

Market Price
EGP6.26
at close of 13 Nov. 2022

12MPT
EGP9.2 (+47%, was EGP8.6)
set on 14 Nov. 2022

Investment Rating
Risk Rating

Overweight

★

★

★

Medium

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Wise and Clever

Cost control is OLFI's secret sauce; OW/M maintained

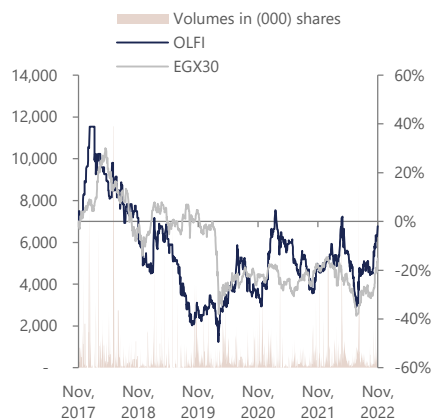
Obour Land Food Industries [OLFI] has a leading market share of c.42% in Egypt's EGP7bn white cheese market. Despite OLFI's diversification attempts, white cheese still captures c.95% of top line, while milk and juice together contribute c.5%. We upgrade our 12MPT for OLFI from EGP8.6/share to EGP9.2/share on: (1) absorbing additional share in the white cheese market, (2) launch of "Obour Farm" in 2023, and (3) a weaker EGP.

Gaining new ground in the white cheese market: Unlike OLFI, white cheese smaller producers were hit hard with higher skim milk powder (SMP) prices due to the Russia-Ukraine war, forcing some of them to exit the market. This left room for big players, such as OLFI which upped its utilization rate, to gain higher market shares in the saturated white cheese market. In Q3 2022, OLFI's white cheese revenues reached their highest quarterly level at EGP1.27bn, with a contribution of 95%. We expect white cheese revenues to reach EGP5.5bn by 2026, implying a 5y CAGR of 15%. On the back of our assumption of higher prices to be the main driver for revenue growth at a 5y CAGR of 11.4%. Recently, OLFI faced an operational lapse in white cheese production due to a shortage in palm oil supply. However, OLFI expects the release of a palm oil shipment that will cover c.3 weeks of production. Still, OLFI faces the risk of production interruption due to raw materials shortage.

The future of milk and juice: Through 9M 2022, OLFI increased milk prices but decreased juice prices. Higher milk prices influenced sales volumes negatively, reaching 8.8mn kg (-18% y/y) in 9M 2022. However, lower juice prices increased sales volumes significantly to 6.3mn kg (+101% y/y) in 9M 2022. We project milk revenues to grow at a 5y CAGR of 18%, capturing 7% of total revenues by end of 2026. Meanwhile, we expect juice revenues to grow at a 5y CAGR of 12%, albeit representing only 1.1% of total revenues by 2026.

Steadily increasing revenues while managing costs: Since the onset of the pandemic in 2020, OLFI's revenues grew at a 2y CAGR (2019-21) of 7.8% due to: (1) cleverly keeping debt at low levels, thus limiting finance expenses and (2) negotiating SMP contracts at better prices. OLFI's quarterly revenues surged through the last five quarters, achieving an all-time revenue high in Q3 2022 at EGP1.3bn (+64% y/y). This remarkable revenue expansion was due to growth in both sales volumes and prices in the cheese segment. We note that prices grew 33% ytd, and we expect prices to be 40% higher y/y in Q4 2022. Although SMP is still the core raw material for white cheese, OLFI overcame the war-induced high prices by partially substituting it with raw milk. OLFI will launch its "Obour Farm" in Q2/Q3 2023, aiming to guarantee c.30-40% of its raw milk needs; thus decreasing costs. According to management, OLFI is expected to sign a contract to import its first shipment of cattle before the end of 2022.

RELATIVE PERFORMANCE (5Y)



Source: Bloomberg, Prime Research.

