

Today's Story

Four Questions Investors Need to Ask About AMOC's Q1 Disappointing Results

Abdel-Rahman Wahba | Equity Analyst | awahba@shuaasecurities.com

- **Alexandria Mineral Oils Co. (AMOC)** posted disappointing preliminary results for Q1 FY2018/19 ended 30 September 2018, where earnings slid 37% y/y to EGP253mn, falling below market consensus by a wide margin. The drop can mainly be attributed to a lower gross profit margin (GPM) and higher operational cost. GPM was cut by more than half to 7% vs. 15% a year ago. Such results came in despite 16% increase in revenues to EGP4.10bn in Q1 FY2018/19 vs. EGP3.53bn a year ago. Top line growth could be attributed to two main reasons: (1) higher oil prices to which AMOC's product prices are benchmarked and (2) higher product yield due to higher specifications.

- **In view of these lower-than-expected earnings, we think investors need to ask four key questions:**

1. Why were operating margins cut in half?

Management attributed the decline in gross margins to two reasons:

- 1) The lower-than-expected selling prices of fuel oil blend. The state-owned **Egyptian Petroleum General Corporation (EGPC)**, which used to purchase fuel oil blend for power generation plants, reduced its purchases of the product in view of the country's self-sufficiency of natural gas. According to management, EGPC used to purchase fuel oil blend at prices higher than exports.
- 2) The higher blending cost as AMOC used higher volume of gas oil in the blending process to meet the global standards which raised the material costs and led to narrower margins.

2. How did management deal with the current situation?

AMOC's management decided to adopt a new strategy to address the current situation. This strategy will be implemented through two main actions:

- 1) Yesterday, AMOC announced that **Middle East Oil Refining Co.'s (MIDOR)** BoD agreed to sign a cooperation agreement with commercial and technical terms. Under this agreement, AMOC will utilize MIDOR's technology to convert AMOC's products that do not meet global standards into products conforming to global standards.
- 2) Management said it will use gas oil substitutes to attain global specifications at a lower cost than gas oil.

3. What is the impact of these actions and when would they reflect on operational performance?

- We think the above actions will have a favorable impact on AMOC's operational performance as the high-value output from MIDOR's facility will be easier to market globally and will generate higher margins. AMOC will replace gas oil with a lower-cost blending material, which would reduce operating cost and hence expand margins.
- We expect it will take around six months before we start seeing the impact of these actions on AMOC's financials. We note that AMOC and MIDOR did not sign the agreement yet, so we expect the operational procedures will take more than a quarter.

4. What are the catalysts for AMOC's stock performance?

- **Achieving a lighter product mix** through MIDOR's high technology facilities or through developing AMOC's production process; improving the efficiency of fuel oil blend by reducing its blending cost and improving its specs.
- **Implementation of the new expansion project** would be the strongest trigger for the stock performance as it will eliminate fuel oil blend from AMOC's output mix, leading to higher operating margins and avoiding the risk of having to market low-quality products.

- **Conclusion:** We now see AMOC's new expansion project as a "must", so AMOC needs to take immediate steps to implement it as soon as possible. While we do not expect Q1 low operating margins will sustain, we expect an overall weak performance in Q2 FY2018/19 until AMOC implements its new strategy mentioned above. In other words, over the short term, we believe Q2 margins would be slightly better than Q1 but still lower than prior quarters. Over the long term, we believe AMOC's new expansion project will turn things around if implemented.

