

EGYPTCeramics

From Dusk to Dawn

Purchasing power recovery is key; initiate coverage on four ceramics names

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A fragmented market: We estimate Egypt's ceramics industry size to be c. EGP21bn in annual revenues, where there are many major players with 33 factories with a maximum capacity of 400mn sqm p.a. The local ceramics market is fragmented between EGX-listed companies, such as Lecico Egypt [LCSW], Al Ezz for Ceramics & Porcelain [ECAP], Arab Ceramic Co. - Ceramica Remas [CERA], and General Company for Ceramic & Porcelain Products [PRCL], and non-listed companies, topped by **Cleopatra Ceramics**, **Royal Ceramics**, **Milano Ceramics**, and **Innova Ceramics**.

Egypt – a large consumer but a larger producer too: Egypt produced 285mn sqm of ceramic tiles in 2020, according to Statista, making it the world's tenth largest in terms of volume. Yet, the country usually consumes 80% of its own production and exports the remainder, ranking the tenth in terms of global consumption. Meanwhile, exports (20% of local production) have been suffering since the onset of COVID-19. According to the Export Council for Building Materials, Refractory & Metallurgy Industries (ECBM), ceramic tiles exports decreased by 17% y/y to USD144mn in 2020 then slumped further by 4% y/y in 9M 2021 to USD92mn.

... but has the potential to become a manufacturing and exporting hub: Egypt is gifted with many resources that can help it become a ceramics hub for manufacturing and exporting, e.g.:

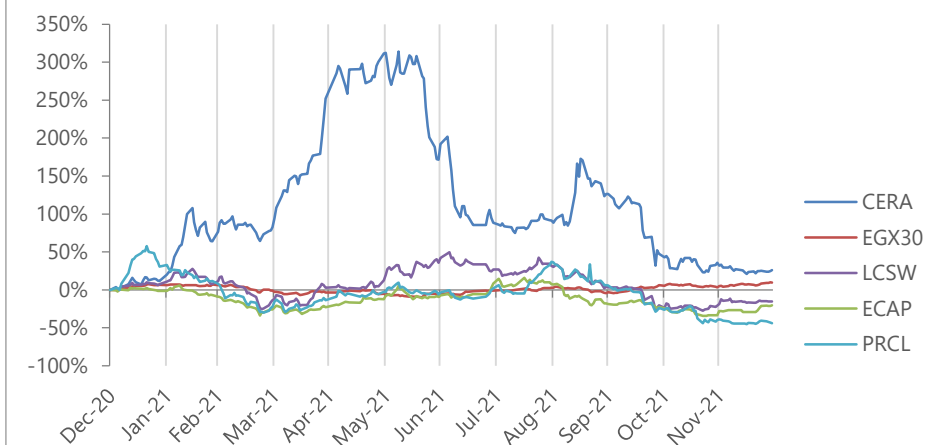
1. Attractive location: Egypt's location, being central, makes shipping costs cheaper, especially for nearby countries like Libya and Iraq. Currently, African and Iraqi importers enjoy a 50% shipping discount offered by the

Egyptian government to encourage exports. Egypt is known for its rich, yet relatively cheap, labor force in addition to an abundance of natural gas – despite demands by local manufacturers for cost reduction so they can be as competitive as possible with their neighboring peers that access the commodity at lower prices.

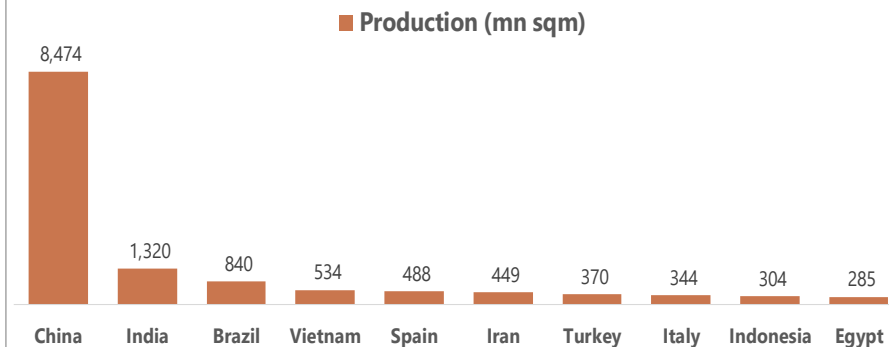
- 2. Minimal FX risk:** Most of Egypt-based manufacturers are exposed to minimal FX risk as they secure around 90% of their raw materials locally. At the same time, the majority of production is sold locally.
- 3. Favorable international relations:** Recently, relations with Turkey have improved and there is currently less tension in Libya. This opens the door for potentially more exports post-COVID-19.
- 4. New export subsidy:** For the first time, exporters in Egypt's ceramics industry are now eligible for a 3-year subsidy program, starting from July 2021, with additional incentives when exporting to African countries.

Initiate coverage on four ceramics stocks: In this note, we initiate coverage on the ceramics industry in Egypt with four EGX-listed ceramics manufacturers, namely (sorted in terms of upside/downside) Al-Ezz for Ceramics & Porcelain [ECAP] (OW, 12M PT EGP14.8, +50%), Arab Ceramic Co. - Ceramica Remas [CERA] (OW, 12M PT EGP0.88, +28%), General Co. for Ceramic & Porcelain Products [PRCL] (UW, 12M PT EGP2.7, +3%), Lecico Egypt [LCSW] (UW, 12M PT EGP3.8, +10%).

STOCKS' RELATIVE PERFORMANCE (2021)



TOP CERAMIC TILE MANUFACTURERS BY PRODUCTION IN 2020 (MN SQM)



Source: Statista.



SECTORView



SECTOR VIEW

The landscape: Although the ceramics industry in Egypt is quite young, the country is ranked tenth among global ceramic tiles producers. Having been a ceramics net importer for years, Egypt began manufacturing in the 1980s. Recently, the country has become experienced in all stages of the craft, from shaping clay and firing until fully dried out of water to digital printing or glaze decoration before cutting the tiles.

Opportunities

We believe demand for ceramics in Egypt has room for growth based on a few factors:

- 1. Demand drivers:** Renovation will drive upgrades of old tiles and sanitary ware, especially with Egypt's population already exceeding c.100mn. Also, fresh demand will continue to be created from new marriages.
- 2. Urbanization and construction:** Constructing and moving to new cities as well as upgrading state-owned buildings will step up demand for ceramic tiles and sanitary ware.
- 3. Industry advantages:** Ceramic tiles are a cheaper substitute for other natural stones, easy to clean and install, and also widely favored among Egyptians.
- 4. Anticipated regional reconstruction:** The future holds possible opportunities arising from the potential reconstruction of Syria,

Iraq, and specially Libya which benefits from lower transportation costs of Egypt's exports, making the exporter's product more competitive. Also, Africa still offers other opportunities.

5. Government initiatives to fuel demand:

Recently, the government launched the "Decent Life" initiative aiming at improving the living standards of the poor. This campaign should help sales of tiles and sanitary ware recover faster. While we do not know which and how many companies will participate in the initiative, this kind of effort by the government sends a positive signal on the future of the industry.

6. Import restrictions are good in the short term:

The Ministry of Trade & Industry halted ceramics imports for three months until March 2021. This should partially lend a boost in the short run to ceramics manufacturers who will be pinning higher hopes for even tighter restrictions on imports in the coming period.

Challenges

The Egyptian ceramic manufacturers are seeing their margins and profits getting stressed as the industry faces some hurdles:

1. High production costs limit profitability:

Ceramics producers now pay USD4.75/MMBTu, up from USD4.5/MMBTu, for natural gas, a prohibitive cost for

exporters in an already energy-intensive industry. Some ceramics manufacturers asked the government to cut that price for the industry, but their hopes now seem less realizable in the post-COVID-19 era and with the recent rally in global commodity prices.

- 2. Debt:** The petroleum sector ran up natural gas debt of EGP6bn (67% of which is compounding interest). Recently, the Ministry of Petroleum greenlighted rescheduling the gas debt to be repaid by ceramics manufacturers over a ten-year window at an interest rate of 7%. Thus, the CBE allocated EGP1.2bn to fund 25% of the natural gas arrears owed by ceramics makers, so that companies can benefit from the Prime Minister's decision to reschedule the rest of the debt over ten years.

- 3. An environmental issue:** The ceramics industry is not environment-friendly due to the carbon emissions generated in manufacturing, especially at the firing and drying stages. This is why some countries do not welcome the industry or at least place some restrictions to limit its emissions.

- 4. Additional cost is a barrier to one of major destinations:** Libya, in September 2019, charged a fee of USD544 on trucks arriving from Egypt after the latter imposed fees on its exports to Libya, undermining the profitability of Egyptian ceramic exporters.

- 5. A long-term threat:** There are other substitutes that grab customers' attention nowadays and provide an even cheaper alternative for ceramic tiles. For example, luxury vinyl tile which is trendy and cheaper in terms of absolute price and installation cost. It is also scratch- and cold-resistant. With its three categories (luxury vinyl tile, vinyl sheets, and vinyl tiles), vinyl saw its estimated market valuing globally at USD25.6bn in 2018, which is expected to stretch wider. Yet, in the short term, we believe vinyl will not present a real threat to the local market until people become familiar with it. Meanwhile, it could threaten exports.

In the rest of this note, we present our views on the four EGX-listed ceramics manufacturers, as follows (sorted in alphabetical order):

Overweight

1. [Al-Ezz for Ceramics & Porcelain \[ECAP\]](#).
2. [Arab Ceramic - Ceramica Remas \[CERA\]](#).

Underweight

1. [General Co. for Ceramic & Porcelain Products \[PRCL\]](#).
2. [Lecico Egypt \[LCSW\]](#).

A background image of a mosaic made of irregular, light-colored tiles in shades of beige and cream, set in a darker beige grout.

COMPANIESComparison



COMPANIES COMPARISON

EGPmn	ECAP						CERA						PRCL						LCSW					
	2021e	2022e	2023e	2024e	2025e	2026e	2021e	2022e	2023e	2024e	2025e	2026e	2021a	2022e	2023e	2024e	2025e	2026e	2021e	2022e	2023e	2024e	2025e	2026e
Financials																								
Revenues	1,349	1,420	1,517	1,667	1,699	1,723	834	904	993	1,114	1,170	1,226	218	290	315	345	378	414	2,541	2,685	2,872	3,130	3,198	3,267
Gross profit	392	380	413	478	457	423	108	112	129	151	158	169	(8)	(6)	0	8	34	63	433	462	524	608	609	608
EBITDA	215	197	222	272	255	228	116	119	133	153	159	170	(57)	(22)	(12)	(1)	26	57	115	248	282	329	312	300
EBIT	168	153	179	231	215	189	87	89	104	123	129	139	(66)	(36)	(26)	(14)	14	46	(4)	136	176	228	216	208
Net income	108	99	114	153	141	121	66	66	77	94	99	108	(62)	(32)	(22)	(10)	14	38	(63)	74	134	178	173	171
FCFF	179	79	78	81	79	58	(25)	66	75	81	101	124	(25)	(4)	(4)	3	(3)	18	(258)	101	115	125	183	114
Total assets	1,674	1,771	1,890	2,059	2,167	2,261	801	845	896	958	991	1,029	318	349	345	350	339	349	3,674	4,046	4,200	4,233	4,012	3,782
Gross debt	474	478	482	488	494	501	136	149	155	156	153	145	-	-	-	-	-	-	939	982	1,079	1,073	989	930
Cash & CE	269	284	311	350	382	401	21	33	46	52	58	80	16	9	8	14	14	36	354	742	849	783	568	324
Net debt (Cash)	206	194	171	138	112	100	115	117	109	104	95	66	(16)	(9)	(8)	(14)	(14)	(36)	585	240	231	289	421	606
Total equity	487	532	583	653	717	772	303	310	318	327	337	348	84	44	22	12	25	64	1,912	2,252	2,282	2,275	2,128	1,990
Growth rates																								
Revenue growth		5%	7%	10%	2%	1%		8%	10%	12%	5%	5%		33%	8%	10%	10%	10%		6%	7%	9%	2%	2%
Gross profit growth		-3%	9%	16%	-4%	-7%		4%	15%	17%	5%	7%		na	na	2252%	347%	87%		7%	13%	16%	0%	0%
EBITDA growth		-8%	13%	23%	-6%	-11%		2%	12%	15%	4%	7%		na	na	na	na	118%		117%	14%	17%	-5%	-4%
EBIT growth		-9%	17%	29%	-7%	-12%		3%	16%	18%	5%	8%		na	na	na	na	223%		na	29%	30%	-5%	-4%
Net income growth		-8%	15%	34%	-8%	-15%		0%	17%	22%	5%	9%		na	na	na	na	177%		na	80%	33%	-3%	-1%
FCFF growth		-56%	-2%	4%	-3%	-26%		na	15%	8%	24%	23%		na	na	na	na	na		na	14%	9%	46%	-38%
Margins																								
Gross profit margin	29%	27%	27%	29%	27%	25%	13%	12%	13%	14%	14%	14%	-4%	-2%	0%	2%	9%	15%	17%	17%	18%	19%	19%	19%
EBITDA margin	16%	14%	15%	16%	15%	13%	14%	13%	13%	14%	14%	14%	-26%	-7%	-4%	0%	7%	14%	5%	9%	10%	11%	10%	9%
EBIT margin	12%	11%	12%	14%	13%	11%	10%	10%	10%	11%	11%	11%	-30%	-12%	-8%	-4%	4%	11%	0%	5%	6%	7%	7%	6%
Net margin	8%	7%	8%	9%	8%	7%	8%	7%	8%	8%	8%	9%	-29%	-11%	-7%	-3%	4%	9%	-2%	3%	5%	6%	5%	5%
FCFF margin	13%	6%	5%	5%	5%	3%	-3%	7%	8%	7%	9%	10%	-11%	-1%	-1%	1%	-1%	4%	-10%	4%	4%	4%	6%	3%



COMPANIES COMPARISON (CONT.'D)

EGPmn	ECAP						CERA						PRCL						LCSW					
	2021e	2022e	2023e	2024e	2025e	2026e	2021e	2022e	2023e	2024e	2025e	2026e	2021a	2022e	2023e	2024e	2025e	2026e	2021e	2022e	2023e	2024e	2025e	2026e
Financial ratios																								
ROIC	17%	17%	19%	24%	21%	18%	19%	17%	19%	22%	23%	25%	na	na	na	na	-454%	313%	na	7.0%	9.1%	11.7%	10.7%	10.4%
ROE	22%	19%	20%	23%	20%	16%	22%	21%	24%	29%	29%	31%	na	na	na	na	54%	60%	na	3%	6%	8%	8%	9%
ROA	6%	6%	6%	7%	7%	5%	8%	8%	9%	10%	10%	10%	na	na	na	na	4%	11%	na	2%	3%	4%	4%	5%
Payout Ratio	50%	50%	50%	50%	50%	50%	80%	80%	80%	80%	80%	80%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Debt (Cash) /Equity	42%	37%	29%	21%	16%	13%	38%	38%	34%	32%	28%	19%	-19%	-20%	-35%	-121%	-56%	-56%	31%	11%	10%	13%	20%	30%
Market Multiples																								
Market cap	528	528	528	528	528	528	496	496	496	496	496	496	131	131	131	131	131	131	277	277	277	277	277	277
Enterprise value	733	722	699	665	639	628	611	613	605	600	590	561	115	122	123	117	117	95	862	517	507	566	698	883
P/E	4.9x	5.3x	4.6x	3.4x	3.7x	4.4x	7.5x	7.5x	6.4x	5.3x	5.0x	4.6x	na	na	na	na	9.4x	3.4x	na	3.7x	2.1x	1.6x	1.6x	1.6x
P/BV	1.1x	1.0x	0.9x	0.8x	0.7x	0.7x	1.6x	1.6x	1.6x	1.5x	1.5x	1.4x	1.6x	3.0x	6.0x	11.3x	5.1x	2.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Dividend yield	7.2%	9.4%	10.8%	14.5%	13.4%	11.4%	3.3%	10.6%	12.5%	15.2%	16.0%	17.4%	0%	0%	0%	0%	0.0%	0.0%	0%	0%	0%	0%	0.0%	0.0%
EV/Revenues	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x	0.7x	0.7x	0.6x	0.5x	0.5x	0.5x	0.5x	0.4x	0.4x	0.3x	0.3x	0.2x	0.3x	0.2x	0.2x	0.2x	0.2x	0.3x
EV/EBITDA	3.4x	3.7x	3.2x	2.4x	2.5x	2.8x	5.3x	5.2x	4.5x	3.9x	3.7x	3.3x	na	na	na	na	4.5x	1.7x	7.5x	2.1x	1.8x	1.7x	2.2x	2.9x
EV/EBIT	4.4x	4.7x	3.9x	2.9x	3.0x	3.3x	7.0x	6.9x	5.8x	4.9x	4.6x	4.1x	na	na	na	na	8.3x	2.1x	na	3.8x	2.9x	2.5x	3.2x	4.2x

COMPANIESCoverage

Al Ezz for Ceramics & Porcelain [**ECAP**]

Arab Ceramic Co. - Ceramica Remas [**CERA**]

General Co. for Ceramic & Porcelain Products [**PRCL**]

Lecico Egypt [**LCSW**]

Market Price
EGP9.89

as of 29 Dec 2021

Fair Value
EGP12.7

as of 30 Dec 2021

12M PT
EGP14.8 (+50%)
as of 30 Dec 2021

Investment Rating
Risk Rating

Overweight

★

★

★

Medium

!

