

Today's Story

GB Auto's Stock: A Dud or a Stud?

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(in Arabic)

The Daily Cast
البث اليومي



In *Today's Story*, we draw a picture about investing in GB Auto's stock (AUTO), after the recent interest rate cut and the company's performance during H1 2019. We also pinpoint the major catalysts for the company that investors should keep an eye on.

- The recent interest rate cut helps AUTO:** As one of the highly-leveraged companies on the EGX, AUTO is clearly set to benefit from the recent 150bps cut in interest rates. The company's hefty financing expenses were a major reason behind its losses in the past quarters. With the resumption of the easing cycle by the CBE, we can expect a positive impact on AUTO, resting on:
 - Less intense financing expenses**, which could narrow AUTO's losses or even widen its profits.
 - A pick-up in car loans**, which could result in a better performance from the auto business.
 - An expansion in lending volume** by the company's NBFS arm, **GB Capital**.
- The auto business has seen all the negatives in H1 2019—in our view:** In H1 2019, the company's auto business has witnessed many unfavorable events, from competition that imports zero-tariff European cars to the “let it rust” car boycott campaign. This scene has led AUTO to lose ground in the local passenger cars market. For example, AUTO's market share decreased to 20% during H1 2019 from 28% a year ago, and margins also contracted after a reduction in its car prices. Moreover, the new government regulations placing a monthly limit on issuing the three-wheelers licenses have constrained supply, despite strong demand in the market. That said, AUTO's regional operations performed well in H1 2019, which have partially offset the weak performance given by the company's local passenger cars and two- and three-wheelers segment.
- Value resides in GB Capital:** Our back-of-the-envelope valuation for AUTO resulted in a total equity value of EGP3.8bn or EGP3.6/share, 15% below market price. We valued AUTO using the sum-of-the-parts (SOTP) methodology, where we used the DCF approach to value the company's auto business, which pointed to a negative equity value due to the pressing needs of working capital plus a large amount of debt. Meanwhile, we adopted the justified P/B model to value **GB Capital**, which led to a total equity value of EGP4.5bn. Moreover, we ran a sensitivity analysis of AUTO's valuation, relying on our assumptions for GB Capital's ROE and terminal growth rate, which yielded a valuation range of EGP2.6-5.2/share.
- Conclusion:** For some, it may seem that investing in AUTO should be avoided given the issues it faces in the auto business coupled with its large amount of debts. Meanwhile, others do like GB Capital's story and believe that the worst has already been inflicted upon the auto business, and now could be a good time to invest in the stock. In our opinion, we think that investing in AUTO should be driven by catalysts that give a somewhat clear long-term view. One of these catalysts has already occurred, i.e. the interest rate cut. Other catalysts that should be kept under close observation by market participants are: (1) any signs of recovery in the company's local passenger cars segment, (2) the application of the automotive directive which should give incentives to local assemblers and producers, (3) loosening the regulations on the three-wheelers segment, (4) continuation of the strong performance of the company's regional operations, and (5) any further interest rate cut of course. All in all, AUTO's consensus target price of EGP6.8/share indicates that analysts in the market believe in the future of AUTO and its turnaround chances.

Our SOTP valuation for AUTO

Business	EGPmn	EGP/share
Auto segment	(646)	(0.59)
GB Capital	4,530	4.14
Total GB Auto	3,884	3.55
Market value	4,595	4.20
Upside/(downside)	-15%	-15%

Source: SHUAA Securities Egypt.

AUTO's valuation sensitivity analysis to GB's Capital ROE & TGR

		ROE				
		25%	26%	27%	28%	29%
TGR	11%	3.92	4.24	4.56	4.88	5.21
	10%	3.44	3.70	3.97	4.24	4.51
	9%	3.09	3.32	3.55	3.78	4.01
	8%	2.83	3.03	3.23	3.44	3.64
	7%	2.63	2.81	2.99	3.17	3.35

Source: SHUAA Securities Egypt.

Top Headlines

Corporate

- **Public Enterprises Minister** Hisham Tawfik said that the **Cabinet** will sign off on the final settlement between **Emaar Misr for Development** (EMFD) and **El-Nasr Housing & Development** this Thursday. ([Al-Alam Al-Youm](#))
- **Obour Land Food Industries'** (OLFI) earnings in H1 2019 increased 10% y/y to EGP127.3mn despite weaker gross profit of EGP247.2mn (-11% y/y) and EBITDA of EGP171.3 (-5% y/y). Margins were primarily weakened by rising production costs, as GPM reached 20.8% in H1 2019 vs. 24.6% a year earlier. Revenues rose 5% y/y to EGP1.19bn on a 6% price increase in white cheese. Earnings expanded; NPM hit 10.7% versus 10.2% a year earlier, helped by a 22% decline in SGA and FX gains of EGP17.4mn. (Company disclosure)
- **Orascom Construction** (ORAS) reported net income attributable to shareholders of USD31.3mn in Q2 2019 and USD61.5mn in H1 2019. Consolidated backlog grew 9.4% y/y to USD4.6bn and pro forma backlog (including 50% share in **BESIX**) increased 19.3% y/y to USD7.3bn as of 30 June 2019. Consolidated new awards increased 41.8% y/y to USD1.4bn and pro forma new awards (including 50% share in **BESIX**) increased 22.1% y/y to USD2.4bn in H1 2019. (Company disclosure)
- **Elsewedy Electric's** (SWDY) revenues rose 7.2% y/y to EGP21.55bn in H1 2019. While wires and cables revenue remained largely unchanged y/y, overall top line growth was driven primarily by the turnkey projects segment, the second-largest contributor to revenue, which grew by 25.2% y/y. GPM remained steady in the 16.9%-17% range between both periods. Net profit after minority dropped to EGP1.89bn in H1 2019 vs EGP2.37bn in H1 2018 (-20% y/y) on lower interest and investment income and higher administrative and interest expenses. ([Company disclosure](#))

