Misr Chemical Industries [MICH]

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Egypt / Materials / Core Coverage Report

Market Price	Fair Value	12M PT	Investment Rating	Risk Rating
EGP11.29 (as of 24 Nov 2020)	EGP11.9 (as of 25 Nov 2020)	EGP13.9 (+23%, as of 25 Nov 2020)	Overweight ★ ★ ★	High ! ! !

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Pandemic Proof

One Man's Loss Is Other Man's Gain

Key Insights

A multi-boosted business model: Misr Chemical Industries [**MICH**] came in this year with an interesting turnaround story, anchored by (1) considerable cost savings and (2) resilient top-line figures. Through the years, the chloralkali manufacturer has been exposed to risks associated with hikes in electricity prices and fluctuating caustic soda and chlorine markets. However, the COVID-19 pandemic brought about sound demand for MICH's key products and byproducts. Going forward, we believe MICH's performance will stabilize at levels above historical average, driven by this pandemic-related recovery.

Strong growth to normalize post COVID-19 peak: We project earnings to grow at a 5-year CAGR (2019/20-2024/25) of 10%, as (1) average selling prices normalize and (2) factory utilization rates settle at 55%. Meanwhile, we see GPMs capped at 2020/21 levels as selling prices cool off. Hence, we project long-term GPM will be near 43%, assuming stable electricity prices. MICH boasts a cash-rich balance sheet, with net cash making up 24% of its market cap due mainly to its light working capital needs (averaging 10% of sales historically).

Further growth to come from water desalination: Egypt plans to more than triple its desalination capacities over the next decade. Capitalizing on this, MICH should further see higher chlorine sales.

Valuation, Investment Thesis, & Risks

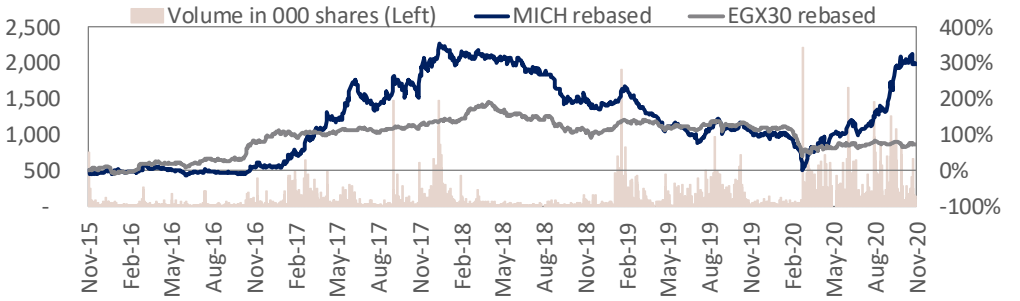
Overweight, 12M PT EGP13.9/share (+23%): We valued MICH using a DCF approach, reaching a fair value of EGP11.9/share. This implies a 12-month PT of EGP13.9/share (+23%), hence our Overweight rating. Our DCF assumes a terminal WACC of 14.8% and a long-term growth rate of 3%. We opted to exclude from our DCF any potential re-rating arising from water treatment/desalination projects due to the uncertainty surrounding its implementation. Our rough estimates indicate an accretive value to MICH or an NPV of c.EGP2.0/share.

Still offering mediocre value despite the recent swift rally: MICH's stock price rallied aggressively ytd, as H2 2019/20 performance snatched market attention. Nonetheless, after such a strong price movement, MICH is still trading at 2020/21 P/E and EV/FCF of only 5.8x and 6.7x, respectively.

Investment thesis: Selling prices to normalize swimmingly, concurrent with cost savings; utilization rates to improve, potentially expanding further on the back of water treatment/desalination projects.

Risks: Competition; soft global commodity markets posing downward risk to products' marketability; a stronger EGP; any hikes in electricity prices.

Stock Relative Performance Chart (5 years)



Key Stock Statistics

Shares outstanding (mn)	73.1
Free float	23%
Market cap (EGPmn)	826
Enterprise value (EGPmn)	575
52w range (EGP/share)	12.40-2.87
EGP100 invested 5 years ago	396
TTM EPS (EGP)	1.32
TTM P/E	8.5x
2021e EPS (EGP)	1.93
2021e P/E	5.8x
2021e EV/EBITDA	2.9x
Last fiscal year's DPS (EGP)	1.00
2021e dividend yield	8.9%
5Y beta	0.70
5Y Proj. EPS CAGR	10%

