established international markets in Europe. Today, PADICO HOLDING has grown its portfolio of investments to include almost every sector that is vital to the nation building efforts; with returns emanating from these investments that are equally rewarding for the shareholders. These sectors include telecommunications, tourism, real estate, energy and environment, manufacturing, finance and capital markets and agriculture.

Major News

- Palestine Development and Investment announced the successful closure of its bonds issuance with an oversubscription of \$85 million, with a \$15 million surplus on top of the initial \$70 million original offering. Most of the bond holders are banking institutions operating in Palestine and the Palestinian Monetary Authority, the equivalent of the Central Bank in Palestine. The holders of PADICO corporate bonds are: Palestine Monetary Authority, Arab Bank, Bank of Palestine, Capital Bank, Palestine Commercial Bank, Union Bank, Jordan Kuwait Bank, and Alrafah Microfinance Bank, Cairo Amman Bank, and Bank of Jordan. According to the CEO of PADICO Mr. Samir Hulieleh ; \$12 million from the proceeds of the bonds will be Used in the company's debt restructuring and the rest (73 million) will be used in financing major projects which include: the new recycling project in Gaza, the Water Desalination project in Gaza; a key real estate development in Jericho and the energy plant in the northern West Bank.
- On the aspect of merger and reconstruction in the real estate and tourism sector, many procedures has been done; the actual exercising for the merger through a number of share and stocks' exchange between PADICO and its associates and subsidiaries.
- Within 2011, PADICO established Jericho Gate for investments with a \$35 million capital by which it owns 50% of the company.
- PADICO holding signed a memorandum of understanding on issuing the first Palestinian Global Depository Receipts (GDR) with the Bank of New York Mellon, which will represent PADICO in Global Depository Receipts —GDR, where these receipts will be offered outside the framework of the market and the bank will assume responsibility for the offering and definition, noting that each receipt will equal to five shares and will be purchased from the market through brokerage firms. The CEO of PADICO considered that the launch of this investment instrument —GDR constitutes a qualitative step in the performance of the Palestine Stock Exchange and in PADICO's shares to be launched to the international market, expressing his hope that this step to be implemented during a period that doesn't exceed a year and a half. In consequence, The Palestinian Capital Market Authority has issued the rules and technical procedures for the issuance of Global Depository Receipts GDR against to financial securities listed on the Palestinian stock exchange. This comes within the Authority's efforts in maintaining the stability and development of the Palestinian financial securities sector, and to promote the legal and regulatory environment of the sector according to the international standards.

Shareholder as of December 2010	Ownership
Mr. Sabih T. Masri and related parties	12.68%
Blakeney Management	8.39%
Mr. Munib R. Masri and related parties	4.97%
Palestine Investment Fund	4.89%
Massar International	3.01%
Kingdom Holding Company	2.57%
Mr. Nidal Munir Sukhtian and related parties	2.31%
Arab Bank	1.64%
Palestine Telecommunications	1.38%
Sheikh Mohammed bin Hamad Al Thani and related parties	0.97%
Social Security corporation	0.96%
AL-Said Group Int Co For General Trade	0.74%

PADICO's Investments

The investments are grouped into three major categories according to the degree of influence and ownership stake:

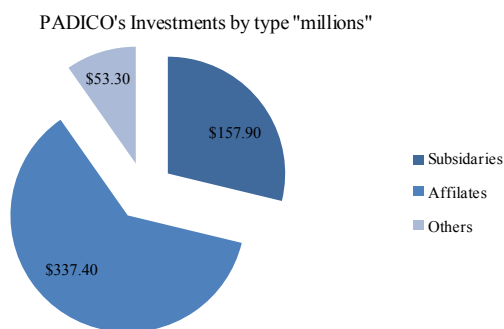
- **Subsidiary Investments:** where PADICO HOLDING's share exceeds 50%, granting its control over the subsidiary company's decision making processes and governs the financial and operating policies.
- **Affiliated Investments:** where PADICO HOLDING owns 20% or more of the capital of the affiliate company, granting an influence on both financial and operational policies.
- **Investments in Other Companies:** where PADICO HOLDING owns less than 20% of the capital, and has limited influence in the decision-making process.

