

## Today's Story

### RAYA — Some Like It 'Diversified'

- The “surprise” mandatory tender offer:** Yesterday, the **Financial Regulatory Authority (FRA)** said that **Raya Holding for Financial Investments' (RAYA) CEO Medhat Khalil** and related parties are obligated to submit a mandatory tender offer (MTO) for 100% of RAYA's shares, according to Article §353 of the Capital Market Executive Regulations. The MTO must be submitted before the end of the trading session on 27 November 2018 with an offer price of at least the average closing prices of the last six months. **We calculated the potential MTO price to be EGP9.36, which is 44% higher than the pre-announcement price and 33% higher than yesterday's closing price after the stock rose 9% following the news.** The MTO was triggered, according to the FRA, after Mr. Khalil's and related parties' combined stakes exceeded the maximum threshold stipulated in Article §353. According to *Al-Mal*, these stakes amounted to 42%, exceeding the first 33% threshold by more than the allowed 2% p.a., thus triggering an MTO. *Al-Mal* quoted Mr. Khalil as confirming his intention to present an MTO for the remaining 58% of RAYA, which would be worth some EGP685mn. He revealed that the FRA had given him two choices:
  - To submit an MTO within a month at the average closing prices of the last six months, after which RAYA's BoD will likely appoint an independent financial advisor (IFA) to value the company. **We believe if the IFA valuation turns out to be higher than the MTO price, the MTO may not be accepted by all remaining shareholders, leaving a stake floating in the market large enough (i.e. 5% at a minimum) to maintain RAYA's listing on the EGX.**
  - To reduce a portion of their stakes to avoid making an MTO.

**MTO aside, Mr. Khalil's decision to make an MTO indicates his belief that RAYA is undervalued at EGP9.36/share, a price we believe would be rather cheaper compared to the IFA valuation.**

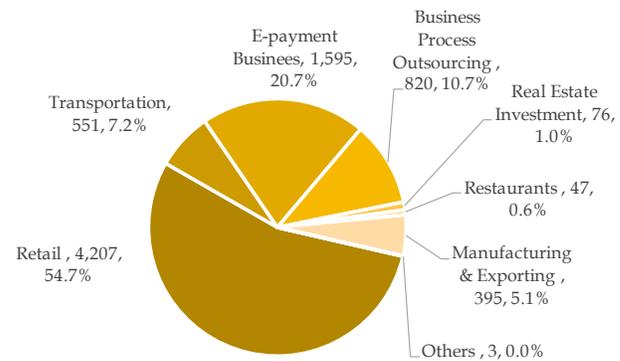
Sharholders Structure Name	As of 30 September 2018		As of 31 December 2017		Change in ownership %
	No. Shares (mn)	Ownership %	No. Shares (mn)	Ownership %	
Medhat Mohamed Ibrahim Khalil	23.29	18.47%	15.46	15.31%	3.16%
Financial Holdings International Ltd	15.20	12.05%	12.16	12.05%	(0.00%)
Egycap Investments Ltd	14.48	11.48%	12.71	12.59%	(1.11%)
Ashraf Mahmoud Abdo Kheir El Din	13.63	10.81%	6.93	6.87%	3.94%
Sky for Owning and Projects Managment	7.44	5.90%	11.34	11.23%	(5.33%)
Mona Mahmoud Abdo Khair El Din	7.31	5.79%	5.05	5.00%	0.79%
<b>Total shareholders with stakes &gt; 5%</b>	<b>81.34</b>	<b>64.50%</b>	<b>63.64</b>	<b>63.05%</b>	<b>1.44%</b>
Other shareholders	44.78	35.50%	37.29	36.95%	(1.44%)
<b>Total Number of shares outstanding</b>	<b>126.12</b>	<b>100.00%</b>	<b>100.92</b>	<b>100.00%</b>	

