

Egypt Consumer Sector

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Food names trade near record-low valuations despite fairly solid performance and outlook

Industry Update

Egypt

www

Food stocks offer large upside despite more conservative valuations

Egypt's food stocks continued to de-rate (share prices -28% on avg. in 2020, +2% in 2021, -2% YTD), despite solid operating performance (earnings +17% in 2021 ex. Domty), on foreign selling and reduced liquidity. We take a more conservative valuation approach (implied 2022e P/E based on our fair values down to c14x for Domty and Obour Land, c18x for Juhayna and c21x for Edita), with the four stocks offering large upside (56-90%) to our revised TPs and trading at or near historical low multiples (2022e P/E – Domty 7x, Obour 8x, Edita 12x and Juhayna 12x).

All names to see earnings growth in 2022e despite commodity pressures

The spike seen in commodity prices is a key risk for food names, with all four companies responding by raising prices with more increases likely in 2022e. Customer reaction to price increases has been favourable, with most categories continuing to grow (even the typically price-sensitive snacks), given a continued recovery in consumption trends (been weak since late-2016 due to EGP devaluation and COVID-19 shocks). All names reported gross margin declines (2021e -3pps on avg.) but managed to deliver earnings growth in 2021e (ex. Domty). For 2022e, we expect the strongest earnings growth for Domty (+232% Y-o-Y, yet we are c20% below mgmt. guidance) as it had booked losses in 1H21, on the aggressive phase-out of agents to facilitate price increases, and it will add two new bakery lines, increasing capacity c60%. Edita comes second, with 30% bottom-line growth supported by its 4Q21 price increases and continued volume recovery. We expect more muted bottom-line growth for Juhayna (+8% on some margin pressure and higher taxes) and Obour Land (+5% on gross margin pressure and as diversification out of the relatively saturated carton pack white cheese segment has been slow for the company).

Edita is our top pick, followed by Obour Land on dividends

While all four stocks are very attractive at current levels, we highlight **Edita** as our top pick as: i) it is witnessing a solid volume recovery, on improved demand and new product launches (most dynamic when it comes to innovations), after a big volume hit in 2016-17 (30%+) caused by the EGP devaluation; ii) it has responded swiftly to commodity pressures via raising prices of select key cake and croissant SKUs in 4Q21 by 25% on avg. with no negative volume impact thus far; iii) the proposal to increase VAT on baked snacks to 14% from 5% got rejected (was an overhang); and iv) it has a solid management team and capital allocation – lowest reported RoAE was c23% in 2020 – with low leverage and a negative cash conversion cycle. We also highlight **Obour Land** for two reasons: i) highest dividend yield (c11% in 2021; ex-dividend date yet to be announced); ii) its track record for being the most resilient in the face of input cost pressures (only name to consistently grow or maintain earnings since 2016). **Juhayna's** operational performance has been solid (9M21 recurring earnings +22%) as revenue momentum picked up after a lacklustre 2020 and deleveraging continued. However, we are cautious, given the detention of the company's founder in Dec 2020 and his son in Feb 2021 (were co-CEOs) with the outcome uncertain. **Domty** is the cheapest name in our coverage and is bound to deliver solid earnings growth in 2022e, but we believe the company needs consistent net income growth delivery and working capital improvement (highest receivable days on hand) for a few consecutive quarters for it to re-rate.

Companies analysed in this report

Domty-Buy; TP:EGP8.00

Cheapest food name in our coverage, with strong recovery evident from 3Q21

Edita-Buy; TP:EGP15.0

Our top Egypt food pick trading at near record-low valuations

Juhayna-Buy; TP:EGP10.9

Solid operational performance, but CEOs' arrest is an overhang

Obour Land-Buy; TP:EGP11.0

Resilient in the face of cost challenges with an attractive dividend yield

Contents

Valuation summary and share price performance	3
Summary charts	4
Domty	8
Edita	14
Juhayna	21
Obour Land	27

Valuation summary and share price performance

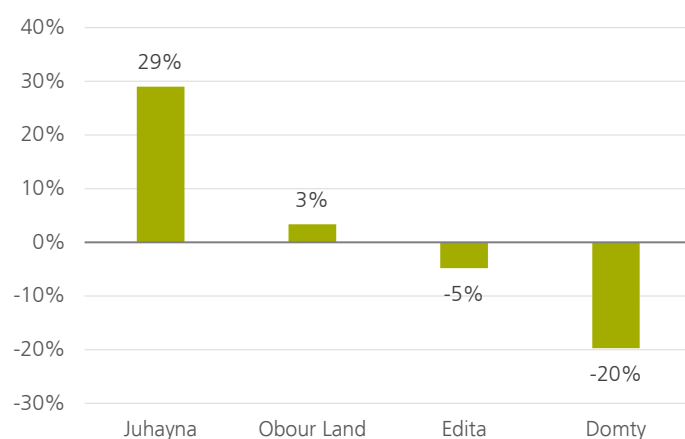
Figure 1: Valuation table*

	Price (EGP)	Mcap (USDmn)	3M ADVT (USDmn)	TP	Upside	Rating	Recurring P/E (x)			EV/EBITDA (x)			P/B (x) 21a/e	Div. yield 21a/e	FCF yield 21a/e	RoAE 21a/e	Net debt/equity 21a/e	EPS CAGR 21-22e
							20	21a/e	22e	20	21a/e	22e						
Juwayna	7.00	375	0.8	10.90	56%	Buy	14.6	12.8	11.8	5.5	5.7	5.1	2.3	4.3%	7%	19%	0.19x	11%
Edita	8.00	330	0.1	15.00	88%	Buy	18.4	15.0	11.5	9.5	8.2	6.7	3.2	3.5%	4%	25%	0.12x	27%
OLFI	6.15	140	0.1	11.00	79%	Buy	9.5	8.4	8.0	5.4	5.0	4.8	3.5	10.6%	19%	43%	(0.14)x	9%
Domty	4.20	68	0.3	8.00	90%	Buy	9.0	23.7	7.1	6.6	9.6	5.0	1.4	2.4%	-21%	6%	0.96x	13%

*Prices as of 30 Jan 2022

Source: Company data, EFG Hermes estimates

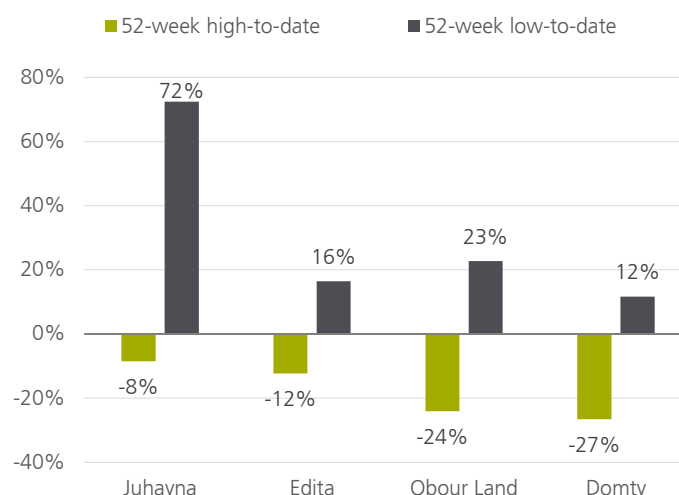
Figure 2: 2021 share price performance



*Prices as of 30 Jan 2022

Source: Bloomberg

Figure 3: 52-week high- and low-to-date share price performance*



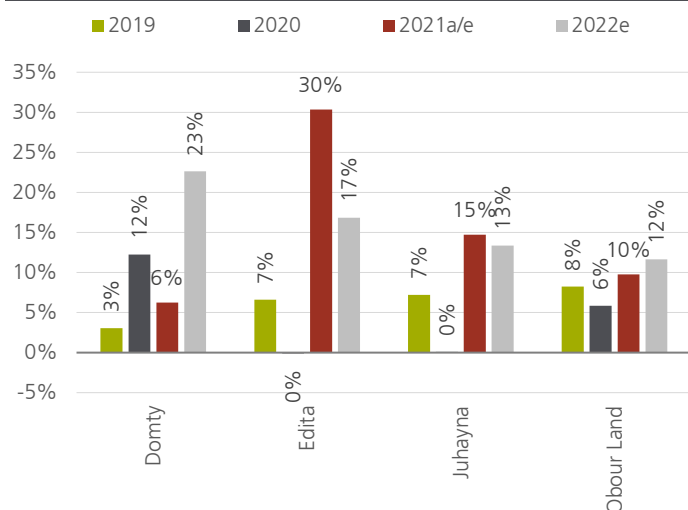
*Prices as of 30 Jan 2022

Source: Bloomberg

Summary charts

Figure 4: Top-line to grow at c16% on avg. in 2022e on continued recovery in consumption trends and recently implemented price increases; Domty to report strongest growth, driven by bakery

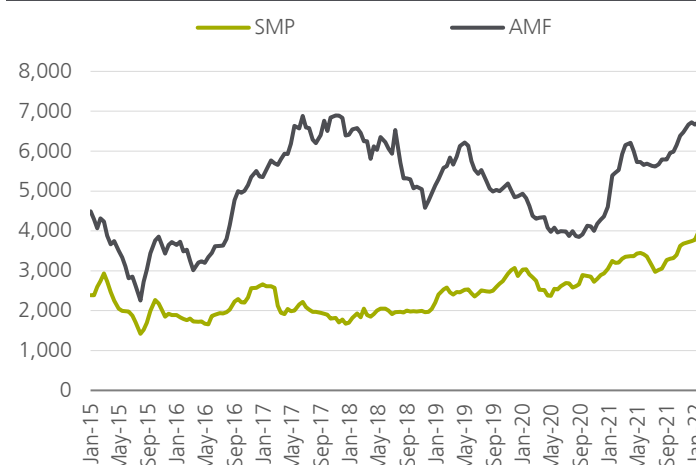
Revenue growth



Source: Company data, EFG Hermes estimates

Figure 5: Commodity prices on an uptrend since mid-2020: avg. SMP price +23% in 2021, AMF +40%

In USD/tonne



Source: GDT

Figure 6: Commodity prices rose significantly in 2021*

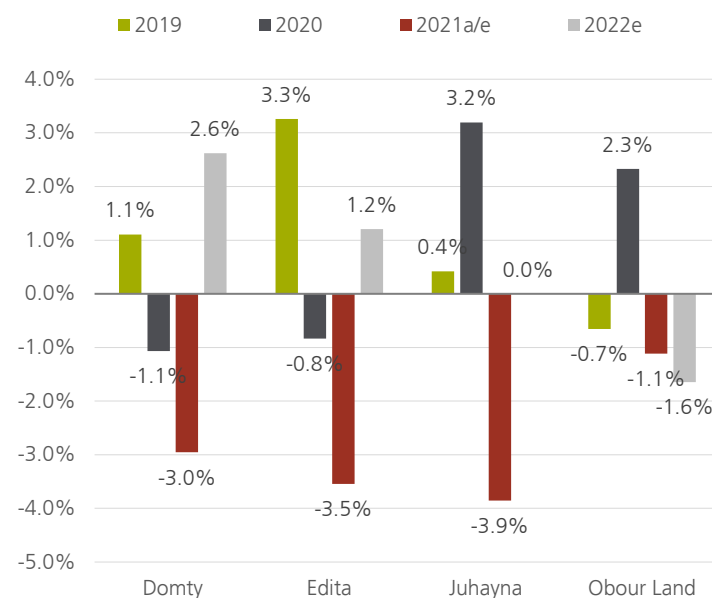
		Y-o-Y	52W HTD	52W LTD	YTD
Palm oil		64%	-6%	39%	0%
Raw sugar		39%	-8%	27%	-1%
Feed	Corn	58%	-20%	25%	4%
	Wheat	28%	-6%	34%	5%
	Soy	40%	-15%	19%	6%
Milk commodities	Anhydrous milk fat (AMF)	25%	0%	25%	1%
	Skimmed milk powder (SMP)	21%	0%	30%	6%
Packaging paper		45%	0%	72%	0%

*As of 26 Jan 2022

Source: Bloomberg

Figure 7: Gross margin was under pressure in 2021e for all players on rising raw material and shipping costs; expect a recovery for most 2022e on price hikes and as raw material prices normalise

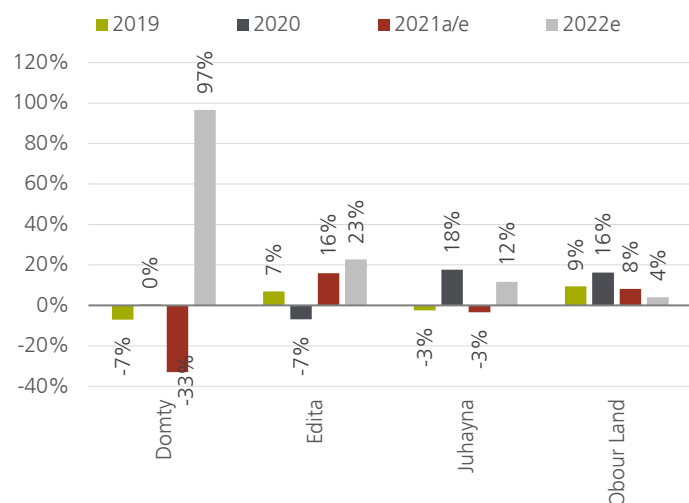
Change in gross margin



Source: Company data, EFG Hermes estimates

Figure 8: Domty's EBITDA to almost double in 2022e from a low base (due to phasing out of cheese agents); expect other players' EBITDA to grow at c13% on avg. in 2022e

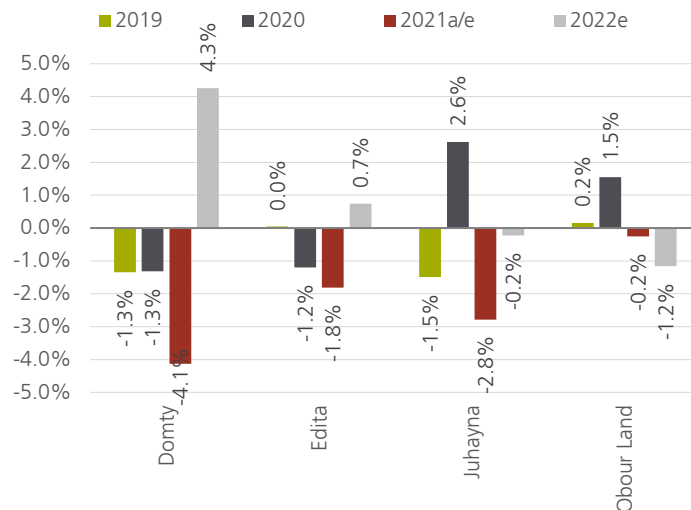
EBITDA growth



Source: Company data, EFG Hermes estimates

Figure 9: Accordingly, we expect Domty's EBITDA margin to stage strong recovery in 2022e; to remain under some pressure for Juhayna and Obour Land, with Edita to see some improvement in 2022e aided by price hikes on key cake and croissant SKUs in 4Q21

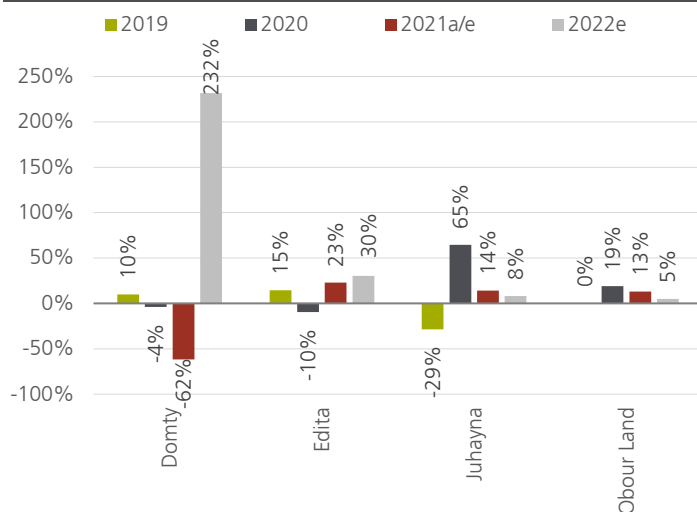
Change in EBITDA margin



Source: Company data, EFG Hermes estimates

Figure 10: Domty to see large pick-up in 2022e earnings as it recovers from 1H21 losses, with Edita to report a solid 30% bottom-line growth; expect single-digit increase for Juhayna and Obour

