

Today's Story

Sarwa Capital—What Went Down?

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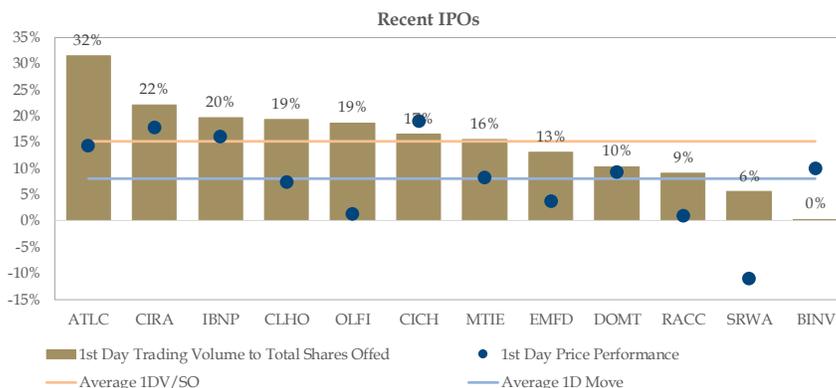
- What went down?** Yesterday, the market experienced a shocker with the disappointing show that **Sarwa Capital (SRWA)** has put on. Such a shock is the result of extreme bullishness of many market participants on SRWA, met with distinctive—yet tough—underlying conditions that engulfed the stock on its first day of trading on the EGX. While the IFA valuation of SRWA stood at EGP8.50/share (+30% above yesterday's market close), research houses' valuations varied significantly between a low of EGP3/share to a high of EGP10/share (a 54% move in either way), averaging EGP7.29/share (+11% above yesterday's market close). Generally, wide valuation ranges indicate a lack of consensus on the basic valuation assumptions, which could be the case here for SRWA. At yesterday's market close, SRWA's **implied P/BV has declined from 5.8x to a more attractive 5.1x**. In [The Daily Beam published on 2 October 2018](#), we had valued SRWA at EGP7.66/share (+17% above yesterday's market close), stating that the upside was limited. We concluded our valuation using an excess return model, assuming a long-term ROE of 35% and a long-term growth rate of 10.5%. Looking back at our valuation, we note that—other factors held constant—yesterday's market close implies either **(a) a long-term ROE of 31.4%** or **(b) a long-term growth rate of 8.7%**. The sensitivity analysis shown above (extended from the one previously included in our valuation) illustrates that SRWA's valuation is more sensitive to long-term growth rate as opposed to long-term ROE.

Terminal Growth Rate	Terminal ROE				
	25%	30%	35%	40%	45%
8.50%	4.01	5.23	6.45	7.66	8.88
9.50%	4.24	5.61	6.98	8.35	9.72
10.50%	4.54	6.10	7.66	9.23	10.79
11.50%	4.93	6.75	8.58	10.40	12.23
12.50%	5.47	7.665	9.854	12.04	14.23

Source: SHUAA Securities Egypt

- The state of recent IPOs at their first day?**

Of the last 12 IPOs that made it to the market, SRWA is the first stock to close below its IPO price on its very first day of trading. Nonetheless, it topped the market on Monday in terms of value traded with c.16.5mn shares changing hands worth some EGP108mn or 15% of the market. Relatively speaking, SRWA's volume traded yesterday as a percentage of total shares offered in the IPO turns out to be significantly lower than what other IPOs traded on their first trading day. As the chart on the right hand shows, the "first-day volume-to-shares offered" (1DV/SO) ratio averaged 15% versus SRWA's 6%. Generally, it looks like stocks with a below-average 1DV/SO tend to perform relatively poorly in their first appearance. However, such a low 1DV/SO ratio for SRWA could be perceived positively, implying many of the subscribers did not want to sell at a loss.



- Potential reasons:** While it is fairly hard to identify the reasons behind such a tough day for SRWA, we could think of the following:
 - The IPO could have been heavily levered**, noting that the retail offering was oversubscribed by more than 30x. It's possible that the stock's weak debut may have instigated fears from borrowers who may have weighed sitting it out for the stabilization fund to kick in in a month's time which would mean higher interest charged.
 - In line with the "limited" upside potential that we attached to SRWA**, investors may have decided to walk away from SRWA in search for other hotter stories at the moment, such as **MNHD**.
- Implications:** We note two key takeaways from the above. First, the bad debut for SRWA could dampen investors' sentiment, especially retail investors', towards upcoming IPOs. With the market is still awaiting many IPOs to come, should SRWA fail to rebound, this could be negative for any upcoming IPO with controversial valuations. Second, SRWA's disappointing debut could result in investors' reconsidering other names in the NBF1 sector.

