



EK Holding 2Q-16|

Sprea Misr and NatEnergy drive performance;

Maintain “Buy” with FV of USD0.70

New FV, USD/Share	0.70	Reuters/Bloomberg	EKHO.CA/EKHO EY
Recommendation	Buy	S/O, m	1,024.4
Last Price, USD/Share	0.47	MCAP, USD m	420.0
Valuation Gap	48.9%	Free Float, %	28.4%
52W H-L, USD/Share	0.62 – 0.36	52W ADTV, USD m	0.40

SPREA MISR AND NATENERGY CONTINUE TO DRIVE FINANCIAL PERFORMANCE

EKHO reported net income of USD 13.2 million in 2Q-16, +5.5% y-o-y on consolidated revenues of USD 89.5 million. 1H-16 net income recorded USD 35.0 million, + 27.2% y-o-y on consolidated revenues of USD194.2 million.

Sprea Misr: Despite seasonal revenue drop, margins expand on cost control

Sprea contributed EGP 529 million to EKH’s top line, with a gross profit margin of 34% compared to 30% last year. EBITDA margin increased from 27% to 32%, while net profit more than doubled to EGP 125 million. Sprea continues to capitalize on import limitations and FX restrictions; positioned as an import substitution play. The sale of sulfonated naphthalene formaldehyde (SNF) began in March 2016, contributing EGP 31 million in revenues in 2Q-16.

Sprea’s strategy going forward includes high focus on developing its export footprint, with focus on gaining distribution channels to African markets. Currently, exports constitute 20% of top line and management is targeting a higher constitution.

Margin expansion was the result of high expenditure control, and management is looking to mitigate foreign exchange risk by reducing imported input components and expanding export footprint. Sprea Misr’s key success factor is its product offering, which is a strong import substitute. Management plans to grow the SNF capacity to 88,000 TPA from 66,000 TPA by 2017.

NatEnergy: Slight revenue drop due to currency translation; but margins stay solid

In 2Q2016, management raised EKHO stake in NatGas to 84% and is targeting to reach 90% through the buyout of another minority shareholder. 2Q2016 revenue dropped 30% y-o-y but due to a shift in the booking of 1Q-15 revenues into 2Q-15. 1H-16 revenue dropped 2% though due to currency translation; mainly due to the EGP-denomination of NatGas and Fayoum. However, to reduce the impact on margins, the company has secured stocks of key material including pipes, valves, and gas terminals for an additional 150,000 clients, locking in its margins and growth over the short-term. During the quarter, NatGas connected more than 19,300 households to the grid, while targeting 94,000 clients in 2016 and 134,000 in 2017.

ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BELOW

On a positive note, higher electricity prices on the back of the devaluation of the EGP translated into higher revenues for Kahraba, complemented by the addition of three new contracts. The company has added 8 MW that will start producing in August 2016, bringing the total capacity to 34 MW.

AlexFert: Weaker Urea prices hits profitability despite improved utilization rate

AlexFert reported 2Q-16 revenues of USD 32.7 million, up 41% y-o-y. The plant has seen utilization rates rise to an average of 87% during 1H-16, compared to c. 25% during the same period last year. While improved utilization rates have reflected positively on the company's top-line, a global downturn in urea prices weighed on profitability. Management has opted to sell production at the local market at EGP 2,500 at times when Urea prices reached USD 190.00 per ton at international markets. However, the strategy did not save bottom line with AlexFert recording a net profit of USD 2.5 million in 1H-16, with a net profit margin of 9%.

MAINTAIN OUTLOOK AND VALUATION; CONTINUE TO BUILD POSITIONS

USD0.51 is a solid floor valuation, discounting net cash, Sprea and NatEnergy

Due to the clear business model of Sprea Misr (USD0.29 per share of EKHO) and NatEnergy (USD0.18 per share), their high growth potential and strong cash flow visibility, we believe that a FV of USD0.51 per share for EK Holding could be easily unlocked, adding USD0.05 per share for net cash.

Maintained positive developments for AlexFert would add its FV to floor valuation

A second milestone would be the achievement of stable utilization rates and higher Urea prices at AlexFert, which would easily add USD0.07, taking EK Holding value to USD0.59.

Attractive dividend yield on the USD, c.6% for FY2016

Average DPS distributed by EK Holding has been around 2.5 cents, with the potential for that DPS to go up to 3.0 cents, if net profits hit USD60-65 million in FY2016. This yields c.6% return on the USD, which is quite attractive.

