

CURRENT PRICE	EGP 18.96
FAIR VALUE	EGP 20.21
RATING	HOLD

HIGHLIGHTS

Stock Data

Ticker	SWDY EY
Upside Potential	6.6%
Bloomberg Median Target Price (EGP)	27.2
Market Cap (EGP mn)	4,236.0
Market Cap (USD mn)	618.4
Number of Shares (mn)	223.4
Average Monthly Liquidity (EGP mn)	33.8
Free Float	34%
52 week Low (EGP)	18.10
52 week High (EGP)	27.02

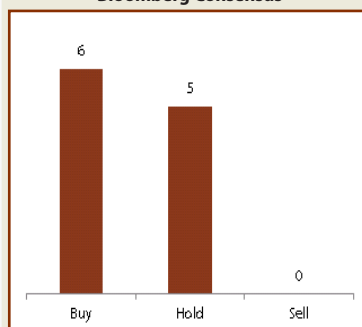
Ownership Structure

El Sewedy family	64%
Other	2%
Free Float	34%

El Sewedy Electric Stock Performance (EGP)



Bloomberg Consensus



COMPANY COVERAGE

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EL SEWEDY ELECTRIC

REGIONAL WOES MASK POTENTIAL FOR MENA POWER SECTOR

Political turmoil hinders investment in the power sector despite insufficient capacity and robust liquidity in the GCC

The Middle East and Africa's power sector needs significant investments in order to keep up with the economic growth and tame ongoing turmoil in parts of the region, especially with electricity demand forecasted to almost double by 2020. According to MEED, power generation capacity in the GCC is believed to reach 181 GW by 2019, up from 84.5 GW in 2009, without accounting for the ageing power plants which need to be decommissioned. And so, US\$ 250 billion of investments in the MENA are needed to finance the sector to meet demand growth throughout, Arabian Business reported. Currently, electricity generation capacity in the region remains subdued and consumption per capita stands severely short of that of developed economies at 1 Kwh for the MENA versus 13 and 5.4 Kwh for North America and Europe, respectively. However, political turmoil is severely impacting investments in the region with many projects being put on hold or cancelled, as continued uncertainty is causing investors and clients to pause. The deteriorating political environment in Egypt and Syria which has been lingering for over two years, challenges further the views concerning an upbeat performance for the region's power sector for 2013, especially for the Arab Spring countries. Yet, we believe that reconstruction activity and governments' efforts to reattract foreign investment appetite in these countries support a positive outlook for the sector on the longer term.

Cables segment signals struggles on tight competition while non-cables businesses lag amidst continuous turmoil

With cables sales representing 77% of El Sewedy's top line, the segment remains the key indicator for El Sewedy's operational performance. Cables sales volume managed to grow by 4.7% Y-o-Y in 2012, thanks to geographically distributed operations which enabled the company to leverage on growing markets like Saudi Arabia, Qatar and Algeria and limit exposure to distressed markets. However, despite an anticipated declining trend for global copper prices, tightening competition in the region's cables market coupled with prolonged political instability will limit the upside potential of the segment's margins. For the non-cables segments, we expect transformers sales to continue to be pressured by the political and economic crisis in Egypt and Syria, while turnkey revenues stagnate below 2011 levels, despite an expected improvement in the segment's top line through 2016. On another front, we hold a positive outlook for meters sales backed by catalysts which include: i) investments in increasing efficiency in energy consumption by governments in Europe which constitutes the hottest market for meters for the coming decade, and ii) aggressive public spending in the GCC. We thus anticipate the top line to grow by 4.7% in 2013 to EGP15.2 billion, following a 4.3% Y-o-Y drop for 2012, backed by a slight improvement in sales across almost all segments. On the profitability front, we forecast a 63.2% Y-o-Y jump in earnings in 2013 from the 2012 four-year low, to EGP 191 million and a CAGR of 24.2% through 2016, led mainly by: i) a higher contribution from segments with higher margins, ii) lower borrowing costs on the absence of major expansion plans.

Substantial risks wipe upside potential for El Sewedy Electric

El Sewedy trades at a price-to-book ratio of 0.89x, representing a 55% discount to its historical five-year average, a markdown attributable to the persistent political uncertainty in Egypt. In addition, the company trades at an average two-year EV/EBITDA of 6.3x for the period 2013-2014, versus 8.4x multiple for comparable firms due to the high uncertainty surrounding the economic and political stability of critical operating markets. We thus initiate on El Sewedy with a hold rating and a fair value of EGP 20.21 per share, representing an upside potential of 6.6% over the current share price. Major risks to our target price include: i) depreciation in the Egyptian Pound beyond our expectations for a 2013 year-ending USD/EGP rate of 6.99, ii) an unexpected rise in global copper prices, that would drive our target price down.

FINANCIAL DATA

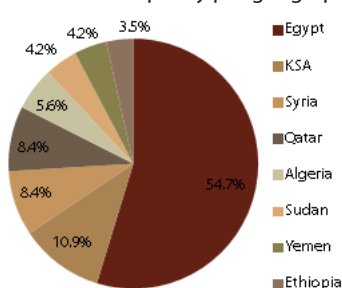
	2011	2012e	2013e	2014e	2015e	2016e
Revenues (in EGP mn)	15,169	14,512	15,187	15,637	15,948	16,438
EBITDA (in EGP mn)	1,386	1,028	1,107	1,203	1,292	1,351
EBITDA Margin	9.1%	7.1%	7.3%	7.7%	8.1%	8.2%
Net Profit (in EGP mn)	509	117	191	262	325	366
Net Profit Margin	3.4%	0.8%	1.3%	1.7%	2.0%	2.2%
EPS (in EGP)	2.28	0.52	0.85	1.17	1.46	1.64
P/E (x)	8.32	36.21	22.19	16.14	13.03	11.57
ROAE	9.3%	2.2%	3.7%	5.1%	6.3%	6.9%

COMPANY PROFILE

BUSINESS OVERVIEW

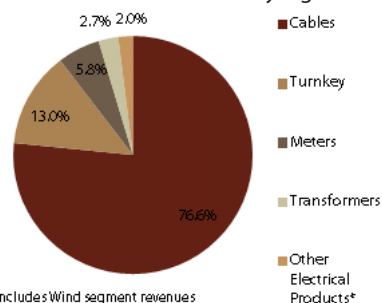
El Sewedy Electric (El Sewedy) is the largest cable producer in the MENA region with an annual production capacity of 282,000 tons of both copper and aluminum cables, most of which caters for copper cables. The company owns eight cables production facilities dispersed across the Middle East and Africa, with its biggest plant located in Egypt. In 2011, El Sewedy sold more than 149,000 tons of cables, representing an almost 13% CAGR over the 2008 sales volume. In addition, it produces related raw material items such as copper rods, PVC and steel, mostly for in-house consumption, and which contributed to 41% of the cables segment's total revenues in 2011.

