

EQUITY REPORT

Jordan Electric Power
(JOEP)

Re-Initiation of Coverage
Report

Prepared by:
Tanya Khamash

March 2011

Jordan Electric Power (JOEP)

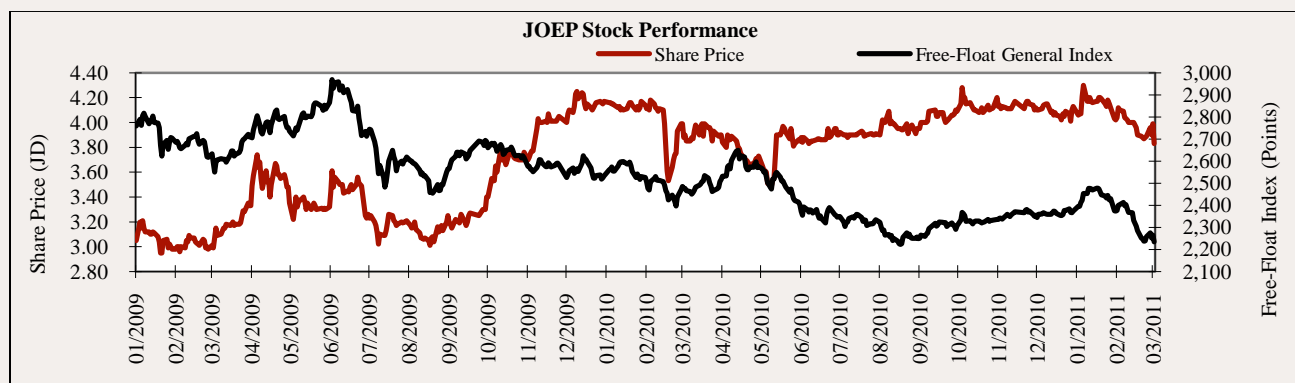
Re-initiation of Coverage
6 March 2011

12 Month Fair Value: **JOD4.34**
Recommendation: **BUY**

Key Highlights

Ticker	JOEP
Share Price	JOD3.87
52-Week High	JOD4.32
52-Week Low	JOD3.34
Market Capitalisation (JOD Millions)	292,572,000
EPS (2010)	JOD0.069
Trailing P/E	56.09x
Trailing P/BV	3.09x

Sale of Electricity – 2010 (Million kWh)	7,545.30
Electricity Sold – 2010 (JOD)	495,485,226
Purchased Electricity – 2010 (JOD)	428,212,831
Operating Profit – 2010 (JOD)	7,422,254
Net Income before Tax (JOD)	8,158,012
Net Income after Tax (JOD)	5,249,626
ROAA (%) – 2010	1.1%
ROAE (%) – 2010	5.5%



- Following a substantial 63.7% drop in profits before tax in 2009, JOEP registered a 59.1% rise in 2010, with its profits before tax increasing from JOD5.13 million to JOD8.16 million. Operating profit soared from JOD0.64 million in 2009 to JOD7.42 million, on the back of a 9.3% rise in revenues from sale of electricity. The Company's bottom line was hit hard by the recognition of an amount of JOD1.33 million representing taxes relating to previous years, reducing the profits after tax to JOD5.25 million.
- Sold electricity reached 7,545.30 million kWh in 2010, up from 7,015.18 million kWh the previous year, consequent to the increase in subscribers from 928,535 to 973,800 over the same period. Purchased electricity, meanwhile, reached 8,684.02 million kWh.
- JOEP's bulk tariffs at which electricity was purchased from NEPCO during 2010 amounted to JOD2.98/kWh for maximum load and a night and day tariff of 46.67 fils/kWh and 36.62 fils/kWh, respectively.
- JOEP's Board of Directors will recommend to the General Assembly the distribution of cash dividends of JOD5.67 million for the financial year 2010, through utilising an amount of JOD1.25 million from the statutory reserves to be added to retained earnings in order to distribute the 7.5% minimum dividends as per the concession agreement terms.
- On the basis of our forecasts, using the discounted cash flow and excess return methods of valuation, we arrive at a 12-month fair value for the JOEP stock of JOD4.34 per share, offering a 12.1% upward potential over its current price. Therefore, we re-initiate our coverage with a BUY recommendation.

Table of Contents

1.0	Investment Highlights	3
2.0	Electrical Energy Sector Overview	5
2.1	Sector Components	5
2.2	Sector Players	5
2.3	Industry Highlights	7
3.0	Company Overview	9
3.1	Company Background	9
3.2	Shareholder Structure	10
3.3	Board of Directors	10
3.4	Subsidiaries	10
3.5	Stock Performance	11
3.6	SWOT Analysis	12
4.0	Key Performance Indicators	13
5.0	Performance Analysis	14
5.1	Operational Analysis	14
5.2	Financial Analysis	16
6.0	Valuation	23
6.1	Discounted Cash Flow Method	23
6.2	Excess Earnings Method	24
7.0	Appendices	25

1.0 INVESTMENT HIGHLIGHTS

- Jordan Electric Power (JOEP) operates under a concession agreement, distributing electricity in the cities of Amman, Zarqa, Madaba and Salt. Under the concession agreement, JOEP has monopoly power within its concession areas. The tariffs for both bulk purchases of electricity and for retail sales of electricity are determined by the Cabinet and are reviewed on a regular basis to account for changes in prices of materials and operating expenses to allow a return on capital of between 7.5% and 16%. JOEP's concession agreement expires in November 2012, and the Company's General Assembly resolved to apply for a license to distribute electricity rather than renew the concession agreement. The application to date has been submitted and is pending a response.
- JOEP purchases electricity from the National Electric Power Company (NEPCO) at bulk supply tariff rates. The most recent tariff amendment occurred on January 16th 2010 where the night energy tariff was raised from 35.76fils/kilowatt hours (KWh) to 36.63fils/KWh, and the day energy tariff was increased to 46.67fils/KWh from 45.81fils/KWh. Meanwhile, the retail distribution tariffs were raised by 1fils/KWh for all segments of subscribers. In 2010, the excess of revenues from electricity sales over the price paid to NEPCO for purchased energy amounted to JOD67.27 million, equivalent to a margin of 13.6% over revenues.
- JOEP's lost energy amounts to around 13.1%, down from 14.3% in 2009. Efforts have been made by the Company to reduce these losses, including more stringent monitoring to detect electricity theft and meter tampering, in addition to replacement of aged electricity meters.
- The number of subscribers within JOEP's concession area increased by 4.9% during 2010 to reach 973,800. 44.2% of JOEP's subscribers at the end of 2009 represent residential and public buildings, while 22.2% and 21.5% are industrial projects and retail projects, including hotels, restaurants, television and radio.
- The rise in subscribers comes at a time of rapid expansion of city boundaries following the recent real estate boom. The building of residential compounds in city outskirts and rural areas, alongside high rise towers and complexes, has required substantial capital expenditure by JOEP.
- The average power cut time during 2010 amounted to 7.33 hours/subscriber, up from 6.75 hours/subscriber in 2009.
- The maximum electricity load rose by 7.1% during 2010 to reach 1,498 megawatts. The Company's estimates of growth in the maximum load for the next five years are between 4.9%-5.3%.
- The Company has optical fibres already in place, and is currently studying the feasibility of entering into the telecommunications industry to supplement its income from electricity distribution. This has not been accounted for in our forecasts and may represent a significant source of additional information in years to come.
- JOEP's profit after tax increased to JOD5.25 million in 2010, up from JOD4.62 million in 2009, while the net operating profit for the same period amounted to JOD7.42 million compared to a mere JOD0.64 million in 2009.

- JOEP's Board of Directors will recommend to the General Assembly the distribution of cash dividends equivalent to 7.5% of par value for the 2010 fiscal year, utilising an amount of JOD1.25 million from the statutory reserves to be added to retained earnings to make up the JOD5.67 million minimum dividends required according to the concession agreement terms.
- The high price of oil in the international markets is likely to have a dual impact on the electricity sector during 2011. Tariffs on the bulk supply of electricity by NEPCO are likely to be increased, although based on current conditions in the region, it is unclear whether retail tariffs will be increased concurrently. Meanwhile, the rising cost of solar and diesel will support the use of electricity for heating, as a cheaper source of energy. The increasingly hot summers have been driving demand for air-conditioning, which is applying additional load on the electricity system. We expect this to continue in the years to come. On the basis of these expectations, we estimate an EPS for 2011 of JOD0.161, assuming an increase in the share capital to 80 million shares/JOD, giving a forecasted P/E for JOEP's stock of 24.08x, based on the current share price.
- Our forecast leads to an estimated fair value for the JOEP stock of JOD4.34 per share.

