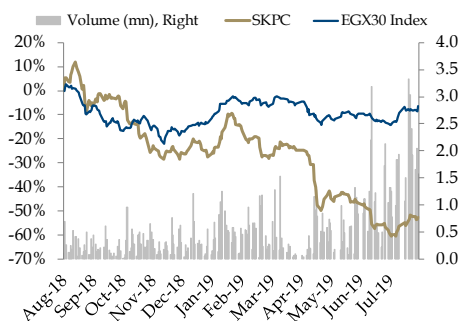


Contents

- [The Story](#) [Page 2](#)
- [The Numbers](#) [Page 5](#)
- [The Valuation](#) [Page 6](#)
- [The Financial Model](#) [Page 12](#)
- [The Background](#) [Page 13](#)
- [The Leadership](#) [Page 14](#)

Stock chart & data



| | |
|-------------------------------------|------------|
| Last Price (EGP) | 10.0 |
| 52 Week Range (EGP) | 8.2 - 26.1 |
| 6M-ADVT (EGPmn) | 9.1 |
| Market Cap (EGPmn) | 5,239 |
| No. of Shares O/S (mn) / Free float | 525 / 22% |

*Last Price as of 28 August 2019

A Play on Hydrocarbon–Olefin Spread

Sidi Kerir Petrochemicals Co. (SKPC) produces ethylene and polyethylene (PE) through processing the Western Desert ethane/propane (E/P) mixture. Exaggerated hikes of feedstock costs and cheaper polyethylene have been eroding SKPC's operating margins over the last seven years. After PE prices continued to weaken SKPC's performance in H1 2019, the stock price implied an EV/ton of USD851 vs. USD4,193 for its 20%-owned Egyptian Ethylene & Derivatives Co.'s (ETHYDCO) based on its investment cost in 2011. We see the EGP/USD rate significantly impacting SKPC's operating income in the near future. We initiate coverage on the stock with a Neutral / High Risk rating and a 12M PT of EGP12.0/share (+20%).

- **An integrated ethylene chain:** Fully exposed to prices of ethylene and its derivatives, SKPC produces them through its cracker using an E/P mixture as a feedstock. The company's operational performance is mainly tied to PE prices and also feedstock cost and quality. SKPC's recent amine unit maintains the high feedstock quality, which protects product yield from deterioration. But any adjustment of the feedstock pricing formula still poses a key risk for SKPC. Also, the advantage of local price premium would not be sustained due to the expected change in market structure.
- **Margins to be pressured on cheaper PE and inflated cost:** We expect margins to drop from 30% in 2018 to 20% in 2019 then average around 19% during 2020-2022, assuming a small increase of c.2% in feedstock cost that will be offset by PE selling price growth of 1%. In 2023, we expect GPM to decline by 160bps due to a lower premium of local PE prices.
- **We set 12M PT at EGP12.0/share; initiate coverage with a Neutral / High Risk (ETR +20%):** We valued SKPC by discounting FCFF at a weighted average cost of capital (WACC) of 16.7% on average, which resulted in a 12-month price target of EGP12.0/share, implying an expected total return (ETR) of 20%. We believe SKPC is currently pressured by the fear of possible feedstock price hikes and lower selling prices after a weak first half. Thus, we initiate coverage on SKPC with a Neutral / High Risk rating. We note that our valuation excludes the propylene/polypropylene project which has different scenarios that, if implemented, would significantly impact our 12M PT depending on its final investment cost.

Financial summary

| EGPmn, except per-share | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|---------|---------|
| Revenue | 3,422 | 4,995 | 5,780 | 5,208 | 5,437 | 5,590 |
| EBITDA | 988 | 1,370 | 1,534 | 902 | 896 | 909 |
| Net Income | 1,428 | 1,132 | 1,299 | 644 | 774 | 821 |
| Revenue Growth (%) | (3%) | 46% | 16% | (10%) | 4% | 3% |
| EBITDA Growth (%) | (9%) | 39% | 12% | (41%) | (1%) | 1% |
| Net Income Growth (%) | 69% | (21%) | 15% | (50%) | 20% | 6% |
| EBITDA Margin (%) | 28.9% | 27.4% | 26.5% | 17.3% | 16.5% | 16.3% |
| Net Margin (%) | 41.7% | 22.7% | 22.5% | 12.4% | 14.2% | 14.7% |
| Net Debt (Cash) | (756) | (882) | (963) | (685) | (1,253) | (1,561) |
| EPS (adjusted) | 2.72 | 2.16 | 2.47 | 1.23 | 1.47 | 1.56 |
| DPS (adjusted) | 1.60 | 1.40 | 1.25 | 0.71 | 0.85 | 0.90 |
| BVPS (adjusted) | 6.10 | 6.38 | 7.20 | 7.09 | 7.74 | 8.34 |
| PER (x) | 5.5x | 11.3x | 6.9x | 8.2x | 6.8x | 6.4x |
| PBV (x) | 2.5x | 3.8x | 2.4x | 1.4x | 1.3x | 1.2x |
| Dividend Yield (%) | 10.7% | 5.8% | 7.3% | 7.1% | 8.5% | 9.0% |

Source: Company reports, SHUAA Securities Egypt estimates.

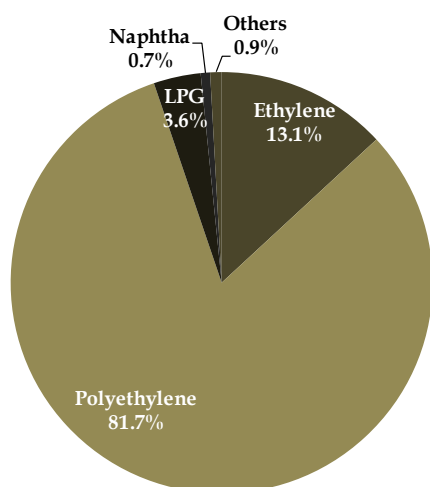
Analyst

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The Story

Fully exposed to prices of ethylene and its derivatives, SKPC produces ethylene through its cracker using an E/P mix as a feedstock. SKPC's operational performance is mainly tied to global ethylene and PE prices as well as feedstock cost and quality. Its amine unit improves operational efficiency through maintaining feedstock quality and reducing propane consumption. But any adjustment of the feedstock pricing formula still poses a key risk for SKPC. Also, the advantage of local price premium would not be sustained due to the expected change in market structure. SKPC owns a 20% stake in local peer ETHYDCO, which raises its exposure to the ethylene business. SKPC is seeking horizontal integration by setting up a propylene/polypropylene production line to cover local and global demand.

Revenue mix in 2018 (c.EGP5.78bn)

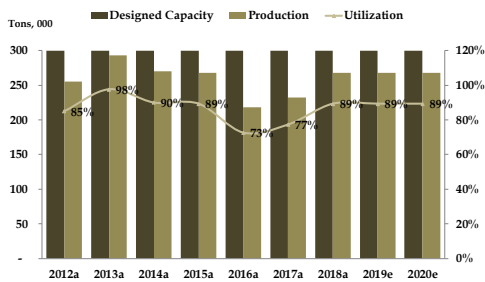


Source: Company reports.

- Fully integrated ethylene chain:** SKPC offers ethylene and PE products, with the majority of ethylene used as a feedstock for PE production. The manufacturing process creates other secondary products, such as LPG, butene-1, naphtha, ethane, and nitrogen. SKPC's complex has the following units:
 - Ethylene plant** produces the polymer grade of ethylene through thermal cracking of the E/P mixture (main feedstock), with a designed capacity of 300,000 tpa. Ethylene is mainly used as a feedstock for PE production, while the excess is sold to the state-owned **Egyptian General Petroleum Corporation (EGPC)**. Ethylene represented c.13% of total SKPC's revenues in 2018.
 - Polyethylene plant** utilizes the output of its ethylene cracker to produce two types of polyethylene: (1) *high-density polyethylene (HDPE)*, with many applications, such as food packaging, shopping bags, detergent bottles, and water pipes; and (2) *linear low-density polyethylene (LLDPE)*, used in stretch films, food boxes, and cable coating. HDPE is the main product, representing c.97% of polyethylene sales. The PE plant's designed capacity is 225,000 tpa. In 2018, PE represented c.82% of total revenues, and plant utilization rate reached c.97%. Meanwhile, of PE sold volumes, local sales made up 48.7%, while exports and wastes reached 51.1% and 0.2%, respectively.
- Secondary products:** Five types of by-products are yielded from the production process, representing 5.2% of total revenues in 2018. Liquefied petroleum gas (LPG) represents c.4% of total revenues. The LPG unit's designed capacity is 50,000 tpa with a utilization rate of c.52% in 2018. LPG output is usually sold to state-owned **Egyptian Natural Gas Co. (GASCO)**. Mainly, naphtha output is sold to EGPC subsidiaries, while butene-1 is used in polymerization and its excess production is sold to ETHYDCO.
- Inflated feedstock cost after the latest pricing revisions:** SKPC produces ethylene using an ethane-propane mix (C₂C₃) sourced from GASCO as feedstock. The company's feedstock price saw several adjustments in recent years, stabilizing at c.USD7.4/MMBtu in 2018. According to management, there is no change in the feedstock pricing formula during 2019. We used a feedstock price of USD7.4/MMBtu in our 2019 forecasts and c.USD7.5/MMBtu through the 2020-2023 period. We note that any further hikes in the feedstock price would harm SKPC's performance.

