

Today's Story

HELI — Lands with Issues Aside, Stock Is Still Cheap

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- Heliopolis Housing & Development's** (HELI) business model has long been based mainly on the sale of completed units and raw land plots to real estate developers, usually through auctions. HELI's total land bank stands at 33.1mn sqm concentrated in Eastern Cairo, out of which 24.1mn sqm (73%) are undeveloped. HELI has some parts of its land bank either disputed (3.31mn sqm) or occupied by a sovereign entity (5.1mn sqm), as per the company's latest disclosure. We note that the latter land plot has other estimations ranging from 2.26mn sqm to 8.0mn sqm, as per the company's auditor report. In addition to its huge land bank (net of disputed lands), HELI's investment rationale includes a potential turnaround story with attractive multiples:
 - Turnaround story:** HELI's management intends to change HELI's business model from a mere seller of land plots or completed units to adopting an off-plan sales strategy for its four main developments (a) **New Heliopolis City (NHC)** (c.75% of its land bank), (b) **Helio Park** (c.22%), (c) **El-Obour City** (c.1%), and (d) **Heliopolis** (c.3%).
 - Attractive multiples:** In our opinion, HELI's stock is very attractive, given that the stock is traded at: (1) EGP272/sqm, a 34% discount to its peers' average EV/sqm, (2) EGP240/sqm, a 54% discount to its peers' average market capitalization/sqm, (3) 58% below consensus target price of EGP42.0/share, suggesting an upside potential of 136%.
- Valuation:** Conservatively, in our base-case scenario, we valued HELI at EGP28.65/share (+61% upside potential), assuming that it will continue selling its land bank instead of developing it. We used the average market price per sqm of each land plot after excluding 8.41mn sqm, which is the total disputed and occupied land. We applied a high marketability discount to HELI's land bank set for each project individually according to its size, using the present value of sold land and HELI's WACC. Our base-case scenario is based on a 50% net sellable land. We accounted for two more scenarios to gauge the impact on valuation using different net sellable land percentages ($\pm 10\%$) and different estimations for total land with issues (5.57mn sqm in our best-case scenario and 11.31mn sqm in our worst-case scenario). **This resulted in a fair value range of EGP21.16-36.75/share, implying an upside potential of 19-106%.**

HELI's land valuation

Project	Gross land (sqm mn)	Net sellable land (sqm) (50% of GLA)	Price (EGP/sqm)	Current value of land (EGPmn)	Current value after SG&A and taxes (EGP mn)	Discount factor	Net value (EGP mn)	NAV per share
New Heliopolis City	16.3	8.2	2,300	18,773	14,113	71%	4,092	9.20
New Cairo (HelioPark)	7.1	3.6	2,100	7,475	5,619	48%	2,923	6.57
Heliopolis	0.9	0.4	36,200	15,504	11,655	45%	6,435	14.46
El-Obour City	0.4	0.2	2,700	533	401	24%	303	0.68
Total	24.7	12.3					13,754	30.91

Source: SHUAA Securities Egypt.

HELI's equity valuation (base-case scenario)

	EGPmn	Per share
Land valuation	13,761	30.92
Cash	8	0.02
Finished units and work in progress	79	0.18
Short- and long-term debt	(1,091)	(2.45)
Total value of Equity (EGP mn)	12,756	28.66
No. of OS share mn		445
Current market price (EGP)		17.82
Upside potential		61%

Source: SHUAA Securities Egypt.

Different net sellable land and land with issues scenarios

Scenario analysis	Base case	Best case	Worst case
Gross land area GLA (sqm mn)	33.10	33.10	33.10
Disputed land (sqm mn)	3.31	3.31	3.31
Land occupied by sovereign entity (sqm mn)	5.10	2.26	8.00
GLA (net of land with issues)	24.70	27.53	21.80
Net sellable land (% of GLA)	50%	60%	40%
Fair value	28.66	36.75	21.16
Current market price	17.82	17.82	17.82
Upside/(downside) potential	61%	106%	19%

