

### What's Next?

Elsewedy Electric (SWDY) has delivered an impressive performance over the last few years, largely helped by Egypt's infrastructure reforms aimed at boosting investments. SWDY's revenue and net income grew at 5-year CAGRs (2012-2017) of 24% and 123%, respectively. SWDY's success story began in 2014 when the country was faced by a severe power crisis. In efforts to solve this shortage, the Egyptian government started implementing many fast-track power generation projects, from which SWDY was able to gain a sizeable share. Now, as these projects are coming to an end, an important question comes up: What's next? We believe there is more for SWDY to offer in the future as it fully transforms into an electric product and service provider.

- Shifting focus to other power segments:** As conventional power generation projects are slowing down, SWDY could capitalize on four windows of opportunities: (1) GCC and Africa's engagement in major power projects within SWDY's area of expertise, (2) Transmission and distribution (T&D) projects which accommodate the power generation projects, (3) Renewable power generation projects and (4) Industrial projects.
- Normalization afoot after operating on extraordinary margins over the previous years:** In addition to normalizing margins of both turnkey and cables segments, SWDY is starting to normalize revenue growth which was extraordinarily stimulated on the back of the Egyptian structural reforms. Thus, growth should continue but at a more normalized pace, save for more turnkey business as SWDY builds up more capacity to handle more projects.
- 12M PT of EGP20.6/share, initiate with Neutral / Moderate Risk (ETR +14.6%):** To value SWDY, we discounted FCFs at an average WACC of 15.8%, assuming a beta of 0.963. We have set two different scenarios (discussed in further details in this note) to mainly see the impact of different turnkey awards. Our valuation range came in between EGP18.9-23.2/share. Our base-case scenario yielded a 12-month price target (PT) of EGP20.6/share (ETR +14.6%), warranting a Neutral / Moderate Risk rating after the stock's recent rally.

### Financial Summary

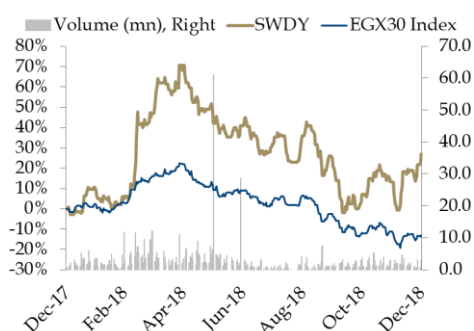
EGPmn	2016a	2017a	2018e	2019e	2020e	2021e
Revenue	24,645	42,911	40,899	47,495	52,264	55,918
EBITDA	4,205	6,821	5,475	6,164	6,884	7,354
Net Income	3,853	6,368	4,470	4,986	5,234	5,596
Revenue Growth (%)	20%	74%	(5%)	16%	10%	7%
EBITDA Growth (%)	117%	62%	(20%)	13%	12%	7%
Net Income Growth (%)	332%	65%	(30%)	12%	5%	7%
EBITDA Margin (%)	17.1%	15.9%	13.4%	13.0%	13.2%	13.2%
Net Margin (%)	15.6%	14.8%	10.9%	10.5%	10.0%	10.0%
Net Debt (Cash)	2,696	497	1,058	(260)	(799)	(1,889)
EPS (EGP)	1.76	2.92	2.05	2.28	2.40	2.56
BVPS (EGP)	5.30	6.48	7.58	8.47	9.43	10.47
DPS (EGP)	0.41	1.60	1.02	1.48	1.56	1.67
PER (x)	4.2x	5.1x	8.8x	7.9x	7.5x	7.0x
EV/EBITDA (x)	4.7x	4.9x	7.5x	6.5x	5.8x	5.3x
Dividend Yield (%)	5.5%	10.9%	5.7%	8.3%	8.7%	9.3%

Source: Company reports and SHUAA Securities Egypt estimates.

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### Stock Chart & Data



Last Price (EGP)	17.97
52 Week Range (EGP)	13.5 - 25.853
6M-ADVT (EGPmn)	25.71
Market Cap (EGPmn)	39,250
No. of Shares O/S (mn) / Free float	2,184.2 / 32.3%

\*Last price as of 31 December 2018

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## The Story

SWDY is a fully-integrated energy solutions provider, operating in a range of segments, starting from raw materials, such as metals and plastics, inputs across the spectrum of wires, cables, and electrical products to electricity generation, contracting, and turnkey infrastructure projects. Having been operating for 34 years, it currently has 22 production facilities, exporting to 110 countries, with more than 14,000 employees.

### Wires and Cables (58% of revenues, GPM 12.9% as of 9M 2018)

SWDY produces power cables, special cables, fiber optic cables, winding wires, and raw materials. It has production facilities in **Egypt, Qatar (Doha Cables), Algeria (Elsewedy Cables Algeria), Saudi Arabia (Elsewedy Cables KSA), and Ethiopia (Elsewedy Cables Ethiopia)**. More than 50% of the group's production of copper and plastics is consumed by the group's companies (noting that copper and plastic are the main components of wires and cables).

- **Special cables:** SWDY specializes in designing and producing cables tailored to customers' preferences.
- **Power cables:** SWDY makes overhead conductors, low-voltage cables, medium-voltage cables, high- and extra high-voltage cables.
- **Winding wires:** SWDY manufactures copper wires with thin enamel insulation, instead of the usual thicker plastic, for applications that require tight coils of insulated wires, such as transformers, motors, generators, and others.
- **Raw materials:** SWDY produces three types of raw materials which it mostly uses for its own production. These materials are: (1) PVC which is a strong and lightweight form of plastic that is used in cables, pipes, etc. for its unique properties, (2) steel, and (3) copper rods.

### Turnkey (28% of revenues, GPM 19.4% as of 9M 2018)

SWDY's engineering and construction groups are **Power System Projects (PSP), Elsewedy T&D, Rowad, Elsewedy Power, 3W Networks, and Egytech**. SWDY delivers turnkey solutions in Egypt and internationally in the fields of power generation and transmission & distribution (T&D), offering an array of services starting from feasibility studies all the way to after-sales support once projects are completed. SWDY provides these services in **Egypt, Iraq, Yemen, Saudi Arabia, Qatar, Libya, Algeria, Chad, Ghana, Cameroon, Ethiopia, Mozambique, Niger, Rwanda, Zambia, Angola, and Equatorial Guinea**.

- **T&D:** SWDY works on T&D projects, such as high-voltage overhead transmission lines, rural electrification, and street lighting.
- **Power generation:** SWDY offers engineering, procurement, and construction (EPC) solutions within power generation and power substation projects.

