Cement Wrap Up
3Q20 Results

15 November 2020

Muted Volumes and Declining Prices Hamper Revenues, Losses Become Key Theme

ARCC Overweight |Fair Value EGP 5.50*
MBSC Overweight |Fair Value EGP 22.0*
MCQE Overweight |Fair Value EGP 14.24*

***FVs under review*

Another Weak Quarter for Cement Industry, Pause on Building Activity Drag Down Volumes

Total cement sales (local + exports) stood at 10.5 million tonnes in 3Q20, down 14.2% YoY but up 3.6% QoQ. Utilization rates recorded 57% in 9M20 and 58% in Sep-20. 3Q20 volumes were weakened on an annual basis, by the halt of building permits in Egypt's capital cities and the government's focus on fighting illegal building activity, which definitely weighed down on building materials demand and cement specifically.

Looking ahead, we believe that 4Q20 sales volumes would still be lower YoY and might show little to muted quarterly growth since building permits have not been resumed yet. Average retail prices in 3Q20 faced pressure to EGP729/tonne, down 4.6% QoQ, and 12.2% YoY. We expect prices to slowly revert to the pre-pandemic levels of c. EGP800/tonne post issuing new regulations for building activities.

ARCC: Profitability eroded on declining prices; Full-year figures turn red

3Q20 attributable net losses came in at EGP34 million compared to a net profit of EGP7 million in 3Q19 and a net loss of EGP22 million in 2Q20. *The company achieved disappointing results on both the topline and bottom-line levels due to pressured margins caused by the duo of weak prices a hike in COGS. We don't rule out that the losses will persist during the 4Q20 leading to a negative bottom line for full 2020 north EGP55 million in losses.*

ARCC revenues declined to EGP601 million, down 19.3% YoY, and 3.2% QoQ. The weak revenue figure is caused by a decline in average revenue/tonne which reached a low figure of EGP559/tonne in 3Q20, (-17.0% YoY and -8.0% QoQ). *The decline in prices came along with the depressed demand atmosphere that the industry is facing an excess supply. However, the company was successful in gaining market share from competition during the quarter its YTD market share increased to 9.3% during the quarter on 7.0% QoQ growth in volumes.*

On the gross profit level, the company turned into losses, where gross losses recorded EGP31 million, drastically down from gross profits of EGP37 million in 3Q19 and EGP35 million in 2Q20, while GLM was 5.1% versus GPM of 5.0% in 3Q19 and 5.6% in 2Q20. *As mentioned earlier the severe decline in prices weighed down on ARCC's margins which were also hit by a surge in COGS by 7.8% QoQ that resulted from an increase in raw materials costs (specifically limestone fees) for the nine months period but was reflected retrospectively on 3Q20 COGS only. We expect margins to normalize going forward.*

EBITDA recorded EGP21 million, down 76.4% YoY, and 72.9 QoQ. EBITDA margin came in at 3.5% versus 12.0% in 3Q19 and 12.5% in 2Q20. SG&A spending dropped to EGP16 million, down 24.9% YoY, and 21.7% QoQ. SG&A/Sales declined to 2.7% from 2.9% in 3Q19 and 3.3% in 2Q20.

Net debt came flat at EGP736 million as of September 20 end, from EGP737 million in June 2020. ARCC is currently trading at an EV/Tonne of USD26.8.

MBSC: Bottom line underpinned by strong margins and tax savings, Topline hit by depressed volumes, Cash still high

3Q20 net income came in at EGP38 million (up 79% YoY, up 31% QoQ). *The company beat our bottom-line estimates on the back of tax savings as 3Q20 tax expense was EGP4 million compared to EGP23 million in 3Q19 and EGP2 million in 2Q20, implying an effective tax rate of 10.1% in 3Q20 versus 51.9% in 3Q19 and 5.6% in 2Q20. Additionally, the company had a hike in its margins during the quarter and it cut SG&A spending.*

The top line has seen another story, where it came in at EGP190 million dropping by 60.2% YoY and 12.3% QoQ. *The weak top line is attributed to a hard blow to 3Q20 volumes by 55.9% YoY and 3.3% QoQ due to the weak demand coming from the halt of building permits and fierce competition. We would like to highlight that the top line is in line with our estimates of EGP190 million, with a variance of 4%.*

Gross profit came in at EGP25.7 million, up 30.7% YoY, and up 123.9% QoQ. GPM jumped to 13.6% compared to 4.1% in 3Q19 and 5.3% in 2Q20. *The increase in margins is mainly driven by energy savings and overhead cuts, and relatively stable prices due to the company's ability to sell its products in the upper Egypt area, where prices are generally higher than other governorates.*

EBITDA recorded EGP46 million, down 28.9% YoY and up 12.8% QoQ. EBITDA margin came in at 24.5% versus 13.7% in 3Q19 and 19.0% in 2Q20.

MBSC continues to reflect a "cash is king" pick as net cash recorded EGP883 million as of September 2020 end (EGP11.77/Share) and (Net cash + investments of EGP13.8/Share), from EGP925 million in as of June 2020 end.

