

Category – Compatible Islamic

Initiating Coverage

# YIACO MEDICAL COMPANY

MIC Rating <sup>^</sup>	MIC Outlook <sup>^</sup>	CMP*	Intrinsic Value (Base to Best Case)	Discount from Intrinsic Value	Margin of Safety <sup>^</sup>	Liquidity	Industry
★ ★ ★	Undervalued	0.475	0.540 to 0.560	12.0% to 15.2%	Average	Average	Medical Services
		*13-Jun-11	Price in KWD				

<sup>^</sup>: Please refer to our Stock Rating Methodology on Page 9 of the report.

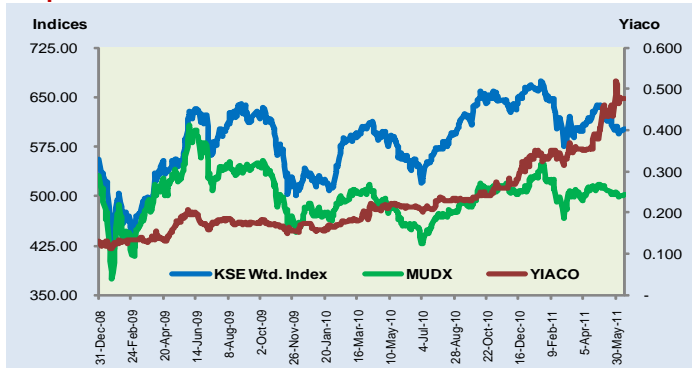
\* CMP: Current Market Price

Table 1: Current Market Data (Figures are in KWD)

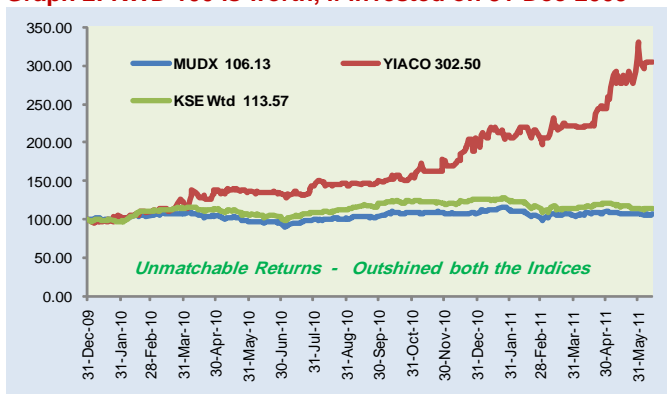
Current Market Price (13-June-11)	0.475
Outstanding Shares ('000)	165,000
Market Cap. (Million)	78.38
Par Value	0.100
52 Week High/Low	0.560 / 0.200
Earning Yield *	5.53%
P/Ex*	18.21
P/BVx*	2.80
Dividend Yield	2.13%
Return on Equity*	16.38%

\*: Based upon TTM for the period ending March 2011

Graph 1: Price Chart Relative to MUDX & KSE Wtd. Index



Graph 2: KWD 100 is worth, if invested on 31-Dec-2009



## Investment Rationale

### Consistent Revenue Growth for the past 5 years

YIACO has been growing leaps and bounds for the last 5 years as clearly visible by a robust growth in its' top-line, even during the era of credit crisis where all major industries across the globe witnessed a slowdown. Sales is clicking a strong CAGR of around 17% in the past five years as top line got more than doubled from mere KWD 37.3 million in 2005 to KWD 82.0 million in 2010. We at MIC believe, this growth momentum may accelerate further, given the bright prospects of pharmaceutical industry and it is also stamped by its Q1-2011 numbers, where the supplier has reported a sale of KWD 25.20 million in Q1-2011, up by 6.23% over Q1-2010.

### Low bargaining power of Customers as well as suppliers

YIACO represents more than 50 pharmaceutical brands in Kuwait, none of which makes up for more than 7% of company's sales. Such a unique but healthy structure certainly gives YIACO a strong hold on its supplier, meaning there is no dependency on a single supplier for top line income stream. On the customer side, too, YIACO enjoys a certainty in all its receivables as 50% of total sale is directed towards Government, (category of no defaulters) whereas remaining sale is directed to other major private hospitals and clinics having a strong financials and foothold in the State.

### Major healthcare projects coming up in Kuwait

Kuwait is keen to establish world class healthcare facility on its home turf, aiming to restrict the trend of patients for overseas treatments. In this aspect, one of the key healthcare projects Jaber Al Ahmad Al Sabah Hospital, worth KWD 1.20 billion, is under fast track construction phase.

Table 2: Performance Matrix

Time-Factor	Stock Return			
	1 m	3 m	6 m	12 m
MUDX	-2.5%	4.2%	-1.7%	9.9%
YIACO	11.8%	43.9%	75.9%	124.1%
KSE Weighted	-5.7%	3.4%	-5.8%	7.8%

m: Month

In such projects, if we go through the management words, YIACO has already been prequalified for bidding in the contracts and we opine, the supplier is a strong contender to win the same. Indeed, such upcoming projects/new hospitals, layout bright prospects of medical equipments supplies along with drugs, and YIACO has a strong track record of winning majority of government contracts in the past and carries productive experience of staff, helping it to realize its goals. In winning scenario, one can expect healthy growth in top line in near future, which can boost the bottom line too. Similarly, with other small projects like the military hospital in the pipeline, YIACO will yet again be looking forward to cash in such opportunities relying upon its intellectual rights of selling branded medicines within Kuwait.

