

EGYPT INDUSTRIALS | ON THE GROUND UPDATE

We are closely in contact with our companies under coverage for regular updates on Covid-19's impact on operations. So far, It remains unclear to what extent this will impact our coverage. The key takeaways are as follows:

- The negative magnitude of Covid-19 should be clear in 2Q20 results since most companies are already fulfilling previous orders. Accordingly, this will most likely not be fully felt in 1Q20.
- Most of non-essential staff have been asked to work remotely or currently doing rotational shifts.
- Demand will be negatively affected on the back of a slowdown in construction activity as well as declining demand for non-essential products. Companies are still unable to determine the magnitude.
- Since most production plants such as cement and steel cannot shut down on a daily basis, this will result in piling up finished goods if we factor in declining demand, leading to a spike in inventory.
- Working capital requirements will spike, leading to both higher cash burn and borrowings from banks.
- It remains unclear how companies will reschedule loan payments in terms of the new payment taking place six months from now and which instalments will be included and how the additional interest expense will be calculated.
- We reiterate our views that commodity-driven, export-oriented, highly leveraged firms will bear the brunt of current circumstances.
- We also reiterate our views that latest filing cash positions should not be taken for granted and should be adjusted for the cash burn resulting from operational slowdown. Nevertheless, we like companies that have solid net cash positions such as **ORAS** and **SWDY** that are more likely to stand current dynamics compared to the rest of our coverage and we like cost efficient companies such as **ARCC**.

INDUSTRIALS | SWDY AND ORAS ARE OUR TOP PICKS ON STRONG FINANCIAL POSITION

Elsewedy Electric

FV: EGP15.50, OW

SWDY is currently trading at 10-year low P/E of 3.7x. The stock will be negatively affected by declining commodity prices, slow down or complete shutdown of business activity in the local market as well as international markets. Nevertheless, it is our top pick among the industrial coverage and is a hedge against EGP weakness.

SWDY TTM PE



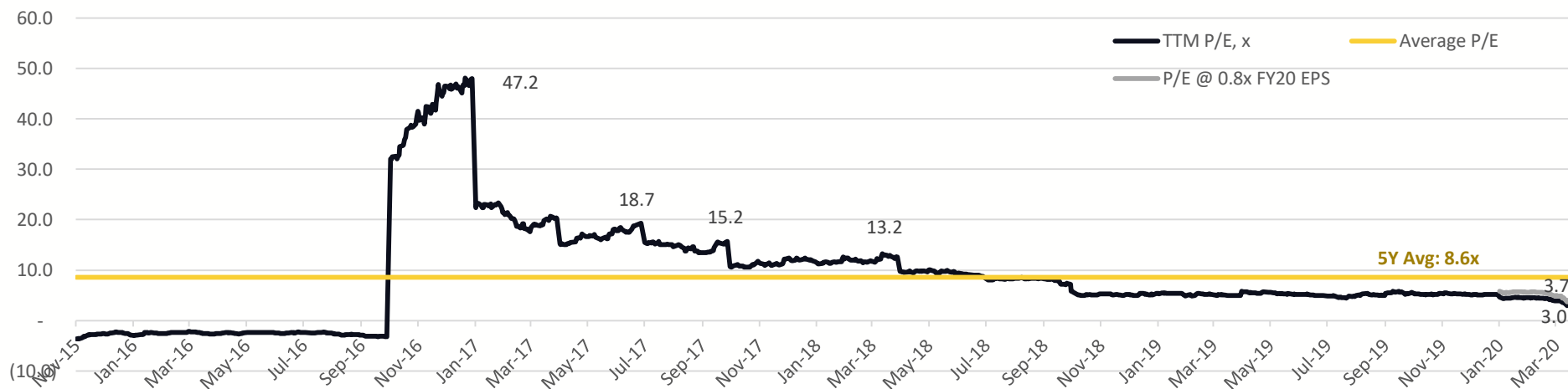
Source: Bloomberg and Pharos Research

Orascom Construction

FV: EGP170USD10.0, OW

ORAS is currently trading below its 5 year average P/E. It is still hard to estimate the exact magnitude of Covid-19's negative impact. Further prevention measure such as complete lock downs will weigh negatively on operations as long as these measure are in place. Worth noting that the company has a strong net cash position of USD279mn.

ORAS TTM PE



Source: Bloomberg and Pharos Research

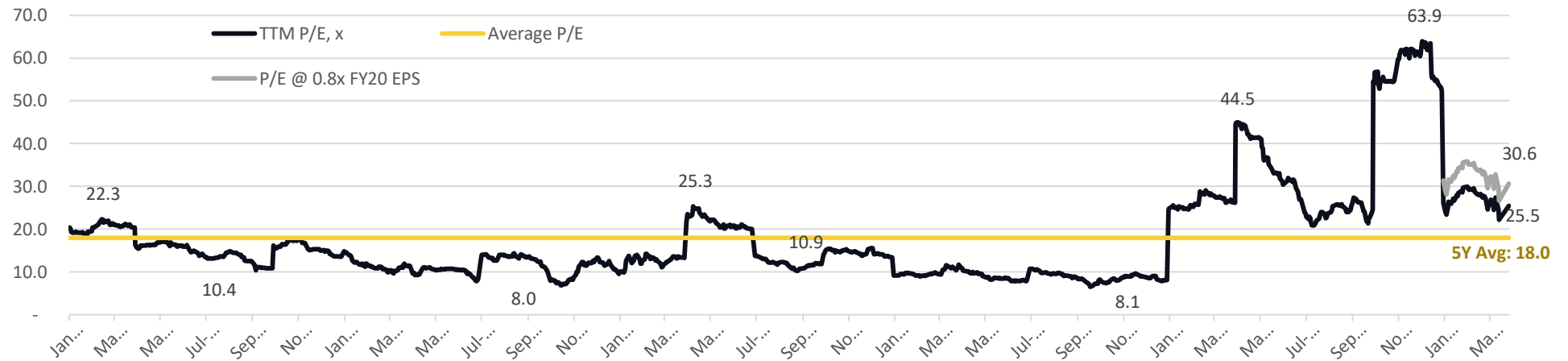


INDUSTRIALS | ARCC TO FARE BETTER THAN THE SECTOR ON EFFICIENCY

Arabian Cement Company
FV: EGP5.50, OW

ARCC is currently trading at high multiples as sector profitability is diminishing on widening supply/demand gap. The recent cut in electricity tariff will reduce costs by EGP9/ton.

ARCC TTM PE



Source: Bloomberg and Pharos Research

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