

Economic situation in 2011

World situation remains frail due to the different shocks

The world economy growth experienced in 2Q 2011 a slowdown explained by the negative bias of industrialized economies affected by rising raw material prices and the earthquake in Japan. The global growth for the second half was affected by the escalation of sovereign debt crisis in some European countries.

This growth lower than expected during 1H2011, led the IMF to review the growth prospects for the global economy. Therefore it is expected an increase of 4.0% in 2011 and 2012 against a projected growth of 4.4% and 4.5% in April 2011. This correction is due in large part to lower growth in advanced economies which according to the IMF will be limited to 1.6% in 2011 and 1.9% in 2012. In both cases, it is almost one percentage point less than forecasted in April. The IMF announced that emerging economies are less affected and growth will remain relatively strong despite the dampening effect of capacity constraints, policy tightening and the slowdown in external demand.

At the national level, recovery was observed in most sectors

The Tunisian economy is currently experiencing a slight improvement resulted from the attenuation of the decline recorded in the tourism sector and the activity resumption in some sectors that were affected by the revolution. Trade with Libya has gradually recovered, especially after the fall of the regime Ghadafi and improvement of security situation in the country.

GDP at constant prices experienced in the 3Q 2011, 1.2% growth compared to the same period the previous year and is the only positive growth recorded in the year after 3.2% and 0.3% declines in the first and second quarter. For 9M2011 period, the GDP declined by 0.8% as compared to the same period in 2010.

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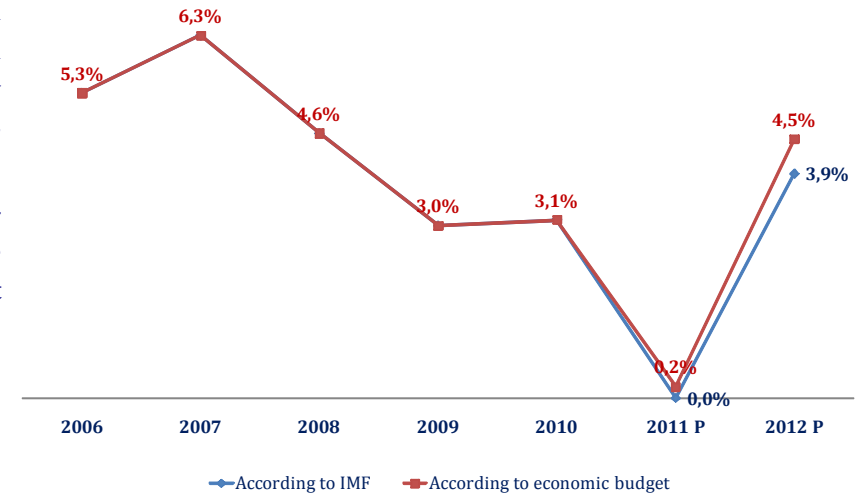
At the national level as things will not be easy even if it is expected 4.5% growth by the transitional government and a little less (3.5%) according to the IMF. Several conditions must be met to achieve this recovery namely political stability, social peace, and security conditions.

World economic data and forecasts

% of variation	2 009	2010	2011e	2012e
World GDP	- 0,7	5,1	4,0	4,0
Advanced economies	- 3,7	3,1	1,6	1,9
Etats-Unis	- 3,5	3,0	1,5	1,8
Europe	- 4,3	1,8	1,6	1,1
Japan	- 6,3	4,0	- 0,5	2,3
Great Britain	- 6,3	4,0	- 0,5	2,3
Canada	- 2,8	3,2	2,1	1,9
Emerging economies	5,6	5,6	7,0	7,1
Sub-Saharan Africa	2,8	5,4	5,2	5,8
Central Europe and East	- 3,6	4,5	4,3	2,7
Emerging Asia	7,2	9,5	8,2	8,0
Middle East	2,6	4,4	4,0	3,6

Source : FMI, September 2011

GDP evolution in %



Trade with the outside remain satisfactory in 2011. Exports reached 25,1 MTND, in rise by 6.7% against 5.9% increase in imports that leveled off at 33,7MTND. The coverage rate stood at 74.5% an improvement of 0.6 points compared to the same period in the previous year. The rise in exports was explained by 37.9% increase in sales of agricultural and food products, 20.4% in electrical industry and 5.7% in textile industry. However exports of phosphates and derivatives recorded a drastic decrease of 39.7% altered by the movement of sit-in observed in the region of Gafsa which paralyzed mining activity. In addition, foreign exchange reserves amounted to 10 504 MTD at the end of 2011 or the equivalent of 113 days of imports against nearly five months at the end of 2010.

