



Update Report

SECURITIES BROKERAGE

29 May 2007

Raya Holding Company

Buy

Courage to Change

General Information

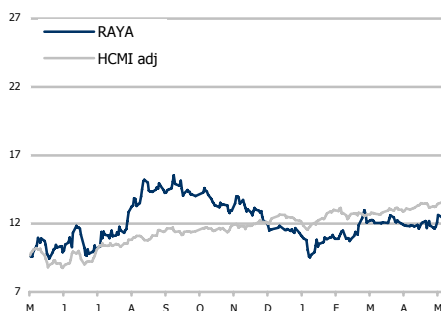
RIC	RAYA.CA
Bloomberg code	RAYA EY
Market cap	EGP690 mil
Net bank debt	EGP100 mil
Enterprise value	EGP790 mil
Shares outstanding	57 mil
Free float	59.0%
Weight in HCMI	0.0%
Weight in IFCG	0.0%
Weight in MSCI	0.0%

Valuation

Target price	EGP14.9
Market price	EGP12.1
Upside potential	23.1%

	Absolute	*Relative
YTD Δ	5.5%	-1.5%
1M Δ	4.6%	1.3%
3M Δ	7.9%	2.3%

* Relative to the HCMI



Source: HC Brokerage

Summary

Raya Holding Company: Background

Raya Holding Company was created in 1999 by merging seven local players operating in the fields of mobile distribution, IT products, and IT services. The company's current paid-in capital amounts to EGP285 million distributed over 57 million shares with a par value of EGP5 per share.

Raya Holding Company: Operations

The company has three major lines of business. (1) Retail and Distribution of mobile handsets and IT products: Raya sells directly to the retail market, distributes to wholesalers, and performs maintenance services for its products. Retail and Distribution captured 79.2% of 1Q07 gross operating revenue. (2) Information Technology: Raya offers infrastructure solutions, business applications and solutions, and outsourcing services. Information Technology accounted for 17.7% of 1Q07 gross operating revenue. (3) Call Center: Raya offers local and international clients with channel development and campaign management. Call Centers represented 3.1% of 1Q07 gross operating revenue.

Spinning Off the Telecom LOB

In 4Q06, Raya Holdings sold 51.0% of Raya Telecom to Vodafone Egypt for a total consideration of EGP104 million, realizing a capital gain before taxes of EGP66.6 million. In 1Q07, Raya Holdings sold its remaining 45.9% stake in Raya Telecom to Vodafone Egypt for a total consideration of EGP94 million, realizing a capital gain before taxes of EGP54.4 million.

We recommend "Buy" on Raya Holding Company

We are updating our coverage of Raya Holding Company with a "Buy" recommendation, based on DCF price target of EGP14.9/share. Our price target offers 23.1% upside potential to the company's current market price of EGP12.1/share. Based on our analysis, the stock trades at a forecast P/E of 8.0x for FY07e, compared to a market average of 14.6x.

Key Performance Indicators

EGP (unless stated otherwise)	05A	06A	07E	08F	09F
Revenues (Mil)	1,549	1,652	2,145	2,407	2,645
Net Inc. before App. (Mil)	40	68	86	60	87
EPS	0.70	1.19	1.51	1.06	1.53
EPS Growth	37.2%	70.3%	27.1%	-29.6%	44.4%
P/E (x)	17.4	10.2	8.0	11.4	7.9

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I. Investment Summary

Raya Holding Company's Operations

Raya Holding Company was created in 1999 by merging seven local players operating in the fields of mobile distribution, IT products, and IT services. The company's current paid-in capital amounts to EGP285 million distributed over 57 million shares with a par value of EGP5 per share.

Raya Holding's sales increased by 31% from EGP394 million in 1Q06 to EGP515 million in 1Q07. Raya Holdings operates three lines of businesses. Retail and Distribution, Information Technology, and Call Center.

(1) Retail and Distribution of mobile handsets and IT products: Raya sells directly to the retail market, distributes to wholesalers, and performs maintenance services for its products. Retail and Distribution captured 79.2% of 1Q07 gross operating revenue. (2) Information Technology: Raya offers infrastructure solutions, business applications and solutions, and outsourcing services. Information technology accounted for 17.7% of 1Q07 gross operating revenue. (3) Call Center: Raya offers serves local and international clients with channel development and campaign management. Call Centers represented 3.1% of 1Q07 gross operating revenue.

Spinning Off the Telecom LOB Boosts Bottom Line

In 4Q06, Raya Holding sold 51.0% of Raya Telecom to Vodafone Egypt for a total consideration of EGP104 million, realizing a capital gain before taxes of EGP66.6 million. In 1Q07, Raya Holding sold its remaining 45.9% stake in Raya Telecom to Vodafone Egypt for a total consideration of EGP94 million, realizing a capital gain before taxes of 54.4 million. Based on our valuation, Raya Holding sold Raya Telecom at a 40% premium based on an EV / EBITDA valuation.

We note that Raya bore a one-time non operating expense of EGP8.6 million in 1Q07 as end of service compensation to employees. All of the above factors led to a net income of EGP53.0 million in 1Q07 compared to a net loss of EGP1.2 million in 1Q06.

We forecast continuous double-digit top line growth from FY07e to FY11f

We believe that Raya Holding is set to deliver EGP2.14 billion in FY07e top line sales, up 29.9% YoY. We forecast sales to further grow, 12.2% in FY08 to EGP2.41 billion. Sales growth is expected on the back of overall economic growth and boosted by the company's catering to unsaturated markets with strong prospects for the future.