## The Story (Cont.'d)

### Transformers (4% of revenues, GPM 26.8% as of 9M 2018)

SWDY produces a full range of low-, medium-, and high-voltage transformers, including power and distribution transformers in **Egypt, Algeria, and Zambia.**

- **Distribution transformers:** These provide the final voltage transformation in the electric power distribution system, stepping down the voltage used in the distribution lines to the level used by the customer, i.e. used in distribution networks.
- **Power transformers:** These are used in transmission networks of higher voltages for step-up and step-down applications.
- **Transformer services:** An after-sale service, where the company provides repairs, assessment, preventative maintenance, and others to clients.

### Meters (8% of revenues, GPM 25.8% as of 9M 2018)

SWDY manufactures smart, induction, residential, and industrial meters. In 2008, SWDY had acquired **Iskraemeco Slovenia**, a metering equipment producer and service provider. SWDY's meters segment covers development, production, and distribution of the equipment used to measure, register, bill, and control energy and power.

### Other Electrical Products (2% of revenues, GPM 53.3% as of 9M 2018)

- **Cable accessories:** Provided by **Elsewedy SEDCO**, they are services ranging from engineering, design, and correct accessory selection to supplying, training, installation, and supervision.
- **Insulators:** In June 2008, **Elsewedy Electric** took over the **Egyptian Co. for Manufacturing Electrical Insulators (ECMEI)**, an electric ceramic insulator producer operating in the Middle East.
- **Explosion proof:** SWDY offers solutions that are highly cost effective in their design and installation process, and it also provides high-level technical support and advice on the selection and use of explosion-proof products in hazardous areas.
- **Fiber Glass Poles:** Fiber glass is a common type of fiber-reinforced plastic using glass fiber. It is lightweight, strong, and not easily broken. SWDY manufactures poles as high as 14m used for several applications, such as street lighting, traffic signs, signal carriers, flags, and overhead transmission.

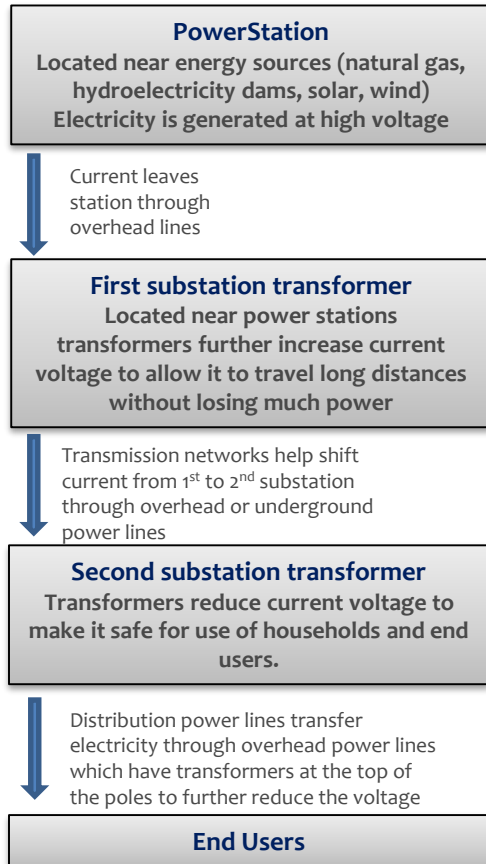
## The Story (Cont.'d)

### Egypt's Side of the Story

#### Moving from conventional power generation to renewable resources

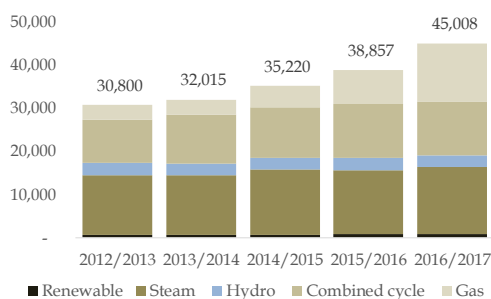
- 2014 — A changing point for SWDY:** All eyes have been on SWDY's turnkey segment the last couple of years, as the segment has been performing exceptionally well on the back of the Egyptian government's reforms after Egypt's power crisis in 2014. In August 2014, the country's electricity demand hit a record daily high of 27,700 MW, 20% more than what the power stations could provide at the time. Egypt was going through one of its most serious energy crises in decades, with parts of the country facing around six power cuts a day for up to two hours each. All the government's efforts were concentrated towards overcoming the power shortage problem, marking the beginning of a four-year period full of power generation projects.
- Slowdown of conventional power generation projects:** Just recently in July 2018, three huge power plants were inaugurated **Beni Suef, Burullus, and New Capital**. The stations added a total power capacity of 14.4 GW to Egypt's national grid, enough power to supply up to 40mn people with reliable electricity. SWDY had participated in the execution of Beni Suef plant in a joint venture with **Siemens**. As the inauguration of these projects satisfies a considerable part of demand, we believe the possibility of having new power generation projects such as these will narrow.
- Time for renewable energy:** The end of these conventional power generation projects might mark the beginning of a clean era. Egypt plans to shift to 20% renewable energy by 2022, and hence we believe the focus in the coming period is shifting too to renewable power generation projects. Egypt possesses an abundance of land, sunny weather, and high wind speeds—natural resources that make it a prime location for renewable energy generation. To achieve its target, Egypt is currently working on **Benban Solar Park** with a planned capacity of 1.8GW, and **Gabal El-Zeit Wind Farm** with a planned capacity of 580MW, both are the world's largest in their respective energy space.

#### The electrical current journey



Source: eia.gov

#### Egypt's energy production mix (MW)



Source: EEHC 2016/2017 annual report

#### Past the power generation phase and onto T&D

- All forms of power generation, whether conventional or renewable, create a need for transmission and distribution (T&D) support. With many power generation projects being implemented, T&D projects are going to be equally needed to accommodate them. This need for accommodation arises after electricity is generated, as it must go to a substation to be subject to an increase in electric current voltage to be capable of travelling for long distances without losing much power, then it must go to a second substation to reduce its voltage then before final delivery to the end users.
- Once again, government plans to give SWDY a boost:** The Egyptian government has a three-year plan to develop Egypt's T&D network. Executing this plan is scheduled for FY2016/17 through FY2018/19 with a total investment cost of EGP37.4bn.

