



March 20th, 2013

Initiation of Coverage

- Notable increase in Sales of Flavored Molasses Tobacco

At first glance total sales of EICO seems to have dropped 3% to JOD 80.6 million during 2012, but if we focus on the sales of molasses tobacco and exclude cigarettes sales in 2011 – which the company no longer sells after selling its subsidiary in 2011 – we notice that flavored molasses tobacco sales has increased by an impressive 24.4%.

-Improvement in profitability due to expansion

The normalized earnings – excluding extraordinary events – of the company has increased to JOD 21.8 million, an all time high net income of the company compared to the record of JOD 17.8 million obtained in 2011. This was all due to the company's expansionary policy where it added 42 new distributors for its products during 2012 which increased the number of markets directly covered by the company to 96 market. In addition to increasing the capacity of Al-Fakher factory by 30%.

-Substantial increase in sales expected while maintaining solid margins

We expect that the company will be able to increase its sale by a further 20% during year 2013 to reach JOD 96.7 million. While keeping the increase witnessed in gross profit margin during year 2012 where it amounted to 40%. The company's net profit margin is expected to witness a slight drop due to an expected increase in selling and marketing expenses where the company has stated it needs to increase them to 10-12% of sales to maintain market position and gain further market share.

	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	11.78
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	61.01
Book Value Per Share	2.00	2.29	2.83	2.87	2.44
P/BV	1.57	2.22	2.37	4.54	5.12

Source: EICO, AWRAQ

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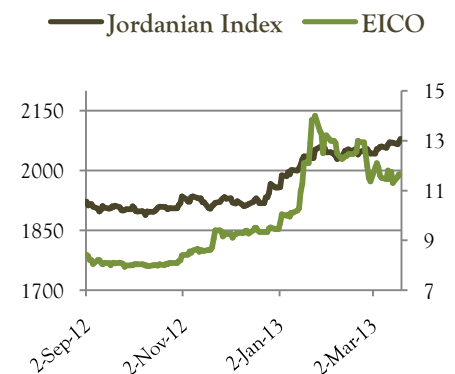
Stock Data

Price*	11.64
Fair Value	11.78
Rating	Hold
Market Cap (Mn)	232.80
52 Week High	14.20
52 Week Low	5.91
Bloomberg	EICO JR
Free Float %	0.22
P/E	11.11
P/BV	4.05
Capital (Mn)	25.00
Dividend Yield	8.59%

*Prices as of 19th march, 2013

Source: Amman Stock Exchange, Bloomberg

Stock Performance



Prices as of 19th march, 2013

Source: Amman Stock Exchange (ASE)





Latest Development

Latest News and Highlights

- EICO has witnessed a good year during 2012, the company was able to pull off an increase of 24.4% in sales of flavored molasses tobacco and accessories – which is currently the main product the company produces – from JOD 64.8 million to JOD 80.6 million. The company was able to increase its gross profit margin from 34.9% to 40.5% due to several projects completed during the year and to also due the conclusion of all operations of the International Tobacco Company and the Arab Tobacco Distribution company (in addition to associate companies in Egypt), which put an end to all cigarettes selling activities of the company.
- The company became independent of suppliers of raw materials needed for the production of flavored molasses through expanding its raw materials factory 's capacity by 65% during 2012 which is sufficient to cover all its production needs. In addition the company increased the capacity of its flavored molasses tobacco factory (Al-Fakher) by 30% and added several new production lines, in addition to several other expansionary projects.
- The company has announced that Al-Taif company (a subsidiary that is fully owned by EICO) will change the nature of its operations from investing in lands and real estate to selling and installing photovoltaic solar cells that generate electricity using solar energy which helps companies and households reduce their electricity bill, the first solar system was installed late 2012 and the company is still in the testing and training phase. The company is also considering installing similar cells in its Al-Fakher factory in Ajman to reduce running costs.

Investment Positives

EICO's sales have been growing rapidly through the last years since the company focused on selling flavored molasses tobacco. During 2011 the company's molasses sales grew by 25%, while during 2012 EICO maintained the growth and sales grew by an additional 24.4%. The company expects similar growth to be witnessed during 2013 where they announced during their assembly meeting that they expect a growth of 25% during this year, we've been conservative in our estimates and expected sales to grow by 20%.

The increase of the company's market share is evident in its sales increase, the company now markets and sells its products in about 96 countries. This also increases the sales of the company in foreign currencies, although it should be noted that the majority of the currencies the company deals with are pegged to the USD which minimizes the risk of exposure.

The company decided to enter the field of renewable energy, where the company's subsidiary (Al-Taif) currently imports and sells photovoltaic cells and systems that help reduce the total consumption of electricity. This seems to be a viable move that will aid in diversifying the company sales and demand is expected to increase since the electricity prices in Jordan are expected to increase through several price hikes by about 30% during the period 2013 - 2017.





