



Today's Story

What's in Store for GTHE Minorities?

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- The **Financial Regulatory Authority (FRA)** reiterated its requirement that **Global Telecom Holding (GTHE)** must disclose the IFA report which includes the valuation of GTHE's assets in **Pakistan (Jazz and its associated operations)** and **Bangladesh (Banglalink)** with the respect to the offer made by **VEON** (GTHE's parent company) to acquire the aforementioned company's assets. This USD2.55bn deal was withdrawn last Thursday. GTHE responded yesterday by disclosing the valuation ranges that the two appointed IFAs (**FinCorp** and **Lazard Freres**) have assigned for the assets in question. That said, we are surprised that the detailed IFA reports were not released! GTHE stated that FinCorp's valuation ranged between USD2.59-3.32bn, while Lazard's ranged between USD2.10-3.25bn.
- Based on VEON's now-withdrawn offer, **we estimated GTHE's value to be EGP5.77/share**. Please see the table below, showing the attributable equity values for both of GTHE's assets in Pakistan and Bangladesh which we estimated at USD2.42bn, based on our assumed 4x EV/EBITDA. This implies that the IFA's overall average valuation of USD2.82bn was higher than our estimates (+16% vs. our valuation).
- According to management, the IFA the valuation was made using an exchange rate of PKR122/USD when valuing the Pakistani operations. Thus, we opted to adjust the valuation to reflect the currently weaker Pakistani rupee against the US dollar at PKR135/USD. Adjusting the IFA valuation for the PKR depreciation and assuming that 79% of the overall valuation is related to Pakistan (based on our own assessment), the IFA valuation ranges would average USD2.59bn (+7% vs. our valuation), implying an EV/EBITDA of 4.2x. **Based on the IFA adjusted valuations, we calculate that GTHE's value would be EGP6.42/share.**
- **It turns out that VEON's offer was below the IFA valuation average, even after accounting for the PKR depreciation.** That said, we draw two possible scenarios for GTHE against the backdrop of recent events:
 - 1) GTHE's BoD might consider the possibility of a pro rata capital increase from existing shareholders, noting that there are significant debt maturities and interest payments due to VEON.
 - 2) Another offer from VEON which could be positive for GTHE's shares if and only if it was at an attractive offer price.

All in all, we believe the first scenario (i.e. the capital increase) is more likely than the second scenario. Thus, we reiterate our view published in [The Daily Beam on 3 September 2018](#) that GTHE is not a stock for the faint-hearted to be invested in. In our opinion, GTHE's stock is currently traded at a 53% discount to fair value, but the question is not by how much but how this value could be unlocked.

USDmn	From	To	Average	SSE Valuation	Variance (IFA/SSE)	Additional value/share
FinCorp	2,594	3,319	2,957	2,419	22%	2.04
Lazard Freres	2,097	3,253	2,675	2,419	11%	0.97
Average	2,346	3,286	2,816	2,419	16%	1.50

USDmn (adjusted for PKR's devaluation)	From	To	Average	SSE Valuation	Variance (IFA/SSE)	Additional value/share
FinCorp	2,385	3,051	2,718	2,419	12%	1.13
Lazard Freres	1,928	2,991	2,459	2,419	2%	0.15
Average	2,156	3,021	2,589	2,419	7%	0.64

Note: Exchange rate used by IFA was PKR122/USD. We adjusted 79% of the valuation (our own assessment of Pakistan's portion) for an exchange rate of PKR135/USD.

Source: GTHE disclosure

Global Telecom Holding (GTH) - Our valuation

Company	Country	Equity stake %	EBITDA (TTM)	EV/ EBITDA	EV	Net debt/ (cash) Q2 '18	Equity	Attributable EV	Attributable Equity	% of total equity value	Equity/ share (EGP)
Djezzy	Algeria	45.57%	393	3.6x	1,415	17	1,399	645	637	42%	2.42
Jazz	Pakistan	85.00%	715	4.0x	2,861	477	2,384	2,432	2,027	133%	7.69
Banglalink	Bangladesh	100.00%	195	4.0x	781	388	393	781	393	26%	1.49
Sub-total investments								3,858	3,057	201%	11.60
GTH's separate net debt		100.00%				1,486	(1,486)	1,486	(1,486)	(98%)	(5.64)
Potential tax liability		100.00%				50	(50)	50	(50)	(3%)	(0.19)
GTH group								5,394	1,520	100%	5.77

No. of outstanding shares (mn)	4,721
Fair value	5.77
Recent price	2.84
% up/(dn)	103%

Note: All figures are in USD million except for share data; GTH's stock price as of 14 October 2018; exchange rate used is EGP17.91/USD.

