



UPDATE FOR Q1 2013

Sector: Electric Equipment
Country: Egypt
Date: June 28, 2013

Share Price (EGP): 17.41
Target Price (EGP): 19.00
Upside: 9.13%
Recommendation: HOLD
Risk: Medium-to-High

Maintaining a HOLD rating with a Target Price of EGP 19.00 per share on sustained political uncertainty

Revenue growth supported by wire and cables segment

El Sewedy's Q1 top-line increased by 4% to reach EGP 3.6 billion compared to Q1 2012 driven by the wire and cable segment which registered a 5% growth to EGP 2.8 billion, contributing to 78% of total revenues. Revenues from meters surged by 79% to EGP 291 million on higher average selling prices despite lower volumes. Turnkey revenues dropped 23% to EGP 345 million following a slowdown in new contract awards in Egypt. Similarly, transformer revenues fell 12% to EGP 95 million on lower revenues from the Egyptian, Sudanese and Syrian operations.

El Sewedy's overall backlog decreased during Q1 due to lower demand in Egypt, Syria, Libya, and Yemen. However, the company continues to benefit from the infrastructure in GCC, registering a backlog of USD 3 billion in Saudi Arabia, its highest level there in at least 20 years.

Bottom line pressured by impairment of assets

El Sewedy recorded an impressive increase of 24% in gross profit to EGP 550 million as opposed to EGP 442 million in Q1 2012, mostly due to a 51% growth in the wire & cable gross profit. The segment's margin improved to 12.6% against 8.7% in Q1 2012, benefiting from the devaluation of the EGP and higher profitability in Algeria and KSA. However, an asset impairment of EGP 116 million along with foreign exchange losses of EGP 7 million led to a 37% plunge in net income to EGP 62 million compared to EGP 98 million recorded in Q1 2012. El Sewedy impaired goodwill and patents related to its investment in the manufacturing facility of wind turbines located in Spain. Excluding impairment, net profit would have been 82% higher in Q1 2013. We estimate 2013 net profit to reach EGP 222 million, 52% higher than 2012.

Maintaining a HOLD rating amidst regional political uncertainty

We value El Sewedy Electric at EGP 19.00 per share using a DCF method with a WACC of 16.50% and a terminal growth rate of 3%. We maintain our HOLD recommendation on continued political uncertainty surrounding operations in core markets. El Sewedy is trading at a discount with a P/E of 17.5 compared to 22.4 for peer average. However, growth in earnings is strongly related to the post-conflict reconstruction efforts in the Arab world. We believe that robust growth in Algeria, Iraq and Saudi Arabia in addition to El Sewedy's focus on the African continent may offset the weak performance in Egypt as well as the freeze of operations in Libya, Syria, and Yemen. Nevertheless, we continue to perceive risks from the devaluation of the EGP and the significant drop of the Central Bank Foreign Reserves which are adversely impacting all Egyptian equities.

Share Data

Bloomberg Symbol	SWDY.EY
Reuters Symbol	SWDY.CA
Market Cap (EGP)	3,889,707,380
Number of Shares	223,418,000
Free Float	33.73%
Price-to-Earnings (2013e)	17.54
Price-to-Book	0.72

Share Performance



1 Month Return	-12.95%
3 Month Return	-7.83%
6 Month Return	-24.04%
12 Month Return	-23.20%
52 Week Range	17.08 – 27.02

Performance and Forecasts

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	2010	2011	2012	2013e
Revenues (EGP millions)	12,902	15,169	14,512	15,130
Net Income (EGP millions)	817	537	146	222
EPS (EGP)	3.56	2.28	0.52	0.99
ROA (%)	6.5%	3.8%	1.1%	1.6%
ROE (%)	16.5%	9.8%	2.7%	4.2%