Top Headlines

Corporate

- **Arabian Food Industries Co.** (DOMT) is targeting a 10-15% increase in its sales in 2019. DOMT's total investments in **Egypt** reached EGP880mn through 23 production lines. (Al-Mal, [Arab Finance](#))
- **Madinet Nasr Housing & Development** (MNHD) said it has delivered 457 units in Q3 2018 (214 units in *Tag Sultan* project and 243 in *Primera* project), which brings its total deliveries during 2018 to 511 units (+126% y/y). MNHD has finished construction of 2,956 units in various projects east and west Cairo with the plan to deliver them all by end of 2019. ([Company Disclosure](#))
- **Metallurgical Industries Holding Company's** (MIHC) chairman Dr. Medhat Nafea said that the **Egypt Aluminum** (EGAL) new production line will be financed through 70% debt and 30% through capital increase within the government's Public Offering Program (POP). Moreover, the company will have intended to offer a tender for construction of solar energy station by the end of this year which will improve EGAL's operating margins through reducing electricity costs. (Al-Mal)

Non-Corporate

- Yields on the **Egyptian Treasury Bonds** fell in the last auction. The yields on **5-year T-bonds** dropped from 18.418% to 18.259%, while yields on **10-year T-bonds** dropped from 18.374% to 18.092%. ([CBE](#))
- The **Egyptian government** is considering issuing an EGP-denominated bonds on the international market. Moreover, Bloomberg stated that investors would purchase the bonds in USD, but the principal and interest would be payable in EGP. ([Bloomberg](#))
- **Trade and Industry Ministry** has formally requested that Brussels allow Cairo to wait another 1 to 2 years before cutting customs duties to 0% on European Union-assembled cars brought into Egypt. (Enterprise)

Markets

↘	EGX 30	13,579.60	(0.49%)	↗	EGX 70	693.52	0.01%
↗	DFMGI	2,753.07	0.21%	↗	ADSMI	4,970.30	0.28%
↘	TASI	7,549.77	(1.29%)	↘	QE Index	10,264.07	(0.10%)
↘	S&P 500	2,740.69	(0.55%)	↘	MSCI EM	960.54	(2.27%)
↗	Gold	1,230.77	0.04%	↗	Brent Oil	76.78	0.44%

*As of market close, except for commodities at spot price as of 8.15am CLT.

- **MENA Markets:** The **EGX 30** closed in the red, dragged by losses in **ABUK**, **AMOC**, and **SWDY**. **UAE indices** ended the session higher, with **ADSMI** driven by gains in the **banking** and the **services** sectors and **DFMGI** driven by gains in the **banking** and the **transportation** sectors. Meanwhile, **TASI** ended the session down by more than 1%, amid a strong sell-off.
- **Global Markets:** **S&P 500** closed lower amid continued concerns over slowing companies' profit growth. **MSCI EM** was declined steeply, closing down by more than 2%. Meanwhile, **gold & oil** were trading higher on today's morning session.

Number of the Day

USD515mn

PepsiCo Egypt's target investment in the upcoming four years.

Today's Quiz

What is the total gross debt of Global Telecom Holding's (GTHE) Pakistani operations, Jazz?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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
Sinai Cement	SCEM	GM	29-Oct	Reviewing Agenda Items
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	4-Nov	Record date for cash dividends distribution of EGP 0.50 per share
Extracted Oils	ZEOT	Dividends	5-Nov	Record date for cash dividends distribution of EGP 0.05 per share
Export Development Bank	EXPA	Dividends	7-Nov	Distribution of cash dividends of EGP 0.50 per share
Extracted Oils	ZEOT	Dividends	8-Nov	Distribution of cash dividends of EGP 0.05 per share
Six of October Development and Investment	OCDI	EGM	8-Nov	Reviewing Agenda Items
Beltone Financial Holding	BTFH	EGM	8-Nov	Discussing cancelling the global depository receipts (GDRs) system
Orascom Development Egypt	ORHD	EGM	8-Nov	Discussing capital increase
International Agricultural Products	IFAP	GM	11-Nov	Reviewing Agenda Items
Arabia Investments and Development	AIND	Lawsuit	11-Nov	Legal Disputes Relevant to the Company
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	14-Nov	Discussing capital reduction
Global Telecom Holding	GTHE	GM	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

Total gross debt for Jazz stood at USD664mn at end of H1 2018.

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