2.0 ELECTRICAL ENERGY SECTOR OVERVIEW

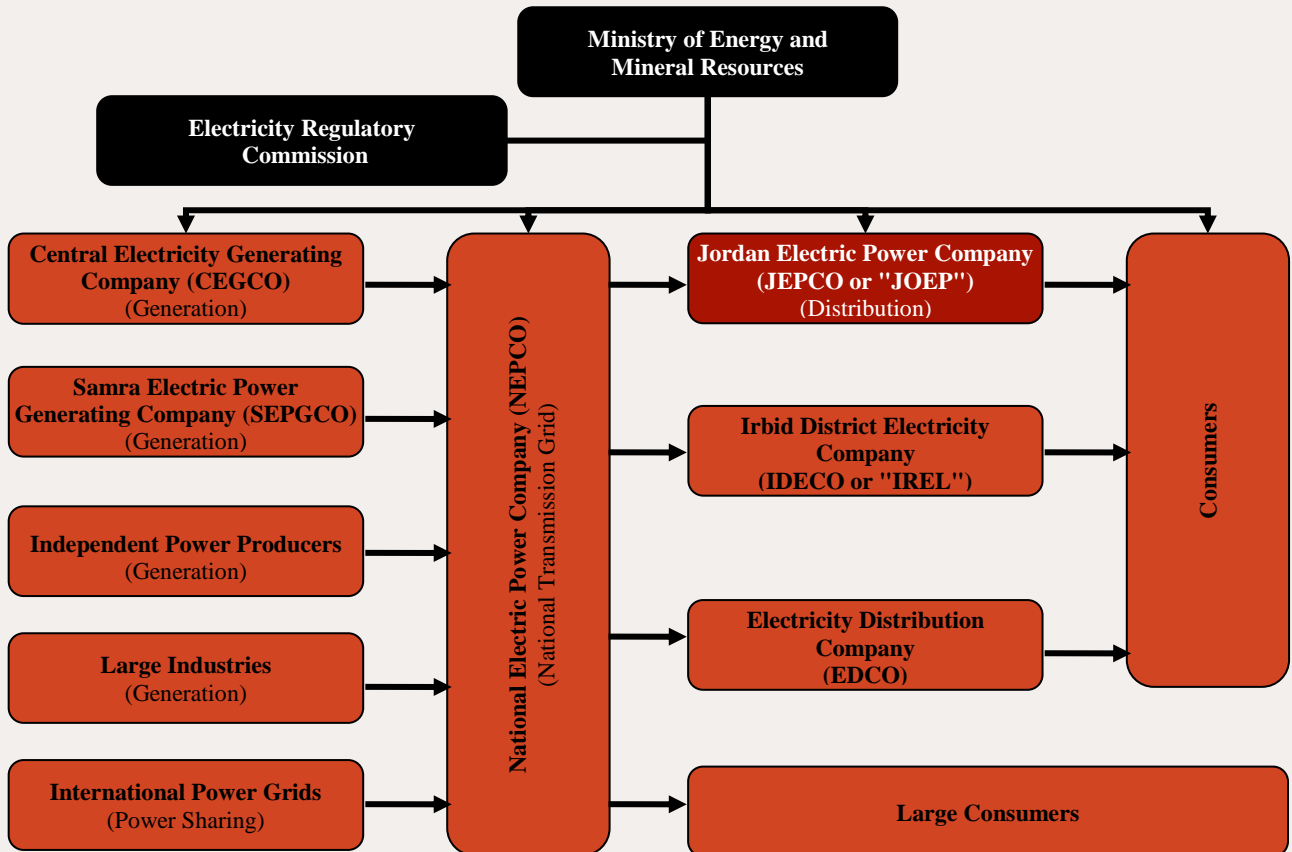
2.1 Sector Components

The Jordanian electricity sector is divided into three primary segments; generation, transmission and distribution. The sector is regulated by the Electricity Regulatory Commission, which was established to determine electricity tariffs, subscription, service and connection fees, as well as monitor the quality of electricity service provided, and license companies in the sector.

2.2 Sector Players

As illustrated below, the generation of electricity takes place via a number of producers, primarily comprising of the Central Electricity Generating Company (CEGCO), the Samra Electric Power Generation Company (SEPGCO) and independent power producers.

The Central Electricity Generating Company (CEGCO) was registered in 1998 as a public shareholding company, and commenced operations in 1999, generating electrical power from a number of sources and supplying it to the National Electric Power Company (NEPCO) in charge of transmitting the energy to the distributors. The supply of electricity to NEPCO is governed by a power purchase agreement signed between the two parties.

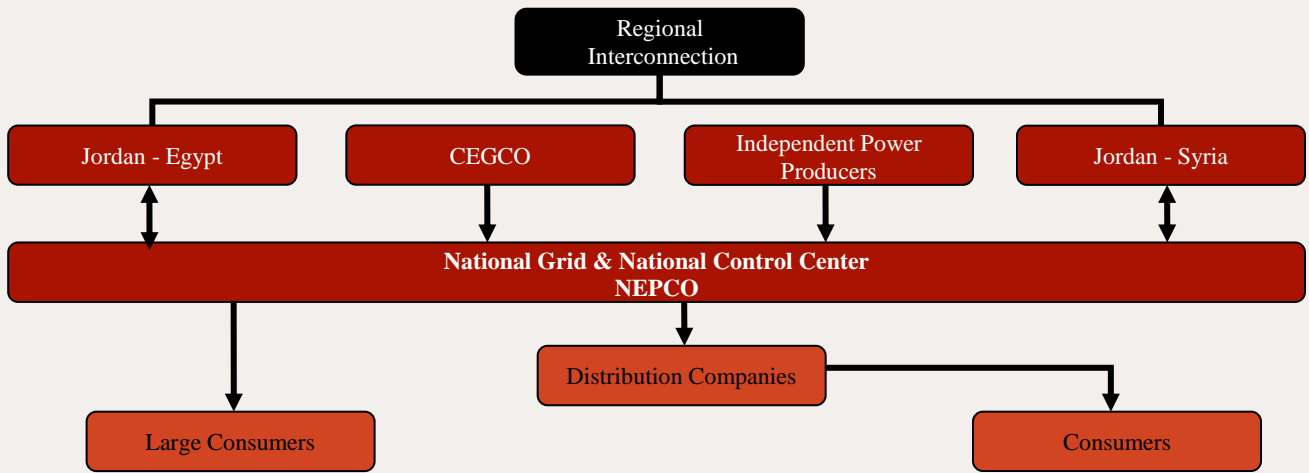


Source: Central Electricity Generating Company

CEGCO was privatised during 2007 after the Government sold a 51% share of the Company to Enara Energy, a company established by Jordan Dubai Capital. A further 9% was sold to the Social Security Corporation, and the remaining 40% was retained by the Government.

Meanwhile, Samra Electric Power Generating Company (SEPGCO) was established more recently as a private shareholding company fully-owned by the Government to work hand-in-hand with CEGCO in generating electrical power. SEPGCO was established with a paid-up capital of JD 50 million, and its first completed phase of the Samra power station has the capacity to generate some 25% of the total generated electricity in the Kingdom.

The generated electricity is purchased by the National Electric Power Company (NEPCO) and is then sold on to the energy distributors and large consumers. NEPCO manages the Kingdom’s electrical transmission grid and the process of transmitting the electricity. It is also responsible for the import and export of electrical power, in addition to the purchase of natural gas for supply to the power generating segment of the industry.



Source: Central Electricity Generating Company

Distribution, meanwhile, is executed by three companies; the Jordan Electric Power Company (JEPCO, ticker symbol: JOEP), Irbid District Electricity Company (IDECO, ticker symbol: IREL), and Electricity Distribution Company (EDCO). Each company is responsible for supplying electricity in different areas of the Kingdom. Jordan Electric Power Company, hereon referred to as JOEP, distributes electricity in Amman, Zarqa, Al-Salt, Madaba, and Balqa, excluding the Central Jordan Valley. JOEP was granted a 50-year concession in 1962. Irbid District Electricity Company distributes electricity in Irbid, Mafraq, Jarash, Ajloun and some parts of the Balqa governorate. IDECO’s 50-year concession expired on February 15th 2011. IDECO was privatised in 2008 following the Government’s sale of a 55.4% holding to Kingdom Electricity Company. Also privatised in 2008 was Electricity Distribution Company, where Kingdom Electricity Company acquired a 100% stake in the Company. EDCO services the southern, central and eastern parts of the Kingdom.

IDECO and EDCO currently operate under distribution licenses.

2.3 Industry Highlights

2.3.1. Key Industry Figures

	2004	2005	2006	2007	2008	2009
Primary Energy Consumption (000 toe)	6,489	7,028	7,187	7,267	7,335	7,629*
Final Energy Consumption (000 toe)	4,526	4,900	4,890	4,855	4,707	5,100*
Electricity Fuel Consumption (000 toe)	2,252	2,393	2,725	3,035	3,282	3,441
Primary Energy Consumption Per Capita (Kgoe)	1,213	1,284	1,284	1,270	1,254	1,276*
Final Energy Consumption Per Capita (Kgoe)	846	895	874	848	805	853*
Power Stations and Nominal Capacities (MW)	1,785	1,995	2,199	2,300	2,612	2,666
Electrical Energy Generated (GWh)	8,968	9,654	11,120	12,999	13,768	14,208
Electrical Energy Consumption (GWh)	8,090	8,713	9,595	10,559	11,555	11,993
Electrical Energy Consumption Per Capita (KWh)	1,512	1,592	1,714	1,845	1,975	2,006
Total Electrical Fuel Consumption/total Fuel Consumption (%)	35	34	38	42	45	45
System Peak Demand in Jordan (MW)	1,555	1,751	1,901	2,160	2,260	2,300
System Peak Load Interconnected System (MW)	1,515	1,710	1,860	2,130	2,230	2,300
Population ('000)	5,350	5,473	5,597	5,723	5,850	5,980*
No. of Employees in the Electricity Sector	7,042	7,256	7,523	7,806	8,084	8,273
No. of Consumers ('000 Consumers)	1,067	1,129	1,195	1,263	1,352	1,426

*Estimated

toe: tonnes of energy

kgoe: kilograms of energy

MW: Megawatts

GWh: Gigawatt hour

Source: Electricity Regulatory Commission

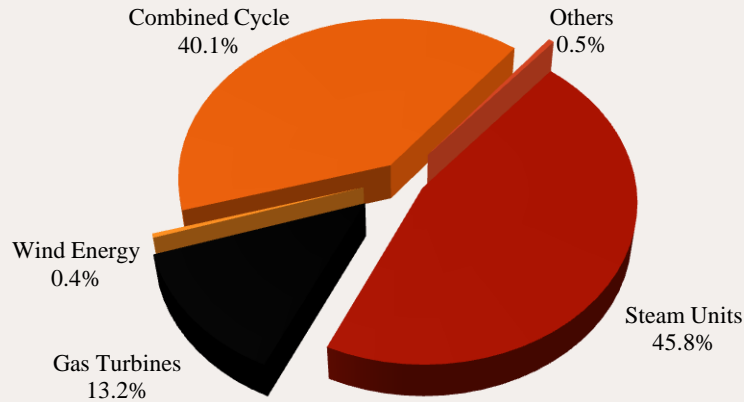
2.3.2 Energy Generated According to Type of Producers (GWh)

	2004	2005	2006	2007	2008	2009
1- Interconnected System	8,652	9,326	10,829	12,750	13,551	13,995
CEGCO	8,448	9,086	8,966	9,852	8,851	8,009
SEPGCO	-	29	1,660	2,733	3,736	3,629
IDECO	-	-	-	-	826	2,286
AES**	16	17	14	13	15	13
Potash Company	96	101	104	96	64	-
Cement Company	10	6	0	-	-	-
Indo - Jordan Chemicals Company	81	87	84	56	59	58
2 - Large Industries	316	328	291	249	218	213
Total	8,968	9,654	11,120	12,999	13,768	14,208
Imported from Egypt	788	741	472	199	534	363
Imported from Syria	38	241	42	8	13	20
Grand Total	9,794	10,636	11,634	13,206	14,316	14,591
Exported	3	0	13	172	318	139
Grand Total for Available Energy	9,791	10,636	11,621	13,034	13,998	14,452