Source: SHUAA Securities Egypt estimates

Global Telecom Holding (GTH) - IFA average valuation after PKR devaluation

Company	Country	Equity stake %	EBITDA (TTM)	EV/ EBITDA	EV	Net debt/ (cash) Q2 '18	Equity	Attributable EV	Attributable Equity	% of total equity value	Equity/ share (EGP)
Djezzy	Algeria	45.57%	393	3.6x	1,415	17	1,399	645	637	38%	2.42
Jazz	Pakistan	85.00%	715	4.2x	3,013	477	2,536	2,561	2,156	127%	8.18
Banglalink	Bangladesh	100.00%	195	4.2x	822	388	434	822	434	26%	1.65
Sub-total investments								4,028	3,228	191%	12.25
GTH's separate net debt		100.00%				1,486	(1,486)	1,486	(1,486)	(88%)	(5.64)
Potential tax liability		100.00%				50	(50)	50	(50)	(3%)	(0.19)
GTH group								5,565	1,691	100%	6.42

No. of outstanding shares (mn)	4,721
Fair value	6.42
Recent price	2.84
% up/(dn)	126%

Note: All figures are in USD million except for share data; GTH's stock price as of 14 October 2018; exchange rate used is EGP17.91/USD.

Source: SHUAA Securities Egypt estimates

Top Headlines

Corporate

- **Alexandria Pharmaceuticals'** (AXPH) BoD approved the unaudited financial results for the period starting from 1 July 2018 to 31 August 2018. The company's earnings declined 13.1% to EGP20.5mn on higher COGS despite 15.9% increase in revenue to EGP140.1mn. ([Company Disclosure](#))
- **Arab Drugs'** (ADCI) BoD approved preliminary financial results for Q1 2018/19. The company's net profit before taxes increased 28% to EGP12.75mn on the back of 22.6% increase in net revenue to EGP140.1mn. ([Company Disclosure](#))

Non-Corporate

- **Egypt's** trade balance deficit rose by 8.4% y/y in July to USD4.10bn from USD3.97bn. Meanwhile, exports hiked 8.9% to USD2.23bn compared to USD2.05bn a year ago. ([Al-Ahram Gate](#))
- **Egypt's Cabinet** denied any planned hikes in fuel prices until the end of this year. ([A-Masry Al-Youm](#)) Note: Although it is not clear whether this is calendar or fiscal year, we believe they meant fiscal (i.e. not before end of June 2019).

- Today marks the deadline for paying the **real estate taxes** without a delay fine for those owning more than one unit or owning one unit with a value in excess of EGP2mn. ([Enterprise](#))
- **The World Bank** is looking to invest c.USD45bn in **Africa** over the next three years, WB's **President** Jim Yong Kim said. (Al-Alam Al-Youm)
- **Saudi Arabia's ACWA Power** expects to sign a power purchase agreements (PPA) with the **Egyptian Electricity Transmission Co. (EETC)** before year end for a USD500mn 500-MW wind project in the **Gulf of Suez**. Construction of the project will begin within 45 days. The project is under a BOO basis with a tariff of 3.12 cents. (Al-Borsa)

Markets

↗	EGX 30	13,537.47	1.91%	↗	EGX 70	699.00	2.03%
↘	DFMGI	2,713.93	(1.50%)	↘	ADSMI	4,931.14	(0.74%)
↘	TASI	7,266.59	(3.51%)	↘	QE Index	9,824.20	(0.38%)
↗	S&P 500	2,767.13	1.42%	↗	MSCI EM	980.09	2.66%
↗	Gold	1,223.16	0.50%	↗	Brent Oil	81.18	0.93%

