

# Egytrans

More to come, despite price surge

Pharos Securities Brokerage

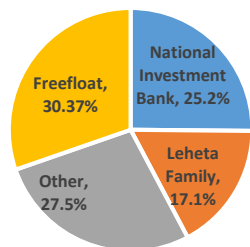
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ETRS EY	
Ticker	ETRS EY
Recommendation	Overweight
Trading Currency	EGP
Last Closing Price, EGP	9.88
<b>Fair value, EGP</b>	<b>13.58</b>
<b>Upside/ Downside Potential</b>	<b>37.5%</b>
Shares Outstanding (mn)	31.2
Avg. Daily Value Traded, EGP	2.8
Market Cap (EGP mn)	308
Free Float	30.3%
52 Week High/Low, EGP	11.2/3.15
YTD Price Change, %	120.0

### Ownership structure



### The Story in Brief

- Egyptian Transport and Commercial Company (Egytrans) operates in the field of integrated transport including Sea freight, Air freight, Custom clearance, Warehousing, Land transportation, Specialized transport, Project logistics, Fairs & exhibitions, Distribution, Packing, Insurance and commercial services.
- The company has the leading market share in project logistics, as its fleet serves complex logistics requirements.
- Egypt's focus on power generation projects boosted the company's topline, as Egytrans stepped up to meet the storage and transportation requirements for the heavy equipment installation.
- Devaluation boosted profitability as 30-40% of the company's topline is denominated in USD.
- The company operates through three subsidiaries (ETAL, EDS, Egytrans) and secures investment income through Barwil and Scan Arabia.
- ETRS is trading at 4.3x 2017e P/E and 1.3x 2017e P/B, while delivering ROE of 30% and NPM of 23%.

