

## Today's Story

## Sometimes It Pays to Roll the 'Dice'

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In today's story, we shed some light on yet another long-forgotten stock post its latest stock offering which took place almost a year ago.

- **Dice Sport & Casual Wear (DSCW)**, down 8% ytd to EGP22.55, is almost trading at its November 2017 secondary public offering (SPO) price of EGP22.60. But we think there are no fundamental reasons behind the stock's negative performance so far in 2018. We realize that DSCW's Q1 2018 results came short of expectations with earnings down 36% on just 15% higher revenues y/y. However, Q2 2018 results showed signs of recovery with earnings growing 34% on 65% higher revenues y/y.
- Overall, we think DSCW has more than one positive point that investors should keep in mind when thinking about the company and its outlook:
  1. DSCW is an export-oriented garment maker with more revenues (67% in H1 2018) than costs (only 40% in H1 2018) denominated in US dollars. This currency mismatch is a natural hedge against any EGP depreciation. Even in the case of any EGP appreciation, DSCW's exports business will continue to be profitable.
  2. DSCW, as an exporter, benefits off the Egyptian government's incentive program to encourage exports. Exporters collect export rebates reaching 6% of annual export sales value.
  3. DSCW's recently-signed 3-year rental agreement with **Cairo Cotton Center** should increase DSCW's production capacity, making it able to attract new clients and further expand its segments while also mitigating client concentration risk.
  4. DSCW has so far reported EGP81mn in H1 2018 earnings versus a target of EGP250mn for the full year. While we believe this target may prove hard to achieve, the second half of the year is always better than the first half, according to management.
  5. DSCW is led by an experienced management team with a successful track record of acquisitions which have boosted its performance inorganically as well.
- **On the valuation side:** DSCW looks cheap, currently trading at a TTM P/E of 7.3x and a forward P/E of 5.4x with a consensus target price of EGP35 (only one analyst). This offers an upside potential of 55%, valuing the stock at 8.4x forward earnings. Even if we consider the pessimistic scenario that DSCW's earnings will mimic the same seasonality of 2017, we calculate that 2018 earnings would amount to around EGP150mn (i.e. lower than the company's management guidance of EGP250mn). The market price still implies a forward P/E of just 8.0x, a 22% discount to EGX 30 index's 10.2x. Our main concern, however, is the company's relatively high leverage and the stock's low trading liquidity.

## DSCW's key financial KPIs (H1 2018)

Financial KPIs (in EGPmn)	H1 2017	H1 2018	y/y
<b>Revenues</b>	<b>512.7</b>	<b>712.2</b>	<b>39%</b>
<b>Gross Profit</b>	<b>161.9</b>	<b>198.6</b>	<b>23%</b>
<i>GPM</i>	32%	28%	
<b>EBITDA</b>	<b>141.7</b>	<b>163.1</b>	<b>15%</b>
<i>EBITDA Margin</i>	28%	23%	
<b>Net Profit</b>	<b>94.6</b>	<b>81.4</b>	<b>(14%)</b>
<i>NPM</i>	18%	11%	

Source: Company reports

## Top Headlines

### Corporate

- **Orascom Development Egypt** (ORHD) has successfully signed a deal with **Itaka**, the Polish tour operator. Itaka will be sending two planes a week to **Taba International Airport** starting 7 November 2018 through 1 May 2019. Tourists will be coming from **Poland** and **Lithuania**. During this period, *Taba Heights*, ORHD's project in **Taba**, is expected to have 10,500 room nights filled from this operator on top of its current business. The same operator is also planning to add two more planes from the **Czech Republic** during 2019. This in total will potentially increase their contribution to *Taba Heights* room nights to 45,000. ([Company Disclosure](#))
- **Obour Land for Food Industries'** (OLFI) AGM and EGM approved increasing the company's paid-in capital from EGP200mn to EGP400mn by issuing 200mn shares through the distribution of a 100% stock dividend. ([Company Disclosure](#))
- The **Ministry of Public Enterprises** denied the intention to liquidate **Egyptian Iron & Steel Co.** (IRON). The ministry said priority is to develop the company technically, financially, and administratively following specialized feasibility studies. These studies are currently being implemented through the trial operation of the company's facilities with the full capacity for four months. ([Al-Mal](#))
- The **Minister of Social Solidarity** signed *Byoot Al-Khair* project protocol between the ministry, **Emaar Misr for Development** (EMFD), and **Misr Al-Khair Foundation**. The first phase of the project, which aims to improve the living conditions of thousands of families, was launched at a cost of USD15mn over three years. The project will start in three governorates, **Aswan**, **Al-Beheira**, and **Marsa Matrouh**. ([Mubasher](#))
- **Industrial Engineering Co. for Construction & Development** (ENGC) H1 2018 financial results showed net earnings after minorities of EGP243.4mn versus EGP38.4mn a year ago (+535% y/y). The increase was partly driven by higher revenues of EGP554.7mn (+95.5%) but was mainly driven by capital gains from the revaluation of **Acrow Misr for Scaffolding & Formwork** (ACRO) of EGP257.9mn. ([Company Disclosure](#))

