

Price

EGP4.62 as close of 4 Mar 2021

Fair Value

EGP5.1 set on 7 Mar 2021

12M PT

EGP5.9 (+27%) set on 7 Mar 2021

Investment Rating

Overweight

Risk Rating

High

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Making Hay While the Sun Shines

A stable business model in the face of the sector’s potential slowdown

KEY INSIGHTS

A well-established real estate developer: Al-Shams Housing & Development [ELSH] has been serving the Egyptian market since 1946. It began its operation by renting its own units and later started selling, offering affordable housing with reasonable payment terms.

Diversified portfolio: ELSH has seven landmark projects and two active developments, namely Gardenia in the Sixth of October City and Solana which will be built on the land it recently acquired in the New Administrative Capital. As of now, Gardenia is almost fully developed with an inventory of 470 units left for sale under a 10-year payment plan and is offered for immediate delivery. Solana, which is set to launch in 2021, is ELSH’s first project to be sold completely off-plan. At a cost of EGP2.2bn, we estimate Solana will generate revenues of c.EGP3.6bn.

A fighting chance: Unlike prior years when fluctuating prices of building materials posed the biggest threat to developers, prices have recently been drifting downward, except for steel’s which rebounded in December (now flat ytd), giving developers a boost. Also, lower interest rates (-400bps since 2020) should provide further support to the sector. At a time when developers are being forced to offer extended payment terms to attract customers, debt financing should come into play to cover the construction cost for timely delivery.

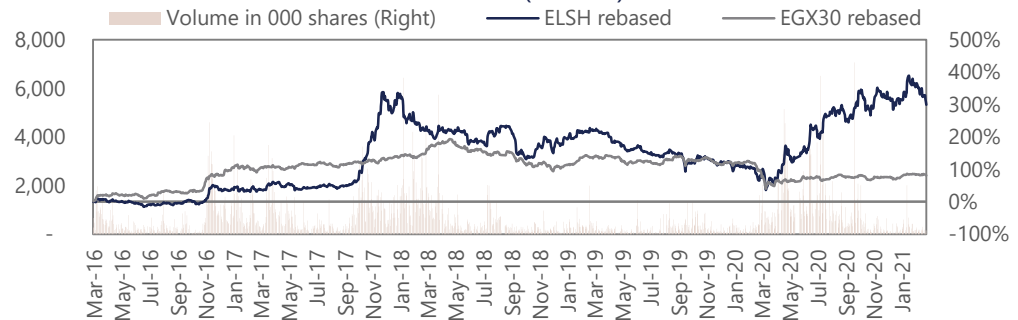
VALUATION, INVESTMENT THESIS, & RISKS

Overweight; 12M PT EGP5.9/share (+27%): We valued ELSH using a discounted cash flow (DCF) method based on free cash flows to equity (FCFE), which produced a fair value of EGP5.1/share. This implies a 12-month PT of EGP5.9/share, hence our Overweight rating. Our DCF assumes a terminal COE of 17.6%.In addition, we applied a terminal cap rate of 10.1% to recurring income to work out the terminal value.

Investment thesis: ELSH’s Solana project in the New Administrative Capital could be the launch pad for the company’s future expansion should it prove successful. Meanwhile, revenue growth should be supported by (1) the commercial plots that ELSH reclaimed in the Sixth of October City by virtue of a court ruling and (2) a recent partnership ELSH entered into with Mirad to construct the remaining areas in Gardenia. Furthermore, ELSH has a strong inventory in landmark locations with an estimated value of c.EGP1bn.

