

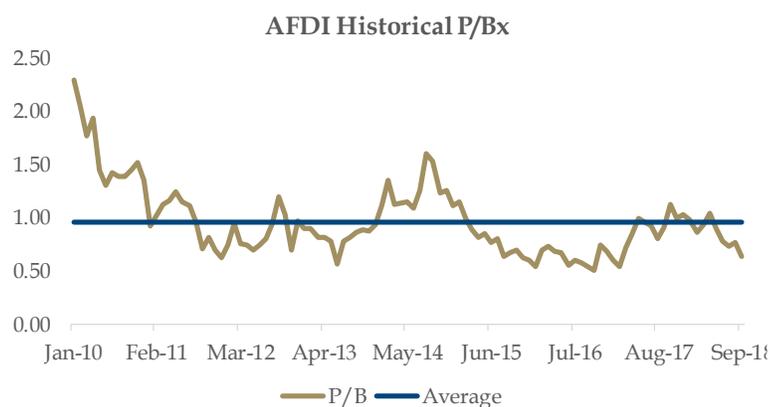
Today's Story

AFDI — Constrained Value but Only for Patient Investors

■ Mohamed Saad | Equity Analyst | mfattah@shuaasecurities.com

The recent slump of the stock market over the course of the last five months has placed some names inside a time machine, traveling to pre-flotation price levels! By traveling to the past, opportunistic investors would be happy to pick up undervalued stocks that they may have missed two years ago. With that in mind, we look here at Al-Ahly for Development & Investment (AFDI), down some 35% ytd. We believe, at current levels, AFDI would present patient investors with a developing story, supported by the following key points:

- Trading at a steep discount to book value:** AFDI is a member of the “below book/par value” clan, trading currently at P/BV of 0.63x and 24% below its par value. Usually when stocks are pressured in such a manner, it may indicate some deficiencies in a company's performance, which could be the case with AFDI in light of its weak financial results. Indeed, AFDI's ROE stands at only 4% with ROA of just 1%! While this may reflect AFDI's assets' underperformance, it could also reflect other external factors (e.g. high interest rates). To clarify, AFDI's consolidated EPS contracted to EGP0.52 in 2017 versus EGP2.00 in 2016 (-74% y/y). Despite revenue growth, the increase in financing costs took its toll on the bottom line. We note that financing costs soared in H1 2018 to EGP46.9mn (+46% y/y). In our opinion, in order for investors to appreciate AFDI's book value, they need to see a boost to its profitability, much of which could come from future interest rate cuts.
- Leasing is the current growth locomotive:** Today, AFDI's key theme could be non-banking financial services (NBFS). As revenues from the assets management segment have been lagging, the leasing segment exhibited firm-footed growth. AFDI operates in the leasing industry through its subsidiary **Nile Financial Leasing (NFL)** which was set up back in 2004. NFL is ranked the thirteenth in Q1 2018 with a market share of 1.9% and booked contracts of EGP143.8mn. NFL now represents the majority of AFDI's total revenues; however, higher interest rates squeeze NFL margins. In fact, a bigger part of the aforementioned financing costs resulted from NFL operations. Considering the possibilities of a potential monetary easing in the medium term, AFDI's leasing arm could be just the cherry on the cake. Add to this the re-rating that NFBIs can fetch following the most recent IPO by **Sarwa Capital**.
- Other “potentially undervalued” investments:** AFDI has some long-forgotten investments that could be more valuable than they look. For instance, AFDI has a 39.95% stake in **Metalar Egypt**, a company specialized in manufacturing dishes and other silver plates. Also, AFDI has a 17% stake in **Cairo Financial Holding (CFH)** which is recorded on the balance sheet at its historical cost. We believe re-rating or exiting such investments would unlock the value inherent in such investments, further supporting AFDI over the long run.



