UBS

UBS Investment Research

Delek Group

Global Equity Research

Israel

Industrial, Diversified

12-month rating	Neutral *
	Prior: Buy
12m price target	NIS754.00/US$206.52
	Prior:NIS1,210.00/US$331.42
Price	NIS657.20/US$180.01

RIC: DELKG.TA BBG: DLEKG IT

21 February 2008

Cheap but lack of triggers; downgrade

Exaggerated drop in share price but lack of triggers

We reduce our price target from NIS1210 to NIS754 largely to reflect the fall in value of several key subsidiaries and move our stance from Buy to Neutral. Although we view the share price decline (-38% absolute, -30% relative, since its peak in July 07) as somewhat overdone, we see a lack of triggers on the upside.

Quality portfolio of assets, Business as usual

Delek is a large holding company with 4 key branches, Energy & Infrastructure (49% of NAV), Insurance/Financial Services (19%), Automotive (18%) & Real Estate (9%). 82% of NAV is listed, 18% private. We see 4 key reasons to own the stock: exposure to successful management with strong track record of successful IPOs & investments, diversification both geographically & sector, exposure to a relatively strong Israeli economy and a 30% discount to NAV which we believe could narrow when markets become less volatile.

Concerns: Leverage, Real Estate, Lack of Catalysts

1) US refining margins under pressure, 2) Highly geared on a consolidated basis in a slowing global economy; exposure to sectors perceived by investors as risky (real estate, insurance, US refinery), 4) Holding companies often underperform in a bear market & 3) Lack of IPOs/exits expected in 2008. Although we believe there is hidden value in the group's private assets, current market conditions make realisation unlikely.

Valuation; PT = NIS754 based on 20% discount to NAVe of NIS944

The shares trade at a 30% discount to our NAV of NIS944. Our PT of NIS754 is set at a 20% (increased from 15%, given risks as highlighted above) conglomerate discount to NAV.

Highlights (NISm)	12/05	12/06	12/07E	12/08E	12/09E
Revenues	18,333	24,118	-	-	-
EBIT (UBS)	1,333	1,530	-	-	-
Net Income (UBS)	476	922	-	-	-
EPS (UBS, NIS)	47.33	79.62	-	-	-
Net DPS (UBS, NIS)	38.18	38.02	41.82	29.28	32.20

Profitability & Valuation	5-yr hist av.	12/06	12/07E	12/08E	12/09E
EBIT margin %	7.2	6.3	-	-	-
ROIC (EBIT) %	-	22.4	-	-	-
EV/EBITDA (core) x	-	6.4	-	-	-
PE (UBS) x	16.9	9.0	-	-	-
Net dividend yield %	4.0	5.3	6.4	4.5	4.9

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of NIS657.20 on 20 Feb 2008 21:36 GMT

Darren Shaw
Analyst
Darren.Shaw@ubs.com
+972-99 600113

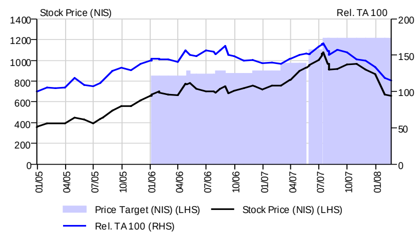
Trading data (local/US$)	
52-wk range	NIS1,091.00-643.50/US$255.86-174.92
Market cap.	NIS7.20bn/US$1.97bn
Shares o/s	10.9m (ORD)
Free float	41%
Avg. daily volume ('000)	47
Avg. daily value (NISm)	37.2

Balance sheet data 12/07E	
Shareholders' equity	-
P/BV (UBS)	-
Net Cash (debt)	-

Forecast returns	
Forecast price appreciation	+14.7%
Forecast dividend yield	4.5%
Forecast stock return	+19.2%
Market return assumption	9.3%
Forecast excess return	+9.9%

EPS (UBS, NIS)	12/07E			12/06
	From	To	Cons.	Actual
Q1	14.34	14.34	27.92	23.07
Q2	-	26.17	37.10	43.94
Q3	-	25.39	33.24	8.81
Q4E	-	-	-	7.08
12/07E	-	-	*97.41*	
12/08E	-	-	*78.03*	

Performance (NIS)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 13. * Exception to core rating bands; See page15

Investment Thesis

Quality Assets and Management

Delek Group is a holding company with a portfolio of high quality assets and an impressive management team who over the past years has succeeded in creating value for investors. Over the last four months the share price has fallen by c31%, underperforming the TA25 by 25%, due to concerns about its real estate exposure, pressure on refining margins and concerns about the groups' leverage.

In our opinion investors should evaluate Delek Group using a total portfolio approach recognising that management has built a complementary portfolio of assets that compensate each other during the ups and downs of the economic cycle.

