

The calm after the storm

June 14, 2018

Downgrade our TP to EGP12.58/Share with Equal weight recommendation

We downgrade our TP to EGP12.58/Share, adjusting our recommendation to Equal weight, since the absence of mega projects took its toll on profitability more than we had originally estimated. Despite including conservative assumptions in our previous valuation, top-line performance was much worse than our expectations, negatively impacted by the clearance of the power projects backlog. Our SOTP valuation includes valuation for the following subsidiaries:

1) **Egytrans (EGP5.42):** Our valuation for Egytrans assumes a dip in topline for FY18 by 31%, as revenues took a nose dive in 1Q18, negatively impacted by the ground transportation segment, which compliments business to ETAL. Topline growth is expected to resume afterwards, by 8% annually. Our conservative assumptions includes GPM of 24% throughout our forecast period. As for EBITDA, we expect a margin of 9%. Our assumptions also include CAPEX/Sales of 1% and WC/Sales of 29%.

2) **ETAL (EGP3.59):** Our valuation for ETAL also projects a dip in revenues by 37% in FY18, negatively impacted by power generation projects completion. Top-line is expected to resume growth in FY18, increasing by 10% annually. GPM is expected to remain at 79% throughout our forecast period, while EBITDA margin will remain at 63%. Assumptions also include CAPEX/Sales of 13% and WC/Sales of 11%.

3) **EDS (EGP2.34):** Egyptian Depot Solutions will witness a minor reduction in topline for FY18, in line with performance in 1Q18. Our estimates includes topline growth of 10% throughout our forecast horizon. GPM is expected to start at 85% in FY18, declining to 73% in FY22. CAPEX/Sales will remain high at 23% and WC/Sales at 19%.

4) **Barwil Egypt (EGP1.23):** Our valuation for the company's stake amounting to 30% in Barwil Egypt is based upon an industry EV/EBITDA of 10.8x for 2018.

	2017a	2018f	2019f	2020f	2021f
EPS	3.33	1.52	1.56	1.73	1.92
P/E	4.37	9.59	9.37	8.43	7.57
BVPS	8.88	9.79	10.73	11.76	12.92
P/B	1.64	1.49	1.36	1.24	1.13
EV/EBITDA	2.81	7.49	6.81	6.19	5.63
DPS	1.00	0.61	0.62	0.69	0.77
DY	9%	5%	6%	6%	7%



Equal weight

Fair Value EGP12.58

Trading Data

Fair Value, EGP/Share: 12.58

Reuters/Bloomberg: ETRS.CA/ETRS EY

Last Price, EGP/Share: 11.11

Valuation Gap: 13.2%

Market Cap, EGP mn: 347

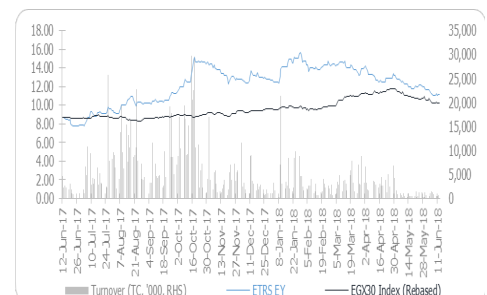
Shares Outstanding, mn: 31.2

52W H-L, EGP/Share: 15.9 - 7.6

52W ADTV, EGP mn: 4.9

Major Shareholders

NIB	25.2%
Leheta Family	17.1%
Freefloat	57.7%



Profile

Egytrans	The Egyptian Transportation and Commercial Company was established in 1973 and is engaged in the provision of logistics solutions. Operations include Sea freight, Air freight, Customs clearance, Land transportation, Storage, and Warehouse solutions
ETAL	ETAL was established in 1984, specializing in industrial, civil and power generation projects. The company also provides route survey and project studies. ETAL's operations has leaped, boosted by the government's power generation projects, since its fleet handles transportation of heavyweight industrial components.
EDS	EDS is a new subsidiary specialized in storing, cleaning and repairing liquid bulk cargo containers.
Barwil	Established in 1996 a fully licensed shipping agent. Formed in a joint venture formed between Egytrans and Wilh Wilhemsen Group. The company currently handles 2000 vessel appointments through its offices in Alexandria, Portsaid, Suez, Damietta.
Scan Arabia*	Another joint venture between Egytrans and Wilh Wilhemsen, acting as a shipping agent for Shipping agent for the korean shipping line Hanjin

* Excluded from our valuation



Market monitoring developments regarding El-Dabaa and El-Hamrawein power projects

ETRS's management mentioned that El-Dabaa nuclear power plant and El-Hamrawein plant are two major catalysts for the company's topline growth, as Egytrans is dominant in transporting heavy weight equipment in Egypt, due to the absence of expertise by competitors. The magnitude of growth potential for topline could be enormous, given that topline grew by 64% in FY16 on power plant projects that had a much smaller scale. The company's track record will help beef up backlog upon the execution phase, given the company's dominance in heavy weight equipment transportation.

