

UPDATE FOR Q3 2014

Sector: Electric Equipment
Country: Egypt
Date: December 23, 2014

Share Price (EGP): 41.62
Target Price (EGP): 45.14
Upside: 8.5%
Recommendation: ACCUMULATE
Risk: Medium

Downgrading El Sewedy to a HOLD rating with a Target Price of EGP 45.14 per share on ongoing solid operations and healthy fundamentals

We maintain our ACCUMULATE rating on El Sewedy Electric, revising our target price to EGP 45.14 per share on ongoing impressive operational and financial performance. Our last recommendation in September expected El Sewedy to benefit from improving operations and rebounding confidence in the Egyptian market. Our expectations came in line with the company's strong fundamental indicators and El Sewedy's shares rallied to their highest level in more than 4 years after breaking our target price of EGP 46.23 in September. However, worries over additional drops in oil prices dragged the Egyptian stock market, negatively affecting El Sewedy's shares performance. Although Egypt is a net importer of oil products and should take advantage from the declining trend of prices, Egyptian equities are mirroring the global downward trend as the panic is spilling over to all markets. Yet, we maintain our favorable rating on El Sewedy as we believe the company has strong operations and will keep on registering outstanding financial results.

In the medium-term, El Sewedy may continue to benefit from rising demand in Algeria and Iraq as well as significant growth potential in the African countries which suffer from an underdeveloped infrastructure and a deficit in electricity supply. In the Gulf, El Sewedy's growth may mainly stem from the expanding infrastructure projects as GCC economies strive to diversify their industries. However, if oil prices remain weak, the ambitious infrastructure investment plans underway in the GCC may be threatened with the majority of projects relying on governments' revenues which are highly dependent upon hydrocarbon exports. This may cause delays and cancellations of some infrastructure plans in the region, pressuring El Sewedy's revenues from GCC markets.

Revenues on the rise following striking operational performance

El Sewedy's revenues increased by 14% y-o-y to reach EGP 12.8 billion up to September 2014 as all major divisions recorded outstanding results. Revenues from the wire & cables segment, which accounts for 74% of total sales, rose by 8% to EGP 9.5 billion following high demand in Egypt, Algeria, KSA, and Qatar. Turnkey projects' revenues surged by an impressive 82.5% to EGP 2.1 billion, supported by sizable growth in project execution in Kuwait on top of booking the remaining portion related to Libya wind project. As for transformers revenues, they edged up by 38.4% to EGP 465 million on sturdy operations in Egypt and Sudan. Revenues from electrical products increased by 7% to reach EGP 223 million, while meters were the only segment to register a noticeable plummet of 32.2% in revenues to EGP 496 million on lower sales volumes. Going forward, we estimate El Sewedy's 2014 top-line at EGP 16.9 billion as the company is in a strong operational position to benefit from the buoyant demand in Egypt, Algeria, Iraq, and GCC countries.

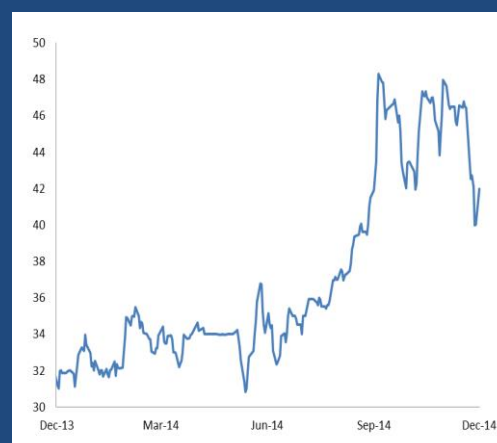
Bottom-line up on higher margins across most divisions

El Sewedy's gross profit went up by 18.4% y-o-y to reach EGP 1.99 billion up to September 2014 in line with the growing revenues. Gross margin increased to 15.5% from 14.9% a year earlier, mainly due to wider margins across all business lines, except for transformers and electrical products. Consequently, earnings rallied by 63.1% to EGP 310 million, further supported by lower finance charges in addition to higher operating and finance income. Going forward, we estimate 2014 net profit to reach EGP 293 million on persistent solid operations in core markets.

Share Data

Bloomberg Symbol	SWDY.EY
Reuters Symbol	SWDY.CA
Market Cap (EGP)	9,298,657,160
Number of Shares	223,418,000
Free Float	27%
Price-to-Earnings (2014e)	29.50
Price-to-Book	1.65

Share Performance



Source: Reuters

1 Month Return	-12.6%
3 Month Return	-4.3%
6 Month Return	40.5%
12 Month Return	20.4%
52 Week Range	30.85 – 48.31

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Performance and Forecasts

	2011	2012	2013	2014e
Revenues (EGP millions)	15,169	14,512	15,099	16,944
Net Income (EGP millions)	509	117	97	293
EPS (EGP)	2.28	0.52	0.43	1.41
ROA (%)	3.8%	1.0%	1.0%	2.1
ROE (%)	9.8%	2.5%	2.6%	5.8