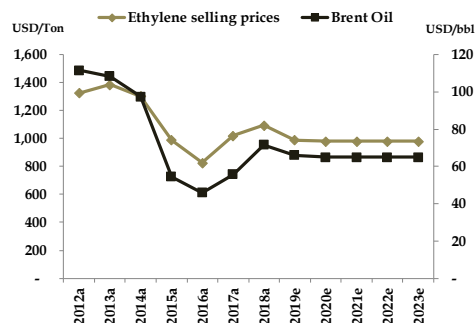
The Story (Cont.'d)

Ethylene operating rates to stabilize



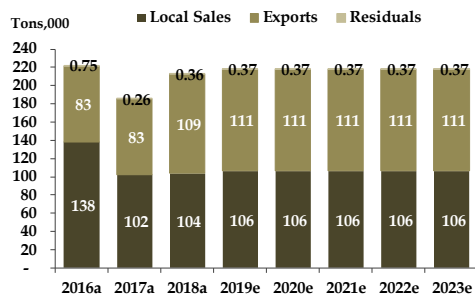
Source: Company reports, SHUAA Securities Egypt estimates.

Ethylene prices follow changes in oil prices and naphtha cost curve



Source: Company reports, Bloomberg.

PE Exports outweigh local sales



Source: Company reports, SHUAA Securities Egypt estimates.

- The amine unit to maintain feedstock quality:** As a result of the deterioration in gas specifications and high weight of CO₂ in the feedstock mixture, SKPC was forced to reduce the ethylene operating rates in 2016 and 2017, which increased the manufacturing overhead cost per ton. To overcome this issue, SKPC signed a build, operate, and own (BOO) agreement with **Air Liquide** to execute and operate the new amine unit, which was installed by **Thyssenkrupp** without incurring any investment cost. According to management, this unit entered service in June 2018, aiming to reduce the high consumption of propane gas used to compensate for the higher weight of CO₂. With this issue addressed, the product yield should be improved in the future.
- Oil prices and global economics to dictate ethylene margins:** From early October to late December 2018, crude oil prices fell by c.40% as the global economy slowed down due to the US-China trade war and the United States issuing temporary waivers to major importers of Iranian oil. We note that naphtha-based producers benefit from weaker oil prices, while gas-based producers (e.g. SKPC) suffer from lower prices of output as a result. HDPE prices tumbled to their worst level in two years starting December 2018 through the end of H1 2019. This pressured SKPC's profit margins in H1 2019. Despite the recovery in oil prices, and the elimination of the waivers on Iranian oil and petrochemical products, we do not expect PE prices to reach their historical peaks, given the current market conditions and the expected additions to market capacities. Hence, we forecast the prices of ethylene and PE to reach USD990/ton and USD1,140/ton in 2019 and average USD980/ton and USD1,151/ton across the 2020-2023 period, respectively.
- Fresh competition to undermine sustainability of high local price premium:** Egypt's local PE consumption is c.700,000 tons a year. SKPC was the sole PE producer until ETHYDCO started its commercial operation in 2017 following earlier trial operations in 2016. During the last six years, the local-to-export price premium ranged from 2% (the lowest recorded in 2012) to 12% (the highest recorded in 2014). This high premium is mainly attributed to the 5% custom tariff on PE products and the lack of local competition. We expect the market to become more fragmented. The current oligopoly following ETHYDCO's entrance will soon witness the implementation of a government-supported petrochemical project in New Alamein and **Al-Tahrir Complex** (owned by **Carbon Holding**) in Ain Sukhna. Hence, we expect the local-to-export price premium to average c.7% during 2019-2022 then decline to 2% by 2023.

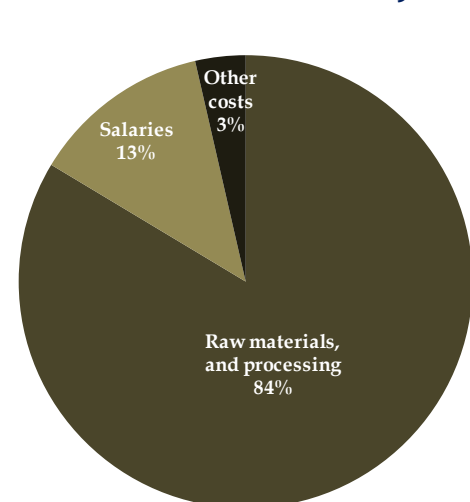
The Story (Cont.'d)

Key assumptions

| | 2016a | 2017a | 2018a | 2019e | 2020e | 2021e | 2022e | 2023e | 5Y CAGR |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| EGP/USD forecast | 10.22 | 17.85 | 17.77 | 16.60 | 17.22 | 17.71 | 18.36 | 19.20 | 1.6% |
| Average Oil prices (World Bank) | 46.00 | 55.71 | 71.64 | 66.00 | 65.00 | 65.00 | 65.00 | 65.00 | -1.9% |
| Ethylene | | | | | | | | | |
| Capacity (tons,000) | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | |
| Production (tons,000) | 218 | 232 | 268 | 268 | 268 | 268 | 268 | 268 | |
| Utilization rate | 73% | 77% | 89% | 89% | 89% | 89% | 89% | 89% | |
| Sales (tons,000) | 45 | 38 | 39 | 40 | 40 | 40 | 40 | 40 | |
| Selling price (USD/ton) | 826 | 1,020 | 1,093 | 990 | 980 | 980 | 980 | 980 | -2.2% |
| YoY Change % | | 23.4% | 7.2% | -9.4% | -1.0% | 0.0% | 0.0% | 0.0% | |
| Revenues (EGPmn) | 382 | 686 | 757 | 661 | 679 | 698 | 724 | 757 | 0.0% |
| Polyethylene | | | | | | | | | |
| Capacity (tons,000) | 225 | 225 | 225 | 225 | 225 | 225 | 225 | 225 | |
| Production (tons,000) | 220 | 185 | 218 | 218 | 218 | 218 | 218 | 218 | |
| Utilization rate | 98% | 82% | 97% | 97% | 97% | 97% | 97% | 97% | |
| Sales (tons,000) | 222 | 185 | 213 | 218 | 218 | 218 | 218 | 218 | |
| Local selling price (USD/ton) | 1,297 | 1,219 | 1,301 | 1,225 | 1,237 | 1,237 | 1,237 | 1,174 | -2.0% |
| YoY Change % | | -6.1% | 6.8% | -5.9% | 1.0% | 0.0% | 0.0% | -5.0% | |
| Export selling price (USD/ton) | 1,224 | 1,132 | 1,198 | 1,140 | 1,151 | 1,151 | 1,151 | 1,151 | -0.8% |
| YoY Change % | | -7.6% | 5.9% | -4.9% | 1.0% | 0.0% | 0.0% | 0.0% | |
| Local Price Premium % | 6% | 8% | 9% | 7% | 7% | 7% | 7% | 2% | |
| Revenues (EGPmn) | 2,881 | 3,904 | 4,722 | 4,273 | 4,477 | 4,603 | 4,774 | 4,866 | 0.6% |
| By-Products (EGPmn) | | | | | | | | | |
| Revenues (EGPmn) | 159 | 405 | 301 | 274 | 281 | 289 | 300 | 313 | 0.8% |
| % of Revenues | 5% | 8% | 5% | 5% | 5% | 5% | 5% | 5% | |
| Revenues (EGPmn) | 3,422 | 4,995 | 5,780 | 5,208 | 5,437 | 5,590 | 5,798 | 5,936 | 0.5% |
| Growth | | 46% | 16% | -10% | 4% | 3% | 4% | 2% | |
| Raw materials, and processing cost (EGPmn) | | | | | | | | | |
| Implied gas price USD/mmBtu | 6.8 | 7.0 | 7.4 | 7.4 | 7.5 | 7.5 | 7.5 | 7.5 | 2.7% |
| Salaries (EGPmn) | 292 | 377 | 482 | 530 | 567 | 596 | 619 | 644 | 6.0% |
| Other costs (EGPmn) | 147 | 137 | 7 | 148 | 155 | 159 | 165 | 169 | 89.4% |
| YoY growth rate | | | | | | | | | |
| Cash COGS (EGPmn) | 2,303 | 3,503 | 4,043 | 4,144 | 4,371 | 4,506 | 4,675 | 4,882 | 3.8% |
| Gross profit (EGPmn) | 1,119 | 1,493 | 1,737 | 1,065 | 1,066 | 1,084 | 1,123 | 1,054 | -9.5% |
| Gross margin | 33% | 30% | 30% | 20% | 20% | 19% | 19% | 18% | |
| SG&A (EGPmn) | | | | | | | | | |
| SG&A (EGPmn) | 94 | 109 | 171 | 154 | 161 | 166 | 172 | 176 | 0.5% |
| % of sales | 2.7% | 2.2% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | |
| Ongoing provisions | 36.86 | 21.32 | 46.00 | 18.70 | 19.52 | 20.07 | 20.82 | 21.32 | |
| Other Operating Expenses (Revenues) | 0.0 | (7.0) | (14.8) | (10.3) | (10.8) | (11.1) | (11.5) | (11.8) | |
| EBITDA (EGPmn) | | | | | | | | | |
| EBITDA (EGPmn) | 988 | 1,370 | 1,534 | 902 | 896 | 909 | 941 | 869 | -10.8% |
| EBITDA margin | 29% | 27% | 27% | 17% | 16% | 16% | 16% | 15% | |
| Capex (EGPmn) | | | | | | | | | |
| Capex (EGPmn) | 224 | 399 | 78 | 82 | 84 | 87 | 89 | 89 | 2.7% |
| % of sales | 4.5% | 6.9% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | |

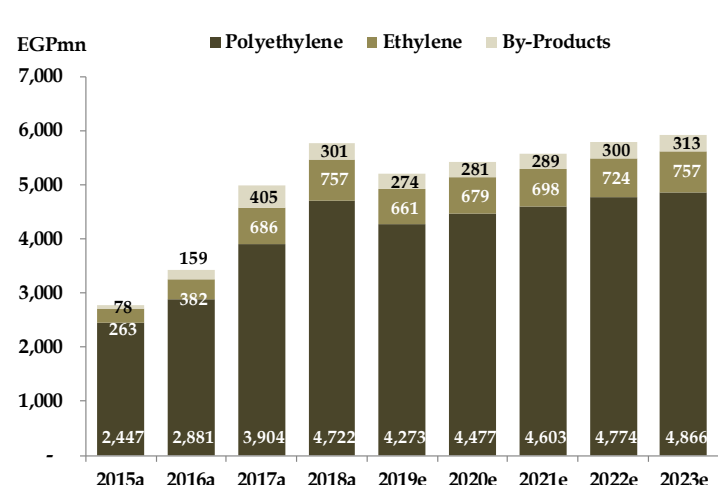
Source: Company reports, SHUAA Securities Egypt estimates.

Estimated cost breakdown for 2019



Source: SHUAA Securities Egypt estimates.

Revenue mix



Source: Company reports, SHUAA Securities Egypt estimates.

The Numbers

SKPC's gross profit margin fell from 57% in 2013 to 30% in 2018 over cheaper ethylene and PE and repeated revisions of the feedstock pricing formula. Meanwhile, revenues grew at a 5-year CAGR (2013-2018) of 11%, backed by the EGP depreciation. We forecast total revenues to decline by 10% y/y to c.EGP5.21bn in 2019, reflecting the lower selling prices and EGP appreciation. Meanwhile, we expect revenues to reach c.EGP5.94bn by 2023, reflecting the EGP depreciation across 2019-2023. We also expect gross profit and EBITDA margins to average 20% and 17% across the 2019-2022 period then reach 18% and 15% by 2023, respectively.

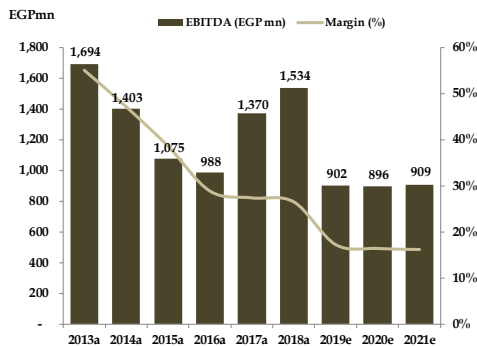
The Actuals

- H1 2019 results (ended 30 June) reflected the impact of lower PE prices on the bottom line. Net profit fell 33% y/y to EGP453mn on 7.9% lower revenues of EGP2.53bn, as gross margin slid from 30% in H1 2018 to 26%. Gross margin was mainly squeezed by the decline in selling prices on the back of cheaper oil, which weighed on the naphtha crackers' cost curve, in addition to a sluggish global economy, which weakened commodity prices.

The Forecasts

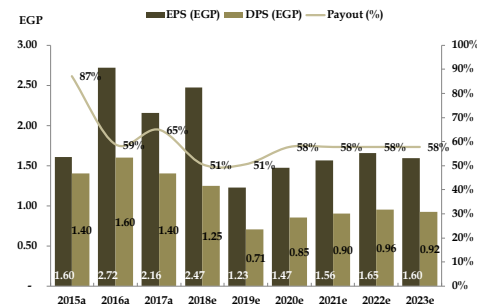
- Lower operating margins on lower selling prices and higher operating costs:** We forecast a 5-year CAGR of 0.5% for total revenues to c.EGP5.94bn by 2023 due to the EGP depreciation across (2018-2023), as there is no capacity expansions in the near term and PE selling prices are expected to decline at a CAGR of 0.8% over the same period. We also predict EBITDA will decline at a 5-year CAGR of 10.8% over our forecast period, weighed down by weaker operating margins on the back of higher salaries cost and lower selling prices.
- Capex to be limited for maintenance:** We expect maintenance capex to account for around 1.5% of total revenues during the forecast period, representing 126% of the property, plant, and equipment (PPE) depreciation in terminal year.
- Dividends to normalize on healthy cash flows:** SKPC's AGM, held on 28 March 2019, had approved a cash dividend of EGP1.25/share (based on a share count of 525mn) for 2018, implying an 8.6% yield at time of announcement and a payout ratio of 51% vs. 65% in 2017. We expect the payout ratio to stabilize in the future at 58%. Given the sustainability of operating cash flows and the minimal capex required (if the company will not finance its polypropylene project from its operating cash flows), we expect the payout ratio to average 58%, implying a dividend yield of 7.1% for 2019, as per our base-case scenario (excluding PP project).

Higher feedstock costs erode the operating margins



Source: SHUAA Securities Egypt estimates.

Consistent dividends policy on stable cashflow streams



Source: Company reports, SHUAA Securities Egypt estimates.

The Valuation

We mainly used the discounted cash flow (DCF) model to value SKPC. We built a two-stage forecasting model (an explicit forecast period until 2023, followed by a stable-growth terminal period). Our DCF model discounts free cash flows to the firm (FCFF) based on a moving weighted average cost of capital (WACC) that declines over time on the expected downtrend in the cost of equity (COE). We note that our DCF-based valuation of ETHYDCO's investment (a 20% stake) is EGP1.37bn or c.26% of our equity valuation for SKPC.

We used a moving WACC that declines from 21.6% in 2019 to 14.6% by the terminal year. That fall in WACC echoes the downtrend of COE which reflects the expected lower inflation rates across our forecast horizon as equity represents c.100% of invested capital. We calculated the COE based on the following elements:

- Average US Treasury yield of 1.58%.
- Average inflation differential (between Egypt and USA) of 6.73%.
- Adjusted beta of 1.07.
- US equity risk premium (ERP) of 5.59%.
- Average country risk premium (CRP) of 3.23%.

Recommendation, Catalysts, & Risks

- **Recommendation:** Based on our DCF model, our 12M PT is EGP12.0/share. Hence, we initiate coverage with a Neutral / High Risk (an expected total return of 20%).
- **Catalysts:** Any upgrade of the feedstock quality will improve the company's yield, and hence operating margins. Higher PE prices will boost the company's operational performance. ETHYDCO's successful IPO will further unlock its value. Any further increase in PE prices will be a strong catalyst for SKPC's performance.
- **Risks:** The high volatility of PE prices poses a high risk. Also, any further hikes in feedstock cost will hurt valuation. Calling for a capital increase to finance the propylene/polypropylene project, **especially at the latest high investment cost mentioned (USD1.6bn) which generates a negative NPV**, may have a short-term negative impact on stock performance.