Risks: Solana will be launched in 2021 at the same time projects in the area will be delivered, running a competition risk. Also, the extended payment terms offered raises liquidity risk. Moreover, ELSH is switching to off-plan sales, which requires greater marketing investment. Lastly, ELSH faces execution risk with the postponement of launching Solana.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

Shares outstanding (mn)	181.5
Free float	22.7%
Market cap (EGPmn)	839
Enterprise value (EGPmn)	1,205
52w range (EGP/share)	5.75-1.52
EGP100 invested 5y ago	400
TTM EPS (EGP)	0.80
TTM P/E	5.8x
2020e EPS (EGP)	0.86
2020e P/E	5.4x
Last fiscal year's DPS (EGP)	0.20
Dividend yield	4.3%
5Yr beta	1.07
4Y Proj. EPS CAGR ('19-'23)	27.7%

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Revenues (EGPmn)					
2020	100	50	75	e88	e313
2019	56	53	42	73	224
2018	115	85	45	60	305
2017	21	23	39	89	173
2016	22	37	30	54	142
2015	25	24	27	28	104
Earnings (EGPmn)					
2020	49	24	33	e49	e156
2019	36	38	23	39	136
2018	74	62	35	37	208
2017	14	14	20	52	101
2016	10	14	14	32	70
2015	10	12	11	13	46

Source: Prime Research., Bloomberg.



BUSINESS SUMMARY

Falling costs resuscitated the market: After the EGP flotation late 2016, the prices of building materials and real estate stuck to their upward trend. Yet, inflation in building materials prices outpaced that of sales, stifling the ability of developers to raise prices any further, and with prices peaking, clients demanded less. Nevertheless, the market now has been given a lifeline after interest rates declined by 400bps in 2020. Debt finance will be cheaper for developers that rely heavily on loans to finance their construction operations. Meanwhile, prices of the majority of building materials slid by more than 5% in 2020. Steel prices have been declining throughout 2020, until they started to bounce back in December in line with global prices.

Exceptional developments: In 1946, four companies were merged to become ELSH which started out its real estate journey by renting its own units before moving to the hotel and residential segments. ELSH strives to acquire more lands and build integrated urban societies, while providing adequate and affordable housing. While the name of the company itself may not be familiar, ELSH's projects are reputable among Egyptians. ELSH has developed a total of seven projects so far in Nasr City, Heliopolis, Maadi, and the Sixth of October City. In addition, ELSH developed the iconic Immobilia Building which was once the tallest in Cairo. These landmark projects are some of ELSH's greatest assets, due to their

high market value (MV) relative to their book value (BV) which is estimated by a third-party appraiser at 5.8x. The total value of these projects is estimated at EGP975mn, which we opted to slice by 10% for salability risk.

Gardenia on the books: ELSH's latest project Gardenia is located at one of the best locations in the Sixth of October City, being minutes away from Mall of Arabia, Hyper One hypermarket and The Shooting Club. The project stretches over a gross land area (GLA) of 120 feddans (504,000 sqm). Gardenia consists of 360 buildings, housing 3,500 families. Part of the project was co-developed with Elsaheed Contracting & Real Estate Investment [UEGC] as part of an agreement that has been fulfilled.

The project is now fully developed as far as ELSH is concerned. Recently, ELSH entered into a partnership during Q3 2020 with Mirad, a real estate developer with projects in Maadi, El-Sheikh Zayed, the Sixth of October City, and Marsa Allam. The partnership which will see 21 buildings constructed, with ELSH as a landowner and Mirad as the developer, seller, and marketer. The partners signed a receivables collection agreement where ELSH collects 46% of the receivables. Mirad is offering a payment term of eight years with a 10% down payment and will deliver in two years. Aside from the expected proceeds from this collaboration, ELSH still keeps unsold inventory in Gardenia which is offered at payment terms of ten years

with an 8% down payment or a minimum of EGP700/sqm, with a range between 140 sqm to 204 sqm of unit space. Also, ELSH offers immediate delivery for Gardenia.

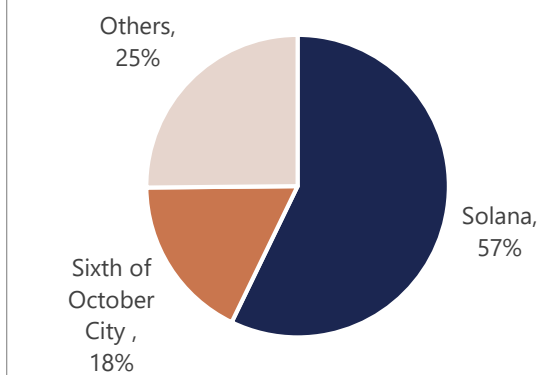
A favorable ruling well leveraged: Back in 2017, a court struck the gavel in favor of ELSH, which enabled it to recover the 44 feddans that were withdrawn by the New Urban Communities Authority (NUCA). On 23 November 2020, ELSH was able to gain a ministerial approval for reallocation of the service area in the recovered land into nine commercial plots in the Sixth of October City. Of the service area, three plots are licensed for mall development, two for mix-use, two for medical centers, one for a gas station, and another for administrative use. After reallocation, the GLA reached 49,250 sqm, and ELSH plans to start selling from 2021 and complete construction by 2023.