Overview/Latest Developments in Core Assets

Delek is a large holding company with 4 key branches, Energy & Infrastructure (49% of NAV), Insurance/Financial Services (19%), Automotive (18%) & Real Estate (9%). 82% of NAV is listed, 18% private.

Energy & Infrastructure Portfolio (49% of assets)

Delek Group has a diverse energy portfolio, the majority are focused on downstream, distribution and retail in Israel (through Delek Israel, listed on the TASE; 89% owned by Delek Group, the US (through Delek US, NYSE, 73.4%-owned) and Delek Europe (private, 100%-controlled). Delek also owns other oil and gas exploration and production assets through Delek Energy (TASE, 89.9%-owned).

Delek US (16% of Assets)

Delek US is listed on the NYSE with a market cap of c$850m and is 73.4% owned by the Delek Group.

Delek US has been grown by the Delek Group in less than a decade from an initial 200 filling stations into an integrated downstream oil company with its own 60,000 bpd refinery, 114 miles of pipelines and two refined petroleum terminals and over 500 filling stations and convenience stores across the southern US. That said 2008 may potentially be the most challenging for the company. A potential recession in the US economy on the one hand and historically high crude prices is likely to make 2008 one of the most challenging for Management. Over the last year Delek US has traded in line with its large cap competitors, affected primarily by the negative trends in refining spreads. That said, Delek US' exposure to convenience stores should give an element of comfort.

In Q307, Delek USA acquired c35% of the shares of Lion Oil (Lion) for $140mn of cash and stock. Lion, a privately-held company, owns and operates a 75,000 barrel per day, high conversion crude oil refinery in El Dorado, AR, three crude oil pipelines and two refined petroleum products terminals in Memphis and Nashville, TN. The two terminals supply products to some of Delek's 188 convenience stores in the Memphis and Nashville, TN markets.

UBS economists recently revised their view of the US economy and now foresee a 2008 recession, albeit of less than average severity. UBS economist Maury Harris recently lowered 2008 US GDP forecasts to 0.8% (from 2.1%) expecting a recession in 2008. Given that US gasoline demand is highly correlated with GDP (correlation of 0.94), slowdown in the economy is expected to have an adverse impact on light product demand. In addition, UBS oil economist Jan Stuart recently raised the 2008-09 oil price assumptions to $85/Bbl and $78/Bbl, up from $74/Bbl and $73/Bbl respectively.

Slowing of the US economy, rising crude prices coupled with higher gasoline prices at the retail level should have an adverse impact on gasoline demand. UBS has therefore recently lowered its 2008 gasoline demand estimate to -0.3% (from 0.5%) and -0.1% in 2009 (from 0.7%). UBS expects distillate demand growth to be -0.2% in 2008 (from 1.3%) and 0.4% in 2009 (from 0.8%).

The refining sector has been adversely impacted, by a US economic slowdown on one hand and a rising crude price environment on the other. While light product prices have not been able to keep pace with the rise in crude, refining margins have been squeezed. However, we expect this pressure on refining margins to ease, and expect margins to ascend upwards as we move closer to the spring/summer driving season. Additionally, quarter-to-date, refining margins are roughly in-line with the comparable period last year (except on the West coast, where margins are down 55% below year-ago levels). Our US refining analyst is not making any changes to his benchmark refining margins at this time, but has recently tweaked earnings on the back of a more challenging refining environment (including higher cost pressures). UBS notes however that the earnings risk in the next few quarters is to the downside. UBS has recently adjusted price targets lower, assuming a more conservative view, in light of the weaker macro backdrop.

Risks: Delek US is dependant on US consumers and also refining margins and both will be negatively affected by a slowing US economy.

Table 1: US Refineries Comparison Table.

	Mkt Cap	Price	PT			PE			EV/EBITDA	
Name	(US$m)	(US$)	(US$)	UBS Rating	2006	2007e	2008e	2006	2007e	2008e
Holly Corporation	3,018	54.57	58	Buy	9.3	8.9	12.8	5.6	5.9	8.7
Frontier Oil Corporation	3,921	37.19	37	Neutral	8.5	8.2	12.3	4.8	4.5	7.0
Sunoco Inc.	7,616	64.77	67	Neutral	9.5	9.2	10.1	4.8	4.2	4.8
Tesoro Corp.	5,509	40.22	44	Neutral	11.5	10.5	9.6	2.9	5.4	5.2
Valero Energy	33,819	61.44	84	Buy	6.7	7.5	7.8	4.1	4.6	5.1
Western Refining	1,692	24.83	23	Neutral	6.9	6.4	11.1	3.7	5.7	7.9
Delek US	911	16.98		Not Rated	8.8	11.2	9.0	5.4	6.5	5.0

Source: UBS Estimates, Market Data, Delek US multiples based on consensus estimates.

