



## UPDATE FOR Q3 2013

Sector: Electric Equipment  
Country: Egypt  
Date: January 02, 2014

Share Price (EGP): 31.90  
Target Price (EGP): 27.13  
Upside: -14.95%  
Recommendation: REDUCE  
Risk: Medium-to-High

### Issuing a REDUCE rating with a Target Price of EGP 27.13 per share after accounting for revised forecasts

#### Top-line upsurge shielded by cables segment

El Sewedy reported a 6% y-o-y rise in Q3 revenues to EGP 3.5 billion as a result of a 10% increase in the wire and cables segment to EGP 2.8 billion on higher volumes and average selling prices. However, turnkey registered disappointing results, declining by 15% to EGP 310 million, heavily impacted by the challenging conditions in Egypt. During the first nine months of 2013, the company's top-line added 7% y-o-y to EGP 11.2 billion as all major divisions achieved growth with the wire and cable segment contributing EGP 8.8 billion or 78% of total revenues. Meters revenues increased 19% to EGP 731 million, while revenues from transformers grew 15% to EGP 336 million following a strong performance in Egypt, Zambia, and Sudan. Conversely, electrical products revenues edged down by 3% to EGP 208 million, whereas Turnkey fell 9% to EGP 1.2 billion, pressured by the ongoing political instability in Egypt. We estimate 2013 revenues to rise by 5.6% to EGP 15.3 billion.

#### Earnings throughout 2013 supported by KSA and Algeria

El Sewedy Q3 gross profit increased by 5% y-o-y backed by robust income from cables, electrical products, and transformers segments, leading to an impressive 32% surge in the company's bottom-line. In addition, gross profit rallied by 23% y-o-y during the first nine months of 2013, sending the gross margin to 15% compared to 13% a year earlier, mostly buoyed by KSA and Algeria. Consequently, El Sewedy managed to record a 15% rise in earnings to EGP 190 million as all segments registered improvement in margins except for Turnkey. We expect 2013 earnings to increase to EGP 305 million, growing at a CAGR of 39% in the next three years.

#### Downgrading to REDUCE as rise in earnings doesn't justify surge in price

The potential growth in Algeria, Iraq and Saudi Arabia along with El Sewedy's focus on the African continent may offset the weak performance in Egypt as well as the freeze of operations in Libya, Syria, and Yemen. However, medium-term growth will be contingent on GCC project expansion in addition to post-conflict reconstruction efforts in the Arab world. Despite El Sewedy's improving fundamentals, we lower our rating to REDUCE as the company's stock price registered a striking rally in the past six months, surging by more than 77% as encouraging economic news and easing political tensions lifted investors' sentiment. With El Sewedy trading near its two-and-a-half year high, we expect a near-term pullback as this could be a considerable opportunity for profit taking. Moreover, we continue to perceive significant negative effect on Egyptian equities from the depreciation of the EGP and the drop of the Central Bank foreign reserves.

#### Share Data

Bloomberg Symbol	SWDY.EY
Reuters Symbol	SWDY.CA
Market Cap (EGP)	7,127,034,200
Number of Shares	223,418,000
Free Float	27%
Price-to-Earnings (2013e)	23.34
Price-to-Book	1.31

#### Share Performance



Source: Reuters

1 Month Return	15.1%
3 Month Return	33.5%
6 Month Return	77.2%
12 Month Return	39.2%
52 Week Range	17.08 – 32.40

#### Contact information:

Equity Analyst: Malak Hawa  
malak.hawa@blominvestbank.com

Head of Equities: Issa Frangieh, CFA  
issa.frangieh@blominvestbank.com

Head of Research: Marwan Mikhael  
marwan.mikhael@blominvestbank.com

#### Performance and Forecasts

	2010	2011	2012	2013e
Revenues (EGP millions)	12,902	15,169	14,512	15,319
Net Income (EGP millions)	817	537	146	305
EPS (EGP)	3.56	2.28	0.52	1.37
ROA (%)	6.5%	3.8%	1.1%	2.2%
ROE (%)	16.5%	9.8%	2.7%	5.7%

QUARTERLY INCOME STATEMENT

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

Source: El Sewedy Electric

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2010	2011	2012	2013e
Operational revenues	12,902	15,169	14,512	15,319
Operational costs	(10,914)	(13,258)	(12,672)	(13,174)
<b>Gross Profit</b>	<b>1,988</b>	<b>1,912</b>	<b>1,840</b>	<b>2,145</b>
Other operating income	148	94	59	77
Selling & distribution expenses	(341)	(345)	(408)	(437)
Admin. Expenses	(510)	(556)	(566)	(582)
Other OPEX	(201)	(50)	(227)	(291)
<b>Operating income</b>	<b>1,084</b>	<b>1,055</b>	<b>699</b>	<b>911</b>
Finance Income	57	61	48	31
Finance costs	(234)	(482)	(523)	(484)
<b>Net financing costs</b>	<b>(176)</b>	<b>(421)</b>	<b>(475)</b>	<b>(453)</b>
Revenues from Investments available for Sale	-	-	5	-
<b>Net profit before tax</b>	<b>908</b>	<b>634</b>	<b>228</b>	<b>458</b>
<b>Income tax</b>				
Current income tax	(86)	(94)	(75)	(147)
Deferred income tax	(5)	(3)	(8)	(6)
<b>Net profit for the year after tax</b>	<b>817</b>	<b>537</b>	<b>146</b>	<b>305</b>
<b>Attributable to:</b>				
Equity holders of parent	796	509	117	288
Minority interest	21	27	29	17

