

# GBA 1Q13: a neutral performance - HOLD



EARNINGS FLASH • 1Q13 • Egypt/Automotive • 20 May 2013

## Revenue

EGP2,082m +21.6%

Q1 2012: EGP1,712m

## EBIT

EGP177.3m +92.0%

Q1 2012: EGP92m

## NET PROFIT

EGP43.7m +160.6%

Q1 2012: EGP18.2m

Recommendation	HOLD
Market price (EGP)	27.11
Target price (EGP)	29.4
Upside potential (%)	8.5%
Free float (%)	36%
Market cap. (EGPm)	3,497
Market cap. (USDm)	500
Shares outstanding (m)	129
Reuters code	AUTO.CA
Bloomberg code	AUTO EY

	2012a	2013f	2014f
Revenue (EGPm)	8,290	11,518	15,699
Net income (EGPm)	217	174	267
EPS (EGP)	1.68	1.35	2.07
PER (x)	16.1	20.1	13.1
Net debt/equity (x)	0.59	0.85	1.00
Book value/share (EGP)	16.34	19.67	21.58
Price/book (x)	1.7	1.6	1.6

Source: Company data, NAEEM estimates

## AUTO vs. EGX 30 rebased



Source: Bloomberg, NAEEM Research

Closing price as of 20 May 2013

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**GB Auto (AUTO) posted a 1Q13 net income of EGP47.3m vs. a profit of EGP18.2m in 1Q12 and declining QoQ by 37.7%.** The bottom-line is more or less in line with our estimate of EGP43.6m and is 14% higher than consensus expectations. The YoY growth is attributed to a low comparable base, given last year's political and economic conditions, along with logistical issues faced. The QoQ dip is due to seasonality factors (with 1Q usually being a slow quarter) and with continued uncertainty in the political and economic spectrum.

**Top-line declines QoQ, but still remains healthy.** The group posted 1Q13 revenues of EGP2.1bn, growing 21.6% YoY and declining 11.6% QoQ. Revenue for the quarter comes fairly in line with our estimate of EGP2.3bn and beating the consensus estimate of EGP1.9bn.

**Margins held up well.** Gross margin surged 4.4pps YoY and marginally up by 30bps QoQ to 15.3%. The higher margin comes on the backdrop of growth in the financing business and increased sales of high-margin CKD units in Egypt. This to an extent, highlights the company's ability to pass on cost increase to the market, specifically in Tires, CKD passenger cars and Commercial Vehicles businesses.

- **Change in the sales mix.** A new mix of 69:31 CKD:CBU in 1Q13. GBA expects CKD to remain a dominant part of the company's business with healthy Egyptian PC sales growth expected throughout 2013.

**Egypt 1Q13 PC sales volumes declined** by 10.4% YoY and 19.9% QoQ. Revenue of EGP581m, declines by 28.9% YoY and 22.9% QoQ. The QoQ weakness was attributed to lower CBU sales on account of demand shifting more towards economical cars and with the company strategically withholding supplies of CBU models, as part of a plan to restructure its distribution strategy. However, gross margins improved by 5pps YoY and 2.8pps QoQ to 15.1%. Improvement in margins was due to the change in the sales mix, with CKD models contributing more towards the top-line.

**Geely at the double.** Geely unit sales more than doubled in 1Q13 with 656 units sold vs. 306 units in 4Q12. 1Q13 revenue of EGP44m compared to EGP19m in 4Q12.

**Iraqi border shutdown hinders QoQ sales growth.** Iraqi unit sales increased by 46.3% YoY, but declined by 3.1% QoQ. Revenue of EGP797m, growing by a substantial 76.4% YoY, but down 3.5% QoQ. Gross profit came in at EGP97m vs. EGP30m in 1Q12 and declining by 20.2% QoQ. Iraqi PC sales were affected by the northern Iraqi (Kurdish) border issues, barring vehicle imports for regulatory reasons. Management expects these issues to have been sorted out by now.

**2&3Ws.** The segment reported 1Q13 revenue of EGP298m up 100% YoY, while declining by 27.8% QoQ. Gross margin was down by 4.7pps YoY and 1.4pps QoQ.

**The CV segment.** Total CV unit sales decreased by 15.9% YoY and up by 0.8% QoQ. Revenue for the quarter comes in at EGP101m, down 15% YoY and up by 9.8% QoQ. 1Q13 gross margin of 5.4% is up 80bps YoY and 4.4pps QoQ.

**After-sale services.** 1Q13 after-sales revenue reached EGP105m, up 45.8% YoY, and down 6% QoQ. A Gross margin of 31.6%, increasing by 6.6ppsYoY and declining by 1pps QoQ.

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**Robust performance from the Tire and financing businesses.** The Tire's segment reported its best quarter to date with a 1Q13 revenue of EGP111.3m, increasing by 71.5% YoY and 44.3% QoQ. Management maintains an optimistic outlook for the tire business segment. Furthermore, financing revenue reached EGP85m, up 108.6% YoY and 5.7% QoQ, with continued strong contribution from Mashroey.

**We maintain our TP at EGP29.4/share and HOLD recommendation.**

#### GBA: 1Q13 Results Summary

In EGPm	1Q12	4Q12	1Q13	YoY (Δ)	QoQ (Δ)
Revenue	1,712	2,354	2,082	+21.6%	-11.6%
Gross profit	186	353	318	+70.5%	-10.1%
GP margin (%)	10.9	15.0	15.3	+4.4pps	+0.3 pps
Net profit	18.2	75.9	47.3	+160.6%	-37.7%

#### 1Q13 KPI Summary

	1Q12	4Q12	1Q13	YoY (Δ)	QoQ (Δ)
<b>Egypt</b>					
Volume (units)	10,721	10,225	7,032	-34.4%	-31.2%
Revenue (EGPm)	814	754	581	-28.6%	-22.9%
Gross margin (%)	10.1	12.3	15.1	+5.0pps	+2.8pps
<b>Hyundai Iraq</b>					
Volume (units)	4,551	6,869	6,656	+46.3%	-3.1%
Revenue (EGPm)	452	826	797	+76.4%	-3.5%
Gross margin (%)	6.7	14.8	12.2	+5.5pps	-2.6pps
<b>Commercial Vehicles</b>					
Buses (units)	100	76	100	0.0%	+31.6%
Truck (units)	418	241	301	-28%	+24.9%
Tractor (units)	na	51	16	na	-68.6%
Trailer (units)	45	96	60	+33.3%	-37.5%
Construction Eq.	14	17	8	-42.9%	-52.9%
Revenue (EGPm)	119	92	101	-15%	+9.8%
Gross margin (%)	4.4	0.7	5.1	+0.8pps	+4.4pps
<b>2-3 Wheelers</b>					
3 Wheelers (units)	7,781	25,373	16,771	+115.5%	-33.9%
2 Wheelers (units)	6,000	10,040	7,325	+22.1%	-27%
Revenue (EGPm)	149	413	298	+100.3%	-27.8%
Gross margin (%)	21.6	18.3	16.9	-4.7pps	-1.4pps

Source: Company data, NAEEM Research

# Disclosure Appendix

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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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