IDE Technologies (5% of Assets)

We believe that IDE Technologies is one of Delek Group's most attractive assets, with a large potential to uncover value in a potential IPO. IDE is a 50:50

JV between Delek Group and Israel Chemicals. IDE specializes in research and development of saline water desalination processes, concentration and purification of industrial streams and wastewater treatment. The company, founded in 1965, is capitalising on the growing demand for clean water in emerging and developing countries. In November, Delek announced that IDE intended to float on the London Stock Exchange. Local Israeli newspaper The Marker (11 Nov 2007) suggested a company valuation of up to $750m. We believe that volatility in financial markets means that an IPO is highly unlikely in H1 2008. We currently value IDE at $400m.

Risks: The two risks we see to IDE are 1) it cannot currently operate in closest markets due to political considerations 2) a continued deferral of the announced IPO due to unfavourable markets.

Delek Europe (4% of Assets)

Delek Europe is 80% owned by Delek Group and 20% owned by Delek Israel Fuel (see below).

We believe that Delek Europe is a very interesting subsidiary that Delek Group is currently building with large potential in the long-term. In August 2007 Delek Europe acquired Chevron’s marketing operation in the Benelux countries (Belgium, Netherlands, Luxembourg), which include 869 filling stations (803 under the Texaco brand) convenience and food chain stores and carwash facilities. Total cost of acquisition was c€402m (including a €60m working capital adjustment). Delek Group management believe they can utilise the lessons learned from their marketing operations in the US and Israel to improve operations and to create value. Management believe that marketing is not a core segment of global integrated oil companies and therefore think that by focusing on this part of the business they can create/increase value. Delek Europe continues to examine further acquisitions of downstream energy businesses in Europe. In our opinion this segment has large potential but its success will demand significant managerial attention.

We believe that Delek Europe is a very good purchase for Delek Group and that it will create value. Hence we value Delek Europe at a c30% premium to its purchase price, before adjusting for currency.

Risks: The success of Delek Europe depends on a positive consumer backed economic environment support from capital markets. We are concerned that in the coming years growth in Europe will slowdown due to a possible recession in the US and negative capital markets could limit the ability of Delek Europe to raise capital and to eventually float on equity markets. That said, we believe that Delek Europe is already transforming many of Chevron’s stations which we expect to get a fast payback.

Delek Israel Fuel (10% of Assets)

Delek Israel Fuel is 89% owned by Delek Group, following the IPO in August 2007.

Delek Israel Fuel is an historical core business of the group. After years of underperformance Delek Israel Fuel recently completed a successful turnaround process culminating in an IPO on the Tel Aviv Stock Exchange. In the first nine months of 2007 EBITDA grew 96% to NIS207m from NIS107m in the same period of 2006 and NIS 112m for FY2005. In June 2007 Delek Israel won a government auction for three fuel distribution terminals in Israel which should enable it to further integrate its marketing abilities and also will allow it to import fuel which we believe is important post the recent privatisation of Israel's two refineries. We believe that the outlook for Delek Israel post the turnaround is positive and there is still room for developing filling station complexes around Israel.

Risks: We are concerned about the increased competitive environment amongst the four major players in the market, a difficult regulatory environment, limited growth prospects and also a potential economic downturn.

Delek Energy (8% of Assets)

Delek Energy is 89% owned by Delek Group, with a current market cap of NIS1.7bn.

Delek Energy is the oil and gas exploration part of the Delek Group and operates in Israel, Vietnam, Russia, Hungary (owns 30% of Matra listed on AIM in London) and recently the US.

Delek Energy recently agreed to purchase Elk Resources, a private US oil and gas exploration and production (E&P) company, for $95mn. Elk owns production and exploration rights to an area in excess of 200 square KM in Utah and New Mexico and has proven reserves of 8m barrels. The acquisition was fully funded by a loan from Bank of Scotland. Delek Energy plans to invest $100mn in developing Elk's assets from 2008 to 2010. Delek Energy recently announced the biggest ever E&P project in Israel to be conducted of the coast of Haifa, together with Nobel energy its partner in the Yam Tethis gas project.

Risks: Potential risks to Delek Energy include the volatile nature of commodity prices, the variability of production rates, the uncertain nature of exploration and development drilling, changing regulatory requirements and unfavourable weather conditions.

Insurance & Financial Services / Delek Capital (19% of Assets)

The Insurance & Financial Services Division, also known as Delek Capital, is 94% owned by Delek Group and currently has two holdings: A c51% stake in Phoenix Insurance (listed on TASE), an insurance and asset management company in Israel and Republic Companies Inc, a 100% privately-owned property and casualty insurer in the US. In a recent investor day in Israel, management stated that it is examining further investments in the US and Asia. Management believe that current valuations of financial companies globally are attractive and believe that with the backing of Delek Group they should be able to make further acquisitions in the coming years.

