

Today's Story

Another Reason to Like Telecom Egypt

- A month ago (on [5 July 2018](#) to be exact), we pointed out here in [The Daily Beam](#) to how **Telecom Egypt (ETEL)** can benefit off developments surrounding another telecom stock, namely **Global Telecom Holding (GTHE)**. We specifically wrote:

“GTHE’s story aside, we note that M&A deals often help investors re-rate other under-appreciated investments. ETEL is the only EGX-listed stock with exposure to the telecom sector in Egypt.”

Our call was that investors will brush off GTHE’s news hype and look elsewhere within the same sector, only to find ETEL as their best bet. Also, we said that by way of re-rating, ETEL can fetch a higher valuation if we simply value its 44.95% investment in **Vodafone Egypt (VODE)** at the same multiple implied by VEON’s offer to acquire GTHE’s operations in Pakistan or Bangladesh.
- Last week, a [Bloomberg article](#) shed light on VODE as one of **Vodafone Group’s** (LSE: VOD) operations that may be considered for sale to shore up some direly needed cash for VOD to pay off its debt and maintain its high dividend payout. VOD is going to have a new CEO this coming October who might have different thoughts for Egypt. Although it might be premature to assume an immediate sale by VOD for its 55% stake in VODE, this brings ETEL back in the limelight – one more time. Whether VOD could sell its 55% stake in VODE to ETEL or any other third party, it will be positive for ETEL. **In the first case**, ETEL will control 100% of VODE, Egypt’s largest and most profitable mobile operator which may pave the way for further consolidation in Egypt’s mobile market with the potential consolidation of VODE and WE. **In the other case**, ETEL will see its 44.95% stake re-valued at whatever the valuation that VODE’s stake sale could fetch, which we think would be between 4.5-5x EBITDA.
- Back to the drawing table, we jot below our back-of-the-envelope valuation for ETEL based on:

 - Valuing ETEL’s business (ex-VODE) at a 20% discount to implied valuation of GTHE’s deal mentioned above (i.e. 3.4x EBITDA rather than 4.2x). This results in a value of EGP6.4/ETEL share.
 - Valuing VODE’s business at:
 - The same multiple implied by GTHE’s deal (4.2x EBITDA), which would result in a value of EGP9.5/ETEL share. **This means ETEL would be valued at EGP15.9/share.**
 - 5.0x EBITDA, which would result in a value of EGP11.3/ETEL share. **This means ETEL would be valued at EGP17.7/share.**

Figures in USDmn	GTHe's assets*	ETEL (ex-VODE) @ 3.4x EBITDA	VODE (100%) @4.2x EBITDA	ETEL (prop.)	VODE (100%) @ 5x EBITDA	ETEL (prop.)
Revenues (TTM)	1,847	1,074	1,121	1,577	1,121	1,577
EBITDA (TTM)	811	297	482	514	482	514
EBITDA margin (TTM)	44%	28%	43%	33%	43%	33%
EV/EBITDA (TTM)	4.2x	3.4x	4.2x	3.7x	5.0x	4.0x
Enterprise value	3,399	997	2,020	1,904	2,408	2,079
Net debt **	(849)	(386)	0	(386)	0	(386)
Equity value	2,550	610	2,020	1,518	2,408	1,693
Equity value (EGPmn)		10,922	36,135	27,165	43,088	30,290
ETEL's stake (44.95%)			16,243		19,368	
Implied value/share (EGP)		6.4	9.5	15.9	11.3	17.7

* Pakistan and Bangladesh. ** We understand that Vodafone Egypt currently has a net cash position but assumed net debt of zero to be conservative. ETEL's net debt accounts for its latest EGP0.25/share DPS.

Source: SHUAA Securities Egypt estimates.

- Here is a sensitivity table showing the different valuation that ETEL could fetch depending on the valuation multiple applied to both its business and VODE. The range is from EGP10.5/share (worst case) to 24.3/share (best case).

