



Waha Capital

Equity Research Initiation Coverage: **STRONG BUY**

Current Price: 0.78

Target Price: 2.79

Appreciation Potential: 258%

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Country	U.A.E.	Shares Outstanding	1.575 billion
Exchange	ADX	Market Cap	AED 1.23 billion
Sector	Diversified	52 Week High	AED 2.76
Bloomberg Ticker	WAHA UH	52 Week Low	AED 0.44

- Due to fixed-term and fixed-payment aircraft leasing being Waha's main source of income, along with almost AED1b in unused bank facilities, Waha will come through the current economic crisis.
- Waha is also planning on investing AED20b over the next three years, 15b of which will go to develop land in Abu Dhabi. The plan should increase both top-line and bottom-line growth impressively.
- Going with the assumption of an end to the global economic crisis in the latter part of 2009, combined with an increase in oil prices, Waha will be poised to take advantage of low interest rates and depressed asset values in order to grow its business and increase profitability.
- We have initiated coverage with a price target of AED 2.79 in the next 2 years giving a potential appreciation of 258% from the current levels.

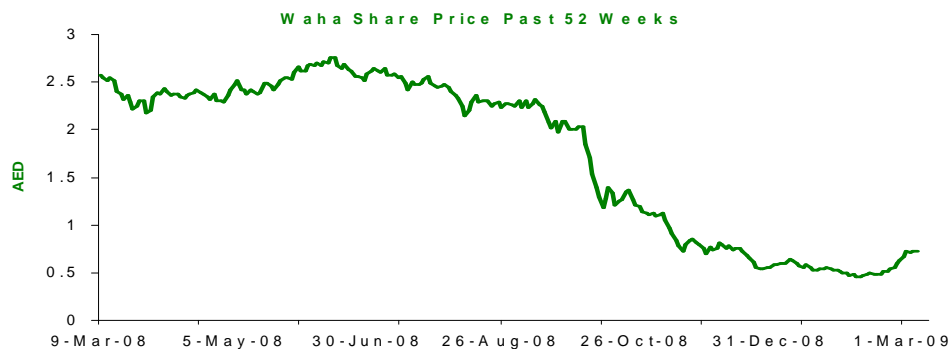




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Investment Summary

- Waha Capital is an investment holding company, which is involved with selling, leasing and investing in fixed and moveable assets worldwide. The group consists of four divisions: Waha Leasing, Waha Land, Waha Maritime and Waha Financial Investments.
- Though it is based in the United Arab Emirates, Waha Capital also generates (as of FY2008) 18% of its operating income from Europe, 8% from the Americas and 8% from elsewhere. The remaining 66% was from the Middle East and the Asia Pacific region.
- Airlines are cutting capacity and passenger traffic is decreasing. Airlines continue to be vulnerable to oil prices. Investment in the oil & gas sector in the Middle East looks to continue at around the same pace for the short term, indicating short-term revenue stability for Waha Maritime. Waha Financial Investments' exposure to the real estate sector in the UAE and Bahrain will affect it negatively.
- For the full year 2008, Waha Capital's revenue was 5.84% higher than FY2007. Its operating costs increased by 43.3% to AED407m on the back of impairment losses and provisions. Its share of profit/losses from equity accounted investees showed a loss of AED23.6m from a profit of AED21.5m the year before. These losses combined to shrink its net profit from AED170 m in 2007 to AED 40 m in 2008.
- Waha's portfolio of aircraft on operating and finance leases should ensure a steady income; however, the increasing severity of the economic crisis creates an increase in credit and repayment risk. This will likely cause an increase in provisions for 2009.
- Waha has plans to spend AED20b over the next three years, including AED15b for developing a 6 square km block of land, granted by the UAE government.
- The Discounted Cash Flow method was used to calculate the target share price. The cost of equity was found to be 12.06% using the CAPM. The WACC was 9.48%. We have projected cash flows for the next 6 years and assumed a terminal growth rate of 4.0%. This resulted in a DCF of AED7.11b. After adjusting the debt, the current value of equity comes to AED4.39b resulting in a DCF value of AED2.79 per share.



Company Overview

Waha Capital, originally Oasis International Leasing Company, was started by the Offsets Department of the UAE government in May 1997. Waha's initial purpose was to lease aircraft to commercial airlines and as of December 31st 2008, the group owned 23 aircrafts leased to global airlines such as Emirates and Air Canada.

In May 2005, Waha set up the Industrial City Cooling Company (ICCC) as a joint venture with Tabreed and Abu Dhabi Investment Company. In August 2006, Waha, in partnership with Tabreed and Gulf International, signed an AED55m Islamic Ijara facility to finance the acquisition of six portable cooling plants.

In September 2006, Waha committed USD50m in an USD500m MENA infrastructure fund launched by Dubai International Capital. On the 17th of April 2008, the MENA infrastructure fund announced their first investment, acquiring a minority stake in Alexandria International Container Terminals SAE, Egypt.

In December 2007, Waha acquired 42.5% of Bahrain-based Addax Bank. The investment was purportedly to be used to enable the financial services initiatives Waha had planned. Waha, along with HSBC and DIC, are general partners in Waha Financial Investments. WFI had an initial capital of USD13.6m, 60% of which was invested by Waha.

Waha Land was also established in 2007 after Waha was given a grant of a 6 square kilometer block of land by the Abu Dhabi government.

In 2008, Oasis International Leasing Company was officially renamed Waha Capital, with 4 distinct units; Waha Land, Waha Maritime, Waha Financial Services and Waha Leasing.

In May 2008, Waha Capital acquired a 49% stake in GMMOS Group through an agreement with Abraaj Capital. GMMOS specializes in providing maritime services for the oil & gas sector and marked the first major investment for Waha Maritime.

In July, 2008, Waha, along with Mubadala and Fullerton, established Dunia Finance as a joint venture in order to target small businesses and provide money lending services for individuals in the United Arab Emirates.



Economic Overview

Global Economy

The global economy is experiencing almost unprecedented turmoil. According to the IMF, Global growth in 2009 is expected to fall to ½ % in 2009 when measured in terms of purchasing power parity. This is a 1.75% downwards revision from the IMF's November estimates. The outlook remains highly uncertain.

Global credit markets remain frozen as banks have seemingly lost all willingness to lend. Massive cash injections from governments have so far failed to thaw the credit markets. The U.K. has nationalized several of its banks in an effort to jump-start lending. Monetary policy has so far proved ineffective as well, as the U.S. has essentially a zero interest rate and has had to resort to quantitative easing in order to try and get banks to lend and people to spend.

Countries have resorted to Keynesian principles of economics, which call for large amounts of government spending. U.S. President Obama's \$800b stimulus plan was voted through the House of Representatives in February and includes spending on infrastructure and unemployment benefits. The U.S. Fed unveiled a USD1 trillion plan to buy mortgage backed securities and government debt in order to restore liquidity to the economy. The U.S. Treasury followed with plans to finance as much as USD1 trillion in purchases of illiquid real-estate assets.