PADICO HOLDING has diversified its investments across various vital economic sectors in Palestine. These sectors include:

- Real Estate & Tourism
- Industry & Agriculture
- Services (Telecommunications, Financial & Banking)
- Energy & Environment
- Others

According to the national accounts of Palestine, GDP stood at 4,878.3 points in 2010. PADICO and its investments contribute in major sectors constituting the GDP at the following areas:

- Transformative industry: contribution rate of 11.06%.
- Water & Electricity: contribution rate of 4.11%.
- Constructions: contribution rate of 6.44%.
- Real Estate activities: contribution rate of 8.16%.
- Hotels & Restaurants: contribution rate of 1.02%.



Company	Percentage of Direct and Indirect Ownership (%)
Jerusalem Development & Investment Company (JEDICO)	100
The Palestinian Recycling Company (TADWEER)	100
Jerusalem Tourism Investment Co. (JIT)	95.24
Palestine Industrial Estate Development & Management Company (PIEDCO Gaza)	94.48
Al Mashriq Real Estate Company	88.95
Al Marafiq Investment Company	80
Palestine Exchange	78
Palestine Industrial Estate Development Company (PIEDCO -Holding)	77.87
Palestine Real Estate Investment Company (PRICO)	70.97
Al Mashtal Tourism Investment Co. Ltd	70.01
Palestine Industrial Investment Company (PIIC)	60.65
Palestine Poultry Company (PPC)	60.11
Palestine Plastics Industries Company(PPIC)	50.85

Company	Percentage of Direct and Indirect Ownership (%)
Palestine Tourism Investment Company (PTIC)	43.95
Mawaqif Investment Company	39.2
Nakheel Palestine for Agricultural Investment	32.61
PALTEL Group	31.39
Pal Akar	25.02
Arab Hotels Company (AHC)	21.24
Jordan Vegetable Oil Industries Company	17
Palestine Power Generation Company Plc (PPGC)	15
National Carton Industry (NCI)	12.89
Golden Wheat Mills Company (GMC)	11.04

Company	Percentage of Direct and Indirect Ownership (%)
Palestine Mortgage & Housing Corporation	15.8
VTEL Holdings	10.13
Al Rafah Microfinance Bank	6.67
Palestine Electricity Company (PEC)	6.09
Cairo Amman Bank	2.27
First Jordan Investment Company	0.67

New Investments

• Power Generation - Northern West Bank

As part of its strategy to invest in the infrastructure sector in order to edge closer to its commitment towards nation building, PADICO HOLDING has partnered with a number of local and regional investors to establish the Palestine Power Generation Company Plc (PPGC).

PPGC will be the first power generation plant in the West Bank and will operate at an initial capacity of 200 MW which can be increased to reach 400 MW in the future. The project will be implemented through a Build Own Operate (BOO) mechanism bolstering PADICO HOLDING's vision to execute various projects in close partnership with the public sector. The project's total investment cost amounts to \$300 million where \$120 million is financed through equity, while the rest is financed through medium- and long-term loans.

• Solid Waste Recycling- Jenin & Nablus

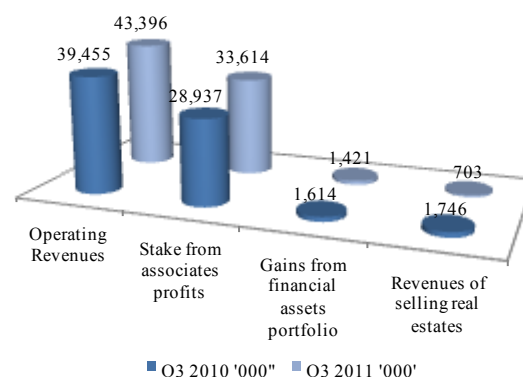
Paying attention to the environment is not only commercially viable but responsible practice. We share the planet with others and it is only natural that we invest in our environment. As such PADICO HOLDING has established the first recycling company in the country under the name The Palestinian Recycling Company "Tadweer". Tadweer specializes in the management and recycling of all kinds of waste material including solid waste and wastewater. The company is already in the process of executing two distinct solid waste recycling projects in different parts of the West Bank.

