

7 December 2011

Buy

Target price
KD0.47

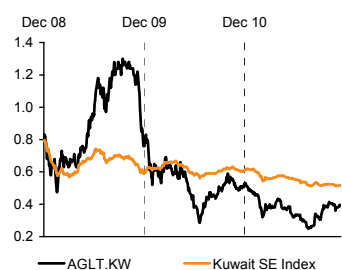
Price
KD0.40

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (KD)	0.41	0.26	0.49
Absolute (%)	-1.2	50.9	-18.4
Rel market (%)	-0.0	51.3	-4.7
Rel sector (%)	-0.5	54.8	-8.3



Market capitalisation
KD401.91m (€1.09bn)

Average (12M) daily turnover
KD0.69m (US\$2.43m)

Sector: Kuwait Service Index
RIC: AGLT.KW, AGLTY.KK
Priced KD0.40 at close 6 Dec 2011.
Source: Bloomberg

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Agility

Healthcare bid announcement

Agility announced that it has entered an auction to acquire a 26% stake in Kuwait Health Assurance Company (KHAC). A winning bid could have a favourable impact on the stock's performance in the near term.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (KDm)	1,705	1,606	1,300	1,273	1,336
EBITDA (KDm)	215.5	76.30	60.70	68.80	79.40
Reported net profit (KDm)	156.4	25.10	28.40	29.40	37.70
Normalised net profit (KDm)	156.6	25.30	28.60	29.60	37.90
Normalised EPS (KD)	0.16	0.03	0.03	0.03	0.04
Dividend per share (KD)	0.00	0.04	0.04	0.01	0.02
Dividend yield (%)	0.06	9.71	9.23	3.66	4.69
Normalised PE (x)	2.56	15.90	14.10	13.60	10.60
EV/EBITDA (x)	2.05	4.29	5.79	4.72	3.75
EV/invested capital (x)	0.44	0.39	0.41	0.39	0.36
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Agility announces bid for a stake in KHAC

Agility announced on 4 December 2011 that it had entered an auction to acquire a 26% stake in KHAC. KHAC has an expected capital base of KWD318m and is part of Kuwait's current five-year development plan. The required equity to establish the company is 30% of the capital. The government is currently seeking a strategic investor to bid for 26% of the required equity. It will retain a 24% stake through the Kuwait Investment Authority, while the remaining 50% stake will be offered to Kuwaiti nationals in a public offering. Agility's bid is valued at KWD25.6m. As of 3Q11, the company had KWD129.1m in cash and KWD93.0m in debt. The government is yet to finalise a date for selecting the winning bid or the IPO.

Sole provider of government mandated insurance for core group

KHAC is a public-private partnership project that aims to privatise health insurance and associated medical care for the majority of expatriates living in Kuwait, as well as the nationals who choose to utilise its products on a service-based fee. We assume a conservative annual growth rate of expatriates between 2.5% and 3.0% will lead to an eligible target market of about 1.7m in 2015, which is likely to be KHAC's first year of operations. The executive brief of KHAC estimates that 70-80% of the target population will subscribe to the company's health care coverage from 2015 onwards.

Valuation and risks

If Agility wins the bid, the project could add 22.5 fils per share, or 4.8% to our target price of KWD0.473 based on our valuation using the assumptions in the KHAC executive brief. The main risks to KHAC's valuation include execution risk given the first year of operations will be in 2015 and that the company will provide a fixed schedule of premiums that it cannot deviate from even though future costs remain uncertain and could be well above estimates.

Important disclosures can be found in the Disclosures Appendix.

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KHAC business summary

Health care coverage in Kuwait is currently provided to most expatriates employed in the private sector by the government through its public hospitals and clinics. Expatriates currently pay a fee to the Ministry of Health (MOH) to obtain health coverage, which is one of the requirements for receiving a residence permit. The KHAC project also includes building and operating three new hospitals and 15 health clinics in the regions of Jahra, Farwania and Ahamdi. The company aims to have almost 8,400 employees. The target market for KHAC in its feasibility study is defined as those non-Kuwaitis residing in Kuwait that do not belong to categories including 'home workers', public sector employees and females married to Kuwaiti nationals (although KHAC has the option to extend its services to all residents and nationals). The excluded groups will continue to be covered by the MOH. In 2010, according to government statistics, 2,428,029 expatriates lived in Kuwait, a number that has been growing at a fast pace and made up about 68% of the total population. As KHAC will be the sole service provider, the company will have a guaranteed client base, given the number of expatriates in Kuwait. According to KHAC's feasibility study, if operations began in 2010, the company would have covered 1,502,194 clients, or 61.8% of expatriates in Kuwait. A conservative annual expatriate growth rate of between 2.5% and 3.0%, below the historical annual expatriate growth rates of 7%, leads to an eligible target market of 1,731,597 in 2015, growing to 2,236,960 by 2024.

