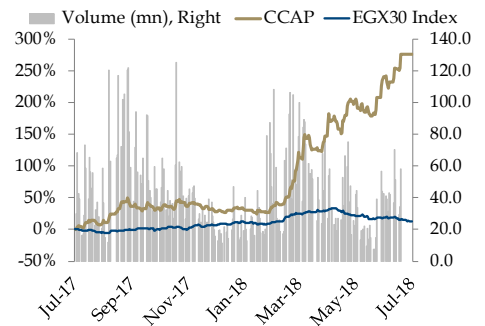


Valuation: **EGP4.49** (+20%)

Stock chart and data



Last Price (EGP)	3.76
52 Week Range (EGP)	0.99 - 3.86
6M-ADVT (EGPmn)	95.31
Market Cap (EGPmn)	7,341
No. of Shares O/S (mn) / Free float	1,418.3 / 59.0%

FY ended Dec.	2015	2016	2017
EGPmn			
Revenues	8,214.6	7,848.8	9,282.3
YoY growth	80.8%	(4.5%)	18.3%
EBITDA	939.2	486.1	756.9
Margin %	11.4%	6.2%	8.2%
Net income	(1,155.4)	(4,106.5)	(4,714.0)
Margin %	(14.1%)	(52.3%)	(50.8%)
P/E	nm	nm	nm
Dividend yield	0.0%	0.0%	0.0%
EV/EBITDA	24.3x	113.8x	85.3x

Note: Multiples are based on year-end values, except 2017 which is based on last market price.
Source: Company reports

The Valuation Debate

Qalaa Holdings (CCAP) announced last Thursday that the Independent Financial Advisor (IFA) it hired has finalized its long-awaited fair value report as requested by the Financial Regulatory Authority (FRA). The IFA arrived at a fair value of EGP6.34/share. However, the FRA rebutted the IFA valuation of the Egyptian Refining Co. (ERC)—representing the bulk of CCAP’s valuation—as not meeting the FRA criteria set forth early 2017. The IFA used the discounted cash flow (DCF) method to value ERC and did not use the adjusted book value method as per the FRA recommendation. As such, FRA did not accept the DCF as the appropriate valuation method to use for ERC given the lack of historical performance. The FRA mentioned that using adjusted book value in the valuation of ERC would reduce CCAP’s fair value by EGP3.13/share to EGP3.21/share. We try in this note to assess CCAP’s valuation using mostly valuation multiples but after we reiterate CCAP’s key highlights and risks.

Key Highlights About CCAP Main Businesses

- **ERC**, CCAP’s 16.76%-owned subsidiary, seems to be on track to start its trial operations by the end of 2018 for three months with an expected utilization rate of 75% in 2019 to increase to 100% by 2020. Management expects ERC’s EBITDA to reach USD800mn with the full utilization of facilities. We note that the **Egyptian General Petroleum Corporation (EGPC)** had signed a 25-year deal with ERC, under which EGPC will be the feedstock supplier and the output’s main buyer. That said, the raw material cost and selling prices are benchmarked to global prices. Furthermore, ERC should benefit from International Maritime Organization’s (IMO) regulations governing sulphur content in marine fuels. Such regulations will likely reduce ERC’s feedstock cost between 2020 and 2022. This will result in a wider spread between raw material cost and selling prices, which will have a favorable impact on ERC’s operating margins in the 2020-2022 period.
- **TAQA Arabia**, CCAP’s 60.92%-owned subsidiary, is expected to generate an EBITDA of EGP1bn by 2020 (267% higher than 2017), according to management. This will be mainly driven by expansion in the power generation activity and the growth of energy prices after subsidy cuts. Meanwhile, we think a successful IPO will unlock the value of TAQA Arabia.
- CCAP clearly stated that they will not sell their investments in the consumer sector unless they get an attractive offer. Management hopes to register **Dina Farms’** vacant 7,000-feddan land plot West of Cairo as residential in the near future, which will add value to the assets of CCAP’s subsidiary **Gozour**.

