

Egyptian Transport and Commercial Services Co SAE (ETRS)

12 September 2024

Solid Base, Solid Expansion

BUY

FV of Equity (End-2024) = EGP885.2 million (vs EGP652.3 million current MCAP)

CFH Research Verdict on ETRS

We view Egyptian Transport and Commercial Services Co SAE (ETRS) as a well-diversified, stable company with its core logistics business covering the majority of operating expenses. This core segment, which generates nearly half of the company's total revenue, allows other revenue streams to enhance profitability, namely; 1) ETRS projects and free zone activities, 2) The acquisition of NOSCO, a significant heavy transport player in Egypt, and 3) Expansion into Saudi Arabia through a partnership with Links Investment. We used two valuation methods to estimate the FV of ETRS common equity – Single stage FCFE and fundamental P/E – and the simple average of both methods yields EGP885.2 million FV of equity as of end 2024. Accordingly, we advise investors to consider building long positions at the current price levels.

FV of Equity (31 Dec-24): EGP838.9 million

BUY

Issued common shares, in million	156.1
Closing price, EGP/share	4.18
MCAP, EGP m	652.3
YTD share price performance in EGP terms	33.5%
TTM net profit attributable, EGP m	183.8
P/Ex (TTM net income attributable)	3.6x
Last dividend, EGP/share:	0.13
Latest payout ratio, %	44.0%

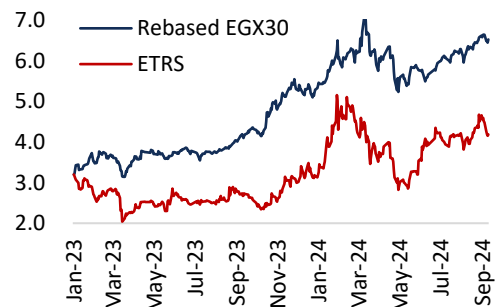
Key Shareholders

National Investment Bank (NIB)	25.25%
Leheta Family	12.47%

Corporate Profile

Established in 1973, ETRS is a publicly listed integrated logistics and transport solutions provider. The firm has 3 core business segments, namely; logistics, projects, and free zone. The company is expanding locally by acquiring NOSCO, another significant logistics player. In addition, ETRS is eyeing a regional expansion through its joint company with Saudi's Links Investment.

Share price performance since 1 Jan 2023

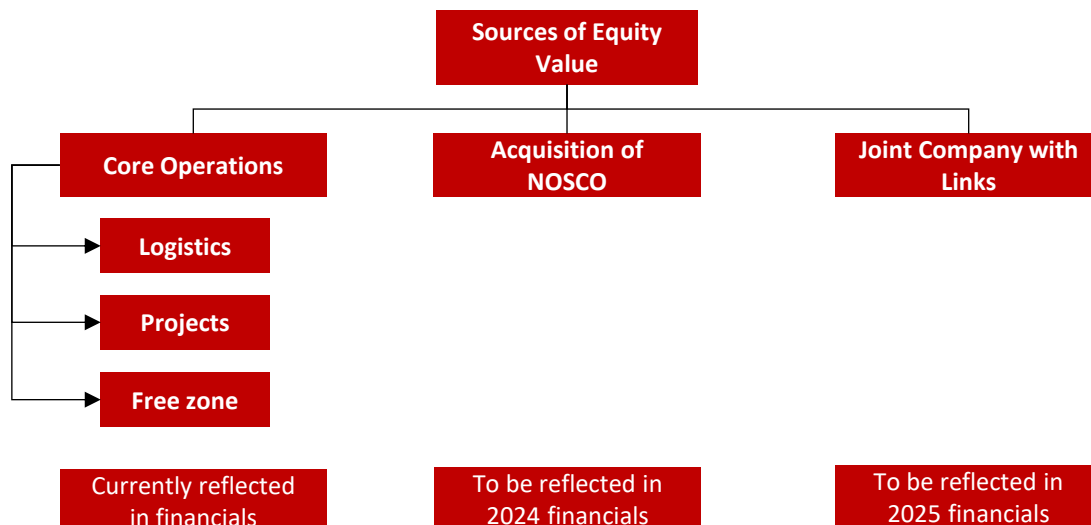


Factor Exposure Analysis

- Is it a defensive or a cyclical play?
- Is total return a mix of capital gain and cash dividends?
- Is it an upstream or downstream business?
- Is it positively exposed to EGP weakness?
- Is it heavily geared?
- How many losses over past decade?

