



SHUAACAPITAL_{PSC}

PWC Logistics (WARE. KW)

Equity Research

General Update

October 17th, 2006

Sector Coverage Team

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Current Price:	KWD 1.900*	Country:	Kuwait
Fair value Target:	KWD 3.292	Sector:	Logistics and Transportation
Recommendation:	BUY	Exchange:	Kuwait Stock Exchange

* prices as at close of 16th October 2006

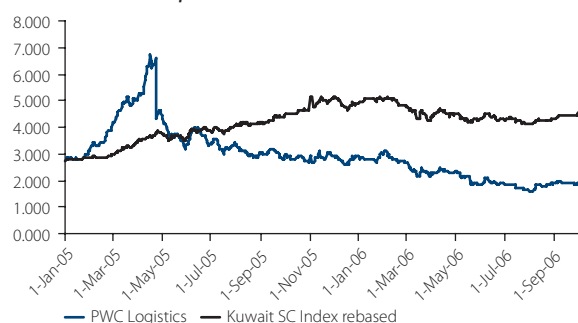
- PWC Logistics' new freight forwarding business is set to be catalyst for further growth, and the effort to integrate it with the company's existing regional logistics business will be key to the company's prospects going forward.
- Inorganic growth is seen to affect global players substantially as further consolidations will take place, which will change the providers' business models and size to accommodate for ever increasing global trade flows. As a result, we believe that the industry valuation multiples will remain higher than those of most other industries on average.
- We have revised our forecasts upwards to incorporate the contribution of the acquired entities, and the benefits of integration. We also revise upwards our fair value target per share to reach KWD 3.292, which represents a massive 73% upside on the stock's most recent closing. We retain our Buy recommendation on the stock.

Year	Net Profit (KWD '000)	EPS (KWD)	EBITDA (KWD '000)	BV (KWD '000)	BVPS (KWD)	ROE (%)	ROA (%)	P/E (x)	EV/EBITDA (x)	P/BV (x)
Dec 08 E	222,246	0.283	279,127	974,158	1.23	23.00	13.18	6.99	9.20	1.60
Dec 07 E	202,213	0.257	253,756	827,253	1.04	24.65	13.40	7.69	10.67	1.88
Dec 06 E	176,952	0.225	215,550	688,484	0.87	25.92	13.29	8.78	12.11	2.26
Dec 05	141,850	0.218	170,756	546,527	0.79	26.12	13.72	14.01	17.90	3.66

52-week range (KWD)	1.56 - 3.18
Number of shares ('000)	793,060
Free Float	61%
Market Cap (KWD '000)	1,506,814
Market Cap (USD '000)	5,160,322
Div. Yld. 2005	2.90%

Source: Reuters, SHUAA Capital

PWC stock performance vs SC Kuwait Index



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Investment Highlights

- PWC Logistics has aggressively expanded its scale and geographic reach by acquiring three companies and going through two mergers. This has significantly improved the company's regional competitive strength, and catapulted it to global player status.
- Sources of income are set to diversify as a result of acquisitions, which will reduce the prominence of the US government among PWC Logistics' client base. Additionally, industries such as FMCG, events, oil and gas, and heavy industries now feature more prominently among its client list.
- PWC Logistics' new freight forwarding business is set to be catalyst for further growth, and the effort to integrate it with the company's existing regional logistics business will be key to the company's prospects going forward.
- Further consolidation is probable, given PWC Logistics' massive war chest. The company has set ambitious growth targets that will be difficult to achieve without further acquisitions. Given that 90% of world trade takes place between the Americas, the EU and Asia, we expect further acquisitions to target this geography.
- Inorganic growth is seen to affect global players substantially as further consolidations will take place, which will change the providers' business models and size to accommodate for ever increasing global trade flows. As a result, we believe that the industry valuation multiples will remain higher than those of most other industries on average.
- Regional economy prospects seems positive in light of the increasing trade volumes and values as a result of falling trade barriers within the region and the increased privatization of industries, which has carved the way for increasing outsourcing potentials. We believe the region is a promising and favorable for above average growth prospects and returns.
- The company outperformed our earlier forecasts on top line and, to a smaller degree, bottom line financial performance for the year 2005 and 2006 to-date, primarily as a result of the three acquisitions that took place towards the end of 2005. We have revised our forecasts upwards to incorporate the contribution of the acquired entities, and the benefits of integration. We also revise upwards our fair value target per share to reach KWD 3.292, which represents a massive 73% upside on the stock's most recent closing. We retain our Buy recommendation on the stock.

Further along the way

Towards becoming a fully integrated logistics services provider through consolidation

PWC Logistics has witnessed major developments since our initiation report. These developments are part of its strategic move – first articulated in 1997 - towards becoming a fully integrated supply chain management services company, and were inevitable if PWC Logistics was to effectively compete with top global players, in an ever consolidating global industry.

Strategic acquisitions

The Company made several strategic acquisitions beginning in early 2005. These acquisitions were aimed at increasing PWC Logistics' footprint, and reducing its dependence on US government contract – hitherto its largest revenue source - for future growth. As a result, the ratio of Logistics services (out of which US military contracts are the largest component) to total revenues dropped from 85% in 2004 to 45% in 2005. We project the ratio to decrease further to reach 21% by 2010.

The acquisitions were as follows:

US \$36.1 million acquisition of Singapore based Trans-Link Group

In February 2005, PWC Logistics acquired 100% of The **Trans-Link Group**, a Singapore-based freight forwarding provider specialized in logistics services for exhibitions and events, and also involved in customized supply chain solutions and 3PL for FMCG, commercial and industrial goods for the amount of US \$ 31.6 million. This company has a strong presence in Asia, having a significant and sometimes dominant market share in Singapore, Malaysia, Hong Kong, China, Thailand and Korea, in addition to presence in South Africa, Greece and Mexico. Trans-Link caters for many major events including Asian Aerospace and Communi-cAsia. Translink Group had sales of US \$39 million as per their 2004 results.

US \$34.7 million acquisition of UK based Transoceanic Shipping Company ...

In April 2005, PWC Logistics merged with a leading international freight forwarding and logistics services provider based in the UK for the amount of US \$34.7 million. The **Transoceanic Shipping Company** is specialized in project forwarding, performing integrated services around the world for heavy industries such as engineering, construction, government services, energy and mining. Its clients include ExxonMobil, Cemex, British Gas, Parsons, Halliburton, BP and Bechtel. Transoceanic Shipping Company had sales of US \$145 million as per their 2004 results.

And US \$454 million acquisition of US based Geologistics

In September 2005, PWC Logistics acquired a US-based freight forwarding and logistics services provider, **GeoLogistics** Corporation for US \$454 million. Geologistics is an asset light global provider with presence in 100 countries that provides a broad range of freight forwarding services and customized solutions. Its clients include Wal-Mart, Toys R Us, Daimlerchrysler, USAID, Epson, Nike, GE and Princess Cruises. As per Geologistics 2004 results, their sales were at USD 1,577 million.

Though the above mentioned acquisitions were carried out towards the end of 2005, and were only reflected in the last quarter of the year, they contributed 45% to total revenues. Contribution from these acquisitions will increase further in 2006, as they become fully accounted for in the 2006 financials.

