



PRIMETime

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Misr Hotels – A Contrarian View

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When everyone is looking for yield in the same sectors and sometimes the same names, it is helpful to look elsewhere to find mispriced stocks. **Misr Hotels** [MHOT] is one of those stocks that we think is mispriced. This is why we included it in our 19-stock list published on [Thursday, 16 July](#) as part of our Consumer Discretionary picks.

Here is our quick take on MHOT:

What's in the price? Misr Hotels, which has two main hotels (*The Nile Ritz-Carlton* in Downtown Cairo and *Safir Dahab Resort* in Sinai), had previously budgeted for revenues to reach EGP475mn in FY21, which was pre-COVID-19. Then it later cut its budget by 20% to EGP380mn before trimming revenues once again on 21 July to EGP296mn. The company is now budgeting a net income of EGP87mn, implying a 29% net margin. Today, MHOT's market cap stands at EGP380mn with 490 hotel rooms. Incidentally, **Pyramisa Hotels** [PHTV], the closest comparable listed on the EGX, has a market cap of EGP455mn. On a TTM basis, MHOT is trading at 3.0x earnings vs. 16.2x for PHTV and an EV/EBITDA of 3.2x in line with PHTV's 3.1x.

Three reasons limit the downside: Granted, the tourism industry has been hit hard in the aftermath of COVID-19, but does MHOT's current market price reflect the company's worst-case scenario? **First**, we note that MHOT is guaranteed revenues of USD29mn (equivalent to c. EGP460mn) from The Nile Ritz-Carlton, so the budget revenues will likely be exceeded. **Second**, MHOT should benefit off the currently low interest rates and the support the tourism sector is getting from the Egyptian government. MHOT's latest debt amounted to EGP863mn (budgeted to end FY21 at EGP750mn). **Third**, MHOT's board is budgeting EGP43.6mn in dividends (a DPS of EGP1.10), implying a 50% payout ratio (vs. c. 20% for FY20) and an 11.5% yield.

A 40% return from here? In view of the above, we think MHOT should fetch at least a valuation of 7x earnings or 5x EBITDA based on FY21 budget figures, suggesting an average equity value of EGP532mn or EGP13.4/share (+40% vs. market price). Even if we apply a liquidity discount of 15% (given the stock's low liquidity), MHOT would still be worth EGP452mn or EGP11.4/share (a 19% upside off market price), keeping in mind that this is based on a depressed earnings outlook.

<i>EGPmn, except per-share figures</i>	MHOT	PHTV	MHOT
	TTM*		NTM
Revenues	394	299	296
EBITDA	331	98	233
EBITDA margin	84%	33%	79%
Net income	128	28	87
Debt	863	0	750
Cash & CE	175	182	39
Net debt / (net cash)	688	(182)	711
Share price (EGP)	9.60	21.06	
NOS (mn)	39.6	21.6	
Market cap	380	455	380
Net debt	688	(182)	711
Minority interest	0	30	0
Enterprise value	1,068	302	1,091
EPS	3.22	1.30	2.20
P/E	3.0x	16.2x	4.4x
EV/EBITDA	3.2x	3.1x	4.7x
DPS	0.60	2.00	1.10
Dividend yield	6.3%	9.5%	11.5%

Valuation (@15% liquidity discount)	P/E	EV/EBITDA	Average
Multiple	7.0x	5.0x	
Enterprise value		1,165	
Equity value (pre liquidity discount)	611	454	532
Value/share (pre liquidity discount)	15.4	11.5	13.4
<i>Upside to last price</i>	61%	19%	40%
Liquidity discount	15%	15%	15%
Equity value (post liquidity discount)	519	386	452
Value/share (post liquidity discount)	13.1	9.7	11.4
<i>Upside to last price</i>	37%	1%	19%

* TTM ended 31 March 2020.

Source: Company reports, Prime Research.

1. Today's Trading Playbook

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KEY THEMES

This is another 4-day week shortened this time by Eid Al-Adha vacation. As a result, we expect trading volumes to be muted as some investors prefer to stay on the sidelines during such long vacations. While some companies may publish their Q2 results before Eid, the majority will do so after Eid vacation.

