

Today's Story

EGAL – Expensive on Current Operations but Cheap with Solar Plant



The Daily Cast
البث اليومي

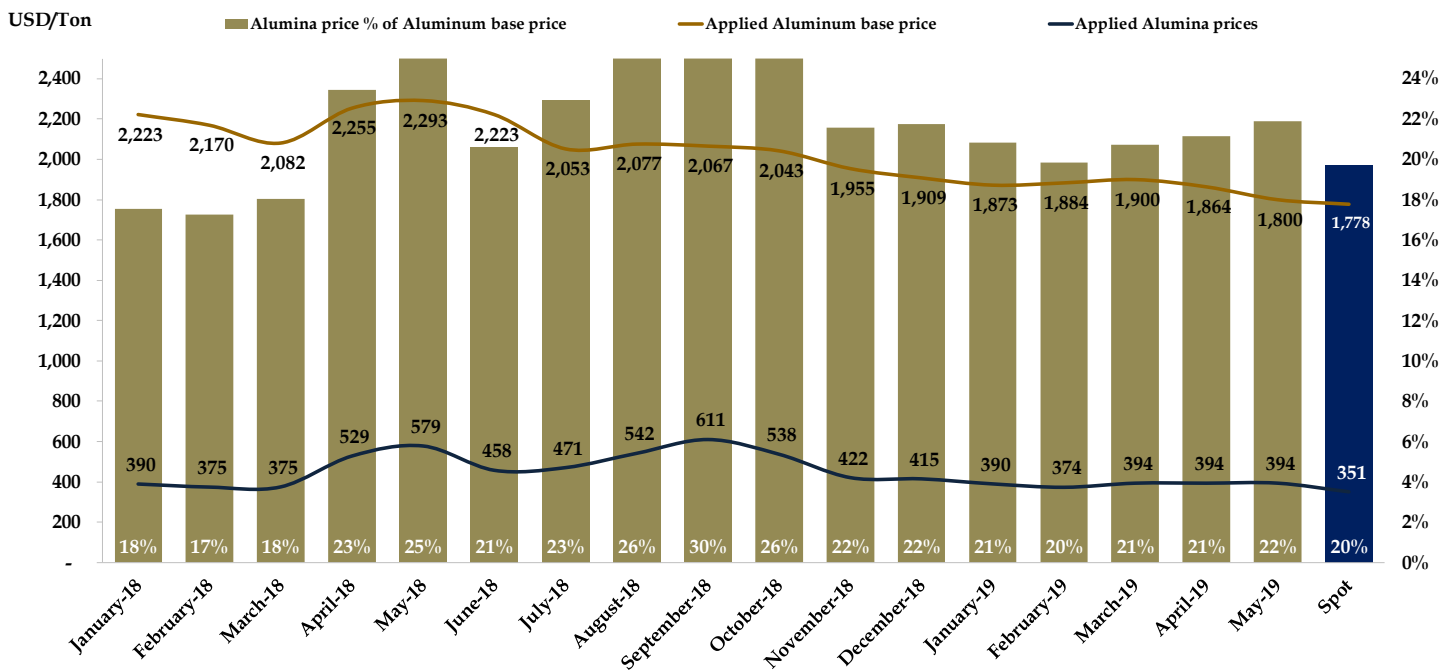
(in Arabic)



AbdelRahman Wahba | Equity Analyst | awahba@shuaasecurities.com

- What drove the stock higher recently:** Earlier this week, **Egypt Aluminum (EGAL)** revised its FY2019/20 budget to post a net profit of EGP107mn rather than the EGP342mn net losses previously projected. The positive revision came on the back of lower-than-expected electricity cost (EGP1.11 per kWh, compared to EGAL's old estimate of EGP1.20 per kWh). The stock rallied on this news, but we do not see that as a catalyst for the time being as the stock just got pricey. That said, good things can come to those who wait.
- Why the stock is expensive on current operations:** The stock is currently trading at a FY2019/20 P/E of 17.3x according to SSE estimates and 59.4x according to EGAL's, both of which are higher than FY2018/19e P/E of 8.0x and the industry average of 9.0x. Also, the Egyptian pound continued to appreciate to EGP16.77/USD compared to EGP18.00/USD in EGAL's budget. In addition, aluminum spot prices declined to USD1,778/ton versus USD2,055 in EGAL's budget. Therefore, we do not expect the company to perform well in Q4 FY2018/19. If the FX rate and aluminum prices stayed at their current levels, FY2019/20 results will be weaker than expected.