Source: Electricity Regulatory Commission

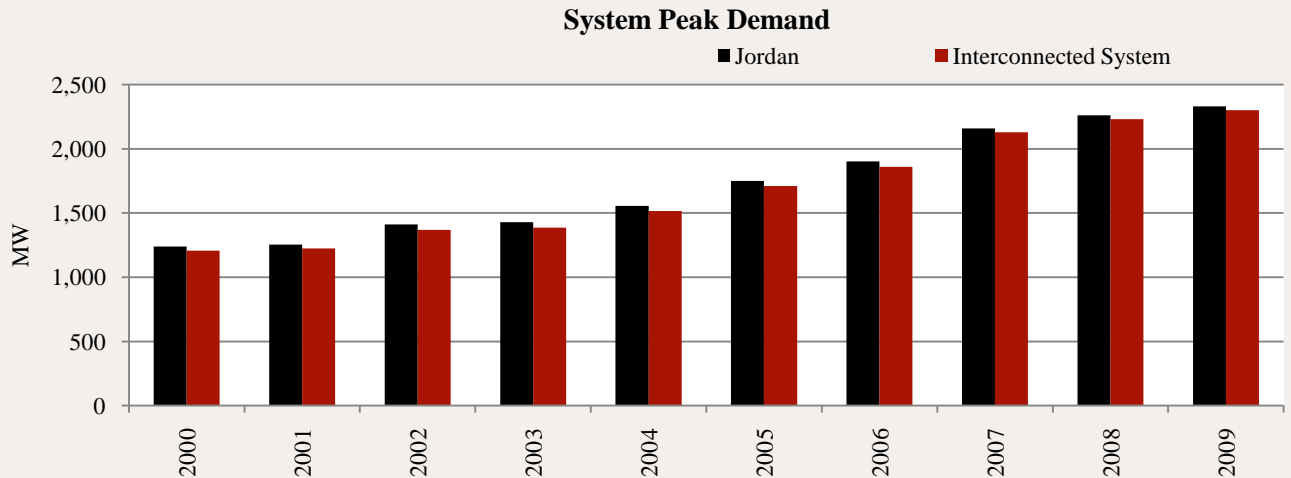
2.3.3 Electrical Energy Generated According to Type of Generation

The chart below indicates that the larger part of the electricity generated is produced from the steam units and the combined cycle.



2.3.4 System Peak Demand

The increase in number of subscribers, particularly in terms of residential users as a result of a growing population, expansion of city boundaries, and the evolution of the residential compound phenomenon in Jordan, has pushed up electricity demand in recent years. Moreover, the increasing hot summers in Jordan, and the soaring price of fuel for heating has led to a surge in usage of air-conditioners both for cooling and for heating, thereby applying substantial additional pressure on electricity supply.



The system peak demand began rising in 2004 through to 2008 after which it began to level off, accompanying the deceleration in growth in the real estate sector.

3.0 COMPANY OVERVIEW

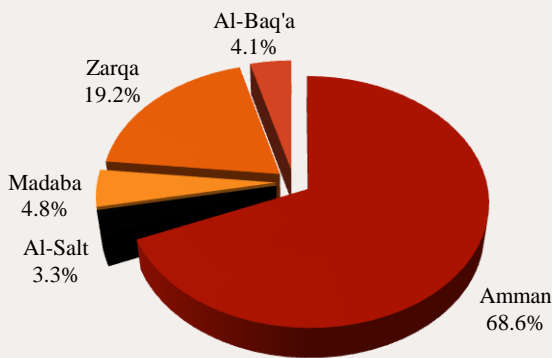
3.1 Company Background

Jordan Electric Power Company (“JOEP”, “JEPSCO” or “the Company”) was established in 1938 to supply Jordan’s capital with electricity. In 1947 it received its first concession, and in 1962, following the Company’s merger with the Central Electric Company of Jordan, JOEP was granted a second concession for a period of fifty years. The concession granted JOEP the right to generate, transmit and distribute electrical power in the areas of Amman, Zarqa, Al-Salt and Madaba. This concession expires on November 22nd 2012 and the General Assembly of the Company has voted in favour of not renewing this concession agreement and agreed that the Company should apply for a distribution license. Management has confirmed that the application for the license has been made to the relevant authority, and is pending their response.

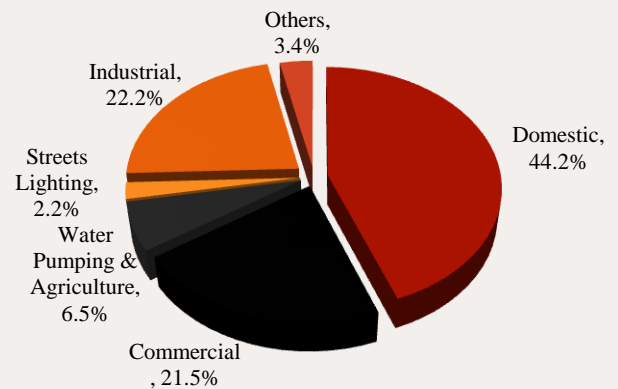
JOEP obtains its electricity supply from the National Electric Power Station according to bulk rate tariffs that are set by the cabinet. The tariffs applied on retail electrical energy distributed by JOEP are also determined, and the margin between these tariffs is determined so that the Company maintains a return on capital of between 7.5% and 16%. The tariffs have been changed a number of times in recent years, with the most recent change occurring in 2010. Under the terms of the concession, materials, instruments and production materials that are inputs into JOEP’s core operations are exempted from customs and duties.

The Company’s allocated regions service over 65% of the population of Jordan. As of the end of 2010, JOEP’s total subscribers reached 973,800, with almost 70% of the subscribers residing in Amman.

Subscribers by Area - 2010



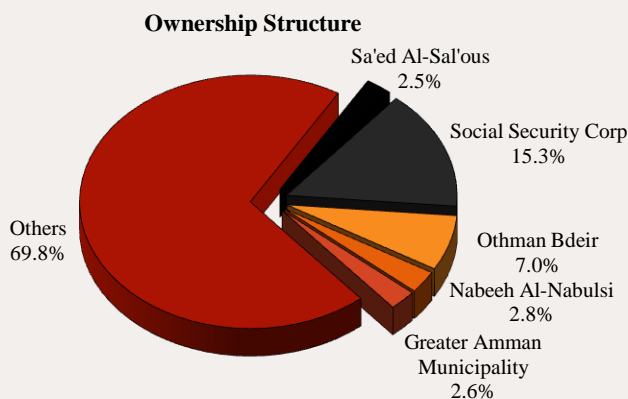
Electricity Sales by Segment - 2009



Residential use is the primary consumer of the electricity distributed by JOEP, and the population demographics of Jordan, with a young and growing population, will continue to drive the demand in this segment. Moreover, the expansion of the boundaries of Jordan’s major cities, particularly the Capital, has created a substantially larger area to be serviced by JOEP in recent years. The development of residential compounds in previously quiet areas has required heavy capital expenditure to meet the growing need for electricity. In light of this, the Company has put in place a five-year plan for the years 2009-2013 to meet the soaring increase in electricity load. The plan involves the construction of 23 transmission stations, in addition to 410km of middle pressure air lines, as well as 1216km of underground cables. The anticipated CAPEX for this project is JOD270 million.

3.2 Shareholder Structure

The Bank's major shareholder is the Jordanian Social Security Corporation, with a 15.3% holding. Other major shareholders include Mr. Othman Bdeir, with a 7.0% stake in the Company, Mr. Nabeeh Al-Nabulsi, with a 2.8% stake, and the Greater Amman Municipality, which owns 2.6%.



As of March 6th 2010

Source: Securities Depository Commission

3.3 Board of Directors

Company	Number of Seats	Ownership
Social Security Corporation	1	11,531,274
Mr. Othman M. Bdeir	1	5,329,377
Mr. Issam M. Bdeir	1	1,106,870
Mr. Faris I. Al-Mouasher	1	1,105,596
Mr. Marwan M. Madi	1	175,165
Mr. Bakhit N. Al-Bakhit	1	165,738
Mr. Marwan A. Bushnaq	1	83,623
Mr. Yasin K. Al-Talhouni	1	26,963
Mr. Wafa Al-Dajani	1	1,040
Government of Jordan	2	-
Total	11	19,525,646

As of March 6th 2011

Source: Securities Depository Commission

The Board's termination date is April 10th 2014.

3.4 Major Investments

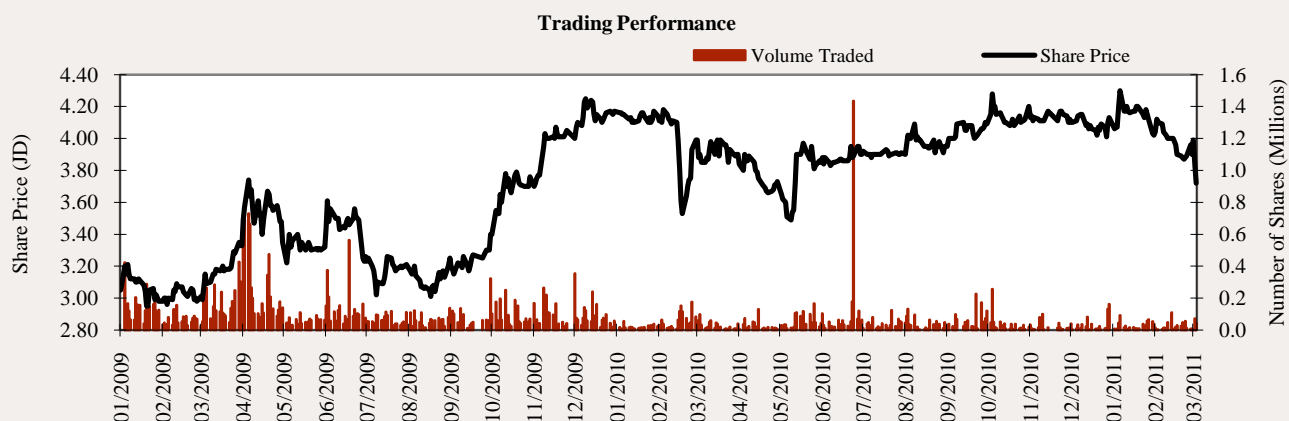
3.4.1 Subsidiaries

The Company has one subsidiary, the Electrical Equipment Industries Company, in which JOEP owns 2.5 million shares/JD, representing a 27.5% stake. The Company manufactures electrical transformers, part of which is purchased and utilised by JOEP. In 2009, JOEP's share of the Company's profits amounted to JOD28,757.

