Eastern Company (EAST)

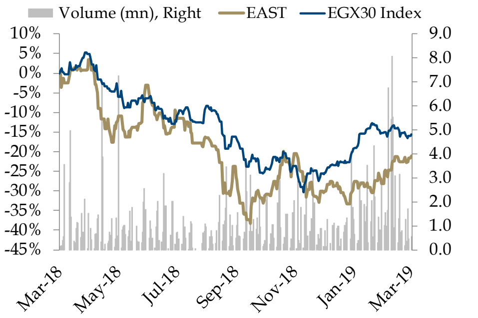
Neutral / Moderate Risk

12-Month Price Target: **EGP20.65** (+12.5%)
(Set on 1 April 2019)

Monday, 1 April 2019 / 9:30 am CLT
Egypt / Consumer Staples / Initiation of Coverage

Contents

Stock Chart & Data



Last Price (EGP)		18.36
52 Week Range (EGP)	14.23 -	26.49
6M-ADVT (EGPmn)		22.32
Market Cap (EGPmn)		41,310
No. of Shares O/S (mn) / Free float	2,250.0	/ 43.5%

*Last price as of 31 March 2019.

Let the Smoke Fly

Eastern Company (EAST) is Egypt's sole tobacco producer. We think there are several reasons to own EAST, such as: (1) EAST enjoys a monopoly position in the Egyptian tobacco market with some degree of pricing power; (2) the inelasticity of cigarette demand coupled with Egypt's high smoking population; (3) an expected increase in ex-factory prices, further driving growth; and (4) EAST's high payout ratio (50%+) is attractive, noting its strong cash position and zero debt. Additionally, EAST is cheap relative to its global peers, trading at a discount to forward P/E (-39%) as well as EV/EBITDA (-47%).

- **Growth moderating going forward; margins to remain at above historical average:** EAST's key financial indicators have improved dramatically over the last two years, thanks to the EGP devaluation and several rounds of (ex-factory) price hikes. Going forward, we see revenue growth rate moderating (in line with historical levels). We expect revenues to grow at a five-year CAGR of 7.7% to EGP19.4bn by FY2022/23 on expected higher cigarette prices and volumes. We think EAST has the ability to pass on any increase in its costs to end consumers. As a result, we expect EAST's gross profit margin to settle at 39% by FY2022/23, above its historical average but slightly lower than the current 41.3%.
- **Potential higher dividend payout ratio on a strong cash position:** EAST enjoys a strong cash position with no debt at all. We believe this will be a strong driver to further increases in its dividend payout ratio in the future. Absent any major capex required in the future, we expect the dividend payout ratio to ramp up from a current 53% to 75% by FY2022/23.
- **12M PT of EGP20.65/share, initiate with Neutral / Moderate Risk (ETR +12.5%):** Our base-case DCF-driven scenario yielded a 12M PT of EGP20.65/share, implying a 12.5% expected total return. We also applied two different scenarios to see how revenue growth, EPS growth, and hence our valuation will vary given the change in the tax structure, retail prices, exchange rate, volumes, and raw tobacco prices. This resulted in a valuation range of EGP11.1-36.1/share. Overall, we initiate coverage on EAST with an Neutral / Moderate Risk rating.

Financial summary

EGPmn	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Revenue	13,411	14,670	15,825	17,122	17,853
EBITDA	4,953	5,372	5,971	6,439	6,227
Net Income	4,241	3,980	4,480	4,930	4,824
Revenue Growth (%)	27%	9%	8%	8%	4%
EBITDA Growth (%)	21%	8%	11%	8%	(3%)
Net Income Growth (%)	42%	(6%)	13%	10%	(2%)
EBITDA Margin (%)	37%	37%	38%	38%	35%
Net Margin (%)	32%	27%	28%	29%	27%
Net Debt (Cash)	(3,760)	(2,458)	(3,544)	(4,330)	(5,352)
EPS (EGP)	1.88	1.77	1.99	2.19	2.14
BVPS (EGP)	2.89	3.54	4.18	4.78	5.29
DPS (EGP)	1.00	1.02	1.23	1.45	1.51
PER (x)	8.6x	10.4x	9.2x	8.4x	8.6x
EV/EBITDA (x)	6.6x	7.2x	6.3x	5.7x	5.8x
Dividend Yield (%)	4.4%	5.5%	6.7%	7.9%	8.2%

Source: Company reports, SHUAA Securities Egypt estimates.

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The Story

EAST is a monopoly tobacco producer, wielding some pricing power in the Egyptian market. It is a generous dividend payer with an expected growth in volume and price, supported by a large population size—a key driver for the local tobacco industry.

Enjoying a monopoly in the Egyptian cigarettes market

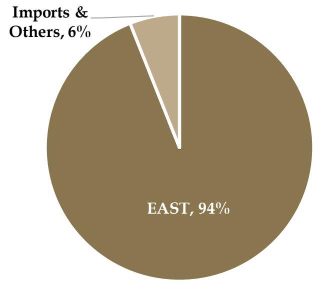
- The production of cigarettes in Egypt is a state monopoly exercised by EAST. The company produces c.94% of the total cigarettes output in Egypt, while the remaining 6% is mostly imported cigarettes. International tobacco companies in Egypt, such as **Philip Morris International (PMI)** and **British American Tobacco (BAT)**, cannot be engaged in the process of manufacturing on their own due to the difficulty of obtaining tobacco-related manufacturing licenses. Collectively, they hold a c.25% market share. As such, EAST produces for them under toll-manufacturing agreements that are renewable every seven years. Under these agreements, international companies provide EAST with the raw materials required for the production of cigarettes against a fee of USD5.8 per 1,000 cigarettes. We do not foresee any change in the market structure going forward.

A generous payout ratio

- EAST has been paying its shareholders a decent portion of its profits. The company's payout ratio in the last five years averaged c.63%, with an expected dividend yield of more than 7%. This places EAST among the most generous dividend yield players on the EGX. Going forward, we believe EAST will extend this trend of above-average payout ratios, given the following:

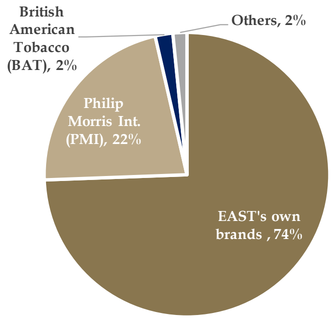
  1. ***The company operates in a defensive industry***, thus it could weather any disruptions in the economy.
  2. ***No major capex is required down the road***, freeing more cash to be distributed to shareholders.
  3. ***Strong cash position***, with little or no debt at all.
  4. ***The government's 50.5% stake***, which will make EAST more inclined to pay high dividends to partially support the state budget.

Market share by production in Egypt based on volume



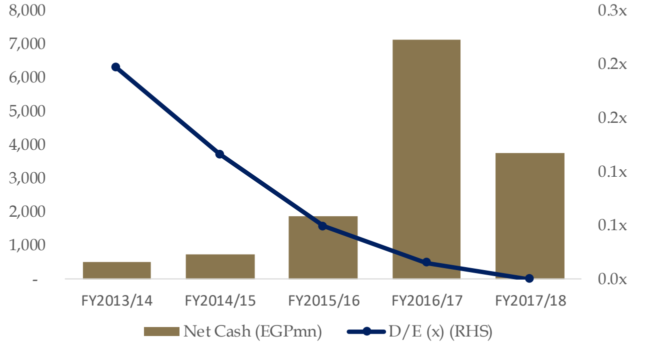
Source: Company reports, SHUAA Securities Egypt.