Aluminum vs. alumina prices



Source: Bloomberg.

PT sensitivity to LME's metal base price & alumina price as % of aluminum

Aluminum Base Price	Alumina % of Aluminum Base Price				
	-1.0%	-0.5%	Base Case	+0.5%	+1.0%
+10%	34.1	31.3	28.6	25.8	23.1
+5%	27.4	24.8	22.2	19.5	16.9
Base Case	20.8	18.3	15.8	13.3	10.8
-5%	14.2	11.8	9.4	7.0	4.6
-10%	7.5	5.3	3.0	0.8	(1.6)

Source: SHUAA Securities Egypt estimates.

PT sensitivity to kWh cost & kWh consumption per ton

Electricity Consumption Per Ton	Electricity Price (EGP/kWh)				
	-10%	-5%	Base Case	+5%	+10%
-1,000 kWh	31.1	27.0	22.8	18.7	14.5
-500 kWh	27.9	23.6	19.3	15.0	10.7
Base Case	24.7	20.2	15.8	11.3	6.9
+500 kWh	21.4	16.8	12.2	7.7	3.0
+1,000 kWh	18.2	13.5	8.7	4.0	(0.9)

Source: SHUAA Securities Egypt estimates.

- **What could change our view?** Constructing EGAL's 600MW solar power plant was being discussed, earlier in June, between the **Ministry of Electricity and Renewable Energy** and the **Ministry of Public Enterprise**, according to the latter. Within a couple of months, investors will be invited to bid on the construction project, said Public Enterprise Minister Hisham Tawfik. Materialized, this scenario would change our view on EGAL to overweight with a 12M PT of EGP33.6/share. Thus, we would not be buyers of EGAL given its current operations as is. Yet, we would turn buyers if the EGP weakened, slipping from its current levels, or aluminum base prices strengthened. Also, constructing the 600MW solar plant would raise our 12M PT to EGP33.6/share (113% higher than our current 12M PT of EGP15.8/share).

Scenarios for the solar power plant in plan

EGPmn	12M PT (EGP)	FY15/16a	FY16/17a	FY17/18a	FY18/19e	FY19/20e	FY20/21e	FY21/22e	FY22/23e	5Y- CAGR
Base Case										
<i>Solar Power Plant 0% of power consumption</i>										
EBITDA	15.8	179	2,284	3,327	808	373	373	842	1,139	-19.3%
EBITDA margin		3.6%	25.1%	24.6%	6.6%	3.3%	3.0%	6.4%	8.2%	
Net income		85	1,733	2,716	791	367	469	851	1,099	-16.5%
Solar Power Plant 37% of power consumption										
EBITDA	33.6	179	2,284	3,327	808	373	373	2,123	2,448	-6.0%
EBITDA margin		3.6%	25.1%	24.6%	6.6%	3.3%	3.0%	16.2%	17.7%	
Net income		85	1,733	2,716	791	367	469	1,855	2,154	-4.5%
Solar Power Plant 19% of power consumption										
EBITDA	24.7	179	2,284	3,327	808	373	373	1,483	1,794	-11.6%
EBITDA margin		3.6%	25.1%	24.6%	6.6%	3.3%	3.0%	11.3%	12.9%	
Net income		85	1,733	2,716	791	367	469	1,353	1,627	-9.7%
Solar Power Plant 10% of power consumption										
EBITDA	20.6	179	2,284	3,327	808	373	373	1,185	1,489	-14.9%
EBITDA margin		3.6%	25.1%	24.6%	6.6%	3.3%	3.0%	9.0%	10.7%	
Net income		85	1,733	2,716	791	367	469	1,120	1,381	-12.6%

Source: SHUAA Securities Egypt estimates.

