

EFG Hermes Holding [HRHO]

Price
EGP15.38
at close of 12 May 2022

12MPT
EGP25.4 (+65%)
set on 15 May 2022

Impact

POSITIVE

Degree

STRONG

Hidden “valU”

Amazon deal to help re-rate stock in the market

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Two agreements, commercial and option: Last Thursday, EFG Hermes Holding’s [HRHO] BNPL arm, **valU**, signed a **commercial agreement** with Amazon [NASDAQ: AMZN] to avail some of its consumer finance products to eligible customers on amazon.eg. These customers will be provided with the option to split the total cost of purchases into multiple payments by using valU. However, the big deal is in **the option agreement**, whereby AMZN agreed to acquire USD10mn worth of HRHO GDRs with the option to replace them into a 4.255% stake in valU, based on a current post-money valuation of valU of USD235mn. That option will be exercisable before or once “a qualified liquidity event” occurs on the valU level. This may include an independent investment involving third-party investors, a sale, or an initial public offering (IPO) or other listing event.

Positive for the NBFS industry: Without doubt, such an interest by one of the world’s leading merchandiser underscores the potential growth in the Egyptian market in general and the non-banking financial services industry in particular. That said, we believe the potential deal will act as a catalyst for the re-rating of EGX-listed stocks in the market. Please see Figure 2 for a peers’ comparison.

Positive for valU: Currently, valU enjoys a 23.8% market share in Egypt’s consumer finance industry, making it the second largest consumer finance player in the country behind Contact, a subsidiary of Contact Financial Holding’s [CNFN]. In view of AMZN’s extensive reach, such a commercial agreement will drive further growth in valU’s already growing franchise in terms of **volume** (e.g. number of customers and transactions) and **value** (e.g. outstanding portfolio). In 2021, valU had the following KPIs:

- App customers: 190,000.
- Number of transactions: 450,000+.
- Outstanding portfolio: EGP1.99bn.

Positive for HRHO: By end of last Thursday, HRHO’s stock was down more than 3%. That said, we believe AMZN’s involvement with HRHO, let alone the potential acquisition of a minority stake in valU, will be a key catalyst for the name. We used different methods to estimate HRHO’s equity value based on a sum-of-the-parts approach. The key driver is valU’s implied value of USD225mn based on a HRHO’s remaining 95.75% or EGP4.2/HRHO share. For the remaining lines of business, we applies different multiples to each, including justified price-to-book value multiples, price-to-sales, price-to-AUMs, and price-to-assets. This exercise implies an attributable equity value of EGP20.7bn for HRHO with a fair value of EGP21.2/share and a 12MPT of EGP25.4/share. This implies a P/BV of 1.4x and a P/E of 12.8x. Meanwhile, HRHO will replace Fawry [FWRY] by 1 June 2022 in view of the MSCI Semi-Annual Index Review. This means new inflows in HRHO’s daily trading, further supporting the stock price performance over the coming period.



Figure 1: Sum-of-the-parts valuation exercise, including valU's implied acquisition value

Line of Business	Method	Multiple	Equity value (EGPmn)
Holding & Treasury	JP/BV	0.48x	3,090
Brokerage	P/S	2.50x	2,990
Asset Management	P/AUMs	0.85%	604
Investment Banking	P/S	3.00x	1,054
Private Equity	P/A	1.00x	382
Leasing	JP/BV	1.02x	803
Micro Finance	JP/BV	4.27x	3,108
Consumer Finance*	Option Based	n/a	4,120
Factoring	P/S	4.00x	231
Commercial Bank	JP/BV	0.88x	4,536
Standalone net debt			(249)
Total Attr. Value			20,669
NOS			973
FV/share			21.2
12M PT			25.4
Market price			15.38
Upside potential			65%
Implied P/B			1.4x
Implied P/E			12.8x

*Excluding the 4.255% stake (i.e. 95.75% stake).

Source: Company reports, Prime Research.

Figure 2: EGX-listed NBFS plays, including HRHO

Ticker	Name	NOS (mn)	Market price (EGP/share)	Market Cap [EGPmn]	P/E	P/B
HRHO	EFG Hermes Holding	973	15.4	14,966	10.3x	0.9x
CICH	CI Capital Holding	1,000	4.1	4,120	2.7x	1.2x
BTFH	Beltone Holding	446	1.1	491	Na	1.3x

Source: Company reports, Prime Research.

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