Solana to get off the ground in 2021: The latest addition to ELSH's landbank in the New Administrative Capital is Solana, a project that stretches over a GLA of c.38 feddans in a prime location – 15 minutes from the New Administrative Capital's airport and the Presidential Palace. Planned for launching in 2021, Solana is constructed as a mix-use project, with an apartment complex of 26 buildings encompassing c.1,580 residential units, added to a commercial mall built over a GLA of 2,200 sqm, a community club over a GLA of 7,194 sqm, and amenities across a GLA

of 5,440 sqm. ELSH acquired Solana's land for EGP740mn (EGP4,650/sqm) on an installment plan. So far, the company paid EGP457mn of the land's value with two installments to be made in 2022.

Revenue contribution by project: We expect ELSH's undeveloped land bank and its inventory to generate total revenues of EGP6.3bn over a period of seven years. We expect Solana to contribute EGP3.6bn (57%), the most, followed by commercial plots in the Sixth of October City EGP1.1bn (18%) and other projects (i.e. inventory) EGP1.6bn (25%).

Expected revenue contribution by project (2020-2027), total of EGP6.3bn



Source: Prime Research.



BUSINESS SUMMARY (CONT'D)

Greater risks for greater rewards: As ELSH's current cash position does not permit for any more expansion, ELSH's future hangs in the balance of Solana's success since the project would provide the inflows for further land acquisition. Solana, however, faces a lot of risks. First, ELSH has to beat off existing competition. Solana will be launching in 2021, the same year other developers in the area will be delivering their projects, leaving buyers with a new choice in the New Administrative Capital: ELSH's off-plan units added to the competitors' ready-to-move-in units. Also, the extended payment terms offered in the area would force ELSH to bow to the market terms in order to stay competitive. ELSH had already begun adopting off-plan sales with its Gardenia project, and Solana will follow suit. Off-plan sales require a lot of marketing expenses and depends to a good extent on brand equity which ELSH currently lacks – another risk in terms of salability. Lack of sales would present a liquidity risk for ELSH whose cash position is already weak, running up a net debt of EGP318mn as of 30 September 2020. ELSH is in desperate need for generating proceeds from Solana's sales. Besides, we believe ELSH would resort to other sources to help with financing the investments needed for Solana's construction. Recently, we saw an uptrend in receivables securitization and factoring, coinciding with the downtrend in interest rates. This year, ELSH has heavily relied on factoring, having discounted EGP135mn

worth of its receivables portfolio. ELSH also has a choice to develop the project through partnerships in order to lighten its financial burden.

Further landbank expansion and growth potential: If ELSH is able to surmount the obstacles lying ahead, Solana would reward the company with record-high results. Proceeds from the project will help ELSH acquire more lands. Perhaps ELSH's next land acquisition would be in New Cairo, where companies are selling land plots and open for partnerships, while public offerings by NUCA are available with the ongoing expansion occurring in the fourth generation cities.

Complementary investments: ELSH's operations are complemented by the company's investments which include a 13.42% ownership in Tourism Urbanization [TOUR], a company that was delisted in 2017. TOUR owns Steinberger Hotel, formerly Movenpick Hotel, in El-Haram (the Pyramid in Arabic), Giza. Its stake in TOUR guarantees ELSH a recurring income. Also, ELSH holds a 30% stake in Real Marketing Co. which acts as a marketing agency for the company and would serve well in selling Solana. In 2020, ELSH sold its share of 30,000 stocks a stake of 0.033% stake in El-Kahera Housing [ELKA] for c. EGP300,000 or c. EGP10/share.



