

Today's Story

5 Questions Investors Need to Ask About ... Egypt Aluminum

Abdel-Rahman Wahba | Equity Analyst | awahba@shuaasecurities.com

After the recent market sell-off, **Egypt Aluminum's** (EGAL) stock fell sharply to trade at very cheap multiples: a P/E of 3.5x and an EV/EBITDA of 2.9x. This prompted us to ask a few questions:

1. Why have EGAL's valuation multiples gone this low?

We point that we cannot apply current multiples to estimate EGAL's value since the company's historical performance does not reflect the future. **The main reason behind the current apparently low multiples is the sharp hike in the cost of electricity, rising by 40% to EGP1.01/ kWh.** We estimate that this increase should raise EGAL's operating costs by EGP1.4bn which would negatively impact operating margins in the future.

2. So, does the current price reflect fair value?

Currently, EGAL's adjusted EV/ton is around USD1,140, less than 50% of its replacement cost which we estimate at USD2,400/ton. This can mainly be attributed to the high electricity consumption of EGAL's facilities which consume 16,170kWh/ton vs. an expected consumption of c.12,500kWh per ton by the new facilities. We calculate that this variance in electricity consumption could add some EGP3,700 to EBITDA/ton in the new production line. That said, we think the market value of EGAL's equity is deeply discounted, at a forward P/E of 6.2x and a forward EV/EBITDA of 4.0x (adjusted for non-operating assets). We note that EGAL has some EGP2.7bn (28% of current market cap) in marketable securities and more than EGP350mn of long-term investment securities. On the other hand, current net debt is only EGP71mn. In other words, EGAL's latest cash and cash equivalents (net of debt) amounts to c.EGP3.0bn or EGP10.75/share (c.31%).

3. What are the catalysts for EGAL's stock performance?

- Recently, EGAL's BoD proposed raising its issued and paid-in capital from EGP1.1bn to EGP1.65bn through a **50% stock dividend**, thus retaining earnings to finance its 250,000-tpa new production line. We see this as a positive signal, indicating that the implementation of the new project is imminent.
- Chairman of the **Metallurgical Industries Holding Co. (MIHC)** Dr. Medhat Nafea said that the estimated cost of the new expansion will be c.USD600mn. He also said that MIHC has set a development plan for EGAL, which includes the construction of a solar energy station to cover 30% of EGAL's electricity needs after the new expansions.
- EGAL should benefit from the government's drive to lower electricity costs.** According to media reports, five companies have bid for the construction of solar power plants with capacities ranging from 200-500mWh to supply electricity to the **Egyptian Electricity Transmission Co. (EETC)** at a maximum cost of 2.5 cents/kWh. This trend should put a lid on mounting electricity costs and have a favorable impact on EGAL's operations.

4. What is the fair value of EGAL?

We ran a quick valuation exercise, assuming that electricity prices would grow by 27% to EGP1.28/kWh by end of 2022 and that aluminum base prices will hover around USD2,100/ton. We arrived at an initial fair value of EGP44.9/share, implying an upside potential of 30%. Furthermore, we estimate that the new project should add in excess of 30% to current stock value.

5. What are the main value drivers that EGAL's shareholders should monitor, carefully?

- Aluminum base prices on the London Metal Exchange (LME):** Any increase in aluminum prices will improve EGAL's profitability and vice versa, provided there is no shortage in alumina's global capacities.
- Electricity prices:** They do have a significant impact on EGAL's profitability and valuation.
- FX rates:** We note that 100% of EGAL's top line and about 90% of its COGS is denominated in USD. This means EGAL is one of the beneficiaries of a weaker EGP.

