



Alert on H1 2014 Earnings

Sector: Real Estate

Country: Egypt

Date: September 02, 2014

Share Price (EGP): 47.95

Target Price (EGP): 53.45

Upside: 11.5%

Recommendation: ACCUMULATE

Risk: Medium

Maintaining an ACCUMULATE rating with a higher target price of EGP 53.45 per share as land replenishment may lead the way to stronger growth potential

We raise our target price on SODIC to EGP 53.45 per share, maintaining our ACCUMULATE rating after incorporating the newly acquired 301 acre plot in New Cairo in our valuation. We believe the resolution of all legal disputes on top of the replenishment of SODIC's land bank and the company's strong effort to launch new projects will definitely boost fundamentals in the future. In details, SODIC plans to develop over 2,000 mixed-use units on the new 1.26 million sqm acquired land in New Cairo, and 1,000 residential units on the 250,000 sqm land returned following the amicable settlement with Solidere, which is expected to yield around EGP 1.3 billion of new contracted sales in the coming years. On a more positive note, we see the recently approved capital increase as an additional great announcement as it is expected to strengthen SODIC's balance sheet and raise liquidity for new land acquisition. Worth noting that once the rights issue is approved, the diluted share price would be around EGP 15.7, however we believe the upside potential will remain as the use of raised cash for land acquisition and launching of new projects would translate into higher profitability.

Additionally, SODIC's shares price tracked the uptrend in the Egyptian equity market, surging by 93% during the past six months to hit a six-year peak, on positive investors' sentiment following improved macro environment and impressive results in terms of new contracted sales, healthy cash collection, and strong profitability. We believe the easing political and economic situations in Egypt will continue to drive the surge in the equity market in the short-term, positively weighing on SODIC's stock price which we anticipate will remain highly affected by the market trend and the local political developments.

SODIC approves EGP 1 billion rights issue and replenishes its land bank

The settlement of Eastown and Solidere legal disputes added 1.1 million sqm of prime land to SODIC's utilized land bank. Moreover, the company managed to acquire a 1.26 million sqm land in New Cairo for a total cost of EGP 2.4 billion, bringing the total undeveloped land in Egypt to 3.6 million sqm. The funding of this land acquisition is already in place as the company signed a medium-term development finance facility with the Arab African International Bank for a total amount of EGP 950 million. Moreover, SODIC approved the EGP 1 billion capital increase, which will be divided over 250 million shares at par value of EGP 4.0 per share. A large portion of the capital hike, which is expected to be completed by late September, will be used to fund the land acquisition. To note that we expect full participation from existing shareholders due to the substantial discount of 75% on the diluted share price of EGP 15.7.

Share Data

Bloomberg Symbol	OCDI EY
Reuters Symbol	OCDI.CA
Market Cap (EGP)	4,347,930,887
Number of Shares	90,676,348
Free Float	59.30%
Price-to-Earnings 2014e	21.01
Price-to-Book 2014e	1.86