!

!

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Back on Track

Set to deliver its highest-ever earnings

KEY INSIGHTS

A strong brand name: Al Ezz for Ceramics & Porcelain [ECAP] is one of the leading ceramics manufacturers in the Middle East. Holding its own among established brands, ECAP is reputable for its high-end ceramic and porcelain tiles, thanks to its investments in technology and design as well as its positioning among peers.

Geared up for growth: ECAP produced a total of 9.5mn sqm of ceramics and porcelain tiles in 2020 compared to a total capacity of 18mn sqm/year. Although this indicates a relatively low utilization rate (53% in 2020), it offers room for a smooth production growth without excess capex while allowing the company to capitalize on its already-established presence in around 64 countries. ECAP started to export in 1992, and we see exports increasing beyond COVID-19.

Various tile types on the way: ECAP continues to develop its products, offering a diverse product mix with various tile types and sizes. This will help the company open new markets and compete locally as well as globally. In the pursuit of greater efficiency, ECAP is trying as much as it could to minimize the escalating costs of energy, materials, and shipping. According to management, this will be addressed through cost optimization without impacting revenue growth rates.

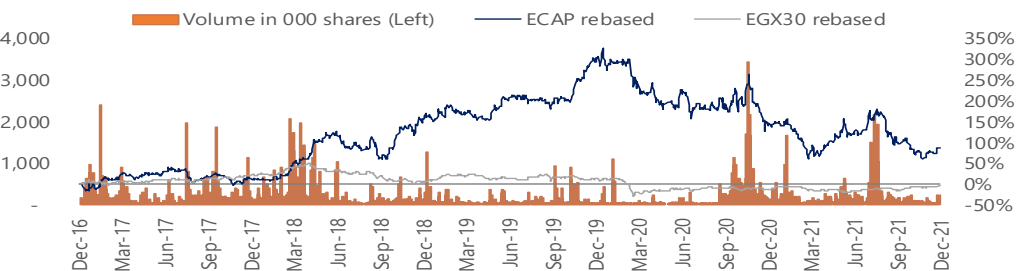
VALUATION, INVESTMENT THESIS, & RISKS

Overweight / Medium Risk, 12M PT EGP14.8/share (+50%): We valued ECAP using a discounted cash flow (DCF) model, assuming a stable growth of 3% by 2026 (the terminal year). We used a WACC of 10.7%, heading to 14.6% by 2026, which resulted in a fair value of EGP12.7/share. Arriving at a 12-month price target of EGP14.8/share, we rate ECAP as Overweight.

Investment thesis: (1) Locally oriented: ECAP sells the majority of its products in Egypt, which ensures consistent sales even in tough times, such as during COVID-19 when exporting was not an option. (2) Target customers: ECAP's price points are relatively higher than its local peers, but its addressable market enjoys a high purchasing power. (3) Strong market positioning: In addition to its already-existing product designs, ECAP gives its customers the option to personalize the design as they please. (4) Potential growth: Locally, ECAP should benefit from the move to new cities in Egypt. Regionally, ECAP could take part in the reconstruction of Syria, Iraq, and Libya.

Risks: (1) Higher-than-expected energy costs. (2) Pricier supporting materials, like plastics and those used in packaging. (3) Weaker recovery of purchasing power. (4) Higher-than-expected inflation. (5) Slower economic recovery post-COVID. (6) Tough competition from high-quality tile imports.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

Shares outstanding (mn)	53
Free float	33%
Market cap (EGPmn)	528
Enterprise value (EGPmn)	934
52w range (EGP/share)	8.08-14.79
EGP100 invested 5y ago	170
TTM EPS (EGP)	1.35
TTM P/E	5.3x
2021e EPS (EGP)	2.02
2021e P/E	4.9x
Last fiscal year's DPS (EGP)	1.0
Dividend yield	7.0%
5Yr beta	0.6
7Y Proj. EPS CAGR	13%

Source: Prime Research, Bloomberg.

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Revenues (EGPmn)					
2021	324	331	358	e336	e1,349
2020	251	152	272	353	1,028
2019	257	305	346	324	1,232
2018	258	251	278	245	1,033
2017	268	187	261	287	1,003
2016	167	152	164	241	725
Earnings (EGPmn)					
2021	39	13	31	e25	e108
2020	6	(27)	(8)	16	(14)
2019	11	13	18	10	52
2018	11	6	2	(13)	6
2017	37	(7)	1	17	48
2016	9	5	5	16	36



BUSINESS SUMMARY

Last year, ceramic wall tiles accounted for the majority (52%) of ECAP's volume, followed by ceramic floor tiles (34%) and porcelain tiles (14%). ECAP produced 9.5mn sqm in 2020 (-19% y/y), pressured by COVID-19.

Ceramic wall tiles

Ceramic wall tiles, the largest segment, commanded 52% of ECAP's volume of 9.5mn sqm in 2020. The production of ceramic wall tiles contracted with a 5-year CAGR (2015-2020) of -2% to 4.9mn sqm in 2020. Ceramic wall tiles remained the main contributor to volume sold, accounting for 51-58% of total volume in the 2014-2020 period. We expect the segment to maintain its position as the biggest revenue contributor, at least in the short term. The growth of this segment is owed to greater residential and commercial demand; ceramic wall tiles are used more for kitchen and bathroom decoration in residential homes than commercial units. Also, a recovery in tourism should help step up commercial demand, especially as the need for upgrading old hotels and resorts intensifies.

Ceramic floor tiles

Ceramic floor tiles, ECAP's second largest segment, made up 34% of volume in 2020. The production of ceramic floor tiles also contracted with a 5-year CAGR (2015-2020) of -3% to 3.2mn sqm. We see a clear shift in demand from ceramic floor tiles to porcelain

floor tiles as ECAP's target customers are always in search for more elegant, as opposed to cheaper, tiles.

Porcelain tiles

Porcelain tiles, the fastest growing segment, recorded a 5-year CAGR (2015-2020) of 32% to 1.34mn sqm in 2020. We expect this segment to grow, attracting customers who prefer porcelain tiles over ordinary ceramics. ECAP can provide a product that competes with imported porcelain floor tiles at more convenient price points. Porcelain tiles are also preferable for their attractive look and for being more durable due to their exposure to high temperatures in manufacturing and their high-quality raw materials which are mostly imported.

Footprint: Historically, ECAP has taken part in big hospitality, commercial, and residential projects, such as Al-Alamein Hotel (Sidi Abd El-Rahman), Al-Masah Hotel (Administrative Capital), Hacienda Bay (North Coast), New Opera House (Administrative Capital), BISC (British International School in Cairo), BLOM Bank Egypt (Fifth Settlement), Dar Al-Fouad Hospital (Nasr City), and Carrefour (Alexandria). It also executed many large projects globally like Movenpick Hotel (Al-Madinah, KSA).

Recovery goes on: We have seen ECAP incur a net loss in 2020, hit by COVID-19. However, starting Q4 2020 to date, the company staged a

significant recovery. In 9M 2021, ECAP managed to make a net profit of EGP83mn against a net loss of EGP29mn in 9M 2020, thanks to a 50% y/y increase in revenues to EGP1.01bn. Indeed, ECAP recovered from the 2020 hit, and the positive local outlook is intact, driven by construction growth.

A consistent dividend payer: ECAP has been a regular dividend payer since 2014, except for 2019. Even after incurring losses of EGP13.6mn in 2020, it dealt out a cash dividend of EGP1/share, implying a yield of 10% at the time of the announcement. We expect the company to maintain a stable dividend policy, with an average payout ratio of 50% over our forecast horizon.

What's next? We saw a clear recovery over the last four quarters, even though COVID-19 is not over yet. We think the availability of vaccine may stimulate the purchasing power recovery. Truly, it is unclear when economies will fully recover from COVID-19 consequences, but we think ECAP will suffer less as it mostly sells to Egyptians. In Egypt, the recovery should be faster, in our opinion, in view of the mega projects in the country and the favorable demographics in addition to the initiatives recently launched by the Egyptian government, including a recently-introduced export subsidy program.

Minimal impact of pricier energy: The 6% hike in natural gas price to USD4.75/MMBTu

should impact the company negatively albeit insignificantly. It should translate to a meagre 1% increase in total cost, which can easily be absorbed by the company or even passed on to customers. It will not however help ECAP step up its exports, as its products will be relatively pricier.

Local sales vs. exports: The bulk of ECAP's products is sold in Egypt, where local prices are usually at a premium to export prices; the premium was 55% in 2020. On one hand, the relatively lower price of exports is due to severe competition globally. On the other hand, the increase in production cost is partially driven by the higher cost of natural gas relative to its global peers. Although local sales are more profitable than exports, ECAP cannot give up its presence abroad. Meanwhile, we cannot overlook competition in the local market, coming mainly from imports of China, Spain, and Italy as well as local manufacturers.

Recovery in Egypt to translate to higher profitability: We note local sales as a percentage of total sales increased at the expense of exports from a historical average of 80% to 86% in Q3 2021. Local sales were bolstered by a strong rebound in Egypt, which was driven by the recovery in the construction sector post COVID-19. Higher local sales should lead to improved profitability, given high-margin local sales vis-à-vis exports.



KEY ASSUMPTIONS

	Unit	2015a	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	2026e	5Y CAGR (15-20)	6Y CAGR (20-26)
Local Sales															
Volume	000 sqm	6,808	8,333	8,297	6,947	8,606	7,474	9,216	9,389	9,562	9,734	9,907	10,080	2%	5%
growth			22%	0%	-16%	24%	-13%	23%	2%	2%	2%	2%	2%		
Price	EGP/sqm	70	76	101	118	120	117	126	130	136	146	146	145	11%	4%
growth			10%	32%	17%	2%	-3%	8%	3%	5%	8%	0%	-1%		
Total Local Sales	EGPmn	476	637	835	819	1,032	873	1,162	1,219	1,299	1,423	1,447	1,462	13%	9%
growth			34%	31%	-2%	26%	-15%	33%	5%	7%	10%	2%	1%		
Exports															
Volume	000 sqm	2,128	1,208	1,918	2,413	2,317	2,062	2,304	2,347	2,390	2,434	2,477	2,520	-1%	3%
growth			-43%	59%	26%	-4%	-11%	12%	2%	2%	2%	2%	2%		
Price	EGP/sqm	59	72	88	89	86	75	81	85	91	100	102	104	5%	5%
growth			23%	22%	1%	-3%	-13%	8%	5%	7%	10%	2%	1%		
Total Exports Sales	EGPmn	125	87	169	214	200	155	187	200	218	243	253	261	4%	9%
growth			-30%	93%	27%	-7%	-22%	21%	7%	9%	12%	4%	3%		
Financial Summary															
Total Sales	EGPmn	601	725	1,003	1,033	1,232	1,028	1,349	1,420	1,517	1,667	1,699	1,723	11%	9%
growth			21%	38%	3%	19%	-17%	31%	5%	7%	10%	2%	1%		
COGS	EGPmn	(432)	(524)	(748)	(813)	(925)	(788)	(957)	(1,039)	(1,104)	(1,189)	(1,243)	(1,299)		
Gross Profit	EGPmn	169	200	255	220	307	241	392	380	413	478	457	423	7%	10%
GPM		28.1%	27.6%	25.4%	21.3%	24.9%	23.4%	29.1%	26.8%	27.2%	28.7%	26.9%	24.6%		
EBITDA	EGPmn	92	103	157	108	187	94	215	197	222	272	255	228	0%	16%
EBITDA Margin		15.3%	14.2%	15.6%	10.4%	15.2%	9.1%	15.9%	13.9%	14.6%	16.3%	15.0%	13.2%		
Net Income	EGPmn	29	36	48	6	52	(14)	108	99	114	153	141	121		
NPM		4.8%	4.9%	4.8%	0.6%	4.3%	-1.3%	8.0%	7.0%	7.5%	9.2%	8.3%	7.0%		

Comment

- **Sales:** Total sales grew at a 5-year CAGR (2015-2020) of 11%, driven up by local sales more than exports. Also, growth was mainly fueled by the increase in price more than volume. We expect total sales to grow at a 6-year CAGR (2020-2026) of 9%, driven mostly by the increase in volume.
- **COGS:** Raw materials account for nearly 40%, the most, of total COGS. The majority of raw materials are imported to ensure the company's high-quality products, especially porcelain. Meanwhile, energy makes up c.20% of total COGS.
- **Gross profit:** We expect gross profit to grow at a 6-year CAGR (2020-2026) of 10% which is more than the historical 5-year CAGR (2015-2020) of 7%. We see gross profit margin improving in 2021 to 29.1% before stabilizing at 24.6% by 2026 on tough competition, locally and globally.
- **Net income:** We expect it to reach EGP121mn in 2026, up from a net loss of EGP14mn in 2020.

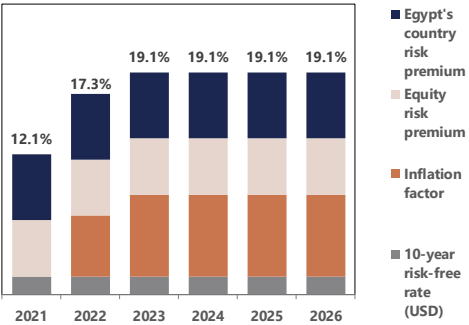


KEY VALUATION INPUT

Terminal COE
19.1%.

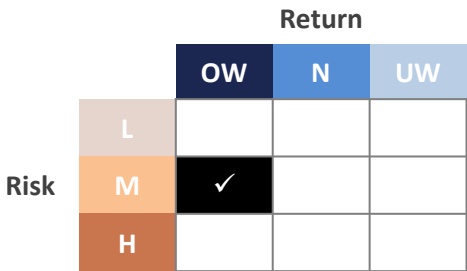
Terminal Growth Rate
3%.

COE structure (next 6 years)



Source: Prime Research.

RETURN/RISK MATRIX



Source: Prime Research.

VALUATION MODEL

EGPmn	Q4 2021e	2021e	2022e	2023e	2024e	2025e	2026e	Terminal
EBIT (1 - t)	31	130	119	139	179	167	147	151
Non-Cash Items (D&A)	12	47	44	43	41	40	39	
Gross Cash Flow	43	177	163	181	220	207	185	
Chg. in Operating Working Capital	(1)	35	(48)	(55)	(73)	(45)	(45)	
Capital Expenditures	(10)	(33)	(25)	(25)	(25)	(26)	(26)	
Gross Investment	(11)	2	(73)	(80)	(99)	(71)	(71)	
Free Cash Flow to the Firm (FCFF)	33	179	90	102	122	135	115	1,035
Discount factor	1.00	1.00	0.88	0.77	0.67	0.58	0.51	
Present Value of FCFF	33	179	79	78	81	79	58	527
DCF Enterprise Value	935							
Net (Debt)/ Cash	(260)							
Other investments	0.1							
DCF Equity Value	675							
NOS	53							
FV (EGP/share)	12.7							
12M PT (EGP/share)	14.8							

Source: Prime Research.

PEERS ANALYSIS

Ticker	Name	Market Cap (USDmn)	Total Return YTD	Country	P/E	EV/EBITDA Adj	EV/Sales
RAKCEC UH Equity	Ras Al Khaimah Ceramics	771	106.45%	UAE	129.7x	9.0x	1.5x
AACT OM Equity	Al-Anwar Ceramic Tiles Co	246	31.51%	OMAN	14.7x	10.1x	3.7x
DENI IN Equity	De Nora India Ltd	33	95.50%	INDIA	43.5x	11.9x	4.7x
ECAP EY Equity	Al Ezz Ceramics & Porcelain	33	-19.43%	EGYPT	5.3x	12.7x	0.7x
CERA EY Equity	Arab Ceramic Co-Ceramic Remas	31	25.29%	EGYPT	7.5x	8.3x	1.0x
LCSW EY Equity	Lecico Egypt	18	-15.16%	EGYPT	na	na	0.6x
PRCL EY Equity	General Co. for Ceramic & Porcelain Products	8	-42.42%	EGYPT	na	na	0.6x

Source: Bloomberg.