- Logistics are mostly cyclical in nature
- A mix of capital gain and cash dividends
- Downstream. It is a distribution business
- Yes. Cash is mostly dollar denominated
- ETRS maintains a net cash position
- None. The firm has been consistently profitable

I. ETRS: Valuation in a Nutshell



Method 1: Single stage FCFE valuation (See [page 5](#)) → EGP855.6 million

Method 2: Fundamental P/E (See [page 6](#)) → EGP914.8 million

Simple average of the two valuation methods	→	EGP885.2 million
Case 1: using the current number of shares (156,062,500 shares)		
FV/share, end 2024	→	EGP5.7/share
$x (1 + COE) = x (1 + 25.3\%)$		
FV/share, end 2025	→	EGP7.1/share
Case 2: using the number of shares post NOSCO acquisition (224,949,817 shares)		
FV/share, end 2024	→	EGP3.9/share
$x (1 + COE) = x (1 + 25.3\%)$		
FV/share, end 2025	→	EGP4.9/share

II. ETRS: Solid Base

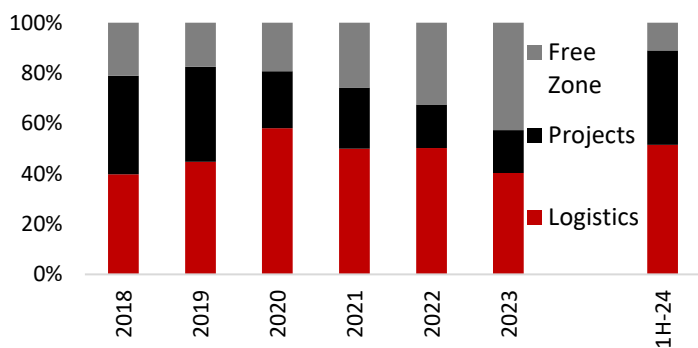
The Egyptian Transport and Commercial Services Company (ticker symbol ETRS) is a leading integrated transport and logistics company with a comprehensive portfolio of services in Egypt. With experience dating back to 1939, the company was established in 1973 under the name Egytrans. It has since developed a number of subsidiary and affiliate brands. ETRS enables and facilitates global and national supply chains through its extensive range of services including sea freight, air freight, land transport, specialized transport, customs clearance, project logistics, and tank container maintenance and cleaning, among other services. The Egytrans group employs around 350 employees across its operations in Egypt.

Notably, at the standalone level, ETRS's logistics segment covers nearly all operating expenses, including those of other business segments. This core logistics division provides a solid base, allowing for additional value generation from other segments or expansion plans.

Furthermore, ETRS maintains a strong net cash position, which enables the company to meet its liabilities and fund potential expansion projects, both locally and abroad.

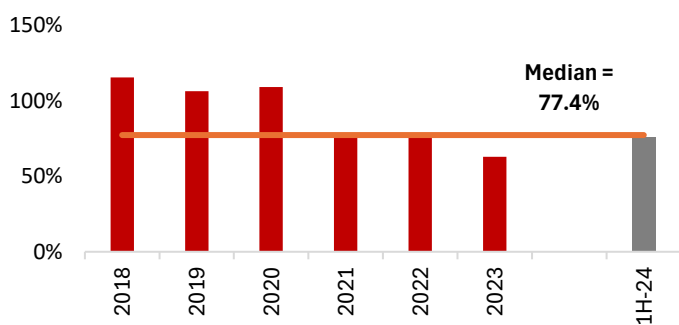
The charts below further illustrate our key findings:

Standalone Revenue breakdown, in EGP million



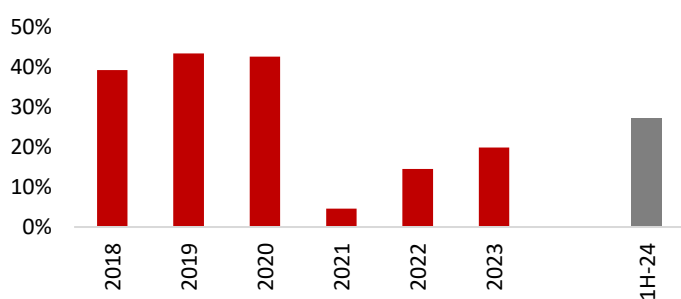
Historically, logistics as a business segment has contributed, on average, to half of the company's top line. In 1H-24, the projects segment saw a rebound, driven by income from the Power China project. Going forward, both the logistics and projects segments are expected to maintain their dominance, while the free zone segment is likely to contract due to restrictions on importing special needs vehicles.

% of operating expenses covered by logistics



Despite incurring one-off provisions and expenses from 2021 to 2023, the standalone gross profit from the logistics segment covered nearly all of ETRS's operating expenses, averaging 77.4%. This strong performance paves the way for other business segments to enhance the bottom line. Other business segments, namely; projects and free zone, accounted for 70% of standalone gross profit in 1H-24.

Net Cash /Equity



ETRS has consistently maintained a positive net cash position. Although the company is not inherently leveraged, it adopted a sell-and-leaseback strategy for its main building in New Cairo and leased 15 trucks, which led to a temporary cash reduction and an increase in liabilities from 2021 to 2023. However, this trend is now recovering to its historical range, specially after ETRS paid its share in Egytrans Arabia's capital.

III. NOSCO Acquisition and Links Joint Company: Solid Expansion Locally and Abroad

1) Egytrans NOSCO: The acquisition’s story

NOSCO, established in 1976, is a prominent heavy transport and logistics player, with an expertise spanning a variety of industries, including oil & gas, petrochemicals, power generation, mobility and construction. NOSCO has 80% market share in oil & gas and petrochemicals projects.

ETRS shall add depth to its already-diversified portfolio by acquiring NOSCO. Post acquisition, ETRS warehousing facilities in Egypt will increase from 7 to 9. In addition, ETRS will receive 126 axle lines and 73 regular trucks, bringing the total portfolio to 206 axle lines and 100 trucks, and creating a leading company in terms of operational capacity.

Below, we summarize 2023 results for both companies and revenue drivers pre and post-acquisition:

	ETRS	NOSCO
2023 results, EGP million		
Revenue	414	564
GP	113	221
Net Profit	62	92
2023 Margins, %		
GPM	27	39
NPM	15	16
Number of employees	350	550
Revenue Drivers		
Pre acquisition	<ul style="list-style-type: none"> • ISO Tanks Cleaning & Maintenance • Free Zone Services • Air Freight Forwarding • Sea Freight Forwarding • Warehousing • Customs Clearance 	<ul style="list-style-type: none"> • Customs Clearance • Inland Transportation • Port Handling & Storage • Project Logistics • Heavy Haul Operations
Post acquisition	<p>Because the regular trucking industry is fragmented, the true value of this acquisition lies in specialized transport, where Egytrans NOSCO holds nearly 50% of the market share.</p> <p>Egytrans NOSCO</p> <ul style="list-style-type: none"> • ISO Tanks Cleaning & Maintenance • Free Zone Services • Air Freight Forwarding • Sea Freight Forwarding • Warehousing • Customs Clearance • Inland Transportation • Port Handling & Storage • Project Logistics • Heavy Haul Operations 	

2) Egytrans and Saudi’s Links Investment: a strategic expansion

Egytrans and Links Investment, a leading Saudi investment firm, have finalized an agreement to establish an LLC in Saudi Arabia under the name “Egytrans Arabia”. Each party will hold a 50% equity stake in the new venture, which will have a total capital of SAR10 million. ETRS already paid its share of the capital, and the financial performance of this joint venture will be reflected in ETRS’s statements, starting in 2025.