Continuing through further acquisitions in 2006

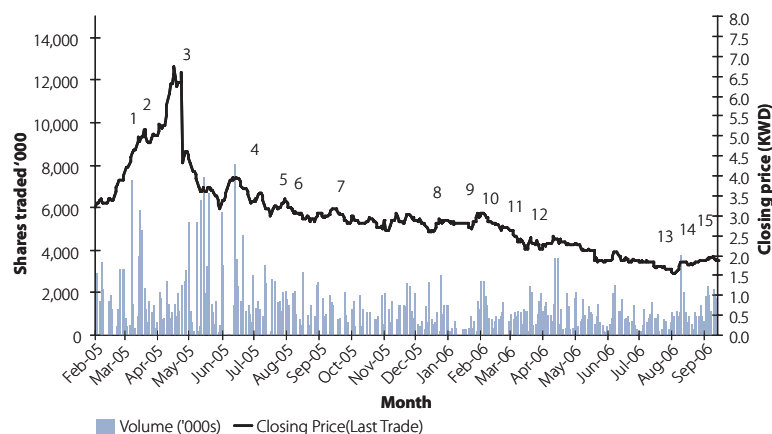
Acquisitions continued to take place in 2006. Towards the middle of July 06, PWC Logistics took over Switzerland-based **Cronant Transport Holding**, traded under the name Natural, for USD 27 million. Natural is a freight forwarding and logistics services provider in Switzerland, with a presence in most of Europe.

PWC Logistics then acquired UK-based **Agility Logistics** for US \$14 million in August 06. Agility provides logistics services to oil and gas companies in Europe and North America.

Lastly, PWC Logistics announced its merger with **Global Marine Services' (GMS)** freight forwarding division in September 06. Saudi Arabia-based GMS provides marine services and transportation in the Kingdom. Through this merger, PWC Logistics integrates its global network and expertise with GMS's client base in KSA.

All the above acquisitions have been the handy work of a strong “strategic Initiators Team” which is responsible for the acquisitions strategy of the firm in light of its stated global growth strategy.

The more recent acquisitions will not be taken into account in our financial projections and in our valuation exercise, as detailed financial information about each company is not yet available.



- | | |
|--|---|
| 1 Acquisition of Trans-Link Group | 9 PWC Logistics Awarded EQUATE Project Logistics Contract |
| 2 Agreement with Al Bateen Investment and Bin Jabr Group | 10 AsiaWorld-Expo signs partnership agreement with Trans-Link |
| 3 Merger with Transoceanic Shipping | 11 Listing on Dubai Financial Market |
| 4 Winning Largest-Ever Heavy-Lift Contract | 12 Partnership with AL-Ghaith Holding to provide automotive logistics services in the GCC |
| 5 Acquisition of GeoLogistics, Leading International Freight Forwarder | 13 Natural to Become Part of PWC Logistics |
| 6 Joint Venture with Dnata providing airport logistics | 14 PWC acquires UK based Agility Logistics |
| 7 Completion of acquisition of GeoLogistics Corporation | 15 PWC merges with Saudi Arabia Global Marine Services (GMS) |
| 8 Trans-Link Acquires Exposervice | |

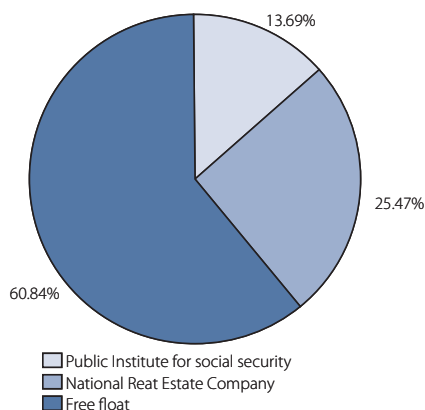
Dual Listing

Now also listed on DFM

The company's management initiated a dual listing of PWC Logistics' shares on the Dubai Financial Market in February 2006. This move gave investors better access to the stock, and by virtue of the DFM's higher activity and flexibility, increased the stock's liquidity.

This move did not alter PWC Logistics shareholding structure. As per the chart below, the Public Institute for Social Security still owns 14%, the National Real Estate Company still owns 25%, and the remaining 61% is still free float.

PWC Logistics Shareholder Breakdown

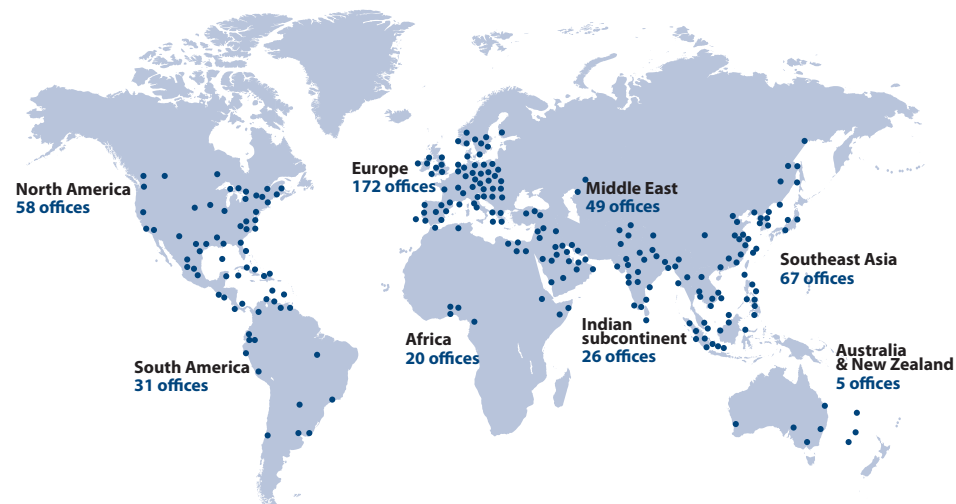


Source: PWC Logistics, SHUAA Capital

PWC Logistics today a global provider of integrated services

Geographic outlook

Following the aforementioned acquisitions, PWC Logistics' global footprint has increased substantially. In its chairman's words, the company has transformed from a Middle Eastern company into a global provider of integrated supply chain solutions. PWC logistics now operates in 100 countries on 6 continents.



Source: PWC Logistics, SHUAA Capital

In terms of revenues, we can see that the acquisitions have begun to bear fruit: the broader Asian region's share of income has diminished although it is still by far the largest component, while substantial new income flows from Europe and the Americas are now evident.

Share of income	2003	2004	2005
Asia (Including Middle East)	96.64%	99.13%	75.60%
Europe	0.00%	0.03%	20.94%
America	1.54%	0.61%	12.91%
Africa	3.10%	0.84%	0.28%
Independent States of Common Wealth	0.00%	0.00%	0.00%
Unallocated	0.26%	0.00%	0.00%
Inter-group Elimination	-1.54%	-0.61%	-9.74%
Total	100.00%	100.00%	100.00%

Source: PWC Logistics, SHUAA Capital

New Services

Freight and project forwarding were introduced towards the end of 2005, after the acquisitions of GeoLogistics, Transoceanic and Translink. This latest addition to the roster of services offered was a key addition, in so far as freight forwarding is an increasingly important component of the global logistics chain.

Freight forwarding services are intermediary logistics services between the shipper and the carrier, typically on international shipments. Freight forwarders provide the ability to respond quickly and efficiently to changing customer and consumer demands, as well as international shipping requirements.

As mentioned earlier in the report, these acquisitions were strategic. We believe that they were essential, in order expand its regional product offering to encompass the region's

***US contracts exposure
down to 6% by 2010***

main global trade partners at a time of global consolidation in the industry, as well as to continue to diversify the concentration risk associated with the US government contracts. Today, based on our estimates, PWC Logistics has around 30% exposure to that one client, but this is forecast to drop to 6% in 2010, although it will remain among the highest margin contracts in the company's client roster. Other than the US contracts, PWC Logistics has no single client that constitutes 5% or more of total revenues.

