

Today's Story

PIOH — Where's the Next Stop?

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- After successfully passing through its EGP1.1bn capital increase, **Pioneers Holding** (PIOH) has revealed yesterday its intention to acquire the remaining stake of **Elector Cables** (ELEC) that it does not already own. Through **Semow**, its subsidiary, PIOH is looking to acquire 51.5% of ELEC at EGP1.35/share or a 17% premium above ELEC's Thursday close. With EGP1.1bn of cash proceeds in its coffers, PIOH has room for many different scenarios where the funds will eventually find home. ELEC seems to be the first stop along the road, noting that we had shed the light on ELEC's attractiveness exactly a month ago. [Please read our story in The Daily Beam published on 18 October 2018.](#)
- For the next stop, it is not clear where PIOH plans to head to, but the success of ELEC's deal implicitly means PIOH will still have EGP605mn in cash from its capital increase proceeds to use. With its large investment portfolio, we think it is rational to assume that PIOH will look towards optimization to adapt with current key economic themes. This in and of itself can create a sense of hype around PIOH's listed subsidiaries as they are considered the subject of such an optimization.
- Looking at EGX-listed names that are part of PIOH's family, other than ELEC, we tried to envisage which name(s) might be stronger candidates for PIOH's next stop. As highlighted in the table below, we picked four specific screeners that we think PIOH's management may be considering when making up its mind on what to do next. Specifically, we think PIOH's management may be interested more in companies that enjoy the following:
 - 1) Companies in which PIOH owns less than 50%.
 - 2) Companies that enjoy relatively low multiples.
 - 3) Companies with a net cash position.
 - 4) Companies with land banks on their balance sheets.
- Based on the above screeners, we think **United Housing** (UNIT) and **Giza General Contracting Co.** (GGCC) are the top two candidates to potentially follow in ELEC's footsteps. UNIT and GGCC passed four and three of the four screeners, respectively. On the other end of the spectrum, we think **Unipack** (UNIP) and **Arab Dairy Products Co.** (ADPC) may eventually be candidates for monetization, in view of their relatively high net debt and PIOH's majority ownership.

| Name | NOS (mn) | Price (EGP) | Market Cap (EGPmn) | PIOH Stake | Non-PIOH Stake (EGPmn) | Non-PIOH Value (EGPmn) | P/E (x) * | P/B (x) | Land bank ? | Net Cash/ (Net Debt) (EGPmn) | % of Market Cap | Ownership below 50%? | Cheap valuation? | High net cash position? | Have land bank? |
|---------------|----------|-------------|--------------------|------------|------------------------|------------------------|-------------|-------------|-------------|------------------------------|-----------------|----------------------|------------------|-------------------------|-----------------|
| UNIT | 227 | 3.83 | 868 | 35.67% | 64.33% | 558 | 6.7x | 1.9x | Yes | 177 | 20% | Yes | Yes | Yes | Yes |
| GGCC | 244 | 1.10 | 268 | 40.50% | 59.50% | 160 | 4.2x | 0.8x | No | 18 | 7% | Yes | Yes | Yes | No |
| UEGC | 693 | 0.61 | 423 | 34.23% | 65.77% | 278 | 5.2x | 0.5x | No | 63 | 15% | Yes | Yes | Yes | No |
| ELKA | 90 | 12.95 | 1,166 | 80.58% | 19.42% | 226 | 2.4x | 0.9x | Yes | (537) | -46% | No | Yes | No | Yes |
| UNIP | 77 | 2.13 | 164 | 80.26% | 19.74% | 32 | 4.7x | 1.2x | No | (111) | -67% | No | Yes | No | No |
| ADPC | 60 | 9.50 | 570 | 70.98% | 29.02% | 165 | 16.2x | 4.8x | No | (291) | -51% | No | No | No | No |
| Median | | | 496 | | | 196 | 5.0x | 1.1x | | (47) | -20% | | | | |

* Annualized

Source: Company reports, Bloomberg, SHUAA Securities Egypt

Top Headlines

Corporate

- The **FRA** said it is currently studying a tender offer it received from **Orascom Investment Holding** (OIH) to acquire a non-controlling stake in **Sarwa Capital** (SRWA). The offer is to acquire either (a) 216mn shares (a 30% stake) at SRWA's IPO price of EGP7.36/share or (b) up to below 216mn shares but not less than 144mn shares (a 20% stake) at EGP6.62/share (10% below SRWA's IPO price). OIH will not be obligated to complete the tender offer if tendered shares were less than 144mn. ([FRA](#))
- Qalaa Holdings** (CCAP) Chairman Ahmed Heikal said that **Egyptian Refining Co.'s** (ERC) will start its commercial production by maximum end of May 2019, also mentioning that this project will reduce the **Egypt's** imports of fuel by USD2bn. (Al-Shorouk)

