

Marginally Better-Than-Expected Results Despite Normalization – PT & Rating Maintained

Analyst

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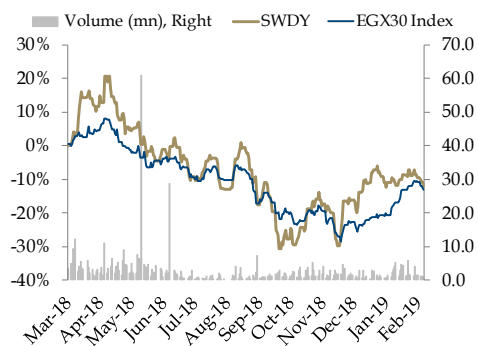
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After the impressive performance over the past years, which was largely driven by Egypt's infrastructure reforms, 2018 results came marginally better than our expectations, posting a less severe contraction in revenue and earnings as the business normalizes. We maintain our 12M PT at EGP20.6/share and rating at Neutral / Moderate Risk.

- **Slightly lower-than-expected contraction:** SWDY's 2018 revenues slipped by 1% y/y to EGP42.49bn (+3.9% vs. our estimates of EGP40.90bn). Net income fell by 22% y/y to EGP4.99bn (yet +11.7% vs. our estimates of EGP4.47bn). Profitability came in below 2017 levels in general—as expected—with gross profit, EBITDA, and net margins shrinking by 413bps, 392bps, and 309bps to 16.9%, 14.3%, and 11.7% in 2018, respectively. Meanwhile, Q4 2018 revenues increased 13% y/y to EGP12.17bn, while net income declined 17% y/y to EGP1.49bn. Margins also contracted y/y in Q4 2018. Contraction in revenues, EBITDA, and net income in 2018 was softer than our expectations; we believed 2018 would show some pullback y/y compared to the exceptional performance recorded in 2017. We note that the past few years' impressive performance, including 2017, was largely fueled by Egypt's infrastructure reforms.

- **Turnkey segment slowed down due to exceptional awards in 2017:** The decline in 2018 revenues was mainly attributed to 14.6% y/y lower revenues from the turnkey segment (the second largest contributors in revenue) to EGP13.17bn—in line with our estimates of EGP13.28bn. As we expected, this segment slowed down in 2018 following the fast-track projects in the previous years, especially 2017, which was fueled by Egypt's infrastructure projects contribution. Meanwhile, revenues from turnkey projects increased 57% y/y to EGP4.63bn in Q4 2018. The segment contribution to total revenues fell to 31.0% vs. 35.9% in 2017. As of 31 December 2018, turnkey projects' backlog stood at EGP57.6bn (+92% y/y) with power generation projects and Africa accounting for 63% and 49%, respectively, thanks to the award of *Rufiji Hydropower Project* in Tanzania.

Stock chart & data



Last Price (EGP)	17.61
52 Week Range (EGP)	5.80-12.80
6M-ADVT (EGPmn)	30.62
Market Cap (EGPmn)	38,463
No. of Shares O/S (mn) / Free float	2,184.2 / 32.3%

Financial summary

EGPmn	2016a	2017a	2018a	2019e	2020e	2021e
Revenue	24,645	42,911	42,491	47,495	52,264	55,918
EBITDA	4,205	7,802	6,060	6,164	6,882	7,350
Net Income	3,853	6,368	4,993	4,986	5,234	5,596
Revenue Growth (%)	20%	74%	(1%)	16%	10%	7%
EBITDA Growth (%)	117%	62%	(22%)	13%	12%	7%
Net Income Growth (%)	332%	65%	(22%)	12%	5%	7%
EBITDA Margin (%)	17.1%	15.9%	14.3%	13.0%	13.2%	13.2%
Net Margin (%)	15.6%	14.8%	11.7%	10.5%	10.0%	10.0%
EPS (EGP)	1.76	2.92	2.29	2.28	2.40	2.56
BVPS (EGP)	5.30	6.48	7.39	8.47	9.43	10.47
DPS (EGP)	0.41	1.60	0.80	1.48	1.56	1.67
PER (x)	4.2x	5.1x	7.2x	7.9x	7.5x	7.0x
Dividend Yield (%)	5.5%	10.9%	4.9%	8.3%	8.7%	9.3%

Source: Company reports, SHUAA Securities Egypt.