### Regular Dividend Payer

YIACO was listed on the Kuwait Stock Exchange in November 2007 and since then it is a constant dividend payer except for Year 2008. For Year 2007, it gave out 10% bonus and for 2009 and 2010, the company distributed 5% and 10% cash dividends respectively to its shareholders, mainly driven by strong cash flows. More importantly, the dividend is paid out by its earning constraints only, which is certainly a symbol of sound business policies and cash generating capabilities.

### Valuations

**We value YIACO's intrinsic value between KWD 0.540 (in base case scenario) and KWD 0.560 (in best case scenario). Our valuation technique comprises of two models – Discounted Cash Flow (Weight: 90%) & Relative Valuation (Weight: 10%)**

(Refer detailed valuation methodology on page 5)

### Investment Idea

YIACO has grown from being a sole marketing agent to multinational pharmaceutical manufacturers to become one of the leading pharmaceutical suppliers in Kuwait, representing more than 50 pharmaceutical companies. In the past 50 years the company has grown with the boom in Kuwait's national growth and development, diversifying and expanding into other healthcare services such as Medical Equipment and Hospital supplies. This diversification has seen positive outcomes as the revenue stream is constantly on the upward trend since the inception of new management.

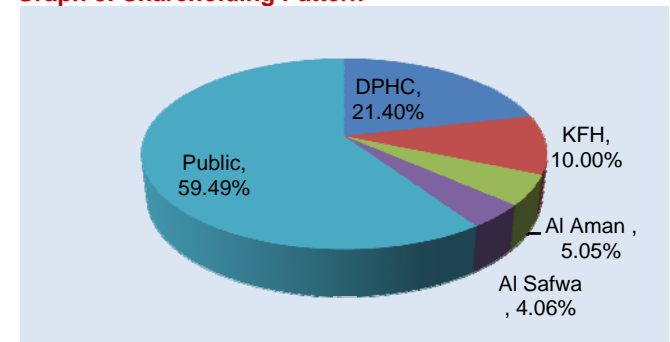
A diversified streamline has made YIACO's business sturdy in the region. With its pharmacy business flourishing to reach 41 pharmacies across Kuwait, it is the leading pharmacy chain in Kuwait. On the other hand, with the success of YIACO APOLLO, it has also demonstrated its mettle in the medical centers business. However, its management contract with Adan Hospitals has not been a very pleasant experience, as the company is facing some pressure on operating margins. However, to work out best of current agreement of BOT basis, YIACO's management is already in process to amend the terms with government.

Based upon several inner business strengths, built upon last 5 years, YIACO has outshined all the indices over any definite period, as per **table 2**.

### Shareholding Pattern

Development Projects Holding Company is the single major shareholder and owns 21.40% while KFH owns 10%, Al Aman Investment Company and Safwa Investment Fund own 5.05% and 4.06% respectively.

Graph 3: Shareholding Pattern



Source: KSE Website, Zawya

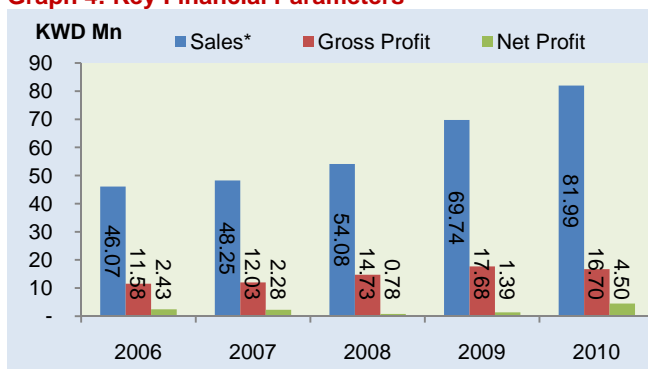
## A Glance on Financial Performance

YIACO witnessed a splendid compounded annual growth rate (CAGR) of around 17% in past five years in Revenues. Moreover, the healthcare service provider has never reported any decline in its top line since 2003, not even during financial crisis which clearly impart the solidity of the business. Operating Profit Margin for the company has been hovering in a stable range of 5 to 7% except for the year 2009 where it fell down to 4.3%, due to higher administration expenses of KWD 10.35 million, standing at 14.9% of total revenue as compared to normal pattern of 10 to 12% of sales.

The medical supplier has consistently performed well on the "Profit from Operations" front, but financial crisis of 2008 changed the picture at bottom line when impairment of 1.5 million in accounts receivables and losses of KWD 735 thousand in investment in fair value through income statement hit the income statement. In 2008, Yiaco reported a mere net profit of KWD 778,000 and it is important to highlight that erosion of equity investments' value, weighed down heavily as the bottom line dropped by 65.8% over its previous year. However, overcoming of the crisis era, in 2009, the top line momentum continued and improving investment portfolio performance cumulatively helped the bottom line to soar by 79% to report a healthy profit of KWD 1.39 million.

