PRIME

Orascom Financial Holding [OFH]

Impact	**POSITIVE**
Degree	**STRONG**

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Triple-Digit Upside

Potential deal further underlines the huge mispricing

The story: Several strategic investors through a firm called **WM Consultancy** revealed on Sunday an offer to acquire between 51-90% of Beltone Financial Holding [**BTFH**] at an initial price of EGP1.35/share, valuing BTFH at EGP602mn. Orascom Financial Holding [**OFH**] is the majority shareholder in BTFH with a 58.14% stake that would be worth some EGP350mn based on the proposed offer price. We note that the FRA is studying the offer which, once cleared by the regulator, will depend mainly on the strategic direction of OFH. In our opinion, there are two routes for OFH to go about concerning its majority stake in BTFH:

(1) OFH may consider the offer too cheap to accept, especially since the offer price is 50% lower than OFH's cost of acquisition (i.e. EGP2.71/share). In other words, OFH may perceive the offer to be below fair value and instead may prefer to focus on expanding BTFH's business lines to generate a more plausible return on investment.

(2) OFH may see the offer as an opportunity to exit the whole of its BTFH stake at once then reinvest the sale proceeds elsewhere.

Valuation: To assign a fair value for OFH, we opted to use the adjusted book value approach (see Figure 2), where we marked to market OFH's investment in subsidiaries (BTFH and **Dot Co. for Electronics Dev. & Electronic Payments**) and associate (Contact Financial Holding [**CNFN**]). For BTFH, we valued OFH's investment based on the proposed offer price (i.e. EGP1.35/share). For CNFN, we valued OFH's investment at market (EGP3.10/share). This resulted in a total adjusted fair value of EGP392mn for BTFH and Dot Com Electronics and EGP1.1bn for CNFN. Furthermore, OFH's stand-alone balance sheet has EGP314mn in net cash. In view of the above, OFH's adjusted book value would amount to EGP1.9bn or EGP0.36/share (see Figure 3). At a market price of EGP0.16/share, OFH is already trading at an implied P/BV of 0.31x. Even at our adjusted book value, OFH is still trading at an implied P/B of 0.45x. Trading at a 55% discount to adjusted book value, we believe OFH is deeply undervalued, offering a triple-digit return of +123%. In Figure 1, we illustrate the sensitivity of OFH's stock value given different prices for BTFH and CNFN. We also note that OFH's market price (EGP0.16/share) implicitly values CNFN and BTFH at a 72% discount.

Figure 1: FV sensitivity to CNFN's and BTFH's stock prices

CNFN's Stock Price \ BTFH's Stock Price	0.98	1.15	1.35	1.55	1.79
2.24	0.28	0.29	0.30	0.31	0.32
2.64	0.31	0.32	0.33	0.34	0.35
3.10	0.34	0.35	0.36	0.37	0.38
3.57	0.37	0.38	0.39	0.40	0.41
4.10	0.40	0.41	0.42	0.43	0.44

EGP/share	FV	Mkt
OFH at	**0.36**	**0.16**
Implies ...		
CNFN at	**3.10**	**0.87**
BTFH at	**1.35**	**0.38**

Source: Prime Research.

Figure 2: OFH’s valuation using the adjusted book value approach

Investment in associates	EGPmn
Contact Financial Holding (book value)	**1,604**
OFH stake %	29.25%
Outstanding shares (mn)	**1,197**
Market price (EGP/share)	3.10
CNFN's market cap	**3,711**
OFH's adjusted investment in associates	**1,085**

Investment in subsidiaries	EGPmn
Beltone Financial Holding (book value)	**703**
OFH stake	58.14%
Outstanding shares	**445.7**
Offer price (EGP/share)	1.35
BTFH's market cap (based on offer price)	**602**
OFH's adjusted stake (market value)	**350**
Dot Co. for Electronics Dev. & Electronic Payments (79.9%)	**42**
OFH's adjusted investment in subsidiaries	**392**

Source: Prime Research.

Figure 3: OFH’s balance sheet (reported vs. adjusted)

OFH Balance Sheet (EGPmn, 31 March 2022)	Reported	Adjusted
Non-Current Assets		
Investment in associates	1,604.4	1,085.3
Investment in subsidaries	745.2	392.3
Fixed assets	**0.1**	**0.1**
Total Non-Current Assets	**2,349.7**	**1,477.7**
Current Assets		
Due from related parties	5.9	5.9
Other current assets	76.5	76.5
Cash & cash equivalent	314.2	314.2
Total Current Assets	**396.6**	**396.6**
Total Assets	**2,746.3**	**1,874.2**
Current Liabilities		
Other current liabilities	3.6	3.6
Due to related parties	0.0	0.0
Total Current Liabilities	**3.6**	**3.6**
Equity Value	**2,742.7**	**1,870.6**
Book value per share	0.52	0.36
Implied P/BV	**0.31**	**0.45**

Source: Prime Research.

Figure 4: OFH’s adjusted book value vs. market price

OFH's adjusted book value	
Adjusted book value (EGPmn)	1,871
Outstanding shares (mn)	5,246
Adjusted book value/share	**0.36**
Market price	0.16
Upside potential	123%

Source: Prime Research.

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