

Today's Story

EGAL – Pulled to Loss by Cheaper Metal and Stronger EGP in Q3 FY2018/19

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- **A surprise swing to losses:** Egypt Aluminum (EGAL) released its preliminary results for Q3 FY2018/19, ended 31 March 2019, swinging to net losses of EGP43mn versus net profits of EGP715mn in Q3 FY2017/18 and EGP289mn in Q2 FY2018/19. Revenues shrank by 19% y/y and 14% q/q to EGP2.92bn. Meanwhile, gross loss margin reached 4.0% against gross profit margin of 21.8% a year ago (3.8% in the prior quarter).

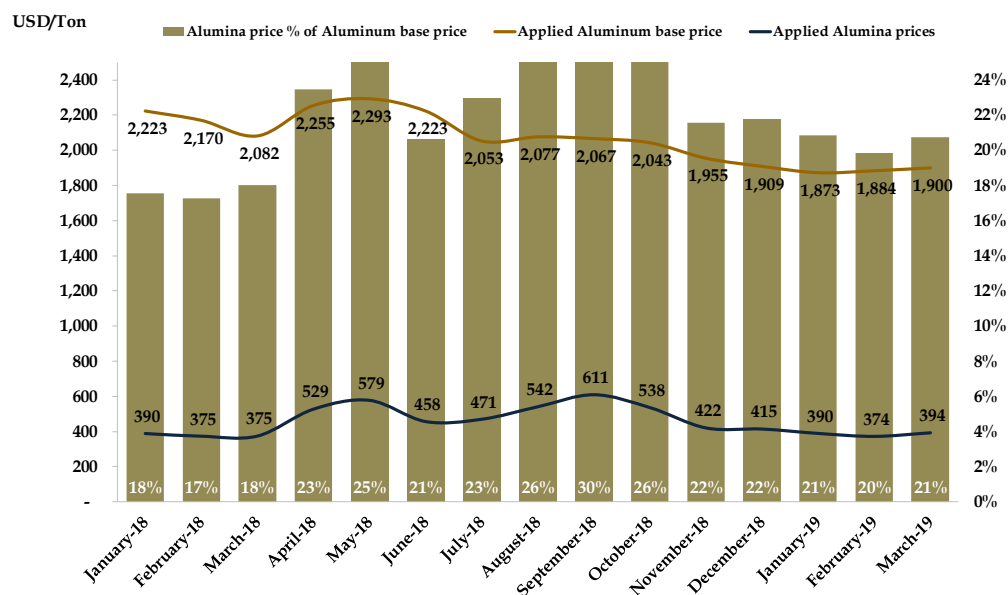
EGAL's financial KPIs

EGPmn	9M 2018/19	9M 2017/18	y/y	Q3 2018/19	Q3 2017/18	y/y	Q2 2018/19	q/q
Revenue	9,942	9,917	0%	2,922	3,621	(19%)	3,387	(14%)
Gross Profit	527	2,240	(76%)	(117)	791	NM	128	NM
Net Profit	716	1,870	(62%)	(43)	715	NM	289	NM
Gross margin	5.3%	22.6%	-17.3 ppts	-4.0%	21.8%	-25.8 ppts	3.8%	-7.8 ppts
Net margin	7.2%	18.9%	-11.7 ppts	-1.5%	19.8%	-21.2 ppts	8.5%	-10.0 ppts

Source: Company disclosure.

- **Three factors weighing down on results:** On a yearly basis, gross losses and lower revenues were, for the most part, a product of (1) higher electricity costs, as expected, after the **Egyptian government** had raised electricity prices by 40% to EGP1.01/KW, (2) tighter price spread between aluminum and alumina, and (3) EGP appreciation against the USD. According to EGAL's management, a change in the value of inventory (in our opinion a lower value in view of a stronger EGP) during the quarter and overhead costs allocation raised the cost of goods sold.
- **Will revise our model after new electricity prices:** For the time being, we will need to revise our financial model once the full financials are released. We will also await the Egyptian government's announcement of the new electricity cost for the full picture to be clearer. Overall, we see that the preliminary results could impact the stock negatively in the short term, but any positive news about the solar power station planned by EGAL could catalyze its stock performance again as it would reduce EGAL's exposure to electricity price hikes in the future. Still, we have a concern about the effective capacity of this solar plant, which could be lower than expected, leading the management to question whether to continue with their new expansion. We note that our last rating for EGAL was **Neutral / High Risk** with a **12M PT of EGP26.4/share**.