Going forward, as a snapshot, Year 2010 proved a boon saga where minimum provisions, cost curtailing on operating expenses front and increasing investment income, jointly boosted the bottom line to witness 223% growth, thus rewarding investors a first of its cash dividend in all these tough economic era.

**Graph 4: Key Financial Parameters**



Not only on the financial performance, the company has done a lot of hard work on its financial functioning too and has delivered a stunning turnaround on various other parameters which are keys to a kind of business. Average Collection Period has constantly been improving from 133 days in 2006 to 104 days in 2010, which certainly provides quick cash after sale of medicines and its related services and also assures minimization of any probability for impairment losses.

In totality, despite of having some exposure towards investments, the healthcare business prospects remained quite bullish given that the business line of pharmacies and pharmaceutical supplies is expected to grow faster than previous years due to increasing population and availability of latest medical technology and facilities in Kuwait at various private and government hospitals which will restrict overseas treatment. In such case, companies like YIACO will reap benefits by supplying not only equipments but also medical centers and medicines. Consistency in Gross Profit Margin (GPM) is another strong point for YIACO as it lies in a range of 20 to 22% since 2003, and realization of 8 to 10% growth in top line, will certainly drive the net profit up in coming years.

## Business Strategy

YIACO'S management adopted a five year plan strategy in 2008, which has yielded fruitful and desired results to investors. Not only this, the strategy stamps the sincerity of management intentions to uphold the growth impetus of business and to sustain the lead and market leadership of YIACO in its business arena. As unveiled by the management, YIACO is looking to expand further its business towards, Pharmacies & Pharmaceutical supplies, Medical Centers and Medical Equipments. Moreover, the company is in growth mode of making its presence across the GCC region as it has established Al Bayt Medical FZ Co. in UAE and it has also incorporated Al Kamal Import and Marketing Co. in Egypt in a bid to tap the growth opportunities in the medical field.

In the Pharmaceutical Supply Chain, the company is expecting to grow in line to population growth and increasing health care expenditure by Kuwait Government. Currently, YIACO operates 41 pharmacies in Kuwait and is looking to take the tally to 50 by 2014.

On Medical Centers section, **YIACO** is enjoying a high margin due to various specialization treatment they offers as well as availability of latest medical equipments for a better health service. Undoubtedly, the company has completely turnaround its Yiaco Apollo Hospital Unit, meaning that it is going through a major renovation with newer facilities to rake up the revenue from the 'cash cow' business. On shaky side, **YIACO** also operates Adan hospital on BOT basis, which is cultivating a clear imbalance on revenue expenses side, and in a line it is tagged as a loss making venture for the company. However, to mitigate these negative consequences, the management is looking to raise the contract bid and negotiate with the government on the same. Al Raya Health Care Co. is another major healthcare centre of **YIACO**. Apart from these three operating units, **YIACO** has outlined multiple plans to initiate smaller medical clinics, mainly concentrating on dermatology & cosmetics.

**Table 3: Key Ratios**

Parameter:	2009	2010
<b>Asset Structure Ratios</b>		
Asset Growth (%)	16.80%	15.29%
Receivable & Inv/Total Assets	68.26%	64.50%
Equity / Total Assets (%)	39.39%	39.29%
Investments/Assets (%)	12.11%	11.48%
<b>Liquidity Ratios</b>		
Current Ratio (X)	1.25	1.30
Debt to Assets (%)	23.82%	24.14%
Debt to Equity (X)	0.60	0.61
Interest Coverage Ratio (X)	3.26	7.45
<b>Profitability Ratios</b>		
Return on Assets (%)	2.39%	6.70%
Return on Equity (%)	6.07%	17.06%
Gross Profit Margin (%)	25.36%	20.37%
Net Profit Margin (%)	2.00%	5.49%
Net Profit Growth (%)	78.80%	223.01%
Average Cost of Debt (%)	5.00%	4.58%
<b>Asset Management Ratios</b>		
Average Inventory Turnover (X)	3.01	3.41
Receivable Turnover Ratio (X)	3.26	3.52
Average Collection Period	111.84	103.75
Days Payable Outstanding	141.28	128.92

Other business strategies, on which the company is currently working is to elevate the medical equipment supplies, as **YIACO** has prequalified for bidding for Jaber Al Ahmad Al Sabah hospital. If WE go through the management words, the future of **YIACO** in this line is very bright as there are nine other hospitals which are being renovated and **YIACO** is looking to bid for all of them. Any success on the front will certainly buoy the bottom line, ultimately rewarding shareholders.

On the working capital part, the management has successfully implemented its new strategy of securing debt on short term basis instead of "factoring" which was used till 2008 to manage the working capital requirements. The switch off, has paid off rich, by saving a lot on distribution cost part for the company.

## Overview – 1Q-2011 & FY2010

### Income Statement Analysis:

#### 1Q-2011

Although the revenue rose up by 6.23% in Q1-2011 to KWD 25.19 million compared to KWD 23.72 million Q1-2010, the bottom-line slid by 8.91% to KWD 1.66 million from KWD 1.82 million in the corresponding quarter the previous year, owing to higher operating costs. In 1Q-2011, distribution and G&A expenses rose by 13.27% and 17.77% respectively, while depreciation rose by 33.04% on year on year basis. These high costs were somewhat offset by better share of results in associates which doubled this year and unrealized gain on Fair Value Investments.