### Non-Corporate

- **Egypt** cancelled its second consecutive **T-bonds auction** due to high yields demanded. The sale was for 5- and 10-year bonds worth EGP3.5bn (c.USD197mn) and attracted yields between 18.9-18.95% compared to 18.261% and 18.287%, respectively, in the most recent accepted bids on 27 August 2018. ([Reuters](#), [CBE](#), [Enterprise](#))
- **Egypt's President Abdel-Fattah El-Sisi** issued a decision approving changes to customs on a range of items, including setting a 20% tariff on all imports by hotels and tourism businesses. A number of items also saw tariff increases of 5-40%, including juices, clothes, electronics, pet foods, and some other food items. ([Enterprise](#))
- The **Trade & Industry Ministry** imposed an export tariff on copper of EGP20,000/ton, Acting Head of Foreign Trade Department Amani El-Wasal said. ([Enterprise](#))
- The **Natural Gas Regulatory Authority** has postponed the issuance of natural gas import licenses to private-sector companies, saying the private sector is "unprepared". The authority renewed preliminary approval to grant **Qalaa Holdings'** (CCAP) **TAQA Arabia**, **BB Energy**, and **Fleet Energy** the import licenses, giving them additional time after they failed to submit paperwork to obtain the final license. ([Enterprise](#))
- The **Ministry of Trade & Industry** targets growth in exports by 15-20% in H2 2018 compared to H1 2018 through more promoting activities. ([Al-Mal](#))

## Markets

↘	EGX 30	15,628.43	(0.71%)	↗	EGX 70	757.42	0.76%
↘	DFMGI	2,832.98	(0.58%)	↗	ADSMI	4,992.63	0.13%
↘	TASI	7,693.07	(0.17%)	↗	QE Index	9,931.07	0.42%
↗	S&P 500	2,887.89	0.37%	↘	MSCI EM	1,003.33	(0.78%)
↘	Gold	1,194.87	(0.31%)	↗	Brent Oil	79.38	0.40%

\*As of market close, except for commodities at spot price as of 8:20am CLT.

- **MENA Markets:** The **EGX 30** closed slightly lower on Monday, driven by losses in **AMOC**, **PORT**, and **HRHO**. Meanwhile, on Tuesday, **TASI** closed lower, dragged by losses in the **banking** sector. **UAE Indices** ended mixed; **ADSMI** closed higher led by gains the **banks** and **financials** sectors, while **DFMGI** closed lower dragged by losses in **financials** and **real estate** sectors.
- **Global Markets:** **US** stocks closed higher on Tuesday, driven by the **energy** and the **telecom** sectors. **Oil** continued its positive performance in early trading Tuesday, while **gold** opened slightly down.

## Number of the Day

643

The number of beds that **Cleopatra Hospitals Group** (CLHO) currently has.

## Today's Quiz

What is the difference between “core” inflation and “headline” inflation?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Universal for Paper and Packaging Materials	UNIP	Dividends	12-Sep	Record date for bonus shares' distribution by 100%
Universal for Paper and Packaging Materials	UNIP	Dividends	13-Sep	Distribution of bonus shares by 100%
Arab Polvara Spinning & Weaving	APSW	Lawsuit	15-Sep	Legal Disputes Relevant to the Company
Tourah Portland Cement	TORA	EGM	16-Sep	Reviewing Agenda Items
Ibnsina Pharma	ISPH	Lawsuit	18-Sep	Legal Disputes Relevant to the Company
Misr Beni Suef Cement	MBSC	Dividends	20-Sep	Record date for cash dividends eligibility of EGP 2.0 per share
GlaxoSmithKline	BIOC	GM	20-Sep	Reviewing Agenda Items
Canal Shipping Agencies	CSAG	GM	23-Sep	Reviewing Agenda Items
Alexandria Containers Handling	ALCN	GM	24-Sep	Reviewing Agenda Items
Middle Egypt Flour Mills	CEFM	Lawsuit	25-Sep	Legal Disputes Relevant to the Company
Misr Beni Suef Cement	MBSC	Dividends	25-Sep	Distribution of cash dividends of EGP 2.0 per share
Orange Egypt for Telecommunications	OREG	EGM	25-Sep	Reviewing the voluntary delisting decision
South Cairo & Giza Mills	SCFM	Lawsuit	26-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
Alexandria Co for Pharmaceuticals	AXPH	GM	29-Sep	Discussing distribution of EGP8.25 per share cash dividends
Arab Pharmaceuticals	ADCI	GM	29-Sep	Reviewing Agenda Items
Abou Kir Fertilizers & Chemicals	ABUK	EGM	29-Sep	Reviewing Agenda Items
International Agricultural Products	IFAP	EGM	29-Sep	Reviewing Agenda Items
Middle East Glass Manufacturing Co	MEGM	EGM	4-Oct	Reviewing Agenda Items
Pioneers Holding	PIOH	Right issue	8-Oct	End date for right issue trading separately
Golden Coast	GOCO	Dividends	9-Oct	Distribution of 4th installment of cash dividends of EGP 0.1 per share
Suez Canal Bank	CANA	Lawsuit	9-Oct	Legal Disputes Relevant to the Company
Union National Bank Egypt	UNBE	EGM	13-Oct	Reviewing Agenda Items
General Silos & Storage	GSSC	Lawsuit	15-Oct	Legal Disputes Relevant to the Company
Egyptian Resorts Co.	EGTS	Lawsuit	27-Oct	Legal Disputes Relevant to the Company
Alexandria Flour Mills	AFMC	Lawsuit	29-Oct	Legal Disputes Relevant to the Company
El Nasr Co for Transformers	NASR	Dividends	31-Oct	Distribution of 3rd installment of cash dividends of EGP 0.1 per share
Porto Group Holding	PORT	Lawsuit	29-Nov	Legal Disputes Relevant to the Company

## Quiz Answer

“Core” inflation excludes items that are highly volatile or have administratively-set prices.

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