		VODE's EV/EBITDA					
		3.0x	4.0x	4.2x	5.0x	6.0x	7.0x
ETEL's EV/EBITDA	4.0x	15.2	17.5	17.9	19.8	22.0	24.3
	3.5x	13.7	15.9	16.4	18.2	20.5	22.7
	3.4x	13.2	15.5	15.9	17.7	20.0	22.3
	3.0x	12.1	14.4	14.8	16.6	18.9	21.2
	2.5x	10.5	12.8	13.3	15.1	17.4	19.6

Source: SHUAA Securities Egypt estimates.

Top Headlines

Corporate

- Madinet Nasr Housing & Development (MNHD)** announced its unaudited financial results H1 2018, in which net profit surged 15.5% y/y to EGP588mn on 9.7% higher revenues of EGP1.27bn. Gross profit margin widened from 68.02% to 78.95%. ([Company Disclosure](#))
- Five companies intend to develop 2,363 feddans in a partnership with the **Ministry of Housing** with expected investments worth EGP179bn. **SODIC (OCDI)** was one of these five companies that won the tender to develop 500 feddans in **El-Sheikh Zayed** extension. Another company was **Palm El-Alamein**, a subsidiary of **Palm Hills Developments (PHDC)**, which won to develop 205 feddans in **El-Sheikh Zayed** with an investment cost of EGP59bn. (Al-Borsa)
- Orange Egypt's (OREG)** BoD will discuss the delisting of the company's shares from the **EGX** during their next meeting on 27 August 2018. ([Company Disclosure](#))
- Giza Spinning & Weaving Company** is planning to list 40% of its shares on the **EGX** in November. ([Bloomberg](#))

Non-Corporate

- According to the **Central Bank of Egypt (CBE)**, international reserves were almost stable in July, marginally up at USD44.315bn versus USD44.258bn in June. The increase was a combination of an increase in the foreign currency component, with a lower value of gold and SDRs. ([CBE](#))
- The **CBE** is studying allowing Egyptians returning from abroad to pay their cars' customs in installments. The initiative includes directing the banks to allow such customs to be paid in installments through concessional loans. ([Mubasher](#))
- Egypt's** state-run lender **Banque du Caire** has attracted some USD1.6bn since Egypt floated the EGP in November 2016 until end of last June. The bank has collected more than USD500mn since the beginning of 2018 until June. ([Amwal Al-Ghad](#))
- Egypt** is set to host the annual meetings of the **African Caucus** of the **World Bank (WB) Group** and **International Monetary Fund (IMF)** on 5 and 6 August. The meetings will be held in Sharm El-Sheikh with 40 countries participating, bringing together a number of international cooperation and finance ministers, as well as governors of central banks, along with high level officials from the WB and the IMF. ([Amwal Al-Ghad](#))
- The **Natural Gas Regulatory Authority** set the fee that private-sector players will have to pay to use the state's national grid to transport gas at an average rate of USD 0.038/MMBtu for one year. ([Enterprise](#))
- According to *Enterprise*, the **Ministry of Finance** will not begin considering a foreign currency-denominated bond issuance for another two months. Market conditions at the time will be an important factor in the decision, the minister said. ([Enterprise](#))

Markets

↗	EGX 30	15,806.38	0.87%	↗	EGX 70	747.78	0.44%
↘	DFMGI	2,973.94	(0.15%)	↘	ADSMI	4,811.42	(0.70%)
↘	TASI	8,253.54	(0.43%)	↗	QE Index	9,981.22	0.05%
↗	S&P 500	2,840.35	0.46%	↘	MSCI EM	1,067.42	(1.79%)
↗	Gold	1,214.90	0.59%	↘	Brent Oil	73.21	(0.33%)

*As of market close, except for commodities at spot price as of 8:16am CLT.