12M PT SENSITIVITY ANALYSIS

Terminal WACC	Terminal Growth rate					
		1.0%	2.0%	3.0%	4.0%	5.0%
	16.6%	13.2	13.3	13.4	13.5	13.6
	15.6%	13.9	14.0	14.1	14.2	14.3
	14.6%	14.6	14.7	14.8	15.0	15.1
	13.6%	15.5	15.6	15.7	15.8	15.9
12.6%	16.4	16.6	16.7	16.8	16.9	

Reinvestment rate	21%
ROIC	15%
TGR	3%



FINANCIAL MODEL

Income Statement (EGPmn)						
FY ends 31 December	2019a	2020a	2021e	2022e	2023e	2024e
Total Revenue (Net)	1,232	1,028	1,349	1,420	1,517	1,667
COGS	(925)	(788)	(957)	(1,039)	(1,104)	(1,189)
GP	307	241	392	380	413	478
SG&A	(160)	(185)	(216)	(219)	(225)	(237)
Other operating (exp.)/ Inc.	(8)	(9)	(8)	(9)	(9)	(10)
EBITDA	187	94	215	197	222	272
EBIT	139	47	168	153	179	231
Interest expense	(78)	(67)	(47)	(48)	(48)	(49)
Interest income	10	9	21	22	16	15
Taxes	(18)	(2)	(34)	(29)	(33)	(45)
NP Before Taxes	71	(12)	142	128	147	198
NP	52	(14)	108	99	114	153

Balance Sheet (EGPmn)						
FY ends 31 December	2019a	2020a	2021e	2022e	2023e	2024e
Current Assets						
Cash & Cash Equivalents & Mkt. Securities	124	164	269	284	311	350
Trade & other receivables	634	474	425	496	583	698
Inventory	350	323	392	423	446	476
Other Current Assets	5	6	9	9	9	9
Total Current Assets	1,113	966	1,095	1,212	1,348	1,533
Fixed Assets (net)	578	592	569	549	532	516
Other Non-Current Assets	32	1	10	10	10	10
Total Assets	1,723	1,559	1,674	1,771	1,890	2,059
Liabilities & Equity						
Short-Term Debt	26	26	24	24	24	25
Credit facilities	418	422	444	447	451	457
Accounts Payable	177	225	231	250	265	285
Other Current Liabilities	452	297	357	386	434	508
Total Current Liabilities	1,073	970	1,055	1,108	1,175	1,274
Long-Term Debt	33	21	4	4	4	4
Other Non-Current Liabilities	123	127	128	128	128	128
Total Liabilities	1,229	1,118	1,187	1,240	1,307	1,406
Minority Interest	-	-	-	-	-	-
Total Equity	494	440	487	532	583	653
Total Liabilities & Equity	1,723	1,559	1,674	1,771	1,890	2,059

Cash Flow Statement (EGPmn)						
FY ends 31 December	2019a	2020a	2021e	2022e	2023e	2024e
Cash from Operating	52	101	187	95	102	121
Cash from Investing	(61)	(34)	(33)	(25)	(25)	(25)
Cash from Financing	52	(26)	(49)	(55)	(50)	(57)
Net Change in Cash	43	40	105	15	27	39

Per-Share Data (EGP)							
	2018a	2019a	2020a	2021e	2022e	2023e	2024e
Price (EGP)	15.25	23.09	14.05	9.89	9.89	9.89	9.89
# Shares (WA,in mn)	51.0	51.0	51.0	53.3	53.3	53.3	53.3
EPS	0.11	1.03	(0.27)	2.02	1.85	2.14	2.87
DPS	0.00	0.23	1.00	1.01	0.93	1.07	1.44
BVPS	9.14	9.67	8.63	9.12	9.96	10.93	12.24

Valuation Indicators							
	2018a	2019a	2020a	2021e	2022e	2023e	2024e
P/E (x), based on end of FY market price	134.5x	22.5x	nm	4.9x	5.3x	4.6x	3.4x
P/E (x), based on our 12M PT	130.6x			7.3x	8.0x	6.9x	5.2x
DY, actual based on BoP price, est. on current	0.0%	1.5%	4.3%	7.2%	9.4%	10.8%	14.5%
P/BV (x)	1.7x	2.4x	1.6x	1.1x	1.0x	0.9x	0.8x
EV/IC (x)	1.3x	1.7x	1.3x	1.0x	0.8x	0.7x	0.7x
EV/Sales (x)	1.1x	1.2x	1.0x	0.5x	0.5x	0.5x	0.4x
EV/EBIT (x)	7.8x	3.6x	10.1x	3.8x	4.5x	4.3x	0.7x
EV/EBITDA (x)	10.4x	8.2x	10.9x	3.4x	3.7x	3.1x	2.4x

Profitability & Growth Ratios							
	2018a	2019a	2020a	2021e	2022e	2023e	2024e
Revenue Growth	3%	19%	nm	31%	5%	7%	10%
EBIT Growth	(42%)	116%	nm	258%	nm	17%	29%
EPS Growth	(88%)	807%	nm	nm	nm	15%	34%
GPM	21%	25%	23%	29%	27%	27%	29%
EBIT Margin	6%	11%	5%	12%	11%	12%	14%
Net Margin	1%	4%	nm	8%	7%	8%	9%
ROIC	8%	17%	6%	28%	21%	22%	27%
ROE	1%	11%	nm	22%	19%	20%	23%
ROA	0%	3%	nm	6%	6%	6%	7%

Liquidity & Solvency Multiples							
	2018a	2019a	2020a	2021e	2022e	2023e	2024e
Net Debt (Cash)	344	353	305	203	192	169	135
Net Debt (Cash) /Equity	74%	72%	69%	42%	36%	29%	21%
Net debt (Cash) to EBIT	5.4x	2.5x	6.5x	1.2x	1.3x	0.9x	0.6x
Debt to Assets	0.20x	0.28x	0.30x	0.28x	0.27x	0.25x	0.24x
Current ratio	1.0x	1.0x	1.0x	1.0x	1.1x	1.1x	1.2x

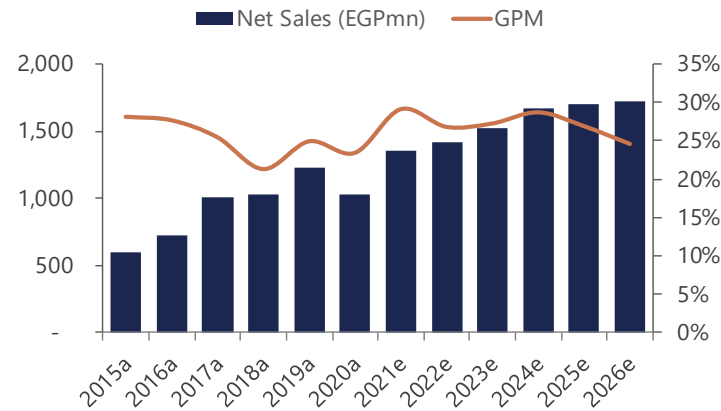
Consensus Estimates (EGPmn)				
	2021e	2022e	2023e	2024e
Revenues	1,378	1,466	1,560	1,661
Prime Research vs. Consensus	-2%	-3%	-3%	0%
Net Income	99	92	104	134
Prime Research vs. Consensus	9%	7%	10%	14%

Source: Prime Research.

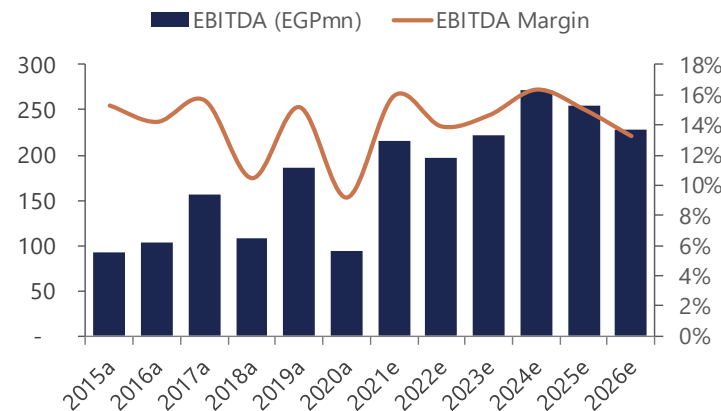


STORY IN CHARTS

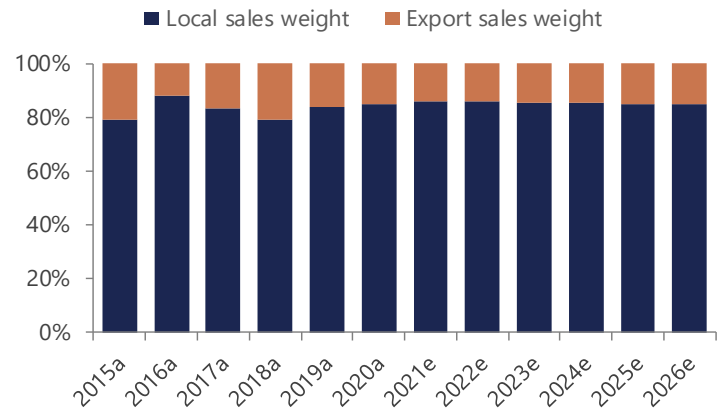
Net sales are likely to grow at a 6-year CAGR (2020-2026) of 9% in our estimation.



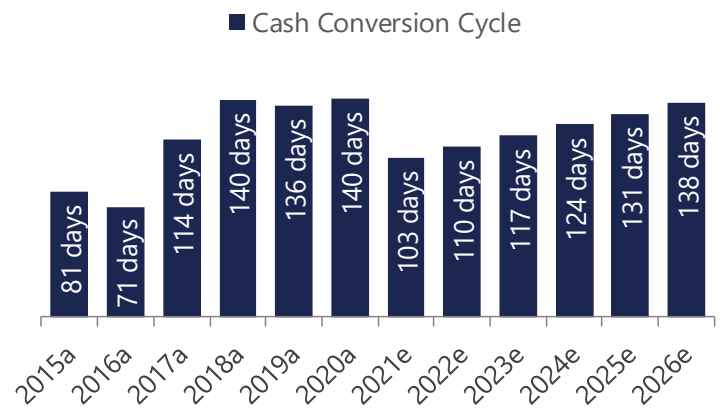
EBITDA margin averaged 13% in the 2015-2020 period, and is likely to range between 13% and 16% in the 2021-2026 period in our estimation.



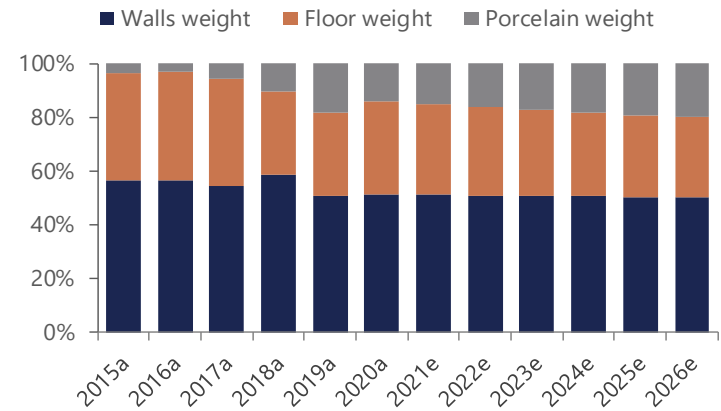
Sales breakdown by destination shows local sales are the main revenue contributor and are likely to stay so in our estimation.



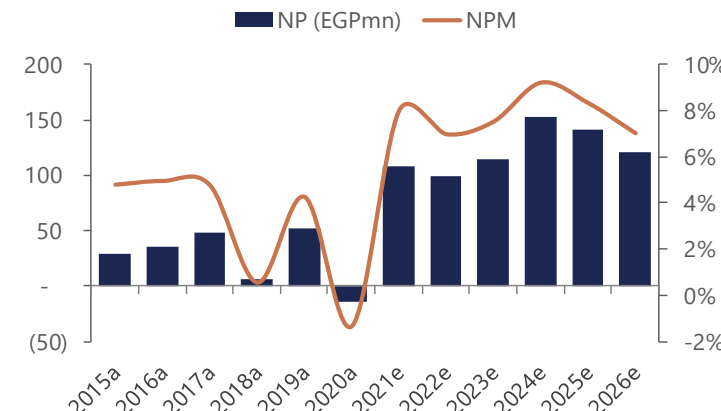
Cash conversion cycle is seen to reach 138 days in 2026 in our estimation.



Sales breakdown by segment shows porcelain is growing at the expense of the floor segment.



Net income is likely to recover to EGP121mn in 2026 in our estimation.



Source: Company reports, Prime Research.



CORPORATE PROFILE

Al Ezz for Ceramics & Porcelain [ECAP] is one of the large ceramics manufacturers in Egypt and the Middle East. Founded in 1989, ECAP added another manufacturing facility in 2009. The company's exports now reach around 64 countries around the world.

Office

25 Cairo Alexandria Desert road, Remaya Square, Giza, Egypt.

Telephone

+203 377 8857.

Website

www.gemma.com.eg

Chairman

Mr. Hassan Ahmed Nouh.

CEO

Mr. Karim Samir Abdel Galil

Board Members

1. Hassan Ahmed Nouh Ahmed.
2. Karim Samir Abdel Galil, Executive.
3. Fayez Ali Zein El-Abden, Executive.
4. Alia Mohamed Abdel-Monem Mohamed El-Mahdy, Non-Executive.
5. Tamer Mansour Abdel-Latif Mohamed El-Henawy, Non-Executive.

Auditor

RSM Egypt.
Moore Egypt.

Domicile

Giza, Egypt.

Founded

1989.

Number of employees

1,931.

Number of stockholders

4,037.

Listings

EGX: **ECAP**.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Al Ezz Group Holding for Industry and Investment	63.9%
Others	36.1%

PRIME RESEARCH COVERAGE HISTORY

Date	Rating	12M PT
30 Dec 2021	Overweight Medium Risk	EGP14.8

Market Price
EGP0.69

as of 29 Dec 2021

Fair Value
EGP0.75

as of 30 Dec 2021

12M PT
EGP0.88 (+28%)
as of 30 Dec 2021

Investment Rating
Risk Rating

Overweight
Medium

★ ★ ★
! ! !

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Sparkling with Exports

In defiance of pandemic odds

KEY INSIGHTS

Turning over a new leaf: The Arab Ceramic Co. - Ceramica Remas [CERA], which began operations in 1981 to become the second oldest ceramics producer in Egypt, decided it needs a different marketing and selling mindset to widen its client base. Remas, recently renamed from Aracemco, is now scaling up its exports for diversification and is minimizing its costs through economies of scale.

A dazzling year so far: Since the beginning of the year, CERA has been growing handsomely, which foretells a new era is almost here. The company managed to deliver an outstanding performance in 9M 2021 after bumping up its sales by 39% y/y to EGP611mn, powered by a 43% y/y increase in exports. Also in 9M 2021, its gross profit margin rose to 11.3% from 8.8% in 9M 2020. For the same comparable periods, CERA's net profits grew fourfold, and net profit margin stretched to 7.1% from 2%. With this surprisingly sparkling performance, CERA's defiance of pandemic odds extends from last year. In 2020, it ramped up its net income by 64% y/y to EGP30.5mn, drawing on lower financing costs and higher other revenues. Despite the precautions imposed during that year, the company's exports only decreased 7% y/y, vouching for its strong export ability.

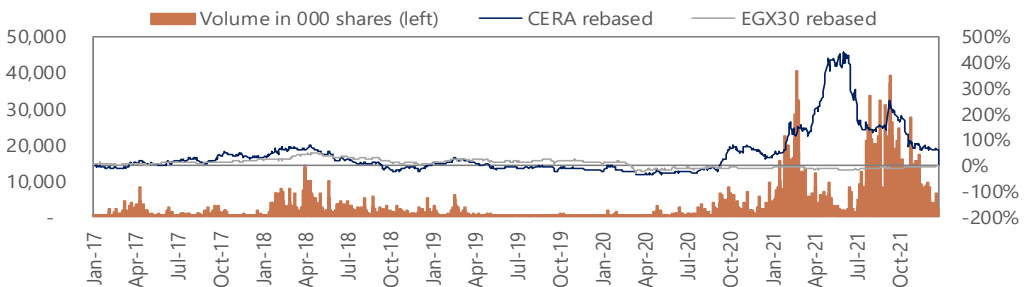
VALUATION, INVESTMENT THESIS, & RISKS

Overweight / Medium Risk, 12M PT EGP0.88/share (+28%): We valued CERA using a six-year, two-stage discounted cash flow (DCF) model, with a terminal growth rate of 3%. We reached a WACC of 11.3% in 2021 and a terminal WACC of 16.9%, which resulted in a fair value of EGP0.75/share. We set our 12-month price target at EGP0.88/share; hence we rate CERA as Overweight.

Investment thesis: We like CERA for its: **(1)** Exposure to foreign markets: Exports contributed 60% to its total sales in 2020, surprisingly so in such a tough year, and 62% in 9M 2021; **(2)** Dividend policy: the payout is frequent which is a sign of a strong financial position. **(3)** Expected demand recovery. With new cities created, the company is ready to cater to the resulting demand, especially with COVID-19 precautions decreasing after vaccination rollout. **(4)** Benefitting from the export subsidies for ceramics manufacturers for the first time.

Risks: **(1)** Slower demand recovery: It is unclear how much time local and global markets will take to recover from the COVID-19 consequences and when the purchasing power will normalize. **(2)** FX risk: A stronger EGP may hamper the company's exports as its products will be relatively pricier.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

Shares outstanding (mn)	719
Free float	32.7%
Market cap (EGPmn)	496
Enterprise value (EGPmn)	641
52w range (EGP/share)	0.55-2.37
EGP100 invested 5y ago	164
TTM EPS (EGP)	0.09
TTM P/E	7.6x
2021e EPS (EGP)	0.09
2021e P/E	7.5x
Last DPS (EGP)	0.15
Dividend yield	15%
5Yr beta	0.73
6Y Proj. EPS CAGR	23%

Source: Prime Research, Bloomberg.

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Revenues (EGPmn)					
2021	223	199	190	e223	e834
2020	155	100	183	201	640
2019	196	199	203	192	790
2018	189	202	203	205	799
2017	163	157	182	182	684
2016	110	115	115	139	479
Earnings (EGPmn)					
2021	25	12	6	e23	e66
2020	1	4	3	22	31
2019	9	5	7	(2)	19
2018	14	10	7	(8)	23
2017	14	8	17	(9)	29
2016	14	17	4	(4)	31



BUSINESS SUMMARY

CERA produces ceramics and sanitary ware through a single factory in Abu Zabaal. CERA managed to attract the middle class segment in Egypt, in addition to its exposure to foreign markets. We speculate CERA mainly exports to Arab and African countries to benefit from the low transportation costs, but this will remain a speculation until relevant information is made available.