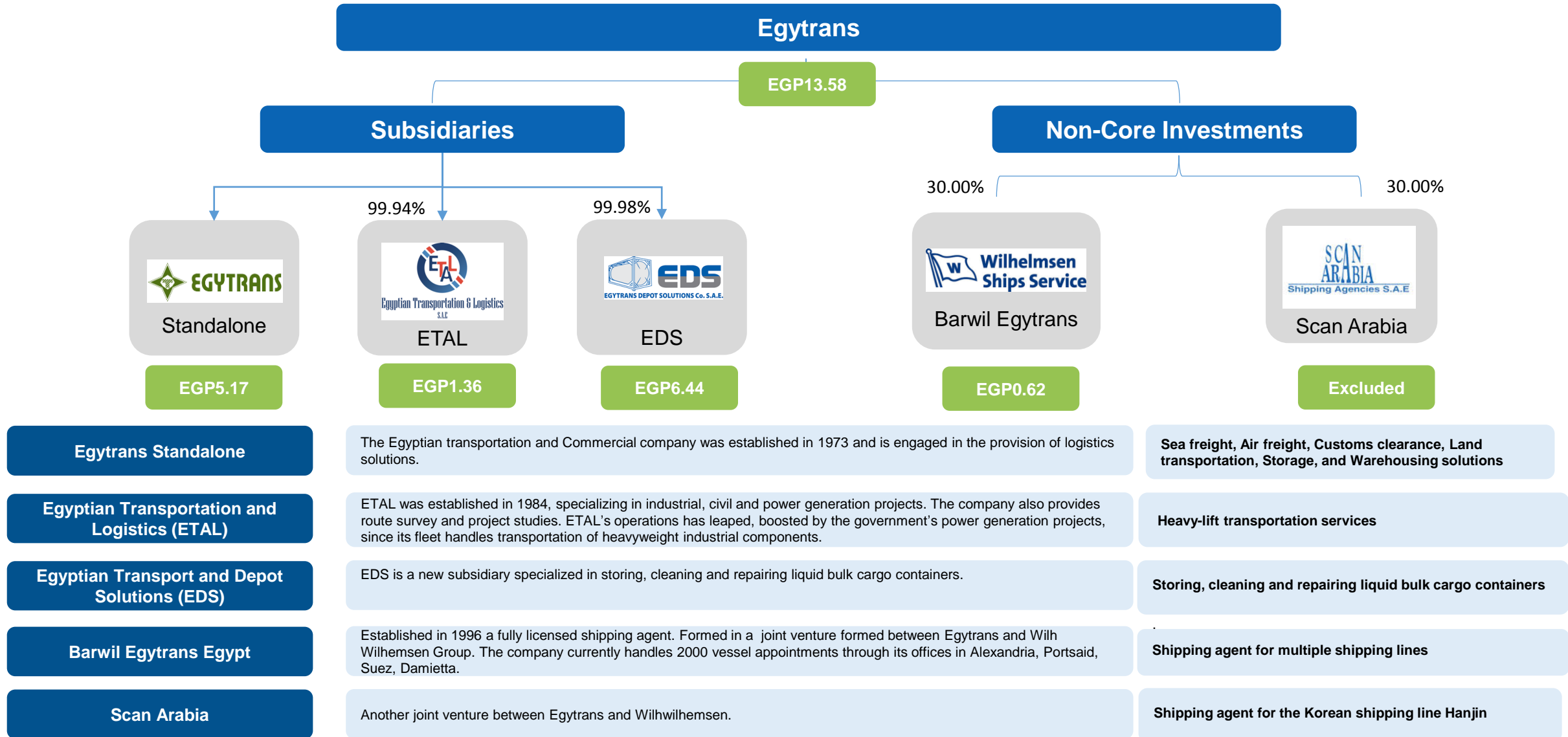
### Upside Triggers

- Potential initiation of El-Dabaa nuclear power project by the Egyptian government would secure a strong backlog, boosting topline.
- A pick-up in Egypt's trade activity will benefit Egytrans, Barwil, and Scan Arabia.
- Optimistic urbanization plans by the government, especially in the East of Cairo, would trigger higher demand for power generation projects, which fuels ETAL's performance.
- Sale of National Investment Bank's stake (25.2%) to a strategic investor could trigger share price rerating towards fair value.
- Expanding the company's business lines in Libya will present a significant upside potential, but this is subject to political stability.

### Downside Triggers

- Absence of major infrastructure projects for the time being.
- Weak trade activity in Egypt, especially on the importation side, can impact freight, warehousing and land transportation activities.
- Any potential strength in the EGP could impact topline negatively, since 30%-40% of the company's topline is denominated in USD.

# Group Structure & SOTP Valuation



**Egytrans Standalone**

**Egyptian Transportation and Logistics (ETAL)**

**Egyptian Transport and Depot Solutions (EDS)**

**Barwil Egytrans Egypt**

**Scan Arabia**

The Egyptian transportation and Commercial company was established in 1973 and is engaged in the provision of logistics solutions.

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 is a new subsidiary specialized in storing, cleaning and repairing liquid bulk cargo containers.

Established in 1996 a fully licensed shipping agent. Formed in a joint venture formed between Egytrans and Wilh Wilhelmsen Group. The company currently handles 2000 vessel appointments through its offices in Alexandria, Portsaid, Suez, Damietta.

Another joint venture between Egytrans and Wilwilhelmsen.

**Sea freight, Air freight, Customs clearance, Land transportation, Storage, and Warehousing solutions**

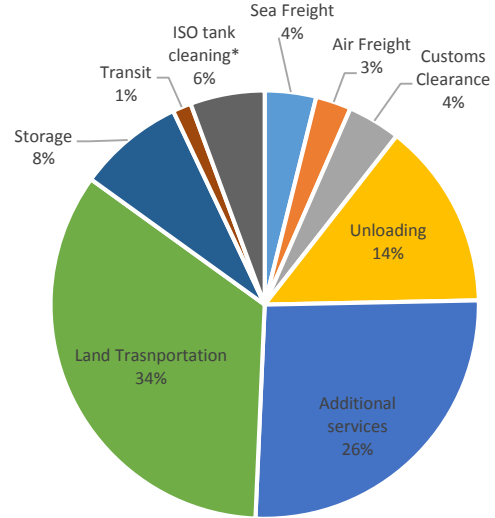
**Heavy-lift transportation services**

**Storing, cleaning and repairing liquid bulk cargo containers**

**Shipping agent for multiple shipping lines**

**Shipping agent for the Korean shipping line Hanjin**

## Key Lines of Business and Latest Developments



\*ISO tank cleaning : Egyptian Depot Solutions (EDS)

### Key Lines of Business

- **Projects:** Egytrans is a market leader in logistics solutions, which includes the transportation of delicate equipment and exceptional weight cargo. The company also fulfills road surveys to determine the best transport methods and routes needed to deliver the packages.
- **Warehousing:** Strategically located warehouses near industrial areas in Cairo, Alexandria and Portsaid freezone. The business line includes bonded warehousing, container yard operations, domestic storage.
- **Air Freight:** Egytrans provides air freight at competitive rates. The air freight service includes import, export, and consolidation services.
- **Sea Freight:** Shipping of all types of cargo including general, break bulk and containerized cargo globally at competitive tariffs.
- **Custom clearance:** Clearing general, break bulk and containerized cargos.