Due to the massive uncertainty being faced, including increasing layoffs and falling prices, customers have pulled back on spending in order to either save or to wait for prices to bottom out before buying. This had led to large reductions in demand for consumer and capital goods and further layoffs, creating a feedback loop.

The U.S. housing market has shown no improvement and in fact no signs of bottoming out. U.S. pending home sales dropped 7% M-O-M in March, 2009. Mortgage applications have increased lately on the back of lower interest rates, although this is mostly attributable to refinancing of previous mortgages rather than new mortgages. Home prices continue to fall, causing further write-downs and capital erosion.

Against this backdrop, output in advanced industrial countries is expected to decline by 2% in 2009. The decline would be the first simultaneous contraction of the major industrial countries in the post World War II period.

Assuming the fiscal stimuli are effective, we can expect a global recovery starting in late 2009. This of course is dependant on a stabilization of the U.S. housing market and an unfreezing of credit.



Crude Oil

The most important factor affecting the GCC economies is the price of oil. The 2009 global oil demand forecast has been revised downwards, by the IEA, by 1mb/d. This follows the further reductions in global GDP growth forecasts. Global oil demand is now projected to be 85.3mb/d in 2009. The expected two year contraction in oil demand would be the first since 1982/83.

Global oil supply was flat in December at 86.2mb/d because the OPEC output cut was matched by increases in supply elsewhere. Non-OPEC supply for 2008 and 2009 is expected to be 49.5mb/d and 50mb/d respectively.

December OPEC supply was down to 30.8mb/d from 31.1mb/d in November, which itself was down 1mb/d from September levels. OPEC has agreed upon a new output of 24.8mb/d from January onwards. A more recent meeting in March ended with OPEC announcing no further cuts, although compliance was heavily touted.

Crude oil prices rose to nearly \$50/b in early January due to cold weather, the Russia-Ukraine gas spat and fighting in Palestine. Subsequent excess inventory and demand fears kept WTI futures closer to \$40/b until the U.S. government's newest plans to buy illiquid assets and increase market liquidity caused a crude to rally to over \$53/b. Expectations are crude will average \$50/b in 2009 as OPEC decided not to cut output further in March, however Merrill Lynch predicts that prices could decline to \$25/b temporarily before recovering.

UAE Economy

According to a report issued by Standard Chartered Bank, the UAE economy will experience a slowdown in 2009. The Bank predicts a 2.7% GDP growth in 2009 and 3.5% growth in 2010, down from over 7% in 2008. The Economist Intelligence Unit believes 2009 will be even direr with a real GDP growth of only 1.3% in 2009 but with a stronger rebound of 4.5% in 2010, with growth over 6% in the years immediately after.

According to the IMF, a price of \$23/b is enough to finance the UAE's budget, so a \$50/b average oil price for 2009 should be sufficient to keep spending on track and to expand the UAE economy.

The IMF also believes that the UAE faces no systemic risk on a macro-economic level, but that the country needs to continue spending in order to sustain growth during the global downturn.

Abu Dhabi has claimed it will push ahead with infrastructure spending and the Dubai government has claimed it will run a fiscal deficit for the first time in six years, in 2009, in order to cushion the landing of its real estate sector.

There are still large downside risks due to the sharp fall in business confidence and the increasing number of loan defaults associated with the real estate sectors in Dubai and Abu Dhabi. The Abu Dhabi government has countered this by



pumping more liquidity into its banks. Dubai officials continue to discuss a similar move, although Dubai's lack of liquidity overall may prevent funds from being pumped into Dubai based banks.

Industry Overview

Waha is involved with several industries, its main being aircraft leasing. The others are maritime services, land development and financial services.

Waha Leasing: With the global economy weakening and credit markets refusing to thaw, the airline industry will be severely affected. The IATA reports that, in November, total passenger traffic was down 4.6% from 2007. Cargo traffic was down even further at 13.5% year on year. In addition, financing for new aircraft is believed to be worryingly short. Some believe as high as a \$20b shortfall in 2009 out of a \$65b delivery stream.

The U.S. airline industry reduced capacity by 10% over the fourth quarter of 2008 as compared to a 6% total reduction over two years after 9/11. One reason capacity cuts have held up compared to earlier downturns is that the current unavailability of credit has increased barriers to entry in the airline industry. As a result, existing carriers can reduce capacity without fear of newcomers taking market share. This increasing barrier to entry is visible outside the U.S. as well and will likely result in global carriers reducing capacity over the next few years without the fear of losing market share.

With banks still attempting to recapitalize, financing for new aircraft will most likely reduce sharply. Currently, both Airbus and Boeing have record order books of \$65 to 70b worth of deliveries in 2009 and similar numbers for the next six years. Typically banks have directly funded about 30% to 40% of deliveries and lessors have funded the balance.

Despite the dramatic fall in oil prices in late 2008, airlines will continue to be vulnerable to oil prices. While a return to the price highs of the summer is unlikely, the current OPEC production cuts will most likely result in higher prices going forward. As a result, the demand for older and less fuel efficient aircraft may be lower during the recovery.

Waha, as of December 31st 2008, owns 23 aircraft, 19 of which are placed on operating leases with 10 customers. The group has entered into irrevocable fixed term operating leases with periodic rental payments. For at least the next five years, the revenue Waha gains from leasing should be secure with the obvious credit and repayment risk caveats which are significant. Beyond that is unclear due to environmental policies becoming more stringent and the inevitable re-rise in oil prices causing demand for older airplanes to decline, reducing their salvage value and increasing Waha's depreciation payments. Waha will most likely have to keep on restocking its aircraft to ensure that its fleet is young and fuel-efficient.

Waha Land: The real estate sector in UAE is in the midst of a downturn, and investment has dried up. Even so, Waha continues to explore its options with regards to further development on the land it was granted by the Abu Dhabi



government. The current plans call for developing industrial real estate and infrastructure along with workers accommodation and logistical support buildings, all of which will be in demand even in the current economic situation.

Waha Maritime: GCC investment in upstream oil projects is expected to reach USD 204b in 2009, an almost 9% increase from the middle of last year. This means, despite the economic crisis, the GCC states are pushing ahead with current oil & gas investments, particularly in exploration and development projects. However, few new projects are coming online and no upstream investments can be seen beyond 2012.

The only GCC country proceeding with new investments currently is the UAE and even they are delaying new projects. The UAE and Qatar have increased their investments in oil & gas the most in the GCC over the past year, with the UAE increasing expenditure by 30%.

Waha Maritime is involved with oil and gas offshore-drilling platforms as well as ship building and repair through its stake in the GMMOS group.

The Baltic Dry Index, which is an assessment of the price of moving raw materials by sea, is at six year lows but has shown signs of improvement lately.

This should help the GMMOS group's operations, although 2009 will still be a very difficult year for international shipping.

Waha Financial Investments: WFI consists of stakes in Dunia Finance and Addax Bank.