Among PWC Logistics' clients are Nestle, Schlumberger, Unilever, BP, Mc Donalds, Americana, Ford, EPSON, Philips, KLM DSCP, Lufthansa and the Governments of Kuwait, Pakistan, China and the United States.

Strategy Analysis***Corporate Strategy:******The need for expansion and
keeping up with industry trends***

As we have argued, PWC Logistics' acquisitions were based on strategic imperatives. These are (i) the need to expand services and geography, (ii) the need to reduce the prominence of the US military contract among sources of income and (iii) keeping up with industry trends. PWC Logistics thus started acquiring global providers within the global supply chain dynamic, to give it further access to leading global markets and trade partners, and to buffer the eventual expiry of contracts by governmental customers.

***Freight forwarding
contribution to total revenue
is to increase further***

Although the merger with Transoceanic Shipping was concluded in April 2005, and the acquisition of GeoLogistics Corporation was not completed until September, the initial elements of PWC Logistics' strategy were clearly reflected in its FY05 income statement. The exposure of Logistics services to total revenues decreased from 85% in 2004 to 46% in 2005. Furthermore, these acquisitions introduced a new component to the revenue streams - freight forwarding- which currently constitutes 45% of the total revenues. We believe that this ratio will further increase on account of logistics services in 2006, as revenue contribution will commence from the beginning of the year.

PWC Logistics' strategy is not only limited to acquisitions, but also includes partnerships: with companies such as Al Bateen Investment and Bin Jaber group to form PWC Logistics UAE; and with companies such as Dnata and Al Ghaith Holdings to form joint ventures that offer airport and automotive logistics service.

***PWC Logistics
8x8 strategy***

PWC Logistics has set ambitious targets that reflect its vision. These targets, which represent the company's operational goals, are called the 8x8 targets. These targets are:

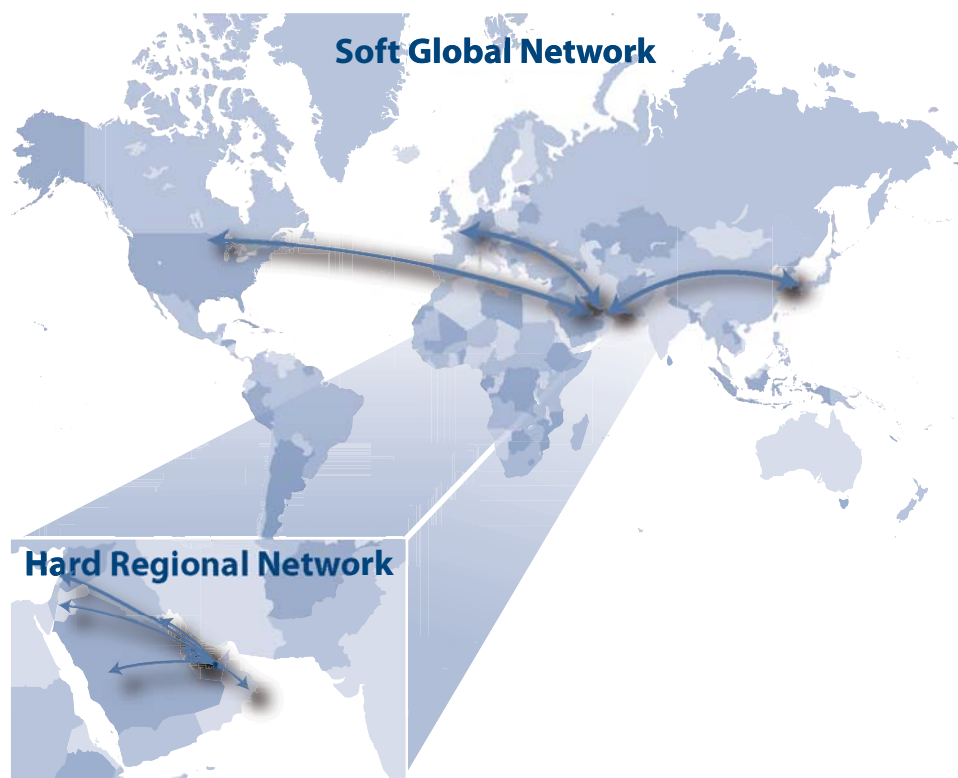
- To be amongst the top 8 global logistics providers including UPS, Deutsche Post, FedEx, TNT, Expeditors, UTi, Schenker and Kuehne + Nagel.
- Integr8: Integrating their business, regionally and globally with all their business units, partners and customers.
- Achieve US \$8 billion in gross revenues
- Achieve US \$ 800 million in net profits
- To be a market leader in 8 Middle Eastern economies
- To have 8 globally integrated supply chain customers, each contributing to US \$80 million in revenues.
- To achieve the 8 operating metrics of Accuracy, speed, profitability, quality, satisfaction, people, productivity and service level.
- To achieve all of the above by 2008.

We anticipate further consolidation to PWC Logistics' business model. In fact, given the large amount of cash available, and continued positive cash generation, it would be surprising if this were not the case. We cannot, however, at present make accurate financial projections regarding these given their partially inorganic nature. We therefore withhold any financial endorsement of the 8x8 targets, though we commend the ambition and vision.

Competitive Strategy:

PWC Logistics' competitive strategy is directed at differentiation rather than cost leadership. This is because PWC Logistics has become a global player, and has passed the days when its main advantage was low cost. Being global and integrated, it will be able to compete in such a consolidated market.

The said differentiation is a conflation of factors, including services, geography and technology. On the geography, PWC Logistics is linking the Middle East with key trade partners and markets such as the US, Europe and India, Singapore and China.



Source: PWC Logistics, SHUAA Capital

Middle East markets have lagged, but prospects are of above average growth

Given that its acquisitions and partnership have made PWC Logistics a logistics provider to almost all industries - automotive logistics, FMCG's, exhibition and event services, oil and gas, and heavy industry logistics -, PWC is intimately tied to the growth of many of these industries, as they either hail from the Middle East or seek to expand there.

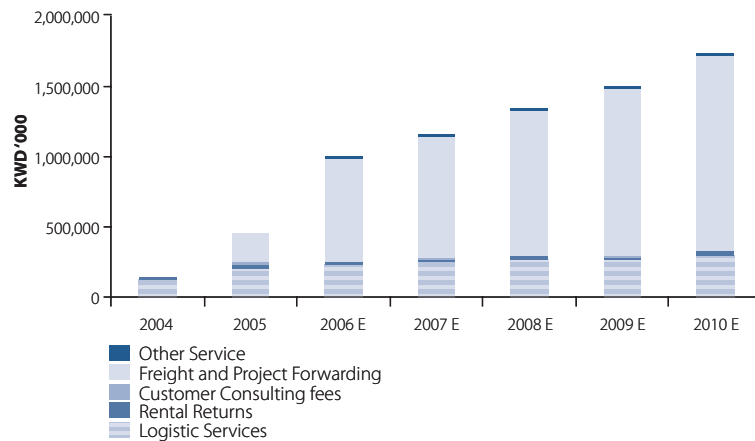
There are huge opportunities in the Middle Eastern markets, as outsourcing in these markets still lags behind, especially as businesses in the Middle East are now looking at separating the manufacturing process from sales process even further through increasing outsourcing. What is more, there are agreements within the GCC region to eliminate tariffs, non-tariff barriers, taxes and other distortions by 2007 in order to increase the intra regional trade (currently at 8 - 10% of total trade relative to 60% within the EU). Doing so will increase the logistics business substantially, making the Middle East an attractive market for penetration. The faster these markets are penetrated, the more competitive advantage can be gained from such an earlier entry.