Revenues / Earnings Data

	Q1	Q2	Q3	Q4	Year
Revenues (EGPmn)					
2020	78	75	92	120	366
2019	96	116	75	76	363
2018	87	101	104	107	400
2017	36	30	28	65	158
2016	48	36	39	46	169
2015	48	45	50	51	194
Earnings (EGPmn)					
2020	9	5	14	35	64
2019	25	35	16	2	77
2018	29	47	30	33	139
2017	3	(1)	5	(30)	(24)
2016	9	3	13	5	29
2015	10	5	11	11	36

Business Summary

The process: The chloralkali industry comes into multifaceted use with a distinctive output range. The industry's main product is caustic soda (i.e. NaOH), which is produced through the electrolysis of salt brine ($NaCl + H_2O$). However, chlorine (i.e. Cl_2) is another product made in the process. Electricity, water, and salt are the key input of production. The output ratio may vary across different electrolysis processes, albeit typically 1.1 tons of caustic soda for every 1.0 ton of chlorine. MICH has its design capacity at 1.13 tons of caustic soda for every 1.0 ton of chlorine.

Business model complexity: A decision to set up a chloralkali plant is often tough when the marketability of the factory's key products is considered. The trick resides in the output. The abovementioned two products (caustic soda and chlorine) vary in terms of their market dynamics and demand drivers. This, in turn, makes for a complex decision-making process when it comes to product marketing. To wit, if caustic soda prices are not favorable, a chloralkali manufacturer could stock the surplus, but the same does not apply for chlorine due to storage difficulties. Thus, when preparing their feasibility studies, manufacturers in the chloralkali business often measure their production in an electrochemical unit (ECU), i.e. a combination of 1.1 tons of caustic soda and 1.0 ton of chlorine. The price of an ECU should exceed manufacturing costs, so that chloralkali production is deemed economically feasible.

Who are MICH's clients?

Selling destinations: While MICH primarily sells caustic soda and chlorine, it also produces two byproducts, utilizing excess production. The two byproducts are hydrochloric acid (i.e. HCl) and sodium hypochlorite (i.e. NaOCl), with the latter considered more valuable. Almost 14% of MICH's revenues comes from exports, as the company directs the majority of its production to the local market. According to MICH's management, the company's local market share hovers around 25%. MICH's export destinations are mostly regional (e.g. Yemen, Lebanon, and Libya). Although its revenues are heavily tilted towards the local market, global prices of caustic soda set the floor for MICH's selling prices locally.

Alumina refining captures 20% of caustic soda market: Caustic soda is utilized by a diverse number of industries using it as a key input. For instance, it is a valuable component of a variety of organic chemical products, pulp and paper production, textiles, soap and detergents, and alumina refining. In the last ten years or so, alumina refining started to dominate a substantial portion of caustic soda consumption (20% of global production), followed by organic chemicals and pulp & paper (15% each).

Vinyl chloride manufacturing derives demand for chlorine: On the other hand, chlorine is mostly famous for water disinfection applications. However, chlorine has many other industrial uses, especially vinyl chloride manufacturing and particularly polyvinyl chloride (PVC). Vinyl chloride manufacturing captures about 38% of chlorine consumption globally.

Adding a variety of byproducts: Meanwhile, as mentioned earlier, MICH produces sodium hypochlorite as a byproduct, utilizing excess chlorine. The main uses of sodium hypochlorite are bleaching as well as water purification and disinfection. Post-COVID-19, the need for sodium hypochlorite as a sanitizer evolved notably, boosting MICH's top line after a sluggish H1 2019/20.

What's with Q4 2019/20 performance?

A sudden boost to profitability: MICH's 2019/20 earnings fell 17% y/y to EGP64mn on a flattish top line of EGP366mn. Notwithstanding the y/y slip, MICH's 9M 2019/20 bottom line was only c.EGP28mn. This means that Q4 2019/20 bottom line alone was EGP35mn (55% of 2019/20 reported earnings). Such an impressive quarter is a fair reflection of higher demand for the company's products during the pandemic. Media reports claimed that MICH had to call the police to help organize a daily crowd of cars outside the company's premises in Alexandria during March as people were rushing to buy chlorine and other sanitizer-like products.

Cost savings: Also, another contributor to the stellar Q4 2019/20 performance was the cut in electricity prices effective April 2020. MICH consumed an average of c.78,000 MWh annually in 2017/18 and 2018/19, with electricity making up c.40% of its COGS. Indeed, MICH saw a rise in electricity price per KWh, which swallowed the company's margins and put a lid on its utilization rates. To put it into perspective, GPM came in at 37% in 2019/20, compared to 49% and 39% in 2017/18 and 2018/19, respectively.

