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Highlights from ABUK's 2020/21 Results Call

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1. Today's Trading Playbook**TABLE OF CONTENTS****KEY THEMES**

Below, we highlight the key takeaways from Abu Qir Fertilizers' [ABUK] 2020/21 results call held last Thursday:

It's about four years till Misr Methanol & Petrochemicals comes alive: The process of selecting a contractor will take up to one year, followed by a 3-year lead time for the facility to begin operations. Management indicated that a financial feasibility was previously conducted three times (before, during, and after 2020). The feasibility study yielded IRRs ranging between 17% and 23% on equity investments. The project will target Southeast Asian markets. Moreover, the pricing of natural gas, the key feedstock, will be at USD4.5/MMBtu. While qualifying ABUK for a free zone status awaits further legal details, the methanol project will enjoy an economic zone status, with privileges very close to that of the free zone.

Studies for the new facility targeted on RAKT's land to be released mid-September 2021: Earlier this year, ABUK acquired an 80-feddan land plot from Rakta [RAKT] to build either an Ammonium Nitrate unit with a capacity of 2,400 mtpd or a Calcium Ammonium Nitrate (CAN) unit with a capacity of 3,000 mtpd. Management likes to call the project as Abu Qir IV, due to the proximity of acquired land to ABUK's current three main factories.

Management shares an upbeat outlook for global nitrogen fertilizer prices: The rally in urea prices, which pushed prices firmly beyond USD400/ton, is not expected to continue at the same pace. However, management believes that over the short term, prices should hold their ground close to the USD400/ton level. Moreover, over the medium to long term, management thinks of the USD300/ton level as very attainable, besides being very profitable, compared to pre-COVID-19 levels.

Liberalization of local selling prices is not entirely off the table: ABUK is committed to supplying the local market with a monthly quota of 77,000 tons of fertilizer products at subsidized prices. Without committing to the aforementioned monthly quota, the company will not be able to export any of its products. Management indicated that different scenarios are being discussed with the government regarding different forms of partial or full liberalization of local selling prices. While management insisted that the options being discussed are complex and subject to various modification, one suggestion proposed by companies is to provide the subsidies in cash rather than a discount on the sack's price. If it were not for the local quota, ABUK would have achieved a bottom line close to EGP4.6bn instead of EGP3.5bn, according to management.

ABUK is currently traded at 2021/22e P/E of 6.8x and EV/EBITDA of 8.2x. We remind you that we have an Overweight rating on the name, with 12-month price target (12M PT) of EGP26/share, implying an upside potential of +35%. Key catalysts are: (1) liberalization of local urea prices, (2) ABUK qualifying for the free zone status, and (3) any cut in natural gas prices by the Egyptian government, as a cut of USD1.0/MMBtu will add a 20% upside to our 12M PT.

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

2. TOP NEWS & ANALYSIS

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MACRO NEWS

The Ministry of Supply & Internal Trade (MOSIT) is developing 11 commercial and logistics areas at a cost of EGP49bn. Spread out over eight governorates, the projects will be finalized by 2023 at most. ([Almal](#))

Egypt's PMI is still in contraction territory, yet it posted a slight increase to 49.8 in August, up from 49.1 in July and just shy of June's seven-month high. For further details we will publish our report soon. ([PMI Markit](#))

Officials are leaning towards reinstating some preventative measures to combat the fourth wave of the virus. ([Al-Shorouk](#))

The final step for setting up the East Mediterranean Gas Forum (EMGF) and its Cairo headquarter was cleared on Thursday after President Abdel-Fattah El-Sisi ratified its founding charter. The forum will focus on developing collaboration policies and strategies in the sector, technical and commercial exchange, infrastructure development, and financing facilitation for project exploration. ([Enterprise](#))

Sharm El-Sheikh received the first direct flight from Switzerland in more than five years after a flight ban was triggered by the 2015 crash of a Russian plane in Sinai. ([Ministry of Civil Aviation](#))

CORPORATE NEWS

SODIC's [OCDI] said subsidiary Al-Yosr for Projects & Real Estate Development's offer to acquire a 123-acre land plot in West Cairo has been accepted by Sheikh Zayed City Development Authority. This plot in New Zayed City is expected to add some 235,000 sqm of residential BUA to the company's land bank and generate sales of EGP10bn over six years. The land's cost is EGP1.24bn, payable also over six years. ([Company disclosure](#))

Cairo for Investment & Real Estate Development [CIRA] launched an initiative in cooperation with Orcas to develop a social media educational platform for fighting private lessons. ([Company disclosure](#))