## The Story (Cont.'d)

- The plan works on two fronts: transmission and distribution. Developing the transmission grid with a total cost of EGP18bn includes building new transmission stations, upgrading old transmission stations, and buying transformers. In light of the plan, all overhead transmission lines are replaced with underground ones, as overhead transmission lines are more prone to damage by environmental conditions and are considered a hazard under unstable weather conditions. Moreover, the lines in places posing a hazard and had a huge risk are already replaced. Thereafter, the lines in the remaining less risky areas already started in June 2018 and are expected to be completed within a year.
- The second focus of the plan is developing a distribution grid with a total cost of EGP19.3bn. It includes adding around 89,000 street light poles and installing 5,000 km of low-voltage cables, adding 283,000 low voltage power poles and around 9,000 distribution transformers.

### SWDY's new awards in 2018

Transmission and distribution projects	Date	Project value (EGPmn)
1. Borg El-Arab and Marsa Matrouh power transmission lines.	Mar-18	2,120
2. Embaba and Moatamdeya power transmission lines.	Mar-18	225
3. New Administrative Capital substation.	Mar-18	1,238
4. Supply and install fiber optics cables to connect Zahraa power transmission station to the national grid.	Jul-18	430
5. Developing and connecting around 115 transmission stations in six Canal cities to the national grid.	Sep-18	138

GCC and Africa projects	Date	Project value
1. Power station in Dubai in consortium with Siemens.	Feb-18	USD300mn
2. Street lights in Kuwait.	Feb-18	KWD5.5mn
3. Mauritania power transmission network.	Aug-18	USD19.8mn
4. 2,115 MW hydroelectric power plant in Tanzania in consortium with Arab Contractors.	Dec-18	USD1.31bn

Industrial Park Developments	Date	Project value (EGPmn)
1. Developing industrial zone in Al-Sadat City with an area of 1.4mn sqm.	Feb-18	266
2. Developing two industrial zones in the Tenth of Ramadan City with an area of 2mn sqm each.	Jul-18	880

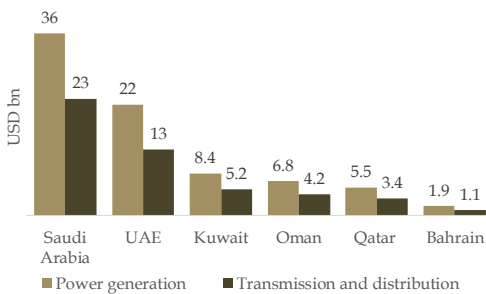
Source: Company reports

## The Story (Cont.'d)

### The Other Side of the Story

#### GCC and Africa front and center of stage

#### GCC investments in power through 2023



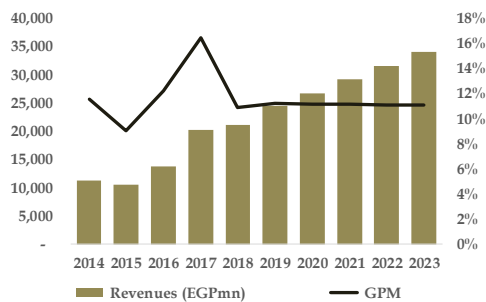
Source: GCC Power market report 2018

- While **Egypt's** story is reaching midway, **GCC's** story is just beginning. As the case with Egypt, the GCC also has plans in action to improve their energy sector. GCC countries have realized that they can no longer only be dependent on oil resources for economic prosperity over the long term and have changed focus to economic diversification. Hence, they are shifting towards renewable resources for energy generation to preserve their oil wealth. Currently, renewables form the fastest growing energy source for electricity generation. The **UAE** has announced a strategy to run 50% on clean energy by 2050.
- **Saudi Arabia's** National Renewable Energy Program aims to substantially increase the share of renewable energy in the total energy mix, targeting to generate 3.45 GW of renewable energy by 2020 under the National Transformation Program (NTP) and 9.5 GW by 2023. Also, **Kuwait** is eyeing to generate 15% of its total energy consumption from renewables by 2035; that is over 4.5 GW capacity. SWDY is quite capable of participating in such projects, and, as discussed earlier, the addition of power generation is always followed by T&D projects to accommodate the extra capacity. Therefore, we see Egypt's story recurring with the GCC.
- SWDY's intention to set foot in **Africa** has become quite apparent, starting with the USD500mn loan agreement with the **African Export-Import Bank (Afreximbank)**, a multi-purpose global facility to finance future projects in Africa. There are two contracts for EPC works on power transmission networks in **Mauritania** valued at USD8mn and USD11.7mn. There is also the electricity generation equipment factory in **Uganda** set to kick off in 2019. Lastly and most importantly, there is the USD2.9bn EPC contract for Rufiji Dam & Hydropower Plant in **Tanzania**, the single biggest contract ever for SWDY. It was followed by plans to establish a new company, to partner with an already existing company, or to open a new branch in Tanzania. All above projects give a glimpse of the opportunities the lie ahead for SWDY in Africa.

## The Numbers

SWDY's total revenue grew at a 5-year CAGR of 24% in the 2012-2017 period, mainly driven by both the turnkey and cables segments which rose at 5-year CAGRs of 54% and 14%, respectively. Gross profit increased at a 5-year CAGR of 35%, and GPM was exceptionally high during 2016 and 2017. Net income shot up at a 5-year CAGR of 123%. SWDY's net debt as of September 2018 stood at EGP931.1mn as a result of using credit and bank facilities to buy copper on a cash basis. Net debt/EBITDA (TTM), however, is not worrying, standing at 0.15x.

### Cables segment

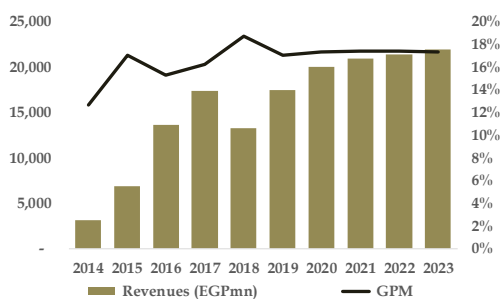


Source: Company reports and SHUAA Securities Egypt estimates.