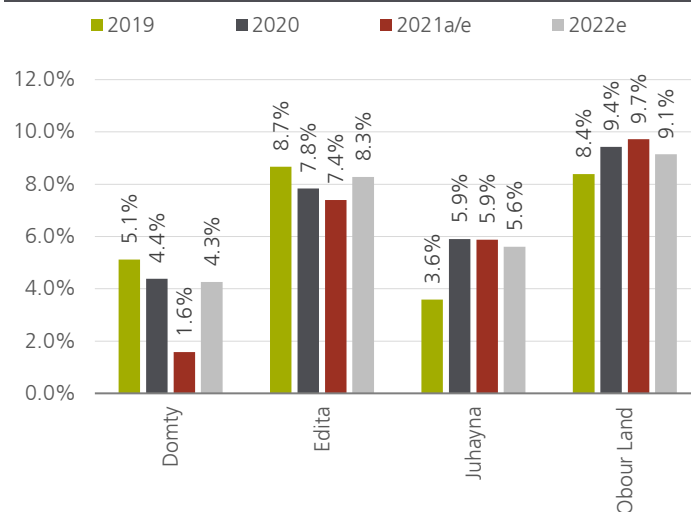
Recurring net income growth



Source: Company data, EFG Hermes estimates

Figure 11: Obour Land has the highest profitability, with net margin at c9-10%, followed by Edita (c8%)

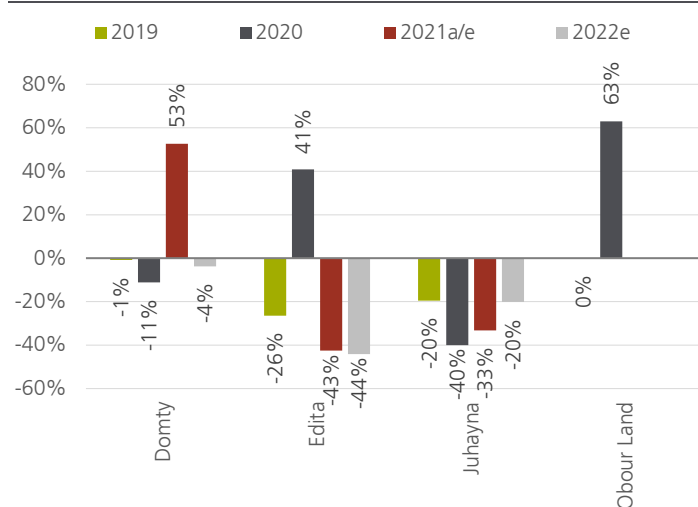
Recurring net margin



Source: Company data, EFG Hermes estimates

Figure 12: All players deleveraged in 2021 with the exception of Domty; Obour Land turned into a net cash position of EGP101mn

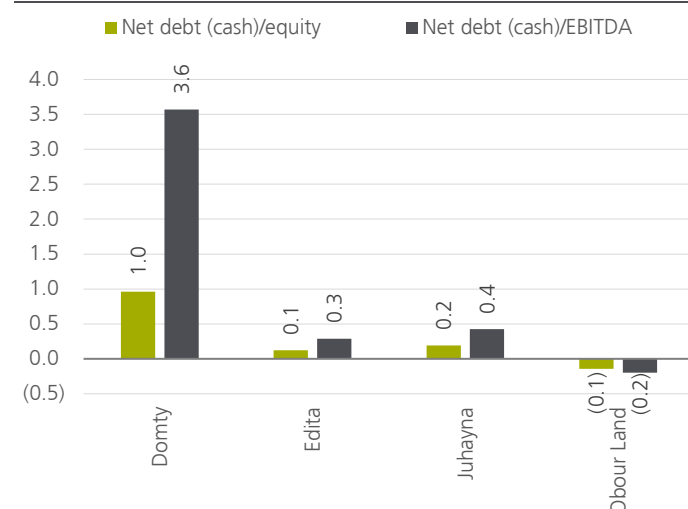
Change in net debt



Source: Company data, EFG Hermes estimates

Figure 13: Leverage ratios are low for the sector, except for Domty partly due to its high working capital

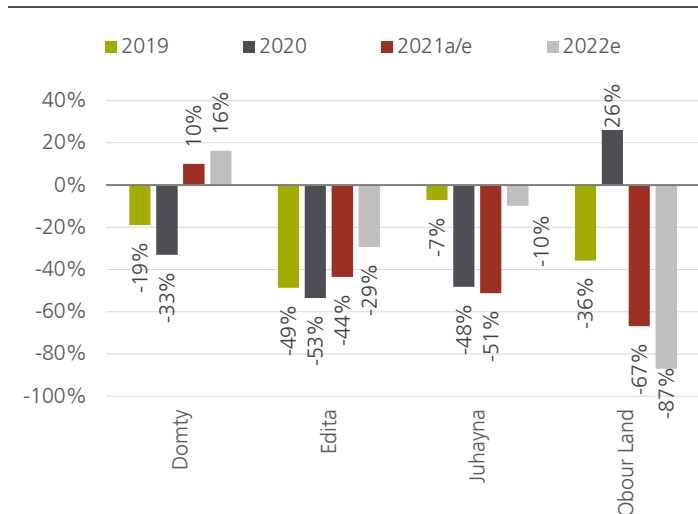
As of 2021a/e



Source: Company data, EFG Hermes estimates

Figure 14: Net interest costs to continue to decline for all food companies in 2022e (except Domty), mainly on deleveraging

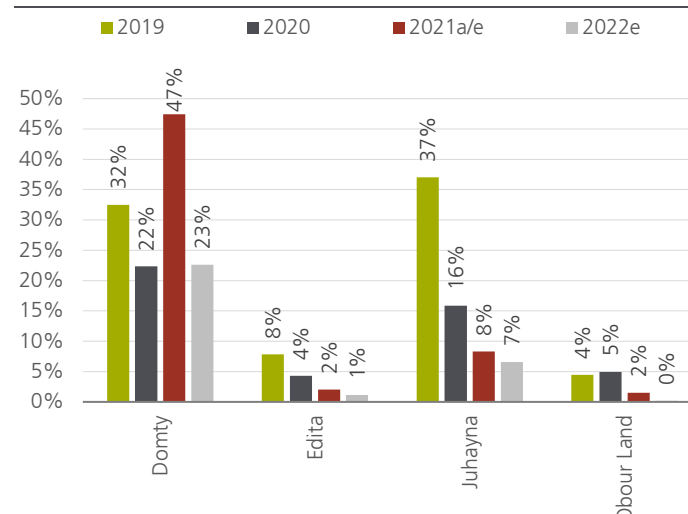
Change in net interest costs



Source: Company data, EFG Hermes estimates

Figure 15: Domty has the highest net finance costs as a % of EBIT and, hence, stands to benefit the most from any interest rate cuts; Juhayna saw the most impressive improvement over 2020-21

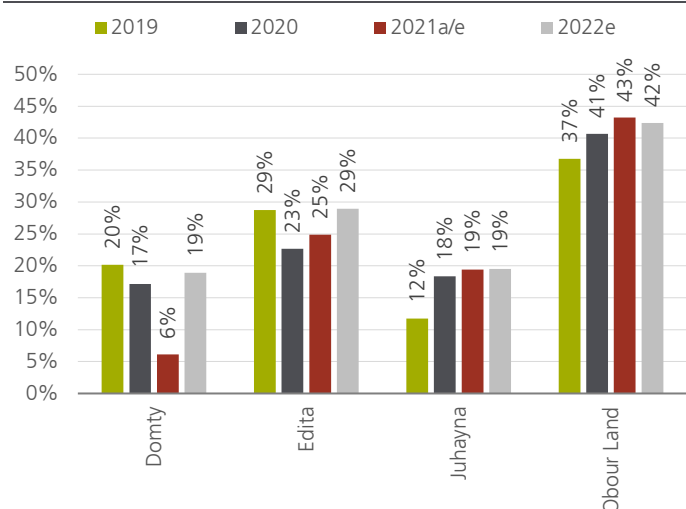
Net interest costs as a % EBIT



Source: Company data, EFG Hermes estimates

Figure 16: Strongest profitability profile for Obour Land followed by Edita, with RoAE of c43% and 25% in 2021, respectively

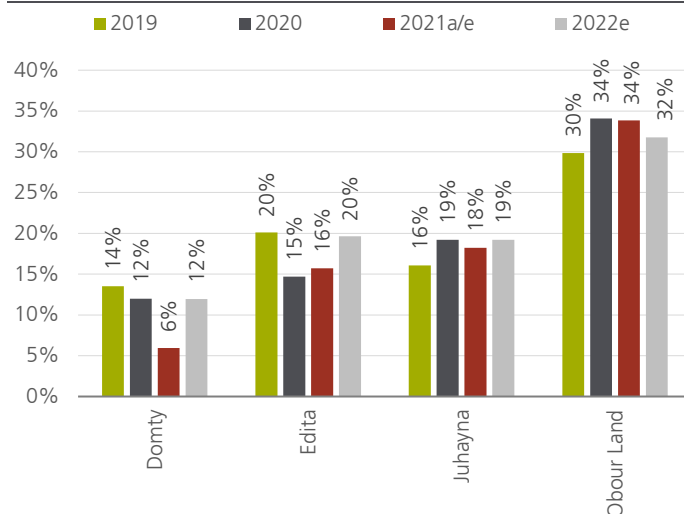
Return on average equity (RoE)



Source: Company data, EFG Hermes estimates

Figure 17: Obour Land also has the highest RoAIC at 34% followed by Juhayna at 18%

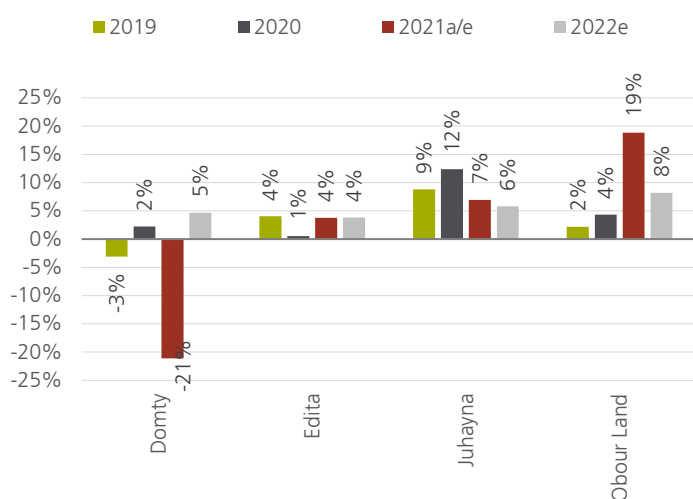
Return on average invested capital (RoIC)



Source: Company data, EFG Hermes estimates

Figure 18: Positive FCFE yield* for the sector with the exception of Domty in 2021, due to weak operational performance and high interest costs; strongest FCF generation at OLF1

FCFE yield

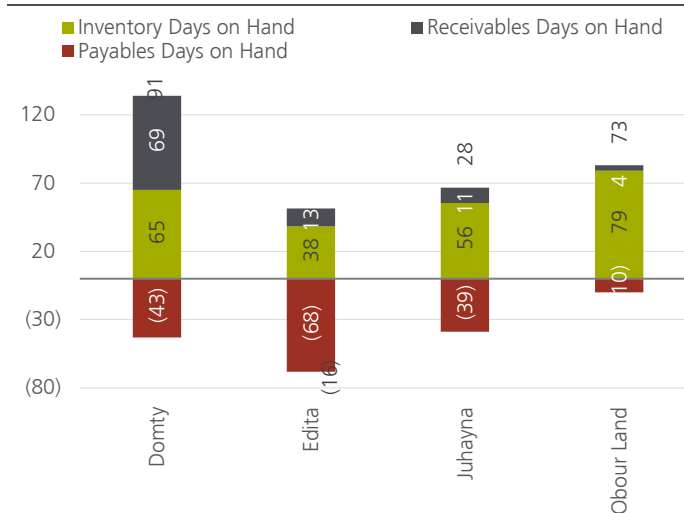


*Prices as of 30 Jan 2022

Source: Company data, EFG Hermes estimates

Figure 19: Cash conversion cycle (CCC): Edita maintains a negative CCC as 95%+ of sales are in cash; Domty has the highest CCC, due to long receivable collection period on gov't sales (pay in 4-6 months) but improved in 2021 on phasing out of agents

As of 2021a/e



Source: Company data, EFG Hermes estimates

Domty

Cheapest food name in our coverage, with strong recovery evident from 3Q21

Company Update

Food Products. Egypt

Stock Rating	Target Price	Closing Price
Buy	EGP8.00	EGP4.20

What's Changed	From	To
Target price	8.50	8.00

Remain Buyers; stock trading at record-low valuations, with robust guidance for 2022e

We cut our TP 6% to EGP8.0 (90% upside) and remain Buyers of Domty as we expect earnings to recover strongly in 2022e (3.3x Y-o-Y) from 2021's depressed base, driven by: i) cheese segment recovery post phasing out of agents (discussed below); and ii) continued ramp-up of the higher margin bakery segment. The company reversed its 1H21 losses of EGP34mn in 3Q21, when it reported cEGP52mn in earnings. Mgmt. expects to close 2021e with EGP3.3bn in revenue (EFG: EGP3.18bn) and headline earnings of EGP60-70mn. For 2022e, mgmt. expects top-line of EGP4bn (EFG: EGP3.9bn) and headline net income of EGP240mn (we conservatively assume EGP193mn). Valuation is also attractive, with the stock trading at a record-low valuation and is the cheapest food name in our coverage (c7x 2022e P/E).

Cheese sales suffer in 1H21 on phasing out of agents, but payoff started to show in 3Q21

Domty's cheese segment (c70% of 9M21 revenue) was negatively impacted by a decision to phase out all cheese agents, to facilitate increasing cheese prices (+6% in 9M21, with additional price increases in 4Q21), following the significant rise in raw material costs (SMP prices +23% in 2021, palm oil nearly doubled Y-o-Y). Accordingly, cheese sales declined 11% Y-o-Y in 1H21, but recovered 32% Y-o-Y in 3Q21, which was better than expected despite July having been a slow month due to Eid vacations (white cheese volumes +21% Y-o-Y in 3Q21; mozzarella 20%+). We expect the segment to grow c4% in 2021e and at an 8% CAGR thereafter (equally driven by volumes and pricing). Domty's receivable days on hand declined in 3Q21 (receivables nearly flat YTD and Y-o-Y despite the rise in sales) as a result of the agent phase-out of cheese agents. However, the company still has the highest collection period (c70 days for 2021e) due to gov't sales that are slow to collect (4-6 months). Domty also signed a co-packing agreement with FrieslandCampina to sell white and mozzarella cheese in Egypt (expect small contribution of cEGP7-8mn of sales in 4Q21), and export to Libya, Morocco and the Ivory Coast starting 1Q22.

Diversifying bakery offering by adding packaged croissant; segment still a key growth engine

The high-margin bakery segment remains a key growth driver for the company (to contribute c29% to Domty's 2022e top-line; gross margin: c35% vs 21-22% for cheese). Domty achieved 45%+ volume growth in sandwiches in 3Q21, despite raising Domty Sandwich prices by 25% to EGP5 in June. The segment is currently operating at 90% capacity utilisation (based on 26 days a month), with the company looking to add two new bakery lines (incl. one for croissant; capex cEGP120mn) on top of the three existing ones, raising the segment's total capacity to c1.6mn pieces a day (vs initial capacity of 300k in 2018, 700k in 2019 and 1mn in 2020). Meanwhile, the milk and juice segment (c10% of sales) remains under pressure (9M21 sales -12% Y-o-Y), partly on some capacity constraints. Domty plans to add a new UHT milk line (achieved 1.5% market share in less than 3 months) to avoid production bottlenecks and introduce flavoured milk. The segment should also be supported by the recently signed MoE contract to supply schools with sandwich and juice products worth EGP300mn per year (c8% of top-line; to start in 2021e with EGP60-70mn impact expected in 4Q21; similar margins as bakery segment).

