



Egypt: Top Picks
“Lead the herd”
July 2013

Structure and Contents



Sidi Kerir Petrochemicals (SKPC)

EGP12.5/Share – BUY | TP EGP16.6/Share (Upside: +32.8%)



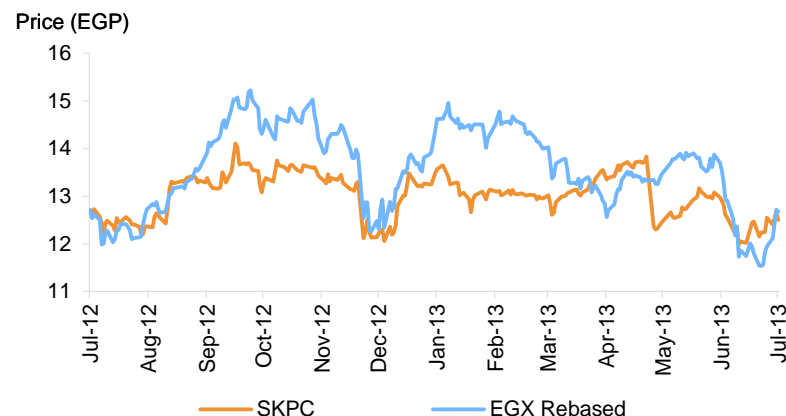
Upside potential:

- ▶ Depreciation of EGP is likely to bode well for SKPC, given its favourable exposure in terms of exports and polyethylene (PE) prices being benchmarked with global indices
- ▶ Gas shortage concerns are overdone in SKPC's case – the group continues to operate at normal utilisation rates despite the ongoing local shortage of gas, placing itself in an advantageous position compared with other industries
- ▶ With the group paying for its gas feedstock at prices above average industry rates, downside risks to earnings (due to higher feedstock costs) remain limited
- ▶ With a 2013f P/E of 7.4x, the group continues to trade at more than a 30% discount to its regional peers, leaving significant room for value to be unlocked

Downside risks:

- ▶ Risks include weakening global crude oil prices and demand concerns over a slowdown in growth in India and China. SKPC's product pricing is highly sensitive to global benchmarks, which depict a high degree of correlation towards crude oil and naphtha prices
- ▶ A sudden shift in GASCO's natural gas pricing strategy could hurt margins
- ▶ Gas supply, although not a concern for now, still looms
- ▶ Being a closely held organisation, access to management and its strategy are always likely to be concerns

SKPC vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Earnings forecasts

Year to 31 Dec	Earnings (EGPm)	EPS (EGP)	DPS (EGP)	P/E	EV/ EBITDA	ROIC Yield (%)	ROE (%)	
2011a	890	1.7	1.5	7.4	6.2	33.1	11.6	35.7
2012a	933	1.8	1.5	7.0	7.0	31.4	12.0	38.0
2013f	888	1.7	1.5	7.4	6.5	29.3	12.2	34.9
2014f	965	1.8	1.7	6.8	6.0	30.2	13.2	36.5
2015f	976	1.9	1.7	6.7	5.9	28.5	13.4	35.6

Source: SKPC, NAEEM estimates

Egyptian Kuwaiti Holding Co. (EKHO)

USD0.74/Share – BUY | TP USD1.19/Share (Upside: +60.0%)



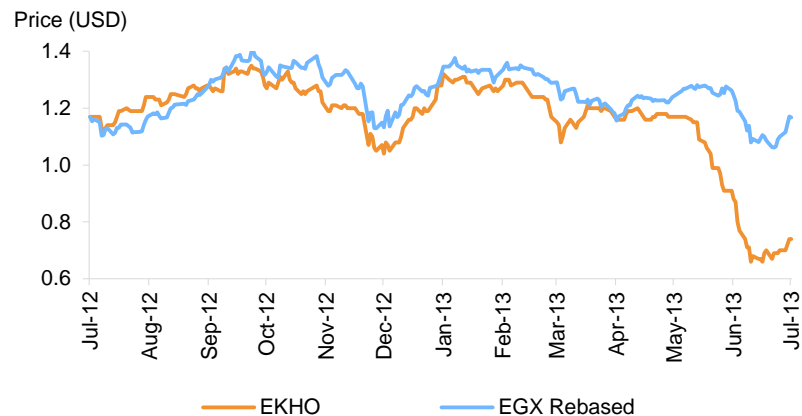
Upside potential:

- ▶ Early signs of an earnings rebound – Sources on the ground stated in May 2013 that Petrodar Operating Co (PDO or Petrodar), the group's largest upstream oil producing asset in South Sudan, has resumed exports after reaching a settlement with Sudan on the oil pipeline pricing dispute
- ▶ Downstream energy assets could also see an earnings turnaround – earnings for this segment, which were impacted in 1Q13 by lower energy supplies, are likely to normalise when liquidity returns to the market (on a potential IMF resolution) and the liquidity squeeze in Egypt's upstream energy space eases
- ▶ Egyptian Hydrocarbon Corporation has not been discounted yet – the USD454m mining grade ammonium nitrate project, expected to be operational in 2014, is also likely to add to EKHO's valuation.

