

Today's Story

OIH's Acquisition of Nile Sugar Is Not a Sweet Deal; OIH Removed from SSE's EGX-MP

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Last Thursday, Orascom Investment Holding (OIH) published its 2018 financials along with a number of board decisions, including approval of 100% acquisition of Nile Sugar. Nile Sugar is owned by the Sawiris family, OIH's majority shareholder. The announcement did not come as a surprise as management had previously expressed its intention to make this acquisition as part of OIH's foray into the food sector. However, when revealed the same day, the valuation, prepared by an independent financial advisor (IFA), for Nile Sugar raised many eyebrows.

- Nile Sugar valuation is pricey:** The IFA set the equity valuation of Nile Sugar at EGP3.76bn, using a weighted average of a DCF valuation (70% weight) and a multiples valuation (30% weight). We have valued Nile Sugar using DCF (50%), multiples (20%), and two replacement cost valuations (15% each) based on Nile Sugar's own capacity increase and Canal Sugar's recently-revealed investment cost. We reached a valuation of EGP1.48bn for Nile Sugar. If we were not to debate the investment rationale behind this acquisition, we would still have some concerns over the valuation itself, namely:
 - Stretched valuation:** The valuation seems too stretched compared to market peers, especially EGX-listed Delta Sugar (SUGR). Nile Sugar's IFA valuation implies a 2019e P/E of 15x and a 2019e EV/EBITDA of 8.6x. On the other hand, SUGR trades at a 2018a P/E of 6.6x and a 2018a EV/EBITDA of 4.6x. At Nile Sugar's implied multiples, SUGR would be worth between EGP29-36/share (+79-127%) or an average of EGP33/share (+103%).
 - IFA's report uses dated information:** The IFA's fair value report disclosed was just an executive summary, lacking many bases that are much-needed to gauge Nile Sugar's valuation more accurately. Indeed, the IFA used data as of 30 June 2018 in its report, leaving out nine whole months (from July 2018 to March 2019).
 - IFA's projections too optimistic:** We note that the latest available annual financials published by privately-held Nile Sugar showed the company logging net losses of EGP3mn in 2014. Indeed, Q1 2015 financials showed the company incurring net losses of EGP61mn. That said, the IFA's report expected 2018 net profit to hit EGP72mn and grow even further to EGP228mn in 2019 (+216% y/y).
- Valuation aside, sugar is a highly periled industry:** If we were to ignore the IFA valuation of Nile Sugar, we would still debate the investment rationale behind such an attempt to tap into the sugar industry. Local sugar producers operate in a highly challenging environment, suffering from unstable market conditions, FX risk, excess output, and weaker global prices. Taking SUGR as an example, the company's profits appeared attractive for a while after the EGP flotation and before normalization hit hard with earnings retreating to EGP344mn in 2018 (-29% y/y). SUGR was not successful in reducing its heavy inventory, suffering from weaker sales volumes and needs for hefty working capital. Furthermore, huge capacities are expected to hit the market (i.e. Canal Sugar), adding insult to injury.
- OIH considers an enormous capital increase:** With its valuation almost hitting the EGP3.8bn mark, Nile Sugar is in fact more valuable than OIH itself whose market cap is barely EGP3.6bn, 20% off its highest level in 2019 of EGP4.5bn. According to its disclosure, OIH will pay 10% of Nile Sugar's deal value in cash (i.e. EGP359mn) and will issue promissory notes for the remaining 90% (i.e. EGP3.2bn) – which would be financed through a pro rata capital increase – to provide collateral for Nile Sugar's shareholders. Absent further details, we assume that this 90% should represent 51.7% of the total capital hike (the 51.7% being the stake controlled by OTMT Acquisition, Sawiris family's investment vehicle), implying a total potential capital increase of EGP6.25bn, EGP3.0bn of which will need to be financed by minority shareholders in cash. We believe this alone can dampen investor sentiment towards OIH as:
 - Sentiment towards capital increases has been bearish:** If recent history is any guide, asking shareholders for cash has been a negative trigger for stock performance; as evidenced when Palm Hills Developments (PHDC) increased its capital by EGP1.5bn and Pioneers Holding (PIOH) raised its capital by EGP1.1bn. We also note that Beltone Financial (BTFH), 70% owned by OIH, will soon be undertaking an EGP560mn capital increase itself. OIH's lush cash balance has long been a key attraction to investing in its stock. Instead of returning capital to its shareholders, OIH may soon be asking them for cash to finance an acquisition of a seemingly overvalued target owned by its major shareholder.
 - How will future acquisitions be financed?** Historically, OIH has not resorted to capital issuances to finance its expansion plans. Management has been shuffling its investment from one industry to another without having to ask its shareholders for cash. With the Nile Sugar deal, investors may be wary of potential capital increases down the road whenever it comes to financing OIH's future acquisitions across different sectors.