Key Financial Highlights (Dec Year End)

In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Revenue	2,995	3,183	3,904	4,252
EBITDA	335	225	442	478
Net income	131	50	166	185
EPS (EGP)	0.46	0.18	0.59	0.66
EPS consensus (EGP)	0.46	0.54	0.71	N/A
Price to earnings	9.0x	23.7x	7.1x	6.4x
Dividend yield	4.8%	2.4%	6.0%	7.1%
Net debt (cash) / Equity	0.6x	1.0x	0.8x	0.7x
EV / EBITDA	6.6x	9.6x	5.0x	4.6x
ROAE	17.2%	6.1%	18.9%	19.0%
FCF yield	2.2%	-21.1%	4.7%	8.3%

Source: Domty, Bloomberg and EFG Hermes estimates

Stock Data

Closing Price	EGP4.20 as of 30 Jan 2022
Last Div. / Ex. Date	EGP0.200 / 20 Apr 2021
Mkt. Cap / Shares (mn)	USD75.8 / 282.6
Av. Daily Liquidity (mn)	USD0.17
52-Week High / Low	EGP5.72 / EGP3.76
Bloomberg / Reuters	DOMT EY / DOMT.CA
Est. Free Float	50.1%

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Data Miner

Investment Thesis

Established in 1990, Domty is Egypt's largest white-cheese producer (c30% overall cheese market share), owing to its positioning in carton pack white cheese (total cheese at c71% of 2020 revenue). Its first diversification away from cheese was in 2013, with the launch of juice (c11%; number three, c7-8% market share). Domty has ample room to grow its cheese and juice segments after raising capacity c37% in 2016 (c317k tpa capacity), leveraging on a new second factory (23 lines in both). In Sep 2018, Domty entered the bakery segment, with the launch of its new Domty Sandwich (c18% of 2020 revenue), with capacity to reach c1.6mn pieces a day in 2022e as the company adds its fourth sandwich line and a new croissant line (vs. initial capacity of 300k pieces a day, later increased to 700k in 2019 and 1mn in 2020). It has 684 sales vehicles and 22 distribution branches. Exports represent c5% of revenue. Domty receives benefits from Tetra Pak, including discounts and flexible machinery payment terms. Domty injected cEGP300mn from its 2016 IPO proceeds, mainly to reduce reliance on agents (used to be 35%+ of Tetra Pak sales in 2015, phased out all cheese agents in May 2021). We have a Buy rating on Domty, as we expect strong earnings growth (2YR CAGR of 92%), on: i) the company's strategy to restore profitability to 2015 levels; and ii) successful diversification into the high-margin bakery segment.

Dec Year End				
In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Income Statement				
Revenue	2,995	3,183	3,904	4,252
EBITDA	335	225	442	478
Net operating profit (EBIT)	268	139	337	362
Taxes or zakat	(56)	(20)	(69)	(76)
Minority interest	(0)	(0)	(0)	(0)
Net income	131	50	166	185
Balance Sheet				
Cash and cash equivalents	371	337	373	409
Total assets	2,264	2,451	2,701	2,874
Total liabilities	1,454	1,618	1,774	1,845
Total equity	809	832	928	1,028
Total net debt (cash)	525	802	771	714
Cash Flow Statement				
Cash operating profit after taxes	249	182	364	375
Change in working capital	(16)	(223)	(72)	(102)
CAPEX	(79)	(116)	(155)	(73)
Investments	0	0	0	0
Free cash flow	154	(156)	137	200
Net financing	103	164	(32)	(118)
Change in cash	233	(34)	36	36

Source: Domty, EFG Hermes estimates

Valuation and Risks

We value Domty using a discounted cash flow (DCF) methodology, yielding a target price of EGP8.0. Upside risks include: i) higher-than-expected volumes in cheese and juice; ii) capacity additions; iii) better margins on lower input costs, new products/SKUs and/or cost optimisation; iv) shorter receivable collection period (long due to gov't sales – c18% of total); v) acceleration in export and international revenue; vi) fast ramp-up of new products (bakery) and any further diversification efforts; vii) higher-than-expected product prices; and viii) any value-accretive acquisitions. Downside risks include: i) slowing market growth for carton pack white cheese; ii) competition risk (especially from Obour Land); iii) FX risk, as 70%+ of the company's raw materials are USD-linked; iv) a spike in prices of main inputs (SMP, vegetable oils, etc.); v) volatility in juice margins; vi) difficulty in raising product prices to pass on large cost increases (most challenging for on-the-go SKUs); vii) longer receivable collection days; viii) elimination/reduction of Tetra Pak benefits; ix) weak uptake of new products; and x) key person risk.

Dec Year End				
In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Per Share Financial Summary				
EPS (EGP)	0.46	0.18	0.59	0.66
DPS (EGP)	0.20	0.10	0.25	0.30
BVPS (EGP)	2.86	2.94	3.28	3.64
Valuation Metrics				
Price to earnings	9.0x	23.7x	7.1x	6.4x
Price to book value	1.5x	1.4x	1.3x	1.2x
Price to cash flow	5.1x	N/M	4.1x	4.3x
FCF yield	2.2%	-21.1%	4.7%	8.3%
Dividend yield	4.8%	2.4%	6.0%	7.1%
EV / EBITDA	6.6x	9.6x	5.0x	4.6x
EV / Invested capital	1.5x	1.3x	1.2x	1.2x
ROAIC	12.0%	5.9%	12.0%	12.2%
ROAE	17.2%	6.1%	18.9%	19.0%
KPIs				
Revenue growth (Y-o-Y)	12.2%	6.3%	22.6%	8.9%
EBITDA growth (Y-o-Y)	0.4%	-33.0%	96.6%	8.3%
Gross profit margin	24.6%	21.6%	24.2%	24.4%
EBITDA margin	11.2%	7.1%	11.3%	11.2%
Net operating profit (EBIT) margin	8.9%	4.4%	8.6%	8.5%
Effective tax rate	26.3%	25.4%	26.2%	26.2%
Net Debt (Cash) / Equity	0.6x	1.0x	0.8x	0.7x
Net Debt (Cash) / EBITDA	1.6x	3.6x	1.7x	1.5x

Source: Domty, EFG Hermes estimates

Valuation & key forecast highlights

Figure 20: Summary of DCF valuation

In EGPmn unless otherwise stated

	2022e	2023e	2024e	2025e	2026e
EBITDA	442	478	515	554	606
Taxes	(69)	(76)	(84)	(92)	(104)
Appropriations	(9)	(27)	(28)	(28)	(26)
Capex	(155)	(73)	(78)	(84)	(90)
Working capital investments	(72)	(102)	(99)	(108)	(117)
Free cash flow	137	200	226	242	268
<i>PV of FCFs</i>	<i>128</i>	<i>165</i>	<i>164</i>	<i>154</i>	<i>150</i>
<i>PV of terminal value</i>					<i>4,241</i>
WACC	13.8%				
Terminal growth rate	7.0%				
Enterprise value	3,136				
Net debt (3Q21)	875				
Equity value	2,261				
Number of shares (mn)	282.6				
Target price (EGP)	8.00				

Source: Company data, EFG Hermes estimates

Figure 21: Sensitivity of TP (EGP) to changes in WACC and terminal growth rate

		WACC				
		11.8%	12.8%	13.8%	14.8%	15.8%
Terminal growth rate	5.0%	8.7	7.1	6.0	5.0	4.3
	6.0%	10.3	8.3	6.8	5.7	4.8
	7.0%	12.6	9.9	8.0	6.6	5.5
	8.0%	16.2	12.2	9.6	7.7	6.3
	9.0%	22.4	15.7	11.8	9.2	7.4

Source: EFG Hermes estimates

Figure 22: Revenue and gross profit forecasts by segment

In EGPmn, unless otherwise stated

	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Cheese segment summary									
Capacity (tonnes)	213,169	213,169	213,889	213,889	213,889	213,889	213,889	213,889	213,889
Growth	0%	0%	0%	0%	0%	0%	0%	0%	0%
Utilisation	49%	43%	45%	44%	46%	47%	49%	52%	54%
Volume sold (tonnes)	104,004	90,734	96,324	93,636	97,431	101,508	105,861	110,512	115,382
Growth	45%	-13%	6%	-3%	4%	4%	4%	4%	4%
Avg. price (EGP/tonne)	21,341	22,358	21,987	23,445	24,553	25,335	26,132	26,961	27,784
Growth	-23%	5%	-2%	7%	5%	3%	3%	3%	3%
Revenue	2,219.6	2,028.6	2,117.9	2,195.3	2,392.2	2,571.7	2,766.4	2,979.5	3,205.8
Growth	11%	-9%	4%	4%	9%	8%	8%	8%	8%
% of total revenue	86%	76%	71%	69%	61%	60%	60%	59%	58%
Gross profit	562.8	516.6	498.2	445.6	502.4	546.2	594.2	647.1	704.0
Gross margin	25.4%	25.5%	23.5%	20.3%	21.0%	21.2%	21.5%	21.7%	22.0%
Change	4.0%	0.1%	-1.9%	-3.2%	0.7%	0.2%	0.2%	0.2%	0.2%
Juice & milk segment									
Capacity (tonnes)	101,000	101,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000
Growth	0%	0%	12%	0%	0%	0%	0%	0%	0%
Utilisation	37%	35%	36%	35%	40%	46%	53%	61%	69%
Volume sold (tonnes)	37,810	35,012	41,024	39,630	45,574	52,296	59,879	68,412	77,990
Growth	16%	-7%	17%	-3%	15%	15%	15%	14%	14%
Avg. price (EGP/tonne)	8,455	8,729	8,301	8,218	8,464	8,718	8,980	9,204	9,480
Growth	9%	3%	-5%	-1%	3%	3%	3%	3%	3%
Revenue	319.7	305.6	340.5	325.7	385.7	455.9	537.7	629.7	739.4
Growth	27%	-4%	11%	-4%	18%	18%	18%	17%	17%
% of total revenue	12%	11%	11%	10%	10%	11%	12%	12%	13%
Gross profit	57.2	55.1	67.1	51.1	64.4	77.1	91.9	108.9	129.4
Gross margin	17.9%	18.0%	19.7%	15.7%	16.7%	16.9%	17.1%	17.3%	17.5%
Change	5.2%	0.1%	1.7%	-4.0%	1.0%	0.2%	0.2%	0.2%	0.2%
Bakery									
Capacity (000 packs)	85,800	200,200	286,000	286,000	457,600	457,600	457,600	457,600	457,600
Utilisation	24%	51%	60%	72%	75%	80%	85%	90%	95%
Volume sold (000 packs)	21	103	170	206	343	366	389	412	435
Growth		400%	66%	21%	67%	7%	6%	6%	6%
Avg. price (EGP/pack)	2.46	3.26	3.15	3.22	3.28	3.35	3.41	3.48	3.55
Growth		0%	0%	2%	2%	2%	2%	2%	2%
Revenue	50.4	334.4	537.0	662.1	1,125.6	1,224.7	1,327.2	1,433.4	1,543.3
Growth		564%	61%	23%	70%	9%	8%	8%	8%
% of total revenue	2%	13%	18%	21%	29%	29%	29%	28%	28%
Gross profit	12.9	118.8	181.7	203.9	394.0	429.9	467.2	506.0	546.3
Gross margin	25.5%	35.5%	33.8%	30.8%	35.0%	35.1%	35.2%	35.3%	35.4%
Change	25.5%	10.0%	-1.7%	-3.0%	4.2%	0.1%	0.1%	0.1%	0.1%
Unallocated									
Gross profit	(5)	(6)	(11)	(13)	(14)	(17)	(19)	(22)	(25)
Total revenue	2,589.7	2,668.6	2,995.3	3,183.0	3,903.5	4,252.2	4,631.3	5,042.6	5,488.4
Growth	15%	3%	12%	6%	23%	9%	9%	9%	9%
Total gross profit	627.8	684.2	736.0	688.1	946.3	1,036.5	1,134.2	1,240.1	1,354.4
Growth	39%	9%	8%	-7%	38%	10%	9%	9%	9%
Gross margin	24.2%	25.6%	24.6%	21.6%	24.2%	24.4%	24.5%	24.6%	24.7%
Change	4.2%	1.4%	-1.1%	-3.0%	2.6%	0.1%	0.1%	0.1%	0.1%

Source: Company data, EFG Hermes estimates

Figure 23: Income statement and balance sheet trends

In EGPMn

	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Total revenue	2,589.7	2,668.6	2,995.3	3,183.0	3,903.5	4,252.2	4,631.3	5,042.6	5,488.4
<i>Growth</i>	15%	3%	12%	6%	23%	9%	9%	9%	9%
Total gross profit	627.8	684.2	736.0	688.1	946.3	1,036.5	1,134.2	1,240.1	1,354.4
<i>Growth</i>	39%	9%	8%	-7%	38%	10%	9%	9%	9%
<i>Gross margin</i>	24.2%	25.6%	24.6%	21.6%	24.2%	24.4%	24.5%	24.6%	24.7%
<i>Change</i>	4.2%	1.4%	-1.1%	-3.0%	2.6%	0.1%	0.1%	0.1%	0.1%
EBITDA	359	334	335	225	442	478	515	554	606
<i>Growth</i>	72%	-7%	0%	-33%	97%	8%	8%	8%	9%
<i>EBITDA margin</i>	13.8%	12.5%	11.2%	7.1%	11.3%	11.2%	11.1%	11.0%	11.0%
<i>Change</i>	4.6%	-1.3%	-1.3%	-4.1%	4.3%	-0.1%	-0.1%	-0.1%	0.1%
Depreciation	48	59	68	86	104	116	124	133	142
<i>Growth</i>	12%	23%	14%	27%	21%	12%	7%	7%	7%
EBIT	301	274	268	139	337	362	391	421	464
<i>Growth</i>	97%	-9%	-3%	-48%	143%	7%	8%	8%	10%
<i>EBIT margin</i>	11.6%	10.3%	8.9%	4.4%	8.6%	8.5%	8.4%	8.4%	8.5%
<i>Change</i>	4.8%	-1.3%	-1.4%	-4.6%	4.3%	-0.1%	-0.1%	-0.1%	0.1%
Recurring net income	124	137	131	50	166	185	208	234	268
<i>Growth</i>	211%	10%	-4%	-62%	232%	12%	12%	13%	14%
<i>Recurring net margin</i>	4.8%	5.1%	4.4%	1.6%	4.3%	4.4%	4.5%	4.6%	4.9%
<i>Change</i>	3.0%	0.3%	-0.7%	-2.8%	2.7%	0.1%	0.1%	0.2%	0.2%
Inventory DoH	48	56	48	65	75	74	73	72	71
Receivable DoH	81	80	75	69	56	62	67	71	75
Payable DoH	40	43	44	43	37	41	43	45	47
CCC (days)	89	93	80	91	94	95	96	97	98
Net debt (incl. lease liability)	595	590	525	802	771	714	644	570	477
<i>Net debt/equity (x)</i>	0.95	0.82	0.65	0.96	0.83	0.69	0.57	0.45	0.34
<i>Net debt/EBITDA (x)</i>	1.66	1.66	1.66	3.57	1.75	1.49	1.25	1.03	0.79

Source: Company data, EFG Hermes estimates

Financial statements

Income Statement (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Revenue	2,995	3,183	3,904	4,252
COGS	(2,259)	(2,495)	(2,957)	(3,216)
Gross profit	736	688	946	1,036
SG&A	(483)	(547)	(609)	(674)
Other operating inc (expense)	29	18	26	29
EBITDA	335	225	442	478
Depreciation and amortisation	(68)	(86)	(104)	(116)
Net operating profit (EBIT)	268	139	337	362
Share of results from associates	0	0	0	0
Net investment income (loss)	0	0	0	0
Net interest income (expense)	(60)	(66)	(76)	(74)
Other non-operating inc (exp.)	1	6	1	1
FX gains (loss)	5	2	0	0
Net provisions	(0)	(1)	0	0
Income before taxes or zakat	214	81	262	289
Taxes or zakat	(56)	(20)	(69)	(76)
Net inc before minority interest	158	60	193	213
Minority interest	(0)	(0)	(0)	(0)
Reported net income	158	60	193	213
Adjusted net income	131	50	166	185