Chart 1: Cables capacity per geography



Source: Company reports

Chart 2: Revenue contribution by segment in 2012



*Includes Wind segment revenues

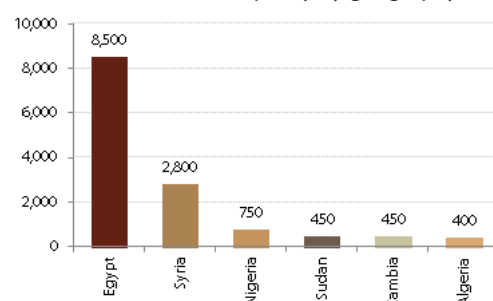
Source: Company reports

El Sewedy also operates in other energy generation, transmission and distribution segments, which include: electrical products, energy measurement and management, transformers, communications, wind energy generation, and engineering and contracting.

While the cables segment is the main contributor to the company's sales, holding a share of almost 77% of 2012 consolidated revenues, non-cables businesses are gaining momentum and expected to take over an increasing share of the revenue pool.

- Meters:** El Sewedy produces both electronic and induction meters through its wholly owned Slovenia-based subsidiary Iskraemeco. Meters sales come mainly from the European markets (70%) and the GCC (30%).
- Transformers:** The company produces both power and distribution transformers with an aggregate capacity of 13,350 MVA, distributed mainly across the African continent, with the largest capacity in Egypt.

Chart 3: Transformers capacity by geography (in MVA)



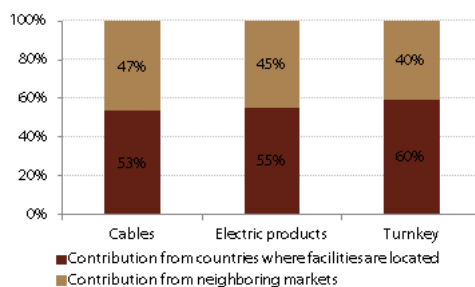
Source: Company reports

- Other electric products:** El Sewedy produces, through its subsidiaries, ceramic insulators, fiberglass poles and explosion proof products for the petroleum sector. In addition, it supplies transmission, security and voice and data systems, and fiber optic cables and accessories.

- Wind segment: El Sewedy manufactures wind towers and wind turbines, through its Spain-based subsidiary M.Torres Olvega Industrial and joint venture with German company Schaaaf Industries Aktiengesellschaft.
- Engineering and contracting: The company provides turnkey solutions that mainly serve public utilities and include design, installation, operations, maintenance and financing services. Backlog stood at EGP 4.5 billion as of December 2012 and comes mainly from Africa, and recently from a few Arab countries.

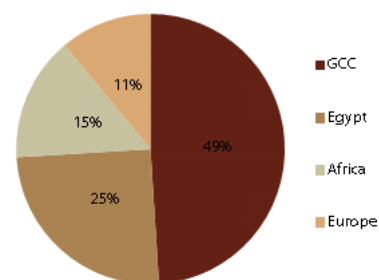
El Sewedy has decentralized its operations through establishing facilities across the Middle East, Africa and Europe. Geographic diversification has enabled the company to gain a strong foothold in different markets. In addition, these strategic locations serve as an export hub for the neighboring countries, whereby almost half of a facility sales come from neighboring countries. During 2012, Gulf countries contributed to the largest share of Sewedy's revenue pool, at 49%, while Egypt sales made up only 25%, Europe 11% and other African countries 15%.

Chart 4: Revenue per geography per segment



Source: Company reports

Chart 5: Revenue distribution per geography



Source: Company reports

INVESTMENT RATIONALE

DIVERSIFIED PRESENCE IN THE MEA LIMITS REVENUE EXPOSURE TO ONE SINGLE MARKET RISK

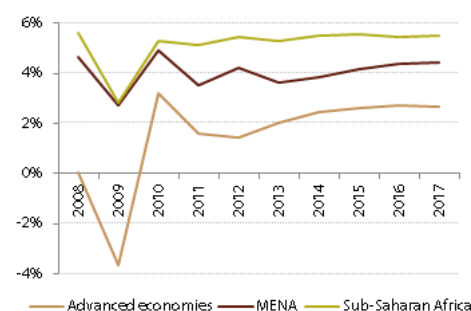
Positive economic growth and limited capacity support a strong potential for MEA's electricity sector

The power sector of the Middle East and Africa (MEA) region is expected to witness substantial growth over the medium term, despite continued regional unrest, backed by:

- ✎ A young and fast growing population
- ✎ A relatively stout economic expansion
- ✎ A high urbanization rate
- ✎ Substantial diversification and industrial expansion plans
- ✎ Insufficient existing capacity

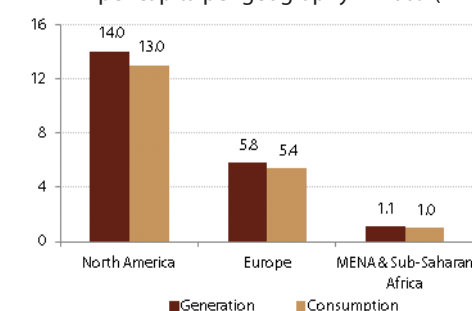
During the period from 2004 to 2011, real GDP in the MENA and Sub-Saharan Africa expanded at an average annual rate of 4.9% and 5.7%, respectively, against an average rate of 3.9% for the global economy and a shy 1.6% for advanced economies over the same period, according to the IMF. The region is further expected to maintain a robust expansion trend through 2017, led by Sub-Saharan Africa and oil-producing GCC economies.

