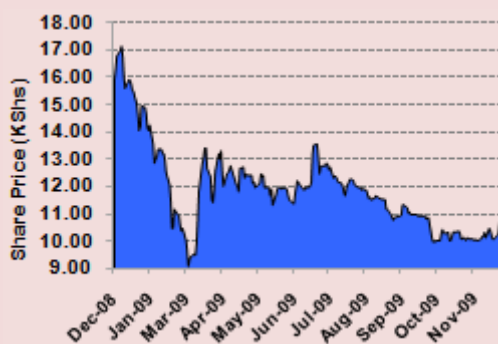


Selected Financial Ratios

Year End (Sept.)	07A	08A	09E	10E
Turnover (mn)	8,976	11,482	11,334	13,099
Gross Profit (mn)	2,171	2,709	2,607	3,015
EBITDA (mn)	1,183	1,656	1,449	1,704
Net Profit (mn)	618	927	744	894
EPS (Adjusted)	1.06	1.59	1.28	1.53
Turnover Growth	21.9	27.9	-1.3	12.7
EBITDA Growth	53.7	40.0	-12.5	17.6
EBITDA Margin	13.2	14.4	12.8	13.0
Earnings Growth	61.7	49.9	-19.8	20.1
Return on Equity	16.3	20.8	14.3	15.2
EV/EBITDA	6.8x	7.1x	5.3x	4.5x
Price to Sales	0.8x	1.0x	0.6x	0.5x
PE Ratio	7.5x	11.8x	8.6x	7.2x

Source: Company data, FIB Research estimates



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CMC Holdings Limited

Commercial and Services Sector | NSE | Car Dealership | Medium Cap
(pricing in this report is based on 26th November, 2009 closing prices)

New vehicles market witnesses slowing growth. Market pessimism over the car industry's swift recovery has led to the current depressed stock price. To recoup turnover growth CMC must rely on the resilient after sales market to offset the dwindling sales in the Kenyan new car market. Going forward investor confidence will be contingent on management reviving the commercial vehicle division and minimizing the damage working capital changes have on cash flows and borrowing costs.

Order books get harder to fill

Corporate sector and government see tough times ahead and continue cutting down on non-essential spending. We anticipate a 19.6% decline in annual unit sales from 2,744 in 2008 to 2,205 in 2009 as statistics point to new vehicle registrations in '09 reaching the top of the plateau in Q3.

Regional markets pick up the slack

The 19% half year profit dip for the half year 2009 was cushioned by regional sales in Uganda and Tanzania. The management is stepping up its advertising spend on non performing vehicle segments to tackle costs accrued to inventory pile-ups and to deter further earnings declines.

Cash dividends likely to take a back seat

Working capital constraints and higher borrowings costs (up 39% from '08) are likely to compel the board to preserve cash reserves. We project an EPS of Kshs 1.28 in 2009 representing a 20% drop over the previous and we expect the EPS to rise to Kshs 1.53 in 2010.

Stock Data

Price	11.00
52 week range	17.20-9.10
Market Cap.	KSh 6.4 bn
Market Cap.	US\$ 85 mn
Net Debt	KSh 1.4 bn
Free Float	72%
Issued Shares	582 mn
EPS (09E)	1.28
P/E (09E)	8.6x
EV/EBITDA (09E)	5.3x
Div Yield (09E)	3.3%

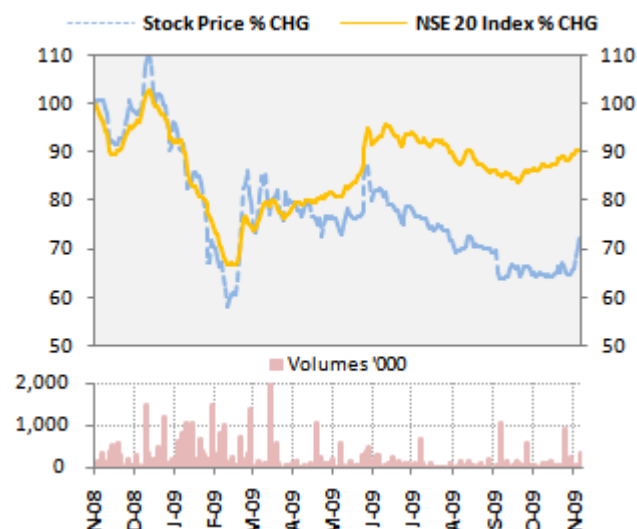


Exhibit 1: Forecast and valuation

Year End (September)	Turnover (Kshs mn)	EBITDA (Kshs mn)	Pre-Tax Profit (Kshs mn)	EPS (Kshs)	EV/EBITDA (x)	P/E (x)
2005	6,811	656	462	7.00	3.9x	3.1x
2006	7,363	770	559	7.87	2.5x	3.1x
2007	8,976	1,183	879	2.04	6.8x	7.5x
2008	11,482	1,656	1,329	1.59	7.1x	11.8x
2009E	11,334	1,449	1,062	1.28	5.3x	8.6x
2010E	13,099	1,704	1,276	1.53	4.5x	7.2x

Source: Company data, FIB Research estimates

Brief Summary: Recovery in the new car market key to spurring earnings growth

Motor industry stocks remain undervalued (based on earnings multiples) amongst services sector counters likely due to the parallel tendency for new vehicles market to reflect the cyclical nature of the economy, currently in recovery. The major car dealerships continue to record dwindling unit sales as the deterioration in orders in 2009 echo the severity of the current economic climate. The commercial vehicle division has suffered the most as all stakeholders tighten their spending resulting in CMC losing market share on industry sales. We expect higher marketing spend in 2010 to reinforce brand loyalty and a conservative dividend to shield cash reserves from working capital costs. Using an average weighted valuation basket we arrive at a fair value of Kshs13.36 pushing the forward P/E and PBV to 10.4x and 1.4x.

New vehicles registrations level out as the sluggish economy persists

CMC Holdings operates a number of subsidiaries spread over the East African region and its core business includes selling/servicing motor vehicles and specialized engineering equipment, servicing of aircrafts, hire purchase financing of vehicles to customers. The car dealer holds a number of lucrative franchise agreements and co-owns a vehicle assembly plant called Kenya Vehicle Manufacturers. The improved economic growth in 2004-08 (averaging 5.2%) provoked the acceleration capital investments from key private and public sector players and vehicle demand rose as household incomes improved. The motor industry may realize a slow recovery as economic growth prospects in 2009 have lowered to 2-3%. The table below highlights returns from CMC shares since 2004.