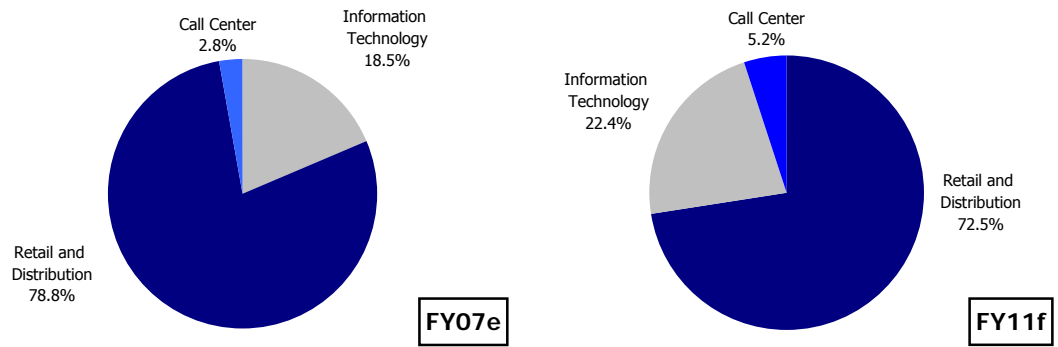
Table 1: Key Indicators (FY06a: FY09f)

Figures in EGP 000s	FY06a	FY07e	FY08f	FY09f
Sales	1,651,531	2,144,774	2,406,522	2,645,439
<i>Growth in Sales</i>	<i>6.6%</i>	<i>29.9%</i>	<i>12.2%</i>	<i>9.9%</i>
Operating Profit	50,962	93,890	115,951	148,698
<i>Operating Margin</i>	<i>3.1%</i>	<i>4.4%</i>	<i>4.8%</i>	<i>5.6%</i>
Total Assets	1,063,567	1,265,128	1,356,355	1,512,356
<i>Growth in Total Assets</i>	<i>21.2%</i>	<i>19.0%</i>	<i>7.2%</i>	<i>11.5%</i>

Source: Raya Holding, HC Brokerage

Retail and Distribution is Raya’s main line of business, contributing 76.4% of total operating revenues in FY06, down from 77.9% in FY05. We forecast that Retail and Distribution will remain the company’s major LOB. However, in the next five years growth in Information Technology and Call Center will be higher, thus reducing the share of Retail and Distribution’s operating revenue to 72.5% in FY11f.

Chart 1: Raya Holding Company Sales Breakdown (FY07e: FY11f)

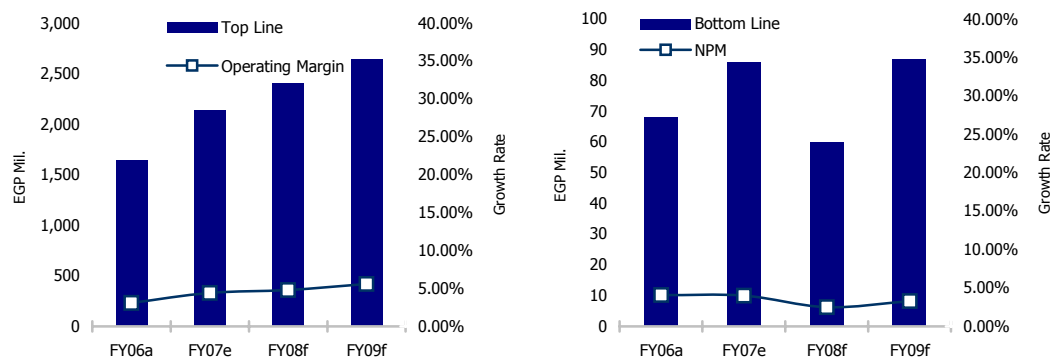


Source: HC Brokerage

Fluctuating Net Income Due to Unusual Gains

We estimate that Raya will post net income of EGP86 million in FY07e, 27.1% growth YoY from EGP68 million in FY06. We note that Raya Holding achieved a capital gain before taxes of EGP67 million in FY06 from selling a 51% stake in its subsidiary Raya Telecom. Moreover, the company achieved a capital gain before taxes of EGP54 million in 1Q07 from selling its remaining 45% stake in Raya Telecom. Therefore, we note that the bulk of FY07e profits is coming from a non recurring item. Therefore, net income is forecast to decline by 29.6% in FY08f amounting to EGP60 million. We forecast net income of EGP87 million in FY09f, up 44.4% YoY. Growth in FY09’s bottom line is on the back of continuous growth in sales along with better cost management.

Chart 2: Raya Top Line and Bottom Line Performance (FY06a: FY09f)



Source: Raya Holding Company, HC Brokerage

Our DCF valuation implies a target price of EGP14.9/share

Based on a DCF target price of **EGP14.9** per share, which offers 23.1% upside potential to EGP12.1, the company’s current market price, we are updating our coverage of **Raya Holding Company** with a “Buy” recommendation. The company trades at a forecast P/E of 8.0x and 11.4x for FY07e and FY08f, respectively, compared to a market average of 14.6x and 13.1x, respectively.

Table 2: Value Per Share (EGP) Sensitivity to WACC

Perpetual Growth Rate	WACC		
	13.5%	14.5%	15.5%
3%	16.1	14.0	12.3
4%	17.3	14.9	12.9
5%	18.7	15.9	13.7

Source: HC Brokerage

Valuation Assumptions

- We have applied a single WACC of 14.5%.
- We estimated the company's free cash flow for the next 5 years and assumed a perpetual growth rate of 4.0%, thereafter.
- We did not account for any further acquisitions by the company.

Sensitivity Analysis

Case 1: Lower Growth in Retail and Distribution – Should Retail and Distribution revenue grow by 10% less than we projected, we reduce our target price to **EGP14.6**.

Lower Margin for Retail and Distribution – Should the margin for Retail and Distribution be 1% lower than our forecast, we reduce our target price to **EGP11.5**.

Case 2: Lower Growth in Information Technology – Should Information Technology revenue grow by 10% less than we projected, we reduce our target price to **EGP13.3**.

Lower Margin for Information Technology – Should the margin for Information Technology be 1% lower than our forecast, we reduce our target price to **EGP13.9**.

Case 3: Lower Growth in Call Center – Should Call Center revenue grow by 10% less than we projected, we reduce our target price to **EGP13.9**.

Lower Margin for Call Center – Should the margin for Call Center be 1% lower than our forecast, we reduce our target price to **EGP14.7**.

