

Today's Story

Egyptian Drugmakers Are Still Hurt

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(in Arabic)

The Daily Cast
البث اليومي



With no fresh increases in medicine prices, drugmakers in Egypt will continue to see their margins getting squeezed by high operational costs and by the health ministry-imposed price ceiling on end products. In *Today's Story*, we shed some light on the cost equation for operations as borne by drugmakers and its impact on their profitability historically until end of June 2019. In our exercise, we compare the annual results of state-owned manufacturers by the end of 30 June 2019 against the trailing 12-month (TTM) results of the other companies ending their financial year in December (i.e. July 2018 to June 2019).

- **Modest growth in revenues; earnings decreased:** Aggregate revenues for the nine EGX-listed companies showed a 7.7% growth in revenues to EGP8.81bn by 30 June 2019, with **NIPH** (+38% y/y to EGP636mn) contributing the most to absolute revenue growth, followed by **PHAR** (+4% y/y to EGP3.13bn). However, aggregate earnings were 1.9% lower at EGP982mn.
- **Margins of most deteriorated:** As depicted in the bottom table, seven out of the nine EGX-listed drugmakers saw their gross profit margins (GPM) tightening by the end of June 2019. GPM of **CPCI** (-454bps y/y to 25%) and **AXPH** (-421bps y/y to 29%) shrank the most, while GPM of **ADCI** (+931bps y/y to 35%) recovered the most, followed by that of **MPCI** (+218bps y/y to 19%) despite still being a loss-maker on a net basis.

- **Why exactly is operational cost escalating?**

The raw materials needed for producing any medicine are categorized into either active pharmaceutical ingredient (API) or inactive pharmaceutical ingredients, both of which represent more than 70% of the total COGS of any pharmaceutical production. As APIs are imported, their cost has risen on the back of a weaker EGP following its floatation back in November 2016 as well as globally rising prices. Moreover, inactive ingredients, along with other COGS components (e.g. wages, packaging materials, fuel, and others), are also subject to annual increases, given the current high-inflation era that has already taken its toll on them. Pressured by rising COGS and a government-imposed ceiling on medicine pricing, drugmakers' margins began to erode following the EGP floatation.

- **On the valuation front:** To compare the pharmaceutical companies in terms of valuation, we used P/E ratios based on FY2018/19 earnings for those ending their financial year on 30 June and based on TTM earnings by the end of 30 June 2019 for those ending their financial year on 31 December. Based on the P/E metric, **ADCI**, **AXPH**, and **CPCI** look very cheap, trading at 4.1x, 5.3x, and 4.8x—all at a steep discount to the sector's median TTM P/E of 11.3x. Meanwhile, **MIPH**, **SIPC**, and **OCPH** trade at a premium, while **NIPH** and **PHAR** trade very close to the median. Based on forward earnings, **CPCI** and **AXPH** still seem cheap, trading at 4.0x and 5.2x, respectively, both below the sector's median of 5.7x. Meanwhile, **ADCI** is trading slightly above the median, and **PHAR** is trading far above it. We note that **NIPH** has recently turned its quarterly losses during FY2017/18 into profits in FY2018/19, continuing its turnaround story, while **MPCI** still suffered losses of EGP17mn in FY2018/19, albeit it lower than the EGP45mn in losses recorded in FY2017/18.

EGX-listed drugmakers' KPIs (FY2018/19)

EGPmn	Revenues		Gross Profit		Gross Profit Margin		Earnings		Net Profit Margin		P/E	
	FY2018/19	y/y	FY2018/19	y/y	FY2018/19	y/y	FY2018/19	y/y	FY2018/19	y/y	TTM	2019e
PHAR	3,126	4.2%	949	(3.9%)	30%	(257)bps	662	(5.1%)	21%	(208)bps	11.4x	11.6x
AXPH	829	17.0%	239	2.1%	29%	(421)bps	111	(6.1%)	13%	(329)bps	4.8x	5.2x
ADCI	436	14.0%	152	55.6%	35%	931bps	43	9.2%	10%	(43)bps	4.1x	6.1x
CPCI	963	11.6%	240	(5.6%)	25%	(454)bps	85	(21.5%)	9%	(372)bps	5.3x	4.0x
SIPC	56	5.6%	30	(2.0%)	53%	(409)bps	2	(2.3%)	4%	(30)bps	55.5x	NA
MIPH	1,936	(0.6%)	615	(4.1%)	32%	(113)bps	67	(16.5%)	3%	(66)bps	15.5x	NA
NIPH	636	38.3%	138	24.1%	22%	(248)bps	17	199.4%	3%	657bps	11.2x	NA
OCPH	462	8.4%	182	5.1%	39%	(123)bps	12	(34.1%)	3%	(163)bps	37.1x	NA
MPCI	368	7.1%	70	21.0%	19%	218bps	(17)	61.8%	-5%	836bps	nm	NA
Total / Median	8,811	7.7%	2,615	1.1%	30%		982	(1.9%)	4%		11.3x	5.7x