Aluminum vs. alumina prices



Source: Company disclosure.

Top Headlines

Corporate

- **Juhayna Food Industries'** (JUFO) net earnings in Q1 2019 retreated on annual basis to EGP72mn (-11% y/y), despite growth in top-line to EGP1.7bn (+12% y/y). Upping in revenues was coupled with an increase in production costs, as cited by management. The resulting increase in production costs pressured JUFO's margins, as GPM recorded 29.0% versus 29.9% a year earlier. EBITDA margin also contracted to 15.3% versus 17.4% a year earlier, amid contained selling and distribution expenses. It's worthy to mention that the company's bottom-line was notably impacted by a surge in effective tax rates, recording 36.5% versus 20.7% a year earlier. Management attributed the rise in effective tax rate to end of tax exemption period for some companies within the group. ([Company disclosure](#))
- **Orascom Construction** (ORAS) announced that its 50:50 joint venture with **Arab Contractors has signed an Engineering, Procurement and Construction (EPC)** contract to build a water treatment plant in Egypt for USD739mn. The treatment plant, which will be the largest in Egypt, will have a capacity of 5mn m³/day and will treat water for irrigation purposes. In addition to the EPC scope, the joint venture will operate and maintain the facility for five years. Furthermore, the Group has secured operation and maintenance (O&M) contracts on most of its water projects for a period of 1-5 years in addition to the EPC role. ([Company Disclosure](#))
- **Commercial International Bank** (COMI) eyes entering number of African countries, including **Kenya, Uganda, Tanzania**. This comes after the bank has established a representative office in **Ethiopia**. ([Enterprise](#))
- **Mondi Industrial Bags BV** the major shareholder of **Suez Bags** (SBAG) purchased the 3.26mn shares (29.89%) sold by **Dipeco AG** at an average of EGP25.58/share increasing its share to 96.03% up from 66.15%. ([Mubasher](#))
- **Elsewedy Electric for Trading & Distribution**, a subsidiary of **Elsewedy Electric** (SWDY), signed a contract worth EGP445mn to establish a transmission line and a substation for **Canal Sugar**. Delivery of the project is scheduled within 10 months from the signing date and receipt of the advance payment. ([Mubasher](#))
- **Global Telecom Holding's** (GTHE) subsidiary **Banglalink Digital Communications Limited (Banglalink)** has entered into an agreement for a new USD300mn syndicated term facility with several international banks to partially refinance its bond, maturing on 6 May 2019, in principal amount of USD300mn. ([Company disclosure](#)). On a separate note, **Niel Natural Resources Investments'** arbitration claims, which led to freezing GTHE's bank accounts in **the Netherlands** on the back of its selling of **Telecel Globe Limited**, will be contested by GTHE. ([Company disclosure](#))
- **Eastern Company** (EAST) reported its Q3 FY2018/19 preliminary financial figures, where earnings reached EGP2.9bn (-16% y/y). Earnings were weakened by higher COGS (+10% y/y), which pressured GPM down by 318bps to 38%, and by lower interest income. Meanwhile, revenues grew 4% y/y to EGP10.5bn. ([Company disclosure](#))
- **Alexandria Mineral Oils Co.** (AMOC) adjusted the net profit it had estimated earlier in the FY2018/19 budget from EGP707mn to EGP329mn, in alignment with international prices. This change reflects the actualization of 9M results. The management also altered its estimate for capex to EGP91mn, instead of EGP515mn, which could be a bad signal indicating a delay in the second phase of revamping. ([Company disclosure](#))
- **Egyptian Iron & Steel** (IRON) released its financial results for 9M FY2018/19, where net losses widened to EGP531mn versus EGP456mn a year ago. Revenues declined 26% y/y to EGP928mn, while gross loss margin widened further to 57% versus 36% in the prior year. The loss expansion is mainly attributed to pricier energy and coke. ([Company disclosure](#))