Exhibit 2: CMC Holdings – 6 Year Returns (Local Currency)

Trading History	Sept 2004	Sept 2005	Sept 2006	Sept 2007	Sept 2008	Sept 2009	Jan-Nov 2009
Inflation Adj. Return %	49.7	-21.5	127.1	19.0	23.0	-56.8	-
Share Price Return %	61.8	-14.1	151.9	29.0	47.4	-46.9	-28.4
NSE 20 Index Return %	12.2	43.5	27.3	5.5	-18.8	-28.1	-9.2
% CMC vs Index +/-	49.5	-57.6	124.5	23.5	66.1	-18.8	-19.3
Dividend Yield %	2.25	2.93	2.77	2.57	2.84	-	-
Market Cap - Sh m	1651	2671	2294	5779	7454	10984	6672
Price-to-Book (PBV)	1.0x	0.8x	1.6x	1.8x	2.3x	1.2x	1.3x
Price-to-Earnings (P/E)	2.3x	3.1x	3.1x	7.5x	11.8x	6.3x	7.2x

CMC's key franchise brands include Case New Holland, Land Rover, Nissan Diesel, Suzuki, Volkswagen, Iveco and Maruti

CMC stock has outperformed the main market index many times over the past six years

Unit sales growth remains highly correlated to economic cycles

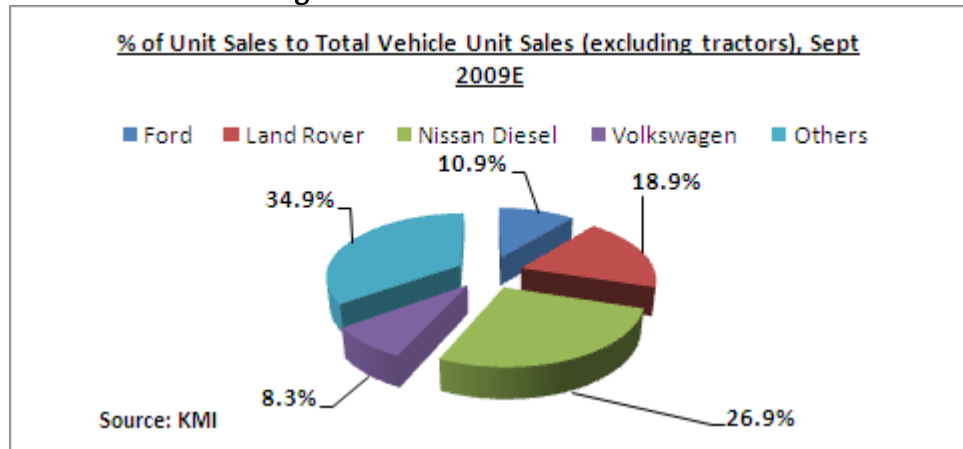
The car industry has grown by double digits over the past few years largely following the growth in the Kenyan economy. The economy was growing well until 2008 and that impacted sales in the car industry, virtually halting growth. According to KMI units sold for its members climbed 30% and 38% respectively in 2006 and 2007 against a 1% rise in 2008. So far, 2009 remains a difficult year with realized sales for the nine months ended September dipping by 25% of 2008 levels.

According to KMI unit sales in the nine months to September 2009 declined from 9,740 in 2008 to 7,328

Risk exposure to the under-performance of any vehicle classes is reduced by CMC's diverse segments, but becomes highly correlated to the industry

CMC has diversified vehicle class namely: tractors, 4 wheel drive vehicles, saloon and light commercial vehicles, heavy commercial vehicles (trucks and buses). The company also sells a variety of other equipment. In the recent past they have earned a large portion of revenues (based on unit sales) from 4 wheel drive and heavy commercial vehicles linked to their Land Rover and Nissan Diesel brands (constituting over 45.8% of total unit sales).

Exhibit 3: CMC Holdings – Brand Contribution to Unit Sales



Source: Company data

Exhibit 4: Selected New Vehicle Registration

Year to September	2006	2007	2008	2009
Total Registered	48,610	76,607	108,266	155,238
<i>% Growth</i>	6%	58%	41%	43%
Buses	942	1,171	1,899	1,092
<i>% Growth</i>	6%	24%	62%	-42%
Wheeled Tractors	452	1,078	1,226	1,172
<i>% Growth</i>	-47%	138%	14%	-4%
Saloon	13,974	17,273	18,597	17,207
<i>% Growth</i>	-2%	24%	8%	-7%
St. Wagons	11,206	21,191	26,459	26,669
<i>% Growth</i>	10%	89%	25%	1%
Motorcycles	4,982	14,189	37,158	85,292
<i>% Growth</i>	33%	185%	162%	130%

Source: KNBS *above categories account for 84% of total registrations

Exhibit 5: CMC – Market Position by Category

Market Share %	2006	2007	2008	2009E
Year End September				
Total Vehicle Market	16.0%	17.3%	18.3%	17.0%
Agricultural Tractors	68.0%	73.0%	67.0%	79.0%
Heavy Commercial Vehicles	-	55.0%	56.1%	-
Large Buses (62 seats)	67.0%	65.0%	60.0%	-
Large Buses (52 seats)	-	-	24.5%	-

Source: CMC Annual Reports

Exhibit 6: Local Car Production

Year to September	2006	2007	2008	2009E
Vehicles Assembled	4,947	6,160	6,320	5,221
<i>% Growth</i>	6%	25%	3%	-17%

Source: KNBS *Stats for assembled vehicles is for 7 months to Aug '09

The government introduced several amendments to reduce duty on import motor cycles so as to promote job creation amongst Kenyan youth

