

Africa Israel

Africa Israel – Special Update. Thoughts about the expected bond arrangement support our Sell rating

Two days ago (September 13, 2009), Africa Israel held what turned out to be a boisterous bondholders meeting to reach an arrangement on restructuring the company's debt. Following the meeting, we publish an update of our recommendations.

1. The decision to invest entails high risks. We decided to begin our update with this statement. Considering that the bondholder meeting is only an initial step on the way to a possible arrangement with the bondholders, deciding to invest surely entails a high risk.

2. Conflict of interests between bondholders will make the path to a solution extremely difficult. The Company is experiencing severe problems, which will discuss later. We believe that the different interests of bondholders (particularly Series 9 bondholders due to redeem in November 2009), will make it difficult to reach an arrangement without a court intervention. Series 9 bondholders claim the company has enough cash and should make the November principal payment. Long bondholders claim that would be

3. The Company lacks the necessary resources to pay all its undertakings. The total adjusted face value of the bonds is approx. NIS 7.5B, to which a bank debt of approx. NIS 500M needs to be added. The market value of the negotiable holdings is approximately NIS 4.2B. We estimate that if we add the value of the private holdings to such amount, we will end up with assets totaling a value of approx. NIS 5.5B, which is substantially lower than the company's total undertakings.

4. However, the value of the assets is higher than the market value of the debt. This morning, the bonds are traded at an average price of approx. 38% of their adjusted value, which expresses a market value of approx. NIS 2.9B for the bonds in total. Meaning – it seems that through an organized and responsible procedure of selling assets, the company will be able to repay bondholders an amount higher than the current market value of the bonds, which is expected to be at least 60% of its adjusted face value.

5. Profit potential in medium and long series. Based on the aforesaid, we believe that from the various types of bond series, the main profit potential lies in the bonds traded at approximate rates of 40 (table below).

6. The average duration and return become less important. Based on the spirit of the general assembly, it seems that the company will not grant priority to the short bond series, fearing claims of preference of some bondholders over others. Under such circumstances, the original maturity date of the bond series, almost entirely loses its importance. The result - there is no preference and the duration & YTM that we see, will remain theory.

7. Investing in shares at a very high risk. Supposedly, when a company is unable to pay its debts, the shareholders lose their holdings in favor of the debtors. Even if an arrangement is achieved and the shareholders (including controlling shareholders) will keep part of the shares, it is likely to assume that we will witness the dilution of dozens of percents in the existing shareholders' holdings.

In conclusion: Risk-Reward more attractive in Bonds. Sell the stock.

Update

- Rating
- Price target
- Forecast

Key figures

Rating	Sell
Price target	NA
Current price (NIS)	37.0
Market cap (m' NIS)	2050
12-mo. high (NIS)	98.5
12-mo. low (NIS)	26.0
12-mo. change	(65%)
12-mo. change TA25	+1%
Previous rating	Sell
Previous PT	35 ILS

Africa Israel vs TA-25 Index (12 Months)



List of Africa Israel's Traded Bonds

Series	Currency & Link	Size of Series (ILS)	CPI Adjusted FV	Last Price	% of FV	Price on 27 August 2009	Change since 27 Aug 2009	YTM	Duration
9	Shekel, CPI	500,000,000	112.2	67.8	60%	110.43	-39%	999.99%	0.2
10	Shekel, CPI	500,000,000	111.0	39.7	36%	61.44	-35%	50.27%	2.8
11	Shekel, CPI	500,000,000	110.9	44.8	40%	79.87	-44%	95.27%	1.4
12	Shekel, CPI	391,250,000	109.6	42.3	39%	63.76	-34%	58.46%	2.0
13	Shekel, CPI	155,500,000	109.6	40.5	37%	51.67	-22%	25.90%	5.0
14	Shekel, CPI	744,933,000	111.3	39.0	35%	52.39	-26%	26.74%	5.0
15	Shekel, CPI	245,586,000	111.3	42.6	38%	72.25	-41%	70.11%	1.8
16	Shekel, CPI	715,989,000	111.8	39.4	35%	52.52	-25%	27.54%	4.9
17	Shekel, CPI	178,281,000	111.8	48.9	44%	99.7	-51%	164.95%	0.8
21	Shekel, CPI	1,712,228,000	109.1	40.5	37%	56.07	-28%	39.61%	3.3
22	Shekel, CPI	702,430,000	110.9	39.5	36%	53.11	-26%	27.39%	4.8
18	Shekel, Unlinke	100,000,000	100.0	43.6	44%	68.5	-36%	51.64%	2.3
24	Shekel, Unlinke	320,000,000	102.2	49.0	48%	93.2	-47%	163.98%	0.8

Total FV 7,447,193,010
Market Value 2,924,445,642
as % of FV 39%

Value of AFIL Holdings

Traded Assets Value	
AFI Development	2,769
Africa Properties	463
Africa Residential	475
Danya Cebus	198
Africa Industries	153
Total Value	4,057
Private Holdings	1,461
Total Value of Holdin	5,517

estimate, ex-AFID LI

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Warning notes and full disclosure concerning this analysis

a. Details on the author of the analysis

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b. Full disclosure by the author of this analysis

As far as he is aware, the author of this analysis does not have any conflict of interest at the time of its publication.

c. Notes on the analysis

1. Scale of recommendations
 - a. **Buy** – the stock is expected to out perform TA100 by 20% or more in 12 months.
 - b. **Outperform** - the stock is expected to out perform TA100 by 10% to 20% in 12 months.
 - c. **Marketperform** – the stock is expected to out perform/ under perform TA100 by 10 % in 12 months.
 - d. **Underperform** – the stock is expected to under perform TA100 by 10% to 20% in 12 months.
 - e. **Sell** – the stock is expected to under perform TA100 by 20% or more in 12 months.
2. The model we've used in establishing a price target for AFIL is based on the value of its properties, whereby commercial properties have been assessed on the basis of a multiple of net operating income and properties the company is developing have been valued using the discounted cash flow method.
3. The principal risks with the potential to materially affect our price target for AFIL include:
 - A downturn in the global real estate market generally, and that in Eastern Europe in particular.
 - The failure of the company to meet the targets it's set itself in projects being developed, including compliance with such parameters as time schedules, sales or rental targets, and construction budgets.
 - Difficulties in attaining financing to further the company's expansion. In AFIL's main business lines, the availability of capital is of critical importance if the company hopes to achieve its objectives.
 - A decline in the value of the company's properties, either associated with an increase in cap rates, which serve as a key parameter in setting the value of properties in general, or a fall in the price that capital markets are willing to attribute to real estate holding companies based on their underlying assets.

The following graph traces the share price of AFIL and rating changes over the past three-year period. Price targets refer to the twelve-month period from the date the rating was issued.

Note – the share's graph is adjusted to dividend distribution, while the recommendation is not retroactively adjusted for dividend distribution and relates to the state at the time of the recommendation.

d. Independent Judgment

I, Yuval Ben Zeev, License Number 5380, declare that the opinions stated in this analysis faithfully represent my personal opinions about the shares reviewed and the corporation which issued these shares.

Yuval Ben Zeev

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3. Date of publication. This research report was issued on September 15, as part of our ongoing coverage of AFIL.

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