

## Today's Story

### ELEC – Reiterating Our Call in View of Outstanding Q1 2019 Results

Amr Hussein Elalfy, MBA, CFA | Head of Research | [aalfy@shuaasecurities.com](mailto:aalfy@shuaasecurities.com)



(in Arabic)

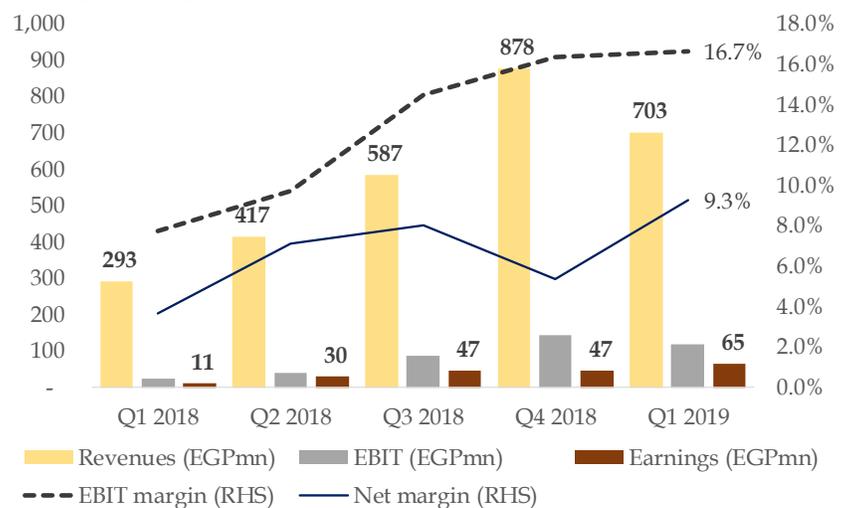
The Daily Cast  
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- Background:** Back [on 18 October 2018](#), we had picked **Electro Cables Egypt (ELEC)** as one of the stocks that we thought are worth considering in view of its turnaround story which was not reflected in its valuation. A month later, on 18 November 2018, ELEC notified the market that **Pioneers Holding (PIOH)**—already a major owner at the time with a c.48.5% stake—was interested in raising its stake in the company through a tender offer. PIOH, through its subsidiaries, had offered to buy up to 294,979,315 shares (equivalent to 41.46% of ELEC) for EGP1.35/share, raising PIOH's effective stake in ELEC to 90%. By March 2019, the IFA appointed by ELEC said that the company's stock fair value came out to be EGP1.83/share, using the weighted average of the book value, DCF, and multiples valuation, c.35% higher than the PIOH's offer price. Nonetheless, the offer which ran through 4 April 2019 was accepted by 139.4mn shares, effectively raising PIOH's stake in ELEC from 48.5% to 68.1% and reduces its free float from 48.4% (344.4mn shares) in Q1 2019 to c.29% (c.205mn shares).

- Improving financial performance:** Back in [October 2018](#), we had said “we believe [ELEC] is undervalued in view of the company's improved performance”. Since then, the company has reported three quarterly results (Q3 and Q4 2018 and more recently Q1 2019). The chart to the right shows the progression of the company's revenues and profitability over the last five quarters, indicating the q/q improvement. ELEC's consolidated net profit jumped from EGP11mn in Q1 2018 to EGP65mn in Q1 2019 (+507% y/y) on higher revenues of EGP703mn (+140% y/y) and EBIT of EGP117mn (+414% y/y), implying an EBIT margin of 16.7%. Also, the company started reducing its debt in Q1 2019, paying down some EGP34mn in credit facilities, which helped further improve its bottom line, above and beyond its operating profit.

ELEC's quarterly performance (last 5 Qs)



Source: Company reports.

- Valuation:** Considering ELEC's trailing twelve-month performance, the company's TTM bottom line would be around EGP189mn. At yesterday's closing price of EGP1.379/share, ELEC's market cap comes out at EGP981mn, implying a TTM P/E of 5.2x. If Q1 2019 earnings were to be annualized, 2019e earnings would be some EGP260mn, implying a 2019e P/E of just 3.8x. Assuming ELEC's 2019 would be somewhere between the TTM and the annualized earnings or their average of EGP225mn, at an undemanding valuation of 6x earnings, ELEC's market cap could be worth EGP1.35bn or EGP1.90/share (a +38% upside from here), which is in line with the IFA valuation. That said, the risk would be a slowdown in ELEC's revenue growth and narrowing gross margins, which would negatively impact its bottom line.

