

Today's Story

DSCW – A Quarter Full of Troubles; Removed from Our EGX-MP

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(in Arabic)

The Daily Cast
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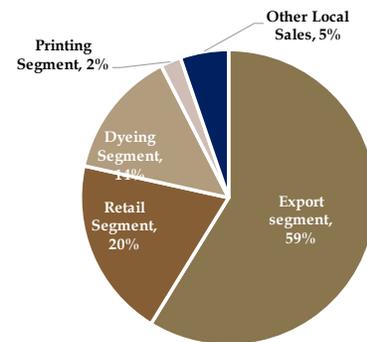


Dice Sport & Casual Wear (DSCW) posted a weak set of results in Q1 2019, where earnings fell 28% y/y, margins contracted, and revenue growth slowed more than usual to a meager 8% y/y. These results lead us to turn bearish on DSCW for the rest of the year, until further notice. We, thus, remove DSCW from our EGX Model Portfolio (EGX-MP) until we can see any signs of improvement in the quarters to follow. Since entry on 3 February 2019, we lost c.24% on the name, but ideally investors would have generated c.17% had they sold at its intra-period peak of EGP3.47 on 18 March 2019.

• **What happened in Q1 2019?** DSCW's earnings dropped 28% y/y in Q1 2019 to EGP30mn. Excluding FX items, earnings would have slumped by a whopping 72% y/y to EGP11mn. Earnings were nudged down by:

1. **A tiny 8% y/y growth in revenues to EGP338mn** due to a feeble performance of DSCW's export segment, the major contributor to total revenues. Export revenues declined 11% y/y to EGP199mn, pressured by lower volume and average price/piece during the quarter. We note that export revenues fell by some 10% in USD terms as the EGP/USD exchange rate was almost unchanged y/y (down 0.33% from EGP17.67/USD in Q1 2018 to EGP17.61/USD in Q1 2019). The segment's poor performance was partially offset by the retail segment which kept total revenues on the positive side, as its revenues more than doubled to EGP67mn in Q1 2019.
2. **The continuation of lower utilization rates in the company's factory Cairo Cotton Center** weighed on DSCW's margins. In Q1 2019, GPM declined to 23% from 31% and EBITDA margin decreased to 15% from 24%. Overall, the quarter was the worst for DSCW compared to the prior four quarters, especially in terms of revenue growth and margins.

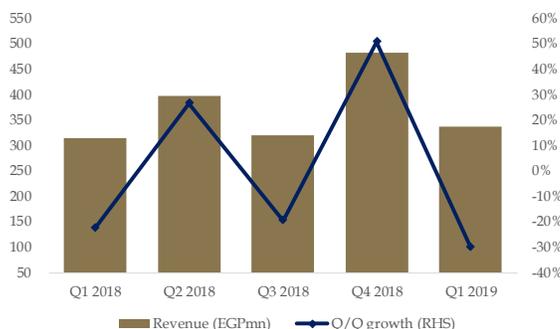
DSCW's Q1 2019 revenue mix by segment (EGP338mn)



Source: Company reports

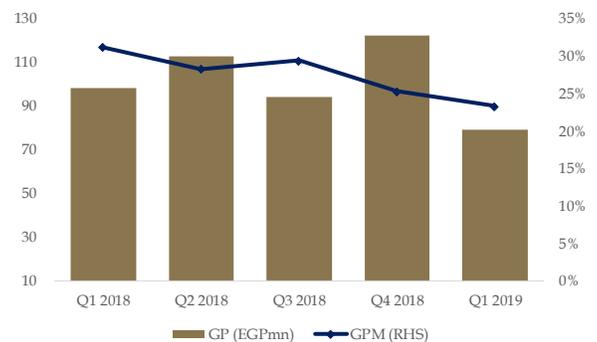
• **Outlook and valuation:** DSCW's management attributed Q1 2019's weak performance to seasonality, expecting improvement in the following quarters, especially in H2 2019. It targets total revenues of EGP1.8bn and net profits of EGP250mn in 2019. We believe that DSCW's management is too optimistic and their targets are doubtful to attain, not to mention the recent appreciation in the Egyptian pound which would weigh on the results in 2019. Indeed, the EGP/USD exchange rate has averaged so far in Q2 2019 EGP17.08/USD, -4% y/y vs. EGP17.79/USD in Q2 2018. DSCW's stock continues to trade at cheap valuations, especially after the recent drop; it trades at a TTM P/E of just 4x. But, with the fall in earnings, retreat in margins, and anemic revenue growth, we are more inclined to bite the bullet and stay away from the stock. **We, thus, remove DSCW from our EGX-MP until we can detect any recovery signals during the rest of 2019.**

Quarterly revenue progression



Source: Company reports.