Source: El Sewedy Electric, 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	Q3 2014
<i>Wire & Cables</i>	2,678	2,795	2,595	3,051	2,803	3,139	2,859	2,932	3,442	3,222	2,844
<i>Turnkey Projects</i>	445	464	364	607	345	508	310	624	522	486	1,112
<i>Meters</i>	163	228	223	223	291	233	208	171	154	192	151
<i>Transformers</i>	108	125	60	96	95	138	103	62	149	195	121
<i>Other Electrical Products</i>	63	59	93	74	64	81	63	71	76	73	75
Total Revenue	3,457	3,671	3,335	4,050	3,598	4,099	3,542	3,860	4,343	4,168	4,302
<i>Wire & Cables</i>	234	341	255	226	354	437	276	339	452	479	462
<i>Turnkey Projects</i>	116	65	75	136	67	103	64	19	77	64	145
<i>Meters</i>	38	57	58	73	84	80	54	42	47	71	59
<i>Transformers</i>	29	11	9	12	21	33	25	18	8	47	31
<i>Other Electrical Products</i>	25	32	22	27	25	31	25	(30)	29	23	(11)
Gross Profit	442	505	420	473	550	684	443	388	613	685	687
Gross Profit Margin	13%	14%	13%	12%	15%	17%	13%	10%	14%	16%	16%
EBITDA	302	332	240	208	294	502	284	102	340	287	393
EBITDA Margin	9%	9%	7%	5%	8%	12%	8%	8%	8%	7%	9%
Net Income After Minority	98	32	35	(49)	62	82	46	(94)	105	110	95

Source: El Sewedy Electric

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2011	2012	2013	2014e
Operational revenues	15,169	14,512	15,099	16,944
Operational costs	(13,258)	(12,672)	(12,977)	(14,403)
Impairment in inventory		(9)	(57)	-
Gross Profit	1,912	1,832	2,065	2,542
Other operating income	94	59	71	88
Selling & distribution expenses	(345)	(408)	(469)	(441)
Admin. Expenses	(556)	(566)	(594)	(618)
Other OPEX	(50)	(227)	(414)	(915)
Operating income	1,055	690	659	656
Finance Income	61	48	24	81
Finance costs	(482)	(523)	(446)	(264)
Net financing costs	(421)	(475)	(422)	(183)
Revenues from Investments available for Sale	-	5	3	-
Net profit before tax	634	220	241	473
Income tax				
Current income tax	(94)	(75)	(137)	(118)
Deferred income tax	(3)	(8)	31	(40)
Net profit for the year after tax	537	137	135	315
Attributable to:				
Equity holders of parent	509	117	97	293
Minority interest	27	29	38	22

Source: El Sewedy Electric, Blominvest



BALANCE SHEET

<i>In EGP million</i>	2011	2012	2013	Q3 2014
Assets				
Long Term Assets				
Fixed assets	3,480	3,226	3,215	2,940
Projects under construction	256	189	135	146
Investments AFS	15	10	10	11
Investments in associates	13	13	13	13
Paid under purchasing investments	-	-	-	8
Investment in investment certificates	-	-	-	20
Debit balances	203	21	72	61
Non-tangible assets	227	245	85	51
Deferred tax assets	37	32	45	55
Total LT Assets	4,231	3,735	3,575	3,303
Current assets				
Inventories	3,554	3,440	3,699	3,970
Trade, notes & other receivables	4,391	4,820	5,291	5,334
Due from affiliates	156	180	193	464
Investment fund/ T Bills / CDs	401	133	183	290
Cash & cash equivalents	1,242	1,191	1,346	1,644
Assets held for sale	-	71	72	-
Total Current Assets	9,744	9,835	10,784	11,701
Total assets	13,975	13,571	14,359	15,005
Current Liabilities				
Banks facilities & overdrafts	4,061	3,334	4,010	3,911
ST loans and installments of LTD	922	864	824	986
CDs payable to banks	175	397	84	-
Trade, notes & other payables	1,930	2,728	3,106	3,476
Due to affiliates	240	121	173	182
Provisions	49	90	220	304
Total Current Liabilities	7,377	7,533	8,416	8,859
Long Term Liabilities				
Loans	825	589	505	381
Deferred tax liabilities	120	124	101	160
Other liabilities	78	78	50	43
Total Long Term Liabilities	1,023	792	656	584
Total Liabilities	8,401	8,325	9,072	9,443
Shareholders' Equity				
Issued and paid capital	2,234	2,234	2,234	2,234
Own stock	(1)	(1)	(1)	(1)
Legal reserve	122	135	150	150
Increase in net assets of the subsidiaries	579	579	579	579
Retained earnings	1,798	2,002	1,901	1,945
Net profit for the period	509	117	97	310
Forex from foreign entities translation	(80)	(232)	(88)	(64)
Total Shareholders' Equity	5,161	4,833	4,871	5,153
Minority Interest	414	412	416	408
Total Equity	5,574	5,246	5,287	5,562
Total Liabilities and Equity	13,975	13,571	14,359	15,005

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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