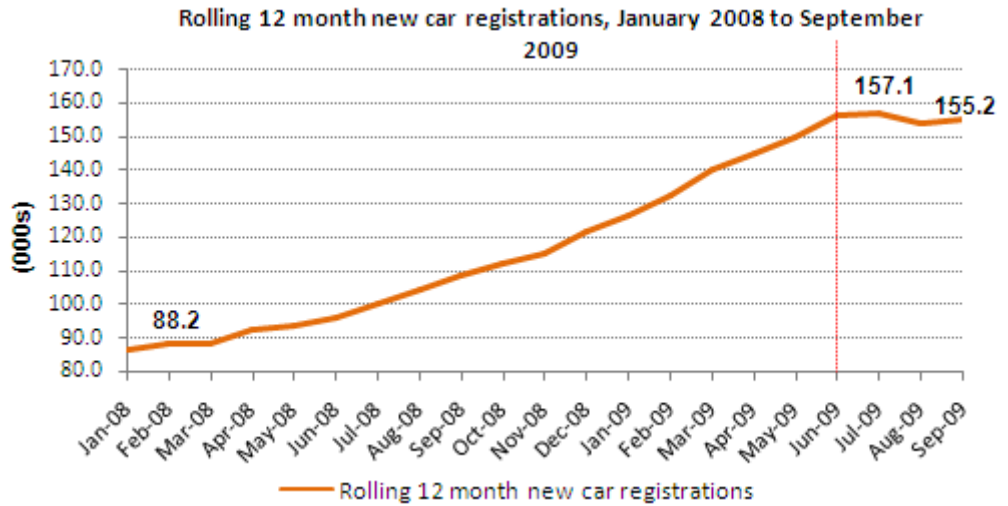
Consumer and corporate car demand patterns change tracks

In period between 2006 and 2008 newly registered cars grew extremely well (by over 40%) including fuel consumption as the economy surged forward. The saloon and station wagons categories recorded high growth rates in 2007; however, a sharp contrast can be seen in 2009 as Kenyan consumer spending habits changed to reflect the harsh economic environment. These two categories accounted for 51% of total registrations in 2006 but only account for 28% in 2009 as government policies incentivized purchases of motor cycles. The tractor & buses market where CMC holds a sizeable market share recorded poor growth in 2009 as the corporate sector implemented several cost-cutting measures that reduced fleet expansion.

On September 2006 motor cycle registrations were quite low representing 10% of total registrations, but, by September 2009 the ratio had risen to 55% as the category was the beneficiary of favorable government tax policies in 2007-09. The country only has a handful of vehicle assembly plants owned by government and car dealers that cater for assembly of a small group of car brands. Their output in '09 was not spared by the dismal vehicle demand with production dipping by 17%.

Exhibit 7: Vehicle Registration

The slowdown in registrations in the second half of 2009 was attributed to declines across all vehicle classes



Source: KNBS

Car registration growth seems to have flattened since July 2009 and has resulted in a year-on-year growth of 38.7% to 155,238 vehicles as at September 2009. The leveling off in the graph demonstrates the cut-backs being made by government, private individuals and the corporate sector in response to tighter spending budgets.

Loosing grip on market share as commercial vehicle line weakens

Over the past few years, the group market share in the total vehicle market has been growing and the company is an industry leader in many of the car classes. We anticipate the CMC's overall vehicle market share will decline in 2009 to 17.0% from 18.3% in 2008 largely due to the lackluster demand for Nissan Diesel (when referring to vehicle market share we include tractors). We believe that demand growth from corporate clients will dictate the pace of recovery in subsequent years.

CMC feeling the heat from competition

The company operates in a highly competitive market that includes three major competitors namely: Toyota East Africa, General Motors EA and DT Dobie. Their respective market shares are expected to climb by 0.3%, 0.6%, and 0.2% to 23.1%, 21.2% and 14.1% respectively for the year to October 2009. Toyota cars have found a home in most Kenyan households and are still making in-roads in the public sector. According to statistics from the Kenya Motor Industry Association (KMI) much of CMC's market share has been eroded by General Motors EA who holds franchise agreements with Chevrolet, Hummer, Isuzu, and Opel, among others. DT Dobie market share has remained fairly unchanged since 2007 at 14% and it sells a number of brands including Chrysler, Jeep, Mercedes, Nissan and Renault.

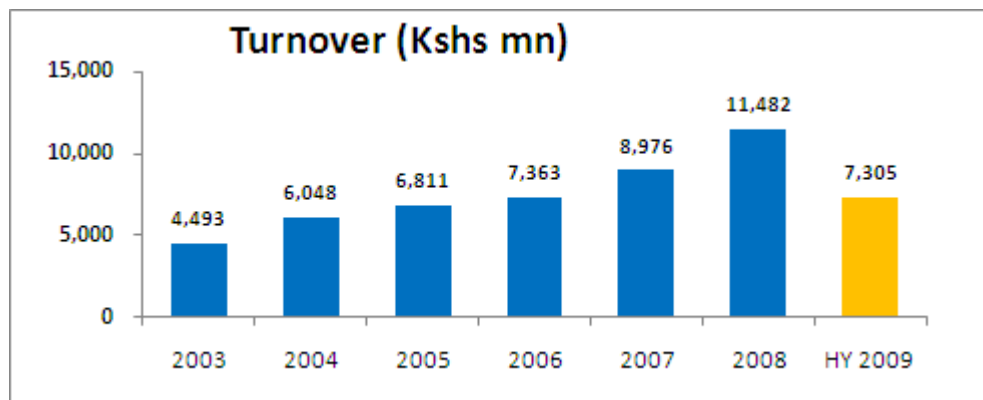
The four car dealers CMC, Toyota East Africa, General Motors and DT Dobie control a large portion (70%) of the new car market

The Kenyan market for new cars are normally sold through franchised dealerships and their models lean more against the corporate and public sectors as demand from individuals is largely catered for by the used car market. The used car market is dominated by Japanese car models and in August 2009 Kenya was reported as being the largest importer of Japanese used cars globally. It is believed that these Japanese car imports satisfy demand from private households due to their reliability on African roads, their affordability and superior gas mileage which are highly sought after by Kenyan motorists.

The used-car after sales market is considerably more vibrant than in the new car market as motorists prefer to comprise lower quality car maintenance for low-cost spare parts and services. Private car importers who bring Japanese model vehicles into the country are able to offer lower retail prices by avoiding high dealer fees, but, due to the high level of competition, the used car market may soon reach its saturation point if household incomes do not growth in tandem.

The leveling out of vehicle registration in Q2 may support the theory of market saturation

Exhibit 8: CMC Holdings - Turnover Growth Trends



Source: Company Published Statements

CMC Holdings registered a 14% growth in half year turnover from Kshs 6.4 bn to Kshs 7.3 bn for the period ended March 2009. The management had not been able to surpass its half year budget estimates which had been set prior to the downturn in economic activity. The earnings were driven by the group's regional operations where substantial increases in unit sales were recorded during the 6 month period.