First-time beneficiary of export subsidy: As explained earlier, CERA's exports contributed the most to its total sales in 2020, even in 9M 2021. But the company is poised for greater success, being eligible for the first time to the benefits of an export subsidy program.

The outcast finally invited: For the first time, ceramics is added to the industries benefitting from a government subsidy program for exports. A great advantage to this three-year export subsidy program, which was rolled out in July, is higher incentives for exports to African countries in particular, with special discounts on shipping fees. How much CERA exports to African countries, if any, is unknown due to lack of information. Yet, the extra incentive should lead the company to start exporting to or double down on those destinations. This is in addition to the already-existing commercial agreements between Egypt and African countries.

Plenty of room for expansion: Expansion, albeit unplanned, remains viable. CERA's debt is less than 10% of its capital, which—along with the low financing cost—leaves the door wide open for further expansion, if desired.

Beneficiary from a weaker EGP: A weaker EGP would help CERA step up its sales as it relies on exports to a large measure. Also, it may raise the company's local sales since imports are relatively pricier and CERA's product will be a cheaper substitute in certain segments.

Cheaper natural gas is off table: CERA would have benefited greatly from a cut in natural gas prices for ceramics manufacturers. Such a scenario would have led to improved profitability, higher exports, and a bigger market share locally, as the company would have been able to compete against local ceramics importers. However, winds do not blow as the vessels wish. The government recently hiked up gas prices for ceramics manufacturers by 6% to USD4.75/MMBtu.

Dividend payer: CERA is known as a dividend payer, which is fundamentally irrelevant, yet still appetizing for investors. CERA already distributed a cash dividend of EGP0.15/share in April 2021, implying a 15% yield.

Financial Indicators

No need for high capex outlays: CERA's capex-to-sales ratio has been in single digits, ranging between 2% and 7% over the 2014-2020 period, except for 2017 which saw a relatively excessive capex of EGP100mn on equipment (15% of 2017 revenues). Labor accounts for a sizable part of the company's cost structure, which partially explains its relatively low capex. We do not expect huge capex in the coming years, except for maintenance of the current operations.

A positive, yet declining, CCC: CERA's cash conversion cycle (CCC) had remained positive from 2014 to 2020 (47-98 days), which we do not expect to change materially. We estimate CCC to come in at 103 days in 2021 then reach 70 days by 2026.

SG&A: CERA is pursuing optimum cost-efficiency. Its SG&A-to-sales ratio has been dwindling from 9% in 2017 to 4% in 2020, when the pandemic broke out. Meanwhile, we estimate the company to keep almost the same SG&A-to-sales ratio of the 9M 2021 at 2.5%. We expect the company to be close to the same ratio going forward.

CERA's investments

CERA has a 37% stake in **Egy-Paper Company** which generates an ROE of 9% with a book value of EGP46.3mn.

DuPont Analysis

- Carrying out a DuPont analysis, we highlight that CERA's ROE was 25% in 2014, the highest over the 2014-2020 period. ROE was mainly driven by a significantly wide operating margin, strong revenues, and efficient operations. ROE in 2014 was lifted by a broad gross profit margin of 28%. But when the company could not maintain a relatively high gross profit margin, ROE fell as a result.
- Yet in 2015, ROE was almost halved on the back of a decline in ROA, a 5% y/y decrease in revenues to EGP411mn, a 42% y/y plunge in gross profit, and a higher SG&A. We can state that CERA's ROE has been fluctuating in parallel with the ups and downs in operating margin which teetered relatively widely between 7-13% for four years.
- In 2020, the company's ROE started to rebound, reaching 10%. We expect its ROE to jump to 22% in 2021 on improved operating margin, before normalizing at 17% by 2026.

Other non-operating income is a plus: CERA's sister companies have contributed handsomely to other revenues and investment income in Q3 2021. It would also be a plus if other revenues were recurring.



KEY ASSUMPTIONS

EGPmn	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	6-Year CAGR	6-Year CAGR
Domestic Sales	374	334	352	452	549	372	253	327	354	389	437	459	481	-6%	11%
Exported Sales	59	77	127	232	250	417	387	507	550	604	678	712	746	37%	12%
Net Sales	433	411	479	684	799	790	640	834	904	993	1,114	1,170	1,226	7%	11%
COGS	(311)	(340)	(403)	(583)	(701)	(715)	(572)	(726)	(793)	(864)	(963)	(1,012)	(1,057)		
GP	122	71	75	100	97	75	68	108	112	129	151	158	169	-9%	16%
GPM	28.1%	17.3%	15.7%	14.7%	12.2%	9.5%	10.6%	12.9%	12.4%	13.0%	13.5%	13.5%	13.8%		
EBITDA	117	64	63	59	70	63	75	116	119	133	153	159	170	-7%	15%
EBITDA margin	27.1%	15.5%	13.1%	8.6%	8.8%	7.9%	11.7%	13.9%	13.1%	13.4%	13.7%	13.6%	13.8%		
EBIT	93	41	44	39	42	31	43	87	89	104	123	129	139	-12%	21%
EBIT margin	21.5%	9.9%	9.3%	5.7%	5.2%	3.9%	6.8%	10.4%	9.9%	10.5%	11.0%	11.0%	11.3%		
EBT	93	39	46	39	33	25	43	85	85	100	122	128	139	-12%	21%
EBT margin	21.4%	9.4%	9.6%	5.7%	4.1%	3.2%	6.8%	10.2%	9.4%	10.0%	10.9%	11.0%	11.4%		
NP	64	28	34	29	23	19	31	66	66	77	94	99	108	-12%	23%
NPM	14.7%	6.9%	7.1%	4.3%	2.9%	2.4%	4.8%	7.9%	7.3%	7.8%	8.5%	8.5%	8.8%		

Comment

- **Sales:** Total sales grew at a 6-year CAGR (2014-2020) of 7%, driven up more by exports than local sales. We expect total sales to grow at a 6-year CAGR (2020-2026) of 11%, with exports taking the lead.
- **Gross profit:** We expect a 6-year CAGR (2020-2026) of 16% in gross profit which will be a great turnaround from the historical 6-year negative CAGR (2014-2020). We see gross profit margin improving in 2021 to 12.9%, and we think it will keep improving gradually and consistently until it reaches 13.8% in 2026. This improvement should be driven by a better product mix and economies of scale.
- **EBITDA:** We expect 2021 EBITDA to rebound high enough to exceed the pre-COVID-19 levels of 2014. We project the company's EBITDA to grow at a 6-year CAGR (2020-2026) of 15%.
- **Net Profit:** CERA managed to remain profitable in 2020 despite a tough COVID-19 environment. We predict the company will keep the same upward pattern of earnings going forward. Indeed, we project the company's net profit to grow at a 6-year CAGR (2020-2026) of 23%.

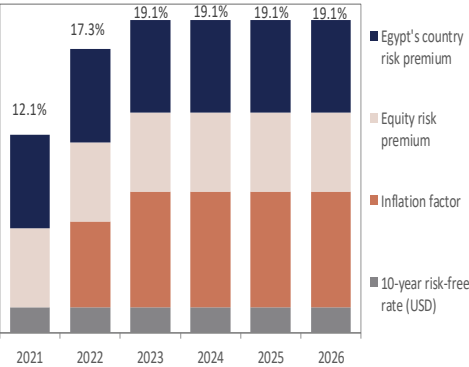


KEY VALUATION INPUT

Terminal COE
19.1%.

Terminal Growth Rate
3%.

COE structure (next 6 years)



Source: Prime Research.

VALUATION MODEL

EGPmn	Q4 2021e	2021e	2022e	2023e	2024e	2025e	2025eTerminal
EBIT (1 - t)	26	67	69	80	95	100	107 111
Non-Cash Items (D&A)	8	29	29	30	30	30	31
Gross Cash Flow	33	97	99	110	125	130	139
Chg. in Operating Working Capital	(42)	(68)	(2)	(2)	(10)	7	24
Capital Expenditures	(22)	(54)	(31)	(33)	(34)	(36)	(38)
Gross Investment	(64)	(122)	(33)	(35)	(44)	(29)	(14)
Free Cash Flow to the Firm (FCFF)	54	(25)	66	75	81	101	124 669
Discount factor	1.00	1.00	0.87	0.74	0.63	0.54	0.46
Present Value of FCFF	54	(25)	57	56	52	55	58 311
DCF Enterprise Value	641						
Net (Debt)/ Cash	(146)						
Other investments	46						
DCF Equity Value	541						
NOS	719						
FV (EGP/share)	0.75						
12M PT (EGP/share)	0.88						

Source: Prime Research.

12M PT SENSITIVITY ANALYSIS

Terminal WAAC	Terminal growth rate					
	0.88	1.0%	2.0%	3.0%	4.0%	5.0%
	18.9%	0.81	0.82	0.83	0.83	0.84
	17.9%	0.84	0.84	0.85	0.86	0.87
	16.9%	0.86	0.87	0.88	0.89	0.90
	15.9%	0.90	0.91	0.92	0.93	0.94
	14.9%	0.93	0.94	0.95	0.97	0.98

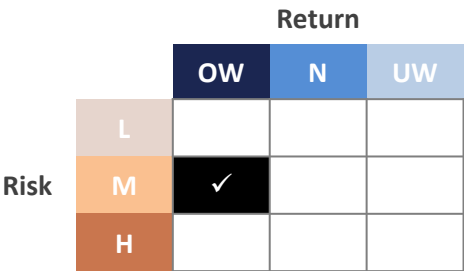
Reinvestment rate	16%
ROIC	19%
TGR	3%

PEERS ANALYSIS

Ticker	Name	Market Cap (USDmn)	Total Return YTD	Country	P/E	EV/EBITDA Adj	EV/Sales
RAKCEC UH Equity	Ras Al Khaimah Ceramics	771	106.45%	UAE	129.7x	9.0x	1.5x
AACT OM Equity	Al-Anwar Ceramic Tiles Co	246	31.51%	OMAN	14.7x	10.1x	3.7x
DENI IN Equity	De Nora India Ltd	33	95.50%	INDIA	43.5x	11.9x	4.7x
ECAP EY Equity	Al Ezz Ceramics & Porcelain	33	-19.43%	EGYPT	5.3x	12.7x	0.7x
CERA EY Equity	Arab Ceramic Co-Ceramic Remas	31	25.29%	EGYPT	7.5x	8.3x	1.0x
LCSW EY Equity	Lecico Egypt	18	-15.16%	EGYPT	na	na	0.6x
PRCL EY Equity	General Co. for Ceramic & Porcelain Products	8	-42.42%	EGYPT	na	na	0.6x

Source: Bloomberg.

RETURN/RISK MATRIX



Source: Prime Research.

FINANCIAL MODEL

Income Statement (EGPmn)						
FY ends 31 December	2019a	2020a	2021e	2022e	2023e	2024e
Total Revenue (Net)	790	640	834	904	993	1,114
COGS	(715)	(572)	(726)	(793)	(864)	(963)
GP	75	68	108	112	129	151
SG&A	(44)	(24)	(21)	(23)	(25)	(28)
Other (exp.)/ Inc.	17	14	10	11	12	14
EBITDA	63	75	116	119	133	153
EBIT	31	43	87	89	104	123
Interest expense	(23)	(15)	(13)	(16)	(17)	(16)
Interest income	0	0	0	0	0	0
Taxes	(7)	(13)	(19)	(19)	(22)	(27)
Net Profit Before Taxes	25	43	85	85	100	122
Net Profit After Taxes	19	31	66	66	77	94

Balance Sheet (EGPmn)						
FY ends 31 December	2019a	2020a	2021e	2022e	2023e	2024e
Current Assets						
Cash & Cash Equivalents & Mkt. Securities	13	11	21	33	46	52
Trade & other receivables	107	87	172	168	164	166
Inventory	218	222	194	219	246	281
Other Current Assets	44	41	55	60	66	75
Total Current Assets	382	360	442	479	522	574
Fixed Assets (net)	222	234	234	236	239	244
Other Non-Current Assets	107	96	125	129	135	140
Total Assets	711	690	801	845	896	958
Liabilities & Equity						
Short-Term Debt	21	28	6	4	1	(2)
Credit facilities	96	53	75	75	76	79
Accounts Payable	112	117	129	132	135	142
Other Current Liabilities	86	119	140	161	196	241
Total Current Liabilities	315	317	350	373	408	459
Long-Term Debt	24	11	55	70	78	79
Other Non-Current Liabilities	103	92	92	92	92	92
Total Liabilities	442	420	497	535	578	631
Minority Interest	-	-	-	-	-	-
Total Equity	271	270	303	310	318	327
Total Liabilities & Equity	713	690	801	845	896	958

Cash Flow Statement (EGPmn)						
FY ends 31 December	2019a	2020a	2021e	2022e	2023e	2024e
Cash from Operating	30	77	55	94	105	114
Cash from Investing	(55)	(28)	(58)	(36)	(38)	(40)
Cash from Financing	(3)	(52)	14	(46)	(54)	(68)
Net Change in Cash	(28)	(3)	10	12	13	6

Source: Prime Research.

Per-Share Data (EGP)						
	2019a	2020a	2021e	2022e	2023e	2024e
Price (EGP)	1.36	2.20	0.69	0.69	0.69	0.69
# Shares (WA,in mn)	179.7	179.7	718.8	718.8	718.8	718.8
EPS	0.10	0.17	0.09	0.09	0.11	0.13
DPS	0.00	0.15	0.07	0.07	0.09	0.10
BVPS	1.51	1.50	0.42	0.43	0.44	0.46

Valuation Indicators						
	2019a	2020a	2021e	2022e	2023e	2024e
P/E (x), based on end of FY market price	13.1x	12.9x	7.5x	7.5x	6.4x	5.3x
P/E (x), based on our 12M PT			9.6x	9.6x	8.2x	6.7x
DY, actual based on BoP price, est. on current		11.0%	3.3%	10.6%	12.5%	15.2%
P/BV (x)	0.9x	1.5x	1.6x	1.6x	1.6x	1.5x
EV/IC (x)	0.93x	1.36x	1.46x	1.44x	1.42x	1.39x
EV/Sales (x)	0.5x	0.7x	0.7x	0.7x	0.6x	0.5x
EV/EBIT (x)	9.4x	7.7x	4.3x	4.3x	3.9x	0.8x
EV/EBITDA (x)	6.0x	6.4x	5.3x	5.2x	4.5x	3.9x

Profitability & Growth Ratios						
	2019a	2020a	2021e	2022e	2023e	2024e
Revenue Growth	(1%)	(19%)	30%	8%	10%	12%
EBIT Growth	(27%)	42%	100%	3%	16%	18%
EPS Growth	(29%)	64%	(46%)	0%	17%	22%
GPM	9%	11%	13%	12%	13%	14%
EBIT Margin	4%	7%	10%	10%	10%	11%
Net Margin	2%	5%	8%	7%	8%	8%
ROIC	7%	8%	19%	17%	19%	22%
ROE	7%	11%	22%	21%	24%	29%
ROA	3%	4%	8%	8%	9%	10%

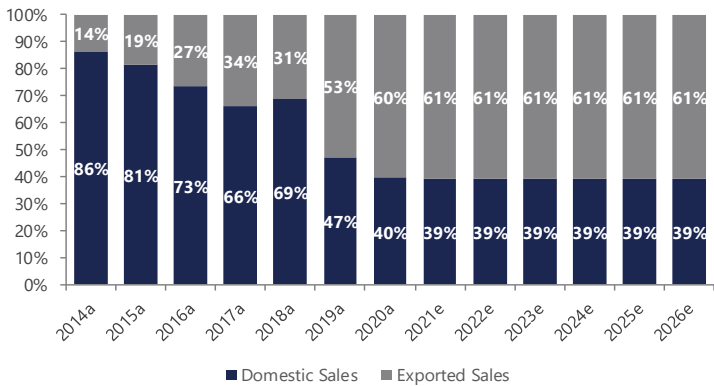
Liquidity & Solvency Multiples						
	2019a	2020a	2021e	2022e	2023e	2024e
Net Debt (Cash)	128	82	115	117	109	104
Net Debt (Cash) /Equity	47%	30%	38%	38%	34%	32%
Net debt (Cash) to EBIT	4.2x	1.9x	1.3x	1.3x	1.1x	0.8x
Debt to Assets	0.20x	0.13x	0.17x	0.18x	0.17x	0.16x
Current ratio	1.2x	1.1x	1.3x	1.3x	1.3x	1.2x

Consensus Estimates (EGPmn)				
	2021e	2022e	2023e	2024e
Revenues				
Prime Research vs. Consensus				
Net Income				
Prime Research vs. Consensus				

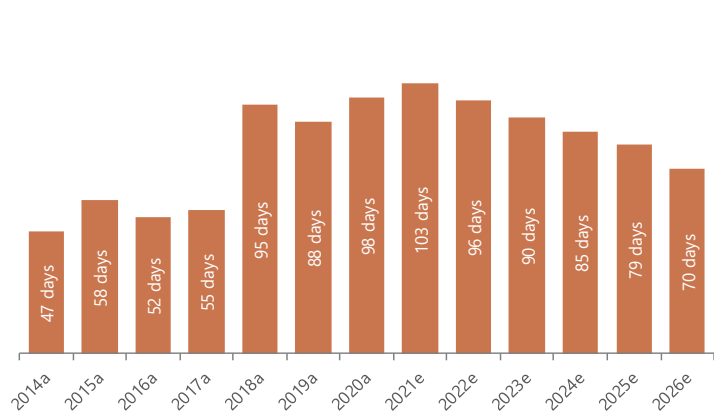


STORY IN CHARTS

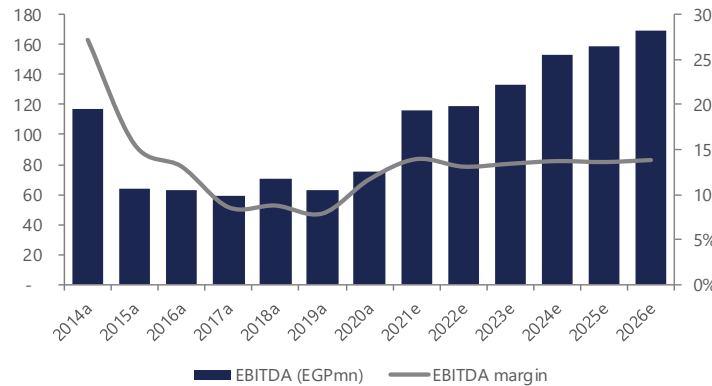
The sales breakdown shows exports weight has been increasing since 2014.



