



Alert on FY 2012 Earnings

Sector: Basic Materials & Industrial Products

Country: Egypt

Date: May 18, 2013

Share Price (EGP): 10.03

Target Price (EGP): 10.27

Upside: 2.39%

Recommendation: HOLD

Risk: High

Maintaining our HOLD recommendation with a target price of EGP 10.27 on sustained instability in Egypt
Top-line meets our expectations on resilient local demand

Ezz Steel 2012 revenues came in line with our expectations, increasing by 6% to EGP 19,799 million versus our estimates of EGP 19,631 million. This rise was led by an 8% increase in long steel sales to 3.9 million tons despite low steel prices. Flat steel sales fell 14% y-o-y to 893 thousand tons as Ezz suspended flat steel production at its EFS facility and switched to long products during 2012. The expansion of the local residential market continues to lead the demand for Ezz's long products, capturing 97% of its total long product sales. Flat products directed to export markets accounted for 44% of flat output sales in 2012 compared to 48% a year earlier due to weaker international demand.

Minority interest captures bulk of earnings

Earnings at Ezz Steel plummeted to EGP 8 million in 2012 as opposed to EGP 202 million reported in 2011. This came near our estimates of EGP 15 million, as losses mounted at its EFS facility which reported an EBITDA of EGP -142 million. The majority of earnings at Ezz were generated through its largest and most profitable subsidiary Ezz El Dekhila (EZDK), and therefore after accounting for minority interests, shareholder earnings went from EGP 250 million to EGP 8 million. Additionally, production costs accounted for 91.5% of sales in 2012 compared to 88.1% a year earlier, due to a spike in raw material costs coupled with increasing gas and electricity prices.

New DRI plant to increase Ezz's profitability from each ton of steel

Ezz's debt-to-equity ratio rose to 160% during 2012, up from 138% for 2011 on higher overdrafts and short-term borrowings. The company's leverage may increase further as Ezz needs additional funding to continue the construction of the new direct-reduced iron (DRI) factory at Sokhna Port, which is expected to be completed in the second half of 2014. However, the factory will increase Ezz's profitability by replacing scrap iron in the manufacturing process with DRI, which will shave around \$50 to \$100 off the cost per ton produced.

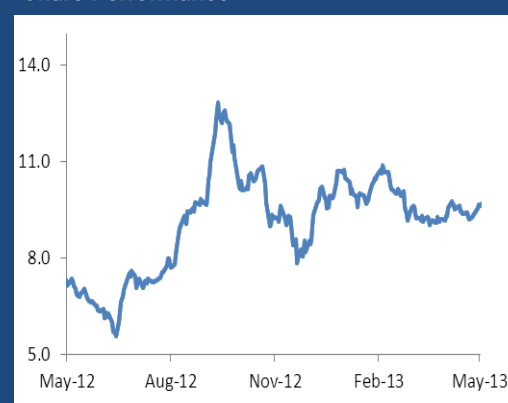
Issuing a HOLD rating on persistent macroeconomic and firm-specific risks

We maintain our target price at EGP 10.27 per share, using a WACC of 20% after taking into account the local and regional economic and political conditions. The company's share price continues to face short-term pressures from the specific risk in relation to the lawsuits filed against the ex-chairman, Ahmed Ezz, and the company's ability to hold on to its largest and most profitable subsidiary, EZDK. As with other Egyptian equities, Ezz shares continue to be negatively impacted by the depreciation of the EGP although we expect the company to marginally benefit from this devaluation in its international sales.

Share Data

Bloomberg Symbol	ESRS EY
Reuters Symbol	ESRS.CA
Market Cap (EGP)	5,231,642,210
Number of Shares	543,265,027
Free Float	35%
Price-to-Earnings 2013e	51.36
Price-to-Book 2013e	0.70

Share Performance



Source: Reuters

1 Month Return	3.55%
3 Month Return	4.00%
6 Month Return	3.77%
12 Month Return	35.25%
52 Week Range	5.58 – 12.83

Source: Reuters

Contact Information:

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

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

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

Performance and Forecasts

In EGP millions	2011	2012	2013e	2014f	2015f
Revenues	18,611	19,799	20,596	21,508	22,896
Gross Profit	2,207	1,690	1,957	2,258	2,633
Gross Profit Margin %	11.9%	8.5%	9.5%	10.5%	11.5%
Net Income	202	8	102	276	455
Profit Margin %	1.1%	0.0%	0.5%	1.3%	2.0%