Market share by brand in Egypt based on volume



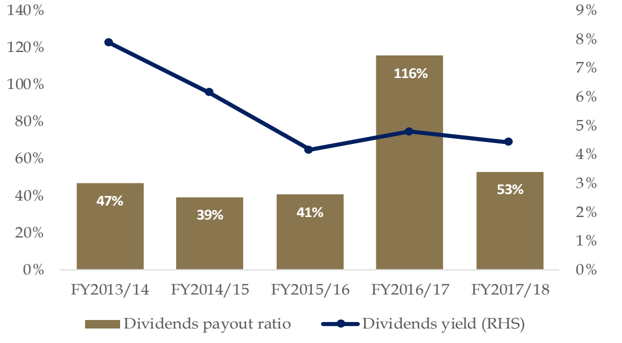
Source: Company reports, SHUAA Securities Egypt.

EAST enjoyed net cash in the past five years with no debt at all in FY2017/18



Source: Company reports.

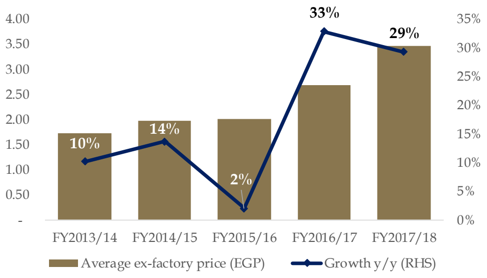
EAST's generous dividend payout ratio and high yield, including a super dividend paid in FY2016/17



Source: Company reports.

The Story *(Cont.'d)*

Progress of EAST's avg. ex-factory price



Source: Company reports.

Ex-factory prices still have more room for growth

- EAST's average ex-factory price increased at a 4-year CAGR (FY2013/14–2017/18) of 41% in view of the government's adjustments of tobacco taxes. Currently, taxes swallow between 76-78% of the retail price per pack of cigarettes. Tobacco taxes are considered to be a major source of revenue to the Egyptian government, generating EGP56bn in FY2017/18. There are three types of taxes that are applied on tobacco products:

  1. **Sales tax (*ad valorem*)** which represents 50% of the retail price per pack.
  2. **Fixed tax** which depends on the retail price per pack and is categorized into three brackets. *Please see the below table for its evolution over the past five years.*
  3. **Health insurance tax** which is set at EGP0.85/pack and is set to increase to EGP1.10/pack starting FY2021/22.

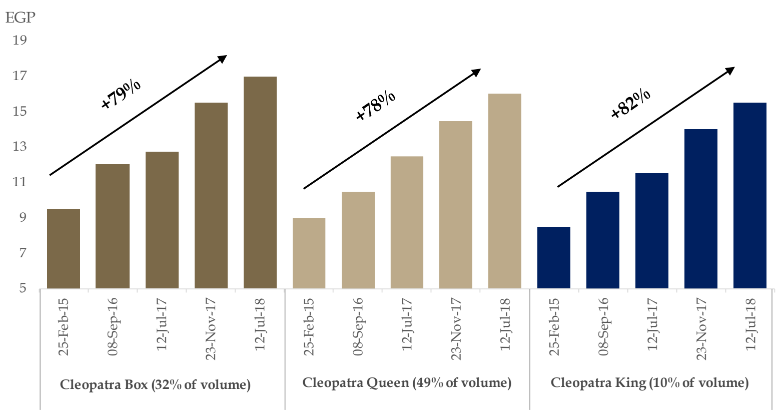
Evolution of Egypt's cigarettes tax regime

	Feb-14	Jul-14		Feb-15		Sep-16		Nov-17	
	Tax	Retail Price	Tax	Retail Price	Tax	Retail Price	Tax	Retail Price	Tax
Fixed tax	EGP1.25	<EGP9.0	EGP1.75	<EGP10.0	EGP2.25	<EGP13.0	EGP2.75	<EGP18.0	EGP3.5
		EGP9-15	EGP2.25	EGP10-16	EGP3.25	EGP13-23	EGP4.25	EGP18-30	EGP5.5
		>EGP15	EGP2.75	>EGP16	EGP4.25	>EGP23	EGP5.25	>EGP30	EGP6.5
Sales tax (Ad Valorem)	50% of retail price								

Source: Media sources, company reports.

- Most of EAST's products fall under the first tax bracket of the fixed tax (i.e. EGP3.50/pack). This bracket encompasses the company's three largest brands by volume and revenues (i.e. *Cleopatra Queen*, *Cleopatra King*, and *Cleopatra Box*). However, we note that *Cleopatra Box*'s current retail price is EGP17/pack, leaving a limited room for growth for this brand to hit the upper limit of the retail price of the first tax bracket of EGP18/pack.

Changes in retail price of EAST's largest brands by volume and revenues



Source: Company reports.

The Story *(Cont.'d)*

- In the table below, we illustrate why the increase in the retail price above EGP18/pack at the current tax structure is not always profitable for EAST, taking *Cleopatra Box* as an example.

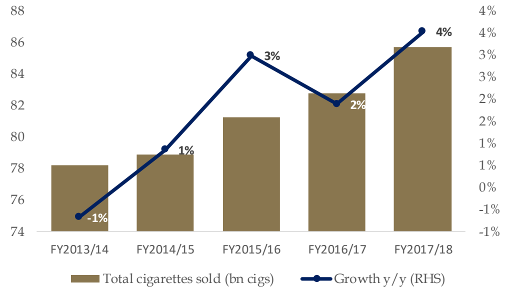
The impact of retail price change on *Cleopatra Box*'s ex-factory price

Cleopatra Box retail price breakdown (in EGP)	Current Price	Increase by EGP1/pack	Increase by EGP2/pack	Increase by EGP4/pack
Retail price per pack	**17.00**	**18.00**	**19.00**	**21.00**
(-) Sales tax (ad valorem)	8.50	9.00	9.50	10.50
(-) Fixed tax	3.50	3.50	5.50	5.50
(-) Health & Insurance tax	0.85	0.85	0.85	0.85
(-) Dealers' profit	0.25	0.25	0.25	0.25
= Ex-factory price	**3.90**	**4.40**	**2.90**	**3.90**

Source: SHUAA Securities Egypt.

Usually, the increase in retail price filters through into the ex-factory price with 50% of the increment (net of *ad valorem* tax). However, the example above illustrates that when the retail price is increased from EGP18 to EGP19 (i.e. a new price bracket), the fixed tax increases, leaving the ex-factory price at levels lower than before. This would pressure EAST's margins unless it increases the retail price to a level that can partially offset the increase in the fixed tax as well as preserve the company's margins. In other words, EAST would need to raise the retail price by EGP4.00/pack (+23.5%) to EGP21.00/pack to maintain its EGP3.90/pack ex-factory price.

Historical volume sold in the market

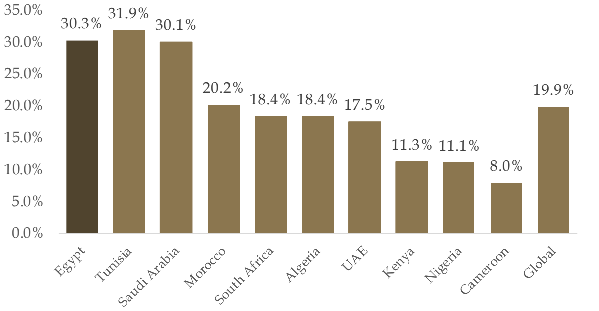


Source: Company reports.