Source: Domty, EFG Hermes estimates

Balance Sheet (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Cash and cash equivalents	371	337	373	409
Accounts receivable (current)	667	540	657	785
Inventory	287	573	612	655
Other debit balances (current)	190	222	230	238
Total current assets	1,515	1,672	1,872	2,087
PP&E (net)	749	779	830	787
Goodwill & intangibles	0	0	0	0
Investments (non-current)	0	0	0	0
Other debit balances (non-current)	0	0	0	0
Total non-current assets	749	779	830	787
Total assets	2,264	2,451	2,701	2,874
Short term debt	779	988	1,024	1,036
Accounts payable (current)	307	259	325	374
Other credit balances (current)	197	168	252	294
Total current liabilities	1,282	1,415	1,602	1,705
Long term debt	117	150	119	87
Other credit balances (non-current)	55	53	53	53
Total non-current liabilities	172	203	172	140
Total net worth	809	832	928	1,028
Total equity	809	832	928	1,028
Total equity and liabilities	2,264	2,451	2,701	2,874

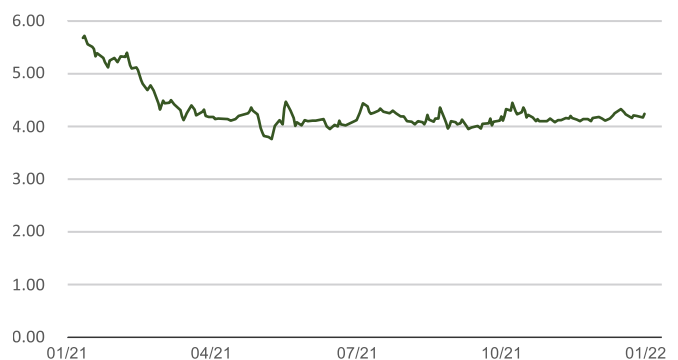
Source: Domty, EFG Hermes estimates

Cash Flow (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Cash operating profit after taxes	249	182	364	375
Change in working capital	(16)	(223)	(72)	(102)
Cash flow after change in WC	233	(41)	292	274
CAPEX	(79)	(116)	(155)	(73)
Investments	0	0	0	0
Free cash flow	154	(156)	137	200
Non-operating cash flow	(24)	(42)	(69)	(46)
Cash flow before financing	130	(198)	68	154
Net financing	103	164	(32)	(118)
Change in cash	233	(34)	36	36

Source: Domty, EFG Hermes estimates

Rating and Target Price chart



Rating Distribution

Rating	Coverage Universe%
Buy	55%
Neutral	32%
Sell	13%
Not Rated	0%
Under Review	0%

Edita

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Company Update

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Stock Rating	Target Price	Closing Price
Buy	EGP15.0	EGP8.0

What's Changed	From	To
Target price	13.7	15.0
2021e EPS	0.518	0.535
2022e EPS	0.618	0.698

Raise TP and remain Buyers on solid recovery, attractive valuation; VAT increase no longer a risk

We raise our TP for Edita c9% to EGP15.0 (88% upside) mainly on DCF rollover, and after a strong recovery in 9M21 (recurring earnings +45% Y-o-Y) from a low base (9M20 recurring earnings -26% Y-o-Y as suspension of education institutions, entertainment events, etc. in 1H20 due to COVID-19 hurt on-the-go snack consumption). We have a Buy rating, as we believe current valuation (c11.5x 2022e P/E – close to lowest level since 2015 IPO) is attractive for a top-quality name, with a solid management and return profile (23% in 2020, despite depressed earnings). We also expect recent direct price increases implemented in 4Q21 (discussed below) to support strong earnings growth in 2022e (expect c31%). A key risk was a proposal to increase VAT on baked snacks to 14% from 5% currently, which is now off the table.

First direct price increase since 2016 implemented in 4Q21 to mitigate higher raw material costs

Gross margin has been on a downtrend since 1Q20, despite the volume recovery witnessed in 2021, as global supply chain disruptions have pushed commodity prices to multi-year highs (Edita's direct material costs +51% Y-o-Y in 3Q21 that saw the largest margin compression of c4.8pp), which was partially offset by savings on manufacturing overheads (declined to 11.4% of sales in 3Q21 from 13.5% last year). To mitigate the impact of higher commodity prices, Edita undertook its first direct price increase since EGP devaluation in 4Q21, raising prices across its cake and bakery segments by c25%+ on average. In Oct 2021, it raised prices in bakery across Molto products from EGP2.0/pack to EGP3.0 and from EGP3.0 to EGP4.0. In the cake segment, the company announced the rebranding of its Twinkies line of filled cakes, launching new upsized Twinkies SKUs at a higher price point of EGP3/pack in Nov, while increasing the price of the EGP1.5/pack range to EGP2. So far, the market's reaction to the price increases has been better than expected (no major volume impact in both segments, with EGP5-price-point products doing particularly well). However, we conservatively expect to see some mild impact on packs sold in 4Q21e (c2% drop in bakery; cake volume growth to decelerate to 7% in 4Q21e vs 16% in 9M21) – we note that total volumes fell 30% in 2017 following the aggressive price increases in 4Q16, due to the EGP devaluation, but we do not expect a similar outcome this time.

To add new bakery line in 2022e; expanding into new segments and geographies

In 4Q21, Edita ordered a new bakery line for EGP150mn that would add c20% to existing capacity (expected to start production by 1Q22), as the segment is running at high utilisation rates post the strong volume recovery in 9M21 (+32% Y-o-Y). Capex guidance for 2022e is EGP400mn, which will be mainly spent on its 76%-owned factory in Morocco (construction work was completed earlier this year; started commercial operations at the facility's first cake line in Dec 2021 – cUSD100mn market – with an annual capacity of 2.7k tonnes; expected to contribute 1-2% of revenue). Meanwhile, the performance of the recently launched biscuits segment was not as expected (was soft-launched during the pandemic last year), with Edita looking to introduce new products, change product packaging and launch a new marketing campaign.

Key Financial Highlights (Dec Year End)

In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Revenue	4,021	5,242	6,124	6,878
EBITDA	660	765	939	1,087
Net income	315	388	507	609
EPS (EGP)	0.43	0.53	0.70	0.84
EPS consensus (EGP)	0.43	0.44	0.53	N/A
Price to earnings	18.4x	15.0x	11.5x	9.5x
Dividend yield	2.6%	3.5%	5.7%	7.9%
Net debt (cash) / Equity	0.2x	0.1x	0.1x	(0.0)x
EV / EBITDA	9.5x	8.2x	6.7x	5.8x
ROAE	22.7%	24.9%	29.0%	31.8%
FCF yield	0.6%	3.8%	3.8%	8.2%

Source: Edita, Bloomberg and EFG Hermes estimates

Stock Data

Closing Price	EGP8.00 as of 30 Jan 2022
Last Div. / Ex. Date	EGP0.207 / 20 Apr 2021
Mkt. Cap / Shares (mn)	USD370.8 / 725.4
Av. Daily Liquidity (mn)	USD0.25
52-Week High / Low	EGP9.12 / EGP6.87
Bloomberg / Reuters	EFID EY / EFID.CA
Est. Free Float	46.2%

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Data Miner

Investment Thesis

Est. in 1996, Edita is Egypt's second largest snack producer and operates in five segments: i) cake (HTT brands & Todo, c43% of 2020 revenues, c49% 2020 market share, #1 player); ii) croissant (Molto, c37%, c59%, #1); iii) rusks (Bake Rolz, c7%, c44%, #2); iv) wafer (Freska, c8%, c11%, #3); and v) candy (Mimix, c4%, c8%, #2). It is a play on Egypt's underpenetrated and fast-growing snack market (cEGP40bn), with the opportunity to diversify (present in less than a third of the market). Edita has room to add capacity with its new plant E08 (c55k sqm), capable of housing 13 lines (only four now). It has a superior profitability profile (ROAE of c20% in 2020), supported by a diversified raw material cost base (c19% imported) and low marketing spending. While snack pricing is challenging (EGP0.5 increments), Edita has a track record of indirect price increases and was swift in shifting to first-time outright price increases in 4Q16 post EGP devaluation. It has a strong balance sheet and FCF generation, owing to its consistently negative CCC (97% of sales in cash). Edita ventured into biscuits in 2020 (SAR3bn+ market; to reach 2% of sales by 2026e) and will produce in Morocco via a c76% owned JV (c2% by 2026e). We are Buyers of Edita, as we like its solid return profile and mgmt., as well as its dynamic approach to product launches and SKU rationalisation that should drive strong earnings growth.

Dec Year End				
In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Income Statement				
Revenue	4,021	5,242	6,124	6,878
EBITDA	660	765	939	1,087
Net operating profit (EBIT)	465	560	710	843
Taxes or zakat	(107)	(135)	(156)	(178)
Minority interest	3	1	(2)	(5)
Net income	315	388	507	609
Balance Sheet				
Cash and cash equivalents	718	971	814	814
Total assets	3,768	4,221	4,377	4,573
Total liabilities	2,142	2,394	2,371	2,409
Total equity	1,627	1,826	2,006	2,163
Total net debt (cash)	386	222	124	(81)
Cash Flow Statement				
Cash operating profit after taxes	535	606	755	878
Change in working capital	(10)	(79)	(23)	(25)
CAPEX	(396)	(220)	(420)	(303)
Investments	0	0	0	0
Free cash flow	129	308	313	550
Net financing	(74)	(72)	(464)	(544)
Change in cash	22	254	(157)	(0)

Source: Edita, EFG Hermes estimates

Valuation and Risks

We value Edita using a DCF methodology, yielding a TP of EGP15.0/share. Upside risks include: i) greater-than-expected capacity additions; ii) faster-than-expected volume recovery; iii) better margins on lower input costs, improved sales mix and/or faster migration at higher price points; iv) greater-than-expected exports/int'l revenues (c6% of 2020 sales), in light of the agreement with Hostess acquiring rights to HTT brands in 12 additional geographies and Morocco JV (started exports in 2018, production end of 2021e); v) successfully venturing into new snack categories (biscuits, chocolates, etc.); and vi) value-accretive expansions outside Egypt (greenfield or acquisitions). Downside risks include: i) lower-than-expected capacity additions; ii) slower volume growth; iii) dedicating new capacities, primarily to new categories and/or geographies that may take time for profitably to ramp up; iv) difficulty in raising prices, given low price points; v) spike in raw material costs (c57% of 2020 cash costs); vi) higher staff costs (c17% of cash costs), especially if the company runs expensive overtime shifts; vii) FX risk (c19% of inputs imported, partly covered by exports); viii) loss of market share to competition; ix) increase in VAT on baked snacks from 5% to 14%; and x) key person risk (CEO is from the founding family and is involved in setting and implementing strategies).

Dec Year End				
In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Per Share Financial Summary				
EPS (EGP)	0.43	0.53	0.70	0.84
DPS (EGP)	0.21	0.28	0.45	0.63
BVPS (EGP)	2.24	2.51	2.76	2.96
Valuation Metrics				
Price to earnings	18.4x	15.0x	11.5x	9.5x
Price to book value	3.6x	3.2x	2.9x	2.7x
Price to cash flow	11.1x	11.0x	7.9x	6.8x
FCF yield	0.6%	3.8%	3.8%	8.2%
Dividend yield	2.6%	3.5%	5.7%	7.9%
EV / EBITDA	9.5x	8.2x	6.7x	5.8x
EV / Invested capital	3.1x	3.1x	2.9x	3.0x
ROAIC	14.7%	15.7%	19.6%	24.1%
ROAE	22.7%	24.9%	29.0%	31.8%
KPIs				
Revenue growth (Y-o-Y)	-0.1%	30.4%	16.8%	12.3%
EBITDA growth (Y-o-Y)	-6.9%	16.0%	22.8%	15.8%
Gross profit margin	34.5%	31.0%	32.2%	32.7%
EBITDA margin	16.4%	14.6%	15.3%	15.8%
Net operating profit (EBIT) margin	11.6%	10.7%	11.6%	12.3%
Effective tax rate	26.1%	25.2%	23.5%	22.5%
Net Debt (Cash) / Equity	0.2x	0.1x	0.1x	(0.0)x
Net Debt (Cash) / EBITDA	0.6x	0.3x	0.1x	(0.1)x

Source: Edita, EFG Hermes estimates

Valuation & key forecast highlights

Figure 24: Summary of DCF valuation

In EGPmn unless otherwise stated

	2022e	2023e	2024e	2025e	2026e
EBITDA	939	1,087	1,249	1,432	1,631
Taxes	(184)	(209)	(248)	(292)	(340)
Capex	(420)	(303)	(313)	(338)	(347)
Working capital investments	(23)	(25)	(28)	(31)	(34)
Free cash flow	313	550	660	771	910
<i>PV of FCFs</i>	<i>293</i>	<i>452</i>	<i>475</i>	<i>487</i>	<i>504</i>
<i>PV of terminal value</i>					<i>9,028</i>
WACC	14.0%				
Terminal growth rate	8.0%				
Enterprise value	11,239				
Net debt (3Q21)	493				
Minority interest (3Q21)	(25)				
Equity value	10,846				
Number of shares (mn)	723.1				
Target price/share (EGP)	15.0				

Implies USD4.78/GDR based on EGP/USD of 15.7

Source: Company data, EFG Hermes estimates

Figure 25: Sensitivity of TP (EGP) to changes in WACC and terminal growth rate

		WACC				
		12.0%	13.0%	14.0%	15.0%	16.0%
Terminal growth rate	6.0%	15.9	13.5	11.7	10.3	9.2
	7.0%	18.7	15.5	13.1	11.4	10.0
	8.0%	22.9	18.2	15.0	12.7	11.0
	9.0%	29.8	22.2	17.6	14.6	12.4
	10.0%	43.6	28.9	21.5	17.1	14.1