KEY ASSUMPTIONS

		2020e	2021e	2022e	2023e	2024e	2025e
Solana's Pricing							
Price	EGP/sqm		12,000	13,200	14,520	15,972	17,569
Rental Rate	EGP/sqm		4,200	4,515	4,854	5,218	5,609
Infrastructure Cost	EGP/sqm		1,250	1,344	1,445	1,553	1,669
Construction Cost	EGP/sqm		4,000	4,300	4,623	4,969	5,342
Pre-Sales Phasing							
BUA	sqm		71,819	67,578	86,222	58,033	21,108
Pre-Sales	EGPmn		895.0	1,004.3	1,423.1	1,002.6	412.0
P&L Summary							
Real Estate Revenues	EGPmn	307.4	350.4	680.3	698.6	2,419.0	1,556.0
Rental Income	EGPmn	5.6	6.0	6.5	7.0	7.5	32.7
Gross Profit	EGPmn	270.7	293.1	549.0	590.6	1,067.2	852.4
Gross Profit Margin	%	86.5%	82.2%	79.9%	83.7%	44.0%	53.7%
EBT	EGPmn	201.2	206.4	449.7	465.2	956.1	807.7
Pretax Margin	%	64.3%	57.9%	65.5%	65.9%	39.4%	50.8%
Net Profit	EGPmn	156.0	160.0	348.6	360.5	741.0	625.9
Net Profit Margin	%	49.8%	44.9%	50.8%	51.1%	30.5%	39.4%

Comment

Revenues

- **Residential:** We expect ELSH to sell at an average price of EGP12,000/sqm with an annual inflation of 10%, collected over ten years and later over seven years. The project is launching in 2021, according to ELSH, and we assume it would take six years to be completely sold out and handed over between 2024-2026.
- **Commercial:** For Solana, we expect the monthly rental rate to reach EGP350/sqm with an inflation of 7.5% per annum and operations to begin in 2025. We assume a weighted average price of the commercial land plots in the Sixth of October City at EGP19,400/sqm.

Costs

- **Construction:** With the assumption that ELSH would be selling semi-finished apartments, we used a construction cost of EGP4,000/sqm of BUA and an infrastructure cost of EGP1,250/sqm of GLA. We assumed an inflation of 7.5% per annum in construction cost.
- **Land recognition:** We recognize the cost of land based on each cluster's GLA delivered.
- **Investment properties:** The commercial units cost was capitalized into investment properties, depreciating at 2% per annum.

Source: Company reports, Prime Research.

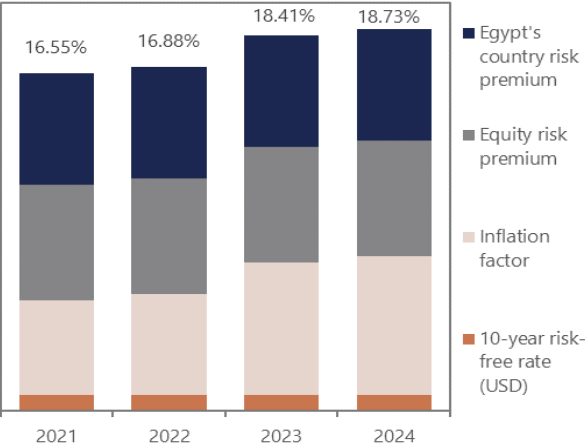


KEY VALUATION INPUT

Terminal COE:
17.6%.

Terminal cap rate:
10.1%.

COE STRUCTURE



Source: Prime Research, Bloomberg.

RETURN/RISK MATRIX

		Return		
		OW	N	UW
Risk	L			
	M			
	H	✓		

Source: Prime Research.

VALUATION MODEL

EGPmn	2020e	2021e	2022e	2023e	2024e	2025-2035e
Net income	156.0	160.0	348.6	360.5	741.0	745.4
Non-cash charges	1.0	1.9	2.1	1.9	1.4	39.3
Change in working capital	(193.0)	(221.3)	(512.0)	(431.7)	(697.3)	2,540.0
Capex	(1.8)	(1.0)	(1.1)	(1.1)	(1.2)	(17.9)
Net financing	16.3	29.9	173.0	65.0	(21.8)	(268.2)
FCFE	(21.6)	(30.6)	10.5	(5.3)	22.0	3,038.5
Terminal value at end of 2035						720.0
PV of FCFE (incl. TV)	(21.6)	(26.2)	7.7	(3.2)	11.1	961.3
NPV	929.1	12-month price target (EGP/share)				5.9
Fair value (EGP/share)	5.1	Upside potential				27%

Source: Prime Research.