Source: Ezz Steel

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2010	2011	2012	2013e	2014f	2015f	2016f
Net sales	16,621	18,611	19,799	20,596	21,508	22,896	24,089
Cost of goods sold	(14,698)	(16,404)	(18,109)	(18,640)	(19,250)	(20,263)	(21,271)
Gross Profit	1,923	2,207	1,690	1,957	2,258	2,633	2,818
Selling & marketing Exp.	(154)	(113)	(102)	(124)	(129)	(160)	(169)
General & Admin. Expenses	(235)	(297)	(373)	(350)	(323)	(321)	(337)
Impairment Loss on Assets	(2)	(17)	(4)	(4)	(4)	(4)	(4)
Provisions	(95)	(81)	(2)	-	-	-	-
Total expenses	(486)	(509)	(480)	(478)	(456)	(485)	(510)
Finance expenses	(754)	(764)	(880)	(898)	(857)	(830)	(889)
Interest income	67	64	42	56	63	63	68
Other income	22	30	148	40	45	42	50
Total other expenses	(665)	(670)	(690)	(802)	(750)	(725)	(770)
Net profit before tax & non-controlling interest	772	1,028	520	677	1,053	1,423	1,538
Income tax expense	(171)	(359)	(275)	(169)	(263)	(356)	(385)
Deferred tax expense	(37)	(133)	5	(100)	(100)	(100)	(100)
Net profit before minority interests	564	536	250	407	690	968	1,054
Minority interest	(313)	(334)	(242)	(306)	(414)	(513)	(527)
Net profit after minority interests	251	202	8	102	276	455	527

Source: Ezz Steel, Blominvest

PROJECTED BALANCE SHEET

<i>In EGP million</i>	2010	2011	2012	2013e	2014f	2015f	2016f
Non-current Assets							
Property, plant & equipment	9,567	9,937	11,127	11,466	11,802	11,180	10,956
Projects under construction	3,319	3,558	2,755	2,810	2,866	2,923	3,011
Goodwill	315	315	315	315	315	315	315
Other non-current assets	244	281	304	290	268	276	254
Total non-current assets	13,445	14,090	14,500	14,881	15,251	14,694	14,536
Current Assets							
Inventories	3,734	3,629	3,620	3,707	3,656	4,121	4,577
Trade & notes receivable	185	122	52	82	86	114	120
Debtors & other debit balances	586	628	924	927	903	916	915
Advances to suppliers	48	135	59	82	86	114	120
Investments in treasury bills	57	63	47	55	50	55	65
Cash & cash equivalents	1,415	1,171	1,290	1,339	1,441	1,488	1,566
Total current assets	6,025	5,747	5,991	6,193	6,223	6,809	7,364
Total Assets	19,470	19,837	20,492	21,074	21,474	21,503	21,900
Non-current Liabilities							
Loans	4,466	3,937	3,377	3,355	3,080	3,039	2,978
Other non-current liabilities	205	667	779	701	645	590	546
Bonds loan	651	433	216	194	179	168	159
Deferred tax liabilities	658	790	789	710	653	594	547
Total Non - current liabilities	5,980	5,828	5,161	4,961	4,557	4,392	4,230
Current Liabilities							
Banks credit accts & Overdrafts	1,136	1,003	2,061	1,957	1,925	2,067	2,127
ST Loans & Borrowings	3,292	3,573	4,203	3,728	3,812	3,850	3,871
Bonds loan	220	220	220	220	220	220	220
Trade & notes payable	1,145	1,364	1,413	1,398	1,425	1,459	1,595
Advances from customers	410	236	287	309	323	343	482
Creditors & other credit balances	677	389	359	373	347	365	340
Income Tax		359	275	169	259	341	385
Provisions	123	204	205	180	160	140	120
Total Current Liabilities	7,003	7,349	9,023	8,334	8,469	8,785	9,140
Total Liabilities	12,983	13,177	14,184	13,295	13,026	13,177	13,371
Shareholders' Equity	6,487	6,661	6,307	7,779	8,448	8,326	8,529
Total Liabilities & Shareholders' Equity	19,470	19,837	20,492	21,074	21,474	21,503	21,900

Source: Ezz Steel, Blominvest

BLOMINVEST BANK s.a.l.

Research Department
Verdun, Rachid Karamah Street
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 747 802

research@blominvestbank.com

For your Queries:

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

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

Malak Hawa, Equity Analyst
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

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