- **MENA Markets:** The **EGX 30** ended Thursday's session in green, backed by a positive performance of **COMI, SWDY, HRHO, TMGH, and CCAP**. **TASI** ended slightly lower, dragged by losses in the banking sector. Meanwhile, the **UAE** ended slightly lower, dragged by the real estate and the banking sectors.
- **Global Markets:** **US equities** on Friday ended the week on a high note and the **S&P 500** and **Dow Jones** recorded the fifth weekly gain in a row, largely underpinned by solid earnings reports throughout the week and shaking off some weakness in July employment and trade war concerns. **Crude oil** prices settled lower on Friday on concerns about global demand growth in the wake of escalating the **USA** and **China** trade tensions.

Number of the Day

USD1.005tn

The market capitalization of Apple, Inc. (APPL), the first company ever to see its market value exceed USD1 trillion.

Today's Quiz

What is the cheapest market in MENA region?

(Answer located at the end of this newsletter)

Earnings Watch

Company	Ticker	Period	Currency	Earnings (mn)			Revenues (mn)			Commentary
				Actual	Year ago	y/y % chg.	Actual	Year ago	y/y % chg.	
Medinet Nasr for Housing & Development	MNHD	H1 2018	EGP	588.0	508.9	16%	1,267.0	1,155.1	10%	The increase in earnings is driven by higher revenue and lower COGS which enhanced GPM.

Source: EGX

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
National Co For Maize Products	NCMP	GM	5-Aug	Reviewing Agenda Items
Arabian Food Industries Co Domty	DOMT	GM	5-Aug	Reviewing Agenda Items
Golden Coast	GOCO	Dividends	6-Aug	Record date for dividend eligibility of EGP0.40 per share
Extracted Oils	ZEOT	Right issue	8-Aug	Record date for right issue
Golden Coast	GOCO	Dividends	9-Aug	Distribution of cash dividends of EGP0.1 per share (1st installment)
Sidi Kerir Petrochemicals	SKPC	Dividends	9-Aug	Distribution of cash dividends of EGP0.4 per share
Alexandria Spinning & Weaving	SPIN	Capital Increase	9-Aug	Raising capital by EGP45m over 22.5m shares
Extracted Oils	ZEOT	Capital Increase	9-Aug	Raising capital by EGP157.2m over 42.8m shares
Misr Duty Free Shops	MFSC	EGM	9-Aug	Reviewing Agenda Items
Sharkia National Food	SNFC	EGM	11-Aug	Reviewing Agenda Items
General Silos & Storage	GSSC	Lawsuit	12-Aug	Legal Disputes Relevant to the Company
Alexandria Containers Handling	ALCN	EGM	13-Aug	Reviewing Agenda Items
Telecom Egypt	ETEL	Earnings release	14-Aug	Announcing Q2 2018 financial results
Arab Cotton Ginning	ACGC	EGM	15-Aug	Reviewing Agenda Items
Middle East Glass Manufacturing Co	MEGM	GM	15-Aug	Reviewing Agenda Items
Univert Food Industries	UNFO	Buying Offer	15-Aug	Final date of the offer to buy shares of the company
Misr National Steel Ataqa	ATQA	Dividends	15-Aug	Record date for bonus shares eligibility (100%)
Misr National Steel Ataqa	ATQA	Dividends	16-Aug	Distribution of bonus shares (100%)
Egyptian Iron & Steel	IRON	Lawsuit	16-Aug	Legal Disputes Relevant to the Company
Egyptian Iron & Steel	IRON	GM	16-Aug	Reviewing Agenda Items
El Nasr Co for Transformers	NASR	Dividends	29-Aug	Distribution of cash dividends of EGP0.0375 per share
Egyptian Transport and Commercial	ETRS	Dividends	30-Aug	Distribution of cash dividends of EGP0.5 per share
Arab Polvara Spinning & Weaving	APSW	Lawsuit	8-Sep	Legal Disputes Relevant to the Company
Ibnsina Pharma	ISPH	Lawsuit	18-Sep	Legal Disputes Relevant to the Company
October Pharma	OPPH	Dividends	27-Sep	Distribution of cash dividends of EGP2.0 per share

Quiz Answer

Dubai, as measured by **Dubai Financial Market General Index (DFMGI)**, is the cheapest market in the MENA region with a forward P/E of just 8.0x.



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