Chart 6: GDP Growth per geography



Source: IMF

Chart 7: Electricity generation and consumption per capita per geography in 2009 (in Kwh)



Source: World Bank

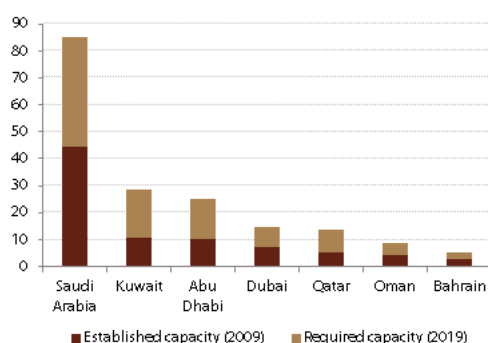
While the sector experienced reasonable development efforts over the past decade, the region's electricity generation capacity remains subdued, and as a result, consumption per capita in the MEA stands severely short of that of developed economies at 1 Kwh per capita versus 13Kwh and 5.4 Kwh per capita for North America and Europe, respectively. And it follows that the MEA power sector needs significant investments in order to keep up with the region's economic growth and tame ongoing turmoil, especially with electricity demand forecasted to almost double by 2020. It is expected that power capacity in the MENA will increase by 7.8% per year between 2013 and 2017 and that US\$ 250 billion of investments are needed to finance the sector to meet electricity demand growth throughout the period, Arabian Business reported, with 42% of that amount originating from the GCC.

Public spending on power projects in the GCC to pick up, despite short-term capped investment in power sector

The MENA power sector has not fared well during 2012 - in line with most of the region's sectors - with the value of power contract awards dropping by 53% Y-o-Y during the first nine months of 2012 to US\$ 6.3 billion, despite the fact that the sector's share of total awards remained in line with that of 2011, at 16%.

Political turmoil has severely impacted investments in the MENA with many projects being put on hold or cancelled, as continued uncertainty has caused investors and clients to pause. The deteriorating political environment in Egypt and Syria which has been lingering for over two years, further challenges views concerning an upbeat performance for the region's power sector for 2013, especially for the Arab Spring countries. Yet, we believe that reconstruction activity and governments' efforts to reattract foreign investment appetite in these countries support a positive outlook for the sector on the longer term.

Chart 8: GCC countries current versus planned power capacity (in GW)



Source: Meed

On another front, increasing public spending in the GCC, backed by high oil prices and fiscal stimulus, is expected to lead a substantial improvement in the region's power sector for the year compared to 2012, as governments invest in projects to curb power shortage and meet a growing electricity demand. Power generation capacity in the GCC is believed to reach 181 GW by 2019, up from 84.5 GW in 2009, led by Saudi Arabia and the UAE, according to MEED. Qatar, on the other hand, with a current capacity that satisfies local demand, will be investing in expanding power transmission and distribution networks as it prepares for the World Cup. It is worth noting that the above estimates do not account for ageing power plants which need to be decommissioned, especially in the KSA, Kuwait and Oman, further raising the estimated amount of additional capacity required.

Betting on Sub-Saharan Africa's underdeveloped infrastructure and the reconstruction of countries emerging from unrest

Owing to an extremely weak electricity infrastructure and a rising pressure from economic growth, Sub-Saharan Africa offers the largest growth potential for El Sewedy's operations. The IFC expects to invest a minimum of \$4.3 billion in the region in 2013, with a focus on energy and transportation infrastructure developments. The Egyptian company has already well-established operations in that region which currently adds to around 15% of revenues and we expect further contribution from Africa over the coming few years, especially for the turnkey segment.

Also, countries that have emerged from political unrest and popular uprisings with severe construction damages are expected to undertake reconstruction activity and develop the insufficient utilities infrastructure, as they exhibit signs of economic recovery beyond 2013. The IMF forecasts a 3.6% Y-o-Y growth for these economies for 2013, compared with 2% and 1.2% expansion in 2012 and 2011, respectively. On another hand, Libya and Iraq are expected to witness above-average growth in spending on power infrastructure programs as both countries invest in upgrading existing power plants and increasing electricity generation capacity. Our view is supported by a 2012 GDP growth for Libya estimated at 122% Y-o-Y for 2012, 17% for 2013 and an average of 7% between 2014 and 2017, and an average exceeding 10% Y-o-Y growth for Iraq over the same period.

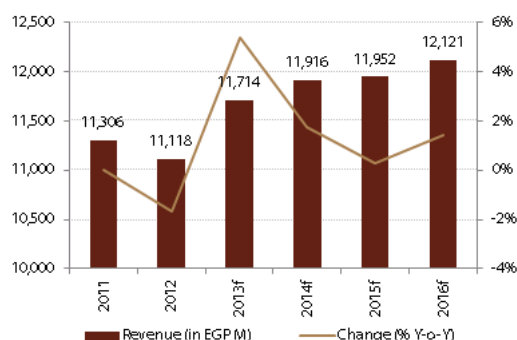
CABLES SEGMENT STILL MAIN CONTRIBUTOR TO TOP LINE BUT SEEN LOSING MOMENTUM

Large cables capacity in underserved markets combined with geographical diversification of operations limit exposure to single market risk

As the MENA's largest cables player, El Sewedy benefits from a sizable share of the region's market, which ranges between 20% to 40% in each country where the company has established operations, depending on the competition level. In addition, geographically distributed operations enable the company to leverage on growing markets and limit revenues' exposure to distressed areas.

Cables sales volume managed to grow by 4.7% Y-o-Y in 2012 despite regional uprisings which have severely affected production and demand in some countries. This was achievable thanks to resilient demand from others; Saudi Arabia, Qatar and Algeria which make up around 25% of El Sewedy's cables capacity are emerging as strong performers and are helping to offset the drop in Egypt, Syria and Sudan.

Chart 9: Cables revenues



Source: Company reports, ASIB estimates

We forecast cables sales volume to grow by 2.3% Y-o-Y in 2013 to around 168 thousand tons, backed by regional fundamentals.

On the pricing level, we expect that the average cables' price per ton will increase by 5% Y-o-Y due an anticipated slight improvement in copper prices as the global economy exhibits signs of recovery, but also as the depreciation in the Egyptian Pound inflates domestic prices, albeit at a tempered pace given the challenging operating environment.

On a revenue level, we anticipate sales from cables to increase by 5.4% Y-o-Y to EGP 11.7 billion, while expect the segment to record a CAGR of 1.1% through 2016, on the absence of substantial catalysts in the region, in the medium term.

