

Today's Story



EFID's Margins Back to Pre-Flotation Levels – Conference Call Highlights

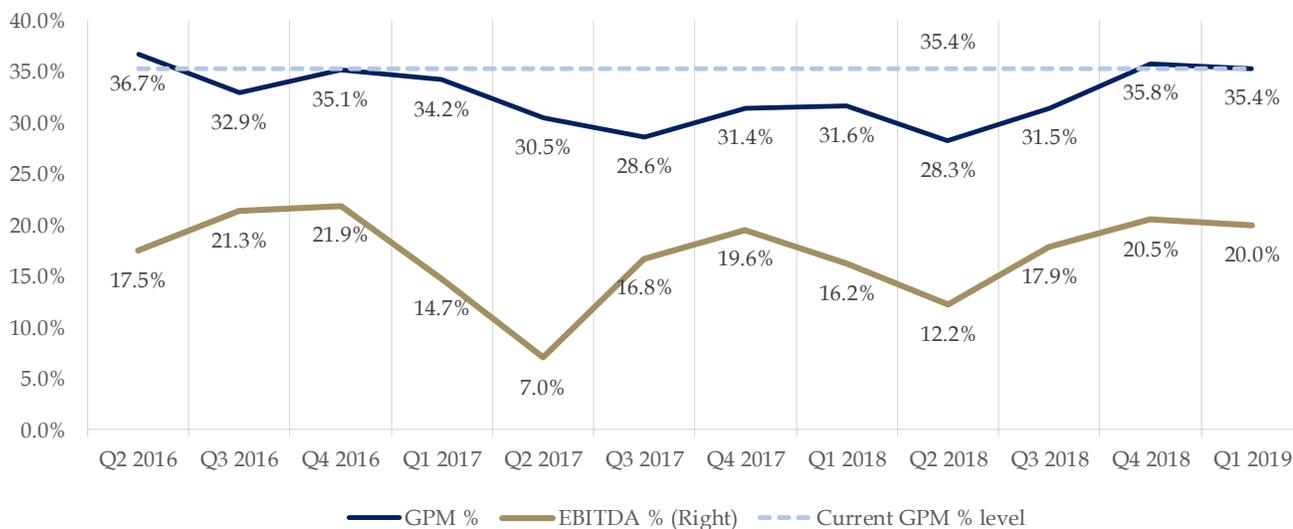
Mohamed Saad | Equity Analyst | mfattah@shuaasecurities.com

Edita Food Industries (EFID) saw its performance receiving an annual boost but weakening sequentially in Q1 2019. Bottom-line soared to EGP114mn (+88% y/y, -11% q/q). Annual earnings growth was fostered by a considerable margin expansion, as GPM rose to 35.4% from 31.6%. Revenues grew 11% y/y to EGP982mn on stimulus from (1) better product mix, (2) rising sales volume, and (3) higher average price per pack sold. On the other hand, the sequential drop in earnings was a result of top-line shedding 9% q/q after getting stung by 8% less pack sales and a flattish average price per pack (-1.4% q/q). Management held a conference call last Thursday to discuss the results. Below are the highlights.

