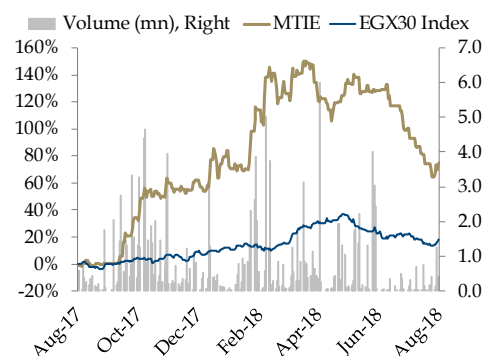


Valuation: **EGP14.7** (+47%)

Stock chart and data



Last Price (EGP)	10.01
52 Week Range (EGP)	5.84 - 15.28
6M-ADVT (EGPmn)	8.10
Market Cap (EGPmn)	5,188
Shares O/S (mn) / Free float	495.0 / 30.0%

Financial summary

FY ended Dec.	2015	2016	2017
EGPmn			
Revenues	4,290.2	5,063.5	6,321.3
YoY growth		18.0%	24.8%
Gross profit	347.0	539.0	428.6
Margin %	8.1%	10.6%	6.8%
EBITDA	260.0	433.0	299.7
Margin %	6.1%	8.6%	4.7%
Net income	221.9	363.4	339.3
Margin %	5.2%	7.2%	5.4%
P/E	13.3x	8.1x	14.6x
Dividend yield	nm	nm	nm
EV/EBITDA	9.3x	4.3x	15.3x

Note: Multiples are based on IPO Price, except 2017 which is based on last market price.

Source: Bloomberg

Four Reasons to Give It a Closer Look

Shares of MM Group for Industry & International Trade (MTIE) have been suffering lately. While the stock is down 4.5% so far in 2018 (vs. EGX 30's +5.2%), it has fallen by some 30% in the last four months alone! We believe this was driven in part by the market's downtrend that started in May 2018 but was magnified in some stocks like MTIE. We believe that at current levels, MTIE offers a good upside and a limited downside based on four reasons we list below.

- Recent negative stock performance not driven by fundamentals:**
 We see no fundamental reason or negative news behind the fall in MTIE's shares. To the contrary, MTIE has posted a strong set of results in Q1 2018 with gross profit margin (GPM) expanding to 8.1% versus 5.7% in Q4 2017 despite a 5.1% q/q decrease in top line. It reported a notable 89% earnings growth sequentially. Moreover, the recent acquisitions MTIE has announced through its 50%-owned subsidiary **Ebtikar** included: (a) a 33.7% stake in **Masary**, further bolstering MTIE's position in the e-payment industry and (b) the acquisition of an 87% stake in **Tamweel Group**, operating in the non-banking financial institutions (NBFIs) segment. **We appreciate MTIE's move to focus on the e-payment industry which holds a lot of potential down the road.**
- Well positioned to benefit off growth in the "smart-tech" trend:**
 Consumer and electronics, MTIE's bread-and-butter segment, contributed more than 70% of its revenues and gross profits in 2017. This segment has a non-exclusive partnership with **Samsung** for distributing its cell phones, air conditioners (ACs), and television sets (TVs). MTIE is **Egypt's** largest distributor of Samsung cell phones with a market share of c.35%. Around mid-2017, MTIE had entered into a distribution agreement with **Huawei** to distribute its cell phones. MTIE now holds in its portfolio two of the fastest growing brands and the largest market share in Egypt's smartphone market. Samsung and Huawei currently command together a 58% market share of smartphones in Egypt, according to MTIE. Smartphone sales in Egypt have grown rapidly in the last few years at a 3-year CAGR (2014-2017) of 42% to EGP27.23bn in 2017. **We believe market growth will continue going forward, with MTIE well positioned to benefit from such growth.**
- Inelastic demand to continue driving the auto segment:** Auto, another MTIE segment, contributes a small portion to its revenues. However, it is the second most profitable segment in terms of GPM, averaging 18% over the last five years. Through this segment, MTIE distributes luxury vehicles which include brands like *Jaguar*, *Land Rover*, *Bentley*, *Maserati*, and *Ferrari*, in addition to *Ducati* and *Victory* motorcycles. The auto segment has been resilient to demand shocks, growing at a 4-year CAGR (2013-2017) of 27%, thanks to this segment's customer traits which are fairly inelastic. **Thus, we believe that this segment will continue to thrive, especially in view of the abolishing of customs on EU-manufactured cars by 1 January 2019.**