#### FY-2010

For the year ended 2010, **YIACO** reported a net profit of KWD 4.5 million compared to KWD 1.4 million in the previous year. The top-line grew by 17.6% to reach KWD 82.0 million from KWD 69.8 million in 2009, however this year the medical drugs supplier witnessed a drop in Gross Profit Margin, as it stood around 20.4% from 25.4% a year ago. The prime reason was abrupt surge in cost of sales, which went up from 74.64% of Revenue to 79.63%, thus squeezing margins for the company. With regards to General and Administrative expenses, the company witnessed a better efficiency on year-to-year basis, as G&A stood at 9.40% of the revenue compared to

14.54% in the previous year thus boosting the bottom-line.

Profit from operations – after all operating expenses- also inched up to 6.21% of total revenue, corresponding to just 4.28% reported in 2010.

As narrated, the efficiency on operation part played a crucial role to lift the performance and this parameter could have been much higher if cost of sales would have remained constant (in the range of 70-74% of total sale) like in 2009.

YIACO's investments in subsidiaries began contributed actively as share in results of associates stood at KWD 522,000, up by 71% from the previous year's KWD 305,000.

## Source and Use of Funds

### 1Q-2011

On the front of asset structure, given the nature of business, sale of pharmaceutical brands, Accounts Receivables and Inventories together stood at KWD 46.37 Million (Mar 2011) and accounted for a prominent share of 68.08% of total assets while Fixed Assets stood at KWD 7.30 Million, sharing 10.72% of total assets at 3M-11. On total basis, assets have increased to reach KWD 68.10 Million, up by 16.80% over March 2010.

### FY 2010

Total Assets was having major components of Accounts Receivables and Inventories, as these two shared 64.50% of assets, slightly lower than 2009 where these two jointly shared 68.30%. In totality, driven by superior performance, total assets reached KWD 67.09 Million, reporting a considerable growth of 15.30% over KWD 58.19 Million at the end of December 2009. Growth in assets is mainly funded by short term loans and retained earnings on the back of smart profit reported in 2010. Bank borrowings stood at KWD 15.21 Million as compared to the shareholders equity of KWD 26.36 Million during the same period. This translates into a debt/equity ratio of 0.60 which we believe is still not overly leveraged and future growth in assets can still be financed with borrowings.

Post accounts receivables and inventory, most of the assets are held in investment form as this section shared KWD 7.70 Million as of FY 2010, marking 11.48% contribution to total assets.

## Business Barometers:

The financial barometers on the front of asset management ratios, all three significant ratios, Average Receivables Turnover (ART), Average Collection Period (ACP) and Average Inventory Turnover Ratio (AIT) look quite healthy. In terms of Receivables Turnover, the ratio stood at 3.52x compared to 3.26x at the end of December 2009, meaning that Average collection period, stood at 104 days compared to 112 in 2009. As far as Inventory Turnover Ratio is concerned, despite growing sales with a CAGR of 17% during past five years, the company has improved its ratio and by Year 2010, it stood at around 3.41x, compared to 3.01 in 2009, which demonstrates company's ability to sell the growing inventories effectively.

## Intrinsic Valuation

We value YIACO's intrinsic value between KWD 0.540 (in Base Case Scenario) to KWD 0.560 (in Best Case Scenario) as per Table 4 & 4A. Our valuation technique comprises of two models – Discounted Cash Flow, Relative Valuation Method

**Discounted Cash Flow Valuation (DCF)**, where we have calculated free cash flow available to equity shareholders by adjusting the forecasted Earnings Before Interest & Tax (EBIT) to depreciation (non-cash items), projected capital expenditure and net working capital changes.

Our forecast for the net income is over three years till 2013. Our estimate for the EBIT (2013) is KWD 6.74 million which based on the assumption that the average growth in top line over three years is of 9.60%, comprising a 10% growth in pharmaceuticals supplies, Medical Scientific & dental supplies and medical centers whereas we have assumed 5% growth in pharmacies. We discounted all Future Cash Flow Estimated (FCFE) at the calculated Weighted Average Cost of Capital (WACC) in the base case at 6.80% (Cost of Debt at 4.50%) while best case WACC is at 6.73% (Cost of Equity at 4.35%) (as per Appendix 1).

The terminal value was then calculated based upon a perpetual growth rate of 5.0%.

The concluding Present Value of all Cash Flow, resulted in fair value of **KWD 0.555 (Base Case)** and **KWD 0.580 (Best Case)** based on the DCF valuation.

Under the scope of **Relative Valuation**, we adopted a relevant approach of using average valuation multiples for the GCC Healthcare Sector. Based on, the GCC Healthcare Sector multiples (*P/Ex of 13.16 as of June 13,*

**Table 4: YIACO's Relative Valuation - Base Case**

Adopted Models	Fair Value	Assigned Weight	Weighted Value
Discounted Cash Flow	0.555	90%	0.499
Relative Price-to-Earning (P/Ex)	0.395	10%	0.039
<b>Fair Value</b>			<b>0.540</b>

## Investment Risks

### 🔗 Increasing Competition

Increasing medical suppliers certainly intensifies competition and flashes risk factors for **YIACO**, as losing a contract/s will have significant impacts on the company performance. However, this risk can be mitigate if it is viewed in a sense that the license for most of branded drugs are with **YIACO** only and that will keep it as a competitive bidder.

