



Rating Update

Sector: Electric Equipment
Country: Egypt
Date: February 08, 2013

Share Price (EGP): 22.50
Target Price (EGP): 24.40
Upside: 8.44%
Recommendation: HOLD
Risk: Medium to High

Reducing to a HOLD rating with a lower Target Price of EGP 24.40 per share down from EGP 28.20 on sustained instability in Egypt

Decline in revenues reflects the ongoing challenging environment

El Sewedy Electric experienced a tumultuous 2012, especially during the third quarter, as unexpected delays and difficulties translated into disappointing results. Revenues for the quarter came in at EGP 3.3 billion, a 14% decline versus the EGP 3.9 billion garnered in Q3'11. These numbers were the lowest posted in 2012, with a 9% decrease from the revenues posted in Q2'12. Gross profit margin for the quarter also contracted to 12.6% vs. 14.5% a year earlier.

Turnkey production plagued by delays and lack of new contracts

A major downturn in turnkey revenues has been the main culprit for the disappointing results. Q3 revenues were 54% lower than Q3 2011 reaching EGP 364 million, resulting in one of the worst performances thus far. Causes have been attributed to major delays in the opening of operations in Africa in addition to cyclical, which have led to a rise in the backlog on hold. In addition, the underperformance of the transformers segment didn't help. Regionally, Syrian operations have been reduced significantly along with Nigeria underperforming. Delays in deliveries and inspections have also hurt Egyptian operations in what is turning into a main bottleneck.

Earnings' weakness expected to continue through Q4

The first nine months of 2012 have not been kind to El Sewedy Electric as multiple factors have led to a 68% y-o-y decline in profits. Delays and bottlenecks in African operations along with the turbulent political environment have all played a role in the weak performance, as net profit margin dropped to 1.4% from 5.3% a year earlier. Overall 2012 earnings are expected to come in at EGP 222 million, a 59% drop from the EGP 537 million gained in 2011. We believe that many of the circumstances that have hampered productivity in 2012 resembled a worst case scenario, with expectations for improvements in the overall performance going forward.

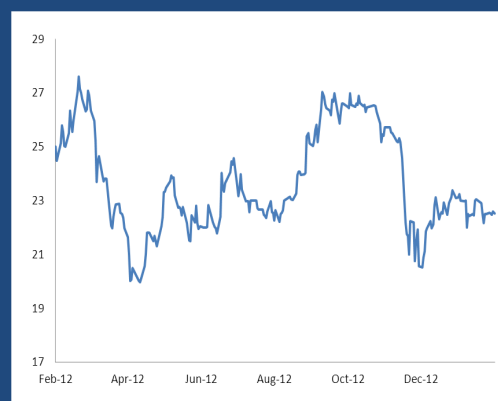
Opportunities and growing backlog offer bright picture despite struggles

We value El Sewedy Electric at EGP 24.40 using a DCF method with a WACC of 16.50% and a terminal growth rate of 3%. Revenue forecasts were extended over a five year period assuming current production capacity and utilization rates. The company has endured a challenging 2012, but we expect conditions to improve as growth opportunities in Africa and the Middle East (especially Iraq) remain encouraging. The region's ongoing political instability, specifically in Egypt, still persists as the main obstacle against the consistent performance desired.

Share Data

Bloomberg Symbol	SWDY.EY
Reuters Symbol	SWDY.CA
Market Cap (EGP)	4,959,879,600
Number of Shares	223,418,000
Free Float	33.73%
Price-to-Earnings (2012e)	27.25
Price-to-Book	0.89