The Kenyan market dictates the growth of group turnover

Regional business growth leaves the group less exposed

The core revenue generating activity for the group its sales of motor vehicles that comprise 80% of total turnover and Kenya is the group’s primary market from which it derives 90% of total turnover. Due to the concentration of the business by region and stream it is simple to understand the fluctuation in unit sales. The major factor driving unit sales in the half year of 2009 was the Ugandan market that grew by 17% against unit declines of 19% and 37% respectively in Kenya and Tanzania.

There is a high variance between the budget and actual sales for 2009

Exhibit 9: CMC Holdings - Budgeted vs Actual Unit Sales, 2006 to 2009

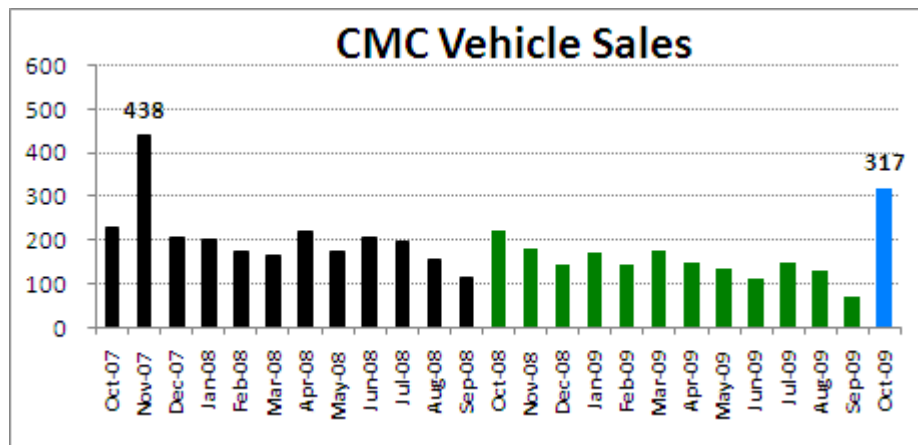
	2006	2007	2008	HY 2009
Sales Growth	18.7%	25.9%	15.8%	-7.0%
Budgeted (1)	1,887	2,069	2,578	1,863
Realized (2)	1,882	2,369	2,744	1,532
Variance (2) - (1)	(5)	300	166	(331)
Variance %	0.3%	14.5%	6.4%	17.8%

Source: Company Published Statements

The management has been able to surpass volume targets consistently since 2006 by capturing large orders from its niche markets in the commercial vehicles new cars market. There is a high variance between actual and budgeted sales in ‘09 due to the fact that the targets were set prior to the global meltdown in October ‘08. Franchise dealerships do enjoy captive business from its customers who are more inclined to purchase spare parts and utilize maintenance services from their workshops. In order to widen margins dealerships have been looking to develop their after-sales revenue stream which is less volatile as compared to new car sales.

The after sales market contributes less to group turnover because of the perceived high servicing costs

Exhibit 10: CMC Holdings – Units Sales (Excluding Tractors), October 2007 to 2009



Source: KMI

One-off contracts have helped boost unit sales over the past two years

The improvement in CMC’s market share leading to 2008 was attributed to key contracts earned from the corporate sector and government. The large orders generate huge contract revenue that enhances margins as fixed costs do not do not accelerate equally with every incremental increase in revenue. During 2007 CMC received a large order from the Defense ministry resulting in high sales while 2010 unit sales will benefit from yet another government tender for its Volkswagen line.

Exhibit 11: Selected Public Tenders Awarded, Sept. 2008 to Sept. 2009

Procuring Party	Date Awarded	Firm(s) Awarded	Tender Value (Kshs)	Tender Description
KPOSB	23-Dec-08	Car & General	10,544,800	Seven Generators
Moi Uni	20-Jan-09	CMC Motors	21,750,000	62 Seater Buses
NHIF	20-Feb-09	D.T. Dobie	21,240,500	Ambulances
KenGen	24-Jun-09	Simba Colt D.T. Dobie	31,288,740	Fleet Replacement
NWSC	22-Jul-09	CMC Motors General Motors	40,650,000	Water Tankers
KRA	03-Sep-09	Toyota E.A.	43,657,703	Repair & Maintenance

Source: PPOA website, www.tenders.go.ke

* The above examples are for tender values above Kshs10 million (\$130,000) only

The Toyota EA tender for repairs and maintenance highlights the potential for growth in the resilient after sales market

Although these contracts aren't regular they help facilitate long term after-sales services which comprise about 20% of the CMC's revenues and usually support profit margins. Filling order books in 2010 will continue to be challenging as corporate clients initiate cost-cutting measures to guard their profitability while the government freezes its spending on non-essential items (such as cars). CMC may need to respond more effectively to high growth emerging segments such as motor cycles to sustain revenues growth and keep up with the changing market trends.

In 2009 CMC concentrated on its existing markets and made no additions to its franchise brands, so these rare contracts are one of the key revenue drivers in 2010. There are signs that car buyers will continue to be increasingly price sensitive in 2010 meaning that new car sales will remain unstable pegged on the pricing policy. Revenues earned from the sale of spare parts and workshop services (comprising 10% of turnover) should continue posting consistent growth y-o-y with a CAGR of 27% since 2004. Kenya's dilapidated road network continues to burden motorists with high maintenance costs that CMC wide network of workshops can handle.

Supply routes witness more external chaos

CMC imports vehicles through the Gulf of Aden (also known as Pirate Alley) located in the Arabian Sea between Yemen and Somalia. The waterway is part of the important Suez canal shipping route and has witnessed increased cases of piracy that has seen the number of incidents in Somali waters has risen from 7 in 2000 to 111 in 2007¹. CMC believes that the piracy attacks will have minimal effect on their operations and will manifest only through delayed shipments. These interruptions will impact the company's working capital cycle if delivery schedules are not kept, which plays a vital role in determining the impact on profit from short term debts.

¹ According to International Maritime Bureau and the International Maritime Organization - "Piracy and armed robbery against ships". The pirate attacks in littoral sub-saharan Africa between 2001-2008 were 274 incidents in East Africa (only 10 in Kenyan waters).