### 🔗 Business Parties

Company's top line is primarily derived through government's contracts and government owned medical facilities, which certainly needs a balance by diversification of business. **YIACO**'s single major customer is Government which constitutes for more than 50% of the company's revenues, thus any change in the Government's payment policies or contracting policies can weigh heavy on **YIACO**'s Income Statement. However, the management has already clarified the same during our meeting, that the company has already intensified its efforts to get more business from private hospitals and pharmacies and it has started reflecting in its quarter on quarter results.

2011) and **YIACO**'s projected 2011 EPS of 30 Fils **YIACO**'s fair value through P/Ex is **KWD 0.395**.

In order to arrive at an average Intrinsic Value, we assign 90% weight to DCF Model and 10% to P/Ex valuation model. The rationale for the Relative Valuation method assigned lower weight-age is the diverse regions of operations by the Healthcare operators across the GCC and the companies included do not have diversification of business like **YIACO** does.

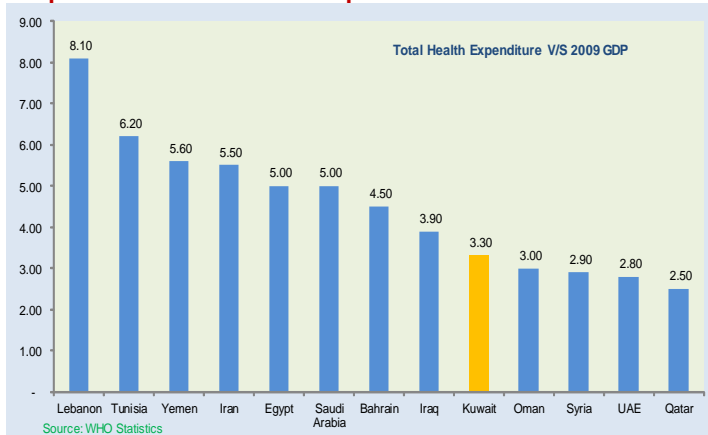
**Table 4A: YIACO's Relative Valuation - Best Case**

Adopted Models	Fair Value	Assigned Weight	Weighted Value
Discounted Cash Flow	0.580	90%	0.522
Relative Price-to-Earning (P/Ex)	0.395	10%	0.039
<b>Fair Value</b>			<b>0.560</b>

## Health Care Industry Prospectus

The Health Care sector in the GCC is poised to grow at a much faster pace in the next decade, despite rising life expectancy. Growing population with a CAGR of 3.00% (total population is expected to double of its current size by 2025), ageing population, unhealthy food habits, luxurious lifestyle and few other unwanted factors will be the key drivers for the unprecedented medical sector growth. According to a study conducted by US McKinsey & Co., the demand for health care in the GCC is expected to increase by 240% over the next 20 years and the total cost of healthcare delivery in the Gulf will rise to nearly USD 60 billion by 2025, as compared to USD 12 billion in 2007. The current outlook of the sector is very appalling as the GCC governments spend a dwarfing 2-4% of their total GDP to the health care sector, which is in sharp contrast to the health care spending of 8% to 16% in the Europe and US. Moreover, according to latest statistics released by Centre for Medicare and Medicaid Services (CMS), in year 2009 the US alone spent USD 2.47 trillion for the health care sector which accounted for 17.3 % of the nation's economic output, while in Kuwait, total health care spending currently accounting for 3.3% of GDP which is far below that other peers in the region like Saudi Arabia and Bahrain apart from other emerging countries.

Graph 5: Total Health Care Expenditure to GDP



On the overall GCC part, currently the industry is outlined by low private sector privatization, of about 25%+ of total healthcare expenditure. However, apprehending the urgency of the matter and realizing the fact of ill-preparedness of the government run hospitals to alleviate the rising chronic and heart diseases, the governments have already opened the doors for international renowned medical institutions to meet future medical requirements of the citizens and residents. One study shows that the GCC governments spend billions of dollars each year on their citizens for overseas treatments. For instance, the UAE pays about USD 2 billion each year for patients receiving treatment outside while the Kuwaiti Government has already allocated KWD 130 million (USD 454 million) to send patients overseas for the treatment. Such high expenditures are easy to curb only by inviting world class private clinics to provide medical facilities at home as well as making the residents to have faith in the quality of services provided by these players.

Moreover, as per the recent report published by World Health Organization, (WHO), Kuwait (a major market) for **YIACO**, has taken many progressive steps towards the sector and marked a total health care expenditure of around 3.3% of total GDP in 2009, compared to mere 2.2% in 2006, but still it needs to spend more to improve quality of treatment as compared to the other developed nations. Such lower percentage of the medical expenditure leaves a huge untapped potential for the industry to grow at much higher pace. With

regards to this, in the past few years since 2000, this OPEC member has seen a flood of private hospitals in various areas providing world class medical facilities, serving the needs of patients; however its contribution is still very low with 16.1% of total expenditure, compared to hefty government expenditure of 83.9% in 2009.