Downside risks:

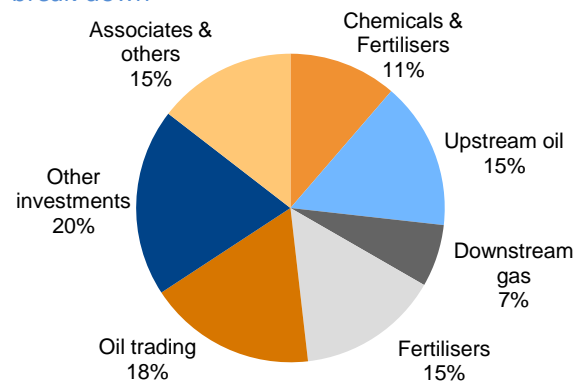
- ▶ Concerns over liquidity – EKHO's total debt due within the next 12 months amounts to USD210m (versus a cash balance of USD250m); this is in addition to c. USD114m already paid in 1Q13
- ▶ Discomfort over the recent decision on a rights issue – the planned 16% increase in capital has raised eyebrows, given liquidity issues and concerns over minority shareholder dilution
- ▶ Downside risks would always exist for EKHO, if the political and economic crises in Egypt drags on

EKHO vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

EKHO's NAV break down



Source: Company data, NAEEM estimates

Misr Beni-Suef (MBSC)

EGP43.0/Share – BUY | TP EGP58.0/Share (Upside: +35.1%)



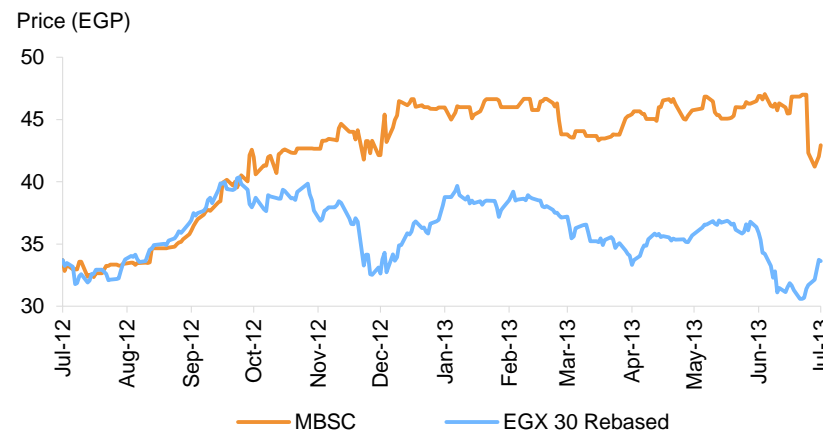
Upside potential:

- ▶ MBSC's market share increased to 5.6% in 2012 vs. 4.6% in 2011 after it doubled its capacity to 3mtpa in mid-2011
- ▶ The location of MBSC's facility in Upper Egypt, which is close to limestone quarries, provides it a competitive advantage
- ▶ Strong cash position of EGP496m (net cash in 2012)
- ▶ MBSC is considered a leading cement and clinker exporter among its peers; cement exports reached 762k tons in 2012, up 74% YoY
- ▶ 2012 payout ratio of 53% with a DPS of EGP3.5 implies a decent yield of 8.1%

Downside risks:

- ▶ Gas (energy) prices are expected to reach USD8/mmBtu in 2014E (vs. USD6/mmBtu currently), increasing pressure on margins. In addition, costs are expected to rise further, given the 15% devaluation of the EGP vs. the US dollar
- ▶ Gross margins are estimated to fall to 22% in 2013E and to 10% (with gas prices at USD8/mmbtu) in 2014E
- ▶ If recent rumours of the government's plans to regulate cement prices prove to be true, the move would be disastrous for the industry
- ▶ Average industry utilisation rates fell by 50% YoY in 2Q13 due to the ongoing energy shortage, which could drag on for a longer period and constrain cash flows