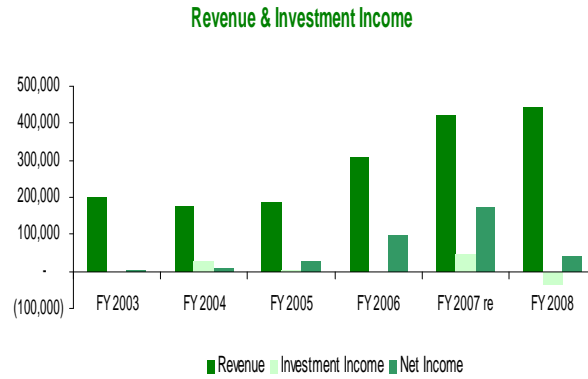
Waha Financial Services has a difficult year ahead given the losses currently being incurred in the real estate sector, especially in the United Arab Emirates and Bahrain, combined with rising levels of mortgage defaults.

Waha's airplane leasing arm, Waha Leasing, should continue to be Waha's main source of income for the next year, while some companies in which it owns stakes may lose money in the first half of 2009, due to tight liquidity amidst the global economic crisis.



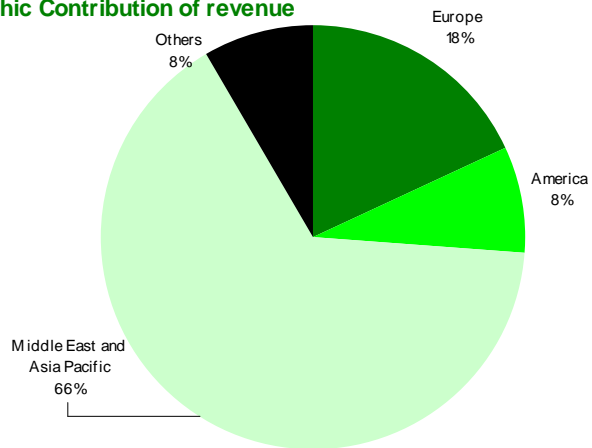
Financial Analysis

Revenue



Waha revenue, consisting of income from operating and finance leases along with interest income from other investments, increased steadily from 2004 until the present. While the rate of increase slowed in 2008, this was to be expected and did not account for almost AED290m in receivables that were recognized after the balance sheet date.

Geographic Contribution of revenue

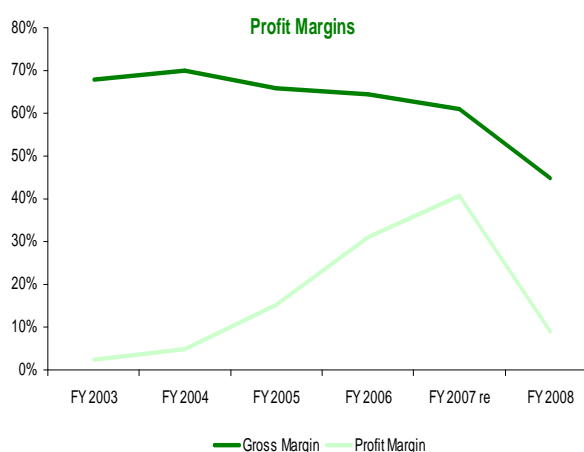


Net income also increased from 2003 to 2007, reaching a high in 2007 of AED170m, and then falling to AED40m in 2008. The drop was due to impairment losses on operating lease assets and provisions for doubtful receivables as well



as a large increase in administration expenses relating to expanding into new offices and hiring new people.

We can conclude that Waha has stable revenue sources due to its long-term operating and finance lease contracts. They are still exposed to credit risk and prepayment risk, however.



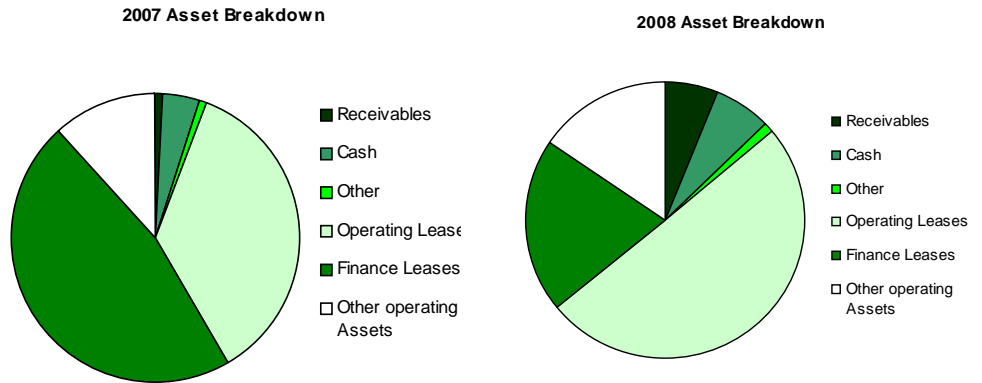
Waha's gross margin has steadily declined from 2004 onwards, experiencing a sharper drop from 2007 to 2008 where it declined from 61% to 44.8%. Net profit margin increased dramatically from 2004 onwards, hitting a high of 40.77% in 2007. The sharp drop from 2007 to 2008 is due to the current economic crisis and the resulting increase in Waha's provisions, impairments and write-downs.

Year	2003	2004	2005	2006	2007	2008
R.O.E.	0.85%	1.17%	1.78%	5.74%	8.91%	2.23%
Net Income/Sales	2.26%	4.96%	15.00%	31.13%	40.77%	9.03%
Sales/Assets	0.0976	0.0902	0.0657	0.0788	0.0935	0.0939
R.O.A.	0.22%	0.45%	0.99%	2.45%	3.81%	0.85%
Assets/Equity	3.86	2.60	1.80	2.34	2.34	2.62

Return on Equity increased from 5.74% from 2006 to 8.91% in 2007, only to drop to 2.23% in 2008 on the back of the sudden decline in net profit margin. Asset turnover increased slightly to 0.0939 in 2008 from 0.0935 in 2007, as revenue increased at a greater rate than total assets from 2007 to 2008. The financial leverage ratio (assets over equity) increased for the second straight year indicating a slight increase in the amount of debt Waha is carrying.



Assets



Operating Assets declined from AED4.2b to AED4b from 2007 to 2008, after an almost AED1b jump from 2006 to 2007. The decline from 2007 to 2008 is almost entirely due to the large decrease in the investment in financing leases. This figure decreased to AED955m from AED2.1b last year.