Also, coinciding with the growing number of hospitals, private medical insurance companies have also mushroomed in the state, thus contributing positively towards the sector by encouraging patients to visit private counterparts for better medical and less time consuming facilities instead of government centers. These insurance companies are providing complete health coverage for patients ranging from medical consultancy to prescribed medicine course, thus extending a huge support for companies like **YIACO** to run its pharmacy operations.

Likewise in a bid to provide better healthcare services with latest equipments and technologies, the government of Kuwait is already active on the two hospital projects. According to MEED projects, the first one is "Jaber Al Ahmad Al Sabah Hospital", valued at USD 1.20 billion, which will be constructed to accommodate 1,010 generic beds and 158 specialist trauma beds while the other one is "Shadidiyah New University Campus Hospital", valued at USD 400 million, having 600 beds and 25 faculty buildings. Kuwait plans to extend its efforts in building up applauding medical facilities, as State plans to open 8 more hospitals by 2016. Any such realized addition, will double the number of general and special hospital bed capacity at a cost USD 3.50 billion.

In a nutshell, numerous positive developments like developing standard medical facilities, retaining best medical talents, opening up of multiple world class medical clinics/hospitals, are certainly going to enhance the turnover for **YIACO**, which commands a major portion of Kuwaiti Pharma Market as well as affiliated to special number of distributorship/dealership rights of reputed medical brands in and around Kuwait. Also, by putting in serious efforts in encouraging local citizens to prefer and trust their health care systems instead of overseas treatments is poised to shape a better future for pharmaceutical major **YIACO** in coming times.

## Stock Rating Methodology

MIC Rating	MIC Outlook	Margin of Safety	Current Market Price to IV*
★★★★★	Grossly Undervalued	Huge	Discount of more than 30%
★★★★	Fairly Undervalued	High	Discount of 20-30%
★★★	Undervalued	Average	Discount of 10-20%
★★	Fully Valued	Low	Discount of less than 10%
★	Overvalued	None	Premium of more than 1%

\*IV: Intrinsic Value

We, at **Muthanna Research**, believe that purchasing blue chip businesses at superior discounts to their intrinsic value, is the guaranteed way to create wealth in the stock market.

In the process of a stock valuation, our team neither believes in a precise intrinsic value nor do we have any faith in keeping a single-thought approach for any identified pick. Saying so, on intrinsic valuation part, our approach varies from a base case scenario to a best case scenario, thus resulting in two intrinsic values which give a fair valuation range to investors.

On valuation-model part, we prefer Discounted Cash Flow (DCF) model at the very first stance to value a stock (or business), however in a bid to value a stock in a more healthy sense, we do consider other relative valuation techniques like sector's P/Ex, P/BVx, Dividend Yield, PEG ratio and similar decent methodologies, if applicable.

Once a fair value is arrived by applying a combination of various techniques, the next move is to calculate the margin of safety between current market price and calculated intrinsic value. In normal terms, Margin of Safety is the difference which allows an investment to be made with minimum downside risk.

For instance, the company X's share is worth KWD 1.000 and buying it at current market price of KWD 0.750 will provide a cushion of high Margin of Safety (25% here), in case analysis turns out to be incorrect and the company's share worth only KWD 0.900.

On the rating scale of 1 to 5 stars, we assign 5 stars to the best stock which has a tremendous potential to reward investors while spacing huge Margin of Safety while 1 star stands for the least potential stock with no margin of safety. The rating is given on the Base Case valuation, not on Best Case valuation. In above mentioned example, where the company X is trading at a discount of 25.0% to its intrinsic value, is assigned 4-stars, meaning that it is "Fairly Undervalued" and has "High" Margin of Safety, according to our defined rating scale (refer to our table given above)

We hereby need to clarify that any rating affiliated to a particular stock at any given point of time, is analyzed by its past performance with a combination of forecasting its business performance, by prevailing business factors. It means that today's stock valuation may not remain same in the future, depending upon the business trends of that industry under which it operates.

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## Appendix 1

## YIACO's Valuation - Based on Discounted Cash Flow (Base Case)

000 KWD	2011*	2012	2013
<b>EBIT</b>	<b>4,074</b>	<b>6,157</b>	<b>6,747</b>
Add: Depreciation	1,151	1,627	1,718
Subtract: CAPEX	(420)	(765)	(765)
Net Changes in Working Capital	(2,067)	(5,221)	(5,746)
<b>Future Cash Flow Estimated</b>	<b>2,739</b>	<b>1,798</b>	<b>1,954</b>
<b>Terminal Value</b>			<b>113,708</b>
<b>PV of FCF</b>	<b>2,607</b>	<b>1,602</b>	<b>1,631</b>
Total Present Value of Future Cash Flow	<b>5,840</b>		
Present Value Terminal Value	<b>94,878</b>		
<b>Total Enterprise Value</b>	<b>100,718</b>		
Less: Current Debt	(15,166)	as of March 2011	
Add: Cash & Cash Equivalents	5,651	as of March 2011	
<b>Total Shareholders' Equity Value</b>	<b>91,203</b>		
Current No. of Outstanding Shares ('000)	<b>165,000</b>	(as of June 13, 2011)	
<b>Intrinsic Value/Share- Base Case (KWD)</b>	<b>0.555</b>		

\*: For the remaining 9 months of Year 2011

**Muthanna's Assumptions:**

- 1) Risk Free Rate = 3% as 10 Yr. Treasury Yield
- 2) Beta = 1.09 {Since November 2007, when Yiaco was listed on the KSE}
- 3) Equity Risk Premium = 5.75% as per Aswath Damodaran
- 4) Cost of Equity = 9.25%; while the WACC = 6.80% considering an equality of debt & equity.