## Top Headlines

### Corporate

- Dice Sport & Casual Wear's (DSCW)** Q1 2019 consolidated earnings decreased 28% y/y to EGP30mn but excluding FX gains slumped 72% y/y to EGP11mn. Such results came in despite higher revenues of only 8% y/y to EGP338mn as COGS surged 20% y/y to EGP267mn, pressuring GPM down to 21% from 29% in Q1 2018. ([Company disclosure](#))
- Cleopatra Hospital Co.'s (CLHO)** net profit after minorities inched up 0.4% y/y (-36% q/q) to EGP54mn in Q1 2019. Although revenues grew by 20% y/y (+6% q/q) to EGP416mn, non-recurring impairment charge of EGP31.7mn (+273% y/y) weighed on bottom line. Gross profit margin expanded by 324bps y/y to 37% in Q1 2019, while served cases increased in total by 0.1% y/y to 235,544 in Q1 2019. ([Company disclosure](#))

- **Edita Food Industries (EFID)** inked a USD20mn in financing agreement with **International Finance Corporation (IFC)** to support the company's growth plans. The USD20mn represents the first tranche of the loan, with the contract including an option for a second tranche for an additional USD10mn. (Company disclosure)

### Non-Corporate

- Committees at the **House of Representatives** have given a preliminary nod of approval to the bill that would create a new *Mineral Resources Law*. If passed, the amendments would set up a new authority in charge of licensing mines and quarries. They would also lift a previous 16 sqkm area limit, allowing the authority to issue licenses to areas of unlimited size and allow licenses to be renewed for more than one term. ([Enterprise](#), [Daily News Egypt](#))
- **Egypt's non-oil exports** recorded about USD2.18bn in April 2018, of which USD1.6bn is industrial goods. ([Al-Borsa](#))
- **Average yields on 91-day and 266-day T-bills** were up in an auction held on **2 June 2019**, as follows: ([CBE](#))

- **91 days: 17.729%** (+13.6bps vs. 17.593%).

Required	Submitted	Accepted	Bid-to-cover ratio
EGP8.75bn	EGP12.6bn	EGP8.75bn	1.4

- **266 days: 17.650%** (+9.9bps vs. 17.551%).

Required	Submitted	Accepted	Bid-to-cover ratio
EGP8.75bn	EGP14.3bn	EGP8.75bn	1.6

### Markets

↘ <b>EGX 30</b>	13,690.72	(0.59%)	↗ <b>EGX 70</b>	597.41	0.00%
↗ <b>DFMGI</b>	2,620.33	0.79%	↗ <b>ADSMI</b>	5,003.59	2.82%
↗ <b>TASI</b>	8,516.48	1.22%	↘ <b>QE Index</b>	10,168.14	(1.02%)
↘ <b>S&amp;P 500</b>	2,752.06	(1.32%)	↗ <b>MSCI EM</b>	998.00	0.31%
↗ <b>Gold</b>	1,309.77	0.32%	↘ <b>Brent Oil</b>	61.28	(1.15%)

\*As of market close

- **MENA Markets:** Egypt's benchmark **EGX 30** ended down on Sunday, over losses in **TMGH, EKHO, and MNHD**. **UAE** and **Saudi Arabia's** markets were off for the Eid El-Fitr holiday.
- **Global Markets:** **US stock futures** and commodity prices slipped, while bonds rallied on Monday on worries of **China-US** trade war and Washington's new tariff threats against **Mexico** could tip the global economy into a recession. Meanwhile, **oil prices** extended losses on Monday in **Asia** after a 3% slump last Friday amid tension between **Mexico** and the **United States**.

### Number of the Day

#### USD1.2bn

The initial cost of Sidi Kerir Petrochemicals' (SKPC) propylene and polypropylene project.

### Today's Quiz

What are the output capacities of SKPC's propylene and polypropylene project?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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 (20%)
Medinet Nasr for Housing & Development	MNHD	Bonus Shares	10-Jun	Bonus shares distribution date (20%)
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

500,000 tpa of propylene and 450,000 tpa of polypropylene.

## Contact Details

☎ +(202) 16331

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

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