Overview on EICO

Background

Al-Eqbal Investment Company (PLC) is a Jordanian investment company that owns branches in the kingdom and in countries such as United Arab Emirates and Egypt. It is currently specialized in producing and distributing flavored molasses tobacco products branded as Al - Fakher. The company owns four subsidiaries, two of them are currently under liquidation after the company sold their assets in year 2011. The current subsidiaries that the company conducts its business through are Al - Fakher Tobacco Trading Co. that manufactures and distributes high quality flavored molasses tobacco, and Al-Taif International for investment, a company that used to invest in real estate and currently works in the field of renewable energy.

Al-Fakher Corporation

Al-Fakher Corporation was established in 1999 as a limited liability private company with a capital of JOD 6.00 million, Al-Fakher produces premium molasses tobacco of wide range of flavors and other “Sheesha” products. It was successfully able to expand its markets so that today it exports for all of the world continents in 96 different markets. Al-Eqbal Investment Company currently considers Al-Fakher Corporation as the main operating firm, in which almost 100% of reoccurring income is a result of Al-Fakher Corp. operations.

Al-Taif International Investment Company

Al Eqbal owns 100% of Al-Taif which is a limited liability private company with a capital of 30,000 JOD. The company’s previous stated goals were to engaged in buying and selling real estate investments and the establishment of housing projects, but in the latest general assembly meeting EICO announced that the company will start importing, selling and installing photovoltaic cells and their related systems.

The Arab Cigarettes Distribution Company (Under Liquidation)

A limited liability company that owns several branches inside and outside Jordan. The company owns the international tobacco and cigarettes distributions company and Charms exporting and importing company in Egypt. Due to the situation in Egypt the company decided to sell those companies during 2012 which resulted in a gain of around JOD 700 thousand.

The International Tobacco Company (Under Liquidation)

The company used to manufacture and sell cigarettes. EICO sold the assets of the company including the factory and the land it was built on in 2011 to Philip Morris which resulted in a gain of JOD 5.5 million.





Investment in Associates

Trust International Transport (TRTR)

EICO currently owns 38.43% of Trust International Transport (TRTR) shares - listed on the Amman Stock exchange (ASE) -, a company that works in transportation business activities and has a capital of JOD 3.43 million. Trust international transport announced in their 2012 preliminary results a net profit of JOD 0.70 million compared to the same period last year were they announced a net loss of around JOD (0.70) million. TRTR net profit was a result of the sale of 28 routes of transport and the busses that used to operate those lines at JOD 2.88 million to Jordan Express Tourists Transport (JETT). TRTR's future looks dim and the current plans of the management is uncertain, since the company sold all of the routes it operated, . (TRTR) stock price closed on 19th of march at JOD 0.52.

Lines Of Business Overview

- Flavored Molasses Tobacco

The main product that the company produces and sells. The flavored tobacco is branded as Al-Fakher, a currently reputable well known brand.

The company produces several types of flavors packaged in different weights. Also the company has launched a couple of flavored molasses products that do not include tobacco in its components to reduce selling price in certain countries mostly in Europe where tobacco related products are taxed heavily and the exclusion of tobacco reduces selling price.