Egypt's large population is supportive to the tobacco industry

- Egypt's high population of more than 95mn is a major driver for the tobacco industry. Ranked 9th in terms of consumption, Egypt has one of the heaviest cigarette consumers across the world and is the largest in the MENA region, with a smoking prevalence rate of c.30%. The Egyptian market continued to grow in volume, even after the aggressive waves of price hikes. The inelasticity of cigarette demand helped grow volume too. Cigarette volumes have grown at a 4-year CAGR of 2.3% by FY2017/18. We assume a similar growth rate over our forecast horizon, resulting in an expected volume of 95bn cigarette sticks by FY2022/23.

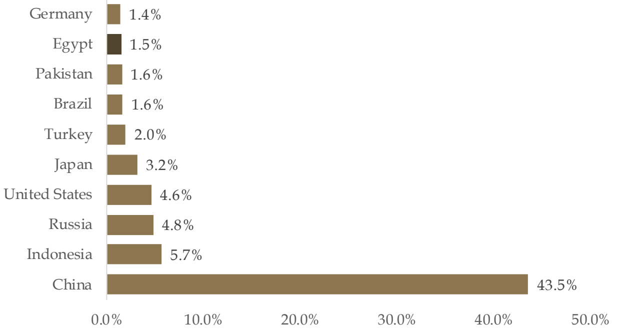
Smoking prevalence rate* in MENA countries in 2017



*smoking prevalence rate is calculated as the total number of smokers divided by the total population in a country.

Source: Euromonitor, Bloomberg.

Top 10 cigarette consumer countries by volume



Source: Euromonitor, Bloomberg.

The Story *(Cont.'d)*

SPO completed, indicating strong appetite

- As part of the Egyptian government's Public Offerings Program (POP), the secondary public offering (SPO) of 101.25mn shares of EAST, equivalent to a 4.5% stake, was completed on 6 March 2019. The Egyptian government collected some EGP1.72bn in total proceeds from the sale which was executed at EGP17.00/share, 9% lower than the government's initial target price per share of EGP18.70/share but was c.4% higher than the market price at the time. Executed in two tranches, the private placement (4.275% of the 4.5%) was covered 1.8x, while the public offering (the remaining 0.225%) was covered 4.27x.
- Amongst the investors in the private placement tranche of the SPO was Mohamed Alabbar, **Chairman** of **Emaar Properties** (DFM: EMAAR), along with a number of undisclosed Saudi investors. Collectively, they bought 25% of the shares offered in the private placement worth some EGP430mn. The transaction reflects EAST's positive outlook. Meanwhile, EAST announced in early March signing three export contracts with an Emirati company called **Al-Wahdania General Trading Co.**, to exclusively sell its *muassel* (a syrupy tobacco mix) in the **UAE**, **Bahrain**, and **Oman**. The contracts are valued at USD0.6mn (representing c.14% of EAST's exports revenues in FY2017/18), with a 10% annual increase in the value of the contracts in the upcoming three years.

The Numbers

In the last two years, EAST enjoyed a high growth rate and margins improvement across its key figures. Revenues grew by 38% y/y in FY2016/17 and by 27% y/y to EGP13.4bn in FY2017/18. This is compared to a historical average growth rate of only 10%. Gross profit margin widened to new levels, reaching 43% in FY20161/7 and 42% in FY2017/18 versus a historical average of 32%. The company's above-average performance can be summed up into: (1) the Egyptian pound devaluation, (2) several rounds of ex-factory price increases with a steady increase in volume, and (3) holding inventory of raw tobacco at pre-devaluation cost. Looking ahead, we see growth moderating, but we believe EAST can still enjoy above-average margins. Our assumptions are mainly built on the company's ability to pass on any increase in its costs to end consumers and more room for growth in ex-factory price, coupled with a healthy volume growth. This is in addition to a less intense fluctuation in the FX market.

Revenues & volumes

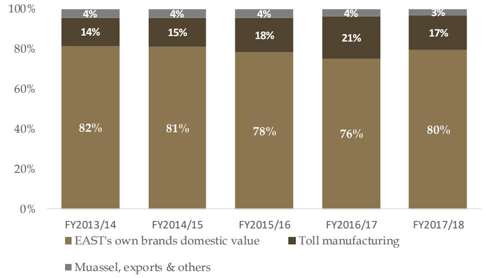
- **Cigarettes volumes:** Historically, EAST's own brands (*Cleopatra* and others) commanded a market share of 73-76%. In our model, we see no deviation from the company's historical market share going forward. Accordingly, we forecast the cigarettes volume produced for EAST's own brands will grow at a five-year CAGR of 2.1% to 70.8bn cigarette sticks by FY2022/23. As for foreign brands (**PMI:** *Marlboro*, *L&M*, and *Merit*; **BAT:** *Dunhill*, *Lucky Strike*, and *Kent*) along with other small players in the market, we think their c.25% cumulative historical market share will remain unchanged.

- **Revenue by segment:**

  1. **Own brand cigarettes:**
     - Revenues of EAST's own cigarettes contributed more than 80% to total revenue, growing by a four-year CAGR of 21% to EGP10.7bn in FY2017/18 and helped by (1) higher volumes and (2) a hike in ex-factory prices. In order to forecast this segment, we focused on the three largest brands contributing to EAST's volume and revenues, namely (1) *Cleopatra Queen*, (2) *Cleopatra King Size*, and (3) *Cleopatra Box*. We applied an increase of EGP0.88/pack (on average) to their retail prices from FY2019/20 through FY2022/23, the last year in our forecast period. We also kept their market share the same going forward. As for the tax structure, there is currently no indication from the government to apply changes in the tax structure, other than the health and insurance tax scheduled to increase by EGP0.25/pack starting FY2021/22. All in, our estimates for this segment's revenues lead to a five-year CAGR of 8% to EGP15.58bn by FY2022/23.

  2. **Toll manufacturing:**
     - EAST's revenues from the toll manufacturing segment contributed c.17% to total revenues or EGP2.32bn, growing at a four-year CAGR of 28% by FY2017/18, largely driven by (1) larger volumes, (2) an EGP depreciation, and (3) higher prices. The company manufactures for international tobacco companies in Egypt and receives fees in return.

Historical revenue mix



Source: Company reports.

The Numbers *(Cont.'d)*

- The "toll manufacturing" segment is the most profitable to EAST; international tobacco companies provide EAST with the raw materials needed, while EAST only incurs the labor cost. We forecast that toll manufacturing revenues will grow at five-year CAGR of 6% to EGP3.1bn by FY2022/23. Our forecasted growth rate is less intense than historical levels, reflecting the view of the IMF of a slower depreciation of the Egyptian pound vis-à-vis the US dollar over our forecast period. However, we expect volume to continue rising, and we also expect no change in the contracts between EAST and international tobacco players concerning EAST's fees.

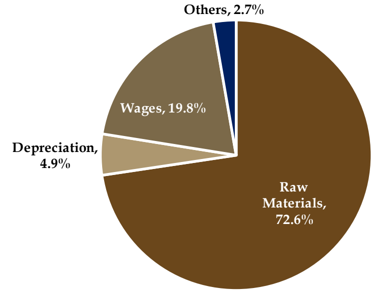
2. **Exports, *muassel*, and other products:**
   - EAST's revenues from *muassel*, exports, and other products account for a tiny 3% of total revenues. This segment saw a four-year CAGR of 10.4% to EGP388mn by FY2017/18. The company holds a market share of c.22% in the Egyptian *muassel* market, where it competes with many players. Also, EAST's *muassel* products are easily infringed upon by generic producers and are illegally sold in the market under EAST's brand name.
   - EAST's revenues from exports ranged between EGP70-100mn historically; over 80% of which came from *muassel* products. This can be attributed to the company's weak exports as EAST cannot compete with the high-quality of global *muassel* products, and its marketing techniques were not helping either. However, this issue is currently being addressed by the company as it focuses on increasing *muassel* products' contribution to total revenues and raising the quality of its products. All in, we forecast revenues from this segment will grow at a five-year CAGR of 12.5% to EGP700mn by FY2022/23 to represent 3.6% of total revenues.