MBSC vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Earnings forecasts

Year to 31 Dec	Earnings (EGPm)	EPS (EGP)	EPS (%)	DPS (EGP)	P/E	EV/ EBITDA	P/CF	Yield (%)	ROAE (%)
2011a	274	6.9	(9.7)	5.0	6.3	3.0	4.3	11.6	16.6
2012a	333	6.7	(2.9)	3.5	6.5	2.6	8.2	8.1	19.4
2013f	279	5.6	(16.1)	4.9	7.7	2.8	4.0	11.3	15.8
2014f	105	2.1	(62.4)	1.8	20.4	4.4	8.4	4.3	5.9
2015f	230	4.6	118.9	4.0	9.3	2.9	5.2	9.3	12.7

Source: MBSC, NAEEM estimates

South Valley Cement (SVCE)

EGP3.30/share – BUY | TP EGP4.40/share (Upside: +35.5%)



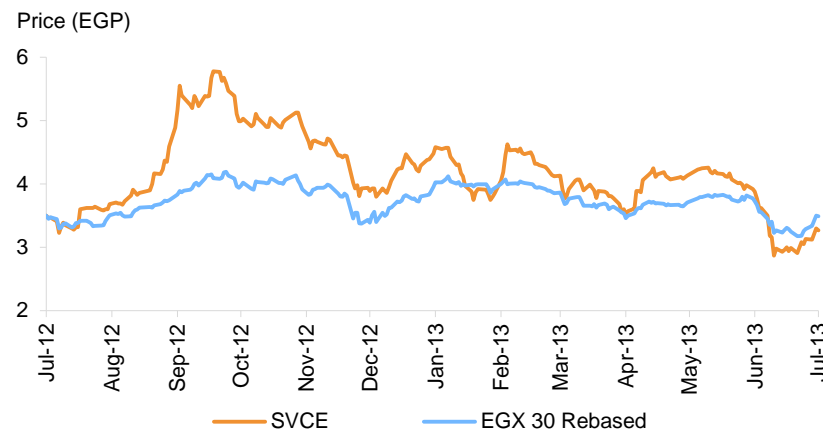
Upside potential:

- ▶ Under-utilised capacity depicts room for organic growth – SVCE has entered a growth phase, with a market share of 2.1% in 2012 vs. 1.1% in 2011. Revenue increased 100% on higher sales volumes. The utilisation rate reached 72% in 2012 vs. 35% in 2011
- ▶ A turnaround story – the completion of its in-house clinker line, as well as the installation of its fuel and electricity feeder lines, enabled company margins to improve in 2012. GPM reached 40% (vs. 14% in 2011), while EBITDA stood at 40% (vs. 12%)
- ▶ SVCE has strong export potential, as the company had earlier announced targeting African export markets, particularly Sudan, Cameroon, and Libya. A rise in exports is likely to compensate for the slower recovery in local demand
- ▶ Dividend payouts starting 2013 could instill positive sentiments and an upward re-rating based on yields

Downside risks:

- ▶ Any price controls implemented by the government (currently being mooted) would be bad news for cement producers
- ▶ Ongoing gas/energy shortages in the local market could, in fact, hurt near-term operating rates more than initially expected by the market. According to latest indications, utilisation rates dropped to 63% during 1Q13 and further downwards in 2Q13.
- ▶ A relatively geared balance sheet unlike its peers is a concern – the company has a relatively higher leverage position vs. its peers, based on debt to finance its start-up operational requirements. Net debt in 2012 reached EGP378m, up 23% YoY

SVCE vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Earnings forecasts

Year to 31 Dec	Earnings (EGPm)	EPS (EGP)	EPS (%)	DPS (EGP)	P/E	EV/ EBITDA	P/CF	Yield (%)	ROAE (%)
2011a	11	0.0	(78.3)	0.0	145.8	61.5	nm	0.0	0.4
2012a	107	0.2	866.8	0.0	15.1	9.6	nm	0.0	3.5
2013f	111	0.2	4.1	0.2	14.5	12.3	9.2	5.2	3.5
2014f	79	0.2	(28.9)	0.1	20.4	16.9	18.0	3.7	2.5
2015f	131	0.3	66.0	0.2	12.3	11.8	11.9	6.1	4.1

Source: SVCE, NAEEM estimates

Suez Cement (SUCE)

EGP21.5/Share – BUY | TP EGP27.5/Share – (Upside: +28.0%)