Source: Company disclosure

- A refresher about RAYA's business model:** RAYA is one of the stocks that are often overlooked. Not only is it relatively cheap, but it is also trading at below book value. Its business model is quite diversified between defensive sectors (like food and beverage) and other sectors with potential growth in underpenetrated industries (like micro-finance and manufacturing), thus diversifying any concentration risk. RAYA could be viewed as a private equity firm that launches new businesses, grow them, then exit either totally or partially through an IPO, like it did lately with **Raya Contact Center (RACC)**. Of the many businesses that are part of RAYA, we point out a few below.
  - RAYA boats some business with foreign currency sources**, such as:
    - RACC**, 55%-owned subsidiary, is one of the beneficiaries of the EGP floatation (revenues are mainly in foreign currency, while operating cost is mainly in EGP).
    - BariQ**, a wholly-owned subsidiary, has one of the large PET (polyethylene terephthalate) recycling plants in the Middle East, exporting almost all of its production. The company is dependent on the tourism sector as its feedstock supply comes mainly from hotels of which quality is far better than that sourced from local collectors. This explains why BariQ's margins declined when the tourism sector faltered. Thus, with tourism rebounding and recent regulations allowing for feedstock imports in case of any shortage, BariQ's numbers should improve.

- **A footprint in manufacturing and assembling:** In partnership with Italy's **Piaggio**, a global leader in light vehicle manufacturing, RAYA has inaugurated a factory for manufacturing and assembling three-wheelers vehicles (known as *tuk-tuks*) and motorcycles. With production set to start soon, the factory is the first of its kind in Egypt, addressing a growing demand for cheap transportation in Egypt. Moreover, **Raya Trade**, RAYA's wholly-owned subsidiary, has partnered with **Samsung** to build a production line for manufacturing and assembling the latter's washing machines for a total cost of USD2mn with production planned to commence by end of 2018. Additionally, Raya Trade has announced recently its plan to build a factory for Samsung's washing machines in Egypt with investments worth of EGP300mn. While no date was given regarding for this project, we think it will hinge upon the success of the ongoing production line.

TTM (to 30 June 2018) Revenue by Business Segments (EGPmn &amp; %)



Source: Company reports

- **Exposure to non-banking financial services:** RAYA, through its subsidiaries **Aman E-payments** and **Aman Micro Enterprise Services**, has exposure to Egypt's e-payment and microfinance industries, both which are under-penetrated with a promising outlook.
- **Food & beverage, a defensive play:** RAYA owns a restaurant chain called **Ovio** with a total of six branches and plans to expand in new locations. Also, through its subsidiary **Raya Foods**, RAYA has acquired a frozen food factory (producing under the brand names *Lazah* and *Everest*) and targeting both middle- and high-income segments. The company was able to export most of the factory products to Europe, specifically **Russia** and **Germany**.
- **How value can be unlocked:** In our opinion, RAYA's key risk is the very same point that can be its key driver. Subsidiaries' operations are completely different in nature, which means a lack of direct integration and hence synergies. However, inherent value can be unlocked through sale or flotation of some of its businesses on the stock market as they mature. **In summary, RAYA's stock looks cheap at current levels with a P/B of 0.74x. Catalysts include the listing subsidiaries on the EGX in H2 2019 (management cited Raya Trade and Raya IT). Today, RAYA shareholders will meet to discuss profit distribution and a 70% stock dividend in a GM and an EGM. Meanwhile, the MTO story will likely keep the stock in focus with most of the potential upside to the MTO price realized over the coming few days.**

## Top Headlines

### Corporate

- **Egypt Aluminum's** (EGAL) preliminary net profit fell 34% y/y to EGP468.9mn in Q1 FY2018/19 despite 17% higher revenues of EGP3.63bn. Lower earnings can be attributed to a lower gross margin (14% vs. 26% in Q1 2017/18) on higher electricity costs. ([Company Disclosure](#))
- **Al-Shams Housing & Urbanization's** (ELSH) earnings grew 252% y/y to EGP170.7mn in 9M 2018 on 193% higher revenues of EGP245.5mn driven by higher land sales. Gross margin expanded y/y to 79% in 9M 2018 versus 69% a year ago. ([Company Disclosure](#))
- **Egyptian Starch & Glucose** (ESGI) recorded net losses of EGP28.4mn (EGP0.57/share) in 9M 2018 versus net earnings of EGP19.0mn (EGP0.38/share) a year ago. Losses were attributed to a set-back in top-line revenues to EGP640.9mn (-9.4% y/y) as well as GPM contraction to 8.2% versus 14% a year earlier (both including export rebate revenues). ([Company Disclosure](#))
- **Nasr Company for Civil Works** (NCCW) net income grew to EGP61mn in 9M 2018 ending 30 September 2018 (+1492% y/y), driven by higher revenues of EGP254.8mn (+110.5% y/y) and higher gross profit margin of 38.45% versus 11.95% a year ago. ([Company Disclosure](#))
- **October Pharma** (OCPH) said it has signed a preliminary contract with the German pharmaceuticals company **Vitane** to start the manufacturing of 11 new tumors medicines. ([Company Disclosure](#))
- The **Financial Regulatory Authority** disapproved the **Egyptian Co. for Developing Building Materials' "Lift Slab"** (EDBM) request for the second phase of its rights issue for their planned capital increase after no shareholders participated in the first phase. ([FRA Release](#))

