

Q2: Full speed



Merrill Lynch

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Outstanding performance

Delek Auto (DLEA) released an excellent set of Q2 numbers, which beat our expectations across the board. Revenues were ILS1,317mn, slightly ahead of our estimate and representing 14% growth YoY. DLEA sold 12,265 vehicles in Q2, vs 11,022 in 2Q07, representing 11.2% growth and in line with the market rate. For 1H 2008 its car sales rose 45%, double the market rate. Q2 car sales growth is more representative, as Q1 growth (32% YoY) was skewed by the timing of the tax reform, which pushed Q4 sales into January 2008. In Q2 the company reported record gross and EBIT margins (20% and 19%, respectively, up from 16% and 15% in 2Q07). Including a one-off loss on an investment in Ford, DLEA announced record net income of ILS181mn (50% growth YoY, with 14% margins. MLe = ILS151mn).

2008 outlook - on track but slower H2 expected

Market growth rates continue to exceed expectations. July delivery reports translate into an annualised car sales figure for Israel that is 9% above our expectation (231k vs 221k MLe), while both Ford's and Mazda's annualised numbers are 4% above our forecasts. We are not amending our projections, as we believe that Mazda sales will be lower in Q4, due to the launch of DLEA's flagship car – the new Mazda 3 – in 1Q 2009.

Healthy cash flow, strong dividend - Buy

As expected, DLEA will leverage its strong OCF yield (5% annualised) to pay its net income as dividend, translating into a 14% annualised DY (100% payout, ILS 2 DPS). We are increasing our 2008–09E revenues by 11% and 8%, respectively, and 2008E EPS by 35% to ILS6.3. DLEA is still trading at 9x 2008E P/E, with a 13% DY. We maintain our Buy rating and PO of ILS70/s.

Estimates (Dec)

(ILS)	2006A	2007A	2008E	2009E	2010E
	Other GAAP	Other GAAP	Other GAAP	Other GAAP	Other GAAP
EPS (Reported Diluted)	3.18	4.96	5.90	4.87	4.83
EPS Change (YoY)	-16.0%	56.1%	18.9%	-17.4%	-0.9%
Dividend / Share	3.42	4.95	6.93	4.14	4.10

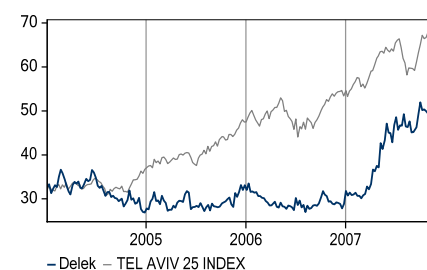
Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	16.3x	10.5x	8.80x	10.7x	10.7x
Dividend Yield	6.59%	9.53%	13.4%	7.97%	7.91%
EV / EBITDA*	10.9x	7.16x	6.16x	7.70x	7.71x
Free Cash Flow Yield*	1.85%	25.9%	12.9%	3.92%	-0.54%

* For full definitions of *iQmethod*SM measures, see page 7.

Stock Data

Price	ILS51.90
Price Objective	ILS70.00
Date Established	5-Aug-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	ILS42.02-ILS62.65
Mrkt Val / Shares Out (mn)	ILS4,723 / 91.0
Average Daily Volume	295,399
ML Symbol / Exchange	XDLKF / TLV
Bloomberg / Reuters	DLEA IT / DLEA.TA
ROE (2008E)	108.9%
Net Dbt to Eqty (Dec-2007A)	11.4%
Est. 5-Yr EPS / DPS Growth	10.4% / 10.4%
Free Float	23.4%



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Refer to important disclosures on page 8 to 9. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6.

11 August 2008

iQprofileSM Delek Automotive

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(ILS Millions)	Other GAAP	Other GAAP	Other GAAP	Other GAAP	Other GAAP
Sales	4,060	4,630	5,009	5,210	5,418
EBITDA Adjusted	447	681	792	633	633
Depreciation & Amortization	(9.61)	(11.0)	(11.1)	(15.6)	(17.6)
EBIT Adjusted	438	670	781	618	615
Net Interest & Other Income	(38.4)	(64.3)	(34.0)	(6.13)	(16.8)
Tax Expense / Benefit	(125)	(177)	(211)	(165)	(156)
Net Income (Adjusted)	273	427	536	446	443
Average Fully Diluted Shares Outstanding	86.1	86.1	91.0	91.7	91.7