### Cables

- Historically:** The cables segment has always been the number one revenue contributor for SWDY. Prior to 2015, the segment contributed c.80% to SWDY's total revenues and had an average GPM of 10%. Starting 2015, the revenue contribution of cables started decreasing to around 66% due to an increase in contribution from the turnkey segment, declining to 56% by 2016. This segment has been a beneficiary of the reforms Egypt has been pushing through to improve the country's infrastructure.
- Recently:** Revenues grew 8% y/y in 9M 2018, spurred by higher prices, whereas volume rose by only 0.3% y/y. GPM fell considerably y/y from 22.9% to 12.9%, understandably as 2017 margins were extraordinary considering the then low-cost inventory from pre-flotation. This low-cost inventory was depleted by Q4 2017, reflecting on margins which started to normalize again. As evident in 9M 2018 results, contribution of the cables segment (58% of total revenues) is beginning to bounce back to historic levels.
- Going forward:** We expect this segment to perform well, backed by the T&D projects needed to cater for the power generation projects already executed. As explained above, transferring electricity from power generation stations to end-users needs T&D networks; hence, we expect demand for the cables to be even higher in the years ahead compared to the prior years. We forecast this segment's contribution to revenues to hover around 60%, lower than the historical 80% level as revenues generated from the turnkey segment are not expected to revert back to their historical low levels. We forecast a GPM of c.11% lower than 2017 but still higher than historical levels, on the back of small cable producers still not being able to enter the market after the surge in copper because of flotation. There is risk, however, that these producers may be able to re-enter the market after the recent drop in commodity prices, which may narrow SWDY's its margins.

### Turnkey segment



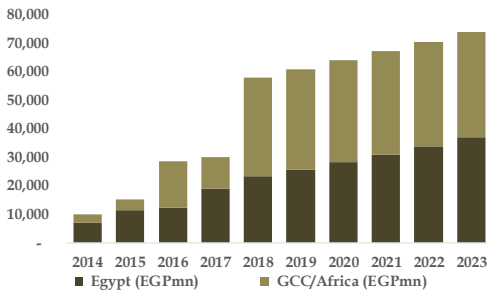
Source: Company reports and SHUAA Securities Egypt estimates.

### Turnkey

- Historically:** The turnkey segment has been the driver for SWDY's success over the last four years. Turnkey projects were fast-track and of large scale, achieving record high margins. The turnkey's backlog grew at a 3-year CAGR (2014-2017) of 45% to EGP30bn. Today, the backlog stands at EGP35.6bn. Egypt represented around 63% of the backlog, while GCC and Africa accounted for the rest. The segment's contribution to revenues prior to 2015 was around 10% before increasing to an average of 31% during the 2015-2017 period.

## The Numbers (Cont.'d)

### Turnkey backlog

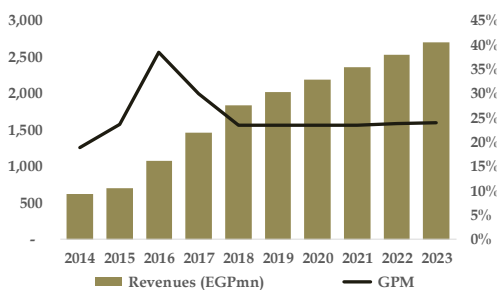


Source: Company reports and SHUAA Securities Egypt estimates.

- Recently:** The turnkey segment's revenues dropped 31% y/y in 9M 2018. Two trends have become apparent enough to consider. First, the turnkey segment's contribution to revenue retreated in 9M 2018 to 28%, down from 39% in 9M 2017. Second, Egypt's percentage of backlog dived from 64% to 53%. We expect both these trends to persist in the future.
- Going forward:** We foresee the 9M 2018 trend to continue with more contribution from GCC and Africa and less from Egypt. We expect more T&D projects and power generation from renewable resources rather than conventional. We forecast the segment's contribution to revenue to continue at an average of 30% as SWDY's involvement in GCC and Africa's projects should offset any slowdown in projects from Egypt. Also GPM to normalize to c.17% after being high on the back of the fast track projects in Egypt.

### Transformers and Meters

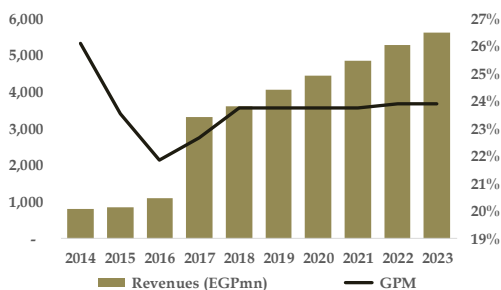
#### Transformers segment



Source: Company reports and SHUAA Securities Egypt estimates.

- Historically:** Both transformers and meters have been relatively stable segments in regard to their contribution to revenues. The contribution to revenues from the overall electrical products segment (including meters, transformers, and other electrical products) hovered around 8% during the last four years.
- Recently:** Transformers' revenues leapt 58% y/y in 9M 2018, bolstered by 40% y/y higher volumes, supporting our view of a boom in this segment that echoes execution of T&D projects. Meanwhile, the meters segment's revenues grew 23% y/y, fueled by prices, while volume increased as little as 1%. Transformers had a GPM of 26.8% in 9M 2018, while meters had a GPM of 25.8%.
- Going forward:** We expect this segment's contribution to revenues to increase slightly to 10%. We predict higher utilization rates in the transformers segment in specific to reflect positive 9M 2018 results and transmission projects picking up in the coming period. Meanwhile, we kept the meters segment at a steady growth of around 2% yearly. We kept GPM for both segments at c.24%.

#### Meters segment



Source: Company reports and SHUAA Securities Egypt estimates.



