

Price
EGP8.3
at close of 15 Nov 2021

Fair Value
EGP10.7
set on 28 Dec 2020

12M PT
EGP12.7 (+53%)
set on 28 Dec 2020

Investment Rating

Overweight

★

★

★

Risk Rating

Medium

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!

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A Quarter to Forget?

Overweight and 12M PT maintained

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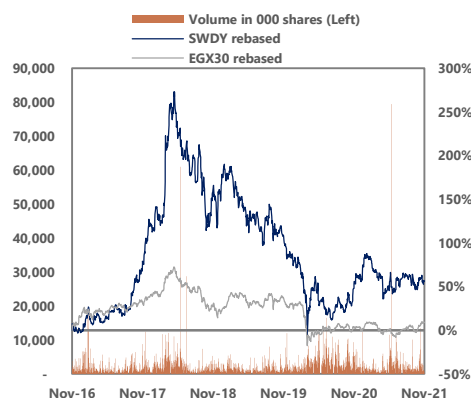
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Despite revenue growth, margins weighed on bottom line:

Elsewedy Electric's [SWDY] Q3 2021 revenues increased by 31% y/y to EGP14.9bn (+8% q/q), driven by an increase in the wires & cables segment. However, consolidated net income after minorities slipped 14% y/y to EGP704mn (-21% q/q) on a drop in GPM to 11.5% (-6.1pp y/y, 3pp q/q) which came in 4pp below our expectations. While we were initially expecting a y/y slippage in net earnings in Q3 2021, earnings still came 9% short of our expectations. Generally speaking, profitability was primarily dented by the narrower margin of the wires & cables segment.

SWDY segmental performance was a mixed bag in Q3 2021:

- **Wires & Cables:** The largest revenue contributor (50% in Q3 2021), wires & cables revenues jumped 57% y/y to EGP7.4bn, driven mainly by higher prices as volumes grew 1.2% annually (-2% q/q). The segment contributed around 75% of total revenue growth in Q3 2021. However, GPM slumped considerably y/y to 8.5% in Q3 2021 vs. 14.3% in Q3 2020 and 11.7% in Q2 2021.
- **Turnkey:** The second largest revenue contributor (42% in Q3 2021, 20% contribution to total revenue growth), turnkey revenues increased 14% y/y to EGP5.9bn. However, gross profit went down in absolute and relative terms (-EGP137mn y-y and -16.2% y/y, respectively). GPM weakened to 12% in Q3 2021 compared to 16% a year before due a change in projects mix. Meanwhile, backlog grew notably to EGP57bn (+17.5%) in Q3 2021 vs. EGP49.7bn in Q2 2021.
- **Transformers:** Despite its small contribution to revenues (4% in Q3 2021, 5% contribution to total revenue growth), transformers revenues increased 36% y/y to EGP628mn. However, gross profit decreased 21.5% y/y to EGP91mn in Q3 2021, leading GPM to narrow to 14.4% vs. 24.9% a year before. Meanwhile, backlog increased to USD133mn in Q3 2021 (up from USD88mn in Q2 2021). We note that SWDY started to consolidate its two recent acquisitions of Indonesia's CG Power System and Pakistan's Valdius Engineering Ltd. in Q3 2021.
- **Electric Products:** Despite its small contribution to revenues (only 2% in Q3 2021, 5% contribution to total revenue growth), electric products revenues almost doubled y/y to EGP336mn. Boasting the highest margin across all segments, electric products recorded a gross profit margin of 32%, albeit lower than the 42% recorded in Q2 2020.



Source: Bloomberg.

KEY STOCK STATISTICS

Shares outstanding (mn)	2,184
Free float	31.6%
Market Cap (EGPmn)	18,258
Market Cap (USDmn)	1,163
52w range	10.65-6.71
EGP100 invested 5y ago	151
TTM EPS	1.64
TTM P/E	5.1x
2021 EPS	1.23
2021 P/E	6.8x
2021e EV/EBITDA	5.9x
Last fiscal year's DPS	EGP0.40
Dividend yield	5%
5Y beta	0.73
4Y Proj. EPS CAGR	7%