Cost of goods sold (COGS)

- EAST's COGS in FY2017/18, excluding depreciation, included (1) *raw materials* at 76% of COGS, (2) *wages* at 21% of COGS, and (3) *other costs* at 3% of COGS. It grew at a four-year CAGR of 16.3% to EGP7.8bn in FY2017/18, heavily impacted by the EGP floatation, changes in the global prices of raw tobacco, and annual wage increases. We expect COGS to grow at a five-year CAGR of 8.5% to EGP11.8bn by FY2022/23.
- **Breakdown of COGS's major components:**

1. **Raw tobacco (raw material component)**
   - Raw tobacco represents the majority (50%+) of EAST's raw materials and 34% of COGS. EAST imports raw tobacco from various countries worldwide as tobacco cultivation is prohibited in Egypt, which exposes the company to the risks of higher raw tobacco prices and unfavorable changes in exchange rates.

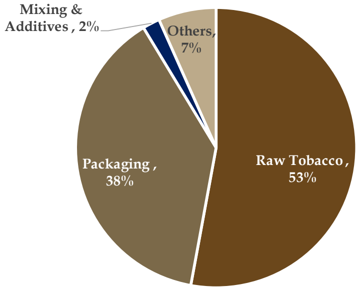
COGS breakdown in FY2017/18 (EGP8.2bn)



Source: Company reports.

The Numbers *(Cont.'d)*

Raw materials breakdown in FY2016/17 (EGP3.8bn)



Note: Raw materials breakdown in FY2017/18 was not disclosed.
Source: Company reports.

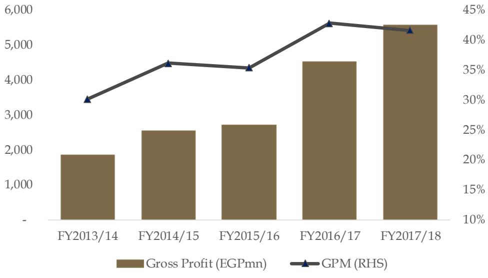
However, to mitigate these risks, EAST imports large quantities of raw tobacco and stores them for long periods to be used later in the manufacturing process. Storage of raw tobacco can last for over one year.

- Based on EAST's data, around 830-930gm of raw tobacco is used for the production of 1,000 cigarettes. According to management, the price per 1kg of raw tobacco ranges between USD4-4.5, and EAST needs more than 50,000 tons of raw tobacco annually. In our model, we assumed 850gm is used for every 1,000 cigarettes manufactured, and we increased the cost of raw tobacco per 1kg by 2% per annum over our forecast period, translating into raw tobacco costs of EGP5.65bn by FY2022/23.

2. **Packaging and mixing & additives (raw material component)**
   - This component contributes c.40% to EAST's raw materials (and 26% to COGS) and is fully imported from several countries worldwide, just like raw tobacco. In order to forecast this component, we linked it to raw tobacco volumes, and we applied a growth rate of 2% to its value in USD terms, resulting in EGP3.22bn by FY2022/23.

3. **Wages**
   - Wages are the second major component in EAST's COGS, amounting to around 21-27% of COGS. Wages rose at a four-year CAGR of 14% to EGP1.62bn in FY2017/18. The company's number of workers currently stands at 13,852 and is expected to decrease as retiring workers will not be replaced, according to management. We think the average wage per worker will increase in line with annual inflation, which suggests that wages would total EGP2.48bn by FY2022/23.

Historical gross profit & GPM



Source: Company reports.

Gross profit margin (GPM)

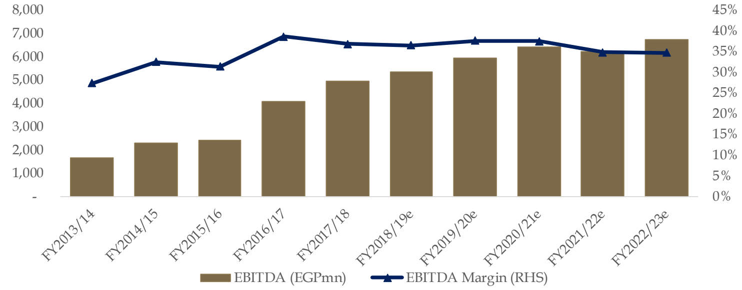
- EAST's ten-year average GPM stood at 32%; it has shown a notable improvement in the last two years, rising to 43% in FY2016/17 and 42% in FY2017/18. The company's GPM benefited profoundly from: (1) The EGP devaluation as EAST had an inventory of raw tobacco purchased at pre-devaluation prices, which lasted for over two quarters post the devaluation. (2) The increase of the contribution of toll manufacturing revenues to EAST's total revenues which also resulted from the EGP devaluation. We believe EAST has the ability to persevere its GPM in the future, capitalizing on its monopoly position in the market as well as the inelastic demand of cigarettes. Our assumptions about the revenue and costs mentioned above led to an expected GPM of 41% on average over the next five years, which is close to the current GPM levels as well as the global industry's median GPM of 42%.

The Numbers *(Cont.'d)*

SG&A & EBITDA Margin

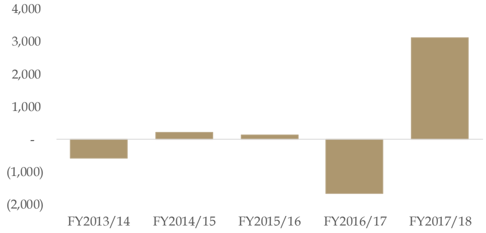
- EAST's SG&A-to-revenues ratio usually ranges between 4.0-4.7%, with salaries representing 70% of SG&A. Figures for H1 FY2018/19 ended 31 December 2018 showed SG&A at 4.4% of revenues. Our projections led to same range as we do not see significant changes to SG&A in the future. This, along with our estimates about the company's revenues and costs, suggests an EBITDA margin of 35% by FY2022/23.

Historical & forecasted EBITDA & EBITDA margin



Source: Company reports, SHUAA Securities Egypt.

Change in working capital (EGPmn)

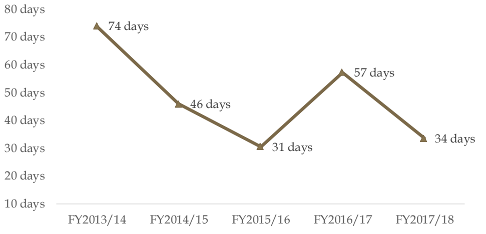


Source: Company reports.

Working capital

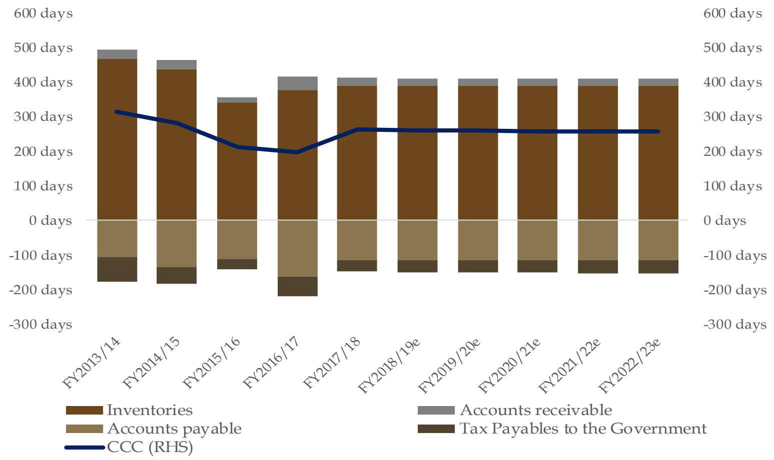
- We believe EAST's working capital management is very effective—in our view. The company deals with the majority of its clients (dealers) on a cash basis. Also, EAST benefits from the "float" of its tax payables to the government, recently registering 40 days on hands versus more than 60 days historically. While working capital decreased in two out of the last five years (namely FY2013/14 and FY2016/17), it increased in FY2017/18 to a high of EGP3.15bn. This was mainly due to importing raw tobacco inventory at post-devaluation cost along with the decrease in the tax payables' number of days on hand from its high historical levels. Going forward, we expect EAST will continue to benefit from its tax payables "float" as a source of cash. We also see no major changes in EAST's inventory days on hand. We keep it at the same level of FY2017/18 of 390 days on hand (c.13 months).