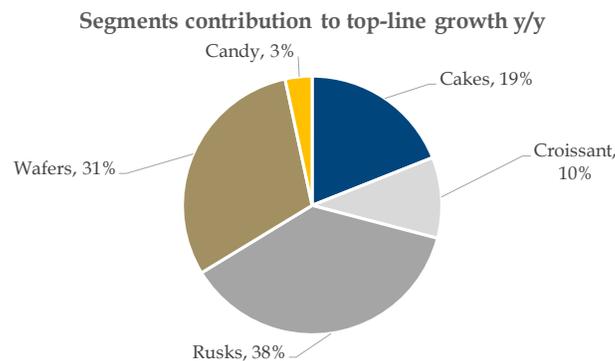
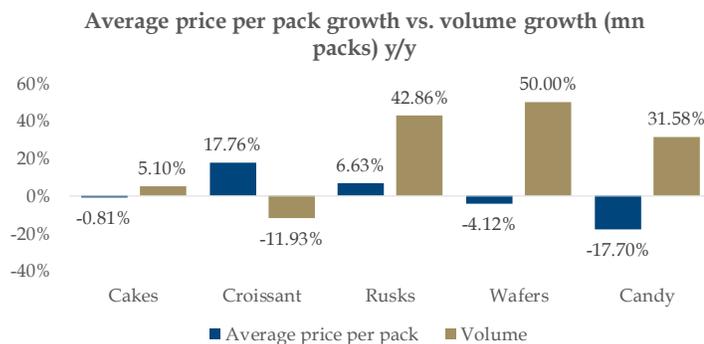
- **Next quarter likely to diverge from Q1 2019 results:** After a strong first quarter this year compared to Q1 2018, management thinks Q2 2019 will likely weaken sequentially as Ramadan season will slow down sales. In addition, EFID has plans to market some of its leading brands regionally, simultaneously with the anticipated **African Cub Nations**. Hence, marketing spending is expected to spike within Q2 2019, likely denting margins and contributing to the expected sequential weakness.
- **A boost from cost control:** Margins were largely widened y/y by cost controls among other factors. EFID's margins hovered above Q3 2016's levels within the last two quarters, successfully restoring parity with pre-flotation levels. Factors such as reflating sales volume, alongside a dominant market position allowing for pricing capabilities, aided the recovery. Meanwhile, cheaper input and contained SG&A helped prop up both GPM and EBITDA margins.
- **Capex expectations:** EFID's capex in Q1 2019 amounted to EGP65.8mn after the addition of new candy production lines in its "Eo8" and "E15" factories. Management targets a full-year capex to reach EGP460mn range, including operational capex in **Egypt** and **Morocco**. During the call, management stated that their plan is to operate in two countries only, yet with the right conditions, further regional expansion would not be off the table.
- **Margins are set to expand y/y:** Despite the expected sequential weakness, management believes that the full-year GPM will hover around Q1 levels (± 100 bps). Cost control measures, added to the marketing efforts to be exerted in Q2 2019 so far, as well as reshuffling the product mix, will counteract margin erosion in the quarters following Q1.
- **Valuation:** EFID is currently trading at TTM P/E of 40.6x and TTM EV/EBITDA of 21.2x. On the other hand, EFID's forward P/E for 2019 is 28.0x, while forward EV/EBITDA for 2019 is 16.4x, with a consensus PT of EGP20.79/share (+3.9% above current market price).

Q1 2019 charts & analysis

Margins catch up to pre-flotation levels



Source: Company reports.



Source: Company reports.

Top Headlines

Corporate

- **MSCI** announced its SAIR results last night with no changes related to **Egypt's** standard index—as expected. Meanwhile, **Cleopatra Hospital Co. (CLHO)** was added to Egypt's small cap index. ([MSCI](#))
- **Telecom Egypt's (ETEL)** earnings more than doubled y/y to EGP1.6bn in Q1 2019. Investment income from **Vodafone Egypt**, a 26% y/y increase in EBITDA, and a net finance income of EGP394mn all helped drive such a solid earnings growth. Meanwhile, total revenues grew 27% y/y to EGP6bn, supported by strong growth in most of ETEL's business segments. ([Company disclosure](#))
- **Misr Fertilizers Production Co. "MOPCO" (MFPC)** stand-alone net profit retreated 33% y/y to EGP215mn in Q1 2019, after FX losses weighed. Meanwhile, revenues rose 6% to EGP693mn and gross margin decreased to 57% from 62% in Q1 2018. During Q1 2019, the company distributed the EGP437mn dividends due to major shareholders for the year ended 2014. ([Company disclosure](#))
- **Oriental Weavers Carpet' (ORWE)** earnings increased 7% to EGP201mn in Q1 2019, mainly on (1) higher export rebates by 136% y/y to EGP61mn, (2) income from Treasuries of EGP33mn vs. only EGP2.4mn in Q1 2018, and (3) FX gains of EGP56mn compared to EGP7mn in Q1 2018. Earnings growth came despite a weak sales growth of only 4% y/y to EGP2.6bn and a contraction in ORWE's margins amid intense competition. ([Company disclosure](#))
- **Alexandria Containers & Cargo Handling's (ALCN)** net profit dropped 21% y/y in 9M FY2018/19 to EGP1.35bn from EGP1.71bn in 9M FY2017/18. Revenues decreased 5% y/y to EGP2.07bn from EGP2.19bn, implying lower fees declined as volumes increased 10% y/y. Meanwhile, COGS (including depreciation) increased c.15% to EGP694mn. Gross profit declined 13% y/y to EGP1.38bn (GPM of 66.5%) from EGP1.58bn (GPM of 72.4%). Net profits were also hurt by FX losses of EGP45mn, 36% y/y weaker interest income of EGP147mn, and 81%y/y lower non-operating income of EGP7.5mn, down from the EGP40mn recognized in damages for two cranes. ([Company disclosure](#))
- **Egyptian Financial & Industrial Co. (EFIC)** posted its stand-alone results for Q1 2019, where net profit grew 26% y/y to EGP5.2mn. Revenues jumped 32% to EGP157.7mn and gross margin slid to 33% from 36% in Q1 2018. Gross margin was eroded by higher materials costs, and net profit was mainly squeezed by greater interest expenses. ([Company disclosure](#))
- **MM Group for Industry & International Trade (MTIE)** is planning to complete its acquisition of **Tamweel Holding** by the end of May in partnership with a group of unnamed investors, according to MTIE's **Chairman** Khaled Mahmoud. ([Enterprise](#))