Joining forces with Links Investment, ETRS plans to leverage its specialized expertise in project logistics, particularly within the oil, gas, and renewable energy sectors (such as wind farms). The new company, headquartered strategically in Riyadh, aims to support Saudi Arabia's major renewable energy initiatives slated for 2025 under Vision 2030.

IV. ETRS Valuation Method 1: Single-Stage FCFE

Revenue breakdown, in EGP million	2023A	2024P	2025P
ETRS: logistics, projects and free zone	414.1	769.2	825.0
Egytrans NOSCO*	0.0	250.0	275.0
Egytrans Arabia**	0.0	0.0	43.3
Total revenue	414.1	1,019.2	1,143.3
Income statement, in EGP million	2023A	2024P	2025P
Revenue	414.1	1,019.1	1,164.3
Cost of Services	(301.1)	(741.0)	(846.6)
Gross Profit	113.0	278.1	317.8
SG&A	(78.1)	(162.5)	(185.7)
Other Revenue/Expenses, Gains/Losses, Net	(4.5)	(31.4)	(35.9)
EBIT	30.3	84.2	96.2
Net Financing Including FX Gains/Losses	34.7	76.0	86.8
EBT	65.1	160.2	183.0
Income Tax Expense + Others	(3.1)	(21.0)	(26.6)
Consolidated Net Income	61.9	139.2	156.4
FCFE Excluding Interest Income, in EGP million	2023A	2024P	2025P
Net income attributable	61.9	139.2	156.4
Depreciation and amortization	11.6	12.9	13.9
CAPEX	(22.7)	(26.7)	(28.7)
Change in non-cash working capital	(22.1)	(213.7)	(42.0)
Net borrowing	0.0	0.0	0.0
Employee and board profit share	(0.6)	(12.5)	(14.0)
FCFE	28.1	(100.8)	85.6

$$FV \text{ of Equity}_{\text{End 2024}} = \frac{85.6}{0.2 - 0.1} = \text{EGP}855.6 \text{ million}$$

* To estimate the Egytrans NOSCO's contribution to ETRS topline, we slashed around 50% of NOSCO's 2023 topline.

** To estimate the Egytrans Arabia's contribution to ETRS topline, we relied on management guidance of a conservative 2025 bottom line estimate of SAR0.5 million. Then, we divided that by ETRS NPM for 2023 to arrive at an estimated topline contribution of EGP46.3 million.

V. ETRS Valuation Method 2: Fundamental P/E

We use the fundamental P/E equation (used in our product Alpha Spotter) to cross check the accuracy of our FCFE-based valuation of ETRS.

The fundamental P/E equation is depicted below:

$$\frac{P_0}{E_1} = \frac{1}{COE} + \frac{RR_1 \times (ROE - COE)}{COE \times (COE - g)}$$

Notations and assumptions

RR = Retention ratio

LT COE = Egypt LT COE = 20%

Long-term g * = 10.0%

Long-term ROAE = 24.1%

$$\frac{P_0}{E_1} = \frac{1}{COE} + \frac{RR_1 \times (ROE - COE)}{COE \times (COE - g)}$$

$$\frac{P_0}{E_1} = \frac{1}{0.2} + \frac{0.415 \times (0.241 - 0.2)}{0.2 \times (0.2 - 0.1)}$$

$$\frac{P_0}{E_1} = 5 + 0.85 = 5.85$$

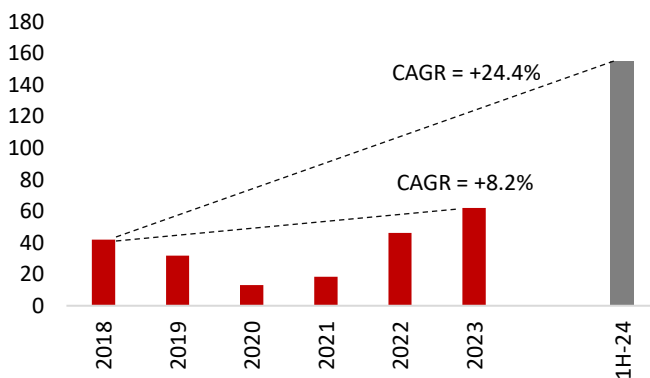
$$FV \text{ of Equity}_{\text{End 2024}} = \frac{P_0}{E_1} \times E_1 = 5.85 \times 156.37 = \text{EGP}914.8 \text{ million}$$

Conclusion

The above value is consistent with the firm's fundamental metrics and with the FCFE fair value estimate.