Falling copper prices support higher margins, but overcapacity in the MENA pressures upside potential

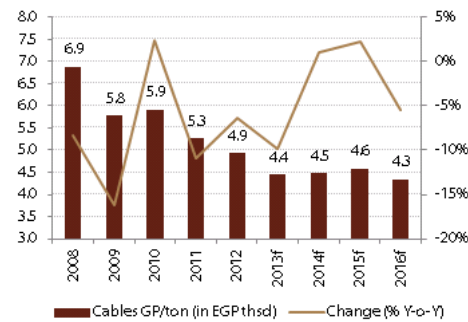
With cables sales contributing to 77% of El Sewedy's top line, the segment is the key indicator for operational performance, and the company's margins remain most sensitive to fluctuations in global copper prices.

During 2011, the average copper price per ton jumped by almost 17% Y-o-Y and pressured El Sewedy's gross profit for cables to EGP 5,268 per ton, representing an 11% Y-o-Y slump. In 2012 however, copper prices declined to an average of around US\$ 8,000 per metric ton, down from an average of US\$ 8,826 in 2011. This has been favorable for El Sewedy as margins for the segment were slightly up in 2012 at 9.5%, versus 8.9% for 2011.

For 2013, we forecast a gross profit of around EGP 4,400 per ton of cables 10% Y-o-Y lower than 2012 levels, while estimate a gross margin for the segment at 9.2%, slightly lower than their 2012 levels. Yet, the 9.5% average margin over our forecast stands much lower than the 11.4% average of

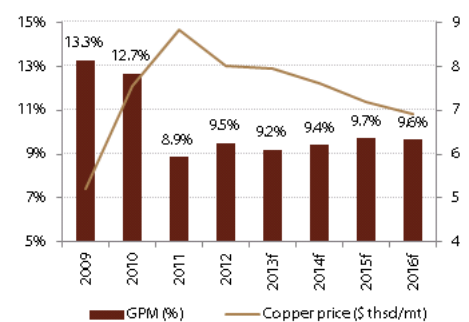
the 2009-2011 period. This is justified by the fact that: 1) despite the global economic uncertainty with the deceleration in China's economic growth and recessionary pressures in Europe, copper prices are unlikely to drop to the lows of the 2009 Great Recession, and 2) severe competition in the region's cables market will pressure cables sales prices and limit the upside potential of the segment's margins.

Chart 10: Cables gross profit/ton



Source: Company reports, ASIB estimates

Chart 11: Gross profit margin versus copper prices



Source: Company reports, ASIB estimates

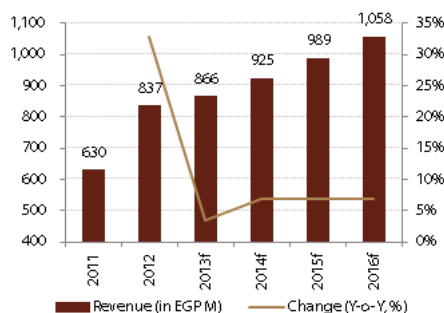
NON-CABLES SEGMENTS SIGNAL MIXED PERFORMANCE, SUGGEST POTENTIAL FOR EARNINGS GROWTH

Meters segment in the spotlight supported by higher demand and strong margins

We hold a positive outlook for meters sales backed by catalysts which include: i) investments in increasing efficiency in energy consumption by governments in Europe which constitutes the hottest market for meters for the coming decade, and ii) aggressive public spending in the GCC.

The European governments' decision in 2009 to install smart meters in households stipulates that 80% of European households have smart meters by 2020, in a move to promote efficiency in energy consumption. As a result, smart meter sales are expected to grow from 20.5 million units this year to 62 million by 2016, according to research firm IHS, while GTM Research forecasts around 100 million additional smart meters by 2016.

Chart 12: Meters revenues

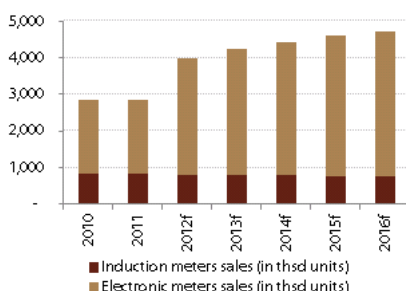


Source: Company reports, ASIB estimates

While other business lines have been suffering from the shaky regional market, the meters segment has been the sole outperformer last year having witnessed a 33% Y-o-Y growth in 2012 revenues, and a 28% Y-o-Y jump in sales volume, on signs that Europe's plans are being implemented after delays, and that GCC governments are carrying out their housing development schemes.

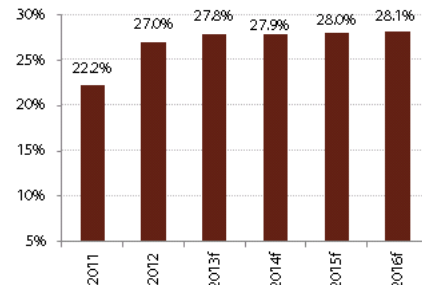
We estimate 2013 revenues at EGP 866 million, representing a 3.5% Y-o-Y increase, on a 6% Y-o-Y bound in units sold to 3.9 million units, led by sales of electronic meters, while induction meters sales slightly retreat. Going forward, we expect meters' sales to record a CAGR of 6.9% through 2016.

Chart 13: Induction versus electronic meters sales



Source: Company reports, ASIB estimates

Chart 14: Meters segment gross profit margin



Source: Company reports, ASIB estimates

On another front, El Sewedy realized remarkable production cost savings since 2009, when it began gradually moving some of its meters production from Slovenia to Egypt where labor and energy costs are much cheaper. This has resulted in an improvement in the gross profit margin per meter sold which stood at 27% in 2012 compared with 22.2% the year before, while both cost and price per unit decreased. Also, the increasing portion of system meters sales which enjoy higher margins further contribute to improving the profitability of the segment. Following, we anticipate margins from the segment to further increase from 27% in 2012 to 28.1% by 2016.

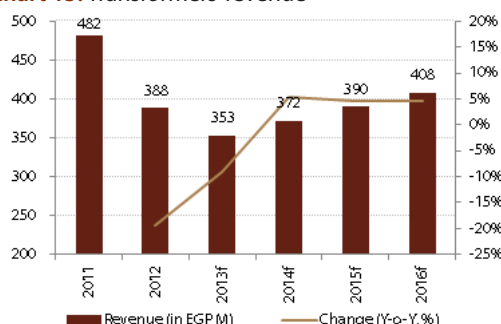
Transformers sales suffer from the region's political woes, suggesting a weak performance over the medium term

The transformers segment witnessed a particularly challenging year in 2012, with sales volume down by 39% Y-o-Y during, a trend which we expect would continue well into 2013. Egypt, Sudan and Syria, which collectively contribute to 88% of total capacity, have been especially underperforming. With the continued unrest in Syria impeding both production and sales, we anticipate further pressure on the segment's performance especially given that Syrian operations fuel sales to neighboring countries, namely Iraq which is anticipated to experience a substantial boom. El Sewedy's management revealed a plan to stop production in Syria by June 2013 and transfer operations to Egypt. This will further squeeze the segment's utilization rates.