Potential upside

We value Agility using the SOTP method at a fair value of KWD0.473, with DCF of the core operations accounting for a majority of the valuation. According to KHAC's executive brief, the company forecasts a base-case project IRR of 18.5% and a project value of KWD109.9m using 40% debt, 60% equity and a WACC of 12.2%.

Our valuation differs from the company brief as the capital structure has changed since then to 70% debt, 30% equity and we also assume a WACC of 13% for Agility. We arrive at a project value of KWD 93.7m. Should Agility win the bid, the 26% stake would cost the company 24.5 fils per share and would be worth 47 fils per share, thereby adding 22.5 fils per share, or 4.8% to our target price.

Income statement

KDm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	1705	1606	1300	1273	1336
Cost of sales	-1078	-1118	-944.9	-918.0	-959.6
Operating costs	-411.7	-411.7	-294.5	-286.0	-297.3
EBITDA	215.5	76.3	60.7	68.8	79.4
DDA & Impairment (ex gw)	-46.6	-44.0	-31.9	-31.2	-32.7
EBITA	168.8	32.2	28.9	37.6	46.7
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	168.8	32.2	28.9	37.6	46.7
Net interest	-3.27	-4.44	-3.20	-2.37	-1.60
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.82	3.92	11.1	0.00	0.00
Reported PTP	166.4	31.7	36.8	35.2	45.1
Taxation	-10.5	-6.97	-5.88	-5.63	-7.21
Minority interests	0.67	0.54	-2.32	0.00	0.00
Other post-tax items	-0.14	-0.18	-0.18	-0.18	-0.18
Reported net profit	156.4	25.1	28.4	29.4	37.7
Tot normalised items	-0.14	-0.18	-0.18	-0.18	-0.18
Normalised EBITDA	215.5	76.3	60.7	68.8	79.4
Normalised PTP	166.4	31.7	36.8	35.2	45.1
Normalised net profit	156.6	25.3	28.6	29.6	37.9

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

KDm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	314.2	203.8	144.5	166.0	187.2
Other current assets	505.6	401.4	413.2	406.2	421.2
Tangible fixed assets	256.8	238.4	210.7	191.0	182.3
Intang assets (incl gw)	280.1	255.0	254.7	254.7	254.7
Oth non-curr assets	427.4	396.0	429.6	430.9	433.6
Total assets	1784	1495	1453	1449	1479
Short term debt (2)	94.4	69.2	65.9	65.9	65.9
Trade & oth current liab	411.7	388.9	400.1	387.0	404.1
Long term debt (3)	258.6	59.6	28.1	22.4	16.8
Oth non-current liab	66.6	55.1	55.2	55.2	55.2
Total liabilities	831.2	572.7	549.3	530.6	542.1
Total equity (incl min)	952.9	921.9	903.5	918.2	937.0
Total liab & sh equity	1784	1495	1453	1449	1479
Net debt	38.8	-75.0	-50.5	-77.6	-104.4

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

KDm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	215.5	76.3	60.7	68.8	79.4
Change in working capital	18.8	74.4	-7.55	-6.10	2.01
Net interest (pd) / rec	3.27	39.9	4.52	5.47	5.14
Taxes paid	-18.9	-17.5	-7.12	-5.81	-7.39
Other oper cash items	16.6	-3.65	-4.05	-2.37	-1.60
Cash flow from ops (1)	235.2	169.4	46.5	59.9	77.6
Capex (2)	-60.2	-40.5	-13.5	-12.7	-26.7
Disposals/(acquisitions)	-32.3	31.4	-15.9	0.00	0.00
Other investing cash flow	-84.3	81.4	83.8	0.00	0.00
Cash flow from invest (3)	-176.7	72.3	54.4	-12.7	-26.7
Incr / (decr) in equity	0.29	0.00	-0.02	0.00	0.00
Incr / (decr) in debt	16.1	0.00	0.00	0.00	0.00
Ordinary dividend paid	-0.98	-39.6	-37.2	-14.7	-18.8
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-103.5	-237.1	-39.1	-11.1	-10.7
Cash flow from fin (5)	-88.2	-276.7	-76.2	-25.8	-29.6
Forex & disc ops (6)	0.94	-0.10	-1.34	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-28.7	-35.1	23.4	21.4	21.3
Equity FCF (1+2+4)	175.0	128.9	33.0	47.2	50.9