FV SENSITIVITY ANALYSIS

Change in cost/sqm vs. change in price/sqm

Change in cost/sqm	Change in price/sqm					
		-10%	-5%	0%	5%	10%
	-10%	5.4	5.8	6.3	6.8	7.2
	-5%	5.2	5.6	6.1	6.5	7.0
	0%	5.0	5.4	5.9	6.3	6.8
	5%	4.7	5.2	5.7	6.1	6.6
	10%	4.5	5.0	5.4	5.9	6.4

Source: Prime Research.

PEER GROUP (as of 4 March 2021)

Ticker	Mkt cap (EGPmn)	Free float	P/E	P/BV	DY	ROE
ELSH	839	23%	6.7x	1.4x	2.2%	26.4%
EMFD	10,870	11%	5.7x	0.6x	na	12.6%
HELI	6,929	27%	24.7x	6.8x	1.0%	31.3%
MNHD	5,486	65%	6.3x	1.3x	7.9%	22.1%
OCDI	5913	75%	7.7x	1.0x	3.3%	13.8%
ORHD	6,466	23%	11.3x	2.3x	na	22.2%
PHDC	5353	47%	6.5x	0.6x	na	9.4%
TMGH	13,826	52%	6.5x	0.4x	0.7%	6.7%

Source: Bloomberg.



FINANCIAL MODEL

Income Statement (EGPmn)							
FY End: 31 Dec.	2017a	2018a	2019a	2020e	2021e	2022e	2023e
Total Revenue (Net)	172.6	305.2	218.8	313.0	356.5	686.8	705.6
COGS	(51.4)	(59.9)	(39.1)	(42.3)	(63.4)	(137.8)	(115.0)
GP	121.3	245.3	179.7	270.7	293.1	549.0	590.6
Other operating (exp.)/ Inc.	10.0	19.7	(5.2)	(19.2)	(86.6)	(93.3)	(99.0)
EBIT	131.2	265.0	174.5	251.5	206.4	455.7	491.6
Interest expense	(0.5)	(0.4)	(0.3)	(50.2)	0.0	(6.0)	(26.4)
Investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NP Before Taxes	130.7	264.6	174.1	201.2	206.4	449.7	465.2
NP Before XO & MI	101.0	207.4	135.6	156.0	160.0	348.6	360.5
XO & Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	101.0	207.4	135.6	156.0	160.0	348.6	360.5

Balance Sheet (EGPmn)							
FY End: 31 Dec.	2017a	2018a	2019a	2020e	2021e	2022e	2023e
Current Assets							
Cash & Cash Equivalent	168.1	223.6	86.8	65.2	34.7	45.2	39.9
Marketable securities	0.5	0.4	0.3	0.0	0.0	0.0	0.0
Trade & other receivables	281.3	391.9	367.7	256.7	1,141.5	1,973.3	2,847.3
Inventory & WIP	210.1	207.9	950.8	965.8	961.8	1,148.9	1,539.5
Other Current Assets	65.9	786.3	21.0	148.2	124.0	99.9	75.7
Total Current Assets	726	1,610	1,427	1,436	2,262	3,267	4,502
Fixed Assets (net)	2.9	4.7	4.4	5.2	4.4	3.4	2.6
Other Non-Current Assets	8.9	19.2	15.9	15.5	15.5	15.5	15.5
Total Assets	737.8	1,634.0	1,447.0	1,456.7	2,282.0	3,286.2	4,520.5
Liabilities & Equity							
Short-Term Debt	0.0	172.6	160.3	173.6	161.5	25.3	25.3
Current Portion of LT Debt	1.7	1.8	1.8	1.9	2.0	5.0	21.8
Accounts Payable	159.2	189.9	169.9	174.9	174.9	174.9	174.9
Other Current Liabilities	30.6	57.9	39.6	46.0	47.2	101.9	105.4
Total Current Liabilities	191.5	422.1	371.7	396.4	385.6	307.1	327.4
Long-Term Debt	7.6	450.6	288.5	254.3	140.7	285.4	308.3
Other Non-Current Liabilities	188.9	257.0	242.5	87.5	895.4	1,484.8	2,315.5
Total Liabilities	388.0	1,129.7	902.6	738.2	1,421.7	2,077.4	2,951.2
Minority Interest	0	0	0	0	0	0	0
Total Equity	349.8	504.2	544.4	718.5	860.3	1,208.9	1,569.4
Total Liabilities & Equity	737.8	1,634.0	1,447.0	1,456.7	2,282.0	3,286.2	4,520.5