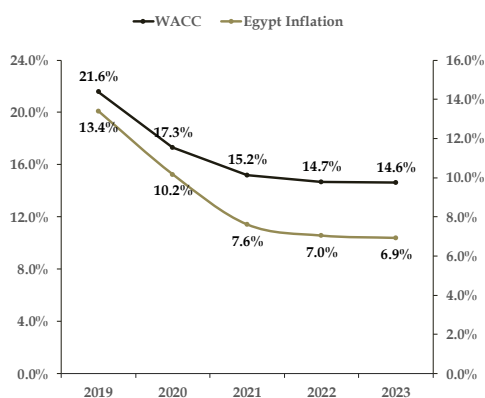
The Dream

- **Lower feedstock cost** would be the strongest stock driver; a 5% decline of MMBtu cost would add EGP2.6/share to our 12M PT.
- **Implementation of the planned propylene/polypropylene project** would be value accretive at the investment cost of USD1.2bn and add EGP7.5/share to our valuation if the company manages to source propane at a competitive cost.

The Nightmare

- **Any global economy slowdown** would hamper demand and push PE prices lower, while **any decline in oil prices** would steepen the cost curve of naphtha-based producers downward, weighing on ethylene prices.
- **Deterioration of feedstock quality** would reduce SKPC's yield and, consequently, operating margins.

WACC follows inflation rates decline



Source: SHUAA Securities Egypt estimates.

The Valuation (Cont.'d)

SKPC's DCF valuation (including 20% of ETHYDCO*)

| Economic profit analysis | H2 2019e | 2020e | 2021e | 2022e | 2023e | TV |
|--|------------|------------|--------------|--------------|--------------|--------------|
| ROIC ** | 33.4% | 36.4% | 36.1% | 36.3% | 32.5% | |
| WACC | 21.6% | 17.3% | 15.2% | 14.7% | 14.6% | |
| Terminal growth rate | | | | | | 2.0% |
| EGPmn, except per-share figures | H2 2019e | 2020e | 2021e | 2022e | 2023e | TV |
| NOPLAT | 215 | 662 | 672 | 696 | 640 | |
| Non-Cash Items (D&A) | 40 | 68 | 69 | 70 | 71 | |
| Gross Cash Flow | 255 | 729 | 740 | 766 | 710 | |
| Change in Operating Working Capital | 530 | 186 | (26) | (41) | (31) | |
| Capital Expenditures | (49) | (82) | (84) | (87) | (89) | |
| Gross Investment | 481 | 104 | (110) | (128) | (120) | |
| Non-Appropriation Items | (59) | (71) | (76) | (80) | (77) | |
| Contribution to Medical Insurance | (7) | (14) | (14) | (14) | (15) | |
| Free Cash Flow to the Firm (FCFF) | 670 | 749 | 541 | 544 | 498 | 4,023 |
| Present Value of FCFF | 627 | 597 | 374 | 328 | 262 | 2,118 |

| | |
|----------------------------------|--------------|
| DCF Enterprise Value | 4,307 |
| Net (Debt)/Cash | (210) |
| Minority Interest | 0 |
| Other Investments | 1,476 |
| Less: Cash Dividends | (394) |
| Equity Value | 5,178 |
| Number of Shares Outstanding | 525 |
| DCF FV per share (EGP) | 9.9 |
| 1-year Price Target (EGP) | 12.0 |

** All ROIC figures are annual.
 Source: SHUAA Securities Egypt estimates.

* ETHYDCO's DCF valuation

| Economic Profit Analysis | 2019e | 2020e | 2021e | 2022e | 2023e | TV |
|--|---------------|--------------|--------------|--------------|--------------|---------------|
| ROIC | 8.8% | 9.0% | 9.4% | 9.8% | 10.0% | 10.2% |
| WACC | 16.2% | 13.8% | 12.6% | 12.4% | 12.5% | 12.5% |
| Terminal growth rate | | | | | | 2.0% |
| EGPmn, except per-share figures | 2019e | 2020e | 2021e | 2022e | 2023e | TV |
| NOPLAT | 1,692 | 1,722 | 1,756 | 1,819 | 1,812 | 1,848 |
| Non-Cash Items (D&A) | 416 | 435 | 448 | 464 | 479 | |
| Gross Cash Flow | 2,108 | 2,157 | 2,204 | 2,284 | 2,291 | |
| Change in Operating Working Capital | 203 | (71) | (46) | (62) | (54) | |
| Capital Expenditures | (62) | (65) | (67) | (139) | (526) | |
| Gross Investment | 141 | (136) | (113) | (201) | (580) | |
| Non-Appropriation Items | (90) | (144) | (107) | (114) | (122) | |
| Contribution to Medical Insurance | (21) | (22) | (22) | (23) | (24) | |
| Free Cash Flow to the Firm (FCFF) | 2,138 | 1,855 | 1,961 | 1,945 | 1,564 | 14,105 |
| Present Value of FCFF | 2,031 | 1,548 | 1,454 | 1,283 | 917 | 8,266 |
| DCF Enterprise Value | 15,498 | | | | | |
| Net (Debt)/Cash | (8,640) | | | | | |
| Minority Interest | 0 | | | | | |
| Other Investments | 0 | | | | | |
| DCF Equity Value | 6,858 | | | | | |
| SKPC 20% share (EGPmn) | 1,372 | | | | | |
| Number of Shares Outstanding of SKPC | 525 | | | | | |
| Per share value for SKPC (EGP) | 2.6 | | | | | |

Source: SHUAA Securities Egypt estimates.

The Valuation (Cont.'d)

ETHYDCO's valuation

- We valued ETHYDCO – in which SKPC owns a 20% stake – using the DCF method, with a WACC of 13.5% on average based on an average COE of 17.6% (given exports-to-local sales weights of 70%:30%) and an after-tax cost of debt (COD) of 5.8%. We arrived at an FV of EGP6.86bn for ETHYDCO, implying EGP1.37bn for SKPC based on its stake. This translates into an FV of EGP2.6 per share of SKPC. Our valuation is 61% of the initial investment cost of USD135mn in 2011 (EGP2.24bn based on the current exchange rate or EGP4.27/SKPC share). In our forecasts for ETHYDCO, we applied the same feedstock cost as SKPC's but with different operating margins that are higher than SKPC's to account for ETHYDCO's higher yield from feedstock and its different output mix.

12M PT sensitivity to the global price of polyethylene & MMBtu cost

| Feedstock (USD/MMBtu) | | PE Export Price | | | | |
|-----------------------|------|-----------------|-------|------|------|-------|
| | | -10.0% | -5.0% | 0.0% | 5.0% | 10.0% |
| Base Case | -10% | 8.5 | 12.8 | 17.1 | 21.4 | 25.7 |
| | -5% | 6.0 | 10.3 | 14.6 | 18.8 | 23.1 |
| | 0% | 3.4 | 7.7 | 12.0 | 16.3 | 20.6 |
| | 5% | 0.8 | 5.1 | 9.4 | 13.7 | 18.0 |
| | 10% | (1.7) | 2.6 | 6.9 | 11.2 | 15.4 |

Source: SHUAA Securities Egypt estimates.

Sensitivity analysis

- Our fair value is sensitive to **PE prices** and **feedstock cost**. Therefore, we conducted a sensitivity analysis for expected global PE prices and natural gas cost per MMBtu, which resulted in a **12M PT range of a negative EGP1.7 to a positive EGP25.7/share**. We also ran a sensitivity analysis for the changes in both **COE** and **terminal growth rates**, which produced a **12M PT range of EGP10.6–EGP14.3/share**.

Scenario analysis

- EGP/USD rate scenario analysis:** Our fair value is also highly sensitive to the EGP/USD exchange rate, given that 100% of the company's top line and c.87% of its COGS are either denominated in or linked to USD. Therefore, we carried out an **FX scenario analysis** to reflect changes in the company's valuation and profitability mirroring different outlooks for the EGP/USD exchange rates. This analysis concluded with a **12M PT range of EGP4.6–19.4/share**.
- Heavier weight of ethane in feedstock mix to improve output yield:** The net ethylene output from the feedstock input has a significant impact on SKPC's operating margins. We performed a scenario analysis to model the changes in SKPC's valuation and profitability that would result from the changes in **weights of ethane in feedstock composition**. This resulted in a **12M PT of EGP14.7/share** if the ethane weight increased by 5.5% and **EGP12.0/share** if the ethane weight stayed at its 2018 level (our base-case scenario).

12M PT sensitivity to COE & TGR

| Cost of Equity (COE) | | Terminal Growth Rate (TGR) | | | | |
|----------------------|-----|----------------------------|------|------|------|------|
| | | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| Base Case | -2% | 12.9 | 13.2 | 13.5 | 13.9 | 14.3 |
| | -1% | 12.2 | 12.4 | 12.7 | 13.0 | 13.3 |
| | 0% | 11.6 | 11.8 | 12.0 | 12.2 | 12.5 |
| | 1% | 11.0 | 11.2 | 11.4 | 11.6 | 11.8 |
| | 2% | 10.6 | 10.7 | 10.9 | 11.0 | 11.2 |

Source: SHUAA Securities Egypt estimates.

