

## Today's Story

### Drugmakers' Margins Began Recovery in CQ1 2019

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(in Arabic)

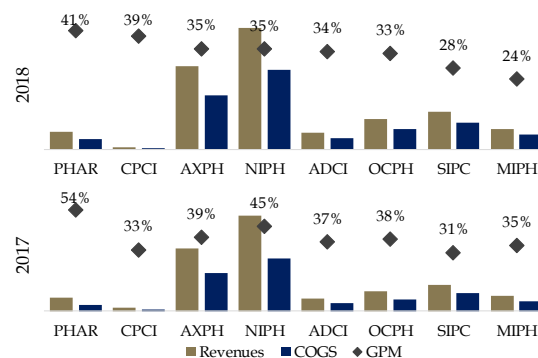
The Daily Cast  
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Drugmakers have been long suffering from high operational costs added to the price ceiling imposed by the Ministry of Health on their end products. In *Today's Story*, we shed some light on the cost equation for operations as borne by drugmakers and its impact on their profitability historically and in CQ1 2019 ended 31 March 2019.

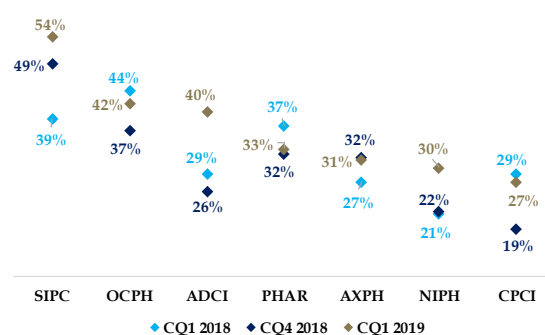
- Why is operational cost spiraling?** The raw materials needed for producing any medicine are divided into two categories: active pharmaceutical ingredients (API) and inactive pharmaceutical ingredients, both of which represent more than 70% of the total operational cost of any pharmaceutical production. As APIs are imported, their cost has escalated on a weaker EGP following its floatation back in November 2016, coupled with globally rising prices. Moreover, inactive ingredients, along with other COGS components (e.g. wages, packaging materials, fuel, and others) are also subject to annual increases given the current high-inflation era that took its toll on them. Pressured by rising COGS and government-imposed ceiling on medicine pricing, drugmakers' margins began to erode following the EGP floatation. As per the charts to the right, all eight EGX-listed drugmakers suffered from lower margins in 2018 vs. 2017, except for **SIPC** which is a small factory producing only 23 generic products.

EGX-listed drugmakers' profitability (2018 vs. 2017)



Source: Companies financials.

EGX-listed drugmakers' GPMs (latest quarters)



Source: Companies financials.

- CQ1 2019 results showed a margin recovery in some companies:** While GPM of most of the eight EGX-listed companies continued to decrease sequentially between 2017 and 2018, some companies saw their margins recover y/y in CQ1 2019 (January-March 2019). On top of those in CQ1 2019 was **SIPC** (GPM: +14.8pptpts y/y to 54%), followed by **ADCI** (+11.4pptpts y/y to 40%), **NIPH** (+8.5pptpts y/y to 30%), and **AXPH** (+4.1pptpts y/y to 31%). The other four companies, however, continued to feel the brunt in their CQ1 2019 gross profit margins y/y. The chart to the right depicts the GPM of the seven companies, historically, while the table below provides further KPIs. *We note that MIPH has not yet released its consolidated results for CQ1 2019 yet, and hence was excluded from the second chart to the right and the below table.*

- On the valuation front:** Compared to their TTM earnings, **ADCI**, **CPCI**, and **AXPH** look very cheap, trading at 4.1x, 4.7x, and 4.8x—all at a steep discount to the sector's median TTM P/E of 11.1x. Meanwhile, **NIPH**, **SIPC**, and **OCPH** trade at a premium. The four state-owned drugmakers' FY2018/19 budgets had penciled in earnings as follows: **AXPH** with EGP109mn, **CPCI** with EGP100mn, **ADCI** with EGP85mn, and **NIPH** with EGP7.6mn. However, we note that **NIPH** has recently turned its quarterly losses into profits, potentially improving its valuation based on FY2019/20. Meanwhile, **PHAR**'s consensus earnings are EGP468.5mn. Based on their budgeted earnings (or consensus earnings in the case of **PHAR**), **ADCI**, **CPCI**, and **AXPH** would still be the cheapest drugmakers' stocks in Egypt, while **NIPH** is poised for a turnaround story by the end of FY 2019/20.