Share Performance



Source: Reuters

1 Month Return	-3.14%
3 Month Return	-12.52%
6 Month Return	-0.62%
12 Month Return	-8.05%
52 Week Range	19.96 – 27.6

Performance and Forecasts

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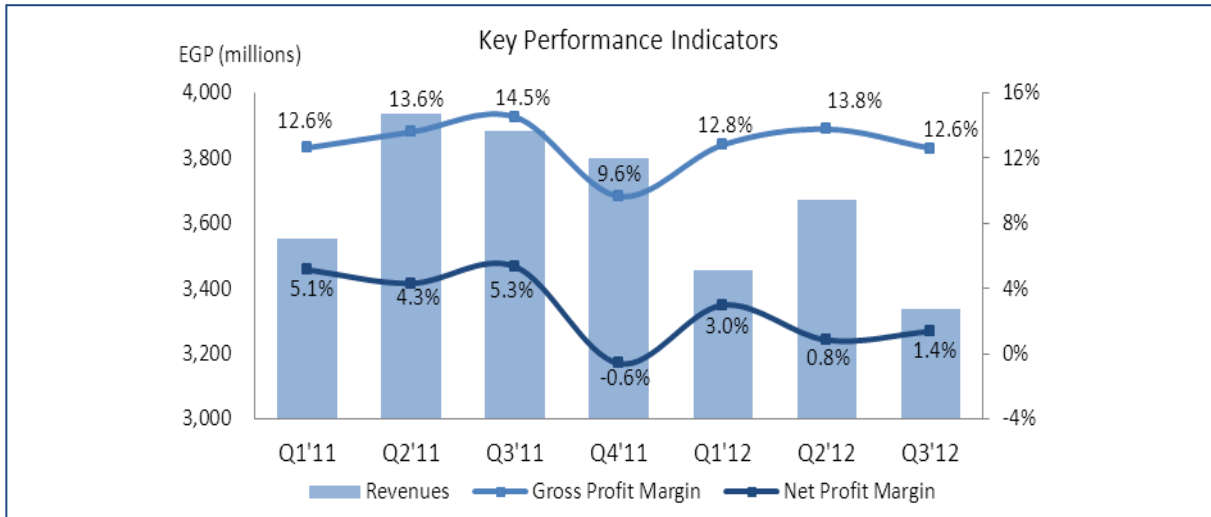
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In EGP millions	Q3 12	Q2 12	Q-o-Q	Q3 11	Y-o-Y
Revenues	3,335	3,671	-9%	3,883	-14%
Net Income	45.80	30.57	50%	207	-78%
Wire and Cables revenue	2,595	2,795	-7%	2,743	-5%
Turnkey Projects revenue	364	464	-22%	792	-54%
Electrical Products revenue	376	411	-9%	348	8%

Source: Company Historicals and Blominvest Estimates

Revenues below estimates as ongoing challenges weigh down performance

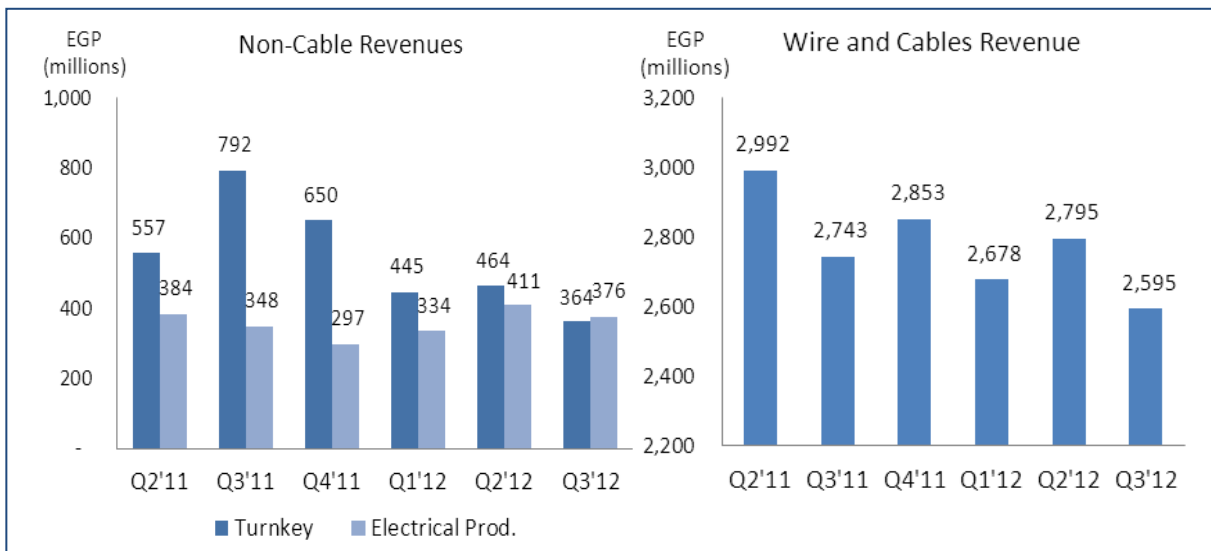
El Sewedy Electric Company experienced a tumultuous third quarter in 2012, as unexpected delays and difficulties translated into disappointing results. Revenues for the quarter came in at EGP 3.3 billion, a 14% decline versus the EGP 3.9 billion garnered in Q3'11. These numbers were the lowest posted in 2012, and a 9% decrease from the revenues posted in Q2'12. Gross profit margin for the quarter also contracted to 12.6% vs. 14.5% a year earlier.