Top Headlines

Corporate

- **Madinet Nasr Housing & Development's** (MNHD) consolidated net profit after minority grew 11.2% y/y to EGP840.3mn in 9M 2018, backed by 20.4% higher revenues of EGP2.06bn. Meanwhile, pre-sales picked up by 5.3% y/y in 9M 2018 to EGP3.84bn, mainly driven by newly-launched phases in *Taj City* and *Sarai* projects. In addition, the number of deliveries surged 126% y/y in 9M 2018 to 511 units, out of which 457 were delivered in Q3 2018. ([Company Disclosure](#))
- **Obour Land for Food Industries'** (OLFI) 9M 2018 net earnings were virtually flat at EGP179.3mn (EGP0.81/share), inching up only 1.6% y/y. The muted bottom-line growth resulted from margin contraction as gross profit margin (GPM) recorded 22.9% in 9M 2018 versus 24.2% in 9M 2017. Moreover, revenues grew to EGP1.77bn (+22% y/y) on higher white cheese volume (+10% y/y) and higher average price (+6% y/y). In addition, margin compression could be justified in light of (1) strong base period of 9M 2017 and (2) inflation impact on both consumer purchasing power and OLFI's production costs. ([Company Financials](#))
- **Alexandria Mineral Oils Co.** (AMOC) released its Q1 FY2018/19 full financials ended 30 September 2018, where earnings slid 37% y/y to EGP253mn. We note that the drop is mainly attributed to a lower GPM and higher operational cost; GPM was cut by more than half to 7% vs. 15% a year ago. Such results came in despite a 16% increase in revenues of 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. Meanwhile, lower margins are mainly attributed to three main reasons: (1) the higher cost of crude *mazut* and higher blending costs per ton, which increased by 42% and 38%, respectively, (2) the lubricants, waxes and LPG prices did not reach the same growth of materials components, and (3) the lower weight of gas oil as the company used it in its blending process, which had a negative impact on the product yield. ([Company Disclosure](#))
- **Abu Qir Fertilizers & Chemical Industries Co.** (ABUK) released its Q1 FY2018/19 preliminary results ended 30 September 2018, where earnings hiked 61% y/y to EGP752.8mn. Earnings growth could be attributed to higher GPM and revenue growth. GPM surged to 43% vs. 35% a year ago, while revenues grew 45%. In addition, management attributed this strong performance to the impact of the facilities revamp and the flexible marketing strategy. ([Company Disclosure](#))
- **Raya Holding for Financial Investments'** (RAYA) CEO, Medhat Khalil, said he is going to appeal against the date and price set in the **Financial Regulatory Authority's** (FRA) decision. We note that the FRA has conditioned that the Mandatory Tender Offer (MTO) price must not be less than the average closing price of the prior six-month period and that the offer must be submitted before the end of the trading session on 27 November 2018. ([Company Disclosure](#))
- **Orascom Construction** (ORAS) said it added USD520mn of new awards to its backlog in Q3 2018. **Egypt** accounted for c.60% of new awards while the **US** represented the balance. Consolidated backlog as of 30 September 2018 stood at USD4.1bn. **BESIX** added c.EUR380mn of new projects in Q3 2018, bringing its total new awards to EUR1.9bn and backlog to EUR3.2bn as of the end of Q3 2018. ([Company Disclosure](#))
- **Nasr Company for Civil Works'** (NCCW) BoD said that 9M financial results ended 30 September 2018 included proceeds from sales of a land plot and an administrative building with a total value of EGP80mn. ([Company Disclosure](#))
- **Alexandria Pharmaceuticals & Chemical Industries'** (AXPH) net profit declined by 17.3% y/y to EGP30.8mn in Q1 FY2018/19 despite a 24.6% y/y increase in revenues to EGP215.4mn. Meanwhile, GPM shrank to 26.0% in Q1 FY2018/19 compared to 31.4% a year ago due to a 34% y/y increase in COGS of EGP159.4mn. ([Company Disclosure](#))
- **Delta Sugar** (SUGR) reported its preliminary 9M 2018 results, where net profit retreated by 28% y/y to EGP287.9mn (EGP2.02/share). This came in light of lower revenues of EGP1.5bn (-17% y/y) on lower sales volume and increased financing costs, according to management. ([Company Disclosure](#), [Company Disclosure](#))

Non-Corporate

- **Egypt's Purchasing Managers' Index (PMI)** edged down fractionally from 48.7 in September to 48.6 in October due to soft fall in output. ([Markit](#))
- **Average yields** had mixed directions in auction held on 4 November 2018. While the yield on **91-day T-bills** fell notably to 19.419% from 19.709%, the yield on **nine-month T-bills** inched up to 19.830% from 19.812% compared to latest similar auction. ([CBE](#))
- The **Ministry of Finance** will set a VAT rate of 1% for SMEs. The move comes as part of a package of incentives for SMEs to join the formal economy, including reduced electricity bills and tax rebates when paying for government services. ([Enterprise](#))

Markets

↘	EGX 30	13,170.28	(0.24%)	↘	EGX 70	682.02	(0.81%)
↘	DFMGI	2,794.98	(0.37%)	↘	ADSMI	4,919.84	(0.02%)
↘	TASI	7,846.93	(0.41%)	↗	QE Index	10,331.14	0.49%
↘	S&P 500	2,723.06	(0.63%)	↗	MSCI EM	996.72	2.60%
↘	Gold	1,231.79	(0.09%)	↘	Brent Oil	72.45	(0.52%)

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

- **MENA Markets:** The **EGX 30** ended down on Sunday, dragged by **COMI**, **SWDY**, and **EKHO**. **UAE indices** also declined, dragged by losses in the **real estate** and the **financial** sectors in both **ADSMI** and **DFMGI**. Meanwhile, **TASI** declined, dragged by the **banking** and the **materials** sectors.
- **Global Markets:** **Asian equities** started Monday down amid profit taking after Friday's surges. Meanwhile, **oil** prices fell as the US granted **Iran** sanction waivers to major importers.

Number of the Day

5.8mn tons

Ezz Steel's (ESRS) total production capacity.

Today's Quiz

What is the largest project that Heliopolis Housing & Development (HELI) has?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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
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
Orange Egypt for Telecommunications	OREG	OPR	11-Nov	Opening of the OPR market at price per share of EGP17.29
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
Orascom Development Egypt	ORHD	Earnings Release	13-Nov	Announcing Q3 2018 financial results
Orascom Development Egypt	ORHD	Conference call	13-Nov	Discussing Q3 2018 financial results
Telecom Egypt	ETEL	Earnings Release	14-Nov	Announcing Q3 2018 financial results
Arabia Investments and Development	AIND	EGM/AGM	14-Nov	Discussing capital reduction
GB Auto	AUTO	Earnings Release	14-Nov	Announcing Q3 2018 financial results
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
Dice Sport & Casual Wear	DSCW	EGM	15-Nov	Discussing stock split
Ibnsina Pharma	ISPH	Lawsuit	19-Nov	Legal Disputes Relevant to the Company
Modern Shorouk Printing & Packaging	SMPP	EGM	21-Nov	Discussing capital increase
Edita Food Industries	EFID	EGM	25-Nov	Reviewing Agenda Items
Ezz Steel	ESRS	EGM	26-Nov	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	29-Nov	Legal Disputes Relevant to the Company
Al Ahram Co for Printing	EPPK	GM	11-Dec	Discussing recomposition of board of directors

Quiz Answer

New Heliopolis City.

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