

Today's Story

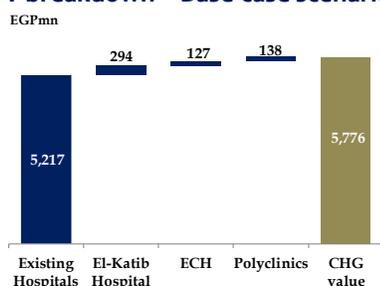
CLHO – A Winning Game of Synergy and Expansion

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Earlier this morning, we initiated coverage on Cleopatra Hospital Co. (CLHO) with an Overweight / Low Risk rating and a 12M PT of EGP5.78/share. CLHO is the largest private hospitals group in Egypt by the number of beds. The defensive nature of the health care sector along with favorable demographics and Egypt's high morbidity rates should all support CLHO's underlying business going forward and unleash a wave of growth opportunities. Egypt's new comprehensive health insurance law should lead to wider health care coverage, and hence increase demand for the healthcare services in general, making the group's future looks even brighter. Below is the executive summary of the report, but for more details, please download the full report [here](#).

- One growing group rather than scattered hospitals:** An ambitious plan for expansion and integration was developed by the company's management with the aim of building a unified entity as opposed to owning independent scattered hospitals. As this plan is coming to an end, we believe CLHO is poised to reap the rewards of its economies of scale that will to improve its operational efficiencies, profitability, and cash flows going forward. Cost of operations began to shrink while margins began to stretch, thanks to synergies between existing hospitals, the selection of hospital acquisitions that was carried out in strict compliance with the group's code of standards in addition to the employment of polyclinics referral model.
- Organic and inorganic growth to boost revenues and margins:** We estimate CLHO's revenues to grow at a 21% 8-year CAGR, and gross profit margin to widen by 628bps during our forecast horizon ending in 2025. In addition, we expect synergies and economies of scale to help improve EBITDA margin to 32% in 2025 versus 19% in 2017.
- 12M PT of EGP5.78/share, initiate with Overweight / Low Risk (ETR +24%):** We have constructed three different scenarios to gauge the impact of changes in the KPIs of different business segments on our valuation. Also, we ran a sensitivity analysis to quantify the occurrence or absence of each inorganic expansion on our valuation. Our DCF-based fair value range came in between EGP4.16/share (i.e. the lowest value in our worst-case scenario) and EGP9.13 (i.e. the highest value in our best-case scenario). Additionally, we used multiple valuation based on MENA peers' median 2018e P/E and EV/EBITDA which pointed to fair value of EGP5.96/share. Thus, we initiate our coverage on CLHO with a 12-month price target (PT) of EGP5.78/share (an expected total return of +24%) and an Overweight / Low Risk rating.

FV breakdown – Base-case scenario



Source: SHUAA Securities Egypt estimates.

FV sensitivity – Base-case scenario

		Terminal WACC				
		18.5%	17.5%	16.5%	15.5%	14.5%
Growth	9.1%	5.51	5.91	6.41	7.07	7.99
	8.1%	5.23	5.56	5.96	6.47	7.15
	7.1%	5.00	5.27	5.60	6.01	6.53
	6.1%	4.80	5.04	5.31	5.65	6.06
	5.1%	4.64	4.84	5.07	5.35	5.69

Source: SHUAA Securities Egypt estimates.

Top Headlines

Corporate

- Giza General Contracting and Real Estate Investment Co. (GGCC)** has been appointed to do sanitary work in Al-Deqahlia governorate for EGP240.7mn. ([Company Disclosure](#))

Non-Corporate

- The **Central Bank of Egypt (CBE)** kept its policy rates on hold on 27 December 2018, stating that the current rates and inflation level are in line with targets. In its release, the CBE set the inflation target at 9% ±3% on average during Q4 2020, down from 13% ±3% during Q4 2018. ([CBE](#))
- The **Ministry of Finance** approved to extend tobacco storage period to two years instead of one, as well as release the tobacco inventories currently stored in Alexandria Customs' warehouses. ([Al-Shorouk](#))

Markets

↗	EGX 30	12,984.21	1.12%	↗	EGX 70	672.40	0.39%
↗	DFMGI	2,469.49	0.03%	↗	ADSMI	4,831.23	0.29%
↗	TASI	7,749.32	0.50%	↗	QE Index	10,287.70	0.63%
↘	S&P 500	2,485.74	(0.12%)	↗	MSCI EM	962.63	1.08%
↗	Gold	1,278.27	0.20%	↗	Brent Oil	53.21	0.91%

*As of market close

- MENA Markets:** A green day it was for MENA markets last Thursday, as most of the indices bounced back after heavy slumps that clouded some markets in the last few sessions. **Egypt's** benchmark **EGX 30** surged notably, lifted by strong gains from **SWDY**, **COMI**, **EAST**, and **TMGH**. **UAE's** **ADSMI** stood up, resting on gains by blue chip **banks** and **telecommunication** stocks. Meanwhile, **DFMGI** ended higher boosted by the **real estate** sector. **Saudi Arabia's** **TASI** rose moderately as **banks** pushed the **financial** sector up.
- Global Markets:** **Asian stocks** mostly saw gains on Friday, except for Japanese stocks ended their trading year in negative territory on Friday. **U.S. stocks** were mixed after the close on Friday, as gains in the Telecoms, Consumer Services and Healthcare sectors led shares higher while losses in the Oil & Gas, Basic Materials and Industrials sectors led shares lower. Oil prices increased at Friday's close, amid positive expectations regarding prices in 2019.

Number of the Day

EGP1.646tn

The total value of loans offered by Egyptian banks as of September 2018, according to the **CBE**.

Today's Quiz

What is the liquidity coverage ratio (LCR) in local currency shown by Egypt's banks?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Cairo Investment & Real Estate	CIRA	EGM	30-Dec	Reviewing Agenda Items
Nozha International Hospital	NINH	Dividends	2-Jan	Record date for bonus shares distribution of 25%
Modern Shorouk Printing & Packaging	SMPP	Dividends	2-Jan	Record date for bonus shares distribution of 10%
Nozha International Hospital	NINH	Dividends	3-Jan	Distribution of bonus shares of 25%
Modern Shorouk Printing & Packaging	SMPP	Dividends	3-Jan	Distribution of bonus shares of 10%
Egyptian Media Production City	MPRC	EGM	3-Jan	Reviewing Agenda Items
Golden Pyramids Plaza	GPPL	EGM	5-Jan	Reviewing Agenda Items
Beltone Financial Holding	BTFH	Lawsuit	5-Jan	Legal Disputes Relevant to the Company
Raya Contact Center	RACC	EGM/AGM	9-Jan	Reviewing Agenda Items
Suez Canal Co for Technology Settlement	SCTS	EGM/AGM	10-Jan	Reviewing Agenda Items
Rowad Tourism	ROTO	EGM	21-Jan	Reviewing Agenda Items
Global Telecom Holding	GTHE	AGM	28-Jan	Discussing capital increase
Porto Group Holding	PORT	Lawsuit	29-Jan	Legal Disputes Relevant to the Company
Arabia Investments and Development	AIND	Lawsuit	3-Feb	Legal Disputes Relevant to the Company

Quiz Answer

788.3x as of September 2018, according to the CBE.

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