Source: El Sewedy Electric

Business segments fail to replicate 2011 results

The Wire and Cable segment, which constitutes the majority of the group's business, posted revenues of EGP 2.6 billion in Q3 2012, 5% lower than Q3 2011 and a 7% dip from a quarter earlier. More alarmingly though has been the major drop in non-cable revenues (Turnkey & Electrical Products), which came in at EGP 740 million, a 35% y-o-y decline, and a 15.5% drop vs. the second quarter. That accounted for only 22% of overall revenues, versus 29% in the third quarter of 2011.

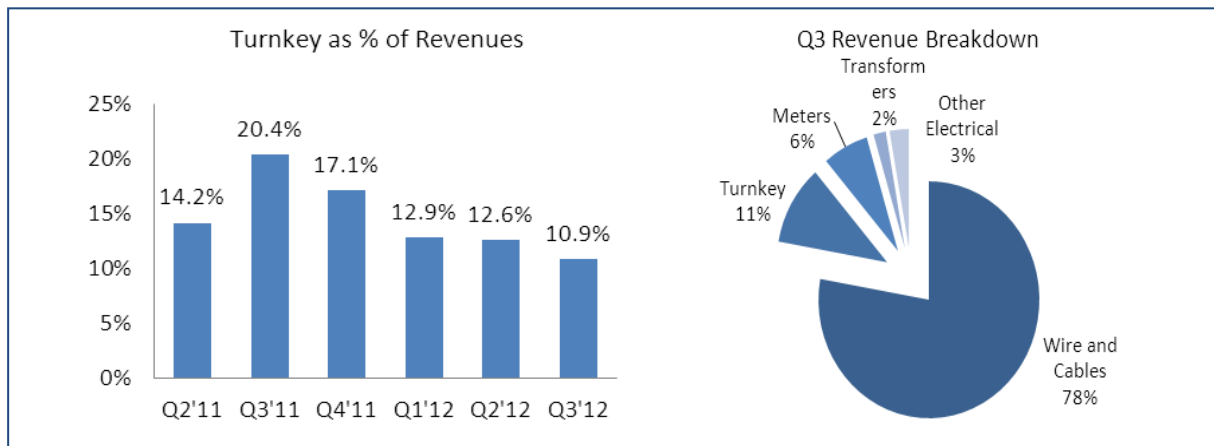


Source: El Sewedy Electric

Turnkey production plagued by delays and lack of new contracts

A major downturn in Turnkey revenues has been the main culprit for the disappointing results. Q3 revenues were 54% lower than Q3 2011 reaching EGP 364 million, as the results are one of the worst performances thus far. Causes have been attributed to major delays in the opening of LC's in Africa in addition to cyclical, which have led to a rise in the backlog on hold. The company's CEO Ahmed El Sewedy remains optimistic though with a more positive outlook going into next year.

Not helping matters has also been the underperformance of the transformers segment. Overall Syrian operations have been reduced significantly while Nigeria has underperformed. Delays in deliveries and inspections have also hurt Egyptian operations in what is turning into a main bottleneck.