Quarterly gross profit & GPM progression



Source: Company reports.

Top Headlines

Corporate

- The **Minister of Public Enterprise** Hisham Tawfik stated that the **Egyptian government** has come to an agreement with a private equity firm, without mentioning its name, to manage **Heliopolis Housing & Development (HELI)** ahead of the preparation of HELI's SPO. He has told *Al-Mal* that this private equity firm has acquired a stake in the real estate company to show its commitment to managing HELI. (*Al-Mal*)
- Palm Hills Developments'** (PHDC) Q1 2019 revenues declined 35% y/y to EGP958mn (-46% q/q) on lower residential unit deliveries as many of the completed units (440 units) during Q1 2019 are still in uninhabitable areas given the ongoing site works. Net profits after minority fell by 37% y/y (-18% q/q) to EGP141mn, but NPM was stable y/y at 15%. Contracted sales grew 5% y/y to EGP2.2bn (374 units) in Q1 2019, driven by *Palm Hills Alexandria* units after limited launches in west and east Cairo projects. The sales target for 2019 is set at EGP14bn, and the company expects to deliver 1,350 units. PHDC's net debt currently stands at c. EGP3.2bn compared to EGP3.8bn in Q1 2018. ([Company disclosure](#))
- Orascom Investment Holding's** (OIH) Q1 2019 consolidated net losses narrowed y/y to EGP78.5mn from EGP110.8mn a year ago but widened slightly from a net loss of EGP71.7mn if discontinued operations are excluded from Q1 2018 results. Revenues were almost unchanged at EGP409mn, as financial services revenues fell 20% y/y to EGP145mn which more than offset 19.5% higher interconnection tariff revenues of EGP214mn. However, EBITDA turned positive to EGP48mn from a negative EGP12mn a year ago, which was offset by higher interest expense of EGP51mn and wider recorded FX losses of EGP45mn. OIH recorded investment income of EGP38mn from 30%-owned **Sarwa Capital (SRWA)**. (*Company disclosure*)
- Egyptian Resorts Co.'s** (EGTS) subsidiary **Sahl Hasheesh Co.** launched its *Bay Condos* project which is located in the old town district of *Sahl Hasheesh* bay. The project will be developed over 2,525 sqm with a total built-up area of 4,200 sqm of residential space and 1,210 sqm of retail space. The company is set to start the construction works in 2020. Sales are expected to begin in June 2019. The project is scheduled to be completed by 2023 and should generate in excess of EGP100mn in sales with a construction cost of EGP52mn. (*Company disclosure*)

Non-Corporate

- Amendments on **Stamp Tax Law No. 111 of 1980** will not be discussed as decided by the **House of Representatives** until the publishing of data on the value traded on the EGX since 2015 through May 2019 and on the proceeds of stamp taxes during this period. ([Al-Borsa](#))
- The **Egyptian government** is planning to issue in July its first local zero-coupon bonds since 2013, and other issuances are planned throughout FY2019/20. ([Enterprise](#))

Markets

↗	EGX 30	14,206.18	0.40%	↗	EGX 70	605.71	0.16%
↗	DFMGI	2,675.39	0.02%	↘	ADSMI	4,965.87	(0.64%)
↗	TASI	8,989.72	1.59%	↗	QE Index	10,584.23	0.77%
↘	S&P 500	2,885.72	(0.03%)	↗	MSCI EM	1,031.85	0.96%
↗	Gold	1,336.50	0.73%	↘	Brent Oil	61.14	(1.85%)

*As of market close, except for commodities at spot price as of 8.35am CLT.