Key Cash Flow Statement Data

Net Income (Reported)	273	427	536	446	443
Depreciation & Amortization	9.61	11.0	11.1	15.6	17.6
Change in Working Capital	(185)	719	124	(234)	(429)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	10.4	17.9	21.7	2.36	0.01
Cash Flow from Operations	109	1,175	693	230	31.5
Capital Expenditure	(26.4)	(16.8)	(82.6)	(43.6)	(57.2)
(Acquisition) / Disposal of Investments	(70.0)	0	(33.6)	0	0
Other Cash Inflow / (Outflow)	0.22	0.53	6.57	0	0
Cash Flow from Investing	(96.3)	(16.3)	(110)	(43.6)	(57.2)
Share Issue / (Repurchase)	255	0	4.54	(20.0)	0
Cost of Dividends Paid	(294)	(426)	(631)	(379)	(376)
Cash Flow from Financing	6.90	(1,081)	(642)	99.9	(126)
Non Cash Changes to Debt	NA	NA	NA	NA	NA
Change in Net Debt	26.8	(733)	42.7	213	402
Net Debt	786	62.5	125	337	739

Key Balance Sheet Data

Property, Plant & Equipment	245	252	285	313	352
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	NA	NA	NA	NA	NA
Other Non-Current Assets	70.0	79.4	169	167	167
Trade Receivables	729	610	501	785	965
Cash & Equivalents	90.9	156	76.2	363	211
Other Current Assets	645	651	501	648	805
Total Assets	1,780	1,749	1,532	2,275	2,499
Long-Term Debt	183	174	13.7	400	550
Other Non-Current Liabilities	106	90.3	75.4	55.4	55.4
Short-Term Debt	694	44.5	187	300	400
Other Current Liabilities	327	890	820	1,017	925
Total Liabilities	1,310	1,199	1,097	1,772	1,930
Total Equity	470	550	435	502	569
Total Equity & Liabilities	1,780	1,749	1,532	2,275	2,499

Key Metrics

iQmethodSM - Bus Performance*

Return On Capital Employed	22.9%	41.0%	71.4%	45.8%	32.1%
Return On Equity	68.3%	83.7%	109%	95.1%	82.7%
Operating Margin	10.8%	14.5%	15.6%	11.9%	11.4%
Free Cash Flow (MM)	82.4	1,158	611	187	(25.7)

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.40x	2.75x	1.29x	0.52x	0.07x
Asset Replacement Ratio	2.75x	1.53x	7.42x	2.79x	3.25x
Tax Rate	31.4%	29.2%	28.2%	27.0%	26.0%
Net Debt/Equity	167%	11.4%	28.6%	67.1%	130%
Interest Cover	11.5x	10.4x	18.4x	NM	36.5x

* For full definitions of iQmethodSM measures, see page 7.

Company Description

Delek Automotive is Israel's largest car distributor in Israel. The Group's principal activities are the import and distribution of Mazda, Ford and Lincoln brand vehicles, accessories and spare parts, provision of vehicle towing, roadside repair services and temporary loan car services. The Group operates through its fully owned "Delek Motor" subsidiary and in 2006 had a market share of 23% of total car sales in Israel.

Investment Thesis

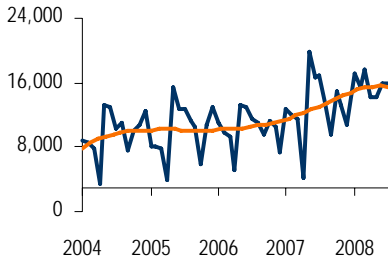
With 25 percent market share in Israel, Delek Auto is fastest growing auto dealer in Israel as well as the highest DY shares in our universe. DLEA enjoys strong macro economic fundamentals which include growth in private consumption, tax reduction on new cars and very low car penetration.

