

## Alert on H1 2011 Earnings

Sector: Power  
Country: Egypt  
Date: September 13, 2011

Share Price (EGP): 22.15  
Fair Value (EGP): 32.40  
Upside: 46%  
Recommendation: HOLD

### Maintaining a HOLD recommendation with a fair value of EGP 32.40 to account for revised forecast and stock dividend

#### Top line growth supported by strong operations in Africa

El Sewedy (SE) reported revenues of EGP 7,486M in H1 2011, rising by 25% y-o-y on increased sales in both its cables and non-cables businesses. The cable maker was able to withstand the political woes in many of its operating countries due to continued public spending on infrastructure development, especially in Africa which led the twofold increase in turnkey operations. Cable sales volume posted a 13% q-o-q growth to 39,967 tons despite weak sales in Libya and Yemen. In Egypt and Syria, SE's operations have been waiving political revolutions witnessing a 23% and 40% q-o-q increase respectively. Moving to the electric products segment, meters sales volume jumped by 29% y-o-y during H1 2011 despite delays in the upgrade from mechanical to system meters in Europe while transformers sales volume experienced a 59% y-o-y hike on improved sales in Sudan, Nigeria and Egypt.

#### Earnings Pressured by lower gross margin and higher finance costs

Gross profit at SE slid by 2.4% during H1 2011 to EGP 982M mostly due to the spike in copper prices which pressured the gross margin down to 10.1% from 13.1% previously. SE's operating margin declined by 7% y-o-y due to a one-time gain on the partial sale of Qatar Cables last year which, if ignored, would raise the comparable EBITDA margin by 3% due to improved operating efficiency. Still, the net profit margin at SE fell to 4.7% from 9% previously, weighed upon by doubled up net finance costs on higher current borrowings to finance working capital, amid the hike in copper prices. Foreign exchange losses and higher income tax also contributed to the 34% y-o-y plunge in net income to EGP 352M.

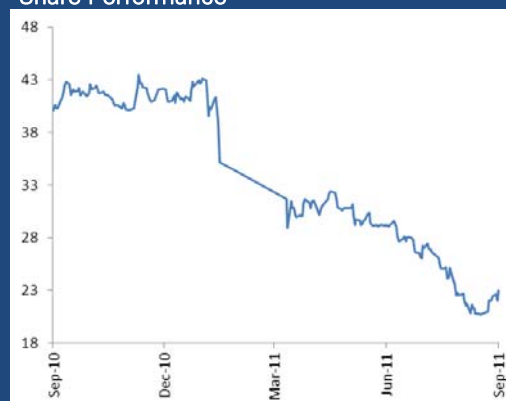
#### Upholding a HOLD recommendation on short term political uncertainty

We maintain our fair value for SE at EGP 32.40 per share after accounting for the recent 30% stock dividend distribution at a ratio of three bonus shares for every ten shares held. This fair value is in line with our previous target of EGP 42.23 on the 171.7 million shares outstanding before the stock dividend, and represents a 46% premium on the current price. We support our estimate by SE's flourishing operations in Africa and the positive signs of growth in the Saudi and Qatari cables markets. However, we maintain a HOLD recommendation on the stock as we don't believe that the price will hit our target in the near term due to the uncertain upturn in the political scene in Syria, Libya and Egypt and the resulting expected slowdown in new contract awards especially from the private sector.

### Share Data

Bloomberg Symbol	SWDY EY
Reuters Symbol	SWDY.CA
Market Cap (EGP)	4,948,708,700
Number of Shares	223,418,000
Free Float	25%
Price-to-Earnings 10	4.78
Price-to-Book 10	0.71

### Share Performance



Source: Reuters

1 Month Return	-1.7%
3 Month Return	-22.4%
6 Month Return	-30.1%
12 Month Return	-44.8%
52 Week Range	43.45 – 20.67

Source: Reuters

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### Performance and Forecasts

In EGP millions	Q2 11	Q1 11	% QoQ	H1 11	H1 10	% YoY
Revenues	3,933	3,553	11%	7,486	5,986	25%
EBITDA	401	336	19%	737	788	-7%
EBITDA Margin %	10%	9%		10%	13%	
Net Income	170	182	-6%	352	536	-34%
Profit Margin %	4.3%	5.1%		4.7%	9.0%	