Non-Corporate

- **Remittances** from Egyptian expats hiked USD894.7mn during May 2019, reaching USD3bn, compared to USD2.1bn in April 2019. ([Egypt Today](#))
- **Egypt** signed a USD500mn agreement with **India's LuLu Hypermarket** for four new retail outlets in **Sixth of October City**, **New Cairo**, and **El-Obour City**. ([Enterprise](#))
- **Public Enterprises Minister**, Hisham Tawfik, discussed with **Chinese Ambassador to Cairo**, Liao Liqiang, incentives that the government will offer to partners in the joint project between **China** and **El-Nasr Automotive** to establish an electric car factory. ([Enterprise](#))
- **Minister of Electricity** Mohamed Shaker met yesterday with **Huawei's Regional Corporate Head**, Michael Li, to discuss the ministry's plans to transition to a smart electricity grid. ([Al-Masry Al-Youm](#))
- **Minister of Transport** Kamel El-Wazir met on Sunday with a **World Bank** delegation to discuss a potential cargo railway line connecting **Alexandria** with **Sixth of October** dry port. ([Ministry statement](#))

Markets

↘	EGX 30	14,291.03	(0.35%)	↗	EGX 30 TR	5,286.99	0.03%
↘	EGX 70	544.57	(0.74%)	↘	EGX 100	1,427.15	(0.55%)
↗	DFMGI	2,729.04	0.49%	↗	ADSMI	4,997.22	0.58%
↗	TASI	8,257.86	0.20%	↘	QE Index	9,787.77	(0.30%)
↗	S&P 500	2,878.38	1.10%	↘	MSCI EM	960.81	(1.32%)
↗	Gold	1,533.61	0.41%	↗	Brent Oil	58.91	0.36%

*As of market close, except for commodities at spot price as of 8.51am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** closed down on Monday, dragged by **COMI**, **EAST**, and **SWDY**. In the **UAE**, **DFMGI** ended higher driven by **real estate** and **banking** stocks, and **ADSMI** followed suit as its **banking** and **telecom** stocks strengthened. Meanwhile, **Saudi Arabia's TASI** rose on stronger **telecom** and **utilities** stocks.
- **Global Markets:** **US stocks** rallied on Monday after positive news on the trade front emerged from the **G-7** meetings in **Biarritz, France**. **Oil prices** gained on Tuesday in **Asia** despite conflicting signs about the **US- China** trade war.

Number of the Day

300,000 tons per annum

The capacity of **Sidi Kerir Petrochemicals Co.'** (SKPC) cracker.

Today's Quiz

What is the oldest ethylene cracker in Egypt?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Heliopolis Housing & Development	HELI	Tender	28-Aug	Merryland Children Garden lease auction
Canal Shipping Agencies	CSAG	EGM	29-Aug	Discussing proposed dividends of EGP0.30/share
CI Capital Holding	CICH	AGM	2-Sep	Discuss capital increase
GB Auto	AUTO	EGM	3-Sep	Approve merging RG Investment into GB Auto.
Suez Canal Bank	CANA	Lawsuit	4-Sep	To rule in a lawsuit that invalidated theBank's AGM on April 4, 2018
Ezz Steel	ESRS	Lawsuit	9-Sep	Steel Billets -Law Suit
Global Telecom Holding	GTHE	EGM	9-Sep	Discussing delisting from EGX; approving asset sale.
Dice Sport & Casual Wear	DSCW	EGM	12-Sep	Discuss capital increase
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	15-Sep	Legal Disputes relevant to <i>Porto Tartous</i> project
Canal Shipping Agencies	CSAG	Tender	15-Sep	put up a two-story building for rent in an auction
Maridive & Oil Services	MOIL	EGM	16-Sep	Discuss capital increase
Egyptian Resorts Co.	EGTS	AGM	25-Sep	Reviewing Agenda Items
Amer Group Holding	AMER	Lawsuit	26-Sep	Legal disputes relevant to the company
Porto Group Holding	PORT	Lawsuit	26-Sep	Legal disputes relevant to the company
Arabia Investments Holding	AIH	Lawsuit	29-Sep	lawsuit against French Peugeot
Sidi Kerir Petrochemicals	SKPC	Dividends	16-Oct	Payment date (EGP0.25/share)
Egyptian Resorts Co.	EGTS	Lawsuit	26-Oct	Appeal against TDA regarding Sahl Hasheesh
Misir Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/share)

Quiz Answer

Sidi Kerir Petrochemicals Co.'s (SKPC) cracker.

Correction & Clarification

In *The Daily Beam* dated 26 August 2019, the auction results shown were for Thursday, not Sunday. Below are the data for the auctions that took place on Sunday, 25 August 2019.

- **Average yields** were down on **25 August**, in the first auction after the MPC's decision to cut rates by 150bps: ([CBE](#))

Maturity	Yield	Was	Required	Submitted	Accepted	Bid-to-cover ratio
91 days	16.443%	17.904%	EGP9bn	EGP12.3bn	EGP5bn	1.4
266 days	16.378%	17.882%	EGP9.75bn	EGP19.2bn	EGP12.8bn	2.0

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