## The Numbers (Cont.'d)

### Key assumptions

EGPmn, unless otherwise stated	2015a	2016a	2017a	2018e	2019e	2020e	2021e	2022e	5Y CAGR (2017-2022)
<b>Copper cables</b>									
Volume sold (tons)	107,067	104,220	85,426	80,065	91,502	96,078	100,653	105,228	4.3%
<i>y/y growth</i>		(2.7%)	(18.0%)	(6.3%)	14.3%	5.0%	4.8%	4.5%	
<b>Total copper cables sales</b>	<b>7,543</b>	<b>9,230</b>	<b>13,360</b>	<b>12,821</b>	<b>15,494</b>	<b>17,320</b>	<b>18,923</b>	<b>20,697</b>	<b>9.1%</b>
<i>y/y growth</i>		22.4%	44.8%	(4.0%)	20.9%	11.8%	9.3%	9.4%	
<b>Aluminum cables</b>									
Volume sold (tons)	46,768	51,408	36,656	42,595	44,725	46,855	48,984	50,049	6.4%
<i>y/y growth</i>		9.9%	(28.7%)	16.2%	5.0%	4.8%	4.5%	2.2%	
<b>Total aluminum cables sales</b>	<b>2,457</b>	<b>3,208</b>	<b>3,982</b>	<b>5,424</b>	<b>5,952</b>	<b>6,388</b>	<b>7,150</b>	<b>7,642</b>	<b>13.9%</b>
<i>y/y growth</i>		30.5%	24.1%	36.2%	9.7%	7.3%	11.9%	6.9%	
<b>Total Raw materials sales</b>	<b>6,785</b>	<b>6,940</b>	<b>14,316</b>	<b>15,653</b>	<b>16,659</b>	<b>17,855</b>	<b>19,009</b>	<b>20,251</b>	<b>7.2%</b>
<i>y/y growth</i>		2.3%	106.3%	9.3%	6.4%	7.2%	6.5%	6.5%	
<b>Other sales</b>	<b>573</b>	<b>1,279</b>	<b>2,859</b>	<b>2,945</b>	<b>3,033</b>	<b>3,094</b>	<b>3,156</b>	<b>3,219</b>	<b>2.4%</b>
<i>y/y growth</i>		123.1%	123.6%	3.0%	3.0%	2.0%	2.0%	2.0%	
<b>Total cables sales</b>	<b>17,359</b>	<b>20,656</b>	<b>34,517</b>	<b>36,842</b>	<b>41,139</b>	<b>44,657</b>	<b>48,238</b>	<b>51,809</b>	<b>8.5%</b>
<i>y/y growth</i>		30.5%	24.1%	36.2%	9.7%	7.3%	11.9%	6.9%	
<b>Meters</b>									
Volume sold (units)	2,866,725	3,365,270	3,782,300	3,825,000	3,910,000	3,995,000	4,080,000	4,165,000	1.9%
<i>y/y growth</i>		17.4%	12.4%	1.1%	2.2%	2.2%	2.1%	2.1%	
<b>Total meters sales</b>	<b>869</b>	<b>1,103</b>	<b>3,323</b>	<b>3,616</b>	<b>4,085</b>	<b>4,459</b>	<b>4,860</b>	<b>5,292</b>	<b>9.8%</b>
<i>y/y growth</i>		27.0%	201.3%	8.8%	13.0%	9.1%	9.0%	8.9%	
<b>Transformers</b>									
Volume sold (units)	4,311	5,824	6,425	7,446	7,650	7,956	8,160	8,364	5.4%
<i>y/y growth</i>		35.1%	10.3%	15.9%	2.7%	4.0%	2.6%	2.5%	
<b>Total transformers sales</b>	<b>697</b>	<b>1,073</b>	<b>1,467</b>	<b>1,847</b>	<b>2,019</b>	<b>2,200</b>	<b>2,362</b>	<b>2,532</b>	<b>11.5%</b>
<i>y/y growth</i>		53.8%	36.8%	25.9%	9.3%	8.9%	7.4%	7.2%	
<b>Turnkey</b>	<b>6,843</b>	<b>13,675</b>	<b>17,414</b>	<b>13,281</b>	<b>17,479</b>	<b>20,005</b>	<b>20,911</b>	<b>21,409</b>	<b>4.2%</b>
<i>y/y growth</i>		99.8%	27.3%	(23.7%)	31.6%	14.5%	4.5%	2.4%	
<b>Other electrical products</b>	<b>451</b>	<b>552</b>	<b>1,195</b>	<b>1,219</b>	<b>1,243</b>	<b>1,268</b>	<b>1,294</b>	<b>1,319</b>	<b>2.0%</b>
<i>y/y growth</i>		22.4%	116.4%	2.0%	2.0%	2.0%	2.0%	2.0%	
<b>Intercompany sales</b>	<b>7,325</b>	<b>12,414</b>	<b>15,005</b>	<b>15,905</b>	<b>18,470</b>	<b>20,325</b>	<b>21,746</b>	<b>23,061</b>	
<b>Total company sales after elimination of intercompany sales</b>	<b>18,895</b>	<b>24,645</b>	<b>42,911</b>	<b>40,899</b>	<b>47,495</b>	<b>52,264</b>	<b>55,918</b>	<b>59,301</b>	<b>6.7%</b>
<i>y/y growth</i>		30.4%	74.1%	(4.7%)	16.1%	10.0%	7.0%	6.0%	

Source: Company reports and SHUAA Securities Egypt estimates.

## The Valuation

To value SWDY, we used a five-year DCF model, discounting its free cash flows to the firm (FCFF) with a moving weighted average cost of capital (WACC) of 15.8%. Our estimated WACC is derived from an average cost of equity (COE) of 19.6% (c.75% weight) and an average after-tax cost of debt of 4.1% (c.25% weight). We used a terminal growth rate of 5.1%.

### Recommendation, Catalysts, & Risks

- **Recommendation:** Based on our DCF model, our 12M TP is EGP20.6/share. Hence, we initiate coverage on SWDY with Neutral / Moderate Risk (an expected total return of 14.6%).
- **Catalysts:**
  1. More-than-expected projects secured, especially in Egypt.
  2. Participation in water desalination and treatment projects.
  3. Resumption of operations in **Libya**.
  4. Any depreciation of the Egyptian pound.
- **Risks:**
  1. Less-than-expected projects secured, especially in the GCC and Africa.
  2. Weaker-than-expected margins.
  3. Any appreciation of the Egyptian pound.

### DCF valuation: Base-case scenario

Economic Profit Analysis	2019e	2020e	2021e	2022e	2023e	TV
ROIC	19.9%	21.8%	21.2%	20.9%	20.6%	20.6%
WACC	20.5%	16.6%	14.4%	13.9%	13.6%	13.6%
Terminal growth rate						5.1%

EGPmn, except per-share figures	2019e	2020e	2021e	2022e	2023e	TV
NOPLAT	4,256	4,765	5,068	5,315	5,539	
Non-Cash Items (D&A)	614	671	741	816	897	
<b>Gross Cash Flow</b>	<b>4,871</b>	<b>5,436</b>	<b>5,809</b>	<b>6,131</b>	<b>6,436</b>	
Change in Operating Working Capital	(831)	(1,207)	(854)	(788)	(780)	
Capital Expenditures	(1,218)	(1,046)	(1,119)	(1,198)	(1,281)	
<b>Gross Investment</b>	<b>(2,049)</b>	<b>(2,253)</b>	<b>(1,973)</b>	<b>(1,986)</b>	<b>(2,061)</b>	
<b>Appropriation Items</b>	<b>(57)</b>	<b>(65)</b>	<b>(74)</b>	<b>(83)</b>	<b>(92)</b>	
<b>Free Cash Flow to the Firm (FCFF)</b>	<b>2,765</b>	<b>3,118</b>	<b>3,763</b>	<b>4,063</b>	<b>4,282</b>	<b>52,812</b>