Source: EFG Hermes estimates

Figure 26: Revenue and gross profit forecasts by segment

In EGPmn, unless otherwise stated

	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Total revenue	3,776	4,025	4,021	5,242	6,124	6,878	7,630	8,451	9,305
<i>Growth</i>	<i>24%</i>	<i>7%</i>	<i>0%</i>	<i>30%</i>	<i>17%</i>	<i>12%</i>	<i>11%</i>	<i>11%</i>	<i>10%</i>
Total gross profit	1,211	1,422	1,387	1,623	1,970	2,252	2,546	2,872	3,219
<i>Gross margin</i>	<i>32.1%</i>	<i>35.3%</i>	<i>34.5%</i>	<i>31.0%</i>	<i>32.2%</i>	<i>32.7%</i>	<i>33.4%</i>	<i>34.0%</i>	<i>34.6%</i>
CAKE									
Production capacity (ktpa)	76.3	76.3	76.3	76.3	84.0	84.0	84.0	84.0	84.0
Volumes sold (ktpa)	43.4	41.2	42.2	55.9	57.0	60.5	63.9	67.7	71.1
<i>Growth</i>	<i>10%</i>	<i>-5%</i>	<i>2%</i>	<i>33%</i>	<i>2%</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>	<i>5%</i>
<i>Utilisation</i>	<i>57%</i>	<i>54%</i>	<i>55%</i>	<i>73%</i>	<i>68%</i>	<i>72%</i>	<i>76%</i>	<i>81%</i>	<i>85%</i>
Average price/tonne (EGP)	40,934	43,017	40,533	39,519	42,286	43,554	44,861	46,207	47,593
<i>Growth</i>	<i>2%</i>	<i>5%</i>	<i>-6%</i>	<i>-3%</i>	<i>7%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>
Revenue	1,777	1,772	1,710	2,210	2,412	2,633	2,867	3,130	3,385
<i>Growth</i>	<i>12%</i>	<i>0%</i>	<i>-3%</i>	<i>29%</i>	<i>9%</i>	<i>9%</i>	<i>9%</i>	<i>9%</i>	<i>8%</i>
<i>Contr. to total revenue</i>	<i>47%</i>	<i>44%</i>	<i>43%</i>	<i>42%</i>	<i>39%</i>	<i>38%</i>	<i>38%</i>	<i>37%</i>	<i>36%</i>
Gross profit	638.7	719.3	669.7	749.1	853.7	945.3	1043.5	1154.9	1266.0
<i>Gross margin</i>	<i>36.0%</i>	<i>40.6%</i>	<i>39.2%</i>	<i>33.9%</i>	<i>35.4%</i>	<i>35.9%</i>	<i>36.4%</i>	<i>36.9%</i>	<i>37.4%</i>
<i>Contr. To gross profit</i>	<i>53%</i>	<i>51%</i>	<i>48%</i>	<i>46%</i>	<i>43%</i>	<i>42%</i>	<i>41%</i>	<i>40%</i>	<i>39%</i>
BAKERY									
Production capacity (ktpa)	60.6	60.6	60.6	60.6	71.6	71.6	71.6	71.6	71.6
Volumes sold (ktpa)	33.5	34.5	38.4	46.6	48.9	53.8	58.7	63.4	67.8
<i>Growth</i>	<i>33%</i>	<i>3%</i>	<i>11%</i>	<i>21%</i>	<i>5%</i>	<i>10%</i>	<i>9%</i>	<i>8%</i>	<i>7%</i>
<i>Utilisation</i>	<i>55%</i>	<i>57%</i>	<i>63%</i>	<i>77%</i>	<i>68%</i>	<i>75%</i>	<i>82%</i>	<i>89%</i>	<i>95%</i>
Average price/tonne (EGP)	36,894	39,455	39,246	42,778	50,478	51,993	53,552	55,159	56,814
<i>Growth</i>	<i>4%</i>	<i>7%</i>	<i>-1%</i>	<i>9%</i>	<i>18%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>
Revenue	1,236	1,361	1,507	1,994	2,471	2,799	3,143	3,496	3,853
<i>Growth</i>	<i>38%</i>	<i>10%</i>	<i>11%</i>	<i>32%</i>	<i>24%</i>	<i>13%</i>	<i>12%</i>	<i>11%</i>	<i>10%</i>
<i>Contr. to total revenue</i>	<i>33%</i>	<i>34%</i>	<i>37%</i>	<i>38%</i>	<i>40%</i>	<i>41%</i>	<i>41%</i>	<i>41%</i>	<i>41%</i>
Gross profit	365.5	448.2	512.8	608.2	785.7	911.2	1046.6	1190.5	1340.9
<i>Gross margin</i>	<i>29.6%</i>	<i>32.9%</i>	<i>34.0%</i>	<i>30.5%</i>	<i>31.8%</i>	<i>32.6%</i>	<i>33.3%</i>	<i>34.1%</i>	<i>34.8%</i>
<i>Contr. to gross profit</i>	<i>30%</i>	<i>32%</i>	<i>37%</i>	<i>37%</i>	<i>40%</i>	<i>40%</i>	<i>41%</i>	<i>41%</i>	<i>42%</i>
RUSKS									
Production capacity (ktpa)	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Volumes sold (ktpa)	7.2	8.6	6.2	6.3	6.9	7.2	7.3	7.3	7.4
<i>Growth</i>	<i>26%</i>	<i>19%</i>	<i>-28%</i>	<i>1%</i>	<i>10%</i>	<i>5%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>
<i>Utilisation</i>	<i>97%</i>	<i>116%</i>	<i>84%</i>	<i>85%</i>	<i>93%</i>	<i>98%</i>	<i>99%</i>	<i>99%</i>	<i>100%</i>
Average price/tonne (EGP)	43,487	45,837	46,416	45,952	47,331	48,750	50,213	51,719	53,271
<i>Growth</i>	<i>10%</i>	<i>5%</i>	<i>1%</i>	<i>-1%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>
Revenue	313	394	288	288	326	353	367	380	393
<i>Growth</i>	<i>39%</i>	<i>26%</i>	<i>-27%</i>	<i>0%</i>	<i>13%</i>	<i>8%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>
<i>Contr. to total revenue</i>	<i>8%</i>	<i>10%</i>	<i>7%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>4%</i>	<i>4%</i>
Gross profit	88.5	116.8	85.2	80.6	92.9	102.3	108.2	113.9	119.9
<i>Gross margin</i>	<i>28.3%</i>	<i>29.6%</i>	<i>29.6%</i>	<i>28.0%</i>	<i>28.5%</i>	<i>29.0%</i>	<i>29.5%</i>	<i>30.0%</i>	<i>30.5%</i>
<i>Contr. to gross profit</i>	<i>7%</i>	<i>8%</i>	<i>6%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>

Source: Company data, EFG Hermes estimates

Figure 27: Revenue and gross profit forecasts by segment (cont'd)

In EGPmn, unless otherwise stated

	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
WAFER									
Production capacity (ktpa)	6.0	6.6	14.3	14.3	14.3	14.3	14.3	14.3	14.3
Volumes sold (ktpa)	4.7	5.9	5.8	9.4	10.5	11.5	12.3	13.2	14.0
Growth	52%	26%	-2%	62%	12%	10%	8%	7%	6%
Utilisation	79%	89%	41%	66%	73%	80%	86%	92%	98%
Average price/tonne (EGP)	58,899	57,119	57,958	61,436	63,279	65,177	67,133	69,147	71,221
Growth	1%	-3%	1%	6%	3%	3%	3%	3%	3%
Revenue	277	337	336	577	663	748	828	912	996
Growth	53%	22%	0%	72%	15%	13%	11%	10%	9%
Contr. to total revenue	7%	8%	8%	11%	11%	11%	11%	11%	11%
Gross profit	76.4	96.8	85.2	158.7	195.6	228.0	260.8	296.5	333.7
Gross margin	27.6%	28.7%	25.3%	27.5%	29.5%	30.5%	31.5%	32.5%	33.5%
Contr. to gross profit	6%	7%	6%	10%	10%	10%	10%	10%	10%
CANDY									
Production capacity (ktpa)	9.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1
Volumes sold (ktpa)	3.6	4.4	3.5	3.5	3.9	4.4	5.0	5.9	7.1
Growth	6%	22%	-20%	1%	10%	13%	15%	18%	20%
Utilisation	39%	36%	29%	29%	32%	36%	41%	49%	58%
Average price/tonne (EGP)	44,539	35,250	44,885	43,538	44,844	46,190	47,575	49,003	50,473
Growth	0%	-21%	27%	-3%	3%	3%	3%	3%	3%
Revenue	160	155	157	154	174	202	239	290	358
Growth	6%	-3%	1%	-2%	13%	16%	18%	21%	24%
Contr. to total revenue	4%	4%	4%	3%	3%	3%	3%	3%	4%
Gross profit	36.9	39.2	34.8	24.5	29.5	36.2	45.2	57.6	74.8
Gross margin	23.0%	25.3%	22.2%	15.9%	16.9%	17.9%	18.9%	19.9%	20.9%
Contr. to gross profit	3%	3%	3%	2%	1%	2%	2%	2%	2%
BISCUITS									
Production capacity (ktpa)			6.2	6.2	6.2	6.2	6.2	6.2	6.2
Volumes sold (ktpa)			0.2	0.2	0.3	0.5	0.7	1.1	1.7
Growth				10%	50%	50%	50%	50%	50%
Utilisation			0%	4%	5%	8%	12%	18%	27%
Average price/tonne (EGP)			89,000	80,100	82,503	84,978	87,527	90,153	92,858
Growth				-10%	3%	3%	3%	3%	3%
Revenue			18	18	27	42	65	100	155
Growth				-1%	55%	55%	55%	55%	55%
Contr. to total revenue			0%	0%	0%	1%	1%	1%	2%
Gross profit			-2.7	0.9	4.1	8.4	14.6	25.1	42.7
Gross margin			-15.2%	5.0%	15.0%	20.0%	22.5%	25.0%	27.5%
Contr. to gross profit			0%	0%	0%	0%	1%	1%	1%
IMPORTS									
Revenue	13.7	5.5	4.3	1.3	1.4	1.5	1.7	1.9	2.1
Growth	93%	-60%	-23%	-70%	10%	10%	10%	10%	10%
Contr. to total revenue	0%	0%	0%	0%	0%	0%	0%	0%	0%
Gross profit	5.3	2.1	2.4	0.9	1.0	1.1	1.2	1.3	1.4
Gross margin	38.7%	38.2%	56.3%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Contr. to gross profit	0%	0%	0%	0%	0%	0%	0%	0%	0%
MOROCCO									
Revenue					50.0	100.0	120.0	141.0	162.2
Growth						100%	20%	18%	15%
Contr. to total revenue					1%	1%	2%	2%	2%
Gross profit					7.5	20.0	25.8	32.4	39.7
Gross margin					15.0%	20.0%	21.5%	23.0%	24.5%
Contr. to gross profit					0%	1%	1%	1%	1%

Source: Company data, EFG Hermes estimates

Figure 28: Income statement and balance sheet trends

In EGPmn

	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Total revenue	3,776	4,025	4,021	5,242	6,124	6,878	7,630	8,451	9,305
<i>Growth</i>	<i>24%</i>	<i>7%</i>	<i>0%</i>	<i>30%</i>	<i>17%</i>	<i>12%</i>	<i>11%</i>	<i>11%</i>	<i>10%</i>
Total gross profit	1,211	1,422	1,387	1,623	1,970	2,252	2,546	2,872	3,219
<i>Growth</i>	<i>28%</i>	<i>17%</i>	<i>-2%</i>	<i>17%</i>	<i>21%</i>	<i>14%</i>	<i>13%</i>	<i>13%</i>	<i>12%</i>
<i>Gross margin</i>	<i>32.1%</i>	<i>35.3%</i>	<i>34.5%</i>	<i>31.0%</i>	<i>32.2%</i>	<i>32.7%</i>	<i>33.4%</i>	<i>34.0%</i>	<i>34.6%</i>
<i>Change in margin</i>	<i>1.0%</i>	<i>3.3%</i>	<i>-0.8%</i>	<i>-3.5%</i>	<i>1.2%</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.6%</i>
EBITDA	663.2	708.8	659.8	765.1	939.3	1,087.4	1,248.9	1,432.0	1,631.0
<i>Growth</i>	<i>42%</i>	<i>7%</i>	<i>-7%</i>	<i>16%</i>	<i>23%</i>	<i>16%</i>	<i>15%</i>	<i>15%</i>	<i>14%</i>
<i>EBITDA margin</i>	<i>17.6%</i>	<i>17.6%</i>	<i>16.4%</i>	<i>14.6%</i>	<i>15.3%</i>	<i>15.8%</i>	<i>16.4%</i>	<i>16.9%</i>	<i>17.5%</i>
<i>Change in margin</i>	<i>2.2%</i>	<i>0.0%</i>	<i>-1.2%</i>	<i>-1.8%</i>	<i>0.7%</i>	<i>0.5%</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.6%</i>
Total depreciation	(144.2)	(160.5)	(195.3)	(204.6)	(229.6)	(244.8)	(260.5)	(277.4)	(294.8)
<i>Growth</i>	<i>32%</i>	<i>11%</i>	<i>22%</i>	<i>5%</i>	<i>12%</i>	<i>7%</i>	<i>6%</i>	<i>7%</i>	<i>6%</i>
Operating profit	519.0	548.3	464.5	560.5	709.7	842.6	988.4	1,154.6	1,336.2
<i>Growth</i>	<i>45%</i>	<i>6%</i>	<i>-15%</i>	<i>21%</i>	<i>27%</i>	<i>19%</i>	<i>17%</i>	<i>17%</i>	<i>16%</i>
<i>EBIT margin</i>	<i>13.7%</i>	<i>13.6%</i>	<i>11.6%</i>	<i>10.7%</i>	<i>11.6%</i>	<i>12.3%</i>	<i>13.0%</i>	<i>13.7%</i>	<i>14.4%</i>
<i>Change in margin</i>	<i>2.0%</i>	<i>-0.1%</i>	<i>-2.1%</i>	<i>-0.9%</i>	<i>0.9%</i>	<i>0.7%</i>	<i>0.7%</i>	<i>0.7%</i>	<i>0.7%</i>
Recurring net income	304.5	348.8	315.3	387.9	506.8	609.4	728.0	865.8	1,015.7
<i>Growth</i>	<i>35%</i>	<i>15%</i>	<i>-10%</i>	<i>23%</i>	<i>31%</i>	<i>20%</i>	<i>19%</i>	<i>19%</i>	<i>17%</i>
<i>Net margin</i>	<i>8.1%</i>	<i>8.7%</i>	<i>7.8%</i>	<i>7.4%</i>	<i>8.3%</i>	<i>8.9%</i>	<i>9.5%</i>	<i>10.2%</i>	<i>10.9%</i>
<i>Change in margin</i>	<i>0.6%</i>	<i>0.6%</i>	<i>-0.8%</i>	<i>-0.4%</i>	<i>0.9%</i>	<i>0.6%</i>	<i>0.7%</i>	<i>0.7%</i>	<i>0.7%</i>
Inventory DoH	42	41	42	38	43	46	49	52	56
Receivables DoH	11	15	17	13	14	14	15	16	16
Payables DoH	61	70	81	68	68	70	72	74	77
CCC	(9)	(14)	(22)	(16)	(11)	(9)	(8)	(6)	(5)
Net debt	372.0	273.8	385.6	221.6	123.9	(80.8)	(283.7)	(491.9)	(712.5)
<i>Net debt/ equity (x)</i>	<i>0.33</i>	<i>0.21</i>	<i>0.26</i>	<i>0.13</i>	<i>0.07</i>	<i>(0.04)</i>	<i>(0.13)</i>	<i>(0.21)</i>	<i>(0.27)</i>
<i>Net debt/EBITDA (x)</i>	<i>0.56</i>	<i>0.39</i>	<i>0.58</i>	<i>0.29</i>	<i>0.13</i>	<i>(0.07)</i>	<i>(0.23)</i>	<i>(0.34)</i>	<i>(0.44)</i>

Source: Company data, EFG Hermes estimates

Financial statements

Income Statement (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Revenue	4,021	5,242	6,124	6,878
COGS	(2,634)	(3,619)	(4,155)	(4,626)
Gross profit	1,387	1,623	1,970	2,252
SG&A	(914)	(1,013)	(1,188)	(1,333)
Other operating inc (expense)	74	38	26	28
EBITDA	660	765	939	1,087
Depreciation and amortisation	(195)	(205)	(230)	(245)
Net operating profit (EBIT)	465	560	710	843
Share of results from associates	0	0	0	0
Net investment income (loss)	0	0	0	0
Net interest income (expense)	(20)	(11)	(8)	(10)
Other non-operating inc (exp.)	(18)	(12)	(34)	(37)
FX gains (loss)	(0)	6	0	0
Net provisions	(17)	(8)	(3)	(3)
Income before taxes or zakat	409	536	666	793
Taxes or zakat	(107)	(135)	(156)	(178)
Net inc before minority interest	302	401	509	614
Minority interest	3	1	(2)	(5)
Reported net income	305	402	507	609
Adjusted net income	315	388	507	609

Source: Edita, EFG Hermes estimates

Balance Sheet (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Cash and cash equivalents	718	971	814	814
Accounts receivable (current)	162	215	250	290
Inventory	315	446	534	632
Other debit balances (current)	0	0	0	0
Total current assets	1,195	1,632	1,598	1,736
PP&E (net)	2,406	2,425	2,618	2,678
Goodwill & intangibles	167	164	161	159
Investments (non-current)	0	0	0	0
Other debit balances (non-current)	0	0	0	0
Total non-current assets	2,573	2,588	2,779	2,837
Total assets	3,768	4,221	4,377	4,573
Short term debt	283	405	355	256
Accounts payable (current)	622	727	827	940
Other credit balances (current)	215	273	404	535
Total current liabilities	1,119	1,405	1,586	1,730
Long term debt	821	788	583	477
Other credit balances (non-current)	202	202	202	202
Total non-current liabilities	1,022	990	785	679
Total net worth	1,623	1,824	2,001	2,154
Total equity	1,627	1,826	2,006	2,163
Total equity and liabilities	3,768	4,221	4,377	4,573

Source: Edita, EFG Hermes estimates

Cash Flow (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Cash operating profit after taxes	535	606	755	878
Change in working capital	(10)	(79)	(23)	(25)
Cash flow after change in WC	525	528	733	853
CAPEX	(396)	(220)	(420)	(303)
Investments	0	0	0	0
Free cash flow	129	308	313	550
Non-operating cash flow	(32)	18	(6)	(6)
Cash flow before financing	97	326	307	544
Net financing	(74)	(72)	(464)	(544)
Change in cash	22	254	(157)	(0)

Source: Edita, EFG Hermes estimates

Rating and Target Price chart



Rating Distribution

Rating	Coverage Universe%
Buy	55%
Neutral	32%
Sell	13%
Not Rated	0%
Under Review	0%

Juhayna

Solid operational performance, but CEOs' arrest is an overhang

Company Update

Food Products. Egypt

www

Cut TP, but remain Buyers, with valuation near historical lows

We lower our TP for Juhayna c5% to EGP10.9 (55% upside), mainly as we apply a higher risk premium and remain Buyers, on valuation grounds – the stock is trading at a 2022e P/E of c12x (despite +29% in 2021, rebounding 72% from its lows) post the arrest of the company's founder, Chairman and CEO Safwan Thabet in Dec 2020 and his son CEO & Vice Chairman Seif Thabet in Feb 2021 (both detained on allegations related to funding the Muslim Brotherhood, which is considered a terrorist organisation). A non-executive chairman was appointed, and the company has been managed since then by a steering committee comprising management executives. Operations have not been impacted, with the company delivering strong 9M21 numbers (recurring earnings +22%; on +15% revenue and a 52% decline in net interest costs, on lower net debt – -67% Y-o-Y, -57% YTD to 0.1x equity – and rates). We conservatively expect 7% Y-o-Y growth in 2022e, partly deflated by higher taxes (pre-tax earnings +17%), with a solid 23% CAGR thereafter.