## Financials at a Glance

### Balance Sheet

Balance Sheet ('000)	Dec'09	Dec'10	Mar' 11	Dec'11E	Dec'12E	Dec'13E
Cash & Cash Equivalents	2,455,082	7,265,429	5,650,686	9,516,971	14,160,445	19,274,591
Receivables	21,370,443	23,305,476	28,990,143	27,080,573	29,683,754	32,542,011
Inventories	18,350,787	19,968,222	17,379,944	22,156,832	24,286,708	26,625,282
Fixed Assets	8,612,473	7,429,411	7,299,325	6,659,482	5,797,852	4,844,523
Intangible assets	143,945	1,300,807	1,261,536	1,300,807	1,300,807	1,300,807
Investment in Associates	5,599,395	5,991,647	6,191,054	6,411,357	7,020,470	7,672,221
Other Investments	1,445,200	1,709,600	1,280,300	1,789,200	1,872,780	1,960,539
Other Assets	216,545	119,989	56,212	332,352	364,301	399,379
<b>Total Assets</b>	<b>58,193,870</b>	<b>67,090,581</b>	<b>68,109,200</b>	<b>75,247,574</b>	<b>84,487,118</b>	<b>94,619,353</b>
Debt	13,858,975	16,195,703	15,165,858	16,466,746	18,060,250	19,810,445
Account Payables	20,150,124	23,060,045	23,369,211	26,480,176	29,042,689	31,857,178
Other Liabilities	1,176,420	1,275,246	1,419,739	1,379,013	1,487,969	1,602,372
Minority Interest	86,315	198,277	192,560	198,277	198,277	198,277
<b>Total Liabilities</b>	<b>35,271,834</b>	<b>40,729,271</b>	<b>40,147,368</b>	<b>44,524,212</b>	<b>48,789,185</b>	<b>53,468,273</b>
Equity Capital	16,500,000	16,500,000	16,500,000	16,500,000	16,500,000	16,500,000
Reserves	3,114,934	3,482,565	3,431,091	3,918,770	4,416,227	4,961,542
Retained earnings	3,307,102	6,378,745	8,030,741	10,304,591	14,781,706	19,689,538
<b>Shareholder's Equity</b>	<b>22,922,036</b>	<b>26,361,310</b>	<b>27,961,832</b>	<b>30,723,361</b>	<b>35,697,933</b>	<b>41,151,080</b>
<b>Total Shareholders Equity &amp; Liab.</b>	<b>58,193,870</b>	<b>67,090,581</b>	<b>68,109,200</b>	<b>75,247,574</b>	<b>84,487,118</b>	<b>94,619,353</b>

Source: Company's Financials; E: Muthanna Estimates

**Income Statement**

Income Statement ('000)	FY09	FY10	1Q- 11	FY11E	FY12E	FY13E
Operating Revenues	69,742,486	81,990,625	25,196,134	89,858,263	98,496,094	107,980,309
Operating Costs	(52,058,682)	(65,286,108)	(20,009,818)	(71,594,549)	(78,522,825)	(86,132,371)
Gross Profit	17,683,804	16,704,517	5,186,316	18,263,714	19,973,269	21,847,938
Other income / (Loss)	503,642	622,541	99,412	673,937	738,721	809,852
Investment Income / (Loss)	85,885	801,918	349,438	701,183	960,581	1,034,436
Total Income	18,273,331	18,128,976	5,635,166	19,638,834	21,672,570	23,692,226
Distribution Cost	(3,495,061)	(2,904,634)	(916,530)	(3,414,614)	(3,742,852)	(4,103,252)
General and Administrative Expenses	(10,440,504)	(7,853,619)	(2,329,350)	(8,985,826)	(9,849,609)	(10,798,031)
Impairment Loss - (Goodwill)	(720,580)	(176,829)	(48,978)	(270,806)	(296,838)	(325,420)
Loss on sale of PPE	-	(191,736)	(30,937)	-	-	-
Operating Profit	3,617,186	7,002,158	2,309,371	6,967,588	7,783,272	8,465,523
Depreciation	(1,358,039)	(1,479,621)	(422,821)	(1,534,929)	(1,626,629)	(1,718,329)
Earnings Before Interest and Tax (EBIT)	2,259,147	5,522,537	1,886,550	5,432,658	6,156,642	6,747,194
Interest Costs	(693,414)	(741,344)	(135,706)	(741,004)	(812,711)	(891,470)
Profit before KFAS, Zakat, NLST & Tax	1,565,733	4,781,193	1,750,844	4,691,655	5,343,931	5,855,724
Less: KFAS, Zakat , NLST & Tax	(158,143)	(268,183)	(96,800)	(306,510)	(343,039)	(373,735)
Profit from continuing operations	1,407,590	4,513,010	1,654,044	4,385,144	5,000,892	5,481,989
Less: Minority Interest	(15,148)	(15,218)	(2,048)	(23,093)	(26,320)	(28,842)
Net profit for the year	1,392,442	4,497,792	1,651,996	4,362,051	4,974,572	5,453,147
Earning Per Share (Fils)	8.44	27.26	10.01	26.44	30.15	33.05