Immunity COVID-19 spillovers: MICH's business model is one of the few that survived—and actually won advantages out of—the COVID-19 pandemic. The mania surrounding the use of sanitizers and the fear of infection created a strong wave of local demand for MICH's products, particularly sodium hypochlorite. As mentioned earlier, Q4 2019/20 results reflected that kind of demand, reflating sales volumes, combined with a favorable effect on selling prices.

What about Q1 2020/21 figures?

MICH continued to depict strong performance in Q1 2020, with bottom line reaching EGP42mn, against only EGP9mn in Q1 2019/20. We note that MICH registered a bottom line of EGP16mn in October 2020 vs. a monthly average of EGP14mn since March 2020.

Business Summary (cont.'d)

What lies ahead of COVID-19?

The bet on a smooth hand-off: Chlorine prices have so far been notably steady during 2020, which should not be decoupled from the movements in the PVC market. PVC prices rose in 2020, lifted by several outages of PVC capacities in the United States. Also, as COVID-19 had its effect on business activities, supply shocks cushioned the freefall of PVC prices. We note that PVC is used in manufacturing medical masks (PVC masks), which kept demand for the thermoplastic material active. As the world reopens, PVC prices are estimated to hover around USD1,000/ton by end of 2020. This should clearly support chlorine prices, since vinyl chloride manufacturing uses 38% of global chlorine production as mentioned earlier. However, the problem is that local chlorine prices rarely reflect global prices, since the biggest local buyers of chlorine are state-owned water companies. This hinders upbeat movements in global chlorine prices to filter through.

The need for chlorine involving projects: The situation with local chlorine prices pressured MICH's performance, especially after the EGP flotation, as production costs shot up. We note that MICH's management had previously requested in 2014 to price electricity based on an equation linked to chlorine local prices in order to protect margins. For that matter, MICH tried to inaugurate production lines that utilize excess chlorine production to produce more value-added products (i.e. sodium hypochlorite). Currently, the company is evaluating two potential projects. The first is calcium hypochlorite unit, with investment of c.EGP150mn, and a capacity of 10,000 tons per anum, through utilizing 11,000 tons of excess chlorine. The other project is a Chloroparaffin unit with a capacity of 17,000 tons per anum, through utilizing 18,445 tons of excess chlorine. We include neither of the aforementioned projects in our projection, until the company provides some clarity regarding such an investment decision.

Gauging sustainability: So, should we expect a replica of Q4 2019/20 onward? No, but this does not mean that MICH will not enjoy a bit of a sustainable performance. We calculate that higher selling prices will not last past Q3 2020/21, and a correction is very much expected to follow. However, there are two important points to consider here. First, the cut in electricity prices only reflected positively on MICH's performance in Q4 2019/20, so the effect on the full operating year is yet to be seen in 2020/21. Second, as we expect sodium hypochlorite prices to correct in 2021, reopening the global economies should reflate demand for caustic soda – MICH's main product, resulting in a smooth top-line normalization. For that matter, we view MICH as a proper countercyclical call.

Expect stellar growth through 2020/21: We expect MICH to see a y/y surge of c.22% in top line and 122% growth in bottom line in 2020/21. On the other hand, we forecast revenues and earnings to grow at 5-year CAGRs (2019/20-2024/25) of 2% and 10%, respectively.

A bishop pair advantage

Why MICH is a perfect play on cutting electricity prices: The Egyptian government's efforts to revive the industrial sector last March resulted in cost savings for many factories, after cutting electricity and natural gas prices. Yet, unfortunately, those factories' revenues were weakened by cheaper commodities and a resilient EGP. Fortunately for MICH, recent government actions led to cost curtailment, which came hand in hand with a bounce back in utilization rates as well as a price surge due to higher demand for MICH's products. This puts MICH's business model at a bishop pair advantage, where both revenues and costs improve. We see MICH's GPM and EBITDA margins stabilizing at 43% and 31%, respectively, by 2024/25.

Water treatment/desalination – the dream scenario: Meanwhile, over the long term lies an important catalyst for MICH's growth. National plans to expand in water desalination and treatment projects should create a considerable demand for chlorine. It is estimated that Egypt will raise its desalination capacities by c.1.7mn cubic meters per day (cm/d) over the next decade, up from the current c.0.8mn cm/d. Also, water treatment capacities are expected to grow over the same period by c.1.1mn cm/d. Combined, the resulting increase in water available for chlorination should reach some 1bn liters per year by 2030.