Top Headlines

Corporate

- **Orascom Investment Holding** (OIH) denied news that it was negotiating with **Ministry of Housing** to obtain a land plot in Cairo. The company clarified that such a statement made by OIH's **Executive Chairman**, Naguib Sawiris, to **CNBC Arabia** yesterday was meant to be related to another company owned by his family. ([Company Disclosure](#))
- **Egyptian Iron & Steel** (IRON) signed a contract with **Egyptian Steel Group** for selling 230,000 tons of scrap iron in accordance with the average prices of global markets. The deal also includes Egyptian Steel buying 700,000 tons of scrap iron, in addition to other materials from IRON. ([Company Disclosure](#))
- **Palm Hills Developments** (PHDC) generated EGP3.8bn in pre-sales from the first phase of its project *Badya* in the **Sixth of October City**, 52% higher than target sales of EGP2.5bn. (Al-Mal)
- **Alexandria Containers & Cargo Handling's** (ALCN) ordinary general assembly convened on 24 September 2018 to approve its FY2017/18 financials, where shareholders approved a dividend distribution of EGP0.95/share which is above the EGP0.84/share that was proposed earlier. The higher dividend came from the decrease in legal reserves from 10% to 5% and the decrease in other reserves (reserves for supporting projects). (Company Disclosure)
- **Arafa for Investment & Consultancies** (AIVC) announced that its 98.4%-owned subsidiary **Euromed** has opened the first branch of its new clothing retail chain under the name **BrandsHub.Co**. AIVC plans to open three new branches during the year and another three in 2019. ([Company Disclosure](#))
- **Mohandes Insurance** (MOIN) reported its annual results for FY2017/18 where EPS on a stand-alone basis grew from EGP0.94 to EGP1.16 (+23% y/y). MOIN next GM is scheduled to take place on 21 October 2018 to discuss potential cash dividends as proposed by BoD of EGP0.85 per share, implying a 6.8% yield. ([Company Disclosure](#))

Non-Corporate

- **Egypt's President** El-Sisi is set to announce a four-year strategy to reduce Egypt's debt to 70% of GDP, **Minister of Finance** said. ([Enterprise](#))
- **Egypt** is planning to kick off **Asian** and **European** roadshows starting early October to market its international bonds, which will be offered when the time is right, **Minister of Finance** Mohamed Maait said. ([Nasdaq](#)) Meanwhile, the **MoF** has officially decided to shelve a plan to hedge against rising oil prices, **Minister of Finance** Mohamed Maait said, adding that the ministry currently is "managing the crisis". ([Enterprise](#))
- **Egypt's Ministry of Electricity** Undersecretary announced the finalization of the 2018-2022 national power efficiency plan which aims to improve energy efficiency in several sectors. The five-year plan is currently being submitted to the **Egyptian Energy Supreme Council** for approval. ([Zawya](#))
- **Car sales** surged 33.5% in 8M 2018, reaching 111,900 units sold. **Passenger cars** grew 36% ytd to 81,400 units sold. **Chevrolet** came in first in terms of market share with 24,900 units sold, followed by **Hyundai** with 20,200 units sold, according to **AMIC**. (Al-Mal)
- **Exports of ready-made garments** increased 10% during 7M 2018 to USD907mn compared to USD824mn in the year-ago period. ([Zawya](#))
- The **Customs Authority** decreased discount on indicative prices for ready-made garments imported in **Port Said Free Zone** from 20% to 15%, and to be gradually eliminated by July 2020. ([MoF](#))

Markets

↗	EGX 30	14,358.64	1.11%	↗	EGX 70	690.50	0.39%
↗	DFMGI	2,754.04	0.03%	↗	ADSMI	4,891.78	0.06%
↗	TASI	7,905.27	1.76%	↘	QE Index	9,713.42	(0.19%)
↘	S&P 500	2,915.56	(0.13%)	↘	MSCI EM	1,041.78	(0.05%)
↗	Gold	1,201.45	0.02%	↘	Brent Oil	81.77	(0.12%)

*As of market close, except for commodities at spot price as of 8.05am CLT.

- **MENA Markets:** The **EGX30** recovered during Tuesday's session, backed by gains in **COMI**, **SWDY**, and **EAST**. Meanwhile, **TASI** continued its upward trend for the fifth session in a row, closing higher on gains in the **agriculture & food** sector. **UAE indices** closed in green, led by the strong performance in the **insurance** and **services** sectors.
- **Global Markets:** **S&P 500** closed in the red ahead of the **Fed** decision today. **MSCI EM** ended slightly lower. **Brent oil** is still trading above USD81/bbl, while **gold** is trading higher this morning.