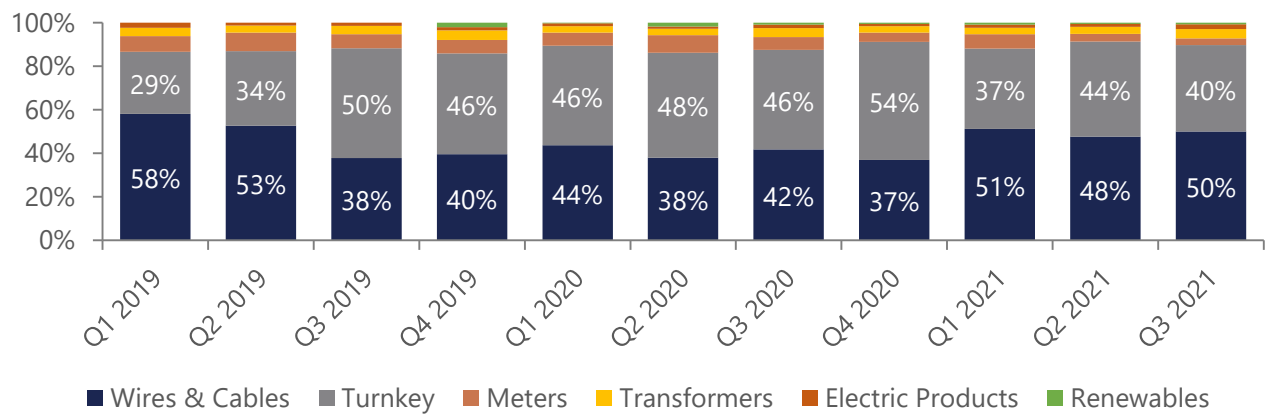


- **Meters:** The segment continued to underperform this quarter, with revenues falling 31% y/y to only EGP471mn (-1% q/q) on lower volume and prices. Gross profit decreased 33% y/y, hence gross profit margin came in at 25.7% in Q3 2021 vs. 26.6% a year before. Meanwhile, backlog increased to EUR110mn in Q3 2021 vs. EUR98mn in Q2 2021.
- **Renewables:** The smallest segment (less than 1% of revenues in Q3 2021), renewables revenues decreased by 11% y/y to EGP92mn in Q3 2021, yet GPM increased significantly to 50% vs. 42% in Q2 2021.

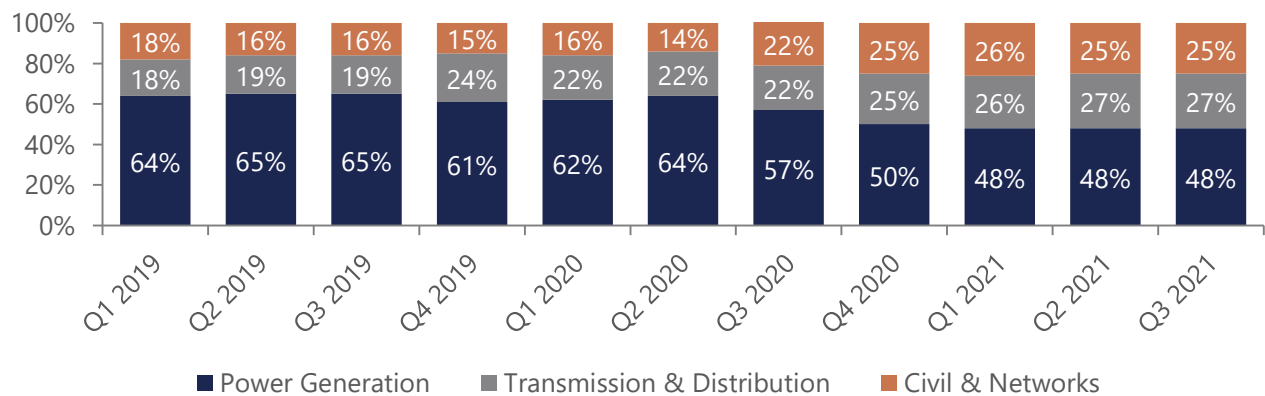
Overweight and 12M PT maintained: SWDY is now trading at a TTM P/E of 5.1x and EV/EBITDA of 4.2x, with a TTM ROE of 20%. We will update our financial model to reflect 9M 2021 results, with full-year 2021 results expected to exceed our initial estimates published in December 2020. Until then, we maintain our rating as Overweight with the same 12-month price target of EGP12.7/share. That said, we note that the company’s management expects a stronger Q4 2021.