In Sudan, following the severe devaluation in the local currency, management decided to stop selling in the Sudanese Pound and do so only on cash basis, resulting in a severe drop in sales in 2012, while the political and economic crisis in Egypt is causing delays in projects.

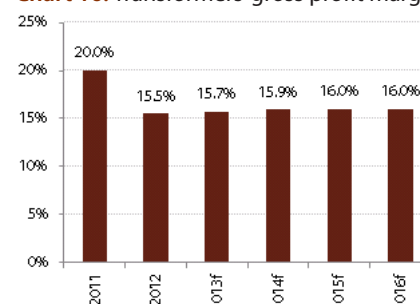
Accordingly, we expect revenues from transformers sales to further drop by 9.0% Y-o-Y, to EGP 353 million in 2013, following the 19.5% Y-o-Y plunge in 2012, led by a drop in the utilization rate to 26% during the year, down from 51% in 2011. Moving forward, we forecast a CAGR of 4.9% for the segment's revenues through 2016, as the reallocation of the segment's resources slightly improves utilization while rates stick below 30%.

Chart 15: Transformers' revenue



Source: Company reports, ASIB estimates

Chart 16: Transformers' gross profit margin



Source: Company reports, ASIB estimates

On the profitability level, the transformers' gross margin witnessed a substantial drop in 2012 to 15.5%, from 20% the year before, due to the challenging environment. We expect margins to remain pressured throughout our forecast horizon, only slightly increasing to 16% by 2016 as management's efforts to improve efficiency offset for the weak turnover.

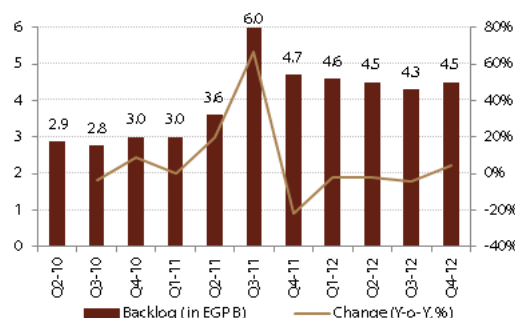
Turnkey segment underperforms, but awards should improve on fundamentals

The engineering and contracting segment at El Sewedy has suffered from the slowdown in awards that has been prevailing in the MENA region. On another front, while Africa offers the highest growth potential for the company with the major share of backlog coming from the continent, notably due to the severely juvenile infrastructure, the continued lack of funding could limit any material performance boost from this business line.

The turnkey segment has been performing worse than management had expected, and revenues dropped by 26% Y-o-Y in 2012 to EGP 1.9 billion. On a positive note, backlog stood at a healthy level of EGP 4.5 billion as of December 2012, compared with the previous nine periods' average of EGP 3.9 billion.

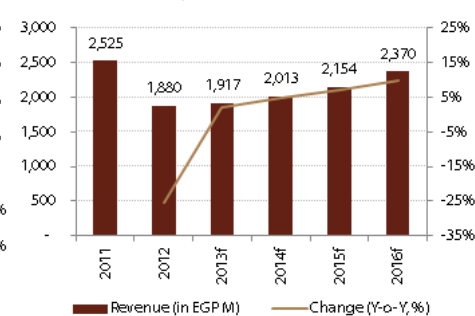
For 2013, we expect the turnkey segment's performance to be in line with that of 2012 with revenues only up 2% Y-o-Y at EGP 1.9 billion while project a CAGR of 7.3% for the contracting top line between 2013 and 2016, as the healthy backlog materializes. Still, turnkey revenues will continue to linger short of the record revenues witnessed in 2011 and through our investment outlook, due to challenging regional environment, tightening competition and subdued investment in Sub-Saharan Africa.

Chart 17: Contracting Backlog



Source: Company reports

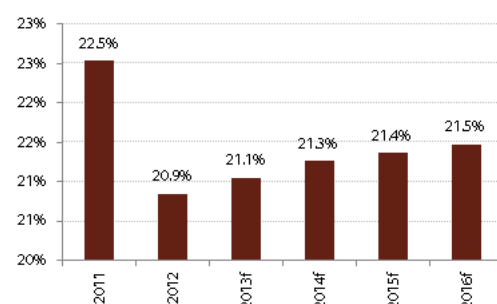
Chart 18: Turnkey revenue



Source: Company reports, ASIB estimates

On the profitability level, competition from global power contractors which are eyeing the region's robust projects pipeline, at a time of economic troubles in Europe, is weighing on the segment's gross profit margin which fell to 20.9% in 2012 from 22.5% in 2011. We expect the margin to stand near 21% for 2013, and to slightly improve to 21.5% through 2016.

Chart 19: Turnkey segment gross profit margin



Source: Company reports, ASIB estimates

The wind energy segment has yet to realize potential, with subdued investments and tight competition from global players limiting any major pick up in the medium term

The increasing reliance on oil and gas in the MENA region, coupled with an insufficient diversification in the power mix, are forcing governments to search for clean and efficient sources of energy. The opportunity to generate power from wind and solar energy emerges as an attractive option for the MENA, a region well-endowed with both sources.

While the progress in adopting these plans has been slow and unrest in the region has been causing delays, we should expect that efforts start to materialize in the medium term. Saudi Arabia is pursuing the region's most ambitious renewable energy program, targeting 41,000MW of solar and 9,000MW of wind energy in the coming two decades, while Abu Dhabi is completing the installation of its first 100MW of solar capacity, and plans are already under way to add additional capacity.

Currently, El Sewedy is in the delivery phase of its sole wind contract which is an EPC project in Libya valued at Euro 82 million. The first shipment, valued at Euro 14 million, was made in 2010, while the second shipment, worth Euro 17 million, was shipped in October 2012, after delays caused by turmoil in the country in 2011. With the third and final stages worth Euro 46 million expected to be shipped by 2014, the segment is expected to witness strong growth in the coming period.