Exhibit 12: Gulf of Aden – Shipping Route

Imports are shipped through the pirate infested Gulf of Aden



Source: Wikipedia

CMC intends to retain its existing supply routes going into 2010

To international shipping company’s such as Maersk² the attacks have raised insurance costs for ships moving goods through the Gulf leaving it no choice but to revise its’ container tariffs higher to pass off the risk to customers. There is a high probability that CMC’s larger contracted orders will be more expensive as a result of these trends. To avoid these dangers some Kenyan importers have decided to divert trade routes through the Cape of Good Hope (in South Africa); but, the cost implications are very punitive and the potential delays more damaging to working capital budgeting. CMC intends to retain its existing supply routes going into 2010.

Exposure to forex risks raises cost of goods sold (COGS)

The major cost driver for COGS has been the volatile exchange rates particularly since the global economic shocks began in 2008. The exchange rates were heavily influenced by changes in Kenya’s balance of trade and FDI inflows/outflows (including portfolio FDI flows). CMC management issued warnings stating that sales of its commercial vehicle segment would likely drop in 2009 as certain vehicle brands like Nissan Diesel (that are priced in Yen) would be negatively affected by the variances in exchange rates to the Kenya shilling.

The company had not made clear any intensions to hedge against these currency fluctuations, but, would endeavor to match unit sales (within vehicles classes) for similar vehicle types sourced from different markets. For example, foreign currency risks on sales of Nissan Diesel would be offset by unit sales growth in the Iveco line since both are representative of the commercial vehicle segment. As illustrated in the table below among the currencies CMC is exposed to is the Yen whose rates were most unkind to vehicle importers in 2009 (as imports became more expensive)

² According to African Prospects Magazine (October 2009), the Danish carrier has doubled its tariff for customers whose cargo goes into East African ports: from \$50 to \$100 per container. For cargo on ships that just pass through the Gulf of Aden, Maersk charges \$25 for each 20-foot container and \$50 per 40-foot container.

Exhibit 13: Exchange Rate Changes - Kenya Shillings to Foreign Currency

	Yen	Dollar	Pound	Euro
2008	0.616	66.12	130.23	99.49
2009	0.821	77.98	120.69	105.48
Change	33%	18%	-7%	6%
BRANDS EXPOSED	Suzuki Nissan Diesel	Volkswagen Ford Maruti	Land Rover	CNH Tractors Skoda Iveco Liebherr

Source: Central Bank of Kenya; Company Data

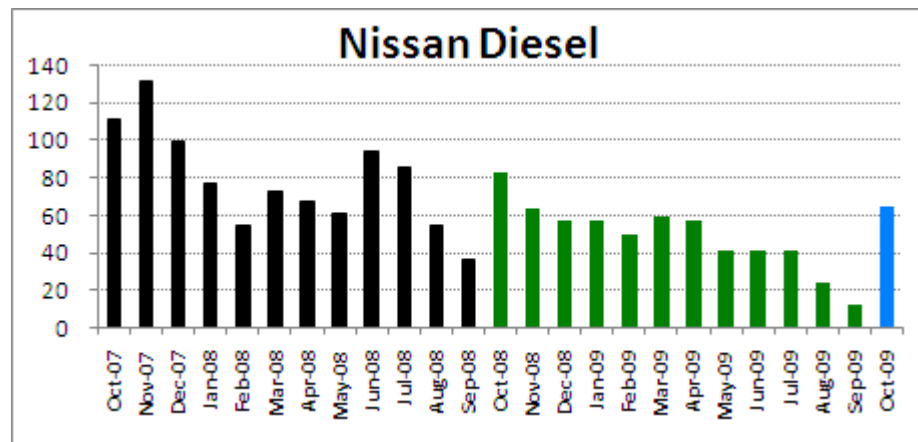
*The only currency change that remained favourable to CMC's was the British Pound

A Closer Look at the Franchise Brands

Nissan Diesel still the backbone of the commercial vehicle segment

The decline in unit sales for CMC's Nissan Diesel models in the month of September 2009 (according to KMI) may have thrown off estimates in as far as forecasting a bottom for the model's sales; however, the decline in sales was anticipated by the management in their previous report. The drop in sales would have been hastened by a larger import bill as harsh exchange rates would have made every unit sold that much more expensive. During the 2009 financial period the Yen exchange rate rose an estimated 20% from 0.691 to 0.834 based on the year end rates, but, the average change was considerably higher at 33%.

Exhibit 14: ND Unit Sales for 2008 and 2009 Financial Years (Sept to Sept)



Source: Central Bank of Kenya; Company Data

The estimated decline in ND sales is 38% from 944 units in 2008 to 582 units in 2009 and is consistent with the management's affirmation that a number of the firm's corporate clients had downsized their order books. The ND division covers both the heavy commercial vehicles and buses and dominates a large portion (27%) to turnover. In response to the falling sales the management is expected to raise its marketing spend on high capacity buses and heavy trucks. From September 2009 to November 2009 advertisements have focused in local newspapers have introduced special offers, financing deals and price cuts for ND brands.

Price reductions may support better sales from more price sensitive clients

The management is concentrating on the pricing model for its ND bus line where it enjoys a high market share (60% *est.*). In recent weeks several vehicle types namely the 46 seater and 29 seater buses have taken marginal price cuts in a bid to spur interest from the transport sector. Since the public transport sector was reformed in 2004 bus demand has been strong, but, it is likely that this segment is experiencing lower demand as transporters maximize fleet efficiency. The prices for a 46 seater bus reduced by 3.4% while those for 29 seater buses dropped by 8.2-8.5%.

The ND special offers have targeted heavy trucks users (4-7 tons) offering potential clients from manufacturing and traders time-limited offers of existing stock. While the time limited offers enable customers to take advantage of price discounts, the benefit for CMC is evident in reduction of slow moving inventory. Maintaining an optimum working capital levels is essential for CMC so as to reduce financing costs.