Return to growth in 2012 but under pressure

According to the IMF, the tunisian economy growth will be 0% in 2011 and 3.9% in 2012. In its report of september 20th 2011, the IMF emphasized the importance of political stability in the economic development of the new Tunisia. it also showed the strong correlation between the political factor and the development of tourism, foreign investment and the budget deficit. The sovereign debt crisis in the euro Zone also presents a significant risk to the Tunisian economy because of the tight trade relation with this area. It recommends the implementation of a monitoring plan to limit the impact of this crisis on the tunisian economy.

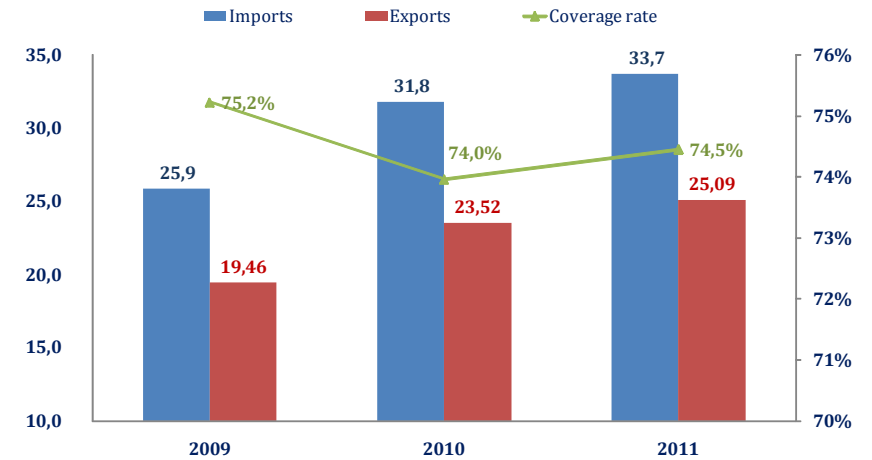
The budget for the fiscal year 2012 expects 4.5% a growth rate in 2012. The government also plans to create **75 000 jobs** and expects 7% a growth (at constant prices) of goods and services exports against 2.4% decline in 2011. To fully achieve these objectives, The government counts on the resumption of certain vital sectors and the continuing dynamic of mechanical and electrical industry(+15%) and textiles and leather (more than 8%).

The budget expects, also, an **investment rate of 24%** with increased public sector investment in basic infrastructure, particularly in inside areas. The **current account deficit** will remain at a high level i.e 5.4% and the **budget deficit** limited to 6%. This will generate an increase in financing needs including external funding.

The Government counts on the foreign direct investment and financing on favorable terms. It counts too, to mobilize these resources on the support of its key partners.

As for debts, the budget plans to keep rates within reasonable limits. It expects, for example, a debt ratio of 38.8% against 38.2% in 2011 and 36.9% in 2010. Regarding reforms, the budget refers to the revision of the economic system of incentives for investment and private initiative, strengthening the supervision of promoters, cleaning up the banking sector by implementing the necessary reforms and export promotion. The authorities will also give more interest to the productive sectors and work to ensure the return to normal activities for the affected sectors such as tourism, transport and phosphate in addition to strengthening the role of technological knowledge in the development of services and industry.

Evolution of trade balance (in billion TND)
(Source : INS)



Millions of TND	2005	2006	2007	2008	2009	2010	2011E
GDP (Current price)	37 664	45 756	49 874	55 297	58 768	63 397	
National savings	7 756	9 865	10 709	12 150	12 949	13 662	12 734
GFCF	8 395	10 333	11 490	13 001	14 206	15 816	15 473
Debts	21 949	22 221	22 829	23 927	25 190	25 640	
<i>On which external debts</i>	14 026	13 285	13 300	14 560	14 716	15 551	
Debts servicing	2 716	3 881	3 921	3 276	3 242	3 616	
Budget deficit	973	551	904	220	1 589	1 353	3 897
In % of GDP	2,6%	1,3%	1,8%	0,4%	2,7%	2,1%	6,0%

2011 stock market achievements

- After 8 consecutive years rise, **Tunindex** fell in 2011 as a result of the revolution in Tunisia. A panic movements has been observed on the stock market especially during the first four months following the revolution when the political and security situation was ambiguous.
- The Tunindex has dropped drastically to lose 20% at the end of May. Then it managed to progressively limit the decline to 8.7% at the end of September. The recovery is explained by the improvement of the security situation, the achievement of a political consensus among all parties and the slight economic recovery especially in August and September. In the fourth quarter, the index recovery was weak. Thus, It ended 2011 down by 7.63%.
- Compared to other **Arab Stock Exchanges**, the Tunis Stock exchange behavior can be considered as satisfactory. According to MSCI and except Qatar, Tunisia recorded the lowest decline thanks to the small size of its stock exchange and its resilience to external shocks. But this is a feat for a country that has experienced a revolution that was spread to the rest of the region.

