

JUFO: future only seems brighter; upgrade to ACCUMULATE

- ▶ **YTD 2013 performance showcases fundamental strength in demand and competitiveness, inspite of Egypt's problems**
- ▶ **The future only looks brighter - Solid volume growth expected across all segments, with rising penetration rates to offset any loss in market share**
- ▶ **We raise our target price (TP) to EGP11.21/share, and upgrade our recommendation to ACCUMULATE from HOLD**

Strong 1H13 performance inspite of local turmoil. JUFO's performance YTD 2013 has been exceptional; all of its segments posting double digit growth rates and, led both by impressive volumes and price growth. The performance comes in contrast to most industries in Egypt having experienced restructuring and liquidity woes, on the back of political and economic instability. Setting apart JUFO, is its favorable exposure towards a market that depicts not only resilience, but also significant growth potential for the long term.

Organic growth initiatives continued in 2013 and, are paying off.

2Q13 saw strong sales volumes across all segments driven by recent investments in distribution outlets and logistics operations, also accompanied by surge in export sales. JUFO also launched its EGP120m Egyfood yogurt plant in Assiut. While we do expect some practical hurdles (because of logistical issues on account of the local unrest) in implementing the complete EGP1.2bn capex plan on schedule, these initiatives gradually taking-off is just a matter of time.

JUFO's prospects only look brighter. The group's YoY volume growth as of latest 2013 trends clicked 13%, 11% and 23% for Dairy, Yogurt and Juice segments, respectively. The potential for demand is highlighted by low penetration levels of processed dairy and juice products in Egypt. For instance, packaged milk conversion/penetration rate in Egypt is about 16% (of total milk consumption), which is far below regional and global averages. With substantial room for growth yet to be realised by increasing penetration rates, the group stands to benefit from growth. We do expect JUFO's market share to decline in the longer term with rising competition, but growth in the market size should easily sustain double-digit growth rates throughout our forecast period (till 2019)

We raise our TP to EGP11.21/share (from EGP7.73). We have raised our earnings estimates both for the near-term and medium-term, and reduced the discount rate by c. 250bps, reflecting a cost of equity of 17.6% (WACC of 14.2%). While JUFO trades at a 2014f P/E of 14.3x, which is on par with peer multiples, the group's valuation stands justified more from growth that is yet to be realised in the medium-to-long term.

