

Today's Story

Cement Producers Still Pressured by Oversupply and Higher Cost

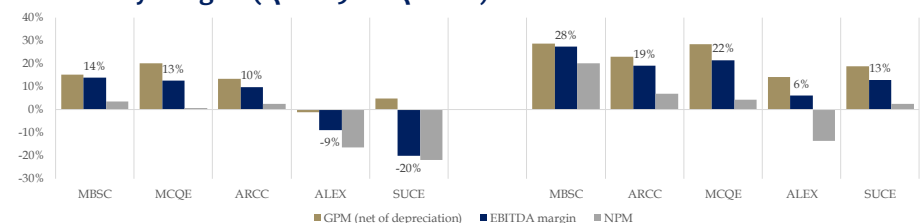
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The financial results of EGX-listed cement producers weakened in Q2 2019, extending their Q1 2019 downtrend. Their financials were hit by (1) continued pressure on prices due to persisting oversupply, (2) the consequent price competition, and (3) little export ability, which was dampened by stiff competition, as explained in our story titled [Cement Exports Need to Find Home in Africa](#), published in *The Daily Beam* on 17 July 2019. Although cement demand (local dispatch and exports) edged up 4% y/y to 11.8mn tons in Q2 2019, slightly higher y/y prices did not boost revenues that much. According to most producers, the blended average price of EGP904/ton in Q2 2019 (+4% y/y) stands at a considerable discount to what they believe would make them sustainably profitable. In *Today's Story*, we take a closer look into the performance of six of the seven EGX-listed cement producers as the remaining company, South Valley Cement (SVCE), is yet to report its Q2 2019 results.

- Volumes slightly recovered:** Overall demand for cement grew by 4% y/y in Q2 2019, yet companies still delivered a mixed performance. Half of the six listed producers under study achieved considerable y/y growth in sold volumes, ranging from 7% to 46%. On the other hand, sold volumes by **Alexandria Cement (ALEX)**, **Suez Cement (SUCE)**, and **Sinai Cement (SCEM)** dropped. We note that industry growth is coming off an already low base.
- Revenue growth was supported by higher volumes, while prices were still pressured:** Listed cement producers showed a mixed top line performance, except for ALEX, SUCE and the Qena plant of **Misr Cement – Qena (MCQE)**, all of which saw their revenues grow. The Qena plant's revenues edged only 1% down y/y to EGP294.6mn as 44% growth in volumes offset a 31% y/y drop in prices.
- Higher costs squeezed margins further:** Even for the players whose revenues grew, margins still almost halved due to a greater increase in costs. Margins of energy-inefficient players were pressured even more. Gross profit of all listed cement producers shrank, while ALEX and SCEM turned to a gross loss from a gross profit in the previous year, on a net of depreciation basis.
- Items below EBITDA were not of help:** Bottom-line performance of the six listed cement companies was also negatively impacted by below-EBITDA items, (1) reporting FX losses as the EGP appreciated and (2) seeing their interest income fall over the cut in interest rate back in February 2019.

- Consequently, net income worsened:** At the end of the day, net profit of all EGX-listed cement companies deteriorated significantly in Q2 2019 vs. Q2 2018, while MCQE's Qena plant and SUCE turned to losses. We note that SUCE's 2018 results included proceeds from the sale of its subsidiary's white cement factory in Helwan. **Until further notice, we maintain our call that investors should be cautious by avoiding the whole sector.**

Profitability margins (Q2 2019 vs. Q2 2018)



Note: Q2 2019 is to the left; Q2 2018 is to the right.
Source: Companies' reports, IDA, SHUAA Securities Egypt.

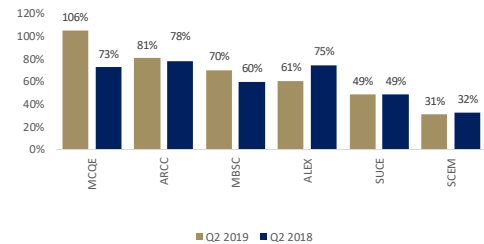


(in Arabic)

The Daily Cast
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Utilization rates (Q2 2019)



Source: Companies' reports, IDA, SHUAA Securities Egypt.

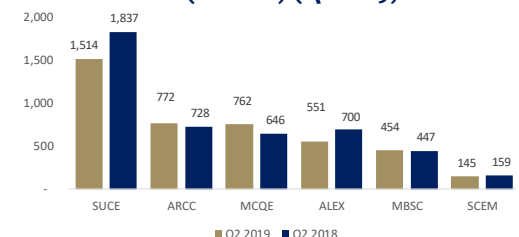
Average blended prices (EGP/ton) (Q2 2019)



*Average blended prices are average export and import prices (Total volumes/Total cement sales revenues).

