Company note

Citadel Capital

Private equity | Egypt

MENA research

Risks overdone; maintain Overweight

- **Rights issue and OPIC loan boost long-term capital by USD325m, which should help meet potential capital commitments on the platforms level**
- **Liquidity concerns are largely overdone as the company is close to finalizing a debt refinancing deal and as other options are available**
- **Valuation still highly compelling despite a c39% cut in our TP to EGP4.19/share; we maintain our Overweight rating**

Long-term capital boosted by USD325m: Citadel Capital successfully completed its USD175m capital increase in October, adding USD120m in new cash to its balance sheet y-t-d. The company has also received formal board approval for a new 10-year, USD150m financing facility from the Overseas Private Investment Corporation (OPIC), which, together with the capital increase, gives the company a total of USD325m (EGP2bn) worth of long-term capital. In our view, this should provide the flexibility needed to meet potential capital commitments on the platforms level, given that USD83m of the funds from the OPIC has not yet been earmarked.

Funding gap not closed, but concerns are overdone: We estimate Citadel Capital's cash needs for 4Q11–2013e at cUSD269m (EGP1.6bn), with USD67m related to platforms, USD170m related to debt repayment, and USD31m in running costs. This implies a funding gap of cUSD76m for 2013e. Nevertheless, we believe that liquidity concerns are largely overdone given the number of financing options available. According to management, the company is close to finalizing a debt refinancing deal that should roll over its existing debt for another 5 years. Other options include small divestitures (USD50m), recovering loans advanced to platforms, and continued support from Citadel Capital Partners (CCP).

We see limited downside from here; maintain Overweight: We cut our TP for Citadel Capital c39% to EGP4.19/share as we take a more conservative approach, valuing the company based on a discount to its average trading P/B multiple and accounting for potential asset impairments. Our new TP is at a c31% discount to the PNAV published in October and implies a potential return of 35%. We therefore maintain our Overweight rating on the stock. The current valuation is highly compelling, in our view, with the company trading at a 37% discount to its 2011e book value. The equity closure of the Egyptian Refining Company (ERC), a technical breakthrough at the National Oil Production Company (NOPC)/Rally Energy, and a debt refinancing deal could all prove strong share price catalysts for the stock.

Key indicators	2010	2011e	2012e	2013e
BVPS (EGP)	5.02	4.91	4.82	4.74
P/B	0.6x	0.6x	0.6x	0.7x

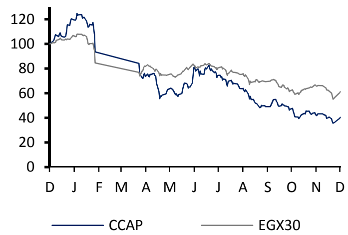
Source: Company data, HC

Overweight

Target price (EGP)	**4.19**
Current price (EGP)	3.09
Potential return	35%
Bloomberg	CCAP EY
Reuters	CCAP.CA
Mcap (EGPm)	2,693
Mcap (USDm)	449
Free float	35%
Daily volume (USDm)	2.119
Foreign own. limit	N/A
Foreign ownership	N/A

Note: All prices as of 1 December 2011

Price performance



5 December 2011

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Please refer to important disclosures and analyst certifications on pages 5–7 of this report.

Long-term capital boosted by USD325m…

On 19 October, Citadel Capital announced the successful completion of its USD175m (cEGP1.1bn) capital increase, adding USD120m (EGP718m) in new cash to its balance sheet y-t-d. Shareholders subscribed to 210m new shares, including 52.5m preferred shares, at a par value of EGP5/share. According to management, long-term Gulf investors were key backers of the capital increase, which was initially 42% subscribed, and were joined by leading international and regional institutional investors. After the capital increase, CCP's stake in the company is expected to decrease to c26% from c33%.