3) **If buying into sugar, why not buy Delta Sugar?** With Nile Sugar acquired in such a pricey deal, more than half of OIH's value will come from a sugar producer which is more valuable than OIH's all existing businesses combined. Thus, for OIH investors, they would be buying into Egypt's sugar industry. And if they believe so strongly in the sugar industry—we wonder—wouldn't they be better off buying SUGR at half the valuation multiples.

- **Why the Nile Sugar deal will pull the plug on OIH as we know it:** We see OIH's acquisition of Nile Sugar as a major paradigm shift in terms of valuation, which—in our view—easily pulls the plug on the OIH theme as a telecom veteran transforming into the financial sector. We believe the Nile Sugar acquisition will be value-destructive to OIH, thus reducing the positive impact we had expected from BTFH and Sarwa Capital (SRWA). Below, we highlight our updated valuation for OIH before and after the 100% acquisition of Nile Sugar.
 - Before acquisition, OIH's **standalone reported book value would be EGP0.676/share** (-1% vs. market price), in line with the current market price. Valuing OIH's investments in BTFH (at market) and SRWA (using our own DCF valuation), we reach an **adjusted book value of EGP0.691/share** (+1%), excluding its investment in **Koryolink**. If we were to include the Koryolink investments, OIH's **adjusted book value would be EGP0.832/share** (+21%).
 - After acquisition, we forecast that OIH would issue 14.9bn new shares, leaving the number of its shares at 20.13bn, up from 5.25bn currently. Considering an EGP6.25bn capital increase, EGP3.0bn of which is to be financed by minorities in cash, OIH's **pro-forma reported book value would be EGP0.487/share** (+1% vs. market price adjusted for capital increase), in line with the current market price. Valuing OIH's investments in BTFH (at market) and SRWA (using our own DCF valuation), we reach an **adjusted book value of EGP0.386/share** (-20%), excluding its investment in **Koryolink**. If we were to include the Koryolink investment, OIH's **adjusted book value would be EGP0.423/share** (-12%).

We note that since we have included OIH as part of our **EGX Model Portfolio (EGX-MP)** back on 20 January 2019, the stock has risen by 19% (+48% at its high of EGP0.846 recorded on 27 February 2019). **In view of the above paradigm shift in OIH's valuation drivers, we are happy to take profit off the table; thus, we remove OIH from our EGX-MP.**

- **Upside risk:** That said, we note that upside risks include the cancellation or rejection of the Nile Sugar deal; resolution of OIH's issues in North Korea; SRWA's performance improving in light of a lower interest rate environment, supported by its capital increase at the time of its IPO; improvement in capital markets performance as well as the resumption of IPO activity the market which would be positive for BTFH; a clearer strategy for OIH as to what criteria it will use in making investment or divestment decisions.

Our valuation for OIH's existing businesses with and without 100% of Nile Sugar, assuming 90% of Nile Sugar's purchase value is either 51% or 100% of planned capital increase