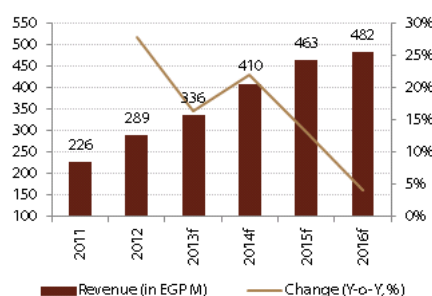
Yet in the absence of any other wind contract awards in the region for El Sewedy, we believe that a substantial long-term contribution from the wind segment will not likely occur especially in the foreseeable future, due to the following:

- ✎ The recession and tight competition for wind energy players in Europe is driving European companies operating in the segment to seek opportunities in emerging markets, and thus increasing competition in the region.
- ✎ Poor macroeconomic environment in Arab Spring countries, including Egypt and Libya, is causing delays and funding difficulties for such projects, forcing governments to focus on more vital investments, especially given the substantial funding requirements to develop wind farms.

Starting from a low base, we estimate revenues from wind and other electric products at EGP 336 million for 2013, higher 16.4% Y-o-Y, and a CAGR of 12.8% between 2013 and 2016, as the revenue stream from the wind project in Libya resumes and leads sales of other electric products.

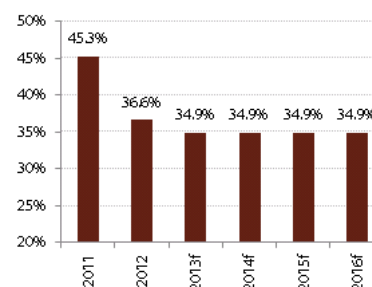
On the profitability level, we expect the gross margin of the segment to be stable over our forecast period, in line with management expectations.

Chart 20: Wind and electric products revenue



Source: Company reports, ASIB estimates

Chart 21: Wind and electric products gross margin

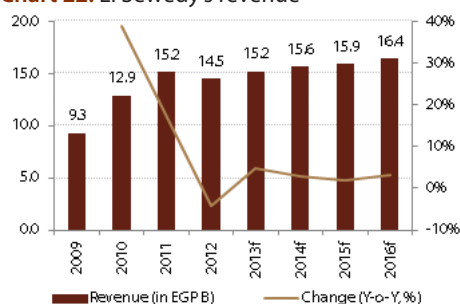


Source: Company reports, ASIB estimates

FORECASTING GROWTH BEYOND 2012 BACKED BY A PICK UP IN DEMAND

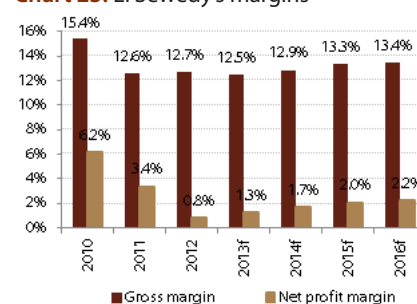
Consolidating the company's performance across all segments, we anticipate an 4.7% Y-o-Y increase in El Sewedy's top line to EGP 15.2 billion for 2013, representing a rebound from the 4.3% Y-o-Y drop in 2012 led by improving sales for almost all segments. Moving forward, we expect the top line to expand at a CAGR of 3.2% through 2016, to reach EGP 16.4 billion. Our conservative outlook is backed by high uncertainty surrounding the region's business environment, especially in Egypt and Syria, and tightening competition in the cables' and contracting lines.

Chart 22: El Sewedy's revenue



Source: Company reports, ASIB estimates

Chart 23: El Sewedy's margins



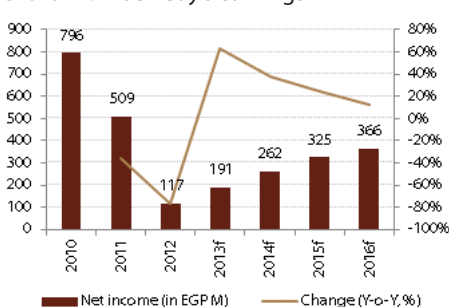
Source: Company reports, ASIB estimates

In 2011, global copper prices surged by around 17% Y-o-Y and largely contributed to the drop in the company's gross margin to 12.6% from 15.4% in 2010, which in turn pressured the net profit margin down to 3.4% from 6.2% previously. The largest hit to earnings however, came from a jump in borrowing costs, a situation which persisted into 2012 as higher interest rates and foreign exchange losses from the devaluation of the Sudanese Pound further increased finance costs by around 15% Y-o-Y and ate into El Sewedy's earnings. This resulted in a 77% Y-o-Y slump in bottom line in 2012 to EGP 117 million, following a 36% Y-o-Y drop in 2011, with a further squeeze in the net profit margin to 0.8%, down from 3.4% in 2011.

For 2013 we expect gross profit to rise only by 3% Y-o-Y in 2013 as the increase in top line is slightly offset by tightening margins in the cables' segment on higher copper prices coupled with the effect of the depreciation of the Egyptian Pound on margins. On the bottom line level, we expect that the slower growth in borrowing costs to translate into a minor improvement in the net profit margin to 1.3%, on a 63.2% Y-o-Y jump in net profit to EGP 191 million. We anticipate a CAGR of 24.2% for the company's net income through 2016, led by:

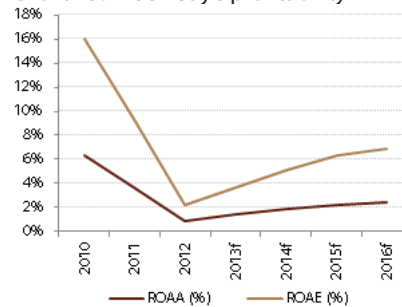
- ☞ Higher revenues on a recovery in the regional power sector
- ☞ A declining copper price trend on the weak economic outlook over the coming few years
- ☞ A higher contribution from segments with higher margins
- ☞ Slower growth in borrowing costs given the absence of major expansion plans

Chart 24: El Sewedy's earnings



Source: Company reports, ASIB estimates

Chart 25: El Sewedy's profitability



Source: Company reports, ASIB estimates

VALUATION

We valued El Sewedy at EGP 20.21 per share, representing an 6.6% premium over the share's last closing price, by combining the Free Cash Flow to the Firm (FCFF) Model which is based on the fundamental analysis of the company, and the Relative Valuation model.