3.5 Share Performance

During the boom of commodity and oil prices during the first six months of 2008, JOEP's stock performed remarkably well, rising from JOD4.32 at the start of the year to a high of JOD7.80 on June 16th. By the end of the first half of 2008, the stock had registered a gain of 53.2%. However, as oil prices began to collapse and the global financial crisis and credit crunch erupted, JOEP's share price began to suffer alongside the domestic and global capital markets, slumping to a low of JOD2.73 on November 24th, thereby registering a high-to-low decline of 65.0%, before recovering slightly to close 2008 at JOD3.05. For the year overall, the stock's decline, which amounted to 29.4%, underperformed both the Free-float General Index and the Free-float Utilities & Energy Sector Index, which dropped by 24.9% and 17.8%, respectively.

In 2009, the first quarter continued to be turbulent, with the share price of JOEP falling to the low for 2009 of JOD2.89 on January 21st, before embarking on an upward trend, reaching JOD3.85 on April 6th. The stock's price dipped in late April and early May once again before stabilising at a level of around JOD 3.30.



During the first week of June, the Company's share price shot up once more, reaching JOD3.71 on the 3rd of the month before slumping to end the first half of the year at JOD3.26, up 6.9% in the six month period. As compared to the General Index, which lost 23.2 points, JOEP's stock came off favourably. However, compared to the Utilities & Energy Sector Index, which climbed by 16.8% over the first half of the year, JOEP's performance fell short.

In contrast, however, the second half of 2009 saw JOEP's share outperform both the General and the Sector indices, rising by 4.3% during the third quarter of the year to reach JOD3.40 on September 30th compared to a decline of 1.7% for both indices. Moreover, during the final quarter of 2009, JOEP's share price continued to ascend, reaching the high for the year of JOD4.31 on December 9th before closing the year at JOD4.17, thereby registering an impressive 36.7% ascent year-to-date. Concurrently, the General Index slumped by 5.8% over the quarter, while the Utilities and Energy Sector Index rose by 8.2%, giving year-to-date changes of -8.2% and 24.1%, respectively. The global economic slowdown and financial crisis brought about a flight to safety by investors, and utilities, as non-cyclical defensive stocks, outperformed the overall market.

Year 2010 saw JOEP's stock start off trading horizontally within a narrow band of JOD4.10-4.20 before dropping sharply to a low JOD3.43 in mid-February. The stock recovered, albeit remaining below the JOD4.00 mark, before slumping once again to 2010's low of JOD3.34 on May 9th. At the end of the first half of 2010, JOEP's stock closed at JOD3.90. For the remainder of the year, the share was relatively stable,

following a slightly upward trend, maintaining levels above JOD4.00, and by the end of the year, the stock closed at JOD4.13, registering a 1.0% year-on-year decline, outperforming the General and Utilities indices, which lost 6.3% and 7.9% of their value, respectively, over the same period.

JOEP's share price in 2011 started positively, reaching its high for the year, to date, of JOD4.32 on January 9th. The stock continued to trade at a price above JOD4.00 until the second week of February, where JOEP's share price, along with the overall market, began to slump, in reaction to the turbulence in the region.

In terms of trading activity, JOEP's stock saw its liquidity more than halve during 2010 compared to 2009, with the average daily volume dropping to 42,889 shares from 91,550 shares. Correspondingly, the average daily trading value also dropped, falling to JOD169,281. In 2011, liquidity has been even lower, with the average daily value and volume traded registering at JOD103,775 and 25,731 shares, respectively.

	Period Total			Daily Average		
	Trading Value (JOD)	# of Transactions	Trading Volume (# of Shares)	Trading Value (JOD)	# of Transactions	Trading Volume (# of Shares)
2011*	4,669,862	1,624	1,157,873	103,775	36	25,731
2010	42,320,323	10,606	10,722,290	169,281	42	42,889
2009	93,717,362	35,761	27,190,310	315,547	120	91,550

*Up to March 6th 2010

Source: Amman Stock Exchange, interpreted by Jordinvest

3.6 SWOT Analysis

Strengths
Monopoly in its concession area
Exemptions from customs and duties on imported materials
Distributes electricity to the bulk of the population, catering to the capital, which is currently experiencing rapid growth in its boundaries
Defensive stock
Relatively high level of free-float stock

Weaknesses
Unable to control its margins due to bulk and retail tariffs being determined by third parties
Electricity loss amounting to around 13.3%
High exposure to electricity and electrical materials theft
Weak liquidity position leading to rising debt obligations to finance capital expenditure

Opportunities
Diversification of operations into telecommunications, generating a new source of revenue
Growth in subscriber base as population grows and concession area expands
Rise in oil prices leading to increased demand for electricity as an alternative
Termination of concession agreement and obtaining a license agreement with more favourable tariff terms

Threats
Geopolitical threats
Change in regulations, electricity or otherwise
Unfavourable modifications to the bulk and/or retail tariffs
Rise in prices of oil and gas, leading to a hike in electricity prices, causing a decline in consumption of electricity and thus a drop in revenues

4.0 KEY PERFORMANCE INDICATORS

	2005	2006	2007	2008	2009	2010
Key Financial and Operating Indicators						
Operating Profit (JOD)	9,532,310	9,451,061	2,948,787	(1,083,163)	637,129	7,422,254
Profit before Tax (JOD)	12,891,288	18,435,975	13,095,328	14,109,113	5,126,691	8,158,012
Profit after Tax (JOD)	10,920,537	15,967,218	11,530,649	12,869,462	4,623,558	5,249,626
EBITDA (JOD)	23,340,810	29,471,957	25,036,121	30,297,718	24,839,605	30,274,194
Total Assets (JOD)	296,872,406	315,867,273	362,291,674	432,159,450	480,013,191	498,326,658
Shareholders' Equity (JOD)	82,412,502	91,070,416	95,932,316	96,459,649	95,187,553	94,768,042
Paid-up Capital (JOD)	50,000,000	60,000,000	66,000,000	70,000,000	75,600,000	75,600,000
Growth Ratios						
Growth in Operating Revenues	11.1%	15.6%	13.1%	34.0%	11.4%	9.3%
Growth in EBITDA	3.4%	26.3%	(15.1%)	21.0%	(18.0%)	21.9%
Growth in Net Profit	12.0%	46.2%	(27.8%)	11.6%	(64.1%)	17.1%
Growth in Shareholders' Equity	17.6%	10.5%	5.3%	0.5%	(1.3%)	(0.4%)
Growth in Total Assets	6.8%	6.4%	14.7%	19.3%	11.1%	3.8%
Leverage Ratios						
Interest Coverage	11.87x	20.63x	13.45x	4.97x	1.91x	2.22x
Net Debt/Equity	0.17x	0.11x	0.06x	0.19x	0.43x	0.31x
Liquidity Ratios						
Current	0.74	0.68	0.63	0.60	0.61	0.52
Quick	0.65	0.56	0.45	0.46	0.48	0.38
Receivable Days	59	61	64	62	67	63
Payable Days	114	117	113	127	106	97
Turnover Ratios						
Debtors Turnover	6.05	5.90	5.62	5.80	5.40	5.71
Creditors Turnover	3.16	3.08	3.19	2.83	3.40	3.73
Total Asset Turnover	0.81	0.88	0.90	1.02	0.99	1.01
Profitability Ratios						
Net Operating Margin	4.1%	3.5%	1.0%	(0.3%)	0.1%	1.5%
EBITDA Margin	10.0%	11.0%	8.2%	7.4%	5.5%	6.1%
Net Profit Margin	4.7%	5.9%	3.8%	3.2%	1.0%	1.1%
ROAA	3.8%	5.2%	3.4%	3.2%	1.0%	1.1%
ROAE	14.3%	18.4%	12.3%	13.4%	4.8%	5.5%
Valuation Ratios						
Share Price (JOD)	4.57	2.85	4.32	3.05	4.17	4.13
EPS (JOD)	0.218	0.257	0.159	0.170	0.061	0.060
DPS	12.0%	12.0%	12.0%	10.0%	7.5%	7.5%
BV (JOD)	1.648	1.518	1.454	1.378	1.259	1.254
P/E	20.96	11.09	27.17	17.94	68.36	59.86
P/BV	2.77	1.88	2.97	2.21	3.31	3.29

5.0 PERFORMANCE ANALYSIS

5.1 Operational Analysis

5.1.1 Purchased and Sold Energy

The amount of electricity purchased from NEPCO during 2010 amounted to 8,684.02 million kilowatt hours, up by 6.12% from 8,183.11 million kilowatt hours in 2009. The residential boom that occurred in Jordan in recent years led to expansion of the boundaries of the capital, Amman, and a flurry of construction projects across the Kingdom. All areas within JOEP's concession agreement witnessed a rise in the number of subscribers, with the total registering a 4.9% increase.

	Number of Subscribers at Year-end		
	2009	2010	% Change
Amman	637,982	668,203	4.7%
Al-Zarqa	178,175	186,737	4.8%
Al-Salt	30,183	31,908	5.7%
Madaba	44,250	46,590	5.3%
Al-Baq'a	37,945	40,362	6.4%
Total	928,535	973,800	4.9%

Meanwhile, the amount of electricity sold by JOEP reached 7,545.30 million kilowatt hours, registering a 7.6% increase over the same period. The discrepancy between the increases comes as a result of differences in the timing of meter readings by JOEP with regards electricity sold, and the timing of meter reading of purchased electricity by NEPCO, as well as due to electricity distribution losses. According to management, JOEP's electricity losses amount to around 13.1%, which, as a percentage of the purchased electricity, amounts to a substantial 1,137.61 million kilowatt hours. In value terms, based on the purchased amount from NEPCO in 2010, this is equivalent to JOD56.10 million worth of electricity lost. While a substantial amount of energy will be lost through friction in the electric cables, other sources of losses include inaccurate measurement, aging meters and theft. The Company faces cases of electricity theft, through manipulation of meters and other methods, which reduces the total revenues from electricity sold, in addition to theft of electrical materials, such as copper wiring, which requires replacement, and therefore imposes additional costs on the Company. During 2009, JOEP uncovered 12,828 cases of electricity theft compared to 8,638 cases uncovered in 2008. JOEP also replaced 10,927 meters that had been in use for over 20 years.

The distribution of sold electricity reveals that residential and public buildings, in addition to industrial projects, account for around two-thirds of the total electricity usage. Moreover, the increase in electricity demand can be attributed to residential and public buildings.

