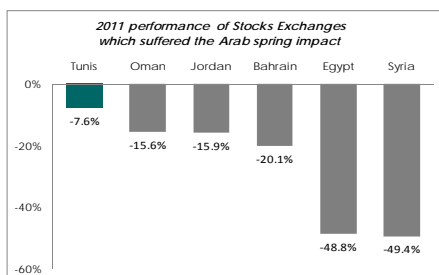
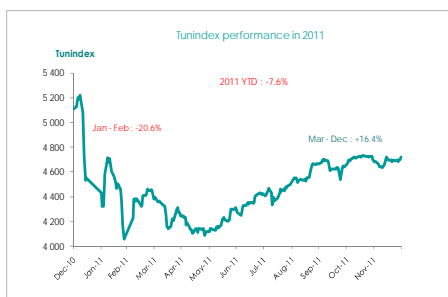


2011 Highlights and Outlook 2012



Investors' strong interest in IPO remained the same. Example: the IPO of HEXABYTE, was 41.6 times over-subscribed (which means a total amount raised of 80 Million Tunisian Dinars).

■ Highlights 2011 :

Tunis Stocks Exchange closes the year 2011 on a 7.6% drop after the relentless rise of the index 8 years in a row. It is a moderate loss if we compare it with the performance of other markets that have been taken in the swirl wind of the Arab spring. Moreover, the index losses were almost all concentrated in the first two months of the year. Then the market has made up for 2/3 of the losses of January and February. As for the market capitalization, it has lost 3Billion Dinars (-20%) in 2 months to take an upward trend during the following 10 months to reach 14.5bTnd as at year ending 2011 (against 15.4bTnd as at year ending 2010), shedding a small 6%.

Average daily trading has nonetheless dropped sharply to change from 10.4mTnd/day in 2010 to 6.7mTnd/day in 2011 which is the same level of trading of 2009. These volumes could have dropped even lower if investors had not shown strong interest in trading a specific names like **Carthage Cement** (1.3mTnd/day) or **SOMOCER** (0.5mTnd/day). It should be mentioned nonetheless that the year 2010 had benefited from an exceptional number of new listings (5), while 2011 reported only one IPO in the technology sector (**TELNET**).

■ Outlook 2012 :

The year coming could be a good one, if Tunisia manages to fix its economy. In the short term, we have seen a strong interest from investors ahead of the listing of 2 new companies in the alternative market (Internet Service Provider : **HEXABYTE** and an industrial company **AMS**). We are still hoping that the government brings to the market some of the companies confiscated by the state from the ex-president's families but we do not see any official move apart from the pressure that is being made on the decision makers by different operators in the financial market.

In another respect and given the lack of liquidity prevailing in the banking sector, we expect many listed companies to increase their free float by rights issue (**SOTUVER, Tunis Ré, Attijari Bank, Amen Bank**) this means more liquidity in the stock exchange. But it also means that 2012 will be a tough year for a number of sectors :

- **The banking sector** : After the use of every possible medium to boost the economy, though the monetary instruments (dropping the base rate from 4.5% to 3.5%, dropping the minimum liquidity reserves of banks from 12.5% of deposits to 2%, injecting liquidity in the money market), there is no more room for the Tunisian Central Bank to help the banks raise the necessary resources to continue their lending activity normally. In addition, the banks will be asked to allocate a significant part of their 2011 profits to provide for different risks including the bad loans of the old regime and in general to address the rise in NPLs (mainly from companies that have suffered the setbacks of the 2011 uprising). The banking sector will thus have to suffer for the second year in a row. In the latest Central Bank circular (dated January 2012) all the credit institutions were asked to make additional provisions for fiscal year 2011 to cover the latent risks of NPLs beginning from class 1 Loans, while these types of loans were previously exempted of any provisions. A severe drop in results could push the central bank to oppose any decision to pay dividends to shareholders and we have seen this happening in 2008 (40% of profits as a limit for dividends).

The export activity of some listed companies could be jeopardized by the crisis in Europe.

SOTUVER has a double advantage. It is at the same time in a defensive sector with strong prospects for growth

- **The Leasing sector** will also be watched in 2012 : Over and above the bad loans problem, many leasing companies will see their cost of funding rise significantly due to the liquidity crunch on the one hand and their downgrading by the rating agencies on the other.
- **The insurance companies** are also expected to suffer due to the drop in their 2011 earnings subsequent to the rise in claims rate linked to insecurity (car thefts, fire, other acts of vandalism from the January 2011 uprising). Although most of the insurance companies have seen their share price drop in the market to reflect investors' worry (12.7% drop in the sector's index in 2011), some names in the insurance sector still have more downside ahead of the publication of their 2011 earnings. In another respect, we think that the majority of SMEs are under pressure of liquidity which makes many of them unable to pay their premiums to the insurance companies with a direct impact on insurance companies and growth of premium issued.
- While the export market has helped many Tunisian exporting companies to survive the bad local climate in 2011, we expect the crisis in Europe (mainly with the recent downgrading of our main trading partners France and Italy) to have a negative impact on many of them (mainly industrial and technology companies like **TPR, TELNET** and **ASSAD**). These companies will have to develop other activities in order to compensate the potential losses of orders coming from Europe.

The other companies that we think will suffer in 2012 are :

- **Tunisair** poised to publish a record deficit in 2011 that could go beyond many investors' expectations. And 2012 doesn't seem to trigger any recovery in the air transport sector as Tourism continue to show weak figures.
- Other companies with an exposure on the Libyan market could also suffer from the unstable climate in this country (**SOMOCER, SERVICOM, PGH, Ciments de Bizerte**).

In the short term, and in light of the persistent uncertainties, we are not in a position to make a reliable investment recommendation although our preference goes to defensive sectors (**Beverages SFBT, glass packaging SOTUVER**), and high yield stocks (**car dealer ARTES**) as well as real estate sectors (**real estate developers SIMPAR, Essoukna**). Other companies which had excessively suffered a particularly bear market could make up for their 2011 losses given their solid fundamentals (**insurance STAR**).

We will thus have to watch the changes in the economic scene to be in a position to update our investment recommendations.

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Share price performance of listed companies in 2011