- Other “Sheesha” products

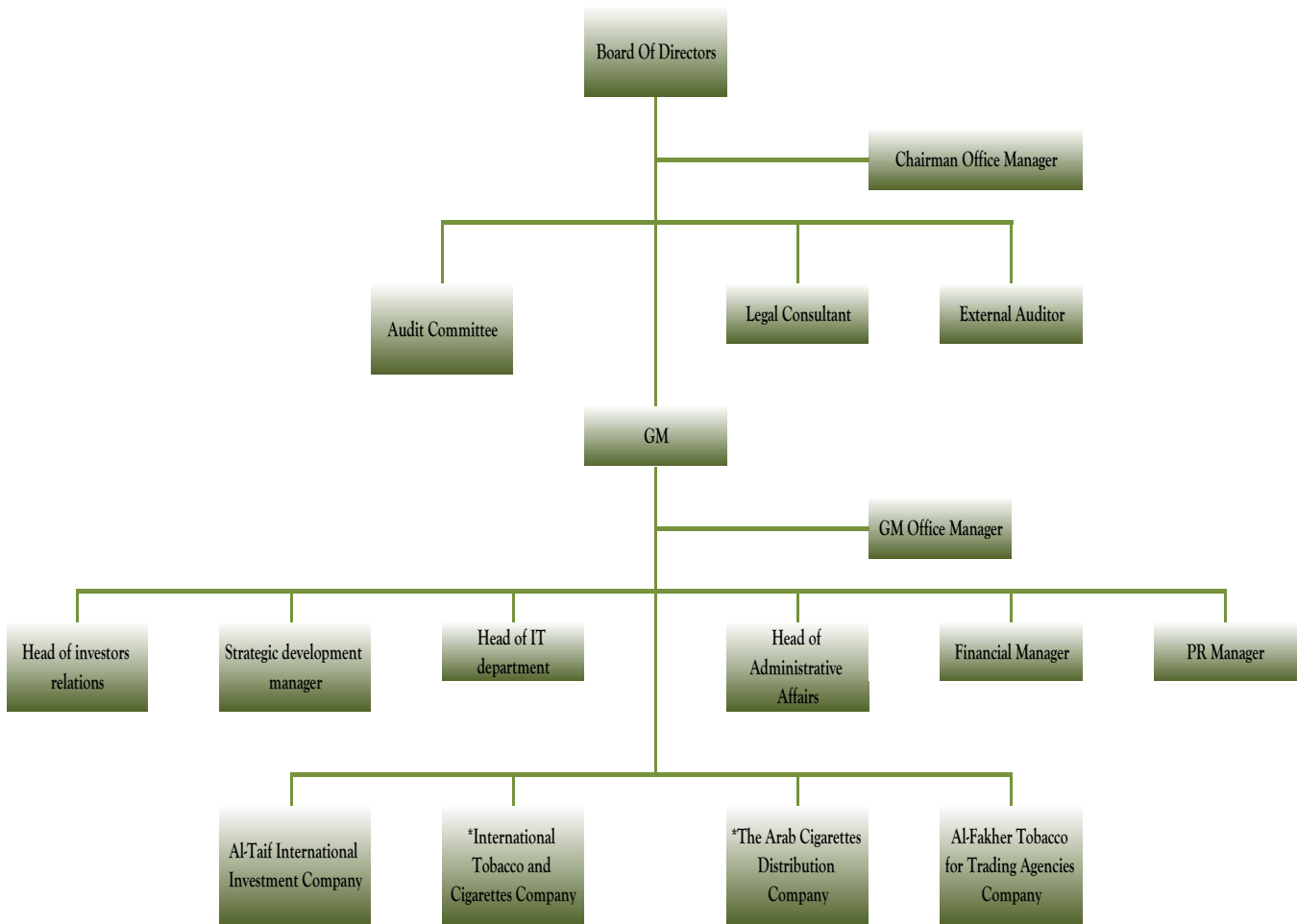
The company provide those also through its company Al-Fakher, where it sells “Sheesha” and related accessories such as pipes, containers and even packaged charcoal.

- Renewable energy systems

In its general assembly meeting, the company announced it will venture in the field of the renewable energy through its subsidiary Al-Taif. The company will focus in its first couple of years on importing and selling photovoltaic cells and systems in addition to other services such as energy audit.



Corporate Structure



Source: EICO

* Company currently under liquidation.

Company's Competitive Situation

Flavored molasses tobacco industry is a very competitive where several producers enter the market each year, something the company is aware of. The company has a strong presence in the local market, where the company's market share was about 40% back in 2011. Also, about 60% of the company's sales in 2011 were exports outside the Jordanian market, adding diversification to the sales of the company, in addition to international recognition of its brand, Al-Fakher.