*Why do we use a terminal g of 10%?

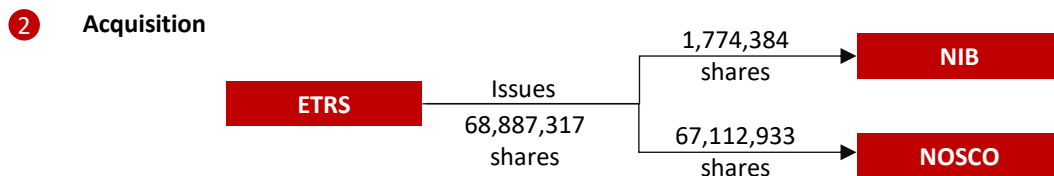
Net income attributable, from 2018 to 1H-24, in EGP million



ETRS long-term growth rate in net income attributable to parent stood at 8.2% from 2018 to 2023. However, the value extends to 24.4% if we take 1H-24 into account. So, while the 8.2% accounts for ETRS current operations, we believe it's fair to account for ETRS expansion potential using a 10% long-term growth rate.

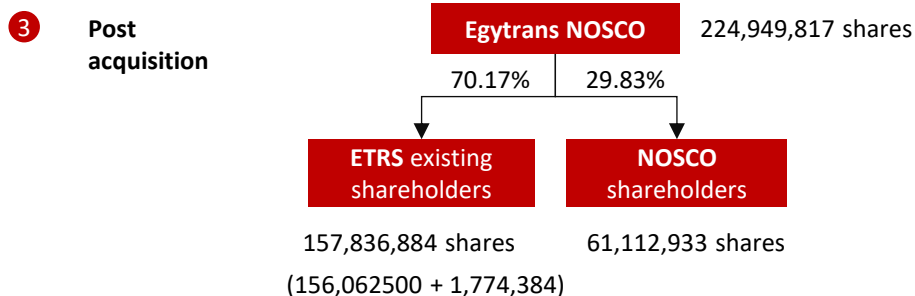
Annex: ETRS Acquisition of NOSCO Explained

1	Pre acquisition* 7-Feb-2023 MCAP	156,062,500 shares	2,999,971 shares (99.9%)
		ETRS	NOSCO
		EGP2.594/share	EGP58.033/share
		EGP404,826,125	EGP174,097,317.043



Transaction execution through ETRS capital increase via share swap

1 share of ETRS = 0.0447 shares of NOSCO



*The estimated fair values for ETRS and NOSCO as of 7-Feb-23 were reported in a disclosure to FRA dated 12-Jun-23. Based on valuations mentioned in the disclosure, we can infer the number of shares that need to be issued by ETRS to acquire NOSCO. This can be done by dividing NOSCO's MCAP by ETRS fair value per share. The outcome is around the 67.1 million shares which is calculated as follows:

2,999,971 NOSCO shares* EGP58.033 NOSCO's FV per share / EGP2.594 ETRS FV per share
= 67.1 million shares

The following is to be noted:

- At the current share price of ETRS (EGP4.5/ share), the deal could have been completed by issuing a much smaller number of shares from ETRS side (~39 million shares vs ~69 million shares), which is calculated as follows:
2,999,971 NOSCO shares* EGP58.033 NOSCO FV per share / EGP4.5 ETRS MV per share = 38.7 million shares
- Based on that, we do not find the acquisition cost to be accretive. However, we believe the magnified capacity and the depth provided to the ETRS diversified portfolio will positively impact the company's equity value.

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