



Alert on Q1 2014 Earnings

Sector: Real Estate
Country: Egypt
Date: July 01, 2014

Share Price (EGP): 31.40
Target Price (EGP): 34.82
Upside: 10.9%
Recommendation: ACCUMULATE
Risk: Medium

Maintaining an ACCUMULATE rating with a target price of EGP 34.82 per share on positive future growth prospects

Robust growth in Q1 revenues on higher delivery units

SODIC registered an impressive performance during Q1 2014 as revenues more than doubled to reach EGP 301 million compared to EGP 130 million a year earlier. This was mainly attributable to higher than targeted deliveries with the number of units delivered rallying by a surprising 140% y-o-y to 114 units worth EGP 292 million. Likewise, new contracted sales edged up by an 11% to EGP 758 million, mostly led by Westown Residences Phase 10 launch which accounted for almost 45% of total quarter's sales. As for cancellations, they remained low at EGP 52 million. Going forward, we estimated 2014 top-line to increase to EGP 1.56 billion as we believe SODIC's resolution of all legal disputes and the election of a new President will offer more stability, supporting the year start phenomenal performance.

SODIC swings back to profit

Following 2013's devastating loss caused by extraordinary revenue reversals and the 100% impairment of Syrian investment, SODIC's earnings grew significantly to EGP 40 million during Q1 compared to EGP 6 million registered a year earlier. Net margin surged to 13% as opposed to 5% in Q1 2013, supported by operating efficiency following lower SG&A expenses. Gross Profit stood at EGP 92 million, showing an increase of 95% y-o-y, while gross margin dropped from 36% to 30%, mainly due to higher cost of real estate sold. Looking forward, we expect SODIC to return to profit in 2014 with estimated earnings of EGP 178 million on expectations of higher revenues.

SODIC proposes EGP 1 billion rights issue

SODIC's outstanding start for the year coincide with the company's announcement as the highest bidder for a 301 acres plot of land (1.25 million sqm) put forward by the New Urban Communities Authority (NUCA). The new land, which is strategically located in the heart of New Cairo, will replenish the company's land bank, and lay the ground for new projects and higher growth. The total land value is estimated at EGP 2.4 billion and is expected to be financed through a combination of debt and equity. In this context, the board called for an extraordinary general meeting on the 13th of July to discuss a capital increase of EGP 1 billion, divided into 250 million shares at EGP 4 par value each. This represents a considerable 87% discount to the current price. If approved, the diluted share price would stand at around EGP 11.3. However, we see this as an additional positive announcement as it will strengthen the balance sheet and raise liquidity for new land acquisition. In the near future, we believe SODIC's healthy low leveraged balance sheet will support the company in financing new land purchases through raising more debt.

Share Data

Bloomberg Symbol	OCDI EY
Reuters Symbol	OCDI.CA
Market Cap (EGP)	2,847,237,327
Number of Shares	90,676,348
Free Float	59.30%
Price-to-Earnings 2014e	16.00
Price-to-Book 2014e	1.55

Share Performance



Source: Reuters

1 Month Return	10.8%
3 Month Return	7.0%
6 Month Return	38.9%
12 Month Return	115.7%
52 Week Range	13.85 – 32.63

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)	178
EPS (EGP)	(2.11)	2.78	(4.93)	1.96
BVPS (EGP)	21.58	23.88	20.41	20.21
ROA (%)	-3.0%	3.8%	-5.9%	2.14%
ROE (%)	-10.1%	12.2%	-25.3%	10.39%

Source: SODIC, Blominvest

Maintain a favorable rating as easing political and legal uncertainties offer a stronger outlook

We raise our target price on SODIC to EGP 34.82 per share, maintaining our ACCUMULATE rating on clearer political and legal pictures. Despite Egypt's challenging political and economic conditions, SODIC invested over EGP 800 million on projects across West and East Cairo in 2013 and registered a remarkable 2014 start with robust new contracted sales during the first quarter and substantial improvement in the legal position. Hence, we believe the resolution of all legal disputes in addition to the inauguration of Field Marshal Abdel Fattah el-Sisi as the new president of Egypt will pave the way for stronger fundamentals in the future, especially with the company's continuous launching of new projects and replenishing its land bank. Worth noting that if the rights issue is approved, the diluted share price would be around EGP 11.3, 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.

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
Total Revenues	312	336	222	555	130	327	300	568	301
Net Income	36	49	47	125	6	43	31	(527)	40
Gross Sales	753	322	397	347	684	1,130	346	571	758
Cancellations	(38)	(38)	(41)	(84)	(133)	(41)	(22)	(57)	(52)
Net Sales	715	284	356	263	551	1,089	324	513	706

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	1,560
Cost of Real Estate Sold	(506)	(872)	(916)	(1,001)
Costs Associated with Services	(55)	(37)	(53)	(58)
Total Costs	(561)	(906)	(969)	(1,059)
Gross Profit (Loss)	(19)	517	355	501
Other Operating Revenues	66	59	85	80
Selling & Marketing Expenses	(71)	(91)	(102)	(120)
General & Admin. Expenses	(132)	(141)	(150)	(175)
Other Operating Expenses/Income	(9)	(52)	(331)	(50)
Operating Profit (Loss)	(189)	292	(142)	236
Finance Income	46	40	35	46
Finance Expenses	(43)	(56)	(310)	(64)
Net Finance Income (Expense)	3	(16)	(275)	(18)
Share in profits in associates	-	(8)	(5)	(5)
Net profit (loss) before income tax	(186)	268	(423)	214
Income Tax Expense	(7)	(11)	(25)	(32)
Net Profit (Loss)	(193)	257	(447)	182
Net profit attributable to:				
Equity holders of the company	(191)	250	(447)	178
Minority share in profits & losses of subsidiaries	(2)	7	0	4

Source: SODIC, Blominvest

BALANCE SHEET

<i>In EGP million</i>	2011	2012	2013	Q1 2014
Cash at banks & on hand	506	320	453	507
Trades & notes receivables	802	1,012	1,116	1,309
Debtors & other debit balances	412	425	342	343
Works in process	2,886	2,983	2,965	2,994
Other Current Assets	166	238	62	54
Total Current Assets	4,771	4,977	4,938	5,208
Fixed assets	233	198	125	123
Investment properties	414	103	-	-
Trade & notes receivables	923	1,549	2,487	2,543
Other Long-Term Assets	24	25	35	35
Total Long-Term Assets	1,594	1,875	2,647	2,701
Total Assets	6,365	6,851	7,586	7,909
Current Portion of LT Debt	5	107	223	-
Provisions for completion	142	131	87	70
Provisions	7	23	10	9
Bank - Credit facilities	51	36	107	69
Customers deposits	3,332	3,504	4,294	4,599
Contractors, suppliers, & notes payable	111	141	141	175
Creditors & other credit balances	311	411	730	712
Other Current Liabilities	0	1	3	1
Total Current Liabilities	3,959	4,354	5,596	5,635
Long Term Loans	335	256	88	329
Notes payable	97	74	49	49
Other Long Term Liabilities	18	2	3	3
Total Long Term Liabilities	450	332	140	381
Total Liabilities	4,409	4,686	5,736	6,016
Total Equity	1,956	2,165	1,851	1,893
Total Liabilities & Equity	6,365	6,851	7,586	7,909

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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