### Latest Developments

- The company is in the process of expanding its land transportation fleet, which will include the addition of 5 container trucks with the possibility of further expansion.
- Egytrans has established a bonded warehouse solutions system in Al Adabeya, designed for handling oversized and heavy-lift equipment and containerized cargo.
- Management will also focus on expanding Egyptian Depot services (EDS) capacity & locations.
- The company is likely to continue participating in mega projects, given the strong track record, as its market share exceeded 60%, compared to 35% in FY15.

## Financial Highlights for FY16, 1H17 (Consolidated)

### Financial highlights for FY16

- Topline of EGP216 million up by 64% YoY, positively impacted by growth in the projects segment and devaluation of the Egyptian pound, as the following projects boosted profitability:
  - Beni Suef and the new administrative capital gas tribune power stations by Siemens with a capacity of 4.8 gigawatts. The power station was the largest power station built by Siemens.
  - South Helwan power station, implemented by Mitsubishi – Hitachi, with a total production capacity of 1.95 gigawatts.
  - Gabal El-Zeit wind station, established by Gamesa, which includes the installation of 130 wind towers.
- EBITDA of EGP15 million, up by 2.2x YoY, as topline surged, where EBITDA margin recorded 7% versus 5% in 2015.
- Net income of EGP59 million, positively impacted by an FX gain of EGP44 million. Management took the opportunity to book provisions of EGP25 million, in an effort to clean the company's receivables.

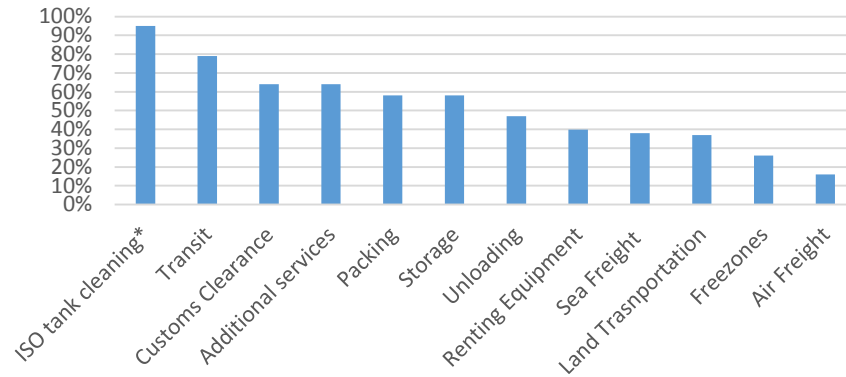
### Financial highlights for 1H17 (Unaudited)

- Revenues of EGP227 million, up by 152% YoY, boosted by devaluation and projects business
- Gross profit of EGP102 million, up by 255% YoY, as gross margin improved to 45% versus 32% in 2016.
- Bottom-line of EGP61 million, up by 190%, as topline leaped.

# Projections and Outlook

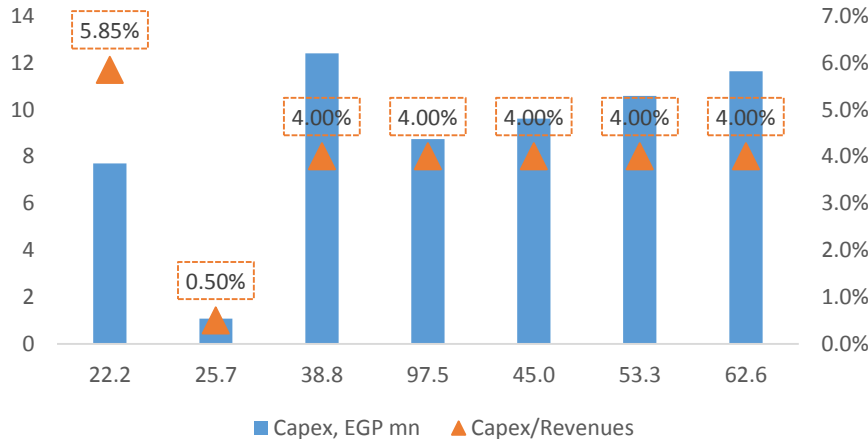
- **Topline** leaped in 1H17, boosted by devaluation and the execution for ETAL's power projects. Revenue growth will slowdown afterwards, as the flotation effect will diminish as of November 2017. More importantly, the company will have execute the power station projects, that have driven the spike in performance.
- Land transportation continues to dominate the revenue's lion share, boosted by the power station projects, as several non heavy equipment needed for installation was transported to the installation site, while the mega transportation components were awarded to ETAL.
- Since 30-40% of revenues is denominated in USD and since costs are denominated in EGP, profitability and margins spiked in 1H17. Gross margin is expected to reach 42%, up by 9%, while EBITDA margin should hit 28%.
- **Debt free structure to continue.** CAPEX to be financed from internal sources. Historically, Egytrans has maintained a net cash position, which was also embedded in our estimates. We expect CAPEX/ Revenues of 4% throughout our forecast horizon.
- **Dividends.** The devaluation of the Egyptian pound has boosted bottom-line for FY16; paving the way for a mega dividend payout, reaching EGP0.7/Share, up by 2.8x YoY. Dividends will dive, post FY2017 due to the expected decline in revenues.