## Non-Corporate

- The **Ministry of Finance** sold EGP1.75bn of **T-bonds** on 29 October with lower yields compared to the latest similar auction. Yield on **three-year T-bonds** retreated from 18.321% to 18.138%, while yield on **seven-year T-bonds** fell from 18.324% to 18.142%. ([CBE](#))

## Markets

↗	EGX 30	13,074.47	0.72%	↗	EGX 70	676.65	1.21%
↘	DFMGI	2,714.83	(0.37%)	↘	ADSMI	4,871.58	(0.53%)
↗	TASI	7,847.51	0.57%	↗	QE Index	10,191.68	0.47%
↘	S&P 500	2,641.25	(0.66%)	↘	MSCI EM	934.80	(0.51%)
↘	Gold	1,226.77	(0.22%)	↘	Brent Oil	77.18	(0.21%)

\*As of market close, except for commodities at spot price as of 7.46am CLT.

- MENA Markets:** The **EGX 30** closed in the green on Monday, driven by **TMGH, SKPC, EAST, CCAP, and COMI**. Both **UAE indices** ended in the red; **ADSMI** was dragged by losses in the **banking** sector, while **DFMGI** was dragged by losses in the **real estate** and the **transportation** sectors. **TASI** ended in the green, driven by the **materials** and the **real estate** sectors.
- Global Markets:** **Asian stocks** regained early losses and inched higher on Tuesday as **China** made a fresh attempt to stabilize its stock markets. Meanwhile, **US indexes** fell sharply on Monday after a **Bloomberg** report that the **United States** is preparing to announce tariffs on all remaining Chinese imports by early December if talks next month between **Presidents** Donald Trump and Xi Jinping do not go well. **Oil prices** dropped on Tuesday morning in **Asia** as **Saudi Arabia** and **Russia** vowed to raise crude output.

## Number of the Day

577%

The y/y increase in **Nasr Co. for Civil Works (NCCW)** gross profit for 9M 2018 ending 30 September 2018.

## Today's Quiz

What is Orascom Construction's stake in BESIX Group?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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
Export Development Bank	EXPA	Dividends	04-Nov	Record date for cash dividends distribution of EGP 0.50 per share
Extracted Oils	ZEOT	Dividends	05-Nov	Record date for cash dividends distribution of EGP 0.05 per share
Export Development Bank	EXPA	Dividends	07-Nov	Distribution of cash dividends of EGP 0.50 per share
Extracted Oils	ZEOT	Dividends	08-Nov	Distribution of cash dividends of EGP 0.05 per share
Six of October Development and Investment	OCDI	EGM	08-Nov	Reviewing Agenda Items
Beltone Financial Holding	BTFH	EGM	08-Nov	Discussing cancelling the global depository receipts (GDRs) system
Orascom Development Egypt	ORHD	EGM	08-Nov	Discussing capital increase
Heliopolis Housing & Development	HELI	EGM/AGM	10-Nov	Reviewing Agenda Items
International Agricultural Products	IFAP	GM	11-Nov	Reviewing Agenda Items
Arabia Investments and Development	AIND	Lawsuit	11-Nov	Legal Disputes Relevant to the Company
Alexandria Flour Mills	AFMC	Dividends	12-Nov	Record date for cash dividends distribution of EGP 0.65 per share
National Co For Maize Products	NCMP	EGM	12-Nov	Reviewing Agenda Items
Egyptian Transport and Commercial	ETRS	EGM	13-Nov	Reviewing Agenda Items
Arabia Investments and Development	AIND	EGM/AGM	14-Nov	Discussing capital reduction
Alexandria Flour Mills	AFMC	Dividends	15-Nov	Distribution of cash dividends of EGP 0.65 per share
Global Telecom Holding	GTHE	EGM/AGM	15-Nov	Discussing extending of maturity of revolving credit facility of USD 100 million
Porto Group Holding	PORT	Lawsuit	29-Nov	Legal Disputes Relevant to the Company

## Quiz Answer

50%.

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