	2008	2009
Residential and Public Buildings	42.5%	44.2%
Industrial Projects	23.3%	22.2%
Commercial Projects, Hotels, Restaurants, Radio and Television	21.9%	21.5%
Water and Agricultural Pumps	6.8%	6.5%
Charity Organisations, Places of Worship, Hospitals	3.3%	3.4%
Street Lighting	2.2%	2.2%
Total	100%	100%

Source: 2009 Annual Report

5.1.2 Pricing

JOEP purchases its electricity from NEPCO at set prices, as detailed below. According to the 2009 Statistical Brochure produced by the Electricity Regulatory Commission, some 45.1% of the Kingdom's fuel consumption is utilised in the generation of electricity, equivalent to 3,431 thousand tonnes of fuel. Therefore, there is a positive relationship between fuel prices in the international markets and the cost of electricity generation. The hike in oil prices in recent years has increased the cost of generating electricity, and this has been passed on to the distributors, as evident in the bulk supply tariff at which JOEP purchases electricity from NEPCO.

Bulk Supply Tariff

	From 1/7/2007 – 14/3/2008	From 14/3/2008 – 16/1/2010	From 16/1/2010
Maximum Load Tariff (JOD/KW/Month)	JOD 2.40	JOD 2.98	JOD 2.98
Night Energy Tariff (Fils/KWh)	25.36 fils	35.76 fils	36.62 fils
Day Energy Tariff (Fils/KWh)	35.41fils	45.81 fils	46.67 fils

Comparing JOEP's tariffs to those of its peers reveals that its tariffs are higher than those applied to the sector's remaining distributors while the sales tariffs for the three distributors are identical, meaning that JOEP is at a disadvantage in terms of its margin.

	Maximum Load per KW/Month	Night Energy per KWh	Day Energy per KWh
Jordan Electric Power Company (JOEP)	JOD 2.98	36.62 fils	46.67 fils
Electricity Distribution Company (EDCO)	JOD 2.98	25.81 fils	35.86 fils
Irbid District Electricity Company (IDECO)	JOD 2.98	29.04 fils	39.09 fils

The distribution tariffs for the period March 14th 2008 through to January 16th 2010 and the subsequent tariff adjustment are as follows:

	From 14/3/2008 – 16/1/2010	From 16/1/2010
Standard Tariff		
1-160KWh/Month	32fils/KWh	33fils/KWh
161-300KWh/Month	71fils/KWh	72fils/KWh
301-500KWh/Month	85fils/KWh	86fils/KWh
Over 500KWh/Month	113fils/KWh	114fils/KWh
Commercial Consumers Tariff	86fils/KWh	87fils/KWh
Medium Industrial Consumers Three-Part Tariff:		
Maximum Load Tariff	3.79JOD/KW/month	3.79JOD/KW/month
Night Energy Tariff	36 fils/KWh	37 fils/KWh
Day Energy Tariff	46 fils/KWh	47 fils/KWh
Small Industrial Consumers Tariff	49 fils/KWh	50 fils/KWh
Agricultural Consumers Tariff (Flat rate)	47 fils/KWh	48 fils/KWh
Agricultural Consumers Three-Part Tariff:		
Maximum Load Tariff	3.79JOD/KW/month	3.79JOD/KW/month
Night Energy Tariff	36 fils/KWh	37 fils/KWh
Day Energy Tariff	46 fils/KWh	47 fils/KWh
Water Pumping Tariff	41 fils/KWh	42 fils/KWh

	From 14/3/2008 – 16/1/2010	From 16/1/2010
Hotel Consumers Three-Part Tariff:		
Maximum Load Tariff	3.79JOD/KW/month	3.79JOD/KW/month
Night Energy Tariff	70 fils/KWh	71 fils/KWh
Day Energy Tariff	81 fils/KWh	82 fils/KWh
Streets Lighting Tariff	51 fils/KWh	52 fils/KWh
Jordan Armed Forces Tariff	81 fils/KWh	82 fils/KWh
Ports Sector Tariff	59 fils/KWh	59 fils/KWh
Minimum Charge	1.00JOD/month	1.00JOD/month

A fuel-linked charge, or fuel clause, is also charged to JOEP to reflect the changing price of fuel in the international markets. The value of this charge is determined by the Electricity Regulatory Commission's council of commissioners, which, to date, has been set at zero.

5.2 Financial Analysis

5.2.1 Income Statement

Sales, Cost of Electricity Purchased and Gross Operating Profit

The growth in the number of subscribers over the past few years, coupled with the expansion of boundaries within JOEP's concession area and the increase in the tariff rates on electricity distributed to end consumers, in addition to the shift to electricity usage as a source of fuel and away from petroleum-based products, has ensured continued growth in JOEP's top line. Over the period 2006-2010, the revenues from sale of electricity grew by a compounded annual growth rate (CAGR) of 16.5%. It was year 2008, however, that saw a significant rise in sales. During March 2008, the tariffs applied on subscriber electricity usage were increased significantly in response to the soaring prices of fuel in international markets and inflation locally, leading to an impressive 34.0% rise in revenues that year.

	2006	2007	2008	2009	2010
(in JOD)					
Revenues from electricity sold	268,545,840	303,775,473	406,931,301	453,223,972	495,485,226
Cost of electricity purchased	222,256,125	260,923,725	358,844,463	397,621,709	428,212,831
Markup	46,289,715	42,851,748	48,086,838	55,602,263	67,272,395
Margin	17.2%	14.1%	11.8%	12.3%	13.6%

Concurrently, the tariff charged by NEPCO was also raised, increasing the cost of electricity purchased by 37.5% in 2008 and a CAGR of 17.8% for 2006-2010. The larger increase in the bulk rate versus the rates at which JOEP can sell has meant that the markup per subscriber segment has decreased.

During 2010, the tariffs were amended once again, enabling JOEP to capture a larger margin on its electricity sold. Comparing the results for 2010 with the corresponding period in 2009 reveals a 9.3% increase in revenues to JOD495.49 million coupled with an 7.7% rise in cost of electricity purchased, pushing up the margin between the price paid to NEPCO and the revenues collected from subscribers to 13.6%.

In light of rising oil prices, we anticipate an increase in inflation internationally, which will raise JOEP's operating expenses, and the cost of electricity generation. Therefore, we expect the bulk tariff rates charged by NEPCO to be raised once more in 2012, with a corresponding increase in the retail tariff rates,

in spite of the Government's target to reduce the burden on its citizens. Therefore, our projections assume a margin between the two tariffs of around 13.6% for 2011 and 2012, before increasing the margin for the remainder of the forecast period to account for energy cost savings from use of alternative energy sources, such as nuclear, wind, or solar power to generate energy, as well as from increased efficiency.

Net Operating Profits and Net Income

Years 2005 and 2006 were relatively consistent in terms of operating profits. However, on account of a sharp rise in the miscellaneous non-operating revenues, year 2006 registered a 46.2% increase in its bottom line. These revenues included gains of JOD2.31 million on sales of scrap materials in addition to revenues from cancellation of late payments fees from prior years to the value of JOD1.50 million. In 2007, the difference between the revenues earned on electricity sales and the cost of its purchase slumped as the new tariffs came into effect in July, which raised the tariffs on the purchase price of electricity from NEPCO with no corresponding increase in the tariff on electricity sold to subscribers. Meanwhile, the continued growth in number of subscribers led to an increase in operating expenses, dragging down the operating profit to JOD2.95 million from JOD9.45 million in 2006. The doubling of "other revenues" in 2007 on account of a rise in charges for rented meters, a reversal of provisions amounting to JOD1.80 million, as well as a JOD1.40 million rise in income from private networks helped buoy the Company's bottom line, resulting in a net profit for the year of JOD11.53 million.

	2006	2007	2008	2009	2010
(in JOD '000)					
Markup	46,289,715	42,851,748	48,086,838	55,602,263	67,272,395
Operating Expenses	8,334,528	9,164,004	11,430,207	12,227,367	13,322,763
Administrative & Subscriber Services Expenses	17,490,234	18,848,025	24,250,723	27,789,574	30,260,440
Depreciation	10,172,204	11,033,042	12,643,859	14,092,190	15,409,744
Others	841,688	857,890	845,212	856,003	857,194
Profit from Operations	9,451,061	2,948,787	(1,083,163)	637,129	7,422,254
Net Income	15,967,218	11,530,649	12,869,462	4,623,558	5,249,626
Normalised Net Income*	14,417,134	11,408,297	3,743,444	5,546,265	7,341,260

*Normalised for revenues from cancellation of late payment fees, investment gains and losses, gains on losses on sale of fixed assets, and taxes relating to prior years. A weighted average effective income tax rate of 12.0% was used.

Year 2008 saw the operating profit turn negative as the growth in operating expenses, particularly administrative and subscriber services expenses, rose at a faster rate than the increase in the markup between tariffs. Large investment gains, to the value of JOD3.94 million, alongside gains of JOD5.92 million on the sale of a plot of land in Ras El-Ain to the Greater Amman Municipality, pushed up the Company's total revenues, giving a profit for the year 11.6% higher year-on-year.

In 2009, the improvement in the margin on electricity sales helped turn the operating profit positive. However, with the absence of gains from sales of fixed assets, and an overall weak capital market performance which hindered the realisation of large investment gains, JOEP's bottom line fell some 64.1%. Comparing the normalised net income for 2009 and 2008, however, shows an improvement in the bottom line in 2009.

In 2010, the Company recorded a net income of JOD5.25 million, up 13.5% compared to 2009. Strikingly, JOEP's net operating profits soared to JOD7.42 million from JOD0.64 million, over 10 times higher, but profit before tax had only increased by 59.1%, on the back of a drop in other revenues and miscellaneous income in 2010 compared to 2009. Moreover, an amount of JOD1.33 million, representing income tax relating to prior years, was expensed during 2010, which dragged down the Company's bottom line.

Earnings per Share

Although the Company raised its paid-up capital in each year over the period 2006-2009, the overall trend followed by JOEP's EPS was similar to that of net income, rising in 2006 compared to 2005, before dropping in 2007, with a slight recovery in 2008 and a sharp drop once more in 2009. In 2009, the EPS dropped from JOD0.170 to JOD0.061, while, for 2010, EPS amounted to JOD0.069.



The table below illustrates the EPS figures returned by the electricity industry over the period under consideration. Of particular interest are IDECO and EDCO, which are electricity distribution companies. In both 2008 and 2009, JOEP was clearly significantly outperformed by both companies in terms of earnings per share.

