



Volumes Drive Revenue; Margins Improve on Cost Savings

**ARCC Overweight | Fair Value EGP 5.50****MBSC Overweight | Fair Value EGP 22.00**

Efficient players report better margins on favorable cost structure

FY19 total sales volume (local + export) slightly declined to 49.8mn, down 0.8% y/y and above our estimate of 48.5mn. On a sequential basis, sales volume grew 9.8% on the back of 1) increased wholesaler purchases towards the year end to qualify for incentives and rebates and 2) Eid vacation in 3Q19. While average realized prices declined by EGP11/ton during the quarter, efficient companies such as ARCC were able to improve their margins, thanks to integrating higher local pet coke into the energy mix.

Looking ahead, we expect sector performance to remain weak in FY20 unless 1) the government intervenes by setting a price floor for cement, and/or 2) inefficient players exit. We believe that even if demand grew in the coming 2-3 years, it will not be able to absorb the supply/demand gap.

ARCC: Margins improve on pet coke integration and solar energy

4Q19 revenue came in at EGP757mn, down 8.3% y/y and up 1.6% q/q on the back of lower realized prices and despite achieving 7.6% q/q growth in sales volume. 4Q19 EBITDA margin improved to 14.3% vs. 12.0% in 3Q19 and 9.7% in 4Q18. The improvement was entirely driven by achieving 50% local pet coke mix into the energy mix along with the solar power plant the company recently built. Attributable net loss recorded EGP4mn which came on the back of booking interest expense related to the licenses of EGP15mn during the quarter. ARCC is currently trading at FY20 P/E of 27.6x, EV/EBITDA of 5.3x, and EV/ton of USD26.

MBSC: Solid balance sheet bolsters performance

4Q19 revenue came in at EGP443mn, down 17.8% y/y and 6.9% q/q. The sequential decline was driven by both lower realized prices and 5.4% decline in sales volume. EBITDA margin came in at 13.5% vs. 8.4% in 4Q18 and 13.7% in 3Q19. Net income came in at EGP13mn, up 257% y/y and down 38.8% q/q. MBSC is currently trading at FY20 P/E of 23.2x, EV/EBITDA of 0.9x, and EV/ton of USD2.6.

Quarterly Financial Indicators

ARCC	4Q19	4Q18	3Q19	Y/Y %	Q/Q %	FY19	FY18	Y/Y %
Revenue	757	826	745	-8.3%	1.6%	3,102	3,275	-5.3%
Gross profit	75	38	40	99.2%	87.6%	207	453	-54.4%
GPM %	9.9%	4.6%	5.4%			6.7%	13.8%	
EBIT	43	14	21	201.3%	111.4%	106	347	-69.5%
EBIT margin	5.7%	1.7%	2.8%			3.4%	10.6%	
EBITDA	108	80	89	35.4%	n/m	367	597	-38.6%
EBITDA margin	14.3%	9.7%	12.0%			11.8%	21.1%	
Interest expense, net	(38)	(36)	(28)	4.0%	35.6%	(133)	(106)	25.2%
FX gain (loss)	1	1	15	31.3%	-92.7%	66	(4)	n/m
Attributable NI	(4)	17	7	n/m	n/m	29	233	-88%

Source: Company Disclosure, Pharos Research

MBSC	4Q19	4Q18	3Q19	Y/Y %	Q/Q %	FY19	FY18	Y/Y
Revenue	443	539	476	-17.8%	-6.9%	1,809	1,991	-9.1%
Gross profit	14	12	20	18%	-28.5%	77	247	-68.8%
GPM %	3.2%	2.2%	4.1%			4.3%	12.4%	-65.7%
EBIT	7	3	12	157%	-43.2%	46	219	-79.1%
EBIT margin	1.6%	0.5%	2.6%	213%		2.5%	11.0%	-77.0%
EBITDA	60	45	65	32%	-8.3%	247	389	-37%
EBITDA margin	13.5%	8.4%	13.7%	61%		13.7%	19.6%	-30%
EBT	32	30	45	4.4%	-29.1%	150	322	-53.3%
Tax	(18.4)	(26.6)	(23)	-31%	-20.2%	(70.0)	(81)	-13%
Net income	13	4	21	256.8%	-38.8%	80	241	-66.8%

Source: Company Disclosure, Pharos Research

Trading Multiples

ARCC Key Indicators	2019a	2020f	2021f	2022f	2023f
Revenue, EGP mn	3,102	3,159	3,419	3,694	3,938
EBITDA, EGP mn	367	350	430	616	701
Net Income, EGP mn	29	48	115	259	325
Book Value, EGP mn	1,164	1,390	1,457	1,602	1,667
Net Debt, EGP mn	557	625	443	187	15
EPS, EGP	0.08	0.13	0.30	0.68	0.86
P/E, (X)	45.4	27.6	11.5	5.1	4.0
BVPS, EGP	3.1	3.7	3.8	4.2	4.4
P/B, (X)	1.1	0.9	0.9	0.8	0.8
EV/EBITDA, (X)	5.1	5.3	4.4	3.0	2.7
DPS, EGP	0.47	-	0.13	0.30	0.68
DY, (%)	13.5%	0.0%	3.6%	8.7%	19.7%

Source: Company Disclosure, Pharos Research

MBSC Key Indicators	2019a	2020f	2021f	2022f
Revenue, EGP mn	1,809	1,776	1,924	2,084
EBITDA, EGP mn	247	137	202	266
Att. NI, EGP mn	80	46	95	140
BV, EGP mn	1,713	1,651	1,594	1,582
Net Cash, EGP mn	949	1,168	1,224	1,292
EPS, EGP	1.07	0.61	1.27	1.87
P/E, (X)	13.3	23.2	11.2	7.6
BVPS, EGP	22.8	22.0	21.2	21.1
P/B, (X)	0.6	0.6	0.7	0.7
EV/EBITDA, (X)	0.5	0.9	0.6	0.4
DPS, EGP	2.50	2.00	2.00	2.00
DY, (%)	17.6%	14.0%	14.0%	14.0%

Source: Company Disclosure, Pharos Research

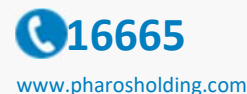
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ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON LAST PAGE OF THIS REPORT

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