QUARTERLY INCOME STATEMENT

<i>In EGP million</i>	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
<i>Wire & Cables</i>	2,678	2,795	2,595	3,051	2,803
<i>Turnkey Projects</i>	445	464	364	607	345
<i>Meters</i>	163	228	223	223	291
<i>Transformers</i>	108	125	60	96	95
<i>Other Electrical Products</i>	63	59	93	74	64
Total Revenue	3,457	3,671	3,335	4,050	3,598
<i>Wire & Cables</i>	234	341	255	226	354
<i>Turnkey Projects</i>	116	65	75	136	67
<i>Meters</i>	38	57	58	73	84
<i>Transformers</i>	29	11	9	12	21
<i>Other Electrical Products</i>	25	32	22	27	25
Gross Profit	442	505	420	473	550
Gross Profit Margin	13%	14%	13%	12%	15%
EBITDA	302	332	240	208	294
EBITDA Margin	9%	9%	7%	5%	8%
Net Income After Minority	98	32	35	-49	62

Source: El Sewedy Electric

PROJECTED INCOME STATEMENT

In EGP million	2010	2011	2012	2013e
Operational revenues	12,902	15,169	14,512	15,130
Operational costs	(10,914)	(13,258)	(12,672)	(13,224)
Gross Profit	1,988	1,912	1,840	1,906
Other operating income	148	94	59	76
Selling & distribution expenses	(341)	(345)	(408)	(409)
Admin. Expenses	(510)	(556)	(566)	(590)
Other OPEX	(201)	(50)	(227)	(257)
Operating income	1,084	1,055	699	726
Finance Income	57	61	48	45
Finance costs	(234)	(482)	(523)	(479)
Net financing costs	(176)	(421)	(475)	(434)
Revenues from Investments available for Sale	-	-	5	-
Net profit before tax	908	634	228	292
Income tax				
Current income tax	(86)	(94)	(75)	(67)
Deferred income tax	(5)	(3)	(8)	(4)
Net profit for the year after tax	817	537	146	222
Attributable to:				
Equity holders of parent	796	509	117	205
Minority interest	21	27	29	17

Source: El Sewedy Electric, Blominvest

BALANCE SHEET

In EGP million	2010	2011	2012	Q1 2013
Assets				
Long Term Assets				
Fixed assets	3,544	3,480	3,226	3,272
Projects under construction	270	256	189	153
Investments AFS	14	15	10	10
Investments in associates	10	13	13	12
Paid on account of investments	1	-	-	-
Debit balances	197	203	21	21
Non-tangible assets	208	227	245	132
Deferred tax assets	32	37	32	40
Total LT Assets	4,277	4,231	3,735	3,641
Current assets				
Inventories	3,700	3,554	3,440	3,492
Trade, notes & other receivables	4,115	4,391	4,820	5,340
Due from affiliates	283	156	180	241
Investment fund/ T Bills / CDs	569	401	133	6
Cash & cash equivalents	1,000	1,242	1,191	1,710
Assets held for sale			71	72
Total Current Assets	9,667	9,744	9,835	10,860
Total assets	13,944	13,975	13,571	14,501
Current Liabilities				
Banks facilities & overdrafts	4,164	4,061	3,334	3,865
ST loans and installments of LTD	601	922	864	878
CDs payable to banks		175	397	341
Trade, notes & other payables	2,316	1,930	2,728	3,003
Due to affiliates	156	240	121	166
Provisions	72	49	90	94
Total Current Liabilities	7,310	7,377	7,533	8,347
Long Term Liabilities				
Loans	1,073	825	589	591
Deferred tax liabilities	109	120	124	128
Other liabilities	111	78	78	79
Total Long Term Liabilities	1,293	1,023	792	799
Total Liabilities	8,603	8,401	8,325	9,146
Shareholders' Equity				
Issued and paid capital	1,719	2,234	2,234	2,234
Own stock	(2)	(1)	(1)	(1)
Legal reserve	84	122	135	135
Increase in net assets of the subsidiaries	579	579	579	579
Retained earnings	1,810	1,798	2,002	2,093
Net profit for the period	796	509	117	62
Forex from foreign entities translation	(59)	(80)	(232)	(168)
Total Shareholders' Equity	4,927	5,161	4,833	4,933
Minority Interest	414	414	412	421
Total Equity	5,341	5,574	5,246	5,355
Total Liabilities and Equity	13,944	13,975	13,571	14,501

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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