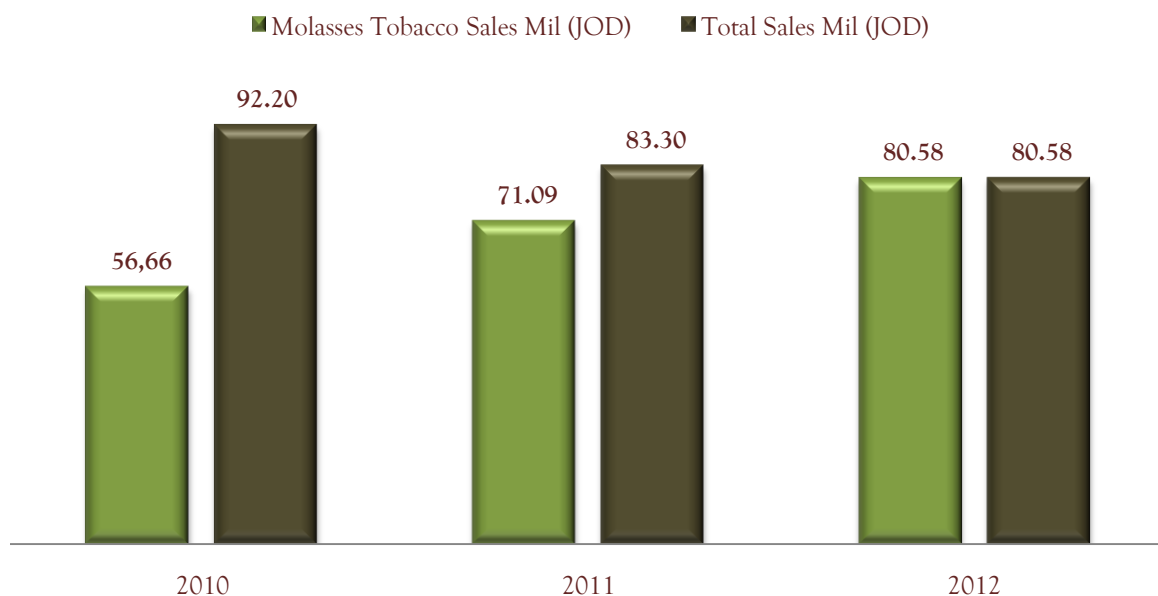




Financial Review

Historical Sales

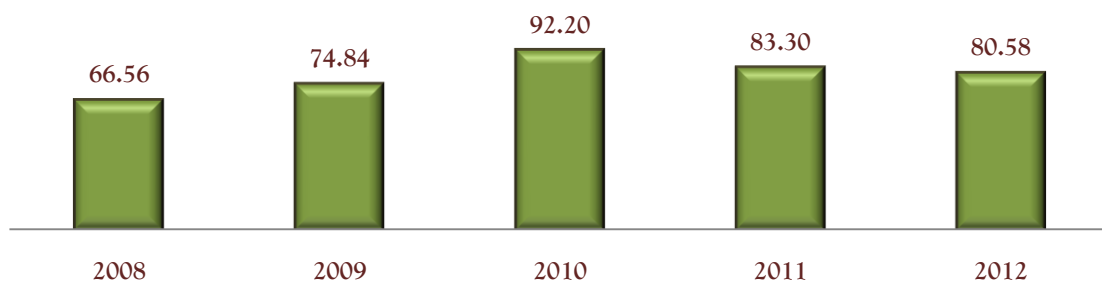
Since the company has sold its subsidiary International Tobacco & Cigarettes Company and the company currently only sells Molasses and related products, we will focus on the sales trend of Molasses only.



Source: EICO

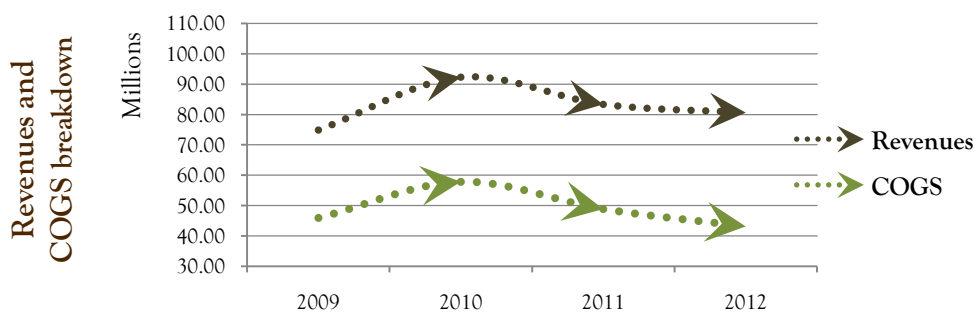
Molasses tobacco sales has been growing rapidly throughout the last three years, where they grew from JOD 56.7 million in 2010 to JOD 71 million in 2011, achieving a growth of 25%. The company was able to gain further growth in year 2012 where sales grew by 24.4% to reach JOD 80.58 million. This increase in sales can be attributed to several factors such as the brand's (Al Fakher) reputation, entering new markets and gaining market shares in those markets, in addition to the company's focus on the marketing of its molasses tobacco products which is evident in their promotional expenses which have more than doubled during year 2012 to reach JOD 4.6 million, which constitutes about 72% of total selling and distributing expenses.

Total Sales



Source: EICO





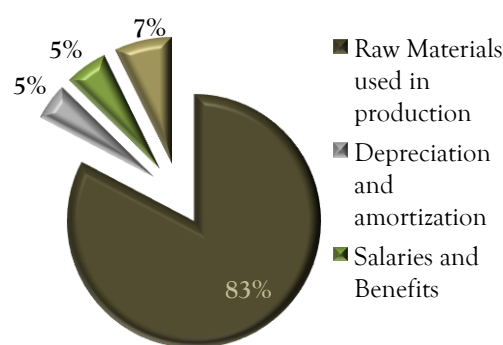
Source: EICO

Cost of Sales and Gross Profit Margin

About 83% of the company's cost of sales is in raw materials, while salaries and other manufacturing expenses make about 5.4% and 7.2% respectively, making the costs of production mostly variable in nature. The company's gross profit margin has increased from 35% to 40% in 2012 under the light of decreases in salaries, depreciation and purchases of raw materials used in production. The company is confident in its ability of maintaining the current margin and stated that it is aiming to increase it through further reductions in costs, we expect that the company will be able to maintain the current margin, dropping slightly each year but remaining around the same level witnessed during 2012.

