

Today's Story

EFIC – Heavier Export Weight Dilutes the Impact of Higher Materials Cost

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- **Egyptian Financial & Industrial Co. (EFIC)** disclosed its consolidated results for 2018, where ...
 - **On a yearly basis**, earnings fell 25% y/y to EGP114.7mn on 510bps narrower gross profit margin (GPM) of 31.6%. Gross profit inched slightly higher to EGP505.4mn despite 17% y/y higher revenues of EGP1.60bn. The decline in earnings is blamed on (1) narrower operating margins as phosphate and sulphur got pricier and utilities cost escalated by the new fiscal year, (2) slightly higher selling expenses, and (3) higher interest expense.
 - **On a quarterly basis**, Q4 2018 earnings grew 19% y/y but slumped by 44% q/q to EGP26.5mn, hit by a GPM of 29.6% (-309bps q/q, +27bps y/y). Q4 2018 gross profit rose by 26% y/y (-2% q/q) to EGP152.2mn, thanks to 25% y/y higher revenues of EGP513.3mn (+8% q/q). Earnings were weighed down by lower gross margins and higher taxes and overheads in Q4 2018.

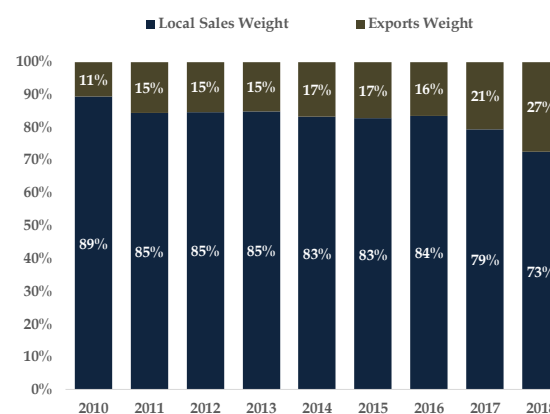
EGP,000	2018	2017	y/y	Q4 2018	Q4 2017	y/y	Q3 2018	q/q
Revenue	1,601,630	1,373,975	17%	513,343	411,741	25%	474,335	8%
Gross Profit	505,374	503,580	0%	152,155	120,928	26%	155,240	-2%
Net Profit	114,741	152,162	-25%	26,480	22,218	19%	47,185	-44%
GPM	31.6%	36.7%	-510 bps	29.6%	29.4%	27 bps	32.7%	-309 bps
NPM	7.2%	11.1%	-391 bps	5.2%	5.4%	-24 bps	9.9%	-479 bps

Source: Company reports.

We note that as mentioned in [The Daily Beam published on 28 January 2019](#), EFIC's management was quoted as saying that exports weight of granulated single super phosphate (GSSP) increased on a yearly basis, thanks to penetration of new markets abroad in pursuit of a strategy designed to expand sales globally. This strategy was employed by the company to take advantage of export selling prices that are c.30% higher than local selling prices.

- **Conclusion:** EFIC is currently trading at a TTM P/E of 6.9x, which we think is still attractive when compared to its growth potential. On the other hand, volatile prices of phosphate rock and sulphur still pose the gravest risk for EFIC. Therefore, we believe that increasing exports weight in sales holds the key for unlocking the stock's value in the future, allowing EFIC to enjoy wider operating margins.

Exports weight increased in 2018



Source: Company reports.

Top Headlines

Corporate

- **Edita Food Industries' (EFID)** Q4 2018 bottom-line stood at EGP128mn (+20% y/y) on higher sales of EGP1.1bn (+13.2% y/y). Margins improved, where GPM registered 35.8% versus 31.4% a year earlier. For the whole year, EFID posted earnings of EGP304mn (+43% y/y) on revenues of EGP3.78bn, driven by both volume and pricing and implying a net profit margin of 8% versus 7% a year earlier. ([Earnings release](#))
- **Qalaa Holdings (CCAP)** announced the successful operation of the diesel hydro-treater in its subsidiary **Egyptian Refining Co. (ERC)**. In a filing with the **EGX**, CCAP said the trial operation of all the project units, which reached a 99.28% completion rate, is expected to be finished by the end of Q2 2019, while commercial operation is expected to begin in Q3 2019. ([Company disclosure](#))

- **Egypt Aluminum (EGAL)** targets revenues of EGP14.00bn for FY2019/20 (+2.9% vs. FY2018/19 target). FY2019/20 budget also sets a net loss of EGP167.4mn vs. the net profit of EGP665.7mn that was targeted for FY2018/19. ([Company disclosure](#))

