

Today's Story

Consumer Sector's Dip: Where There's Muck There's Brass

Mohamed Saad | Equity Analyst | mfattah@shuaasecurities.com



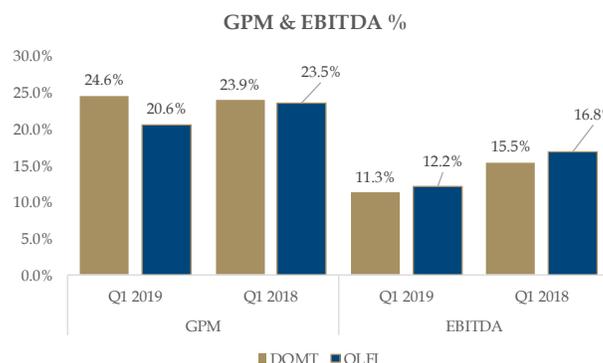
The Daily Cast
البث اليومي

(in Arabic)



Consumer players being in for another lean year was the sector's theme as portrayed in our equity strategy *A Year of Selectivity* issued on 20 January 2019. In that report, we stated that "margin expansion will be hindered by yet another wave of subsidy cuts, while improvement in volumes could be slow" and "market interest in consumer names will depend on how their new product launches will perform in the new year." Fast forward to today, consumer players have underperformed the stock market on a ytd basis so far in 2019. The underperformance was well detected through the total return of two sector leaders, OLF1 and DOMT, whose performance amounted to -3.3% and -4% ytd, respectively, compared to EGX 30's +7.3%. In our opinion, this negative reaction by the sector is provoked by its weak Q1 2019 results, while market anxiety to the expected wave of subsidy cuts only added fuel to the fire.

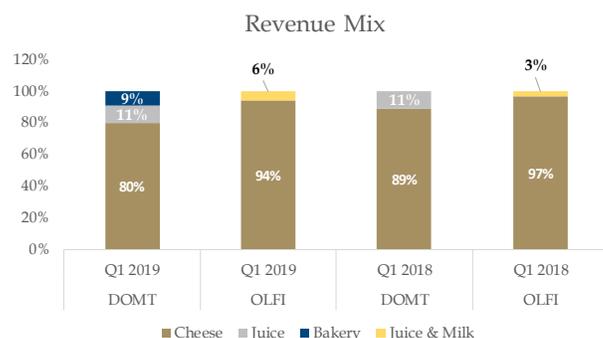
- Brief performance review:** DOMT's Q1 2019 earnings slipped annually, on higher marketing spending, to EGP28.8mn (-29% y/y, +32% q/q). Top-line growth to EGP655mn (+11% y/y, +7% q/q) and improved GPM of 24.6% (+65bps y/y, +2bps q/q) did not stop earnings from falling. Meanwhile, OLF1's Q1 2019 bottom line amounted to EGP53mn (+6% y/y, -7% q/q), while its top line fell on a quarterly basis to EGP576mn (-7% q/q, +26% y/y). Its margins were pressured by rising production and input costs; GPM declined to 20.6% from 23.5% in Q1 2018. Having made EGP9mn in FX gains Q1 2019, its normalized bottom-line growth would have dropped into red territory.



Source: Company data

- Sifting through management notes:**

- DOMT's** management increased the level of its marketing spend during Q1 2019 to the second highest level in the company's history due to a rise in competition. The company's efforts to optimize commercial policies did not bear fruit in H1 2019 but are expected to start translating well in H2 2019. GPM expanded, however, as DOMT concentrated on its high-margin portfolio. Management expects Q2 2019 results to stay annually weaker on pressure from the ongoing restructure of its agents' network and from the Ramadan season's negative effect on volume growth, especially in the bakery segment. The firm expects new capacities to be added in H2 2019 to its bakery segment which is targeted to contribute 20% to total sales revenues.



Source: Company data

- OLF1's** management blamed weaker margin on heightening prices of skimmed milk powder (SMP) and milk protein concentrate since the beginning of the year. The company built up their distribution network through expanding their retail vehicle fleet, which in turn raised car expenses and employment cost. OLF1 marked up its white cheese prices twice, leaving the product 5% pricier. Top line of all segments, excluding white cheese, matched the company's 2019 expectations, as gross sales of milk and juice generated EGP33.5mn in revenues compared to Q1 2018's EGP15mn. Improving its procurement management, hiking up the prices of its new products, and launching a mozzarella cheese line are all OLF1's targets for H2 2019. Regardless of profitability downturns, OLF1 thinks the white cheese volume will be increasing by 10% for the full year.