EGPmn (stand alone 31 December 2018)	Existing Businesses No capital increase			Existing Businesses + 100% of Nile Sugar 90% of purchase value = 51% of capital increase			Existing Businesses + 100% of Nile Sugar 90% of purchase value = 100% of capital increase		
	Book Value (Q4 2018)	Adj. book value (excluding Koryolink)	Adj. book value (including Koryolink)	Book Value (Q4 2018)	Adj. book value (excluding Koryolink)	Adj. book value (including Koryolink)	Book Value (Q4 2018)	Adj. book value (excluding Koryolink)	Adj. book value (including Koryolink)
Investments*	1,279	1,653	1,653	4,870	3,133	3,133	4,870	3,133	3,133
Investments at Associates (Koryolink & SRWA)	2,204	2,035	2,649	2,204	2,035	2,649	2,204	2,035	2,649
Other Non-Current Assets	212	88	212	212	88	212	212	88	212
Total Non-Current Assets	3,694	3,777	4,514	7,286	5,257	5,995	7,286	5,257	5,995
Cash**	690	690	690	3,351	3,351	3,351	331	331	331
Investments Held for Sale	-	-	-	-	-	-	-	-	-
Other Current Assets	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496
Total Current Assets	3,187	3,187	3,187	5,847	5,847	5,847	2,828	2,828	2,828
Total Assets	6,881	6,963	7,701	13,133	11,104	11,842	10,113	8,084	8,822
Total Non-Current Liabilities	465	465	465	465	465	465	465	465	465
Total Current Liabilities	2,871	2,871	2,871	2,871	2,871	2,871	2,871	2,871	2,871
Total Liabilities	3,336	3,336	3,336	3,336	3,336	3,336	3,336	3,336	3,336
BVoE***	3,545	3,627	4,365	9,797	7,768	8,505	6,777	4,748	5,486
Number of shares (mn)	5,246	5,246	5,246	20,131	20,131	20,131	12,941	12,941	12,941
BVPS	0.676	0.691	0.832	0.487	0.386	0.423	0.524	0.367	0.424
Market price	0.686	0.686	0.686	0.483	0.483	0.483	0.517	0.517	0.517
Upside / (downside) potential	-1%	1%	21%	1%	-20%	-12%	1%	-29%	-18%

* Adjusted to reflect Nile Sugar

** Adjusted to reflect the 10% cash payment.

*** Adjusted to reflect the capital increase, assuming promissory notes will represent 51% of the capital increase.

*** Adjusted to reflect the capital increase, assuming promissory notes will represent 100% of the capital increase.

Source: Company reports, SHUAA Securities Egypt.

Top Headlines

Corporate

- **Orascom Investment Holding (OIH)** posted its Q4 2018 consolidated results, where losses intensified sequentially as discontinued operations lifted Q3 2018 results. Notwithstanding the effect of discontinued operations on both quarters, Q4 2018 losses would have come at EGP186mn versus Q3 2018 losses of EGP39mn. Revenues rose in Q4 2018 to EGP673mn (+47% q/q), while EBITDA slipped in the negative territory on significantly higher opex (+87% q/q) driven by rising people's cost. Also, high interest burden, coupled with FX losses shadowed Q4 performance. ([Company disclosure](#))
- **Egyptian Resorts Co. (EGTS)** incurred a net loss of EGP72.0mn in 2018 against a net profit of EGP62.6mn in 2017. In the Q4 2018, EGTS suffered losses of EGP46.9mn, the heaviest during the year. Gross profit margin decreased to 30% versus 38% in 2017. However, contractual sales grew 69% to EGP199mn compared to last year's EGP117.3mn. As part of its strategy for the next five years, the company plans to direct its investments into recurring income assets, mostly in the hospitality segment. ([EGX](#))
- **Dice Sport & Casual Wear's (DSCW)** earnings fell 13% y/y to EGP154mn in 2018 as COGS increased 36% y/y to EGP1.13bn, also resulting in a 424bps lower y/y GPM which stood at 27%. Earnings were also undermined by a 30% higher interest expense y/y which reached EGP92mn. Meanwhile, revenues grew 28% y/y to EGP1.51bn. The company's stock is currently trading at a P/E of 5.3x and EV/EBITDA of 4.8x. ([Company disclosure](#))
- **Alexandria Containers and Cargo Handling (ALCN)** revenues of EGP2.8bn (+4.4% y/y) during FY2019/20. ALCN targets handling 890k TEUs during the same period. The company targets a net profit of EGP1.8bn in FY2019/20 (+ 2.6% y/y) which implies a forward P/E 11.7x. ([Mubasher](#))
- **Damietta for Containers and Cargo Handling**, a subsidiary of **Canal Shipping Agencies (CSAG)** targets handling 1.035mn TEUs in FY2019/20 (+3.5% y/y) vs. 1mn TEUs targeted in FY2018/19. The company targets revenues of EGP1.370bn in FY2019/20 (+16% y/y) despite the ongoing deepening of the company's berths; cutting 30% of the terminals. The company targets a net profit of EGP953mn in FY2019/20. ([Youm7](#))
- **Port said for Containers and Cargo Handling**, a subsidiary of **Canal Shipping Agencies (CSAG)** targets revenues of EGP1.1bn in FY2019/20. The company targets a net profit of EGP630mn (+26% y/y) vs. EGP500mn targeted in FY2018/19. It also targets handling 600,000 TEUs (+20% y/y) in FY2019/20 vs. 500,000 TEUs in FY2018/19 and revenues of EGP1.130bn (+26% y/y) in FY2019/20 vs. EGP900mn targeted in FY2018/19. ([Mubasher](#))