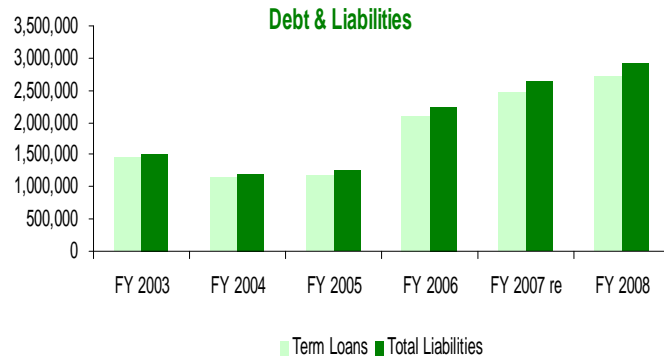
The decrease in the investment in finance leases was due to transfer of certain aircraft from investments in finance leases to operating lease assets and the costs associated with the transfer. The second and main reason was due to over AED1b in payments received, which decreased the investments in finance leases from AED2b at the start of the year to AED955m at the end of the year.

Trade and other receivables stood at AED289m at the end of 2008, up more than 7 times from its level at the end of 2007. This, as well as an increase in cash and cash equivalents from AED71m to AED226m, caused the increase in total assets from 2007 to 2008.

Liabilities and Equity

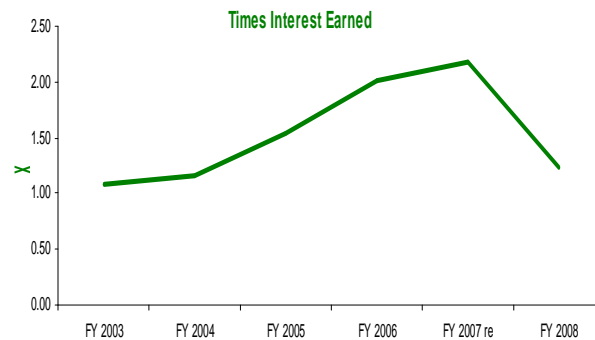
Waha has, as of FY2008, AED843m of term loans due within one year. This is a 600% increase from FY2007. AED890m worth of unsecured loans were taken in 2008 as well, with payment due between one and two years from now. These were most likely used in the purchase of 3 airplanes from AerCap, 2 of which were immediately leased to Aeroflot, while the other was leased to Qatar Airways. These loans pay a floating rate of interest and the effective rate of interest was between 1.47% and 5.99% per year. In the event that credit markets remain frozen for another two years, these interest rates could rise.

As of the balance sheet date, the group still had AED948m worth of un-drawn banking facilities available.



As is visible from the graph, total liabilities have increased steadily over the past 3 years. Total liabilities increased 18% from 2006 to 2007, to end at AED2.64b; they increased another 10.67% from 2007 to 2008 to end at AED2.92b. Term loans take up the majority of Waha's liabilities and increased with the same trajectory as total liabilities i.e. a sharp 17.68% increase from 2006 to 2007 and a smaller 9.6% increase from 2007 to 2008.

Total trade payables increased steadily as well, moving up to AED161m in 2007 from AED127m in 2006. And further onto AED205m in 2008.



The Times Interest Ratio is critical for this line of business. The ratio, earnings before interest and taxes (EBIT) divided by interest expense, gives an idea of whether the company is able to pay back the interest on its debt. This ratio is obviously very important for a leasing company and has a minimum acceptable level of 1.5X. Waha had an upwards trending ratio until 2008 or more specifically until the fourth quarter of 2008 where it dropped to 1.24. Hence it is important to maintain an increase in revenue in order to meet these commitments.



Fourth Quarter of 2008

Balance Sheet	31-Dec-08		
Total Assets	4,718,309,000		
Total Liabilities	(2,920,439,000)		
Shareholders Equity	1,797,870,000		
Income Statement (AED)	FY 2008	2008 Q4	2008 Q3
Revenue	443,240	84,540	111,226
Operating Costs and other expenses	(458,808)	(137,388)	(95,185)
Share of P/L from Equity Accounted Investees	(23,663)	(66,602)	17,982
Other Operating Income	86,024	63,705	4,419
Operating Profit	46,793	(55,745)	38,442
Other Income	(6,768)	(11,351)	1,869
Net Profit After Tax	40,025	(67,096)	40,311

Compared with the third quarter of 2008, the fourth quarter had much higher operating costs. We arrived at the fourth quarter results by subtracting the Q3 results from the full year results.

Share of profit/loss from equity accounted investees went from an AED17m profit in the third quarter to an AED66m loss in the fourth. Other operating income increased 15 fold to AED63m from AED4.4m due to the sale of two operating lease assets (Aircraft). As a result of the losses from the equity accounted investees, operating profit was a negative AED55.7m. Other income showed a loss of AED11.4m due to a decrease in the fair value of securities available for sale. The operating loss combined with the loss in other income meant Waha ended with a quarterly loss of AED67.1m compared to an AED40m gain in the quarter before.



Expansion Plans & Future Strategy

Year	Name	Type
2008	25% of Dunia Finance	Finance
2008	49% of GMMOS Group	Oil & Gas
2007	42.5% of Addax Bank	Merchant Bank
2007	60% of WFS	Finance
2005	27.5% of ICCO	Cooling/Infrastructure
2006	\$50m commitment MENA Infrastructure Fund	Fund
2003	50% of WOLF A340 LLC	Airplane Leasing

Along with the investments listed in the table above, Waha owns 23 planes, 19 of which are on operating leases to different airlines around the globe. The rest are on capital/finance leases. This includes 3 aircraft purchased at the end of 2008 from AerCap with 2 immediately placed on operating leases with Aeroflot Airlines and the other with Qatar Airways.

Waha Land, a newly formed subsidiary, will seek to develop industrial real estate projects and infrastructure on land granted by the UAE government.

The company's plan, announced in February of 2008, was to invest over AED20b into its four areas of operation over the next three years. The strategy involved expanding through acquisitions, joint ventures and investments in new businesses in order to further diversify their business operations.

In addition, Waha has interest in a loan portfolio, which finances a further 19 aircraft. On February 25th, the UAE Armed Forces announced that they have mandated Waha Capital to arrange and manage a financing program to purchase military aircraft worth AED 11 billion.

The deal includes the procurement of 12 Boeing C-130J Super Hercules aircraft along with four Lockheed Martin C17 transportation jets. Waha will most likely derive its income from an arrangement fee, in this case. The typical arrangement fee is 5 basis points of the total value of the loan.

Comparative Analysis

In this section we compare Waha's financial performance to that of several global aircraft leasing companies. We selected international leasing companies because of the absence of local competition. We selected these specific companies as they were closest in size and revenue to Waha. Finally, we chose aircraft leasing companies as Waha's main business is still aircraft leasing.