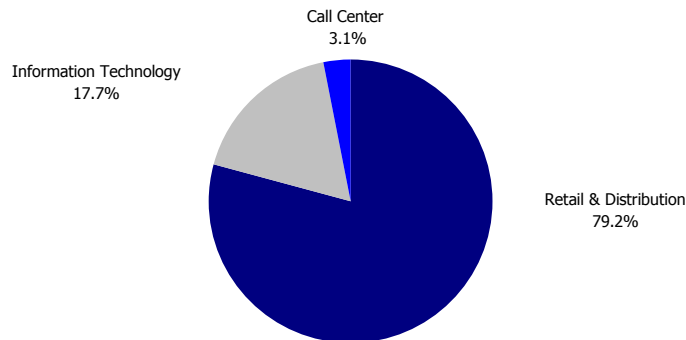
Case 4: Higher CAPEX – Should the company require higher CAPEX – 10% more than we projected – we lower our target price to **EGP13.2**.

II. Financial Review: 1Q07

1Q07: Inorganic Growth

Raya Holding's sales increased by 31% from EGP394 million in 1Q06 to EGP515 million in 1Q07. Raya Holding operates three lines of businesses: Retail and Distribution, Information Technology, and Call Center.

Chart 3: 1Q07 Sales Breakdown by LOB



Source: Raya Holdings, HC Brokerage

I) Retail & Distribution

This LOB performs three major operations: Distribution (84.4% of 1Q07 the LOB's revenue), Retail (14.6%), and Maintenance Services (1.0%).

Table 3: 1Q07 Sales Breakdown – Retail & Distribution

EGP Mil.	1Q07	1Q06	Growth
Mobile Distribution	276	187	48%
IT Distribution	72	51	42%
Total Distribution	348	238	37%
Retail	60	55	9%
Maintenance	4	4	1%
Total Sales	412	297	39%

Source: Raya Holding Company, HC Brokerage.

We note that Retail & Distribution LOB witnessed 39% growth in operating revenue from EGP297 million in 1Q06 to EGP412 million in 1Q07. This was mainly derived from a 91% increase in the number of mobile handsets sold from 365,000 to 699,000. Growth in revenues was accompanied by a proportionate growth in COGS thus maintaining a stable gross margin of 11%.

II) Information Technology

The IT LOB has three major sub-segments: Infrastructure Solutions (80% of the LOB's revenues), Business Applications and Solutions (17%), and Outsourced Services (3%). The company has a strong regional presence, with operations in Qatar, Saudi Arabia, U.A.E, Kuwait, Algeria, Pakistan, Oman, Yemen, and Morocco.

Table 4: 1Q07 Sales Breakdown – Information Technology

EGP Mil.	1Q07	1Q06	Growth
Infrastructure Solutions	74	53	40%
Business Application Solutions	16	23	-32%
Outsourced Services	3	4	-31%
Total Sales	92	80	16%

Source: Raya Holding Company, HC Brokerage.

We note that the IT LOB witnessed 16% growth in operating revenue from EGP80 million in 1Q06 to EGP92 million in 1Q07. This was mainly derived from a 40% increase in business from infrastructure solutions by capitalizing on the volume of the company's business on hand, along with newly awarded contracts in Egypt and the region. However, intense competition in this LOB resulted in revenue growth less proportionate than growth in COGS, causing a decline in the gross margin from 19% in 1Q06 to 17% in 1Q07.

III) Call Center

The Call Center LOB is divided into local (51% of the LOB's revenues) and offshore (49%). The company's revenues from this LOB surged in 1Q07 by 189% from EGP5.5 million in 1Q06 to EGP15.9 million in 1Q07. This is mainly due to increasing the company's stake in the C3 call center from 25% to 84.5% and thus being able to fully consolidate it starting in 1Q07.

The acquisition of C3 along with the effective utilization of the new Raya Contact Center building had a positive impact on the LOB gross margin. The Call Center LOB gross margin increased from 29% in 1Q06 to 47% in 1Q07.

Table 5: 1Q07 Total Sales Breakdown

EGP Mil.	1Q07	1Q06	Growth
Retain & Distribution	412	297	39%
Information Technology	92	80	16%
Call Centers	16	6	189%
Telecommunication	0	18	-100%
Less: Intercompany Sales	(5)	(6)	21%
Total Sales	515	394	31%

Source: Raya Holding Company, HC Brokerage.

We note that Raya Holding was able to achieve 31% YoY growth in total sales despite of the fact that 1Q06 contained an EGP18 million revenues from the telecommunication LOB that was sold later.

Growth in Operating and EBITDA Margins

Raya Holding was able to control its administrative expenses, which grew at a lower rate than sales growth, thus achieving higher profitability margins. Moreover, depreciation and amortization expense witnessed a major decline of 61.4% from EGP8.0 million to EGP3.1 million. This is mainly due to the sale of the telecom LOB, whose telecom infrastructure and equipment used to create most of the depreciation. As a result, the operating margin increased from 2.4% to 4.3%, and EBITDA margin increased from 4.5% to 4.9%.

Spinning Off the Telecom LOB Boosts Bottom Line

In 4Q06, Raya Holding sold 51.0% of Raya Telecom to Vodafone Egypt for total consideration of EGP104 million, realizing a capital gain before taxes of EGP66.6 million. In 1Q07, Raya Holding sold its remaining 45.9% stake in Raya Telecom to Vodafone Egypt for a total consideration of EGP94 million, realizing a capital gain before taxes of 54.4 million. Based on our valuation, Raya Holdings sold Raya Telecom at a 40% premium based on an EV / EBITDA valuation.

We note that Raya bore a one-time non operating expense of EGP8.6 million in 1Q07 as end of service compensation to employees. All of the above factors led to a net income of EGP54.5 million in 1Q07 compared to a net loss of EGP1.2 million in 1Q06.