POSITIVE

MHOT: Please check out our contrarian call above on **Misr Hotels** [MHOT].

ESRS, IRAX: Both **Ezz Steel [ESRS]** and **Ezz Al-Dekheila [IRAX]** may see their stocks react positively to the news of steel rolling mills' losing their case to suspend the safeguard measures taken by the government against imports of steel and billets. This means the decision is still valid, thus limiting import competition.

Now, on to the top news and analysis for the day.

2. TOP NEWS & ANALYSIS

MACRO NEWS

Egypt's Ministry of Immigration and Egyptian Expatriates Affairs introduced a labor recruitment application form to collect personal information and professional skills of recently repatriated expats in preparation for offering them jobs in ongoing national development projects. ([Zawya](#))

The Egyptian cabinet approved a draft presidential decree adopting a USD500mn agreement with the International Bank for Reconstruction & Development (IBRD) to fund a comprehensive program for social housing. ([Mubasher](#))

A presidential initiative aiming to support the Egyptian consumer by providing goods at reduced prices will launch today. ([Egypt Today](#))

Gold prices in the Egyptian market hit its highest level ever on Thursday, after a rise in global prices to USD1,884 per ounce on Wednesday. ([Mubasher](#))

The National Telecom Regulatory Authority (NTRA) decided the new working hours for the outlets for telecom operators' sale will start from 9 a.m. to 10 p.m., except for Friday where outlets will open at 12 p.m. until 10 p.m., effective today. (Al Mal)

CORPORATE NEWS

Egyptian Gulf Bank's [EGBE] net profit after tax inched 2.5% up q/q to EGP160mn in Q2 2020, after NII rose 19% to EGP726mn on 12.4% lower interest expense. The bank's ROAE stabilized at 13.5% q/q. EGBE currently trades at a P/B of 0.5x. ([Bank disclosure](#))

Administrative court turned down the case submitted by the Chamber of Metallurgical Industries to cut import tariffs imposed on iron billets for three years. This is to bode well for **Ezz Steel [ESRS]** and **Al Ezz Dekheila Steel [IRAX]** ([Al-Borsa](#))

Misr Hotels Co. [MHOT] amended its budget for the FY 2020/21. ([Company disclosure](#))

Raya Holding [RAYA] announced that subsidiary Raya Electronics gained a consumer finance license. ([Mubasher](#))

Real Estate Egyptian Consortium's [AREH] stand-alone net profit after tax in 1H 2020 plunged 63% y/y to EGP9mn after revenues tumbled by 82% y/y to EGP12.4mn. ([Company disclosure](#))

GLOBAL NEWS

The IMF executive board approved again a temporary increase in annual access limits to financial support in response to the severe impact of COVID-19 crisis. ([Ahram Online](#))

U.S. business activity increased to a six-month high in July, but companies reported a drop in new orders as a resurgence in new COVID-19 cases across the country weighed on demand. ([Reuters](#))

Euro zone business activity grew in July for the first time since the coronavirus pandemic hit. ([Reuters](#))

The number of Americans filing for unemployment benefits unexpectedly rose last week for the first time in nearly four months, suggesting the labor market was stalling amid a resurgence in new COVID-19 cases and depressed demand. ([Reuters](#))

Nearly half of Americans whose families experienced a layoff during the coronavirus pandemic now believe those jobs are lost forever, a new poll shows. ([CNBC](#))

Russia's central bank cut the key interest rate to a record low of 4.25% on Friday and said more cuts were possible, given low inflation and a shrinking economy. ([Reuters](#))

