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# Investor Presentation Egypt Stock Market – A Diamond in The Rough

July 2011



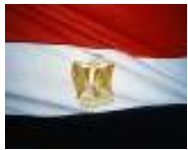
# Background: Andaluca Financial

- **Andaluca** is a financial consultancy and investment management firm launched in March 2007 to manage investments of medium and high net worth individuals and companies.
- Funds under management as of January 2011: US\$ 16 million.
- Andaluca is located in Giza, Egypt and manages investments primarily in Egypt and the U.S.. Website: [www.andaluciafinancial.com](http://www.andaluciafinancial.com)
- Investment Performance for Egypt Stock Market until June 30<sup>th</sup>, 2011:
  - Performance September 2007 (start of actual operations) to date: **+31.24%**
  - Vs. Performance of Benchmarks September 2007 to date:
    - EGX30 Index: **-31.14%**
    - S&P 500 Index: **-10.40%**
  - Performance for 2011: **-7.81%**
  - Vs. Performance of Benchmark EGX30 for 2011: **-24.77%**
  - Hypothetical performance for 2011 (in case no selling happened): **+ 4.85%**



# Andalucia Financial Investment Methodology

- **Andalucia's** Investment Approach is investing in global macro trends.
- High flexibility in investment vehicles including stocks, futures, ETFs, options, spot currency and CFDs.
- For stock market investments, Andalucia uses a value investment methodology.
- Average holding period per investment vehicle: 1 year.
- Investment vehicles in order of preference:



Egypt Stock market



Futures and Commodities Markets



International FOREX Exchange



ETFs in U.S. markets



U.S. Stocks



Worldwide Stock Indices



Worldwide Stocks



CFD's

# Background: Egyptian Exchange

- Owned by the Government of Egypt.
- Formerly known as Cairo and Alexandria Stock Exchange.
- Heir of The Alexandria Stock Exchange and The Cairo Stock Exchange established in 1883 and 1903 respectively.
- The exchanges combined ranked 5<sup>th</sup> in the world during the 1940s.
- With the advent of a socialist regime in the 1950s, the exchange became dormant until the 1990s.
- Reform and modernization efforts started in 1997 and by November 1998 the exchange had a market cap of EGP 71.3 billion (equivalent to USD 21 billion at 1998 EGP/USD exchange rate).
- As of July 17<sup>th</sup> 2011, total market cap is about USD 64 billion with 231 listed companies.



# Country Outlook

- Political, Economic and Social risks persist which implies short term caution and long term optimism
- Temporary reduced buying power in the market will reduce economic activity in the near term
- On the long term, Significantly higher spending as effects of political, economic and social reforms kick in
- Forecasted to outperform world growth every year starting 2012 until reaching more than double world growth in 2015

## Economic forecast

	2010	2011	2012	2013	2014	2015
<b>Economic growth (%)</b>						
US GDP	2.9	2.9	2.5	2.6	2.6	2.7
EU27 GDP growth	1.8	1.9	1.7	1.9	1.9	1.9
World GDP	3.8	3.2	3.2	3.2	3.2	3.2
World trade	12.5	7.0	6.0	6.1	6.1	5.7



# Economic Outlook Egypt (1)

## Economic growth<sup>a</sup>

%	2010 <sup>b</sup>	2011 <sup>c</sup>	2012 <sup>c</sup>	2013 <sup>c</sup>	2014 <sup>c</sup>	2015 <sup>c</sup>
GDP	5.1	1.2	4.6	6.2	6.1	6.6
Private consumption	5.1	-0.3	4.0	5.1	6.1	7.1
Government consumption	4.5	5.4	5.7	3.1	3.6	3.5
Gross fixed investment	3.9	3.2	9.5	14.1	13.8	13.5
Exports of goods & services	-3.0	1.2	4.5	14.5	13.2	14.1
Imports of goods & services	-3.2	-0.7	6.7	15.2	16.8	17.9
Domestic demand	4.9	0.7	5.2	6.6	7.4	8.2
Agriculture	3.5 <sup>d</sup>	3.8	3.6	3.5	3.2	3.4
Industry	4.3 <sup>d</sup>	5.9	6.8	6.9	6.4	5.8
Services	6.0 <sup>d</sup>	-6.0	1.6	6.1	6.9	9.2

<sup>a</sup> Fiscal year data ending June 30th. <sup>b</sup> Actual. <sup>c</sup> Economist Intelligence Unit forecasts. <sup>d</sup> Economist Intelligence Unit estimates.