Phoenix Insurance recently published the embedded value (EV) of its life and health insurance policies. The EV is NIS3.96bn compared to Phoenix market cap of NIS3.4bn. In our opinion the current value of the company does not take into account the EV, the improving P&C business and the strategic holding in asset manager Excellence (40%, with option for further 40%, current market cap

NIS 900m). We value Phoenix at an average of market price and embedded value.

Risks*:* We see two main risks to Phoenix Insurance, 1) Regulatory intervention: despite positive treatment by the Bachar committee, Israeli insurance companies are currently under increasing pressure from local regulators and 2) the high correlation of profitability to capital markets.

Republic: We recently met with management and received insight into the companies business and strategy. Republic is a niche P&C player that focuses on rural communities in the South Eastern US (such as Texas, Louisiana, Oklahoma, and New Mexico). Premiums have grown 31% in 9M 07 YoY. The company plans to utilise the financial backing provided by Delek Group to expand its operations into other states. In our opinion Delek could float the company in the coming years to increase its capital base and to realise value.

Risks: The risks to Republic are: 1) An exposure to a US recession, 2) the company may overreach its expansion strategy 3) adverse markets.

Delek Automotive (18% of Assets)

Delek Automotive is 55% owned by Delek Group with a current market cap of NIS4.9bn. Delek Automotive shares rose by 105% in 2007, making it one of the star performers within the portfolio. We view Delek Automotive as one of the best businesses within Delek Group.

Delek Automotive is the leading importer of vehicles into Israel since 1995, and is the sole importer and distributor of Mazda and Ford, with a 24% market share.

2007 was an exceptionally good year for Delek's primary cash cow. Sales of new cars reached record numbers as an improving local economy started to affect the purchase of new cars. Delek Automotive's two brands led the sales table with c28k thousand new Mazdas and c13.5k new Fords up on the roads vs c22k and c12k in 2006. Profitability was also positive assisted by a strong shekel and a new generation of models. We believe that this trend should continue in 2008 as Delek Automotive introduces new models and enters niches (mini and SUVs) that it previously has not been active in.

Risks: The short term risks to Delek automotive are economic, a sharp depreciation in the currency and/or a deteriorating economy, which we think is unlikely, would have a diverse affect on Delek automotive, 2) in the longer term Delek Auto could suffer from the increasing regulatory intervention in the car leasing market and increasing competition from rival brands.

Delek Real Estate (9% of Assets)

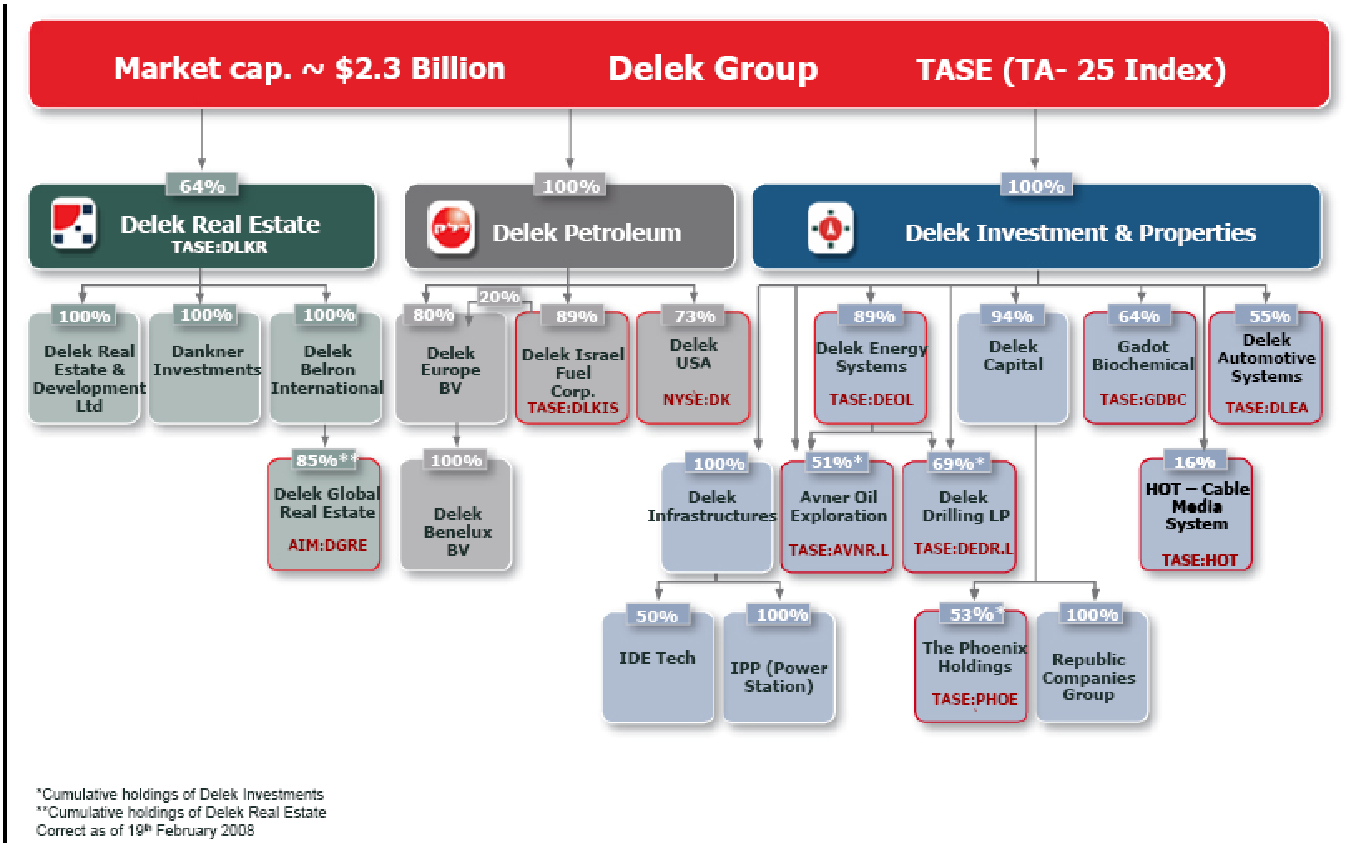
Delek Real Estate is 64% owned by Delek Group with a current market cap of NIS2bn. Among its assets, Delek Real Estate owns a 85% stake in UK AIM listed Delek Global Real Estate Limited (DGRE), which was listed in April 2007 at 200p/share but now trades at 75p (62% decline).