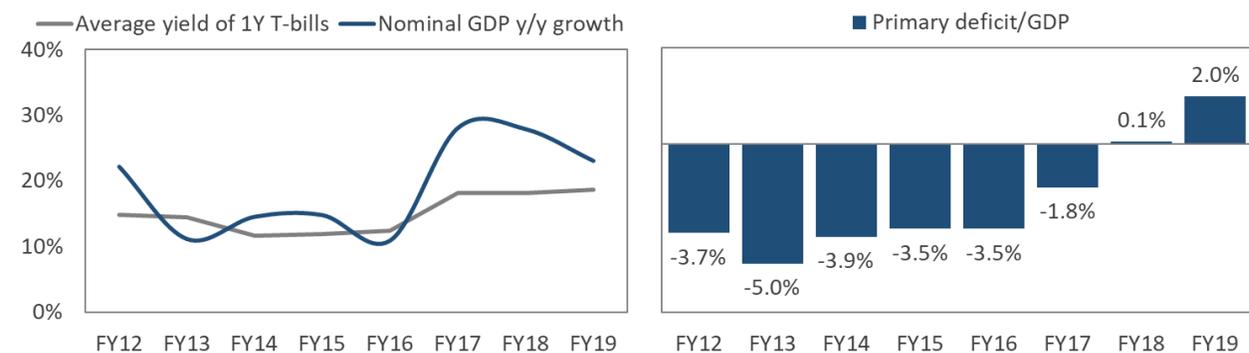
Turkey's central bank held interest rates steady for a second consecutive month on Thursday, justifying that as the inflation risks overshooting its year-end projection, signaling an upward revision to its outlook for prices. ([Reuters](#))

Hyundai Motor Co., for which GB Auto [AUTO] is a local agent in Egypt, saw its Q2 2020 net profit retreat 62% y/y to KRW377bn. This followed a 19% y/y volume-driven fall in revenues to KRW22trn, as COVID-19 suppressed car demand overseas, but the result was still above company's expectations. ([Al Mal](#))

3. CHART OF THE DAY

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Source: MoF, CBE.

In recent years, interest rates on Egypt's government debt have been below GDP growth. This gave the government scope to run a primary surplus (which is equal to the overall deficit minus

interest costs), enough to stabilize the public debt ratio. It is true, though, that interest payment as a percentage of GDP remained elevated post the EGP floatation due to extensive government borrowing, tightening monetary policy, and a revaluation of financing needs driven by a weak currency. However, eventually, fiscal consolidation measures and the favorable gap between nominal GDP growth and yield on domestic debt securities helped the country run primary surplus that placed its gross domestic public debt on a downward trajectory (from 96.7% in FY16 to 80.6% in FY19). The coronavirus turmoil is going to interrupt this trend and should reduce the primary surplus as it has created an unfavorable gap between GDP growth rate and the cost of borrowing in FY20, especially with the last wave of capital outflows triggered by the novel virus and the significant hit facing the public revenues.

4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)		576.5		Equity turnover (EGPmn): Last, ytd avg.		890.5 821.1	
			daily chg.	ytd chg.		daily chg.	ytd chg.
	↓ EGX 30	10,459.92	(0.93%)	(25.08%)		↗ Gold	1,902.02 0.77% 25.36%
	↓ EGX 30 TR	3,997.90	(0.97%)	(22.65%)		↗ Silver	22.77 0.78% 27.53%
	↗ EGX 70 EWI	1,494.47	1.27%	17.95%		↗ Brent Oil	43.34 0.07% (31.13%)
	↗ EGX 100 EWI	2,287.58	0.92%	4.72%		↗ WTI	41.34 0.66% (29.10%)
	↓ DFMGI	2,052.65	(0.61%)	(25.76%)		↗ Natural Gas	1.81 1.29% (17.41%)
	↓ ADSMI	4,261.07	(0.03%)	(16.05%)	EGP	↓ USD/EGP	15.99 (0.01%) (0.34%)
	↓ TASI	7,426.78	(0.01%)	(11.47%)	€	↗ EUR/USD	1.17 0.52% 3.95%
	↓ QE Index	9,368.29	(0.19%)	(10.14%)	£	↗ GBP/USD	1.28 0.42% (3.49%)
	↓ S&P 500	3,215.63	(0.62%)	(0.47%)	¥	↓ USD/JPY	106.14 (0.67%) (2.27%)
	↓ Dow 30	26,469.89	(0.68%)	(7.25%)		↓ 6M TB yield	13.38 (14) (163)
	↓ NASDAQ	10,363.18	(0.94%)	15.50%		↓ 1Y TB yield	13.49 (12) (108)
	↓ VIX	25.84	(0.92%)	87.52%		↗ 10Y TB yield	14.43 33 73
	↓ STOXX 50	3,310.89	(1.80%)	(11.60%)		↗ 2Y TB yield	0.16 2 (141)
EM	↓ MSCI Emerging	1,060.47	(1.59%)	(4.86%)		↓ 10Y TB yield	0.60 (1) (132)
FM	↓ MSCI Frontier	469.11	(0.56%)	(19.94%)		↓ 30Y TB yield	1.30 (1) (109)