Also PWC Logistics has a "MicroTransport Fleet Management System" that uses GPS technology to provide online visibility as to where about of the shipments, and therefore can track the shipments from the time they depart to the time they reach their destination.

As previously stated, we expect PWC Logistics to use its huge cash reserve to bolster its presence and / or capabilities on at least three continents: Asia, Europe and America.

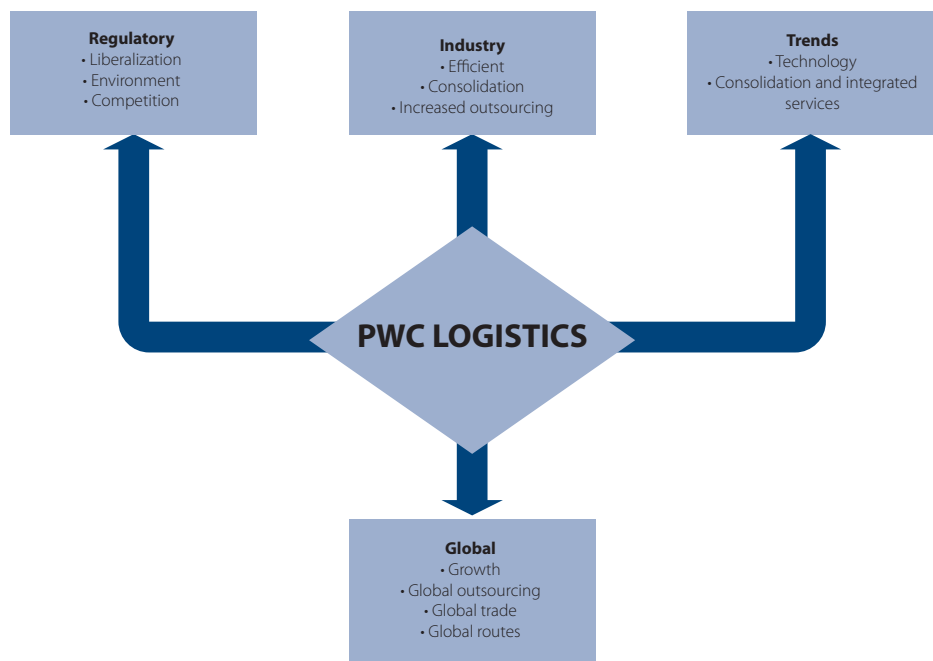
New technologies have also helped to address the concerns of customers who were once reluctant to outsource the logistics of their businesses. The fear of not being in control of the process, and resulting distraction from running the business, were a concern. Technologies such as GPS, which enable clients to know the exact location and progress of each shipment, have addressed this issue comprehensively, and further gave clients the opportunity to concentrate on their core business without the need to worry about their logistics part of business. The resulting transparency will now begin to have a positive effect on the industry by adding more and more clients.

Revenue Contributors



Source: PWC Logistics, SHUAA Capital

Sector overview



Source: SHUAA Capital

Outsourcing has noticeable positive impact on businesses

Recent statistics issued by China Logistics suggest that 68% of the businesses outsourcing their logistics process say that outsourcing has a noticeable impact on their business. The study also mentions that 48% of businesses surveyed outsource only part or none of their logistics requirements, highlighting the opportunities currently available for providers.

Still more room for growth, due to cost reduction and opportunity to concentrate on core businesses

To meet global trade requirements, such as advancement in technology, growth in free trade agreements, more efficient transportation, improved laws and controlling the factors that affect the supply chain; and in order to globally compete, outsourcing of logistics requirements is likely to continue to grow in prominence. This is likely due to cost and process efficiencies provided by global logistics operators, giving businesses the opportunity to concentrate on their core competencies.

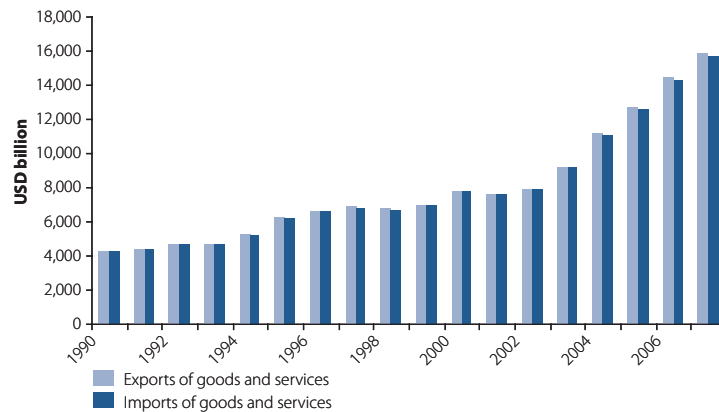
Further consolidations and transparencies

The global logistics industry has been witnessing a shift in its model. It has moved from a single service provider to a multi logistics service provider, to fully integrated service providers known as 3PLs (Third Party Logistics) to even joint venturing with businesses. This shift in the paradigm was a result of the increased demand on fully integrated service providers, putting pressure on smaller businesses to expand, consolidate or shut down.

Due to the complexity of the supply chain and because of the increased demand and reliance on efficiency, effectiveness and fully integrated services markets today continue to consolidate through mergers and acquisitions to create larger logistics services providers who have wide coverage and global presence. Such consolidation will promote more price transparency across continents and will result in the consolidation of technologies as well.

As per IMF data, it is evident that world trade values have been increasing. As can be seen in the below chart, world's exports have grown from USD 4,256.60 billion in 1990, to an expected USD 15,890.80 billion in 2007, implying a CAGR of 8.06%. Yet if we examine recent figures, for example 2000 to 2007, the CAGR is higher, at approximately 10.66%. Import figures indicate a similar trend with a CAGR of 10.44% from a value of USD 7,840 billion in 2000 to an expected USD 15,707.5 billion in 2007.

World Trade



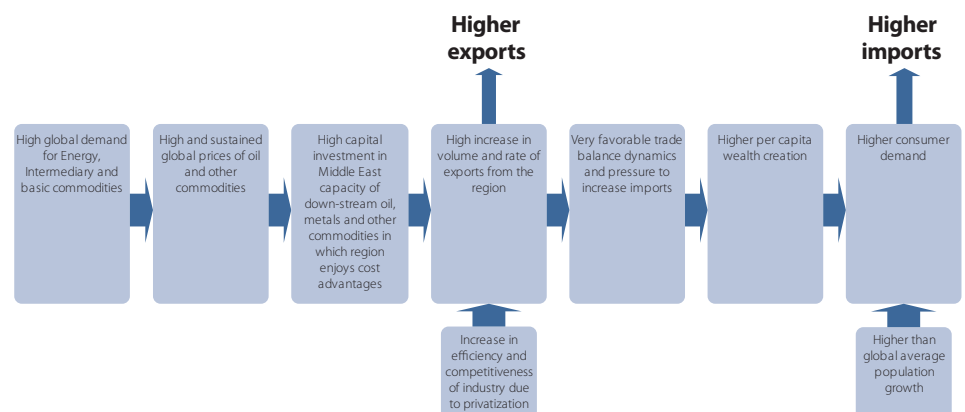
Source: IMF, SHUAA Capital

As for the MENA region, it has always faced problems of poor trade performance. Many attempts were made to overcome this, including the introduction of a free trade zone between the 17 Arab league countries in 1997, but these initiatives have failed to live up to promise.

