

Today's Story

Alex Pharma — Very cheap with a high dividend yield

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- When volatility takes its toll on equity markets—**Egypt** included—like nowadays, the question arises as to what could be a safe haven! In an attempt to answer this question, we pick today one of the cheapest and high-yield stocks of state-owned drugmakers. **Alexandria Pharmaceuticals (AXPH)** is one of our preferred stock picks in Egypt's pharmaceutical industry due to: (1) its high dividend payout ratio and dividend yield, (2) its high profit margin and return on equity (ROE) vis-à-vis its peers, and (3) its belonging to one of the most important industries in Egypt that enjoys steady growth in demand.

- Why invest in AXP?** We highlight three main reasons why investors should consider AXP as part of their portfolios:

- It has a sizeable market share among state-owned drugmakers:** AXP is the third largest state-owned drugmaker behind EGX-listed **Kahira Pharmaceuticals (CPCI)** and unlisted **CID Pharma**. We note that state-owned drugmakers hold very tight market shares when compared to private-sector and multinational companies that dominate the market.

- It enjoys high profitability indicators within its peers:** Of all its peers, AXP boasts the third highest EBITDA margin (24.1%) behind **EIPICO's (PHAR)** 36.0% and **Sabaa International Co. for Pharmaceuticals' (SIPC)** 26.5%. Furthermore, AXP's ROE is 29.3%, ranked first within its peers.

- It follows a stable dividend policy:** AXP's DPS grew by a 5-year CAGR of 13% from EGP4.41/share in FY2012/13 to a proposed DPS of EGP8.25/share in FY2017/18, subject to the company's AGM which will be held on 29 August 2018. This implies a 6.6% yield, with a very stable payout ratio over the past five years (an average of 41%).

- Key risks:** Although the pharmaceutical industry is defensive in nature, we note some risks when investing in AXP:

- The stock's relatively low liquidity:** AXP's 6-month average daily traded value (ADTV) and turnover ratio are EGP357,000 and 14%, below peers' averages of EGP649,000 and 20%.

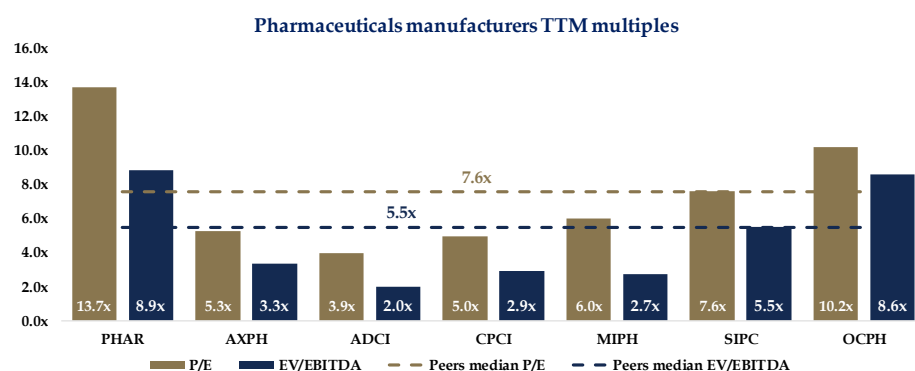
- Commitment to producing a list of loss-making medicines for social security purposes:** In line with other state-owned drugmakers, AXP is committed to produce certain loss-making medicines, which pressures its earnings. This cost AXP losses of EGP10.9mn in FY2017/18.

- Main trigger — Another drug prices hike:** Notwithstanding the above key risks, we note that the main trigger for pharmaceutical stocks is the potential hike in drug prices. This is in line with the price hikes applied in (a) **May 2016**, where the Cabinet approved to increase prices by 20% and (b) **January 2017**, where drugmakers were allowed to increase only 15% of their products' prices by a range of 30-50%, depending on the products price segments. We note that after the latest January 2017 price hike, all pharmaceutical stocks rallied which we think could repeat in case of another price hike. There are currently negotiations to increase the prices of c.330 medicines, but no final confirmation has been announced ... yet.

- Valuation:** At a TTM P/E of 5.3x and an EV/EBITDA of 3.3x, AXP trades at a discount to its Egypt peers' medians (30% and 39%, respectively). We believe this discount is not justified, in view of the company's stable dividend payout and above-average EBITDA margin. Assuming AXP would trade at its peers' multiples, we used FY2017/18 net earnings and EBITDA to arrive at AXP's estimated value:

- P/E:** Using a median TTM P/E of 7.6x, AXP's stock would be worth EGP179/share.

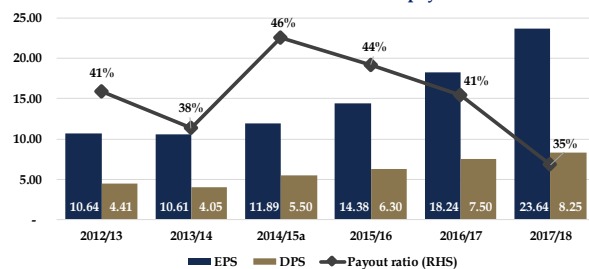
- EV/EBITDA:** Using a median TTM EV/EBITDA of 5.5x, AXP's stock would be worth EGP197/share.