SKPC EV vs. ETHYDCO's investment cost

| | EV (EGPmn) | EV (USDmn) | Based on PE capacity | | Based on ethylene capacity | |
|-------------------------------------|---------------|------------|----------------------|---------------------------------|----------------------------|---------------------------------|
| | | | EV/ ton (USD) | Discount to ETHYDCO's inv. cost | EV/ ton (USD) | Discount to ETHYDCO's inv. cost |
| SKPC (Based on mkt value) | 4,240 | 255 | 1,135 | -76% | 851 | -80% |
| SKPC (Based on valuation) | 4,307 | 259 | 1,153 | -76% | 865 | -79% |
| ETHYDCO (investment cost) | 32,014 | 1,929 | 4,821 | | 4,193 | |
| ETHYDCO (Based on valuation) | 15,498 | 934 | 2,334 | -52% | 2,030 | -52% |

Source: SHUAA Securities Egypt estimates.

The Valuation (Cont.'d)

FX scenario analysis

| EGPmn | PT | 2018a | 2019e | 2020e | 2021e | 2022e | 2023e | 5Y CAGR |
|-------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Bull Case | | | | | | | | |
| EGP:USD | | 17.77 | 16.60 | 19.80 | 20.36 | 21.12 | 22.08 | 4% |
| Revenues | 19.4 | 5,780 | 5,208 | 6,252 | 6,429 | 6,667 | 6,827 | 3% |
| EBITDA | | 1,534 | 902 | 1,535 | 1,566 | 1,622 | 1,563 | 0% |
| EBITDA margin | | 26.5% | 17.3% | 24.5% | 24.4% | 24.3% | 22.9% | |
| Net income | | 1,299 | 644 | 1,193 | 1,286 | 1,361 | 1,346 | 1% |
| Base Case | | | | | | | | |
| EGP:USD | | 17.77 | 16.60 | 17.22 | 17.71 | 18.36 | 19.20 | 2% |
| Revenues | 12.0 | 5,780 | 5,208 | 5,437 | 5,590 | 5,798 | 5,936 | 1% |
| EBITDA | | 1,534 | 902 | 896 | 909 | 941 | 869 | -11% |
| EBITDA margin | | 26.5% | 17.3% | 16.5% | 16.3% | 16.2% | 14.6% | |
| Net income | | 1,299 | 644 | 775 | 822 | 871 | 839 | -8% |
| Bear Case | | | | | | | | |
| EGP:USD | | 17.77 | 16.60 | 14.64 | 15.05 | 15.61 | 16.32 | -2% |
| Revenues | 4.6 | 5,780 | 5,208 | 4,621 | 4,752 | 4,928 | 5,046 | -3% |
| EBITDA | | 1,534 | 902 | 258 | 253 | 261 | 175 | -35% |
| EBITDA margin | | 26.5% | 17.3% | 5.6% | 5.3% | 5.3% | 3.5% | |
| Net income | | 1,299 | 644 | 354 | 355 | 377 | 328 | -24% |

Source: Company reports, SHUAA Securities Egypt estimates.

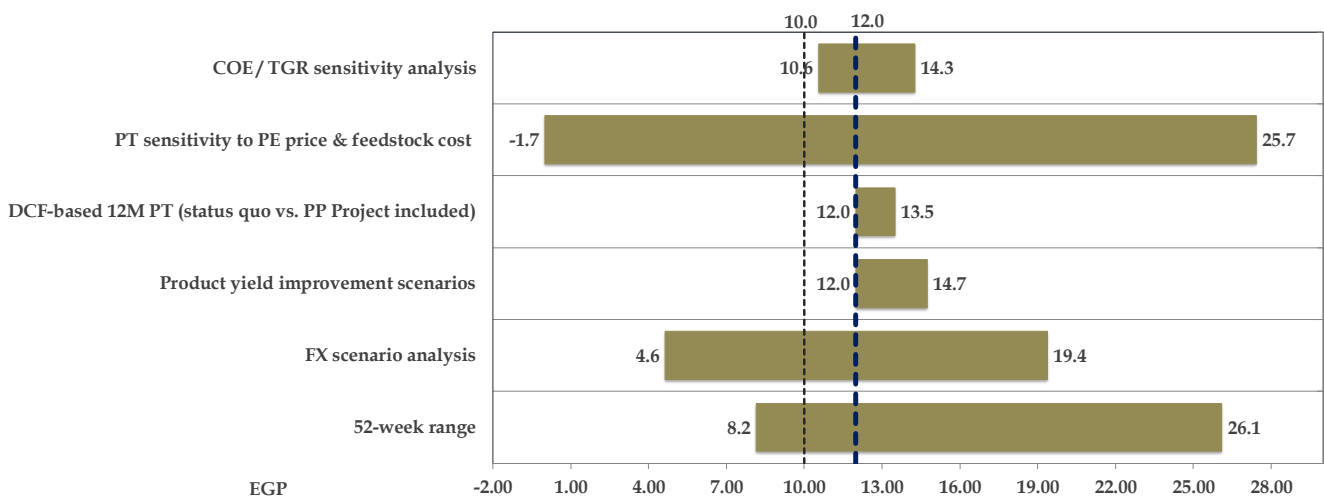
Product yield improvement based on the changes in ethane weight

| EGPmn | PT | 2018a | 2019e | 2020e | 2021e | 2022e | 2023e | 5Y CAGR |
|-------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Base Case | | | | | | | | |
| EGP:USD | | 17.77 | 16.60 | 17.22 | 17.71 | 18.36 | 19.20 | 2% |
| Revenues | 12.0 | 5,780 | 5,208 | 5,437 | 5,590 | 5,798 | 5,936 | 1% |
| EBITDA | | 1,534 | 902 | 896 | 909 | 941 | 869 | -11% |
| EBITDA margin | | 26.5% | 17.3% | 16.5% | 16.3% | 16.2% | 14.6% | |
| Net income | | 1,299 | 644 | 775 | 822 | 871 | 839 | -8% |
| Bull Case | | | | | | | | |
| EGP:USD | | 17.77 | 16.60 | 17.22 | 17.71 | 18.36 | 19.20 | 2% |
| Revenues | 14.7 | 5,780 | 5,180 | 5,408 | 5,560 | 5,766 | 5,904 | 0% |
| EBITDA | | 1,534 | 1,104 | 1,110 | 1,129 | 1,169 | 1,106 | -6% |
| EBITDA margin | | 26.5% | 21.3% | 20.5% | 20.3% | 20.3% | 18.7% | |
| Net income | | 1,299 | 803 | 943 | 998 | 1,056 | 1,036 | -4% |

Source: Company reports, SHUAA Securities Egypt estimates.

12M PT sensitivity to different scenarios

■ Range --- Current Stock Price ■ Target Stock Price



Source: SHUAA Securities Egypt estimates.

The Valuation (Cont.'d)

NPV sensitivity to project capex (base-case scenario) and designed capacity

| Project's Initial Capex (USDmn) | Designed Capacity (Ton,000) | | | | |
|---------------------------------|-----------------------------|-------|-------|-------|------|
| | 400 | 450 | 500 | 550 | 600 |
| 1,200 | (1.5) | 3.0 | 7.5 | 11.9 | 16.4 |
| 1,300 | (4.7) | (0.1) | 4.4 | 8.8 | 13.3 |
| 1,400 | (7.8) | (3.3) | 1.2 | 5.7 | 10.2 |
| 1,500 | (11.0) | (6.4) | (1.9) | 2.6 | 7.1 |
| 1,600 | (14.1) | (9.6) | (5.0) | (0.5) | 4.0 |

Source: SHUAA Securities Egypt estimates.

NPV sensitivity to polypropylene price and feedstock cost

| PP Price (USD/ton) | Propane Cost (USD/ton) | | | | |
|--------------------|------------------------|--------|--------|--------|-------|
| | 550 | 525 | 500 | 475 | 450 |
| 1,271 | 18.1 | 23.1 | 28.2 | 33.3 | 38.4 |
| 1,155 | (0.2) | 4.9 | 10.0 | 15.1 | 20.2 |
| 1,100 | (9.0) | (3.9) | 1.2 | 6.3 | 11.4 |
| 1,045 | (17.7) | (12.6) | (7.5) | (2.4) | 2.7 |
| 990 | (26.5) | (21.4) | (16.3) | (11.2) | (6.0) |

Source: SHUAA Securities Egypt estimates.

NPV sensitivity to project WACC and TGR

| WACC | Terminal Growth Rate (TGR) | | | | |
|-----------|----------------------------|-------|-------|-------|-------|
| | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| -1.0% | 6.2 | 6.6 | 7.1 | 7.8 | 8.7 |
| -0.5% | 3.3 | 3.6 | 4.0 | 4.5 | 5.1 |
| Base Case | 0.8 | 1.0 | 1.2 | 1.6 | 2.0 |
| +0.5% | (1.4) | (1.3) | (1.1) | (0.9) | (0.7) |
| +1% | (3.4) | (3.3) | (3.2) | (3.1) | (3.0) |

Source: SHUAA Securities Egypt estimates.

