

## Today's Story

## ORHD + MNHD = A Better Deal?

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- Could ORHD be next in line for MNHD?** Since the recent fallout between **Sixth of October Development & Investment** (OCDI) and **Madinet Nasr Housing & Development** (MNHD), there has been growing speculation in the market about who could be the next best candidate to go after MNHD. OCDI had stated in its latest conference call that their main purpose behind the deal was the access to MNHD's landbank, which attests to its hidden value with dispute-free, unleveraged, and prime locations east of **Cairo**. After MNHD recently denied being involved in any discussion with **TMG Holding** (TMGH) and **Emaar Misr for Development** (EMFD), we looked elsewhere in the real estate sector and found that **Orascom Development Egypt** (ORHD) may benefit if it strikes a deal with MNHD. Indeed, ORHD's land needs are somewhat saturated with 49.9mn sqm (53.5% of which is undeveloped). This may be evident by ORHD's recent move into the first-home market with its latest project *O West* to be launched in March 2019. This may possibly signal an interest by ORHD in expanding its current exposure to east of **Cairo**, especially with MNHD's huge land portfolio there (*Sarai* 67% unlaunched and *Taj City* 57% unlaunched).
- A historical anecdote:** Around 10 years ago, MNHD and **Orascom Development & Management (ODM)** had signed an agreement back in 2009 to co-develop *Teegan* (later rebranded as *Taj City*), spreading over 3.5mn sqm. But in 2012, the partnership was cancelled due to official entities not approving the amended masterplan which was submitted in 2010. However, in view of the delay in its approval, the project's implementation was halted, which also coincided with the inconvenient political conditions experienced by Egypt at the time. But now that the project is up and running with Phase 2 almost selling out and noting that Mr. Samih Sawiris is involved in both entities as a shareholder (either directly or indirectly), will ORHD express an interest?
- A look ahead:** In the accompanying table, we depict some pro-forma items of both companies (ORHD + MNHD) adjusted for the actions taken since 9M 2018 until now (i.e. for ORHD, it's the sale of *Royal Azur* and *Club Azur* hotels as well as **Tamweel Group**) and the assumed post-merger scenario (if it were to take place). We note that such a combination would also result in better margins and lower leverage for ORHD. We used the market price of both stocks' as the basis for the swap ratio which came out as 1.07 MNHD shares for each 1 ORHD share. This implies a total number of shares of 2.25bn for the merged entity. This is incidentally similar to the ratio we would have calculated had we used consensus price targets.
- Conclusion:** The perceived reason behind the market's enthusiasm about the deal between OCDI and MNHD was the call of a more synergized entity that could have combined lush landbank and a premium know-how. However, the combination we suggest here (although unconfirmed by either company) sings to a different tune, as it would provide the market with a story of a competitive first-home real estate player with a sizeable landbank that happens to have the largest exposure to the tourism sector of all EGX-listed real estate developers. We note that ORHD is included in our *EGX Model Portfolio*.

<i>EGPmn, unless otherwise noted</i>	ORHD (pro forma)	MNHD	ORHD + MNHD (pro forma)
<b>Selected Financial KPIs</b>			
Revenues (TTM)	3,278	2,766	6,043
Net Income (TTM)	313	1,017	1,329
Cash & CE & ST Investments	1,817	821	2,638
Total Debt & Others	2,864	536	3,400
Net Debt / (Cash)	1,047	(284)	762
<b>Other KPIs</b>			
Price (5 Feb 2019)	7.47	6.99	7.47
No. of Shares (mn)	1,130	1,200	2,253
<b>Market Cap</b>	<b>8,445</b>	<b>8,388</b>	<b>16,833</b>
<b>Enterprise Value</b>	<b>9,492</b>	<b>8,104</b>	<b>17,595</b>
Land Bank (mn sqm)	49.9	9.1	59.0
<b>Market cap/sqm</b>	<b>169</b>	<b>922</b>	<b>285</b>
<b>Enterprise value/sqm</b>	<b>190</b>	<b>890</b>	<b>298</b>

\* This exercise assumed a merger of the two entities, which is a hypothetical model based on our own analysis. We adjusted ORHD's balance sheet for certain transactions. Source: Company data.

## Top Headlines

## Corporate

- Egypt Aluminum** (EGAL) will be advised by **National Bank of Egypt** (NBE) on securing a loan for financing a 78% production hike in primary aluminum, according to a preliminary agreement. ([Company disclosure](#))

- **Elsewedy Electric** (SWDY) is currently working on two energy projects in the UAE with a total production capacity of about 1,965MW in cooperation with a group of international companies such as Siemens International and a French company that operates in the energy field, said the company's Vice President Wael Hamdy. He pointed out that the first project is launching the fourth phase of the "H" power plant in Al-Awir in Dubai with a capacity of 815MW worth more than USD300mn, noting that the time frame for completion of the project is by 2020, and the other project is the construction of a power plant in Sharjah with a capacity of 1150MW. ([Al-Borsa](#))
- **Al-Shams Housing & Development (ELSH)** aims to invest EGP272mn during 2019 in its project *New Administrative Capital* and *Gardenia* in the west of **Cairo**. The company is also considering the set-up of a commercial project in the **Sixth of October City**. ([Al-Borsa](#))
- **Cairo for Investment & Real Estate Development** (CIRA) said that its shareholder **Kingsway Fund Management Ltd.** has increased its stake in CIRA from 4.80% to 5.35% by buying 3mn shares worth EGP28.5mn at an average price of EGP9.5/share. ([Company disclosure](#))
- **B Investments** (BINV) announced it completed the construction of its MMID (30MW) solar power plant. It has been certified by the **Egyptian Electricity Transmission Co. (EETC)** to begin feeding electricity into the national grid, BINV said, referring to the power plant which is expected to bring in annual revenues of USD7mn in EGP equivalent. ([Company disclosure](#))
- **Nozha International Hospital's** (NINH) net profit grew 19% y/y to EGP43.1mn in 2018 on 10.5% y/y higher revenues to EGP189.7mn. GPM widened slightly to 31.3% in 2018 compared to 30.3% in 2017. Meanwhile, the company announced the distribution of EGP0.6/share cash dividend, implying a 1.3% dividend yield. ([Company Disclosure](#), [Company Disclosure](#))