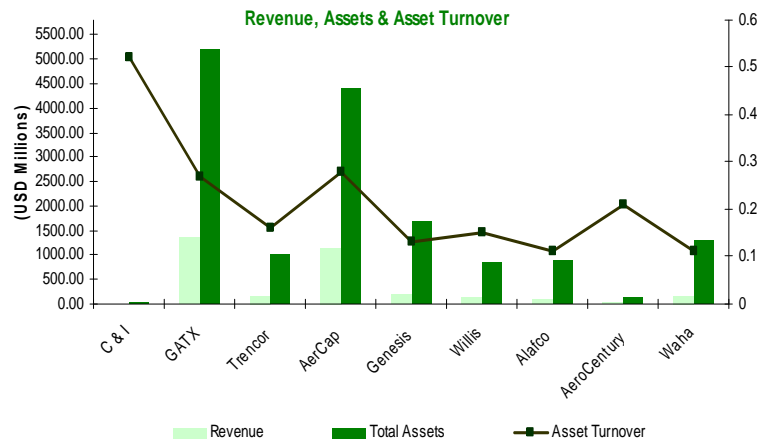


A. Revenue & Asset Turnover

Name	Asset Turnover	Revenue (USD 000's)	Total Assets (USD 000's)
Mitsubishi UFG	0.03	1176.66	44006.78
Orix Corp	0.07	6595.98	99811.03
Waha Capital	0.09	120.67	1284.56
Alafco Aviation	0.11	96.14	890.58
Genesis Lease Ltd	0.13	188.10	1675.17
Willis Lease Finance Corp	0.15	121.90	868.59
Trencor Ltd	0.16	171.33	1018.19
GATX Corp	0.27	1352.50	5191.50
AerCap Holdings NV	0.28	1146.78	4394.23
Average	0.14	1218.90	17682.29

* Latest results available

In terms of Total Revenue the two Japanese firms, Orix Corp and Mitsubishi Corp have the highest revenue. (They were left of the chart due to their size compared to the others). The next company with the highest sales was the American GATX Corp, followed by AerCap Holdings. AerCap Holdings and GATX Corp had the highest asset turnover ratios.



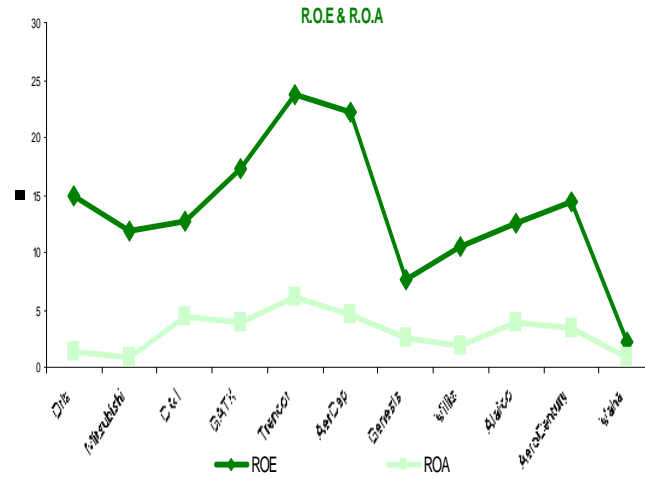


B. ROE & ROA

Name	ROE (%)	ROA (%)
Waha Capital	2.23	0.85
Genesis Lease Ltd	7.68	2.62
Willis Lease Finance Corp	10.58	1.82
Mitsubishi UFG	11.78	0.91
Alafco Aviation	12.59	3.97
Orix	14.96	1.29
GATX Corp	17.24	3.95
AerCap Holdings NV	22.15	4.53
Trencor Ltd	23.81	6.09
Average	13.67	2.89

*Latest results available.

Trencor Ltd of South Africa had the highest ROE and the highest ROA. Waha's poor return figures are entirely due to increased operating costs in the fourth quarter, related to write-downs and provisions. However, if we take the numbers for 2007, Waha's ROE is 8.91%, which is in-line with the others.



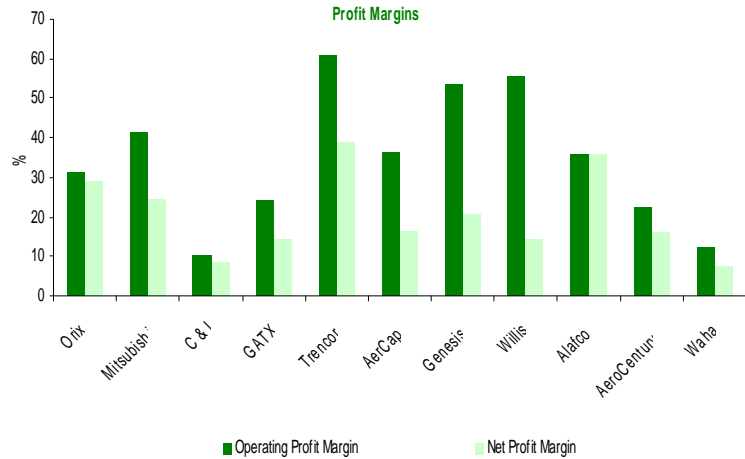


C. Profitability

Name	Operating Margin (%)	Net Margin (%)
Waha Capital	10.56	9.03
GATX Corp	24.10	14.49
Willis Lease Finance Corp	55.51	14.49
AerCap Holdings NV	36.40	16.43
Genesis Lease Ltd	53.40	20.82
Mitsubishi UFG	41.45	24.66
Orix	31.34	28.96
Alafco Aviation	36.00	35.69
Trencor Ltd	60.63	38.87
Average	38.82	22.60

*Latest results available.

Trencor LTD. had the highest operating and profit margins. Waha's operating and profit margins were lower due to the negative effect the global financial crisis had on its subsidiaries and joint ventures. Its 2007 net profit margin of 40.77% compares very favourably with the rest.



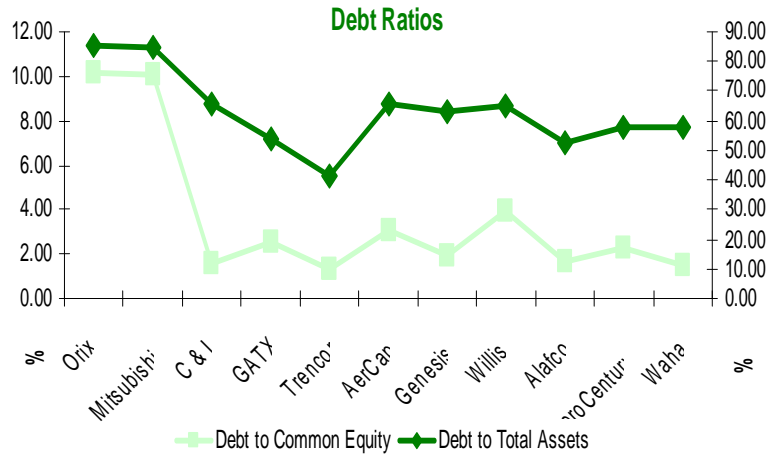


D. Leverage

Name	Debt to Common Equity (x)	Debt to Total Assets (%)
Trencor Ltd	1.32	41.54
Waha Capital	1.51	57.55
Alafco Aviation	1.68	52.32
Genesis Lease Ltd	1.94	62.74
GATX Corp	2.50	54.11
AerCap Holdings NV	3.04	65.83
Willis Lease Finance Corp	3.97	65.29
Mitsubishi UFG	10.06	84.44
Orix Corp	10.20	85.64
Average	4.02	63.27

*Latest results available.