Share Performance



Source: Reuters

1 Month Return	23.4%
3 Month Return	81.4%
6 Month Return	93.0%
12 Month Return	118.0%
52 Week Range	21.25 – 48.54

Source: Reuters

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Performance and Forecasts

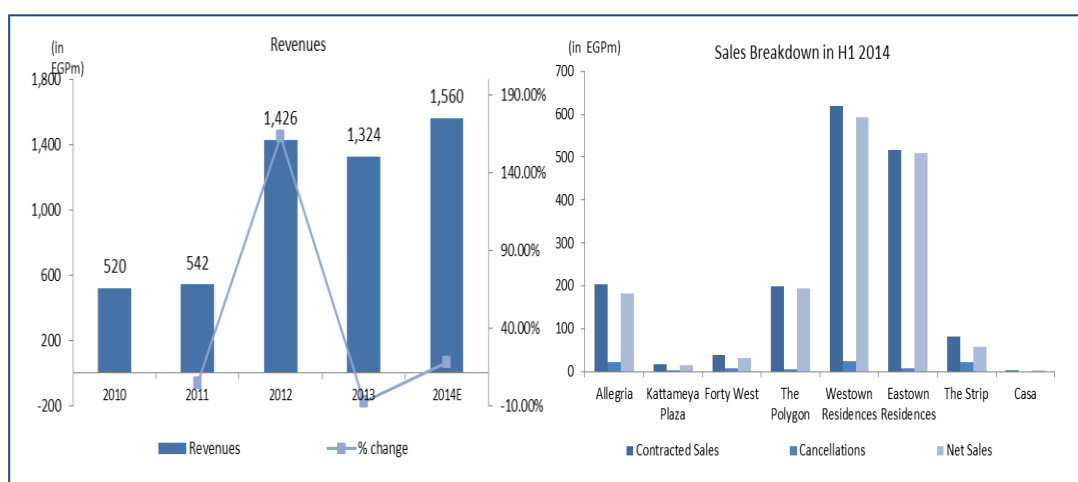
In EGP millions	2011	2012	2013	2014e
Revenues (EGP millions)	542	1,426	1,324	1,560
Net Income (EGP millions)	(191)	250	(447)	211
EPS (EGP)	(2.11)	2.78	(4.93)	2.28
BVPS (EGP)	21.58	23.88	20.41	25.84
ROA (%)	-3.0%	3.8%	-5.9%	2.2%
ROE (%)	-10.1%	12.2%	-25.3%	9.4%

Source: SODIC, Blominvest

FINANCIAL HIGHLIGHTS

Solid revenue growth supported by high delivery units

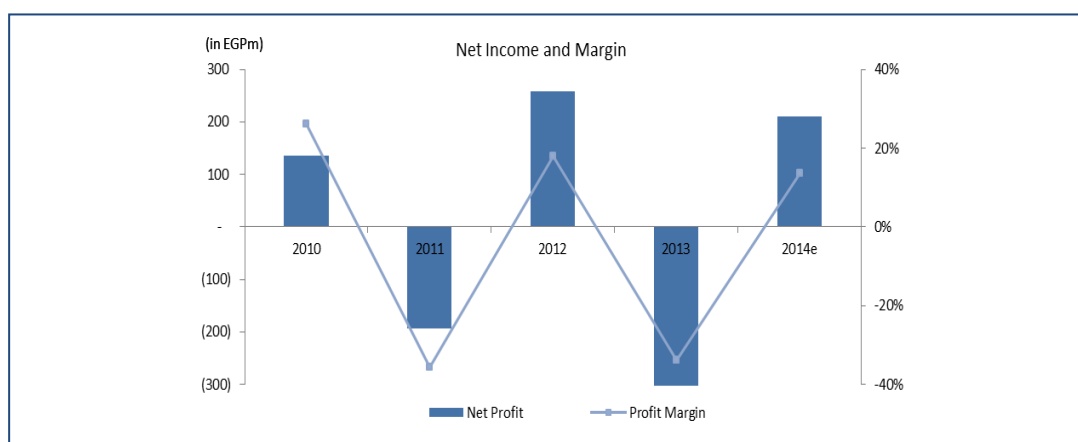
SODIC recorded an exceptional set of H1 results with revenues jumping by 39% y-o-y to reach EGP 635 million following higher than targeted deliveries of 223 units worth EGP 644 million compared to 212 units worth EGP 423 million a year earlier. The strong value of deliveries was mainly due to delivering high value units with high profitability in Allegria. Similarly, SODIC recorded impressive new contracted sales of EGP 1.6 million, mainly led by Westown Residences Phase X and Eastown Residences Phase V and VI which contributed EGP 501 million and EGP 541 million to H1 results, respectively. As for cancellations, they declined significantly to EGP 89 million compared to EGP 173 million in H1 2013. Going forward, we expect this phenomenal year-start to last, estimating 2014 top-line at EGP 1.56 billion with record-breaking results in terms of sales, collections, deliveries, and new product launches.