Source: El Sewedy Electric, Blominvest

BALANCE SHEET

<i>In EGP million</i>	2010	2011	2012	Q3 2013
<b>Assets</b>				
<b>Long Term Assets</b>				
Fixed assets	3,544	3,480	3,226	3,117
Projects under construction	270	256	189	209
Investments AFS	14	15	10	10
Investments in associates	10	13	13	11
Paid on account of investments	1	-	-	-
Payment under investment in subsidiaries account	-	-	-	21
Debit balances	197	203	21	49
Non-tangible assets	208	227	245	119
Deferred tax assets	32	37	32	47
<b>Total LT Assets</b>	<b>4,277</b>	<b>4,231</b>	<b>3,735</b>	<b>3,583</b>
<b>Current assets</b>				
Inventories	3,700	3,554	3,440	3,831
Trade, notes & other receivables	4,115	4,391	4,820	5,841
Due from affiliates	283	156	180	184
Investment fund/ T Bills / CDs	569	401	133	22
Cash & cash equivalents	1,000	1,242	1,191	1,067
Assets held for sale	-	-	71	72
<b>Total Current Assets</b>	<b>9,667</b>	<b>9,744</b>	<b>9,835</b>	<b>11,019</b>
<b>Total assets</b>	<b>13,944</b>	<b>13,975</b>	<b>13,571</b>	<b>14,602</b>
<b>Current Liabilities</b>				
Banks facilities & overdrafts	4,164	4,061	3,334	4,575
ST loans and installments of LTD	601	922	864	991
CDs payable to banks		175	397	98
Trade, notes & other payables	2,316	1,930	2,728	2,613
Due to affiliates	156	240	121	123
Provisions	72	49	90	200
<b>Total Current Liabilities</b>	<b>7,310</b>	<b>7,377</b>	<b>7,533</b>	<b>8,598</b>
<b>Long Term Liabilities</b>				
Loans	1,073	825	589	469
Deferred tax liabilities	109	120	124	128
Other liabilities	111	78	78	57
<b>Total Long Term Liabilities</b>	<b>1,293</b>	<b>1,023</b>	<b>792</b>	<b>654</b>
<b>Total Liabilities</b>	<b>8,603</b>	<b>8,401</b>	<b>8,325</b>	<b>9,253</b>
<b>Shareholders' Equity</b>				
Issued and paid capital	1,719	2,234	2,234	2,234
Own stock	(2)	(1)	(1)	(1)
Legal reserve	84	122	135	150
Increase in net assets of the subsidiaries	579	579	579	579
Retained earnings	1,810	1,798	2,002	1,910
Net profit for the period	796	509	117	190
Forex from foreign entities translation	(59)	(80)	(232)	(140)
<b>Total Shareholders' Equity</b>	<b>4,927</b>	<b>5,161</b>	<b>4,833</b>	<b>4,922</b>
<b>Minority Interest</b>	<b>414</b>	<b>414</b>	<b>412</b>	<b>427</b>
<b>Total Equity</b>	<b>5,341</b>	<b>5,574</b>	<b>5,246</b>	<b>5,349</b>
<b>Total Liabilities and Equity</b>	<b>13,944</b>	<b>13,975</b>	<b>13,571</b>	<b>14,602</b>

Source: El Sewedy Electric

**BLOMINVEST BANK s.a.l.**

Research Department  
Verdun, Rashid Karameh Str.  
POBOX 11-1540 Riad El Soloh  
Beirut 1107 2080 Lebanon

Tel: +961 1 747 802  
[research@blominvestbank.com](mailto:research@blominvestbank.com)

**For your Queries:**

Marwan Mikhael, Head of Research  
[marwan.mikhael@blominvestbank.com](mailto:marwan.mikhael@blominvestbank.com)  
+961 1 747 802 Ext: 1234

Issa Frangieh, Head of Equities  
[issa.frangieh@blominvestbank.com](mailto:issa.frangieh@blominvestbank.com)  
+961 1 1 747 802 Ext: 1208

Malak Hawa, Equity Analyst  
[malak.hawa@blominvestbank.com](mailto:malak.hawa@blominvestbank.com)  
+961 1 1 747 802 Ext: 1260

**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

**IMPORTANT DISCLAIMER**

This research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

Blom Bank SAL or Blom Invest SAL can have investment banking and other business relationships with the companies covered by our research. We may seek investment banking or other business from the covered companies referred to in this research.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice. The price and value of the investments referred to in this research and the income from them may fluctuate.

Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Copyright 2014 Blom Invest SAL.

No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of Blom Invest SAL.