

EGYPT FOOD & BEVERAGE | ON THE GROUND UPDATE

Sales to restaurants and hotels hammered, while supermarket retailers face intense demand

- Over the past two weeks, food processing companies saw a noticeable increase in supermarket sales as consumers stockpiled their pantries as a reaction to the coronavirus. Some food categories benefited more than others as consumers prepare to be quarantined for an extended period of time, most notably pantry staples and shelf-stable foods (e.g.: dairy products, grains and canned goods).
- However, this trend is not sustainable on the long-term, and is expected to slow down as supermarkets ration stock items and consumer storage-space is strained. Also, Ramadan season in 2020 historically lends to slower purchasing patterns across most FMCG segments.
- On the other hand, the government's decision to suspend air traffic and impose a curfew have crippled the country's hospitality and tourism sectors, both of which are key consumers of FMCG products. Additionally, packaged snack food should also see lost sales as a result of the shutdown of schools and universities until further notice.
- Likewise, poultry prices have been rising steeply since January 2020, largely owing to the higher costs associated with heating during the winter season, thus pushing live-bird prices to EGP25/kilo from EGP18/kilo in December 2019. Prices of chicks have further increased over the past weeks, due to the rising demand from consumers ahead of the Ramadan, reaching EGP30/kg today. Yet, the overall effect on poultry processing companies may be neutral given that a big portion of the poultry market caters to restaurants and hotels.
- The overall effect of these factors, and for how long they will persist, is inconclusive considering they have been ongoing for less than a month. That being said, consumer staples stocks typically hold up better during times of economic downturns and market panic.

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Producers are not facing raw material shortages yet, but are stockpiling inventory just in case

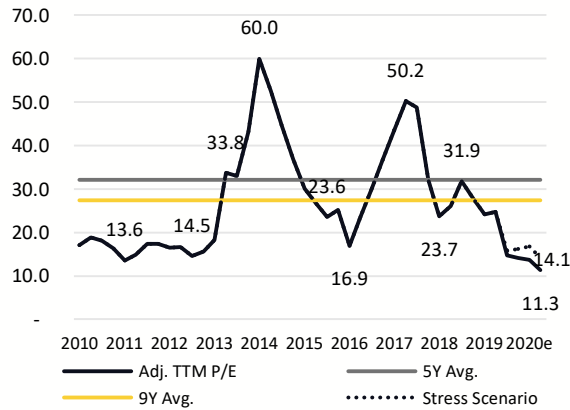
- On the supply-side, companies are moving towards securing 2-4 months of inventory on hand to hedge against any future raw material shortages and/or depreciation in EGP. All F&B stocks across our coverage universe have reported that their supply chain activities are operating normally as of now.
- The current commodity market is supportive of companies increasing their safety stocks at current prices, most notably with skimmed-milk powder prices declining in USD-terms by 16.5% YTD and palm oil prices declining by 17.4% YTD.
- The increase in working capital, however, is going to reflect adversely in a higher debt balance to finance increased purchasing levels. The recent 300bps cut in interest rates could slightly soften the impending hike in interest expense, although it will lag slightly given the medium-term tenure of most facilities.

FOOD AND BEVERAGE | MULTIPLES ATTRACTIVE RELATIVE TO HISTORY

Juhayna (JUFO)
FV: EGP10.74, OW

JUFO is trading at a historically low P/E multiple, reaching a record FY20e P/E of 11.3x. If we reduce our FY20 bottom-line estimate by 20% to account for earnings stress given the current climate then the FY20 P/E multiple would stand at 14.1x which is still below JUFO's historical averages.