Ajwa's [AJWA] net loss contracted to EGP3mn in H1 2021 from EGP16.2mn in the same period last year. Meanwhile, revenues jumped to EGP806mn (+47% y/y), and GPM rose to 10% from 3% in H1 2020. ([Company disclosure](#))

GLOBAL NEWS

The U.S. economy created the fewest jobs in seven months in August as hiring in the leisure and hospitality sector stalled amid a resurgence in COVID-19 infections, which weighed on demand at restaurants and hotels. ([Reuters](#))

Investors have swept into assets perceived to perform on slowing growth and rising inflation, a weekly round-up by Bank of America (BofA) showed on Friday, with tech stocks seeing their biggest inflows in six months and large outflows from U.S. government debt. ([Reuters](#))

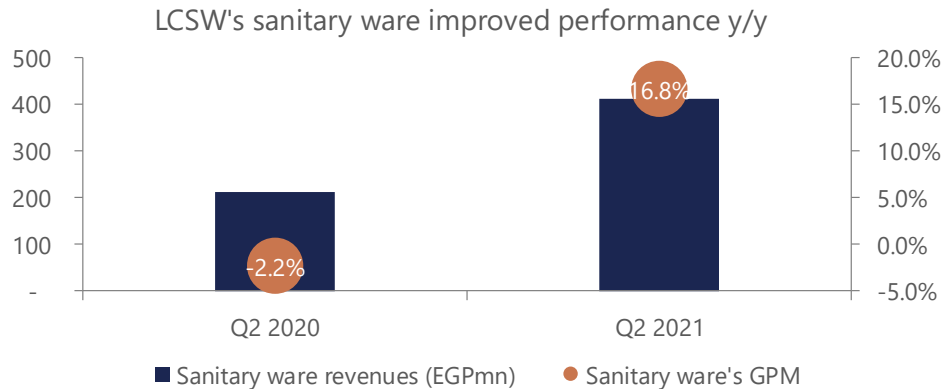
Asian spot liquefied natural gas (LNG) prices are currently at their highest since January and also at their highest for this time of the year since at least 2010. They are expected to climb further during the northern hemisphere winter when demand for LNG for heating typically surges. ([Reuters](#))

3. CHART OF THE DAY

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Source: Company disclosure.

Sanitary ware is the biggest revenue contributor (65% of Q2 2021 revenues) for Lecico Egypt [LCSW]. Sanitary ware revenues increased by 93% y/y to EGP412mn in Q2 2021, driven by increase in volume and price (+72% y/y, +13% y/y), respectively. Hence the company managed to record a gross profit margin of 16.8% in Q2 2021 compared to a gross loss margin of 2.2% a year before.

4. MARKETS PERFORMANCE

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Current equity market cap (EGPbn)					Equity turnover (EGPmn): Last, ytd avg.				
745.7					1,867.1 1,178.6				
			daily chg.	ytd chg.			daily chg.	ytd chg.	
	EGX 30	11,301.36	0.16%	4.21%		Gold	1,827.73	1.00%	(3.72%)
	EGX 30 TR	4,408.46	(0.19%)	5.67%		Silver	24.72	3.39%	(6.39%)
	EGX 70 EWI	3,038.01	1.21%	41.62%		Brent Oil	72.61	(0.58%)	40.17%
	EGX 100 EWI	4,056.94	1.04%	30.96%		WTI	69.29	(1.00%)	42.81%
	DFMGI	2,912.37	(0.15%)	16.87%		Natural Gas	4.71	1.53%	85.58%
	ADSMI	7,652.98	0.05%	51.43%	EGP	USD/EGP	15.70	(0.17%)	(0.23%)
	TASI	11,319.87	0.08%	30.32%	€	EUR/USD	1.19	0.04%	(2.75%)
	QE Index	11,071.16	(0.22%)	6.01%	£	GBP/USD	1.39	0.27%	1.47%
	S&P 500	4,535.43	(0.03%)	20.75%	¥	USD/JPY	109.71	(0.21%)	6.26%
	Dow 30	35,369.09	(0.21%)	15.56%		6M TB yield	12.80	(18)	7
	NASDAQ	15,363.52	0.21%	19.21%		1Y TB yield	13.13	(6)	36
	VIX	16.41	0.00%	(27.87%)		10Y TB yield	14.79	(1)	40
	STOXX 50	4,201.98	(0.71%)	18.28%		2Y TB yield	0.21	(1)	8
EM	MSCI Emerging	1,315.91	0.30%	1.91%		10Y TB yield	1.33	2	40
FM	MSCI Frontier	662.08	0.20%	15.82%		30Y TB yield	1.95	2	29

* As of market close. Change in Treasuries is in basis points.