Tunindex evolution in 2011



Performance of Arab Stock Exchanges

MSCI Index	In USD		
	1 year	3 years	5 years
Bahrein	-25,9%	-27,9%	-27,9%
Egypt	-48,8%	-9,4%	-11,9%
Jordan	-17,1%	-12,3%	-12,2%
Kuwait	-22,5%	-1,8%	-7,3%
Lebanon	-22,4%	-1,9%	-0,4%
Morocco	-18,8%	-6,2%	0,7%
Oman	-16,3%	4,4%	-1,8%
Qatar	4,4%	9,5%	6,7%
Tunisia	-10,6%	8,0%	4,1%
United Arab Emirates	-19,7%	1,1%	-17,9%
GCC countries ex Saudi Arabia	-16,3%	1,1%	-7,9%
Arab countries ex Saudi Arabia	-22,6%	-1,5%	-7,7%

Source : MSCI

In December 30, 2011

- The decline was also observed on **market liquidity**. The average daily trading volume declined by 35% from 10.76 MTND in 2010 to 7.05MTND in 2011.

• **Market capitalization** fell by 5.6% in 2011 at 14.452 MTND despite the listing of Telnet Holding company with 103 MTND market capitalization at the end of 2011 . The market capitalization / GDP ratio in Tunisia was 24%. it is low as compared to other Arab countries: 76% in Morocco, 38% in Egypt and 111% in Jordan. In addition, TSE market capitalization represents 1/6 of the Moroccan one and 1 / 7 of the Egyptian one. The participation of the Stock Exchange in the financing of the gross private fixed capital is about 10%. All these figures shows the limited role of the stock market in the financing of tunisian economu because of the predominance of the banking system in this role.

- **Foreign participation** in the market capitalization remained almost unchanged at around 20%. This stability is explained by strategic holding in some companies (UIB, UBCI, SFBT, Attijari Bank, etc.). For other shares, there was no abrupt change in foreign ownership.

Statistics	2007	2008	2009	2010	2011
Market capitalization (MTND)	6 495	8 301	12 227	15 281	14 452
Foreign participation in %	27,8%	24,7%	21,9%	20,2%	20,2%
Number of listed compagnies	50	51	53	57	58
Number of quotation sessions	249	246	250	251	238
Average volume /Day (MTND)	3,67	8,57	7,26	10,76	7,05
Average volume /Day (In shares)	279 735	702 597	758 275	1 083 187	1 066 908

Source : Tunisian Stock Market, MAC SA

2011 stock market achievements

- **The banking sector** was the most affected with 12.71% decline in 2011 that weighed heavily on the performance of Tunindex as it represents 54% of total market capitalization. The considerable amount of loans granted to the family of deposed president (2,500MTND) scared stock market operators. Investors feared a sharp deterioration in the financial strength and profitability of banks because of the important additional provisions on that loans. This thesis has been disproved by the banks managers that confirmed the healthy financial situation of the companies belonging to the ex-president family members..
- **Industries index** was the top performer with 19.79% rise in 2011. This strong performance is due to the positive bias of the construction and building materials index (26.05%) favored especially by the jump of SOMOCER and CC.