Table 6: 1Q07 Income Statement

Figures in EGP 000s	1Q07	1Q06	Growth
Operating Revenue	515,432	393,472	31.0%
Cost of Service	447,785	335,378	33.5%
Depreciation	3,100	8,035	-61.4%
Gross Profit	64,547	50,060	28.9%
<i>Gross Margin</i>	<i>12.5%</i>	<i>12.7%</i>	
Operating Expense	42,202	40,476	4.3%
Operating Profit	22,345	9,584	133.1%
<i>Operating Margin</i>	<i>4.3%</i>	<i>2.4%</i>	
Net Financing Expense	5,739	6,765	-15.2%
Investment Income – Raya Telecom	54,447	0	100.0%
Other Income (Expense)	(10,939)	(1,080)	912.9%
Pre-Tax Income	60,114	1,739	3,357.5%
Taxes	7,123	2,775	156.7%
Net Income Before Minority	52,991	(1,036)	5,213.7%
Minority Interest	(1,554)	131	1,290.2%
Net Income	54,546	(1,167)	4,774.5%
<i>Net Margin</i>	<i>10.6%</i>	<i>-0.3%</i>	
EBITDA	25,445	17,619	44.4%
<i>EBITDA Margin</i>	<i>4.9%</i>	<i>4.5%</i>	

Source: Raya Holding Company, HC Brokerage.

III. Lines of Business

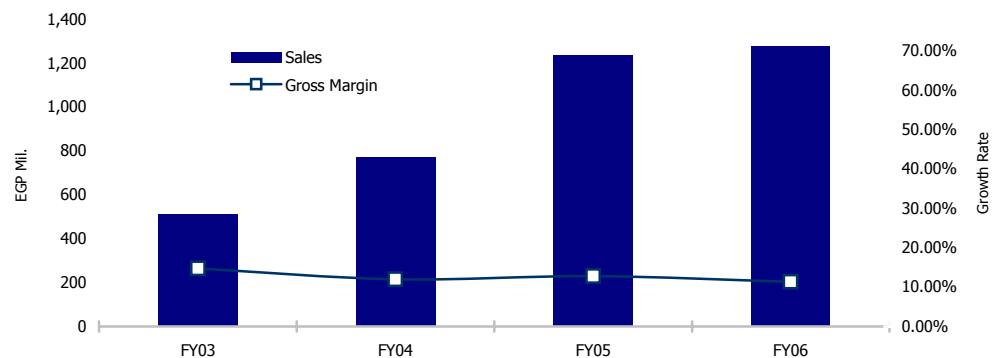
1. Retail and Distribution

Historical Overview

Raya's Retail and Distribution line of business includes mobile handsets and IT products. Sales are made either directly to retail customers or distributed to wholesalers. Raya also provides maintenance services for a fee. Retail and Distribution is the major contributor to Raya's gross operating revenues, capturing 76.4% of FY06 top-line sales (79.2% in 1Q07).

However, fierce competition in this segment results in a low gross margin of about 11% – 13%.

Chart 4: Retail and Distribution Top Line Performance (FY03: FY06)



Source: Raya Holding Company, HC Brokerage

a) Mobile Handsets

Mobile handset sales accounted for around 79.9% of FY06 Retail and Distribution gross operating revenue. Mobile handset sales increased from EGP997 million in FY05 to EGP1.02 billion in FY06. In FY05, Raya owned 36 retail outlets (32 in Egypt and 4 in Algeria) and was able to sell 160,000 handsets through them at an average price of EGP1,313 per handset. Moreover, the company was able to distribute 1.3 million handsets through its dealers at an average price of EGP586 per handset.

In FY06, Raya owned 44 retail outlets (39 in Egypt and 5 in Algeria) and was able to sell 150,000 handsets through them at an average price of EGP1,473 per handset. Moreover, the company was able to distribute 1.6 million handsets through its dealers at an average price of EGP479 per handset.

Moreover, Raya Holdings earned income of EGP35 million in FY06 from maintenance. The company serviced 274,000 handsets at an average rate of EGP128 per handset.

b) IT Products

IT product sales accounted for around 20.1% of FY06 Retail and Distribution gross operating revenue. IT revenues surged by 22.1% in FY06 to EGP257 million. Raya's IT products include branded and assembled PCs, in addition to related peripherals. Raya has distribution agreements with Dell, HP, Microsoft, Intel, and Xerox.

Table 7: Retail and Distribution Sales Breakdown

Figures in EGP 000s	FY04	FY05	FY06
1. Retail			
Number of Outlets	13	36	44
Handsets Sold (000s)	72	160	150
Average Price Per Handset	1,500	1,313	1,473
Sales Value	108,000	210,000	221,000
2. Maintenance			
Number of Handsets Received (000s)	129	208	274
Average Charge Per Handset	132	120	128
Sales Value	17,000	25,000	35,000
3. Distribution			
<i>I) Mobile</i>			
Handsets Sold (000s)	500	1,300	1,600
Average Price Per Handset	1,054	586	479
Sales Value	527,000	762,000	767,000
<i>II) IT</i>			
<i>a. Branded PC</i>			
Number of Units Sold (000s)	9.5	9.1	14.6
Average Price Per Unit	5,684	4,852	5,226
Sales Value	54,000	39,300	76,300
<i>b. Assembled PC</i>			
Number of Units Sold (000s)	4.6	2.2	1.9
Average Price Per Unit	1,537	2,527	1,505
Sales Value	7,000	5,600	2,800
<i>c. Other Sales</i>			
Peripheral Sales	27,900	44,500	36,900
Intel Sales	4,500	78,200	93,300
Other Sales	27,500	44,500	36,900
Total Other Sales	59,900	165,500	177,900
Total IT Revenue	120,900	210,400	257,000
Total Distribution Sales	647,900	972,400	1,024,000
Total Retail and Distribution Revenue	772,900	1,207,400	1,280,000

Source: Raya Holding Company, HC Brokerage.

Future Outlook

a) Mobile Handsets

Mobile handset sales are expected to show significant growth in the next three to five years. Egypt's mobile communications market was kick started in May 1998 when MobiNil won a 15-year concession to operate the first GSM 900MHz mobile network. MobiNil had a monopoly for six months until Vodafone Egypt entered the market as the country's second GSM service provider in November 1998. Mobile revenues increased from 0.3% of GDP in 1998 to 2.4% of GDP in 2005.