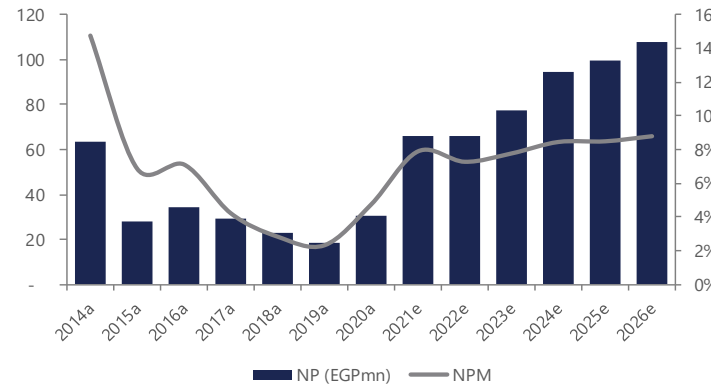
Positive cash conversion cycle is likely to reach 70 days in 2026, in our estimation, compared to 98 days in 2020.



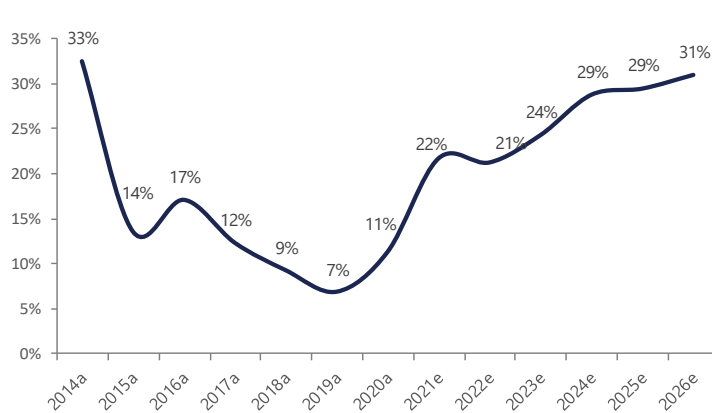
EBITDA is likely to grow at a 6-year CAGR (2020-2026) of 15%, in our estimation.



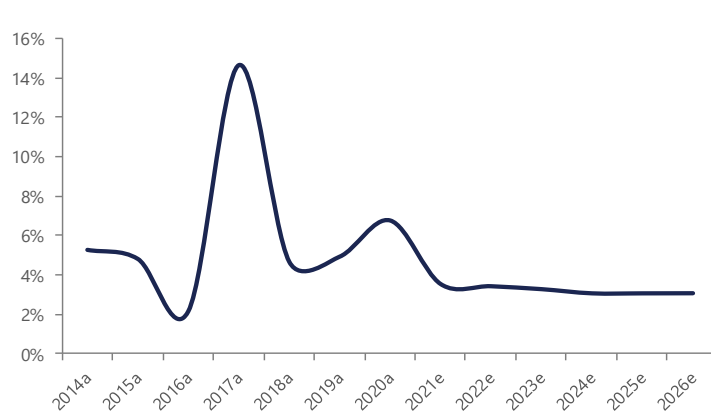
Net profit has been consistently achieved even in tough years since 2014, and we expect the company to keep the same trajectory.



Return on equity is seen to increase to 31% in 2026, in our estimation, up from 25% in 2014, in our estimation.



Capex to sales is likely to average at 3% in the 2021-2026 period in our estimation.



Source: Company reports, Prime Research.



CORPORATE PROFILE

The Arab Ceramic Co. - Ceramica Remas [CERA] was established in 1975. In 1981, CERA started to operate in manufacturing and sell ceramics and sanitary ware of different types and sizes. CERA managed to export the majority of its sales which enables the company to diversify its clients.

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14, Noor street, Al-Dokki, Giza.

Telephone
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Website
www.ceramicaremas.com

CEO
Mr. Salah Mohamed Fathallah Al Saudi.

- Board Members**
1. Salah Mohamed Fathallah Al Saudi, Executive.
 2. Turki Zaid Alfahad, Non- Executive.
 3. Ahmed Salah Mohamed Fathallah Al Saudi, Executive.
 4. Aya Salah Mohamed Fathallah Al Saudi, Non- Executive.
 5. Dalal Abdul Ghani Al Mulla, Non- Executive.
 6. Anwar Ahmed Hamoud Al Ibrahim, Non- Executive.
 7. Mohamed Salah Mohammed Fathallah Al Saudi, Non- Executive.
 8. Mustafa Ibrahim Mohamed Ibrahim Hegab, Non- Executive.

Auditor
Mohamed Adel Nassef & Co. Certified.

Domicile
Giza, Egypt.

Founded
1975.

Number of Stockholders
2,002.

Listings
EGX: **CERA**.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Mohammed Fathallah Saudi Sons for Trade Co	42.15%
Kuwait Real Estate Investment Consortium	24.39%
Others	33.46%

PRIME RESEARCH COVERAGE HISTORY

Date	Rating	12M PT
30 Dec 2021	Overweight Medium Risk	EGP0.88

Market Price
EGP2.6

as of 29 Dec 2021

Fair Value
EGP2.3

as of 30 Dec 2021

12M PT
EGP2.7 (+3%)

as of 30 Dec 2021

Investment Rating

Underweight



Risk Rating

High



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On the Way to a Cinderella Story?

The struggles in way

KEY INSIGHTS

The story begins in the 50s: General Co. for Ceramic & Porcelain Products (Sheeni) [PRCL] started operations in the 50s through three factories. PRCL produces ceramics, porcelain, sanitary ware, and other products like vases and housewares. With six decades of production under its belt, PRCL now exports to Arab, African and European countries. The company widened its losses in 2020/21 to EGP62mn from EGP54mn a year before, swinging from a gross profit a year before. The EGP39mn one-off related to other revenues was not enough to save the company's bottom line. Meanwhile, PRCL expects 2021/22 to be a profitable year.

The struggles: PRCL is facing too many hurdles at once, manufacturing manually for some parts in the manufacturing process, which in this day and age seems uncompetitive. For PRCL, the lack of new technologies piles up inventory, hinders exports, cramps the competitive ability locally. This is combined with over-employment.

Dressing up: The company launched a tender for constructing a new porcelain tableware factory, raising its ceramics production capacity, and renewing its sanitary ware factory. PRCL already received three offers which are under study. These efforts are also coupled with other procedures to improve PRCL's liquidity and expand its client base.

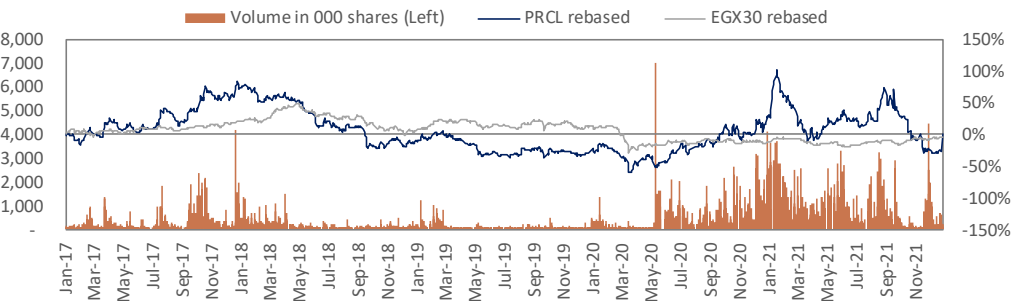
VALUATION, INVESTMENT THESIS, & RISKS

Underweight / High Risk, 12M PT EGP2.7/share (+3%): We valued PRCL using a five-year discounted cash flow (DCF) model, with growth stabilizing at 3% by the terminal year. Using a WACC of 19.1%, in the terminal year. We arrived at a fair value of EGP2.3/share, and a 12-month price target at EGP2.7/share and rate PRCL as Underweight.

Investment thesis: (1) Debt free: PRCL has zero debt which saved it from previous interest hikes and, at the same time, enables it access debt easily whenever needed. **(2)** Expected improved performance: PRCL said it is trying to improve its financials and become profitable by paying more focus on high margin products like ceramics. **(3)** Restructuring to improve production quality is in plan.

Risks: (1) Weaker recovery of purchasing power. **(2)** Pricier supporting materials, e.g. plastics and those used in packaging. **(3)** Tough competition from high quality tiles locally and globally, which may limit the company's ability to increase prices. **(4)** Liquidity issues: Any unexpected delay in receivables collection may hinder purchasing the necessary spare parts for the non-operating production lines.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

Shares outstanding (mn)	50
Free float	42.3%
Market cap (mn)	225
Enterprise value (EGPmn)	100
52w range	2.45-7.66
EGP100 invested 5y ago	EGP71
TTM EPS	(1.24)
TTM P/E	NA
2021e EPS	(1.98)
2021e P/E	NA
2021e P/B	2.7x
Last fiscal year's DPS	0
Dividend yield	0%
5Y beta	1.08
5Y Proj. EPS CAGR	NA

Source: Prime Research, Bloomberg.

REVENUES / EARNINGS DATA

		Q1	Q2	Q3	Q4	Year
Total Revenues (EGPmn)						
2021		52	60	62	44	218
2020		71	89	65	42	267
2019		55	63	57	72	248
2018		81	83	61	81	306
2017		65	86	72	73	296
2016		56	57	51	49	214
Net Profit After Minorities (EGPmn)						
2021		(12)	(10)	31	(71)	(62)
2020		(9)	(4)	(20)	(21)	(54)
2019		(2)	(7)	(17)	(33)	(60)
2018		2	2	(3)	(14)	(13)
2017		3	(0)	2	25	29
2016		6	4	2	(1)	11



BUSINESS SUMMARY

PRCL mainly produces three types of products: ceramics, sanitary ware, and porcelain. Vases and houseware are also a small revenue contributor.

Ceramics

Ceramics is PRCL's crown jewel, accounting for 80% of revenues in 2020/21 and for 75% on average over the past five years (2015/16-2019/20). Nonetheless, this segment was suffering from idle production lines, large quantities of unsold old fashioned ceramics, mismanagement, and a few leveraged credit clients.

Yet, things are turning around now. PRCL halted credit sales to improve the company's liquidity. It currently adopts an expansion policy, especially in Upper Egypt. In addition, PRCL is selling its old inventory.

Ceramics consumes c.70% of the natural gas used in the company's production. This way, ceramics, backed by its huge contribution to revenues, help the company stretch its gross profit margin and, in turn, its total gross profit margin with each price cut in natural gas.

Sanitary Ware

Accounting for 9% of revenues in 2020/21 and for 15% on average over the previous five years (2015/16-2019/20), PRCL's sanitary ware is old fashioned and manually processed in parts of the production process which causes some defects in the end products and—unlike

automated production—leads to higher than necessary natural gas consumption. Its non-symmetrically finished products are also heavy. Furthermore, not only does PRCL have old fashioned inventory, but it also serves a small number of clients.

PRCL had been bearing unnecessary natural gas cost (+USD2/mmbtu), having had one line feeding both production lines of ceramics and sanitary ware. But in March 2021, the Egyptian General Petroleum Corporation (EGPC) approved the company's use of split metering. This approval ultimately means PRCL will reverse the EGP39mn in cost incurred from using one meter from July 2014 until April 2019.

Porcelain

Amounting to 10% of revenues in 2020/21 and to 9% on average over the last five years (2015/16- 2019/20). Manufacturing manually in parts of the production process, the company saw this segment suffer from unsold old inventories and higher-than-necessary natural gas cost, similar to the sanitary ware segment mentioned above.

PRCL tried to fix the machinery, but in vain. The factory needs new machinery and other capex to upgrade its production. The low-quality porcelain does not help the company export the product either, leaving its production domestically oriented. Making that a fair claim is the low quantities exported irregularly until

no exports were reported in 2019/20.

2020/21 was below expectations: PRCL's 2020/21 net losses swelled to EGP62mn from EGP54mn a year before which is also wider than the loss of EGP29.7mn expected in 2020/21 budget. Meanwhile, at EGP218mn, revenues came below the estimates of EGP258.4mn for 2020/21 budget, which was affected by the pandemic.

What's next? PRCL invited bidders to submit their banking feasibility studies to build a new porcelain factory, increase the production capacity of the company's ceramics factory, and renew its sanitary ware factory. We still do not know the details of this tender, but it is a step in the right direction towards upgrading the company's products which will open the door for exports and nurse its competitive ability locally. Also, in our view, being a debt-free company makes it easier for PRCL to access external funds, if needed. PRCL plans to sell its whole yearly production and c.25% of its old inventory over the coming years, while beefing its exports.

Future financial indicators: In 2021/22, PRCL expects revenues of EGP337.2mn turning to a profit of EGP6.3mn.

Lost opportunities: PRCL was unable to take full advantage of some of the government initiatives and procedures, such as the ban on ceramics imports. This was due to the lack of new technologies and the idle production

lines, which kept the company from leveraging its resources and upgrading its production.

Pricier natural gas: The natural gas price was recently hiked up 6% to USD4.75/MMBTu. According to management, PRCL's costs will increase by EGP3.1mn/year based on current capacities.



KEY ASSUMPTIONS

EGPmn	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Revenues	214	296	306	248	267	218	290	315	345	378	414
Sanitaryware Revenues	37	45	46	29	43	20	24	25	28	31	34
Ceramics Revenues	164	223	216	186	202	175	240	260	285	313	343
Porcelain Revenues	10	27	40	30	23	22	26	28	31	34	37
Others	2	2	3	3	1	1	1	1	1	1	1
COGS	(191)	(279)	(303)	(252)	(264)	(226)	(297)	(314)	(337)	(344)	(351)
Gross Profit	22	17	3	(4)	4	(8)	(6)	0	8	34	63
GPM	10%	6%	1%	-2%	1%	-4%	-2%	0%	2%	9%	15%
EBITDA	23	15	(2)	(51)	(47)	(57)	(22)	(12)	(1)	26	57
EBITDA margin	11%	5%	-1%	-21%	-18%	-26%	-7%	-4%	0%	7%	14%
Net Income	11	3	(13)	(60)	(54)	(62)	(32)	(22)	(10)	14	38
NPM	5%	1%	-4%	-24%	-20%	-29%	-11%	-7%	-3%	4%	9%
Cash Conversion Cycle	101 days	93 days	80 days	16 days	-50 days	-135 days	-135 days	-145 days	-147 days	-124 days	-98 days
Capex	4	33	3	8	17	8	7	7	6	4	3

5-Year CAGR	5-Year CAGR
0%	14%

Comment

- **Revenues:** We expect revenues to grow at a 5-year CAGR (2021-2026) of 14%, driven by higher prices. Ceramics is the main revenue contributor accounted for 80% of 2021 revenues. It has always been the biggest segment for the company and expected to remain.
- **Gross Profit:** we expect the company to incur gross losses until 2022. We expect the company's gross profit to reach EGP63mn in 2026.
- **Net Income:** We expect PRCL to turn to profitability in 2025. We expect PRCL to record a net income of EGP14mn and EGP38mn in 2025 and 2026, respectively.

Source: Company reports, Prime Research.



KEY VALUATION INPUT

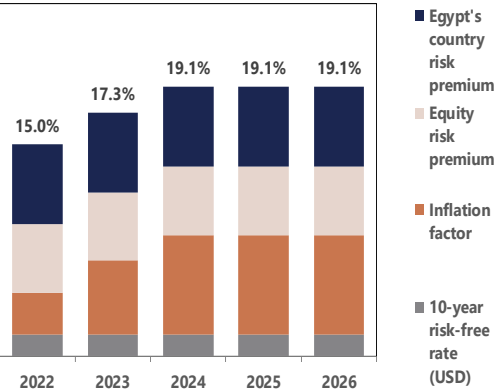
Terminal COE

19.1%

Terminal growth rate

3%

Cost of equity structure (next 5 years)



Source: Prime Research.

RETURN/RISK MATRIX



Source: Prime Research.

VALUATION MODEL

EGPmn	2022e	2023e	2024e	2024e	2025e	Terminal
EBIT (1 - t)	(36)	(26)	(14)	11	35	37
Non-Cash Items (D&A)	14	13	13	12	11	
Gross Cash Flow	(22)	(12)	(1)	23	47	
Chg. in Operating Working Capital	26	14	9	(21)	(25)	
Capital Expenditures	(7)	(7)	(6)	(4)	(3)	
Gross Investment	18	8	4	(26)	(28)	
Free Cash Flow to the Firm (FCFF)	(4)	(4)	3	(3)	18	191
Discount factor	0.93	0.86	0.72	0.61	0.51	
Present Value of FCFF	(3)	(4)	2	(2)	9	97
DCF Enterprise Value	100					
Net (Debt)/ Cash	16					
Other investments	1					
DCF Equity Value	118					
NOS	50					
FV (EGP/share)	2.34					
12M PT (EGP/share)	2.69					
Reinvestment rate						17%
ROIC						18%
TGR						3%

Source: Prime Research.