# Economic Outlook Egypt (2)

## Forecast summary

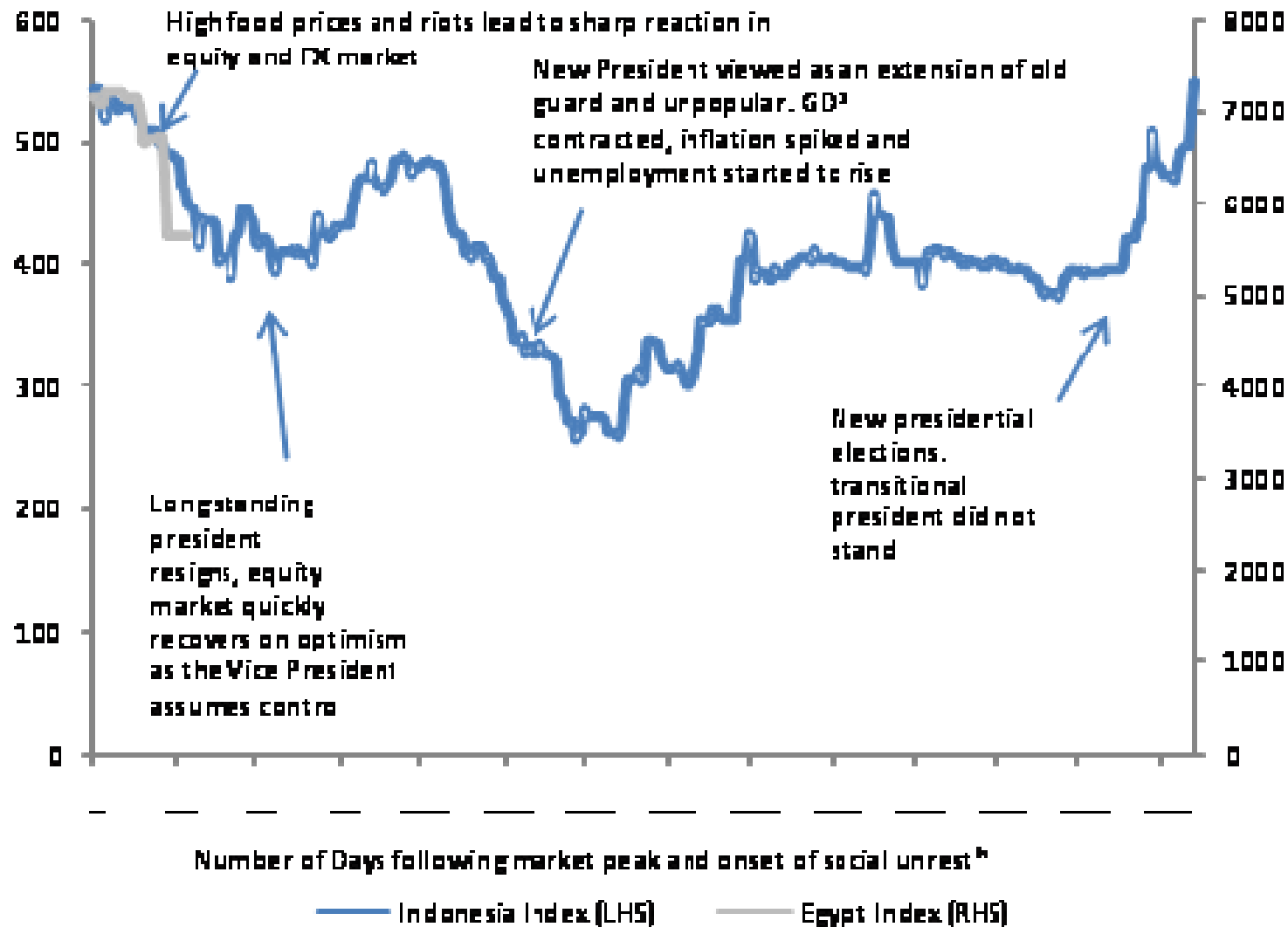
(% unless otherwise indicated)