Stock Data

Price to Book Value 10.8x

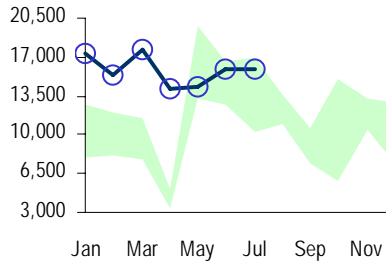
Car market statistics

Chart 1: Total Private Car Deliveries, 2004 - date



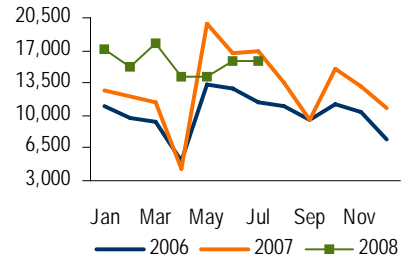
Source: DLEA, Merrill Lynch, MoT

Chart 2: 2008 vs 2004-2007 range



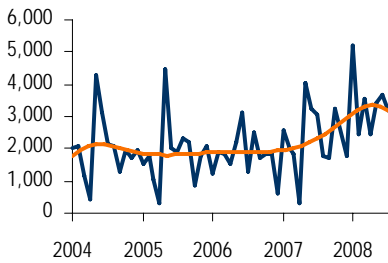
Source: DLEA, Merrill Lynch, MoT

Chart 3: 2008 vs 2006&2007



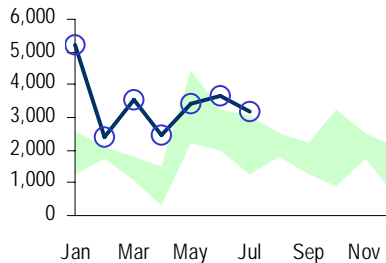
Source: DLEA, Merrill Lynch, MoT

Chart 4: Total Mazda Deliveries, 2004 - date



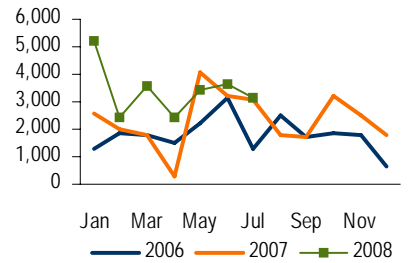
Source: DLEA, Merrill Lynch, MoT

Chart 5: 2008 vs 2004-2007 range



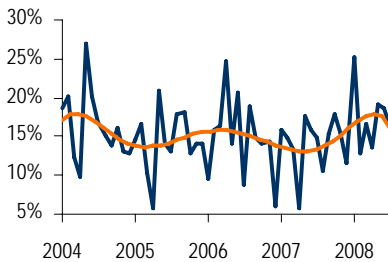
Source: DLEA, Merrill Lynch, MoT

Chart 6: 2008 vs 2006&2007



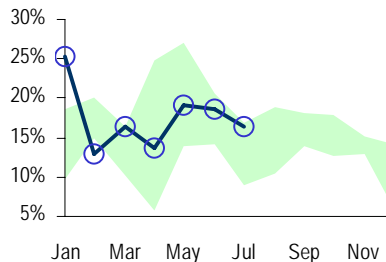
Source: DLEA, Merrill Lynch, MoT

Chart 7: Mazda Market Share, 2004 - date



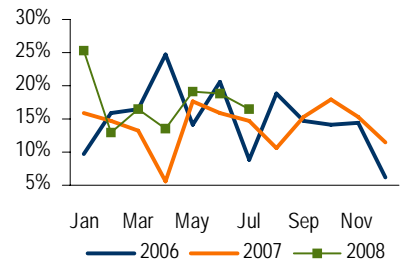
Source: DLEA, Merrill Lynch, MoT

Chart 8: 2008 vs 2004-2007 range



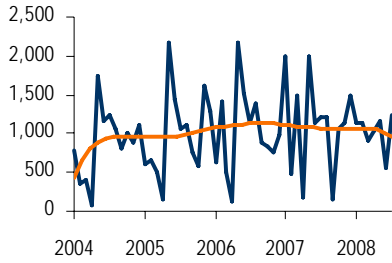
Source: DLEA, Merrill Lynch, MoT

Chart 9: 2008 vs 2006&2007



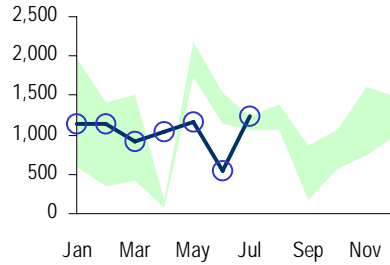
Source: DLEA, Merrill Lynch, MoT

Chart 10: Total Ford Deliveries, 2004 - date



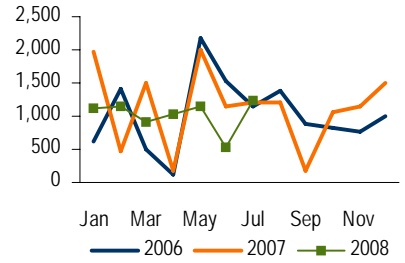
Source: DLEA, Merrill Lynch, MoT

Chart 11: 2008 vs 2004-2007 range



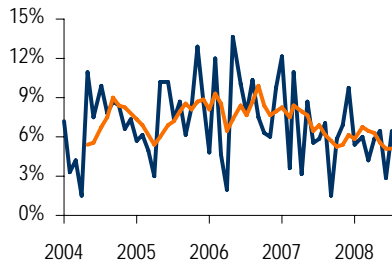
Source: DLEA, Merrill Lynch, MoT