According to KMI the only vehicle class that recorded positive growth from Jan 09 to Sep 09 was the medium truck (10-14 T GVW)

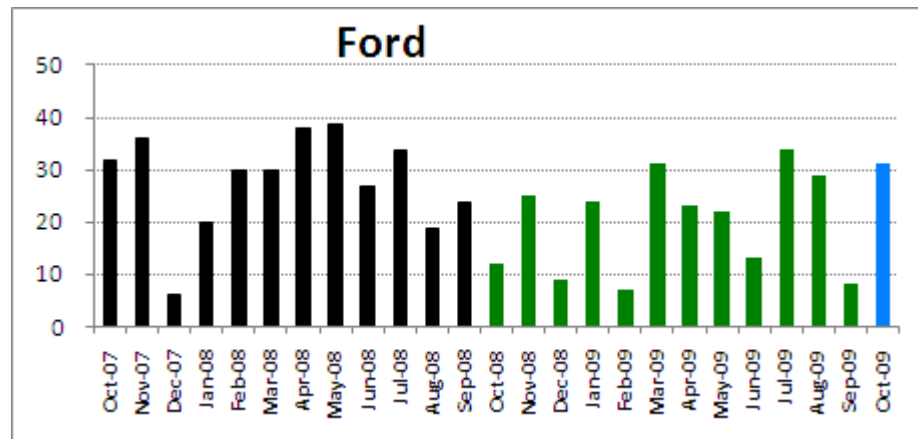
CMC organizes extended credit and hire purchase arrangements together with local banks only for a niche group of clients. The value of these arrangements grew 18% in 2008 versus 2% in 2007 and the rates charged varied between 15-17%. Recent ads targeting other ND trucks offered clients interest-free LC for 360 days provided that confirmed orders were made for CWB450 trucks. These arrangements may enable CMC to book new orders by offering more flexible rates to niche clients who look to avoid hefty cash outflows following big orders.

New Ford models introduced

The new Ford pick-ups are unlikely to penetrate the market effectively due to competition from Toyota EA pick-ups

Unit sales for the Ford division have declined by 29% from 335 units in 2008 to 237 units in 2009 and imports have been adversely affected by the shilling depreciation in relation to US Dollar. In recent weeks the CMC has introduced new models (mostly pick-ups) in the Ford line that target the commercial sector. Some of the model introduced or launched include: Ford Base, Ford XLT, Ford Ranger S/Cab and Ford Everest. The average price for Ford models is considerably lower than those in the Land Rover and ND lines and is a big contributor (11%) to turnover (after ND, 27% and Land Rover, 19%).

Exhibit 15: Ford Unit Sales for 2008 and 2009 Financial Years (Sept to Sept)



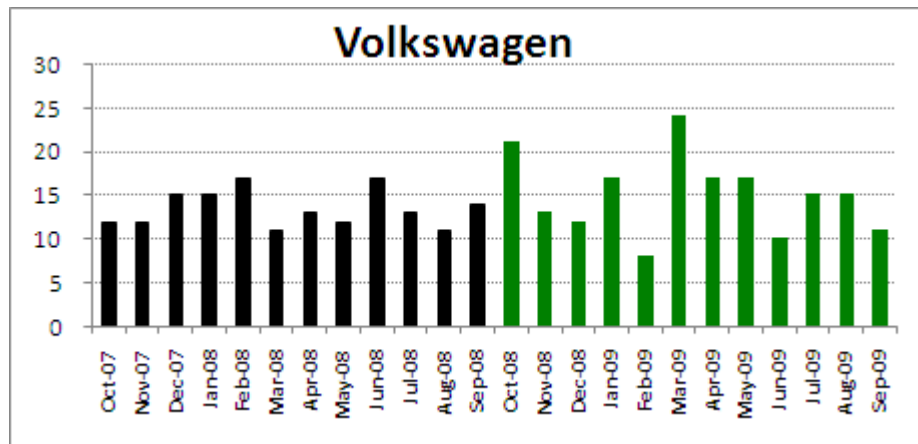
Source: Central Bank of Kenya; Company Data

It is also expected that the VW Passat will take on a more prestigious image among ordinary car buyers since they will associate themselves with powerful personalities

Volkswagen sales in 2010 to be backed by a lucrative government tender

The highly publicized tender awarded to CMC’s VW division will boost 2010 sales numbers as it was completed just after the year end date of September 2009. CMC won a contract to supply about 120 VW Passat vehicles and the contract is expected to generated over Kshs444 million (4.3% of 2008 motor vehicle sales). In addition to the purchase order the contract may prove lucrative in the long term through servicing contracts. The contract is also significant as it is considerably higher than the average monthly sales volumes of 11 recorded between 2007 and 2008. Despite the above contract a purchase order on the ND and Land Rover line requires fewer unit sales to match in value so the company may just count its blessing for this one. According KMI sales for October 2009 were 142 (not represented in graph below).

Exhibit 16: VW Unit Sales for 2008 and 2009 Financial Years (Sept to Sept)

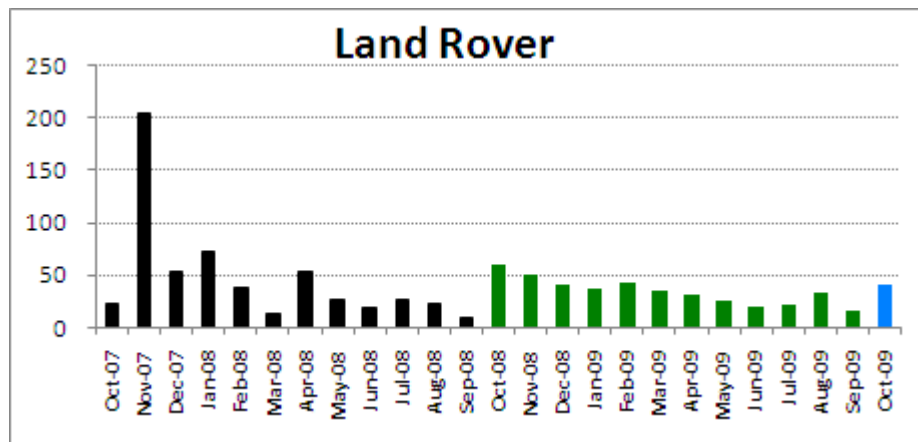


Source: Central Bank of Kenya; Company Data

Land Rover responds to challenging environment

Unit sales for the Ford division have declined by 27% from 566 units in 2008 to 410 units in 2009 representing a very slow year for the division.

