

Today's Story

A Game-Changer for GB Auto or a One-Off Deal?

- Earlier this week, **GB Auto's (AUTO) GB Capital** sold a 15% effective minority stake in **Mashroey** and **Tasaheel** to **Development Partners International (DPI)**, a London-based pan-African private equity investor, in a deal worth EGP480mn. This implied a total value of EGP3.2bn for the two entities. By way of background, **MNT Investment BV (MNT)**, which is 73.33% owned by AUTO, holds a 75% effective stake in each of Mashroey and Tasaheel with the remaining 25% directly owned by AUTO. As such, AUTO's effective ownership of both Mashroey and Tasaheel was 80% prior to the deal. Earlier this month, AUTO's board of directors had approved the sale of a 20% stake in MNT (implying a 15% effective stake in both entities) after approving the IFA fair value report of EGP507mn (a total of 2mn shares at EGP253.36/share). Post-deal, AUTO's effective ownership in both Mashroey and Tasaheel would be 65% with DPI controlling a 25% effective stake (15% from AUTO + 10% from other minorities).

AUTO's Direct and Indirect Ownership in Mashroey and Tasaheel

Effective ownership	Pre-Deal	Post-Deal
GB Capital	80%	65%
DPI	0%	25%
Other Minorities	20%	10%

Source: Company reports

- What's in it for AUTO?** AUTO had stated that it went on with this deal with DPI in an attempt to further enhance its position in fast-growing African markets. DPI's knowledge and expertise of African markets, according to management, should help AUTO achieve its goals. Moreover, the sale proceeds will be used to finance future growth at GB Capital.
- What's in it for AUTO investors?** Surprisingly, this deal was valued at very attractive multiples (8.1x P/B and 16.1x forward P/E). This is based on the book value and estimated earnings for 2018 as per the IFA report. If we to assign the same P/BV multiple of 8.1x to GB Capital's entire equity as of 30 June 2018 (EGP886.5mn), we would arrive at an overall equity value of EGP7.1bn for GB Capital alone. Alternatively, from a P/E perspective, at 16.1x annualized H1 2018 earnings of GB Capital (EGP378mn), we would arrive at an overall equity value of EGP6.1bn. Both methods indicate an average equity value of EGP6.63bn for GB Capital. Ironically, this valuation implicitly means that the parts are worth more than the sum. In other words, AUTO's GB Capital is almost worth as much as AUTO's entire market cap of EGP6.64bn. This raises two questions for investors to answer:
 - Is the automotive segment, which just turned out a quarterly profit, worth almost zero?** Or should it be assigned a positive value?
 - Is it fair to assume the same above-mentioned multiples for the entire GB Capital segment?** Or is it too dear assuming DPI was willing to pay a premium to secure this minority stake?
- We believe that time will tell whether such high-flying valuations are fair enough to account for future growth.** We do note, however, that such business lines have very high return on equity (ROE) levels. So to answer Question 2 above, **we calculate that based on GB Capital's implied ROE of around 43% and assuming a cost of equity of 18%, the long-term growth rate (LT GR) implied by this deal is 14.5%.** If this is good enough long-term growth rate for these businesses, then the deal does make sense. If this LT GR is a bit at the high end, then one has to answer Question 1 to attach a value for AUTO.

Top Headlines

Corporate

- **EFG Hermes Holding** (HRHO) earnings fell to EGP200mn in Q2 2018 (-20% q/q, -49% y/y). This was coupled with low growth in revenues (+6% q/q, -1% y/y) to EGP1.00bn with a hike opex (+15% q/q, +27% y/y) on the back of higher salaries, headcount, and geographic expansion. However, lower revenues y/y were due to a one-off item in Q2 2017 related to proceeds from the sale of a stake in **Credit Libanais** (EGP225mn). As such, normalized Q2 2018 y/y growth for revenues and earnings would have been 28% and 18%, respectively. ([Company Disclosure](#))
- **Sixth of October Development & Investment** (OCDI) earnings grew to EGP375mn in H1 2018 (+9.3% y/y) despite 10.5% lower revenues of EGP1.05bn. Q2 2018 earnings increased 23.3% y/y to EGP163mn (-22.9% q/q) on 14.6% higher revenues of EGP538mn (+5.0% q/q). **Eastown** and **Courtyards** were the top two projects contributing to Q2 2018 revenues. Pre-sales increased 25% y/y to EGP2.5bn in H1 2018 (EGP1.2bn in Q2 2018, +48% y/y mainly driven by **Eastown**, **Sky Condos**, and **SODIC East** sales). Net cash collections increased 23% y/y in Q2 2018 to EGP1.1bn, while delinquencies remained low at 4%. ([Company Disclosure](#))
- **MM Group** (MTIE) earnings grew 23% y/y to EGP71mn in Q2 2018 (-20 q/q). Net margin contracted by 67bps y/y (-152bps q/q) on the back of (1) contraction in GPM of Consumer & Electronics segments q/q and (2) lower investment income from subsidiary **Qanawat** on lower market share of **Samsung** mobile and seasonality. ([Company Disclosure](#))
- **Oriental Weavers Carpet** (ORWE) earnings fell 44% y/y to EGP115mn in Q2 2018. This came on the back of GPM contraction (-446bps y/y) on higher raw material (i.e. polypropylene) prices despite higher rebate revenues (+101% y/y) and higher interest income (+571% y/y). ([Company Disclosure](#))
- **Misr Fertilizers Production Co.** (MFPC) earnings grew 189% y/y to EGP418mn in Q2 2018 on 34.2% higher revenues of EGP1.95bn and higher GPM of 49.1% (+228bps). Higher revenues and margins improvement could be attributed to higher selling prices. ([Company Disclosure](#))
- **Cleopatra Hospitals Group** (CLHO) earnings grew 154% y/y to EGP133mn in H1 2018 on 29% higher revenues of EGP674mn. Also, Q2 2018 earnings grew 223% y/y to EGP76mn (+33% q/q) on 25% y/y higher revenues of EGP327mn (-6% q/q), thanks to ongoing integration and better operational efficiencies. GPM expanded y/y to 33.1% in H1 2018 (+376bps) and 32.4% in Q2 2018 (+471bps). Q2 2018 earnings was positively affected in part by a 141% increase in interest income. Excluding interest income and expense, CLHO still delivered a 95% earnings growth to EGP54mn in Q2 2018. ([Company Disclosure](#))
- **Egypt Kuwait Holding Co.** (EKHO) earnings grew 46% y/y to USD30.7mn in Q2 2018 on 44% higher revenues of USD112.0mn and higher GPM of 29.2% (+460bps). Higher revenues and margins improvement could be attributed to the strong performance of fertilizers, petrochemicals, and energy segments. ([Company Disclosure](#))
- **Orascom Investment Holding** (OIH) narrowed its losses in Q2 2018 to EGP19.8mn from EGP29.1mn in Q2 2017. This came mainly on the back of lower operating costs, higher interest income, and FX gains. ([Company Disclosure](#))
- **Emaar Misr for Development** (EMFD) announced that it used 71.6% (EGP1.63bn) of its capital increase proceeds during the period from July 2015 to June 2018 in developing the company's projects. There remains EGP647.9mn from the capital increase proceeds to be deployed. ([Company Disclosure](#))