Chart 12: 2008 vs 2006&2007



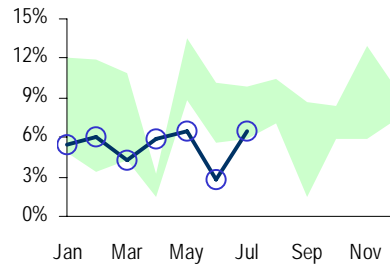
Source: DLEA, Merrill Lynch, MoT

Chart 13: Ford Market Share, 2004 - date



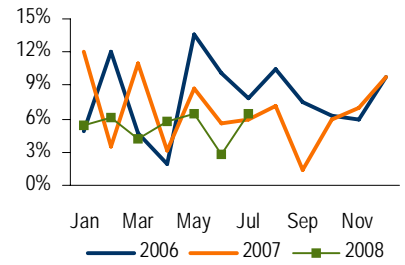
Source: DLEA, Merrill Lynch, MoT

Chart 14: 2008 vs 2004-2007 range



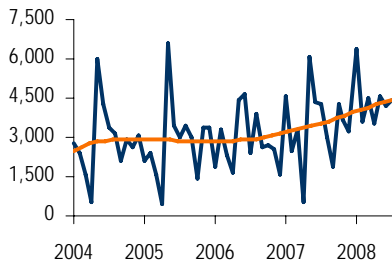
Source: DLEA, Merrill Lynch, MoT

Chart 15: 2008 vs 2006&2007



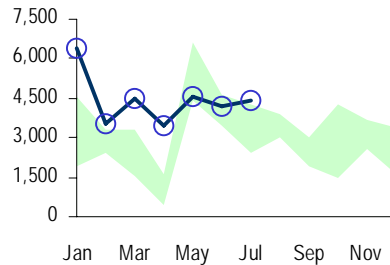
Source: DLEA, Merrill Lynch, MoT

Chart 16: Total Delek Auto Deliveries, 2004 - date



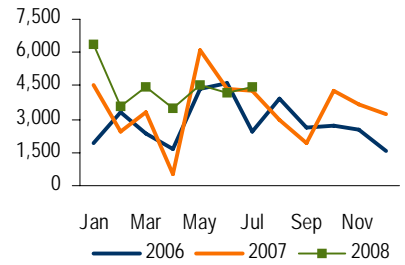
Source: DLEA, Merrill Lynch, MoT

Chart 17: 2008 vs 2004-2007 range



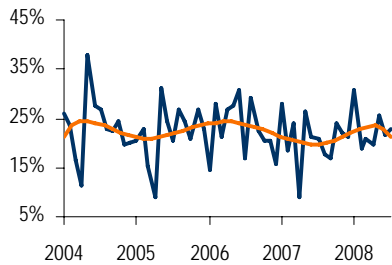
Source: DLEA, Merrill Lynch, MoT

Chart 18: 2008 vs 2006&2007



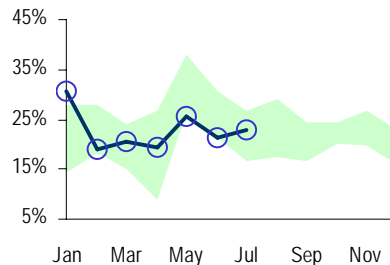
Source: DLEA, Merrill Lynch, MoT

Chart 19: Delek Auto Market Share, 2004 - date



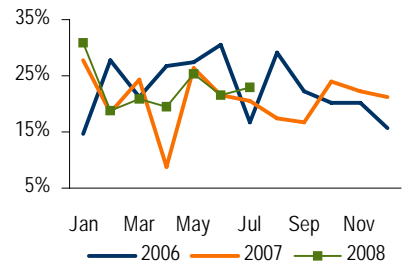
Source: DLEA, Merrill Lynch, MoT

Chart 20: 2008 vs 2004-2007 range



Source: DLEA, Merrill Lynch, MoT

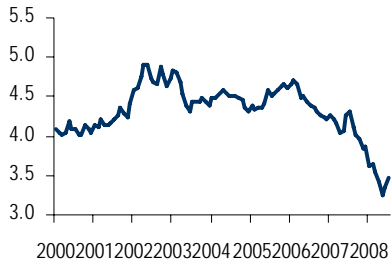
Chart 21: 2008 vs 2006&2007



Source: DLEA, Merrill Lynch, MoT

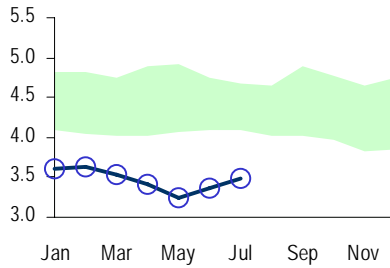
Currencies

Chart 22: ILS/US\$, Spot, 2000-date



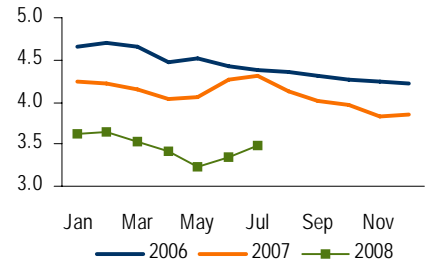
Source: Bloomberg

Chart 23: 2008 vs 2000-2007 range



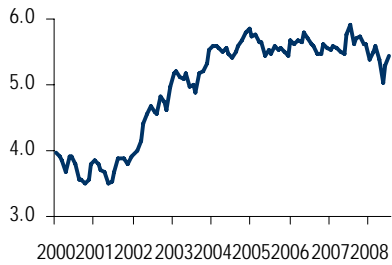
Source: Bloomberg

Chart 24: 2008 vs 2006&2007