Results in Charts

SWDY's Quarterly Revenue Breakdown



SWDY's Quarterly Turnkey Breakdown

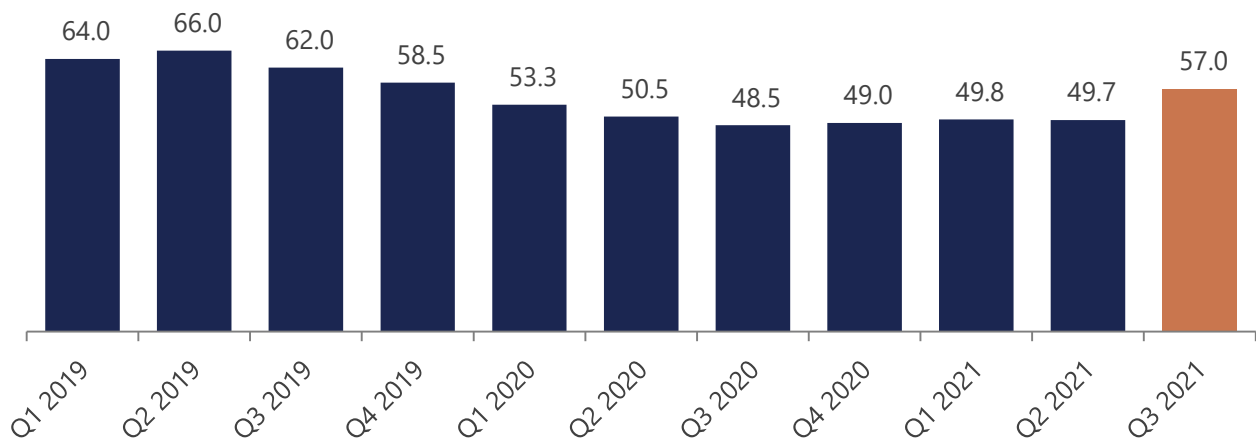


Source: Company reports, Prime Research.

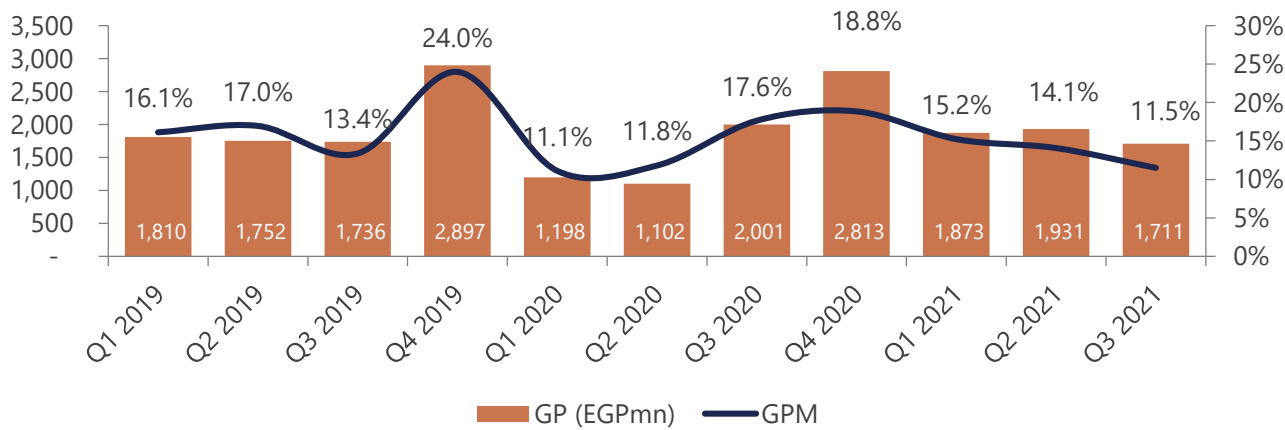


Results in Charts (cont.'d)

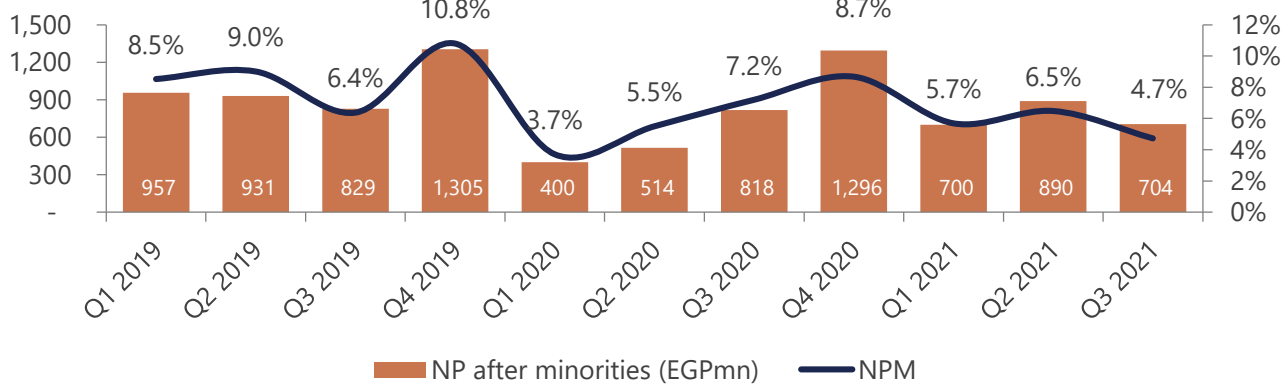
SWDY's Quarterly Turnkey Backlog (EGPbn)



SWDY's Quarterly Gross Profit



SWDY's Quarterly Net Profit



Source: Company reports, Prime Research.

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