Change in tax payables to the government's days on hand



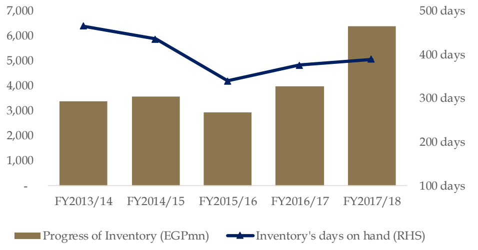
Source: Company reports.

Working Capital cash conversion cycle



Source: Company reports, SHUAA Securities Egypt.

Progress of EAST's inventory



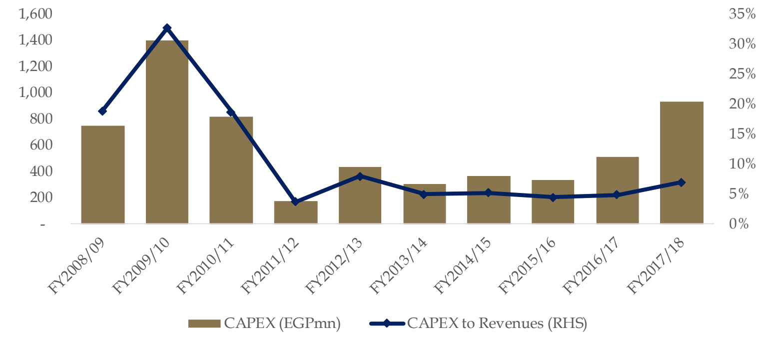
Source: Company reports.

The Numbers *(Cont.'d)*

Capex

- EAST's capex as a percentage of revenues has nosedived from 33% in FY2009/10 to 7% in FY2017/18, after the company had moved most of its factories to the **Sixth of October City**. According to management, there is no major capex needed in the future. As a result, we expect capex to range between 4% to 6% of revenues going forward.

Total capex and capex-to-revenues ratio



Source: Company reports.

Dividends

- As we mentioned earlier in "The Story" section, we believe EAST has the capacity to, and should, increase its payout ratio going forward. We expect EAST's payout ratio to reach 75% by FY2022/23 versus a current 53%. This would imply a forward dividend yield of high single-digit number of 9% by FY2022/23.

The Numbers *(Cont.'d)*

Revenue forecast assumptions table

Cleopatra Queen						
	Unit	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e	FY2022/23e
Volume	mn cigs	**32,056**	**32,577**	**33,216**	**33,980**	**34,761**
% from EAST's Own Brands		*49%*	*49%*	*49%*	*49%*	*49%*
Retail Price	EGP	**16.00**	**16.50**	**17.00**	**17.75**	**18.00**
50% sales tax (ad valorem)	EGP	(8.00)	(8.25)	(8.50)	(8.88)	(9.00)
Fixed tax	EGP	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)
Health & Insurance tax	EGP	(0.85)	(0.85)	(0.85)	(1.10)	(1.10)
Dealers' profit	EGP	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Ex-factory price	EGP	**3.40**	**3.65**	**3.90**	**4.03**	**4.15**
No. packs	mn packs	1,603	1,629	1,661	1,699	1,738
Value (Ex-factory)	EGPmn	**5,450**	**5,945**	**6,477**	**6,838**	**7,213**
% from total revenues		37%	37%	38%	38%	37%

Cleopatra Box						
	Unit	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e	FY2022/23e
Volume	mn cigs	**20,784**	**21,121**	**21,535**	**22,031**	**22,537**
% from EAST's Own Brands		*32%*	*32%*	*32%*	*32%*	*32%*
Retail Price	EGP	**17.00**	**17.50**	**18.00**	**22.00**	**23.00**
50% sales tax (ad valorem)	EGP	(8.50)	(8.75)	(9.00)	(11.00)	(11.50)
Fixed tax	EGP	(3.50)	(3.50)	(3.50)	(5.50)	(5.50)
Health & Insurance tax	EGP	(0.85)	(0.85)	(0.85)	(1.10)	(1.10)
Dealers' profit	EGP	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Ex-factory price	EGP	**3.90**	**4.15**	**4.40**	**4.15**	**4.65**
No. packs	mn packs	1,039	1,056	1,077	1,102	1,127
Value (Ex-factory)	EGPmn	**4,053**	**4,383**	**4,738**	**4,571**	**5,240**
% from total revenues		28%	28%	28%	26%	27%

Cleopatra King						
	Unit	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e	FY2022/23e
Volume	mn cigs	**6,318**	**6,421**	**6,547**	**6,697**	**6,851**
% from EAST's Own Brands		*10%*	*10%*	*10%*	*10%*	*10%*
Retail Price	EGP	**15.50**	**16.00**	**16.50**	**17.50**	**18.00**
50% sales tax (ad valorem)	EGP	(7.75)	(8.00)	(8.25)	(8.75)	(9.00)
Fixed tax	EGP	(3.50)	(3.50)	(3.50)	(3.50)	(3.50)
Health & Insurance tax	EGP	(0.85)	(0.85)	(0.85)	(1.10)	(1.10)
Dealers' profit	EGP	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Ex-factory price	EGP	**3.15**	**3.40**	**3.65**	**3.90**	**4.15**
No. packs	mn packs	316	321	327	335	343
Value (Ex-factory)	EGPmn	**995**	**1,092**	**1,195**	**1,306**	**1,422**
% from total revenues		7%	7%	7%	7%	7%

EAST's others local brands						
	Unit	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e	FY2022/23e
Volume	mn cigs	**6,139**	**6,238**	**6,361**	**6,507**	**6,657**
% from EAST's Own Brands		*9%*	*9%*	*9%*	*9%*	*9%*
Ex-factory price	EGP	**4.50**	**4.70**	**4.80**	**5.00**	**5.15**
No. packs	mn packs	307	312	318	325	333
Value (Ex-factory)	EGPmn	**1,381**	**1,466**	**1,527**	**1,627**	**1,714**
% from total revenues		9%	9%	9%	9%	9%

Source: SHUAA Securities Egypt.