• Tertiary Wastewater Treatment Project – Jenin

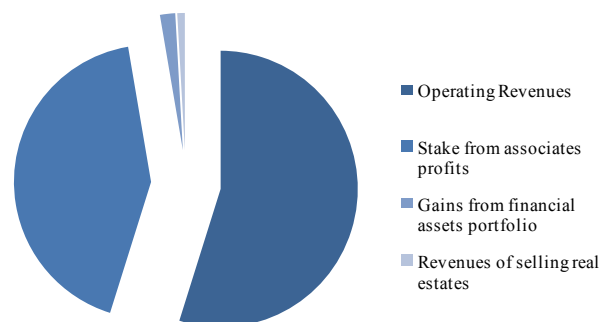
Jenin municipality, in cooperation with UNDP, is currently implementing a project to rehabilitate the city's wastewater treatment facility. PADICO HOLDING intends to upgrade the municipality's project to include a tertiary water treatment unit, which would produce water suitable for irrigation purposes.

Income Statement

- PADICO reported a growth of 9.38% in total revenues to reach \$79.13 million in Q3 2011 compared to \$72.35 million in Q3 2010.
- This increase came mainly from an advance in operating revenues, which contributes by 54.84% to total revenues, where soared by 9.99% reaching \$43.40 million compared to \$39.45 million in Q3 2010. This growth was led by the two subsidiaries; Palestine Real Estate Investment Company PRICO and Palestine Industrial Investment Company PIIC, where their operating revenues grew by 10% and 8% respectively.
- The second main contributor to revenues; PADICO's stake from associates' profits which accounted for 42.48% of total revenues, increased to \$33.61 million up 16.16%, attributed to the 9.24% growth in the profit of Palestine Telecommunications Company PALTEL - PADICO owns 31.39% stake in PALTEL-, and to the 19.91% growth in the net income of Vegetable Oil Industrial Company VOIC- owned by 28.81%.
- Gains from financial assets' portfolio dropped by 11.96% to settle at \$1.42 million in Q3 2011, following the decline in the investment in financial assets for trading from \$8.61 million to \$5.77 million.
- Operating expenses increased from \$25.25 million in Q3 2010 to \$34.43 million in Q3 2011, up 36.37%. This increment came from the increase in operating costs in several activities initiated during 2011: the Slaughter House and Broilers farms– projects by Palestine Poultry Co, Al-Mashtal Hotel and Park Plaza– projects by Palestine Real Estate Investment Co, whereby affected the operating costs heavily of these two subsidiaries. Accordingly, gross income of PADICO reached \$42.58 million in Q3 2011 compared to \$43.15 million in Q3 2010; down insignificantly by 1.30% .
- On the other hand, general and administrative expenses increased by 0.55% to stand at \$13.09 million in Q3 2011, accounting for 16.55% of total revenues compared to 18.00% in Q3 2010. According to PADICO, the stability in G&A expenses came within the company's policy of cost reduction and control, despite the activities expansion in subsidiaries. Therefore, operating income hit \$29.49 million in Q3 2011, down 2.10%.