Exhibit 17: ND Unit Sales for 2008 and 2009 Financial Years (Sept to Sept)



Source: Central Bank of Kenya; Company Data

Land Rover is a key revenue generating brand for CMC

The Land Rover franchise represents a key brand in CMC's portfolio and has been the preferred choice by niche clients such as the Defense ministry. Even though the pound to shilling exchange rate has remained relatively stable during the 2009 financial year; the effects of the economic downturn have been overpowering. Punitive tax revisions in the UK luxury car market may have also contributed to the increased supply of Land Rovers held by private car importers. These private car importers may give CMC with significant competition in the future.

The trade-in strategy may also enable CMC to manage inventory better although it is applied to only one commercial line

The company's marketing efforts have been pegged on using a trade-in strategy to boost unit sales particularly for the Freelander, Discovery and Defender models. The obvious attraction of this offer to its customers is the convenience of upgrading their vehicles especially since CMC is offering lower payments. The advantages to CMC would be the swell in its order book and long term benefits to its after-sales services (as well as value-adding accessories).

Other market segments continue to provide support

CMC hold a substantial stake in the local tractor market. The management indicated that the demand in this market remains fairly inelastic and unit sales have realized a 46.7% CAGR since 2006. Unit sales have risen from 295 in 2006 to 344 in 2007 to 413 in 2008 and according to the company they expect 2009 growth levels to remain flat. It is encouraging to note that the government will be implementing policies to improve the use of tractors on Kenyan farmland. The Agriculture Ministry has made plans to avail all 210 constituencies with four tractors each and this may prove lucrative with CMC's Case New Holland line, where it imports vehicles using the more stable Euro. The tractor business provides CMC over sales with a more stable footing and exploits the agricultural based structure of the economies in the regional.

There is less competition in the tractor market

Shift in government policy favours smaller vehicles

Previous government policies in 2004 brought more sanity into the transport sector giving investors the confidence to invest in fleet upgrades and expansion. The government's recent policy changes have been centered on enhancing cost efficiency along all departments and this is best exemplified by the moratorium on purchases of new vehicles for the 2009/10 financial year. However, motor vehicle purchases by the defense department have not been restricted. The zero rating of (low capacity) motor cycles in the 2008/09 budget provides opportunities to benefit from government purchases. The Land Rover division has and CMC still has an under-developed motor cycle division (through Dayun) that can be supported to meet this future demand. The government plans to purchase a large order of motor cycles this year to enhance the provision of healthcare countrywide.

Operating costs grow marginally but financing costs remain high

The company's operating costs recorded marginal growth in 2008 rising by 6.7% and net capex spend on PPE has remained fairly low. The company's business model relies on a few showrooms spread around the region that don't register high fixed costs. Operating costs have recorded a 32% CAGR since 2005 against a COGS and financing costs CAGR of 41% and 56% respectively. To put the cost structure into a more useful context COGS have comprised 78% of turnover over the last five years against 14% by operating costs.

Working capital changes strain cashflows and lower profit margins

At a time when car dealers have been experiencing weak demand, they have also been burdened by a huge pile-up of inventory. The pile-up results in high flooring costs that the dealer must meet and thus dealers are forced to cut-back on stocking new car and truck inventory. This can be seen in the 2008 inventory turnover figure that broke 2.0 to finish the year at 1.9 against the average turnover level of 2.1 from 2004 to 2007. CMC has been able to maintain a relatively stable cash conversion cycle as it has delayed payments to its creditor from 162 days in 2007 to 186 days in 2008 (129 days in 2004). The reduction in the cash ratio from 2.1% to 0.8% in 2009 may have been attributed to the drop in payables. The slow moving nature of CMC's goods has meant that the cost of managing working capital has escalated annually as they use short term credit facilities to support cash reserves.

Exhibit 18: CMC Holdings – Short Term Borrowing Requirements

Year Ended September	2004	2005	2006	2007	2008
Turnover	6,048	6,811	7,363	8,976	11,482
Net Current Assets	1,649	1,752	2,195	2,619	3,165
External Funding					
Bank loans	79	48	27	9	6
Bank - Overdrafts	82	472	80	10	22
Bank - Money Market Lines	940	790	580	403	710
Commercial Paper	207	109	172	243	248
Other unsecured loans	141	132	112	0	0
Total Operating Capital	3,099	3,302	3,166	3,284	4,152
Operating Capital to Net Sales	37.1%	47.0%	43.9%	35.9%	32.4%
Interest Cover	4.1x	2.4x	3.4x	5.2x	6.1x
Gearing Ratio	33.7%	33.3%	17.0%	12.2%	13.2%
Return on Capital Employed	9.1%	10.3%	10.4%	15.0%	19.7%

Source: Company Data

CMC has a high exposure to credit risk as all of CMC's borrowings are short term; however, monetary policies in 2009 have shifted in favour of lowering short term interest rates. The reliance on borrowings has seen financing costs rise by 7.8% in 2008 and 14.5% in the half year of 2009 and this is reflected in the low interest coverage ratio that shows the destructive impact of loans on profitability. Short term loans were up 39% to Ksh1.37 bn in the six month to March 2009. The bulk of borrowings are from money market lines & commercial paper whose rates range 7-9% and will continue to shave off about 3.4% of the RoCE. Despite a 13% gearing ratio RoCE climbed to 19.7% demonstrating an efficient use of borrowed funds.

Operating costs in the first six months of 2009 grew by 12% to Kshs 784 mn

Between 2006 and 2008 inventory levels have grown by 27% annually

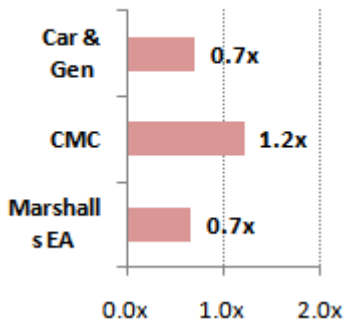
Turnover growth has moved in line with receivables growth over the last three years ('06-'08) growing by 19% annually