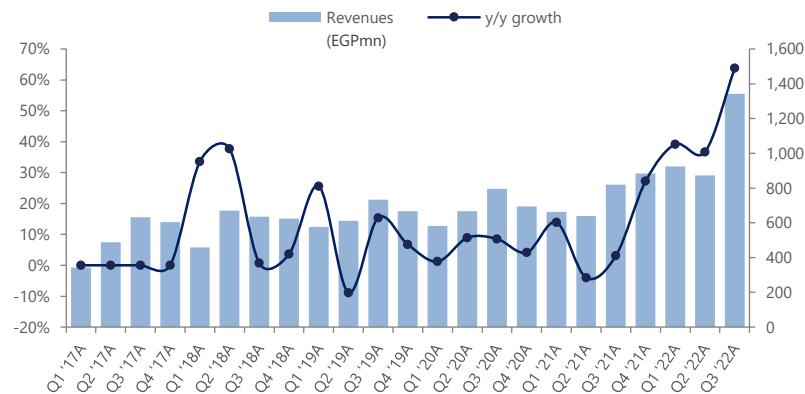
KEY STOCK STATISTICS

Shares outstanding (mn)	400
Free float	39.4%
Market cap (EGPmn)	2,504
Market cap (USDmn)	103
52w range (EGP/share)	4.1-7.3
EGP100 invested 5y ago	EGP98
EPS (TTM / 2022e) (EGP)	1.06 / 1.05
P/E (TTM / 2022e)	5.9x / 5.9x
P/BV (TTM / 2022e)	2.4x / 2.0x
Last fiscal year's DPS (EGP)	0.60
Dividend yield	10%
5y historical beta	0.68
5y Proj. EPS CAGR (2021-26)	10.4%

Source: Prime Research.



Figure 1: OLFI reached its highest quarterly revenues in Q3 2022 at EGP1.34bn



Source: Bloomberg, Prime Research.

A consistent dividend payer: OLFI enjoys operational and financial stability, which allows it to generate stable earnings growth. Thus, OLFI follows a stable dividend policy, with its payout ratio averaging 48% in the past five years (68% in 2021). We expect the dividend payout ratio to reach 70% in 2023, suggesting a generous 14% yield.

12MPT raised to EGP9.2/share – OW/M maintained: We expect OLFI's earnings to grow at a 5y CAGR of 10% to EGP576mn by 2026 with revenues growing at a 5y CAGR of 15% to EGP6.0bn over the same period. Our DCF model yielded a 12MPT of EGP9.2/share (a 47% upside), implying 2022e/2023e P/E and EV/EBITDA of 8.8x/7.3x and 5.5x/4.7x, respectively. Thus, we maintain our rating as Overweight/Medium Risk.



VALUATION MODEL

EGPmn	Q4 2022	2023	2024	2025	2026	Terminal
EBIT	111	679	777	745	773	
Taxes on EBIT	(25)	(153)	(175)	(168)	(174)	
Board & employees allocation	(35)	(42)	(51)	(58)	(55)	
NOPAT	51	484	552	519	544	571
D&A	18	72	75	75	68	
Change in WC	(141)	(167)	(90)	(134)	(128)	
Capex	(109)	(136)	(113)	(39)	(40)	
Net investments	(232)	(231)	(128)	(97)	(101)	(195)
Free Cash Flow to the Firm (FCFF)	(181)	254	424	422	443	376
Discount factor	0.99	0.85	0.74	0.65	0.57	
Present Value of FCFF	(179)	216	315	275	251	2,211
DCF Enterprise Value	3,090					
Net (Debt)/ Cash (Q3 2022)	53					
Minorities (Q3 2022)	(4)					
DCF Equity Value	3,138					
NOS	400.0					
FV (EGP/share)	7.8					
Market price	6.26					
12MPT (EGP/share)	9.2					
Upside	47%					
				Reinvestment rate		34%
				ROIC		15%
				TGR		5%

12MPT SENSITIVITY ANALYSIS

		Terminal SMP price (USD/ton)							Terminal growth				
		2,700	2,800	2,900	3,000	3,100			3.0%	4.0%	5.0%	6.0%	7.0%
Terminal exchange rate (EGP/USD)	25.2	12.7	12.1	11.6	11.1	10.5	WACC	12.7%	10.1	10.2	10.2	10.3	10.4
	26.2	11.5	11.0	10.4	9.9	9.3		13.7%	9.6	9.6	9.7	9.8	9.8
	27.2	10.4	9.8	9.2	8.6	8.1		14.7%	9.1	9.2	9.2	9.3	9.3
	28.2	9.2	8.6	8.0	7.4	6.8		15.7%	8.7	8.7	8.8	8.9	8.9
	29.2	8.1	7.4	6.8	6.2	5.6		16.7%	8.3	8.4	8.4	8.5	8.5

PEERS ANALYSIS (AS OF 13-NOV-2022)