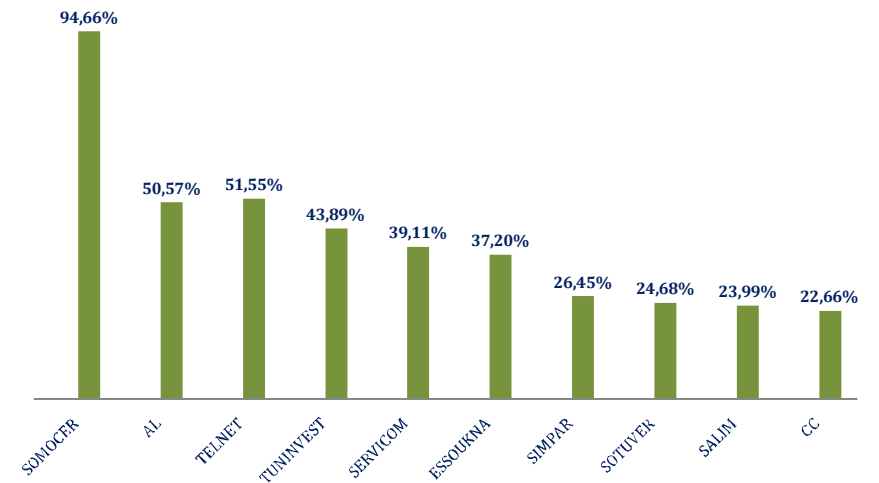
2011 top risers

- **SOMOCER** recorded the best performance of the year with 94.66% rise. The rally of stock price started in September. A change in the shareholding structure is the cause of this surge. DUET MENA through its managed funds, Duet Mena Opportunities, Duet and Duet Mena Innocap Horizon and Mr. Moez ZOUARI acting in concert, acquired 20.29% stake in SOMOCER capital previously held by Dubai Holding.
- Listed in May on the stock market, **Telnet Holding** ended the year in rise by 51.55%. As the first share in the technology sector to be listed in TSE, it attracted investors interest. In addition, the group's prospects are very promising with an international development. Moreover, after its presence in France, the group has created a new subsidiary in Germany. According to figures already published as on 30/09/2011, the company is in line with its business plan.
- **Tuninvest** rose by 43.89% in spite of tax adjustment of 2.7 MTND. This amount was not provisioned on the accounts of Tuninvest SICAR. The company decided to make an appeal in opposition to the Court of First Instance in Tunis. The recent rise of the stock price could be related to the exit from the capital of the company MEDIS and sale of its 25% stake in the IGL (Versus) that would drain capital gains.
- **SOTUVER** gained 24.68% paced by the announcement of a capital increase in cash to finance a major investment plan of 33 MTND. This investment is related to the installation of a second furnace with a capacity of 150 tons per day and the upgrading of the existing installation. This program will allow SOTUVER to double its production capacity in 2013, improve quality and competitiveness of its products and diversify its markets.

Index	Performance
Financial companies	-11,61%
Banks	-12,71%
Financial services	-6,18%
Services to consumers	-8,66%
Distribution	-8,09%
Consumers goods	7,51%
Automobile and equipment manufacturer	-6,98%
Industries	19,79%
Real estate and building materials	26,05%
Raw materials	29,69%

Source : Market Exchange, MACSa

Top risers in 2011



2011 stock market achievements

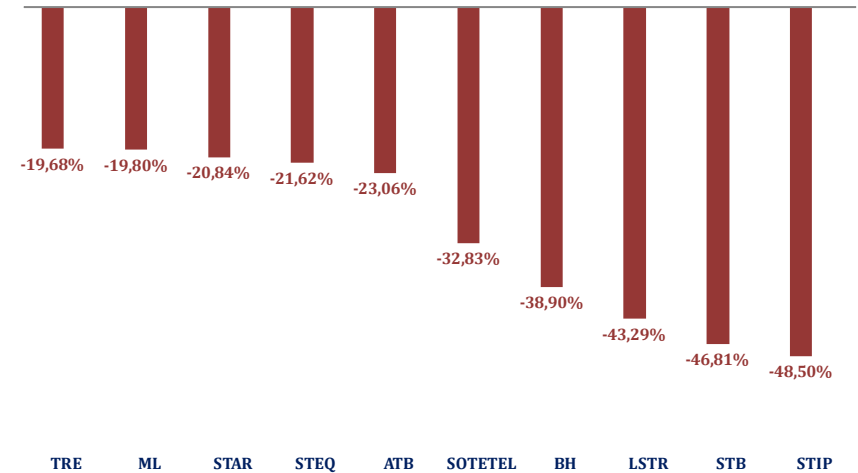
2011 top losers

- **BH** and **STB** lost respectively 46.81% and 38.9% pulled down mainly by the importance of engagement with the family of the deposed president.
- **LSTR** lost 43.29% to 3.97TND that is a price down below the par value of 5TND. The company was a victim of thefts during the revolution. The effect of these acts were accounted on the fiscal year 2010 which ended on a consolidated deficit of 25.5 MTND. The situation of the company became vulnerable and fears about the financial strength have increased.
- **SOTETEL** was seen in red in 2011. The stock price lost 32.83% penalized by a lack of visibility on the future prospects of the company. As on 9M2011, the company revenues decreased by 12% to 23MTND with an operating deficit of 0.732 MTND.
- **STAR** lost 20.84% due to concerns over a deterioration in its financial position after a fall of 29% at the interim results in 2011. STAR is the largest insurance company and therefore it is the most exposed to risk of high claims after the events of January 2010.