The National Telecom Regulatory Authority announced that it was granting Egypt's third mobile license to an Etisalat (UAE) led consortium for a EGP16.7 billion (USD2.9 billion) license fee. The third operator started operations on May 1st, 2007 under the brand name of "Etisalat Misr" and announced that it was able to capture 300,000 subscribers in its first 3 weeks of operations.

The Egyptian cellular market currently has 20.3 million subscribers, implying a penetration rate of about 27.5%. We estimate that the penetration rate will reach 46.5% over the next five years (36.8 million total subscribers).

The main drivers for the expected growth in the cellular market are:

- The introduction of new attractive prepaid plans.
- An expected annual 7% – 8% growth in the country's GDP.
- Steady population growth and a low penetration rate relative to regional markets.

Therefore, we forecast that the number of mobile subscribers will increase by 16.5 million in the next five years, giving Raya a good opportunity to sell and distribute mobile handsets. Raya has developed an aggressive plan to increase its number of retail shops to a minimum of 60 in Egypt by the end of 2007 in order to benefit from expected growth in the mobile industry in 2007 and 2008. Sales through retail shops grants the company higher margins than those through agents.

Raya is currently the major distributor for Nokia. In 2005, it acquired 100% of SAMA, the major distributor of Samsung. Moreover, and in order to further diversify its product mix, Raya acquired distribution rights for two new mobile products (iMate and Sagam). iMate will target the upper segment of the market, while Segam will target the lower segment.

Raya has a regional presence in Algeria through five new retail shops. Algeria is a growing mobile market with 17.0 million subscribers as of March 31st, 2007, a population of 33 million and a GDP per capita of USD3,110. We forecast cellular penetration in Algeria to reach 87% by 2011, implying 31.3 million subscribers. (Re: HC Report, *Great Expectations*, March 2007).

Table 8: Mobile Retail and Distribution Sales Forecast

Figures in EGP 000s	FY07e	FY08f	FY09f	FY10f	FY11f
1. Retail					
Handsets Sold (000s)	240	281	297	320	341
Sales Value	318,239	350,093	347,501	356,688	364,277
2. Distribution					
Handsets Sold (000s)	2,240	2,576	2,911	3,231	3,586
Sales Value	1,073,800	1,160,778	1,259,212	1,383,748	1,535,960
3. Maintenance					
Handsets Received (000s)	329	395	473	568	682
Sales Value	37,798	43,090	50,156	59,586	71,503
Total Mobile Sales	1,429,837	1,553,960	1,656,869	1,800,021	1,971,740

Source: HC Brokerage.

b) IT Products

IT product sales are expected to increase significantly in the next three to five years. Egypt currently has a PC penetration rate of 2.5% compared to a regional average of about 20%. Historically, Raya has been distributing branded and assembled PCs in a completely unsaturated market. However, in the future, Raya is going to focus exclusively on branded PCs due to higher profit margins.

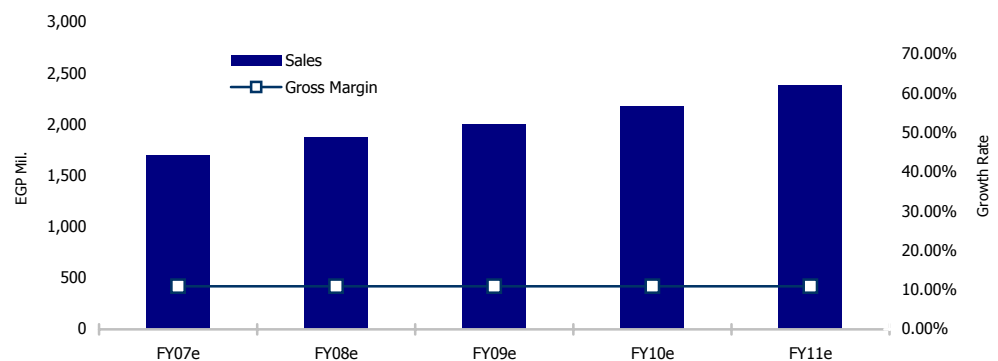
We forecast the PC penetration rate to increase to around 4% in the next five years, due to the increasing importance of computers in the educational system, economic growth, rising disposable income (as a result of a decline in tax rates), and steady population growth. We estimate that total PC sales (including notebooks) of around USD400 million in FY06 will increase to around USD600 million by the end of 2011.

Table 9: IT Retail and Distribution Sales Forecast

Figures in EGP 000s	FY07e	FY08f	FY09f	FY10f	FY11f
1. PC					
Number of Units Sold (000s)	16.5	18.8	20.6	22.6	24.8
Sales Value	80,648	88,178	92,319	98,605	107,390
2. Other Sales					
Intel Sales	102,630	123,156	135,472	149,019	163,921
Peripheral Sales	52,470	62,946	69,260	76,186	83,805
Other Sales	40,590	48,708	53,579	58,937	64,830
Total Other Sales	195,690	234,828	258,311	284,142	312,556
Total IT Sales	276,338	323,006	350,630	382,746	419,946

Source: HC Brokerage.

Chart 5: Retail and Distribution Top Line Performance (FY07e: FY11)



Source: HC Brokerage

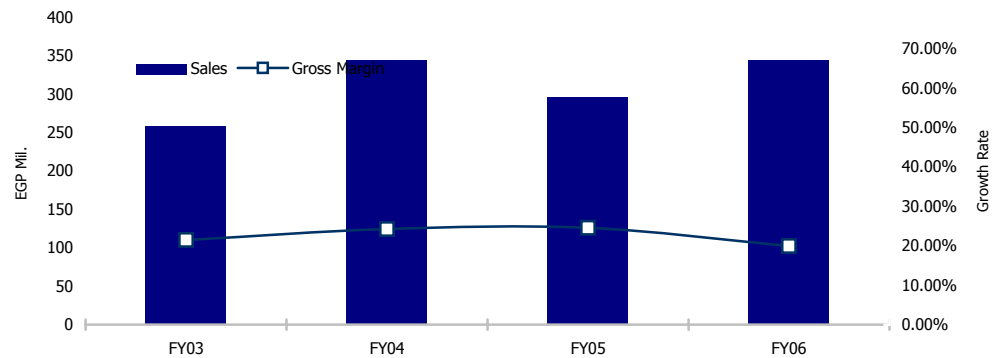
2. Information Technology Overview

Historical Overview

The Information Technology LOB consists of: (i) Infrastructure Solutions (hardware, solutions and services), (ii) Business Applications and Solutions (licensed software, software consulting, software custom development and training); and (iii) Outsourced Services (contact center and software engineering services).

