

Tourah Cement Land Plot Story

Back on October 9, 2016, accusations regarding intentionally incurring losses to monetize Maadi Corniche el Nile Tourah plant 125 Feddan land plot (525,000m²) surfaced, as per sporadic news announcements. The company is running at 40% utilization rate and has been incurring losses since 2014. Based on market intelligence, Maadi Corniche el Nile commercial/residential price per m² ranges between EGP30,000-50,000.

If we apply the above mentioned parameters to Tourah land plot, the land's net asset value (NAV) would range between EGP15,750-26,250 million, implying land value/share of EGP220-367, versus the current market price of EGP12.86. It is worth noting that Suez Cement owns 66% of Tourah Cement, which implies a land value/share of EGP57-95 for Suez Cement, versus the current market price of EGP18.11.

Is It Plausible?

Well, Suez Cement Chairman of the Board, Omar Mohanna, refuted the above mentioned news and added that there are no intentions of monetizing the land plot, citing that Tourah Cement is in the process of converting to coal instead of HFO.

Sector Dynamics Are Conducive to Sector Consolidation

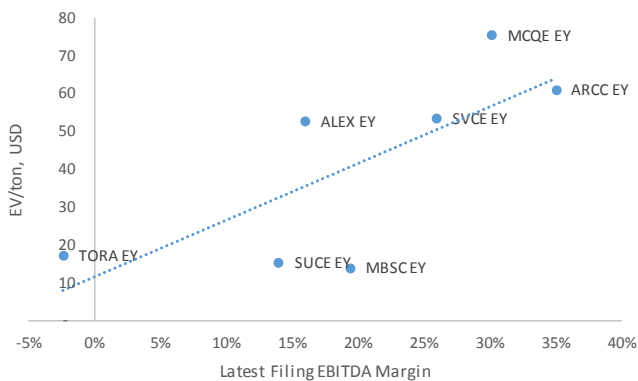
Regardless of the land plot story, we believe that the EV/ton of the current cement players is much lower than replacement cost or comparative multiples regionally, as per the table below. In our view, this will be conducive to sector consolidation, with high potential for rerating.

We continue to flag ACC (OW, FV:11.5EGP/share) as the most efficient player, with high margins, low EV/ton compared to replacement cost, and has also been successful in exporting excess capacities.

Misr Beni Suef Cement Is Extremely Cheap on an EV/Ton Basis; Net Cash Represents 55% of Market Cap

While Misr Beni Suef is not as efficient as ACC as it operates towards the high end cost curve and attained FY16 EBITDA margin of 19%, we like the company because 1) at the current market price of EGP22.4/share, the company is trading at an extremely low EV/ton of USD14, and 2) the company's net cash position of EGP921 million represents 55% of its market cap.

Figure 1 | The EV/ton of listed cement companies is much lower than replacement cost



Source: Bloomberg, Pharos Research

Table 1 | Selected replacement cost of previous greenfield and brownfield projects

Country	Company	Project Value, USD	Capacity, mn tons	EV/ton, USD
EGY	Nahda Cement	350	1.6	219
EGY	Arab National Cement	324	1.6	203
EGY	ACC	240	2.2	110
EGY	BMIC - Assiut	260	1.8	144
EGY	El Sewedy Cement	95	1.8	52
EGY	South Valley Cement	200	1.5	133
SA	Yamama Cement	1,120	7.3	153
EGY	South Valley Cement	200	2.0	100
EGY	Army	1,176	12.0	98

Source: Thomson Reuters, Global Cement, Pharos Research



Sales and Trading

Essam Abdel Hafiez
Managing Director
+202 27393687
essam.abdelhafiez@pharosholding.com

Ahmed Raafat
VP Local Institutional Sales
+202 27393627
ahmed.raafat@pharosholding.com

Seif Attia
Head Local Sales
+202 27393682
seif.attia@pharosholding.com

Ahmed Abutaleb
Head Foreign Sales
+202 27393632
ahmed.abutaleb@pharosholding.com

Sherif Shebl
AVP Foreign Sales
+202 27393634
sherif.shebl@pharosholding.com

Omar Nafie
Associate Foreign Sales
+202 27393635
omar.nafie@pharosholding.com

Sally Refaat
Head Online Trading
+202 27393675
sally.refaat@pharosholding.com

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