Top Headlines

Corporate

- The **Holding Co. for Construction & Development**, representing the **Ministry of Public Enterprise**, will arrange an auction to select the private equity firm that will manage **Heliopolis Housing & Development (HELI)**, as per the ministry. The company of choice will have to buy at least half of the stake that will be floated as part of HELI's SPO (currently decided at 22%), the **Public Enterprise Minister** Hisham Tawfik explained, hoping to see the SPO taking place during Q3 2019 or before the end of the year. In addition to the stake that it should own in HELI, the private equity firm will be compensated for its management. To be approved, the potential partnership must poll at least 75% of HELI's shareholder votes in the GAM, which is expected by the minister to be convened within a month. ([Company disclosure](#), [Hapi Journal](#))
- **Orascom Development Egypt (ORHD)** has signed an EGP3.8bn debt-rescheduling package, strengthening its balance sheet and creating more flexibility in advancing its projects. The transaction involves immediate cash payment of EGP325mn out of an EGP650mn total, with the remainder to be paid by end of June 2019. ORHD's lenders approved reducing the interest rates on foreign debts by 100bps. This will cut the company's debt cost from 10.5% to 9.3% and result in annual savings of EGP70mn (lower interest payments) in 2019 and a total of EGP320mn over the 6-year period (2019-2024). The rescheduling conditions also entail amending the remaining debt principal repayment schedule to better match ORHD's cash flows and alleviates the pressure without changing the final maturities of the loans whereby roughly 50% of the total debt is repaid in the final years. (Company disclosure)
- The **Egyptian Chemical Industries Co. "KIMA" (EGCH)** said that the **Court of Appeal** has determined that the company owes nothing to the **Egyptian Electricity Transmission Co.** ([Company disclosure](#))
- **GB Auto's (AUTO)** subsidiary **GB Lease** has completed its second securitized bond offering in the amount of EGP767mn. Proceeds from the transaction will be used to de-leverage **GB Lease's** balance sheet, improving its liquidity position as well as upping borrowing limits. (Company disclosure)
- **Raya Holding for Financial Investments' (RAYA)** subsidiary, **Raya IT**, came to an agreement with **National Bank of Egypt** and **Egypt Post** to digitalize their services. (Al-Mal)

Non-Corporate

- The **Egyptian Tax Authority** applied a new measure that replaces all tax file numbers with the unified tax registration number on 1 June, in an attempt to modernize tax data. The authority clarified that the new system is being adopted in all tax assessments, and for all types of taxes, whether income taxes, value added, or others. ([Egypt Today](#))

- **Egypt's** trade deficit increased 10.1% during March 2019 to USD4.15bn, compared to USD3.77bn in the same month of 2018, according to CAPMAS. ([Egypt Today](#))

Markets

↘	EGX 30	14,158.11	(0.34%)	↗	EGX 70	606.42	0.12%
↘	DFMGI	2,663.55	(0.44%)	↗	ADSMI	4,990.86	0.50%
↗	TASI	9,084.75	1.06%	↗	QE Index	10,621.76	0.35%
↘	S&P 500	2,879.84	(0.20%)	↘	MSCI EM	1,026.24	(0.54%)
↗	Gold	1,335.81	0.17%	↗	Brent Oil	60.58	1.02%

*As of market close, except for commodities at spot price as of 8.01am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** ended lower on Wednesday, as **COMI**, **MNHD**, and **HELI** sagged. **UAE's DFMGI** headed south, after **real estate** and **telecom** stocks headed into the red zone, while **ADSMI** ticked up, lifted by its **insurance** and **telecom** sectors. Meanwhile, **Saudi Arabia's TASI** ended stronger, boosted by **retailing** and **financials** stocks.
- **Global Markets:** Oil prices recovered slightly on Thursday in **Asia** after a slump in the previous session on crude inventories data. **US stocks** ended slightly lower on Wednesday amid a continuing cloud of uncertainty over the **US** trade ties with **China**.

Number of the Day

70%

The expected weight of debt to finance Sidi Kerir Petrochemicals' (SKPC) new project.

Today's Quiz

What is the main raw material needed to produce alumina?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
BPE Holding For Financial Investments	BINV	Dividends	13-Jun	Payment date (EGP0.50/share)
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
Arabia Investments Holding	AIH	Lawsuit	21-Jun	lawsuit against French Peugeot
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
Suez Bags	SBAG	EGM / AGM	23-Jun	Discuss delisting the company from EGX and hiring an IFA to value the
Qalaa Holdings	CCAP	AGM	26-Jun	Reviewing Agenda Items
Ezz Steel	ESRS	AGM	26-Jun	Reviewing Agenda Items
Canal Shipping Agencies	CSAG	EGM	27-Jun	Reviewing Agenda Items
United Arab Shipping	UASG	EGM	27-Jun	Reviewing Agenda Items
Alexandria Containers Handling	ALCN	EGM	27-Jun	Reviewing Agenda Items
Misir 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
Egyptian Resorts Co.	EGTS	EGM	10-Jul	Amending some of the company's articles of incorporation
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)
Global Telecom Holding	GTHE	AGM	27-Aug	Discussing capital increase
Sidi Kerir Petrochemicals	SKPC	Dividends	16-Oct	Payment date (EGP0.25/share)
Misir Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/share)

Quiz Answer

Bauxite ore.

Contact Details

☎ +(202) 16331

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

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