Peer Group Comparable (TTM)	Ticker	Mkt Cap (USDmn)	ROE	ROA	P/E	P/BV	Revenues (USDmn)	Net Income (USDmn)
Local Peers' Average		166	20%	8.8%	9.4x	1.8x	249	17
Arabian Food Industries	DOMT	57	22.3%	7.3%	6.5x	1.4x	177	9
Juhayna Food Industries	JUFO	276	17.1%	8.7%	12.7x	2.2x	406	22
Edita Food Industries	EFID	357	31.7%	15.0%	12.3x	3.9x	249	29
Cairo Poultry	POUL	48	18.1%	8.9%	4.1x	0.7x	249	12
Regional Peers' Average		5,830	10%	6%	65.1x	4.0x	1,698	165
Almarai	ALMARAI	15,103	10.5%	5.2%	33.0x	3.5x	4,226	417
Halwani Brothers	HB	489	2.7%	1.3%	134.9x	4.0x	291	22
Saudia Dairy & Foodstuff	SADAFCO	1,898	16.4%	11.0%	27.6x	4.5x	579	55
Peers' Median		357	17.1%	8.7%	12.7x	2.2x	291	22
OLFI		103	40.9%	23.4%	5.9x	2.4x	165	17

Source: Bloomberg, Prime Research.



FINANCIAL MODEL

Financials (ends 31 Dec., EGPmn)	2019a	2020a	2021a	2022e	2023e	2024e	2025e	2026e
Income Statement								
Net Revenues	2,588	2,739	3,007	4,554	5,440	5,740	5,890	6,048
COGS	(2,025)	(2,065)	(2,298)	(3,587)	(4,290)	(4,409)	(4,459)	(4,576)
Gross profit	562	675	708	967	1,150	1,331	1,430	1,472
SG&A	(156)	(202)	(197)	(320)	(403)	(483)	(615)	(636)
Other operating (exp.)/ Inc.	39	13	17	(28)	4	5	5	5
EBITDA	409	475	514	651	752	853	820	841
Depreciation & amortization	(46)	(63)	(69)	(68)	(72)	(75)	(75)	(68)
EBIT	363	411	445	583	679	777	745	773
Net interest cost	(16)	(20)	(7)	(7)	(26)	(28)	(29)	(30)
Profit before taxes	382	402	455	546	653	749	716	743
Taxes	(87)	(91)	(104)	(125)	(147)	(169)	(161)	(167)
Net profit before minorities	295	310	351	421	506	580	555	576
Minority interest expense	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net profit after minorities	295	310	351	421	506	580	555	576

Balance Sheet

Current Assets								
Cash & Cash Equivalents	29	17	336	353	436	602	613	717
Trade & other receivables	36	33	33	50	60	63	64	66
Inventory	436	574	454	717	912	992	1,059	1,144
Other Current Assets	101	19	17	25	30	32	33	33
Total Current Assets	602	643	840	1,146	1,437	1,688	1,769	1,961
Fixed Assets (net)	667	678	678	720	747	747	672	605
Other Non-Current Assets	35	35	30	-	-	-	-	-
Total Assets	1,304	1,356	1,548	1,865	2,184	2,436	2,441	2,565
Liabilities & Equity								
Credit Facilities	8	16	107	116	149	167	194	220
Long Term Debt - Current Portion	25	25	25	31	26	22	13	8
Other current liabilities	205	209	265	341	383	378	314	273
Total Current Liabilities	238	249	396	488	558	567	521	500
Long-Term Debt	88	61	37	46	40	33	20	12
Other Non-Current Liabilities	122	112	110	110	110	110	110	110
Total Liabilities	448	423	543	643	708	709	650	622
Minority Interest	4	4	4	4	4	4	4	4
Total Equity	856	933	1,005	1,222	1,477	1,726	1,791	1,944
Total Liabilities & Equity	1,304	1,356	1,548	1,865	2,184	2,436	2,441	2,565

Cash Flow Statement

Cash from Operating	301	230	586	348	497	639	470	536
Cash from Investing	(180)	27	(60)	(82)	(192)	(125)	(73)	(71)
Cash from Financing	(213)	(269)	(523)	(251)	(314)	(399)	(460)	(431)
Net Change in Cash	(91)	(12)	2	15	(9)	116	(63)	34

Source: Company data, Prime Research estimates.