Decent revenue growth on share gains, market recovery and new product launches

Revenue growth picked up (+15% Y-o-Y in 9M21) after a flat 2020, supported by new product launches, market share gains and consumer recovery as spending behaviour normalised post COVID-19. Juhayna launched in Feb 2021 five SKUs under the sub-brand, 'N&G' (Nuts and Grains), becoming the first Egyptian company to introduce a full UHT plant-based milk range. In addition, it introduced flavoured Greek yoghurt in Apr 2021, after its plain range (launched in Mar 2020) was well-received by the market. While these new ventures target a niche and will not be big in an overall context, they will support profitability, given their high margins. We expect continued recovery in revenue trends (5YR CAGR: 12%) as income levels catch up with inflation, juice sales improve aided by the reopening of educational institutions, and conversion from loose to packaged milk (c50%) accelerates. Juhayna has also been growing its third-party distribution contracts, leveraging on its strong capabilities (signed a three-year third-party distribution agreement with KSA's tea player Rabea, with more in the pipeline). We expect small revenue contribution (c3%), but it should not be a material bottom-line driver, due to its low margins.

Margins hit by raw material cost pressures; balance sheet optimisation continues

Margins were pressured by higher raw material prices: gross margin contracted c3pp Y-o-Y to 29.5% in 9M21, while EBITDA margin narrowed a slightly less c2.5pp Y-o-Y to 15.1% in 9M21, on some SG&A cost controls (up only 10%). From 2022e, we assume SG&A costs to grow in line with revenue growth, but there is room for the company to surprise. The company also raised prices in 2021 (+5% for milk, +13% for yogurt and +9% for juice) and cut middlemen promotions to offset input cost pressures. There is also a continuous focus on balance-sheet optimisation (RoAIC at c19% and to exceed 30% in four years vs 10-year average of c12%) via better working capital management (inventory -9% YTD) and low capex (no major capacity addition needs) that should aid in continued deleveraging.

Key Financial Highlights (Dec Year End)

In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Revenue	7,642	8,765	9,937	11,219
EBITDA	1,346	1,299	1,450	1,702
Net income	451	515	557	707
EPS (EGP)	0.48	0.55	0.59	0.75
EPS consensus (EGP)	0.48	0.55	0.64	N/A
Price to earnings	14.6x	12.8x	11.8x	9.3x
Dividend yield	2.9%	4.3%	5.7%	7.9%
Net debt (cash) / Equity	0.3x	0.2x	0.1x	0.1x
EV / EBITDA	5.5x	5.7x	5.1x	4.3x
ROAE	18.3%	19.4%	19.5%	23.2%
FCF yield	12.4%	6.9%	5.8%	7.6%

Source: Juhayna, Bloomberg and EFG Hermes estimates

Stock Rating	Target Price	Closing Price
Buy	EGP10.9	EGP7.0

What's Changed	From	To
Target price	11.5	10.9
2021e EPS	0.512	0.547
2022e EPS	0.607	0.592

Stock Data

Closing Price	EGP7.00 as of 30 Jan 2022
Last Div. / Ex. Date	EGP0.200 / 03 Jan 2022
Mkt. Cap / Shares (mn)	USD421.1 / 941.4
Av. Daily Liquidity (mn)	USD0.50
52-Week High / Low	EGP7.65 / EGP4.06
Bloomberg / Reuters	JUFO EY / JUFO.CA
Est. Free Float	39.4%

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Data Miner

Investment Thesis

Established in 1983, Juhayna is Egypt's leading dairy and juice producer, with 58% market share in plain milk (2020), 28% in spoonable yoghurt (54% in drinkable) and 25% in juice (#2 player). Dairy is the largest revenue contributor (c51% in 2020), followed by yoghurt (c26%) and juice (c18%). Juhayna has four operating production facilities, producing 600k tonnes/year (6mn packs a year). It also has a 50.75% owned JV with Arla, which distributes mainly imported products. Its competitive edge lies in its strong brand equity and unmatched distribution network (c30 distribution centres and a fleet of 1k+ vehicles, covering c136k points of sale in 26 governorates). Juhayna has been working on backward-integrating its business by establishing agricultural and dairy farms to reach some raw milk self-sufficiency (c6k cows providing 10-15% of needs). We expect the company to continue to benefit from: i) its leading position in a fast-growing market with immense potential, driven by conversion from loose to packaged milk (only c48% of total); ii) Egypt's low per-capita consumption (9kg for dairy per annum); and iii) a relatively flexible pricing. We have a Buy rating, as we expect strong earnings growth (5YR CAGR: 20%), driven by continued volume and margin recovery, as well as lower net interest costs. However, the arrest of the company's founder (in Dec 2020) and his son (Feb 2021) is an overhang.

Dec Year End				
In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Income Statement				
Revenue	7,642	8,765	9,937	11,219
EBITDA	1,346	1,299	1,450	1,702
Net operating profit (EBIT)	1,032	962	1,095	1,325
Taxes or zakat	(247)	(221)	(316)	(396)
Minority interest	(0)	(0)	(0)	(0)
Net income	451	515	557	707
Balance Sheet				
Cash and cash equivalents	183	278	245	196
Total assets	5,136	5,402	5,620	5,883
Total liabilities	2,494	2,534	2,571	2,644
Total equity	2,642	2,868	3,049	3,239
Total net debt (cash)	827	552	440	303
Cash Flow Statement				
Cash operating profit after taxes	998	964	990	1,161
Change in working capital	191	(158)	(219)	(247)
CAPEX	(196)	(253)	(301)	(339)
Investments	0	0	0	0
Free cash flow	993	553	471	574
Net financing	(862)	(448)	(499)	(564)
Change in cash	88	95	(33)	(49)

Source: Juhayna, EFG Hermes estimates

Valuation and Risks

We value Juhayna using a discounted cash flow methodology, yielding a target price of EGP10.9. Upside risks include: i) accelerated consumption shift to packaged products; ii) market share gains in core categories; iii) higher-than-expected price increases for main products; iv) faster margin recovery; v) value-accretive acquisition of a relevant business; vi) successful rollout of third-party distribution (c2% of 2020 revenue); and vii) pick-up in exports (c5% of revenue, high margin). Downside risks include: i) slower margin recovery, on rising raw material, labour (4k+ employees) or other costs; ii) growing price elasticity of demand, leading to slow recovery in volumes; iii) FX risk (40-50% of inputs in FC; raw milk is USD-linked – c60% to imported feed commodities – with formula revised every two months or so); iv) weaker-than-expected volume growth, due to competition (especially in juice and yoghurt); v) slower conversion to packaged products; vi) weaker FCF generation and increasing leverage, on higher capex and working capital investments; vii) possible margin volatility if agriculture exposure grows and as the Arla JV ramps up; viii) key person risk (company's founder and his son detained); and ix) unfavourable regulations.

Dec Year End				
In EGPmn, unless otherwise stated	2020a	2021e	2022e	2023e
Per Share Financial Summary				
EPS (EGP)	0.48	0.55	0.59	0.75
DPS (EGP)	0.20	0.30	0.40	0.55
BVPS (EGP)	2.81	3.05	3.24	3.44
Valuation Metrics				
Price to earnings	14.6x	12.8x	11.8x	9.3x
Price to book value	2.5x	2.3x	2.2x	2.0x
Price to cash flow	5.5x	8.2x	8.5x	7.2x
FCF yield	12.4%	6.9%	5.8%	7.6%
Dividend yield	2.9%	4.3%	5.7%	7.9%
EV / EBITDA	5.5x	5.7x	5.1x	4.3x
EV / Invested capital	2.0x	2.0x	2.0x	2.0x
ROAIC	19.2%	18.2%	19.2%	22.9%
ROAE	18.3%	19.4%	19.5%	23.2%
KPIs				
Revenue growth (Y-o-Y)	0.1%	14.7%	13.4%	12.9%
EBITDA growth (Y-o-Y)	17.6%	-3.5%	11.7%	17.3%
Gross profit margin	33.4%	29.5%	29.5%	30.3%
EBITDA margin	17.6%	14.8%	14.6%	15.2%
Net operating profit (EBIT) margin	13.5%	11.0%	11.0%	11.8%
Effective tax rate	36.6%	27.0%	33.0%	33.0%
Net Debt (Cash) / Equity	0.3x	0.2x	0.1x	0.1x
Net Debt (Cash) / EBITDA	0.6x	0.4x	0.3x	0.2x

Source: Juhayna, EFG Hermes estimates

Valuation & key forecast highlights

Figure 29: Summary of DCF valuation

In EGPmn unless otherwise stated

	2022e	2023e	2024e	2025e	2026e
EBITDA	1,450	1,702	1,990	2,318	2,689
Taxes	(370)	(458)	(555)	(665)	(789)
Appropriations	(90)	(83)	(96)	(108)	(119)
Capex	(219)	(247)	(278)	(311)	(346)
Working capital investments	(301)	(339)	(381)	(426)	(474)
Free cash flow	471	574	680	808	961
<i>PV of FCFs</i>	<i>439</i>	<i>467</i>	<i>481</i>	<i>498</i>	<i>516</i>
<i>PV of terminal value</i>					<i>8,198</i>
WACC	14.8%				
Terminal growth rate	8.0%				
Enterprise value	10,600				
Net debt (3Q21)	356				
Investments (3Q21)	18				
Minority interest (3Q21)	0.9				
Equity value	10,261				
Number of shares (mn)	941.4				
Target price/share (EGP)	10.90				

Source: Company data, EFG Hermes estimates

Figure 30: Sensitivity of TP (EGP) to changes in WACC and terminal growth rate

		WACC				
		12.8%	13.8%	14.8%	15.8%	16.8%
Terminal growth rate	6.0%	11.56	10.00	8.80	7.84	7.06
	7.0%	13.26	11.22	9.71	8.55	7.62
	8.0%	15.66	12.87	10.90	9.44	8.31
	9.0%	19.33	15.20	12.50	10.59	9.17
	10.0%	25.61	18.75	14.75	12.14	10.29

Source: EFG Hermes estimates

Figure 31: Revenue forecasts by segment

In EGPmn, unless otherwise stated

	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Dairy	3,492	3,760	3,902	4,293	4,782	5,339	5,974	6,700	7,531
<i>Growth</i>	21%	8%	4%	10%	11%	12%	12%	12%	12%
<i>Cont.</i>	49%	49%	51%	49%	48%	48%	47%	47%	48%
Yoghurt	1,585	1,811	1,958	2,398	2,767	3,152	3,543	3,929	4,298
<i>Growth</i>	19%	14%	8%	23%	15%	14%	12%	11%	9%
<i>Cont.</i>	22%	24%	26%	27%	28%	28%	28%	28%	27%
Juice	1,417	1,526	1,391	1,610	1,851	2,115	2,400	2,706	3,031
<i>Growth</i>	15%	8%	-9%	16%	15%	14%	14%	13%	12%
<i>Cont.</i>	20%	20%	18%	18%	19%	19%	19%	19%	19%
Concentrates	354	256	154	177	194	214	235	259	284
<i>Growth</i>	-3%	-28%	-40%	15%	10%	10%	10%	10%	10%
<i>Cont.</i>	5%	3%	2%	2%	2%	2%	2%	2%	2%
Agriculture	42	31	49	34	37	39	41	43	45
<i>Growth</i>	-44%	-27%	58%	-30%	10%	5%	5%	5%	5%
<i>Cont.</i>	1%	0%	1%	0%	0%	0%	0%	0%	0%
Others	233	252	189	255	306	361	418	477	534
<i>Growth</i>	41%	8%	-25%	35%	20%	18%	16%	14%	12%
<i>Cont.</i>	3%	3%	2%	3%	3%	3%	3%	3%	3%
Total revenue	7,122	7,636	7,642	8,765	9,937	11,219	12,612	14,114	15,724
<i>Growth</i>	17%	7%	0%	15%	13%	13%	12%	12%	11%