Non-Corporate

- The **IMF** has released the document of the Fourth Review on the EFF USD12bn arrangement, upon which **Egypt** has received the fifth tranche of the loan. In the document, the IMF staff has appraised implementation of reform program and cited a favorable growth outlook. However, it pointed out deteriorating external environment as a challenge. The document also said the government is on track to reach full cost-recovery mid-2019 for all fuel products, except for LPG and fuel oil used in bakeries and electricity generation. ([IMF](#))
- **Moody's Rating Agency** said that **Egypt's** budget for FY2019/20 points to continued fiscal consolidation, describing it as "Credit Positive". The agency expects Egypt to achieve a growth rate of 5.8% in FY2019/20. It also forecasts a fiscal deficit of 7.5% and a primary surplus of 1.7% of GDP. ([Egypt Today](#))
- **Egypt** said it would not return to the international debt market during the current fiscal year, after raising EUR2bn (USD2.25bn) in 6- and 12-year euro-denominated bonds. The **Ministry of Finance** said it had received nearly EUR9bn (USD10.1bn) worth of requests for the bonds. It had offered EUR750mn in 6-year papers and EUR1.25bn in 12-year notes, to be settled on 11 April. ([Reuters](#))

Markets

↗	EGX 30	15,247.81	0.33%	↗	EGX 70	678.09	0.17%
↗	DFMGI	2,776.29	0.57%	↘	ADSMI	5,032.19	(0.33%)
↗	TASI	9,063.88	0.87%	↗	QE Index	10,189.56	0.28%
↗	S&P 500	2,892.74	0.46%	↗	MSCI EM	1,085.14	0.41%
↘	Gold	1,291.76	(0.03%)	↗	Brent Oil	70.34	1.35%

- **MENA Markets:** Egypt's benchmark **EGX 30** closed the week on a high note, lifted by **GTHE**, **HELI**, and **OCDI**. UAE's **ADSMI** ended in red as **telecom** and **banking** stocks sagged, while **DFMGI** rose on **banks** and **financial services** stocks. In **Saudi Arabia**, **TASI** continued its winning streak powered by its **banking** and **food & beverages** sectors.
- **Global Markets:** The **Dow** rose again on Friday, led by data showing the **US** economy created more jobs than expected last month. **Energy** stocks rallied, underpinning the broader market, as oil prices surged to five-month highs on hopes escalating conflict in **Libya** may disrupt oil supplies in the region. Meanwhile, Sentiment on trade remained positive with the **US** and **China** meeting next week.

Number of the Day

74%

Market share of **Eastern Company's** (EAST) own cigarette brands in **Egypt**.