The project's net present value

| Economic profit analysis | 2019e | 2020e | 2021e | 2022e | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | 2033e | 2034e | 2035e | 2036e | Terminal |
|-------------------------------------|----------|----------------|----------------|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| ROIC | 0.0% | 0.0% | 0.0% | 0.0% | 6.5% | 7.5% | 7.8% | 8.2% | 8.6% | 9.0% | 9.4% | 9.9% | 9.4% | 9.9% | 10.3% | 10.8% | 11.3% | 11.8% | 12.0% |
| WACC | 12.0% | 8.9% | 8.2% | 7.9% | 7.9% | 7.9% | 8.0% | 8.1% | 8.2% | 8.3% | 8.5% | 8.8% | 9.0% | 9.4% | 9.8% | 10.2% | 10.8% | 11.1% | 11.1% |
| Terminal growth rate | | | | | | | | | | | | | | | | | | | 2.0% |
| EGPmn, except per-share figures | 2019e | 2020e | 2021e | 2022e | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | 2033e | 2034e | 2035e | 2036e | Terminal |
| NOPLAT | - | - | - | - | 1,693 | 2,010 | 2,114 | 2,222 | 2,336 | 2,455 | 2,579 | 2,709 | 2,595 | 2,725 | 2,862 | 3,005 | 3,155 | 3,311 | 3,377 |
| Depreciation | - | - | - | - | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 |
| Gross Cash Flow | 0 | 0 | 0 | 0 | 2,028 | 2,344 | 2,448 | 2,557 | 2,671 | 2,789 | 2,914 | 3,044 | 2,930 | 3,060 | 3,197 | 3,340 | 3,489 | 3,646 | |
| Change in Operating Working Capital | - | - | - | - | - | (258) | (85) | (88) | (93) | (97) | (101) | (106) | (58) | (113) | (119) | (124) | (130) | (136) | |
| Capital Expenditures | - | (4,822) | (7,436) | (12,853) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | (335) | |
| Gross Investment | 0 | (4,822) | (7,436) | (12,853) | (335) | (592) | (419) | (423) | (427) | (432) | (436) | (441) | (393) | (448) | (453) | (459) | (464) | (487) | |
| Non-Appropriation Items | - | - | - | - | - | - | - | - | - | - | - | (54) | (52) | (55) | (57) | (60) | (63) | (66) | |
| Contribution to Medical Insurance | - | - | - | - | (26) | (30) | (31) | (33) | (34) | (36) | (37) | (39) | (40) | (42) | (44) | (46) | (48) | (50) | |
| FCFF/TV | 0 | (4,822) | (7,436) | (12,853) | 1,668 | 1,722 | 1,998 | 2,101 | 2,209 | 2,322 | 2,440 | 2,510 | 2,445 | 2,516 | 2,643 | 2,775 | 2,914 | 3,042 | 30,799 |
| Present value FCFF | 0 | (4,257) | (6,070) | (9,724) | 1,169 | 1,118 | 1,202 | 1,169 | 1,137 | 1,103 | 1,068 | 1,010 | 902 | 849 | 812 | 774 | 733 | 689 | 6,972 |

| | |
|------------------------------|-------|
| Net Present Value | 654 |
| Number of Shares Outstanding | 525.0 |
| NPV/share (EGP) | 1.2 |
| IRR | 8.7% |

Source: SHUAA Securities Egypt estimates.

The Propylene/Polypropylene Project: Horizontal Expansion

- SKPC is looking to set up new propylene/polypropylene facilities with respective annual capacities of 500,000 tpa and 450,000 tpa. We estimated the investment cost of the project at USD1.4bn (using an EV/ton of USD2,800). In March 2019, the company had revealed an investment cost of USD1.2bn at a capacity of 450,000 tpa of propylene and PP capacity and according to the media, the project investment cost reached USD1.6bn at the capacity of 500,000 tpa of propylene. This implies an EV/ton of USD3,200, which we believe is too high and will result in a negative net present value. This project is planned to be financed through loans (70%) and equity (30%). In January 2018, SKPC had signed a propane gas supply deal with **GASCO** and an electricity supply agreement with **ETHYDCO** for the new project. In March 2018, SKPC selected **UOP Co.** for licensing the propylene project and **Grace International Co.** for licensing the polypropylene project. On 2 May 2019, SKPC said it was studying offers from contractors for its propylene plant project. Meanwhile, SKPC invited six global companies for signing a non-disclosure agreement (NDA) in a step to select a contractor for the polypropylene plant.

- We expect this project to be constructed over three years. Using a WACC of 9.1% on average, we arrived at a net present value (NPV) of EGP654mn. Hence, according to the preliminary information we have, and our USD500 per-ton estimate for propane gas cost, we expect the expansion plan to raise SKPC's fair value by EGP1.2/share, assuming that polypropylene prices will stabilize at USD1,100/ton. **We note that our base-case valuation scenario did not include the new propylene and polypropylene capacity and hence the project's capex.** Our NPV for the project is sensitive to (a) applied WACC, (b) applied PP price, (c) propane gas cost, and (d) the project's major capex and capacity. Therefore, we conducted a sensitivity analysis for **capacity** and the **project's capex** which resulted in an NPV that ranges from a negative EGP14.1/share to a positive EGP16.4/share. Also, we produced a sensitivity analysis for the **PP price** and **propane cost per ton**, which pointed to an NPV that ranges from a negative EGP26.5/share to a positive EGP38.4/share.

The Valuation (Cont.'d)

Comparable valuation

- Although the petrochemical industry is global in terms of demand, global producers are subject to different feedstock pricing mechanisms, selling hubs and tax rates. Thus, we opted to set our 12-month price target for SKPC using a DCF model. However, for the sake of comparison, we illustrate below the valuation multiples, mainly EV/EBITDA and P/E, of SKPC's global peers.
- Currently, SKPC is traded at a 55% discount to a global median forward EV/EBITDA of 7.6x. Also, SKPC's forward P/E is 8.2x, which is 30% lower than the global median.

Peers' analysis

| Country | Company name | Mkt cap (LCY mn) | Mkt cap (USD mn) | P/E | | | | EV/EBITDA | | | |
|---------------------------------------|-------------------------------------|------------------|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 |
| Saudi Arabia | Yanbu National Petrochemical C | 35,775 | 9,539 | 13.9x | 14.9x | 17.1x | 15.7x | 8.9x | 9.5x | 9.4x | 9.6x |
| Thailand | PTT Global Chemical PCL | 273,913 | 8,719 | 9.7x | 8.0x | 10.5x | 8.4x | 7.1x | 6.5x | 7.1x | 6.1x |
| Turkey | Petkim Petrokimya Holding AS | 7,986 | 1,344 | 8.3x | 9.5x | 7.2x | 4.5x | 7.5x | 9.3x | 6.5x | 5.0x |
| Saudi Arabia | Sahara International Petrochem | 15,693 | 4,185 | 14.7x | 12.6x | 11.0x | 9.9x | 8.1x | 7.4x | 10.1x | 9.5x |
| Saudi Arabia | Saudi Basic Industries Corp | 335,400 | 89,435 | 16.6x | 16.2x | 20.7x | 18.5x | 7.9x | 7.6x | 8.6x | 8.2x |
| Germany | Wacker Chemie AG | 3,750 | 4,202 | 34.7x | 16.0x | 21.6x | 15.8x | 9.5x | 6.3x | 5.5x | 5.2x |
| Belgium | Solvay SA | 8,841 | 9,883 | 14.6x | 13.7x | 10.7x | 10.1x | 8.5x | 7.7x | 6.8x | 6.5x |
| Kuwait | Qurain Petrochemical Industrie | 388 | 1,276 | 10.1x | 10.0x | n/a | n/a | 19.6x | 14.2x | n/a | n/a |
| Saudi Arabia | Advanced Petrochemical Co | 10,922 | 2,912 | 14.3x | 13.9x | 15.0x | 15.5x | 11.4x | 10.4x | 11.4x | 12.0x |
| Saudi Arabia | Saudi Industrial Investment Gr | 10,800 | 2,880 | 8.6x | 11.9x | 11.6x | 10.8x | 8.5x | 6.8x | 7.9x | 7.6x |
| United States | LyondellBasell Industries NV | 27,497 | 27,497 | 10.8x | 7.3x | 6.7x | 5.6x | 7.4x | 6.2x | 5.6x | 4.9x |
| Saudi Arabia | National Petrochemical Co | 11,654 | 3,108 | 10.0x | 10.0x | 11.8x | 11.2x | 7.5x | 6.3x | 7.3x | 7.4x |
| Qatar | Mesaieed Petrochemical Holding | 32,664 | 8,937 | 14.5x | 13.5x | n/a | n/a | n/a | n/a | n/a | n/a |
| Saudi Arabia | Saudi Kayan Petrochemical Co | 17,580 | 4,688 | 24.3x | 11.7x | 81.3x | 19.6x | 9.5x | 7.7x | 10.1x | 9.1x |
| Saudi Arabia | Alujain Corp | 1,383 | 369 | 10.8x | 12.9x | n/a | n/a | n/a | n/a | n/a | n/a |
| Egypt | Sidi Kerir Petrochemicals Co | 5,250 | 295 | 11.3x | 6.9x | 8.2x | 6.8x | 6.7x | 3.6x | 3.4x | 2.7x |
| Global Peers' Average | | | | 14.4x | 12.1x | 18.7x | 12.1x | 9.4x | 8.1x | 8.0x | 7.6x |
| Global Peers' Median | | | | 13.9x | 12.6x | 11.7x | 11.0x | 8.5x | 7.6x | 7.6x | 7.5x |
| Premium (discount) from median | | | | (19%) | (45%) | (30%) | (38%) | (21%) | (53%) | (55%) | (64%) |

Source: Bloomberg, SHUAA Securities Egypt estimates.