Key Risks

- Any delay in the launch of ERC which would negatively reflect on CCAP’s stock valuation.
- Uncertainty of TAQA Arabia’s expected expansions would negatively impact its valuation.

Valuation

- We ran a back-of-the-envelope valuation exercise to incorporate both ERC's and TAQA Arabia's valuations based on management guidance for ERC's EBITDA in 2020 (at USD800mn) and reducing their guidance for TAQA Arabia's EBITDA in 2020 by 30% (to EGP700mn) as we do not have a clear plan for its power generation expansion. Furthermore, we conducted sensitivity analysis for each of the two companies' (ERC and TAQA Arabia) EBITDA to gauge the impact on CCAP's valuation.
- Using sum-of-the-parts (SOTP) approach, we arrived at a fair value of EGP5.29/share before applying a conglomerate discount of 15%, after which we would reach a fair value of EGP4.49/share. This is 29% lower than the IFA valuation and 20% higher than the current market price.
- We believe CCAP's valuation is closely linked to both ERC and TAQA Arabia. Thus, it is important that we keep an eye out for key developments in both companies, provided key milestones are achieved.

CCAP's SOTP valuation

Company	Equity stake %	EBITDA (USDmn)		EV/EBITDA		EV Net debt Equity			Attr. EV net debt equity			% of total equity value	Equity/share (EGP)
		2017a	2020e	2017a	2020e	USDmn	USDmn	USDmn	USDmn	USDmn	USDmn		
Egyptian Refining Co. (ERC) DCF	16.76%	(3)	800			5,450	3,100	2,350	913	520	394	73%	3.87
Taqa Arabia EV/EBITDA multiple	60.92%	15	39		6.0x	235	16	218	143	10	133	25%	1.31
Tawazon EV/EBITDA multiple	68.10%	3		6.0x		21	-	21	14	-	14	3%	0.14
ASEC Holding EV/EBITDA multiple	69.20%	18		6.0x		108	-	108	75	-	75	14%	0.73
ASCOM Market value	54.74%					86	60	26	47	33	14	3%	0.14
Gozour EV/EBITDA multiple	54.90%	4		6.0x		25	-	25	14	-	14	3%	0.13
Wafra EV/EBITDA multiple	100.00%	0		6.0x		2	-	2	2	-	2	0%	0.02
Nile Logistics EV/EBITDA multiple	67.60%	(1)		6.0x		(5)	-	(5)	(4)	-	(4)	(1%)	(0.03)
Grandview EV/EBITDA multiple	48.02%		16		5.0x	80	-	80	38	-	38	7%	0.38
Others EV/EBITDA multiple	100.00%	5		6.0x		27	-	27	27	-	27	5%	0.27
Sub-total investments						6,028	3,176	2,851	1,269	562	707	132%	6.95
SPVs EV/EBITDA multiple	100.00%	36		6.0x		215	-	215	215	-	215	40%	2.12
Qalaa Holding (stand alone) EV/EBITDA multiple	100.00%	(5)		2.0x		(10)	375	(385)	(10)	375	(385)	(72%)	(3.78)
Total CCAP						6,233	3,551	2,682	1,475	937	538	100%	5.29

No. of outstanding shares (mn)	1,820
Fair value before conglomerate discount	5.29
Conglomerate discount	15%
Fair value after conglomerate discount	4.49
Recent price	3.76
% up/(dn)	20%

Note: All figures are in USD million except otherwise noted; CCAP's stock price as of 10 July 2018; exchange rate used is EGP17.90/USD.

Source: SHUAA Securities Egypt estimates

Sensitivity of CCAP's value to ERC and TAQA Arabia EBITDA

TAQA's EBITDA (EGPmn)		ERC EBITDA (USDmn)				
		700	750	800	850	900
1,000	3.88	4.44	5.01	5.57	6.13	
850	3.62	4.19	4.75	5.31	5.87	
700	3.37	3.93	4.49	5.06	5.62	
550	3.11	3.67	4.24	4.80	5.36	
400	2.86	3.42	3.98	4.54	5.11	

Source: SHUAA Securities Egypt estimates



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