DISCOUNTED FREE CASH FLOW MODEL

We determined the fair value of El Sewedy using the FCFF model at EGP 21.05 per share, using the sum-of-the-parts approach, a WACC of 13.5% and a terminal growth rate of 2.5% for the cables and contracting segments, and 3% for meters, transformers, other electric products and wind segments.

Sum-of-the-parts valuation

In EGP million	Value	Value contribution %
Cables	5,529	51.2%
Transformers	502	4.7%
Meters	1,018	9.4%
Electrical products & Wind	933	8.6%
Turnkey	2,810	26.0%
Firm Value	10,792	100%
Add: Investment in associates	13	(5,741)
Less: Market value of Debt	(5,741)	
Less: Minority Interest	(362)	
Equity Value	4,702	
Nb. of shares outstanding (in million)	223.4	
Fair value/share (in EGP)	21.05	

RELATIVE VALUATION

We compared El Sewedy against a sample of peers operating in each of the company's business segment and derived a EV/EBITDA of 8.4x based on the weighted average contribution of each segment to the company's total gross profit margin, implying a fair value of EGP 19.37 per share.

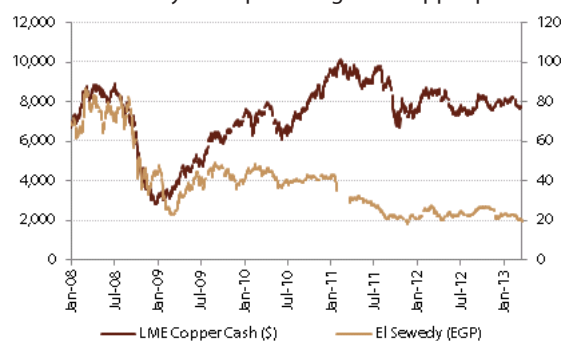
Table 3: Relative Valuation

EV/EBITDA (in EGP million)	
Industry EV/EBITDA 13e-14e	8.4
El Sewedy average 12e-14e EBITDA	1,238
Enterprise Value	10,418
Less: Net debt position	(5,741)
Add: Investment in associates	13
Less: Minority Interest	(362)
Equity Value of El Sewedy	4,278
Nb. of shares outstanding (in million)	223.4
Fair Value/Share (in EGP)	19.37

FAIR VALUE AND RECOMMENDATION

El Sewedy stock price movement is closely correlated to the movement in global copper prices. However, since late 2009, the share price started to exhibit a divergence from copper prices, a condition that has further increased since the eruption of political upheavals in Egypt in early 2011.

Chart 26: Sewedy stock price vs. global copper price



Source: Bloomberg

Recent political events in Egypt have triggered a severe sell-off trend for the stock of El Sewedy, whereby the share is currently trading at a price-to-book ratio of 0.89x, representing a 55% discount over the historical five-year average. However, high uncertainty surrounding the economic and political stability of critical markets for ElSewedy's operations is hampering any possible upside potential over the near term. Following, we initiate on El Sewedy with a HOLD rating and a final fair value of EGP 20.21 per share.

Table 4: El Sewedy's fair value

	Fair Value	Weight	Final Valuation
DCF	21.05	50%	10.52
Relative Valuation	19.37	50%	9.69
	Fair Value/Share		20.21

INVESTMENT RISKS

EGYPTIAN POUND DEPRECIATION

Egypt, which accounts by itself for the large majority of cables and transformers capacities and contributes to around 25% of El Sewedy's top line, poses a great concern for the company's operations. The country has been suffering from a severe economic crisis and a final approval of the IMF loan requires austerity measures that could substantially curb household spending and wipe off corporate profits. Ongoing political unrest in the country has cast doubts over Egypt's ability to secure the loan, which is considered critical to investors' confidence and would free up a wave of loans that the country has requested from other lenders.

On another front, the Egyptian Pound has depreciated by around 7.5% YTD, raising costs of major raw materials like copper, and subsequently erasing margins, especially given the limited ability to pass on increases in production costs to customers, due to the tight competition in the cables business.

We incorporated in our model the effect of a potential 2% additional depreciation in the Pound to end the year at 6.99, down from 6.85 currently. This implies an average of 6.68 against the US Dollar during 2013, and represents a decline of 8% from the average exchange rate for 2012. One risk arises if the currency depreciates above our expectations (i.e. beyond USD/EGP 6.99), a situation which would further worsen ElSewedy's profitability and erase the company's value.

RISE IN GLOBAL COPPER PRICES

Although the stock price of El Sewedy tends to move in correlation with global copper prices, our fair value is negatively correlated to movements in global copper prices. An increase in the commodity's price would negatively affect the company's future earnings, since the increase in the cost of raw materials would weigh on the company's gross margin. Following, a 1% increase in the price of a ton of copper would cause our fair value to drop by 2.5%, and vice versa.

Table 5: Scenario analysis

	Est. Fair value/share
1% increase in copper price	19.70
0% change from our assumption	20.21
1% decrease in copper price	20.72

LOWER-THAN-EXPECTED REGIONAL DEMAND

While governments are planning for substantial investments in building appropriate utilities infrastructure, contract awards are being delayed due to:

☞ The relentless regional turmoil which is pressuring governments to adopt a wait-and-see approach

☞ Bureaucratic decision making in the implementation of infrastructure developments targets

This could impede the realization of revenue given the importance of government-funded infrastructure developments to the company's performance.

In addition, Arab Spring countries in which El Sewedy has facilities constitute another concern for operations. Syria which contributes to 3% of the company's revenues has been suffering from almost two years of civil war, and the three plants which El Sewedy owns in the country are operating at an aggregate capacity of 20%. In Sudan, sales of the transformers segment have been largely subdued due to the severe currency depreciation.

UNEXPECTED FIERCE COMPETITION FROM MAJOR PLAYERS AND SLOW FUNDING IN AFRICA

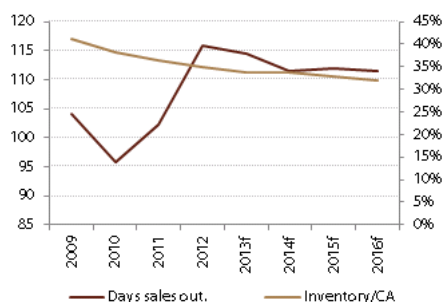
Another risk to operations is a surge in competition beyond our expectation. This would occur as a result of the austerity measures employed or planned in Europe and which would push European companies operating in the power sector to seek opportunities in developing markets in the MENA. Also, with China's economy experiencing slower economic growth, Chinese companies will shift their focus to the MENA, where high oil prices are supporting public spending.