Non-Corporate

- The **Ministry of Finance** and the **Federation of Egyptian Banks (FEB)** have reached an agreement on a key aspect of newly-ratified amendments to the *Income Tax Act*. The agreement will see the cost ratio of income from holdings of Treasuries capped at 50% and allow these expenses to be counted as deductibles against pre-tax income on the income statement. This provision, as well as rules on the recognition and calculation of allowable costs, are expected to be in the executive regulations, which could be out soon. ([Enterprise](#))
- The **Financial Regulatory Authority (FRA)** issued regulations yesterday to bring the short selling mechanism to the **EGX**. The regulations will allow brokerage firms to act as market makers by finding lenders and borrowers of stocks. The FRA added that the EGX still needs to finalize the technical systems to support short selling then let the FRA know when it is ready to launch the product. ([Enterprise](#))
- The **Central Bank of Egypt (CBE)** has issued Circular No. 42 on 26 February 2019 regarding the implementation of IFRS9, according to which Egyptian banks are expected to prepare their financial statements starting 2019. ([CBE](#))
- The **Ministry of Trade & Industry** will pay EGP7.8bn worth of overdue export subsidies to exporters. ([Enterprise](#))
- The **Egyptian cotton exports** increased c.45% to 128,300 metric quintals in the September-November 2018 period compared to the same period a year earlier, according to **CAPMAS**. ([Arab Finance](#))
- **Saudi Aramco** has agreed to deliver more than 500,000 barrels of crude oil every month to Egyptian refineries, starting January for a period of six months, **Egypt's Minister of Petroleum** Tarek El Molla said. ([Reuters](#))

Markets

📉	EGX 30	14,886.85	(0.40%)	📈	EGX 70	716.25	0.06%
📈	DFMGI	2,683.74	0.85%	📈	ADSMI	5,139.80	0.47%
📈	TASI	8,456.22	0.27%	📈	QE Index	10,255.97	0.29%
📉	S&P 500	2,793.90	(0.08%)	📉	MSCI EM	1,064.94	(0.25%)
📉	Gold	1,327.76	(0.09%)	📈	Brent Oil	65.65	0.67%

*As of market close, except for commodities at spot price as of 8.21am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** pared its early gains to close Tuesday session slightly down, pressured by **COMI**, **EAST**, and **GTHE**. UAE's **ADSMI** surged on stronger **banking** and **services** stocks, while **real estate** and **financial services** stocks boosted **DFMGI**. In **Saudi Arabia**, **TASI** gained as **materials** and **telecom** stocks strengthened.
- **Global Markets:** The **Dow** finished Tuesday's session almost flat as investors still wondered what was up with a possible trade deal. **Asian shares** were higher in muted trading Wednesday as investors awaited the second summit between **US President** Donald Trump and **North Korean** leader Kim Jong Un in **Vietnam**. **Gold** was trading slightly lower in today's morning session, while **oil** was trading higher.

Number of the Day

EGP66.6bn

Total pharmaceuticals sales in **Egypt** in 2018.

Today's Quiz

How many EGX-listed companies have reported earnings of over EGP1bn in 2018 so far?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Egyptian Chemical Industries - Kima	EGCH	Dividends	27-Feb	Ex-date for 0.017 stock dividends
Egyptian International Pharmaceuticals (EIPICO)	PHAR	Dividends	27-Feb	Ex-date for 25% stock dividends
MM Group for Industry	MTIE	BoD	27-Feb	Approving Q4 2018 Results
MM Group for Industry	MTIE	Conference Call	28-Feb	Discussing Q4 2018 Results
Qatar National Bank Alahly	QNBA	EGM / AGM	28-Feb	Discussing capital increase, stock split
New Ismailia for Urban Development	IDRE	EGM	28-Feb	Reviewing Agenda Items
Ismailia Misr Poultry	ISMA	EGM	28-Feb	Reviewing Agenda Items
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	28-Feb	Legal Disputes relevant to <i>Porto Tartous</i> project
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	3-Mar	Legal Disputes relevant to <i>Porto Tartous</i> project
National Co For Maize Products	NCMP	EGM	4-Mar	Reviewing Agenda Items
Juhayna Food Industries	JUFO	EGM / AGM	7-Mar	Reviewing Agenda Items
Union National Bank Egypt	UNBE	EGM / AGM	9-Mar	Reviewing Agenda Items
Commercial International Bank (CIB)	COMI	EGM	10-Mar	Reviewing Agenda Items
El Arabia Engineering Industries	EEII	EGM	10-Mar	Reviewing Agenda Items
GB Auto	AUTO	Conference Call	11-Mar	Discussing Q4 2018 Results
Sabaa International Co	SIPC	EGM	16-Mar	Reviewing Agenda Items
Arabia Investments and Development	AIND	Lawsuit	17-Mar	Legal Disputes Relevant to the Company
CI Capital Holding	CICH	EGM / AGM	20-Mar	Reviewing Agenda Items
Misr Cement (Qena)	MCQE	AGM	23-Mar	Distribution of cash dividends of EGP0.50/share
National Housing for professional Syndicates	NHPS	EGM	27-Mar	Reviewing Agenda Items
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

14 companies below, namely ...

Ticker	2018 earnings (EGPmn)
COMI	9,582
QNBA	7,201
EAST	4,241
ETEL	3,484
EGAL	2,716
ALCN	2,447
ABUK	2,420
CIEB	2,201
HDBK	1,949
TMGH	1,705
AMOC	1,487
SKPC	1,302
MNHD	1,085
SAUD	1,004

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