

Today's Story

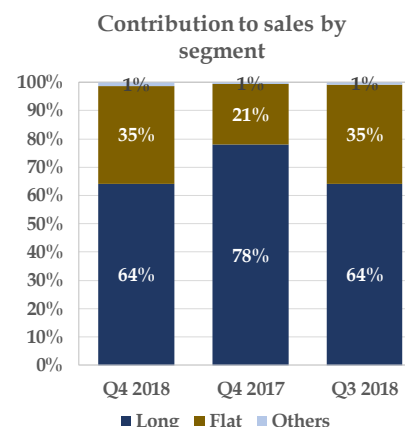
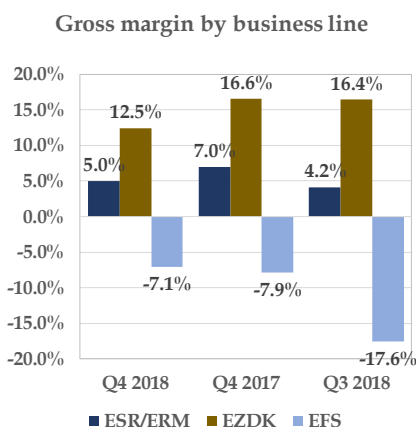
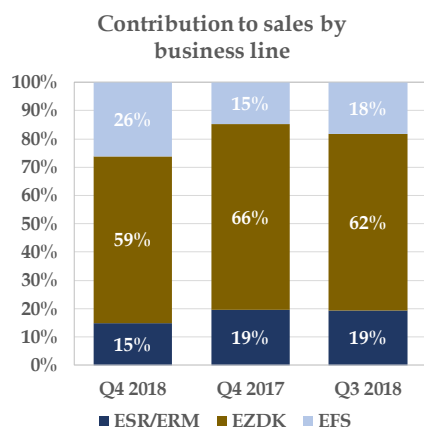
ESRS – Higher Overhead and Operating Expenses Pressure Q4 2018 Performance

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- Ezz Steel (ESRS) saw its net loss widening to EGP1.64bn in 2018 from EGP1.58bn a year earlier despite 18% higher revenues of EGP49.16bn as selling prices rose. Gross margin expanded y/y by 100bps to 11%, thanks to the higher gross profit margin of Ezz Rolling Mills (ERM) (6.4% vs. 4.4%) and the lower gross loss margin of Ezz Flat Steel (EFS) (9.6% vs. 12.6%). Meanwhile, Ezz Al-Dekheila's (EZDK) gross margin stabilized at 15%.
- On a quarterly basis**, net losses deepened in Q4 2018 to EGP639mn vs. a net loss of EGP194mn in Q4 2017 and EGP615mn in Q3 2018. The higher losses could be mainly attributed to lower operating margins. Revenues declined 2% q/q (-5% y/y) to EGP11.72bn on lower sales volumes. Gross margin declined y/y by 600bps to 8.0% (-170bps q/q), dragged by EZDK's weak performance.

Income Statement (All figures in EGPmn)	Q4 2018	Q4 2017	Q3 2018	y/y	q/q	y-y	q-q
Sales	11,715	12,389	11,954	(5%)	(2%)	(674)	(239)
Cost of goods sold	(10,779)	(10,655)	(10,797)	(1%)	0%	(124)	18
Gross profit	936	1,734	1,157	(46%)	(19%)	(798)	(221)
Opex	(539)	(494)	(434)	(9%)	(24%)	(44)	(105)
Operating profit	398	1,240	724	(68%)	(45%)	(842)	(326)
Depreciation	(380)	(363)	(370)	(5%)	(3%)	(17)	(10)
EBITDA (Operating profit + Depreciation)	778	1,603	1,094	(51%)	(29%)	(825)	(316)
Financing income	67	157	71	(57%)	(5%)	(89)	(3)
Financing expense	(1,139)	(1,031)	(952)	(10%)	(20%)	(108)	(188)
FX gain (loss)	60	(74)	(43)	182%	239%	134	104
Net profit before taxes	(614)	291	(201)	(311%)	(206%)	(905)	(414)
Taxes	(83)	(311)	(276)	73%	70%	228	194
Net profit after taxes	(697)	(20)	(477)	(3401%)	(46%)	(677)	(220)
Minority interest	58	(174)	(139)	133%	142%	232	197
Net profit	(639)	(194)	(615)	(229%)	(4%)	(445)	(23)
Net profit before FX gain/(loss)	(699)	(120)	(572)	(481%)	(22%)	(579)	(127)

- Weaker y/y performance is mainly attributed to the higher electricity costs that were applied starting from Q3 2018 (corresponding to Q1 FY2018/19). Meanwhile, higher overheads and operating expenses pressured the performance on a quarterly basis.