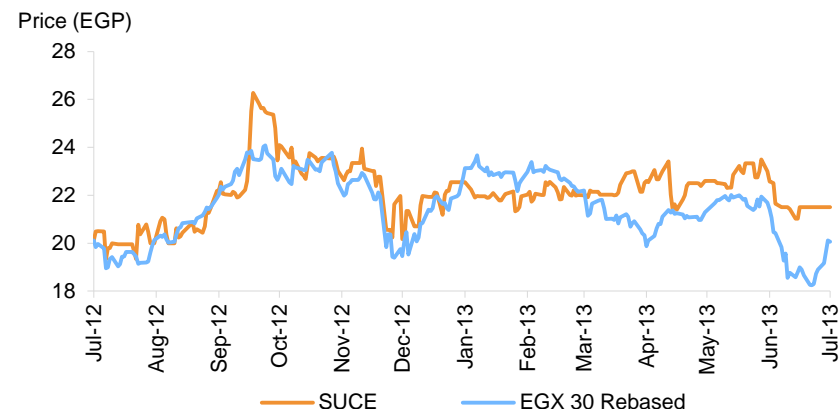
Upside potential:

- ▶ Huge bandwidth is likely to render an instant upside to earnings once Egypt gets back on the growth trajectory. Suez Group is considered Egypt's leader in the Cement market, with an 18% share and total production of 12mtpa
- ▶ Its strength lies in an integrated supply chain – SUCE is a backward and horizontally integrated company, as it owns three cement plants, a cement bag manufacturing unit, and ready-mix concrete stations
- ▶ A switch in energy source could lead to margin improvements in the longer term. The group plans to replace old kiln and mill production lines, shifting to coal from gas and mazut to overcome fuel shortage and the expected increase in fuel prices
- ▶ The company maintains a strong capital structure and cash position, recording net cash of EGP1,565m as of 2012. Moreover, SUCE has a payout ratio of c. 92%, with a 12-month yield of 12% in 2012

Downside risks:

- ▶ The company is highly sensitive and exposed to an expected hike in energy and electricity prices; energy represents c. 51% of total production cost
- ▶ With industry utilisation rates dropping significantly (about 50%) since January 2013, there is a probability of operating rates lowering on the back of gas supply shortages
- ▶ Any price controls implemented by the government (currently being mooted) would be bad news for cement producers

SUCE vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Earnings forecasts

Year to 31 Dec	Earnings (EGPm)	EPS (EGP)	EPS (%)	DPS (EGP)	P/E	EV/EBITDA	P/CF	Yield (%)	ROAE (%)
2011a	569	3.1	(54.0)	1.7	6.9	2.8	7.6	7.7	7.9
2012a	524	2.9	(7.8)	2.7	7.5	3.2	5.9	12.3	7.4
2013f	520	2.9	(0.8)	2.3	7.5	2.9	7.4	10.6	7.3
2014f	542	3.0	4.3	2.4	7.2	3.9	11.4	11.1	7.5
2015f	571	3.1	5.4	2.5	6.8	2.5	7.7	11.7	7.8

Source: Company data, NAEEM estimates

Orascom Telecom Holding (ORTE)

EGP4.18/Share (USD2.84/GDR) – BUY | TP EGP5.11/Share – USD3.65/GDR (Upside: +22.2%)



Upside potential:

- ▶ Djezzy in Algeria remains surprisingly resilient despite the various restrictions imposed on it by the government

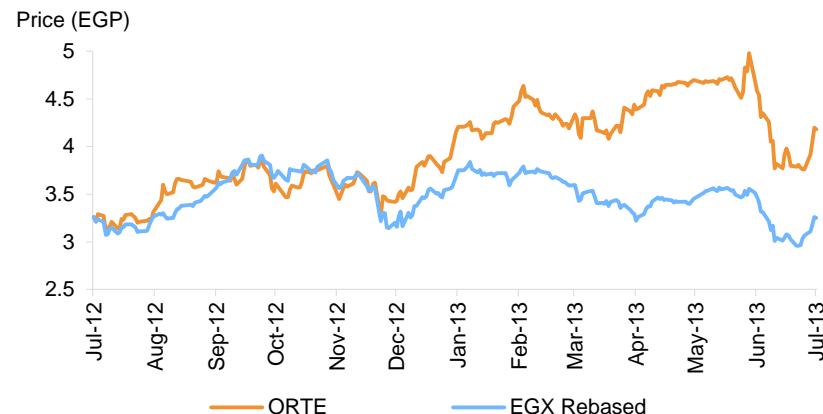
Downside risks:

- ▶ Revenues from operations are solid in local currency terms, but lacklustre in US dollar terms, with FX losses hurting the bottomline almost every quarter
- ▶ The outcome in Algeria remains uncertain; the worst-case scenario remains a concern and could impact valuation levels

Altimo offer fails, any new offer for now?