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

- **MENA Markets:** The **EGX 30** rose on Sunday, led by **MNHD, COMI, SWDY,** and **GTHE**. **UAE indices** dropped, with **ADSMI** led by losses in the **banking** sector and **DFMGI** led by losses in the **real estate** and **banking** sectors. **TASI** showed a sharp decline, mainly dragged by losses **materials, telecoms,** and **real estate** sectors.
- **Global Markets:** **Asian stocks** continued to fall in early trading on Monday, following Friday's regional bounce which eased last week's pain. Meanwhile, **oil** prices rose in response to geopolitical tensions despite concerns about the long-term outlook for demand which could pressure prices downward.

Number of the Day

942.3mn

The number of shares that **Sixth of October for Development & Investment "SODIC"** (OCDI) may have issued if it acquires 100% of **Madinet Nasr Housing & Development** (MNHD) through a 1-for-2 share swap (OCDI : MNHD).

Today's Quiz

What is the current stake of Global Telecom Holding (GTHE) in Pakistan's Jazz?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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
Eastern Company	EAST	Dividends	15-Oct	Record date for cash dividends eligibility of EGP 1 per share
El Nasr Clothes & Textiles	KABO	GM	17-Oct	Reviewing Agenda Items
Alexandria Flour Mills	AFMC	GM	17-Oct	Reviewing Agenda Items
Eastern Company	EAST	Dividends	17-Oct	Distribution of 1st installment of cash dividends of EGP 0.60 per share
Porto Group Holding	PORT	Reverse stock split	17-Oct	Record date for the reverse stock split
Canal Shipping Agencies	CSAG	Dividends	17-Oct	Record date for cash dividends eligibility of EGP 1.015 per share
Porto Group Holding	PORT	Reverse stock split	18-Oct	Trading the stock after the reverse stock split
Real Estate Egyptian Consortium	AREH	EGM	18-Oct	Reviewing Agenda Items
Extracted Oils	ZEOT	GM	19-Oct	Reviewing Agenda Items
National Co For Maize Products	NCMP	GM	19-Oct	Reviewing Agenda Items
Alexandria Containers Handling	ALCN	Dividends	21-Oct	Record date for cash dividends eligibility of EGP 0.9545445705 per share
Mohandes Insurance	MOIN	GM	21-Oct	Reviewing Agenda Items
Abou Kir Fertilizers & Chemicals	ABUK	Dividends	22-Oct	Record date for cash dividends eligibility of EGP 1.10 per share
Misr Hotels	MHOT	Dividends	22-Oct	Record date for cash dividends eligibility of EGP 3.25 per share
Arab Cotton Ginning	ACGC	Dividends	22-Oct	Record date for cash dividends eligibility of EGP 0.30 per share
Medical Packaging	MEPA	Right issue	23-Oct	Record date for right issue eligibility
Arab Pharmaceuticals	ADCI	Dividends	23-Oct	Record date for cash dividends eligibility of EGP 3 per share
Misr Chemical Industries	MICH	Dividends	23-Oct	Record date for cash dividends eligibility of EGP 1.10 per share
Misr Oils & Soap	MOSC	EGM	24-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
Mansoura Poultry	MPCO	Capital Increase	25-Oct	Record date for bonus shares eligibility of 0.12198527:1
Abou Kir Fertilizers & Chemicals	ABUK	Dividends	25-Oct	Distribution of 1st installment of cash dividends of 0.30 per share
Misr Hotels	MHOT	Dividends	25-Oct	Distribution of cash dividends of EGP 3.25 per share
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
Raya Holding	RAYA	EGM	30-Oct	Reviewing Agenda Items
Raya Holding	RAYA	GM	30-Oct	Discussing dividends Distribution
El Nasr Co for Transformers	NASR	Dividends	31-Oct	Distribution of 3rd installment of cash dividends of EGP 0.1 per share
Arabia Investments and Development	AIND	Lawsuit	11-Nov	Legal Disputes Relevant to the Company
Porto Group Holding	PORT	Lawsuit	29-Nov	Legal Disputes Relevant to the Company

Quiz Answer

85%.

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