



## FULL YEAR UPDATE FOR 2012

Sector: Electric Equipment  
Country: Egypt  
Date: April 22, 2013

Share Price (EGP): 19.32  
Target Price (EGP): 19.00  
Upside: -1.68%  
Recommendation: HOLD  
Risk: Medium-to-High

### Maintaining a HOLD rating with a lower Target Price of EGP 19.00 per share on ongoing challenging environment

#### Lower revenues on feeble operational performance in most segments

El Sewedy's 2012 revenues were reported in-line with our expectations, decreasing by 4.3% to EGP 14.5 billion, pressured by Egypt's ongoing political instability in addition to the freeze of operations in Libya, Syria and Yemen. The electric producer also suffered locally from production delays and penalty fees due to port closures in Egypt.

Turnkey revenues recorded the sharpest drop, declining by 26% to EGP 1.9 billion on a significant reduction in engineering and construction projects in Egypt. The wires & cables segment, which makes up 77% of total revenues, slightly declined due to lower sales volumes in Syria and Sudan as a result of a decision taken to sell only on a cash basis. The meters business was the best performer registering a 33% growth in revenues to reach EGP 837 million following the sustained shift away from electromechanical meters to system meters.

#### Bottom line hit by FX losses and impairments but improvement likely

El Sewedy's earnings plummeted during 2012 by 72.8% to reach EGP 146 million, sharper than our estimates of EGP 182 million, driven by higher provisions and impairments on receivables related to operations in Egypt, Syria, Algeria, and Kuwait. The company further suffered from foreign exchange losses of EGP 97 million in 2012 related mainly to depreciation of the Sudanese and Syrian currencies. The turbulent political environment in the region caused significant delays in deliveries, increasing operational costs and dampening profitability. El Sewedy's profit margin in 2012 shrank to a threatening 1% from an already all-time low of 3.5% in 2011. We estimate 2013 earnings at EGP 222 million, anticipating improvements in the overall performance. El Sewedy is expected to continue benefiting from the infrastructure boom in the GCC and Libya in addition to its focus on Iraq, and the African continent where it can register significant market share growth.

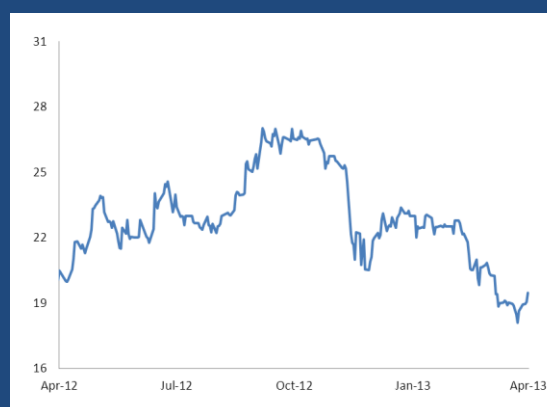
#### Maintaining HOLD as stock trades at premium amidst shaky environment

We lower our target price on El Sewedy Electric to EGP 19.00 per share using a DCF method with a WACC of 16.50% and a terminal growth rate of 3%. Trading at a sizeable price-to-earnings ratio of 37, we do not expect El Sewedy's shares to appreciate until growth in earnings appears likely. Medium term expansion is heavily dependent on the post-conflict reconstruction efforts in the Arab world, especially Syria and Libya, as well as the improving growth opportunities in Africa and Iraq. The weaker EGP and the sharp decline of the Central Bank Foreign Reserves are expected to continue their adverse impact on Egyptian equities, even if El Sewedy may benefit from lower costs and higher exports as their products become more competitively priced.