- Profitability affected by the largest contributing segment:** Gross profit declined by 20% y/y to EGP7.20bn, mainly attributed to a 33% y/y lower gross profit of the wires and cables segment of EGP3.18bn despite a 1.2% y/y growth in sales volumes during the year. The **wires and cables segment** is the largest contributor to 2018 gross profit by 44%, followed by the **turnkey segment** (with 33%) which saw its gross profit decline by 16% y/y to EGP2.37bn. Gross profit y/y growth of the other low-contribution segments (i.e. meters, transformers, and electrical products which contributed 11%, 6%, and 6%, respectively) was mixed. **Transformers segment's** gross profit declined by 5% to EGP419.8mn, while **meters segment's** gross profit grew 10% to EGP826mn. Meanwhile, **electrical products segment** showed the highest increase in gross profit of 39% to EGP402.7mn.
- Proposed DPS of EGP0.80 – lower than expected:** SWDY's board has proposed to distribute a cash dividend of EGP0.80/share (a 4.5% yield), implying a dividend payout ratio of 35%. However, this is lower than our expectations of EGP1.02/share on a 50% payout.
- Maintaining our 12M PT and rating:** With results presenting no major surprise versus our estimates, we maintain our 12M PT of EGP20.6/share (+17% expected total return). Thus, we maintain our Neutral / Moderate Risk rating.

Results summary

EGPmn	Q4 2018	Q4 2017	y/y	2018	2017	y/y	2018e	+/-
Revenue	12,175	10,793	12.8%	42,491	42,911	-1.0%	40,899	3.9%
COGS	10,158	10,793	-5.9%	35,291	33,867	4.2%	33,063	6.7%
Gross Profit	2,017	2,113	-4.6%	7,199	9,044	-20.4%	7,836	-8.1%
Gross Profit Margin	16.6%	19.6%	-302 bps	16.9%	21.1%	-413 bps	19.2%	-222 bps
EBITDA	1,736	1,831	-5.2%	6,060	7,802	-22.3%	5,475	10.7%
EBITDA Margin	14.3%	17.0%	-271 bps	14.3%	18.2%	-392 bps	13.4%	88 bps
Net Income	1,489	1,801	-17.3%	4,993	6,368	-21.6%	4,470	11.7%
Net Margin	12.2%	16.7%	-446 bps	11.7%	14.8%	-309 bps	10.9%	82 bps

Source: Company reports, SHUAA Securities Egypt.

Disclosure Appendix

METHODOLOGY: When setting an investment and risk ratings, we utilize all publicly-available sources to build an understanding of the issuer's business model and hence its intrinsic value based on one or more valuation methods. To reach a valuation, we assess factors that we deem relevant, including—but not limited to—macro, sector, and company-specific aspects.

INVESTMENT RATING: Depending on each issuer's business model, we may use (1) an income approach, (2) a markets-based approach, (3) an asset-based approach, and/or (4) sum-of-the-parts approach. In certain cases where we do not have our own financial and valuation models, we may present the consensus rating/view. For all securities actively covered, we assign one of three investment ratings (Overweight, Neutral, or Underweight) depending on the security's expected total return (price + yield) over a 12-month investment horizon as compared to the security's Required Rate of Return (RRR) as calculated using the Capital Asset Pricing Model (CAPM) and adjusted for the Risk Rating we assign to the security. Please read below for more details about our Risk Rating. Our assigned fair values are subjective and are estimates of the analysts where the security(ies) covered will trade within the next 12 months. The assigned investment rating/fair value is only valid for a maximum of three months from the date it was set.

RISK RATING: Based on the overall risk profile of each issuer/security covered, we assign one of three risk ratings (High, Moderate, or Low). The risk rating is a function of a weighted assessment of the issuer's (1) sector, (2) corporate profile, and (3) security and related volatility. The assigned risk rating is only valid for a maximum of three months from the date it was set.

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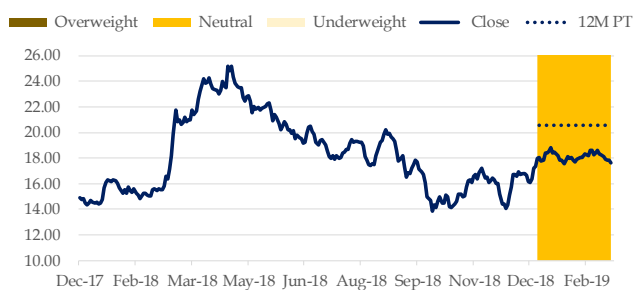
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Return / Risk Profile

	If Total Return is ...	Investment Rating		
		Overweight	Neutral	Underweight
Risk Rating	Low	Higher than RRR	Between RRR and 20% of RRR	Lower than 20% of RRR
	Moderate	Higher than RRR	Between RRR and 40% of RRR	Lower than 40% of RRR
	High	Higher than RRR	Between RRR and 60% of RRR	Lower than 60% of RRR
	Not Rated (NR)	We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations).		
	Not Covered (NC)	We do not currently cover this stock or we are restricted from coverage for regulatory reasons.		

Investment Rating & Price Target History



Rating history

From	To	Date	Analyst
NC	Neutral / Moderate Risk	1-Jan-19	Lobna Khaled
Neutral / Moderate Risk	Neutral / Moderate Risk	27-Feb-19	Ahmed Abdelnaby

12-month price target history

From	To	Date	Analyst
None	20.60	1-Jan-19	Lobna Khaled
20.60	20.60	27-Feb-19	Ahmed Abdelnaby

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