Financial Summary	2017a	2018f	2019f	2020f	2021f	2022f
Egytrans (Standalone) EGPm						
Revenue	296	203	219	236	255	276
Gross Profit	99	49	53	58	63	69
GPM	34%	24%	24%	25%	25%	25%
EBITDA	72	19	21	22	23	25
EBITDA margin	24%	10%	9%	9%	9%	9%
Net profit	73	31	30	32	34	36
Net profit margin	25%	15%	14%	13%	13%	13%
ETAL EGPm						
Revenue,	39	25	27	30	33	36
Gross Profit	29	20	22	24	26	29
GPM	74%	79%	79%	79%	79%	79%
EBITDA	22	16	17	19	21	23
EBITDA margin	57%	63%	63%	63%	63%	63%
Net profit	14	10	11	12	13	16
Net profit margin	35%	40%	40%	40%	41%	44%
EDS USDm						
Revenue	0.97	0.92	1.01	1.11	1.22	1.34
Gross Profit	0.85	0.78	0.82	0.87	0.92	0.97
GPM	88%	85%	82%	79%	76%	73%
EBITDA	0.67	0.60	0.65	0.70	0.75	0.80
EBITDA margin	69%	65%	64%	63%	61%	59%
Net profit	0.38	0.30	0.32	0.35	0.37	0.40
Net profit Margin	39%	33%	32%	31%	31%	30%

Source: Company Filings, Pharos Research

Upside Triggers:

- Uptick in government spending on infrastructure
- Higher than expected pick up in trade activity
- Demand for infrastructure projects in Libya, once political stability returns

Downside Risks:

- Slowdown of government spending on infrastructure projects
- Sharp strength in EGP/USD exchange rate, which would affect topline
- Persistence in sluggish consumption levels

SOTP valuation

Egytrans Valuation (Standalone) EGPm	2018f	2019f	2020f	2021f	2022f	TV
EBIT (1-T)	13.69	14.50	15.40	16.42	17.55	
Depriciation	1.76	1.86	1.96	2.07	2.20	
CAPEX	(2.03)	(2.19)	(2.36)	(2.55)	(2.76)	
Changes in Working Capital	(4.92)	(4.56)	(5.06)	(5.61)	(6.21)	
FCF	8.49	9.60	9.94	10.33	10.78	
Discount factor	1.21	1.40	1.60	1.75	1.93	
Present value	7.03	6.85	6.22	5.91	5.60	
Sum of present values						31.6
Terminal Value						27.2
Net Cash						110.3
Outstanding Shares						31.2125
Value Per share (EGP)						5.42

ETAL Valuation EGPm	2018f	2019f	2020f	2021f	2022f	TV
EBIT (1-T)	9.86	10.94	12.13	13.43	14.82	
Depriciation	2.94	3.12	3.31	3.53	3.81	
CAPEX	-3.23	-3.55	-3.91	-4.30	-4.73	
Changes in Working capital	-2.08	-0.29	-0.32	-0.35	-0.39	
FCF	7.49	10.22	11.21	12.30	13.52	
PV	6.2	7.3	7.0	7.0	7.0	
TV						65.7
Sum of PV						34.6
Net Cash						11.6
Total						112
Outstanding Shares (Egytrans)						31.212
Value per share (EGP)						3.59

Egyptian Depot Service

EDS Valuation USDm	2018f	2019f	2020f	2021f	2022f	TV
EBIT (1-T)	0.30	0.32	0.35	0.37	0.40	
Depreciation	0.21	0.23	0.25	0.27	0.29	
CAPEX	(0.23)	(0.23)	(0.26)	(0.28)	(0.31)	
Changes in WC	0.01	(0.01)	(0.01)	(0.01)	(0.01)	
FCF	0.30	0.31	0.33	0.34	0.36	
PV	0.26	0.24	0.22	0.21	0.20	
Sum of present values						1.13
Terminal Value						2.16
Net Cash						0.93
Total						4.23
Outstanding Shares						31.21
Value Per ETRS share (EGP)						2.34
EGP/USD						17.3

Source: Company Filings, Pharos Research

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