Source: Companies' reports, IDA, SHUAA Securities Egypt.

Total revenues (EGPmn) (Q2 2019)



Source: Companies' reports, IDA, SHUAA Securities Egypt.

Top Headlines

Corporate

- The arbitral tribunal decided to suspend the arbitration proceedings between **Emaar Misr for Development** (EMFD) and **El-Nasr Housing & Development** for four weeks to give the two parties time to settle their dispute. ([EGX](#))
- MM Group for Industry & International Trade** (MTIE) is targeting EGP11bn in revenues in 2019, implying a y/y growth rate of 45%. The company also added that *Huawei's* recent global issue did not affect its local brands sales. (Al-Mal)
- Abu Qir Fertilizers** (ABUK) finished its annual maintenance in the *Abu Qir II* plant on Sunday. ([Company disclosure](#))
- e-Finance's Chairman**, Ibrahim Sarhan, said at the *Euromoney Egypt Conference* that his company's IPO is expected to take place by the end of this year. ([Ahram Online](#))

Non-Corporate

- Urban annual inflation** fell further in August to 7.5%, down from 8.7% in July. Monthly inflation recorded 0.7%. ([CAPMAS](#))
- Egypt** intends to issue Eurobonds worth between USD3-7bn during FY2019/20. The issue will be in different denominations and will include green bonds. ([Al-Borsa](#))
- The **Minister of Finance** denied news that proposed amendments to the *Stamp Tax Law* would see the tax and fees hiked on some items. Rather, changes are aiming at reforming customs and tax procedures, to become a more attractive FDI destination, he said. ([Enterprise](#))

Markets

⬇️ EGX 30	14,887.78	(0.29%)	⬇️ EGX 30 TR	5,286.99	(0.21%)
⬇️ EGX 70	556.41	(0.38%)	⬇️ EGX 100	1,473.45	(0.27%)
⬆️ DFMGI	2,879.51	0.28%	⬇️ ADSMI	5,075.88	(0.58%)
⬆️ TASI	8,055.24	0.05%	⬆️ QE Index	10,309.03	0.33%
⬇️ S&P 500	2,978.43	(0.01%)	⬆️ MSCI EM	1,010.58	0.26%
⬇️ Gold	1,490.65	(0.57%)	⬆️ Brent Oil	62.84	0.40%

*As of market close, except for commodities at spot price as of 8.54am CLT.

- MENA Markets:** Egypt's benchmark **EGX 30** was down on Monday, dragged by **SWDY**, **MNHD**, and **COMI**. In the **UAE**, **DFMGI** rose, driven by **real estate** and **banks** stocks. Meanwhile, **ADSMI** headed south, weighed down by **telecom** and **banking** stocks. **Saudi Arabia's TASI** hit the green as **telecom** and **retail** stocks rose.
- Global Markets:** **US equities** ended on a flattish note, as declines over tech stocks were offset by hopes of a rate cut in September by the **Fed**. Meanwhile, **Asian shares** were down in early trading, dragged by weak economic data out of **China**, as factory-gate prices retreated notably. **Brent oil** prices were up on expectations of an output cut.

Number of the Day

2.3mn tons

Egyptian Refining Company's (ERC) annual capacity of diesel.

Today's Quiz

What is Ibsina Pharma's (ISPH) current free float?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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
Arab Co for Asset Management & Development	ACAMD	EGM	21-Sep	Reviewing Agenda Items
El Ezz Aldekhela Steel Alexandria	IRAX	EGM	22-Sep	Voting on Capital increase and the acquisition of EFS and ERM
Misr Beni Suef Cement	MBSC	Cash dividends	25-Sep	Ex-date (EGP2.5/share); Last eligible date 24 September
Misr Beni Suef Cement	MBSC	Cash dividends	25-Sep	Payment date (EGP2.5/share)
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
Alexandria Co for Pharmaceuticals	AXPH	AGM	28-Sep	Reviewing Agenda Items
Arab Pharmaceuticals	ADCI	AGM	28-Sep	Reviewing Agenda Items
Alexandria Mineral Oils	AMOC	AGM	28-Sep	Reviewing Agenda Items
Abou Kir Fertilizers & Chemicals	ABUK	AGM	28-Sep	Reviewing Agenda Items
Arabia Investments and Development	AIH	Lawsuit	29-Sep	lawsuit against French Peugeot
Ezz Steel	ESRS	Lawsuit	5-Oct	Steel Billets -Law Suit
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
Egyptian Resorts Co.	EGTS	AGM	31-Oct	Reviewing Agenda Items
Misr Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/ share)

Quiz Answer

45.7%.

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