<b>Present Value of FCFF</b>	<b>2,296</b>	<b>2,220</b>	<b>2,343</b>	<b>2,221</b>	<b>2,061</b>	<b>25,421</b>
<b>DCF Enterprise Value</b>	<b>36,563</b>					
Net (Debt)/ Cash	(1,058)					
Minority Interest	(850)					
Long Term Investments	1,243					
<b>DCF Equity Value</b>	<b>35,899</b>					
Number of Shares Outstanding	2,184					
<b>DCF Value (EGP)</b>	<b>16.44</b>					
<b>1-year Price Target (EGP)</b>	<b>20.60</b>					

Source: SHUAA Securities Egypt estimates

## The Valuation (Cont.'d)

### The Dream

- We think an answer for SWDY is the turnkey segment; records show it has always had the power to boost the company's performance. So, for us, the dream scenario would be for SWDY to continue winning projects in Egypt at the same pace it used to in the previous years without slowing down, overcoming the narrowing availability of conventional power generation projects. To possibly achieve this, SWDY should persist on clinching T&D projects, focusing more on industrial zones and extending its reach to solar and water projects, i.e. diversifying and expanding SWDY's turnkey projects scope.
- Assuming turnkey projects from Egypt showed no signs of slowing down, as expected, the segment's 5-year revenue CAGR would go up to 17% versus 11%, and revenues from Egypt at a 5-year CAGR would go up to 12% versus 3%. This translates into a surge of c.EGP16bn in revenues, adding EGP2.2bn to net profit over our forecast horizon. This would yield a 12M TP of EGP23.2/share, 13% above our base-case scenario.

### The dream scenario

EGPmn	2016a	2017a	2018e	2019e	2020e	2021e
Revenue	24,645	42,911	40,899	49,161	54,602	59,053
EBITDA	4,205	6,821	5,475	6,464	7,306	7,920
Net Income	3,853	6,368	4,470	5,216	5,556	6,032
Revenue Growth (%)	20%	74%	(5%)	20%	11%	8%
EBITDA Growth (%)	117%	62%	(20%)	18%	13%	8%
Net Income Growth (%)	332%	65%	(30%)	17%	7%	9%

Source: SHUAA Securities Egypt Estimates

### The Nightmare

- With the current fluctuation in oil prices, the nightmare scenario for SWDY would be an extension in the austerity measures in the GCC, which would decrease their investments (i.e. spending cuts), thus stifling SWDY's ability to secure projects in the GCC countries. This, together with a sluggish market in Egypt, would mean the turnkey segment will lag.
- Assuming the turnkey segment slowed down in both potential marketplaces (Egypt and GCC), we would expect a 5-year revenues CAGR of 8% versus 11% and revenues from GCC at a 5-year CAGR of 22% versus 31%. This would slash c.EGP6.9bn off revenues and EGP1.4bn off net income over our forecast period. This would also yield a 12M TP of EGP18.9/share, 8% below our base-case scenario.

### The nightmare scenario

EGPmn	2016a	2017a	2018e	2019e	2020e	2021e
Revenue	24,645	42,911	40,899	47,495	50,794	54,114
EBITDA	4,205	6,821	5,475	6,164	6,507	6,890
Net Income	3,853	6,368	4,470	4,986	4,945	5,233
Revenue Growth (%)	20%	74%	(5%)	16%	7%	7%
EBITDA Growth (%)	117%	62%	(20%)	13%	6%	6%
Net Income Growth (%)	332%	65%	(30%)	12%	(1%)	6%

Source: SHUAA Securities Egypt Estimates

## The Valuation (Cont.'d)

### Our base case scenario

EGP/USD			17.9	18.5	19.0	19.5	20.0	20.5
EGPmn	2016a	2017a	2018e	2019e	2020e	2021e	2022e	2023e
Revenue	24,645	42,911	40,899	47,495	52,264	55,918	59,301	62,654
EBITDA	4,205	6,821	5,475	6,164	6,884	7,354	7,757	8,135
Net Income	3,853	6,368	4,470	4,986	5,234	5,596	5,909	6,207
Revenue Growth (%)	20%	74%	(5%)	16%	10%	7%	6%	6%
EBITDA Growth (%)	117%	62%	(20%)	13%	12%	7%	5%	5%
Net Income Growth (%)	332%	65%	(30%)	12%	5%	7%	6%	5%
<b>1-year Price Target (EGP)</b>			<b>20.60</b>					

Source: SHUAA Securities Egypt estimates.

### Value in the case of an EGP depreciation

EGP/USD			17.9	17.9	18.4	19.8	21.3	22.1
EGPmn	2016a	2017a	2018e	2019e	2020e	2021e	2022e	2023e
Revenue	24,645	42,911	40,899	46,227	51,174	56,909	62,242	66,195
EBITDA	4,205	6,821	5,475	5,993	6,760	7,517	8,145	8,564
Net Income	3,853	6,368	4,470	4,856	5,143	5,719	6,197	6,525
Revenue Growth (%)	20%	74%	(5%)	13%	11%	11%	9%	6%
EBITDA Growth (%)	117%	62%	(20%)	9%	13%	11%	8%	5%
Net Income Growth (%)	332%	65%	(30%)	9%	6%	11%	8%	5%
<b>1-year Price Target (EGP)</b>			<b>21.40</b>					

Source: SHUAA Securities Egypt estimates.

### Value in the case an EGP appreciation

EGP/USD			17.9	17.8	17.3	17.0	16.5	16.0
EGPmn	2016a	2017a	2018e	2019e	2020e	2021e	2022e	2023e
Revenue	24,645	42,911	40,899	46,113	48,824	50,809	51,833	52,733
EBITDA	4,205	6,821	5,475	5,977	6,437	6,717	6,829	6,919
Net Income	3,853	6,368	4,470	4,844	4,898	5,118	5,208	5,281
Revenue Growth (%)	20%	74%	(5%)	13%	6%	4%	2%	2%
EBITDA Growth (%)	117%	62%	(20%)	9%	8%	4%	2%	1%
Net Income Growth (%)	332%	65%	(30%)	8%	1%	4%	2%	1%
<b>1-year Price Target (EGP)</b>			<b>18.63</b>					

Source: SHUAA Securities Egypt estimates.