Source: Company data, EFG Hermes estimates

Figure 32: Income statement and balance sheet trends

In EGPmn

	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Revenue	7,122	7,636	7,642	8,765	9,937	11,219	12,612	14,114	15,724
<i>Growth</i>	<i>17%</i>	<i>7%</i>	<i>0%</i>	<i>15%</i>	<i>13%</i>	<i>13%</i>	<i>12%</i>	<i>12%</i>	<i>11%</i>
Gross profit	2,118	2,303	2,549	2,586	2,932	3,394	3,910	4,481	5,110
<i>Growth</i>	<i>17%</i>	<i>9%</i>	<i>11%</i>	<i>1%</i>	<i>13%</i>	<i>16%</i>	<i>15%</i>	<i>15%</i>	<i>14%</i>
<i>Gross margin</i>	<i>29.7%</i>	<i>30.2%</i>	<i>33.4%</i>	<i>29.5%</i>	<i>29.5%</i>	<i>30.3%</i>	<i>31.0%</i>	<i>31.8%</i>	<i>32.5%</i>
<i>Change in pp</i>	<i>-0.1%</i>	<i>0.4%</i>	<i>3.2%</i>	<i>-3.9%</i>	<i>0.0%</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.8%</i>
EBITDA	1,174	1,144	1,346	1,299	1,450	1,702	1,990	2,318	2,689
<i>Growth</i>	<i>25%</i>	<i>-3%</i>	<i>18%</i>	<i>-3%</i>	<i>12%</i>	<i>17%</i>	<i>17%</i>	<i>16%</i>	<i>16%</i>
<i>EBITDA margin</i>	<i>16.5%</i>	<i>15.0%</i>	<i>17.6%</i>	<i>14.8%</i>	<i>14.6%</i>	<i>15.2%</i>	<i>15.8%</i>	<i>16.4%</i>	<i>17.1%</i>
<i>Change in pp</i>	<i>0.9%</i>	<i>-1.5%</i>	<i>2.6%</i>	<i>-2.8%</i>	<i>-0.2%</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.7%</i>
Depreciation & amortisation	291	290	313	351	365	384	406	431	460
<i>Growth</i>	<i>5%</i>	<i>0%</i>	<i>8%</i>	<i>7%</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>	<i>7%</i>	<i>7%</i>
Operating profit	883	854	1,032	962	1,095	1,325	1,589	1,891	2,232
<i>Growth</i>	<i>32%</i>	<i>-3%</i>	<i>21%</i>	<i>-7%</i>	<i>14%</i>	<i>21%</i>	<i>20%</i>	<i>19%</i>	<i>18%</i>
<i>EBIT margin</i>	<i>12.4%</i>	<i>11.2%</i>	<i>13.5%</i>	<i>11.0%</i>	<i>11.0%</i>	<i>11.8%</i>	<i>12.6%</i>	<i>13.4%</i>	<i>14.2%</i>
<i>Change in pp</i>	<i>1.4%</i>	<i>-1.2%</i>	<i>2.3%</i>	<i>-2.5%</i>	<i>0.0%</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.8%</i>
Recurring net income	383	274	451	515	557	707	878	1,073	1,282
<i>Growth</i>	<i>91%</i>	<i>-29%</i>	<i>65%</i>	<i>14%</i>	<i>8%</i>	<i>27%</i>	<i>24%</i>	<i>22%</i>	<i>19%</i>
<i>Net margin</i>	<i>5.4%</i>	<i>3.6%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.6%</i>	<i>6.3%</i>	<i>7.0%</i>	<i>7.6%</i>	<i>8.2%</i>
<i>Change in pp</i>	<i>2.1%</i>	<i>-1.8%</i>	<i>2.3%</i>	<i>0.0%</i>	<i>-0.3%</i>	<i>0.7%</i>	<i>0.7%</i>	<i>0.6%</i>	<i>0.6%</i>
Inventory DOH	69	72	69	56	59	65	72	78	83
Receivables DOH	10	9	10	11	13	13	12	12	12
Payables DOH	69	72	69	56	59	65	72	78	83
CCC	28	27	31	39	47	45	44	43	43
Net debt (incl. lease)	1,714	1,378	827	552	440	303	187	44	(134)
Net debt/equity (x)	0.71	0.56	0.31	0.19	0.14	0.09	0.05	0.01	(0.03)
Net debt/EBITDA (x)	1.46	1.20	0.61	0.42	0.30	0.18	0.09	0.02	(0.05)

Source: Company data, EFG Hermes estimates

Financial statements

Income Statement (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Revenue	7,642	8,765	9,937	11,219
COGS	(5,093)	(6,180)	(7,006)	(7,825)
Gross profit	2,549	2,586	2,932	3,394
SG&A	(1,458)	(1,557)	(1,766)	(1,993)
Other operating inc (expense)	22	20	21	21
EBITDA	1,346	1,299	1,450	1,702
Depreciation and amortisation	(313)	(337)	(356)	(377)
Net operating profit (EBIT)	1,032	962	1,095	1,325
Share of results from associates	0	0	0	0
Net investment income (loss)	(0)	1	3	4
Net interest income (expense)	(164)	(80)	(72)	(52)
Other non-operating inc (exp.)	(195)	(66)	(69)	(77)
FX gains (loss)	3	1	0	0
Net provisions	0	0	0	0
Income before taxes or zakat	676	819	957	1,200
Taxes or zakat	(247)	(221)	(316)	(396)
Net inc before minority interest	428	598	641	804
Minority interest	(0)	(0)	(0)	(0)
Reported net income	428	598	641	803
Adjusted net income	451	515	557	707

Source: Juhayna, EFG Hermes estimates

Balance Sheet (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Cash and cash equivalents	183	278	245	196
Accounts receivable (current)	204	335	370	409
Inventory	874	1,005	1,259	1,545
Other debit balances (current)	175	180	204	231
Total current assets	1,436	1,798	2,077	2,381
PP&E (net)	3,549	3,451	3,387	3,342
Goodwill & intangibles	97	97	97	97
Investments (non-current)	14	16	19	23
Other debit balances (non-current)	39	39	39	39
Total non-current assets	3,700	3,604	3,542	3,502
Total assets	5,136	5,402	5,620	5,883
Short term debt	630	500	614	452
Accounts payable (current)	448	864	932	1,009
Other credit balances (current)	681	485	597	780
Total current liabilities	1,759	1,849	2,143	2,242
Long term debt	379	329	71	46
Other credit balances (non-current)	356	356	356	356
Total non-current liabilities	735	685	427	402
Total net worth	2,641	2,867	3,048	3,237
Total equity	2,642	2,868	3,049	3,239
Total equity and liabilities	5,136	5,402	5,620	5,883

Source: Juhayna, EFG Hermes estimates

Cash Flow (Dec Year End)

In EGPmn	2020a	2021e	2022e	2023e
Cash operating profit after taxes	998	964	990	1,161
Change in working capital	191	(158)	(219)	(247)
Cash flow after change in WC	1,189	806	771	914
CAPEX	(196)	(253)	(301)	(339)
Investments	0	0	0	0
Free cash flow	993	553	471	574
Non-operating cash flow	(42)	(9)	(5)	(59)
Cash flow before financing	951	544	466	515
Net financing	(862)	(448)	(499)	(564)
Change in cash	88	95	(33)	(49)

Source: Juhayna, EFG Hermes estimates

Rating and Target Price chart



Rating Distribution

Rating	Coverage Universe%
Buy	55%
Neutral	31%
Sell	14%
Not Rated	0%
Under Review	0%

Obour Land

Resilient in the face of cost challenges with an attractive dividend yield

Company Update

Food Products. Egypt

www

Up TP and reiterate Buy; hard to ignore valuation, dividend yield

We raise our TP for Obour Land (OLFI) c22% to EGP11.0 (79% upside), mainly on DCF rollover and better-than-expected 2021 results (recurring earnings +13%), which is commendable, given the surge in almost all raw material and shipping costs. We maintain our Buy rating – while the company's growth outlook is comparatively tamer than that of other Egyptian food names (recurring earnings +5% in 2022e with a 9% CAGR thereafter), we believe its current valuation is too low (c8x 2022e P/E), given its strong balance sheet (2021 net cash position at EGP101mn) and profitability profile (RoAE: 40%+; RoAIC: 30%+; net margin: c10%). The stock also offers an attractive DY (c11%) – the BoD proposed a DPS of EGP0.65 for 2021 (ex-dividend date not announced yet).

Best positioned food name to weather input cost pressures; white cheese remains resilient

We believe OLFI is the best positioned food name to weather the pressure from higher raw material prices (raw materials c65% of cash costs, nearly half of which is SMP that rose at an avg. of 23% in 2021), given its track record of proactive inventory management, active pricing strategy and low SG&A costs (c8% of sales) – case in point was how OLFI weathered the EGP devaluation, with 2016-17 earnings up at a CAGR of 56% (vs. 24% decline for peers) and has been able to maintain/grow earnings since then (worst performance in 2018: -2%). Cheese segment (93% of 2021 total) revenue grew 9% Y-o-Y in 2021, mainly on a 6% increase in avg. prices (+2.5% twice in 4Q21), in addition to a 3% increase in white cheese volumes (+26% in 4Q21). While processed cheese continued to grow in terms of both volumes and revenues (+25% in 2021), supported by the newly introduced 'Mafrouda' in TetraPak packages in several flavours, it is still a small contributor of cheese segment revenue (1%) but should improve with the re-opening of schools. Total cheese segment's gross margin contracted only 1.1pp Y-o-Y to 22.8% in 2021 (gross profit +4%, c95% of total), due to a surge in almost all raw materials prices (mainly in 4Q21 where headline gross margin fell c5.6pp) that was partly offset by management's successful raw material purchasing and pricing policies. Meanwhile, EBIT margin for the year was almost unchanged (-0.2pp to 14.7%) on strong opex controls (SG&A costs -2% Y-o-Y in 2021; -29% in 4Q21 alone).

Diversifying out of cheese still a bit of a struggle

OLFI ventured into the milk (c4.5-5% market share) and juice segments in Dec 2017 but are only c7% of 2021 revenue with lower contribution to profits (c5% of gross profit due to lower margins). Milk volumes continued to grow but at a slower rate (+17% in 2021 vs 120% in 2020), as OLFI started to gradually remove discounts/offers placed at the beginning of 2020, to compensate for higher fresh milk prices and move away from pricing at a discount to competition (avg. price +9%). Meanwhile, juice continues to underperform with sales down 8% in 2021 (price-driven, highly competitive market). OLFI started to implement a rebranding strategy for its juice range (changing packaging design, reducing pack size to 200ml from 250ml, etc.) and signed a contract with the Ministry of Education to supply schools with flavoured milk "Fun Zoo" and 200ml juice, with expected revenues of cEGP100mn in the current academic year (c3% of revenue).

Key Financial Highlights (Dec Year End)

In EGPmn, unless otherwise stated	2021a	2022e	2023e	2024e
Revenue	3,007	3,357	3,626	3,871
EBITDA	511	532	583	630
Net income	292	307	338	372
EPS (EGP)	0.73	0.77	0.85	0.93
EPS consensus (EGP)	0.73	N/A	N/A	N/A
Price to earnings	8.4x	8.0x	7.3x	6.6x
Dividend yield	10.6%	10.6%	11.4%	12.2%
Net debt (cash) / Equity	(0.1)x	(0.1)x	(0.1)x	(0.2)x
EV / EBITDA	5.0x	4.8x	4.4x	4.0x
ROAE	43.3%	42.4%	43.5%	44.2%
FCF yield	18.8%	8.2%	13.4%	14.9%

Source: Obour Land, Bloomberg and EFG Hermes estimates

Stock Rating	Target Price	Closing Price
Buy	EGP11.0	EGP6.2

What's Changed	From	To
Target price	9.00	11.0

Stock Data

Closing Price	EGP6.15 as of 30 Jan 2022
Last Div. / Ex. Date	EGP0.600 / 18 Mar 2021
Mkt. Cap / Shares (mn)	USD157.2 / 400.0
Av. Daily Liquidity (mn)	USD0.23
52-Week High / Low	EGP8.10 / EGP5.01
Bloomberg / Reuters	OLFI EY / OLFI.CA
Est. Free Float	39.2%

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Data Miner

Investment Thesis

Obour Land is a leading producer of white cheese (staple food item) in Egypt, with a c39% market share in carton-pack cheese (total cheese sales – c93% of 2021 revenues). It sells 82+ SKUs under one brand and operates 15 Tetra Pak production lines (c190k tpa capacity; +46% in 2017; will end up with eight as seven will be sold), one for plastic cheese tubs (c4k), in addition to a spreadable cheese line (c6k tpa in 2018). The company ventured into milk (c27k) and juice (c99k) in Dec 2017 (three lines) – both segments contributed c7% to 2021 revenue. Raw materials constitute c65% of 2020 cash costs (SMP c49% of RM costs), followed by packaging at c15%. Obour Land relies on a cash-and-carry model, with the bulk of sales (c70%) done through wholesalers who pay in cash (limited modern trade sales at c2%). Given that Tetra Pak is its primary supplier of packaging and machinery, the company enjoys special technical and financial benefits, including favourable payment terms for machines, discounts on packaging materials (up to 20%) and marketing support. In Oct 2017, the company announced plans to set up a dairy farm within three years for EGP250mn (2.5k cows) that should eventually supply 30-40% of its raw milk needs, but execution has been slow. We are Buyers of the name on valuation grounds, an impressive profitability profile (2021: RoAE 43%, RoAIC 34%, net margin 10%) and a solid balance sheet (net cash).

Dec Year End				
In EGPmn, unless otherwise stated	2021a	2022e	2023e	2024e
Income Statement				
Revenue	3,007	3,357	3,626	3,871
EBITDA	511	532	583	630
Net operating profit (EBIT)	442	452	498	541
Taxes or zakat	(104)	(111)	(122)	(133)
Minority interest	0	0	0	0
Net income	292	307	338	372
Balance Sheet				
Cash and cash equivalents	336	261	286	343
Total assets	1,548	1,597	1,654	1,742
Total liabilities	844	846	844	860
Total equity	705	752	810	882
Total net debt (cash)	(101)	(47)	(121)	(211)
Cash Flow Statement				
Cash operating profit after taxes	368	380	423	458
Change in working capital	152	(58)	(36)	(39)
CAPEX	(50)	(120)	(54)	(54)
Investments	0	0	0	0
Free cash flow	470	202	332	365
Net financing	(206)	(280)	(310)	(313)
Change in cash	319	(75)	24	57

Source: Obour Land, EFG Hermes estimates

Valuation and Risks

We value Obour Land using a five-year DCF methodology, yielding a target price of EGP11.0. Key upside risks include: i) faster cheese volume growth and higher market share gains; ii) better-than-expected growth in new segments (milk and juice – assume c11% of sales by 2026e); iii) higher margins, on low commodity prices and/or sales mix; iv) higher-than-expected price increases or sales mix impact from the introduction of higher-priced SKUs (such as Obour Premier range that could sell at up to double normal prices); and v) new successful product launches. Key downside risks include: i) weaker-than-expected ramp-up of new segments; ii) higher SG&A costs (lowest among food names at c8% of 2021 sales); iii) return dilution from dairy farm investment; iv) higher-than-expected increases in raw material prices (especially SMP); v) FX risk (c65% of raw materials are imported); vi) weaker cheese volumes and/or margins due to competition; and vii) weaker cash conversion cycle.

Dec Year End				
In EGPmn, unless otherwise stated	2021a	2022e	2023e	2024e
Per Share Financial Summary				
EPS (EGP)	0.73	0.77	0.85	0.93
DPS (EGP)	0.65	0.65	0.70	0.75
BVPS (EGP)	1.75	1.87	2.01	2.20
Valuation Metrics				
Price to earnings	8.4x	8.0x	7.3x	6.6x
Price to book value	3.5x	3.3x	3.1x	2.8x
Price to cash flow	4.7x	7.6x	6.4x	5.9x
FCF yield	18.8%	8.2%	13.4%	14.9%
Dividend yield	10.6%	10.6%	11.4%	12.2%
EV / EBITDA	5.0x	4.8x	4.4x	4.0x
EV / Invested capital	3.9x	3.4x	3.4x	3.5x
ROAIC	33.8%	31.8%	34.6%	36.9%
ROAE	43.3%	42.4%	43.5%	44.2%
KPIs				
Revenue growth (Y-o-Y)	9.8%	11.6%	8.0%	6.7%
EBITDA growth (Y-o-Y)	8.2%	4.0%	9.6%	8.2%
Gross profit margin	22.3%	20.7%	21.6%	22.0%
EBITDA margin	17.0%	15.8%	16.1%	16.3%
Net operating profit (EBIT) margin	14.7%	13.5%	13.7%	14.0%
Effective tax rate	22.9%	24.3%	24.3%	24.3%
Net Debt (Cash) / Equity	(0.1)x	(0.1)x	(0.1)x	(0.2)x
Net Debt (Cash) / EBITDA	(0.2)x	(0.1)x	(0.2)x	(0.3)x

Source: Obour Land, EFG Hermes estimates

Valuation & key forecast highlights

Figure 33: Summary of DCF valuation

In EGPmn unless otherwise stated

	2022e	2023e	2024e	2025e	2026e
EBITDA	532	583	630	674	721
Taxes	(111)	(122)	(133)	(144)	(155)
Appropriations	(41)	(38)	(40)	(41)	(45)
Capex	(120)	(54)	(54)	(54)	(53)
Working capital investments	(58)	(36)	(39)	(41)	(44)
Free cash flow	202	332	365	395	424
<i>PV of FCFs</i>	<i>188</i>	<i>272</i>	<i>261</i>	<i>246</i>	<i>231</i>
<i>PV of terminal value</i>					<i>3,105</i>
WACC	14.4%				
Terminal growth rate	6.5%				
Enterprise value	4,303				
Net cash (4Q21)	101				
Minority interest (4Q21)	4				
Equity value	4,400				
Number of shares (mn)	400.0				
Target price (EGP)	11.0				