MBSC is currently trading at a negative EV/Tonne of USD0.42 which is an unrealistically cheap multiple as net cash & investments represent 1.02x the market cap resulting in a negative enterprise value. We expect FY20 DPS of EGP2/share implying a generous DY of 14.8%

MCQE: Challenging market competition pressure prices and margins, the bottom line turns into the red

3Q20 attributable net losses came in at EGP12 million compared to a net profit of EGP17 million in 3Q19 and a net profit of EGP14 million in 2Q20. *The bottom line was hit during the quarter as a result of weaker margins coming mainly from weaker prices during the quarter as a result of declining prices amid the fierce competition in the industry.*

The top line declined to EGP498 million, down 32.4% YoY, and 6.0% QoQ. *The drop in revenue was caused by an annual decline in both prices and volumes, where volumes tumbled by 16.7% YoY despite the 3.7% uptick on a quarterly basis.*

Gross profit came in at EGP46 million, drastically down by 61.3% YoY and 48.1% QoQ, while GPM dropped to 9.2% compared to 16.1% in 3Q19 and 16.7% in 2Q20.

EBITDA recorded EGP49 million, down 56.6% YoY and 43.6% QoQ. EBITDA margin came in at 9.9% versus 15.3% in 2Q19 and 16.4% in 2Q20.

SG&A spending dropped to EGP36 million, down 17.5% YoY, and 14.3% QoQ. In the meanwhile, SG&A/Sales rose to 7.2% from 5.9% in 3Q19 but came lower than the 7.9% figure of 2Q20.

Net debt increased to EGP1010 million on September 30, 2020, from EGP969 million on June 30, 2020.

MCQE is currently trading at an EV/Tonne of USD29.3.

Table 1: ARCC Financial Indicators

ARCC	3Q20	3Q19	2Q20	YoY %	QoQ %	9M20	9M19	YoY%
Revenue	601	745	621	-19.3%	-3.2%	1,925	2,345	-17.9%
COGS	(632)	(707)	(586)	-10.7%	7.8%	(1,873)	(2,210)	-15.2%
Gross profit	(31)	37	35	-182.0%	-187.1%	52	135	-61.7%
GPM, (%)	-5.1%	5.0%	5.6%			2.7%	5.7%	
EBIT	(42)	21	15	-302.9%	-389.2%	(0)	62	-100.0%
EBIT margin, (%)	-7.0%	2.8%	2.3%			0.0%	2.6%	
EBITDA	21	89	78	-76.4%	-72.9%	190	259	-26.5%
EBITDA margin, (%)	3.5%	12.0%	12.5%			9.9%	11.0%	
Interest expense, net	(19)	(28)	(20)	-31.8%	-5.6%	(61)	(95)	-36.0%
FX gain (loss)	13	15	(16)	n/m	n/m	12	65	n/m
EBT	(48)	8	(22)			(49)	32	
Taxes	13	(0)	(0)			9	1	
Attributable Net Income	(34)	7	(22)	n/m	n/m	(40)	33	n/m
NPM, (%)	-5.7%	1.0%	-3.5%			-2.1%	1.4%	

Source: Company Disclosure, Pharos Research

Table 2: MBSC Financial Indicators

MBSC	3Q20	3Q19	2Q20	YoY, (%)	QoQ, (%)	9M20	9M19	YoY, (%)
Revenue	190	476	216	-60.2%	-12.3%	811	1,366	-40.6%
COGS	(164)	(456)	(205)			(762)	(1,303)	
Gross profit	25.7	19.7	11.5	30.7%	123.9%	48.4	62.9	-23.1%
GPM, (%)	13.6%	4.1%	5.3%			6.0%	4.6%	
EBIT	20	12	6	64.9%	233.8%	30.0	39	-22.6%
EBIT margin	10.7%	2.6%	2.8%			3.7%	2.8%	
EBITDA	46	65	41	-28.9%	12.8%	144	187	-23.0%
EBITDA margin, (%)	24.5%	13.7%	19.0%			17.8%	13.7%	
Interest income, net	20	31	18	-35.5%	10.2%	62	86	-27.7%
FX gain (loss)	(1)	1	-	n/m	n/m	(1)	(7)	n/m
EBT	42	45	31	-5.7%	34.9%	106	119	-10.8%
Tax	(4)	(23)	(2)	-81.7%	142.9%	21	(52)	-141.5%
Net income	38	21	29	79.5%	30.9%	127	67	89.6%
NPM, (%)	20.3%	4.5%	13.6%			15.7%	4.9%	

Source: Company Disclosure, Pharos Research

Table 3: MCQE Financial Indicators

MCQE	3Q20	3Q19	2Q20	YoY,(%)	QoQ,(%)	9M20	9M19
Revenue	498	738	530	-32%	-6%	1,844	2,264
COGS	(452)	(619)	(441)	-27%	2%	(1,578)	(1,910)
Gross Profit	46	119	88	-61%	-48%	266	354
GPM, (%)	9.2%	16.1%	16.7%			14.4%	15.6%
EBIT	11	76	49	-86%	-77%	158	218
EBIT Margin, (%)	2.2%	10.3%	9.2%			8.6%	9.6%
EBITDA, EGP	49	113	87	-57%	-44%	272	330
EBITDA Margin, (%)	9.9%	15.3%	16.4%			14.8%	14.6%
Interest Expense, (net)	(30)	(52)	(31)	-43%	-4%	(102)	(161)
FX gain (loss)	(0)	(0)	(0)	n/m	n/m	(0.5)	(1)
Attributable Net Income	(12)	17	14	-171%	-185%	40	33

Source: Company Disclosure, Pharos Research

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