PEERS ANALYSIS

Ticker	Name	Market Cap (USDmn)	Total Return YTD	Country	P/E	EV/EBITDA Adj	EV/Sales
RAKCEC UH Equity	Ras Al Khaimah Ceramics	771	106.45%	UAE	129.7x	9.0x	1.5x
AACT OM Equity	Al-Anwar Ceramic Tiles Co	246	31.51%	OMAN	14.7x	10.1x	3.7x
DENI IN Equity	De Nora India Ltd	33	95.50%	INDIA	43.5x	11.9x	4.7x
ECAP EY Equity	Al Ezz Ceramics & Porcelain	33	-19.43%	EGYPT	5.3x	12.7x	0.7x
CERA EY Equity	Arab Ceramic Co-Ceramic Remas	31	25.29%	EGYPT	7.5x	8.3x	1.0x
LCSW EY Equity	Lecico Egypt	18	-15.16%	EGYPT	na	na	0.6x
PRCL EY Equity	General Co. for Ceramic & Porcelain Products	8	-42.42%	EGYPT	na	na	0.6x

FV SENSITIVITY ANALYSIS

Terminal growth rate vs. Terminal WACC

Terminal WACC	Terminal Growth rate					
		1.0%	2.0%	3.0%	4.0%	5.0%
	21.1%	2.44	2.46	2.48	2.50	2.52
	20.1%	2.54	2.56	2.58	2.60	2.62
	19.1%	2.64	2.67	2.69	2.71	2.73
	18.1%	2.76	2.79	2.81	2.83	2.86
	17.1%	2.90	2.92	2.95	2.97	3.00

Source: Prime Research.



FINANCIAL MODEL

Income Statement (EGPmn)							
FY ends 30 Jun.	2019a	2020a	2021a	2022e	2023e	2024e	2025e
Total Revenue (Net)	248	267	218	290	315	345	378
COGS	(252)	(264)	(226)	(297)	(314)	(337)	(344)
GP	(4)	4	(8)	(6)	0	8	34
SG&A	(19)	(28)	(23)	(23)	(22)	(21)	(23)
Other operating (exp.)/ Inc.	(38)	(34)	(35)	(6)	(4)	(1)	3
EBITDA	(51)	(47)	(57)	(22)	(12)	(1)	26
EBIT	(62)	(59)	(66)	(36)	(26)	(14)	14
Other (exp.)/ Inc.	(38)	(34)	(35)	(6)	(4)	(1)	3
Interest income	0	1	1	1	1	1	1
Taxes	1	0	1	-	-	-	(4)
NP Before Taxes	(99)	(91)	(100)	(42)	(29)	(14)	18
NP	(98)	(91)	(100)	(42)	(29)	(14)	14
Balance Sheet (EGPmn)							
FY ends 30 Jun.	2019a	2020a	2021a	2022e	2023e	2024e	2025e
Current Assets							
Cash & Cash Equivalents & Mkt. Securities	21	17	16	9	8	14	14
Trade & other receivables	37	35	34	46	44	42	38
Inventory	168	143	110	144	150	158	158
Other Current Assets	-	-	-	-	-	-	-
Total Current Assets	226	195	161	199	201	213	210
Fixed Assets (net)	152	148	141	134	127	120	112
Other Non-Current Assets	12	12	16	16	16	16	16
Total Assets	391	355	318	349	345	350	339
Liabilities & Equity							
Short-Term Debt	-	-	-	-	-	-	-
Credit facilities	-	-	-	-	-	-	-
Accounts Payable	194	213	230	301	319	334	309
Other Current Liabilities	0	0	0	0	0	0	0
Total Current Liabilities	195	213	230	301	319	334	310
Long-Term Debt	-	-	-	-	-	-	-
Other Non-Current Liabilities	4	4	4	4	4	4	4
Total Liabilities	199	217	234	305	323	338	314
Minority Interest	-	-	-	-	-	-	-
Total Equity	192	138	84	44	22	12	25
Total Liabilities & Equity	391	355	318	349	345	350	339
Cash Flow Statement (EGPmn)							
FY ends 30 Jun.	2019a	2020a	2021a	2022e	2023e	2024e	2025e
Cash from Operating	1	(2)	(1)	(0)	6	12	5
Cash from Investing	(8)	(2)	0	(7)	(7)	(6)	(4)
Cash from Financing	0	0	0	0	0	0	0
Net Change in Cash	(7)	(3)	(1)	(8)	(1)	6	0

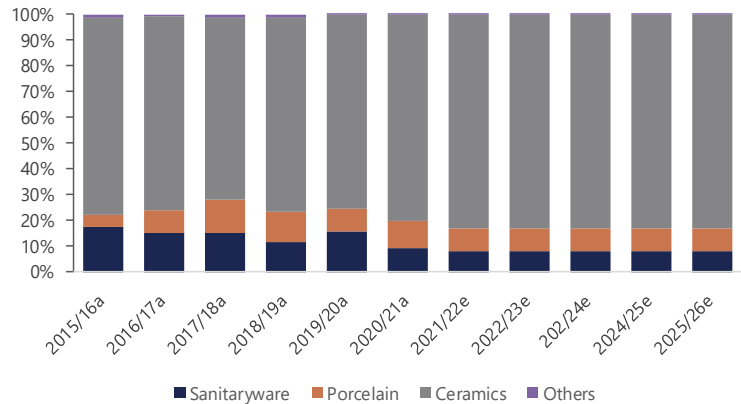
Per-Share Data (EGP)							
	2019a	2020a	2021a	2022e	2023e	2024e	2025e
Price (EGP)	2.44	2.82	4.47	2.60	2.60	2.60	2.60
# Shares (WA,in mn)	50.4	50.4	50.4	50.4	50.4	50.4	50.4
EPS	(1.95)	(1.80)	(1.98)	(0.82)	(0.57)	(0.27)	0.28
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BVPS	3.81	2.73	1.66	0.87	0.43	0.23	0.51
Valuation Indicators							
	2019a	2020a	2021a	2022e	2023e	2024e	2025e
P/E (x), based on end of FY market price	nm	nm	nm	nm	nm	nm	9.3x
P/E (x), based on our 12M PT				nm	nm	nm	9.6x
DY, actual based on BoP price, est. on current	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BV (x)	0.6x	1.0x	2.7x	3.0x	6.0x	11.3x	5.1x
EV/IC (x)	0.5x	0.8x	2.1x	2.3x	4.2x	4.6x	3.0x
EV/Sales (x)	0.4x	0.5x	1.0x	0.4x	0.4x	0.3x	0.3x
EV/EBIT (x)	nm	0.0x	0.2x	0.1x	0.1x	0.0x	0.0x
EV/EBITDA (x)	nm	-2.6x	-3.7x	-5.6x	-10.1x	-97.7x	4.5x
Profitability & Growth Ratios							
	2019a	2020a	2021a	2022e	2023e	2024e	2025e
Revenue Growth	(19%)	8%	(19%)	33%	8%	10%	10%
EBIT Growth	nm	nm	nm	nm	nm	nm	nm
EPS Growth	nm	nm	nm	nm	nm	nm	nm
GPM	nm	1%	nm	nm	0%	2%	9%
EBIT Margin	nm	nm	nm	nm	nm	nm	7%
Net Margin	nm	nm	nm	nm	nm	nm	4%
ROIC	nm	nm	nm	nm	nm	nm	110%
ROE	0%	0%	1%	0%	0%	0%	nm
ROA	0%	0%	0%	0%	0%	0%	nm
Liquidity & Solvency Multiples							
	2019a	2020a	2021a	2022e	2023e	2024e	2025e
Net Debt (Cash)	(21)	(17)	(16)	(9)	(8)	(14)	(14)
Net Debt (Cash) /Equity	(11%)	(13%)	(19%)	(20%)	(35%)	(121%)	(56%)
Net debt (Cash) to EBIT	0.3x	0.3x	0.2x	0.2x	0.3x	1.0x	-1.0x
Debt to Assets	0.00x	0.00x	0.00x	0.00x	0.00x	0.00x	0.00x
Current ratio	1.2x	0.9x	0.7x	0.7x	0.6x	0.6x	0.7x
Consensus Estimates (EGPmn)							
				2022e	2023e	2024e	2025e
Revenues							
Prime Research vs. Consensus							
Net Income							
Prime Research vs. Consensus							

Source: Prime Research.

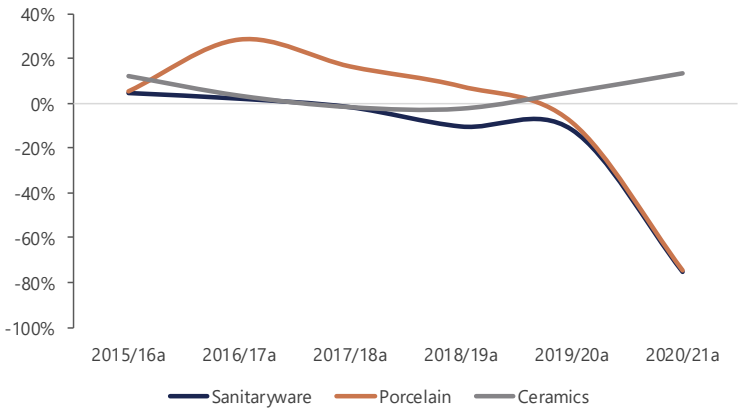


STORY IN CHARTS

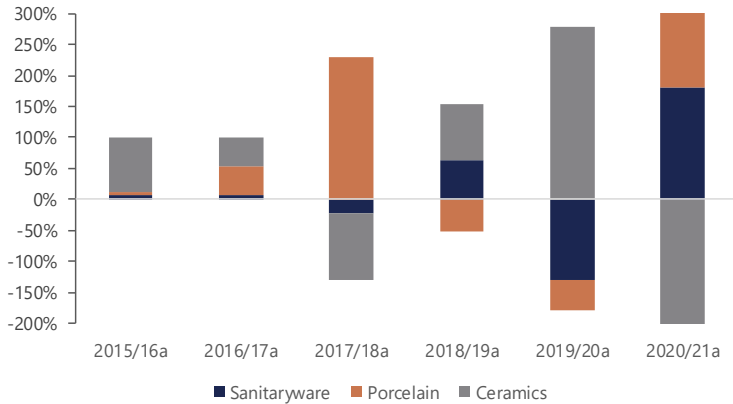
Sales breakdown shows ceramics is the major revenue contributor and is likely to stay so, in our estimation.



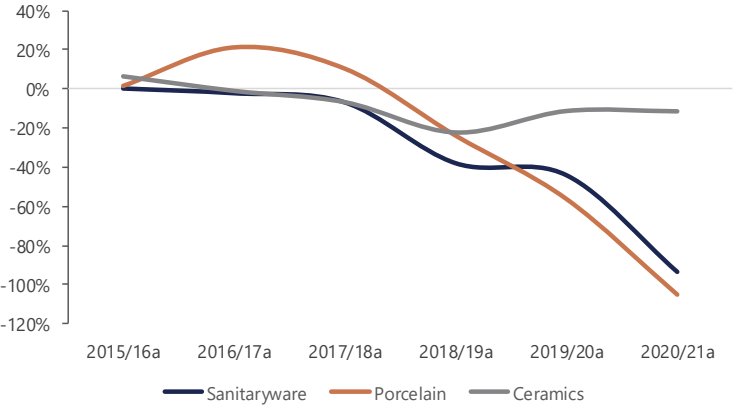
Gross profit margin shows that ceramics was the only segment that recorded gross profit in 2021.



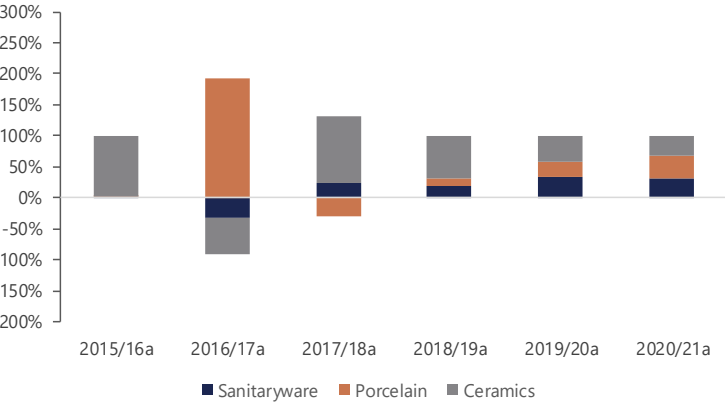
Gross profit breakdown shows fluctuations in both performance and contribution to gross profit.



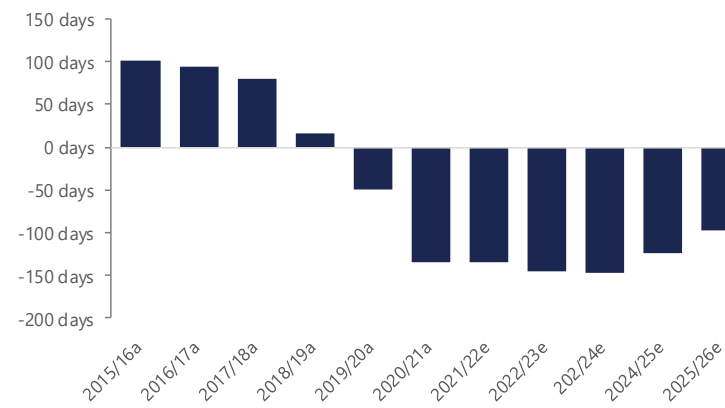
Net profit margin performed negatively in 2021 dragged by both porcelain and sanitaryware.



Net income breakdown dragged in 2021 by the negative performance of porcelain segment.



Net income is likely to recover to EGP38mn in 2026 in our estimation.



Source: Company reports, Prime Research.



CORPORATE PROFILE

General Co. for Ceramic & Porcelain Products [PRCL] - Sheeni, a subsidiary of the Holding Company for Metallurgical Industries, has been listed in the Egyptian Exchange (EGX) under the ticker name PRCL since 1959. produces ceramics, sanitary ware and porcelain through three factories in Musturad in Al Qalyubia. The factories are built on 152,000 sqm. PRCL sells its products locally and globally. The company was profitable before 2017/18 and now is planning to get rid of its problems to be back on track.

Office
Oil companies, Musturad, Al Qalyubia.

Telephone
+202 250 2510.

Website
www.sheeni-egypt.com

CEO
Mr. Sayed Abdel-Samei Badr.

- Board Members**
- 1. Sayed Abdel-Samei Badr, CEO.
 - 2. Yehia Ahmed Abdel- Fattah, Executive.
 - 3. Ashraf Hussein Ahmed Abdallah.
 - 4. Tamer Hilal Badie.
 - 5. Amani Salah Eldien Abdallah Ahmed.

Auditor
Central Auditing Organization.

Domicile
Al Qalyubia, Egypt.

Founded
1959.

Number of Employees
1,102.

Number of Stockholders
3,874.

Listings
EGX: **PRCL**.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Metallurgical Industries Holding Co	57.4%
Hazem Hassan Abdelaziz Eldeeb	8.4%
Others	34.2%

PRIME RESEARCH COVERAGE HISTORY

Date	Rating	12M PT
30 Dec 2021	Underweight High Risk	EGP2.7

Market Price
EGP3.46

as of 29 Dec 2021

Fair Value
EGP3.2

as of 30 Dec 2021

12M PT
EGP3.8 (+10%)
as of 30 Dec 2021

Investment Rating
Risk Rating

Underweight

★ ★ ★

High

! ! !

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A Wild Card

Blurrily rosy

KEY INSIGHTS

Long history: Lecico Egypt [LCSW] is a well-known brand with five decades of history under its belt, enabling the company to produce and export to the Middle East and Europe. Management is part and parcel of LCSW’s story. They have over 20 years of experience which contributed to the perception of LCSW’s products as being quality and affordable.

Relatively lower costs: LCSW enjoys an effective low cost structure backed by its presence in many countries, especially Egypt, where the company has economies of scale and bears low costs (e.g. in terms of salaries). This helped LCSW keep its sanitary ware costs 40% below its peers, making it easier for the company to sell at a good gross profit margin.

Post-pandemic: LCSW took a hit in 2020, slashing 13% off its sales to EGP2.06bn. However, 9M 2021 results were stronger on a yearly basis with higher revenues and narrower net losses. In addition to Europe, Egypt is seen to recover, aided by the demand normally created by new marriages, the move to new cities, and the potential participation of companies in the government initiative “Decent Life.” In the UK, a major destination for LCSW’s exports, the worst lockdown measures are already behind, especially after the vaccine rollouts and the recovery in exports.