The Financial Model

| Income Statement (EGPmn) | | | | | | |
|----------------------------------|--------------|--------------|--------------|------------|------------|------------|
| FY End: December | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Total Revenue | 3,422 | 4,995 | 5,780 | 5,208 | 5,437 | 5,590 |
| COGS | (2,303) | (3,503) | (4,043) | (4,144) | (4,371) | (4,506) |
| GP | 1,119 | 1,493 | 1,737 | 1,065 | 1,066 | 1,084 |
| Other operating (exp.)/ Inc. | (131) | (123) | (203) | (163) | (170) | (175) |
| EBITDA | 988 | 1,370 | 1,534 | 902 | 896 | 909 |
| Depreciation & Amortization | (64) | (30) | (49) | (67) | (68) | (69) |
| Interest Income | 73 | 69 | 90 | 47 | 49 | 91 |
| Investment Income | - | 72 | 70 | 69 | 129 | 137 |
| Net non-operating income., taxes | (215) | (341) | (367) | (244) | (218) | (231) |
| NP Before XO & MI | 782 | 1,139 | 1,278 | 707 | 789 | 836 |
| XO & Minority Interest | 646 | (7) | 20 | (63) | (14) | (14) |
| Net Income | 1,428 | 1,132 | 1,299 | 644 | 775 | 822 |

| Balance Sheet (EGPmn) | | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| FY End: December | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Current Assets | | | | | | |
| Total Cash | 1,032 | 981 | 1,070 | 811 | 1,386 | 1,698 |
| Marketable securities | 578 | 255 | 46 | 46 | 46 | 46 |
| Trade & other receivables | 238 | 360 | 206 | 307 | 321 | 330 |
| Inventory | 346 | 393 | 664 | 573 | 604 | 623 |
| Other Current Assets | 583 | 966 | 1,361 | 1,184 | 1,236 | 1,271 |
| Total Current Assets | 2,777 | 2,955 | 3,348 | 2,922 | 3,594 | 3,969 |
| Fixed Assets (net) | 431 | 626 | 975 | 987 | 1,001 | 1,016 |
| Other Non-Current Assets | 951 | 1,319 | 1,355 | 1,789 | 1,789 | 1,789 |
| Total Assets | 4,159 | 4,899 | 5,679 | 5,698 | 6,383 | 6,774 |
| Liabilities & Equity | | | | | | |
| Short-Term Debt | 148 | - | - | - | - | - |
| Current Portion of LT Debt | - | - | - | - | - | - |
| Accounts Payable | 47 | 60 | 67 | 74 | 78 | 81 |
| Other Current Liabilities | 551 | 1,212 | 1,466 | 1,517 | 1,833 | 1,888 |
| Total Current Liabilities | 745 | 1,272 | 1,532 | 1,591 | 1,912 | 1,969 |
| Long-Term Debt | - | - | - | - | - | - |
| Other Non-Current Liabilities | 234 | 278 | 367 | 385 | 405 | 425 |
| Total Liabilities | 980 | 1,550 | 1,899 | 1,977 | 2,317 | 2,394 |
| Minority Interest | - | - | - | - | - | - |
| Total Equity | 3,202 | 3,349 | 3,779 | 3,721 | 4,067 | 4,380 |
| Total Liabilities & Equity | 4,181 | 4,899 | 5,679 | 5,698 | 6,383 | 6,774 |

| Cash Flow Statement (EGPmn) | | | | | | |
|----------------------------------|------------|-------------|-----------|--------------|------------|------------|
| FY End: December | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Cash from Operating | 449 | 1,219 | 1,002 | 937 | 905 | 677 |
| Cash from Investing | 528 | (172) | (107) | (482) | 58 | 64 |
| Cash from Financing | (568) | (1,069) | (813) | (733) | (394) | (433) |
| Net Change in Excess Cash | 409 | (22) | 82 | (278) | 569 | 309 |
| Capex | (224) | (399) | (78) | (82) | (84) | (87) |

Source: Company data, SHUAA Securities Research estimates

* EV excluding the value of Ethydc and long-term investments.

| Per-Share Data | | | | | | |
|----------------------|-------|-------|-------|-------|-------|-------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Price (adjusted) | 14.97 | 24.26 | 17.12 | 10.00 | 10.00 | 10.00 |
| # Shares (WA, in mn) | 525.0 | 525.0 | 525.0 | 525.0 | 525.0 | 525.0 |
| EPS (adjusted) | 2.72 | 2.16 | 2.47 | 1.23 | 1.48 | 1.57 |
| DPS (adjusted) | 1.60 | 1.40 | 1.25 | 0.71 | 0.85 | 0.90 |
| BVPS (adjusted) | 6.10 | 6.38 | 7.20 | 7.09 | 7.75 | 8.34 |

| Valuation Indicators | | | | | | |
|-----------------------|-------|-------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| PER (x) | 5.5x | 11.3x | 6.9x | 8.2x | 6.8x | 6.4x |
| PBV (x) | 2.5x | 3.8x | 2.4x | 1.4x | 1.3x | 1.2x |
| EV/Sales (x) | 1.5x | 1.8x | 1.0x | 0.6x | 0.5x | 0.4x |
| EV/EBITDA (x) | 5.2x | 6.7x | 3.6x | 3.4x | 2.8x | 2.3x |
| Dividend Payout Ratio | 59% | 65% | 51% | 58% | 58% | 58% |
| Dividend Yield | 10.7% | 5.8% | 7.3% | 7.1% | 8.5% | 9.0% |

| Profitability & Growth Ratios | | | | | | |
|-------------------------------|-------|-------|------|-------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Revenue Growth | (3%) | 46% | 16% | (10%) | 4% | 3% |
| EBITDA Growth | (9%) | 39% | 12% | (41%) | (1%) | 1% |
| Adj EPS Growth | (15%) | (21%) | 15% | (50%) | 20% | 6% |
| GPM | 33% | 30% | 30% | 20% | 20% | 19% |
| EBITDA Margin | 29% | 27% | 27% | 17% | 16% | 16% |
| Net Margin | 42% | 23% | 22% | 12% | 14% | 15% |
| ROAE | 50% | 35% | 36% | 17% | 20% | 19% |
| ROAA | 39% | 25% | 25% | 11% | 13% | 13% |

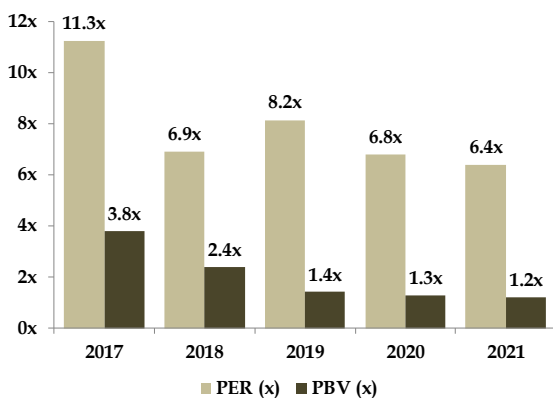
| Liquidity & Solvency Multiples | | | | | | |
|--------------------------------|-------|-------|-------|-------|---------|---------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Net Debt (Cash) | (756) | (882) | (963) | (685) | (1,255) | (1,563) |
| Net Debt/Equity | (24%) | (26%) | (25%) | (18%) | (31%) | (36%) |
| Net debt to EBITDA | -0.8x | -0.6x | -0.6x | -0.8x | -1.4x | -1.7x |
| Debt to Assets | 0.04x | 0.00x | 0.00x | 0.00x | 0.00x | 0.00x |
| Current ratio | 3.7x | 2.3x | 2.2x | 1.8x | 1.9x | 2.0x |

| Consensus Estimates (EGPmn) | | | | | | |
|--------------------------------------|--------|--------|--------|--|--|--|
| | 2019 | 2020 | 2021 | | | |
| Revenues | 5,612 | 5,972 | 6,484 | | | |
| SHUAA Securities Egypt vs. Consensus | -7.2% | -9.0% | -13.8% | | | |
| Net Income | 1,139 | 1,287 | 1,672 | | | |
| SHUAA Securities Egypt vs. Consensus | -43.5% | -39.8% | -50.8% | | | |
| Fwd PER (x), Last Price | 8.2x | 6.8x | 6.4x | | | |
| Fwd PER (x), 12M - Price Target | 9.8x | 8.1x | 7.7x | | | |
| Fwd DY (%), Last price | 7.1% | 8.5% | 9.0% | | | |