**Less trade barriers, privatization
and increasing trade volumes
will drive growth**

More recently, the countries in the region have focused on carving a clearer niche in the global economy and in light of falling global trade barriers and increasing global competitive pressures. A realization that the region's competitive advantage lies not in the production of finished consumer products, but rather in intermediary products and commodities with high labor, energy and capital requirements, has seen a massive drive to increase production of such commodities as well as increase the region's ability to facilitate the sale of the products to a global market. Also, the increased privatization of core regional industries has meant that these industries have begun to focus more on production efficiencies in order to compete better in the global market. The net effect has been a massive increase in the volume and value of exports from the region, both due to increased global demand for such products and to increased regional capacity to produce and facilitate their sale. This has also resulted in increased regional wealth and appetite for consumption of finished products, and hence drove imports upwards. The best and most efficient facilitator of such trade activity will no doubt reap major rewards.

Favorable trade dynamics



Source: SHUAA Capital

***Higher trade volume will be
a boom to the industry***

Complementary elements driving regional trade dynamics:

- Roads and transportation infrastructure:
 - Over US \$ 17,477 million to be spent on roads in the GCC over the next 2 years
 - Causeway between Qatar and Bahrain, as well as between UAE and Qatar envisioned
 - Land bridge across Saudi Arabia
- Ports, airports and other facilities
 - Continuous expansion of regional ports capacity, to reach 51 million TEUs by 2010 compared to 38 million TEUs in 2005.
 - Major airport expansion in regional hubs such as Dubai, Bahrain and Kuwait
 - Larger, privately managed warehouse and cargo facilities in main transportation hubs of the region
- Lower international and intraregional trade barriers and distortions
 - All GCC countries are now members in the WTO
 - Unification of customs levels across the GCC, in preparation for fully liberalized trade between member states
 - GCC currency union by 2010, with potential to expand union in the future to neighboring states

Dubai in particular has reinforced its reputation and position as one of the world's main trading hubs, and a trading hub of the Middle East. Dubai achieved over 35% increase in total trade in 2005 to reach AED 291,232 million. Dubai has become one of the world most important trading hubs and a major re-exporting hub recording substantial growth in volume and activity. It seems to be the preeminent gateway to the Gulf, and possibly the broader Middle East, at a time when the region is emerging as an increasingly important exporter and consumer.

As structural changes have already commenced to improve on the region's international trade and intra-regional trade, and also with Dubai being in the heart of trading activities, we see the Middle East a promising and a favorable region for above average growth and development.

Financial Analysis and Revised Forecasts

Sales Growth

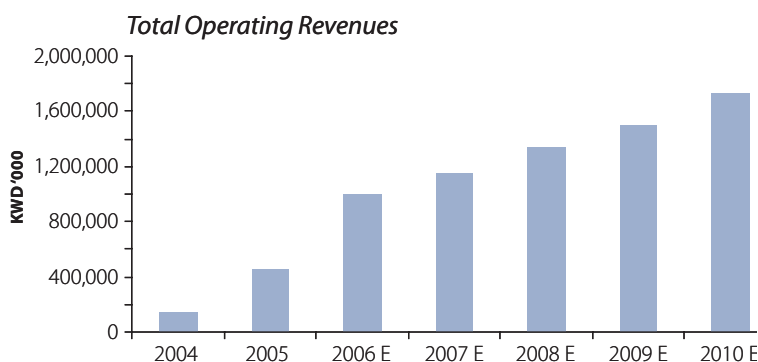
In our initiation report, we projected the sales at KWD 204.5 million for 2005 representing a sales growth of 42% over actual results of 2004. The company's actual performance for 2005 was KWD 453 million.

Our estimates were projections of logistics services not taking into account the freight forwarding revenue stream that resulted from the acquisitions that took place in 2005 as it was not existent when our report was initiated. However, the company's logistics revenue achieved in 2005 was KWD 207 million; this value deviated from our estimates by 1.3% only.

Acquisitions boosted H1 2006 sales by 301%

PWC logistics sales for the first half of 2006 were KWD 450 million, a growth of 301% over the first half of 2005, and almost double that of what was achieved in the first quarter of 2006.

We revise our estimates of sales to KWD 996 million in 2006 and at a CAGR of 31% till year 2010, to reach KWD 1,729 mn.



Source: PWC Logistics, SHUAA Capital

As per our assumptions estimating the sales growth, revenues were divided into two major services, logistics and freight forwarding, as they constitute over 90% of the total sales value. US government contracts were deducted from the logistics services and those values were tested against the GDP growth being considered the main driver for the industry. It was found that a 1% increase in GDP contributes to 16% increase in logistics services. Indeed the ratio is high relative to developed markets, as the company gains market share, and therefore we assumed that this ratio will eventually drop to 10% by 2010 to further drop further going forward to reach average developed markets levels.

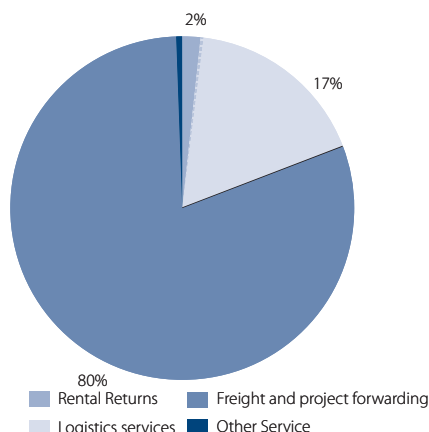
We still believe that for the duration of our estimated values, this ratio will remain higher than that of developed markets, since it is mainly operating in developing markets for one reason, and since the client base is gradually increasing and is still in growth phase.

As for the freight forwarding and project forwarding, given that the geographic break down suggests that they are attributed to operations within developed markets, mainly US and Europe, we decided to test on average what would a 1% increase in GDP contribute to equivalent growth in these services, and it was found that a 1% increasing the world's GDP would contribute to approximately 5.5% in freight forwarding sales.

As for the other revenue contributors, it was assumed that these will grow at perpetuity of 3% a year, given that other sources of revenue contribute to less than 10% of total revenues. Based on the above, we revised our core estimates.

Our results suggest that by 2010, the revenue breakdown will be as follows compared to 2005 actual results.

Revenues breakdown 2010



Source: PWC Logistics, SHUAA Capital

It is worth noting that we believe our estimates to be conservative, taking into account mostly the organic growth for the company. The US contracts component is estimated to decrease rather than maintain the same values. We are also not incorporating any other exceptional contract that might be awarded to PWC Logistics be it in Iraq or any other country in the region. The acquisitions that took place in the second half of 2006, although mentioned in the company's overview, were not reflected on our projected figures. Their contributions to the financials were not considered.

Margins

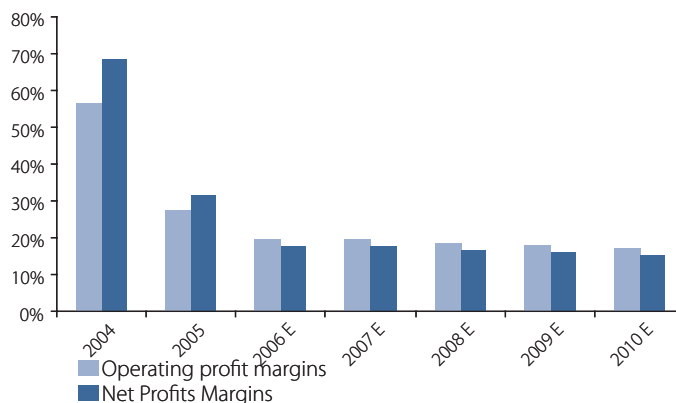
Operating profit margin and net profit margin to fall to 17% and 15% by 2010

Operating profit and net profit margins were estimated to be 28% and 31% in 2005 and were 19% and 18% as per the result of H1 2006. Margins went down as operating expenses for the freight forwarding are higher than that of other services. Our estimates of operating profit margin are expected to reach 19% and 17% in 2006 and 2010.

