

Today's Story

The Never-Ending Story – Will VEON Really Take GTHE Private?

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- **What is the fuss about?** Last week, two actions took place in the never-ending story of **Global Telecom Holding (GTHE)**:
 - 1) In [a press release published early Wednesday, 23 January 2019](#), GTHE's parent company **VEON Ltd.** (NASDAQ: VEON) stressed on its commitment to simplifying its corporate structure, citing its ongoing efforts to address its relationship with GTH including taking GTH private. According to VEON, it "has as yet been unable to obtain the necessary guidance" from the **Financial Regulatory Authority (FRA)** to allow it to proceed with taking GTHE private. VEON said it "will continue to explore these requirements with the FRA and engage with other stakeholders in order to reach a resolution".
 - 2) Later that [same day and in response to VEON's press release](#), GTHE said its board of directors decided to postpone its planned Ordinary General Meeting (OGM) related to its proposed EGP11.2bn (equivalent to c.USD625mn) rights issue from Monday, 28 January 2019 to Wednesday, 27 March 2019. GTHE claims that postponing the OGM is to provide the board with "more time to consider recent developments" following the abovementioned VEON's press release. Also, it looks like GTHE has requested that VEON provides a letter of support (for which GTHE is waiting) concerning its immediate funding requirements related to the servicing of certain debt obligations and an interest payment to external bondholders.
- **A background refresher:** We recall VEON's latest mandatory tender offer (MTO) for GTHE at EGP7.90/share [on 8 November 2017](#), which has been withdrawn on [3 April 2018](#) as it was never approved by the FRA. At the time, it was said that GTHE was behind on EGP990mn worth of taxes claimed by the **Egyptian Tax Authority (ETA)**. After the offer had been withdrawn, GTHE's stock took a nosedive, falling c.30% in less than two months! More recently, GTHE's fair value was set by **Grant Thornton**, in capacity of independent financial advisor (IFA), stood at EGP5.31/share.
- **Two scenarios in play:** In light of the above, it looks like VEON is considering a scenario similar to **Orange Egypt's**, [as we had mentioned earlier](#), to eventually take GTHE private. For this, VEON may be considering yet another MTO which we think should not be less than [the IFA's fair value](#), but it will not be as high as its latest MTO either, considering GTHE's current price being as low as EGP3.12/share. **In the short term, we view VEON's announcement as positive, potentially propelling GTHE's stock higher. However, in the long term, we see two scenarios:**
 - 1) **VEON taking GTHE private:** Under this scenario, VEON would need to provide GTHE with a letter of support to ensure the latter's liquidity, but it will then need to come back with another MTO with a price range—in our view—between EGP5.31-7.90/share.
 - 2) **VEON not taking GTHE private:** Under this scenario, VEON may fail to provide GTHE with that letter of support and may not go through with taking GTHE private for any reason, be it regulatory or otherwise. This would leave GTHE with the only option to go for its proposed capital increase in its upcoming OGM, then minorities will have no choice but to vote for the capital increase. Otherwise, GTHE could face "a forced restructuring of its debts or defaulting on certain debt", as previously highlighted by GTHE's board.

Top Headlines

Corporate

- **Alexandria Mineral Oils Co. (AMOC)** posted disappointing preliminary results for Q2 FY2018/19 ended 31 December 2018, where earnings tumbled 93% y/y and 90% q/q to EGP25mn, far away of SSE estimates (SSEe) of EGP250mn (-90%). The drop is mainly attributed to a lower gross profit margin (GPM) and higher operational cost. GPM was cut by more than 1,600bps to 2.34% vs. 18.34% a year ago, lower than SSEe of 8.98% (-663bps). AMOC's results weakened despite a 35% increase in revenues to EGP3.68bn in Q2 FY2018/19 vs. EGP2.73bn a year ago. Top line growth could be ascribed to higher sales volume in addition to stronger product yield due to better specifications. ([Company disclosure](#))
- **Sixth of October Development & Investment (OCDI)** released last Wednesday an explanatory statement in response to **Madinet Nasr Housing & Development's (MNHD)** letter of withdrawal from their proposed deal, elaborating on the three

corporate actions that MNHD deemed negative for the deal. It was made clear that none of the stated actions are harmful in any manner to the company. OCDI also stated that the latest extension request to FRA was based upon MNHD calling for a meeting to "finalize the deal within two weeks". Meanwhile, OCDI and MNHD had stated in two separate disclosure documents sent to the EGX that the failure to carry on with the deal was due to the lack of agreement on the initially-proposed swap ratio. ([EGX](#), [EGX](#))