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	Agility					Panalpina			Kuehne + Nagel		
Performance	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Sales growth (%)	n/a	-6.31	-19.1	-2.11	5.00	-10.6	3.68	3.69	-4.11	5.88	5.91
EBITDA growth (%)	n/a	-64.6	-20.4	13.2	15.5	5.48	8.79	6.59	-6.03	3.71	6.22
EBIT growth (%)	n/a	-80.9	-10.4	30.1	24.3	11.2	7.77	7.51	-3.68	3.67	6.72
Normalised EPS growth (%)	n/a	-83.9	13.2	3.61	28.1	13.3	7.65	8.45	-2.69	3.49	4.09
EBITDA margin (%)	13.4	5.05	4.97	5.75	6.32	3.43	3.60	3.70	5.87	5.75	5.76
EBIT margin (%)	10.5	2.13	2.36	3.14	3.72	2.80	2.91	3.02	4.59	4.49	4.53
Net profit margin (%)	9.71	1.67	2.34	2.47	3.01	1.97	2.04	2.14	3.64	3.56	3.50
Return on avg assets (%)	0.00	1.53	2.14	2.20	2.70	6.76	7.18	7.33	9.97	10.1	9.83
Return on avg equity (%)	0.00	2.73	3.15	3.27	4.11	14.8	14.3	14.1	24.6	23.9	22.5
ROIC (%)	n/a	3.25	3.41	4.40	5.55	47.0	39.4	39.4	34.9	33.1	34.0
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	38.1	30.5	30.5	26.4	24.6	25.5
				year to Dec			year to Dec			year to Dec	
Valuation											
EV/sales (x)	0.27	0.22	0.29	0.27	0.24	0.30	0.27	0.25	0.79	0.73	0.68
EV/EBITDA (x)	2.05	4.29	5.79	4.72	3.75	8.63	7.54	6.73	13.4	12.7	11.7
EV/EBITDA @ tgt price (x)	2.39	5.25	6.99	5.78	4.67	10.3	9.07	8.17	11.3	10.7	9.83
EV/EBIT (x)	2.61	10.1	12.2	8.63	6.37	10.6	9.32	8.25	17.2	16.2	14.9
EV/invested capital (x)	0.44	0.39	0.41	0.39	0.36	5.22	4.61	4.09	7.50	7.08	6.72
Price/book value (x)	0.43	0.44	0.45	0.44	0.43	2.50	2.25	2.06	5.59	5.03	4.59
Equity FCF yield (%)	43.6	32.0	8.21	11.7	12.7	0.53	4.96	5.45	4.36	4.05	4.29
Normalised PE (x)	2.56	15.9	14.1	13.6	10.6	17.77	16.51	15.22	22.97	22.19	21.32
Norm PE @ tgt price (x)	3.03	18.8	16.6	16.1	12.5	20.7	19.2	17.7	19.6	19.0	18.2
Dividend yield (%)	0.06	9.71	9.23	3.66	4.69	1.64	2.44	2.65	2.54	2.76	2.88
				year to Dec			year to Dec			year to Dec	
Per share data	FY09A	FY10A	FY11F	FY12F	FY13F	Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	1003	1007	1005	1005	1005	Net debt to equity (%)	4.07	-8.14	-5.59	-8.45	-11.1
Reported EPS (KWD)	0.16	0.02	0.03	0.03	0.04	Net debt to tot ass (%)	2.17	-5.02	-3.48	-5.35	-7.06
Normalised EPS (KWD)	0.16	0.03	0.03	0.03	0.04	Net debt to EBITDA	0.18	-0.98	-0.83	-1.13	-1.31
Dividend per share (KWD)	0.00	0.04	0.04	0.01	0.02	Current ratio (x)	1.62	1.32	1.20	1.26	1.29
Equity FCF per share (KWD)	0.17	0.13	0.03	0.05	0.05	Operating CF int cov (x)	-76.7	-3.68	-10.9	-11.0	-15.5
Book value per sh (KWD)	0.94	0.91	0.89	0.91	0.93	Dividend cover (x)	626.3	0.65	0.77	2.01	2.01
				year to Dec						year to Dec	