	2005	2006	2007	2008	2009
Irbid District Electric Power (IDECO)	0.131	0.236	0.395	0.899	1.466
Electricity Distribution Co. (EDCO)	0.002	(0.138)	0.030	0.398	0.737
Central Elect. Generating Co. (CEGCO)	0.353	(0.062)	(0.431)	0.080	0.281
Samra Elect. Power Gener. Co. (SEPGCO)	(0.020)	0.039	(0.128)	0.209	0.141
National Electric Power Co. (NEPCO)	(0.013)	0.001	(0.009)	(0.176)	0.146
Amman East Power Plant (AES)	-	-	(71.622)	22.160	N/A

Source: Electricity Regulatory Commission, Company Annual Reports

N/A: Not Available

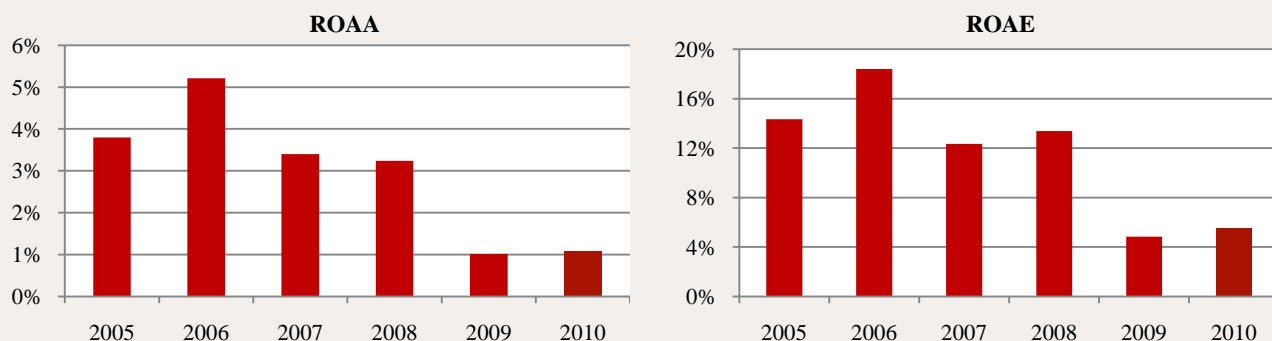
2008

We forecast an EPS for 2011 of JOD0.161/share, based on the assumption of no further change in the electricity tariffs that year.

ROAA and ROAE

The return on average assets (ROAA) and return on average equity (ROAE) highlight the negative impact the drop in earnings during 2007 and 2009 had. Strikingly, the ROAA in 2008 dropped to 3.2% from 3.4% in spite of the increase in net profits that year, due to the 19.3% rise in total assets. Moreover, in spite of an improvement in the ROAE ratio during 2008, it did not recover to 2006's level.

In 2010, the ROAA and ROAE stood at 1.1% and 5.5%, up from 1.0% and 4.8% respectively in 2009.

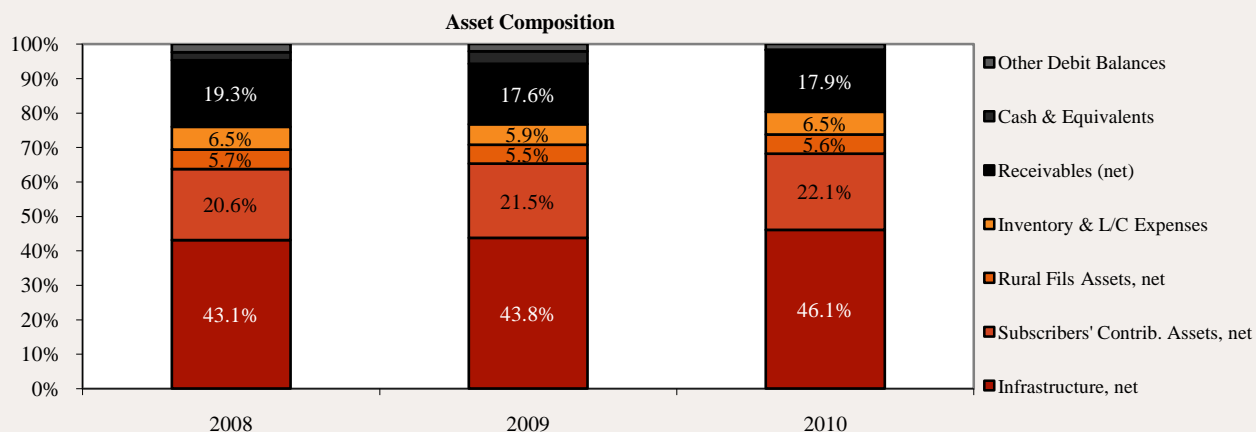


Compared to the ratios for the two distribution companies, JOEP was outperformed significantly by its peers in terms of both the ROAA and ROAE, where in 2009, JOEP's ROAA and ROAE of 1.0% and 4.8% respectively were far lower than IDECO's 5.3% and 50.3% and EDCO's 7.4% and 69.3%.

	ROAA		ROAE	
	2008	2009	2008	2009
IDECO	3.7%	5.3%	40.6%	50.3%
EDCO	3.9%	7.4%	42.7%	69.3%

5.2.2 Balance Sheet

JOEP's total assets have grown at a compounded annual growth rate (CAGR) of 12.1% since 2006, reaching JOD498.33 million at the end of 2010. The substantial contributor to the growth was the investment in infrastructure, with the net infrastructure rising by JOD 97.58 million over the period 2006 through 2010. Subscribers' contribution assets also experienced significant growth, corresponding to the growth in the subscriber base of the Company, registering a compounded annual growth rate of 14.2% over the same period.



The asset composition of JOEP reveals that its asset structure has been largely stable over the past three years. Infrastructure and subscribers' contribution assets combined have consistently made up around 63%-68% of JOEP's total assets, increasing slightly over the period. The increase in number of subscribers, which has led to a growth in electricity demand particularly in light of the hefty price of fuel and the

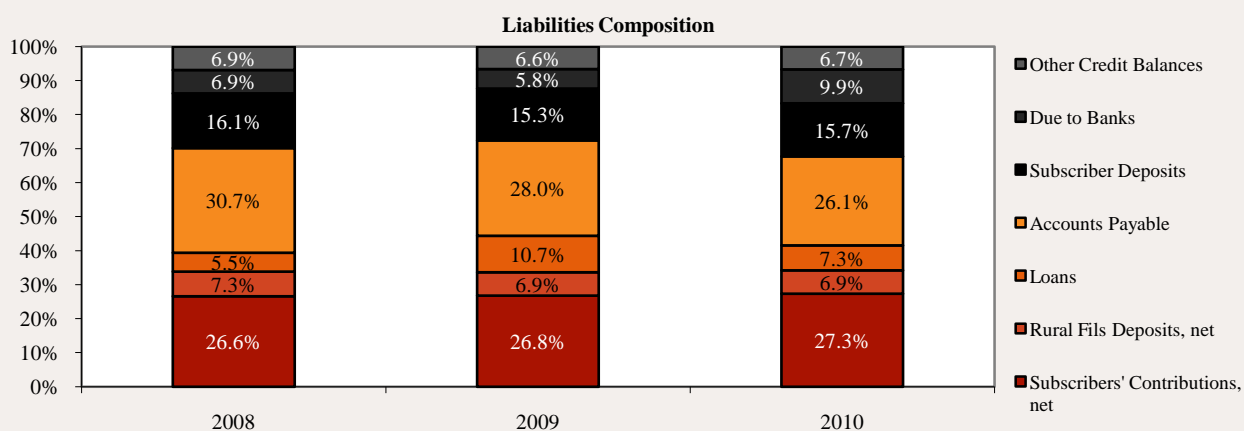
widespread expansion of residential construction projects that has been taking place in the past few years within JOEP's concession area, which include residential compounds and towers, all require heavy capital expenditure. Net infrastructure rose during 2009 and 2010 by 12.8% and 9.3%, respectively, to register at JOD229.60 million at the end of 2010. Its importance within the asset composition rose to 43.8% and 46.1% over the same period. Meanwhile, net subscribers' contribution assets rose to JOD103.15 million and JOD 110.21 million in 2009 and 2010 from JOD89.20 million in 2008.

The importance of receivables declined in 2009 to 17.6% compared to 2008's 19.3% in spite of the value of receivables in absolute terms actually registering a slight increase. In 2010, accounts receivable declined by JOD3.18 million, while subscribers' receivables shot up by JOD8.04 million. This led to the rise in the weighting of receivables as a proportion of total assets to 17.9%, at the expense of cash balances, which fell in absolute terms from JOD17.49 million to JOD645.86 thousand.

	2006	2007	2008	2009	2010
Debtors Turnover Ratio	5.90	5.62	5.80	5.40	5.71
Receivable Days	61	64	62	67	63

Over the years, JOEP has maintained a relatively stable debtors' turnover ratio, giving a level of receivable days of approximately two months, with 2009 seeing a slight rise to 67 days from 62 days in 2008, before dropping once again in 2010 to 63 days. Its peers, IDECO and EDCO registered receivable days for 2009 of 65 days and 105 days, respectively.

JOEP's liabilities, meanwhile, increased at a CAGR of 15.8% during the period 2006-2010, with an overall increase of JOD178.76 million to reach JOD403.56 million. Corresponding to the rise in number of subscribers and overall growth in operations, the bulk of the additional liabilities can be attributed to JOEP's accounts payable account, which burgeoned from JOD58.15 million in 2006 to JOD105.49 million in 2010, and the JOD45.43 million growth in net subscribers' contributions over the same period, to register at JOD110.21 million. Subscribers' contributions, as well as rural fils, are recorded as both assets and liabilities, amortised at an annual 4% rate.



