



UPDATE FOR FY 2013

Sector: Electric Equipment
Country: Egypt
Date: May 07, 2014

Share Price (EGP): 34.00
Target Price (EGP): 37.71
Upside: 10.91%
Recommendation: ACCUMULATE
Risk: Medium-to-High

Issuing an ACCUMULATE rating with a Target Price of EGP 37.71 per share after accounting for revised forecasts

Revenue growth backed by the wire and cables segment

El Sewedy's 2013 revenues were reported in-line with our expectations, increasing by 4% to EGP 15.1 billion following growth across all business lines, except for Turnkey and electrical products. The wires & cables segment, which is mostly concentrated in Egypt and makes up 78% of total revenues, rose by 6% to EGP 11.7 billion on the back of robust growth outside of Egypt, namely Algeria, KSA, and Qatar. The meters business was the best performer registering an 8% rise in revenues to reach EGP 902 million, while revenues from transformers edged up 3% to EGP 398 million, supported by double-digit increase in Egypt, Zambia, and Sudan. Conversely, Turnkey revenues declined by 5% to EGP 1.8 billion, negatively affected by Egypt's ongoing political instability, whereas electrical products revenues fell by 4% to EGP 278 million. We expect El Sewedy's revenues to stabilize during 2014 in the absence of strong indicators of growth in Egypt, the company's largest single market.

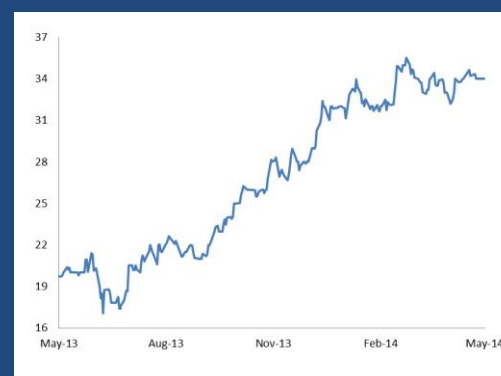
Bottom-line pressured by impairments but improvement likely

El Sewedy managed to register a 13% upsurge in gross profit to EGP 2.1 billion despite unexpected inventory impairments at the wind segment amounting to EGP 57 million. Hence, the company's gross margin jumped to 13.7% compared to 12.6% a year earlier. All segments recorded impressive gross profit, except for Turnkey projects which tumbled by 35% due to cost overruns mainly resulting from delays in project executions. However, net income after minority interest dropped by 17% to EGP 97 million compared to EGP 117 million a year earlier, negatively affected by wind-related impairment of EGP 213 million in addition to a one-off impairment related to Syria amounting to EGP 95 million as the company discontinued all its cables, transformers and plastics business operations in the country. Worth noting that excluding one-off charges, normalized net profit would have been considerably higher at EGP 404 million. Going forward, we expect 2014 earnings to reverse its downward trend, increasing to EGP 330 million. In the next three years, revenues are estimated to grow at a CAGR of 30%, benefiting from the post-conflict reconstruction efforts in the Arab world in addition to robust growth prospects in Algeria, KSA, and Qatar.

Share Data

Bloomberg Symbol	SWDY.EY
Reuters Symbol	SWDY.CA
Market Cap (EGP)	7,596,212,000
Number of Shares	223,418,000
Free Float	27%
Price-to-Earnings (2014e)	21.38
Price-to-Book	1.43

Share Performance



Source: Reuters

1 Month Return	5.6%
3 Month Return	6.3%
6 Month Return	21.0%
12 Month Return	72.4%
52 Week Range	17.08 – 35.50

Performance and Forecasts

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	2011	2012	2013	2014e
Revenues (EGP millions)	15,169	14,512	15,099	15,124
Net Income (EGP millions)	509	117	97	330
EPS (EGP)	2.28	0.52	0.43	1.59
ROA (%)	3.8%	1.0%	1.0%	2.5%
ROE (%)	9.8%	2.5%	2.6%	6.7%

Source: El Sewedy Electric, Blominvest

Issuing an ACCUMULATE rating on easing political and economic conditions

We revise up our target price on El Sewedy to EGP 37.71 per share, issuing an ACCUMULATE rating as the easing political and economic situations in Egypt continue to drive the equity market's performance and may translate into improving fundamentals in the medium term, especially with the company's continuous growth efforts in Egypt, the GCC and the African continent.

Our last recommendation in January 2014 expected the company's share price to be negatively affected by the depreciation of the Egyptian pound, the political uncertainties and the absence of robust growth in fundamental indicators. Our expectations concerning the company's performance came in line with 2013 financials, however the Egyptian equity market surged on the back of major political events. The candidacy of popular Field Marshal Sisi for presidency, and the support of Arab allies such as Saudi Arabia, UAE and Kuwait which brought more than \$12billion of funds to Egypt supported the Central Bank's foreign reserves and relieved pressure off the Egyptian pound, therefore boosting the equity market. We expect the rally that started in 2013 in the Egyptian stock market to continue in the short term, positively affecting El Sewedy stock price that we believe will remain market-driven and highly sensitive to the local political developments.