### Share Data

Bloomberg Symbol	SWDY.EY
Reuters Symbol	SWDY.CA
Market Cap (EGP)	4,316,435,760
Number of Shares	223,418,000
Free Float	33.73%
Price-to-Earnings (2012e)	37.15
Price-to-Book	0.82

### Share Performance



Source: Reuters

1 Month Return	-5.67%
3 Month Return	0.22%
6 Month Return	0.44%
12 Month Return	-5.03%
52 Week Range	18.10 - 27.02

### Performance and Forecasts

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	2011	2012	2013e	2014f	2015f
Revenues (EGP millions)	15,169	14,512	15,130	15,495	16,252
Net Income (EGP millions)	537	146	222	378	596
EPS (EGP)	2.28	0.52	0.99	1.69	2.67
ROA (%)	3.8%	1.1%	1.6%	2.6%	4.0%
ROE (%)	9.8%	2.7%	4.2%	6.9%	10.3%

Source: El Sewedy Electric, Blominvest Estimates

## PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2010	2011	2012	2013e	2014f	2015f	2016f
Operational revenues	12,902	15,169	14,512	15,130	15,495	16,252	16,937
Operational costs	(10,914)	(13,258)	(12,672)	(13,224)	(13,480)	(14,058)	(14,566)
<b>Gross Profit</b>	<b>1,988</b>	<b>1,912</b>	<b>1,840</b>	<b>1,906</b>	<b>2,014</b>	<b>2,194</b>	<b>2,371</b>
Other operating income	148	94	59	76	77	81	85
Selling & distribution expenses	(341)	(345)	(408)	(409)	(434)	(406)	(474)
Admin. Expenses	(510)	(556)	(566)	(590)	(604)	(634)	(661)
Other OPEX	(201)	(50)	(227)	(257)	(186)	(146)	(119)
<b>Operating income</b>	<b>1,084</b>	<b>1,055</b>	<b>699</b>	<b>726</b>	<b>868</b>	<b>1,089</b>	<b>1,203</b>
Finance Income	57	61	48	45	47	49	50
Finance costs	(234)	(482)	(523)	(479)	(421)	(372)	(354)
<b>Net financing costs</b>	<b>(176)</b>	<b>(421)</b>	<b>(475)</b>	<b>(434)</b>	<b>(374)</b>	<b>(322)</b>	<b>(304)</b>
Revenues from Investments available for Sale	-	-	5	-	-	-	-
<b>Net profit before tax</b>	<b>908</b>	<b>634</b>	<b>228</b>	<b>292</b>	<b>494</b>	<b>767</b>	<b>899</b>
<b>Income tax</b>							
Current income tax	(86)	(94)	(75)	(67)	(110)	(163)	(190)
Deferred income tax	(5)	(3)	(8)	(4)	(6)	(8)	(7)
<b>Net profit for the year after tax</b>	<b>817</b>	<b>537</b>	<b>146</b>	<b>222</b>	<b>378</b>	<b>596</b>	<b>702</b>
<b>Attributable to:</b>							
Equity holders of parent	796	509	117	211	358	564	663
Minority interest	21	27	29	11	20	33	39