COGS Break Down

	2011	2012	%
	JOD (Mn)	JOD (Mn)	
Raw Materials used in production	40.00	40.23	82.71%
Depreciation and amortization	2.74	2.26	4.65%
Salaries and Benefits	2.70	2.64	5.43%
Other manufacturing expenses	3.82	3.51	7.21%
Total	49.24	48.64	100.00%



Source: EICO



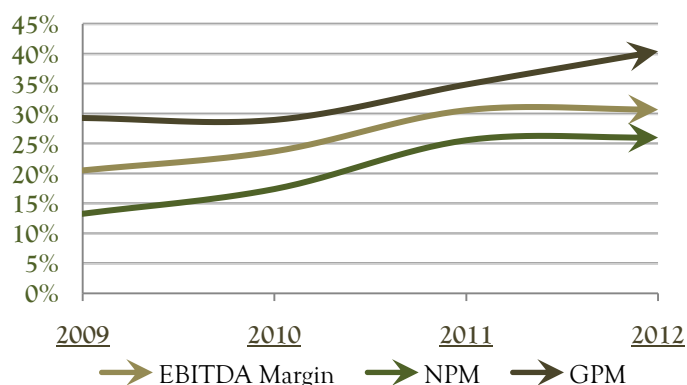


Profitability Margins

	2009	2010	2011	2012
	JOD(Mn)	JOD(Mn)	JOD(Mn)	JOD(Mn)
Sales	74.84	92.20	83.30	80.58
Net Income	9.94	16.06	21.30	20.96
Gross Profit	21.91	26.71	29.05	32.58
EBITDA	11.42	17.57	22.74	22.46
EBITDA Margin	15.26%	19.06%	27.30%	27.88%
NPM	13.28%	17.42%	25.57%	26.01%
GPM	29.27%	28.96%	34.88%	40.43%

Source: EICO

The company was able to increase its net profit margin to 26% during 2012, although at first sight this might seem as a modest increase compared to 2011's NPM of 25.5%. But if we compare the EBITDA of the company after we exclude the effect of the sale of International Tobacco Company in 2011 and the company's subsidiary in Egypt in 2012 - which resulted in a gain of JOD 694 thousand-, we can clearly see that EBITDA has increased from JOD 19.9 million to JOD 24.3 million in 2012, which shows a growth in the core operations of the company and significant improvement in margins.



Source: EICO

Assets Growth

The company had several expansionary projects during 2012 which included expanding the capacity of the factory that produces the basic material needed for manufacturing molasses tobacco by 65%, making the company totally independent on suppliers of the material. In addition to increasing the total capacity of production for Al-Fakher factory by 30% by adding several new production lines for their new products and new products' sizes. Also the company added new storage warehouses for its raw materials and finished products in addition to several other projects. The mentioned projects required a substantial amount of Capital Expenditures where the company spent around JOD 6.5 million on buildings and machinery, while the remaining JOD 1.6 million were spent on other assets. Although net PPE grew by almost 24%, total assets remained almost flat at JOD 67.9 million, the main reason behind the lack of growth is the drop witnessed in goodwill from JOD 9.6 million to JOD 7.5 million.





Goodwill

The company fully amortized JOD 1.98 million of goodwill related to its subsidiary the international tobacco company – Egypt and the franchise rights of Charms for Import and Distribution. The current amount of goodwill carried on the balance sheet contains JOD 6.6 million as the goodwill of Al-Fakher Company which was not impaired since the company purchased the company, while the remaining JOD 926 thousands represents the company's rights of benefiting from the duty free area in Ajman, which is being amortized slowly each year by JOD 155 thousand.

Current Capital Structure

After the sale of EICO's subsidiary, The International Tobacco Company, EICO decided to utilize part of the additional gain from sale to pay off all of its debt and maintain a 100% equity capital structure in year 2011. The company kept that structure during year 2012 and stated that it is planning to keep it that way for the upcoming years. This also gives the company flexibility should circumstances change or events rise that require additional funding the company can easily obtain debt at lower rates than other companies.