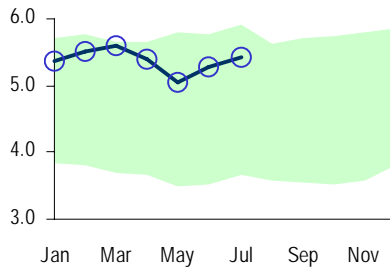
Source: Bloomberg

Chart 25: ILS/EUR, Spot, 2000-date



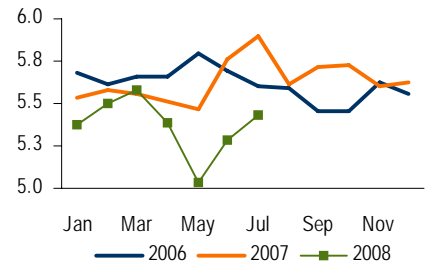
Source: Bloomberg

Chart 26: 2008 vs 2000-2007 range



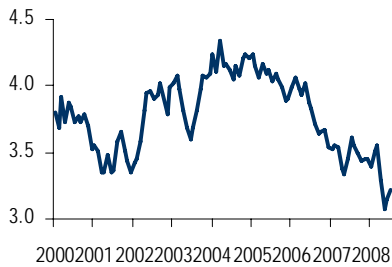
Source: Bloomberg

Chart 27: 2008 vs 2006&2007



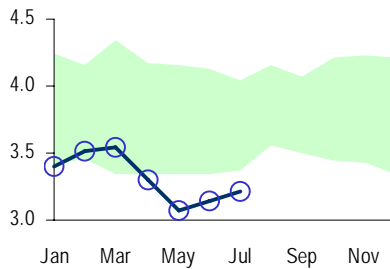
Source: Bloomberg

Chart 28: ILS/JPY(100), Spot, 2000-date



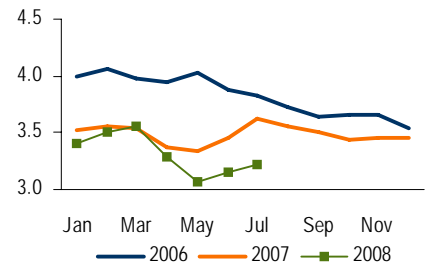
Source: Bloomberg

Chart 29: 2008 vs 2000-2007 range



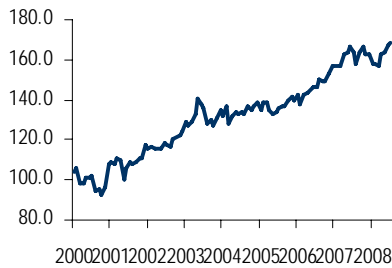
Source: Bloomberg

Chart 30: 2008 vs 2006&2007



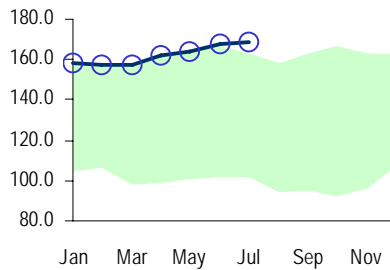
Source: Bloomberg

Chart 31: JPY/EUR, Spot, 2000-date



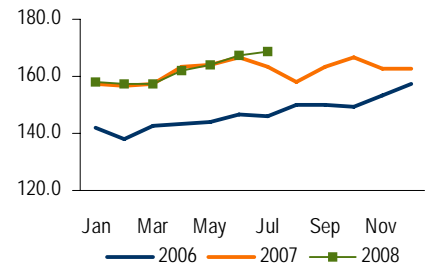
Source: Bloomberg

Chart 32: 2007 vs 2000-2006 range



Source: DataStream

Chart 33: 2007 vs 2005&2006



Source: DataStream

Price objective basis & risk

Delek (XDLKF)

Our ILS70 PO is based on the lower of two valuation methods: DCF (ILS72) and DDM (ILS70). We utilise an 8.4% WACC, factoring in a Beta of 1.0x relative to the TA-100 (24 months beta, 0.94x), an Rf of 6.0% (12 m. rolling Shahaar bonds yields) and an equity risk premium of 5.5% above the risk-free rate.

Risks to our price objective are the ongoing investigation and changes in the macroeconomic environment. DLEA is also highly exposed to FX trends (mainly euro, US\$ and yen). Tax reform in Israel and its timing should have an impact on results and car sales.