Revenues Distribution

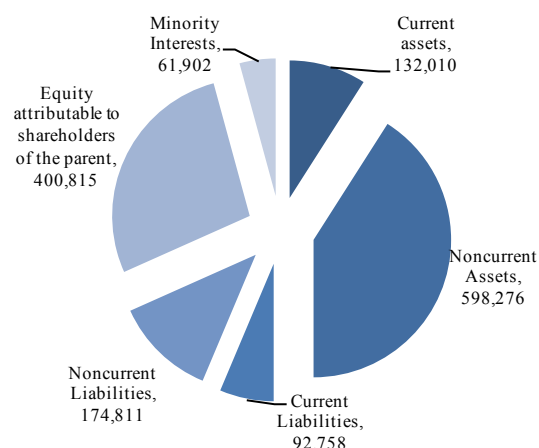


- Operating profit in Q3 2011 was affected by many reasons; lower gross margin in Palestine Poultry Co, new projects that need time to reach breakeven points and incurred high establishments costs in several projects such as Jericho Gate and businessmen club.
- On the other hand, interest expenses rose from \$4.80 million in Q3 2010 to \$5.18 in Q3 2011; up 7.86% resulting from the issuance of \$85 million corporate bonds in addition to the credit facilities and loans gained by Jerusalem Tourism Investment, Palestine Industrial Investment and Palestine Real Estate Investment and The Palestinian Recycling Company.
- In the bottom line, net income reached \$25.45 million in Q3 2011 down 11.91% compared to \$28.89 million in Q3 2010. Minority interest reached a negative figure of \$0.34 million in Q3 2011; therefore net income attributable to shareholders settle at \$25.79 million in Q3 2011 down 5.39% compared to \$27.26 million in Q3 2010.

Item (000)	Q3 2010	Q3 2011	Δ
Total Revenues	72,348	79,134	9.38%
Operating Expenses	25,245	34,426	36.37%
Gross Profit	43,147	42,584	-1.30%
Administrative & General Expenses	13,022	13,093	0.55%
Operating Profit	30,125	29,491	-2.10%
Interest Expense	4,799	5,176	7.86%
Net Income	28,888	25,450	-11.90%
Minority Interests	1,628	-341	-120.95%
Income Attributable to Parent shareholders	27,260	25,791	-5.39%

Balance Sheet

- Total assets grew by 14.47% reaching \$730.29 million in Q3 2011, compared to \$637.98 million as of the end of 2010, driven by an increase in both current and noncurrent assets.
- Current assets which contribute by 18.08% to total assets, increased from \$72.95 million to \$132.01 million in Q3 2011; up 80.95%. This came mainly as a result of the major increase in cash and short term deposits, which in turn hit \$75.93 million growing by 444.19% compared to the end of 2010 due to bonds issuance; accounting for 57.52% of current assets as of Q3 2011.
- Also, accounts receivables which represent commercial receivables in subsidiaries increased by 11.37% reaching \$40.97 million in Q3 2011, following sales growth parallel to production expansion in these companies. This was accompanied by corresponding decline of 29.39% in the inventory to stand at \$8.71 million in Q3 2011. Financial assets available for trading reported 32.94% decline, reaching \$5.77 million after being \$8.61 million in 2010.
- Noncurrent assets – the largest contributor to total assets by 81.92%- increased by 5.88% to hit \$598.28 million in Q3 2011. This ascending came within a significant growth in investments with associates by 9.45% to reach \$369.28 million in Q3 2011; contributing by 61.72% of noncurrent assets and by 50.57% of total assets, following the new initiated investment in Jericho Gate Real Estate Company by \$21.87 million, which is currently owned by PADICO and PALTEL by 50% each.
- Also, fixed investment in properties, machines and equipments soared by 53.38% settling at \$86.46 million in Q3 2011, due to completing the Gaza Strip Hotel– Al Mashtal during 2011 with a total cost of \$26.88 million by the 70% owned subsidiary- Al Mashtal Tourism Investment Company, in addition to completing the establishment of two broilers farms by a total cost of \$2.84 million by the 60% owned subsidiary– Palestine Poultry Company.
- Of course, this was followed by a decline in the “in progress projects” by 42.23% to reach \$23.64 million in Q3 2011. PADICO sold a portion of it real estate investments during 2011, therefore dropped slightly by 4.43% aggregating at \$61.28 million in Q3 2011. The company’s investments in companies stocks dropped by 14.16% to reach \$45.75 million in Q3 2011.



Item	2010	Q3 2011	Δ
Current assets	72,952	132,010	80.95%
Noncurrent Assets	565,028	598,276	5.88%
Total Assets	637,980	730,286	14.47%
Current Liabilities	74,327	92,758	24.80%
Noncurrent Liabilities	100,132	174,811	74.58%
Total liabilities	174,459	267,569	53.37%
Capital	250,000	250,000	0.00%
Retained Earnings	126,289	133,946	6.06%
Equity attributable to shareholders of the parent	399,737	400,815	0.27%
Minority Interests	63,783	61,902	-2.95%
Shareholders' Equity	463,520	462,717	-0.17%