### EGX-listed drugmakers' KPIs

EGPmn	Revenues			Gross Profit			Gross Profit Margin			Earnings			Net Profit Margin			P/E	
	CQ1 2019	y/y	q/q	CQ1 2019	y/y	q/q	CQ1 2019	CQ1 2018	CQ4 2018	CQ1 2019	y/y	q/q	CQ1 2019	CQ1 2018	CQ4 2018	TTM	2019e
ADCI	111	12%	2%	44	57%	60%	40%	29%	26%	10	3%	-23%	9%	9%	11%	4.1x	2.1x
AXPH	213	3%	-12%	67	18%	-13%	31%	27%	32%	32	-5%	-22%	15%	17%	17%	4.8x	5.1x
CPCI	233	10%	-5%	63	4%	39%	27%	29%	19%	29	4%	130%	12%	13%	5%	4.7x	4.7x
NIPH	187	45%	6%	56	102%	45%	30%	21%	22%	16	-282%	278%	9%	-7%	2%	551.5x	27.6x
OCPH	115	28%	-7%	48	22%	5%	42%	44%	37%	3	-16%	55%	3%	5%	2%	24.5x	na
PHAR	915	25%	33%	305	11%	36%	33%	37%	32%	218	26%	36%	24%	24%	23%	11.1x	16.5x
SIPC	17	23%	52%	9	70%	67%	54%	39%	49%	1	132%	-460%	4%	2%	-2%	57.9x	na

Source: Companies' financials, Bloomberg.

## Top Headlines

### Corporate

- **Qalaa Holdings'** (CCAP) major shareholder **Citadel Capital Partners** (CCAPP) and **Chairman** Ahmed Heikal along with his spouse sold 13.69mn and 5.86mn of their CCAP shares, respectively. Proceeds of the 19.55mn CCAP shares sold were extended to CCAP as an interest-free bridge loan. This loan is being used to provide CCAP with part of its funding of its major greenfield project **Egyptian Refining Company (ERC)** as part of the latter's last financing round which is taking place this month. ERC will be financed through a USD70mn capital increase and USD50mn shareholder loans. ([Company disclosure](#))
- **Telecom Egypt** (ETEL) is expected to launch within weeks Internet Protocol television (IPTV) service, and **WE Mobile Wallet**, collaborating with **Banque Misr**, according to the company's CEO. ([Youm7](#))

### Non-Corporate

- The **Egyptian Cabinet** endorsed a USD200mn funding agreement signed between the **Egyptian government** and the **World Bank**, which aims at promoting entrepreneurship and creating more job opportunities, particularly for youth and women. ([Ahram Online](#))
- The **Egyptian Natural Gas Holding Co. (EGAS)** plans to put some 11 natural gas exploration blocks in the western Mediterranean up for auction by Q1 2020. Studies and seismic scans are completed, and the **Ministry of Petroleum** will determine the timeline and the number of concessions on offer. ([Enterprise](#))
- The **House of Representatives' Planning & Budgeting Committee** has allocated an additional EGP7.3bn across a number of sectors in FY2019/20. The **Ministry of Health** is expected to receive an extra EGP2bn for health treatment programs, the **education sector** to receive EGP2.2bn, and the **Ministry of Agriculture** to get an additional EGP2.5bn. ([Al-Borsa](#))

## Markets

↘	EGX 30	13,974.13	(0.38%)	↘	EGX 70	602.90	(0.17%)
↘	DFMGI	2,599.70	(0.28%)	↗	ADSMI	4,866.18	1.56%
↘	TASI	8,413.88	(1.60%)	↗	QE Index	9,931.94	0.36%
↘	S&P 500	2,783.02	(0.69%)	↘	MSCI EM	985.44	(0.28%)
↘	Gold	1,278.35	(0.11%)	↗	Brent Oil	69.78	0.48%

\*As of market close, except for commodities at spot price as of 9am CLT.