Dividend Payout

The company dividend payout has increased from 30% of capital back in 2008 to 100% in 2011 and 2012. We expect that the company will be able to maintain this ratio in 2013 as well, although it should be noted that the company has distributed 25% of capital as stock dividends by capitalizing the voluntary reserve and a part of retained earnings. Therefore should the company decide to distribute 100% of capital next year, it will be funded entirely by 2013 net income from operations.

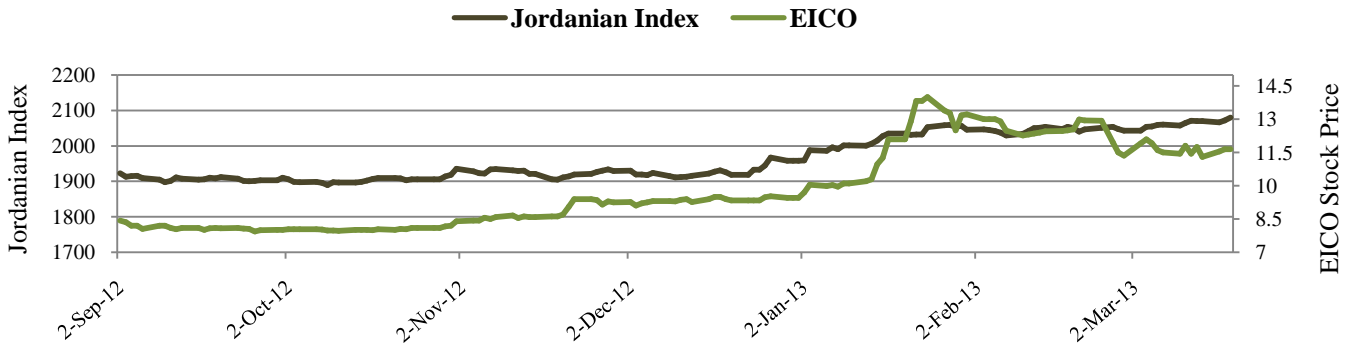
	2008	2009	2010	2011	2012
Payout to Capital	30.0%	50.0%	50.0%	100.0%	100.0%
DPS	0.30	0.50	0.50	1.00	1.00
Payout Ratio	80.63%	100.61%	62.26%	93.91%	95.42%
Dividend Yield	12.30%	15.92%	9.84%	14.93%	10.58%
Stock Price	2.44	3.14	5.08	6.70	9.45
Capital	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
EPS	0.37	0.50	0.80	1.06	1.05

Source: Amman Stock Exchange (ASE), Bloomberg, EICO





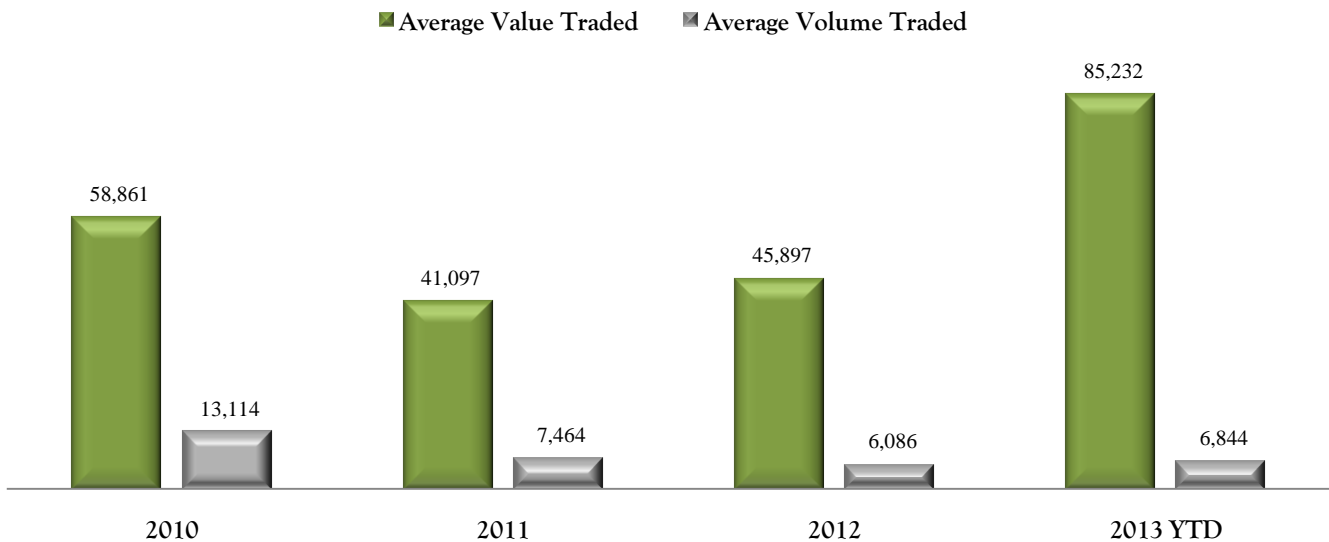
Stock Performance



* Prices as of 19th March, 2013

Source: Amman Stock Exchange (ASE)

