

**Price**  
**EGP4.92**  
at close of 13 Jun 2021

**Fair Value**  
**EGP5.1**  
set on 7 Mar 2021

**12M PT**  
**EGP5.9** (+20%)  
set on 7 Mar 2021

Investment Rating **Overweight** ★ ★ ★  
Risk Rating **High** ! ! !

## Earnings Flattened by Factoring Cost

Liquidity exacerbated by delayed project launches

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Source: Bloomberg.

**Bottom line cannibalized by factoring:** Al-Shams Housing & Development's [ELSH] total revenues grew 19% y/y to EGP118mn in Q1 2021, mostly driven by revenues from Gardenia Al-Shams project. However, net profits remained flat at EGP49mn in Q1 2021 due to the booking of EGP37mn (+23% y/y) of interest expense related to factoring of receivables portfolio. Net profit margin (NPM) came in at 42% in Q1 2021 vs. mid-80s before management began factoring ELSH's receivables.

**Launches of new projects delayed; construction work idle:** ELSH is yet to launch its project Solana and the recently-acquired commercial plots in Sixth of October City. We had expected ELSH to start sell its two projects off-plan at the beginning of 2021, in line with its sales model applied recently in Gardenia Al-Shams. ELSH, however, plans to kick-start its Solana project with the construction of five (out of 26) buildings using internal resources. Meanwhile, ELSH's work-in-process balance amounted to EGP776mn in Q1 2021 (vs. EGP775mn in Q4 2020), reflecting negligible spending related to Solana and no spending related to the commercial plots in Sixth of October City.

**In dire need for liquidity through year-end:** In [our Core Coverage note](#), we thought ELSH's liquidity needs would be financed externally to begin construction. We had estimated that ELSH would need EGP300mn in external financing over the next five years. However, we through ELSH would be generating cash inflows from the receivables of its new project launches, which have so far been delayed. At end of Q1 2021, ELSH has apparently did not pay in full the third land installment for the Solana project amounting to EGP145mn; it only paid EGP58mn or 40% of the installment. In addition, ELSH did not pay its 2020 tax dues amounting to EGP44mn. That said, ELSH resorted to factoring which resulted in an interest expense of EGP37mn to be paid within the year. Furthermore, ELSH's shareholders approved the distribution of EGP36mn (EGP0.20/share) in cash dividends, which we did not pencil in our forecasts in view of ELSH's liquidity needs. The cash distribution will be paid in two installments in September and December 2021. Thus, in total, we calculate that ELSH's liquidity needs through the end of 2021 amounts to c. EGP203mn.

**Overweight and 12M PT maintained:** ELSH is currently traded at a P/E of 5.7x and a P/BV of 1.3x. We had expected the deficit in cash flows to be covered with debt as per our financial model. Also, ELSH could still launch its projects during H2 2021 as it was targeting pre-sales from Solana of EGP1bn during 2021. Thus, we maintain our 12-month price target at EGP5.9/share.