- ▶ Altimo could change its strategy and make a revised offer. Other offers with a sweetened price cannot be completely ruled out
- ▶ Altimo is not authorised to make another offer within the next six months under the current investment vehicle; this is, however, possible through another investment vehicle
- ▶ Upside potential would exist once the Djezzy issue is settled, and is likely to be significantly higher than the offer price for Djezzy

ORTE vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Earnings forecasts

Year to 31 Dec	Earnings (EGPm)	EPS (EGP)	EPS (%)	DPS (EGP)	P/E	EV/ EBITDA	P/CF	Yield (%)	ROE (%)
2011a	709	0.1	(13.7)	0.0	26.9	3.6	2.4	0.0	7.1
2012a	(208)	(0.0)	nm	0.0	nm	3.5	2.6	0.0	(2.6)
2013f	763	0.1	nm	0.0	21.4	3.5	2.5	0.0	9.6
2014f	927	0.2	21.4	0.1	17.6	3.4	2.4	2.5	12.4
2015f	1,145	0.2	23.5	0.1	14.3	3.3	2.3	2.9	16.5

Source: ORTE, NAEEM estimates

Telecom Egypt (ETEL)

EGP11.65/Share – BUY | TP EGP16.7/Share (Upside: +43.3%)



Upside potential:

- ▶ ETEL has strong operating cash flows, a large cash balance, and no planned acquisitions or exceptional capex; with dividend payouts likely to remain high
- ▶ Internet and Data revenues remain the bright spot (14.5% of total revenue), offsetting the revenue declines in the Voice and Access segments
- ▶ Agreement with Mobinil is a negative on short-term margins, but is likely to secure longer-term revenue flow over the next three years
- ▶ Vodafone Egypt (VFE) defends its #1 market and revenue shares
- ▶ ETEL's ARPU is rebounding due to its focus on higher-margin, dual-play customers

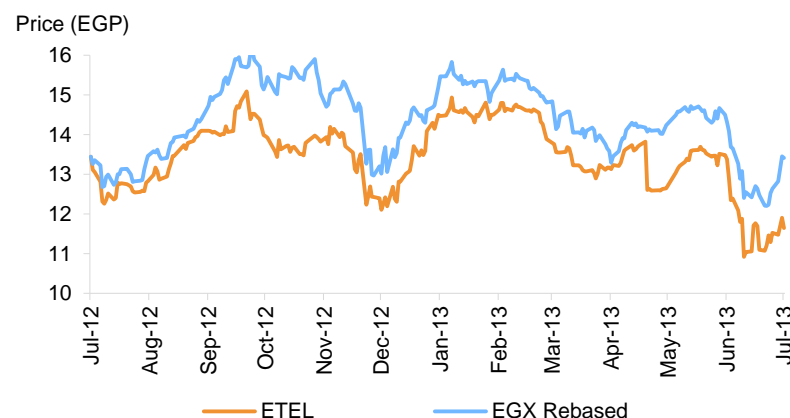
Downside risks:

- ▶ Wage inflation remains a concern, with further pressure to raise public sector wages later in 2013 and 2014 (as inflation mounts)
- ▶ Margins are suffering, given wage hikes, promotional activities, and higher interconnect fees due to agreements between VFE and Mobinil

Cellular ambitions and the fate of investment in VFE:

- ▶ An MVNO (Mobile Virtual Network Operator) licence is likely to be positive in the short term, but ETEL's wholesale segment could be hurt in the medium term by IGWs (International Gateway) re-pricing and operators installing their own fibre infrastructure
- ▶ Authorities may not force ETEL to sell its stake while it operates as an MVNO. However, ETEL may be forced to divest when it upgrades to get spectrum. We believe ETEL may not wait, preferring to find a buyer sooner rather than facing a forced sale at a later stage

ETEL vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Earnings forecasts

Year to 31 Dec	Earnings (EGPm)	EPS (EGP)	EPS (%)	DPS (EGP)	P/E	EV/EBITDA	P/CF	Yield (%)	ROE (%)
2011a	2,600	1.5	(6.0)	1.4	7.6	3.3	7.7	12.0	10.6
2012a	2,120	1.2	(18.5)	1.3	9.4	3.8	7.5	11.2	9.3
2013f	2,098	1.2	(1.0)	1.4	9.5	3.4	7.6	11.6	8.8
2014f	2,033	1.2	(3.1)	1.3	9.8	3.5	7.6	11.2	8.7
2015f	1,978	1.2	(2.7)	1.3	10.1	3.6	7.7	10.7	8.5

Source: ETEL, NAEEM estimates

Commercial International Bank (COMI)