JUFO Adjusted¹ TTM PE

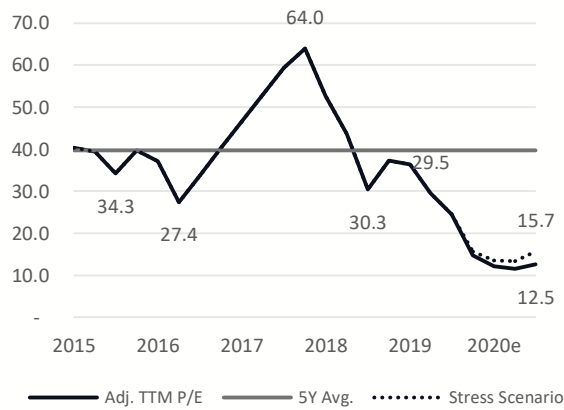


Source: Bloomberg and Pharos Research

Edita (EFID)
FV: EGP19.02, OW

Despite trading at a premium to other F&B players, EFID is still priced very attractively at a 2020e P/E of 12.5x (and 15.7x under the stress scenario), bringing the stock to an all-time-low multiple since its IPO.

EFID Adjusted¹ TTM PE

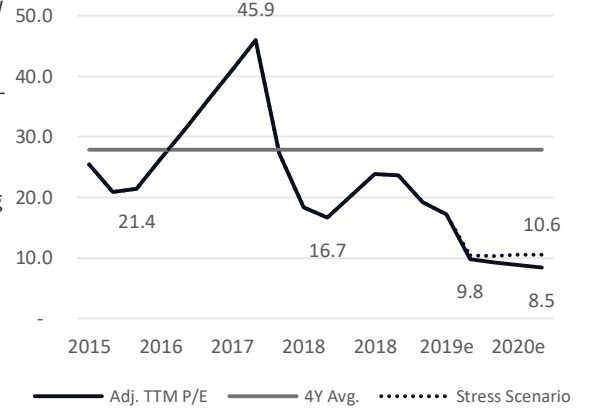


Source: Bloomberg and Pharos Research

Arabian Food Ind.(DOMT)
FV: EGP10.00, OW

DOMT is currently trading at the lower-end of its historic range, dual-driven by a 35% YTD drop in share price along with overall contraction in the white cheese market during FY19.

DOMT Adjusted¹ TTM PE

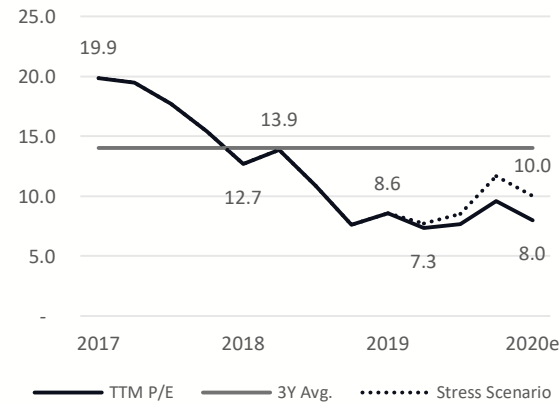


Source: Bloomberg and Pharos Research

Obourland (OLFI)
FV: EGP7.25, OW

OLFI remains one of the cheapest F&B stocks, on account of its lower liquidity and lack of revenue-mix diversification.

OLFI TTM PE

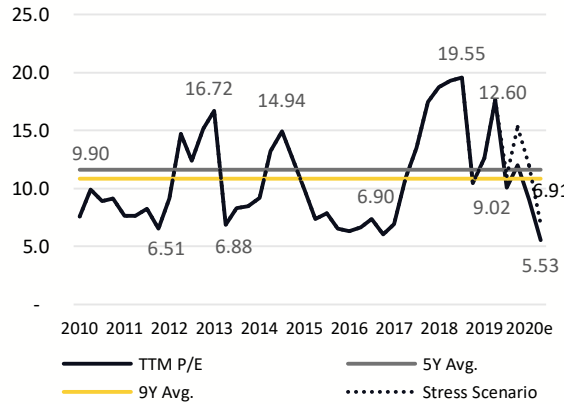


Source: Bloomberg and Pharos Research

Cairo Poultry (POUL)
FV: EGP6.00, OW

POUL has been trading at a relatively tight range prior to 2018, after which the market was flooded with imported poultry which dragged POUL's earnings down over FY18-19.

POUL TTM PE



Source: Bloomberg and Pharos Research

¹ Adjusted TTM P/E excludes any outliers resulting from a dramatic drop in F&B stock earnings following the EGP devaluation.

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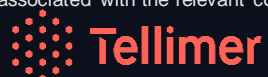
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