What it means for MICH: To put things into perspective, targeting a desired chlorination level of 2.5 milligram per liter of water would require adding around 250 milligrams of chlorine per liter of water. Thus, based on the 1bn liters of water expected to be added in the future, available demand for chlorine could hit c.255,500 tons per annum. With MICH's 25% market share, this would translate into an increase of c.63,875 tons per annum in chlorine volume sales by 2030, exceeding MICH's current capacity of c.60,000 ton per annum. Nonetheless, this scenario is also off our valuation given the vague timeline and the variations in the desired chlorination levels and the corresponding chlorine consumption. That said, based on (1) a 10-year time horizon, (2) the above conversions, added to MICH's market share ranging between 25% to15%, and (3) the expected additional capacities of water treatment and water desalination, our rough estimates suggest an NPV of c.EGP2.0/share accretive to MICH's fair value.

Key Assumptions

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Revenues										
Caustic Soda "Liquid"	62	56	246	206	167	138	160	180	183	176
Caustic Soda "Flaked"	2	-	-	1	n.a.	20	23	26	36	34
Chlorine	30	25	45	63	63	77	76	75	72	73
Sodium Hypochlorite	70	74	100	87	120	203	116	116	111	112
Hydrochloric Acid	2	2	6	4	4	5	6	6	7	7
Hydrogen Gas	1	0	1	1	n.a.	2	2	2	2	2
Others	0	0	0	0	n.a.	0	0	0	0	0
Total Revenues (EGPmn)	**168**	**157**	**397**	**361**	**366**	**445**	**384**	**406**	**411**	**404**
Volumes										
Caustic Soda "Liquid"	15	9	22	22	n.a.	25	25	25	25	25
Caustic Soda "Flaked"	1	-	-	0	n.a.	3	3	3	4	4
Chlorine	17	10	19	22	n.a.	22	22	22	22	22
Sodium Hypochlorite	66	50	69	66	n.a.	117	76	76	76	76
Hydrochloric Acid	2	1	2	1	n.a.	2	2	2	2	2
Total volumes (ktpa)	**100**	**70**	**113**	**111**	**n.a.**	**170**	**129**	**129**	**130**	**130**
COGS breakdown										
Materials Costs	**57**	**126**	**170**	**n.a**	**175**	**174**	**179**	**180**	**180**	
Basic Materials & Process costs	36	77	110	n.a	114	115	116	117	118	
Washed Salt	4	13	16	n.a	19	20	21	22	23	
Water	3	3	4	n.a	4	4	4	4	4	
Electricity	24	59	89	n.a	91	91	91	91	91	
Sulfuric Acid & Others	5	1	1	n.a	1	1	1	1	1	
Supporting Materials	21	50	60	n.a	60	59	62	63	62	
Wages	**37**	**44**	**38**	**n.a**	**35**	**36**	**37**	**38**	**39**	
Others	**35**	**34**	**13**	**n.a**	**13**	**13**	**13**	**13**	**13**	
Total COGS	**128**	**205**	**220**	**231**	**223**	**223**	**229**	**232**	**233**	
Main conversions										
Electricity consumption (000 KWh/ Chlorine ton)	4.68	3.94	3.75	3.75	3.75	3.75	3.75	3.75	3.75	
Water consumption (M3/ Chlorine ton)	82.68	47.01	37.53	42.27	42.27	42.27	42.27	42.27	42.27	
Washed Salt (ton/ Chlorine ton)	2.38	4.25	4.21	4.21	4.21	4.21	4.21	4.21	4.21	

Note: Financial year ends on 30 June.
Source: Company reports, Prime Research.

Comment

- We expect revenues to peak in 2020/21 on the back of the positive boost to MICH's product portfolio, thanks to the COVID-19 pandemic. However, we expect the top line to remain higher than its pre-pandemic levels throughout the rest of our forecast horizon.

- Local demand remains the main driver for MICH's revenues due to difficulties and hazards associated with the export of caustic soda and chlorine. Thus, we do not expect significant volume growth throughout our forecast horizon, leaving revenue growth mirroring changes in FX rate and global prices of MICH's key products.

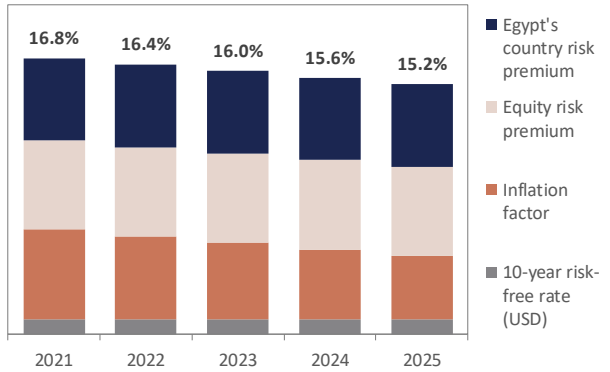
- Electricity costs make more than 40% of MICH's total COGS. Over the last two fiscal years, MICH's consumption of electricity hit an average of c.78,000 MWh. During H1 2019/20, the company paid EGP1.19/KWh, which was before the recent cut that took place in March 2020. We assume the electricity cost to remain constant at EGP1.09/KWh through our forecast horizon.