Contrary to common perception Delek Real Estate is only 9% of the group's NAV. Delek Real Estate is active in commercial property in the UK, Western Europe, Scandinavia, Canada, as well as projects and land reserves in Israel. Its major assets include the NCP Car Park Chains, Roadchef motorway service chain in the UK and some Marriot Hotels in the UK. In July 2007 DGRE signed a preliminary agreement to buy and leaseback Swiss retail company Jelmoli's real estate holdings in a deal valued at $2.8bn. However the deal was cancelled in October after due diligence performed by the company and we believe the whole episode could have a negative affect on Delek Real Estate's reputation, although there have been no signs of this occurring so far. This did not stop German retailer Metro from signing a deal in December to sell 12 supermarket properties to Delek RE in December in a deal valued at €248m.

We believe that the significant fall in Delek Real Estate's shares appears somewhat overdone, and hence we attach a 10% premium to market cap in our NAV.

Risks: Delek Real Estate stock has dropped more than other real estate stocks globally due to investor aversion from leveraged real estate stocks and litigation risk from Jelmoli.

Chart 1: Delek Group- Organisational Chart



Source: Company Reports, with permission

Risk Analysis

1) Leverage: Delek Group is highly leveraged on a consolidated basis in a slowing global economy and we are concerned that a continuing credit

crunch could be potentially harmful not only to the group's growth prospects but also to the ongoing operations of the group.

2) Exposure to sectors perceived by investors as risky: real estate, insurance, US refinery and also to US consumers.

3) Holding companies: Holding companies often under perform in a bear market as discounts to NAV increase.

4) Lack of IPOs/exits expected in 2008. Although we believe there could be hidden value in the group's private assets, current market conditions make realisation unlikely.

Potential catalysts

Potential catalysts could be an IPO of IDE, Delek Europe or Delek Capital, though we believe these are unlikely to occur in H1 2008, due to market conditions.

Valuation & PT basis

We arrive at our price target of NIS754 based on applying a 20% conglomerate discount to our NAV model of the Group. We have increased the discount from 15%, due to the given risks we have highlighted above. We use different methodologies for the assets depending on the industry and whether or not they are publicly traded. In the case of publicly held companies we generally use the market value of the asset. In the case of the private companies we use a series of different valuations depending on the industry, availability of comparable companies, recent transactions, and DCF.