Source: Company's Financials; E: Muthanna Estimates

## Cash Flow

YIACO Medical	2009	2010	2011E	2012E	2013E
Profit for the Year	1,407,590	4,513,010	4,385,144	5,000,892	5,481,989
Non Cash Charges	1,586,865	2,116,854	2,002,701	2,117,790	2,234,048
Share of results of associates	(304,830)	(522,393)	(558,961)	(811,453)	(868,255)
Unrealized profit from investments	290,445	(264,400)	(79,600)	(83,580)	(87,759)
Dividend Income	(71,500)	(15,125)	(62,622)	(65,547)	(78,422)
Finance Costs	693,414	741,344	741,004	812,711	891,470
Allowance for bad and doubtful debts	720,580	176,829	270,806	296,838	325,420
Income Taxes	79,604	30,241	73,055	79,893	87,392
<b>Net Changes before Working Capital</b>	<b>4,402,168</b>	<b>6,776,360</b>	<b>6,771,527</b>	<b>7,347,543</b>	<b>7,985,883</b>
<b>Working Capital Changes</b>	<b>(4,449,154)</b>	<b>(2,063,544)</b>	<b>(2,543,576)</b>	<b>(2,170,545)</b>	<b>(2,382,340)</b>
<b>Cash from operations</b>	<b>(46,986)</b>	<b>4,712,816</b>	<b>4,227,951</b>	<b>5,176,998</b>	<b>5,603,542</b>
EOSB & Taxes Paid	(164,010)	(376,912)	(437,059)	(462,098)	(488,707)
<b>Net cash from (used in) operating Activities</b>	<b>(210,996)</b>	<b>4,335,904</b>	<b>3,790,892</b>	<b>4,714,901</b>	<b>5,114,836</b>
<b>Investing Activities</b>					
Proceeds from disposal and purchase of PPE	(1,486,220)	(252,639)	(765,000)	(765,000)	(765,000)
Dividends/sale of invest & Intangible assets	94,824	29,286	201,873	267,887	294,925
Net movement in Inventory assigned to customers	143,039	96,556	(212,363)	(31,948)	(35,079)
<b>Net Cash from (Used) in Investing Activities</b>	<b>(1,459,353)</b>	<b>4,209,107</b>	<b>3,015,401</b>	<b>4,185,840</b>	<b>4,609,682</b>
<b>Financing Activities</b>					
Finance Cost Paid	(588,869)	(797,176)	(741,004)	(812,711)	(891,470)
New Murabaha (Paid) payable	10,832,125	2,337,895	271,043	1,593,504	1,750,195
Net Payment of Term Loans	(2,253,516)	(1,167)			
Dividends Paid		(825,000)			
<b>Net Cash from (Used) in Financing Activities</b>	<b>6,530,387</b>	<b>4,923,659</b>	<b>2,545,441</b>	<b>4,966,632</b>	<b>5,468,408</b>
Net impact of foreign currency translations & others	57,927	(113,312)	(293,899)	(323,158)	(354,262)
<b>Increase in Cash (Decrease)</b>	<b>6,588,314</b>	<b>4,810,347</b>	<b>2,251,542</b>	<b>4,643,474</b>	<b>5,114,146</b>
Cash or Equivalent at January 01	(4,133,232)	2,455,082	7,265,429	9,516,971	14,160,445
<b>Cash at the period end</b>	<b>2,455,082</b>	<b>7,265,429</b>	<b>9,516,971</b>	<b>14,160,445</b>	<b>19,274,591</b>

Source: Company's Financials; E: Muthanna Estimates

## Technical – Trading Data

Year	2007	2008	2009	2010	YTD - 11
<b>Total Volume ('000)</b>	59,520	340,160	227,080	144,260	65,735
<b>No. of Trading Days</b>	39	248	244	247	113
<b>Average Daily Volume ('000)</b>	1,526	1,372	931	584	582
<b>Turnover Ratio (Annual Basis)</b>	254.4%	207.8%	141.0%	88.5%	88.1%
<b>Total Value (KWD '000)</b>	13,495	75,669	38,367	32,992	28,866
<b>Average Daily Value (KWD '000)</b>	346	305	157	134	255
<b>Yearly High Price (KWD)</b>	0.246	0.255	0.210	0.350	0.560
<b>Yearly Low Price (KWD)</b>	0.206	0.116	0.104	0.150	0.310
<b>Average Trading Price (KWD)</b>	0.227	0.222	0.169	0.229	0.439
<b>Variation</b>					
<b>Yearly High to Average Trading Price</b>	8.5%	14.6%	24.3%	53.0%	27.5%
<b>Yearly Low to Average Trading Price</b>	-9.1%	-47.9%	-38.4%	-34.4%	-29.4%

Source: KSE Website, Muthanna Research

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