* As of market close, except for commodities and currencies at 7.59am CLT. Change in Treasuries is in basis points.

Source: Bloomberg, CBE.

5. LATEST EGX VALUATION MULTIPLES

[Find out](#) how your favorite stocks compare to the rest of the market.

6. KEY DATES

DATE	TICKER	TYPE	EVENT
26-Jul-20	ORWE	Cash dividend	Record date for EGP0.650/share.
26-Jul-20	MTIE	Stock dividend	Record date for 0.25:1.
26-Jul-20	ATLC	Stock dividend	Record date for 0.225:1.
26-Jul-20	OCPH	Cash dividend	Record date for EGP1.50/share.
26-Jul-20	PORT	Lawsuit	A court session discussing legal disputes relevant to the company.
27-Jul-20	OCPH	Cash dividend	Ex-dividend date for EGP1.50/share.

27-Jul-20	ATLC	Stock dividend	Distribution date for 0.225:1.
27-Jul-20	ORWE	Cash dividend	Ex-dividend date for EGPO.650/share.
27-Jul-20	MTIE	Stock dividend	Distribution date for 0.25:1.
28-Jul-20	EITP	OGM	Electing the new board members.
28-Jul-20	ESGI	OGM	Discussing netting contracts.
28-Jul-20	CICH	OGM	Discussing Taaleem's (a CICH subsidiary) potential establishment of a joint stock company along with a subsidiary of Palm Hills group.
28-Jul-20	MTIE	BoD meeting	Discussing 2019/20 financial statements.
28/29-Jul-20		FOMC	USD interest rate decision.

7. LATEST RESEARCH

DATE	PUBLISHED REPORT
14-Jul-20	Commercial International Bank - [COMI] - Q2 2020 results
9-Jul-20	MACROView – Inflation driven by non-food baskets and unfavorable base effect
8-Jul-20	MACROView – Propped up by FX inflows, CBE amasses more reserves, turns NFA to net asset position
7-Jul-20	MACROView – Non-oil private sector keeps perking up in June, but demand stays depressed-oil
25-Jun-20	EFG Hermes Holding [HRHO] – Behind the Optics of the Arab Investment Bank Potential Acquisition
10-Jun-20	MACROView – Lowest annual reading in five months, but monthly figures show no changes
8-Jun-20	Oriental Weavers Carpet [ORWE] – Operating margins improve despite COVID-19, thanks to lower PP and nylon prices
8-Jun-20	MACROView – Solid buffers and moderate depreciation: The CBE's recipe to deal with COVID-19
3-Jun-20	MACROView – Non-oil private sector took a breather in May, but outlook remains cloudy
18-May-20	Abu Dhabi Islamic Bank [ADIB] – Q1 2020 Results
18-May-20	Al Baraka Bank Egypt [SAUD] – Q1 2020 Results
17-May-20	Credit Agricole Egypt [CIEB] – Q1 2020 Results
13-May-20	MACROView – Yesterday's CBE conference call with Deputy Governor
11-May-20	MACROView– Acceleration in April driven by food prices – as expected
7-May-20	MACROView – Keeping head above water amid pandemic uncertainties
5-May-20	Commercial International Bank (CIB) - Egypt [COMI] – Q1 2020 Results

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