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Discount Investment Corporation Ltd. (TASE: DISI)

Sector: Holdings

Neutral

Meeting with Management

17 JUNE 2002

Stock Data

Price (NIS)	100.5
Shares O/S (m)	91.8
Market Cap (Nis,m)	4,630.8
Free Float (%)	27.5
12 Mo. Range (NIS)	97.6 - 157.7
12 Mo. Average Volume (Nis,m)	8.7

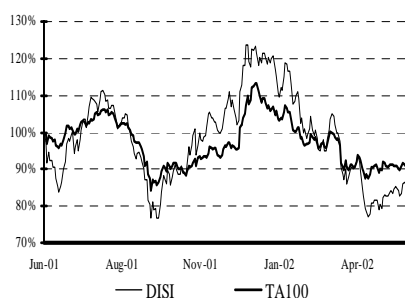
Estimates

	FY01a	FY02e	FY03e
Net Income (NIS,m)	(965.0)	---	---
EPS	(21.1)	---	---
EPS growth (YoY)	---	---	---
PER	---	---	---
Rev. Growth (YoY)	---	---	---
EV/EBITDA	---	---	---
Gross Div	---	---	---
Cash Flow/Share	---	---	---
ROE	---	---	---
PEG	---	---	---

Changes

	Previous	Current
Rating	Neutral	Neutral
Price Tag (NIS)	---	---
Discount to NAV	18.7%	21.4%
ROE (2002)	Negative	Negative
ROA (2002)	Negative	Negative
PEG	---	---
CAGR (%)	---	---

DISI Versus Ta100 Relative Strength



A Long Term Asset play, Maintaining Neutral Rating

- UPC's capital gain holds the fort.** After 6 consecutive quarter in which the Company reported a net loss, *Discount Investment Corporation's* (DIC) Net income in 1Q02 amounted to NIS 287 million vs. a net loss of NIS 95 million in 1Q01. As mentioned, *DIC* wrote a one-time capital gain from a PUT option it had on *United Pan European* (UPC) shares.
- Cellcom and Supersol vs. Tevel and Gilat.** The main contributors for the YoY improved performance in 1Q02 are *Cellcom* (25% in stake), which contributed NIS 44 million 29% growth YoY and *Supersol* (TASE: SAE, Neutral, 53% in stake) contributed NIS 30 million. 1Q02 numbers did not include net losses of several companies, which were included in 1Q01 like *Tevel* (whose *DIC's* share in its losses amounted to NIS 51.0 million in 1Q01) and *Gilat Satellites* (NASDAQ: GITF).
- Smart launch of Cellcom's GSM network.** Up until now, *Cellcom* have connected only few thousands subscribers to its new 1800Mhz GSM network, and the vast majority of them is from the business segment. We believe in *Cellcom's* marketing strategy regarding the new GSM network. We believe that by a non-public campaign, approaching only the business segment, *Cellcom* will avoid a high chunk rate in its old TDMA network.
- DIC to increase its stake in the joint CATV Company for pennies.** We believe that the current situation in *Tevel* holds a long-term opportunity for *DIC*. We are currently modeling two basic scenarios for *Tevel*, in both *DIC* can increase its holding in the company, leveraging its share to increase its share in the joint CATV company. We believe that in the end of the process *DIC* will hold 80% to 85% of *Tevel*, and through that investment *DIC's* share in the joint company to 30% - 32% vs. 19% -20% originally (assuming no dilution to current debtors).

Investment Recommendation:

Despite our firm belief in *DIC's* management and the positive long term prospectus for *DIC*, we are adjusting our valuation model to reflect recent events surrounding the *IDB Group* as a whole and *DIC* in particular, particularly as the much needed new strategic plan has been put on hold for now. According to our NAV model, *DIC* is trading at a discount to its Net Asset Value of 21.4% as discount to NAV historically stood at 15%- 19%; **Hence we are reiterating our Neutral rating for *DIC*.**



Key Holdings Analysis

Cellcom already started to launch its GSM network

Cellcom

As we have projected previously, *Cellcom's* (25% in stake) top line has continued to present moderate growth rate. Revenues were stagnant QoQ, reaching NIS 1,220 million. Net income have reached NIS 174.9 million mainly due to decline in operating expenses and a sharp increase in financial income (which was generated due to LONG \$US linked positions).