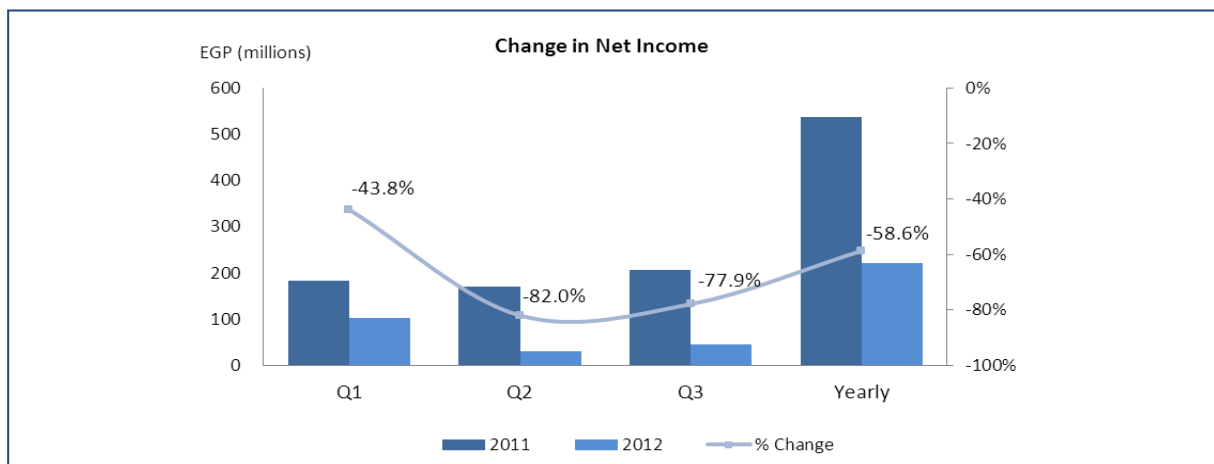


Source: El Sewedy Electric

The only encouraging segment has been the meters division which continues to outperform with revenues of EGP 223 million. That was slightly less to what was gained in the second quarter, but an 81% improvement over the EGP 124 million brought in during the third quarter of 2011.

Earnings in 2012 continue to struggle with no change in results expected for Q4

The first nine months of 2012 have not been kind to El Sewedy Electric as multiple factors have led to a 68% y-o-y decline in profits. Delays and bottlenecks in African operations along with the turbulent political environment have all played a role in the weak performance, as net profit margin dropped to 1.4% from 5.3% a year earlier. Overall 2012 earnings are expected to come in at EGP 222 million, a 59% drop from the EGP 537 million gained in 2011. We believe that many of the circumstances that have hampered productivity this year have been a worst case scenario. Improvements can be expected once the situation in Egypt calms.



Source: El Sewedy Electric

VALUATION

Gracefully ending a turbulent year however sustained political unrest in Egypt remains a concern

We valued El Sewedy at EGP 24.40 using a DCF method with a WACC of 16.50% and a terminal growth rate of 3%. Revenue forecasts were extended over a five year period assuming current production capacity and utilization rates. The current volatility the company is facing has been factored into our model, with a slow return to previous production and efficiency levels. El Sewedy will benefit from its ongoing expansion into the African continent; however this can only be reflected on share price once political instability in Egypt subsides.

In EGP Million	2012e	2013f	2014f	2015f	2016f	2017f	
Revenue	13,893	14,162	14,878	16,118	18,074	20,338	
Net Income to Shareholders	182	273	453	610	804	978	
FCFE	429	741	521	475	695	828	
FCFE Terminal							6,314
FCFE Discounted	429	636	384	300	377	386	3,112
Fair Value	5,456						
Number of Shares (m)	223.4						
Fair Value per Share (EGP)	24.40						

Source: Blominvest

QUARTERLY INCOME STATEMENT

<i>(in EGP million)</i>	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Revenues	3,883	3,799	3,457	3,671	3,335
%change	-1%	-2%	-9%	6%	-9%
Cost of Revenues	(3,320)	(3,433)	(3,015)	(3,166)	(2,915)
Gross Profit	563	366	442	505	420
<i>Gross Profit Margin</i>	14.4%	9.6%	12.8%	14%	-17%
Selling & distribution expenses	(78)	(102)	(80)	(109)	(86)
Admin. Expenses	(130)	(159)	(151)	(106)	(142)
Other OPEX	4	(20)	(21)	(34)	(49)
Other operating income	17	26	23	(5)	12
Operating income	377	111	213	251	156
<i>Operating Margin</i>	9.7%	2.9%	6.2%	17.4%	-37.7%
Finance Income	10	23	27	3	12
Finance costs	(157)	(145)	(103)	(211)	(112)
Net profit before tax	230	(11)	137	42	61
Income tax	(22)	(12)	(35)	(13)	(11)
Net profit after tax	207	(23)	103	31	46
<i>%change</i>	22%	-111%	-549%	-70%	50%
<i>Net Margin</i>	5.3%	-0.6%	3.0%	0.8%	1.4%
Attributable to:					
Equity holders of parent	196	(19)	98	32	35
Minority interest	11	(4)	4	(1)	11
EPS	0.88	(0.32)	0.44	0.14	0.16