Amongst its peers, Waha had relatively low debt to common equity and debt to total asset ratios. This indicates that, Waha is less heavily leveraged than its peers. There appears to be a positive correlation between the amount of debt and the size of the firm as well, with Orix Corp. having the highest amount of debt.





E. P/E & P/BV

Name	Trailing P/E	Trailing P/BV
AerCap Holdings NV	1.09	0.21
Orix Corp	2.00	0.21
Genesis Lease Ltd.	2.24	0.21
Willis Lease Finance Corp	2.75	0.45
GATX Corp	4.88	0.73
Trencor Ltd.	5.43	0.80
Mitsubishi UFG	6.08	0.46
Alafco Aviation	8.89	1.10
Waha Capital	26.49	0.58
Average	6.65	0.53

While Waha's P/E ratio is high relative to the others; we expect their extensive expansion plans will result in it being justified. Waha's P/BV ratio is in line with its competitors.

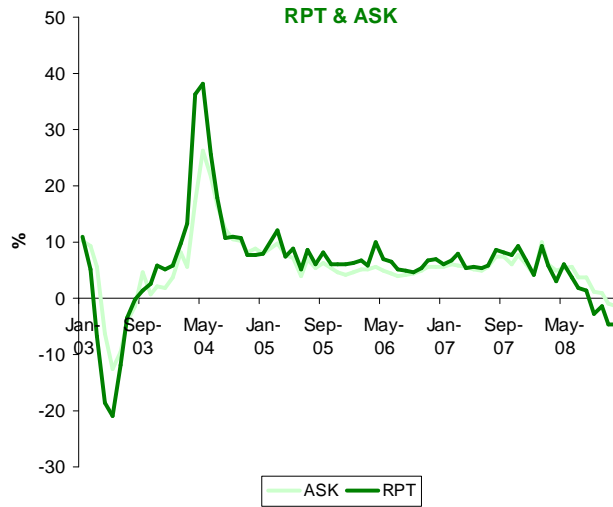
Risk Factors

Waha Leasing

Typically, the airline industry follows global GDP developments, but it tends to outperform positive GDP growth and severely underperforms when growth falls. The cyclical nature of the airline travel combined with the current downswing has resulted in industry losses totaling around \$5b for 2008. Spot jet fuel prices are currently at \$56.6/b but the majority of airlines had hedged at higher fuel prices.

Airlines have responded to the slump in demand by cutting capacity. In December, airlines reduced passenger capacity by 1.5%. Further cuts are planned, but so far the cuts are lagging the decreases in demand. This has led to airlines canceling new aircraft orders and taking older aircraft out of storage.

The risks to Waha are airlines attempting to cancel operating leases, which is highly unlikely due to steep penalties, or airlines being unable to pay. New lease income will be difficult to find causing revenue to stagnate over the next two years. The bargaining power of purchasers will increase over the next two years, putting downward pressure on margins from any new operating or finance leases. Leasing company competition is likely to become more intense due to the contraction of the airline industry, putting further pressure on profit margins. Waha's competitive advantage is its relatively young fleet of aircraft and being based in the Middle East, which was one of two regions to experience an increase in passenger traffic in 2008.



(RPT: Revenue Passenger Kilometres: Actual total passenger traffic; ASK: Available Seat Kilometres: Measures available passenger capacity)

Waha Maritime

While it is too early to make definitive statements on the extent of cuts in investment in the oil industry, we can safely say that short-term near-complete projects should be finished on time, whereas longer term projects may be delayed or canceled. Barclays Capital analysts expect upstream capital expenditure to contract by 12% after years of double digit growth. Singapore rig-builder Keppel announced that two orders of rigs have been canceled on account of the credit freeze and Saudi Arabia is delaying two of its next generation expansion projects.

These developments spell trouble for Waha Maritime in the medium term, specifically its stake in the GGMOS Group, if oil prices remain depressed and oil demand keeps on decreasing over the next few years.

Others

Availability of financing is a major concern for both global and domestic companies. Waha will not be able to continue its purchases without taking on significant amounts of debt or new equity. Global credit markets are still frozen, but the UAE markets are showing signs of thawing as Abu Dhabi banks were recapitalized and the UAE government subscribed to AED10b worth of Dubai government bonds, pushing down the price of debt in Dubai and restoring some market confidence.

Waha's stake in Addax Bank is its most risky investment currently. Addax Bank is a Bahraini based investment bank, which is heavily invested in real estate. Real estate in the Middle East is currently undergoing a contraction as liquidity has dried up, putting pressure on developers and private equity firms alike. Credit markets will have to thaw in order for Addax and other private equity firms to continue to operate. Addax will also need to be able to exit from unprofitable investments.



Valuation

DCF analysis

We have used DCF analysis to arrive at the value per share. The following methodology was used:

1. Cost of Equity

- Cost of Equity was calculated based on the Capital Asset Pricing Model as follows:
- Cost of Equity = Risk Free Rate + Adjusted Beta * (Market Return – RFR) = 4.54% + 1.2511 * (10.55% - 4.54%) = 12.06%
- Market Return was arrived at by calculating the 50 year return on the Dow Jones Industrial Average (8.11%) and adding a country risk premium (30%).
- A risk Free Rate of 4.54%, the rate on 5-year Abu Dhabi government bonds, has been assumed.
- The Raw Beta has been calculated by taking the daily price data for Waha shares for 2 years and comparing the same with the ADSM Index. The beta was then adjusted with a factor of 0.67 to arrive at the adjusted beta.

2. Cost of Debt

- The cost of debt used was 7.77%, which is at the upper-end of Waha's 2008 effective rate of interest. We took a high cost of debt figure due to the current tightness of credit, which will almost certainly continue for the near future.

3. Weighted Average Cost of Capital

- The weighted average cost of capital, of 9.48%, was arrived at by applying a weight of 39.84% for equity and 60.16% for debt. The weights were based on the 2008 balance sheet, which we considered as the correct capital structure. Though in our projections, we have assumed a higher proportion of equity in subsequent years, in the long run, the weights will tend to move towards the ideal capital structure.

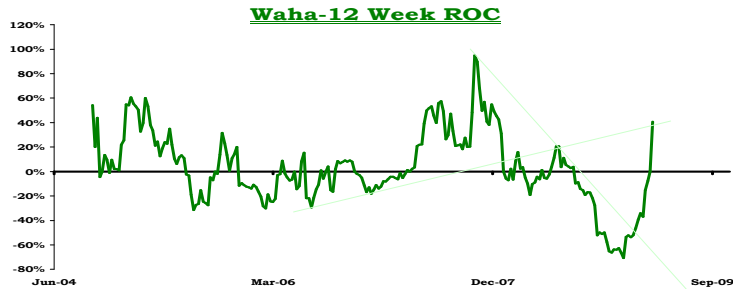
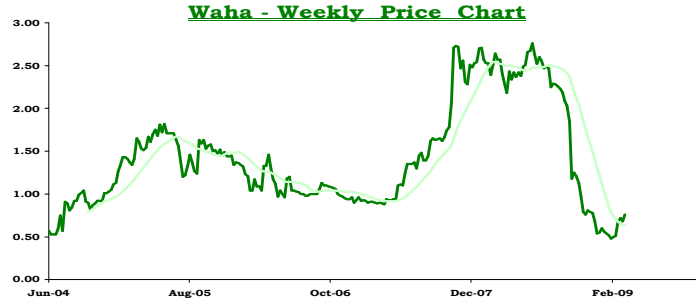
4. Terminal Growth Rate

- We have assumed a terminal growth rate of 4.0%.