- Total liabilities increased by 53.37% in Q3 2011 amounting to \$267.57 million compared to \$174.46 million in 2010.
- Noncurrent liabilities increased by 74.58% in Q3 2011 to amount \$174.81 million; accounting now for 65.33% of total liabilities. Long term loans dropped in Q3 2011 by 13.32% settling at \$82.23 million, while the balance of corporate bonds of \$85 million accounts for 31.77% of total liabilities.
- Current liabilities also reported an increase of 24.80% to aggregate at \$92.76 million in Q3 2011. This was attributed to the increase the accounts and notes payables by 73.98% when reached \$12.76 million in Q3 2011, reflecting commercial payables in the company's subsidiaries. Also, other payables which represent the liability to shareholders of the approved cash dividends distribution by an amount of \$20 million for the fiscal year in addition to other payables more than doubled to hit \$26.11 million at the end of Q3 2011. On the other hand, short term loans and credit facilities dropped by 4.54% to amount \$53.89 million; representing credit facilities and banking loans granted by PADICO's subsidiaries. In aggregate, total loans, credit facilities and bonds account for 82.64% of total liabilities, while other payables contribute the remaining.
- Total equity attributable to shareholders of the parent ended to settle at \$400.81 million Q3 2011; up 0.27% compared to the end of 2010, while minority interests stood at \$61.90 million. Retained earnings which account for 33.42% of equity attributable to shareholders of the parent, increased by 6.06% to hit \$133.95 million in Q3 2011.

Item (000)	2010	Q3 2011	Δ
Long term Loans	94,868	82,233	-13.32%
Debt Bonds	-	85,000	-
Credit Facilities and short-term interest bearing	56,451	53,886	-4.54%
Total	151,319	221,119	46.13%

Financial Analysis

- PADICO reported a drop in all of profitability indicators; gross margin was affected significantly by the sever increase in operating expenses in the main subsidiaries, therefore operating margin dropped despite the noticeable control in the general and administrative expenses. According to PADICO's management; the effect of increasing the direct and operating costs is expected to be lower gradually in the coming periods, as soon as those projects and production centres who reported low gross margins start to attain an adequate market share. In correspondence, bottom line profitability indicators were affected negatively.
- Along with the expansion in production in PADICO's subsidiaries and despite of the increase in the commercial payables that was accompanied; PADICO reports now a higher short term liquidity given the soar in the cash position following the bonds issuance.
- Accordingly, operating liquidity increased noticeably following the growth in the current assets with different items, after PADICO had reported negative figures of working capital along several discrete periods.
- Among the two periods; PADICO reported similar efficiency levels due to revenues increase in all subsidiaries, given the positive changes in assets.
- Loans declined in Q3 2011 compared to Q3 2010 and the end of 2010, but overall debt ratios are different for PADICO now following the issuance of \$85 million bonds. According to PADICO's management; debts are expected to drop from \$221 million to less than \$180 million by the end of the current year, due to paying a good portion of loans according to the bonds prospectus. It should be mentioned that debt ratios were not negatively affected by bonds as expected, due to the expansion and what was followed by a growth in different types of investments and assets items.
- Book value is approximately reporting similar level to the end of 2010, and higher than the corresponding period of Q3 2010.

