EKHO: 2Q13 bottom-line stable QoQ – BUY

- **2Q13 bottom-line of USD21m, almost flat QoQ and 32% higher YoY**
- **Top-line for the quarter of USD732m, grows substantially QoQ and YoY**
- **Net income for the period is broadly in line with our expectation of an unchanged performance compared to 1Q13**
- **We continue recommending a BUY, expecting earnings recovery in the medium term**

Egypt Kuwait Holding (EKHO) announced its preliminary results for 2Q13, reporting a net income of USD21m. The bottom-line is flat QoQ and depicts a 32% YoY growth. Revenue for the quarter stood at USD732m, growing significantly compared to USD380m in 1Q13 and USD264m in the previous year. Operating cash flows for 2Q13 amounted to a negative USD60m.

Recommendation	BUY
Market Price (USD)	0.75
Target Price (USD)	1.19
Upside Potential (%)	58.5
Market Cap. (USDm)	637
Reuters Code	EKHO CA
Bloomberg Code	EKHO EY

Our take:

* The flat QoQ bottom-line comes in line with our expectations over the group's performance for the quarter. However, we still await full release of EKHO's financials to have a better view on the results
* While revenues have jumped quite substantially YoY and QoQ, this in our opinion is mainly because of consolidation of the shipping & trading business under tri-ocean energy whereby margins (if any) are wafer thin
* The continued trend (from the previous quarters) of negative operating cash flows (USD-60m), in our view, is a result of rising receivables from Egypt. However, the exact reason for the decline in cash flows, still needs to be confirmed
* Our investment view on EKHO continues to be positive. With a major shift in market sentiments (Since 3rd July) and a slowly improving liquidity situation in Egypt (which should help improve receivable recoveries), EKHO's performance should have bottomed out in 2Q13. We expect the company's financial performance to improve QoQ during 2H13
* Improvement in earnings in the coming quarters should flow from the group's downstream gas and chemical segments. For the longer term, upstream oil (Sudan) should provide an additional boost to profitability
* It should be recollected that an official source at EKHO, recently mentioned that the company is planning to expand its operations in Egypt over the coming period. The announcement came on the backdrop of Kuwait's recently announced aid programme to Egypt and with its intention to launch mega projects over the coming period with the aim of supporting the country's economy
* The positive rhetoric on investments and expansions in Egypt since the 30 June protests, is parallel to the statements made by other foreign players (such as Dana gas) and to an extent, reinforcing confidence in the market
* Nevertheless, with Kuwait having made its position clear with regards to supporting the interim government with Aid, EKHO could be one the channels through which this aid could get routed into Egypt and indirectly placing the group on a positive platform

We continue recommending EKHO as a BUY with a target price of USD1.19/share

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Disclosure Appendix

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HOLD	+10% to -10%	38%
REDUCE	<-10% to -20%	6%
SELL	< -20%	3%

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