Chart 2: Delek NAV Model

	Delek NAV Model	Mkt Price	Mkt Cap (NIS m)	% Held	Mkt Value of Delek Gp's stake (NIS m)	UBS Estimate		Comments
	Energy & Infrastructure						49%	
Listed	Delek US	**$16.98**	3,283	73.4%	2,408	2,408	16%	Market price
Listed	Delek Israel Fuel	158.2	1,732	88.9%	1,540	1,540	10%	Market price
Listed	Delek Energy	**299.9**	1,383	88.9%	1,229	1,229	8%	Market price
Listed	Delek Drilling	**2.117**	1,158	6.5%	76	76	1%	Market price
Listed	Avner Oil & Gas	**0.262**	874	12.6%	110	110	1%	Market price
Listed	Oil refineries	**3.218**	6,436	3.5%	225	225	2%	Market price
Private	Delek Europe			80.00%		640	4%	NIS800m company valuation
Private	IDE			50.00%		720	5%	$400m company valuation
Private	IPP			100.00%		200	1%	NIS200m company valuation
Private	Yam Tethys			4.44%		160	1%	NIS3,600m company valuation
Private	Roadchef (UK gas stations)			25.00%		-	0%	
	Insurance & Financial Services						19%	
Listed	Phoenix	**13.85**	3,047	51.4%	1,568	1,803	12%	Average of market price and embedded value
Listed	Menorah	**34.71**	2,137	2.2%	47	47	0%	Market price
Private	Republic Companies Group			94.00%		957	6%	1.1x Historic Book Value
Private	Barak Capital			46.91%		-	0%	
	Real Estate						9%	
Listed	Delek Real Estate	**14.54**	1,849	63.7%	1,178	1,296	9%	10% premium to market price
	Automotive						18%	
Listed	Delek Automotive	**53.9**	4,883	55.4%	2,704	2,704	18%	Market price
	Others						5%	
Listed	HOT Cable Systems Media	**50**	3,797	15.9%	604	604	4%	Market price
Listed	Gadot Biochemicals	**12**	135	64.1%	86	86	1%	Market price
	TOTAL LISTED ASSETS					**12,128**	**82%**	
	TOTAL PRIVATE ASSETS					**2,676**	**18%**	
	TOTAL ASSETS					**14,804**		
	Net debt at holding company level				-	3,788		NIS4.4bn parent company net debt adjusting for NIS765m Delek Europe debt
	Net Assets					**11,016**		
	No of Delek Group shares					11.7		
	NAV per share					944		
	Share price					657		
	Discount to NAV					-30%		
	Upside to NAV					44%		
	Suggested discount to NAV					20%		
	Suggested price target					754		
	Current price					657		
	Suggested Upside/Downside					15%		

Source: UBS estimates, Company Data, Market Data, Priced as of 20Feb 2008

Delek Group

Income statement (NISm)	12/02	12/03	12/04	12/05	12/06	12/07E	% ch	12/08E	% ch	12/09E	% ch
Revenues	7,498	9,030	11,364	18,333	24,118	-	-	-	-	-	-
Operating expenses (ex depn)	(6,837)	(8,066)	(10,164)	(16,650)	(22,248)	-	-	-	-	-	-
EBITDA (UBS)	661	964	1,200	1,683	1,870	-	-	-	-	-	-
Depreciation	(214)	(331)	(295)	(350)	(340)	-	-	-	-	-	-
Operating income (EBIT, UBS)	447	633	905	1,333	1,530	-	-	-	-	-	-
Other income & associates	(8)	(15)	72	252	705	-	-	-	-	-	-
Net interest	(178)	(216)	(342)	(594)	(554)	-	-	-	-	-	-
Abnormal items (pre-tax)	0	0	0	0	0	-	-	-	-	-	-
Profit before tax	261	402	635	991	1,681	-	-	-	-	-	-
Tax	(103)	(153)	(189)	(339)	(404)	-	-	-	-	-	-
Profit after tax	158	249	446	652	1,277	-	-	-	-	-	-
Abnormal items (post-tax)	(8)	20	116	146	591	-	-	-	-	-	-
Minorities / pref dividends	(46)	(86)	(159)	(176)	(355)	-	-	-	-	-	-
Net income (local GAAP)	104	183	403	622	1,513	-	-	-	-	-	-
Net Income (UBS)	112	163	287	476	922	-	-	-	-	-	-
Tax rate (%)	*39*	*38*	*30*	*34*	*24*	-	-	-	-	-	-
Pre-abnormal tax rate (%)	*39*	*41*	*35*	*40*	*41*	-	-	-	-	-	-

Per share (NIS)	12/02	12/03	12/04	12/05	12/06	12/07E	% ch	12/08E	% ch	12/09E	% ch
EPS (local GAAP)	10.70	18.84	41.50	61.84	130.66	-	-	-	-	-	-
EPS (UBS)	11.52	16.79	29.55	47.33	79.62	-	-	-	-	-	-
Net DPS	0.00	8.65	15.55	38.18	38.02	41.82	*10.0*	29.28	*-30.0*	32.20	*10.0*
Cash EPS	33.54	50.87	59.93	82.12	108.98	-	-	-	-	-	-
BVPS	118.60	129.29	158.79	229.44	296.90	-	-	-	-	-	-