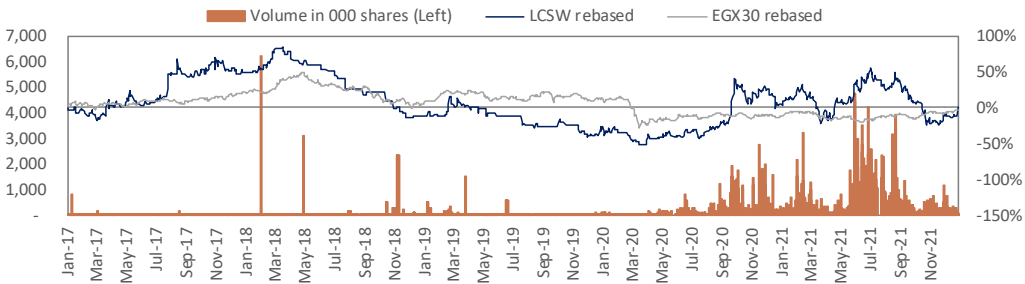
VALUATION, INVESTMENT THESIS, & RISKS

Underweight / High Risk, 12M PT EGP3.8/share (+10%): We valued LCSW using a six-year, two-stage discounted cash flow (DCF) model, with a terminal growth rate of 4%. We reached a WACC of 10.8% in 2021 and a terminal WACC of 13.2%, reaching a fair value of EGP3.2/share. We set our 12-month price target at EGP3.8/share; hence we rate LCSW as Underweight.

Investment thesis: (1) Exposure: LCSW’s exposure to Europe and the Middle East, especially through its sanitary ware exports, widens its client base. (2) Cost efficiency: LCSW enjoys economies of scale and discounted shipping rates. (3) Debt reduction: LCSW managed to reduce its debt drawing on proceeds from its real estate sales.

Risks: (1) Slower demand recovery: How much time will global markets take to recover from COVID-19 fallout and to regain normal levels of purchasing power is still unclear. (2) Uncertainty over Lecico UK’s performance: UK is one of the countries that suffered severely from COVID-19 and long lockdowns. With the UK capturing 17.2% of its sales in 2020, LCSW’s production and sales in the UK could be at risk, but we think the worst is behind. (3) FX risk: LCSW is a major exporter, so any fluctuation in FX would result in earnings volatility.

STOCK’S RELATIVE PERFORMANCE CHART (5 YEARS)



Shares outstanding (mn)	80		Q1	Q2	Q3	Q4	Year
Free float	35.5%	Total Revenues (EGPmn)					
Market cap (EGPmn)	392	2021	601	636	680	e625	e2,541
Market cap (USDmn)	25	2020	497	382	561	615	2,055
52w range	2.57-6.36	2019	637	600	591	522	2,350
EGP100 invested 5y ago	88	2018	705	691	656	637	2,690
TTM EPS	(0.76)	2017	546	586	634	641	2,406
TTM P/E	NA	2016	319	347	337	494	1,496
2021e EPS	(0.79)	Net Profit After Minorities (EGPmn)					
2021e P/E	NA	2021	(17)	(7)	(9)	(e31)	(e63)
2021e P/B	0.1x	2020	(72)	(75)	(45)	(28)	(221)
Last fiscal year's DPS	0	2019	(28)	(87)	(88)	(95)	(298)
Dividend yield	0	2018	24	5	(51)	(93)	(114)
5Y beta	0.88	2017	19	14	(5)	10	37
5Y Proj. EPS CAGR	NA	2016	(41)	(40)	(47)	81	(48)

Source: Prime Research, Bloomberg.



BUSINESS SUMMARY

LCSW produces three main products, topped by sanitary ware which commanded 61% of revenues, tiles (34%), and brassware (4%). One of the largest sanitary ware producers in the Middle East, LCSW provides its products at low- and mid-price points to many markets in the Middle East and Europe.

Sanitary Ware

Cost efficiency: The largest revenue contributor, sanitary ware saw only 26% of volume produced sold in Egypt in the last 12 months. LCSW incurs an average cost of USD16.5/piece which is lower than its European peers' USD30+. LCSW managed to maintain cost efficiency, with low production costs in Egypt, economies of scale, and skilled workers who produce twice as much as their local peers. When it comes to the European markets, LCSW incurs only USD1.5/piece for shipping, which provides the company with yet another competitive advantage against Asian exporters that bear a cost of USD6/piece.

Massive global exposure: LCSW exports to around 50 countries under its own brand as well as other brand names. LCSW's market share in the UK was c.12% in 2020. A beneficiary of the urbanization trend, LCSW has been gaining global recognition, having been raising the standards of living, especially in developing countries where most needed.

Tiles

Improved profitability: Tiles is LCSW's second largest revenue contributor, generating 37% of gross profit in Q3 2021 (down from 55% in 2020) and 41% TTM. The majority of the tiles produced (i.e. 79% in the last 12 months) were sold in Egypt. The tiles segment benefited the most from the reduction in natural gas prices to USD4.5/mmbtu in 2020, where gross profit margin surged from 5.2% in 2019 to 16.3% in 2020. In the same year, LCSW cut the cost of its blended tiles to EGP655mn, the lowest level in four years (down from EGP812mn in 2019). Gross profit also trended up 65% y/y to EGP131mn in 9M 2021, and gross profit margin climbed to 20.8% in 9M 2021 from 14.7% a year before. Meanwhile, revenues increased by 17% y/y to EGP628mn in 9M 2021, driven by a 13% y/y rise in volume, while price edged up 2% y/y to EGP40.9/sqm.

Capacity surplus toughens competition: Data show that actual production of tiles in Egypt reached 285mn sqm in 2020 compared to a higher maximum production capacity of 400mn sqm. This creates stiff competition that cripples LCSW's ability to ramp up prices as it vies to maintain its market share in Egypt.

Brassware

Highly profitable for its size: LCSW's smallest segment, brassware accounted for 4% of revenues in 9M 2021, contributing 9% to gross

profit with an average of 8% over the 2014-2020 period. Despite its tiny contribution to revenues, the brassware segment generates the widest margin, with gross profit margin ranging between 30% and 42% over the previous six years.

Domestically oriented: LCSW's export portion in this segment is already slim to none compared to the total volume produced. The company failed to achieve any export in 2020 and exported a small portion in 9M 2021.

Stronger volume despite the pandemic: Brassware is the only segment that saw y/y growth in volume in 2020. Volumes increased 4% y/y to 86,523 pieces in 2020. Meanwhile, revenues declined y/y 4% to EGP74mn, hit by an 8% y/y fall in average selling prices to EGP858/piece. However, the segment prices improved in 9M 2021 to EGP980/piece (+17% y/y) with a 52% y/y increase in volume. In 9M 2021, this helped the segment's revenue surge by 77% y/y to EGP88.2mn.

Operational Restructuring

Lebanon: LCSW started its restructuring process in 2019 in Lebanon and expanded in 2020, despite the pandemic. Selling its excess real estate assets in the country helped LCSW pay down its Lebanese debt of USD17mn. The sharp decrease in LCSW's Lebanese sales in H1 2021 was due to COVID-19 and other economic and political factors. Yet, the sales recovery

pace in Lebanon is still unknown.

9M 2021 recovery raises hopes for 2021: Net losses in 9M 2021 reached EGP32mn (vs. EGP192mn in 9M 2020). Revenues rose 33% y/y to EGP1.4bn, buoyed higher by an annual increase in volumes and prices across the three segments. In the meantime, gross profit margin improved across all segments. On the financial side, LCSW brought down its net financing costs to EGP15mn in 9M 2021 from EGP59mn a year before. This significant rebound in 9M 2021 raises hopes for a better year ahead and for a recovery in purchasing power in the coming years, especially in Libya where Egyptian exports have a competitive advantage.

Bullish for Q4 2021 and 2022: We are optimistic that the purchasing power will recover locally and exports will increase after COVID-19, backed by a recovery in exports and an expected increase in commercial spending on gradually rebounding tourism after the acceleration in vaccination rollouts. However, challenges are still present, including the increase in the cost of plastics, packaging and shipping, added to the uncertainty around the company's profitability in Lebanon. On the other hand, LCSW has already raised its selling prices. Indeed, in 9M 2021, we have already seen a 5% y/y increase in sanitary ware prices to EGP318.5/piece, a 3% y/y increase in tiles to EGP40.9/sqm, and a 17% y/y increase in brassware to EGP980/piece.



KEY ASSUMPTIONS

EGPmn	Unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Historical 5-year CAGR	Forecasted 6-year CAGR
Sanitary ware																
Total volume (000) growth	piece	5,334	4,834 -9%	5,089 5%	5,062 -1%	5,320 5%	4,699 -12%	4,011 -15%	5,029 25%	5,103 1%	5,177 1%	5,252 1%	5,326 1%	5,400 1%	-3%	5%
Average selling price growth	EGP	140	149 6%	167 13%	296 77%	304 3%	301 -1%	299 -1%	318 6%	332 4%	351 6%	378 8%	382 1%	386 1%	17%	4%
Revenue growth	EGPmn	747	718 6%	850 13%	1,497 77%	1,617 3%	1,416 -1%	1,199 -1%	1,598 6%	1,695 4%	1,818 6%	1,987 8%	2,035 1%	2,084 1%	14%	10%
COGS	EGPmn	(617)	(606)	(676)	(1,026)	(1,262)	(1,239)	(1,119)	(1,368)	(1,446)	(1,530)	(1,647)	(1,692)	(1,740)		
GP GPM	EGPmn	129 17%	112 16%	175 21%	472 31%	354 22%	178 13%	80 7%	231 14%	248 15%	288 16%	340 17%	342 17%	344 16%	7%	27%
Tiles																
Total volume growth	000 sqm	33,045	25,787 -22%	25,238 -1%	23,170 38%	25,755 20%	21,611 -15%	19,781 -9%	20,520 5%	20,736 6%	20,952 7%	21,168 9%	21,384 2%	21,600 2%	-8%	1%
Average selling price growth	EGP	24	24 0%	24 1%	36 51%	39 8%	40 2%	40 0%	40 2%	42 4%	44 6%	48 8%	48 1%	49 1%	11%	4%
Revenue growth	EGPmn	780	606 -22%	601 -1%	832 38%	1,002 20%	856 -15%	782 -9%	825 5%	871 6%	931 7%	1,013 9%	1,034 2%	1,055 2%	2%	5%
COGS	EGPmn	(538)	(516)	(628)	(803)	(941)	(812)	(655)	(665)	(696)	(734)	(786)	(805)	(826)		
GP GPM	EGPmn	242 31%	90 15%	(27) -4%	29 3%	60 6%	44 5%	127 16%	161 19%	175 20%	197 21%	227 22%	229 22%	229 22%	-29%	10%

Source: Company reports, Prime Research.

Comment

- **Sanitary ware** is the main contributor to LCSW's revenues (63% of 2021e revenues). We expect revenues to grow at a 6-year CAGR (2020-2026) of 10% and gross profits at 27%, boosted by an increase in both volume and price. Meanwhile, we expect gross profit margin from sanitary ware to normalize at 16% in 2026.
- **Tiles** is the second revenue contributor (32% of 2021e revenues). We expect this segment's revenues to grow at a 6-year CAGR (2020-2026) of 5% and gross profits at 10%. This will be driven by an increase in price for the most part and in volume. We predict the gross profit margin of tiles to normalize at 22% in 2026.



KEY ASSUMPTIONS (CONT.'D)

EGPmn	Unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Historical 5-year CAGR	Forecasted 6-year CAGR	Comment
Brassware																	
Total volume (000) growth		136,951	126,930	151,945	108,631	108,311	82,945	86,523	120,000	117,000	114,000	111,000	108,000	105,000	-10%	3%	
Average selling price growth		337	370	415	723	794	931	858	981	1,021	1,079	1,174	1,198	1,222	23%	6%	
Revenue growth	EGPmn	46	47	63	78	86	77	74	118	119	123	130	129	128	11%	10%	
COGS	EGPmn	(29)	(32)	(40)	(46)	(57)	(48)	(52)	(76)	(80)	(84)	(90)	(91)	(93)			
GP GPM	EGPmn	17	15	23	33	29	30	22	41	39	39	41	38	35	12%	8%	
Total																	
Revenues	EGPmn	1,573	1,371	1,514	2,408	2,705	2,349	2,055	2,541	2,685	2,872	3,130	3,198	3,267	8%	8%	
COGS (net of depreciation)	EGPmn	(1,154)	(1,155)	(1,343)	(1,875)	(2,235)	(2,098)	(1,826)	(2,109)	(2,223)	(2,348)	(2,522)	(2,589)	(2,659)			
GP GPM	EGPmn	388	216	171	533	444	251	229	433	462	524	608	609	608	-8%	18%*	
EBITDA	EGPmn	322	91	59	276	241	17	(41)	115	248	282	329	312	300			
EBITDA Margin		20%	7%	4%	11%	9%	1%	-2%	5%	9%	10%	11%	10%	9%			
Net Income	EGPmn	180	17	122	124	(42)	(244)	(142)	(63)	74	134	178	173	171			
NPM		11%	1%	8%	5%	-2%	-10%	-7%	-2%	3%	5%	6%	5%	5%			

Source: Company reports, Prime Research.



Key Valuation Input

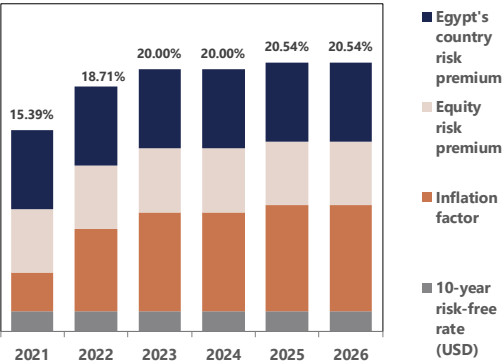
Terminal COE

20.5%

Terminal growth rate

4%

Cost of equity structure (next 5 years)



Source: Prime Research.

Return/Risk Matrix

		Return		
		OW	N	UW
Risk	L			
	M			
	H			✓

Source: Prime Research.

Valuation Model

EGPmn	Q4 2021	2021e	2022e	2023e	2024e	2025e	2026e	TV
EBIT (1 - t)	(49)	(3)	106	136	177	168	161	168
Non-Cash Items (D&A)	29	118	112	106	101	96	92	
Gross Cash Flow	(20)	116	218	243	278	264	253	
Change in Operating Working Capital	45	(306)	(85)	(95)	(120)	(48)	(106)	
Capital Expenditures	(18)	(68)	(32)	(32)	(33)	(33)	(33)	
Gross Investment	27	(374)	(116)	(128)	(153)	(81)	(139)	
Free Cash Flow to the Firm (FCFF)	7	(258)	101	115	125	183	114	1,118
Discount factor	1.00	1.00	0.89	0.79	0.70	0.62	0.55	
Present Value of FCFF	7	(258)	90	91	88	113	62	611
DCF Enterprise Value	1,062							
Net (Debt)/ Cash	(780)							
Other Investments	6							
Minority	(31)							
DCF Equity Value	257							
NOS	80							
FV (EGP/share)	3.2							
12M PT (EGP/share)	3.8							

Source: Prime Research.

Peers Analysis

Ticker	Name	Market Cap (USDmn)	Total Return YTD	Country	P/E	EV/EBITDA Adj	EV/Sales
RAKCEC UH Equity	Ras Al Khaimah Ceramics	771	106.45%	UAE	129.7x	9.0x	1.5x
AACT OM Equity	Al-Anwar Ceramic Tiles Co	246	31.51%	OMAN	14.7x	10.1x	3.7x
DENI IN Equity	De Nora India Ltd	33	95.50%	INDIA	43.5x	11.9x	4.7x
ECAP EY Equity	Al Ezz Ceramics & Porcelain	33	-19.43%	EGYPT	5.3x	12.7x	0.7x
CERA EY Equity	Arab Ceramic Co-Ceramic Remas	31	25.29%	EGYPT	7.5x	8.3x	1.0x
LCSW EY Equity	Lecico Egypt	18	-15.16%	EGYPT	na	na	0.6x
PRCL EY Equity	General Co. for Ceramic & Porcelain Products	8	-42.42%	EGYPT	na	na	0.6x

Source: Bloomberg, Prime Research.

FV Sensitivity Analysis

Terminal growth rate vs. Terminal WACC

		Terminal Growth Rate				
		2.0%	3.0%	4.0%	5.0%	6.0%
Terminal WACC	15.2%	2.9	2.6	2.2	1.7	1.1
	14.2%	3.5	3.3	2.9	2.5	1.9
	13.2%	4.3	4.1	3.8	3.4	2.8
	12.2%	5.3	5.1	4.9	4.6	4.2
	11.2%	6.4	6.4	6.3	6.2	6.0

Source: Prime Research.