One evident change in the liabilities composition is the increase in JOEP's loans in 2009 compared to 2008, with its importance as a percentage of total liabilities rising to 10.7% from 5.5%. Low liquidity impelled the Company into obtaining loans to finance its heavy capital expenditure needs. JOEP's soaring capital expenditure came on the back of rising costs of materials, in addition to catering to the large number of residential compounds underway, as well as improving on existing services and facilities available. The outstanding loans balance at the end of 2009 is comprised of the following:

Lender	Loan Amount	Interest Rate	Date of Loan	Loan Maturity	Outstanding Balance	
					2008	2009
Government of Jordan	EUR20 mil	6.2% +1%	20 Jul 1995	15 years	JOD3,569,530	JOD1,240,625
Bank of Jordan	JOD5 mil	7.5%	1 Apr 2008	3 years	JOD5,000,000	JOD3,333,333
Cairo Amman Bank	JOD5 mil	7.5%	1 Apr 2008	3 years	JOD5,000,000	JOD3,333,333
Housing Bank	JOD5 mil	7.5%	1 Apr 2008	3 years	JOD5,000,000	JOD3,333,333
Arab Bank	JOD20 mil	6.75%	9 Sept 2009	5 years	-	JOD20,000,000
Union Bank	JOD4 mil	6.25%	24 Sept 2009	5 years	-	JOD6,000,000
Societe Generale	JOD6 mil	6.75%	24 Sept 2009	5 years	-	JOD4,000,000
Total					JOD18,569,530	JOD41,240,624

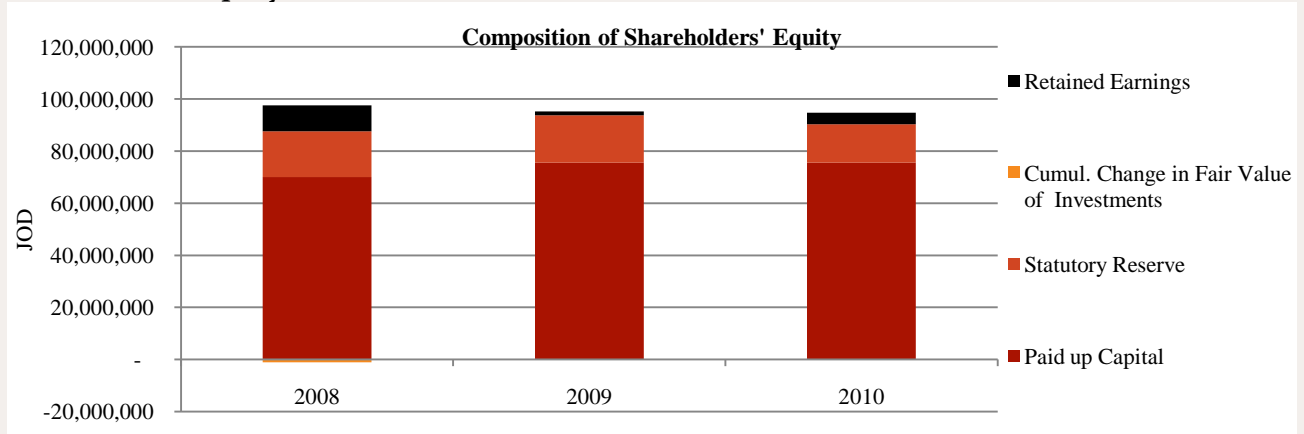
At the end of 2010, the outstanding loans balance had declined to JOD29.58 million, while amounts due to banks soared from JOD22.23 million in 2009 to JOD40.01 million.

Corresponding with the increase in operations, JOEP's accounts payable balance increased by a CAGR of 16.1% from 2006 through to 2010, reaching JOD105.49 million. As a proportion of total liabilities, however, its weighting decreased.

	2006	2007	2008	2009	2010
Creditors Turnover Ratio	3.08	3.19	2.83	3.40	3.73
Payable Days	117	113	127	106	97

A consideration of the creditors' turnover ratio highlights a decline in the ratio in 2008 to 2.83 times from 3.19 times in 2007, pushing up the payable days to 127. In 2010, however, the ratio rose to its highest point in the five years under consideration, giving a payable days value of 97. As compared to its peers, JOEP was on a par with both IDECO and EDCO, which had payable days in 2009 of 105 and 108, respectively.

Shareholders' Equity



Shareholders' equity has shown little change in value in the past three periods, registering slight decreases in both 2009 and 2010 to reach JOD94.77 million at the end of 2010. However, the composition of the equity has altered. In 2009, JOEP raised its paid-up capital by JOD5.60 million to reach JOD75.60 million. Meanwhile, due to the concession agreement that stipulates that the Company must distribute a minimum of 7.5% cash dividends to its shareholders, the retained earnings balance deteriorated to JOD1.47 million at the end of 2009. Since this was insufficient to pay out the JOD5.67 million dividends for the 2009 fiscal year, the JOD4.20 million shortage was taken from the statutory reserve account, which

led to a decline in the reserve from JOD18.13 million in 2009 to JOD13.93 million. The Company's Board of Directors will also recommend the utilization of an amount of JOD1.25 million from the statutory reserve to make up the shortage in retained earnings for the JOD5.67 million dividends distribution for the 2010 fiscal year.

Over the period 2005-2007, JOEP maintained a cash dividend of 12% of capital. The slump in profits in 2008 and 2009 caused the Company to cut the dividends first to 10% and again to 7.5%. The downward movement in the share price of JOEP in 2006 during the market downturn pushed up the dividend yield to 4.2%. In 2007, however, the share price picked up, rising to JOD4.32 from JOD2.85 the year prior, which caused the dividend yield to drop to 2.8%. In 2008, in spite of a decline in the dividends per share, the slump in JOEP's share price to JOD3.05 caused the dividend yield to rise to 3.3%. In 2009, the stock price rose to JOD4.17, coupled with a decline in the dividends distributed, bringing about a sharp decline in the dividend yield.

	2006	2007	2008	2009	2010
Dividends (JOD '000)	7,200,000	7,920,000	7,000,000	5,670,000	5,670,000
Dividends per Share (JOD)	12.0%	12.0%	10.0%	7.5%	7.5%
Dividend Yield %	4.2%	2.8%	3.3%	1.8%	1.8%
Payout Ratio %	46.7%	75.5%	58.8%	123.0%	108.7%

In terms of the payout ratio, in 2009 and 2010, the earnings of the Company amounted to less than the dividends paid, giving a payout ratio of 123.0% and 108.7%, respectively.

6.0 VALUATION

Our valuation is based on two methods; the discounted cash flow method, and the excess earnings method, both of which are based on a five-year forecast and determine an intrinsic value for the stock. Both methods were given an equal weighting in determining the value of JOEP's shares. On this basis, we arrive at an estimated fair value for the JOEP stock of JOD4.34 per share, offering a 12.1% upward potential. Thus, we re-initiate our coverage of JOEP with a **BUY** recommendation.

6.1 Discounted Cash Flow Method

Our DCF valuation returns a fair market value for the stock of JOD4.63, 19.5% higher than its current market price.

	2011f	2012f	2013f	2014f	2015f	Perpetual
EBIT	19,040,157	20,374,674	24,780,808	32,619,519	37,563,029	
Taxes	1,937,798	2,062,657	2,672,950	3,717,501	4,331,482	
EBI	17,102,358	18,312,016	22,107,858	28,902,018	33,231,547	
Add: Depreciation	15,390,595	16,772,455	18,235,874	19,637,276	20,825,375	
Less: Change in Working Capital	(38,777,591)	(8,119,885)	(8,054,689)	(6,130,316)	(5,442,054)	
Less: Capital Expenditure	35,398,369	38,576,646	36,471,747	35,347,097	37,485,676	
Free Cashflow	37,809,973	6,690,368	14,599,623	23,040,014	26,344,783	463,463,668
Discounted Cash Flow	34,903,737	5,701,394	11,485,193	16,731,888	17,661,289	310,701,586

Net Present Value for 2011-2015 (JOD)	51,579.765
Net Present Value of Terminal Value (JOD)	310,701,586
Outstanding Debt (JOD) – as of September 30 th 2010	29,583,330
Cash at Beginning of Period (JOD '000)	17,487,358
Equity Value	350,185,379
Outstanding Number of Shares ('000)	75,600,000
Target Price per Share (JD)	4.63

Input Assumptions	
Risk-free rate of 5.81% based on the rate offered by the CBJ on Treasury Bonds	
Equity Market Premium of 7.5% - Damodaran	
A 10% debt-90% equity structure	
Cost of equity of 8.57%	
Cost of debt of 6.0% based on the effective cost of debt and tax rate of the past five years	
A WACC of 8.3%	
A perpetual growth rate of 2.5%	

Sensitivity Analysis

		Terminal Growth Rate				
		0.50%	1.50%	2.50%	3.50%	4.50%
WACC	6.33%	4.99	5.96	7.44	9.95	15.21
	7.33%	4.15	4.81	5.74	7.16	9.58
	8.33%	3.52	4.00	4.63	5.53	6.90
	9.33%	3.04	3.39	3.85	4.46	5.32
	10.33%	2.65	2.93	3.27	3.71	4.30

The analysis above highlights the sensitivity of our target price for JOEP to changes in the weighted average cost of capital (WACC) and/or the terminal growth rate applied.

6.2 Excess Earnings Method

Our excess earnings valuation returns a fair market value for the stock of JOD4.05, 4.7% higher than its current market price.

	2011f	2012f	2013f	2014f	2015f	Terminal Value
Net Income	12,854,554	13,682,819	17,731,248	24,660,367	28,733,266	29,451,598
Less: Equity Cost	8,123,043	9,602,905	11,118,588	12,724,137	13,980,750	12,952,170
Excess Equity Return	4,731,511	4,079,913	6,612,660	11,936,229	14,752,516	16,499,427
Cum. Cost of Equity	1.085715	1.178777	1.279816	1.389515	1.508618	
Present Value	4,357,968	3,461,141	5,166,884	8,590,211	9,778,830	
Beg. BV of Equity	94,768,042	112,032,962	129,715,781	148,447,029	163,107,395	151,107,395
Cost of Equity	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Equity Cost	8,123,043	9,602,905	11,118,588	12,724,137	13,980,750	12,952,170
Equity Invested						94,768,042
PV of Equity Excess Return						31,355,033
PV of Terminal Value						180,133,167
Equity Value						306,256,242
Outstanding Number of Shares						75,600,000
Target Price per Share (JOD)						4.05

Input Assumptions	
Risk-free rate of 5.81% based on the rate offered by the CBJ on Treasury Bonds	
Equity Market Premium of 7.5% - Damodaran	
A beta of 0.368	
Cost of equity of 8.6%	
A perpetual growth rate of 2.5%	

Sensitivity Analysis

		Terminal Growth Rate				
		0.50%	1.50%	2.50%	3.50%	4.50%
Cost of Equity	6.57%	4.84	5.49	6.45	8.05	11.18
	7.57%	4.02	4.43	5.01	5.88	7.31
	8.57%	3.40	3.68	4.05	4.57	5.35
	9.57%	2.92	3.12	3.37	3.70	4.16
	10.57%	2.54	2.68	2.85	3.08	3.37

The analysis above highlights the sensitivity of our target price for JOEP to changes in the cost of equity and/or the terminal growth rate applied.