Source: Company reports, SHUAA Securities Egypt Research.

- We expect ESRS's operating performance to remain pressured during H1 2019, mainly due to the higher prices of iron ore after the deadly dam disaster in **Brazil** late January which continued to weigh on production of **Vale** (the world's largest producer of iron ore), cutting some 70mn tons of the iron ore global supply.

Sales, net of eliminations (EGPmn)	Q4 2018	Q4 2017	Q3 2018	y/y	q/q	y-y	q-q
Total	11,715	12,389	11,954	(5%)	(2%)	(674)	(239)
ESR/ERM	1,752	2,411	2,325	(27%)	(25%)	(659)	(573)
EZDK	6,892	8,162	7,456	(16%)	(8%)	(1,270)	(564)
EFS	3,071	1,816	2,173	69%	41%	1,255	898
Long	7,509	9,668	7,656	(22%)	(2%)	(2,159)	(147)
ESR/ERM	1,752	2,411	2,325	(27%)	(25%)	(659)	(573)
EZDK	3,984	5,483	4,422	(27%)	(10%)	(1,499)	(438)
EFS	1,773	1,774	909	(0%)	95%	(1)	864
Domestic	7,056	9,373	7,093	(25%)	(1%)	(2,317)	(37)
Exports	453	295	564	54%	(20%)	158	(111)
Flat	4,066	2,657	4,201	53%	(3%)	1,409	(135)
ESR/ERM	-	-	-	NM	NM	0	0
EZDK	2,774	2,621	2,949	6%	(6%)	153	(175)
EFS	1,292	36	1,252	3489%	3%	1,256	40
Domestic	1,636	1,237	1,738	32%	(6%)	399	(102)
Exports	2,430	1,420	2,463	71%	(1%)	1,010	(33)
Others	140	64	97	119%	44%	76	43
ESR/ERM	-	-	-	NM	NM	0	0
EZDK	134	58	85	131%	58%	76	49
EFS	6	6	12	0%	(50%)	0	(6)

Source: Company reports, SHUAA Securities Egypt Research.

- Overall, there are several factors that should be impacting ESRS's financial and hence stock performance in our view. On the negative side, we think another round of electricity price hike will further pressure margins. On the positive side, the safeguard measures recently imposed by the **Ministry of Trade** should partially offset the impact of the higher iron ore costs over the next five months. Also, ESRS should benefit from the 100bps interest rate cut made mid-February 2019. **ESRS's net debt stood at EGP24.1bn or 4.4x EBITDA. The stock is currently trading at a TTM EV/EBITDA of 5.8x and an EV/ton of only c.USD370.** However, we think any government move to reduce natural gas prices for steel producers (to match regional competition) would be the strongest catalyst for ESRS's stock performance.

Top Headlines

Corporate

- Orascom Development Egypt's** (ORHD) Q1 2019 earnings grew 43% y/y (-53% q/q) to EGP89.4mn vs. EGP62.3mn in Q1 2018 (EGP192mn in Q4 2018), supported by a 28% y/y growth in revenues to EGP838mn (-12% q/q). The company recorded net sales of EGP1.5bn vs. EGP397.6mn in Q1 2018 (+282% y/y), reflecting the value of 311 units across the company's developments. In April 2019, a new Slovakian tour operator **SATUR** started operating a weekly flight to **Taba Heights**. ([Company disclosure](#))
- AT Lease's** (ATLC) Q1 2019 earnings after minority came at EGP19mn (+15% y/y) on solid gross lease revenues of EGP124mn (+14% y/y) with operating profit growing to EGP20mn (+8% y/y). New lease booking within the first quarter registered EGP324mn, which represents c.19% of management guidance regarding the entire 2019 of EGP1.7bn. ([Company disclosure](#))
- Egyptian Iron & Steel** (IRON) announced that the offer submitted by **Russia-based MetProm** to develop the company's facilities failed to meet the required criteria. ([Company disclosure](#))
- EFG Hermes Holding** (HRHO), through one of its arms, is reportedly looking to acquire a controlling stake of c.75% of a foreign-owned local life insurance company, with sources suggesting it could be **Tokio Marine Egypt Family Takaful**. (Hapi).