Key Valuation Input

Terminal WACC
14.8%.

Terminal growth rate
3.0%.

Cost of equity structure (next 5 years)



Source: Prime Research.

Return/Risk Matrix

Risk \ Return	OW	N	UW
L			
M			
H	✓		

Source: Prime Research.

Valuation Model

EGPmn	2021e	2022e	2023e	2024e	2025e	Terminal
EBIT (1 - t)	117	73	83	84	78	80
Non-Cash Items (D&A)	33	26	27	28	25	
Gross Cash Flow	**149**	**99**	**111**	**112**	**103**	
Change in Operating Working Capital	(12)	9	(4)	(1)	1	
Capital Expenditures	(58)	(8)	(8)	(8)	(8)	
Gross Investment	**(70)**	**1**	**(12)**	**(9)**	**(7)**	
Free Cash Flow to the Firm (FCFF)	**79**	**100**	**99**	**103**	**96**	**581**
Discount factor	0.91	0.78	0.68	0.58	0.51	
Present Value of FCFF	**72**	**79**	**67**	**60**	**49**	**295**
DCF Enterprise Value	**622**					
Net (Debt)/ Cash	251					
DCF Equity Value	**873**		**Reinvestment rate**			**15%**
NOS	73					
FV (EGP/share)	**11.9**		**ROIC**			**20%**
12M PT (EGP/share)	**13.9**		**TGR**			**3%**

Source: Prime Research.

Economic Profit Analysis

	2021e	2022e	2023e	2024e	2025e	Terminal
ROIC	40.1%	25.4%	32.2%	34.5%	34.7%	20.0%
WACC	16.8%	16.4%	16.0%	15.6%	15.2%	14.8%
Terminal growth rate						3.0%

Source: Prime Research.

FV Sensitivity Analysis

Terminal WACC vs. growth rate

TGR \ Terminal WACC	12.8%	13.8%	14.8%	15.8%	16.8%
5.0%	15.6	14.9	14.3	13.9	13.5
4.0%	15.2	14.6	14.1	13.7	13.3
3.0%	14.9	14.4	**13.9**	13.6	13.2
2.0%	14.6	14.2	13.8	13.4	13.2
1.0%	14.4	14.0	13.6	13.3	13.1

Source: Prime Research.

Exchange rate vs. Electricity prices

EGP/KWh \ Changes in FX rate	10.0%	5.0%	0.0%	-5.0%	-10.0%
1.29	14.9	13.6	12.3	11.1	9.8
1.19	15.7	14.4	13.1	11.9	10.6
1.09	16.5	15.2	**13.9**	12.7	11.4
0.99	17.3	16.0	14.7	13.4	12.2
0.89	18.1	16.8	15.5	14.2	13.0

Source: Prime Research.

Financial Model

Income Statement (EGPmn)						
FY ends on 30 Jun.	2019a	2020a	2021e	2022e	2023e	2024e
Total Revenue (Net)	**363**	**366**	**448**	**386**	**409**	**414**
COGS	(220)	(231)	(223)	(223)	(229)	(232)
GP	**142**	**134**	**225**	**163**	**180**	**182**
Other operating (exp.)/ Inc.	(69)	(75)	(74)	(69)	(72)	(73)
EBITDA	**114**	**102**	**183**	**120**	**135**	**137**
EBIT	**74**	**59**	**151**	**94**	**108**	**109**
Interest expense	(0)	(0)	(0)	(0)	(0)	(0)
Investment income	21	19	23	25	21	24
NP Before Taxes	94	78	174	118	129	132
NP Before XO & MI	**77**	**64**	**141**	**96**	**105**	**107**
XO & Minority Interest	0	0	0	0	0	0
Net Income	**77**	**64**	**141**	**96**	**105**	**107**