- **Global Telecom Holding's** (GTHE) AGM held last Thursday, 15 November 2018 approved extending the maturity of the USD100mn revolving credit facility offered by **VEON Holdings BV** for an additional three-month period. Meanwhile, GTHE's EGM approved amending articles No. 17 and 48 of the company's statutes. ([Company Disclosure](#))
- The **Egyptian government** will soon resume the sale of an additional 4.5% stake in **Eastern Company** (EAST) on the **EGX** as EAST's share price saw some recovery, the **Public Enterprises Minister** Hisham Tawfik said to Al-Mal, revealing no further details. (Al-Mal)

Non-Corporate

- The **Ministry of Finance** is targeting a 6.5% economic growth in FY2019/20, according to the initial budget circular issued recently. Other assumptions include:
 - Nominal GDP of EGP6.2tn.
 - Average annual inflation for the year 10.9%.
 - Average yield on T-bills 11.9%.
 - Budget deficit of EGP427.8bn.
 - A budget deficit-to-GDP of 7%.
 - A primary surplus of 2%. ([MoF](#))
- **Remittances** from Egyptians living abroad rose 20.4% y/y in September to USD1.8bn. ([Reuters](#))
- **Average yields** went up in the T-bills in auction held on 18 November 2018. Yield on **91-day T-bills** went up to 19.461% from 19.363%, while yield on **9-month T-bills** increased to 19.949% from 19.830% in the latest comparable auction. (CBE, [MOE](#))
- The **Egyptian government** sent draft amendments to the **Mineral Resources Act** to the **House of Representatives** for review, the **Minister of Petroleum** Tarek El-Molla said. He reiterated that the amendments aim to spur investments in the sector, expecting the executive regulations to be released six months after passing the bill. (Enterprise)

Markets

| | | | | | | | |
|---|---------|-----------|---------|---|-----------|-----------|-------|
| ↗ | EGX 30 | 13,968.80 | 2.10% | ↗ | EGX 70 | 698.34 | 0.47% |
| ↗ | DFMGI | 2,778.76 | 0.09% | ↗ | ADSMI | 5,055.46 | 0.68% |
| ↘ | TASI | 7,496.91 | (2.16%) | ↗ | QE Index | 10,297.06 | 0.81% |
| ↗ | S&P 500 | 2,736.27 | 0.22% | ↗ | MSCI EM | 986.30 | 0.56% |
| ↘ | Gold | 1,219.13 | (0.35%) | ↗ | Brent Oil | 67.31 | 0.82% |

*As of market close, except for commodities at spot price as of 8.33am CLT.

- **MENA Markets:** The **EGX 30** ended yesterday significantly up, driven by **COMI**, **EAST**, **TMGH**, and **SWDY** following the **CBE** decision to leave interest rates unchanged in addition to various stock-specific positive news. **TASI** was notably down, dragged by all sectors, flirting with its lowest levels in nearly a month.
- **Global Markets:** It's a calm morning's trading on Monday with **Asian equities** marginally up on hopes of resolving trade war worries. Elsewhere in the region, **Bank of Japan's (BoJ)** governor expressed his worries regarding weakening banks' earnings due to ultra-low interest rates. **Brent oil** prices were in the green territory, trading fractions above USD67/bbl.

Number of the Day

EGP1.08bn

Proceeds from PIOH's latest capital increase, distributed over 216.1mn shares.

Today's Quiz

What is the current stake that Pioneers Holding (PIOH) owns directly and indirectly in Electro Cables Egypt (ELEC)?

(Answer located at the end of this newsletter)

Corporate Events

| Company | Ticker | Event Type | Event Date | Reason |
|---|--------|------------|------------|---|
| 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 |
| Egyptian for Developing Building | EDBM | EGM | 1-Dec | Discussing capital reduction |
| Arabian Cement | ARCC | AGM | 1-Dec | Distribution of profits for the period from 1 Jan-31 Dec 2017 |
| Cleopatra Hospital | CLHO | EGM/AGM | 3-Dec | Reviewing the IFA report regarding the fifth hospital acquisition |
| Rubex Plastics | RUBX | EGM | 3-Dec | Reviewing Agenda Items |
| Sues Canal Co for Technology Settlement | SCTS | AGM | 5-Dec | Reviewing Agenda Items |
| Misr Chemical Industries | MICH | AGM | 9-Dec | Reviewing Agenda Items |
| Al Ahram Co for Printing | EPPK | GM | 11-Dec | Discussing recomposition of board of directors |
| Arabia Investments and Development | AIND | EGM | 13-Dec | Discussing capital reduction |
| Industrial & Engineering Projects | IEEC | EGM/AGM | 21-Dec | Reviewing Agenda Items |

Quiz Answer

48.5%.

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