	2010 <sup>a</sup>	2011 <sup>b</sup>	2012 <sup>b</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>
Real GDP growth	5.1 <sup>c</sup>	1.2	4.6	6.2	6.1	6.6
Industrial production growth	4.4	5.7	6.3	6.8	6.4	5.8
Gross agricultural production growth	3.5	3.8	3.6	3.5	3.2	3.4
Consumer price inflation (av)	11.1 <sup>c</sup>	16.0	11.5	9.1	7.5	7.6
Lending rate (av)	11.0 <sup>c</sup>	12.0	12.5	12.3	11.8	11.8
Government balance (% of GDP)	-8.0 <sup>c</sup>	-10.5	-9.3	-8.3	-7.4	-6.9
Exports of goods fob (US\$ bn)	23.7	22.8	22.3	26.1	31.0	34.7
Imports of goods fob (US\$ bn)	48.0	53.5	51.1	53.7	56.9	59.0
Current-account balance (US\$ bn)	-3.7	-16.8	-11.4	-5.9	-0.1	2.8
Current-account balance (% of GDP) <sup>d</sup>	-1.7	-6.8	-4.0	-1.8	0.0	0.6
External debt (end-period; US\$ bn)	35.0	40.1	40.2	39.7	39.3	35.7
Exchange rate E£:US\$ (av)	5.63 <sup>c</sup>	6.10	6.20	6.05	6.00	6.00
Exchange rate E£:US\$ (end-period)	5.80 <sup>c</sup>	6.15	6.09	6.03	5.95	5.95
Exchange rate E£:¥100 (av)	6.40 <sup>c</sup>	7.48	7.65	7.47	7.31	7.19
Exchange rate E£:€ (av)	7.46 <sup>c</sup>	7.98	7.75	7.28	7.37	7.65

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Actual. <sup>d</sup> Ratio based on calendar year GDP; national accounts use fiscal year.



# What Happens After Revolutions: Indonesia 1998



<sup>h</sup> 0 represents 29 March, 1998 for Indonesia and 31 December 2010 for Egypt





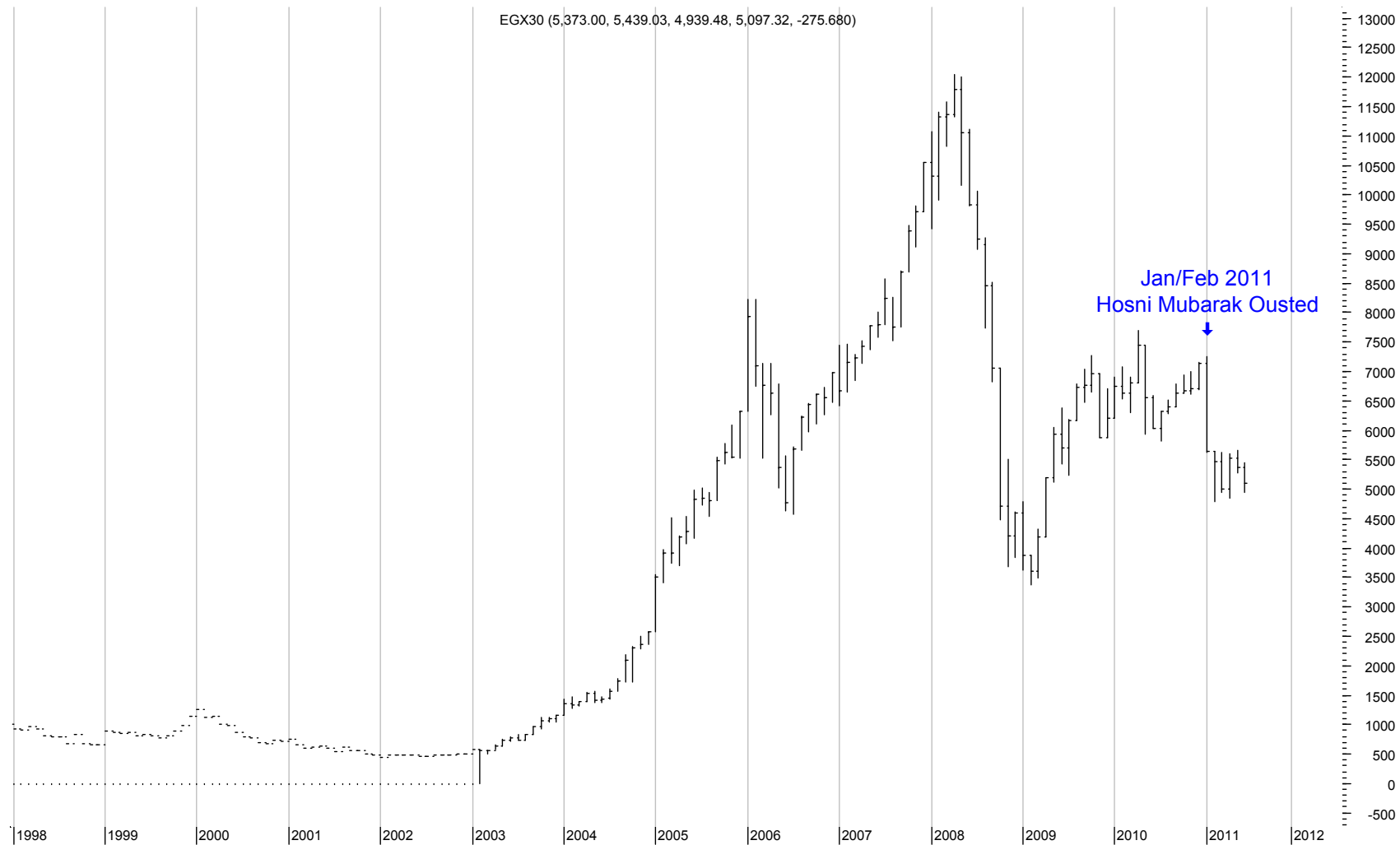
# Indonesia in perspective: 1990 – Early 2003