Note: MPCl earnings are before taxes.

Source: Companies' financials, Bloomberg.

Top Headlines

Corporate

- **Electro Cable Egypt (ELEC)** said that its unutilized 114,000 sqm land plot on the *Mustrud—Al-Matareya Road* in **Cairo** was valued independently at EGP306.4mn (EGP2,688/sqm) if used for industrial activities and at EGP417.7mn (EGP3,664/sqm) if used for residential purposes, provided the purpose of the land is changed and required approvals are secured. Meanwhile, ELEC's BoD approved the sale of 30,000 sqm (industrial land) out of the 114,000 sqm for a total of EGP97.5mn (EGP3,250/sqm) to be paid within 45 days (as opposed to a price of EGP4,000/sqm to be paid over three years). ([Company disclosure 1](#), [Company disclosure 2](#), [Company disclosure 3](#), [Company disclosure 4](#))

Non-Corporate

- The **Ministry of Finance** has announced that, starting 1 September, customs duty will be set according to the **CBE's** exchange rates on a daily basis instead of a monthly average. The ministry did not mention particular discount/special rates for the necessary or strategic goods. ([MoF](#), [Al-Shorouk](#))
- The **Holding Company for Water & Wastewater (HCWW)** is currently in the process of selecting one out of four consulting companies bidding for a wastewater project at *Lake Qaroun*. The USD300mn project will be financed by the **European Investment Bank (EIB)**, the **European Bank for Reconstruction & Development (EBRD)**, and the **European Union (EU)**. HCWW will announce the winner in September. ([MENAFN](#))
- **Average yields** were up in an auction held on **1 September 2019** as follows: ([CBE](#))

Maturity	Yield	Was	Required	Submitted	Accepted	Bid-to-cover ratio
91 days	16.503%	16.443%	EGP9.25bn	EGP7.2bn	EGP1bn	0.8
273 days	16.491%	16.378%	EGP9.5bn	EGP12.3bn	EGP1bn	1.3

Markets

↗	EGX 30	14,931.66	0.65%	↗	EGX 30 TR	5,536.40	0.90%
↗	EGX 70	554.73	0.25%	↗	EGX 100	1,461.62	0.45%
↘	DFMGI	2,758.34	(0.01%)	↘	ADSMI	5,121.17	(0.86%)
↘	TASI	7,912.30	(1.34%)	↗	QE Index	10,253.69	0.20%
↗	S&P 500	2,926.46	0.06%	↗	MSCI EM	984.33	1.47%
↗	Gold	1,523.75	0.22%	↘	Brent Oil	59.05	(0.34%)

*As of market close, except for commodities at spot price as of 8.35am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** ended Sunday higher, supported by **COMI**, **OCDI**, and **HRHO**. In the **UAE**, **DFMGI** and **ADSMI** weakened, pressured by their **banking** and **telecom** stocks. **Saudi Arabia's TASI** slid on weaker **banking** and **materials** stocks.
- **Global Markets:** **Asian stocks** closed on a mixed note after the new tariff hike that took place during last weekend between the **US** and **China**. **Gold** was trading higher this morning, while **oil** was trading lower.

Number of the Day

EGP110mn

China's potential investments in **SCZone's** training center.

Today's Quiz

What was Egypt's real GDP growth rate in FY2018/19?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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	8-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
El Ezz Aldekhela Steel Alexandria	IRAX	EGM	22-Sep	Voting on Capital increase and the acquisition of EFS and ERM
Egyptian Resorts Co.	EGIS	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.	EGIS	Lawsuit	26-Oct	Appeal against TDA regarding Sahl Hasheesh
Misr Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/share)

Quiz Answer

5.6%.

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