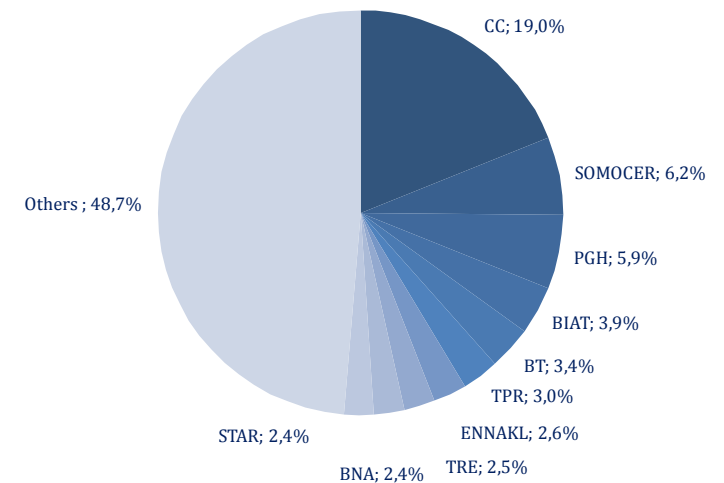
Most active shares

- Among 58 listed shares, 10 ones recorded 51% of the annual traded value in 2011. **Carthage Cement** was the most active with a traded value of 317.99 MTND i.e an average daily volume of 1.33 MTND. Interest on CC is explained by a satisfactory progress of the cement construction, despite a slight delay of three months. Ready Mix activity also displays a shift from what has been mentioned in this business plan .
- As the most successful private banks in the sector, **BIAT** and **BT** still attract the investors interest of with a traded values of 64.68MTND and 57.81 MTND respectively. For the first nine months of 2011, BIAT confirmed again its leading position with net banking income growth of 14.9% to 249.8 MTD, the highest income in the sector. The bank also recorded 12% growth in half yearly net income at 39.3MTND. BT has also shown growth in its key operating indicators but at lower pace. Net banking income rose in 30/09/2011 by 6.7% at 117.7 MTND.
- Investors have also shown enthusiasm for **PGH** that recorded a traded value of 99.02MTND. The mangement announced in September the resumption of activity on the Libyan market representing 10% of the group turnover.
- As result of important change in shareholding structure, **SOMOCER** registered a huge exchange volumes. The traded value reached at the end of the year 104.82MTND.

Top losers in 2011



Most active shares in 2011



2012 Perspectives

- 2012 will undoubtedly be difficult both domestically and internationally. The **worldwide** growth forecast of 4% will certainly be revised downward, as stated by Christine Lagarde, President of the IMF, and 2012 will be tough following the crisis in the Euro zone, according to Mrs Lagarde.
- At the **national level** as things will not be easy even if it is expected 4.5% growth by the transitional government and a little less (3.5%) according to the IMF. Several conditions must be met to achieve this recovery namely political stability, social peace, and security conditions. The big challenge would be based also on the resumption of economic activities which have declined significantly in 2011, namely tourism, public and private investment, exports of mineral products etc Job creation and regional development are the two main priorities. The equation is difficult to solve in the current situation, but the coordinated economic and political forces may bring to the solution.
- On the **stock market**, the situation depends on the socio-political and national economic conditions.
- Market participants are waiting for the publication of quarterly activity indicators to detect trends over the full year 2011. But in 2012 the quarterly activity indicators will give a signal about the operating evolution of the listed companies.
- Some trends can be observed:
 - **Banking sector:** The tightening of liquidity, the drop of the monetary market rate in 2011 and the risk of additional provisions, for some banks could affect the profitability of the sector.
 - **Leasing companies:** Being highly sensitive to economic conditions, leasing activity slowed in 2011. The impact of this decline will be observed in 2012. Moreover, with the tightening of liquidity, refinancing of leasing companies will be more expensive which will weigh on profitability.
 - **Insurance companies:** They certainly will experience a high sinister ratio in 2011 to cover damages that hit factories, stores and many other public and private property. Currently, it is difficult to predict whether these risks will be charged to 2011 or spread over the coming years. Furthermore, an important part will be covered by reinsurance.
 - **The distribution sector** for MAG and MONOPRIX: Despite the damage in 2011 and the loss of activity, it is expected a return to normal activity in 2012 with reopening of the closed outlets and establishment of Monoprix in libyan market. For ARTES and ENNAKL, their activity in 2012 could suffer again from the economic turmoil.
 - **Industry:** Industrial companies, including exporters will face a double challenge: the decline in external demand, particularly in Europe and slowdown of local market. Defensive sectors such as SOPAT, ADWYA, SIPHAT, CC, CBS may well resist.
- At the current situation and in this context of uncertainty, we preserve to give our opinion or recommendation. Currently, we prefer a stock-picking strategy according to the market conditions and concentrated on the shares that have strong fundamentals, attractive valuations and high dividend yields.