Balance Sheet (EGPmn)						
FY ends on 30 Jun.	2019a	2020a	2021e	2022e	2023e	2024e
Current Assets						
Cash & Cash Equivalent	55	85	106	122	162	206
Marketable securities	144	166	189	214	235	259
Trade & other receivables	18	33	41	35	37	38
Inventory	62	65	62	63	64	65
Other Current Assets	26	21	26	22	24	24
Total Current Assets	**306**	**370**	**425**	**456**	**523**	**592**
Fixed Assets (net)	241	212	169	176	181	162
Other Non-Current Assets	24	26	75	51	26	26
Total Assets	**570**	**608**	**669**	**682**	**730**	**780**
Liabilities & Equity						
Short-Term Debt	-	-	-	-	-	-
Current Portion of LT Debt	-	-	-	-	-	-
Accounts Payable	15	19	19	19	19	19
Other Current Liabilities	65	70	68	69	70	70
Total Current Liabilities	**80**	**89**	**87**	**87**	**89**	**89**
Long-Term Debt	-	-	-	-	-	-
Other Non-Current Liabilities	-	-	-	-	-	-
Total Liabilities	**80**	**89**	**87**	**87**	**89**	**89**
Minority Interest	-	-	-	-	-	-
Total Equity	**490**	**519**	**582**	**595**	**642**	**690**
Total Liabilities & Equity	**570**	**608**	**669**	**682**	**730**	**780**

Cash Flow Statement (EGPmn)						
FY ends on 30 Jun.	2019a	2020a	2021e	2022e	2023e	2024e
Cash from Operating	92	105	157	121	121	127
Cash from Investing	(10)	(33)	(63)	(32)	(30)	(32)
Cash from Financing	(84)	(40)	(73)	(73)	(51)	(51)
Net Change in Cash	**(2)**	**31**	**21**	**16**	**40**	**44**

Source: Prime Research.

Per-Share Data						
	2019a	2020a	2021e	2022e	2023e	2024e
Price	6.21	5.70	11.29	11.29	11.29	11.29
# Shares (WA,in mn)	73	73	73	73	73	73
EPS	1.06	0.87	1.93	1.32	1.43	1.47
DPS	0.50	1.00	1.00	0.70	0.70	0.70
BVPS	6.70	7.09	7.96	8.14	8.77	9.44

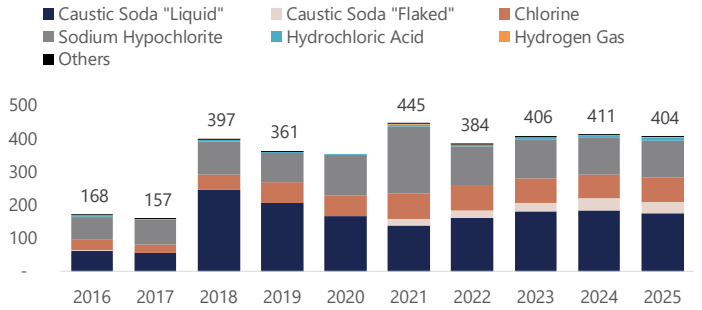
Valuation Indicators						
	2019a	2020a	2021e	2022e	2023e	2024e
PER (x) (Based on end of FY market price)	5.9x	6.5x	5.8x	8.6x	7.9x	7.7x
DY (actual based on BoP price, est. on current)	4%	16%	9%	6%	6%	6%
PBV (x)	0.9x	0.8x	1.4x	1.4x	1.3x	1.2x
EV/Sales (x)	0.7x	0.5x	1.2x	1.3x	1.0x	0.9x
EV/EBIT (x)	3.5x	2.8x	3.5x	5.2x	4.0x	3.3x
EV/EBITDA (x)	2.2x	1.6x	2.9x	4.1x	3.2x	2.6x

Profitability & Growth Ratios						
	2019a	2020a	2021e	2022e	2023e	2024e
Revenue Growth	(9%)	1%	22%	(14%)	6%	1%
EBITDA Growth	(39%)	(11%)	79%	(34%)	12%	1%
EBIT Growth	(50%)	(19%)	154%	(38%)	14%	1%
EPS Growth	(44%)	(18%)	122%	(32%)	9%	2%
GPM	39%	37%	50%	42%	44%	44%
EBITDA Margin	32%	28%	41%	31%	33%	33%
Net Margin	21%	17%	32%	25%	26%	26%
ROE	16%	12%	24%	16%	16%	16%
ROA	14%	10%	21%	14%	14%	14%