We stress that although *Cellcom* have managed to present improved performance, *Cellcom's* management is facing several challenges, which will represent the end of *Cellcom's* golden era. *Cellcom* is facing a moderate top line growth rate as the company has started launching its GSM network. Up until now, *Cellcom* have connected only few thousands subscribers to its new 1800Mhz GSM network, and the vast majority of them is from the business segment.

We believe in *Cellcom's* marketing strategy regarding the new GSM network. We believe that by a non-public campaign, approaching only the business segment, *Cellcom* will avoid a high chunk rate in its old TDMA network (similar to the problem *Pelephone* had experienced in 1999 when it have launched its new CDMA network).

We believe that this marketing strategy will help to increase APRU (currently NIS 180 per month) and maintain its large customer base despite the fact that the penetration rate in the new network.

As Israel reaches a 69% cellular penetration, we are modeling a slower growth rate in the domestic cellular arena in the coming quarters. We believe that differentiation is a must in this highly competitive environment and a strong brand name is a crucial element for success.

Due to cellular penetration and the unique characteristics of the Israeli market, we believe that strong management and wide brand awareness are as crucial at this market stage as are an expanding ARPU and EBITDA margin. Therefore we believe that *Cellcom's* management should focus on expanding margins while preserving its customer base.

Tevel

DIC will increase its share in Tevel for pennies

We believe that the current situation in *Tevel* (48.5% in stake) holds a long-term opportunity for *DIC*. We are currently modeling two basic scenarios for *Tevel*, in both *DIC* can increase its holding in the company, leveraging its share to increase its share in the joint CATV company:

- Bankruptcy for *Tevel* (an unlikely scenario). In this case we believe that *DIC* will buy *Tevel* as a non-living entity (for the price of its client base). In that case *DIC* will not have to absorb its portion of *Tevel's* liabilities.
- A more realistic scenario in which a compromise with the debtors will be achieved and *DIC* will increase its share in the *Tevel* and approx. 40% of *Tevel's* liabilities will be dropped significantly.

In any case we believe that in the end of the process *DIC* will hold 80% to 85% of *Tevel*, and through that investment *DIC's* share in the joint company to 30% - 32% vs. 19% -20% originally (assuming no dilution to current debtors).



Supersol

Economic slowdown to impact Supersol

Supersol's (53% in stake) 1Q02 numbers continued to reflect a tough business environment. Although figures point to remarkable growth top to bottom, in-depth analysis reveals the effects of the harsh domestic macro environment and increasing competition.

Quarterly revenues amounted to NIS 1.71 billion, an increase of 10.9% compared to NIS 1.54 billion in 1Q01. Same store sales (SSS) increased by 3.3% during the quarter, compared to the same period last year. The increase in revenues comes mainly from new stores contributions, as well as the timing of the Passover holiday, which positively affected 1Q02 but was not included in 1Q01.

Although *Supersol* is a long-term, stable growth story, we believe that the current economic situation in Israel will affect the sector. While DGP numbers published recently point to a 5.4% growth in Private Consumption QoQ, according to our model, this growth will be sustained in upcoming quarters

Maintaining Neutral Rating

Valuation

An in-depth analysis of *DIC's* holding portfolio leads us to believe that although recovery is not imminent, the company suggests an attractive asset play. *DIC's* strong positioning in the telecom, retail and advance technology sectors offers a long-term value for shareholders. Adopting a conservative approach, we note that the recovery of *DIC* is much depended on two main factors: the reorganization plan within the *IDB* group as well as a settlement in Tevel's lasting saga and a full merger between the CATV companies.