As for net profit margins they were 31% in 2005, and are expected to reach 18% in 2006 and increase slightly to reach 15% by 2010.

As per our estimates, the margins will fall substantially relative to previous years as a result of competitive pressures and the growth into lower margin business to fit the industry trends and requirements. We do believe that PWC Logistics will have tighter margins as they proceed with their strategic expansion plans.

Margins



Source: PWC Logistics, SHUAA Capital

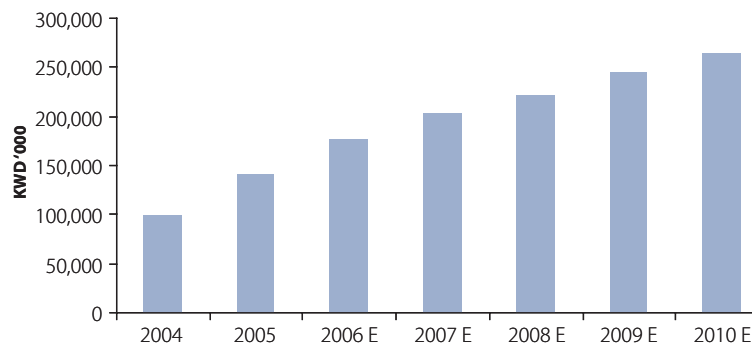
Net Profits

Net profits calculations were estimated based on pure core business related items. No considerations take into account a change in fair value of any of the assets available, and it was assumed that there will be no capital gains on investments in non core business operations.

Net profits to grow at a CAGR of 13% by 2010

Based on this, we are expecting net profits to hit KWD 177 million in 2006 to increase further at a CAGR of 13% to reach KWD 263 million by 2010. This increase is driven by organic growth to the existing business model with no assumptions made on future acquisitions.

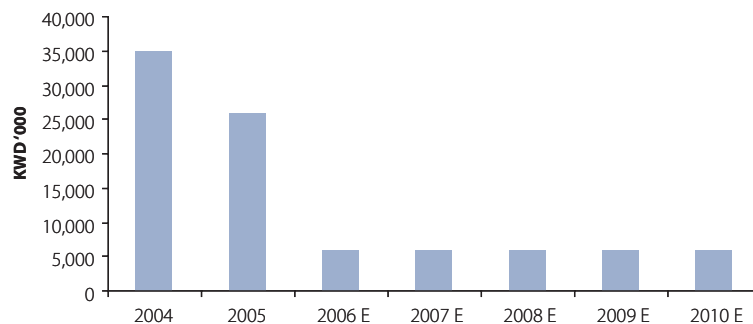
Net Profits



Source: PWC Logistics, SHUAA Capital

Loans and Bonds

Short term loans



Source: PWC Logistics, SHUAA Capital

Short-term loans decreased in 2005 to reach approximately KWD 26 million. As per our assumptions, all these amounts will be paid off in full during 2006, and the amount projected in our financials are the current portions of long term debt.

Long term loans



Source: PWC Logistics, SHUAA Capital

As for long term loans, an 18 times increase in 2005 loan amounts, they will be directed towards the company's acquisitions strategy and expansion plans. Interest will be calculated on the equivalent denominated in KWD (assuming PPP) and paid in full within 7 years unless the terms and conditions specify otherwise.

As for the bonds, the complete issuance of the bonds structure took place in 2005 for both the US and KWD denominated. Coupon payments are 4% for the USD and 5% for the KWD reflecting a premium spread of approximately 3%. Based on the terms and conditions of the structure these bonds will expire in 2008 and are extendable another year.

We assumed that the extending right will not be exercised and the principal will be paid back in full by 2008, although given the current market rates, the company will most probably exercise that right, as market rates were at 1% and 2.35% on USD and KWD respectively when these bonds were issued, while markets rates today are at around 5% and 7%.

CAPEX and Depreciation

Clear revenue driven CAPEX

In industries it is assumed that the capital expenditure is a driver for revenues, but for services companies like PWC Logistics, it was assumed that the capital expenditure is a function of revenues, and therefore this relation was estimated. This is a safe assumption since the fixed assets needed to accommodate the increases in client base do not involve waiting time. Warehouses can be bought or rented until the company completes its expansion plans, vehicles can be bought straight off the market, and all are assets that need no waiting time for completion.

Free cash flow

Going forward, we see that the FCF will be positive for PWC Logistics. Since we are assuming that fixed assets are a function of revenues rather than the contrary, the business is a mixture of asset heavy and asset light business model. The main capital spending will be directed towards the reconciliation of businesses and towards investing in improving the quality of the business model and towards technological improvement.

Credit risks and other risks

Credit risk	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
EBIT Interest Coverage	51.42	34.62	37.57	24.53	36.82	101.37	313.18
EBITDA Interest Coverage	55.22	38.77	42.27	27.72	41.47	113.95	355.25
Funds from Operations / Total Debt	1.54	0.64	1.18	1.60	2.71	3.69	19.47
Free Operating Cash Flow / Total Debt	1.06	1.17	1.12	2.13	3.20	5.14	22.75
Return on Capital	92.45%	31.45%	46.65%	57.66%	74.39%	87.89%	119.53%
Operating Income / Sales	56.48%	27.84%	19.29%	19.52%	18.55%	18.20%	17.17%
Long Term Debt / Capital	14.25%	29.17%	19.18%	14.31%	8.24%	5.83%	0.75%
Total Debt / Capital	25.28%	31.48%	19.73%	14.83%	8.74%	6.28%	1.19%

Source: PWC Logistics, SHUAA Capital

The table above summarizes the credit risks of PWC logistics that might have arisen because of the debt they have that is directed towards the implementation of their strategy (directed towards growth and expanding their geographic coverage and client base).

Although 2005 figures seem to be lower than that of years 2003 and 2004, this is only natural as long term loans and bonds have increased by 1577% and 34% respectively. The 2005 figures do not reflect any significant risk of defaulting on interest expense or on payments. Cash flow generated from operations for one year can on its own cover the long term debt.

Going forward we believe that these ratios will improve further lowering PWC Logistics' exposure to interest coverage, decreasing the ratios of debt to capital, and increasing cash flows to debt figures.

ROIC

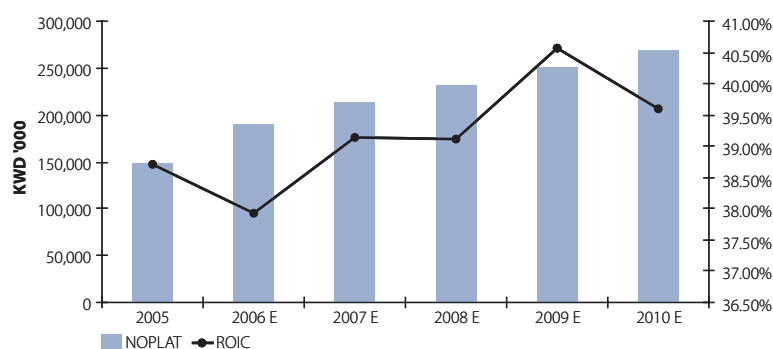
Year to December (KWD '000)	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
EBIT	105,251	156,221	200,399	227,951	251,362	276,639	301,115
NOPLAT	100,722	149,396	190,196	213,379	231,624	251,385	268,697
Operating Working capital	5,122	48,664	127,640	154,786	180,467	196,469	230,267
Operating Invested Capital Exc. Goodwill	63,530	222,957	337,712	381,738	428,742	455,965	514,905
Operating Capital	66,929	385,949	501,291	545,317	592,321	619,544	678,484
ROIC	150.49%	38.71%	37.94%	39.13%	39.10%	40.58%	39.60%
WACC	10.82%	10.82%	10.82%	10.82%	10.82%	10.82%	10.82%
Spread	139.68%	27.89%	27.13%	28.31%	28.29%	29.76%	28.79%

Source: PWC Logistics, SHUAA Capital

The table above shows the calculation of the ROIC and the spread over the WACC. As the ROIC is mainly driven by the operating profits and since the CAPEX is a function of revenues, not the other way round, the increase in ROIC is perfectly reasonable coinciding with the increase in revenues.

