



August 12th, 2013

H1 2013 Update

- An impressive performance during H12013

Molasses sales went up by 36% Y-o-Y to reach JOD 49.44 million, beating our estimates by 2.2%. The increase in sales was likely supported by EICO's aggressive marketing, which is evident in EICO's selling and marketing expenses that have more than doubled to reach JOD 4.17 million by the end of H12013, compared to JOD 1.84 million in H1 2012.

-Improvement in Gross margins accompanied with downward pressure on Net Profit Margin

The company witnessed an improvement in its Gross Profit margin, where it increased from 40.7% to 42.3% in H12013, while the previously mentioned increased in selling and marketing expenses and the increase in the lawsuits provision taken (around JOD 348 thousand taken) put downward pressure on NPM where it dropped to 27%. Nevertheless, Net income remains impressive where it grew by 26% to reach JOD 13.52 million during H1 2013.

-Expected increase in finance cost, facilities to be paid off by January 2014

EICO has obtained JOD 17.7 million in banking credit facilities to distribute dividends after the company remained debt free for two years, which will increase the finance cost during year 2013. EICO stated that it'll settle the facilities by the beginning of 2014, which we believe the company can do since the company is showing healthy improvement in cash flows from operations.

	2009	2010	2011	2012	E 2013
# of Shares (Mil)	20.00	20.00	20.00	20.00	25.00
Stock Price	3.14	5.08	6.70	9.45	11.81
Revenues (Mil)	74.84	92.20	83.30	80.58	96.69
EPS	0.50	0.80	1.06	1.05	0.94
P/E	6.28	6.32	6.32	9.00	12.53
Shareholders Equity (Mil)	40.02	45.73	56.50	57.47	61.75
Book Value Per Share	2.00	2.29	2.83	2.87	2.47
P/BV	1.57	2.22	2.37	4.54	5.12

Source: EICO, AWRAQ

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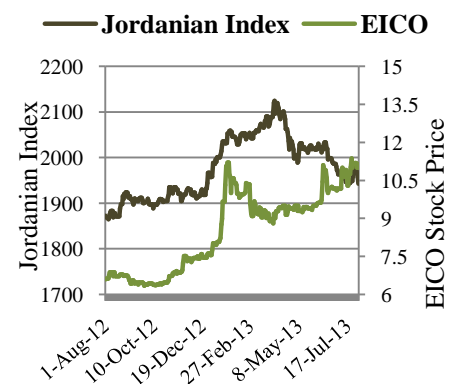
Stock Data

Price*	10.95
Fair Value	11.81
Rating	Buy
Market Cap (Mn)	273.75
52 Week High	14.00
52 Week Low	7.93
Bloomberg	EICO JR
Free Float %	23.7%
P/E	13.06
P/BV	5.42
Capital (Mn)	25.00
Dividend Yield	9.13%

*Prices as of 7th, August 2013

Source: Amman Stock Exchange, Bloomberg

Stock Performance



Prices as of 7th August, 2013

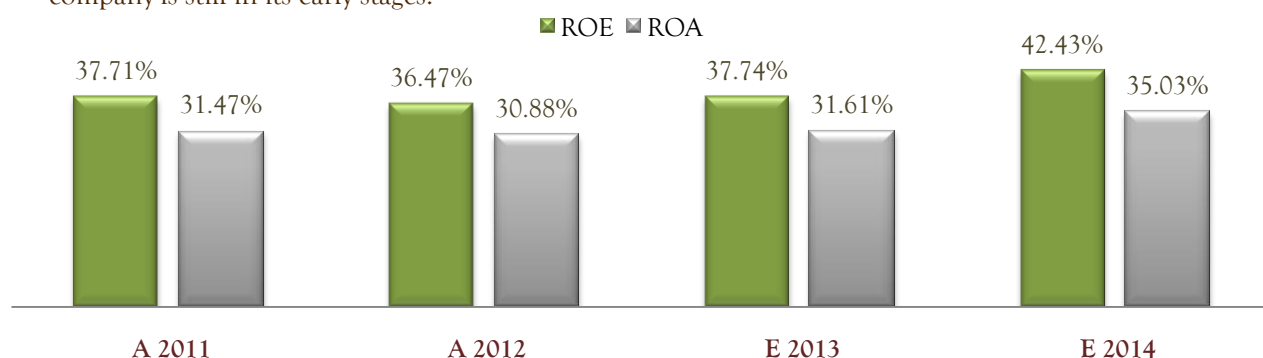
Source: Amman Stock Exchange (ASE)





Forecasts and Valuation

EICO is planning to be aggressive when it comes to marketing in the next few years where the company has announced its intentions to raise the marketing budget to be around 10-12% of sales, up from about 7% spend during year 2012. During the first half of the year the company had witnessed improvement in its gross margin even though depreciation expense went up from JOD 1.6 million in H1 2012 to JOD 2.06 million by the end of H1 2013, most probably due to a drop in raw materials costs. Net income went up by 26% during H1 2013, increasing the net profit margin to 27%. However, we expect that the increase in financing costs will have a slight downward pressure on net profit margin for the rest of the year, keeping it around the levels of 24-25%. Al-Taif company's (a photovoltaic cells and related energy services company owned by EICO) impact on the company's profitability is still uncertain since the company is still in its early stages.



Valuation

EICO's performance has been within our expectations so far regarding gross profit margins and sales, while the company's net profit margin was impressive. If the company did not increase its shares from 20 million to 25 million shares the fair value per share would have been significantly higher. We change our previous HOLD recommendation for EICO to BUY at a fair value of JOD 11.81, compared to a market price of JOD 10.95. We should note that the company has showed dedication to keeping its policy of distributing 100% of share capital as dividends where it took banking facilities just to be able to meet the expectations. In a market like the ASE where investors have high appetite for dividends we believe this will put further upward pressure on the price of the company share to support the strong fundamentals of the company that we have factored in our model.