Analyst Certification

I, Haim Israel, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Emerging EMEA - Israel Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Bank Hapoalim	BKHPF	POLI IT	Haim Israel
	Delek	XDLKF	DLEA IT	Haim Israel
	Israel Chemical	ISCHF	ICL IT	Haim Israel
NEUTRAL				
	Bank Leumi	BLMIF	LUMI IT	Haim Israel
	Discount Bank	ISDCF	DSCT IT	Haim Israel
	Makhteshim-Agan	MAIDF	MAIN IT	Haim Israel
UNDERPERFORM				
	Mizrahi Tefahot	UMZRF	MZTF IT	Haim Israel
	Ormat Industries	OMTDF	ORMT IT	Haim Israel

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

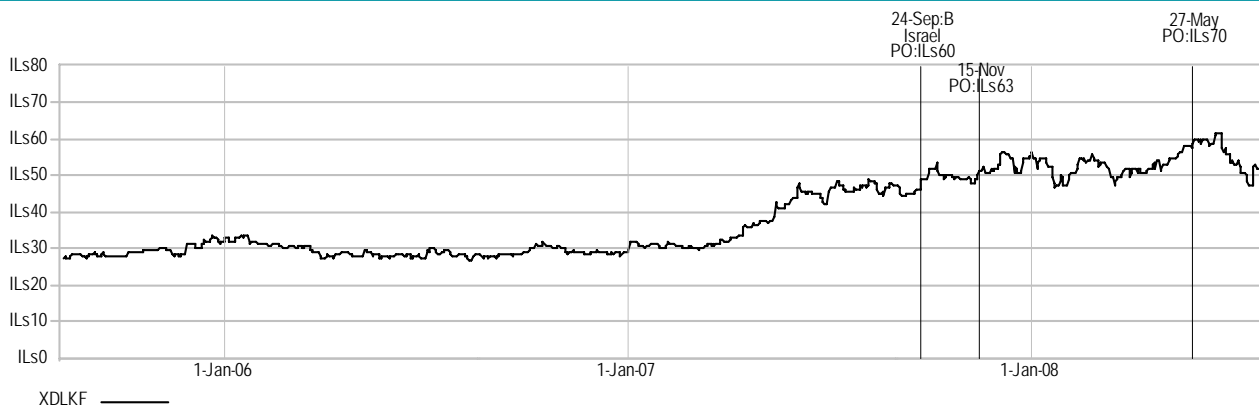
iQmethodSM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

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Important Disclosures

XDLKF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to July 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of July 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2008 or such later date as indicated.

Investment Rating Distribution: Distributors Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	7	63.64%	Buy	1	14.29%
Neutral	0	0.00%	Neutral	0	0.00%
Sell	4	36.36%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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