Forecasts and Valuation Summary

Profit Model	2004	2005	2006	2007	2008	2009E	2010E
Turnover	6,048	6,811	7,363	8,976	11,482	11,334	13,099
Growth	34.6%	12.6%	8.1%	21.9%	27.9%	-1.3%	15.6%
Gross Profit	1,239	1,442	1,597	2,171	2,709	2,675	3,015
EBITDA	486	656	770	1,183	1,656	1,449	1,704
EBITDA Growth		35.0%	17.4%	53.7%	40.0%	-12.5%	17.6%
EBITA	405	556	670	1,073	1,546	1,269	1,514
EBITA Margin	6.7%	8.2%	9.1%	12.0%	13.5%	11.2%	11.6%
- Taxes	110	116	163	238	388	317	378
NOPLAT	295	440	507	835	1,157	952	1,135
+ Depreciation	79	99	98	109	109	120	130
+/- Working Capital Change	(612)	(512)	456	(408)	(968)	(591)	(652)
- Expansionary Capex	(40)	2	(116)	(110)	(94)	(88)	(160)
Free cash flow	(199)	25	1,177	646	392	568	773
% Change		-112.8%	4525.9%	-45.1%	-39.3%	44.9%	36.1%

Valuation: CMC fair value price moves valuation multiples closer to par with services sector

Peer PBV Comparison



Source: FIB Calculation

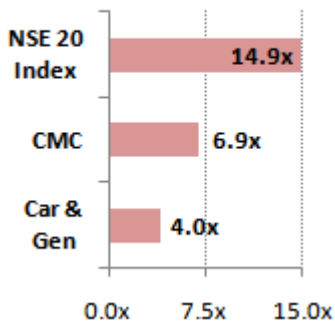
WACC Assumptions

Debt Level	13.0%
Equity Level	87.0%
Tax Rate	30.0%
Cost of Debt	0.7%
Risk Free Rate	7.2%
Risk Premium	6.0%
Inflation Risk Pren	6.0%
Equity Beta	1.00
Geared Beta	-
Cost of Equity	16.7%
WACC	14.6%
Long-term Growth	2.0%

Performance Indicators

	2008	06-08	09-11E	09-13E
Growth Rates		per annum change		
Turnover	27.9%	19.3%	6.9%	8.1%
EBITA	44.1%	41.6%	0.9%	4.5%
EBITA Margin	13.5%	11.5%	11.3%	11.1%
NOPLAT	42.9%	39.9%	0.9%	4.5%
Free Cash Flow	-44.6%	N/A	26.7%	21.0%
@ Target Price	2007	2008	2009E	2010E
EV/EBITDA	6.8x	7.1x	7.2x	6.1x
Price/Sales	0.8x	1.0x	0.8x	0.7x
PE Ratio	7.5x	11.8x	12.3x	10.3x

Market PE Comparison



Source: FIB Calculation

Present Value Calculation

NPV of FcF	2,583
+ Terminal Value	7,851
= Enterprise Value	10,433
- Net Debt	1,278
= Total Equity Value	9,155
Number of Shares	582.7
DCF Value Per Share	15.71
Current Price	11.00
Potential Upside	43%
% of Terminal Value in Enterprise Value	75%

Sensitivity of DCF Value to WACC & Growth Rate-KSh/Share

WACC	Terminal Growth				
	1.0%	2.0%	3.0%	4.0%	5.0%
12.6%	17.11	18.49	20.16	22.22	24.81
13.6%	15.83	16.99	18.37	20.04	22.10
14.6%	14.72	15.71	16.87	18.25	19.92
15.6%	13.75	14.61	15.60	16.76	18.14
16.6%	12.90	13.65	14.50	15.49	16.65

Our recommendation

We have set a price target at **Kshs15.70 per share** which we believe is attainable within the next 12 months contingent on strong signals from the economy of a sustained rebound in the new cars market. The downside risk on the share will be pegged on management's control over borrowing costs and working capital items. We valued CMC at Kshs 13.36 per share based on an equally weighted valuation basket namely: DCF and P/CF. The motor industry as a whole exhibits low valuation multiples in comparison to counterparts within the services sector and we believe there is a significant margin of safety on CMC of about 20% on the current price. The upside on our target price is 43% and should push the PBV value closer to 2008 levels. We recommend CMC as a short term buy.

Financial Model	2002	2003	2004	2005	2006	2007	2008
Units Sales							
Tractor	N/A	223	310	296	295	344	413
Other Vehicles	N/A	981	1,221	1,289	1,587	2,025	2,331
Total	N/A	1,204	1,531	1,585	1,882	2,369	2,744
Profit & Loss Statement							
<i>KShs mn</i>							
Turnover	4,552	4,493	6,048	6,811	7,363	8,976	11,482
Cost of Sales	3,485	3,479	4,809	5,369	5,766	6,805	8,773
Gross Profit	1,067	1,014	1,239	1,442	1,597	2,171	2,709
Operating Costs	733	660	834	887	927	1,098	1,163
Operating Profit	334	354	405	556	670	1,073	1,546
Finance Costs	92	85	29	101	116	209	225
Pre-Tax Profit	241	276	382	462	559	879	1,329
Net Income	153	177	263	340	382	618	927
EPS (Kshs)	6.29	7.29	5.42	7.00	7.87	2.04	1.59
DPS (Kshs)	1.00	1.00	1.00	1.50	2.30	0.35	0.45
Shares Outstanding (mn)	24.3	24.3	48.6	48.6	48.6	485.6	582.7
Balance Sheet							
Non Current Assets	1,193	1,233	1,534	1,653	1,757	1,699	1,910
Current Assets	3,265	3,969	4,769	5,398	6,057	7,626	10,113
Total Assets	4,457	5,202	6,304	7,051	7,814	9,325	12,023
Current Liabilities	1,992	2,576	3,120	3,646	3,862	5,006	6,948
Non Current Liabilities	266	325	448	370	410	257	241
Shareholders' Funds	2,198	2,301	2,735	3,035	3,542	4,062	4,835
Key Financial Ratios							
Gross Margin %	23.4%	22.6%	20.5%	21.2%	21.7%	24.2%	23.6%
EBITDA Margin %	7.3%	7.9%	8.0%	9.6%	10.5%	13.2%	14.4%
Return on Assets %	N/A	3.7%	4.6%	5.1%	5.1%	7.2%	8.7%
Return on Equity %	N/A	7.9%	10.4%	11.8%	11.6%	16.3%	20.8%
Inventory Turnover	N/A	1.8x	2.0x	2.1x	2.0x	2.1x	1.9x
Days Sales Outstanding (Days)	N/A	116	111	126	128	114	114
Payables Turnover Ratio	N/A	140	129	130	155	162	186
Debt to Equity	1.03	1.26	1.30	1.32	1.21	1.30	1.49
Interest Coverage	N/A	N/A	4.1x	2.4x	3.4x	5.2x	6.1x

Source: Company data

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