## Newly introduced LoBs are high-margin to boost profitability

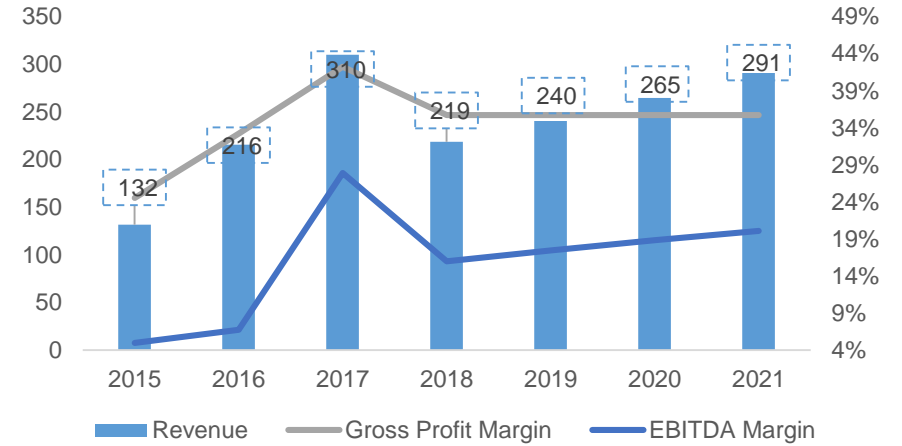


\*ISO tank cleaning : Egyptian Depot Solutions (EDS)

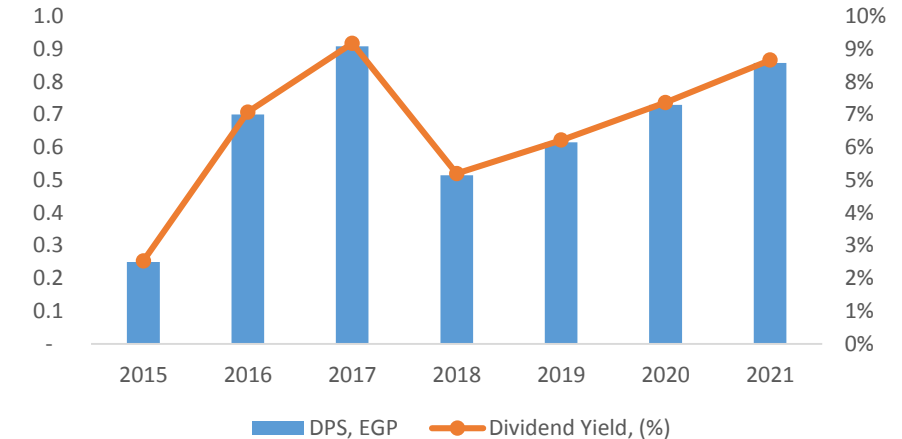
## CAPEX-to-Revenue to stabilize at 4%



## Margins to stabilize post FY17



## Dividends expected to stabilize, post special payout in FY16



## DCF Valuation & Comparative Multiples

### DCF SOTP VALUATION

Company	Stake	Value EGP mn	Value to Egytrans EGP mn	Value per share EGP	Revenue EGPmn	EBIT EGPmn	Net Profit EGPmn	Assets EGPmn	Book Value EGPmn
Egytrans Standalone	100%	161	161	5.17	173	15	43	288	216
Egyptian Transportation and Logistics (ETAL)	100%	42	42	1.36	30	17	12	77	68
Egyptian Depot Solutions (EDS)+	100%	201	201	6.44	15	7	8	39	35
Wilhemsen Ship Service (Barwil Egypt)	30%	64	19	0.62	59	39	34.5*	140	36
**Scan Arabia Egypt	30%	-	-	Excluded	106	22	-16*	64	(25)
<b>ETRS SOTP VALUATION</b>				<b>13.58</b>					

\* Barwil Egypt reported an FX gain of EGP28.2m, while Scan Arabia reported an FX loss of EGP33m.