More recently, Citadel Capital announced that it received formal board approval for a new 10-year, USD150m (EGP900m) financing facility from the OPIC. This, added to the proceeds of the capital increase, will give the company a total of EGP2bn (USD325m) worth of long-term capital by the end of 2011, which we believe should provide the flexibility to both accelerate the development of existing investments and to pursue compelling new opportunities in the event of an improvement in the business climate, given that USD83m of the funds from the OPIC has not yet been earmarked. Management also believes this should ensure that all 19 platform companies weather any additional economic headwinds.

Citadel Capital's cash needs (EGPm)

	2010	2011e	2012e	2013e	2014e
Net profit	(298)	(92)	(81)	(64)	(53)
Depreciation	9	5	5	5	5
Net provisions	174	(9)	0	0	0
Impairments	116	0	0	0	0
Gain on sale of assets	(28)	0	0	0	0
Other	8	(2)	0	0	0
Change in working capital[1]	401	(240)	(34)	2	2
Operating cash flow	**381**	**(339)**	**(111)**	**(58)**	**(47)**
Payments for investments	(644)	(257)	(300)	0	0
Proceeds from sale of assets	28	0	0	0	0
Other	46	(3)	(1)	(1)	(1)
Investing cash flow	**(570)**	**(261)**	**(301)**	**(1)**	**(1)**
Debt repayment	**0**	**(227)**	**(227)**	**(794)**	**0**
Total cash needs	**(189)**	**(827)**	**(639)**	**(853)**	**(48)**

Source: Company data, HC
Note: (1) Includes dues from CCP and loans given to platform companies

…but funding gap not totally closed

We estimate Citadel Capital's cash needs for 4Q11–2013e at cUSD269m (EGP1.6bn), with USD67m related to platforms, USD170m related to debt repayment, and USD31m in running costs. Given the nature of the OPIC's project, we believe the guaranteed USD150m loan facility is highly unlikely to be used to finance existing investments, that is to replace outstanding debt. We estimate a cash position of cUSD26m as of the end of 3Q11, which implies a funding gap of cUSD76m for 2013e. Given both the macroeconomic and political challenges in Egypt, coupled with turbulent markets and a gloomy global economic outlook, considerable exits are highly unlikely in the coming 12–18 months, in our view. Nevertheless, we believe that liquidity concerns are largely overdone, given the number of financing options available.

On 12 November 2011, management stated in a press release that it expects to add a further USD50m to its cash balance through a series of small divestitures (rebalancing its portfolio) over the coming months at the same time as it starts to partially recover loans advanced to platform and portfolio companies. The company recovered USD22m (EGP133m) worth of loans in 2Q11.

Citadel Capital has also stated that it is close to finalizing a debt refinancing deal that should roll over its existing debt for another 5 years, which should give its balance sheet a significant boost, in our view. Finally, we believe CCP will continue to provide full support to the company when needed.

Valuation – Cut TP to EGP4.19/share and maintain Overweight

We cut our TP for Citadel Capital to EGP4.19/share from EGP6.88/share as we move to a more conservative P/B-based valuation. On our calculations, the stock's P/B multiple has averaged 1.3x since it started trading on the stock exchange. Given our view that challenging macroeconomic environment will continue for at least the coming 12 months on both the local and global fronts, we believe the stock should be trading at a discount to its historic average.

Other private equity companies around the world that we see as similar to Citadel Capital trade at c86% of their 2009–11 average P/B multiples, with the current multiples averaging 1.1x. We assume a 20% discount to Citadel Capital's average trading P/B, bringing the multiple to 1x, which, in our view, is a floor valuation for the company.

We also adjust our book value to reflect potential asset impairments. We now exclude 100% of NOPC/Rally Energy's equity investments and convertibles as the technical difficulties in bringing the asset's substantial reserves into production continue. We also exclude 50% of National Petroleum Company's equity investments and convertibles on the back of its substantial equity investment in NOPC/Rally Energy.