The Numbers *(Cont.'d)*

Revenue forecast assumptions table *(Cont.'d)*

Toll Manufacturing Fees						
	Unit	**FY2018/19e**	**FY2019/20e**	**FY2020/21e**	**FY2021/22e**	**FY2022/23e**
PMI's Volume	mn cigs	19,295	19,608	19,992	20,452	20,923
BAT's Volume	mn cigs	1,754	1,783	1,817	1,859	1,902
Others Volume	mn cigs	1,357	1,379	1,406	1,438	1,472
Total Volume	mn cigs	**22,406**	**22,770**	**23,216**	**23,750**	**24,296**
% from Total Volume Sold		26%	26%	26%	26%	26%
PMI's Fees	USDmn	114	116	118	121	124
BAT's Fees	USDmn	10	10	11	11	11
Others' Fees	USDmn	8	8	8	8	9
Total Fees	USDmn	**132**	**134**	**137**	**140**	**143**
Total Fees	EGPmn	**2,345**	**2,426**	**2,611**	**2,877**	**3,109**
USD/EGP	EGP	17.81	18.12	19.11	20.56	21.70

Muassel, Exports and others						
	Unit	**FY2018/19e**	**FY2019/20e**	**FY2020/21e**	**FY2021/22e**	**FY2022/23e**
Revenue from Muassel, Exports & Others	EGPmn	**446**	**513**	**574**	**634**	**700**
% from total revenues		*3%*	*3%*	*3%*	*4%*	*4%*
y/y growth		*15%*	*15%*	*12%*	*10%*	*10%*
Total Revenues	EGPmn	**14,670**	**15,825**	**17,122**	**17,853**	**19,398**
y/y growth		*15%*	*15%*	*12%*	*10%*	*10%*

Source: SHUAA Securities Egypt.

The Valuation

To value EAST, we used a two-stage discounted cash flow (DCF) model, consisting of a moderate growth phase through FY2022/23, followed by stable (lower) growth in the terminal phase. We also applied two different scenarios to our DCF-derived base-case valuation.

DCF

- We discounted EAST's FCFF using an average WACC of 16.3% over our five-year forecast period, with a terminal WACC of 14.1%, and terminal growth rate of 5%. We reached to a total enterprise value of EGP38bn, with a net cash of EGP1.5bn (after deducting dividends for FY2017/18) and long-term investments of EGP130mn as of 30 June 2018, we reached a total equity of EGP39.7bn.

Recommendation, Catalysts, & Risk

- **Recommendation:** Based on our DCF model, our 12M PT is EGP20.65/share. Hence, we initiate coverage with a Neutral / Moderate Risk (an expected total return of 12.5%).
- **Catalysts:** Favorable changes in the tax structure or an increase in ex-factory price would bode well for revenue growth. EAST owns 147,200 sqm of unutilized land bank which, if monetized, could add EGP0.26-0.98/share to our 12M PT. Given EAST's strong cash position, any increase in interest rates would be beneficial.
- **Risks:** Unfavorable changes in the tax structure, which could add some pressure on the ex-factory price. Higher raw tobacco prices worldwide. A more intense depreciation in the Egyptian currency. Any decrease in interest rates would lead to lower interest income.

DCF valuation: base-case scenario

Economic Profit Analysis	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23	TY
ROIC	*110.5%*	*111.1%*	*105.2%*	*98.5%*	*96.4%*	*35.0%*
WACC	*18.8%*	*16.3%*	*16.2%*	*16.1%*	*14.1%*	*14.1%*
Terminal growth rate						5.0%

EGPmn, except per-share figures	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23	TY
NOPLAT	3,789	4,206	4,595	4,409	4,796	
Non-Cash Items (D&A)	482	545	510	538	559	
Gross Cash Flow	***4,272***	***4,750***	***5,105***	***4,947***	***5,356***	
Change in Operating Working Capital	458	(29)	(237)	159	(283)	
Capital Expenditures	(880)	(870)	(856)	(803)	(776)	
Gross Investment	***(422)***	***(900)***	***(1,094)***	***(644)***	***(1,059)***	
Non-Appropriation Items	***(239)***	***(269)***	***(296)***	***(289)***	***(315)***	
Free Cash Flow to the Firm (FCFF)	**3,611**	**3,582**	**3,716**	**4,013**	**3,982**	**4,181**
Present Value of FCFF	**3,454**	**2,946**	**2,630**	**2,447**	**2,127**	**24,494**

DCF Enterprise Value	**38,098**
Net (Debt)/ Cash *	1,510
Minority Interest	-
Long Term Investments	130
DCF Equity Value	**39,738**
Number of Shares Outstanding	2,250
DCF Value (EGP)	**17.66**
1-year Price Target (EGP)	**20.65**

* Net (debt) / cash as of 30 June 2018, after deducting FY2017/18 dividends.
Source: SHUAA Securities Egypt.

PT sensitivity to Terminal WACC & TGR

Terminal WACC	Terminal Growth Rate: 3.0%	4.0%	5.0%	6.0%	7.0%
12.1%	20.44	22.12	24.28	27.14	31.12
13.1%	19.20	20.56	22.26	24.43	27.32
14.1%	18.17	19.29	20.65	22.36	24.54
15.1%	17.34	18.28	19.42	20.80	22.53
16.1%	16.62	17.43	18.38	19.53	20.92

Source: SHUAA Securities Egypt.

The Valuation *(Cont.'d)*

The Dream & The Nightmare

- We applied two different scenarios (*The Dream* and *The Nightmare*) to our base-case scenario to see how our valuation, revenue growth, and EPS growth will change by changing some factors, such as tax structure, retail prices, exchange rates, volumes, and raw tobacco prices. *The below table summarizes all three scenarios:*

Scenario	The Dream	The Base Case	The Nightmare
(1) Changes in the tax structure	Assuming the fixed taxes in the first tax bracket changed from EGP3.5 to EGP4 per pack, and upper limit retail price in the first bracket of taxes increased to be at EGP20/pack instead of EGP18/pack.	Assuming the tax structure will be the same.	Assuming the fixed taxes in the first tax bracket changed from EGP3.5 to EGP4 per pack, and the upper limit retail price in the first bracket of taxes is still the same at EGP18/pack.
(2) Changes in retail prices	Changes in the retail prices of EAST's top 3 brands that contribute to its volume and revenue will be as follows: 1) Cleopatra Queen from current EGP16/pack to EGP20/pack by FY2022/23. 2) Cleopatra King from current EGP16 to EGP20/pack by FY2022/23. 3) Cleopatra Box from current EGP17/pack to EGP23/pack by FY2022/23.	Changes in the retail prices of EAST's top 3 brands that contribute to its volume and revenue will be as follows: 1) Cleopatra Queen from current EGP16/pack to EGP18/pack by FY2022/23. 2) Cleopatra King from current EGP16/pack to EGP18/pack by FY2022/23. 3) Cleopatra Box from current EGP17/pack to EGP23/pack by FY2022/23.	Changes in the retail prices of EAST's top 3 brands that contribute to its volume and revenue will be as follows: 1) Cleopatra Queen from current EGP16/pack to EGP18/pack by FY2022/23. 2) Cleopatra King from current EGP16/pack to EGP18/pack by FY2022/23. 3) Cleopatra Box from current EGP17/pack to EGP20/pack by FY2022/23.
(3) Changes in EGP/USD rates	Assuming the EGP will appreciate against the USD to be EGP16.5/USD by FY2022/23.	Assuming the EGP will depreciate against the USD to be EGP21.70/USD by FY2022/23.	Assuming a more intense depreciation of the EGP against the USD to be at EGP23/USD by FY2022/23.
(4) Changes in volumes	Volume will grow at a faster pace than its historical levels to reach 100bn cigarettes sticks by FY2022/23.	Volume will grow in line with its historical levels and with the expected growth in population to reach 95bn cigarettes sticks by FY2022/23.	Volume will grow at a slow pace to reach 90bn ciggarettes sticks by FY2022/23, as more people will switch from traditional cigarettes to electronic cigarettes.
(5) Changes in raw tobacco prices	Prices are stable throughout our forecasted period at current levels of USD4 per 1kg.	Growing at a low constant rate every year to reach USD4.3 per 1kg by FY2022/23.	Tobacco farming decrease globally, leading to a shortage in the raw tobacco supply, thus increasing raw tobacco prices to USD5 per 1kg by FY2022/23.
12M PT	36.09	20.65	11.05
Upside potential	97%	12%	-40%
Current stock price	18.36	18.36	18.36
Revenue CAGR (FY2017/18-FY2022/23)	11%	8%	6%
EPS CAGR (FY2017/18-FY2022/23)	17%	4%	-7%

Source: SHUAA Securities Egypt.