Source: El Sewedy Electric, Blominvest

PROJECTED BALANCE SHEET

(in EGP million)	2010	2011	2012	2013e	2014f	2015f	2016f
<b>Assets</b>							
<b>Long Term Assets</b>							
Fixed assets	3,544	3,480	3,226	3,322	3,489	3,663	3,809
Projects under construction	270	256	189	198	214	231	247
Investments AFS	14	15	10	15	15	15	15
Investments in associates	10	13	13	10	10	10	10
Paid on account of investments	1	-	-	-	-	-	-
Debit balances	197	203	21	227	232	244	254
Non-tangible assets	208	227	245	227	227	227	227
Deferred tax assets	32	37	32	35	35	35	35
<b>Total LT Assets</b>	<b>4,277</b>	<b>4,231</b>	<b>3,735</b>	<b>4,035</b>	<b>4,222</b>	<b>4,425</b>	<b>4,598</b>
<b>Current assets</b>							
Inventories	3,700	3,554	3,440	3,823	3,739	3,960	4,165
Trade, notes & other receivables	4,115	4,391	4,820	4,743	4,830	5,186	5,331
Due from affiliates	283	156	251	250	228	263	268
Investment fund/ T Bills / CDs	569	401	133	402	321	306	373
Cash & cash equivalents	1,000	1,242	1,191	1,210	1,240	1,300	1,355
<b>Total Current Assets</b>	<b>9,667</b>	<b>9,744</b>	<b>9,835</b>	<b>10,404</b>	<b>10,324</b>	<b>10,968</b>	<b>11,454</b>
<b>Total assets</b>	<b>13,944</b>	<b>13,975</b>	<b>13,571</b>	<b>14,439</b>	<b>14,546</b>	<b>15,393</b>	<b>16,052</b>
<b>Current Liabilities</b>							
Banks facilities & overdrafts	4,164	4,061	3,334	4,322	4,284	4,305	4,474
ST loans and installments of LTD	601	922	864	887	874	956	988
CDs payable to banks		175	397	-	-	-	-
Trade, notes & other payables	2,316	1,930	2,728	2,588	2,579	2,652	2,916
Due to affiliates	156	240	121	160	181	189	179
Provisions	72	49	90	95	83	86	98
<b>Total Current Liabilities</b>	<b>7,310</b>	<b>7,377</b>	<b>7,533</b>	<b>8,052</b>	<b>8,000</b>	<b>8,187</b>	<b>8,655</b>
<b>Long Term Liabilities</b>							
Loans	1,073	825	589	775	852	935	974
Deferred tax liabilities	109	120	124	100	100	100	100
Other liabilities	111	78	78	88	105	111	118
<b>Total Long Term Liabilities</b>	<b>1,293</b>	<b>1,023</b>	<b>792</b>	<b>963</b>	<b>1,057</b>	<b>1,146</b>	<b>1,191</b>
<b>Total Liabilities</b>	<b>8,603</b>	<b>8,401</b>	<b>8,325</b>	<b>9,015</b>	<b>9,057</b>	<b>9,332</b>	<b>9,846</b>
<b>Shareholders' Equity</b>							
Issued and paid capital	1,719	2,234	2,234	2,234	2,234	2,234	2,234
Own stock	(2)	(1)	(1)	-	-	-	-
Legal reserve	84	122	135	93	198	370	365
Increase in net assets of the subsidiaries	579	579	579	579	579	579	579
Retained earnings	1,810	1,798	2,002	1,902	1,705	1,888	1,916
Net profit for the period	796	509	117	211	358	564	663
Forex from foreign entities translation	(59)	(80)	(232)	(124)	(145)	(167)	(145)
<b>Total Shareholders' Equity</b>	<b>4,927</b>	<b>5,161</b>	<b>4,833</b>	<b>4,894</b>	<b>4,929</b>	<b>5,468</b>	<b>5,612</b>
<b>Minority Interest</b>	<b>414</b>	<b>414</b>	<b>412</b>	<b>530</b>	<b>560</b>	<b>593</b>	<b>594</b>
<b>Total Equity</b>	<b>5,341</b>	<b>5,574</b>	<b>5,246</b>	<b>5,424</b>	<b>5,489</b>	<b>6,061</b>	<b>6,206</b>
<b>Total Liabilities and Equity</b>	<b>13,944</b>	<b>13,975</b>	<b>13,571</b>	<b>14,439</b>	<b>14,546</b>	<b>15,393</b>	<b>16,052</b>

Source: El Sewedy Electric, Blominvest

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**Equity Rating Key**

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

- Buy:** Fair Value higher than Market Price by at least 20%
- Accumulate:** Fair Value higher than Market Price by 10% to 20%
- Hold:** Fair Value ranges between -5% to +10% in relation to Market Price
- Reduce:** Fair Value lower than Market Price by 5% to 15%
- Sell:** Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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