- **Juhayna Food Industries (JUFO)** is looking to limit its imported milk and increase dependency on local milk through increasing the firm's investments in local farms. ([El-Shorouk](#))
- **ADIB Capital**, a subsidiary of **Abu Dhabi Islamic Bank – Egypt (ADIB)**, will be managing the first sukuk issuance in the Egyptian market, amounting to USD50mn. (Hapi)
- A consortium of investors led by **Elsewedy Industries**, not a subsidiary of **Elsewedy Electric (SWDY)**, is looking to take part in the establishment of an insurance company. The new company will be known as **Mada Insurance** with a paid-in capital of EGP150mn, in which Elsewedy Industries is expected to own a 25% stake. (Hapi)
- **Dice Sport & Casual Wear's (DSCW)** OGM agreed to distribute a 100% stock dividend for 2018. The distribution date is yet to be announced. ([Company disclosure](#))
- **Raya Holding for Financial Investments' (RAYA)** OGM approved a cash dividend of EGP0.15/share, implying a dividend yield of 3%, to be distributed within the next 30 days. ([Company disclosure](#))
- **Alexandria Portland Cement's (ALEX)** consolidated net loss widened from EGP35mn in Q1 2018 to EGP78mn in Q1 2019 (+123% y/y). Losses were stretched by a 35% y/y drop in sales from EGP898mn in Q1 2018 to EGP581mn in Q1 2019 on 28% lower volumes of 343,000 tons with zero exports and lower prices. ALEX turned its gross profit of EGP190mn in Q1 2018 into a gross loss of EGP62mn in Q1 2019, hit by weaker sales. Consequently, GPM deteriorated to -11% in Q1 2019 versus 21% in Q1 2018. Such results came despite ALEX reporting financing income of EGP39mn in Q1 2019 versus a financing expense of EGP172mn in Q1 2018. ([Company disclosure](#))
- A team of specialists from the arbitration court inspected the land of **Uptown Cairo** last Tuesday including a few representatives from **El Nasr Housing & Development**, which indicates that the case is still up against **Emaar Misr for Developments (EMFD)**. (Al-Shorouk)

Non-Corporate

- **Egypt's** annual core inflation eased to 8.1% in April from 8.9% in March, while m/m core inflation eased from 0.45% to 0.36%, respectively. ([CBE](#))
- In Q1 2019, **Egypt's** tourism in **Cairo, Hurghada, Sharm El-Sheikh, and Alexandria** saw an average Revenue Per Available Room (RevPAR) y/y growth of 34%. ([Daily News Egypt](#))
- **Average yields on 182-day and 364-day T-bills** were up in an auction held on **9 May 2019** as follows: ([CBE](#))

- **182 days:** 17.441% (+11.6bps vs. 17.325%).

Required	Submitted	Accepted	Bid-to-cover ratio
EGP8.75bn	EGP11.04bn	EGP6.1bn	1.3

- **364 days:** 17.268% (+9.2bps vs. 17.176%).

Required	Submitted	Accepted	Bid-to-cover ratio
EGP9.25bn	EGP14.4bn	EGP6.2bn	1.6

Markets

↗ EGX 30	14,060.00	0.24%	↗ EGX 70	620.82	0.26%
↘ DFMGI	2,672.61	(1.48%)	↘ ADSMI	5,052.80	(1.39%)
↘ TASI	8,856.94	(0.48%)	↘ QE Index	10,027.17	(0.95%)
↗ S&P 500	2,881.40	0.37%	↗ MSCI EM	1,033.44	0.49%
↗ Gold	1,286.05	0.15%	↗ Brent Oil	70.62	0.33%