The Valuation *(Cont.'d)*

EAST's land bank

- EAST's owns a land bank of some 147,200 sqm, 141,000 sqm of which was due to the company's relocation of its production facilities and headquarter from Giza to the Sixth of October City. While the remaining 6,200 sqm is booked on EAST's balance sheet under real estate investments with a book value of EGP9.3mn. No clear or solid plans have been announced by EAST on how they are going to monetize their land bank. Thus, we ran a quick exercise to estimate the fair value of EAST's land bank using current market prices. We calculated a weighted average price of EGP3,984/sqm, reaching a total value of EGP587mn for the land bank or an additional EGP0.26/share above our 12M PT. That said, if EAST could change the purpose of its land bank to be all licensed as residential, which could raise the land bank's estimated value to EGP2.2bn or an additional EGP0.98/share above our 12M PT.

Land bank valuation

Land	Location	Size (sqm)	License type	Price (EGP/sqm)	Est. market value (EGPmn)	License type	Price (EGP/sqm)	Est. market value (EGPmn)
Due to the relocation to the Sixth of October City								
Al-Mansterly Warehouses Land	Giza	86,000	Industrial	3,500	301	Residential	15,000	1,290
Al-Zomor land	Giza	25,000	Industrial	3,500	88	Residential	15,000	375
Old headquarters land	Giza	30,000	Industrial	3,500	105	Residential	15,000	450
Real estate investments								
Geziret El-Dahab land	Giza	3,200	Residential	15,000	48	Residential	15,000	48
Jan Marchian land	Giza	1,600	Residential	15,000	24	Residential	15,000	24
Saloum Factory land	Alexandria	1,400	Residential	15,000	21	Residential	15,000	21
Total		**147,200**		**3,984**	**587**		**15,000**	**2,208**
Fair value per share (EGP)					**0.26**			**0.98**

Source: Company disclosures, SHUAA Securities Egypt.

The Valuation *(Cont.'d)*

Comparable Analysis

- EAST is cheap relative to its global peers. EAST is traded at 9.2x earnings and 6.3x EBITDA, a 39% discount to global median forward P/E of 15.1x and a 47% discount to global median forward EV/EBITDA of 11.9x.

		Mkt cap (USD mn)	P/E			EV/EBITDA			EBITDA Margin		
Company name	Country		2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e
Philip Morris International	USA	141,842	21.52x	13.10x	16.81x	15.40x	10.57x	12.90x	43%	42%	42%
Altria Group Inc	USA	104,818	20.92x	12.39x	13.33x	15.20x	12.55x	11.91x	50%	48%	54%
Turning Point Brands Inc	USA	874	14.88x	14.93x	22.47x	11.64x	14.53x	14.94x	18%	16%	19%
Japan Tobacco Inc	Japan	49,045	16.57x	12.15x	12.67x	11.06x	8.35x	8.57x	33%	32%	33%
British American Tobacco PLC	Britain	92,423	2.73x	9.47x	9.66x	21.90x	9.88x	9.86x	36%	42%	46%
Imperial Brands PLC	Britain	32,129	21.57x	18.60x	8.86x	11.93x	10.17x	8.94x	24%	24%	45%
Hanjaya Mandala Sampoerna Tbk	Indonesia	30,731	43.39x	31.98x	28.71x	32.00x	23.20x	21.03x	17%	17%	18%
Gudang Garam Tbk PT	Indonesia	11,089	20.79x	nm	17.62x	13.30x	nm	10.30x	16%	nm	16%
Wismilak Inti Makmur Tbk PT	Indonesia	41	15.02x	nm	nm	6.43x	nm	nm	6%	nm	nm
ITC Ltd	India	52,450	32.98x	27.59x	27.34x	21.23x	18.13x	19.10x	36%	38%	38%
VST Industries Ltd	India	762	29.23x	24.92x	nm	17.13x	13.98x	nm	27%	0.3x	nm
British American Tobacco	Bangladesh	3,278	26.07x	nm	nm	11.34x	nm	10.99x	35%	nm	40%
British American Tobacco	Kenya	545	22.78x	17.75x	12.49x	12.85x	11.51x	nm	33%	nm	nm
British American Tobacco	Zimbabwe	619	70.59x	nm	nm	nm	nm	25.27x	48%	nm	52%
Global Peers' Average			25.6x	18.3x	17.0x	15.5x	13.3x	14.0x	30%	32%	37%
Global Peers' Median			21.5x	16.3x	15.1x	13.3x	12.0x	11.9x	33%	32%	40%
Eastern Company	Egypt	2,361	8.6x	10.4x	9.2x	6.6x	7.2x	6.3x	37%	37%	38%
Premium (discount) from median			-60%	-36%	-39%	-50%	-40%	-47%			

Source: SHUAA Securities Egypt.

The Financial Model

Income Statement (EGPmn)					
FY End: June	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Total Revenue	**13,411**	**14,670**	**15,825**	**17,122**	**17,853**
COGS	(7,830)	(8,654)	(9,149)	(9,928)	(10,829)
GP	**5,581**	**6,016**	**6,676**	**7,194**	**7,024**
Other operating (exp.)/ Inc.	(628)	(644)	(704)	(754)	(797)
EBITDA	**4,953**	**5,372**	**5,971**	**6,439**	**6,227**
Depreciation & Amortization	(439)	(482)	(545)	(510)	(538)
Net financing	864	246	354	433	535
Non-operating expenses	-	-	-	-	-
Net non-operating income., taxes	-	-	-	-	-
NP Before XO & MI	**4,241**	**3,980**	**4,480**	**4,930**	**4,824**
XO & Minority Interest	-	-	-	-	-
Net Income	**4,241**	**3,980**	**4,480**	**4,930**	**4,824**

Balance Sheet (EGPmn)					
FY End: June	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Current Assets					
Cash & Cash Equivalent	3,760	2,458	3,544	4,330	5,352
Marketable securities	-	-	-	-	-
Trade & other receivables	816	804	867	938	978
Inventory	6,397	6,999	7,397	8,103	9,067
Other Current Assets	-	-	-	-	-
Total Current Assets	**10,973**	**10,260**	**11,808**	**13,372**	**15,397**
Fixed Assets (net)	4,822	6,054	6,380	6,725	6,991
Other Non-Current Assets	1,121	137	137	137	137
Total Assets	**16,916**	**16,451**	**18,325**	**20,234**	**22,525**
Liabilities & Equity					
Short-Term Debt	-	-	-	-	-
Current Portion of LT Debt	-	-	-	-	-
Accounts Payable	5,714	6,762	7,194	7,734	8,897
Other Current Liabilities	4,560	1,593	1,593	1,593	1,593
Total Current Liabilities	**10,275**	**8,355**	**8,788**	**9,328**	**10,491**
Long-Term Debt	-	-	-	-	-
Other Non-Current Liabilities	141	141	141	141	141
Total Liabilities	**10,415**	**8,496**	**8,928**	**9,468**	**10,631**
Minority Interest	-	-	-	-	-
Total Equity	**6,501**	**7,955**	**9,396**	**10,766**	**11,894**
Total Liabilities & Equity	**16,916**	**16,451**	**18,325**	**20,234**	**22,525**