## Non-Corporate

- **Egypt's** external debt reached USD93bn in Q1 FY2018/19 (July-September 2019), +0.5% q/q and +15.2% y/y. Against GDP, external debt ratio fell to 35.4% from 37% in Q4 FY2017/18. ([CBE](#))
- The outflow of **foreign investments** in **Egypt's T-bills** is far slower in December than previous months, the **Central Bank of Egypt** figures show. Foreign-held balance fell by EGP2.2bn (c.USD100mn) in the last month of 2018, compared to an average monthly outflow of USD1.4bn since May 2018. On a different note, Foreign holdings in treasuries stood at USD13.1bn by end-January, **Vice Minister of Finance**, Ahmed Kouchouk said. ([Enterprise](#)) ([CBE](#), [Enterprise](#))
- **Net international reserves** (NIR) showed an uptick of USD66mn in January on pricier gold. ([CBE](#))
- **The House of Representatives'** general assembly approved proposed amendments to the Income Tax Act that would change how banks and corporations account for income from investments in government debt. The measure will require banks and companies alike to separately account for income derived from their holdings of government debt and could see their effective tax rate rise. ([Enterprise](#))
- The **Ministry of Finance** has revised downward the growth target for FY2018/19 to 5.6% from 5.8%. ([Enterprise](#))
- The **Minister of Finance** said that the government has the framework in place to launch its fuel hedging strategy, but has yet to decide on a time frame to pull the trigger. A number of international banks have approached the government with offers. An official said also that the government was also looking to hedge against volatility in the prices of wheat in the coming fiscal year to ensure Egypt meets its budget deficit target. ([Enterprise](#))
- The **Vice Minister of Finance** confirmed the ministry is planning to launch next week an Asia roadshow for Egypt's upcoming international issuances, starting with Dubai and Abu Dhabi. The ministry is planning to sell between USD3-7bn in USD- and EUR-denominated bonds, in addition to green bonds and Egypt's first JPY-denominated bonds. ([Enterprise](#))

## Markets

↗	EGX 30	14,733.11	2.55%	↗	EGX 70	689.53	0.50%
↗	DFMGI	2,542.82	0.54%	↗	ADSMI	5,137.30	0.18%
↗	TASI	8,623.92	1.21%	↘	QE Index	10,715.29	(0.11%)
↗	S&P 500	2,737.70	0.47%	↗	MSCI EM	1,051.90	0.37%
↘	Gold	1,313.66	(0.13%)	↘	Brent Oil	61.97	(0.02%)

\*As of market close, except for commodities at spot price as of 8.19am CLT.

- **MENA Markets:** EGX 30 ended yesterday's session with superior performance with highest turnover value recorded in more than eight months, supported by gains over COMI, TMGH, and GTHE. GTHE witnessed a good sentiment after VEON Ltd. (GTHE's major shareholder) announced its intention to submit a mandatory tender offer to acquire c.42.31% of the company's stocks at EGP5.30/share. UAE indices closed in green, with ADSMI boosted by its telecom and banking stocks, while DFMGI was supported by gains in the banking and the financial sectors. Also, TASI delivered a positive performance fueled by gains in banking and materials sectors.
- **Global Markets:** US equities ended mainly higher, filed by a couple of positively perceived earnings releases on Wednesday. Meanwhile, Brent oil prices remained hovering around USD62/bbl. Gold prices are trading in the negative territory with gains over the US dollar index (DXY).

## Number of the Day

## EGP988mn

Total foreigners' outflow from Egyptian equities in 2019 year-to-date.

## Today's Quiz

What is the number of EIPICO's (PHAR) factories?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Advanced Pharmaceutical Packaging	APPC	AGM	6-Feb	Reviewing Agenda Items
Egyptian Electrical Cables	ELEC	EGM	10-Feb	Reviewing Agenda Items
Commercial International Bank (CIB)	COMI	Dividends	14-Feb	Distribution of 25% stock dividends
Arabia Investments and Development	AIND	Lawsuit	17-Feb	Legal Disputes Relevant to one of the company's subsidiaries
Assiut Islamic Trading	AITG	EGM	18-Feb	Reviewing Agenda Items
Ibnsina Pharma	ISPH	Lawsuit	19-Feb	Legal Disputes Relevant to the Company
Qatar National Bank Alahly	QNBA	EGM / AGM	28-Feb	Discussing capital increase, stock split
Arabia Investments and Development	AIND	Lawsuit	17-Mar	Legal Disputes Relevant to the Company
Global Telecom Holding	GTHE	AGM	27-Mar	Discussing capital increase
Paints & Chemical Industry	PACH	Dividends	30-Apr	Distribution of cash dividends of EGP1.5/share

## Quiz Answer

Two, EIPICO 1 which has machines with old technologies and EIPICO 2 which enjoys up-to-date machines technologies.

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