Source: Bloomberg, CBE.

5. LATEST EGX VALUATION MULTIPLES

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

6. KEY DATES

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DATE	TICKER	TYPE	EVENT
5-Sep-21	MBSC	Cash dividend	Date for paying out a dividend of EGP1.5/share.
8-Sep-21	CNFN	EGM	Adding investment banking to the company's activities.
16-Sep-21		MPC Meeting	Determining the CBE's policy rate.
18-Sep-21	EGTS	Lawsuit	A court session discussing legal disputes relevant to the company.
19-Sep-21	MNHD	Lawsuit	To recover EGP24.8mn owed by MNHD to NRPD for the development of 32 buildings in the 6th of October project.
21-Sep-21	CIRA	OGM	Discussing the dividend distribution suggested by the BoD.
25-Sep-21	ABUK	OGM	Approving the financial statements ending 30 Jun. 2021 and the proposed dividend.
25-Sep-21	ELNA	OGM	Approving the financial statements and other agenda items.
26-Sep-21	AMOC	OGM	Approving the financial statements ending 30 Jun. 2021 and other agenda items.
30-Sep-21	CICH	Cash dividend	Date for paying out EGP0.10/share (3rd round).
30-Sep-21	ZMID	Cash dividend	Date for paying out EGP0.15/share (3rd round).

7. LATEST RESEARCH

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DATE	PUBLISHED REPORT
29-Aug-21	Orascom Construction [ORAS] – Recovery on Track Although Below Estimates
24-Aug-21	Abu Qir Fertilizers [ABUK] – When the Stars Align
18-Aug-21	EFG Hermes Holding [HRHO] – Solid Business, Strong Financial Growth
17-Aug-21	Elsewedy Electric [SWDY] – Impressive Set of Results
17-Aug-21	Commercial International Bank [COMI] – Adjustment Post Stock Dividend
16-Aug-21	B Investments Holding [BINV] – Growth Dented Across the Board
11-Aug-21	Crédit Agricole Egypt (CAE) [CIEB] – Non-Interest Income Heals Earnings Growth
10-Aug-21	MACROView – July's Feverous Inflation
9-Aug-21	CI Capital Holding [CICH] – Robust Exit Saves the Day
5-Aug-21	MACROView – The Sky Is No Blue
4-Aug-21	MACROView – Constrained Recovery
26-Jul-21	EFG Hermes Holding [HRHO] – FV and 12MPT Adjustment to Bonus Share Action
13-Jul-21	Commercial International Bank [COMI] – Tamed Credit Provisions Spur Annual Growth
8-Jul-21	MACROView – Inflation Edged Up, As Expected
8-Jul-21	MACROView – External Buffers Still Powering Ahead