EGP31.74/Share – BUY | TP EGP38.61/Share (Upside: +21.6%)



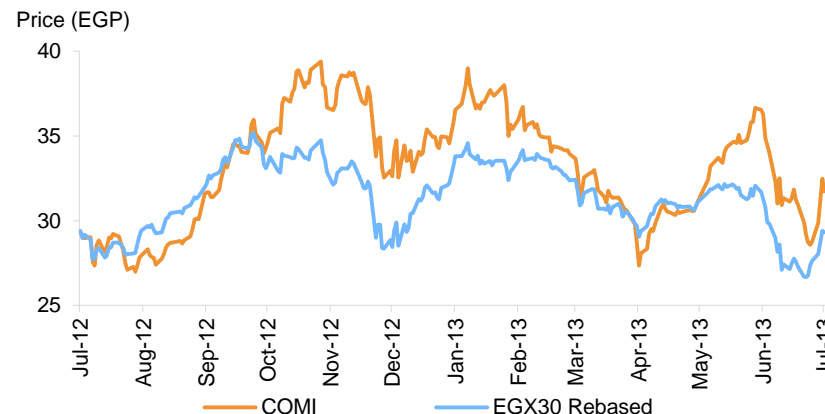
Upside potential:

- ▶ COMI was able to expand its market share in all segments through 2011 and 2012, despite the challenging environment, to affirm its position as Egypt's largest private sector bank
- ▶ COMI has a strong corporate banking brand and is expanding into higher-margin Retail and SME segments. Its low LDR (2012: 55.2%) gives it room to increase exposure to target markets
- ▶ High NIM is likely to be sustained in 2013, as COMI has shifted investments into longer-term government securities, thus locking in higher yields. NIM is likely to be also supported by growing exposure to the Retail sector, currently representing 14% of its loan book
- ▶ Asset quality remains intact despite recent downgrades, with the NPL ratio at c. 3.6% and provision cover at 120% in 2012. We do not expect major loan book downgrades going forward, thereby slowing the pace of provisioning

Downside risks:

- ▶ Increased competition in the Banking sphere, with the entry of new GCC players (which we believe would be more aggressive in loan acquisitions than their French counterparts), will likely affect COMI's market share gains
- ▶ Deterioration of political and economic conditions will likely put COMI's asset quality under further pressure due to its exposure to the yet-to-recover Tourism sector (c. 5-6% of total loan book)

COMI vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Earnings forecasts

Year to 31 Dec	Earnings (EGPm)	EPS (EGP)	EPS (%)	DPS (EGP)	P/E	P/BV	Yield (%)	ROAE (%)	NIM (%)
2011a	1,615	2.7	(19.5)	1.0	11.8	2.4	3.2	20.6	3.3
2012a	2,226	3.7	37.9	1.2	8.6	2.0	3.9	25.1	4.4
2013f	2,511	4.2	12.8	1.3	7.6	1.9	4.1	25.3	4.0
2014f	2,947	4.9	17.4	1.5	6.5	1.8	4.7	28.7	3.7
2015f	3,263	5.4	10.7	1.6	5.8	1.8	5.0	30.6	3.4

Source: Company data, NAEEM estimates

ASEC Company for Mining

EGP11.31/Share; Indicative Recommendation - BUY | Estimates Under WIP



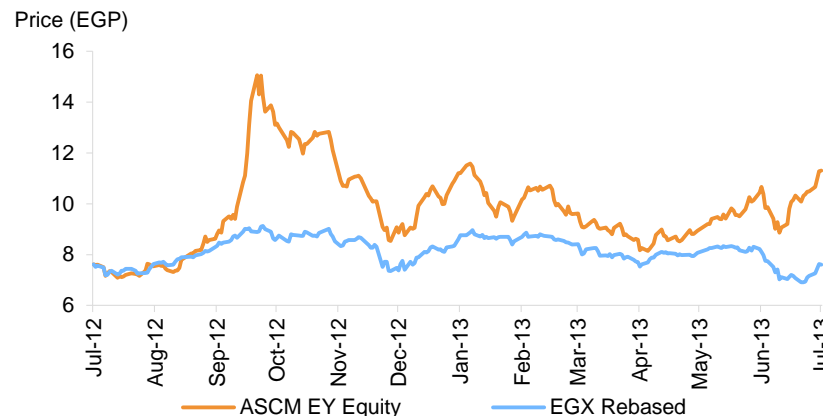
Upside potential:

- ▶ Greenfield insulation plants and the new calcium carbonate line, commenced production in 2012, unlocking much needed returns and liquidity from the USD70m capex that was invested over the years
- ▶ The two operations could turn the company profitable in 2013 (ASCM is loss making for more than three years) and resulting in a major re-rating on the upside
- ▶ Depreciation of the EGP works well for ASCM, as most of the new business is export oriented
- ▶ The Ethiopian mining asset (APM) could ultimately take ASCM to a totally different landscape in the long term. The prospective gold mine seems to have struck a decent amount of gold reserves (about 1.5moz of 2P) based on latest sampling results

Downside risks:

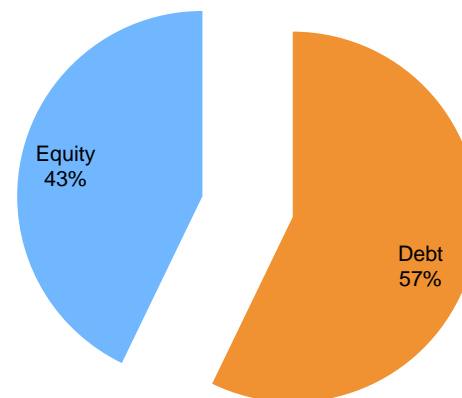
- ▶ ASCM is highly leveraged with a net debt of EGP403m, and D/E of 1.3x, making the stock a high-beta prospect
- ▶ Initial utilization rates at the new insulation plants are not as high as initially expected. This might drag on due to the weakness in export markets
- ▶ Failure to mobilize additional funding for APM could result in a EGP80m impairment for the short term

ASCM vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

ASCM's capital structure



Source: Company data, NAEEM estimates

Egypt Small Cap. Pharmaceuticals

Alex Pharma (AXPH) – EGP46.09/Share | BUY | Cairo Pharma (CPCI) – EGP20.35/Share | BUY | Nile Pharma (NIPH) – EGP17.46/Share | BUY |



Alexandria Pharma – Buy

- ▶ Zero debt
- ▶ A dividend yield of close to 10%
- ▶ Forward PE of 4.0x, a 54% discount to the EGX30 average
- ▶ Owned 60% by the government, 35% private shareholders and the remaining 5% by executives
- ▶ They are closely managed by the government
- ▶ A 30% of Market share
- ▶ Net margins in excess of 15%

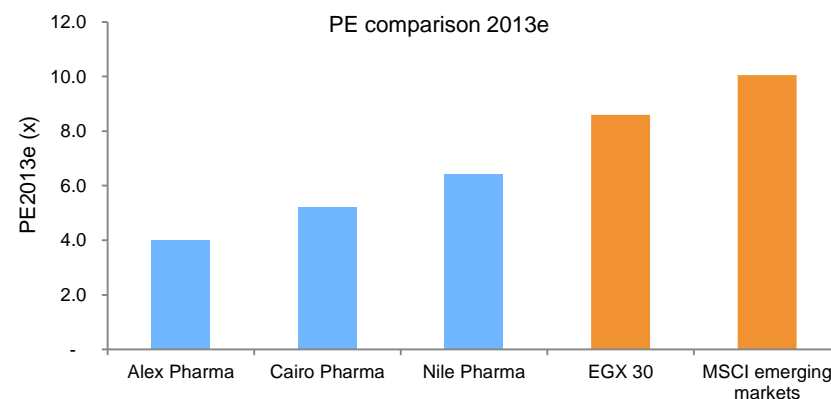
Cairo Pharma – Buy

- ▶ Zero debt
- ▶ Dividend yield of 8%
- ▶ Forward PE of 5.2x, a 39% discount to the EGX30 average
- ▶ Owned 60% by the government, 30% private shareholders and the remaining 10% by workers unions
- ▶ Net margins of around 11%

Nile Pharma – Buy

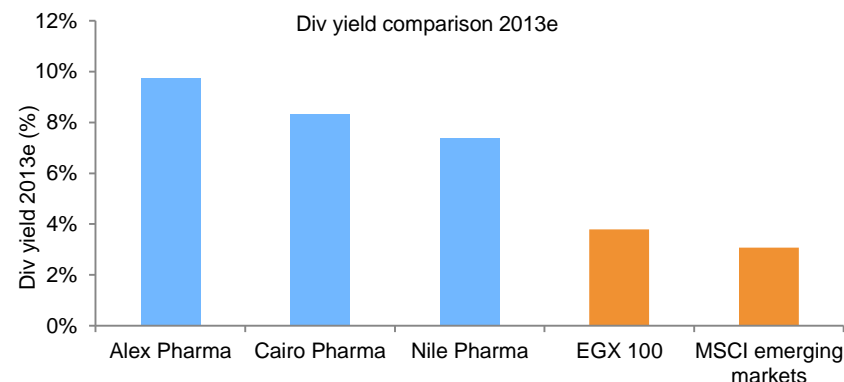
- ▶ Zero debt
- ▶ Dividend yield of 7.5%
- ▶ Forward PE of 7.3x, a 25% discount to the EGX30 average
- ▶ Owned 67% by the government, 28% private shareholders and the remaining 5% by workers unions.
- ▶ Owned and managed in similar lines to Alex and Cairo Pharma.
- ▶ Net margins of 7% (gradually declining during the last three years)