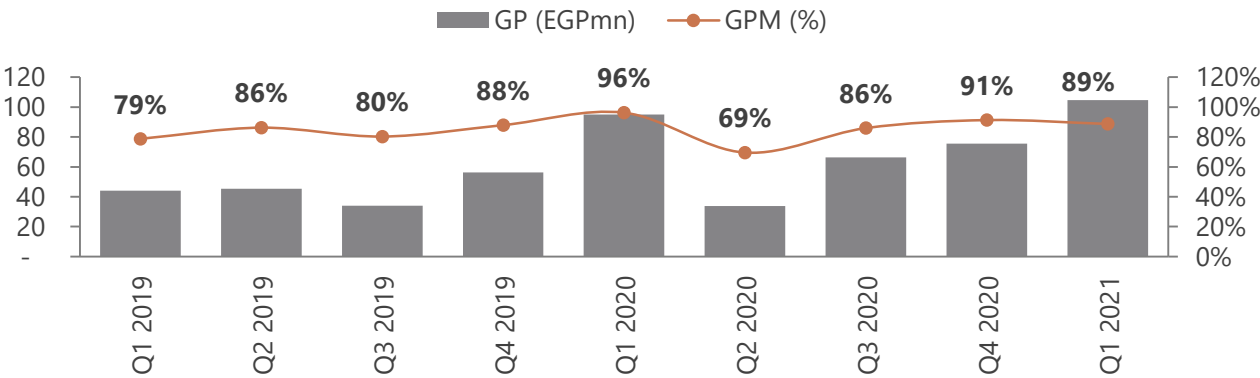
### KEY STOCK STATISTICS

Shares outstanding (mn)	181.5
Free float	22.7%
Market Cap (EGPmn)	893
52w range	EGP2.8-6.36
EGP100 invested 5y ago	EGP450
TTM EPS	EGP0.86
TTM P/E	5.7x
TTM P/B	1.3x
2021e P/E	5.6x
2021e P/B	1.04x
Last fiscal year's DPS	EGP0.2
Dividend yield	4.1%
5Y beta	1.03
4Y Proj. EPS CAGR	27.7%

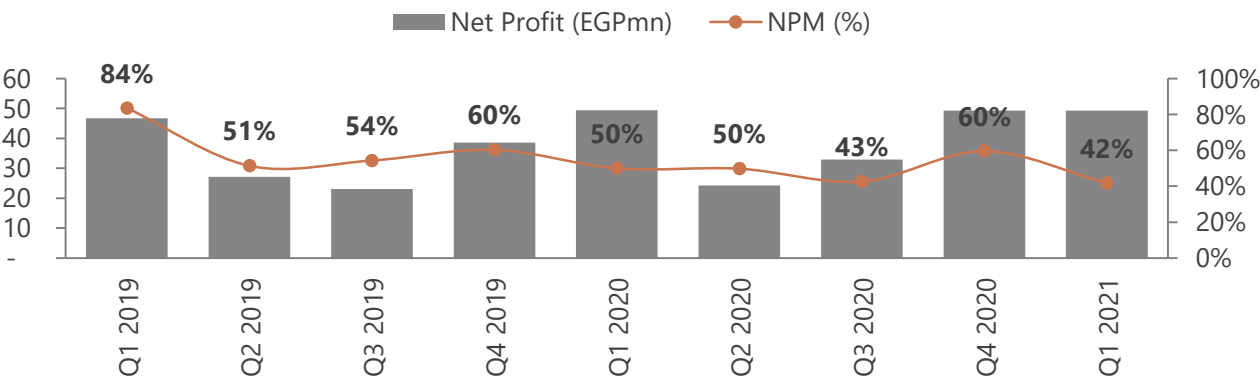


Results in Charts

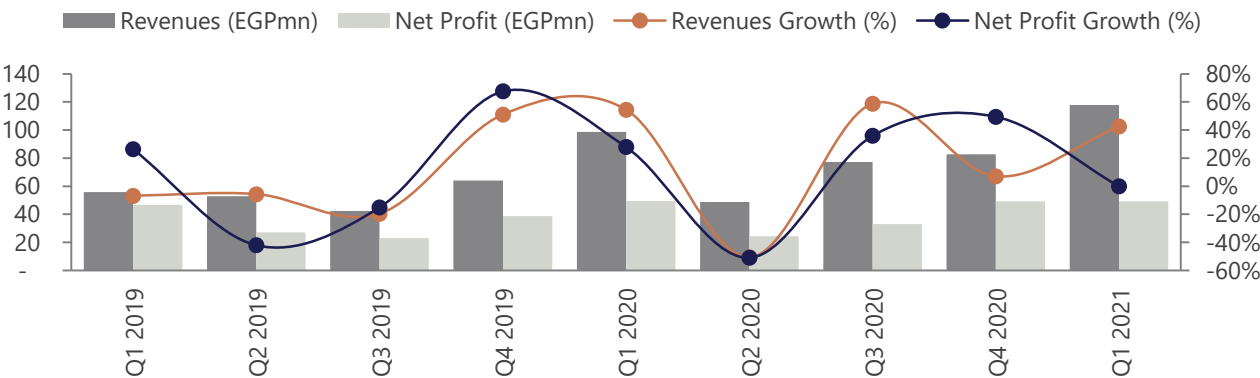
Quarterly Gross Profit



Quarterly Net Profit



Revenues and Net Profit Growth (m/m)



Source: Company reports, Prime Research.

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