Non-Corporate

- **Net foreign assets** at the banking sector retreated from USD14.7bn in February 2019 to USD14bn in March 2019 on lower foreign assets that were offset by lower foreign liabilities. ([Al-Borsa](#))
- **Egypt's** M2 money supply growth decelerated slightly to 11.38% y/y in March standing at EGP3.72tn, up from EGP3.67tn a month earlier. ([Reuters](#))
- The **Ministry of Finance** fixes customs exchange rate during May at EGP17.24 per USD for non-essential goods, and at EGP16 per USD for strategic and essential goods. ([Youm7](#))
- Egypt's total vehicle sales dropped 0.02% y/y to 35,118 units in Q1 2019. Passenger car sales also went down 4% y/y to 23,402 units during the quarter according to the **Automotive Information Council (AMIC)**. Q1 2019's top selling brands were **Chevrolet** (8,500 cars or 24% market share), followed by **Nissan** (4,664 cars or 13% market share), and **Hyundai** in the third place with 12% market share. (Al-Mal)

Markets

↗	EGX 30	14,920.15	1.01%	↘	EGX 70	648.26	(0.16%)
↘	DFMGI	2,751.51	(0.56%)	↗	ADSMI	5,258.32	0.01%
↗	TASI	9,361.96	0.62%	↗	QE Index	10,400.29	0.23%
↘	S&P 500	2,923.73	(0.75%)	↗	MSCI EM	1,080.48	0.11%
↘	Gold	1,271.65	(0.40%)	↘	Brent Oil	71.83	(0.48%)

*As of market close, except for commodities at spot price as of 8.23am CLT.

- **MENA Markets:** The **EGX 30** closed Tuesday on a bullish note, bolstered by heavyweight blue chips (e.g. **COMI**, **EKHO**, and **SWDY**). Meanwhile, **UAE indices** closed Wednesday on a mixed note, as **real-estate** and **transportation** stocks pulled **DFMGII** down, whereas **ADSMI** ended merely flat. Elsewhere, **TASI** extended its rally, closing higher on strong performance by its **banking** and **materials** sectors.
- **Global Markets:** **US equities** reversed early gains on Wednesday, as **Fed Chair**, Jerome Powell, comments on softer inflation figures this year could be related to “transitory” factors. Such comments signaled weak probability for the **Fed** to start cutting rates this year. **US dollar index** (DXY) held on, as a less dovish **Fed** had investors favoring greenback, whereas **gold** prices went down. **Oil** prices dipped on morning trading, on the back of climbing output data out of the **US**.

Number of the Day

EGP1.20

Egypt Aluminum’s (EGAL) estimates for the kWh cost of electricity in 2019/20 budget.