Eqbal's stock has witnessed rapid growth during last year, at the beginning of the year the stock was trading around the level of JOD 6.6 per share where investors were not sure if the company will be able to maintain its sales growth recorded during year 2011. Once the results of Q1 2012 were announced the stock price increased to the level of JOD 8.3 and kept trading around that level until the third quarter of the year, where positive results supported the price and it kept increasing to reach JOD 9.45 by the end of 2012. The first two months of 2013 the price maintained its momentum peaking at JOD 13.83 in late January, among the anticipation of dividends and annual results. The stock went ex-dividend near the end of February and currently is trading at JOD 11.64 and currently EICO is the 11th largest listed company in terms of market capitalization on the Amman Stock Exchange (ASE).



* Prices as of 19th March, 2013

Source: Amman Stock Exchange (ASE)

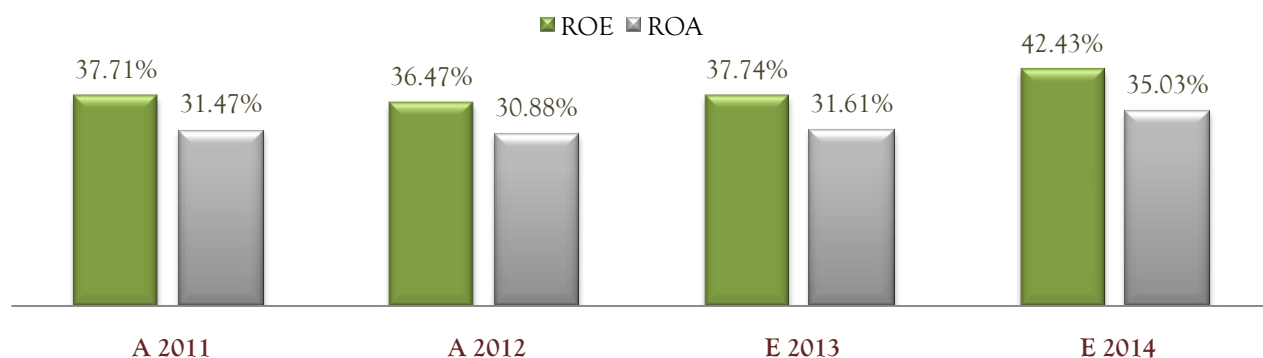




Forecasts and Valuation

Forecasted Sales

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. In addition to that the company has increased the capacity of both its factory of flavored molasses tobacco and the raw materials needed for it. We expect that the company will be able to achieve around 20% growth in sales for year 2013 and about 15% in the year following it. The company will be able to maintain its current margins, with the possibility to increase it if it implements the systems that Al-Taif company imports on its factories, but whether the company will do such move is still uncertain.



Valuation

We have relied on the discounted cash flows (DCF) method in our valuation which we found represents the fair value of the company more than the dividend discount model (DDM). We initiate our coverage with a HOLD recommendation at a fair value of JOD 11.78. Our estimate for the cost of equity was 13.59% which was based on a 7.45% risk free rate and a 4% equity risk premium, the sustainable growth rate (g) was estimated to be around 3%. The company's target capital structure is expected to remain 100% equity through out the forecasted period.

DCF

	2013	2014	2015	2016	2017	Terminal Value
	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)	
Net Income	23.55	27.82	30.14	31.46	32.87	
CAPEX	-4.56	-5.24	-5.66	-5.94	-6.24	
Change in Working Capital	-2.03	-3.34	-2.05	-1.36	-1.37	
Depreciation	2.78	3.06	3.40	3.75	4.10	
Total FCFE	19.75	22.30	25.83	27.91	29.36	285.46
Cost of Equity	13.59%	13.59%	13.59%	13.59%	13.59%	13.59%
PV factor	88.03%	77.50%	68.23%	60.06%	52.88%	52.88%
Discounted FCFE	17.38	17.29	17.62	16.77	15.52	150.94
G =	0.03					
Total Fair Value						235.52
Capital						20.00
Fair Value per share						11.78