Priced as follows: AGLT.KW - KD0.40; PWTN.S - SFr94.00; KNIN.S - SFr111.90
Source: Company data, Rasmala forecasts

Valuation methodology – Base-case scenario valuation

(KWD m)	Value	Per Share (KWD)	% of Asset Value	Valuation Methodology
Core business lines	472	0.469	72%	DCF
AFS Investments	130	0.130	26%	Book Value
Total EV	602	0.599	92%	
Net Cash	46	0.045	9%	Net Cash as of 30/06/2011
Minority Interests	-6	-0.006	-1%	Minority Interest as of 30/06/2011
US DGS Fine	-167	-0.166	-35%	
Total Equity Value	475	0.473	100%	
Shares Outstanding	1,005			
Equity Value per Share	0.473			
Current Price	0.395			
Upside/Downside	19.7%			
Recommendation	Buy			

Source: Company data, Rasmala forecasts

Company description

Buy Price relative to country

Agility was established in 1979 as the state-owned Public Warehousing Company (PWC) and integrated its holdings in 2006 under the name Agility. The company offers logistics, storage and infrastructure services to commercial and government organisations worldwide. Agility has grown to become the largest logistics provider in the Middle East, with more than 25,000 employees in 550 offices across 100 countries and with a strong and growing presence in emerging markets. Agility is publicly listed on the Kuwait Stock Exchange and Dubai Financial Market.



Strategic analysis

Average SWOT company score: 3

Revenue split, 3Q11

Strengths 4

Agility is positioned to benefit from global trade growth in emerging markets and the long-term outsourcing trends of global logistics. Its GIL division has a global footprint across the Middle East, Europe, the Asia Pacific region and the Americas.

Weaknesses 3

Demand for logistics services is highly dependent upon the state of the faltering global economic recovery.

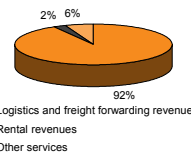
Opportunities 4

The trend in the fragmented logistics market in the Middle East is for consolidation among market leaders, such as Agility, to enhance profitability.

Threats 2

The ongoing legal dispute with the US government remains unresolved. There is also the possibility that Agility would be required to pay a large fine upon resolution of the dispute.

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters
Agility Building, 6th Ring Road, Sulaibiya, P.O. Box 25418, Kuwait City, Safat 13115, Al Assimah, Kuwait

Website
http

Shares in issue
1004.8m

Freefloat
61%

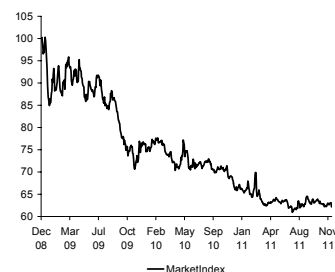
Majority shareholders
NBK Capital (22%), PIFFS (10%), Wafra (7%)

Country view: Kuwait

Country rel to M East & Africa

MENA markets are showing characteristics of a textbook case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher, resulting in a real estate bubble that has had a negative impact on speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation of RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 4+

Broker recommendations

Supplier power 4+

Low – Large logistics service providers can buy supplies in large quantities, affecting the price of supplies, and can also turn to different suppliers quite easily.

Barriers to entry 4+

High – Significant capital requirements are associated with establishing an international transportation network. Existing companies can also achieve a cost advantage through economies of scale.

Customer power 4-

High – Large-scale customers can turn to different logistics service providers that may provide a faster service or lower price with ease.

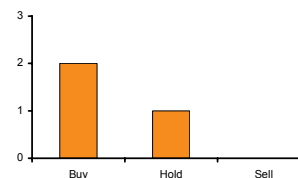
Substitute products 4+

Low – It is difficult to find a more cost-effective, reliable method of delivery of goods and services than that provided by logistics service providers.

Rivalry 4-

Moderate – Agility faces competition from global logistics players seeking to capitalise on trade growth in the fragmented Middle East market.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Agility (RIC: AGLT.KW, Rec: Buy, CP: KD0.40, TP: KD0.47): Downside risks to our SOTP-based target price include a negative outcome to the legal case with the US government, a slow global economic recovery in developed economies and a diminished ability to win new government contracts. Potential upside risks include a positive outcome in the legal case with the US government, a faster-than-expected global economic recovery and a substantial performance in the industrial real estate business.

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