Today’s Quiz

What is Raya Contact Center’s (RACC) free float percentage?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Heliopolis Housing & Development	HELI	Tender	2-May	Public Auction of Land in Sheraton
Global Telecom Holding	GTHE	Conference call	2-May	Discussing Q1 2019 results
Arabian Food Industries Co Domty	DOMT	AGM	2-May	Reviewing Agenda Items
Maridive & Oil Services	MOIL	EGM / AGM	2-May	Reviewing Agenda Items
Heliopolis Housing & Development	HELI	Tender	4-May	Public Auction of Land in Sheraton
Acrow Misr	ACRO	AGM	4-May	Reviewing Agenda Items
Engineering Industries ICON	ENGC	EGM / AGM	4-May	Reviewing Agenda Items
Arabia Investments Holding	AINH	AGM	4-May	Discussion of planning a Murabaha contract with the major
Arab Polvara Spinning & Weaving	APSW	AGM	4-May	Reviewing Agenda Items
Egyptian International Tourism	EITP	EGM / AGM	5-May	Reviewing Agenda Items
Remco for Touristic Villages	RTVC	AGM	5-May	Reviewing Agenda Items
Raya Contact Center	RACC	EGM / AGM	5-May	Reviewing Agenda Items
Orascom Investment Holding	OIH	AGM	5-May	Discussing Nile Sugar Acquisition
Egyptian International Pharmaceuticals (EIPICO)	PHAR	Dividends	6-May	Ex-date (EGP4/share); Last eligible date (5 May)
Six of October Development and Investment	OCDI	Dividends	6-May	Ex-date (EGP0.50/share); Last eligible date (5 May)
Raya Holding	RAYA	AGM	6-May	Reviewing Agenda Items
Nozha International Hospital	NINH	Dividends	7-May	Ex-date (EGP0.60/share); Last eligible date (6 May)
Suez Canal Bank	CANA	Lawsuit	7-May	To rule in a lawsuit that invalidated the Bank's AGM on April 4, 2018
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	7-May	Ex-date (EGP20/share); Last eligible date (6 May)
Egyptian International Pharmaceuticals (EIPICO)	PHAR	Dividends	8-May	Payment date (EGP4/share)
Six of October Development and Investment	OCDI	Dividends	8-May	Payment date (EGP0.50/share)
Elsewedy Electric	SWDY	Dividends	8-May	Payment date (EGP0.80/share)
Canal Shipping Agencies	CSAG	Dividends	8-May	Payment date (EGP0.58/share)
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	9-May	Payment date (EGP20/share)
Nozha International Hospital	NINH	Dividends	9-May	Payment date (EGP0.60/share)
Arab Cotton Ginning	ACGC	EGM	12-May	Reviewing Agenda Items
United Co for Housing & Developments	UNIT	EGM / AGM	12-May	Reviewing Agenda Items
TMG Holding	TMGH	Dividends	13-May	Ex-date (EGP0.176/share); Last eligible date (12 May)
Egyptian Resorts Co.	EGTS	EGM	13-May	Amending some of the company's articles of incorporation
Egyptian Resorts Co.	EGTS	AGM	13-May	Reviewing Agenda Items
Suez Bags	SBAG	BoD	15-May	Reviewing Agenda Items
Medinet Nasr for Housing & Development	MNHD	EGM	15-May	Amending some of the company's articles of incorporation
Medinet Nasr for Housing & Development	MNHD	AGM	15-May	Authorizing the BoD to enter into netting contracts
Global Telecom Holding	GTHE	EGM	15-May	Amending some of the company's articles of association
Amer Group Holding	AMER	Lawsuit	15-May	Legal disputes relevant to Porto Tartous project
TMG Holding	TMGH	Dividends	15-May	Payment date (EGP0.088/share)
Ibsina Pharma	ISPH	Dividends	15-May	Ex-date (EGP0.07/share); Last eligible date (14 May)
Ibsina Pharma	ISPH	Dividends	19-May	Payment date (EGP0.07/share)
General Silos & Storage	GSSC	AGM	20-May	Reviewing Agenda Items
Middle Egypt Flour Mills	CEFM	EGM / AGM	22-May	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	23-May	Legal disputes relevant to Porto Tartous project
South Cairo & Giza Mills	SCFM	EGM / AGM	26-May	Reviewing Agenda Items
Arabia Investments Holding	AINH	Lawsuit	9-Jun	Legal disputes against French Peugeot
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	23-Jun	Legal Disputes relevant to Porto Tartous project
Global Telecom Holding	GTHE	AGM	26-Jun	Discussing capital increase
Egyptian Transport and Commercial	ETRS	Dividends	30-Jun	Payment date (EGP0.50/share)
TMG Holding	TMGH	Dividends	15-Jul	Payment date (EGP0.088/share)
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Payment date (EGP0.10/share)

Quiz Answer

44.8%.

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