Source: Company data, EFG Hermes estimates

Figure 34: Sensitivity of TP (EGP) to changes in WACC and terminal growth rate

		WACC				
		12.4%	13.4%	14.4%	15.4%	16.4%
Terminal growth rate	4.5%	11.6	10.3	9.3	8.5	7.8
	5.5%	12.9	11.3	10.1	9.1	8.3
	6.5%	14.6	12.5	11.0	9.8	8.8
	7.5%	17.0	14.2	12.2	10.7	9.5
	8.5%	20.7	16.5	13.8	11.9	10.4

Source: EFG Hermes estimates

Figure 35: Revenue and gross profit forecasts by segment

In EGPmn, unless otherwise stated

	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
White cheese*									
Capacity (tonnes)	194,075	194,075	194,075	194,075	194,075	194,075	194,075	194,075	194,075
Growth	0%	0%	0%	0%	0%	0%	0%	0%	0%
Utilisation	53%	54%	54%	56%	59%	61%	63%	65%	67%
Volumes (tonnes)	102,916	105,007	105,495	108,131	113,538	118,079	122,448	126,611	130,916
Growth	6%	2%	0%	2%	5%	4%	4%	3%	3%
Avg. price EGP/kg	22,394	23,664	24,185	25,566	26,845	27,650	28,203	28,767	29,342
Growth	5%	6%	2%	6%	5%	3%	2%	2%	2%
Revenue (EGPmn)	2,305	2,485	2,551	2,765	3,048	3,265	3,453	3,642	3,841
Growth	11%	8%	3%	8%	10%	7%	6%	5%	5%
% of total	96%	96%	93%	92%	91%	90%	89%	88%	88%
Processed cheese									
Capacity (tonnes)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Growth		0%	0%	0%	0%	0%	0%	0%	0%
Utilisation	1%	2%	7%	9%	11%	13%	15%	17%	19%
Volumes (tonnes)	44	107	442	541	677	778	887	1,003	1,123
Growth		144%	314%	23%	25%	15%	14%	13%	12%
Avg. price (EGP/tonne)	78.9	64.6	55.5	56.6	57.8	58.9	60.1	61.3	62.5
Growth		-18%	-14%	2%	2%	2%	2%	2%	2%
Revenue	3	7	25	31	39	46	53	61	70
Growth		100%	256%	25%	28%	17%	16%	15%	14%
% of total	0%	0%	1%	1%	1%	1%	1%	1%	2%
TOTAL CHEESE									
Capacity (tonnes)	200,075	200,075	200,075	200,075	200,075	200,075	200,075	200,075	200,075
Growth	5%	0%	0%	0%	0%	0%	0%	0%	0%
Utilisation	51%	53%	53%	54%	57%	59%	62%	64%	66%
Volumes (tonnes)	102,959	105,114	105,937	108,673	114,214	118,858	123,335	127,614	132,039
Growth	6%	2%	1%	3%	5%	4%	4%	3%	3%
Revenue	2,284	2,458	2,549	2,779	3,087	3,311	3,507	3,704	3,912
Growth	11%	8%	4%	9%	11%	7%	6%	6%	6%
Avg. price (EGP/tonne)	22,187	23,388	24,065	25,572	27,028	27,855	28,432	29,023	29,625
Growth	5%	5%	3%	6%	6%	3%	2%	2%	2%
Cheese gross profit	504	516	613	636	648	728	789	843	900
Growth	7%	2%	19%	4%	2%	12%	8%	7%	7%
Cheese gross margin	22.1%	21.0%	24.0%	22.9%	21.0%	22.0%	22.5%	22.8%	23.0%
Change	-0.9%	-1.1%	3.1%	-1.2%	-1.9%	1.0%	0.5%	0.3%	0.3%
JUICE & MILK									
Revenue	106	129	190	228	270	315	364	415	466
Growth		22%	47%	20%	18%	17%	15%	14%	12%
% of total	4%	5%	7%	8%	8%	9%	9%	10%	11%
Juice & milk gross profit	16	30	29	35	46	54	63	73	83
Growth		90%	-4%	22%	29%	18%	17%	15%	14%
% of total	3%	6%	5%	5%	7%	7%	7%	8%	8%
Juice & milk gross margin	15.1%	23.6%	15.4%	15.6%	17.0%	17.2%	17.4%	17.6%	17.8%
Change		8.4%	-8.2%	0.2%	1.4%	0.2%	0.2%	0.2%	0.2%
Total revenue	2,390	2,588	2,739	3,007	3,357	3,626	3,871	4,118	4,378
Growth	16%	8%	6%	10%	12%	8%	7%	6%	6%
Total gross profit	520	546	642	671	694	783	852	916	983
Growth	10%	5%	18%	5%	3%	13%	9%	7%	7%
Gross margin	21.8%	21.1%	23.4%	22.3%	20.7%	21.6%	22.0%	22.2%	22.4%
Change	-1.2%	-0.7%	2.3%	-1.1%	-1.6%	0.9%	0.4%	0.2%	0.2%

*Includes plastic tub cheese

Source: Company data, EFG Hermes estimates

Figure 36: Key income statement and balance sheet trends

In EGPmn

	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Revenue	2,390	2,588	2,739	3,007	3,357	3,626	3,871	4,118	4,378
<i>Growth</i>	<i>16%</i>	<i>8%</i>	<i>6%</i>	<i>10%</i>	<i>12%</i>	<i>8%</i>	<i>7%</i>	<i>6%</i>	<i>6%</i>
Gross profit	520	546	642	671	694	783	852	916	983
<i>Growth</i>	<i>10%</i>	<i>5%</i>	<i>18%</i>	<i>5%</i>	<i>3%</i>	<i>13%</i>	<i>9%</i>	<i>7%</i>	<i>7%</i>
<i>Gross margin</i>	<i>21.8%</i>	<i>21.1%</i>	<i>23.4%</i>	<i>22.3%</i>	<i>20.7%</i>	<i>21.6%</i>	<i>22.0%</i>	<i>22.2%</i>	<i>22.4%</i>
<i>Change</i>	<i>-1.2%</i>	<i>-0.7%</i>	<i>2.3%</i>	<i>-1.1%</i>	<i>-1.6%</i>	<i>0.9%</i>	<i>0.4%</i>	<i>0.2%</i>	<i>0.2%</i>
EBITDA	372	406	472	511	532	583	630	674	721
<i>Growth</i>	<i>8%</i>	<i>9%</i>	<i>16%</i>	<i>8%</i>	<i>4%</i>	<i>10%</i>	<i>8%</i>	<i>7%</i>	<i>7%</i>
<i>EBITDA margin</i>	<i>15.5%</i>	<i>15.7%</i>	<i>17.2%</i>	<i>17.0%</i>	<i>15.8%</i>	<i>16.1%</i>	<i>16.3%</i>	<i>16.4%</i>	<i>16.5%</i>
<i>Change</i>	<i>-1.1%</i>	<i>0.2%</i>	<i>1.5%</i>	<i>-0.2%</i>	<i>-1.2%</i>	<i>0.2%</i>	<i>0.2%</i>	<i>0.1%</i>	<i>0.1%</i>
Depreciation	39	46	63	69	79	85	90	95	99
<i>Growth</i>	<i>110%</i>	<i>20%</i>	<i>36%</i>	<i>9%</i>	<i>15%</i>	<i>7%</i>	<i>6%</i>	<i>5%</i>	<i>5%</i>
EBIT	333	360	409	442	452	498	541	580	621
<i>Growth</i>	<i>2%</i>	<i>8%</i>	<i>14%</i>	<i>8%</i>	<i>2%</i>	<i>10%</i>	<i>9%</i>	<i>7%</i>	<i>7%</i>
<i>EBIT margin</i>	<i>14%</i>	<i>14%</i>	<i>15%</i>	<i>15%</i>	<i>13%</i>	<i>14%</i>	<i>14%</i>	<i>14%</i>	<i>14%</i>
<i>Change</i>	<i>-2%</i>	<i>0%</i>	<i>1%</i>	<i>0%</i>	<i>-1%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>
Recurring net income	217	217	258	292	307	338	372	405	438
<i>Growth</i>	<i>0.1%</i>	<i>0.2%</i>	<i>18.9%</i>	<i>13.1%</i>	<i>5.1%</i>	<i>10.1%</i>	<i>10.1%</i>	<i>8.7%</i>	<i>8.3%</i>
<i>Recurring net margin</i>	<i>9.1%</i>	<i>8.4%</i>	<i>9.4%</i>	<i>9.7%</i>	<i>9.1%</i>	<i>9.3%</i>	<i>9.6%</i>	<i>9.8%</i>	<i>10.0%</i>
<i>Change</i>	<i>-1.4%</i>	<i>-0.7%</i>	<i>1.0%</i>	<i>0.3%</i>	<i>-0.6%</i>	<i>0.2%</i>	<i>0.3%</i>	<i>0.2%</i>	<i>0.2%</i>
Inventory DoH	66	73	87	79	66	69	70	72	74
Receivable DoH	7	4	5	4	4	5	6	7	7
Payable DoH	20	14	11	10	12	13	14	15	15
CCC (days)	93	91	102	93	82	87	90	93	96
Net debt (cash)	90	90	146	(101)	(47)	(121)	(211)	(320)	(444)
<i>Net debt (cash)/equity (x)</i>	<i>0.16</i>	<i>0.14</i>	<i>0.22</i>	<i>(0.14)</i>	<i>(0.06)</i>	<i>(0.15)</i>	<i>(0.24)</i>	<i>(0.33)</i>	<i>(0.42)</i>
<i>Net debt (cash)/EBITDA (x)</i>	<i>0.24</i>	<i>0.22</i>	<i>0.31</i>	<i>(0.20)</i>	<i>(0.09)</i>	<i>(0.21)</i>	<i>(0.34)</i>	<i>(0.47)</i>	<i>(0.62)</i>

Source: Company data, EFG Hermes estimates

Financial statements

Income Statement (Dec Year End)

In EGPmn	2021a	2022e	2023e	2024e
Revenue	3,007	3,357	3,626	3,871
COGS	(2,335)	(2,662)	(2,843)	(3,018)
Gross profit	671	694	783	852
SG&A	(197)	(205)	(246)	(270)
Other operating inc (expense)	0	0	0	0
EBITDA	511	532	583	630
Depreciation and amortisation	(69)	(79)	(85)	(90)
Net operating profit (EBIT)	442	452	498	541
Share of results from associates	0	0	0	0
Net investment income (loss)	0	0	0	0
Net interest income (expense)	(7)	(1)	(3)	1
Other non-operating inc (exp.)	18	5	5	5
FX gains (loss)	1	0	0	0
Net provisions	0	0	0	0
Income before taxes or zakat	455	457	500	546
Taxes or zakat	(104)	(111)	(122)	(133)
Net inc before minority interest	351	345	378	414
Minority interest	0	0	0	0
Reported net income	351	345	378	414
Adjusted net income	292	307	338	372

Source: Obour Land, EFG Hermes estimates

Balance Sheet (Dec Year End)

In EGPmn	2021a	2022e	2023e	2024e
Cash and cash equivalents	336	261	286	343
Accounts receivable (current)	33	43	55	67
Inventory	454	522	567	616
Other debit balances (current)	17	22	28	33
Total current assets	840	849	936	1,060
PP&E (net)	678	749	718	682
Goodwill & intangibles	0	0	0	0
Investments (non-current)	0	0	0	0
Other debit balances (non-current)	30	0	0	0
Total non-current assets	708	749	718	682
Total assets	1,548	1,597	1,654	1,742
Short term debt	158	168	131	111
Accounts payable (current)	87	98	110	122
Other credit balances (current)	452	463	500	536
Total current liabilities	697	729	741	770
Long term debt	77	47	34	20
Other credit balances (non-current)	70	70	70	70
Total non-current liabilities	147	116	103	90
Total net worth	701	748	806	878
Total equity	705	752	810	882
Total equity and liabilities	1,548	1,597	1,654	1,742

Source: Obour Land, EFG Hermes estimates

Cash Flow (Dec Year End)

In EGPmn	2021a	2022e	2023e	2024e
Cash operating profit after taxes	368	380	423	458
Change in working capital	152	(58)	(36)	(39)
Cash flow after change in WC	520	322	387	419
CAPEX	(50)	(120)	(54)	(54)
Investments	0	0	0	0
Free cash flow	470	202	332	365
Non-operating cash flow	56	4	2	6
Cash flow before financing	526	206	334	371
Net financing	(206)	(280)	(310)	(313)
Change in cash	319	(75)	24	57

Source: Obour Land, EFG Hermes estimates

Rating and Target Price chart



Rating Distribution

Rating	Coverage Universe%
Buy	55%
Neutral	32%
Sell	13%
Not Rated	0%
Under Review	0%

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Neutral	(10%) and 15%
Sell	Below (10%)

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Company (Reuters/Bloomberg)	Last Rating	Price (30 Jan 2022)
ADNOC Distribution (ADNOCDIST.AD/ADNOCDIS UH)	Neutral	AED4.11
Agthia (AGTHIA.AD/AGTHIA UH)	Neutral	AED5.06
Air Arabia (AIRA.DU/AIRARABI UH)	Neutral	AED1.45
Shaker (1214.SE/SHAKER AB)	Neutral	SAR23.60
Al Meera (MERS.QA/MERS QD)	Neutral	QAR19.68
Al Othaim (4001.SE/AOTHAIM AB)	Neutral	SAR106.80
Almarai (2280.SE/ALMARAI AB)	Neutral	SAR49.35
Domty (DOMT.CA/DOMT EY)	Buy	EGP4.20
Budget Saudi (4260.SE/BUDGET AB)	Buy	SAR48.80
Cairo Investment & Real Estate Development (CIRA) (CIRA.CA/CIRA EY)	Buy	EGP13.49
Dice Sport & Casual Wear (DSCW.CA/DSCW EY)	Buy	EGP0.78
Eastern Company (EAST.CA/EAST EY)	Buy	EGP10.41
Edita (EFID.CA/EFID EY)	Buy	EGP8.00
Fawaz Al Hokair (4240.SE/ALHOKAIR AB)	Neutral	SAR16.50
Fawry (FWRY.CA/FWRY EY)	Neutral	EGP10.06
GB Auto (AUTO.CA/AUTO EY)	Buy	EGP4.69
Halwani Brothers (6001.SE/HB AB)	Sell	SAR93.00
Herfy (6002.SE/HERFY AB)	Neutral	SAR64.50
Humansoft (HUMN.KW/HUMANSFT KK)	Buy	KWD3.18
Integrated Diagnostics Holdings (IDH) (IDHC.CA/IDHC EY)	Buy	EGP19.81
Jarir (4190.SE/JARIR AB)	Buy	SAR200.00
Juhayna (JUFO.CA/JUFO EY)	Buy	EGP7.00
Leejam (1830.SE/LEEJAM AB)	Buy	SAR119.20
Mezzan Holding (MEZZ.KW/MEZZAN KK)	Neutral	KWD0.59
Mouwasset (4002.SE/MOUWASAT AB)	Neutral	SAR198.00
Nadec (6010.SE/NADEC AB)	Neutral	SAR32.95
Obour Land (OLFI.CA/OLFI EY)	Buy	EGP6.15
SADAFCO (2270.SE/SADAFCO AB)	Buy	SAR163.00
Saudi Airlines Catering (6004.SE/CATERING AB)	Neutral	SAR84.00
SACO (4008.SE/SCH AB)	Neutral	SAR53.70
Farm Superstores (4006.SE/SMARKETI AB)	Sell	SAR30.70
Savola (2050.SE/SAVOLA AB)	Neutral	SAR34.20
Sulaiman Al Habib Medical Services (HMG) (4013.SE/SULAIMAN AB)	Neutral	SAR169.20
Theeb Rent A Car (4261.SE/THEEB AB)	Buy	SAR61.20
eXtra (4003.SE/EXTRA AB)	Buy	SAR139.20

Analyst Coverage (Mirna Maher, CFA)

Company (Reuters/Bloomberg)	Last Rating	Price (30 Jan 2022)
Aldreess (4200.SE/ALDREES AB)	Buy	SAR76.10
Jazeera Airways (JAZK.KW/JAZEERA KK)	Buy	KWD1.49
Oriental Weavers (ORWE.CA/ORWE EY)	Buy	EGP8.39