Balance sheet (NISm)	12/02	12/03	12/04	12/05	12/06	12/07E	% ch	12/08E	% ch	12/09E	% ch
Net tangible fixed assets	1,710	1,607	2,013	2,518	3,657	-	-	-	-	-	-
Net intangible fixed assets	506	474	741	747	741	-	-	-	-	-	-
Net working capital (incl. other assets)	1,930	1,773	1,868	2,784	35,442	-	-	-	-	-	-
Other liabilities	(81)	(113)	(251)	(334)	(31,868)	-	-	-	-	-	-
Operating invested capital	4,065	3,741	4,371	5,715	7,972	-	-	-	-	-	-
Investments	4,106	4,683	5,838	6,158	7,491	-	-	-	-	-	-
Total capital employed	8,171	8,424	10,209	11,873	15,463	-	-	-	-	-	-
Shareholders' equity	1,154	1,258	1,545	2,276	3,447	-	-	-	-	-	-
Minority interests	284	296	362	455	2,232	-	-	-	-	-	-
Total equity	1,438	1,554	1,907	2,731	5,679	-	-	-	-	-	-
Net debt / (cash)	6,733	6,870	8,302	9,142	9,784	-	-	-	-	-	-
Debt deemed provisions	0	0	0	0	0	-	-	-	-	-	-
Total capital employed	8,171	8,424	10,209	11,873	15,463	-	-	-	-	-	-

Cash flow (NISm)	12/02	12/03	12/04	12/05	12/06	12/07E	% ch	12/08E	% ch	12/09E	% ch
Operating income (EBIT, UBS)	447	633	905	1,333	1,530	-	-	-	-	-	-
Depreciation	214	331	295	350	340	-	-	-	-	-	-
Net change in working capital	613	510	102	(69)	6,166	-	-	-	-	-	-
Other (operating)	0	0	0	0	0	-	-	-	-	-	-
Operating cash flow	1,274	1,474	1,302	1,614	8,036	-	-	-	-	-	-
Net interest received / (paid)	(178)	(216)	(342)	(594)	(554)	-	-	-	-	-	-
Dividends paid	0	(84)	(151)	(384)	(461)	-	-	-	-	-	-
Tax paid	(103)	(153)	(189)	(339)	(404)	-	-	-	-	-	-
Capital expenditure	(345)	(234)	(865)	(353)	(926)	-	-	-	-	-	-
Net (acquisitions) / disposals	0	0	0	0	0	-	-	-	-	-	-
Other	(373)	(234)	(61)	570	(354)	-	-	-	-	-	-
Share issues	(1)	14	0	0	0	-	-	-	-	-	-
Cash flow (inc)/dec in net debt	261	559	(309)	514	5,337	-	-	-	-	-	-
FX / non cash items	(560)	(696)	(1,123)	(1,354)	(5,979)	-	-	-	-	-	-
Balance sheet (inc)/dec in net debt	(299)	(137)	(1,432)	(840)	(642)	-	-	-	-	-	-
Core EBITDA	661	964	1,200	1,683	1,870	-	-	-	-	-	-
Maintenance capital expenditure	0	0	0	0	0	-	-	-	-	-	-
Maintenance net working capital	0	0	0	0	0	-	-	-	-	-	-
Operating free cash flow, pre-tax	661	964	1,200	1,683	1,870	-	-	-	-	-	-

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Israel

Industrial, Diversified

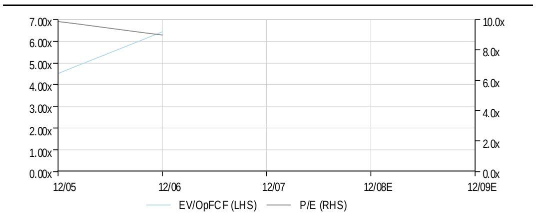
Delek Group

12-month rating	Neutral *
12m price target	NIS754.00

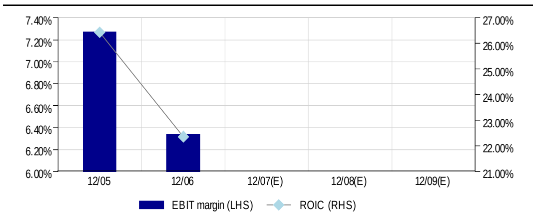
Company profile

Delek Group is a holding company based in Israel. It has exposure to several sectors of the Israeli economy, including automotive, real estate, fuel exploration and delivery, finance and biotechnology. The company is majority owned by Mr Yitzchak Tshuva (59%), and some 87% of its holdings are publicly traded. The company seeks to acquire controlling interests in areas where it sees potential, and then to realise value for shareholders via an initial public offering of the holding. The company has historically paid out 40-50% of its net income as dividends.

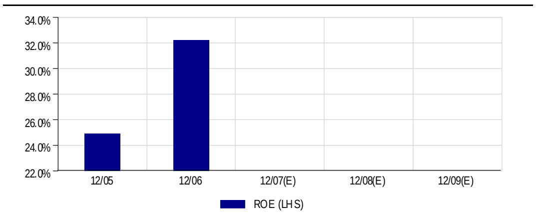
Value (EV/OpFCF & P/E)