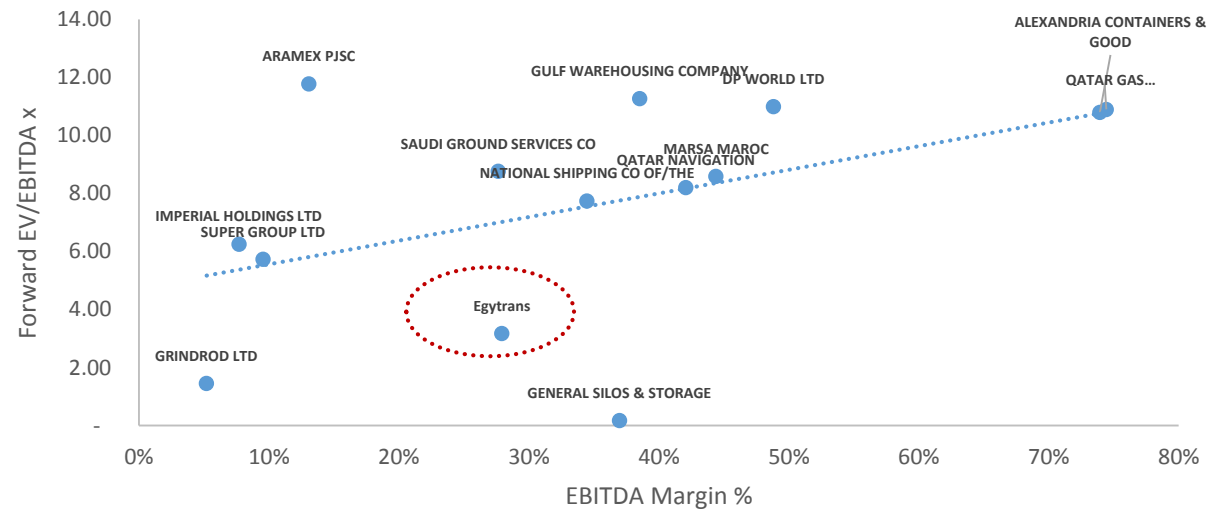
\*\*Scan Arabia was excluded from the valuation, due to losses and negative owner's equity.

+ EDS Financial Statements are in USD and are translated here to EGP

### COMPARATIVE VALUATION

ETRS is trading at a P/E 2017e of 4.3x and 2018f of 7.7x, compared to a peer group average of 13.0x and 11.6x, respectively. ETRS is also trading at an EV/EBITDA 2017e of 3.2x and 2018f of 6.2x, compared to the peer group average of 7.6x and 7.4x, respectively.

ETRS comparative valuation stands at EGP19.40 per share.



## Financial Statements

Income Statement (EGPmn)	2015a	2016a	2017f	2018f	2019f	2020f
<b>Total Revenue</b>	<b>132</b>	<b>216</b>	<b>310</b>	<b>219</b>	<b>240</b>	<b>265</b>
COGS	(99)	(144)	(179)	(140)	(155)	(170)
<b>Gross Profit</b>	<b>32</b>	<b>72</b>	<b>131</b>	<b>78</b>	<b>86</b>	<b>95</b>
<b>SG&amp;A</b>	<b>(26)</b>	<b>(57)</b>	<b>(44)</b>	<b>(43)</b>	<b>(44)</b>	<b>(45)</b>
<b>EBITDA</b>	<b>7</b>	<b>15</b>	<b>87</b>	<b>35</b>	<b>42</b>	<b>50</b>
Depreciation and Amortization	(5)	(5)	(7)	(7)	(8)	(8)
Finance Income/Expense	2	3	1	2	3	3
Investment in related parties	6	10	19	21	25	28
Other income/Expense	2	47	(8)	0	0	0
Taxes and Minority Interest	(2)	(11)	(21)	(12)	(14)	(17)
<b>Net Income Before Appropriations</b>	<b>10</b>	<b>59</b>	<b>71</b>	<b>40</b>	<b>48</b>	<b>57</b>