Cash Flow Statement (EGPmn)					
FY End: June	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Cash from Operating	2,093	1,953	4,996	5,203	5,521
Cash from Investing	(932)	(731)	(870)	(856)	(803)
Cash from Financing	(4,470)	(2,525)	(3,039)	(3,561)	(3,695)
Net Change in Cash	**(3,308)**	**(1,302)**	**1,086**	**786**	**1,022**
Capex	**(932)**	**(880)**	**(870)**	**(856)**	**(803)**

Per-Share Data					
	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Price	16.3	18.4	18.4	18.4	18.4
# Shares (WA,in mn)	2,250	2,250	2,250	2,250	2,250
EPS	1.88	1.77	1.99	2.19	2.14
DPS	1.00	1.02	1.23	1.45	1.51
BVPS	2.89	3.54	4.18	4.78	5.29

Valuation Indicators					
	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
PER (x)	8.6x	10.4x	9.2x	8.4x	8.6x
PBV (x)	5.6x	5.2x	4.4x	3.8x	3.5x
EV/Sales (x)	2.4x	2.6x	2.4x	2.2x	2.0x
EV/EBITDA (x)	6.6x	7.2x	6.3x	5.7x	5.8x
Dividend Payout Ratio	53%	57%	62%	66%	71%
Dividend Yield	4.4%	5.5%	6.7%	7.9%	8.2%

Profitability & Growth Ratios					
	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Revenue Growth	27%	9%	8%	8%	4%
EBITDA Growth	21%	8%	11%	8%	(3%)
EPS Growth	42%	(6%)	13%	10%	(2%)
GPM	42%	41%	42%	42%	39%
EBITDA Margin	37%	37%	38%	38%	35%
Net Margin	32%	27%	28%	29%	27%
ROAE	77%	55%	52%	49%	43%
ROAA	24%	24%	26%	26%	23%

Liquidity & Solvency Multiples					
	FY2017/18a	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Net Debt (Cash)	(3,760)	(2,458)	(3,544)	(4,330)	(5,352)
Net Debt/Equity	(58%)	(31%)	(38%)	(40%)	(45%)
Net debt to EBITDA	-0.8x	-0.5x	-0.6x	-0.7x	-0.9x
Debt to Assets	-	-	-	-	-
Current ratio	1.1x	1.2x	1.3x	1.4x	1.5x

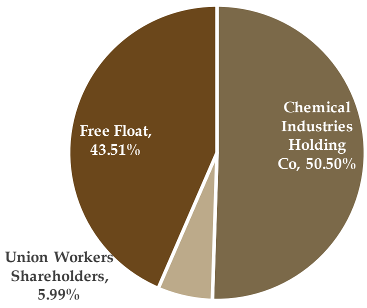
Consensus Estimates (EGPmn)				
	FY2018/19e	FY2019/20e	FY2020/21e	FY2021/22e
Revenues	**14,545**	**16,189**	**18,190**	**20,197**
SHUAA Securities Egypt vs. Consensus	0.9%	-2.2%	-5.9%	-11.6%
Net Income	**3,940**	**4,408**	**5,154**	**5,411**
SHUAA Securities Egypt vs. Consensus	1.0%	1.6%	-4.3%	-10.9%
Fwd PER (x), Last Price	10.4x	9.2x	8.4x	8.6x
Fwd PER (x), 12M - Price Target	11.7x	10.4x	9.4x	9.6x
Fwd DY (%), Last price	5.5%	6.7%	7.9%	8.2%

Share price at 31-Mar-19

Source: Company reports, SHUAA Securities Egypt, Bloomberg.

The Background

Shareholder structure



Source: Company reports.

Eastern Company (EAST) is Egypt's sole tobacco producer. It produces a wide variety of tobacco-based products, such as cigarettes, cigars, and *muassel*. EAST also manufactures cigarettes for foreign brands in Egypt, including brands of Philip Morris International (PMI) and British American Tobacco (BAT).

- **History and ownership:** EAST was established in 1920 to operate within the Egyptian tobacco industry, which was mainly dominated by foreign brands at the time. The company has been listed on the EGX since September 1995 with the government remaining as the majority shareholder through state-owned **Chemical Industries Holding Co.**
- **The business:** EAST produces more than 80bn cigarettes annually and is capable of producing up to 100bn per year. The Cleopatra brand contributes more than 75% of EAST's total revenues. Also, EAST manufactures cigarettes for various foreign brands, with toll manufacturing revenues contributing around 17% to EAST's total revenues. The company also manufactures cigars, *muassel*, cigarettes' filter rods, and other tobacco related products. EAST exports some of its products. Revenues from these exports contributed c.3% to the company's total revenues, based on the latest figures.

Changes in EAST's capital and no. of shares in the past years

Date	Authorized Capital (EGPmn)	Paid-in Capital (EGPmn)	No. of Shares (mn)	Par Value (EGP)	Action Type
30-Jun-16	1,500	750	50	15	
12-Jan-17	3,000	1,500	100	15	Capital increase
30-Apr-18	3,000	1,500	300	5	Stock split
15-Aug-18	3,000	2,250	450	5	Capital increase
27-Sep-18	3,000	2,250	2,250	1	Stock split

Source: Company reports.

The Leadership

The board of directors of Eastern Company is comprised of the following key members:

- **Eng. Tamer Gadallah, Non-Executive Chairman of the Board** representing Chemical Industries Holding Company. Gadallah was the **CEO** of **Telecom Egypt** (ETEL) from March 2016 to April 2017 and is currently the **CEO** of **SAP**.
- **Hany Aman**, serves as EAST's **CEO**. He is also a **Board Member**, representing Chemical Industries Holding Company. Before joining EAST in October 2018, Aman held many managerial positions, including the **General Manager** of **Henkel Group**. He also spent around 14 years of his career in **Coca-Cola** managing the Business Development Unit.
- **Mohamed Gamal Muharram, Non-Executive Board Member** representing the private-sector shareholders and also holding the title of **Head of Internal Audit Committee** at the company. Additionally, Gamal is the **Founder** and **Chairman** of **MGM Financial & Banking Consultants**.
- **Sameh Khudair**, serves as **Non-Executive Member of the Board** of EAST, representing Chemical Industries Holding Company. Khudair is also a **Board Member** at **Misr Fertilizers Production Co.** (MFPC).
- **Eng. Nasr Abdel Aziz** serves as **Head of Smoke Sectors** as well as **Executive Board Member** representing Chemical Industries Holding Company.
- **Talat Araby Ismail, Non Executive Board Member** representing the company's employees
- **Eng. Ali Hijazi, Executive Board Member** and the company's **Head of Production Sector**.
- **Ashraf Mahmoud Al-Kady, Executive Board Member.**
- **Maged Mahmoud Abdulaal, Executive Board Member**.

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), **Mohamed Sobol**, 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.

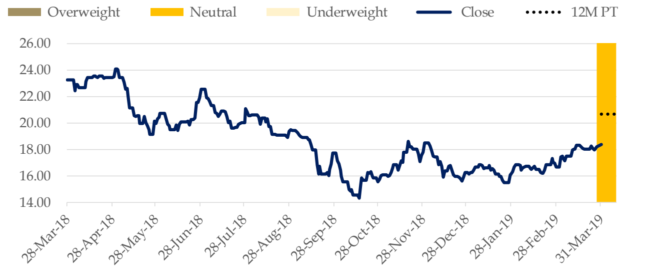
Head of Research Certification

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

Risk Rating	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
Risk Rating	Moderate	Higher than RRR	Between RRR and 40% of RRR	Lower than 40% of RRR
Risk Rating	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-Apr-19	Mohamed Sobol

12-month price target history

From	To	Date	Analyst
None	20.7	1-Apr-19	Mohamed Sobol

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