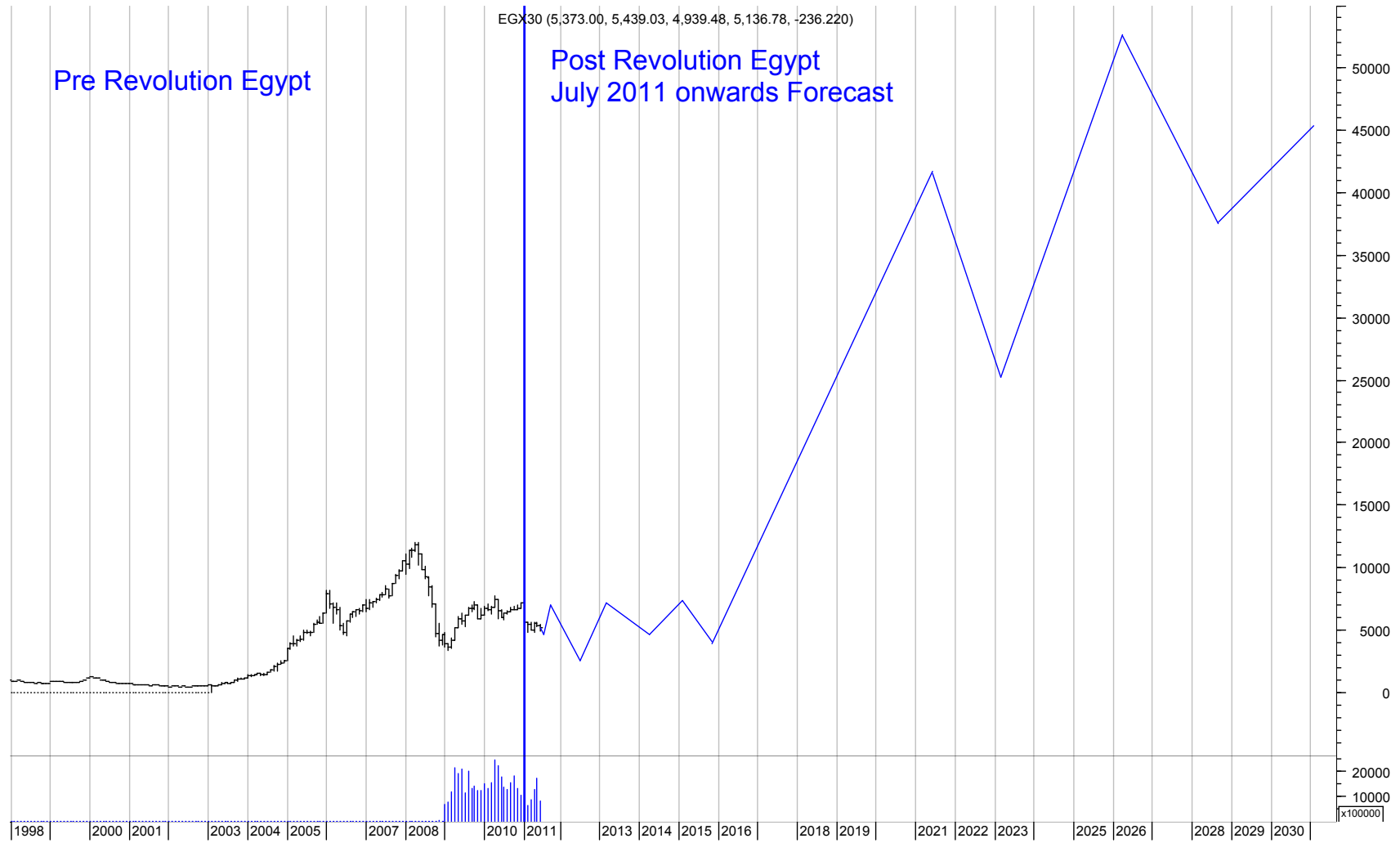
# Indonesia in perspective: Before and After