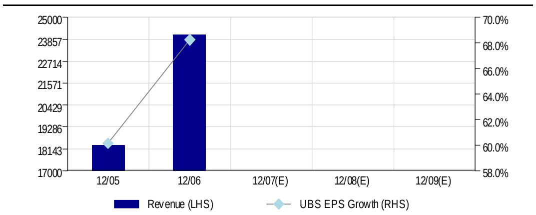
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
P/E (local GAAP)	15.9	7.6	5.7	-	-	-
P/E (UBS)	16.9	9.9	9.0	-	-	-
P/CEPS	7.1	5.7	6.6	-	-	-
Net dividend yield (%)	4.0	8.2	5.3	6.4	4.5	4.9
P/BV	2.3	2.0	2.4	-	-	-
EV/revenue (core)	-	0.4	0.5	-	-	-
EV/EBITDA (core)	-	4.5	6.4	-	-	-
EV/EBIT (core)	-	5.7	7.9	-	-	-
EV/OpFCF (core)	-	4.5	6.4	-	-	-
EV/op. invested capital	-	1.5	1.8	-	-	-

Enterprise value (NISm)		12/05	12/06	12/07E	12/08E	12/09E
Average market cap		4,593	7,834	7,196	7,196	7,196
+ minority interests		455	2,232	-	-	-
+ average net debt (cash)		8,722	9,463	9,784	9,784	-
+ pension obligations and other		0	0	-	-	-
- non-core asset value		(6,158)	(7,491)	-	-	-
Core enterprise value		7,612	12,038	-	-	-

Growth (%)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
Revenue	30.9	61.3	31.6	-	-	-
EBITDA (UBS)	28.2	40.3	11.1	-	-	-
EBIT (UBS)	29.6	47.3	14.8	-	-	-
EPS (UBS)	36.3	60.1	68.2	-	-	-
Cash EPS	29.3	37.0	32.7	-	-	-
Net DPS	27.7	145.5	-0.4	10.0	-30.0	10.0
BVPS	20.2	44.5	29.4	-	-	-

Margins (%)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
EBITDA / revenue	9.8	9.2	7.8	-	-	-
EBIT / revenue	7.2	7.3	6.3	-	-	-
Net profit (UBS) / revenue	2.1	2.6	3.8	-	-	-

Return on capital (%)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
EBIT ROIC (UBS)	-	26.4	22.4	-	-	-
ROIC post tax	-	15.9	13.1	-	-	-
Net ROE	-	24.9	32.2	-	-	-

Coverage ratios (x)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
EBIT / net interest	2.6	2.5	4.0	-	-	-
Dividend cover (UBS EPS)	-	1.2	2.1	-	-	-
Div. payout ratio (%, UBS EPS)	-	80.7	47.8	-	-	-
Net debt / EBITDA	7.3	5.4	5.2	-	-	-

Efficiency ratios (x)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
Revenue / op. invested capital	-	3.6	3.5	-	-	-
Revenue / fixed assets	-	6.1	6.3	-	-	-
Revenue / net working capital	-	9.4	4.4	-	-	-

Investment ratios (x)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
OpFCF / EBIT	1.4	1.3	1.2	-	-	-
Capex / revenue (%)	6.0	1.9	3.8	-	-	-
Capex / depreciation	2.4	1.0	2.7	-	-	-

Capital structure (%)	5Yr Avg	12/05	12/06	12/07E	12/08E	12/09E
Net debt / total equity	NM	NM	NM	-	-	-
Net debt / (net debt + equity)	83.7	80.1	73.9	-	-	-
Net debt (core) / EV	-	NM	78.6	-	-	-

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of NIS657.20 on 20 Feb 2008 21:36 GMT Market cap(E) may include forecast share issues/buybacks.

Darren Shaw
Analyst
Darren.Shaw@ubs.com
+972-99 600113

* Exception to core rating bands; See page15

■ Delek Group

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■ Statement of Risk

Delek Group is an active holding company with exposure to potentially volatile sectors including: Energy, Real Estate and Insurance. The group is highly leveraged and is dependant on positive capital markets for IPO's and potential exits.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	55%	39%
Neutral	**Hold/Neutral**	36%	36%
Sell	**Sell**	8%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	25%
Sell	**Sell**	less than 1%	50%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

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Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Delek Group[2b, 4a, 20]	DELKG.TA	Buy (CBE)	N/A	NIS657.20	20 Feb 2008
Frontier Oil Corporation[13, 16]	FTO.N	Neutral	N/A	US$37.19	20 Feb 2008
Holly Corporation[16]	HOC.N	Buy	N/A	US$54.57	20 Feb 2008
Sunoco Inc.[2b, 4b, 16]	SUN.N	Neutral	N/A	US$64.77	20 Feb 2008
Tesoro Corp.[16]	TSO.N	Neutral	N/A	US$40.22	20 Feb 2008
Valero Energy Corporation[2a, 3, 4a, 5, 16, 22]	VLO.N	Buy	N/A	US$61.44	20 Feb 2008
Western Refining[16, 20]	WNR.N	Neutral (CBE)	N/A	US$24.83	20 Feb 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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