Information Technology captured 20.6% of gross operating revenues in FY06 (17.7% in 1Q07). Raya's gross margin ranged between 20% – 25% for this activity, depending on the nature, volume, and value of each project.

Chart 6: Information Technology Top Line Performance (FY03: FY06)



Source: Raya Holding Company, HC Brokerage

During 2006, Raya was awarded significant projects in Egypt with the Ministry of Justice, Ministry of Finance, General Taxation Authority, Central Bank of Egypt, Banque Misr, and Audi Bank. In addition, Raya was awarded several regional projects with the Saudi Ministry of Water & Electricity, Toyota D'Algerie, Ministry of Interior in Qatar, Banque Saudi Faransi, Ministry of Defence (Kuwait), and Saudi Telecommunication Company. The newly awarded contracts along with old work in hand resulted in a 16.7% increase in this LOB's gross operating revenues from EGP296 million in FY05 to EGP345 million in FY06. We note that Raya Holding had a work backlog worth EGP284 million as of December 31st, 2006.

The IT Infrastructure market is dominated by five major players that account for 69% of the market, with the remaining 31% fragmented among several players. Raya Holding Company is the market leader with a market share of 24% followed by IBM (17%), Giza Systems (11%), HP (10%), and ProsyLab (7%).

Infrastructure Solutions revenues increased by 23.1% from EGP163 million in FY05 to EGP200 million in FY06.

The IT Services market is dominated by four major players that account for 46% of the market, with the remaining 54% fragmented among several players. Raya Holding Company is the market leader with a market share of 17% followed by IBM (13%), HP (8%), and Giza Systems (8%).

Business Application Solutions revenues increased by 6.1% to EGP104 million up from EGP98 million.

Infrastructure Solutions grew at a higher rate than in Business Application Solutions, resulting in an increase in the former's contribution to IT gross operating revenue from 55% in FY05 to 58% in FY06. Business Application Solutions' contribution to IT gross operating revenues dropped from 33% in FY05 to 30% in FY06.

Outsourced Services Revenue increased at a proportionate rate to the growth in the IT LOB. Thus it maintained its 12% contribution to the LOB's gross operating revenue. Outsourced Services revenue increased by 16.7% from EGP35.5 million in FY05 to EGP41.4 million in FY06.

We note that Outsourced Services Revenue contained revenues from the contact center, which Raya decided to separate as a different line of business starting from 2007 following the sale of the telecom line of business and the increase of the stake in C3 call center to 84.5%.

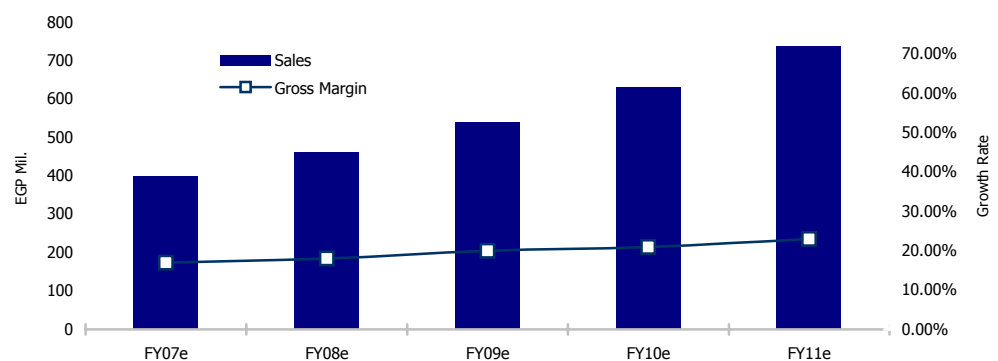
Future Outlook

The value of Egypt's total IT market was about USD900 million in 2006 (hardware: 55%, software: 20%, and services: 25%) compared to over USD4.0 billion in Turkey and over USD3.2 billion in Saudi Arabia. The IT market in Egypt in 2006 represented less than 1.0% of GDP, compared to 2.1% in Bahrain, 1.5% in the U.A.E, and 1.4% in Turkey. We believe that the IT market in Egypt will grow with a CAGR of 7.0% over the next 5 years to reach around USD1.3 billion.

Raya has regional IT projects in Egypt, Saudi Arabia, U.A.E, Kuwait, Qatar, Oman, Jordan, Yemen, Morocco, Syria, Tunisia, Lebanon, and Iraq with a current order backlog of around EGP284 million. We expect that Raya will capitalize on its regional presence and will achieve significant double-digit growth in the IT LOB during the next five years.

Moreover, the fact that the company has a strong regional presence will allow it to make this double digit growth while increasing its gross margin from 17.0% in FY07e to 23% in FY11f based on rationalizing costs and economies of scale.