The chart below presents the relationship between ROIC and NOPLAT with the increasing NOPLAT and consequently justifying the increase in the ROIC. As shown the ROIC will increase gradually to reach 40% in 2010 against 39% in 2005. This ratio will depend on the future acquisitions PWC Logistics will be involved in, and on the nature of the acquired business.

NOPLAT vs ROIC



Source: PWC Logistics, SHUAA Capital

Liquidity ratios

Long term solvency ratios seem reassuring, as our projected assets will continue to grow and loans to decrease. The solvency ratios are seen to further improve confirming our outlook of a good financial position of the company.

Cash Flow Ratios	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Cash Flow to Liability	44.06%	18.79%	18.25%	25.64%	27.59%	30.13%	28.65%
Operating Cash Margin	53.45%	20.12%	11.80%	15.15%	14.67%	15.27%	13.28%
Cash on Assets	20.15%	8.77%	8.75%	11.51%	11.56%	12.05%	10.90%
Cash Flow to Net Income	77.03%	63.90%	65.87%	85.86%	87.71%	92.69%	86.45%
Free Cash Flow Ratio	195.41%	78.70%	328.51%	1037.08%	921.90%	2039.41%	913.39%

Source: PWC Logistics, SHUAA Capital

Valuation

We retain our buy recommendation

Our valuation was based on two models; a DCF model and relative valuation model. The average of the two models was calculated with a weighting of 70% and 30%, respectively, reaching to a fair value per share of KWD 3.292 and therefore maintaining our buy recommendation but upgrading the upward potential to 73%.

DCF

In light of the company's organic growth and movement towards consolidation especially after their acquisitions of freight forwarders in 2005, and the significant contribution of freight forwarding revenues to the income statement; we revise our outlook and forecasts on PWC Logistics.

Our DCF was based on the following assumptions

- Projected figures till 2010, and assuming a perpetual growth of 3% onwards.
- Risk free rate was estimated at 5.62% derived from the Qatar treasury bonds.
- Market premium assumed to be 5%.
- An industry beta of 1.15 was applied.
- The Weighted Average Cost of Capital (WACC) was assumed to be at 10.82%.

Sensitivity analysis

	Perpetual Growth %			
		2.50%	3.00%	3.50%
Discount Rate	9.82%	3.342	3.523	3.733
	10.32%	3.142	3.297	3.475
	10.82%	2.966	3.100	3.253
	11.32%	2.809	2.927	3.059
	11.82%	2.670	2.773	2.888

Relative Valuation

In our relative valuation we considered only global peers since the company has no close regional peers in terms of operations and global coverage. And since a high percentage of PWC Logistics' sales is attributed to freight forwarding businesses located in developed markets, we decided to consider the less volatile and more conservative multiples of global peers.

The table below shows the peers that we have considered. It is important to note that when calculating, the averages extreme values were taken out of the equation. For price to earnings ratio any ratio above 30 was not considered and for price to book any ratio above 5times was also eliminated.

Ticker	Name	Market Cap (USD)	Price	P/B Ratio	Price/EBITDA	P/E Ratio	Est. P/E 2006
CHRW	C.H. ROBINSON WORLDWIDE INC	7,508,128,000	43.30	8.55	18.79	32.07	29.04
FDX	FEDEX CORP	30,873,920,000	100.76	2.68	6.72	16.85	14.79
EXPD	EXPEDITORS INTL WASH INC	8,510,109,000	39.90	8.78	22.03	36.44	36.67
UPS	UNITED PARCEL SERVICE-CL B	75,995,590,000	70.30	4.47	9.44	19.16	18.21
UTIW	UTI WORLDWIDE INC	2,173,422,000	22.58	3.55	13.25	24.90	22.88
CSX	CSX CORP	13,274,880,000	29.93	1.54	4.77	15.08	13.61
EAGL	EGL INC	1,229,069,000	30.23	3.17	8.45	20.02	18.64
TNT	TATNEFT-SPONSORED ADR	10,787,780,000	99.03	NA	NA	NA	16.36
	Average			3.08*	11.92	19.20*	17.41*

* Based on elimination of extreme values
Source: Bloomberg, SHUA Capital

We calculated the fair value of the company based on the three multiples, namely P/E, P/B and P/EBITDA, and the results were simply averaged to yield a fair value based on peer valuation of KWD 3.740 per share.

Estimated per share multiples	2006 E	Estimated fair value
EBITDA/share	0.2718	3.240
BVPS	0.868	4.060
Est. EPS 2006	0.225	3.918
Average		3.740

Estimated fair value per share	weighting	Fair value
Relative Valuation	0.30	3.740
DCF	0.70	3.100
Weighted Average	1.00	3.292

Based on the results of the DCF model and the relative valuation, a weighted average of both results was calculated based on weighting of 70% and 30% given to DCF and multiples, respectively, arriving at a fair value of KWD 3.292.

Financials

Consolidate Income Statement (KWD '000)

Year to December	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Total Operating Revenues	143,569	453,237	995,881	1,155,605	1,339,726	1,498,477	1,728,723
Total Operating Expenses	(62,475)	(327,064)	(803,744)	(929,983)	(1,091,169)	(1,225,713)	(1,431,915)
Operating Income	81,093	126,173	192,136	225,621	248,557	272,764	296,808
Other income (expense)	21,938	22,502	(4,982)	(8,836)	(6,573)	(2,665)	(945)
Net Income Before Tax and other provisions	103,031	148,675	187,155	216,785	241,984	270,099	295,863
Tax	(2,350)	(4,415)	(7,322)	(11,086)	(15,581)	(20,487)	(26,752)
Profits after Tax	100,681	144,260	179,833	205,700	226,403	249,612	269,111
Other Provisions	(1,055)	(1,533)	(1,405)	(1,799)	(2,303)	(2,724)	(3,468)
Net Income	99,627	142,727	178,428	203,900	224,100	246,888	265,643
Minority Interest	(1,125)	(877)	(1,476)	(1,687)	(1,854)	(2,042)	(2,198)
Equity holders of the parent company	98,502	141,850	176,952	202,213	222,246	244,846	263,445

Source: PWC Logistics, SHUAA Capital

Consolidated Free Cash Flow (KWD '000)