On another front, many of the plans proposed by the governments in Sub-Saharan Africa to boost power generating capacity are extremely ambitious and the pick up in active demand from the region is still highly reliant on foreign aid, which remains the main contributor to economic growth. The lack of substantial funding constitutes a threat to an upbeat performance and delays are likely to occur for some of the projects in Africa. Also, the existing inadequate regulatory environment is a concern for investments in the sector, as public utilities are facing mounting financial load from the mispricing of electricity and growing financial requirements. This would cap the scale of power capacity generation projects, and would thus artificially curb electricity demand in Africa.

LIQUIDITY PROBLEMS FROM SLOWER RECEIVABLES TURNOVER

While El Sewedy hasn't suffered from a sharp decline in its receivables' turnover as a result of the region's political uproar, a threat caused by delays in construction activity could force contractors and other clients to delay their payments for the company. This would impact liquidity levels and pressure the company's sales by hampering the procurement of raw materials to sustain operations.

Chart 27: Management of inventory and receivables



Source: Company reports, ASIB estimates

FINANCIAL STATEMENTS

Consolidated Income Statement

In EGP mn	2011	2012	2013e	2014e	2015e	2016e
Operational revenues	15,169	14,512	15,187	15,637	15,948	16,438
Operational costs	(13,257)	(12,672)	(13,292)	(13,625)	(13,826)	(14,229)
Gross Profit	1,912	1,840	1,896	2,012	2,123	2,209
<i>Gross profit margin</i>	<i>12.6%</i>	<i>12.7%</i>	<i>12.5%</i>	<i>12.9%</i>	<i>13.3%</i>	<i>13.4%</i>
Other operating income	94	59	61	63	64	66
Selling & distribution expenses	(345)	(408)	(435)	(441)	(451)	(464)
Administrative and other expenses	(606)	(792)	(728)	(732)	(732)	(737)
Operating income	1,055	699	794	902	1,003	1,074
<i>Operating profit margin (%)</i>	<i>7.0%</i>	<i>4.8%</i>	<i>5.2%</i>	<i>5.8%</i>	<i>6.3%</i>	<i>6.5%</i>
Finance Income	61	48	48	48	48	48
Interest expense	(371)	(426)	(444)	(471)	(481)	(495)
Foreign exchange losses	(111)	(97)	(90)	(80)	(75)	(70)
Net finance costs	(421)	(475)	(486)	(503)	(508)	(517)
Net profit before tax	634	224	308	399	495	557
Current income tax	(94)	(74)	(77)	(100)	(124)	(139)
Deferred income tax	(3)	(8)	(6)	(8)	(10)	(11)
Net profit for the year after tax	537	142	225	292	361	407
Minority interest	28	29	34	29	36	41
Net profit attributable to equity holders	509	113	191	262	325	366
<i>Net profit margin (%)</i>	<i>3.4%</i>	<i>0.8%</i>	<i>1.3%</i>	<i>1.7%</i>	<i>2.0%</i>	<i>2.2%</i>

Consolidated Balance Sheet (Summarized)

In EGP mn	2011	2012	2013e	2014e	2015e	2016e
Fixed assets	3,480	3,225	3,096	2,972	2,853	2,739
Projects under construction	256	189	169	149	129	109
Debit balances	203	21	30	31	32	33
Non-tangible assets	227	245	245	245	245	245
Other non-current assets	65	55	58	63	68	73
Total Non-Current Assets	4,231	3,735	3,598	3,460	3,327	3,199
Inventories	3,554	3,440	3,569	3,643	3,700	3,781
Trade, notes & other receivables	4,390	4,820	4,708	4,847	4,944	5,096
Due from affiliates	156	180	152	156	159	164
Investment fund/ T Bills / CDs	402	133	152	156	159	164
Cash & cash equivalents	1,242	1,191	1,969	2,000	2,289	2,663
Total Current Assets	9,744	9,764	10,550	10,803	11,252	11,868
Total Assets	13,975	13,499	14,149	14,264	14,580	15,067
Loans	825	589	653	687	716	769
Deferred tax liabilities	120	124	130	137	144	151
Other liabilities	78	78	85	89	93	100
Total Non-Current Liabilities	1,023	791	868	913	952	1,020
Banks facilities & overdrafts	4,061	3,334	3,645	3,753	3,828	3,945
Short term loans and installments of long term debt	922	864	987	1,016	1,037	1,068
Notes payable to banks	175	397	456	391	399	411
Trade, notes & other payables	1,930	2,728	2,734	2,815	2,871	2,959
Due to affiliates	240	120	183	188	172	191
Provisions	49	90	91	94	96	99
Total Current Liabilities	7,377	7,533	8,096	8,257	8,402	8,673
Total Liabilities	8,400	8,324	8,964	9,170	9,354	9,693
Issued and paid capital	2,234	2,234	2,234	2,234	2,234	2,234
Own stock	(1)	(1)	(1)	(1)	(1)	(1)
Legal reserve	122	135	142	154	168	186
Increase in net assets of the acquired subsidiaries over the consideration paid for the investment	579	579	579	579	579	579
Retained earnings	2,307	2,119	2,124	2,076	2,245	2,436
Forex from foreign entities translation	(80)	(232)	(255)	(281)	(309)	(340)
Minority interest	414	412	362	333	310	280
Shareholders' Equity	5,575	5,246	5,185	5,094	5,226	5,374
Total Liabilities & Equity	13,975	13,570	14,149	14,264	14,580	15,067

FAIR VALUE DEFINITION

It is an unbiased estimate of the 12-month potential market price of the stock

RATING GUIDE



BUY: Upside potential in share price is more than 30%

ACCUMULATE: Upside potential in share price is between 10 and 30%

HOLD: Upside or downside potential in share price less than 10%

REDUCE: Downside potential in share price is between 10 and 30%

SELL: Downside potential in share price is more than 30%

ISSUER

Audi Saradar Investment Bank

Audi Saradar Investment Bank SAL • Lebanese joint stock company with a registered capital of 10,000,000,000 Lebanese Pounds • Commercial Registrar in Beirut: 30812 • Holding number 33 on the Central Bank's Banks List.

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