FINANCIAL MODEL (CONT.'D)

	2019a	2020a	2021a	2022e	2023e	2024e	2025e	2026e
Per-Share Data (EGP)								
Price (EGP)	5.37	5.67	5.93	6.26	6.26	6.26	6.26	6.26
# Shares (WA, in mn)	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0
EPS	0.74	0.78	0.88	1.05	1.27	1.45	1.39	1.44
Payout ratio	33.9%	64.4%	68.4%	70.0%	70.0%	70.0%	70.0%	70.0%
DPS	0.25	0.50	0.60	0.74	0.89	1.02	0.97	1.01
BVPS	2.14	2.33	2.51	3.05	3.69	4.32	4.48	4.86

Valuation Indicators								
P/E (x), based on end of FY market price	7.3x	7.3x	6.8x	5.9x	4.9x	4.3x	4.5x	4.3x
P/E (x), based on our 12M PT				8.8x	7.3x	6.4x	6.7x	6.4x
DY, actual based on BoP price, est. on current		9.3%	10.6%	12.4%	14.2%	16.2%	15.5%	16.1%
P/BV (x)	2.5x	2.4x	2.4x	2.0x	1.7x	1.5x	1.4x	1.3x
EV/IC (x)	2.4x	2.2x	2.5x	2.1x	1.8x	1.6x	1.5x	1.4x
EV/Sales (x)	0.9x	0.9x	0.8x	0.5x	0.4x	0.4x	0.4x	0.3x
EV/EBIT (x)	6.2x	5.9x	5.1x	4.1x	3.4x	2.8x	2.9x	2.7x
EV/EBITDA (x)	5.5x	5.1x	4.4x	3.7x	3.1x	2.6x	2.7x	2.5x

Profitability & Growth Ratios								
Revenue growth	8%	6%	10%	51%	19%	6%	3%	3%
EBIT growth	9%	13%	8%	31%	17%	14%	(4%)	4%
EPS growth	24%	5%	13%	20%	20%	15%	(4%)	4%
Asset growth	16.9%	4.0%	14.2%	20.5%	17.1%	11.5%	0.2%	5.1%
GPM	22%	25%	24%	21%	21%	23%	24%	24%
EBIT Margin	14%	15%	15%	13%	12%	14%	13%	13%
Net Margin	11%	11%	12%	9%	9%	10%	9%	10%
Asset turnover ratio	1.98x	2.02x	1.94x	2.44x	2.49x	2.36x	2.41x	2.36x
ROIC	12%	10%	9%	15%	14%	13%	12%	12%
ROAE	38%	35%	36%	38%	38%	36%	32%	31%
ROAA	24%	23%	24%	25%	25%	25%	23%	23%

Liquidity & Solvency Multiples								
Net Debt (Cash)	90	146	(110)	(103)	(163)	(323)	(329)	(421)
Net Debt (Cash) /Equity	10%	16%	(11%)	(8%)	(11%)	(19%)	(18%)	(22%)
Net debt (Cash) to EBIT	0.2x	0.4x	-0.2x	-0.2x	-0.2x	-0.4x	-0.4x	-0.5x
Debt to Assets	0.15x	0.12x	0.15x	0.13x	0.12x	0.11x	0.12x	0.12x
Current ratio	2.5x	2.6x	2.1x	2.3x	2.6x	3.0x	3.4x	3.9x

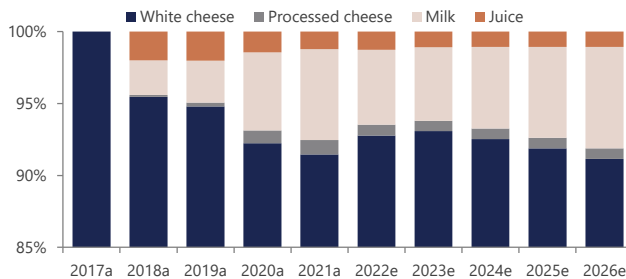
Consensus Estimates (EGPmn)								
Revenues				3,943	4,271	4,585	5,172	
Prime Research vs. Consensus				15%	27%	25%	14%	
Net Income				404	419	481	585	
Prime Research vs. Consensus				4%	21%	21%	-5%	

Source: Company data, Prime Research estimates.

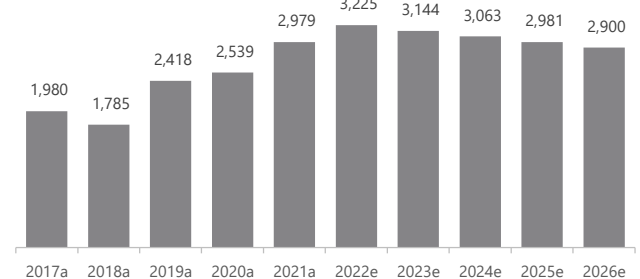


STORY IN CHARTS

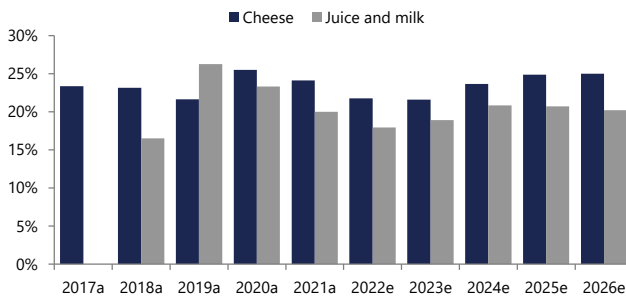
Revenue mix: We expect white cheese revenues to reach 91% of total revenues by 2026, with processed cheese still the least contributor by 0.7%.