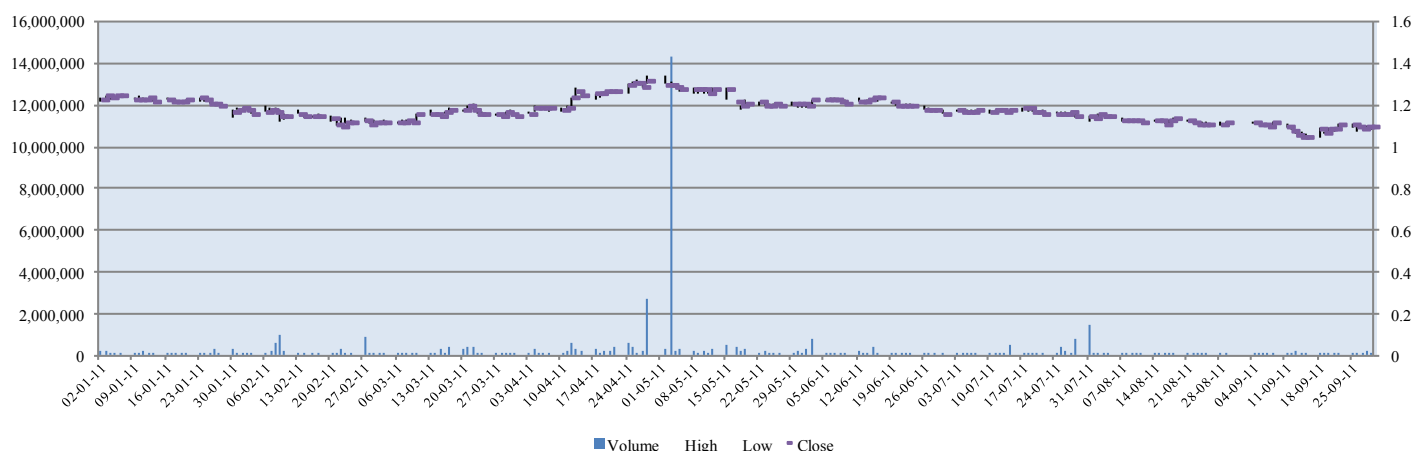
Item	Q3 2010	Q3 2011	Δ
EPS	0.109	0.103	-5.39%
Gross margin	63.09%	55.30%	-12.35%
Operating margin	44.05%	38.30%	-13.06%
Net margin	39.86%	33.49%	-15.98%
Current ratio	1.02	1.42	39.84%
Quick ratio	0.94	1.33	41.20%
Cash ratio	0.35	0.88	151.19%
ROaA	4.34%	3.77%	-13.07%
ROaE	7.64%	6.44%	-15.68%
Working capital	1,303	39,252	2912.43%
Working capital turnover	5552.42%	201.61%	-96.37%
Assets Turnover	11.34%	10.84%	-4.45%
Debt Ratio	28.23%	36.64%	29.80%
Equity Ratio	71.77%	63.36%	-11.72%
Equity attributable to shareholders/ Assets	61.84%	54.88%	-11.25%
Debt to Assets	24.21%	30.28%	25.07%
Debt to Equity attributable to shareholders	39.15%	55.17%	40.93%
Debt to Total Equity	33.73%	47.79%	41.68%
BV (Excluding Minority Interests)	1.576	1.603	1.76%

Market Indicators

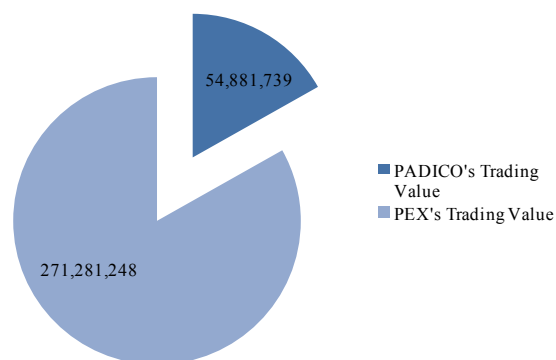
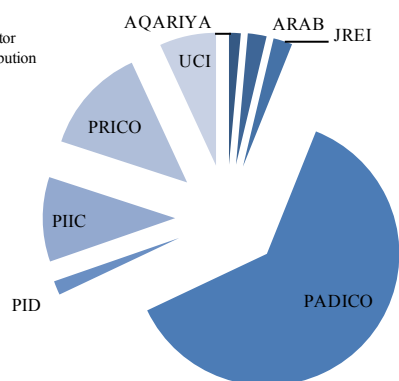
- PADICO's share price declined by 19.12% in Q3 2011 compared to the end of Q3 2010, and by 8.33% compared to the end of 2010, to record a market capitalization of \$ 275 million.
- The share is trading below its book value, and currently recording 68% to it following 1.76% growth in book value along with the sever price drop.
- Trading volume of PADICO reached 44.80 million shares until Q3 2011; recording a turnover of 17.92%.
- Estimated PE ratio recorded a very attractive level at the end of Q3 2011; **8.00x while an actual PE of 8.05x in 2010**

Item	Q3 2010	Q3 2011
Price	1.36	1.10
P/BV	86.32%	68.61%
Market Capitalization	340,000,000	275,000,000
Trading Volume	50,125,101	44,798,858
Turnover	20.05%	17.92%

Share's Performance in the First 9 Months 2011



Investment Sector
Market Cap Distribution



Dividends Analysis

- Palestine Development & Investment Company reported a higher level of distributed dividends in the period 2010 compared to 2008, while 2009 didn't witness dividends distribution.
- Due the noticeable higher profitability in 2010, payout ratio recorded lower figure in the period, while the stability in market price led to an increase in the dividends yield by 34.34% in 2010 compared to 2008.