### 12M PT sensitivity to terminal WACC and terminal growth rate

		Terminal WACC				
		11.58%	12.58%	13.58%	14.58%	15.58%
Terminal Growth Rate	3.1%	20.32	18.82	17.60	16.60	15.75
	4.1%	22.38	20.46	18.94	17.71	16.70
	5.1%	25.08	22.54	20.60	19.07	17.83
	6.1%	28.74	25.26	22.70	20.74	19.19
	7.1%	34.04	28.96	25.44	22.85	20.88

Source: SHUAA Securities Egypt estimates.

## The Financial Model

Income Statement (EGPmn)						
FY End: Dec	2016a	2017a	2018e	2019e	2020e	2021e
<b>Total Revenue (Net)</b>	<b>24,645</b>	<b>42,911</b>	<b>40,899</b>	<b>47,495</b>	<b>52,264</b>	<b>55,918</b>
COGS (Gross of depreciation)	(18,333)	(33,335)	(33,063)	(38,548)	(42,347)	(45,303)
<b>GP</b>	<b>6,311</b>	<b>9,576</b>	<b>7,836</b>	<b>8,947</b>	<b>9,917</b>	<b>10,615</b>
SG&A, other opex/inc.	(2,107)	(2,755)	(2,361)	(2,783)	(3,033)	(3,261)
<b>EBITDA</b>	<b>4,205</b>	<b>6,821</b>	<b>5,475</b>	<b>6,164</b>	<b>6,884</b>	<b>7,354</b>
Depreciation & Amortization	(387)	(548)	(614)	(614)	(671)	(741)
Interest expense	(415)	(512)	(721)	(599)	(663)	(705)
Non-operating expenses	-	-	-	-	-	-
Net non-operating income., taxes	(760)	528	416	132	(216)	(205)
<b>NP Before XO &amp; MI</b>	<b>2,643</b>	<b>6,288</b>	<b>4,556</b>	<b>5,082</b>	<b>5,334</b>	<b>5,703</b>
XO & Minority Interest	1,210	80	(86)	(96)	(101)	(107)
<b>Net Income</b>	<b>3,853</b>	<b>6,368</b>	<b>4,470</b>	<b>4,986</b>	<b>5,234</b>	<b>5,596</b>

Balance Sheet (EGPmn)						
FY End: Dec	2016a	2017a	2018e	2019e	2020e	2021e
<b>Current Assets</b>						
Cash & Cash Equivalent	8,270	4,840	10,787	9,369	11,117	13,005
Marketable securities	252	4,233	2,247	2,247	2,247	2,247
Trade & other receivables	13,488	14,879	17,570	18,417	18,614	19,916
Inventory	6,085	7,819	9,285	11,617	12,762	13,653
Other Current Assets	664	549	523	607	668	715
<b>Total Current Assets</b>	<b>28,759</b>	<b>32,319</b>	<b>40,411</b>	<b>42,258</b>	<b>45,409</b>	<b>49,536</b>
Fixed Assets (net)	4,056	4,305	4,284	4,648	5,023	5,401
Other Non-Current Assets	5,724	5,803	5,815	4,645	4,645	4,645
<b>Total Assets</b>	<b>38,539</b>	<b>42,427</b>	<b>50,511</b>	<b>51,551</b>	<b>55,077</b>	<b>59,582</b>
<b>Liabilities &amp; Equity</b>						
Short-Term Debt	8,581	7,199	10,152	9,338	10,337	11,060
Current Portion of LT Debt	1,217	1,191	3,833	1,636	1,851	1,943
Accounts Payable	13,445	16,387	16,849	19,221	19,375	20,728
Other Current Liabilities	377	371	368	429	472	505
<b>Total Current Liabilities</b>	<b>23,619</b>	<b>25,149</b>	<b>31,202</b>	<b>30,624</b>	<b>32,035</b>	<b>34,235</b>
Long-Term Debt	1,421	1,179	106	382	377	360
Other Non-Current Liabilities	1,930	1,944	2,651	2,044	2,078	2,118
<b>Total Liabilities</b>	<b>26,969</b>	<b>28,272</b>	<b>33,960</b>	<b>33,051</b>	<b>34,490</b>	<b>36,714</b>
Minority Interest	584	643	850	1,111	1,432	1,829
<b>Total Equity</b>	<b>11,570</b>	<b>14,156</b>	<b>16,551</b>	<b>18,500</b>	<b>20,587</b>	<b>22,868</b>
<b>Total Liabilities &amp; Equity</b>	<b>38,539</b>	<b>42,427</b>	<b>50,511</b>	<b>51,551</b>	<b>55,077</b>	<b>59,582</b>

Cash Flow Statement (EGPmn)						
FY End: Dec	2016a	2017a	2018e	2019e	2020e	2021e
Cash from Operating	(117)	8,634	1,194	4,436	4,939	5,855
Cash from Investing	(2,911)	(4,933)	(56)	(1,590)	(1,132)	(1,268)
Cash from Financing	4,721	(1,430)	4,777	(2,528)	1,058	695
<b>Net Change in Cash</b>	<b>2,292</b>	<b>(1,637)</b>	<b>3,631</b>	<b>(4,482)</b>	<b>511</b>	<b>632</b>
<b>Capex</b>	<b>(3,405)</b>	<b>(647)</b>	<b>(1,375)</b>	<b>(1,218)</b>	<b>(1,046)</b>	<b>(1,119)</b>

Source: SHUAA Securities Egypt Estimates

Per-Share Data						
	2016a	2017a	2018e	2019e	2020e	2021e
Price	7.42	14.74	17.97	17.97	17.97	17.97
# Shares (in mn)	223	2,184	2,184	2,184	2,184	2,184
EPS	1.76	2.92	2.05	2.28	2.40	2.56
DPS	0.41	1.60	1.02	1.48	1.56	1.67
BVPS	5.30	6.48	7.58	8.47	9.43	10.47

Valuation Indicators						
	2016a	2017a	2018e	2019e	2020e	2021e
PER (x)	4.2x	5.1x	8.8x	7.9x	7.5x	7.0x
PBV (x)	1.4x	2.3x	2.4x	2.1x	1.9x	1.7x
EV/Sales (x)	0.8x	0.8x	1.0x	0.8x	0.8x	0.7x
EV/EBITDA (x)	4.7x	4.9x	7.5x	6.5x	5.8x	5.3x
Dividend Payout Ratio	23.2%	54.9%	50.0%	65.0%	65.0%	65.0%
Dividend Yield	5.5%	10.9%	5.7%	8.3%	8.7%	9.3%