Non-Corporate

- According to its [set schedule](#), the **MPC** will meet today to discuss key policy rates. Despite cooling inflation, we expect the **CBE** to keep rates unchanged in view of recent regional and global issues.

- **Egypt** sold EUR610mn (USD690mn) of **one-year euro-denominated T- bills** to local and foreign financial institutions in an auction yesterday. ([Reuters](#))
- **Egypt's unemployment rate** fell from 10.6% of labor force in Q1 2018 to 9.9% in Q2 2018. **Labor force** is estimated at c.29mn. ([CAPMAS](#))

Earnings Watch

Company	Ticker	Period	Currency	Earnings (mn)			Revenues (mn)			Commentary
				Actual	Year ago	y/y % chg.	Actual	Year ago	y/y % chg.	
Raya Contact Center	RACC	H1 2018	EGP	90.3	81.5	11%	435.9	362.3	20%	Soft bottom line growth on lower GPM due to higher COGS, which attributed to increase in people's costs
Naeem Holding	NAHO	H1 2018	USD	2.4	0.5	423%	10.0	6.9	44%	Net profit boost was coupled by topline surge as well as tight OPEX increase

Source: EGX

Markets

↗	EGX 30	15,357.44	0.00%	↘	EGX 70	740.40	(0.46%)
↘	DFMGI	2,817.98	(0.81%)	↗	ADSMI	4,886.14	1.16%
↘	TASI	7,865.68	(0.35%)	↘	QE Index	9,592.23	(0.48%)
↘	S&P 500	2,818.37	(0.76%)	↘	MSCI EM	1,023.43	(1.83%)
↗	Gold	1,176.04	0.10%	↗	Brent Oil	71.15	0.55%

*As of market close, except for commodities at spot price as of 8:13am CLT.

- **MENA Markets:** The **EGX 30** ended yesterday almost unchanged as it managed to restore parity before end of day, led by strong contribution from **ABUK**. **TASI** failed to rebound, flirting with its lowest levels in two months. **UAE indices** closed on a mixed note. **ADSMI** rose firmly, supported by the **telecommunications** and **banking** sectors, while **DFMGI** closed lower on losses in **real estate** stocks.
- **Global Markets:** **US stocks** retreated on Wednesday, as its **tech** sector endured notable losses. **MSCI EM** is still dealing with the aftermath of emerging markets turmoil sparked by **Turkey's** currency situation. **Oil** bounced back on renewed talks between **Washington** and **Beijing** over potential trade tensions resolving.

Number of the Day

195

The current number of branches of *Tanmeyah*, **EFG Hermes Holding's** (HRHO) micro-finance vehicle.

Today's Quiz

How much is Egypt's domestic credit?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Misr National Steel Ataq	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
Middle Egypt Flour Mills	CEFM	Lawsuit	26-Aug	Legal Disputes Relevant to the Company
Orange Egypt for Telecommunications	OREG	BOD	27-Aug	Discuss delisting company's shares
Atlas for Land Reclamation	ALRA	Dividends	27-Aug	Record date for bonus shares eligibility (0.10000:1)
Medinet Nasr for Housing & Development	MNHD	Dividends	29-Aug	Record date for bonus shares eligibility (0.2035:1)
El Nasr Co for Transformers	NASR	Dividends	29-Aug	Distribution of cash dividends of EGP0.1 per share (2st installme
Egyptian Transport and Commercial	ETRS	Dividends	30-Aug	Distribution of cash dividends of EGP0.5 per share
Sharm Dreams Co for Tourism	SDTI	EGM	3-Sep	Reviewing Agenda Items
Rowad Misr Tourism Investment	RMTV	EGM	4-Sep	Reviewing Agenda Items
Palm Hills Developments	PHDC	EGM	6-Sep	Discuss the capital increase
Alexandria Mineral Oils	AMOC	AGM	8-Sep	Discuss the distribution of cash dividends of EGP0.75 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	OCPH	Dividends	27-Sep	Distribution of cash dividends of EGP 2.0 per share
International Company for Leasing	ICLE	Dividends	28-Sep	Distribution of cash dividends of EGP 1.125 per share

Quiz Answer

Egypt's domestic credit reached EGP3.3tn as of April 2018, according to the CBE.



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