Balance Sheet (EGPmn)	2015a	2016a	2017f	2018f	2019f	2020f
Cash & Cash Equivalent	50	66	34	90	105	122
Accounts & Notes Receivable	49	82	118	83	91	100
Inventory	1	1	1	1	1	1
Other current assets	20	72	83	58	64	71
<b>Total Current Assets</b>	<b>119</b>	<b>221</b>	<b>236</b>	<b>233</b>	<b>261</b>	<b>294</b>
Fixed Assets (net)	71	82	87	88	90	93
Projects under construction	12	25	25	25	25	25
Net Intangibles	5	5	5	5	5	5
other fixed assets	10	14	7	7	7	8
<b>Total Assets</b>	<b>217</b>	<b>346</b>	<b>360</b>	<b>358</b>	<b>389</b>	<b>424</b>
Accounts Payable	10	25	31	24	26	29
Other Current Liabilities	21	51	81	66	70	75
<b>Total Current Liabilities</b>	<b>31</b>	<b>75</b>	<b>112</b>	<b>90</b>	<b>97</b>	<b>104</b>
Long term leasing liabilities	0	0	0	0	0	0
Long term tax liabilities	4	7	7	7	7	7
Long term accounts payables	-	0	-	-	-	-
<b>Total Liabilities</b>	<b>36</b>	<b>83</b>	<b>120</b>	<b>98</b>	<b>105</b>	<b>112</b>
<b>Total Equity</b>	<b>181</b>	<b>262</b>	<b>240</b>	<b>260</b>	<b>284</b>	<b>312</b>
<b>Total Liabilities &amp; Equity</b>	<b>217</b>	<b>346</b>	<b>360</b>	<b>358</b>	<b>389</b>	<b>424</b>

Cash Flow Statement (EGPmn)	2015a	2016a	2017f	2018f	2019f	2020f
<b>Cash from Operating</b>	<b>22</b>	<b>26</b>	<b>39</b>	<b>97</b>	<b>45</b>	<b>53</b>
<b>Cash from Investing</b>	<b>(6)</b>	<b>(32)</b>	<b>(6)</b>	<b>(9)</b>	<b>(10)</b>	<b>(11)</b>
<b>Cash from Financing</b>	<b>(14)</b>	<b>22</b>	<b>(65)</b>	<b>(32)</b>	<b>(21)</b>	<b>(25)</b>
<b>Net Change in Cash</b>	<b>2</b>	<b>16</b>	<b>(32)</b>	<b>56</b>	<b>14</b>	<b>18</b>
<b>Capex</b>	<b>8</b>	<b>1</b>	<b>12</b>	<b>9</b>	<b>10</b>	<b>11</b>

Per-Share Data	2015a	2016a	2017f	2018f	2019f	2020f
Price, EGP	9.9	9.9	9.9	9.9	9.9	9.9
# Shares, Mn	31.2	31.2	31.2	31.2	31.2	31.2
EPS, EGP	0.3	1.9	2.3	1.3	1.5	1.8
DPS	0.25	0.70	0.91	0.51	0.62	0.73
BVPS	5.8	8.4	7.7	8.3	9.1	10.0

Valuation Indicators	2015a	2016a	2017f	2018f	2019f	2020f
PER (x)	31.0	5.3	4.4	7.7	6.4	5.4
PBV (x)	1.7	1.2	1.3	1.2	1.1	1.0
EV/EBITDA (x)	39.54	16.74	3.17	6.26	4.87	3.75
Dividend Payout Ratio (%)	78%	37%	40%	40%	40%	40%
Dividend Yield (%)	3%	7%	9%	5%	6%	7%

Profitability Ratios	2015a	2016a	2017f	2018f	2019f	2020f
Gross Profit Margin (%)	25%	33%	42%	36%	36%	36%
EBITDA Margin (%)	5%	7%	28%	16%	17%	19%
Net Margin (%)	8%	27%	23%	18%	20%	21%
ROA (%)	5%	17%	20%	11%	12%	13%
ROE (%)	6%	22%	30%	15%	17%	18%

Liquidity & Solvency Multiples	2015a	2016a	2017f	2018f	2019f	2020f
Net Debt/(Cash)	(50)	(66)	(34)	(90)	(105)	(122)
Net Debt/Equity	(0.3)	(0.3)	(0.1)	(0.3)	(0.4)	(0.4)
Net debt to EBITDA	(7.6)	(4.6)	(0.4)	(2.6)	(2.5)	(2.5)
Current ratio	4	3	2	3	3	3



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