Chart 7: Information Technology Top Line Performance (FY07e: FY011)



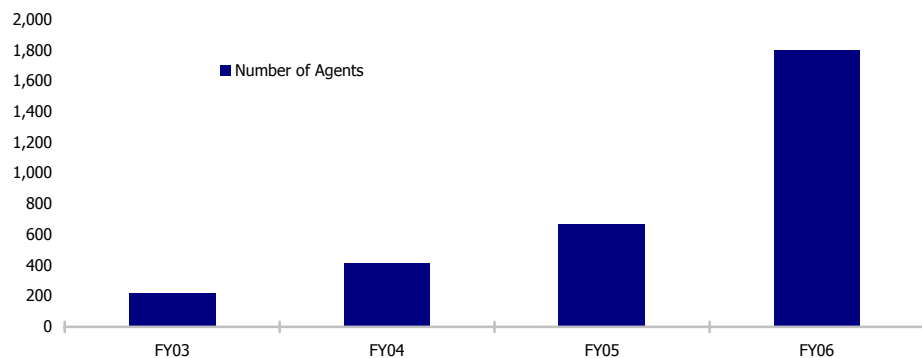
Source: HC Brokerage

3. Call Center Overview and Outlook

Raya Holding believes that the Call Center is a very promising line of business, with huge opportunities for growth and a lucrative gross margin: 47% in 1Q07. 51% of Raya's 1Q07 Call Center revenues came from local clients while 49% came from international clients.

Raya Holding Call Center clients include: Mercedes Benz, General Motors, BMW, Renault, Audi, Dell, Coca Cola, McDonalds, Vodafone, Microsoft, P&G, Henkel, Carrier, Bank of Alexandria, Banque Misr, Piraeus Bank, Audi Bank, and Orbit.

Chart 8: Call Center Number of Agents (FY03: FY06)



Source: Raya Holding Company, HC Brokerage

The number of agents increased dramatically in FY06 for two main reasons:

- In 4Q06 Raya increased its 25% stake in C3 call center to 84.5%, allowing it to be consolidated in Raya's financials.
- Moreover, in February 2006 Raya opened its centralized contact center with 3 operational floors and a capacity to absorb 800 agents.

We believe that growth in the call center business in Egypt is mainly derived from two factors: i) cheap labor costs and ii) available infrastructure.

Table 10: Telecommunications Sales Breakdown

Figures in EGP 000s	FY07e	FY08f	FY09f	FY10f	FY11f
Number of Agents	1,800	2,300	2,700	3,000	3,200
Total Call Center Revenue	60,000	92,000	124,200	151,800	170,016

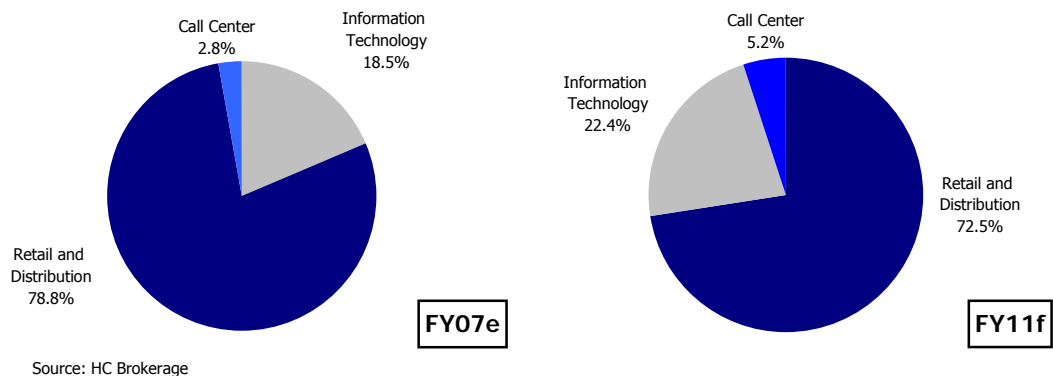
Source: HC Brokerage.

Based on our analysis revenues from the Call Center LOB are going to almost triple over the next five years. As a result, growth in the Call Center LOB will be the fastest among Raya Holdings LOBs, thus increasing its stake in gross operating revenues from 2.8% in FY07e to 5.2% in FY11f.

IV. Forecast & Valuation

Retail and Distribution is Raya's main line of business, contributing 76.4% of total operating revenues in FY06, down from 77.9% in FY05. We forecast that Retail and Distribution will remain the company's major LOB. However, in the next five years growth in Information Technology and Call Center will be higher, thus reducing the share of Retail and Distribution's operating revenue to 72.5% in FY11f.

Chart 9: Raya Holding Company Sales Breakdown (FY07e: FY11f)



We believe that Raya Holding is set to deliver EGP2.14 billion in FY07e top line sales, up 29.9% YoY. We forecast sales to further grow 12.2% in FY08 to EGP2.41 billion. Sales growth is expected on the back of overall economic development and boosted by the company's catering to unsaturated markets with strong future prospects.

We estimate that Raya will post net income of EGP86 million in FY07e, a 27.1% growth YoY from EGP68 million in FY06. We note that Raya Holding achieved a capital gain before taxes of EGP67 million in FY06 from selling a 51.0% stake in its subsidiary Raya Telecom. Moreover, the company achieved a capital gain before taxes of EGP54 million in 1Q07 from selling its remaining 45.9% stake in Raya Telecom. Therefore, we note that the bulk of FY07e profits will come from a non recurring item. Therefore, net income is forecasted to decline by 29.6% in FY08f to EGP60 million. We forecast net income of EGP87 million in FY09f, up 44.4% YoY. Growth in FY09's bottom line is on the back of continuous growth in sales along with better cost management.

Table 11: Key Indicators (FY06a: FY09f)

Figures in EGP 000s	FY06a	FY07e	FY08f	FY09f
Sales	1,651,531	2,144,774	2,406,522	2,645,439
<i>Growth in Sales</i>	6.6%	29.9%	12.2%	9.9%
Operating Profit	50,962	93,890	115,951	148,698
<i>Operating Margin</i>	3.1%	4.4%	4.8%	5.6%
Net Income	67,596	85,882	60,478	87,315
<i>Net Margin</i>	4.1%	4.0%	2.5%	3.3%
Total Assets	1,063,567	1,265,128	1,356,355	1,512,356
<i>Growth in Total Assets</i>	21.2%	19.0%	7.2%	11.5%

Source: Raya Holding, HC Brokerage

Our DCF valuation implies a target price of EGP14.9/share

Based on a DCF target price of **EGP14.9** per share, which offers 23.1% upside potential to EGP12.1, the company's current market price, we are updating our coverage of **Raya Holding Company** with a "Buy" recommendation. The company trades at a forecast P/E of 8.0x and 11.4x for FY07e and FY08f, respectively, compared to a market average of 14.6x and 13.1x.