- **Beltone Financial Holding (BTFH)**, through its investment banking and trading arms, reached a final reconciliation agreement with the **Financial Regulatory Authority (FRA)** regarding **Sarwa Capital's (SRWA)** IPO, a legal consultant at BTFH said, adding the company will resume its activities accordingly. Moreover, the FRA has reportedly conditioned its reconciliation with BTFH upon the indemnification of the parties affected by SRWA's IPO. ([Hapi](#), [Al-Bosla](#))
- **MM Group for Industry & International Trade (MTIE)** announced that **Vitas Egypt** which is 50% owned by MTIE's subsidiary, **Ebtikar for Financial Investment**, has received the final license from the **Financial Regulatory Authority (FRA)** to commence microfinance operations. (Company Disclosure)
- **Dice Sport & Casual Wear (DSCW)** announced completing the transaction of raising its stake from 95% to 100% in **Alexandria Ready-Made Clothes Co.** ([Company disclosure](#))
- **Nestlé** has launched on Thursday its new coffee factory *Bonjorno* in the **Sixth of October Industrial Zone**, with an investment of EGP250mn. The 8-production line, 14,000-ton factory has a workforce of 240 direct employees and provides some 7,000 new jobs indirectly. ([Press release](#))

Non-Corporate

- **IMF's Managing Director** Christine Lagarde said that she will recommend that the Fund's executive board approve a fourth review of **Egypt's** USD12bn loan program, a move expected to unlock a USD2bn disbursement. Lagarde said in a statement that the board will meet in coming weeks to discuss the review. ([Reuters](#))
- The **Ministry of Petroleum** said that **Egypt's** natural gas production will reach 8bn cubic feet/day in FY2019/20. ([Al-Borsa](#))
- The **Minister of Investment** has signed an agreement with financial advisory firm **Lazard** to promote investment opportunities in **Egypt** worldwide. ([Enterprise](#))

Markets

↗	EGX 30	13,506.65	0.24%	↘	EGX 70	672.50	(0.17%)
↘	DFMGI	2,514.36	(0.10%)	↗	ADSMI	5,019.16	0.97%
↘	TASI	8,434.89	(0.37%)	↗	QE Index	10,712.39	0.58%
↗	S&P 500	2,664.76	0.85%	↗	MSCI EM	1,032.34	1.27%
↗	Gold	1,305.25	1.88%	↗	Brent Oil	61.64	0.90%

- **MENA Markets:** **Egypt's** benchmark **EGX 30** ended in green on Wednesday, driven by stronger **COMI**, **SWDY**, and **QNBA**. **UAE's** **DFMGI** finished Thursday lower, dragged by the **real-estate** sector. Meanwhile, **Saudi Arabia's** **TASI** ended lower on the weak performance of the **materials** sector.
- **Global Markets:** **US stocks** closed higher on Friday after a deal reached by **US President** Donald Trump and congressional Democrats to at least temporarily reopen the government. Meanwhile, **oil** rose on the possibility of US sanctions on **Venezuela**.

Number of the Day

EGP7.90

The value per share of the last mandatory offer from **VEON Ltd.** to purchase **Global Telecom Holding's (GTHE)** minority shares.

Today's Quiz

How many GDRs were issued by **Commercial International Bank – Egypt (COMI)** from 20 through 23 January 2019?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Engineering Industries ICON	ENGC	EGM	27-Jan	Discussing capital increase
Global Telecom Holding	GTHE	AGM	28-Jan	Discussing capital increase
Paints & Chemical Industry	PACH	Dividends	28-Jan	Record date for cash dividends eligibility (EGP3/share)
Porto Group Holding	PORT	Lawsuit	29-Jan	Legal Disputes Relevant to the Company
Paints & Chemical Industry	PACH	Dividends	31-Jan	Distribution of cash dividends of EGP1.5/share
National Cement	NCEM	AGM	5-Feb	Reviewing Agenda Items
Arabia Investments and Development	AIND	Lawsuit	3-Feb	Legal Disputes Relevant to the Company
Advanced Pharmaceutical Packaging	APPC	AGM	6-Feb	Reviewing Agenda Items
Egyptian Electrical Cables	ELEC	EGM	10-Feb	Reviewing Agenda Items
Ibsina Pharma	ISPH	Lawsuit	19-Feb	Legal Disputes Relevant to the Company
Paints & Chemical Industry	PACH	Dividends	30-Apr	Distribution of cash dividends of EGP1.5/share

Quiz Answer

1,128,491 GDRs.

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