Oriental Weavers Carpet [ORWE]

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Egypt / Consumer Discretionary
Equity Note / Reason for note: Q2 2020 results

PRIME HOLDING

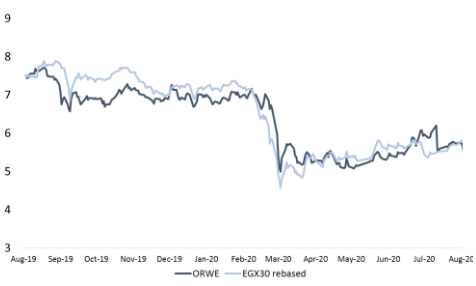
Nada Wagdy
Equity Analyst
Tel.: +202 3300 5726
NWagdy@egy.primegroup.org

Market Data

Ticker	ORWE
ADTV 6-month (EGP 000)	7,855
52 Weeks High/low	7.71/4.99
Market Cap (EGPmn)	3,625
No.of Shares out.(Mn)	665
Free float	57%
YTD stock return	-22.4%
P/B	0.6X
TTM P/E	6.2X

*Last price as of 18 August 2020.
Source: Bloomberg.

Stock price performance (last 12 months)



*Last price as of 18 August 2020.
Source: Bloomberg.

Higher rebates and cheaper polypropylene failed to offset lower demand

- **Country-wide lockdowns in main destinations pressured revenues and margins:** Revenues were squeezed in Q2 2020 to EGP1.81bn by lower average blended price of EGP79/sqm “excluding fibers & others revenues” (-10.8% y/y, +1.2% q/q) and slimmer volumes of 22.9mn sqm (-23% y/y, -21% q/q). Also, gross profit dropped to EGP161mn in Q2 2020 (-45% y/y, -43% q/q). Exports declined to EGP1.15bn (-30% y/y, -19% q/q) on lower volumes (-15% y/y, -22% q/q) and lower average blended price of USD4.9/sqm “excluding fibers & others revenues” (-12% y/y, +3% q/q). Exports were hit by (1) country-wide lockdowns and the closure of several big retailers in ORWE’s main destinations and (2) the drop in shipments to a key European customer due to the temporary closure of 95% of its stores worldwide. Locally, volumes weakened (-34% y/y, -20% q/q), while prices remained almost flat at EGP77.8/sqm “excluding fibers & others revenues” (+0.6% y/y, -3.8% q/q). Local volumes fell across the three segments (woven: -34% y/y, tufted: -42% y/y, and non-woven: -29%y/y) as demand was hurt by COVID-19, which began to hit hard especially in April and May hurting sales and shortening working hours.
- **Lower raw materials cost was not enough to lift gross profit margin:** COGS fell to EGP1.65bn (-29.5% y/y, -16.9% q/q), thanks to lower polypropylene (PP) and nylon costs (-32.2% y/y, -27.5% q/q), representing 23% of total COGS in Q2 2020. This is attributed to a lower average PP prices in USD terms (-15% y/y, -5% q/q) during the quarter as oil prices slipped (-51% y/y, -34% q/q). Meanwhile, selling costs shrank (-23.5% y/y, -7.3% q/q), making up 26% of total COGS. Still, GPM narrowed to 8.9% in Q2 2020 vs. 11.1% in Q2 2019 (12.4% in Q1 2020).
- **Yet, higher rebates and flat SG&A stretched EBITDA margins:** EBITDA fell to EGP296mn (-16.3% y/y, -13.6% q/q), yet its margin improved to 16.3% vs. 13.4% a year earlier (15.1% in Q1 2020). This is due to (1) higher export rebates of EGP98mn (+165% y/y, +79% q/q) and (2) almost flat SG&A of EGP102mn (+1.1% y/y, -20% q/q), amounting to 5.6% of sales in Q2 2020 vs. 3.8% a year earlier and 5.7% in Q1 2020. In H1 2020, EBITDA reached EGP638mn, yielding EBITDA margin of 15.6% vs. 12.8% in H1 2019.

- **Net income slumped on lower EBITDA and a one-off jump in effective tax rate:** Net income retreated to EGP53mn in Q2 2020 (-75% y/y, -69% q/q), reflecting lower EBITDA and the one-off increase in effective tax rate, which reached 34% vs. 9.6% in Q2 2019 (9.4% in Q1 2020). This was caused by the one-off increase in investment income to EGP499mn in Q2 2020, which appeared in the stand-alone financials, mainly from ORWE's subsidiary Oriental Weavers International (OWI). However, the tax rate should normalize by the end of 2020. Still, net income fell despite reporting a net interest income of EGP15mn in Q2 2020 (vs. net interest expense of EGP12mn in Q2 2019). Meanwhile, net profit reached EGP227mn in H1 2020 (-45% y/y).

- **Valuation dampened by weak demand:** ORWE's valuation has been pressured against the backdrop of falling demand, exacerbated by COVID-19. ORWE is currently trading at a TTM EV/EBITDA of 3.9x and a TTM P/E of 6.2x. Net debt stood at EGP756mn at end of June 2020 or less than 0.6x TTM EBITDA.