6-Jul-21	<u>MACROView – A Steady and Slow Recovery in the Making</u>
5-July-21	<u>Abu Qir Fertilizers [ABUK] – Talking U</u>
16-June-21	<u>B Investments Holding [BINV] – Strong Financials, Growing Investments</u>
14-June-21	<u>Al-Shams Housing & Development [ELSH] – Earnings Flattened by Factoring Cost</u>
10-June-21	<u>MACROView – Inflation Risk Rising, but Still Within Target</u>
8-June-21	<u>TAKEStock – Telecom Egypt [ETEL] – Show Me the Dividends</u>
6-June-21	<u>MACROView – Further Enhancement</u>
3-June-21	<u>MACROView – Contraction Eased</u>
23-May-21	<u>Orascom Construction [ORAS] – Earnings Short of Our Estimates</u>
23-May-21	<u>CI Capital Holding [CICH] – Earnings Dented by One-off ESOP Expense</u>
22-May-21	<u>Commercial International Bank [COMI] – Earnings Growth Driven by Lower Provisions</u>
20-May-21	<u>Crédit Agricole Egypt (CAE) [CIEB] – Slowing Lending Inhibits Earnings Growth</u>
20-May-21	<u>EFG Hermes Holding [HRHO] – Recovery Signs; Back on Track</u>
18-May-21	<u>B Investments Holding [BINV] – Exits Kick Off, Unlocking Value</u>
18-May-21	<u>Elsewedy Electric [SWDY] – Financials promise a buoyant year ahead</u>
17-May-21	<u>Misr Chemical Industries [MICH] – Another Chapter of Strong Annual Growth</u>
11-May-21	<u>MACROView – Inflation Eased but Stage Still Set for a Pick-Up</u>
9-May-21	<u>MACROView – Stability Prevailed</u>
6-May-21	<u>MACROView – The Road to Recovery Gets Longer</u>
18-Apr-21	<u>MACROView – Challenges Remain Daunting</u>
13-Apr-21	<u>Crédit Agricole Egypt (CAE) [CIEB] – The Value Algorithm</u>
12-Apr-21	<u>Orascom Construction [ORAS] – Rich in Value</u>
11-Apr-21	<u>MACROView – Monthly Reading Pressured By Seasonality</u>
6-Apr-21	<u>MACROView – FX Assets Well Placed to Mitigate Potential Risks</u>
6-Apr-21	<u>MACROView – Still Downbeat</u>
28-Mar-21	<u>Taaleem Management Services [TALM] – Enriching the Education Sector</u>
18-Mar-21	<u>EFG Hermes Holding [HRHO] – Challenging Year, Yet Growth Continues</u>
10-Mar-21	<u>MACROView – Still Below the Target, but Global Headwinds Cloud the Horizon</u>
8-Mar-21	<u>MACROView – Buffers Grew Despite Signs of Unwelcome Tightening of Financial Conditions</u>
7-Mar-21	<u>Al-Shams Housing & Development [ELSH] – Making Hay While the Sun Shines</u>
3-Mar-21	<u>MACROView – Weak Demand Still Weighing on the Rebound Trajectory</u>
2-Mar-21	<u>MACROView – Commodity Supercycle: Real or Hype?</u>

1-Mar-21	<u>Commercial International Bank [COMI] – Earnings Beat Despite Higher Provisions</u>
25-Feb-21	<u>Elsewedy Electric [SWDY] – Strong Set of Results Driven by Turnkey</u>
22-Feb-21	<u>CI Capital Holding [CICH] – Got the Hit, Yet Better Than Expected</u>
10-Feb-21	<u>MACROView – Disinflation Continues Amid Acceleration in Global Commodity Prices</u>
8-Feb-21	<u>Misr Chemical Industries [MICH]– Annually Wild, Quarterly Tamed</u>
4-Feb-21	<u>MACROView – External Buffers Are Still Restoring Grounds</u>
3-Feb-21	<u>MACROView – A Fragile Improvement but Favorable Sentiment</u>
3-Feb-21	<u>MACROView – External Woes vs. Cautious Optimism</u>
1-Feb-21	<u>STANDPoint – Egypt 2021 Investing Playbook</u>
14-Jan-21	<u>CI Capital Holding [CICH] – New Expansions = Further Growth</u>
10-Jan-21	<u>MACROView – Below End-of-Year Target</u>
6-Jan-21	<u>MACROView – On the Path to Further Recovery</u>
5-Jan-21	<u>MACROView – Rutted Road to Recovery</u>
28-Dec-20	<u>Elsewedy Electric [SWDY] – More Growth to Come</u>
22-Dec-20	<u>EFG Hermes Holding [HRHO] – Blueprinting Its Eminence</u>
16-Dec-20	<u>CIB [COMI] – Earnings beat despite higher provisions</u>
10-Dec-20	<u>MACROView – The Highest Reading in Seven Months</u>
7-Dec-20	<u>MACROView – Restored Ground</u>
6-Dec-20	<u>MACROView – Lost Momentum</u>
3-Dec-20	<u>MACROView – Not as Severe as Expected but All Eyes on the Scars</u>
25-Nov-20	<u>Misr Chemical Industries [MICH] – Pandemic Proof</u>
10-Nov-20	<u>MACROView – An expected rise as the new school year began</u>
4-Nov-20	<u>MACROView – The Stars Seem to Be Aligned for International Reserves</u>
3-Nov-20	<u>MACROView – The Highest Reading in Six Years</u>
25-Oct-20	<u>CIB [COMI] – Short-term pain for longer-term gain</u>
11-Oct-20	<u>MACROView – Disinflationary trend interrupted</u>
11-Oct-20	<u>MACROView – External strains are slacking and reserves are growing</u>
6-Oct-20	<u>CIB [COMI] – A Good Bet for the “Risk On” Mode</u>
5-Oct-20	<u>MACROView – Egypt’s recovery is broadening</u>
10-Sep-20	<u>MACROView – A Stunning Chapter Towards Targets</u>

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