Today's Quiz

What is the size of **Egyptian Resort Co.'s** (EGTS) land area in **Sahl Hasheesh** currently?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
El-Shams Housing & Urbanization	ELSH	BoD	7-Apr	Reviewing Agenda Items
Raya Holding	RAYA	OPR	7-Apr	Ending of the OPR market
Six of October Development and Investment	OCDI	EGM / AGM	8-Apr	Reviewing Agenda Items
Egyptian Gulf Bank	EGBE	Dividends	8-Apr	Last date of bonus shares eligibility of 6.6%
Heliopolis Housing & Development	HELI	Dividends	8-Apr	Distribution of cash dividends of EGP0.25/share
Cleopatra Hospital	CLHO	EGM	10-Apr	Reviewing Agenda Items
Arab Cotton Ginning	ACGC	EGM	14-Apr	Reviewing Agenda Items
Faisal Islamic Bank of Egypt - USD	FAITA	Dividends	14-Apr	Last date of cash dividends eligibility of USD0.08/share
Faisal Islamic Bank of Egypt	FAIT	Dividends	14-Apr	Last date of cash dividends eligibility of EGP1.433/share
Egyptian Iron & Steel	IRON	Tender	15-Apr	Tender for the revamping of its production lines
Ismailia Misr Poultry	ISMA	Dividends	15-Apr	Distribution of cash dividends of EGP0.10/share
Sinai Cement	SCEM	AGM	16-Apr	Reviewing Agenda Items
Faisal Islamic Bank of Egypt - USD	FAITA	Dividends	17-Apr	Distribution of cash dividends of USD0.08/share
Faisal Islamic Bank of Egypt	FAIT	Dividends	17-Apr	Distribution of cash dividends of EGP1.433/share
Oriental Weavers Carpet	ORWE	EGM / AGM	17-Apr	Discuss of bonus shares (50%)
Egyptian Satellites	EGSA	Dividends	17-Apr	Last date of cash dividends eligibility of USD0.60/share
Elsaeed Contracting & Real Estate	UEGC	AGM	18-Apr	Reviewing Agenda Items
Edita Food Industries	EFID	Dividends	18-Apr	Distribution of cash dividends of EGP0.20/share
Credit Agricole Egypt	CIEB	Dividends	18-Apr	Distribution of cash dividends of EGP4.24/share
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	18-Apr	Legal Disputes relevant to <i>Porto Tartous</i> project
Minapharm Pharmaceuticals	MIPH	EGM / AGM	20-Apr	Discuss the capital increase
Egyptian Electrical Cables	ELEC	AGM	21-Apr	Reviewing Agenda Items
Arab Co for Asset Management & Development	ACAMD	Tender	21-Apr	Land Auction
EFG Hermes	HRHO	EGM / AGM	21-Apr	Reviewing Agenda Items
Arabia Investments Holding	AIND	Lawsuit	21-Apr	Legal Disputes relevant to the Company
El Obour Real Estate Investments	OBRI	EGM / AGM	22-Apr	Reviewing Agenda Items
National Co For Maize Products	NCMP	AGM	22-Apr	Reviewing Agenda Items
El-Shams Housing & Urbanization	ELSH	AGM	23-Apr	Reviewing Agenda Items
Suez Cement	SUCE	AGM	23-Apr	Reviewing Agenda Items
Misr Fertilizers Production Co.	MFPC	AGM	23-Apr	Reviewing Agenda Items
Tourah Portland Cement	TORA	AGM	23-Apr	Reviewing Agenda Items
Arab Co for Asset Management & Development	ACAMD	EGM	24-Apr	Amending some of the company's articles of incorporation
Orascom Development Egypt	ORHD	AGM	24-Apr	Reviewing Agenda Items
Pioneers Holding	PIOH	EGM	25-Apr	Amending some of the company's articles of incorporation
Atlas For Investment and Food Industries	AIFI	EGM / AGM	27-Apr	Reviewing Agenda Items
National Cement	NCEM	Lawsuit	27-Apr	To rule in canceling the decision to dissolve the company
Paints & Chemical Industry	PACH	Dividends	30-Apr	Distribution of cash dividends of EGP1.5/share
Minapharm Pharmaceuticals	MIPH	AGM	30-Apr	Reviewing Agenda Items
Maridive & Oil Services	MOIL	EGM / AGM	2-May	Reviewing Agenda Items
Suez Canal Bank	CANA	Lawsuit	7-May	To rule in a lawsuit that invalidated the Bank's AGM on April 4, 2018
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	23-Jun	Legal Disputes relevant to <i>Porto Tartous</i> project
Global Telecom Holding	GTHE	AGM	27-Jun	Discussing capital increase
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Distribution of cash dividends of EGP0.10/share

Quiz Answer

3.4mn sqm.

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