*As of market close

- **MENA Markets:** Egypt's benchmark **EGX 30** inched up 0.24% on Thursday, with support from **CIRA**, **SWDY**, **TMGH**, and **ORHD**. In the **UAE**, **services** and **real estate** stocks forced **ADSMI** lower, while **DFMGI** slipped as **real estate** and **insurance** stocks dipped. **Saudi Arabia's TASI** closed weaker after its **telecommunication** and **retailing** sectors fell.
- **Global Markets:** **US stocks** clawed back from early losses to close higher Friday after key negotiators cast a positive glow on trade talks. But the **S&P 500** and the **Nasdaq** logged their worst week of 2019 as tensions between the **US** and **China** remain elevated in the wake of the **Trump** administration's move to raise import duties on USD200bn in Chinese goods. **Gold** and **oil** were trading slightly higher on Friday's session.

Number of the Day

EGP434mn

Egyptian investors' net outflows month-to-date in the **Egyptian Exchange (EGX)**.

Today's Quiz

How many beds are in Nozha International Hospital (NINH)?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Orascom Development Egypt	ORHD	Results	12-May	Q1 2019 results
Arab Cotton Ginning	ACGC	EGM	12-May	Reviewing Agenda Items
United Co for Housing & Developments	UNIT	EGM / AGM	12-May	Reviewing Agenda Items
Ibsina Pharma	ISPH	Conference Call	13-May	Discussing Q1 2019 results
TMG Holding	TMGH	Dividends	13-May	Ex-date (EGP0.176/share); Last eligible date (12 May)
Egyptian Resorts Co.	EGTS	EGM	13-May	Amending some of the company's articles of incorporation
Egyptian Resorts Co.	EGTS	AGM	13-May	Reviewing Agenda Items
Orascom Development Egypt	ORHD	Conference Call	13-May	Discussing Q1 2019 results
Telecom Egypt	ETEL	Results	14-May	Q1 2019 results
Telecom Egypt	ETEL	Conference Call	14-May	Discussing Q1 2019 results
GB Auto	AUTO	Conference Call	15-May	Discussing Q1 2019 results
Suez Bags	SBAG	BoD	15-May	Reviewing Agenda Items
Medinet Nasr for Housing & Development	MNHD	EGM	15-May	Amending some of the company's articles of incorporation
Medinet Nasr for Housing & Development	MNHD	AGM	15-May	Authorizing the BoD to enter into netting contracts
Global Telecom Holding	GTHE	EGM	15-May	Amending some of the company's articles of association
Amer Group Holding	AMER	Lawsuit	15-May	Legal disputes relevant to Porto Tartous project
TMG Holding	TMGH	Dividends	15-May	Payment date (EGP0.088/share)
Ibsina Pharma	ISPH	Dividends	15-May	Ex-date (EGP0.07/share); Last eligible date (14 May)
MM Group for Industry	MTIE	Conference Call	16-May	Discussing Q1 2019 results
Ibsina Pharma	ISPH	Dividends	19-May	Payment date (EGP0.07/share)
Egyptian for Developing Building	EDBM	EGM	19-May	Discussing capital increase
Misr Fertilizers Production Co.	MFPC	Dividends	20-May	Ex-date (EGP2.25/share); Last eligible date (19 May)
General Silos & Storage	GSSC	AGM	20-May	Reviewing Agenda Items
Orascom Construction	ORAS	AGM	21-May	Discuss dividends of USD0.30/share
Misr Fertilizers Production Co.	MFPC	Dividends	22-May	Payment date (EGP2.25/share)
Middle Egypt Flour Mills	CEFM	EGM / AGM	22-May	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	23-May	Legal disputes relevant to Porto Tartous project
South Cairo & Giza Mills	SCFM	EGM / AGM	26-May	Reviewing Agenda Items
Egypt Aluminum	EGAL	EGM	2-Jun	Reviewing Agenda Items
Arabia Investments Holding	AIH	Lawsuit	9-Jun	Legal disputes against French Peugeot
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	23-Jun	Legal Disputes relevant to Porto Tartous project
Global Telecom Holding	GTHE	AGM	26-Jun	Discussing capital increase
Egyptian Transport and Commercial	ETRS	Dividends	27-Jun	Payment date (EGP0.50/share)
TMG Holding	TMGH	Dividends	15-Jul	Payment date (EGP0.088/share)
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Payment date (EGP0.10/share)

Quiz Answer

A total of 110 beds.

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