Egypt small cap. pharma valuations compared



Source: Bloomberg, NAEEM Research

Yield comparison



Source: Company data, NAEEM estimates

Centamin (CEY)

GBp35.3/share – BUY | Consensus TP GBp62.9/Share (Upside: +78.4%)



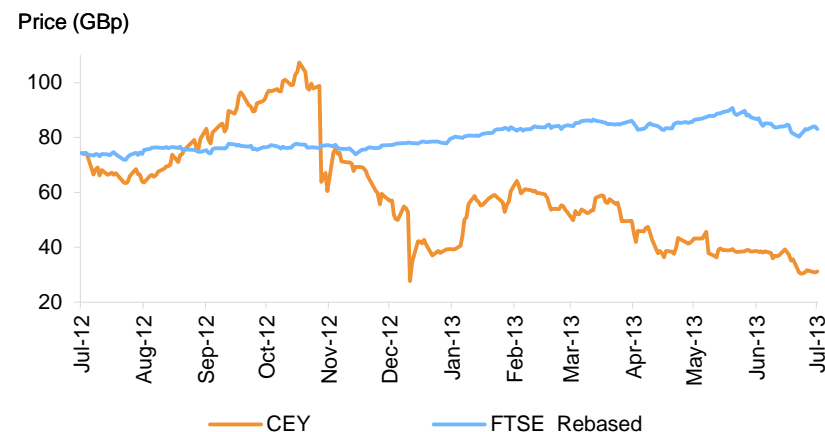
Upside potential:

- ▶ CEY's 10moz of 2P gold reserves pertains to c. 25% of the total area (165 sq. km) leased to the company as part of the concession agreement (CA). With 75% of the lease area yet to be developed/explored, the group could see a substantial surge in its reserve base in the long term
- ▶ A likely positive outcome of the court cases in Egypt should result in a sudden shift in risk perception, justifying a rise in valuation. CEY trades at a discount to peers, based on its current reserve base
- ▶ The implementation of a dividend policy could lead to significant upside and re-rating of the stock, based on yield multiplying factors. With an under-leveraged balance sheet (cash of USD150m), there is a possibility of the group paying a dividend to gear up its capital structure
- ▶ The Stage 4 expansion plan is likely to double CEY's earning potential starting 2015

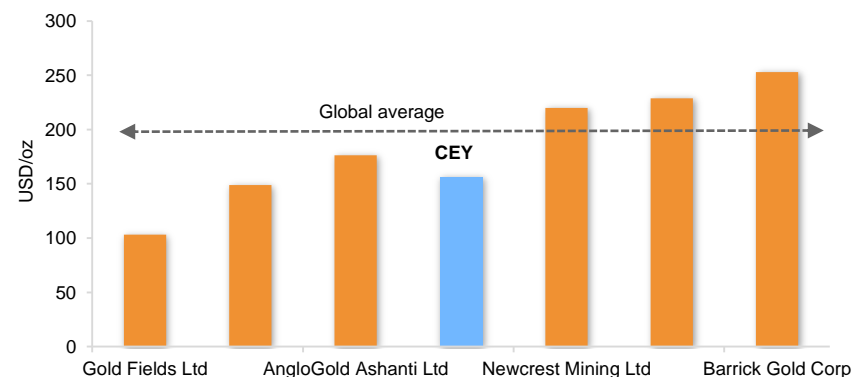
Downside risks:

- ▶ An unfavourable or arbitrary ruling in the pending court cases in Egypt is a matter of risk, which needs to be weighed
- ▶ A weakening gold price (as seen in April 2013), which cannot be predicted, directly makes miners such as CEY vulnerable
- ▶ Renewed labour unrest and strikes are a constant threat, which the group would have to deal with, given the current political climate in Egypt
- ▶ Further postponement of the Stage 4 expansion plan (already delayed) on the grounds of systematic uncertainty will unlikely be viewed as positive news

CEY vs. FTSE rebased



CEY compared on a EV/oz (x)



Disclosure Appendix



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