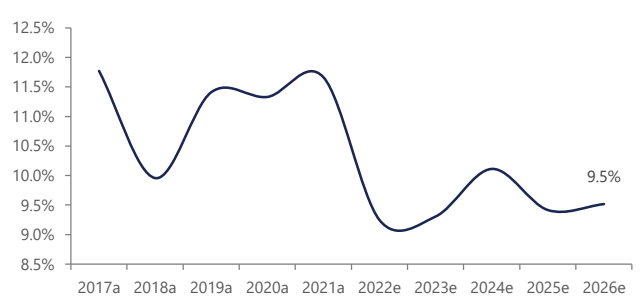
Skim Milk Powder (SMP) (USD/ton): We expect SMP prices to end 2022 at USD3,225/ton (+8.3% y/y) on higher global commodity prices, mainly corn.



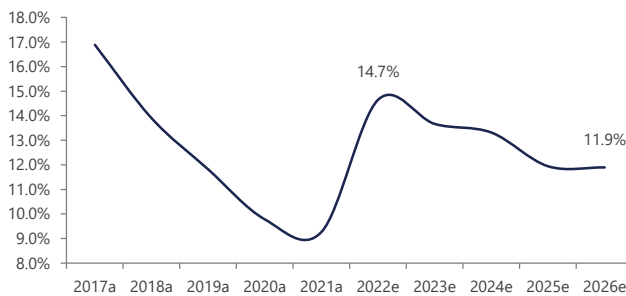
Gross profit margin: We expect white cheese GPM to reach 25% and juice & milk to reach 20% by 2026.



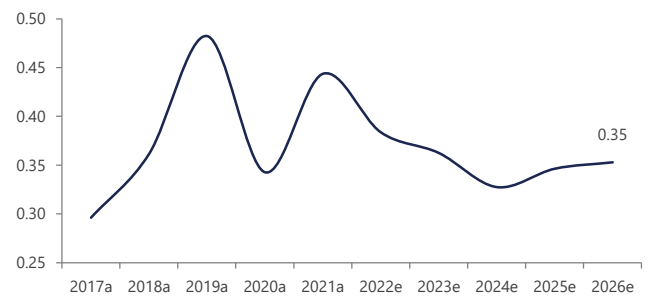
Net profit margin: We expect OLFI's net profit margin to reach 9.5% by 2026.



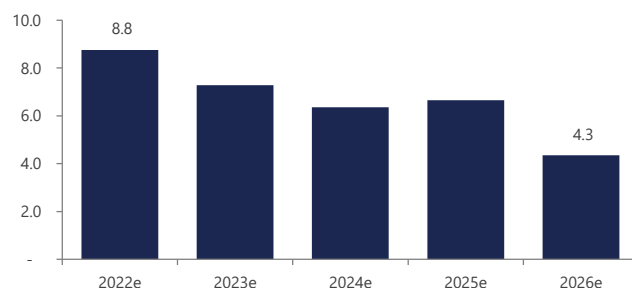
Return on Invested Capital (ROIC): We expect ROIC to reach 14.7% in 2022 before it settles at 11.9% in 2026.



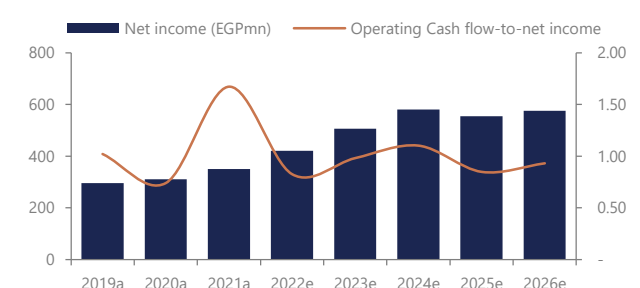
Debt to EBITDA: We expect debt to EBITDA ratio to reach 0.35x by 2026.



Forward P/E: With earnings expected to grow at a 5y CAGR of 10%, OLFI is currently trading at 8.8x 2022 earnings and 4.3x 2026 earnings.



Net operating cash flow-to-net income ratio: We forecast OLFI's operating cash flow-to-net income ratio to reach 0.93 by 2026.



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