Despite our firm belief in *DIC's* management and the positive long term prospectus for *DIC*, we are adjusting our valuation model to reflect recent events surrounding the *IDB Group* as a whole and *DIC* in particular, particularly as the much needed new strategic plan has been put on hold for now. According to our NAV model, *DIC* is trading at a discount to its Net Asset Value of 21.4% as discount to NAV historically stood at 15%- 19%; **Hence we are reiterating our Neutral rating for *DIC*.**



DIC - NAV Model

Communications	DIC share %	Carrying value	Value	Valuation Basis	Value to DIC	% of NAV	Delta**
<i>Communications - Services & content</i>							
Cellcom	25.00%	518.00	11,169.00	NZS Valuation	2,792.25	35.27%	2,274.25
Tevel International	48.5%	-201.00	248.20	NZS Valuation	120.25	1.52%	321.25
Aviv Giladi	50.00%	16.00	32.00	BS	16.00	0.20%	-
Gilat Communications	15.00%	2.00	37.52	Market Value	5.63	0.07%	3.63
Storlines Israel	6.00%	2.00	151.40	BS	2.00	0.03%	-
Global Village Telecom	14.00%	6.00	1,200.00	BS	168.00	2.12%	162.00
Total		343.00	12,838.12		3,104.13	39.21%	2,761.13
<i>Communications - Technologies</i>							
Elron	48.00%	401.00	1,845.00	NZS Valuation	885.60	11.19%	484.60
Gemini II	8.00%	5.00	62.50	BS	5.00	0.06%	-
Gemini Israeli Fund	32.00%	9.00	140.00	BS	44.80	0.57%	35.80
Ken-tech	24.00%	4.00	16.67	BS	4.00	0.05%	-
Gilat Satellites	4.00%	11.00	171.64	Market Value	6.87	0.09%	-4.13
Witcom	15.00%	-	-	BS	-	0.00%	-
Total		430.00			946.27	11.95%	516.27
<i>Retail</i>							
Super-Sol	53.00%	1,106.00	3,576.80	NZS Valuation	1,895.70	23.95%	789.70
Albar	94.00%	230.00	244.68	BS	230.00	2.91%	-
Total		1,336.00			2,125.70	26.85%	789.70
Additional Holdings							
<i>Financial Services</i>							
Ilanot-Batucha	50.00%	76.00	152.00	BS	76.00	0.96%	-
Total		76.00			76.00	0.96%	-
<i>Real Estate and Investment</i>							
Property & Building	64.00%	728.00	651.14	Market Valuation	416.73	5.26%	-311.27
El-Yam Ships	24.41%	286.00	1,249.01	IDB Market Value	304.88	3.85%	18.88
Bartan	56.00%	19.00	33.93	BS	19.00	0.24%	-
Total		1,033.00			740.61	9.36%	-292.39
<i>Industry and Technologies</i>							
Scitex	22.00%	286.00	955.38	Market Value	210.18	2.66%	-75.82
Aprion	14.60%	1.00	694.96	Market Value	101.46	1.28%	100.46
Liraz Systems	13.00%	6.00	57.63	Market Value	7.49	0.09%	1.49
Electronics Line	21.00%	10.00	356.62	Market Value	74.89	0.95%	64.89
Given imaging	15.00%	18.00	1,547.49	Market Value	232.12	2.93%	214.12
American Israeli Paper	18.96%	165.00	518.45	Market Value	98.30	1.24%	-66.70
Tefron	14.30%	12.00	213.16	Market Value	30.48	0.39%	18.48
Ham-let	19.70%	28.00	111.69	Market Value	22.00	0.28%	-6.00
Kiil	5.00%	5.00	177.60	Market Value	8.88	0.11%	3.88
Maxima	23.75%	22.00	80.31	Market Value	19.07	0.24%	-2.93
D.B.E.C	50.00%	15.00	51.40	BS	25.70	0.32%	10.70
Total		568.00			830.59	10.49%	262.59
Other		92.50		BS	92.50	1.17%	-
Total		3,895.00			7,915.81	100.0%	4,020.81
Minority interest in consolidated companies		1,805.00					
DIC's book value, net		2,130.00					
Market Value of Discount Investment Corp.					4,630.8		
Total NAV					6,150.8		
Discount to NAV					25%		
Present value of Management fees& G&A					256.8		
					5,894.0		
Value Per share			-21.4%		64.2		
Discount to NAV, net					21.4%		



Ratings Key

1. **Strong Buy:** Expected to significantly outperform the relevant broader market index over the next 6-12 months. An identifiable catalyst is present to drive appreciation.
2. **Buy:** Expected to outperform the relevant broader market index over the next 12-18 months.
3. **Neutral:** Expected to perform in-line with the relevant broader market index over the next 6-12 months.
4. **Sell:** Expected to underperform the relevant broader market index over the next 6-12 months.

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