	Year	2008	2009	2010	2011	2012	2013	2014
		R	E	E	E	E	E	E
	Operating Cash Flow	99,481	(1,063,437)	1,270,916	1,455,608	1,853,257	1,807,538	1,940,035
	Investing Cash Flow	(106,902)	(521,317)	(807,594)	(896,702)	(1,791,210)	(1,797,638)	(1,792,549)
Add Back	Interest Expense	171,792	402,338	402,338	342,425	342,425	375,377	391,554
	FCFF	164,371	(1,182,416)	865,660	901,331	404,472	385,278	539,040
	Discounted Value	164,371	(1,080,050)	722,262	686,919	281,568	244,987	313,086
	Primary Value	1,168,772						
	Terminal Value	10,233,971						
	Discounted Terminal Value	5,944,108						
	Primary + Discounted Terminal	7,112,880						
Minus	Current Debt	(2,715,339)						
	Value	4,397,541						
	Shares Outstanding	1,575,000						
	DCF Value per Share	2.79						



Technical Analysis



Waha Capital touched a low of 0.88 during the week ended 25th March 2007 and started rising thereafter. It touched a high of 2.76 during the week ended 15th June 2008. If we analyze this rally very closely, we will find that the rally started with a clear positive divergence on the 12 week ROC charts. For the week ended 2nd July 2006 and 24th Dec 2006, the 12 week ROC formed a higher bottom with the price hitting subsequent lower bottoms signifying indications of trend reversal.

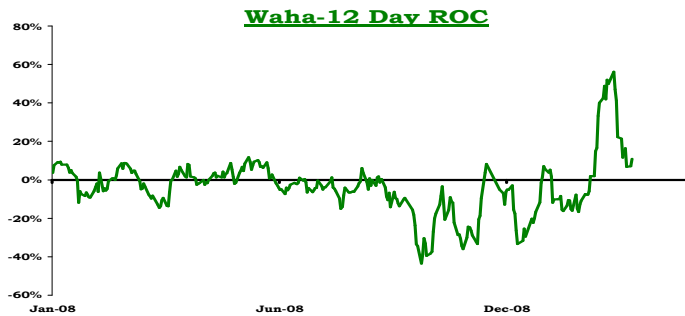
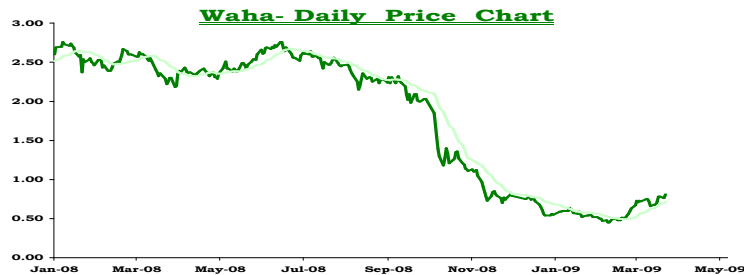
Accordingly, the reversal started on 25th March 2007 and the prices rose to a high of 2.76 during the week ended 15th June 2008. If we draw a support line on the 12 week ROC charts connecting the bottoms on 2nd July 2006 & 24th Dec 2006, we will find that the support line has been first broken on 27th Jan 2008 and decisively broken on 30th March 2008.

A break out of the ROC support line doesn't indicate the change in the price direction but however gives indications of trend reversal well in advance. A top under this support line coinciding with a higher price top indicates a negative divergence and at the same time indicates that we are close to a price top. This happened on 15th June 2008 when the price hit a new top with the 12 week ROC hitting a corresponding lower top under the support line. After this, the price started falling drastically.

Now the million dollar question is, whether we have seen the bottom. To answer this question, again we need to analyze the ROC charts. The ROC tops on 21st



Oct 2007 and 15th June 2008 have been connected to form a resistance line. For any sustainable trend reversal, the ROC must break this line and take a support above this line coinciding with a lower price top. This condition was more or less satisfied on 8th Feb 2009 when the ROC took support above the line coinciding with a lowest price of 0.48 on a weekly closing basis. However, there is only a 50% chance that this is a robust bottom and it is possible to see one more bottom shortly below 0.48 with a very clear support above the ROC resistance line. Hence, from a trading perspective, to safeguard oneself it is better to trade based on daily charts till we see this robust bottom.



The bottom corresponding to the weekly bottom of 8th Feb 2009 was formed on the daily charts on 10th Feb 2009 when the price touched 0.45. Again on 10th Feb, there was a clear positive divergence on the 12 day ROC charts between Price and ROC. Subsequent to this, the ROC hit the highest level on 9th March 2009 when the price touched 0.75 and thereafter the ROC started falling and the price continued to move up. Currently, on 23rd March 2009, the price stands at 0.81 and ROC is at 11% which is lower than the peak of 56% formed on 9th March 2009 indicating a negative divergence. However, a negative divergence only indicates a possibility of a short term correction and traders can still hold long positions keeping the stop loss on 18 day Moving Average which is currently at 0.72.

If the price violates 18 day Moving Average from above, bulls can make a temporary exit and may rebuild the positions once the price crosses the average from below.

However, the above recommendation holds good only for traders. Since the 12 week ROC has violated the medium term resistance line from below, long term investors may start accumulating the shares in a phased manner.



Annexure

Income Statement

	2008 A	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
(AED 000's)							
Revenue	443,240	443,819	4,826,439	5,304,932	5,964,490	6,530,882	7,150,280
Operating Costs	(407,005)	(1,693,471)	(3,693,037)	(3,980,296)	(4,316,545)	(4,771,019)	(5,248,089)
Shares of Profits/(losses) from equity accounted investees	(23,663)	71,250	131,534	181,130	190,187	199,696	315,575
Other Operating Income	86,024	3,200,000	-	-	-	-	-
Admin and other expenses	(51,803)	(56,983)	(74,078)	(96,302)	(125,192)	(150,231)	(165,254)
Operating Profit	46,793	1,964,614	1,190,857	1,409,465	1,712,939	1,809,328	2,052,512
Other Income	(6,768)	12,656	80,879	91,771	72,263	214,272	226,781
Net Profit before tax	40,025	1,977,270	1,271,737	1,501,236	1,785,202	2,023,600	2,279,293
Tax	-	-	-	-	-	-	-
Net Profit after Tax	40,025	1,977,270	1,271,737	1,501,236	1,785,202	2,023,600	2,279,293
EPS	0.0254	1.2554	0.8075	0.9532	1.1335	1.2848	1.4472

*The figures in red are negative and represent expenses.