7.0 Appendices

Balance Sheet

	Historical					Forecast				
	2006	2007	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Assets										
Infrastructure, net	132,026,197	153,192,405	186,230,930	210,128,685	229,602,612	249,610,386	271,414,577	289,650,451	305,360,272	322,020,572
Subscribers' Contribution Assets, net	64,773,316	76,462,845	89,199,998	103,145,701	110,206,395	119,217,153	127,429,815	134,529,520	140,196,937	144,120,790
Rural Fils Assets, net	25,741,916	26,101,578	24,501,739	26,371,081	27,779,038	28,155,029	28,549,819	28,964,348	29,399,605	29,856,623
Differences in Evaluation of Loans,	5,772,701	4,948,029	4,123,357	3,298,685	2,474,013	1,649,341	824,670	-	-	-
Work in Progress	2,169,349	1,829,100	1,700,116	2,383,312	1,715,720	1,862,830	2,023,149	2,174,721	2,321,618	2,477,403
Investments	2,869,875	3,795,419	3,946,673	3,714,989	3,399,332	3,500,000	3,500,000	3,500,000	3,500,000	3,500,001
Total Non-Current Assets	233,353,354	266,329,376	309,702,813	349,042,453	375,177,110	403,994,740	433,742,031	458,819,041	480,778,432	501,975,389
Inventory and L/C Expenses	14,375,224	26,948,766	28,247,058	28,465,887	32,578,948	35,427,194	38,615,641	41,704,892	44,207,186	46,417,545
Subscribers' Receivables (net)	41,090,158	47,990,459	63,974,061	68,784,012	76,820,707	83,935,197	91,489,365	98,808,514	104,737,025	109,973,876
Accounts Receivable (net)	10,264,617	8,747,001	19,557,018	15,633,520	12,454,853	17,986,114	19,604,864	21,173,253	22,443,648	23,565,831
Prepaid Expenses	9,406,186	450,262	542,620	599,961	649,181	-	-	-	-	-
Cash and Equivalents	7,377,734	11,825,810	10,135,880	17,487,358	645,859	23,365,166	35,743,371	45,143,998	52,165,191	36,272,448
Total Current Assets	82,513,919	95,962,298	122,456,637	130,970,738	123,149,548	161,413,670	186,153,241	207,530,657	224,253,050	216,929,700
Total Assets	315,867,273	362,291,674	432,159,450	480,013,191	498,326,658	565,408,410	619,895,272	666,349,698	705,031,482	718,905,090
Liabilities										
Subscribers' Contributions, net	64,773,316	76,462,845	89,199,998	103,145,701	110,206,395	119,217,153	127,429,815	134,529,520	140,196,937	144,120,790
Rural Fils Deposits, net	25,741,916	26,101,578	24,501,739	26,371,081	27,779,038	28,155,029	28,549,819	28,964,348	29,399,605	29,856,623
Long-term Loans	5,572,566	3,728,361	11,215,287	31,458,333	18,749,997	13,805,364	15,044,892	16,001,979	15,508,539	16,446,840
End of Service Indemnity	6,954,623	7,154,623	7,654,623	8,854,623	10,054,623	11,060,085	12,166,094	13,382,703	14,720,974	16,193,071
Total Non-Current Liabilities	103,042,421	113,447,407	132,571,647	169,829,738	166,790,053	172,237,631	183,190,620	192,878,551	199,826,054	206,617,324
Accounts Payable	58,150,327	81,038,429	103,203,019	107,743,238	105,493,793	141,272,748	153,987,295	165,536,342	173,428,191	181,028,426
Subscriber Deposits	43,219,964	47,783,975	54,127,475	58,701,076	63,252,150	81,755,062	89,113,018	96,242,059	102,016,583	107,117,412
Short-term Loans	4,001,516	2,358,067	7,354,243	9,782,291	10,833,333	7,433,658	8,101,096	8,616,450	8,350,752	8,855,991
Income Tax Provisions	-	1,744,893	1,643,040	903,473	2,017,075	1,046,487	1,171,346	1,781,639	2,826,190	3,440,171
Miscellaneous Provisions	-	965,948	1,975,709	2,484,218	1,043,650	1,892,378	2,014,310	2,610,298	3,630,365	4,229,955
Other Credit Balances	6,084,473	1,011,072	1,522,567	1,540,271	1,636,352	1,799,510	1,961,466	2,108,575	2,209,101	2,305,911
Due to Banks	3,430,055	9,812,873	23,032,788	22,231,151	40,013,676	31,858,532	34,718,982	30,089,192	29,161,355	30,925,682
Dividends Payable	1,031,761	1,425,336	1,367,827	1,627,784	1,800,758	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
Saving, Insurance, & Medical Service	5,836,340	6,771,358	8,901,486	9,982,398	10,677,776	12,279,442	14,121,359	16,239,563	18,675,497	21,476,822
Total Current Liabilities	121,754,436	152,911,951	203,128,154	214,995,900	236,768,563	281,137,817	306,988,871	325,024,118	342,098,032	361,180,370
Total Liabilities	224,796,857	266,359,358	335,699,801	384,825,638	403,558,616	453,375,448	490,179,491	517,902,669	541,924,086	567,797,694
Equity Attributable to the Bank's Shareholders										
Paid up Capital	60,000,000	66,000,000	70,000,000	75,600,000	75,600,000	80,000,000	90,000,000	100,000,000	100,000,000	100,000,000
Statutory Reserve	14,540,071	15,849,604	17,595,096	18,128,056	14,758,379	16,043,834	17,412,116	19,185,241	21,651,278	24,524,604
Voluntary Reserve	1,789,453	1,789,453	-	-	-	-	-	-	-	-
Cumulative Change in FV of AFS	1,177,990	2,125,189	(1,115,575)	(11,229)	(10,366)	-	-	-	-	-
Retained Earnings	13,562,902	10,168,070	9,980,128	1,470,726	4,420,029	15,989,128	22,303,665	29,261,788	41,456,118	26,582,791
Total Shareholders' Equity	91,070,416	95,932,316	96,459,649	95,187,553	94,768,042	112,032,962	129,715,781	148,447,029	163,107,395	151,107,395
Total Liabilities and Equity	315,867,273	362,291,674	432,159,450	480,013,191	498,326,658	565,408,410	619,895,272	666,349,698	705,031,482	718,905,090

Income Statement

	Historical					Forecast				
	2006	2007	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Revenues from Sale of Energy	268,545,840	303,775,473	406,931,301	453,223,972	495,485,226	545,033,749	594,086,786	641,613,729	680,110,553	714,116,080
Purchased Energy	222,256,125	260,923,725	358,844,463	397,621,709	428,212,831	470,909,159	513,290,983	551,787,807	578,093,970	603,428,088
Operating Expenses	8,334,528	9,164,004	11,430,207	12,227,367	13,322,763	14,655,039	15,973,993	17,251,912	18,287,027	19,201,378
Administrative and Subscriber Service Expenses	17,490,234	18,848,025	24,250,723	27,789,574	30,260,440	33,247,059	36,239,294	38,496,824	40,806,633	42,846,965
Depreciation	10,172,204	11,033,042	12,643,859	14,092,190	15,409,744	15,390,595	16,772,455	18,235,874	19,637,276	20,825,375
Amortisation of Differences in Evaluation of Loans	824,672	824,672	824,672	824,672	824,672	824,672	824,672	824,672	824,672	824,672
Fees and Taxes	17,016	33,218	20,540	31,331	32,522	20,000	20,000	20,000	20,000	20,001
Total Operating Expenses	259,094,779	300,826,686	408,014,464	452,586,843	488,062,972	535,046,524	583,121,397	626,617,089	657,669,578	687,146,479
Net Operating Profits	9,451,061	2,948,787	(1,083,163)	637,129	7,422,254	9,987,224	10,965,389	14,996,640	22,440,975	26,969,601
Other Revenues, net	4,014,708	8,091,802	5,104,755	9,068,092	6,514,194	6,852,932	7,209,285	7,584,167	7,978,544	8,393,428
Miscellaneous Non-Operating Income	5,264,460	2,714,900	3,797,860	2,280,650	1,165,981	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Investment Gains	150,913	331,830	3,938,282	189,371	142,250	250,000	250,000	250,000	250,000	250,000
Gains from Sale of Fixed Assets	401,868	24,967	5,917,349	-	-	-	-	-	-	-
Loss from AFS Investments Impairment	-	(224,126)	-	(1,364,614)	(325,731)	-	-	-	-	-
Donations	(48,086)	(29,820)	(34,436)	(84,476)	(51,246)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Financing Expenses	(939,357)	(1,051,548)	(3,554,023)	(5,620,725)	(6,706,438)	(4,247,804)	(4,629,198)	(4,376,610)	(4,241,652)	(4,498,281)
FX Differences	140,408	288,536	22,489	21,264	(3,252)	-	-	-	-	-
Profit before Income Tax	18,435,975	13,095,328	14,109,113	5,126,691	8,158,012	14,792,352	15,745,476	20,404,198	28,377,867	33,064,748
Income Tax	7,980,399	10,318,322	15,283,652	11,438,055	11,539,809	13,106,833	14,131,354	16,171,338	17,101,744	18,408,706
Income Tax Relating to Prior Years	-	-	-	-	1,332,364	-	-	-	-	-
Profit for the Year / Period	15,967,218	11,530,649	12,869,462	4,623,558	5,249,626	12,854,554	13,682,819	17,731,248	24,660,367	28,733,266

The information contained in this document has been prepared by Jordinvest, a public shareholding company registered at the Ministry of Industry and Trade in Jordan. The Information does not constitute or form part of an offer, subscription, recommendation or solicitation to buy or sell any securities or to take up any services, nor shall it be relied on in connection with any contract or commitment whatsoever.

Jordinvest may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities ('securities'), perform services for or solicit business from such issuer, and/or have a position or effect transactions in the securities or options thereof. Jordinvest may, to the extent permitted by applicable Jordanian law or other applicable law or regulation; effect transactions in the securities before this material is published to recipients.

Information and opinions contained herein have been compiled or arrived at by Jordinvest from sources believed to be reliable, but Jordinvest has not independently verified the contents of this document. Accordingly, no representation or warranty, expressed or implied is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Jordinvest accepts no liability for any loss arising from the use of this document or its contents or otherwise arising in connection therewith. This document is not to be relied upon or used in substitution for the exercise of independent judgment. Jordinvest shall have no responsibility or liability whatsoever in respect of any inaccuracy in or omission from this or any other document prepared by Jordinvest for or sent by Jordinvest to any person and any such person shall be responsible for conducting his own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document.

Opinions and estimates constitute our judgment and are subject to change without prior notice. Past performance is not indicative of future results. This document does not constitute an offer or invitation to subscribe for or purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person.

Neither this report nor any copy hereof may be distributed in any jurisdiction outside Jordan where its distribution may be restricted by law. Persons who receive this report should make themselves aware of and adhere to any such restrictions. By accepting this report you agree to be bound by the foregoing limitations.