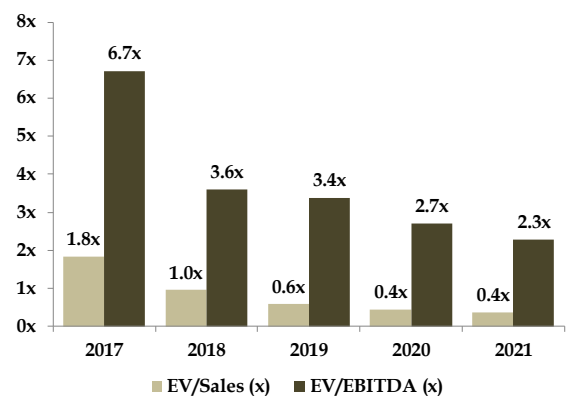
a = Actual; e = Estimated

Share price at 28-Aug-19

Forward multiples to reflect the expected lower margins



Source: Company reports, SHUAA Securities Egypt estimates.



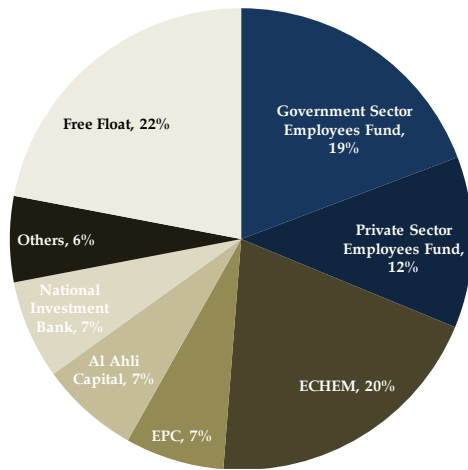
Source: Company reports, SHUAA Securities Egypt estimates.

The Background

SKPC operates an ethylene cracker with a designed capacity of 300,000 tpa. The designed capacity of the company's polyethylene production line is 225,000 tpa. The company plans to expand horizontally through building new propylene and polypropylene plants with respective designed capacities of 500,000 tpa and 450,000 tpa to serve local and global markets.

- **Sidi Kerir Petrochemicals Co. (SKPC)** is a shareholding company established in November 1997 and has been listed on the **Egyptian Exchange (EGX)** since March 2005. SKPC's paid-in capital is EGP1.05bn, distributed over 525mn ordinary shares, with a par value of EGP2/share. SKPC operates within the materials sector, focusing on commodity chemicals. It manufactures and markets ethylene and two different types of PE products: *high-density polyethylene (HDPE)* and *linear low-density polyethylene (LLDPE)*. The company sells its products locally and globally.
- SKPC's production plants are located in **Alexandria**. Its feedstock is an ethane/propane mix which is sourced from state-owned gas supplier **Egyptian Natural Gas Co. (GASCO)**.
- The main shareholders in SKPC are state-owned **Egyptian Petrochemical Holding Co. (ECHEM)** and **Social Insurance Fund of Governmental Sector Workers**, with respective stakes of 20% and 19.2%, while other governmental institutions hold 38.2%. The free float is around 22%.
- SKPC owns 20% of **ETHYDCO** which was established in January 2011 under the Egyptian investment law with a total investment cost of USD1.9bn. Its petrochemicals complex's designed annual capacities are 460,000 tons of ethylene, 400,000 tons of polyethylene, and 20,000 tons of butadiene.
- In March 2019, SKPC's BoD ratified the company's study on the financing structure of the propylene/polypropylene project. Thirty percent of the project's costs will be financed by equity and 70% through debt facilities. The project capacities are 500,000 tpa of propylene and 450,000 tpa of polypropylene.

Shareholder structure



Source: Company reports.

The Leadership

SKPC's management team continues to work on achieving the strategic goals that ensure the company runs highly-efficient operations and also expands in parallel with the current developments in the petrochemicals industry. Hence, SKPC looks to satisfy local market demand and penetrate global markets.

- SKPC's board is comprised of eleven members:
 1. **Chairman and Managing Director** Mosaad El-Kassaby, representing **ECHEM**.
 2. **Board Member** Hesham Ahmed Selim, representing **ECHEM**.
 3. **Board Member** Mohamed El-Sayed, representing **Social Insurance Fund of Governmental Sector Workers**.
 4. **Board Member** Nahed Hussain, representing **Social Insurance Fund of Governmental Sector Workers**.
 5. **Board Member** Samy Abdullah, representing **Social Insurance of Public & Private Business Sectors Workers**.
 6. **Board Member** Mohamed Mostafa, representing **Social Insurance of Public & Private Business Sectors Workers**.
 7. **Board Member** Khaled Abdul-Majeed, representing **Al-Ahly Capital**.
 8. **Board Member** Abdul-Fattah Abdul-Moez, representing **National Investment Bank**.
 9. **Board Member** Ahmed Salam, representing **Nasser Social Bank (NSB)**.
 10. **Board Member** Amin Abdel-Tawab (non-executive).
 11. **Board Member** Assem El-Ashkar (non-executive).

Disclosure Appendix

METHODOLOGY: When setting an investment and risk ratings, we utilize all publicly-available sources to build an understanding of the issuer's business model and hence its intrinsic value based on one or more valuation methods. To reach a valuation, we assess factors that we deem relevant, including—but not limited to—macro, sector, and company-specific aspects.

INVESTMENT RATING: Depending on each issuer's business model, we may use (1) an income approach, (2) a markets-based approach, (3) an asset-based approach, and/or (4) sum-of-the-parts approach. In certain cases where we do not have our own financial and valuation models, we may present the consensus rating/view. For all securities actively covered, we assign one of three investment ratings (Overweight, Neutral, or Underweight) depending on the security's expected total return (price + yield) over a 12-month investment horizon as compared to the security's Required Rate of Return (RRR) as calculated using the Capital Asset Pricing Model (CAPM) and adjusted for the Risk Rating we assign to the security. Please read below for more details about our Risk Rating. Our assigned fair values are subjective and are estimates of the analysts where the security(ies) covered will trade within the next 12 months. The assigned investment rating/fair value is only valid for a maximum of three months from the date it was set.

RISK RATING: Based on the overall risk profile of each issuer/security covered, we assign one of three risk ratings (High, Moderate, or Low). The risk rating is a function of a weighted assessment of the issuer's (1) sector, (2) corporate profile, and (3) security and related volatility. The assigned risk rating is only valid for a maximum of three months from the date it was set.

Analyst Certification

I (we), **AbdelRahman Wahba**, employed with SHUAA Securities Egypt, and author(s) to this document, hereby certify that all the views expressed in this research report accurately reflect my (our) views about the subject issuer(s) or security(ies). I (we) also certify that no part of my (our) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, I (we) certify that neither myself (ourselves) nor any of my (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 Analyst in this document about the subject issuer(s) or security(ies). I also certify that the author of this document, has not received any compensation directly related to the contents of the document.

Return / Risk Profile

| | If Total Return is ... | Investment Rating | | |
|-------------|------------------------|---|----------------------------|-----------------------|
| | | Overweight | Neutral | Underweight |
| Risk Rating | Low | Higher than RRR | Between RRR and 20% of RRR | Lower than 20% of RRR |
| | Moderate | Higher than RRR | Between RRR and 40% of RRR | Lower than 40% of RRR |
| | High | Higher than RRR | Between RRR and 60% of RRR | Lower than 60% of RRR |
| | Not Rated (NR) | We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations). | | |
| | Not Covered (NC) | We do not currently cover this stock or we are restricted from coverage for regulatory reasons. | | |

Investment Rating & Price Target History



Rating history

| From | To | Date | Analyst |
|------|---------------------|-----------|-------------------|
| NC | Neutral / High Risk | 28-Aug-19 | AbdelRahman Wahba |

12-month price target history

| From | To | Date | Analyst |
|------|-------|-----------|-------------------|
| None | 12.00 | 28-Aug-19 | AbdelRahman Wahba |

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