# Egypt in perspective: 1998 – Mid 2011



# Egypt in perspective: 20 Years down the line



# Egypt in perspective: Next 4 years



# Investment Thesis: Phase I - Building Positions

- Difficulty of timing the market implies that a long term value investment approach is the optimum way to benefit from the next expected market boom
- 80 to 90%: Undervalued Stocks: Stocks undervalued according to their tangible P/B and “regular” P/E ratios
- Of which at least 30 to 40%: Defensive Stocks such as Consumer Staples, Telecom, to provide stability for the fund
- 10 to 20%: High risk stocks: Real Estate land bank plays and Overleveraged companies that we believe have a good chance of survival

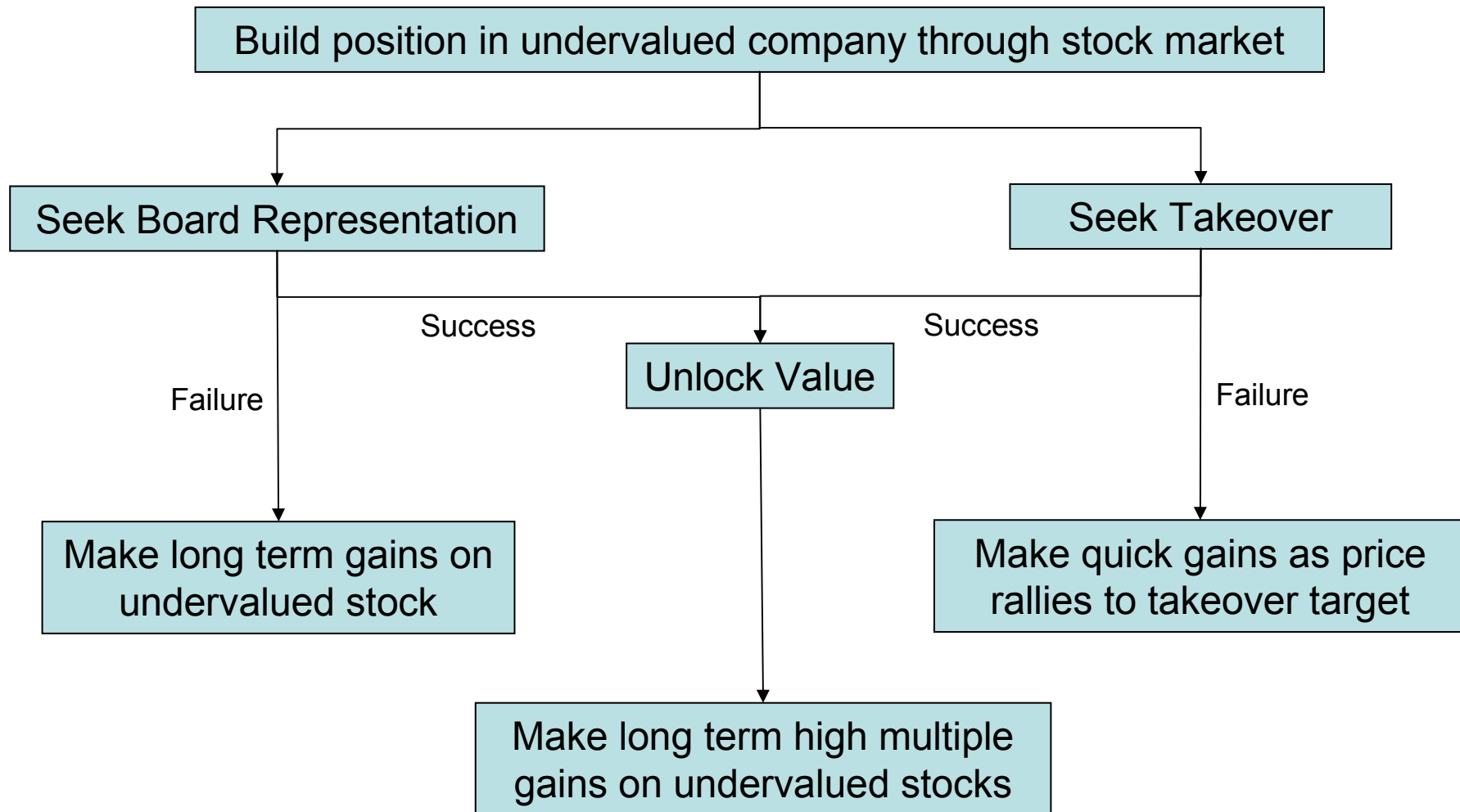


# Investment Thesis: Phase II - Taking Control

- Activist Investors have been a part of the U.S. investment scene since the 1980s. People like T. Boone Pickens and Carl Icahn have laid the groundwork for what it means and how to make money off it.
- Before the 25<sup>th</sup> of January revolution, this was not an option as most companies were owned and run by businessmen backed by an oppressive regime.
- After building positions in undervalued companies, phase two would be seeking to affect decision making in specific companies with hidden value to be unlocked through board representation or engineering a takeover.
- While we discuss the possible outcomes of such efforts in the next slide, we highlight the extra staffing needs that we will require to pursue this course:
  - 1 Investment Banker Senior Associate
  - 1 Investment Banker Junior Associate
  - 1 Researcher
  - Contract an M&A specialized Law Firm



# Phase II - Taking Control: Decision Flowchart





# Principal Bios: Mohamed El Hawary

## Andalucia Managing Director

Mohamed is the Managing Director and Founder of Andalucia Financial Consultancy and Investment.

