

29 September 2016

Share Buyback Price Announced; Another Catalyst for Stock

Buyback Price at EGP 74.05; 5.4% above yesterday's VWAP

Orascom Construction announced this morning that the Board of Directors has approved the purchase of 1,000,000 shares at a price of EGP 74.05 per share (5.4% above yesterday's VWAP), through an offer only to shareholders who hold their shares on EGX. Shareholders approved the buyback and subsequent capital reduction at an Extraordinary General Meeting on 28 September. The buyback offer will commence once final regulatory approvals to proceed are obtained.

Infrastructure Spending Beneficiary; Devaluation is a Key Upside

ORAS is a play on infrastructure spending and devaluation in Egypt

By 1H16, MENA accounted for 51% of revenue led by Egypt, which represented 44% of total revenues. MENA-generated EBITDA margin recorded 8.8% in 1H16 and 9.2% in 2Q16, mainly driven by projects in Egypt. According to management, 74% of the group's total backlog is in FCY or priced in FCY. c.41% of backlog in Egypt is EGP denominated. FCY and FCY-priced backlog outweigh FCY costs in Egypt. The group also incorporates cost escalation clauses in the majority of Egypt contracts to protect against potential cost inflationary pressures.

Our fundamental FV is USD7.60; Official exchange rate is your upside

At a very conservative exchange rate of EGP9.95/USD, our FV is 75.60 (+5% upside). However, we estimate that the official exchange rate would reach EGP11.75 over the next fiscal year, which takes ORAS' FV to EGP89.30, offering 27% upside from current market price. The stock is already up 13% since we first flagged it as a Buy on August 25.

Our assumptions are conservative on backlog and margin fronts

We estimate that the backlog would reach USD8.0 billion by the end of 2016, up from USD7.54 as of June 2016 end and USD10 billion by the end of 2020. We estimate executions on an average of 2.0 years. On the margin front, we estimate that GPM would continue to average 8.0% and EBITDA margin would stabilize at c.5%.

Cheap compared to peers; Net cash is 30% of market cap

Emerging market peers are trading at 18.1x P/E; 10.9x EV/EBITDA; and 1.5x P/B. ORAS is trading on 2016 projected numbers at 9.4x P/E; 4.7x EV/EBITDA and 1.7x P/B. The net cash position represents 30% of current market cap.



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