4. More exposure to NBFS will be the tailwind: Various measures have been taken by the Egyptian government in the past few years in an effort to further drive financial inclusion in the country. These measures look to improve non-banking financial services (NBFS), either through new strategies, laws, or regulations. In a smart move, MTIE has followed the government's direction as evident by the acquisitions of Masary and Tamweel. As a way of background, the e-payment industry size is more than EGP10bn, according to old company reports, mainly dominated by three large players, namely **Fawry** (a market share of 50%), **Masary** (24%), and **Bee** (23%). After Ebitkar had acquired a 33.7% stake in Masary, MTIE's effective stake in Masary increased to 27% as a result. Additionally, MTIE has an effective stake of 30% in Bee indirectly owned through Ebitkar. **All in all, this implies that MTIE commands a market share of 13.5% in the e-payment industry in Egypt, according to our calculations.**

Valuation: We initially valued MTIE's operations using a 5-year DCF methodology, which resulted in a value of operations of EGP5.53bn. As for MTIE's investments, we used different methodologies, particularly book value and relative valuation as well as recent transactions, which resulting in a total value for investments of EGP1.41bn. Adding this to the estimated value of operations, we reached **an equity value of EGP7.27bn or EGP14.7/share post the 25% stock dividend (+47%)**. The last stock price implies a terminal EBIT margin of less than 3% beyond 2022, which we see as illogical.

DCF Valuation

<i>in EGPmn, except per share items</i>	2017	2018e	2019e	2020e	2021e	2022e	Terminal Year
Total Revenue	6,321	7,926	9,655	11,336	13,274	15,491	16,731
<i>Revenue growth rate</i>		25.40%	21.81%	17.40%	17.10%	16.71%	8.00%
EBIT Margin	4.6%	4.7%	5.1%	5.4%	5.7%	6.1%	6.1%
EBIT	292	373	489	613	763	943	1,019
Tax Rate	17.73%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%
EBIT (1-T)	240	289	379	475	591	731	789
Plus : Dep.		12	15	18	21	24	
Less: Chg. In Working Capital		2	32	69	102	143	
Less: Capex		(25)	(34)	(43)	(54)	(68)	
Net investment		(11)	13	43	68	99	
Less: Remunerations		(56)	(73)	(92)	(114)	(141)	
Less Reinvestments in TY		-	-	-	-	-	(211)
FCFF		222	318	427	545	688	579
Cost of Capital		18.00%	18.00%	17.00%	17.00%	16.00%	15.00%
Cumulative Discount Factor		0.93	0.79	0.68	0.58	0.50	
PV (FCFF)		207	252	289	315	343	

Terminal cash flow	579
Terminal cost of capital	15.00%
Terminal value	8,270
PV(Terminal value)	4,122
PV (CF over next 5 years)	1,406
Sum of PV	5,528
Value of operating assets =	5,528
- Debt	0.3
- Minority interests	0.1
+ Cash	150
+ Investments managed by third parties	182
+ Investments	1,406
Value of equity	7,265
Number of shares	495
Estimated value /share	14.68
Price	10.01
Upside/(Downside) Potential	47%

Sensitivity Analysis

Terminal WACC	Terminal Operating Margins (EBIT)					
		4%	5%	6%	7%	8%
13%	14.18	16.09	18.01	19.92	21.84	
14%	12.87	14.47	16.07	17.66	19.26	
15%	11.94	13.31	14.68	16.05	17.41	
16%	11.24	12.44	13.64	14.83	16.03	
17%	10.70	11.76	12.83	13.89	14.95	

Source: SHUAA Securities Egypt



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