Mohamed started his career at the age of 20 in the family owned Egyptian Iron and Steel Company that was founded in the 1940s and established the first privately owned steel mill in Egypt. In 1996, he established an iron and steel trading company, achieving a turnover of 80,000 metric tons of steel by 1998. He continued to serve as the company's General Manager until he sold his share in the business in 2001. From 1999 through 2003, Mohamed acted as Project Manager for two family owned industrial projects.

Having gained broad knowledge of worldwide markets, Mohamed began managing the family investment office in 2003, handling investments in equities, commodities, and currency markets worldwide as well as direct investments in Egyptian small and medium enterprises. By 2006, the striking performance of the family office justified the development of a full-fledged financial consultancy and investment company. As a result, Andalucia was formed in early 2007 and has achieved impressive performance to date through all market conditions.

By 2009, Mohamed started doing pro-bono work with several institutions fostering entrepreneurship and supporting sustainable development in Egypt. This ultimately resulted in widening Andalucia's scope of business to engage in these activities professionally.

Mohamed holds an MBA from the American University in Cairo with a double major in International Business and Marketing. He received his BA in Business Administration from the same institution. Schooled in the Jesuit tradition at the College de La Sainte Famille, he is fluent in English, Arabic and French. Mohamed was born in Cairo, Egypt in 1974.



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