Top Headlines

Corporate

- Qalaa Holdings (CCAP) Chairman** Ahmed Heikal said that CCAP sees **Egyptian Refinery Company's (ERC)** EBITDA to reach USD1.5bn vs. the company's old estimates of USD800mn in 2020. We note that this variance could be attributed to the expected higher oil prices and the impact of the **International Maritime Organization (IMO)** regulations on the feedstock and selling prices. (Bloomberg)

- **Egypt Aluminum (EGAL)** announced that it is finalizing negotiations and consulting with **Bechtel** regarding the new production line that will produce 250,000 tpa of molten aluminum. EGAL added that it is still studying the method of financing the project. Also, they noted that the actual cost of the project is yet to be finalized. ([Company Disclosure](#))
- **Palm Hills Developments (PHDC)** and **Arab African International Bank** have successfully concluded a discounting transaction of EGP316mn receivables portfolio relating to 181 delivered units in *Golf Views*, *Golf Extension*, *Palm Hills Katameya Extension*, and *Hacienda White 2* projects. PHDC will receive net proceeds of EGP223mn, after applying a discount rate of 18.75%, and deducting various transaction related fees and commissions. PHDC will utilize the transaction proceeds in paying part of its existing debt, as part of its deleveraging plans. (Company Disclosure)
- **Sarwa Capital (SRWA)** announced the conclusion of the book building process (the private placement tranche of its IPO) which was oversubscribed by 10.83x. The final IPO price has been set at EGP7.36/share. The retail offering is expected to end on 10 October 2018. Trading is expected to commence on 15 October 2018 ([Company Release](#))

Non-Corporate

- According to *Enterprise*, some officials expect that higher-than-forecast **oil prices** could see **Egypt's** fuel subsidy bill for FY2018/19 jump to EGP100bn, up from the EGP89bn in the current budget. ([Enterprise](#))
- The **International Institute of Finance (IIF)** expects **Egypt's** growth momentum to continue into 2019, with **GDP** growth projected to accelerate to 5.6% next year from 5.2% in 2018, supported by rising **tourism receipts** and **natural gas production**. ([Enterprise](#))
- Some amendments to the **real estate tax law** are expected to be submitted to the **Parliament** next week. They include a new formula which sets the annual tax on a property at 10% of its annual rental value, after excluding maintenance expenses from the total — which are set at 30% for residential properties and 32% for non-residential properties. The amendments call for the market value of assets to be revised once every seven years, instead of five. ([Enterprise](#))

Markets

↘	EGX 30	14,313.17	(0.48%)	↗	EGX 70	703.23	0.56%
↘	DFMGI	2,814.97	(0.84%)	↗	ADSMI	5,001.34	0.15%
↗	TASI	8,008.55	0.34%	↗	QE Index	9,889.47	0.74%
↗	S&P 500	2,925.51	0.07%	↗	MSCI EM	1,035.04	0.17%
↗	Gold	1,198.04	0.06%	↘	Brent Oil	86.12	(0.20%)

*As of market close, except for commodities at spot price as of 8am CLT.

- **MENA Markets:** The **EGX 30** ended slightly down on Wednesday for the fifth session in a row, dragged by losses in **COMI**, **EAST**, and **TMGH**. Meanwhile, **TASI** was back to the green area yesterday, driven by gains in the **banking** and **materials** sectors. **UAE indices** ended on a mixed note, with **ADSMI** ending higher, led by gains in the **banking** and **telecom** sectors.
- **Global Markets:** The **Dow** hit an all-time high on Wednesday, and the **S&P 500** traded near a record set on 21 September, led by just a few stocks. **Brent oil** prices slightly decreased, while **gold** prices were almost flat.

Number of the Day

21.3%

The discount **EGX 30 index** is traded at, compared to its 5-year average forward P/E.

Today's Quiz

What is AFDI's average P/B since the beginning of 2010?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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
Extracted Oils	ZEOT	GM	19-Oct	Reviewing Agenda Items
Alexandria Containers Handling	ALCN	Dividends	21-Oct	Record date for cash dividends eligibility of 0.9545445705 per share
Mohandes Insurance	MOIN	GM	21-Oct	Reviewing Agenda Items
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
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
Arabia Investments and Development	AIND	Lawsuit	11-Nov	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

0.97x.

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