Number of the Day

40

The number of stores under the brand name Concrete which is owned by **Arafa for Investment & Consultancies (AIVC)**.

Today's Quiz

What's the total number of outstanding shares of **Arafa for Investment & Consultancies (AIVC)**?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
South Cairo & Giza Mills	SCFM	Lawsuit	26-Sep	Legal Disputes Relevant to the Company
Elsewedy Electric	SWDY	Stock split	27-Sep	Trading the stock after the stock split
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
Alexandria Mineral Oils	AMOC	Dividends	30-Sep	Record date for cash dividends eligibility of EGP 0.85 per share
Alexandria Mineral Oils	AMOC	Dividends	3-Oct	Distribution of 1th installment of cash dividends of EGP 0.55 per share
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
Egypt Aluminum	EGAL	EGM	8-Oct	Discussing capital increase
Alexandria Spinning & Weaving	SPIN	GM	8-Oct	Reviewing Agenda Items
Export Development Bank	EXPA	EGM	8-Oct	Reviewing Agenda Items
Golden Coast	GOCO	Dividends	9-Oct	Distribution of 2nd installment of cash dividends of EGP 0.1 per share
Suez Canal Bank	CANA	Lawsuit	9-Oct	Legal Disputes Relevant to the Company
Extracted Oils	ZEOT	GM	10-Oct	Reviewing Agenda Items
Egyptian Iron & Steel	IRON	GM	10-Oct	Reviewing Agenda Items
Naeem Holding	NAHO	Dividends	10-Oct	Record date for bonus shares eligibility of 1:10
Union National Bank Egypt	UNBE	EGM	13-Oct	Reviewing Agenda Items
MM Group for Industry	MTIE	EGM	13-Oct	Reviewing Agenda Items
Palm Hills Developments	PHDC	Right issue	14-Oct	Record date for right issue eligibility
Nozha International Hospital	NINH	GM	15-Oct	Reviewing Agenda Items (Bonus Shares)
General Silos & Storage	GSSC	Lawsuit	15-Oct	Legal Disputes Relevant to the Company
El Nasr Clothes & Textiles	KABO	GM	17-Oct	Reviewing Agenda Items
Alexandria Flour Mills	AFMC	GM	17-Oct	Reviewing Agenda Items
Real Estate Egyptian Consortium	AREH	EGM	18-Oct	Reviewing Agenda Items
Ezz Steel	ESRS	EGM	24-Oct	Reviewing Agenda Items
Atlas for Land Reclamation	ALRA	GM	25-Oct	Reviewing Agenda Items
Al Ahram Co for Printing	EPPK	GM	25-Oct	Reviewing Agenda Items
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

470.25mn shares.

Contact Details

☎ +(202) 16331

📍 143, Bank Zone, 5th Settlement,
New Cairo, First Abu Dhabi Bank Building (6th Floor)
Cairo, Egypt

Analyst Certification

We, **analysts mentioned in this document**, employed with SHUAA Securities Egypt, and authors to this document, hereby certify that all the views expressed in this research report accurately reflect our views about the subject issuer(s) or security(ies). We also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, we certify that neither ourselves nor any of our close relatives hold or trade into the subject securities.

Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the analysts in this document about the subject issuer(s) or security(ies). I also certify that the authors of this document, has not received any compensation directly related to the contents of the document.

Disclaimer

This document has been issued by SHUAA Securities Egypt for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. SHUAA Securities Egypt has based this document on information obtained from sources it believes to be reliable. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. Accordingly, no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by SHUAA Securities Egypt or by any of its respective officers, employees, agents or affiliates in relation to the accuracy, completeness or fairness of the information or opinions contained herein or any other written or oral information made available to any interested party or its advisers and any such liability is expressly disclaimed. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of SHUAA Securities Egypt. SHUAA Securities Egypt is regulated by the Financial Regulatory Authority under license number 91.

Issuer of Report

SHUAA Securities Egypt

Website: www.shuaasecurities.com