Citadel Capital valuation summary (EGPm)

Book value (2011e)	**4,280**
Potential investment impairments	**(580)**
National Petroleum Company	(190)
NOPC/Rally Energy	(390)
Potential impairments of convertibles	**(108)**
National Petroleum Company	(29)
NOPC/Rally Energy	(79)
Adjusted book value (2011e)	**3,592**
2009–11 average P/B multiple	**1.3x**
@20% discount	1.0x
Target price (EGP/share)	**4.19**
Current price (EGP/share)	3.09
Potential return	**35%**

Source: HC

Our new TP implies a 2011e P/B multiple of 0.85x and a potential return of 35% over 1 December's closing price of EGP3.09/share. We therefore maintain our Overweight rating on the stock. The current valuation is highly compelling despite current difficulties, in our view, with the company's shares underperforming the market by c36% over the past 6 months. The equity closure of ERC, a technical breakthrough at NOPC/Rally Energy, and a debt refinancing deal could all prove strong share price catalysts for the stock. Our TP is at a c31% discount to the PNAV guidance published by the company in October 2011.

Risks

Downside risks to our valuation include (1) higher than expected asset impairments, (2) failure to secure necessary financing, (3) the weak macroeconomic environment and political instability continuing beyond 2013, and (4) higher than expected operating costs.

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Company name: Citadel Capital	**Disclosure:** 3, 4, 6, 8, 9

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Overweight (OW): Estimated total potential return greater than or equal to 20%
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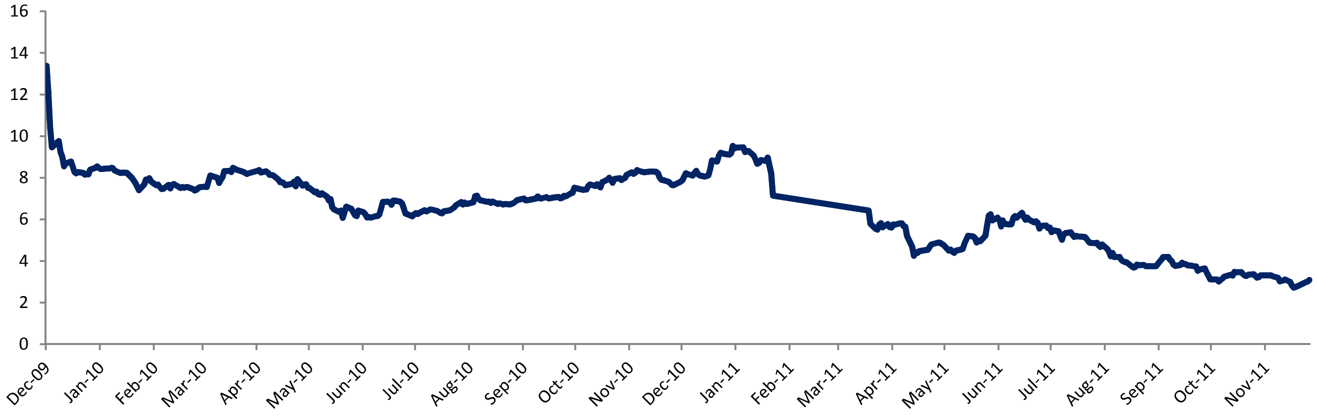
Underweight (UW): Estimated total potential return less than 0%
NR: Not Rated
SP: Suspended

Stocks rated Overweight are required to have a published 12-month target price, while it is not required on stocks rated Neutral and Underweight.

Distribution of HC ratings

Rating	Count	Percent	Percent provided investment banking services in past 12 months
Overweight (OW)	38	52.78	0.00
Neutral (N)	27	37.50	0.00
Underweight (UW)	7	9.72	0.00

Citadel Capital as of 01/12/2011



Date	Recommendation	Target price
16/11/2009	Not Rated	EGP18.83
09/12/2009	Overweight	EGP14.83
19/04/2010	Overweight	EGP13.14
28/02/2011	Overweight	EGP9.86
06/07/2011	Overweight	EGP6.88
16/11/2011[(1)]	Overweight	EGP6.88
05/12/2011	Overweight	EGP4.19

Note: (1) Change of analyst

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