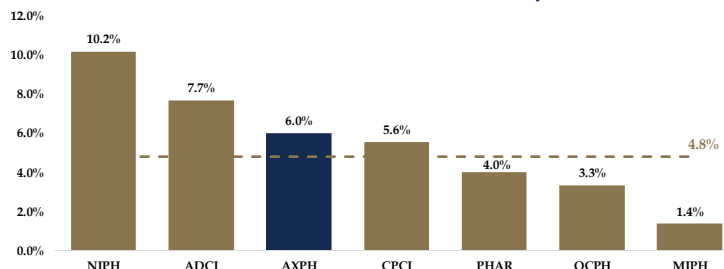
Source: Bloomberg, company financials.

Applying 50%/50% weights to both multiple valuation methods, we arrive at a **fair value of EGP188/share**, implying an upside potential of +50%.

Alexandria Pharma dividend payout



Pharmaceuticals manufacturers TTM dividend yield



Note: AXP's FY2017/18 is proposed and subject to AGM approval.
Source: Company financials.

Top Headlines

Corporate

- **Madinet Nasr Housing & Development (MNHD)** announced that it has secured approval of the **Civil Aviation Authority** for additional heights in *Taj City* on the Ring Road frontage stretching 2.7km. The area subject to the additional heights is c.575,000 sqm of land in the most premium location in the project. The allowable additional heights are 7.5m above current height limits, resulting into a potential increase in the project's total built-up area (BUA) of about 400,000 sqm with some leveling works (+17% to the remaining project's BUA), the majority of which are expected to be utilized in commercial and office space given the premium location. (Company Disclosure)
- **EFG Hermes's (HRHO)** factoring arm **EFG Hermes Factoring** eyes factoring up to EGP400mn in the next 3 months. In doing so, the firm targets the international factoring market, supported by a shareholder loan of EGP150mn. (Al Borsa)
- **Elsewedy Electric for Trade & Distribution**, a subsidiary of **Elsewedy electric (SWDY)**, announced signing a contract in consortium with **ABB Switzerland** and **ABB Arab** to develop the regional control center of **Egypt's** Canal cities. The company will connect around 115 transmission stations in six canal cities to the national grid. SWDY's share of the contract value is EGP138mn. ([Company Disclosure](#))
- **Telecom Egypt (ETEL)** is currently in the final stages to receive a USD550mn syndicated loan from **Mashreq Bank (DFM: MASQ)** and **First Abu Dhabi Bank (ADX: FAB)** with a duration of five years. The loan will be mainly used to expand ETEL's mobile network as well as its infrastructure. ETEL expects to receive the loan by next week. (Al-Mal)
- **Cairo Investment & Real Estate Development's (CIRA)** retail offering concluded on Tuesday after being 18.9x oversubscribed compared to 10.36x oversubscription for the institutional offering. Trading on the company's shares is due to begin on Monday, 1 October 2018. ([Enterprise](#))
- **Orange Egypt's (OREG)** EGM approved the voluntary delisting of the company's shares from the **EGX**. The EGM also approved to buy back shares of shareholders who either object to or will be harmed from the delisting decision. ([Company Disclosure](#))

Non-Corporate

- **Minister of Planning** said that the full impact of the emerging markets crisis on Egypt's fiscal and growth targets for Q1 2018-19 will be reviewed in October. ([Enterprise](#))
- Egypt's Eurobond issue to the **Asian markets** is not expected in the current fiscal year, as it is yet to receive the blessings of Asian central banks. Another USD5bn issue is expected in the near future instead. ([Enterprise](#))
- In the context of the financial inclusion target, the **CBE** plans to roll out a national debit card, named "Meeza," by December, the CBE's Sub-Governor for Payment Systems and Business Technology Ayman Hussein said. ([Enterprise](#))
- **Ministry of Petroleum** expects a saving of USD3bn due to halting natural gas imports after self-sufficiency is achieved. ([Al Borsa](#))
- The **Financial Regulatory Authority (FRA)** is driving the drafting of a new law that would govern retail financing and consumer credit, FRA head Mohamed Omran said, promising further details soon. ([Enterprise](#))
- Legislation to regulate e-commerce currently being drafted by the **Ministry of Communication and Information Technology** will be ready to present to the Cabinet in H1 2019, CIT Ministry official Mohamed Hegazy said. ([Enterprise](#))

Markets

↗	EGX 30	14,612.18	1.77%	↗	EGX 70	695.76	0.76%
↗	DFMGI	2,775.57	0.78%	↗	ADSMI	4,929.98	0.78%
↘	TASI	7,893.55	(0.15%)	↗	QE Index	9,728.50	0.16%
↘	S&P 500	2,905.97	(0.33%)	↗	MSCI EM	1,046.02	0.41%
↗	Gold	1,196.28	0.15%	↗	Brent Oil	82.10	0.93%

*As of market close, except for commodities at spot price as of 8.03am CLT.

- **MENA Markets:** The **EGX30** recorded yesterday its highest daily return since 28 August, backed by gains in **COMI, EAST**, and **HRHO**. Meanwhile, **TASI** returned to the red zone after five sessions of positive performance, on losses in the **materials** and **food & beverage** sectors. **UAE indices** closed in the green, led by the strong performance in the **banking** sector.
- **Global Markets:** **US equities** ended yesterday's session slightly lower after the **Fed** raised interest rates by 25bps as widely anticipated. **MSCI EM** closed in the green area. **Brent oil** is still trading above USD80/bbl levels for the fourth consecutive session, while **gold** is trading higher this morning as well.

Number of the Day

8

The total number of new medicines introduced by **Alexandria Pharmaceuticals (AXPH)** in FY2017/18.

Today's Quiz

What is the market capitalization of **Alexandria Pharmaceuticals (AXPH)**?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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
Mohandes Insurance	MOIN	GM	21-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 Ahran 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

EGP624.6mn (USD34.9mn).

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