Source: AWRAQ





Sensitivity Analysis Figures

Changes in Cost Of Equity and G						Changes in Revenues and GP							
Cost of Equity						Change in Revenues							
12.59% 13.09% 13.59% 14.09% 14.59%						-5.00% -2.50% 0.00% 2.50% 5.00%							
Growth	4.00%	14.15	13.35	12.64	12.00	11.42	Change in Gross Profit	10.00%	11.97	13.41	14.97	16.66	18.49
	3.50%	13.57	12.84	12.19	11.60	11.06		5.00%	10.66	11.98	13.40	14.93	16.59
	3.00%	13.05	12.38	11.78	11.23	10.73		0.00%	9.31	10.50	11.78	13.16	14.65
	2.50%	12.58	11.96	11.41	10.90	10.43		-5.00%	7.92	8.97	10.11	11.34	12.65
	2.00%	12.15	11.58	11.06	10.59	10.15		-10.00%	6.46	7.39	8.39	9.46	10.60

Source: AWRAQ

DDM Valuation

The company has stated that it is planning to maintain its 100% of capital distribution policy throughout the following years, and that the increase in capital done during year 2013 will not affect the policy and therefore an increase in dividends paid next year is expected. We have tested the ability of the company to pay out such dividends using the assumptions we used in our DCF model. Although we believe that the DCF is a better representative of the company's value, therefore we relied on it in making our recommendation. The following is the results of our dividend discount model (DDM).

DDM Table

	2013	2014	2015	2016	2017	Terminal Value
	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)	
Dividends Paid	20.00	25.00	25.00	25.00	25.00	
Total	20.00	25.00	25.00	25.00	25.00	243.11
Cost of Equity	0.14	0.14	0.14	0.14	0.14	0.14
PV factor	0.88	0.78	0.68	0.60	0.53	0.53
Discounted Dividends	17.61	19.38	17.06	15.02	13.22	128.55
G =	0.03					
Total Fair Value						210.82
Capital						20.00
Fair Value per share						10.54

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	13.27	11.46
Account receivables - net	9.47	11.39	12.18	14.01
Inventory - net	10.87	11.66	13.52	15.55
Spare parts inventory - net	1.08	0.75	1.02	1.18
Other Current Assets	3.09	1.16	1.29	1.54
Total Current Assets	39.02	37.81	41.29	43.73
Property, Plant and Equipment - net	14.35	17.75	19.52	21.70
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	31.68	33.71
Total Assets	67.66	67.87	72.97	77.44
Accounts payable	5.38	4.08	5.67	6.52
Income Tax Provision	2.94	3.09	3.40	4.01
Other Current Liabilities	1.18	1.41	1.48	1.62
Total Current Liabilities	9.50	8.58	10.55	12.16
End of service indemnities	1.16	1.51	0.98	0.95
Long term cheques	0.45	0.31	0.43	0.49
Total Non-Current Liabilities	1.62	1.82	1.41	1.44
Total Liabilities	11.12	10.41	11.96	13.61
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	24.36	27.18
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	61.01	63.83
Rights of non-controlled	67.60	67.87	72.97	77.44
Total Liabilities and Shareholders' Equity	14.51	12.85	13.27	11.46

* Consider approximation

Source: EICO, AWRAQ





Income Statement

	A 2011	A 2012	E 2013	E 2014
	JOD (Mn)	JOD (Mn)	JOD (Mn)	JOD (Mn)
Net Sales	83.30	80.58	96.69	111.19
Cost of Sales	(54.25)	(48.00)	(57.10)	(65.25)
Gross Profit	29.05	32.58	39.59	45.94
General and Administrative expenses	(6.37)	(4.98)	(5.22)	(5.47)
Selling and Distribution expenses	(3.98)	(6.44)	(9.67)	(11.12)
Finance Cost	(0.54)	(0.17)	(0.23)	(0.26)
Other Revenues (Expenses)	(1.70)	0.64	1.01	1.01
Gain from Fixed Assets Sales and Investment in Associates	6.27	0.83	0.00	0.00
Board of directors numeration	(0.05)	(0.05)	(0.05)	(0.05)
Income Before Tax	22.69	22.42	25.44	30.05
Tax Expense	(1.39)	(1.46)	(1.89)	(2.23)
Net Income After Tax	21.30	20.96	23.55	27.82

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

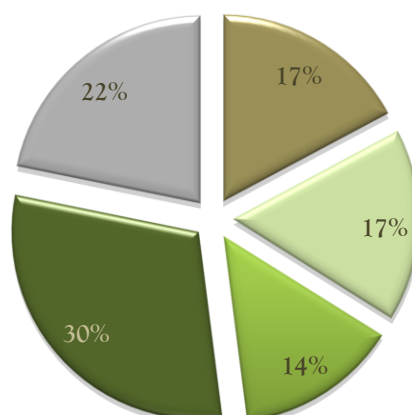
- Al-Fakher is a well known molasses tobacco brand and is rapidly gaining market share in different markets.
- The efficiency of the company which is evident in increasing margins.
- Entrance in a new unrelated industry through Al-Taif company.

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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