Item	2008	2010
DPS	0.06	0.08
EPS	0.09	0.15
Share 's Price	1.21	1.20
Payout ratio	67%	53%
Dividends Yield	4.96%	6.67%

Palestine Development & Investment Financial Highlights (2008-2010) - Appendix

Balance Sheet

Item (000')	2008	2009	Δ	2010	Δ
Current assets	73,805	79,475	7.68%	72,951	-8.21%
Noncurrent assets	456,223	540,722	18.52%	565,028	4.50%
Total Assets	530,028	620,197	17.01%	637,979	2.87%
Current Liabilities	60,198	83,430	38.59%	74,327	-10.91%
Noncurrent Liabilities	84,685	107,062	26.42%	100,132	-6.47%
Total liabilities	144,883	190,492	31.48%	174,459	-8.42%
Retained Earnings	71,522	93,641	30.93%	126,289	34.87%
Equity attributable to shareholders of the parent	347,021	362,243	4.39%	399,737	10.35%
Minority Interests	38,124	67,462	76.95%	63,783	-5.45%
Shareholders' Equity	385,145	429,705	11.57%	463,520	7.87%

Income Statement

Item	2008	2009	Δ	2010	Δ
Operating Revenues	26,250	31,018	18.16%	55,133	77.75%
Stake from associates profits	39,508	29,529	-25.26%	39,094	32.39%
Gains from financial assets portfolio	-8,128	340	-104.18%	1,825	436.76%
Total Revenues	59,815	85,478	42.90%	103,194	20.73%
Operating expenses	16,984	20,270	19.35%	38,587	90.37%
Gross Income	48,774	40,277	-17.42%	55,640	38.14%
General & Administrative expenses	11,107	15,113	36.07%	18,051	19.44%
Operating Income	37,667	25,164	-33.19%	37,589	49.38%
Net Income	23,227	40,071	72.52%	38,753	-3.29%
Income attributable to parent shareholders	22,526	40,587	80.18%	36,506	-10.05%
Minority Interest	701	-516	-173.61%	2,247	-535.47%
EPS	0.09	0.16	80.18%	0.15	-10.05%

Financial Ratios

Item	2008	2009	Δ	2010	Δ
Gross Margin	74.17%	66.52%	-10.31%	59.05%	-11.23%
Operating margin	57.28%	41.56%	-27.44%	39.89%	-4.02%
Net margin	34.26%	67.03%	95.69%	38.74%	-42.20%
Current ratio	1.23	0.95	-22.30%	0.98	3.03%
ROaA	4.57%	7.06%	54.41%	5.80%	-17.77%
ROaE	6.64%	11.44%	72.32%	9.58%	-16.28%
Working capital (000')	13,607	-3,955	-129.07%	-1,376	-65.21%
Working capital turnover	439.59%	-2161.26%	-591.65%	-7499.56%	-247.00%
Assets Turnover	11.29%	13.78%	22.13%	16.18%	17.36%
BV	1.39	1.45	4.39%	1.60	10.35%

Board of Directors

Mr. Munib R. Masri	Chairman of the Board
Mr. Nidal Munir Sukhtian	Vice-Chairman of the board
Mr. Sabih T. Masri	Board Member
Mr. Nabil G. Sarraf	Board Member
Mr. Zahi W. Khouri	Board Member
Mr. Kamil A. Sadeddin	Board Member
Mr. Mazen Abu Hamdan	Board Member
Mr. Yazid A. Mufti	Board Member
Mr. Ammar Aker	Board Member
Mr. Samir Zraiq	Board Member
Mr. Ziad M. Turk	Secretary General
Mr. Samir Hulileh	Chief Executive Officer

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