Cash Flow Statement (EGPmn)							
FY End: 31 Dec.	2017a	2018a	2019a	2020e	2021e	2022e	2023e
Cash from Operating	38.5	88.5	692.7	(36.1)	(59.4)	(161.3)	(69.2)
Cash from Investing	18.3	22.8	10.6	(1.8)	(1.0)	(1.1)	(1.1)
Cash from Financing	(43.2)	(54.7)	(97.2)	16.3	29.9	173.0	65.0
Net Change in Cash	13.6	56.6	606.1	(21.6)	(30.6)	10.5	(5.3)

Per-Share Data							
	2017a	2018a	2019a	2020e	2021e	2022e	2023e
Price	8.58	5.95	2.70	4.62	4.62	4.62	4.62
# Shares (WA,in mn)	121.0	121.0	181.5	181.5	181.5	181.5	181.5
EPS	0.83	1.71	0.75	0.86	0.88	1.92	1.99
DPS	0.30	0.50	0.20	0.00	0.00	0.00	0.00
BVPS	2.89	4.17	3.00	3.96	4.74	6.66	8.65

Valuation Indicators							
	2017a	2018a	2019a	2020e	2021e	2022e	2023e
PER (x)	10.3x	3.5x	3.6x	5.4x	5.2x	2.4x	2.3x
Fwd PER (x), 12M - Price Target				6.8x	6.7x	3.1x	3.0x
Dividend Yield (%)	9.7%	5.8%	3.4%	0.0%	0.0%	0.0%	0.0%
PBV (x)	3.0x	1.4x	0.9x	1.2x	1.0x	0.7x	0.5x
EV/Sales (x)	5.1x	3.7x	3.9x	3.8x	3.1x	1.6x	1.6x
EV/EBIT (x)	6.7x	4.2x	4.9x	4.8x	5.4x	2.4x	2.3x

Profitability & Growth Ratios							
	2017	2018	2019	2020	2021	2022	2023
Revenue Growth	20.2%	73.2%	(28.3%)	43.1%	13.9%	92.7%	2.7%
EBITDA Growth	44.6%	101.9%	(34.0%)	44.0%	(17.5%)	119.8%	7.8%
EBIT Growth	44.7%	102.0%	(34.2%)	44.2%	(17.9%)	120.8%	7.9%
EPS Growth	44.0%	105.3%	(56.4%)	15.0%	2.6%	117.9%	3.4%
GPM	70.2%	80.4%	82.1%	86.5%	82.2%	79.9%	83.7%
EBITDA Margin	76.2%	87.1%	80.2%	80.7%	58.4%	66.7%	69.9%
EBIT Margin	76.0%	86.8%	79.7%	80.4%	57.9%	66.4%	69.7%
Net Margin	58.5%	68.0%	62.0%	49.8%	44.9%	50.8%	51.1%
ROE	28.9%	41.1%	24.9%	21.7%	18.6%	28.8%	23.0%
ROA	13.7%	12.7%	9.4%	10.7%	7.0%	10.6%	8.0%