Moreover, and although we expect El Sewedy to retain its financial status in 2014 with a slight improvement in Egypt's operations, we anticipate improving conditions in the medium term as growth opportunities in Africa and the Middle East remain encouraging. We believe the company will continue to benefit from the infrastructure boom in the GCC in addition to its focus on Iraq, and the African continent where it can register significant market share growth, offsetting the freeze of operations in some Arab spring countries.

QUARTERLY INCOME STATEMENT

<i>In EGP million</i>	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
<i>Wire & Cables</i>	2,678	2,795	2,595	3,051	2,803	3,139	2,859	2,932
<i>Turnkey Projects</i>	445	464	364	607	345	508	310	624
<i>Meters</i>	163	228	223	223	291	233	208	171
<i>Transformers</i>	108	125	60	96	95	138	103	62
<i>Other Electrical Products</i>	63	59	93	74	64	81	63	71
Total Revenue	3,457	3,671	3,335	4,050	3,598	4,099	3,542	3,860
<i>Wire & Cables</i>	234	341	255	226	354	437	276	339
<i>Turnkey Projects</i>	116	65	75	136	67	103	64	19
<i>Meters</i>	38	57	58	73	84	80	54	42
<i>Transformers</i>	29	11	9	12	21	33	25	18
<i>Other Electrical Products</i>	25	32	22	27	25	31	25	(30)
Gross Profit	442	505	420	473	550	684	443	388
Gross Profit Margin	13%	14%	13%	12%	15%	17%	13%	10%
EBITDA	302	332	240	208	294	502	284	102
EBITDA Margin	9%	9%	7%	5%	8%	12%	8%	8%
Net Income After Minority	98	32	35	(49)	62	82	46	(94)

Source: El Sewedy Electric

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2011	2012	2013	2014e
Operational revenues	15,169	14,512	15,099	15,124
Operational costs	(13,258)	(12,672)	(12,977)	(12,961)
Impairment in inventory		(9)	(57)	-
Gross Profit	1,912	1,832	2,065	2,163
Other operating income	94	59	71	76
Selling & distribution expenses	(345)	(408)	(469)	(484)
Admin. Expenses	(556)	(566)	(594)	(590)
Other OPEX	(50)	(227)	(414)	(227)
Operating income	1,055	690	659	938
Finance Income	61	48	24	38
Finance costs	(482)	(523)	(446)	(454)
Net financing costs	(421)	(475)	(422)	(415)
Revenues from Investments available for Sale	-	5	3	-
Net profit before tax	634	220	241	522
Income tax				
Current income tax	(94)	(75)	(137)	(157)
Deferred income tax	(3)	(8)	31	(10)
Net profit for the year after tax	537	137	135	355
Attributable to:				
Equity holders of parent	509	117	97	330
Minority interest	27	29	38	25

Source: El Sewedy Electric, Blominvest

BALANCE SHEET

<i>In EGP million</i>	2011	2012	2013
Assets			
Long Term Assets			
Fixed assets	3,480	3,226	3,215
Projects under construction	256	189	135
Investments AFS	15	10	10
Investments in associates	13	13	13
Paid on account of investments	-	-	-
Payment under investment in subsidiaries account	-	-	-
Debit balances	203	21	72
Non-tangible assets	227	245	85
Deferred tax assets	37	32	45
Total LT Assets	4,231	3,735	3,575
Current assets			
Inventories	3,554	3,440	3,699
Trade, notes & other receivables	4,391	4,820	5,291
Due from affiliates	156	180	193
Investment fund/ T Bills / CDs	401	133	183
Cash & cash equivalents	1,242	1,191	1,346
Assets held for sale	-	71	72
Total Current Assets	9,744	9,835	10,784
Total assets	13,975	13,571	14,359
Current Liabilities			
Banks facilities & overdrafts	4,061	3,334	4,010
ST loans and installments of LTD	922	864	824
CDs payable to banks	175	397	84
Trade, notes & other payables	1,930	2,728	3,106
Due to affiliates	240	121	173
Provisions	49	90	220
Total Current Liabilities	7,377	7,533	8,416
Long Term Liabilities			
Loans	825	589	505
Deferred tax liabilities	120	124	101
Other liabilities	78	78	50
Total Long Term Liabilities	1,023	792	656
Total Liabilities	8,401	8,325	9,072
Shareholders' Equity			
Issued and paid capital	2,234	2,234	2,234
Own stock	(1)	(1)	(1)
Legal reserve	122	135	150
Increase in net assets of the subsidiaries	579	579	579
Retained earnings	1,798	2,002	1,901
Net profit for the period	509	117	97
Forex from foreign entities translation	(80)	(232)	(88)
Total Shareholders' Equity	5,161	4,833	4,871
Minority Interest	414	412	416
Total Equity	5,574	5,246	5,287
Total Liabilities and Equity	13,975	13,571	14,359

Source: El Sewedy Electric

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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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