Statement of Cash Flows

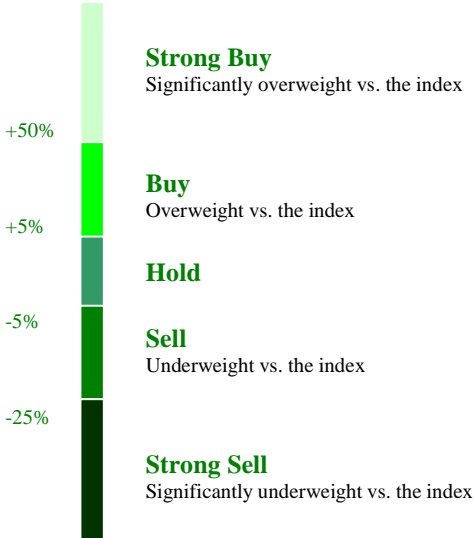
	2008 A	2009 E	2010 E	2011 E	2012 E	2013 E	FY 2014
(AED 000's)							
Operating Cash Flow							
Net Income before Tax and Minority Interest	40,025	1,977,270	1,271,737	1,501,236	1,785,202	2,023,600	2,279,293
Depreciation & Amortization	140,765	193,837	207,058	224,022	232,230	240,568	249,025
Other Non-Cash Adjustments	121,092	(3,183,882)	(131,282)	(185,107)	(169,657)	(316,178)	(439,569)
Changes in Non-Cash Capital	(225,035)	(73,296)	(76,597)	(84,544)	5,482	(140,451)	(148,714)
Change in Provisions	22,634	22,634	-	-	-	-	-
Other	-	-	-	-	-	-	-
Cash Flows from Operating Activities	99,481	(1,063,437)	1,270,916	1,455,608	1,853,257	1,807,538	1,940,035
Investing Cash Flow							
Disposal of Fixed Assets	313,550	-	-	-	-	-	-
Capital Expenditure	(1,105,910)	(105,000)	(225,000)	(275,000)	(1,200,000)	(1,200,000)	(1,200,000)
Increase in Investments	(63,293)	(55,000)	(150,000)	(200,000)	(150,000)	(150,000)	(150,000)
Decrease in Investments	987,122	-	-	-	-	-	-
Other Investing Activities	(238,371)	(361,317)	(432,594)	(421,702)	(441,210)	(447,639)	(442,551)
Cash Flow from Investing Activities	(106,902)	(521,317)	(807,594)	(896,702)	(1,791,210)	(1,797,639)	(1,792,551)
Financing Cash Flow							
Dividend Paid during the year	(75,000)	(78,750)	(118,125)	(177,188)	(265,781)	(398,672)	(598,008)
Change in Short-Term Borrowing	-	-	-	-	-	-	-
Increase in Long-Term Borrowing	1,377,779	5,000,000	1,000,000	500,000	1,000,000	1,000,000	720,000
Decrease in Long-Term Borrowing	(1,140,253)	(1,000,000)	(1,000,000)	(1,500,000)	(1,000,000)	(450,000)	(450,000)
Increase in Capital Stocks	-	-	-	-	-	-	-
Decrease in Capital Stocks	-	-	-	-	-	-	-
Increase (Decrease) in Deposits	-	-	-	-	-	-	-
Other Financing Activities	-	-	-	-	-	-	-
Cash Flow From Financing Activities	162,526	3,921,250	(118,125)	(1,177,188)	(265,781)	151,328	(328,008)
Net change cash & cash equivalents	155,105	2,336,496	345,197	(618,281)	(203,735)	161,227	(180,524)
Cash & cash equiv at start of period	71,689	226,794	2,563,290	2,908,487	2,290,206	2,086,471	2,247,699
Cash & cash equiv at period end	226,794	2,563,290	2,908,487	2,290,206	2,086,471	2,247,699	2,067,175

* The figures in red are negative and represent cash outflows.



Balance Sheet

	2008 A	2009 E	2010 E	2011 E	2012 E	2013 E	FY 2014
AED(000's)							
Assets							
Cash & Cash Equivalents	226,794	2,563,290	2,908,487	2,290,206	2,086,471	2,247,699	2,067,175
Cash Encumbered	87,293	87,293	87,293	87,293	87,293	87,294	87,295
Short Term Investments	49,867	41,833	44,243	47,376	48,055	48,768	49,517
Trade Receivables	289,294	541,141	804,332	1,094,828	1,075,991	1,558,588	2,069,574
Loans & Mortgages	229,834	229,834	229,834	229,834	229,834	229,834	229,834
Real Estate Investments	1	3,200,000	6,200,000	9,500,000	8,598,750	14,740,188	21,288,347
PP&E	-	50,000	115,000	165,000	175,000	175,000	165,000
Other Long-Term Investments	955,852	1,010,852	1,160,852	1,360,852	1,510,852	1,660,852	1,810,852
Long-Term Investments	1,185,687	4,490,686	7,705,686	11,255,686	10,514,436	16,805,874	23,494,033
Net Fixed Assets	7,477	3,306	1,390,542	2,954,987	1,075,696	1,967,981	3,150,798
Other Long-Term Assets	2,871,897	3,071,406	3,548,578	4,073,786	4,550,785	5,029,448	5,509,653
Total Assets	4,718,309	10,798,956	16,489,161	21,804,161	19,438,728	27,745,651	36,428,044
Liabilities & Shareholders Equity							
Total Deposits	-	-	-	-	-	-	-
Short Term-Borrowing	-	-	-	-	-	-	-
Long Term-Borrowing	2,715,339	6,715,339	6,715,339	5,715,339	5,715,339	6,265,339	6,535,339
Total Debt	2,715,339	6,715,339	6,715,339	5,715,339	5,715,339	6,265,339	6,535,339
Other Short-Term Liabilities	205,100	383,652	570,245	776,197	762,842	1,104,988	1,467,260
Other Long-Term Liabilities	-	-	4,350,000	9,135,000	5,263,500	11,053,350	17,422,185
Total Liabilities	2,920,439	7,098,991	11,635,584	15,626,536	11,741,681	18,423,677	25,424,784
Total Preferred Equity	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-
Share Capital & APIC	1,575,000	1,575,000	1,575,000	1,575,000	1,575,000	1,575,000	1,575,000
Retained Earnings & Other Equity	222,870	2,124,965	3,278,577	4,602,625	6,122,046	7,746,974	9,428,260
Total Shareholders Equity	1,797,870	3,699,965	4,853,577	6,177,625	7,697,046	9,321,974	11,003,260
Total Liabilities & Equity	4,718,309	10,798,956	16,489,161	21,804,161	19,438,728	27,745,651	36,428,044
NAV per share	1.14	2.35	3.08	3.92	4.89	5.92	6.99



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