Source: El Sewedy Electric

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2009	2010	2011	2012e	2013f	2014f	2015f
Operational revenues	9,291	12,902	15,169	13,893	14,162	14,878	16,118
Operational costs	(7,747)	(10,914)	(13,258)	(12,109)	(12,299)	(12,786)	(13,801)
Gross Profit	1,543.3	1,987.8	1,912	1,784	1,863	2,092	2,317
Other operating income	157	148	94	47	57	74	81
Selling & distribution expenses	(332)	(341)	(345)	(374)	(354)	(364)	(372)
Admin. Expenses	(398)	(510)	(556)	(573)	(552)	(580)	(629)
Other OPEX	(127)	(201)	(50)	(149)	(142)	(119)	(97)
Operating income	844	1,084	1,055	735	872	1,103	1,301
Finance Income	53	57	61	61	57	48	49
Finance costs	(233)	(234)	(482)	(551)	(566)	(561)	(570)
Net financing costs	(179)	(176)	(421)	(490)	(509)	(514)	(521)
Net profit before tax	665	908	634	245	362	590	780
Income tax							
Current income tax	(24)	(85.8)	(94)	(65)	(83)	(130)	(164)
Deferred income tax	(10)	(5.3)	(3)	(8)	(5)	(7)	(6)
Net profit for the year after tax	631	817	537	182	273	453	610
Attributable to:							
Equity holders of parent	634	795.5	509	174	260	429	576
Minority interest	(3)	21	27	8	14	24	34

Source: El Sewedy Electric, Blominvest

BALANCE SHEET

<i>(in EGP million)</i>	2009	2010	2011	Q3 2012
Assets				
Long term assets				
Fixed assets	2,670	3,544	3,480	3,444
Projects under construction	1,059	270	256	229
Investments AFS	17	14	15	15
Investments in associates	336	10	13	12
Paid on account of investments	20	1	-	-
Debit balances	474	197	203	231
Non-tangible assets	28	208	227	235
Deferred tax assets	22	32	37	39
Total LT assets	4,626	4,277	4,231	4,205
Current assets				
Inventories	2,779	3,700	3,554	3,649
Trade, notes & other receivables	2,656	4,115	4,391	4,450
Due from affiliates	276	283	156	223
Investment fund/ T Bills / CDs	311	569	401	326
Cash & cash equivalents	715	1,000	1,242	1,135
Total current assets	6,737	9,667	9,744	9,782
Total assets	11,363	13,944	13,975	13,987
Current liabilities				
Banks facilities & overdrafts	2,996	4,164	4,061	3,808
ST loans and installments of LTD	629	601	922	873
CDs payable to banks			175	373
Trade, notes & other payables	1,760	2,316	1,930	2,077
Due to affiliates	55	156	240	242
Provisions	95	72	49	41
Total current liabilities	5,534	7,310	7,377	7,414
Long term liabilities				
Loans	989	1,073	825	739
Deferred tax liabilities	62	109	120	127
Other liabilities	194	111	78	82
Total long term liabilities	1,245	1,293	1,023	948
Total liabilities	6,779	8,603	8,401	8,362
Shareholders' equity				
Issued and paid capital	1,322	1,719	2,234	2,234
Own stock	(2)	(2)	(1)	(1)
Legal reserve	17	84	122	122
Increase in net assets of the acquired subsidiaries over the consideration paid for the investment	579	579	579	579
Retained earnings	1,709	1,810	1,798	2,303
Net profit for the period	634	796	509	98
Forex from foreign entities translation	(47)	(59)	(80)	(108)
Total shareholders' equity	4,212	4,927	5,161	5,227
Minority interests	372	414	414	397
Total Equity	4,584	5,341	5,574	5,625
Total Liabilities and Equity	11,363	13,944	13,975	13,987

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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