Liquidity & Solvency Multiples							
	2017	2018	2019	2020	2021	2022	2023
Net Debt (Cash)	(159)	401	364	365	270	270	316
Net Debt (Cash) /Equity	(45%)	80%	67%	51%	31%	22%	20%
Net debt (Cash) to EBIT	-1.2x	1.5x	2.1x	1.4x	1.3x	0.6x	0.6x
Debt to Assets	0.01x	0.38x	0.31x	0.30x	0.13x	0.10x	0.08x
Current ratio	3.8x	3.8x	3.8x	3.6x	5.9x	10.6x	13.8x

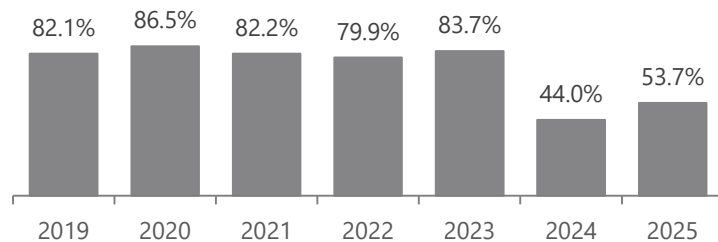
Consensus Estimates (EGPmn)				
	2020	2021	2022	2023
Revenues	NA	NA	NA	NA
Prime Research vs. Consensus	NA	NA	NA	NA
Net Income	NA	NA	NA	NA
Prime Research vs. Consensus	NA	NA	NA	NA

Source: Company reports, Prime Research.

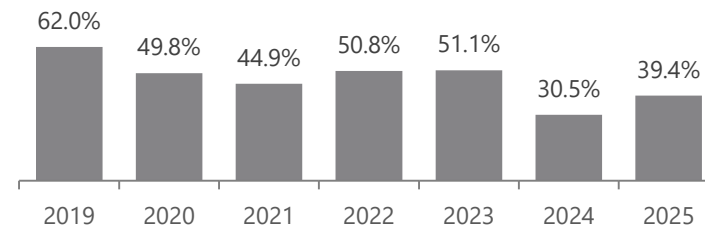


STORY IN CHARTS

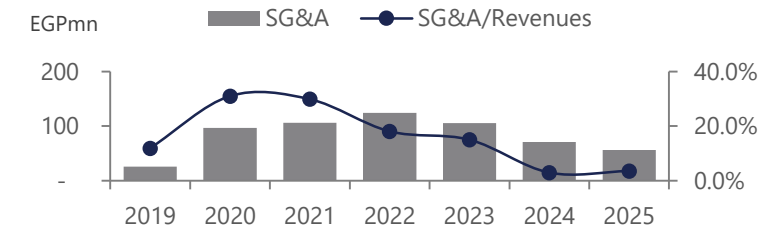
GPM: We expect GPM to drop with Solana's delivery due to higher costs allocated with off plan sales.



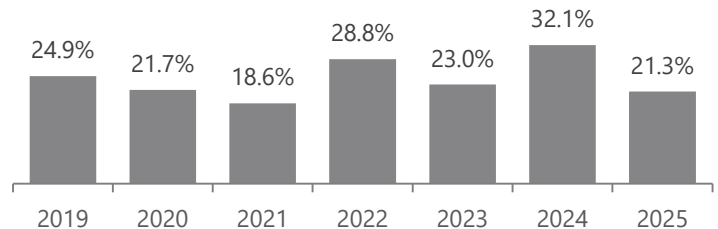
NPM: It is seen to decline on back of higher interest cost and COGS.



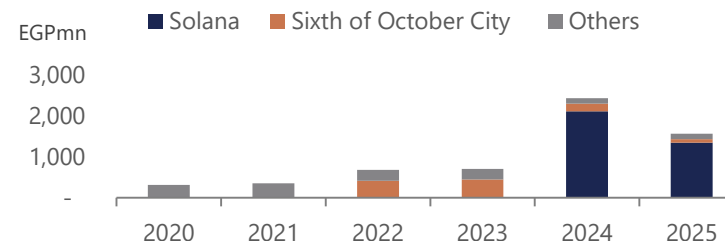
SG&A: SG&A accrual will represent higher % of revenue due to deferred sales recognition on handover.



