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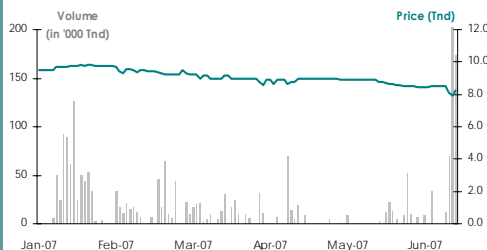
Hold

Price: 8.380Tnd

2007 AGM

Unclear future perspectives

Stock price in 2007



Stock recommendation

Karthago Airlines' stock price has gone up by more than 100% since its listing on the stock exchange in August 2005. At its current price (8.380Tnd), the stock is exchanged at a premium of 30% compared to the market (P/E2007 of 16.2, compared to 13 for the market). At the moment we do not have sufficient information about the project of a merger or partnership with Nouvelair (which is Karthago's main development goal) to say that the premium is justified. We still recommend to **hold** the stock.

Shareholders:

Karthago Group:	55.2%
Boussarsar Group:	8%
Others:	8.9%
Public:	27.9%

Market Capitalisation: **83.8mTnd**

Enterprise Value: **77.7mTnd**

High in 2007: **9.800Tnd**

Low in 2007: **7.880Tnd**

YTD performance:

(Karthago / Tunindex)

-10.2% / +7.7%

Valuation Ratios:

(Karthago / Market)

PER _{2007e}: **16.9x / 13x**

P/B ₂₀₀₆: **8.0x / 1.45x**

Yield ₂₀₀₆: **1.8% / 3.2%**

Analyst in charge:

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■ Facts and relevant elements of the 2006 financial year:

The airline's traffic increased by 11%, and turnover by 24% (to 130mTnd). Despite this growth, however, operating profit went down by 67% (1mTnd compared to 3.2mTnd in 2005). This deterioration can be ascribed to a general increase in operating costs, especially fuel (+38%), personnel (+35%), and various other costs including aeroplane rentals and maintenance (+25%).

Net profit decreased in roughly the same proportion: it **fell 65% to 1.7mTnd**, compared to 4.9mTnd in 2005. The IPO business plan forecast a net profit of 3.6mTnd for 2006.

■ 2007 forecast:

The 2007 financial year will be marked by two principal facts:

- **At the level of revenues:** management is counting on 25% growth in sales as a result of a good tourist season (as predicted by various organisations), on business from providing services to foreign companies, and on the continued success of the Hadj Mali operation (which is still relatively marginal at 3% of sales, however).
- **At the level of costs:** The company put in place a hedging contract in 2007 to cover kerosene purchases, in order to better control operating costs. According to management, all of this summer's consumption is already covered by the first contract.

Taking into account these two elements, we estimate that profit in 2007 will be 4.9mTnd (three times the 2006 figure).

■ 2007 forecast:

Long-term perspectives will center around:

1 - Egyptian subsidiary Koral Blue which started operating in March 2007. Khartago Airlines currently holds a 10% stake in the company, with the remainder held by Egyptian group Orascom and a Canadian Bank. Moreover, Karthago acquired an Airbus in 2006 to sublet to this company.

2 - The partnership project with Nouvelair, a private Tunisian company. This partnership, which will probably end in a merger, should create important synergies (economy of scale, size effect, diversification of destinations, etc.) especially because the profiles of the two companies are comparable. Management seems to be confident about this project and said that they have reached an advanced level of commitment. The next step will be the evaluation of the two companies by merchant bank Edmond de Rothschild (the final report is expected by the end of the summer).

3 - Regular traffic. This activity started in 2006 with the creation of a Paris-Djerba line, and a new service to Russia will be launched in the course of 2007. Regular traffic is not a strategic business for Karthago, so it will be developed 'in a very cautious manner' depending on opportunities.

■ **Stock market performance and opinion:**

It is difficult for us at this level to evaluate precisely the synergy that will result from the partnership with Nouvelair. Indeed, such a partnership will allow Karthago to better face the impending open skies agreement (strength in unity!) but owing to the lack of information, we recommend to **hold** the stock, moreover at the current price (8.380Tnd), the stock is overvalued (P/R2007e is 16.9x, compared to 13x for the market).

Income figures and ratios for Karthago Airlines:

	2004	2005	2006	2007f
Transport income	78 190	105 108	130 494	163 118
Change		34.4%	24.2%	25.0%
Total operating income	79 597	107 944	133 947	168 098
Purchases of rights and services	30 558	37 066	43 696	55 191
Non-stocked purchases, equipment	17 782	31 312	42 416	51 602
<i>of which fuel</i>	<i>15 064</i>	<i>27 734</i>	<i>38 335</i>	<i>46 002</i>
Gross margin	29 662	36 594	43 712	55 925
Gross margin rate	38%	35%	33%	34%
Personnel	5 066	6 428	8 652	10 415
As % of turnover	6%	6%	7%	6%
Provisions for amortisation	1 814	3 196	4 414	4 630
Other operating costs	21 512	26 516	33 038	41 350
Total Charges d'exploitation	76 920	104 655	132 886	163 588
Operating profit	2 677	3 289	1 061	4 510
Operating margin	3.4%	3.1%	0.8%	2.8%
Net financial costs	-140	-1 142	-677	-900
Financial income	432	2 581	1 453	1 600
Net profit	3 235	4 909	1 699	4 960
Change		52%	-65%	192%

Valuation ratios:

	2005	2006	2007f
EV / turnover	0.75	0.59	0.49
EV / EBITDAR*	5.5	4.0	4.0
PER	17.1	49.3	16.9
Yield	3.6%	1.8%	3.0%

* Earnings before interest, tax, debt, amortisation and rent