JUFO vs. EGX 30 Rebased



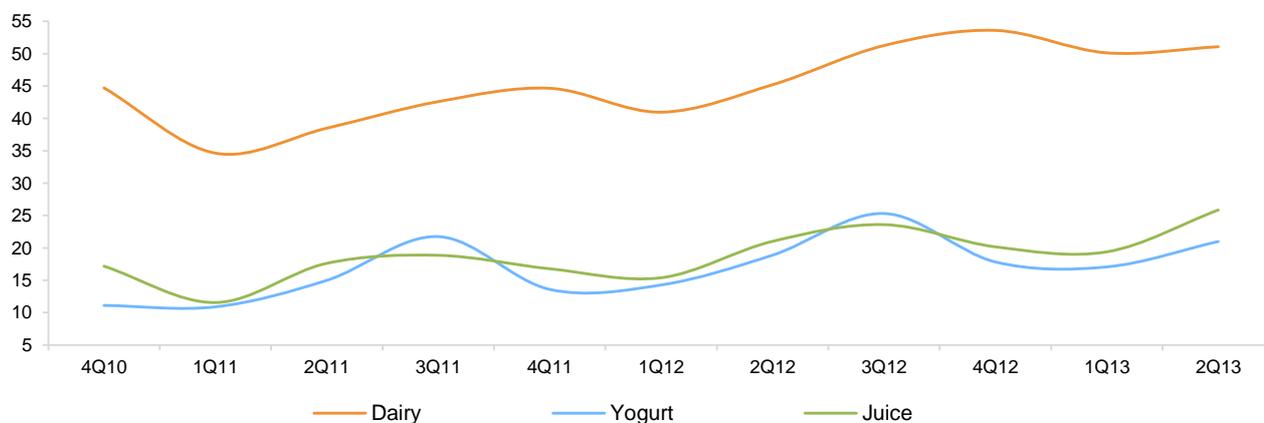
Source: Bloomberg, NAEEM Research

| | |
|----------------------|---------|
| Market Price (EGP) | 9.97 |
| Target Price (EGP) | 11.21 |
| Upside Potential (%) | 12.4 |
| Free Float (%) | 47 |
| Market Cap. (EGPm) | 7,060 |
| Market Cap. (USDm) | 1,024 |
| Reuters Code | JUFO.CA |
| Bloomberg Code | JUFO EY |

| Year to 31 Dec. | 2012 | 2013E | 2014E | 2015E |
|---------------------|-------|-------|-------|-------|
| Revenue (EGP) | 2,855 | 3,409 | 3,981 | 4,701 |
| Revenue (% Δ) | 27.2 | 19.4 | 16.8 | 18.1 |
| EBITDA (EGP) | 575 | 747 | 907 | 1,092 |
| EBITDA Margin (%) | 20.1 | 21.9 | 22.8 | 23.2 |
| EPS (EGP) | 0.46 | 0.66 | 0.67 | 0.85 |
| EPS (% Δ) | 75.0 | 42.2 | 1.6 | 27.4 |
| P/E | 21.7 | 15.2 | 15.0 | 11.7 |
| P/FCF | 14.4 | 9.4 | 10.1 | 8.3 |
| Yield (%) | 1.5 | 4.1 | 4.6 | 5.8 |
| ROAE (%) | 17.1 | 22.1 | 20.5 | 23.9 |
| Net debt/Equity (x) | 0.27 | 0.69 | 0.74 | 0.71 |
| Int. Cov. (x) | 16.8 | 9.8 | 4.4 | 5.1 |

Source: Company data, NAEEM estimates
Closing price as of 16 September 2013

JUFO's resilient sales volumes across segments inspite of Egypt's instability



Source: Company Data, NAEEM Research

Comparable valuation

| Company Name | Country | Market Cap. (USDm) | P/E | | EV/EBITDA | |
|-----------------------------------|--------------|-----------------------|-------------|-------------|--------------|------------|
| | | | 14f | 15f | 14f | 15f |
| Almarai Co. Ltd | Saudi Arabia | 8,878 | 18.1 | 15.4 | 13.5 | 11.7 |
| Vietnam Dairy Products Jsc | Vietnam | 5,449 | 14.5 | 11.8 | 11.4 | 9.7 |
| Saudi Dairy & Foodstuff Co. | Saudi Arabia | 832 | 16.1 | 13.9 | 11.2 | 9.8 |
| Pinar Sut Mamulleri Sanavii | Turkey | 359 | 9.2 | 8.6 | 7.9 | 7.5 |
| SAVOLA | Saudi Arabia | 7,365 | 14.2 | 12.4 | 10.5 | 9.3 |
| AGTHIA GROUP PJSC | UAE | 670 | 13.9 | 12.6 | 9.7 | 8.8 |
| TIGER BRANDS LTD | South Africa | 5,717 | 15.1 | 13.3 | 12.8 | 11.7 |
| Developing country average | | | 14.5 | 12.6 | 11.02 | 9.8 |
| JUFO | Egypt | 1024 | 14.3 | 11.2 | 8.7 | 7.1 |

Source: Bloomberg, NAEEM estimates

Disclosure Appendix

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| Rating | Upside/Downside potential | Rating distribution as of 17 September 2013 |
|---------------|----------------------------------|--|
| BUY | >20% | 41% |
| ACCUMULATE | >10% to 20% | 13% |
| HOLD | +10% to -10% | 38% |
| REDUCE | <-10% to -20% | 6% |
| SELL | < -20% | 3% |

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