

## Today's Story

## ORAS – MENA Boosted Q2 2019 Results; Still Cheap

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(in Arabic)

The Daily Cast  
البث اليومي



- In *Today's Story*, we take a closer look at Q2 2019 results of Orascom Construction's (ORAS) released last week, including the key highlights of its conference call. Revenues rose 5% y/y in Q2 2019 to USD790mn, mainly driven by the MENA segment, of which revenues grew by a solid 21% y/y to USD579mn. Meanwhile, blended EBITDA improved by 39% to USD72mn in Q2 2019, helped mainly by the MENA segment, of which EBITDA rose 20% y/y to USD70mn. Net income attributable to shareholders plunged by a blended 38% y/y to USD31mn in Q2 2019, as higher interest expense, FX losses, and lower interest income ate up the growth in EBITDA. Below are the key highlights we noted from the conference call.
  - **Factors that undermined net income:** (1) **Interest expense** more than tripled to USD15.7mn in Q2 2019 as execution work for several projects was the heaviest during this period. (2) **Interest income** was more than halved y/y to USD2.2mn. (3) **ORAS** logged **net FX losses** of USD10.6mn in Q2 2019 versus net FX gains of USD11.9mn a year ago, due to a stronger EGP.
  - **Solid backlog and growing awards:** (1) **Backlog** grew by 9% y/y to USD4.60bn as of H1 2019, up from USD4.21bn, excluding ORAS's share in BESIX. Consolidated backlog rose by 19% y/y to USD7.34bn from USD6.15bn in H1 2018. (2) **New awards** increased by 40% y/y to USD935mn in Q2 2019 from USD665mn in Q2 2018, excluding ORAS's share in BESIX. Meanwhile, consolidated new awards jumped c.50% y/y to USD1.5bn from USD1bn.
  - **Egypt remains the major and most diverse contributor to ORAS's backlog:** Egypt made up 67% of ORAS's backlog as of H1 2019 with projects in all major market segments, including the power, transport, and water fields. ORAS has a USD739mn share in the largest water treatment locally which has been awarded in May 2019 (accounting for c.49% of consolidated new awards in Q2 2019).
  - **Monorail projects will be the jewel of Q3 2019 awards:** In Q3 2019, ORAS, in consortium with **Arab Contractors** and **Canada's Bombardier**, has been awarded two monorail lines to connect **East Cairo** with the **New Administrative Capital** and link **Sixth of October City** with **Giza**. Originally, the two projects had different timelines, but they are now almost in parallel in terms of their execution period. The *East Cairo-New Administrative Capital* line will be up and running in less than 40 months starting immediately, and the *Sixth of October-Giza* line will be completed over the same period, starting 1 January 2020. The fact that both projects are running in parallel now will create opportunities for ORAS to make some savings. Furthermore, the consortium was awarded a 30-year O&M contract. The two projects will be implemented on an EPC+finance basis which challenges ORAS to work on design and procurement optimization. Management believes that the margins of these projects will be similar to those of its "normal business".
  - **ORAS reached a settlement with MEI:** The dispute where ORAS was to pay US-based contractor **MEI** USD62.5mn plus interest has finally come to an end in the second half of August. With settlement concluded, all outstanding liens on the disputed **Iowa Fertilizer Co.**'s project have been released. The effect of this settlement will appear in Q3 2019 but will wind up being minor on the consolidated results, according to the management guidance.
- **Still cheap, trading at low-to-mid single-digit P/E:** We remind our clients that ORAS has long been part of our EGX Model Portfolio. The stock rose yesterday limit up (+10%); nonetheless, the stock is still traded at a TTM P/E of 5.7x and a forward P/E of 4.2x.