Income statement summary & KPIs (EGPmn, quarterly)

Cumulative Results					Quarterly Results						
Jun-20	Jun-19	Δ Jun-20 Vs. Jun-19	Y-o-Y% Δ	P&L Highlights	Jun-20	Mar-20	Δ Jun-20 Vs. Mar-20	Q-o-Q% Δ	Jun-19	Δ Jun-20 Vs. Jun-19	Y-o-Y% Δ
4,079	5,236	(1,157)	-22.1%	Revenues	1,811	2,268	(457)	-20.2%	2,634	(823)	-31.2%
(3,636)	(4,709)	1,073	-22.8%	COGS	(1,650)	(1,986)	336	-16.9%	(2,342)	692	-29.5%
443	**527**	**(85)**	**-16.1%**	**Gross profit**	**161**	**282**	**(121)**	**-43.0%**	**292**	**(131)**	**-44.9%**
(231)	(215)	(16)	7.7%	SG&A	(102)	(129)	27	-20.8%	(101)	(1)	1.1%
153	98	55	56.0%	Other Operating Income	98	55	43	79.4%	37	61	164.9%
638	**671**	**(33)**	**-4.9%**	**EBITDA**	**296**	**342**	**(47)**	**-13.6%**	**354**	**(71)**	**-16.3%**
(274)	(261)	(13)	5.1%	Depreciation	(139)	(135)	(4)	3.2%	(126)	(13)	10.5%
(81)	(82)	0	-0.4%	Provisions	(53)	(29)	(24)	83.8%	(69)	16	-23.3%
364	**410**	**(46)**	**-11.3%**	**Operating Profit (EBIT)**	**156**	**207**	**(51)**	**-24.6%**	**227**	**(71)**	**-31.2%**
13	186	(172)	-92.8%	Other Non-Operating Income/Expense	(14)	28	(42)	-151.8%	120	(135)	-111.9%
27	2	25	1023.6%	Net Interest Income/ Expense	15	12	3	20.4%	(12)	27	-222.9%
323	**517**	**(194)**	**-37.5%**	**EBT**	**104**	**219**	**(114)**	**-52.3%**	**267**	**(163)**	**-61.0%**
(56)	(55)	(2)	3.0%	Income Tax	(36)	(21)	(15)	73.5%	(26)	(10)	40.1%
266	**462**	**(195)**	**-42.3%**	**Net Income Before Minorities**	**68**	**198**	**(130)**	**-65.4%**	**242**	**(173)**	**-71.7%**
(39)	(46)	7	-15.6%	Minority Interest	(15)	(24)	9	-37.3%	(27)	12	-44.8%
227	**416**	**(188)**	**-45.3%**	**Net Income After Minorities**	**53**	**174**	**(121)**	**-69.3%**	**214**	**(161)**	**-75.1%**
10.8%	10.1%	0.8%		GPM	8.9%	12.4%	-3.6%		11.1%	-2.2%	
15.6%	12.8%	2.8%		EBITDA Margin	16.3%	15.1%	1.2%		13.4%	2.9%	
5.6%	7.9%	-2.4%		NPM	2.9%	7.7%	-4.7%		8.1%	-5.2%	
5.7%	4.1%	1.6%		SG&A/Sales	5.6%	5.7%	0.0%		3.8%	1.8%	
17.5%	10.6%	6.9%		Effective Tax Rate	34.3%	9.4%	24.9%		9.6%	24.8%	
7.1%	12.1%	-5.0%		ROAE	3.2%	10.3%	-7.1%		12.4%	-9.2%	
3.7%	6.8%	-3.1%		ROAA	1.8%	6.1%	-4.2%		7.0%	-5.2%	
42.1	66.2	-36.4%		Brent Crude Oil Aferage Price (USD/bbl)	33.4	50.8	-34.3%		68.5	-51.2%	
15.8	17.3	-147.8%		EGP/USD	15.9	15.8	15.2%		17.0	-6.5%	

Source: Company reports and Prime Research.

PRIME SECURITIES

Shawkat El Maraghy
Managing Director
Tel.: +202 3300 5622
SElmaraghy@egy.primegroup.org

SALES

Mohamed Ezzat
Head of Sales & Branches
Tel.: +202 3300 5784
MEzzat@egy.primegroup.org

Mohamed Ashmawy
Head of Institutional Sales
Tel.: +202 3300 5612
MAshmawy@egy.primegroup.org

Amr Alaa, CFTe
Team Head – Institutional Desk
Tel.: +202 3300 5609
AAlaa@egy.primegroup.org

Mohamed El Metwaly
Manager
Tel.: +202 3300 5610
MElmetwaly@egy.primegroup.org

Emad El Safoury
Manager
Tel.: +202 3300 5624
EElsafoury@egy.primegroup.org

Shawkat Raslan
Heliopolis Branch Manager
Tel.: +202 3300 5110
SRaslan@egy.primegroup.org

Mohamed El Henawy
Nasr City Branch Manager
Tel.: +202 3300 5166
MElhenawy@egy.primegroup.org

Nashwa Abuelatta
Alexandria Branch Manager
Tel.: +202 3300 5173
NAbuelatta@egy.primegroup.org

RESEARCH

Amr Hussein Elalfy, CFA
Head of Research
Tel.: +202 3300 5724
AElalfy@egy.primegroup.org

HEAD OFFICE

PRIME SECURITIES S.A.E.
Regulated by FRA License No. 179.
Member of the Egyptian Exchange.
2 Wadi Elnil St., Liberty Tower, 7th Fl.
Mohandessin, Giza
Egypt
Tel: +202 3300 5700/770/650/649
Fax: +202 3760 7543

BRANCHES

HELIOPOLIS
7 Elhegaz Square
Heliopolis, Cairo
Egypt
Tel: +202 2777 0600
Fax: +202 2777 0604

NASR CITY
9 Elbatrawy St.
Nasr City, Cairo
Egypt
Tel: +202 3300 8160
Fax: +202 3305 4622

ALEXANDRIA
7 Albert Al Awal St.
Smouha, Alexandria
Egypt
Tel: +202 3300 8170
Fax: +202 3305 4622

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