Profitability & Growth Ratios						
	2016a	2017a	2018e	2019e	2020e	2021e
Revenue Growth	20%	74%	(5%)	16%	10%	7%
EBITDA Growth	117%	62%	(20%)	13%	12%	7%
EPS Growth	(56%)	65%	(30%)	12%	5%	7%
GPM (Gross of depreciation)	26%	22%	19%	19%	19%	19%
EBITDA Margin	17%	16%	13%	13%	13%	13%
Net Margin	16%	15%	11%	10%	10%	10%
ROAE	54%	47%	28%	27%	26%	25%
ROAA	19%	16%	10%	10%	10%	10%

Liquidity & Solvency Multiples						
	2016a	2017a	2018e	2019e	2020e	2021e
Net Debt (Cash)	2,696	497	1,058	(260)	(799)	(1,889)
Net Debt/Equity	23%	4%	6%	(1%)	(4%)	(8%)
Net debt to EBITDA	0.6x	0.1x	0.2x	0.0x	-0.1x	-0.3x
Debt to Assets	0.29x	0.23x	0.28x	0.22x	0.23x	0.22x
Current ratio	1.2x	1.3x	1.3x	1.4x	1.4x	1.4x

Consensus Estimates (EGPmn)			
	2018e	2019e	2020e
<b>Revenues</b>	<b>43,613</b>	<b>48,663</b>	<b>53,875</b>
SHUAA Securities Egypt vs. Consensus	-6.2%	-2.4%	-3.0%
<b>Net Income</b>	<b>4,747</b>	<b>4,877</b>	<b>5,112</b>
SHUAA Securities Egypt vs. Consensus	-5.8%	2.2%	2.4%
Fwd PER (x), Last Price	8.8x	7.9x	7.5x
Fwd PER (x), 12M - Price Target	10.1x	9.0x	8.6x
Fwd DY (%), Last price	5.7%	8.3%	8.7%

a = Actual; e = Estimated

Share price at 31-Dec-18

## The Background

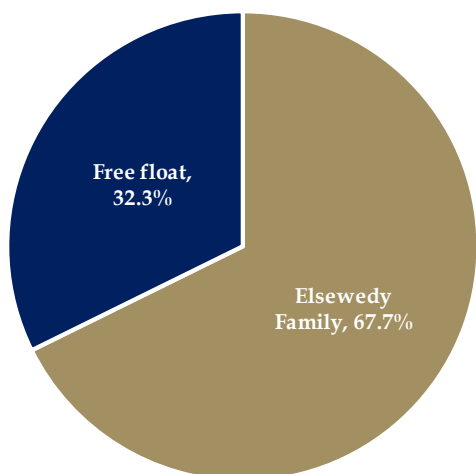
- **1938:** Elsewedy family started their business as traders in electrical equipment.
- **1960:** the family turned into the exclusive distributor for the only cable manufacturer at the time.
- **1984:** They established Egypt's first private-sector cables factory, **Arab Cables**.
- **1996:** They established their second factory **Egytech Cables** in addition to the first plant for producing PVC compounds and master batch, **Egyplast**.
- **2002:** They established the first factory outside Egypt, **Giad Elsewedy**, in partnership with **Giad-Sudan**.
- **2004:** They established **Italsmea Elsewedy**, a joint venture with **Italsmea Italy**.
- **2005:** They established **Elsewedy Cables Syria**.
- **2006:** They established **Elsewedy Cables Ghana** and **Elsewedy Electric Syria**.
- **2008:** They established **Elsewedy Cables Algeria** and **Elsewedy Electric Zambia** and acquired **ECMEI** and **Iskraemeco**.
- **2009:** They established **Elsewedy Cables KSA**, **Elsewedy Cables Ethiopia**, **Elsewedy Cables Yemen**, and **Elsewedy Transformers Egypt**.
- **2010:** The corporate name was changed from **Elsewedy Cables** to **Elsewedy Electric**.

## The Leadership

### The Board of Directors

- **Mr. Sadek Ahmed Sadek Elsewedy**, Non-Executive Chairman
- **Mr. Ahmed Ahmed Sadek Elsewedy**, Managing Director
- **Mr. Mohamed Ahmed Sadek Elsewedy**, Board Member
- **Mr. Amr Mohamed Labib**, Board Member
- **Mr. Hesham El-Khezindar**, Board Member (Independent)
- **Mr. Ahmed Fekry Abdel-Wahab**, Board Member (Independent)
- **Mr. Abdelrahman Ahmed Ahmed Sadek Elsewedy**, Board Member
- **Mr. Ahmed Sadek Ahmed Elsewedy**, Board Member
- **Mr. Ahmed Saad El-Deen Adou Abou Hendya**, Board Member (Independent)
- **Mr. Amr Nabil Mohamed Othman**, Board Member (Independent)

### Shareholder structure



Source: Company reports

### Shareholder Structure

- **Mr. Sadek Ahmed Sadek Elsewedy**: 25.02%
- **Mr. Ahmed Ahmed Sadek Elsewedy**: 25.01%
- **Mr. Mohamed Ahmed Sadek Elsewedy**: 17.65%
- **Free Float**: 32.3%

## 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.

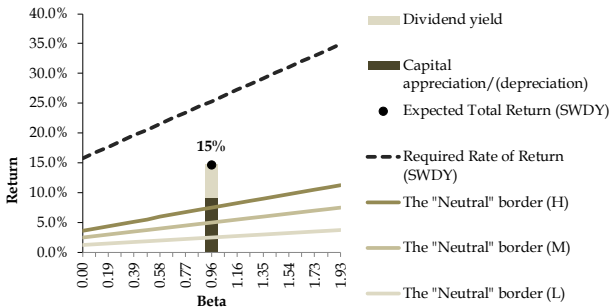
## Analyst Certification

I (we), **Lobna Khaled**, Equity Analyst, employed with SHUAA Securities Egypt, and author(s) to this document, hereby certify that all the views expressed in this research report accurately reflect my (our) views about the subject issuer(s) or security(ies). I (we) also certify that no part of my (our) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, I (we) certify that neither myself (ourselves) nor any of my (our) close relatives hold or trade into the subject securities.

## Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the Analyst in this document about the subject issuer(s) or security(ies). I also certify that the author of this document, has not received any compensation directly related to the contents of the document.

## 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.		

## Rating & Price Target History



### Rating history

From	To	Date	Analyst
NC	Neutral / Moderate Risk	1-Jan-19	Lobna Khaled

### 12-month price target history

From	To	Date	Analyst
None	20.60	1-Jan-19	Lobna Khaled



## Contact Details

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Cairo, Egypt

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