DCF

	2013	2014	2015	2016	2017	Terminal Value
	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)	
Net Income	24.29	29.21	31.75	33.29	36.82	
CAPEX	-4.56	-5.24	-5.24	-5.24	-4.56	
Change in Working Capital	-3.46	-3.55	-2.19	-1.44	-1.09	
Depreciation	3.67	3.86	4.14	4.37	4.55	
Total FCFE	19.95	24.27	28.46	30.98	35.72	347.39
Cost of Equity	13.59%	13.59%	13.59%	13.59%	13.59%	13.59%
Discounted FCFE	18.71	20.05	20.70	19.83	20.13	195.77
G =	0.03					
Total Fair Value						295.201
Capital						25.00
Fair Value per share						11.81

Source: AWRAQ





Balance Sheet

Year	A 2011	A 2012	E 2013	E 2014
	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)
Cash and Cash equivalents	14.51	12.85	31.27	13.81
Account receivables - net	9.47	11.39	12.18	14.01
Inventory - net	10.87	11.66	13.02	14.97
Spare parts inventory - net	1.08	0.75	0.98	1.13
Other Current Assets	3.09	1.16	1.29	1.54
Total Current Assets	39.02	37.81	58.74	45.46
Property, Plant and Equipment - net	14.35	17.75	18.63	20.02
Long Term Investments	3.82	4.24	4.24	4.24
Investment in Associates	0.82	0.55	0.55	0.55
Intangible Assets - net	9.65	7.53	7.37	7.22
Total Non-Current Assets	28.64	30.06	30.79	32.02
Total Assets	67.66	67.87	89.53	77.48
Accounts payable	5.38	4.08	3.74	4.30
Income Tax Provision	2.94	3.09	3.51	4.21
Other Current Liabilities	1.18	1.41	1.44	1.58
Banking Facilities	0.19	0.00	17.70	0.00
Total Current Liabilities	9.50	8.58	26.38	10.09
End of service indemnities	1.16	1.51	0.98	0.95
Long term cheques	0.45	0.31	0.41	0.47
Total Non-Current Liabilities	1.62	1.82	1.40	1.43
Total Liabilities	11.12	10.41	27.78	11.52
Capital	20.00	20.00	25.00	25.00
Statutory reserve	8.63	10.93	10.93	10.93
Voluntary reserve	3.18	3.18	0.00	0.00
Retained earnings	24.41	22.63	25.10	29.31
Minority interest	0.00	0.00	0.00	0.00
Accumulated changes in fair value	0.27	0.72	0.72	0.72
Total Shareholders' Equity	56.48	57.47	61.75	65.96
Total Liabilities and Shareholders' Equity	67.60	67.87	89.53	77.48

* Consider approximation

Source: EICO, AWRAQ





Income Statement

	A 2011	A 2012	A H1 2013	E 2013	E 2014
	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)
Net Sales	83.30	80.58	49.44	96.69	111.19
Cost of Sales	(54.25)	(48.00)	(28.61)	(56.01)	(63.79)
Gross Profit	29.05	32.58	20.83	40.68	47.40
General and Administrative expenses	(6.37)	(4.98)	(2.78)	(5.28)	(5.52)
Selling and Distribution expenses	(3.98)	(6.44)	(4.17)	(9.67)	(11.12)
Finance Cost	(0.54)	(0.17)	(0.13)	(0.45)	(0.17)
Other Revenues (Expenses)	(1.70)	0.64	0.33	1.01	1.01
Gain from Fixed Assets Sales and Investment in Associates	6.27	0.83	0.00	0.00	0.00
Board of directors numeration	(0.05)	(0.05)	0.00	(0.05)	(0.05)
Income Before Tax	22.69	22.42	14.08	26.24	31.55
Tax Expense	(1.39)	(1.46)	(0.72)	(1.95)	(2.34)
Net Income After Tax	21.30	20.96	13.36	24.29	29.21

Source: EICO, AWRAQ





EICO In Brief

EICO Overview

EICO has raised gradually from being just a successful company to become the 11th largest company listed on Amman Stock Exchange (ASE) in terms of market capitalization. The company has attractive margins such as 40% gross profit and 25% net profit margins which are expected to increase further in the future if the company is able to maintain sales growth and market share capture, in addition to its new venture in the field of renewable energy.

Key Attractions

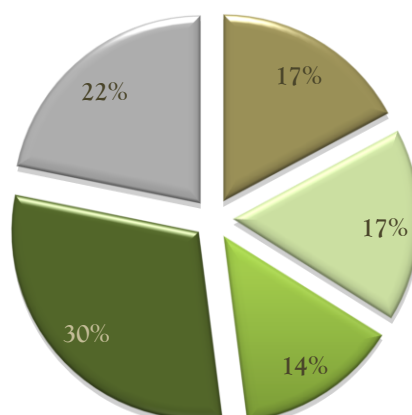
- Al-Fakher is a well known molasses tobacco brand and is rapidly gaining market share in different markets.
- The efficiency of the company which is evident in increasing margins.
- Entrance in a new unrelated industry through Al-Taif company.

Key Concerns

- The competitive nature of the molasses tobacco industry where several new competitors enter the market each year, forcing the company to pay additional expenses to maintain market share.
- Regulations and taxes that might be imposed on tobacco related products.
- Uncertainty regarding the operations of Al-Taif Company.
- Lack of clear market studies and data regarding the molasses tobacco industry.

Shareholders Structure

- Tawfiq Fakhouri
- Arabian Gulf General Investment and Transportation
- Bank Of Jordan
- Others
- Free Float



Source: Securities Depository Center (SDC)



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