- **MENA Markets:** The **EGX 30** closed lower on Wednesday on losses over **EKHO**, **SWDY**, and **CIRA**. **UAE indices** ended on a mixed note, with **DFMGI** retreating due to pressure on **real-estate** and **banking** stocks, while **ADSMI** closed higher helped by a solid performance by **banking** and **telecommunication** sectors. In **Saudi Arabia**, **TASI** closed in the red territory, pushed down by **banking** and **materials** stocks.
- **Global Markets:** **US stocks** closed lower on Wednesday, pressured by losses in the **utilities**, **health care**, and **consumer services** sectors. Meanwhile, fears from trade war continued to weigh on **Asian stocks**. **Gold** was trading lower this morning, while **oil** was trading higher.

## Number of the Day

### 2.213%

US 10-year Treasury's lowest reading since September 2017, as recorded on 29 May 2019.

## Today's Quiz

How many cheese production lines does OLFi operate?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Heliopolis Housing & Development	HELI	AGM	1-Jun	Reviewing Agenda Items
Eastern Company	EAST	EGM / AGM	2-Jun	Reviewing Agenda Items
Egypt Aluminum	EGAL	EGM	2-Jun	Reviewing Agenda Items
Arabia Investments Holding	AIH	Lawsuit	9-Jun	Legal diputes against French Peugeot
Medinet Nasr for Housing & Development	MNHD	Bonus Shares	9-Jun	Bonus shares record date
Medinet Nasr for Housing & Development	MNHD	Bonus Shares	10-Jun	Bonus shares distribution date
Egyptian Resorts Co.	EGTS	EGM	11-Jun	Amending some of the company's articles of incorporation
Egyptian Resorts Co.	EGTS	AGM	11-Jun	Reviewing Agenda Items
MM Group for Industry	MTIE	Dividends	13-Jun	Ex-date (EGP0.25/share); Last eligible date (12 Jun)
South Valley Cement	SVCE	AGM	20-Jun	Reviewing Agenda Items
Amer Group Holding	AMER	Lawsuit	23-Jun	Legal Disputes Relevant to <i>Porto Tartous</i> project
Porto Group Holding	PORT	Lawsuit	23-Jun	Legal Disputes Relevant to <i>Porto Tartous</i> project
Global Telecom Holding	GTHE	AGM	26-Jun	Discussing capital increase
Qalaa Holdings	CCAP	AGM	26-Jun	Reviewing Agenda Items
Ezz Steel	ESRS	AGM	26-Jun	Reviewing Agenda Items
Misr Cement (Qena)	MCQE	Dividends	27-Jun	Payment date (EGP0.25/share)
Egyptian Transport and Commercial	ETRS	Dividends	27-Jun	Payment date (EGP0.50/share)
South Valley Cement	SVCE	Results	30-Jun	1Q 2019 results
Amer Group Holding	AMER	Lawsuit	4-Jul	Legal Disputes Relevant to the Company
Porto Group Holding	PORT	Lawsuit	4-Jul	Legal Disputes Relevant to the Company
Egyptian Resorts Co.	EGTS	Lawsuit	4-Jul	Appeal against TDA regarding Sahl Hasheesh
TMG Holding	TMGH	Dividends	15-Jul	Payment date (EGP0.088/share)
Orascom Construction	ORAS	Results	8-Aug	1H 2019 results
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Payment date (EGP0.10/share)
Sidi Kerir Petrochemicals	SKPC	Dividends	22-Aug	Payment date (EGP0.50/share)
Sidi Kerir Petrochemicals	SKPC	Dividends	16-Oct	Payment date (EGP0.25/share)
Misr Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/share)

## Quiz Answer

OLFI operates 16 lines (15 carton pack production lines + 1 plastic tubs production line).

## Correction and Clarification

In *The Daily Beam* issue published on Wednesday, 29 May 2019, the results mentioned for **Heliopolis Housing & Development's** (HELI) were for 9M FY2018/19, not Q3 FY2018/19.

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