Top Headlines

Corporate

- **SODIC** (OCDI) and **Madinet Nasr Housing & Development** (MNHD) CEOs announced that they expect the transaction to be completed at the end of the year. MNHD had tapped **EFG Hermes Holding** (HRHO) to advise on the transaction, while **Zaki Hashem & Partners** are serving as legal counsel. SODIC had previously appointed **CI Capital Holding** (CICH) and **White & Case** as its advisers. ([Enterprise](#))
- **Pioneers Holding** (PIOH) said that c.98% of its capital increase was covered in its first phase with the subscription of 211.65mn shares (c.EGP1.07bn) at EGP5.10/share, including issuance fees. PIOH said that the remaining c.2% or 4.45mn shares will be offered in a second phase for shareholders, without pro rata consideration. ([Company Disclosure](#))
- **Raya Holding for Financial Investment's** (RAYA) subsidiary **Raya Trade** is mulling to inject as much as EGP300mn worth of investments to inaugurate a factory for assembling and manufacturing Samsung washing machines. (Al-Mal)
- The **Financial Regulatory Authority (FRA)** gave its approval for **Orascom Development Egypt** (ORHD) capital increase from EGP1.11bn to EGP1.13bn through issuing 22.2mn shares with the par value of EGP1/share ([EGX](#))
- The **FRA** approved for **Arabia Investments & Development** (AIND) to proceed in reducing its paid-in capital from EGP480.55mn to EGP144.16mn by trimming the stock's par value from EGP1.00 to EGP0.30. The procedure is to extinguish AIND's current retained losses balance. ([FRA](#))
- **Egytrans'** (ETRS) share buyback of 2.2mn shares valued at EGP15.93mn was executed at EGP7.2/share. Shareholders have tendered more than 2.8mn shares on the EGX or 1.3x offered shares. ([Mubasher](#))
- **Etisalat Misr's** CEO said his company is in the final stages to offer fixed-line services in **Egypt** through the agreement it had inked with **Telecom Egypt** (ETEL) in August 2018. ([Mubasher](#))
- The **New and Renewable Energy Authority** corrected news recently announced about **Elsewedy Electric** (SWDY) and **Masdar's** new wind farm project stating that the wind farm is only 200MW (not 220MW) and has a total cost of EUR200mn (not EUR300mn) as previously mentioned. ([Enterprise](#))

Non-Corporate

- **Egypt** is in the early stages of talks with international banks over a plan to hedge against the global rise in commodity prices, a government source said on Monday. ([Arab Finance](#))
- **BP** is expecting to begin production at its Giza and Fayoum gas fields by year's end, Oil Ministry spokesperson Hamdy Abdel Aziz said. Both fields will begin by producing 400 mcf/d and gradually ramp up output to 700 mcf/d. ([Enterprise](#))
- The **Finance Ministry** has notified e-commerce platforms, including **Souq**, **Jumia**, and **OLX**, that they will be required to begin charging value-added tax (VAT) on all transactions in goods that would be subject to VAT if sold offline. ([Enterprise](#))
- Yields eased as **Egypt** sold EGP1.25bn worth of Treasury bonds yesterday, the central bank data showed. Yields on both three- and seven-year T-bonds averaged 18.3%. ([Enterprise](#))
- **Egypt** and **Tatarstan** agreed yesterday to form a joint business council to boost trade between the two countries. ([Enterprise](#))

Markets

↘	EGX 30	13,521.46	(0.12%)	↘	EGX 70	698.31	(0.10%)
↘	DFMGI	2,713.05	(0.03%)	↗	ADSMI	4,932.87	0.04%
↗	TASI	7,567.57	4.14%	↗	QE Index	9,834.12	0.10%
↘	S&P 500	2,750.79	(0.59%)	↘	MSCI EM	971.67	(0.86%)
↘	Gold	1,225.24	(0.15%)	↗	Brent Oil	81.16	0.47%

*As of market close, except for commodities at spot price as of 7.45am CLT.

- **MENA Markets:** The **EGX 30** closed in the red on Monday, dragged by **OCDI, EAST, GTHE, and TMGH**. **UAE indices** were mixed; **ADSMI** closed in the green, led by gains in the **industrials** sector, while **DFMGI** closed in the red, led by losses in **financial services, real estate, and telecommunication**. **TASI** showed gains, mainly driven by **banking, materials, and real estate**.
- **Global Markets:** **Asian stocks** were mixed on Tuesday afternoon, as Wall Street slipped overnight and amid geopolitical tensions between **Saudi Arabia** and the international community. **US** market declined on Monday, led by technology stocks. Meanwhile, **oil** prices continued to see an increase despite giving up some gains.

Number of the Day

EGP9bn

Hassan Allam Holding's valuation, according to the company's IFA Grant Thornton.

Today's Quiz

What is Hassan Allam Holding's backlog as of 1H 2018?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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 distribution of dividends
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

EGP55.8bn.

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