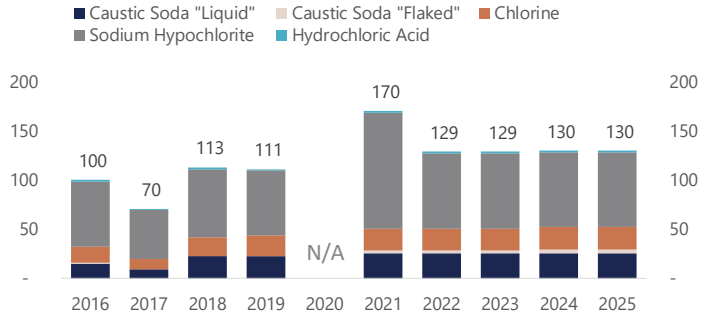
Liquidity & Solvency Multiples						
	2019a	2020a	2021e	2022e	2023e	2024e
Net Debt (Cash)	(199)	(251)	(295)	(336)	(398)	(465)
Net Debt (Cash) /Equity	(41%)	(48%)	(51%)	(56%)	(62%)	(67%)
Net debt (Cash) to EBITDA	-1.7x	-2.5x	-1.6x	-2.8x	-3.0x	-3.4x
Debt to Assets	nm	nm	nm	nm	nm	nm
Current ratio	3.8x	4.1x	4.9x	5.2x	5.9x	6.6x

Consensus Estimates (EGPmn)			
	2021e	2022e	2023e
Revenues	-	-	-
Prime Research vs. Consensus	nm	nm	nm
Net Income	-	-	-
Prime Research vs. Consensus	nm	nm	nm
Fwd PER (x), Last Price	5.8x	8.6x	7.9x
Fwd PER (x), 12M - Price Target	7.2x	10.6x	9.7x
Fwd DY (%), Last price	8.9%	6.2%	6.2%

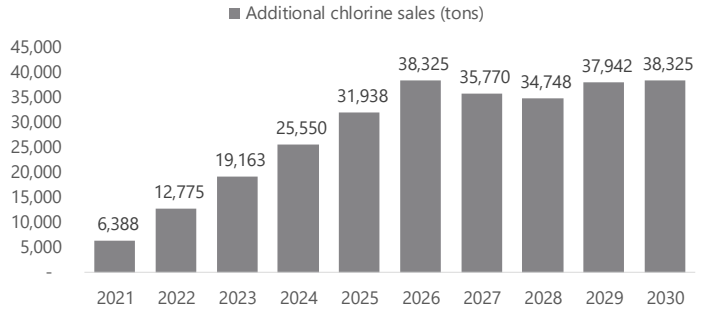
Revenues breakdown: We project stable contribution from chlorine and sodium hypochlorite over the next five years.



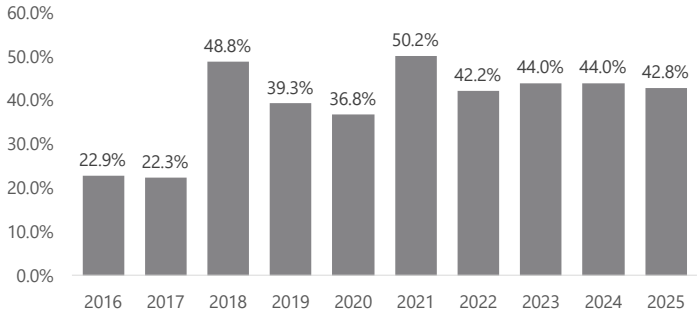
Volume breakdown: We do not expect much of a change in either total volume or its structure.



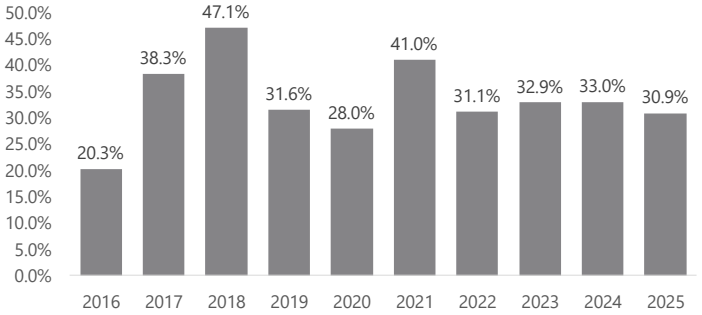
The dream scenario: Water desalination projects can drive growth further down the road, thanks to chlorine demand.



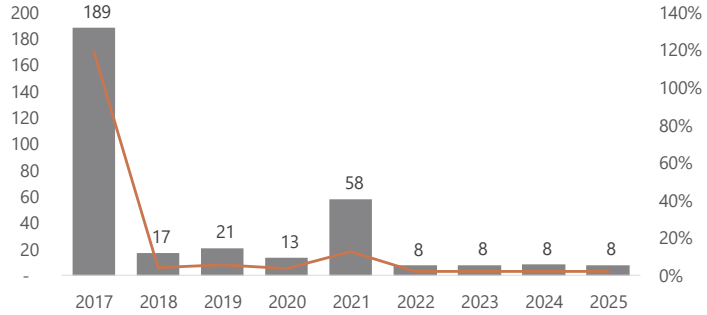
Gross profit margin: GPM to peak in 2020/21, before settling above 40% onwards.