Source: El Sewedy Electric, Blominvest

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2010	2011e	2012f	2013f	2014f	2015f
Operational revenues	12,902	14,028	16,912	17,667	18,608	19,480
Operational costs	(10,914)	(12,186)	(14,652)	(15,217)	(15,966)	(16,665)
<b>Gross Profit</b>	<b>1,988</b>	<b>1,841</b>	<b>2,260</b>	<b>2,450</b>	<b>2,642</b>	<b>2,815</b>
Other operating income	148	210	220	247	279	331
Selling & distribution expenses	(341)	(380)	(427)	(420)	(425)	(446)
Admin. Expenses	(51)	(533)	(592)	(636)	(707)	(779)
Other OPEX	(201)	(210)	(237)	(212)	(261)	(273)
<b>Operating income</b>	<b>1,084</b>	<b>929</b>	<b>1,224</b>	<b>1,429</b>	<b>1,528</b>	<b>1,648</b>
Finance Income	57	45	58	64	69	80
Finance costs	(234)	(246)	(265)	(319)	(337)	(323)
<b>Net financing costs</b>	<b>(176)</b>	<b>(202)</b>	<b>(207)</b>	<b>(255)</b>	<b>(267)</b>	<b>(242)</b>
<b>Net profit before tax</b>	<b>908</b>	<b>727</b>	<b>1,016</b>	<b>1,174</b>	<b>1,261</b>	<b>1,406</b>
<b>Income tax</b>						
Current income tax	(86)	(31)	(58)	(76)	(69)	(83)
Deferred income tax	(5)	(6)	(10)	(13)	(11)	(11)
<b>Net profit for the year after tax</b>	<b>817</b>	<b>690</b>	<b>948</b>	<b>1,085</b>	<b>1,181</b>	<b>1,312</b>
<b>Attributable to:</b>						
Equity holders of parent	796	663	904	1,031	1,119	1,240
Minority interest	21	28	44	54	61	72

Source: El Sewedy Electric, Blominvest

PROJECTED BALANCE SHEET

<i>In EGP million</i>	2010	2011e	2012f	2013f	2014f	2015f
<b>Assets</b>						
<b>Long term assets</b>						
Fixed assets	3,544	3,686	3,834	4,025	4,227	4,438
Projects under construction	270	378	434	543	706	953
Investments AFS	14	16	15	15	15	16
Investments in associates	10	10	10	10	10	10
Paid on account of investments	1	-	-	-	-	-
Debit balances	239	290	372	406	409	468
Non-tangible assets	166	166	166	166	166	166
Deferred tax assets	32	35	36	39	40	42
<b>Total long term assets</b>	<b>4,278</b>	<b>4,580</b>	<b>4,867</b>	<b>5,204</b>	<b>5,573</b>	<b>6,091</b>
<b>Current assets</b>						
Inventories	3,700	4,109	4,954	5,139	5,438	5,689
Trade, notes & other receivables	4,115	4,242	5,114	5,440	5,661	5,938
Due from affiliates	283	268	399	381	398	432
Investment fund/ T Bills / CDs	569	610	683	753	784	813
Cash & cash equivalents	1,000	1,014	1,279	1,328	1,383	1,462
<b>Total current assets</b>	<b>9,667</b>	<b>10,243</b>	<b>12,428</b>	<b>13,040</b>	<b>13,665</b>	<b>14,333</b>
<b>Total Assets</b>	<b>13,944</b>	<b>14,823</b>	<b>17,295</b>	<b>18,244</b>	<b>19,238</b>	<b>20,424</b>
<b>Current liabilities</b>						
Banks facilities & overdrafts	4,164	4,208	5,327	5,618	5,675	5,844
ST loans and installments of LTD	601	1,124	1,052	1,133	1,177	1,314
Trade, notes & other payables	2,316	2,121	2,932	2,968	3,055	3,283
Due to affiliates	156	95	140	160	149	164
Provisions	72	164	155	156	184	181
<b>Total current liabilities</b>	<b>7,310</b>	<b>7,712</b>	<b>9,606</b>	<b>10,035</b>	<b>10,241</b>	<b>10,786</b>
<b>Long term liabilities</b>						
Loans	1,073	1,150	1,186	1,220	1,356	1,563
Deferred tax liabilities	109	121	132	139	143	155
Other liabilities	111	187	183	171	207	233
<b>Total long term liabilities</b>	<b>1,293</b>	<b>1,458</b>	<b>1,502</b>	<b>1,530</b>	<b>1,706</b>	<b>1,951</b>
<b>Total liabilities</b>	<b>8,603</b>	<b>9,170</b>	<b>11,107</b>	<b>11,565</b>	<b>11,947</b>	<b>12,737</b>
<b>Shareholders' equity</b>						
Issued and paid capital	1,719	1,719	1,719	1,719	1,719	1,719
Own stock	(2)	-	-	-	-	-
Legal reserve	37	35	52	63	71	81
Increase in subsidiary value	579	580	580	580	580	580
Retained earnings	1,858	2,319	2,479	2,812	3,295	3,528
Net profit for the year	796	663	904	1,031	1,119	1,240
Forex from foreign entities translation	(59)	(53)	(53)	(55)	(54)	(54)
<b>Total shareholders' equity</b>	<b>4,927</b>	<b>5,262</b>	<b>5,681</b>	<b>6,150</b>	<b>6,730</b>	<b>7,093</b>
Minority interests	414	391	507	530	560	593
<b>Total Equity</b>	<b>5,341</b>	<b>5,653</b>	<b>6,188</b>	<b>6,680</b>	<b>7,291</b>	<b>7,687</b>

Source: El Sewedy Electric, Blominvest

## El Sewedy Electric

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### Equity Rating Key

**Buy:** A recommendation with a potential return greater than 10% based on our current 12-month view of total shareholder return\*.

**Hold:** A recommendation with a potential return between -10% and 10% based on our current 12-month view of total shareholder return.

**Sell:** A recommendation with a potential return of less than -10% based on our current 12-month view of total shareholder return.

\* Total Shareholder Return is calculated by the potential price growth over a 12-month period along with the expected dividend yield.

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