

Egypt Kuwait Holding Co. (EKHO) / Energy

Higher Gas Reserves to Boost Value; Adding EKHO to EGX Model Portfolio

Updating our stock picks, we are adding Egypt Kuwait Holding Co. (EKHO) to our EGX Model Portfolio (EGX-MP), replacing Ibsina Pharma (ISPH) which hit our price target as published on [20 February 2019](#), generating a 24% return since 20 January 2019.

Key Highlights

- **New surprise enhances the value:** Last Thursday, **Egypt Kuwait Holding Co. (EKHO)** disclosed—within its 2018 earnings release—the seismic survey analysis conducted by **Schlumberger’s** subsidiary **WesternGeco** which has revealed potential natural gas reserves of 2.35tn cubic feet and 112mn bbl of condensates in the **Offshore North Sinai (ONS)** field. Those reserves are divided into two layers:
 - **Shallow layer**, which contains around 821bcf implying recoverable reserves of c.534bcf, instead of the 218bcf that was recently mentioned in September 2018 (assuming a recoverable ratio of 65%).
 - **Deep layer**, which contains around 1.53tcf (900bcf assuming a recoverable ratio of 60%) and 112mn bbl of condensates.
- **What is the impact of those news on EKHO’s Value?** The net entitlement rate of these discoveries will be around 56% and the Mcf price will range from USD5.18 to USD5.88 depending on oil prices, while the condensates bbl price will be at a premium to Brent crude price.
 - We valued the shallow layer applying an EV/Mcf of USD0.85, which implies an initial added value of **USD0.26/EKHO share**.

- Applying an EV/Mcf of USD0.75 to value the natural gas reserves in the deep layer, we reached an initial added value of **USD0.66/EKHO share**.
- We valued the condensates reserves using an EV/bbl of USD10.0, applying the same net entitlement rate of 56%, which implies an initial added value of **USD0.37/EKHO share**.

Valuation

- **PT USD2.06/share:** Using a 50% probability of the development of the deep layer reserves and applying the conservative multiples that we mentioned, we arrived at a PT of USD2.06/share which can add USD0.78/share to EKHO’s pre-announcement valuation, implying an upside potential of 46% (vs. yesterday’s closing price).
- We note that the strongest catalyst for the stock value is the commencement of the digging and exploratory works of the deep layer which is expected to be in H2 2019, according to the management. Once those “deep layer” reserves are proven, we think the stock value would re-rate further to USD2.57/share to reflect their commercial feasibility.

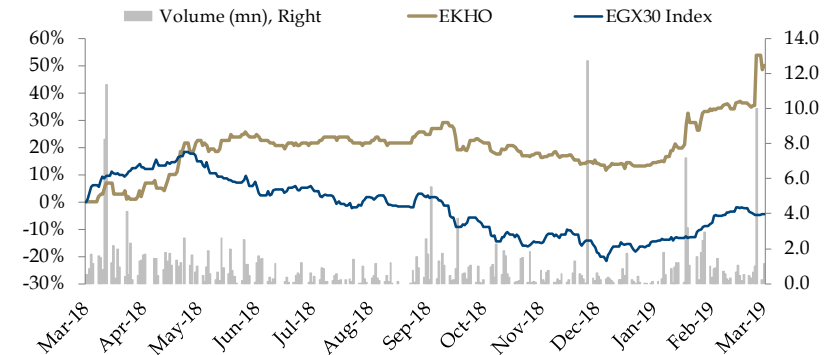
Risks

- Higher-than-expected capex levels for the development of the new reserves or higher-than-expected concession fees.
- Any delay in the exploration works.

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Not Rated

PT: **USD2.06**



Last Price (USD)	1.42
52 Week Range (USD)	0.98 - 1.548
6M-ADVT (USDmn)	1.11
Market Cap (USDmn)	1,455
No. of Shares O/S (mn) / Free float	1,024.4 / 50.4%

Source: Bloomberg.

EKHO valuation pre- vs. post-announcement (USD/share)

Pre-Announcement Stock Price	ONS Shallow Layer	ONS Deep Layer (Natural Gas)	ONS Deep Layer (Condensates)	Total
1.28	0.26	0.66	0.37	1.29
Change	0.26	0.66	0.37	1.29
Probability	100%	50%	50%	
Value added	0.26	0.33	0.18	0.78
Stock Value with New Discoveries				2.57
Stock Value with New Discoveries (probability-weighted)				2.06
Last Price (On March 2019)				1.405
Upside Potential				46%

Source: SHUAA Securities Egypt.

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