Source: SODIC, Blominvest

H1 Earnings almost doubled on strong sales

SODIC's H1 bottom-line surged in line with the robust growth in revenues, reaching EGP 91 million compared to EGP 49 million recorded a year earlier with a net margin of 14.3% as opposed to 10.8% in H1 2013. Likewise, gross profit edged up by 59% to EGP 232 million, while gross margin increased to 36.5% from 31.9% last year. Looking forward, we expect SODIC to register a profit of EGP 211 million in 2014 on the back of strong sales and a replenished land bank.



Source: SODIC, Blominvest

QUARTERLY INCOME STATEMENT

<i>In EGP million</i>	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Total Revenues	312	336	222	555	130	327	300	568	301	334
Net Income	36	49	47	125	6	43	31	(527)	40	50
Gross Sales	753	322	397	347	684	1,130	346	571	758	916
Cancellations	(38)	(38)	(41)	(84)	(133)	(41)	(22)	(57)	(52)	(37)
Net Sales	715	284	356	263	551	1,089	324	513	706	879

Source: SODIC

ANNUAL INCOME STATEMENT

<i>In EGP million</i>	2011	2012	2013	2014e
Revenues from Real Estate Sales	516	1,402	1,284	1,517
Revenue from Services	26	24	40	44
Total Revenues	542	1,426	1,324	1,561
Cost of Real Estate Sold	(506)	(872)	(916)	(986)
Costs Associated with Services	(55)	(37)	(53)	(58)
Total Costs	(561)	(906)	(969)	(1,044)
Gross Profit (Loss)	(19)	517	355	516
Other Operating Revenues	66	59	85	85
Selling & Marketing Expenses	(71)	(91)	(102)	(120)
General & Admin. Expenses	(132)	(141)	(150)	(175)
Other Operating Expenses/Income	(9)	(52)	(331)	(45)
Operating Profit (Loss)	(189)	292	(142)	262
Finance Income	46	40	35	60
Finance Expenses	(43)	(56)	(310)	(68)
Net Finance Income (Expense)	3	(16)	(275)	(8)
Share in profits in associates	-	(8)	(5)	(5)
Net profit (loss) before income tax	(186)	268	(423)	248
Income Tax Expense	(7)	(11)	(25)	(37)
Net Profit (Loss)	(193)	257	(447)	211
Net profit attributable to:				
Equity holders of the company	(191)	250	(447)	207
Minority share in profits & losses of subsidiaries	(2)	7	0	4

Source: SODIC, Blominvest

BALANCE SHEET

<i>In EGP million</i>	2011	2012	2013	Q2 2014
Cash at banks & on hand	506	320	453	762
Trades & notes receivables	802	1,012	1,116	1,412
Debtors & other debit balances	412	425	342	329
Works in process	2,886	2,983	2,965	3,682
Other Current Assets	166	238	62	52
Total Current Assets	4,771	4,977	4,938	6,236
Fixed assets	233	198	125	120
Investment properties	414	103	-	-
Trade & notes receivables	923	1,549	2,487	2,809
Other Long-Term Assets	24	25	35	36
Total Long-Term Assets	1,594	1,875	2,647	2,964
Total Assets	6,365	6,851	7,586	9,200
Current Portion of LT Debt	5	107	223	-
Provisions for completion	142	131	87	54
Provisions	7	23	10	10
Bank - Credit facilities	51	36	107	178
Customers deposits	3,332	3,504	4,294	5,126
Contractors, suppliers, & notes payable	111	141	141	128
Creditors & other credit balances	311	411	730	568
Other Current Liabilities	0	1	3	-
Total Current Liabilities	3,959	4,354	5,596	6,064
Long Term Loans	335	256	88	434
Notes payable	97	74	49	597
Other Long Term Liabilities	18	2	3	137
Total Long Term Liabilities	450	332	140	1,168
Total Liabilities	4,409	4,686	5,736	7,232
Total Equity	1,956	2,165	1,851	1,968
Total Liabilities & Equity	6,365	6,851	7,586	9,200

Source: SODIC

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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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