Non-Corporate

- **Chairman** of the **Egyptian Capital Market Association (ECMA)** said that the **Prime Minister's** meeting with capital market's leaders to stimulate the stock market resulted in an agreement to cap the stamp tax paid on transactions at 10% of the profits, which will then be deducted from the investor's account in case profits are realized. ([Al-Borsa](#))
- **Egypt's** trade deficit fell by more than 2% y/y in February to USD3.63bn from USD3.72bn a year ago, according to data published by the **Central Agency for Public Mobilization & Statistics (CAPMAS)**. ([Mubasher](#))
- **Egypt** procured 1.62mn tons of wheat from local farmers from the start of the season on 15 April and expects to procure about 3.6mn tons of wheat from its farmers during the season, the **Cabinet** said. ([Reuters](#))

- The **Egyptian government** plans to establish seven new free zones in order to attract investments. The plan includes areas in **El-Minya, South Sinai, New Ismailia, El-Herafeyeen “Craftsmen” in Giza, Gamassa in El-Dakahlia, Aswan, and Kafr El-Sheikh**. The seven regions are expected to include more than 1,000 projects, which will contribute about 120,000 jobs. ([Arab Finance](#))

Markets

↘	EGX 30	13,905.73	(1.53%)	↘	EGX 70	620.65	(0.24%)
↘	DFMGI	2,525.61	(3.97%)	↘	ADSMI	4,929.22	(3.32%)
↘	TASI	8,366.64	(3.55%)	↘	QE Index	9,740.20	(1.89%)
↘	S&P 500	2,811.87	(2.41%)	↘	MSCI EM	1,016.49	(1.64%)
↘	Gold	1,298.57	(0.10%)	↗	Brent Oil	70.43	0.28%

*As of market close, except for commodities at spot price as of 8.06am CLT.

- MENA Markets:** Egypt’s benchmark **EGX 30** fell after starting the week in the green, weighed by **ESRS, IRON, and OCDI**. UAE’s **DFMGI** took a dive, pushed down by its **consumers** and **real estate** sectors, and **ADSMI** followed suit, hurt by **energy** and **telecom** stocks. Meanwhile, **Saudi Arabia’s TASI** continued its downtrend, pressured by weaker **telecom** and **insurance** stocks.
- Global Markets:** **Asian shares** extended losses on Tuesday, following sharp falls on **Wall Street** overnight as the trade war between the **US** and **China** heats up. However, comments from **US President** that he expects trade negotiations to be successful aided sentiment. Meanwhile, **oil** prices received some support after **Saudi Arabia** said two of its oil tankers were sabotaged off the coast of the **UAE**.

Number of the Day

99%

Colliers MENA forecast of **Cairo’s** revenue per available room (RevPAR) growth for 2019.

Today’s Quiz

What is the size of the undeveloped area in Orascom Development Egypt’s (ORHD) flagship project *El-Gouna*?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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

22.9mn sqm.

Contact Details

☎ +(202) 16331

📍 143, Bank Zone, 5th Settlement,
New Cairo, First Abu Dhabi Bank Building (6th Floor)
Cairo, Egypt

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