## Top Headlines

## Corporate

- **Ibnsina Pharma** (ISPH) has signed an agreement to import and distribute **Roche Pharmaceuticals** products in **Egypt**. ISPH expects to generate around EGP300mn in sales by the end of 2020 on the back of this move, with no initial investment needed. (Company disclosure)
- **Egypt Kuwait Holding Co.** (EKHO) said that its subsidiary **NSCO Investments Limited**, which owns the concession rights of *Offshore North Sinai (ONS)*, has completed drilling its second well in the "KM-1" area, and production has started on Thursday at a capacity of 20mcf per day. This development leaves the full production of ONS standing at 75mcf per day, the highest rate since EKHO acquired the field in 2014. ([Company disclosure](#))

- **Orascom Development Egypt (ORHD)** will launch the third phase of its project O West in September. The new phase will include high-end apartments. ([Enterprise](#))

### Non-Corporate

- The **IHS Markit Egypt Purchasing Managers' Index (PMI)** for the non-oil private sector fell to 49.4 in August from 50.3 in July, mainly due to mild declines in output and new orders. However, expectations for future growth were at an 18-month high. ([Reuters](#))
- **Egypt's** natural gas production rose to 7bn cubic feet (bcf) per day from a level of 6.8 bcf per day at the end of June. ([Reuters](#))
- **Egypt's** fuel subsidy bill fell to around EGP85bn in FY2018/19, down from EGP120.8bn a year prior. ([Reuters](#))
- **Egypt's** cotton exports increased 219% in the March-May 2019 period to 510,200 quintars from 160,100 quintars in the comparable period a year ago on an increase in production, according to a report by **CAPMAS**. ([CAPMAS](#))

### Markets

|   |         |           |         |   |           |           |         |
|---|---------|-----------|---------|---|-----------|-----------|---------|
| ↗ | EGX 30  | 15,110.23 | 1.20%   | ↗ | EGX 30 TR | 5,608.65  | 1.30%   |
| ↗ | EGX 70  | 557.10    | 0.43%   | ↗ | EGX 100   | 1,477.93  | 1.12%   |
| ↗ | DFMGI   | 2,889.81  | 4.77%   | ↗ | ADSMI     | 5,156.01  | 0.68%   |
| ↗ | TASI    | 7,971.14  | 0.74%   | ↗ | QE Index  | 10,274.15 | 0.20%   |
| ↗ | S&P 500 | 2,926.46  | 0.06%   | ↗ | MSCI EM   | 984.33    | 1.47%   |
| ↘ | Gold    | 1,525.69  | (0.24%) | ↘ | Brent Oil | 58.64     | (0.03%) |

\*As of market close, except for commodities at spot price as of 8.45am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** posted a four-day winning streak on Monday, supported by **COMI**, **SWDY**, and **EAST**. In the **UAE**, **DFMGI** strengthened, backed by gains in **banking** and **real estate** stocks, and **ADSMI** followed suit drawing on its **telecom** and **banking** sectors. **Saudi Arabia's TASI** bounced up on stronger **banking** and **materials** stocks.
- **Global Markets:** **Asian stocks** continued to be pressured by the **US-Chinese** trade tension, mostly lower on Tuesday. Meanwhile, both **gold** and **oil** were trading slightly lower this morning.

### Number of the Day

#### EGP3.23bn

The total revenues generated by **Egypt's** five state-owned drugmakers in FY2018/19.

### Today's Quiz

What are the top three countries producing cars worldwide in 2018?

(Answer located at the end of this newsletter)

## Corporate Events

| Company                                  | Ticker      | Event Type | Event Date | Reason  |
|--|-------------|------------|------------|---|
| 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 the Bank'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  |
| El Ezz Aldekhela Steel Alexandria        | IRAX        | EGM        | 22-Sep     | Voting on Capital increase and the acquisition of EFS and ERM         |
| 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 and Development       | 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                            |
| Misr Cement (Qena)                       | MCQE        | Dividends  | 31-Oct     | Payment date (EGP0.25/share)  |

## Quiz Answer

China, US, and Japan, which produced 27.8mn, 11.3mn, and 9.7mn cars, respectively, in 2018.

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