Table 12: Value Per Share (EGP) Sensitivity to WACC

Perpetual Growth Rate	WACC		
	13.5%	14.5%	15.5%
3%	16.1	14.0	12.3
4%	17.3	14.9	12.9
5%	18.7	15.9	13.7

Source: HC Brokerage

Valuation Assumptions

- We have applied a single WACC of 14.5%.
- We estimated the company's free cash flow for the next 5 years and assumed a perpetual growth rate of 4.0%, thereafter.
- We did not account for any further acquisitions by the company.

Sensitivity Analysis

Case 1: Lower Growth in Retail and Distribution – Should Retail and Distribution revenue grow by 10% less than we projected, we reduce our target price to **EGP14.6**.

Lower Margin for Retail and Distribution – Should the margin for Retail and Distribution be 1% lower than our forecast, we reduce our target price to **EGP11.5**.

Case 2: Lower Growth in Information Technology – Should Information Technology revenue grow by 10% less than we projected, we reduce our target price to **EGP13.3**.

Lower Margin for Information Technology – Should the margin for Information Technology be 1% lower than our forecast, we reduce our target price to **EGP13.9**.

Case 3: Lower Growth in Call Center – Should Call Center revenue grow by 10% less than we projected, we reduce our target price to **EGP13.9**.

Lower Margin for Call Center – Should the margin for Call Center be 1% lower than our forecast, we reduce our target price to **EGP14.7**.

Case 4: Higher CAPEX – Should the company require higher CAPEX – 10% more than we projected – we lower our target price to **EGP13.2**.

V. Financial Statements

EGP MM (unless stated otherwise)	05A	06A	07e	08F	09F
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Income Statement

Revenues	1,549	1,652	2,145	2,407	2,654
COGS	1,327	1,435	1,879	2,098	2,285
Gross Profit	223	216	265	308	360
Operating Expenses	153	165	172	192	211
Operating Income	69	51	94	116	149
Net Interest Expense	22	25	37	16	22
Provisions	4	4	5	6	6
Investment Income	0	6	3	0	0
Other Non Operating Income (Expenses)	3	52	43	(16)	(8)
Pre-Tax Income	46	80	109	78	113
Income Tax	5	10	20	16	23
Minority Interest	2	2	3	2	3
Net Inc. before Appropriations	40	68	86	60	87

Balance Sheet

Assets					
Cash & Marketable Securities	153	197	222	162	148
Net Receivables	200	187	222	256	299
Inventory	189	221	234	261	284
Other Current Assets	99	223	259	299	350
Total Current Assets	641	828	937	978	1,082
Net Fixed Assets and Projects Under Const.	121	155	244	290	337
Investments	17	32	35	38	42
Other Non Current Assets	98	49	50	51	52
Total Assets	878	1,064	1,265	1,356	1,512
Liabilities					
Short-Term Debt	167	230	206	186	206
Accounts Payable	143	92	217	242	264
Other Current liabilities	139	215	277	305	361
Total Current Liabilities	449	545	700	734	831
Long-Term Debt	28	57	43	56	49
Minority Interest	9	5	8	11	14
Shareholders' Equity	391	456	514	556	618

Free Cash Flow Statement

NOPLAT	58	44	72	89	114
Non-Cash Items	23	21	17	26	31
Gross Cash Flow	85	66	89	115	145
Gross Investments	27	30	(247)	4	(48)
Operating Free Cash Flow	111	95	(158)	119	96
Non-Operating Cash Flow	(7)	36	43	(2)	1
Free Cash Flow to Investors	105	131	(114)	117	97

VI. Raya Holding Company in Brief

Company Overview

Raya Holding Company is a leading Egyptian company in the Communications and Information Technology sector. The company has three lines of business: Retail and Distribution (79.2% of 1Q07 gross operating revenue), Information Technology (17.7%), and Call Center (3.1%). The company's scope of operations is regional, with activities in Egypt, Algeria, Saudi Arabia, U.A.E, Kuwait, Qatar, Oman, Jordan, Yemen, Morocco, Syria, Tunisia, Lebanon, and Iraq.

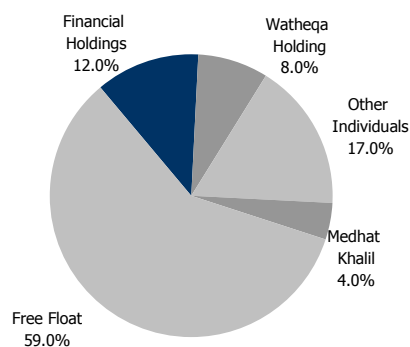
Key Attractions

- Huge potential in domestic market, with a population of above 73 million, and a computer penetration rate of around 2.3%.
- Expected continuous double-digit sales growth during the next five years.
- The company's total assets increased by 157% in the last three years, from EGP413 million on January 1st 2004 to EGP1.06 billion on December 31st 2006.
- The company is expanding and has many growth opportunities in its current markets. It is also eyeing a number of emerging markets.

Key Concerns

- The company's growth plans are going to put pressure on margins. Maintaining and/or gaining market share might reduce profitability margins.
- Low computer literacy rates, and poor overall literacy, along with high IT costs.
- Political instability in the region could limit the company's local and regional expansion plans.
- Volume of services offered is dependent to a large extent on the economic conditions of the population.

Shareholders' Structure



Investment Ratings

Stock Liquidity	Upside Potential					
High	>30%	30% to 20%	20% to 10%	10% to 0%	0% to -25%	Less than -25%
Mid	>35%	35% to 25%	25% to 15%	15% to 5%	5% to -20%	Less than -20%
Low	>40%	40% to 30%	30% to 20%	20% to 10%	10% to -20%	Less than -20%
Recommendation	Strong Buy	Buy	Accumulate	Hold	Reduce	Sell



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HC Brokerage – Cairo, Egypt

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HC Securities & Investment

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