- MENA Markets:** Egypt's benchmark **EGX 30** ended Tuesday in the green area for the fourth consecutive session, fueled by gains from **COMI**, **MNHD**, and **CCAP**. UAE's **DFGMI** ended stronger, supported by its **telecom** and **transportation** sectors, while **ADSMI** headed south dragged by losses in **banking** and **telecom** stocks. **Saudi Arabia's** benchmark **TASI** closed higher on **banking** and **materials** stocks.
- Global Markets:** Asian markets were mostly lower in early trading Wednesday, after the **Dow** snapped a six-session winning streak. Meanwhile, **oil** prices fell more than 1% on Wednesday, weighed down by a weaker oil demand outlook and a rise in US crude inventories, while **gold** recovers as **US-China** trade jitters sour risk appetite.

Number of the Day

EGP12.5bn

Total market capitalization of the 10 drugmakers listed on the Egyptian Exchange (EGX).

Today's Quiz

How many beds will be managed by Cleopatra Hospital (CLHO) after its planned expansions?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Commercial International Bank (CIB)	COMI	EGM	12-Jun	Discussing capital increase
Raya Contact Center	RACC	Dividends	12-Jun	Payment date (EGP0.85/share)
BPE Holding For Financial Investments	BINV	Dividends	13-Jun	Payment date (EGP0.50/share)
MM Group for Industry	MTIE	Dividends	13-Jun	Ex-date (EGP0.25/share); Last eligible date (12 Jun)
Raya Holding	RAYA	Dividends	16-Jun	Ex-date (EGP0.15/share); Last eligible date (15 Jun)
South Valley Cement	SVCE	AGM	20-Jun	Reviewing Agenda Items
Arabia Investments Holding	AIH	Lawsuit	21-Jun	lawsuit against French Peugeot
Amer Group Holding	AMER	Lawsuit	23-Jun	Legal Disputes Relevant to <i>Porto Tartous</i> project
Porto Group Holding	PORT	Lawsuit	23-Jun	Legal Disputes Relevant to <i>Porto Tartous</i> project
Suez Bags	SBAG	EGM / AGM	23-Jun	Discuss delisting the company from EGX and hiring an IFA to value the
Qalaa Holdings	CCAP	AGM	26-Jun	Reviewing Agenda Items
Ezz Steel	ESRS	AGM	26-Jun	Reviewing Agenda Items
Canal Shipping Agencies	CSAG	EGM	27-Jun	Reviewing Agenda Items
United Arab Shipping	UASG	EGM	27-Jun	Reviewing Agenda Items
Alexandria Containers Handling	ALCN	EGM	27-Jun	Reviewing Agenda Items
Misr Cement (Qena)	MCQE	Dividends	27-Jun	Payment date (EGP0.25/share)
Egyptian Transport and Commercial	ETRS	Dividends	27-Jun	Payment date (EGP0.50/share)
South Valley Cement	SVCE	Results	30-Jun	1Q 2019 results
Amer Group Holding	AMER	Lawsuit	4-Jul	Legal Disputes Relevant to the Company
Porto Group Holding	PORT	Lawsuit	4-Jul	Legal Disputes Relevant to the Company
Egyptian Resorts Co.	EGTS	Lawsuit	4-Jul	Appeal against TDA regarding Sahl Hasheesh
Egyptian Resorts Co.	EGTS	EGM	10-Jul	Amending some of the company's articles of incorporation
TMG Holding	TMGH	Dividends	15-Jul	Payment date (EGP0.088/share)
Orascom Construction	ORAS	Results	8-Aug	1H 2019 results
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Payment date (EGP0.10/share)
Sidi Kerir Petrochemicals	SKPC	Dividends	22-Aug	Payment date (EGP0.50/share)
Global Telecom Holding	GTHE	AGM	27-Aug	Discussing capital increase
Sidi Kerir Petrochemicals	SKPC	Dividends	16-Oct	Payment date (EGP0.25/share)
Misr Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/share)

Quiz Answer

A total of 983 beds; +100 beds after the consolidation of **El-Katib Hospital**, +50 beds in **Queens Hospital**, +150 beds in **Beni Suef Hospital**, and +40 beds after the implementation of **Al-Shorouk Hospital** expansion. The current total is 643 across its four hospitals.

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