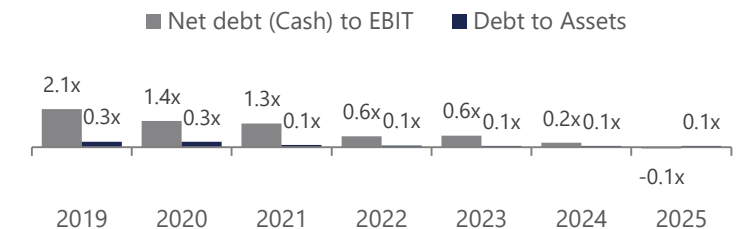
ROE: We expect ROE to peak with Solana's delivery.



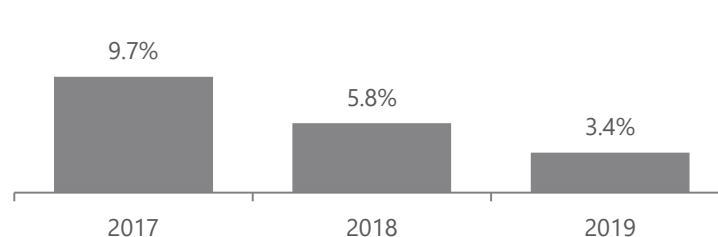
Revenues: Expected growth in revenues attributed by newly launched projects.



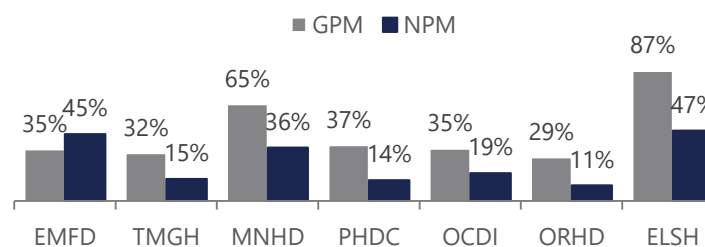
Leverage: Declining financial liabilities as land installments are paid and cash inflows start coming in from Solana.



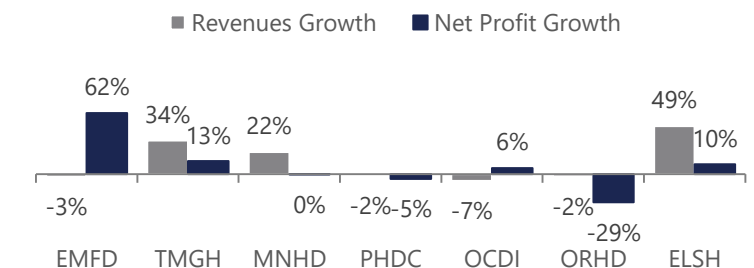
Dividend yield: ELSH has been a regular dividend payer for the past years, but its dividend yield has declined on lower earnings.



Profitability vs. peers: ELSH's profitability margins in 9M 2020 is the highest among peers.



Growth vs. peers: ELSH's revenue growth peaked in 9M 2020 y/y, while earnings growth lagged due to increased interest cost.



Source: Company reports, Prime Research.



CORPORATE PROFILE

Al-Shams Housing & Development [ELSH]
was established according to the royal decree in 1946 under the name of the Egyptian Company for Modern Buildings. ELSH is the outcome of merging four precursor companies in the real estate development segment.

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Eng. Mohamed Ahmed Eldeeb

CEO & CFO
Mr. Mohamed Ahmed Galal.

Board Members

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2. Mr. Mohamed Ahmed Galal.
3. Eng. Ayman Abou Bakr.
4. Mr. Tamer Mohamed Fawzy.
5. Mr. Mohamed Samy Hassouna.
6. Mr. Reda Abd El Hafez.
7. Mr. Alsayed Mohamed Abdul Salam.
8. Mr. Samir Suleiman Hassan.

Auditor
Accountability State Authority.

Domicile
Cairo, Egypt.

Founded
1946.

Listings
EGX: **ELSH**.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Holding Co. for Construction & Dev.	44.54%
Misr Insurance	19.35%
Misr Life Insurance	13.54%
Free float	22.57%

PRIME RESEARCH'S RESEARCH COVERAGE

Date	Rating	12M PT
7 Mar 2021	Overweight High Risk	EGP5.9

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