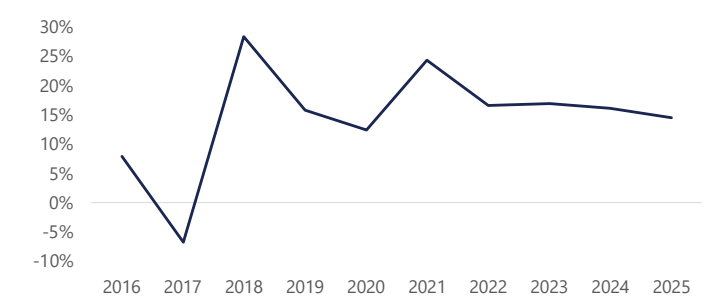
EBITDA margin: We expect higher SG&A-to-revenues to further impact EBITDA margin, albeit still above 2019/20 level.



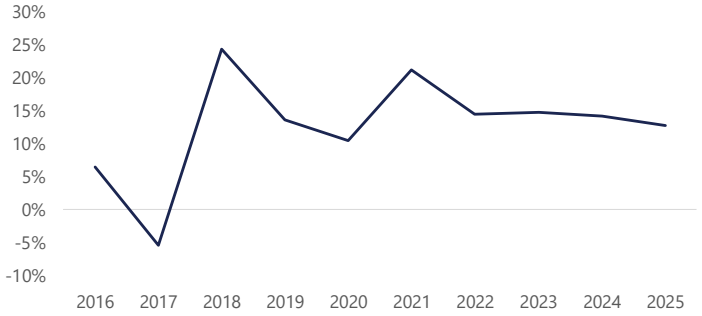
Capex: Apart from 2020/21, we expect capex-to-revenues to stabilize at c.2%, excluding any calcium hypochlorite-related capex.



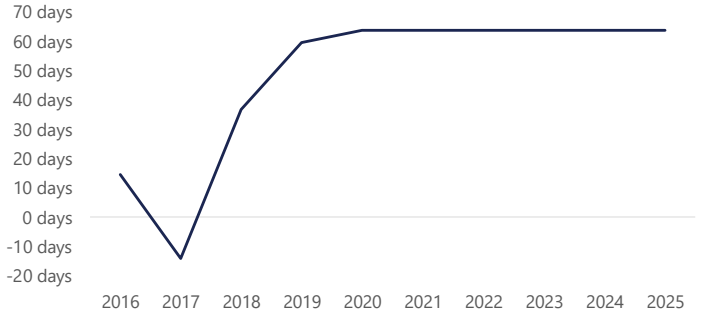
Return on equity: We expect ROE to be sustainable in the mid-teens after the big boost in 2020/21.



Return on assets: We expect an affluent ROA, yet weak financial leverage multiple (FLM) would hinder proper filtering through ROE.



Cash conversion cycle: Reasonable working capital needs keep CCC below 70 days.



Corporate Profile

Currently a subsidiary of the Holding Company for Chemical Industries, Misr Chemical Industries [MICH] was established back in 1959. MICH currently operates under Law No. 203 of 1991.

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Website
https://www.mci.com.eg/

Chairman & Managing Director
General Mahmoud Ashmawy.

Board Members

1. General. Mahmoud Ashmawy, Chairman & MD.
2. Mr. Wagdy Qalta, Non-Executive Board Member.
3. Mr. Ahmed Yahiya Fadl Allah, Board Member.
4. Mr. Mohamed Saber, Board Member.
5. Mr. Maged Dief, Board Member.
6. Mr. Wael Shams, Non-Executive Board Member, representative of Holding Co. for Chemical Industries.
7. Mr. Mohamed Fouad, Non-Executive Board Member, representative of Banque Misr.

Auditor
Accountability State Authority.

Domicile
Alexandria, Egypt.

Founded
1959.

Number of Employees
605.

Number of Stockholders
4,358.

Listings
EGX: MICH.

Shareholder Structure

Shareholder	Stake
Holding Co. for Chemical Industries	53.2%
Banque Misr	16.4%
Mr. Wagdy Qalta	7.7%
Free float	22.7%

Prime Research's Research Coverage

Date	Rating	12M PT
25 Nov 2020	Overweight High Risk	EGP13.9

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