If FX shortage is resolved, stock liquidity to improve

The share price performance has been held back by the absence of foreign currency liquidity in the local market, holding back local institutions from buying into the stock. In our view, the stock would start to realize its potential with FX shortage resolution, or higher interest from foreign institutions into USD-denominated stocks within the local market.

Radwa El Swaify

Head of Research

Radwa.ElSwaify@pharosholding.com

EK HOLDING | 2Q-16 FINANCIAL INDICATORS

Figures are in USD 000							2Q 2016	1H 2016
	1Q 2015	2Q 2015	1H 2015	1Q 2016	2Q 2016	H1 2016	Y/Y	Y/Y
Alex Fert								
Revenues	19,290	17,272	36,562	39,116	32,653	71,769	89%	96%
Gross Profit Margin	1%	2%	1%	25%	11%	19%		
EBTDA Margin	17%	18%	18%	31%	18%	25%		
Net Profit	(2,237)	(1,706)	(3,943)	5,575	932	6,507	n/m	n/m
NP Margin	-12%	-10%	-11%	14%	3%	9%		
Net Profit attributable to EKH	(846)	(645)	(1,490)	2,107	352	2,460	n/m	n/m
Spree								
Revenues	24,678	26,506	51,184	32,513	30,194	62,707	14%	23%
Gross Profit Margin	30%	30%	30%	32%	36%	34%		
EBTDA Margin	27%	27%	27%	30%	34%	32%		
Net Profit	4,215	3,056	7,271	7,181	7,650	14,830	150%	104%
NP Margin	17%	12%	14%	22%	25%	24%		
Net Profit attributable to EKH	4,215	3,056	7,271	7,181	7,650	14,830	150%	104%
Nat Energy								
Revenues	14,498	28,386	42,884	22,305	19,928	42,234	-30%	-2%
Gross Profit Margin	40%	33%	36%	37%	38%	37%		
EBTDA Margin	39%	32%	34%	36%	35%	35%		
Net Profit	4,418	7,715	12,132	7,463	6,840	14,304	-11%	18%
% Margin	30%	27%	28%	33%	34%	34%		
Net Profit attributable to EKH	2,722	4,594	7,316	5,672	6,397	12,069	39%	65%
EKH Consolidated Net Income	15,033	12,489	27,522	21,832	13,175	35,006	5%	27%

EK HOLDING | COMPARATIVE STP VALUATION

Sector/ Subsidiary	Stake	EBITDA 2016e (\$)	Val'n (\$)	Per Share (\$)	Valuation Methodology
Fertilizers and Petchems					
AlexFert	37.80%	30,083,837	73,915,986	0.07	6.5* EV/EBITDA 2016
Spree	100.00%	39,531,395	296,485,461	0.29	7.5*EV/EBITDA 2016
EHC	33.60%	n/m	41,051,932	0.04	@0.8 book value
Energy					
Nat-Energy	84.00%	28,561,437	179,937,050	0.18	7.5* EV/EBITDA 2016
ETC	30.00%	15,234,568	14,419,852	0.01	@0.8 book value
Diversified					
BMIC	30.03%	20,750,882	37,388,939	0.036	@0.5 book value
Delta Insurance	32.03%	n/a	4,982,444	0.005	@ current market cap
I-Squared	15.00%	n/a	15,000,000	0.015	@ book value
Net Cash			49,339,231	0.05	
TOTAL			712,520,898	0.70	

Disclaimer

This Report is compiled and furnished solely for informative purposes to be considered by the intended recipients who have the knowledge to assess the information contained herein. Pharos Research ('Pharos') makes no representation or warranty, whether expressed or implied, as to the accuracy and/or completeness of the information contained herein or any other information that may be based on the data/ information enclosed. Furthermore, Pharos hereby disclaims any and all liabilities of any nature relating to or resulting from the use of the contents of this Report. This Report shall not be approached as an investment solicitation nor shall it be considered as legal or tax advice. Pharos highly recommends that those viewing this Report seek the advice of professional consultants. None of the materials provided in this Report may be used, reproduced or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from Pharos.

This report was prepared, approved, published and distributed by Pharos Securities Brokerage company located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker dealer, on behalf of Pharos Securities Brokerage only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) Pharos Securities Brokerage is the employer of the research analyst(s) responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Analysis Pharos Securities Brokerage solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by Pharos Securities Brokerage or an authorized affiliate of Pharos Securities Brokerage. This document does not constitute an offer of, or an invitation by or on behalf of Pharos Securities Brokerage or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Pharos Securities Brokerage or its Affiliates consider to be reliable. None of Pharos Securities Brokerage accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.