- Conclusion:** Reading through their remarks and Q1 2019 figures, we can see that both players share some similarities: (1) solid top-line growth, (2) lower profitability pressured by costs, and (3) rearranging their distribution capabilities. **Therefore, the current lag in performance vis-à-vis the market could be deemed, in our view, as a tactical opportunity. This view is underpinned by the EGP appreciation so far in 2019 and expectations of no subsidy cuts in 2020. Thus, we believe that buying the dip will be the best tactic for investors when it comes to consumer names during 2019.**

Top Headlines

Corporate

- **Sidi Krier Petrochemicals (SKPC)** subsidiary **The Egyptian Ethylene and Derivatives Company (ETHYDCO)** selects **Petrojet** and **Saipem** consortium to construct the polybutadiene production line with an investment cost of USD150mn. ([Yom7](#))
- **House of State** has reportedly postponed the lawsuit presented by **Raya Holding's (RAYA)** Chairman Medhat Khalil against **Financial Regulatory Authority (FRA)** for fining the former EGP11mn and postponement of Aman licensing for a month. FRA decision came within the context of the mandatory tender offer forced on him by the FRA. Khalil also filed a request with the Justice Ministry's dispute resolution committee to either cut or eliminate the aforementioned fine. Meanwhile, **Raya for Advanced Manufacturing** one of RAYA's subsidiaries is currently in negotiations with the **Ministry of Trade and Industry** to acquire a license to start manufacturing of the electric cars. ([Enterprise](#), [Al-Mal](#))
- **Industrial Engineering Company for Construction and Development's (ENGC)** capital increase coverage ratio is 93.85%, investors subscribing in 14.29mn shares out of 15.22mn shares with a total proceeds of c. EGP58mn. ENGC is expected to go for a second round of the capital increase, as the first round was covered at less than 95%. ([Company disclosure](#))
- The government is reportedly looking to reset the rates for **Suez Canal Containers** in order to support the company's competitive position and financial performance. (AlAlam AlYoum)

Non-Corporate

- State-owned companies selected for the second phase of the IPO program will move forward with transactions starting in September as scheduled, **Public Enterprises Minister** Hisham Tawfik. ([Enterprise](#))
- Egypt's sovereign wealth fund has joined the **International Forum of Sovereign Wealth Funds (IFSFW)** with an associate membership granted for three years. ([Enterprise](#))
- **Egypt's international reserves** ticked marginally up in May 2019 to USD44.28bn from USD44.22bn in April 2019 due to a higher value of the foreign currency component. ([CBE](#))
- **Egypt** will auction USD715mn worth of one-year USD-denominated T-bills on 10 June 2019. The auction will be settled on 11 June 2019, the same day one-year dollar T-bills worth USD715mn are due to mature. ([Reuters](#))
- The Parliament is currently considering some amendments to the New Investment Law no. 72/2017, concerning fees applied in the free zones. The potential amendments will unify some fees paid by the projects (both established prior to and after the Law enforcement) at 2% of the value of their goods in some cases. Previously, projects that were established prior to the Law were subject only to 1% fees of the value of their goods in all cases. (Al-Borsa)

Markets

↗	EGX 30	13,787.80	0.71%	↘	EGX 70	597.35	(0.01%)
↗	DFMGI	2,620.33	0.79%	↗	ADSMI	5,003.59	2.82%
↗	TASI	8,516.48	1.22%	↗	QE Index	10,319.33	1.49%
↗	S&P 500	2,873.34	1.05%	↗	MSCI EM	1,007.39	0.46%
↗	Gold	1,340.86	0.41%	↗	Brent Oil	63.29	2.63%

*As of market close

- **MENA Markets:** Egypt's benchmark **EGX 30** ended slightly higher last Monday, fueled by gains in **COMI**, **GTHE**, and **MNHD**. UAE's and **Saudi Arabia's** markets were off for the Eid El-Fitr holiday.
- **Global Markets:** **US stocks** closed higher Friday, following a weaker-than-expected jobs report, which supported the case for the **Federal Reserve** to ease interest rates in the near future which sent the dollar lower and help **gold** prices to close at its highest levels since April 2018 on Friday. Meanwhile, **oil** prices rose on Friday, climbing further from five-month lows hit this week, after **Saudi Arabia** said **OPEC** was close to agreeing to extend an output production cut beyond June.

Number of the Day

235,544

Total cases served by Cleopatra Hospital Co. (CLHO) in Q1 2019.

Today's Quiz

What are Cleopatra Hospital Co.'s (CLHO) top four hospitals that contributed the most to its total revenues in Q1 2019?

(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 disputes 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)
Raya Holding	RAYA	Dividends	16-Jun	Ex-date (EGP0.15/share); Last eligible date (15 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

Cleopatra, contributed 44%, followed by **Cairo Specialized** (21%), **Nile Badrawi** (18%), and **Al Shorouk** (17%).

Contact Details

☎ +(202) 16331

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

Analyst Certification

We, **analysts mentioned in this document**, employed with SHUAA Securities Egypt, and authors to this document, hereby certify that all the views expressed in this research report accurately reflect our views about the subject issuer(s) or security(ies). We also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, we certify that neither ourselves nor any of our close relatives hold or trade into the subject securities.

Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the analysts in this document about the subject issuer(s) or security(ies). I also certify that the authors of this document, has not received any compensation directly related to the contents of the document.

Disclaimer

This document has been issued by SHUAA Securities Egypt for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. SHUAA Securities Egypt has based this document on information obtained from sources it believes to be reliable. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. Accordingly, no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by SHUAA Securities Egypt or by any of its respective officers, employees, agents or affiliates in relation to the accuracy, completeness or fairness of the information or opinions contained herein or any other written or oral information made available to any interested party or its advisers and any such liability is expressly disclaimed. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of SHUAA Securities Egypt. SHUAA Securities Egypt is regulated by the Financial Regulatory Authority under license number 91.

Issuer of Report

SHUAA Securities Egypt

Website: www.shuaasecurities.com