Reinvestment rate	38%
ROIC	10%
TGR	4%



FINANCIAL MODEL

Income Statement (EGPmn)						
FY ends on 31 Dec.	2019a	2020a	2021e	2022e	2023e	2024e
Total Revenue (Net)	2,350	2,055	2,541	2,685	2,872	3,130
COGS (net of depreciation)	(1,993)	(1,735)	(2,018)	(2,137)	(2,266)	(2,445)
GP	357	320	524	549	606	686
Other operating (exp.)/ Inc.	(340)	(362)	(409)	(300)	(324)	(356)
EBITDA	17	(41)	115	248	282	329
EBIT	(34)	(53)	(4)	136	176	228
Interest expense	(199)	(95)	(44)	(48)	(52)	(54)
Investment income	4	30	28	38	48	55
NP Before Taxes	(224)	(119)	(18)	128	174	232
NP Before XO & MI	(247)	(143)	(50)	99	135	180
XO & Minority Interest	(3)	(2)	13	25	1	2
Net Income	(244)	(142)	(63)	74	134	178

Balance Sheet (EGPmn)						
FY ends on 31 Dec.	2019a	2020a	2021e	2022e	2023e	2024e
Current Assets						
Cash & Cash Equivalent	129	119	354	742	849	783
Marketable securities	-	-	-	-	-	-
Trade & other receivables	675	631	747	790	846	922
Inventory	945	834	954	1,017	1,083	1,173
Total Current Assets	1,749	1,584	2,055	2,549	2,778	2,879
Fixed Assets (net)	2,318	1,629	1,542	1,462	1,388	1,319
Other Non-Current Assets	67	40	76	35	35	35
Total Assets	4,134	3,253	3,674	4,046	4,200	4,233
Liabilities & Equity						
Short-Term Debt	1,186	717	899	928	1,013	997
Current Portion of LT Debt	22	86	20	27	33	38
Accounts Payable	552	824	755	776	803	849
Other Current Liabilities	1	0	44	12	12	12
Total Current Liabilities	1,761	1,628	1,718	1,743	1,861	1,896
Long-Term Debt	53	35	20	27	33	38
Other Non-Current Liabilities	35	24	24	24	24	24
Total Liabilities	1,849	1,687	1,762	1,794	1,918	1,957
Minority Interest	47	30	43	67	69	70
Total Equity	2,285	1,566	1,912	2,252	2,282	2,275
Total Liabilities & Equity	4,134	3,253	3,674	4,046	4,200	4,233

Cash Flow Statement (EGPmn)						
FY ends on 31 Dec.	2019a	2020a	2021e	2022e	2023e	2024e
Cash from Operating	156	353	201	336	52	(6)
Cash from Investing	(65)	177	(68)	10	(32)	(33)
Cash from Financing	(3)	(70)	101	43	88	(27)
Net Change in Cash	88	459	234	388	107	(65)

Per-Share Data						
	2019a	2020a	2021e	2022e	2023e	2024e
Price	2.63	4.09	3.46	3.46	3.46	3.46
# Shares (WA,in mn)	80	80	80	80	80	80
EPS	(3.05)	(1.77)	(0.79)	0.93	1.67	2.23
DPS	0.00	0.00	0.00	0.00	0.00	0.12
BVPS	28.57	19.58	23.90	28.15	28.53	28.44

Valuation Indicators						
	2019a	2020a	2021e	2022e	2023e	2024e
PER (x) (Based on end of FY market price)	nm	nm	nm	3.7x	2.1x	1.6x
P/E (x), based on our 12M PT			nm	4.1x	2.3x	1.7x
DY (actual based on BoP price, est. on current)	0.0%	0.0%	0.0%	0.0%	0.0%	3.6%
PBV (x)	0.1x	0.2x	0.1x	0.1x	0.1x	0.1x
EV/IC (x)	0.5x	0.3x	0.3x	0.2x	0.2x	0.2x
EV/Sales (x)	0.6x	0.5x	0.4x	0.2x	0.2x	0.2x
EV/EBITDA (x)	83.3x	nm	7.9x	2.4x	2.0x	1.9x
EV/EBIT (x)	nm	nm	nm	4.3x	3.3x	2.8x

Profitability & Growth Ratios						
	2019a	2020a	2021e	2022e	2023e	2024e
Revenue Growth	(13%)	(13%)	24%	6%	7%	9%
EBIT Growth	nm	nm	nm	nm	29%	30%
EPS Growth	nm	nm	nm	nm	80%	33%
GPM	15%	16%	21%	20%	21%	22%
EBIT Margin	nm	nm	nm	5%	6%	7%
Net Margin	nm	nm	nm	3%	5%	6%
ROIC	nm	nm	(2%)	4%	5%	7%
ROE	nm	nm	nm	4%	6%	8%
ROA	nm	nm	nm	2%	3%	4%

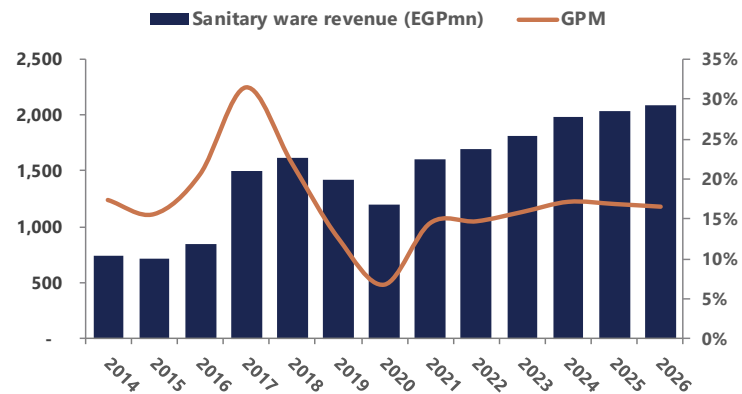
Liquidity & Solvency Multiples						
	2019a	2020a	2021e	2022e	2023e	2024e
Net Debt (Cash)	1,132	719	585	240	231	289
Net Debt (Cash) /Equity	50%	46%	31%	11%	10%	13%
Net debt (Cash) to EBIT	nm	nm	nm	1.8x	1.3x	1.3x
Debt to Assets	0.31x	0.26x	0.26x	0.24x	0.26x	0.25x
Current ratio	1.0x	1.0x	1.2x	1.5x	1.5x	1.5x

Consensus Estimates (EGPmn)				
	2021e	2022e	2023e	2024e
Revenues				
Prime Research vs. Consensus				
Net Income				
Prime Research vs. Consensus				

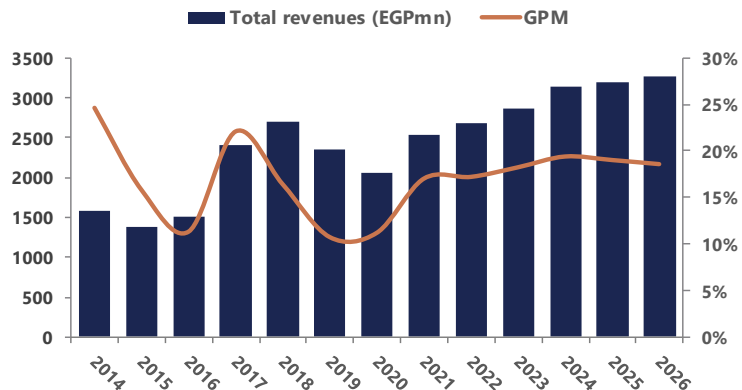
Source: Company Reports, Prime Research.

STORY IN CHARTS

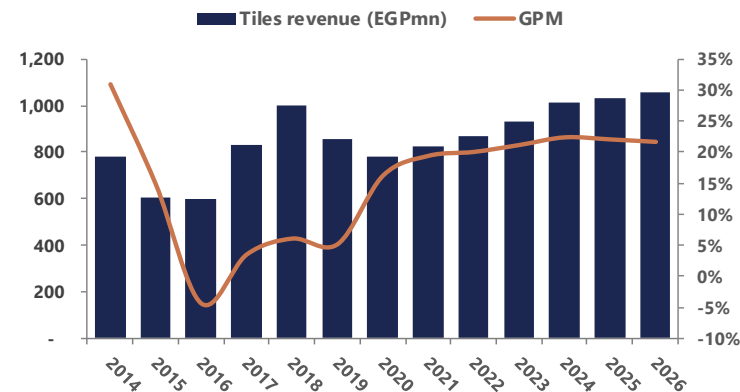
Sanitary ware revenues are likely to grow at a 6-year CAGR (2020-2026) of 10%, while GPM is seen to average 16%, in our estimation.



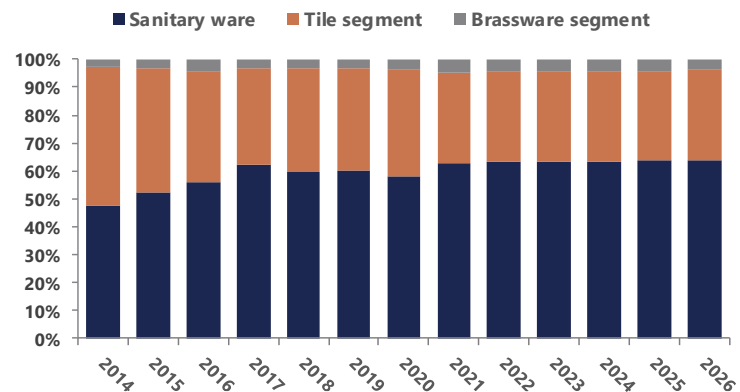
Total revenues are likely to grow at a 6-year CAGR (2020-2026) of 8%, while GPM is likely to range between 17% and 19%, in our estimation.



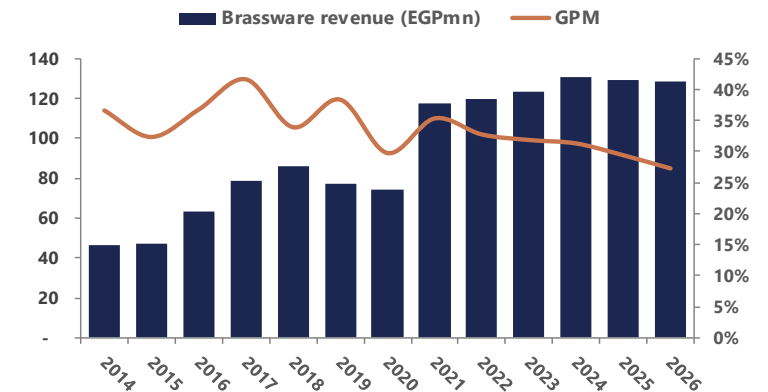
Tile revenues are likely to grow at a 6-year CAGR (2020-2026) of 5%, while GPM is likely to average 21%, in our estimation.



Revenue breakdown by segment shows sanitary ware has always been the biggest revenue contributor and is likely to remain so in our estimation.



Brassware revenues are likely to grow at a 6-year CAGR (2020-2026) of 10%, while GPM is likely to average 31%, in our estimation.



Sales breakdown by destination shows that the exports portion of sales has been increasing since 2014 at the expense of the local sales, which would be an advantage if EGP weakened.

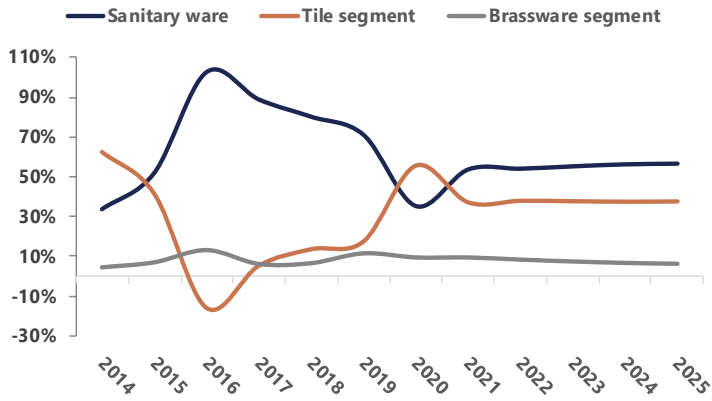


Source: Company reports, Prime Research.

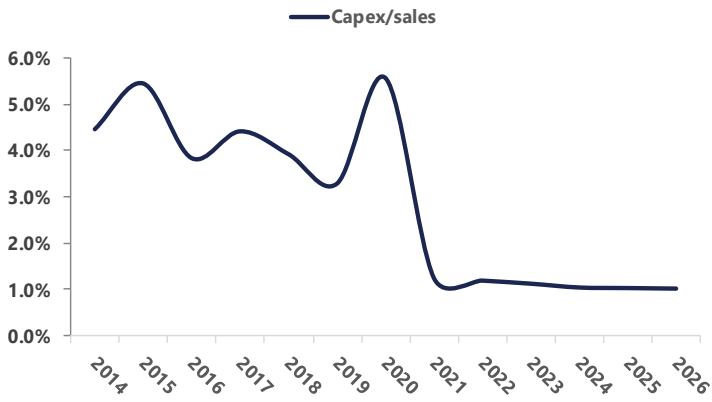


STORY IN CHARTS (CONT.'D)

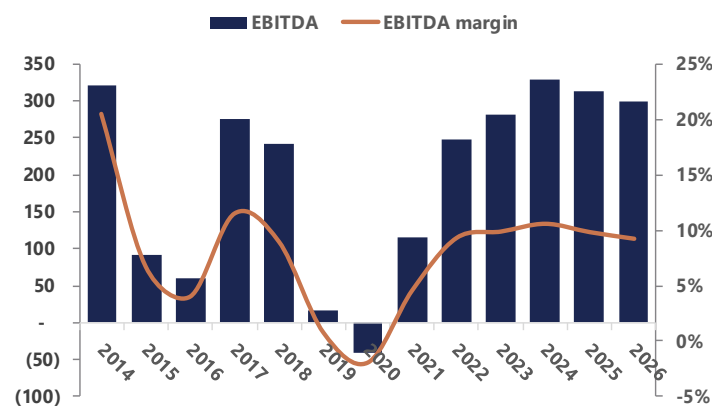
Sanitary ware has been the biggest contributor to gross profit except in 2014 and 2020 when tiles took the lead.



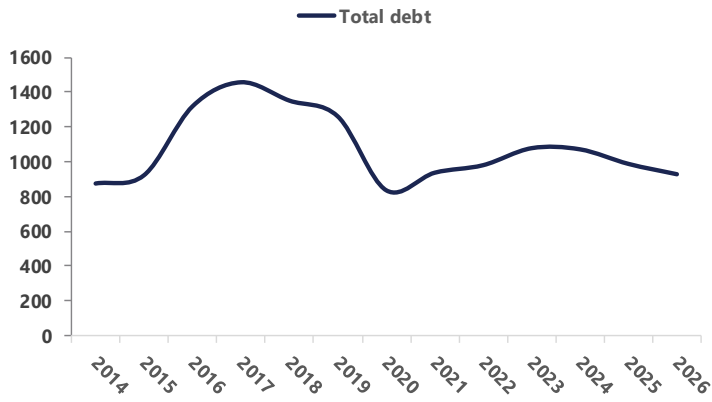
Capex/sales has ranged between 3% and 6% during 2014-2020 and is expected to decrease going forward to reach 1% in our estimation.



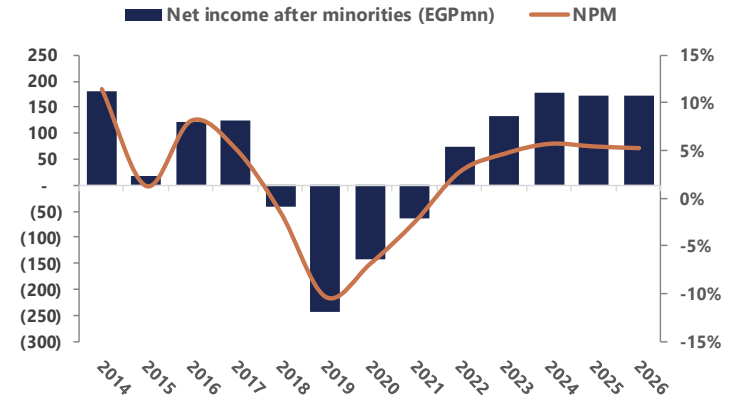
EBITDA was only negative in 2020. Meanwhile, EBITDA margin averaged 7% during 2014-2020.



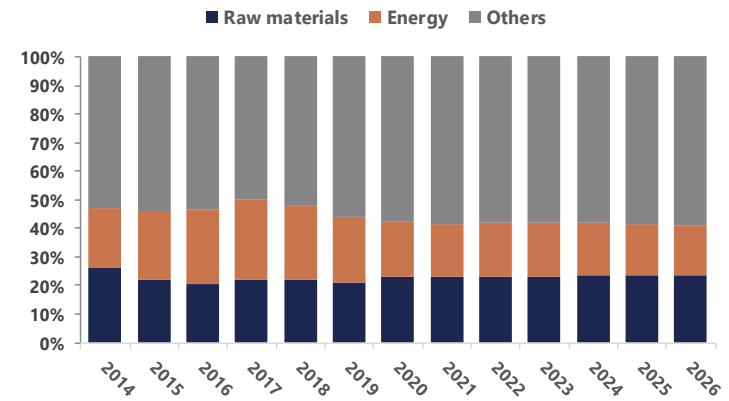
Debt fell in 2020 to the lowest level since 2014.



Bottom line losses were incurred in five of the seven years (2014-2020).



COGS breakdown shows energy costs is the biggest single contributor to COGS in 2020 (23%).



Source: Company reports, Prime Research.



CORPORATE PROFILE

Lecico Egypt [LCSW] is one of the top ceramics and sanitary ware manufacturers in the Middle East. Ever since it started in 1959, the company has been expanding. It currently has subsidiaries in Egypt, Lebanon, Europe and Africa.

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CEO
Mr. Taher Gargour.

- Board Members**
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 2. Mr. Alain Gargour, Non-executive.
 3. Mr. Toufick Gargour, Non-executive.
 4. Mr. Taher Gargour, Executive.
 5. Mr. Mohamed Hassan, Executive.
 6. Mr. Pertti Lehti, Non-executive.
 7. Mr. Elie Baroudi, Non-executive.
 8. Dr. Rainer Simon, Non-executive.
 9. Mr. Karim Zahran, Independent.
 10. Mr. Colin J Sykes, Independent.

Auditor
KPMG Hazem Hassan.

Domicile
Cairo, Egypt.

Founded
1959.

Number of Stockholders
2,002.

Listings
EGX: **LCSW**.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Intage Holdings Limited	14.0%
Olyan Financing Company	19.9%
Coronation Africa Frontiers Fund Universal	5.3%
Others	60.8%

PRIME RESEARCH COVERAGE HISTORY

Date	Rating	12M PT
30 Dec 2021	Underweight High Risk	EGP3.8

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