Year to December	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
EBIT	105,251	156,221	200,399	227,951	251,362	276,639	301,115
Taxes on EBIT	(3,404)	(5,948)	(8,727)	(12,885)	(17,884)	(23,211)	(30,220)
Minority interests	(1,125)	(877)	(1,476)	(1,687)	(1,854)	(2,042)	(2,198)
NOPLAT	100,722	149,396	190,196	213,379	231,624	251,385	268,697
Investment in WC	(19,835)	(52,383)	(64,431)	(30,762)	(30,068)	(21,372)	(40,425)
Changes in Non-Current Investments	(742)	(144,821)	2,406	0	0	0	0
CAPEX + Depreciation	(89,176)	(89,368)	(43,228)	(20,071)	(24,922)	(10,727)	(29,741)
Other	3,057	87	0	0	0	0	0
Free cash flow	(5,974)	(137,089)	84,944	162,546	176,634	219,287	198,531

Source: PWC Logistics, SHUAA Capital

Consolidated Balance Sheet (KWD '000)

Year to December	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Cash and Bank Balances	17,901	200,684	156,863	233,002	280,493	387,509	430,698
Accounts receivable, Net	67,088	214,269	468,528	543,673	630,296	704,983	813,306
Inventories	66,910	64,312	79,828	86,102	94,431	91,085	104,573
Investment	1,579	2,592	-	-	-	-	-
Other current assets	9,953	27,929	60,026	69,653	80,751	90,319	104,197
Total current assets	163,432	509,786	765,245	932,430	1,085,970	1,273,896	1,452,774
Joint Ventures	986	839	832	832	832	832	832
Available for sale securities	1,789	2,409	2,343	2,343	2,343	2,343	2,343
Investment in Associates	752	1,271	1,307	1,307	1,307	1,307	1,307
Investment properties	113,410	160,590	160,813	160,813	160,813	160,813	160,813
Fixed assets, Net	58,407	174,293	210,072	226,953	248,275	259,496	284,638
Projects in Progress	38,690	22,762	30,212	33,402	37,002	36,508	41,106
Goodwill	3,399	162,992	163,579	163,579	163,579	163,579	163,579
Other Non Current Assets	-	5,529	8,154	-	-	-	-
Total assets	380,865	1,040,472	1,342,557	1,521,659	1,700,121	1,898,774	2,107,392
Accounts payable	98,957	188,686	427,860	487,544	562,193	616,826	705,825
Tax Payable	3,271	9,493	9,236	9,835	11,166	16,072	22,337
Dividends payable to shareholders	1,874	1,474	-	-	-	-	-
Short Term Loans	35,005	25,993	5,846	5,846	5,846	5,846	5,846
Total current liabilities	139,106	225,646	442,941	503,225	579,206	638,744	734,009
Term Loan	11,659	195,532	133,807	108,625	87,489	69,513	9,730
Bonds	22,117	29,529	29,600	29,529	-	-	-
Provisions for end of service indemnity	1,302	14,192	15,966	18,272	21,270	25,168	30,234
Other non current Liability	-	20,600	21,836	23,146	24,535	26,007	27,567
Total Liabilities	174,184	485,499	644,151	682,797	712,500	759,432	801,540
Minority Interest	3,378	8,446	9,922	11,609	13,463	15,505	17,703
Share Capital	42,663	68,962	79,306	79,306	79,306	79,306	79,306
Share premium	-	152,650	152,650	152,650	152,650	152,650	152,650
Statutory reserve	22,107	36,777	36,777	36,777	36,777	36,777	36,777
Treasury shares	(1,960)	(17,467)	(15,862)	(15,862)	(15,862)	(15,862)	(15,862)
Treasury shares reserves	-	42,825	43,599	43,599	43,599	43,599	43,599
Foreign currency translation adjustments	(582)	(232)	326	326	326	326	326
Investment revaluation Reserve	-	(305)	(305)	(305)	(305)	(305)	(305)
Retained earnings	141,075	263,317	391,993	530,762	677,667	827,346	991,658
Total Shareholders Equity	203,303	546,527	688,484	827,253	974,158	1,123,837	1,288,149
Total Liabilities & Shareholders Equity	380,865	1,040,472	1,342,557	1,521,659	1,700,121	1,898,774	2,107,392

Source: PWC Logistics, SHUAA Capital

Key Ratios

Year to December	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Growth							
Revenue	226.15%	215.69%	119.73%	16.04%	15.93%	11.85%	15.37%
EBITDA	156.68%	51.59%	26.23%	17.72%	10.00%	9.73%	9.88%
Net Income	152.61%	44.01%	24.65%	14.28%	9.91%	10.17%	7.60%
Price multiples							
Earning Per Share	0.23	0.22	0.22	0.26	0.28	0.31	0.33
Book Value Per Share	0.48	0.79	0.87	1.04	1.23	1.42	1.62
Price Earnings Ratio (Times)	11.82	14.01	8.52	7.45	6.78	6.16	5.72
Dividend Yield %	0.74%	2.90%	2.52%	4.21%	5.00%	6.32%	6.58%
Price to Book Value (Times)	5.79	3.66	2.19	1.82	1.55	1.34	1.17
Return On Assets %	0.26	0.14	0.13	0.13	0.13	0.13	0.13
Return On Equity %	0.49	0.26	0.26	0.25	0.23	0.22	0.21
Margins							
Operating Income	56.48%	27.84%	19.29%	19.52%	18.55%	18.20%	17.17%
EBITDA	78.46%	37.67%	21.64%	21.96%	20.83%	20.44%	19.47%
Net Profit	68.61%	31.30%	17.77%	17.50%	16.59%	16.34%	15.24%
Liquidity and Solvency							
Current ratio	1.17	2.26	1.73	1.85	1.87	1.99	1.98
Quick ratio	0.62	1.85	1.41	1.54	1.57	1.71	1.69
Debt to Assets	9.19%	2.50%	0.44%	0.38%	0.34%	0.31%	0.28%
Debt to Equity	17.22%	4.76%	0.85%	0.71%	0.60%	0.52%	0.45%
Total Liability to Equity	0.86	0.89	0.94	0.83	0.73	0.68	0.62
Interest bearing debt to total assets	8.87%	21.63%	12.17%	9.08%	5.15%	3.66%	0.46%
Interest bearing debt to equity	16.61%	41.18%	23.73%	16.70%	8.98%	6.19%	0.76%
Operation and Activity							
Fixed asset turnover	0.66	0.85	1.73	1.96	2.18	2.40	2.64
Inventory Turnover	0.93	5.09	9.29	9.82	10.32	11.74	11.70
Accounts Receivable Turn over	2.14	2.12	2.13	2.13	2.13	2.13	2.13
Accounts Payable Turnover	0.63	1.73	1.73	1.73	1.73	1.73	1.73
Long Term asset Turnover	0.66	0.85	1.73	1.96	2.18	2.40	2.64
Total Asset Turnover	0.38	0.44	0.74	0.76	0.79	0.79	0.82
Cash Flow and Coverage							
Defensive Interval Ratio	505.76	465.98	284.01	304.83	304.66	325.33	317.10
Interest Coverage Ratio	46.42	19.70	14.13	19.41	25.80	41.30	56.34
Interest and Principle \Coverage Ratio	2.86	0.64	1.06	1.45	2.50	3.55	19.75
Cash Flow to Liability	44.06%	18.79%	18.25%	25.64%	27.59%	30.13%	28.65%
Operating Cash Mar in	53.45%	20.12%	11.80%	15.15%	14.67%	15.27%	13.28%
Cash on Assets	20.15%	8.77%	8.75%	11.51%	11.56%	12.05%	10.90%
Cash Flow to Net Income	77.03%	63.90%	65.87%	85.86%	87.71%	92.69%	86.45%
Free Cash Flow Ratio	195.41%	78.70%	328.51%	1037.08%	921.90%	2039.41%	913.39%

Source: PWC Logistics, SHUAA Capital

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